



SAJI MATHEW & ASSOCIATES
CHARTERED ACCOUNTANTS

To,

The Management,
Salem Erode Investments Limited,
Door No: 61/A8 (38/A8)
VJP Parijatham Apartments
1st Avenue, Ashok Nagar
Chennai, Tamil Nadu - 600083

We have examined the Accounts, Loan Agreements, Loan Sanction letters, Minutes of the Board of Directors and other records of Salem Erode Investments Limited, relating to the transaction entered into with ICL Fincorp Limited, Holding Company.

Salem Erode Investments Limited, Door No. 61/A8 (38/A8), VJP Parijatham Apartments, 1st Avenue, Ashok Nagar, Chennai, Tamil Nadu- 600083, is a NBFC Company with corporate identification No : L31200TN1931PLC145816 and also registered with RBI. The company is listed in Bombay Stock Exchange [Scrip Code: 540181]. 75% shares of Salem Erode Investments Limited is held by ICL Fincorp Limited and thus there exist the relation of holding company and subsidiary company and some of the directors including Managing Director is common for both companies. Now the company focus in the Gold Loan business expansion and providing retail gold loan through their twelve branches in the Southern States of India.

The company is having approximately 20,65,00,000 [Twenty Crores Sixty Five Lakhs] as on 18-02-2020 as per its books of accounts and not even started a single branch for disbursement of loan on that date. The company is having



surplus funds on subsequent loan disbursement dates also after utilizing the funds for the Gold Loan business, which was lying ideal and the management was in search of applying this surplus fund for a revenue earning model. The Board of Directors discussed the matter in their meetings regarding the deployment of funds and after taking into consideration the risk cost associated with the unsecured loan etc., decided that the unsecured loan to Holding Company is better than the other options available in the market and lending of money is in the ordinary course of business of the company.

Details of transactions are as follows: -

Particulars	Description
a) Name and address of the associated enterprise with whom the transaction has been entered into	<p>ICL Fincorp Limited No.61/1, VGP Complex First Avenue Ashok Nagar, Chennai Tamil Nadu -600083 CIN: U65191TN1991PLC021815</p>
(b) Description of transactions	<p>1. Unsecured Intercorporate Loan to its holding Company ICL Fincorp Limited for Rs. 20,65,00,000/- [Twenty Crores Sixty Five Lakhs only] dated 18-02-2020 with 10.50% interest per annum, loan and interest repayable on demand.</p> <p>2. Unsecured Term Loan of Rs.4,00,00,000/- [Four Crores only] dated 28-02-2022 with 12.50 % on diminishing balance method repayable on 60 equated monthly payments, EMI Amount Rs. 8,99,918/-</p> <p>3. Unsecured Term Loan of Rs.2,00,00,000/- [Two Crores only] dated 15-03-2022 with 12.50 % on diminishing balance method repayable on 60 equated monthly payments, EMI Amount Rs.4,49,959/-</p>





Loan No: 1					
Type of Loan	Loan Date	Maturity Date	Tenure	Repayment	Rate of Interest
Corporate Loan	18-02-2020	17-02-2025	5 Years	Repayable on demand	10.50%
Loan	20-08-2022.				
c) Total amount paid or payable in the transaction (i) as per books of account as on					
Type of Loan	Loan Date	Maturity Date	Tenure	Repayment	Rate of Interest
Corporate					
Loan					
Amount	Interest earmed	Interest received	Principal received	Principal outstanding	Interest outstanding
20,65,00,000	4,82,48,785	4,52,28,099	6,38,82,734	14,26,17,266	30,20,686
Term Loan	28-02-2022	28-02-2027	60 Months	EMI	12.50%
Type of Loan	Loan Date	Maturity Date	Tenure	Repayment	Rate of Interest
Loan					
Amount	Interest earmed	Interest received	Principal received	Principal outstanding	Interest outstanding
4,00,00,000	23,22,540	20,32,468	24,67,122	3,75,32,878	2,90,073
Loan No: 2					
Type of Loan	Loan Date	Maturity Date	Tenure	Repayment	Rate of Interest
Term Loan					
Amount	Interest earmed	Interest received	Principal received	Principal outstanding	Interest outstanding
4,00,00,000	23,22,540	20,32,468	24,67,122	3,75,32,878	2,90,073

