

Policy on Monitoring of Breach of Covenants

FY 2025-26



(A wholly owned subsidiary of Punjab National Bank)

INTRODUCTION

SEBI (Debenture Trustee) Regulations, 1993 (commonly known as the DT Regulations) provide a comprehensive framework that outlines the roles, responsibilities, and duties of Debenture Trustees (DTs) in India. The primary objective of these regulations is to ensure that the interests of debenture holders are protected and to ensure the smooth functioning of the debt market.

Regulation 15(f) of the SEBI (Debenture Trustee) Regulations, 1993 lays out a vital responsibility for the Debenture Trustee (DT), which is to ensure that the issuing company (i.e., the issuer of the debentures) does not breach the terms of the debenture issuance or the covenants of the trust deed. The said DT Regulations further mandates the Debenture Trustee to monitor the breach of covenants and take such reasonable steps as may be necessary to remedy any such breach.

In the event of breach of any terms of issue of debentures or covenants of the debenture trust deed, SEBI vide its circular SEBI/HO/MIRSD/CRADT/CIR/P/2020/230 dated November 12, 2020, SEBI/HO/MIRSD/CRADT/CIR/P/2020/203 dated October 13, 2020 and SEBI vide its master circular SEBI/HO/DDHS-PoD-1/P/CIR/2025/117 dated August 13, 2025, has prescribed the necessary actions to be taken by Debenture Trustees against issuer of the debentures.

This Policy incorporates the requirement of SEBI Circular No. SEBI/HO/MIRSD/MIRSD_CRADT/CIR/P/2022/67 dated May 19, 2022 read with SEBI Master circular SEBI/HO/DDHS-PoD-1/P/CIR/2025/117 dated August 13, 2025 and other applicable laws and guidelines, regarding the board approved internal policy for proactive and effective monitoring of breach of covenants by Debenture Trustees.

APPLICABILITY:

This policy shall be applicable to all listed non-convertible debentures (NCDs) for which PNB Investment Services Limited ("PNBISL") is acting as the Debenture Trustee. In compliance with the regulatory framework, all covenants contained in the following documents shall be monitored by PNBISL for identifying any potential or actual breach. According to the regulatory requirement, all covenants included in the Information Memorandum, Trust Deeds, Transaction Documents and as prescribed by SEBI Regulations, Circulars issued by SEBI from time to time, shall be monitored for identifying breach. The monitoring shall be done in a proactive and ongoing manner, in accordance with the framework laid down in this policy.

PROCEDURE FOR MONITORING BREACH OF COVENANTS:

The below mentioned procedure shall be exercised for monitoring any breach of covenants by the debenture issuer companies:

The officers dealing with the debenture issues, should monitor (a) the periodical information / documents submitted by the issuer company (b) the financial and non- financial covenants by the issuer on continuous basis. The said officers should monitor developments related to the issuers through multiple sources in order to promptly identify any potential breach of covenants or adverse credit events.

The sources of information may include, but are not limited to:

- (a) Public disclosures made by the issuer on the websites of Stock Exchanges (e.g., BSE, NSE)
- (b) Regulatory filings submitted by the issuer to SEBI, ROC, or other statutory authorities
- (c) Company announcements, press releases, or investor presentations

- (d) News articles and reports published in credible print or electronic media
- (e) Information available in the public domain, including data from credit rating agencies, financial data platforms, and regulatory databases

In pursuance of the SEBI Circular No. SEBI/HO/MIRSD/MIRSD_CRADT/CIR/P/2022/67 dated May 19, 2022 read with SEBI Master Circular SEBI/HO/DDHS-PoD-1/P/CIR/2025/117 dated August 13, 2025 and other applicable laws and guidelines, the issuer of debentures is required to submit the following on a quarterly basis:

Asset Cover Certificate:

- To be submitted in the format prescribed by SEBI
- Must be certified by the issuer's statutory auditor

Compliance Status of Financial Covenants

- A certificate confirming compliance with financial covenants
- Also to be certified by the issuer's statutory auditor
- To be submitted to PNB Investment Services Ltd. ("PNBISL") within the prescribed timelines

To facilitate timely submission and compliance:

PNBISL shall generate intimation and reminder emails to the issuer, based on the due dates for submission of:

- Asset cover certificates
- Confirmation of compliance with financial covenants

An officer from the Compliance Team shall:

- Verify the accuracy of these emails against relevant documents and timelines
- Ensure emails are correctly worded and aligned with regulatory requirements
- Dispatch such emails only after due verification
- Track receipt of the required submissions, which must be obtained within 75 days from the end of each quarter, except for the last quarter of the financial year, where different timelines may apply as per regulatory provisions

Non-receipt, delay, or discrepancy in the submissions shall be flagged immediately for further action as per the breach escalation process.

