

Interest Rate Model

**L&T Finance Holdings Limited
(‘Company’)**

Contents

I. Preamble	2
II. Objective	2
III. Approach for gradation of risk.....	2
IV. Pricing	3
V. Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans	6
VI. Fees and Charges	7
VII. Ownership of the Policy	7
VIII. Communication of aspects of the Policy	7
IX. Review/Revision.....	8

I. Preamble

Reserve Bank of India (RBI) vide its notification dated January 02, 2009 and guidelines on fair practices code for non-banking finance companies dated March 26, 2012 now subsumed in the Master Direction – Reserve Bank of India (Non-Banking Financial Company –Scale Based Regulation) Directions, 2023 dated October 19, 2023 as updated from time to time, have directed all the NBFCs to:

- Put in place a Board approved Interest Rate Model 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
- Communicate the rate of interest to the borrower along with the approach for gradation of risk and rationale for charging different rates of interest to different categories of borrowers.
- Make available the rates of interest and the approach for gradation of risks on the website of the companies.

II. Objective

To arrive at the benchmark rates to be used for different category of customer segments and to decide on the principles and approach of charging spreads to arrive at final rates charged from customers

III. Approach for gradation of risk

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.

Factors taken into account by businesses (as applicable for respective business) for calculating spreads are as follows:

- Interest rate risk (fixed vs floating loan)
- Credit and default risk in the related business segment
- Output of application scorecard
- Historical performance of similar homogeneous clients
- Profile of the borrower
- Industry segment
- Repayment track record of the borrower
- Nature and value of collateral security
- Secured Vs unsecured loan
- Subvention available
- Ticket size of loan
- Bureau Score
- Tenure of Loan
- Location delinquency and collection performance
- Customer Indebtedness (other existing loans)
- Pricing offered by competition and other relevant factors

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

The rate of interest shall be annualised rates, with monthly, bi-monthly, quarterly, semi-annually, or annual compounding.

IV. Pricing

Pricing is essentially a function of risk, tenor and prevailing market trend. As far as fund-based exposure is concerned, pricing has two components, viz., benchmark and spread. The benchmark and spread are a function of cost of funds, margin, risk premium etc.

The decision to offer a fixed or floating interest rate loan by the organisation, will inter alia depend on the nature of the product being offered, market conditions, sources & terms of funds, client requirement etc.

The Company intimates the borrower, the loan amount and rate of interest at the time of sanction of the loan along with the tenure and amount of the instalment.

The pricing for each of these products is arrived at by taking into consideration cost of funds, risk premium, other operating costs, margin, credit losses and pre-tax ROA.

Sr. No	Factor	Description
1.	Cost of Funds	<ul style="list-style-type: none"> • The Company raises funds from its lenders with both end use specified and/or unspecified which is against pool of receivables. • The cost of fund varies for different products offered by the company depending on nature of product such as Fixed/Floating rate, tenor, repayment frequency, priority lending benefits etc. • Company also needs to put some equity portion to run the business and the cost of such equity is taken into consideration. • The Company also keeps some liquidity buffer in the form of investments into liquid funds to manage liquidity risk and has to bear negative carry on those investments too.
2.	Operating Cost	Retail products offered by the Company are sourced by in house teams/DSA's and collections are also undertaken through its own teams/collection agents. Accordingly, the Company operates through a large number of employees on its rolls as well collection agents which substantially increases the operating costs.
3.	Margins	The Company operates through its large network of branches located in 22 states, 2 Union Territories and mostly through its own employees/collection agents. The Company has invested widely in technology in order to improve loan servicing to its customers. The teams are ably supported by technology and analytics for sourcing of business. The margins are hence calculated accordingly.
4.	Risk Premium	The company has been operating consistently at par with industry levels of collections through investments in on-ground collections team ably supported by technology and analytics. However, some of the products such as Micro Loans may be prone to certain event risks such as demonetisation, floods, COVID 2019 etc. Premium for such event risk gets included in the pricing of each product.

