TOURISM FINANCE CORPORATION OF INDIA LTD.
NEW DELHI

CREDIT RISK MANAGEMENT POLICY

2018-2019

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1. INTRODUCTION:

Credit risk is the potential of loss due to failure of the borrower to meet its contractual obligation to repay debt in accordance with the agreed terms. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential for the long-term success of any financial organization. The purpose of credit risk management is to maximize financial organization's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Reserve Bank of India (RBI) has directed NBFCs to devise a risk management framework oriented towards their requirements, dictated by size, complexity of business, risk philosophy, marketing perception, etc. Accordingly, the Credit Risk Management Policy of TFCI encompasses identification, assessment, monitoring and mitigation of credit risks in compliance with the norms laid down by RBI.

1.1 Objective

a) To take informed credit decisions based on adequate assessment of the relevant factors involved in credit risk.
b) To screen credit proposals and assume only such credit risk that is acceptable to TFCI as per the Credit Risk Assessment guidelines.
c) To ensure diversification of the credit portfolio, by avoiding concentration in credit exposures to individual/group borrowers, industry/sector etc. well within the RBI/TFCI's prudential exposure norms and taking proactive and corrective action in the event of a likely breach.
d) To attain and maintain standards of "good practices" in respect of credit risk management.
e) To monitor the quality of the portfolio at periodic intervals and suggesting mitigating measures to prevent slippage in credit quality.
f) To enable risk-based pricing that facilitates optimization of the risk-return profile.
g) Compliance norms/guidelines/ policies concerning credit risk management specified by RBI, and other regulatory authorities of NBFCs.

1.2 Scope of the Policy:

The Credit Risk Management Policy (CRM Policy), as enunciated herein, encompasses the entire credit operations of the Institution. While operating in line with these guidelines, the credit department is required to keep in view the regulations/ parameters laid down by RBI/other regulatory agencies and by TFCI's Board of Directors from time to time. TFCIs policy on credit appraisals, approval, loan pricing, documentation, credit administration and monitoring etc. have been set out in the Credit Policy. The CRM policy provides a broad framework for management of credit risks in the Institution's lending operations. Credit and other concerned departments are expected to devise products, formulate schemes and issue procedural instructions within this broad framework keeping in view the credit risks inherent in these products, schemes and instructions.

2. CREDIT RISK MANAGEMENT FRAMEWORK

The overall frame work of credit risk management in TFCI would comprise of following:-

a) Credit Risk Management Structure
b) Credit Risk Assessment Policies and Procedures.
c) Portfolio Monitoring
d) Credit Risk Controls and Monitoring.

3. CREDIT RISK MANAGEMENT STRUCTURE

The effectiveness of a risk management system depends on putting in place appropriate and effective risk management architecture. In pursuance of RBI guidelines, necessary role centers should be created in the organization structure to facilitate discharge of risk management function. The organization structure for CRM in TFCI would comprise of Board of Directors, Risk Management Committee of Directors (RMCD), Risk Management Committee of Executives (RMCE) and the Credit Risk Management Department (CRMD).

3.1 The Board of Directors

In pursuance of the RBI guidelines, the Board of Directors will have the overall responsibility for risk management of TFCI, including credit risk. The Board, as per the recommendations of RMCD, will approve the CRM policy, credit exposures/ concentration limits, risk mitigation/ control policy and other credit policy matters.

3.2 Risk Management Committee of Directors (RMCD):

A sub-committee of the Board of Directors, is vested with the responsibility of monitoring and managing enterprise-wise risk at apex level in the Institutions and apprising the Board at periodic intervals. The Risk Management Committee of Directors (RMCD) comprised of an independent Director as Chairman of the Committee, Managing Director and Executive Director of TFCI. The Committee shall meet on quarterly basis with the broad responsibilities of:

(i) Overseeing risk management, clearly identifying the risks to which capital is exposed.

(ii) Defining the risk appetite of the Institution/setting up of prudential exposure/ concentration limits, etc.

