

POLICY FOR SELECTION AND APPOINTMENT OF DIRECTORS & OFFICIALS IN THE SENIOR MANAGEMENT, THEIR REMUNERATION AND REMUNERATION OF OTHER EMPLOYEES

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**Policy for selection and appointment of Directors & Officials in Senior Management,
Their Remuneration and Remuneration of Other Employees**

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1 Background

As per Section 178(3) of the Companies Act, 2013, the Nomination and Remuneration Committee shall formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the Directors, key managerial personnel and other employees.

The Reserve Bank of India (RBI) has issued guidelines on “Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFC’s” on April 29, 2022 (RBI Guidelines) - provided as Annexure for reference purpose. The current compensation practices and the Compensation Policy (Remuneration Policy) of India Infradebt Limited (Infradebt) have been reviewed and revised as per the RBI guidelines.

2 Diversity of Board of Directors

The Board of any Company should comprise of adequate number of Directors with diverse experience and skills, such that it best serves the governance and strategic needs of Infradebt. Accordingly, Infradebt would ensure that the Directors are persons of eminence in areas such as banking, finance, auditing, lending, strategy, administration, etc. and bring with them experience/skills which add value to the performance of the Board. The directors are selected purely on the basis of merit and fulfillment of Fit & Proper criteria prescribed by Reserve Bank of India.

The Board Governance, Remuneration and Nomination Committee (BGRNC) is responsible for reviewing and assessing the appropriate mix of diversity, skills, experience and expertise required to occupy Board positions.

BGRNC ensures that no person is discriminated on grounds of religion, race, gender, childbirth or related medical conditions, national origin, marital status, age, sexual orientation, or any other personal or physical attribute to perform as a Board Member.

The composition of the Board is in compliance with the applicable provisions of the Companies Act, 2013 and the rules framed thereunder, SEBI LODR Regulations, guideline(s) issued by the Reserve Bank of India and other applicable laws inter alia with respect to optimum combination of Executive and Non-Executive directors, Independent directors and appointment of Women director.

3 Criteria of selection of Non-Executive Directors

- i. The Non-Executive Directors shall be of high integrity with relevant expertise and experience so as to have a diverse Board with Directors having expertise in line with the Para 2 above.
- ii. In case of appointment of Independent Directors, the BGRNC shall satisfy itself with regard to:
 - a. the independent nature of the Directors vis-à-vis Infradebt so as to enable the Board to discharge its function and duties effectively.
 - b. compliance of rule 6 of the Companies (Appointment and Qualification of Directors) Rules, 2014 i.e. to get himself/herself registered with Independent

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Directors data bank at Indian Institute of Corporate Affairs at Manesar and pass the online proficiency self-assessment test (if applicable).

- iii. The BGRNC shall ensure that the candidate identified for appointment as a Director is not disqualified for appointment under Section 164 of the Companies Act, 2013.
- iv. The BGRNC shall consider the following attributes / criteria, whilst recommending to the Board the candidature for appointment as Director.
 - a. Qualification, expertise and experience of the Directors in their respective fields;
 - b. Personal, Professional or business standing;
 - c. Diversity of the Board (Refer Para 2 above).
- v. In case of re-appointment of Non-Executive Directors, the Board shall take into consideration the performance evaluation of the Director and his/her engagement level.

4 Criteria for selection of the Managing Director & CEO

The BGRNC shall identify persons of integrity who possess relevant expertise, experience and leadership qualities required for the position and shall take into consideration recommendation, if any, received from any member of the Board. The Committee will also ensure that the incumbent fulfils such other criteria with regard to age and other qualifications as laid down under the Companies Act, 2013 or other applicable laws.

5 Appointment of Senior Management Officials/Key Managerial Personnel (KMP)

The Companies Act, 2013 defines “Senior Management” under the explanation to Section 178 of the Act as personnel of the Company who are members of its core management team excluding Board of Directors comprising all members of management one level below the executive directors, including the functional heads.

In line with the same, Functional Heads directly reporting to the MD & CEO would be classified as Senior Management at Infradebt.

A candidate in order to fulfill the criteria of being appointed in Senior Management or as KMP should have relevant skills, performance track record and experience in handling core functions relevant to the organisation.

In event of separation of any Senior Management or KMP, the approved succession plan will be activated on an immediate basis.

6 Remuneration of Non-Executive Directors

The Non-Executive Directors shall be entitled to receive remuneration by way of sitting fees, reimbursement of expenses for participation in the Board / Committee meetings and commission as detailed hereunder:

- i. A Non-Executive Director shall be entitled to receive sitting fees for each meeting of the Board or Committee of the Board attended by him, of such sum as may be approved

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by the Board of Directors within the overall limits prescribed under the Companies Act, 2013 and The Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014;

- ii. A Non-Executive Director may also be entitled to receive commission on an annual basis, of such sum as may be approved by the Board and the Shareholders of India Infradebt and based on the recommendation of the BGRNC.

