

Flipkart Finance Private Limited

Interest Rate & Penal Charges Policy

Version 1.3

Document review and approval

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1. Introduction and Background

Flipkart Finance Private Limited (hereinafter referred to as 'the Company' or 'FFPL'), is a non-deposit taking Non-Banking Financial Company (Investment and Credit Company) registered with the Reserve Bank of India ('RBI'). FFPL is currently categorized as Base Layer NBFC. The Company is engaged in the business of extending unsecured consumer durable loans and undertaking investments.

The RBI, vide its Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, dated 19 October 2023 ('the SBR Master Direction') and in accordance with the RBI's Fair Practices Code read with RBI Circular on Fair Lending Practice - Penal Charges in Loan Accounts dated August 18, 2023 (as may be updated from time to time), outlines that the Board of Directors of the NBFCs shall lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. It also outlines that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers in the sanction letters issued to them.

In line with the aforesaid regulatory guidance as well for ensuring operational ease, the Company has adopted this Interest Rate & Penal Charges Policy for determining the Interest rate computation model for the Company, considering relevant factors such as cost of funds, margin and risk premium, etc. and determine the rate of interest to be charged for loans and advances. Aspects such as Processing fee, Penal and Other Charges and broadly outlining the Interest Rate model and the company's approach of risk gradation. This Policy has been duly approved by the Board of Directors of the Company.

2. Objective of the policy

The main objectives of this policy are as follows:

- To arrive at the interest rates for different types of customer segments by deciding on the principles and approach of charging spreads, including charging differential rates of interest linked to the applicable risk factors
- To develop and adopt a suitable model for calculation of interest rate.
- To ensure that computation of interest is accurate, fair, and transparent in line with regulatory expectations and market practices.
- To ensure communication to stakeholders on the rates of interest and the approach for gradation of risks by publishing the same on the company's website.
- To outline the Penal Charges and other fees / charges to be levied by the Company.

3. Key aspects for levy and computation of Interest Rate

Customer Segment:

FFPL caters to the credit needs of digitally active customers, primarily those seeking small-ticket, short-tenure loans for consumer purchases and personal requirements. The target segment typically includes individuals with modest to moderate incomes, a mix of salaried and self-employed profiles, and varying levels of credit history. Many customers may be new to formal credit and are generally underserved by traditional lenders, making simple, accessible, and digitally embedded credit solutions more relevant to their needs.

Business Model:

FFPL follows a digital-first model to offer easy and personalized loan products, mainly for customers shopping

online. The entire process from loan application to disbursement is quick, paperless, and designed to fit into the customer's buying journey. FFPL uses a mix of traditional and alternative data to assess credit risk, even for customers with limited credit history. To manage risks, it uses automated checks, fraud detection tools, and strong internal controls throughout the loan process.

Associated Costs:

When pricing a loan product, FFPL incorporates both upfront and ongoing costs to ensure comprehensive cost recovery and profitability. These costs are divided into two main categories:

Upfront costs – These costs are incurred before the disbursement of the loan to the customer and typically involve the following:

- i. Acquisition costs – The cost of sales channel and sales promotion expenses.
- ii. Verification costs – A verification of information supplied by customer in application form such as residence and employment details may be required. Additionally, verification may be required through credit bureaus.
- iii. Credit appraisal costs – The Company needs to invest in competent resources that can carry out credit appraisal of the customer's application.
- iv. Technology costs: FFPL operates on a fully digital model in offering its products and services, accordingly FFPL invests in advanced technology infrastructure, including hardware, software, data storage, and analytics. These investments support efficient operations, improve customer service, and ensure compliance with regulatory standards. Given the fast pace of technological advancements and evolving customer expectations, these costs are continuous and substantial.
- v. Other Operational Costs: Other operational expenses / cost which are not covered in the above categories and incurred as part of the day-to-day operations shall also be considered for the pricing of products.

