

PAHAL FINANCIAL SERVICES PRIVATE LIMITED

LOAN PRICING POLICY

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Approver	Board of Directors
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Policy Owner	Operations and Finance Department

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INTRODUCTION

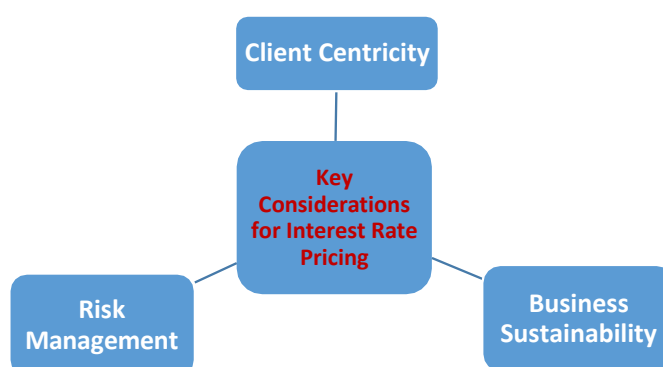
Pahal Financial Services Private Limited (hereinafter referred to as “Company” or PFSP or Pahal) is registered as NBFC MFI. During the course of its operations, the company strictly adheres to various directions, guidelines, circulars, instructions, etc. as issued and stipulated by the RBI from time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

Boards have a key role in the interest rate pricing of PFSP as the pricing policy needs to be approved by them. Regular review and monitoring implementation of pricing guidelines shall be done by Board or by Sub-Committees of the board like the Asset-Liability Committee/Interest rate pricing Committee.

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



The Boards 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, same will be monitored by Sa-Dhan on a quarterly

basis. The minimum and maximum ceiling of the interest rate should be defined in the pricing policy document. Pahal shall review the ceiling on the interest rate periodically against the industry trends and standards released by the SROs. PFSP shall 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

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

** Borrowing cost shall include all costs & expenses borne by the Company in relation to borrowing or arrangement of debt, including interest rate, coupon, upfront/processing fees, collateral, legal & other charges, stamping and documentation charges, arranger fees, listing expenses, brokerage/commission/advisory/intermediation charges, hedging costs, liquidity management premium, prepayment of foreclosures incurred to replace high-cost debts, penal charges, taxes, 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 shall 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.

▪ 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% - 8%	It is based on projected operational costs with an expected sensitivity based on cost overruns.
Risk Premium	1% - 3%	It is based on the historical trend of loan loss and operational/credit risk observed by the company
Margin	1.5% -3%	It is based on pre-tax expected ROA and net surplus.

▪ CEILING APPLICABLE FOR MICROFINANCE

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

Item	Ceiling for Microfinance Loans
Interest Rate	21% - 29%
Upfront Fees & Charges (excluding GST)	1% - 4%
Prepayment penalty	Not applicable
Late payment charges on the overdue amount	Upto 2% on the overdue amount
GST and other statutory duties & fees	As per actuals

▪ PRICING APPROVAL

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

TRANSPARENCY AND DISCLOSURE:

- ✓ Pahal shall 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 shall not be

usurious.

- ✓ Any fees to be charged to the microfinance borrower by Pahal or its partner/ agent shall be explicitly disclosed in the factsheet/loan card. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet/loan card.
- ✓ 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.
- ✓ PFSP 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.
- ✓ 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

Review & Monitoring

It is important to ensure that the PFSP 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 Finance Committee shall be approved by the Board.