A. K. CAPITAL FINANCE LIMITED

BUILDING BONDS

Interest Rate and Gradation of Risks Policy

Adopted/Amendment of the Policy	Board Meeting Date(s)
Adoption of the Policy	April 1, 2015
Amendment of the Policy	May 11, 2024
Amendment of the Policy	May 17, 2025
Amendment of the Policy	November 03, 2025

Last reviewed on November 03, 2025

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1. Preface

The Reserve Bank of India (RBI) vide its Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, as amended from time to time, has directed all NBFCs to communicate the annualized rate of Interest to the borrower along with the approach of gradation of risk and rationale for charging different rate of interest to different categories of borrowers and to make available the rates of interest and the approach for gradation of risk on web-site of the companies.

A. K. Capital Finance Limited offers a bouquet of lending products to its clients. To comply with the regulatory directives as cited above and the good governance practice, the Company has adopted the following process/ model to compute the interest rate to lend to its Borrowers. This interest rate would vary for different classes of Borrowers based on various factors described below.

2. Definition

a. **"*Act*"** means the Reserve Bank of India Act, 1934 [including any amendments or re-enactments thereof]

b. "***Board***" or "***Board of Directors***" shall mean Board of Directors of the Company, as constituted from time to time.

c. "***Company***" shall mean A. K. Capital Finance Limited

d. "***Policy***" shall mean Interest Rate and Gradation of Risks Policy, as may be amended from time to time

e. "**Master Directions**" or "**RBI Master Directions**" shall mean Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 [including any amendments or re-enactments thereof]

Any term(s) and, or expression(s) not defined in this Policy shall have the same meaning as defined in the applicable provisions of the Act and other applicable laws/ regulation.

Wherever appropriate in this Policy, a singular term shall be construed to mean the plural where necessary and a plural term the singular. Similarly, any masculine term shall also be construed to mean the feminine or any other gender and vice versa.

3. Interest Rate Model

The business model of Company focuses on providing credit only to borrower meeting the credit standards of AKCFL for varying tenors. The interest rate applicable to each loan account, within the applicable range is assessed on a case specific basis, based on evaluation of various factors as follows:

a) Tenor of the Loan & Payment Terms - The rate of interest charged will depend on the term of the loan and terms of payment of interest (viz monthly, quarterly, semi-annual, annual repayment, on maturity); terms of repayment of principal; moratorium period etc.

b) Internal and External Costs of Funds - The rate of interest charged will also be depending on the rate at which funds are sourced by the Company to provide loan facilities to borrower, normally referred to as

internal cost of funds. From an external cost of funds perspective, the benchmark interest rate that may be used by the Company such as MCLR and/ or base rate of the State Bank of India or as adjusted for the rating spreads available in the markets.

c) Internal cost loading – The interest rate charged will also take into account costs of doing business. Factors such as the complexity of the transaction, the size of the transaction and other factors that affect the costs associated with a particular transaction will also be taken into account before arriving at the final rate of interest quoted to borrower.

d) Credit Risk - as a matter of prudence, credit loss (risk) cost would be factored into all transactions. The amount of credit risk cost applicable to a particular transaction depends on the internal assessment of the credit strength of the borrower/ transaction.

e) Fixed versus Floating – The applicable rate of interest shall also be commensurate from the perspective of the fixed versus floating interest rate requirements of the borrower and the Company's borrowing profile.

f) Margin: A markup to reflect other costs/ overheads to be charged to the loan and our designed margin.

g) Periodicity of Interest -Interest will be charged for the period as stipulated in the loan agreement, subject to any modifications thereto as may be agreed by and between the Company and the borrower, in writing.

h) Other Factors – Matching tenor cost, market liquidity, RBI Policies on credit flow, offerings by competition, stability in earnings and employment, subvention and subsidies available, deviations permitted, further business opportunities, external ratings, industry trends, switchover options will also be relevant factors in determining interest rate to be charged.

