



**Centrum Microcredit Limited**

**Pricing Policy**

**Version 1.0**

**May 03, 2021**

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### 1. Document Version

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<b>Author</b>	Payal Somani/Prateek Dey
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<b>Reviewed By</b>	Prashant Thakker/Praveen Saha/ Hariharan Iyer
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## 2. Introduction

Reserve Bank of India (RBI) vide its Guidelines on Fair Practices Code for NBFCs has directed that:

- The Board of each applicable NBFC shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin etc.; and determine the rate of interest to be charged for loans and advances
- Boards of NBFCs, shall lay out appropriate internal principles and procedures in determining interest rates and processing and other charges

Accordingly, this note describes the current Interest Rate policy/ Pricing Policy for Centrum Microcredit Limited ("CML/ Company").

## 3. Objective

This policy is aimed to provide a framework on the pricing of all the products offered by CML, which shall be compliant with extant RBI/SRO directions/guidelines.

## 4. Pricing for Qualifying Assets

- i) There shall be only three components in the pricing of the loan viz. the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof)
- ii) Margin cap, cap on the difference between the amount charged to the borrower and the cost of funds to the CML, shall not exceed 10%
- iii) The interest rates charged by CML to its borrowers shall be the lower of the following:
  - a) The cost of funds plus margin as indicated in para (i) above; or
  - b) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be as advised by RBI on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter
- iv) CML shall ensure that the average interest rate on loans sanctioned during a quarter does not exceed the average borrowing cost during the preceding quarter plus the margin, within the prescribed cap
- v) The maximum variance permitted for individual loans between the minimum and maximum interest rate shall not exceed 4%
- vi) The average interest paid on borrowings and charged by CML shall be calculated on average monthly balances of outstanding borrowings and loan portfolio respectively. The figures shall be certified annually by Statutory Auditors and also disclosed in the Balance Sheet
- vii) Processing charges shall not be more than 1% of gross loan amount. Processing charges shall not be included in the margin cap or the interest cap
- viii) CML shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges, where recovered, shall be as per IRDA guidelines

### 5. Pricing for Non-Qualifying Assets

As clarified in the FAQs issued by RBI dated October 12, 2017 for NBFC-MFIs<sup>1</sup>, pricing regulations as stated above (for Qualifying Assets), including variance norms shall not be applicable for the non-Qualifying assets. Hence, the Rate of Interest on Non-Qualifying Assets may exceed the margin cap defined above. The pricing shall be governed by the following guidelines:

- i) The rate of interest charged can vary from 13% to 30% depending on the nature of the loan product
- ii) Pricing for each type/variant of loan falling under the Micro Enterprise Loan (MEL) category shall be defined in the specific product/program note of the various MEL type/variant
- iii) Processing charges (fees and other origination charges) for each type/variant of loan falling under the MEL category can be to up to 5% flat
- iv) Within the Non-Qualifying Assets, if the borrowing entities are corporate in nature (wholesale loans to companies), done either as a direct loan or taken over through Direct Assignment (DA) route, the pricing to be decided based on negotiations with the corporate borrower or the originator of the DA asset

The Rate of Interest offered to MEL and Wholesale category customers shall vary based on multiple factors, including specific product parameter, tenor, cost of funds, nature of sourcing, market conditions and competition. As part of the Non-Qualifying Assets, CML is providing finance to individuals across various Micro Enterprise Segments with varying risk parameters. Hence, it is important to highlight that the rates of interest for similar products, availed for same tenor during the same time shall not be standardized.

In case of non- Qualifying assets, the business team has to obtain specific approval from MANCOM for pricing of any new product/program, sourced through CML's own staff or through tie-up with Service Providers (SP) during launch.

### 6. Other General Regulatory Guidelines

'Qualifying and Non-Qualifying Assets' are as defined in the extant RBI Directions for NBFC-MFIs.

CML staff, as part of their training will be familiarized with Fair Practices Code and Code of Conduct of CML which is in line with extant RBI/SRO directions/guidelines. Staff will be under instruction to transparently explain the components of the pricing to borrowers when they apply for a loan.

Other General Guidelines are as enumerated below:

- i) The effective annualized rate of interest charged shall be disclosed to the borrower in the loan card/ any other loan documents in a physical or digital form
- ii) Interest rate will be calculated on a reducing balance basis for each product
- iii) The effective annualized rate of interest charged by CML shall be displayed in all its offices, in the literature issued by it and on its website
- iv) Any changes in interest rate and charges shall be effective only prospectively
- v) There shall be no other charges like late-payment /pre-payment/penal interest/ cheque bounce charges etc for Qualifying Assets
- vi) However, these charges shall be charged for Non-Qualifying Assets. The penal interest, that

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<sup>1</sup> <https://m.rbi.org.in/Scripts/FAQView.aspx?id=102>

- vii) may be charged for Non-Qualifying Assets shall be mentioned in bold in the loan documents  
For Non-Qualifying Assets, it shall be communicated explicitly in the sanction letter/ loan card issued in physical or digital form that the interest rate is determined after taking into account broad parameters like customer profile, financials, sources of funds, nature of lending etc.; and hence rate of interest may differ across borrowers
- viii) Interest would be charged, and recovered on a daily, fortnightly, monthly, quarterly basis or such other periodicity as may be approved by the designated authority. Specific terms in this regard would be addressed through the relevant product/program note
- ix) Claims for interest rate waiver, penal charges or any other charges or fees mentioned above will be guided by the company policies/ business decisions around it. Entertaining of such requests would be at the sole and absolute discretion of CML

### Notes:

- 1) This Policy shall be updated from time to time to keep it in line with the requirements of business and in order to observe compliance with the applicable rules/ regulations/ statutes
- 2) In case of conflict between this Policy and the regulatory/ statutory provisions, the latter shall prevail
- 3) The Policy shall stand automatically amended in case of any regulatory/ statutory amendments