

## 1. Introduction

IKF Finance is among India's prominent Non-Banking Finance Companies (NBFCs) with 30 years of experience in asset finance with the primary objective of catering to the funding needs of small road transport operators. Over the years, the Company has expanded product profile to serve diverse financial needs including housing loans operating from over 98 network locations spread across nine states, with a strong presence in Southern India and a growing presence in Western and Central India.

## 2. ESG Vision

Our ESG Policy is driven by our vision to become a "Trusted and Innovative" Financial Service Provider in India. In our pursuit towards creating an equity of opportunities, through the bouquet of offerings, we intend to employ the best of innovation and service in expanding our customer base and business. With an in-depth market knowledge and business experience gained over 30 years, we feel indebted towards benefiting the economically weaker section, lower- & middle-income groups and vulnerable segments of the society by providing them opportunities of growth and self-upliftment. We are actively leveraging technology for driving customer satisfaction, business efficiency and strong asset quality. Our operations are led by an experienced and professional management team, guiding us to reach new benchmarks of excellence. Today, underpinned by the strengths we have built into our business, we have a customer base of over 47,000 customers

We as a Company envision integrating the criteria of ESG risks and value creation opportunities into our lending operations, while ensuring that our financial services are being compliant to the social and environmental laws of the land, adopt good governance practices and follow International guidelines.

## 3. Objectives and Scope

### *Objectives*

With most of our offerings facilitating the finance of commercial vehicles, four-wheelers and tractor; we recognize that our employees, customers, third-party service providers we deal with, through our operations can have significant impact on the environment and community. Therefore, we comprehend and endorse the need for adherence to environmental, social, and governance policies consistent with our vision.

Through this ESG Policy, we aim to:

- i. ensure that our financial service is socially and financially sustainable and reflects a shift towards promoting environmental sustainability;
- ii. deliver overall positive social impact by improving the livelihood of the beneficiaries;
- iii. develop an integrated approach towards ensuring adherence to ESG parameters in addition to financial criteria throughout the loan cycle and in our operation;
- iv. continually engage with our stakeholders to create more awareness about ESG;
- v. encourage our borrowers to manage risks responsibly by working beyond regulatory requirements and moving towards enhanced social value creation;
- vi. encourage greater transparency and accountability on ESG topics internally and externally through periodic disclosure.

Towards achieving these objectives, we are committed to adopt global standards and principles, which will further help integrate ESG criteria in our approach and decision-making processes.

### *Scope of the Policy*

The ESG policy is applicable to our employees, customers, key stakeholders associated with us and third-party service providers to the extent possible. This policy shall apply to our operations and all the products in

consideration or offered by us following the date hereof, and will be interpreted in accordance with Local, State and National Laws and regulations.

#### **4. Roles and Responsibilities**

Our ESG Compliance Team, with guidance from the Top Management, is primarily responsible for ensuring that the consideration of ESG criteria is integrated into the financing decisions and our operations in collaboration with the ESG team. Where additional subject matter expertise is needed, the teams will utilize external resources as relevant and necessary. The ESG team is responsible for facilitating the implementation of this policy in our operations and our financial services and for maintaining and updating the policy to ensure its continued relevance. The authority to approve this policy will rest with our Board.

#### **5. Integrating ESG Criteria in our Operations and Financing Decisions**

In accordance with this policy, in our financing decisions, we will:

- i. continually identify and operate in compliance with all the applicable National and State laws and regulations and the guidelines defined by Reserve Bank of India (RBI (as a minimum));
- ii. explore ways in which our actions and initiatives can address various environmental challenges, give preference to eco-friendly and lesser carbon intensive alternatives and continually build capacity towards ensuring the same through relevant interventions;
- iii. screen, scrutinize and validate all our products for their environmental and social impact;
- iv. as appropriate, promote the social development impacts of our loans.

