INTEREST RATE POLICY

Approach to determining the rate of interest to be charged for loans and advances

In terms of Reserve Bank of India’s (RBI’s) notification No DNBS. 204/CGM(ASR)-2009 dated January 2, 2009 all NBFCs must document their approach to determining the rates of interest charged to customers for loans and advances.

The Board of Directors of Reliance Retail Finance Limited (herein after referred to as “Company” or “RRFL”) approved the Interest Rate Policy at its meeting held on ____________ and reviewed the same at its meeting held on ____________.

Pursuant to any subsequent amendments or any statutory modifications or re-enactments in the above stated guidelines / norms / clarifications or in any other applicable acts / regulations, if there is any change in any of the parameter(s) framed by the Board, then the act / regulation will have overriding effect on the parameter(s).

The interest rate charged to borrowers comprises the Base interest rate plus Risk Premium based on a gradation of risk which also factors in the tenure of the facility.

The methodology of determining the Base Interest Rate and Risk premium is as follows:

1. Base interest rate

Benchmark Rate (BR) – The BR is the base lending rate without any risk premium. It is guided by the Company’s cost of funds as well as other internal costs on the date of granting of loan. The Company will have the option to change the BR prospectively depending on changes in the input factors by given due notice of the same on its website or intimation to borrowers by electronic means. For this purpose, the Company will review the BR every month or as and when warranted by market conditions.
2. Risk premium

The risk premium is determined after assessment of risks related to the transaction and the borrower. Higher the perceived risks, higher the premium. Assessment of risks is done on the following parameters:

• **Macroeconomic environment**: The current economic scenario and political environment prevailing in the country

• **Capacity of the borrower to repay**: The capacity of the borrower to repay is judged on the following parameters:
  
  ➢ Performance of the industry in the given macroeconomic environment;
  ➢ Performance of the borrower vis-à-vis its peers;
  ➢ Borrower track record (in terms of management);
  ➢ Financial analysis of the borrower with respect to its profitability, liquidity, solvency and gearing. The financial analysis includes a thorough analysis of the cash flow, obligations, debt repayment capacity using Debt-Service Coverage Ratio (DSCR) and sensitivity analysis, contingent liabilities, etc.;
  ➢ Information gathered through published sources and informal network.

• **Quality of asset**: The value vis-à-vis the loan amount and marketability of the asset financed.

• **Risks associated with Project Finance**: The risks associated with the projects and the mitigants, which include:
  
  ➢ Completion risk – Non completion of project due to inappropriate funding, experience, environmental factors, construction contracts.
  ➢ Funding risk – Imbalance in the debt equity ratio, uncovered foreign exchange obligations, cost escalations, inadequate contingency provisions, etc.;
  ➢ Operating and technology risk – Risk of obsolescence, lack of trained manpower;
  ➢ Market risk – Demand related risks;
  ➢ Counterparty risks - Risks related to the counterparties involved in the project including the sponsors, off taker and suppliers of raw material;
  ➢ Regulatory and political risks;
- Payment risk;
- Force Majeure risks.

**Basis and tenor:** The basis of the loan such as whether it is on fixed interest rate or floating rate basis as well as its tenure also influence the assessment of risk premium load.

- **Security:** Risk premium is also based on the comprehensive security package which may include hypothecation of the assets financed, security of project documents, any additional collateral as warranted, guarantees and post-dated cheques (PDCs).

**Structure:** The structure of the transaction and payment mechanism also determines the risks associated. Weighted average life of the loan is also considered as one of the parameters of risk. Payment mechanisms like escrow account backed by long term contracts/take-or-pay agreements with strong off-takers carry lower risks than PDCs. It may be noted that the weightage applied to each of the above mentioned parameters may vary between transactions and also reflects our perception of the risk involved. In certain exceptional cases, where RRFL is able to raise funds at lower costs due to specific structure of the transaction, the benefit of the same may be passed on to the borrower. The interest rates charged to clients is communicated in the sanction letter and incorporated in the loan agreements executed by the borrower. The BR prevailing on the sanction letter date is also clearly mentioned in the terms and conditions communicated to the client. The rate of interest communicated in the sanction letters to clients is on annualized basis. The Company may give interest free loan with an option to convert such loan into equity shares / debentures of the borrower company.

**Interest rate to be charged to the fellow subsidiaries and other group companies in the RIL group:**

It is notable that the Company has, so far, borrowed funds only from its parent holding company viz. Reliance Industrial Investments and Holdings Ltd (RIIHL), and confirms that there are no outside borrowings. RIIHL has agreed to lend money to the Company at a fixed rate, hereinafter to be known as “base rate” which is reset by RIIHL once in March every year.

The Board has decided that the base rate adopted by RIIHL shall be the base rate for the Company as well, irrespective of whether the Company borrows from RIL or uses its owned funds for its lending activities.
It is also emphasized that the Company deals either with its group companies or the entities well known to the Company. It is important to support the entities within the Reliance Group and provide the loans to the group companies for strategic or synergetic business purposes. It may not be out of place to state that the exposure to group companies is fully reduced from the owned funds, as per RBI Directions, while calculating NOF and therefore, its credit risk is, *ab initio*, taken care of.

In view of the above, the Board has decided that the loans to the group companies will be granted at base rate i.e. at a rate not more than the rate at which the Company would borrow from its parent holding company and there will be no mark up for any purpose including risk premium as the risks are already mitigated in respect of group entities.

The Board has further decided that the Company will review its base rate as and when RIL causes a revision in their base rate.

It may be abundantly made clear that the rate of interest in respect of other than group entities will be at a mark up over the base rate for risk premium while taking into account other factors as mentioned in paragraph 2 hereinabove.

Penal interest: In the event that a borrower falls into delinquency, the Company will charge a penal interest of up to 2% to reflect the higher credit risk in the account.

**The revised Interest Rate Policy shall come into effect from** ________.