WESTERN CAPITAL ADVISORS PRIVATE LIMITED
RISK MANAGEMENT POLICY

TABLE OF CONTENTS

1. **SCOPE**

1.1 Applicability

This "Risk Management Policy" (**the Policy**) will apply to **Western Capital Advisors PrivateLimited** ("the Company"), its employees and its agents or representatives.

1.2 Effective Date

This Policy shall be effective from the date of approval of the Policy.

1.3 Review of Policy

The Policy shall be reviewed as and when required by the applicable rules and regulations orotherwise.

1.4 Implementation & Monitoring of Policy

The Risk Management Committee (RMC) will monitor and supervise implementation of thePolicy.

1.5 Policy Approval

The Policy and any significant changes therein shall be approved by the Board of Directors ofthe Company or the Risk Management Committee of the Company.

2. **BACKGROUND AND OBJECTIVES**

2.1 As an RBI approved NBFC, Western Capital Advisors Private Limited is exposed to various typesof risks including the following:

a) Credit Risk;
b) Market & Liquidity Risk;
c) Operational Risk;
d) Money Laundering Risk;
e) Legal, Compliance and Reputation Risk.

The objective of the Risk Management Policy is to ensure that various risks are understood,monitored and managed properly.

Key principles underlying the Risk Management framework of the Company will be as under:

2.2 The Board of Directors will have oversight on all the risks assumed by the Company. The Risk Management Committee or specific committees constituted by the Board, as delegated by it, will facilitate focused oversight of various risks.

2.3 Various policies approved by the Board of Directors or the Committees constituted by it, fromtime to time, will form the governing framework for each type of risk. The business activities will be undertaken within such policy framework.

2.4 Various committees will be constituted across the Company to facilitate independent evaluation, monitoring and reporting of various risks.

2.5 Credit Risk Philosophy

There are credit risks associated while offering various loan products to the customers and the objective of credit risk management framework is to ensure that various such risks are understood, measured, and monitored and that the policies and procedures established to address these risks are strictly adhered to. The overall credit risk management philosophy of WCAPL can be summarized as follows:

- To create a business line by building and maintaining a healthy and high-quality loan asset portfolio
- To strive for best-in-class credit underwriting and due diligence standards through continuous improvements in our credit processes and risk management systems
- To be the role model in innovating and practicing new /innovative methods of credit due diligenceand be always ahead of other industry participants in the credit risk domain.
- To ensure that credit underwriting standards are rolled out uniformly in all business units and thatthere is uniformity in risk philosophy across the organization
- To ensure consistent classification of assets, including non-performing assets, ensuring adequate provisioning in line with regulatory norms and management of stressed accounts, reporting of information on CRILC (Central repository of information on large credits), registration of transaction with CERSAI etc.
- Risk compliance
  Credit risks faced by WCAPL will be managed by the individual roles and responsibilities of Policy department,Credit /Risk department, Business department, Operations department, and Product department as well as the interplay of functions by them. Internal Audit will perform an independent assessment of the design and operational effectiveness of the entire credit risk management framework at WCAPL.

3. TYPES OF RISK

Approaches followed for management of various risks are outlined below:

3.1 Credit Risk

All credit risk relating to any product/ exposure will be governed by the respective Credit Policy. The Credit Policy will outline types of products, customer categories, target customer profile, credit approval process, exposure limits etc. The Credit Policy shall be approved by the Board ofDirectors or by any committee or by any official(s) to whom the Board of Directors may delegate such authority.

Similarly, the authority matrix for approval of credit limits will be approved by the Board of Directors or by any committee or by any official(s) to whom the Board of Directors may delegate such authority.

The Company (or its service agents), through a Centralized Operations Team, will manage operating risks in various back-office processes of the Company's business except for a few operational activities, which may be decentralized to improve turnaround time for customers.The decentralized operations will be managed by the Branch Operations team.

In due course, the Company (or through its service agents) will have Collections and Recoveryunit structured along various segments and geographical locations, to manage delinquency levels. The collections unit shall operate under the guidelines of a standardized recovery process.

An independent audit will ensure adequate checks and balances.

3.2 Market and Liquidity Risk

The management of interest rate and liquidity risks will be covered in the Asset Liability Management (ALM) Policy. The ALM policy should cover the functioning of Asset Liability Management Committee (ALCO), the ALM process and the limits pertaining to interest rate andliquidity risks.

The Investment Policy will address issues related to treasury investments as well as long-term investments. The Investment Policy should cover the authorization, product guidelines, limits,classification, valuation norms, audit control and reporting.

