IKF Finance Limited

Interest Rate Policy	
Date of Last Approval/Review	August 13, 2024
Date of Review	August 06, 2025
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Approving Authority	Board of Directors
Version	V1 - 2025

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1. Preamble

Determining the Interest (Lending) Rate is a critical process that requires meticulous consideration of various factors. Given the growing complexity of the business and the critical role of interest rates, IKF Finance (“Company”) will follow the process and model defined in its Policy Document to determine lending rates for borrowers. These rates may vary for different categories of borrowers, based on several factors explained below.

The pricing of IKF Finance’s loan products is determined by the cost at which the company borrows funds and the risk profiles associated with various borrower segments, including the likelihood of default. In addition to the cost of funds and risk cost, IKF Finance also considers operational costs, information technology expenses, desired profit margins, and capital adequacy requirements. Because the company’s cost of funds depends on external market conditions, loan pricing is subject to change over time. Further, the company can offer the loan products at either fixed or floating rate. This policy ensures that all relevant factors are considered, providing clarity and transparency in decision-making and monitoring.

The Credit Committee or Sanctioning Authority is responsible for approving the type of loan (fixed or floating rate), the final rate of interest, and other terms and conditions. The final approved interest rate may be higher or lower than the initially proposed rate, depending on both internal and external factors affecting IKF Finance.

2. Objective & Scope

This Interest Rate Policy outlines the principles and methodology followed by IKF Finance in determining the nature of interest rates—fixed or floating—applicable to various loan products offered to customers. The policy ensures transparency, consistency, and alignment with the institution’s risk management framework and customer needs.

This policy applies to all loan products originated and managed, including vehicle, MSME, and other business segments.

3. Interest Rate Framework

Risk-based pricing and the choice between fixed or floating interest rates are two distinct aspects of loan structuring. Risk-based pricing refers to determining the appropriate interest rate for a borrower based on their credit profile, repayment capacity, and overall risk assessment. It ensures that higher-risk borrowers are charged appropriately for the additional risk they pose, regardless of the interest rate type. On the other hand, whether a loan carries a fixed or floating rate pertains to how the interest rate behaves over time and largely a function of directions provided by the ALCO. Fixed rates remain constant for the loan term, while floating rates vary based on a benchmark. Both risk-based pricing and rate structure decisions are made independently but in alignment with the company’s credit and pricing policies. This policy document first outlines the approach to risk-based pricing and, where applicable, details the mechanism for interest rate resets under floating rate structures.

4. Risk Based Pricing

Pricing structure for lending is determined by various factors related to the customer profile and the specific characteristics of the loan and the vehicle being financed. Below is an analysis of the factors from the provided table:

Customer and Loan Details	Loan Type and Characteristics
Product	Type of funding (used/new)
Customer (Existing / New)	Interest Type (Fixed/Floating)
CIBIL Score	PSL (Priority Sector Lending) / Non PSL
Tenure	Customer Category
Track Record	Future Potential
Vehicle Make	Mode of Payment
Manufacturing Year	Loan to Value (LTV)
Supplier / Manufacturer	Customer Location

These factors primarily establish the baseline for determining the interest rate. For instance, a new customer with no existing track record may attract a different rate compared to an existing customer. Similarly, the CIBIL score, tenure of the loan etc. also influences the interest rate.

5. Components of Risk Adjusted Pricing

Below are the components of Risk Adjusted Pricing mechanism at IKF-

5.1. Cost of Funds

Cost of Borrowing is one of the most crucial factors that influence Interest (Lending) rate and (a) Cost of Bank Borrowings (b) Cost of Debentures (c) Cost of Inter Corporate Deposits / Loans (d) Cost of Security Deposits (e) Cost of Any Other Borrowings (f) Cost of Capital etc. shall be taken into account while ascertaining the cost of borrowing.

The weighted average of the above shall be arrived at first to ascertain the cost of borrowing of the company.

5.2. Capital / Margin to be provided

Capital / Margin requirement is one of the key factors since capital is expensive when compared with borrowings in view of various factors and hence Capital / Margin to be provided for the loan product shall be taken into account.

5.3. Transaction / Servicing Cost

Transaction / Servicing costs primarily comprise of business sourcing, administrative and recovery overheads depending on various factors like loan ticket size, product financed, loan tenor, borrower location, mode of payment of installments etc. shall be considered while arriving at the cost since usually Transaction / Servicing costs will be higher where the loan ticket size is small and loan tenor is more.

