ANDHRA PRADESH POWER FINANCE CORPORATION LIMITED

LOAN POLICY 2021

Approved in 173rd Board Meeting

TABLE OF CONTENTS

1. Summary of Policy

Policy Name	Loan Policy
Reference	RBI Master Direction & Circulars
Date of Approval	21/10/2021 (173rd Board Meeting)
Periodicity of review	Annual
Owner / Contact	Risk
Approver	Board of Directors

2. Preamble:

This policy document on Loans & Advances outlines the guiding principles in respect of formulation of various products offered by APPFCL, the terms and conditions governing the conduct of account, the delegated power to the committee/officials and other terms & conditions applicable to such loans. It is expected that this document will impart greater transparency in dealing with individual customer and create awareness among customers. While formulating the policy, the company's overall risk appetite has been taken into consideration. The Company will apply best industry practices so long as such practice does not conflict or violate RBI guidelines.

3. About the Company:

Andhra Pradesh Power Finance Corporation limited (APPFCL) is a Government Company established vide G.O.Ms. No. 54 Energy (Power–III) dated 19-05-2000 under the Companies Act, 1956 and commenced business on 13th July, 2000 with 100% ownership by Government of Andhra Pradesh. APPFCL is registered with Reserve Bank of India (RBI) as Non-Banking Finance Company (NBFC) – NDSI (Non-Deposit Taking Systematically Important) Company with effect from 25th August, 2000. APPFCL's products are Loans and Advances to AP State Government Owned Power Generating and Distributing Companies.

4. Main Objects of the Company:

The company has been engaged in the activity of lending exclusively to Power Generating Companies and Power Distribution Companies owned by Govt. of AP, to finance their infrastructure and working capital needs. As a 100% GoAP owned company, in order to be able to provide funds at competitive rates of interest to the AP Govt Owned Power Sector companies, APPFCL resorts to mobilizing resources at competitive interest rates by issuing medium to long term (10 to 20 years) Bonds and availing Loans from Scheduled Commercial Banks and raising Inter Corporate Deposits from other Government Corporations.

5. Approach to Lending:

Subject to RBI guidelines, the Board of Directors shall give directions relating to lending activity, policy, exposure limits to various segments of clients and delegation of powers.

The main principles underlying the Lending Policy would be applicable to the exposures undertaken within the country as the Board may decide from time to time.

6. Exposure Norms:

It is normal business prudence to not extend credit facilities to a single borrower or a group of borrowers, lest it should result in credit risk concentration in one borrower or one group. Under extant guidelines applicable to NBFCs, RBI has prescribed caps on the amount of funds that can be lent to individual borrower and a group of borrowers as a percentage of Owned Funds of the company.

“Owned Funds” means aggregate of the 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 assets.

Since the main mandate of the company is to extend loans to power generating and distributing companies of Andhra Pradesh, APPFCL has been exempted from adherence to concentration norms towards existing power distributing companies, vide RBI Dept of Supervision, Hyderabad RO letter No. DoS(H)CMS/409/00.00.467/2020-21 dated 4/3/2021.

7. **Appraisal/ Financial Due Diligence:**

APPFCL lends only to AP State Government Owned Power Sector Companies. Therefore, customer identification, verification and evaluating character of customer etc., have insignificant role in the appraisal. APPFCL extends loans to these companies for meeting both working capital and capital expenditure requirements.

The customer's Balance Sheet shall be verified and analysed. The ability of the customers to repay the loan amount shall be scrutinised through financial analysis/ ratios.

APPFCL shall carry out due diligence of borrower's financial position and objective credit appraisal at the time sanctioning the credit facilities. Financial position of the borrowing company will be evaluated in terms of (a) Capital Base & Net Worth (b) Outstanding Borrowings and Debt Equity Ratio (c) Sales Turnover (d) Net Profit and Profitability (e) Liquidity Position (f) Debt Servicing Ability and (g) future plans for the current and next years as well as in the medium term. Pendency in respect of Income Tax & GST dues will be ascertained and its impact will be evaluated as per audited data.

Borrower company's credit rating available, if any, from external agencies will also be taken on record as a part of loan appraisal.

The requirement of borrower company will be assessed based on the financial condition and recorded along with proposed terms and conditions of sanction.