(iii) Examine and recommend all risk-related policies of the Institutions before they are presented before the RMCD and Board of Directors for approval.

In respect of credit risk management, the RMCD shall have the followings responsibilities:

(i) To formulate the broad framework of the credit risk management system, which shall be adopted, implemented and monitored by the Credit Risk Management Department (CRMD).

(ii) Modification of the guidelines for Risk Management System and prudential exposure/concentration limits etc.(individual/ group borrowers, industries, sectors from time to time, if required, to take care of the changing business environment, which will be implemented by RMD on approval of the Board of Directors.

(iii) To update the Board at periodic intervals with TFCI's credit risk exposure profiles-concentration risk(borrower groups/industries/location/sectors), risk rating of the obligors and to recommend corrective measures, if needed.

(iv) To ensure that the credit functions are managed in compliance with the extant Credit/Lending Policy of TFCI.

(v) Periodic review of the Credit Policy and recommending changes/ modifications, if required, in the Credit policy of TFCI and ensuring that it remains in tune with the changing business conditions, regulatory requirements/ guidelines to mitigate the consequential risk.

(vi) To review the risk analysis reports from RMD and provide necessary guidance for future analysis.

(vii) Approving exceptions to risk exposure/ limits, including Delegation of Powers approved by the Board.

3.3 Risk Management Committee of Executives (RMCE)

The RMCE is an internal committee of Senior Executives comprising the Managing Director, Executive Director, Chief General Manager/Chief Financial Officer and other invitees etc. The committee should meet on a quarterly basis and the broad responsibilities of the committee would be as under:-

a) Implementation of the Credit Risk Management Policy of TFCI.
b) Monitoring of credit risk on an institution–wide basis and ensuring compliance with the prudential limits and risk parameters approved by the Board.
c) Incorporation of the regulatory compliance with regard to credit risk in the Institutions policies and guidelines.
d) Monitoring of quality of the Institutions loan portfolio on a periodical basis, identifying problems and recommending measures to correct deficiencies.
e) Monitoring of risk concentration and initiating corrective steps, where necessary.
f) Examination of and recommending approval for all credit risk-related policies of the Institution before these are submitted to the Board of Directors seeking its approvals.
g) Periodic review of the Credit policy and recommending changes/ modifications, if required.
h) Recommending expectations to risk exposure/ limits.
i) Continuously monitor the effectiveness of the credit risk management processes established in the Institution.

3.4 Credit Risk Management Department (CRMD)

The CRMD would be headed by GM/DGM would directly report to the Executive Director/MD. Key responsibilities of Credit Risk Management Department include:

a) Laying down credit risk assessment procedures. Developing / obtaining, implementing and refining credit risk assessment (rating/scoring) models.

b) Conducting risk analysis of the proposed obligor as well as facility (with suggested mitigants) to measure the obligor, facility and combined risk rating, before approval of the proposal by EC/Board.
c) Maker level rating/ review ratings to be carried out by the credit functionaries, whereas, CRMD would finalise the internal rating in Risk Assessment Models. CRMD would monitor the quality of loan portfolio by way of periodic (at least annual) review ratings of the existing standard exposures and facilitate annual loan review/ audit of TFCI's exposure (loans& NCDs only) to be carried out by the Credit Audit Department. Credit Department would undertake appropriate remedial measures for compliance with credit audit observations.
d) Developing an effective management information system for credit risk management.
e) Measuring, controlling and managing credit risk on an institution basis within the boundaries and limits set by the Board/RMCD/RMCE/RBI.
f) Ensuring compliance with credit risk parameters and prudential limits set by the Board/RMCD/RMCE/RBI.
g) Preparing and placing important credit risk-related agenda items before the RMCE for their information, perusal and guidance.
h) Preparing and periodically reviewing the institutions credit Risk management and Credit Policy.

