INVESTMENT POLICY

Approver	Board of Directors
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1.	01.12.2022	Annual Review
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4.	27.06.2025	Amendment

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1. INTRODUCTION

ESAF Financial Holdings Private Limited (EFHPL) is a Systemically Important, Non- Deposit taking, Core Investment Company registered with the Reserve Bank of India (RBI) with effect from 26th February, 2020. The Company is a private company governed by the Companies Act, 2013, in addition to the oversight of the Non-Banking Supervision (DNBS) of Reserve Bank of India.

The Reserve Bank of India (RBI) vide RBI/DNBR/2016-17/39, Master Direction DNBR PD 003/03.10.119/2016-17, updated as on November 22, 2019 advises the Board of Directors of every Core Investment Company to frame an appropriate Investment Policy for the Company and implement the same.

As per the RBI's Scale-Based Regulatory Framework for NBFCs, the company, being a Core Investment Company (CIC) is classified under the "Middle layer".

2. OBJECTIVE

1. Safety

Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The idea of safety is to mitigate credit risk, interest rate risk.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow purposed.

3. Yield

The investment portfolio shall be managed with the objective of attaining a competitive rate of return given the constraints of the aforementioned safety and liquidity objectives.

3. DEFINITIONS

1. "Act" means Reserve Bank of India Act,1934.

2. "BoD" means the Board of Directors of ESAF FINANCIAL HOLDINGS PRIVATE LIMITED.

3. "Break up value" means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company.

4. "Carrying cost" means book value of the assets and interest accrued thereon but not received.

5. “Company” means ESAF FINANCIAL HOLDINGS PRIVATE LIMITED registered under the Companies Act 1956.

6. “Companies in the group” means an arrangement involving two or more entities related to each other through any of the following relationships: Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee (as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.

7. “Current investment” means an investment which is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made;

8. “Master Direction” means, Master Direction- Reserve Bank of India (Non-Banking Financial Company- Scale Based Regulation) Directions, 2023, RBI/DoR/2023-24/106 updated as on March 21, 2024; read with Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016, RBI/DoR(NBFC)/2016-17/39 updated as on October 05, 2021.

9. “Investment” means investment in shares, stock, bonds, debentures or securities issued by the Government or local authority or other marketable securities of a like nature

10. “Earning value” means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non- recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalised at the following rate :- (a) in case of predominantly manufacturing company, eight per cent; (b) in case of predominantly trading company, ten per cent; and (c) in case of any other company, including an NBFC, twelve per cent; Note: If, an investee company is a loss-making company, the earning value will be taken at zero;

11. “Fair value” means the mean of the earning value and the breakup value and discounted cash flow value method;

12. “Net asset value” means the latest declared net asset value by the concerned mutual fund in respect of that particular scheme;

4. CONDITIONS FOR INVESTMENT

EFHPL is a Core Investment company registered under the Bank. As per the Master directions, there are fundamental conditions as below which shall be complied with by the Company, with applicable amendments, if any, from time to time.

1. Company shall hold not less than 90% of its net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in Companies in the group.

2. Company's investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in Group companies and units of Infrastructure Investment Trust only as sponsor constitute not less than 60% of its net assets as mentioned in clause (1) above

3. Company shall not trade in its investments in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment

4. Company shall not carry on any other financial activity referred to in Section 45I(c) and 45I (f) of the Act, 1934 except

   (a) investment in (i) bank deposits (ii) money market instruments, including money market mutual funds and liquid mutual funds (iii) government securities, and (iv) bonds or debentures issued by group companies,

   (b) granting of loans to group companies

   (c) issuing guarantees on behalf of group companies

5. STANDARDS OF CARE

5. Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. EFHPL Recognizes that no investment is totally free from risk and that occasional measured losses are inevitable in a diversified portfolio and will be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of EFHPL.

6. Ethics & Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and officers shall disclose any material interests in financial institutions in which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officials shall refrain from undertaking personal investment transactions with the same individual or company with which business is conducted on behalf of EFHPL.

7. Delegation of Authority

The Board of Directors may delegate the authority to manage the investments of the Company to any official or a sub-committee, who/which shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Board of Directors.

