

CREDIT RISK POLICY

BEST CAPITAL SERVICES LIMITED

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CIN NO: U67120RJ1995PLC009942.**

CREDIT RISK POLICY

The Board and Management have the overall responsibility for the credit policy of the Company /organization and subsequent need based revisions in /of the same to keep the same effective. This credit and risk policy is duly approved by the board of the company. Other specific responsibilities and power include the areas of actions with regard the Credit and Risk policy are as under :

1. Approving significant revisions to credit and risk policy of the company.
2. Establishing portfolio distribution guidelines in conformity with existing Regulations of the RBI.
3. Approving organizational credit management structure with delegation of powers for lending.
4. Establishing credit approval authorities including the levels of delegation of credit sanction powers.
5. Approving and establishing the delegation of powers for initiation of legal actions, waiver of legal actions, compromise and settlement and write-offs.
6. Approving changes in the product wise lending limits and risk limits to be approved by the company .

Portfolio Allocation:

While allocating the portfolio the endeavor is to move from the higher risk and unsecured advances to the lower risk and well secured (tangible security) advances. There should be the proper distribution of advance portfolio to mitigate the risk aspect for best and optimum use of funds. Out of the total portfolio it should be our endeavor to achieve the portfolio levels as under at initial start level and that in percentage terms.

Vehicle Loans	50%
MSME and Mortgage Loans	50%

Any personal loan and / or unsecured loans are subject to Deviation approval by the competent authority.

Delegations of loan sanction powers:

Loans up to Rs. 7 Lacs by Credit In charge.

Loans above Rs. 7 Lacs by competent authority /Managing Director.

Process of Credit Management:

1. **Sourcing of Loan files:** Loan Files sourced either from Sales person (Directly or through DSA or DMA channel.) or a customer approaches us directly for loan.
2. **Processing of files:**
 - A. **Proposal :** After getting a lead, our sales executive contacts the person and collect basic KYC of customer to run CIBIL along with vehicle papers/quotation (in cases of new vehicles) and gets a form filled by the customer in which they have to fill up their required personal details. He also collects the same documents of co- applicant and / or the guarantor (as one is mandatory) through the same process and give the same to the credit team in a form of file.
 - B. **KYC and Age limit:** Customer KYC: - Photograph – Latest, colored, clear and proper. (Proper means without sunglasses, no selfie or cropped from other photograph etc.)
 - a. ID proof – Pan Card, Aadhar Card, Driving License, Passport, Voter ID Card. ID card must be clear enough to match with collected photo of customer.

- b. Office and Residence Address Proof – Aadhar Card, Driving License, Passport, Voter ID Card, Latest Electricity / Water Bill, (mobile bill will not serve the purpose) and posting / transfer letter.
- c. **Utility Bill** – Electricity Bill, Water Bill, LPG Receipt, BSNL landline bill (It is required to identify if customer is presently staying at given address or not) these bills must not be older than 3 months.

Age limit: Minimum age limit for all the three (applicant, co-applicant and guarantor) is 18 years, not a single day less than that. Maximum age limit of applicant & co-applicant is such that if the applicant or co-applicant is a salaried person than age should not be more than 60 years including offered repayment tenure (i.e. age on date of advance + REPAYMENT period should be less than or equals to 60 Years) or say his age should not be more than 60 minus repayment period on date of advance. For self-employed persons age should not be more than 65 years including offered repayment tenure (i.e. age on date of advance + REPAYMENT period should be less than or equals to 65 Years) or say his age should not be more than 65 minus repayment period on date of advance. Accordingly the guarantors should also be not more than age of 60/ 65 years including repayment period on date of advance.

