Interest Rate Policy - Retail

VERSION APPROVAL & REVIEW

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APPROVED BY

Board of Directors – Piramal Finance Ltd (PFL)

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2.1. BACKGROUND

Piramal Finance Limited (PFL/Company), formerly known as Piramal Capital & Housing Finance Ltd, a wholly owned subsidiary of Piramal Enterprises Limited (the flagship company of Piramal Group) is a NBFC registered with Reserve Bank of India (RBI) and in the business of lending in retail and wholesale space.

This document is intended to present the policy of the Company for dealing with retail customers/borrowers, in respect of determining the pricing for loans/credit facilities given by PFL, in a transparent and open manner. It is necessary to evolve a standard for pricing of loans with a view to ensuring that the pricing is fair and transparent.

Keeping in view the below circulars (as amended from time to time), the following internal guiding principles and interest rate framework are therefore laid out that need to be taken cognizance of while determining interest rates and other charges.

1. Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions ("RBI Master Direction"), 2021 dated 17th February 2021
2. Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans vide circular DOR.MCS.REC.32/01.01.003/2023-24 dated August 18, 2023
3. Fair Lending Practice – Penal Charges in Loan Accounts vide circular DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023

Furthermore, PFL will adhere to the extant RBI Guidelines/Circulars issued from time to time. This Policy is applicable for retail loans.

2.2. INTEREST RATE

The Company lends money to its customers through fixed & floating rate loans.

It lends through various products designed to cater to the needs of different category of customers,

- Mortgage (Individual salaried, Individual Self-employed, SME's)
- Consumer (Secured & Unsecured)

RBI requires that the Board of each NBFC should adopt an interest rate model taking into account relevant factors such as cost of funds, operating expenses, margin, risk premium and determine the rate of interest to be charged for loans and advances.

PFL offers both floating interest rate loans and fixed interest rate loans depending on the nature of product.

Rate of interest applied on Floating Rate loans comprise of two components, the RPLR and the spread. While the Company proposes a single RPLR for all retail loans, the spread can vary for different customers based on the parameters listed in this Policy.

The applicable rate of interest for the same tenor for different clients can be different depending upon the combination of one or more of the below mentioned factors.

2.3. Determination of Retail Prime Lending Rate (RPLR)

The Asset Liability Committee (“ALCO”) will review and approve the RPLR at least once every quarter which will be calculated based on following parameters:

a) Weighted Average Cost of Outstanding Borrowings: The outstanding borrowings includes term loans, debt capital market instruments, foreign currency borrowings and/or any other form of interest bearing instruments. The cost of borrowing also includes fund raising and related expenses.
b) Cost of Equity: The outstanding equity includes Share Capital & Reserves and Surplus. The Cost of Equity is calculated basis methodology approved by the ALCO.
c) Negative carry on Investments: To manage liquidity risk, the company maintains investments in safe assets which generate lower return than the retail loans. The impact of the same is factored into the calculations.
d) Operating Expenses: This includes employee expenses, branch related expenses, business sourcing expenses and marketing expenses. This cost is apportioned over the outstanding retail loan assets and the impact is factored in.
e) Risk Based Premium: This accounts for various business related risks (includes liquidity risk, RBI benchmark rate movement impact, regulatory risk)
f) Base Margin: This is a function of the minimum return that the Company wants to maintain on a going concern basis.

2.4. Determination of Spread

The spread is calculated taking into account below parameters:

a) Credit Risk Impact (based on parameters that are used to identify the credit profile of customer, nature of product and security, if applicable)
b) Product Specific Premium/Discount (including leviable charges and customer specific premium/discount)

2.5. Credit Risk Impact

The Retail Business team will determine Credit Risk Impact and the case specific applicable Premium/Discount based on following factors:

The Credit Risk Impact attached with a customer shall be assessed inter-alia based on a combination of one or more of the following factors:

a) Profile and market reputation of the borrower including usage of internal credit scoring models leveraging traditional approaches like Bureau score, performance as well as alternative data sources,
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, past repayment track record and historical performance of our similar clients,
d) Overall customer yield, future potential, repayment capacity based on cash flows, income assessment method/loan eligibility and other financial commitments of the borrower,
e) Nature and value of primary and secondary collateral / security, location,
f) Type of asset being financed, end use of the loan represented by the underlying asset,
g) Interest, default risk in related business segment, credit guarantee, sourcing (physical/digital)
h) Regulatory stipulations, if applicable,

i) Tenure, quantum, repayment schedule and structure (including proposed moratorium, if any)
j) Any other factors that may be relevant in a particular case

2.6. Guidelines on Reset of Floating Interest Rates

This section defines the norms to be followed during reset of RPLR at PFL to be in line with RBI circular on Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans vide circular DOR.MCS.REC.32/01.01.003/2023-24 dated August 18, 2023

These guidelines shall be applicable to all EMI based floating rate Personal Loans (existing as well as new customers) given to individuals consisting of (a) Consumer Credit (b) Education Loan, (c) Loans given for creation/ enhancement of immovable assets (e.g., housing, etc.) and (d) Loans given for investment in financial assets (shares, debentures, etc.)

