

DHARA MOTOR FINANCE LIMITED

RISK MANAGEMENT POLICY FOR THE F.Y 2025-26

Policy reviewed and framed as under:

Non-Banking Financial companies (NBFCs) form an integral part of the Indian financial system. NBFCs are required to ensure that a proper policy framework on Risk Management Systems with the approval of the Board is formulated and put in place. This policy document has been prepared in line with the latest RBI guidelines.

BACKGROUND

The current Risk Management Policy of the Company had become overdue for revision considering the changing business environment, increasing impact of various internal and external risk factors, expectations of the various stakeholders. Moreover, the phenomenal business growth, regulatory directives / surveillance and increasing competition have brought an added focus on the risk management practices followed by the Company. This led the Company to revise its directions on Risk Management practices and accordingly, the Board of the Company led by its MD & Directors decided to adopt a Risk Management has revise risk management practices.

GENERAL PROVISIONS

This Policy represents the basic standards of Risk Assessment to be followed by the company. Changes in the Policy will become effective upon approval by the Board of Directors of the Company. All relevant employees must be thoroughly familiar or made familiar with it and make use of the material contained in this Policy.

RISK MANAGEMENT

Risk management is a business facilitator by making more informed decision with balanced risk-reward paradigm. The Company shall follow a disciplined risk management process and has been taking prudent business decisions, ensuring growth and balancing approach on risk reward matrix.

Having recognized the “conventional” approach of ‘structured risk management practices’ would be bedrock on which the higher-level approaches can function effectively and given the fact that the Company has already adopted to follow the BASEL GUIDELINES in managing its risks, DMFL will continue this approach to the ‘conventional risk management’ practice. Traditionally, risks of an organization have been classified into the broad categories of

- Credit Risks
- Market Risks
- Operational Risks.

DMFL has a 4th Category called “Other Risks” which typically includes those not categorized into the above 3 buckets but are recognized as significant enough to be managed in a structured manner.

The following are the guidelines on what these risks are, and how DMFL will manage them.

Credit Risk

Definition

A risk of loss due to failure of a borrower/counterparty to meet the contractual obligation of repaying his debt as per the agreed terms, is commonly known as risk of default.

Current Status and Vision for Way Forward

Current Status:

Credit risk – for DMFL’s core-business of Asset Finance– is perceived to be relatively lower due to the fully secured nature of loans. While it is primarily a “fully secured” proposition, it is also recognized that risk is inherent due to the criticality of the value of collateral. The degree of comfort will depend on the Loan to Value at which loan is sanctioned.

Asset loans are granted for a tenor of 1 to 4 years which is both short term and long term. Interest rates to be charged on the Asset loans are fixed from time to time based on the overall cost of borrowings / funds from the various funding sources inter alia.

Way Forward:

However, with ambitious goals to achieve and with a vastly diversified portfolio (which proposes to include both secured- and un-secured lending under the Micro, Small & Medium Segment (MSME), Retail and Commercial Loans for Vehicles, Personal Consumption, etc) that is envisaged it is imperative that the risks are managed by introducing stringent credit purveyance processes that encompass the entire gamut of the Credit Lifecycle as follows: –

- sourcing of the right clientele,
- structuring of products that would suit the selected markets / geographical- and demographical-profiles,
- credit assessment processes including adoption of structured score-cards for decision making and adoption of external ratings for assessment of borrower-ratings,
- credit administration processes that match the best in the industry,
- Credit recovery strategies and processes that ensure minimal losses to the company while ensuring borrower rights are always honoured, through the strengthening of the credit risk management team.

Credit Risk – Objective

The objective of credit risk management is to ensure the overall health of the credit portfolio through an evaluation of the credit process, creditworthiness of each customer, new or existing, assessment of the risks involved and ensuring a measured approach to address the risks. Credit risk in Asset loans is managed through a strong dual combination of collateral valuation and timely action on non-performance of the loan arrangement.

Credit risk management for all segments will include a continuous review of the existing controls and monitoring of the systems for identification and mitigation of the various risk factors.

Risk Mitigation

- Credit risk shall be managed using a set of credit norms and policies. The Company shall have defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by authorized persons.
- There shall be a structured and standardized credit approval process to ascertain the credit worthiness of the borrower.
- The Company shall develop internal evaluation team to make credit decisions more robust and in line to manage collateral risk.
- The Company shall follow a process of time-to-time revisiting the credit policy and processes, on the basis of experience and feedback.
- The Company shall decrease LTV in view of the default rate in the different segment of the credit area.
- The Company shall develop internal evaluation process to diversify the business of the company from one segment to other segment on the basis of market conditions.
- As a contingency plan the Company shall maintain sufficient approved but un- drawn credit lines on a continuous basis as buffer to manage eventuality of liquidity constraints. The Company shall be compliant in terms of regulatory norms and therefore shall effectively manage regulatory risk. Effective Customer redressal mechanism and fair practices shall keep legal risk under control. The Company shall have processes in place, to manage the risk of fraud and the suspected frauds are reported, wherever necessary.

