

# **MAGALIR MICRO CAPITAL PRIVATE LIMITED**

## **Credit and interest rate Policy**

(As Amended in the Board meeting dated March 29, 2023)

### **Policy Overview:**

Microfinance has emerged as one of the important tools to reduce poverty and to foster financial inclusion by addressing wide variations across geographies by percolating to the lowest decile. The present economic growth of our country is sustainable when primary sector growth accelerates through proper credit flow. Since the existing banking structure is not in an effective position to meet this demand, a quicker and more effective outreach is possible through the NBFC-MFIs / Self Help Promoting Institutes (SHPIs)/ other financial institutions (FIs) which would be a better model to achieve the set goal.

This Policy lays down the model for determination of interest rate to be charged from the clients, in line with RBI circulars. The policy may also be read in concurrence with the existing RBI guidelines, directives, circulars and instructions. This policy also includes credit appraisal, qualifying assets, house hold income/expenses, Recovery of loans, SMA Guidelines etc regarding credit portfolio.

### **Introduction to the Regulatory Framework**

The Reserve Bank of India (“RBI”) vide Master Direction- Reserve Bank of India (**Regulatory Framework for Microfinance Loans**) **Directions, 2022** dated March 14, 2022 (updated as on July 25, 2022) deregulated the interest rates in the segment and harmonized micro-lending norms across banks and non-bank lenders effective from April 01, 2022.

Magalir Micro Capital Private Limited - MMCPL (herein referred to as “the Company”) has accordingly updated its credit and interest rate determination policy as per the aforesaid Master Directions.

### **Definition of Qualifying Asset**

The definition of ‘qualifying assets’ has been aligned with the definition of ‘microfinance loans’. The minimum requirement of microfinance loans for NBFC-MFIs shall be 75 per cent of the total assets

#### **Qualifying Assets Criteria:**

The definition of ‘qualifying assets’ of NBFC-MFIs is now being aligned with the definition of ‘microfinance loans’ given below. As per the new criteria the minimum requirement of microfinance loans for NBFC-MFIs also stands revised to 75 per cent of the total assets.

### **Definition of Microfinance Loan**

A microfinance loan is defined as a collateral-free loan given to a household having an annual household income of up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife, and their unmarried children.

All collateral-free loans, irrespective of end-use and mode of application/ processing/disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans providing the flexibility of repayment periodicity.

### 1. Assessment of Household Income

The definition of ‘microfinance loan’ primarily depends on the income of the household. Therefore, before lending, the Company shall carry out the income assessment at the household level as per the criteria annexed to this policy as **Annexure 1**.

The company shall mandatorily submit information regarding household income to the Credit Information Companies (CICs). If there is divergence in the current assessed household income and earlier reported household income, then reason for divergence shall be recorded by the officer who is assessing the income of the borrowers.

### 2. Limit on Loan Repayment Obligations of a Household

The company shall fix the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. Monthly outflow towards loan repayment should not exceed 50 percent of the monthly household income.

The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 percent of the monthly household income shall include repayments (including both principals as well as interest component) towards all existing loans as well as the loan under consideration.

The company shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness.

### 3. Pricing of Loan

The interest rate model for arriving at the interest rate is covered as Annexure 2 of this policy. Further the company shall disclose pricing-related information to a prospective borrower in a standardized simplified factsheet as per Annexure 3 which shall explicitly disclose all the charges/fee which shall be charged from the borrower.

The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low- income households.

There shall be no pre-payment penalty on any loans extended to the company’s borrowers. However, penalty for delayed payment may be applied on the overdue amount only and not on the entire loan outstanding.

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 on its website. This information shall also be included in the supervisory returns and subjected to supervisory scrutiny.

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

Interest rates and other charges/fees on microfinance loans should not be usurious.

Interest rate shall be reviewed periodically and revised if needed. Interest rate revision shall be based on any considerable change in cost components.

#### **Pricing of loans under the category of Non-Qualifying Assets:**

Pricing regulation including variance Norms are not applicable for Non qualifying Assets. Accordingly, the company has formulated its own module of interest rate between 20% and 28%. The company may at its discretion charge interest with a tolerance level of plus/minus of 5% of the formulated interest rate.

Interest rate shall be reviewed periodically and revised if needed. Interest rate revision shall be based on any considerable change in cost components

## 4. Guidelines on Conduct towards Microfinance Borrowers

### 4.1 General

4.1.1 The company ensure that, fair practices code (FPC) based on these directions is in place with the approval of their boards. The FPC shall be displayed by the company in all its offices and on its website. The FPC should be issued in a language understood by the borrower.

4.1.2 The company has its standard form of loan agreement for microfinance loans in a language understood by the borrower.