Sr. No	Factor	Description
5.	Pre-tax ROA	Base Return on assets is the minimum return expected by the company on its assets.

i. For Wholesale Products:

The floating interest rate loans would be linked to transparent benchmarks that broadly reflect cost of funds including L&T Finance Holdings Limited (“Company”) PLR*, Bloomberg AAA or GOI securities or MIBOR or the lead lender’s Base Rate/MCLR (in case of consortium lending) or any other suitable benchmark (e.g., SBI Base Rate/MCLR etc).

For fixed interest rate transaction, interest rate shall be decided on each case-to-case basis at the time of sanction/disbursement based on current interest rate scenario in addition to gradation of risk approach as discussed above.

Concepts such as Return on Equity, Shareholder Value Added, etc. may also be used in determining the pricing.

The pricing for each transaction would inter-alia be based on due negotiation with the client and subject to approval by the Approving Authority as mentioned in the Credit Policy of the Company.

Current the PLR is available on the website of the Company, any change in the same is subject to approval of Asset Liability Management Committee.

ii. For Retail Loans:

Company lends money to its retail borrowers on both fixed and floating rates depending on the nature of the product. The Company offers following retail products namely, Farmer Finance, Rural Business Finance, Warehouse Receipt Finance, Two-Wheeler Finance, Consumer Loans, Home Loans and Loan against Property and Unsecured SME Loans to its borrowers.

Sr. No	Product	Offering	Annualized rate of interest ¹ charged to customer ³ generally to our
1.	Farmer Finance	Provide a) Loans to farmers for purchase of tractors, harvesters and other agricultural implements, used towards tilling of agricultural land and haulage of produce for generation of income b) Loans to farmers for purchase of agricultural inputs used towards crop production c) Loans to farmers for working capital requirements towards crop production and allied-agricultural activities	10 % to 26 % per annum.

Sr. No	Product	Offering	Annualized rate of interest ¹ charged to customer ³ generally to our customer ³
2.	Warehouse Receipt Finance	Provides short term loans to farmers to avoid distress sale and realise better prices for their crop produce. It is also extended to traders and processors to procure Agri commodities at competitive prices, during the harvest season, when the commodity prices are at the lowest, thereby enabling them to maximize their profitability	8 % to 15 % per annum.
3.	Two-Wheeler Finance	Provide loans to customers for purchase of two wheelers which are used by the customer in order to attend to or enhance his/her generation of income.	11 % to 26 % per annum.
4.	Rural Business Finance	Provides a) Small ticket group loans under JLG structure to women borrowers for income generation activities. B) Individual loans in rural areas and villages c) Rural Loan against property and d) such other loans as the company may decide to offer for borrowers in rural areas	16 % to 24 % per annum.
5.	Consumer Loans	Provides loans to customers for their consumption needs. The customer may invest towards various end uses viz. travel, purchase of consumer durables, medical bills, education etc. The customer may be an existing or new customer.	11 % to 26 % per annum.
6.	Home Loans	Provides loans to customers for purchase, construction, improvement and extension of homes. The Company also provide option to existing home loan customers with other banks/Financial institutions to switch their outstanding loan amount to us with better terms & conditions.	Floating rate of interest shall be linked to L&T Finance Holdings Limited – HL PLR ² . @ Fixed rate of interest: 11.5% to 12.25% per annum
7.	Loan Against Property	Provides loans to customers for financial assistance against mortgage of residential (self-occupied, rented, vacant) and commercial properties.	Floating rate of interest shall be linked to L&T Finance Holdings Limited –LAP PLR ² . @ Fixed rate of interest: 12.5% to 13.25% per annum
8.	Unsecured SME Loan	Provides loans to small and medium enterprises to fund their business Requirement	11% to 26% per annum.

@ at the time of reset of floating interest rate as per the terms of this Policy.

