INTEREST RATE POLICY FOR CORPORATE AND SME LOANS

(Version: 1.9)

Policy Name	
Policy Approval authority	Risk Management Committee Board of Directors
Policy Owner	Chief Product Officer
Policy Implementation Authority	Chief Product Officer
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Relevant Act/Rules/Regulations
Master Direction – Reserve Bank of India (Non-Banking Financial Company– Scale Based Regulation) Directions, 2023

Preface

Reserve Bank of India had vide its Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 (updated as on November 10, 2023) ("**SBR Regulations**"), requires non-banking financial companies ("NBFCs") to adopt an interest rate model taking into account various relevant factors to determine the rate of interest to be charged for loans and advances. It further requires that 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/customer in the application form and communicated explicitly in the sanction letter. IndoStar Capital Finance Limited ("**ICF**"/ "**the Company**") presently offers corporate loans, vehicle loans and loans to small and medium enterprises and retail loans. In this connection, customers are charged amounts at various instances during the course of the loan cycle.

In compliance with the requirements of the SBR Regulations and the Fair Practices Code adopted by the Company, the Company has adopted this interest rate policy ("**Policy**"), broadly outlining the Interest Rate Model and the Company's approach towards risk gradation in respect to its lending business.

I. Interest Rate Model

The business model of ICF focuses on providing credit only to customers meeting the credit standards of ICF for varying tenors. The interest rate applicable to each loan account, within the applicable range is assessed on case specific basis, based on evaluation of various factors detailed below:

1. **Tenor of the Loan and Payment Terms** - Term of the loan; frequency of payment of interest (viz. monthly, quarterly, yearly); terms for repayment of principal; moratorium period, bullet payment, back ended payment schedule, zero coupon structured loans, etc.

2. **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.

3. **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.

4. **Credit Risk -** As a matter of prudence, 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.

5. **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.

6. **Margin:** A markup to reflect other costs/ overheads to be charged to the loan and our designed margin.

7. **ALCO View and Market Dynamics-** Views of the Asset Liability Management Committee ("ALCO") of the Board of Directors of the Company on product pricing with respect to 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.

8. **Other Factors-** 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 will also be relevant factors in determining interest rate to be charged.

II. Approach for Gradation of Risk

The risk premium attached with a customer shall be assessed *inter-alia* based on the following factors:

1) profile and market reputation of the borrower;
2) inherent nature of the product, type/ nature of facility, refinance avenues, whether loan is eligible for bank financing, loan to value of asset financed;
3) tenure of relationship with the borrower group, past repayment track record and historical performance of our similar clients;
4) group strength, overall customer yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower, mode of payment;
5) nature and value of primary and secondary collateral / security;
6) type of asset being financed, end use of the loan represented by the underlying asset;
7) interest, default risk in related business segment;
8) regulatory stipulations, if applicable, and any other factors that may be relevant in a particular case,
9) location of the borrower;
10) external credit score/ rating of the borrower e.g. CIBIL score;
11) performance of the borrower with respect to other/ past loans availed by the borrower from other financial institutions.

III. Rate of Interest:

1. The Company's pricing is decided taking into account the customer profile, customer vintage (i.e. past relationship of the concerned customer with the Company), residential stability, financial strength, loan history & performance, credit scores, location, asset nature and quality and various other factors.
2. The lending interest rate will be arrived at based on the weighted average cost of funds including all charges, risk premium, other costs such as administrative expenses, profit margin, stability, market information associated with lending activities as given below.
3. The range of interest rate charged by the Company for loans and advances is on fixed rate basis/ floating Rate basis as given below:

Pricing Range	
1. Corporate Loans	10% to 24%
2. SME Loans	10% to 24%

4. In case of change of floating interest rate the applicable provisions of RBI Circular no RBI/2023-24/55 DOR.MCS.REC.32/01.01.003/2023-24 dated 18 August 2023 shall be applicable.

5. Managing committee/Risk Management Committee (RMC) can decide on pricing for any new products introduced for funding/ lending in the Company.

IV. Fees & Charges Matrix

1. The details of fees and charges that can be levied are as follows:

Description of Charges	Amount (exclusive of GST)
Processing fees	up to 2% of the Loan amount
Documentation charges	Rs. 2000
Stamping charges	Actuals
Statement of Account ("SOA") charges	Rs. 500
Swapping charges (from ECS/ PDC/ NACH)	Rs. 1000
Roll over PDC charges	Rs. 500
Non PDC charges (Cash payment mode)	Rs. 500
Charges for swapping PDCs of one bank to another	Rs. 500
Pre-Closure charges	4% of the principal outstanding ("POS")
Cheque/ Electronic Clearance Service ("ECS") bounce charges	Rs.500 per returned ECS/Cheque
Payment collection charges (FVC)	Rs. 200 per Transaction
Duplicate NOC charges	Rs. 500 per expired/lost NOC
Repossession charges	At Actuals
Late payment - penal charges	36% per annum
Legal charges	At Actuals

2. **Penal Charges in Loan Accounts** (With effect from April 1, 2024 or any date communicated by RBI)

    a. Penalty charged for non-compliance of material terms and conditions of the loan contract by the borrower shall be charged as 'penal charges' and shall not be levied in the form of interest, that is added to the rate of interest charged on the advances. The penal charges charged to the borrowers shall not be capitalised i.e. no further interest computed on such penal charges.

b. There shall be no introduction of any additional component to the rate of interest and ensure compliance to SBR Regulations in this regard in both letter and spirit.

c. The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan/product category.

d. The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges to non-individual borrowers for similar non-compliance of material terms and conditions.

e. The quantum and reason for penal charges shall be clearly disclosed to customers in the loan agreement and most important terms and conditions/ key fact statement (KFS) and shall additionally be displayed on websites of the Company under interest rates and service charges.

f. Whenever reminders for non-compliance of material terms and conditions of loan are sent to its customers/ borrowers, the Company shall communicate penal charges and the reason therefor to such customers/ borrowers.

V. **<u>Advance EMI</u>**-

The Company shall refrain from collection of advance EMI from its customers in any form or under any circumstances.

VI. **<u>Waivers & Delegation</u>**-

Any Waivers & Delegation to be approved as per Delegation of Authority

VII. **<u>Content on the website</u>**

Appropriate disclosure regarding this Interest Rate Policy shall be made on the Company website.

VIII. **<u>Review of the policy</u>**:

The policy shall be reviewed on an Annual basis.