4.1.3 The company provide a loan card 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 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 company.

4.1.4 All entries in the loan card should be in a language understood by the borrower.

4.1.5 Issuance of non-credit products and fee structure for such products shall be explicitly communicated to the borrower.

### 4.2 Training of Staff

The company has a separate policy covering the various issues relating to Human Resource Management system and process; this includes staff training and desired conduct of the staff members with various stakeholder mainly the customers of the company aligned with appropriate FPC guidelines pronounced by RBI. Company shall ensure the rigorous training of the field staff of the company on the process to be followed while inquiring the income and debt status of the household of any prospective borrower. The conduct of the employees has been linked with the performance matrix to ensure that there is complete discipline while dealing with the borrowers.

### 4.3 Responsibilities for Outsourced Activities

In case any of the activities are outsourced by the company, it shall ensure that all the compliances and obligations are complied with in the same manner as it is being done by the company itself. The responsibility of compliance shall rest on the company for any outsourced activity.

In case any of the borrower related activity is outsourced by the company, the loan agreement shall contain a declaration to the effect that the company shall be responsible for any inappropriate behavior of the staff of the agency and shall provide timely grievance redressal.

#### 4.4 Guidelines related to Recovery of Loans

The company shall put in place a mechanism for identification of the borrowers facing repayment- related difficulties, engagement with such borrowers and providing them necessary guidance about the recourse available.

Recovery shall be made at a designated/ central designated place decided mutually by the borrower and the company. However, field staff shall be allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated/ central designated place on two or more successive occasions.

The company or its employees shall not engage in any harsh or deemed to be harsh methods towards recovery. There is a redressal mechanism in place the details of which shall be provided to the borrow at the time of loan disbursal.

##### Qualifying Assets Criteria:

The company ensure/make note of the change, between the earlier qualifying assets criteria and present qualifying assets criteria that as per the earlier criteria a Non-banking Financial Company - Microfinance Institution (NBFC-MFI) is required to have minimum 85 per cent of its net assets as 'qualifying assets'. The definition of 'qualifying assets' of NBFC-MFIs is now being aligned with the definition of 'microfinance loans' given above. As per the new criteria the minimum requirement of microfinance loans for NBFC-MFIs also stands revised to 75 per cent of the total assets.

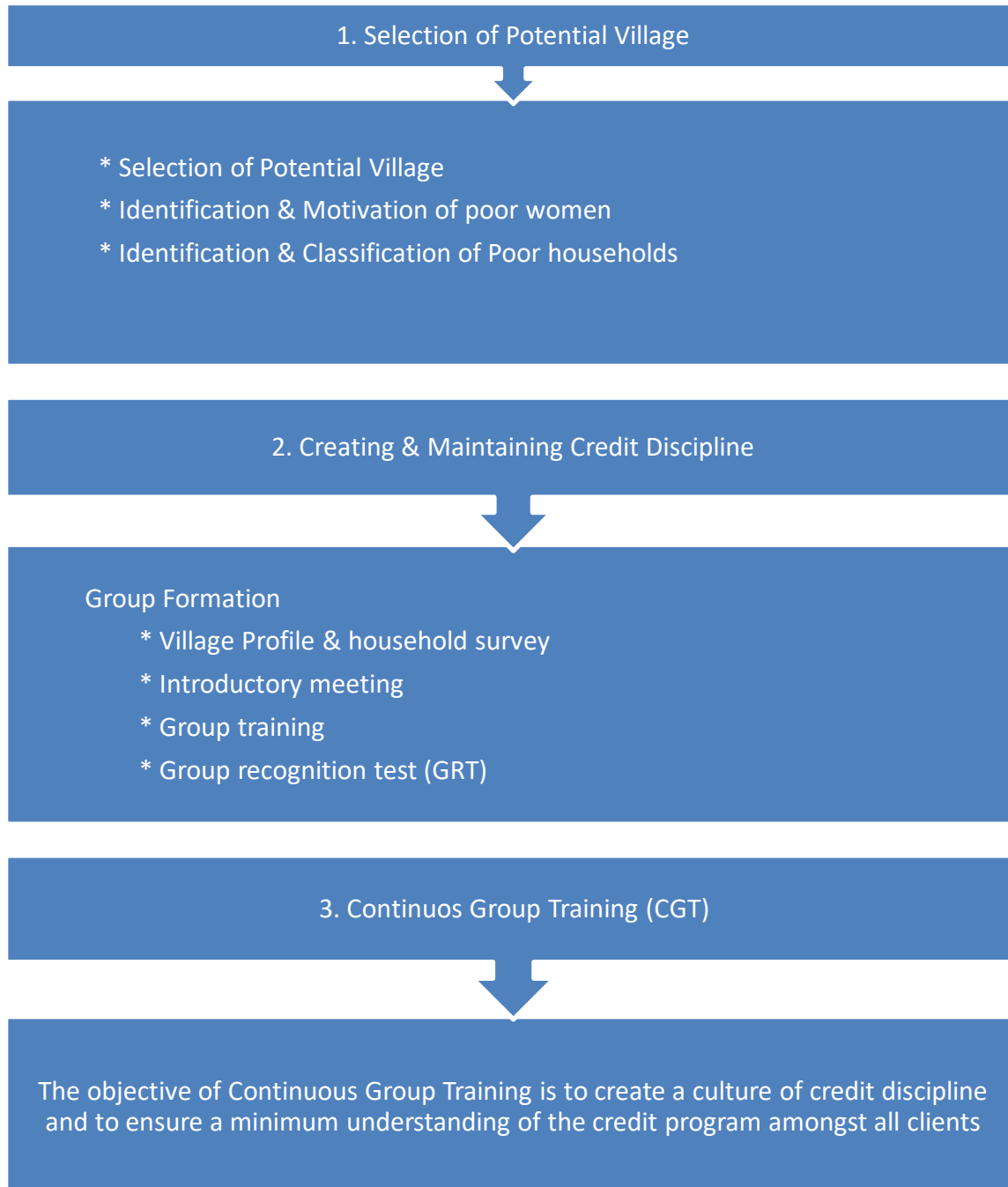
##### SMA guidelines by Reserve Bank of India

