



# Edel Finance Company Limited

## Contingency Funding Plan

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## 1. INTRODUCTION

Edel Finance Company Limited ('EFCL' or 'the Company') is a Core Investment Company (CIC) registered with Reserve Bank of India (RBI) as NBFC-CIC-ND-SI, engaged in group investments and lending. The Company was incorporated on October 16, 1989 and is a wholly owned subsidiary of Edelweiss Financial Services Limited (EFSL).

This document captures in essence the Company's approach towards resource mobilization through Banking, Debt/Other instruments and other term borrowings. Such a well well-defined policy is essential for business growth while at the same time ensuring adherence to critical parameters on risks like liquidity, asset/liability management and interest rate sensitivity. A well-designed Contingency Funding Plan (CFP) supported by defined signals ensures effective management of immediate and future liquidity requirements. The policy will be fine-tuned as and when necessary with the approval of the Board to take into account the emerging dynamics in the market.

## 2. OBJECTIVE

Given the scale of operations of the Company, with inherent risks arising out of the structure and nature of its asset & liability mix of EFCL, it is important to have an effective policy framework, along-with necessary tools, to address these risks, especially those related to liquidity risk. The objective of CFP is to:

- (a) Lay down a broad framework on Liquidity Management by ensuring availability of adequate liquid resources with a view to keep maturity mismatches in the Balance Sheet within desired levels.
- (b) Providing guidelines for utilisation of liquidity buffers and sources of funds during contingency liquidity situation.
- (c) Ensure adequate liquidity with a continued focus on growth and balance sheet strengthening through phased consolidation of group company holdings.

With this objective, the treasury team is entrusted with the task of reviewing the macro-economic scenario, impact of industry and regulatory changes and deciding the strategy on the source, tenor and mix of assets & liabilities, in line with its business plans, considering on the future direction of interest rates.

Any structural liquidity gap shall immediately trigger a contingency funding plan. Any structural liquidity gap in the one year bucket shall be addressed proactively by a planned resource raising of adequate amount and appropriate tenor. Similarly, any structural gap in the 0-3 month bucket shall be addressed on an urgent basis.

The Company shall endeavour to maintain **adequate liquidity buffer** through high-quality liquid assets (HQLA) by maintaining atleast 1 times of the scheduled repayments due in next 3 months or 10% of total liability cover for 30 days of stress cash flow, whichever is higher. HQLA for the above purpose shall mean cash and cash-equivalents, liquid mutual funds and callable loans given to group companies.



This document aims to formalize EFCL's strategy regarding long term and short term mobilization of resources. The broad plan relating to business growth and the requirement of funding together with the desired mix of resources for the Company and the resource mobilization plan for each financial year shall be decided in advance and put up to the Board for concurrence.

The policy will be duly updated as and when necessary to consider the emerging dynamics in the systematic market environment and adherence to any change in regulations.

#### 4. ADMINISTRATION

The initial policy document as placed before the Board of EFCL and as approved by them along with the annual reporting to the Board as envisaged in the Policy is the primary responsibility of the ALCO committee. The ALCO Committee will administer the policy and will be responsible for the implementation of processes and procedures to ensure that the Contingency Funding Plan is followed. The Administrator is also authorized to make modifications to the CFP and to the format of reporting from time to time to ensure that it is in compliance with the program.

#### 5. REGULATORY FRAMEWORK

The Company shall follow the guidelines on private placement of Non-Convertible Debentures (NCDs) as per RBI Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 or extant RBI directions as applicable. The provisions of Companies Act, 2013 and Rules framed thereunder shall be applicable wherever not contradictory.

#### 6. APPLICABILITY

This Policy applies to all kinds of resources that the Company is already using to fund its assets as also any new category of liability or newer instrument in the nature of bonds/NCDs which the Company plans to pursue during the financial year.

However, the policy does not cover raising of resources for capital augmentation like issue of fresh equity/convertible debentures/preference shares etc. which will be examined by the Board at the appropriate time.

The following qualitative & quantitative early warning signals will be considered for evaluation of potential liquidity risk before triggering the CFP.

Qualitative indicators are to be followed on the best judgment of ALCO committee members.

### **Qualitative Early Warning Indicators**

- Downgrade or announcement of potential downgrade of rating of EFCL/EFCL subsidiaries, by rating agencies.
- Overall economy experiencing tight liquidity position.

#### **a) Quantitative Early Warning Indicators**

Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches up to one year would be relevant since these provide early warning signals of impending liquidity problems, the main focus shall be on the short-term mismatches, viz., 1-30/31 days.

As per revised guidelines, the net cumulative negative mismatches in the maturity buckets 1-7 days, 8-14 days, and 15-30 days shall not exceed 10%, 10% and 20% of the cumulative cash outflows in the respective time buckets. The cumulative gap upto the one year period should not exceed 15% of the cumulative cash outflows upto one year period. The Company, however, is expected to monitor their cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits as defined in the Risk Appetite Statement.

## **7. RESOURCES MANAGEMENT AND FUNDING STRATEGY**

The Company shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. The Company should maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources.

Resources will be raised through a variety of debt instruments from diversified sources keeping in mind the cost and tenor of borrowing as well as balance sheet requirements.

### **A. Short term resources**

Sources with maturity up to or less than 12 months shall be considered as short term resources.

- Term Loan from Bank/FI:** Bank Credit will be sourced from various public / private sector commercial banks and/or financial institutions by way of short-term loan.
- Commercial Papers (CPs):** CPs, ranging from 7 days to 1 year tenor, are primarily raised through liquid and/or ultra short term schemes of debt mutual funds.

Corporates have been the holders of CPs issued by EFCL.

- iii. **Borrowing from Parent / Group Company:** The Board of the Company shall assign limits and delegate authority for making borrowings from Parent / Group Company.

