

Som Datt Finance Corporation Limited

CREDIT POLICY

Ver 2.0



AUGUST 13, 2025
SOM DATT FINANCE CORPORATION LTD
Hyderabad

Som Datt Finance Corporation Limited

Contents

1. INTRODUCTION AND OBJECTIVES	1
2. REGULATORY FRAMEWORK.....	1
3. CUSTOMER ACCEPTANCE CRITERIA	2
4. PRODUCTS	3
5. DIRECT ASSIGNMENT GUIDELINES	4
6. UNDERWRITING GUIDELINES.....	5
7. CREDIT APPROVAL MATRIX.....	6
8. EXCEPTION/DEVIATION APPROVALS	7
9. RELATED PARTY TRANSACTIONS	7
10. NEGATIVE LISTS	8
11. RISK MANAGEMENT GUIDELINES	9
12. CREDIT COMMITTEE	10
13. INVESTMENT COMMITTEE	10
14. RISK MANAGEMENT COMMITTEE	11
15. POLICY REVIEW AND AMENDMENT	11

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1. INTRODUCTION AND OBJECTIVES

1.1 Purpose

This Credit Policy establishes the framework for credit risk management and lending operations of Som Datt Finance Corporation Ltd ("SDFC"), transitioning from investment-only activities to include lending operations. The policy ensures prudent credit practices while supporting the Company's strategic objectives in targeted market segments.

1.2 Scope

This policy covers all credit products, direct lending, portfolio acquisitions through direct assignment, and related credit risk management activities in compliance with RBI, SEBI and MCA guidelines and Regulations.

1.3 Strategic Objectives

The credit policy of SDFC aims to achieve the following objectives:

- Establish **sustainable lending operations** with **controlled risk exposure**
- Focus on identified target segments: **MSME** and Personal Loans
- Prioritize sectoral expertise in **Healthcare**, Education, **Renewable Energy**, and Mobility
- Maintain **regulatory compliance** across all lending activities
- Build a **diversified, high-quality and sustainable** credit portfolio

1.4 Target Market Segments

Primary Segments:

- Micro, Small and Medium Enterprises (MSMEs)
- Salaried individuals (Personal Loans)

Sectoral Focus:

- Healthcare
- Education: Educational institutions, Skill Development and EdTech partnerships
- Renewable energy projects and installations, Manufacturers and Intermediaries like Service Providers, Dealers, Distributors and Retailors
- Mobility and transportation sector

2. REGULATORY FRAMEWORK

2.1 Applicable Regulations

SDFC's lending operations are governed by:

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- Reserve Bank of India (RBI) Master Directions on Non-Banking Financial Companies and other Guidelines issued from time to time
- RBI Guidelines on Fair Practices Code for Lenders
- Prevention of Money Laundering Act (PMLA) and Rules
- SEBI Regulations e.g LODR, ICDR etc
- Companies Act, 2013 and Rules
- Other applicable statutory and regulatory requirements

2.2 Compliance Monitoring

Regular monitoring and reporting mechanisms are established to ensure ongoing compliance with all applicable regulations.

Following is the Compliance Governance Structure of SDFC:

- **Board of Directors:** Ultimate oversight responsibility for compliance
- **Audit Committee:** Review and monitor compliance effectiveness
- **Executive Risk Management Committee:** Assess compliance-related risks
- **Compliance Officer (CO):** Day-to-day compliance management
- **Internal Audit Function:** Independent compliance testing and validation

In line with the size of the Company, Company Secretary & Compliance Officer roles are combined reporting to the Board of Directors as a KMP. The Policy aims to segregate these functions into two distinct roles once the Company moves into Middle Layer or **later**.

3. CUSTOMER ACCEPTANCE CRITERIA

3.1 Know Your Customer (KYC) Requirements

All customers must undergo comprehensive KYC verification as per RBI guidelines and PMLA requirements. SDFC adopts a risk-based approach to customer due diligence with enhanced verification for higher-risk categories.

Key Requirements:

- Valid identity and address proof as per RBI-prescribed documents
- PAN verification for all borrowers
- Aadhaar authentication where applicable
- Business registration documents for corporate borrowers
- Financial statements and tax returns as applicable

3.2 Anti-Money Laundering (AML) Framework

SDFC implements robust AML measures including:

- Customer risk categorization (Low, Medium, High)
- Enhanced due diligence for high-risk customers
- Ongoing monitoring of customer transactions

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- Suspicious transaction reporting to FIU-IND
- Regular AML training for staff

3.3 Combating Financing of Terrorism (CFT)

CFT measures include screening against prescribed lists, enhanced verification of high-risk customers, and reporting obligations as per regulatory requirements.

