

# CapitalXB Finance Pvt Ltd.

## Pricing Policy and Penal Interest Policy

(Abridged)

### B. Background

CapitalXB operates in the dynamic and regulated environment of the Indian financial sector, where pricing strategies for loans and advances must adhere to strict regulatory frameworks set by the Reserve Bank of India (RBI). CapitalXB Finance Private Limited (henceforth referred to as “the NBFC”) is registered with the Reserve Bank of India (RBI) as an NBFC-Factor.

In the Indian NBFC sector, pricing of financial products such as loans involves multiple components, including the cost of funds, operational costs, risk assessment, and desired profit margins. The pricing of these products must reflect both the underlying risks and the competitive dynamics of the market, while also aligning with regulatory guidelines to ensure fairness and transparency.

The evolution of regulatory guidelines, especially the RBI’s Master Directions and Fair Practices Code, necessitates a robust framework for determining the rates and charges associated with various financial products. The Board of Directors of CapitalXB, recognizing the importance of a structured approach to pricing, has developed this Pricing Policy to ensure that all pricing decisions are consistent with regulatory expectations and the company’s strategic objectives.

This policy has been formulated to provide clear, consistent, and transparent guidelines for setting interest rates, penal charges and other fees associated with CapitalXB’s lending activities. It reflects the company’s commitment to adopting a disciplined approach to risk management and pricing, taking into consideration market conditions, customer profiles, and the inherent risks of each product.

Moreover, this policy aims to support CapitalXB’s goals of sustainable growth and profitability while ensuring that all pricing decisions are made transparently and in compliance with regulatory requirements. The policy framework enables the company to respond effectively to market changes, manage risk appropriately, and provide competitive pricing to its customers, thereby enhancing customer trust and long-term business relationships.

By outlining the factors that influence pricing and the procedures for setting and reviewing rates and charges, this policy serves as a key tool in managing CapitalXB’s financial products portfolio in a prudent and compliant manner.

# 1. Introduction

## 1.1. Purpose and Scope

The purpose of this Pricing Policy is to establish a clear and consistent framework for determining the interest rates and associated charges on various financial products offered by CapitalXB. This policy applies to all lending products, including microfinance loans, corporate loans, SME loans, retail loans, and any other financial products approved by the Board of Directors. The scope of this policy encompasses all aspects of pricing, including the calculation of interest rates, processing fees, documentation charges, penalties, and any other costs associated with lending activities. It ensures that all pricing decisions are made transparently, fairly, and in alignment with CapitalXB's business objectives and risk management strategies.

## 1.2. Objectives of the Pricing Policy

The primary objectives of this Pricing Policy are to:

- Ensure fair and transparent pricing practices for all customers.
- Maintain competitiveness in the financial market while managing risks effectively.
- Align pricing strategies with the company's overall financial and strategic goals.
- Provide a structured approach to determining interest rates and other charges, taking into consideration factors such as the cost of funds, operational expenses, credit risks, and market conditions.
- Support sustainable growth and profitability for CapitalXB.

## 1.3. Regulatory Compliance

CapitalXB is committed to adhering to all regulatory guidelines and directives issued by the Reserve Bank of India (RBI) and other relevant regulatory bodies. This policy has been formulated in accordance with the RBI's Master Directions and Fair Practices Code for NBFCs, ensuring that all pricing-related practices are compliant with the prevailing regulatory requirements. The policy aims to foster transparency and fairness in financial dealings, protect customer interests, and maintain the company's reputation as a responsible and compliant financial institution.

# 2. Pricing Principles

CapitalXB's pricing strategy is founded on a set of core principles designed to ensure that the interest rates and charges applied to its financial products are fair, transparent, competitive, and aligned with the company's risk management framework and business objectives. The following principles guide the pricing of all loans and advances offered by CapitalXB:

## 2.1. Cost-Plus Pricing Model

CapitalXB employs a cost-plus pricing model as the foundation for determining interest rates and charges. This model takes into account the various costs incurred by the company, including the cost of funds, operational expenses, credit risk, and other financial risks. By adding a reasonable

margin to cover these costs, the company ensures that the pricing is reflective of the actual cost of providing credit and maintains financial sustainability.

