

# INTEREST RATE POLICY

Version 8.0

**Approved by:**

- Approved by Board through Circulation on August 20,2025

## Table of Contents

1	BACKGROUND .....	3
2	OBJECTIVE .....	3
3	POLICY REVIEW AND GOVERNANCE .....	3
4	INTEREST RATE MODEL .....	3
5	OTHER CHARGES .....	5
6	CUSTOMER COMMUNICATION .....	6
7	AMENDMENT .....	7
8	REVIEW FREQUENCY .....	7

## 1 BACKGROUND

Aye Finance Limited (Formerly known as Aye Finance Private Limited) (herein referred to as ‘Aye’ or ‘Company’) is a Middle Layer NBFC that provides business loans to ‘micro’ scale MSMEs across 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 (Secured & Unsecured Hypothecation Loan - HL)
- b) Business Loan against property (‘Saraal’ Property Loans & Mortgage Loan - ML)
- c) Supply chain financing (SwitchPe)

As per the Master Circular- Fair Practices Code issued vide notification RBI/2015-16/16 DNBR (PD) CC.No.054/03.10.119/2015-16, dated July 15, 2015 and the Master Direction – RBI (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 issued vide notification RBI/DoR/2023-24/106 DoR.FIN.REC.No.45/03.10.119/2023-24 dated October 19, 2023 (as amended upto 17<sup>th</sup> July 2025), The Board of Directors of every 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, the approach for gradation of risk, and the rationale for charging different rate of interest for different categories of borrowers should be communicated to the borrowers/customers in the application form and explicitly in the sanction letters issued to them.

The Board of Directors (“**Board**”) of the Company, had adopted the interest rate model of the Company in January 2020. Thereafter, the Company authorised the Managing Director to review the interest rates from time-to-time based on the money market situation and take suitable decisions after discussions in the Asset & Liabilities Committee (ALCO) Meeting – which the Managing Director chairs..

## 2 OBJECTIVE

To promote good and fair practices by setting minimum standards to be followed while dealing with the customers. Further, the policy also seeks to increase transparency so that the customers can have better understanding of the products/ services being offered by the Company.

## 3 POLICY REVIEW AND GOVERNANCE

The Policy shall be reviewed by the ALCO, 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 revision in the rate of interest policy shall be approved by the Board at least once every year and as and when required.

## 4 INTEREST RATE MODEL

### 4.1 Interest method

The Company advances term loans on a fixed rate of interest. This insulates the customers from any rate of interest risk and coupon rate of interest is advised, explicitly, at the time of loan Sanction.

Fixed rate of interest is also easier to understand for our target customers who have historically been excluded from formal finance and have limited knowledge of financial products.

Business loans: Repayment of Business Loans (whether with hypothecation of inventory/ mortgage of property as collateral) is based on equated monthly installments (EMI). The loan amortization schedule is based on fixed rate of interest, calculated on monthly rest basis (i.e. monthly reducing balance of principal outstanding).

Aye does not charge any interest on late payment; however, a fixed charge is applied for late payment of any repayment installment.

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

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

#### 4.2 Interest Rate Basis

Aye proposes to transparently define the interest rate model using the Aye Reference Rate (ARR). The rate of interest offered to customers shall take into account the following components

A	Cost of Borrowing
B	Average Risk premium
C	Operational expenses
D	Expected Return on Assets (ROA)
	AYE REFERENCE RATE (ARR) = {Sum (A to D)}

a) Cost of Borrowing –

The cost of borrowing is a critical component in determining the rate of interest charged to the customers as it directly impacts the company’s product pricing and profitability. The cost of borrowing is rate of interest of the combination of borrowings from various borrowing instruments for different repayment terms – the basket of funds at a given time. Further, the cost of funds is influenced by the prevailing market rate of interest, credit rating of the company, quality of portfolio (i.e., NPAs and delinquencies etc.), and macro-economic conditions.

b) Average Risk Premium -

Aye categorizes customers based on sectors/industries/businesses, nature of business risk profile etc. Considering the varied risk profiles associated with different customers, an average risk premium is added to factor in the credit cost and operating cost.

c) Operational expenses -

The cost of operations majorly includes personnel cost, infrastructure, and administrative costs. These costs are fixed for a period and are recurring in nature. The company is committed to maintain these operating costs at a reasonable and sustainable level, with continuous efforts being made to implement best practices to keep operating expenses steady or controlled to an extent. Operational expenses will be reviewed at least once annually to ensure competitive and affordable rate of interest can be offered to customers.

**d) Expected Return on Assets (ROA) -**

The rate of interest charged to the customers is derived considering a reasonable profit margin for the company and its stake holders.

The profit margin is determined, taking into account the expected return for shareholders, business risks involved, internal accrual for future growth and the need to attract fresh growth capital.

