MUTHOOT CAPITAL SERVICES LIMITED

CIN: L67120KL1994PLC007726

POLICY ON INTEREST AND OTHER LEVIABLE CHARGES

This Policy was approved by the Board of Directors on June 14, 2018 and reviewed on July 17, 2018

Policy on Interest and Other Leviable Charges

I. INTRODUCTION

Muthoot Capital Services Limited (MCSL) promoted by the Muthoot Pappachan Group (MPG) is a Non-Banking Financial Company (NBFC) registered with the Reserve Bank of India and listed on the BSE Limited and National Stock Exchange of India Limited.

II. PURPOSE

Keeping in view the good governance and fair practices code prescribed by Reserve Bank of India, the Company decided to adopt the following internal guidelines and procedures in the matter of fixation of interest rate model and the method of levying charges from the customers for its lending business.

III. SCHEME

This Policy is divided into two parts. The First Part deals with the matters relating to interest and the Second Part deals with matters relating to charges being levied from the customer other than the interest.

PART I: RATE OF INTEREST

A. Fixation of Interest

The Company shall be guided by this Policy for determining the interest rates on various loan schemes of the Company. It shall also consider the prevailing market conditions, various rules and regulations prescribed by the RBI or such other competent authority, as applicable, from time to while fixing the interest rates.

B. Components of Interest leviable

In the case of an account which is serviced regularly and operated without default, the interest charged would have two components viz. Basic Rate and Risk Premium. However, if an account is not serviced regularly and default occurs, the interest leviable in such accounts will have one more component called additional interest. Further, if the customer opts for reschedulement of the entire repayment schedule or pre-closure of the loan post-delivery of the two wheeler, the Company shall charge broken period interest as applicable in such cases.

Each component of the interest is explained below:

1. Basic Rate

Basic Rate shall be arrived at after considering the following aspects:

a) **Cost of Funds:** This includes the interest and other related charges payable by the Company on the borrowed funds such as loan from Banks/Financial Institutions, Secured NCD's, etc.
b) **Operating Cost:** This includes the employee cost and other administrative and operating overheads of the Company.
c) **Gradation of Risk:** The nature of risk associated with the loan will always have a bearing on the Basic Rate to be arrived at.
d) **Return on Equity:** After meeting all the above (a, b and c), a reasonable return on equity is to be ensured in arriving at the base rate.
e) **Other Factors:** Industry trends / offers from competitors.

Apart from the above, the nature of lending, i.e., unsecured/secured, tenure of lending, margin covering regulatory provisions, if any, industry trends - offerings by competition, etc. shall also be considered to derive the basic rate.

2. Risk Premium

While fixing the risk premium, the Company shall take into consideration, the LTV rate applicable to the loan, the frequency of servicing of the loan by the customer, risk perception of the Company based on geographical location, class of customers, etc. Risk profile of customer including the professional qualification, stability in earnings and employment, financial positions, past repayment track record with us or other lenders, external ratings of customers, credit reports, customer relationship, future business potential, etc. shall also be considered.

3. Additional Interest

To cover any possible loss due to additional cost of finance on the Company due to non-servicing of the loan by the customer, the Company may charge an additional interest at a maximum rate of 3% per month compounded on monthly basis on loans which are not serviced properly.

4. Broken Period Interest

The Company provides an option to the customer to reschedule the entire repayment schedule by reducing the tenure of the loan and pre-closure of the loan post-delivery before the maturity of the tenure. In such cases, the Company may incur loss of revenue due to the change in the agreed repayment schedule and terms of the loan facility. To cover the said possible loss, the Company may charge additional interest for such broken period of the repayment schedule based on the number of days between due date of last installment and date of initiation of rescheduling/pre-closure. The broken period interest shall be calculated as follows:

Broken Period Interest = **Balance Stock * IRR % * No. of Days / 365**

C. Rate of Interest

i) Regular Accounts (loan accounts serviced regularly)

The Company intimates the customer, the exact loan amount and rate of interest applicable at the time of sanction of the loan along with the tenure and amount of monthly installments (EMI). The following would be the broad band of interest rate in respect of a loan account which is serviced regularly without any default and also dependent on the scheme. This rate is excluding the additional interest leviable in case of default and other charges.

