

PAHAL FINANCIAL SERVICES PRIVATE LIMITED

LOAN PRICING POLICY

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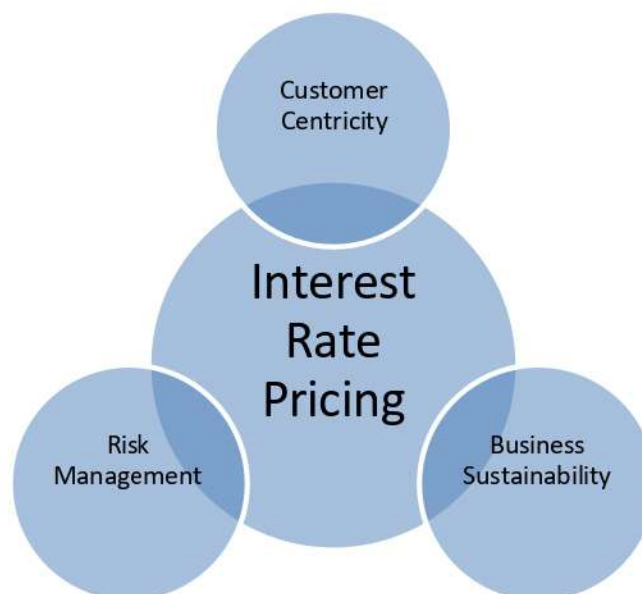
INTRODUCTION

Pahal Financial Services Private Limited (hereinafter referred to as “Company” or PFSP/L or Pahal) is registered as NBFC MFI. During the course of its operations, the company strictly adheres to various directions, guidelines, circulars, instructions, etc. as issued and stipulated by the RBI from time to time.

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 (Average base rate of top 5 commercial banks * 2.75 times). This has now been de-regulated through the revised regulatory guidelines for the microfinance industry issued by RBI on 14th March 2022. Under the new guidelines, Pahal will put in place a board-approved well-documented interest rate model/approach for arriving at the all-inclusive interest rate.

As the interest cap has been removed by the RBI, keeping in view of the double bottom line of client centricity and business sustainability, now the onus of fixing the interest rate in a responsible manner lies with the Board(s) of PFSP/L. Board(s) have a key role in the interest rate pricing of PFSP/L as the pricing policy needs to be approved by them. Regular review and monitoring implementation of pricing guidelines will be done by the Board or by Sub-Committees of the board like the Asset-Liability Committee/Interest rate pricing Committee.

The key considerations in interest rate pricing will be (i) Customer centricity, (ii) Business Sustainability, and (iii) Risk Management.



The Board(s) will ensure that 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 will be fixed by the Board, same will be monitored by Sa-Dhan on a quarterly basis. The minimum and maximum average interest rates will be defined in the pricing policy document. PFSP/L will review the ceiling

on the interest rate periodically against the industry trends and standards released by the SROs. PF SPL will intimate SROs and mention on their website what is the maximum interest rate and other charges to borrowers on the last working day of every quarter.

POLICY COVERAGE

This Board approved policy covers the following: -

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

▪ COMPONENTS OF PRICING FOR ALL LOANS

The components of pricing and their delineation are as follows:

i) Finance Cost/Cost of Fund

PF SPL borrows funds through various means encompassing term loans, debentures, CPs, subordinate debt, external commercial borrowings, etc. The Cost of Funds will denote the Borrowing Cost**.

** Borrowing cost will include all costs & expenses borne by the Company in relation to borrowing including interest rate / coupon rate , upfront/processing fees, stamping and documentation charges, , Interest Rate Swaps for ECB Transactions, withholding taxes on overseas funding, etc. 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, Pahal's cost of operations is greatly influenced by manpower costs, underwriting & collections, operations, fixed assets and infrastructure, technology, management and administration, sales, marketing & promotions, 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.

Loan loss is the annual loss due to analyzed uncollectible loans. While the loan loss may be considerably lower than the delinquency rate, it reflects loans that must be written off. Loan loss provision for few financial years will be considered while arriving at interest rate pricing.

iv) Expected Profit Margin

Pahal 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.