Further, the Company may also have a Resource Planning Policy which should cover the following aspects relating to the resource/ liability planning:

a) Liability products proposed to be used to manage asset liability mismatches;
b) Limits for issuance / borrowing for each of the liability products;
c) Monitoring of liquidity metrics for the Company.

The above policies will need approval of the Board of Directors; the authority of approval maybe delegated as deemed fit by the Board. However, after approval by the delegated authority, all amendments will be subsequently placed before the Board in their next meeting for their noting.

3.3 Operational Risk

Operational risk arises due to gaps in the processes, frauds, natural calamities or other unforeseen events. Though the occurrence of such instances could be less, the impact in valueterms could be significant.

Operational risk will be managed through sound operational processes, robust IT systems, Disaster Recovery & Business Continuity Plans and standardized Policy & Process framework that help minimize errors & fraud occurrence.

The Risk/Credit function will ensure proper mitigation of the fraud related risk. It will lay-downthe systems and processes for prevention of frauds and recovery of fraud losses. It will also berequired to evaluate various external agencies involved for facilitating the business.

3.4 Money Laundering Risk

The Board or a Committee designated by the Board will have supervise and monitor Anti-Money Laundering (AML) framework of the Company. The Know Your Customer (KYC) and AML Policyand related process will be put in place in accordance with the statutory/ regulatory requirements.

Adequate Know Your Customer (KYC) procedures shall be framed for identification and verification of customers of different business groups and for monitoring/ reporting of suspicious transactions. The Company shall appoint the ‘Designated Director’ and the “Principal Officer” (PO) as per the statutory requirements. The PO will have executive responsibility for monitoring day-to-day implementation of the AML Policy and Procedures.

3.5 Regulatory Compliance

The designated Compliance Officer shall ensure that all regulatory guidelines are disseminatedacross the Company and are complied with in letter & spirit. The Compliance Officer will also have the responsibility of co-ordinating the regulatory audits and correspondence with the regulatory authorities.

3.6 Credit Concentration Risk

The Company will endeavor to spread the business and exposures across different customer profiles, products, industries, geographies etc. Broadly, distribution of exposures would be governed by the Credit Policy which would be reviewed periodically.

The Company shall ensure adherence with the credit concentration norms prescribed by the Reserve Bank of India.

3.7 Legal Risk

To contain any kind of legal risk in its documentation, the Company will have standardized documentations for various business purposes which shall be approved by the internal legal team or any external legal counsel.

To manage any major litigation risk which may emanate, external legal counsels may be engaged and periodical review of major litigation risks at the Board or some Committee should happen.

3.8 Reputational Risk

Reputational risk could be defined as the risk of potential damage to any entity owing to deterioration of its reputation and/or standing because of negative perceptions of the entity’s image among its different stakeholders; *viz.* its customers, employees, shareholders, suppliersand regulatory authorities.

It may arise when some incident leads to reputation damage due to various factors including mis-selling, adverse media campaign, unfair trade practices, regulatory action, liquidity issue etc.

To contain and manage any such risk, the Company will, *inter alia*, ensure the following:

a) All media communications would be handled by a designated official/ function.
b) Timely response to statutory/ regulatory queries/ requirements.
c) Training of employees, especially employees facing the customers,
d) Respond to the customers’ queries, requests and grievances within committed turn-around time.
e) Be vigilant to customer’s/ stakeholder’s/ media feedback (including social media) and takequick remedial actions.

4. Credit Strategy

WCAPL aims to become the preferred lender of choice in retail and wholesale lending space. It is committedto provide timely credit to businesses for their working capital and growth capital needs. While extending credit, WACPL would endeavor on its USPs i.e., “Flexible & Tailored Solutions”, “Keeping it Simple”, and “Client First Approach” and “Digital Max”. The credit strategy at WACPL aims to provide robust risk evaluation framework through blend of traditional credit appraisal methods and best in class technology tools to service the target customer segment.

WACPL aims to meet the financial needs of its target customer segment by:

- Catering to the financial needs across business operating cycles.
- Identifying creditworthy customers
- Working closely with customers and associated sourcing network to create specialized andinnovative products
- Creating an ecosystem that offers flexibility without compromising on the credit quality and likelihood of loan servicing in a timely manner.
- Prohibit funding to Negative list of Customers / Financing Activities
  - ➢ The organization shall not finance unlawful and terrorist activities.
  - ➢ The organization shall not give loan against its own shares.
  - ➢ The organization shall not grant any advance against bullion / primary gold and gold coins.
  - ➢ The organization will not finance borrowers that have willfully defaulted on loans. This can be deduced by checking the records of borrower / promoter company / promoter directors.
  - ➢ The organization would not undertake any financing activity that may be prohibited by RBI. In this regard, the latest Master Circular issued by RBI together with any amendments during the year would be used for guidance. In the event of doubt, the same should be clarified with Compliance Department.
  - ➢ The organization will maintain a negative list whereby sourcing of such customers would be either avoided or viewed with caution.

