RECAPITA FINANCE PRIVATE LIMITED

INTEREST RATE MODEL, FRAMEWORK, POLICY & PROCEDURES

(VERSION 1.0)

10, Amaltas, Phase-1, Chunabhatti, Kolar Road, Bhopal, Madhya Pradesh, 462016

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RECAPITA FINANCE PRIVATE LIMITED
BHOPAL
462016

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1. INTRODUCTION

This policy outlines the framework for determining, reviewing, and communicating the interest rates for loans provided by Recapita Finance Private Limited. The objective is to ensure compliance with Reserve Bank of India (RBI) regulations and to maintain transparency and fairness in lending practices across all product lines.

The policy serves as a reference for establishing interest rates for current products such as Gold Loans, Personal Loans, Business Loans (Secured/Unsecured), Rooftop Solar Financing, Loans against Property, and other lending products that may be introduced in the future.

2. OBJECTIVE

The objective of this Interest Rate Policy is to establish a transparent, consistent, and fair framework for setting interest rates on the diverse loan products offered by Recapita Finance Private Limited. By implementing this policy, Recapita Finance aims to achieve the following core objectives:

A. **Regulatory Compliance:**
Recapita Finance Private Limited is committed to adhering to the regulations and guidelines set by the Reserve Bank of India (RBI). RBI's framework requires NBFCs to follow fair practices that protect borrowers' rights and promote transparency. This policy ensures that all interest rates are compliant with RBI's directives on fair lending practices, including the Fair Practice Code, to provide customers with ethical and transparent financial services. By doing so, Recapita Finance upholds its regulatory obligations, minimizing risks of non-compliance that could impact its reputation and financial stability.

B. **Transparency:**
One of the primary aims of the policy is to promote transparency in the lending process. Recapita Finance Private Limited provides clear and comprehensive information on all interest rates, associated fees, and potential charges. This transparency allows customers to make informed decisions about their borrowing options, knowing the exact cost of their loan and any additional charges they might incur. Recapita Finance achieves this through structured communication, including the Key Fact Statement, Sanction Letter, and other documentation that outlines all rate-related information. Clear communication builds trust, strengthens customer relationships, and enhances the NBFC's credibility in the market.

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C. **Risk-Aligned Pricing:**
The policy ensures that interest rates are reflective of each borrower's assessed risk profile. Recapita Finance Private Limited applies a systematic risk assessment model that factors in borrower characteristics like credit score, repayment history, and collateral quality (for secured loans) to determine an appropriate interest rate. This approach allows the NBFC to price loans in a way that aligns with the risk level associated with each borrower, ensuring that lower-risk customers benefit from more competitive rates while higher-risk customers are charged accordingly. Risk-aligned pricing helps balance risk and return, contributing to a sustainable lending portfolio for Recapita Finance and fostering fair treatment of all customers based on their creditworthiness.

3. Scope

This policy is designed to provide a consistent framework for determining interest rates across Recapita Finance Private Limited's lending portfolio, promoting transparency, compliance, and risk-aligned pricing in line with industry best practices.

This Interest Rate Policy applies to the following lending products offered by Recapita Finance Private Limited:

- **Gold Loans**: Gold loans are distinct within the lending sector, providing fully secured financing backed by physical gold assets. These loans feature unique operational characteristics, such as short tenures, part release options, bullet repayment structures, and flexibility in loan amounts that may fluctuate with changes in gold market prices.
- **Personal Loans (Unsecured)**: Unsecured personal loans that do not require collateral and are extended based on the borrower's creditworthiness and income stability.
- **Business Loans (Secured/Unsecured)**: Financing solutions tailored for business purposes, encompassing both secured loans (backed by collateral) and unsecured loans (issued based on credit assessments and borrower financial standing).
- **Loans Against Property (LAP)**: Secured loans issued against residential, commercial, or industrial property as collateral, offering financing options for various needs.
- **Rooftop Solar Financing**: Specialized financing solutions aimed at supporting renewable energy initiatives, specifically the installation of rooftop solar systems for residential, commercial and industrial clients.
- **Other Lending Products**: Should Recapita Finance Private Limited introduce additional loan products, the interest rates for these new offerings will adhere to the principles set forth in this policy, in accordance with all relevant regulatory requirements.

