Loan Pricing Policy 6.0

Digamber Capfin Limited

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INTRODUCTION

Digamber Capfin Limited (hereinafter referred to as "Company" or DCL or Digamber) 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 (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, Digamber shall put inplace 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 Risk Management Committee (RMC) of DCL.

Board of Directors has a key role in the interest rate pricing of DCL as the pricing policy needs to be approved by them. Regular review and monitoring implementation of pricing guidelines shall be done by Risk Management Committee (RMC) 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. Digamber shall review the ceiling on the interest rate periodically keeping in view of the industry trends and standards released by the SROs.

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 LOANS

The components of pricing and their delineation are as follows:

i) Finance Cost/Cost of Fund
ii) Operational Expenses
iii) Credit Risk Premium (for determination of risk based price)*

iv) Product Risk Premium
v) Expected Profit Margin

* on the basis of Credit Score

Formula of Pricing: Finance Cost/Cost of Funds (on the basis of Extended Internal Rate of Return method) + Operational Cost + Credit Risk Premium+ Product Risk Premium + Expected Profit Margin

Periodicity of calculation: For better and more precise measure, the period for computing the pricing should not exceed one year and should not be less than one month.

i) Finance Cost/Cost of Fund

DCL borrows funds through various means encompassing term loans, debentures, external commercial borrowings, subordinate debts etc. The Cost of Funds shall denote the Borrowing Cost and will be calculated through Internal Rate of Return method.

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, impact of collateral, syndication/arranger fees, 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, Digamber's cost of operations is greatly influenced by manpower costs, underwriting & collections, operations, depreciation on fixed assets and infrastructure, technology cost, management and administration, sales, marketing & promotions, Legal & compliance costs, etc.

iii) Credit Risk Premium

Credit Risk Premium based on the credit score of the borrower. The company may adopt or explore the credit risk based pricing methodology for deciding the pricing of the loan on the basis of the credit risk involved with the borrower. Indicative methodology is given below given table:-

Particulars	Credit Score Range	Credit Risk Premium
Credit score	751 and above	0.00%
	701 and 750	0.25%
	651 to 700	0.50%
	601 to 650	0.75%
	401 to 600	1.00%

iv) Product Risk Premium

The company deals in the unsecured loan product and carries a high risk which has been increased from last some time. Since the product is unsecured hence there are very minimum alternatives and solution for the recovery of the loan.

The main risks involved are as under (not conclusive):-

- Moral hazard if borrowers assume they won't face consequences for defaulting.
- Lack of financial literacy leading to misuse or misunderstanding of products.
- External factors like economic downturns, natural disasters, or political instability.
- Over-indebtedness due to multiple borrowings.
- Rumors like Karza Mukti (Loan waivers) through which borrowers behavior has been changed and they consider it as right to not to pay etc.
- Targeted segment which carries extra risk of misusing the legal provisions which protects them
- Increasing challenges related to ring leaders

The calculation of the Product Risk Premium will be done based on the past trends in the segment.

Since there is equal risk exists for the segment hence the Product Risk Premium will be uniform for all the geographies where the company operates and for all of its loan products.

v) Expected Profit Margin

Digamber ensures a reasonable profit margins 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 borrowers.

vi) As per the Risk Management Policy of the company and wherever required the pricing may include liquidity cost (based on risk scenarios). (refer Risk Management Policy for the methodology and other details)

SPREAD APPLICABLE FOR MICROFINANCE

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

Component	Range	Rationale
Cost of Funds	13% to 15%	It includes all costs & expenses borne by the Company as mentioned above. This is calculated on Extended Internal Rate of Return method. Formula of calculating the Cost of Fund is given in the methodology which shall form part of this policy.
Operational Cost	7% to 9%	It includes costs related to the end-to-end loan cycle. Considering the business model with significant human touch points, Digamber's cost of operations is greatly

