

## INTEREST RATE POLICY

### Background:

- In the light of the complaints regarding charging of excessive interest and other charges by NBFCs, RBI has requested NBFCs to set out clearly the principles and procedures followed in determining interest rates, processing and other charges and also adopt appropriate interest rate model taking into account relevant factors and to disclose the rate of interest, gradations of risk and rationale for charging different rate of interest. Keeping in view the RBI guidelines and as a good governance practice, the Company has adopted the following internal guidelines, policies, procedures and interest rate model for its finance business.

### Methodology:

- The rate of interest charged to the borrowers will be linked to Hinduja Leyland Finance Base Lending Rate (HBLR) which will be fixed by the Asset Liability Management Committee (ALCO) from time to time taking into account the weighted average cost of funds, risk premium, and other costs such as administrative expenses and profit margin.

The HBLR and its various components have been explained below by way of an example.

<b>Components in Interest rates</b>	
Cost of Borrowing as on 30 <sup>th</sup> June, 2023	8.4%
Average Risk premium (All grades)	1.6%
Systemic and Market Risk premium	1.2% <sup>1</sup>
Overheads & Cost of operations	1.3%
Hinduja Leyland Finance Base Lending Rate (HBLR)	12.5%

1. Vehicle Finance NBFCs were not able to transfer the excess Interest Cost to the Borrowers primarily due to competitive intensity from banking sector, Market Share loss. we shall review the above table on a need basis, monitoring the liquidity in the system and the rate increases.
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Note:

1. Cost of Borrowings as on 30<sup>th</sup> June, 2023 is 8.4%, 1 Year MCLR reviewed annually in line with the bank's annual review of MCLR) .
  2. The first component as mentioned in the above table would largely impact HBLR.
  3. Overhead cost and credit cost has been incurred in managing the AUM, therefore for the purpose of computing overhead cost and risk premium AUM has been considered.
- The rate of interest charged to our customers is linked to HBLR. The mark up over this rate would vary depending on the risk profile of the customer, asset class (commercial vehicle, personal vehicle, tractors, construction equipment, loan against property etc.), asset type (new/used), wholesale lending, leasing, unsecured loan and prevalent liquidity conditions. Accordingly, the rate of interest generally charged to our customers, for the above asset classes, is in the range of 9% to 36%<sup>1</sup> p.a. In case of any deviations, it has to be approved by the Chief Financial Officer and Managing Director/Chief Executive Officer.
  - The interest rates offered could be on fixed basis or floating / variable basis. In the case of loans on floating rate basis, the base for the floating rates would be reviewed on periodic intervals. In the case of fixed rate loans on EMI basis, annualized rate of interest would be intimated to the customer
  - The interest rate applicable to each loan account will be assessed based on multiple parameters like tenure, borrower profile, borrower's repayment capacity based on the cash flows, inherent credit and default risk in the business, loan to value of the asset financed, type of collateral security provided by the borrower, past repayment track record of the borrower, deviations permitted, ancillary business opportunities, future potential, group strength etc.

**Other aspects:**

The Company shall adopt a discrete interest rate policy which means that the rate of interest for same product and tenure availed during the same period by separate

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<sup>1</sup> Amended by the Board on November, 2020

customers would not be standardized but could vary within a range, depending, amongst other things, the factors mentioned above.

- The Company shall disclose the rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers in the application form and communicate explicitly in the sanction letter.
- The rates of interest and the approach for gradation of risks shall also be made available on the web-site of the Company. The information published in the website would be updated whenever there is a change in the rates of interest.
- Changes in interest rates could be decided at any periodicity, depending upon market volatility and competitor review.
- Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per terms of the loan documents.
- Besides normal interest, the company may levy additional interest for adhoc facilities, penal interest for any delay or default in making payments of any dues. The Company shall mention the penal interest rate chargeable in bold in the loan agreement.
- Interest would be charged, and recovered on a monthly basis. Specific terms in this regard would be addressed through the relevant product policy.
- Interest rates would be intimated to the customers at the time of sanction / availing of the loan and the EMI apportionments towards interest and principal dues would be made available to the customer.
- Interest shall be deemed payable immediately on due date as communicated and no grace period for payment of interest is allowed.

- Besides interest, other financial charges like processing fees, cheque bouncing charges, pre-payment/ foreclosure charges, part disbursement charges, cheque swaps, cash handling charges, RTGS/ other remittance charges, commitment fees, charges on various other services like issuing NO DUE certificates, NOC, letters ceding charge on assets/ security, security swap & exchange charges etc. would be levied by the company wherever considered necessary. Besides the base charges, the Goods and services tax and other cess would be collected at applicable rates from time to time. Any revision in these charges would be with prospective effect. A suitable condition in this regard would be incorporated in the loan agreement. These charges would be decided upon collectively by the management of the Company.
- The practices followed by competitors would also be taken into consideration while deciding on interest rates / charges.
- Interest rate models, base lending rate and other charges, and their periodic revisions will be made available to prospective and existing customers through our offices and branches. Prior to entering into an agreement with customers, they will be provided with statement of charges and interest and their queries and questions on the same, will be addressed to their satisfaction. Loan officers will ensure charges and rates of interest are explained clearly and transparently to the people who may be interested in the Company's products.
- Claims for refund or waiver of such charges/ penal interest / additional interest / HBLR rate increases would normally not be entertained by the company and it is the sole and absolute discretion of the company to deal with such requests.

### **Policy review**

This Policy will be reviewed periodically as and when needed and at least once in a year.

This policy was last reviewed and approved by the Board on 2<sup>nd</sup> February,2024.