VALUVANADU CAPITAL LIMITED
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VALUVANADU CAPITAL LIMITED

INTEREST RATE POLICY

Version Control		
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Policy Owner : **HOD, Credits**

Prepared by : **Credits Department**

Approved by : **MD, WTD & CFO**

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Policy on Interest Rate and other Charges

1. Introduction

The Company has been following certain procedures and practices in the matter of fixing interest rates on gold loans and other loans (assets) and NCDs/Subordinated Debt (liabilities) in line with guidelines prescribed by the RBI. Even though RBI has not fixed any interest rates, it has directed NBFCs to have a documented Interest Rate Policy / Model approved by the Board of Directors which would lay down internal principles and procedures in determining interest rates and other charges on the loan products offered by NBFCs. The specific points referred by RBI in its guidelines are: -

- Charging of excessive interest rates by NBFCs.
- The need for adoption of an interest rate model along with approach for gradations of risk & rationale for charging differential rates.
- Disclosure of rates of interest rates, changes thereof and publicity thereto.
- Adoption of annualized rates of interest while dealing with customers.

2. Objectives

The main objectives of the interest rate policy are to:

- Ensure that interest rates are determined in a manner to ensure long term sustainability of business by taking into account the interests of all stakeholders.
- Develop and adopt a suitable model for calculation of a reference rate.
- Enable fixation of interest rates which are reasonable: both actual and perceived.
- Ensure that computation of interest is accurate, fair and transparent in line with regulatory expectations and market practices.
- Charge differential rates of interest linked to the risk factors as applicable.
- Facilitate transition to income recognition norms that may be stipulated by RBI in future and adoption of best practices.

3. Interest Rate Methods

The company is adopting a fixed interest rate model. Under this method, the interest rate remains unchanged throughout the loan tenure, provided all other factors remain constant.

4. Interest Rate Application

a) Interest Rate Method Adopted by the Company:

For the time being, the company will apply the fixed interest rate method to all its loan products unless decided otherwise.

b) Reducing Balance Method & Monthly Compounding:

The company will charge interest on a reducing balance basis, meaning interest will be calculated on the daily outstanding balance of the loan account. Unless otherwise specified in the loan agreement, interest will be compounded on its due dates. Any interest rate mentioned in this policy refers to the rate applied on a reducing balance basis.

c) Annualized Effective Rate:

In addition to disclosing the contracted interest rate, the company will make efforts to disclose the annualized effective rate applicable to the borrower in the loan agreement.

5. Fixing of Interest Rate,

d) The company shall be free to price its loan products. The factors that affect interest for different loan products includes the following;

i. Cost of funds, i.e the overall cost at which the company is able to raise its long term and short-term funds.
ii. The operating cost of the company
iii. Reasonable margins
iv. Secured and un secured,
v. Security cover of collaterals
vi. Tenure of loans
vii. Loan Value

viii. Risk premium

ix. Pricing of competitors for the same or similar loan products

6. Approach to determining interest rate.

a) **Differential Pricing Strategy**: The company may apply different pricing strategies for various loan products. Even within the same product category, different schemes may be introduced, and pricing may vary across different loan slabs and offerings.

b) **Credit Assessment & Risk Gradation**: Given the nature of the company's customer base, a predefined risk gradation or rating assignment may not be practical, particularly for small-ticket loans. Accordingly, interest rates may vary across different loan slabs and offerings.

c) **Interest Rate Model & Sanctioning Authority**: The company's interest rate model, as detailed in Schedule-I, outlines the applicable rates for different loan products. The Management shall apply interest rates and other charges within the limits prescribed in Schedule-I, based on prevailing credit policies.

d) **Internal Guidelines & Risk-Based Pricing**: Management will establish detailed internal guidelines for credit and risk assessment, ensuring that loan pricing aligns with the company's financial goals and provides a reasonable return on equity. Risk categorization will consider borrower profiles, geographic factors, and loan size. The company may introduce new loan schemes periodically to cater to evolving market demands.

e) **Risk-Based Loan Pricing**: Lower-risk borrowers—determined by factors such as documented income proof, established repayment history, lower loan-to-value (LTV) ratio and higher credit scores—may benefit from preferential interest rates. Additionally, loan pricing may account for acquisition and servicing costs, which could be reflected in the interest rate. The loan sanction letter/pawnticket/Key Fact Statement shall explicitly state the interest rate applied to individual loans.

f) **Incentives for Regular Repayments:** Customers who make timely interest payments at regular intervals will be classified as low-risk borrowers and may qualify for special rebates on interest, as outlined in the loan documents. The rate of rebate/rebated interest shall be mentioned in the respective Loan Agreement/Pawnticket.

7. Annual Percentage Rate (APR)

Annual Percentage Rate (APR) means the annual cost of credit to the borrower which includes interest rate and all other charges associated with the credit facility. This will be mentioned in the Key Facts Statement.

8. Other Charges.

In addition to the interest, the Company may levy and collect charges for specific purpose/services as a measure of defraying the cost associated with such purpose/ service. It may charge a penalty for violation of important terms and conditions of the loan. The other charges and penalties are mentioned in ***Schedule II*** of the policy.

9. Approach to Penal Charges

The company extends loans with the expectation that borrowers will adhere to the agreed terms and conditions. Any failure to comply with key terms may pose significant financial and compliance risks to the company.

