KIRAN VYAPAR LIMITED

CONTINGENCY FUNDING PLAN

RECORD OF REVIEW:

Document Number	01
Revision Number	-
Document Classification	Internal
Originally formulated	03.02.2023
Created by	Secretarial Department
Reviewed by	Asset Liability Management Committee
Approved by	Board of Directors of the Company

Version No	**Created/Modified Date**	**Created/modified by**	**Approved by**
1	03.02.2023	Company Secretary & Chief Compliance Officer	Board of Directors

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I. OBJECTIVE

Kiran Vyapar Limited ("**Company**") has formulated a Contingency Funding Plan ("**CFP**" or "**Plan**") which outlines the response mechanism in case of any contingencies/adverse market conditions that have the potential to severely disrupt the Company's ability to meet some or all of its liquidity requirements. The plan outlines actions to be taken should circumstances warrant and provides for an action and reporting system in the event of a liquidity crisis. This Plan provides guidance to the senior management on procedures to be adopted when such conditions arise in order to:

- Ensure minimal disruptions in normal operations of the Company;
- Responding to severe disruptions in a timely manner and at a reasonable cost.
- Ensure that all possible means are resorted to mitigate, if not avoid, any losses from disruption of normal operations;
- To identify potential contingency funding sources and the lead time required to raise funds from such sources; and
- Identify and take advantage of opportunities which may arise on account of such adverse conditions or crises.

This CFP also serves to identify and monitor events or indicators that shall trigger the implementation of the Plan.

II. LIQUIDITY CRISIS MANAGEMENT TEAM ("LCMT")

The Company shall constitute a LCMT which shall be responsible for monitoring, implementation and management of the Contingency Funding Plan. The team shall ensure the maintenance of sufficient liquidity and take prompt action in case of any liquidity crisis. The LCMT shall include the following members:

Designation	Role in the Team
Chairman	Chairperson
Managing Director	Vice Chairperson
Chief Financial Officer	Member
Company Secretary	Secretary

III. ROLES AND RESPONSIBILITIES OF THE LCMT

The LCMT shall be responsible for:

1) Monitoring early warning signals to highlight the emergence of any external or internal liquidity stress in the Company.

2) Coordinating the structure and execution of the Plan consisting of specific actions and responsibilities for relevant departments/ personnel
3) Undertaking requisite actions to forsee the emergence of a crisis/stress in terms of liquidity
4) Implementation and management of the Plan.

For the above purposes, the LCMT can seek periodic information and operational support from any department/ function of the Company.

IV. EARLY WARNING SIGNALS

The LCMT shall continuously monitor early warning signals to predict emergence of any liquidity stress. For this purpose, the management has identified the following metrics which needs to be monitored by the Company under any of the circumstances:

1. Reduction/cancellation of 50% of approved credit lines from lender/banks in the immediate prior month;
2. Monthly collection efficiency of 70% or lower for three (3) consecutive months;
3. GNPA level of 8% or higher of the loan book at the end of the month for three (3) consecutive months;
4. With respect quoted investments, market indicators such as bid-ask spread etc.
5. Breach in prudential limits set for Structural Liquidity & Interest Rate Sensitivity as set out in ALM Policy of the Company.
6. Any other circumstance that the LCMT deems as a warning signal for liquidity stress.

The above points are elaborated as follows:

1. <u>Reduction and/or cancellation of at least 50% of Company's credit lines in the immediate prior month</u>

The Company's primary sources of funds are (a) Shareholders' Capital and (b) the credit facilities extended by banks/financial institutions. On a daily basis, the finance department monitors the amount of available balances from each of these sources, and the type of lending transactions in which the funds are employed. Any significant changes or imposition of additional covenants/limitations by the Company's lenders that limits the total available credit lines to less than 50% of the available credit lines in the immediately prior month or hinders the Company's ability to draw at least 50% of the amount from such credit lines should trigger a decision whether or not to implement the CFP. Other indicators such as substantial increase in interest rates, more stringent repayment terms and collateral requirements may be addressed as they could reflect a negative outlook towards the Company. The Company must immediately ascertain the reasons for such changes/imposition and implement necessary corrective actions that would address the creditors/lenders' concerns.

