HCL CORPORATION PRIVATE LIMITED
CIN: U74120DL2008PTC183849
Plot No. A9, Sector 3, Noida - 201301
Tel: +91 120 4306000 Fax: +91 120 4310288
Registered Office: 806, Siddhartha, 96, Nehru Place, New Delhi – 110019
www.hcl.com

HCL CORPORATION PRIVATE LIMITED

RISK MANAGEMENT POLICY

(Approved by the board of directors at its meeting held on July 19, 2019 & reviewed on 16th March, 2021, 15th March, 2022, 20th March, 2023 and 18th March, 2024)

Risk Management Policy provides guidance to implement a consistent, efficient and economical approach to identify, evaluate and respond to key risks that may impact business objectives.

Non Banking Financial companies (NBFCs) form an integral part of the Indian financial system. NBFCs are required to ensure that a proper policy framework on Risk Management Systems with the approval of the Board is formulated and put in place. This policy document has been prepared in line with the RBI guidelines.

BRIEF PROFILE

The Company is promoter of HCL group of Companies, which are mainly engaged in investment activity and is holding investments in various entities within the Group, which are directly or indirectly either controlled or significantly influenced by the Company and investing funds into relevant other securities with the objective of earning reasonable returns.

This Policy represents the basic standards of Risk Assessment to be followed by the company. Changes in the Policy will become effective upon approval by the Board of Directors of the Company.

RISK MANAGEMENT

Risk management is a process:

- Effected by Company’s Board of Directors, management and other personnel;
- Applied in strategy setting across the Company;
- Designed to identify potential events that may affect the entity;
- To provide reasonable assurance regarding the achievement of Company’s objectives.

There are mainly three types of risk associated with our business which are detailed as under:

Credit Risk

The Company is engaged in the business of lending to group Companies. The group Companies/borrowers are engaged in implementing various projects. There is risk of loss due to projects becoming infeasible in the long run.

Risk Mitigation

- Credit risk shall be managed using a set of credit norms and policies. The Company shall have defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by Board of Directors.

- The Company shall follow a process of time-to-time revisiting the credit policy and processes, on the basis of experience and feedback.

Operational Risk

Any eventuality arising from the act relating to people, technology, infrastructure and external factors, which can give rise to some type of loss in the organisation, is termed as Operational Risk. Majorly it is internal and unknown. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage Operational risk.

Market Risk

This is majorly external market dynamics, which gives rise to risks like Liquidity risk, Interest Rate risk and Funding risk. Liquidity risk is the inability to meet financial obligations in a timely manner and without stress. The Company shall resort to proper ways to manage such risks.

Risk Mitigation

As a contingency plan the Company shall maintain sufficient approved but undrawn credit lines on a continuous basis as buffer to manage eventuality of liquidity constraints.

The Company shall be compliant in terms of regulatory norms and therefore shall effectively manage risk.

RISK ASSESSMENT OF BORROWERS

Borrowers/Group Companies may be of higher or lower risk category depending on the feasibility of projects, their net worth and the ability to refund loans.

The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk and the appropriate risk level and type of mitigation to be applied. This assessment shall be documented, updated regularly and made available to competent authorities and self regulating bodies as and when required.

Liquidity Risk & its Mitigation

A sound and robust liquidity risk management system ensures to maintain sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. A system should be evolved to spell out the entity -level liquidity risk tolerance; funding strategies; prudential limits and framework for stress testing; liquidity planning under alternative sources /formal contingent funding plan; nature and frequency of management reporting, periodical review of assumptions used in liquidity projection etc.

Interest Rate Risk (IRR) and its mitigation

Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The changes in interest rates affect NBFCs in a larger way. There are many analytical techniques for measurement and management of Interest Rate Risk. A suitable method to measure the Interest Rate Risk should be put in place. The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off balance sheet positions). The Gap report shall be generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier. This would help mitigate IRR.

Strategic business risks & its Mitigation

Strategic risks are not altogether undesirable. When structured efficiently, the acceptance of strategy risks can create highly profitable operations. Companies exposed to substantial strategy risk can mitigate the potential for negative consequences by creating and maintaining infrastructures that support high-risk projects. A system established to control the financial hardship that occurs when a risky venture fails often includes diversification of current projects, healthy cash flow, or the ability to finance new projects in an affordable way, and a comprehensive process to review and analyze potential ventures based on future return on investment.

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