FOCUS INDUSTRIAL RESOURCES LIMITED

INTEREST RATE POLICY

(Version-4.0)

1. **Preamble**

   Focus Industrial Resources Limited ("the Company") is a Non-Banking Financial Company (NBFC) engaged in providing credit facilities to diverse borrower segments. This Interest Rate Policy ("Policy") has been framed to ensure that interest rates and other charges levied by the Company are transparent, fair, risk-aligned, and commercially prudent, while remaining compliant with the guidelines issued by the Reserve Bank of India ("RBI").
   The Company follows a risk-based and cost-reflective pricing approach, recognizing that different borrowers and products carry varying levels of credit, operational, and market risks.
   The policy is adopted pursuant to the applicable provisions of the Reserve Bank of India Act, 1934 and RBI Master Directions applicable to Non-Banking Financial Companies.

2. **Objectives of the Policy**

   The objectives of this Policy are to:
   - Define the framework for determining interest rates on loans and advances;
   - Ensure that interest rates are commensurate with the risk profile of borrowers and transactions;
   - Maintain transparency in pricing and disclosures;
   - Safeguard the Company against credit losses and financial volatility;
   - Ensure compliance with RBI's Fair Practices Code and applicable regulatory directions.

3. **Principles for Determination of Interest Rates**

   Interest rates charged by the Company are guided by the following principles:

   a. **Risk-Based Pricing**

   The Company adopts differentiated pricing based on borrower-specific and facility-specific risk parameters. Higher risk exposures are priced accordingly to compensate for increased probability of default and recovery uncertainty.

   b. **Cost Reflectivity**

   Interest rates factor in:
   - Cost of funds and liquidity conditions;
   - Operating, servicing, and administrative expenses;
   - Credit assessment, monitoring, and recovery costs;
   - Capital allocation and provisioning requirements;
   - Regulatory compliance and governance costs.

   c. **Commercial Sustainability**

   Pricing decisions are taken to ensure long-term sustainability of operations, asset quality preservation, and protection of stakeholder interests.

4. Factors Influencing Interest Rate Determination

The Company considers multiple qualitative and quantitative factors, including but not limited to:

a. Borrower-Related Factors

- Credit history and repayment track record;
- Income stability, cash flows, and financial strength;
- Existing leverage and obligations;
- Internal credit rating or score;
- Nature of employment or business activity.

b. Facility-Related Factors

- Purpose and end-use of the loan;
- Tenure of the repayment;
- Loan size and repayment pattern of the earlier borrowings from company;
- Monitoring and servicing intensity required.

c. External & Market Factors

- Macroeconomic and sectoral conditions;
- Market liquidity and funding environment;
- Geographic and concentration risks;
- Regulatory and compliance obligations.

5. Quantitative Pricing Framework

The Company follows a structured pricing model:
Lending Rate =
Cost of Funds + Operating Cost + Risk Premium + Capital Charge + Profit Margin

a. Cost Components (Indicative Ranges)

i. Cost of Funds (96% – 132% p.a. [8% – 11% per month])
The Company's cost of funds represents the weighted average expense incurred in sourcing capital for lending operations. This includes interest on borrowings from financial institutions and other lenders, along with associated debt servicing costs such as processing fees, documentation charges, and compliance expenses. Additionally, the cost factors in the maintenance of adequate liquidity buffers to ensure timely disbursements and repayment obligations under varying market conditions. The range of 8% to 11% per month reflects variations based on market dynamics, credit profile of the Company, tenure and structure of borrowings, and prevailing liquidity conditions.

ii. Operating & Servicing Cost (60% – 80% p.a.)
The Company incurs significant operating and servicing costs due to the nature of its lending model, primarily focused on small-ticket loans ranging from ₹5,000 to ₹1,00,000. These costs are driven by high customer acquisition expenses, including marketing and channel partner payouts, as well as onboarding processes required to assess borrower eligibility. Further, substantial investments are made in technology platforms, data analytics, and infrastructure to enable efficient credit assessment, monitoring, and service delivery. Ongoing borrower engagement, collections management, and customer support also contribute to the overall cost structure. Given the high-touch, high-frequency nature of such lending operations, the operating and servicing cost ranges between 60% and 80% per annum.