Upon the occurrence of such an event, the finance department shall promptly inform the LCMT. The LCMT will assess the situation and determine the proper course of action including implementation of the Plan if required.

2. **Reduction in collection efficiency below 70% for three (3) consecutive months**
   The Company's day to day operations and debt servicing capacity can be sustained by efficient and timely collection of the EMIs on loans advanced to customers. Any substantial decline in collection will have a detrimental impact on its liquidity position and its ability to meet its debt repayment obligations. Hence reduction in collection efficiency below 70% for three consecutive months should be promptly highlighted to the LCMT in order to determine whether CFP needs to be initiated.

3. **GNPA level of the Company equals or exceeds 8% of the total AUM for three (3) consecutive months.**
   Any increase in NPA levels of the Company has direct correlation and impact on collections and thereby liquidity. Non-repayment of scheduled payments will cause an increase in GNPA. If for three consecutive months, there is an increase in the GNPA level above 8%, then the LCMT will initiate appropriate action and determine if the CFP needs to be activated.

4. **Illiquidity of investments**
   In case of quoted securities, the LCMT shall rely on market indicators such as bid-ask spread to determine if they are prone to illiquidities. If such assessment indicates a significant impact on the short-term liquidity position of the Company, the LCMT shall initiate appropriate action.

5. **Breach in prudential limits set for structural liquidity & interest rate sensitivity as set out in ALM policy of the Company. Breach would signal funding requirements.**
   As per the ALM Policy, the Company will closely monitor any mismatches across various time buckets. Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches up to one year would be relevant since these provide early warning signals of impending liquidity problems, the main focus shall be on the short-term mismatches, viz, 1-30/31 days. The net cumulative negative mismatches in the Statements of Structural Liquidity and Interest Rate Sensitivity in the maturity buckets 1-7 days, 8-14 days, and 15-30 days, in normal course, should not exceed the limits determined under the ALM Policy of the Company.

V. RISK MANAGEMENT MEASURES

The Company's ability to withstand both temporary and longer-term crisis scenarios will depend on the adequacy of its liquidity contingency plan. The Company's contingency plan should account for the following factors:

- Sizeable holdings of quality loans that could be readily disposed of in the secondary market through sale without recourse. The Company should take into account the likelihood that it will not be possible to realize the full book value of the receivable sold given the crisis/emergency. The Company should identify assets, the disposal of which are least detrimental to business relationships and public perceptions about the Company's soundness and should complete the sale of assets within 3 (Three) months of the implementation of the CFP. The endeavor of the Company should be to dispose of such assets in priority over other assets in case of a liquidity crisis. The LCMT shall recommend to the Board of Directors (henceforth, the "**Board**") which assets to dispose of first.

  The Company should maintain strong relationships with creditors and borrowers, as relationships with these counterparties become crucial during adverse conditions. A fair, ethical and mutually beneficial relationships with counterparties during periods of relative calm can be highly effective in securing assistance from such counterparties during abnormal or crisis conditions (e.g. quick loan releases from lenders).
- Ascertaining that conditions and covenants for all loan facilities have been complied with at all times to ensure unhampered and immediate availability of such credit lines when the need arises.
- Under normal periods, the Company's credit facilities must be a judicious combination of long term and short-term credits. Preference should be given to securing long-term funds.
- The Company should periodically test its ability to draw on all credit facilities, particularly those that are maintained only for liquidity back-up purposes.

VI. STEPS ON DETERMINATION OF A LIQUIDITY CRISIS

The presence, or effect, of any or all the events mentioned in Section IV of this Plan, shall, be determined by the LCMT. On determination of the occurrence or emergence of any of the abovementioned events, the LCMT will determine the proper course of action in this regard provided further that, the determination of these events and implementation of the course of action shall be notified to the Company's Board of Directors ("**Board**").

