
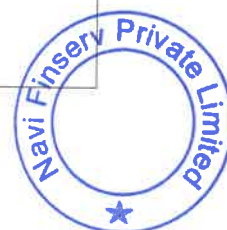


INTEREST RATE POLICY
of
Navi Finserv Private Limited
(Formerly Known as Chaitanya Rural Intermediation Development
Services Private Limited)



Version No	IRP/2.2/2020-21
Originally adopted Date of Policy	April 30, 2016
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Policy owner	Riya Bhattacharya
Approved by	Board of Directors
Signature	



Interest Rate Policy

Background and Purpose

The Reserve Bank of India (RBI) vide its circular No. DNBS.PD/CC.No.95 /03.05.002 /2006- 07 dated May 24, 2007 had advised the Boards of NBFCs to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In continuation of the above circular, the RBI vide its circular DNBS.204/CGM (ASR)-2009 dated January 2, 2009 has issued the following directions to NBFCs:

“The Board of each NBFC shall adopt an interest rate model 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. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the Borrower or Customer in the application form and communicated explicitly in the sanction letter.”

In compliance with the requirements of the RBI Regulations mentioned above and the Fair Practices Code adopted by the Company, the Company has adopted this Interest Rate Policy broadly outlining the Interest Rate Model and the Company’s approach of risk gradation in this regard for its lending business.

Simplification of Product Pricing

As a Company, it is important to strike the right balance between process uniformity across customers, operational efficiency, differentiation amongst loan types and risk profile of customers to ensure the Company meets the needs of its vast and diverse customer base. Therefore, the Company has multiple lending products with different end uses of the loans, repayment frequencies, loan duration, different modalities like secured, unsecured, individual borrowing, etc. and disbursements in different geographical areas and in case of specific third party funded loans.

COMPUTATION OF THE INTEREST RATE FOR LENDING WITH RISK GRADATION BASED PRICING

Navi has two products under which Loans are currently disbursed which are listed below (“**Loan Products**”):

1. Digital (App Based) Personal Loans; and
2. Navi Housing Loans

The base interest rate for every product will be a function of the Company’s judgment for longer term and steady state costs, based on the following four aspects.

1. Cost of Borrowing for Navi Finserv Private Limited for the applicable Loan Products;
2. Operational cost of collection and loan administration of the Loan Products;
3. Risk Profile of the Loan Product; and
4. Expected Contribution to Common Overhead and Gross Margins from the Loan Product.

Changes in the overall interest rate have to be approved by the Chief Executive Officer (CEO) of the Lending business. The final lending rate for various products offered by the Company will be



arrived at after taking into account market reputation, interest, credit and default risk in the related business segment, historical performance of similar homogeneous customers, profile of the borrower, tenure of relationship with the borrower, repayment track record of the borrower in case of existing customer, subventions available, deviations permitted, future potential, group strength, overall customer yield, nature and value of primary and collateral security, etc. Such information may be gathered based on information provided by the borrower, credit reports, market intelligence and information gathered by field inspection of the borrower's premises. While deciding the charges, the practices followed by the competitors in the market would also be taken into consideration.

A. BASE INTEREST RATE DETAILS OF LOAN PRODUCT

1. COST OF BORROWING FOR NAVI FOR THE LOAN PRODUCT:

Cost of borrowing would be a function of the Company's operational effectiveness as perceived by the banks, the liquidity situation in the country's financial markets, the general borrowing rates of NBFC's, the term of the loan required for the product and the ability of the specific product to access privileged or special funds either from domestic or international institutions. Efforts would be made to ensure that the borrowing cost is the minimum possible and efforts would be made to pass on any reductions in these costs to the customers.

Currently, the Cost of borrowing is assumed to be **12% against all unsecured loans and 9% against Secured Housing loans** and the same will be monitored.*

**This indicative cost of borrowing may change and based on such changes the interest rates may also vary.*

2. OPERATIONAL COST OF SOURCING, COLLECTION AND LOAN ADMINISTRATION:

The operating model of every Loan product is different. The digital loans and housing loans have different channels of sourcing and collections. The loan administration and management costs also differ for the different loan products.

For Housing Loans, the sourcing may be done digitally or through a network of Direct Selling Agents and Direct Marketing Agents. The Relationship managers provide support in documentation and mortgage creation. As it is a secured loan the cost of customer follow-up, documentation, security creation, customer sourcing and administration of the loan, may vary.