**Note:**

1. *These factors will serve as a guiding framework for determining rate of interest, and any changes in the above factors will directly impact the reference rate, leading to corresponding adjustments in the rate of interest charged to the customers.*
2. *The lending rate charged to the customers is a fixed rate of interest, however, any volatility in the market conditions would impact the ARR.*

**Final Rate of Interest –**

The final rate of Interest charged to a customer would be based on a spread adjustment to the ARR. The spread adjustments to ARR will depend on adjusted risk premium and operational expense depending on the below factors –

- Cluster/ Industry segment/ Geography
- Profile of the customer
- Nature and value of the security
- Ticket size of loan
- Customer Type (Fresh/Repeat) Customer Risk Scores

The applicable effective rate on loans is communicated to customers through sanction letters and Key Fact Statement (KFS)

Based on the above Interest Rate model, Rate of Interest for all the products are enclosed below:

<b>Product</b>	<b>Maximum ROI</b>
Hypothecation Loan (HL)	32% per annum
'SaraI' Property Loans	28% per annum
Mortgage Loan (ML)	26% per annum
Supply chain financing/SwitchPe	29.2% per annum

**5 OTHER CHARGES**

Besides interest, other financial charges like processing fees, cheque bouncing charges, late payment charges, re-scheduling charges, part/full-repayment charge, cheque swap charges, security swap charges, charges for issue of statement of account, Physical ACH charges etc., would be levied by the company wherever considered necessary and as communicated to the borrower in the Key Facts Statement (KFS).

Besides these charges, Insurance, stamp duty, GST, other statutory charges/levies/ taxes etc. would be collected at applicable rates from time to time as communicated to the customers. Any revision in any charge will be communicated to the customer and will have a prospective effect.

(a customer becomes a borrower when s/he defaults – till such time s/he is regular they are customers)

*Late Payment Charges\*:*

- 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, the Company may charge a 'penal charge' (Annexure 1). It is clarified that the Company will not levy such charges in the form of a 'penal interest' that is added to the rate of interest on the advances. Further, there will be no capitalization of penal charges i.e., no further interest computed on such charges.
- The waiver of charges (fully/partially) will be at the sole discretion of the Company.
- The quantum and reason for penal charges will be disclosed to the customers in the loan agreement and Key Fact Statement (KFS), in addition to being displayed on the website under Interest Rates and Service Charges.
- Whenever reminders for repayment of loans or non-compliance with material terms and conditions of loans will be sent to the borrowers, the applicable penal charges will also be communicated.

*\*Guidelines issued by the Reserve Bank of India on Fair Lending Practice with respect to Penal charges of loan accounts vide its Master circular bearing no. RBI circular DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 on Fair Lending Practice – Penal Charges in Loan Accounts and RBI/2023-24/102/DoR.MCS.REC.61 /01.01.001/2023-24 dated 29.12.2023 wherein RBI has summarized the guidelines on Fair Lending Practice for NBFCs.*

## 6 CUSTOMER COMMUNICATION

The Company will communicate the final effective fixed annualized rate of interest, charges, the approach for gradation of risk, and the rationale for charging different rate of interest for different categories of customers with the method of application thereof at the time of sanction through SMS/ sanction letters and other acceptable modes of communication in English or Hindi or a specific vernacular language as understood in the respective geography..

The Company will charge interest from the date of actual disbursement of funds to the customers, and not from the date of sanction of the loan or date of execution of the loan agreement. It is also clarified that Aye will only charge interest for the period for which the loan is outstanding; accordingly, if a loan is disbursed or is to be repaid, during the course of the month, interest will only be charged for the period for which the loan is outstanding and will not be charged for the entire month in which the loan has been re-paid.

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 the customers in English or Hindi or a vernacular language that is understood in the respective geography.

#### 7 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 of Directors.

#### 8 REVIEW FREQUENCY

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

ANNEXURE 1 – SCHEDULE OF CHARGES

1) Charges for Business loans –

Parameter		HL	Saral Property Loan	ML
Application Fees		₹500 + applicable govt. taxes		₹1000 + applicable govt. taxes
Processing Fee (PF)		Up to 2.5% of Loan amount + applicable govt. taxes	Up to 2% of Loan amount + applicable govt. taxes	Up to 2% of Loan amount + applicable govt. taxes
Franking Charges		As per the state act		
Mortgage - legal & technical valuation	Loan Amount upto ₹ 2.5 lacs	NA	Up to ₹ 1,250*	Up to ₹ 2,700 + applicable govt. taxes
	Loan Amount above ₹ 2.5 lacs		Up to ₹ 2,700 + applicable govt. taxes	
Bounce charges (if applicable)		₹500 (Inclusive of taxes)		
Late Payment Charges (if applicable)		Nil for the first 3 Days from the EMI due date Beyond 3 Days: ₹200 (Inclusive of taxes) i.e., on the 11th of the due month if the due date is the 7 <sup>th</sup> of the month		
Pre-closure Charges (if applicable)		7% of OSP	7% of OSP	5% of OSP
Physical ACH Charges		₹500 (Inclusive of taxes)		

2) Charges for Supply chain product:

Parameter	Charges (Inclusive of taxes)
ACH Bounce Charges (if applicable)	₹300
Late Payment Charges (if applicable)	Up to ₹25 per day
Limit Enhancement Charge (if applicable)	₹50 per instance
Annual Convenience Fee (if applicable)	₹100 from the second year
Cash Collection Charge (if applicable)	₹100