

SK Finance Limited

Policy for Determining Interest Rates, Processing & Other
Charges

Summary of Policy

Policy Name	Policy for determining Interest Rate, Processing & other charges
Regulatory References	Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 and amendments thereafter Fair Lending Practice - Penal Charges in Loan Accounts dated August 18, 2023 and amendments thereafter Key Facts Statement (KFS) for Loans & Advances dated April 15, 2024 and amendments thereafter Fair Practices Code for Lenders –Charging of Interest dated April 29, 2024 and amendments thereafter
Review Cycle	Annually and in the event of change in regulatory guidelines
Approver	Board of Directors of SK Finance Limited
Latest Approval/review date	August 2024
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1. Introduction

SK Finance Limited ("the Company") is a Middle Layer NBFC incorporated under Companies Act, 1956 and duly registered with the Reserve Bank of India.

The Reserve Bank of India (RBI), advised the NBFCs to adopt appropriate interest rate model taking into account relevant factors and to disclose the rate of interest, gradations of risk and rationale for charging different rates of interest to different category of borrowers vide Chapter VII of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023. In furtherance, RBI vide circular on Fair Lending Practice - Penal Charges in Loan Accounts dated August 18, 2023 has released guidelines to ensure reasonableness and transparency in disclosure of penalties to the customers.

Keeping in view the RBI Guidelines cited above, the internal guiding principle and interest rate model have been laid out by the Board of SK Finance Limited (the "Company"). This policy should always be read in conjunction with RBI guidelines, directives, circulars and instructions.

SK Finance ensures fair practice and transparency to its customers and accordingly this interest rate policy is also published on Company's website (www.skfin.in).

2. Organisation Structure

2.1 Board of Directors

The Board of Directors shall have oversight for the Policy on determining Interest Rate, Processing & other charges ("Interest Rate Policy") of SK Finance Limited. In order to ensure effective implementation of the Interest Rate Policy, the Board may delegate the implementation of the Policy and its operational aspects to the Managing Director and/or ALCO as may be deemed fit.

2.2 Asset Liability Management Committee (ALCO)

ALCO shall be responsible for evaluating and approving the Interest rate range within which loans shall be granted to the customers. Any changes in the Interest rate range shall be approved by the ALCO and would be put up to the Board in subsequent meeting.

Respective Product Manuals may have their internal pricing policies under the overall framework of board approved interest rate policy in deciding the spreads to arrive at the final rate to be charged to the borrower depending on various factors. Changes to product level internal pricing policies, if any, would need to be approved by the Head of respective Business and the Asset Liability Management Committee.

3. Interest Rate Model

The Company may lend money to its customers through fixed or floating rate loans. The model for type of interest rate on respective products shall be defined in the respective product manuals. In addition, the Company has duly deployed the risk - based pricing model for levying interest on the customers across all products, except for Demand Loans and Trade Advances, and geographies effective from July 2023.

Pricing of loans is a function of balancing profit, growth and addressing risks prevailing in the organisation. The entire pricing model has been systemised to ensure that a transparent, comprehensive and scientific approach is implemented whose details are as follows:

- i. Parameters to be clearly & explicitly defined for pricing
- ii. Weights assigned to all the parameters basis which rating of customer is derived.
- iii. Interest rate range defined in the system against respective rating band - product wise.

In case of any deviation in the rates levied, approval in accordance with the defined delegation of authority matrix is obtained systemically.

4. Approach for Gradation of Risks

Each client/ customer/ prospective borrower represents a diverse risk profiles based on their respective credit and default risk, CIBIL scores, repayment track record with lenders etc. A cost premium/discount is attached to overall interest rate on the loan for the customers based upon the gradation of risks.

The final lending rate shall be arrived at after considering the following:

Customer Attributes	Business Viability	Asset/ Collateral Attributes	Loan Attributes
<ul style="list-style-type: none"> •Profile & Segment •Tenure of relationship •Past repayment track record •Primary and additional income sources •Land/ property ownership •Geography •Any other attribute as deemed fit by the Credit Manager 	<ul style="list-style-type: none"> •Nature of business activity •Experience in business •Profitability in business •Expected Cash Flows •Any other attribute as deemed fit by the Credit Manager 	<ul style="list-style-type: none"> •Type of asset •Age of asset •Location of asset •Condition of asset •Valuation of asset 	<ul style="list-style-type: none"> •LTV ratio •Tenure

The Lending Rate is determined on a case to case basis and will depend upon considerations of any or combination of a few or all factors listed above. The current Interest Rate Range as approved by the ALCO is mentioned below:

Loan Type	Rate Range*
All Secured Loans	
Vehicle & Equipment Loan	From 10% to 36%
Tractor & Farm Equipment Loan	From 10% to 36%
Two-Wheeler Loan	From 10% to 36%
Mortgage Loan	From 10% to 36%
Other loans	From 10% to 36%

Aforementioned lending rate may vary for cases where the loan has been sanctioned by the Company without availability of adequate security from the borrower. Considering the credit risk associated with such unsecured loans, the rate of interest for such loans shall be governed by the respective product policy/ manuals of the Company and an additional interest rate can be charged over and above the limit mentioned above which shall not be more than 40% p.a.

