

# **CREDIT POLICY**

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**Rhino Finance Pvt Ltd**

Rhino Finance Pvt Ltd (“Name”) is a Non-Banking Financial Company which will provide loans. The main objective of the company is to become a credible, relevant and leading financier in its chosen segments of business. Name commit to operate according to the highest ethical and compliance standards and constantly seek to follow best practices in the industry. Under no circumstances will contravention of laws and relevant regulations be tolerated.

## **PRODUCT PARAMETERS**

The product parameters defined under this policy are applicable on all products.

### **Target Market**

M/S. Rhino Finance Pvt Ltd, is a Non-Deposit taking Non-Banking Financial Company which has commenced its operations from May, 2019 onwards. Name is trying to work on a model that focuses on building and nurturing long-term relationships with their clients. At present, the operations have been started in Jaipur.

Company has received the Certificate of Registration from Reserve Bank of India on 5th February, 2019 vide certificate no. B-10.00292 providing access to financial services sector focused on Loan and Advance nature of activities of company.

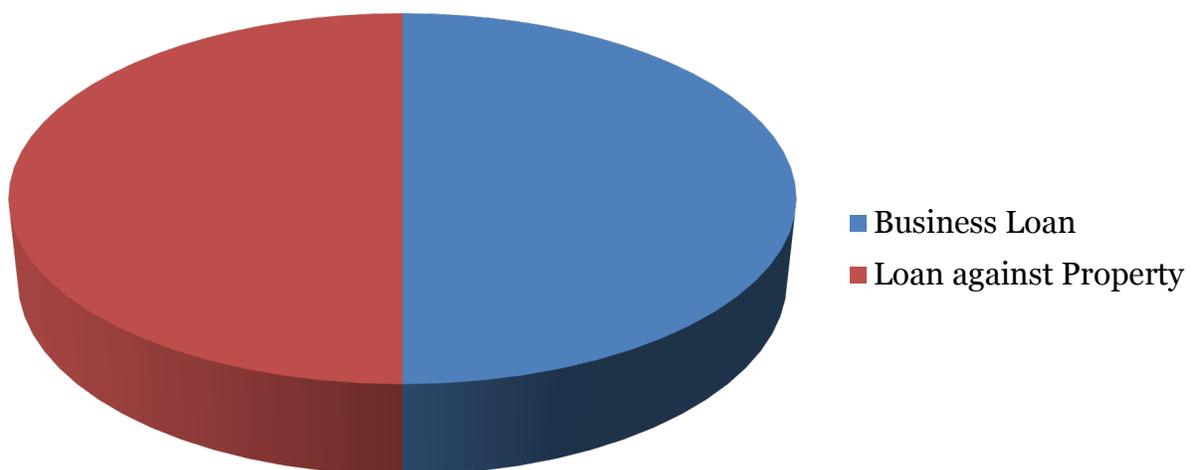
Our business model will be completely based on the principal of “**Faster Processing of Loans**”. Finance is always been blood of organization/business from the day one. It is not possible to run business without finance. Success or failure of any business depends on the availability of funds at the right time. We understand this and hence would make sure that the timely disbursement of funds are done to our clients by adopting a quick

processing of Loan. We achieve this by having efficient manpower and use of technology tools.

## Loan Structure

Usually banks impose a very tough eligibility requirement like good credit score, no bad history of repayments and a significant credit standing. We would also adopt stringent eligibility checkpoints but with flexibility on studying the requirements and usage of funds. We sincerely believe that a business has ups and downs and hence we would focus more on the right usage of funds. The secured loans offered by us would also have better Collateral to Loan ratio than our competition.

### Loan Structure



## **Borrower Qualification**

### **- Nationality**

An Applicant, Co-Applicant and Guarantor must be Indian resident. Foreign nationals are not eligible for loan disbursement.

### **- Eligible Borrowers**

Following shall be eligible for the loan disbursement:

- a. Self Employed Individuals
- b. Salaried Individual
- c. Partnership Firm
- d. Limited Liability Partnership Firm (LLP)
- e. Private Limited Company
- f. Trust
- g. Society
- h. Association of Persons (AOP)
- i. Body of Individual (BOI)

### **- No. of Borrowers**

There is a requirement of minimum 2 borrowers, applicant as well as co-applicant. However, deviations can be approved by credit head. To arrive at loan eligibility, maximum 5 applicants can be considered for the income consideration. There is no limit on the maximum no of applicants.

- **Minimum Age Limit**

<b>Borrower</b>	<b>Age</b>
<b>Applicant</b>	<b>25</b>
<b>Co-Applicant</b>	<b>21</b>
<b>Guarantor</b>	<b>21</b>

- **Maximum Age Limit**

<b>Borrower</b>	<b>Age</b>
<b>Salaried</b>	Retirement age <b>OR</b> 65 years at loan maturity - for all applicants/ co-applicants whose salary income is considered for loan eligibility. If pension income to be considered age up to 65 years can be taken.
<b>Self Employed</b>	<ul style="list-style-type: none"> <li>- 75 years at loan maturity</li> <li>- Key partner/director/HUF karta whose share of income is being considered, must be within 75 years of age at loan maturity.</li> </ul>

[Key is defined as majority shareholder OR the key person identified in our Personal Discussions(PD)]

- In case of Sole Proprietorship concern, if the sole proprietor does not meet the max age of 75 years at maturity but another person (e.g. son) is identified as KEY to the business in our Personal Discussions (PD), the same should meet our age criteria.
- OTHER partner / director whose share of income is being considered need not to satisfy any age restrictions as long as Key man satisfies the age criteria.

