

INTEREST RATE AND CHARGES POLICY

1. Preamble

Vallabhi Capital Private Limited (VCPL) is a Non-Banking Financial Company (NBFC) focused on empowering individuals and businesses, especially in the MSME sector. We provide innovative and accessible financial solutions tailored to the unique needs of micro, small, and mid-sized enterprises, as well as salaried professionals, fostering financial inclusion and sustainable growth across India. Vallabhi Capital is addressing the missing link between microfinance and commercial capital in the MSME sector. The funds for such loans are borrowed from banks and other financial institutions for on-lending to potential borrowers.

2. Interest Rate Model Policy

The Reserve Bank of India (RBI) had vide its master direction RBI/DOR/2023-24/106 DoR.FIN.REC.No.45/03.10.119/2023-24, dated 19 October, 2023 (updated as on March 21, 2024) and as amended from time to time advised that Boards of Non-Banking Finance Companies (NBFCs) should lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. Keeping in view the RBI's guidelines as cited above, and the good governance practices, Vallabhi Capital Private Limited, hereinafter referred to as “Vallabhi”, has adopted the following internal guidelines, policies, procedures and interest rate model for its lending business.

3. Interest rate offered to customers are being decided after considering following components

- **Cost of funds**

Vallabhi Capital borrows moneys from various sources like banks, NBFC's, Investors, etc in the form of Subordinated Debt, term loan, Non- convertible debentures, commercial papers 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, etc. Usually, longer tenure facilities come at a higher cost compared to the shorter tenure facilities.

- **Negative carry**

The Company keeps a liquidity buffer in the form of investments into liquid funds to maintain regulatory liquidity coverage ratio (“LCR”) and to manage liquidity risk. The Company also keeps funds in fixed deposits as security for its pass through certificate investments, thus bearing negative carry on those investments.

- **Operating cost**

All operating costs associated with providing the Loan Products, including:

1. Sourcing costs, customer onboarding costs, debt management costs, employee expenses, tech costs, etc.
2. Costs incurred by the Company for raising funds in the form of processing fees, brokerage to source funds, rating fees, trusteeship fees, IPA commission on commercial papers, exchange listing fees, stamp duty, etc. This component might be different for each kind of borrowing.
3. The Company has ensured that the costs of providing those services which are separately recovered by way of service charges to customers do not form part of this component.

- **Credit risk premium**

The credit risk premium charged to the customer representing the default risk arising from loan sanctioned will be arrived at based on an appropriate credit risk rating/scoring model and after taking into consideration customer relationship, expected losses, collateral risk premium. The credit risk premium is therefore calculated to cover the potential credit loss risk. The judgment of the credit costs of customer segments is compared against actual and anticipated performance on an ongoing basis. Details on risk gradation are covered in Section III.

- **Tenur premium**

This cost arises from loan commitments with longer tenor. The tenor premium is uniform for all Loan Products for a given residual tenor.

- **Business strategy Premium**

The component shall be arrived at taking into consideration the business strategy, market competition, interest rate type (fixed vs floating) and loan product.

- **Expected return on assets**

The Company proposes to use expected return on assets corresponding to each Loan Product in its interest rate model, to ensure sustainability of its business operations, while ensuring the interest rates charged to customers are fair reasonable and transparent.

4. Methodology of Interest Rate Calculation

The interest rate for each of our products are decided by the Board. The average yields and the rate of interest under each product are decided from time to time, giving due consideration and equal weightage to the following factors:

- The weighted average cost of funds on the borrowings, as well as costs incidental to those borrowings, taking into consideration the average tenure, market liquidity, refinancing avenues, etc.;
- Operating cost in our business and maintaining the stakeholder's expectations for a reasonable, market-competitive rate of return;
- Industry trends - offerings by competition in the industry;
- Nature of lending, for example unsecured/secured, and the associated tenure;

- Nature and value of securities and collateral offered by customers; risk profile of customer - professional qualification, stability in earnings, financial track record, past repayment track record with us or other lenders, credit reports, customer relationship, future business potential etc.;
- Whether the customer is a new to credit or an existing one.
- Other factors coming time to time.

