



**POLICY FOR**

**MICROFINANCE LOAN**

**OF**

**SUBHLAKSHMI FINANCE PRIVATE LIMITED**

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## 1. Introduction:

**Subhlakshmi Finance Private Limited** (hereinafter referred to as “Subhlakshmi” or “the Company”) is a Private Limited Company incorporated under the provisions of Companies Act, 1956 and registered with Reserve Bank of India as a Non-Systemically Important Non-Deposit Taking Non-Banking Finance Company. The Company is engaged in the business of financing the “missing middle” and to cater to Small and Micro Enterprises in various parts of India.

This Policy has been framed in accordance with RBI Circular viz. **RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22** dated March 14, 2022 namely **Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022**. According to the earlier guidelines, an NBFC that does not qualify as an NBFC-MFI, cannot extend microfinance loans exceeding 10 per cent of its total assets. The maximum limit on microfinance loans for such NBFCs (i.e., NBFCs other than NBFC-MFIs) now stands revised to 25 per cent of the total assets as per the above stated Master Direction.

## 2. 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 goal of this policy is to promote maximum employment, stable process and moderate interest rates. By implementing effective interest rate policy – Subhlakshmi can maintain stable prices, thereby supporting conditions for long term economic growth and generating maximum employment. Further, the objective of the policy is to formulate a Microfinance Loan and Pricing of Credit Policy and to take approval from the Board in accordance with the above stated Master Direction.

## 3. 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 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 and these changes will be effective only prospectively from the next quarter (ensuring 3 months’ notice).

## 4. 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 (Annexed) 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.

## 5. Pricing of Credit (interest rate to be charged from customers):

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
- e) expected loss

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.
- v. Issuance of non-credit products will be with full consent of the borrowers and fee structure for such products will be explicitly communicated to the borrower in the loan card itself.

## 6. 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)
- 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.

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

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

## **8. Operating Cost:**

Operating cost will be calculated as a percentage of average originated AUM and shall include manpower expenses, depreciation and all other expenses.

## **9. Margin:**

Expected return will be the margin percentage on average originated AUM pretax.

## **10. Pricing Committee:**

Pricing of the various loan products will be discussed in the Pricing Committee considering various factors which including the Cost of Funds, Risk Premium, Operating Expenses, Expected Margins, External Market Dynamics and Liquidity Position etc. within the overall regulatory framework and CEO shall be authorized to decide the Pricing of the various Individual Loan Products in the Company.

To review the policy at regular intervals and also to look into the implementation of the Pricing Policy the Board delegated the same to the Pricing Committee which would consist of CEO, CFO, COO and Head Internal Audit. The Asset Liability Management Committee (ALM) will continue to have the authority and oversight for the interest rate policy framework, including any changes in the underlying framework.

The Pricing Committee would meet on a quarterly basis or at periodic intervals which the committee may decide on any changes/status quo in the interest rate. The Pricing committee's decisions will be put up to the ALM Committee for intimation, in case of any change from the policy framework and in other cases for information.

The Company will publish quarterly rates on its website, branches and offices.

## **11. Disclosures:** The company shall disclose the minimum and maximum interest rates on its website and update the same as and when the pricing is reset.

**Note:** The condition relating to the maximum rate is not applicable to loans extended by the company against funding by any other specific scheme/specific fund.

## 12. Interest Rate Criteria: As decided by the Management

### For Example:

<b>A- Cost of Funds</b>	:	16%
<b>B- Loss</b>	:	02% (In past 5 Years Average) *
<b>C- Margin</b>	:	12% (Up to AUM 500 Cr.) 10% (AUM more than 500 Cr.)
<b>Interest rate to be Charged</b>	:	<b>(16% + 02% + 12% = 30%)</b>

\* Subject to any market risk

## 13. Glossary:

<b>Abbreviation</b>	<b>Description</b>
FI	Financial Institution
IRDA	Insurance Regulatory and Development Authority
RBI	Reserve Bank of India