INTEREST RATE POLICY

DVARA KSHETRIYA GRAMIN FINANCIAL SERVICES PRIVATE LIMITED	
Policy	Interest Rate Policy
VERSION	2.0
DATE OF APPROVAL OF BOARD	May 05, 2022
LATEST DATE OF APPROVAL BY THE BOD	November 13, 2024
PROCESS OWNER	Finance

TABLE OF CONTENTS

Background

As per the Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022, Board of each NBFC shall approve an 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. Further, the directive states that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers in the sanction letters issued to them. The Company's Board of Directors at its meeting held on May 5, 2022 had adopted the interest rate model of the Company

RBI Circulars (Applicable)

Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022" issued on 14 March 22 and subsequent amendments thereto.
Master Direction – NBFC – Scale Based Regulations, 2023 issued on October 19, 2023

Objective of the policy

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.

Organization Structure:

Board of Directors

The Board of Directors shall have an oversight on the interest rate Policy of the Company.

Asset Liability Committee

ALCO shall be responsible for taking decision to change the benchmark rate. The ALCO meeting will be held on a monthly basis and any changes / status quo in the benchmark rate would be discussed and decided by the ALCO.

Business can have their internal pricing policies under the overall framework of interest rate policy to arrive at final rate. Changes to business level internal pricing policies, if any, would need to be approved jointly by the following officers of the Company:

Sr. No.	Designation
1	Managing Director & Chief Executive Officer
2	Chief Financial Officer
3	Chief Risk Officer
4	Chief Business Officer

Interest rate Model

Dvara KGFS lends money to its customers only through Fixed rate loans. To cater the needs of different category of customers lends money through various products viz:-.

- Joint Liability Group Loans (Unsecured Loans)
- Micro Enterprise Loans (Secured and Unsecured)
- Jewel Loans (Secured)
- Consumer Loans (Unsecured)
- Other Unsecured Products viz., home improvement Loans/Cattle Loan/Crop Loan/Emergency loan etc.,

The aforesaid benchmarks are calculated based on following factors.

- Lending Rate Model applicable to customers
- The model used by Dvara for determining the Lending Rate for different segment of customers/products.
- **Methodology**: The Lending Rate for each major segment is calculated as an aggregation of the following cost factors:

a. Weighted Average cost of capital – The Company borrows funds through Bank Term loans, Non-Convertible Debentures and Commercial paper and subordinate debt, etc. from the investors. Additional to the borrowing, the Company also has equity portion and the cost of such equity is considered to arrive at the weighted average cost of capital.

b. Fund raising cost It includes processing fees on term loans, brokerage to source funds through NCDs / Deposits, CPs, Rating Fee, trusteeship fee, IPA commission on CPs, exchange listing fee etc.

c. Negative Carry on Investment The Company keeps liquidity buffer in the form of investments into liquid funds in compliance with RBI guidelines and to manage liquidity risk and has to bear negative carry on those investments too.

d. ALM mismatch cost The Company borrows funds through short term and long-term products and to comply with the regulatory guidelines, it needs to manage ALM gaps under certain limits imposed by the regulator, while taking in to account the prepayments made by the customers.

e. Operating Cost It includes employee expenses, branch-related fixed and variable costs, operations costs, sales and marketing expenses, technology expenses, expenses related to sourcing and recovery, etc.

f. Credit Risk Premium Based on risk gradation of the customer.

g. Expected ROA Expected Return on assets is the minimum return expected by the company on its assets.

APPROACH TO GRADATION OF RISK

This rate of interest is arrived at through the Company's interest rate model which takes into account relevant factors such as cost of funds, margin and risk premium. The Company takes a comprehensive approach to the gradation of risk that does not discriminate between class of borrowers, but rather tailors the interest rate to each loan.

Risk grading enables the Company to differentiate customers across different risk spectrum and helps in applying risk premium to that customer. The risk premium attached with a customer shall be assessed inter-alia based on the following Demographic and Behavioral factors:

Parameter	Score Type
Occupation (Number of earning members in a Household)	Demographic Score
Ownership of house	Demographic Score
Age	Demographic Score
House type	Demographic Score
Marital Status	Demographic Score
Bank Account Holding	Demographic Score
Electricity Connection	Demographic Score
Vehicle held at House Hold level	Demographic Score
Education	Demographic Score
Phone variation	Demographic Score
PAN	Demographic score
Number of Dependents	Demographic Score
Age of Dependents	Demographic Score
Loan Behaviour with KGFS	Behaviour Score
No of delinquent days loans with all Financial Institutions (Fis) which is beyond last 3 months	Behaviour Score
No of delinquent days loans with all Fis in last 3 month	Behaviour Score
No of written off loans with other MFIs	Behaviour Score
No of MFIs changed	Behaviour Score
No of Enquiries made with Other MFIs	Behaviour Score
Loan Amount requested in each enquiry	Behaviour Score

Communication to the customer

- The Company shall intimate the customer the annualized Rate of Interest at the time of sanction of the loan along with the tenure and amount of monthly installment.
- The customer shall also be informed about the Interest rate model policy. The customer can visit the Company's' website for referring the policy and any change in the benchmark rates and charges for existing customers would be uploaded on the web site of the Company i.e. www.dvarakgfs.com – Company Policies.
- Any changes in the rates and charges for existing customers would also be communicated to them through either of letter or SMS.
- The Company shall follow the guidelines mentioned in the Fair Practice Code as issued by RBI from time to time and as adopted by the Company through its Policy on Fair Practice Code.

Review of Policy

A review of this policy would be done on a semi- annual basis by the Board of Directors.

Annexure A – Benchmark Interest Rate Calculation
(As on December 31, 2024)

Parameters	December-2024
Cost of Equity	3.50%
Weighted Average cost of borrowings	
Fund Rasing cost	12.12%
Negative carry on investments	1.5%
ALM Mismatch cost	0%
Opex cost	9.31%
Risk Premium	4.00%
Total	**30.43%**