Keertana Finserv Private Limited

Name of Policy	Borrowing and Investment Policy
Date of Last Approval/Review	NA
Prepared By	Prakash Bhawnani
Proposed By	Padmaja Reddy
Approving Authority	Board of Directors
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Contents

Borrowing & Investment Policy

1. Introduction

Keertana Finserv Private Limited (‘Keertana” Or “Company”) is categorized under Middle Layer as per the RBI Master Direction Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023. Keertana’s Borrowing & Investment Policy (Policy) is based on the required financial discipline, transparency and applicable Accounting Standards. It is the policy of the Company to be a good corporate, and comply with all applicable laws and regulations including but not limited to Reserve Bank of India (RBI), including standardsand reporting requirements established from time to time by any regulatory authority. Hence, attempt has been made to ensure that the Investment Policy meets all applicable rules, regulations, guidelines and directions.

If at any time, there is any change in the rule / regulation / guideline pertaining to the Policy then the said change will be “*mutatis mutandis*” part of the Policy. Further, if any part of the policy is not in compliance of the applicable law then the said part will become in-applicable.

1.1 Scope of Borrowing & Investment Policy

The objective of the Borrowing & Investment Policy is to ensure that the appropriate policy & procedures are followed in the required functional area.

1. The policy lays down various types of investment options
2. The policy will guide Keertana in order to avoid undue risk of loss of capital and to obtain a reasonable return
3. Investment strategy will be developed having due regard to the nature of Keertana’s liabilities within the Investment Policy
4. Investment in all segments will be made within the prevailing regulatory and internal provisions
5. Policy will ensure that at all times Investment Portfolio is well diversified and that exposure guidelines are adhere to
6. Sufficient “due diligence” shall be carried out, with respect to any proposed investment decision, so that those involved with investment decisions can properly assess the potential risks and returns
7. Ensure that those responsible for settlement and accounting entries shall be independent from those responsible for recommending and approving investment transactions
8. Borrowings for the organization to be subject to compliance of borrowing limit approved by the shareholders under the provisions of the Companies Act 2013
9. Different borrowing instruments to be explored to ensure diversification in funding profile

1.2 Compliance with Policy

- Borrowings & Investments shall comply with the Policy that is in effect at the time the investment is made or borrowing undertaken.
- Changes to the Policy will not apply to investments made / borrowing undertaken prior to such changes.
- Asset & liability management committee (ALCO) will take necessary actions as appropriate on divestments to be made due to changes in regulatory requirements.

1.3 Internal Audit –Review of Controls, Compliance

As per regulatory requirement and company's Internal Audit plan, the Policy and documents will be examined by Internal Auditors along with the adequacy of the control process to ensure compliance. The scope of audit will include

a) Investment risk management,
b) review of facility contracts
c) Covenant Adherence
d) Compliance with regulations, systems and processes.

1.4 Related Party Transactions

The investment in the group / associate companies or individuals shall be in line with the Regulators & internal guidelines which are defined in the Related Party Policy of the Company.

1.5 Investment Objective

Keertana is in the business of lending and required to maintain adequate liquidity to ensure smooth operation of business and solvency. Keertana shall use the treasury investment options as a tool to park its excess funds in risk free / less risky investments. Following are the key objectives of investment:

- Safety of Investible Funds
- Liquidity of Investible Funds
- A market comparable Yield on Investible Funds, based on priorities of Safety and Liquidity

2. Operational Guidelines on Investments

1. Keertana will not make investments in:

   a) Equity / Common Shares / Preference Shares (except in subsidiary company or for equity investment up-to INR 1,00,000/- in Co-operative Bank)

b) Real Estate except for own use or received in satisfaction of debt from borrowers Perpetual Bonds / Tier-II / Unsecured Bonds having residual maturity above 12 months.

2. Keertana shall restrict its investments in the following instruments: -

a) GOI Bond (G-sec) & T-bills
b) Mutual Funds (As detailed in Policy)
c) Debenture and Bonds issued by Corporate, Banks and Financial Institutions
d) Asset Backed Securities (ABS) (i.e., Securitization backed by Gold Loans or Mortgage Loans or any other loan secured by tangible asset)
e) Fixed deposits
f) Money Market Instruments –Commercial Papers & Certificate of Deposits
g) Any other instrument as approved by the Board.

