



INTEREST RATE POLICY

Version Number	Date of approval	Remarks
1	08/11/2022	First version
2	21/02/2023	Annual review
3	18/04/2023	Annual review
4	27/06/2024	Annual review
5	14/11/2024	Annual review



Interest Rate Policy

Table of Contents

I.	Introduction.....	3
II.	Asset Liability Management Committee	3
III.	Computation of Interest and Rates.....	3
	a) Cost of capital	3
	b) Operational costs	3
	c) Tenor premium.....	3
	d) Risk premium	4
	e) Fixed versus Floating.....	4
	f) Spread.....	4
	g) Periodicity of interest	4
	h) Other factors	4
IV.	Approach for gradation of risk	5
V.	Weighted Average cost of borrowing	5
VI.	Other charges.....	5
VII.	Pricing of Micro finance loans.....	5
VIII.	Pricing of Micro finance /SME/Gold loans: Common to all asset segments	6
IX.	Penal interest / Penal charges.....	6
X.	The product level pricing methodology.....	7
XI.	Interest application	7
XII.	General rules.....	7
XIII.	Review and Custody of the Policy	8



I. Introduction

RBI has deregulated interest rates to be charged to borrowers and customers by NBFCs. The rate of interest to be charged shall be governed by the terms and conditions of the loan agreement entered into between the borrower or customer and the company. Company shall be transparent and the rate of interest and manner of arriving at the rates of interest to different categories of borrowers or customers shall be disclosed in the application form and communicated explicitly in the sanction letter and on the Websites, Key Facts Statement etc. to enable the borrower or customer to take an informed decision.

In tune with RBI guidelines, company shall adopt Interest Rates and Penal Charges while dealing with customers in a transparent and open manner. The Policy deals with fixation of benchmark rates to be used for different types of borrowers or customers and stipulate the approach of charging spreads to arrive at the final rate to be charged from the borrower or customer.

II. Asset Liability Management Committee

Asset Liability Management Committee (ALCO) of the Company shall fix the interest rates applicable for different loan schemes and liability products by considering the prevailing interest rates in the market and charges offered by competitors for similar products / services. ALCO shall be the authority for fixing and/or changing interest rates and other charges for all types of products.

The ALCO meetings shall be held monthly and any changes or no change in the rates shall be decided upon.

III. Computation of Interest and Rates

The interest rates and charges shall be calculated taking the sum of the following factors:

a) Cost of capital

It represents a fair return on capital, which is to be generated by the company for the share holders' capital deployed in the business.

b) Operational costs

It represents employee cost, office expense, insurance premium, marketing expense, branding expense, Auditor fee etc.

c) Tenor premium

The rate of interest charged shall also depend on the term / tenor and end usage of the loan. Longer the tenor, higher will be the tenor premium. Tenor premium shall normally be between 0.25% to 1% depending on the tenor of the loan.

d) Risk premium

Depending on the risk profile of the borrower or customer and / or the product, risk premium shall be loaded to mitigate the loss on default of repayment. Risk premium shall be higher for unsecured loans and lower for secured loans.

e) Fixed versus Floating

The rate of interest shall also depend on the nature of interest application i.e. fixed or floating. Interest rate for fixed rate shall usually be higher than floating rate as there is no provision for fixed rate to be repriced based on market conditions. The floating rates may be fixed based on external bench marks such as Repo rate of RBI.

f) Spread

In addition to the above costs, spread shall be added as profit margin before arriving at the final rates.

g) Periodicity of interest

Interest shall be charged for the period stipulated in the loan agreement, subject to any modifications thereto as may be agreed upon between the company and customer, in writing. Interest shall be charged on the end of day-end balance outstanding and compounded on a monthly basis.

h) Other factors

- i. Matching tenor cost, market liquidity, RBI Policies on credit flow, offerings by competition, stability in earnings and employment, subvention and subsidies available, deviations permitted, further business opportunities, external ratings, industry trends, switchover options shall also be relevant factors in determining the interest rate to be charged.
- ii. The objective shall be to arrive at the benchmark rates to be used for different types of customer segments and to decide on the principles and approach of charging spreads to arrive at final rates charged from customers.
- iii. Fund raising costs which include processing fees on term loans, brokerage to source funds through NCD, Rating Fee, trusteeship fee, exchange listing fee etc. shall be taken into account for determining the product pricing.
- iv. Loan pricing methodology shall give direction to the Company on the minimum rate at which it can lend with a profit margin.
- v. Relevant factors such as cost of funds, margin, risk premium etc. shall be taken in to account to determine the rate of interest to be charged for loans and advances to the customers. Generally, uniform interest rates based on the Company's borrowing cost shall be charged to the customers.

IV. Approach for gradation of risk

The risk premium attached to a customer shall be assessed based on various factors such as the profile and market reputation of the borrower, credit score of the borrower, inherent nature of the product, type / nature of facility, refinance avenues, tenure of relationship with the borrower group, past repayment track record and historical performance of our similar clients, group strength, overall customer yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower, mode of payment, nature and value of primary and secondary collateral / security, type of asset being financed, end use of the loan represented by the underlying asset, interest, default risk in related business segment, regulatory stipulations, if applicable, and any other factors that may be relevant in a particular case.

Based on the above factors, the company shall categorize its customers into the three credit risk categories: high, medium, and low credit risk.