[ONLY for family owned business] -

- Where rental income is being considered, property owners age must not exceed 75 years at loan maturity. No exception/ deviations allowed to the policy.



- **Work Experience**

- a. In case of Salaried - Individuals who have had a job for at least 2 years, with a minimum of 1 year with the current employer.
- b. In case of Self Employed - Minimum 02 years of continuous business operations is a must
- c. In case of Corporate - Minimum 03 years of continuous business operations

- **Income Criteria**

Minimum Income is defined as the income of applicant clubbed with co-applicant.

Following are the minimum income norms:

- a. Salaried- Gross salary of INR 2,00,000 per annum
- b. Self-Employed- PAT (Profit after Tax) above INR 50,000

For loan eligibility calculation, a maximum of 5 incomes (1 applicant + 4 co-applicants) can be combined.

- **Co-Applicant**

Loans will have co-applicants or Guarantors to cover the death risk. In case of involving Individuals, immediate family members (excluding married sisters, staying in one residence) can be taken as co-applicants. Married daughters/sisters, Son in law & brother in law may also be taken if engaged in the same business. In case of private limited company or Partnership firm at least 51% partners and directors need to be a part of the

loan structure for income consideration of the firm or NOC is to be collected from the partners/directors not in the loan structure.

- **Guarantor**

Guarantors should meet all the credit parameters. The guarantors should be a family member, friend, business associate of the applicant and should have an independent source of income with loan servicing ability equivalent to that of the applicant. Income papers and bank account statements to verify the same should be provided.

- **Restricted Applicant**

On the basis of industry feedback certain professions/ profiles are considered as restricted. Lending to these profiles is done extremely cautiously and is based on past credit history. A detailed list of restricted profiles is available in the Credit Process Manual. Restricted professions include:

- a. Politicians / Politically Exposed Persons
- b. Property Dealers / Agents
- c. Prosecutors
- d. Police (CBI/CRPF/IB)
- e. Bar owners
- f. DSA's and their employees
- g. Lawyers
- h. Private Financers/Money Lenders
- i. Arms & ammunition dealer
- j. Multilevel Marketing Company

- k. Stock Brokers
- l. Chit Fund
- m. Journalist
- n. Recovery agents
- o. Minors

Lending to these profiles can be done as per the deviation matrix only.

Name's objective is to involve in bona-fide business activities and provide financing solutions. As such, prior to detailed work on the credit proposal, client suitability must be clearly established. Through multiple criteria, client suitability has to be checked— which may evolve over time but must cover issues of reputation and regulatory risk, and the any concerns over money-laundering activities.

– **Regulator Notices**– List of defaulters/watch-lists issued by relevant regulatory bodies and exchanges viz. RBI, Government of India (especially Department of Corporate Affairs), SEBI, Competition Commission of India, Registrar of Companies, NSE/BSE/Other exchanges, NCLT and other debt recovery institutions.

– **Press Check**- Review of Press and Social Media for adverse publicity and news about the potential borrower.

– **Global crime and Default Databases**– To the extent available for public use.

Any issues or findings of concern or a NIL findings comment are mandatorily part of the credit proposal.

## Loan Amount

### - Secured Financing

Rs. 2,00,000/- to Rs. Rs. 20,00,000/-

### - Unsecured Financing

Rs. 2000/- to Rs. Rs. 10,00,000/-

## Interest Rates / Loan Amount / Loan Tenure / Fees and Charges

Loan Against Property	
Maximum Quantum of Loan	Rs. 20,00,000/-
Maximum Repayment Tenure	60 Months

Business Loan	
Maximum Quantum of Loan	Rs. 15,00,000/-
Maximum Repayment Tenure	24 Months

