

TERM SHEET FOR ISSUE OF BONDS BY KERALA FINANCIAL CORPORATION (KFC)

Security Name	Kerala Financial Corporation Bonds Series II 2023
Issuer	Kerala Financial Corporation
Type of Instrument	Secured, Rated, Listed, Redeemable, Taxable, Non-Convertible Bonds / Debentures.
Nature of Instrument (Secured or Unsecured)	Secured
Seniority (Senior or Subordinated)	Senior
Mode of Issue	Private Placement
Eligible Investors	The Eligible Investors are: (a) individuals; (b) Hindu Undivided Family; (c) trust; (d) limited liability partnerships; (e) partnership firm(s); (f) portfolio managers registered with SEBI; (g) association of persons; (h) companies and bodies corporate including public sector undertakings; (i) scheduled commercial banks; (j) regional rural banks; (k) financial institutions; (l) insurance companies; (m) mutual funds; (n) foreign portfolio investors; and (n) any other investor eligible to invest in these Bonds in accordance with applicable law.
Listing	Proposed on the Wholesale Debt Market (WDM) Segment of BSE
Rating of the Instrument	AA with Stable outlook by Acuite Ratings – 06.01.2023 AA with Stable outlook by Infomeric - 21.02.2023
Issue Size	INR 273.50 crores
Minimum Subscription	5 detachable STRPP of INR 5 lakhs (5 bonds comprising 1 bond of INR 1 lakhs Face Value in each Sub-Series A to E) and in multiples thereof.
Option to retain oversubscription amount (Amount)	NA
Objects of the issue / purpose for which there is requirement of funds	The net proceeds out of the issue after deduction of issue related expenses would be used by issuer for working capital requirements.
Details of the utilization of the Proceeds	As mentioned above
Coupon Rate / Dividend Rate% (per annum payable quarterly)
Coupon/ Dividend Payment Frequency	Quarterly
Coupon/Dividend payment dates (Cumulative / non-cumulative, in case of dividend)	First coupon would be paid on & thereafter as on dates stipulated in the Placement Memorandum
Coupon Type (Fixed, floating or other structure)	Fixed
Coupon Reset Process (including rates, spread, effective date, interest rate cap and floor etc.)	Not applicable
Day Count Basis	Actual / Actual
Interest on Application Money	Not applicable
Default Interest Rate	Including but not restricted to the following: <ul style="list-style-type: none"> In case of default in payment of interest and/or principal redemption on the due dates, additional interest of @ 2% p.a. over the Coupon Rate will be payable by the issuer for the defaulting period on defaulted amount. In the event the security stipulated is not created and perfected within the timelines as stipulated in the column titled 'Security', additional interest of 1% (one percent) per annum or such higher rate as may be prescribed by law, shall be payable on

	<p>the principal amount of the Debt Securities till the date of perfection of the security interest.</p> <ul style="list-style-type: none"> In case of delay in listing beyond 3 (three) Business Days from the Issue Closing Date, the Company will pay additional interest of 1% p.a. over the Coupon Rate to the Bond Holders from the deemed date of allotment till the listing of Bonds. 																																										
Tenor	<p>Series A to E, for tenor 6 years to 10 years, with equal quarterly redemption in each Series, with the first redemption scheduled in the 21st quarter</p> <table border="1"> <thead> <tr> <th>STRPP / Sub-Series</th> <th>As %age of Issue</th> <th>Amount as per base issue size <i>INR in crore</i></th> </tr> </thead> <tbody> <tr> <td>A</td> <td>20%</td> <td>54.70</td> </tr> <tr> <td>B</td> <td>20%</td> <td>54.70</td> </tr> <tr> <td>C</td> <td>20%</td> <td>54.70</td> </tr> <tr> <td>D</td> <td>20%</td> <td>54.70</td> </tr> <tr> <td>E</td> <td>20%</td> <td>54.70</td> </tr> <tr> <td>Total</td> <td>100%</td> <td>273.50</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td>Redemption Date</td> </tr> <tr> <td>A</td> <td></td> <td>30-04-2029</td> </tr> <tr> <td>B</td> <td></td> <td>30-04-2030</td> </tr> <tr> <td>C</td> <td></td> <td>30-04-2031</td> </tr> <tr> <td>D</td> <td></td> <td>30-04-2032</td> </tr> <tr> <td>E</td> <td></td> <td>30-04-2033</td> </tr> </tbody> </table>	STRPP / Sub-Series	As %age of Issue	Amount as per base issue size <i>INR in crore</i>	A	20%	54.70	B	20%	54.70	C	20%	54.70	D	20%	54.70	E	20%	54.70	Total	100%	273.50						Redemption Date	A		30-04-2029	B		30-04-2030	C		30-04-2031	D		30-04-2032	E		30-04-2033
