INTEREST RATE MODEL

Industrial Investment Trust Limited
CIN: L65990MH1933PLC001998
Regd. Off: 101A, The Capital, G-Block,
Plot no.C-70 Bandra Kurla Complex,
Bandra (East) Mumbai Mumbai City
MH 400051
Website: www.iitlgroup.com

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V.2	
Recommended By	CEO – NBFC Operations
Approved By	Board - Meeting Dated : 08/11/2023

(1) PURPOSE

Reserve Bank of India (RBI) vide its Circular DNBS PD/CC No.95/03.05.002/2006-07 dated May 24, 2007 advised that Board of Non-Banking Finance Companies (NBFC's) lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. This was reiterated vide RBI's circular DNBS (PD) C.C. No. 133 / 03.10.001 / 2008-09 dated January 2, 2009.

With a view to institute fair and transparent dealings in the lending business, Industrial Investment Trust Limited (hereinafter referred as "Company") has adopted and put in place the following Interest Rate Policy parallel to the company's Fair Practice Code, in accordance with the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 as amended and updated from time to time.

RBI further advised NBFC's to adopt an appropriate interest rate model taking into account relevant factors and to disclose the rate of interest, gradations of risk and rationale for charging different rate of interest.

Keeping in view the RBI's guidelines as cited above, and the good governance practices being followed by the Company, the following internal guidelines, policies, procedures and interest rate model have been adopted by the Company. The Board of Directors of the Company ("the Board"), while fixing interest rates chargeable from the customers shall be guided by this Interest Rate Policy. In addition to cost factors set out hereunder, the Board shall be guided by the market conditions and various rules and regulations, if any, prescribed by the Reserve Bank of India or such other authority from time to time.

(2) ESTABLISHING AN INTEREST RATE

2.1 The interest rate applicable to a particular loan under each product will be determined by reference to a number of factors from time to time, including:

- **2.1.1** Risk profile of the borrower - professional qualification, stability in earnings and employment, financial positions, past repayment track record with us or any other lenders, external ratings of customers/ borrowers/ pledger(s), credit reports, customer relationship, future business potential, etc
- **2.1.2** Tenor of the Loan;
- **2.1.3** Cost of borrowing funds – Internal as well as external; - The rate of interest charged is also affected by the rate at which the funds necessary to provide loan facilities to customers are sourced, normally referred to as internal cost of funds. All loans or credit facilities should, at minimum, provide an IRR or a life to maturity yield in the band of 9.5% to 24% per annum.
- **2.1.4** Credit and default risk in the related business segment; As a matter of prudence, bad debt provision cost should be factored into all transactions. This cost is then reflected in the final interest rate quoted to a customer. The amount of the bad debt provision applicable to a particular transaction depends on the credit strength of the customer.

Factors such as the complexity of the transaction, the size of the transaction and other factors that affect the costs associated with a particular transaction should be taken into account before arriving at the final interest rate quoted to a customer.

2.1.5 Historical performance of similar kind of customers;
2.1.6 Prevailing Interest rate trends in the money market;
2.1.7 Treasury bill rates and the sovereign yield curve;
2.1.8 Spreads between the sovereign and the AAA corporate bonds;
2.1.9 Prevailing Base Rate of major commercial banks;
2.1.10 Market scenario relating to credit risk premia/default premia including CDS spreads;
2.1.11 Internal Cost of doing business;
2.1.12 Interest rate offered by other NBFCs in the industry; and
2.1.13 Other factors that may be relevant in each case.

2.2 The rate of interest for the same loan product and same tenor availed during the same period by different customers may vary for each customer based on consideration of any or a combination of above mentioned criteria.

2.3 The interest rates offered can be on fixed or variable basis. the applicable interest rate shall also be commensurate from the perspective of the fixed versus floating interest rate requirements of the customers and shall have to be decided in view of the benchmarks deliberated in point 2.1.3 above.

2.4 The interest reset period for variable rate loans shall be decided by the Company from time to time.

2.5 The Company shall charge such rates of interest either on a monthly or a quarterly basis for each product/segment.

2.6 <u>Additional/ Default Rate</u>

Loans remaining unpaid on due dates shall be charged penal interest at such rates uniform across all product portfolio as mentioned in bold in the respective customer agreements.

Any service charges, prepayment charges as charged to the borrower disclosed in the customer agreements.

