CAPITAL INDIA

Rediscover Business

INTEREST RATE POLICY

Version	:	2.00
Owned By	:	CFO
Approved By	:	ALCO
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1. Preface

The Reserve Bank of India (RBI) had vide its Master Circular on Fair Practices Code having reference no. RBI/2015-16/16 DNBR (PD) CC.No.054/03.10.119/2015-16 dated July 01, 2015, as amended from time to time (RBI Regulations), has directed all Non-Banking Finance Companies (NBFC's) to lay out appropriate internal principles and procedures in determining interest rates, processing and other charges.

In compliance with the requirements of the RBI Regulations mentioned above, the Capital India Finance Limited ("**Company"/ "Capital India**") has adopted this Interest Rate Policy broadly outlining the Interest Rate Mechanism and the Company's approach of risk gradation in this regard for its lending business.

2. Scope and Objectives

In compliance with the requirements of the RBI Regulations mentioned above and the Fair Practices Code, we at Capital India Finance Limited have adopted this Interest Rate Policy broadly outlining the Interest Rate Mechanism and the Company's approach of risk gradation in this regard for its lending business.

3. Applicability

This policy would be applicable to all credit facilities offered by the Company. It will act as a guiding principle to compute the interest rate to lend to its borrowers and levy various charges and other levies, as applicable, on loan accounts. The interest rate / levies would vary for different class of borrowers based on various factors mentioned below.

4. Policy review and Approval Process

The Policy would be reviewed and updated by Asset-Liability Committee (the ALCO) at such periodic intervals as maybe specified. Any change in interest rate (as applicable in floating rate loans) shall be based on CIRR approved by the ALCO. Any changes made in the policy shall be approved by ALCO and shall recommend all changes to the Board of Directors for their consideration and noting. This shall become applicable for all floating rate loans from the effective date as specified in the committee resolution and the same shall be communicated in writing to borrower. Any revision in interest or other charges would be with prospective effect.

5. Interest Rate Mechanism

At Capital India, we will be offering credit facilities both, on fixed and floating rate of interest. Loans under floating rate mechanism will be benchmarked against CIRR or to a market linked transparent benchmark, including reference rate of our bankers as maybe agreed with the borrower.

6. Capital India Reference Rate (CIRR)

The ALCO would consider following factors while deriving the CIRR applicable in floating rate loans:

- Cost of Debt Capital
- Operating Expenses;
- Regulatory Provisioning Cost
- Return on Networth
- Liquidity Premium

7. Spread

As a part of risk gradation, spread will be assessed on case specific basis considering evaluation of various factors detailed below:

- Borrower and Borrower Group credentials which include background, nature of Business / service, business vintage, financial profile including net-worth, liquidity, profitability, debt repayment capability, tenor of relationship with the borrower, future potential, etc.;
- Track record of honouring commitments relating to interest/principal servicing and security/margin top ups;
- External credit rating – wherever applicable / available;
- Credit scores (like CIBIL etc) – wherever applicable / available
- Internal rating to be done for all clients
- End use of funds;
- Security cover including value and liquidity;
- Tenor and loan repayment terms, like monthly, quarterly repayment, moratorium period, step up / down repayment, zero coupon structured loans etc.
- Any other criteria specific to the transaction.

8. Penal Interest & Charges

Besides normal Interest, the Company may levy additional interest for adhoc facilities, penal interest / default interest for any delay or default in making payments of any dues. The details of Penal Interest and other charges for late repayment and other events of default will be mentioned in the loan agreement and communicated in the sanction letter

/ term sheet as well.

Other financial charges like processing charges, cheque bouncing charges, prepayment

/ foreclosure charges, part disbursement charges, cheque swaps, cash handling charges, RTGS / other remittance charges, commitment fees, charges on various other services like issuing No Due certificates, NOC, letters ceding charge on assets/ security, security swap & exchange charges etc. would be levied by the company wherever considered necessary. In addition, the Goods and Services Tax and other taxes, levies or cess would be collected at applicable rates from time to time.

Claims for refund or waiver of charges / penal interest / additional interest would normally not be entertained by the Company. It is the sole and absolute discretion of the Company to deal with such requests, if any.

9. Disclosures

The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers may be disclosed to the borrower or customer.

The Capital India Reference Rate (CIRR) shall also be made available on the web-site of the Company. The information published in the website or otherwise published should be updated whenever there is a change in the rates of interest.

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31st August 2023

Note for increase in Capital India Reference Rate (CIRR) for consideration and approval of Asset-Liability Committee

Background

Since its Monetary Policy Committee ("**MPC**") meeting held in May 2022, Reserve Bank of India (RBI) has increased Repo Rates in multiple tranches aggregating to 250 bps. The recent MPC held in August 2023 decided to remain focused on withdrawal of accommodations to ensure that inflation progressively aligns with the target, while supporting growth.

The movement in RBI repo rate vs. Capital India Reference Rate (CIRR) is as under:

Particulars	Mar 22	May 22	Jun 22	Aug 22	Sep 22	Dec 22	Feb-23	Aug 23	Total increase
Repo rate	4.00%	4.40%	4.90%	5.40%	5.90%	6.25%	6.50%	6.50%	2.50%
CIRR	15.50%	15.50%	15.50%	16.75%	16.75%	16.75%	16.75%	16.75%	1.25%

Against total increase of RBI repo rate of 250 bps, Capital India Finance Limited **("CIFL/Company")** has increased its CIRR by only 125 bps. The said increase in CIRR by 125 bps was based upon the increase in Repo rate by 90 bps till June 2022. As depicted above, after the increase in CIRR to 16.75%, RBI repo rate has further increased by 125 bps and CIFL has absorbed the increased cost of its borrowing till date without passing on further hikes to its customers.

With the increase in Repo Rate by RBI and the overall increase in interest rates in the system, CIFL's lenders continued to increase their rates and in turn leading to an increase in CIFL's cost of funds. There is an immediate impact on the Company's incremental as well as book cost of funds. CIFL's cost of funds has increased to 10.54%, currently and may increase further basis the prevalent interest rate environment.

In view of prolonged high interest rate scenario, compression in CIFL's operating margins, the gap in repo rate hike vs CIFL's CIRR increase, it is proposed to increase CIFL's CIRR by 100 bps from 16.75% to 17.75% with effect from 1st October 2023. This increase would be applicable to all loans linked to CIRR.

Considering a customer friendly gesture and in line with RBI circular dated August 18, 2023 on reset of Floating Interest Rate Loans, Company will be providing below three options to all the existing floating rate customers:

1. Extension in tenor without any increase in EMI, unless the loan goes beyond tenor of 300 months or goes into negative amortisation, in which case the customer will be given options form 2 & 3 below;
2. Increase EMI and decrease or maintain the tenor of the loan; and
3. Prepayment of part loan and maintain or increase EMI

Customers will also have an option to opt for combination of tenor as well as EMI increase. In case of no response from the customer, the standard option that will be implemented will be that extension in tenor as mentioned in point 1 above

The Company will be communicating the said increase in rate of interest to its customers in advance.