

2019

# Interest Rate Policy

## **Interest Rate Policy**

<b>Action</b>	<b>Entity</b>	<b>Signature</b>
<b>Created by</b>	<b>Anwasha Dash</b>	
<b>Reviewed by</b>	<b>Nachiket Naik</b>	
<b>Approved by</b>	<b>CEO</b>	
<b>Approved by</b>	<b>Board / RMC</b>	
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## *CONTENTS*

<b>Section</b>	<b>Particulars</b>	<b>Page No</b>
1	Introduction	4
2	Base for defining the rate	4
3	Interest Rate Rationale	5
4	Range	6
5	Penal Interest / Late Payment Charges	6
6	Processing /documentation and other charges	6
7	Others	6
8	Mechanism for updating the policy	7
9	Exceptional case handling	7

## 1. Introduction

This document is intended to present Kirloskar Capital 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 11% to 36% per annum (excluding fees and variable redemption / equity upside for structured transactions) 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 borrowers.
- Further while defining the interest rates, various other factors such as Market Practice, Supply Demand Equilibrium and KCL's desirable return will also be factored in while deriving interest rate range for a specific product.

### 3. Interest Rate Rationale :

- The rate of interest shall be determined based on the cost of borrowed funds, matching tenor cost, market liquidity, refinance avenues, offerings by competition, tenure of customer relationship, cost of disbursements (Cost of Fund). In addition to the cost of funds, the rate of interest shall further be determined based on inherent credit and default risk in the products and customer per se arising from customer segment, profile of the customers, professional qualifications, stability in earnings and employment and repayment ability, overall customer yield, risk premium, nature and value of primary and collateral securities, past repayment track record of the customers, external ratings of the customers , industry trends, etc.
- The company may adopt an interest rate model whereby the rate of interest for the same product and tenor availed during the same period by customers would be different from customer to customer depending upon consideration of any or combination of a few or all factors listed above. Hence, the interest rate applied would be different from customer to customer and his/ her loans.
- The annualized rate of interest would be intimated to the customer. The interest rates would be offered on fixed, floating, variable basis. The prime lending rate for the floating rates would be reviewed on quarterly intervals. In case of floating rate of interest, the interest rate would be reviewed and reset on a quarterly basis. The interest would be computed on daily balances basis and charged on monthly rest or such other rest as the empowered committee decide in accordance with applicable rules and regulations.
- Interest rates shall be intimated to the customers at the time of sanction/ availing of the loan and the equated instalments apportionment towards interest and principal dues shall be made available to the customer.
- Interest changes would be prospective in effect and intimation of change of interest, if any, or other charges would be communicated to customers.
- In case deemed fit, the Company may consider necessary moratorium for interest payment and repayment of principal with proper built in pricing.
- In case of staggered disbursements, the rate of interest would be subjected to review and the same may vary according to the prevailing rate at the time of disbursement or as may be decided by the Company.
- The interest rate, benchmark prime lending rate and other charges applicable from time would be hosted on website and updated from time to time.

#### 4. **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 the responsibility of the Business Team and will be backed by adequate logic, market practice, cost-benefit analysis, etc.

#### 5. **Penal Interest / Late payment charges**

- Besides normal interest, the Company may collect penal interest / late payment charges for any delay or default in making payments of any dues. These penal interest / late payment charges for different products or facilities would be decided by the Company from time to time.
- No claims for refund or waiver of such charges/ penal interest / additional interest would normally be entertained by the company and it is the sole discretion of the company to deal with such requests if any.

#### 6. **Processing /documentation and other charges**

All processing / documentation and other charges recovered are expressly stated in the Loan documents. They vary based on the loan product, exposure limit, customer segment, geographical location and generally represent the cost incurred in rendering the services to the customers. The practices followed by other competitors in the market would also be taken into consideration while deciding the charges.

#### 7. **Others**

The interest rate models, benchmark prime lending rate (BPLR) and other charges applicable shall be reviewed by the Empowered Committee periodically and suitable recommendations will be made to the Board.

We offer competitive annualized interest rates across its range of products. The interest rates\* for our loan products are given below. Interest rates vary and are based on the following:

- a. Profile of Customers
- b. Tenure of the Loan
- c. Geography of residence
- d. Nature of Collateral (If provided)

- e. Prior / existing relationship with us
- f. External credit rating of the prospect
- g. Nature of Prospect's business

**8. Mechanism for updating the policy :**

- The ultimate responsibility of the implementation of this Policy is that of the Business Team
- The Head of Business 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 Head of Business
- 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 KCL 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.

**9. 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 pre-approval as per the DOA.
- Further, exceptions in case of rate other than the general rate followed for a specific product will also require pre-approval of the Head of Business
- For example : If the company has a practice of providing the Personal Loan at xx% out of the range as mentioned in the Retail Lending Policy, and wants to

## **Kirloskar Capital Ltd**

deviate so as to provide Personal Loan at yy% which is still in the range. Such a case would still amount to exception and will require prior approval of the Head of Treasury & CEO

- MIS will be presented by the Head of Business of all such exceptional cases to the CEO /MD on monthly basis

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