Industrial Investment Trust Limited

Risk Management Policy

REGULATORY FRAMEWORK AND BACKGROUND

Industrial Investment Trust Limited is a Non-Banking Financial Company – Non-Deposit Taking Systemically Important (NBFC-ND-SI) registered with the Reserve Bank of India (hereinafter referred to as "IITL"). The Company mainly sanctions and grants loans to its group companies, associates and joint ventures of group companies.

OBJECTIVE

The objective of this policy is to identify, evaluate, analyse and prioritise risks in order to address and minimize such risks. This exercise would facilitate identifying high level risks and implement appropriate solutions for minimizing the impact of such risks on the business of the Company.

PROCEDURE FOR RISK ASSESSMENT AND MINIMIZATION

Details of various business risks, measures to address and minimize such risks, and limitations to the risk taking capacity of the Company as a Non Banking Financial Company (NBFC) are set out hereunder:

Sr. No.	Business Risks faced by the Company	Measures to address and minimize such risks	Limitations to the risks taking capacity of IITL
A.	**Business / Regulatory Risks**		
1.	**Speculations :** The Company may be affected by losses incurred due to Investments made on the basis of speculations.	The management regularly monitors its investment portfolio. The investments are made only after studying the fundamentals of the investee companies. Due to the high volatility of the capital markets, the management prefers to diversify the portfolio to reduce the risk and insulate from the vagaries of the stock market. Mutual Funds help to reduce risk through diversification and professional management. The advantage of investment in mutual fund is liquidity. Open-ended mutual funds provide option to redeem on demand which is beneficial during rising or falling markets.	After taking abundant precautions, there may occur a possibility of incurring losses due to the poor performances of the investee companies / mutual funds.
B.	**Finance Risks**		
1.	**Interest rates :** The Company is exposed to fluctuations in interest rates when entering into various loan agreements.	Exposure to interest rate fluctuation may be mitigated by entering into derivative instruments known as interest rate swaps and put or call options and also keeping the RBI policy, the Company will give fixed period loan for a maturity period not exceeding 7 years.	The Company has no control over the credit policy of RBI, which is instrumental in determining the interest rates.

2.	**Pledging of shares :** The Company may be required to pledge shares as security with banks / institutions or give guarantees against the borrowings made by the Company or its subsidiaries / associates. Company may be required to pledge additional shares when there is a fall in market value of pledged shares.	The management continuously revisits its portfolio to reduce the risk of pledging additional shares as margins against the borrowings.	The Company may not have sufficient options for investing during the bear phase of the capital market. However it will be subject to exposure limits fixed.
C.	**Political and Economic risks :** The Company may be affected by changes in Government policy, taxation, change in interest rates, social and civil unrest and other political, economic or other developments.	The Company monitors the various measures introduced by the Government from time to time and identifies significant business risks and take mitigation measures, as required.	In certain matters like social and civil unrest, the Company's ability to take consequential risks is limited.
D.	**Compliance**		
	Legal / Statutory Compliances : Company may face prosecution for non-compliance with the provisions of certain statutory laws.	A legal / statutory compliance report is drawn up and submitted to the Board, periodically.	Delay in compliance with provisions of law due to unforeseen events cannot be ruled out.
E.	**Systems and Process**		
1.	**Human Resource Management :** There is an inherent risk associated with the Company's ability to hire and retain skilled and experienced professionals and staff members.	Company has created a favourable work environment. There have been very cordial relations between the employees and the management. Company should conduct periodical training to update the skill and knowledge of employees.	Failure to attract and retain talented professionals, or the resignation or loss of key management personnel may have an adverse impact on the Company's business, its future financial performance and the result of its operations.
2.	**Internal Control Systems :** Internal control systems should be appropriate to support financial reporting.	The Company has installed an adequate system of internal controls. The Management regularly reviews the findings of the internal auditors and takes appropriate steps to implement their suggestions and observations.	The Company relies on an external firm of Chartered Accountants to carry out certain internal audit functions. The Audit Committee of the Company discusses the Internal Audit Reports in detail and improves upon the suggestions and observations made by the Internal Auditors to that extent.

