MICROFINANCE LOANS PRICING POLICY

OF

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

Document Metadata

Document Reference

Title	Microfinance Loan Pricing Policy
Owner	Chief Financial Officer
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Document Revision and Change Control

Sr. No.	Version	Date of Board Approval	Changes
1.	V1.0	5th December 2015	Initial Version Adopted as "Interest Rate Policy"
2.	V1.1	26th August 2017	Introduction of 10% margin cap
2.	V2.0	5th June 2020	Updation in language
3.	V3.0	28th March 2022	Policy is re-named as "Pricing Policy", and the new RBI microfinance guidelines adopted
4.	V4.0	23rd November 2023	• Cost of Funds approach is replaced with Cost of Borrowing approach. • Range defined for Operating cost is updated.
5.	V5.0	6th July 2024	• To align and harmonize the policy with the Holding Company
6.	V6.0	23rd May 2025	The Following has been updated: • Base Rate Calculation • Ceiling applicable for Loans

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Overview

The Reserve Bank of India (RBI) vide its circular RBI / DOR / 2021-22 / 89 DOR.FIN.REC.95/03.10.038 / 2021-22 announced 'Master Direction – Reserve Bank of India (RBI) (Regulatory Framework for Microfinance Loans) Directions, 2022', on 14th March 2022, effective from 1st April 2023.

Applicability

The provisions of these directions shall apply to the following entities:

(i) All Commercial Banks (including Small Finance Banks, Local Area Banks, and Regional Rural Banks) excluding Payments Banks.

(ii) All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks; and

(iii) All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies).

Pricing of Loans

RBI's revised guidelines have deregulated the pricing (interest rate on loans charged to the clients). Company is required to put in place a board-approved policy regarding pricing of microfinance loans which shall, inter alia, cover the following:

(i) A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate.

(ii) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters.

(iii) The range of risk premium will be based upon the states, customer vintage, and any other risk criterion adopted by the Management for segmentation of customer credit profile; and

(iv) A ceiling on the interest rate and all other charges applicable to microfinance loans.

Interest rate model

Given the customer segment and the features of loan product such as unsecured, small ticket size and short tenure, the Company has split the pricing in to 2 elements -

1) Base rate calculation and
2) Risk premium for various States / geography-based risk segments.

Base Rate Calculation

The Base lending rate is a sum of below given cost parameters.

1. **Cost of funds: -** The company has infused equity to run the business and maintain the desired capital adequacy. The Company also borrows funds from Banks, Non-Banking Finance Companies, Financial Institutions, DFIs etc. through various financial instruments. The cost of fund has been considered as a weighted average of cost of borrowing and cost of equity. The Company's Debt-to-Equity Ratio will be considered to compute the weighted average cost of funds.

   i. **Cost of Equity** is calculated based on Capital Asset Pricing Model based on below given assumptions.
      - **Risk Free Rate**: -Latest 10-year G-sec Yield
      - **Expected Market Return: -** Sensex 5-year CAGR
      - **Beta: -** Due to unavailability of direct market data for the unlisted entities, we have adopted a practice of using the average beta of comparable listed MFI peers adjusted for leverage.
      - **Illiquidity premium:** The company being unlisted an illiquidity premium has been considered to account for the low marketability of equity shares. The company has assumed an illiquidity premium of 10% which is well within the prescribed norms.
      - Company has considered the listed MFIs for peer benchmarking. While these set of companies remain consistent, company reserves the discretion to exclude peers considered outliers for instance, where a peer reflects atypical performance, one-off corporate events, or has significantly deviated from sectoral norms in terms of capital structure or business strategy, etc.

   ii. **Cost of Borrowing** = Actual cost of borrowing incurred by the Company in the last 12 months, which shall be reviewed on a Quarterly basis.

1. **Operating Cost:** - It includes costs related to operations, employees, physical infrastructure (fixed and variable costs), sales and marketing, technology, administrative costs, among other things, which shall be reviewed on Quarterly basis. Operating cost will be computed based on last 12 months' operational expenses as a % of average loan portfolio. The Operating cost will be net off by prorated processing fee

2. **Credit Cost: -** Credit cost shall be based on historical performance of the portfolio and any events impacting the States/ geography, future projections, GNPA levels, recovery prospects and overall industry scenario.

