

CREDIT RISK POLICY

BEST CAPITAL SERVICES LIMITED

Registered Office:

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CIN NO: U67120RJ1995PLC009942.**

This Credit Risk Policy reviewed and approved in the Board meeting held on 01.04.2025.

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 are 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.

Portfolio Allocation:

While allocating the portfolio the endeavour 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 endeavour to achieve the portfolio levels as under at initial start level and that in percentage terms.

Vehicle Loans	-	50%
MSME and Mortgage Loans	-	50%

Delegations of loan sanction / deviation waiver powers:

- Loans up to Rs. 5 Lacs by Credit In charge.
- Loans up to Rs.3 Lakhs by Mr. Inder Singh (Regional Head) for Rajasthan locations for top-up loans (Sanctioned only after completing 1 year of tenor)
- Loans up to Rs.3 Lakhs by Mr. Parimal Pandya (Strategic Head) for Other than Rajasthan cases for top-up loans (Sanctioned only after completing 1 year of tenor)
- Loans above Rs. 5 Lacs by competent authority i.e. 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 Process of file includes multiple stages and done at different levels.
 - A. After getting a lead, our sales executive contacts the person and collects basic KYC, working information & understands requirements 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 through the same process and discuss the case at branch level with Branch Manager (BM) for initial approval.

- B. Subsequently BM connects with customer to verify all details on 2nd level. If customer agrees on basic terms and conditions like rate, LTV etc than his file is further processed for formal credit approval sub to pre-approval by BM in all cases. Simultaneously a valuation of property / vehicle is being conducted by certified valuer and report is being attached with proposal.
- C. Further upon reaching in credit department, a credit executive analyses the case and further forward proposal with his recommendation to Credit Manager who later decides on approval, rejection or conditional approval of the case.
- D. Upon approval of case file sanction letter and Kay Facts Statement are being given to customer for all loan terms and conditions. If all borrowing parties are agreed on these conditions then file is being completed by sales person with agreement signing, collecting cheques, processing e-mandates etc and submitted for checking and disbursement.

3. KYC and Age Limit:

- A. Photograph – Latest, coloured, clear & proper.
- B. 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.
- C. Office and Residence Address Proof – Aadhar Card, Driving License, Passport, Voter ID Card, Latest Electricity / Water Bill, Rent Deed etc. (or any other address proof Subject to acceptance of credit) and posting / transfer letter.
- D. 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 4 months.
- E. 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.

- 4. Field Investigation:** 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, (in all the photo the sales/ investigating person should also be presented). He will 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 for all loan applications of Rs. 5 Lacs and above. Credit Manager can also visit a case if required otherwise a credit PD will be entered by Credit Manager or Credit Executive.

5. Credit Judgment: Now the credit team will do the further step of processing considering different aspects.

- A. CIBIL analysis: They will check the CIBIL reports for credit history, present default, obligations, enquiries, delay payments etc. of all parties. Report gets thoroughly scrutinized. If there is any overdue / NPA/ settled/ written off noticed in the cibil reports of (applicant, co-applicant or the guarantor), a justification will be taken on that. if the credit team is satisfying with the reason, then only further processing is done and if the credit team is not satisfying with the justifications provided the loan gets cancelled.
- B. Income Assessment and verification of other details: During credit assessment credit-in-charge will also check income assessment, income verification details, FOIR, loan eligibility, LTV, etc.
- 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, POA, LSR, allotment letter, Lease deed from the local authority, Panchayat Patta etc. 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 costumer.
- F. NACH: No NACH are to be collected from the customer for EMI or any default payments and the NACH and/ or electronic fund transfer mandate/ instructions are to be obtained from the customers in terms of RBI guidelines vide Master direction 2016 para 76 of chapter VIII.
- 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 (on required case).
- 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: This decision will be taken on the basis of different aspects like repayment capacity i.e. income ratio, asset valuation, past credit history etc. The other aspects to be considered are work profile, residential status like own house / rental house, job stability, residential stability etc. Loan eligibility calculation will be based on net income of borrower(s), existing fixed obligations, proposed loan EMI. Loan eligibility will be assessed in each case. Permissible FOIR will be 50% if net income is Up to 1 lakh / month, 60% if net income is between 1-2 lakhs / month and for cases with income above 2 lakhs it will be allowed at 70%.

$$FOIR = (Total Monthly Fixed Obligations / Net Monthly Income) \times 100$$

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).

- L. **LTV:** Loan to value ratio is very important aspect of credit. Keeping it low can increase safeguard of loan amount. It is decided as per product, existing portfolio performance and also considering market scenario. LTV on certain product can be increased based on their local market presence or customer's credit history on discretion of Credit-In-Charge.

<u>Product</u>	<u>Maximum allowed LTV</u>
Car Loan (New and Used)	90% of ex-showroom price or valuation
Property Loan	50% of valuation
Heavy commercial Vehicles	80% of ex-showroom price or 70% of valuation
Light Commercial Vehicles	90% of ex-showroom price or 85% of valuation
Passenger Vehicles	85% of ex-showroom price or 80% of valuation
Multi Utility Vehicle	85% of ex-showroom price or 80% of valuation

- M. **Age of Vehicle:** The age of vehicle is very important criteria which is to be taken care of. Below is the vehicle age mentioned for funding on vehicles sub to validity of registration period. A loan will be sanctioned for tenor not exceeding below vehicle age limits or registration validity. For Some particular vehicle model's deviation can be accepted for higher vehicle age based on local area demand, low LTV or customer's credit history.

<u>Product</u>	<u>Age of Vehicle</u>
Private Car	15 years
Heavy Commercial Vehicle	10 years
Commercial Car	10 years
Light Commercial Vehicle	15 years
Passenger Vehicles	10 years
Multi Utility Vehicle	15 years

- 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. **Deviations and Check List:** If there is any deviation in the file from the established policy guidelines, then 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. **Add on Insurances:** Credit Life Insurance in case of death, EMI protection cover in case of hospitalisation and property insurance are also offered to customers for their safeguard against different difficulties.
- 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 interest Rate, sharing of loan amount and security and setting up the modalities of the repayment of EMIs by the borrower and also of recovery.

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 instalments 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.

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.
- B. 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.

PDD completion: PDD (RC, Insurance and Hypothecation): After collecting vehicle's original ownership documents 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. After all the hypothecation and PDD work got done it is to be release the part/full payment in customers account.

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

Loan Product	Loan Amount	Avg. Rate of interest	Tenure
Car Loan	25 Lakhs	20% to 26%	5 Years
Commercial Vehicle	25 Lakhs	20% to 26%	5 Years

Multi Utility Vehicle	25 Lakhs	20% to 26%	5 Years
Mortgage based loans	25 Lakhs	20% to 26%	7 Years

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.

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, BM/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.