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Redemption Date	<p>The issue of INR 273.50 crore would comprise of 5 detachable STRPPs of Sub-Series (A to E) as mentioned above of sequentially, redeemable bonds in equal quarterly amount.</p> <p>Each of the STRPP Sub-Series 'A' to Sub-Series 'E' would be redeemable in 4 equal quarterly instalments of 5% of the issue size, with redemption of Sub-Series 'A' commencing from the end of 21st quarter, Sub-Series 'B' commencing from the end of 25th quarter and so on.</p>																																										
Redemption Amount	At par (INR 1 Lakh) per bond under each Sub-Series																																										
Redemption Premium/ Discount	At par (INR 1 Lakh) per bond under each Sub-Series																																										
Issue Price	At par (INR 1 Lakh) per bond under each Sub-Series																																										
Discount at which such security is offered and the effective yield as a result of such discount.	Not applicable																																										
Step Up/Step Down Coupon Rate	<p>25 basis points for downgrade of every notch subject to minimum rating of AA-. Any rating downgrade below AA- (i.e. A+ or below) will give put option rights to investors / bond holders for premature redemption. Please note: such higher rates would be effective only from the date of downgrade.</p> <p>On exercise of this right by any investor, issuer needs to repay within 30 days from the date of issue such notice.</p> <p>In case post downgrade of rating, any upgrade in future will have rates reversed effective from the date of such upgrade, subject to minimum initial coupon rate.</p>																																										
Put Date	N.A. (except rating downgrade clause as mentioned above)																																										

Call Date	N.A.
Face Value	Bonds under each Sub-Series would have a face value of INR 1 Lakh each
Issue Opening Date	April 26 th , 2023.
Issue Closing Date	April 26 th , 2023.
Pay-in Date	April 27 th , 2023.
Deemed date of allotment	April 27 th , 2023.
Settlement mode of the Instrument	Demat only
Allocation Option	Uniform
Bid Book Type	Closed
Settlement Mechanism	Through BSE EBP
Minimum Application	1 Debenture and in multiple of 1 Debenture thereafter
Depository	National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL)
Disclosure of Interest /dividend/redemption dates	As mentioned in cash flow
Record date	10 days prior to each Coupon Payment Date and Redemption Date. In the event the Record Date falls on a day which is not a Business Day, the immediately succeeding Business Day will be considered as the Record Date.
Description regarding Security (where applicable) including type of security (movable/ immovable/ tangible etc.), type of charge (pledge/ hypothecation/ mortgage etc.), date of creation of security/ likely date of creation of security, minimum security cover, revaluation, replacement of security interest to the debenture holder over and above the coupon rate as specified in the Debenture Trust Deed and disclosed in the Placement Memorandum	<p>The bonds would be secured by way of</p> <ol style="list-style-type: none"> 1. Exclusive Charge on the KFC BOND SERVICING ACCOUNT SERIES II 2023 and on the amount transferred therein to be utilized only for servicing of the bonds on quarterly servicing dates. 2. Exclusive Charge on the KFC DSRA BOND SERIES II 2023 and the funds lying there-in. 3. Exclusive Charge on Cash Collateral Permitted Investment available equivalent to 10% of face value of principal amount outstanding at all times. 4. Exclusive charge on specific current assets including book debts and receivables of the company from identified borrowers. The book value of such assets would provide 100% security cover on the outstanding bonds and interest accrued thereon throughout its entire tenure.
