

Interest Rate Model

Edelweiss Housing Finance Limited

CIN: U65922MH2008PLC182906

Regd. Off: Tower 3, Wing 'B',

Kohinoor City Mall, Kohinoor City, Kiroli Road,

Kurla (West), Mumbai – 400 070

Website: www.edelweisshousingfin.com

Adopted in the Board Meeting held on June 4, 2021

Reviewed in the Board meeting held on July 26, 2022

Policy for determining Interest Rates, Processing and other charges

A. Preface

1. Reserve Bank of India (RBI) had vide its Circular DNBS / PD / CC No. 95/ 03.05.002/ 2006-07 dated May 24, 2007 and other subsequent communications advised the Boards of Non- Banking Finance Companies (NBFC's) to lay out appropriate internal principles and procedures on determining interest rates, processing and other charges.
2. PLR (Prime Lending Rate) is the internal benchmark rate used for setting up the interest rate on floating rate loans sanctioned by Non-Banking Financial Companies (NBFC) and Housing Finance Companies (HFC).

B. Description

The PLR comprises of the following components: -

- a. Funding Cost
 1. Cost of Borrowings - It is the cost of raising funds from external sources
 2. Debt to Equity Ratio – It is the ratio of Borrowings to Equity.
- b. Liquidity Cost – It is the cost of maintaining surplus liquidity on balance sheet
- c. Credit Risk – It is the cost of risk which the business carries on account of the credit worthiness of the borrowers
- d. Opex – It is the operational cost of running the business
- e. Spread – It is the spread applicable to different products including customer and product specific margin and profitability expectations.

C. Process for Calculating

- a. Funding Cost is calculated by applying D/E ratio to Cost of equity and Borrowings Cost.
 1. The D/E ratio calculated will be applicable to each business on the basis of repayment tenor and the funding mix. The D/E ratio shall be the same for all businesses of the entity. It will be finalised at the first ALM Working Group Meeting of the financial year on the basis of the financials of previous year.
 2. Borrowing Cost will be the average cost of raising funds through various external sources. This would include coupon rate of the instrument and other financing costs of raising funds such as placement fees and processing fees. This shall be shared and proposed / updated by the Resources Team on a quarterly basis.
 3. Funding Cost shall thus be computed as follows:-

$$\text{Cost of Borrowings*} = \frac{\text{Debt}}{\text{Debt+Equity}}$$

- b. Liquidity Cost – This would be calculated by dividing the net liquidity cost by the average borrowings of the previous quarter. Net liquidity cost will be calculated by subtracting Returns earned from Cost of borrowings. This shall be calculated and proposed / updated by the Resources Team on a quarterly basis.
- c. Credit Risk – It shall be calculated on the basis of professional qualification, stability in earnings and employment, financial positions, past repayment track record, external ratings of customers, credit reports, customer relationship, and future business potentials. This shall be calculated and proposed by the Risk Team annually.
- d. Opex – Opex % shall be calculated by dividing the previous quarters actual operating costs by the average borrowings of the quarter. This shall be calculated and proposed / updated by the Operations Team annually.
- e. Spread - Process of calculating the spread to be defined. This shall be proposed by the Business Team quarterly. The spread shall be provided for each Product separately by the Product Teams. It shall be based on the RoE expectations, product margin, customer cohort risk premium and the business environment.

D. Overall Review Mechanism

The interest rates would be offered to customers on fixed, floating and variable basis. The PLRs would be discussed at the quarterly ALM Working Group or whenever scheduled and modified taking into consideration change in any of the component(s). Basis the deliberation at the ALM Working Group on the change in the PLR and its impact on existing and new customers, a final proposal would be made to the ALCO committee to pass on the changes to the existing and new customers. The Borrowing Cost, Liquidity Cost and Spread shall be calculated and proposed quarterly. The Debt to Equity Ratio, Cost of Equity, Credit Risk and Opex shall be calculated and proposed annually.

The PLR rate offered to customers can be changed on a PLR Rate change of more than 10 bps. If the change is less than 10 bps, the PLR would be kept unchanged. The PLR would be reset as and when there is change in the PLR which shall be approved by ALCO/Board and as per the terms and conditions mentioned in the customer loan agreement.

The ALM Working Group can recommend reducing the customer margins for a cohort in line with fair practice codes, whenever we are able to identify cohorts that are exhibiting good credit behaviour for customer retention.

The frequency of reviewing and the team responsible for each of the components will be as follows:

S.N.	Particulars	Frequency of Review	Team Responsible
A	Funding Cost	Quarterly	Resources
1	Borrowing Cost	Quarterly	Resources
2	Debt to Equity Ratio	Annually	Resources
B	Liquidity Cost	Quarterly	Resources
C	Credit risk	Annually	Risk
D	Opex	Annually	Operations
E	Spread	Quarterly	Business

Note: The review frequency stated above is the outer limit; especially for annual items, reviews may happen earlier, in case there is a significant change in any of the above components.

The Resources Team will update the PLR components/ parameters with inputs from various teams and calculate the PLR. The updated PLR shall be presented to the ALM Working Group committee. The ALM Working Group will deliberate and propose changes, if any, to the ALCO Committee.