Penal charges are imposed not as a revenue-generating mechanism but to enforce credit discipline among borrowers. These charges will be reasonable and proportionate to the nature and severity of the default, ensuring fairness while discouraging noncompliance.

a) Nature of Penal Charges

i. Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower will be treated as ***'penal charges'*** and will not be levied in the form of ***'penal interest'.*** Penal Charges shall not be capitalised and no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account. Calculation of Penal charges on different loan type will be as follows:

   a Gold Loan: Penal charges will be charged on the aggregated loan outstanding which includes principal and interest.

   b Other Loans: Penal charges will be charged only on the interest due.

ii. The Company will not introduce any additional component to the rate of interest and ensure compliance to the applicable guidelines issued by the Reserve Bank of India in both letter and spirit.

iii. The quantum of penal charges will be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being Discriminatory within a particular loan/product category.

iv. The quantum and reason for penal charges will be clearly disclosed by the Company to the customers in the loan agreement and most important terms & conditions/Key Fact Statement (KFS).

SCHEDULE -I - INTEREST RATE FOR DIFFERENT LOANS.

Sl.No.	Loan Product	Basis of Interest Fixation	Remarks
1	Gold Loan	Cost of Borrowing (Presently 12.5% p.a) + operating cost (presently 10% p.a) + up to 5.5% towards risk premium + 2% towards profit margin. (Maximum of 30% p.a)	Approach to risk gradation • Tenure of the loan • Loan to Value Ratio (LTV) • Purity /quality of the security • Risk associated with location • Ticket size considering the cost of acquisition/ servicing of the loan/ borrower. Management may devise different schemes based on tenure, loan to value (LTV) or interest rates and for different locations. In view of the acute competition prevailing in the gold loan market and the growing presence of commercial banks and larger NBFCs in gold loan offering loans at lower prices, the management is free to respond to such marketing tactics by devising suitable schemes. However, the rate of interest shall offer a minimum yield of 24% P.a

			for the gold loan portfolio as a whole.
2	Loan- Secured by immoveable property, vehicle, etc…	Cost of Borrowing (Presently 12.5% p.a) + operating cost (presently 10 % p.a) + up to 5.5% towards risk premium + 2% towards profit margin. (Maximum of 30% p.a)	Approach to Risk gradation • Credit score of the borrower • Vintage of the business • Value of primary security • Value of Collateral property and LTV. • Track record of previous accounts with the Company
3	Unsecured Loans Including Short Term Business/ personal Loan and Other unsecured loans	Cost of Borrowing (Presently 12.5% p.a) + operating cost (presently 10 % p.a) + up to 11.5% towards risk premium + 2% towards profit margin. (Maximum of 36% p.a)	Approach to Risk gradation • Credit score of the borrower • Vintage of the business • Track record of previous accounts with the Company • Employment category of borrower

SCHEDUL-II- OTHER CHARGES

Sl. No.	Nature of Charge	Charges	Remarks
1	Processing Charge	Minimum. 500/- Maximum. 50,000/-	The Loan policy revised from time to time may specify the applicability of service charge.
2	Insurance Charge	Not exceeding Re.1/- per gram per month.	Applicable for gold loan only
3	Cheque / NACH / Electronic clearing bouncing charge	Rs.500/- for the first instance and can be increased up to Rs.1000/- for subsequent instances.	In case of repetitive instances of dishonour of cheque/ electronic clearing the company may charge a higher amount within the limit.
4	Pre-closure charge	Up to 4% of the principal loan outstanding.	Applicable to all loans excluding gold loans.
5	Notice charge	Up to Rs.100/- per registered notice and Rs. 1500/- for lawyer notices.	
6	Advertisement charge	At actuals if advertisement is done for a customer for any reason. Total cost of advertisement will be divided by number of accounts in case of auction announcement of a group of customers.	The cost of advertisement will be debited to the individual borrower(s) and recovered from them.

7	Penal charge on default of loan repayment	1. Gold Loan: Penal charges will be charged at the rate of 4% on the aggregated loan outstanding which includes principal and interest from the date of default till the date of actual payment. 2. Other Loans: Penal charges will be charged at the rate of 12% only on the interest due from the date of default till the date of actual payment.	The applicable charges shall be communicated to the borrowers in the loan document.
8	Recovery of legal expenses	Wherever the Company incurs any expense in connection with the recovery of loan through Court/ Arbitral tribunals, all such expenses at actual will be debited to the borrower's account.	
9	Other expenses, if any	All other expenses in connection with processing, maintaining and recovery of loans will be collected at actuals.	

In addition to the penal and other charges the company may collect the applicable taxes on such charges also from the borrowers.

All transactions of the Company, including payment/receipt of interest and other charges shall be rounded off to the nearest rupee, i.e., fractions of 50 paise and above shall be rounded off to the next higher rupee and fractions of less than 50 paise shall be ignored.

I. Implementation and Delegation of powers

The policy shall be implemented through appropriate internal guidelines, circular and product policies duly approved by the Managing Director/Whole Time Director. He may for administrative convenience fix up limits and delegate powers with respect to the exercise of discretionary powers covered under this policy.

II. Effective date

This policy shall be effective from the date on which it is approved by the board unless a separate date is specified by the board. Any circular issued under this policy shall have effect from the date of its publication unless an effective date is specified in the circular.

III. Review of policy and severability

This policy or any part thereof can be amended by the board of directors at any time by a resolution passed by it at its meeting or by means of circulation. If any part of the policy is declared non maintainable by a competent court of law or any regulatory authority, the remaining portions will continue to be binding and effective. Any action taken or omitted to be taken in good faith shall be binding on the company and the contracting parties with whom the company has entered into a loan transaction.

IV. Ratification of actions taken

It is hereby declared that the interest rate models adopted by the company and of other charges levied under the terms of individual loan contract or collected under any previous policy or prior to the approval of this policy is hereby ratified and those rates shall remain in force till the closure of those loan accounts as per the terms.

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