

Veritas Finance Private Limited**INTEREST RATE POLICY**

Version Control		
Versions	Date	Particulars
Version 1	8-11-2022	Pricing Revision
Version 2	8-11-2023	Pricing revision for MSME Rural
Version 3	27-03-2024	a) Inclusion of Commercial Vehicle pricing b) Amendment in MSME Rural pricing structure c) Amendment in Veritas Prime Lending Rate d) Inclusion of Penal & Other charges – All products

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1) Preamble:

The guidelines issued by RBI vide its Notification No. DNBS. 204 / CGM (ASR)-2009 dated 2nd January 2009 and RBI/2023-24/55 DOR.MCS.REC.32/01.01.003/2023-24 dated 18.08.2023 as well as its guidelines on Fair Practices Code for NBFCs, as amended from time to time (RBI Regulations), directs all NBFCs to make available the rates of interest and the approach for gradation of risk on web-site of the companies.

In compliance with the requirements of the RBI regulations including the Fair Practices Code and the good governance practices, the company has put in place the internal guidelines, policies, procedures and a comprehensive interest rate policy.

The interest policy aims to cover:

- The various components of interest rate component
- Approach for gradations of risk
- Rationale for charging differential rates
- Disclosure of rates of interest, changes thereof and publicity there to Background

2) Background:

Veritas Finance is into the business of providing secured and unsecured business loans for the micro enterprises and small enterprises in the urban, semi urban and rural areas. The loan offered to heterogeneous MSME segment, who would otherwise may be excluded from the financial eco system as they may not have adequate documents to prove their ability or intent to repay. Veritas has developed unique subjective assessment credit methodologies to assess these customers and reaches out to them through branch based lending model where our credit officers meet and evaluate the customers after multiple visits to their business, residence and property and have personal discussion to understand their requirements

Such subjective assessments of these customers for low ticket size has its own implication on various aspects which affect the lending rate

Low ticket size and direct visits mean high operating expenses. Untested credit history and lack of documents enhance the credit risk. This perceived risk in the underlying portfolio leads to higher borrowing cost for the company.

The interest rate policy takes into account all the above along with requirement to maintain the profitability.

3) Interest Rate Model:

The interest rate charged by Veritas for the products offered would take into account the following factors.

1. Cost of Funds
2. Operating Cost
3. Risk Premium for the Product Segment
4. Profit Margin
5. Market Practices

1. Cost of Funds:

Finance cost is the main component in deciding the interest rate charged to the customers. The company borrows from diversified institutions like Banks (including SFBs), NBFCs, HFCs, and Off-shore Financial Institutions and DFIs. While the company's borrowings are expected to be a mix of fixed rate as well as floating rate borrowings, considering the customer segment, we choose to keep the loans to the customers with fixed rate for MSME Rural & Urban and floating rate of interest for our Home loans. The rate to the customers would therefore factor in the risk associated with fluctuations in the interest rate.

2. Cost of operations:

The cost of operations includes manpower cost, infrastructure cost and other administrative costs. Most of these costs are fixed costs and are committed on the basis of budgeted volume of operations. Since these costs come down with increasing volumes and efficiencies, the pricing factors the estimated cost over a reasonable period of time. Also, other factors such as the complexity of the transaction, capital risk weightage, the size of the transaction, location of the borrower and other factors that affect the costs associated with a particular transaction would be taken into account before arriving at the final interest rate quoted to a customer. As a philosophy, the company will charge clients fixed rate assuming a steady state operation. Thus, the high operating cost in the initial stages of start-up and cost of growth would be borne by the shareholders, till the company attains size and scale.

3. Risk Premium:

The segment where Veritas operates is very heterogeneous and the customer profiles are vastly different with regard to nature of business, cash flow, profitability, complexity of operations etc. Our risk premium differs for MSME Loans (Secured & Unsecured) and Home Loans. Therefore, the risk levels can be quite varied based on the customer segment and product nature.

4. Profit Margin:

The interest rate charged to the customers would include a profit margin decided on the basis of the reasonable return expected by the shareholders and the risks involved. The profit margin is arrived at keeping in mind the need to attract fresh capital to sustain growth and also benchmarked with comparable companies.

