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INTEREST RATE MODEL

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Policy for determining Interest Rates and Processing and other charges

A. Preface

1. Reserve Bank of India (RBI) had vide its Circular DNBS / PD / CC No. 95/ 03.05.002/ 2006-07 dated May 24, 2007 and other subsequent communications advised the Boards of Non- Banking Finance Companies (NBFC's) to lay out appropriate internal principles and procedures on determining interest rates, processing and other charges.
2. PLR (Prime Lending Rate) is the internal benchmark rate used for setting up the interest rate on floating rate loans sanctioned by Non-Banking Financial Companies (NBFC)

B. Description

The PLR comprises of the following components: -

a. Funding Cost
   Cost of Borrowings - It is the cost of raising funds from external sources
   Debt to Equity Ratio – It is the ratio of Borrowings to Equity
b. Liquidity Cost – It is the cost of maintaining surplus liquidity on balance sheet
c. Credit Risk – It is the cost of risk which the business carries on account of the credit worthiness of the borrowers
d. Opex – It is the operational cost associated with the products
e. Spread – It is the spread applicable to different products including customer and product specific margin and profitability expectations

C. Process for Calculating

a. Funding Cost is calculated by applying D/E ratio to Cost of equity and Borrowings Cost.

   1. The D/E ratio calculated will be applicable to each business on the basis of repayment tenor and the funding mix. The D/E ratio shall be the same for all businesses of the entity. It will be finalised at the first ALM Working Group Meeting of the financial year on the basis of the financials of previous year.

   2. Borrowing Cost will be the average cost of raising funds through various external sources. This would include coupon rate of the instrument and other financing costs of raising funds such as placement fees and processing fees. This shall be shared and proposed / updated by the Resources Team on a quarterly basis.
   3. Funding Cost shall thus be computed as follows:-

   $$\text{Cost of Borrowings} * \frac{\text{Debt}}{\text{Debt+Equity}}$$

b. Liquidity Cost – This would be calculated by dividing the net liquidity cost by the average borrowings of the previous quarter. Net liquidity cost will be calculated by subtracting Returns earned from Cost of borrowings. This shall be calculated and proposed / updated by the Resources Team on a quarterly basis.

c. Credit Risk – It shall be calculated on the basis of professional qualification, stability in earnings and employment, financial positions, past repayment track record, external

ratings of customers, credit reports, customer relationship, and future business potentials. This shall be calculated and proposed by the Risk Team annually.

d. Opex – Opex % shall be computed on Average AUM. The variables costs and relevant fixed costs attributable to the products shall be considered in the operating expenses. The aggregate operating expenses shall be split across product groups as per internal allocation metric. Internal estimation logics for opex can be used to factor in normalized /steady state values where there are periods/instances of investments or significant idle capacity (e.g. COVID). This shall be updated annually by the business and operations team.

e. Spread - It shall be based on the RoE expectations, product margin, customer cohort risk premium and the business environment. It shall be updated quarterly by the business team.

D. Overall Review Mechanism

Interest rates would be offered to customers on fixed, floating and variable basis. PLR (Prime Lending Rate) is the internal benchmark rate used for setting up the interest rate on floating rate loans sanctioned by the company. The PLRs would be discussed at the quarterly ALM Working Group and modified taking into consideration change in any of the component(s). Basis the deliberation on the change in the PLR and its impact on existing and new customers would decide to pass on the changes to the existing or new customers.

The PLR rate offered to customers would be changed in a step up manner on a movement of more than 50 bps. If the change is less than 50 bps, the PLR would be kept unchanged. The PLR would be reset quarterly.

The ALM Working Group in consultation with business can recommend reducing the customer margins for a cohort in line with fair practice codes, whenever we are able to identify cohorts that are exhibiting good credit behaviour for customer retention.

The frequency of reviewing and the team responsible for each of the components will be as follows:

S.N.	Particulars	Frequency of Review	Team Responsible
A	Funding Cost	Quarterly	Resources
1	Borrowing Cost	Quarterly	Resources
2	Debt to Equity Ratio	Annually	Resources
B	Liquidity Cost	Quarterly	Resources
C	Credit risk	Annually	Risk
D	Opex	Annually	Business
E	Spread	Quarterly	Business

Note: The review frequency stated above is the outer limit; especially for annual items, reviews may happen earlier, if required.

In case of any extraordinary event, the ALM Working Group members shall call a meeting to discuss and review the PLR. The Resources Team will initiate the input parameters updation with inputs from various teams and calculate the PLR. The updated PLR shall be presented to the ALM Working Group every quarter. The ALM Working Group will deliberate and take the final decision on PLR.

E. Other charges and Features:

i. Besides normal interest, the Company may levy additional interest for adhoc facilities, penal interest for any delay or default in making payments of any dues. The levy or waiver of these additional or penal interests for different products or facilities would be decided within the limits prescribed under the policy.

ii. Besides interest, other financial charges like processing fees, cheque bouncing charges, conversion fees, pre-payment / foreclosure charges, part disbursement charges, cheque swap charges, charges for issue of statement account etc., would be levied by the Company wherever considered necessary. Besides these charges, stamp duty, GST and other cess would be collected at applicable rates from time to time. Any revision in these charges would be implemented prospective basis with due communication to customers. A suitable condition in this regard forms incorporated in the loan agreement.

iii. The Company shall disclose the rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers in the application form and communicate explicitly in the sanction letter.

iv. Annualized rate of interest would be intimated to the customer and the Company shall mention the penal interest in bold in the loan agreement.

v. Interest rates would be intimated to the customers at the time of sanction / availing of the loan and the EMI apportionments towards interest and principal dues would be made available to the customer. Interest shall be deemed payable immediately on due date as communicated and no grace period for payment of interest is allowed.

vi. Changes in the interest rates, as and when made, would always be with prospective effect. Such changes in interest rates or in any other charges on the borrowers would be communicated by a mode/ manner as may be deemed fit by the Management and would also be communicated to them through various modes communication such as website updation, email, letters, SMS, etc.

vii. Claims for refund or waiver of such charges/ penal interest / additional interest would normally not be entertained by the Company and it is the sole and absolute discretion of the Company to deal with such requests. The Companyshall 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-obligant(s).

viii. The rate of interest on loan and charges payable by the borrower would be explicitly communicated in the Sanction letter issued to them and the sanction letter will also communicate other terms and conditions.

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