PRICING POLICY

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INTRODUCTION

Radhya Micro Finance Pvt Ltd(hereinafter referred to as “The Company” or “NBFC”) is registered as a Non-Banking Financial Company with the Reserve Bank of India (RBI) and engaged in micro-finance activities.

During its operations, the Company will strictly adhere to various directions, guidelines, circulars, instructions, etc. as may be stipulated by RBI from time to time.

NBFC’s policies should always be read in conjunction with RBI guidelines, directives, circulars, and instructions.

The Company will apply best industry practices so long as such practices do not conflict with or violate RBI guidelines.

PRICING POLICY

Post issuing a consultative document on the regulation of Microfinance Loans for public comments on June 14, 2021, RBI on March 14, 2022, has notified Regulatory Framework for Microfinance Loans 2022 and as amended from time to time, which revises the existing regulatory framework for microfinance loans.

Keeping the market dynamics in mind, RBI has decided to remove the capping on interest charged by MFIs and offers an opportunity to lenders especially NBFC-MFIs to frame their policies which would be in the best interest of both lenders and the customers.

It also opens the window to apply a broader risk-based approach to pricing, factoring customer profiles and other macro segment attributes of products and customers (age, income, occupation, location, etc.).

1. OBJECTIVE

This policy will guide the Loan Product Pricing system in the Company.

In The Regulatory framework, RBI has advised that interest rates and other charges/ fees on microfinance loans should not be usurious. The Company intends to ensure this.

This document covers the overall internal principles embedded in the determination of interest rates, and processing and other charges, ensuring compliance with the directives of the RBI.

2. TARGET CUSTOMERS

The Microfinance Loans will be extended to members of Joint Liability Groups of women who are members of eligible households as per RBI guidelines. As the Company does not propose to go for internal rating / scoring of the borrowers, for the time being, only applicants with satisfactory credit reports from Credit Information Bureaus will be considered for granting of loans.

3. PRICING PHILOSOPHY

The pricing strategy of the Company will adopt methods/conditions in a manner such to maintain profitability while striking a balance between risk and reward.

Pricing for all products will, therefore, be determined based on the risk associated with a particular type of loan, the tenor of the loan, and the amount of the loan.

In addition, the Company will periodically benchmark with competitive offerings, and factor all these variables into the final pricing.

For existing customers, since historical credit behavior patterns will be available, the Company may adjust processing fees as well as offer higher loans to reward customers with good credit behavior.

For new product and customer segments, pricing will be based on the Company's assessment of the risks associated with the segments and profitability expectations based on the competitive situation.

To elucidate, if based on the experience of loss rates, the Company's assessment of the risk of a particular customer segment is high, such a credit facility would be priced higher in comparison to another customer segment that has experienced low loss rates.

4. FACTORS FOR COMPUTATION OF PRIME LENDING RATE

The following factors will be given due recognition:

- Cost of Borrowings: Total Finance cost (Including Interest, Stamp duty, Processing fee, and other charges incurred on borrowing)/Average daily outstanding balances of borrowings
- Cost of Operations: Costs related to operations, employees, physical infrastructure (fixed and variable costs), sales and marketing, and technology, among other things
- Estimated provisions and write-off
- Expected Margins
- Competitive environment for such facilities

5. RISK PREMIUM

The individual risk profile is the final deciding factor for pricing. The relationship aspects like the number of years with the Company, the number of loans taken, and repayment record will be considered. Besides, reports from credit bureaus and internal credit scores also play a part.

No internal scoring of individual borrowers is proposed to be done for the time being. Reliance will be based on the reports from Credit Bureaus only. Those who get satisfactory reports only will be considered for a loan.

Since borrowers are members of JLGs, joint liability is there, and risk accordingly is mitigated.

Based on repayment records, concession in processing fee on renewals will be extended, but there will not be differentiation in interest rate.

