

MANAPPURAM FINANCE LIMITED (MAFIL)

INTEREST RATE POLICY

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1. Introduction

The Company has been following certain procedures and practices in the matter of fixing interest rates on gold loans and other loans (assets) and NCDs/Subordinated Bonds (liabilities). Interest rates are not controlled by the Reserve Bank of India. However, RBI has vide circular DNBS. CC.PD. No.266/03.10.01/2011-12 dated 26 March 2012 (Guidelines on Fair Practices Code for NBFCs) directed NBFCs to have a documented Interest Rate Policy / Model approved by the Board of Directors which would lay down internal principles and procedures in determining interest rates and other charges on the loan products offered by NBFCs. The specific points referred to in the above referred RBI circular are:-

- Charging of excessive interest rates by NBFCs.
- The need for adoption of an interest rate model along with approach for gradations of risk & rationale for charging differential rates.
- Disclosure of rates of interest rates, changes thereof and publicity thereto.
- Adoption of annualized rates of interest while dealing with customers.

2. Objectives

The main objectives of the interest rate policy are to:-

- Ensure that interest rates are determined in a manner to ensure long term sustainability of business by taking into account the interests of all stakeholders.
- Develop and adopt a suitable model for calculation of a reference rate.
- Enable fixation of interest rates which are reasonable: both actual and perceived.
- Ensure that computation of interest is accurate, fair and transparent in line with regulatory expectations and market practices.
- Charge differential rates of interest linked to the risk factors as applicable.
- Facilitate transition to income recognition norms that may be stipulated by RBI in future and adoption of best practices.

3. Methodology for calculation of interest on loan accounts

The main spirit underlying the methodology is to project a transparent and fair approach to the customers and also be in readiness to adopt the practices now in vogue amongst commercial banks keeping in view the peculiarities of the gold loan business.

3.1 On the daily balances

Interest amount shall be calculated on the daily outstanding balance in the loan account at the applicable rate. Thus if the annualized rate of interest applicable is R%, the interest amount for each day would be:-

$$\frac{R \times \text{Amount outstanding}}{36500}$$

3.2 Minimum period for which interest chargeable

The minimum period for which interest is payable by the borrower shall not exceed 1 day. Interest payable / receivable shall be calculated on the actual daily outstanding balance.

Considering the customer onboarding cost and as no pre payment penalty is applicable to gold loans, subject to disclosure to the borrowers MAFIL may charge interest for a minimum period upto 7 days from the date of creation of inventory.

3.3 Basis - number of days per year

Interest shall be calculated based on 365 days a year. Dates of disbursement and closure of account shall both be included for computation of interest. However, MD&CEO may approve any exclusion of date of Disbursement or date of Closure of Account for a particular scheme or loan account as rebate.

3.4 Compounding

Compounding of interest where applicable, as provided in the loan scheme, shall not be at a frequency more than 1 month / 30 days in a year.

3.5 Annualised rate of interest

Interest rate quoted shall be on annualized basis only in all documents, internal instructions / communications and publicity materials (pamphlets, brochures, hoardings, etc).

Where the rates are mentioned in non-annualized form (e.g. in product promotion) the annualized rate shall also be mentioned along with so as to comply with regulatory requirements and Fair Practices Code.

3.6 Fixed rate / Floating rate

All the loans shall be granted at fixed rate only.

3.7 Maximum/ Ceiling Interest Rate on Loans

Keeping in view the regulatory (RBI) expectations from NBFCs and also the Fair Practices Code the maximum interest rate chargeable shall be fixed at 36% p.a during the normal loan tenure across all states / regions excluding compounding effect where applicable under any schemes.

Penal interest and other out of pocket expenses charged from the borrowers will be exclusive of the ceilings mentioned above.

The above mentioned ceilings shall be reviewed periodically at quarterly (calendar) intervals or more frequently, as and when required, by the Board of Directors keeping in view regulatory guidelines / directives, intensity of competition in the market, net interest margin target, market rates etc.

3.8 Notice to borrowers for changes in interest rates, charges etc.

Notice shall be sent to the borrowers in the vernacular language or a language as understood by the borrower of any changes in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. It shall be ensured that changes in interest rates and charges are effected only prospectively.

4. MAFIL Benchmark Lending Rate (MBLR)

All banks in India, following RBI directions of March 2016, fix MCLR for different maturities as an internal benchmark for setting floating rate of interest. Banks are also allowed to offer loans linked to external benchmarks. MCLR comprises marginal cost of funds, operating costs and tenor premium.

MBLR, which is benchmark for our interest rates consists of marginal cost of funds, operating costs and tenor premium. Current MBLR for benchmarking interest rates of our products is 17%. ALCO shall review MBLR on a quarterly basis.

5. Risk Based Gradation of Interest Rates

The Lending Rate will be different for different categories of borrowers, considering profile of the customer, tenure of customer relationship, past repayment track record, customer segment, market reputation, inherent credit and default risk in the products, subventions and subsidies available, ancillary business opportunities, future potential, group strength and value to lender group, overall customer yield, Loan-to Value (LTV) ratio, nature and value of primary and collateral security etc. The Lending Rate is determined on a case to case basis.