5. Credit Risk Governance Framework

The credit risk governance framework at WCAPL is designed with consideration to the following key principles:

- Segregation of duties across the three lines of defense:
  - ➢ Credit origination / Sales, which take the risk
  - ➢ Credit risk unit, that independently manages the risk, provides policy guidance, performs creditanalysis, risk reporting and credit monitoring
  - ➢ Internal audit unit, which independently assesses the design and operational effectiveness ofthe entire credit risk management framework
- Credit origination units/Sales and Credit risk unit would retain the primary accountability formanaging the credit risks
- The governance model would promote transparency, accountability, communication, and flow ofinformation
- The Board would have oversight over credit risk framework and monitoring through Risk Management Committee for periodic reviews
- WCAPL has staff with sufficient expertise and appropriate skill sets to perform risk managementtasks, and is supported by appropriate tools and technology
- All material credit risks are identified and measured, exposures are aggregated and management attends to the risky exposures.

Based on the above guiding principles, the credit risk governance framework at WCAPL comprises of the following:

- Board of Directors (BOD)
- Risk Management Committee (RMC)
- Credit Risk Unit (CRU)
- Business unit (BU)
- Operations unit
- Legal & Compliance
- Internal Audit (IA)

Roles & Responsibilities

5.1 Board of Directors

The Board of Directors of WCAPL (“Board”) is responsible for providing oversight for overall credit risk management at WCAPL. The key responsibilities of the Board of Directors relating to credit risk management include:

- Ensure the establishment of a robust credit risk management culture by delegating responsibilities for key decision making and controls to appropriate management authorities /committees
- Ensure that WCAPL’s credit risk management framework is subjected to effective independentreview by internal audit
- Ensure that the Credit risk management processes are in conformity with the regulatory guideline

5.2 Risk Management Committee (RMC)

The roles and responsibilities of the Risk Management Committee are as below:

- Approve all credit & risk policies, either in person or through circulation
- Oversee the credit risk management at WCAPL and ensure that the credit risks are properly identifiedand are appropriately monitored
- Review the portfolio composition, quality, delinquencies, and Non-Performing Assets (NPAs)
- Review the credit risk profile and any major development, internal and external, and their impact on portfolio and on WCAPL
- Review the non-compliance, limit breaches, audit /regulatory findings, and policy exceptions

5.3 Credit Risk Unit

The Credit Risk Unit at WCAPL comprises of various sub-units responsible for management of credit risks.The sub-units would include:

- Credit Underwriting & Policy unit: Responsible for development of various credit related policies. Performing credit analysis and underwriting credit proposals originated by the business units.
- Portfolio monitoring unit: Responsible for regular monitoring of the credit portfolio and earlywarning triggers to ensure management of asset quality

Credit Risk Unit, comprising of the above sub-units is responsible for the following key activities at WCAPL:

- Developing and implementing policies and processes related to identification, assessment, measurement, control, monitoring and reporting of credit risks within WCAPL
- Screening and underwriting of credit proposals originated by business units prior to submission ofproposals to the appropriate sanctioning authorities
- Conducting Personal Discussion (PD) (wherever applicable) with the customer to understand the customer’s background, background of the business, credit needs and the risk involved in lending to the customer. PDs should be documented and attached as part of the credit appraisal memorandum to facilitate credit approval
- Stipulating the required terms and conditions for credit transactions, which are deemed necessaryfor specific transactions
- Monitoring credit risk on a firm wide basis within the approved risk parameters. CRU will be responsible for monitoring portfolio level as well as borrower level early warning triggers
- Issuing guidance notes /advisories /credit alerts on various aspects of risk from time to time
- Ensuring that the policies and standards related to credit risk management are effectively maintained and clearly communicated on a firm-wide basis
- Reviewing the credit policy and update based on RBI regulations and internal events

- Ensuring effective communication of the credit policy to key stakeholders
- Consolidating credit data for analysis and reporting to senior management and the Board
- Monitoring portfolio level MIS/exposure, irregularities, deviations, and overall portfolio quality, etc.and report to Senior Management, and suggest any changes to exposure as a result.
- Accountable for overall portfolio quality, to be achieved by a combination of means such as appropriate due diligence, suitable performance reviews, guidance to WCAPL on collection of over dues, NPA management etc.