Below is the indicative format for the calculation of the components for the pricing:

Particulars	Details
Cost of Borrowings	
i) Interest/ Coupon/ Interest Swap cost on ECB net of Interest earned on the Term Deposits	X X X
ii) Processing Fees on Borrowings	X X X
iii) Franking Costs on Borrowings	X X X
iv) One Time trusteeship fees & Rating Fees	X X X
Cost of Borrowings (A)	X X X
Operational Cost	
i) Employee benefits expense	X X X
ii) Depreciation and amortisation expenses	X X X
iii) other expenses	X X X
Operational Cost (B)	X X X
Risk Premium	
i) Provision for Impairment	X X X
ii) Assets Written Off	X X X
Risk Premium (C)	X X X
Total Cost (D) = (A+B+C)	X X X
Amount Charged to Customer in %	
i) Interest income	X X X
ii) Processing Fees	X X X
Amount Charged to Customer in %(E)	X X X
Pre- Tax Margin (F) = (E - D)	X X X
Tax on above (G)	X X X
Post - Tax Margin (H) = (F-G)	X X X

▪ **ILLUSTRATIVE SPREAD APPLICABLE FOR MICROFINANCE**

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

Component	Range	Rationale
Cost of Funds	13%-15%	It is based on projected borrowing costs with an expected sensitivity linked to market movement.
Operational Cost	6.5%-7.5%	It is based on projected operational costs with an expected sensitivity based on cost overruns.

Risk Premium	3%-4%	It is based on the historical trend of loan loss and Geography-wise operational/credit risk observed by the company
Post Tax Margin	2 %-2.75%	It is based on expected ROA and net surplus.

▪ **CEILING APPLICABLE FOR MICROFINANCE**

The ceilings on interest rates and other charges will be as follows –

Item	Ceiling for Microfinance Loans
Interest Rate	Up to 29.25%
Upfront Fees & Charges for loan Processing (excluding GST)	Up to 1.5%
Effective Interest Rate (inclusive of all Fees & Charges)	Up to 29.50%
Prepayment penalty	Not applicable
Late payment charges on the overdue amount	No charge
GST and other statutory duties & fees	As per actuals

▪ **PRICING APPROVAL**

Interest rates and other charges will be periodically approved by the Finance Committee with the ceilings set by this policy. Any deviation to the policy terms will be approved by the Board.

TRANSPARENCY AND DISCLOSURE:

- ✓ Pahal will disclose pricing-related information to a prospective borrower in a standardized simplified factsheet/loan card as indicated by RBI.
- ✓ Interest rates and other charges/fees charged by Pahal on microfinance loans will not be usurious.
- ✓ Any fees to be charged to the microfinance borrower by Pahal or its partner/ agent will be explicitly disclosed in the factsheet/loan card. The borrower will not be charged any amount which is not explicitly mentioned in the factsheet/loan card.
- ✓ There will be no pre-payment penalty on microfinance loans. However, pre-payment and delayed payment will be applicable for Non-Microfinance Loans.
- ✓ PFSP/L will prominently display the minimum, maximum, and average interest rates charged on microfinance loans in all its offices and branches and details on its website.
- ✓ Any change in the interest rate or any other charge will be informed to the borrower well in advance and these changes will be effective only prospectively.

Client's Categorization for Interest Rate Range

PFSP/L's loan categorization system, risk management practices (management's view of the credit risk and inherent losses associated with a loan), and provisioning processes are integrally linked. The attributes of the various risk rating grades determine loan pricing, the frequency and intensity of review and analysis, the rigor of oversight, the allowance for loan losses (which should be directly correlated with the level of risk indicated by a loan's assigned risk rating grade), and the amount of regulatory capital required to absorb unexpected losses. Loan categorization systems, when integrated with portfolio management and reporting practices, enhance management's ability to detect adverse trends early and make timely, informed decisions.

Examples of criteria used in the definitions of rating grades include:

- Borrower's type (e.g., age, occupation)
- Borrower's current financial condition
- loan type (e.g., Emergency loan, unsecured consumer loans);
- Past due or delinquency status; and other relevant factors that affect repayment, including historical payment performance
- Repayment history and current capacity to pay
- Vintage of customer with the Company; and
- Other borrower and facility characteristics that could affect the prospects for collectability of principal and interest.

Review & Monitoring

It is important to ensure that the PFSP/L undertakes a regular review of its product prices and makes suitable changes. The review will 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 Finance Committee will be approved by the Board.