7 Remuneration Policy for the Managing Director & CEO

- i. At the time of appointment or re-appointment, the Managing Director & CEO shall be paid such remuneration as may be mutually agreed between the Company (which includes the BGRNC and the Board of Directors) and the Managing Director & CEO within the overall limits prescribed under the Companies Act, 2013.
- ii. The remuneration shall be subject to the approval of the Members of the Company in General Meeting.
- iii. The remuneration of the Managing Director & CEO will be broadly divided into fixed and variable components. The fixed component comprises salary, allowances, perquisites, amenities and retiral benefits. The variable component comprises performance bonus and Employee Stock Option Plan (ESOPs).
- iv. In determining the remuneration (including the fixed increment and performance bonus) the BGRNC Committee shall ensure / consider the following:
 - a. the relationship of remuneration and performance benchmarks is clear;
 - b. balance between fixed and incentive pay reflecting short and long term performance objectives, appropriate to the working of the Company and its goals;
 - c. responsibility required to be shouldered by the Managing Director & CEO, the industry benchmarks and the current trends;
 - d. the Company's performance vis-à-vis the annual budget achievement and individual performance vis-à-vis the KRAs / KPIs.
- v. The Company would also adhere to the Compensation Policy detailed in Section 9 below.

8 Remuneration Policy for the Senior Management, Key Managerial Personnel and other employees

- i. In determining the remuneration of the Employees, following shall be ensured / considered:
 - a. the relationship of remuneration and performance benchmark is clear;
 - b. the balance between fixed and incentive pay reflecting short and long term performance objectives, appropriate to the working of the Company and its goals;

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- c. the remuneration is divided into two components viz. fixed component comprising salaries, perquisites and retirement benefits and a variable component comprising performance bonus and ESOPs;
 - d. the remuneration including annual increment and performance bonus is decided based on the criticality of the roles and responsibilities, the Company's performance vis-à-vis the annual budget achievement, individuals performance vis-à-vis KRAs / KPIs, industry benchmark and current compensation trends in the market.
- ii. MD & CEO will carry out the individual performance review of the Senior Management Employees and KMP based on the standard appraisal matrix and shall take into account the appraisal score card and other factors mentioned herein-above, within the overall framework approved by the BGRNC.
 - iii. The Company would also adhere to the Compensation Policy detailed in Section 9 below.

9 Compensation Policy

As per the RBI Guidelines issued on April 29, 2022, following parameters will also be considered for the compensation of Key Managerial Personnel and Senior Management (excluding Non-Executive Directors) effective April 1, 2023 (for FY 2023-24 onwards).

Infradebt has historically followed prudent compensation practices under the guidance of the Board of Directors and the BGRNC. Infradebt's approach to compensation is intended to drive meritocracy within the framework of prudent risk management. Compensation is linked to business performance and individual performance. The current variable pay scheme is designed to reward employees based on holistic assessment of performance and does not constitute profit sharing. The principles for sound compensation practices will continue to be practiced by Infradebt and these principles are as follows:

9.1 Governance of Compensation:

The BGRNC has the oversight over framing, review and implementation of Infradebt's Compensation Policy on behalf of the Board. The BGRNC will be composed of at least three members, and all its members will be non-executive Directors out of which not less than one-half will be Independent Directors. At least one member from the Board Risk Management Committee of the Board of Directors will also be a member of the BGRNC.

The BGRNC will define Key Performance Indicators (KPIs) for the Managing Director & CEO based on the financial and strategic plans approved by the Board. The Managing Director & CEO and Head of Human Resources will be responsible for execution of the compensation strategy, practices and plan (covering both fixed pay and variable pay) for the rest of the employees (including Senior Management and KMP) in line with the Compensation Policy.

The BGRNC will recommend fixed pay, perquisites, retirals, variable (including performance bonus and ESOPs) for the Managing Director & CEO to the Board for approval.

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The BGRNC will ensure that the compensation levels are supported by the need to retain earnings of the Company and the need to maintain adequate capital base on Internal Capital Adequacy Assessment Process (ICAAP). The BGRNC may also ensure 'fit and proper' status of proposed/existing directors and that there is no conflict of interest in appointment of directors on Board of the Company, KMP and Senior Management.

9.2 Principles of Compensation:

9.2.1 Components and risk alignment:

The Compensation of Key Managerial Personnel (KMP) and Senior Management will be as per the statutory requirements and industry practices. The total compensation will be a prudent mix of fixed pay and variable pay. To ensure effective alignment of compensation with prudent risk taking, the BGRNC will take into account adherence to the risk framework as per the financial plan/ targets. The variable pay payout schedules will be sensitive to the time horizon of risks. It will be a mix of Cash (performance bonus) and ESOPs for Senior Management.

