

# **RISK MANAGEMENT POLICY**

*of*

**Self Reliant India (SRI) Fund**  
**(A scheme of NSIC Venture Capital Fund Limited)**

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## 1. INTRODUCTION

1.1 Self Reliant India (SRI) Fund (“**SRI**” or “**Fund**”) is the first scheme of NSIC Venture Capital Fund Limited (“**NVCFL** or the “**Company**”), which is registered with SEBI as a Category II AIF – ‘Fund of Funds’ vide registration number IN/AIF2/21-22/0924 and is organised as a public limited company under the Companies Act, 2013. The Fund is managed by SBICAP Ventures Limited (“**Investment Manager**”). The Fund is sponsored by both NVCFL and National Small Industries Corporation Ltd. (“**Sponsor**” or “**NSIC**”), a mini-Ratna Corporation of the Government of India under the Ministry of Micro, Small and Medium Enterprises.

1.2 The Fund is a close-ended fund and the term of the Fund will be a period of 15 (Fifteen) years from the date of the Closing (“**Term**”), which may be extended for a period of 2 (two) additional 1 (one) year periods by the board of directors of NVCFL (“**Board**”) with the consent of Super-Majority of the Contributors (i.e. two-thirds of the Contributors by value) in accordance with the AIF Regulations. The investment objective of the Fund is to provide funding support to funds which may be Category I or II AIFs, registered with SEBI (“**Daughter Funds**”) for onward provision to MSMEs as growth capital, through equity, quasi-equity or debt instruments to achieve the following objectives:

- (a) Enhancing equity, quasi equity and debt financing, as permitted under relevant SEBI guidelines, to MSMEs;
- (b) supporting faster growth of MSME businesses and thereby ignite the economy and create employment opportunities;
- (c) supporting enterprises which have the potential to graduate beyond the MSME bracket and become national / international champions; and
- (d) supporting MSMEs which help making India self-reliant by producing relevant technologies, goods and services.

1.3 In this Risk Management Policy (“**Policy**”), words and expressions shall, unless expressly defined herein, have the meaning ascribed to them in the Fund Documents. It is clarified that references to the Investment Manager under this Policy relate exclusively to the performance of the Investment Manager’s obligations under the Fund Documents.

## 2. PURPOSE

2.1 The purpose of this Policy is for NVCFL to identify, analyse and mitigate the risks emanating from the business of the SRI Fund. The owner of this Policy will be NVCFL and it shall on an as needed basis, delegate certain responsibilities under this Policy to the Investment Manager. The CEO of NVCFL shall be the custodian of the Policy. The Investment Manager shall periodically report the Risk Matrix to the CEO of NVCFL who in turn will present the enterprise level risk framework to the Board of NVCFL.

- 2.2 Both NVCFL and the Investment Manager place utmost importance on the sound management of risk. Good risk management underpins a successful organisation and forms an integral part of the management processes and culture.
- 2.3 NVCFL and the Investment Manager recognize that risk is an integral part of the investment and asset management process and proactive identification, assessment, measurement and effective risk management is critical to the success of the Fund.
- 2.4 Through this Policy, NVCFL and the Investment Manager endeavour to put in place a process to identify, assess, measure and then manage risks that could impact the Fund's investments, likelihood of re-occurrence of risks, and then suggest appropriate actions to address the most likely and high impact risks.
- 2.5 This Policy provides Fund level risk guidelines encompassing key risk areas such as investment risk, portfolio risk, and compliance risk. It also involves monitoring the risks to which each investment being made by the Fund is subject to, and continuously monitoring such risk.

### **3. POLICY OBJECTIVE**

The objective of this policy is three-fold:

- 3.1 To ensure that NVCFL and to the extent delegated to the Investment Manager collectively identify the risks impacting the SRI Fund and document their process of risk identification, assessment, reporting and monitoring of risk. Risk minimization and risk optimization are integral part of the risk management policy or strategy;
- 3.2 To identify the risk associated with each investment made by the Fund and to track these risks through a risk matrix to be maintained by the Investment Manager; and
- 3.3 To facilitate NVCFL and the Investment Manager to implement effective controls and frameworks to ensure risks are managed effectively and in compliance with governance and regulatory requirements.