## **2.2. Risk-Based Pricing**

The company adopts a risk-based pricing approach to ensure that the interest rates charged are commensurate with the credit risk profile of each borrower. This approach considers factors such as the borrower's creditworthiness, collateral, loan tenor, and market conditions. Higher risk borrowers may be charged higher interest rates to compensate for the increased risk, while lower risk borrowers may benefit from more favorable rates. This ensures that pricing is both equitable and aligned with the risk exposure of CapitalXB.

## **2.3. Competitive Market Positioning**

CapitalXB is committed to maintaining a competitive position in the market by offering fair and attractive pricing to its customers. The pricing policy is designed to balance profitability with competitiveness, ensuring that the company's rates are in line with or better than those offered by peers and competitors in the NBFC sector. This involves regularly reviewing market trends, competitor pricing strategies, and macroeconomic factors to adjust pricing as needed.

## **2.4. Transparency and Fairness**

Transparency and fairness are fundamental principles of CapitalXB's pricing strategy. All pricing elements, including interest rates, fees, and other charges, are clearly communicated to customers before they enter into any loan agreement. The company ensures that there are no hidden charges and that customers fully understand the cost structure associated with their loans. This promotes trust and builds long-term relationships with customers.

## **2.5. Flexibility and Responsiveness to Market Conditions**

CapitalXB recognizes the need for flexibility in its pricing strategy to respond to changing market conditions, regulatory updates, and economic dynamics. The company regularly reviews and adjusts its pricing framework to ensure it remains competitive and aligned with market trends. This flexibility allows CapitalXB to adapt quickly to external changes, such as fluctuations in the cost of funds, inflation, and changes in RBI policies.

## **2.6. Alignment with Business Objectives**

The pricing policy is aligned with CapitalXB's broader business objectives, including growth, profitability, risk management, and customer satisfaction. By setting prices that reflect the company's strategic goals, CapitalXB aims to support sustainable business growth while managing risks effectively. This alignment ensures that the pricing policy contributes positively to the company's overall financial health and strategic positioning.

## **2.7. Compliance with Regulatory Guidelines**

All pricing decisions are made in strict compliance with regulatory guidelines and directives

issued by the Reserve Bank of India (RBI) and other relevant regulatory bodies. This includes adhering to the Fair Practices Code and ensuring that all interest rates and charges are within the limits prescribed by regulatory authorities. By maintaining regulatory compliance, CapitalXB ensures that its pricing practices are ethical, fair, and in line with industry standards.

## **2.8. Equitable Treatment of Customers**

CapitalXB is committed to treating all customers equitably, regardless of their profile or loan size. The company ensures that similar products and services are priced consistently across all customer segments, with any variations in pricing being based solely on risk assessment and cost factors. This principle helps in fostering trust and fairness in all customer interactions.

## **3. Components of Pricing**

CapitalXB's approach to determining the pricing of its financial products is based on a comprehensive evaluation of various cost elements and risk factors. The components of pricing for loans and advances include the following:

### **3.1. Cost of Funds**

The cost of funds is a fundamental component of pricing that represents the interest rate and associated costs incurred by CapitalXB to source funds for lending. This includes the interest paid on borrowings, debentures, and other financing instruments. The cost of funds is influenced by market conditions, prevailing interest rates, and the company's credit rating. CapitalXB continuously monitors its funding costs to ensure competitive pricing for its loan products.

### **3.2. Operational Costs**

Operational costs encompass all expenses associated with the end-to-end management of loans, from origination to closure. These costs include underwriting, credit assessment, collections, administrative expenses, personnel costs, technology and infrastructure investments, compliance, and regulatory reporting. By accurately estimating operational costs, CapitalXB ensures that the pricing of loans adequately covers all administrative and operational expenses.