Applications complete in all respects would be processed within a reasonable time frame. In case the proposal is not approved by the company, the borrower would be intimated accordingly.

8. **Security for the loans sanctioned by APPFCL:**

Loans given to the companies are to be repaid from cash generated from operations. Therefore, in all the cases a first charge on the receivables of the borrower will be obtained as a primary security for the credit facilities extended. It shall be on first pari-passu charge basis where other lenders are present in a Consortium or Multiple Banking Arrangement. For the borrower company to be able to obtain finance, borrower will be required to provide Guarantee of AP State Government as collateral security, which will reduce Capital

Adequacy requirement for APPFCL. The Loan agreement executed by the borrower shall capture the details of above securities.

APPFCL would release all securities on full repayment/realization of the loan to the satisfaction of the company subject to any legitimate right or lien and set off for any other claim that the corporation may have against the borrowers.

9. Delegation of Sanctioning Powers:

Credit Committee:

The Company has formed a committee which shall be known as the Credit Committee (CC).

The Credit Committee shall consist of following functionaries as members:

1. Managing Director: Chairman
2. Chief Financial Officer: Member Secretary
3. Chief Risk Officer : Member
4. Company Secretary: Member

Quorum: Managing Director and any two of the other three members.

All the loan applications along with necessary documents obtained from prospective borrower and appraisal note duly recommended by the Credit Committee shall be submitted to the Board of Directors of APPFCL for approval. Sanction by the Board shall be on consensus basis. The Board may, at its discretion, consider granting credit facilities with any of the above security and other conditions on a case to case to basis. The Board shall have the authority to permit deviations or waivers wherever warranted on a case to case basis.

Whenever it is not feasible to convene a Board meeting for sanction of loans at a short notice, the loan proposal may be circulated for approval of the Board Members. The sanction thus obtained, to be submitted as a separate agenda item in the subsequent Board meeting for ratification of approval obtained in circulation.

10. Pricing:

The Company shall lend funds to the following Government Companies in the State of Andhra Pradesh:

- Andhra Pradesh Southern Power Distribution Corporation Limited (AP SPDCL)
- Andhra Pradesh Eastern Power Distribution Corporation Limited (AP EPDCL)
- Andhra Pradesh Power Generation Corporation Limited (AP GENCO)
- Andhra Pradesh Power Development Corporation Limited (AP PDCL)

The management understands that considering the higher cost of borrowing and the risk profile of the customer, it has to maintain adequate margins to cover the operational and delinquency risk. Accordingly, the pricing on loans and advances would be decided by taking into account the above factors and will be charged on reducing balance basis for the tenure of the loan.

At present, based on the requirements of borrowing entities, resources are raised by APPFCL at competitive rates of interest from Banks or other avenues. Most of the benefits of finer interest rates are passed on to the borrower companies by suitably pricing the loan given by APPFCL at a rate which is slightly above than the cost of borrowing, duly providing sufficient margin to take care of operating costs, delinquencies etc. The Board will decide on the interest rate to be charged on the loans issued to AP State Power Generating and Distributing Companies, on a case to case to basis.

11. Disbursement of Loan:

a. The borrower shall enter into a Loan Agreement containing all standard and specific terms and conditions with APPFCL, execute the requisite documents, create security for the assistance as mentioned in the LOI/sanction letter, before seeking disbursement.

b. APPFCL would ensure timely disbursement of loan sanctioned in conformity with terms and conditions governing such sanction.

c. Changes in interest rate and other financial charges in the normal course would be effected prospectively.

12. RBI Prudential Regulations: Income Recognition & Asset Classification (IRAC) and Provisioning:

Income Recognition:

The income recognition shall be based on recognized accounting principles. Income on Non-Performing Assets shall be recognized only when it is actual realized. Any such income booked earlier on accrual basis but not realized shall be reversed.

Asset Classification:

RBI regulations issued in 2014 has mandated a shorter term for classifying assets as Non-Performing Assets (NPAs) so as to ensure that there is no difference between Banks and NBFCs in relation to classification NPAs. Pursuant to these regulations, time period for classifying assets as NPAs has been brought down to 90 days effective March 2018. A Loan asset would become NPA if the interest or instalment remains unpaid/overdue for a period of 90 days.