At the organizational level it would further imply that we will:

- i. ensure fair recruitment process which helps identify and hire people with the right values;
- ii. treat all employees and third-party service providers fairly and respect their dignity, well-being and diversity;
- iii. not employ or make use of child labour and forced labour of any kind;
- iv. pay wages which meet or exceed the legal minimum wages;
- v. facilitate various learning and development interventions, whenever deemed appropriate and necessary towards the implementation of this ESG Policy;
- vi. provide safe and healthy working conditions to all the employees and contractors employed by us;
- vii. assess the health and safety risks arising from work activities, and take appropriate actions to eliminate or reduce risks to health and safety of the workers and all those employed;
- viii. promote and adopt energy efficient technology and equipment in our day to day operations while aiming to reduce the GHG emissions resulting from our operational activities;
- ix. engage with all our stakeholders, both internal as well as external, at regular intervals, in a constructive manner;
- x. use effective systems of internal control and risk management covering all significant ESG aspects;
- xi. promote best practices and uphold high standards in relation to corporate governance including transparency, honesty, integrity, fair working conditions, diligence and ethics in all business dealings;
- xii. prohibit contributions to political parties or political candidates, where these could constitute conflicts of interest;
- xiii. deal with regulators in an open and co-operative manner;
- xiv. refrain from financing activities on the prohibited investment activities list (Appendix 2);
- xv. monitor, evaluate, and enhance the ESG performance with respect to environmental consciousness, financial sustainability and improved governance, through appropriate performance indicators; and
- xvi. ensure that stakeholder grievances are addressed satisfactorily.

#### **6. Applicable Environmental and Social Requirements**

***Product Screening***

Every product offered by us will be screened for material ESG risks and impacts. The early stage ESG risk assessment will rely on primary information furnished by the borrower (as illustrated in Appendix 3) and accurate contextual information available from the field investigations. The ESG screening of products will validate the respective purpose of the product sought, primarily against the borrower’s ability to help us promote our ESG vision.

***Monitoring and Evaluation***

In case of material risks identified during the screening or diligence process, the borrower will develop a mitigation/ action plan to mitigate these risks, or monitor ongoing progress on ESG aspects, as applicable. Where management of, or performance on, a material risk needs improvement, we will support the borrowers in the development of an action plan.

**7. Stakeholder Engagement**

Constructive communication with internal and external stakeholders is an important exercise which helps companies convey their ESG commitments for long-term value creation and building a mutual understanding of the ESG strategy. Stakeholder consultations will also help in the identification of their interests and expectations from us, which will form an important component of our strategy-making process. We will engage with all our stakeholders, to work in collaboration to achieve our ESG commitments while benefitting them.

**8. Governance**

The ESG team under the guidance of ESG Compliance Officer is responsible for ensuring effective implementation of this ESG policy. The Chief Operating Officer and the Board, as part of its periodic review meetings, will monitor the ESG integration. The ESG Compliance Officer under the guidance of Chief Operating Officer is responsible for reviewing and amending the ESG policy on an annual basis (if required).

**9. Grievance Redressal**

In order to address effectively any operational, social, environmental, labor and other general concerns, we have established a structured grievance redressal framework supported by a review mechanism. This redressal mechanism is used not just by our customers, but also by our employees,

third-party service providers, and other key stakeholders associated with us.

#### **10. Communication and Disclosure**

We are committed to transparently communicate and disclose our ESG performance to all the associated stakeholders on an annual basis. We have put in place reporting systems to accurately capture the ESG related information and data for analysis and reporting.

#### **11. Review**

The Company's MD has been entrusted with the responsibility of enforcement of this policy. They are hereby given absolute power to jointly or severally, make necessary changes, amendments or additions or removals for the operational aspects of the policy within the overall spirit and guidance from time to time for reasons like technology or process up gradation, regulatory changes, maintaining competitive edge or responding to changes in market or risk environment, etc. This is required to ensure full operational freedom to the senior management and make the management team more adaptive to rapid changing external environment. All changes so made shall be noted to the policy approving authority during the next policy review.

The MD can decide on delegation of authority and can design / redesign MIS systems and reporting as they see fit to improve the responsibility and accountability within the team hierarchy.

