

K Z LEASING AND FINANCE LIMITED



CREDIT RISK POLICY

1. INTRODUCTION

KZ Leasing and Financing Ltd (hereinafter “KZ”) is a Non-Bank Finance Company. The main target client segment is in the unsecured Personal loan and MSME loans. It is the objective of KZ to become a credible, relevant and leading financier in its chosen segments of business.

Under no circumstances will contravention of laws and relevant regulations be tolerated.

2. OBJECTIVE OF THE CREDIT RISK POLICY

The Credit Risk Policy is the governing document for our credit appraisal, approval, post-approval monitoring and enforcement. This should be the reference document on any issues related to credit approval or process connected to the same. The purpose is to ensure that KZ’ financing portfolio remains of sound quality, that portfolio growth is supported and that we manage credit risk in a manner that minimizes creation of Non-Performing Assets (NPAs).

The policy must be read and followed in line with the relevant laws and regulations governing our business. In the case of any conflict or divergence between this policy and relevant regulations and laws, the regulations and laws will override this policy. The policy will continue to be amended from time to time in the light of changing business and economic environment.

It is also an objective of this policy that KZ continues to provide financings where the returns reflect the risk taken, and are positive from a Return on Equity and Return on Capital Employed perspectives. Our business seeks to be profitable and add value to all stakeholders in KZ – shareholders, management, staff and clients.

It is reiterated that all times KZ and its staff will follow the necessary regulations and guidelines issued by relevant regulators like the Reserve Bank of India, Ministry of Finance etc. In case of any conflict between this policy and a regulation, the regulation is to be followed strictly.

3 CREDIT APPROVAL AUTHORITY

Credit Approval Authority resides ultimately with the shareholders of KZ, acting through the duly constituted Board. In operational terms, all credit approval and delegation of credit approval authority lies with the Board.

It may be noted that credit approval authority includes not merely the approval of a credit proposal but also any subsequent deviation from approved credit terms.

The Board may from time to time, and based on their judgement of business requirements delegate credit approval authority to individuals.

4 CREDIT APPROVAL PROCESS FLOW

KZ offers a large variety of financing solutions for its clients. In brief the process is to include the following steps:

1. Eligibility check & Reputation/Anti-Money Laundering Checks
2. Credit Appraisal (CA)
3. Completion of KYC
4. Disbursal of financing

All financing will be in line with KZ's license conditions and relevant laws and regulations.

KZ is open to financing all types of client entities provided they have the requisite authority and legal power to avail of financing. This includes Individuals, Hindu HUF, Trusts, Partnership firms etc. High risk entities like Trusts and Partnership firms should be subject to greater scrutiny while evaluating their financing proposal.

A. Client Suitability: Eligibility and Reputation/Anti-Money Laundering Review

KZ's objective is to partner bona-fide businesses and provide financing solutions to them. As such, prior to detailed work on the credit proposal, client suitability must be clearly established. Client suitability has to be checked through multiple criteria – which may evolve over time but must cover issues of reputation and regulatory risk, and any concerns over money-laundering activities.

– Regulator Notices– List of defaulters/watch-lists issued by relevant regulatory bodies and exchanges viz. RBI, Government of India (especially Department of Corporate Affairs), SEBI, Competition Commission of India, Registrar of Companies, NSE/BSE/Other exchanges, NCLT and other debt recovery institutions.

– Press Check- Review of Press and Social Media for adverse publicity and news about the potential borrower.

– Global crime and Default Databases– To the extent available for public use. Any issues or findings of concern or a NIL findings comment are mandatorily part of the credit proposal.

B. Credit Appraisal / Credit Proposal (CA):

Credit Appraisal or Credit Proposal, used interchangeably (CA) is the document which will form the basis of discussions and decision whether to finance or not.

CAs are to be prepared by the relevant originator/structurer. The author of the credit proposal will be held responsible for the accuracy of the information provided in the CA.

Each proposal must cover, inter alia:-

- 1) Background of client
- 2) Nature of financing including specifics on the structure and instrument
- 3) Client financial strength, leverage levels, promoter strength, credit history (of client and promoter's CIBIL ratings), business and cashflow analysis, debt profile including other lenders and details of borrowing. This should include description of interaction with the borrower and the originator's impression.
- 4) Group exposure: - In cases where we have more than one financing to a client group or are dealing with more than one client group entity, the entire group exposure should be clearly laid out. There should be a clear justification that the group exposure remains acceptable and also does not create client concentration risk for our portfolio.
- 5) Repayment sources: - Primary, Secondary (and Tertiary if applicable)
- 6) Key risks and mitigants: -
 - Reputation / Anti-Money Laundering risks if any else NIL comment
 - Financial
 - Regulatory
 - Structure and instrument risk – especially around any subordination of our rights in an enforceability situation.
- 7) Returns analysis: - At least IRR of the financing; going forward our objective is to also provide a Return on Assets (RoA) and Return on Equity (RoE) on each transaction.
- 8) Key terms and conditions of the financing.

The above list of information required in the CA is not exhaustive. Authors of the CA are expected to provide all relevant information needed for making a credit decision. The CA, along with any additional conditions may impose as part of the approval process will be the source document on the basis of which the financing will be provided and security structure executed.

C. Know Your Client (KYC):

Clients must furnish all authenticated documents necessary for completing the KYC process. This includes all charter and incorporation documents, proof of address and business, financial statements and also the KYC documents for important stakeholders and authorized signatories.

The Board and/or the CEO of KZ are expected to put in place a separate KYC policy that is to be fulfilled.

D. Disbursal of Financing:

Disbursal of the financing will be done by the Finance and Accounts team. This is done on the basis of a confirmation from the Documentation team that documentation is complete and any Conditions Precedent (CP) have been completed.

In making the disbursal, it is to be ensured that disbursal of funds is made to an account of the Borrower. Any disbursal to a third party must be approved on the basis of a detailed rationale by the CEO/CFO.

CLIENT ENGAGEMENT: ANNUAL REVIEW

Ensuring that the KZ team remains fully engaged with the client and in a position to remain updated about credit developments with the client is critical to maintaining a high quality credit portfolio.

It is expected that atleast once a calendar quarter, each originator/structurer will conduct a detailed client discussion and review covering all issues that impact the client credit profile. Additionally, the originator/structurer must fulfil the following duties:

- i) Ensure we receive audited and unaudited financials from the company as mandated in our agreements, but in any case, not less than once every six months.
 - Analyse the said financials and related performance data and highlight major developments – positive and negative to the Board and CEO.
- ii) Monitor the press and social media for any adverse reporting.
- iii) Loans will be added to the watch list in the case of any significant internal/external rating downgrade, significant payment delays or any other material news and an action such as increasing the collateral cover, accelerating the loan repayment, loan recall etc. may be taken.

Annexure III – Financing Products Offered by KZ

KZ offers a number of financing products to its clients. The list below may not be exhaustive as the nature of financing instruments and structures undergoes changes reflective of evolving markets. However, these should cover a majority of the financing products.

a) Promoter funding – Funding is offered to promoter/promoting entities for companies, against collaterals acceptable to KZ India. These loans are usually availed for the purpose of undertaking changes in the capital structure of the operating company or enhancing the promoter shareholding.

b) Construction Finance – Funding is provided to real estate developers for construction purposes against collateral such as property, hypothecation of cash flows, etc. as acceptable to KZ India. KZ will usually not provide initial stage construction finance. The preference will be to provide last mile financing or financing for later stages of projects.

c) Acquisition Finance – Funding provided to companies for acquiring other companies.

d) Mezzanine/Bridge Funding – Funding provided to companies to finance the expansions in most part, at existing companies.