INFINITY FINCORP SOLUTIONS PRIVATE LIMITED

INTEREST RATE POLICY

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Next revision is due in August 2025

INTEREST RATE POLICY

Preamble

The guidelines issued by the Reserve Bank of India (RBI) under Notification No. DNBS. 204 / CGM (ASR)-2009 dated January 2, 2009, and RBI/DoR/2023-24/106 DoR.FIN.REC.No.45/03.10.119/2023-24 dated October 19, 2023 (including all updates and amendments from time to time), along with the RBI's guidelines on the Fair Practices Code for Non-Banking Financial Companies (NBFCs), as amended periodically (collectively referred to as "RBI Regulations"), require all NBFCs to publish their interest rates and risk grading approach on their websites.

Additionally, the RBI Regulations mandate that all NBFCs establish an Interest Rate Policy, which must be approved by the Board. This policy should take into account relevant factors such as the cost of funds, margin, risk premium, and other considerations, to determine the interest rates charged for loans and advances.

Company Background

We, Infinity Fincorp Solutions Private Limited (IFSPL), specialize in providing small-ticket loans to small business owners and self-employed individuals for their business, housing, agriculture and other personal needs. The funds for these loans are sourced from banks and other financial institutions, which are then on-lent to potential borrowers. These customers often cannot be assessed through the credit methodologies of traditional banks and financial institutions, leading them to seek funding from specialized institutions like our Company.

To address this, the Company has developed a tailored underwriting methodology to evaluate the income levels and creditworthiness of these borrowers.

It is important to note that small-ticket loans inherently involve higher operating expenses. Additionally, lending to borrowers who may be first-time users of formal credit systems carries higher perceived credit risk, which may lead to higher credit costs. These factors are carefully considered in developing the Interest Rate Policy, ensuring that it is robust enough to withstand changing conditions and does not require frequent revisions. We provide loan to customers at fixed rates and these rates will remain unchanged for the entire duration (tenure) of the loan.

Interest Rate Model

An NBFC generates its income from the interest spread, which is the difference 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 determine the profitability of the NBFC.

The interest rate model employed by IFSPL determines the lending rate as the sum of the following components:

1. **Cost of Funds**: This includes the rate charged by our lenders, plus the annualized impact of processing and other fees, fundraising costs, negative carry on

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investments, Interest rate mismatch costs, ALM mismatch costs, and other similar expenses.

2. **Operational Expenses**: Costs associated with the day-to-day operations.
3. **Credit Costs**: The cost associated with the credit risk on loans we provide.
4. **Expected Profitability**: A reasonable profit margin for future growth of business and a return on Investment to the Investors in the Company.
5. **Market Practices**: Current industry trends and standards for interest rates.

Each of these parameters will be periodically reviewed and adjusted to determine the final interest rate charged to borrowers. The factors have been discussed below:

1. **<u>Cost of Funds</u>**

a) **Borrowing Cost**: The Company sources funds from a variety of financial institutions, including banks, other NBFCs, through the issuance of Non-Convertible Debentures (NCDs) and more. Lenders assess several factors when determining the cost of funds they will charge, including the company's credit rating, interest rate environment, portfolio quality and the tenure of the facility. The type of lending institution—whether banks, other NBFCs, etc —and the structure of the borrowing facility (e.g., term loan, cash credit, NCDs etc) influences the cost. Lenders charge processing and other fees which contribute to the overall cost. If debt arrangers are involved, the Company incurs the fees to be paid to the arrangers. The Company typically needs to plan its funding in advance to meet the business needs. This often results in negative carry, as the return on investments on borrowed money temporarily parked in safe assets such as Fixed Deposits etc. carries significantly lower return than the cost of borrowing. All these factors are factored into the pricing determined by the company.

b) **Interest Rate Mismatch Cost:** The Company borrows money at variable rate and lends at fixed rate. This exposes the Company to interest rate mismatch risk, which is factored in while determining loan pricing. Considering the customer profile, the company exclusively offers fixed-rate loans, as they are more straightforward for customers to understand and communicate. The decision to provide fixed-rate loans is a deliberate choice made by the Board, with the customer profile in mind.

c) **Asset-Liability Management (ALM)**: The tenure of the borrowing facility is evaluated in relation to the tenure of the company's lending. As the Company provides long-term loans, it may not always be able to secure matching funding for its assets. This mismatch exposes the company to interest rate risks over time, which needs to be considered when determining loan pricing.

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2. **Operational Expenses**

Operational expenses encompass a wide range of costs, including personnel expenses, fixed and variable costs related to branches, sales and marketing expenses, technology-related expenses, collections and recovery costs, depreciation, and others.

3. **Credit Cost**

Credit costs consist of provisions for standard, substandard, doubtful assets and loan write-offs. Although actual credit losses are expected to be well contained due to the secured nature of the loans, the Company needs to build a robust provision base, considering the slightly vulnerable nature of the borrowers. These factors are incorporated into the loan pricing.

4. **Expected Profitability (RoA)**

Expected profitability, or Return on Assets (RoA), refers to the minimum return the company needs to generate from its assets to ensure continued availability of capital as the business grows and provide a return on Investment to the Company's investors in line with the industry.

