8. Group / Single Exposure Norms Policy

Table of Contents

8.1 Objectives:

The objective of the policy is better risk management and avoidance of concentration of investment/credit risks. The policy prescribes exposure limits in respect of the investments/lending to individual / group entities.

8.2 Scope

These norms deal with only the individual and groupexposures but not with the sector / industry exposures. Subject to the overall ceiling prescribed by RBI, TIDCO will fix internal limits for sector / industry exposures from time to time considering the performance of different sectors and the perceived risks. TIDCO will get the consent from the Board in case internal limits are exceeded and from RBI where exposure exceeds limits as specified by RBI. The limits so fixed are reviewed periodically and revised, if necessary.

While computing the extent of exposures to the individual/group entities for assessing compliance vis-a-vis the single borrower limit / group borrower limit exposures where principal and interest are fully guaranteed by the Government of India may be excluded.

As per the proviso to the applicability of concentration of credit/ investment norms "the concentration of credit/ investment norms shall not apply to any applicable NBFC not accessing public funds* in India, either directly or indirectly and not issuing guarantees".

*Public fund includes funds raised either directly or indirectly through public deposits, inter-corporate deposits, bank finance and all funds received from outside sources such as funds raised by issue of Commercial Papers, debentures etc. but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue.

These norms are to be considered as a part of prudent risk management system and does not substitute efficient credit appraisal, monitoring and other safeguards.

8.3 Definitions

8.3.1 Capital Funds

The total regulatory capital (i.e., Tier 1 + Tier 2 capital) of the TIDCO, determined as per the capital adequacy norms of RBI applicable to TIDCO, as on March 31 of the previous year, would constitute the 'capital funds' for the purpose of exposure norms.

8.3.2 Infrastructure Projects -Investment/Lending

Any investment/credit facility in whatever form extended by TIDCO to an infrastructure facility as specified below falls within the definition of "infrastructure investment/lending":

a. developing or

b. operating and maintaining, or
c. developing, operating and maintaining
d. any infrastructure facility that is a project in any of the following sectors:

    i. a road, including toll road, a bridge or a rail system;
    ii. a highway project including other activities being an integral part of the highway project;
    iii. a port, airport, inland waterway or inland port;
    iv. a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;
    v. telecommunication services whether basic or cellular, including radio paging, domestic satellite service (i.e., a satellite owned and operated by an Indian company for providing telecommunication service), network of trunking, broadband network and internet services;
    vi. an industrial park or special economic zone;
    vii. generation or generation and distribution of power;
    viii. transmission or distribution of power by laying a network of new transmission or distribution lines;
    ix. Any other infrastructure facility of similar nature.

8.3.3 Group Entities

The concept of "Group" and the task of identification of the entities belonging to specific industrial groups are based on the perception of TIDCO. Commonality of management and effective control are the guiding principles in determining if a particular unit belongs to a group. The decision is made based on relevant information available with TIDCO and the basic constitution of TIDCO clientele.

8.4 Categories of exposure

a) Investments:
1. Equity Shares
2. Preference Shares

3. Venture Capital Fund(Registered & Un-Registered)
4. Deposits with corporate sectors

b) Loans:
1. Term loans
2. Bridge loan/Interim finance
3. Working capital finance
4. Debt Securities
5. Bonds and Debentures in nature of advance
6. Preference shares in nature of advance

8.5 Level of Exposure

The sanctioned limit or outstanding, whichever is higher, shall be reckoned in respect of the funded as well as non-funded facilities, for arriving at the level of exposure. The "credit exposure" shall include funded and non-funded credit limits, underwriting and other similar commitments. The exposure on account of derivative products is also reckoned for the purpose.

In case of term loans, however the level of exposure is reckoned on the basis of actual outstanding plus undisbursed or undrawn commitments. However, in cases where disbursements are yet to commence, the level of exposure is reckoned on the basis of the sanctioned limit or the extent up to which the TIDCO has entered into commitments with the borrowing companies in terms of the agreement.

