



INTEREST RATE POLICY



Dar Credit & Capital Ltd.

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Interest Rate Policy

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1. Introduction

This interest rate policy provides the guidelines regarding the pricing for loans given by Dar Credit & Capital Limited (DCCL) as well as our communication policies with borrowers through the application form, sanction letter and our loan agreements and security documents.

This Interest Rate Policy is in compliance with the requirement of RBI to have a documented policy for interest rates being charged on loans disbursed by the company, and ensures coverage under the Fair Practices Code circular issued by RBI.

2. Objective of Policy

This policy lays down the guidelines to the operational personnel and other decision makers (including the ALCO) of Dar Credit & Capital Limited (DCCL) while determining the rate of interest and other fees to be charged from a customer seeking to avail loan.

This document is intended to present the policy of the company for dealing with customers (borrowers), in respect of determining the pricing for loans given by the company, in a transparent and open manner. The approach is to evolve a standard for pricing of loans with a view to ensuring that pricing is fair and transparent.

Though interest rates are not regulated by the RBI, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to usual financial practice. This Interest Rate Policy is in compliance with the requirement of credit policy to have a documented policy for interest rates being charged on loans disbursed by the company and ensures coverage under the Fair Practices Code.

Given that the business model of the company focuses on providing credit only to customers meeting the credit standards of the company for varying tenors, the interest rate applicable to each loan account, is assessed on a case-to-case basis, based on the evaluation of various factors, as detailed hereafter.

3. Interest Rate Considerations

The Interest rate considerations are follows: -

- Components of pricing applicable for all loans
- Spread applicable for loans
- Delegation of authority for pricing approval
- Disclosure & Communication





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COMPONENTS OF PRICING FOR ALL LOANS

Commercial businesses use external benchmarks for pricing the loans. The benchmarks are calculated based on following factors.

A. Weighted Average cost of borrowing:

The Company borrows funds through term loans, Non-Convertible Debentures and subordinate debt from the investors. Weighted average cost of borrowing such funds is taken for bench mark calculation. The Cost of Funds shall denote the Expected Borrowing Cost**.

** Expected Borrowing Cost shall include all costs & expenses borne by the Company in relation to borrowing or arrangement of debt, including interest, coupon, upfront fees, legal & other charges, stamping and documentation charges, arranger fees, listing expenses, brokerage/advisory/intermediation charges, hedging costs, commissions, liquidity management premium, prepayment or foreclosure charges incurred to replace high-cost debts, penal charges, taxes, Rating Fee, trusteeship fee, exchange listing fee etc.

- B. **Negative Carry-on Investment:** The Company keeps some liquidity to manage liquidity risk and has to borne negative carry on those investments also.
- C. **Opex Cost:** It pertains to costs related to end-to-end loan cycle, including underwriting & collections, operations, employees, fixed assets & infrastructure, technology, management & administration, sales, marketing & promotions, compliance costs, among other things.
- D. **Risk Premium:** Base risk premium to cover business related risks. It covers all the risks which the Company is exposed to, including but not limited to- credit risk, operational risk, systemic risks. The Company will cover its risks through a combination of loss provisions, insurance.
- E. **Margin:** It covers the expected pre-tax Return on Assets and Net Surplus. Expected ROA is derived from Return on Equity (in proportion of projected DER) as agreed with the equity investor or priced through any capital pricing model.





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SPREAD APPLICABLE FOR LOANS

The rate of interest for loans for various business segments and various schemes thereunder is arrived after adjusting for spread by the relevant business segment. The range of spread of each component are as follows -

- **Weighted Average cost of borrowing** - It is the expected borrowing costs with an expected sensitivity linked to market movement.
- **Operational Cost** - 4.0% to 6.5% - It is the projected operational costs with an expected sensitivity based upon cost overruns.
- **Negative Carry-on Investment** - 1% to 3% depending upon the average market returns
- **Risk Premium** - 0% to 3% It is the historical trend of loan loss and operational risk observed by the Company
- **Margin** - 3%-7% It is based on pre-tax expected ROA and net surplus.

Illustrative Example -

Component Price	In% P.A.
Weighted Average cost of borrowing	15.50
Operational Cost	4.00
Negative Carry-on Investment	1.50
Risk Premium	3.00
Margin	4.00
EIR	28.00

Note: The ranges mentioned here is based on current prevalent rates.

If at any point there is a near-breach event i.e. (+) 0.5% or (-) 0.5%, Management will take suitable action to rectify the position, or otherwise bring it to the notice of the Board for its review and direction.

The rate of interest of any product falls within a band/range depending upon the risk attached to the product (e.g. for secured product the interest rate is in the lower side of the interest band/range), while the interest on the unsecured loan to the borrower bears higher rate of Interest).