4. CREDIT RISK ASSESSMENT – POLICIES AND PROCEEDURES

4.1 Credit Risk Assessment Process

TFCI recognises that risk is inherent part of business of any financial intermediary and accordingly feels that identification, measurement, monitoring and management of risk are critical to build a sound asset-base. Accordingly, policy guidelines on comprehensive risk management system have been developed and adopted by TFCI which will be followed in case of all the new business proposals.

The risk assessment process would involve judgment being made of the commitment, reliability, resilience and financial/other capability of the prospective customer. This may include an examination of industry scenario, client's track record, financial history, competitive position, skills of promoters etc. The credit risk

would reflect the risks involved both in the borrower and in the facility being considered and would represent an evaluation of the credit customer's intrinsic strengths and weaknesses.

4.2 Risk Identification

Identification of risk is the first step in the Credit Risk assessment system. The credit risk inherent in credit proposal is a function of certain risk factors, such as function of certain factors, some of which are specified below:-

❖ **Financial risk**

This would include assessment of the entity's overall financial strength based on performance and financial indicators, as derived from its financial statements- historical and projected. Some of the key parameters would be:

- ✓ FACR
- ✓ DER
- ✓ Current Ratio
- ✓ Total outside Liability /Tangible Net Worth(TOL/ TNW)
- ✓ PBDIT(Profit before Depreciation, Interest, Tax)/Interest
- ✓ Profit after Tax(PAT)/Net Sales
- ✓ Break-Even Analysis & Profitability Ratios
- ✓ Return on Capital Employed (ROCE)
- ✓ Internal Rate of Return

While assessing the overall financial strength of the unit, the static ratios and future prospects of the unit would be considered. The industry comparison of the above ratios will also be made.

❖ **Business Risk**:

Business risk analysis assesses the business fundamentals of the unit, the competitive market position in the industry and its operational efficiency. Key factors would include its geographic reach, distribution and selling arrangements, capacity utilization, nature of the technology employed. The business risk associated with the unit would be reflected in its financial risk ratios and their comparison with the industry average, which are covered under financial risk parameters.

- **Industry Risk**:

  This relates to the industry of which the unit is a constituent. The unit/ firm will be subject to the risk factors to which the industry is exposed. In assessing the industry risk, the key parameters would be competition, entry barriers, cyclicality, industry outlook, regulatory risk/ government policies and other contemporary issues.

- **Management risk:**

  It involves evaluation of the management of the enterprise, their risk philosophy, competence and past track record. The key parameters are the integrity (corporate governance), managerial competence and commitment, credibility (ability to meet the sales/income and profit projections), payment track record, management system, capability of the management to bailout the entity in case of distress, and the structure and length of relationship with TFCI. While some subjectivity may creep in while evaluating these parameters, it should be minimized.

- **Transaction Specific Risk/Security Risk:**

  The risk parameters would be tenor of the facility, nature of the security, value of the security and type of the charge over the security.

- **Project Related Risk**:

  This risk would apply only to project loans, as distinct from corporate loans. The key parameters for risk assessment would be completion risk, technology risk, environment risk, supplier risk, availability of raw material/power/utilities, project management capability etc.

  Apart from, risk parameters outlined above, if there is any other factor that contributes to credit risk of a particular proposal, efforts must be made to capture it suitably in the overall risk rating framework.

4.3 Credit Risk Measurement Parameters

Credit Risk measurement involves identification of certain risk components described in Basel-II document as under:

- **Probability of Default (PD)**

  The likelihood that the borrower will fail to make full and timely repayment of its financial obligations.

- **Exposure At Default (EAD)**
  The expected value of the loan at the time of default.

- **Loss Given Default (LGD)**
  The amount of the loss suffered in the event of a default occurring on an exposure, expressed as a percentage of the EAD.

- **Expected Loss (EL) :**
  That part of the credit loss in a portfolio that happens in the normal course of business due to default in exposures and for which institutions have to either make provision or load a factor for the same in the pricing of the loans.

- **Unexpected Loss (UL)**
  The part of the credit loss that cannot be estimated or priced into the product and hence institutions have to provide after risk-weighting their assets.