- C. **Field Investigation:** (a) Field investigation of the business place and residence of applicant, co-applicant and guarantor is to be done by the sales person . Sales person is to have local inquiries about all the three type of persons and the sales person is also to take photos of the place of business and residence and also the assets (moveable & immovable), (in all the photo the sales/ investigating person should also appear as selfie) collect the information of the total earning members in the family, total income of the family. The entire information should be documented in the form of FI report duly signed by the sales/ investigating person and same should be kept in borrower's file/ record. In case of need raised by the credit manager A collection person or any designated person will also verify the FI report and will sign in confirmation of all the findings. Pre-sanction visits / verification are to be done by branch manager up to Rs. 7 Lacs proposal and above Rs. 7 Lacs by the Credit manager or by other designated officer (designated by credit manager) .
(b) Loan against property will be sanctioned by the authority as per delegated powers and that is up to Rs. 5 Lacs on the recommendation of Branch Manager and cases beyond Rs. 5 Lacs will be sanctioned by the delegated authority subject to the approval of deviation by the delegated authority in whose power the case comes.

- D. **Credit judgment** : Now the credit team will do the further step of processing,
 - a. **CIBIL & CERSAI Reports:** They will generate the CIBIL/CERSAI of the applicant as well as of the co- applicant and the guarantor. Report gets thoroughly scrutinized and checked and signed in token. If there is any overdue / NPA/ settled/ written off noticed in the cibil reports of (applicant, co-applicant or in the hirer), a justification is require from the sales executive of that particular lead, if the credit team is satisfy with the reason then only further processing is done and if the credit team is not satisfy with the justifications provided the loan gets cancelled.
 - b. **Valuation and Legal opinion and search:** Thereafter our sale executive gets the legal opinion and search report on the property / vehicle / product by empanelled advocates and valuation done by the registered valuer of that particular product i.e. vehicle or property (vehicle valuation only applicable in used vehicle loan cases).
 - c. **Hypothecation:** Hypothecation / charge status is get checked in RC, Insurance documents and property papers. If there is already a Hypothecation or charge is found recorded on the RC and ownership documents , cancellation of the same and NOC and FC are required.

- d. **Loan product documents:** Insurance, RC, Society patta, Lease deed from the local authority, Panchayat Patta. Validation of the expiry date of every document gets checked. In case if anyone is expired than customer required to get it renewed.
- e. **Income proof:** This includes salary slip, Income tax return, Balance Sheet, account statement/ pass book as well as soft copy of the same and confirmation of income from the market or nearby residents or any other justification of the same of the proposed customer.
- f. **SPDC/PDC:** Sales person also collects cheques from customer. One for signature verification, two cheques for Spdc (security postdated cheques) and some cheques for Emi presentation as per requirement.
- g. **Supporting Papers:** like bank statements and own house status verification documents are also required to be collected and assessed compulsorily and proper weightage should be given for own house customers. Rental status borrowers either should be avoided or taken some extra security to mitigate the risk of shifting to somewhere else after availing of loan.
- h. **Credit Approval Memo:** After the entire processing the sales person have to take the loan approval memo from approving authorities as per approval matrix regarding the loan amount.
- i. **Soft knowledge:** Collection person also does the soft knowledge by collecting information of the applicant from his neighbours and from the people in his/her society or in the area regarding his/her income, work profile status, residential status etc. to confirm the genuineness of the information provided by him.
- j. **Telephone verification:** Telephone verification done by the credit department to cross verify the information provided by the sales person, and to give the knowledge of the loan amount and Emi, tenure, interest rate and getting a confirmation from the customer.
- k. **Funding judgment:** Now the decision will be taken on the basis of repayment capacity of the applicant i.e. income ratio i.e. 50%-60% of net monthly income (i.e. out of monthly gross salary/ business / professional income the existing monthly deductions like PF, deductions for advances from the employer, existing EMI if any, any other deductions by the employer like TDS etc. is reduced and thereafter a 40% of gross salary amount is spared for family maintenance and thereafter the rest monthly income is considered for EMI of proposed loan. On the basis of this residual available amount or say EMI the quantum of loan is calculated on the basis of given rate of interest and available repayment period as per the age criteria.) is considered for EMI calculation to judge the loan eligibility). The other aspects to be considered are work profile, residential status like own house / rental house etc. is considered.
- l. **LTV:** The LTV of vehicle is to be kept up to 60% to 75% of valuation or Insurance declared value whichever is lower. In case of new vehicle LTV may be allowed up to 90% of ex-showroom price and in case commercial vehicle LTV may be taken 60-65%. In property loan LTV to be maintained is 50% of realizable value of the property.
- m. **Age of vehicle:** For private vehicles age criteria of vehicle is 15 year up to the completion of the proposed repayment period. For the commercial vehicle the age criteria is 20 years up to the proposed repayment period. While deciding the loan amount and rate of interest the age of vehicle is the main criteria which is to be taken care of.
- n. **Agreement:** if the customer agrees with the loan amount sanctioned, rate of interest offered and tenure of loan which is approved by credit manager/higher management the loan agreement and all other loan documents will be got signed/ executed from the customers i.e. applicant, co-applicant and guarantor as per policy of the company in this regard.
- o. **Deviation and check list:** If there is any deviation in the file from the established policy guidelines, than it is the duty of the sales person to complete /clear out all the deviations. Once all the deviation got fulfilled /cleared loan disbursement process starts.

