

LOAN PRICING POLICY

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

Version No.	3.0
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Applicable from	1 st April 2022
Policy owner	Chief Financial Officer
Approved by	The Board of Directors

Reference:

Notification No. RBI/DOR/2021-22/89/DoR.FIN.REC.95/03.10.038/2021-22

1. LIST OF ABBREVIATIONS

CIFCPL	Chaitanya India Fin Credit Private Limited
DER	Debt to Equity Ratio
EIR	Effective Annualized Interest Rate
GST	Goods and Services Tax
MFI	Micro Finance Institution
NBFC	Non-Banking Financial Company
CP	Commercial Paper
RBI	Reserve Bank of India
ROA	Return on Assets
SFB	Small Finance Bank
XIRR	Extended Internal Rate of Return

2. SUMMARY

This policy lays down the premise for determining pricing for loans that CIFCPL offers to its customers. It covers all loans offered by the company, including –

- ✓ Microfinance loans as defined by the extant RBI guidelines
- ✓ Non-microfinance retail loans
- ✓ Other loans as approved by the Board of CIFCPL

The policy will define the pricing model/approach for arriving an all-inclusive interest rate (also termed as EIR or XIRR).

This policy shall be in compliance with extant RBI guidelines and CIFCPL's Fair Practices Code. It will take in consideration the risk appetite of the Company and the principles of risk-adjusted-return.

Interest rates and other charges/ fees on microfinance loans shall not be usurious.

Note: This policy was earlier known as "Interest Rate policy"; it is now termed as "Loan Pricing policy" in order to extend its coverage to an all-inclusive pricing of loans covering interest rate and all charges payable by the customer.

3. POLICY COVERAGE

This policy covers the following: -

- ✓ Components of pricing applicable for all loans (microfinance and non-microfinance)
- ✓ Spread applicable for microfinance loans
- ✓ Ceiling on interest rate and other charges applicable for microfinance loans
- ✓ Delegation of authority for pricing approval

4. COMPONENTS OF PRICING FOR ALL LOANS

The components of pricing and their delineation are as follows –

A. Cost of Funds:

CIFCPL borrows funds through various means encompassing term loans, debentures, CPs, subordinated debt, external commercial borrowings, etc. The Cost of Funds shall denote the Borrowing Cost** in proportion of projected debt to equity (or DER).

*** Borrowing Cost shall include all costs & expenses borne by the Company in relation to borrowing or arrangement of debt, including interest, coupon, upfront fees, legal & other charges, stamping and documentation charges, arranger fees, listing expenses, brokerage/advisory/intermediation charges, hedging costs, commissions, liquidity management premium, prepayment or foreclosure charges incurred to replace high-cost debts, penal charges, taxes, etc.*

B. Operational Cost:

It pertains to costs related to end-to-end loan cycle, including underwriting & collections, operations, employees, fixed assets & infrastructure, technology, management & administration, sales, marketing & promotions, compliance costs, among other things.

C. Risk Premium:

It covers all the risks which the Company is exposed to, including but not limited to- credit risk, operational risk, systemic risks. The Company will cover its risks through a combination of loss provisions, insurance and re-insurance.

D. Margin:

It covers the expected pre-tax Return on Assets and Net Surplus. Expected ROA is derived from Return on Equity (in proportion of projected DER) as agreed with the equity investor, or priced through any capital pricing model.

Illustrative Example –

Component	Price
Cost of Funds	8.0%
Operational Cost	9.0%
Risk Premium	3.0%
Margin	6.0%
EIR	26.0%

Note: The EIR is inclusive of interest rate and all upfront fees & charges applicable to the borrower.

5. SPREAD APPLICABLE FOR MICROFINANCE LOANS

The range of spread of each component for microfinance loans are as follows –

Component	Range	Rationale
Cost of Funds	6%-10%	It is based on projected borrowing costs with an expected sensitivity linked to market movement.
Operational Cost	7%-11%	It is based on projected operational costs with an expected sensitivity based upon cost overruns.
Risk Premium	0%-5%	It is based on historical trend of loan loss and operational risk observed by the Company
Margin	3%-7%	It is based on pre-tax expected ROA and net surplus.

6. CEILING APPLICABLE FOR MICROFINANCE LOANS

The ceilings on interest rates and other charges shall be as follows –

Item	Applicable Ceiling for microfinance loans
Interest Rate	Up to 29%
Upfront Fees & Charges (excluding GST)	Up to 5%
EIR	Up to 29%
Prepayment penalty	Not applicable
Late payment charges	Up to 2% on overdue amount
GST and other statutory duties & fees	As per actuals

7. PRICING APPROVAL

Interest rate and other charges shall be periodically approved by the **Finance Committee** within the ceilings set by this policy. Any deviation to the policy terms shall be approved by the Board.

8. DISCLOSURE OF PRICING INFORMATION

The Company shall disclose pricing related information to a prospective microfinance borrower in a standardised simplified factsheet. The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low-income households.

The Company shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.

Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.
