GMR Airports Limited

Expected Credit Loss Policy

Table of Contents

1. *Policy Management* 3
2. Preamble 3
3. Purpose 3
4. Overview of Expected Credit Loss 3
5. Scope of the Policy 5
6. Defined Terms 6
7. Portfolio Segmentation: 8
8. ECL Model: 8
9. *Income Recognition Asset Classification and Provisioning:* 11

1. Policy Management

In line with the RBI's requirement for the Board of Directors to approve sound methodologies for computation of Expected credit Losses (ECL), that address policies, procedures and controls for assessing and measuring credit risk on all lending and investment exposures, commensurate with the size, complexity and risk profile specific to the NBFC, the Company has formulated this ECL policy.

This policy will be reviewed internally on annual basis and in case of any changes brough to the notice of the Board of Directors in case of amendment to the policy or more frequently if required and approved as per usual review process applicable. The review would incorporate changes in regulatory guidelines on ECL, new methodologies in the area of ECL, due to changes in Company business, changes in organisation structure or as required.

2. Preamble

The Board of Directors (the "Board") of GMR Airports Limited, has adopted the following Credit Loss Estimation policy for impairment of the financial instruments using the expected credit loss (ECL) approach as per the requirement of IND AS 109.

3. Purpose

The Purpose of this policy is to provide a model for calculation of the ECL for credit impairment of Financial Instruments. ECL based credit impairment model is considered pragmatic and include many factors which make model widely accepted. This policy describes the basis of ECL model and its key consideration while calculating the credit impairment for the Company.

4. Overview of Expected Credit Loss

IND AS 109: Financial Instruments ('Ind AS 109') requires financial assets to be classified and measured into one of the three basics below:

- Amortised Cost ('AC')
- Fair Value through other Comprehensive Income ('FVOCI')
- Fair Value through Profit and Loss account ('FVTPL')

In accordance with IND AS 109, the Company applies Expected credit loss (ECL) model for measurement and recognition of impairment loss on the following assets:

- Financial asset that is measured at Amortised Cost.
- Financial asset that is measured at fair value through Other Comprehensive Income (Excluding Investment in Equity Instruments).
- Lease Receivable recognized under Ind AS 116
- Certain contracts such as financial guarantee contracts and loan commitments that are not measured at FVTPL.

Any financial instrument classified and measured at FVTPL (like Mutual Funds) is not covered in the scope of the impairment requirements of Ind AS 109. Ind AS 109 does not prescribe a single method to measure ECL and instead there are three broad approaches that are provided in the standard.

I. General Approach:

Recognize Lifetime ECL for all Financial Instruments for which there have been significant increases in credit risk since initial recognition - whether assessed on an individual or collective basis.

if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month ECL.

For loan commitments and financial guarantee contracts, the date that the entity becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

If an entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that conditions for Lifetime ECL is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

An entity shall recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard.

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, an entity shall assess whether there has been a significant increase in the credit risk of the financial instrument by comparing:

a. the risk of a default occurring at the reporting date (based on the modified contractual terms); and

b. the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

The building blocks for estimation of ECL that are considered by the Company are:

- Portfolio Segmentation
- Staging (determination of significant increase in credit risk)
- Probability of default (forward looking)
- Loss Given default.
- Exposure at Default
- Discount rates

Three Stage model for Impairment

Particulars	Stage 1 *Initial Recognition*	Stage 2 Significant increase in credit Risk	Stage 3 Credit Impaired
Credit Risk	Low	Moderate to High	Significant
ECL Model	Twelve-month ECL	Lifetime ECL	Lifetime ECL
Interest Income Recognition	Interest on Gross Recognition	Interest on Gross Recognition	Interest on net carrying amount

II. Simplified Approach:

Under Simplified Approach, the entity measure the loss allowance at an amount equal to Lifetime ECL

- Mandatory for trade receivables or Contract assets which does not contain significant financing component.

- Can be applied optionally for Trade receivable, lease receivable and other trade receivables which have a significant financing component.