5. Market Practices and Other parameters:**i) ALCO View & forecast of market interest rates:**

Views of the Asset Liability Management Committee (ALCO) on loan product pricing with respect to prevailing interest rates offered by peer NBFCs for similar products / services shall be taken into consideration. The forecasts and analysis of 'what if' scenarios' conducted by the ALCO are also relevant factors for determining interest rates to be charged. The lending rate is both fixed and floating as well as the fees charged is fixed, taking into account the sustainability of various factors and it is reviewed periodically by the Asset & Liability Management Committee

ii) Prevailing market practices:

While the interest rate charged would broadly depend on the above factors, the fees and other charges applicable will depend on the market practices and the cost of providing such services. While we look at the market practices for the fees and other charges, the policies would always be customer centric and efforts would be not to over burden the otherwise vulnerable customer segment.

Basis the above details for our pricing methodology, we have defined our Benchmark rate linked on the inherent risk of product and customer segment.

“Veritas Prime Lending Rate” (VPLR):

Weighted Average Cost of Funds as on 29 th February 2024	10.02%
Average Risk premium	4.00%
Return on Assets	4.50%
Overheads & Cost of operations	5.00%
Veritas Prime Lending Rate	23.52%

The above-mentioned Veritas Benchmark Reference Rate would act as a guidance and the yield for each of the products would vary based on the risk levels of the segment, product nature and market conditions.

With regard to the interest rate charged to the customers for different products, Veritas would operate with the following principles.

1. Changes in the borrowing cost would lead to change in the Veritas Reference Rate and would accordingly change the lending rate to the customers.
2. Veritas RMC would adopt a risk-based pricing model for its customers and based on the portfolio performance the risk premium would undergo a change and the lending rates may be either higher or lower than the reference rate.
3. The return on assets is arrived at basis the expectation on the profitability. The company would absorb any differential ROA other than target to build the loan book operating at rates yielding lesser ROA.
4. The difference between the actual Opex and benchmark Opex rate used to arrive at the Veritas Reference rate would be absorbed by the company till it stabilizes on the same and Veritas may operate at rates lesser than the reference rate for some products and incur higher cost of operations.
5. Loan products including Home Loans, offered with a longer repayment tenor carry additional interest rate risk. As a policy, the organization will endeavor to minimize this risk by offering the home loans under floating rate, to the extent possible and would be subjected to evaluation for re pricing. Such changes, as required would be discussed at the ALCO and given effect as per the recommendation of ALCO.

The benchmark rate shall be reviewed in the monthly ALCO meeting and necessary changes shall be done if needed. Any interest rate changes due to change in the VPLR change will be communicated to the customer through the medium that deemed fit as easily accessible by the customer.

4) ROI Matrix:

The prevailing interest rate as on Mar.2024, based on the above interest rate policy is enclosed below:

Product	Ticket Size (INR)	ROI
MSME – Rural – Business Loans		
Financial Inclusion Loans	INR 1-5 lacs	20-28%
Micro Business Loans	INR 5-15 lacs	18-26%
Small Business Loans	INR 15-30 lacs	16-24%
Veritas – Home Loans		
Home Loans	INR 5-30 lacs	14.5-20%
Loan Against Property	INR 5-100 lacs	12.5-20%
MSME - Working Capital Loans		
Unsecured	INR 0.50 to 2 lacs	27-28%
Secured	INR 2-10 lacs	24-26%
Used Vehicle Loans		
Secured	INR 1-15 lacs	15-24%

The above structure and interest rate band would act as broad guideline, any deviations required from the interest rate on a case to case basis would be done with approvals as per deviation matrix. Any deviations over & above the mentioned rates shall be approved by MD & CEO.

Option for Fixed rate of interest:

At this juncture, the company is not offering fixed rate of interest for the customers in the home loans product division and hence the customer will not have an option to switch between fixed and floating rate of interest.

5) Communication to the customer:

The Company intimates the borrower regarding the loan amount, annualized rate of interest, insurance premium, processing fees even at the time of beginning the interaction. Every customer is communicated the most important terms of the contract including all the above. The sanction letter clearly communicates the terms of contract.

Options available for customer on Rate Change:

Following options are available for the customer on rate reset or at the time of prepayment or any time during the tenure of the loan.

- a) Enhancement/ reduction in EMI
- b) Elongation or contraction of loan tenor
- c) Combination of above (both) options
- d) Prepayment of outstanding loan amount 'in-part'
- e) Prepayment in full

The elongation of the loan tenor will be governed by the restructuring norms mandated by the RBI. In event of change in the ROI due to change in the VPLR, for operational ease, the EMI will be constant only the tenor of the loan will be either extended or contracted based on the change in the interest rate. However, customer can avail any of these options by contacting in the branch or toll-free number or through available online medium.

