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Annexure A

**JKDFC's
Policy on Credit Risk
&
Valuation of Collaterals Accepted Against
Exposures**

Approved by BOD on: 23.09.2024

Date of Adoption/Implementation: 23.09.2024

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1. Introduction:

Credit risk is the potential of loss due to failure of the borrower to meet its contractual obligation to repay debt in accordance with the agreed terms. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential for the long-term success of any financial organization. Financial organization's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

As per the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (Updated as on March 21, 2024) & Master Circular –Corporate Governance dated July 1, 2024 and amended from time to time, all applicable NBFCs, shall form a Risk Management Committee and Credit Risk Policy.

2. Objective:

- a) To take informed credit decisions based on adequate assessment of the relevant factors involved in credit risk.
- b) To screen credit proposals and assume only such credit risk that is acceptable to JKDFC as per the Term Lending Policy of JKDFC.
- c) To attain and maintain standards of good practices in respect of credit risk management.
- d) To monitor and suggest risk mitigating measures to prevent slippage in credit quality.
- e) Compliance of applicable norms/ guidelines/ policies concerning credit risk management as specified by RBI and other regulatory authorities of NBFCs.

3. Scope of the Policy:

The Credit Risk Management Policy, as enunciated herein, encompasses the entire credit operations of JKDFC. While operating in line with these guidelines, JKDFC is required to keep in view the regulations/ parameters laid down by RBI/other regulatory agencies and by JKDFC's Board of Directors from time to time. JKDFC's Term Lending Policy provides details on credit appraisals, approval, documentation, credit administration and monitoring, recovery process etc. The policy provides a broad framework for management of credit risks in the lending operation of JKDFC.

4. The Board of Directors:

In pursuance of RBI guidelines, the Board of Directors and Risk Management Committee (RMC) along with Asset Liability Management Committee (ALMC) shall oversee the implementation of Risk management on the basis of recommendations of Regulatory directions. The Board will approve the CRM policy and other policy related matters.

5. Risk Management Committee (RMC):

The constitution of Risk Management committee shall be as per ALM Policy of JKDFC. The Committee shall meet at least once a year or as and when required with a minimum quorum of 2 members.

The RMC shall, apart from functions as detailed in ALM Policy, will also perform the following:

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- a) Overseeing risk management, clearly identifying the risks to which capital is exposed.
- b) Defining the risk appetite of the Institution/setting up of prudential exposure etc.

6. Credit Risk Assessment Process:

JKDFC recognizes that risk is inherent part of business of any financial organization and accordingly feels that identification, measurement, monitoring and management of risk are critical to build a sound asset-base. Accordingly, policy guidelines on comprehensive risk management system have been developed and adopted by JKDFC as Term Lending Policy of JKDFC which will be followed in case of all the new business proposals.

The credit risk would reflect the risks involved both in the borrower and type of loan and would represent an evaluation of the credit customer's intrinsic strengths and weaknesses. The proposals are assessed as per Term Lending Policy of JKDFC and detailed parameters as mentioned in various Lending Policies of JKDFC.

7 Credit Risk Measurement Parameters -Credit Risk Assessment (CRA) Models:

Prior to sanctioning a loan facility to any client, the risk level should be measured as per institution's lending framework. The credit risk assessment procedure in JKDFC has been laid down in Term Lending Policy of JKDFC and also detailed in parameters of various Lending Policies.

8 Credit Portfolio Monitoring:

As per RBI guidelines on risk management for NBFCs, the company should evolve proper systems for identification of credit weaknesses well in advance. Project Finance Division may ensure periodic visit to loanee units and undertake performance review, financial health review, management review and security coverage review and ensure timely adherence to recovery mechanism.

9 Credit Risk Control and Reporting - Prudential Exposure Norms & Valuation of collaterals accepted against exposures.

The Credit Risk Management policy recognizes the need for implementing measures aimed at improving risk management and avoiding risks associated with concentration of credit. For this purpose, limits have been prescribed for exposure to borrowers in each sector of financing. The sector wise exposure limit set for individual case by the Board of Directors in various lending schemes of JKDFC are as follows:

Name of the Scheme	Sanctioning Limit
Project Financing Scheme	1500.00 lakhs
SRT0 Financing Scheme	100.00 lakhs
Equipment Financing Scheme	100.00 lakhs
Educational Institutional Plus Loan Scheme	1500.00 lakhs
Hospital Plus Loan Scheme	1500.00 lakhs

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Composite working capital Term Loan Scheme	100.00 lakhs
JKDFC Loan Scheme for Home Stays	25.00 lakhs

The undisbursed commitment should also be reckoned for arriving at the exposure. JKDFC would continue to work within the exposure ceiling fixed as above in respect of borrowers, while considering the proposal(s) for financial assistance. The exposure ceiling would be revised as and when needed.

