SM Square Credit Services Pvt Ltd

Interest Rate Policy

March 2024 V.1

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Background

The Reserve Bank of India (RBI), through its Master Directions dated September 1, 2016 (updated as on December 29, 2022), has advised Non-Banking Financial Companies (NBFCs) to adopt an interest rate model. This model should take into account various relevant factors to determine the rate of interest for loans and advances. Additionally, the RBI requires NBFCs to disclose the rate of interest, the approach for risk gradation, and the rationale for charging different rates for various borrower categories. These details must be included in the application form and explicitly communicated in the sanction letter.

Purpose

This Interest Rate Policy aims to define the parameters and methodology for determining interest rates for various borrower categories in compliance with RBI guidelines. It ensures transparency and fairness in determining rates while maintaining operational efficiency.

Approach to Gradation of Risk & Interest Rate Model

The interest rate charged by the Company for loans and advances is on a fixed-rate basis. The rates may vary for the same product and tenure based on several factors.

Factors Affecting Interest Rates:

1. **Borrower profile:**
    - Age, dependents, and residential stability.
    - Type of employment and length of service.
    - Primary and secondary income sources.
2. **Business factors (for self-employed individuals):**
    - Vintage and growth in business.
3. **Collateral security:**
    - Nature, type, and market value.
4. **Creditworthiness:**
    - Past repayment history, credit score, and Loan-to-Value ratio.

5. **Market information and lending stability.**

Methodology for Determining Interest Rates:

The lending interest rate is determined by:

- Weighted average cost of funds, including associated charges.
- Risk premium based on borrower profile.
- Administrative and operational costs.
- Profit margin and prevailing market conditions.

The annualized interest rate is explicitly communicated to borrowers in the sanction letter. Any revisions or changes will be applied prospectively and promptly disclosed to the borrower.

Repayment Structures

The Company offers the following repayment structures:

1. Equated Monthly Instalments (EMI): Equal monthly payments including both principal and interest.
2. Structured Repayment: Customized schedules based on borrower needs.
3. Bullet Payment: Principal and interest are paid in full at the end of the tenure.
4. Serviced Interest Schemes: Interest serviced monthly or quarterly, with principal repayment at the end of the tenure.

The chosen repayment structure and its terms will be communicated to the borrower during loan approval.

Approval for Deviations

The interest rates proposed for loans and advances are detailed in Annexure 1. Any deviations from these rates must be approved by an individual not below the rank of Director. Such approvals are documented and recorded for compliance purposes.

New Vehicles	
Weighted Cost of Borrowing	15.00%
Operational Cost	5.00%
NPA Cost Rural Customers	3.00%
Total	23.00%
Profit Margin	9.00%
Total Cost	32.00%

Used Vehicles	
Weighted Cost of Borrowing	20.00%
Operational Cost	15.00%
NPA Cost Rural Customers	10.00%
Total	45.00%
Profit Margin	15.00%
Total Cost	60.00%

2. Other Charges

The Company may levy a processing fee to cover costs related to sourcing/acquisition, field verification, and credit appraisal. Additional fees/charges, such as legal fees, valuation fees, and other associated expenses, shall be charged separately. Other charges, including but not limited to mandate registration fees, cheque bouncing charges, overdue interest, swapping fees, rescheduling fees, part-disbursement fees, prepayment charges, collection charges, repossession expenses, statutory charges, auctioning costs, and legal expenses, may also be applied by the Company as deemed necessary. All applicable GST and cess will be collected at the prevailing rates. Any revision to these charges will be implemented prospectively and communicated to customers in advance. A broad range for these charges is detailed in Annexure 2 of this Policy.

1. **Overdue Interest:** In cases of delayed instalment remittance, overdue interest shall be charged at 10% per month for the outstanding instalments. This does not preclude the Company from initiating legal actions or repossessing the asset, with prior notice issued to the borrower.
2. **Cheque Bouncing Charges/Bank Charges:** A flat charge of up to ₹500 per instance of cheque/ACH/ECS bounce may be levied across loan products.
3. **Collection Charges:** Collection charges of up to ₹50 - ₹100 per visit may be levied for recovery of dues. For customers in remote locations, the actual cost incurred will be charged, subject to a minimum of ₹500. If a Company officer from the Regional/Head Office visits the delinquent customer, the higher of ₹500 or the actual cost will be charged. Repossession expenses will be billed at actuals.
4. **Foreclosure Charges:** If a customer opts to foreclose a loan account without a lock-in period, foreclosure charges will be applied as per Annexure 3.

