

Nalwa Sons Investments Limited

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ASSET LIABILITY MANAGEMENT POLICY

Document Control Sheet	
Document Name	Asset Liability Management Policy
Name of Company	Nalwa Sons Investments Limited (NSIL)
Policy Authorization by	Board of Directors
Review of the policy	Bi-annual
Board Approval date	November 30, 2023

1. Introduction

Nalwa Sons Investments Limited [the “Company”], is a Non- Banking Financial Company registered under section 45-IA of the Reserve Bank of India Act, 1934 [“RBI Act”]. In terms of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (the Directions), the Company is classified in the Middle Layer category (NBFC-ML).

The Company is primarily engaged in providing loans and making investments in its group companies. Although the Company presently does not raise borrowings and primarily deploys its own funds in its lending and investment activities, it is essential to maintain a robust Asset Liability Management (ALM) framework to monitor the maturity profile of assets and liabilities, assess liquidity requirements, and ensure prudent balance sheet management. The ALM framework also enables the Company to effectively manage any future funding requirements and comply with the regulatory framework prescribed by the Reserve Bank of India.

2. Objective and Scope

The objective of this policy is to create an institutional mechanism to compute and monitor periodically the maturity pattern of the various liabilities and assets of NSIL. This will enable the following:

- (a) ascertain in percentage terms the nature and extent of mismatch in different maturity buckets, especially the 1-7 days, 8-14 days, and 15-30 days bucket, which would indicate the structural liquidity.
- (b) the extent and nature of cumulative mismatch in different buckets indicate the short-term structural liquidity
- (c) the residual maturity pattern of repricing of assets and liabilities which would show the likely impact of movement of interest rate in either direction. on profitability. This policy will guide the ALM system in NSIL and
- (d) maintaining high quality liquidity assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

An efficient ALM needs;

- a) a good information system
- b) internal controls
- c) a policy for the Company in setting limits for liquidity, interest rate
- d) liquidity planning under alternate scenarios/formal contingent funding plan
- e) a Committee of Senior functionaries for ensuring adherence to the limits approved by the Board of Directors and
- f) a well-defined process

3. Governance of Liquidity Management

Asset Liability Management Committee (ALCO): The ALCO consisting of NSIL’s top management shall be responsible for implementing its liquidity risk management strategy.

Responsibilities of ALCO:

ALCO would be responsible for ensuring adherence of liquidity risk limits set by the Board as well as deciding business strategies of NSIL in line with the overall budget and risk management policy and shall review/decide the following:

- Review of Liquidity Mismatches.
- Review of Interest-Rate Sensitivity position.
- Review of Resource Raising and Deployment vis-a-vis Cost of borrowings / Yields on advances.
- Review the product mix and product pricing.
- Strategies for deployment of surplus funds.
- Concentration of funding.
- Availability of unencumbered assets.
- Review movements in book to equity ratio, Price to Book value, market price etc.,
- Review of any other directions from RBI relating to ALCO functions.

Therefore, a broad and comprehensive Asset Liability Management System is required to be put in place to ensure that all the business decisions and corporate strategy of the Company is implemented on the basis of the guidelines laid down under the said Asset Liability Management System. Thus, to ensure smooth functioning, long term viability and stability in the business of the Company, the present Asset Liability Management Policy is framed and adopted by the Board of Directors (hereinafter referred to as “the Board”).

The ALM policy has been framed in compliance with the RBI Master Directions 2023 and amended thereon. The ALM process rests on three pillars.

(A) ALM Information Systems

- Management Information Systems
- Information availability, accuracy, adequacy and expediency

(B) ALM Organization

- Structure and responsibilities.
- Level of senior management involvement.

(C) ALM Process

- Risk parameters
- Risk identification,
- Risk measurement
- Risk management
- Risk policies and tolerance levels.

ALM INFORMATION SYSTEM:

An updated, comprehensive and sound information system is a vital factor in successful implementation of the ALM process. ALM needs to be supported by a management philosophy which clearly specifies the risk policies and tolerance limits. The Risk policies formulated by the Board are to be based on a comprehensive and accurate information system. Thus, the key to ALM process is availability and obtaining of accurate information in a scheduled and timely manner and maintaining

proper system to record and collect information through enhanced use of Management Information System.

The Company shall have a reliable Management Information System (MIS) designed to provide timely and forward-looking information on the liquidity position of the Company to the Board and ALCO, both under normal and stress situations. It should capture all sources of liquidity risk, including contingent risks and those arising from new activities, and have the ability to furnish more granular and time-sensitive information during stress events.