V. Weighted Average cost of borrowing

Company borrows funds through Term Loans and Working Capital from Banks and Non-convertible Debentures, Subordinate Debts and Perpetual Debt Instruments from investors. The cost of borrowing includes processing fee, rating fee, brokerage, incentive, trustee fee etc. Weighted average cost of borrowing include the above costs for such funds and shall be considered for fixing the rates and charges.

(A) Cost of Equity (B) Fund raising cost (C) Negative carry-on Investments (D) ALM Mismatch cost (E) Opex cost (F) Risk premium (G) Tenor premium (H) Spread = {Sum (A to H) = Pricing of Loans. Fixed rate loans shall not be linked to benchmarks.

VI. Other charges

In addition to interest, processing fee, notice charges, closing charges, remittance charges, cheque bouncing charges, auction charges etc., if any, shall be intimated to customer at the time of sanction.

VII. Pricing of Micro finance loans

Factors considered for fixing interest rate & other upfront charges	
1. Cost of fund	10-13%
2. Staff cost	5-6%
3. Risk premium	2-3%
4. Other operating expenses	6-8%
5. Profit margin	3-5%
Aggregate of interest and other charges	26-35%
Ceiling on the interest rate and all other charges	
Interest	26% - 28%
Processing Fee	0.50% - 3%
Documentation charges	0.50% - 3%

VIII. Pricing of Micro finance /SME/Gold loans: Common to all asset segments

The Micro Finance / SME / Gold loan pricing shall be derived from the average cost of borrowing including NCD / Sub Debts / Equity / Bank Borrowings and PDI of the company + Operating expenses + Tenor premium + Risk premium + Profit margin.

Objective of the pricing mechanism shall be to provide consistent guiding rates that can be used for pricing funds internally as well as external product pricing. It could serve to drive behavior of business units to meet the overall objectives of the company. It would also provide objective criteria for business units / product performance evaluation. The process shall be based on the Cost of Funds criteria.

IX. Penal interest / Penal charges

RBI in its Circular dated August 18, 2023 on “Fair Lending Practices” reviewed the practice of charging Penal Interest and have issued the following instructions for adoption with effect from 01.01.2024, which shall be adopted by the Company, in toto.

- i. Penalty charged for non-compliance of material terms and conditions for loan contract by the borrower shall be treated as “Penal Charges” that is added to the rate of interest charged on the advances.
- ii. There shall be no capitalization of penal charges i.e. no further interest shall be computed on such charges. However, this shall not affect the normal procedures for compounding of interest in the loan.
- iii. There shall be no additional component to the rate of interest.
- iv. The quantum of penal charges shall be reasonable and commensurate with non-compliance of material terms and conditions of loan account without being discriminatory within a particular loan / product category.
- v. The quantum and reasons for penal charges shall be clearly disclosed to the customer in the loan agreement and most important terms and conditions, Key Facts Statement as applicable.
- vi. This should be displayed in the Website under Interest Rates and Service Charges.
- vii. Reminders sent for non-compliance of material terms and conditions of loan, shall disclose the applicable penal charges.
- viii. Communication for levy of penal charges shall disclose reasons for the same.

X. The product level pricing methodology

Sl. No	Product category	Pricing methodology	Remarks
Liabilities			
1	NCD	Cost of mobilization + Incentive spread	Different incentive spread could be used for different type of borrowings. Applicability and quantum will be decided by ALCO.
2	Sub Debts	Cost of mobilization + Incentive spread	
3	PDI	Cost of mobilization + Incentive spread	
4	Bank Borrowings – Fixed	Fixed rate of interest charged by lending Banks	
5	Bank Borrowings - Floating	Variable interest rates linked to Benchmark interest rates + Spread	
Assets			
Micro Finance Loan (MFI)		Offer rate based on the maturity of the loan and cost of borrowing.	The loan rate would remain fixed for the entire tenure of the loan.
Gold Loan			
SME Loan			

XI. Interest application

The interest shall be calculated from the date of disbursement of loan till date of closure that is for the actual number of days loan remains outstanding in the books of account. Whereas if the loan is closed within a period less than 07 days from the date of disbursement an amount equal to minimum 07 days interest shall be charged on such loans. For Interest Calculation purpose one year shall be taken as 365 days and interest shall be calculated at monthly compounding basis.

XII. General rules

- For all other loans sanctioned by the company like personal loan, vehicle loan, loans to SME sector etc. repayments shall be fixed on Equated monthly installment (EMI) basis for a fixed tenure. The tenure shall be fixed based on the segment and scheme under which the loan is sanctioned and installments consist of principle portion as well as interest

portion. For EMI fixed term loan, during initial repayments of EMIs, interest portion will be more and principal portion will be less and vice versa in later stages of repayments.

- ii. If the payment of Interest falls due on Sundays or holidays the customer has to pay the interest on the previous working day. Waiver of any charges or interest shall not be entertained in this regard.
- iii. In case any amendments / clarification, the Policy shall be amended accordingly from the effective date specified as per management decision. The company reserves its right to alter, modify, add, delete or amend any of the provisions in the Policy.

XIII. Review and Custody of the Policy

The Policy shall be reviewed atleast on an annual basis by considering the RBI instructions in force, business strategies of the Company and the market competition. Risk Management Department shall be the custodian of the Policy.