The RBI vide its circular no. RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021 introduced the prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications wherein the Company is required to comply the following:

- The loan document should clearly specify the due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan. In cases of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified in the loan agreements;
- Classification of accounts as Special Mention Account (SMA) and Non-Performing Asset (NPA) at the day end process
- The Company shall flag the borrower accounts as Special Mention Account (SMA), as per below mentioned criteria:
  - SMA-0 over due upto 30 days
  - SMA-1 More than 30 days and upto 60 days
  - SMA-2 More than 60 days and upto 90 days
- Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower;
- The Company shall publish the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process on their websites, explaining with examples as enclosed in **Annexure – 4**.

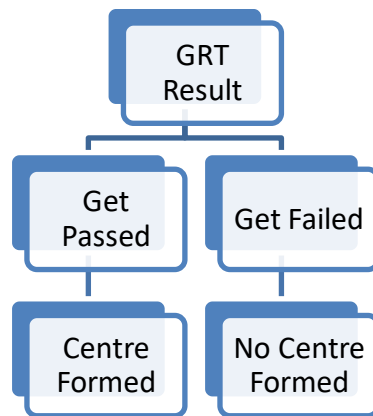
## 5. Credit Flow to Women Entrepreneurs – Procedure for Selection of Clients

The process of accelerating credit to women for upliftment and economic development shall be continued. While extending finance to Joint Liability Groups [JLGs]/ Individuals as beneficiaries, special attention and top priority is to be given to women beneficiaries. Following steps shall be taken in seriatim



#### 4. RECOGNITION OF GROUPS

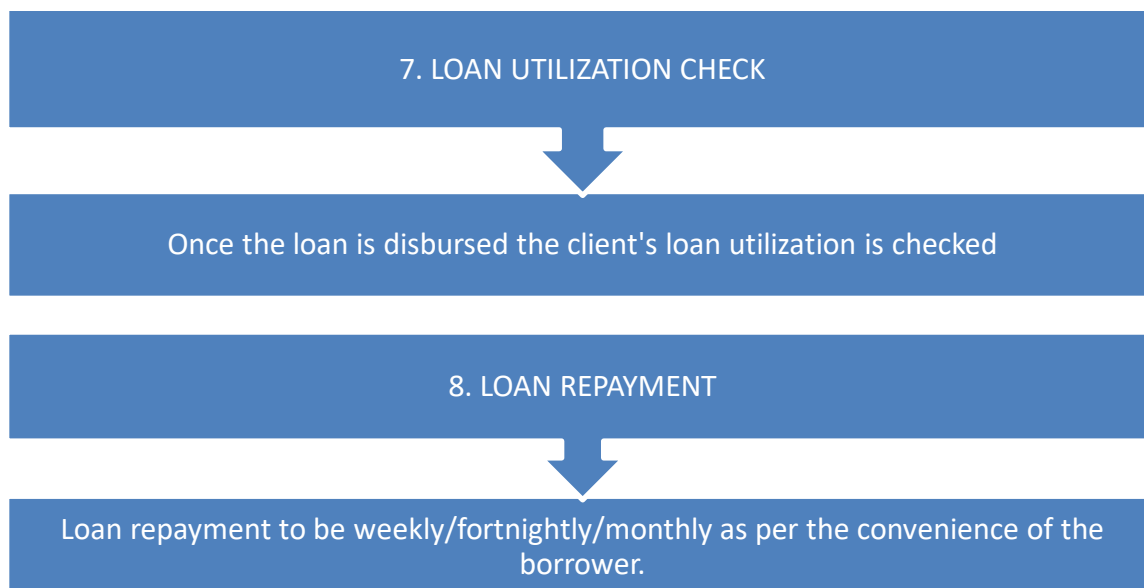
GRT are the final stage of quality control in our targeting of the poor. They are a check on the identification of poor households and on the quality client training under CGT. GRT can be carried out only by an authorised officer of the rank of BM or higher.