The costs are hence different for every product and as a function of the costs, the average loan size and loan tenure may vary. The costs assumed are indicated below and shall be monitored. These costs are based on our expectation when the products would have achieved economies of scale.

Digital Personal Loans 4% (of Disbursed Amount) *

Navi Housing Loans 0.5% (of Disbursed Amount)



** This indicative cost of sourcing, collection and loan administration may change and based on such changes the interest rates may also vary.*

3. RISK PROFILE OF THE LOAN PRODUCT:

Depending on the purpose for which the loan is being used, geographical specifications, customer occupation, underlying security and credit underwriting processes, the base credit risk profile of each loan product is different. The risk profile of loans is also available by assessing the historical averages of repayment rates of loan products in other companies in the market. This judgement of the credit costs of a product, will be compared against actual performance on an ongoing basis and varied based on both micro and macro factors.

The Credit Costs assumed for the different loan products are:

Digital Personal Loans 6%*

Navi Housing Loans - 0.5%

** This indicative credit cost and risk perception may change and based on such changes the interest rates may also vary.*

4. EXPECTED CONTRIBUTION TO COMMON OVERHEAD AND GROSS MARGINS.

The above three factors cover the cost aspect of the Company's lending, in addition to which the interest income has to cover head office expenses, managerial expenses, technological expenses and other expenses. This aspect of the Cost to the borrower is the aspect that is most directly in control of the board and the management and both of them will make efforts and keep constant vigil that this margin is kept within the reasonable limits in order not to burden our customers. The Current Contribution to Fixed Costs and Gross Margins for all unsecured products is approximately taken at 4% and for Navi Housing Loan would be taken at 1.5%.* Hence the Average Interest Rate for each of the products is as below:

Digital Personal Loans - 26%*

Navi Housing Loans - 11%

**This current contribution to fixed costs and gross margins is indicative and may change. Based on changes to this current contribution to fixed costs and gross margins, the interest rates may also vary.*

B. GRADATIONS OF LOANS BASED ON RISK ASSESSMENT

For Digital Personal Loans and Navi Housing Loans, the Risk Gradation Pricing is done as follows

Digital Personal Loans:

An Internal Risk Scorecard based on the past credit history of the customer, recent repayment history, Credit Bureau score and other demographic details has been developed. Based on the score card, repayment rates are estimated and actual performance is tracked over times. The



Score Card is also translated to an interest rate differential from – 10% to + 10%. On this scale and the Interest Rate applied to the customer changes by 100 bps for one-point change in rating. Customers, who get a neutral score are priced at 26%, and hence the range of interest rate is between 16% to 36%. Further for larger loan sizes and specific channels interest discounts of 2% - 4% are offered. The repayment performance of the customer in the cohort is studied to adjust the risk gradation for these cohort of loans on a quarterly basis.

Navi Housing Loans:

The main applicant for the Navi Housing Loans would need to meet minimum conditions with respect to age profile, income, CIBIL score etc. basis which the Company would evaluate the housing loan application and take the decision of extending an offer or not. As Housing loans are typically (but not necessarily) jointly availed by the applicant and co-applicant or an applicant, co-applicant and a guarantor, the offer extended to the customer would be driven by the combined characteristics of the main applicant as well as the co-applicant or guarantor, as may be applicable. The offer (comprising of loan limit, interest rate, LTV) extended to the customer will be driven by management defined internal scorecard which will take into account various factors such as customer risk profile, stability, property lifecycle, builder, location etc.

PROCESSING FEES DETAILS

Cost of Sourcing and handling the loan application is charged as processing fees. In digital loans the ratio of customers who are finally given a loan to the customers who download the Navi App is 5%, which means the cost of processing for the disbursed customers is much higher. Hence the Cost of Processing charged is 2.5% with a minimum of INR 1000 and a maximum of INR 5000/- . In Navi Housing Loans the processing fees is collected to cover the documentation costs and other charges paid to obtain the pre mortgage documentation. Hence in Navi Housing Loans the Processing Fees is proposed to be up to a maximum of 0.5% but could be waived depending on the market dynamics. However, while ultimately deciding the charges, the practices followed by the competitors in the market would also be taken into consideration.

DISCLOSURE

Appropriate disclosure regarding this Interest Rate Policy shall be made on the Company website in accordance with the Company's Fair Practices Code and the guidelines of RBI.