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4. Governance and Review of Policy

Board of Directors: The Board of Directors is responsible for the approval of this Interest Rate Policy and ensures its effective implementation. The Board oversees adherence to regulatory requirements and alignment with the company's strategic objectives.

Policy Review: This policy will undergo an annual review to maintain compliance with any changes in regulatory guidelines, market conditions, or organizational strategy. Interim reviews may be conducted if significant regulatory updates or market shifts occur.

Asset Liability Committee (ALCO): If constituted, the ALCO will play an integral role in determining and periodically reviewing the interest rate structure, with guidance and oversight from the Board to align with risk management and financial objectives.

5. Interest Rate Framework

Fixed Interest Rates: Recapita Finance Private Limited primarily offers loans with fixed interest rates. Floating rate products may be introduced in the future, subject to the approval of the Board and based on market conditions and business requirements.

Current offered Interest Rate by Recapita Finance Private limited ranges from:

- **Gold Loans**: 12% to 24% per annum
- **Unsecured Loans**: 12% to 28% per annum
- **Other Secured Loans**: 12% to 25% per annum

Factors Influencing Interest Rates Across All Products

Interest rates at RECAPITA FINANCE Private Limited are determined by a blend of components designed to align rates with the company's cost structure, risk considerations, and operational needs. Key components are outlined below:

Component	Explanation
Cost of Funds (CoF)	Reflects borrowing costs from banks, financial institutions, or other funding sources.
Credit Risk Premium	Adjusts for borrower-specific risk factors, including creditworthiness and repayment behavior.
Operational Costs	Includes administrative, employee, and other operational expenses required to service the loan.

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Return on Capital Employed (ROCE)	Ensures targeted return on capital invested in the lending business, supporting sustainable growth.
Liquidity Premium	Applied in times of liquidity constraints to mitigate funding volatility risks.
Tenure Adjustment	Longer-term loans may incur higher rates to reflect increased risk and the opportunity cost of capital.

Special Interest Rate Factors for Gold Loans

Given the unique nature of gold loans, specific factors are considered in the interest rate determination process, as detailed below:

Component	**Explanation**
Cost of Funds (CoF)	Reflects borrowing costs from financial institutions specific to gold loan products.
Gold Price Volatility	Loan amounts adjust based on gold price fluctuations, often necessitating additional top-ups.
Operational Costs	Covers costs associated with security, storage, insurance, and maintenance of gold vaults.
Risk Premium	Even though secured, a premium is added to account for risks of gold price drops or potential theft.
Transaction Costs	High volume of small-ticket transactions leads to increased operational overhead.
Incentive for Regular Repayments	Lower rates are offered to borrowers who make timely monthly interest payments, encouraging consistent servicing.
Jumping Interest Rates	Higher rates are imposed on delayed payments, incentivizing borrowers to make timely payments.

6. Principles and Procedures for Interest Rate Setting

Recapita Finance Private Limited has established comprehensive principles and procedures for setting interest rates across its loan products, ensuring that rates are aligned with product-specific risks, borrower profiles, and market conditions. This structured approach supports a fair, consistent, and competitive lending environment.

Currently, Recapita Finance Private Limited operates primarily on a fixed interest rate structure. Any decision to introduce floating rates will be approved by the Board, and this policy will be updated to reflect such changes.

