Interest Rate Model

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Version control:

Document Name	Policy for determining Interest Rates and Processing and Other Charges
Document Owner	Resource Team
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Approver	Board
Version control	V3.0

Summary of changes in versions:

Version	Modification Date	Brief description
V1	February 25, 2015	Adoption of Policy
V2	January 21, 2023	Review of Policy
V3	January 3, 2025	Review of Penal Charges

Executive Summary of changes:

Sr.no.	Para number	Whether addition/ deletion/ modification to para	Existing contents	Proposed change	Rationale for change
1	4.3	Addition	-	Framework for Implementation of Penal Charge Regime	This framework is intended to ensure implementation of Penal Charge Regime based on the Reserve bank of India Circular no. RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24 dated 18th August 2023.

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1. INTRODUCTION

1.1 BACKGROUND

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 vide Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and RBI Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 as amended from time to time advised the Boards of Non- Banking Finance Companies (NBFCs) to lay out appropriate internal principles and procedures on determining interest rates, processing and other charges.

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.

2. DEFINITION

2.1 PRIME LENDING RATE

a. The PLR comprises of the following components: -
   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

3. DESCRIPTION

3.1 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.

3.2 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 or whenever scheduled and modified taking into consideration change in any of the component(s). Basis the deliberation at the ALM Working Group on the change in the PLR and its impact on existing and new customers, a final proposal would be made to the ALCO committee for approval 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 10 bps. If the change is less than 10 bps, the PLR would be kept unchanged. The PLR would be reset as and when there is change in the PLR which shall be approved by ALCO and as per the terms and conditions mentioned in the customer loan agreement.

Additionally, in case of any extraordinary event or any interim rate change by RBI in between two ALCO meetings, to authorize ALM Working Group Committee to approve change in PLR up to 100 bps and this change shall be ratified at the subsequent ALCO Meeting.

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 parameters updation with inputs from various teams and calculate the PLR. The updated PLR shall be presented to the ALM Working Group. The ALM Working Group will deliberate and take the final decision on PLR, within its authority. In case the decision is higher than the authorized limit then a special ALCO meeting shall be called for decision

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, in case there is a significant change in any of the above components.

Products:-

1. SME Business Loans (Fixed Rate Product)
2. SME Secured Loans (Floating Rate Product)

3. Loan Against Property
    - This PLR is linked with the following products:
        - Loan Against Property (LAP)
        - Small Ticket Loan against Property (STLAP)
        - Construction Financing (CF)

3.3 OTHER CHARGES AND FEATURES

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

2. 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.

3. 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.

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

5. 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.

6. Changes in the interest rates/ charges, 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.

4. ANNEXURES

4.1 LOAN AGAINST PROPERTY

These are the loans which are sanctioned keeping an asset as mortgage with the lender. This asset can either be an owned land, a house, or any other commercial premises. The asset remains as collateral with the lender until the entire loan against property amount is repaid.

Customer can use these loans for business purposes like purchasing machinery, buying raw materials, purchasing equipment, funding of working capital, debt consolidation, etc. These types of loan can also cater to personal requirements like wedding, higher education, home renovation, buying a new home, managing medical expenses, etc. Customer can be an alternative availed unsecured personal loan as it also has no end-use restriction. However, the cost of borrowings is much higher and repayment tenor are short, compared to LAP loan, where interest rate charged are much lower and loan amount can be much higher with higher repayment tenor.

Parameter	**Normal Income**	**Banking Program**	**Gross Margin Program**	**Higher FOIR Programs**
Maximum Loan Amount	Rs 2500 lacs	Rs 400 lac	Rs 300 lacs	
Maximum Loan Tenure	20 yrs	15 yrs		
Business Vintage	5 Years			
FOIR	80%	NA	60%	150%
LTV	Residential – 70% Commercial – 65%		Residential – 65% Commercial – 60%	
Banking to TO ratio	Minimum 80% of previous year TO	- 60% TO reflection - Max 90% utilization in OD/CC	NA	NA

