

**Alpha Alternatives Financial Services Private Limited**

**Interest Rate , Penal and other charges Policy**

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## **1. Objective**

The Company shall adopt a Board approved interest rate model considering relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rates of interest and the approach for gradation of risks shall also be made available on the website of the companies. Though interest rates are not regulated by the Reserve Bank, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice.

The objective of this policy is to establish a structured, risk-based interest rate, penal and other charges framework as per Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Directions, 2025, to ensure:

- (i) Adequate compensation for credit risk
  - (ii) Alignment with cost structures and capital requirements
  - (iii) Consistency and transparency in pricing across loan products
- This framework applies to all lending products, including group loans, secured loans, and unsecured loans.

## **2. Pricing Philosophy**

The Company shall adopt a risk-adjusted pricing approach, wherein lending rates reflect both market conditions and borrower-specific risk characteristics.

A central principle of this framework is the Integrated Risk Premium (IRP), which combines:

- (i) Borrower creditworthiness
- (ii) Collateral strength
- (iii) Structural enhancements (e.g., guarantees)

This unified approach avoids double counting of risk and ensures alignment with expected loss and capital allocation.

## **3. Interest Rate Formula**

The Company shall consider below components to derive the lending rates –  
Components:

- (i) Benchmark Rate: External benchmark such as SBI MCLR.
- (ii) Credit Spread: Reflects prevailing market conditions and systemic credit risk.
- (iii) Operating Cost (Opex): Includes sourcing, servicing, and collections. It can be based on industry benchmarks
- (iv) Integrated Risk Premium (IRP): Captures borrower-specific risk including PD and LGD drivers.
- (v) Profit Margin: Target return above cost and risk, depending upon liquidity, availability of excess funds and market opportunities.

## **4. Integrated Risk Premium (IRP)**

IRP reflects the combined effect of: Expected loss, Collateral strength and liquidity, Group behaviour and repayment discipline.

### (i) Risk Grades

Borrowers shall be classified into three categories based on creditworthiness, collateral strength, and repayment behaviour:

<b>Risk Grade</b>	<b>Profile Characteristics</b>	<b>Risk Implication</b>	<b>Typical Outcome</b>
Low Risk	<ul style="list-style-type: none"><li>- Strong borrower profile</li><li>- Reliable repayment history</li><li>- Strong collateral or group support</li></ul>	Lower expected loss	Lower IRP, competitive interest rates
Medium Risk	<ul style="list-style-type: none"><li>- Moderate borrower profile</li><li>- Adequate but not strong collateral</li><li>- Average repayment discipline</li></ul>	Moderate expected loss	Balanced IRP, mid-range interest rates
High Risk	<ul style="list-style-type: none"><li>- Weak borrower profile</li><li>- Limited or no collateral</li><li>- Inconsistent repayment behaviour</li></ul>	High expected loss	Higher IRP, elevated interest rates

## 5. IRP Grid by Loan Type

### 5.1 Group Loans (Behaviourally Secured)

These shall be treated as a distinct category with no internal risk-based differentiation. Group loans can be priced with zero IRP considering – (i) no default history by any group entity (ii) comfort at common holding / parent entity

### 5.2 Other Loans

Loan exposures other than Group loans shall be of secured or unsecured in nature. Considering the risk grade of loan (High / Medium / Low) and secured / unsecured portion of loan exposure, IRP premium shall be charged.

## 6. Stress Adjustment Framework

The Company shall access and recognize the adverse macroeconomic conditions, sectoral downturns, or portfolio-specific stress which can materially impact loan recoverability and credit risk. To safeguard portfolio quality and ensure adequate compensation for heightened risk, the following stress adjustment measures shall apply:

(i) Credit Spread and Integrated Risk Premium (IRP): Reflects systemic risk, liquidity constraints, and heightened volatility in financial markets and may elevate under stress conditions.

(ii) Operating Cost Adjustments: Stress conditions may increase collection and monitoring costs. Opex assumptions may be revised upward to reflect intensified recovery efforts.

Stress adjustments may get activated when one or more of the following conditions are observed:

#### Portfolio-Level Indicators

- (i) Rising Gross Non-Performing Assets (GNPA)
- (ii) Declining collection efficiency or repayment discipline
- (iii) Sharp increase in delinquency rates across product categories

#### Macroeconomic Indicators

- (i) Significant interest rate hikes or tightening of liquidity in the financial system
- (ii) Inflationary pressures impacting borrower repayment capacity
- (iii) Economic slowdown or recessionary trends affecting borrower income streams

#### Sectoral/Geographic Indicators

- (i) Stress in specific industries (e.g., MSME, real estate, pharma, etc)
- (ii) Regional shocks such as natural disasters, political instability, or localized economic downturns

All stress adjustments must be reviewed and approved by the Board. Adjustments shall be documented with supporting data and rationale. Temporary measures must be revisited quarterly to assess whether conditions warrant continuation, escalation, or rollback.

