MANAPPURAM FINANCE LTD (MAFIL)

POLICY ON RESOURCE PLANNING

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Version 0.1	Policy on Resource Planning	13th Aug 2019
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Policy Owner : **Finance and Accounts Dept**

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APPROVED BY : **MD & CEO - MAFIL**

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1 Introduction

As tenure of our gold loan portfolio is shorter and our borrowings have relatively longer tenure, we have a very positive Asset Liability gap. As MAFIL has diversified into other sectors with loan products having longer maturity, this advantage can be gradually diminished. The revised policy aims to document MAFIL's resource raising plans, mix of funds etc.

2 Scope of the policy

Guidance on:

- Long term funds in the mix of resources.
- Mix of loan term funds viz Bank loans, ECBs, Loans from Financial Institutions, Non – Convertible debentures, subordinated debt etc.
- Short term funds in the mix of resources.

3 Long term resources:

3.1 Retained Earnings.

MAFIL has been ploughing back its profits after declaring dividends to maintain capital adequacy ratio above the regulatory minimum ratio and to maintain low leverages. MAFIL shall continue the practice in future.

3.2 Term loans from banks and other Financial Institutions.

MAFIL has been raising loans from public and private sector banks and financial institutions like NABARD, IFC etc. MAFIL has been treating funds raised with maturity profile of more than 12 months as funds from long term resources. MAFIL shall continue to avail term loans from these institutions with maturities ranging from more than 1 year to 5 -7 years.

3.3 External Commercial Borrowings (ECB) and Foreign Currency Denominated loans.

Under the External Commercial Framework, eligible borrowers (includes NBFCs also) can raise ECB up to USD 750 million or equivalent per financial year under automatic route, subject to certain conditions. The facility denominated in foreign currencies can be in the form of loans, bonds and debentures. As per the regulations, minimum average maturity period (MAMP) shall be 3 years and all – in cost shall not exceed Benchmark rate (ie; 6 month SOFR, 6 month EURIBOR etc based on the currency) plus 500 bps spread.

In order to diversify sources of funds and to reduce cost of funds, MAFIL may avail of ECBs, subject to the following conditions.

a. The facility shall be fully hedged.
b. All in cost shall be within the regulatory prescribed maximum.
c. Cost of borrowing including the hedging cost shall be comparable to the prevailing domestic borrowings of similar maturity.

MAFIL may also avail of fully hedged foreign currency loans from Banks in India if the all-inclusive cost will be comparable to the rupee borrowings.

3.4 Issue of Debt Securities.

To strengthen the long-term funds, MAFIL based on its business requirements and market conditions may issue debt securities, as given below:

a. Public issue of Rated Secured / unsecured Non-convertible Debentures (NCDs)
b. Private placement of NCDs
c. Public / private placement of Tier II bonds.

3.4.1 Public issue of NCDs

The company may subject to the compliance with the applicable provisions of laws and regulations may issue Secured / Unsecured Non-convertible Debentures with maturity period of 12 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. The frequency of the issue may be decided by the Board / Committee of the Board from time to time depending on the business environment, market conditions and regulatory provisions in this behalf. MAFIL shall not extend any loans against the NCDs issued by it.

3.4.2 Sale of assets through securitization / Direct Assignment.

Banks acquire portfolios, especially priority sector pools from NBFCs. Though Business Model of MAFIL is “Hold to maturity” of its financial assets, as ancillary to it main objective may raise funds through sale of assets through securitization / Direct Assignment.

3.4.3 Bank Loans to NBFCs for on-lending to priority sector

Bank Credit to registered NBFCs (other than MFIs) for on-lending will be eligible for classification as priority sector under respective categories subject to the following conditions:

(i) Agriculture: On-lending by NBFCs for ‘Term lending’ component under Agriculture will be allowed up to ₹ 10 lakh per borrower.

(ii) Micro & Small enterprises: On-lending by NBFC will be allowed up to ₹ 20 lakh per borrower.

