POLICY ON INTEREST RATE MODEL

Brief Note on BASE RATE Calculation Process

Reserve Bank of India vide its Master Direction - Non-Banking Financial Company –Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 has advised the Board of Directors of every applicable NBFC to adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances.

Any Financial Services Organisation carrying out lending activity will be required to maintain a threshold rate below which it would be financially unviable to lend to customers. Reserve Bank of India (RBI) , has provided Guidelines on Calculation and applicability of Base Rate for the Banks. Although these guidelines do not apply to a NBFC, we have taken them as the base in formulating the above Policy; as Base Rate regime is expected to bring in greater transparency in lending rates of lending institutions and it would enable better understanding of impact of monetary policy.

Definition

Base Rate, as approved by the Borrowing Committee from time to time, may differ from product to product and will be the minimum lending rate below which the organisation may not lend to customers.

Calculation of Base Rate

Base rate will be calculated as per the methodology prescribed in the Annexure enclosed below. Any modifications to the calculation methodology will necessarily have to be approved by the Borrowing Committee.

Application of Base Rate

All categories of loans henceforth would be priced with reference to their respective Base Rate only.

Review of Base Rate

As a normal policy the Borrowing Committee will review the Base Rate at least once in a quarter. However, in case the Borrowing Committee thinks fit, it may review the Base Rate at a shorter interval and suggest any modifications to the same.

Gradation of Risk

The Company shall prepare a profile for the customer during the credit appraisal based on risk categorization as mentioned in the KYC Policy. The risk premium will be decided by the Company on a case to case basis based inter alia on the inherent nature of the product, market reputation, interest, default risk in the related business segment, historical performance of similar customers, tenure of relationship with the customer, repayment track record of the customer in case of existing customer, future potential, nature and value of primary and collateral security and others factors as applicable.

Annexure - Calculation of Base Rate for Used Two Wheelers (U2W)				
Notes	**Cost of Funds**	**Cost %**	**Amt Rs.Crs**	**% of Funds**
Note 1	- All Inclusive Cost of Bank / NBFC Borrowings	14.00%	100	54%
	- All Inclusive Cost of NCD's	13.00%	0	0%
	- All Inclusive Cost of CP's	12.00%	0	0%
Note 2	- Notional Cost of Equity Deployed	12.00%	85	46%
	Total Borrowing Cost	**13.08%**	**185**	**100%**
Note 3	Avg Opex to Assets Ratio	12.00%		
Note 4	Fee Income Earned	-2.00%		
	Derived Base Rate for U2W (Rounded Off)	**24.00%**		
	Spread to be maitained	**6.00%**		
	Weighted Average Yield	**30.00%**		

Annexure - Calculation of Base Rate for New Two Wheelers (N2W)				
Notes	**Cost of Funds**	**Cost %**	**Amt Rs.Crs**	**% of Funds**
Note 1	- All Inclusive Cost of Bank / NBFC Borrowings	14.00%	100	54%
	- All Inclusive Cost of NCD's	13.00%	0	0%
	- All Inclusive Cost of CP's	12.00%	0	0%
Note 2	- Notional Cost of Equity Deployed	12.00%	85	46%
	Total Borrowing Cost	**13.08%**	**185**	**100%**
Note 3	Avg Opex to Assets Ratio	4.50%		
Note 4	Fee Income Earned	0.00%		
	Derived Base Rate for N2W (Rounded Off)	**18.00%**		
	Spread to be maitained	**6.00%**		
	Weighted Average Yield	**24.00%**		

Note 1 - NBFC Borrowings will be the only source of funding avenue available to the company in its first few years of operation. To begin with the existing Term Loan rates have been taken as benchmark.

Note 2 - We have assigned a notional cost of 12% p.a., on the capital provided by the shareholders, while arriving at the Base Rate, although the Spread earned will encompass the return on equity.

Note 3 - Avg Opex to Assets ratio, will be unusually high in the initial 4 to 5 years of operation, post which it will average between 10% to 12%. For the purpose of calculation of Base rate we have considered the long term Avg Opex to Assets ratio, in order to avoid any anomalies in the calculation. Further the business split between Used and New Two Wheelers is expected to be 80:20 and hence the average opex cost is split between the two products accordingly.

Note 4 - Primarily there will be two sources of Fee Income, viz; a) Processing Fees and b) Income generated on account of Cheque Bounce by the customers. The contribution of each source as a % of Avg Assets is calculated below. In case of New Two Wheelers the Processing Fee will be completely passed on to the Dealers and hence no Fee Income is considered in the calculation.

Fee Income Source for U2W	% of Avg Assets
a) Processing Fee -The Company is able to earn a Net Processing Fee of 1.5%	**1.50%**
b) Cheque Bounce & Late Payment Charges	**0.50%**
Total Fee Income as % of Assets	**2.00%**