APPFCL shall classify all its Loan assets or any other kind of credit assets, after taking into account credit weaknesses in the account and also the dependence on collaterals securities for realization, classify assets into the following 4 classes.

(i) Standard Assets: Loan assets in respect of which, no default in repayment of principal or interest is perceived and which does not disclosed any problems or more than normal risk attached to business.

(ii) Sub-standard Assets: Assets which has been classified as NPA for a period not exceeding 12 months as on the balance sheet date of APPFCL.

(iii) Doubtful Assets: Loans which remain Sub-standard assets for a period exceeding 12 months as on the balance sheet date of APPFCL.

(iv) Loss assets: Loan assets which have been identified as loss by APPFCL or the internal or external auditors of the company, to the extent it is not written off; assets which are adversely affected by a potential threat of non-recoverability due to either in the value of security or non-availability of security or due to any fraudulent act or commission on the part of the borrowers.

Provisioning for NPAs:

As per RBI guidelines, APPFCL shall make provision as under against Sub-standard, Doubtful and Loss assets, after taking into account the lag between an account becoming NPA and its recognition, the realizable security and the erosion over time in the value of security charged.

(i) Loss asset: The entire amount shall be written off. If the asset is permitted to continue on the books, 100% of the outstanding shall be provided for.

(ii) Doubtful Asset: (a) 100% provision to the extent to which the advance is not covered by the realizable value of the security on a realistic basis to which APPFCL has a valid recourse; in addition to (a) above, depending on the period for which the assets has remained doubtful, provision to the extent of 20% to 50% of the secured portion shall be made on the following basis:

Up to 1 year – 20%

1 to 3 years - 30%

More than 3 years – 50%

(iii) Sub-standard Asset: A general provision of 10% of total outstanding shall be made.

Standard Asset Provisioning:

In terms of RBI instructions, APPFCL shall make provisions for standard assets at 0.40% of outstanding which shall not be reckoned for arriving at NPAs. The provision need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet of APPFCL.

13. Review of Accounts:

In order to be able to identify early warning signals and take necessary steps to ensure against deterioration of loan assets to NPA, review of each loan account at quarterly intervals shall be submitted to the Board of Directors. Directions of the Board, if any, in respect of any problematic accounts to be followed by the company meticulously for protecting the quality of loan assets and safeguarding the interest of the company.

Based on review, decision to recall/accelerate payment or performance under the agreement or seeking additional securities would be as per the loan agreement.

14. Loan Application and Terms & Conditions:

(a) Loan application forms for all standardized products of APPFCL are available with the company for the prospective borrower's use with list of documents required to be submitted along with application form. APPFCL shall issue written/mail acknowledgement for each application after receipt of the complete information as per standard application format.

(b) The borrower will be required to submit all KYC documents for the company as well as authorized signatories, Board and AGM resolutions for borrowing, 2 sets of latest audited balance sheets. Additional information and support documents may occasionally be found necessary in course of processing a client application, which will be obtained from borrower.

(c) The amount of assistance to be sanctioned, terms of sanction, etc. are finalized after appraisal, discussions with borrower's representatives and due diligence. Interest rates for the loans will be as prevailing on the date of each disbursement.

(d) Sanction letter and a copy of the Standard Loan Agreement, as amended from time to time, together with general/special conditions would be furnished, except in case of Consortium financing where the terms and conditions may be finalized amongst the participating banks/FIs.

However, issuance of the LOI/sanction letter does not bind APPFCL or give any right to the borrower for release of funds for the project or sanction of further assistance for that project/ scheme/ purpose, unless all the covenants are fulfilled and required securities are created to the satisfaction of APPFCL/consortium.

15. Repayment Periods

Having regard to the maturity profile of Company's liabilities, the loans extended by the Company will have a maximum tenor of 8 years. In line with repayment of resources (term loans) raised from commercial banks, it will be stipulated that the repayment of loans given by the Company to be made in monthly/quarterly instalments.

16. Restrictions on Lending:

APPFCL shall NOT lend against its own shares held by the Government or others, as RBI specifically prohibits lending against the own shares of the company.

*****