

2025

Micro-Credit Pricing Policy

Hindusthan Microfinance Pvt. Ltd.
(HMPL)



Micro-credit Pricing Policy

Foreword

This **Micro-credit Pricing Policy** records in detail the method and guidelines for pricing of microfinance loans under the RBI guidelines dated 14th March 2022 and subsequent guidelines by the RBI and Self -Regulatory Organizations (SROs)

All organizational staff working under the microfinance programme of **HMPL** are required to adhere to the above pricing policy, in letter and spirit. Material violations of the **Micro-credit Pricing Policy** by staff will be treated as misconduct which, if proven, will result in punishment as permitted by the appropriate standing orders.

The **Micro-credit Pricing Policy** has been approved by the Board of Directors of HMPL and subsequently reviewed by them will serve as a guide for reference and to be followed for any issue related to the pricing of microfinance loans disbursed by HMPL.

Chairman /Executive Director

Table of Contents

SR. NO	DESCRIPTION	PAGE NO
1.0	Introduction	05
2.0	Role of Board of Directors	06
3.0	Components of Interest Rate Pricing	07
4.0	Fee and Charges	09
5.0	Review	10
6.0	Compliance	10
7.0	1. Disclosure	10-12
	Annexure- Key Fact Statement	13
	Part II (Other qualitative information)	14
	Part 3: Illustration for computation of APR for Retail	15
	Annex C Equated Periodic Instalment (EPI)	16

Acronym Glossary

HMPL	Hindusthan Microfinance Pvt Ltd
KYC	Know Your Customer
RBI	Reserve Bank of India
RE	Regulatory Entity
SROs	Self-regulatory organisations
eKYC	Electronic know your customer
Op-ex	Operational expenses
LLR	Loan Loss reserve
RP	Risk premium
EPM	Expected profit margin
PF	Processing Fees
APR	Annual Percentage Rate
KFS	Key fact statement
PLR	Prime Lending Rate

1. INTRODUCTION

RBI's harmonized policy guidelines on Microfinance of March 14, 2022 [applicable to all REs], had envisaged deregulating the pricing (interest rate charged to customers) for NBFC-MFIs to ensure that microcredit pricing is fair, transparent, and competitive

Main Features of RBI Guidelines:

Each RE shall put in place a board-approved policy regarding pricing of microfinance loans which shall, inter alia, cover the following:

- (i) A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate.
- (ii) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component, based on objective parameters.
- (iii) The range of spread of each component for a given category of borrowers; and
- (iv) A ceiling on the interest rate and all other charges applicable to microfinance loans.

Interest rates and other charges/ fees on microfinance loans should not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.

Each RE shall disclose pricing related information to a prospective borrower in a standardized simplified factsheet. Each RE shall prominently display the minimum, maximum and average interest rates charged on micro-finance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.

SROs would publish a range of interest rates

Earlier the Interest rate to be charged by MFIs to borrowers had been regulated by the RBI based on the cap (Average base rate of top 5 commercial banks*2.75 times). This has been de-regulated through the regulatory guidelines of the RBI dated 14th March 2022 referred to the above. Based on the new regulations all REs providing microfinance loans shall put in place a Board -approved well documented interest rate model/ approach for arriving at the all-inclusive interest rate. As the interest rate cap has been removed by the RBI, the onus of fixing the interest rate in a responsible manner, keeping in view of the double bottom line of client centricity and business sustainability lies with the Boards of MFIs/REs.

The RBI vide its circular dated 15 April 2024 has directed to introduce Key Financial Statement (KFS) with effect from 1st October 2024 to provide additional information to microfinance borrowers . The SROs have also conveyed Guiderails for microfinance sector to address regulatory concerns on various aspects of lending .

In the light of the above directions of the RBI and subsequent guidelines of SROs , coupled with industry best practices ,HMPL has formulated its own Micro Credit Pricing policy with the following objectives :

OBJECTIVES:

- a) To arrive at the benchmark rates to be adopted for different categories of customer segments.
- b) To determine pricing, based on risks associated with particular loan.
- c) To safeguard the interest of the borrowers with respect to interest on loans, complying with the Fair Practice Code (FPC) , adopted by the Company as specified by the RBI /SROs;;
- d) To enable the customers to approve the terms and conditions/ methodology upon which the interest rates are arrived at from time to time.
- e) To empower the Board to decide pricing, keeping in view all relevant factors.
- f) To maintain transparency, and fairness in pricing and
- g) Helping to create healthier competition in the market leading to tangible benefit to the borrowers.

