

Nalwa Sons Investments Limited

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INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

Document Control Sheet	
Document Name	Internal capital adequacy assessment process
Name of Company	Nalwa Sons Investments Limited
Policy Authorization by	Board of Directors
Review of the policy	Yearly basis
Board Approval date	November 30, 2023

The Reserve Bank of India (RBI), through its circular RBI/2021-22/112 DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021, introduced the Scale Based Regulation (SBR) Framework for Non-Banking Financial Companies (NBFCs). The objective of the SBR framework is to align the regulatory requirements applicable to NBFCs with their size, scale of operations, and risk profile.

Nalwa Sons Investments Limited (NSIL) has been classified under the Middle Layer category in accordance with the SBR framework. According to this framework, a board approved Internal capital adequacy assessment process is required to be maintained by the Company.

Objective:

Basic objective of Internal Capital Adequacy Assessment Process (ICAAP) is to align Company's capital to the risk associated with its business and complexity of the business in various scenarios including unforeseen business scenarios. Assessment of risk will be done from time to time but at least once in a year to ensure that the Company is maintaining required capital to meet out its planned business growth and to be in compliance with the regulatory requirements set out by the regulators.

CAPITAL ADEQUACY ASSESSMENT PROCESS:

At present, the Company's lending portfolio mainly comprises unsecured loans extended to its group companies. In addition, the Company primarily invests in the securities of its group companies and, where required, extends loans or provides guarantees/security in favour of such group companies in accordance with the applicable statutory and regulatory requirements. The nature and concentration of these exposures are duly considered as part of the Company's risk management and Internal Capital Adequacy Assessment Process (ICAAP).

NSIL is exposed with following risks –

1. Market risk
2. Credit risk
3. Operational risk

The Company reviews these risks from time to time and takes necessary steps to mitigate it.

A) Market Risk

Market risk is the risk due to changes in market prices – such as interest rates– will affect the Company's income or the value of its holdings of financial instruments. Market risk is attributable to all market risk sensitive financial instruments including payables and debt. Company's market risk is primary related to its investments in securities. Thus, Company's exposure to market risk is a function of investing activities as well as revenue generating and operating activities. The objective of market risk management is to mitigate market risk by diversification.

i)Interest Rate Risk

Interest rate risk refers to the potential impact of changes in market interest rates on the Company's earnings, investments, and overall financial position.

As on the date of this Policy, the Company has not availed any borrowings and does not have any interest-bearing debt obligations. Accordingly, the Company is not exposed to interest rate risk arising from changes in borrowing costs or funding mismatches.

However, the Company may be exposed to a limited level of interest rate risk in respect of its lending and investment activities. The Company periodically reviews prevailing market interest rates, the yield on its investments, and the pricing of its loan portfolio to ensure that its returns remain commensurate with market conditions and its risk profile.

The Company shall continue to monitor interest rate movements on an ongoing basis. In the event of any future borrowings or significant changes in its asset-liability profile, the Company will assess the impact of interest rate fluctuations and implement appropriate risk mitigation measures to ensure continued capital adequacy and compliance with applicable regulatory requirements.

ii) Price Risk

Price risk is related to the change in market reference price of the instruments in quoted and unquoted securities. Few of the Company's investments are listed on the BSE Ltd and the National Stock Exchange (NSE) in India.

The company is exposed to market risk which may arise from the following factors:

- (a) Higher stock price volatility
- (b) Volatilities in Global market condition
- (c) Company specific issues
- (d) Other socio, political and economic challenges

B) Credit Risk

Any lending activity by NSIL is exposed to credit risk arising from repayment default by borrowers and other counterparties. Despite best efforts, there can be no assurance that repayment default will not occur and, in such circumstances, may have an effect on its results of operations. NSIL has given unsecured loan to its group companies where a failure to recover the loan value could expose the NSIL to a potential loss. Any such losses could adversely affect the NSIL's financial condition and results of operations.

C) Operational Risk

Based on the NSIL own experiences, following are the key operational risks that NSIL may encounter. These risks are analysed in light of their impact on Company's capital.

i) Internal Fraud

The Company has digitized its majority of the process, the scope of fraud exists when there are cash transactions. In a few of the Company's processes, cash transaction is involved which exposes it to internal fraud risk. To mitigate this risk, the company has taken due care by keeping minimum cash transaction, setting up various check points such as verification of cash transactions. Nature of this risk is of low frequency and low impact therefore it does not have any significant impact on company's capital.

ii) Employment practices and workplace safety

This risk may arise due to breach in all statutory payments. In order to mitigate such risks company keeps track on timely payment and remittance of all dues. As the company has established a proof system of cross checking by the accounts team on monthly basis and it is also verified by the Statutory auditor every quarter, the perceived risk with respect to employee practices is considered insignificant.

Risk with regards to workplace safety may arise due to discrimination, sexual harassment or general liability because of damage incurred by the company's staff. The company policies have zero tolerance on such issues

and take a strict disciplinary action, including even termination of such errant employee from his/her job. Accordingly, the potential impact of this risk on the Company's capital adequacy is also considered to be low.

Impact on capital from both of these risks is also low.

iii) **Business disruption and system failures**

Business disruption risk due to unforeseen circumstances such as pandemic, political unrest, government policy decision such as demonetization etc. are high risk for the company. As the company do not have control over such kind of external risk, the company mitigate this risk by maintaining adequate capital and taking appropriate measures well in time.

Impact of Risk of system failures is very low as the company has adopted adequate measures to mitigate this risk. Moreover, company do not perceive significant impact on capital because of this risk.

Policy on Maintaining Minimum Capital

Based on the assessment of the various risks, it is clear that there are two risks which can majorly impact the company's capital - credit risk and market risk. This is because, it majorly impacts the Investment portfolio which is the major assets of the company. Though the market risk is impacting price of investment in various securities but the risk is limited as the company has diversified its portfolio.

The Company shall maintain adequate capital at all times to support its business operations, absorb potential losses arising from its risk exposures, and comply with the minimum Capital to Risk-Weighted Assets Ratio (CRAR) and other regulatory capital requirements prescribed by the Reserve Bank of India under the Scale Based Regulation (SBR) framework.

Appropriate corrective measures, wherever necessary, shall be taken to ensure continued compliance with the applicable regulatory requirements.

Review and Approval of the ICAAP Policy

The ICAAP Policy shall be approved by the Board of the Company and shall be reviewed by the Board at least on an annual basis, in accordance with the Scale Based Directions. Shorter frequencies of review shall be associated with specific events or any material changes to the risk assessment process/framework of the Company, which shall warrant a review of the ICAAP Policy.

Amendment

The Board of Directors of the Company reserves the power to review and amend this Policy from time to time, subject to revision / amendment in accordance with applicable laws as may be issued by relevant statutory, governmental and regulatory authorities, from time to time. In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant statutory, governmental and regulatory authorities are not consistent with the provisions laid down under this Code, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder.