



## Avanti Microfinance Private Limited

# Credit Risk Management Policy

This document was:

<b>Version</b>	<b>Drafted by</b>	<b>Reviewed by</b>	<b>Board approval and adoption date</b>
Version 1	-	Mr. Manish Thakkar, Director	October 30, 2017
Version 2	Mr. Nagaraj Subrahmanyam, Director	Mr. Rahul Gupta, Director	September 30, 2022
Version 3	Mr. Nagaraj Subrahmanyam, Director	Mr. Rahul Gupta, Director	March 13, 2023
Version 4	Mr. Nagaraj Subrahmanyam, Director	Mr. Rahul Gupta, Director	December 16, 2024

Document Classification: **Public**

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## **1. Introduction**

Avanti Microfinance Private Limited (hereinafter referred to as 'the Company') has framed the Credit risk Management policy (hereinafter referred to as "Policy") to set out the guidelines, principles and approach to manage credit risks for the Company and put in place a framework to identify, assess, measure, monitor and control credit risks in a timely and effective manner.

## **2. Objectives of the Policy**

The key objectives of the Policy are as under:

The Policy has been designed to achieve the following key objectives:

- (i) Establish a governance framework to ensure an effective oversight, segregation of duties, monitoring and management of credit risk in the Company.
- (ii) Lay down guiding principles for setting up & monitoring of the credit risk appetite & limits.
- (iii) Establish standards to facilitate effective identification and assessment of credit risks in the Company enabled by the internal credit scoring framework.
- (iv) Establish standards for effective measurement and monitoring of credit risk.
- (v) Achieve a well-diversified portfolio enabled by concentration risk management and maintaining credit risk exposures within established credit limits.
- (vi) Establish principles for credit risk stress testing for securitisation arrangement and portfolio purchased by the company.
- (vii) Enable monitoring of credit risk by way of Early Warning Signals (EWS).
- (viii) Adhere to the guidelines/policies related to credit risk management, as issued by the Reserve Bank of India (RBI) from time to time.

## **3. Scope**

This aims at outlining the Company's credit risk management framework and establishing the guidelines for offering the products i.e. Line of Credit, Personal Loan and Farmer Financing products for credit risk mitigation purposes.

The Company will also have its own benchmark rate which shall be determined on the basis of considering the average cost of funds including administrative cost and average return on net worth which the risk management committee/department and finance department will determine / review on quarterly basis.

#### **4. Credit Risk Governance Framework**

The credit risk governance framework establishes the responsibility and approach through which the Board of Directors and the management functions (i.e., Business, Risk, Internal Audit functions) of the Company govern credit risk management issues. An effective governance framework ensures the independence of the credit risk function (i.e., risk managing function) from the business function (i.e., risk taking function). Through an effective Board-approved credit risk governance framework, the Company seeks to ensure adequate risk oversight, monitoring and control of credit risks.

The Company has set out the following governance structure and corresponding roles and responsibilities for the effective management of credit risk.

##### **4.1. Governance Structure**

The credit risk governance framework is designed with consideration to the following key principles:

- (i) Risk Management department will take the risk, manage the risk, will do the risk reporting and analysis, and will be responsible for implementing corrective actions to address process and control deficiencies. Board of Directors will provide policy guidance and recommendations.
- (ii) Risk Management Department shall retain accountability for managing the credit risks.
- (iii) The governance structure shall promote transparency, accountability, communication and flow of information.
- (iv) The Board would be responsible for firm-wide credit risk management.
- (v) Senior management understands all the products / activities of the Company giving rise to credit risk and understands the basis of the credit risk management framework.
- (vi) The Company has staff with sufficient expertise and appropriate skill sets to perform risk management tasks and is supported by appropriate tools and technology.
- (vii) All material credit risks are identified and measured, exposures are aggregated and management attends to the risky exposures.

Based on the above guiding principles, the credit risk governance framework of the Company comprises of the following:

- (a) Board of Directors (“BoD”)
- (b) Risk Management Committee (“RMC”)

#### **4.2. Board of Directors**

The Board of Directors (“Board”) of the Company is responsible for providing oversight for overall credit risk management at the Company. The key responsibilities of the Board relating to credit risk management include:

- (i) Approving and periodically reviewing the business and credit risk management strategy and the credit risk appetite.
- (ii) Approving the credit risk management policy and framework as required.
- (iii) Ensuring the establishment of a robust credit risk management culture by delegating responsibilities for key decision making and controls to appropriate management authorities.
- (iv) Assessing the adequacy of capital needed to support business activities undertaken by the Company.
- (v) Provide adequate supervision for the decisions taken by the delegated authority.