5.4 Business Units (BU)

Business units are the first line of defense in the three lines of defense framework adopted by WCAPL. Business units are primarily responsible for credit origination within the credit framework defined by the WCAPL. It will be the responsibility of the Business units to actively manage risks and periodically report on identified risks. The Business units will be adequately trained to ensure that the master circular on Fair Practice Code as prescribed by RBI, are being complied and updated with. The responsibilities of Business units with respect to Credit risk governance are as follows:

- Source customers in accordance with the credit framework of WCAPL and the suitability of the offeredproducts
- Manage customer relationships and highlight any material credit event to the credit risk unit on atimely basis
- Support in soft collection of repayments from the customer as per the repayment schedule
- Propose new product or changes in existing one along with parameters and competition analysis, wherever possible, basis market requirements to Credit risk unit. This will act as a feeder to develop /update the policy framework.

5.5 Operations Unit

Operations unit will act as a gatekeeper of credit documentation in the overall credit risk governance framework at WCAPL. The roles and responsibilities of the operations unit about credit risk governance are as follows:

- Ensure all the credit documentation is in order prior to disbursement processing
- Set up of limits and process disbursements with conformity to the sanction terms and ensuring compliance with the applicable post-sanction terms and conditions prior to limit set-up
- Ensure security perfection with adequate documentation as per the sanction terms and highlighting non-compliance to the senior management
- Monitor receipt of post disbursement documentation (PDD) and following up with Business units / Customers for ensuring timely receipt of PDD. Non-compliance to the PDD requirements shall be highlighted to the senior management
- Ensure safe custody of all original documents, agreements, approval notes and security cheques/ECS mandates
- The team will be responsible for managing the operational risk of every loan cycle from security creation to EMI presentation and till loan closure.

5.6 Legal & Compliance Department

The Legal and Compliance department will be primarily responsible for maintaining the documents and litigation arising out of the loan portfolio. The key roles and responsibilities of the Legal and Compliance department within the credit risk governance framework are as follows:

- Create and maintain an effective system to ensure that the business activities of the Company arecarried out within the framework set out by various regulations and applicable law.

- Provide day to day advice and guidance to the Operations/Business teams on the businessactivities of the Company.
- To comply with all regulatory requirements and filings.

5.7 Internal Audit

The Internal Audit will be primarily responsible for providing an independent assessment on the design and operational effectiveness of the overall credit risk management framework at WCAPL. The key roles and responsibilities of the Internal Audit Department within the credit risk governance framework are as follows:

- Provide independent assurance on the effectiveness of implementation of risk management framework, including the overall adequacy of the internal control system and compliance with internal policies and procedures
- Provide independent assurance on WCAPL's compliance with the Reserve Bank of India (RBI) guidelines and established credit risk policies and procedures
- Ensure Credit risk related policies are reviewed, approved, and clearly communicated by the appropriate authorities on a periodic basis.
- Ensure reports, both regulatory and internal, are prepared and reviewed as prescribed in the regulatory guidelines and WCAPL's internal policies
- Report to the Senior Management, Risk Management Committee and the Board, the results of their independent review both at the level of the Head Office and Branches.
- Internal Audit function can be outsourced and in-house team shall be built at an appropriate time on scaling up of the business.

6. TargetSegment

Borrower segment may comprise of the following:

- Individual
- Proprietorship Firms
- HUF
- Partnership firms
- Private/Public limited companies & LLP
- AOP or JV
- Trusts & Societies

Classification of borrowers in the above segments would be guided by the business and risk philosophy of WACPL and may change with changing business and risk dynamics of these segments.

7. ProductOffering

WACPLwould offer a range of products to its target customer segments to meet their financial needs. Theproduct offerings are broadly categorized as below:

- Institutional / Wholesale Products
- Retail Products

Institutional / Wholesale lending segment

There are various products that western capital offers under institutional lending business as follows-

- Lending to Financial Institutions – Here western capital extends debt facility to financial institutions/Micro Finance Institutions/Housing finance institutions/fintech companies, etc.
- Lending to non-Financial Institutions - Here western capital extends debt facility to non-financial institutions like any corporate/SMEs or new age start ups, etc.

