Interest Rate and Pricing Policy

As per Reserve Bank of India guidelines, Board of each NBFC shall approve an Interest rate model for the Company, taking in to account relevant factors such as cost of funds, margin and risk premium etc. and determine the rate of interest to be charged for loans and advances. Further, the directives states that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers in the sanction letters to them.
Accordingly, this interest rate policy / model of the company has been prepared in line with the RBI guidelines and has been adopted by Board of Directors of SMEIntellect Growth Capital Pvt. Ltd. (is referred as "the company" or "SMEIntellect" hereinafter).

SMEIntellect will lend money to its customers through Fixed and Floating rate loan. SMEIntellect is into providing various loans as under to MSME Borrowers:

- Working Capital Loan (Secured - Money Bag/ Unsecured-Money Purse),
- Small Business Loans (secured / unsecured),
- Small Shop Loans (secured / Unsecured),
- Industrial and Material Handling Equipment Finance (New / Used),
- Unsecured loans to Small Business Professionals,
- Unsecured loans to Small Business Executive and
- Small Mortgage Loans to potential customers.

Pricing on loans
An NBFC derives its incomes from the interest spread between the rate charged to its customers and the rate charged by its lenders / cost of funds on shareholders' funds. The operational and credit costs are deducted from this spread to arrive at the profitability of the NBFC. Each of these parameters shall be periodically monitored to arrive at the final interest rate to be charged to the borrower. The factors have been enumerated below.:

1. Cost of funds charged by the lenders / Investors / Shareholders
2. Risk premium depending on customer risk category
3. Operational Expenses
4. Credit Cost
5. Expected Profitability

Weighted Average cost of borrowing: SMEIntellect raise the money from its promoters through equity and the cost of such equity is taken at G-sec + 2% as suggested by RBI. SMEIntellect will borrows moneys from a multitude of financial institutions viz. banks, NBFCs, through issue of Non-Convertible Debentures, Commercial Paper, Securitization transactions, Subordinate debt, Term Loans etc. While there are a number of factors evaluated by the lenders before arriving at the cost of funds that would be levied on the company, the primary parameter that differentiates the cost between different forms of funding is the underlying tenure of the facility sanctioned. Longer tenure facilities come at a higher cost compared to the shorter tenure facilities. In view of this, one of the important aspects of the SMEIntellect Interest rate model must be the underlying tenure of the assets originated.

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.

Risk premium
SMEIntellect has a very clear approach towards categorising the customers based on their risk rating. Base risk premium **to** cover business related risks. The Company uses multiple parameters in categorising the customers into Low, Medium and High-risk categories as mentioned below.

Risk profiling of borrowers: Categorization of borrower should be done for each credit proposal. The various factors to be considered for risk profiling are Vintage, DER, DBR, Loan-to-Value ratio, Credit Bureau Score, living style of customer and market reference. The guidelines with respect to risk profiling are as follows:

Parameters	**Low**	**Medium**	**High**
Vintage	>5 years	2 to 5 Years	<2 years
LTV	<=50%	Above 50% to 60%	> 60%
Customer living style	Good	Average	Poor
Market Reference checks	Good	Average	Poor
Credit Bureau score	>500	350 to 500	<350

The final risk profile of borrower should be based on the majority risk categorization of above parameters. The categorization is decided on a) If the borrower qualifies as low risk on a minimum of 3 parameters out of the 5, then the borrower will be categorized as a low-risk borrower. b) If the borrower qualifies as low risk & medium risk on 2 parameters each and high risk on 1 parameter, then the borrower will be categorized as a medium risk borrower.

Proposals with Borrower's risk profile as High would not be encouraged.

Based on the classification of the borrower into low, medium and high risk, the company has decided to keep the risk premium constant for the low and medium category borrowers while for the high-risk borrower, the risk premium will be higher by 1%.

Operational Expenses: Operational expenses include personnel expenses, administrative expenses, branch related fixed and variable expenses, depreciation, sales and marketing cost which are incurred on a monthly basis. In a steady state scenario, the operational expenses remain fairly stable.

Credit Cost: Credit costs include Expected Credit Loss provisions and write offs. In a state of stable portfolio performance, the credit loss is also predictable and would remain fairly stable.

Profitability: The revenues net of all the expenses enumerated above would lead to the profitability of the company. Return on assets is the minimum return expected by the company on its assets.

Principles and procedures for charging spreads to calculate final rate

The rate of interest for loans for various segments and various schemes thereunder is arrived after adjusting for spread. Multiple Factors taken into account for calculating spreads are as follows:

- Interest rate risk (fixed vs floating loan)
- Credit and default risk in the related business segment
- Historical performance of similar clients
- Profile of the borrower
- Industry segment
- Repayment track record of the borrower
- Nature and value of collateral security
- Secured Vs unsecured loan
- Subvention available
- Ticket size of loan
- Credit Bureau Score
- Tenure of Loan
- Location delinquency and collection performance
- Customer Indebtness (other existing loans)

The rate of interest for the same product and tenor availed during same period by different customers need not to be standardized. It could vary for different customers depending upon consideration of any or combination of above factors.

Interest rate model

The major points of consideration amongst the variables mentioned above are the Cost of funds and Risk premium since the other variables are expected to be constant across the various category of loans, irrespective of the risk categorisation of the borrower. Hence the Interest rate model aims at addressing these 2 variables to arrive at the pricing to the end customer.

Fixed rate loans are not linked to benchmark but are decided based on their COF (allocated through Fund transfer pricing), Operational expenditure, Business related risks and desired ROE/ROA.

Given the focus primarily on the cost of funds, which is dependent on the underlying tenure, and the fact that the Company refrains from doing high risk borrowers, it is proposed to adopt an Interest rate model, which will built on the underlying tenure of the assets originated. In case of high-risk borrowers being onboarded, an additional risk premium of 1% would be levied.

Asset Liability Committee (ALCO) shall be responsible for taking decision to change the benchmark rate. The ALCO meeting will be held monthly and any changes/no changes in the benchmark rate would be decided by ALCO and would be put up to board in subsequent meeting. The ALCO or the Board shall be the authority to decide on the pricing to be charged for different tenures of assets.

Processing fee and Other Charges: Besides interest, other financial charges like processing fees, origination fees, documentation charges, cheque bouncing charges, late payment charges, reschedulement charges, pre-payment / foreclosure charges, part disbursement charges, cheque swap charges, security swap charges, charges for issue of statement account etc., would be levied by the company wherever considered necessary. Besides these charges, stamp duty, service tax and other cess would be collected at applicable rates from time to time. Any revision in these charges would be from prospective effect. These charges would be decided upon by respective business / product heads in consultation with Operations, Finance and Legal Heads.

Penal Interest / Late Payment Charges: As a deterrent against intentional delinquency and to encourage prompt and timely repayment of instalments, the Loan Agreement provides for penal interest of upto 3% per month calculated on a simple interest basis for the delayed period.

Communication to Customers: Interest rates would be intimated to the customers at the time of sanction / availing of the loan. 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 either of mail, letter, SMS