INTEREST RATE POLICY

SARVAGRAM FINCARE PRIVATE LIMITED

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1. PREAMBLE

1.1 The Reserve Bank of India ("**RBI**") vide its Notification No. DNBS. 204 / CGM (ASR)-2009 dated 2 January 2009 and its Guidelines on Fair Practices Code for NBFCs as amended from time to time ("**RBI Regulations**") has directed all NBFCs to make available the rates of interest and the approach for gradation of risks on their website. In this regard, the RBI Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016, advised that Boards of applicable NBFCs to lay out appropriate internal principles and procedures for determining interest rates and processing and other charges for their loans and advances. In compliance with these regulatory requirements and the Fair Practices Code adopted by the Company, the Company has adopted this Interest Rate Policy broadly outlining the Interest Rate Model and the Company's approach of risk gradation in this regard for its lending business.

2. OBJECTIVES OF THE POLICY

2.1 Sarvagram Fincare Private Limited ("**Company**") is a Non-Banking Financial Company ("**NBFC**") operating under the RBI regulations/directions and its activities are governed by the various Indian laws and RBI regulations/directions. This Policy is intended to be representative of the Company guiding philosophy of dealing with customers in a transparent and open manner. In accordance with the applicable RBI guidelines, the Company has documented this Interest Rate Policy/ Model ("**Policy**") approved by the board of directors of the Company, which lays down internal principles and procedures in determining interest rates and other charges on the loan products offered by the Company.

2.2 The Company has authorized the Chief Risk Officer to review the interest rates under this Policy from time to time, basis the money market situation and take suitable decisions in this regard.

2.3 The main objective of this Policy is to arrive at the benchmark rates to be used for different category of customer segments and to decide on the principles and approach of charging spreads to arrive at final rates charged from customers.

3. TRANSPARENCY

3.1 The interest rate determination process and interest rate shall be disclosed on the Company's website and shared with the customer in a transparent manner.

4. ORGANIZATION STRUCTURE

4.1 <u>Board of Directors</u>

The Board of Directors shall have oversight for the Interest Rate Policy of the Company. In order to ensure effective implementation of the Interest Rate Policy, the Board of Directors may delegate the implementation of the Policy and its operational aspects to the Managing Director and/or Asset Liability Committee ("**ALCO**"), where constituted, as deemed fit.

4.2 <u>Asset Liability Committee</u>

The ALCO, where constituted, shall be responsible for taking decision to change the benchmark rate. The ALCO meeting will be held on a regular basis and any changes/ status quo in the benchmark rate would be discussed and decided by the members of the ALCO and would be put up to the Board of Directors in subsequent meeting.

Business can have their internal pricing policies under the overall framework of board approved interest rate policy for company in deciding the spreads to arrive at final rate. Changes to business level internal pricing policies, if any, would need to be approved jointly by any -two officers of the Company as per the matrix below:

Sr. No.	Designation
1	Managing Director and CEO
2	Executive Director and Business Head
3	Chief Financial Officer
4	Chief Risk Officer
5	Treasurer
6	Respective Business Head/Zonal Heads

5. INTEREST RATE MODEL

5.1 The Company lends money to its customers through fixed rate loans. Interest Rates can range from 18% to 32% per annum on a reducing balance basis for a loan. The Company being a diversified NBFC lends money through various products to cater the needs of different category of customers.

Interest rate applicable to each loan account, within the applicable range is assessed on a case-specific basis, based on evaluation of various factors detailed below:

(a) **Tenor of the Loan and Payment Terms**: Term of the loan; terms of payment of interest (*viz. monthly, quarterly, yearly repayment*); terms of repayment of principal etc.

(b) **Internal and External Costs of Funds**: The rate at which the funds necessary to provide loan facilities to customers are sourced, normally referred to as our external cost of funds. Internal cost of funds being the expected return on equity is also a relevant factor.

(c) **Internal cost loading**: The costs of doing business. Factors such as the complexity of the transaction, capital risk weightage, the size of the transaction, location of the borrower and other factors that affect the costs associated with a particular transaction would be taken into account before arriving at the final interest rate quoted to a customer.

(d) **Credit Risk**: Credit loss (risk) cost would be factored into all transactions. The amount of credit risk cost applicable to a particular transaction depends on the internal assessment of the credit strength of the customer.

(e) **Structuring Premium**: A premium may be applied to a loan in case the loan has any significant structuring elements with respect to collateral, or other aspects of transaction structure.

