

# **POLICY ON PENAL CHARGES**

**OF**

## **HYTONE MERCHANTS PRIVATE LIMITED**

CIN: U51109WB1994PTC063994

RBI Regn. No.: 05.02294

Registered Office: 87, Diamond Harbour Road, Kolkata - 700038

*Board Approved Policy*

## Document Control

| Particulars         | Details  |
|---------------------|--|
| Policy Name         | Policy on Penal Charges  |
| Company             | Hytone Merchants Private Limited                                     |
| Version             | V1.0   |
| Approving Authority | Board of Directors   |
| Review Periodicity  | Annually or as and when required under applicable law/RBI directions |
| Policy Owner        | Compliance Department  |

### 1. Introduction

Hytone Merchants Private Limited (the "Company") is a Reserve Bank of India registered Non-Banking Financial Company engaged in the business of lending and allied financial services.

The Reserve Bank of India has issued directions on fair lending practices in relation to penal charges in loan accounts. The intent of such directions is to ensure that charges levied for breach or non-compliance of material terms and conditions of loan contracts are transparent, reasonable, non-discriminatory and not used as a revenue enhancement tool over and above the contracted rate of interest.

Accordingly, the Board of Directors of the Company has adopted this Policy on Penal Charges to set out the principles, formula, manner of levy, disclosure requirements and internal controls relating to penal charges applicable to loans granted by the Company.

### 2. Scope and Applicability

This Policy shall apply to all borrowers and all loan products offered by the Company, including digital loans, personal loans, short-term loans, instalment loans, loan against property, business loans and any other credit facility granted by the Company from time to time.

At present, penal charges shall primarily be levied for delay or default in repayment of amounts due under the loan agreement. The Company does not presently envisage penal charges for other non-compliances unless specifically approved and disclosed in the relevant loan documents, Key Fact Statement or product terms.

### 3. Definitions

| Term                      | Meaning   |
|---------------------------|---|
| Borrower                  | Any person or entity to whom the Company has granted a loan or credit facility.   |
| Contractual Interest Rate | The annualised or monthly rate of interest agreed with the borrower and disclosed in the loan agreement, Key Fact Statement or other applicable loan documents.                                   |
| Overdue Amount            | The amount which remains unpaid after the due date, including any overdue principal, instalment, interest or other amount due under the loan agreement, as applicable.                            |
| Days of Delay             | The number of calendar days for which the Overdue Amount remains unpaid after the relevant due date.  |
| Penal Charges             | Charges levied for breach or non-compliance of material terms and conditions of the loan contract, including delay or default in repayment. Penal Charges shall not be treated as penal interest. |

### 4. Key Principles

- The intent of levying penal charges is to inculcate repayment discipline and credit discipline among borrowers.
- Penal charges shall not be levied in the form of penal interest and shall not be added to the contracted rate of interest.

- There shall be no capitalisation of penal charges. No further interest shall be computed on penal charges.
- The Company shall not introduce any additional component to the rate of interest under the garb of penal charges.
- The quantum of penal charges shall be reasonable and commensurate with the nature and extent of non-compliance.
- Penal charges shall not be discriminatory within a particular loan/product category.
- For loans sanctioned to individual borrowers for purposes other than business, penal charges shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance.
- The quantum and reason for penal charges shall be disclosed clearly in the loan agreement, Key Fact Statement, Most Important Terms and Conditions, sanction terms, mobile application, website and other borrower-facing documents, as applicable.
- Whenever reminders are sent to borrowers for delay/default/non-compliance, the applicable penal charges shall also be communicated to the borrower.

## 5. Structure of Penal Charges

The Company follows a simple, uniform and formula-based structure for penal charges across all its loan products. Penal charges shall be calculated on a per-day basis on the Overdue Amount and shall be payable only for the actual number of days of delay.

The daily penal charge may be disclosed to the borrower as a fixed charge per day for the relevant loan account/overdue amount, computed in accordance with the formula approved under this Policy.

| <b>Formula for Daily Penal Charge</b>   |
|---|
| Daily Penal Charge = (Overdue Amount/100) x 2 x Contractual Annual Interest Rate / 365  |
| Total Penal Charges = Daily Penal Charge x Number of Days of Delay  |
| Where the contractual rate is expressed monthly: Daily Penal Charge = Overdue Amount x 2 x Contractual Monthly Interest Rate / 30 |

## 6. Rationale for Formula-Based Penal Charges

The Company prices its loans based on several factors, including borrower risk, product risk, tenure, repayment structure, credit assessment, cost of funds, operational cost and other relevant factors. Accordingly, the contractual interest rate agreed with the borrower captures the risk associated with the borrower and the relevant loan product.

