

Interest Rate Policy
(Approved by the Board at its meeting held on 8th April 2019)



Ajivika Finance Limited
April 2019

Background

As per the Reserve Bank of India guidelines, Board of each NBFC shall approve an Interest rate model that is applicable 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 directive 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 issued to them. Board of Directors at their meeting held on 8th April 2019, had adopted the interest rate model of the Company. Thereafter, the Company authorized the Director Mr. Kamal Kant Dang to review the interest rates from time to time basis the money market situation and take suitable decisions.

Objective of the policy

To arrive at the benchmark rates to be used for different category of customer segments and to decide on the principles and approach of charging spreads to arrive at final rates charged from customers.

Review of Policy

The Policy shall be reviewed once in a year or in between if required due to changes required in the model, for example any addition/deletion of a particular component forming part of benchmark calculation.

Interest rate Model

AFL lends money to its customers through Fixed and Floating rate loans. AFL being a diversified NBFC lends money through various products to cater the needs of different category of customers. Few broad categories of customer segments are as follows.

- Micro Enterprise Loans
- SME Loans

The aforesaid benchmarks are calculated based on following factors.

Sr. No.	Factor	Description
1	Weighted Average cost of borrowing	The Company borrows funds through term loans and subordinate debt etc. from the investors. Weighted average cost of borrowing of such funds is taken for bench mark calculation.
2	Cost of Equity	AFL needs to put some equity portion to run the business and the cost of such equity is taken into consideration.
3	Fund raising cost	It includes processing fees on term loans, brokerage to source funds, Rating Fee, etc.

4	Opex Cost	It includes employee expenses, branch related fixed and variable costs, operations costs, sales and marketing expenses, etc.
5	Risk Premium	Base risk premium to cover business related risks and would vary by business, customer segment, geography, sourcing channel etc.
6	Base ROA	Base Return on assets is the minimum return expected by the company on its assets.

Weighted avg. cost of borrowing (A)	19%
Cost of Equity (B)	06%
Fund raising cost (C)	01%
Opex cost (D)	07%
Risk premium (E)	02%
Base ROA (F)	05%
Final APR rate {Sum (A to F) }	40%

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. The Board authorizes the company to change interest on various loans upto but not exceeding 40% APR.

Communication Framework

AFL will communicate the effective rate of interest -to customers at the time of sanction / availing of the loan through the acceptable mode of communication.

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 updation, email, letters, SMS, etc.

Amendments to the Interest Rate Policy

The Board hereby authorizes the Director Mr. Kamal Kant Dang to review and make appropriate changes to the Interest Rate Policy from time-to-time basis the money market scenario in the Country which includes the upward / downward revision in interest rates applicable to various loan products and the relevant charges applicable for such loan products.