3.5 Subordinated debt instruments ranking for Tier II Capital.

MAFIL for meeting its capital requirements or contingency funding may issue unsecured subordinated debt instruments in the form of hybrid or plain vanilla debentures and preference shares. These instruments shall be fully paid up and subordinated to the claims of other creditors and free from restrictive clauses and are not redeemable at the instance of the holder or without the consent of the regulator.

These debt instruments shall be issued for period longer than 5 years and shall have covenants to be eligible for classifying under Tier II Capital. These instruments may be issued to such class or category of investors as the Financial Resources and Management Committee of the Board decides.

4 Short term resources

Facilities with maturity up to 12 months shall be treated as short term resources. The main sources of such funds are cash credit facilities, short term loans / Working Capital Demand Loans from Banks and Commercial papers (CP). Depending on the ALM requirements the company may borrow funds from banks and other financial institutions / corporates from time to time and continue to issue commercial papers with maturity ranging from one month to 12 months.

As per the Guidelines on Loan System for Delivery of Bank Credit, MAFIL need avail 60% of the Cash Credit facilities from banks as working capital loan. MAFIL shall explore the possibility of availing the working capital loan component for longer periods. (more than 12 months)

5 Mix of resources

- Share of long-term financial resources shall be minimum 25%.
- In compliance of the SEBI guidelines to Large Corporate on raising borrowings through bonds issues, MAFIL shall raise minimum 25% of its incremental borrowings of above 1 year in the form of NCDs.
- Borrowings shall be diversified and dependence on single lender shall not exceed 15% of the total borrowings.
- Share of Commercial Paper (CP) in the total borrowings shall not exceed 20%.
- Share of foreign currency borrowing shall not exceed 25% of the total borrowings.

MAFIL will endeavour to broad base counterparties/lenders with the intention to maintain relationship with lenders and also not to run any centralization risk

Financial Resources and Management Committee of the Board shall have the powers to vary the mix of resources suitable to the market conditions and ALM position.

6. Management and tracking of financial covenants and other covenants prescribed by the lender / counter parties.

6.1 Acceptance of sanction letters and draft financing agreements of lenders

Scrutiny of terms and conditions in the sanction letters and draft financing agreements are the primary function of Treasury. For this purpose, treasury may form a committee of senior officials of the department and non-acceptable terms and conditions should be pointed out to the lenders for deletion / amendments. Illustrative such covenants are as follows:

1. Minimum Capital adequacy.
2. Minimum Tier I Capital.
3. Minimum NOF.
4. Maximum DER.
5. Maximum Leverage.
6. Maximum delinquency in %.
7. Maximum gross NPA and Net NPA in %.
8. Minimum shareholding of promoters.
9. Restrictions in borrowing.
10. Restrictions in investments in subsidiaries and others.
11. Restrictions in starting new businesses.
12. Acquiring other companies.

13. Diversification of business.
14. Restriction on lending to subsidiaries, including pricing.

If the lenders / counterparties are not accepting any covenants that could be detrimental of our interest, if the Treasury team for exigencies wants to avail of the finance, may seek approval for accepting such covenants from MD & CEO with suitable justifications / mitigants.

6.2 Approving Authority for accepting sanction letters / agreements

Treasury shall prepare a note for acceptance of the sanction order to a Committee Headed by CFO, in which GM Treasury, Chief Credit Officer and Chief Risk Officer are members. Any deviations and terms and conditions that may adversely affect the interest of the company should be highlighted in the note.

The draft agreements shall be vetted by Legal Department before execution.

6.3 Covenants tracking

Treasury shall maintain a tracker of covenants of all lenders and compliance and deviations shall be presented to ALCO. Deviations, if any shall also be brought to the notice of the Risk Management Department for reporting to Risk Management Committee.

6.4 Covenant management

If any potential breaches in covenants are observed, requests for amendments shall be placed to the lenders / counterparties and shall get their approval in advance. This shall be a continuous process to be followed by the Treasury.

7. Validity of the policy

- The policy shall be guiding document for resource planning and shall be reviewed every year.
- This policy is subject to changes in accordance with guidelines, directions issued by Reserve Bank of India, MAFIL's Financial Resources and Management Committee and the Board.