LKP FINANCE LIMITED

Investment Policy

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Background

LKP Finance Limited, (hereafter referred to as 'The Company'), has adopted the following Investment Policy for the Company's investments as required under Non-Banking Financial Company - Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, from time to time (The Directions) in order to cautiously deploy its surplus funds in investments.

This document lays down the policy of the Company and the guidelines to be adhered to while undertaking investment transactions for deployment of funds and advancing loans, placing short/ long term deposits with body corporate and Banks etc.

Objectives

The objectives of this policy are as under:

a. Effectively manage and invest the funds in the Permitted investments for the duration available.
b. Effectively manage and invest the other surplus funds which may be available comparatively for a longer period.
c. Effective management of interest rate risk by adopting certain maturity pattern, particularly when the funds are invested in Government Securities.
d. Effective Internal Control on the operations/execution of Investment Transactions.
e. Proper recording/accounting of the investment transactions.
f. Effective reporting of the Investment transaction to the Management

Surplus funds available for investment will be as far as possible deployed for the available duration in specific instruments or deployed in instruments which have high liquidity.

Definitions

"Current Investment" means an investment which is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.

"Long Term Investment" means an investment other than a current investment.

"Break-Up Value" means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company.

"Carrying Cost" means book value of the assets and interest accrued thereon but not received

"Earning Value" means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalised at the following rate:

a. in case of predominantly manufacturing company, eight per cent;
b. in case of predominantly trading company, ten per cent; and
c. in case of any other company, including non-banking financial company, twelve per cent;

Note: If, an investee company is a loss-making company, the earning value will be taken at zero;

"Fair Value" means the mean of the earning value and the break-up value

"Net Asset Value" means the latest declared net asset value by the mutual fund concerned in respect of that particular scheme.

"Net Book Value" means:

a. in the case of hire purchase asset, the aggregate of overdue and future installments receivable as reduced by the balance of unmatured finance charges and further reduced by the provisions made as per paragraph 13(2) of the Directions;
b. in the case of leased asset, aggregate of capital portion of overdue lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account.

Authorization

Executive Chairman and Head Corporate Affairs of the Company shall be responsible for determining the number of surplus funds that can be invested in the forms detailed in this policy from time to time. The duty and responsibility of utilizing the investible surplus to the maximum extent possible lies with them.

They shall meet and review the investment portfolio of the Company and the return earned by the Company on the same, and make investment decisions as necessary from time to time.

While making investment decisions, the following factors are to be considered:

a. Liquidity
b. Interest Rate-Risk Management
c. Additional Profits

Investible Surplus

Investible surplus is that amount which remains after all expenses and liabilities have been taken care of and therefore could be ploughed back into the business. Growth and business expansion is impossible without timely reinvestment and hence, any surplus should be dealt with appropriately.

Classification of Investment:

Investments in securities shall be classified into current and long term, at the time of making each investment;

In case of Inter-Class transfer:

a. There shall be no inter-class transfer on ad-hoc basis;
b. The inter-class transfer, if warranted, shall be effected only at the beginning of each quarter in the year;
c. The investments shall be transferred scrip-wise, from current to long-term or vice-versa, at book value or market value, whichever is lower;
d. The depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;
e. The depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category.

Company's Investment Policy

The Company shall make investments in any of the following instruments, as decided by the relevant authority:

a. Securities issued by the Central Government including Treasury Bills.
b. Securities issued by the State Governments
c. Securities issued by the Indian Financial Institutions / Corporates - (Listed / Unlisted)
d. Units of Mutual Funds
e. Term Deposits with Banks
f. Commercial Papers
g. Any other instruments deem fit and proper

Valuation of Investments:

a. Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz.
   - Equity Shares,
   - Preference Shares,
   - Debentures and Bonds,
   - Government securities including treasury bills,
   - Units of mutual fund, and
   - Others

   Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

b. Unquoted equity shares in the nature of current investments shall be valued at cost or break up value, whichever is lower. However, The Company may substitute fair value for the break up value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at One Rupee only.

c. Unquoted preference shares in the nature of current investments shall be valued at carrying cost.

d. Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.

e. Unquoted investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.

f. Commercial papers shall be valued at carrying cost.

g. A long-term investment shall be valued in accordance with the “Accounting Standard – 13: Accounting for Investments” issued by Institute of Chartered Accountants of India.

h. Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.

Accounting for income from investments:

a. Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis.

   Provided that the income from dividend on shares of corporate bodies may be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the non-banking financial company’s right to receive payment is established.

b. Income from bonds and debentures of corporate bodies and from Government Securities / bonds may be taken into account on accrual basis.

   Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.

c. Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by Central Government or a State Government may be taken into account on accrual basis.

Effective Date and Review

This policy shall come into force with effect from date of approval by the Board of Directors.

This policy or any of its clauses will be suitably modified based on the Directions of Reserve Bank of India from time to time.

The Directions issued by the Reserve Bank of India would naturally bear a superseding effect on this policy.

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