#### **4.3. Risk Management Committee**

The Risk Management Committee (“RMC”), administered and complied at the consolidated group level by Avanti Finance Private Limited, the holding company is a committee of the Board. The key responsibilities of the Risk Management Committee relating to credit risk management include:

- (i) Ensure implementation of credit risk policy and strategy approved by the Board.
- (ii) Monitor quality of loan portfolio at periodic intervals, identifying problem areas and issuing directions for rectifying deficiencies.
- (iii) Monitor credit risks on the Company-wide basis and ensuring compliance with the approved risk parameters/ prudential limits and monitor risk concentrations including geographic exposures as per Credit Concentration Risk norms;
- (iv) Incorporate regulatory compliance in the Company’s policies and guidelines in regard to credit risk;
- (v) Review the use of internal risk rating systems for business and risk management purposes and placing recommendations before the Board;
- (vi) Bring to the attention of Board material issues for information / recommendation / approval; and

- (vii) Review and approve the credit risk stress testing scenarios, results and analysis.

## **5. Products**

The Company intends to offer following products to customer including but not limited to:

- (i) Term Loans for meeting working capital / project funding to organisations
- (ii) Individual loans, specifically:
  - (a) Livelihood Loans
  - (b) Microfinance Loans
  - (c) Agriculture and Livestock Loans
  - (d) Personal Loans
  - (e) Medical, education and Emergency Loans

## **6. Portfolio Monitoring**

### **6.1 Portfolio Trigger**

- (a) This will be managed and monitored by Risk Management Department.
- (b) Trigger will be implemented based on criteria such as Delinquency at a partner level exceeds 5% of the total loan disbursed and other criteria as defined by the Risk Management department.

### **6.2 Process of visiting delinquent customers**

- (i) Delinquent customers are visited as part of the regular monitoring and the reasons for delinquency is evaluated.
- (ii) After visits, reports are submitted to the Risk team in standard format and concluded within 15 working days.

## **7. Policy Review and Updates**

This Policy represents the minimum standards for credit risk management and is not a substitute for experience, common sense and good judgment. Given that the Credit Risk Management Policy is to be flexible and responsive to changing market and regulatory conditions, it will be reviewed by the Chief Risk Officer (CRO) of holding company, from time to time and any revisions will be updated at least annually or as necessary. In the event that clarification on interpretation is required, consultation must

first be sought from the risk function.

The Policy shall be approved by the Board of Directors and put up for review to the Risk Management Committee at least annually.

## **8. Regulatory References**

Master Direction- Reserve Bank of India (Non-Banking Financial Company- Scale Based Regulation) Directions, 2023.

## **9. Key Definitions**

- (i) **Credit Risk:** Credit risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In the Company's portfolio, losses stem from outright default due to inability or unwillingness of a borrower to meet commitments in relation to settlement.
- (ii) **Borrower:** Borrower is defined as any entity or individual that the Company has credit exposure to.
- (iii) **Exposure:** Exposure will include credit exposure to partners or organizations (B2B loans). The sanctioned limits or outstanding to partners or organizations (B2B loans), whichever are higher, shall be reckoned for arriving at the exposure limit.
- (iv) **Credit Score:** Credit score is a numeric value derived using product-specific scorecards (generally referred to as credit scorecards), that determine the riskiness of a borrower application for a particular asset product. The credit score generally considers credit history, income characteristics, borrower capacity to pay as well as product-specific characteristics. The score cards wherever used, will be developed, validated and approved by designated authorities and assignment of scores to credit applicants/loan accounts will be automated.
- (v) **Credit Concentration Risk:** Risk concentration refers to the risk that any single exposure or group of correlated exposures (within the same activity / industry / geography / any other segment) which may potentially produce losses large enough (relative to the Company's capital, total assets, or overall risk level) to threaten Company's health or ability to maintain its core operations. To mitigate these risks, there are state-wise exposure limits based on a percentage to the total loans given by the Company and others as may be decided by the company.
- (vi) **Early Warning Signals:** Early warning signals help in early identification and reporting of problem accounts and is the first step towards containing slippages and minimising the risk of loss. Borrowers could be identified as weak on the occurrence of various triggers relating to performance on existing loan account or any other factors that may negatively affect the repayment behaviour of the borrower.

## **10. Policy Review and Updates**

The implementation of this Policy shall be monitored and reviewed periodically by the Board of the Company.

This revised Policy comes into effect from date of approval of the Board.