

## INTEREST RATE MODEL

("IRM")

(As amended by the Board of Directors on 8th November 2023)



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**DOCUMENT CONTROL**

Document Information	
<b>Company</b>	Sakthi Finance Limited ("SFL"), Coimbatore
<b>Document Title</b>	Interest Rate Model ("IRM")
<b>Classification</b>	Confidential

Document Owner	
Name	Title
Sri K S Venkitasubramaniam	Chief Operating Officer

Document History			
Sl No	Date	Nature of Document	Remarks
1	30th May 2011	Base Document	IRM initially adopted by the Board of Directors.
2	11th February 2013	Amendment	Interest Rate range was included as per RBI requirements.
3	9th August 2014	Amendment	Annualized interest rate was included as per RBI requirements.
4	29th March 2019	Amendment	A clause relating to approval of deviation (with delegated powers) was included as per RBI requirements.
5	30th March 2021	Amendment	Amendments relating to <ul style="list-style-type: none"> <li>• Demand Loan / Pro Note Loan policy</li> <li>• Loan to Depositors against Fixed Deposit Policy</li> </ul> Were included as per RBI requirements
6	9th December 2022	Amendment	Amendments relating to approach for gradation of risk and rationale for charging different interest rates were include.
7	8th November 2023	Amendment	Amendments relating to Annual Interest Rate obtaining declaration from borrower indicating his preferred place for collection of the collateral documents (Servicing Branch / Record Management Unit).





**INTEREST RATE MODEL****Preface**

Reserve Bank of India vide its notification No. DNBS. 204 / CGM (ASR)-2009 dated January 2, 2009 and vide its Guidelines on FPC for NBFCs DNBS.CC.PD.No.320/03.10.01/2012-13 dated February 18, 2013 had directed all NBFCs to make available the rates of interest and the approach for gradation of risks on the web-site of the companies.

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 and profit margin associated with lending activities.

The lending interest rate is reviewed periodically by the ALM Committee. Any revision in the lending rates will be reviewed and re-fixed by the ALM committee.

**Methodology****1. Basis for Lending Rate**

- a. The lending rate is arrived at based on the weighted average cost of our aggregate borrowings from the following sources.
  - i. Retail funds through Public Deposits/Debentures
  - ii. Borrowings from Banks/Financial institutions.
- b. The Interest rate of retail funds is governed by our Company's period based agreement, but the interest rate on borrowings from banks/institutions is likely to vary pursuant to change in their Base rate and risk premium which fluctuates with the change in base rate announced by various banks from time to time.
- c. For arriving at lending rate, the company adds Risk / Liquidity Premium to take care of the inherent risk on the business, besides to cover operating cost and reward to stakeholders.

**2. Approach for gradation of risk and rationale**

- a. The lending rate is arrived at by considering the following:

The Company's principal segment of advances are against hire purchase of:

- i. Used Commercial Vehicles
- ii. Construction Equipment and
- iii. New Commercial Vehicles, Construction Equipment and Passenger Vehicles

The lending rate will be determined after taking into account, "one or all of the following factors:

- ▶ Profile of the borrower with CIBIL Score
- ▶ Relationship with the Company
- ▶ Past repayment track record
- ▶ Type of Asset





- ▶ Age of the vehicle
- ▶ Loan to Value
- ▶ Period of the loan
- ▶ Commercial Vehicles/Construction Equipment/Other Assets owned by the borrower
- ▶ Sources of income
- ▶ Ownership of immovable properties like land and buildings
- ▶ Place of business of the borrower
- ▶ Experience in the business
- ▶ Contracts on hand
- ▶ Nature of business and its profitability
- ▶ Cashflows from the business with Debt Servicing Capacity / Capability and confirmation on the Fixed Obligations to Income Ratio ("FOIR") of the borrower to be taken into account.
- ▶ Future potential in the business
- ▶ Risks in the business

**The following may also be considered:**

- i. market reputation, assessed viability of customers' operation of that type of Asset in the given geography
  - ii. The hypothecated Asset's market resale value both at the time of sanction as well as towards end of proposed Hire Purchase Agreement
  - iii. Overdues to be subject to higher (penal) interest rate
  - iv. Application of Asset, with a view to charging higher interest rate for those operating under hazardous conditions like mining etc.
- b. The company shall adopt discrete interest rate model/policy whereby the lending rate for same product and tenor availed during same period by customers would not be standard but may vary for different customers depending upon consideration of any or some or all factors stated above.
- c. Interest rates, EMI over the tenor of the Advance, penal rate of interest applicable to overdues are clearly documented in Agreements entered into by our Company with all its customers. Agreements together with mutually executed Repayment schedule are made in duplicate and the copy handed over to the customer upon sanction of Advance.
- d. The Monthly EMI is payable on the mutually agreed due date set out in the Repayment Schedule which is part of the Agreement.