DEFINITIONS:

Key Facts: It is loan agreement between RESs /group of RES and the borrower and legally significant and deterministic fact that satisfies basic information required to assist the borrower in taking an informed financial decision.

Key Fact Statements (KFS) is a statement of key facts of a loan agreement in simple and easier to understand language, provided to the borrower in a standardized format

Annual Percentage Rate (APR) is the annual cost of credit to the borrower which includes interest rate and all other charges associated with the credit facility

Equated Periodic Instalment (EPI): is equated or fixed amount of repayments consisting of both the principal and interest components to be paid by a borrower towards repayment of a loan of a periodic intervals for fixed period number of such interests which result in complete amortization of loan EPIs at monthly intervals are called EMIs. (Borrowed from the RBI Circular on KFS attached)

2. ROLE OF BOARD OF DIRECTORS:

The board shall have the authority and oversight for the interest rate policy framework, including any changes in the underlying framework. However, the board may delegate the review and implementation of the pricing policy to a committee as deemed fit.

Pricing Committee: The policy will be reviewed and monitored by the Interest Rate Pricing Committee on a quarterly basis and decide on any changes/status quo in the interest rate. The Pricing Committee shall be responsible for reviewing the interest rate pricing, propose changes and spreads in the interest rates and approve exceptions, if any, within the perimeters of this policy. The Pricing committee's decisions should be put up to the Board'

for approval, in case of any change from the policy framework and in other cases for information in the subsequent meeting. Thus, the Pricing Committee will be responsible for reviewing /changing benchmark rate but the same should be ratified by the Board in the subsequent meeting

Prime Lending Rate (PLR): Based on the performance of the previous quarter, Pricing Committee will ll decide PLR for the following quarter and update the Board at regular interval of their decision and the basis of their computation.

The Interest rate Pricing Committee will consist of the following members

- a. Managing Director;
- b. Executive Director and
- c. Vice President – Finance and Accounts

The key considerations in interest rate pricing shall be

- (i) Customer centricity,
- (ii) Business Sustainability and
- (iii) Risk Management.

3. COMPONENTS OF INTEREST RATE PRICING:

As per recent RBI guidelines, components of interest rate pricing can include “Cost of funds, risk premium and margin, etc. in terms of the quantum of each component, based on objective parameters”. As per National and International practices in interest rate pricing, common components of interest rate pricing are as under:

- Finance Cost / Cost of Funds.
- Operational expenses (Op-ex)/Margin.
- Other Transaction Cost.
- Loan loss Reserve /Expected Credit Loss.
- Risk premium and
- Expected profit margin.

Classification & Nature of Loans: Micro finance Loan:

Microfinance loans are categorized as unsecured credit facilities aimed at fostering financial inclusion for low-income and underserved segments. They are typically small-ticket loans designed to support income-generating activities, essential consumption needs, or emergency requirements. These loans are characterized by simplified disbursement processes and may be extended either to individuals or through group-based models like Joint Liability Groups (JLGs), where repayment responsibility is shared. Their nature aligns with developmental goals, promoting self-sufficiency and economic empowerment without reliance on traditional collateral systems.

As per the RBI guidelines, a household having annual income up to Rs 3000,00 shall be considered as micro finance loans. The limit of loan repayment is fixed up to 50% of the monthly household income for microfinance loans. The maximum number of microfinance lenders is to be capped at four and the maximum microfinance indebtedness is to be capped at INR 2 lakhs. HMPL will not disburse loan to a borrower who has NPA (DPD>90 days) account with a loan amount outstanding > Rs 3000 /- with another RE. Loans other than microfinance loan will not more than 25% of the total loan portfolio.

Pricing formula Interest Rate = Finance Cost+ Operating expenses +Other Transaction cost + Loan loss+ Risk premium+ Profit margin.

