

Methodology for Computation of Benchmark Rate (Floating Reference Rate)

(Approved by the Board at its meeting held on April 12, 2023)

The parameters of methodology are given below:

Benchmark Rate = Summation of	
A	Cost of funds (Weighted Cost of borrowed funds + Return on net-worth)
B	Negative carry of liquidity
C	Unallocated Overhead cost including provisioning requirement for standard assets
D	Cost of Resources (Benchmark Rate) (A+B+C)

Assumptions:

A	Weighted Cost of borrowed funds	Carrying cost of borrowed funds (Rupee + FC) is calculated as a simple weighted cost of borrowed funds, as at the end of a particular quarter. Weightage to be given to carrying cost will be 92%
B	Average Return on Net Worth	Cost of equity has been calculated at 18% (post-tax) and pre-tax 24.05%. The tax rate may be revised based on revision in rate by the Income Tax authorities. Presently, tax rate is 25.16%. Weightage to be given to Return on net worth will be 8%
C	Negative carry of liquidity	Negative carry of liquidity indicates the loss incurred by the Company in terms of Interest earned on deployment of surplus funds vis-a-vis the cost of raising debt. Negative carry is calculated as the difference of carrying cost as on date and weighted average rate of return earned on surplus liquidity. $NC = (SL * (CC - RE)) / (\text{Investible funds on the balance sheet});$ where Investible funds = Total funds available — Surplus Liquidity NC = Negative Carry SL = Average amount of Surplus funds deployed CC = Carrying cost as on balance sheet date RE = Return achieved on the SL
D	Unallocated Overhead cost	Administrative expenses include the following Items: - <ul style="list-style-type: none"> - Depreciation and Amortization - Employee Benefit Expenses - Power and Fuel - Lease rent - Insurance - Professional Fees - Establishment and other expenses - Rates & Taxes Apart from the administrative expenses, this item also includes the Provisioning on Standard Assets. Administrative expenses shall include administrative expenses for the last 4 quarters $AC = \text{Administrative expenses} / \text{Investible funds}$