

Investment Strategy & Procedure

Introduction

The following Investment procedure establishes guidelines for Everlon Finance Limited's (EFL) investment activities to ensure that the shareholders' equity is adequately monitored and safeguarded against risks.

Governance

- The Board of Directors approves that the Investment Committee will be undertaking the investment decisions based on the guidelines under this document. At the request of the Board of Directors, the Investment Committee will periodically present any investment reports as may be required
- The Investment Committee will comprise of Managing Director and any 1 Director of the CFO that will oversee day-to-day investment decisions, documentation and risk management.

1. Policy

- The committee's responsibility is to invest cash surplus and manage investment portfolio as effectively as possible taking into consideration capital market and interest rate trends.

The two key objectives of managing investments are:

- to maximize profit
- to build liquidity back-up by creating a portfolio of investments.

EFL may only enter into those investments specified herein in the Investment Policy and Procedure and not exceeding limits approved as set out in this policy. Investments into other than specified categories of instruments are allowed only after prior approval from the Board and within established limits.

Permitted Instruments

The company can invest in the following permitted securities within specified limit.

a.) Government Securities - Includes all Indian Rupee denominated, marketable securities issued by, and explicitly guaranteed by the Sovereign Government of India(GOI) and Reserve Bank of India(RBI).

b.) Corporate Bonds and Debentures - Includes all Indian Rupee denominated , marketable securities issued by parties other than GOI/RBI. Issuance by States, Provinces and State bodies with implicit guarantees are considered under this category.

c.) Fixed Deposits with Scheduled Commercial Banks

- i. These are placements with banks listed as Scheduled Commercial Banks by the RBI.
- ii. The selected bank must not be a loss-making entity as shown in the previous year's financials.
- iii. Placements to any one bank must not be more than 51% of total Investments.

d.) Units of Money Market Mutual Funds

Money market Mutual Funds invests funds in the short term liquidity through liquid funds and short term funds (commonly known as Treasury Plus) who invest money in relatively longer maturities.

Investments in a fund is only permitted where the total AUM of the fund is greater than INR 1000 Crores. .

Investment in a fund cannot exceed INR 2.0 Crores or 20% of total investment limit in Mutual fund by the company, whichever is lower.

f.) Investment in Listed Shares in NSE or BSE

- Investment should be made only in listed shares on NSE or BSE.
- Investment in a single company cannot exceed 50% of the total investment of the company at the time of investment on cost price basis.
- The investment should not be in a company which is not traded frequently
- 90 % of the investment in a company where minimum market capitalization is above Rs 200 Crores.
- Investment in Companies having a market Capitalization of less than 200 Crores is permitted upto 10% of the total investments.

- Any other investment structures as approved by the BOARD or higher authority

Investment or trading in speculative instruments is not permitted.

Credit Risk

Credit Risk is the risk that a counterparty will fail to perform its financial obligations to the company. Examples include:

- A bond issuer defaulting on coupon/principal on scheduled date of payments
- A Fixed deposit bank unable to honor its maturity payments due to various reasons.
- Performance risk of companies where investment is made
- Mutual fund taking risky bets and unable to honor redemption requests.

The event of default will negatively affect the P&L of the investment portfolio

Market Risk

Market risk is the risk of loss of earnings resulting from adverse movements in the prices of investments in the secondary markets. These could have been caused by many things including changes in economic conditions, credit perceptions, market demand and/or changes in government regulations.

For investments requiring MTM, changes in the market value may be recorded against the reserves/equity account of the entity holding the investment.

For debt instruments, changes in interest rates are most often the main reason for changes in market values.

Liquidity Risk

Liquidity Risk in this instance relate to the risk of the inability to sell an investment security within a short period of time, at, or near, its market value due to inadequate market depth and/or market disruption. This would have a negative impact to the value of the securities and overall portfolio.

The GOI market is often liquid although certain issues may not trade in large amounts. However, Corporate debt securities are often scarce resulting in little secondary market trading and hence lacking liquidity.

Operational Risk

Operational Risk is the risk of losses arising from inadequate or failed internal processes, people and systems. These include human error, system failure and fraud.

Legal & Regulatory Risk

Legal risk is the risk of financial loss resulting from the unenforceability of transaction due to legal reasons. Examples include insufficient or incorrect documentation, lack of authority to enter into transactions and the legality of the transaction in the first place.

Regulatory risk is the risk of financial loss arising from the failure to comply with regulatory requirements, or from changes or imposition of laws and regulations which adversely impact the company

2. Effective Investment Management Process.

By managing investments and taking investments decisions Investment committee of EFL will take into consideration:

- corporate guidelines;
- amount available for investments (cash surplus and liquidity buildup);
- current and future funding requirements (cash flows);
- market situation including liquidity on certain instruments, current market scenario, interest rate curves, international scenario etc;
- available investment limits for different categories of instruments;
- available counterparty approval from Board

3. Obtaining Counterparties and Limit approval from Board

Investment transactions may be executed only under approved investment strategy within credit limits approved by Board.

4. Execution of Investment Transactions.

Investment transaction may be executed only by authorized person and within the individual transaction limits as specified in the Investment Authorization Matrix (see the annexure).

The detailed procedure for executing transactions is described in the Investment Dealing Procedure. The main points of executing investment transactions are:

- (a) check the cash flow position to determine the amount that can be invested and the maximum tenor of the investment;
- (b) at the end of the week/ fortnight, the Managing Director will review investment transactions executed during the period and the outstanding transactions.

5. Monitoring Executed Transactions.

The person concluding investment transactions is responsible for keying-in the transaction details such as transaction date, counterparty, agreed rate/price along with buy/sell price and profit/loss on sale.

