KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LTD

Interest Rate Policy

December 2023

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1. Background

a) Prior to October 2017, KSIDC was charging the fixed interest rates approved by the Board from time to time.

b) Subsequently, the Board of KSIDC at its 306th Meeting held on 30th October 2017 has approved revision in the interest rate, and floating interest rates was introduced in KSIDC for the first time. The external benchmark rate chosen for this purpose was the Bank rate of RBI and KSIDC's interest rate was fixed at RBI rate plus 3%. The existing loanee units at that time was provided with the option of switching over from fixed interest rates to floating interest rates.

c) In October 2020, on account of the borrowings availed from HDFC bank, KSIDC embarked on linking the interest rates to the borrowing rate. The borrowing rate at that time was 7.50% and the margin determined was 1.25%, thereby fixing the interest slab at 8.75% to 10.75%. The Corporation's first ever Interest rate policy was placed before the 319th Board of KSIDC held on 22nd October 2020 and the interest rate slab was fixed at 8.75% to 10.75%.

d) RBI, in October 2021, issued a regulatory framework for NBFCs – Scale Based Approach and based on these guidelines, KSIDC shall fall under the Middle Level on account of the asset size being above Rs. 1000 crores. The SBR guidelines has specifically mentioned that NBFCs in the middle layer shall continue to follow regulations as currently applicable to NBFC-ND-SIs.

e) Keeping in view of the industry scenario, in January 2022 the 325th Board of KSIDC HAD decided to reduce the interest margin by 50 basis points and changed the interest rate slab to 8.25% to 10.25%.

f) Subsequently in August 2023, Reserve Bank of India vide RBI/2023-24/53 DoR.MCS. REC.28/01.01.001/2023-24 has notified the "Fair Lending Practice-Penal charges in loan accounts", wherein the Regulated Entities have been instructed to levy penal charges instead of penal interest.

g) This policy has also been framed considering the Master Direction Reserve Bank of India (Non-Banking Financial Company –Scale Based Regulation) Directions, 2023 (RBI/DoR/2023-24/105- DoR.FIN.REC. No.45/03.10.119/2023-24 dated October 19, 2023

2. Objective of the Policy

The main objective of the Interest rate policy is to ensure that the interest rates are determined in a transparent manner through a well-defined methodology so as to ensure long term sustainability of business by taking into account the interests of all stakeholders.

3. Present Scenario

At present KSIDC has floating rates as well as fixed interest rates. Loans linked to floating rates can be further categorized into RBI rate linked loans and borrowing rate linked loans. KSIDC over the years has also advanced financial assistance with fixed interest rates under various schemes announced by the Government of Kerala. Subsequent to the revision in the policy, the loans which were previously linked to RBI rate and Borrowing rate were converged with the new rate w.e.f 1st January 2023.

4. Methodology

- The main factors which contributed to the fixation of the proposed interest are:
    i. The Corporation has availed term loan facility from bank and hence the weighted average cost of borrowing of such funds is included in the bench mark calculation. Apart from the borrowed funds, KSIDC has also utilized the own funds to advance financials assistance and the cost of such equity is also taken into consideration.
    ii. The Opportunity cost considered for the calculation is the yield on 10-year Government as reported by RBI periodically.

iii. Accordingly, the weighted average cost of funds has been presently calculated at 7.75% and the spread proposed is 0.75%, thereby fixing the interest band at 8.50% to 10.50%.

iv. Rate of Interest shall be reset every 6 months synchronized with the lending bank's rates, passed on the same date.

v. The methodology of the interest rate computation is given below:

Particulars	**Figures / Percentages**
Loan outstanding as on the date of revision	xxxx
Borrowings as on the date of revision	xxx
Own Funds	xxxx
Cost of Borrowed Funds	xx
Cost of Own Funds	xx
Weighted Average Cost of Funds	xx
Cost of Funds at opportunity cost, i.e., yield on 10-year G-Sec as per RBI report	xx
Lending bank MCLR Reset Date	xx
Weighted Average Cost of Funds	xx
Rounded to nearest 5 basis points	xx
Minimum Interest spread	xx
Base Rate	xx
Maximum Interest Spread	xx
Maximum Interest Rate	xx
Interest Band as per Internal Credit Rating (incremental risk premium 25 basis points)	xx
Prompt payment interest rebate of 0.5% will be given, thus effective rates	xx

