

Risk Grading - Methodology

The Company adopts risk gradation methodology to ensure that the borrowers are charged rate of interest as per the risk posed by them at the time of onboarding. Borrowers are generally low risk when:

1. Loan amount is low compared to the property value (Low LTV)
2. Stable income
3. Low obligations
4. Good Repayment capabilities (Low FOIR)
5. Good repayment track record (RTR) of payments of previous loans (CIBIL)

As the borrowers vary on above-said factors, the risk posed to the Company varies. Thus, each Borrower cannot be assigned an individual rating. However, we have adopted a cohort approach which covers all the factors required to be considered for risk grading. Hence, we have adopted Risk Gradation of the Borrower which is primarily based on the income assessment program. Various programs for income assessment have been mentioned below:

1. Borrower acquired under **Normal Income program** are considered in lowest risk segment, considering we have full view on the Borrower financial health, basis declaration on the financial by Borrower, hence highest exposure is proposed under this program with relaxed bureau norms.
2. Borrower's acquired under **Banking program** are capped on the loan amount, considering we do not have full view on the financials. However, TO is derived basis banking transactions and OD/CC utilisation, which acts as a surrogate of income, hence exposure has been capped.
3. Borrower's acquired under **Gross Margin program** are under medium risk segment, since Borrowers financial health is checked basis, the margin declared by the Borrower. We have capped the exposure, FOIR and LTV under this program
4. **Higher FOIR** program can be classified as highest risk segment, since Borrower are given higher loan amount than his financials support. To mitigate the risk, we have capped the exposure amount, LTV and Bureau score with financial caveats like no drop in TO and Cash profit.
5. Borrowers acquired under the **Assessed Income program/ Liquid Income Program** are under medium risk segment, since Borrowers' financial health is checked basis, the subjective discussions & PD of the Borrower.

Accordingly, the risk grading based on the programs is as follows:

Program	Rating
Mid Ticket Normal Income Program	Low
Affordable Normal Income Program	Low
Mid Ticket Banking Income Program	Medium
Mid Ticket Liquid Income Program	Medium
Affordable Assessed Income Program	Medium
Mid Ticket Higher FOIR Program	High
Mid Ticket Others	High
Affordable Others	High

Adoption of risk grading for determination of ROI charged to Borrower

Further within the same program there can be a range of risk that is based on the subjective assessment of the underwriter basis combination of various parameters of the transaction. Accordingly, the underwriter identifies additional aspects which warrant some adjustments (increase or decrease) in the ROI.

1. **Risk Factors which can reduce the ROI to some extent:** Profile stability, Collateral Quality, Loan amount, Low LTV, Comfort of additional income not considered, Asset Base etc. This gives rate benefits to the low-risk Borrowers.
2. **Risk Factors which can increase the ROI to some extent:** Issues in credit history, income seasonality/ volatility, High LTV, Low Asset Base, Single Income, etc. The Borrowers are charged risk premium to accommodate the higher risks.

To accommodate the various factors, we have assigned a range of ROI for the programs offered. The underwriter assigns a ROI to a transaction within the range. However, there can be instances of outliers given the competition intensity or subjective assessment of the risk. The Borrowers are made aware of these norms at the time of sanction, so that they can opt for suitable combination of parameters and the corresponding ROI.

ROI range:

Program	Rating	ROI Range
Mid Ticket Normal Income Program	Low	11% to 13%
Affordable Normal Income Program	Low	12% to 15%
Mid Ticket Banking Income Program	Medium	11.5% to 13.5%
Mid Ticket Liquid Income Program	Medium	11.5% to 14%
Affordable Assessed Income Program	Medium	12.5% to 16%
Mid Ticket Higher FOIR Program	High	11.5% to 13.5%
Mid Ticket Others	High	11.5% to 13.5%
Affordable Others	High	12.5% to 16.5%