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A. Principles for Interest Rate Setting

Principle	Description
Product-Level Pricing	Interest rates are tailored for each product category, such as Gold Loans, Business Loans, and Solar Financing, based on unique risk characteristics.
Borrower Profile and Loan Parameters	Factors like credit score, repayment history, and other risk indicators influence the final rate, ensuring alignment with the borrower's credit profile.
Loan Tenure	Short-term loans may have lower rates, while longer-term loans carry higher rates to reflect the increased risk and liquidity requirements.
Collateral Quality and Value (for Secured Loans)	The type, value, and quality of collateral impact interest rates, with high-quality collateral supporting more favourable rates.
Repayment Behavior	Borrowers with strong repayment histories may receive preferential rates, encouraging responsible financial behavior.
Location and Market Factors	Factors such as geographic location, economic conditions, and market trends may also influence interest rates, especially for region-specific products.

B. Interest Rate Structure for Gold Loans

Gold loans are structured with specific interest rates based on repayment patterns, loan tenure, and fluctuations in gold prices. The table below outlines the interest rate structure for Gold Loans:

Scenario	Interest Rate Structure
Regular Monthly Interest Payment	12%-15% p.a. – A lower rate to encourage consistent monthly payments.
Delayed Interest Payment	18%-24% p.a. – A higher (jumping) rate applied if payments are delayed, incentivizing timely payments.
Top-Up Loans (due to Gold Rate Increase)	The base rate remains the same; additional funds are disbursed upon request as the gold value rises.
Bullet Repayment (Principal)	Bullet repayment is allowed at the end of the loan term, with the principal amount remaining constant.
Prepayment without Charges	No penalties are charged for early repayment of either interest or principal, providing flexibility for borrowers.
Tenure Options	Tenure options range from 3 months to 1 year, aligning with the typical structure of gold loans.

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C. Variable Interest Rates and Incentives

Recapita Finance Private Limited applies a variable rate approach for borrowers with consistent repayment behaviour and offers specific incentives:

- **Lower Interest Rates for Timely Payments**: Borrowers who make timely monthly interest payments benefit from a lower rate, encouraging responsible repayment.
- **Jumping Rates for Delayed Payments:** If a borrower misses a monthly payment, the rate increases automatically. This "jumping rate" serves as a deterrent against late payments.
- **Part Release of Ornaments:** Borrowers can release part of their pledged gold in proportion to their repayments, offering flexibility within secured gold loans.
- **Bullet Repayment of Principal:** Gold loan borrowers can opt for a lump-sum principal repayment at the end of the loan term, providing convenience.

For Ex; If the customer makes monthly interest payments, they enjoy the base rate or a slightly reduced rate (e.g., 12%-15% p.a.). For delayed payments, the rate jumps to a higher slab (e.g., 18%-24% p.a.) from the month of default.

D. Circumstances for Offering Lower Rates on Unsecured Loans

Under certain conditions, Recapita Finance Private Limited may offer lower interest rates on unsecured loans compared to secured loans. This approach is driven by strategic considerations and borrower-specific characteristics. These conditions include:

Condition	Explanation
Exceptional Credit Profile	Borrowers with excellent credit scores, repayment history, and minimal default risk may qualify for lower rates.
Short Loan Tenure	Unsecured loans with shorter terms (6-12 months) may carry lower rates due to reduced repayment risk.
Existing Relationship	Loyal, repeat borrowers with strong repayment records may be eligible for reduced rates on unsecured loans.
Low Debt-to-Income Ratio	Applicants with a strong financial position and low debt levels may receive preferential rates.
Corporate Tie-Ups or Group Discounts	Corporate partnerships with reputable employers may result in lower rates due to verified income and job stability.
Reduced Processing and Administration Costs	Unsecured loans generally require fewer administrative steps, resulting in cost savings that can be passed on to borrowers through lower rates.
High-Interest Earnings from Other Products	In cases where RECAPITA FINANCE offers high-yield products, interest rates on select unsecured loans may be subsidized to attract prime customers or enter new markets.

