

KHUSHBU AUTO FINANCE LIMITED

INTEREST RATE MODEL & APPROACH FOR GRADATION OF RISK

1. BACKGROUND

Reserve Bank of India (RBI) vide its Circular DNBS PD/CC No.95/03.05.002/2006-07 dated May 24, 2007 advised that Board of Non-Banking Finance Companies (NBFC's) lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. This was reiterated vide RBI's circular DNBS (PD) C.C. No. 133 / 03.10.001 / 2008-09 dated January 2, 2009.

With a view to institute fair and transparent dealings in the lending business, the Company has adopted and put in place the following Interest Rate Policy parallel to the company's Fair Practice Code, in accordance with the Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 as amended and updated from time to time.

RBI further advised NBFC's to adopt an appropriate interest rate model taking into account relevant factors and to disclose the rate of interest, gradations of risk and rationale for charging different rate of interest.

Keeping in view the RBI's guidelines as cited above, and the good governance practices being followed by the Company, the following internal guidelines, policies, procedures and interest rate model have been adopted by the Company. The Board of Directors of the Company ("the Board") or any Board constituted Committee ("the Committee") as the case may be, while fixing interest rates chargeable from the customers shall be guided by this Interest Rate Policy. In addition to cost factors set out hereunder, the Board or the Committee shall be guided by the market conditions and various rules and regulations, if any, prescribed by the Reserve Bank of India or such other authority from time to time.

2. INTEREST RATE:

- i. The interest rate and yield for each of the loan products would be decided by Asset Liability Management Committee from time to time.
- ii. 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. In addition to the cost of funds, the rate of interest shall further be determined based on the inherent credit and default risk in the products, type of financing done, LTV of the finance and customer per se arising from customer segment, profile of the customers, professional qualification, stability in earning 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, location, external ratings of the customers, industry trends etc.
- iii. The Company has adopted an interest rate model whereby the rate of interest for same product and tenor availed during same period might differ from customer to customer depending upon consideration of any or combination of a few or all factors listed out in point (ii) above. Hence, the interest rate applied would be different from customer to customer on his/her loans.
- iv. The rate of interest would be intimated to the customer in Annualized Rate. The interest rates would be offered on fixed rate basis. The interest rate would be computed on daily balances basis and charged on monthly rest or such other rest as the Committee decides in accordance with applicable rules and regulations.
- v. Interest rates shall be intimated to the customers at the time of sanction/ availing of the loan and the equated installments apportionment towards interest and principal dues shall be made available to the customer.
- vi. Interest changes would be prospective in effect and intimation of change of interest, if any, or other charges would be

communicated to the customers.

- vii. In case deemed fit, the Company may consider necessary moratorium for interest payment and repayment of principal with proper built-in pricing on customer request basis.
- viii. 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.

3. PENAL INTEREST /LATE PAYMENT CHARGES

- i. Besides normal interest, the Company may collect penal / late payment charges for any delay or default in making payments of any dues. These penal / late payment charges for different products or facilities would be decided by the Company from time to time.
- ii. The claims for waiver of such penal / late payment charges would be entertained by the Company only upon request and it is the sole discretion of the Company to deal with such requests, if any.

4. PROCESSING /DOCUMENTATION AND OTHER CHARGES

All processing / documentation and other charges recovered would be expressly stated in the Loan Agreement. They may 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.

5. DISCLOSURES

As per the extant regulations, the following disclosures shall be made to the borrower:

- a. There shall be appropriate disclosure of the rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers in the application form and communicated in the sanction letter.
- b. The annualised rate of interest shall be disclosed to the customers.
- c. Any change in the interest rate or other charges shall be made prospectively and the same shall be adequately disclosed in the loan agreement.
- d. The rate of Interest for various class of assets as revised from time to time shall also be displayed on Company's website

6. APPROACH FOR GRADATION OF RISK

The decision to give a loan and the interest rate applicable to each loan account shall be assessed on a case to case basis, based on multiple parameters such as the type of asset being financed, borrower profile and repayment capacity, borrower's other financial commitments, past repayment track record if any, the security for the loan as represented by the underlying assets, loan to value ratio, mode of payment, tenure of the loan, geography (location) of the borrower, end use of the asset, etc. The rate of interest is subject to change as the situation warrants and is subject to the discretion of the Company on a case-to-case basis. The rate of interest informed are annualized rates so that the borrower is aware of the exact rates that would be charged to the loan account. The Company shall disclose the interest rates and gradation of risks on its website.

7. PRODUCT WISE INTEREST RATE

PRODUCT	ANNUALIZED RATE OF INTEREST
Two/ Three Wheeler Loan	Up to 36%
Commercial Vehicles Loan	Up to 40%
Loan Against Property	Up to 24%

Deviation from the said interest rate can be given by Manager of Sales and or Credit in case of changes in few or all factors listed out in point 2 (ii).

8. OTHERS

The policy shall be reviewed by the Committee periodically and make suitable recommendations to the Board.

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