ASIRVAD MICRO FINANCE LIMITED

INTEREST RATE POLICY

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Approved by	Board of Directors
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Policy Owner	Operations
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1. INTRODUCTION

The Company has been following certain procedures and practices in the matter of fixing interest rates on gold loans and other loans (assets) and NCDs/Subordinated Bonds (liabilities). RBI has vide circular DoR.FIN.REC.95/03.10.038/2021-22 dated 14 March 2022 (Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022) directed NBFCs to have a documented Interest Rate Policy / Model approved by the Board of Directors which would lay down internal principles and procedures in determining interest rates and other charges on the loan products offered by NBFCs.

The specific points referred to in the above referred RBI circular are,

- Charging of excessive interest rates by NBFCs.
- The need for adoption of an interest rate model along with approach for gradations of risk & rationale for charging differential rates.
- Disclosure of rates of interest rates, changes thereof and publicity thereto.
- Adoption of annualized rates of interest while dealing with customers.

2. OBJECTIVES

The main objectives of the interest rate policy are to:

- Ensure that interest rates are determined in a manner as to ensure long term sustainability of business by taking into account the interests of all stakeholders,
- Develop and adopt a suitable model for calculation of a reference rate,
- Enable fixation of interest rates which are reasonable: both actual and perceived.
- Ensure that computation of interest is accurate, fair and transparent in line with regulatory expectations and market practices.
- Charge differential rates of interest linked to the risk factors as applicable.
- Facilitate transition to income recognition norms that may be stipulated by RBI in future and adoption of best practices.

3. ASIRVAD Benchmark Lending Rate (ABLR)

All banks in India, following RBI directions of March 2016, fix MCLR for different maturities as an internal benchmark for setting floating rate of interest. Banks are also allowed to offer loans linked to external benchmarks. MCLR comprises, marginal cost of funds, operating costs and tenor premium.

While the aforesaid directive is applicable for Banks RBI has not stipulated any specific requirement for NBFC MFIs for computation of lending rate
Accordingly the Company proposed to compute the rate (ABLR) based on the following parameters

3.1 Maximum/ Ceiling Interest Rate on Loans

Keeping in view the regulatory (RBI) directions governing NBFCs and also the Fair Practices Code the maximum interest rate chargeable shall not exceed **36%** p.a during the normal loan tenure across all states / regions. Penal interest and other out of pocket expenses charged from the borrowers will be exclusive of the ceilings mentioned above. The above-mentioned ceilings shall be reviewed periodically at quarterly (calendar) intervals or more frequently, as and when required, by the Board of Directors keeping in view regulatory guidelines / directives, intensity of competition in the market, net interest margin target, market rates etc.
Within the overall ceiling mentioned above the actual rate chargeable on MFI loans and other loans will be based on the following parameters
a) Average cost of funds during the last 4 quarters
b) Cost of capital based on an average ROE/NW of 20%
c) Liquidity premium (being the difference between the current yield and historic yield of same tenor G-sec)
d) Operational expenses component (average of last 4 quarters)
e) Credit risk premium (Separate for MFIs and other loans based on the average credit loss component during the last three years **Or ECL**)
f) Processing Charges —One time processing fee will be charged based on tenue of loan at the rate of 1% for each year subject to a minimum of 2% and maximum of 5%.

The rate computed as above are attached as annexure 1. The rate will be reviewed and modified by management and will be part of ALCO presentation.

Revisions will be applicable on a prospective basis from the date as fixed by management.

4. Risk Based Gradation of Interest Rates.

The Lending Rate may vary for different categories of borrowers, considering profile of the customer, tenure of customer relationship, past repayment track record, customer segment, market reputation, inherent credit and default risk in the products, subventions and subsidies available, ancillary business opportunities, future potential, group strength and value to lender group, overall customer yield, Loan-to Value (LTV) ratio, nature, and value of primary and collateral security etc. The Lending Rate is determined on a case-to-case basis. Pricing of each loan product will be derived from ABLR after considering the following risks.

4.2 Credit risk premium

Credit risk premium shall be computed based on the portfolio behaviour, Probability of Default (PD) and Loss Given Default (LGD), Credit Score of the borrowers etc.

5. Pricing of micro finance loans

5.1 Rate of interest, benchmarking to ABLR- Considering the nature of the micro finance loans: The pricing of the product will be based on the ABLR

5.2 Rebate may be considered on case to case basis at the time of full settlement as per approval of Managing Director.

5.3 Due date for servicing interest

Interest will be calculated from the date of disbursement and shall be charged till day of closure of the account. The due date for payment of interest shall run from the date of disbursement.

5.4 Interest on overdue amount

When any amount remains overdue without FULL servicing is subject to additional interest at a rate not exceeding 3% per month (i.e. at the contracted rate plus 300 basis points) on the amount due and payable.

