Muthoot Mercantile Limited

(A Unit of Muthoot Ninan Group)
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ASSET LIABILITY MANAGEMENT POLICY OF MUTHOOT MERCANTILE LTD

INTRODUCTION

Muthoot Mercantile Ltd (MML) a registered NBFC with Reserve Bank of India. The company is mainly focusing on lending against household jewelry and operates exclusively as gold loan company. The company's resources comprise short term and long-term funds from the banks, other NBFC's, Subordinated Debts & Non-Convertible Debentures of different maturities. The loan book (Assets) mainly short-term gold loans with maturity spanning up to 12 months. The maturity of both liability (Resources) and loans (assets) varies depending upon its date of origin and tenure which may lead to mismatches in cash flow, can be a potential threat to liquidity and profitability. The company has framed effective monitoring mechanism to check asset liability mismatches are within the regulatory guidelines of Reserve Bank of India.

OBJECTIVES AND SCOPE

The objective of this policy is to establish an institutional mechanism for computing and periodically monitor the maturity pattern of assets and liabilities at different maturity of assets and liabilities at different time buckets. This mechanism enables:

a) Monitoring short term liquidity on dynamic basis over a time horizon

b) Enable to estimate short term liquidity based on projection and estimates

MML emphasizes effective Asset Liability Management (ALM) by ensuring the following:

a) Management Information System (MIS) Reporting
b) Effective Internal Controls
c) Maturity Profiling
d) Managing liquidity risk
e) Managing interest rate risk

GOVERNANCE OF LIQUIDITY RISK MANAGEMENT

Successful risk management process requires strong commitment on the part of the senior management to integrate basic operations and strategic decision-making with risk management. The Asset Liability Management committee is a decision making unit responsible for balance sheet planning including strategic management of interest rate and liquidity risks. The ALM committee consider product pricing for both investments and loans, compare prevailing interest rate offered by the peer NBFC' s for the similar product

and services. The members of the Asset Liability Management (ALCO) Committee consisting of

a) MATHEW MATHAININAN, CHAIRMAN,
b) RICHI MATHEW, MANAGING DIRECTOR,
c) ANTONY ROBERT JOHN, INDEPENDENT DIRECTOR
d) JUSTIN DILLARK, INDEPENDENT DIRECTOR
e) BAGAVATH KRISHNAN V, CFO

RESPOSIBILITIES OF ALCO

ALCO is responsible for adhering to liquidity Risk limits set by the Board as well as business strategies of the company. ALCO shall invariably review the following:

1) Review of Liquidity mismatches
2) Review of interest rate sensitivity position
3) Review of resource raising and its deployment
4) Review of product mix and pricing
5) Strategies for deployment of surplus funds
6) Review of availability of unencumbered assets
7) Review of LCR requirements.

REGULATORY COMPLIANCE

The regulator (RBI) mandates all eligible NBFC" s shall have an effective ALM System in place including submission of ALM Returns such as

a) ALM 1: Statement of short-term dynamic liquidity (Monthly)
b) ALM 2: Structural Liquidity (Half Yearly)
c) ALM 3: Statement of interest rate sensitivity

ALCO will use these formats for compiling the figures and ALCO is the decision-making unit consisting of senior management including the Managing Director.

ALM PROCESS

The scope of ALM function includes the following:

i) Liquidity Risk Management
ii) Funding and Capital Planning
iii) Profit Planning and growth projection

CASH FLOW APPROACH

Cash flow approach involves placing all cash flows (inflows and outflows) from assets and liabilities into a series of time buckets as stipulated by Reserve Bank of India and a net mismatch position arrived by subtracting outflows from inflows in each time bucket. The difference between cash inflows and outflows in each bucket thus becomes starting point for the company's future liquidity surplus or deficit, at different points of time.

LIQUIDITY RISK MANAGEMENT

Measuring and managing liquidity forms part of the effective management and ensures NBFC's ability to meet its liabilities as they become due. Liquidity management reduces the probability of an adverse situation developing. Liquidity is tracked through maturity or cash flow mismatches. For measuring and managing net funding requirements, the use of maturity ladder and calculation of cumulative SURPLUS / DEFICIT of funds at selected maturity date is adopted as a standard tool. For this purpose, we are using the following buckets suggested by RBI.

1) 1 day to 7 days
2) 8 days to 14 days
3) 15 days to 30/31 days
4) Over ONE month and up to TWO months
5) Over TWO months and up to THREE months
6) Over THREE months and up to SIX months
7) Over SIX months and up to ONE Year
8) Over ONE Year and up to THREE Years
9) Over THREE Years and up to FIVE Years
10) Over Five Years

As per the directions of RBI, our focus is 1 to 30/31 days and we are ensuring the net cumulative negative mismatches in the structural liquidity statement in the maturity bucket of 1 to 7 days, 8 to 14 days and 15 to 30/31 days shall not exceed 10%, 10% and 20% respectively. Any exemption to the ceiling for abnormal situation shall be with the approval of the board. Short-term liquidity is estimating duly taking into consideration of business projection and other commitments

FUNDING AND CAPITAL PLANNING

The company is meeting its resources mainly through Cash Credit and term loans from Banks /FI's/Other NBFC's, through NCD's from public issue and private placements and Subordinated Debt in accordance with the regulatory guidelines. Company is taking utmost care in over reliance on single party exposure to avoid concentration risk.

The company is actively managing collateral position encumbered / unencumbered assets and ensuring sufficient collateral to meet expected and unexpected funding needs of the company.

MARKET RISK MANAGEMENT

Company borrows at market linked interest rates (bank borrowings/ NCD/SD). If the borrowing costs rise while the gold loans are granted at fixed or lower rate resulting impact in Net Interest Margin. To offset the impact, ALCO of the company is regularly revisiting the schemes and interest rates on gold loans in tune with the market movement.

Loan to Value (LTV) Ratio pressure: RBI mandates a LTV ratio of 75 to 85% and if the market price of the gold drops, the existing loans LTV ratio will increases, reducing company's safety of margin. If the LTV breaches the regulatory threshold during the loan tenure, company may need to make provision or the loan could be classified as NPA, forcing the company to auction the gold collateral.

INTEREST RATE RISK

Re-pricing risk arises when assets and liabilities get re-priced at different times and different rates of interest on account of either maturity or fixed and floating nature of assets and liabilities. Rising interest rates make other interest-bearing instruments more attractive, potentially reducing demand for gold and affecting its price to fall. Drop in price of the gold reduces the value of the collateral held by the company

MITIGATION STRATEGIES FOLLOWED:

1) Adjusting interest rates for new loans based on prevailing market conditions
2) Strictly following RBI guidelines on LTV ratios,
3) Adopting standard gold valuation and tenability of the gold loans
4) Adopting different gold loan schemes and tenure
5) Offering monthly payment of interest and thereby reducing risk of default

Our assets in the form of gold loan constitute more than 95% and the major liabilities comprises non-convertible debentures, subordinate debt where interest rate is fixed. Company is also raising resources through bank borrowings which reprice with change in external policy rates (Repo / MCLR) and our asses are repriced with less intervals

The board has approved the policy and continue to valid till next review.

For Muthoot Mercantile Limited

S/d
Mathew Mathaininan
Chairman & Whole-time Director
DIN: 00063078