2.1 **Rate of Interest:**

The Interest rates charged to the borrower for loan products could be on fixed rate basis or floating rate basis. In case of floating interest rates, the interest rates would be an aggregation of the Benchmark Prime Lending Rate ("**BPLR**") and a Spread. The Company can alternatively opt for an independent and transparent benchmark for pricing floating rate loans.

2.2 **Computation of BPLR:**

The Company would consider the following factors while arriving at the BPLR:

i. Borrowing costs of the company, which may vary based on the credit rating of the company, tenor of the borrowing, principal repayment terms and the extent of security, if any, offered by the company for such borrowing;
ii. Cost of capital (dividend outgo and coupon rate in the case of Tier II Capital);
iii. Operating Expenses; and
iv. Margin, covering regulatory provisions, if any, capital charge and profit margin.

Based on the above, the Company's BPLR shall be arrived.

The Assets & Liability Management Committee ("**ALCO**") will periodically approve/ review the BPLR subject to at least one review every quarter and may prescribe a change in BPLR at its sole discretion. The Board of the Company in their meeting shall be kept informed about the changes made in BPLR since the previous meeting. The estimation and the methodology for calculating the BPLR may be changed at any time with the approval of the ALCO.

2.3 **Computation of Spread:**

The overall spread for any loan will be an aggregation of the Term Spread and the Credit Spread each of which will generally be computed as follows:

2.3.1 **Term Spread**

While computing the Term Spread, the Company will take the following factors into account:

- General prevailing MIBOR rates, G-Sec rates and Non SLR Bond rates;
- Expected Interest rate volatility; and
- Term Structure of the Company's Borrowings;

The actual Term Spread charged for any lending and any future change therein will be approved by the Investment and Credit Committee at its sole discretion keeping in mind factors such as the reference Term Spread, quantum of the loan, the then prevailing liquidity conditions in the market, the likely drawdown schedule etc.

2.3.2 **Credit Spread**

Credit Spread would be based on the internal analysis/ credit score assigned to the facility. While arriving at the credit score for the facility, the Company will, inter-alia, take into account borrower / facility grading factors mentioned below:

- borrower and borrower group credentials which include background, nature of business/ service, business vintage, financial profile including networth, liquidity, profitability, debt repayment capability etc.;
- Track record of honoring commitments relating to interest/ principal servicing and security/ margin top ups;
- External credit rating;
- End use of funds;
- Security cover including value and liquidity;
- Credit Market conditions
- Any other criteria specific to the transaction.

The Investment and Credit Committee/ sanctioning authority may periodically review Credit Spread charged on loans and may prescribe a change in Credit Spread at its sole discretion. Any revision in the interest rate pursuant to a change in the Credit Spread shall become applicable to the borrower from the effective date of such revision and the same shall be communicated to the borrower.

2.4 **Other Terms:**

a) The Investment and Credit Committee/ sanctioning authority may periodically review spread charged on loans and may prescribe a change in Spread at its sole discretion.

