# KKR INDIA ASSET FINANCE LIMITED

# INTEREST RATE POLICY

**Summary of Policy**

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| **Policy Name** | Interest Rate Policy |
| **Policy Type** | **B – Board**<br><br>**B** – Board **M** – Management **D** – Department |
| **Related policies and regulations** | Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 |
| **Issue date** | April 2015 |
| **Effective date** | April 2015 |
| **Review cycle** | **OT**<br><br>**AN** – Annually **QT** – Quarterly **MO** – Monthly<br>**OT** – Other, i.e. upon regulatory change, new products/business, etc. |
| **Date of last review** | June 24, 2021 |
| **Date of next review** | Updated document will be presented in the event this Policy needs an update due to evolving regulations or where the Management feels the need to strengthen the same |
| **Owner / Contact** | KKR India Asset Finance Limited |
| **Approver** | Board of Directors of KKR India Asset Finance Limited |

# Contents

## 1. PREAMBLE

KKR India Asset Finance Limited (KIAFL) is a Non-Banking Financial Company ('**NBFC**') operating under Reserve Bank of India ('**RBI**') regulations/directions and its activities are governed by the various Indian laws and RBI regulations/directions. Over the years, KIAFL has created a niche place for itself in the Indian financial services market.

This Policy is intended to be representative of KIAFL guiding philosophy of dealing with customers in a transparent and open manner. Though interest rates are not regulated RBI, rates of interest beyond reasonable level and not commensurate to the risks undertaken for the particular transaction may be seen to be excessive and not conforming to normal financial practice. Thus, in accordance with the RBI guidelines on Fair Practices Code for NBFCs, KIAFL has documented Interest Rate Policy / Model approved by the Board of Directors which lays down internal principles and procedures in determining interest rates and other charges on the loan products offered by KIAFL.

KIAFL is committed to and conducts its business activities lawfully and in a manner that is consistent with its compliance obligations. Activities of KIAFL are conducted in line with RBI / Company Law and prevailing local regulations/rules/laws/Acts. In the event this Policy is at variance with regulations/rules/laws/Acts at any stage due to omissions or changes in regulations/rules /laws/Acts, the regulations/rules/laws/Acts would prevail. If any clarifications are needed on these regulations/rules /laws/Acts, the same must be referred to Compliance Officer for its final opinion on the issue.

The business model of KIAFL includes structured and mid-market lending. Internal Rate of Return ('**IRR**') (comprising the aggregate running coupon and premium, if any, payable on redemption) shall depend upon the type of lending and shall generally be in the band of 8% to 20% per annum (excluding upfront or back ended fees and variable redemption / equity upside for structured transactions) based on the evaluation of various risks detailed hereunder.

## 2. ESTABLISHING AN INTEREST RATE

The interest rate applicable to a particular loan will be determined by reference to a number of factors, including:

a) **Tenor of the loan -** The interest rate charge will depend on the term of the loan.

b) **Internal and external costs of funds -** The rate of interest charged is also affected by the rate at which the funds necessary to provide loan facilities to customers are sourced, normally referred to as internal cost of funds. All loans or credit facilities should, at minimum, provide an IRR) or a life to maturity yield in the band of 8% to 20% per annum. For floating rate loans , the benchmark interest rate that may be used by KIAFL could be either the reference rate of any leading commercial bank or any other reference rate such as spread over, G-secs, commercial papers etc. that may be readily available in the market.

c) **Internal cost loading -** The interest rate charged will also take into account costs of doing business.

d) **Credit risk -** As a matter of prudence, bad debt provision cost should be factored into all transactions. This cost is then reflected in the final interest rate quoted to a customer. The amount of the bad debt provision applicable to a particular transaction depends on the credit strength of the customer. Factors such as the complexity of the transaction, the size of the transaction and other factors that affect the costs associated with a particular transaction should be taken into account before arriving at the final interest rate quoted to a customer.

e) **Fixed versus floating** – the applicable interest rate shall also be commensurate from the perspective of the fixed versus floating interest rate requirements of the customers and shall have to be decided in view of the benchmarks deliberated in point b above.