		influenced by manpower costs, underwriting & collections, operations, depreciation on fixed assets and infrastructure, technology cost, management and administration, sales, marketing & promotions, compliance costs, etc. Formula of calculating the operational cost is given in the methodology which shall form part of this policy.
Credit Risk Premium	As per indicative methodology as mentioned in table given above	Credit Risk Premium (based on the credit score of the borrower). The company may adopt or explore the credit risk based pricing methodology for deciding the pricing of the loan on the basis of the credit risk involved with the borrower.
Product Risk Premium	Up to 5%	It covers all the risks as mentioned above. Basis of the calculation of Product Risk Premium is given in is given in the methodology which shall form part of this policy.
Profit Margin	Up to 4.00%	It is based on post-tax expected ROA and net surplus. Digamber 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 borrowers. The company anticipates the margin up to 4.00% which includes partly upfront as one time processing fee and remaining margin which will be amortized over a period of the loan tenure as part of cost of fund. The percent of the same will be decided from time to time by the Risk Management Committee. Rationale of profit margin: The profit margins are set keeping in view the need of keeping the company profitable even during the adverse period such as industry/economic downtime. The profit margins are reasonable and will not put excess burden on the customer. This moderate profit margin ensures long-term organizational stability rather than short-term profit maximization and will support capacity building, staff training, technology adoption, and expansion of outreach, which are critical for mission-aligned growth. This is reasonable at par to the industry and keeping in view of possible ups and down and well within the framework as decided by RBI from time to time.

CEILING APPLICABLE FOR MICROFINANCE & NON MICROFINANCE LOANS

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

Item	Ceiling for Microfinance & Non Microfinance Loans
Interest Rate	Up to a maximum of 33% (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, product risk premium and reasonable profit margins keeping in view of the risk profile of the borrower.
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 be a component of profit margin of the company. Rationale: The company needs cash in-flows for meeting its working capital requirements. The processing fee is not intended to duplicate operational cost recovery but to supplement cash flows specifically tied to new loan (including top-up) disbursement activities.
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	No Penal interest will be charged by the company for delay. For Late Payment of EMI by the borrower, the broken period interest will be charged on the EMI outstanding amount for the period of delay at the rate of interest charged from the borrower.
GST and other statutory duties & fees	As per actuals

Methodology of all loans whether microfinance or non-microfinance the ceiling shall be same.

The interest to be charged will be rounded off to the nearest rupee.

Information related to interest rate and charges shall be disclosed in Key Fact Statement and other related documents along with other relevant information as per the various applicable guidelines applicable on the company.

Other than above the company shall also collect the insurance premium charges from the customers against the life insurance as credit shield for onward remittance to the insurance company. Although this amount is collected by the company on behalf of the insurance company but as per the applicable guidelines of Reserve Bank of India the details of insurance charges will be shown in the Key Fact Statement and other documents wherever required and the same will be considered while calculating the APR for the loan from borrowers' point of view and shall be disclosed in various documents wherever required including KFS.

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.

TRANSPARENCY AND DISCLOSURE

- ✓ Digamber shall disclose pricing-related information to a prospective borrower in a standardized simplified factsheet/Key Fact Statement/loan card in language understood by the borrower as indicated by RBI.

- ✓ Interest rates and other charges/fees charged by Digamber on microfinance loans shall not be usurious.

- ✓ Any fees to be charged to the microfinance borrower by Digamber shall be explicitly disclosed in the factsheet/Key Fact Statement/loan card. The borrower shall not be charged any amount which is not explicitly mentioned in the standardized and simplified factsheet/Key Fact Statement/loan card.

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- ✓ For Micro Finance Loans, no Penal interest will be charged by the company for delay. For Late Payment of EMI by the borrower, the broken period interest will be charged as the EMI outstanding amount for the period of delay at the rate of interest charged from the borrower.

  The above terms & condition will be duly disclosed to the borrower at the time of on boarding the borrower.

- ✓ There shall be no pre-payment penalty on microfinance loans. However, pre-payment and delayed payment shall be applicable for Non-Microfinance Loans.

- ✓ DCL 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

- ✓ Any non-qualifying / non microfinance loans the maximum interest rate charged can be higher by upto 4% of maximum interest rate charged on microfinance loans.

- ✓ Issuance of non-credit products will be with full consent of the borrowers and fee structure for such products will be explicitly communicated to the borrower in the loan card itself.

- ✓ The load of Product 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

  KFS and other documents shall show the Annual Percentage Rate (APR) of the loan including rate of interest, processing fee and insurance and other charges taken fromthe customer. The calculation of APR shall be done on IRR basis.

REVIEW & MONITORING

It is important to ensure that the DCL 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.

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