Underwriting Guidelines for

Agri-Commodity Backed Loan Originators & Collateral Management Companies (CMCs)

Definition for Agri-Commodity Backed Loans

For the purpose of these underwriting guidelines Agri-Commodity Backed loans are defined as below:

Agri-Commodity backed loans:

Agri-Commodity Backed Loans are a short term facility of up to 12 months offered to Farmers, JLGs, Agri Enterprises, traders and processors, etc. against the market value (with a haircut for covering price fluctuation) of the agri-produce (commodities) which are offered as security to a lender. The tenure of such loans is typically in the range of 3 to 12 months. The decision on tenure of loan is based on the cropping pattern, shelf life, harvest period, location and warehouse infrastructure.

Eligibility Criteria for Agri-Commodity Backed Loan (CBL) Originators

Criteria	Standard
Governance, strategy and organisational aspects	• Originator must be a corporate body and fulfil all the fit and proper criteria of the regulators. • The promoters / senior management must have: – Track record in agri and agri allied businesses of at least five years. – Senior management to include key resources who have a track record in (but not restricted to) retail secured lending, agri collateral management/ agri commodity evaluation/ commodity finance / agri commodity procurement, of at least five years.
	• The Originator should have an experienced Board. The Board should play an active role in guiding management and ensuring the Company follows best practices in corporate governance.
	• There should be a strong second line of management. Specifically, the heads of key functions – business / sales, finance, HR, MIS, collateral management, operations and internal audit / surveillance/ risk management – must have at least five years' experience in their respective functions. • In addition, the key team must have experience in dealing with agri commodity financing, management and procurement.
	• The business / sales, collateral management, procurement, credit (for NBFCs) and credit-operations / back-office functions must be clearly separated, both in terms of the organizational structure and operations.
	• The Originator must have an internal audit system which is designed with a focus on operational risk management. The audit system must be capable of specifically checking for "ghost" loans, loans disbursed without proper KYC, commodity valuation, warehousing and logistics related aspects, storage receipts, loan documentation and process adherence in order to protect the interests of the Originator in case of default by the borrower. • The scope of audit must also cover audit of all operational processes related to the business and plug gaps to avoid any kinds of potential fraud or collusion.
Financial Performance	• The NBFC must have a capital adequacy ratio of at least 15%, measured as defined under the Prudential Norms prescribed for NBFCs by the Reserve Bank of India
Management, Systems and Technology	• Adequate training must be provided to the employees of each vertical. • Training must have a detailed coverage of modules related to credit, business assessment, risk assessment, commodity valuation and commodity management, warehousing , storage management and logistics etc.
	• The loan origination process must have sufficient "maker-checker" arrangements, to ensure that the sales / sourcing team's activities are checked at the each level (especially preparation of loan forms,

	collection of KYC documents, commodity quality and valuation, storage, storage receipts etc.) are also checked centrally
	• The Originator must have a computerised MIS/ERP. The MIS / ERP software must be tamper proof, with differential access facility for staff at different levels.
	• All customer level and loan level information should be stored in an electronic format with periodic backups, and should be regularly updated to a centralized location. • In case of disbursement in tranches, the tentative loan disbursement schedule should be input into the MIS.
	• There should be a clear disaster recovery strategy for the MIS capabilities as well as a staffer tasked with business continuity management
	• The MIS should be able to track historical loan information for each borrower and be capable of generating reports • The MIS/ERP must be capable of tracking commodity prices on a daily basis and must be able to trigger margin calls as per Company's policy. • The MIS must be also to track differences, if any, between the electronic records and the physical commodity in the warehouse.

