PRICING POLICY-
IIFL SAMASTA FINANCE LTD

On pricing policy Sound pricing policy what was told us to add the spread of the the spirit of the basement going down

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Pricing Policy

Introduction

IIFL Samasta Finance Ltd (hereafter referred to as Company or ISFL) is a registered Non-Banking Financial Company with Reserve Bank of India (RBI) and is engaged in microfinance activities. During its operations, the Company will strictly adhere to various directions, guidelines, circulars, Instructions etc as may be stipulated by the RBI from time to time. ISFL policies should always be read in conjunction with the RBI guidelines, directives, circulars, and instructions. The Company will apply best industry practices so long as such practice does not conflict with or violate RBI/Regulatory guidelines.

ISFL lends money to its customers through reducing rate of interest. ISFL service mainly to Bottom of Pyramid customers either through collateralized loan product or through unsecured loan products which can be either offer through group guarantee scheme or to individual customers.

Background

As per Reserve Bank of India master direction of Regulatory Framework for Microfinance Loans with circular number RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 dated 14th March 2022. Microfinance loan is defined as a collateral-free loan given to a household having annual household income up to Rs. 3,00,000/-

Hence Reserve Bank of India guidelines, Board of each NBFC shall approve an Interest rate model that is applicable for the Company, taking in to account relevant factors such as cost of funds, margin, and risk premium etc., and determine the rate of interest to be charged for loans and advances. Further, the directive states that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers in the sanction letters issued to them.

Board of Directors at their meeting held on 06/04/2022, had adopted the interest rate model of the Company. Thereafter, the Company authorized the ALCO Committee to adopt the role of pricing committee and review the interest rates from time-to-time basis the money market situation, Risk profiling of customer, change in any scenario of business and take suitable decisions post discussing the same in the Asset Liability Committee (ALCO) Meeting. The Revised Policy is being placed before the Board of Directors for review and approval.

Scope of Policy

The purpose of Pricing Policy is to have guided and well-defined methodology to define pricing, matrix to have regular review of the pricing offering to ISFL customers.

Policy also has objective to arrive at the benchmark rates to be used for different category of customer segments and to decide on the principles and approach of charging spreads to arrive at final rates charged from customers.

Review of Policy

The Policy shall be reviewed by board of ISFL at-least once in a year or in between if required due to changes required in the model, for example any addition/deletion of a particular component forming part of benchmark calculation.

Compliance Review

Chief Risk Officer along with Chief Financial Officer shall jointly monitor the compliance of the pricing policy and report the non-adherence/irregularities to the Board of ISFL as when seems fit.

Organization Structure

Board of Directors

The Board of Directors shall have oversight for the interest rate Policy (Pricing Policy) of ISFL. To ensure effective implementation of the Interest Rate Policy (Pricing Policy), the Board may delegate the implementation of the Policy and its operational aspects to the ALCO as deemed fit.

Asset Liability Committee (ALCO)

ALCO shall perform the role of Pricing Committee and shall be responsible for taking decision to change the benchmark rate. The ALCO meeting will be held monthly and any changes / status quo in the benchmark/base rate or risk premium would be discussed and decided by the members of the ALCO and would be put up to the Board in subsequent meeting.

Business can have their internal pricing policies under the overall framework of board approved interest rate policy (Pricing Policy) for company in deciding the spreads to arrive at final rate. Changes to business level internal pricing policies, if any, would need to be approved jointly by atleast any -three member of the ALCO Committee as per the matrix below:

S.No	Designation
1	Managing Director
2	Chief Business Officer
3	Chief Financial Officer
4	Chief Risk Officer
5	Chief Operating Officer
6	Treasury Head

Interest Rate

In line with Reserve Bank of India master direction of Regulatory Framework for Microfinance Loans with circular number RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 dated 14th March 2022 ISFL will offer differential approach to pricing based on customer segment and customer's profile.