Creation of recovery expense fund	The Issuer has created the Recovery Expense Fund for a maximum limit of INR 25,00,000 (Indian Rupees Twenty-Five Lakh) in accordance with the SEBI REF Circular with the BSE Limited.
Conditions for breach of covenants (as specified in Debenture Trust Deed)	Breach of any covenants other than those in respect of payment default and maintenance of security cover would have a cure period of 30 days beyond which it would be construed as an event of default (EOD).
Governing Law and Jurisdiction	The Bonds are governed by and shall be construed in accordance with the Indian laws. Any dispute arising thereof will be subject to the exclusive jurisdiction of Kerala (unless otherwise specified in the respective Transaction documents)
Business Day Convention	<p>If the coupon payment date falls on a Sunday or a holiday, the coupon payment shall be made on the next working day. However, the dates of the future payments would continue to be as per the schedule originally stipulated in the offer document.</p> <p>If the maturity date of the debentures, falls on a Sunday or a holiday, the redemption proceeds shall be paid on the previous working day.</p>

	<p>If a leap year (i.e. February 29) falls during the tenor of the debentures, then the number of days shall be reckoned as 366 days (actual/ actual day count convention) for the entire year, irrespective of whether the interest/ dividend is payable annually, half yearly, quarterly or monthly.</p>
KFC Bond Servicing Account	<p>The Issuer would be required to open a designated escrow account - "KFC BOND SERVICING ACCOUNT SERIES II 2023" exclusively for the benefit and charged to the Debenture Trustee (on behalf of the bondholders of this Series). In case of further series of issuances, the Issuer shall open similar accounts (Series III, etc.).</p> <p>This is a Regular Escrow Account and all funds in this account would be solely utilized for bond servicing throughout the tenor of the bonds.</p>
Debt Service Reserve Account (DSRA)	<p>The Issuer would be required to open a designated escrow account - "KFC DSRA Account Series II 2023" exclusively for the benefit and charged to the Debenture Trustee (on behalf of the bondholders). In case of further series of issuances, the Issuer shall open similar accounts (Series III, etc.)</p> <p>An amount equivalent to the total servicing obligation (Principal & Interest) of the outstanding bonds for the next 2 quarters would need to be maintained by the Issuer in the DSRA account on rolling basis and the initial DSRA amount so calculated would need to be deposited atleast one day prior to the date of pay in.</p> <p>Prior to commencement of principal redemption (from the end of 21st and 22nd quarter), the DSRA would need to be suitably augmented within 15 days after the expiry of the 19th and 20th quarter to take care of this enhanced servicing liability.</p> <p>Further, as the servicing liability would progressively come down after the peak, the Issuer would be permitted to take out the excess amount from DSRA progressively under intimation to the Debenture Trustee, subject to no unresolved breach of any covenant.</p> <p>The DSRA would be in the form of cash or cash equivalent (investment in Permitted Instruments and would remain escrowed in favour of the Debenture Trustee).</p>
Cash Collateral	<p>The Issuer shall, prior to the Pay-in Date, create permitted investments in terms of the Transaction Documents ("Cash Collateral Permitted Investments") for an amount equivalent to 10% (Ten percent) of the outstanding principal amount of the Debentures ("Cash Collateral Amount"). The Issuer hereby agrees and undertakes that the Issuer shall, at all times maintain an amount equivalent to the Cash Collateral Amount as permitted investments in terms of the Transaction Documents and the same shall always be lien marked to the debenture trustee as detailed in the Transaction Documents.</p> <p>In case of any erosion in Debt Service Reserve Account as mentioned under structured payment mechanism not getting cured within 30 days after servicing (i.e T+30), the erosion shall be made good by transferring necessary amount of funds / investments to the DSRA.</p> <p>The Debenture Trustee should immediately inform the issuer about this event with an advise to Replenish the Cash Collateral Permitted Investment within the next 30 days (T+60).</p>