## **7. Penal Charges in Loan Accounts**

The Company shall adhere to following instructions for charging penal charges on loans.

(i) 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.

(ii) 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. Therefore, the Company may charge interest on unpaid interest (including on unpaid EMI) at the contracted rate of interest till the date of remediation, and not at the penal rate of interest.

(iii) The material terms and conditions shall be defined in loan agreements.

(iv) Default in repayment by the borrower is also a type of non-compliance of material terms and conditions of loan repayment contract by the borrower and penalty, if charged, for such default shall only be levied in the form of penal charges and not penal interest.

Such penal charges shall be reasonable and levied by the lenders only on the amount under default. Further, it shall be ensured that there is no capitalization of the penal charges i.e., no further interest computed on such charges.

(iv) Additional / fresh penal charges cannot be levied on the earlier outstanding amount of penal charges.

(iv) The Company shall follow the instructions and clarifications, if any, issued by Central Board of Indirect Taxes & Customs (CBIC) with regard to applicability of GST on penal charges.

(v) The penal charges can be different within the same product category depending upon the amount of loan. The structure of penal charges within a particular loan / product category shall have to be uniform irrespective of the constitution of the borrower.

(vi) The quantum and reason for penal charges shall be clearly disclosed by the Company to the customers upfront in the loan agreement and Most Important Terms & Conditions/ Key Fact Statement as applicable, in addition to being displayed on the Company's website under Interest rates and Service Charges.

(vii) Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason thereof shall also be communicated.

(viii) In the case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date.

**Schedule of Penal Charges:**

Rs. 20 per thousand per month on the outstanding amount for the period of default. The penal charges shall be calculated for a month even if the default is rectified earlier. (No Penal charges will be levied if the default is cured within 5 business days from its occurrence)

**8. Other Charges and Calculation Methodology**

The cost list provided below is indicative in nature and is based on actual costs and expenses incurred. The same may be considered accordingly.

**(1) Application Fees**

Definition	Components
A non-refundable fee collected from Customers who applied for Loan at the application stage to cover initial loan processing charges. Note: This Application Fee is separate from any other fees and is non-refundable and non-adjustable against any other fees or charges.	<ol style="list-style-type: none"> <li>1. Technical cost</li> <li>2. File cost</li> <li>3. Infra Cost</li> <li>4. Legal Cost</li> <li>5. Manpower cost</li> </ol>

**(2) Processing Fees**

Definition	Components
A fee charged for processing of loan application for due diligence, underwriting, credit appraisal, risk assessments, documentation vetting, loan sanction and disbursement and setup in core systems and other similar charges.	<ol style="list-style-type: none"> <li>1. Manpower cost</li> <li>2. Technology cost</li> <li>3. Vendor cost (Commercial Bureau, Probe, FI-FCU, Legal if applicable, BT Document vetting if applicable, AML, e-sign, CERSAI if applicable etc.)</li> </ol>

**(3) Documentation Fees**

Definition	Components
This charge includes Digital Intervention cost, E signing cost, Stamp Paper cost and Manpower cost.	<ol style="list-style-type: none"> <li>1. Vendor cost</li> <li>2. Manpower cost</li> </ol>

(4) CERSAI Registry / Modification charges  
Based on actual cost

(5) Stamp Duty & other statutory Charges  
As per applicable laws of the state

(6) Litigation Charges

Definition	Components
All costs, fees, and expenses incurred by the Lender in connection with legal and quasi-legal proceedings arising out of or in relation to a loan account. (These include, without limitation, expenses incurred for proceedings under the SARFAESI Act, Section 138 of the Negotiable Instruments Act, the PASA Act, arbitration proceedings, postal and communication charges related to such proceedings, and costs associated with auction and recovery-related activities.)	The charge includes, Legal Fees, Statutory and Court Related Charges, Proceeding-Specific Expenses, Communication and Postal Charges, Auction and Recovery-Related Expenses and Miscellaneous and Incidental Expenses. These expenses will be charged based on the actual expenses incurred/paid to the vendor.

## 9. Policy Renewal

The policy shall be reviewed and renewed at least once every year, or earlier if significant economic developments (internal / external) creates financial stress.