- Anchor based supply chain finance – Here western capital normally extends a facility to a set of vendors/dealers of a particular corporate/SME client (anchor) which is typically based on the guarantee of the anchor. Here the overall anchor-based limit is sanctioned in the credit committee and thereafter debt facility is provided to individual vendors/dealers under the program as per pre-agreed terms subject to the maximum exposure at any point of time being limited to the overall limit on the program.
- Partnership Lending Segment - Here Western capital aims to build its book through the partners which are typically NBFCs and Fintechs. The products to be done here may include Education Loan, Personal Loans, two-wheeler loan, Unsecured Business Loan, Secured Loans, LAP, etc. Here the overall partnership proposal is sanctioned in the credit committee and thereafter individual loans are sanctioned as per mutually agreed credit policy between western capital and partner. The partnership may be of two types – 1) Business correspondence – where individual loan booked under the program is fully funded by western capital 2) Co – lending – where every loan booked under the partnership is funded as per pre-agreed share between western capital and the partner e.g. if the share is 90:10 then western capital will fund 90% of the loan amount and the partner will fund 10% of the loan amount.
- Portfolio purchase/buyout through direct assignment, securitization/PTCs or any other RBI approved route.
- Any other product with the approval of CEO which will be put up for ratification in the board of directors meeting subsequently.

Retail Products

WCAPL aims at servicing customers in SME and MSME segment, which is backbone of Indian economy and are still underserved, for which it has come out with different product lines which will be done through the Branch network :-

- Secured Loan Product
  - Loan Against Property (LAP) – The product will be targeting majorly the MSME customer segment and fund against Residential and Commercial properties and the funds will be used for business purpose in form of expansion, working capital and growth enablers.
  - Home Loan (HL) – The product has been introduced considering the India's focus in housing segment and that too majorly in Affordable housing segment as there is a big shortfall which leads to opportunity for funding in this segment. This product will cater to both Self employed and salaried customer segment and the alignment will be towards the Affordable housing market.
- Unsecured Loan Product
  - The product will be targeting the MSME segment and will provide short term unsecured loan facility for business purposes.

Schedule of charges

The schedule of charges are defined in respective credit policy of each product.

- For Prabhaav loans, schedule of charges are defined in the Prabhaav loan credit Policy
- For Institutional business (Term Loan and Supply chain finance), schedule of charges are defined in institutional credit policy.
- For retail partnerships, we formulate separate credit policy for each partner. SOC is defined under each partnership credit policy.

8. Credit Approval Authorities

The authority for approval of credit proposals, within limits stipulated, is delegated by the Board of Directors to specific approval authorities. The authorities would exercise their powers within the framework of the norms prescribed by the Board of Directors. Following principles would be adhered to with respect to credit approvals:

- Risk based delegation: Delegation of authority will be risk based, i.e., senior authorities/committees (committee with senior management personnel) would approve credit proposals with higher credit risk, higher exposure and transactions/proposals which are complex or have critical deviations from the standard norms.
- Meeting /Desk based approval: Approvals would either be through convened meetings or throughdesk based in Loan Origination System (LOS) /email approvals and BRE to be added in future
- Adequate audit trail: The credit risk unit would maintain a central repository of "controlled copies"of all approved cases and all such "controlled copies" would be kept on record such that there is adequate audit trail for all approvals/sanctions.
- Adherence to regulatory /internal guidelines: While exercising the delegated powers, the restrictions /precautions advised by the RBI and any other Regulatory body (if applicable) from timeto time and the guidelines enunciated in this credit policy should be strictly followed in letter and spirit
- Independence of approving authorities: The delegated powers should not be exercised by any member/official to the personal advantage of his or her own self or family members/related party,directly or indirectly. Such credit proposals would be referred to the next higher sanctioning authority
- Approval in line with the delegated authority: The sanctioning committee /authorities should not overstep the powers delegated to them. In cases where there is any ambiguity in the guidelines regarding delegation of powers, clarification shall be sought from the CEO / Credit Head
- Compliance to WCAPL's objectives: Approval authorities must exercise their powers with utmost caution without sacrificing the broad objectives of this policy and any other internal policy of WCAPL
- Approval backed by analysis: All notes /proposals put up to the approving authorities would be in the prescribed format approved by WCAPL. Proposals would have to be backed by a proper assessment and justification of limits proposed.
- Hindsighting review of approvals will be conducted on sample basis to monitor on the independence, effectiveness and compliance of sanctioning process
- The sanction / approval structure will be different for Institutional Loans and Retail Loans.