- The practice of rebate of 0.5% on a half yearly basis to customers who are prompt in repayment and in standard category as per RBI asset classification is being followed. However, this may be withdrawn / modified by the Corporation from time to time, without any notice.
- There shall be no changes in the case of loans carrying fixed interest rates under various schemes. However, in the case of CM Scheme, as decided in the 329th Board, the applicable interest rate shall be the lowest rate in the interest band fixed from time to time. (before subvention)
- The interest shall be charged on a monthly basis.
- The interest amount shall be calculated on the daily outstanding balance in the loan account at the applicable rate

5. Interest Rate Policy for Lending

i. The Corporation shall disclose the rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers in the sanction letter and communicate explicitly in the loan sanction letter.

ii. The rates of interest and the approach for gradation of risks shall also be made available on the web-site of the company. The information published in the website would be updated whenever there is a change in the rates of interest.

iii. The interest rates offered could be on fixed basis or floating / variable basis. Changes in interest rates would be decided at any periodicity, depending upon cost of funds, administrative overheads, market volatility and competitor review.

iv. Annualized rate of interest would be intimated to the customer

v. Besides normal interest, the Corporation may levy additional interest for ad hoc facilities, penal charges for any delay or default in making payments of any dues. The levy or waiver of these additional interest or penal charges for different products or facilities would be decided within the limits prescribed under the policy.

vi. The Company shall mention the penal charges in bold in the loan agreement.

vii. The interest re-set period for floating / variable rate lending would be decided by the Corporation from time to time, applying the same decision criteria as considered for fixing of interest rates.

viii. Interest would be charged, and recovered on a monthly, quarterly basis or such other periodicity as may be decided at the time of sanction of a credit facility. Specific terms in this regard would be addressed through the relevant loan credit policy.

ix. Interest rates would be intimated to the customers at the time of sanction / availing of the loan and the repayments towards principal dues would be made available to the customer.

x. Interest shall be deemed payable immediately on due date as communicated and no grace period for payment of interest is allowed.

xi. Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per terms of the loan documents.

xii. Besides interest, other financial charges like processing fees, cheque bouncing charges, pre-payment/ foreclosure charges, part disbursement charges, cheque swaps, cash handling charges, RTGS/ other remittance charges, commitment fees, charges on various other services like issuing NO DUE certificates, NOC, letters ceding charge on assets/ security, security swap & exchange charges etc. would be levied by the Company wherever considered necessary.

xiii. Besides the base charges, the Goods and Service Tax (GST) would be collected at applicable rates from time to time. Any revision in these charges would be with prospective effect. A suitable condition in this regard shall be incorporated in the loan agreement. These charges shall be decided upon collectively by the management of the Corporation.

xiv. Interest rate models, base lending rate and other charges, and their periodic revisions are made available to all the customers through periodic updating of information published in website prior to entering into an agreement with customers. KSIDC may provide them with statement of charges and interest and address their queries and questions on the same, to their satisfaction. The concerned loan officers shall ensure rates of interest and applicable charges are explained clearly and transparently to the people who may be interested in availing assistance.

xv. In case of staggered disbursements, the rates of interest would be interest rates according to the prevailing rate at the time of successive disbursements or as may be decided by the company.

xvi. Claims for refund or waiver of such charges/ penal charges / additional interest would not be entertained by the Corporation and it is the sole and absolute discretion of the Corporation to deal with such requests on merit.

xvii. All other regulatory changes in this regard will stand updated in the policy from time to time.

6. General

The following provisions shall apply to loans extended by the Corporation:

a) **Changes in Terms** – The Corporation shall give notice to the borrower in English language with an option to choose a vernacular language as understood by the borrower of any change in the terms and conditions of the loan, including disbursement schedule, interest rates, service charges, prepayment charges etc. Further, any changes in the rate of interest shall be affected only prospectively and the loan agreement shall contain the necessary provisions in this regard. The same may be communicated through electronic media or any other form of communication by the Company.

b) **No Grace Period** - Interest will be payable by the customer / borrower on or before the due date stipulated there for in the loan agreement entered into by the customer / borrower with the Corporation. No grace period will be allowed to the customer / borrower for payment of interest, unless the loan agreement expressly provides for the same or the Sanctioning Authority agrees to provide such grace period to the customer / borrower, in writing.