Since the contractual interest rate captures the underlying credit risk, the Company considers it fair and proportionate to link the penal charge to the contractual interest rate. Therefore, the Company shall compute penal charges with reference to double the contractual rate, applied only on the Overdue Amount and only for the period of actual delay.

This approach ensures proportionality because the charge varies with the amount overdue, the agreed contractual rate and the number of days of delay. It also ensures transparency because the same formula can be disclosed upfront to borrowers and applied consistently across loan products.

For avoidance of doubt, the above formula is only a method for computing the quantum of penal charges. The amount so computed shall be treated as penal charges and not as penal interest.

## 7. Illustrations

The following illustrations explain the manner in which penal charges may be calculated:

| Particulars                      | Illustration 1  | Illustration 2  |
|----------------------------------|---|---|
| Overdue Amount                   | Rs. 10,000  | Rs. 5,000   |
| Contractual Annual Interest Rate | 36% p.a.  | 24% p.a.  |
| Applicable Multiplier            | 2 times   | 2 times   |
| Daily Penal Charge               | $10,000 \times 2 \times 36\% / 365 = \text{Rs. } 19.73 \text{ per day}$ | $5,000 \times 2 \times 24\% / 365 = \text{Rs. } 6.58 \text{ per day}$ |
| Delay Period                     | 10 days   | 15 days   |
| Total Penal Charges              | Rs. 197.30  | Rs. 98.70   |

The above calculations are illustrative only. Actual charges shall be calculated as per the applicable loan documents, system configuration and disclosures made to the borrower. Penal charges may be rounded to the nearest rupee or in such other manner as may be disclosed to the borrower.

## 8. No Capitalisation of Penal Charges

Penal charges shall not be capitalised. No interest shall be charged on penal charges. Penal charges shall not be added to the principal outstanding for the purpose of charging further interest.

This shall not affect the Company's right to charge normal contractual interest on overdue principal, instalment or other overdue amounts in accordance with the loan agreement and applicable law, provided that no interest shall be computed on penal charges themselves.

## 9. Disclosure to Borrowers

The Company shall disclose the following to borrowers before or at the time of sanction/disbursement of the loan:

1. events which may attract penal charges;
2. formula for computation of penal charges;
3. applicable daily penal charge or manner of computation;
4. whether GST or any other tax is applicable;
5. manner of communication and recovery of penal charges; and
6. consequences of delayed repayment.

Such disclosure shall be made in the loan agreement, Key Fact Statement, sanction terms, mobile application, website, statement of account or any other borrower-facing document, as applicable.

## 10. Communication upon Levy

Whenever penal charges are levied or a repayment reminder is sent to the borrower, the Company shall communicate the applicable information through one or more permitted modes, including SMS, email, mobile application notification, WhatsApp, call, statement of account, payment link or any other mode permitted under applicable law.

Such communication may include the overdue amount, due date, number of days of delay, daily penal charge, total penal charges accrued, reason for levy and available repayment modes.

## 11. GST and Taxes

GST or any other applicable tax may be levied on penal charges wherever applicable under law. Such taxes shall be payable by the borrower in addition to the penal charges, subject to applicable law and disclosures made to the borrower.

## 12. Waiver, Reversal or Reduction

The Company may, at its discretion and subject to internal approval authority, waive, reverse or reduce penal charges in genuine or exceptional cases, including but not limited to:

- technical failure in payment systems;
- incorrect payment allocation or reconciliation delay;
- failed debit or failed payment due to reasons not attributable to the borrower;
- grievance resolution cases;
- death, serious medical emergency, natural calamity or other exceptional hardship; and
- any other case approved by the authorised officer/committee of the Company.

Any waiver, reversal or reduction shall be made in accordance with the Company's internal delegation of authority and shall not be discriminatory.

## 13. Internal Controls and Monitoring

The Company shall ensure that:

1. penal charges are levied only in accordance with this Policy and applicable loan documents;
2. loan systems/applications are configured to compute penal charges as per the approved formula;
3. penal charges are not capitalised;
4. penal charges are disclosed clearly in borrower-facing documents;
5. borrower communications clearly state the reason and amount of penal charges wherever applicable;
6. customer grievances relating to penal charges are handled in accordance with the Company's Grievance Redressal Policy; and
7. periodic checks are conducted to ensure consistency and regulatory compliance.

## 14. Review and Amendments

This Policy shall be reviewed by the Board of Directors periodically or as and when required due to changes in applicable law, RBI directions, business model, product structure, internal risk assessment or operational requirements.

Any material change to this Policy shall be placed before the Board of Directors for approval. The Company may make consequential updates to its loan documents, Key Fact Statement, website, mobile application and borrower communications for implementation of this Policy.

## 15. Effective Date

This Policy shall come into effect from the date approved by the Board of Directors of the Company and shall apply to fresh loans, renewals and applicable existing loans in accordance with applicable RBI directions and internal implementation timelines.