### **4. EFFECTIVE DATE**

This Policy shall be effective from the 12<sup>th</sup> October, 2021, the date of signing of the Contribution Agreement.

### **5. RISK IMPACTING THE FUND**

As the Fund will be investing in Daughter Funds, it may be faced with several different types of risks. The potential risks impacting the Fund have been inserted into the Private Placement Memorandum of the Fund, under "**Section VIII – Risk Factors and Conflicts of Interest**".

## 6. RISK MANAGEMENT FRAMEWORK

6.1 The objective of the risk management framework is to ensure that NVCFL and the Investment Manager (in relation to its performance of obligations under the Fund Documents), operate within their agreed risk tolerance and risk limits. This is expected to be achieved by:

- (a) Effective and efficient continuity of operations;
- (b) Safeguarding of assets of the Fund;
- (c) Preservation and enhancement of the Funds' reputation;
- (d) Reliability of internal and external reporting; and
- (e) Compliance with applicable laws and regulations.

6.2 The risk management framework will focus on the following key elements, viz.:

- (a) Risk Identification
- (b) Risk Assessment
- (c) Risk Reporting and Monitoring

### 6.3 Risk Identification:

6.3.1 The identification of risks is the first step in the risk management framework. Risk identification begins with understanding the objectives of the Fund. The purpose of identification of risks is to identify the events that have an adverse impact on the achievement of both the commercial and non-commercial objectives of the Fund.

6.3.2 An event identified may have negative or positive impact. An event with positive impact represents an opportunity and an event with a negative impact represents a risk.

### 6.4 Risk Assessment:

6.4.1 Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risk assessment consists of a study of threats, the likelihood of their occurrence and the vulnerability & resultant exposure to such risks.

6.4.2 Risk Matrix

- (a) Monitoring risk involves analysis of existing and possible risks.
- (b) Investment Manager will monitor the risk matrix and submit report to the CEO of NVCFL for review, who in turn shall report to the Board.
- (c) The Investment Manager will report the risks based on the below risk matrix:

Significance		Consequence				
		1 Insignificant impact	2 Minor impact to small population	3 Moderate - Minor impact to large population	4 Major impact to small population	5 Catastrophic - Major impact to large population
Likelihood	1 Rare	Low	Low	Moderate	High	High
	2 Unlikely	Low	Low	Moderate	High	Very High
	3 Moderate/ Possible	Low	Moderate	High	Very High	Very High
	4 Likely	Moderate	High	High	Very High	Extreme
	5 Almost certain	Moderate	High	Very High	Extreme	Extreme

## 6.5 Risk Reporting and Monitoring:

6.5.1 The following reports shall be presented by the Investment Manager to the CEO for reporting to the Board to ensure monitoring and compliance with this policy.

Periodicity	Report name
Annually as on 31 <sup>st</sup> March each year*	<b>Comprehensive Risk Assessment Report</b> comprising of sections having details of Commitment Risk, Deployment Risk, Portfolio Risk, Reinvestment Risk and Compliance Risk (as described in clause 8.2 below)

*\*Report will be submitted by Investment Manager within 60 days of the date of report becoming due.*

6.5.2 Periodic reporting on risks is required to determine whether the impact or likelihood of the risk is increasing or decreasing and to ensure continuing alignment of organizational resources to priorities. The reporting of key risks and risk handling measures is necessary to:

- (a) Improve the quality of and support timely decision making;
- (b) Determine priorities for action and improvement;
- (c) Enable Board to satisfy themselves that the key risks are being identified and managed to an acceptable level

6.5.3 The table below summarizes reporting of risk areas, likelihood, consequence, risk rating (as per Risk Matrix) and the mitigating actions proposed by the Investment Manager

Risk category*	Likelihood	Consequence	Risk rating	Risk mitigation	Key development

\* as mentioned in clause 8.2 below

6.5.4 In the management of risk, the probability of risk assumption, which may threaten the Fund, is estimated with available data and information and appropriate risk treatments are worked for the indicative risks specified in section 8.

