

# PRICING POLICY

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## UNACCO FINANCIAL SERVICES PRIVATE LIMITED

**VERSION No.01**

**APPROVED BY: BOARD OF DIRECTORS**

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## **1. Introduction:**

Loan pricing is the process of determining the interest rate for granting a loan, typically as an interest spread (margin) over the base rate.

In case of NBFC, an Interest Rate Pricing Model is adopted for pricing of microfinance loans taking into account relevant factors such as Cost of Funds, Operating Cost, Risk Premium, Margin, etc.

## **2. Regulatory Requirements:**

Post issuing a consultative document on regulation of microfinance loans issued for public comments on June 14, 2021, RBI on March 14, 2022 notified **Regulatory Framework for Microfinance Loans 2022**, which revises existing regulatory framework for microfinance loans.

The Reserve Bank of India vide its Circular No. RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 dated March 14, 2022 has decided to remove the capping on Interest Rate charged by the MFI's and offers an opportunity to lenders specially NBFC-MFI's to frame their individual policies which would be in the best of interest for both lenders and the customers.

In the Regulatory Framework, RBI has advised that the Interest rates and other charges/ fees on Micro-finance loans should not be **usurious**.

It is advised to adopt an Interest Rate Model regarding pricing of microfinance loans taking into account relevant factors, for which it shall put in place a **board-approved policy**. Such NBFCs shall prominently display the interest rate charged on microfinance loans at all its offices.

**3. Objective of the Policy:** The objective of the policy is to set out the Board level pricing policy of Microfinance loans for arriving at the all-inclusive interest rate. Delineation of the components such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters; the range of spread of each components for a given category of borrowers and also the ceiling on the interest rate and all the other charges applicable to the Microfinance loans.

**4. Applicability & Validity of the Policy:** The policy will become applicable from such date as approved by the Board of Directors of UFSPL. The Board will review, validate, update, and approve the Policy. Any revisions in specific aspects of this policy may be communicated through mandates

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issued by the relevant authority and will become part of this policy from the date they become effective.

## **5. Methodology for Pricing Determination:**

The Interest Rate Pricing Policy adopted by UNACCO Financial Services Pvt. Ltd. (hereinafter referred to as “Company” or “UFSPL”) is hereby given below:

### **5.1 Ideal Interest Rate (IIR):**

Loan Assets created by UFSPL shall be priced as per Ideal Interest Rate (IIR) which shall primarily be based on –

- a) Cost of Funds (COF)
- b) Operating Expense
- c) Risk Premium i.e., risks associated with the quality of the counterparty and their possibility of default
- d) Profit Margin

The COF represented by the borrowing rate of UFSPL varies according to market conditions and, thus, the pricing of new loans is impacted by any change in the COF.

### **5.2 Pricing of Credit on MFI Loans :**

- The interest rate charged by the Company to its borrowers shall be **23%**
- The Interest Rates and other fees/ charges charged by UFSPL will not be usurious.
- UFSPL will disclose pricing related information to a prospective borrower in standardized simplified factsheet.
- The borrower will not be charged any amount which is not explicitly mentioned in the factsheet.

**Components of the Pricing of Loan:**

<b>SL. No</b>	<b>COMPONENTS</b>	<b>RATE</b>	<b>CALCULATION/REMARKS</b>
<b>1</b>	<b>COST OF FUND</b>	<b>13%</b>	<b>Interest Expense/Total Funding liabilities.</b>  <b>Note-1</b>
<b>2</b>	<b>OPERATING EXPENSE RATIO</b>	<b>8.30%</b>	<b>Operating Expense by Average Gross Loan Portfolio</b>  <b>Note-2</b>
<b>3</b>	<b>Risk Premium</b>	<b>1.00%</b>	<b>Note-3</b>
<b>4</b>	<b>Profit Margin</b>	<b>1.00%</b>	<b>Note-4</b>
<b>5</b>	<b>Total Interest to be charged</b>	<b>23.30%</b>	<b>23% APPROVED BY BOD</b>
<b>6</b>	<b>Add: Processing Fees</b>	<b>1.5% of the loan Amount</b>	<b>Processing fee for the loan is charged to cover the costs incurred by the lender on the Loan Process.</b>  <b>GST @18% is charged on the Processing Charges.</b>
<b>7</b>	<b>Add: Insurance Charges</b>	<b>1.426% of the Loan Amount (for 1 year tenure)</b>  <b>2.48% of the Loan Amount (for 2 years tenure)</b>	

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**Note 1: Cost of Fund:** Cost of Fund is calculated by dividing the interest expense for the period ending 31<sup>st</sup> March 2022 by the total funding liabilities which came around 13%(approx.)