In case of any extraordinary event, a special ALM Working Group / ALCO meeting shall be called to discuss and review the changes in any of the PLR input variables and its impact on the overall PLR rates.

Products:

1. Home Loan
 - This PLR is linked with the following products:
 - Home Loan (HL)
 - Small Ticket Home Loan (STHL)
2. Loan Against Property
 - This PLR is linked with the following products:
 - Loan Against Property (LAP)
 - Small Ticket Loan Against Property (STLAP)
 - Construction Financing (CF)

Annexure - Risk Grading Methodology

3. HL/Loan against Property (LAP)

These are the loans which are sanctioned keeping an asset as mortgage with the lender. This asset can either be an owned land, a house, or any other commercial premises. The asset remains as collateral with the lender until the entire loan against property amount is repaid.

Customer can use these loans for business purposes like purchasing machinery, buying raw materials, purchasing equipment, funding of working capital, debt consolidation, etc. These types of loan can also cater to personal requirements like wedding, higher education, home renovation, buying a new home, managing medical expenses, etc. Customer can be an alternative availed unsecured personal loan as it also has no end-use restriction. However, the cost of borrowings is much higher and repayment tenor are short, compared to LAP loan, where interest rate charged are much lower and loan amount can be much higher with higher repayment tenor.

Parameter	Normal Income	Banking Program	Gross Margin Program	Higher FOIR Programs
Maximum Loan Amount	Rs 2500 lacs	Rs 400 lac	Rs 300 lacs	
Maximum Loan Tenure	20 yrs	15 yrs		
Business Vintage	5 Years			
FOIR	80%	NA	60%	150%
LTV	Residential – 70% Commercial – 65%		Residential – 65% Commercial – 60%	
Banking to TO ration	Minimum 80% of previous year TO	- 60% TO reflection - Max 90% utilization in OD/CC	NA	NA
Financial Norms	- D/E: Not to exceed 4:1 - Current Ratio: Min 1x - Working Capital Cycle: Debtor + Inventory days not to exceed 180 - Positive net worth - Not more than 15% drop in TO/CP	- Drop in turnover / cash profit permissible upto 15% - 2-3 Cr Exposure – No Income Elig norm - 3-4 Cr - Loan amount capping at 3x of Normal Income	- D/E: Not to exceed 4:1 - Current Ratio: Min 1x - Working Capital Cycle: Debtor + Inventory days not to exceed 180 - Positive net worth - Not more than 15% drop in TO/CP	<ul style="list-style-type: none"> • No adverse trend - TO (PY vs CY) • No drop in cash profit in (PY Vs CY). • Cash profit includes PAT, Depreciation, Interest and remuneration to partners, directors • To be offered only to non-caution/non negative/non targeted profiles

CIBIL	No Cibil score Cut- Off	750
-------	-------------------------	-----

❖ Risk Grading Summary

Customers are graded under the similar risk grade. However, they are differentiated basis Loan amount, FOIR, LTV and Bureau score, basis the program under which they are on-boarded.

Customer acquired under Income program are considered in lowest risk segment, considering we have full view on the customer financial health, basis declaration on the financial by customer, hence highest exposure is proposed under this program with relaxed bureau norms.

Customer's acquired under Banking program are capped on the loan amount, considering we do not have full view on the financials. However, TO is derived basis banking transactions and OD/CC utilization, which acts as a surrogate of income, hence exposure has been capped.

Customer's acquired under Gross Margin program are under medium risk segment, since customers financial health is checked basis the margin declared by the customer. We have capped the exposure, FOIR and LTV under this program

Higher FOIR program can be classified as highest risk segment, since customer are given higher loan amount than his financials support. To mitigate the risk, we have capped the exposure amount, LTV and Bureau score with financial caveats like no drop in TO and Cash profit.

Risk Grading (High to Low)	Program Based
1	Higher FOIR
2	Gross Margin
3	Banking program
4	Normal Income

4. Small Ticket HL/ Loan against Property (STLAP)

Parameter	Normal Income Program	Assessed Income Program
Minimum Income (Cash Profit)	₹ 2.40 lacs p.a	₹ 2.40 lacs p.a
Min & Max Loan Amount	Minimum – ₹ 5 lacs Maximum – ₹ 35 lacs	Minimum – ₹ 5 lacs Maximum – ₹ 25 lacs
Tenure	MIN – 15 years MAX – 20 years	
FOIR	100%	60%
Max LTV - Residential	₹ 5 lacs to ₹ 30 lacs – 90% >₹ 30 lacs to ₹ 35 lacs – 80%	
No of years in profession	Minimum 3 years	
BTO norms	Minimum 80% of previous year turnover	Not Applicable
Financial norms	- D/E: Not to exceed 4:1 - Current Ratio: Min 1x - Working Capital Cycle: 180days - Positive net worth - Not more than 25% drop in TO/profit	Not Applicable

❖ Risk Grading Summary

Customers are graded under the similar risk grade. However, they are differentiated basis Salaried & Self Employed and Self-employed segment further segregated basis Loan amount and FOIR, basis the program under which they are on-boarded.

Risk Grading (High to Low)	Program Based
1	Assessed Income
2	Normal Income