4. PRODUCTS

4.1 MSME Lending Products

4.1.1 Working Capital Loans(Includes Receivable Finance, Supply-Chain-Finance, Invoice discounting etc)

- **Purpose:** Short-term funding for operational requirements
- **Quantum:** ₹5 lakhs to ₹5 crores
- **Tenure:** 3 to 12 months
- **Security:** Receivables or Working Capital. Collateral security where required.
- **Target Customers:** Trading, Service and Manufacturing MSMEs

4.1.2 Business Loans (Term Loans)

- **Purpose:** Capital expenditure, business expansion, equipment purchase
- **Quantum:** ₹10 lakhs to ₹5 crores
- **Tenure:** 12 to 60 months
- **Security:** Assets being financed. Collateral, if required
- **Target Customers:** Hospitals, Educational Institutes, Trading, Service and Manufacturing MSMEs

4.1.3 Equipment Loans (Healthcare)

- **Purpose:** Medical equipment, diagnostic machinery, hospital infrastructure etc
- **Quantum:** ₹25 lakhs to ₹5 crores
- **Tenure:** 24 to 60 months
- **Security:** Hypothecation of equipment with additional security
- **Target Customers:** Hospitals, diagnostic centers, Clinics, Doctors etc

4.1.4 Rooftop Solar Installation Loans

- **Purpose:** Solar panel installation for commercial and residential properties
- **Quantum:** ₹1 lakh to ₹2 crores
- **Tenure:** 12 to 60 months
- **Security:** Hypothecation of solar equipment. Collateral where necessary.
- **Target Customers:** Commercial establishments, residential complexes, Individual House/Villa owners/residents.

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4.2 Personal Lending Products

4.2.1 Education Loans (Subvention-Based)

- **Purpose:** Higher education/Skill Courses financing through EdTech partnerships
- **Quantum:** ₹10,000 to ₹3lakhs
- **Tenure:** Course duration. If necessary it can extend 12 months beyond.
- **Security:** Unsecured up to ₹2lakh, secured above
- **Target Customers:** Students enrolled in partner Education programs

4.2.2 Vehicle Loans

These loans are expected to be part of the Loan pools in Direct Assignment to startwith. However, typical features are as below:

- **Purpose:** Two-wheeler and four-wheeler financing
- **Quantum:** ₹50,000 to ₹50 lakhs
- **Tenure:** 12 to 60 months
- **Security:** Hypothecation of vehicle
- **Target Customers:** Individuals, professionals, Business Entities

4.2.3 Personal Loans

- **Purpose:** Personal financial requirements
- **Quantum:** ₹50000 to ₹20 lakhs
- **Tenure:** 12 to 60 months
- **Security:** Unsecured with guarantor requirements where existing loan deductions are higher than 40% of the Gross Salary.
- **Target Customers:** Salaried employees (preferably related entities)

5. DIRECT ASSIGNMENT GUIDELINES

5.1 Portfolio Acquisition Strategy

The Company may acquire loan portfolios through direct assignment arrangements, particularly for vehicle and other loans with tangible security, to establish immediate market presence while building organic origination capabilities.

5.2 Due Diligence Framework

Pre-Acquisition Assessment:

- Originator's track record and financial strength
- Portfolio quality analysis including vintage, delinquency patterns
- Legal compliance and documentation review
- Valuation and pricing assessment
- Servicing arrangement evaluation

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5.3 Eligibility Criteria for Originators

- Minimum 3 years of lending experience
- Strong financial position with adequate capital
- Robust underwriting and collection processes
- Clean regulatory track record
- Technology infrastructure for seamless portfolio transfer

5.4 Portfolio Selection Criteria

- Portfolio age: Minimum 12 months. Preferred age is 24 months
- Geographic concentration limits: Majority of the pool shall be limited to Telangana and A.P. and their neighbouring states or states where we have plans to expand
- Minimum credit score requirements for underlying borrowers
- Maximum NPA levels at acquisition shall not be more than 2%
- Diversification across borrower segments is preferred

6. UNDERWRITING GUIDELINES

6.1 Credit Assessment Framework

The Company employs a comprehensive credit assessment approach combining quantitative analysis and qualitative factors including risk scoring. Wherever applicable , a detailed Risk Scoring matrix would be applied based on the nature of the Loan.

