

# SERVITIUM MICRO FINANCE PRIVATE LIMITED

## PRICING POLICY

Last Reviewed Date	Department	Reviewed by
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## Pricing Policy

### **Introduction:**

Servitium Micro Finance Private Limited (here in after refer to us “Company” or SMPL) is registered NBFC-MFI provides financial services to low-income households, creating opportunities for self-employment for the underprivileged and training rural people in simple skills enabling them to utilize the available resources and contribute to employment & income generation in rural areas.

### **1. Objective:**

The policy aims at laying down guidelines and procedures involved to arrive at the interest rates charged from the customers and the cost of funds. The goals of this policy is to promote maximum employment, stable process and moderate interest rates. By implementing effective interest rate policy – Servitium Micro Finance Private Limited can maintain stable prices, thereby supporting conditions for long term economic growth and generating maximum employment.

### **2. Applicability & Validity of the Policy:**

The policy will become applicable from such date as approved by the Board of Directors. The Board will review, validate, update, and approve the Policy time to time. Any revisions in specific aspects of this policy may be communicated through mandates issued by the relevant authority and will become part of this policy from the date they become effective. Any change in interest rate or any other change will be informed to the borrower well in advance.

### **3. Regulatory Reference:**

RBI vide its circular no. RBI/2015-16/20 DNBR (PD) CC.No.047/03.10.119/2015-16 and subsequently via circular no RBI/DOR/2021-22/89 DoR. FIN.REC. 95/03.10.038/ 2021-22 has instructed all the NBFCs to adopt the necessary guidelines depending on the activity undertaken by them and ensure that a proper policy framework on ‘Interest Rate’ is formulated and put in place with the approval of the Board.

### **4. Component of Pricing:**

In line with the RBI Directions, the Company has formulated Pricing of Credit policy which lays down the broad criteria for arriving at interest rate.

- i. The interest rates charged by the company to its borrowers will be all inclusive interest rate and will be documented by the company. There may be different rates for different groups of customers since the company is shifting to risk-based pricing. The rate will be arrived at as per the computation below.

The Interest cost will be summation of below mentioned parameters

- a. The Cost of Funds
- b. Risk cost and premium
- c. Operating expenses
- d. Expected margins

The company will ensure that the maximum interest rate, other charges and fees on loan shall be reasonable and not usurious and would be disclosed to the borrower in fact sheet for microfinance loans. The borrower would not be charged any amount which is not mentioned/ disclosed in Fact sheet

- ii. Processing charges shall be charged on sanction loan amount.
- iii. The company shall disclose all interest rate, charges and fees in a standardized simplified fact sheet
- iv. The Company will display minimum and maximum interest rates charges on microfinance loans at its offices in simple language.

## 5. Cost of Funds-

The company will take into consideration the following components to arrive at the cost of funds:

- I. Weighted average Cost of funds (including cost of equity), Syndication Fees paid to various Consultants, Processing Fees and any other charges paid to various Financial Institutions (FI's) = A
- II. Average amount of outstanding borrowings from financial institutions at the beginning of the period and end of the period, for which cost of funds is being calculated.=B

$$\text{Cost of Funds} = \frac{A}{B} \times 100$$

However, funds received for specific schemes and its interest charges, will be excluded while calculating Cost of Funds

## 6. Risk cost and premium:

The company will take into consideration the following components to arrive at the Risk cost

- Overall Provisioning percentage on the portfolio
- Written-off portfolio
- Expected risk of the portfolio basis the geography, type of customers, risk profile of customer, demographics of customer, past portfolio performance, scale of development of the district, incidents of disaster, political risk etc

Risk premium will be assessed basis the portfolio performance and expected credit loss which will be ascertained quarterly or earlier under uncertain circumstances.

## 7. Operating cost:

Operating cost should include employee cost, incentives, depreciation administration cost, technology, infrastructure cost.

## 8. Margin:

A reasonable margin should be added to the lending rate for different products and categories of customers

## 9. Range of Spread:

The illustrative range of spread of each component for Microfinance loans is as follows:

Component	Range	Rationale
Cost of Fund	13%-18%	It is based on the projected borrowing cost
Operating Cost	9%-11%	It is based on projected operational cost
Risk Premium	1%-2%	It is based on the historical trend and operational/credit risk observed by the Company
Margin	1%-3%	It is based on pre-tax expected return on assets and net surplus

**10. Ceilings:**

Considering the components, the Board of Directors of the Company has decided the ceiling on the interest and fees on Microfinance loans shall be as follows.

Item	Ceiling for Microfinance Loans
Interest Rate	24%-27.50%
Upfront Fees & Charges (excluding applicable taxes)	1%-1.5%
Prepayment penalty	Not applicable
Late payment charges on the overdue amount	Nil
GST and other statutory duties & fees	As per actuals

These rates will only be applicable to On-Balance sheet lending. Lending rates and Processing fees for Off Balances sheet lending will be decided based on the requirements and discussions with the respective lenders/principals.

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

**11. Simplified Factsheet:**

The Company shall disclose pricing-related information to the customer through a standardized simplified Factsheet containing the details of Loan amount, total interest charged, and other charges levied by the company on the borrower.

The company shall not charge any amount which is not explicitly mentioned in the factsheet. The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low-income households.

This factsheet shall be provided to the borrower along with loan card / passbook

**12. Policy Review:**

The interest rate models, base rate and other charges applicable shall be reviewed by the Asset Liability Management Committee periodically and make suitable recommendations to the Board.