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	markets.
Promotional or Strategic Offers	Recapita Finance Private Limited may offer temporarily reduced rates on unsecured loans as part of promotional campaigns to attract new customers or expand into specific segments.
Stable or Rising Interest Rate Environment	In a rising rate environment, higher operational costs linked to collateralized loans may drive up rates on secured loans. Conversely, unsecured loans with less collateral-related overhead may carry relatively lower rates.
No Additional Collateral-Related Risks	Secured loans often involve collateral-related risks, such as legal issues, depreciation, or storage costs. If an unsecured loan borrower has excellent repayment credentials, they may be seen as posing less risk, allowing for a lower interest rate.

These specific conditions allow Recapita Finance Private Limited to strategically offer competitive rates on unsecured loans, catering to prime borrowers or promotional needs, while maintaining a balanced risk profile.

E. Interest Rate Setting Methodology

Recapita Finance Private Limited's interest rate methodology balances competitiveness with sustainability, factoring in elements such as:

Factor	Explanation
Cost of Funds (CoF)	Based on the borrowing costs from banks and financial institutions.
Credit Risk Premium	Reflects borrower-specific risk, adjusting for creditworthiness, loan tenure, and repayment patterns.
Inflation Rate	Interest rates are adjusted to align with inflation, ensuring returns meet current economic conditions.
Regulatory Requirements	All rates are aligned with RBI guidelines to maintain compliance and fair lending standards.
Operational Costs	Administrative, employee, and other expenses associated with loan servicing are factored into rates.
Market Competition	Competitor rates are analyzed to maintain competitive pricing.

The final interest rate is determined to ensure a fair return on capital while maintaining affordability for borrowers, balancing Recapita Finance Private Limited's risk tolerance with market competitiveness. For instance, a low-risk secured loan may have a base rate of 15%, with an additional 1.5% risk premium for low-risk borrowers.

F. Framework for Grading and Assigning Risk Categories

Recapita Finance Private Limited employs a risk grading system to ensure thorough risk assessment for both secured and unsecured loans. This framework involves:

1. **Minimum Acceptable Criteria (MAC)**: Basic eligibility criteria such as CIBIL score, debt-to-income ratio, and repayment history.
2. **Scorecard Evaluation**: After meeting the MAC, the loan application is further assessed using a weighted scorecard that includes factors like repayment history, collateral quality, and the borrower's financial stability.

The risk category directly influences the risk premium, which is factored into the interest rate. For instance, a 'Low Risk' secured loan with a strong repayment history and high-quality collateral will have a risk premium of around 1.5%, while a 'High Risk' unsecured loan could see premiums as high as 6%. However, in cases where a secured loan possesses higher risk due to factors like volatile collateral or uncertain borrower financials, a higher risk premium may be applied to the secured loan compared to a lower-risk unsecured loan. This structured approach ensures a balanced risk-reward profile across our lending portfolio, enabling fair and consistent lending decisions.

G. Communication of Interest Rates and Charges

Recapita Finance Private Limited ensures transparency in communicating interest rates and charges to customers through the following:

- **Sanction Letter and Pledge Form**: All terms, including jumping rates and other charges, are clearly outlined for customer understanding.
- **Key Fact Statement**: Specific fees and charges are listed, ensuring clarity on processing fees, penal charges, and prepayment charges.
- **Updates and Notifications**: Any rate adjustments are communicated to customers through email, SMS, or postal mail, as appropriate.

NOTE: For comprehensive details and further insights on the Interest Rate Framework, Principles, and Procedures, please refer to the Management Note on the Interest Rate Policy. This document provides an in-depth explanation of the methodologies and decision-making criteria underpinning the policy, ensuring clarity and alignment with Recapita Finance Private Limited's strategic objectives.

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7. Other Charges and Fees

In addition to interest rates, Recapita Finance Private Limited may levy specific charges and fees on its loan products, where applicable. All charges are transparently disclosed to borrowers in the loan documentation.