III. Purchased or originated Credit Impaired (POCI)

The Approach is relevant only for those assets that are purchased or originated as credit impaired.

No ECL recognised at initial recognition since asset is recognised at fair value.

At each reporting date, Changes in lifetime ECL are recognised in P&L subsequently.

5. Scope of the Policy

The ECL is calculated and accounted for all loan portfolios.

The instruments out of the scope of ECL computation are:

- Investments in Mutual Funds
- Equity Investments
- Any other Financial Instruments measured at FVTPL.

6. Defined Terms

12-month expected credit losses: *The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.*

Credit Impaired Financial Asset: *A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:*

(a) significant financial difficulty of the issuer or the borrower

(b) a breach of contract, such as a default or past due event

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation

(e) the disappearance of an active market for that financial asset because of financial difficulties or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit impaired.

Credit loss: *The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.*

Credit Adjusted Effective Interest Rate: *The rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or groups of*

financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Credit Risk: *The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.*

Default: *When defining default for the purposes of determining the risk of a default occurring, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.*

Effective Interest Method: *The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably.*

However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Expected Credit losses: *The weighted average of credit losses with the respective risks of default occurring as the weights.*

Impairment Gain or Loss: *Gain or Losses that are recognised in Profit or Loss and that arise from applying impairment requirements.*

Lifetime expected credit Loss: *The expected credit losses that result from all possible default events over the expected life of a financial instrument.*

Loss allowance: *The allowance for Expected Credit Loss on Financial assets.*

Past Due: *A financial asset is past due when a counterparty has failed to make a payment when that Payment was contractually due.*

Purchased or originated credit -impaired financial asset: *Purchased or originated financial asset(s) that are credit impaired on initial recognition.*

7. Portfolio Segmentation:

Guidance under IND AS on collective assessment of ECL

- As per Ind AS, depending on the nature of financial instruments and entity may not be able to identify significant changes in credit risk for individual financial instruments before the financial instrument becomes past due as they are not monitored on an individual basis until the customer defaults or breaches the contractual terms.

- For the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, an entity can group financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. Examples of shared risk characteristics include, amongst others, instrument type, credit ratings, collateral, industry, geography of borrower, etc. These are not exhaustive.

8. ECL Model:

For Loan:

ECL involves an estimation of probability-weighted loss on financial instruments over their life, considering reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions which could impact the credit quality of the Company's loans and advances. In this process, management applies a significant degree of judgement in respect of following matters:

1. Defining thresholds for significant increase in credit risk and default
2. Grouping of the loan portfolio under homogenous pools in order to determine probability of default on a collective basis.
3. Determining effect of less frequent past events on future probability of default
4. Estimation of management overlay for macroeconomic factors which could impact the credit quality of the loans.

For the measurement of ECL as per general approach, Ind AS 109 distinguishes between three impairment stages. All loans need to be allocated to one of these stages, depending on the credit risk since initial recognition (i.e., disbursement date):

Stage 1: includes loans for which the credit risk at the reporting date is in line with the credit risk at the initial recognition (i.e., disbursement date).

Stage 2: includes loans for which the credit risk at reporting date is significantly higher than at the risk at the initial recognition (Significant Increase in Credit Risk).

Stage 3: includes default loans. A loan is considered default if the obligor is past due more than 90 days on any material credit obligation to the Company.

The Company has identified the following stage classification to be the most appropriate for its Loans:

Stage 1: 0 to 30 Days Past Due (DPD)

Stage 2: 31 to 90 DPD

Stage 3: above 90 DPD (Default)

The policy will be reviewed every year and relevant modification shall be considered based on change in internal or external environment of the business.

Calculation of ECL:

The Company calculates ECLs based on a probability-weighted scenarios and historical data to measure the expected cash shortfalls. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. ECL consists of three key components:

A. Probability of Default (PD)
B. Loss given default (LGD) and
C. Exposure at Default (EAD)

ECL is calculated by multiplying them.

A. Probability of Default

The probability of default ('PD') is the likelihood that an obligor will default on its obligations in the future. Ind AS 109 requires a separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor.

