SARASWATI COMMERCIAL (INDIA) LIMITED

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RISK MANAGEMENT AND CREDIT RISK POLICY

Effective from	24.07.2017
1st Review	30.01.2019
2nd Review	28.03.2024
3rd Review	27.05.2024

PART – A

RISK MANAGEMENT POLICY

PREAMBLE:

Winro Commercial (India) Limited ("the Company") is an Investment and Credit Company (ICC). The Company's primary activity is investing in securities, mobilization of Capital and lending. The Company is prone to inherent business risks like any other organization.

The Board of Directors ("Board") of the Company has adopted the Risk Management Policy ("This Policy") which encompasses practices relating to identification, assessment, monitoring and mitigation of various risks to the business. This Policy of the Company seeks to minimize unfavorable impact on the business objectives and develop stakeholder value and it mainly covers the risks associated with the primary business of the Company. Further, the risk management practices seek to sustain and enhance long-term competitive advantage for the Company.

This is in compliance with Companies Act, 2013 and Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 ("Scale Based Regulations") [Earlier Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 were applicable to the NBFC which is now repelled]; which requires the Company to lay down procedures about the risk assessment and risk minimization.

PURPOSE OF POLICY:

The purpose of this Policy is to address unanticipated and unintended losses to the human resources & financial assets of the Company without unnecessarily limiting the activities that advance its mission and goals and to ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.

DEFINITIONS:

- **"Board"** means Board of Directors of the Company.
- **"Company"** means Winro Commercial (India) Limited
- **"Directors"** mean individual Director or Directors on the Board of the Company except Non-executive Independent Directors.
- **"Policy"** means Risk Management and Credit Risk Policy
- **"RBI"** means Reserve Bank of India
- **"RCM"** means Risk Control Matrix

POLICY:

The Company recognizes that Risk management as one of the key drivers of growth and further to enhance corporate governance. Accordingly, the Board has framed the following Risk Management Policy:

- To continuously thrive for available risks in the organization which directly or indirectlyaffect the functioning of the organization.

- Selecting, maintaining and enhancing the risk management tools used by the Program to provide analyses that inform and support the investment actions of the entire Organization.

MAXIMUM INVESTMENT:

The Company shall have Concentration of credit/ investment exposure limit of 25% for single borrower/ party and 40% for single group of borrowers/ parties i.e. Investment made by the Company in any one script will be restricted to 25% of Net owned funds and group wise investment in one script will be 40% of Net owned funds of the Company.

The Company shall take cognizance while applying in any Initial Public offer (IPO) and it shall make sure that the allotment received pursuant to the IPO shall not be more than 25% of the Net owned funds.

MAXIMUM BORROWING LIMITS:

The Company shall not borrow more than two times of the Net worth of the Company.

RISK TOLERANCE:

The Company shall try to maintain 50% of its total investments in quoted securities. The investments of the Company shall be monitored quarterly by the Asset Liability Management committee of the Company. If any deviation arises, the same shall be ratified in the next Asset Liability Management committee review.

The Board shall put efforts to diversify its portfolio and also quarterly review sectoral exposure of the total investments made by the Company.

MINIMUM INSTRUMENT RATING:

The Company shall invest in debt products which are with 'investment grade'. If the Company proposes to invest in debt products which are below investment grade then prior approval of Risk Management committee would be required.

EXIT STRATEGY:

The Company shall have its set target price while deciding to invest in any securities and the target prices along with the proportionate exit price shall be reviewed periodically. The Company shall also discuss and review any loss making scripts on periodical basis and accordingly their exit strategy shall also be reviewed.

IDENTIFICATION, MEASUREMENT AND ASSESSMENT OF RISK:

- Management's responsibility is to operationalize the Risk Management Program and ensure that formal procedures are put in place to identify and define risk with input from representatives across the businesses.

- Measurement of risk is completed considering both quantitative and qualitative means using the likelihood and impact criteria as developed by Management.

- The management has identified certain inherent and residual risks which have been divided in accordance with likelihood and its impact on the business.

- Following risks have been identified by the organization:

    1. **Strategic Risk** - This risk is related to the overall business strategies and the related economic / business environment.

    2. **Operational Risk -** Arising out of technology failure, fraud, error, inadequate financial capacity to fulfill obligations and/ or to provide remedies, outsourcing of activities to vendors.

    3. **Market Risk -** Risks related to changes in various markets in which the Company operates.

    4. **Financial Risk -** These risks includes movement in interest rates and also liquidity risk inherent to the business.

    5. **Reputational Risk -** Where the practices followed by the Company are not in consonance with industry as well as internally prescribed standards.

    6. **Credit Risk -** Where the overall industry has considerable exposure to one service provider and hence the NBFC may lack control over the service provider.

    7. **Regulatory & Compliance Risk -** Where privacy, consumer and prudential laws are not adequately complied with by the service provider.

