IKF Finance Limited

Interest Rate Policy

Version 3.0

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Reviewed By	Chandrasekhar Paruchuri-Vice President
Approved By	BOD- IKF Finance Limited

Preamble

Unless utmost care is taken in determining the Interest (Lending) Rate by judicious mix of the following, the net interest income of the company will be impacted adversely. While determining the Interest (Lending) Rate, the following shall be taken into account as the same directly impacts the viability of the company.

1. **Cost of Funds**

   Cost of Borrowing is one of the most crucial factor that influence Interest (Lending) rate and (a) Cost of Bank Borrowings (b) Cost of Debentures / Deposits (c) Cost of Inter Corporate Deposits / Loans (d) Cost of Security Deposits (e) Cost of Any Other Borrowings (f) Cost of Capital etc. shall be taken into account while ascertaining the cost of borrowing

   The weighted average of the above shall be arrived at first to ascertain the cost of borrowing of the company.

2. **Capital / Margin to be provided**

   Capital / Margin requirement is one of the key factor since capital is expensive when compared with the borrowings in view of various factors and hence Capital / Margin to be provided for the loan product shall be taken in to account.

3. **Transaction / Servicing Cost**

   Transaction / Servicing costs primarily comprise of business sourcing, administrative and recovery overheads depending on various factors like loan ticket size, product financed, loan tenor, borrower location, mode of payment of installments etc. shall be taken into account while arriving at the cost sinceusually Transaction / Servicing costs will be higher where the loan ticket size is small and loan tenor is more.

4. **Gradation of Risk**

   The Company's approach to gradation of risk is not aimed at discriminating between classes of Borrowers but rather carefully assessed on case by case basis based on multiple factions, which are detailed hereunder:

   (a) Profile of the Borrower for ascertaining Risk Premium

   Profile of the Borrower matters most while assessing the Risk and as such Credit history, Cash flows (past, present and projected), other financial commitments, location, financial & social standing, mode of payment etc. of the Borrower shall be taken in to account.

   (b) Risk profile of Product financed for ascertaining Risk Premium

   Profile of the product financed also matters while assessing the Risk and hence Loan to Value (LTV), Tenor, age & end use of the asset, security for the loan as represented by underlying asset, its resale value, turnaround time in disposing off, accessibility and availability of buyers etc. shall be taken in to account.

(c) Market Specific Charges

The risk varies form market to market and hence it has to be taken into consideration while pricing. For example, the risk of a customer/product is not the same in AP/Gujarat. Hence this is also considered in the pricing.

Hence the Company, invariably, has to follow a discrete interest rate model / policy, in view of its business model and operations, whereby the rate of interest for same product and tenor availed during the same period by borrowers would not be a standardized one but could be different for different customers depending upon consideration of any or combination of one or more factors listed above.
The rate of interest is subject to change as the situation warrants and is subject to discretion of the management on a case to case basis.

5. Minimum & Maximum Interest (Lending) Rate

Minimum Interest (Lending) Rate shall be 1% (One percent) more than the weighted average cost of borrowing and Maximum shall not be more than 30% per annum for all secured loans and 36% for all unsecured loans. However, in case of small ticket loans and in cases where the borrower is situated at a distance place, the management is at liberty to charge premium over and above the stipulated interest rate, towards the transaction / servicing cost, with the concurrence of the Borrower.

6. Periodicity of Interest Rate Review

The Interest (Lending) Rate Policy should be reviewed by the Board on yearly basis or at such other shorter intervals, if the Board deems it fit,to effectively mitigate the Interest Rate Risk which arises frequently on account of fluctuations in Interest Rates.

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