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Reliance Capital Limited

Policy on Investment

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1. Introduction

1.1 Preamble This Investment Policy outlines the comprehensive framework for managing and overseeing all investment activities undertaken by **Reliance Capital Limited (RCL)** (the "Company"). As an unlisted Non-Banking Financial Company - Core Investment Company (NBFC-CIC) registered with the Reserve Bank of India (RBI), the Company recognizes the critical importance of a robust investment policy to ensure judicious deployment of its capital, effective risk management, and compliance with all applicable regulatory guidelines. This policy is designed to align the Company's investment decisions with its strategic objectives, risk appetite, and the expectations of its stakeholders.

1.2 Objectives The primary objectives of this Investment Policy are to:

- Ensure that the Company's investments are strategically aligned with its core business objectives as a CIC, primarily holding investments in group entities.
- Guarantee strict compliance with all relevant RBI regulations, including the Master Directions applicable to CICs and the Companies Act, 2013.
- Establish a robust risk management framework to identify, measure, monitor, and mitigate various risks associated with investment activities.
- Promote transparency, accountability, and ethical conduct in all investment decisions and processes.
- Optimize returns on investments while maintaining appropriate levels of liquidity and capital adequacy.
- Provide clear guidelines for the selection, approval, monitoring, and reporting of all investment transactions.

1.3 Applicability This Policy applies to all investment activities undertaken by **RCL**, including investments in equity shares, preference shares, debt instruments, mutual funds, government

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securities, and any other financial assets, whether in group companies or otherwise, as permitted by regulations. This policy covers all employees, departments, and committees involved in the investment process.

2. Regulatory Framework

This Policy is framed and shall be adhered to in strict compliance with, but not limited to, the following key regulatory provisions and guidelines issued by the Reserve Bank of India and the Ministry of Corporate Affairs:

- **RBI Master Direction – Core Investment Companies (Reserve Bank) Directions, 2016 (as amended from time to time):** This is the primary regulatory framework governing the operations of CICs, including specific provisions on the nature of their investments.
- **Companies Act, 2013:**
 - **Section 179 (Powers of Board):** Outlines that investments are powers exercised by the Board, often with delegation.
 - **Relevant Rules prescribed under the Companies Act, 2013.**
- **Indian Accounting Standards (IND-AS):** Particularly IND-AS 109 (Financial Instruments), IND-AS 113 (Fair Value Measurement), and other relevant standards for recognition, measurement, presentation, and disclosure of investments.
- Any other circulars, notifications, prudential norms, or guidelines issued by the RBI or any other statutory authority concerning investment activities of NBFCs/CICs.

3. Definitions

For the purpose of this Policy, the following definitions shall apply:

- **Company** shall mean Reliance Capital Limited

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- **CIC (Core Investment Company):** An NBFC-CIC as defined by the RBI, primarily holding investments in equity shares, preference shares, debt, or loans in its group companies.
- **Group Company:** As defined by RBI Master Directions, typically including subsidiaries, associates, and joint ventures.
- **Strategic Investment:** Investments made with the primary objective of gaining strategic control, influence, or integration with a business, typically within the Company's group or related sectors.
- **Financial Investment:** Investments made primarily for earning financial returns (e.g., interest, dividends, capital appreciation) without the primary objective of strategic control.
- **Liquidity Management Investments:** Short-term investments in highly liquid instruments aimed at managing the Company's liquidity requirements and optimizing returns on surplus funds.
- **Unencumbered Assets:** Assets that are free from any lien, charge, or encumbrance, and can be readily utilized to raise funds during times of liquidity stress.
- **NAV (Net Asset Value):** For mutual funds, the value per unit of the fund's assets less its liabilities.
- **Board/Board of Directors:** The Board of Directors of Reliance Capital Limited.

4. Investment Strategy and Philosophy

The Company's investment strategy is primarily centered on its role as a Core Investment Company (CIC), which entails holding investments in its group entities. Beyond this core function, the strategy also encompasses prudential management of surplus funds for liquidity and optimal financial returns, while adhering to regulatory mandates and internal risk appetite.

Key Principles:

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- **Focus on Group Companies:** The primary investment focus shall be on strategic equity and debt investments in its group companies, consistent with the definition and operational guidelines for a CIC.
- **Risk-Return Optimization:** All investments shall be evaluated based on their risk-return profile, aiming to achieve competitive returns commensurate with acceptable levels of risk.
- **Liquidity Management:** Adequate liquidity shall be maintained through investments in high-quality, liquid assets to meet operational needs, regulatory requirements (e.g., LCR if applicable, and unforeseen contingencies).
- **Regulatory Compliance:** Absolute adherence to all RBI Master Directions for CICs and the Companies Act, 2013, including limitations on non-group investments, leveraging, and other prudential norms.
- **Transparency and Accountability:** All investment decisions will be documented, transparent, and subject to clear accountability.