    8. **Information Technology (IT) related Risk** - These risks include Cyber Security Risk and Information Security Risk. The cyber-attacks such as phishing, spoofing may lead to adverse effects to the Company.

RISK CATERGORIZATION AND MITIGATION FACTORS:

The following broad categories of risks have been identified in our Risk ManagementFramework along with possible mitigation factors:

- **STRATEGIC RISK**
  - **Risk**: It is the risk to earnings and capital arising from lack of responsiveness to changes in the business environment and/or adverse business decisions, besides adoption of wrong strategies and choices.
  - **Mitigation**: The management is proactive in its approach towards changes in economic/business environment as the business strategies are regularly discussed with the senior officials of the organization so that adequate steps can be taken.

- **REPUTATIONAL RISK**
  - **Risk:** Reputational risk is related to adverse perception of the image of the Company, on the part of the Stakeholders which includes customers, counterparties, shareholders, investors and regulators. It refers to the potential adverse effects, which can arise from the company's reputation getting tarnished due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints leading to negative publicity. This Risk may also arise from the parties other than stakeholders which include media; the negative opinion from such parties may influence the decision of the stakeholders leading to the negative perception and may damage the Reputation of the Company.

    The risk can emanate from:

- Non-Compliance with Regulations
- Customer Dissatisfaction
- Misrepresentation of facts and figures in public

This risk could result in loss of revenues, diminished shareholder value and could even result in fines being levied by the relevant regulators.

- **Mitigation:** Considering the business model the following aspects have been put in place to reduce vulnerability related to reputational risk:

  - **Compliance with Fair Practices Code**: All employees are trained and instructed to follow fair practices as per RBI prescribed guidelines in all their dealings with the customers.

  - **Grievance Redressal Mechanism (GRM)**: The Company has a defined GRM in place and the same is communicated to all customers at the time of sanction of loan.

  - **Delinquency Management**: The Company does not resort to any coercive recovery practices and all recoveries are made in accordance with the Fair Practice Code of the Company.

  - **Compliance with Policy on Prevention of Sexual Harassment:** The Company has in place Policy on Sexual Harassment to protect the employees from unwelcome behavior at workplace.

- **MARKET RISK**
  - **Risk:** It is the risk of losing value on financial instruments on the back of adverse price moments driven by changes in equities, interest rates due to the volatility in market.

  - **Mitigation:** The management carries out regular competitive analysis of its peers in the industry so as to remain in competition and change its markets if required.

- **Investment Risk**
  - **Risk:** It is defined as the probability or uncertainty of losses rather than expected profit from investment due to a fall in the fair price of securities.

  Mitigation: The Management mitigates this risk by relying on Investment policy of the Company, diversifying its portfolio in various segments & industries and internal research. The Management follows concentration norms prescribed under Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 for each party exposure limit.

- **OPERATIONAL RISK**
  - **Risk:** Risks inherent to business operations including those relating to client acquisition, service delivery to clients, business support activities, information security, physical security, human resource and business activity disruptions.

  - **Mitigation:**
  - **Document Storage and Retrieval**: The Company recognizes the need for proper storage of documents as also for their retrieval for audit and statutory requirements.

- **Physical Storage:** All the documents / papers are stored in safe condition at the registered office of the Company or any other place in India as approved by the Board of Directors.
- **Scanned Copies:** All the documents / papers are of the loan are stored in scanned copies for easy retrieval especially for audit purposes where physical documents are not required.

- **FINANCIAL RISK**

- **Interest Risk:** Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The immediate impact of changes in interest rates is on company's earnings (i.e. reported profits) by changing its Net Interest Income (NII). As such the Company is into providing of loans which are mostly fixed rate loans. The Company manages this risk on NII by pricing its loan products to customers at a rate which covers interest rate risk.

- **Liquidity Risk:** Measuring and managing liquidity needs are vital for effective operations of an NBFC. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. Though assets commonly considered as liquid, like government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity has to be tracked through maturity or cash flow mismatches.

- **Maturity Mismatch:** Liquidity Risk arises largely due to maturity mismatch associated with assets and liabilities of the company.

- **Funding Concentration Risk:** Concentration of a single source of funds exposes the Company to an inability to raise funds in a planned and timely manner and resort to high cost emergency sources of funds. Further, concentration of funding sources can also result in a skewed maturity profile of liabilities and resultant Asset-Liability mismatch.

- **Asset-Liability Mismatch**: A skewed asset-liability profile can lead to severe liquidityshortfall and result in significantly higher costs of funds; especially so during times ofcrises.

- **Leverage Risk:** A high degree of leverage can severely impact the liquidity profile of the Company and lead to default in meeting its liabilities.