6.2 MSME Underwriting Standards

The following summary of the 1000 point Scoring Model shall be applied. Any deviation that may be required to suit the product and the Customer or Business segments shall follow the Deviation Approval Matrix.

Particulars	Summary
	Max Points
Credit Score	150
Credit History Length	100
Payment Track Record	100
Credit Utilization Pattern	50
DSCR	60
DER	40
Current Ratio	60
EBITDA Margin	60
Business Vintage	50
Turnover Growth	50
Customer Concentration Risk	50
Market position	50
Receivable Ageing	75

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Debtor Quality	75
Bank Account Quality	15
Regulatory Compliance	10
Management Quality	5
Total	1000 Points

6.3 Personal Loan Underwriting

Income Assessment:

- Minimum 2 years employment with current employer
- Gross monthly income verification through salary certificates/bank statements & **Income Tax returns.**
- Fixed Obligation to Income Ratio (FOIR): Maximum 60%
- Credit bureau score: Minimum 650
- Age criteria: 21-60 years

6.4 Security and Documentation

Primary Security: Hypothecation/mortgage of financed asset

Collateral Security: Additional security as per exposure amount and other factors

Documentation: Standard loan documentation including loan agreement, security documents, insurance assignments.

7. CREDIT APPROVAL MATRIX

7.1 Approval Authority Structure

Loan Amount	Approving Authority	Composition
Up to ₹1 Crore	CEO/Managing Director	Individual approval with documented rationale
₹1 Crore to ₹5 Crores	Credit Committee	Minimum 2 members including CEO/MD, CFO, and Business Head
Above ₹5 Crores	Board of Directors	Board resolution with detailed credit appraisal

7.2 Approval Requirements

Documentation Required:

- Detailed Credit and Risk appraisal note
- Legal and technical due diligence reports, where required
- Credit Policy Compliance certification
- Recommendation with conditions and covenants

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7.3 Committee Quorum and Decision Making

- **Credit Committee:** Minimum 2 members with unanimous decision
- **Board Approval:** As per Companies Act requirements and Articles of Association
- All approvals must be documented with clear rationale and conditions

8. EXCEPTION/DEVIATION APPROVALS

8.1 Deviation Categories

Policy Deviations: Variations from standard policy parameters

Process Deviations: Alternative documentation or assessment procedures

Product Deviations: Modified terms and conditions

8.2 Approval Matrix for Deviations

Deviation Type	Approving Authority	Documentation Required
Minor Deviations (within 10% variance)	MD/CEO	Deviation note with justification
Major Deviations (10-25% variance)	Executive Credit Committee	Detailed deviation analysis and risk assessment
Exceptional Cases (>25% variance)	Board of Directors	Comprehensive review with legal opinion

Not all deviations would be objective. Deviations which cannot be quantified but can be reasonably explained and fit into the spirit of the Credit Policy could be approved by the Credit Committee and later reported to the Board for ratification. Periodically the Credit policy shall be updated, with Board's approval, keeping such instances in mind. No deviations shall be allowed if they are not in line with RBI, SEBI and MCA regulations and guidelines issued from time to time.

8.3 Monitoring and Review

All deviations are tracked, monitored, and reviewed quarterly to identify patterns and policy refinement requirements.

9. RELATED PARTY TRANSACTIONS

9.1 Definition and Scope

Related party transactions include lending to group companies, associate entities, key management personnel, and their relatives as defined under Companies Act, 2013, SEBI Regulations and RBI guidelines.

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9.2 Approval Framework

All related party lending transactions require:

Compliance with RBI, SEBI and MCA guidelines and SEBI note on Industry Standards on “Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions”.

9.3 Risk Management

Enhanced Due Diligence:

- Independent valuation of security for material transactions
- Arm's length pricing validation
- Regular monitoring and review
- Separate reporting to Board and regulatory authorities

9.4 Disclosure Requirements

All related party transactions are disclosed in financial statements and regulatory returns as per applicable requirements.