Financial Norms	- D/E: Not to exceed 4:1 - Current Ratio: Min 1x - Working Capital Cycle: Debtor + Inventory days not to exceed 180 - Positive net worth - Not more than 15% drop in TO/CP	- Drop in turnover / cash profit permissible upto 15% - 2-3 Cr Exposure – No Income Elig norm - 3-4 Cr - **Loan amount capping at 3x of Normal Income**	D/E: Not to exceed 4:1 - Current Ratio: Min 1x - Working Capital Cycle: Debtor + Inventory days not to exceed 180 - Positive net worth - Not more than 15% drop in TO/CP	• No adverse trend - TO (PY vs CY) • No drop in cash profit in (PY Vs CY). • Cash profit includes PAT, Depreciation, Interest and remuneration to partners, directors • To be offered only to non- caution/non negative/non targeted profiles
CIBIL	No Cibil score Cut- Off			750

- **Risk Grading Summary**

Customers are graded under the similar risk grade. However, they are differentiated basis Loan amount, FOIR, LTV and Bureau score, basis the program under which they are on-boarded.

Customer acquired under Income program are considered in lowest risk segment, considering we have full view on the customer financial health, basis declaration on the financial by customer, hence highest exposure is proposed under this program with relaxed bureau norms.

Customers acquired under Banking program are capped on the loan amount, considering we do not have full view on the financials. However, TO is derived basis banking transactions and OD/CC utilization, which acts as a surrogate of income, hence exposure has been capped.

Customers acquired under Gross Margin program are under medium risk segment, since customers financial health is checked basis the margin declared by the customer. We have capped the exposure, FOIR and LTV under this program

Higher FOIR program can be classified as highest risk segment, since customer are given higher loan amount than his financials support. To mitigate the risk, we have capped the exposure amount, LTV and Bureau score with financial caveats like no drop in TO and Cash profit.

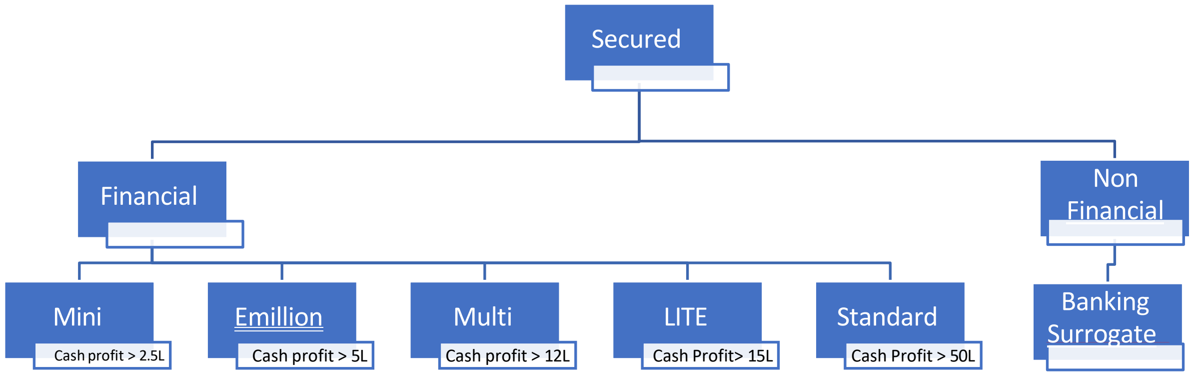
Risk Grading (High to Low)	Program Based
1	Higher FOIR
2	Gross Margin
3	Banking program
4	Normal Income

4.2 SECURED LOANS

These are the loans given against the asset mortgaged with the lender. This asset can either be residential property, commercial property, land or industrial property. The asset remains as collateral with the lender until the entire loan against property amount is repaid.

Customer can use these loans for business purposes like purchase of commercial/industrial property, business expansion, working capital etc.

Risk assessment under this product can be done basis traditional financial data and through surrogate programs. Broad classification done for secured loans is provided below:-



Our risk approach has been to segment the customers, basis few parameters to have relatively better homogenous customer segment rather than same risk score model for all SMEs of different sizes. Then we use risk model within each customer segment to weed out cases which don't meet risk criteria. Following parameters are used to segment the customers :-

- Unaudited financials/Audited financials
- Cash profit
- Business Vintage/Experience
- Turnover/Networth
- Debt obligation to banking credit/DSCR
- Profitability track record