6. INVESTMENTS AND DISINVESTMENTS

1. The BoD shall approve any investments or disinvestments made by the Company.

2. Any changes in the group structure, including acquisition or divestment of subsidiaries or associate companies, shall be reported to the Reserve Bank of India within 30 days and prior approval obtained wherever mandated.

3. Investments in unlisted or unrated group companies shall be subject to a due diligence framework approved by the Board. A credit evaluation process shall be followed and exposure limits shall be set to mitigate risk.

4. Company shall have an Investment Committee to manage the investment. The responsibilities of Investment Committee shall be the following

    a. Investment of funds as per Master Directions and instruction from the BoD,

    b. Day to day monitoring of Investment portfolio,

    c. Disposal of securities and realization of proceeds and revenue dues,

    d. Accounting of the Securities transactions and reconciliation thereof,

    e. Review of portfolio as and when required.

    f. Quarterly reporting to the BoD on the status of investment portfolio.

5. The BoD shall nominate an Investment Committee. Three of the Directors (out of which one shall be managing Director) shall be in the committee and 2 members shall form the quorum.

7. CLASSIFICATION OF INVESTMENTS

The investments have to be classified into Current Investments and Long term Investments at the time of making each investment.

The investments which the Company will hold will be treated as assets of the Company and the investments should earn income for the Company by way of dividends, interest and/or capital appreciation and should be in full compliance with RBI stipulations wherever applicable. The investments of EFHPL will be classified into the following two categories:

A. **Long Term Investment**
   Any investment, which is made for the period of 1 year or above, is to be classified as Long Term Investment.

B. **Current Investment**
   Any Investment made in Liquid funds or for the period lesser than 1 year, is to be classified as Current Investment.

Renewal of the investments will be treated as a fresh investment and dealt with accordingly.

8. TRANSFER OF INVESTMENTS

EFHPL does not intend to make any inter- class transfer of investments. If it becomes absolutely necessary then such transfers shall be effected at the beginning of the half year on 1st April or 1st October with the approval of the Board.

9. ACCOUNTING AND VALUATION

1. Valuation of the investments shall be strictly in accordance with the provisions of the Master Direction issued by the Reserve Bank of India.

2. The investments shall be transferred scrip-wise, from current to long-term or viceversa, at book value or market value, whichever is lower;

3. Quoted current investments shall for the purposes of valuation, be grouped into the following categories, viz. (i) equity shares, (ii) preference shares, (iii) debentures and bonds, (iv) Government securities including treasury bills, (v) units of mutual fund, and (vi) others.

4. Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

5. Unquoted equity shares in the nature of current investments shall be valued at cost or Breakup Value, whichever is lower. However, Company may substitute fair value for the Breakup value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at one Rupee only.

6. Unquoted preference shares in the nature of current investments shall be valued at cost or face value, whichever is lower.

7. Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.

8. Unquoted investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.

9. A long term investment shall be valued in accordance with the Accounting Standard issued by ICAI.

10. The impairment in value of investments shall be provided fully.

10. INCOME RECOGNITION AND ASSET CLASSIFICATION

RBI norms regarding Income Recognition reproduced above shall be strictly complied with while recognizing income from investments. Such investments shall be classified in strict conformity with the current RBI norms.

11. RISK WEIGHT

The company shall adhere to all applicable guidelines notified therein, including the requirement to conduct an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis.

The investments shall be assigned the Risk weight indicated by RBI in their Notification and reproduced above for calculating Capital adequacy.

12. PERFORMANCE REVIEW & REPORTING

The CFO (Chief Financial Officer) will periodically report the performance of EFHPL's investments. Investments held at the end of each quarter will be disclosed in quarterly balance sheets being put up for board's consideration.

13. REVISION

The Investment Policy shall be reviewed annually by the Board of Directors and benchmarked against peer CICs and any changes in RBI directions. The review shall include performance evaluation and regulatory compliance checks

14. ADOPTION

This policy and any changes made during the annual reviews shall be adopted by resolution of the Board of Directors.