Electronica Finance Limited

Interest Rate Policy

Version Control

Document Version	Description of Changes	Memorandum of change	Prepared / Changed by	Proposed by	Owner Department	Approval Date
1.0	First Version	Introduction of Policy	Risk Department	Chief Risk Officer	Compliance	13-Sep-2023
2.0	Regulatory Changes	Amendment in Comprehensive Pricing Model	Treasury	CFO	Treasury	13-Feb-2025

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SECTION I: BACKGROUND AND OBJECTIVE

1.1. Introduction:

Electronica Finance Limited [the "**Company**"], is a Non- Banking Financial Company registered under section 45-IA of the Reserve Bank of India Act, 1934 ["**RBI Act**"]. In terms of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (the Directions), the Company is classified in the Middle Layer category (NBFC-ML).

The Company is providing loans or financial assistance to micro, small, medium enterprises and small businesses. Such loans are of secured or unsecured in nature and interest rate on such loans are usually fixed rate in nature. The Company recognizes that interest rates are critical to its financial stability and competitive positioning.

1.2. Regulatory Framework:

This policy complies with the RBI Master Direction on Scale-Based Regulation and ensures adherence to Fair Practices Code (FPC), Interest Rate Guidelines, and other relevant regulations.

1.3. Objective:

The objective of this Interest Rate Policy is to:

a. Define a structured approach for determining interest rates.
b. Ensure transparency and fairness in interest rates charged to customers.
c. Align pricing strategies with organizational goals and market dynamics.

1.4. Scope:

This policy applies to all loan products offered by EFL, including but not limited to:

- Micro Loan Against Property (Micro LAP)
- Two-Wheeler Loans (TW)
- Loan Against Property (LAP)
- Machine Loans
- Financial Institution Group (FIG) Loans
- Solar Loans

1.5. Policy applicability:

This Interest Rate Policy, along with its schedule of charges, supersedes all previous documents, policies, or clauses within other policies relating to interest rates and charges applicable to the Company's financial products. In case of any conflict, the provisions of this document will prevail.

SECTION II: INTEREST RATE MODEL

The comprehensive pricing model developed by the Company includes four primary components, each integral to determining product-specific interest rates:

2.1. Cost of Funds (COF):

a) **Product wise borrowing based on minimum capital allocation:** Product-wise borrowing requirements are determined after allocating the minimum Tier-I capital, in line with the 10% capital requirement for middle-layer NBFCs.

b) **Borrowing Allocation Logic:**

- The allocation of borrowings is guided by Asset-Liability Management (ALM) principles, ensuring alignment between the tenure of borrowed funds and the maturity profile of the underlying assets.
- The weighted average cost of funds is computed for each product based on the assigned borrowings.
- Cost of equity has been set to 0% to avoid double-counting, as ROA already factors in return on equity.

2.2. Risk premium:

Methodology:

The calculation of the risk premium is based on an in-depth vintage analysis of historical loan performance, ensuring that the pricing framework is data-driven, risk-adjusted, and reflective of actual credit behavior. The objective is to accurately estimate expected credit costs while factoring in macroeconomic conditions, portfolio performance trends, and loss experience across different lending cycles.
To ensure robust risk assessment, the vintage analysis focuses on long-term historical loan performance, carefully removing outliers such as the COVID period, where external disruptions significantly impacted default rates. By eliminating extraordinary events that do not represent normal credit behavior, the analysis provides a more reliable measure of expected credit risk under stable economic conditions.

For a more granular view, the dataset is segmented into:

- **Stable Economic Periods:** This includes data from historical loan disbursements, excluding periods of extreme volatility, allowing for a clearer assessment of default probability under normal business conditions.
- **Recent Disbursements (Non-Vintage Periods):** Loans disbursed in the most recent quarters are classified as non-vintage, as they have not yet matured sufficiently to exhibit meaningful default patterns. These loans are observed separately to avoid skewing risk estimations due to incomplete performance history.
- **Macroeconomic Event Adjustments:** Credit performance during economic downturns, policy shifts, or liquidity crises is carefully assessed to ensure that the risk premium is not disproportionately influenced by short-term external shocks.

Definition of Default:

A default is defined as the first instance when a loan account becomes overdue by 90 days past due (dpd) or more. This definition ensures consistency in assessing credit performance across all products.

Based on the evaluation, the default rate from the Non-COVID period was selected as the baseline for calculating the risk premium. The following adjustments were applied to refine the risk premium:

1. **Incorporating LGD Rates:** Current Loss Given Default (LGD) rates were factored in to account for expected recoveries post-default.
2. **Provision Costs:** Stage 1 and Stage 2 provision costs were included to ensure a holistic assessment of the risk premium.
3. **Annualization**: Risk premium was annualized using average loan duration for improved accuracy and comparability. Average duration is calculated by taking the ratio of the average principal outstanding to the loan amount and multiplying it by the original tenure.

This methodology was consistently applied across all products.