#### 5. LOAN DISBURSEMENT

#### 6. FILLING OF LOAN PROPOSALS

- \* Loan ticket size or loan decision is made, through cash flow analysis.
- \* Credit Bureau check for all filled clients' proposals prior to disbursal.
- \* Confirmation/Acceptance of loan proposals.
- \* Analysis of the credit history of the borrowers either internally or through outside agencies.
- \* Loan disbursement to clients in one or two tranches.
- \* Loan amount to be disbursed through centralized disbursement process in the clients' bank account directly.



## 6. Areas of lending:

### a) Priority areas of Lending:

Trade, Agriculture & Allied activities and MSME will continue to drive the company's business growth. The Company shall also focus on services, professional and manufacturing sector.

### b) Prohibited areas of Lending:

We do not provide loans for the below-mentioned activities:

- Any serious environment hazardous industry.
- Activities barred by law.

### c) BC Model: -

Magalir Micro Capital Private Ltd may become the Business Correspondent of banks and can engage itself in lending on a service charge basis. The Management may decide the service fees to be taken from a bank based on the market scenario and negotiation with the BC partner. The company shall ensure that the service charges in BC deals are comparable with the incremental margin available to Magalir while lending to borrowers from owned funds.

### d) Assignment / Transfer of loan exposures: -

Magalir can use additional avenues of securitization / Direct Assignment for raising funds to manage liquidity of the Company by complying RBI applicable directives from time to time.

## 7. Membership of Credit Information Company:

The company shall continue to be a member of Credit Information Company (CIC) established under the Credit Information Company Regulation Act-2005, provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the conditions regarding membership of JLG/SHG/IL, level of indebtedness and source of borrowings of its customers. While the quality and coverage of data with CICs will take some time to become robust, we may rely on self-certification from the borrowers and their own local inquiries on those aspects as well as annual household income. The Self Certification shall be restricted to KYC documents and all market inquiries will be done by the field staff.

## 8. Asset classification norms

- Standard asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;
- Non-performing asset means an asset for which, interest/principal payment has remained overdue for a period of 90 days or more.

Asset classifications and provisioning norms are mandatory for NBFC-MFI

## 9. Provisioning norms

As regards, provisioning on loan portfolio, the Company is adopting provisions required under IRACP norms mandated by RBI.

The said notification requires that the company shall also maintain the asset classification and compute provisions as per extant prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP) including borrower/beneficiary wise classification, provisioning for standard as well as restructured assets, NPA aging, etc. and shall be disclosed by the company in the notes to their financial statements.

## 10. Processing / Documentation and Other Charges

- All processing/documentation and other charges recovered are expressly stated in the Loan Documents.
- GST and other applicable taxes shall be charged as per the guidelines issued by the Government from time to time.
- The Company shall recover only the actual cost of insurance for group, life, health for borrower and spouse. Administrative charges where recovered, shall be as per IRDA guidelines.

However, in case of borrowers other than the Micro Finance Borrowers the processing/ documentation charges may vary based on the loan product, geographical location, market competitors and their practices, customer segment and generally represent the cost incurred in rendering the services to the customers.



## 11. Loan Product Specification

### A) Qualifying Product

#### i) First Cycle loan for income generating activities

Loan Amount	R s. 10,000/- / Rs. 40,000/-
Loan Period	12 - 36 monthly
Loan purpose	Income-generating activities like petty shop including tea shop, tiffin shop, fruits, vegetable, flowers groceries, etc working capital requirements for purchase of tools and equipment's for carpentry, electrical works, plumbing, painting, etc. and other activities like trading in poultry, leather goods, Agriculture & Allied Products, farms etc.
Loan Repayment	Monthly / Weekly / Fortnight
Borrower's Profile	Lending to be made to a group of 2 to 10 women members.
Guarantee / Collateral	No Collateral. Members guarantees the other member of the JLG for servicing the debt
Rate of interest	Board Approved ROI within the framework of RBI Directives
Processing fees	1.50% of the gross loan amount plus GST at 18% per account
Insurance	Life coverage for members and nominee. Further the nominee will be covered under "Hospi Care".
Security Deposit	Nil