Penal & Other Charges:

Guidelines issued by the Reserve Bank of India on Fair Lending Practice with respect to penal charges of loan accounts vide its Master Circular bearing No. RBI circular DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 on Fair Lending Practice - Penal Charges in Loan Accounts and RBI/2023-24/102 DoR.MCS.REC.61 /01.01.001/ 2023-24 dated 29.12.2023 extension of timeline & FAQ's wherein Reserve Bank of India (RBI) has summarized the guidelines on Fair Lending Practice for NBFCs.

Penal charges refer to charges over and above normal interest rates/ fees, levied for default by the borrower in complying with the terms on which credit facilities were sanctioned. However, this will not affect the normal procedures for compounding of interest in the loan account.

Penal charges (income) will be recognized in the Profit and Loss account on collection, except in the case of charges levied on non-performing assets, which is recognized as income on receipt basis. Further, Penal charges, along with interest and principal to be included for SMA reporting. Penal charges will be in addition to the foreclosure charges incurred by the Company due to prepayment of any loan facility will be levied to customers in case of pre-payment.

The quantum and reason for penal charges as documented in this policy shall be clearly disclosed to the customers in the loan agreement and sanction letter & MITC/KFS, as applicable, in addition to being displayed on Company's website under Fees & Charges. Any change in Company's policy (on account of change in regulation or otherwise) will be communicated to the borrower and the same will be applicable from the date of issue of such revised policy.

Other Service Charges include:

- a) Acquiring or Sourcing Charges like Processing Fee, Legal or Technical Fees
- b) Charges during Pendency of loan like ACH/Cheque Bounce Charges, Account Swap charges etc.
- c) Charges during Loan closure

The detailed list of charges is attached in Annexure herewith.

6) Disclosure on the website:

All the information relating to the policies, interest rate etc. are made available in the company website which is constantly updated. Though most of our customers are not tech savvy, we inform them and take effort to make them aware of the disclosures regarding this Interest Rate Policy and the schedule of charges on the Company website. Any changes to the policy and terms and schedule of charges are updated in the website on a dynamic basis.

7) ANNEXURE A- PRODUCT WISE CHARGES:

A) MSME Rural & Home Loan

Si.No	Particulars	MSME RURAL	HOME LOAN
1	Login Fee (non-refundable)	1) Loan amount below Rs.5 lakhs – Rs.1000 +GST 2) Loan amount Above Rs.5 lakhs – Rs.2000 +GST	₹ 4000 + GST
2	Processing Fee (Deducted from loan amount)	2%+ GST (less login fee)	2%+ GST
3	Legal Fee (Deducted from loan amount)	₹ 1000 + GST	₹ 1000 + GST
4	Document Charges	₹ 500 + GST	NIL
5	Cheque Bounce Charges	₹ 500 + GST per cheque bounce	₹500 + GST per cheque bounce
6	Technical Fees (Deducted from loan amount)	NIL	₹ 1000 + GST
7	Preclosure /Foreclosure Rules	No pre-closure or foreclosure shall be made during the first 12 months of date of disbursement.	No pre-closure or foreclosure shall be made during the first 24 months of date of disbursement
8	Preclosure/Foreclosure Charges	1) Before 1 year -5% on the loan amount outstanding + GST 2) After 2nd year -4% on the loan amount outstanding + GST 3) After 3rd year -3% on the loan amount outstanding + GST	NIL
9	Part Payment Charges	NIL	NIL
10	Document retrieval charges on Pre-closure	₹ 1000 +GST	₹ 1000 +GST
11	Cheque swapping charges	₹ 500 + GST per instance	₹ 500 + GST per instance

12	Statement of Account	₹ 250 + GST per instance	₹ 250 + GST per instance
13	Rate Reset fees	NIL	0.2% of the total outstanding principal applicable per instance
14	Rescheduling Charges	₹ 1000 +GST per instance	₹ 1000 +GST per instance
15	Field Visit Charges (for Collection dues)	₹ 100 + GST per instance	₹ 300 + GST per instance
16	List of documents	NIL	₹ 500 + GST per instance
17	Subsequent Technical fees for Under-construction case	NIL	₹ 500 + GST per instance
18	Cash Collection Charges	₹ 250+ GST	NIL
19	Copy of Title Deeds	₹ 500 +GST per instance	₹ 500 +GST per instance
20	Recovery Charges (Legal/Repossession/Incidental)	As per actuals	As per actuals
21	Deal Cancellation Charges	Contracted IRR from the date of disbursement to deal cancellation date +GST	Contracted IRR from the date of disbursement to deal cancellation date +GST
22	Delayed Payment Charges	2% per month	2% per month
23	CERSAI (Deducted from loan amount)	1) Loan amount below Rs.5 lakhs – Rs.50 +GST 2) Loan amount Above Rs. 5 lakhs – Rs.100 +GST	1) Loan amount below Rs.5 lakhs – Rs.50 +GST 2) Loan amount Above Rs. 5 lakhs – Rs.100 +GST
24	NeSL Charges	1) Rs.25+GST for tenure upto 5 years 2) Rs.10 +GST for every additional year	1) Rs.25+GST for tenure upto 5 years 2) Rs.10 +GST for every additional year
25	Mortgage Charges /Registration Fee /Stamp Duty	As specified by the State Government / Union Territory from time to time and to be paid directly to the authorities by the Customer.	As specified by the State Government / Union Territory from time to time and to be paid directly to the authorities by the Customer
26	Valuation Charges	NIL	NIL
27	Duplicate NOC	NIL	NIL

