KANAKADURGA FINANCE LIMITED
YOUR PROSPERITY. OUR PRIORITY

POLICY ON RESOURCE PLANNING

1. Purpose

The purpose of this document is to lay down the broad framework on Liquidity Management by ensuring availability of adequate liquid resources with a view to keep maturity mismatches in the Balance Sheet within desired levels. With this objective the CFO is entrusted with the task of reviewing the macro-economic scenario, impact of industry and regulatory changes and deciding the strategy on the source, tenor and mix of assets & liabilities, in line with its business plans, taking into account on the future direction of interest rates.

2. Policy

This document aims at codifying Kanakadurga Finance Limited (KFL) policy regarding long term and short term mobilization of resources. The broad plan relating to business growth and the requirement of funding together with the desired mix of resources for the company and the resource mobilization plan for each financial year shall be put forward in every ALCO meeting.

The policy will be duly updated as and when necessary to take into account the emerging dynamics in the systematic market environment and adherence to any change in regulations.

3. Administration

The initial policy document as placed before the Board of KFL and as approved by them along-with the annual reporting to the Board as envisaged in the Policy is the primary responsibility of the KFL CFO. The CFO will administer the policy and will be responsible for the implementation of processes and procedures to ensure that the Resources Planning Policy is followed. He is also authorized to: make modifications to the Resources Planning Policy and to the format of reporting from time to time to ensure that it is in compliance with the program

4. Regulatory Framework

Reserve Bank of India vide its Master Direction DNBR. PD. 008/03.10.119/2016-dated September 01, 2016 and as amended from time to time & prescribed a minimum set of guidelines to be followed by all NBFCs who raise money through a variety of debt instruments from diversified sources and have a board approved policy for resource planning which inter-alia, should cover the planning horizon and the periodicity of issuance of debt instruments

5. Applicability

This Policy applies to all kinds of resources that the Company is already using to fund its assets as also any new category of liability or newer instruments which the Company 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.

6. Business

KFL is currently engaged in the business of vehicle loans and Gold loans.

7. Resources Management

Resources will be raised through a variety of debt instruments from diversified sources keeping in mind the cost and tenor of borrowing as well as balance sheet requirements.

a) **Banking Channels through CCs/WCDLs/TLs:** Bank Credit will be sourced from various public and private sector commercial banks by way of working capital finance (i.e. Cash credit/ WCDL) and Term loans. This channel will need to be examined each time before borrowing from the point of view of capital market exposures.

b) **Commercial Papers (CPs):** Short tenor funding requirements (upto 1 year) can be financed through issuances of Commercial Papers (CPs). Such issuances are unsecured in nature & shall be in accordance with the extant Notifications/Guidelines/Circulars issued by the Reserve Bank of India in this regard, from time to time

   Investor categories in CPs can include Mutual Funds, Corporates, Funds, HNI, Insurance companies, AIFs, Family offices, any other financial institutions such as banks, as well as individuals and any other body corporates as mentioned in relevant guidelines/circular/notifications issued by RBI.

c) **Private Placement of Non-Convertible Debentures/Bonds (NCDs):** The Debentures may be issued on private placement basis. These are largely collateralized with appropriate asset covers as mandated by the lenders and agreed by the Company. The assets can be hypothecated to the lender either on pari passu basis or on specific charge basis. Treasury of Commercial Banks, corporates, Mutual Funds, Insurance Companies, Provident/Pension Fund Trusts are active investors in these papers.

   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 Debentures shall be issued at such frequency as may be determined by Board/Committee in accordance with regulatory stipulations that govern the same. The Debentures can either be issued as secured or unsecured, in accordance with the RBI Regulations.

d) **Public issue of Non-Convertible Debentures (NCDs):** In order to diversify borrowing sources and to increase the average duration of borrowings, the Company can issue NCDs by way of a public issue. The issues shall be in accordance with the relevant guidelines issued by SEBI for public issuances and these shall be managed by reputed book running lead managers.

e) **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

f) **Structured Debt Issuance:** The Company can issue structured NCDs, also known as Market-Linked Debentures (MLDs). These MLDs are generally subscribed by HNIs and/or Corporates and the returns are linked to the underlying benchmark such as Nifty, G-Sec, and Corporate Bond etc. 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.

g) **CBLO:** Overnight liquidity product offered by & settled through CCIL, against G-secs as pledged collateral, with marginal haircut. These are used for funding the G-sec portfolio.

h) **Perpetual Debt / AT1 Bonds:** To augment capital resources and diversify borrowing sources, the Company can also issue Perpetual Debt Instruments (PDI). The PDI shall be perpetual & interest payable to the investors may be either at a fixed rate or at a floating rate. These shall be in line with the regulations issued by RBI in this regard.

i) **Securitization:** Loan assets that are eligible for securitization would be bundled and sold to a participating Trust who would offer Pass through or Pay through certificates (evidencing ownership of such loans) to investors. These papers will be rated and appropriate credit enhancement offered as may be needed to ensure criteria to the extant applicable

j) **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 interestfor the funds borrowed. Repos shall be undertaken for a minimum period of one day and a maximum period of one year.