The members of the Board shall be kept informed of all actions being taken by the LCMT in this regard on a weekly basis or such intervals, as the Board may require, till resolution of such liquidity event. Any recommendations by the Board shall be taken into consideration by the LCMT.

In case a liquidity event is identified, the finance team shall provide the LCMT with updates on developments on a weekly basis until the liquidity problem is contained. Necessary resources shall be mobilized as may be necessary within or outside the Company, as may be deemed appropriate by the LCMT.

The relevant departments and officials shall adhere to the following guidelines and policies as directed by the LCMT. Depending on the type of thresholds breached or gravity of the situation, one or more of these steps will be followed:

- Liquidity shall be the utmost priority. The desired liquidity levels, as determined by the LCMT shall be maintained by the Company.
- Treasury transactions shall be limited to collections, debt service and other commitments prescribed by the finance team. Maturing short term credit lines are to be rolled over to the extent possible. All cash outflows to be reduced to a minimum level.
- The members of the senior management team including the MD and CFO shall regularly communicate (at a frequency as may deemed to be relevant) with lenders and shareholders and apprise them of the steps being undertaken.
- The finance team will provide LCMT with feedback regarding the developments and any problem with respect to funding some or all of its activities for proper action.

During implementation of the Plan there needs to be regular meetings of the LCMT. The LCMT will work in close coordination with key business units and provide regular status updates on actions taken to address liquidity stress scenarios to the Board.

VII. DISCONTINUATION OF PLAN

The LCMT shall be responsible for determining if the risk indicators which has triggered the implementation of the plan has been adequately addressed and such indicators have returned to normal levels. The LCMT shall provide its recommendation to the Board for withdrawal of the Plan, basis which the Board shall determine whether the Plan can be withdrawn or not.

VIII. LIQUIDITY STRESS TEST

The Company's analysis of liquidity requires the measurement of its liquidity position on a quarterly basis and determination of funding requirements under different scenarios, especially during adverse conditions. Hence, the Company must conduct a liquidity stress test on a quarterly basis to determine the risk in this respect.

The objective of such an exercise is to ensure that the Company has sufficient funds and also to identify potential alternative sources of funds which it can access in case of a liquidity crisis. For risk management purpose, the stress test should not only simulate short-term crisis specific to the Company's operations but also potential long-term crisis on account of industry/macro-economic crisis.

The determination of the Company's cash flow based on collections and an assessment of its capacity to borrow provide an efficient way of managing day-to-day liquidity under normal conditions. In case of any stress, the Company may stop or limit lending and create liquidity from collections. It may also raise additional liquidity from banks or other financial institutions through loans, equity or sale of loans given on a without recourse basis. The monitoring tools that will be used for this purpose are the Cash Position Report and Collection Report, which will give an overview of the funding and collection position of the Company. The Chief Financial Officer will be responsible in performing a stress test.

The Company shall use the following assumption in its liquidity stress test scenarios:

Company Specific Liquidity Crisis

The Company assumes at reduction in monthly collection efficiency of 70% for 3 consecutive months, at least a 50% bank-initiated reduction in credit lines, GNPA breaching 8% of the total AUM for 3 consecutive months, illiquidity of investments, breach in prudential limits in Structural Liquidity Statement & Interest Rate Sensitivity as set out in ALM Policy of the Company. At least two (2) liquidity indicators must be present to conclude a company specific liquidity crisis. This crisis scenario is assumed to be temporary, i.e., expected to last no more than ninety (90) days.

IX. INTIMATION OF A CONTINGENCY SITUATION TO REGULATORS

The occurrence or emergence of any or all the events mentioned in Section IV of this Plan and subsequent implementation of the CFP shall be intimated to the Reserve Bank of India and other regulators such as stock exchange where the debt securities of the Company are listed, Debenture Trustee etc. within 7(seven) days from the date of implementation of the plan by the LCMT.

The discontinuation of the CFP shall also be intimated to the RBI and other regulators within 7(seven) days of the approval of discontinuation of the plan by the Board of the Company.

X. REVIEW

The Policy shall be reviewed and modified by the Board as may be necessary from time to time.

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