Credit Policy

INTRODUCTION

Everlon Financials Limited. ("**EFL**") is a Limited Company and a registered Non-Banking Finance Company ("**NBFC**") as Loan Financing and Investing Company, having its corporate office in Mumbai. The company is engaged in the business of providing loans to "Small and Medium Enterprises" , funding of Solar plants and Investments in Securities etc.

Purpose of this Manual
The objective of the manual is to define all the parameters and processes that will be used by the organization for Risk Management. Broadly, the manual covers the

- Customer Risk Assessment Criteria

The organization will assess the customer applications based on the criteria and processes defined in this manual.

This manual is an internal document and is for the use of relevant staff members who are involved in the loan application processing.

Risk Management Approach

EFL aspires for operations on a large scale spread over several branches, this necessitate that the credit parameters and processes are standardized as much as possible. EFL's risk management approach provides for a process by which credit risks are effectively covered while having practices adopted in a fair and diligent manner for maintaining the portfolio quality, market share and relationships with the customers.

The entire strategy of building a healthy portfolio is based on the tenets of Relationship Management. This would be crucial to unearth problems in their early stages and help in much more effective remedial action and thereby build a healthy portfolio. However, if problems arise, the legal documentation and the security should be in place for any legal action that EFL may wish to take against the client.

RISK ASSESSMENT – CRITERIA and PROCESSES

A standard process is to be followed for sourcing a loan application and processing the loan application. It is critical to adhere to these processes, the distinct stages in the credit process are defined below:

1. Loan sourcing through the Cold Calling or any other process.
2. File log in with pre-approval documents
3. Financial Due Diligence
4. Risk visit
5. Final approval by Credit Committee / MD and Issuance of Sanction letter
6. Disbursement based on Disbursement Request submitted by Client
7. Credit and Portfolio Monitoring
8. Payment Management and Collection

9. Remedial Management and Problem Loans

Basic Credit Filters

To save time, money and resources following filters will help in identifying the cases which should be pursued or not for due diligence:

The basic credit filters are given below: (Preapproval)

Sl. No.	Parameters	Eligibility
1.	Number of years of Operation	At least 3 years
2.	Minimum Turnover per annum	Rs 1 Crore
3.	Minimum Profit of the customer per annum	Rs 20 Lacs
4.	Registration under GST	Mandatory

Customers that pass through these basic filters will be accepted for credit due diligence while those that do not pass through these filters will be rejected or will be reviewed at a later date when the filters are met.

Credit Norms for Term Loans

The loan size, interest rate and tenor are mentioned in the table below:
Maximum Loan Amount per group will be Rs.100 Lacs
With Minimum interest on Unsecured Loan @ 10%

Authority Matrix- who can sanction loans

- Loan upto Rs 100 Lacs (Unsecured)- Managing Director
- Loans more than Rs 100 lacs (Secured/Unsecured)- Credit Committee (Consisting of Managing Director and 1 more director or the CFO)

Constitution of the Credit Committee

The credit committee will always consist of two members,(consisting of Managing Director and 1 more director) each one of whom must sign off on an approved credit. The intent of the committee approach is to make sure that there is proper accountability for the presentation of each proposal. The credit committee is jointly accountable for all the credit decision. Each member of the credit committee can approve the proposal either by e-mail or by affixing their signature on the print of Credit Approval Memo or by electronic mode in the online system.

The Managing director can sign on behalf on the entire Credit Committee (in case loan amount exceed Rs 25 lacs) on the Credit Approval Memo for issuing a final sanction letter to the client, after receiving written mail approval from other credit committee members.

Further, only the credit committee is empowered to approve deviations from the credit policy.

It is expected that there will be some proposals that do not meet all the prescribed criteria but in the overall context they may be considered as a “good credit” with reasonable risk. Moreover, as the organization builds its own credit experience and keeps tinkering with the credit norms, it is worthwhile to approve loans that have some deviations but are being perceived as good credit from an overall perspective. Such deviations may be approved by the credit committee on a case to case basis depending on the severity of the deviation as well as the mitigants available to address the additional risk.

