

Sriffin Credit Private Limited

Policy for determining Interest Rates, Processing and Other Charges

1. INTRODUCTION

Sriffin Credit Private Limited ("The Company") is a registered Non-Banking Financial Company – Micro Finance Institutions "NBFC-MFI" provides financial services to low-income households across Bharat with mainstream financial solutions. The Company's main business is offering micro loans to low-income household in cost effective and transparent manner.

The Reserve Bank of India ('RBI') notified Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 ('Directions') dated March 14, 2022 which are aimed at providing a level playing field to all entities involved in the microfinance business.

The Board of Directors of the Company has adopted the Policy for Determining Interest Rates, Processing and Other Charges ("the Policy") in accordance with the Directions to lay out appropriate internal principles and procedures in determining interest rates, processing and other charges.

Accordingly, this Policy document has been prepared in line with aforesaid Directions to establish a well-documented interest rate model, delineation of the components of interest rate, range of spread of each component and a ceiling on the interest rate and other charges applicable to microfinance loans.

2. OBJECTIVE

The main objectives of this Policy are to:

- i Articulation of interest rate model and approach for arriving at all-inclusive lending rate;
- ii Components of Interest rate;
- iii Range of spread of each component;
- iv Ceiling on the interest rate and other applicable charges;
- v Interest rates and other charges not to be usurious;
- vi Disclosure of pricing related information in Fact sheet to the Borrower;
- vii Display minimum, maximum and average rate on microfinance loans;
- viii Disclosure of range of interest rate charged to self-regulatory organizations (the company may share the rates with MFIN/Sa-dhan, other SRO's etc.)

3. ROLE OF BOARD OF DIRECTORS

In order to ensure effective implementation of the Interest Rate and other charges, the Board may delegate the implementation of the Policy and its operational aspects to the Chief Financial Officer / Executive Director and / or any other Committee or Sub-Committee of the Board of Directors as deemed fit.

4. DETERMINATION OF INTEREST RATES ON LOANS AND CREDIT FACILITY

The Company currently lends money to its customer under Joint Liability Groups, microfinance loan which are collateral-free loan given to a household having annual household income up to ₹3,00,000, through fixed interest rate loans to one category of customers for income generating activities.

The interest rate of each product is decided from time to time, giving due consideration to the following factors:

1. Cost of Funds:

- On Equity: To run the business, the Company has been infused with equity share capital in huge proportions, and accordingly the cost of such equity being infused shall be taken into consideration.
- On Borrowings: The Company has to raise debts from various lenders in different forms to run the business and the cost of borrowings should be infused while considering determining the applicable interest rate to customers.

2. Operating Cost: It should include employee expenses, office and infrastructure related fixed and variable costs, operations costs, sales and marketing expenses, etc while considering the applicable interest rate to customers, reflecting the cost of delivering credit at closer to the doorsteps of the borrowers.

3. Credit Risk: Risk related to loss of credit due to short tenure of loan, nature of facility, ticket size of loan, geographical condition, customer segment, sourcing channels, stability in earnings and employment, financial position, past repayment track record with us or other lenders, external ratings of customers, credit reports, customer relationship, future business potential, results from digital verifications etc. Therefore, risk of recovery of loan can be considered to be in the medium to high category and accordingly the risk premium would be reckoned.

4. Profit Margin: Fair profit margin is added to arrive at the lending rate.

Basis the above indicators, the Company has analyzed various cost components to arrive at the Interest rate as detailed below:

S No.	Component	Percentage (%)	Remarks
1	Cost of funds	14.00%–14.50%	<ul style="list-style-type: none"> Cost of borrowing for FY24 was 13.90%; Management expects the borrowing rate to be in same range for FY25.
2	Operating cost	10.75%-11.00% (target cost for FY25)	<ul style="list-style-type: none"> The Company incurred operating cost of 142.00% on its Assets under management (“AUM”) for FY24; The Company incurred higher operating cost since it’s the first year of business and the Company has invested heavily on the tech development and the can be monetized in future;
3	Standard Asset provision	0.25%-1.00%	<ul style="list-style-type: none"> Standard assets provisioning of microfinance loans; Currently the Company extends JLG loans only for 18 months; Management expects cost of provisioning to be 0.25%-1.00% for FY25.
4	Risk premium	0.50%-1.00%	<ul style="list-style-type: none"> To cover external risk factors/ like floods, political issues, fake documentation etc. resulting in credit loss; The same will be reviewed every 6 months with Risk Committee.
5	Expected profit margin	0.00%	<ul style="list-style-type: none"> The Company incurred a loss of ₹1 Cr. for FY23 and ₹9 Cr. for FY24 primarily on account of higher operating cost including software infrastructure development.
Interest Rate on the Microfinance Loan		25.50%-27.50%	

Based on the above points, Board of Directors of the Company has decided to charge the applicable interest at a band of 25.50% to 27.50% on diminishing method for the Income Generating Loan Product.

The Company currently charges 26.50% p.a. w.e.f. October 18, 2023.

5. PROCESSING FEES / COMMITMENT FEE / OTHER CHARGES

Apart from interest rate, the Company will levy processing fees @ 1.50%* + plus applicable taxes on the loan value and may charge other charges (including stamp duty, GST and other cess at the rates as applicable from time to time). Any revision in these charges would be implemented prospectively (with due communication to customers) on its Borrowers for loans sanctioned.

** Revision in the Processing Fee from 1.00% to 1.50% w.e.f. April 01, 2024.*

6. PENAL CHARGES

There will be no penalty charged on delayed payment on the Income Generating Loan Product and the Company shall not collect any Security Deposit/ Margin from the Borrower.

7. APPROACH FOR GRADATION OF RISK

The interest rate applicable for a customer shall be dependent on their geography, loan product, vintage with the Company & risk profile of customer

8. COMMUNICATION TO CUSTOMER

The Company shall communicate the effective rate of interest to customers at the time of sanction / availing of the loan through the acceptable mode of communication. Interest Rate Policy may be uploaded on the website of the company and any change in the interest rates and charges may be uploaded on the website of the Company.

Changes in the rates and charges for existing customers, if any, would also be communicated to them through various modes communication such as on the website, and/or vide email, letters, SMS, verbal communication at the center meeting etc.

9. WAIVER / REDUCTION OF CHARGES

Any waiver or reduction of charges to Borrowers at organisational level, the Board is empowered to authorise, such powers to the Chief Financial Officer / Executive Director and / or any other Committee or Sub-Committee of the Board of Directors as deemed fit.

10. POLICY REVIEW

The said Policy shall be reviewed by the Board from time to time to make amendments if considered necessary.