b) Loan amount, Annualized Rate of Interest and tenure of loan will be communicated to the borrower in the sanction letter and the apportionment of installments towards interest and principal dues shall be made available to the borrower.
c) Besides normal interest, the Company may levy additional interest for adhoc facilities, penal charges/ default charges for any delay or default in making payments of any dues. The details of Penal charges for late repayment will be mentioned in the loan agreement and communicated in the sanction letter.
d) Besides interest, other financial charges like processing charges, cheque bouncing charges, pre-payment/ foreclosure charges, part disbursement charges, cheque swaps, cash handling charges, RTGS / other remittance charges, commitment fees, charges on various other services like issuing No Due Certificates, NOC, letters ceding charge on assets/ security, security swap & exchange charges etc. would be levied by the Company wherever considered necessary. In addition, the Goods and Services Tax and other taxes, levies or cess would be collected at applicable rates from time to time.
e) The rate of interest applicable to each borrower is subject to change as the situation warrants and is subject to the management's perceived risk on a case to case basis.
f) Changes in interest rates would be decided at any periodicity, depending upon change in benchmark rate, market volatility and competitor review.
g) Any future revision in the interest rate (as applicable to floating rate loans) pursuant to a revision in the BPLR/ Benchmark and / or spread shall become applicable for all floating rate loans from the effective date of such revision and the same shall be communicated to the Borrower.
h) Intimation of change of interest or other charges would be communicated to borrower in a manner deemed fit, as per terms of the loan documents. Any revision in interest or other charges would be with prospective effect.
i) The interest reset period for floating / variable rate lending would be decided by the Company from time to time, applying the same decision criteria as considered for fixing of interest rates.
j) In case of staggered disbursements, the rates of interest would be subjected to review and the same may vary according to the prevailing rate at the time of successive disbursements or as may be decided by the Company.
k) Claims for refund or waiver of charges/ penal interest/ additional interest would normally not be entertained by the Company. It is the sole and absolute discretion of the Company to deal with such requests, if any.

4. Reset of floating interest rate on Equated Monthly Instalments (EMI) based personal loans

The Company, at present, does not offer personal loans to its customers. However, it will comply with RBI Master Directions, for reset of personal loans, if any.

5. Approach for Gradation of Risk

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

a) profile and credit worthiness 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 strength, overall borrower yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower, sector/industry of the borrower mode of payment;
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; and
i) any other factors that may be relevant in a particular case.

6. Prepayment of loan

The Borrower may prepay the loan as per the terms of sanction of the credit facility. The prepayment charges shall be levied in the following manner:

i. <u>Floating Rate Loans to MSEs for business purpose</u>, with or without co-obligant(s):

a. **Sanctioned amount/ limit of up to INR 50 Lakhs** - No prepayment charges shall be levied

b. **Sanctioned amount/ limit of more than INR 50 Lakhs** – Prepayment charges shall be as per the sanctioned terms. Necessary disclosures will be made in the facility documents in this regard.

The above (a) & (b) shall be applicable irrespective of the source of funds used for pre-payment of loans, either in part or in full, and without any minimum lock-in period.

c. Any floating rate loans to entities other than above, the same shall be governed by the sanction terms agreed and any such charges shall be forming part of facility documents.

ii. <u>Fixed Rate Loans</u>

a. Prepayment charges shall be as per the sanctioned terms. Necessary disclosures will be made in the facility documents in this regard

iii. Other conditions

a. In case of term loans, pre-payment charges shall be levied on the amount being prepaid and for cash credit/ overdraft facilities, pre-payment charges shall be levied on an amount not exceeding the sanctioned limit
b. In case of dual/ special rate (combination of fixed and floating rate), the levy of pre-payment charges will depend on whether the loan is on floating rate at the time of pre-payment
c. There will not be any pre-payment charges in case the prepayment is effected at the instance of the Company
d. There shall not be any charges/ fees levied retrospectively at the time of pre-payment of loans, which were waived off earlier by the Company

7. Applicability of the Policy

This Policy shall be applicable to the loans and advances (excluding Inter Corporate Deposits) made by the Company and shall not be applicable to investments of the Company.

8. Review and Amendment

The Company reserves the right to review and make amendment to this Policy from time to time as it deems fit in accordance with the applicable laws, rules and regulations for the time being in force with the approval of the Board.

In the event of any conflict between the provisions of this Policy and the Act or any other statutory enactments, the provisions of such Act or statutory enactments shall prevail over this Policy. An interim review and amendment can also be carried out to accommodate minor changes, if any, on regulatory and operating front by the Compliance Officer of the Company. An interim review and amendment can also be carried out to accommodate minor changes, if any, on regulatory and operating front by the Compliance Officer of the Company.

This Policy shall also be published on the website of the Company.

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