Magenta
Finance Services Private Limited

PRICING POLICY

This policy was approved and adopted by the Board of Directors of the Company, in its meeting held on 30-04-2022, and it was effective from 01-05-2022.

The policy was further reviewed by the Board of Directors of the Company, in its meeting held on 30-04-2024.

This policy was further revised taking into account the audited financial statements as on 31-03-2024 and the observations of Reserve Bank of India (RBI) on the extant policy and the same was approved by the Company's Board of Directors, in its meeting held on 28-09-2024, and it's effective from 01-01-2025.

INTRODUCTION

Magenta Finance Services Private Limited (hereinafter referred to as "**The Company**" or "**Magenta**") is registered as a Non-Banking Financial Company with RBI and engaged in micro-finance activities.

During its operations, the Company will strictly adhere to various directions, guidelines, circulars, instructions, etc. as may be stipulated by RBI from time to time. Magenta's policies should always be read in conjunction with RBI guidelines, directives, circulars, and instructions.

The Company will apply best industry practices so long as such practices do not conflict with or violate RBI guidelines.

PRICING POLICY FRAMEWORK

Post issuing a consultative document on the regulation of **Microfinance Loans** for public comments on June 14, 2021, RBI on March 14, 2022, has notified **Regulatory Framework for Microfinance Loans 2022,** which revises the existing regulatory framework for microfinance **loans.**

Before the publication of the Regulatory Framework for Microfinance Loans 2022, the pricing of Microfinance loans was governed by **Master Circular- 'Non-Banking Financial Company-Micro**

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Finance Institutions' (NBFC-MFIs) – Directions circular number **RBI/2015-16/20 DNBR (PD) CC.No.047/03.10.119/2015-16.**

Keeping the market dynamics in mind, RBI has decided to remove the capping on interest charged by MFIs and offers an opportunity to lenders especially NBFC-MFIs to frame their policies which would be in the best of interest both lenders and the customers.

It also opens the window to apply a broader risk-based approach to pricing, factoring customer profiles and other macro segment attributes of products and customers (age, income, occupation, location, etc.).

1. OBJECTIVE

This policy will guide the Company's Loan Product Pricing system.

In The Regulatory framework, RBI has advised that interest rates and other charges/ fees on microfinance loans should not be usurious. The Company intends to ensure this.

This document covers the overall internal principles embedded in the determination of interest rates, and processing and other charges, ensuring compliance with the directives of the RBI.

2. TARGET CUSTOMERS

The Microfinance Loans will be extended to members of Women Joint Liability Groups who are members of eligible households as per RBI guidelines. As the Company does not propose to go for internal rating/ scoring of the borrowers, for the time being, only applicants with satisfactory credit reports from Credit Information Bureaus will be considered for granting of loans.

3. PRICING PHILOSOPHY

The pricing strategy of the Company will adopt methods/conditions in a manner such to maintain profitability while striking a balance between risk and reward.

Pricing for all products will, therefore, be determined based on the risk associated with a particular type of loan, the tenor of the loan, and the amount of the loan.

In addition, the Company will periodically benchmark with competitive offerings, and factor all these variables into the final pricing.

For existing customers, since historical credit behavior patterns will be available, the Company will adjust processing fees as well as offer higher loans to reward customers with good credit behavior.

For new product and customer segments, pricing will be based on the Company's assessment of the risks associated with the segments and profitability expectations based on the competitive

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situation. To elucidate, if based on the experience of loss rates, the Company's assessment of the risk of a particular customer segment is high, such a credit facility would be priced higher in comparison to another customer segment that has experienced low loss rates.

4. FACTORS FOR COMPUTATION OF PRIME LENDING RATE

The following factors will be given due recognition:

1. Weighted average cost of capital: The weighted average cost of capital contains the following:
a. **Cost of Borrowings**: Total Finance cost (Including Interest, Stamp duty, Processing fee, and other charges (like loan arranger fees) incurred on borrowing)/Average daily outstanding balances of borrowings
b. Cost of Equity: Equity includes Equity share capital and Reserve & Surplus, Cost of Equity is the sum of the Risk-Free Rate of Return and Risk Premium

2.Cost of Operations: Costs related to Employee Benefits Expenses, Professional and Consultancy Fees, Rent expenses, Other expenses, Depreciation, and amortization expenses.

3.Credit Cost: Credit cost includes estimated provisions and write-offs.

4.Net Surplus: Total operating revenue less all expenses related to the core financial service operations, including total operating expense and financial expense.

5.Competitive Environment for such facilities.

5. RISK PREMIUM

The individual risk profile is the final deciding factor for pricing. The relationship aspects like the number of years with the Company, the number of loans taken, and repayment record will be considered. Besides, reports from credit bureaus and internal credit scores also play a part.

No internal scoring of individual borrowers is proposed to be done for the time being. Reliance will be based on the reports from Credit Bureaus only. Those who get satisfactory reports only will be considered for a loan.

Since borrowers are members of the Joint Liability Group (JLGs), joint liability is there, and risk accordingly is mitigated.

Based on repayment record, concession in processing fee on renewals will be extended, but there will not be differentiation in interest rate.

Risk premium based on product and customer segment should depend on data for own/industry products and customer segment risks. The Company has products based on tenor, from 12 months and another for 36 months. A product with a longer tenor is considered to be riskier compared to

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a product with a shorter tenor. However, it is proposed not to charge differential rates for this risk for the time being.

At present, there is only one Customer segment, namely, women borrowers who are members of JLGs. When more product segments and customer segments are added, a suitable view of the risk premium on these segments will be taken based on industry-level data.