Rate of Interest - Two wheeler loans

Tenure (Months)		12	18	24	30	36
Range of interest (annualized) based on gradation of risk	**High**	27% - 28%	27% - 28%	27% - 28%	27% - 28%	27% - 28%
	Medium	24% - 27%	24% - 27%	24% - 27%	24% - 27%	24% - 27%
	Low	less than 24%	less than 24%	less than 24%	less than 24%	less than 24%

However, if any scheme of more than 36 months is evolved maximum interest rate for loans being serviced regularly can be increased from the above 28% p.a. limit, to be determined based on various principles contained in this policy.

ii) Irregular Accounts

When an account is not serviced regularly i.e., when the EMI is not paid on the due date and the amount is outstanding, resulting in default in repayment of the loan amount, additional amount called additional interest will be levied at the rate 3% per month compounded on monthly basis on the overdue EMI.

iii) Maximum Rate of Interest Leviable on a loan account

a) Regular Accounts (Ref. (i) above): 28 (Twenty Eight) per cent per annum subject to the proviso under Clause C (i).

b) Irregular Accounts (Ref (ii) above): 3 (Three) per cent on the overdue EMI per month compounded on monthly basis in addition to that as applicable to the Regular Accounts.

D. Procedure/Method of Collection of Interest

i) The rate of interest leviable on each loan account will be communicated to the customer upfront. Accordingly, the rate of interest charged would be specified in the loan sanction letter and loan agreement. Further, whenever notice is issued to the customer for collection of the interest, the rate and amount thereof would be clearly stated in the said notice. The same procedure would be followed in the case of levying additional interest.

ii) The interest being collected is included in the EMI payable by the customer and hence with the payment of each EMI by the customer, the interest applicable will also remain collected.

iii) When an account has turned irregular and the customer makes any payment towards the repayment of his dues to the Company disregarding the amount of EMI, the amount so received would be credited to the loan account in the following order:
   a) Charges other than the interest as per Part II of this policy
   b) Additional Interest
   c) Interest
   d) Principal

E. Approach for Gradation of Risk

The rate of interest is arrived at based on the cost of funds, operating cost, nature of risk and return on capital and other factors stated in this policy. The decision to give a loan and the interest rate applicable to each loan account is assessed on a case to case basis, based on multiple parameters such as the type of asset being financed, customer profile and repayment capacity, customer's other financial commitments, past repayment, tenure of the loan, geography (location) of the customer, end use of the loan as represented by the underlying asset etc. Such information is collated based on customer input, credit bureau and field inspection by the Company officials.

In view of the higher risks associated with the two wheeler loans and shortfall in asset value to cover the dues in case of a forced sale arising from defaults, the interest rate in this type of loan are comparatively high.

The rate of interest is subject to change as the situation warrants due to market compulsions and change in regulatory norms and is also subject to the discretion of the management on a case to case basis, for reasons which will be noted.

PART II - LEVY OF CHARGES OTHER THAN INTEREST AND ADDITIONAL INTEREST

Depending on the nature of the transaction, in addition to the interest and additional interest, the Company may also levy certain charges from the customer. These charges were until now stated as "Other Charges" and now it has been decided to specify each of them as applicable in the communication to the customer and all other related documents whenever and wherever applicable.

A. The following are the charges falling under this category:

1. **Documentation/Processing Charges:** The Company incurs expenditure on the various documents / processes that are involved in initiation of the loan account. This is a charge recoverable from the customer. Documentation/processing charges are charged on the customer on basis of the scheme opted by him/her.

2. **Charges for Loan Cancellation before Disbursement:** In case the loan amount is approved, but the disbursement has not been made and the customer declines the approved loan due to personal reasons such as health problems, accident, death, financial crisis, vehicle stock not available, etc. the Company would charge ₹ 350/- per event.

3. **Quick Delivery Charges:** Normally, the delivery of the vehicle would take about 5-7 days after handing over the cheque to the dealer. However, if the customer wants to get the delivery immediately on handing over the cheque, it would be a premium service and the same would be charged extra in the name of Quick Delivery Charge by way of an additional payment to the Dealer. If the customer opts for this premium service, the Company may charge ₹ 100/- plus GST as Quick Delivery Charges.