Credit Delinquency monitoring mechanism

a) Pre Sanction Appraisal

The Enquiry Form is filled by the sales executive and all other details & documentation including KYC document are collected by the executive. Thereafter the online verification of the KYC documents is done. If it is ok then Credit report of CIC's is checked and obtained. The loan proposal is sent to the F.I Manager for his field investigation. After the F.I & Market report if it is found that the party is competent to run the project and same is found viable to generate sufficient income to repay the loan and loan is fully secured then the F.I Manager forward the proposal for CAM approval. After the CAM (Credit Approval Memorandum) preparation, the proposal is then put up before the Credit committee and after the approval of Credit committee the proposal is forwarded to the respective Branch Manager for disbursement of the Loan subject to the terms & condition of the sanction.

b) Post Sanction Appraisal

The post sanction appraisal is done by the Audit & Inspection section of the Company comprising of Chief Financial Officer & Company Secretary. After the loan sanction the file is put up to the Audit & Inspection committee and the documents are checked thoroughly by the CFO, CS, & law officer/documents vetting officer. In case any shortcoming is noticed in the loan documentation the same is brought in the notice of the concerned BM/RM and Credit committee so as to ensure that the same is completed/ removed within week time.

RISK ASSESSMENT OF BORROWERS

It is generally recognized that certain borrowers may be of a higher or lower risk category depending on the customer's background, type of business, our references, borrowers net worth and the ability to refund and pay interest etc. As such, the principal officer shall apply to each of the customers due diligence measures on a risk-sensitive basis and shall divide the same in three categories HIGH MEDIUM and LOW which shall be reviewed every year. Initially all the new clients are to be marked as high – risk category, however, they may be subsequently recategorised depending on their performance based on our own experiences. The basic principle enshrined in this approach is that the concerned persons should adopt an enhanced customer due diligence process for higher risk customers. Conversely, a simplified customer due diligence process may be adopted for lower risk categories of customers. In line with risk based approach, the type and amount of information and documents shall vary depending on the risk category of a particular borrower and should be collected from the client. The beneficial owners working should be done for all corporate clients and background check of all directors. In case of a borrower who subsequently has turned out to be a Politically Exposed person, proper risk management system should be put in place to determine the beneficial ownership from such clients or potential clients. Once we are privy to such publicly available information or the commercial electronic database of PEPs, we should seek additional relevant information from such client pertaining to ownership issues and other risks associated with such persons and take call whether such exposure to him or his company we should continue or terminate the relationship after giving notice in advance. As a policy without concurrence of top management, no such identified PEP account is to be granted the loan. Suspicion of ML/FT activities or other factors give rise to belief that the client does not fall under the low risk category, and the risk perception shall accordingly be changed. And also adherence of RB1/2023-24/85 DOR.STR.REC.57/21.06.001/2023-24 circular dated November 16, 2023. regarding regulatory measures towards consumer credit and bank credit to NBFCs increase of risk weight from 100% to 125% in case of consumer credit portfolio (unsecured consumer credit exposure).

Maximum Exposure to single customer:

DMFL will not extend credit to a single customer for more than 10% of NOF as on the opening of the current financial year. For example NOF as at 01.04.2024 is Rs 6480 lacs and therefore DMFL will not extend loan to any customer exceeding Rs.648 lacs.

Management take a conscious call before starting any business activity in a new area. Before venturing out in new city, DMFL posts a representative to this area for at least six months to evaluate the ground realities, customs & practices of auto financing, trade potential etc. After six

months, Management take a final call to expand the operations or wind up the business in that area.

Market Risk

Definition

Market Risk is defined as the risks arising from movements in interest rates on the overall business of the company.

Liquidity Risks

Adverse movements in interest rates could possibly pose a risk to the ability to raise funds for managing liquidity gaps.

Responsibility& Risk Mitigation

The Asset Liability Management Committee (ALCO) of DMFL and the risk management committee will closely monitor any mismatch positions and the macro-environment to consider all indicators of risks, to plan and advise suitable action.