3. Keertana to comply with the regulatory restrictions and limits as per the Chapter X of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023. In this regard, the company has concentration policy in place. Company to abide by the exposure norms with regard to concentration and investment into Sensitive sector exposure (SSE) as directed by the Concentration policy.

4. Concentration of Investment

- As per the RBI master guidelines on NBFCs, concentration in Credit and investment to be monitored as per the prescribed guidelines. The same is detailed in separate concentration policy wherein the concentration limits pertaining to single party or at group level are covered.

- For computation of concentration norms under the policy, each MF scheme of any AMC shall be considered as separate party/group.

- Exposure to include investment in MBS/ABS. Originator of the pool shall be considered as counter party for computation of concentration norms.

3. Investment Guidelines

3.1 Debt and Money Market Instruments

These guidelines apply to all securities, Money market Instruments, public or private which have a fixed income element. Money market instruments are short term funds with maturity not more than one year comprising of –

- For investing in the securities of a debt, the issuer should have a long-term rating of AA+ or above for long term and its equivalent in short term respectively by a reputed and independent recognized rating agency in India. In case where multiple ratings are available the lowest of the rating should be taken into account for making investment decision.

- CP /NCD /Bonds remaining tenure not to exceed 12 months at the time of investment except for AAA bonds.

- Any deviation from above two points to require prior approval of ALCO

3.2 Investment in Asset Backed Securities (ABS), Mortgaged Backed Securities (MBS) and Structured Debt

Any investment in the ABS, MBS should meet the following norms:

- Minimum seasoning of the portfolio should be as per RBI guidelines applicable from time to time.

- Investment in Assets Backed securities, Mortgage Backed securities or any other structured products including covered bonds with a minimum rating of AA+ and above.

- Transaction should be in compliance with RBI guidelines on securitization of assets.

3.3 Guidelines for Mutual Fund Investment

a) Debt Mutual Fund

1. Investments will be made only in 'Direct' schemes

2. Investment will be made only in scheme which have O/s AUM > INR 2,000 Crore in last quarter (except in the case of FMPs).

3. Among debt scheme, Investments can be made in Overnight, Liquid, Ultra Short term, Low Duration, Money Market fund, & FMPs only. In case there are other schemes having modified duration less than 1 year, the same can also be considered for investment, e.g. schemes rolling down the yield curve.

4. All the debt mutual fund investments are to be governed by Potential Risk Class (PRC) Matrix, as introduced by SEBI vide its Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/197 dated October 05, 2020 which was rolled out by AMCs in December 2021. Under the new guidelines, mutual funds will have to classify their existing debt schemes and new schemes in a PRC matrix based on the maximum risk that the fund might take in the future.Annexure A contains the details of PRC matrix.

5. Investment can be made only in the schemes covered under Class A 1, A 2, B 1 and B 2category of PRC matrix, as captured below –

Max Credit Risk of scheme→ **Max Interest Rate Risk of the scheme ↓**	**Class A (CRV >=12)**	**Class B (CRV >=10)**
Class I: (MD<=1 year)	Interest Rate Risk: Low Credit Risk: Low	Interest Rate Risk: Low Credit Risk: Moderate
Class II: (MD<=3 years)	Interest Rate Risk: Moderate Credit Risk: Low	Interest Rate Risk: Moderate Credit Risk: Moderate

MD = Modified Duration
CRV= Credit Risk Value

b) Equity Mutual Fund

1. Among the Equity funds category, only Arbitrage funds can be considered or investment amount of up-to INR 1,00,000/- for specific purpose of being a member of Co-operative banks

2. Investment to be made only in top 10 schemes (In terms of AUM Size of the arbitragescheme as of the last month) under the arbitrage category

6. Fund Allocation – Diversification

The total investments done in mutual funds in any one investee (AMC/ Issuer) shall not exceed 50% of the total liquidity outstanding as on any date including all short-term investments, Fixed Deposits (excluding lien marked) and Bank Balance. In order to determine compliance with this criterion,the NAV value on the day of purchase shall be taken into consideration.