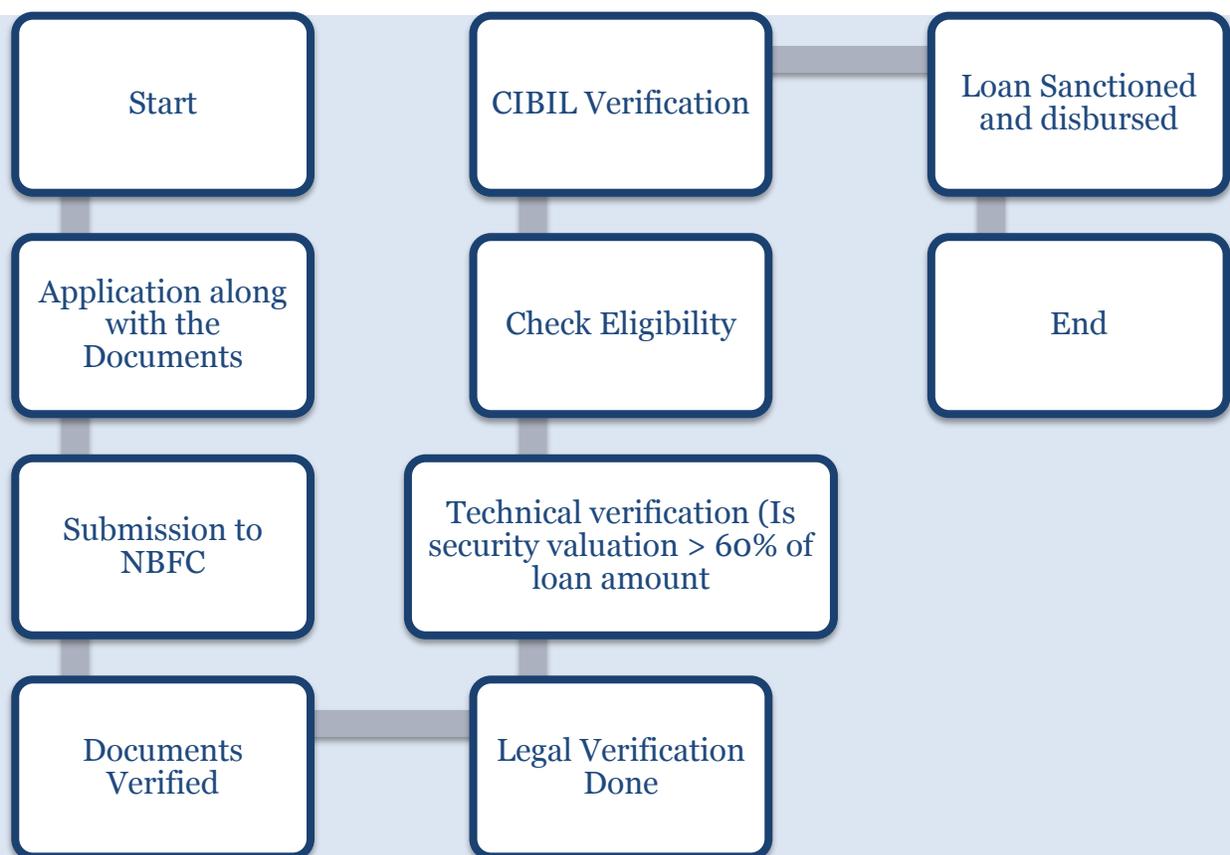
Interest Rate	Processing Fees	Foreclosure Charges
On the basis of Risk Profile Rate Policy of Name	<b>On the basis of Risk Profile</b> + GST (as applicable)	0% of outstanding + GST

## Loan Disbursement Structure

For loan disbursement, there shall be loan disbursement committee for effective coordination, monitoring, as well as enforce the utilization of the loan to achieve best results subject to the approval of business head Mr. Rakesh Sharma.

The loan Disbursement process mainly consists of four simple steps:

- Appraisal
- Loan Sanction
- Disbursement



## Loan Recovery

Loan recovery is a very critical process and for this different methods can be used. In case loan is not recovered after trying hard then legal action can be taken by the company. For loan recovery following steps can be taken:

- Gentle Reminders - Timely reminders can help in loan recovery.
- Consistent Contact - A consistent contact should be maintained with the client. Reaching customer at the time when he is having money can really help in recovering debt without much pain. Sales team should remain in touch with the clients.
- Penalty Reminder - Timely reminders of terms of loan, fine & penalties and late fee which can be imposed if fails to repay can really help.
- Loan Recovery letters - Can be issued from time to time for timely repayment.
- Legal Action- If nothing helps then legal action can be taken against the client.

## Loan Tenure

Name shall be offering loans up to a maximum tenor of 5 years. The loan tenors will be restricted by the age of the property. The residual age of the property to be at least 10 years at the maturity of loan. Also the total age of the property is considered to be 70 years while in case of leasehold properties the maximum tenor to be such that the loan maturity is 10 years prior to expiry of the lease period.

## Type of Collateral

Following can be type of collateral:

- Freehold Property
- Leasehold Property

In the loan structure, co-owners must be borrowers in the loan structure.

**Note:** In case of leasehold properties, loan can be provided only if they are long term government or development authority lease. Proper permission must be obtained to mortgage these properties from the concerned authority. Also there should be proper process for the sale and purchase of such properties.

## Type of Properties

Following types of properties can be taken as a collateral security:

- Self Occupied Residential Property
- Multiple use residential property (partly self occupied and partly rented)
- Vacant residential property
- Mixed use residential property (partly residential and partly commercial)
- Self Occupied Commercial Properties
- Land
- Industrial Property

## Minimum Collateral Value

Minimum collateral value must be Rs. 10,00,000/-.

## Repayment

Repayment of loan shall be through Equated Monthly Installments (EMI) of principal and interest with a maximum tenure of 5 years or interest only. The repayment shall be either through Post Dated Cheques (PDCs) or ECS/NACH only. Two undated Principal Value cheque needs to be collected as security along with ECS Mandate/NACH.