Evaluation Criteria for Agri Commodity Backed loan Originators – CBL originators

<table>
<tr><th>Criteria</th><th>Standard</th></tr>
<tr><td rowspan="2">Governance, strategy and organisational aspects</td><td>• The legal structure of the Originator should be an NBFC, as the structure provides for :
– Track record in agri and agri allied businesses of at least five years.
– High level of regulation
– Incentive structures due to the presence of shareholders who have expectation of returns from their investment in the form share of profits which will push the Originator to grow its business and scale up.
– Capital adequacy
– Ability to raise additional capital
• While NBFC is the preferred structure, IFMR Capital would on a case to case basis also consider working with Originators organised in legal forms such as a section 25 Company, co-operative society or a co-operative bank.</td></tr>
<tr><td>• The Originator should have at least one Independent Director or an external investor nominee.
• The Originator must have strong internal systems and controls and should have clear delegation of powers to meet operational requirements.
• The Originator should must a business plan including financial projections. The projections should be supported by:
• Details of expansion into new geographies, including branch locations, commodities, products etc.
• Fundraising plans – debt and equity
• The Originator must comply with Know Your Customer (KYC) Policy as prescribed by the RBI.</td></tr>
<tr><td>Financial performance</td><td>• Audited financial statements must be available within three months of audit. The audit must have been conducted by a reputed firm.
• The Originator must regularly (at least quarterly) map its asset-liability mismatch (ALM) and must have means of financing negative mismatches (i.e., liquidity gaps).</td></tr>
<tr><td>Operations facilities and infrastructure</td><td>• Maker-checker arrangement should be in place to ensure that the sourcing and field investigation is not done by the same staff
• The origination process should consist of the following steps:
– Sourcing of potential clients
– Field investigation
– Credit Bureau Check
– De Dupe
– Collection of information and KYC documents, commodity confirmation, commodity valuation etc.
– Assessment of business strength and borrower's creditworthiness
– Storage receipt from the CMC.</td></tr>
</table>

	• The Originator must have an in-house or external qualified expert agency on commodities for valuation and quality assessment. • Daily valuation of commodities under management should be undertaken through multiple sources (including spot markets and local mandis). • The Originator must have processes to document and track all commodities inwards and outwards which are kept as collateral. • The Originator must ensure that the CMC has personnel who have knowledge and experience in storage, stacking, sampling, weighing, inspecting quality maintenance and/or grading of commodities.
MIS/ERP system	• All customer level and loan level information should be stored in an electronic format with periodic backups, and should be regularly updated to a centralized location. • The system should be able to retrieve accurate information in a timely manner and have restricted access as per the Company hierarchy. • The system should be able to track historical loan information on each individual client. • All data such as client asset (commodity) information, late payment, defaults, and additional deposit amounts should be recorded in the centralized electronic system. • The system should have the capability to provide data to credit bureau in the required format. • The system should be able to monitor and track portfolios to manage credit risk. • The system should be able to generate reports such as collections, disbursements by branch/hub, client history, product summaries, hypothecated portfolio, portfolio by loan purpose/tenor/clients profile/loan officer, portfolio at risk, defaults, commodity prices, commodity exposure, margin calls, etc.
Insurance	• The Originator should ensure that the commodity pledged is always fully insured. • The Originator must ensure that the CMS has adequate insurance cover at all time for theft, fire, fraud, fidelity, riots and natural calamities etc.
HR	• The Originator should have a clearly defined recruitment policy for field staff and staff at other levels. This policy should be followed, with the involvement of senior HO staff & regional level field staff. • Professional reference check should be a part of the recruitment process. • The Originator should have appropriate/adequate training for its entire staff. • The Originator should have put in place a proper process for hand-over of customer relationships and job responsibilities in case of change in front-line staff on account of transfer, termination or general attrition. Specific cases of such hand-over should be checked by the internal audit or risk management team of the Originator at least on a sample basis.

