ELECTRONICA FINANCE LIMITED

POLICY ON RESOURCE PLANNING

Version Control

Document version	Description of changes	Memorandum of change	Prepared by / Changed by	Proposed by	Owner Dept.	Approval Date
1.0	First	Introduction of Policy	Treasury Team	Treasury Head	Treasury	May 22, 2025

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1. Introduction

As the average tenure of our entire loan portfolio which is machine centric/concentrated is 4-5 years and our borrowings have similar tenure of 4-5 years, we have a very positive Asset Liability gap. As EFL has diversified into other product especially Micro LAP having longer maturity, this advantage can be gradually diminished if the borrowing tenure is not matched against the tenure of product offering. The revised policy aims to document EFL's resource raising plans, mix of funds etc.

2. Scope of the policy

Guidance on:

- Long term funds in the mix of resources.
- Mix of instruments viz Bank loans, ECBs, Loans from Financial Institutions, Non – Convertible debentures, subordinated debt etc.
- Off-BS for PSL - Securitisation/DA and co-lending
- Short term funds in the mix of resources (i.e. CC/WCDL/CP)

3. Long term resources:

3.1 Retained Earnings.

EFL has been retaining back its profits to maintain capital adequacy ratio above the regulatory minimum ratio and to maintain low leverages. EFL shall continue the practice in future of largely retaining the yearly profits with limited or no distribution of dividend.

3.2 Term loans / PTC from banks and other Financial Institutions.

EFL has been raising significant funding through term loans from public, private sector banks and financial institutions like Nabsamrudhi, Nabkisan etc. and larger NBFC's. EFL has been treating funds raised with maturity profile of more than 12 months as funds from long term resources. EFL shall continue to avail term loans from these institutions with maturities ranging from more than 1 year and upto 7-8 years or above if required as per maturity profile of asset.

EFL can also raise funds through Pass through certificate (PTC) wherein a SPV / Trust (Special Purpose Vehicle) is created for holding the pool and the investor can subscribe the units of the SPV secured through credit enhancement and over collateralisation.

3.3 External Commercial Borrowings (ECB) and Foreign Currency Denominated loans.

Under the External Commercial Framework of RBI, eligible borrowers (includes NBFCs also) can raise ECB under automatic route, subject to certain conditions. The facility denominated in foreign currencies can be in the form of loans, bonds and debentures. As per the regulations, minimum weighted average maturity period (WAMP) shall be 3 years (or revised as per RBI) and all – in cost shall not exceed Benchmark rate plus the spread defined under the RBI Master Directions on ECB from time to time.

In order to diversify sources of funds and to reduce cost of funds, EFL may avail of ECBs, subject to the following conditions.

a. The facility shall be hedged as per the regulatory guidelines prescribed by RBI
b. All in cost shall be within the regulatory prescribed maximum.

EFL may also avail of fully hedged foreign currency loans from Banks in India if the all-inclusive cost will be comparable to the rupee borrowings.

3.4 Issue of Debt Securities.

To strengthen the long-term funds, EFL based on its business requirements and market conditions may issue debt securities, as given below:

a. Public issue of Rated Secured / unsecured Non-Convertible Debentures (NCDs)
b. Private placement of NCDs
c. Public / private placement of Tier II/subordinated debt.

3.4.1 Public issue of NCDs

The company may subject to the compliance with the applicable provisions of laws and regulations may issue Secured / Unsecured Non-Convertible Debentures with maturity period of 12 months and above (NCDs/Bonds) at such intervals by way of public issue at such coupon rates as the company think fit from time to time and shall be listed in one or more recognized stock exchanges in India. The frequency of the issue may be decided by the Board / Committee of the Board from time to time depending on the business environment, market conditions and regulatory provisions in this behalf. EFL shall not extend any loans against the NCDs issued by it.

3.4.2 Private Placement of NCDs

In accordance with applicable rules and regulations, the Company may issue NCDs through the private placement route from Banks, MFs, Insurance companies, or any other qualified investor. The minimum NCD tenor should be one year or more, with coupon rates that may occasionally deem appropriate. It may also be listed or unlisted as per the applicable law. The Board or a Committee of the Board may periodically determine the issue's frequency based on the business scenario, the capital market trend, and applicable laws.

3.4.3 Subordinated debt instruments ranking for Tier II Capital.

EFL for meeting its capital requirements or contingency funding may issue unsecured subordinated debt instruments in the form of hybrid or plain vanilla debentures and preference shares. These instruments shall be fully paid up and subordinated to the claims of other creditors and free from restrictive clauses and are not redeemable at the instance of the holder or without the consent of the regulator.