Pricing of each loan product will be derived from MBLR after considering the following risks.

5.1 Liquidity risk premium

While MAFIL lends on fixed rate of interest, majority of its borrowings are on floating rate basis. This leads to interest risks. To mitigate this, liquidity risk premium based on the movement of G Sec yield, spread of AA rated NBFC corporate bonds over G Sec yield, forward exchange premium, volatility of SOFR etc. need be provided for fixing rate of interest for the products.

5.2 Credit risk premium

Credit risk premium shall be computed based on the portfolio behavior, Probability of Default (PD) and Loss Given Default (LGD), Credit Score of the borrowers etc.

5.3 Differential Pricing

As necessitated by business or strategic reasons, the Company may consider under certain situations a differentiated interest rate structure for its products. This will follow a policy framework based on defined parameters with the objective of market penetration or to counter competition and will be approved by a Committee where Risk is a compulsory participant.

6. Pricing of Gold Loans

6.1 Rate of interest, benchmarking to MBLR.

- Considering the nature of the Gold loans (collateral valuation being vital) the major inherent risk is the Loan to Value (LTV) or Loan per Gram. Since a higher LTV translates to a higher risk it stands to reason that LTV and Interest rate should be correlated. Accordingly, assuming all other factors to be the same a higher LTV loan should attract a correspondingly higher interest rate as compared with a lower LTV loan.
- The LTV linkage with interest rate shall be at the time of sanction of loan and cannot be changed subsequently due to movements in the overall collateral coverage arising from market movements in gold prices.
- Where substantially low rates of interest are charged on certain / special schemes or in specified regions / areas / branches the maximum amount per borrower shall be appropriately restricted and checks put in place to prevent misuse of the facility. Such schemes shall be periodically reviewed and appropriately modified to meet with the overall objectives of floating such schemes.

6.2 Rebate on Gold Loan interest

Considering the competition in the market, MAFIL introduced new gold loan schemes with rebates. Schemes offering rebate on the interest rate may be considered on the ground that customers who regularly service interest payable on loans. The extent of rebate may vary from scheme to scheme. Rebate considered in cases where interest payable has been serviced by the due dates without any default.

6.3 Due date for servicing interest

Interest will be calculated from the date of disbursement and shall be charged for the day of closure of the account. The due date for payment of interest shall run from the date of disbursement.

6.4 Penal Interest on overdue loans

When the gold loans remain outstanding beyond the 'normal' tenure (Between 3 Months and 1 year) without FULL servicing of interest due penal interest may be charged at a rate not exceeding 3% pa (i.e. at the contracted rate plus 300 basis points) on the amount due and payable. Penal interest provisions shall be calculated and will apply only after the expiry of the 'normal' tenure.

Penal interest may be waived, in full or in part, in deserving cases with the reason being recorded by Managing Director & CEO.

For the other loans, on the overdue instalments overdue interest of not exceeding 3% per month. The overdue interest is not to be calculated on the total dues of the borrowers.

7. Pricing of products of other verticals, benchmarking to MBLR

Rate of interest for products of each vertical shall be benchmarked to MBLR. While pricing each product underlying credit risk premium and liquidity risk premium shall be factored in.

Products offered and features thereof shall be straight forward, transparent and simple to understand so as to comply with the letter and spirit of RBI guidelines. Features of each product, especially the differential features, should be clearly explained to and understood by the prospective borrower before sanction. Operational personnel should be well equipped in this regard.

8. Indicative range of interest linked to MBLR

Indicative range of interest for various verticals / products of MAFIL based on the current MBLR is given below.

Verticals / segments / product	Interest Rate Range *
Gold loans	9 - 29%
Commercial vehicle	14 - 32%
Car Loan	14 - 32%
Farm Equipment	14 - 32%
Construction Equipment Finance	14 - 32%
Two wheeler	15 - 32%
Digital Personal Loan	15 - 36%
Secured Personal Loan	10 - 26%
MSME	10 - 28%
Micro Home Finance	10 - 26%
Corporate Loans	11 - 16%
Loan to Consumer Durables	18 - 29%
Loan to Food Industry	20 - 24%
Mahila Micro Credit	18 - 21%
Traders Micro Credit	18 - 21%
Restaurant Finance	18 - 21%
Small Scale Industrial Loan	22%
Health Care Industry Loan	12.5% - 20%
Micro Credit Loan	24 - 26%
School Finance	15 - 18%

These rates are subject to revision by ALCO.

* On annualised basis the rate should not exceed 3% above the maximum interest rate as given in the above the table.

9. Lending below MBLR linking to external benchmarks

As a business organization to meet competition and promotion of products, MAFIL will have to offer interest rates below MBLR. MD&CEO is empowered to approve interest rate below the MBLR bearing in mind the overall profitability of the company, competitive scenario, business focus and the underlying risk exposure.

For the high ticket loans like corporate loans where operating expenses are lower, MAFIL may benchmark the rate of interest based on the 10 year G-sec rates, Treasury bill rate etc, which can be less than the MBLR.

