



# Interest Rate Policy



**DOCUMENT AND RECORD CONTROL****Version Control**

Document Control ID	SFL-CD-Interest Rate Policy-V1.0
Issued Date	01-February-2022
Effective Date:	01-February-2022
Owner:	Compliance Team

**Revision Table**

Date	Version	Affected Sections	Author
01-February-2022	1.0	All	Mr. Abhimanyu Singh


**Release Authorization**

Task	Name	Title
Prepared By	Mr. Abhimanyu Singh	Manager – Process & Policy

**Reviewer Authorization**

Task	Name	Title
Reviewed By	Mr. Prateek Kumar Mishra	Manager – Internal Audit

**Policy Approver Authorization**

Name	Title	Signature	Date
Mr. Sumit Ranjan	Head - Process & Policy		01-February-2022

**Board Approval Authorization**

Name	Title	Signature	Date
Mr. Dev Verma	Director		01-February-2022

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## Introduction

Swara Fincare Limited (SFL) is a RBI registered NBFC which provides business loans to micro and small enterprises spread across various business clusters in India. The funds are extended primarily for working capital and expansion of the business.

As per Reserve Bank of India (RBI) vide its Circular DNBS / PD / CC No. 95/ 03.05.002/ 2006-07 dated May 24, 2007 advised that Boards of Non-Banking Finance Companies ("NBFC") to lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. Further, vide circular DNBS (PD)C.C. No. 133 /03.10.001/ 2008-09 January 2, 2009, RBI advised the NBFCs to adopt appropriate interest rate models considering relevant factors and to disclose the rate of interest, gradations of risk and rationale for charging different rates of interest to different category of Clients.

Keeping view of the RBI Guidelines as cited above, the following internal guiding principles and interest rate model are therefore laid out by the board of Swara Fincare Limited (the "Company"). This policy should always be read in conjunction with RBI guidelines, directives, circulars and instructions. The Company will apply the best industry practices so long as such practice does not conflict with or violate RBI guidelines.

Board of Directors of Swara Fincare Limited (SFL) has adopted the interest rate model of the company. Thereafter, the company authorized the Managing Director to review the interest rates from time-to-time basis the market situation and take suitable decisions post discussing the same in the Asset Liability Committee (ALCO) meetings.

## Objectives of the Policy

This Policy outlines Swara's Interest rate Model and approach to the gradation of risks. The primary objectives of the Policy are as follows:

- To prevent the charging of excessive interest rates.
- To enable Customers, know on what basis the interest rates that will be charged on the loan amount per annum.
- To enable Customers, know the conditions upon which the interest rates are arrived at.

## Interest Rate Model

Swara Fincare lends money to its customers through fixed rate loans for the tenure. Our customers are hence protected from the interest rate risk by receiving a fixed rate of borrowing that is advised explicitly at the time of sanctioning the loan.

The repayment of Loans is based on equated monthly instalments (EMI).

In case of the instalment repayment bounces, a bounce charge is levied. No overdue interest on a daily overdue amount is charged, thus no compounding of overdue interest. However, a one-time late payment charge is applied for each overdue instalment, this keeps the method transparent and understandable to the target customer

### Interest Rate Basis

The interest rate charged by Swara for the products offered would take into account the following factors:

1. Weighted Average cost of funds
2. Operating Cost
3. Risk Premium for the Product Segment
4. Profit Margin
5. Market Practices