Charge	Details
Processing Fees	Determined based on the product type and loan amount, with specific fees outlined at loan sanction.
Prepayment Charges	- **Floating Rate Loans** (If Introduced): No prepayment charges for individual floating rate loans.
	- **Other Loans**: Up to 5% on early loan closure before the agreed tenure.
Penal Charges	Up to 24% p.a. (non-capitalized) on overdue principal amount, applied to discourage late payments. Penal charges are applied solely to the outstanding principal balance, excluding the total outstanding amount.
Cheque Bouncing Charges	₹500 plus GST per instance of cheque dishonor or payment bounce.
Auction Charges	For secured loans, such as Gold Loans, auction-related charges may apply if recovery through auction becomes necessary, as per the initial loan agreement.
Stamp Duty and Taxes	Collected in accordance with applicable statutory requirements.

These charges vary by product and are communicated transparently to each customer through the Key Fact Statement and Sanction Letter.

8. Communication and Disclosure Framework

Recapita Finance Private Limited is committed to ensuring transparency and clear communication with all borrowers regarding interest rates, fees, and any subsequent changes. This framework outlines how information is disclosed and communicated to borrowers, in compliance with regulatory requirements.

This structured approach to communication and disclosure supports RECAPITA FINANCE Private Limited's commitment to transparency, regulatory compliance, and customer awareness.

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A. Disclosure to Borrowers

Disclosure Type	Description
Interest Rates and Applicable Fees	All interest rates, processing fees, and additional charges will be clearly disclosed in the loan sanction letter and relevant loan documentation, ensuring full transparency.
Repayment Schedule	A detailed repayment schedule, including principal and interest components, will be provided to borrowers, facilitating easy understanding of repayment terms.

B. Communication of Changes

Change Type	Method of Communication
Changes in Interest Rates or Fees	Any revisions to interest rates or applicable fees will be promptly communicated to borrowers via email, SMS, or postal mail, as deemed appropriate.

C. Website Disclosure

To comply with the RBI's **Master Directions for NBFCs** and promote transparency, RECAPITA FINANCE Private Limited will ensure that all policy information is accessible on the company's website:

- **Interest Rate Policy and Risk Gradation:** The full Interest Rate Policy, including risk gradation methods, will be published on RECAPITA FINANCE Private Limited's website to provide borrowers with easy access to information.
- **Policy Updates:** Any amendments to the interest rate policy will be updated on the website promptly, ensuring that customers and stakeholders are always informed of the latest policy terms.

9. Compliance with Regulatory Requirements

Recapita Finance Private Limited is committed to full compliance with all relevant guidelines issued by the Reserve Bank of India (RBI) and other applicable laws. This commitment includes:

- **Transparency through Publication**: Recapita Finance Private Limited will publish its Interest Rate Policy and risk gradation framework on the company's website, ensuring that customers and stakeholders have open access to important policy information.

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- **Comprehensive Documentation**: All interest rates, fees, and charges will be clearly documented in loan agreements, sanction letters, and other formal communications with borrowers. This ensures that every borrower is fully informed of the terms associated with their loan.
- **Ongoing Regulatory Monitoring**: Recapita Finance Private Limited continuously monitors updates to RBI directives and promptly adjusts its policies to ensure alignment with regulatory standards. This proactive approach safeguards the company's compliance and reinforces adherence to fair lending practices.

10. Review of the Policy

Recapita Finance Private Limited will conduct a thorough review of this Interest Rate Policy on an annual basis or as required to address regulatory updates and evolving business needs. The objectives of these reviews are to ensure ongoing alignment with industry standards, regulatory compliance, and the company's strategic goals.

- **Annual and Interim Reviews:** The policy will undergo an annual review to verify its alignment with current RBI guidelines, market conditions, and operational requirements. Additionally, interim reviews may be conducted if significant regulatory changes or business developments arise.
- **Communication of Modifications**: Any modifications to the Interest Rate Policy will be promptly communicated to borrowers and stakeholders through appropriate channels, such as email or public announcements. The updated policy will also be published on the company's website to ensure full transparency and accessibility for all stakeholders.

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