

**CD EQUIFINANCE PRIVATE LIMITED**

**LIQUIDITY RISK MANAGEMENT FRAMEWORK**

<b>Details</b>	<b>Date</b>
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## Contents

Preamble.....	3
1. Governance framework: .....	3
2. Maturity profiling of cash inflows and outflows: .....	3
3. Managing Interest rate risk: .....	4
4. Liquidity Risk Management- Stock Approach.....	5
5. Other Liquidity Risk Monitoring Tools: .....	5
6. Disclosures: .....	5
7. Policy Oversight and Review .....	6

## **I. Preamble**

This Liquidity Risk Management Policy ('the Policy') of CD Equifinance Private Limited ('the Company') has been framed pursuant to the Reserve Bank of India (Non-Banking Financial Company - Scale Based Regulation) Directions, 2023.

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Currently, the Company does not access Public Funds (market borrowing, bank borrowing, deposits from Public, etc.). The Company has surplus funds which are invested in high quality assets, which can be readily liquidated without any undue cost and effort to meet business.

## **II. Governance framework:**

- (a) The Board of Directors of the Company ('the Board') shall have the overall responsibility for management of liquidity risk. The Board shall decide the strategy, policies, and procedures of the Company to manage liquidity risk. .
- (b) The Risk Management Committee shall be responsible for evaluating the overall risks faced by the Company, including liquidity risk.
- (c) The Asset Liability Management Committee shall be responsible for ensuring adherence to the policies and procedures adopted by the Board for managing liquidity risk.

## **III. Maturity profiling of cash inflows and outflows:**

- (a) The ALCO of the Company shall ensure that the Company maintains sufficient liquidity so that there are no mismatches between cash inflows and outflows.
- (b) 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 shall be adopted as a standard tool. The Maturity Profile should be used for measuring the future cash flows of the Company in different time buckets. The time buckets shall be distributed as under:
  - 0 day to 7 days
  - 8 days to 14 days
  - 15 days to 30 / 31 days (one month)
  - Over 1 month and up to 2 months
  - Over 2 months and up to 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

- (c) The statement of Structural Liquidity of the Company along with Statement of Interest Rate Sensitivity (IRS), which is required to be filed with the RBI as per the frequency prescribed by RBI and will be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. It is clarified that a maturing liability shall be a cash outflow while a maturing asset shall be a cash inflow. Also, company will monitor their cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board.
- (d) Within each time bucket as stated under (b) above, there could be mismatches depending on cash inflows and outflows. The net cumulative negative mismatches, if any, in the Statement of Structural Liquidity shall not exceed the following:

Maturity bracket	Negative mismatch not to exceed
1-7 days	10% of the cumulative cash outflows during the relevant maturity bracket.
8-14 days	
15-30/31 days	20% of the cumulative cash outflows during the relevant maturity bracket.
Over 1 month and up to 2 months	
Over 2 months and up to 3 months	
Over 3 months and up to 6 months	30% of the cumulative cash outflows during the relevant maturity bracket.
Over 6 months and up to 1 year	

Off-Balance Sheet exposures and contingent liabilities, if any, shall also be considered for the purpose of determining maturity profiles of the cash inflows and outflows.

#### **IV. Managing Interest rate risk:**

- (a) Interest rate risk is the risk that changes in market interest rates may have an adverse effect on the Company's financial condition.
- (b) Interest rate risk is that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently the company is not exposed to interest rate risk from the external borrowings that are used to finance their operations and appropriate thresholds limits will be fixed and approved from the ALCO in case company is exposed to interest rate risk.
- (c) Company will be preparing Traditional gap analysis (if exposed to interest rate risk). 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:
- within the time interval under consideration, there is a cash flow,

- the interest rate resets/reprices contractually during the interval,
- Dependent on changes of the Reserve Bank in the interest rates/Bank Rate,
- it is contractually pre-payable or withdrawal before the stated maturities,

## V. Liquidity Risk Management- Stock Approach

Company adopted 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. The ratios and the internal limits shall be based on an NBFC’s liquidity risk management capabilities, experience, and profile. An indicative list of certain critical ratios to monitor are:

- Short-term liability 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-term liabilities to total liabilities,
- Long-term assets to total assets; etc,

## VI. Other Liquidity Risk Monitoring Tools:

In addition to the Statement of Structural Liquidity, the following tools shall be adopted by the Board for internal monitoring of liquidity requirements in case funding is obtained through external sources:

- Concentration of Funding:** This metric is meant to identify those significant 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.
- 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.

## VII. Disclosures:

- The Company shall make appropriate disclosures in its annual Financial Statements including the following, as applicable:
  - Institutional set-up for liquidity risk management.
  - Funding concentration (borrowings) based on significant counterparty as below:

Sl. No.	Number of significant counterparties	Amount (In cr.)	% of Total Liabilities

- Funding concentration based on significant instrument / product as below:

Sl. No.	Name of the instrument/product	Amount (In Cr)	% of Total Liabilities

- Top 10 borrowings (amount - in crores and % of total borrowings).
  - Stock Ratios including short-term liabilities, if any, as a % of total public funds, total assets, and total liabilities.
  - Quarterly disclosure for the Liquidity Risk Management shall be placed on the website of the company.
- (b) The Company's management shall put in place a Management Information System (MIS) as per the business needs of the Company to provide timely and forward-looking information on the liquidity position of the Company, both under normal and stressed conditions.
- (c) Statement on liquidity position of the Company, including maturity profiling of assets and liabilities (stated under para 2 above) and Gap Report (stated under para 3 above), shall be prepared by the management on a Quarterly basis and reviewed by the ALM Committee, and thereafter by the Risk Management Committee. Issues, if any, will also be placed before the Board.
- (d) The aforesaid statement for the year ended 31<sup>st</sup> March will also include certain ratios like short-term liabilities to total assets, short-term liabilities to long-term assets, short-term liabilities to total liabilities, long-term assets to total assets etc., so as to enable the ALM Committee and the Risk Management Committee to monitor the liquidity position of the Company. Further, the ALM Committee may, depending on the Company's liquidity risk management capabilities, determine limits beyond which the aforesaid ratios shall not exceed.
- (e) The company will provide additional disclosures provided in Scale base Regulation as according to the format defined by RBI.

#### VIII. **Policy Oversight and Review**

The company's ALCO will review this policy annually and get it approved by the Board of Directors for any material changes to the Policy and its appendices. The Board of Directors will review and approve this policy annually.