



SK Finance Limited

Policy for Determining Interest Rates, Processing & Other
Charges

April 2022

Summary of Policy

Policy Name	Policy for determining Interest Rate, Processing & other charges
Regulatory References	▪ Complaints about excessive interest charged by NBFCs dated May 24, 2007 ▪ Regulation of excessive interest charged by NBFCs dated January 02, 2009 ▪ Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 September 01, 2016 and amendments thereon
Review Cycle	Annually and in the event of change in regulatory guidelines
Approver	Board of Directors of SK Finance Limited (Formerly known as Esskay Fincorp Limited)
Latest Approval/review date	April 2022
Version No.	Version 1.0

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Introduction

SK Finance Limited (“**Company**”) Systematically Important Non Deposit Non-Banking Finance Company (“**NBFC-ND-SI**”) incorporated under Companies Act, 1956 and duly registered with the Reserve Bank of India.

The Reserve Bank of India (RBI), had vide its Circular DNBS / PD / CC No. 95/ 03.05.002/ 2006-07 dated May 24, 2007 advised the Boards of Non-Banking Finance Companies(“NBFC”) to lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. Further, vide circular DNBS (PD)C.C. No. 133 /03.10.001/ 2008-09 January 2, 2009, RBI advised the NBFCs to 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 rates of interest to different category of borrowers. RBI has reiterated these guidelines vide “Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016” issued on Sep 1, 2016.

Keeping in view the RBI Guidelines cited above, the internal guiding principle and interest rate model have been laid out by the Board of SK Finance Limited (the “Company”). This policy should always be read in conjunction with RBI guidelines, directives, circulars and instructions.

SK Finance ensures fair practice and transparency to its customers and accordingly this interest rate policy is also published on Company’s website.

Organisation Structure

Board of Directors

The Board of Directors shall have oversight for the interest rate Policy of SK Finance Limited. In order to ensure effective implementation of the Interest Rate Policy, the Board may delegate the implementation of the Policy and its operational aspects to the Managing Director and/or ALCO as deemed fit.

Asset Liability Management Committee (ALCO)

ALCO shall be responsible for evaluating and approving the Interest Rate range within which loans shall be granted to the customers. Any changes in the Interest Rate range shall be approved by the ALCO and would be put up to the Board in subsequent meeting.

Respective Product Manuals may have their internal pricing policies under the overall framework of board approved interest rate policy in deciding the spreads to arrive at the final rate to be charged to the borrower depending on various factors. Changes to product level internal pricing policies, if any, would need to be approved by the Head of respective Business and jointly by any -two officers of the Company as per the matrix below:

- Managing Director
- Chief Financial Officer
- Chief Risk Officer
- Head of Treasury

Interest Rate Model

The Company may lend money to its customers through fixed or floating rate loans. The model for type of interest rate on respective products shall be defined in the product manuals.

Approach for Gradation of Risks

Each client/ customer/ prospective borrower represents a diverse risk profiles based on their respective credit and default risk, CIBIL scores, repayment track record with lenders etc. A cost premium/discount is attached to overall interest rate on the loan for the customers based upon the gradation of risks.

The final lending rate shall be arrived at after considering the following:

Customer Attributes	Business Viability	Asset/ Collateral Attributes	Loan Attributes
•Profile & Segment •Tenure of relationship •Past repayment track record •Primary and additional income sources •Land/ property ownership •Geography •Any other attribute as deemed fit by the Credit Manager	•Nature of business activity •Experience in business •Profitability in business •Expected Cash Flows •Any other attribute as deemed fit by the Credit Manager	•Type of asset •Age of asset •Location of asset •Condition of asset •Valuation of asset	•LTV ratio •Tenure

The Lending Rate is determined on a case to case basis and will depend upon considerations of any or combination of a few or all factors listed above. The current Interest Rate Range as approved by the ALCO is mentioned below:

Loan Type	Rate Range
Vehicles	Up to 36%
SME	Up to 36%

Interest Rate Policy & Model

Interest Rate Determination Methodology

The ALCO after giving due consideration to the following factors arrives at the interest rate to be charged from the customers:

- Weighted Average Cost of Funds/ Capital:
The Company borrows funds through Bank Term loans, Non-Convertible Debentures, Commercial paper and subordinate debt, etc. from the investors. Additional to the borrowing, the Company also has equity portion and the cost of such equity is considered to arrive at the weighted average cost of capital.

The weighted average cost of borrowed funds as well as costs incidental to those borrowings, is arrived at after taking into consideration the average tenure, market liquidity and refinancing avenues.

