



# Edel Finance Company Limited

## Risk Appetite Statement

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	1	November 8, 2022
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## 1. INTRODUCTION

Edel Finance Company Limited (EFCL) is a Systemically Important Non-Deposit taking Core Investment Company registered under the relevant provisions with the Reserve Bank of India. The Company is operating as a Core Investment Company and the Board does understand that the business is exposed to certain financial and non- financial risk in the business, and accordingly it is vital that a Board level risk strategy/ guidance is provided to the management enabling them to manage the risk appropriately.

EFCL applies the Risk Appetite definition applied universally i.e.

**“The aggregate level and types of risk, a financial institution is willing to assume within its risk capacity to achieve its strategic objectives and business plan.”**

The risk appetite is approved periodically by the Board of Directors of EFCL with the goal of aligning risk- taking with extent statutory requirements, strategic business objectives and capital/ resource planning. The Group Risk Management Committee (GRMC) with the help of the senior management monitors EFCL’s adherence to the Risk Appetite Statement (RAS) and make necessary modifications/updates to capture changes in EFCL’s strategic priorities, operating environment, and risk profile.

## 2. OBJECTIVE

The overall purpose of the RAS is to articulate the Company’s overall desired level of exposure to various risk types both quantitatively and qualitatively.

The Risk Strategy includes a number of key risk areas that define the risk appetite of EFCL.

In summary, the objectives of the RAS are as follows:

- ✓ To provide a clear articulation of EFCL’s risk-taking, risk mitigation and risk avoidance strategy at a Company level;
- ✓ To positively impact the defined risk culture of the Company;
- ✓ To support the Board of Directors and the senior management in planning,

formulating, and executing strategic business decisions to achieve mid-term and long-term targets; and

- ✓ To assist the Board of Directors and senior management to continuously monitor and align the Company's actual risk profile with the risk appetite.

### **3. SCOPE**

This RAS applies to EFCL. Risks are identified, assessed, and managed at the Company Level.

### **4. APPROACH**

The Company is exposed to significant financial and liquidity risks and the Company manages these risks prudently in line with its policies/tolerance limits.

The Company recognizes it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation and efficiencies within normal business operations.

Risk capacity defines the level of risk EFCL can assume given its resources before breaching one or more of its capital base, liquidity, and borrowing capacity, reputational and regulatory prescriptions/constraints.

### **5. POTENTIAL RISK AREAS AND APPETITE THEREOF**

There are several material types of risk inherent in the EFCL's business model and strategic plan that are actively identified, assessed, mitigated, and monitored. Nevertheless, there is always the risk of unforeseen developments that could impede the overall business plan.

Across each Risk, several Key risk indicators (KRI) are presented to support the risk appetite statement. For every KRI an early warning level and/or risk appetite limit is determined to manage the risk profile within its desired risk appetite.

## 5.1 CREDIT RISK

Amended

Below thresholds would be monitored as part of credit risk:

Risk Nature	Threshold	Early warning Trigger
Gross NPA	1%	Loan staging classification from Stage 1 to Stage 2
Net NPA	1%	Loan staging classification from Stage 1 to Stage 2

*Note: The credit risk in respect of NPA is considered low as the Company being a Core Investment Company (CIC), disburses loans to group companies and on account of there being no past precedence of default.*

## 5.2 LIQUIDITY RISK

Below thresholds would be monitored as part of liquidity risk:

Risk Nature	Threshold
Liquidity Gap	1 to 7 day bucket: -10% 8 to 15 day bucket: -10% 15 to 30/31 day bucket: - 20% Up to 12M bucket: -15%

Below stock ratios will be monitored:

Risk Nature	Threshold	Early Warning Trigger
Short term liabilities*** to total liabilities	15%	12%
Short term liabilities to total public funds*	15%	12%
Short term liabilities to total assets	15%	12%
Commercial Papers as a % of total liabilities**	15%	12%
Commercial Papers as a % of total public funds	15%	12%
Commercial Papers as a % of total assets	10%	6%

\*"Total public funds" refers to the aggregate of Debt securities, borrowings other than debt securities and subordinated liabilities.

\*\* "Total liabilities" refers to total external liabilities (i.e. excluding total equity)

\*\*\*" Other Short-Term Liabilities represents Total of Balance Sheet excluding total equity, Debt Securities, Borrowings (Other than Debt Securities) and Subordinated Liabilities for maturity falling within 12 months.