#### ii) Second Cycle and subsequent loan for income generating activities

Loan Amount	Upto Rs. 75,000/-
Loan Period	24-36 months
Loan purpose	Income generating activities like petty shop including tea shop, tiffin shop, fruits, vegetable, flowers groceries, tobacco leaves, etc working capital requirements for purchase of tools and equipment's for carpentry, electrical works, plumbing, painting, etc and other activities like trading in poultry, leather goods, Agriculture & Allied Products, farms etc.
Loan Repayment	Monthly / Weekly / Fortnight
Borrower's Profile	Lending to be made to a group of either 3 to 10 women members.
Guarantee / Collateral	No Collateral. Members guarantees the other member of the JLG for servicing the debt
Rate of interest	Board Approved ROI within the framework of RBI Directives
Processing fees	1.50% of the gross loan amount plus GST at 18% per account
Insurance	Life coverage for members and nominee. Further the nominee will be covered under "Hospi Care".
Security Deposit	Nil

### **Seasonal loan / Top-up loan/ Social Purpose loan**

- (a) This loan is for borrower in second or subsequent cycles.
- (b) The loan can be given as top-up loan also, that is, even when a second or subsequent cycle loan given for income generating activity is subsisting.
- (c) Loan can be given for meeting seasonal business or social requirements such as marriage, medical treatment and educational purpose.

Loan Amount	Upto Rs. 1,00,000 /-
Loan Period	Upto 36 months
Loan purpose	Seasonal business, marriage, medical treatment and educational purpose, Pandemic assistance.
Loan Repayment	Monthly / Weekly / Fortnight
Borrower's Profile	First cycle loan, should have been repaid without any delay/default. Lending to be made to a group of either 3 to 10 women members or individual at the option of the customer.
Guarantee / Collateral	No Collateral. Members guarantees the other member of the JLG for servicing the debt
Rate of interest	Board Approved ROI within the framework of RBI Directives
Processing fees	1.50% of the gross loan amount plus GST at 18% per account
Insurance	Life coverage for members and nominee. Further the nominee will be covered under "Hospi Care".
Security Deposit	Nil

### **B. Non-Qualifying Product**

- i) This loan is given to any individual or corporate and secured or unsecured loans.
- ii) The purpose of this loan is for meeting the financial needs of small businesses, education, purchase of vehicles, purchase/construction of house, special purpose, destitute, medical, and other emergent needs.

Loan Amount	Upto Rs.4,00,000/-
Loan Period	Upto 48 months
Loan purpose	Special purpose as outlined under B (ii) above
Loan Repayment	Monthly / Weekly / Fortnight
Borrower's Profile	Individual / group
Guarantee / Collateral	One collateral, if necessary.
Rate of interest	20% - 28% with the tolerance level of 5% + / - of the formulated interest rate
Processing fees	1.5% of the gross loan amount plus GST at 18% per account
Insurance	Life coverage for members and nominee. Further, the nominee will be covered under "Hospi Care".
Security Deposit	Nil

## 12. Exposure Limits:

The Company has in place duly approved General Risk Management policy wherein to avoid concentration risk exposure limits have been fixed for different segments as under:

Indicators	Limits
Geographical Concentration	
Portfolio per State	$\leq 75\%$ based on the number of branches.
Portfolio per District	$\leq 15\%$
Portfolio per Branch	$\leq$ Rs.15 crores
Line of Business/Product Concentration	
Micro Loan	$\geq 75\%$
Others	$\leq 25\%$
Exposures	
% of exposure to single borrower	$\leq 2$ Lacs (here employees should not be included in the definition of borrower)
% of exposure to group/center borrower	$\leq 0.1\%$ of the total portfolio

## 13. Membership of Self-Regulatory Organisation:

The NBFC-MFIs will have to become members of (SRO) which is recognized by RBI and will also have to comply with the code of conduct prescribed by SRO.

Accordingly, Magalir has become a member of SaDhan at the national level.

## 14. Compliance

All the functional divisions are expected to comply with the policy guidelines laid down in this document. In case of any doubt about the applicability of any aspect of this policy to any situation, assistance may be sought from the competent authority.

The policy shall be modified to give effect to the changes in the extant guidelines/directives/instructions that may be advised by the Reserve Bank of India/Government of India from time to time and reporting and ratification/approval of the Board. The Policy shall also be reviewed/ revised from time to time to adapt to the changing environmental demands and to incorporate and implement any changes in the micro credit strategy of the Bank, with the approval of the Board.

