

PRICING POLICY



Version No.	Board Resolution No.	Date of Issue	Reason for Change
1.2	11	March 27, 2024	Amendment in Interest Rate Calculation



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SINDHUJA MICROCREDIT PRIVATE LIMITED

CIN NO: U65990UP2017PTC099006, Ph.01206870873, www.sindhujamicrocredit.com

I. Preamble:

The guidelines issued by RBI vide its Notification No. RBI/DOR/2021-22/89 dated March 14,2022 as well as its guidelines on Fair Practices Code for NBFCs, as amended from time to time (RBI Regulations), directs all NBFCs to put in place a board approved policy regarding pricing of microfinance loans which shall cover the following:

1. A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate.
 2. 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.
 3. The range of spread of each component for a given category of borrowers.
 4. A ceiling on the interest rate and all other charges applicable to microfinance loans.
- In compliance with the requirements of the RBI regulations including the Fair Practices Code and the good governance practices, the company has put in place the internal guidelines, policies, procedures, and a comprehensive Pricing Policy.
 - The company will disclose pricing information to customers in terms of standard content format and modes of dissemination along the lines below. In addition, pricing information will be shared with the RBI and Self-Regulatory Organization (SRO), as required by them. Disclosures should also be in vernacular in branches and other operational areas. The company will publicly disclose the pricing framework and effective interest rate to the client including all charges – other than interest rate, any other charges should be separately disclosed and be part of APR.
 - The company will disclose the pricing information on the website, marketing collateral, loan documents (application form, agreement, loan card)
 - The company will promptly update the marketing collaterals, website, and other relevant documents for any changes in the rates and charges.
 - Any change in interest rate or any other charge shall be informed to the
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borrower well in advance and these changes shall be effective only prospectively.

- The Board will review the pricing policy annually or at a defined periodicity to align with regulations, market developments and external environment. The company will apply any changes in pricing prospectively.

The interest policy aims to cover:

- The various components of interest rate component
- Approach for gradations of risk.
- Rationale for charging differential rates.
- Disclosure of rates of interest, changes thereof and publicity thereto

II. Background

The Company is into providing Microfinance and Small Business Loans and Small Mortgage Loans to potential customers. The funds for such loans are borrowed from banks and other financial institutions for on-lending to potential borrowers. Sindhuja has developed a niche underwriting methodology to evaluate the incomes of these customers and determine their creditworthiness.

III. Pricing on Loans

An NBFC derives its incomes from the interest spread between the rate charged to its customers and the rate charged by its lenders. The operational and credit costs are deducted from this spread to arrive at the profitability of the NBFC.

The interest rate to be charged to potential borrowers depends on a multitude of factors listed below.

1. Cost of funds charged by the lenders.
2. Risk premium depending on customer risk category.
3. Operational expenses
4. Credit cost.
5. Expected profitability.

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Each of these parameters shall be periodically monitored, to arrive at the final interest rate to be charged to the borrower. The factors have been enumerated below.

1. Cost of Funds

Sindhuja borrows moneys from a multitude of financial institutions viz. banks, NBFCs, through issue of Non-Convertible Debentures, Off Balance sheet transactions, etc. While there are a number of factors evaluated by the lenders before arriving at the cost of funds that would be levied on the company, the primary parameter that differentiates the cost between different forms of funding is the rating of an entity.

2. Risk Premium

Sindhuja has a very clear approach towards categorising the customers based on their risk rating. The Company uses multiple parameters in categorising the customers into Low, Medium and High-risk categories.

For Microfinance Loans, the borrowers are categorized uniformly as Low risk. For Microlap, Categorization of borrower would be done for each credit proposal. The various factors to be considered for risk profiling are DBR, Loan-to-Value ratio, High Mark / CIBIL Score, living style of customer and neighbourhood reference.

Based on the classification of the borrower into low, medium and high risk, the company has decided to keep the risk premium constant for the low and medium category borrowers while for the high-risk borrower, the risk premium will be higher by 1%.

