Perpetual Debt Instruments Policy

(Approved by the Board of Directors on August 11, 2023)

1. Introduction

As per Master Direction DNBR.PD.008/03.10.119/2016-17 dated September 01, 2016 ("RBI Master Directions") Perpetual Debt Instruments (PDI) may be issue by non-deposit taking NBFC with asset size of ₹500 crores and above.

Any amount received by a Systemically important non-deposit taking non-banking financial company by issuance of perpetual debt instruments in accordance with guidelines issued in this regard by the Reserve Bank of India and as amended from time to time is excluded from public deposits as defined in section 3(xiii) Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions 2016.

The PDIs issued by the Company shall be eligible to be treated as Tier I capital upto 15 per cent of total Tier I capital.

An investor may make investment decision on the basis of its own analysis and the Reserve Bank of India does not accept any responsibility about repayment of such investment.

2. Definitions

a) "Board" means Board of Directors of the Company.

b) "Company" means **KLM Axiva Finvest Limited**.

c) "CRAR" means Capital to Risk Assets Ratio.

d) "NBFC-ND-SI" means Systemically Important Non-Deposit taking Non-Banking Financial Company.

e) "Systemically important non-deposit taking non-banking financial company", means a non-banking financial company not accepting/ holding public deposits and having total assets of ₹500 crore and above as shown in the last audited balance sheet

f) "Tier I Capital" means owned fund as reduced by investment in shares of other non-banking financial companies and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten per cent of the owned fund; and perpetual debt instruments issued by a non-deposit taking non-banking financial company in each year to the extent it does not exceed 15 per cent of the aggregate Tier I Capital of such company as on March 31 of the previous accounting year.

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g) "Tier II capital" includes the following:
   i. preference shares other than those which are compulsorily convertible into equity;
   ii. revaluation reserves at discounted rate of fifty-five per cent;
   iii. General provisions (including that for Standard Assets) and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;
   iv. hybrid debt capital instruments;
   v. subordinated debt; and
   vi. perpetual debt instruments issued by a non-deposit taking non-banking financial company which is in excess of what qualifies for Tier I Capital, to the extent the aggregate does not exceed Tier I capital.

3. Terms of Issue of PDI

i. Nature

The Company shall issue PDI as plain vanilla instruments only. PDIs shall be issued as bonds or debentures. The PDIs shall be unsecured in nature.

Currency of issue PDIs shall be issued in Indian Rupees only.

ii. Amount

The aggregate amount to be raised by issue of PDIs shall be within the overall limits of Tier I and Tier II as explained in clause (iii) below. It may be raised in tranches. The minimum investment by single investor in each such issue/tranche shall be ₹5 lakh.

iii. Limits

PDI shall be eligible to be treated as Tier I capital upto 15 per cent of total Tier I capital. The above limit will be based on the amount of Tier I capital as on March 31 of previous year after deduction of goodwill and other intangible assets but before the deduction of investments. The amount of PDI in excess of amount admissible as Tier I shall qualify as Tier II capital subject to provisions contained in RBI Master Directions.

iv. Maturity period

The PDI shall be perpetual.

v. Rate of interest

The interest payable to the investors may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

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vi. Call Option

The Company may issue PDI with a 'call option' subject to strict compliance with each of the following conditions:

a) That the instrument has run for a minimum period of ten years from the date of issue; and
b) Call option shall be exercised only with the prior approval of RBI.
   While considering the proposals received from the Company for exercising the call option the RBI would, among other things, take into consideration the its CRAR position both at the time of exercise of the call option and after the exercise of the call option.

vii. Step-up option

The Company may have a step-up option for increasing the rate of interest payable on PDIs. Such option may be exercised only once during the whole life of the instrument after the lapse of ten years from the date of issue. The step-up shall not be more than 100 bps in reference to interest rate advertised in terms of offer document under clause (v) above. The limits on step-up apply to the all-in cost of the debt to the Company.

Factors to be taken into account for in case the Company decides to exercise the step-up option including but not limited to the following:

1. Financial position of the Company;
2. Risk factors;
3. Market conditions;
4. CRAR.

viii. Lock-In Clause

a) PDI shall be subjected to a lock-in clause in terms of which the Company, may defer the payment of interest, if
   - it's capital to risk assets ratio (CRAR) is below the minimum regulatory requirement prescribed by RBI; or
   - the impact of such payment results in NBFCs CRAR falling below or remaining below the minimum regulatory requirement prescribed by Reserve Bank of India;
b) The Company may pay interest with the prior approval of RBI when the impact of such payment may result in net loss or increase the net loss, provided the CRAR remains above the regulatory norm.
c) The interest shall not be cumulative except in cases as in (a).
d) All instances of invocation of the lock-in clause shall be notified by the Company to the Regional Office of Department of Supervision of the Reserve Bank of India, Hyderabad.

ix. Seniority of claim

The claims of the investors in PDI shall be

a) Superior to the claims of investors in equity shares; and

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b) Subordinated to the claims of all other creditors.

x. Discount

The PDI instruments shall not be subjected to a progressive discount for capital adequacy purposes since these are perpetual.

xi. Other conditions

a) PDI shall be fully paid-up, unsecured, and free of any restrictive clauses and the issue of PDI and the terms and conditions applicable thereto shall be compliant with the provisions of Companies Act, 2013 and all other laws for the time being in force including the rules, regulations, directions and guidelines issued by the applicable regulatory authorities.
b) Subject to compliance with extant FEMA Regulations, the Company shall obtain prior approval of the Reserve Bank of India, on a case-by-case basis, for investment by FIIs/NRIs in PDI to be raised by the Company in Indian Rupees.
c) The Company shall comply with the terms and conditions, if any, stipulated by SEBI/other regulatory authorities in regard to issue of the instruments.
d) The investment by other NBFCs in PDIs issued the Company, shall be governed by the provisions of definition of Net Owned Fund (NOF) as provided in explanation to section 45-IA of the RBI Act 1934. As such, investment in excess of 10% of the owned fund of NBFC shall be deducted from Owned Fund to arrive at NOF of the NBFC.

4. Reporting Requirements

The Company shall submit a report to the Regional Office of Department of Supervision of the Reserve Bank of India, Hyderabad giving details of the debt raised, including the terms of issue specified at item 3 above together with a copy of the offer document soon after the issue is completed.

5. Investment in PDI issued by other NBFCs-ND-SI

A non-deposit taking NBFC's with asset size of ₹500 crore and above investing in PDI issued by other NBFC and financial institutions shall be subject to definition of Net Owned Fund as defined in section 45-IA of the RBI Act, 1934 and will attract risk weight as prescribed by the Reserve Bank of India.

6. Grant of advances against PDI

The Company shall not grant advances against the security of the PDI issued by them.

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7. Disclosure Requirement

I. The Company shall make suitable disclosures in its Annual Report about:
   i. Amount of funds raised through PDI during the year and outstanding at the close of the financial year;
   ii. Percentage of the amount of PDI of the amount of its Tier I Capital;
   iii. Mention the financial year in which interest on PDI has not been paid in accordance with clause 3(viii) above.

8. Responsibility of Board of Directors

The policy may be amended at any time by the board of the company. This Policy is in conformity with the provisions of the RBI Master Direction DNBR.PD.008/03.10.119/2016-17 dated September 01, 2016 for the time being in force. However, if, due to subsequent amendments in the provisions, a particular clause or any part thereof of the policy becomes inconsistent with the law, the applicable laws will prevail.

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