



## RISK MANAGEMENT OR BORROWING OF FUNDS AND DEBT COVERAGE POLICY

### 1. PURPOSE

- 1.1. To ensure selection and use of the most cost effective debt financing to meet current operations, operating capital needs, capital project needs, to meet operating cash requirements and for certain purchases of equipment. The constant monitoring of the Company's debt capacity and gearing ratio is essential for good financial management.

### 2. GENERAL PRINCIPLES

- 2.1. Funding requirement of the Company has two major outlooks:

2.2. Long term Finance Requirement

- 2.2.1. Long Term funding requirement usually arises when there is an expansion project taken up by the Company.

2.3. Short Term Finance Facility

- 2.4. Main purpose of these facilities is to finance the Inventory of Raw Material and Finished Goods and the Accounts Receivables and Payments for operating overheads.

### 3. OBJECTIVES

- 3.1. Optimal utilization of borrowed funds to make the business viable and going concern and to fund expansion plans of the Company.
- 3.2. Borrowing at the lowest possible and competitive rates and terms.
- 3.3. Ensuring that Company's interest is protected at all times.
- 3.4. The maintenance of a stable financial position of the Company.

### 4. ACHIEVEMENT OF OBJECTIVES

- 4.1. These objectives will be achieved by the following:
- 4.2. Follow directions provided by the Board to meet funding requirements.
- 4.3. Meeting regulatory requirements as defined under SBP's prudential regulations in order to meet the borrowing criteria defined by the banks / financial institutions.



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- 4.4. Utilization of working capital lines with lowest markup in ascending order.
- 4.5. Negotiating minimum spread with different banks to minimize our financial cost.
- 5. DETERMINATION OF DEBT CAPACITY**
- 5.1. The Company will ensure that all borrowing and loan transactions take place in accordance with the objects and functions of the Company and the Company's strategic plan. The level of borrowing shall not effect on the Company's ability to meet its annual cost or its ability to maintain financial and operational viability.
- 5.2. Any proposals for long-term borrowing for funding of projects will be evaluated by the management in line with the Company's financial plan and the objectives of this policy, and will not be undertaken without an express decision of the Board of Directors. Several sources of funds will be evaluated in each case.
- 5.3. Appropriate interest rate hedging, through fixed rates, caps, and collars, will be undertaken to protect the Company from sharp increases in interest rates on borrowings.
- 5.4. Any subsequent refinancing of a borrowing arrangement will be considered if the terms are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time, and will require approval by the Board.
- 5.5. In exceptional circumstances, projects may be funded or part funded from cash balances held by the Company. The Board will consider the feasibility of the project, the loss of deposit interest receivable and the long term financial sustainability of the Company.
- 5.6. The finance department is responsible for determining and assessing the debt capacity and requirement of the company and reporting this assessment to the CEO and CFO. The finance department is also responsible for assessing and selecting the most cost effective debt financing alternatives to meet current operation and capital project needs.
- 6. DEBT MANAGEMENT – OPERATIONS**
- 6.1. The Chief Financial Officer (CFO) shall be responsible for meeting the cash requirements for the Company.
- 6.2. The CFO in consultation with the CEO shall be responsible to negotiate with the financial institutions. The CEO and or any other authorized Executive Director shall execute debt agreements on behalf of the company as per approval of the Board of Directors.
- 6.3. The CFO shall be responsible for administering debt service requirements and ensuring compliance with applicable debt covenants.



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6.4. The CFO will arrange to maintain proper documentation for all internal loans borrowings.

**7. DEBT MANAGEMENT – CAPITAL PROJECT**

7.1. The CFO shall be responsible for selecting the debt financing alternative appropriate for capital projects after seeking approval of the CEO subsequently from the Board of Directors.

7.2. All capital project financings must be approved by the Board of Directors on recommendation of the Audit Committee.

**8. BANK LINES OF CREDIT**

8.1. The CFO shall be responsible for reviewing and determining the appropriate levels and types of bank lines of credit with approval of CEO. The Board approval will be required prior to obtaining a new finance line or enhancement in existing finance limits.

8.2. The CFO shall be responsible for establishing and administering all bank lines of credit as approved by the Board of Directors.

8.3. The status of all bank lines of credit will be reviewed by the CFO who will report to the CEO from time to time.

**9. BANK LETTERS OF CREDIT**

9.1. The finance officer, purchase officer whosoever is concerned and the CFO, shall be responsible for determining the appropriateness of bank letters of credit as per requirements of the company.

9.2. The finance officer, purchase officer whosoever is concerned and the CFO, shall be responsible for negotiating the placement of all letters of credit.

9.3. The CFO will quarterly submit to the Board a report of all outstanding letters of credit.

**10. MODIFICATIONS**

10.1. The Board shall upon recommendation of the CFO annually review the provisions of borrowing of funds and debt coverage and shall provide necessary guidelines.

**11. VERSION CONTROL**

11.1. This will supersede the previously adopted criteria, if any, for borrowing of funds and debt coverage policy.