## 3. APPROACH FOR GRADATION OF RISKS

The risk premium attached with a customer shall be assessed inter-alia based on the following factors:

a) profile and market reputation of the borrower,
b) inherent nature of the product, type / nature of facility, refinance avenues, whether loan is eligible for bank financing, loan to value of asset financed,
c) tenure of relationship with the borrower group, past repayment track record and historical performance of our similar clients,
d) group strength, overall customer yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower, mode of payment
e) nature and value of primary and secondary collateral / security,
f) type of asset being financed, end use of the loan represented by the underlying asset,
g) interest, default risk in related business segment,
h) regulatory stipulations, if applicable,
i) and any other factors that may be relevant in a particular case.

## 4. PROCEDURAL ASPECTS

A. *KIAFL shall communicate to the customer*

a) the amount of loan sanctioned along with the terms and conditions including annualised rate of interest

b) Details of the default interest / penal interest rates (expressed in percentage per month / annum as the case may be) and the charges payable by the customers in relation to their loan account and method of application thereof (penal interest charged for late repayment of loan would be mentioned in bold in the loan agreement).

c) Terms and conditions and other caveats governing the credit given by KIAFL arrived at after negotiation

d) In case of any change in any of the terms and conditions / caveats / any information which is relevant from the point of view of the transaction (including annualised rate of interest), the same shall be conveyed to the customer either as an addendum / additional annexure to the agreement/term sheet. However all the relevant formalities (e.g. further legal documentation, approval of customer, certification of KIAFL officials etc.) relating to such change shall be documented and a copy of the same shall also be sent to the customer. The same may be communicated through electronic media or any other form of communication. The acknowledgement of the receipt of the said additional document shall also be preserved on the records by KIAFL officials.

e) Foreclosure charges / prepayment penalty would be charged in line with the agreement with the client except in cases expressly restricted by prevailing RBI Regulations. Current RBI regulations do not permit such charges on floating rate loans to individuals.

f) Changes to interest rates and charges, other than as documented in the loan agreement, will be effected prospectively.

## 5. PROCESSING FEE / UPFRONT FEE

Processing fee will be determined by the sanctioning authority on the basis of the quantum of work involved in credit appraisal, volume of documentation involved, other expenses involved in the transaction and negotiation with client.

The Management will have the power to:

- prescribe fixed processing fees for a particular loan product
- dispense of processing fees for a particular loan product
- waive off processing fees for a loan product and
- frame guidelines for charging processing fees etc.

## 6. AMENDMENT TO THE POLICY

This Policy shall be reviewed by the Board as and when any changes are required in the Policy. Any changes or modification in this Policy as recommended by the Asset/Liability Committee ('**ALCO**') which is also monitoring the ALM shall be presented to the Board for their approval.

## Appendix A – Policy Revision History

*Include a revision history in the following table or you may direct the audience to a repository where this information is stored. The items below this point are for record-keeping purposes. Whether some or all of them are shown in the published document is at the discretion of the applicable Owner.*

| Version | Effective Date | Revision Date | Approved By | Date Approved | Revision History |
|---|---|---|---|---|---|
| *1.0* | *April 2015* | *NA* | *Board of Directors* | *28/04/2015* | *Original version* |
| *1.1* | *September 2016* | *September 2016* | *Board of Directors* | *06/09/2016* | *First Revision* |
| *1.2* | *December 2017* | *December 2017* | *Board of Directors* | *06/12/2017* | *Second Revision* |
| *1.3* | *June 24, 2021* | *June 24, 2021* | *Board of Directors* | *24/06/2021* | *Third Revision* |
| *1.4* | | | | | |
| *1.5* | | | | | |