5. Our approach to Interest Rate

- Vallabhi has adopted a discrete interest rate policy which means that the rate of interest for the same product and tenure availed during the same period by separate customers will not be standardized but could vary within a range, depending, amongst other things, the factors mentioned above.
- The interest rates offered could be on fixed basis or floating/variable basis. Changes in interest rates will be decided at any periodicity, depending upon market volatility and competitor review.
- Besides normal interest, Vallabhi may levy additional interest for adhoc facilities, cheque bouncing charges, penal charges for any delay or default in making payments of any dues. The levy or waiver of these additional or penal charges for different products or facilities will be decided within the limits prescribed under the policy.
- The interest re-set period for floating/variable rate lending will be decided by Vallabhi from time to time, applying the same decision criteria as considered for fixing of interest rates.
- Interest will be charged on a daily rest basis and recovered on a monthly basis. Specific terms in this regard will be addressed through the relevant product policy.
- Interest rates will be intimated to the customers at the time of sanction/availing of the loan and the EMI apportionment towards interest and principal dues will 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.
- Interest changes will be prospective in effect and intimation of change of interest or other charges will be communicated to customers in a manner deemed fit, as per terms of the loan documents.
- Besides interest, other financial charges like processing fees, cheque bouncing charges, penal charges, pre-payment / foreclosure charges, part disbursement charges, 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, insurance etc. will be levied by Vallabhi wherever considered necessary. Besides the base charges, the GST will be collected at applicable rates from time to time. Any revision in these charges will be with prospective effect. These charges will be decided upon collectively by the management of Vallabhi.

- Prior to entering into an agreement with our customers, Vallabhi will provide them with our statement of charges and interest and address their queries and questions on this to their satisfaction. Our officers ensure charges and rates of interest are explained clearly and transparently to customers who may be interested in our products. The same will also be displayed on our portal.
- In case of staggered disbursements, the rates of interest will be subjected to review and the same may vary according to the prevailing rate at the time of successive disbursements or as may be decided by Vallabhi.
- Claims for refund or waiver of such charges/penal charges will normally not be entertained by Vallabhi and it is the sole and absolute discretion of the Company to deal with such requests.

6. Risk Based Interest Rate Pricing

The customers are categorized into a gradation of risk categories based on various data points collected during the loan process such as customer history, business history, credit history, sector, sub-sector business is operating in, business revenues, banking history, past loan history with Vallabhi, etc. Based on data collection, verification and calculations, our data science model determines the risk of each loan and categorizes this risk into different risk bands. A risk adjusted premium is applied to the base rate of a particular loan product to derive the final interest rate for a given loan. Also, Vallabhi does not plan to enter or deal with the High-Risk segments such as politically exposed person of Indian or Foreign Origin, those with dubious reputation as per public information available etc.

Interest Rates can range from 12% to 33 % per annum on a reducing balance basis for a loan. Identical products may attract different interest rates for different customers. Interest rates may vary depending upon a combination of factors including but not limited to credit and default risk, historical performance of similar clients, profile, repayment track record and credit history of the applicant, nature of the business, value of collateral security, tenor, etc.

S No	Product	Rate of interest (PA)
1.	MSME Retails	24% – 33%
2.	SME Loans	14% – 26%
3	Personal Loans	20% – 30%
4.	Housing	12% – 17%
5.	Vehicle	12% –17%

7. Other Charges.

ID	CHARGE DESCRIPTION	ONE-TIME/RECURRING	AMOUNT/ RATE
1	Due Date Change Charges	Recurring	1000+GST
2	Foreclosure letter issuance charge	One-time	1000+GST
3	EMI Bounce charge	Recurring	750+GST
4	Legal Fee	One-time	3500+GST
5	List of documents (LOD)Charge	Recurring	1000+GST
6	Late Payment Penalty	Recurring	2%
7	Loan Processing fee	One-time	(0-3%)+GST
8	Foreclosure Charges	One-time	if closed in : 0-12 months , 5% of outstanding loan +GST ; 13-24 months,4% of outstanding loan +GST; Above 24 months,3% of outstanding loan +GST

8. Review of the Policy

The rates of interest and charges shall be reviewed periodically and any revision in this policy shall be decided by the Board. The policy will be reviewed yearly or as required by the Board of Directors of the Company.