



INVESTMENT POLICY

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1. INTRODUCTION

ESAF Financial Holdings Private Limited (“EFHPL” or “the Company”) is a Systemically Important, Non- Deposit taking, Core Investment Company registered with the Reserve Bank of India (RBI) with effect from 26th February, 2020. As per the RBI’s Scale-Based Regulatory Framework for NBFCs, the company, being a Core Investment Company (CIC) is classified under the “NBFC - Middle layer”.

The RBI requires the Board of Directors of every CIC to frame and implement an appropriate Investment Policy for the Company and implement the same.

This Investment Policy (“Policy”) has accordingly been formulated to provide a framework for investment of funds by EFHPL, while ensuring compliance with the provisions of the Master Direction – Core Investment Companies (Reserve Bank) Directions, 2016, as amended from time to time (“CIC Directions”); Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, as amended from time to time (“SBR Directions”); applicable RBI circulars, notifications, directions, FAQs and regulatory instructions; the Companies Act, 2013 and rules made thereunder; the Foreign Exchange Management Act, 1999 (“FEMA”) and regulations/directions issued thereunder; Indian Accounting Standards (“Ind AS”), where applicable; and any other applicable laws and regulatory requirements as may be applicable to the Company from time to time.

In case of any inconsistency between this Policy and any statutory or regulatory requirement, the applicable statutory or regulatory requirement shall prevail.

2. OBJECTIVE

The primary objectives of the Company's investment activities shall be as follows:

1. Safety

Investments shall be made prudently with the objective of preserving capital and minimising credit, market, liquidity, concentration and other relevant risks.

2. Liquidity

The investment portfolio shall be maintained with adequate liquidity to meet the Company's operating, statutory, financial and other reasonably anticipated requirements.

3. Return

The investment portfolio shall be managed with the objective of earning an appropriate risk-adjusted return, consistent with the Company's safety, liquidity and regulatory requirements.

4. Capital Preservation

Investment decisions shall consider their impact on the Company's Adjusted Net Worth (“ANW”), regulatory capital, leverage, liquidity and overall risk profile, while maintaining the prescribed regulatory structure and prudential ratios.

5. Regulatory Compliance

All investments shall be undertaken in compliance with the RBI Master Directions, the Companies Act, 2013, FEMA, applicable SEBI regulations and other applicable laws and regulatory requirements.

3. REGULATORY FRAMEWORK AND APPLICABILITY

1. This Policy shall apply to all investments and disinvestments undertaken by the Company, whether directly or through any approved investment structure.
2. The Company shall comply with the CIC Directions as amended from time to time for its specified investments in group companies and such other investments as may be expressly permitted by RBI.
3. The Company shall not undertake any investment activity which would result in it carrying on any financial activity prohibited for a CIC.
4. Any regulatory relaxation, exemption or specific permission granted by RBI to the Company shall be taken into account while implementing this Policy.
5. The Company shall maintain a liquidity risk management framework including monitoring of cash flow mismatches, stress testing under various scenarios and preparation of a contingency funding plan. These shall be reviewed by the Risk Management Committee on a half yearly basis.
6. The Board shall constitute an Investment Committee comprising such Directors and/or senior management personnel as it may determine from time to time, for the purpose of evaluating, approving and monitoring investment proposals within the powers delegated by the Board. The Investment Committee shall operate within the investment parameters, exposure limits, risk appetite and other conditions approved by the Board.

4. DEFINITIONS

1. **“Board”** means the Board of Directors of ESAF Financial Holdings Private Limited.
2. **“Carrying cost”** means book value of the assets and interest accrued thereon but not received.
3. **“Company”** means ESAF Financial Holdings Private Limited registered under the Companies Act 1956.
4. **“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.

For the purpose of determining compliance with the CIC criteria, only companies qualifying as group companies under the applicable RBI framework shall be considered. LLPs and partnership firms do not qualify as “companies” for this purpose.

5. **“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;
6. **“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;
7. **“Fair value”** means the mean of the earning value and the breakup value and discounted cash flow value method;
8. **“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, subject to the applicable regulatory framework.
9. **“Long-Term Investment”** means an investment other than a current investment.
10. **“Master Direction”** means, Master Direction – Core Investment Companies (Reserve Bank) Directions, 2016, as amended from time to time (“CIC Directions”) and Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, as amended from time to time (“SBR Directions”).
11. **“Net assets”** means net assets as defined under the CIC Directions. For purposes of determining CIC eligibility, net assets exclude the items specified by RBI, including cash and bank balances, investments in money market instruments and money market mutual funds, advance payment of taxes and deferred tax payments.