ALM ORGANIZATION:

The successful implementation and streamlining of business decisions and processes in line with any policy entirely depends on the intent and commitment on the part of the Top Management of the Company and it is the responsibility of the Senior Management to ensure that all the business decisions and corporate strategy is decided in line with the framework and the objective of the Asset Liability Management Policy.

To ensure that the Board adheres to the policy and the business strategy of the Company is in line with the policy an Asset Liability Committee consisting of following members is established:

- One Independent Director
- One Executive(Whole Time) Director
- Chief Financial Officer

The Committee shall be responsible to overview and monitor the implementation of the AL policy and review the same on a periodical basis and accordingly the Committee shall submit its recommendations and suggestions to the Board for its approval.

Quorum of ALCO: One third of total members or two members whichever is higher will constitute the quorum.

Periodicity of Meeting and Discussion Points: The chairman will arrange for convening the meetings of ALCO once in a quarter or as and when needed depending upon the necessity. Minutes of the meeting shall contain discussions in detail and shall be placed before the Board for noting.

ALM PROCESS:

The scope of ALM function would include the following:

- Liquidity risk management
- Management of asset liability match & maturity profiles
- Interest rate risk management
- Funding requirements and capital planning
- Liquidity Risk Tolerance
- Liquidity Costs, Benefits and Risks in the Internal Pricing
- Off-Balance Sheet Exposures and Contingent Liabilities
- Funding Strategy - Diversified Funding
- Collateral Position Management
- Stress Testing
- Contingency Funding Plan
- Intra Group Transfers
- Internal Controls

Liquidity Risk Management:

Measuring and managing liquidity needs are vital for effective operations of the Company. The Asset Liquidity Management Committee should monitor not only the liquidity positions of Company on an ongoing basis but also examine how liquidity requirements are likely to evolve under different circumstances and scenarios. Liquidity has to be tracked through maturity or cash flow mismatches. For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool.

The following areas of liquidity risks (Illustrative) should be deliberated by ALCO;

- Compliance to Liquidity risk tolerance levels
- Liquidity cost, benefits, and risks in internal pricing
- Off balance sheet exposures and contingent liabilities
- Funding and capital planning
- Profit planning and growth projection
- Forecasting and analyzing 'What if scenario' and preparation of contingency plans.

Management of asset liability match & maturity profiles

In line with RBI Directions, the following maturity profile would be used for measuring the future cash flows in different time buckets:

- i. 1 day to 7 days
- ii. 8 days to 14 days
- iii. 8 days to 30/31 days (one month)
- iv. Over one month and up to 2 months
- v. Over 2 months and upto 3 months.
- vi. Over 3 months and up to 6 months
- vii. Over 6 months and up to 1 year
- viii. Over 1 year and up to 3 years
- ix. Over 3 years and up to 5 years
- x. Over 5 years

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 focus shall be on the short-term mismatches, viz., 1-30/31 days. The net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets 1-7 days, 8-14 days, and 15-30/31 days shall not exceed 10%, 10% and 15% of the cumulative cash outflows in the respective time buckets. As a prudent liquidity management measure, NSIL will strive to restrict the negative cumulative mismatch of all the maturity buckets above 30/31 days to a maximum of 20% of the cumulative cash outflows.

Interest Rate Risk

Interest rate risk is the risk where changes in market interest rates might adversely affect Company's financial condition. The operational flexibility in pricing Company assets and liabilities imply the need for considering hedging of interest Rate Risk. The changes in interest rates affect Company in many ways.

The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive

assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

- i. within the time interval under consideration, there is a cash flow;
- ii. the interest rate resets/reprices contractually during the interval;
- iii. dependent on RBI changes in the interest rates/Bank Rate;
- iv. it is contractually pre-payable or withdrawable before the stated maturities.

The Gaps may be identified in the following buckets:

- 1 day to 7 days
- 8 days to 14 days
- 8 days to 30/31 days (one month)
- Over one month and up to 2 months
- Over 2 months and upto 3 months.
- Over 3 months and up to 6 months
- Over 6 months and up to 1 year
- Over 1 year and up to 3 years
- Over 3 years and up to 5 years
- Over 5 years
- Non-sensitive

Funding Requirements and Capital Planning

The Company shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. It should maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. They should regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding.