- **Equated Monthly Installment (EMI):** It is fixed amount which a customer repays on a monthly basis so that his loan is completely repaid in the given tenor. EMI covers both interest and principal amount.
- **Interest only option (IO):** Applicable only for short term loans. Business head has the discretion to grant Interest on repayment.
- **Bullet Payment Option:** In this, Principal & Interest payment take place at the end of the tenor of the loan. Approval of the business head Mr. Rakesh Sharma is required for such loans.
- **Others:** Any other repayment options will be decided by the management as and when decided.

## LTV (Loan to Value)

It is defined as loan amount divided by the total property value. The LTV norms are different for different product categories and the same are enumerated below.

**For Example:** If the Total Market Value (MV) of the property is Rs 2,500,000 and the loan amount is Rs 1,000,000 then the LTV is  $1,000,000/2,500,000=40\%$

## End Use of the Loan

Loans disbursed under this program can be used for any of the following:

- Personal Needs
- Business Needs
- Investment & Asset Acquisition
- Consolidation of Debt
- Mortgage Buyout & Buyout with Cash out
- Refinance on Self Financed Property

**Note\*** It is to be noted that the Mortgage Loan offered by RE Capital cannot be used for any speculative or illegal purposes or any purpose prohibited by law and/or applicable regulations, as amended from time to time.

## Documentation

The mandatory documents required for the loan are enlisted as follows.

Individuals	Company	Partnership Firm
<p><b><u>Proof of Age:</u></b></p> <p>Standard Documents:</p> <ul style="list-style-type: none"> <li>- Aadhar Card</li> <li>- PAN card</li> <li>- Govt. employee card with DOB</li> <li>- Passport</li> <li>- Class X Board Certificate with DOB</li> <li>- Birth certificate issued by municipal authority</li> </ul> <p>Non-Standard Documents:</p> <ul style="list-style-type: none"> <li>- Driving License</li> <li>- Latest Acknowledgement copy of ITR</li> <li>- Notarized Affidavits</li> </ul>	<p>One certified copy of all the below mentioned documents:</p> <ul style="list-style-type: none"> <li>- Certificate of Incorporation</li> <li>- Memorandum and Articles of Association</li> <li>- Board resolution and power of attorney granted to its managers, officers or employees to transact on its behalf</li> <li>- ID Proof as applicable for Individuals in respect of managers, officers or employees holding an attorney to transact on its behalf, for above mentioned</li> </ul>	<p>One certified copy of all the below mentioned documents:</p> <ul style="list-style-type: none"> <li>- Partnership Registration certificate</li> <li>- Partnership deed</li> <li>- Proof of ID as applicable for Individuals in respect of the person holding an attorney to transact on its behalf</li> </ul>

	Officers	
<p><b><u>ID Proof:</u></b></p> <p>Standard Acceptable ID Proofs:</p> <ul style="list-style-type: none"> <li>- Passport</li> <li>- Voter ID Card</li> <li>- ID card issued by Govt./recognized companies/Professional bodies</li> <li>- PAN Card</li> <li>- Driving License</li> <li>- Aadhar Card</li> </ul> <p>Non-Standard ID Proof:</p> <ul style="list-style-type: none"> <li>- Notarized Affidavit</li> </ul>	NA	NA
<p><b><u>Address Proof:</u></b></p> <p>Standard Address Proof:</p> <ul style="list-style-type: none"> <li>- Aadhar Card</li> <li>- Passport</li> <li>- Voter ID Card</li> <li>- Utilities Bill (Electricity/water/Telephone)</li> </ul>	NA	NA

<ul style="list-style-type: none"> <li>- Copy of registered Sale Deed/Lease Deed</li> <li>- Municipal tax receipt</li> </ul> <p>Non-Standard Address Proof:</p> <ul style="list-style-type: none"> <li>- LIC receipt</li> <li>- Bank Statement</li> <li>- Acknowledged copy of ITR</li> <li>- Notarized Affidavit</li> </ul>		
<p><b><u>Income Documents Salaried</u></b></p> <ul style="list-style-type: none"> <li>- ITR's/Form-16 for 2 years</li> <li>- Salary slip/certificate (last 3 months)</li> </ul> <p>Self Employed Individuals</p> <ul style="list-style-type: none"> <li>- ITR's for last two years along with financial statements</li> </ul>	<p>ITR's for last two years along with financial statements</p>	<p>ITR's for last two years along with financial statements</p>

<p><b><u>Bank Statements:</u></b></p> <p>Applicant/ Co applicant</p> <ul style="list-style-type: none"> <li>- Last 06 months bank statement</li> </ul> <p>Account from where PDC/ECS instruction is given to be verified mandatorily and the same to be attached in the file for at least 03 months</p>	<p><b>Bank Statements Main applicant:</b></p> <ul style="list-style-type: none"> <li>- Last 06 months bank statement</li> </ul> <p>Account from where PDC/ECS instruction is given to be verified mandatorily and the same to be attached in the file for at least 03 months</p>
<p><b><u>Bank Signature Verification:</u></b></p> <ul style="list-style-type: none"> <li>- To ensure that the applicants signature is consistent and the bank from which he is making the payment</li> <li>- In case the customer's IMD gets cleared from his account then the same can be waived off, if the PDC/ECS are being given from that bank account only</li> </ul>	<p><b><u>Bank Signature Verification:</u></b></p> <ul style="list-style-type: none"> <li>- A declaration from authorized signatory.</li> <li>- Bank signature verification for the above authorized signatory</li> </ul>

<p><b><u>End Use Letter:</u></b></p> <p>To be taken from application form. It is a mandatory field in the application form</p>	<p><b><u>End Use Letter:</u></b></p> <p>To be taken from application form. It is a mandatory field in the application form.</p>
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**Note\***

- Notarized affidavits to be taken only if no other proofs are available. Affidavits cannot be taken for main applicant.
- PAN is mandatory all for applicants whose income is considered for loan eligibility.
- The ITRs should be filed with a minimum gap of 6 months, in case where the ITRs are filed together or period between filing in less than 6 months, previous ITR should be taken which should have a minimum 6 month gap.