## 15. Recovery & Provisioning:

As per Recovery & Provisioning Policy.

## 16. Fair Practice in Lending :

The Company shall separately have a Fair Practice Code (“FPC”) outlining the procedures to conduct the business transactions in conformity with the guidelines issued by Reserve Bank of India. The FPC shall be in the language understood by the borrower and displayed by the Company in all its offices and on its website.

### 1. Transparency in Interest Rates:

- a. There shall be only three components in the pricing of the loan viz., the interest charge, processing charge and the insurance premium (which includes the administrative charges in respect thereof).
- b. There shall be no pre-payment penalty on any loans extended to the company’s borrowers. However, penalty for delayed payment may be applied on the overdue amount only and not on the entire loan outstanding.
- c. The company shall not collect any Security Deposit/Margin from the borrower.
- d. The company shall use the standard format of the loan agreement in the language understood by the borrower.
- e. Every borrower shall be provided a loan card reflecting:
  - 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 company 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 company.
  - vi. All entries in the loan card should be in a language understood by the borrower.
- f. The effective rate of interest charged by the company should be prominently displayed in all its offices and in the literature issued by it and on its website.
- g. Type of Borrowers & Moratorium:
  - i) The company shall lend to individual borrowers who are and not a member of the Joint Liability Group (JLG) and to borrowers that are members of JLG.
  - ii) There may be a minimum period of moratorium between the grant of the loan and the due date of the repayment of the first installment. The moratorium shall not be less than the frequency of repayment e.g. in the case of weekly repayment, the moratorium shall not be less than one week.
- h. Non-Coercive Methods of Recovery:
  - i) The company shall ensure that a Code of Conduct and systems are in place for recruitment, training, and supervision of field staff. The Code of Conduct should also incorporate the Guidelines on Fair Practices Code issued for NBFCs by RBI vide circular CCNo.80 dated September 28, 2006, as amended from time to time.
  - ii) Recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if the borrower fails to appear at the central designated place on two or more successive occasions.
  - iii) All other elements of the Fair Practices Code issued for NBFCs vide CC No. 80 dated September 28, 2006, as amended from time to time shall be adhered to by the company.
- i) Improvement of Efficiency:

Magalir shall from time to time, review its back-office operations and make the necessary investments in Information Technology and systems to achieve better control, simplify procedures and reduce costs.

## 17. Monitoring and Control:

The company shall ensure that responsibility for compliance to all regulations prescribed for NBFC MFIs lies primarily with the Vertical Heads and all controlling offices and branches. The industry associations/SROs will also play a key role in ensuring compliance with the regulatory framework.

The company shall ensure that SRO formulates specific operational guidelines for member organizations for its implementation and monitors SROs seeks data from the respective organization and the credit bureau to ensure compliance.

## 18. Appraisal standards:

Magalir has in place a well-defined framework for approving loan limits of different segments. Requests for credit facilities from the prospective beneficiaries shall be on the prescribed format and the full-fledged proposal should be prepared for submission to the competent authority for sanction. Each loan proposal should have cash flow analysis.

Presentation of credit proposals shall be done in the prescribed appraisal formats and all the modalities including those mentioned in this policy are to be adhered as per the system in vogue.

Proposal should clearly indicate the need-based requirement of the MFI borrower for finance and the rationale for recommendations.

## 19. Documentation:

- A. Documents required for lending to Joint Liability Group (JLG) / to Individual under Microfinance loans as qualifying assets are:
- Loan Application Form.
  - KYC for the borrower and the nominee
  - Two Photographs (Client and Nominee)
  - Demand promissory Note.
  - Repayment Schedule Sheet
  - Individual Loan agreement
  - Loan sanction letter
  - JLG – Joint liability agreement in case of JLG
- B. The various Documents required for lending under non qualifying assets are stipulated hereunder:
- Two Photographs (Client and guarantor / Nominee)
  - Loan Application
  - Demand Promissory Loan.
  - Repayment Schedule Sheet
  - Client And Nominee KYC

## 20. Credit Risk

The Company already has Risk Management Policy approved by the Board outlining the entire gamut of risks perceived and their mitigates.

## 21. General

- a. Staff should refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement.
- b. In the matter of recovery of loans, the branches should not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc. As complaints from customers also include rude behavior from the staff of the companies. we shall ensure that the staff are adequately trained to deal with the customers in an appropriate manner.
- c. At the operational level, all branches have to display the name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Company and also Toll-free Numbers, for the benefit of their customers, at their branches/places where business is transacted.
- d. The Fair Practice code duly approved by the Board should be put up on the website, if any, for the information of various stakeholders.
- e. The company would ensure that stipulations with regard to lending activities are adhered that no loans/advances shall be granted to those borrowers who are on the existing defaulters list of CIBIL/Highmark/Equifax.

