Risk Management Charter for Centrum Capital Limited

A. Introduction

This Risk Management Charter is established to provide an appropriate structure to monitor the Company's financial, operational and credit risks.

Risk Management Charter is evaluated annually and if necessary updated by the Top Management.

B. Purpose

Risk Management assists the Top Management in:

- Identifying and managing the Company's risks and opportunities;
- Achieving the business goals and objectives consistent with Company's strategy;
- Minimizing operational losses;
- Preventing redundancies, inconsistencies and gaps in the Company's policies, procedures and guidelines;

In addition, the Risk management charter shall assist the Top Management in maintaining an adequate internal control environment which is aligned with the philosophy of the Company.

C. Business Groups

Centrum Capital Ltd (CCL) has defined its business into four distinct business units PFG, FIG, ECM and CSG

PFG: Project Finance Group

This group/unit primarily deals in addressing short-term and long-term debt requirements for corporates; it also includes stressed asset resolution and advisory services for helping the clients to meet their debt raising / restructuring requirements.

FIG: Fixed Income Group

This group/unit mainly covers primary issuances of bonds and trading in secondary bonds and govt. securities

ECM: Equity Capital Markets

This group/unit assists companies in raising funds through IPO's / Right issues QIP's, etc. It also advises on buy-back, open-offers, ESOPs etc.

CSG: Corporate Solution Group

This group/unit helps corporates in raising resources through private equity, structured products and also provides advice on Mergers & Acquisitions etc. It also works and helps in showcasing the entire range of offering to clients with Industry specific focus.

D. Types of Risks

- **Financial Risk :**

The Company is exposed to financial risk only in the FIG and ECM.

FIG: A detailed Risk Management policy is enclosed as Annexure - 1

ECM:

As per the current regulations in force assignments in the primary capital market space through the book building route needs to be necessarily underwritten. The risk here is however restricted to the share of devolvement / underwriting commitment.

Mitigation Process:

i. A detailed review of any such proposal is done on the merits covering the financials of the client, promoters' background, reference checks through markets and detailed discussions with the management of the client, key management personnel and division heads.

ii. In larger issues a decision of having additional merchant banks / syndicate members / underwriters is consciously reviewed and a suitable decision is taken at an appropriate time before opening of the issue.

- **Operational Risk**

The Company is exposed to operational risk across all business units viz. PFG, FIG, ECM and CSG.

PFG:

The major operational risk is loss of fees due to failure in closing the mandate.

Mitigation Process:

i. Acceptance of Mandate: This risk is reduced to a great degree by having a stringent process for acceptance of mandate. The proposal is considered on merits covering the financials of the client, promoters' background and reference checks through bankers etc. The acceptance is provided by the Managing Director (MD) on recommendation made by Executive Director (ED) after proper vetting procedure. This also helps in addressing any reputation risk associated with it.

ii. Execution of Mandate: Close monitoring is ensured through a detailed tracking sheet maintained for each mandate. This is reviewed regularly by the senior management and necessary inputs are given to the execution team.

FIG:

A detailed Risk Management policy is enclosed as Annexure - 1

ECM:

The major operational risk is loss of fees due to failure in closing the mandate and regulatory risk.

Mitigation Process:

i. Acceptance of Mandate: This risk is reduced to a great degree by having a stringent process for acceptance of mandate. The proposal is considered on merits covering the financials of the client, promoters' background, reference checks through bankers, auditors' certifications and discussions with the auditor's etc. This is put up to the Business Acceptance Committee (consisting of the Chairman, Head's of ECM, CSG, Broking, Debt and Business Development) for approval. This also helps in addressing any reputation risk associated with it.

ii. Execution of Mandate: Close monitoring is ensured through a detailed tracking sheet maintained for each mandate. This is reviewed regularly by the senior management and necessary inputs are given to the execution team.

iii. Regulatory risk: The group has to comply with SEBI regulations as a merchant banker in general and as an intermediary who is responsible for due diligence of documentation and issuance. ECM team ensures that only factual information supported with appropriate documentation / undertaking is being incorporated in all documentation that requires regulatory approval. To enable this exercise in an effective manner, reputed legal counsels well versed in corporate laws and capital market regulations are engaged. Over and above this an independent review is also conducted by the ECM team working on any such assignment.

