



# **LOAN PRICING POLICY**

**FY 2024-25**

Partners in Women's Empowerment



**KIARA MICRO CREDIT PRIVATE LIMITED**  
Non-Banking Financial Company

22/2, 2<sup>nd</sup> Street, Nehru Nagar, Behind CMS School, Ganapathy, Coimbatore 641006

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## **1) INTRODUCTION:**

Kiara Microcredit private limited (KMCL) is an NBFC MFI incorporated in the year of 2016 by its promoters under the Companies Act 2013 and was registered with RBI in the year 2017. The interest rate of the loans charged by the NBFC-MFIs to its microfinance borrowers had been determined and regulated by the RBI based on the cap (i.e. Cost of Fund + 10% margin or Average base rate of top 5 commercial banks \* 2.75 times whichever is low). This was de-regulated through the revised regulatory guidelines for the microfinance industry issued by RBI i.e. Circular no RBI/DOR/2021-22/89 DoR. FIN.REC. 95/03.10.038/ 2021-22 dated 14th March 2022. Under the new guidelines, KMCL shall put in place a board-approved well-documented interest rate model/approach for arriving at the all- inclusive interest rate.

Board of Directors has a key role in the interest rate pricing of KMCL as the pricing policy needs to be approved by them. Regular review and monitoring implementation of pricing guidelines shall be done by RMC (Risk Management Committee) which is a Committees of the board.

The RMC shall ensure the interest rate pricing is undertaken with necessary due diligence as the same is subject to regulatory inspection by RBI and close monitoring by SROs. The ceiling of interest rate and other charges are to be fixed by the Board of Directors. The minimum and maximum ceiling of the interest rate should be defined in the pricing policy document. KMCL shall review the ceiling on the interest rate periodically against the industry trends and standards released by the SROs.

## **2) POLICY COVERAGE:**

The Policy covers the followings:

- (a) Components of pricing applicable for all loans (Microfinance and Non-Microfinance)
- (b) Spread applicable for microfinance loans
- (c) Ceiling on the interest rate and all other charges applicable to microfinance loans
- (d) Delegation of authority for pricing approval

## **3) COMPONENTS OF PRICING FOR ALL LOANS:**

The components of pricing and their delineation are as follows:

- i) Finance Cost/Cost of Fund
- ii) Operational Expenses
- iii) Risk Premium
- iv) Expected Profit Margin

**Pricing Formula:** Finance Cost/Cost of Funds + Operational Cost + Risk Premium + Expected Profit Margin

**i) Finance Cost/Cost of Fund:**

KMCL borrows funds through various means encompassing term loans, non-convertible debentures. The Cost of Funds shall denote the Borrowing Cost and will be calculated through XIRR method. Borrowing cost shall include all costs & expenses borne by the Company in relation to borrowing or arrangement of debt, including interest rate, upfront/processing fees, collateral, legal & other charges, stamping and documentation charges, syndication/arranger fees, prepayment of foreclosures incurred to replace high-cost debts, penal charges, taxes. The expected cost of funds will be considered while determining the interest rate.

**ii) Operational Expenses**

It pertains to costs related to the end-to-end loan cycle. Considering the business model with significant human touch points, KMCL cost of operations is greatly influenced by manpower costs, collections, operations, depreciation on fixed assets, technology cost, management and administration, sales & compliance costs, etc.

**iii) Risk Premium**

It covers all the risks that the company is exposed to, including but not limited to credit risks, operational risks, market risks, and systemic risks. Apart from the client profile, products, economic, political, geographical concentration, and events like natural calamities, climate change, external events, etc. increase the risk exposure of the portfolio.