Inspection/Audit	• The Head of the internal audit team should have at least five years of audit experience. • Originator should have an internal audit score model and the frequency of audit should be linked to the branch/unit performance. • The team should have members with experience in operations, accounts, finance and MIS. • The Originator must have an internal audit system, which is designed with a focus on operational risk and regulatory risk. The audit system should specifically check for possibility of loans captured without sufficient documentation, instances of fraud, improper valuation of commodity, processes of the collateral management Company. • The Originator must ensure independent audit of the stock in the warehouses by expert agencies at regular intervals over and above the internal audit • The strength of the internal audit team should be adequate to ensure regular audit of all branches and Head Office.
Risk Management	• The business/sales and credit-operations/back-office functions must be clearly separated, both in terms of the organizational structure and operations. • The Originator must have well defined policies, processes and systems to: − Track and monitor exposure limits for each commodity. − Track and monitor exposure limits for each client − Trigger margin calls and take action against overdue cases. − Authorise issuing margin calls and disposal of commodities in cases of defaults. − Empanelment of Collateral Management Companies (in case of Non Captive NBFCs). • The Originator must have adequate mechanism to dispose of commodities in case of defaults. • The Originator must have process of cross checking the processes to issue and track storage receipts to prevent double funding on the commodities. • The Originator must have a well-defined process and system of removing the pledge on storage receipts; ensure release order confirmations etc. to ensure that the collateral management Company releases the commodities only after the proper release order from it. • The Originator must ensure that the CMS has adequate insurance cover at all time for theft, fire, fraud, natural calamities, riot etc.

Definition for Collateral Management Companies (CMCs)

For the purpose of these underwriting guidelines Collateral Management Companies (CMCs) are defined as below:

Collateral Management Companies (CMCs):

Collateral Management Companies (CMCs) are professionally run private/public limited companies which are in the business of public warehousing and follow the generally accepted warehousing and handling practices for commodities. Along with other services (like warehousing services, commodity procurement, pest control and preservation, quality testing etc.) these companies manage the commodities which are kept as collateral for commodity backed loans on behalf of the financing institution.

Eligibility Criteria for Collateral Management Companies (CMCs)

Criteria	Standard
Governance, strategy and organisational aspects	• The CMC must be a Private/Public limited company. • The promoters / promoter group / senior management should constitute responsible individuals/entities of repute with a good business reputation and credibility, should have been in the business of public warehousing for at least 3 years and should have knowledge of, and experience in, generally accepted warehousing and handling practices for commodities, should be competent and willing to operate such a warehouse in accordance with the relevant regulations of the regulatory bodies in the sector. • The Company must be empanelled with at least one national commodity exchange in India.
	• The Company should have an experienced Board. The Board should play an active role in guiding management and ensure that best practices in corporate governance are followed.
	• There should be a strong second line of management. Specifically, the heads of key functions – business / sales, finance, HR, MIS, procurement, collateral management, , quality testing, operations and internal audit / risk management – must have at least five years' experience in their respective functions.
Financial Performance	• The Company must prepare monthly cash flow statements and must have means to manage the working capital gaps / requirements
	• The Company must track accounts receivables on a monthly basis and must have means to reduce the accounts receivables days outstanding and manage their working capital gap. • The Company should have a documented policy on making a provision for receivables that are bad and doubtful based on expectation of recovery and this should be tracked closely vs. promised due dates.
Management, Systems and Technology	• Adequate training must be provided to the employees of each vertical. • Training must cover in sufficient detail, modules related to business assessment, warehousing management, procurement, contract negotiation, fraud management, risk assessment and commodity valuation and management etc.
	• The commodity handling process must have sufficient "maker-checker" arrangements, to ensure that the Business Development Team and Operation Team's activities are checked at the each level (especially, for KYC documents, commodity handling, commodity quality and valuation, storage, storage receipts etc.) are also checked centrally.
	• The CMC must have a computerised MIS/ERP. The MIS/ERP software must be tamper proof, with differential access facility for staff at different levels

	• All commodity, warehouse and storage receipt details should be stored in an electronic format with periodic backups, and should be regularly updated to a centralized location. • The Company must have a maker checker arrangement in issuing the storage receipts.
	• There should be a clear disaster recovery strategy for the MIS capabilities as well as a staffer tasked with business continuity management. • The MIS/ ERP should facilitate reconciliation of physical stocks in warehouse and the electronic records
	• The MIS / ERP must be capable of tracking commodity prices on a daily basis and must be able to trigger margin calls as per Company's policy

Evaluation Criteria for Collateral Management Companies (CMCs)