In the line with extant RBI prescriptions for banks, as the Institution moves from current scoring model towards the Advanced Approaches for Credit Risk Management (IRB) with sufficient rating history, it would be necessary to correctly measure PD, LGD, EAD, EL & UL for determining the extant of capital to be maintained for credit risk. These would be computed after generating sufficient historical data.

4.4 Credit Risk Assessment (CRA) Models

Prior to sanctioning a credit facility to any client/obligator, the risk level should be measured as per institution's credit risk assessment framework. The credit risk assessment framework in TFCI includes the use of internal risk assessment model (as approved by the Board and is already in place for the last 9 years) and use of credit rating from external credit rating agencies accredited by RBI. All tourism related proposals would continue to be examined in terms of the risk-rating module developed and implemented in TFCI. The proposals related to other sectors such as manufacturing, real estate(on selective basis), infrastructure projects like renewable energy(wind & solar energy) with low funds requirements, NBFCs for onward lending, etc. shall be examined in terms of credit rating from external credit rating agency accredited by RBI.

4.4.1 Company/Obligor Rating for Tourism Projects:

TFCI has implemented internal risk assessment model for assessing credit risk in the tourism related projects based on its vast experience in funding greenfield/brownfield/operational tourism projects.

The internal risk-rating module evaluates each proposal for various risks, such as industry business risk, project risk, management risk, external risk as also security available, income value to TFCI, profitability/ financial projections, etc. All proposals are scrutinized for various parameters as laid down under the module which assigns score on a scale of 1 to 100. Further the points scored are also linked to a grade as given below:

Score	Grade
95-100	AAA
85-94	AA
75-84	A
65-74	BBB
55-64	BB
45-54	C1
35-44	C2
25-34	D+
15-24	D
1-14	D-

In case the borrower of tourism projects has a rating from external credit rating agency the same shall be accepted in place of internal rating as the external agencies follow a comprehensive risk assessment and surveillance methodology.

4.4.2 Company/Obligor Rating for Non-Tourism Projects/Other Sectors:

TFCI follows external credit rating for assessing credit risk in non-tourism projects/other sectors.

At present there are seven rating agencies viz. CRISIL Ltd, ICRA Ltd. Fitch Rating India Pvt. Ltd., CARE Ratings Ltd., Brickwork Rating Pvt. Ltd., SMERA Ratings Ltd. and Infomerics Valuation and Rating Pvt. Ltd accredited by RBI. The following table encapsulates the credit rating symbols and definitions for long-term debt instruments used by these agencies.

Rating scale for Long-Term Instruments	
AAA (Highest Safety)	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.
AA (High Safety)	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.
A (Adequate Safety)	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.
BBB (Moderate Safety)	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.
BB (Moderate Risk)	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations.
B (High Risk)	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations.
C (Very High Risk)	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations.
D Default	Instruments with this rating are in default or are expected to be in default soon.

4.5 Minimum Rating Criteria for financial assistance:

The minimum criteria for long term/short term funding is as under:

Sector	Internal Rating	External Rating
Tourism	BB	BB
Other Sectors - Infrastructure - Manufacturing & Others - Real Estate - NBFCs	 - - - -	 BB BB BBB BBB-
Short term loans in all sectors	-	Short Term : A1 OR Long Term : A

It may be pertinent to note that ratings are expected to aid the sanctioning authority in taking lending decisions. The sanctioning authority would, however, take a holistic view of all the parameters and may permit relaxation in threshold rating norms, in terms of extant approval guidelines, subject to being satisfied on aspects like risk perception, risk mitigant's available, linkages and benefits accruing to TFCI out of the proposed assistance· etc. However, such deviations/ relaxations, if any, would need to be suitably brought out in the proposals with adequate justifications.

