

**L&T Financial Services
("LTFS")**

Interest Rate Model

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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 RBI Master Direction – Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 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 carryon 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.
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 Limited 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 L&T Finance Limited 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:

LTF 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	Lending Rate
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.
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	12 % to 22 % per annum.

Sr. No	Product	Offering	Lending Rate
		used by the customer in order to attend to or enhance his/her generation of income.	
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.	10.5 % to 21 % 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 – HL PLR ² .
7.	Loan Against Property	Provides loans to customers for financial assistance against mortgage of residential (self-occupied, rented, vacant) and mortgage of as well as purchase of commercial properties. The Company also provide option to existing LAP 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 – LAP PLR ² .
8.	Unsecured SME Loan	Provides loans to small and medium enterprises to fund their business requirement	11% to 26% per annum.

***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 L&T Finance Limited.
2. Current L&T Finance Limited 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. 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 is available on the website of the Company.

VI. 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.

VII. 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 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.

Reviewed and Updated

Document Owner	Respective GEC's
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Version Control

Version	Date	Author	Change Description
1.0	January 2023	Respective GEC's	New policy adopted

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