Sr. no.	Components	Explanation
1	Finance Cost / Cost of Funds	A+B
A	Borrowing	The lender borrows funds through various means from the Banks, financial institutions and investors and considers the weighted average cost of borrowing, (e.g. Term borrowing, non-convertible debenture, commercial papers, sub-ordinate debts) including the processing fee paid on the borrowing.
B	Equity	The lender needs to put some equity to run the business and factors the cost of such equity. Cost of Equity can be calculated at the return agreed at the time of Equity raise.
	Borrowings and Equity relative weight in funded liabilities to be considered in calculation.	
C	Fundraising	Costs related to fundraising such as brokerage/advisory/ market intermediation, rating, hedging, legal services, commissions, exchange listing
2	Operational/Opex/Overhead cost	It includes costs related to operations, employees, physical infrastructure (fixed and variable costs), sales and marketing, technology, among other things. (Personnel Cost including incentive + Travel Cost + Admin Cost + Group Dev. Cost/Training Cost +professional charges, audit fees, technology, Depreciation, etc)/Average Portfolio Outstanding.
3	Other Transaction Cost	Expenses on CB(Credit Bureau) check, E-KYC, Documentation, Other Loan origination charges if any / Total Loan Amount sanctioned
4	Loan Loss Reserve	Average write off % in the past 3-5 years of concerned institution (Long term period value at risk model)
5	Risk premium	Based on past Portfolio quality of specific clients/client segments/geography/product, etc Risk premium could be linked to client's vintage, credit

		<p>history, repayment capacity, asset ownership ,etc</p> <p>Risk related to geography could be areas prone to natural calamities, PAR (Portfolio At RISK) levels, negative areas, etc</p> <p>Sa-Dhan/MFIN shares State and District level risk scores with member MFIs/REs which will be used for this purpose</p>
6	Expected profit margin	<p>1. Average of Sector Level RoA (+) or (-) "X" percentage as decided by Board. Or</p> <p>Profit Margin decided by Board based on future growth prospects.</p>

4. FEE AND CHARGES

In addition to the Interest Rate, the Company may charge the following fees and charges to its customer for the Micro-credit loan disbursed. This will be clearly expressed in both percentage and absolute terms in the” loan card” provided to the customers.

Sr. No	Components	Explanation
1	Sourcing/processing	<p>Initial application fee to cover for processing the loan application. (e.g document verification, initial application servicing, credit appraisal)</p> <p>The processing fee typically covers sourcing, credit appraisal, documentation, verifications etc.</p> <p>For the present (till the next review), the Company will charge processing fees of 1% of gross loan amount from all its customers at the time of disbursement</p>
2	Late/delayed payment and Pre-payment	<p>The charges for late payment (any delay from the due date to the date of actual repayment). It can be charged as % of overdue instalment amount and the same will be informed to the customer upfront.</p> <p>Pre- Payment option is available to the borrower & no penalty will be charged for prepayment</p> <p>Late payment charges will be 2% of the overdue instalment</p>
3	Differential Rates	The Company may continue to charge different rates , based on interest subsidy for any loan available for specific purpose , risk rating of borrowers , district risk index , terms of loan, etc
4	Annual Rate	The Rate of interest will be annualized to enlighten/guide the borrower exact rate charged to his/her account

5	Premium amount for credit linked life insurance, if applicable	At actuals
6	Government/statutory	Besides these charges, the Company will collect stamp duty, service tax / GST and other cess at applicable rates from time to time

No other charges in the form of security deposit or margin shall be collected from the borrower on microfinance loan.

Pre-payment options available to the customer and no penalty will be levied for prepayment of loans.

5. REVIEW:

The Board shall review the pricing policy annually or at a defined periodicity to align with regulations, market developments and an external environment. The lender shall apply any changes in pricing prospectively.

6. COMPLIANCE:

The Audit/Risk department is to monitor the compliance of the pricing policy and report the non- adherences/irregularities to the Pricing Committee and the Board.

7. DISCLOSURE: & AWARENESS

The pricing information should be disclosed to customers in terms of standard content format and modes of dissemination along the lines below. Further, this information will also be reported to the RBI and Self- regulatory organization (SRO), as required by them. Disclosures shall also be in vernacular in branches and other operational areas.