- **Mitigation:** The key liquidity management policies being followed by the Company include:

- **Capital Adequacy:** The Company targets to maintain healthy levels of Capital Adequacy. The Company maintains a strong capital position with the capital ratios well above the thresholds defined by the regulatory authorities through continuous and timely capital infusion.

- **CREDIT RISK**

- **Risk:** A risk of loss due to failure of a borrower/counterparty to meet the contractual obligation of repaying his debt as per the agreed terms is commonly known as Credit Risk / Risk of Default. Any lending activity by the Company is exposed to Credit Risk. Despite best efforts, there can be no assurance that repayment default will not occur. A failure to recover the expected value of collateral security could expose the Company to a potential loss. Any such losses could adversely affect the Company's financial condition and results of operations.

- **Mitigation:** A strong credit risk management process helps in containing the portfolio quality of the company. Key elements of the credit risk management include a structured and standardized credit approval process supported by a strong system, legal and technical due diligence, monitoring and robust credit risk management strategy at a senior management level. The Company shall carry out due diligence by analyzing factors about a borrower's creditworthiness, such as their current debt loan and income.

"A DETAILED CREDIT RISK MECHANISM IS PROVIDED IN PART B OF THIS POLICY"

- **REGULATORY AND COMPLIANCE RISK**

- **Risk:** The Company is exposed to risk attached to various statutes and regulations. The Company shall be compliant in terms of regulatory norms and therefore shall effectively manage Regulatory and Compliance Risk. Effective Customer Redressal Mechanism and Fair Practices Code shall keep legal risk under control. Non- Compliance can result in stringent actions and penalties from the Regulator and/or Statutory Authorities and which also poses a risk to Company's reputation.

These risks can be:

- Non-Compliance with RBI Regulations
- Non-Compliance with Statutory Regulations
- Non-Compliance with covenants laid down by Lenders

- **Mitigation:**
- Regular Review of legal compliances shall be carried out through internal as well as external compliance audit.
- The compliance status of the Company is quarterly reported to the Board.

- **INFORMATION TECHNOLOGY (IT) RELATED RISK**

- **Risk:** The business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise. In this digital era, as organizations use automated Information Technology (IT) Systems to process their information; it is exposed to IT-related risks. Risk Management plays a critical role in protecting an organization's information assets, from IT-related risks.

Some of the key risk areas are given below:

- Infrastructure management poses considerable risk to business
- Cyber Security is a major threat to any organization which conducts business over internet
- Security Threats and Vulnerabilities
- Data management and protection risk
- IT Architecture risk

- Technology vendor and third-party risk
- Ability to up skill or reskill existing individuals in fast changing technology landscape

- **Mitigation:** To address the above mentioned key risk areas, the Company has established a robust IT and Information Security Risk Management Framework covering, inter alia, the following aspects:

i. Implementation of comprehensive Information Security management function, internal controls and processes (including applicable insurance covers) to mitigate/ manage identified risks. The implemented controls and processes must be reviewed periodically on their efficacy in a risk environment characterized by change;
ii. Definition of roles and responsibilities of stakeholders (including third-party personnel) involved in IT Risk Management. Areas of possible role conflicts and accountability gaps must be specifically identified and eliminated or managed;
iii. Identification of critical information systems of the organization and fortification of the security environment of such systems; and
iv. Definition and implementation of necessary systems, procedures and controls to ensure secure storage/ transmission/ processing of data/ information.

Further, the IT Strategy Committee (ITSC) is entrusted with the responsibility of providing a framework for the IT Policy, drafting and recommending the same to the Board and the Board will further implement the Policy & framework for IT Governance. The Information Security and System Audit (IS Audit) is also undertaken periodically to ensure that the Company remains protected from any threats that may have cropped during the course of the year and also to ensure that all the policies and procedures, as laid out, are followed properly.

In addition to the above mitigation factors, the IT related Risks shall be further assessed as under:

a) The risk assessment for each information asset within the Company's scope will be guided by appropriate security standards/ IT control frameworks.

b) The Company shall ensure that all staff members and service providers comply with the extant information security and acceptable-use policies as applicable to them.

c) The Company will review their Security Infrastructure and Security Policies periodically, factoring in their own experiences and emerging threats and risks. The Company shall take steps to adequately tackle cyber-attacks including phishing, spoofing attacks and mitigate their adverse effects.

AUDIT TRAIL:-

As per Rule 3(1) of the Companies (Accounts) Rules, 2014, every Company which uses the accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in the books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled. 1Following are the prime responsibility of the Management; (a). Use only such accounting software which has the following features: Records an audit trail of each and every transaction, Creating an edit log of each change made in the books of account along with the date when such changes were made; (b). Ensuring that audit trail is not disabled and there is no option to disabled; (c). Effective Implementation.