4. Reporting Mechanism

The Consolidated Investment Status comprising all investments as at the end of each month shall be circulated by Treasury team to the MD & CEO & CFO.

All secondary market trade in Capital Market instrument should be through Exchange/CCIL to the extent possible.

5. Procedure for Investment transaction

All Investment operations will be run under the supervision & control of Head – Treasury whowill certify the compliance to Policy on a Monthly basis to the MD & CEO & CFO. Audit Team will validate the certificate provided.

All investment transactions execution shall be entered into by the Manager, Treasury in consultation with the Treasury Head.

Quarterly outstanding as at the end of each calendar quarter shall be put-up to the ALCO for information and recommendation.

6. Accounting of Investments

a) Classification:

In line with RBI Master Guidelines applicable to NBFCs, Securities are to be bifurcated into Long Term and Current category at the time of making each investment. Long Term Securities are those which are intended to be held for more than one year and Current securities are securities other than Long Term securities.

At present all investments made by Keertana are intended as Short-Term investment unless specifically declared otherwise.

In case of inter-class transfer, -

- There shall be no such transfer on ad-hoc basis.

- Such transfer, if warranted, shall be affected only at the beginning of each half year, on April 1 or October 1, with the approval of the Board.
- The investments shall be transferred scrip-wise, from current to long term or vice-versa, at book value or market value, whichever is lower.
- The depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored.
- The depreciation in one scrip shall not be set off against appreciation in another scrip, at thetime of such inter-class transfer, even in respect of the scrips of the same category.

b) Accounting Treatment

Accounting treatment shall be governed by IndAS, wherever applicable. Accounting treatment to be decided basis the availability of the quotes in the market for the investment instrument.

- Quoted current investments shall, for the purpose of valuation, be grouped into the following categories, viz.
    - Debentures and bonds,
    - Government securities including treasury bills,
    - Units of mutual fund (Debt instruments), and
    - others
- Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one categoryof investments shall not be set off against appreciation in another category.
- Investments in unquoted Government securities or Government guaranteed bonds shall bevalued at carrying cost.
- Investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.
- Commercial papers shall be valued at carrying cost.
- A long-term investment shall be valued in accordance with the applicable Accounting Standards.

7. Resource Planning Policy

Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 has prescribed a minimum set of guidelines to be followed by all NBFCs raisingmoney through a variety of debt instruments to have a board approved policy for resource planning which inter-alia, should cover the planning horizon and the periodicity of issuance of debt instruments. This policy issub-set of our overall borrowing and investment framework.

This Policy applies to all kinds of resources that Keertana is already using to fund its assets as also any new category of liability or newer instruments which Keertana plans to pursue during the financial year. However, the policy does not cover raising of resources for capital augmentation like issue of fresh equity/convertible debentures/preference shares etc. which will be examined by the Board.

8. Operating Guidelines- Resource Planning

All Borrowings raised should be within the limits approved by the Board/Shareholders. Annual plan of borrowings shall be submitted to the Board of Directors as part of annual budgeting exercise. Resources will be raised through a variety of debt instruments from diversified sources keeping in mind thecost and tenor of borrowing as well as balance sheet requirements.