RISK FRAMEWORK OF THE COMPANY

This Policy caters to both product/business specific guidelines and works within the overall risk framework for the organization. The risk framework has been implemented at various levels in the organization that govern the functioning of the organization both at macro and micro levels.

- **Organizational Level**
- **Product / Business Level**
- **Transaction level**

The risk controls in place at each of the above stated levels are described in detail in the following section:

(A) ORGANIZATIONAL LEVEL:

Important key risk controls put in place for the overall business are as follows:

1. As per the policy mandated, secured / unsecured loans are provided. Unsecured loans can be extended depending upon the repayment capacity of the Borrower.
2. The multiple/diversified product lines ensure risk mitigation.
3. Further, there is strict adherence to the Single Borrower Limit (SBL) & Group Exposure norms for loans as stipulated by RBI i.e. 15% & 25% of owned funds respectively.
4. Regulatory Compliance is ensured with a strict “no tolerance” policy for any kind of intentional regulatory breaches.
5. IITL also aims to ensure fair dealings devoid of any fear or favour with all stakeholders including customers, vendors and employees.

(B) PRODUCT/BUSINESS LEVEL:

1. The Company shall put in place product level policies for loan against property / unsecured loans.
2. Exposures against various segments are tracked to ensure that risk is not concentrated in a single segment. These segments include variables like the borrower’s industry, profile, collateral, etc.
3. Unsecured exposure shall be at the discretion of the Board after evaluating their credit history / CIBIL score of the Borrower.
4. All loan files, as well as other critical documents like Property Papers, Invoices, Registration Certificate (RC), etc. are stored in a Record Management Unit (RMU). The RMU is equipped with storage and security facilities that ensure that the documents are stored in clean, safe and hygienic conditions and they remain protected from any kind of damage, mutilation etc.
5. Collateral that is acceptable is defined in the product policies, including the haircut that is applicable to various collaterals.

(C) TRANSACTION LEVEL:

1. Strict adherence to RBI stipulated guidelines on Know Your Customer (KYC), Prevention of Money Laundering Act (PMLA) etc. whereby all our customers pass through the KYC requirements as well as all clear all negative databases as circulated by the various government bodies.
2. The credit approval process is multi-tiered based on the quantum and type of approval sought. The credit approval matrices form part of the board approved product policies.
3. All credit proposals are backed by Credit Appraisal Notes (CANs) which provide the rationale behind the lending decision. The CANs also covers the key risks with mitigation and the exceptions to the Product policy, if any.
4. CIBIL score, Willful defaulters list, World Check, SEBI Debarred list and Watchout Investor are checked for each borrower to evaluate credit history.
5. The collateral in all cases passes through verifications and due diligence to ascertain validity of ownership and true and fair value to ensure creation of a valid mortgage/ hypothecation/ pledge/ charge against the collateral.

6. Receivables are tracked and reminders for outstanding dues are sent to customers / clients. The Board may take a decision to invoke the collateral given to IITL and recover the dues by liquidation. Reporting of Special Mention Accounts (SMA) and Non-performing assets (NPA) would be done to the board of directors / Central Repository of Large Credit (CRILC) / RBI as per RBI Directions/ Guidelines.

RISK GOVERNANCE:

At IITL, we believe “Effective Risk Management begins with Effective Risk Governance”. IITL has a well-defined and evolved risk governance structure, with an active and engaged Board of Directors. Decision making is centralized through a number of senior and executive committees. Decision making levels are based on the Company’s objectives and risk tolerance limits. Strategies, policies and limits are designed to ensure that risks are prudently diversified. Risk mitigating activities are reviewed periodically by the Board.

Place: Mumbai

Date: May 28, 2022