5. Permissible Investments

The Company's investment activities shall strictly adhere to the types of investments permitted by RBI Master Directions for CICs and the Companies Act, 2013.

5.1 Strategic Investments:

- **Equity Instruments:** Equity shares of group companies (including subsidiaries, joint ventures, and associates), including listed and unlisted equity, convertible instruments, and preference shares.
- **Debt Instruments:** Loans, debentures, bonds, and other debt instruments issued by group companies.
- **Other Instruments:** Any other instruments as may be defined by RBI or Companies Act, 2013, as eligible investments for a CIC in its group entities.

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5.2 Liquidity Management Investments:

- **Bank Fixed Deposits:** Short-term and long-term fixed deposits with Scheduled Commercial Banks.
- **Government Securities:** Investments in Government of India dated securities (G-Secs), Treasury Bills (T-Bills), and State Development Loans (SDLs) for high liquidity and safety.
- **Commercial Papers (CPs) & Certificates of Deposit (CDs):** Highly rated CPs and CDs issued by corporates and banks for short-term liquidity management.
- **Overnight Funds/Liquid Mutual Funds:** Investment in highly liquid mutual fund schemes that invest predominantly in money market instruments, for managing day-to-day liquidity.

5.4 Prohibited Investments:

- Investments in speculative activities.
- Investments in real estate, other than for the Company's own use (e.g., office premises) as permitted by RBI.
- Investments in partnership firms or proprietorship concerns.
- Investments in non-group entities.
- Any other investment prohibited by the RBI or the Companies Act, 2013, or deemed high-risk by the Board/Investment Committee.

6. Investment Limits and Exposure Ceilings

The Company shall adhere to the following investment limits and exposure ceilings, consistent with RBI Master Directions for CICs and Section 186 of the Companies Act, 2013. These limits are subject to change based on regulatory updates and internal Board review.

6.1 Group Exposure Limits (Specific to CICs):

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- **RBI Master Direction – CICs, 2016:** As per the directions, a CIC's investments in group companies (equity, preference shares, debt, and loans) should generally constitute at least 90% of its total assets.
- Any specific sub-limits within group exposure as determined by the Board to manage concentration risk within the group.

6.3 Non-Group Exposure Limits:

- **RBI Master Direction – CICs, 2016:** Investments in entities outside the group is not permitted for a CIC as per RBI Master Direction.

7. Investment Approval Process

A structured approval process ensures that all investment decisions are well-considered, duly authorized, and compliant with internal policies and external regulations.

7.1 Roles and Responsibilities:

- **Finance & Treasury Department:** Responsible for identifying investment opportunities, conducting initial analysis, preparing investment proposals, executing approved transactions, and ongoing monitoring.
- **Risk Management Department:** Provides independent risk assessment, conducts credit appraisal for debt investments, evaluates market and liquidity risks, and ensures compliance with risk limits.
- **Legal & Compliance Department:** Ensures that all investment proposals and transactions comply with relevant laws, regulations, and internal policies.
- **Board of Directors:** Retains ultimate approval authority for strategic investments and transactions.

7.4 Due Diligence Requirements:

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- For every investment proposal, a comprehensive due diligence process shall be conducted, commensurate with the size, complexity, and risk profile of the investment.

This includes:

- Financial analysis of the investee entity.
- Market analysis and industry outlook.
- Legal due diligence (e.g., agreements, regulatory clearances).
- Credit appraisal for debt instruments, including internal or external credit ratings.
- Assessment of valuation rationale for unlisted securities.
- Review of any potential conflicts of interest.

8. Risk Management Framework for Investments

A robust risk management framework is integral to the Company's investment activities, ensuring that all risks are identified, measured, monitored, and mitigated effectively.

8.1 Concentration Risk:

- **Definition:** The risk arising from excessive exposure to a single counterparty, group, sector, or instrument type.
- **Mitigation:** Strict adherence to internal and regulatory exposure limits (as detailed in Section 6). Regular monitoring of portfolio concentration.
- **Control:** Periodic stress testing on concentration exposures.

8.2 Liquidity Risk:

- **Definition:** The risk that the Company may not be able to meet its financial obligations as they fall due without incurring unacceptable losses.

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- **Mitigation:** Maintenance of a sufficient stock of High Quality Liquid Assets (HQLA) or readily marketable investments. Diversification of investment maturities. Establishment of a Contingency Funding Plan.
- **Control:** Regular liquidity stress testing. Daily monitoring of cash flows and liquidity ratios (e.g., LCR if applicable under SBR).

