Risk Gradation Policy

This policy outlines the risk gradation framework followed by KBFP Private Limited (KBFP) to evaluate and manage the risks associated with lending to borrowers. The aim is to ensure a systematic and transparent approach to credit risk assessment while adhering to regulatory and legal requirements.

This policy applies to all loan facilities offered by KBFP to individuals, businesses and other entities. The risk gradation process helps determine:

1. The creditworthiness of borrowers.
2. Appropriate loan terms, including interest rates and repayment schedules.
3. Measures to mitigate potential risks.

I. Factors Considered for Risk Gradation

KBFP assesses the following factors when grading risks for borrowers:

1. Profile, Financial Stability, and Market Reputation

a. The borrower's personal and professional background.

b. Financial position, including income, assets, and liabilities.

c. Reputation in the market and past financial conduct.

2. Credit History and Relationship Duration

a. Historical credit behavior as reflected in credit bureau reports.

b. Length and quality of the borrower's relationship with KBFP.

3. Group Strength and Future Potential

a. Financial and operational strength of the borrower's group or associated entities.

b. Overall customer yield and potential for future business opportunities.

4. Repayment Capacity

Assessment of the borrower's repayment ability based on:

a. Cash flows.

b. Other financial commitments.

c. Expected earnings.

5. Segment-Specific Risk

Interest and default risks inherent in the borrower's customer segment or industry.

6. Security for the Loan

The quality, value, and type of assets provided as collateral or security for the loan.

7. Loan-to-Value Ratio (LTV)

The proportion of the loan amount to the market value of the secured asset.

8. Mode of Payment

The borrower's preferred mode of payment (e.g., automated transfers, cash, checks) and its reliability.

9. Loan Tenure

The duration of the loan and its impact on repayment capacity and risk exposure.

10. Geography (Location)

The borrower's geographic location and associated risks (e.g., economic conditions, political stability).

11. End Use

Verification of the intended use of the loan amount to ensure compliance with regulations and risk management principles.

12. Regulatory Guidelines

Compliance with guidelines issued by the Reserve Bank of India (RBI).

13. Legal and Case-Specific Factors

a. Adherence to applicable laws.

b. Unique factors on a case-by-case basis that may influence the borrower's risk profile.

II. Risk Grading Framework

Based on the factors above, borrowers are classified into the following risk categories:

1. Low Risk: Borrowers with a strong credit history, stable financial position, and reliable repayment capacity.

2. Moderate Risk: Borrowers with an average credit history or those operating in industries with moderate risk levels.

3. High Risk: Borrowers with limited credit history, weak financial stability, or exposure to high-risk industries/geographies.

III. Mitigation Measures

To minimize potential risks, KBFP may:

1. Adjust loan terms, such as interest rates, tenure, or repayment schedules.

2. Request additional collateral or guarantees.

3. Monitor high-risk borrowers more frequently.

4. Provide financial counseling to borrowers, if necessary.

IV. Compliance and Review

1. The risk gradation process will be conducted in line with RBI guidelines and other applicable regulations.

2. This policy will be reviewed annually or as required to address changes in regulatory frameworks or market conditions.

V. Disclaimer

The risk gradation of borrowers is a dynamic process and may vary based on changes in the borrower's financial status, market conditions, or other factors. KBFP reserves the right to reassess and revise borrower gradation as deemed necessary.

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