*The Company may grant/ sanction loans at a rate below the rate range as mentioned only after assessing the risk associated and the rationale for providing such loans.

The Company operates on a risk & reward approach from the customer wherein the Company may levy a lower rate of interest in a loan from the customer but at an overall IRR level the Company ensures that the cost of lending funds is covered.

In various instances, the Company takes into account, business considerations, competition in the market, customer behaviour or previous association with the Company and may grant a particular advance to the customer at IRR below the cost of lending funds computed in accordance with this policy basis due evaluation. In such cases, the overall size of such loans shall not exceed 25% of the Tier I Capital of the Company in any given quarter as per the last audited/ limited review financials. Such cases shall be approved by the SCM and above only after assessing the risk associated and the rationale for providing such loans.

Such cases shall be submitted to the ALCO on a quarterly basis to ascertain and assess the impact on the overall IRR of the Company and deciding on the approach for reducing the limits mentioned above.

5. Interest Rate Policy & Model

6.1 Interest Rate Determination Methodology

The ALCO after giving due consideration to the following factors arrives at the interest rate to be charged from the customers:

- i. **Weighted Average Cost of Funds/ Capital:**
The Company borrows fund through Bank Term loans, Non-Convertible Debentures, Commercial paper and subordinate debt, etc. from the investors. Additional to the borrowing, the Company also has equity portion and the cost of such equity is considered to arrive at the weighted average cost of capital.

The weighted average cost of borrowed funds as well as costs incidental to those borrowings, is arrived at after taking into consideration the average tenure, market liquidity and refinancing avenues.

The cost of raising such funds and servicing the equity capital is also included in the cost of funds.

- ii. **Negative Carry on Investment**
The Company keeps liquidity buffer in the form of investments into liquid funds to manage liquidity risk and has to bear negative carry on those investments too.
- iii. **Operating cost**
It includes employee expenses, branch related fixed and variable costs, operations costs, sales and marketing expenses, technology expenses, expenses related to sourcing and recovery, etc.

- iv. **ALM Mismatch Cost**
The Company borrows funds through short term and long term products and to comply with the regulatory guidelines, it needs to manage ALM gaps under the prescribed tolerance limits, while taking in to account the prepayments made by the customers.
- v. **Credit/Default Risk Premium**
Based on risk gradation of the customer, credit/ default risk premium is computed on a case to case basis. This will also cover the risk pertaining to nature and value of collaterals, overall risk profile of the customer, industry trends etc.
- vi. **Expected ROA**
Expected Return on assets is the return expected by the company on its assets. The Company expects a ROA of 3-4% in normal course of business which may vary from this range depending upon the exceptional business scenarios.

6.2 Interest Rate Policy

- i. The Company shall adopt a mechanism for computation/ levying of interest rate on the customers in a manner that the rate of interest for same product and tenure availed during the same period by separate customers would not be standardized and can vary based on perceived risk associated, CIBIL Score, security vintage/ Age, LTV, geographical location and other underwriting parameters.
- ii. Changes in interest rates would be decided at any periodicity, depending upon market volatility and competitor review.
- iii. The annualized rate of interest/ IRR (expected/ final, as the case may be) would be intimated to the customers through the key fact statement/ sanction letter/ loan agreement. The interest rate would be computed on daily balances basis and charged on monthly/ quarterly/ half yearly rest or such other rest as the ALCO decides in accordance with applicable rules and regulations. Specific terms in this regard would be specified through the relevant product manuals and/or loan agreement.
- iv. The interest reset period for variable rate lending would be decided by the Company from time to time, applying the same decision criteria as considered for fixing of interest rates.
- v. Interest rates would 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. Interest shall be deemed payable immediately on due date as communicated and no grace period for payment of interest shall be allowed. Any default/ delay in payment of interest or principal shall impact the asset classification status of the account in accordance with relevant RBI guidelines.
- vii. Besides normal interest, the Company may levy additional interest for ad-hoc facilities, penal charges for any delay or default in making payments of any dues. The levy or waiver of these

additional interest or penal charges for different products or facilities would be decided within the boundaries prescribed in the respective product manuals.

- viii. Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per terms of the loan documents.
- ix. In case of staggered disbursements, the rates of interest would be subjected to review and the same may vary according to the prevailing rate at the time of successive disbursements or as may be decided by the Company.
- x. Claims for refund or waiver of such charges/penal charges/additional interest would normally not be entertained by the Company and it is the sole and absolute discretion of the Company to deal with such requests.
- xi. The Company shall charge/ levy interest in accordance with the Fair Practice Code for lenders as enunciated by RBI from time to time.

