Annexure 7

VIRUTCHAM MICROFINANCE LIMITED
Loan Pricing Policy

Introduction:

Reserve Bank of India vides Master Direction DoR.FIN.REC.95/03.10.038/2021-22, dated 14th March, 2022 laid down revised regulatory framework for microfinance loan. As per the direction, Regulated Entities put in place a board approved policy regarding pricing of microfinance loans. The directives stated that the policy should cover the following.

(i) A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate;

(ii) 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;

(iii) The range of spread of each component for a given category of borrowers; and

(iv) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

Further it stated that Interest rates and other charges/ fees on microfinance loans should not be usurious and pricing related information should be disclosed to a prospective borrower in a standardized simplified factsheet.

Purpose and Scope:

i. To prescribe guiding principles on fixing rate of interest for microfinance loans. The Board of directors or a Committee set up by Board for fixation of Rate of Interest shall be guided by this policy.
ii. To enable the customers to understand the logic and methodology of the lending rates charged to them.

The policy shall be displayed in the website of the company to enable all the stakeholders to understand the logic and methodology of lending rates charged to them.

Principles and Components for determining rate of interest:

The purpose of microfinance loans are given to low income people. The company wants that the rate of interest charged on the segment of the people should be reasonable and at the same time the company is able to meet all the costs and gives a reasonable rate of returns on equity.

a) **Cost of Funds**

Funds in the nature of debt are raised by one or more ways of the following.

- Short term loans / Term loans or long term loans raised from Banks and the Financial Institutions
- Debts of nature of Tier-2 capital repayable after a certain period as bullet payment
- Funds raised by way of issue of debt instruments like Debentures, bonds etc
- Short term loans availed from directors of the company as per the norms of company law/rules of RBI. Etc.

Cost of funds consists of percentage of interest payable on the principal, loan processing fee, documentation charges, fees payable to a syndicator/facilitator if such services are utilized, due diligence charges levied by the funder, statutory expenses like charge creation/satisfaction, other incidental charges related to the borrowing etc., in line with the RBI guidelines on calculation of average cost of funds, payable by the company for availing loans of any nature from Banks and the Financial Institutions.
Fund is raised by way of issuing.

Bench Marking:

Cost of funds becomes low when the borrowings from Banks and the Govt. organizations / Financial institutions. The cost of funds is high when borrowed from NBFCs and private financial institutions. The company shall always endeavor to avail funds at low rate of interest and take necessary steps for that purpose. The historical facts in the company shows that the average cost of funds ranged from 14% to 16%. The component of cost of funds on the interest rate shall be contained at less than 16%.

b) **Overhead cost**

Operational expenses and administrative expenses are overhead cost. Overhead costs are those expenses required to do the business or to carry on the services of providing microfinance to low income people. Expenses involved in cost of promotion of JLGs, training the members, processing of loan and collection of loan (operational expenses) is the major part of overhead expenses. Expenses on Human resource hiring, conveyance expenses, printing and stationery, statutory and regulatory expenses, corporate governance related expenses, depreciation on assets, legal expenses etc constitutes a part of component to be taken into account on fixing rate of interest.

Bench Marking:
Employee cost / HR expenses play a major portion on the overhead cost and come around 70% of total overhead expenses. Company shall strive to reduce the overhead charges by carrying out suitable strategies. The company shall keep the Overhead cost part on the rate of interest at less than 9% always.

c) Risk Premium and Loan provisioning.
Cost arising out of recovery of stressed loans, the legal provisioning that had to be kept for such stressed accounts, volume of loss incurred due to write-off of the uncollectable loans etc constitutes this portion of expenses. Properly doing the pre-lending process and following up correct recovery process would reduce the expenses of this nature. Natural disasters, socio economic policies of the government, untoward incidents in a particular locality etc also becomes causes for stressed accounts. There is regulatory necessity of keeping minimum 1% provisioning on the standard assets and a contingency provisioning of 0.25%.

Bench Marking:
Company shall always take necessary steps for prevention of stressed accounts by taking necessary pro-active steps. The Risk premium related expenses shall always be kept at less than 1.5% on rate of interest.

d) Margin
Margin is the returns available for the investors, i.e., equity shareholders, on the investment made by them in the company. Microfinance is a social business aimed at increased income and improved standard of living of low income people. And at the same time the investors should also get minimum returns for their investment either by way of dividend / appreciation of share value or by both. The company shall aim at highest EPS every year for the shareholders. The margin part on the rate of interest shall be kept at less than 5%.

Category of Borrowers and ceiling of interest rate:

Virutcham Microfinance Limited is having only one loan product of Income Generation loan to JLG members, at present. It is serving the low income households. Hence the rate of interest on microfinance loans shall not be above 26%. (It was Maximum Rate of interest 25% but modified to 26% considering the Risk Factor in the Meeting of Board of Directors held on 27-04-2023).The ceiling on loan processing fee shall be 1.5% plus applicable GST.

Interest Rate Calculation Methodology:

Interest rate shall be computed on net disbursed amount using IRR approach and reducing balance method.

Prepayment charges:

No charges shall be charged on foreclosure of loan account or prepayment of loan dues for microfinance loan. It is in line with the guidelines of RBI and keeping in mind the category of people the company is serving.

Penal Charges for Late payment:

Company shall not charge penalty on the entire loan amount in case of delayed payment by clients. The rate of interest at which the client borrowed shall be charged on the overdue amount, for the purpose of encouraging on time repayment.

Disclosure of pricing related information:

A standard factsheet with regard to pricing related information shall be put in the loan card, as per the guidelines of RBI, and the loan card shall be in the language to be understood by the clients. No charges, other than mentioned in the factsheet, shall be charged from the clients.