As per the Term Lending Policy of JKDFC under point 11.2 as produced below:

Point 11.2: Collateral Security

The Corporation shall be extending term loans against the collateral security in the form of Land, Building and Fixed deposits of scheduled banks. No loan facility will be granted by the Corporation without collateral security. The proposed percentage of collateral security of the loan sanctioned for different categories of borrowers is given below:

-upto Rs.50.00 lacs 100% of the loan amount.

-above Rs 50.00 lac to Rs 150.00 lac 75% of the loan amount with a minimum of Rs.50.00 lac.

-above Rs.150.00 lac to Rs.1500.00 lac 50% of the loan amount with a minimum of Rs.112.50 lac.

In case of Commercial Transport the collateral will be 60% of the loan amount.

However, in respect of the loan cases where the value of primary security is at least two times (two hundred percent) of the quantum of loan, the provision of further collateral security shall not be insisted upon.

Loan cases upto Rs. 50.00 lakh can be considered under Guarantee cover of CGTMSE against the payment of one time Guarantee fee of 1.5% of the loan amount & an annual service fee of 0.75% p.a of the sanctioned amount during the tenure of loan.

At the time of sanctioning of loans in all sectors where collateral security is taken into consideration, JKDFC gets the valuation of security by its approved valuers. The valuation of collateral is done every three years.

Tenure of the various Loan Schemes of JKDFC is as under:

#	Loan Schemes	Tenure
1	Project Financing: > For setting up of New Industrial Units, Expansion and Modernization of Existing units. > For Construction of Hotels and Guest Houses and Renovation and Expansion of existing Hotels, Guest Houses. > For setting up of Small Hydro projects	01- 10years
2	Transport Financing (SRTO) > For Purchase of Commercial Vehicles	03 - 07years
3	Equipment Financing	03 - 05years

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	➤ For procurement of Equipments by Industrial units Construction Companies, Contractors, Diagnostic centers	
4	Home Stays ➤ For Renovation /Modernization of Houses along with Site Development of Premises for Home Stays	03 - 07years
5	Composite Working Capital Term Loan ➤ For composite Working Capital Term Loan to Manufacturing & Service oriented Units under MSME upto total project cost of Rs. 100 lakh.	03 - 07years
6	Educational Institutional Plus ➤ For Setting up / Modernization of School (including Play Schools, Kidzee) / Colleges;	03 - 07years
7	Hospital Plus ➤ For setting up / Modernization of Hospitals/Clinics/Nursing Home /Pathological lab.	03 - 07years

10. Restrictions relating to security for lending

JKDFC will not grant loans and advances other than the security as detailed in Security of Term Lending Policy of JKDFC under point 11.1 & 11.2 as produced below:

Point 11.1: Primary Security

The loan shall be granted against the mortgage of Land, Building, Plant and Machinery and other fixed assets. The necessary revenue documents in respect of land free from all encumbrances shall have to be deposited with the Corporation with charge of the Corporation registered with the concerned revenue and other designated authorities. In case of lease hold land, the lease deed valid for a period double the currency of loan will be entertained subject to the condition that the lease hold rights permit the lease holder to mortgage or transfer these lease hold rights to the Corporation giving unambiguous powers to it (JKDFC) to transfer or sell the leased land in case of default or foreclosure.

Point 11.2: Collateral Security

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during the tenure of loan.

11. Industry Research & Restricted Sectors

Since JKDFC's exposure is increasing across the various sectors, at a later stage there might be need for a dedicated Industry Research Division in JKDFC to monitor industry specific developments and provide key inputs to ensure a healthy credit portfolio. However, at present, to keep abreast of industry developments, JKDFC may subscribe industry research report of being published by professional agencies/ Credit Information Companies or other renowned credit rating agencies.

12. Rating-wise Exposure Ceilings

A best practice, JKDFC shall endeavor to restrict its exposure to the lower rated categories of borrowers. In the case of industries/ sectors that are not performing well or in which the outlook in the near future is not likely to improve, the exposure shall be taken only in respect of better rated clients as determined/ advised by appropriate Sanctioning Authority.

13. Risk Reporting:

ALCO shall examine the credit risk exposures of JKDFC on a regular basis and shall furnish report to RMC for a periodic review. The annual review report on credit risk exposure shall be placed before the Board of Directors.

14. Policy Review:

The CRM Policy would be reviewed as and when needed. However, the policy can be reviewed at short notice depending on the exigencies/ extraordinary situations, which may emanate during the course of JKDFC's business. Such extraordinary situations may include significant changes in Government/ Reserve Bank of India policies, global/national macro- economic conditions, financial performance, etc.
