

Interest rate framework and policy for determining Penal, Processing & Other charges

Aditya Birla Capital Limited

Version 1.0

Internal

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Preamble

This document is intended to present Aditya Birla Capital Limited (ABCL) policies of providing adequate transparency to customers and ensuring an equitable interest rate mechanism.

The purpose of this Policy is to set out the principles followed while arriving at Long Term Reference Rate / Short Term Reference Rate and levying interest rate/margin on credit facilities extended by ABCL to its customers.

This Policy broadly outlining the pricing determination mechanism, rationale for charging different rates of interest for different category of borrowers is in compliance with the directives of the Reserve Bank of India to have a documented policy for interest rates charged on the loans disbursed by the company.

Given the business model of ABCL, the rate of interest could vary for different loan products, tenors and risk profiles of borrowers. Most of these products, generally, are linked to the reference rates of the Company. Indicative factors considered for determining pricing is covered in ensuing paragraphs. Customers will be made upfront aware of the offered price on their facility on the sanction documents / Key Fact Statement / agreements as applicable to that product category, enabling the customer to be aware of all costs and charges for availing the loan and to enable him/her to compare the same with any offering from other lenders.

Document Details:

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Approved By/In	Date	Remarks
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Pricing Determination Mechanism

ABCL offers floating rate as well as fixed rate loans to its customers. The existing loan portfolio and new bookings comprise both these categories of loan. With respect to providing adequate transparency to customers and ensuring an equitable interest rate mechanism, ABCL publishes its reference rates and reference rates are used for pricing of all variable rate asset products offered by ABCL. ABCL also offers floating rates loans linked to external reference rates. The impact of any changes in the reference rates are affected only prospectively and are passed onto the existing customer base in a transparent manner. Any change in the reference rates is approved by ALCO.

Any changes to reference rates are passed on to existing customers keeping the contracted spread (as agreed by both parties in the loan agreement) unchanged as deemed fit unless there is a credit quality deterioration/enhancement.

Premium over / below reference rate offered to new customers are determined by considering the various factors, including, but not limited to:

- Ticket size of the loan
- Tenor of the loan
- End use of fund
- Method of financial evaluation
- Credit profile of the customer
- Industry/competition pricing
- Structuring premium
- Margin
- Cost of Funds

Reference rate model

Reference rates for ABCL are determined basis following broad factors. Reference rates also factors in various other factors like current and forecasted market conditions, economic conditions at the time of revision.

- **Cost of Funds:** The Company has its sources of short-term and long-term borrowings such as commercial papers, NCDs, ICDs, bank term loans, other term loans, working capital borrowings etc. The borrowing rate for ABCL is dependent on the maturity period for which funds are borrowed. Similarly, the loan assets are priced based on the borrowing rates corresponding to the maturity or tenor for which the asset is created. In case of floating rate loan assets, the pricing is based corresponding to the reset period or like such parameters.
- **Tenor Premium and Liquidity Premium as per market conditions**
- **Operational Costs:** Interest rates to be charged should take care of operational cost towards sourcing, sanctioning, disbursing, collection, and management of such loan assets for various business segments.
- **Credit Risk:** Expected credit losses and NPAs, should be taken into consideration while arriving at the final interest rate for all loan assets. The amount of expected credit losses applicable to a particular type of loan transaction would depend on our internal assessment of the credit strength of our borrower.
- **Minimum Profit Margin**

Indicative Rate of Interest

Rate of Interest (ROI) shall be commensurate with the product pricing, cost of funds, operational costs, acquisition cost, etc. The product pricing shall be calculated after factoring in all the factors as enumerated/indicated in the above paras.

