

MANAPPURAM FINANCE LTD (MAFIL)

POLICY ON RESOURCE PLANNING

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Contents

1	Introduction	3
2	Scope of the policy	3
3	Long term resources:	3
4	Short term resources	6
5	Mix of resources	6
6.	Covenant Monitoring.....	7

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.
- On-lending for PSL and Securitisation/DA
- 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 under automatic route and there is no limit defined which is regulated by financial sector regulations. 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 hedged as per the regulatory guidelines prescribed by RBI
- 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 Private Placement of NCDS

In accordance with applicable rules and regulations, the Company may issue NCDs through the private placement route from Banks, MFs, Insurance companies, or any other qualified investor. The minimum NCD tenor should be one year or more, with coupon rates that the firm may occasionally deem appropriate. It may also be listed or unlisted. The Board or a Committee of the Board may periodically determine the issue's frequency based on the business climate, the state of the market, and applicable laws.

The private placement of NCDs shall be governed by the following instructions or any change by the regulators time to time:

- (i) The minimum subscription per investor shall be ₹20,000 (Rupees Twenty thousand);
- (ii) The issuance of private placement of NCDs shall be in two separate categories, those with a maximum subscription of less than ₹1 crore and those with a minimum subscription of ₹1 crore and above per investor;
- (iii) There shall be a limit of 200 subscribers for every financial year, for issuance of NCDs with a maximum subscription of less than ₹1 crore, and such subscription shall be fully secured;
- (iv) There shall be no limit on the number of subscribers in respect of issuances with a minimum subscription of ₹1 crore and above; the option to create security in favour of subscribers shall be with the issuers. Such unsecured debentures shall not be treated as public deposits as defined in these Directions.
- (v) The company shall issue debentures only for deployment of funds on its own balance sheet and not to facilitate resource requests of group entities/parent company/ associates
- (vi) The company shall not extend loans against the security of its own debentures (issued either by way of private placement or public issue)

3.4.3 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 its main objective may raise funds through sale of assets through securitization / Direct Assignment.

3.4.4 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.

Further, the minimum tenor for Non-Convertible Cumulative Redeemable Preference Shares (NCCRPS) is 3 years, as specified under the SEBI regulations governing NCRPS issuance.

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% and maximum to be capped at 75%
- Share of short term financial resources shall be minimum 10% and maximum to be capped at 40%
- 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.
- It is required that borrowings be spread out, and relying on a single lender cannot account for more than 20% of the entire amount borrowed. This cap could be adjusted at the FRC's discretion depending on the resources that are available from other lenders and sources.
- Share of Commercial Paper (CP) and others in the total borrowings shall not exceed 20%.
- Share of foreign currency borrowing shall not exceed 40% of the total borrowings.
- Overall Funding mix and composition should be as follows:

Resource Type	Borrowing Mix	Average Mix
Bank Borrowings /Financial Institutions	25% - 70%	47.50%
Non-Convertible Debentures / Sub-debt	10% - 20%	15.00%
External Commercial Borrowings	15% - 40%	27.50%
Commercial Paper and Others	0% - 20%	10.00%
Total		100.00%

Bank/FIs Borrowing Composition

Lender Mix	Proportionate
Private Sector Banks/ FIs	30% - 45%
Public Sector Banks	50% - 65%
Foreign Banks	0% - 15%

Borrowing Mix by Tenor -

Borrowing Mix	Proportionate
Long Term Financial Resources	25% - 75%
Short Term Financial Resources	10% - 40%

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.

Additionally, while sourcing funds, if any lender is unwilling to modify or remove covenants that are adverse to the company's business interests, deviation approval may be sought from the MD/CEO.

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 Group CFO, in which CFO, 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.