Criteria	Standard
Governance, strategy and organisational aspects	• The Company must have at least five banks (out of which at least one should be a private sector bank) as partners for their collateral management business. • The Company must have a proven track record of running collateral management business for at least three years. • The Company should preferably have at least one external investor other than the promoter. • The Company should have an experienced Board with at least one Independent Director. • It must have an experience of working in at least five states of India. • The Company must have an experience of handling at least 5 different types of commodities.
	• The Company must have a customer grievance cell to handle customer complaints and shall take proactive steps to resolve customer related issues and maintain a record of complaints received / resolved with a proper TAT. • The Company should comply with Know Your Depositor Policy as prescribed by the various agencies from time to time. • The management of the Company (defined as 'key managerial personnel' including whole time directors and their 'relatives' as per Companies Act, 2013) or entities owned or controlled by management of CMC / group concerns or persons 'acting in concert' should not be trading on the commodity exchange in the commodity for which it is accredited by an Exchange.
Financial performance	• The minimum net worth for the Company shall be INR 50 crores. • The Company must be profitable for at least three prior consecutive years. • Audited financial statements must be available within three months of audit. The audit must have been conducted by a reputed firm. • The Company must prepare monthly cash flow statements and must have means to manage the working capital gaps / requirements.
Operations, Facilities & Infrastructure	• The Company must have clear division of operations and designated teams for managing different verticals like procurement, trade facilitation, fumigation / pest control and preservation, etc. • The CMC must have a Standard Operating Procedure (SOP) which is process-dependent and not person-dependent. • The Company must have an in-house qualified expert on commodities for valuation and quality assessment • Commodity must be stored as per lots, stacks and bulk must be properly marked using stack/lot cards.

	• Daily valuation of commodities under management should be undertaken through multiple sources (including spot markets and local mandis with traceability). • The Company should have adequate facility and infrastructure for proper handling and storage of commodity. • Warehouses must be physically and operationally suitable for the proper storage of commodities and specifically: – Be of sound construction and in a state of good repair; – Have adequate equipment, installed and maintained in good working order, for the movement of commodities into, out of and within the warehouse; – Have adequate ventilation, installed and maintained in good working order, as may for the proper storage and preservation of grain quality; – Own or have access to fumigation facilities / agencies for pest control activities. – Have adequate lighting arrangement – Be free from materials and substances that may adversely affect the quality of stored commodities; – Have a safe work environment; – Ensure adequate security as may be prescribed by the financing institution and – Have protection for stored or handled commodities from tampering or adulteration. • The Company should have assaying / testing facilities for the commodities it intends to render warehousing facility, or should undertake to be associated with an assaying / testing agency which may preferably be certified by one or more national / international agencies like NABL (National Accreditation Board for calibration and testing Laboratories), BIS etc. • The Company must conduct independent pre-empanelment due diligence of Assayers. • The Company must provide for accurate and efficient weighing, sampling, inspection and grading of the commodities in the warehouses. • The Company must have approved policies and processes to issue and track storage receipts. • The collateral manager must have measures to prevent duplication or counterfeit storage receipts by adopting security features like holograms, watermarks, bar codes, serial numbers etc. on the storage receipts.
MIS/ERP system	• The MIS should have the capability to capture and disseminate information regarding stock being held warehouse wise/location wise and the availability of space in the warehouses. • MIS / ERP system should be capable of capture commodity movement (inward/outward) and generating tracking reports and storage receipts.