The Company is using the Tally Solution Software which has the features of audit trail in it. During the process of back up of accounting records the back up of audit trail occurred simultaneously. The Company had various systems to take back up of all data as follows:

- Hardrive and backup server is preserved at 1 & 2, Western India House, 1st Floor, Sir P.M. Road, Fort Mumbai - 400 001.
- Storage device 'NAS (Network Attached Storage)' device is preserved at 5103 51st Floor, The Imperial South Tower, B. B. Nakashe Road, Tardeo, Mumbai – 400 034.

The aforementioned places where the backup is being kept are fire proof and are under 24 hours CCTV surveillance (motion detect). Section 128(5) of the Companies Act, 2013 which requires books of account to be preserved by Companies for a minimum period of eight years, the Company retains the audit trail for a minimum period of eight years.

REPORTING REQUIREMENTS:

Periodically updated information materially affecting the risk profile (e.g. market developments) will be provided which will enable the Board to understand the likely future risk profile of the Company. These will be reported to the Board by top management personnel as soon as practicable.

PART - B CREDIT RISK POLICY

A risk of loss due to failure of a borrower/counterparty to meet the contractual obligation of repaying his debt as per the agreed terms is commonly known as Credit Risk / Risk of Default. Any lending activity by the Company is exposed to Credit Risk. Despite best efforts, there can be no assurance that repayment default will not occur. A failure to recover the expected value of collateral security could expose the Company to a potential loss. Any such losses could adversely affect the Company's financial condition and results of operations. Thus in order to mitigate such loss the Company has laid down some check in process before loans are sanctioned.

As per the business operations of the Company, the lending is categorized as below:

- **Inter Corporate Loans / Other Corporate Lending:** Inter corporate lending consists of unsecured lending to the Related Parties which includes Group Companies and secured lending to other Body Corporates.
- **Revolving Loan Facility**
- **Loan against Securities/Property**

CREDIT APPROVAL AUTHORITY:

Credit Approval Authority resides ultimately with the Chief Financial Officer, Risk Management Committee and Board of the Company.

CREDIT PORTFOLIO NORMS:

While evaluating the credit proposals, the Board will also keep in mind certain exposure norms. These are in addition to the norms on single borrower and group exposures and similar guidelines that have been imposed by the RBI.

FINANCING TENOR:

The final maturity of financings shall be adhered by the Company to the following limits:

- Secured Financing : Maximum 5 years
- Unsecured Financing : Less than 1 year or as agreed by the Borrower and the Company

CREDIT APPROVAL PROCESS FLOW:

The credit approval for external lending (other than Lending to Related Parties) will include the below process / steps:

A. Approval by Chief Financial Officer
B. Approval by Risk Management Committee
C. Approval by Board
D. Completion of KYC
E. Physical Verification by the Company
F. Execution of Security Documentation
G. Disbursal of financing

The Company is lending mainly to its Related Parties, Corporates with strong promoter background and High Net worth Individuals.

NON PERFORMING ASSETS (NPA):

In view of the Scale Based Regulations read with the RBI vide notifications RBI/2021-22/112 DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021 & RBI/2022-23/129 DOR.CRE.REC.No.78/03.10.001/2022-23 dated October 11, 2022, it is clarified that applicable NBFCs that are part of a common Group or are floated by a common set of promoters should not be viewed on a standalone basis. As the asset size of the Company as a group has exceeded Rs. 1,000 Crore, the Company is categorized as Middle Layer NBFC (NBFC-ML). An asset of NBFC-ML shall be classified as non-performing asset if it fulfills the following conditions:

i. an asset, in respect of which, interest has remained overdue for a period of more than 90 days.
ii. a term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 90 days or on which interest amount remained overdue for a period of more than 90 days.
iii. a demand or call loan, which remained overdue for a period of more than 90 days from the date of demand or call or on which interest amount remained overdue for a period of more than 90 days.
iv. a bill which remains overdue for a period of more than 90 days.
v. the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short-term loans/ advances, which facility remained overdue for a period of more than 90 days.
vi. any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than 90 days.
vii. the lease rental and hire purchase instalment, which has become overdue for a period of more than 90 days.
viii. in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/ beneficiary when any of the above credit facilities becomes non-performing asset.

QUICK MORTALITY LOAN:

It is obligatory on every person concerned to appraise the proposal with due care, take necessary steps to ensure that the borrower comply with all the terms of sanction, appropriate end-use of funds, adequate and close monitoring of accounts, etc., so that quality of advance account does not deteriorate. However, the Company will take sufficient and utmost care at Initial Stages of Loans, viz. Pre-sanction Appraisal, Post-sanction Monitoring, etc., so that they do not become cases of quick mortality and extant guidelines with regard to compliance of terms and conditions will be strictly adhered to.

REVIEW OF THE POLICY:

The Policy shall be periodically reviewed and updated as prescribed by RBI or any Act or Rules as amended from time to time (if any) by the Board of the Directors.

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