INTEREST RATE POLICY

Background

The Reserve Bank of India (RBI) vide its Master Direction DNBR.PD.007/03.10.119/2016-17 dated Sep 1, 2016, had advised the Boards of NBFCs to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges.

a) The Board of each NBFC shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium etc. and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.
b) The interest rate, benchmark prime lending rate, and other charges applicable would be hosted on the website and updated from time to time.
c) The rate of interest should be annualised rates so that the borrower is aware of the exact rates that would be charged to the account.

In compliance with the requirement of RBI and Fair Practices Code adopted by the Company, the company has outlined the following interest rate policy and Company's approach for gradation of risk with respect to Lending business.

Interest Rate Model:

- The rate of interest is benchmarked based on cost of capital, sourcing cost and risk factor. To attain a continued and consistent policy with regards to calculating the Cost of Capital, the Company will be basing Cost of Capital as a composite weighted average cost of Debt Capital and Risk Capital. The same shall be an average of Average Cost of Borrowings (based on average debt in the year and the rate of interest and other financial charges) plus cost of quasi equity i.e., comprising of borrowings at 5%-14% by way of Inter-corporate Deposits (computed at a rate that shall be higher by 33% over cost of borrowings) and Cost of Risk Capital, i.e., equity, which shall be computed as a rate higher by 20% over the rate arrived for quasi equity.
- The rate of interest for the products shall be fixed considering different factors like cost of funds, tenure, asset-liability maturity mismatch, operating cost, expected credit loss, return on assets, return on equity, competition, etc.
- The product frame and the risk premium would depend on the behaviour of the portfolio/industry and internal assessment of the credit strength of the borrower.
- Company may offer fixed rate of interest for the present, as other than the loan from SBI with a tenure of 4 years. Considering that the borrowings from SBI is a small component of the overall capital, any changes in the rate by SBI can be absorbed by way of interest charged as fixed rate of interest on all the loan products.

- Rates that may be applied to all lending products of the Company:

Lending Product	Comments on Risk and Sourcing Cost	Recommended Interest Rate	
		For Company	End Customer
Supply Chain Finance	As the borrowers belong to a close-knit community with promoters having good market intelligence – the risk is low. Additionally, the sourcing cost is low considering it is a revolving product and sourced directly by a team involved directly through Company having low monthly overheads. In view of the foregoing, the lending rate may be marginally higher than the average cost of borrowings.	15% – 18%	15% – 18%
Lending through Digital Lending Partners	The sourcing cost is though low, the cost of managing the portfolio is high. Besides, there is less visibility on the actual on-ground touch point process with the end-borrower by the digital lending partner, adding an element of operating risk. To have a sustainable business model for the lending partner, the sourcing cost for the partner should be covered on a unit basis (i.e. marginal revenue > marginal cost). In view of the foregoing, it is proposed to benchmark the price for Company at around 500 basis points higher than the cost of capital, with an option of reducing it based on experience.	19% - 25%	20% - 36% (with an objective of gradually reducing the ROI for the customer to less than the marginal rate charged by credit card companies)
Business Loan – unsecured (since discontinued)	The sourcing cost (around 10%) and risk associated with this product being high, the rate of interest chargeable has to be necessarily high enough to cover the sourcing cost in addition to the anticipated credit risk cost.	24% - 36%	24% - 36%
Business Loan - Secured	The sourcing cost is high. The loss given default is likely to be low. The inherent nature of the loans is that they are for longer tenure providing advantage of defraying the sourcing cost over the tenure of loans. In view the same, the lending rate can be kept linked close to the cost of capital plus a small markup as return for capital deployed. Since Company's cost of capital is high, it would be necessary for it focus on secured loans with lower ticket	14% - 26%	16% - 26%

	size and such borrowers who, though not considered as 'prime' are nevertheless creditworthy.		

- Rate of interest for the products shall be reviewed at regular intervals taking into account cost of funds, market outlook, offering by competition, credit loss etc.
- Rate of interest shall be communicated to the borrowers through sanction letter, loan agreement, any other document executed between the borrower and the company.
- Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per terms of the loan agreement.
- Rate of interest and charges will be communicated to the borrower at the time of availing the loan. Changes, if any, in the rate of interest or charges shall be intimated to the borrower individually or displayed on the website of the company.
- The rate of interest and charges will not be standardised for all the borrowers and will be dependent on the risks perceived by the management on case-to-case basis.

Gradation of risk:

The risk premium attached to the borrower shall be assessed by the management from time to time, broadly based on the following factors:

- Profile of the customer, financial strength, and market reputation of the borrower
- Nature of product, portfolio behaviour of the product, default risk in the business segment
- Ticket size of loan, tenure of loan, moratorium, historical performance of clients / or cohort of clients
- Credit bureau score
- Loan to value ratio / security cover
- Relationship with the company (existing or new)
- Nature of security / value of security
- Location delinquency and collection performance
- Secured Vs unsecured loan
- Regulatory stipulations, if any
- any other parameter relevant for the case or product

Processing Fee and other charges

In addition to the normal rate of interest, the company may also levy certain charges (like processing fee, cheque bouncing charges, pre-payment charges etc.) The details of all charges shall be mentioned in the loan agreement, or any other document executed between the company and the borrower.

Note: The Company shall not charge foreclosure charges/pre-payment penalties on all floating rate term loans sanctioned for purposes other than business to individual borrowers with or without co-applicant(s). (RBI DNBR (PD) CC.No.101/03.10.001/2019-20 dated August 2, 2019)

Penal Interest /Late payment charges

Besides normal interest, Company may collect additional interest for delayed payment (on the same rate) and late payment charges for the delayed duration or default in making payments of any dues. These additional interest/late payment charges for different products or facilities would be decided by the Company from time to time. The Company shall mention the penal interest in bold in the loan agreement.

Review of the Policy

The Policy shall be placed before the CRM and the Board for review at least once a year or as may be decided by the Board.

Applicability

The policy shall be effective from the date of Approval by the Board of Directors.