4. **Charges for deferring the due date of EMI payment:** The Customer may request the Company to change the due date of EMI payment to another date. In such cases, the Company shall charge ₹ 100/- as one-time charge. This facility is available for a customer once in his/her tenure of loan.

5. **Rescheduling Charges:** The Company provides an option to the customer to reduce the tenure of the loan facility by rescheduling the entire repayment schedule. In this scenario, the customer has to pay all the pending EMIs and dues, if any or it can be capitalized. If the customer opts so, the Company may charge ₹ 750/- per such event. The Company shall also charge broken period interest in such events, as mentioned in Clause B (4) of the Part I of this Policy.

6. **Pre-Closure Charges:**

   a) <u>Pre-Delivery:</u> The customer may opt for pre-closure of the loan facility after making payment to the dealer by the Company, but before the delivery due to any unforeseen events such as health problems, accident, death, financial crisis, vehicle stock not available/vehicle dissatisfaction, etc. and such cases, the Company shall charge ₹ 750 + 24% of the loan amount for the number of such days lapsed.

   b) <u>Post-Delivery:</u> The customer may pay lump sum amount to close all his/her EMIs, additional interest, charges, etc. and thereby to close the loan account. In such cases, the Company shall charge 4% on the principal amount outstanding as pre-closure charge from the customer. The Company shall also charge broken period interest in such events, as mentioned in Clause B (4) of the Part I of this Policy.

7. **NOC Charges:** The Company shall issue NOC at free of cost for the first instance and shall charge ₹ 100/- from the customer thereafter per event.

8. **Cheque/NACH Bounce Charges:** The Company shall charge ₹ 450/- per return cheque/NACH from the customer as cheque/NACH bounce charges.

9. **Repossession Charges:** When the vehicle is to be repossessed, the Company incurs charges for repossessing the same which is recoverable from the customer at actual.

10. **Collection Charges in case of defaulted EMI:** This charge is applicable to the customers who make any default in EMI payment since the Company has to put extra efforts to collect the same. The Company may charge an additional amount of ₹ 450/- per defaulted

EMI as collection charges which will be charged from a customer who has defaulted on his EMI payment. This is towards recovery of additional expenses incurred by the Company for collecting of the defaulted EMI from the customer.

11. **Legal and Incidental Charges:** The Company shall recover, from the customer, the legal and incidental charges for cheque bounce cases at a minimum of ₹ 1000/- per event or actual and for arbitration at a minimum of ₹ 4500/- per event or actual.

12. **Credit Bureau Report Charges:** The Company shall charge ₹ 50/- per event for bureau report as and when required by the customer.

13. **Bank and Postage Charges:** The Company shall charge the bank and postage charges incurred on behalf of the customer, if any, at actual.

14. **Stamp Duty:** The Company shall charge the stamp duty from the customer at actual as applicable and levied by the respective State Governments.

15. **Any Other Charges:** In the event of meeting any other additional expenses by the Company on the account of the customer, the same would be charged to the customer explaining the nature and the amount thereof. Thereupon the same would be payable by the customer.

B. Procedure/Method of levying the charges other than interest and additional interest:

1. The type of the above charges and the amount thereof shall be communicated to the customer through the sanction letter. They may also be specified in the loan agreement. In case they are not pre- fixed, that fact would be stated in the aforesaid documents. In addition to this, as and when such charge becomes due, a communication shall be made to the customer stating the exact amount leviable from him and it would be reflected as such in the loan account.

2. Whenever any payments are received from a defaulting customer towards the repayment of his/her dues to the Company, the amount due on account of this type of charges would be first adjusted out of the amount so received in the order specified vide paragraph D (iii) of the Part I of this Policy.

IV. REVIEW & AMENDMENT OF THE POLICY

Any change in this Policy shall be approved by the Board of Directors of the Company. The Board of Directors shall have the right to review any part of this Policy or the entire Policy at any time, as it deems fit, or from time to time, and the decision of the Board in this respect shall be final and binding.

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