Ongoing expenses – The following expenses are incurred during the life of the loan:

- i. Servicing cost – Ongoing costs for managing loan repayments, maintaining customer records, and providing continuous support to borrowers are included here. This also covers administrative tasks such as managing loan accounts and responding to customer inquiries.
- ii. Collection costs – In cases of borrower defaults, FFPL incurs costs for collection efforts, including contacting borrowers, negotiating repayment terms, and managing debt recovery procedures.
- iii. Customer Service – Customer service costs include handling requests from borrowers for documentation (such as interest certificates or loan statements), address changes, and other service-related queries. This ensures a positive customer experience and timely responses to borrower needs.
- iv. Management costs – These include the expenses related to management overheads, IT infrastructure, software licenses, and other essential administrative and operational costs required to run the business efficiently.
- v. Record keeping – FFPL maintains secure records of all loan-related documents, which are essential legal instruments. Safekeeping of these records requires resources for digital storage and retrieval.

Together, these upfront and ongoing costs are integral to the operations of FFPL and are factored into the pricing of loan products to ensure sustainable business practices and adequate cost coverage.

Other associated factors and general principles:

The company shall consider the below key aspects while computing the Interest Rate:

- All the loans shall be sanctioned at a fixed rate of interest.
- In the event of full cancellation of the order or facility by the customer prior to the first EMI due date, FFPL shall refund the entire amount paid by the customer towards the order including any processing fee that may have been charged to the customer. If the cancellations occurs after the first EMI due date a processing fees shall be levied. However, in the case of partial cancellation, the processing fee may not be refundable, subject to the specific terms applicable to partial cancellation.

- Any excess interest and other charges received from the customer will be refunded back to the customer.
- FFPL shall offer two categories of EMI based loans i.e. Interest-based EMI Loans and no cost EMI Loans.
- The EMI tenor shall range from a minimum of 3 months to a maximum of 24 months, depending upon the eligibility criteria and the terms of the underlying loan.
- In case of interest-based EMI loans, the computation of interest amount shall be based on the rate communicated to the customer at the time of loan sanction as disclosed in the KFS and the sanction letter, or subject to any subsequent changes as may be applicable with appropriate disclosures and intimation to the borrower.
- The rate of interest communicated to the customer for an interest-based EMI loan shall be at an annualized rate.
- The computation of interest shall include both the date of disbursement and the date of repayment.
- The interest will be charged from the date of actual disbursement of the funds to the customer.
- In the case of disbursement or repayment of loans during the course of the month, the interest will be charged only for the period for which the loan was outstanding.
- Any instalments or amounts paid in advance will be adjusted against the principal outstanding for the purpose of calculating interest amount.
- Amount collected would be appropriated towards oldest overdue i.e. first Interest and then to Principal. Balance amount would be appropriated to charges, if any, at the end. In case of a settlement, amount would be appropriated first towards Outstanding Principal and balance amount, if any, would be towards Interest.
- In an interest-based EMI Loan, the interest shall accrue from the date of disbursement of such a loan. The customer shall be required to pay the EMI's along with the interest on or before the scheduled date as per the agreed repayment schedule.
- In a no cost EMI Loan, the interest amount shall be borne by the product partner and shall be factored in the cost of the product as a upfront discount to the customer in the principal loan amount. This interest amount shall accrue from the date of disbursement of the loan.
- In the event of delay or default in EMI repayment, the customer shall be liable to pay overdue charges and/or other charges, as per the applicable terms and conditions of the loan agreement.
- In the event of full cancellation of the order or EMI facility, FFPL shall refund the EMI's paid by the customers upto the date of cancellation of the order.
- Other charges shall be levied as mentioned in the [Section 6: Penal & Other charges](#).

4. Interest rate computation Model

The Company's interest rate model is designed to ensure transparent, fair and competitive lending rates aligned with both market dynamics and borrower risk profiles. The interest rate applicable shall also be assessed based on evaluation of various factors, which broadly include:

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- Structure of the product;
- Interest rate trend prevailing in the market;
- Product/loan specific costs;
- Upfront charges;
- Income sources of the borrower;
- Geographical variations;
- Past transactions with the borrowers on the LSP/E-commerce Platform;
- Bureau Reports and scores; and
- Risk Categorization of the borrowers basis the Credit and default risk assessment.

The RBI has not prescribed maximum cap for interest rate, however while deciding interest rate, the Company shall ensure that interest rate should not be too high as per market practices and the same shall be charged on the basis of capital charge profit margin and considering other factors as defined under this Policy.