9.2.2 Composition of Fixed Pay:

Fixed pay will include basic pay, function pay, allowances, perquisites, contribution towards superannuation/ retirals and any other form of benefits including reimbursable perquisites with monetary ceilings.

9.3 Principles for Variable Pay:

9.3.1 Composition of Variable Pay:

The variable compensation will be in the form of cash or a mix of cash and share-linked instruments (including ESOPs).

9.3.2 Proportion:

The Key Performance Imperatives (KPIs) of the Senior Management and KMP are defined at the beginning of the performance measurement period. The variable pay is based on the performance of the individual based on these KPIs. At higher level of responsibility, the proportion of variable pay (including stock options) is higher. The variable pay can be reduced to zero based on the performance at an individual and Company level. There should be a proper balance between cash and share linked instruments in the variable pay for the Senior Management. Performance measures and their relation to remuneration packages should be clearly defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism.

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9.3.3 Deferral of Variable Pay:

All share linked instruments (stock options) which are a sizeable portion of the variable pay of the Senior Management will be under deferral arrangement (deferment) and are not paid/vested immediately. The cash variable (if higher than Rs. 2.5 million per year) would also be deferred in a suitable manner. The deferral of cash variable would be applicable for the compensation plan for the financial year beginning April 1, 2023 onwards. The non-cash deferral period would be spread over a minimum period of three (3) years (deferment period). The frequency of vesting will be on annual basis and the first vesting shall not be before one year from the commencement of deferral period. The vesting shall be no faster than a prorata basis. Additionally, vesting will not be more frequent than on a yearly basis. In case of employee's death or permanent disability, whole of the deferred variable pay (Cash and stock options) shall immediately vest in the employee's successors, or the employee, as the case maybe.

9.3.4 Control and assurance function personnel:

The compensation of Senior Management and KMP engaged in control functions including Financial control, Risk Management, Compliance and Internal Audit will depend on their performance rating which is based on achievement of key results of the respective functions and independent of the business areas they oversee. Infradebt follows a broadly consistent rewards practice across business and control groups. However, there is a reasonable proportion of compensation in the form of variable pay, so that exercising the options of malus and clawback, when warranted, is not rendered infructuous.

9.4 Guaranteed bonus:

Guaranteed bonuses are not consistent with the principles of meritocracy and Infradebt will not encourage any kind of guaranteed bonus. Joining or sign-on amount will occur in the context of hiring a new staff and will be limited to first year.

9.5 Malus/Clawback:

Infradebt is in the business of providing long term financing to the Infrastructure sector. Infradebt believes in long term sustained business performance within a prudent risk taking framework. In line with this approach, from 2018 onwards, a long term (over three years) long term cash incentive scheme for the senior management was replaced by an Employee Stock Option Scheme (ESOP) which further aligns the long term interest of all stakeholders.

Accordingly, a significant part of the compensation for the Management Committee members (including the MD&CEO) comprises stock options (of unlisted equity) which vest over a period of time. The existing ESOP scheme has adequate safeguards for termination of ESOPs in case of termination for Cause. Accordingly Malus is already covered under the existing ESOP scheme. As a general rule, Clawback would be applicable only to the vested but unexercised options.

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Additionally, a Clawback Arrangement is now being proposed which would entail return of payout of reward (variable pay) made in the previous years attributable to a given reference year wherein the incident has occurred. Any such return would be of a net amount which has been received by the employee (post tax).

Illustrative list of conditions which would trigger a Malus or Clawback is detailed below:

- a. Substantial financial deterioration
- b. Actions which are reckless, negligent or wilful
- c. Material financial restatement due to fraud
- d. Reputational harm
- e. Exposing Infradebt to substantial risk
- f. Any other act detrimental to Infradebt interest including and not restricted to violation of Infradebt Code of Business Conduct and Ethics and failure to discharge fiduciary and regulatory duties.

Error of judgement will not be construed to trigger Malus/Clawback.

The time horizon for the application of Malus/Clawback would be three years from the date of reward. The BGRNC would review the act of misconduct/incident to ascertain the degree of accountability attributable to a Director or employee prior to finalizing the Malus or Clawback arrangement. Due process including inquiries or investigations as required and/or adherence to principles of natural justice will be ensured prior to conclusion on the above mentioned breaches.

The BGRNC will review the criteria for Malus/Clawback on an annual basis.

In line with RBI guidelines, Malus/Clawback arrangements under this Policy are only applicable to the MD&CEO, the other members of the Management Committee (including the Chief Risk Officer, Chief Financial Officer, Head of Assets and Head of HR) and the Company Secretary and Compliance Officer.