The below mentioned maximum ROI, which shall be offered under each of the segment, are indicative and will be modified from time to time based on prevailing market conditions among other factors:

Segment	Cap on ROI* / Maximum ROI*
Large & Mid Corporate (Secured)	20.0%
SME (Secured)	22.0%
Personal Loans	28.0%
Business Loans	28.0%
Small Business Loans (Secured and Unsecured)	32.0%

*(While the Company will ensure to cap ROI at abovementioned rates while sanctioning loans from April 01, 2025, in case of floating rate loans where the loan is linked to internal / external benchmark, the customer ROI could exceed the abovementioned cap upon increase in the internal / external benchmark rate to that extent)

Other procedural aspects

- Lending to a particular borrower is decided after taking into consideration market reputation, repayment track record, risk profile, income available to service debt, etc. of the applicant, and also nature and value of primary and collateral security offered.
- The rate of interest for the same product and tenor availed during same period by different borrowers need not be standardized. It could vary from borrower to borrower depending upon consideration of any or combination of above factors.
- The Company shall levy penal charges for non-compliance of material terms & conditions of loan contract along with Penal charges for delay or default in making payments towards the overdue amount for the delayed period.
- There shall be no capitalization of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account.
- Other financial charges like processing fees, pre-payment/foreclosure charges, documentation and other charges recovered are stated expressly in the Loan Documents containing the terms and conditions of the loan. They may vary across different products offered by the Company based on the asset financed, exposure limit, expense incurred in the geographical location and borrower segment among other factors.

Penal and other charges

A. Penal Charges

With an intent to inculcate a sense of credit discipline in the borrowers i.e. to encourage timely repayment and discourage delinquency, penal charges as mentioned below shall be levied as a deterrent:

1. Penal charges (charges levied for non-payment of overdue amount):

Sr. No.	Business Vertical	Penal charge
1.	Wholesale Lending Business: (Term Loan, Credit substitutes, Project Finance, Corporate Loan, Structured Finance)	2% p.a. on the overdue amount for the delayed period, above current applicable interest rate on the overdue amount.
2.	Mid-Market: (Term Loan, Working Capital Demand Loan, Line of Credit, Dropline Credit, Invoice Discounting, Purchase Finance, Bills of Exchange discounting, Trade Partnership Program, Factoring, Capital Market Group Institution & Retail)	Secured Products: 2% p.a. on the overdue amount for the delayed period, above current applicable interest rate on the overdue amount. Unsecured Products: 5% p.a. on the overdue amount for the delayed period, above current applicable interest rate on the overdue amount.
3.	Small Medium Enterprise Business: (Loan Against Property, Lease Rental Discounting, Construction Finance, Line of Credit products and its variants)	Term Loans: 2% p.m. (24% p.a.) on the overdue amount for the delayed period. Line of Credit products and its variants: 2% p.a.* on the overdue amount for the delayed period.
4.	Retail Consumer & Micro Business – Secured: (Small Ticket Secured Loan, Micro Loan Against Property and their variants)	2% p.m. (24% p.a.) on the overdue amount for the delayed period.
5.	Retail Consumer & Micro Business – Unsecured: (Personal Instalment Loan / Personal Loan, Business Instalment Loan / Business Loan, Short Term Unsecured Loan, Corporate Employee Solution Business – Personal Loan and their variants)	3% p.m. (36% p.a.) on the overdue amount for the delayed period.
6.	Retail Consumer & Micro Business - Digital: (Personal Loan, Business Loan)	3% p.m. (36% p.a.) on the overdue amount for the delayed period.
7.	Udyog Plus / Digital Ecosystem: (Business Loan, Personal Loan)	3% p.m. (36% p.a.) on the overdue amount for the delayed period.
8.	Supply Chain Finance:	a. 5% p.a. on the overdue amount for the delayed period, above current applicable

	<p>a. Anchor based b. Non-Anchor based</p> <p>(Channel Finance, Vendor Finance, Term Loan, Working Capital Demand / Term Loan, Line of Credit, Invoice Discounting / Purchase Finance Facility, Assignment of Receivables)</p>	<p>interest rate on the overdue amount</p> <p>b. 1% p.m. (12% p.a.) on the overdue amount for the delayed period, above current applicable interest rate on the overdue amount</p>	
9.	Buy Now Pay Later / Check-Out financing	Overdue Amount	Charges (in Rs.)
		Upto Rs 100	Rs 0 – Rs. 25
		Rs 101 to RS 250	Rs 26 – Rs. 50
		Rs 251 to 500	Rs 51 - Rs 100
		Rs 501 to 1000	Rs 101 - Rs 250
		Rs. 1001 to Rs. 2500	Rs 251 - Rs 500
		Rs. 2501 to Rs. 5000	Rs 501 - Rs 750
		Rs. 5001 & Above	Rs 751
10.	Equated Daily Instalment (EDI) Product	3% p.m. (36% p.a.) on the overdue amount beyond grace period at the end of month.	