Effective Rate of interest or APR will be based on summation of below parameters

1. **Prime Lending Rate**
2. **Risk Premium**
3. **Other Charges (if any)**

Prime Lending Rate

Chief Finance Officer along with Treasury Head will be primary responsible for arriving at Prime Lending Rate and will propose factors and weightage to ALCO committee. Prime Lending Rate will factor but not limited to the below cost indicators

S.No	Indicator	Description
1	Weighted Average cost of Borrowing	The Company borrows funds through term loans, Non-Convertible Debentures and Commercial paper and subordinate debt etc. from the investors. Weighted average cost of borrowing of such funds is taken for benchmark calculation.
2	Cost of Equity	The Company needs to put some equity portion to run the business and the cost of such equity is taken into consideration.
3	Fund Raising Cost	It includes processing fees on term loans, brokerage to source funds through NCDs / Deposits, CPs, Rating Fee, trusteeship fee, IPA commission on CPs, exchange listing fee, stamp duty, etc.
4	Negative Carry-on Investment	The Company maintains SLR on public deposits which generate lower return than the cost of public deposits, creating a negative carryon on those funds. The Company also keeps some liquidity buffer in the form of investments into liquid funds to manage liquidity risk and has to bear negative carryon on those investments too.
5	ALM mismatch cost	The Company borrows funds through short term and long-term products and to comply with the regulatory guidelines, it needs to manage ALM gaps under certain limits imposed by the regulator, while taking in to account the prepayments made by the customers.
6	Opex Cost	It includes costs related to operations, employees, physical infrastructure (fixed and variable costs), sales and marketing, technology, among other things.

7	Expected Credit Cost	This is to be based on the long-term period data - say 4 years or more, Value at Risk model.
8	Desired Net surplus/ Operating Margin ratio	Net surplus/Operating Margin is the Total operating revenue less all expenses related to the MFI's core financial service operations, including total operating expense, financial expense, and loan-loss provision expense.
9	Base ROA	Base Return on assets is the minimum return expected by the company on its assets.

Considering all the indicators of the Prime Lending Rate ISFL will charge margin of 10% to 14% on base rate

ALCO committee will review Prime Lending Rate monthly.

Risk Premium

Chief Risk Officer will be primary responsible for arriving at risk premium and will propose factors and weightage to ALCO committee. Risk Premium is defined to cover business related risks and would vary by business, customer segment, geography, sourcing channel, Customer repayment history with ISFL or with any other lender etc.

ISFL will follow variable risk premium based on product and customer segment based on internal, industry, CICs or any other data.

Expected Credit Loss

Expected credit loss is a calculation of the present value of the amount expected to be lost on a financial asset. As pre prudent risk management practices and Basel Committee literature, the Expected Credit Losses on advances are to be covered by way of provisioning and pricing. To ascertain risk-based pricing Expected Credit Loss **(ECL) is calculated as product of Probability of Default and Loss Given Default (LGD). i.e., ECL= PD x LGD.**

For the purpose of ECL calculation atleast 2-year vintage data shall be taken into account

The credit risk premium charged to an existing borrower shall not be increased except on account of deterioration in the credit risk profile of the customer/state or change in tenor premium.

Credit risk premium may undergo change only when borrower's credit assessment undergoes a substantial change, as agreed upon in the loan contract.

Risk Premium upto 0.05% will be applicable as per extant guidelines for customers not obtaining cattle insurance cover (DCL loans)

The credit risk premium charged to the customer representing the default risk arising from loan sanctioned shall be arrived at based on an appropriate credit risk rating/scoring model and after taking into consideration customer relationship, expected losses, collaterals, etc.

The spread charged to an existing borrower shall not be increased except on account of deterioration in the credit risk profile of the customer/state. Any such decision regarding change in spread on account of change in credit risk profile shall be supported by a full-fledged risk profile review of the customer/state.

Probability of the Default will be calculated based on the below mentioned indicators.

S.No	Indicators	Descriptions
1	Product Specific	Group/Individual/SME/loan size/tenure
2	Customer segment risk	Company will define the risk premium on the interest rate based on customer segment (employment, income, education, geography, vintage of formal credit, indebtedness). Customer segment risk can be calculated on the historical performance of a similarly homogenous group of customers over time, based on company level and industry-level data.
3	Pricing in the market	For competitive pricing, the rate of interest charged for similar loans to similar segments by other entities and competition.
4	Vintage	Customer's relationship with the lenders (years, number of loans, repayment record)

5	Past repayment track record/Credit Score	Customer's repayment record with the lenders and other lenders through credit bureau reports/score, internal repayment track record, etc
6	Other risk indicators/affordability / suitability	Leverage, repayment capacity (FOIR), asset ownership

ISFL will consider the prevailing market rate and competition to decide the spread of premium. ALCO Committee will do the regular review and can propose the change in factors or change in weightage as when seems fit.