**Credit Verification**

<b>Process Checks</b>	<b>Individual</b>	<b>Company/Partnership</b>
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Defaulter Checks	<ul style="list-style-type: none"> <li>- De-dupe</li> <li>- CIBIL Check</li> </ul>	<ul style="list-style-type: none"> <li>- De-dupe</li> <li>- CIBIL Check</li> </ul>
CPV/TVR Office	<p>TVR to be done only by Credit team or the CPA staff trained by them.</p> <p>Residence CPV mandatory to be done by CPV</p> <p>For individuals, CPV to be done at both residence and office.</p>	<p>Same as for individuals and in addition CPV to be done for all co- applicants, partners and directors included in the loan structure</p>
Loan Verification	<p>Loans that reflect in Credit Bureau(CIBIL), Experian etc</p> <p>For other loans the same needs to be verified by taking a loan repayment track</p>	<p>Loans that reflect in Bureau (CIBIL), Experian,etc</p> <p>For other loans the same needs to be verified by taking a loan repayment track</p>
ITR Checks	Last 02 years filed ITR	Last 02 years filed ITR
Bank Statement Verification	Saving Account for the last 6 Months	Current Accounts for the last 6/12 months
Property Documents & other related	- TSR to mention the list of	- TSR to mention the list

documents	documents required for Mortgage - Copy of Property document is mandatory for all cases - NOC from Societies - Technical Report	of documents required for Mortgage Copy of Property document is mandatory for all cases - NOC from Societies - Technical Reports & Cross Techs
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## Pricing and Fee

Name shall implement risk based pricing which shall vary with each product. The Interest rates will be pegged to the company's cost of funds (COF). Floating rate options will be reset at quarterly frequency in each calendar year.

- Cost of Funds

This will be the weighted average cost of funds for Name on a monthly basis.

- Prepayment Fee:

The prepayment fee will be as follows:

Particulars	Criteria
Prepayment	<ul style="list-style-type: none"> <li>- No prepayment (foreclosure) of loans up to 12 month</li> <li>- 5% on the amount prepaid and all amounts tendered by the borrower towards prepayment of the loan during the last 1 yr from the date of final prepayment on outstanding</li> <li>- Service tax (GST + other state taxes) as applicable shall be payable on the fee amount</li> </ul>
Partial Prepayment	<p>3% prepayment fee for partial prepayment No partial prepayment allowed in loans less than 6 Months</p> <p>Partial prepayments allowed only 2 times in a year. There should be a minimum gap of 4 months between two partial prepayments.</p>

### Late Fee & Bounce Charges

- Late Fee (Penal Interest) – 4% of EMI per month applied on no. of days for which the payment is outstanding (based on monthly scheduled payment amount)
- Bounce Charges- Rs.500 per Cheque/ECS bounce + applicable GST

**Note\*** the charges mentioned above are only indicative in nature and liable to change from time to time.

### Underwriting Norms for Secured Business Loans

Parameter	Policy
End Use	<ul style="list-style-type: none"> <li>- Personal Purpose</li> <li>- Business Purpose</li> <li>- Asset Acquisition</li> <li>- Mortgage buyout</li> <li>- Investment</li> <li>- Consolidation of Debt</li> <li>- Home Finance Buyout with cashout</li> <li>- Refinance on Self Financed Property</li> </ul>
Loan Amount	<p>Minimum: INR 2,00,000/-</p> <p>Maximum: INR 20,00,000/-</p>
Income Norms	<p>Salaried</p> <ul style="list-style-type: none"> <li>- Gross salary of INR 2,00,000 per annum Self-Employed</li> <li>- Profit After tax above INR 50,000</li> </ul>
Pricing	As per the Pricing Matrix
DBR	<ul style="list-style-type: none"> <li>- Max 75% for all loan amount</li> <li>- Any additional approval on DBR up to 80% for salaried profile.</li> </ul>
Collateral Type	<ul style="list-style-type: none"> <li>- Self occupied residential</li> <li>- Multiple use residential (partly self occupied &amp; partly rented)</li> <li>- Vacant residential property</li> <li>- Mixed use (which are partly commercial, as permissible by local</li> </ul>

	<p>municipal/development authorities)</p> <ul style="list-style-type: none"> <li>-Mixed use properties need to be mandatory partly self occupied also.</li> <li>-Commercial Self Occupied only (Approved by the local municipal/development authorities)</li> <li>-Industrial Property</li> <li>-Land</li> </ul>
Minimum Collateral Value	Rs. 10,00,000/-
Maximum Tenor	5 Years

### Loan to Value Norms

Property Type	Normal LTV Norms
Self Occupied Residential (SOR)	60%
Rented Residential	55%
Vacant Residential	50%
Multiple Use Residential	55%
Mixed Use	50%
Commercial Use	50%

### Property Collateral

The collateral reports cannot be more than 90 days old at time of approval and need to be signed and stamped in original by the vendor at the time of approval.

