SATTVA HOLDING AND TRADING PRIVATE Limited

Liquidity Risk Management & Asset Liability Management Policy

Version: 4.0
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Policy Custodian:

Division	Investment
Officer In-Charge	Principal Officer
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Policy Version Control:

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1	Version 1.0	24th February, 2020
2	Version 2.0	11th February, 2022
3	Version 3.0	30th January, 2023
4	Version 4.0	29th March, 2023

Policy Governance:

Frequency of Review	Annual or as per the requirement
Last Reviewed On	29th March, 2023
Approval Path	Board Meeting dated 29th March, 2023

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1. Background

The Reserve Bank of India ["RBI"] has, under the Reserve Bank of India Act, 1934 ["RBI Act"], issued the Core Investment Companies (Reserve Bank) Directions, 2016 ["the CIC Directions"]. The Directions have prescribed various requirements relating to liquidity risk management of a Systemically Important Non-Deposit Taking Core Investment Company ["CIC-ND-SI"], in order to regulate the liquidity of funds in a prudent manner.

The Company, being a CIC registered U/s 45-IA of the RBI Act as a CIC-ND-SI, is engaged in investment and financing activities within the Companies in the Group.

In lieu of above, this policy document lays down the policy of the Company and the guidelines to be adhered to in managing the liquidity of the Company and to address the liquidity risk effectively.

2. Objectives

The objectives of this policy are as under to establish rules, processes and parameters ensuring that the assessment, monitoring and control of liquidity risk arising from the operations is undertaken in accordance with the risk requirements and overall risk appetite.

3. Scope

The exercise and interpretation of this policy shall be consistent with the company's risk management system and seeks to give effect to this overriding objective and to ensure the creation of a robust liquidity risk management framework that ensures the Company maintains sufficient liquidity; holding a cushion of unencumbered, high quality liquid assets to protect from and to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

In case of any discrepancy between this policy and any directions issued by RBI, the applicable directions, as amended from time to time, shall supersede this policy.

4. Governance

a. Board of Directors

The Board have the overall responsibility for management of liquidity risk. The Board decides the strategy, policies and procedures of the CIC to manage liquidity risk in accordance with the liquidity risk tolerance / limits decided by it.

b. Risk Management Committee

The Risk Management Committee, which reports to the Board and consisting of Chief Executive Officer ["CEO"] / Managing Director and heads of various risk verticals are responsible for evaluating the overall risks faced by the Company, including liquidity risk.

c. Asset-Liability Management Committee [“ALCO”]

The ALCO consisting of the Company’s top management is responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy of the Company. The CEO/MD or the Executive Director [“ED”] shall be the head of the Committee. The role of the ALCO with respect to liquidity risk includes, inter alia, decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk.

ALCO may designate certain personnel from operating staff as part of ALM Support group on specific requirement basis.

Quorum: The Chairman and in aggregate 2/3 (two third) strength of the committee or minimum two members shall be the quorum of ALCO.

Process: Reserve Bank of India has stipulated templates for reporting Structural liquidity, Dynamic Liquidity and Interest Rate Sensitivity. ALCO will use the indicative formats for compiling the figures and the Reports on Structural liquidity, Dynamic Liquidity and Interest Rate Sensitivity for reviewing the liquidity and interest rate risk.

Periodicity of Meeting: The Member-Secretary or Chairman will arrange for convening the meetings of ALCO once in a quarter or as and when needed depending upon the necessity.

Minimum Agenda:
1. Action taken from previous meeting
2. Report on Forecast V/s Actual liquidity flows
3. Risk Identification & Categorization / Re-categorization
4. Sufficiency of Risk tolerance limits
5. Review of Statement of Structural Liquidity & Interest Rate sensitivity
6. Review of Stress-testing / sensitivity reports
7. Confirmation of adequacy of contingency funds & availability of unencumbered collaterals
8. Review of near-limit / breach instances
9. Liquidity Mismatch handling

5. Risk Categorization

The categorization of the risks identified on the basis of following parameters:

Effect of Risks
- Catastrophic
- Critical
- Marginal
- Negligible

Frequency of Risks
- Frequent
- Likely

- Occasional
- Seldom
- Unlikely

Combining the above two factors of 'Effect' and 'Frequency' of risks to infer impact shall be conducted using a heuristically based but consistent classification scheme for the risks, and the risks shall be classified as:

- Extremely High Risk – Failure of controls / strategy with severe consequences
- High Risk – Significant failure of parts of controls / strategy resulting in non-achievement of certain goals
- Moderate Risk - Noticeable failure of parts of controls / strategy threatening the success of certain goals
- Low Risk – Certain controls / strategies shall not entirely be successful

The risk categorization may be done as under:

Likelihood	**Frequent**				
	Likely				
	Occasional				
	Seldom				
	Unlikely				
		Catastrophic	**Critical**	**Marginal**	**Negligible**
		Impact on Materialization			

6. Risk Tolerance

The Board of Directors define overall risk tolerance limits, which may be same as / more stringent to the regulatory limits prescribed, and also consider impact of such risk tolerance limits on the financial and other parameters that may materially impact the company's operations in the long run. The Company shall ensure that the transactions entered into shall be within the prescribed risk limits considering the adversity and materiality.

7. Risk Identification

Risk identification is crucial for efficient risk management throughout the Company. The outputs of the risk identification are to be used as an input for risk assessment. Risk Identification is an iterative process that needs to be continuously repeated on an ongoing basis. The process shall be rigorous to make sure that all possible risks are identified.

The Company may adopt mechanisms to identify potential risks efficiently. Such mechanisms include extensive document verification, third party confirmations, physical verifications, general industry environment and financial stress on the prospective borrower.

The risk identification process shall illustratively include the following steps:

- Gathering information from various reliable sources
- Applying risk identification tools and techniques, wherever needed - The choice of the best suitable techniques shall depend on the types of risks and activities. The techniques shall be updated regularly, and will increase effectiveness on organizational maturity

- Documenting the risks - Identified risks may be documented and a risk breakdown structure, along with its causes and consequences.
- Critical assessment of the risk identification process' effectiveness

The Company identifies liquidity risk positions for the following:

a. Future cash flows of assets and liabilities;
b. Sources of contingent liquidity demand and related triggers associated with on and off-balance sheet positions;

Further, the Internal Controls shall also act as a vital tool in identification of the risks, and therefore are to be designed and monitored accordingly.

It shall be noted that no defined process can be effective to identify all associated risks, and therefore practical scenario runs and experiences are also to be factored in by the relevant authority in the decision-making process.

8. Risk Prioritization and Assessment

In order to ensure effective and impactful responses to assessed risks, the Company shall prioritize the risks so identified and assessed, and shall address the risks with prioritization of probable loss. Materiality for risk prioritization need not necessarily be limited to financial parameters, but may also include other aspects.

The Company shall assess identified risks on the basis of the potential such risks hold for financial loss, based on the risk tolerance limits of the Company, and accordingly categorize the proposed transaction based on internally devised risk rating systems.

Identified risks to the organization are to be assessed on its probable impact as a threat to the Company, financially or otherwise. Such risk assessment is to be done keeping consideration to the Company's overall risk tolerance limit, and the Company's ability to respond to the risk, if it materializes.

The illustrative steps for conducting risk assessment process shall be:

- Identification of the nature of detected risks
- Defining the assets such risks pose a threat to, and the extent of probable loss
- Document the risks identified and the actions taken
- Enact a maker-checker concept in the risk assessment process to address possible errors

The management shall ensure that its liquidity risk assessment considers a variety of factors. These include vulnerabilities to changes in liquidity needs and funding capacity over short-term and medium-term horizons.

9. Liquidity Costs, Benefits and Risks in the Internal Pricing

ALCO shall endeavour to develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

10. Funding Strategy

The Company's funding strategy ensures adequate diversification of funding sources, with regular gauging of the Company's capacity to raise funds quickly. The strategy adopted by the Company ensures that there is no over-reliance on a single source of funding. The funding strategy has also considered aspects relating to contingency funding in extreme stress scenarios.

The Company's funding strategy is as under,:

1. The Company's borrowings are primarily & substantially to be from Non-Banking Financial Companies that offer Loan Against Securities (LAS) at Loan to Value of a maximum of 50%.
2. As an option the Company can issue Debt Securities to raise the funds.
3. The Company may provide higher security for raising funds by way of debt securities as may be required by the various organised institutions such as Fund Houses, Mutual Fund Companies, Asset Management Companies, Insurance Companies etc.
4. For availing loans, the Company provides shares of Asian Paints Limited, its Company in the Group, as collateral. Such shares are highly liquid, marketable and listed on multiple stock exchanges.
5. At any given point in time, the Company ensures that total investments that are held encumbered does not exceed 50% of its total investments. Such mechanism provides a substantial margin of safety.
6. To meet immediate contingencies, the Company shall maintain INR 20 Crores worth of Cash Credit / Overdraft limit which can be accessed immediately by personnel delegated appropriate authority.
7. The Company can utilise its listed highly liquid assets in the encumbrance to liquidate partially OR to meet the immediate and higher value (Requirement more than overdraft) contingencies. Such liquidation of Assets shall be done with the approval of the Board of Directors and within the limit as approved by the shareholders.