   The Credit Cost may also include any Provisioning Overlay which has been approved by the Board of the Company. Inclusion of such Provisioning overlay in Loan Pricing will be under the purview of the Asset Liability Committee (ALCO), in consideration of the nature of such overlay.

2. **Liquidity Cost: -** The company requires to maintain some portion of its funds in liquid instruments to meet the minimum required Liquidity as per regulatory guidelines and internal Risk framework. The yield on liquid investments is lower than marginal cost of borrowing. Hence, negative carry for the same

will be considered as a cost component. The Liquidity Cost will be computed based on the average liquid assets required to be maintained to adhere to Liquidity Coverage Ratio (LCR), and the average negative carry incurred by the Treasury of the Company.

Base Rate

Base Rate = Cost of Funds + Operating Cost + Credit Cost + Liquidity Cost

Risk Premium

Risk premiums will be charged basis the risk profile of each State / geography, customer vintage, or any other risk criterion adopted by Management, calculated considering the historical performance of that risk cohort. Risk premiums will be reviewed at least annually but may be reviewed earlier in case of events occurring in any specific risk cohorts.

Applicable Interest Rate for Microfinance Loans

Applicable Interest Rate for any Customer Segment = Base Rate + Risk Premium

Zero Upfront Product

The Company has two products, (a) for Regular product the Company charges upfront Loan Processing Fee, and deducts any credit-linked insurance premium which the customer has opted to purchase; (b) Zero Upfront Product, where the Company does not charge any upfront fee and credit-linked insurance cost is borne by the Company, and the Customer gets the entire loan sanctioned amount in her account.

For Zero Upfront Product, the Rate of Interest will be derived equivalent to the Effective Interest Rate (EIR) for a Regular Product of the same risk segment. The EIR will be calculated based on cash flow discounting approach.

Ceiling applicable for loans

Item	Applicable ceiling
Interest Rate	For Regular Product- Up to 25.00% For Zero Upfront Product (EIR)- Up to 29.00%
Processing fees	Up to 1.50 % + taxes
Credit Life insurance	On actual basis
Pre-payment penalty	NIL
Late Payment Charges	NIL

Note-

For non-microfinance loans *the applicable rate of interest will be up to 27.00% and the processing fees will* *up to 2.00% + taxes. Late payment charges will be up to 2.00% of the overdue amount + taxes.*

The credit life insurance offered to borrowers is negotiated with insurance partners determined by factors such as historical and expected claim settlement ratios, Turnaround time (TAT) for claim processing and the tenor and sum assured linked to the loan. These rates are agreed upon in advance with insurance companies and are applied uniformly for borrowers based on loan amount and tenor.

Approval Matrix-

Board of Directors will have the authority and oversight for the interest rate policy framework, including any changes in the underlying framework. Interest rate and charges shall be approved and reviewed by the ALCO on a quarterly basis.

The Company may not change the rates frequently, in view of the competitive landscape and in order to standardize the product offerings to its customers. Product pricing may be kept within a **tolerance range of + / - 50 basis points** of the computed applicable interest rate, subject to review and approval of the ALCO.
The ALCO's decisions should be put up to the Board of Directors for noting. Any deviations to the policy terms will be approved by the Board.

Review of the pricing policy -

The Board will review the pricing policy annually or at a defined periodicity to align with regulations, market developments and external environment.

Disclosure

1. 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 on quarterly basis
2. 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.
3. The company will share the details of the interest rates to SRO and RBI in the formats shared by them within the prescribed timelines.
4. The Company shall disclose pricing related information to a prospective borrower in a standardized Key fact Sheet and loan card as prescribed by the RBI.
5. Any fees to be charged to the microfinance borrower by the Company and/ or its partner/ agent shall be explicitly disclosed in the Key Fact Sheet. The customer shall not be charged any amount which is not explicitly mentioned in the fact sheet.

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