	• Should be capable of generating automated storage receipts. • The Company must have a maker checker arrangement in issuing the storage receipts. • MIS / ERP should be capable of preventing issuance of multiple storage receipts for the each receipt. • The Company must have an electronic record of information through a MIS system with an arrangement for flow of real time information from the warehouse locations to the central MIS.
Insurance	• The company shall at all times ensure to fully cover the value of goods stored at its warehouses under insurance for all perils relevant to the commodities for which insurance cover is available and necessary. • The Company must have insurance cover for risks such as fire and allied perils including flood, cyclone, earthquake and spontaneous combustion, Burglary & Theft riots etc. • The Company shall take fidelity guarantee & crime insurance and professional indemnity cover to cover all deliverable stocks on the exchange. • The value of goods to be insured should be marked to market on replacement value on ongoing basis.
HR	• The Company should have a clearly defined recruitment policy for field staff and staff at other levels. This policy should be followed, with the involvement of senior HO staff & regional level field staff. • The Company must conduct background verification and reference check for all its employees at the time of hiring. • Specifically for warehouse staff the Company must have a process and policy to conduct a police verification before recruiting. • The Company should have appropriate/adequate training for sales officer and middle management staff and the credit team staff. • The Company should have put in place a proper process for hand-over of customer relationships and job responsibilities in case of change in front-line staff on account of transfer, termination or general attrition. Specific cases of such hand-over should be checked by the internal audit or risk management team of the Company at least on a sample basis.
Inspection/Audit	• The Company should ensure that there is monthly inspection / audit of the stocks stored in the warehouses and the inspection / audit report is submitted to the senior management within a specified time period of the completion of such inspection / audit. • The team should have members with experience in operations, accounts, finance and MIS • The Company shall ensure that the physical counting of stocks and their reconciliation with the corresponding electronic records is done on monthly basis. • Scope of audit should cover the following – Storage worthiness, dimensions & capacity of the warehouse. – Warehouse license and its validity. – Security arrangements in the warehouse.

	– Locking arrangements. – Provision of fire fighting equipment. – Insurance of stocks / building. – Weighment of stocks at the time of deposit and release. – Sampling / grading of stock at the time of deposit – Signage and security / safety boards. – Preservation aspects – Adherence and documentation of all process and systems
Procurement/Trade facilitation	• The Company should not be exposed to open price risk and must have well defined process to trigger margin calls in case of trade facilitation. • The Company should have exposure limits for each commodity approved by the Board and the same must be tracked on a day basis. • The Company must have process to conduct quality testing of the commodities which are procured on behalf of clients. • The margin money / advance collected for a procurement order should always be in cash / cheque of bank transfer and not substituted by commodities. • The Company must have credit appraisal process for each customer giving procurement orders to the Company to prevent risk of non-payment after delivery of goods. • The Company should have a well-defined client selection criteria for procurement / trade facilitation vertical which will include the following: – Standard KYC check – Financial statement / reports analysis – General qualitative parameters of business and the promoter/team. – Market reports and reference with respect to client.
Risk Management	• The business / sales, collateral management, procurement, trade facilitation, and credit-operations / back-office functions must be clearly separated, both in terms of the organizational structure and operations. • The Company must have clearly specified policies with respect to: – Roles & responsibility of teams among the group companies specifically in case of shared resources. – In-house and external qualified experts on commodities for valuation and quality assessment. – Standard operating Procedure (SOP) for all business verticals such as Professional Warehousing (PWH), Collateral Management (CM), quality assurance, procurement & trade facilitation etc. – Policy regarding the acceptance of clients for different services and periodic evaluation based on the credit performance and other criteria – Policy for valuation for each variety of commodity in which the company deals in – Exposure limits for each commodity (where the company is exposed to commodity price risk).

	– Track and monitor exposure limits for each client – revenue and profitability concentration – Matrix for approval of any deviation from the board approved policy. – Margin Calls and action against overdue case – – Authority of issuing margin calls and disposal of commodities in cases of defaults as well as timely escalation reporting to the Head of Risk / CFO / Board independent of the head of business. Matrix for approval of decisions regarding disposal of commodity based on exposure at risk • The Company must have adequate mechanism to dispose of commodities in case of defaults. • The Company must have policies and processes in order to meet regulatory requirement (such as essential commodities act, APMC Act, etc.) • The Company must have an internal audit system, which is designed with a focus on operational risk management. The audit system must check for the possibility of warehouse operations, commodity management and procurement process, KYC, commodity valuation, storage receipts, documentation and process adherence in order to protect the interests of the Company. • The scope of audit must also cover audit of all operational processes related to the business and plug gaps to avoid any kinds of fraud or collusion.