- **Short Term borrowings**: Borrowing from Commercial Paper (CP)/WCDL or other short-term instruments (less than one year) should be limited to 30% of total assets and resorted primarily to meet working capital requirements and short term ALM mismatch or fund the asset creation having short term maturities.
- **Bank Borrowings**: Term loans or any other arrangement with the banks in term of long-term funding to be availed as per the financing need.
- **Non-Convertible Debentures (NCDs)/ Bonds** – Issuance of NCDs/Bonds can be made as public debt issuance or on private placement basis. Where the Debentures are issued on private placement basis, such issues shall be in accordance with the extant Notifications/Guidelines/ Circulars issued by the Reserve Bank of India in this regard, from time to time. The NCDs shall be issued at such frequency asmay be determined by the Committee in accordance with regulatory stipulations that govern the same. The NCDs can either be issued as secured or unsecured, in accordance with the RBI Regulations and for a minimum period of 24 months.
- **ECB:** ECB should be in compliance with applicable ECB regulations issued by RBI from time to time. In case of foreign currency ECB issuance, the same needs to be hedged as per applicable RBI instructions and internal Risk management policy.
- **Subordinated debt**: Loans that are subordinated to senior or secured debts are available to the Company for a relatively long period of time (more than five years). These would be subscribed to by Banks, Insurance Companies, Corporates or Mutual Funds. These are unsecured in nature and shall aid in the capital adequacy of the company. Company to issue such debt on need basis and after committee approval.
- **Structured Debt Issuance:** The Company can issue structured NCDs. These instruments are generally subscribed by set of investors like (HNIs, PF funds, Insurance Companies etc) who are otherwise not investing in vanilla NCDs. These products should be structured to the need of the investors and the attributes of the instruments can vary on parameters such as underlying, coupon rate, risk-return profile, etc.
- **Transfer Of Assets & Securitization –**Any financing arrangement involving transfer of assets or securitization to be dealt in accordance with the separate policies on transfer of assets and securitization respectively.
- **Repo:** Repo is borrowing funds by selling securities with an agreement to repurchase the securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed. Keertana can enter bi-party or triparty repo transactions.
- **Collateralized Borrowings and Lending Obligations (CBLO):** Overnight liquidity product offered by & settled through Clearing Corporation of India Limited (CCIL), against G-secs as pledged collateral, with marginal haircut are classified under CBLO transactions. These are used for funding the G-sec portfolio. As and when such portfolio is available and Keertana wants to utilize this for short term funding arrangement, the same can be made as per the applicable guidelines.
- **Other:** Subject to compliance of applicable regulations and keeping in mind the ALM requirements, any other product which fits into overall debt profile of the company, can be utilized to raise the debt funding as per the prescribed guidelines.

9. Guidelines with respect to Non-Convertible Debenture (NCDs)

All NCDs shall be raised in line with specified guidelines issued by RBI, SEBI and Companies Act and in dematerialized form only. Company shall issue non-convertible debentures for deployment of funds for creation of own assets. No NCD should be raised to facilitate resource request for any group entity / parent company / associates.

NCDs should have minimum tenure of 24 months from the date of issuance. The exercise date of option (put/call), if any, attached to the non- convertible debentures shall not fall within the period of two years from the date of issue. All the NCD issuance are to be mandatorily rated as per the guidelines. There should be no roll-over of the NCD.

The debt securities may be issued in the following manner:

Public issue of NCDs

The company may, subject to the compliances with the applicable provisions of laws/ and regulations, may issue Redeemable Non-Convertible Debentures with maturity period of 24 months and above.

(NCDs/Bonds) at such intervals by way of public issue at such coupon rates as the company think fit from time to time and shall be listed in one or more recognized stock exchanges in India. All such issuances to follow the operational guidelines as prescribed by SEBI from time to time starting from the eligibility, issuance and various disclosures.

Private Placement of NCDs

Keertana may, subject to the compliance with the applicable provisions of laws and regulations, issue Redeemable Non-Convertible Debentures (NCDs/Bonds) at such intervals by way of private placement. Keertana may issue structured debt or plain vanilla NCDs from time to timeas per the applicable guidelines.

The securities may be listed in one or more recognized stock exchanges in India. Further the operating guidelines pertaining to issuance of private placement including the minimum ticket size and other compliances are to be followed as per the SEBI guidelines issued from time to time.

Non-convertible debentures may be issued at face value carrying a coupon rate or at a discount to face value as zero-coupon instruments as determined by the company.

The requirements of all the provisions of the Companies Act, 2013 and the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008, or any other law, that may be applicable, shall be complied with by company. Further, the procedural and operational guidelines with respect to NCD issuance to be followed as published by regulator (Including SEBI) to be adhered to by the company. All these requirements are as per applicable SEBI guidelines. Any change in the guidelines to be reflected in the policy as well.

10.Approval Authority & Exceptions Management

Treasury is responsible to ensure the compliance of the policy. ALCO has the authority to approve the borrowings as per the authority delegated by the Board of Directors (Board). MD & CEO is authorized to approve any deviation from the investment policy on recommendation of CFO. Any deviation on concentration norms captured in this policy and in the concentration policy either with respect to party or instrument shall be reported in next meeting of ALCO, for its ratification.

