

KUSHAL FINNOVATION CAPITAL PRIVATE LIMITED

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Document Name	Interest Rate Policy & Gradation of Risk	Version	1
Authorized By	Board of Directors	Date of Implementation	7 th December 2022
Review Tenure	1 Year	Next Review Date	7 th December 2023
Illustrative Review Trigger	<ul style="list-style-type: none">• Changes in Business Strategy• Changes in market scenarios• Changes in product features	Review/ Amendment Responsibility	Board of Directors

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1. Introduction:

This document is intended to present Kushal Finnovation Capital Private Limited (“the Company”) policies to promote its philosophy of dealing with customers in a transparent and open manner. Though interest rates are not regulated by the RBI, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice.

Given that the business model of the Company focuses on extending the loan to well-known customers for a short / medium / long term and given its policy of using borrowed funds in the business, the fixed /floating interest rate charged shall be in the band of 12% to 36% per annum with an average yield of around 20% p.a. based on the evaluation of various risks detailed hereunder:

2. Base for defining the rate:

The interest rate applicable to a particular loan will be determined by reference to a number of factors, including:

- Tenor of the Loan - The interest rate charged will depend on the term of the loan.
- Internal and External Costs of Funds - The rate of interest which is charged is also affected by the rate at which the funds necessary to provide loan facilities to customers are sourced, normally referred to as our internal cost of funds.
- Internal cost of loading - The interest rate charged will also take into account costs of doing business. Factors such as the complexity of the transaction, the size of the transaction and other factors that affect the costs associated with a particular transaction should be taken into account before arriving at the final interest rate quoted to a customer.
- Credit Risk - As a matter of prudence, bad debt provision cost should be factored into all transactions. This cost is then reflected in the final interest rate quoted to a customer. The amount of the bad debt provision applicable to a particular transaction depends on the credit strength of the customer
- Credit rating and quality – The interest rates charged will account for the credit worthiness, rating and results of credit appraisal process which would factor in charging higher percentage for riskier borrower.
- Further while defining the interest rates, various other factors such as Market Practice, Supply Demand Equilibrium and KFCPL’s desirable return will also be factored in while deriving interest rate range for a specific product.

3. Range:

- The Range of Interest Rate shall depend upon the type of product

- The company will ensure that every product whether existing or new shall have a range for the interest rate to be charged. Such range of the interest rate will be duly approved by the Board while approving the product itself
- Fixation of Range and the Evaluation of the same will be responsibility of the Business Team and will be backed by adequate logics, market practice, cost-benefit analysis, etc.

4. Mechanism for updating the policy:

- The ultimate responsibility of the implementation of this Policy is that of the Executive Director.
- The Executive Director will be authorized to propose any changes to the range of interest rates for Board's consideration. Such proposal shall be backed by adequate reasoning as well as projected benefit
- The Board will approve such changes in the interest rate basis the proposal made by the Executive Director
- Policy once updated basis the Board's approval will be communicated to concerned stakeholders which will ensure such range is updated in systems / trackers (if any).
- In case of any change in any of the terms and conditions / caveats / any information which is relevant from the point of view of the transaction (including monthly/quarterly/annualized rate of interest); the same shall be conveyed to the customer either as an addendum / additional annexure to the agreement. However all the relevant formalities (e.g. further legal documentation, approval of customer, certification of KFCPL officials etc.) pertaining to the same shall be documented and a copy of the same shall also be sent to the customer. The same may be communicated through electronic media or any other form of communication by the employees of the Company. The acknowledgement of the receipt of the said additional document shall also be preserved on the records by the Company.

5. Exceptional Case Handling:

- The Retail, as well as Wholesale Policy, will have product-specific interest rate captured as part of the company policy
- Any exception to the upper or lower limit of the range will require prior approval of Executive Director.
- Further, exceptions in case of rate other than the general rate followed for a specific product will also require prior approval of the Executive Director.
- MIS will be presented by Finance Team of all such exceptional cases to the Executive Director on monthly basis.

6. Gradation of Risk

- The risk premium will be decided on a case to case basis by the Executive Director. The approach for gradation of risk is based on many factors and the lending rate will be arrived by considering factors such as
 - ✓ nature of loan,
 - ✓ tenure of customer relationship,
 - ✓ credit worthiness of the borrower,
 - ✓ nature of security,

- ✓ nature of the product,
 - ✓ borrower profile,
 - ✓ repayment capacity,
 - ✓ borrower's other financial commitments,
 - ✓ past repayment,
 - ✓ tenure of the loan,
 - ✓ geography (location) of the borrower,
 - ✓ ancillary business opportunities,
 - ✓ future potential,
 - ✓ group strength and value to lender,
 - ✓ overall customer yield,
 - ✓ end use of the loan etc.
- Such information is collated based on the borrowers input, credit bureau and field / tele verification by the Company officials. While deciding the interest rate and other charges, the rate offered by the Competitors in the market would also be taken into consideration.

-.....**END**.....-