Loan No: 3

Type of Loan	Loan Date	Maturity Date	Tenure	Repayment	Rate of Interest
Term Loan	15-03-2022	15-03-2027	60 Months	EMI	12.50%
Loan amount	Interest earned	Interest received	Principal received	Principal outstanding	Interest outstanding
2,00,00,000	10,47,763	10,16,234	12,33,561	1,87,66,439	31,529
(c) Total interest paid or payable in the transaction (i)as per books of account; (ii) as computed by the assessee having regard to the arm's length price.		Rs.5,16,19,088/- Rs.5,16,19,088/-			
(d) Method used for determining the arm's length price.		I. Cost of funds approach			

In our opinion and to the best of our information and according to the explanations given to us, the particulars given in the above annexure are true and correct.

In our opinion proper information and documents as prescribed have been kept by the entity, the entity has entered into transaction with the Holding Company as stated above is in with Arm's Length and the transaction has not resulted in excessive pricing or under pricing.



Basis of Opinion

Transactions on transfer of funds

The company has provided unsecured loan amounting to Rs. 20,65,00,000/- [Twenty Crores Sixty Five Lakhs] to the holding company vide loan agreements dated 18th February, 2020. The Company had also entered into a Unsecured Term Loan Agreement with the Holding Company on 28th day of February, 2022 for further extension of loan not exceeding Rs. 10,00,00,000/- (Rupees Ten Crores). On the basis of said agreement, the first tranche of loan of Rs.4,00,00,000/- (Rupees Four Crores only) was disbursed on 28th day of February, 2022 and the second tranche of loan of Rs. 2,00,00,000/- (Rupees Two Crores only) was disbursed on 15th day of March, 2022. The total outstanding loan amount as on 20.08.2022 is Rs. 19,91,68,434/- (Rupees Nineteen Crores Ninety-One Lakhs Sixty-Eight Thousand Four Hundred and Thirty-Four Only).

The Company being engaged in the business of lending and financing activities, the transaction entered is within the purview of the ordinary course of the business as covered under Section 185 of the Companies Act,2013.

Our opinion is based on the economic factors to determine the transactions entered with the associated enterprise are within arm's length. The entity has deployed its funds in the perspective of recouping the effective rate of return from the investments.

Method of approach:

Cost of funds approach:

Here the lender exercises control over the financial risk associated with the provision of funding without assumption of any other specific risk. The expected rate of return is risk adjusted rate of return on its funding which is best determined by the

- ❖ Cost of funds approach or
- ❖ Comparable uncontrolled price method



Since the company has entered into its normal activity transactions the delineated analytic approach adopted is cost of funds method to determine the transaction is within arm's length.

The factors that perceive the Value drivers:

Economic Value:

- ❖ The lender's and borrower's perspective
- ❖ Lender's ability to mitigate the potential risks associated with the risk of default
- ❖ Realizability
- ❖ Liquidity risk
- ❖ Credit rating
- ❖ Credibility of the borrower
- ❖ Return on investments
- ❖ Risk involved in the profile of the borrower.

Sustainability value:

- ❖ Business forecasts of the borrower
- ❖ Viability of the business run
- ❖ Continuity with the borrower

Computation of Arm's length:

The value drivers attribute to the credit spread on account of the profile of the borrower plus banking lending rate at which the lending company has funded to the ICL Fincorp Limited.

Sources of Information

We have obtained the referrals from the management for the comparative study of the pricing.



Assumptions

1. It is assumed that the transaction has open market for the availability of inputs
2. It is assumed that the effective risk factor is minimum.

The availability referred here is the ease of finding cost of fund and related information.

Conclusion

We have relied on the available data with the management and industry on the basis of which we are of the opinion that transaction is at arm's length.

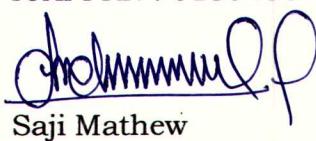
We have based our opinion on the study of cost of funds approach, which is found to be most appropriate from the tools and sources made available to us.

UDIN: 22234508AQDKLE5658

For Saji Mathew & Associates

Chartered Accountants

ICAI FRN : 018048S


Saji Mathew



Place: Ernakulam

[Proprietor]

Date :20-08-2022

ICAI M.No: 234508