TVS HOLDINGS LIMITED

Liquidity Risk Management Policy

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Liquidity Risk Management Policy- DRAFT

1. PREAMBLE

TVS Holdings Limited ("the Company" or "TVSH") is a Core Investment Company under section 45 IA of the Reserve Bank of India Act 1934. The primary objective of the Company is to make equity investments and to hold investments in its Subsidiaries and Group Companies.

This Liquidity Risk Management (LRM) Policy outlines the framework for TVSH to effectively identify, measure, monitor, and control liquidity risk. This policy adheres to the guidelines set forth by the Reserve Bank of India (RBI).

The LRM policy has been framed taking into account the RBI guidelines and reflects the business model requirements of the Company and is placed for the approval of the Board, pursuant to the recommendation of the Risk Management Committee of the Company ("RMC").

2. POLICY COMPONENTS:

A. Liquidity Risk Management Policy, Strategies, and Practices
B. Management Information System (MIS)
C. Internal Controls
D. Maturity profiling
E. Liquidity Risk Measurement – Stock Approach
F. Currency Risk
G. Managing Interest Rate Risk
H. Liquidity Risk Monitoring Tools

A. Liquidity Risk Management Policy, Strategies and Practices

In order to ensure a sound and robust liquidity risk management system, the Board of the Company framed a liquidity risk management policy to ensure that it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

Key elements of the liquidity risk management framework are as under:

i) Governance of Liquidity Risk Management

The Risk Management Committee (RMC) aided by Asset Liability Management Committee (ALCO) shall be involved in the process of identification, measurement and mitigation of liquidity risks. The Board of Directors shall have the overall responsibility for the management of liquidity and decide the strategy, policies and procedures of the Company to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by it.

Role Of Risk Management Committee And Aseet Liability Management Committee (ALCO)

(a) Risk Management Committee:

The Risk Management Committee, which reports to the Board and consisting of Managing Director and heads of various risk verticals shall be responsible for evaluating the overall risks faced by the NBFC including liquidity risk.

(b) Asset - Liability Management Committee (ALCO) :

The ALCO consisting of the Company's top management shall be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy of the Company.

The CEO/MD or the Executive Director (ED) should head the Committee.

The Chiefs of Investment, Credit, Resource Management or Planning, Funds Management/ Treasury (forex and domestic), Economic Research may be members of the Committee. The role of the ALCO with respect to liquidity risk should include, inter alia, decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions of all branches

The ALCO shall be responsible for the following :

(a) Ensuring the adherence to the Risk tolerance/limits set by the Board and implementing the liquidity risk management strategy as defined in this Framework
(b) Decision on desired Maturity Profile and Mix of incremental assets and liabilities,
(c) Sale of Assets as a source of Funding
(d) Structure, responsibilities and controls for managing Liquidity Risk;
(e) Overseeing the Liquidity Positions of all branches
(f) Such other matters, as required by the Board or the RBI in terms of any amendment in the Rules, Regulations, Master Directions, etc from time to time.

The ALCO will, apart from reviewing the liquidity returns being submitted to RBI, consider all the aspects of the Framework and update RMC at its ensuring meeting held after the end of quarter, on any of the adverse features of the operations of the Company alongwith the mitigation plans.

ii) Liquidity risk Tolerance

A strategy to manage liquidity risk in accordance with risk tolerance and ensure that the Company maintains sufficient liquidity has been put in place. A sound process for identifying, measuring, monitoring and controlling liquidity risk has also been developed.

iii) Liquidity Costs, Benefits and Risks in the Internal Pricing

The Company endeavours 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.

iv) Off-balance Sheet Exposures and Contingent Liabilities

The process of identifying, measuring, monitoring and controlling liquidity risk includes a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons.

v) Funding Strategy - Diversified Funding

There shall not be over-dependency on a single source of funding and thus the Company with the approval of the Board 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 and regularly gauge its capacity to raise funds quickly from each source

vi) Collateral Position Management

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

vii) Stress Testing

Stress testing shall form an integral part of the overall governance and liquidity risk management culture in the Company. In designing liquidity stress scenarios, the nature of the Company's business, activities and vulnerabilities shall be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed, if the maturity mismatch is above the RBI prescribed tolerance limits. The Company shall conduct stress tests on a regular basis for a variety of short-term and protracted Company-specific \ and market-wide stress scenarios (individually and in combination), if the maturity mismatch is above the RBI-prescribed tolerance limits.