10. Other Charges and recovery of Out-of-Pocket Expenses

10.1 Gold loans

The Company may also levy other charges such as loan processing fees, insurance (of gold ornaments), processing charges for delivery of gold against lost pawn ticket, safe custody charges (due to failure to take delivery of gold ornaments immediately after closure of account), statement of account etc. In addition, the Company shall be entitled to recover costs incurred in connection with postage, legal costs etc. The above charges shall be pegged at reasonable levels and in the spirit of Fair Practice.

Guidance rates are as under:

Description	Range of charges	Exceptions
Loan processing , Appraisal charges, Insurance etc.	Will be capped at 1% of the loan amount. A reasonable minimum and maximum in absolute terms may be prescribed.	Segments borrows (i.e. small borrowers), Special schemes may be exempted from such charges.
Delivery against lost Pawn Ticket - processing charges	Between a minimum of Rs 50 and maximum of Rs 250 per pledge	
Safe custody charges – when borrower does not immediately take delivery of the pledged gold ornaments	Between 0.10% to 0.25% per month subject a reasonable minimum and maximum in absolute terms	
Statement of account	Free of cost, if demanded within 30 days of closure of account. In other cases, a minimum of Rs. 25 and maximum of Rs.100 per statement	
Postage, Courier charges	As per Existing circular	

10.2 Other charges (Non-Gold Loans)

Verticals	Processing fee (%)	Overdue interest (%)	Bounce charges (Rs)	Prepayment charges (%)
Digital Personal Loan	3%	3% per month	Rs. 500/- (1 st instance)	Nil
Secured Personal Loan	1.5% to 3%			3%
MSME	1.5% to 2.5%			3%
Micro Home Finance	Minimum: Rs 10,000 or 1% whichever is low Maximum: 2.5%			3%
Loan to Consumer Durables	3% or Rs 10000 whichever is lower			Nil
Loan to Food Industry	2.5%			3%
Restaurant Finance	2.5%			3%
Small Scale Industrial Loan	2%			3%
School Finance	2%			3%
Health Care Industry Loan	2%			3%
Mahila Micro Credit	2%			Max 2% per month
Traders Micro Credit	2%	3%		
Corporate Loans	Maximum 0.5%			2%
Micro Credit Loan	2%	3% per month	Rs 500	Nil
Commercial vehicle	Maximum 2%	3% per month	Rs 500	Up to 4% if foreclosure is within 1 year, otherwise 2%
Car Loan	1.25% or Rs 2500/- whichever is higher			
Farm Equipment	Maximum 2%			
Construction Equipment Finance	Maximum 2%			
Two wheeler	Minimum Rs 250 and Maximum Rs.10000/-			

10.3 Variations / taxation

- The actual rates from time to time shall be fixed by the ALCO within the band / limits mentioned under each head and reviewed at at-least half yearly intervals.
- ALCO shall have the authority to implement any other reasonable / justifiable charge from time to time.
- Taxation regulations as applicable shall be complied with. The rates may be inclusive of taxes or exclusive of taxes as per the decision of ALCO based on the recommendations of the Business Heads.
- Discretion to waive / reduce the charges shall be vested with the Business Head on a case to case basis based on the approved delegated powers.

11. Asset Liability Management Committee (ALCO)

The ALCO shall hold meetings at calendar quarterly intervals or more frequently when required. Review of interest rates shall be periodically taken up by the ALCO within the overall stipulations of the Interest Rate Policy approved by the Board of Directors.

The ALCO shall consist of the under mentioned functionaries

- Managing Director & CEO Chairman
- Chief Financial Officer Member
- Chief Risk Officer Member
- EVP A&BR Invitee
- Chief Technical Officer Invitee

11.1 Powers of ALCO to vary interest rate

There may be exceptional economic situations that may result in a change in the liquidity environment and the availability of funds to the Company. The ALCO under the Chairmanship of MD&CEO will have the authority to amend the rates and the indicative table above with appropriate disclosure and these shall be presented to the next Risk Committee meeting for ratification.

12. General

- Interest rate re-setting - loans other than Gold loan: To mitigate interest rate risks in the longer tenor loans in the verticals like commercial vehicles, MSME, personal loans, Micro Home Finance, Corporate etc. Sanctioning Authorities shall have the powers to prescribe rate of interest reset on quarterly / half yearly / annual / 2 or 3 year basis. Interest reset clause shall be incorporated in the sanction letters, wherever applicable. Loan agreements with the borrowers shall also be modified to include interest reset clause.
- Appropriation of charges and interest: Remittances to the borrowers' account shall at first be appropriated towards charges levied and surplus, if any shall be adjusted towards EMIs. Advance payments made by the borrowers shall not be reduced from the principal for computation of interest, unless MAFIL approves modifications in the repayment schedule.
- The rates of interest for the same product and tenor availed during same period by different customers need not be standardized but could be different for different customers depending upon consideration of factors like credit risk, liquidity risk and tenor risks.
- MAFIL shall intimate the borrower loan amount, annualized rate of interest, periodicity of interest application, tenure and amount of monthly instalment application at the time of sanction of the loan.
- MAFIL also offers variable and equated monthly instalments schemes.