Composition of various sanctioning authorities /committees is as given below:

For Wholesale / Institutional Loan Products :-

❖ The Wholesale / Institutional Loan products are managed centrally from underwriting to sanction and monitoring. The approval / sanction of the Institutional Loan products is with Credit Committee (CC).

❖ The CC will consist of CEO, Head - Institutional Business (Business & Credit) and Credit Head (Institutional Business). In case, Credit head position is vacant in the organization, CEO can designate a senior person or team leader from Credit team to be part of CC till such time that the position is filled up. The quorum for the CC will comprise of two members. At least two members need to vote in favor of the proposal for it to be approved. The committee may, if required, take support from an external advisor for any proposal. . In case of absence of any member, the absent CC members has a right to designate a person in his/her place, if required.

- Under the Anchor based supply chain finance, the overall anchor-based limit is sanctioned in the credit committee and thereafter debt facility is provided to individual vendors/dealers under the program as per pre-agreed terms subject to the maximum exposure outstanding at any point of time being limited to the overall limit on the program.

- Under the partnership lending segment, the overall partnership proposal is sanctioned in the credit committee and thereafter individual loans are sanctioned as per mutually agreed credit policy between western capital and partner. The total maximum exposure outstanding of all the loans booked under a particular partnership shall be subject to the overall limit sanctioned in the committee for the program.

The CC shall be responsible for the following

1. Approval, rejection & send back of proposals as per the principal laid down under the policy
2. Deciding upon the frequency of monitoring of the portfolio
3. Deciding the course of action in case the triggers set in the policy are breached
4. Re-instating business after the re-instating triggers are hit
5. Approval of any deviation of policy

For Retail Loan Products

The Retail Loan Products will be managed through Retail Branches of WCAPL and the authority for the loan products will be decentralized considering the loan amount and deviations.

Designation	Secured Loan (Rs Lakhs)		Unsecured Loan (Rs Lakhs)	
	First 6 months of Business	After 6 months	First 6 months of Business	After 6 months
Credit Manager	0	5	0	0
Cluster Credit Manager	0	10	0	5
Credit Head	20	30	10	25
CEO	30	30	25	25

These limits will be considered based on the proposed group exposure.

CEO on recommendation from Credit Head will be authorized to delegate Approving authority to Credit team member depending on his overall vintage and performance in the organization.

- Deviation approvals allowed at each approving authority will be specified in respective product policy.
- Any deviations not mentioned in Policy will be approved at CEO level.
- Higher authorities can approve deviations assigned at lower level.
- CEO can delegate his deviation sanction authorities to Credit Head, considering the vintage and business requirements.
- Approval powers accorded to the above authorities will be guided by the risk philosophy of WCAPL.
- All the Credit Policies will be approved by the RMC and Board.
- Any changes in Credit Policies can be approved by CEO and the same to be ratified in upcoming Board meeting.

9. Credit Limits

The objective of setting up credit limits is to achieve a well-diversified portfolio across products, borrowers/borrower groups, industries, geographies, and other such concentration dimensions as defined by WCAPL. Credit concentration norms prescribed by RBI (if any) and industry leading practices will be the guiding factors in this regard.

Exposures are to be maintained within the RBI's guidelines and internal exposure limits as defined in this policy. Credit concentration can result in significant losses because such exposures are affected by changes in similar risk factors and any adverse movement in underlying factors would impact a large portfolio. The effective measurement, monitoring and management of credit risk is of fundamental importance to WCAPL.

While prudential guidelines for avoiding concentration serve as a broad indicator, continuous evaluation of other elements like market conditions, government policies, legal framework, economic indicators, etc. must be made to assess the transaction risk intrinsic in a group of borrowers/segment of industry, as wellas in sectoral exposures and to formulate short term exposure restrictions.

9.1 Regulatory Limits

As per RBI guidelines, there is no single party/group limit defined for base layer BFC. However, for Middle Layer NBFC following limit is defined-

NBFC (except NBFC-IFC) shall not have exposure (credit/investment taken together) exceeding
(a) twenty-five percent of its Tier 1 capital to a single party; and
(b) forty percent of its Tier 1 capital to a single group of parties,

9.2 Internal Limits

In addition to the regulatory limits prescribed for credit concentration, WCAPL may put in place an internal limit framework as a prudent measure to measure and monitor credit and concentration risks within the overall regulatory limits. The Internal limits for credit exposure shall be applicable to all credit exposures originated by WCAPL. In case of breach of any of the internal limits, an internal review will be triggered, andapproval will be sought jointly from the CEO & Credit Head.

