MATERIALITY THRESHOLDS FOR LITIGATION AND CREDITORS

Corporate Legal

Svatantra Microfin Limited

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MATERIALITY THRESHOLDS FOR LITIGATION AND CREDITORS

Svatantra Microfin Limited ("**Company**"), its Subsidiary, its Promoters, and Directors are hereinafter collectively referred to as the "**Relevant Parties**".

In this Policy, "**Offer Documents**" means the draft red herring prospectus, draft abridged prospectus, the red herring prospectus , abridged prospectus, and the prospectus (each along with any addenda or corrigenda, thereto), as applicable, to be filed by the Company, in connection with the Offer, with the Securities and Exchange Board of India ("**SEBI**"), the Registrar of Companies, Mumbai-I at Mumbai and the stock exchanges where the equity shares of the Company are proposed to be listed, as applicable.

I. MATERIAL LITIGATION

(A) Material outstanding civil litigation

(i) Company and Subsidiary:

All outstanding civil legal proceedings and arbitration matters, other than criminal matters, actions taken by statutory and regulatory authorities and tax matters, involving the Company and its Subsidiary would be considered material for the purpose of disclosure in the Offer Documents, if the value or expected impact in terms of value of the outstanding litigation, whether by or against the Company and its Subsidiary in any such pending proceeding is individually in excess of the lower of the following:

(a) 2% of the turnover of the Company as per the latest annual restated consolidated financial information as disclosed in the Offer Documents; or
(b) 2% of the net worth of the Company as per the latest annual restated consolidated financial information as disclosed in the Offer Documents, except in case the arithmetic value of the net worth is negative; or
(c) 5% of the average of the absolute value of the profit/loss after tax of the Company as per the last three annual restated consolidated financial information as disclosed in the Offer Documents ("**Materiality Threshold**").

Further, the following outstanding civil legal proceedings and arbitration matters, other than criminal matters, actions taken by statutory and regulatory authorities and tax matters, shall also be considered material in relation to the Company and its Subsidiary:

(i) where the decision in one litigation is likely to affect the decision in a similar litigation, even though the value or expected impact in terms of value in an individual litigation may not exceed the Materiality Threshold but where the cumulative value or expected impact in terms of value of such matters exceeds the Materiality Threshold specified above; and

(ii) which may not meet the Materiality Threshold or where the value or expected impact in terms of value of such litigation is not determinable or quantifiable but nonetheless, in the opinion of the Board, directly or indirectly, or together with similar other proceedings, have a material adverse effect on the business, operations, performance or financial condition, reputation, results of operations or cash flows of the Company.

(ii) Directors and the individual Promoter:

All outstanding civil litigations and arbitration proceedings other than criminal matters, actions taken by statutory and regulatory authorities and tax matters, in which the Directors and the individual Promoter of the Company are parties, shall be considered "material" for the purposes of disclosure in the Offer Documents, if the outcome of such proceedings could have a material adverse effect on the business, operations, results of operations, prospects, financial position or reputation of the Company, irrespective of the amount involved in such litigation.

Accordingly, each of the Directors and the individual Promoter shall identify and provide information relating to such outstanding litigation involving themselves.

Further, any disciplinary action including any penalties imposed by the Securities and Exchange Board of India ("**SEBI**") or stock exchanges against the individual Promoter in the last five financial years preceding the date of the relevant Offer Documents, including outstanding action as required under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("**SEBI ICDR Regulations**") will be disclosed in the Offer Documents.

(iii) Corporate Promoter

All outstanding civil legal proceedings and arbitration matters, other than criminal matters, actions taken by statutory and regulatory authorities and tax matters against the corporate Promoter of the Company would be considered as material for disclosure in the Offer Documents if:

(i) the value or expected impact in terms of value of such litigation exceeds the Materiality Threshold; or

(ii) the value or expected impact in terms of value of such litigation does not exceed the Materiality Threshold or is not determinable or quantifiable but nonetheless, in the opinion of the Board, directly or indirectly, or together with similar other proceedings, has a material adverse effect on the business, operations, performance or financial condition, reputation, results of operations or cash flows of the Company.

Accordingly, the corporate Promoter shall identify and provide information relating to such outstanding litigation involving the corporate Promoter.

Further, any disciplinary action including any penalties imposed by the SEBI or stock exchanges against the corporate Promoter in the last five financial years preceding the date of the relevant Offer Documents, including outstanding action as required under the SEBI ICDR Regulations will be disclosed in the Offer Documents.

(B) <u>Other outstanding legal proceedings:</u>

Please note that (i) all outstanding criminal proceedings (including first information reports even if no/some cognizance has been taken by any court or judicial authority) involving the Relevant Parties; (ii) all outstanding actions (including outstanding penalties and show cause notices) by regulatory authorities and statutory authorities (including any judicial, quasi-judicial, administrative authorities or enforcement authorities) against the Relevant Parties; and (iii) all outstanding claims and proceedings related to direct and indirect tax matters (including all penalties and show cause notices) involving the Relevant Parties (in a consolidated tabular manner, giving the number of cases and total amount), will be disclosed in the Offer Documents.