- The Company will publicly disclose the pricing framework and effective interest rate to client including all charges – other than interest rate, any other charges should be separately disclosed and be part of Annual Percentage Rate (APR). In case of differential pricing, the spread- range for all the products and customer segments (if applicable).
- The Company will display Minimum, Maximum and Average Interest Rate charged in all branches, Head Office and all other Offices and website Changes in Interest rate will be informed to the borrowers well in advance through field officers /agents,
- For sake of transparency, the interest rate will be an all-inclusive interest rate.
- The pricing information will be disclosed on the website, marketing collateral, loan documents (application form, sanction letter, agreement, loan statement/card, factsheet and KFS) and SRO. The borrower shall not be charged any amount which is not explicitly mentioned in the loan card/factsheet/KFS.

- The effective interest rate will be communicated to the customers at the time of application/sanction/availing loan.
- In case of any changes in the rates and charges, the same will be updated in the marketing collateral, website, and other relevant documents.
- HMPL at its discretion considers moratorium for payment of interest & repayment of principal amount on a case-by-case analysis. Customers' Profile, customers background, total cost to the borrower, risk & reward to the Company would be kept in view
- There will be no discrimination among the borrowers, based on cast, creed, color, or religion
- Members shall provide a loan card coupled with KFS to the borrower which shall incorporate the following:
 - i. Information which adequately identifies the borrower.
 - ii. Simplified factsheet on pricing.
 - iii. All other terms and conditions attached to the loan.
 - iv. Acknowledgements by the RE of all repayments including instalments received and the final discharge; and
 - v. Details of the grievance redressal system, including the name and contact number of the nodal officer of the RE and RBI Ombudsman (For applicable REs)
- Issuance of non-credit products shall be with full consent of the borrowers and fee structure for such products shall be explicitly communicated to the borrower in the loan card itself. CD
- The rate of interest shall be annualised rates so that the borrower is aware of the exact rates that would be charged to the account.

8. INTEREST RATE UNDER BAC ARRANGEMENT:

In case of loans covered under BC arrangement, the rate of interest as mutually agreed between HMPL and Commercial Banks, Cooperative institutions and other Financial Institutions in whose books the exposure of loan is recorded will be applicable, provided interest computation, fixation & changes interest rate conform to the extant instructions of RBI

9. AMENDMENT:

Power to amend to the Pricing Policy rests with the Board of Directors, based on the recommendation of Pricing Committee.

10. ILLUSTRATIONS

- (i) Disclosure to the Borrowers: Illustrations 1: (HMPL will disclose price -related information to a perspective borrower in a standardized Fact Sheet as per the RBI Guidelines issued on 14 March 2022)

Illustration for Assessing Pricing of HMPL

- A. Cost of funds (Financial Cost)
 - B. Operating Expenses
 - C. Loan Loss Reserve (Provision + % Write-off Last 5 years)
 - D. Profit Margin
- Prime Lending Rate: A+B+C+D
- E. Risk Premium (Based on our existing state presence and the MFIN Micrometre data, we have considered the Portfolio at Risk (PAR) and calculated the Risk Premium for portfolios that are 90+ days overdue and above.
 - F. Processing fee:
 - G. Credit Insurance: Actual
 - H. Credit Verification Charge, if any

ii) Illustrations – II

Besides the Fact Sheet /Loan Card, the Key Facts of a loan agreement between Company & borrower shall be informed to the borrower in simple and easier to understand language through Key Fact Statement (KFS) in accordance with Illustration provided in Illustration 2

iii) Illustration: III & IV

The KFS will include a computation sheet of Annual % Rate (APR) and the amortization schedule of the loan tenor APR will include all changes which are levied by the Company and will reflect through KFS in accordance with illustration provided below as ILLUSTRATION III & the Repayment Schedule under Equated Periodic Statement for hypothecated Loan Illustrated IV

(From RBI Circulars, the Fact Sheet, KFS -Illustration II -Part 1 (Interest Rate, fees and Charges) , Part II (other Qualitative Information) , Illustration III (Computation of APR for MSME and Illustration (IV Repayment Schedule) will have to be borrowed and placed in the Policy as also for borrowers)