Permitted Investment	<p>The funds in this Escrow Account and DSRA till such time being utilized would be allowed to be invested in permitted investments i.e. (i) fixed deposits with scheduled commercial banks having a rating of A1+ or</p>

	<p>higher for short term deposits and AA rating or higher for long term deposits;and/ or (ii) Central/ State government securities (including treasury bills and state development loans securities); iii) Corporate bonds and debentures issued by PSUs, Financial institutions, Insurance Companies, scheduled commercial banks, Govt owned NBFCs having a rating of AA or higher assigned by atleast 2 (Two) rating agencies registered with the Securities & Exchange Board of India under the SEBI (Credit Rating Agencies) Regulations, 1999;These investments are to be pledged in favour of the Debenture Trustee.</p> <p>These investments would be made & liquidated by the Debenture Trustee as per the instruction of the issuer from time to time. However, any investment of funds of Bond Servicing Account other than in Bank FDs would be compulsorily liquidated by the Trustee on T-3 days if not liquidated earlier. The investment in Bank FDs, out of funds lying in KFC BOND SERVICING ACCOUNT SERIES II 2023 should have a maturity date at least 1 day prior to the next bond servicing date. Similarly, in case of any shortfall persisting in the KFC BOND SERVICING ACCOUNT SERIES II 2023 on T-9 days, the trustee should ensure availability of adequate funds to meet such shortfall in cash form in the DSRA, if required, through need-based liquidation of investments.</p>
<p>Structured Payment Mechanism</p>	<p>The Issuer would, starting from the 1st day of each quarterly servicing cycle, remit on every working day an amount equivalent to 2.00% of the aggregate servicing requirement for such quarterly servicing cycle of outstanding bonds issued to KFC Bond Servicing Account Series II 2023. Shortfall of transfer (if any) on any particular day would get cumulative and be carried forward to the next day(s) on a rolling basis. The transfers during a particular quarterly servicing cycle on the above mode should continue till the full build-up of the servicing requirement for that particular quarterly servicing cycle is achieved in the KFC Bond Servicing Account Series II 2023.</p> <p>The Debenture Trustee should independently monitor the adequacy of collection in the KFC BOND SERVICING ACCOUNT SERIES II 2023 on T-15th day and inform KFC through written communication, to fund the short-fall if any by T-10th day. This should also be intimated to the concerned Credit Rating agencies.</p> <p>In the event of such shortfall in KFC BOND SERVICING ACCOUNT SERIES II 2023 not getting fully bridged through payments by KFC by T-10th day, the Debenture Trustee would on T-9th day meet such shortfall by transferring funds from the KFC DSRA BOND SERIES II 2023 and make the necessary payments to the Bond Holders on the due date.</p> <p>However, the T-15th day notice to KFC to fund the shortfall would continue to remain active and if such funding is received subsequently, the same shall be transferred to KFC DSRA BOND SERIES II 2023 to make good the impairment.</p> <p>Further, If any overdues on account of past servicing from KFC DSRA BOND SERIES II 2023 continues to remain till T+30th day, then such overdue amount would be replenished by Cash Collateral available and a notice to issuer to replenish Cash Collateral within next 30 days i.e. T+60th day.</p> <p>In the event of the above not being adhered, the Debenture Trustee would give a final notice to the Issuer for the full replenishment of DSRA</p>

	<p>and Cash Collateral Permitted Investment within next 7 days. Failing which would lead to an Event of Default (EOD).</p> <p>If any of the milestone days mentioned in the T-structure above happens to be a holiday/ bank's closing day, the immediate preceding bank working day would be the deemed date for execution of the relevant action.</p>
