GrowXCD Finance Private Limited	
POLICY	Interest Rate Policy
Reviewing Authority:	Board of Directors of the Company
Approving Authority:	Board of Directors of the Company
Orginal Date of Approval for Version 1.0	15.05.2023
Version	1.1
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Review Cycle:	Annually or as recommended by the Board of Directors

Introduction

Reserve Bank of India Vide its Notification No. DNBS. 204 / CGM (ASR)-2009 dated January 2, 2009 has directed that the Board of each NBFC shall approve an Interest rate model for the Company, taking in to 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 directives states that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers in the sanction letters to them.

The Interest rate model is also required to be made available on the website of the Company so as to enable the customers to understand the logic and methodology of the lending rates charged to them.

In compliance with the said RBI directives, the Interest rate model for the Company is given below:

Background:

GrowXCD Finance is into the business of providing secured and unsecured business loans for the micro enterprises and small enterprises in the urban, semi urban and rural areas. The typical customer segments include households from economically weaker sections and Low Income Households. These customers are tupically excluded from the financial eco system due to lack of documents to prove their ability / willingness to repay. Hence, GrowXCD conducts detailed assessment of the credit of the customer through branch based models where our credit officers meet and evaluate the customers, verify their business, income and residence and do personal discussion to evaluate the same.

The detailed assessment of the customer and the low ticket size of the product has its implication towards the lending rate. These low ticket sizes and direct visits lead to higher operating expenses. The interest rate policy takes into account all the above along with requirement to maintain the profitability.

Principles for determining interest rate for loans:

An NBFC derives its incomes from the interest spread between the rate charged to its customers and the rate charged by its lenders. The operational and credit costs are deducted from this spread to arrive at the profitability of the NBFC.

The interest rate to be charged to potential borrowers depends on a multitude of factors listed below.

1. Cost of funds charged by the lenders
2. Operational expenses
3. Risk premium depending on customer risk category
4. Credit cost
5. Expected profitability

Each of these parameters shall be periodically monitored to arrive at the final interest rate to be charged to the borrower.

The factors have been enumerated below

1. Cost of Funds

Finance cost is the main component in deciding the interest rate charged to the customers. The company will borrow from diversified institutions like Banks (including SFBs), NBFCs, HFCs, and Off shore Financial Institutions and DFIs. While the company's borrowings are expected to be a mix of fixed rate as well as floating rate borrowings, considering the customer segment, we choose to keep the loans to the customers with fixed rate. The rate to the customers would therefore factor in the risk associated with fluctuations in the interest rate.

2. Operational Expenses

Operational expenses include personnel expenses, administrative expenses, depreciation which are incurred monthly. In a steady state scenario, the operational expenses remain fairly stable. Also, most of these costs are fixed costs and are committed on the basis of budgered volume of operations. Since GrowXCD is currently starting up and cost of growth would there, the cost of the growth would be borne by the shareholders, till the company attains size and scale.

3. Risk Premium

GrowXCD would be operating with the low risk segment as per the KYC policy in line with the RBI Guidelines. This is because GrowXCD would be operating in the MSME segment with the economically weaker sections / low income households which are self employed or doing small business. GrowXCD does not intent to work with profiles such as politically exposed persons (PEP)'s, those with dubious reputation as per public information available etc etc.

Within the customer segment which GrowXCD would be operating in, customer profiles would be varying significantly based on their business, cash flow, profitability, complexity of operations etc. Also, the risk involved in providing a loans can also be classified by the LTV, DBR, Customer living style, neighbor verification, Credit Bureau Track record.

As GrowXCD is currently starting, it will keep the risk premium stable and uniform across the customer segment with variance limited to security, tenure, end use and ticket size.

Basis the study of the customer behavior over period of time, differential pricing models will be evolved with the guidance of the board (and/or) risk management committee of the board.

4. Credit Cost

Credit costs include Expected Credit Loss provisions and write offs. In a state of stable portfolio performance, the ECL is also predictable and would remain fairly stable.

5. Expected Profitability

The interest rate charged would include a profit margin decided based on reasonable rate of return for shareholders and the risks involved. It would also be arrived at keeping in mind the need to attract fresh capital to sustain growth and benchmarked against comparable companies.

ROI Matrix

Product	Collateral	Ticket Size	Tenure	ROI
Unsecured Loans				
MEL (MSME / Agri Allied)	Nil	0.75-3 Laks	1 -3 years	26 - 29%
Secured Loans				
Small Business Loans	SORP / SOCP	2 - 5 laks	3 - 7 years	23 - 26%
	SORP / SOCP	5 - 10 laks	3 - 8 years	22 - 25%
	SORP / SOCP	10 - 25 laks	4 - 10 years	21 - 24%

The above structure and interest rate band would act as broad guideline, any deviations required from the interest rate on a case to case basis would be done with approvals from Zonal Heads/Credit Head/CBO/MD as per deviation matrix

Customer Communication :

GrowXCD will intimate the borrower regarding the loan amount, annualized rate of interest, insurance premium, processing fees right from the beginning the interaction with the customer. The sanction letter clearly communicates the terms of contract and the customer is clearly communicated the same.

All other Schedule of charges are also provided to the customer and explained at the time of sanction / disbursement of the loan including the penal interest for delayed payment, cheque bounce charges, tenor of the loan and repayment schedule including instalment amount etc at the time of sanction/disbursement of the loan. No revision in charges / interest would be done retrospectively. It would only be done with prospective effect.

The policies, interest rates etc would be made available in the company website and constantly updated as well.