## **Title Search Report**

An empanelled lawyer will verify the entire chain of property documents and/or carries out a search at the Sub Registrar's or development authority's office for any lien or legal case pending for that property.

The following tasks are entrusted to title search lawyer/firm to cover risks related to mortgage right establishment, defects on ownership and other rights, defects in lease and transference status search, document forgery, false impersonation, delay or registration failure.

- Title search: investigation of title defects and errors at SRO / development authority as applicable;
- Search for any lien pending on the property: investigation of existing rights;
- Transference status search: investigation of occupation status;
- Lease search: investigation of tenant rights through visit to the mortgaged premises on a best effort basis
- Documents to be collected for Equitable / Registered Mortgage, as the case may be

On the basis of this a report will be prepared which mentions the list of documents that should be collected to create an Equitable/Registered Mortgage. Lawyer also gives an option whether the property can be mortgaged or not by the applicant. Based on this report credit officer decides whether the collateral offered is acceptable or not. The

collateral is mortgaged to us way of an equitable mortgage and only properties that have a clear title are acceptable as collateral.

**Process:**

- A legal opinion on the property being offered as collateral needs to be approved lawyer for each loan
- On exceptional basis legal report submitted by unapproved vendors can be considered

### **Valuation Criteria**

For all cases property appraisal is mandatory. The value of the collateral is determined by an independent property appraisal carried out by a panel of accredited valuers. Each

customer files to be accompanied with a Valuation report which will capture the key items with regard to valuation.

Minimum property value	Rs. 10,00,000/-
# of Valuations	<ul style="list-style-type: none"> <li>- Valuations to be provided by approved valuers for all loans. Unapproved Vendors, single valuation &amp; no photograph can be approved on exceptional basis by Underwriting head /NCM</li> <li>- Valuations to be based on the fair market value of the property</li> <li>- Valuation to be based on a physical visit at the collateral address and at least 2 photographs to accompany each valuation report. <ul style="list-style-type: none"> <li>a. One of the exterior of the property (STREET VIEW)</li> <li>b. One of the interior of the property (INETRIOR VIEW)</li> </ul> </li> </ul>
Additional / Alternate Collateral	<ul style="list-style-type: none"> <li>- Additional / alternate collateral can be considered as long as approved by Company's Policy head.</li> <li>- Valuation &amp; legal opinion to done for all the properties being offered,</li> </ul>

Sampling post disbursements	Sampling to be done for 10% of the loans booked
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## Property Age

- Residual age of the property should be at least 10 years at the time of maturity of the loan
- Total age of the property should not exceed 60 years

## Insurance

Name proposes to offer the following two options to the customer if he/she chooses to get it done through the company.

- a. Credit Insurance
- b. Fire Insurance

## Income Assessment Methods

For all income assessment methods two years financials are required. The income is assessed as per the latest ITR but if there is more than 50% increase in income over last year then the same needs to be averaged out. Income is considered Post Tax for both Salaried and Self employed applicants.

## Clubbing of Income

Maximum of 4 co-applicant's income can be added to the income of the main applicant. Income of co-owners of the property can be added in all cases. Income of the following people can be considered without deviation

- Spouse
- Parents
- Son
- Brothers in family business
- Partners / Directors

### **Salaried**

- Income as reflected in Form16/ ITR/ Net Salary reflected in salary slip whichever is higher
- Income from Salary Slips can be taken for MNCs/Private/Public sector companies/Government employees only. No cash salaries to be considered
- In net salary from salary slip, one time payments like bonus, overtime, arrears, should be excluded.

(Until and unless same is being paid for past 2 years. 50% of the average of last 2 yrs to be considered)

- Reimbursements like conveyance, LTA, medical/education allowances; car maintenance etc may be considered if there is a salary certificate from the employer or mentioned in FORM 16. Only to be considered for MNCs/Reputed Private/Public sector companies/Government employees (To be discounted by 50%)
- Salary slip should not be more than 03 months old.
- Other income such as interest, dividend income, rentals can be added if the same are showing consistently in two year ITRs

### **Self Employed- Net Profit Method**

Business Income Post Tax: Profit after tax as reflected in the latest year ITR and P&L statement. If the tax has not been subtracted in the profit figures then tax needs to be subtracted as reflected in the ITR. In case of a PVT Ltd Company/Partnership firm salary and interest paid to partners can be added if all the partners/directors are present in the loan structure.

Depreciation: 75% of the deprecation as claimed in the P&L can be considered for income purpose. If the depreciation amount is unusually high then asset verification is done at time of TVR.

