

GUJARAT STATE FINANCIAL SERVICES LTD.

INTEREST RATE POLICY

Background

Gujarat State Financial Services Ltd. (GSFS) is a Government of Gujarat (GoG) undertaking incorporated under Companies Act, 1956 on 20th November, 1992 bearing number CIN:U65910GJ1992SGC018602. It is also registered with Reserve Bank of India as a Non Banking Finance Company (NBFC) under ND-SI (Systemically Important Non-Deposit Taking) category.

The company was established to ease and facilitate financial resources to the state-owned undertakings. To further this objective, the State Government gave a mandate to the company to manage the surplus funds of the state entities, and has issued directions from time to time to GoG entities for effective implementation of the mandate. GSFS primarily provides these funds as loans to GoG entities only and hence acts as an in-house fund manager to the GoG entities. Thus, the idea of formation of GSFS is to manage funds of GoG entities which results into the circulation of funds within the State Government ambit.

GSFS Customer Segment

As the basic objective of GSFS is to provide loans to GoG entities only, the customers of GSFS constitute GoG entities, which can be broadly categorized as under:

- i) A listed/unlisted Government of Gujarat (GoG) undertaking
- ii) Any listed/unlisted Public Sector Undertaking (PSU) of Government of Gujarat, wherein the State Government has a majority stake and/or administrative control.
- iii) Municipal Corporations of the state having sound financial position

Regulatory Frame work

RBI vide its Master Directions DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 under its Fair Practices Code has advised the applicable NBFCs to adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for its loans and advances. The Master Directions has also advised the Boards of applicable NBFCs to lay out appropriate principles and procedures to ensure that excessive interest, including processing and other charges are not levied on loans and advances.

Based on the above directions and taking into account unique business model of GSFS, the Interest Rate Policy of GSFS is documented as below:

Business Model

GSFS has a unique business model in India which creates a win-win situation for GoG entities placing their funds with GSFS, GoG entities taking loans from GSFS and Government of Gujarat. The basic objective of the company is to manage the surplus funds of GoG entities as per the mandate of State Government. The funds received are primarily provided as loans to other GoG entities at a lower rate as compared to banks/FIs.

The business model of GSFS is a unique time-tested model in India which has been in operation since last 27 years and continues to be so. Some of the salient features of the simple but highly effective business model are as under:

- i. GSFS accepts funds from GoG entities as per the mandate of Government of Gujarat, for tenor ranging from 1 day to 3 years at different rates.
- ii. The funds received by GSFS from GoG entities are provided as loans to GoG entities on merit, at rates which are lower than Banks/FIs thereby lowering their borrowing costs.
- iii. In the event of immediate unavailability of new avenue for loans and to maintain adequate liquidity, GSFS invests these funds in the Liquid/Debt Schemes of approved Mutual Funds and MIBOR linked ICDs with Primary Dealers (PDs) till such time it gets the opportunity to cater the loan requirement of any GoG entity.

- iv. GSFS carries out all its functions through a small setup located at a single location with limited number of employees.
- v. GSFS does not accept deposits from public nor does it provide any loan to individuals or any private company. Hence, as the company operates within the ambit of GoG entities only, its business model does not transmit any risks to the financial market.

Associated Costs

The business activities of GSFS are carried out from its registered office located in Ahmedabad with limited number of employees. Unlike other NBFCs, the company does not have a vast network of branches spread across State. Further, as per the unique business model, GSFS provides loans to GoG entities only. Therefore, it saves various types of costs like marketing costs, acquisition costs etc. associated with origination of loan proposals as it has to cater limited number of borrowers to whom it can offer loans.

Further, as per the basic objective of GSFS to provide loans to GoG entities, GSFS provides more and more benefits to GoG entities and does not take any processing fee, pre-payment charges, commitment charges or any other fee/charges from borrowing PSUs and other State entities. Further, as the loans provided are unsecured in nature, there are no legal charges, hypothecation charges, valuation charges or any such other charges related to mortgage of assets.

All the above factors contribute in reducing the general costs associated with processing of a loan proposal. Moreover, the single location and small business set up further contributes in significant reduction in the administrative costs for the company. Therefore, GSFS has a unique advantage through which it is able to charge lower interest rate on loans to GoG entities as compared to Banks/FIs.

GSFS Pricing Strategy

- i. It is the basic objective of GSFS to provide loans to GoG entities only. The GoG entities are broadly categorized as:
 - a. Entities which rely fully/partially on Budgetary Support from GoG
 - b. State PSUs which are commercial and self-sustaining in nature.

- ii. The Finance Committee of GSFS, which comprises of 3 Directors, who are very senior officials of the Finance Department, Government of Gujarat, is empowered by the Board to decide the interest rates for various tenors and revises these rates from time to time.
- iii. GSFS offers different interest rates for different tenors of loans. The tenor buckets have been formulated by the Board of Directors. The different tenor buckets towards the loans offered by GSFS to GoG entities are as under:

Tenure
15 days to 90 days
91 days to 180 days
181 days to less than 1 year
1 year to 3 years
Above 3 years

- iv. The GoG entities receiving partial/full Budgetary Support from GoG are charged basic lending rates on loans provided to them. The Finance Committee is empowered to specifically sanction, if need arises on the larger benefit of State, basic lending rates to a borrower not in this category, on case to case basis.
- v. The State PSUs which are commercial and self-sustaining in nature and are fraught with market risk will be charged 50 basis points higher than the basic lending rates on loans provided to them.
- vi. The loans having tenure of more than 3 years are also charged with interest rates applicable to 1 year to 3 years tenor bucket as per the category of the borrower. The Finance Committee is empowered to sanction longer tenor loan, considering the requirement of Government of Gujarat undertaking and liquidity position of the company.
- vii. With a view to provide more benefit to GoG entities, the rate of interest on loan is kept lower as compared to major PSU banks like SBI, PNB etc. and other financial institutions. Moreover, the lending rates are kept floating in nature.

- viii. The interest rates are decided by the Finance Committee taking into consideration the ongoing interest rate trend, asset-liability position, deposit rates, cost of funds and the fund position of the company from time to time and after considering GSFS's administrative and other expenditures and nominal savings.

Interest rate on Inter Corporate Deposits (ICDs) and Liquid Deposit Scheme (LDS)

The State Government has directed all the Government of Gujarat (GoG) entities to park their surplus funds with GSFS. The company accepts funds from the GoG entities under ICD and LDS wherein ICDs have tenor ranging from minimum 15 days upto 3 years while LDS has a tenor of less than 15 days. With a view to provide more benefits to GoG entities, GSFS endeavors to provide a competitive interest rate on funds placed by GoG entities, as compared to major PSU banks.

Key aspects related to Interest Rate on ICD and LDS:

- The company shall offer interest rate on ICDs and LDS to GoG entities as decided from time to time by the Finance Committee of the company.
- The interest rate on ICDs and LDS will be uniformly applicable to all GoG entities.
- The interest rate on ICDs will be according to the tenor buckets approved by the Board. The present tenor buckets are as under:

Tenure
15 days to 90 days
91 days to 180 days
181 days to less than 1 year
1 year to 3 years

- The Finance Committee shall decide the interest on ICD/LDS based on the unique business model of the company, prevailing economic scenario, asset-liability position, interest rates prevailing in financial market, cost of funds, earnings and/or any other parameter which the Finance Committee may deem fit.