RELIANCE VENTURES LIMITED

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 Ventures Limited (herein after referred to as "Company" or "RVL") approved the Interest Rate Policy at its meeting held on April 22, 2009 and reviewed the same at its meeting held on January 15, 2015.

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.

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.

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 it's 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.

• **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 RVL 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.

The revised Interest Rate Policy shall come into effect from January 15, 2015.