AYE [आय]

INTEREST RATE POLICY

Approved by Board on December 8, 2023

Interest Rate Policy v 7.0

Table of Contents

Contents

1 Background

Aye Finance Private Limited is a Gurgaon based NBFC which provides business loans to 'micro' and small enterprises in the MSME industry spread across various business clusters in India. The funds are extended primarily for working capital and expansion of the business. The broad categories of lending facilities are as follows.

a) Business Loans (Hypothecation)
b) Business Loan against property (QML & ML)
c) B2B Buy Now Pay Later (BNPL) Credit line/Supply chain financing

As per the Reserve Bank of India guidelines vide circular RBI/2015-16/16 DNBR (PD) CC.No.054/03.10.119/2015-16 dated July 01, 2015, Board of each NBFC shall approve an Interest rate model that is applicable for the Company, taking into account relevant factors such as cost of funds, margin and risk premium etc., and determine the rate of interest to be charged for loans and advances. Further, the directive states that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers in the sanction letters issued to them

Board of Directors of Aye Finance P Ltd. at their meeting held on January 2020 had adopted the interest rate model of the Company. Thereafter, the Company authorized the Managing Director to review the interest rates from time-to-time basis the money market situation and take suitable decisions after discussing the same in the Asset Liability Committee (ALCO) Meetings.

2 Objective

To arrive at the benchmark rates to be used for different categories of customer segments and to decide on the methodology of charging spreads to arrive at final rates applicable to the customers.

3 Policy Review and Governance

The Policy shall be reviewed by the ALCO (Asset Liability Committee), once a year or in between if required due to changes in the model or due to regulatory requirements, for example, any addition/deletion of a component forming part of benchmark calculation and change in borrowing mix. The interest rate policy shall be reviewed by the Board of Aye Finance at least once every year.

4 Interest Rate Model

4.1 Interest method

Aye Finance lends money to its customers through fixed-rate loans. This protects our customers from any interest rate risk by receiving a fixed rate of borrowing and this rate is advised explicitly at the time of sanctioning the loan.

Business loans: The repayment of Business Loans (whether Hypothecation or with property as collateral) is based on equated monthly installments (EMI). The loan amortization schedule is based on the fixed rate of interest at a monthly reducing balance of the principal outstanding. Aye does not charge any late payment interest, however, a fixed charge is applied for late payment of any installment as this method is easily understood by the target customer.

Supply chain financing: The interest levied is based on the fixed rate specified as per the contract for the principal outstanding beyond interest-free period. However, a late payment charge is applied daily for each overdue monthly bill and this charge is not capitalized.

For both products, in case of the repayment bounces, a bounce charge is levied.

4.2 Interest Rate basis

Aye Finance proposes to transparently define the final rate applicable to customer segments by using Aye Reference Rate (ARR).

The final interest rate uses the defined ARR and builds onto its specific risk premium that may apply from the specific deployment of Product, Loan Tenure, Loan Amount, Cluster, geography, etc.

The details of the computation of ARR (benchmark) is based on the following parameters:

A	Weighted avg. cost of borrowing (A)
B	Cost of Equity (B)
C	Fund raising cost (C)
D	ALM mismatch cost / Negative Carry-on investment cost (D)
E	Operational Expense Ratio (E)
F	Base Risk premium (F)
G	Base ROA (G)
	AYE REFERENCE RATE (ARR) = {Sum (A to G)}

5 Principles to compute 'Specific Risk Premium'

The customers targeted by the company fall into a fairly coherent customer profile of micro-enterprises. This helps the loans to be provided without a wide variation of specific risk premiums. This helps customers be better informed about the cost of their loans and reduces mis-selling during the field origination.

However, in certain customer loans, there may be a good basis to charge/discount specific risk premium basis ED (expected default) and LGD (loss given default). This should be done in exceptional cases and will require either prior product policy or a case-by-case approval from the National Head of Credit or Managing Director.

Final Fixed Interest Rate to Customer = ARR + Specific Risk Premium
The specific risk premium may be required to factor in the risks that are affected by:

- Cluster / Industry segment/ Geography
- Profile of the borrower including past repayment track record & Credit Bureau behaviour
- Historical performance of similar homogeneous clients
- Nature and value of collateral security (Secured Vs unsecured loan)
- Ticket size of loan
- Tenure of Loan

The Specific Risk Premium may be either positive or negative due to a combination of the above-mentioned parameters. Thus, the final interest rate to the customer can vary from customer to customer.

The maximum rate of interest will be capped at 32% (on a reducing balance basis) p.a. for all our products including hypothecation loans and loans secured by property as collateral.

For supply chain financing, Aye's share charged will be kept at a maximum of 24% p.a., and the total interest rate to be charged to the customer including LSP's share will be capped at 37% p.a. These rates are applicable post-interest-free period.

6 OTHER CHARGES

Besides interest, other financial charges like processing fees, cheque bouncing charges, late payment charges, re-scheduling charges, pre-payment / foreclosure charges, cheque swap charges, security swap charges, charges for issue of statement account, etc., would be levied by the company wherever considered necessary. Besides these charges, Insurance, stamp duty, GST, etc. would be collected at applicable rates from time to time.

The late payment charges are:

- For non-compliance with material terms and conditions of the loan contract and in the event of default in payment of interest/charges/installments by the borrower. There will be no capitalization of penal charges i.e., no further interest computed on such charges. This will not affect the normal procedures for compounding interest in the loan account.
- The quantum and reason for penal charges will be clearly disclosed to the customers in the loan agreement and most important terms and conditions, in addition to being displayed on the website under Interest Rates and Service Charges
- Whenever reminders for payment of loans will be sent to borrowers, the applicable penal charges will be communicated.

7 CUSTOMER COMMUNICATION

Aye Finance will communicate the final fixed interest rate to customers at the time of sanction through SMS/ sanction letters and other acceptable modes of communication. The disbursement loan documentation shall also specify the rate of interest among other loan parameters.

Interest Rate Policy would be uploaded on the website of the company and any change in the method of benchmark rates and charges for existing customers would be amended on the company website. Any revision in these charges would be implemented on a prospective basis with due communication to customers.

8 AMENDMENT

This policy may be amended or modified in whole or in part, at any time without assigning any reason, whatsoever with the approval of the Board.

9 Review Frequency

This policy shall be reviewed as and when required or at least once annually to incorporate regulatory updates and changes, if any.