Intimation/Communication to Borrowers

The Company ensures that borrowers are informed of the loan amount, annualized interest rate, and the method of application at the time of sanction. Details of loan tenure, repayment terms, and any moratorium period will also be clearly specified in the loan agreement. Borrowers will be explicitly notified of the commencement date of repayment in cases of moratoriums on principal and/or interest.

Requests for Waiver

Waiver of charges, including penal interest, additional interest, bank charges, or foreclosure charges, is subject to the sole discretion of the Company. Directo may grant partial or full waivers, and the Company's decision in this regard shall be final.

Lending Rate Range for Vehicle Loan - Fixed Rates		
Products	**New**	**Used**
3-Wheeler	10 % to 32%	10 % to 60%
Car	10 % to 32%	10 % to 60%
Heavy Commercial Vehicle	10 % to 32%	10 % to 60%
Light Commercial Vehicle	10 % to 32%	10 % to 60%
Mini-Light Commercial	10 % to 32%	10 % to 60%
MUV	10 % to 32%	10 % to 60%
2-Wheeler	10 % to 32%	10 % to 60%

Lending Rate Range for Unsecured Loan - Fixed Rates	
Products	**Rates**
Personal Loan	12% to 42%
Vendor Financing	11% to 36%

- All the rates mentioned are annualized
- Additional GST and other cess shall be charged as applicable.

Annexure 2

Sl. No.	Particulars	Two-wheeler	Personal loan	Three-wheeler	Four-wheeler (Used)
1	Processing fees NEW * varies with dealer to dealer.	Minimum Rs. 0/- or Up to 5%*	Up to 3%	Minimum Rs. 0/- or Up to 5%*	Minimum Rs. 3000/- or Up to 3%*
	Agt charges for used customer				
	0-30000	3000/-		3000/-	
	30001-45000	4000/-		4000/-	
	45001-50000	4500/-		4500/-	
	above 50001	4500/-		4500/-	
3	Stamping charges	0.5%	0.5%	0.5%	0.5%
4	Bank charges (per instance of cheque bounce)	₹ 500	₹ 500	₹500	₹500
5	Foreclosure charges	5% on the Principal Outstanding			
6	SOA (After Loan Closure)	₹ 500	₹ 500	₹ 500	₹ 500
7	D NOC	₹ 1500	₹ 1500	₹ 1500	₹ 1500
8	Customer Visit Charges	₹ 50 - ₹ 100	₹ 50 - ₹ 100	₹ 50 - ₹ 100	₹ 50 - ₹ 100
9	Repossession charges	Actuals	Actuals	Actuals	Actuals
10	Parking Charges / Yard Rent	Actuals	Actuals	Actuals	Actuals

11	Auction charges	Actuals	Actuals	Actuals	Actuals
12	Towing charges	Actuals	Actuals	Actuals	Actuals
13	Legal Charges	Actuals	Actuals	Actuals	Actuals

Co-Lending - New Vehicle Loans

The Company may enter into co-lending arrangements with approved lending partners for new vehicle loans. Under such arrangements, the participation ratio shall ordinarily be 80% by the co-lending partner and 20% by the Company. The rate of interest charged to the customer shall be a blended annualized rate derived from the respective rates applicable to the participating lenders in proportion to their funding share. For avoidance of doubt, the blended rate shall be computed as: Blended ROI = (80% x Partner ROI) + (20% x Company ROI). In cases where the co-lending partner's ROI on its 80% share is up to 20% per annum and the maximum blended ROI chargeable to the customer is capped at 30% per annum for new vehicle loans, the maximum ROI that may be charged by the Company on its 20% share shall not exceed 70% per annum. The actual ROI for the Company's share shall be determined having regard to borrower risk profile, credit assessment, tenure, repayment structure, cost of funds, operating cost, and commercial considerations, subject always to the maximum blended ROI permitted under this Policy. Any deviation shall require prior approval of an authority not below the rank of Director and shall be appropriately documented.