The cost of raising such funds and servicing the equity capital is also included in the cost of funds.

ii. Negative Carry on Investment

The Company keeps liquidity buffer in the form of investments into liquid funds in compliance with RBI guidelines and to manage liquidity risk and has to bear negative carry on those investments too.

iii. Operating cost

It includes employee expenses, branch related fixed and variable costs, operations costs, sales and marketing expenses, technology expenses, expenses related to sourcing and recovery, etc.

iv. ALM Mismatch Cost

The Company borrows funds through short term and long term products and to comply with the regulatory guidelines, it needs to manage ALM gaps under certain limits imposed by the regulator, while taking in to account the prepayments made by the customers.

v. Credit/Default Risk Premium

Based on risk gradation of the customer, credit/ default risk premium is computed on a case to case basis. This will also cover the risk pertaining to nature and value of collaterals, overall risk profile of the customer, industry trends etc.

vi. Expected ROA

Expected Return on assets is the return expected by the company on its assets. The Company expects a ROA of 3-4% in normal course of business which may vary from this range depending upon the exceptional business scenarios.

Interest Rate Policy

- i. The Company shall adopt an 'Interest Rate Policy' which means that the rate of interest for same product and tenure availed during the same period by separate customers would not be standardized but could vary within a range, depending, amongst other factors as mentioned above.
- ii. Changes in interest rates would be decided at any periodicity, depending upon market volatility and competitor review.
- iii. The annualized rate of interest would be intimated to the customer. The interest rate would be computed on daily balances basis and charged on monthly/ quarterly/ half yearly rest or such other rest as the ALCO decides in accordance with applicable rules and regulations. Specific terms in this regard would be specified through the relevant product policy and/or loan agreement.

- iv. The interest reset period for variable rate lending would be decided by the Company from time to time, applying the same decision criteria as considered for fixing of interest rates.
- v. Interest rates would be intimated to the customers at the time of sanction/ availing of the loan and the EMI apportionment towards interest and principal dues would be made available to the customer.
- vi. Interest shall be deemed payable immediately on due date as communicated and no grace period for payment of interest shall be allowed. Any default/ delay in payment of interest or principal shall impact the asset classification status of the account in accordance with relevant RBI guidelines.
- vii. 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 levy or waiver of these additional or penal interests for different products or facilities would be decided within the boundaries prescribed by the product_ policy.
- viii. 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.
- ix. In case of staggered disbursements, the rates of interest would 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 the Company.
- x. Claims for refund or waiver of such charges/penal interest/additional interest would normally not be entertained by the Company and it is the sole and absolute discretion of the Company to deal with such requests.

Processing /Documentation and Other Charges

- i. Sourcing Costs at the time of the application:
 - a. These costs are incurred by the company before the customer takes his loan disbursement and will be covered through the charges deducted or collected from the disbursement amount. These costs include acquisition, verification, legal & valuation, credit appraisal etc.
 - b. All processing /documentation and other charges recovered are expressly stated in the loan execution documents. They vary based on the loan product, exposure limit, customer segment, geographical location of the customer.
- ii. Costs incurred during the tenure of the loan:
 - a. Besides interest, other financial charges such as cheque bouncing 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, charges

levied on late payment etc. would be levied by the Company wherever considered necessary and intimated to the customer as a part of the loan agreement or through any other mode thereafter.

- b. Besides these, statutory charges such as the goods and service tax and other cess would be collected at applicable/ prevailing rates from time to time. Any revision in these charges would be with prospective effect. These charges would be decided collectively by the management of the Company.
- iii. Charges applicable at the time of closure of the loan
These will include pre-payment & foreclosure charges subject to RBI guidelines, repossession and other legal expenses related to recovery of over dues.
- iv. All charges and any revisions thereof are approved by the Executive Committee of the Management as a part of the product manuals or separately. Such charges/ revisions thereof shall also be submitted to the Board in the subsequent Board meeting.

Policy Severable

This policy read with RBI Master Direction constitutes the entire document in relation to its subject matter. In the event that any term, condition or provision of this policy being held to be a violation of any applicable law, statute or regulation, the same shall be severable from the rest of this policy and shall be of no force and effect, and this policy shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Policy.

Amendment

Any change in the policy shall be approved by the Board of Directors of the Company. Any amendment in the regulatory guidelines shall prevail and necessary amendment shall be carried out at a subsequent date in the policy. The Board of Directors of the Company shall have the right to withdraw and / or amend any part of this policy or the entire policy, at any time, as it deems fit, or from time to time, subject to applicable law in force.