p. CLI (**customer life insurance**): CLI of the applicant also gets done at the time of disbursement to ensure the full repayment of the loan in case of any mis-happening.

q. **Co-Lending Loan Files**: Where the co-lending is warranted the file is to be processed in usual course by both the lenders follow the established guidelines by us as well as by the co-lender and thereafter on finding everything as per norms the Co-lending will be done with the mutual consent and agreement with the co-lenders by executing the Co Lending Agreement and by deciding the modalities of the intt. Rate, sharing of loan amount and security and setting up the modalities of the repayment of EMIs by the borrower and also of recovery.

3. Gradation of Risk

Decision to give the loan as well as the rate of interest that is applicable to each loan account shall be assessed on the merits of case-to-case basis after assessing the involved risk aspects. According to multiple deciding key factors like repayment capacity, borrower profile, kind of asset that is being financed, past repayment track record if any, other financial commitments of the borrower, loan's tenure, security of loan as represented by underlying assets, payment's mode, loan-to-value ratio, the asset's end-use, geography/location of borrower etc. Rates of interest are subject to change as the condition warrants and are also subject to the management's discretion on risk assessment on the case-to-case basis.

The informed/ communicated rate of interest is the annualized rates so that borrower is aware of exact rates to be charged to loan account.

The Risk premium attached with a customer shall be assessed inter-alia based on the following factors:

- a) Profile and Market reputation of the borrower.
- b) Historical performance with regard timely repayment of installments of similar homogenous pools of borrowers.
- c) Profile, financial strength, experience in his line of activity , income generation /earnings of the borrower.
- d) Length of relationship with the borrower, repayment track record of existing borrower, credit history as revealed from available sources and as per market inquiry.
- e) Type of asset being financed, market report of the said assets about demand and supply and end use of the loan represented by the underlying asset.
- f) Nature and value and legal opinion and search aspect of primary and secondary collateral / security.
- g) Overall customer yield, repayment capacity based on cash flows and other financial commitments of the borrower, mode of payment.
- h) Offerings being given by the competitors in the local market.
- i) And any other factors that may be relevant in a particular case to case basis.

4. Disbursement:

A. After completing all the due actions on the file and deviation if any, file moves to operations department where operation department check the file for any deviations and ensure that all the parameters are fulfilled. They also do a formal TVR (Tele verification) with the applicant, co-applicant &

guarantor. At this time they communicate about loan, installments, term & other basic t&c to applicants to all related parties to avoid any miscommunication or false commitments and misunderstandings.

- B. After a successful TVR report files has been passed to accounts department for the payment.
- C. Now the payment is to be made to customer or dealer through NEFT/ RTGS/CHEQUE as requested by the customer or dealer against the proper acknowledgement. Loan product original papers have been collected for PDD formalities.

5. **PDD completion: PDD (RC, INSURANCE AND HYPOTHECATION):** After collecting vehicle’s original ownership documents or property papers the same have been submitted to concerned officers for transfer in favour of customer and the process of Hypothecation on the loan product get starts. Post updation of hypothecation in the name of company disbursement process starts. After all the hypothecation and PDD work got done it is to be release the part/full payment in customers account.