**Annexure 1**

**Household Income Assessment**

S.No.	Particulars	Data	Source of Information
<b>A. Household profile (Life Style) Assessment</b>			
1.	Composition of household		
I.	Total household members		Ask from customer
II.	Number of earning members		Ask from customer
2.	Type accommodation (Govt. Awas/owned/rented)		Ask from customer
3.	Availability of basic amenities		
I.	Electricity (Yes/No)		Ask from customer
II.	Availability of toilet (Yes/No)		Ask from customer
III.	Cooking medium (LPG/smoke chullha/ kiroson stove)		Ask from customer
4.	Assets		
I.	Land (Area/Value)		Ask from customer
II.	Livestock (No./value)		Ask from customer
III.	Vehicle		
a)	Two wheeler (No./Value)		Ask from customer
b)	Three wheeler (No./Value)		Ask from customer
c)	Four wheeler (No./Value)		Ask from customer
<b>B. Household Income Assessment</b>			
1.	Sector of work (Agri/allied, trading, manufacturing, service etc.)		Ask from customer
2.	Nature of work		
I.	Self-employed/Salaried		Ask from customer
II.	Regular/Seasonal		Ask from customer
III.	Income frequency (daily/weekly/monthly)		Ask from customer
IV.	Month of employment over last one year		Ask from customer
3.	Monthly Income		From cash flow analysis – Apendix – 1
4.	Self-reported monthly income		From cash flow analysis – Apendix – 1
5.	Average income (Average of 3 & 4)		Calculate
<b>C. Household expense assessment</b>			
1.	Household expense		From Cash flow Analysis – Apendix – 1
<b>D. Current Monthly Loan Obligation</b>			
1.	Total monthly loan obligation – including principal and interest of all collateral and non-collateral loan		From Credit bureau report

### Loan eligibility for customer

Customer loan legibility will be determined based on the monthly loan repayment (Principal+ Interest) obligations for all the current and proposed loans. This should be below 50% of the household income point (B.5) above, subject to remaining 50% of the household income is sufficient to meet out the household expense given in point (C) above. To reach loan amount to be lent to customer, we have to calculate free household income which can be calculated by following the steps below –

Step 1- Take 50% of the household income point (B.5) above

Step 2- Take current monthly loan repayment obligations point (D.1) above

Step 3- Free household cash flow = Step 1- Step2,

**Monthly loan instalment (principal + Interest) of proposed loan should less than free household cash flow**

Step 4- Magalir staff member will ensure that the remaining 50% of the household income should be sufficient to meet the household expenses i.e. Point (B.5) – Point (C.1) > 0

#### Important Note:

After the assessment of the income and expenditure loan appraising and approving authorities must corroborate the assessed income and expenditure with the information captured in section (A) and (B) above.

#### Appendix -1

#### Assessment of Household Cash flow

Borrower's Name ----- Branch ----- Date: ----- Center Name -----

S.No.	Details of Income	Value	S.No.	Details of Expenses
a)	Income of the household from main income source (Rs.)		a)	Education
b)	Income of the household from other income source -Salary, pension, remittance, rent, government transfer, scholarship etc. (Rs.)		b)	Food
c)	Income from wage/other irregular income		c)	Medical
I.	Average daily income (Rs.)		d)	Water/electricity/house tax
II.	No. of work days in a month (days)		e)	General family expenditure (transportation, festival, house rent, clothing etc.)
III.	Monthly income from wage/Other irregular income (Rs.) =(i)*(ii)		f)	Business expenses (rent, utility bills etc)
d)	Self-reported monthly Income		g)	Other Expenses
	<b>Total Monthly Income = a)+b)+c)iii</b>			<b>Total Monthly Expense = a)+b)+c)+d)+e)+f)+g)</b>

I hereby confirm that information furnished above is true to the best of my knowledge and assessment.



## Annexure - 2

### Model for Pricing of Credit

Magalir Finance Pvt. Ltd. (MMCPL) Shall follow a well-defined pricing model to arrive at applicable interest rate on loans lends to its borrowers. MMCPL deals with the household who lives at bottom of pyramid, therefore while setting up the interest rate on its loan products, MMCPL will be extra cautious and sensitive. It will be ensured that the price is fair and competitive and also it is sustainable for both customers as well as for MMCPL.