S. No.	Factor	Descriptions
1.	Weighted Average cost of funds	Weighted Average cost of funds would be based on the cost of borrowed funds, tenor premium, market liquidity, refinance avenues, cost of borrowing, cost of capital required, RBI policies on credit flow, offerings by competition, cost of disbursement, subventions and subsidies available, industry trends etc. The Company maintains liquidity reserves/ buffer including regulatory requirements prescribed by RBI as Liquidity Coverage ratio which generate return lower than the return on business assets creating a negative carry. These liquidity buffers help to manage liquidity risk and are essential cost however may vary depending upon the liquidity needs of the company from time to time.
2.	Opex. Cost	It includes various kinds of fixed and variable costs like employees' expenses, operations costs, sales and marketing expenses, collections cost etc.
3.	Risk Cost	It includes credit risk and default risk in the products and from the customer segment.
4.	ROA	The Company strives to achieve certain level of ROA based on its business plans and objectives
5.	Market Practices	While the interest rate charged would broadly depend on the above factors, The fees and other charges applicable will depend on the market practices and the cost of providing such services. While we look at the market practices for the fees and other charges, the policies would always be customer centric, and efforts would be not to over burden.

### Other Charges

Besides normal interest, Swara may collect other financial charges like as processing fees, penal interest/late payment charges, cheque bouncing charges, rescheduling charges, pre-payment/forclosure charges etc. Besides these charges insurance, application fees, stamp duty, GST etc. would be collected at applicable rates from time to time. Any revision in these charges would be implemented on prospective basis with due communication to customers at the time of applying for the loan.

These above charges for different products or facilities would be decided by Swara from time to time.

No claims for refund or waiver of such charges/ penal interest / additional interest would normally be entertained by Swara, and it is the sole discretion of Swara to deal with such requests if any.



**Approach for gradation of risk**

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

- a) Profile and market reputation of the borrower,
- b) Inherent nature of the product, type / nature of facility, refinance avenues, whether loan is eligible for bank financing, loan to value of asset financed, ticket size of loan, tenure of loan.
- c) Tenure of relationship with the borrower group, past repayment track record and historical performance of our similar clients,
- d) Overall customer yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower, mode of payment, credit bureau behaviour.
- e) Nature and value of primary and secondary collateral / security,
- f) Type of asset being financed, end use of the loan represented by the underlying asset.
- g) Interest, default risk in related business segment,
- h) Regulatory stipulations, if applicable,
- i) Any other factors that may be relevant in a particular case.

The specific risk premium may be either positive or negative due to combination of above mentioned parameters. Thus, final interest rate to customer can vary from customer to customer or product to product.

The maximum rate of interest (reducing balance basis) will be kept at or below 32% p.a. to ensure that the target customers have a reasonable interest burden.

**Asset Liability Management Committee (ALCO)**

The Company authorized the Managing Director to review the interest rates from time-to-time basis the money market situation and take suitable decisions post discussing the same in the Asset Liability Committee (ALCO) Meetings.

ALCO shall be responsible for taking decision to change the benchmark rate.

- 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.
  - 1) Managing Director & CEO Member.
  - 2) Non-Executive Director Member.
  - 3) Chief Financial Officer.
  - 4) Chief Risk officer
  - 5) Chief Credit Officer
  - 6) Chief Operating Officer.

**Communication Framework**

Swara Fincare will communicate the effective rate of interest -to customers at the time of sanction / availing of the loan through the acceptable mode of communication. The disbursement loan documentation shall also specify the rate of interest among other loan parameters.

Interest Rate Policy would be uploaded on the website of the company and any change in the benchmark rates and charges for existing customers would be uploaded on the web site of the Company.

Changes in the rates and charges for existing customers would also be communicated to them through various modes communication such as website updating, email, letters, SMS, etc.

**Amendment**

This policy may be amended or modified in whole or in part, at any time without assigning any reason, whatsoever with the approval of the Board.

**Review of Policy**

Audit Committee shall oversee the implementation of the Code and review its functioning periodically. Any changes proposed by the Audit Committee shall be placed before the Board for its approval.

**Document Control**

Compliance Department will be the custodian of this policy.

The contents of this Policy are confidential and are intended for internal use by Swara Fincare only.

This Policy should always be kept in a safe place and must not be copied or revealed to third parties (i.e., persons not employed by Swara Fincare) without the express written permission from Compliance Department.

Distribution of this Policy, in whole or in part, should come through an official request to the Head of Compliance Department