

INTEREST RATE AND GRADATION OF RISK POLICY

KUSHAL FINNOVATION CAPITAL PRIVATE LIMITED

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TABLE OF CONTENTS

Introduction 4

Base for Definition of Rate 4

Range 4

Mechanism for Updating of Policy 5

Exceptional Case Handling 5

Gradation of Risk 5

1. Introduction:

This document is intended to present Kushal Finnovation Capital Private Limited (hereinafter referred to as “**the Company**”) policies to promote its philosophy of dealing with customers in a transparent and open manner. Though interest rates are not regulated by the RBI, rates of interest beyond a certain level may be excessive and can neither be sustainable nor be conforming to normal financial practice.

Given that the business model of the Company focuses on extending the loan to credit worthy customers and new to market customers for a short / medium / long term and given its policy of using borrowed funds in the business, the loans are generally charged on a fixed interest basis after evaluation of the risks while extending credit. The rates shall be based on the evaluation of various risks detailed hereunder:

2. Base for defining the rate:

The interest rate applicable to a particular loan will be determined by reference to a number of factors, including:

- The interest rate charged will depend on the period of the loan;
- Risk profile of the potential customer;
- Credit score of the customer;
- Internal credit rating assessed in Company’s credit team;
- The operational cost which shall include the cost of acquisition, cost of the credit delivery, cost of collection and the cost of tracking and monitoring the customer. Factors such as past repayments, type of industry, size of the entity, business vintage, profitability, governance matrix etc;
- Type of the security or collateral given;
- Considering the extending credit;
- End use of the credit; and
- Current trends of risk premium in different industries based on risk perceptions or measures.

3. Range:

- The interest rate is capped at the rate of 36 % per annum which is charged to ensure the risk category of the customers who are generally unsecured and new to credit.
- Fixation of Range and the Evaluation of the same will be responsibility of the Business Team and will be backed by adequate logics, market practice, cost-benefit analysis, etc.
- The interest rate charged to different cohorts of customer shall be renewed periodically by the credit committee.

4. Mechanism for updating the policy:

- The Credit Committee once in half year shall periodically renew the interest rates and make necessary changes as required.
- The Business Head will be authorized to propose any changes to the range of interest rates for the consideration of the Credit Committee. Such proposal shall be backed by adequate reasoning as well as jurisdiction.
- In case of any change in any of the terms and conditions / caveats / any information which is relevant from the point of view of the transaction (including monthly/quarterly/annualized rate of interest); the same shall be conveyed to the customer as an addendum / additional annexure to the agreement. However, all the relevant formalities (e.g. further legal documentation, approval of customer, certification of KFCPL officials etc.) pertaining to the same shall be documented and a copy of the same shall also be sent to the customer. The same may be communicated through electronic media or any other form of communication by the employees of the Company. The acknowledgement of the receipt of the said additional document shall also be preserved on the records by the Company.

5. Exceptional Case Handling:

- The Policy will have product-specific interest rate captured as a part.
- Any exception to the upper or lower limit of the range will require prior approval of the Credit Committee or to the authorities or delegated in the credit committee.
- Further, exceptions in case of rate other than the general rate followed for a specific product will also require prior scrutiny of the Chief Business Officer before the approval is sought from the Credit Committee.
- The Credit Committee shall review the report submitted by the Credit or the Business Team of all such exceptional cases or the deviated cases, including the exceptional rate of interest charged, number of deviations and any reasoning or justification, as required.

6. Gradation of Risk

- The risk premium will be decided bases on the credit risk assessed by the Credit Officer and the internal credit score assessed. The approach for gradation of risk is based on many factors and the lending rate will be arrived by considering factors such as
 - nature of loan,
 - tenure of customer relationship,
 - credit worthiness of the borrower analysed through the Bureau Reports,
 - nature of security,
 - nature of the collateral (if any),

- nature of the product,
- borrower profile,
- repayment capacity,
- borrower's other financial commitments,
- past repayment,
- tenure of the loan,
- geography (location) of the borrower,
- ancillary business opportunities,
- future potential,
- group strength and value to lender,
- overall customer yield,
- end use of the loan etc.