Annexure A – PRC (Potential Risk Class) Matrix

Introduction

In June 2021, SEBI vide its Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/197 dated October 05, 2020, introduced the Potential Risk Class (PRC) Matrix for debt funds & in December 2021, AMCs rolled it out for each of their debt funds. Under the new guidelines, mutual funds will have to classify their existing debt schemes and new schemes in a potential risk class (PRC) matrix based on the maximum risk that the fund might take in the future. Once a scheme is placed in a particular cell, a change would mean a change in fundamental attributes giving existing investors the chance to exit without paying exit load.

Under the PRC Matrix, there are three categories for credit risk – Class A, Class B, and Class C. Similarly, there are three categories for interest rate risk – Class I, Class II, and Class III.

Class A indicates the lowest level of credit risk, while Class C indicates the highest level of credit risk. Similarly, Class I means the lowest level of interest rate risk while Class III represents the highest level of interest rate risk.

Methodology:

PRC (Potential Risk Class) matrix is a 3 X 3 matrix used for classifying the risk of debt mutual funds which considers both interest rate risk and credit risk:

i. **Interest rate risk** is measured using the Macaulay Duration in the time period in which the investor will be able to recover the price of the bond paid in the forms of interest payments and principal repayment. Macaulay Duration is measured in years, and the shorter the MD of a bond is, the lower is its potential interest rate risk. Similarly, bonds with longer Macaulay Duration have higher interest rate risk.

   The Macaulay duration of a Debt Fund is the weighted average of the Macaulay Duration of each bond that the fund has invested in. Based on the Macaulay Duration (MD) of the Debt Fund, each fund is classified into 3 classes as follows:

PRC Matrix Classification Based on Macaulay Duration (MD)		
Class I	MD of up to 1 year (residual maturity up to 3 years)	Debt Funds with lowest potential interest rate risk
Class II	MD of up to 3 years (residual maturity up to 7 years)	Debt Funds with moderate potential interest rate risk
Class III	Any MD	Debt Funds with highest potential interest rate risk

ii. **Credit risk** To determine the potential credit risk of Debt Funds, SEBI has assigned Credit Risk Value (CRV) to different Debt Instruments as follows:

Instrument Type	Credit Risk Value (CRV)
Government Securities, State Development Loans, Repo on Government Securities, Tri-party Repos (TREPS), and Cash	13
AAA Rated Instruments	12
AA+	11
AA	10
AA-	9
A+	8
A	7
A-	6
BBB+	5
BBB	4
BBB-	3
Unrated	2
Below Investment Grade	1

The CRV of a Debt Fund is the weighted average credit risk value (CRV) of each investment in the fund's portfolio. Based on CRV, the PRC matrix classifies a Debt Fund into the following classes:

PRC Matrix Classification Based on Credit Risk Value (CRV)		
Class A	CRV equal to or greater than 12	Debt Funds with lowest potential credit risk
Class B	CRV greater than or equal to 10 but less than 12	Debt Funds with moderate potential credit risk
Class C	CRV of less than 10	Debt Funds with highest potential credit risk

PRC Matrix

Based on the Macaulay Duration and the CRV, the Debt Fund is assigned a position on the potential risk class (PRC) matrix as shown in the table:

Max Credit Risk of scheme→ **Max Interest Rate Risk of the scheme ↓**	**Class A (CRV >=12)**	**Class B (CRV >=10)**	**Class C (CRV <10)**
Class I: (MD<=1 year)	Interest Rate Risk: Low Credit Risk: Low	Interest Rate Risk: Low Credit Risk: Moderate	Interest Rate Risk: Low Credit Risk: High
Class II: (MD<=3 years)	Interest Rate Risk: Moderate Credit Risk: Low	Interest Rate Risk: Moderate Credit Risk: Moderate	Interest Rate Risk: Moderate Credit Risk: High

Class III: Any Macaulay duration	Interest Rate Risk: High Credit Risk: Low	Interest Rate Risk: High Credit Risk: Moderate	Interest Rate Risk: High Credit Risk: High

E.g., If a Debt Fund is designated as A-I on the PRC matrix, it means the fund will refrain from taking higher credit and interest rate risk. On the other hand, a C-III Debt Fund can take relatively higher interest rate risk and credit risk.