iii. **Credit Risk Premium (120% – 180% p.a. [10% – 12% per month])**
The Company applies a substantial credit risk premium to compensate for the elevated risk inherent in its target borrower segment. This reflects the high probability of default associated with customers having thin or absent credit histories, as well as the unsecured nature of the loans extended. Additionally, borrower cash flows are often volatile and informal, increasing repayment uncertainty. The premium also accounts for challenges in collections and recovery, including limited enforceability and higher operational intensity in managing delinquencies. Accordingly, the credit risk premium ranges between 120% and 180% per annum (equivalent to 12.5% to 25% per month), aligned with the assessed risk profile of the borrower and loan characteristics.

iv. **Capital Charge & Provisioning (20% – 30% p.a.)**
The Company maintains a capital charge and provisioning buffer to ensure financial resilience and regulatory alignment. This accounts for expected credit loss provisioning based on portfolio performance and forward-looking risk assessments, as well as the capital consumed against risk-weighted assets. Additionally, it provides for balance sheet protection to absorb potential losses arising from delinquencies and write-offs. Accordingly, the capital charge and provisioning requirement ranges between 20% and 30% per annum, depending on portfolio risk profile and provisioning norms.

v. **Profit Margin (30% p.a. [~2.5% per month])**
The Company maintains a target profit margin of 30% per annum to ensure sustainability of operations, provide adequate returns to investors, and support ongoing growth and scalability. This margin also acts as a buffer against business volatility and unforeseen risks inherent in unsecured, small-ticket lending.

b. Resultant Lending Rate

Based on the above components:

Minimum Expected Rate: ~264% p.a.

Typical Range: 326% – 456% p.a.

The higher range applies to:

- First-time borrowers
- Ultra-short tenure products
- High-risk or thin-file customers
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6. Rationale for Differential and Higher Interest Rates

Focus Industrial Resources Limited primarily caters to borrower segments that:

- Have limited or constrained access to traditional banking and institutional finance due to past credit performance, including low credit scores or irregular repayment history;
- Are engaged in income-generating activities across informal, semi-formal, and formal sectors, but require **immediate or time-sensitive financial assistance** to meet business or personal cash-flow requirements;
- Exhibit income variability, seasonal cash flows, or limited/rough credit history, necessitating enhanced credit appraisal and closer post-disbursement monitoring;

- Seek short-tenure and/or unsecured credit facilities, which inherently involve higher credit and recovery risk.
- Seek customized, short-tenure, or unsecured financing solutions.

Lending to such borrower segments entails higher cost and risk for the Company due to the following factors:

- Requirement of intensified underwriting, including alternative credit assessment methods and field-based verification, due to limited, low, or non-standard credit history.
- Necessity for more frequent post-disbursement monitoring of cash flows and repayment behaviour to mitigate early-stage delinquencies.
- Elevated administrative and servicing efforts arising from customized loan structures, shorter tenures, and borrower-specific engagement.
- Increased collection infrastructure and follow-up mechanisms to address higher delinquency probability associated with such borrower profiles.
- Requirement for enhanced provisioning and expected credit loss coverage in accordance with prudential norms and internal risk policies.
- Higher capital consumption to support risk-weighted assets and maintain balance sheet resilience.

Accordingly:

- Interest rates are determined through a structured, risk-based pricing framework, ensuring alignment with assessed credit risk, operational costs, and capital requirements.
- Pricing is objective, consistently applied, non-discriminatory, and free from arbitrariness, based solely on commercial and risk considerations.
- The pricing framework supports financial sustainability, preservation of asset quality, and compliance with RBI's Fair Practices Code.
- The approach enables continued access to credit for under-served yet economically active borrowers, while maintaining prudent risk management standards.

7. Transparency and Disclosure

- All applicable interest rates, fees, and charges are disclosed to borrowers at the time of sanction.
- The effective cost of borrowing is communicated clearly in the sanction letter and loan documentation.
- Any revision in pricing is communicated in advance, as per regulatory requirements.

8. Penal Charges

Penal charges, wherever applicable, are levied strictly in accordance with RBI guidelines and only for specific non-compliance with loan terms. Such charges are reasonable, proportionate, and not treated as a source of revenue.

9. Non-Discriminatory Pricing

The Company does not discriminate on the basis of gender, religion, caste, or region. Differential pricing, if any, is solely based on objective credit risk and commercial considerations.

10. Governance and Review

- This Policy is approved by the Board of Directors of **Focus Industrial Resources Limited**.
- The Policy shall be reviewed periodically to ensure regulatory compliance and business relevance.
- Any modification shall be implemented only after appropriate authorization.

11. Policy Availability

This Interest Rate Policy shall be placed in official policy registers of the company and made available to borrowers and stakeholders in accordance with RBI's Fair Practices Code.