8.3 Credit Risk:

- **Definition:** The risk of loss arising from an investee entity's inability or unwillingness to meet its contractual obligations.
- **Mitigation:** Thorough credit appraisal process for all debt investments. Establishment of internal credit rating frameworks. Adherence to minimum external credit rating requirements for debt instruments. Imposition of covenants where appropriate.
- **Control:** Ongoing monitoring of investee's financial health, industry outlook, and credit rating. Regular review of non-performing investments and timely provisioning.

8.4 Market Risk (Interest Rate Risk & Equity Price Risk):

- **Definition:** The risk of loss arising from adverse movements in market prices (e.g., interest rates, equity prices).
- **Mitigation:**
 - **Interest Rate Risk:** Duration matching for debt portfolios, investing in floating rate instruments, setting internal limits on interest rate sensitivity.
 - **Equity Price Risk:** Strategic nature of group investments, regular monitoring of market trends.
- **Control:** Periodic stress testing of market risk exposures. Regular valuation updates.

8.5 Valuation Risk:

- **Definition:** The risk that investments may be incorrectly valued, leading to misrepresentation of financial position.

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- **Mitigation:** Adherence to robust valuation methodologies (Section 9.1). Use of independent valuers for complex or unlisted assets. Regular review of valuation assumptions.
- **Control:** Periodic reconciliation of investment values with market data (for listed) or independent appraisals (for unlisted).

8.6 Operational Risk:

- **Definition:** The risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events impacting investment operations.
- **Mitigation:** Clear segregation of duties (e.g., between investment initiation, execution, accounting, and reconciliation). Robust IT systems for trade capture, settlement, and record-keeping. Comprehensive internal controls and audit trails. Regular training for personnel involved in investment operations.
- **Control:** Independent internal audits of investment processes. Business continuity planning for investment operations.

9. Valuation, Impairment and Accounting

The Company shall ensure that all investments are valued, accounted for, and provisioned in strict adherence to the Indian Accounting Standards (IND-AS) and RBI prudential norms.

9.1 Valuation Methodology:

- **Listed Investments:** Valued at Fair Value through Profit or Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVOCI) as per IND-AS 109, based on quoted market prices.
- **Unlisted Investments (Equity & Debt):**
 - **Equity:** Valued using recognized valuation methodologies such as Discounted Cash Flow (DCF), Net Asset Value (NAV) method, Comparable Company Analysis (CCA), or transaction multiples, as appropriate. Valuations shall be

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conducted periodically (e.g., at least annually, or more frequently if there are significant events affecting the investee company) by independent valuers or internally by qualified personnel with independent review.

- **Debt:** Amortized cost using the effective interest method, unless designated as FVTPL or FVOCI. For unlisted debt, careful consideration of credit risk and fair value changes will be made.
- **Mutual Fund Units:** Valued at their published Net Asset Value (NAV) on a daily basis.

9.2 Impairment and Provisioning:

- **Expected Credit Loss (ECL):** For all debt instruments (loans and debt securities) held at amortized cost or FVOCI, the Company shall apply the Expected Credit Loss (ECL) model as per IND-AS 109. This involves recognizing a loss allowance for credit losses based on 12-month ECL or lifetime ECL, depending on the change in credit risk.
- **Equity Impairment:** For equity investments, impairment assessments shall be conducted regularly, and any significant or prolonged decline in fair value below cost shall trigger an impairment review, leading to a write-down if necessary, in accordance with IND-AS.
- **Regulatory Provisions:** Ensure compliance with specific provisioning norms stipulated by the RBI for various asset categories, which may, in certain cases, be more stringent than IND-AS requirements.

9.3 Accounting Treatment:

- All investment transactions (purchase, sale, income recognition, valuation adjustments, and provisioning) shall be recorded accurately and in a timely manner in the Company's books of accounts, in accordance with IND-AS and other applicable accounting policies.

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- Appropriate general ledger accounts shall be maintained for each category of investment.

10. Monitoring and Review of Investment Portfolio

Continuous monitoring and periodic review of the investment portfolio are essential to ensure that investments align with the Company's objectives, comply with limits, and respond to changing market and regulatory conditions.

10.1 Internal Monitoring:

- **Daily/Weekly:** Monitoring of cash flows, liquidity positions, and market movements relevant to the investment portfolio.
- **Monthly:** Reconciliation of investment holdings, valuation updates, and review of any limit breaches.
- **Quarterly:** Detailed performance review of the investment portfolio against benchmarks, analysis of risk exposures, and assessment of investee company performance (especially for group companies).
- **Continuous:** Tracking of any news, regulatory changes, or significant events that may impact existing investments or potential opportunities.