In addition to the abovementioned limits, the RMC may prescribe exposure limits for any other risk factors that may need to be controlled and monitored.

9.3 Limit for unsecured exposures

The total limit on unsecured credit exposure will be 40% of total AUM.

9.4 NACH Mandate Limits

Maximum Amount for NACH mandates will be as follows-

- E-NACH Limit: Rs. 1 Crore

- P-NACH Limit: Rs. 1 Crore

Maximum Tenure for P-NACH & E-NACH will be 40 Years

10. Monitoring Standards

Once the funds are disbursed, periodic reviews on the portfolio/borrowers/assets are conducted by the relevant Business and Credit Departments. Notwithstanding sound appraisal processes and risk management, some portfolios / accounts may develop weakness on account of changes in internal or external conditions. Mechanisms for monitoring and identifying early warning signals (EWS) should be in place to review the portfolio and identify such weak accounts before they turn NPA. These monitoring mechanisms will help take remedial measures and limit losses. Such monitoring / review can be undertaken through a mix of portfolio and borrower level EWS metrics (indicative parameters and not exhaustive list):

- Credit Bureau Score decline or default on other trade lines
- Roll forward / roll back rates
- Infant / Early delinquencies
- Chronic bounces
- Performance review across branches / schemes / programs / Relationship Managers etc levels.
- Early Default Alerts (EDA) in the form of adverse deviations in operational performance and cash inflows vis-à-vis projections.
- Site visit reports.

- Movement in internal / external rating including suspension/ withdrawal, more specially downward revision in ratings.
- SMA account classification.
- Covenant monitoring.
- Overdue monitoring.
- Credit concentration risk analysis.
- Stress Asset / Watchlist asset monitoring.
- Any other factors / MIS as deemed necessary for effective monitoring and control.

11. Collection Framework

The collection policy is defined separately for each product.

- For Prabhav Loans and Institutional business (Term Loans and Supply chain finance), separate collection policy is framed.
- WCAPL generates retail portfolio through partnership (BC and CO-lending) with digital and non-digital partners. The portfolio contains mix of personal loans, secured and unsecured business loans, education loans, etc. Each partner may have a unique business model. Considering all these factors WCAPL will have a separate collection policy for each partner and at the time of onboarding of partner, the same will be approved by Head of Institutional Business or CEO.

12. Loan Restructuring

This section is applicable for cases considered as restructuring in line with extant RBI regulations. These regulations also provide for certain carve outs like deferment of date of commencement of commercial operations (DCCO) in respect of projects under implementation up to the time limits specified under the applicable extant RBI guidelines etc which are not considered as restructuring. The organization would be guided by RBI regulations in this regard.

Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions that the lender would not otherwise consider in the normal course of its business to the borrower. Restructuring may involve modification of terms of the advances / securities, which would generally include, among others, alteration of payment period / payable amount / the amount of instalments / rate of interest; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months. If borrowing for the purpose of repayment/refinancing of loans are obtained, such event shall be treated as restructuring if the borrower concerned is under financial difficulty.

A facility may be restructured on a bilateral basis by the organisation, or or jointly along with the other lenders to the borrower under a RP.

11.1 Signs of Financial Difficulty - Quantitative & Qualitative Parameters:

- A borrower’s credit facilities are in non-performing status
- A default, i.e. non-payment of debt when whole or any part or installment of the debt has become due and payable, shall be treated as an indicator for financial difficulty, irrespective of reasons for the default. However, in case a cure period has been provided in the loan agreement, the same shall be considered for this purpose.
- A borrower’s existing exposures are categorised as exposures that have already evidenced difficulty in the borrower’s ability to repay in accordance with the Organisation internal credit rating system.
- A borrower’s operational performance has demonstrably deteriorated to a level that cannot sustain the scheduled debt servicing and the same are not likely to be remedied in foreseeable future as measured by financial metrics such as projected ADSCR or Receivable Cover, as the case may be, of less than 1 times.
- A borrower’s outstanding securities have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange due to noncompliance with the listing requirements or for financial reasons.
- A borrower not in default or borrower’s credit facilities are not having non performing status currently, but it is probable that the borrower will default on any of its exposures or borrower’s credit facilities would be categorized as non performing in the foreseeable future without the concessions.

All the parameters except a & b above are intended to identify signs of financial difficulty in borrowers early even in absence of arrears.

11.2 Evaluation of Restructuring Proposals

No account would be taken up for restructuring by the organization unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. Borrowers who have committed frauds/ malfeasance/ willful default will remain ineligible for restructuring.

