INTEREST RATE POLICY

OF

SUBHLAKSHMI FINANCE PRIVATE LIMITED

1. Background

Subhlakshmi Finance Private Limited (hereinafter referred to as "Subhlakshmi" or "the Company") is a Private Limited Company incorporated under the provisions of Companies Act, 1956 and registered with Reserve Bank of India as a Non-Systemically Important Non-Deposit Accepting Non-Banking Finance Company. The Company is engaged in the business of financing the "missing middle" and to cater to Small and Micro Enterprises in North India.

2. Regulatory Framework

The Reserve Bank of India's ("RBI") Master Direction – Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 bearing circular no. DNBR.PD.007/03.10.119/2016-17 dated September 01, 2016, (as amended from time to time) directs the Boards of all Non-Banking Finance Companies (NBFCs) to approve an Interest rate model for the NBFC and also to make available the rates of interest and approach for gradation of risk on the website of the NBFCs.

Based on the above mentioned directives of the RBI, this Interest Rate Policy ("Policy") of Subhlakshmi, has been developed for the determination of interest rates.

3. Objectives

The main objectives of this Policy are to:

i. ensure that interest rates are determined in such manner so as to ensure long term sustainability of business by taking into account the interests of all customers of the Company;
ii. develop and adopt a suitable model for calculation of the rate of interest;
iii. enable fixation of interest rates which are reasonable to all customers;
iv. ensure that computation of interest is accurate, fair and transparent in line with the statutory requirements and industry practices;
v. charge differential rates of interest linked to the risk factors as applicable; and
vi. facilitate transition to income recognition norms that may be stipulated by RBI in future and adoption of best practices.

4. Interest Rate model

The management of Subhlakshmi will determine a Prime Lending Rate hereinafter referred to as Subhlakshmi Prime Lending Rate (PLR) based on factors like weighted average cost of funds, all the leviable charges, credit risk premium, administrative costs and profit margin. Any change in the PLR will be reviewed and approved by the management.

i. The Lending Rate for each facility will be decided after considering various factors like tenor of the contract, market reputation of the customer, inherent credit and default risk of the product, Customer profile, Past repayment track record of the Customer, Segment to which the business of the Customer belongs, other business opportunities with the Customer, future potential, the financial strength of the group to which the Customer belongs, the nature and value of the security (primary as well collateral), term of the loan; structure of the loan, terms of payment of interest (i.e., monthly, quarterly, half yearly etc), terms of repayment of principal, moratorium period etc. - These rate of interests to be charged for loans and advances will be based on the cost of funds, margin and risk premium.

ii. The rate of interest is also affected by the rate at which the funds necessary to provide loan facilities to customers are sourced, normally referred to as external cost of funds. Internal cost of funds being the outflow of dividend paid on the equity issued is also a relevant factor.

iii. The interest rate charged will also take into consideration costs of doing business. Factors such as complexity of the transaction, capital risk weightage, size of the transaction, and other factors that affect the costs associated with a particular transaction should be taken into account while arriving at the final interest rate. Approach for Gradation of Risk The lending rate of interest applicable to each loan account will be arrived at after taking into consideration multiple parameters such as class of asset, type of asset, tenure, profile of the borrower, repayment capacity of the borrower based on the cash flows, loan to value of the asset financed, type of collateral security provided by the borrower, past repayment track record of the borrower and end use of the asset, period of relationship with the borrower, overall yield, etc. The information shall be based on borrower inputs and field inspection by officials of the Company.

iv. The rate of interest for the same loan product and same tenor availed during the same period by different customers may vary for each customer based on consideration of any or a combination of above mentioned Factors.

v. The rate of interest shall be intimated to the customers at the time of sanction/availing of the loan and the EMI apportionment towards interest and principal dues would be made available to the customer.

vi. The interest shall be deemed payable immediately on the due date as communicated and no grace period for payment of interest is allowed.

vii. Any change in the rate of interest and the related charges would be prospective in effect and intimation of change of interest or other related charges would be given to customers in a mode and manner as may be deemed fit by the Company.

viii. Besides interest, the Company may levy other financial charges on the customers such as processing fees, origination fees, cheque bouncing charges, late payment charges, re-scheduling charges, pre-payment / foreclosure charges, part disbursement charges, cheque swap charges, security swap charges, charges for issue of statement account, customer care, credit assessment, cash handling, ECS/ Direct Debit/ ACH mandate registration/ lodgement/ handling or for any other service provided by the Company or cost incurred by the Company for the provision of services related to the loan granted to the customers.

ix. Additional charges such as stamp duty, service tax and other cess would be collected by the Company from the customer at applicable rates from time to time. Any revision in these charges would be prospective in effect. These charges for different products or facilities would be decided by the respective business/product heads in consultation with the finance and legal heads of the Company.

5. Approach for Gradation of Risk

The lending rate of interest applicable to each loan account will be arrived at after taking into consideration multiple parameters such as class of asset, type of asset, tenure, profile of the borrower, repayment capacity of the borrower based on the cash flows, loan to value of the asset financed, type of collateral security provided by the borrower, past repayment track record of the borrower and end use of the asset, period of relationship with the borrower, overall yield, etc. The information shall be based on borrower inputs and field inspection by officials of the Company.

6. Our Interest Rate Policy

The RBI have directed that the Board of each NBFC shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium, etc. and determine the rate of interest to be charged for loans and advances.

After taking all the relevant factors into account, the position in respect of the expenditure parameters is worked out as under:

S. No	Particulars		Rate
a)	Average Cost of Funds	:	14-16% Per annum.
b)	Operating cost	:	6-8%
c)	Default Interest (Risk Premium)*	:	1-3%
	Aggregate Expenditure factors		**21-27% Per annum**

Note: *Given the nature of unsecured loans, Long Term loan loss is assumed to be 4% Maximum.

The income side factors have been worked out as under:

a) Average Interest rate charged on the loans - 28% on reducing balance.
b) Loan processing fee - 1%. Additional 2% documentation and verification charges. Since it is being collected up front for the full tenure of the loan, the effective rate is worked out to be 1.5% per annum. (with the average tenure of loans will be 24 months).

Considering the above relevant factors including expenditure and income factors, the interest rate could range between 24-30% on reducing the balance rate method.

7. Spread

The present spread is considered rather narrow. However, with increased business turnover and rationalization of costs, this spread is likely to improve in due course.

Over a period of time we are endeavoring to reduce the cost of operations and cost of funds. The interest rate structure will be revisited at that time for a possible reduction and ultimately pass on the benefit to customers.

We are communicating the indicative rate of interest on an annualized basis to the borrowers so that they are aware of the exact rates that would be charged to the account.

8. **Amendment**

Any revision in the Company's interest rates applicable to business would be reviewed by the finance, Operations and legal heads and recommended to the management for approval.

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