6. Pricing of gold loans

6.1 Rate of interest, benchmarking to ABLR.

• Considering the nature of the Gold loans (collateral valuation being vital) the major inherent risk is the Loan to Value (LTV) or Loan per Gram. Since a higher LTV translates to a higher risk it stands to reason that LTV and Interest rate should be correlated. Accordingly, assuming all other factors to be the same a higher LTV loan should attract a correspondingly higher interest rate as compared with a lower LTV loan.
• The LTV linkage with interest rate shall be at the time of sanction of loan and cannot be changed subsequently due to movements in the overall collateral coverage arising from market movements in gold prices,
• Where substantially low rates of interest are charged on certain / special schemes or in specified regions/areas / branches the maximum amount per borrower shall be
appropriately restricted and checks put in place to prevent misuse of the facility. Such schemes shall be periodically reviewed and appropriately modified to meet with the overall objectives of floating such schemes.

6.2 Rebate on interest Schemes offering rebate on the interest rate may also be considered on the ground that customers who regularly service interest payable on loans deserve to be incentivized. The extent of rebate may vary from scheme to scheme but may not exceed 3% pa (300 basis points on the contracted rate). Rebate may be considered at the time of full settlement in cases where interest payable has been serviced by the due dates without any default on all occasions. However, a grace period of 3 calendar days may also be considered and built into the loan scheme.

6.3 Due date for servicing interest

Interest will be calculated from the date of disbursement and shall be charged for the day of closure of the account. The due date for payment of interest shall run from the date of disbursement.

6.4 Penal Interest on overdue loans

When the loan remains outstanding beyond the 'normal' tenure (Between 3 Months and 1 year) without FULL servicing of interest due penal interest may be charged at a rate not exceeding 3% pa (i.e. at the contracted rate plus 300 basis points) on the amount due and payable. Penal interest provisions shall be calculated and will apply only after the expiry of the 'normal' tenure. Penal interest may be waived, in full or in part, in deserving cases with the reason being recorded by Managing Director.

7. Pricing of products of other segments, benchmarking to ABLR.

Rate of interest for products of each vertical shall be benchmarked to ABLR. While pricing each product underlying credit risk premium and liquidity risk premium shall be factored in. Products offered and features thereof shall be straight forward, transparent and simple to understand so as to comply with the letter and spirit of RBI guidelines. Features of each product, especially the differential features, should be clearly explained to and understood by the prospective borrower before sanction. Operational personnel should be well equipped in this regard.

8. Lending below ABLR

As a business organization to meet competition and promotion of products, ASIRVAD will have to offer interest rates below ABLR. Managing Director is empowered to approve interest rate below the ABLR bearing in mind the overall profitability of the company, competitive scenario, business focus and the underlying risk exposure.

9. Variations / taxation

• The actual rates from time to time shall be fixed by the ALCO within the band / limits mentioned under each head and reviewed at at-least half yearly intervals.
• ALCO shall have the authority to implement any other reasonable / justifiable charge from time to time including changes in taxation regulations.

10. Asset Liability Management Committee (ALCO)

The ALCO shall hold meetings at calendar quarterly intervals or more frequently when required.
Review of interest rates shall be periodically taken up by the ALCO within the overall stipulations of the Interest Rate Policy approved by the Board of Directors.

The ALCO shall consist of the under mentioned functionaries

- Managing Director & CEO Chairman
- Chief Financial Officer Member
- Head of Risk Member
- Chief Operation Officer
- Chief Technical Officer Invitee

11 Powers of ALCO to vary interest rate

There may be exceptional economic situations that may result in a change in the liquidity environment and the availability of funds to the Company. The ALCO under the Chairmanship of MD will have the authority to amend the rates and the indicative table above with appropriate disclosure and these shall be presented to the next Risk Committee meeting for ratification.

12. General

- Interest rate re-setting - To mitigate interest rate risks, sanctioning Authorities shall have the powers to prescribe rate of interest reset on quarterly / half yearly / annual / 2- or 3-year basis. Interest reset clause shall be incorporated in the sanction letters, wherever applicable. Loan agreements with the borrowers shall also be modified to include interest reset clause (only in the case of floating rate of interest).
- **Penal Interest on overdue balances shall be accounted on realisation basis only.**
- **Processing Fees – Will be deducted from the disbursement amount itself or collected in advance.**
- **Appropriation of charges and interest: Any remittances received towards loan repayment shall be adjusted towards regular interest and the balance shall be adjusted towards principal, other charges and overdue interest as per terms in this sequence.**
- **Internal Rate of Return (IRR) - To arrive at the expected IRR, net disbursement being made (Loan amount (-) processing charges) and EMI during the tenure of the loan shall be taken into consideration.**
- Advance payments made by the borrowers shall not be reduced from the principal for computation of interest, unless ASIRVAD approves modifications in the repayment schedule.
- The rates of interest for the same product and tenor availed during same period by different customers need not be standardized but could be different for different customers depending upon consideration of factors like credit risk, liquidity risk and tenor risks.
- ASIRVAD shall intimate the borrower loan amount, annualized rate of interest, periodicity of interest application, tenure and amount of monthly instalment application at the time of sanction of the loan.
- ASIRVAD also offers variable and equated monthly instalments schemes.

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