**Appendix-1 Key Definitions****1. NBFC (as defined by RBI)**

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

**2. MSME (as defined in Micro, Small and Medium Enterprises Development (MSMED) Act, 2006)**

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

- (i) a micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 Lakh;
- (ii) a small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 Lakh but does not exceed Rs. 5 Crore; and
- (iii) a medium enterprise is an enterprise where the investment in plant and machinery is more than Rs. 5 Crore but does not exceed Rs. 10 Crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification [No.S.O.1722 \(E\) dated October 5, 2006](#).

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below.

- (i) a micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 Lakh;
- (ii) a small enterprise is an enterprise where the investment in equipment is more than Rs.10 Lakh but does not exceed Rs. 2 Crore; and
- (iii) a medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 Crore but does not exceed Rs. 5 Crore.

**3. Due Diligence**

Due diligence refers to a process to identify, prevent, mitigate and account for how an organization addresses its actual and potential negative impacts.

**4. Stakeholder (as defined by Global Reporting Initiative)**

An entity or individual that can reasonably be expected to be significantly affected by the organization's activities, products and services, or whose actions can reasonably be expected to affect the ability of the

organization to successfully implement its strategies and achieve its objectives

*Note 1:* Stakeholders include entities or individuals whose rights under law or international conventions provide them with legitimate claims vis-à-vis the organization.

*Note 2:* Stakeholders can include those who are invested in the organization (such as employees and shareholders), as well as those who have other relationships to the organization (such as other workers who are not employees, suppliers, vulnerable groups, local communities, and NGOs or other civil society organizations, among others).

**5. Stakeholder Engagement (as defined by AA1000 Account Ability Stakeholder Engagement Standard (2015))**

Stakeholder engagement is the process used by an organization to engage relevant stakeholders for a clear purpose to achieve agreed outcomes. It is now also recognized as a fundamental accountability mechanism, since it obliges an organization to involve stakeholders in identifying, understanding and responding to issues and concerns, and to report, explain and answer to stakeholders for decisions, actions and performance.

**Appendix-2 Prohibited Investment Activities List**

Exclusions as per the Asian Development Bank (ADB) prohibited investment activities list shall be applicable. The following activities shall not qualify for financing:

- (i) production or activities involving harmful or exploitative forms of forced labor or child labor;
- (ii) production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phaseouts or bans, such as
  - a. prohibited pharmaceuticals, pesticides, and herbicides;
  - b. ozone depleting substances;
  - c. polychlorinated biphenyls and other hazardous chemicals;
  - d. protected wildlife; and
  - e. transboundary waste.
- (iii) production of or trade in weapons and munitions, including paramilitary materials;
- (iv) production of or trade in alcoholic beverages, excluding beer and wine;
- (v) production of or trade in tobacco;
- (vi) gambling, casinos, and equivalent enterprises;
- (vii) production of or trade in radioactive materials, including nuclear reactors and components thereof;
- (viii) production of, trade in, or use of unbonded asbestos fibers<sup>4</sup>;
- (ix) commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests;
- (x) marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats;

**Appendix-3 Credit Assessment**

Our key product offerings include financing for commercial vehicles [Heavy Commercial Vehicles(HCV), Light Commercial Vehicles (LCV), Multi Utility Vehicles(MUV), Three-wheelers], tractors, cars, two- wheelers, small-ticket loans against property and secured loans to Micro, Small and Medium Enterprises (MSME).

The credit assessment for SME/MSME will screen, scrutinize and validate the respective request for associated environment and social impacts, based on:

- Purpose of loan
- Nature of business; along with rationale of loan utilization
- Borrower profile and borrowing history
- Business Output
- Overall business impact
- Any other relevant information

The credit assessment for vehicles will screen, scrutinize and validate the request for its respective environmental and social implications, based on:

- Proposed purpose of the vehicle
- Nature of business (wherever applicable)
- Borrower profile and borrowing history
- Driver eligibility
- Vehicle details and preliminary assessment of the vehicle
- Availability of environment friendly alternatives