2.3. Cost of Operations:

Based on the product-wise Profit and Loss statement, the cost of operations for each product has been calculated.

Key Assumptions and Methodology:

1. **Direct Costs:** Expenses directly attributable to a specific product, such as employee costs and customer loyalty bonuses, are allocated to that product.
2. **Indirect Costs:** Overheads such as support function employee costs and head office expenses are distributed across products based on relevant allocation drivers.
3. **Cost Structure for Future Disbursement Capacity:** The current cost structure, including branch and head office costs, has been modelled to support forward looking capacity of three years.

2.4. Target Return on Assets (ROA):

The target Return on Assets (ROA) has been calculated based on target ROE, representing the desired return to shareholders after factoring in operational and financial efficiencies.

Leverage Ratio: will be within the generally accepted industry leverage ratio.

By combining these factors, a target ROA of has been derived, aligning with the company's financial goals and ensuring sustainable profitability.

2.5. Formula for Interest Rate Determination:

Rate of Interest = COF + Risk Premium + Cost of Operations + Target ROA:

Existing Products	Up to Maximum Rate of:
Micro LAP	25.0%
TW	25.0%
LAP	20.0%
Machine	19.0%
FIG	17.0%
Solar	18.0%

New Products	Pricing Maximum
Machine for start ups	22.0%
Residential Roof Top Solar	22.0%
Unsecured Loan	26.0%

Note: The pricing outlined in the product-wise grid represents the overall cap for each respective product. The company will ensure that pricing does not exceed these limits for any product for the high-risk borrowers.

SECTION III: GRADATION OF RISK AND PRICING

3.1. Risk-Based Pricing Methodology:

The Company applies a risk-based pricing approach, ensuring fair and differentiated interest rates by factoring in both the risk profile and the cost of operations.

- Micro LAP and Two-Wheeler Loans: Higher risk segments also incur higher operational costs, necessitating a higher risk premium to cover the associated risk and expenses.
- Machine and Solar Loans: Lower risk due to high-value collateral, predictable cash flows and lower cost of operations.

The risk premium for each product is calculated using a comprehensive risk gradation framework, considering:

- Historical portfolio performance (vintage analysis).
- Macroeconomic conditions during COVID and non-COVID periods.
- Borrower-specific risk attributes, such as credit scores, repayment behavior, and financial stability and the product for which loan is applied for.

3.2. Customer Risk Assessment:

The risk premium for individual borrowers is assessed based on, but not limited to, the following parameters:

- Bureau scores and credit history.
- Geographic location and associated delinquency trends.
- Collateral type and loan-to-value ratio.

3.3. Dynamic Adjustments:

Risk premiums are adjusted periodically based on portfolio performance and evolving market conditions to ensure near to accurate pricing.

3.4. Adjustments and Incentives:

- Repeat customers with excellent repayment records may qualify for relationship discounts.
- Dynamic adjustments are made based on market conditions and regulatory updates.

SECTION IV: OTHER FEES AND CHARGES:

Sr. No.	Particulars	Core	Core Solar	FIG	EEL Property	Retail SOLAR	Retail UBL	Pragati	I REP	Two Wheeler
1	Stamp Duty	At Actual (as per state)	At Actual (as per state)	At Actual (as per state)	At Actual (as per state)	At Actual (as per state)	At Actual (as per state)	At Actual (as per state)	At Actual (as per state)	At Actual (as per state)
2	Penal Charges	36% p.a.	36% p.a.	36% p.a.	36% p.a.	36% p.a.	36% p.a.	36% p.a.	24% p.a.	36% p.a.
3	Bank Charges	As per actual	As per actual	As per actual	As per actual	As per actual	As per actual	As per actual	As per actual	As per actual
4	Cheque Bounce/ECS or ACH dishonor charges	Rs. 1,000/- per EMI	Rs. 1,000/- per EMI	Rs. 1,000/- per EMI	Rs. 1,000/- per EMI	Rs. 1,000/- per EMI	Rs. 1,000/- per EMI	Rs. 1,000/- per EMI	Rs. 500/- per EMI +GST	Rs. 550/- per EMI
5	Cheque/ACH/ECS Collection Charges	Rs. 300/-	Rs. 300/-	Rs. 300/-	-	-	-	-	-	-
6	Cheque Swap/ACH Swap / Replacement charges	Rs.750/-	Rs.750/-	Rs.750/-	Rs.750/-	Rs.750/-	Rs.750/-	Rs 750/-	-	Rs.750/-
7	Foreclosure Pre-Termination Charges	1-12 = 5% on future principal	1-12 = 5% on future principal	1-12 = 5% on future principal	1-12 = 10% on future principal	1-12 = 10% on future principal	1-12 = 10% on future principal	1-12 = 10% on future principal	First 6 Months - Pre Closure not allowed	5% on future principal
		13-24 = 4% on future principal	13-24 = 4% on future principal	13-24 = 4% on future principal	13-24 = 5% on future principal	13-24 = 5% on future principal	13-24 = 5% on future principal	13-24 = 5% on future principal	6 Months to 12 Months - 4% Principal O/s	
		25 Above = 3% on future principal	25 Above = 3% on future principal	25 Above = 3% on future principal	25 Above = 4% on future principal	25 Above = 4% on future principal	25 Above = 4% on future principal	25 Above = 4% on future principal	Above 12 Months - 3% Principal O/s	
8	Reimbursement of Collection/Traveling/ Legal/Recovery/ Repossession/Other Charge	As per actual expenditure	As per actual expenditure	As per actual expenditure	As per actual expenditure	As per actual expenditure	As per actual expenditure	As per actual expenditure	As per actual expenditure	As per actual expenditure
9	EMI Default Charges	-	-	-	-	-	-	-	-	-
10	Processing Fees	-	-	-	-	-	-	-	-	Rs. 1,800 to Rs. 5,000