The pricing model will consist of parameters such as, cost of fund, Operating cost, risk premium and a fair margin.

$$\text{Pricing of Credit} = \text{Borrowing cost} + \text{Operating cost} + \text{Risk premium} + \text{Margin}$$

#### **1. Borrowing cost:**

Formula used for calculating the borrowing cost will be as under

$$\text{Borrowing cost} = \text{Borrowing cost} / \text{Average (quarterly) borrowings for the year}$$

Interest on borrowed fund, processing fee, and any other associated cost of borrowing shall be consider while calculating the borrowing cost. While calculating pricing of the credit average of five years borrowing cost ratio will be taken, that will take care of skewness of borrowing cost in any particular year. While calculating yearly borrowing cost ratio, borrowing cost of the year in numerator and quarterly average of borrowings in denominator shall be considered.

#### **2. Operating cost:**

Formula for operating cost is as under

$$\text{Operating cost} = \text{Operating cost} / \text{Average loan portfolio (quarterly) for the year}$$

Operating cost will include personal cost, administrative cost and depreciation cost. While calculating pricing of the credit average of five year operating cost ratio shall be taken, that will take care of skewness of operating cost in any particular year. While calculating operating cost ratio for the year, total operating cost of the year in numerator and quarterly average of loan portfolio balance in denominator shall be taken.

#### **3. Risk Premium:**

Risk premium will be assessed based on provisions and write- off booked during the financial year. Based on these two variables and loan portfolio, risk rate for the year will be calculated. To avoid skewness of risk premium in any of the year, average of five years risk rate shall be considered while calculating pricing of the credit. Formula for risk rate is as under –

$$\text{Risk rate} = (\text{Provision} + \text{Write off}) / \text{Average (quarterly) loan portfolio for the year}$$

#### 4. Margin:

For long term sustainability company will keep its margin in the range of 2% -3% it will be subject to review and modification as and when required.

Note: Interest rate will be calculated at the beginning of financial year and shall be applicable throughout the financial year. However, it will be subject to review as and when there is visible variation in any component of the pricing model.

#### Annexure- 3

#### **Illustrative Factsheet on Pricing of Microfinance Loans**

(to be provided in a language understood by the borrower)

**Date: XXX Lender's Name: XXX Applicant Name: XXX**

<b>Sr. No.</b>	<b>Parameter</b>	<b>Details</b>
(i)	Loan amount (amount disbursed to the borrower) (in Rupees)	
(ii)	Total interest charge during the entire tenure of the loan (in Rupees)	
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	
(a)	Processing fees (in Rupees)	
(b)	Insurance charges (in Rupees)	
(c)	Others (if any) (in Rupees)	
(iv)	Net disbursed amount ((i)-(iii)) (in Rupees)	
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	
(vi)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	
(vii)	Loan term (in months)	
(viii)	Repayment frequency by the borrower	
(ix)	Number of instalments of repayment	
(x)	Amount of each instalment of repayment (in Rupees)	
<b>Details about Contingent Charges</b>		
(xi)	Borrower shall not be charged any penalty on prepayment of loan at any time.	
(xii)	Penal charges in case of delayed payments (if any)	
(xiii)	Other charges (if any)	

#### **Detailed Repayment Schedule**

<b>Instalment No.</b>	<b>Outstanding Principal (in Rupees)</b>	<b>Principal (in Rupees)</b>	<b>Interest (in Rupees)</b>	<b>Instalment (in Rupees)</b>

**Annexure- 4**

**Know your account status for SMA**

Borrower is informed that the loan account will mark under various special mention account (SMA) category based on the number of day's account is overdue for the payment of any amount of principal or/and interest. Following table explains the SMA-0, SMA-1 and SMA-2 category based on number of day's account is overdue

SMA Sub-categories	Basis for classification – Principal or interest payment amount wholly or partly overdue
SMA – 0	Up to 30 days
SMA – 1	More than 30 days and up to 60 days
SMA – 2	More than 60 days and up to 90 days

*Example: If due date of a loan account is March 31, 2022, and full dues are not received before the company runs the day-end process for this date, the date of overdue shall be March 31, 2022.*

**SMA Status** -After the day end process of March 31, 2022, if any amount of the total due of March 31,2022, principal or interest, is uncollected (overdue) then the loan account shall be classified as **SMA-0** and the status will be the same if it uncollected till the day end process of April 29,2022.

If it continued to be overdue after the day end process of April 30,2022 then the loan account shall be classified **SMA-1** category and the status shall be the same until the day end process May 29,2022.

If the loan account remains over due after the day end process of May30, 2022 then account shall be classified as **SMA-2**, the status shall be the same if it is overdue until the day end process of June 28, 2022. If the loan account continuous overdue even after the day end process of June29, 2022 then the loan account shall be marked as non performing account (**NPA**)

Borrower is suggested to keep the track of her account status as it will impact her creditworthiness with lending institution. Company wish all the very best to maintain excellent performance in loan repayment.