Risk premium based on product and customer segment should depend on data for own/industry products and customer segment risks. The Company has three products based on tenor, for 15 months, 18 months and for 24 months. The product with a longer tenor is considered to be riskier as compared to the product with a shorter tenor. However, it is proposed not to charge differential rates for this risk for the time being. At present, there is only one Customer segment, namely, women borrowers who are members of JLGs. When more product segments and customer segments will be added, a suitable view of the risk premium on these segments will be taken based on industry-level data.

For competitive pricing, the rate of interest charged for similar loans to similar segments by other entities and competitors will be taken into account.

6. THE INTEREST RATE

The interest rate arrived based on the above framework is furnished in Annexure-1. The prime lending rate works out in accordance to percentage, it is proposed to maintain it at per annum basis, taking into account the rates charged by the competitors.

Interest rates will be intimated to the customers at the time of application/sanction/ availing of the loan and the apportionment of equal installments towards interest and principal dues will be made available to the customers.

7. FEES & CHARGES

The Company will charge 1.5% of the gross loan amount as Processing fee excluding GST or any other percentage as may be amended by the Board in the future.

Penal Charges / Late Payment Charges

Besides normal interest, the company will charge penal charges of @27% PA, on Overdue Amounts or a minimum amount of Rs. 10 whichever is higher, as penal charges / late payment charges for any delay or default in payment of any dues, for the period of delay.

Security charges/ Margin

No other charges in the form of security deposit or margin shall be collected from the borrower on a microfinance loan.

8. Insurance Premium

The Company shall recover only the actual insurance premium for group, life, health, borrower, and guarantor.

Administrative charges recovered shall be in accordance with IRDA guidelines and in consonance with the insurance company whose services are engaged from time to time for ensuring clients and their co-guarantors/spouse.

9. ASSETS & LIABILITIES MANAGEMENT COMMITTEE (ALCO)

ALCO will have responsibilities to propose changes and spreads in the interest rates and approve exceptions, if any, within the parameters set in the policy.

The Committee will consist of the following officials of the Company.

- CEO
- CFO
- COO

Quorum: Two members will constitute the quorum.

ALCO would meet every quarter or whenever necessary. The Committee's decisions should be put up to the Board for approval, in case of any change from the policy framework and other cases for information.

10. COMPLIANCE

The Internal Audit department should monitor the compliance of the pricing policy and report the non-adherences/irregularities to the Audit Committee and the Board.

11. DISCLOSURES

The Company will communicate the effective interest rate to the customers at the time of application/sanction.

After sanctioning of loan, the Company will provide a detailed factsheet (Key Fact Statement) to the borrower, in which all deductions from the loan amount & effective rate of interest (All-Inclusive) and all charges will be communicated and mentioned in vernacular language. The Key Fact Statement (KFS) shall be written in a language understood by such borrowers. Contents of KFS shall be explained to the borrower and an acknowledgement shall be obtained that he/she has understood the same.

Any fees, charges, etc. which are not mentioned in the KFS, cannot be charged by the Company to the borrower at any stage during the term of the loan, without explicit consent of the borrower.

In the case of differential pricing, the spread- range for all the products and customer segments will be mentioned.

The Company will disclose the pricing information on the website, marketing documents, loan documents (application form, sanction letter, agreement, loan statement/card), and to MFIN/Sa-Dhan.

The Company will promptly update the marketing collaterals, website, and other relevant documents for any changes in the rates and charges.

The Company will communicate any changes in pricing information that applies to existing customers through multiple modes such as email, letter, SMS, and app.

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 in detail on its website.

12. Review

The Board will review the pricing policy annually to align with regulations, market developments, and the external environment.

Any changes to be made in the policy shall be approved by the Board and applied prospectively.

Annexure-A

S. No.	Components	Range	Percentage (%)	Remarks
1	Cost of funds	12% - 15%	13.50%	
a	Borrowing		NIL	
b	Equity		13.50%	
2	Operating cost	9% - 11%	9%	
3	Provision for Loan Loss	1% - 2.5%	1.50%	
4	Desired Net surplus	4% - 5%	3%	
Total			**27%**	