6. Mark-to-Market Valuation of Investment Portfolio.

EFL should be following generally accepted practice and value transactions based on the mark-to-market valuation received from the counterparties of transactions or, in case of instruments publicly traded and quoted, based on the prices published by the exchange/trading Board or clearing center.

7. Monitoring of Investment Limits.

7.1 Risk Limits and Parameters

- Concentration limits
 - Corporate Debt Obligations - max . of 10% of any single issue
 - Fixed deposits - max. of 51% of total investments

- Funds - Lesser of 20% of Investment in Mutual Fund by Company or INR 2 Crores
- Funds - Minimum AUM of INR 1000 Crores

Corporate Debt restriction applies to securities acquired upon primary and secondary market purchases.

7.2 Limit Reports

The appropriate credit limits monitoring should be reviewed by the Managing Director on ongoing basis .

The Managing Director is responsible for controlling the limits related to investment type and whether the executed transactions are in line with approved investment strategy. Any breaches of limit should be immediately reported to Board of Directors.

8. Cooperating with Money Market Brokers.

Using services of Money Market brokers as intermediates between EFL's and potential counterparties for investment transactions is allowed. Broker should not be the part of transaction or settlement; Broker should be only receiving brokerage fee for the service provided. No credit exposure to Money Market Brokers is allowed unless separately approved by Investment Committee.

Execution of approved strategy is the responsibility of EFL Investment Committee subject to limits and restrictions set by BOARD. Separate approval of BOARD or EFL management for individual transactions being in line with the strategy is not required. Investment Committee executes transactions according to the Investment Committee Authorization Matrix (delegation of authority) as specified in the separate document.

9. Operational Risk

- All transactions should only be conducted during office hours, from office premises.
- Any Director should conduct periodic random post deal quality reviews, with results provided to the Investment Committee highlighting specific issues.

10. Legal and Regulatory Risk

- All internal policy guidelines should be adhered to and a hard copy of policies and key strategies available within the dealing environment
- All relevant regulatory policies should also be adhered to and available within the dealing environment.

Annexure-I

Instruments for Investments and guidelines for investments therein subject to maximum investment allowed as per Board of Directors of the company. The limits defined hereinbelow are the sublimits within the overall limit as per Board Resolution.

Financial instrument	Max tenor	Limit Rs Crores	Guidelines
Central Government Securities (* Excluding Accrued Interest)	Up to 13years	5	<ul style="list-style-type: none">➤ Investment should not be done in security where daily volumes are less than the amount purposed to be invested. The approval to BOARD shall state the % coverage of daily volumes to amount being proposed for investment and total investment in that security.➤ Investment can be done in G Secs with residual maturity upto 10 Years.➤ Investment in maturities more than 5 years can not exceed 20% of Rs 500 Crores.
Fixed Deposits with Scheduled Commercial Banks	Up to 3 Year	10	<ul style="list-style-type: none">➤ Money can only be deposited with Scheduled Commercial Banks as per RBI and the bank should not be a loss making bank as per latest year's financials .➤ Exposure to one bank should not be more than 20% of the investment limit approved or Counter Party Limit approved by BOARD.➤ If the interest rate difference is more than 150 bps in the quotation of interest rates by banks, deviation can be taken for exposure on one bank, after obtaining prior approval of COO and any one more BOARD member. However, in no case the single bank exposure should be more than 50% of the investment limit.➤ Minimum credit rating by reputed rating agencies to be AAA for any debt instruments.

Units of Money Market Mutual Funds(Liquid Plans)	Upto15 days	5	<ul style="list-style-type: none"> ➤ Investment in one fund house cannot exceed more than Rs 50 Crores or 10% of the net owned fund of the fund or 20% of the Investment in Mutual fund by the company whichever is lower. ➤ Investment in liquid schemes not permitted if the AUM of the scheme is less than Rs. 750 Crores, unless the fund is of international repute and pre-approved by BOARD justifying the reasons of investment in such fund. ➤ Fund Rating should not be less than “AAAf” or “MF A1+”
Debentures/Bonds of other corporates/State Govt Securities	Upto 2 Years	5	<ul style="list-style-type: none"> ➤ Minimum Credit Rating of AAA by CRISIL or equivalent, however investment in Debentures and bonds with AA+ can also be purchased with special approval of BOARD in advance. Structured deals can be carried out by obtaining prior approval of Chief Risk Officer and Chief Operating Officer
Equity Shares	NA	NA	<ul style="list-style-type: none"> ➤ Not less than 25% Net Worth should be invested in Large Cap Companies (A Group) as per BSE data ➤ Not more than 75% Net worth to be invested in Companies in Mid/Small/Micro Cap Companies with a proven record of growth in top line or bottom line or any dividend payouts ➤ Since the Closing Stocks are valued at market rates (As per Audit rules), the original cost price will be considered for the purpose of taking any investment decisions.

Annexure no II

Management Action Triggers (MAT)

Management Action Trigger (MAT) limit implies an immediate senior management review of the portfolio exposures which should result in a documented list of actions. The level is set at a level by which a decision needs to be decided market conditions have generally moved beyond “day to day” volatility.

If under any investment category MAT is triggered then Managing Director will inform Investment Committee immediately by giving a detailed report on the instrument causing loss. Managing Director will convene a Board meeting to review the situation

In the meeting members of investment committee will give overview of the Mark to Market Losses on the portfolio, their reasons and suggestions if any to mitigate the losses. The Board will decide the future course of action.

The committee will then decide whether to retain the securities or to dispose them off, a stop loss would be given to Investment Committee beyond which security would be sold irrespective of its future recovery prospects.

Post triggering of MAT, no further exposure to that category of investment would be undertaken during rest of undergoing financial year without explicit approval from BOARD. The decision of this meeting will be minuted for accountability.