6.5.5 Once an investment decision is made, the risks are to be monitored to ensure they are in line with the Investment Policy.

## 7. RISK MITIGATION STRATEGY

7.1 Both NVCFL and the Investment Manager recognize that risk is an integral and unavoidable component of business and they are committed to managing the risk. Both NVCFL and the Investment Manager believe that risks cannot be eliminated. However, it maybe:

- (a) Reduced, by having good periodic internal controls and continuous monitoring;
- (b) Avoided, by not investing into Daughter Funds having an investment strategy which are not in line with Investment Policy;
- (c) Mitigated, by adhering to the investment policy of the Fund enshrined in the Memorandum;
- (d) Retained, to avoid higher cost of trying to reduce risk, and;
- (e) Shared, by following a middle path between retaining, monitoring and mitigating risk.

## 8. KEY RISKS

8.1 The risk management process starts with the systematic identification of key risks.

8.2 The key risks impacting the achievement of objectives of the SRI Fund has been presented below. The assessment of the risks by the Investment Manager in the annual risk report will be reviewed by the CEO of NVCFL and reported to the Board on an annual basis:

S. No.	Risk category	Risk description	Assessment
1	<u>Commitment risk</u>	SRI Fund may not be able to commit the entire corpus budgeted for commitments during a financial year	To be assessed basis past track record of commitments and prospective Daughter Fund commitment pipeline
2	<u>Deployment risk</u>	SRI Fund may not be able to invest the entire corpus budgeted for investments during a financial year	To be assessed basis drawdown projections provided by Daughter Fund for the financial year and actual drawdowns
3	<u>Portfolio risk</u>	Daughter Fund(s) may not have complied with conditions specified in SRI Fund Operating Guidelines and Investment Policy	To be assessed basis compliance with SRI Fund Operating Guidelines and Investment Policy
4	<u>Reinvestment risk</u>	SRI Fund may not have re-invested the entire corpus distributed by the Daughter Fund(s)	To be assessed basis past track record of commitments, pipeline and drawdown projections provided by Daughter Fund, guidance received from the Investment Committee, Approved SOP's and any other relevant inputs
5	<u>Compliance risk</u>	SRI Fund may not have complied with SEBI and other applicable regulatory requirements	To be assessed by Legal Advisor basis applicable regulatory compliances

8.3 There could be other risks which may emanate because of changes in the internal or external environment within which the Fund plans to operate. These risks are to be identified by the Investment Manager and Legal Advisor, as relevant, during the normal course of business.

**9. RISK MITIGATION/ RISK CONTROL MEASURES CURRENTLY ADOPTED BY THE FUND:**

9.1 NVCFL, in consultation with the Investment Manager have been adopting various control measures to mitigate the risks arising in the operations of the Fund. Few of them are listed below:

- (a) A comprehensive Investment Policy for the Fund has been adopted;
- (b) A comprehensive investment process for making investments in Daughter Funds has been approved;
- (c) A detailed Standard Operating Procedure (SOP) template has been prepared and approved based on which various parties perform their roles and responsibilities in relation to the Fund
- (d) The eligibility criteria for empanelment of Daughter Funds has been developed;
- (e) Maximum exposure in each Daughter Fund has been capped;
- (f) All expenses should be as per the Fund Documents;
- (g) All the approvals as per delegation should be periodically reported to the next higher authority/ Fund;
- (h) The Investment Manager is required to take approval of the Board for proposals involving conflict of interest;
- (i) Independent Auditor has been appointed by CAG and he should submit reports to the Board;
- ~~(j) Independent Auditor should submit reports to the Board. Procurements should be made through the processes outlined in the procurement policy of NSIC/ NVCFL (as applicable), and deviations, if any should be reported to the Board;~~
- ~~(k)~~ (j) Structuring risks is mitigated by taking appropriate legal advice;
- ~~(l)~~ (k) Appropriate insurance policies that cover various risks to be put in place;

9.2 Going forward, NVCFL, in consultation with the Investment Manager, shall adopt appropriate measures to mitigate the risks arising out of business operations.