CSG:

The major operational risk is loss of fees due to failure in closing the mandate.

Mitigation Process:

i. Acceptance of Mandate: This risk is reduced to a great degree by having a stringent process for acceptance of mandate. The proposal is considered on merits covering the financials of the client, promoters' background and reference checks through bankers etc. This is put up to the Business Acceptance Committee (consisting of the Chairman, Heads of ECM, CSG, Broking, Debt and Business Development) for approval. This also helps in addressing any reputation risk associated with it.

ii. Execution of Mandate: Close monitoring is ensured through a detailed tracking sheet maintained for each mandate. This is reviewed regularly by the senior management and necessary inputs are given to the execution team.

- **Credit Risk**

The major credit risk is on account of timely collection of fees.

Mitigation Process:

i. The clients are updated on the status of mandates on regular basis to keep them engaged on the developments, this helps in addressing any issues which otherwise could arise on service delivery and helps in confirmation of fee commitment from the clients at all times.

ii. The age-wise analysis report is prepared on a regular basis and the senior management reviews the same and provides necessary guidance on extra efforts wherever necessary.

iii. In cases specific to ECM there are extra provisions to secure the fees payable for the transaction viz., proviso in the MOU between the client and the Merchant Banker to transfer the fees payable from the IPO escrow account directly before transfer of the proceeds of the issue, Also NOC from the Merchant Bankers is required by stock exchange for release of security deposit which is withheld pending any outstanding fees payable to the Merchant Banker.

Annexure -1

Risk Management Policy for FIG

A. For Primary Issues of private placement of bonds/debt instruments:

- **Operational Risk**

The major operational risk is loss of fees due to failure in closing the mandate and regulatory risk.

Mitigation Process:

i. Acceptance of Mandate: This risk is reduced to a great degree by having a stringent process for acceptance of mandate. The proposal is considered on merits covering the financials of the issuer, promoters' background and reference checks through bankers etc. The demand for the proposed security is ascertained through market feedback. The acceptance is provided by the MD on recommendation made by ED after proper vetting procedure. This also helps in addressing any reputation risk associated with it.

ii. Execution of Mandate: Close monitoring is ensured through a detailed tracking sheet maintained for each mandate. This is reviewed regularly by the senior management and necessary inputs are given to the execution team.

iii. Regulatory risk: The group has to comply with SEBI regulations as a merchant banker in general and as an intermediary who is responsible for due diligence of documentation and issuance. The FIG team ensures that only factual information supported with appropriate documentation / undertaking/certification is being incorporated in all documentation that requires regulatory approval. To enable this exercise in an effective manner, wherever required, reputed legal counsels well versed in corporate laws and capital market regulations are engaged.

B. For Secondary Market Trading (Government Securities & Corporate Bonds)

- **<u>Financial risk</u>**

Most of the deals are done on back to back basis, where no risk is involved.

A financial risk arises only in case of any open position.

Mitigation Process:

i. Prior approval of MD on recommendation of ED & product head, which is based on ascertained demand for the security and expected movement in interest rates.

ii. Incase of securities which are illiquid in nature, a list of investors/funds, that are interested/have given a commitment is submitted.

iii. Stringent stop loss matrix :
- Upto 50 paise per rupees hundred – Product Head
- 51 paise to 75 paise per rupees hundred – ED
- Above 76 paise per rupees hundred – MD

iv. Daily Mark to Market is maintained.

v. Maximum holding period is15 days. For holding the securities for more than 15 days, prior approval of Managing Director is required.

- **<u>Operational Risk</u>**

The operational risk is the timely execution of the transaction.

To mitigate the operational risk the following measures are in place:

i. Stringent Standard Operating Procedure (SOP)

ii. Experienced back office team ensures that all formalities are completed in time.