

**Interest Rate Policy**

**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 the 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 interest rate 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 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 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

## Background

Sindhuja Microcredit is into the business of providing unsecured business loans to women under Joint Liability Group (JLG) in the urban, semi urban and rural areas. The loan offered to heterogeneous MFI segment, who would otherwise may be excluded from the financial eco system as they may not have adequate documents to prove their ability or intent to repay. Sindhuja has developed unique subjective assessment credit methodologies to assess these customers and reaches out to them through branch based lending model where our credit officers meet and evaluate the customers after multiple visits and have personal discussion to understand their requirements

Such subjective assessments of these customers for low ticket size has its own implication on various aspects which affect the lending rate

Low ticket size and direct visits mean high operating expenses. Untested credit history and lack of documents enhance the credit risk. This perceived risk in the underlying portfolio leads to higher borrowing cost for the company.

The interest rate policy takes into account all the above along with requirement to maintain the profitability.

### Interest Rate Model

The interest rate charged by Sindhuja for the products offered would take into account the following factors

1. Cost of Funds
2. Operating Cost
3. Risk Premium for the Product Segment
4. Expected ROE
5. Market Practices

#### 1. Cost of Funds

Finance cost is the main component in deciding the interest rate charged to the customers. The company borrows from diversified institutions like Banks (including SFBs), NBFCs, and Off shore Financial Institutions and DFIs. While the company's borrowings are expected to be a mix of fixed rate as well as floating rate borrowings, considering the customer segment, we choose to keep the loans to the customers with fixed rate. The rate to the customers would therefore factor in the risk associated with fluctuations in the interest rate.

## **2. Cost of operations**

The cost of operations includes manpower cost, infrastructure cost and other administrative costs. Most of these costs are fixed costs and are committed on the basis of budgeted volume of operations. Since these costs come down with increasing volumes and efficiencies, the pricing factors the estimated cost over a reasonable period of time. Also, other factors such as the complexity of the transaction, capital risk weightage, the size of the transaction, location of the borrower and other factors that affect the costs associated with a particular transaction would be taken into account before arriving at the final interest rate quoted to a customer. As a philosophy, the company will charge clients fixed rate assuming a steady state operation. Thus, the high operating cost in the initial stages of start-up and cost of growth would be borne by the shareholders, till the company attains size and scale.

## **3. Risk Premium**

As per the guidelines issued by RBI on categorization of customers, the customer segment Sindhuja operates is the low risk segment. Sindhuja does not plan to enter or deal with the High Risk segments such as politically exposed person of Indian or Foreign Origin, those with dubious reputation as per public information available etc.

Within the MFI segment Sindhuja operates is very heterogeneous and the customer profiles are vastly different with regard to nature of business, cash flow, profitability, complexity of operations etc. Therefore, the risk levels within the self-employed and MSME segment itself can be quite varied. For eg. a customer running a provision shop or a Kirana stores with fairly stable cash flow could be a less risky customer to lend to, while a customer with dairy business with erratic cash flow could presumably carry a higher risk.

However, for the time being, Sindhuja plans to keep the risk premium stable and uniform across the customer segment, with variance limited to the Geography, and Product.

Sindhuja would study the repayment behavior of these customers over time and would evolve differential pricing models, for different segments with the guidance of the risk management committee and the board.

## **4. Profit Margin & ROE**

The interest rate charged to the customers would include a profit margin decided on the basis of the reasonable return expected by the shareholders and the risks involved. The profit margin is arrived at keeping in mind the need to attract fresh capital to sustain growth and also benchmarked with comparable companies.

## **5. 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, taking into account the sustainability of various factors and it is reviewed periodically by the Asset & Liability Management Committee and annually by the Board

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**ii) Prevailing market practices:**

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 over burden the otherwise vulnerable customer segment. The Processing Fees charged will be maximum 1.25% plus GST.

**ROI DETERMINTAIION**

Component	%	Remarks
Opex	7.3%	Current opex of the Company
Provision of loan loss*	3.84%	Expected Provision based on last few years in the sector.
COF	10.66%	13.00%(COF) on borrowing. Debt portion 82%, 13.00%*82%
ROE	4.32%	18% post tax, i.e. 24 % pre-tax on 18% of loan portfolio ,
<b>Total</b>	<b>26.26%</b>	
Rounded	26%	
Risky Geography with higher PAR, Individual Product, Non qualifying product	Upto 1% extra	
Ceiling on ROI	27%	

**Since the Rate of Interest is uniform for all clients, the Minimum, Maximum and average Rate of Interest is 26% for all clients disbursed from December 03,2022**

**\*Working of Provision on loan Loss as per MFIN Annual Report.**

Year	PAR>30
Mar-17	11%
Mar-18	4%
Mar-19	1.7%
Mar-20	2.5%
Mar-21	9.2%
Mar-22	9.7%
Average	6.3%

However, in Mar-17 the portfolio deteriorated due to demonetization & in Mar21 & Mar-22 portfolio deteriorated due to covid. Hence, we are normalizing these by 50% in these years. The revised working is as follows:

Year	PAR>30
Mar-17	5.5% (11%/2)
Mar-18	4%
Mar-19	1.7%
Mar-20	2.5%
Mar-21	4.6% (9.2%/2)
Mar-22	4.85% (9.7%/2)
Average	3.84%

#### **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 communicated the most important terms of the contract including all the above. The Annualized Percentage Rate (APR) will also be communicated to 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 terms of the loan documents. Any revision in interest or other charges would be only with prospective effect.

#### **Disclosure on the website**

All the information relating to the policies, interest rate 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 take 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 in the website on a dynamic basis.