- PFL, at the time of sanction, shall communicate to the borrowers about the possible impact of change in RPLR on the loan leading to changes in EMI and/or tenor or both.
- Any increase in the EMI/ tenor or both on account of re-pricing due to change in RPLR shall be communicated to the borrower immediately through appropriate channels i.e e-mail, SMSs, letters, etc.
- The impact of RPLR reset on ROI will be given immediately.
- All existing borrowers shall be sent a communication, intimating the options available to them.
- At the time of reset of interest rate due to change in Retail Prime Lending Rate (RPLR) the impact will first be given to tenure and then to EMI. The borrower(s) will have an option to choose any of the below:
    - Enhancement in EMI
    - Elongation of tenure
    - Combination of both
    - To prepay, either in part or in full (foreclosure/pre-payment charges to apply as applicable)
    - Switch to fixed interest rate
- The above choices will be considered provided elongation of tenor in case of floating rate loan does not result in negative amortisation.
- The above options will be available to the borrower(s) every time there is a resetting of interest rate due to change in RPLR. However, the choice of switching to Fixed Interest Rate will be available only once during the lifecycle of loan.
- The Fixed Rate of Interest will be as per the ROI applicable at the time of reset. Foreclosure / pre-payment charges will apply as applicable.
- All applicable charges and any other service charge / administrative costs incidental for opting above choices will be disclosed in the sanction letter and Most Important Terms and Conditions (MITC) and also at the time of revision of such charges/ costs from time to time.
- Borrowers will have access to quarterly statement, easily understood, detailing principal and interest payments received to date, remaining EMIs, EMI amount, and the annualized interest rate for the entire loan term through appropriate channels.

2.7. Treatment of loans amid rate of interest change due to change in RPLR

- Below loans will be excluded while implementing the effect of RPLR changes:
    - Loans linked to interest subvention schemes with developers
    - Loans which are part of sold securitization pool, where the service was handed over to assignees and the system cut off was implemented
    - Loans which are part of bought securitization pool, where the loans are serviced by assignor

- Loans which are part of sold securitization pool, prior to 1st Jan 2020
  - Loans disbursed in the immediate preceding 3 months
  - Loans which were retained by offering lower rate of interest (specific period to be decided during every RPLR reset)
  - Loan under structured scheme

- Tenure will be increased as first option, except in below scenarios where EMI will be increased. The choices during RPLR reset will be available to all borrowers as mentioned above:
  - Loans which will move to negative amortization due to the increase in RPLR
  - Loans in which principal recovery is zero in EMI cases
  - Loans in which age of all the applicants exceeds 74 years and 11 months at maturity of loan. Any exception to this shall be approved by Chief Operating Officer
  - Balance tenure of loans shall not exceed 30 years. Any exception to this shall be approved by Chief Operating Officer

2.8. Determination of Fixed Interest Rate

Rate of interest applied on **Fixed Rate** loans is determined on the basis of multiple parameters, including but not limited to:

a) The weighted average cost of outstanding borrowings
b) Cost of Equity
c) Negative carry on investments
d) Operating expenses
e) Risk Base Premium
f) Base Margin
g) Credit Risk Impact
h) Product specific premium/discount

2.9. Determination of Final Pricing

These parameters/factors mentioned above plays a critical role in determining the final pricing. The final pricing of the product is calculated by adding Operating Expenses, Credit Cost and Margins/Profit to the Cost of Funds. These varies from product to product.

Final Pricing = Cost of Funds + Operating Expenses + Credit Cost + Profit

For reference, below are the actual numbers of FY25 as on YTD Dec'24 (i.e. Apr'24 to Dec'24):

Products	Cost of Funds	Operating Expenses	Credit Cost	Profit before Tax	Sourcing ROI
Housing Loans	6.8%	4.0%	0.6%	1.8%	11.5%
MSME Secured	6.7%	4.5%	0.8%	5.1%	12.9%
Unsecured Business Loans	6.7%	4.7%	9.6%	2.0%	20.2%
Used Car Loans	6.6%	5.4%	8.9%	(5.3%)	16.2%
Microfinance	6.9%	4.2%	10.4%	(4.1%)	25.7%
Personal Loans	6.6%	6.0%	7.6%	(0.4%)	17.5%

Digital Loans*	6.8%	4.2%	5.3%	1.4%	17.1%

***Includes Embedded Finance and Shakti Cross-sell*

These above numbers are for a specific period (as mentioned above) and will vary for different time period.

