

## INTEREST RATE MODEL

### Purpose/Background:

As per Reserve Bank of India guidelines, Board of each NBFC shall approve an Interest rate model for the Company, taking in to account relevant factors such as cost of funds, margin and risk premium etc. and determine the rate of interest to be charged for loans and advances. Board of Directors in its meeting, had adopted the interest rate model of the company.

### INTEREST RATE MODEL

CSL Finance Limited ("CSL") is a Non-Banking Finance Company registered with the Reserve Bank of India and listed on both the National Stock Exchange and Bombay Stock Exchange and was incorporated on 28th December 1992. The Company is a one-stop destination for Small and Medium-Sized Enterprises (SMEs) and Real estate and non-real estate Corporates to avail of a variety of secured loan products. CSL lends money to its customers through Fixed and Floating rate loan. CSL being a diversified NBFC lends money through various products to cater to needs of different category of customers. Few broad categories of customer segments are as follows.

- Mortgage (Individual salaried, Individual self-employed, SMEs)
- Loan against securities
- Loan against Property
- Customized Offering
- Commercial Loans to corporates
- Wholesale loans to real estate developers for group housing/ plotted projects against the project developed/ to be developed by them.

Fixed rate loans are not linked to benchmark but are decided based on their COF (allocated through Fund transfer pricing), Operational expenditure, Business related risks and desired ROE/ROA. (ROE- Return on Equity and ROA- Return on Assets).

Floating rate benchmarks (if any) is based on either on Base Rate or Floating Reference Rate(FRR).

### The rate of interest/benchmarks are calculated based on following factors.

**Nature of Lending-** The kind of loan which the customer is seeking, the rate will further vary depending on the loan or debt. Whether the nature of such debt or loan is secured or unsecured.

**weighted average Cost of Borrowing-** The weighted average cost of funds on the borrowings, as well as costs incidental to those borrowings, taking into consideration the average tenure, market liquidity, refinancing avenues, etc.;

**Cost of Equity-** The company needs to put some equity portion to run the business and the cost of such equity is also taken into consideration.

**Fund raising cost:** It includes processing fees on term loans, brokerage to source funds through NCD, CPs, Rating Fee, trusteeship fee, IPA commission on CPs, exchange listing fee etc.

**Risk profile of customers-** professional qualification, stability in earnings, financial track record, past repayment track record with us or other lenders, credit reports, customer relationship, future business potential etc.;

**Tenure of facility/loan-** Tenure of the facility/loan is also a key factor in deciding on the interest rate for the borrower since short & long term funds have different cost associated to them.

**Perceived Risk-** - There are perceived industry risk, accordingly, risk premium / discount is assigned to the interest rate which is offered to the client after factoring the industry risk.

**Risk Premium-** Base risk premium to cover business related risks.

**Base ROA-** Base Return on assets is the minimum return expected by the company on its assets.

**Nature of securities-** Nature of securities or collateral offered by the customers, Client offers variety of securities for the loan which include exclusive charge or pari-passu charge on current assets, movable fixed assets, fixed assets, property etc. This parameter is also critical while assigning the risk premium / discount to the pricing.

**Industry trends** - Market or industry status/offerings by the industry

**Assets Liability Management (ALM) mismatch cost:** The Company borrows funds through short term and long term products and to comply with the guidelines it needs to manage ALM gaps under certain limits imposed by regulator. While taking prepayment in to account the customer.

**Opex Cost:** It includes employee expenses, branch related fixed and variable costs, operations cost, sales and marketing expenses

**A blueprint for Calculation of Benchmark rate is mentioned below:**

Nature of Lending (A)	X%
Weighted avg. cost of borrowing (B)	X%
Cost of Equity (C)	X%
Fund raising cost (D)	X%
Risk profile of customers (E)	
ALM Mismatch cost (F)	X%
Opex cost (G)	X%
Base ROA (H)	X%
Risk Premium (I)	X%
Final Benchmark rate {Sum (A to I) }	X%

### Other Charges

Besides interest, other financial charges like processing fees, origination fees, cheque bouncing charges, late payment charges, reschedulement charges, pre-payment / foreclosure charges, part disbursement charges, cheque swap charges, security swap charges, charges for issue of statement account etc., would be levied by the company wherever considered necessary. Besides these charges, stamp duty, service tax and other cess would be collected at applicable rates from time to time. Any revision in these charges would be from prospective effect.

**Communication to the customer:**

The directives/guidelines states that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers. in the application form and communicated explicitly in the sanction letter.

The rates of interest and the approach for gradation of risks is made available on the website of the company.

The rate of interest is the annualized rate and the borrower shall be made aware of the exact rates that would be charged to the account.

**Review of Policy:**

The rates of interest and charges shall be reviewed periodically and any revision/update in this policy shall be communicated to the customer and published on the website.

**Disclaimer**

The rate of interest for the same product and tenor availed during same period by different customers need not to be standardized. It could vary for different customers depending upon consideration of any or combination of above factors.