Annexure- Key Fact Statement

Customer Name: -	Type of Loan:
Part 1 (Interest rate and fees/charges)	
1	Loan proposal/ account No.
2	Sanctioned Loan amount (in Rupees)
3	Disbursal schedule
	(i) Disbursement in stages or 100% upfront.
	(ii) If it is stage wise, mention the clause of loan agreement having relevant details
4	Loan term (year/months/days)
5	Instalment details
(i)	Type of instalments
(ii)	Number of EMIs
(iii)	EMI (₹)
(iv)	Commencement of repayment, post sanction
6	Interest rate (%) and type (fixed or floating or hybrid)
7	Additional Information in case of Floating rate of interest
(i)	Reference Benchmark
(ii)	Benchmark rate (%) (B)
(iii)	Spread (%) (S)
(iv)	Final rate (%) $R = (B) + (S)$
(v)	Reset periodicity ² (Months) (B= _NA_____ % & S=NA
(vi)	Impact of change in the reference benchmark (for 25 bps change in 'R', change in:)
	EMI ₹
	No of EMI
8	Fee/ Charges
(i)	Penal charges, if any, in case of delayed payment
(ii)	Processing fees
(iii)	Insurance charges
(iv)	Valuation fees
(v)	Any other (please specify)

Part II (Other qualitative information)		
1	Clause of Loan agreement relating to engagement of recovery agents	Not Applicable
2	Clause of Loan agreement which details grievance redressal mechanism	The Clause No. 14 as per Agreement
3	Phone number and email id of the nodal grievance redressal officer	Toll Free Number 1800 3002 0678 support@hindusrthanmfi.com
4	Whether the loan is, or in future maybe, subject to transfer to other REs or security	Yes
5	In case of lending under collaborative lending arrangements (e.g., co-lending/ outsourcing), following additional details may be furnished:	
(i)	Name of the originating RE, along with its funding proportion	
(ii)	Name of the partner RE along with its proportion of funding	
(iii)	Blended rate of interest	
6	In the case of digital loans, following specific disclosures may be furnished:	
(i)	Cooling off/look-up period, in terms of RE's board approved policy, during which borrower shall not be charged any penalty on prepayment of loan	No Penalty on Pre-Payment of Loan
(ii)	Details of LSP acting as recovery agent and authorized to approach the borrower	HMPL

Annex B

Part 3: Illustration for computation of APR for Retail and MSME loans		
1	Sanctioned Loan amount (in Rupees) (Sl no. 2 of the KFS template - Part 1)	35000.00
2	Loan Term (in years/ months/ days) (Sl No.4 of the KFS template - Part 1)	18 Months
(i)	No. of instalments for payment of principal, in case of nonequated periodic loans	18 Months
(ii)	Type of EMI Amount of each EPI (in Rupees) and nos. of EPIs (e.g., no. of EMIs in case of monthly instalments) (Sl No. 5 of the KFS template - Part 1)	2450.00
(iii)	No. of instalments for payment of capitalised interest, if any	No
(iv)	Commencement of repayments, post sanction (Sl No. 5 of the KFS template - Part 1)	09/02/2025
3	Interest rate type (fixed or floating or hybrid) (Sl No. 6 of the KFS template - Part 1)	Reducing
4	Rate of Interest (Sl No. 6 of the KFS template - Part 1)	26.00 %
5	Total Interest Amount to be charged during the entire tenor of the loan as per the rate prevailing on sanction date (in Rupees)	8273.00
6	Fee/ Charges payable ⁸ (in Rupees)	966.00
(i)	Payable to the RE (Sl No.8A of the KFS template-Part 1)	350.00
(ii)	Payable to third-party routed through RE (Sl No.8B of the KFS template - Part 1)	616.00
7	Net disbursed amount (1-6) (in Rupees)	34034.00
8	Total amount to be paid by the borrower (sum of 1 and 5) (in Rupees)	43273.00
9	Annual Percentage rate- Effective annualized interest rate (in percentage) ¹⁰ (Sl No.9 of the KFS template-Part 1)	32.49 %
10	Schedule of disbursement as per terms and conditions	
11	Due date of payment of instalment and interest	09/02/2025

Annex C Equated Periodic Instalment (EPI)

Customer Id
Account No.
Account name
Agent Name

Loan Date
Loan Amt.
Loan Period:
Interest Rate
IRR:

Date of Inst	Days	Principal	Interest	EMI	Balance