However, in case the Company intends to charge penal interest at different rate for different product portfolio, the same shall be based on the following rationale:

1. Acquisition costs/underwriting costs incurred in writing the loan
2. Product segment, depth and liquidity of the market and possibility of reinvesting the funds received by way of prepayment into new products, at similar return on assets
3. Use of fixed cost funds/ lines of credit/internal allocation of resources, for funding a particular product segment
4. Exposure limit or ticket size for the loan products

5. Industry Trends of rate shopping by customers, on the basis of a prevailing contract with Company, and going to a competing financier, with a view to obtain lower rates.
6. Besides interest, other financial charges like processing fees, cheque bouncing charges, conversion fees, prepayment / foreclosure charges, part disbursement charges, cheque swap charges, charges for issue of statement account etc., would be levied by the Company wherever considered necessary. Besides these charges, stamp duty, GST and other cess would be collected at applicable rates from time to time. Any revision in these charges would be implemented prospective basis with due communication to customers. A suitable condition in this regard forms incorporated in the loan agreement

Further, all loans which are pre-paid shall bear pre-payment penalty at rates mentioned in the respective customer agreements. There shall be no foreclosure rate/ prepayment penalty charged on floating rate interest loans sanctioned to the individual borrowers if usage is other than business as per the RBI regulations.

(3) INTEREST RATE MODEL

Company lends money to its customers through Floating rate loan. Company being a diversified NBFC lends money through various products to cater to needs of retail and corporate customers.

Few broad categories of customer segments are as follows.

- Corporate Financing (Secured Loans)
- Loan against securities
- Loan against Property
- Lease Rental Discounting
- Retail Small Ticket LAP MSME Loans

The above mentioned benchmarks are calculated based on following factors.

- Weighted Average cost of borrowing: The Company borrows funds through term loans, Non Convertible Debentures and Commercial paper and subordinate debt from the investors. Weighted average cost of borrowing such funds is taken for bench mark calculation. The Company is not borrowing any form of loans from the financial institutions at the moment.

- Cost of Equity- The Company cost of such equity is taken is in the range of 6.5% to 7.5%.

- Fund raising cost: It includes processing fees on term loans, brokerage to source funds through NCD, CPs, Rating Fee, trusteeship fee, IPA commission on CPs, exchange listing fee etc.

- Liquidity Cost: This would be calculated by dividing the net liquidity cost by the average borrowings of the previous quarter. Net liquidity cost will be calculated by subtracting Returns earned from Cost of borrowings.

- ALM mismatch cost: The Company borrows funds through short term and long term products and to comply with the guidelines it needs manage ALM gaps under certain limits imposed by regulator. While taking prepayment in to account the customer.

- Opex Cost: It includes employee expenses, branch related fixed and variable costs, operations cost, sales and marketing expenses

- Risk Premium: Base risk premium to cover business related risks.

- Base ROA: Base Return on assets is the minimum return expected by the company on its assets

- Spread - It shall be based on the RoE expectations, product margin, customer cohort risk premium and the business environment.

Weighted avg. cost of borrowing (A)	xx%
Cost of Equity (B)	xx%
Fund raising cost (C)	xx%
Liquidity Risk (D)	xx%
ALM Mismatch cost (E)	xx%
Opex cost (F)	xx%
Risk premium (G)	xx%
Base ROA (H)	xx%
Final Benchmark rate {Sum (A to H) }	**xx%**

(4) INTEREST RATES RANGE

Interest rate norms:		
Product	**Lending Rates**	**Tenure**
Loan Against Security (LAS)	8.00%-15.00%	12 months- 48 months
Loan Against Property (LAP)	8.50% - 16.00%	36 months – 144 months
SME Financing	9.00%-16.00%	12 months – 120 months
Mid Corporate Funding	8% – 15% p.a.	12 months -60months
Lease rental discounting	8.50%-14.25% p.a.	12 months minimum
Intercorporate Deposits	6.00%-9.00% p.a.	6--36 months
Debt Instruments	9.50% to 12.00% p.a.	24 months

(5) DISCLOSURES

As per the extant regulations the following disclosures shall be made to the borrower:

- **a)** There shall be appropriate disclosure of the rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers in the sanction letter.
- **b)** The annualised rate of interest shall be disclosed to the customers.
- **c)** Any change in the interest rate or other charges shall be made prospectively and the same shall be adequately disclosed in the loan agreement.
- **d)** The rate of Interest for various class of assets as revised from time to time shall also be displayed on Company's website.
- **e)** Approach for gradation of risk has been elaborated in our Fair Practice Code Policy.

(6) AMENDMENT TO THE POLICY

The policy may be amended from time to time by the Board of Directors

(7) APPLICABILITY

The policy shall be effective from the date notified by the Board of Directors.