Maximal Finance and Investments Limited

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INTEREST RATE POLICY

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Interest Rate Policy

1. Background

In line with the Reserve Bank of India (RBI) guidelines, Maximal Finance and Investments Limited (an RBI-registered Non-Banking Financial Company, Registration No. B-09.00313) is required to adopt an interest rate model approved by the Board of Directors. This model incorporates the cost of funds, risk premiums, margins, and other relevant factors to determine interest rates for loans and advances. The RBI mandates that interest rates, risk grading methodologies, and any variations in interest rates across borrower categories be communicated to customers via sanction letters or any other method deemed appropriate by the Board or its Committees.

2. Objective of the Policy

The primary goal of this Pricing Policy is to establish benchmark interest rates for various customer segments, where applicable, and to define the principles guiding the application of spreads to these benchmark rates. This ensures that the final interest rates applied to customers are fair, transparent, and compliant with regulatory standards. The policy takes into account the cost of funds, prevailing market conditions, and associated risk factors, aiming for consistency in pricing while maintaining profitability and fairness.

3. Policy Review

This policy will be reviewed at least once per year or as deemed necessary due to regulatory changes, modifications in the interest rate model, or any other relevant factors. The company shall adhere to all applicable RBI regulations concerning interest rates, including any prescribed limits (floors or caps) on lending rates.

4. Organisation Structure

4.1. Board of Directors

The Board of Directors of Maximal Finance and Investments Limited (hereafter referred to as "The Board") holds ultimate responsibility for overseeing the Interest Rate Policy. The Board may delegate operational tasks related to the implementation of the policy to the Asset Liability Committee (ALCO) for effective management.

4.2. Asset Liability Committee (ALCO)

The ALCO is tasked with reviewing and adjusting benchmark interest rates, as per the parameters set by the Board. The ALCO meets quarterly to review market conditions, funding costs, and other relevant factors. Any changes or adjustments to the benchmark rates must be presented to the Board for approval.

Designated Individuals for Recommending Changes to the Pricing Model:

Sr. No.	Designation
1	CEO Director
2	Whole Time Director / Executive Director

5. Interest Rate Determination Framework:

5.1 Interest Rate Model

Maximal Finance and Investments Limited offers the following loan products:

- MSME/BL Product (Unsecured)
- IGL Product (Unsecured)
- Consumer Durable Loans (Unsecured)

The applicable interest rate for each loan product is determined based on a combination of factors that ensure sustainability, profitability, and fair treatment of customers. These factors include:

- Cost of Funds
- Credit Costs
- Operating and Administrative Expenses
- Risk Premium
- Minimum Return on Assets (ROA)

"The final benchmark rate is determined by aggregating the aforementioned components. The factors contributing to these components are outlined below, though not limited to:

a) Cost of Funds

The cost of funds represents the interest rates that the company incurs on its borrowings, which directly influences the interest rates on loans. The components may include:

- **Interest Rates on Debt:** Rates on long-term and short-term borrowings such as bank loans, debentures, and bonds.
- **Cost of Raising Funds:** Costs associated with issuing debt, including processing fees, legal expenses and documentation.
- **Weighted Average Cost of Capital (WACC):** The blended cost of all sources of financing, including both debt and equity (if applicable).
- **Liquidity Premium:** An additional cost incurred when borrowing in less liquid markets or raising funds during tight liquidity conditions.
- **Risk of Borrowing:** Risk premium added due to market fluctuations or company-specific creditworthiness.

b) Credit Costs

Credit costs refer to expenses related to managing credit risk and the potential for loan losses. Components can include:

- **Provisions for Non-Performing Assets (NPAs):** Provisions set aside to account for loans that may become delinquent or default.
- **Write-Offs:** The direct costs associated with loans that are completely written off due to borrower default.
- **Expected Credit Loss (ECL):** Forecasted losses on loan portfolios based on historical data and borrower credit profiles, if any.
- **Credit Monitoring Costs:** Expenses incurred for monitoring borrowers' creditworthiness and assessing their financial conditions over time, if any.