The covenant compliance certificates and related reports submitted by the issuer shall be thoroughly evaluated by the designated Compliance Officer(s) of PNB Investment Services Ltd. ("PNBISL") to ensure accuracy and adherence to the terms of the debenture issuance. The evaluation of covenant certificates and compliance reports submitted by the issuer shall be undertaken by cross-checking with PNBISL records, to ensure compliance of the covenants.

In case any breach of covenants is reported by the issuer and / or statutory auditor in the quarterly reporting, the same shall be communicated to the debenture holders within 3 days of communication of such breach.

However, in case such breach of covenants is observed through any other source, the explanation / clarification shall be sought from the issuer and after confirmation by the issuer or non-response within reasonable time, the debenture holders shall be informed about the same.

The consequences of breach of covenant may be examined in the light of Information Memorandum and transaction documents and take further necessary steps, particularly relating to acceleration of payments,

imposing restrictions on issuer for further borrowing, restricting payment of dividend etc.

If no waiver is obtained for breach of any covenants or terms of issue of debentures, the same shall be published on the website of the PNBISL and also be communicated to stock exchanges.

PNBISL shall, on quarterly basis, make disclosure on its website about the instances breach of covenants by the issuer in the preceding quarter and the action taken / proposed to be taken. The debenture holders may also be informed about the same and also seek instructions for further course of action against the issuer of debentures.

The enforcement of security for recovery of dues may be initiated as per provisions of relevant transaction documents/agreements and provisions of Companies Act, 2013, SEBI Regulations and other applicable laws.

5) ROLES AND RESPONSIBILITIES OF EMPLOYEES:

Operations Team:

The Operations Team shall be primarily responsible for the day-to-day monitoring of issuer compliance and timely identification of potential breaches. Their responsibilities include:

- a) Ensuring timely receipt of all periodical statements, reports, declarations, and certifications from the issuer as per the transaction documents and regulatory requirements.
- b) Monitoring adherence to the repayment schedule for interest and principal repayments under the debenture terms.
- c) Scrutinizing:

- Periodical compliance statements
- Number of debenture holders as per BENPOS
- Security cover ratios and other financial ratios
- Any declarations or certifications submitted by the issuer

To identify any breach of covenants reflected in these documents.

- d) If any breach is observed, the Operations Team shall:

- Immediately communicate the breach to the Compliance Officer
- Mark a copy to the Legal Team for further assessment and action

- e) Prepare a Quarterly Status Report, including:

- Details of covenants breached in the previous quarter
- Action taken or proposed by PNBISL in response

This report shall be:

- Communicated to the Compliance Officer
- Published on PNBISL's website
- Communicated to the Stock Exchanges as per regulatory requirements

f) Ensure that information regarding the breach is:

- Disseminated to all debenture holders appearing in the latest BENPOS (as provided by the issuer)
- The communication shall include:
 - Nature of the breach
 - Further course of action (as advised by the Legal Team), or
 - Details of any waiver granted
 - A copy of this communication and follow-up action shall be sent to the Compliance Team for record-keeping.

Compliance Team:

The Compliance Team, based on intimation from the Operations Team or directly from the Issuer Company, shall:

- Examine the nature and seriousness of the breach in coordination with the Legal Team
- Determine the appropriate course of action in accordance with:
 - Transaction Documents
 - SEBI Regulations
- Ensure regulatory reporting and internal documentation are completed in a timely and accurate manner

Legal Team:

Upon receiving intimation of a breach from the Operations Team, the Legal Team shall:

- Examine the breach in the context of:
 - Trust Deed
 - Information Memorandum
 - Security documents, and
 - Applicable SEBI Regulations

- Determine and initiate appropriate legal and procedural steps, including:
 - Calling a meeting of debenture holders
 - Constituting a Committee of Debenture Holders, if required
 - Obtaining instructions or:
 - Negative consent for enforcement of security, or
 - Positive consent for signing the Inter-Creditor Agreement (ICA), based on the facts of the specific issuance
 - Based on the instructions received from the debenture holders, take necessary actions, including:
 - Issuance of notices
 - Enforcement of security
 - Initiation of recovery proceedings for outstanding debentures under applicable laws