10.2 Management Reporting:

- The Finance & Treasury Department shall prepare comprehensive monthly/quarterly reports for senior management. These reports shall include:
 - Portfolio composition (asset class, listed/unlisted, maturity profile).
 - Valuation updates and performance metrics.
 - Compliance with internal and regulatory limits.
 - Risk exposures (concentration, credit quality, market sensitivity).
 - Details of new investments and disinvestments.
 - Any identified issues or concerns regarding investee companies.

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10.3 Board/Committee Review:

- The Board of Directors shall receive summary reports at least quarterly, or as required by the RBI Master Directions. The Board's review will focus on:
 - Overall investment strategy and its alignment with the Company's objectives.
 - Significant deviations from the policy or limit breaches and corrective actions.
 - Major risk exposures and their management.
 - Regulatory compliance status related to investments.
 - Strategic investment decisions.

11. Internal Controls

Robust internal controls are paramount to safeguarding the Company's investments, ensuring data integrity, and preventing unauthorized transactions or fraud.

- **Segregation of Duties:** Clear segregation of duties shall be maintained between:
 - Investment proposal initiation and analysis.
 - Approval of investment decisions.
 - Execution of trades/transactions.
 - Recording and accounting of investments.
 - Custody and reconciliation of investment records.
- **System Controls:** Use of robust, automated, and secure IT systems for:
 - Recording investment transactions.
 - Portfolio management and tracking.
 - Valuation and accounting.
 - Risk monitoring and reporting.
 - Access controls and audit trails to prevent unauthorized access or manipulation.

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- **Authorization Matrix:** A clearly defined authorization matrix for investment decisions, payment approvals, and fund transfers.
- **Reconciliation:** Regular and independent reconciliation of investment portfolios with custodian statements, bank statements, and internal records.
- **Periodic Audits:** The investment process, risk management framework, and internal controls shall be subject to regular internal audits and external audits, providing independent assurance of their effectiveness and compliance.
- **Policy Adherence:** All personnel involved in investment activities shall be aware of and strictly adhere to this Investment Policy and related procedures.

12. Reporting and Disclosures

The Company shall ensure timely, accurate, and comprehensive reporting and disclosures related to its investment activities to regulatory authorities, its Board, and in its financial statements.

12.1 Regulatory Reporting:

- The Company shall submit all prescribed regulatory returns to the Reserve Bank of India related to its investment portfolio, leverage ratio, group exposures, and other relevant financial data, as mandated by the RBI Master Direction – Core Investment Companies (Reserve Bank) Directions, 2016 and other specific circulars.
- This includes annual declarations regarding adherence to CIC norms and leverage ratio.

12.2 Financial Statement Disclosures:

- Investments shall be disclosed in the Company's annual financial statements in accordance with applicable Indian Accounting Standards (IND-AS) and relevant provisions of the Companies Act, 2013. This includes:
 - Categorization of investments (e.g., by nature, fair value hierarchy).

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- Details of significant investments, including those in group companies.
- Information on fair value measurements, including valuation methodologies and key assumptions for unlisted investments.
- Disclosure of expected credit losses and impairment provisions.
- Related party disclosures for investments in group entities.
- Compliance with specific disclosure requirements for NBFCs as stipulated by the RBI.

13. Policy Review and Amendment

This Investment Policy is a living document and shall be subject to continuous review and enhancement to ensure its ongoing effectiveness, relevance, and alignment with the Company's objectives and the dynamic regulatory and market environment.

- **Review Frequency:** This Policy shall be reviewed at least **annually** by the Finance & Treasury Department in consultation with the Risk Management and Compliance Departments.
- **Triggers for Immediate Review:** The Policy shall also be reviewed immediately upon the occurrence of any of the following events:
 - Any significant change or amendment in RBI Master Directions applicable to NBFC-CICs or general NBFC regulations.
 - Any significant amendment to the Companies Act, 2013, impacting investment activities.
 - Material changes in the Company's business strategy, risk appetite, or financial objectives.
 - Major market disruptions, economic downturns, or unforeseen events impacting investment values or risks.
 - Significant breaches of investment limits or control failures identified through internal audits or regulatory inspections.

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- New products or investment avenues being considered by the Company.
- **Approval:** Any amendments or revisions to this Policy shall be thoroughly reviewed by the Investment Committee (if applicable) and/or senior management, and subsequently approved by the **Board of Directors**.
- **Communication:** All approved changes to this Policy shall be promptly communicated to all relevant employees, departments, and stakeholders involved in the investment process.