### **3.3. Credit Risk Premium**

The credit risk premium is an additional charge incorporated into the pricing to compensate for the potential risk of default by the borrower. The premium varies based on the borrower's creditworthiness, repayment capacity, collateral provided, and overall risk profile. Higher-risk borrowers may incur a higher credit risk premium, while lower-risk borrowers benefit from a reduced premium. This component ensures that CapitalXB maintains a balanced risk-reward ratio.

### **3.4. Liquidity Risk Premium**

The liquidity risk premium accounts for the risk associated with the potential inability to convert assets into cash quickly without a significant loss in value. This component is particularly relevant

for longer-tenor loans or products with less liquid collateral. By including a liquidity risk premium, CapitalXB mitigates the risk of holding illiquid assets that may be difficult to sell in adverse market conditions.

### **3.5. Loan Loss Provisions**

Loan loss provisions are amounts set aside to cover potential loan defaults or non-performing assets (NPAs). This component is based on historical data, current market conditions, and the credit risk profile of the borrower base. CapitalXB incorporates loan loss provisions into its pricing to ensure adequate coverage for anticipated loan losses, thereby safeguarding the company's financial stability.

### **3.6. Margin for Profitability**

The margin for profitability is the spread added to the total cost components to ensure that CapitalXB achieves its desired return on assets (ROA) and return on equity (ROE). This margin takes into account the company's target profitability levels, strategic goals, and the competitive landscape. The margin ensures that the pricing is not only competitive but also supports CapitalXB's financial health and growth objectives.

### **3.7. Administrative and Processing Fees**

In addition to interest rates, CapitalXB may charge administrative and processing fees to cover the costs associated with loan application processing, documentation, legal expenses, and other administrative activities. These fees are typically charged upfront and are clearly communicated to the borrower during the loan sanction process. Administrative and processing fees are standardized based on the type of loan and the amount disbursed.

### **3.8. Prepayment and Foreclosure Charges**

Prepayment and foreclosure charges may apply if a borrower chooses to repay the loan before the agreed tenure. These charges are intended to compensate for the loss of expected interest income and the costs associated with early loan closure. CapitalXB ensures that these charges are reasonable and comply with regulatory guidelines, providing customers with flexibility while protecting the company's financial interests.

### **3.9. Penal Charges and Overdue Charges**

Penal charges or overdue charges are levied on borrowers who fail to make timely payments as per the agreed loan schedule and / or non-compliant of the terms and conditions of sanction of the facility. In accordance with the SBR, the Penal charges policy is framed to achieve the following:

- (a) Inculcate sense of credit discipline; and
- (b) To ensure transparency in disclosure of penal charges and rates in loan accounts.

It serve as a deterrent against late payments and compensate for the additional risk and

administrative efforts involved in managing overdue accounts.

Penal Charges Policy:

1. Penal charges will be clearly defined in the loan agreement and subject to RBI Guidelines on Fair Lending Practice..
2. Penal interest shall not be levied by the Company.. Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest that is added to the rate of interest charged on the advances.
3. There shall be no capitalisation of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account. No additional component shall be added to the rate of interest to ensure compliance to these guidelines in both letter and spirit.
4. The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.
5. The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business, shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.
6. The quantum and reason for penal charges shall be clearly disclosed by the Company to the Borrowers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on Company website under Interest rates and Service Charges.
7. Reminders/ letters for non-compliance of material terms and conditions of loan sent to borrowers shall mention the applicable penal charges.

Non- Compliance	Penal Charges per annum
Non- compliance of terms and conditions	2% ( calculated on the facility amount)
Non-payment of dues on the due date ( Overdue amounts)	3%

Cheque bouncing charges will be Rs. 10,000 per cheque.

The Penal charges as above, may be waived by approval from any one Director of the Company, on a case to case basis, after considering the non-compliance and the duration.

### 3.10. Insurance Costs

For certain loan products, CapitalXB may require borrowers to obtain insurance coverage for the loan amount, the borrower's life, or the collateral provided. The cost of insurance is typically passed on to the borrower and is included in the overall pricing of the loan. This component ensures that both the borrower and CapitalXB are protected against unforeseen events that may impact loan repayment.

