



# PRICING POLICY

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

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## INTRODUCTION

Magenta Finance Services Private Limited (hereinafter referred to as "The Company" or "Magenta") is registered as a Non-Banking Financial Company with the Reserve Bank of India (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

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 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 Loan Product Pricing system in the Company.

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.



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## 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 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:

- Cost of Borrowings: Total Finance cost (Including Interest, Stamp duty, Processing fee, and other charges incurred on borrowing)/Average daily outstanding balances of borrowings
- Cost of Operations: Costs related to operations, employees, physical infrastructure (fixed and variable costs), sales and marketing, and technology, among other things
- Estimated provisions and write-off
- Expected Margins
- 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 JLGs, joint liability is there, and risk accordingly is mitigated.

Based on repayment records, 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 is now having only two products based on tenor, one for 12 months and another for 36 months. The product with a longer tenor is considered to be riskier compared to the 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 is furnished in Annexure-1. Even though the prime lending rate works out to 24.75%, it is proposed to maintain it at 24% p.a. taking into account the rates charged by the competitors.

Interest rates will be intimated to the customers at the time of application/sanction/ availing of the loan and the apportionment of equal installments towards interest and principal dues will be made available to the customers.



## 7. FEES & CHARGES

The Company will charge 1% of the gross loan amount as a Processing fee excluding GST or any other % as may be amended by Board in the future.

### Discount on Processing Fee

To incentivise better repayment and loyalty it is proposed to give a discount on processing fees:

### Penal Interest / Late Payment Charges

Besides normal interest, the company will charge penal Interest of @24% PA, on Overdue Amount (Principal + Interest) or minimum amount of Rs. 10 whichever is higher, as penal interest /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 security deposit or margin shall be collected from the borrower on a microfinance loan.

## 8. Insurance Premium

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

Administrative charges recovered shall be in accordance with IRDA guidelines and in consonance with the insurance company whose services are engaged from time to time for ensuring 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
- Head of Business Operations

**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

The Company will communicate the effective interest rate to the customers at the time of application/sanction.

After sanctioning of loan, the Company will provide a detailed factsheet to the borrower, in which all deductions from the loan amount & effective 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 (application form, sanction letter, agreement, loan statement/card), and to MFIN/Sa-Dhan.

The Company will promptly update the marketing collaterals, 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 in all its offices, in the literature (information booklets/ pamphlets) issued by it, and in detail on its website.

#### 12. Review:

The Board will review the pricing policy annually 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

	Components	Basis	%age
1	Cost of funds		
	Borrowing	On funds borrowed from various lenders; actual interest paid in 2021-22 is divided by the average level of borrowings, including the processing fees and other charges paid on the borrowing.	13.00%
	Equity	Not Considered	-
2	Operating cost	It includes costs related to operations, employees, physical infrastructure (fixed and variable costs), sales and marketing, and technology, among other things.	7.25%
3	Expected Credit Cost		1.00%
4	Desired Net surplus/	Net surplus/Operating Margin is the Total operating revenue less all expenses related to the MFI's core financial service operations, including total operating expense, financial expense, and loan-loss provision expense.	3.50%
Total		Interest Rate	24.75%

## Notes

- 1 The cost of borrowings works out to 12.77% for 2021-22. Taking into account a higher share of higher-cost borrowings in 2022-23 and probable increase in the interest rate, the cost is assumed to be 13% for 2022-23.
- 2 The percentage of operating cost to gross loan outstanding is 7.29%, 8.11%, and 7.99%, in the last three years. With the increase in the loan portfolio, the percentage is estimated to be around 7.25%
- 3 The provision for bad loans was 0.58% and 4.48% of the gross loan outstanding for 2019-20 and 2020-21. During 2021-22, no provision has been made. As we expect normalcy to return, the provision may not be more than 1% in the future.
- 4 Even though Net surplus % was 20.73% and 9.24% in 2019-20 and 2020-21 we estimate it to be around 3.5% for 2022-23





Finance Services Private Limited

Magenta

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## THANK YOU

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