Borrower Segment	Criteria
Proprietorships	Income = Profit after tax (PAT) +3/4 <sup>th</sup> depreciation+ All payments made to relatives as reflected in tax audit report and other regular income as reflected in ITR and bank statements to the satisfaction of credit manager.
Partnerships	Income = PAT +3/4 <sup>th</sup> depreciation + Interest paid on Partner's Capital+ Salary paid to partners
Corporate	Income = PAT +3/4 <sup>th</sup> depreciation + Director's remuneration

## Gross Margin

Gross margin method of computing income basically involves taking gross margin or 15% of total sales from audited financials, whichever is lower as the total income. No other income can be added back to this income from business. Gross margin is defined as total

turnover or total sales revenue minus the sales cost. Essentially it will be the Total Sales cost directly related to the sale of the goods. These costs can include manufacturing expenses, raw materials, labor, selling, marketing expenses. Revenue cannot include income from speculation or interest income from speculation or interest income. However exceptions can be approved by Underwriting Head/COO.

### **Agricultural Income**

Agricultural income can be assessed via Mandi sale receipt, total land holding (same to be verified via zama bandi). Average over three years is considered for income calculation. If the income is unusually high then proof of agricultural receipts as issued by the local governing body can be requested for. Exceptions can be approved by underwriting Head /NCM.

### **Rental Income**

Rental income can be considered if it reflects in ITR/Bank statements/Rental Agreements.

- For all cases rental CPV is mandatory. Rent agreement should be at least six months old.
- If rental income reflects in ITR and bank statement then 100% rental can be considered, but if only rent agreements exist then only 50% rental can be considered.
- If the rental income is unusually high then proof of ownership of property can be requested for

- Rental CPV could be waived off if the income is consistently reflecting in ITR and bank statement.
- Exceptions can be approved by Underwriting head /COO

Other Income: Interest income, dividend income, income from investment and income from part time business like tuitions etc can be added if reflected consistently in the ITR for at least two years. Proof of investments can be requested and verified as applicable.

### **No Income Proof**

Customer should be known to Name or having an existing relationship

- LTV up to 50%
- Net worth Statement to be obtained
- Sound banking habits

### **Debt Burden Ratio (DBR)**

It is defined as the EMI of the current loan + all other monthly loan and credit obligations of the customer divided by his monthly assessed income (inclusive of income of all applicants and co-applicants).

**DBR= Monthly Total Debt Obligation/Monthly Income**

- All liabilities that get reflected in Personal Discussion, CPV, Bank Statements, Bureau, Financials are taken for DBR calculation. The proof of repayment is taken in form of bank statements or repayment schedule

- Any loan that does not have fixed monthly installments then the same for DBR purpose is calculated by taking the loan amount, tenor and ROI as per the sanction letter of the lender
- All loans that have only 12 EMI or less outstanding for payment can be ignored and not clubbed for DBR calculation. This is certified by taking the amortization schedule which says that only 06 or less EMIs are due

**Example:** As above if applicant has monthly income of Rs. 15000, his EMI on our loan is Rs 5000 and applicant is also running a loan of EMI 3000 then his DBR is  $(5000+3000)/15000=53.33\%$

## Credit Appraisal

Credit Appraisal means an investigation done by the financial institution before granting loan or advances to the fund seeker.

### Process of Credit Appraisal



### **Step Wise Credibility Check**

1. Filling of application form with KYC and financial documents.
2. Process of verification and reconciliation of documents.
3. Financial Institution provides a rating to the applicant based on the above document scrutiny.
4. Applicant agrees to the terms and conditions, then financial institution approve the loan.
5. Loan amount gets deposited in the applicant's account.
6. Post sanction activities such as receiving stock statements, review of accounts.
7. Recovery procedures are initiated in case of default in repayment.

### **Parameters in Credit Appraisal**

- **Financial Parameter**
  1. Past Track record
  2. Performance Indicators
  3. Financial Indicators
  4. Collateral Security
  5. Financial Ratios

- **Industry Parameter**
  1. Competition
  2. Industry Outlook
  3. Regulatory Risk
  4. Collateral Security
  5. CIBIL Score or rating from different credit rating companies
- **Management Parameters**
  1. Corporate governance
  2. Corporate Social Responsibility
  3. Management Competence
  4. Expertise
  5. Strategic Initiatives

The credit process begins with a thorough analysis of the borrower's creditworthiness, or capacity and willingness to repay the loan. Following shall be considered:

- The borrower's current and expected financial condition.
- The borrower's ability to withstand adverse conditions or "stress."
- The borrower's credit history and a positive correlation between historical and projected repayment capacity.
- The optimal loan structure, including loan amortization, covenants, reporting requirements – the underwriting elements.
- Collateral pledged by the borrower – amount, quality and liquidity; bank ability to realize the collateral under the worst case scenario. And,

- Qualitative factors, such as management, the industry and the state of the economy.

This process begins with the collection, analysis and evaluation of information required to determine the creditworthiness of the borrower seeking credit. After the credit analysis is completed and borrower has been determined to be an acceptable risk, the credit officer proposes a loan structure for approval that preserves the strengths and protects against identified weaknesses of the borrower. The process ends with determination of a risk rating for the credit and loan approval (or rejection). The financial institution's credit policy, lending standards and procedures create the parameters for this process, thereby establishing the appetite for risk.