viii) Contingency Funding Plan

A contingency funding plan (CFP) shall be formulated for responding to likely severe disruptions which might affect the Company's ability to fund some or all of its activities from market borrowings 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/ prioritization 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.

ix) Public disclosure

, The Company shall publicly disclose information in a format prescribed by RBI in this regard on a quarterly basis on the official website of the company and in the annual financial statement as notes to account that enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

x) Intra Group transfers

With a view to recognizing the likely increased risk arising due to Intra-Group transactions and exposures (ITEs), the Group Chief Financial officer is expected to develop and maintain liquidity management processes and funding programmes that are consistent with the complexity, risk profile and scope of operations of the companies in the Group. The liquidity risk management processes are expected to take into account lending,investment, and other activities, and ensure that adequate liquidity is maintainedat the head and each constituent entity within the group. 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 parent Company.

B. MANAGEMENT INFORMATION SYSTEM (MIS)

The Company shall have a reliable 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 shall 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.

C. INTERNAL CONTROLS

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

D. MATURITY PROFILING

a) 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 Maturity Profile shall be used for measuring the future cash flows of NBFCs in different time buckets. The time buckets shall be distributed as under:

(i) 1 day to 7 days
(ii) 8 days to 14 days
(iii) 15 days to 30/31 days (one month)
(iv) Over one month and upto 2 months
(v) Over two months and upto 3 months
(vi) Over 3 months and upto 6 months
(vii) Over 6 months and upto 1 year
(viii) Over 1 year and upto 3 years
(ix) Over 3 years and upto 5 years
(x) Over 5 years

b) NBFCs will be holding in their investment portfolio, securities which could be broadly classifiable as 'mandatory securities' (under obligation of law) and other 'non-mandatory securities'.

c) 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. The net cumulative negative mismatches in the Statement of Structural Liquidity 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 Company, however, shall monitor its cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board. The Company shall also adopt the above cumulative mismatch limits for their structural liquidity statement for consolidated operations.

d) The Statement of Structural Liquidity shall be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability shall be a cash outflow while a maturing asset shall be a cash inflow.

e) In order to monitor its short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, the Company shall estimate its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.

E. LIQUIDITY RISK MEASUREMENT – STOCK APPROACH

The Company 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 their Board, based on the recommendation of the RMC.

An indicative list of certain critical ratios to monitor are short-term liability (less than one year) to total assets; short- term liability to long term assets; commercial papers to total assets; non-convertible debentures (NCDs)(original maturity of less than one year) to total assets; short-termliabilities to total liabilities; long-term assets to total assets; etc.

Sl No	Ratio	Purpose
1	Short term liability/Total Assets	To gauge the asset-liability mismatch in the Company.
2	Short term liabilities/Long term assets	To gauge the asset-liability mismatch in the Company.
3	Commercial Papers/Total Assets	To gauge the dependence on the type of borrowing.
4	Non-convertible debentures/total Assets	To gauge the dependence on the type of borrowing.
5	Short term liabilities/Total liabilities	To gauge the percentage of obligations to be met within 1 year so that the ability to meet these requirements can be addressed.
6	Long term assets/Total assets	To gauge the percentage of assets to materialize after 1 year which indicates the ability to service any debts/borrowings.
7	Liquidity Coverage Ratio	The Company shall maintain adequate stock of unencumbered high-quality liquid assets that can be easily and immediately converted in financial markets, at no or little loss of value.
8	Net Stable Funding Ratio	The Company shall maintain a stable funding profile in relation to its off-balance sheet assets and activities. The goal is to reduce the probability that shocks, affecting the Company's usual funding sources, might erode its liquidity position, increasing its risk of bankruptcy

F. MANAGING INTEREST RATE RISK (IRR)

a) As per RBI mandate, the Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatchesbetween 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 withdrawal before the stated maturities.

b) The Gap Report shall be generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier. The difficult task in Gap analysis is determining rate sensitivity. All investments, advances, deposits, borrowings, purchased funds, etc. that mature/reprice within a specified timeframe are interest rate sensitive. Similarly, any principal repayment ofloan is also rate sensitive if the Company expects to receive it within the time horizon. This includes final principal payment and interim instalments. Certain assets and liabilities to receive/pay rates that vary with a reference rate.These assets and liabilities are repriced at pre-determined intervals and are rate sensitive at the time of repricing. While the interest rates on term depositsare fixed during their currency, the tranches of advances portfolio is basically floating. The interest rates on advances received could be repriced any number of occasions, corresponding to the changes in PLR.