**iv) Expected Profit Margin**

KMCL ensures a reasonable profit margin for the organization to achieve steady growth and sustainable ROI for its stakeholders. At the same time, the profit margins should be reasonable so as not to put an excessive burden on customers

#### 4) SPREAD APPLICABLE FOR MICROFINANCE

The range of spread of each component for Microfinance loans is as follows:

Component	Range	Rationale
Cost of Fund	12% to 18%	It includes all costs & expenses borne by the Company in relation to borrowing or arrangement of debt, including interest rate, upfront/processing fees, legal & other charges, stamping and documentation charges, syndication/arranger fees, intermediation charges, Prepayment of foreclosures incurred to replace high-cost debts, penal charges, taxes, etc. This is calculated on XIRR method
Operational Cost	9% to 12%	It Includes costs related to the end-to-end loan cycle. Considering the business model with significant human touch points, KMCL cost of operations is greatly influenced by manpower costs, collections, operations, depreciation on fixed assets, technology cost, management and administration, sales & compliance costs, etc.
Risk Premium	Up to 3%	It covers all the risks that the company is exposed to, including but not limited to credit risks, operational risks, market risks, and systemic risks. Apart from the client profile, products, economic, political, geographical concentration, and events like natural calamities, climate change, external events, etc. increase the risk exposure of the portfolio
Profit Margin	2% to 4%	It is based on pre-tax expected ROA and net surplus. KMCL ensures a reasonable profit margin for the organization to achieve steady growth and sustainable ROI for its stakeholders. At the same time, the profit margins should be reasonable so as not to put an excessive burden on customers.

## 5) CEILING APPLICABLE FOR MICROFINANCE

The ceilings or Cap on interest rates and other charges shall be as follows –

Item	Ceiling for Microfinance Loans
Interest Rate	Up to 30% (This is the maximum ceiling for Microfinance loans. The rate will be charged keeping in view of various components such as cost of funds, operational cost, risk premium and reasonable profit margins keeping in view of the risk profile of the customer)
Processing Fee (excluding GST) (Processing Fee will be charged on the sanctioned loan amount)	Up to 2% plus GST of gross loan amount. The processing fee will not be included in margin cap or the interest cap.
Insurance Charges	As per actuals. Only actual premium of life insurance calculated on the basis of loan amount will be collected from the borrowers (insurance coverage will also include the coverage for spouse) and collected amount will be paid to insurance company/insurance agent by the company.
Prepayment penalty	Not applicable
Late payment charges on the overdue amount	Up to maximum interest charged on the overdue amount i.e. Interest on delayed payments shall be charged at Rate of Interest (ROI) from the date of EMI due to the date on which EMI is received on overdue amount only.
GST and other statutory duties & fees	As per actuals

## 6) PRICING APPROVAL

Interest rates and other charges shall be periodically approved by the RMC within the ceilings set by Board of Directors through this policy. Any deviation to the policy terms shall be approved by the Board of Directors.

## **7) TRANSPARENCY AND DISCLOSURE**

- (a) KMCL shall disclose pricing-related information to a prospective borrower in a standardized simplified factsheet/loan card in language understood by the borrower as indicated by RBI.
- (b) Interest rates and other charges/fees charged by KMCL on microfinance loans shall not be usurious.
- (c) Any fees to be charged to the microfinance borrower by KMCL shall be explicitly disclosed in the factsheet/loan card. The borrower shall not be charged any amount which is not explicitly mentioned in the standardized and simplified factsheet/loan card.
- (d) There shall be no pre-payment penalty on microfinance loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount. However, pre-payment and delayed payment shall be applicable for Non-Microfinance Loans.
- (e) KMCL shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices and branches and details on its website.
- (f) 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
- (g) The load of Risk premium may vary keeping in view of the credit score of the borrower which will be resulted into differentiation in the interest rates to the end borrower

## **8) REVIEW & MONITORING**

It is important to ensure that the KMCL undertakes a regular review of its product prices and makes suitable changes. The review shall be done on a quarterly basis or as and when required. Any deviation to the policy terms and defined ceilings beyond the delegation authority of the Risk Management Committee shall be approved by the Board.