However, in cases where the existing promoters are replaced by new promoters and the borrower company is totally delinked from such erstwhile promoters/management, the Company may take a view on restructuring such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters/management.

The viability shall be determined by the organisation, based on the acceptable viability benchmarks determined by them such as DSCR, PLCR, Receivable Cover, Security Cover etc which may be applied on a case-by-case basis, depending on merits of each case. The accounts not considered viable shall not be restructured and recovery measures shall be initiated.

The proposal for restructuring would be examined and, if found viable, would be submitted for the consideration and approval by the approving authority. The proposal for restructuring should be submitted for approval to one authority higher than the sanctioning authority that had approved the original proposal. For cases where original proposal was reviewed / approved by one of the Sanctioning Committees, the restructuring proposal shall be submitted to the same Sanctioning Committee for its approval. Normally, restructuring would not take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated in deserving cases subject to customer agreeing to the terms and conditions.

All proposals considered for restructuring should be closely monitored to ensure timely completion of the exercise. The restructuring shall be considered as implemented only on satisfaction of the conditions specified under the extant RBI guidelines in this regard including completion of documentation, reflection in books of accounts, minimum credit rating for the residual debt from credit rating agencies etc.

Valuation of quasi-debt/ equity instruments arising out of resolution of stressed assets shall be based on conservative assessment of cash flows and appropriate discount rates to reflect the stressed cash flows of the borrower and shall be in accordance with the applicable extant RBI guidelines.

Asset classification of the borrowers post restructuring shall be governed by the extant RBI guidelines including the performance conditions over the monitoring and specified period as stipulated therein.

In the case of retail loans, reassessment of individual borrowers would be difficult and hence in these cases, restructuring may be extended based on pre-defined structures and eligibility criteria.

12. Asset Classification, Income Recognition and Provisioning

All advances are broadly classified into two categories – performing assets and non-performing assets. Presently, for NBFCs, non-performing asset is a credit facility in respect of which the interest and/or instalment of principal has remained overdue for a period of 90 days or more. WCAPL would also follow the RBI guideline for NPA classification

13. Purchase, Sale, and Assignment of Loan Assets

The organization shall comply with all internal and regulatory requirements at the time of purchase as is applicable in case of approval of new loan. Sale/assignment of assets would be for risk sharing or capital gains in case of bonds or asset rebalancing considerations. This would be done in conformity with applicable regulatory (i.e., in due compliance with extant RBI guidelines for Minimum Holding Period (MHP) & Minimum Retention Requirement (MRR), wherever applicable) and internal guidelines / strategy.

The MHP and MRR norms would however be not applicable for the following types of transactions:
i) Transfer of loan accounts of borrowers to other NBFCs / FIs / banks and vice versa, at the request / instance of borrower;
ii) Trading in Bonds;
iii) Sale of entire portfolio of assets consequent upon a decision to exit the line of business / portfolio completely. Such a decision should have the approval of Board of Directors;
iv) Consortium and syndication arrangements; and
v) Any other arrangement/ transactions, specifically exempted by the Reserve Bank of India/ covered under the jurisdiction of a different regulator.

14. Purchase And Sale Of Non-Performing Assets (Npa) Or Stressed Asset

The company may explore select opportunities for purchase of NPAs or stressed assets (funded or non-funded, loans, investments, instruments etc) if the same is expected to attain any strategic objective and is in line with prevailing regulatory guidelines.

The company may explore sale of NPAs or stressed assets, to Securitization Companies (SCs) / Asset Reconstruction Companies (ARCs) / Banks / NBFCs in accordance with applicable regulatory guidelines, with an endeavour to:

- Minimize the negative impact on its Profit and Loss Account on account of provisioning;
- Minimize the gross NPA level in its portfolio; and
- Attain any other strategic objective
- Such sale of assets would be decided by the management on a case to case basis. The management must consider the following while selling any NPA / stressed assets:
  - Assets to be sold should be considered on the basis of anticipated time to recover, the expected recovery amount and the cost to be incurred for the recovery efforts. The same should be compared with the offer and in the event there is no material negative variation, the assets may be sold.
  - At the time of sale, it must be ensured that operational, legal or any other type of risks relating to the financial assets sold is not retained by the organisation.
  - Any losses would be adjusted against specific provisions or charged to Profit and Loss account in line with the RBI guidelines / regulations. Any subsequent changes to the value of security receipts or units (where the sale is not fully in cash) would need to be reflected in the Profit and Loss account.