PD describes the probability of a loan to eventually falling in default (>90 days past due) category. To calculate the PD, loans are classified in three stages based on risk profile of the individual loans.

B. Loss Given Default (LGD)

Loss given default estimates the normalized loss which company incurs post customer default. It is computed through recovery observed in delinquent accounts over a period of time. It is always expressed as % of outstanding amount and not in count. It is based on the difference between contractual cash flows that are due and expected to be received including from the collateral if any.

C. Exposure at Default (EAD)

The amount which the obligor will owe to the Company at the time of default is defined as the exposure at default (EAD). Exposure at default (EAD) is the sum of outstanding principal and the interest amount accrued but not received on each loan as at reporting date.

For Investment:

The Company determines whether it is necessary to recognise an impairment loss on its investment in Compulsory Convertible Debentures ('CCD') and Optionally Convertible Debentures ('OCD') which are measured at amortised cost. At each reporting date, the Company determines whether there is objective evidence that the investment in the OCD and CCD is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount and its carrying value, and then recognises the impairment loss in the standalone statement of profit and loss.

Presently the Company based on the Internal assessment has identified only interest-bearing assets to be considered for provisioning and therefore the Company has created ECL provision on standard assets at 0.4%.

The company has given loans to group companies which has minimum credit risk considering past trends.

Further, additional provision on Loans will be created as below:

Provisions	%
Overdue more than 90 days	
Overdue for 12 months or less (after 90 days overdue)	10.00%
Overdue for more than 12 months (after 90 days overdue) {Provision on balance loan amount after providing for above provision}	
Unsecured Portion	100.00%
Secured Portion	
Upto 1 year	20.00%
1-3 years	30.00%
More than 3 years	50.00%
Assets identified as not recoverable by internal or external auditors/inspection	100.00%

In case of investments measured at FVTOCI, the loss allowance shall be recognised in other comprehensive income.

Provisioning for Trade Receivables and other financial assets at amortized cost:

In addition to the ECL for loans as prescribed above, the Company also holds other financial assets such as balances with bank, trade receivables and other financial assets. The Company recognizes ECL on such assets based on the historical loss experience measures (e.g. write off rates / provisioning rates) adjusted for expected losses in the future keeping in mind the nature of industry and credit ratings of such counterparties.

The Company has opted for Simplified Approach provision matrix for Trade receivables, Contract Assets and lease receivables.

Presently the Company based on the Internal assessment has created a ECL provision at 10% on Trade and other receivables for outstanding more than 90 days.
The company has Trade and other receivables primarily from group companies and from cash & carry nature of business which has minimum credit risk considering past trends.

Going forward, company will be creating provision on Trade and other receivables as below:

	Provisions	**%**
1	**Overdue more than 90 days**	
	Overdue for 12 months or less (after 90 days overdue)	10.00%
	Overdue for more than 12 months (after 90 days overdue) *{Provision on balance loan amount after providing for above provision}*	
2a	Unsecured Portion	100.00%
2b	*Secured Portion*	
	Upto 1 year	20.00%
	1-3 years	30.00%
	More than 3 years	50.00%
3	Assets identified as not recoverable by internal or external auditors/inspection	100.00%

9. Income Recognition Asset Classification and Provisioning:

As per RBI circular, NBFCs shall also maintain the asset classification and compute provisions as per extant prudential norms on **Income Recognition, Asset Classification and Provisioning (IRACP)** including borrower/ beneficiary wise classification provisioning for standard as well as restructured assets, NPA ageing etc.

A **comparison** between provisions required under **IRACP and impairment allowances** made under **IND AS 109** should be disclosed by NBFCs in notes to their financial statements to provide a benchmark to their boards, RBI supervisors and other stakeholders on the adequacy of provisioning for credit losses. Where impairment allowance under IND AS 109 is lower than the provisioning required under IRACP, NBFCs shall appropriate the difference from their net profit or loss after tax to separate **'Impairment Reserve'.**