6. Details of Loan Products, Quantum of Loan, ROI and Tenure:

Loan Product	Loan Amount	Average Rate of interest	Tenure
Car Loan	25 Lakhs*	24%	5 Years
Commercial Vehicle	15 Lakhs*	24%	5 Years
Multi Utility Vehicle	20 Lakhs*	24%	5 Years
Mortgage based loans	25 Lakhs*	24%	7 Years

* It will require the approval from the top Management in case of deviations if any.

7. Operations Monitoring and Evaluation Framework:

In order to streamline the monitoring process and ensure adequate supervision, a monitoring and evaluation (M&E) framework has been developed to guide the managers in monitoring , follow up and proactively addressing the risk aspects. The monitoring framework is enclosed and has been designed as per roles and responsibilities of the respective employees at various levels of operational hierarchy keeping in mind the expected performance from them.

It will be the responsibility of the Supervisory staff to escalate the risky or potentially risky groups to the management for taking appropriate mitigating actions. Further, all supervisory as well as field staff are required to assist the Management by providing any developments and feedback from the field and provide support to the:

- 1. Internal audit team in conducting internal audit of the offices / branches.
- 2. HR and training team in recruitment, training and capacity building of the staff.
- 3. IT and systems team in effective information management systems.
- 4. Management in business and process planning.

8. Financial Monitoring and Management:

The organization being involved in the field of finance has very stringent policies and procedures to manage the finance program effectively to achieve the well thought targets and projections and to the best benefit of the investors and funders and the beneficiaries. Financial monitoring is done simultaneously with the financing activity and program monitoring so as to ensure that it is managed

according to the established policies and procedures for the organization to optimize the benefits and satisfaction of the customers, lenders and owners. Financial Monitoring is also done to ensure that the funds received are optimally utilized effectively and efficiently as per the RBI guidelines and as agreed upon in the loan agreements with the lenders.

The organization covers and mitigates the financial risk in broad aspects, where primary emphasis is given on monitoring of loan disbursement through tele-check as well as post disbursement monitoring and follow up at four levels (FO's, BMs, AM and Internal Audit). In addition to this, loan repayment schedules are provided to the clients which has pre-printed repayment schedule and accordingly the repayment made by the clients and the same are also monitored.

Further, the accuracy of this reports from branches become the major source of monitoring income and expenditure through supported documents. The organization has put limits on expenses to check any misuse of funds. The organization also keeps a close eye on cash flow (from and to branches) on regular basis to check and control any deviation and diversion of funds.

Financial Monitoring also involves ensuring timely repayments to lenders, timely submission of reports, monthly closing data of branch and checking for any problems where cash is being held for more than 3 days. If required, narrative explanations are asked from branches for having excessive cash balances with them on any particular day and any abnormality not matching their level of transactions.

Conclusion:

The credit policy and the risk control policy of the organization is to Efficient and effective credit delivery to build up quality and robust portfolio and provides the framework for making consistent and well informed credit and collection decisions which are compatible with the company's strategic objectives and goals of finance operations. It is to be ensured that the internal policies governing risk fields and factors are adhered to at all times within the overall motives and parameters.

The internal policies to be reviewed regularly in order to remain effective, compact , in matching with the business model, adequate and appropriate at all times. Senior management is responsible to

- a. Establish and implement internal policies, processes and procedures governing all risk aspects.
- b. Clearly communicate and monitor current compliances with internal policies and guidelines.
- c. Establish adequate systems that are able to identify, measure, monitor concentration risk if any in a timely manner.

Amendment

Any change in (future) the policy shall be approved by the Board of Directors of the Company. Any amendment in the regulatory guidelines shall prevail and necessary amendment shall be carried out at a subsequent date in the policy. The Board of Directors of the Company shall have the right to withdraw and / or amend any part of this policy or the entire policy, at any time, as it deems fit, or from time to time, subject to applicable law of RBI and other in force.