Moreover, it is imperative that any significant modifications/relaxations in loan covenants, having bearing on rating, during the pre-disbursement stage (first disbursement) should invariably be supported by fresh credit rating so as to ensure non-slippage of rating. In case, there is a slippage in rating, the exposure should be suitably re-priced. Further, TFCI's right to review/revalidate the sanction of assistance in respect of cases involving withdrawal or downgrading of external rating prior to disbursement, may be a standard term of sanction. Disbursement in such cases may be made only after re-rating and review/approval by the Competent Authority.

4.6 Review of Rating:

As per existing credit risk assessment framework, for under implementation and completed projects, a separate risk assessment model has been devised keeping in view the risks associated with tourism related projects. The risk model for under implementation & completed projects also assigns score on a scale of 1 to 100 which are linked to similar grades as detailed above in para 4.4.1. While considering request for reduction in interest rate for the borrowers of tourism related project internal credit rating would be carried out on the basis of latest audited financial accounts and other relevant information. In case of borrowers of other projects, the valid credit rating of external credit rating agencies is considered alongwith latest audited financial accounts. In case of slippage in rating of any borrower, the existing exposure is suitably re-priced.

4.7 Mapping of Internal Ratings to External Ratings & Pricing of Loan:

TFCI has been lending at interest rate based on the MCLR which is approved by the Board. The loan pricing is done based on risk-rating loan-pricing matrix, as approved/revised by the Board. The current loan pricing matrix is as follows:

MCLR = 11% per annum

Tenor Premium
-Short Term (Upto 3 years) = 0.10% per annum
-Medium Term (Over 3 year and upto 5 years) = 0.20% per annum
-Long Term (More than 5 years) = 0.30% per annum

Based on above and risk rating, the loan pricing matrix is as under:

Internal Rating				
		Long Term	**Medium Term**	**Short Term**
MCLR including tenor premium		**11.30%**	**11.20%**	**11.10%**
BB	MCLR + 1.25%	12.55%	12.45%	12.35%
BBB	MCLR + 0.75%	12.05%	11.95%	11.85%
A	MCLR + 0.50%	11.80%	11.70%	11.60%
AA	MCLR + 0.20%	11.50%	11.40%	11.30%
AAA	MCLR	11.30%	11.20%	11.10%
External Rating				
		Long Term	**Medium Term**	**Short Term**
BB	MCLR + 1.00%	12.30%	12.20%	12.10%
BBB	MCLR + 0.50%	11.80%	11.70%	11.60%
A	MCLR + 0.30%	11.60%	11.50%	11.40%
AA	MCLR + 0.15%	11.45%	11.35%	11.25%
AAA	MCLR	11.30%	11.20%	11.10%

- To mitigate the specific risk related to real estate sector an additional premium/interest equivalent to 1% per annum is charged.
- The interest rate in case of lending to NBFCs would be TFCI's MCLR plus negotiated mark up.
- The interest rate in case of manufacturing and other sectors could be both variable and fixed, with or without linking to MCLR ensuring a higher interest yield than in funding of tourism & infrastructure projects.
- The interest rate in case of consortium lending shall be in accordance with the consortium rate of interest subject to minimum of TFCI's MCLR. In case of lower consortium interest rate, the differential interest rate would be charged by way of management fee.
- The interest rate for short-term corporate loans (upto 1 year) is not linked to MCLR.

The Risk Management Committee of Directors may review TFCI's MCLR on half yearly basis.The Executive Committee/Board of Directors will have the powers to stipulate rate lower than the rate prescribed above after taking into consideration other market factors as may be deemed appropriate in this regard. These rates

would be applicable for new project/corporate lending with a view to encourage accelerated asset-creation in TFCI.

5. CREDIT PORTFOLIO MONITORING

As per RBI guidelines on risk management for NBFCs, they should evolve proper systems for identification of credit weaknesses well in advance. It has suggested Loan Review/Credit Audit as well Rating Migration analysis including stress testing at periodic intervals to assess the quality of the portfolio.

5.1 Credit Audit

RBI guidelines on loan review mechanism for NBFCs propose periodic credit review for constantly evaluating the quality of credit portfolio and to bring about qualitative improvements in the credit administration process.