***Analysis of risks associated with any borrower should focus on the four foundations of creditworthiness, shown below:***

### **Industry**

It involves the industry dynamics and the company's position within the industry. Weakness in the industry itself can significantly impact loan repayment ability and the company's position within the industry is an important issue.

### **Financial Condition**

It focuses on the borrower's ability to generate sufficient cash, the first source of loan repayment, or to draw on existing resources, e.g., capital or assets, to repay borrowings. The credit analyst examines the income statement, the balance sheet and the cash flow statement to evaluate this foundation of creditworthiness, focusing on profitability, efficiency, liquidity, and leverage, in particular.

## **Management Quality**

It entails the competence, integrity and alliances of the key individuals running the company. Management weakness or dishonesty can have an impact on both repayment capacity and security realization. Depth of management is always a concern, especially in smaller, family run organizations.

## **Security Realization**

It determines the level of the financial institutions' control over collateral and the likely liquidation value, factoring in time, i.e., net present value. Weakness in security realization threatens the second source of loan repayment.

## **Loans to Existing Borrowers**

If an existing borrower wants to take an additional loan, they can be funded as per financial eligibility and property value. This can either be booked as a separate loan or by closing the previous loan and booking fresh loan with total exposure.

Points to be followed:

- The original loan should have obtained 6 months prior
- There should be no more than 2 PDC bounces in last 12 month period
- Latest Income can be taken provided fresh ITR's & Financials are available
- Fresh property valuations can be considered only if the previous loan obtained before 12 months. However one valuation is a must for all top-up loans to check the current value of the property
- After 12 MOB fresh CPV/ Personal Discussion/ CPA visit are required
- Top-up loan to be linked to the current loan

- Fresh PDC/ECS and agreements to be taken

## New Loan to an Existing Borrower

If an existing customer comes to us loan against another property a gap of 6 months (6 EMIs paid) is mandatory in disbursement of the next loan. LTV, DBR and tenor norms will be applicable on the total exposure. Also the customer will have to meet all the enhancements / Top-Up norms as per policy.

Example: If a customer has an existing EMI of Rs 10,000 and for the new loan his EMI will be Rs. 5000/ Then the total EMI  $10000+5000=15,000/20000$ (assumed monthly income)= 75% . This breaches the DBR of 70% hence the new loan cannot have an EMI of Rs. 5000

## Repayment

Mode	Conditions
Repayment cycle	EMI's will be due from the customer on the 5,10,15,20th of every month.
EMI / Pre-EMI	The customer is required to pay the EMI from the first month onwards. In case of disbursement after the 20 <sup>th</sup> of the month, the customer needs to pay interest in the form of Pre-EMI till the date the EMI is due and repayment through EMI's can begin from the following month

<p>Electronic Clearing System (ECS)</p>	<ul style="list-style-type: none"> <li>- NACH/ECS instruction to be filled by the customer in the mandate form in standard format.</li> <li>- For Partnership Firm's / Corporate, NACH/ECS format should be on Firm / Companies Letter Head</li> <li>- For Salaried customer, NACH/ECS to be taken from Salary Account &amp; for self employed customer, NACH/ECS should be from the main business account</li> <li>- NACH/ECS to cover the entire tenor of loan</li> <li>- 6 undated PDC's for EMI amount to be collected from the customer at the time of loan booking.</li> <li>- 2 Undated Principal Value Check (PV) to be collected from the customer for the entire loan amount</li> <li>- NACH/ECS instructions to be entertained only from banks approved by Credit Policy from time to time.</li> </ul>
<p>Post Dated Checks (PDC's)</p>	<ul style="list-style-type: none"> <li>- Minimum 12 PDC's to be collected from the customer. COO can approve a lower number provided that the balance PDC's are collected prior to disbursal.</li> <li>- PDC's to be entertained only from banks approved by Credit Policy from time to time.</li> <li>- For Salaried customer, PDC's to be taken from Salary Account &amp; for self employed customer, PDC's should be from the main business account</li> <li>- Where Partnership Firm is a co-applicant and the firm's income has been considered for loan eligibility, the PDC's must be taken from the FIRM account.</li> <li>- In the event the repayment of loan is not from salaried account of main business account or firm account as the case</li> </ul>

	may be, then it should be from the personal account of main director / partner or key person as the case may be. This is applicable to NACH/ECS as well.
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**Ongoing Monitoring**

Ensuring that the Name team remains fully engaged with the client and in a position to remain updated about credit developments with the client is critical to maintain a high quality credit portfolio.

**1) Ongoing Client Engagement:**

It is expected that at least once a calendar quarter, each originator/structure will conduct a detailed client discussion and review covering all issues that impact the client credit profile. Additionally, the originator/structure must fulfill the duty of analyzing the said financials and related performance data and highlight major developments positive and negative to the Board.

**2) Monitoring:**

We need to monitor the value of security against which financing has been provided as well as the conduct of the client regularly. Timely action has to be taken in case there is any deterioration either in enforceability or value.

## **Know Your Client (KYC)**

For completing the KYC process, clients must furnish all authenticated documents necessary. This includes all charter and incorporation documents, proof of address and business, financial statements and also the KYC documents for important stakeholders and authorized signatories.