Operational Risk

While most organizations spend their resources in managing Credit Risk, often it is the Operational Risk which needs to be managed most carefully, dimensioned and reviewed diligently. Very often operational Risks are bigger than Credit Risks, market risk and can deplete Net Worth/Capital very quickly. The activities which DMFL shall undertake, exposes it to various types of Operational Risks and hence DMFL is required to establish a robust operational risk management system.

Any eventuality arising from the act relating to people, technology, infrastructure and external factors, which can give rise to some type of loss in the organisation, is termed as Operational Risk. Majorly it is internal and unknown. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage Operational risk.

Some examples of Operational Risks are as follows:

- **EMPLOYMENT BEHAVIOUR/CONDUCT:** Employee Frauds /High Attritions
- **INFRASTRUCTURE RELATED:** Security Breaches leading to Theft / Damage to Physical Assets
- **INFORMATION SECURITY:** Data Leakages
- **INFORMATION TECHNOLOGY:** System Downtime / Access Controls / Capacity failures
- **VENDOR MANAGEMENT:** Non-Performance / Un Trained Personnel / SLA shortfalls
- **COMPLIANCE RISKS:** Regulatory / Legal / Internal Guidelines

Other Operational Risk Elements

Outsourcing of Activities

Non-core functions may be outsourced to reputed and approved agencies eg. Vehicle repo-agencies etc. which specialize in the activity concerned on the premise that these agencies would perform the tasks more efficiently with or without cost reduction. Due diligence on the agencies will be ensured. Materiality of outsourcing contracts will be assessed as per RBI Guidelines and the management of the same will be as prescribed by RBI at all times.

Business Continuity Management

Businesses can face interruptions at any time, for any reason. These interruptions hamper the ability of the businesses to deliver the committed levels of deliverables to its constituents, particularly its customers. In today's 24x7x365 world, with increasing growth of the electronic and mobile delivery options (services) and their usages, it is now incumbent on us to ensure that there is a structured approach to manage such interruptions, through proper Business Continuity Management Systems, that include the Business Continuity and Disaster Management Plans and Processes. These processes should be detailed in the BCP Policy and Procedures Framework of the Company. The BCP Policy and Procedures Framework shall be reviewed (and revised as may be appropriate and necessary) from time to time.

Information Technology Risk

- a) General: The Company has adopted fully computerized environment for conducting its business operations. Considering the emerging challenges and business requirements the responsibility for managing the IT platform has been entrusted to a reputed company – Natural support software ltd. Which manages the IT services. The Company will adopt a Comprehensive IT Policy encompassing acceptability of various usages, asset management, applications management, infrastructure management and IT security. Some of the important risk related issues in IT are listed hereunder.
- b) Disaster Recovery: Data Centre (DC) & Disaster Recovery Centre (DR): The DC will be located in the Company's Head Office and the DR is located in the E-8 Geeta Nagri Bijnor, Uttar Pradesh, presently.
- c) Data Transmission / Communication Lines / Power Supply: Redundancy of leased lines / broadband for data transmissions provided at DC, DR and branches also between DC and DR. The adequacy of the bandwidth of the leased line / broadband will be reviewed periodically and upgraded as per needed. Uninterruptible power supply (UPS) will be ensured at all offices.
- d) Data storage and access: The Database server gets updated online. Only authorized personnel will have access to the database. The Scope to tamper or alter the database will be eliminated through controls. Access to data / applications will be on a 'need-to-know' basis. Transaction rights will be conferred only on those requiring it by virtue of the nature of their duties.

- e) IT Security: A secured system of access control, both on-site and remote, including password management and secrecy will be in place and reviewed periodically. Suitable anti-virus software will be loaded in the central server and at all user points and updated regularly. A regular 'system audit' will be conducted to cover both hardware and software and the irregularities immediately addressed.
- i) IT Services Management (Helpdesk): An efficient system to report and manage IT incidents and problems will be in place across the network of offices.
- j) Responsibility: The overall responsibility for managing and monitoring the IT related risks will lie with the Head of the IT Dept. A suitable 'service level agreement' between IT Dept. and Business Units will be defined and implemented.