10. NEGATIVE LISTS

10.1 Prohibited Sectors

The Company will not extend credit to the following sectors:

- Capital market and stock broking activities
- Commodities trading and speculation
- Gambling and betting activities
- Tobacco and tobacco-related products
- Liquor and alcoholic beverages
- Activities prohibited under environmental regulations

10.2 Restricted Customer Segments

High-Risk Categories:

- Politically exposed persons (PEPs) without enhanced due diligence
- Customers with adverse credit history or wilful default
- Entities under investigation by regulatory/enforcement agencies
- Shell companies and entities with unclear business purpose

10.3 Geographic Restrictions

Initial Coverage(in order of preference):

- 1) Telangana and Andhra Pradesh

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2) Major metros and Tier-1 cities

3) Adjacent States and States which are in the expansion pipeline

Excluded Regions: Areas with political instability, natural disaster-prone regions, or inadequate legal infrastructure for recovery

10.4 Exceptions and Reviews

The negative list may be reviewed annually by the Board, and exceptions may be considered based on strong business rationale and enhanced risk mitigation measures.

11. RISK MANAGEMENT GUIDELINES

11.1 Credit Risk Management Framework

The Company maintains a comprehensive credit risk management system covering identification, measurement, monitoring, and mitigation of credit risks across all lending activities.

11.2 Portfolio Management

Concentration Limits:

The following exposure limits are **aspirational** during the first year of lending operations. **However, progress needs to be reported to the Board Half-yearly**

- Single borrower exposure: Maximum 15% of capital funds
- Group exposure: Maximum 40% of capital funds
- Sectoral concentration: Maximum 30% in any single sector
- Geographic concentration: Maximum 40% in any single state. (Exception to Telangana and AP till March 2027).

11.3 Early Warning Systems

SDFC shall implement early warning indicators to identify potential stress in individual accounts and portfolio segments, enabling proactive risk management measures.

11.4 Provisioning and Write-offs

Provisioning policies shall be in line with RBI guidelines and accounting standards, with clear write-off procedures for irrecoverable debts.

11.5 Stress Testing

Regular stress testing of the credit portfolio under various economic scenarios to assess resilience and capital adequacy.

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12. CREDIT COMMITTEE

SDFC credit committee is set up at the Executive level to start-with.

12.1 Composition

Credit Committee Members:

- Managing Director (Chairperson)
- Chief Executive Officer
- Chief Financial Officer
- Head of Business Development

12.2 Responsibilities

- Credit policy implementation and monitoring
- Large exposure approvals within delegated authority
- Portfolio review and performance assessment
- Exception and deviation approvals
- Credit concentration monitoring

12.3 Meeting Frequency

Regular Meetings: Monthly or as required

Special Meetings: For urgent credit decisions

Quorum: Minimum 2 members including MD/CEO

12.4 Documentation and Reporting

All committee deliberations, decisions, and dissenting views are documented with regular reporting to the Board of Directors.

13. INVESTMENT COMMITTEE

13.1 Composition and Role

While the Company is transitioning to lending, the Investment Committee set up as per Investment Policy shall oversee existing investment activities and potential portfolio investments. The Composition of the Investment Committee would be the same as the Credit Committee for the first two years of lending operations i.e. upto March 2027, unless otherwise notified.

13.2 Oversight of Direct Assignment

The Investment Committee provides oversight for significant direct assignment transactions, ensuring alignment with overall business strategy and risk appetite.

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13.3 Integration with Credit Activities

Coordination between investment and credit activities shall be ensured to optimize resource allocation and maintain balanced portfolio approach.

14. RISK MANAGEMENT COMMITTEE

All NBFCs are required to constitute a Risk Management Committee. For NBFC-Middle Layer and upwards it shall be at the Board Level. Since SDFC is a Base Layer NBFC the committee is constituted at the Executive level.

14.1 Composition

Committee Members:

- Managing Director
- CEO
- Chief Financial Officer
- Head of Business Development

14.2 Responsibilities

- Overall risk governance and policy oversight
- Risk appetite setting and monitoring
- Regulatory compliance monitoring
- Risk reporting to Board of Directors
- Crisis management and business continuity

14.3 Meeting Frequency and Reporting

Meetings: At least twice in a year or as required

Reporting: Comprehensive risk reports to Board covering all risk categories

15. POLICY REVIEW AND AMENDMENT

15.1 Review Schedule

This Credit Policy will be reviewed annually or earlier if required due to:

- Regulatory changes
- Significant business environment changes
- Portfolio performance indicators
- Risk management requirements
- Other valid reasons

15.2 Amendment Process

Policy amendments require Board approval with proper documentation of rationale and impact assessment.

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15.3 Communication and Training

All policy updates shall be communicated to relevant staff with appropriate training to ensure effective implementation.

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Approved by: Board of Directors

Policy Owner: Managing Director

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