These shall be in line with the regulations issued by RBI in this regard.

k) **Intercorporate Deposits:** These are largely unsecured but can also be secured. Generally, these investments are for short period of time (less than one year) and are invested by Corporate Houses.

Note 1: The Company will ensure that the guidelines of RBI are strictly adhered to in all the above cited fund raising operations.

Note 2: The aggregate of all borrowings will be within the overall limit set by the Board.

Resource Raising Policy will be governed by Asset Liability Committee. Any fresh borrowing/resource raising will require ALCO approval.

8. Size and Periodicity of Fund Raising:

Resources	**Issuance frequencies**	**Min. size per issue**	**Max. size per issue**
Bank Finances (Cash Credit/ WCDL/ TermLoans)	Based on sanctioned terms.	Rs. 25 lacs	Rs. 1,000 crs.
Commercial Papers	Max 5 per day (Exception to include instances of episodic financing)	Rs. 5 lac (being minimum ticket size)	Rs. 2,000 Crs (Exception toinclude instances of IPO financing. Outstanding amount of INR 4000 Cr at any given point of time including episodic borrowings.
Non-Convertible Deb. / Bonds -Others	Max 5 per day	Rs. 1 Cr	Rs. 500 Cr
Structure Products	Max 20 per week	Rs. 10 lacs with multiple of1 lac	Max 500 Cr to be raised permonth under all issuances limited to outstanding amount of INR 4000 Cr at any given point of time.
CBLO/CROMS	Multiple issuances.	NA	NA
Sub-debt	As & whenrequired	Rs. 5 crs	Rs. 500 crs
Perpetual DebtIssuances	As & whenrequired	Rs. 1 Cr	Rs. 500 Cr
Securitization	As & whenrequired.	NA	NA
Group CompanyBorrowings	As & whenrequired	NA	Rs. 400 Cr
Inter-corporateDeposits	As & whenrequired.	Rs. 10 lacs	Rs. 750 Cr
Repo	As & whenrequired	Rs. 1 lacs	INR 200 Cr

Note: Above issue frequencies and issue sizes are subject to regulatory limitations.

9. Liquidity risk measurement

As part of liquidity risks management, KFL shall endeavor to manage its funds within the following tolerance levels:

Description	Ratios (Times)	Remarks
CP to total assets (AUM)	0.30	Increase in the ratio is negative
NCD to total assets (AUM)	0.05	Decrease in the ratio is negative
Short term borrowings to long term borrowings	8	Increase in the ratio is negative
Long term asset to total assets (AUM)	0.20	Increase in the ratio is negative
Long term borrowings to Long term assets (AUM)	1.1	Decrease in the ratio is negative

ALCO shall measure the threshold ratios periodically to ensure that the ratios are maintained with a maximum variance of 10%.

10. Liquidity Buffer

Reserve Bank of India guided banks to maintain LCR with effect from 1/1/2015. RBI has issued a draft guideline for maintaining LCR by NBFCs also with effect from 1/4/2020.

As per the draft guidelines, NBFCs shall need HQLA of minimum of 25% of the net stressed cash outflows. As per the draft guidelines, NBFCs need maintain 60% of the LCR by 1/4/2020 and it should be progressively increased in equal steps to 100% by 1/4/2024. Final guidelines will be issued only after hearing from NBFCs and other stakeholders.

As part of preparation for maintenance of LCR, KFL may maintain average 3 days of expected cash outflows in 30 days bucket as cash, balance in current account and term deposits.

11. Contingency funding

KFL may consider the following options to sail through any unforeseen contingency of stressed liquidity.

- Reserve undrawn lines of 10% of the limits, having sufficient drawing power, with the lenders and churning of undrawn lines frequently.
- Maintain portfolios that are eligible for availing refinance.
- Raise debentures and tier II capital.
- Sale of portfolios through securitisation or direct assignment.
- Enter into arrangements with Banks for co-origination of priority sector loans.

ALCO shall have the powers to exercise any of the options as deems fit according to the circumstances.

Exceptions:

All exceptions to above parameters / framework to be approved by CFO of the Companyand reported to ALCO.

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