c) The Gaps may be identified in the following time buckets:

i) 1 day to 7 days
ii) 8 days to 14 days
iii) 15 days -30/31 days (One month)
iv) Over one month to 2 months
v) Over two months to 3 months
vi) Over 3 months to 6 months
vii) Over 6 months to 1 year
viii) Over 1 year to 3 years
ix) Over 3 years to 5 years
x) Over 5 years
xi) Non-sensitive

The various items of rate sensitive assets and liabilities and off-balancesheet items shall be classified as per the Master Direction – Core Investment Companies (Reserve Bank) Directions 2016.

d) The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. The positive Gap indicatesthat it has more RSAs than RSLs whereas the negative Gap indicates that it has more RSLs than RLAs. The Gap reports indicate whether the institution isin a position to benefit from rising interest rates by having a positive Gap(RSA > RSL) or whether it is in a position to benefit from declining interest rates by a negative Gap (RSL > RSA). The Gap can, therefore, be used as a measure of interest rate sensitivity.

G. LIQUIDITY RISK MONITORING TOOLS

The Statement of Structural Liquidity is currently one of the prescribed monitoring tools. In addition to this, the following tools shall be adopted by the board of the Company for internal monitoring of liquidity requirements:

a) Concentration of Funding

This metric is meant to identify those significant market sources of funding, withdrawal of which could trigger liquidity problems. The metric thus encourages diversification of funding sources and monitoring of each of the significant counterparty, significant product / instrument and significant currency.

b) Available Unencumbered Assets

This metric provides significant information on available unencumbered assets, which have the potential to be used as collateral to raise additional secured funding in secondary markets. It shall capture the details of the amount, type and location of available unencumbered assets that could serve as collateral for secured borrowing in secondary markets.

c) Market-related Monitoring Tools

This includes high frequency market data that can serve as early warning indicators in monitoring potential liquidity difficulties at the Company.

The RMC shall monitor on a quarterly basis, the movements in their book-to-equity ratio and the coupon at which long-term and short-term debts are raised by them. This also includes information on breach/penalty in respect of regulatory liquidity requirements, if any.

Categories of Company's resource planning horizon

The Company is a registered CIC with RBI and its sources of income are dividends, Brand Royalty Fee, management fee and interest income. The Company proposes to expand and diversify its sources of revenue. The Company needs to adopt a flexible approach to its resource mobilization and also there is variability in its revenue sources.

However, based on past experience, the Company's resource planning horizon shall be broadly classified in the following two categories;

A. Long Term Resources and
B. Short term resources.

Resource planning for the Company encompasses the strategic objective of asset liability management and operational objective of fund management. The scope of treasury activities in view of the above is depicted below:

Fund Management	Balance Sheet Management
Determine the funding gap	Asset Liability Management – Structural & Interest Rate Risk
Funding options	Liquidity planning
Short term surplus management	Capital planning

Thus, resource planning for the Company will involve ensuring availability of funds, raised through equity share capital, preference share capital along with share premium if any, proceeds from issuance of warrants and various liability products, short term investments and choosing the appropriate liability products for fund management and ALM. While this document describes the philosophy related to resource planning, comprehensive details on the Asset Liability Management are contained in the ALM Policy. Relevant sections of the ALM Policy must be referred to for additional details on the same

Concentration - resource Planning

Particulars	**% of Concentration**
Credit facility from Bank/FI's (domestic / foreign)	60% to 75%
Market Instrument – NCD – Listed/Unlisted (Plain Vanilla/ Structured)	15% to 25%
Short term money market instrument - Commercial Paper	10% to 15%
Total	100%

A. Long term resources:

The long term resource mobilization program for each financial year shall be decided in advance in Annual Budget and shall be defined in the business plan for each year. The resources shall be mobilized in accordance with the Annual Budget approved by the Audit Committee and the Board after taking into account the fund requirement and the business requirements. Further, if case of any unforeseeable fund requirements which are not budgeted in advance, the Company shall place a case specific funding plan before the Audit Committee and Board.

Policy on raising long term resources

1. Tenure

The resources that are raised with a maturity period of more than 12 (twelve) months shall be classified as a long term resource. The Board may, from time to time, fix the proportion of the long term and short term resources for the Company based on the business plans for each fiscal year of the Company.