2. Penal charges for non-compliance with material terms and conditions (covenants / stipulated conditions) mentioned in the Sanction Letter / Loan Agreement (if applicable):

Up to 2% p.a. on the outstanding loan amount till the date of compliance.

3. Cheque return/bounce charges/ECS/SI/NACH failure charges (excluding EDI products): up to Rs. 1,000 per instance

4. Mandate cancellation charges (one-time charge levied in case customer cancels an active mandate instruction for recurring repayment(s) and no new mandate is registered): Rs. 450 per instance (subject to GST, if applicable)

Note: Any change in rate of abovementioned Penal Charges or introduction of any new Penal Charges applicable to various products offered by the Company, the same to be approved by the Board of Directors as part of this Policy.

B. Charges applicable for switching of loans from floating to fixed interest rate and vice versa

RBI on January 10, 2025 released FAQs in respect of circular on ‘Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans’. Personal Loan(s) (as defined therein) granted to individual(s) on floating interest rate on equated installment (irrespective of periodicity) for purposes other than business / commercial (“Eligible Loan”) shall be subject to guidelines as enumerated in the said Circular*.

*It may be noted that the said Circular is subsumed under Para 45.6 of the Master Directions – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulations), Directions, 2023.

As per the aforementioned FAQs, the Board of Directors of the Company is required to approve the charges applicable for switching of Eligible loans from floating to fixed interest rate & vice-versa. Such charges shall also be displayed on the website of the Company.

In accordance with the aforementioned FAQs, the charges for switching to fixed from floating rate of interest and vice-versa upon receipt of request from borrowers of Eligible Loan(s) shall be as under:

- *Up to 3% of the principal outstanding amount (subject to GST, if applicable)*

The above charges shall form part of Schedule of Charges of applicable/eligible loan product offered by ABCL.

Note: Any change in rate of abovementioned Charge as applicable to Eligible loan products offered by the Company, the same to be approved by the Board of Directors as part of this Policy.

C. Processing / Documentation and Other charges

All other charges including processing / documentation charges are expressly mentioned in the Schedule of Charges forming part of the Loan Agreement / Terms & Conditions and Key Fact Statement. Such charges may vary based on product type and applicable conditions.

The Product Approval Committee (PAC) shall approve and review reasonableness of other charges including processing / documentation charges (including introduction of new charges / amendments to existing charges, if any) applicable to various products offered by the Company.

D. OTHER ASPECTS

The Schedule of Charges comprising of indicative range of Rate of Interest, Penal charges, Fees and Other charges levied for each product offered by the Company is hosted on the website of the Company.

Based on the merits of each loan account and subject to discretion of the Company, the charges / fees as indicated in the Schedule of Charges may be settled at a lower rates or waived at a loan account level as per the Company's Delegation of Authority matrix.

As regards Penal and Other Charges / Fees to be levied to the customers in case of a Co-lending arrangement, the Board approved Policy adopted in line with the 'RBI circular on Fair Lending Practice - Penal Charges in Loan Accounts' by the Co-lending partner sourcing the customers shall be adhered to.

Customer Communication

- During the loan sanctioning process the borrower is clearly informed and explained about rate of interest, all the applicable charges and other terms and conditions pertaining to the loan facility; the borrower signs a Loan Agreement, a Sanction Letter, Key Fact Statement (as applicable) as received from the Company.
- A copy of the same is kept for reference on the company's records.
- Any changes in the terms and conditions, interest rates and charges shall be communicated to the borrower in a mode and manner deemed fit, and such changes are affected only prospectively.