**Note 2: Operating expense on the basis of an Ideal Branch parameters.**

The operating expense for an Ideal Branch say for Beltola Branch is coming Rs.12.47 lacs p.a and the Average Loan Portfolio outstanding is coming around Rs.2.13 crore, so in that case the operating expense is coming around **5.86%** which is less than the overall operating expense ratio of 8.30% but HO expense is also to be included since it is a significant amount.

Therefore, if the HO expense for the year 2021-22 i.e Rs. 4.11 crores is absorbed by the 46 branches then per Branch the HO expense is coming Rs. 8.94 lacs

In this case the operating expense is coming around 10.06%

Therefore, operating expense has been kept at 8.30%.

**Note-3: Risk Premium:** Pricing for the MFI loans is also determined considering the risk associated with the type of the loan, tenure of the loan, quantum of the loan and since the risk of a particular customer segment for an unsecured credit facility is high, the **Risk premium** is kept at 1%.

**Note-4 Profit Margin:** Profit Margin i.e the desired return from the MF business is kept at 1%.

Therefore, keeping in view the RBI's guidelines as cited above, and the good governance practices being followed by the Company, the following internal guidelines, policies, procedures and interest rate model have been adopted by the Company. The Board of Directors of the Company ("the Board") or any Board constituted Committee ("the Committee") as the case may be, while fixing interest rates chargeable from the customers shall be guided by this Pricing Policy. In addition to cost factors set out hereunder, the Board or the Committee shall be guided by the **market conditions** and various rules and regulations, if any, prescribed by the Reserve Bank of India or such other authority from time to time and **the Board as may have deemed fit reduce/increase (shall not exceed the IRR beyond 26%) the Ideal Interest Rate (IIR) i.e 23.30% as computed above by such basis points (eg: 2 basis points or 1 basis point) as the Board may deemed fit.**

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**Therefore, the Interest rate to be charged by UFSPL from the date of approval of this Pricing Policy shall be 23% as approved by the Board of Directors.**

Note: If there is any specific condition in an agreement with the Funding organizations such as Banks, FI, NBFC's etc. then the rate of interest shall be kept at the rate as specified in the agreement provided it does not exceed the Ideal Rate of Interest as computed above.

### **5.3 Revision to Interest Rate:**

- The Rate of Interest of Microfinance Loans is calculated and will be reviewed on Quarterly Basis.
- UFSPL does not charge more than 26% interest on reducing balance basis.
- Any change in the interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.

### **5.4 Notice to the Borrower:**

- UFSPL shall give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges, etc.
- Interest Rate will be intimated to the customer at the time of sanction/availing of the loan and the EMI apportionments towards the interest and principal will be made available to the customer.

### **5.5 Processing Fee:**

Loan Processing Fee of 1.5% on Loan amount is charged to all Loan clients against the administrative cost to handle the Loan account.

### **5.6 Insurance Charges:**

All Loans are covered with Life Insurance for both Applicant and Co-Applicant.

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## 5.7 Penalty:

- There is no pre-payment penalty on Microfinance Loans.
- UFSPL may charge penalty on delayed payment which shall not exceed 2% of the overdue amount. Such penalty shall be charged on monthly basis.

## 5.8 Disclosure:

UFSPL will publicly disclose the pricing framework and effective interest rate to clients including all charges. Such pricing information shall be disclosed on the marketing documents, loan documents.

For transparency, RBI has mandated to have an all-inclusive interest rate.

**Any changes to be made in the policy shall be subject to the discretion of the management and be approved by the Board.**