

SARASWATI COMMERCIAL (INDIA) LIMITED

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Risk Management and Credit Risk Policy

(Effective from 10.02.2016)

(Reviewed On 30.01.2019)

PART - A
RISK MANAGEMENT POLICY

PREAMBLE

Saraswati Commercial (India) Limited (Saraswati) is Non-Banking Financial Company prone to inherent business risks like any other organization. This document is intended to formalize a risk management policy the objective of which shall be identification, evaluating, monitoring, and minimizing identifiable risks. The Company's primary activity is investing in securities, mobilisation of Capital and lending. This policy mainly covers the risks associated with the primary business of the Company.

The Board of Directors ("Board") of Saraswati Commercial (India) Limited, has adopted the following policy which encompasses practices relating to identification, assessment, monitoring and mitigation of various risks to the business. Risk Management Policy of the Company seeks to minimize unfavourable impact on the business objectives and develop stakeholder value. Further, the risk management practices seek to sustain and enhance long-term competitive advantage for the Company.

This is in compliance with Non- Banking Financial Company- Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and Companies Act, 2013; which requires Saraswati to lay down procedures about the risk assessment and risk minimization.

PURPOSE OF POLICY

This Policy has been framed in accordance with the Risk Management framework as issued by Reserve Bank of India ("RBI") vide Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 ("RBI Circular") and amendments thereon.

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

POLICY

Saraswati 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 indirectly effect 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.

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
 2. Operational Risk
 3. Market Risk
 4. Financial Risk
 5. Reputational Risk
 6. Credit Risk
 7. Regulatory & Compliance Risk
- **Strategic Risk** – This risk is related to the overall business strategies and the related Economic / business environment
- **Operational Risk**- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies, outsourcing of activities to vendors.
- **Market Risk**- Risks related to changes in various markets in which the Company operates.
- **Financial Risk**- These risks includes movement in interest rates and also liquidity risks inherent to the business.

- **Reputational Risk** – Where the practices followed by the Company are not in consonance with industry as well as internally prescribed standards.
- **Credit Risk** – Where the overall industry has considerable exposure to one service provider and hence the NBFC may lack control over the service provider.
- **Regulatory & Compliance Risk** – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.

RISK CATERGORIZATION AND MITIGATION FACTORS

The following broad categories of risks have been identified in our risk management framework 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 or the company, on the part of 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

The risk can emanate from:

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

- **Market Risk**

- **Risk:** Risks emanating out of the choices we make on markets, resources and delivery model that can potentially impact our long-term competitive advantage.
- **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:** Risks emanating out of volatility in stock markets and its impact on the investments made by the Company. Higher stock price volatility, fluctuations in stock prices, market conditions and Company specific issues often leads to high risk for the Company.
- **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 Directions - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 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:** Saraswati recognizes the need for proper storage of documents as also 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.
 - **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 changes in interest rates affect company in some way. 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 Saraswati is into providing of loans which are always 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 liquidity shortfall and result in significantly higher costs of funds; especially so during times of crises.
- **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 at Saraswati include:
 - **Capital Adequacy:** Saraswati 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:** Any lending activity by the Company is exposed to credit risk arising from repayment default by borrowers and other counterparties. Despite best efforts, there can be no assurance that repayment default will not occur and, in such circumstances, may have an effect on its results of operations. 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.

“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 is mitigating the risk through regular review of legal compliances carried out through internal as well as external compliance audit. 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:**

- The compliance status of the Company is quarterly reported to the Board.

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

Any lending activity by the Company is exposed to credit risk arising from repayment default by borrowers and other counterparties. Despite best efforts, there can be no assurance that repayment default will not occur and, in such circumstances, may have an effect on its results of operations. 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 categorised as below:

- **Inter Corporate / Other Corporate Lending:** Inter corporate lending consists of unsecured lending within Companies in the Group and unsecured lending with other Body Corporates.

CREDIT APPROVAL AUTHORITY

Credit Approval Authority resides ultimately with the Board of the Company

PORTFOLIO NORMS

In evaluating credit proposals, the Board will also be keeping 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 provided by Saraswati will adhere to the following limits.

- Secured Financing : 5 years
- Unsecured Financing : As agreed by the Borrower and Saraswati

CREDIT APPROVAL PROCESS FLOW

The credit approval will include the below process / steps:

- A. Approval by Board
- B. Completion of KYC
- C. Execution of Security Documentation
- D. Disbursal of financing

The Company is lending mainly to its group Companies, Corporates with strong promoter background and High Net worth Individuals

REVIEW OF THE POLICY

The Board of the Directors will periodically review this policy.

EFFECTIVE DATE

The Policy is effective from the date of receiving approval from the board of directors i.e. 10th February, 2016.