Charging interest at fixed rate would be decided basis product category. The aforesaid interest rates are calculated based on following benchmarks/factors:

Sr. No.	Factor	Description
Base Rate		
1.	Cost of Equity	The Company needs to put some equity portion to run the business, and the cost of such equity is taken into consideration. The cost of equity shall be ascertained based on opportunity cost and the risk commensurate with the business. This shall be from time-to-time basis.
2.	Operating/Overheads Cost	It includes employee expenses, corporate office related fixed and variable costs, operations costs, sales and marketing expenses etc.
Risk premium and customer spread: The Risk Premium is the additional amount added to the base rate, reflecting the risk associated with the individual borrower or loan product. This spread ensures that the Company is compensated for higher risk. This gradation is essential for setting appropriate risk premiums, which depend on factors such as loan size, type and worth of collateral, borrower's profile, credit score, repayment history, and indebtedness.		
3.	Risk Premium	Base risk premium to cover potential credit loss by considering the business, borrower segment, geography, sourcing channel etc.
4.	Base Return on Asset	Base Return on Asset will be considered while calculating the interest rate.
5.	Appropriate spread based on the return expectation	<p>The rate of interest for loans has been arrived after adjusting for spread considering the underlying factors. Factors considered by businesses for calculating spreads are as follows:</p> <ul style="list-style-type: none"> • Credit and default risk • Historical performance of similar homogeneous segment • Industry segment • Bureau Score • Tenure of Loan • Location delinquency and collection performance

		The rate of interest for the same product and tenor availed during same period by different business segments/ customers need not be standardized. It could vary depending upon consideration of any or combination of above factors.
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The pricing to the customer shall comprise of base rate + risk premium and spread assigned to the customer. The Rate of Interest that shall be charged to the customers for availing its loan products will range between a minimum of 18% p.a. to maximum of 26% p.a.

The interest rate range is an indicative and the final rate is arrived basis the gradation of risk. Indicative interest rate as communicated above are subject to change at any point of time, subject to the sole discretion of the Company.

5. Approach for gradation of risk & risk premium parameters:

Risk grading enables the Company to differentiate customers across different risk spectrum and helps in applying risk premium to that customer. The Company shall take the following factors into account for charging different interest rates to its different customers:

- a. Risk associated with credit and probability of default of the borrower;
- b. Track record of borrowers with similar backgrounds
- c. Historical performance of similar homogeneous borrowers
- d. Profile of each loan borrower
- e. The repayment history of the borrower
- f. Ticket size of the loan
- g. Duration of the loan
- h. Collection performance in the geographies to which the borrower belongs
- i. Existing debts of the borrower
- j. CIBIL score of an individual which determines the credit payment history across loan types and credit institutions over a period of time.
- k. regulatory stipulations, if applicable,
- l. Borrower's financial flexibility
- m. Subvention available.
- n. and any other factors that may be relevant in a particular case

The rate of interest for the same product and tenor availed during same period by different customers need not be the same. It could vary for different customers depending upon consideration of all or combination of above factors. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

6. Penal and Other Charges

Besides interest, other financial charges like processing fees, overdue payment/ penal charges, foreclosure charges to be levied by the company wherever considered necessary. Besides these charges, stamp duty, service tax and other cess would be collected at applicable rates from time to time. Any revision in these charges would be from prospective effect.

Further, while charging the overdue payment/ Penal charges, FFPL shall ensure that the same are charged only in case of non-compliance of material terms and conditions of loan contract by the borrower. Penal charges shall not be charged in the form of Penal interest and there shall be no capitalization of penal charges. Further,

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.

Further, the Company will not collect penalty in the form of Penal interest that is added to the rate of interest charged on the advances. The company will not introduce any additional component to the rate of interest which is in the nature of penalty.

The quantum and reason for penal charges shall be disclosed in the loan agreement and the most important terms and conditions along with disclosure of the same on the company's website. FFPL shall not introduce any additional component to the rate of interest. Loans remaining unpaid on due dates or noncompliance of material terms and conditions as described below, shall be charged penal charges at such rates uniform across all products as mentioned in **bold** in the respective customer agreements. Taxes if any shall be levied additionally unless defined otherwise in Loan Agreement.

FFPL may treat the following circumstances as non-compliance of material terms and conditions and levy penal charges:

- Non-Payment of EMI amount
- Non-compliance with Financial covenants, if any as identified in Loan Agreement.
- Bouncing of the repayment instrument submitted by the borrower.
- Any other covenant prescribed by FFPL in the Loan Agreement.