For the purpose of (ii) above, notices issued by statutory or regulatory authorities received by the Relevant Parties which are solely in the nature of information requests in the ordinary course of business shall not be disclosed in the Offer Documents. For the purpose of (iii) above, show cause notices, demand notices and any claims received in writing by the Relevant Parties shall be considered and requests for information or clarifications, if any, received without any claim amount shall not be considered.

Further, in relation to Key Managerial Personnel and Senior Management Personnel of the Company, each as disclosed in the Offer Documents, (a) all outstanding criminal proceedings (including first information reports even if no/some cognizance has been taken by any court); and (b) all outstanding actions (including outstanding penalties and show cause notices) by regulatory authorities and statutory authorities against such Key Managerial Personnel and members of the Senior Management, will be disclosed in the Offer Documents.

For the purpose of (b) above, all notices issued by statutory or regulatory authorities (including any judicial, quasi-judicial, administrative authorities or enforcement authorities) received by the Key Managerial Personnel and member of the Senior Management which are solely in the nature of information request in the ordinary course of business, shall not be disclosed in the Offer Documents.

Accordingly, each of the Key Managerial Personnel and member of the Senior Management shall identify and provide information relating to such outstanding litigation involving themselves.

For the purposes of (A) and (B) above, pre-litigation notices received by Relevant Parties, Key Managerial Personnel and members of the Senior Management, from third parties (excluding notices issued by governmental, statutory or regulatory authorities and notices threatening criminal action), shall not be considered as litigation, unless otherwise decided by the Board, until such time that the Relevant Parties, Key Managerial Personnel and members of the Senior Management are impleaded as a party in the litigation proceedings before any judicial/ quasi-judicial or arbitral forum. Further, for the purposes of disclosure of outstanding criminal proceedings involving the Relevant Parties, Key Managerial Personnel and members of the Senior Management of the Company, criminal complaints shall not be considered as outstanding litigation, until such time as a first information report has been registered (even if no cognizance has been taken by any court) or cognizance has been taken by the relevant court/magistrate/authority.

Note for tax cases: In the event the value or expected impact in terms of value of any tax matters exceeds the Materiality Threshold specified above in relation to each of the respective Relevant Party, individual disclosures of such tax matters will be included in the Offer Documents.

(C) Litigation approach for ‘group companies’:

Pursuant to finalization of the list of ‘group companies’ of the Company (“**Group Companies**”), all Group Companies shall identify pending litigations which they consider material to themselves. The Board shall subsequently identify such litigation out of the pending material litigations identified by the respective Group Companies, which, in view of the Board may have a material impact on the Company, and these litigations will be disclosed in the Offer Documents.

Any pending litigation involving the Group Companies would be considered to have a ‘material impact’ on the Company for the purpose of disclosure in the Offer Documents, if an adverse outcome from such pending litigation would materially and adversely affect the business, prospects, operations, cash flows, performance, financial position, or reputation of the Company.

For the purposes of the above, pre-litigation notices received by such Group Companies from third parties (excluding those notices issued by statutory or regulatory or governmental or taxation authorities) shall not be considered outstanding litigation until such time that such Group Company, is impleaded as a defendant/party in litigation/arbitration that may be commenced before any judicial/quasi-judicial or arbitral forum.

II. IDENTIFICATION OF MATERIAL CREDITORS

In terms of the SEBI ICDR Regulations, (i) based on the policy on materiality adopted by the Board, the details of creditors including the consolidated number of creditors, aggregate amount involved, (ii) consolidated information on outstanding dues to micro, small and medium enterprises (“**MSME**”) and other creditors, separately, giving details of number of outstanding creditors and aggregate amount involved are required to be disclosed in the Offer Documents and (iii) complete details of outstanding overdues towards the material creditors along with the name and amount involved for each such material creditor shall be disclosed, on the website of the Company with a web link thereto in the Offer Documents.

For the purpose of identification of material creditors, a creditor of the Company shall be considered ‘material’ for the purposes of disclosure in the Offer Documents, if the dues owed by the Company to such creditor is equivalent to or exceeds 5% of the total consolidated trade payables of the Company, as on the end of the latest financial period/year disclosed in the Offer Documents.

Further, for outstanding dues to MSME, the disclosure will be based on information available with the Company regarding status of the creditor as MSME as defined under Section 2 read with Section 7 of the Micro, Small and Medium Enterprises Development Act, 2006, as amended, as has been relied upon by the statutory auditors in preparing their audit report.

III. GENERAL

It is clarified that this Policy is solely for the purpose of disclosure requirements prescribed under the SEBI ICDR Regulations, as amended with respect to the Offer Documents, and should not be applied towards any other purpose, including for disclosure of material information by listed entities pursuant to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.

This Policy shall be without prejudice to any disclosure requirements, which may be prescribed under the Companies Act, 2013 and the rules thereunder or by SEBI and/ or such other regulatory, judicial, quasi-judicial, administrative or statutory authority with respect to listed companies or disclosure requirements as may be prescribed by SEBI through its observations on the offer documents, or additional disclosures that may arise on account of any investor or other complaints.

This Policy shall be subject to review/changes as may be deemed necessary and in accordance with regulatory amendments from time to time.

All capitalized terms not defined herein would have the same meaning as attributed to such terms in the Offer Documents.