## **B. Long term resources**

Sources having maturity of more than 12 months shall be considered as long term resources.

### **i. Term Loans:**

EFCL may avail term loan facility from private as well as public sector banks and financial institutions. The tenure of such loan may range from 12 – 60 months.

### **ii. Private Placement of Non-Convertible Debentures/Bonds (NCDs):**

For longer tenor borrowings, EFCL issues Debentures on private placement basis. These are largely collateralized with appropriate asset covers as mandated by the lenders and agreed by the Company. Treasury of Commercial Banks, Corporates, Mutual Funds, Insurance Companies, Provident/Pension Fund Trusts are active investors in these papers.

Debentures can be issued for deployment of funds on EFCL's own balance sheet and also to facilitate resource requests of group companies.

The Debentures shall be issued at regular time-intervals and in such frequency as may be determined by the Board (to include any Committee thereof) in accordance with regulatory stipulations that govern the same. The Debentures can either be issued as secured or unsecured, in accordance with the regulations.

- iii. **Borrowing from Parent / Group Company:** The Board of the Company shall assign limits and delegate authority for making borrowings from Parent / Group Company.

Note 1: The Company will ensure that the guidelines of RBI are strictly adhered to in all the above cited fund raising operations.

Note 2: The aggregate of all borrowings will be within the overall limit set by the Board.

## 8. REGULATORY FRAMEWORK

The ALCO Committee shall follow the Contingency Funding Plan (CFP) for responding to severe disruptions which might affect the Company's ability to fund some or all of its activities in a timely manner and at a reasonable cost. The following CFP is currently applicable:

Potential funding sources	Estimated amount which can be drawn from these sources	Escalation/Approval procedures	Lead time to withdrawal
Funding support from sale of external liquidable assets	To the extent available	1) As per the Company process 2) Reporting at the ALCO Meeting	1d-30d
Reduce deployment to subsidiaries to maintain adequate liquidity	As per requirement	1) As per the Company process	Immediate
Issuance of NCDs to third parties/group companies	As per requirement	1) As per approved limits	30d-45d
Funding support from Parent/Group Company	As per requirement	1) As per the Company process 2) Reporting at the ALCO Meeting	1d-30d
Sale of internal Group investments	As per requirement	1) As per the Company process 2) Reporting at the ALCO Meeting	90d-180d

Note:

The Company shall endeavour to maintain **adequate liquidity buffer** through high-quality liquid assets (HQLA) by maintaining atleast 1 times of the scheduled repayments due in next 3 months or 10% of total liability cover for 30 days of stress cash flow, whichever is higher. HQLA for the above purpose shall mean cash and cash-equivalents, liquid mutual funds and callable loans given to group companies.

In instances where liquidity stress is foreseen in projections, the Company shall prioritize the utilization of Sale of Group investment much in advance given the lead time. For exigencies requiring immediate attention, the Company shall rely on group or parent support as delineated heretofore. The parent company may provide a letter of support in case of any exigencies.

### **Asset Liability Committee (“ALCO”)**

The ALCO Committee shall advise on the following matters:

- a. Evaluate opportunities for sell down of exposure, on an on-going basis, and thereby improve the efficiency of balance sheet.
- b. Approve the formulated CFP
- c. Periodically review the CFP, including a review of liquidity stress testing, potential sources of funds, capacity to raise funds quickly from sources identified and defined normal levels for the liquidity risk indicators.
- d. To regularly gauge the capacity to raise funds quickly from each source (including monitoring concentration of the sources of funding).
- e. Examine on an ongoing basis, the most optimum funding options commensurate with emerging balance sheet needs & risk tolerance.
- f. Determine optimal borrowing mix and raise fresh borrowings via various securities and instruments including NCDs, Commercial Paper, borrowings from Banks and other Financial Institutions and to negotiate and settle essential terms like interest rate, tenor, security.
- g. Monitor the liquidity of the Company across all time buckets and maintain adequate liquidity at all points in time and take corrective action promptly, as necessary.
- h. Monitor model output under stress liquidity condition as part of liquidity contingency plan to ensure adequacy under all situations.
- i. Adhere to the Debt Equity parameters as laid out by ALCO.
- j. Develop strategy to ensure roll over /enhancement of existing borrowings.
- k. Ensure adequate funds to facilitate buy-back of Commercial Paper.
- l. Examine market conditions that may warrant pre-emptive actions in resources management.
- m. To monitor on a monthly basis, the movements in the coupon at which long-term and short-term debts are raised by the Company.
- n. To avail guarantee from the Holding Company and/or other Group Company (ies) in connection with a loan, financial assistance, etc availed by the Company from Bank, Financial Institution, Non-Banking Financial Companies, other body corporates, etc.
- o. To avail security from the Holding Company and / or other Group Company (ies) to be provided as collateral/security in connection with a loan, financial assistance, etc availed by the Company from Banks, Financial Institutions, Non-Banking Financial Companies, other body corporates, etc.
- p. To do all such acts, things or deeds as may be necessary to the exercise of the above

powers.

- q. To authorize the Executives of the Company / Holding Company / Group Company for the aforesaid purposes including (i) signing various agreements, complaints, notices, applications, documents, submissions, instructions, etc., (ii) to represent the Company in various matters and submit the aforesaid documents and (iii) to alter / modify / change such aforesaid authorities, from time to time.

## 10. EXCEPTIONS

All exceptions to above parameters / framework to be approved by MD or CFO of the Company and reported to ALCO/ALM Working group.

## 11. REVIEW OF POLICY

The Policy shall be reviewed annually and may be revised from time to time in accordance with the changing market scenario and /or Regulatory guidelines and shall be presented to the Board for approval.