Maximum ROI and APR cap of all products are mentioned below as approved in Product Governing Council:

Products	**Min ROI (p.a.)**	**Max ROI (p.a.)**	**Max APR cap (p.a.)**
Housing Loans (AF, MA, BH)	Cost of Funds	19%	21%
MSME Secured Loans (LAP, SBL)		21%	23%
MSME Secured Loans (Micro LAP)		24%	27%
Unsecured Business Loans		30%	34%
Used Car Loans		22%	25%
Microfinance		26%	30%
Personal Loans		30%	33%
Digital Loans – Salaried (>12 months tenure)**		35%	40%
Digital Loans – Salaried (<12 months tenure)**		35%	45%
Digital Loans – Self employed**		42%	50%

***This is the maximum approved cap beyond which a borrower cannot be charged. It may look high due to higher marketing and other expenses, however the actual weighted ROI charged to borrower(s) are way below this (refer above table). Also, shorter tenure loans tend to hive a higher APR.*

2.10. Annualized Percentage Rate (APR)

The rate of interest alone doesn't represent the actual cost of borrowing for the borrower since it /doesn't include various additional costs and fees associated with the loan. These extra expenses can impact the overall cost of borrowing.

APR provides a more accurate cost of loan to the borrower. Apart from rate of interest, it also includes other charges like processing fee and insurance premium, if applicable. It does not include charges like stamp duty, prepayment charges, penal charges, CERSAI charges, etc.

APR is disclosed as it gives the borrower a clear understanding of how much the loan will cost over the tenure of the loan.

APR is effectively the ROI calculated on the net disbursed amount after deducting processing fee and insurance premium.

2.11. Pricing Matrix

This covers the product specific pricing matrix, applicable rate of interest, annualized percentage rate, processing fee and any other related charges.

The interest rate would be-

- Offered on fixed, floating / variable basis
- Charged on daily, weekly, fortnightly or monthly as per agreement

The Company shall communicate to its Customer/borrower via a sanction letter/loan agreement along with the Terms and Conditions, the following details:

- The amount of loan sanctioned along with terms and conditions including annualized rate of interest applicable to the loan.
- Details of the default/penal charges, conversion charges for switching loan from fixed to floating rates or vise-versa, existence of any interest reset clause and other fees and charges applicable to the loan.

The interest shall be deemed payable on the due date as communicated.

Other financial charges as mentioned in applicable agreement would be in addition to the interest rate as specified in the agreement. Any revision in these financial charges would be with prospective effect, unless specified otherwise, and stipulated in the agreement/ published on the Company website. This additional or penal charges matrix for different products or facilities will be approved as per documented internal approval limits.

Applicable taxes and any other government/statutory charges would be collected at applicable rates from time to time as mandated by the regulatory authorities.

In case deemed fit, the Company may consider necessary moratorium for interest payment and repayment of principal with proper built in pricing, as per approved Credit Risk Policy.

Claims for refund or waiver of charges/ penal charges / additional charges shall be at the sole discretion of the Company as per documented internal approval limits.

Reduction in interest rate charged to a borrower would be done at the sole discretion of the Company and in adherence to extant regulatory guidelines.

Any change in the interest rate would be based on commercial reasons which will in adherence to extant regulatory guidelines and in line with the agreement with the borrower:

- Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers through letter/ email /by publishing on website.
- No interest is payable on Credit Balance in customer's A/c.
- The rate of interest and the approach for gradation of risks along with penal charges will be made available on the website of the Company. The same will be updated whenever there is an amendment.
- All transactions, including payment of interest on deposits/ charging of interest on advances, shall be rounded off to the nearest rupee, i.e. fractions of 50 paise and above shall be rounded off to the next higher rupee and fractions of less than 50 paise shall be ignored.

3. GUIDELINES FOR PENAL CHARGES

This section defines the governing principles in determination of penal charges for loans and advances in line with RBI circular on Fair Lending Practice - Penal Charges in Loan Accounts vide circular DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023.

Regulated Entities (REs) use penal rates of interest, over and above the applicable interest rates, in case of defaults / non-compliance by the borrower with the terms on which credit facilities were sanctioned

3.1. Applicability and General Norms

Penal charges are levied with an intended objective to drive credit discipline in the conduct of the account. These guidelines shall be applicable to all existing as well as new customers and all the products.