***Note:**

1. The interest rate range is an indicative and the final rate is arrived basis the gradation of risk. Indicative interest rate as communicated above are subject to change at any point of time, subject to the sole discretion of the Company.
2. Current the Company PLR is available on the website of the Company, any change in the same is subject to approval of Asset Liability Management Committee.
3. The pricing would inter-alia be based on due negotiation (where applicable) with the client and/or credit assessment parameters being followed by the Company.

V. Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans

RBI vide its Circular No. DOR.MCS.REC.32/01.01.003/2023-24 dated August 18, 2023 (“RBI Circular”) has laid down a regulation regarding reset of floating interest rate on EMI based Personal Loans and require Regulated Entities to lay down policy framework in respect of EMI based floating rate personal loans. The term “Personal Loans” is defined in the RBI circular No. DBR.No.BP.BC.99/08.13.100/2017-18 on “XBRL Returns – Harmonization of Banking Statistics” dated January 04, 2018.

The instructions covered in this section are to be extended to the existing as well as new loans suitably by December 31, 2023.

At the time of sanction of EMI based floating rate personal loans, the Company shall take into account the repayment capacity of borrowers to ensure that adequate headroom/ margin is available for elongation of tenor and/ or increase in EMI, in the scenario of possible increase in the external benchmark rate during the tenor of the loan. In respect of EMI based floating rate personal loans, following framework shall be followed by the Company:

1. At the time of sanction, the Company shall clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/ tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.
2. At the time of reset of interest rates, the borrower shall be provided an option to switch over once from existing floating rate to a fixed rate during the tenure of the loan. Any further switch from fixed to floating or floating to fixed during the tenor of the loan shall be at the sole discretion of the Company.
3. The borrower shall have an option for (a) (i) enhancement in EMI or (ii) elongation of tenor or (iii) a combination of both options as per the internal policies of the Company; and, (b) to prepay, either in part or in full, at any point during the tenor of the loan.
4. All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be disclosed in the sanction letter and also at the time of revision of such charges/ costs by the Company from time to time.

5. The Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.
6. The Company shall share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan.
7. Apart from the equated monthly instalment loans, these instructions would also apply, mutatis mutandis, to all equated instalment-based loans of different periodicities.
8. The Company shall send a communication to all existing borrowers, through appropriate channels, intimating the options available to them.

VI. Fees and Charges

In addition to charging interest on the loans, the Company will also be levying fees and charges as applicable. Additionally, the Company will also collect stamp duty, service tax / GST and other cess as may be applicable from time to time. Any revision in these charges would be implemented on prospective basis with due communication to customers.

Applicable schedule of charges (wherever necessary) is available on the website of the Company.

VII. Ownership of the Policy

Chief Executives will be owner of this Policy and would be responsible for implementation of the Policy. The Board of Directors hereby authorizes the Managing Director and Chief Executive Officer of L&T Finance Holdings Limited or Whole Time Director 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 includes the upward / downward revision in interest rates applicable to various loan products and the relevant charges applicable for such loan products.

VIII. Communication of aspects of the Policy

The company will communicate the effective rate of interest -to customers at the time of sanction / availing of the loan through the acceptable mode of communication.

Interest rate model and schedule of charges (wherever necessary) would be uploaded on the website of the company and any change in the benchmark rates and charges for existing customers would be uploaded on the web site of the Company.

IX. Review/Revision of the Policy

If at any point a conflict of interpretation / information between the Policy and any regulations, rules, guidelines, notification, clarifications, circulars, master circulars/ directions issued by relevant authorities (“Regulatory Provisions”) arises, then interpretation of the Regulatory Provisions shall prevail. In case of any amendment(s)and/or clarification(s) to theRegulatory Provisions, thePolicy shall stand amendedaccordingly from the effective date specified as per the Regulatory Provisions

Document Owner	Respective GEC's
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Version Control

Version	Date	Author	Change Description
1.0	November 2023	Respective GEC's	New policy adopted
2.0	January 2024	Respective GEC's	Addition of Fixed Rate of Interest range for Home Loans and Loan Against Property

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