Interest Rate Policy

Overview and shall come into force with immediate effect. The same shall be reviewed annually or as and when necessary by the Company's Board of Directors.

Reserve Bank of India vide its notification No. DNBS. 204 / CGM (ASR)-2009 dated January 2, 2009 and vide its Guidelines on FPC for NBFCs DNBS.CC. PD. No.320/03.10.01/2012-13 dated February 18, 2013 have directed all NBFCs to make available the rates of interest and the approach for gradation of risks on the website of the NBFCs. In lines with the regulatory requirements the **Interest Rate Policy was adopted by the Board of Directors on 29th June 2019.** The company has been currently lending at standard card rates across for secured and unsecured products with deviations being approved by MD& CEO and Executive Director on a case to case basis. Given that the company deals in multiple product offerings coupled with various assessment methods and accepts various types of collaterals it is proposed to roll out a standard risk-based pricing grid. The overall pricing has been arrived at basis:

Interest Rate Model

The business model of Arthan Finance focuses on providing credit to customers meeting the credit appraisal norms for varying tenors. The interest rate applicable to each loan account, within the applicable range is assessed on a case specific basis, based on evaluation of various factors detailed below:

a. **Tenor of the Loan & Payment Terms:** The aspects like the tenure of the loan, terms of payment of interest, terms of repayment of principal, moratorium period etc. are taken into account.
b. **Cost of borrowing:** The prevailing cost of borrowing applicable for the company to achieve a complete matching of assets and liabilities. The company's borrowings are expected to be a mix of fixed rate as well as floating rate borrowings while all its loans to clients are expected to be on fixed rates. The pricing factors in the risk associated with this.
c. **Portfolio Risk:** The portfolio risk is factored based on the type and inherent nature of loans that the company gives, the risk profile associated with this client segment, tenure of relationship with the client, past experience including repayment track record and overall management's assessment.
d. **Cost of operations:** The cost of operations includes manpower cost, infrastructure cost and other administrative costs. Most of these costs are fixed costs and are committed based on budgeted volume of operations. Since these costs come down with increasing volumes and efficiencies, the pricing factors the estimated cost over a reasonable period. Also, other factors such as the complexity of the transaction, capital risk weightage, the size of the transaction, location of the borrower and other factors that affect the costs associated with a particular transaction would be taken into account before arriving at the final interest rate quoted to a customer. As a philosophy, the company will charge clients fixed assuming a steady state operation. Thus, the high operating cost in the initial stages of start-up and cost of growth would be borne by the shareholders, till the company attains size and scale.
e. **Profit Margin:** The profit margin is fixed based on the reasonable return expected by the shareholders

and the risks involved. The profit margin is arrived at keeping in mind the need to attract fresh capital to sustain growth and benchmarked with comparable companies.

f. **ALCO View & forecast of market interest rates:** Views of the Asset Liability Management Committee (ALCO) on loan product pricing with respect to prevailing interest rates offered by peer NBFCs for similar products / services shall be taken into consideration. The forecasts and analysis of 'what if' scenarios' conducted by the ALCO are also relevant factors for determining interest rates to be charged. The lending rate as well as the fees charged is fixed, considering the sustainability of various factors and it is reviewed periodically by the Asset & Liability Management Committee
g. **Prevailing market practices:** The fees and other charges applicable will depend on the market practices and the cost of providing such services
h. **Communication to the customer:** The Company intimates the borrower regarding the loan amount, annualized rate of interest, insurance premium, processing fees, penal interest for delayed payment, cheque bounce charges, tenor of the loan and repayment schedule including instalment amount at the time of sanction/disbursement of the loan. 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. Any revision in interest or other charges would be only with prospective effect.

Approach for Gradation of Risk

The risk premium attached with a customer shall be assessed inter-alia based on the following factors:

a. Business risk, industry risk, market position, market reputation, vintage of the business, competition
b. Size and nature of the business, geographic location of the borrower
c. Inherent nature of the product, type / nature of facility, refinance avenues, whether loan is eligible for bank financing, loan to value of asset financed
d. Customer profile, overall customer yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower, mode of payment and historical performance of our similar clients
e. Nature and value of primary and secondary collateral / security and the loan to value
f. Type of asset being financed, end use of the loan represented by the underlying asset
g. Default risk in the business segment
h. In case of renewal, tenure of relationship with the borrower and the past repayment track record,
i. Regulatory stipulations, if applicable,
j. and any other factors that may be relevant in a case.

Pricing Grid

In lines with regulatory requirements and the approach mentioned above to determine the pricing of loans, the floor pricing of the loans are being proposed basis the risk category of the customer as below. This policy will be applicable with immediate effect and any changes to this policy can be done at ALCO committee going forward and annual review of board.

Particulars	**Unsecured**	**Quasi**	**Perfect Secured**
Loan amt. (In lakhs)	1 to 3	1 to 7	1-20 lacs
Tenure	Up to 3 years	Up to 5 years	Up to 7 years
PF	2.50%		

Proposed Pricing Grid				
Profile and Property Type		**Security**	**ITR/Financials, BS, GST/Turnover Method**	**BILL, NIP and any other method**
Development Authority (Municipal Corporation)	Residential and commercial and liquid security	Secured	23%	24%
	Industrial/Plot/Others	Secured	25%	26%
Nagar Parishad/ Gaothan/ Gram Panchayat/Gunthewari	Residential and commercial	Secured	25%	26%
	Industrial/Plot/Others	Secured	26%	27%
Unsecured Loan (Rate of Interest)	29%			

RATE OF INTEREST	**SECURED**	**UNSECURED**
ROI UPPER CAP	UPTO 30%	UPTO 34%

Note: - Additional ROI of 1% and 2% for Quasi property and property covered under Negative Lien respectively as per above table.

Disclosure on the website: Appropriate disclosure regarding this Interest Rate Policy and the schedule of charges shall be made on the Company website.

The Interest Rate Policy has been reviewed and adopted by the Board of Directors on 9th March 2020 and shall come into force with immediate effect. The same shall be reviewed annually or as and when necessary by the Company's Board of Directors.