## 4. Interest rate Determination

The determination of interest rates for small business loans and invoice factoring at CapitalXB is a structured process that considers various factors to ensure that the rates charged are fair, transparent, and reflective of the underlying risks and costs. Interest rates are determined based on a combination of internal benchmarks, market conditions, borrower-specific risk assessments, and regulatory guidelines. The following outlines the key elements involved in the interest rate determination process:

### 4.1. Base Rate Calculation

The base rate is the foundational benchmark for setting interest rates on small business loans and invoice factoring services offered by CapitalXB. The base rate is determined by considering the cost of funds, operational expenses, and the minimum profit margins required by the company. This rate is reviewed periodically by the Asset Liability Management Committee (ALCO) to reflect changes in market conditions, funding costs, and other economic factors. The base rate serves as the starting point for pricing all financial products and is adjusted based on specific borrower and transaction characteristics.

### 4.2. Spread Determination

The spread is an additional component added to the base rate to account for specific factors related to the borrower and the nature of the transaction. The spread is determined by considering a range of variables, including:

1. **Credit Risk Profile:** The borrower's creditworthiness, assessed through internal credit ratings, credit scores, and repayment history, significantly impacts the spread. Small businesses with stronger financials and credit histories may benefit from a lower spread, while those with higher risk profiles may incur a higher spread.
2. **Invoice Quality and Payment History:** For invoice factoring, the quality of the invoices, the creditworthiness of the debtor (the entity obligated to pay the invoice), and the historical payment behavior of the debtor are critical in determining the spread. Higher-quality invoices from creditworthy debtors may result in a lower spread, while invoices with higher collection risks may require a higher spread.
3. **Loan Tenor and Invoice Maturity:** The duration of the small business loan or the maturity period of the factored invoices affects the interest rate. Longer-tenor loans or invoices with extended payment terms may attract a higher spread due to increased risk exposure over time.
4. **Market Dynamics:** Prevailing market interest rates, competitive landscape, and

macroeconomic factors are considered when determining the spread. This ensures that CapitalXB's pricing remains competitive while effectively managing risks.

5. **Product Type and Size:** The spread may vary depending on the type of financial product (e.g., small business loan versus invoice factoring) and the size of the transaction. Smaller transactions or those with unique risk profiles may carry different spreads compared to standard offerings.

### **4.3. Fixed Interest Rates**

CapitalXB offers fixed interest rates for its small business loans and invoice factoring services. Under a fixed-rate arrangement, the interest rate remains constant throughout the loan tenure or the duration of the factoring agreement. This provides predictability and stability for clients, allowing them to plan their cash flows and repayments without concern for fluctuations in interest rates. Fixed rates are particularly suitable for clients who prefer a stable cost structure over the duration of their financial agreements with CapitalXB.

### **4.4. Risk-Based Pricing Adjustments**

Interest rates are adjusted based on a thorough assessment of the borrower's risk profile and the nature of the invoice or loan transaction. This assessment includes factors such as the financial stability of the small business, the strength of the debtor in an invoice factoring scenario, industry-specific risks, and historical performance with CapitalXB. This risk-based pricing approach ensures that rates are tailored to the specific risk associated with each borrower and transaction, promoting fairness and equitable pricing.

### **4.5. Periodic Review and Adjustment of Interest Rates**

CapitalXB regularly reviews its interest rate structure to ensure it remains competitive and aligned with current market trends and regulatory requirements. The Asset Liability Management Committee (ALCO) oversees the periodic review and adjustment of interest rates, considering factors such as changes in the cost of funds, economic conditions, and strategic objectives. Any revisions to interest rates are subject to approval by the ALCO and the Board of Directors.

### **4.6. Communication of Interest Rates**

Interest rates, along with any applicable fees and charges, are communicated clearly and transparently to clients at the time of loan sanction or invoice factoring agreement. CapitalXB ensures that clients fully understand the terms and conditions associated with their financial products, including the basis for rate determination and any other relevant factors. This transparent communication fosters trust and ensures compliance with regulatory requirements.