

# **MUTHOOT FINCORP Ltd**

## **Interest Rate Policy**

**(Framed and approved by Board on 12.04.2014)**

**Date of Revision and approval by Board: 27.09.2016**

## Interest Rate Policy

1. 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 then prevailing market conditions and various rules and regulations prescribed by the Reserve Bank of India or such other competent authority from time to time while fixing the interest rates.
2. The maximum ceiling on interest rate applicable to the principal of any loan is 30% per annum. The Company may fix the interest rate for any loan in such a way to ensure an Internal Rate of Return of 6%.
3. Interest charged under various Loan Schemes shall have three components viz., Basic Rate, Risk Premium and Additional Interest.

### *i) Basic Rate*

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

- **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.
- **Operating Cost:** This includes the Employee cost and other administrative overheads of the company.
- **Gradation of Risk:** The nature of risk associated with the loan will always have a bearing on the Basic Rate to be arrived at.
- **Return on Equity:** After meeting all the above, a reasonable return on equity is to be ensured in arriving at the base rate.

### *ii) 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.

### *iii) Additional Interest*

In order to cover any possible loss due to additional cost of finance on the company due to non-servicing of the loan, by the borrower, the company may charge an additional interest at a maximum rate of 12% per annum on the interest on loans which are not serviced **properly**. The collection of additional interest as stated herein is not covered by the ceiling of maximum of 30% interest rate indicated in paragraph 2 above since it relates to the principal amount of loan. Additional interest will be collected in a transparent manner by incorporating the same in the Pledge Form.