5. **Market Practices**

The company will regularly evaluate the interest rates set by other market participants. The Asset Liability Management Committee (ALCO) will examine the current interest rates provided by competing NBFCs for similar products and services before adjusting loan pricing.

6. **Revision to Lending Rates**

The Company shall review the lending rates, which will be decided by ALCO committee in a six-monthly review and will be updated to the board of directors, taking into account the company's cost structure. Since the company provides only fixed-rate loans, the lending rate will not change on loans that are already disbursed. Revised lending rates will apply to new loans or incremental disbursements.

Upon sanctioning a loan, the customer will be informed of the annualized interest rate along with the Annual Percentage Rate (APR), as per the RBI Circular RBI/2024-25/18 DOR.STR.REC.13/13.03.00/2024-25 dated April 15, 2024. Any updates to the lending rates will be reflected on the company's website.

7. **Moratorium:**

In cases where deemed necessary, the Company may offer a moratorium period for principal repayment, subject to built-in pricing adjustments.

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8. Fees & Charges

In addition to the interest rate, the company charges various fees and other charges, which are clearly documented in the Fair Practice Code (approved by the Board of Directors on an annual basis). As mentioned earlier, all fees and charges (which are charged upfront) will be included in the computation of the APR. This enables customers to make a meaningful comparison with the APR charged by other market players and make an informed decision.The following is the list of fees and charges applicable:

Sr.No	Charges for	Applicable Charges
1.	Application/Login Fee	₹2000 per loan inclusive of taxes
2.	Processing Fee	2% on sanctioned loan amount plus GST
3	Legal and Inspection Fee	₹2000 per loan inclusive of taxes
4.	CERSAI fee	₹500 plus applicable taxes
5.	Penal Charges	2% per month on the delayed amount for the delayed period
6.	Part Pre-payment charges	NIL for Individual floating ROI cases. The Company doesn't lend on a floating rate. Pre-payment/FC charges will be 4% plus applicable taxes if non individual are applicant/co applicant or guarantor to loan in floating ROI Cases. In all fixed ROI cases Prepayment/FC charges will be 4% plus Applicable taxes Upto 12 months not allowed post 12 months upto 25% of POS NIL, beyond 25% of POS as per above slab
7.	Foreclosure Charges	4% plus taxes of principal outstanding
8.	Other Charges a) Cheque/ECS bounce charges b) CERSAI charges c) Providing additional copies of agreement d) Statement of accounts e) Cheque swapping charges (ECS change charges) f) List of documents charges	a) ₹1000 plus applicable taxes per dishonour cheque b) ₹500 plus applicable taxes and all applicable charges as stipulated by CERSAI and as stated in the Loan agreement c) ₹1500 plus applicable taxes d) ₹750 plus applicable taxes e) ₹500 plus applicable taxes f) ₹500 plus applicable taxes

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	g) Foreclosure statement charges	g) ₹750 plus applicable taxes
9.	Cancellation charges	a) ₹10,000 plus GST (if the cancellation is done within 15 days) b) 1% of the loan amount plus GST Or ₹10,000 plus GST, whichever is higher.

9. Interest Rate

Based on the factors outlined earlier, the maximum interest rate for loans is **24.5% per annum.**

The above interest rate ranges are based on the following based on last 9 months actuals (wherever applicable):

- **Cost of Funds** (including interest rate mismatch and ALM mismatch, negative carry on investments, etc.): **11.3%**
- **Operational Expenses: 7.5%**
- **Credit Cost: 0.6%**
- **Expected Profitability:** Approximately **4%-5%**

Any permanent benefit accruing to the company based on these parameters will be passed on to the borrowers periodically, in line with decisions made by the Asset Liability Management Committee (ALCO) and the Board.

Communication of Interest Rates

- **Annualized Rate:** The annualized rate of interest will be clearly communicated to the customer and included in the sanction letter / loan agreement.
- **Clarity:** The interest rate will be disclosed at the time of loan sanction and will be presented along with the EMI breakdown (interest vs. principal).

Immediate Interest Payment

- Interest will be considered payable immediately on debits, with no grace period for payment.

Prospective Interest Rate Changes

- Any changes to the interest rate or other charges will apply prospectively. Customers will be notified of such changes through a suitable communication method.

Payment on Public Holidays or Sundays

- If a due date falls on a public holiday or Sunday, the payment will be considered due on the next working day.

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Rounding off of Transactions

- In line with RBI guidelines, transactions, including interest charges, will be rounded to the nearest rupee. Fractions of 50 paise or more will be rounded up, while those less than 50 paise will be ignored.

10. Indicative Rates and Final Rate Determination

All rates mentioned are indicative and are annualized. The final interest rate applicable to a loan will be determined based on various factors, including:

- Type and vintage of collateral
- Customer business profile
- Bureau Score
- Other relevant parameters

The final rate will be decided at the time of loan sanction.

11. Authority for Revision of Pricing

The **Asset Liability Management Committee (ALCO)** or the **Board of Directors** will have the authority to make decisions regarding any revisions to the pricing structure from time to time.

Conclusion

The **Interest Rate Policy** is designed to ensure that the Company's lending practices remain in compliance with RBI guidelines while maintaining a flexible, market-responsive approach to determining interest rates and charges. The policy emphasizes transparency, customization for individual customer profiles, and consistent communication of terms, while also ensuring the company's financial sustainability.

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