Words or expressions not defined in this Policy shall have the meaning assigned to them under the applicable law, RBI Directions or other applicable regulations.

5. CONDITIONS FOR INVESTMENT

The Company being a Core Investment company (CIC) registered under the Reserve Bank of India, shall at all times endeavor to maintain the conditions prescribed for a CIC:

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. The Company shall monitor the 10% portion of net assets permitted outside the prescribed group-company investments. Such portion may include real estate or other fixed assets required for the effective functioning of the Company but shall not include other financial investments or loans in non-group companies.

6. INVESTMENT PRINCIPLES AND STANDARDS OF CARE

All investment decisions shall be guided by the following principles:

1. 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.

2. Liquidity

The Company shall maintain adequate liquidity to meet its obligations.

3. Risk-Adjusted Return

Expected return shall be evaluated in conjunction with the risks associated with the investment.

4. Diversification

The Company shall monitor concentration risk and, where appropriate, establish internal exposure limits for individual entities, sectors, instruments and other relevant categories.

5. Due Diligence

Adequate financial, legal, commercial, regulatory and valuation due diligence shall be undertaken before material investments.

6. No Speculative Investments

The Company shall not undertake speculative trading or investments inconsistent with its status and business model as a CIC.

7. Ethics & Conflicts of Interest

Directors, Key Managerial Personnel, Investment Committee members and employees involved in investment decisions shall disclose any direct or indirect interest in an investee entity or transaction. Any person having a conflict of interest shall not participate in the decision-making process relating to such investment. Employees and officials involved in the investment function shall not undertake personal investment transactions which may create a conflict with their official responsibilities.

8. Delegation of Authority

The Board of Directors may delegate the authority to manage the investments of the Company to Managing Director or any designated 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, within the limits and parameters approved by the Board.

7. INVESTMENTS AND DISINVESTMENTS

Investments & Disinvestments:

1. The Board shall approve any investments and disinvestments made by the Company. All investments shall be made only after satisfying the applicable eligibility, due diligence, approval and regulatory requirements.
2. Disinvestment may be undertaken for strategic reasons; for dilution; to comply with regulatory requirements; to meet liquidity requirements; to restructure the Group; to realise value; or for any other reason approved by the competent authority.
3. Disinvestment from group-company securities shall comply with the CIC restriction on trading and shall ordinarily be undertaken through a permitted block sale for dilution/disinvestment.
4. 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 where any statutory/regulatory authority approval is required, such approval shall be obtained before completion of the transaction.

Investment Committee:

5. The Board shall constitute an Investment Committee for the purpose of evaluating, approving and monitoring investments. The responsibilities of Investment Committee shall be the following:
 - a. approve investment of funds permissible to the company with approval from Board;
 - b. oversee implementation of this Policy;
 - c. monitor the investment portfolio;
 - d. review liquidity and maturity profile;
 - e. monitor regulatory compliance;
 - f. review investment performance;
 - g. monitor valuation and impairment;
 - h. oversee disinvestment proposals;
 - i. ensure proper accounting and reconciliation of investments; and
 - j. report periodically to the Board.

Delegated Authority:

6. The Managing Director (MD) shall be authorised to take decisions in respect of routine financial transactions of the Company, including opening, renewal and closure of term/ fixed deposits with banks and other similar treasury transactions, within the limits and parameters approved by the Board.
7. The MD shall exercise such delegated authority in accordance with the applicable laws, regulations, the Company's Investment Policy and other policies approved by the Board and shall ensure that all transactions are undertaken prudently and in the best interests of the Company.

8. Any investment or financial transaction falling outside the delegated authority of the MD, or exceeding the limits prescribed by the Board, shall be placed before the Investment Committee or the Board, as applicable, for prior approval.

Due Diligence & Investment Appraisal:

9. Before making a material investment, the Company shall undertake appropriate due diligence proportionate to the nature and size of the investment.
10. The appraisal shall, as applicable, cover financial performance; business model; capital structure; existing debt; existing exposure of EFHPL/group entities; valuation; management/promoter assessment; legal and regulatory status; contingent liabilities; litigation; credit rating, where available; expected return; liquidity; exit/disinvestment strategy; impact on ANW, leverage, CIC requirements, ICAAP; related-party implications; and applicable regulatory approvals.
11. 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. Where considered appropriate, an independent valuation shall be obtained.

8. CLASSIFICATION OF INVESTMENTS

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.

Investments shall be classified at the time of acquisition in accordance with the applicable RBI framework. The classification shall be supported by the investment proposal and underlying investment intention. Renewal of an investment shall be treated as a fresh investment for classification purposes, where applicable.