11	Loan Re-schedulement Charge	-	-	-	-	-	-	-	-	-
12	Legal	Rs. 1,000/- to Rs. 5,000/-	-	-	Rs. 1,000/- to Rs. 5,000/-	-	-	-	-	-
13	Valuation charges	Rs. 1,000/- to Rs. 5,000/-	-	-	Rs. 1,000/- to Rs. 5,000/-	-	-	Up-to Rs.1,000 +GST	-	-
14	CERSAI charges	Rs. 2,500/-	-	-	Rs. 250+GST per property	-	-	-	Rs. 250+GST per property	-
15	Application Fees	upto 0.25% of Loan amt	-	0.15% to 2% of loan amount	-	-	-	-	-	-
16	Admin Fees	-	-	-	upto 0.15% of loan amount + GST	upto 0.15% of loan amount + GST	upto 0.15% of loan amount + GST	upto 0.15% of loan amount + GST	-	-
17	Management Fees	upto 1% of Machine Value	-	-	2% to 2.5% of loan amount + GST	upto 1.5% of loan amount + GST	upto 2.5% of loan amount + GST	upto 3% of loan amount + GST	upto 4.50% of loan amount + GST	-
18	Life Cover	As per actual	-	As per actual	As per actual	As per actual	As per actual	As per actual	As per actual	As per actual
19	LC Charges (if Imported Machine)	1.5% - 2% of LC Amount	-	-	-	-	-	-	-	-
20	TT Charges (if Imported Machine)	upto 0.5% of TT Amount	-	-	-	-	-	-	-	-
21	PDC Handling Charges (if PDCS)	upto 0.1% of Loan Amount	-	-	-	-	-	-	-	-
22	Survey Charges (Used / Imported Machine)	Rs. 4,000/- Per Machine	-	-	-	-	-	-	-	-
23	ROC Charges (if P.Ltd / Ltd.)	Rs. 2,500/-	-	Rs. 2,500/-	-	-	-	-	-	-
24	SIDBI Visit Charges (if under SIDBI scheme)	Rs. 2,500/-	-	-	-	-	-	-	-	-
25	Risk Cover Charges	Upto 2% of finance amount +GST	Upto 2% of finance amount +GST	-	Upto 2% of finance amount +GST	Upto 2% of finance amount +GST	-	-	Upto 2% of finance amount +GST	-
26	Login Fees	-	-	-	Upto Rs 1,000/-	Upto Rs 1,000/-	Upto Rs 1,000/-	Upto Rs 1,000/-	Upto Rs 1,000/-	-
27	Document Charges	-	-	upto Rs 50,000/-	0.1% of loan amount + GST	0.1% of loan amount + GST	0.1% of loan amount + GST	0.1% of loan amount + GST	-	-
28	Transportation fees (Stamp Duty)	-	-	-	-	-	-	-	-	Rs 10 - 50

SECTION V: FAIR PRACTICES AND TRANSPARENCY

5.1 Disclosure of Rates and Charges:

Interest rates, risk gradation rationale, and charges are disclosed transparently in sanction letters and loan agreements. All charges will be one time and will not be levied in percentage terms and will not be part of the interest rate, except the additional interest in case of delayed EMIs/repayments.

5.2 Customer Communication:

- Customers will be informed of any changes in rates or charges in advance.
- Changes are applied prospectively, with no retrospective impact.

5.3 Pro-rata Interest Calculation:

Interest will be calculated on a pro-rata basis for partial disbursements or repayment, i.e. for actual period for which the funds have been utilized by the borrower.

SECTION VI: POLICY REVIEW AND AMENDMENTS

6.1 Half Yearly Review:

This policy will be reviewed semi-annually or as required by regulatory changes.

6.2 Amendment Process:

The Asset Liability Management Committee (ALCO) may propose interim changes, subject to Board ratification.

6.3 Regulatory Compliance:

In case of any unintended conflict with regulatory guidelines, the provisions of the regulations will prevail.