B) MSME Urban & Commercial Vehicle

Si.No	Particulars	MSME URBAN	USED COMMERCIAL VEHICLE
1	Login Fee (non-refundable)	NIL	NIL
2	Processing Fee (Deducted from loan amount)	2%+ GST	Upto 2% +GST
3	Legal Fee (Deducted from loan amount)	₹ 1000 + GST(for Asset Creation Loan only)	NIL
4	Document Charges	₹ 100 +GST	₹ 500 + GST
5	Cheque Bounce Charges	NIL	₹ 500 + GST
6	Technical Fees (Deducted from loan amount)	NIL	NIL
7	Preclosure /Foreclosure Rules	No pre-closure or foreclosure shall be made during the first 6 months of date of disbursement.	No pre-closure or foreclosure shall be made during the first 12 months of date of disbursement.
8	Preclosure/Foreclosure Charges	1) Loan amount less than Rs.1 lakh-Rs.1000 +GST 2) Loan amount more than than Rs.1 lakh-2% +GST	3% +GST
9	Part Payment Charges	Can make part-payment of more than 2 advance EWI/EDI for 3 times in a year and restricted upto 25% of the Principal outstanding. Charges on the paid amount:- 0.5% + GST	NIL
10	Document retrieval charges on Pre-closure	₹ 1000 +GST (for Asset Creation Loan only)	NIL
11	Cheque swapping charges	NIL	₹ 100 + GST per instance
12	Statement of Account	₹ 250 + GST per instance (for Asset Creation Loan only)	₹ 250 + GST per instance
13	Rate Reset fees	NIL	NIL
14	Rescheduling Charges	NIL	As per agreed Terms
15	Field Visit Charges (for Collection dues)	NIL	Rs.250+GST per instance
16	List of documents	₹ 500 + GST per instance (for Asset Creation Loan only)	NIL

17	Subsequent Technical fees for Under-construction case	NIL	NIL
18	Cash Collection Charges	NIL	NIL
19	Copy of Title Deeds	₹ 500 +GST per instance (for Asset Creation Loan only)	NIL
20	Recovery Charges (Legal/Repossession/Incidental)	As per actuals	As per actuals
21	Deal Cancellation Charges	Contracted IRR from the date of disbursement to deal cancellation date +GST	Contracted IRR from the date of disbursement to deal cancellation date +GST
22	Delayed Payment Charges	2% per month	2% per month
23	CERSAI (Deducted from loan amount)	1) Loan amount below Rs.5 lakhs – Rs.50 +GST(for Asset Creation Loan only) 2) Loan amount Above Rs. 5 lakhs – Rs.100 +GST(for Asset Creation Loan only)	NIL
24	NeSL Charges	1) Rs.25+GST for tenure upto 5 years 2) Rs.10 +GST for every additional year	1) Rs.25+GST for tenure upto 5 years 2) Rs.10 +GST for every additional year 3) Rs.300 +GST for Corporate Borrowers
25	Mortgage Charges /Registration Fee /Stamp Duty	As specified by the State Government / Union Territory from time to time and to be paid directly to the authorities by the Customer (for Asset Creation Loan only)	As specified by the State Government / Union Territory from time to time and to be paid directly to the authorities by the Customer (for Asset Creation Loan only)
26	Valuation Charges	NIL	Rs.600 to Rs.800 +GST (To be paid directly by the customer to the Valuator)
27	Duplicate NOC	NIL	Rs.100 + GST
28	Parking Yard Charges	NIL	As per actuals to be paid by the customer
29	RTO Charges (Transfer of ownership & Endorsement)	NIL	As per actuals to be paid by the customer