



(Approved by the Board as on 28th August 2020)

VARA FINANCE PRIVATE LIMITED

INTEREST RATE POLICY

Interest Rate Policy

1. Interest rate will be quoted only on an annualized basis.
2. The Company shall be guided by this policy for determining the interest rates on various Loan Schemes of the Company. It shall also consider the then prevailing market conditions, risk factor, tenure, market liquidity, competition and various rules and regulations prescribed by the Reserve Bank of India or such other competent authority from time to time while fixing the interest rates.
3. The maximum ceiling on interest rate applicable to the principal of any loan is 30% per annum. The Company may fix the interest rate for any loan in such a way to ensure an Internal Rate of Return of 6%.
4. Interest charged under various Loan Schemes shall have three components viz., Basic Rate, Risk Premium and Additional Interest.

i) Basic Interest Rate

Basic Rate shall be arrived at after considering the following aspects:

- **Cost of Funds:** This includes the interest and other related charges payable by the Company on the borrowed funds such as Loan from Banks/ Financial Institutions, Secured NCD's etc.
- **Operating/Overhead Cost:** This includes the Employee cost and other administrative overheads of the company.
- **Gradation of Risk:** The nature of risk associated with the loan will always have a bearing on the Basic Rate to be arrived at.
- **Return on Equity/Capital Employed:** After meeting all the above, a reasonable return on equity is to be ensured in arriving at the base rate.

Thus, the basic interest rate of gold loan schemes will shall be determined by considering the cost of working capital, operating cost and a fair return on the capital employed.

ii) Risk Interest Rate

- While fixing the risk premium, the company shall take into consideration, the LTV rate applicable to the loan, the frequency of servicing of the loan by the customer, risk perception of the company based on geographical location, class of customers etc.
- Risk Interest shall be determined by taking into account the degree of risk involved in loans under each loan scheme.
- While the rate shall be the lowest for the schemes where advance amount vis-à-vis the weight of gold is the lowest, it shall be increased for schemes offering higher advance amount for the same weight. Further, irrespective of the scheme, the risk interest shall also be determined after taking into account the

period of the loan as the incidence of risk goes up with the passage of time.

- Risks in respect of gold loans includes the fall in price of gold, possibility of the gold pledged turning out to be spurious or of low purity, stolen gold being pledged, delays in settling loans of deceased due to legal issues etc.
- The interest rate goes up depending upon the periodicity of servicing the interest. Interest servicing within 30 days of disbursal is priced lowest compared to 90 days and so on.

iii) Penal Interest Rate

- Penal interest is charged as penalty for non-repayment of the loan dues which are not serviced beyond the “normal” tenure (Between 3 months or 12months - tenure would depend on each scheme selected) and also to compensate the possibility of loss account of liability exceeding the realizable value of gold given as security.
- The rate of interest of each scheme for each slab period (3 months, 6 months, 12 months) etc. are clearly mentioned in the pledge form as well as the sanction letter issued to the borrower.
- In order to cover any possible loss due to additional cost of finance on the company due to non-servicing of the loan, by the borrower, the company may charge penal interest at a maximum rate of **2% per annum** (That is contracted rate Plus 200% Base Points) the interest on loans which are not serviced beyond the “normal” tenure (Between 3 months or 12months - tenure would depend on each scheme selected).
- The collection of penal interest as stated herein is not covered by the ceiling of maximum of 30% interest rate indicated in paragraph 3 above since it relates to the principal amount of loan. Penal interest will be collected in a transparent manner by incorporating the same in the Pledge Form.
- Penal Interest maybe waived, in part or full, in deserving cases with the reason being recorded by the Managing Director & CEO.