Table of charges		
Sr. No.	Heads of Charge	Applicable Rates
1.	Late Payment Fee	Flat charge of INR 100/- on every Late payment of EMI +GST (if applicable)
2.	Processing Fee (based on the tenure of loan availed)	Loan tenure up-to 3 month – 0.75% of the principal +GST (No Min cap) Loan tenure up-to 6 month - 1.25% of the principal +GST (No Min cap) Loan tenure up-to 9 month - 2% of the principal +GST (No Min cap) Loan tenure up-to 12 month - 2% of the principal +GST (No Min cap)
3.	Foreclosure Fee	4% of Principal Outstanding + GST
4.	Bounce Charges	Flat charge of INR 100 on every E-Nach Bounce +GST (if applicable)

The customer will be given a copy of the loan agreement which will carry details of all charges and Interest Rates. Any non-refundable charges collected from the customer towards application processing will be recorded in the application form, which is signed by the customer. In addition, the customer will be able to get information on effective rate of interest charged, all fees and charges and the grievance redressal system from

the Company's web site 'www.flipkartfinance.com'. The same will be prominently displayed in all its offices and in the literature issued by it.

7. Communication Framework

Interest rates shall be communicated to the customers at the time of sanction / availing of the loan. The communications shall be made in the vernacular language, or the language understood by the customers.

Interest Rate Policy to be uploaded on the website of the company and any change in the benchmark rates and charges would be uploaded on the website of the Company.

Further, non-compliance of material terms and conditions of Loan and the penal charges applicable accordingly shall also be updated on the application.

8. Disclosures

As per the applicable regulations, the following disclosures shall be made to the borrower:

- a. There shall be appropriate disclosure of the terms and conditions of the loan sanctioned (including loan amount sanctioned), the annualized rate of interest and the annual percentage rate in the key fact statement and sanction letter or loan agreement.
- b. The Company shall communicate the annualized rate of interest and the annual percentage rate to the borrowers at the time of availing/sanctioning of loan through contact options.
- c. Any change in the interest rate or other charges shall be made prospectively and the same shall be informed to the Customer. Any changes in the rates and charges for existing customers would also be communicated to them through either of e-mail or letter or SMS.
- d. The rate of interest for various products and approach for gradation as revised from time to time shall also be displayed on the Company's website.
- e. The customer shall also be informed about the Interest rate model policy that the customer can visit the company website for referring the policy and any change in the benchmark rates and charges for existing customers would be uploaded on the web site of the Company.
- f. Reminders sent to borrowers regarding non-compliance with material terms of the loan shall include the disclosure of the penal charges.
- g. The borrower shall be informed of any instances of penal charges being applied, along with the reasons for those charges.
- h. The quantum and reason for penal charges shall be clearly disclosed by the Company to the customers in the loan agreement and most important terms & conditions/ Key Fact Statement (KFS) as applicable, in addition to being displayed on REs website under Interest rates and Service Charges.
- i. The company shall follow the guidelines mentioned in the Fair Practice Code guidelines as issued by RBI from time to time and as adopted by the company through its Fair Practice Code Policy.
- j. Statement of account will be made accessible to the borrowers, through app of the Company or email or text message or any other acceptable mode of communication.

The Company will ensure adherence to the aforesaid disclosures/ guidelines as specified by the RBI from time to time.

9. Delegation of Authority

The Board shall be responsible for the administration, interpretation, application and review of this Policy on a periodical basis as may be deemed appropriate. In order to ensure effective implementation of the Interest Rate Policy, the Board may delegate the implementation of this Policy to the Risk Management Committee (RMC).

The RMC shall hold meetings periodically to review interest rates within the overall stipulations of the Interest Rate Policy approved by the Board of Directors and provide necessary updates and recommendations to the Board in this regard.

10. Review of Policy

The Policy shall be reviewed and updated by the Risk Management Committee annually or on a need-basis i.e., in the event of change in regulatory framework or for business or operational need (whichever is earlier). Such updates / changes to the Policy will be communicated to the relevant staff /personnel (both in-house or outsourced) and relevant stakeholders across the Company.

Post review the policy should be recommended by the Risk Management Committee to the Board for the final approval. Any deviations from this Policy can only be undertaken with the approval of the Board, unless specified otherwise in this Policy.