The main objectives of credit audit are:

a) To identify promptly loans which develop credit weaknesses and initiate timely corrective action
b) To evaluate portfolio quality and isolate potential problem areas
c) To provide information on adequacy of loan loss provision
d) To assess the adequacy of and adherence to, loan policies and procedures, and to monitor compliance with
e) To provide information on credit administration covering all loans and review of high value loans usually within six months of full disbursement.

In addition, TFCI should also target other accounts that present elevated risk characteristics and atleast 30-40% of the portfolio should be subject to credit audit in a year to provide reasonable assurance that all the major credit risk embedded in the balance sheet have been tracked.

The scope of credit audit would primarily be:

- Examining the Approval Process
- Adherence to policies and procedures stipulated by TFCI
- Compliance with regulatory guidelines and loan covenants
- Sufficiency of loan documents and security creation.
- Post-sanction follow up and supervision
- Effectiveness of credit monitoring and control

- Early warning signals
- Asset quality and portfolio concentration.

The credit audit, however, will not include the following aspects:

- Adequacy and correctness of documentation (Scope of Legal Auditors)
- Inspection/valuation of assets/stocks/securities under mortgage or pledge (Scope of Credit Officers)
- Revenue checking (Scope of Internal Auditors)

However, exceptional findings, if any, of the legal auditors, would be brought out in the credit audit report.

After credit audit of an account, any major change in financials, conduct of account, management, security, additional liability, etc. in such accounts, would be tracked and reported to higher authorities by monitoring department.

In case where additional loan is sanctioned to an existing borrower and credit audit for earlier facility has already been carried out, the credit audit exercise would be carried out once again on full disbursement of additional loan. The credit audit in such cases would include the existing loan(s) of such borrower.

5.2. Rating Migration Analysis and Stress Testing

Rating migration is the change in the rating of a borrower over a period of time, when rated on the same standard or model. The major benefits of rating migration analysis are:

- Highlights the rating-wise distribution of borrowers and the quality of portfolio
- Helps the management in stipulating quantitative ceiling on aggregate exposure in specified rating categories.
- Helps in actual estimation of transition probabilities of borrower risk ratings and provides a basis for the probability of default numbers associated with internal ratings.
- Helps in assessing rating-wise volume of loans, probable defaults and provisioning requirements as a prudent planning exercise.

Since Standardized Credit Assessment Model for re-rating of existing borrowers have been implemented in TFCI, CRMD would carry out the Rating Migration Analysis of the Standard Asset portfolio on an annual basis, post receipt of audited annual accounts, to track the migration of borrowers from one rating scale to

another. The rating migration of other than tourism related projects, would be carried out post receipt of annual accounts and valid external credit rating
While carrying out Rating Migration, the loan portfolio would point to Stress Test and Scenario Analysis with regard to various parameters. This involves projecting the performance (volatility) of a credit portfolio under changing macro-economic environment, by applying stress test on the debt servicing ability of the portfolio of borrowers under alternative scenarios. The macro-economic parameters could be growth rates in GDP/Sectors, fiscal/monetary policy parameters, exchange rate, supply-demand mismatch, raw material prices/ availability etc. By developing the alternative scenarios for these parameters, the default rates of the credit portfolio can be assessed and possible correlation between a set of obligors may be established, which would reveal undetected areas of potential credit risk exposure.

6. CREDIT RISK CONTROL AND REPORTING

6.1 Prudential Exposure Norms.

The Credit Risk Management policy recognizes the need for implementing measures aimed at improving risk management and avoiding risks associated with concentration of credit. For this purpose limits have been prescribed for exposure to individual/group borrowers. The objective of credit risk management at portfolio level is to achieve and maintain a portfolio that is well diversified across companies, sector, geographical areas etc.
TFCI has been categorized as "Systematically important non-deposit taking NBFC (NBFC-ND-SI)". TFCI's exposure to different business segments i.e. for Individual borrower and group borrower are primarily guided by exposure norms prescribed for NBFC-ND-SI by RBI. RBI's exposure norms for Individual borrower and group borrower are fixed at 25% and 40% respectively of owned funds with respective sub-limits of 15% separately for loan or investment and 25% for loans & investments together. The NBFC might consider enhancement in exposure by further 5% for a single borrower or 10% for a group provided the additional exposure is on account of infrastructure loan and/or investment. In line with aforesaid RBI guidelines, the maximum exposure for the year 2018-19, based on the net owned capital funds (NOF) as on 31.3.2018 would be as follows:

	Single Borrower	Group Borrower
Loans or Investments taken separately	15% of NOF	25% of NOF
Loans and Investments taken together	25% of NOF	40% of NOF
Loans or Investments taken separately (if additional exposure is on account of infrastructure loan/investment)	20%of NOF	35% of NOF
Loans or Investments taken together (if additional exposure is on account of infrastructure loan/investment)	30% of NOF	50% of NOF

Exposure shall include both credit and investment exposure. The undisbursed commitment should also be reckoned for arriving at the exposure.

However, in the case of real estate and NBFC financing, the Board has stipulated lower exposure as under:

Sector	**Maximum Exposure Limits**
Total Real Estate Exposure	5% of total assets as on 31.3.2018
Real Estate Exposure (sub limits) -Single Borrower -Group Exposure	 -Rs.30.00 Crore -Rs.60.00 Crore
Total NBFC Exposure	10% of total assets.as on 31.3.2018
NBFC Exposure (sub limits) -Single Borrower -Group Exposure	 -Rs.30.00 Crore -Rs.70.00 Crore

TFCI would continue to work within the exposure ceiling fixed as above in respect of individual borrower as well as group, while considering the proposal(s) for financial assistance. The exposure ceiling would be revised annually based on the owned funds of TFCI, as on the year ending, after the finalization of accounts.

6.1.1 Definition of Group

In terms of RBI guidelines, “Companies in group” shall mean an arrangement involving two or more entities related to each other through any of the following relationship: subsidiary-parent(defined in terms of AS 21), Associate(defined in terms of AS 23), Joint venture(defined in terms of AS 27), promoter-promotee(as provided in the SEBI (Acquisition of Shares and Takeover) Regulations,1997), related

party(defined in terms of AS 18), common brand name and investment in equity shares of 20% and above.

The concept of 'Group' and the task of identification of the borrowers belonging to specific industrial groups are left to the perception of the banks/ financial institutions. Banks/financial institutions are generally aware of the basic constitution of their clientele for the purpose of regulating their exposure to risk assets. The group to which a particular borrowing unit belongs, may, therefore, be decided by them on the basis of the relevant information available with them, the guiding principle being commonality of management and effective control. In so far as public sector undertakings are concerned, only single borrower exposure limit would be applicable. In the case of a split in the group, if the split is formalised the splinter groups will be regarded as separate groups.

The above RBI guidelines also provide for further relaxation of the above norms by up to 5% with the approval of the Board of Directors.

6.2 Restrictions of lending:

a) TFCI will not grant any loans/advances to or on behalf of any of its directors or to any firm in which any of its directors is interested as a partner/manager/ employee/guarantor, or to a company or subsidiary or holding company in which any of the directors of TFCI is a director/ manager/ employee/ guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor.

b) TFCI will not grant any loans and advances, without the prior approval of the Board, to the 'relatives' of TFCI's Managing Director or to Directors of other banks and their relatives.

c) TFCI will not grant loans and advances to industries producing or consuming Ozone Depleting Substances, in terms of Montreal Protocol to which Government of India is a party.

d) TFCI will not sanction additional facility to the borrowers appearing in CIBIL's or other approved Credit Information Companies' "Defaulters" and "Wilful Defaulters" list as per extant RBI guidelines. Other companies whose Board comprises the promoter director or whole-time directors (other than Professional Directors and Nominee Directors of FIs, Central/ State Governments) of the companies appearing in CIBIL's list of "Wilful Defaulters"

will also not be granted any additional credit facilities by TFCI. TFCI will also not grant any facility to new ventures floated by Entrepreneurs/ promoters/ companies featuring in CIBIL's wilful defaulter list for a period of 5 years from the date their names are disseminated in the list.