The Long term funding plan would ensure proper Asset Liability management.

2. Manner of raising long term resources

2.1 Borrowings from banks, other Financial Institutions and intercorporate loans. The Company may plan for raising long term resources from banks, financial institutions and inter corporate loans from Group Companies. The Company is also contemplating development of alternative sourcing of funds from other markets depending on the business requirements.

2.2 Retained Earnings

The Company shall utilize part or whole of the cash generated each year for funding the capital requirements. It shall ensure maintenance of capital adequacy ratio stipulated by the regulations from time to time.

2.3 Issue of Debt Securities*.*

The company shall subject to the applicable laws and regulations, issue debt securities depending on its business requirements and the market conditions.

The debt securities may be issued in the following manner;

a*. Public issue of Rated Secured Redeemable Non convertible Debentures (NCDs)*
b. Private placement of Rated and Listed NCDs (Secured / Unsecured)
c. Private placement of Un Listed Rated and Un rated NCDs (Secured / Unsecured)

a. Public issue of NCDs

The company may subject to the compliance with the applicable provisions of laws/ and regulations may issue Secured Redeemable Non convertible Debentures with maturity period of 12 months and above (NCDs/Bonds) at such intervals by way of public issue at such coupon rates as the company think fit from time to time and shall be listed in one or more recognized stock exchanges in India. The frequency of the issue may be decided by the Board / Committee of the Board from time to time depending on the business environment, market conditions and regulatory provisions in this behalf.

b. Private Placement of Listed NCDs

The company may subject to the compliance with the applicable provisions of laws and regulations may issue Secured / Unsecured Redeemable Non convertible Debentures (NCDs/Bonds) at such intervals by way of private placement to such number of subscribers on such minimum subscription as may be prescribed under any law or regulation / Master Directions - CIC in force from time to time to such eligible investors including High Net worth Individuals and Institutions. The securities may be listed in one or more recognized stock exchanges in India.

The timing or periodicity of private placement in this manner may be decided by the ALCO of the Board based on the market conditions, availability of funds and the business plan of the company and subject to compliance with all statutory/ regulatory requirement.

c. Private Placement of Unlisted NCDs (Rated and un rated)

Based on the business plan of the company for each year, the company may issue Unlisted NCDs to individuals/ institutions or such other class or category of investors. The timing and the amount of issue shall be decided by the ALCO of the Board and shall be subject to the statutory and regulatory compliances as may be required from time to time.

Private placement of Unlisted Debentures shall be made on the basis of a Disclosure document which shall specify the opening and closing dates of the issue, financial position and performance of the company as per the two latest audited financial statements of the company and of the major risk factors as perceive by the management.

2.4 Raising of money through IPO of shares/ Preferential issue of shares / fresh issue of shares/ QIP/ QIB/ Right issue other like sources Based on the business plan of the Company, the Company may contemplate raising of money through issuance of shares either to existing shareholder(s) or to new investor(s) depending on the market conditions and other factors.

B. Short Term Resources

The Short term resource mobilization program for each financial year shall be decided in advance in Annual Budget and shall be properly defined in the business plan for each year. The resources shall be mobilized in accordance with the Annual Budget approved by the Audit Committee and the Board after taking into account the fund requirement and the business requirements.

The Board may delegate raising of short term funds to certain limits to any sub-committee and/or any Director, executive. Resources with a maturity of 12 months and less shall be treated as short term resources. The main sources of such resources may be bank limits, financing institutions, issue of commercial papers, and related money market instruments, inter group borrowings, etc. Depending on the asset liability matching requirements, the Company may borrow funds from banks and other financial institutions / corporates from time to time. Subject to applicable laws and regulations the Company may also avail inter corporate loans which are exempt from the purview of public deposit under the applicable directions of RBI.

3. AMENDMENTS

The Board may, subject to applicable law, amend, suspend or rescind this Policy at any time. Any difficulties or ambiguities in this Policy will be resolved by the Board and/ or administrative committee of the Board, in line with the broad intent of this Policy, as and when required.

4. CHANGE IN LAW

In case of any subsequent changes in the provisions of the Act or further rules and regulations / guidelines from the Reserve Bank of India or any other regulations / Directions which makes any of the provisions of this Policy inconsistent, then the provisions of the Act or such other regulations / Directions would prevail over this Policy and the relevant provisions contained in the Policy would be modified accordingly in due course to make it consistent with applicable laws.

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