INTEREST RATE POLICY

Of

MPOKKET FINANCIAL SERVICES PRIVATE LIMITED

Summary of Policy

Version	Issue and Effective Date	Review periodicity	Approving Authority	Policy Owner
V1	08-07-2020	Annual	Board	Compliance
V2	22-03-2022	Annual	Board	Compliance
V3	01-09-2022	Annual	Board	Compliance
V4	16-09-2023	Annual	Board	Compliance

Review Date	Next Review Date	Comments/ Remarks/ Changes
03-04-2021	Apr'2022	Annual Review of Policy
22-03-2022	Apr'2023	Policy revised
01-09-2022	Sep'2023	Policy revised in line with DLG Guidelines
20-04-2023	Apr'2024	Annual Review
16-09-2023	Sep'2024	Policy revised in line with the SI requirement of NBFC Master Direction.
15-12-2023	Dec'2024	Adoption of revised IRP in line with changes in the Penal charges and Master Direction- Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023

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A. PREAMBLE

Reserve Bank of India (RBI) had vide Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (as amended from time to time) ("RBI Master Directions") advised Boards of Non-Banking Finance Companies (NBFC's) to adopt an interest rate model taking into 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 gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

In order to ensure its standards of transparency, in conformity with the stipulations of the RBI's directives and in compliance with the requirements of the RBI Regulations mentioned above and the Fair Practices Code adopted by the Company, the Company has adopted this Interest Rate Policy for determining Interest Rates, Processing and Other Charges and broadly outlining the Interest Rate Model and the Company's approach of risk gradation in this regard for its lending business.

This Policy would be effective from the date of approval by the Board and would be subject to amendments in accordance with Regulations, Circulars, Notifications, etc. as may be issued by regulatory authorities, from time to time. In case of any inconsistency of the provisions of this Policy with any amendments, circulars, clarifications etc. issued by relevant authorities, then such amendments shall prevail upon the provisions of this Policy.

B. OBJECTIVE

- To arrive at the benchmark rates to be used for different category of borrower segments and to decide on the principles and approach of charging spreads to arrive at final rates charged from borrowers.
- Communicate the annualised rate of interest to the borrower along with the approach for gradation of risk and rationale for charging different rates of interest to different categories of borrowers.
- Make available the rates of interest and the approach for gradation of risks on the web-site of the companies.

C. SIMPLIFICATION OF PRODUCT PRICING

As a Company, it is important to strike the right balance between process uniformity across customers, operational efficiency and risk profile of borrowers to ensure the Company meets the needs of its vast and diverse customer base. Therefore, the Company has unsecured lending product with different end uses of the loans, repayment frequencies, loan duration and disbursements in different geographical areas

D. COMPUTATION OF THE INTEREST RATE FOR LENDING WITH RISK GRADATION BASED PRICING

MFSPL, RBI registered NBFC lends Unsecured Personal Loans "Loan Product" through Digital Lending Platform to the under penetrated segment of the Indian economy.

The final lending rate for loan products offered by the Company will be arrived at after taking into account market reputation, interest, credit and default risk in the related business segment, historical performance of similar homogeneous customers, profile of the borrower, tenure of relationship with the borrower, repayment track record of the borrower in case of existing customer, subventions available, deviations permitted, future potential, group strength, overall customer yield, etc. Such information may be gathered based on information provided by the borrower, credit reports and market intelligence. While deciding the charges, the practices followed by the competitors in the market would also be taken into consideration.

The Company intimates its borrowers the loan amount, the annualized percentage rate (APR) and the annualized rate of interest, any other fees which is applicable for the loan at the time of sanction of the loan along with the tenure, the amount and the due dates of the monthly instalments.

The Interest Rate Model of the Company would at large depend on the following factors:

1. BASE INTEREST RATE DETAILS OF LOAN PRODUCT

   1) **COST OF BORROWING:** Cost of borrowing would be a function of the Company's operational effectiveness as perceived by the banks, the liquidity situation in the country's financial markets, the general borrowing rates of NBFCs, the term of the loan required for the product and the ability of the product to access funds either from domestic or international institutions. Efforts would be made to ensure that the borrowing cost is the minimum possible and efforts would be made to pass on any reductions in these costs to the customers.

      The rate of interest charged is also affected by the rate at which the funds necessary to provide loan facilities to its borrowers are sourced, normally referred to as the Company's external cost of funds.

      The Company borrows funds through term loans, ICDs, Non-Convertible Debentures from the investors.

   2) **FUND RAISING COST**: It includes processing fees on term loans, brokerage to source funds through NCD, Rating Fee, trusteeship fee etc.

   3) **OPERATIONAL COST OF SOURCING, COLLECTION AND LOAN ADMINISTRATION:** The Company has different channels of sourcing and collections of its loan product which may include sourcing through digital platform or through lending service providers. The loan management cost incurred by the company for sourcing, collection and administration of its loan product should be factored into all transactions. The interest rate charge will depend on the term of the loan; structure of the loan; terms of payment of interest.

4) **RISK PROFILE OF THE LOAN PRODUCT:** Depending on the purpose for which the loan is being used, geographical specifications, customer occupation, credit underwriting processes, the base credit risk profile of its loan product is assessed. The risk profile of loans is also available by assessing the historical averages of repayment rates of loan products in other companies in the market. This judgement of the credit costs of a product, will be compared against actual performance on an ongoing basis and varied based on both micro and macro factors.