Regulatory / Compliance Risk

a) General: The Company is an NBFC coming under the regulatory purview of the Reserve Bank of India, and Ministry of Corporate Affairs. In addition, the Company is also required to comply with various central, state and commercial laws applicable in the conduct of the various activities of the business. Rising numbers and expectations of stakeholders, growth in the business of NBFCs, increasing dependency on non-equity sources of funding and some 'Corporate' frauds have increased the regulatory gaze, increased the complexity of the regulations and sometimes necessitate investments / costs.

b) Meeting with compliance requirements: The Company recognizes that the regulatory landscape is under periodical review and this requires the Company to be proactively prepared, as best as possible, to meet with the challenges posed by the changes. The Company will respond effectively and competitively to regulatory changes, maintain appropriate relationship with the regulators / authorities strengthen the reliance on capital and improve the quality of in-house compliance. All reports, returns and disclosures stemming from regulations will be submitted promptly and accurately to reflect the correct position. Business processes will be defined in a manner to ensure comprehensive regulatory compliance considering the multitude of regulatory agencies the Company has to deal with.

c) Responsibility: Competent and knowledgeable specialist officers will be recruited to ensure compliance. The responsibility for ensuring compliance with regulatory requirements and directives on a day to day basis will rest with the departmental Heads.

Reputational Risk:

a) General: Reputation risk is the loss caused to the Company due to its image or standing being tarnished by certain incidents or actions arising from its business operations. Such incidents or actions may be attributable to the Company or any employee(s) or executive(s) committed either consciously or otherwise. Reputation risk could result in loss of revenues, diminished shareholder value and could even result in bankruptcy in extreme situations. Reputation loss can be caused by mere negative perceptions and could occur even if the Company is actually not at fault. Reputation risk is considered even more threatening to Company value as compared to say credit risk. In fact, good reputation is an intangible asset like goodwill. The Company recognizes that while reputation is built over years it

can get blotted in a flash. The Company, therefore, considers protecting its reputation of paramount importance.

b) Causes: Some common examples of actions resulting in fall in reputation are grossly incorrect financial statements, deliberate dishonest actions of employees especially those in senior management, recruitment of persons without proper screening process, frequent serious and/or large value frauds, window dressing of business position, data security breaches, violation of customer secrecy, dealing with criminals and extending loans for unlawful activities, poor security arrangements, obsolete system / procedures / practices, dealing with vendors having bad reputation, adopting illegal or unethical business practices, evasion of taxes, charging exorbitant interest rates, dishonouring commitments etc.

c) Mitigation: Risks to the Company's reputation will be addressed by:

- i. Instituting a strong risk management system including fraud prevention and creating a culture of risk awareness across the organization.
- ii. A commitment to transparency, morality and accuracy in operations including the correctness of financial statements for public use.
- iii. Maintaining a robust and effective communication channel across the organization including all stakeholders such as Directors, Shareholders, Regulators, Lenders, Customers, Employees, Vendors etc.
- iv. Encouraging and rewarding ethical behaviour amongst employees. Ensuring immediate but fair action against employees indulging in unethical action or behaviour.
- v. Ensuring prompt compliance with regulatory directives and other laws both in letter and spirit.
- vi. Institutionalising customer service excellence supplemented with an efficient complaint redressal mechanism.
- vii. Constituting a 'crisis management team' to address sudden and unanticipated events.
- viii. Maintaining effective liaison with media and issuing prompt clarifications or rebuttals to negative reports.

d) Responsibility: The responsibility for protecting the reputation of the Company and taking steps to enhance the Company's standing will lie across all functionaries in the organization which will be regularly overseen by the concerned officer and reviewed by the Top Management.

Risk Management Committee (RMC):

Composition of the RMC

The RMC is the body responsible for the management of Risks in the Organization and it manages the same through oversight of the risk management function of the Company, and through approval of the various policies and processes of the Company.

The composition of the RMC shall be as under:

The RMC shall comprise of minimum 3 directors and shall include:

- i) Managing Director
- ii) One Independent Director

Company Secretary shall be Secretary of the RMC. RMC shall always be chaired by chairman of the committee. The Chairman and members of the RMC will be approved by the Board of Directors.

Frequency of Meeting

The RMC shall meet at least once in a half year- and at least 2 times in a financial year

Roles and Responsibilities of the RMC

The key responsibilities of the Risk Management Committee (RMC) include:

1. Approve / recommend to the Board for its approval / review of the policies, strategies and associated frameworks for the management of risk
2. Approve the risk appetite and any revisions to it
3. Sub-delegate its powers and discretions to executives of DMFL, with or without power to delegate further.
4. Ensure appropriate risk organisation structure with authority and responsibility clearly defined, adequate staffing, and the independence of Risk Management functions
5. Provide appropriate and prompt reporting to the Board of Directors in order to fulfil the oversight responsibilities of the Board of Directors

BOARD OF DIRECTORS MEETINGS AND REVIEW

The Board of Directors or their committee will oversee the implementation of the system and review its functioning periodically.

For and on behalf of the board of Directors

Gajendra Singh
Managing Director

Ghanshyam Singh Chauhan
Executive Director