3. Operational Expenses

Operational expenses include personnel expenses, administrative expenses, depreciation which are incurred monthly. In a steady state scenario, the operational expenses remain fairly stable.



4. Credit Cost

Credit costs include Expected Credit Loss provisions and write offs. In a state of stable portfolio performance, the ECL is also predictable and would remain fairly stable.

5. Profitability

The revenues net of all the expenses enumerated above would lead to the profitability of the company.

IV. Rate of Interest (ROI) Determination

While the interest rate charged would broadly depend on the above factors, The fees, and other charges applicable will depend on the market practices and the cost of providing such services. While we look at the market practices for the fees and other charges, the policies would always be customer centric, and efforts would be not to overburden the otherwise vulnerable customer segment. The Processing Fees charged as defined below.

Component	Percentage (%)	Remarks
Opex	8.7%	Current opex of the Company
Provision of loan loss	2.5%	Current PARO of the Company
COF	10.66%	13 %(COF) on borrowing. Debt portion 82%, 13%*82%
ROE	4.32%	18% post tax, i.e. 24 % pre-tax on 18% of loan portfolio,
Total	26.18%	
Rounded	26%	
Ceiling on ROI	27%	Risk Premium of 1% due to geography, profile of customer, Past repayment performance,

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		ticket size, tenure etc
Processing Fees	1.25% - 1.5% +tax	On Microfinance Loans
Processing Fees	1.5% - 3% +tax	On MSME

V. Communication to the customer

The Company intimates the borrower regarding the loan amount, annualized rate of interest, insurance premium, processing fees even at the time of beginning the interaction. Every customer is informed about the most important terms of the contract including all the above. The Annualized Percentage Rate (APR) will also be communicated to the client through fact sheet provided to the borrower.

Further, tenor of the loan and repayment schedule including instalment amount etc. are communicated at the time of sanction/disbursement of the loan.

Intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per the terms of the loan documents. Any revision in interest or other charges would be only with prospective effect.

VI. Disclosure on the website

All the information relating to the policies, interest rates etc. are made available in the company website which is constantly updated. Though most of our customers are not tech savvy, we inform them and make effort to make them aware of the disclosures regarding this Interest Rate Policy and the schedule of charges on the Company website. Any changes to the policy and terms and schedule of charges are updated on the website on a dynamic basis.



VII. Market Practices and Other parameters

i. ALCO View & forecast of market interest rates:

Views of the Asset Liability Management Committee (ALCO) on loan product pricing with respect to prevailing interest rates offered by peer NBFCs for similar products / services shall be taken into consideration. The forecasts and analysis of 'what if' scenarios' conducted by the ALCO are also relevant factors for determining interest rates to be charged. The lending rate as well as the fees charged is fixed, considering the sustainability of various factors and it is reviewed periodically by the Asset & Liability Management Committee and annually by the Board.

ii. Notes:

- a. The ALCO shall be the authority to decide on the pricing to be charged for different tenures of assets within the framework approved by the Board.
- b. 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 factsheet for microfinance loans and for low-income households. The borrower would not be charged any amount which is not mentioned/ disclosed in Factsheet.
- c. Processing charges shall be charged on sanction loan amount.
- d. The company shall disclose all interest rate, charges and fees in a standardized simplified fact sheet.
- e. The Company will display minimum, maximum and average interest rates charges on microfinance loans at its offices in simple language. in the literature (information booklets/ pamphlets) issued by it and details on its website.
- f. Further, for any non-qualifying / non microfinance loans the maximum interest rate charged can be Lower by 5% of maximum interest rate charged on microfinance loans.
- g. 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.



- h. There will be no penalty on foreclosure of microfinance Loan. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount. Penalty for foreclosure on non-microfinance loan will be as per pricing grid approved by the Board.
- i. 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.
- j. Pricing of the various loan products will be discussed in the ALCO 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. To review the policy at regular intervals and also to look into the implementation of the Pricing Policy the Board delegates the same to the ALCO Committee The ALCO will continue to have the authority and oversight for the interest rate policy framework, including any changes in the underlying framework. The ALCO 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 Company will publish quarterly rates on its website, branches and office.