Single Party Exposure (Group)

The Credit Committee can approve single party exposure not more than 15%
Of the net owned funds of EFL

The Loan Process

1) Loan Application Form– The loan application indicates the interest of the client to take a loan from EFL, it also lists down all basic details of the borrower that are needed to process the loan application. The application form is in a standard template, has basic terms and conditions and the fair practice code mentioned therein.

2) KYC Documents

EFL collects the following documents related to the establishment of the entity per se:-

- Memorandum of association / Incorporation Certificate
- Income Tax Returns (Last 2 years)
- GST Registration Certificate
- Bank statements of last 3 months
- Audited/Unaudited financial statement of the entity (Last 2 years)

3) Financial Due Diligence

The basic purpose of the due diligence process is to assess each application on two core aspects:

- Ability to pay the instalments
- Intention to pay the instalments

EFL would want to give loans to only those applicants that can pay the instalments repayment of the loan on time. Selection of borrowers with less repayment capacity will have a drastic impact on the quality of the portfolio EFL is trying to build up.

The EFL’s loan portfolio strategy is based on the identification of financially capable entities who have the ability to successfully use loan capital to expand or scale up their business operations or for working capital requirements and make them good customers for repeat borrowings. This will, at the same time empower them and help establish long term relationships with EFL.

4) CREDIT APROVAL MEMO

The cash flow statements have to be constructed using the basic information of the borrower, to create the cash flow statements of the business. This has two main uses:

- To help assess the maximum amount that a business can comfortably pay towards the loan instalment and thereby arrive at the loan eligibility.

5) CIBIL Check

EFL shall verify the credit history of the applicant and the co applicant by running the details through the credit bureau CIBIL (Credit Information Bureau of India Limited). The check is mandatory for all cases before the risk visit.

A copy of the CIBIL report will be filed in the customer file. The resultant score and comments of the CIBIL report will be assessed by the credit committee to decide whether to approve or decline the deal on the basis of the CIBIL score.

6) Commercial CIBIL for entity

CIBIL records are used to analyse the previous credit transactions, if any, and repayment behaviour. CIBIL is one of the most important factors which drive the process of approval and a decision is made based on credit capacity/ loan eligibility of the customer. In addition to the CIBIL check done to check the credit history of every individual borrower, a CIBIL check for the entity will also be performed. CIBIL check will be done prior to risk visit for follow-on loan as well.

7) Repayment Track Record of earlier loans

Past records of loan repayments (if available) will be checked for average delay and peak delay in repayment.

Repayment track record can be assessed by requesting the borrower to submit repayment track records of earlier loans. Alternately, the same can also be arrived at by studying the bank statements and observing the dates on which the instalments have been paid in each month.

All earlier loans need to be current (not overdue) at the time of application.

8) Physical visit to the entity's business place by the Loan Manger for cold calling

EFL believes in the value of relationship with the customers, visit at customer's working place would require the Loan Manager to understand the following:

i. Immediate requirement of financing,

ii. As a fair and transparent practice, the Loan Manager is required to mandatorily hand over the Loan Product Information with terms and conditions for taking an EFL loan.

9) Issuance of Sanction Letter

Post Credit approval memo, legal check, and Credit committee approval (if required) , a formal sanction letter can be issued to the client.

For Quick review the entire process of the work flow of approval of a loan is detailed here in below.

10) Checklist of documents:

To summarize, the following documents are needed to ensure that a proper due diligence is done of the loan proposal:

- Loan Application;
- Profit and Loss statement (Last 2 years)
- Balance Sheet (Last 2 years
- Cash flow statements (Last 2 years)
- Last 3 months bank statement of the Applicant, if any and the entity;
- Know your customer documents of the applicant, co applicant guarantors, if any, and the entity
- Details pertaining to current loan repayments ,if any;
- CIBIL report;
- Documents relating to the constitution of the entity which includes certificate of incorporation, Memorandum of Association; articles of association; List of directors.
- Personal guarantee deed mayl be taken from the individuals in addition to the existing loan documentation.