(f) **Mark-up Considerations**: A markup to reflect other costs/ overheads to be charged to the loan and our designed margin.

(g) **ALCO View and Market Dynamics**: Recommendations of the ALCO, where constituted, on product pricing with respect to changes in market benchmarks, prevailing interest rates offered by peer NBFCs for similar products / services shall be taken into consideration. The forecasts and analysis of 'what if' scenarios' conducted by the ALCO are also relevant factors for determining interest rates to be charged.

(h) **Other Factors**, if any.

5.2 **Approach for Gradation of Risk**: The risk premium attached with a customer shall be assessed inter-alia based on the following factors:

(a) Profile and market reputation of the borrower including usage of internal credit scoring models leveraging traditional approaches like Bureau Score as well as alternative data sources;

(b) Inherent nature of the product, type/ nature of facility, refinance avenues, whether loan is eligible for bank financing, loan to value of asset financed;

(c) Tenure of relationship with the borrower, past repayment track record and historical performance of our similar clients;

(d) Overall customer yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower;

(e) Nature and value of primary and secondary collateral/ security;

(f) Type of asset being financed, end use of the loan represented by the underlying asset;

(g) Interest, default risk in related business segment;

(h) Regulatory stipulations, if applicable; and

(i) Any other factors that may be relevant in a particular case.

5.3 **Rate of Interest**

The Company lends money to its customers through fixed rate loans. Fixed rate loans are not linked to benchmark but are decided based on their COF (allocated through Fund transfer pricing), Operational expenditure, Business related risks and desired ROE/ROA. Interest Rates can range from 18% to 32% per annum on a reducing balance basis for a loan. Factors affecting calculation of spreads to arrive at final rate are mentioned below.

6. PRINCIPLES AND PROCEDURES TO CALCULATE FINAL RATE

6.1 The rate of interest for loans for various business segments and various schemes thereunder is arrived after adjusting for spread by the relevant business segment.

Factors taken into account by businesses for calculating spreads are as follows:

(a) Interest rate risk;

(b) Credit and default risk in the related business segment;

(c) Historical performance of similar homogeneous clients;

(d) Profile of the borrower;

(e) Industry segment;

(f) Repayment track record of the borrower;

(g) Nature and value of collateral security;

(h) Secured Vs unsecured loan;

(i) Subvention available;

(j) Ticket size of loan;

(k) Bureau Score;

(l) Tenure of Loan;

(m) Location delinquency and collection performance; and

(n) Customer Indebtedness (other existing loans).

6.2 The rate of interest for the same product and tenor availed during same period by different customers need not be the same. It could vary for different customers depending upon consideration of all or combination of above factors. Businesses also use external benchmarks for pricing the loans from time to time.

7. RISK CATEGORIZATION OF THE CUSTOMER

The Company shall determine the risk level associated with customers and charge the interest rate accordingly with a change in the risk premium. A classification of high, medium and low risk shall be followed, whose cut-offs and definition will vary depending on the product lines.

8. OTHER CHARGES

8.1 Besides interest, other financial charges like processing fees, origination fees, cheque bouncing charges, late payment charges, re-scheduling charges, pre-payment/ foreclosure charges, part disbursement charges, cheque swap charges, security swap charges, charges for issue of statement account etc., would be levied by the company wherever considered necessary. Besides these charges, stamp duty, service tax/ 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. These charges would be decided upon by the respective business/ function heads in consultation with operations, finance, compliance and legal heads.

9. AUTHORITY

9.1 The Board and ALCO, where constituted, shall be responsible for deciding the macro and organizational parameters influencing the interest rates to be offered to the customers.

10. COMMUNICATION FRAMEWORK

10.1 The Company will communicate the effective rate of interest to customers at the time of sanction/ availing of the loan through the acceptable mode of communication.

10.2 Interest Rate Policy would be uploaded on the website of the Company and any change in the benchmark rates and charges for existing customers would be uploaded on the website of the Company.

10.3 Changes in the rates and charges for existing customers would also be communicated to them through various modes communication such as website updation, email, letters, SMS, etc.

10.4 It shall be made sure that all advertisements state the interest rates, and associated charges/ fees visibly and clearly.

11. **REVIEW OF POLICY**

11.1 The Policy shall be reviewed on an annual basis or in between if required due to changes required in the model, for example any addition/deletion of a particular component forming part of benchmark calculation.