9. TRANSFER OF INVESTMENTS

The Company shall undertake transfer of its investments only upon compliance with the following conditions:

- 1) Prior approval of the Board shall be obtained for the transfer of investments, except where such transfer is undertaken pursuant to any arrangement, amalgamation, merger, demerger, reduction of capital or any other restructuring scheme approved by the competent authority, in which case the transfer shall be effected in accordance with the terms and conditions as approved and the applicable laws and regulatory requirements;
- 2) Investments shall ordinarily be transferred scrip-wise;
- 3) Except where otherwise provided under a Government/ Regulatory direction or Order passed by a competent authority or other applicable statutory or regulatory framework, investments shall be transferred at book value or market value, whichever is lower;
- 4) Any depreciation or diminution in the value of investments, wherever applicable, shall be fully provided for in accordance with the applicable accounting standards and regulatory requirements; and

Any transfer of investments pursuant to a Government/ Regulatory direction or Order passed by any other competent authority, shall be carried out in accordance with the terms of such Direction / Order and the applicable provisions of the Companies Act, 2013, the directions/ guidelines of the Reserve Bank of India and other applicable laws, notwithstanding the conditions specified above.

Depreciation in one scrip shall not be set off against appreciation in another scrip in determining the transfer value, in accordance with the applicable RBI framework.

Inter-class transfer of investments shall not be undertaken on an ad-hoc basis. 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.

10. ACCOUNTING AND VALUATION

1. **General Principle :**

Investments shall be recognised, classified, valued and impaired in accordance with applicable RBI requirements; the CIC Directions; applicable Ind AS/Accounting Standards; applicable SEBI requirements; and other applicable regulatory requirements.

2. **Quoted current investments :**

Quoted current investments shall for the purposes of valuation, be grouped into 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.

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.

3. Unquoted investments :

- a) 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.
- b) Unquoted preference shares in the nature of current investments shall be valued at cost or face value, whichever is lower.
- c) Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.
- d) 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.

4. Long term investments :

Long-term investments shall be accounted for and valued in accordance with applicable accounting standards and RBI prudential requirements.

5. Impairment :

Where there is an impairment in the value of investments, appropriate impairment/provision shall be recognised in accordance with applicable accounting standards and RBI prudential requirements.

6. Independent Valuation :

Independent valuation may be obtained for material listed/ unlisted investments; strategic investments; investments involving related parties; investments where market value is not readily ascertainable; or investments where required by law or considered appropriate by the Board.

11. INCOME RECOGNITION AND ASSET CLASSIFICATION

Income from investments shall be recognised in accordance with applicable accounting standards and RBI prudential norms.

Dividend : Dividend income shall be recognised in accordance with applicable RBI and

accounting requirements.

Interest : Interest income shall be recognised in accordance with applicable accounting standards and RBI income-recognition norms.

Non-Performing Assets: Income on assets classified as non-performing shall be recognised only in accordance with applicable RBI norms.

Provisioning : Provisioning and impairment shall be made in accordance with applicable RBI prudential requirements and accounting standards.

12. REGULATORY CAPITAL, ANW, LEVERAGE AND ICAAP

Minimum ANW:

The Company shall maintain Adjusted Net Worth (ANW) at not less than the percentage prescribed by RBI of aggregate risk-weighted assets and risk-adjusted off-balance-sheet items.

The CIC Directions presently prescribe a minimum ANW requirement of 30% of the applicable aggregate risk-weighted assets and risk-adjusted off-balance-sheet items.

Leverage:

The Company shall ensure that outside liabilities do not exceed the maximum leverage permitted under the CIC Directions.

The CIC Directions presently prescribe that outside liabilities shall not exceed 2.5 times ANW.

Investment Proposal:

Every material investment proposal shall, wherever applicable, contain an assessment of its impact on ANW; regulatory capital; leverage; risk-weighted assets; liquidity; concentration; ICAAP; and applicable regulatory ratios.

ICAAP:

The Company shall undertake an Internal Capital Adequacy Assessment Process (ICAAP) in accordance with the applicable RBI framework.

The ICAAP shall assess the adequacy of capital in relation to the Company's risk profile and shall take into account, as applicable credit risk; market risk; operational risk; concentration risk; liquidity risk; investment risk; valuation risk; group/contagion risk; strategic risk; and other material residual risks.

The methodology shall be proportionate to the scale and complexity of the Company's operations and shall be approved by the Board.

13. PERFORMANCE REVIEW & REPORTING

The Chief Financial Officer (CFO) shall periodically report to the Board, the performance of EFHPL's investments. The position of the Investments made by the Company shall be disclosed in the quarterly presentation of the unaudited/ audited financial statements being

put up for Board's review.

14. 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

15. ADOPTION

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