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PRICING APPROVAL

Interest rate and other charges shall be approved and reviewed quarterly by the ALCO within the ceilings set by this policy. Any deviation to the policy terms shall be approved by the Board.

Basis the risk profile of each geography and the category of the borrower, company may charge different Effective interest rate to the borrower subject to prior approval of ALCO within the range as defined in the policy.

DISCLOSURE OF PRICING INFORMATION

The Company shall disclose pricing related information to a prospective borrower in a standardized simplified factsheet (as per the prescribed format of RBI) mentioned in Annexure-A

DCCL prominently displays the interest rates charged on loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website. Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.

Each loan transaction is a negotiated deal supported by customary loan and security documentation. The rate of interest and total liability is disclosed and communicated explicitly to the borrower and documented to allow the borrower to make an informed decision.

DCCL'S LOAN DOCUMENTATION:

- The amount of the loan along with the terms and conditions including annualized rate of interest.
- Details of the default interest / penalty interest rates and other fees and charges payable by the borrower.
- Terms and conditions governing the loan are conveyed to the customer in writing and changes to the loan are document either by amendment to the documentation or as an addendum. All documented changes are accompanied by a communication to the borrower with a request to confirm acknowledgement of receipt. DCCL also utilizes electronic media to accelerate the timeframe to advice clients of material changes to the loan followed by a mailed document. All communication with and received from the borrower is maintained in credit files at DCCL's offices.
- This Interest Rate Policy or its applicable standards shall be displayed on the Company's website in compliance with the directions of the RBI.





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4. Approach for Gradation of Risk

The risk premium attached with a customer shall be assessed inter-alia based on the following factors:

- a. Profile and market reputation of the borrower,
- b. Inherent nature of the product, type/ nature of facility, refinance avenues, whether loan is eligible for bank financing, loan to value of asset financed,
- c. Tenure of relationship with the borrower group, past repayment track record and historical performance of our similar clients,
- d. Group strengths, overall customer yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower,
- e. Nature and value of primary and secondary collateral/ security,
- f. Type of asset being financed, end use of the loan represented by the underlying asset,
- g. Interest, default risk in related business segment,
- h. Regulatory stipulations, if applicable,
- i. And any other factors that may be relevant in a particular case.

5. Review of policy

The policy shall be approved and reviewed quarterly by the ALCO due to changes required in the model, for example any addition/ deletion of a particular component forming part of benchmark calculation.

6. Amendments to the Interest Rate Policy

The Board hereby authorizes the Chairman of the Company to review and make appropriate changes to the Interest Rate Policy from time-to-time basis the money market scenario in the country which included the upward/ downward revision in interest rates applicable to various loan products and the relevant charges applicable for such loan products.



Key Facts Statement

Part 1 (Interest rate and fees/charges)

1	Loan proposal/ account No.			Type of Loan		
2	Sanctioned Loan amount (in Rupees)					
3	Disbursal schedule (i) Disbursement in stages or 100% upfront. (ii) If it is stage wise, mention the clause of loan agreement having relevant details					
4	Loan term (year/months/days)					
5	Instalment details					
Type of instalments		Number of EPIs		EPI (₹)	Commencement of repayment, post sanction	
6	Interest rate (%) and type (fixed or floating or hybrid)					
7	Additional Information in case of Floating rate of interest					
Reference Benchmark	Benchmark rate (%) (B)	Spread (%) (S)	Final rate (%) $R = (B) + (S)$	Reset periodicity ² (Months)		Impact of change in the reference benchmark (for 25 bps change in 'R', change in: ³)
				B	S	EPI (₹) No. of EPIs
8	Fee/ Charges ⁴					
		Payable to the RE (A)		Payable to a third party through RE (B)		
		One-time/ Recurring	Amount (in ₹) or Percentage (%) as applicable ⁵	One-time/ Recurring	Amount (in ₹) or Percentage (%) as applicable ⁵	
(i)	Processing fees					
(ii)	Insurance charges					
(iii)	Valuation fees					
(iv)	Any other (please specify)					
9	Annual Percentage Rate (APR) (%) ⁶					
10	Details of Contingent Charges (in ₹ or %, as applicable)					
(i)	Penal charges, if any, in case of delayed payment					
(ii)	Other penal charges, if any					
(iii)	Foreclosure charges, if applicable					
(iv)	Charges for switching of loans from floating to fixed rate and vice versa					
(v)	Any other charges (please specify)					

Part 2 (Other qualitative information)

1	Clause of Loan agreement relating to engagement of recovery agents	
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² Fixed reset, other than on account of changes in credit profile³ Please refer circular 'Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans' dated August 18, 2023.⁴ REs may disclose the amount net of any taxes such as GST⁵ Mention frequency, where recurring⁶ Please refer to the illustration in Annex B