Below concentrations will be monitored:

Risk Nature	Threshold	Early Warning Trigger
Sources of funding - instrument wise maximum % limit: Commercial Papers	0 to 15% of total liabilities	12% of total liabilities
Sources of funding - instrument wise maximum % limit: Bank Lines	< 75% of total liabilities	70% of total liabilities
Sources of funding - instrument wise maximum % limit: NCD	< 75% of total liabilities	70% of total liabilities

### 5.3 MARKET RISK

Market risks within EFCL is very limited. Investment in Financial Instruments/ securities of subsidiaries is an important activity of EFCL. Market Risk is the risk or uncertainty arising from possible market movement and other impacts on the performance of the business.

Risk Nature	Threshold
Individual Product Investment Limits	Investments in the equity shares* in group companies and units of Infrastructure Investment Trusts (InvITs) only as sponsor should not be less than 60% of net assets

\*including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue

## 5.4 INTEREST RATE RISK

Changes in prevailing interest rates will adversely affect the earnings stream of EFCL. This includes interest income and dividend expense effects. A long-term impact of changing interest rates is on the Net Worth as the economic value of CIC's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

Risk Nature	Threshold
Interest rate gap	1 % (RSA-RSL) < 10% of PBT / Loss for buckets upto 12 months

## 5.5 COMPLIANCE RISK

EFCL is committed to high level of governance and compliance with relevant legislation and regulation. Identified breaches of compliance will be remedied at the earliest.

**EFCL has no appetite / zero tolerance for:**

- Delay in submitting regulatory returns / communication pertaining to Compliance (unless extension sought)
- Delay in Filing of ROC forms
- Delay in Filing of Disclosures / Intimations with Stock Exchanges
- Penalties imposed by Regulators

## 5.6 OPERATIONAL RISK

EFCL's appetite for operational risks is detailed below.

### 1) Operational Risk

The risk appetite statement for Operational Risk focuses on following strategic goals:

- Adequacy and effectiveness of control environment of company operations
- Early identification of unlawful activities

Risk Nature	Threshold	Early Warning Level
Loss arising out of a single fraud instance	Employee fraud: Zero tolerance	Employee fraud Zero tolerance
Loss arising out of fraud instance (cumulative)	Employee fraud: Zero tolerance	Employee fraud Zero tolerance

### 2) People Risk

EFCL is strictly committed to Zero - tolerance for sexual harassment and takes essential steps to ensure that employees are not subjected to any form of harassment. Moreover, EFCL is committed to creating a safe working environment for its staff, where people are protected from physical or psychological harm.



Below threshold would be monitored:

Risk Nature	Threshold	Early Warning Level
Vacation of position of Key Managerial Personnel	5 months from the date of resignation	4 months from the date of resignation

## 5.7 INFORMATION SECURITY RISK

Below threshold would be monitored as part of Information security risk:

Risk Nature	Threshold	Early Warning Level
No. of system incidents where antivirus is not updated within stated time	Zero tolerance	Zero tolerance
Number of incidents where employees have forwarded sensitive/confidential information to unauthorized/personal email ID	Zero tolerance	Zero tolerance

## 5.8 COMPANY LEVEL THRESHOLD

Below threshold would be monitored:

Metric	Threshold	Early Warning Level
Target capital ratio	Minimum Capital Ratio should not be below 30%	32%
Leverage ratio	Maximum 2.5 times the Adjusted Net Worth	2.3
Exposure in group companies (in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans)	>90% of net assets	92% of net assets
Exposure in group companies (in the form of investment in equity shares)	>60% of net assets	62% of net assets

## 6. IMPLEMENTATION

### 6.1 COMMUNICATION

The Risk Appetite Statement will be communicated to the staff in an appropriate manner.

### 6.2 REPORTING AND MONITORING

Performance against these metrics is tracked and reported to the Group Risk Management Committee on a periodic basis and any variations outside of tolerances are to be immediately reported to the Group Risk Management Committee for onward intimation to the Board

along with a remediation plan.

Breach of risk appetite limit requires mitigating actions to be taken. Breach of the early warning level triggers a warning signal and may require increased monitoring and possible mitigating actions to be taken. Such events require immediate attention of the senior stakeholders of the Company.

### 6.3 REVIEW

This Risk Appetite Statement is reviewed annually or immediately whenever there is a significant change to Company's operating environment. Proposed changes to the Risk Appetite Statement are recommended by the ICAAP Working Group and recommended for approval and noting to the Group Risk Management Committee and further to the Board.

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