6. Processing /Documentation and Other Charges

- i. Sourcing Costs at the time of the application:
 - a. These costs are incurred by the Company before the customer takes his loan disbursement and will be covered through the charges deducted or collected from the disbursement amount. These costs include acquisition, verification, legal & valuation, credit appraisal etc.
 - b. All processing /documentation and other charges recovered are expressly stated in the loan execution documents. They may vary based on the loan product, exposure limit, customer segment, geographical location of the customer etc.
 - c. In the event of cancellation of loans at the behest of the customer or due to insufficiencies identified in the details submitted by the customer, the Company shall have the right to levy cancellation charges on the customer due to the cost incurred by the Company. The Company shall not levy processing fees for customers to whom cancellations charges are levied. In case, processing fees has been paid by the customer, the same shall be set off from the cancellation charges.
- ii. Costs incurred during the tenure of the loan:
 - a. Besides interest, other financial charges such as cheque bouncing charges, cheque swaps, cash handling charges, RTGS/other remittance charges, commitment fees, charges on various other services or such other charges as may be communicated/ intimated to the customer through the sanction letter/ loan agreement would be levied by the Company wherever considered necessary or through any other mode thereafter.
 - b. Besides these, statutory charges such as the goods and service tax and other cess would be collected at applicable/ prevailing rates from time to time. Any revision in these charges would be with prospective effect. These charges would be decided collectively by the management of the Company.
 - c. Penalties levied on the Customer (Effective from April 01, 2024)
 - Penalty, if charged, for non-compliance of material terms and conditions as defined in the loan contract with the borrower shall be treated as 'penalties' or 'penal

charges'. These penalties shall also cover charges levied on the customer for delay in payment of their overdue EMI.

- In case of existing loans, the instructions laid out in Fair Lending Practice - Penal Charges in Loan Accounts shall come into effect from April 1, 2024 and the switchover to new penal charges regime shall be ensured on the next review / renewal date falling on or after April 1, 2024, but not later than June 30, 2024.
- Additional penal charges cannot be levied on the earlier outstanding amount of penal charges.
- There shall be no capitalisation of penalties i.e., no further interest computed on such charges.
- The Company shall not introduce any additional component to the rate of interest.
- The quantum of penalties shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.
- The penalties in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.
- The quantum and reason for penalties shall be clearly disclosed by Company to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on Company's website.
- Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penalties shall be communicated. Further, any instance of levy of penalties and the reason thereof shall also be communicated.
- Requirements mentioned in this clause shall be applicable in respect of all the fresh loans availed / renewed from January 01, 2024. In the case of existing loans, the switchover to new penalties shall be ensured on next review or renewal date or six months from the effective date, whichever is earlier.

iii. Charges applicable at the time of closure of the loan

These will include pre-payment & foreclosure charges subject to RBI guidelines, repossession and other legal expenses related to recovery of over dues.

- iv. The Company shall levy the charges in accordance with the agreements executed with the customer/any subsequent changes as communicated.
- v. W.e.f October 01, 2024, charges recovered from the borrowers by the Company on behalf of third-party service providers on actual basis, such as insurance charges, legal charges etc., shall also form part of the Annual Percentage Rate (APR) and shall be disclosed separately. In all cases wherever the Company is involved in recovering such charges, the receipts and related documents shall be provided to the borrower for each payment, within a reasonable time. Annual Percentage Rate (APR) is the annual cost of credit to the borrower which includes interest rate and all other charges associated with the credit facility.
- vi. W.e.f October 01, 2024, any fees, charges, etc. which are not mentioned in the Key Fact Statement, cannot be charged by the REs to the borrower at any stage during the term of the loan, without explicit consent of the borrower. Key Facts Statement (KFS) is a statement of key facts of a loan agreement, in simple and easier to understand language, provided to the borrower in a standardised format.

- vii. All charges and any revisions thereof are approved by the Executive Committee of the Management as a part of the product manuals or separately. Such changes/ revisions thereof shall also be submitted to the Board in the subsequent Board meeting.

7. Policy Severable

This policy read with RBI Master Direction constitutes the entire document in relation to its subject matter. In the event that any term, condition or provision of this policy being held to be a violation of any applicable law, statute or regulation, the same shall be severable from the rest of this policy and shall be of no force and effect, and this policy shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Policy. Further, the regulatory guidelines as prescribed shall prevail in the event of any amendments or requirements not incorporated in the policy.

8. Amendment

Any change in the policy shall be approved by the Board of Directors of the Company. Any amendment in the regulatory guidelines shall prevail and necessary amendment shall be carried out at a subsequent date in the policy. The Board of Directors of the Company shall have the right to withdraw and / or amend any part of this policy or the entire policy, at any time, as it deems fit, or from time to time, subject to applicable law in force.