Navadhan Capital Private Limited

Interest Rate Policy
V.01

Contents

1. Introduction:

Navadhan Capital Private Limited (Navadhan) Interest Rate Policy complies with **Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023(“RBI Regulations”)** intending to institute fair and transparent dealings in the lending business, the Company has adopted and put in place the following Interest Rate Policy parallel to the company’s Fair Practice Code.

2. Applicability:

Navadhan primarily focuses on unsecured business loans to the MSME sector. Although Navadhan will continue to explore various products to address the financing needs of its diverse customer base, the Interest Rate Policy will apply to all products developed and offered by the Company to its clients.

3. Interest Rate Model:

The interest rate for credit facilities extended by Navadhan is driven by the cost of funds plus the risk premium associated with the borrower/facility.

Interest rate to the borrower = Cost of funds + Risk premium

Navadhan Interest rate model is based on The Marginal Cost of Lending Rate (MCLR) concept as a function of the following factors:

i. Cost of Capital (debt and equity)
ii. Operating costs
iii. Tenor Premium
iv. Negative carry involved in maintaining liquidity

4. Cost of Funds:

The cost of funds for a company refers to the total expenses associated with obtaining capital, including debt and equity financing. For debt, this typically involves interest payments on loans or bonds, while equity financing may incur costs related to dividends and issuing new shares. The cost of funds is crucial for financial planning, as it influences investment decisions and overall profitability. Companies strive to minimize this cost to maximize their return on investment, often by securing favorable interest rates or maintaining a balanced capital structure. Additionally, market conditions, credit ratings, and the overall economic environment can significantly impact a company's cost of funds, making effective management essential for long-term financial health.

5. Risk Premium:

The risk premium applicable to the borrower/facility is based on the following factors:

i. Industry risk:

Asset quality, profitability, earning and funding volatility, competition, regulatory impact, etc. of the borrower’s industry

ii. Business Risk:

Asset quality, market position, resource profile, etc. of the borrower

iii. Management Risk:

Corporate governance, integrity and competence of the promoters, management team track record, board composition, etc.

iv. Financial Risk:

Capital Structure, Profitability, Liquidity, etc. of the borrower

v. Product Premium:

Depends on the nature and risk associated with the product

vi. Repayment Track Record:

Customers having regular repayment track record will have lower risk premium and vice-versa.

6. Gradation of Risk

Gradation of risk refers to the varying levels of risk associated with lending to different borrowers or in different lending scenarios. There are various factors considered during the process mentioned as follows:

a. Credit bureau score
b. Credit History
c. Type of loan
d. Type of Business
e. Loan Amount
f. Economic conditions
g. Geographic factors
h. Tenure of Loan

7. Penal charge

A penal charge refers to an additional fee or penalty imposed on a borrower when they fail to comply with the terms of a loan or credit agreement. This can occur in various lending scenarios and is often designed to encourage timely repayment and deter defaults. Penal charges can come in several forms,

Events when penal charges shall be levied shall be below:

- Delay in interest or principal re-payment (cheque/NACH bounce)

- Default in promise to payment

- Delay/default in the submission of post-disbursement documents

- Delay/default in the creation of security

- Delay/default in settlement terms

8. Processing fee:

This is usually mentioned as a fixed amount and for clarity may be mentioned in the sanction letter as % of the total loan amount. The processing fee as a % of the loan amount can range between 0-3%. The costs vary based on the product and location of the customer (as mentioned below). The processing fee may be alternatively mentioned for smaller ticket-size loans as only a flat amount. This fee is non-refundable and is distinct from the interest and principal of the loan amount. The amount is usually collected at the time of loan application.

9. Interest Rate

The interest rate offered to the end customer is on a fixed basis. Interest rates could be charged at any frequency depending on the product/segment (weekly/ bi-weekly/ monthly/ quarterly/ semi-annually/ annually/ bullet). This shall be disclosed in the sanction letter.

The interest rate charged is calculated taking into consideration the cost of the fund and risk premium.

The following shall be specific considerations for the determination of interest rate:

(i) The cost of funds takes into account the weighted average cost of funds, operational costs, tenor premium and cost for maintaining liquidity for Navadhan. The average cost of funds is dependent upon the rate prevailing in the market. The average cost of funds for Navadhan can range between 13-20% depending upon the marketing conditions.

(ii) A Spread / Premium based on the aggregate of borrower-specific risk factors. These may include client profile, asset class, business segment, product offered, tenor, liquidity profile, capitalization, governance structure, past track record, management strength, and overall credit assessment.

Interest rate charges for the same product and tenor availed during the same period by different borrowers need not be standardized. It could vary depending on different customers depending on consideration of the above factors.

10. Co-lending Interest Rate Model

In Co-lending/ BC arrangements Navadhan Capital shall have the following commercials for the end customers:

1) Interest Rate
2) Processing Fees
3) Penal Charges

Wherever taxes and cess are applicable it shall be as per the applicable tax regime.

11. Cooling-off Period

For the unsecured loans, a cooling-off period will be offered. The customers shall have the option to prepay the loan paying a processing and an interest up to APR during the cooling off period.

12. Changes in the interest rate structure and range

The interest rate structure and range shall be changed on an annual basis or as and when required with the Board's approval.

13. Interest Rate Communication

A Key Fact Statement outlining each charge and the interest applicable to the customer will be clearly communicated at the time the loan is sanctioned. This information will be included in the loan documentation and highlighted in bold. Additionally, the Company will maintain a record of the borrower's acceptance of these terms and conditions.

Version	Proposed by	Approved by	Approval Date	Applicable Date
v1.0	Vijay Haswani – Head of Credit	Nitin Agrawal- MD & CEO	05-Aug-2021	05-Aug-2021