c) **Moratorium for Principal Repayment** - Maximum moratorium of three years, from the date of first disbursement of loan or two years from the date of commercial operation, whichever is earlier. If required a higher moratorium could also be provided.

d) **Repayment Period**: (1) Generally 6 years after moratorium. However, in select cases up to 12 years is given. (2) In general, the principal repayment is in equal quarterly or monthly installments. Staggered payment is also considered (i.e., lower amount during initial period and progressively increasing)

e) **Additional interest** for ad-hoc facilities -In the case of ad-hoc facilities/ bridge loan additional interest upto a maximum of 1% may be charged based on the approval from the competent authority.

f) **Penal Charges** – Reserve Bank of India vide notification “Fair Lending Practice - Penal Charges in Loan Accounts” had instructed all the regulated entities to not to levy penal interest on borrowers in case of default. However, penalty if charged for non-compliance of material terms and conditions of loan contract by the borrower would be treated as ‘penal charges’. Accordingly, besides the normal interest, KSIDC may also levy penal charges for default in repayments. This shall be a one-time penalty for failure to make payment against each demand, i.e., the charges shall be levied for each default and shall be charged on the next day of the date on which demand was raised.

It is proposed to levy the charges on default of loan in the flowing manner:

Particulars		**Penal charges**
Interest	Upto Rs. One lakh default	Rs. 500/- plus GST
	Above Rs. 1 lakh default	Rs. 750/- plus GST
Principal	Upto Rs. One lakh default	Rs. 1,000/- plus GST
	Above Rs. 1 lakh default	Rs. 1,500/- plus GST

Instead of the existing practice of charging the penal interest to the loan account of the company, it is proposed to levy the penal charges as stated above to the current account of the loanee unit as and when the default occurs. Penal charges shall be recovered first from any subsequent payments made by the borrower.

g) In compliance to the RBI notification “Fair Lending Practice - Penal Charges in Loan Accounts”, the penal charges shall be made effective from January 1, 2024

h) **Additional Charges:** The Company may also levy other financial charges including processing fees, upfront fees, cheque bouncing charges, pre-payment / foreclosure charges, RTGS or such other remittance charges, commitment fees, charges for services like issuance of “no due certificate”, security swap charges etc. The quantum of these additional rates of interest / financial charges will be determined by the respective functional / product heads of the Company and communicated to the customer in writing. While determining the quantum of these additional rates of interest / financial charges, market practices will be taken into consideration.

i) **Communication of Interest Rate to the Customer** – The Company shall convey in writing to the borrower in English language with an option to choose a vernacular language as understood by the borrower, by means of a sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualized rate of interest and method of application thereof and shall keep on record the acceptance of these terms and conditions by the borrower. The loan agreement shall expressly stipulate the penal charges chargeable for late payment / repayment of dues by the borrower, in bold. The apportionment of the principal and interest will also be communicated by the Company to the customer / borrower by way of the repayment schedule.

j) **Waiver of Additional Interest / Financial Charges** – Requests by the customer for waiver of additional interest / financial charges would normally not be entertained by the Corporation and such waiver will be at sole and absolute discretion of the Corporation, exercised on a case-to-case basis.

k) **Annualized Rates** - The rate of interest shall be annualized rates so that the borrower is aware of the exact rates that would be charged to the account.

l) **Rebate** – Rebate at the rate of 0.5% shall be provided to customers who are prompt, i.e., loans under Standard Category in their payments at the half year end periodically. However, this may be withdrawn / modified by the Corporation from time to time, without any notice.

m) **Pre-Payment** - Pre-payment options shall be made available to the customer and the penalty payable for exercise of such option shall be specifically communicated to the customer.

7. Company Website

This Interest Rate Policy shall be made available on the Corporation's website. Such information published on the Corporation's website shall be updated whenever there is a change in the rates of interest.

8. Amendments to the Interest Rate Policy

Amendments to this Interest Rate Policy will not be effective, unless amendments have been approved and authorized by the Board of Directors of the Company (or any Committee of the Board of directors of the Company duly authorized in this behalf). KSIDC shall abide by this Interest Rate Policy following the spirit of the Interest Rate Policy and in the manner, it may be applicable to its business. The Interest Rate Policy shall be reviewed on a yearly basis or as and when required

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