For competitive pricing, the rate of interest charged for similar loans to similar segments by other entities and competitors will be taken into account.

6. THE INTEREST RATE

The interest rate arrived based on the above framework furnished in Annexure-1

The interest rate works out to 29.41%, it is proposed to maintain it at 25.50% p.a., taking into account the rates charged by the competitors and the fact that no cost is paid to the equity shareholders. With increase in volume of business, the percentage of operating cost is expected to come down in future.

Since there is only one customer segment, namely, member of Women JLG and two products based on tenure (for which there will not be any interest differential), there will not be different rates of interest. In other words, there will not be minimum, maximum and average rates of interest, at present. When the Company introduces more customer segments, more products and different interest rates, the minimum, maximum and average interest rates will be highlighted.

Interest rates will be intimated to the customers at the time of application/sanction/ availing of the loan. Equal instalments towards interest and principal dues will be communicated to the customers.

Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.

Any changes to the interest rates or other charges will be prominently displayed on the notice boards at the Head Office and all Branch locations.

Any modifications to interest rates or charges will also be reflected in the relevant documents where they are specified.

7. FEES & CHARGES

The Company will charge 1.50% of the gross loan amount as a Processing fee excluding GST or any other charges.

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Discount on Processing Fee

To incentivise better repayment and loyalty it is proposed to give a discount on processing fees. We will reduce processing fees by up to 0.25%.

Penal Charges / Late Payment Charges

There shall be no pre-payment charges on microfinance loans. Penal Charges, if any for delayed payment shall be applied on the overdue amount and not on the entire loan amount.

The Company will levy penal charges at the same rate that is charged on the loan i.e. 25.50% p.a.at present, on the overdue instalment or a minimum amount of Rs. 10 whichever is higher, as penal charges /late payment charges for any delay or default in payment of any dues, for the period of delay.

Security charges/ Margin

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

8. Insurance Premium

The Company shall recover only the actual premium for the insurance policies on group, life, health, borrower, and guarantor.

Administrative charges recovered shall be in accordance with Insurance Regulatory and Development Authority of India (IRDA) guidelines and in consonance with the insurance company whose services are engaged from time to time for insuring clients and their co-guarantors.

9. Assets & Liabilities Management Committee (ALCO)

ALCO will have responsibilities to propose changes and spreads in the interest rates and approve exceptions, if any, within the parameters set in the policy.

The Committee will consist of the following officials of the Company.

- MD/CEO
- Accounts Manager/ Finance Manager
- Head of Business Operations
- Risk Head

Quorum: Two members will constitute the quorum.

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ALCO would meet every quarter or whenever necessary. The Committee's decisions should be put up to the Board for approval, in case of any change from the policy framework and other cases for information.

10. COMPLIANCE:

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

11. DISCLOSURES

As already mentioned, the Company will communicate the effective interest rate to the customers at the time of application/sanction/availing of the loan.

After sanctioning of loan, the Company will provide a Key Facts Statement to the borrower, in which all deductions from the loan amount & Annual Percentage Rate of interest (All-Inclusive) and all charges will be communicated and mentioned in vernacular language.

In the case of differential pricing, the spread- range for all the products and customer segments will be mentioned.

The Company will disclose the pricing information on the website, marketing documents, loan documents (sanction letter, agreement, loan statement/card), and to MFIN/Sa-Dhan.

The Company will promptly update the marketing documents, website, and other relevant documents for any changes in the rates and charges.

The Company will communicate any changes in pricing information that applies to existing customers through multiple modes such as email, letter, SMS, and app.

The Company shall prominently display the minimum, maximum, and average interest rates charged on microfinance loans (when applicable) in all its offices, in the literature (information booklets/ pamphlets) issued by it, and in detail on its website. This information shall also be included in the supervisory returns.

12. Review

The Board will review the pricing policy annually and when required to align with regulations, market developments, and the external environment.

Any changes to be made in the policy shall be approved by the Board and applied prospectively.

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Annexure-1

Sr. No.	Components	Basis	Percentage
1	**Weighted average cost of capital**	**Weighted average cost of capital contains the following:** a. Cost of Borrowings: Total Finance cost (Including Interest, Stamp duty, Processing fee, and other charges (like loan arranger fees) incurred on borrowing)/Average daily outstanding balances of borrowings b. Cost of Equity: Equity includes Equity share capital and Reserve & Surplus, Cost of Equity is the sum of the Risk-Free Rate of Return and Risk Premium	13.94
2	**Operating Expenses (OPEX)**	Costs related to Employee Benefits Expenses, Professional and Consultancy Fees, Rent expenses, other expenses, Depreciation, and amortization expenses.	12.78
3	**Credit Cost**	Credit cost includes estimated provisions and write-offs.	1.69
4	**Margin**	Total operating revenue less all expenses related to the core financial service operations, including total operating expense and financial expense.	1
		Total Cost	**29.41**

Notes:-

1	**Cost of Funds**	The cost of funds is estimated at 13.94% as compared to the previous Cost of Borrowing of 13%
2	**Operating Expenses (OPEX)**	The percentage of operating expenses was 11.50%, 14.90% and 13.94% during the Financial Years 2021-22, 2022-23 and 2023-24 respectively.
3	**Credit Cost**	The percentage of Credit cost was 0.18%, 1.23% and 1.69% during the Financial Years 2021-22, 2022-23 and 2023-24 respectively.
4	**Margin**	Since cost of equity has been included in the cost of funds, we are taking Margin at 1%.

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