Customer profile is considered as important factor to decide the risk profiling of any customers hence above-mentioned indicators will be consider for arriving at the Risk premium.

ISFL will charge appropriate risk premium basis of risk categorization of state ie, high, medium, and low risk. Further High, Medium and Low Risk categorizations of state will be sub categorized into R0 to R8.

Based on the review of the NPA, geography (State) wise Risk premium will be levied on customers. With every 1% increase in NPA, 0.25% of Risk premium will be charge on base ROI with maximum ceiling of 4%.

Risk Category- State	**Risk Sub- Category- customer**	**Risk Premium**
Low	R0, R1, R2	Upto 1% increment on Base rate
Medium	R3, R4, R5	Upto 2.5% increment on Base rate
High	R6, R7, R8	Upto 4% increment on Base rate

New to the Credit(NTC)

In absence of any credit history for customers ie. first time borrower (New to Credit) additional risk premium upto 2 % will be added on the base ROI .

Final Rate of Interest

Final Rate of interest will be summation of Base Rate of Interest, Risk Premium (ECL + NTC premium)

ALCO committee will be reviewing the Rate of interest on monthly basis. And will propose any changes in calculation and indicator weightage as when deemed fit.

Fee & Charges

Chief Risk Officer along with Chief Financial Officer will propose the charges or any change in the factoring parameters to ALCO committee.

The company will charge market competitive charges to customers for loan process and other over and above cost. These charges are categorized in below parameters.

S.No	Parameters	Explanation	Charge
1	Sourcing/ Processing	Initial application fee to cover for processing the loan application. Processing fee typically covers sourcing, credit appraisal, documentation, verifications etc	ISFL shall charge processing fee upto 2% of the sanctioned loan amount
2	Late/delayed payment	The charges for late payment (any delay from the due date to date of actual repayment). It can be charged as % of overdue instalment amount.	ISFL shall be at liberty to charge delay payment of upto 2% per month on overdue installment amounts.
3	Government/statutory	Besides these charges, the ISFL will collect stamp duty, service tax / GST and other cess at applicable rates from time to time.	As per govt norms
4	Pre-Payment Charges	The Charges for pre-payment of Loan	ISFL will not charge any Pre-payment charges for any Microfinance loan

Disclosures

- ISFL will communicate the effective rate of interest -to customers at the time of sanction / availing of the loan through the acceptable mode of communication.
- Interest Rate Policy (Pricing Policy) would be uploaded on the website of the company and any change in the benchmark rates and charges for existing customers would be uploaded on the website of the Company.

- Changes in the rates and charges for existing customers would also be communicated to them through various modes communication such as website updation, email, letters, SMS, etc.
- The factsheet shall also be provided for all loans extended to borrowers from low-income households. (Sample Factsheet is attached as an Annexure)
- All charges, rate of interest and others details regarding the repayment will be communicated to all customers either through sanction letter or through loan card or both.

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Annexure

Factsheet for Borrower information

Factsheet on Pricing of Microfinance Loans

Date: Borrower Name Loan Id

S.No	Parameter	Details
(i)	Loan amount (amount disbursed to the borrower) (in Rupees)	
(ii)	Total interest charge during the entire tenure of the loan (in Rupees)	
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	
(a)	Processing fees (in Rupees)	
(b)	Insurance Charges (in Rupees)	
(c)	Others (if any) (In Rupees)	
(iv)	Net- Disbursement amount ((i-iii) (in Rupees)	
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	
(vi)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	
(vii)	Loan term (in months)	
(viii)	Repayment frequency by the borrower	
(ix)	Number of instalments of repayment	
(x)	Amount of each instalment of repayment (in Rupees)	
Details about Contingent Charges		
(xi)	Borrower shall not be charged any penalty on prepayment of loan at any time.	
(xii)	Penal charges in case of delayed payments (if any)	
(xiii)	Other charges (if any)	