Disbursement Based on Disbursement Request Submitted by Client

Upon receipt of a disbursement request from the client, the following steps must be adhered to ensure a smooth and compliant disbursement process:

- Disbursement Request Review: Verify that the disbursement request is complete, accurate, and in line with the terms stipulated in the sanction letter.
- Documentation Check: Ensure all required documents, including the signed loan agreement, KYC documents, and any other necessary compliance paperwork, are duly submitted and verified.
- Disbursement Approval: The disbursement request must be reviewed and approved by the designated authority, which could be the Loan Manager or the Credit Committee, depending on the loan amount.

- Fund Transfer: Once approved, the funds are disbursed to the client's designated bank account. Ensure that the bank account details match the ones provided during the application process to avoid discrepancies.
- Disbursement Recording: Record all disbursement details in the loan management system, including the date of disbursement, amount disbursed, and any specific conditions attached to the disbursement.
- Client Communication: Notify the client of the successful disbursement via email or other official communication channels, providing details of the transaction and the next steps in the loan lifecycle.

Credit and Portfolio Monitoring

Effective credit and portfolio monitoring ensures the health of the loan portfolio and early identification of potential risks:

- Regular Review: Conduct regular reviews of the loan portfolio to assess performance against key indicators such as delinquency rates, default rates, and portfolio quality metrics.
- Monitoring Tools: Utilize advanced monitoring tools and software to track loan performance, payment schedules, and any deviations from agreed terms.
- Client Engagement: Maintain regular contact with clients to understand their business performance, address concerns, and provide support where necessary. This proactive approach helps in identifying issues early and mitigating risks.
- Risk Assessment: Continuously assess the credit risk of individual loans and the overall portfolio, considering factors like market conditions, economic trends, and sector-specific risks.
- Reporting: Generate and review detailed portfolio performance reports on a monthly or quarterly basis. These reports should be shared with the Credit Committee and senior management for strategic decision-making.

Payment Management and Collection

Managing loan payments efficiently is crucial for maintaining cash flow and minimizing delinquencies:

- Payment Schedule: Clearly communicate the payment schedule to clients, including due dates, amounts, and acceptable payment methods.
- Payment Tracking: Use a robust payment tracking system to monitor incoming payments, flag missed or late payments, and generate automated reminders for clients.
- Collections Process: Develop a structured collections process to handle overdue payments. This should include reminder notifications, follow-up calls, and if necessary, escalation to a collections agency.
- Client Support: Offer support to clients facing payment difficulties, including payment rescheduling options or temporary relief measures. Ensure that any adjustments are documented and approved by the relevant authority.

- Legal Action: For persistent non-payment issues, initiate legal action as per the terms of the loan agreement. Ensure all steps taken are compliant with legal and regulatory requirements.

Remedial Management and Problem Loans

Addressing problem loans proactively helps minimize losses and maintain portfolio quality:

- Early Identification: Develop a system for early identification of problem loans based on payment patterns, financial performance indicators, and client engagement feedback.
- Remedial Action Plan: Create tailored remedial action plans for problem loans, which could include restructuring the loan terms, offering additional support to the client, or seeking additional collateral.
- Monitoring and Review: Closely monitor the implementation of remedial action plans and review their effectiveness periodically. Adjust strategies as necessary to ensure the best possible outcome.
- Write-off and Provisioning: Follow the company's policies for loan write-offs and provisioning for bad debts. Ensure that these actions are documented, justified, and approved by the Credit Committee.
- Legal and Recovery Procedures: Implement legal procedures for recovery of problem loans, including foreclosure, asset seizure, or liquidation, in accordance with the law. Work with legal experts to ensure all actions are legally compliant and efficient.