Concentration of Funding: This metric is meant to identify those significant sources of funding, withdrawal of which could trigger liquidity problems. The Company shall endeavour to maintain a diversified funding profile and avoid excessive dependence on any single source, lender, instrument, or maturity segment.

The funding profile shall be reviewed periodically by the management to assess concentration risk and to ensure adequate diversification of liabilities in line with the Company's business requirements, regulatory framework, and liquidity risk management objectives. Specific funding mix, resource planning, and borrowing strategies shall be governed by such internal policies or Board-approved frameworks as may be adopted by the Company from time to time.

Liquidity Risk Tolerance

The Company shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk. It should clearly articulate a liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system. Senior management should develop the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that the Company maintains sufficient liquidity.

NSIL shall adopt a “stock” approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits as approved by the Board in the investment policy. The ratios and the internal limits are based on an NSIL liquidity risk management capabilities, experience and profile. Updated tolerance limits / ratios envisaged by NSIL for liquidity risk

measurement are given below:

Description	Ratio (Times)	Remarks
Total outside liabilities to Net worth	4	Increase in the ratio is negative
Long term asset to total assets	0.50	Increase in the ratio is negative

Board/ALCO shall measure the threshold ratios periodically to ensure that the ratios are maintained with a maximum variance of 10%.

Liquidity Costs, Benefits and Risks in the Internal Pricing

The Company should endeavour to develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities

Off-Balance Sheet Exposures and Contingent Liabilities

The process of identifying, measuring, monitoring and controlling liquidity risk should include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. The management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, financial derivatives, and, guarantees and commitments may be given particular importance in assessing the related liquidity risks that could materialise in times of stress.

Funding Strategy

The Company currently has a Business model of lending only to its group entities for which currently the funding is only through internal accruals.

As and when required, the Company shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. It should maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. The Company should regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding.

Collateral Position Management

The Company shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner. Further, an NBFC should have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

Stress Testing

The Company should conduct stress tests on a regular basis for a variety of short-term and protracted assets for the Company-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the Company's business, activities and vulnerabilities should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed. The Company will ensure to call for six monthly unaudited financials of the entities to whom they have lent money. The ALCO committee will evaluate the financial position of the Borrowers and address concerns, if any.

Illustrative assumptions for the liquidity stress test are given below:

- A simultaneous drying up of market liquidity in previously highly liquid markets.
- Asset market illiquidity and the erosion in the value of liquid assets. (E.g. Investments).
- Run-off of retail funding.
- Severe constraints in accessing secured and unsecured funding.
- Unavailability of wholesale funding sources.
- Potential drawdowns on committed lines extended to borrowers, subsidiaries, and associates.
- Budget for future balance sheet growth.
- Default / delay in realization of debt by the borrowers, while compulsion to honour repayment commitments to lenders according to their contractual specifications.
- Changes in the maturity pattern of the assets.
- Impact of credit rating triggers and financial triggers in financing documents.
- Movement in interest rates.

The results of these stress tests should be discussed thoroughly by Board/ALCO and based on this discussion, should form the basis for taking remedial or mitigating actions to limit the Company's exposures, build up a liquidity cushion and adjust its liquidity profile to fit its risk tolerance. Results of the stress test should be placed to the Risk Management Committee of the Board.

Contingency Funding Plan

The Company currently has a Business model of lending only to its group entities for which currently the funding is only through internal accruals.

As and when required, the Company shall formulate a 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. Contingency plans should contain details of available/potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources, clear escalation/ prioritisation procedures detailing when and how each of the actions can and should be activated, and the lead time needed to tap additional funds from each of the contingency sources.

Available Unencumbered Assets: Unencumbered assets, which have the potential to be used as collateral to raise additional secured funding from financial institutions and markets have significant importance in liquidity risk management. NSIL may as a prudent practice endeavour to maintain undrawn lines of credit and unencumbered assets to meet contingencies. The ALCO should be provided details of the available unencumbered assets and its potentials for raising loans against it(if required).

Intra Group Transfers

Due to risk arising in Intra-Group transactions and exposures (ITEs), the Company shall develop and maintain liquidity management processes and funding programs that are consistent with the complexity, risk profile, and scope of operations of the Company. The Group liquidity risk management processes and funding programmes are expected to take into account lending, investment, and other activities, and ensure that adequate liquidity is maintained. Processes and programmes should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among these entities and between these entities and the principal.

Internal Controls

The Company shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure. Management should ensure that an independent party regularly reviews and evaluates the various components of the NBFC's liquidity risk management process.