5) **EXPECTED CONTRIBUTION TO COMMON OVERHEAD AND GROSS MARGINS:** The above factors cover the cost aspect of the Company's lending, in addition to which the interest income has to cover head office expenses, managerial expenses, technological expenses, operational cost, sales and marketing expenses and other opex cost. This aspect of the cost to the borrower is the aspect that is most directly in control of the board and the management and both of them will make efforts and keep constant vigil that this margin is kept within the reasonable limits in order not to burden our customers.

6) **DELIQUENCY COST** – As a matter of prudence, cost of delinquency shall be factored into all transactions. This cost is then reflected in the final interest rate quoted to its borrowers.

7) **ROE:** Internal cost of funds being the expected return on equity issued, is also a relevant factor. The interest rate charged will also take into account costs of doing business.

Fixed rate loans are not linked to benchmark but are decided based on their Operational expenditure, Business related risks and desired ROE/ROA. Factors affecting calculation of ROE are mentioned below:

Particulars	**Unsecured Personal Loans**
GROSS REVENUE (A)	Xx
TOTAL EXPENSES	Xx
Cost of Borrowing	xx%
Fund Raising Cost	xx%

Operational cost of sourcing, collection and loan administration including Overhead cost	xx%
Delinquency Cost	xx%
TOTAL EXPENSES (B)	Xx
PBT (C=A-B)	Xx
TAX (D)	xx%
NET PROFIT FOR THE PERIOD (PAT) (E= C-D)	Xx
EQUITY (F)	Xx
ROE (Annualised) (G) (E/F*12)	xx%

The rates of interest are subject to change as the situation warrants and are subject to the discretion of the management and/or changes to extraneous cost factors which has a say in the setting up of the interest rate. Any revision would be from prospective effect.

Interest rates shall be intimated to the borrowers at the time of sanction/ availing of the loan and the equated instalments/Balloon Payment/Bullet payment apportionment towards interest and principal dues shall be made available to the borrowers.

2. GRADATION OF LOAN BASED ON RISK ASSESSMENT:

MFSPL grants credit facilities to the individual borrowers “borrowers” who typically do not have high credit scores. The individual assessment criteria for the customer credit grading undergoes through different checks during the KYC and on boarding process to ensure proper risk categorization of our borrowers. When assessing credit transactions, the Company focuses on critical principles as follows:

1. Detailed profile of the borrower at the time of onboarding with proper due diligence as per company's Know your customer guidelines;
2. Tenure of relationship with the borrower group, past repayment track record and historical performance of our similar clients;
3. Group strength, overall customer yield, future potential, repayment capacity based on financial Leverage, liquidity, sources of cash, profitability and other financial commitments of the borrower, mode of payment;
4. Interest, default risk in related business segment;
5. Regulatory stipulations, if applicable;
6. The determination of a customer's credit grading is generally distinguished by the asset type and its use and is mostly based on the general categories viz. character, capacity and capital;
7. And any other factors that may be relevant in a particular case.

The Risk Gradation pricing is done as follows:

Internal underwriting models based on borrower's credit history, repayment pattern and overall exposure/indebtedness information received from Credit Bureaus and alternate sources of data, leads to the decision whether the customer's application can be approved or not. The annualized interest rates is offered on a fixed basis at 0- 49% and for the restructured loans, the annualised interest rate be at 0-_% . In case of payment after due date, the Annualised Rate of Interest shall be charged to borrower till the actual date of payment.

E. PROCESSING / DOCUMENTATION AND OTHER CHARGES

Cost of sourcing and handling the loan application is charged as processing fees. There are several processes that are implemented to cover all the customers before approval. The costs incurred towards the implementation of these processes are recovered from the customers whose loans are approved in the form of processing fees. The fees will vary based on the loan product, geographical location, customer segment, size, tenor of loan and risk associated with the application and generally represent the cost incurred in rendering the services to the customers. Depending on the loan tenure the fees charged is between the range of 5- 18%. The management regularly reviews the processing fees levied and can change the processing fees at any point of time. All processing / documentation and other charges recovered are expressly stated in the Loan documents.

The practices followed by other competitors in the market would also be taken into consideration while deciding the charges.

All applicable taxes shall be charged as per the guidelines issued by the Government from time to time.

PENAL CHARGES

In case of payment after due date, the penal charges shall be levied to the borrower as per the penal charge policy adopted by the Company.

F. POLICIES AND PROCEDURES

The following other policies are also relevant for the purposes of this Interest Rate Policy:

Loan Policy – The Loan policy of the Company outlines the parameters and processes for credit appraisal, approval, risk guidelines and other credit principles and procedures of company. The Lending Model and Interest Rate Model described in this Interest Rate Policy are based on the pricing philosophies set out under the loan policy.

Policy on Penal Charges - The policy on Penal Charges outlines the penal charges to be charged to borrower as per the defined policy in this regard.

G. DISCLOSURE TO BORROWER:

1. Company will inform the borrower in writing in English language and the language as understood by its borrowers and where required under applicable Laws all relevant details in relation to the loan offered by company including all necessary documentation to be entered into in relation to the loan (i.e. loan agreements, sanction letters along with all relevant enclosures)
2. This Policy will be made available on the website of the Company or published in the newspapers in accordance with the Company's Fair Practices Code and the guidelines of RBI.

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