Instrument	Rating Agency	FY2021	FY2022	FY2023	December 2023	As of date of this Red Herring Prospectus
rating						

Risk Management

Risk management forms an integral part of our business. We continue to improve our internal policies and implement them rigorously for the efficient functioning of our business. As a lending institution, we are exposed to various risks that are related to our lending business and operating environment. Our objective in our risk management processes is to measure and monitor the various risks that we are subject to and to follow policies and procedures to mitigate and address such risks. Our risk management framework is driven by our Board and its sub-committees including the Audit Committee, the Asset Liability Management Committee and the Risk Management Committee and is overseen by our full-time Chief Risk Officer. We accord the necessary importance to prudent lending practices and have implemented adequate measures for risk mitigation, which include verification of credit history from credit information bureaus, multiple verifications of a customer's business and residence, verification of income and KYC documents submitted by the customer, technical and legal verifications, conservative loan to value, and required term cover for insurance.

The major types of risk we face in our businesses are liquidity risk, credit risk, operation risk, interest rate risk, cash management risk, collateral risk and information security risk.

Liquidity Risk

Liquidity risk arises due to the unavailability of adequate amount of funds at an appropriate cost and tenure. We may face an asset-liability mismatch caused by a difference in the maturity profile of our assets and liabilities. This risk may arise from the unexpected increase in the cost of funding an asset portfolio at the appropriate maturity and the risk of being unable to liquidate a position in a timely manner and at a reasonable price. We monitor liquidity risk through our Asset Liability Management Committee. Monitoring liquidity risk involves categorizing all assets and liabilities into different maturity profiles and evaluating them for any mismatches in any particular maturities, particularly in the short-term. We actively monitor our liquidity position to ensure that we can meet all borrower and lender-related funding requirements.

We continuously seek to diversify our sources of funding to facilitate flexibility in meeting our funding requirements. We maintain adequate liquidity buffers to take care of our working capital requirements and unforeseen market liquidity condition, as of March 31, 2021, March 31, 2022, March 31, 2023, December 31, 2022 and December 31, 2023, we have cash and bank balances of ₹21,712.8 million, ₹17,101.6 million, ₹19,180.0 million, ₹16,718.3 million and ₹12,217.5 million and had undrawn credit lines amounting to ₹13,400.0 million, ₹17,160.0 million, ₹15,910.0 million, ₹18,770.0 million and ₹20,160.0 million, respectively. Due to the composition of our loan portfolio, which also qualifies for priority sector lending, we also engage in direct assignment transactions for optimization of our cost of borrowings and capital management, which provides an additional avenue of liquidity.

Credit Risk

Credit risk is the risk of loss that may occur from the default by our customers under our loan agreements. Customer defaults and inadequate collateral may lead to higher NPAs. The following table shows details of our Gross NPAs as of the period ends indicated:

(₹ in million, except percentages)

	As of				
	March 31, 2021	**March 31, 2022**	**March 31, 2023**	**December 31, 2022**	**December 31, 2023**
Gross NPA[(1)]	1,430.3	2,154.5*	1,997.7	2,920.8	2,778.5
Gross NPA to Retail AUM (%)[(2)]	1.1%	1.5%*	1.2%	1.8%	1.4%

Note:

*(1) Gross NPA:- Represents our Gross Retail NPA (closing balance of the Gross NPA of our Retail AUM as of the last day or the relevant year or period). See * below for impact of the November 12 Circular.*

(2) Gross NPA to Retail AUM:- Represents the ratio of our Gross NPA as of the last day or the relevant day or period to the Retail AUM as of the last day of the relevant year or period.

* *For Gross NPA (%) as of March 31, 2023 and December 31, 2023, it includes loan assets of ₹70.5 million (less than 0.1% of our Retail AUM) and ₹59.1 million (less than 0.1% of our Retail AUM) not more than 90 days past due which have been classified as NPA as per the November 12 Circular, respectively.*

Following the November 12 Circular, we classified our Stage 3 assets of ₹ 1,069.1 million as of March 31, 2023 into:
(a) Stage 3a: ₹ 44.7 million loans not more than 90 days past due; and
(b) Stage 3b: ₹ 1,024.4 million loans more than 90 days past due.
We classified our Stage 3 assets of ₹ 1,454.8 million as of December 31, 2023 into:
(a) Stage 3a: ₹ 40.4million loans not more than 90 days past due; and
(b) Stage 3b: ₹ 1,414.4 million loans more than 90 days past due.
Our stage 3b loans are comparable to our NPA for the previous period/years and our stage 3a loans have been classified as a result of the November 12 Circular with effect from November 12, 2021. As a result of the reclassification of Stage 3 loans, our GNPAs as of March 31, 2023 and December 31, 2023 of ₹1,997.7 million (1.2% of our Retail AUM) and ₹2,778.5 million (1.4% of our Retail AUM), respectively includes loan assets of ₹ 70.5 million