c) Operating and Administrative Expenses

These costs cover the expenses related to the day-to-day operations of the business. The components may include:

- **Employee Salaries and Benefits:** Remuneration costs for staff involved in loan processing, administration and other back-office services.
- **Technology and Infrastructure:** Investments in digital platforms, loan management systems, cybersecurity, and IT maintenance.
- **Office and Administrative Overheads:** Office rent, utilities, stationery and other general expenses.
- **Regulatory and Compliance Costs:** Costs related to fulfilling RBI regulatory requirements, including audits, compliance reporting and regulatory filings.
- **Other Legal Costs:** Costs related to consultation fees, legal fees and any other incidental costs related to recovery efforts and loan collections, if any.
- **Marketing and Customer Acquisition Costs:** Costs for advertising, promotions, and maintaining relationships with lenders and partners.

d) Risk Premium

The risk premium is an additional charge to compensate for various risks associated with lending. Components may include:

- **Credit Risk Premium:** The extra cost for taking on higher credit risk from borrowers with lower credit scores or inconsistent credit histories.
- **Market and Economic Risk:** Adjustments made for macroeconomic conditions, such as inflation, interest rate volatility, and market downturns.
- **Collateral Risk:** The potential risk of insufficient or volatile collateral values, particularly in unsecured loans.
- **Sector-Specific Risk:** Premiums applied to borrowers operating in high-risk sectors (e.g., small businesses in volatile industries).
- **Geographic Risk:** Additional premiums for lending in regions with inconsistent repayment behavior or unstable economic environments.

e) Minimum Return on Assets (ROA)

ROA reflects the minimum return the company expects from its assets, ensuring that operations are profitable. Components include:

- **Target Profit Margin:** The minimum profit percentage that the company aims to achieve after covering costs.
- **Asset Efficiency:** The effectiveness of utilizing loan portfolios and other company assets to generate returns.
- **Operational Risk Buffer:** An added buffer to account for operational risks, such as system failures, fraud, or other unforeseen disruptions.
- **Investor/Shareholder Expectations:** Returns expected by equity holders or stakeholders to ensure continued investment and capital flow.

6. Principles and Procedures for Charging Spreads

The interest rates applicable to various loan products and customer segments are determined by applying spreads over the benchmark rate. The spread takes into account several factors, including but not limited to:

- Interest Rate Risk (Fixed vs Floating)
- Credit and Default Risk
- Borrower Profile
- Economic and Industry Segment
- Repayment Track Record
- Loan Type (Unsecured)
- Loan Ticket Size
- Bureau Score
- Loan Tenure
- Geographic Collection Performance

These factors help in determining the appropriate spread, ensuring that the rates reflect the risk and value associated with each loan product and borrower category.

7. Communication Framework

The interest rate and any applicable fees or charges will be clearly communicated to the customer at the time of loan sanctioning. The customer will receive a Loan Agreement that outlines all terms and conditions, including the interest rate applicable to their loan, prior to disbursement.

The Interest Rate Policy will be made publicly available on the company's website, and any changes to benchmark rates or other charges will be updated and communicated accordingly.

8. Borrower Grievances

Any complaints or grievances from borrowers related to interest rates or any other aspect of the loan agreement will be handled according to the company's established grievance redressal mechanism. The company is committed to resolving any issues in a fair and timely manner.

G. Conclusion

Maximal Finance and Investments Limited is dedicated to ensuring that its interest rate policy is transparent, equitable, and compliant with RBI regulations. The company strives to maintain competitive interest rates that reflect market realities, risk factors, and customer needs, while ensuring its long- term sustainability and profitability.

Important Notes: -

A review of this policy will be undertaken annually and will be subject to approval by the Board. Any change in documents by way of additions and amendments due to changes in laws, regulations, accounting standards, etc. would follow a change in management process and adequate version control.

MAXIMAL FINANCE & INVESTMENTS LTD
SECUNDERABAD

Sd/-
Director

Nandini. R.