5.4. Gradation of Risk

IKF Finance Limited’s approach to risk gradation is not aimed at discriminating between classes of borrowers but is carefully assessed on a case-by-case basis based on multiple factors. The comprehensive interest pricing process considers various elements related to the borrower's profile, loan specifics, and associated risks. By adjusting for these risk components, the company ensures a fair and balanced approach to interest rate determination, providing competitive rates while managing lending risks effectively.

(a) Profile of the Borrower for Ascertaining Risk Premium

The borrower's profile is critical in assessing risk. Factors such as credit history, cash flows (past, present, and projected), other financial commitments, location, financial and social standing, mode of payment, and other relevant details will be considered.

(b) Risk Profile of the Product Financed for Ascertaining Risk Premium

The profile of the product financed is also significant in assessing risk. Elements like Loan to Value (LTV), tenor, age and end use of the asset, security for the loan represented by the underlying asset, its resale value, turnaround time for disposal, accessibility, and availability of buyers will be taken into account.

(c) Market Specific Charges

Risk varies from market to market, and this variation is considered in the pricing. For example, the risk associated with a customer or product in Andhra Pradesh may differ from that in Gujarat. Hence, market-specific risks are also factored into the pricing.

Given these considerations, IKF follows a discrete interest rate model/policy. The interest rate for the same product and tenor availed during the same period by different borrowers may vary depending on any combination of the factors listed above.

The interest rate is subject to change as the situation warrants and is at the discretion of the management on a case-by-case basis.

6. Fixed Interest Rate Loans

Fixed rate loans carry an interest rate that remains constant throughout the loan tenure. The interest rate determination at the time of onboarding the customer gets decided basis the risk-based pricing as explained above. These loans are primarily extended to individual retail borrowers in vehicle and MSME finance, given the preference for fixed and predictable EMIs. Once fixed, the rate is not subject to market fluctuations, providing financial stability to the borrower. This structure aligns with the needs of the borrower segments that value certainty and consistent repayment obligations.

7. Floating Interest Rate loans

While floating rate loans are not actively being offered at present, some existing exposures continue to operate under this structure. This policy sets out the framework for managing such loans. The Company also retains the discretion to offer floating rate loans in the future, based on borrower requirements and internal credit assessment. Accordingly, all such loans, whether existing or to be disbursed in future under floating rate structure, shall be benchmarked to the internal Variable Rate of Return (VRR).

8. Variable Rate of Return (VRR)

Interest rate applicable to a floating rate customer would be an outcome of the Variable rate of return (“VRR”). VRR would work as the floating interest rate which is function of –

a. Borrowing cost of the company on its debt funding received from various sources
b. Cost of capital applicable
c. Leverage Levels
d. Operating expenses in steady state or equilibrium model
e. Profit Margin and Capital Charge coverage.
f. Credit Cost / Provisioning as per applicable guidelines
g. ALM cost on account of excess liquidity maintained as per the internal policy

ALCO will periodically review the VRR and may prescribe a change in VRR at its sole discretion.

9. Implementation & Communication

In the case of revision of VRR, the same needs to be communicated to affected customers in a prompt manner. Communication should include the revised interest rate on the loan and communication mode can be decided by the operations department depending on the customer segment.

The adjustment impacts the EMI amount and/or loan tenure, depending on the loan structure.

10. Minimum & Maximum Interest (Lending) Rate

The Minimum Interest (Lending) Rate will be set at 2% (two percent) over and above the lowest cost of funds. The Maximum Interest Rate shall not exceed 30% per annum for secured loans and 30% per annum for unsecured loans. However, for small ticket loans or when the borrower is located in a remote area, the management has the discretion to add a premium to the stipulated interest rate to cover transaction and servicing costs, with the borrower's concurrence.

11. Fee & Other Charges

The Company may charge processing fees or other applicable charges to borrowers for approved loans. The exact amount of processing fees or other charges will depend on factors such as the type and location of the collateral, the nature and volume of required documentation, and any services needed from external agencies such as valuation or legal reports during the loan appraisal process. All such major charges are properly disclosed to the customer and also hosted on the website of the company as well.

12. Penal Interest Charges

In case the loan is not serviced as per the agreed terms and conditions, the borrower might be charged penal interest or fee as per the terms defined in loan agreement executed by the borrower with the company.

13. Periodicity of Interest Rate Review

The Board shall review the Interest Rate Policy annually and may conduct additional reviews as needed to manage interest rate risk from changing market conditions.

Review of the floating interest rate would be done on quarterly basis / or as and when deem fit by the ALCO.

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