11. Collateral Position Management

The management of the Company shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner. Further, the management shall ensure to have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

As stated above, the Company ensures that total investments that are held encumbered does not exceed 50% of its total investments. Such mechanism provides a substantial margin of safety.

12. Maturity Profiling:

ALCO will deliberate on the ability of the Company to meet its maturing liabilities as they become due and ensure against any adverse situation from developing. ALCO will review on an ongoing basis how the situation is likely to develop under different assumptions. For measuring and managing net funding requirements, ALCO will use as a standard tool the maturity ladder and calculation of cumulative surplus at selected maturity dates. For this purpose, the templates provided in the form of Annexures will be made use of. The Company will use the same time buckets suggested by RBI (shown below) for measuring the net funding needs.

i. 1 day to 7 days
ii. 8 days to 14 days
iii. 15 days to 1 month
iv. Over 1 month to 2 months
v. Over 2 months to 3 months
vi. Over 3 months to 6 months
vii. Over 6 months to 1 year
viii. Over 1 year to 3 years
ix. Over 3 to 5 years
x. Over 5 years

Debt Securities and other borrowings shall be classified as per the residual period for the earliest exercise date of the Put/Call option.

The Company would be holding in their investment portfolio, securities which could be broadly classifiable as 'mandatory securities' (under obligation of law) and other 'non-mandatory securities'. Investments provided as security to the extent of borrowings/debt securities shall be classified in the same maturity bucket as the respective borrowings. Rollover of borrowings if planned be shown under respective bucket against maturing liabilities.

Within each time bucket, there could be mismatches depending on cash inflows and outflows. The priority of addressing mismatches shall be given to mismatches expected to occur in short term. The Management, however, shall also monitor long term mismatches and cumulative mismatches, and establish internal prudential limits. The net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets shall not exceed the following, of the cumulative cash outflows in the respective time buckets:

Time Bucket	Maximum limit as % of Cumulative Cash Outflows
1 day to 7 days	10%
8 days to 14 days	10%
15 days to 1 month	15%
Over 1 month to 2 months	25%
Over 2 months to 3 months	25%

Over 3 months to 6 months	25%
Over 6 months to 1 year	25%

The management may, however, establish more stringent limits, if deemed necessary to address volatility and liquidity risks.

ALCO will also deliberate on the estimated short term dynamic liquidity profile based on the business projections and other commitments and plans of the Company. The cumulative negative gap will be restricted to not more than 25% of the cash outflows.

13. Liquidity Risk Measurement – Stock Approach

The Company may adopt a "stock" approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits as approved by the Board. The ratios and the internal limits shall be based on an Company's liquidity risk management capabilities, experience and profile. An indicative list of certain critical ratios to monitor short-term liability to total assets; short-term liability to long term assets; commercial papers to total assets; non-convertible debentures (NCDs) (original maturity of less than one year) to total assets; short-term liabilities to total liabilities; long-term assets to total assets; etc.

The Company shall, at all times, adhere to the following ratio limits:

Short-Term Liability to Total Assets	20%
Short-Term Liability to Long-Term Assets	30%
Commercial Papers to Total Assets	Nil
Non-Convertible Debentures to Total Assets	20%
Unencumbered Contingency Funding Line to Total Liabilities	10%
Total Borrowings to 26 Week Average of Highs and Lows of Market Value of Listed Securities	20%

14. Interest Rate Risk

Interest rate risk is the risk where changes in market interest rates might adversely affect the Company's financial condition. The immediate impact of changes in interest rates is on the earnings (i.e. reported profits) by change in Net Interest Income. A long-term impact of changing interest rates is on the Company's Net Worth as the economic value of the assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value perspective', respectively.

An asset or liability shall normally be classified as rate sensitive if:

- within the time interval under consideration, there is a cash flow
- the interest rate resets / reprices contractually during the interval
- they are dependent on RBI changes in the interest rates / Bank Rate

- it is contractually pre-payable or withdrawal before the stated maturities

The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions), as prescribed under RBI's Liquidity Risk Management framework.