**3. Processing and other charges / Fees**

- a. In addition to interest, other financial charges like processing fees, pre-payment/pre-closure charges, part disbursement charges, cheque bouncing charges, cash handling charges, RTGS/other remittance charges, commitment charges, charges for various other services such as issuing No Due certificates, NOC would be levied by the company wherever necessary. Besides the base charges, the Goods and Service Tax ("GST") and other cess would be collected at rates applicable from time to time. Any changes would be from prospective effect. These changes would be decided upon by respective product heads in discussion with Operations, Finance and Legal.





- b. The Company charges processing charges in the range of 0% to 5%.
- c. The Processing Charge charged will be mentioned in the Sanction Letter/Loan Agreement.
- d. The other charges such as cheque bouncing charges, prepayment charges, additional interest charged on delayed payments along with statutory levies, if any, are mentioned in the Sanction Letter/Loan Agreement.

#### 4. Annualised Interest Rate

- a. The annualized rate of interest charged to customers is in the following ranges, based on mutual agreement and the nature of risk and category of borrowers:

New Commercial Vehicle	14% to 18% p.a
Used Commercial Vehicle	16% to 24% p.a
Construction Equipment	14% to 24% p.a
Cars and Jeeps	14% to 24% p.a
Overdues	up to 36% p.a

- b. The above interest rates are indicative and if any proposal carries higher risk, higher rates of interest may be charged.

The Company shall intimate the borrower loan amount, annualized rate of interest and method of application at the time of sanction of the loan along with the tenure and amount of monthly instalment.

Revision of lending interest rate other than fixed rate loans and other charges would be prospective in effect and intimation of change of interest or other charges would be communicated to the customer in a mode and manner deemed fit.

The company shall clearly specify the exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. in the loan agreement and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan.

In case any movable/immovable property is obtained during sanction from the borrower, the sanction letter shall indicate the same including the time and place for return of these documents upon settlement of the loan. A declaration may be obtained from the borrower indicating his preferred place for collection of the collateral documents (Servicing Branch / Record Management Unit).

Such declaration may also include provisions relating to return of documents to legal heirs in case of any eventualities. The process for returning the documents would also be displayed on the website of the company.

Any deviation from the above shall be approved by the Business Head.





**5. Demand Loan / Pro Note Loan Policy**

- a. Company will restrict the exposure in Pro Note Loan segment to 10% of total advances.
- b. Loan Period will be restricted to 6 months from advance date.
- c. No exposure will be taken on negative profile customers.
- d. Rate of interest will be in the range of 16% - 24% p.a depending upon the profile of the customer.
- e. For any delayed payment or settlement, the Company reserves the right and shall apply penal interest up to 36% p.a of the amount in arrear.
- f. Upon settlement/ conversion of the demand loan, the related documents viz., Promissory Note shall be returned to the Borrower(s) with payment satisfaction endorsement on the reverse of the Promissory Note.

**6. Loan to Depositors against Fixed Deposit-Policy**

- a. The Company may grant, at its sole discretion, loan against deposits in the Company provided the deposits had run for a minimum period of 3 months, up to 75% of the deposit amount, carrying interest @2% p.a above the contracted rate payable on such deposits, strictly up to the expiry date of that deposit.
- b. In the event of any loan against deposits in the Company, interest payable on such deposits shall be withheld until the full settlement of loan together with accrued interest.

**7. Revision in Lending Rate**

- a. Any revision in the lending rate would be reviewed periodically and recommended to Managing Director for approval.

**8. Amendment / Review**

- a. The Interest Rate Model shall be reviewed / amended as and when necessary in terms of the regulatory requirements.

**Date:** 8th November 2023

**Place:** Coimbatore

(Modified by the Board of Directors at their meeting held on 8th November 2023)