- Penal charges for the purpose of this Policy represents charges over and above normal interest rates/ fees, levied for default by the borrower in complying with the terms on which credit facilities were sanctioned. The term 'default' covers delays in repayment of loan, irregularity in the conduct of the account or non-compliance with material terms of the sanction of the facility.
- PFL shall charge penalty for non-compliance of material terms and conditions (defined in section below) of loan contract by the borrower. The intent of levying penal charges is essentially to inculcate a sense of credit discipline.
- It shall be in the form of 'penal charges' without any capitalization i.e., no addition of 'penal interest' which may result into further interest computed on such charges.
- The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall be at par with penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.
- The quantum and reason for penal charges will be disclosed in the Sanction Letter, Loan Agreement and Most Important Terms and Conditions (MITC) / Key Fact Statement (KFS).
- These charges will also be displayed on PFL website.
- Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall also be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.
- These charges will be part of MITC/KFS.
- Penal charges shall be levied as below:

	Secured Products	Unsecured Products
Penal Charges for Financial Non-compliance	Up to 2% per month on default of PEMI/EMI from the date of default till the date of actual payment	Up to 5% per month on default of PEMI/EMI from the date of default till the date of actual payment
Penal Charges for non-compliance of other terms and conditions	Up to 2% per month on Outstanding Amount, for the period beginning the date of such non-compliance until the same is cured to the satisfaction of PFL + applicable taxes	Up to 5% per month on Outstanding Amount, for the period beginning the date of such non-compliance until the same is cured to the satisfaction of PFL + applicable taxes

3.2. Material Terms and conditions for levying Penal Charges

Occurrence of any or all the following events/actions, as applicable for the respective Product, shall constitute as material terms and conditions of loan contract (Agreement)

- Default in or non-payment of Outstanding Amount or EMI due in full or any other dues under the Agreement, on or before the due date as provided in the Agreement.
- Non-creation of Security within time specified or within the extended time period, in terms of the Agreement or Transaction Documents.

- Non-deposit of title deeds of the Property or any other document as stipulated by the Lender with the Lender within stipulated time as mentioned in the Transaction Documents.
- If the Borrower fails to furnish the Lender with all title documents of the Property which is in the Borrower's possession at any time, or any information/documents/ PDC/ NACH as required by the Lender time to time.
- Any information given by the Borrower in the Loan Application, or financials provided to the Lender, and/or any other document/ certificate/receipt/statement, to Lender for financial assistance is found to be misleading or incorrect.
- If the Borrower misuses the Loan Amount or any part thereof for any purpose other than the Purpose for which the Loan has been sanctioned or if the Purpose for which the Loan has been obtained becomes illegal.
- Dishonour of any payment instructions provided under the Agreement / any instructions given by the Borrower for stopping payment of any mode under the Agreement or instructions to the Lender not to present any NACH mandate or cancellation of NACH mandate.
- Any short payment of any demand raised by the Lender under the terms of the Transaction Documents.
- In the event the Security or part of it is lost, disposed off, gifted or depreciates in value and the Borrower fails to provide additional security to maintain the Security Cover, or there is any attachment or distrait is levied on the Security or any part thereof as prescribed by the Lender or if the Security Interest provided becomes unenforceable in nature.
- If the Security or any part of the Security is let-out, given on leave & license, sold, disposed off, charged, encumbered or otherwise alienated in any manner whatsoever, without the prior written consent of the Lender.

4. APPROVING AUTHORITIES

- The Board is the approving authority for the Interest Rate Policy. The Board may in turn, delegate the authority and monitoring of implementation of the Policy to the ALCO.
- The RPLR and its constituents are presented to the ALCO/Board by the Treasury Department. Any change in the RPLR and the methodology of calculation of spread is reviewed and approved by the ALCO. The same will be subsequently presented to the Board in its next meeting for information.
- Broader pricing matrix, which includes product/customer specific interest rate range, annualized percentage rate range, etc is approved by the Product Governance Council (PGC). Final pricing of retail loans is approved by the CBO/MD and respective Business Heads within the limits set by the PGC. Any amendment to this shall be approved by PGC.
- Amendment to treatment of loans (section 2.5 above) or any other decision on providing the effect of RPLR will be approved by Managing Director basis recommendations from Chief Business Officer (CBO) and Chief Operating Officer (COO).
- Amendment to Penal charges, MITC/KFS and any waiver matrix shall be jointly approved by Chief Business Officer (CBO) and Chief Operating Officer (COO).

5. REVIEW MECHANISM

The Risk team will present the following indicative parameters to the Credit Risk Management Committee (CRMC) as part of the review process:

- Risk sloping as per pricing
- Top 5 percentile priced loans for every product
- Bottom 5 percentile priced loan for every product