The time buckets for identification of mismatches shall be:

i. 1 day to 7 days
ii. 8 days to 14 days
iii. 15 days to 1 month
iv. Over 1 month to 2 months
v. Over 2 months to 3 months
vi. Over 3 months to 6 months
vii. Over 6 months to 1 year
viii. Over 1 year to 3 years
ix. Over 3 to 5 years
x. Over 5 years
xi. Non-sensitive

The management shall review the interest rate sensitivity on a frequency as deemed fit, but at least once in a quarter.

15. Currency Risk

Exchange rate volatility imparts a new dimension to the risk profile of a Company's balance sheets having foreign assets or liabilities. The Board of Directors shall recognise the liquidity risk arising out of such exposures and develop suitable preparedness for managing the risk as and when currency exposures are undertaken.

16. Off-balance Sheet Exposures and Contingent Liabilities

The process of identifying, measuring, monitoring and controlling liquidity risk should include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. The management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, financial derivatives, and, guarantees and commitments may be given particular importance due to the difficulties that many CICs have in assessing the related liquidity risks that could materialize in times of stress.

17. Internal Controls

Internal Controls play an essential part in the prevention and detection parameters of risk identification. Therefore, the Company may formulate internal control mechanisms. The internal controls are to be independently audited by an expert and are to be reviewed on an ongoing basis in order to correct the unwanted deviations in their functioning.

The management and audit function regularly perform tests of the controls to ensure reliability. The management shall review the findings of the audit and adequacy of parameters of risk. The findings of the audit along with corrective action taken shall be brought to the notice of the Board of Directors.

18. Management Information System (MIS)

The Company shall have a reliable MIS designed to provide timely and forward-looking information on the liquidity position of the Company to the Board and ALCO, both under normal and stress situations. It should capture all sources of liquidity risk, including contingent risks and those arising from new activities, and have the ability to furnish more granular and time-sensitive information during stress events.

19. Stress Testing

The minimum prudential requirement is derived such that the Company could survive an extremely stressed scenario without market access for 12 months and without withdrawing any principal resources from members.

The management conducts stress testing based on Company's stress test methodology to identify potential liquidity strain and to ensure that current exposures remain in accordance with the established liquidity risk tolerance. The testing is done on a frequency as deemed fit by the management, but at least once in a quarter.

Given the limited operations of the Company in terms of complexity, the Stress Testing may be limited to assessing impact on liquidity position from (i) Changes in Interest Rates, (ii) Unfavourable Loan to Value Ratio and (iii) Reduction in market value of collaterals. The testing shall consider impacts as under:

Parameter	Change %
Interest Rates	+/- 0.5%
	+/- 1.0%
	+/- 2.0%
	+/- 2.5%
Loan to Value Ratio offering	48%
	45%
	42%
Collateral Value reduction	2%
	5%
	10%
	25%

The stress test outcomes are used to adjust its liquidity management strategies, policies, and positions and to develop effective contingency plans by the ALCO / Board.

20. Reporting and Monitoring

The risks identified shall be reported to the management on a real time basis, and unfavourable deviations of the company's actual risk to the acceptable risk tolerance shall be addressed.

The management shall ensure effective monitoring mechanism with utilisation of MIS systems, on an ongoing basis. Further, a summary report on the risks identified and addressed along with instances requiring attention shall be maintained. In case of any major deviations / findings, the same shall be escalated to the Board of Directors as under:

Security cover ratio to existing lender - Limit	**Reporting/Action**
> 2.5x	No action required
< 2.5x (for 3 consecutive working days)	Reporting to RMC by Principal Officer followed by reporting to Board
< 2.2x	Principal Officer to initiate action: a. Providing additional security to existing lender to improve security cover > 2.5x ; or b. Raising fresh loans to keep liquidity ready for payment to existing lenders, in case situation warrants

Further, the reporting requirements prescribed by the regulator, as well as any disclosure requirements in the financial statements / place of business/ website etc. shall be complied with by the management.

The Board of Directors shall, on an annual basis, review the risk management process, and material instances of deviations, stress testing results, and other reports as it may deem fit.

21. Effective Date

This policy version 4.0 has been adopted at the Company's Board of Directors meeting held on 29th March, 2023 and shall stand applicable organization wide with effect from the same date.

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