6.3 Restrictions relating to security for lending

TFCI will not grant loans and advances against the security of

a) Its own shares;
b) Partly paid shares of a company;
c) Certificates of Deposits (CDs); and
d) Money Market Mutual Funds and
e) Fixed Deposit Receipts(FDRs) issued by Banks

Moreover, TFCI will not hold shares in a company in the management of which Managing Director of TFCI is interested, excluding cases of subsidiaries and associates/ assisted companies where he is a part of the Board/ Nominee Director in his official capacity.

6.4 Industry Research & Restricted Sectors

While prudential guidelines for avoiding excessive concentration of credit serve as broad indicators, the risk impact of other dynamic elements such as market conditions, government policies, legal changes, economic indicators, stock market movements etc. are to be assessed on a regular basis to ascertain risks that are intrinsic to different exposures. Since TFCI's exposure is increasing across the various sectors, at a later stage there might be need for a dedicated Industry Research Department, either within the ambit of CRMD or as a separate department, in TFCI to monitor industry specific developments and provide key inputs to ensure a healthy credit portfolio. However, at present, to keep abreast of industry developments, CRMD may subscribe industry research report of being published by CRISIL or other renowned credit rating agencies.

6.5 Rating-wise Exposure Ceilings

As part of RBI guidelines on CRM(applicable to banks), the NBFCs have to eventually move over to internal Rating Based approach for Capital Adequacy standards. Accordingly, as a best practice, TFCI shall endeavour to restrict its exposure under the lower rated categories of borrowers.

In the case of industries/ sectors that are not performing well or in which the outlook in the near future is not likely to improve, the exposure shall be taken only in respect of better rated clients as determined/advised by Board/EC.

7. RISK REPORTING

The BOD, on a regular basis, shall review reports covering the credit risk exposures of the institution after these are first examined by the RMCE. While the reports shall vary based on the Institution's Risk Profile and regulatory requirements, they shall include the following:

a) Prudential Exposure Norms Status Report
b) Monitoring of in-house Exposure Norms
c) Analysis of Institution's Credit Portfolio
d) Review of Industry-wise exposures

8. POLICY REVIEW

The CRM Policy would ideally be reviewed on an annual basis. However, the policy can be reviewed at short notice depending on the exigencies/ extraordinary situations, which may emanate during the course of TFCI's business. Such extraordinary situations may include significant changes in Government/ Reserve Bank of India policies, global/national macro-economic conditions, financial performance, etc.

9. VALIDITY/AUTHORITY OF THE POLICY

The CRM Policy would be the principal document for the credit risk management function of TFCI. This CRM Policy shall remain in force till the next revision is carried out and disseminated. This policy is to be read in consonance with the extant Credit Policy, Credit/ other manuals in the company and extant regulatory prescriptions.

10. KEY RISK APPETITE INDICATORS FOR TFCI

A few of the key risk appetite indicators for TFCI for the financial year 2018-19 would be as follows:

	Parameters	Quantitative Indicators
1.	Capital Adequacy Ratio	: Minimum 20%
2.	Debt rating target	: AA for Long Term Borrowings A1+ for Short Term Borrowings
3.	Return on Equity	: Minimum 15%
4.	Return on Assets	: Minimum 1%
5.	Gross NPA	: Less than 6% of total assets (Loans & Advances)
6.	Net NPA	: Less than 3% of total assets.
7.	Exposure Norms	: As per RBI guidelines & sub-limits fixed by Board for real estate sector & NBFCs.
8.	Exposure to top 20 borrowers	: Less than 35% of total assets
9.	Net Interest Margin	: Between 2% to 3.00%
10.	Security Creation	: No disbursement before security creation (except in take-over financing) : Zero tolerance for non-compliance of security creation.

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