Table is provided below for easy reference :-

Parameter	Mini Million	Emillion	Multi - million	LITE	Standard
Maximum Loan Amount	Rs 30 lacs	Rs 60 lacs	Rs 100 lacs	500 lacs	25 Cr
Maximum Loan Tenure	8 years	8 years	8 years	10 yrs	10 yrs
Business Vintage	3 Years	3 Years	3 Years	3 Years	5 Years
Turnover/Networth	TO :- 25L to 2 Cr	TO :- 1 Cr min	TO : 3 Cr min	N/w :- Rs.50 Lacs min	N/w :- Rs.100 Lacs min
Cash Profit (min)	Rs 2.5 lacs.	Rs 5 lacs.	Rs 12 lacs.	Rs.15 Lacs	Rs.50 Lacs
Profitability track Record	Profitable for last 2 years	Profitable for last 2 years	Profitable for last 2 years	Profitable for last 2 years	Profitable for last 3 years

Unaudited Financials & Income Tax Paid	Audited/ Unaudited basis tax rule IT paid > 0 in Prev FY	Audited Financials. IT paid > 0 in prev FY	Financials should be Audited.	Audited financials	Audited financials
Debt Obligations/ Avg Bank Credit (%)	Maximum – 20%	Maximum – 20%	Maximum – 20%	NA	NA
DSCR				1x	1x

There are few other sub products where underwriting is not based on than traditional financial statement. These are aimed to cater to the customers in informal sector wherein more relevant information may be captured through GST, banking etc Currently there is only one such products being offered :-

- **Secured banking surrogate**

These sub products are not comparable to earlier sub products given underwriting is based on different source of data. These are the new initiatives being taken by business to cater to needs of different customer segment.

Risk Grading Summary

Risk Grading (High to Low)	Financial based	Non-Financial
1	Mini	Banking Surrogate
2	Emillion	
3	Multi	
4	LITE	
5	Standard	

4.3 FRAMEWORK FOR IMPLENTATION OF PENAL CHARGE REGIME

This framework is intended to ensure implementation of Penal Charge Regime based on the Reserve bank of India Circular no. RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24 dated 18th August 2023.

❖ **RESPONSIBILITY AND REVIEW PROCESS**

Responsibility: Collection and Risk

Process for any modification/revision: adoption dated January 3, 2025

❖ **APPLICABILITY:**

Penal Charge Regime shall apply for all the lending products of the Company as and when there is default/ non-compliance with the terms and conditions.

❖ **EFFECTIVE DATE:**

1. New penal charges regime shall come into effect from February 1, 2025 and will be applicable for all the fresh loans availed/ renewed from the effective date.
2. In the case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date or six months from the effective date, whichever is earlier.

❖ **LEVY AND CALCULATION OF PENAL CHARGES:**

1) The Penal Charges shall be stipulated as per the schedule of Penal Charges provided hereunder.

2) The Company shall convey in writing to the borrowers in the language as understood by the borrowers by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record.

3) Penal charges shall be mentioned in bold in the loan agreement/sanction letter along with quantum and reason for penal charges. Also, the penal charges should be included in SOC/MITC. The schedule of penal charges shall be uploaded on the website.

4) The quantum of penal charges shall be same for a particular loan/product category and shall not discriminate among the borrowers.

5) Penalty in the form of 'penal charges' shall be levied on the Borrower for non-compliance of material terms and conditions of loan agreement. Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be mentioned.

6) On instance of levy of penal charges, reason therefore shall also be communicated.

7) From the effective date, no penalty in the form of 'penal interest' shall be added in the rate of interest. Penal charges shall be calculated separately.

8) There shall be no capitalization of penal charges i.e., no further interest computed on such charges.

- **SCHEDULE OF PENAL CHARGES**

For Retail Loans & Supply Chain Finance-

Penal charges will be calculated at the rate of **24% per annum** on instalment overdue for the period of default, as specified in the Schedule of Charges and Interest or as may be amended from time to time by ECLF and shall be payable on the date of rectification of the default or next EMI Date, whichever is earlier, for the period of default.

For Wholesale Loans –

Rs. 5 per thousand per month on the outstanding principal amount for the period of default.
The penal charges shall be calculated for a month even if the default is rectified earlier. (No Penal charges will be levied if the default is cured within 5 business days from its occurrence)

CUSTOMER COMMUNICATION:

- During the loan sanctioning process the borrower is clearly informed and explained about all the applicable Penal charges along with other terms and conditions pertaining to the loan facility; the borrower signs a Loan Agreement and /or a Sanction Letter as received from the Company.
- A copy of the same is kept for reference on the Company's records.
- Any changes in the Penal Charge shall be communicated to the borrower in a mode and manner deemed fit, in advance.