For the purpose of determining the level of exposure, the following instruments should also be reckoned

(i) Bonds and Debentures in the Nature of Advance: The bonds and debentures should be treated in the nature of advance when:

- The debenture / bond is issued as part of the proposal for project finance and the tenor of the bond / debenture is for three years and above and

- TIDCO has a significant stake (i.e., 10% or more) in the issue and

- The issue is a part of private placement i.e., the borrower has approached TIDCO, and not part of a public issue where TIDCO has subscribed in response to an invitation.

(ii) Preference Shares in the Nature of Advance: The preference shares, other than convertible preference shares, acquired as part of project financing and meeting the criteria as at (i) above.

(iii) Deposits: The deposits placed by TIDCO with the corporate sector.

For computing the level of exposure in respect of the NBFCs, TIDCO's investment in the privately placed debentures should be included while those acquired in the secondary market should be excluded.

TIDCO shall comply with the prudential requirements relating to Off-balance Sheet Exposures of TIDCO as per RBI Guidelines

8.6 Exposure Ceilings:

The exposure limits for both lending and investing maybe summarized as follows

A) Lend to any single borrower not exceeding fifteen per cent of its owned fund; and any single group of borrowers not exceeding twenty five per cent of its owned fund;

B) Invest in the shares of another company not exceeding fifteen per cent of its owned fund; and the shares of a single group of companies not exceeding twenty-five per cent of its owned fund;

C) Lend & invest (taken together) not exceeding twenty five per cent of its owned fund to a single party; and not exceeding forty per cent of its owned fund to a single group of parties.
Infrastructure projects are eligible for an additional 5% on single borrower/company and 10% on group borrower/companies.

"Owned fund" means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any.

8.7 Cross Holding of Capital among Banks / Financial Institutions

(i) TIDCO's investment in the following instruments, which are issued by other banks / FIs and are eligible for capital status for the investee bank / FI, should not exceed 10 percent of TIDCO's capital funds (Tier I plus Tier II):

a. Equity shares;

b. Preference shares eligible for capital status;

c. Subordinated debt instruments;

d. Hybrid debt capital instruments; and

e. Any other instrument approved as in the nature of capital.

TIDCO does not acquire any fresh stake in a bank's / FI's equity shares, if by such acquisition, TIDCO's holding exceeds 5 percent of the investee bank's / FI's equity capital.

(ii) TIDCO's investments in the equity capital of subsidiaries are at present deducted from their Tier I capital for capital adequacy purposes. Investments in the instruments issued by banks / FIs, which are not deducted from Tier I capital of TIDCO, will attract 100 percent risk weight for credit risk for capital adequacy purposes.

8.8 Disclosures

TIDCO should make appropriate disclosures in the 'Notes on account' to the annual financial statements in respect of the exposures where TIDCO had exceeded the prudential exposure limits during the year.

8.9 Reporting Requirements

a) RBI:

An annual review of the implementation of exposure management measures should be placed before the Board of Directors by the GM(Finance)before the end of June every year. A copy of the review should be furnished for information to the Chief General Manager-in-Charge, Department of Banking Supervision, Reserve Bank of India, Central Office, World Trade Centre, Cuffe Parade, Colaba, Mumbai - 400 005.

b) CIBIL:

In order to help in the creation of a central database on private placement of debt, TIDCO should file a copy of all offer documents with the Credit Information Bureau (India) Ltd. (CIBIL). When TIDCO themselves raise debt through private placement, a copy of the offer document with CIBIL is filed.

Any default relating to payment of interest / repayment of instalment in respect of any privately placed debt should also be reported to CIBIL by the TIDCO along with a copy of the offer document.

TIDCO should also report to the RBI, details of investments in unlisted securities as may be prescribed by RBI from time to time.

The General Manager (Finance) would be responsible for ensuring reporting requirements are complied with.

8.10 Role of Board of Directors

The Board shallensure that the prudential limits are scrupulously complied with, including the system for addressing the breaches, if any.

The Boardshall review, twice a year, the following aspects of investment in debt securities covered by these guidelines:

a) Total turnover (investment and divestment) during the reporting period;

b) Compliance with the RBI-mandated prudential limits as also those prescribed by the Board for such investments;

c) Rating migration of the issuers / securities held in the books of TIDCO and consequent diminution in the portfolio quality; and

d) Extent of non-performing investments in the fixed income category.

(The policy will be reviewed every three years or as and when there are changes in RBI guidelines, whichever is earlier.)