<p>Events of Default</p>	<p>As is set out in the Debenture Trust Deed and shall include, without limitation, the following events:</p> <ul style="list-style-type: none"> (a) Any payments due in respect of the Debentures have not been paid on the relevant Due date; (b) Failure of the issuer to replenish the erosion in DSRA and Cash Collateral Permitted Investment within 7 days of receipt of final notice from Debenture Trustee (c) The breach by the Issuer of any covenant, obligation, and/or any other obligations provided for under the Transaction Documents if not cured within 30 days; (d) Material Adverse Effect; (e) Non-Creation, invalidity and unenforceability of Security including non-creation of Security within stipulated timelines. (f) Withdrawal or suspension of Credit Rating or credit rating downgraded to A+ or below by any of the rating agencies; (g) Application for initiation of any insolvency proceedings against the Issuer under any applicable bankruptcy / insolvency / winding up or other similar law (including the IBC) filed any time during the tenure of the NCDs and not stayed or dismissed within 7 (seven) days from the date of such filing. (h) Any of the representations or warranties provided by the Issuer under the Transaction Documents are found to be untrue, misleading or incorrect, when made or deemed to be made if not cured in 30 days; (i) Erosion in the value of security below 100% of the aggregate outstanding liabilities of debentures at any point (j) The State Government of Kerala ceasing to own 51% (Fifty One percent) of the Issuer or ceasing to Control the Issuer without obtaining the prior written consent of the Debenture Trustee. (k) Cross default.
<p>Remedies</p>	<p>In the event of occurrence of the EOD mentioned above, each of the Bond Holders and Debenture Trustee shall have the following rights without requiring to give any notice:</p> <ul style="list-style-type: none"> 1. To accelerate the payments under and in relation to the Debentures and make them immediately due and payable; 2. Enforce the Security 3. Take any other recourse available to the Investor/Debenture Trustee under law and/or in equity 4. Any other consequence as may be customary to transactions of such nature and/or as advised by the consultants of the Issuer <p>The escrowing rights on the KFC BOND SERVICING ACCOUNT SERIES II 2023 would continue to remain active and operational till all the outstanding liabilities get settled.</p>
<p>Provisions related to Cross Default Clause</p>	<p>If the Issuer fails to make payment of any financial indebtedness when due or otherwise commits any breach of the provisions of any agreement entered into in respect of any financial indebtedness availed</p>

	<p>of by it (in respect of which breach either no cure period is available or where a cure period is available fails to cure such breach within the available cure period).</p>
<p>Undertakings of the Issuer</p>	<ul style="list-style-type: none"> (a) The complaints received in respect of the Issue shall be attended expeditiously and satisfactorily. (b) That KFC shall forward the details of utilization of the funds raised through the Debentures duly certified by the statutory auditors of KFC, to the Debenture Trustees at the end of each half-year. (c) KFC shall disclose the complete name and address of the Debenture Trustee in the annual report. (d) KFC shall provide a compliance certificate to the Debenture Holders (on yearly basis) in respect of compliance with the terms and conditions of issue of Information Memorandum as contained in the Information Memorandum, duly certified by the Debenture Trustee. (e) At all times until the Final Settlement Date, the State Government of Kerala shall not cease to own 51% (Fifty One percent) of the Issuer or cease to Control the Issuer without the prior written consent of the Debenture Trustee (acting upon the instructions of each of the Debenture Holders); (f) All revenue collections of the Issuer shall be deposited solely in the current account held by the Issuer with the Revenue Bank bearing account no. 10300200051862 ("Collection Account"); (g) On the occurrence of an event of default, the Issuer shall not effect any withdrawals from the Collection Account, without the prior written consent of the Debenture Trustee.