These debt instruments shall be issued for period longer than 5 years and shall be eligible for classifying under Tier II Capital. These instruments may be issued to such class or category of investors as the Board / Committee decides.

3.5 Sale of assets through securitization / Direct Assignment or co-lending.

EFL has large share of book classifying as ‘Priority Sector Loan (PSL) – MSME’ which is good attracting point for Banks to buy the portfolio through DA/co-lending. Though Business Model of EFL is “Hold to maturity” of its financial assets, as ancillary to it main objective may raise funds through sale of assets through securitization / Direct Assignment and it can be direct back-to-back funding for the remaining tenure of the loan asset.

4. Short term resources

Facilities with maturity up to 12 months shall be treated as short term resources. The main sources of such funds are cash credit facilities, short term loans / Working Capital Demand Loans from Banks and Commercial papers (CP) or Corporate Deposit (CD). Depending on the ALM requirements the company may borrow funds from banks and other financial institutions / corporates from time to time and continue to issue short term instruments with maturity ranging from one month to 12 months. EFL should endeavour to maintain emergency line in form of cash credit limit to be utilised in case of delay/deferral in long-term funding.

As per the Guidelines on Loan System for Delivery of Bank Credit, EFL need avail 60% of the Cash Credit facilities from banks as working capital loan if the cash credit limit with banks is Rs.150+Cr. EFL shall explore the possibility of availing the working capital loan component for longer periods. (more than 12 months).

5. Mix of resources

The Company's funding sources are structured to ensure diversification and avoid dependency on any single source. The ideal mix of resources includes:

- **Bank and Financial Institution Funding (Domestic/Foreign): 70% to 85%**
- **Market Instruments (e.g., NCDs/ECBs): 10% to 30%**
- **Short-Term Instruments (e.g., Commercial Paper, Cash Credit and WCDL): 3% to 10%**

Additionally, off-book transactions, including Direct Assignment, Co-lending, and Business Correspondent models, will be strategically managed to ensure that the managed book (a) as a percentage of total AUM (b) does not exceed 30%.

ALCO reviews the resource planning strategy annually to ensure alignment with business needs and regulatory limits and any deviation from the above mix can be ratified by presenting detailed rationale in the next ALCO meeting and reporting to the RMC/Board. The Company will strategically raise funds from a diversified group of sources, ensuring no single lender exposure exceeds 25% of total funding.

6. Management and tracking of financial covenants and other covenants prescribed by the lender / counter parties.

6.1 Acceptance of sanction letters and draft financing agreements of lenders

Scrutiny of terms and conditions in the sanction letters and draft financing agreements are the primary function of Treasury. For this purpose, treasury has a hierarchical approval process where the final negotiated terms are presented by Senior Treasury person to Treasury Head/CFO and the key terms are approved by MD & CEO before presenting it to the committee for final approval. Illustrative such covenants are as follows:

1. Minimum Capital adequacy.
2. Minimum Tier I Capital.
3. Minimum NOF.
4. Maximum Leverage.
5. Maximum gross NPA and Net NPA in %.
6. Minimum shareholding of promoters.
7. Restrictions in borrowing.
8. Restrictions in investments/lending in/to subsidiaries and others.
9. Restrictions in starting new businesses.
10. Acquiring other companies.
11. Diversification of business.

6.2 Covenants tracking

Treasury shall maintain a tracker of covenants of all lenders and compliance and deviations shall be presented to ALCO. Deviations, if any shall also be brought to the notice of the Risk Management Department for reporting to Risk Management Committee.

6.3 Covenant management

If any potential breaches in covenants are observed, requests for amendments shall be placed to the lenders / counterparties and shall get their approval in advance. This shall be a continuous process to be followed by the Treasury.

6.4 Treasury roles & responsibility

The Treasury function should collate information as under:

- Product wise business disbursement plan as per the AOP
- Liability repayments
- Other business operation payments

Further, Treasury should determine and monitor the following:

- Funding gap for the year
- Funding mix based on the nature of the business assets
- Liquidity resource planning
- Monthly cash flow position

7. Validity of the policy

- The policy shall be guiding document for resource planning and shall be reviewed every year if any change is required.
- This policy is subject to changes in accordance with guidelines, directions issued by Reserve Bank of India, EFL’s ALM Committee and the Board.