



## Avanti Microfinance Private Limited

# Interest Rate Policy

**This document was:**

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## **1. Introduction**

Avanti Microfinance Private Limited (hereinafter referred to as 'the Company') has framed the Interest Rate Policy (hereafter referred to as "Interest Rate Policy" or "the Policy") in accordance with the regulatory requirements specified by the Reserve Bank of India (RBI).

## **2. Objectives of the Policy**

This document aims to establish a framework for determining interest rates, processing charges and other charges. (All charges and rates mentioned herein are exclusive of Goods and Service Tax (GST) or any other applicable tax and the company shall charge and collect such taxes wherever applicable over and above mentioned charges and rates).

## **3. Methodology for determining an Interest Rate**

3.1 The guiding principles for determining interest rate are as follows:

- The Board of the company shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the electronic application form and communicated explicitly through electronic means.
- The rate of interest shall be arrived at after taking into account relevant factors, such as cost of funds, operating expenses, margin, risk premium etc as detailed below.
  - Internal and External Costs of Funds – The rate of interest charged will also be determined depending on the rate at which funds necessary to provide loan facilities to customers are sourced by the Company, normally referred to as internal cost of funds. From an external cost of funds perspective, the benchmark interest rate that may be used by the Company could be the 10 year Government of India bond rate or any other generally acceptable benchmark rate as adjusted for the rating spreads available in the markets.
  - Internal Cost Loading – The interest rate charged will also take into account costs of doing business. Factors such as the complexity of the transaction, the size of the transaction and other factors that affect the costs associated with a particular transaction will also be taken into account before arriving at the final rate of interest quoted to a customer.
  - Tenor of the Loan – The rate of interest charged will depend on the term of the loan;
  - Credit Risk – As a matter of prudence, bad debt provision cost should also be factored into all transactions. This cost is reflected in the final rate of interest quoted to a customer. The amount of bad debt provision applicable to a particular transaction will depend on the credit strength of the customer

- Margin - This is the return expected by the shareholders of the company
- Fixed rate versus Floating rate – The applicable rate of interest shall also be commensurate from the perspective of the fixed versus floating interest rate requirements of the customers.
- Periodicity of Interest – Interest will be charged for the period as stipulated in the loan agreement, subject to any modifications thereto as may be agreed by and between the Company and the customer electronically.

□ Additionally, the final rate of interest charged to the customer is also dependent on the type of loan product offered to the customer. Currently, the Company offers only livelihood loans to borrowers which are typically collateral free small ticket loans with end use mostly for agri, dairy or allied activities.

□ 3.2 Annualized Interest Rate: The rate of interest communicated to the borrower will be an annualised rate so that the borrower is aware of the exact rates that would be charged to the account

3.3 Ceiling on Interest rate: The Company will ensure that the applicable rate of interest to any borrower shall not exceed the maximum rate by the Company for each product. The effective annualized interest rate range will be from 12% to 36% per annum.

Table below illustrates the ranges of the various components that drive the interest rate charged to the customer

	Cost of funds	Operations costs	Risk Premium	Margin	Processing Fee	Platform Fee	Loan Loss reserve	Final Annualized Interest Rate
Min %	8%	3%	-1%	1%	0%	0%	3%	14%
Max %	14%	10%	3%	2%	3%	3%	4%	39%

#### 4. Other charges

Other than the charges mentioned above, the Company may levy some additional financial charges such as late payment fees, NACH bounce charges etc along with relevant taxes. These charges are decided based on various factors like the loan product offered, customer profile / segment, prevalent industry practices etc.

The details of other financial charges are provided in Annexure-I

#### 5. General Provisions

**5.1 Communication of Interest Rate to the Customer** – The Rate of Interest, Fees and other charges and the method of application thereof will be expressly stated as part of the Key Fact Statement in the Loan Agreement and Sanction Letter. The Company shall provide this information electronically to the borrower in English language along with a vernacular language as chosen by the borrower, The Company shall keep an electronic record of the acceptance of these terms and conditions by the borrower. The

apportionment of the equated monthly instalments (“EMI”) amount towards the principal and interest will also be communicated by the Company to the customer / borrower by way of the repayment schedule.

**5.2 Changes in Terms** – The Company shall give electronic notice to the borrower in English language along with a vernacular language as chosen by the borrower of any change in the terms and conditions of the loan, including disbursement schedule, interest rates, service charges, prepayment charges etc. Further, any changes in the rate of interest shall be effected only prospectively and the electronic loan agreement shall contain the necessary provisions in this regard.

**5.3 Grace Period** - Interest will be payable by the customer / borrower on or before the due date stipulated therefore in the loan agreement entered into by the customer / borrower with the Company. However, the Credit Committee of Executives shall have discretionary power to grant a considered grace period to any customer / borrower.

**5.4 Moratorium** - The Company may consider necessary moratorium for payment of interest and repayment of principal amount with proper built in pricing, on a case to case basis.

**5.5 Additional Interest and other Charges** - Besides the normal interest, the Company levies additional interest for delays in payment of dues by the customer / borrower or additional interest on other facilities etc (annualised interest on the outstanding balance).

**5.6 Waiver of Additional Interest / Financial Charges** – Requests by the customer for waiver of additional interest / financial charges would normally not be entertained by the Company and such waiver will be at sole and absolute discretion of the Credit Head or a person of equivalent position, exercised on a case to case basis or any other person that the Board deems fit.

**5.7 Pre-Payment** - Pre-payment options available to the customer and the penalty / charges payable for exercise of such option shall be mutually agreed to on a case-to-case basis and communicated to the customer. There will be no pre-payment penalty / charges on Microfinance Loans or loans with floating rates of interest.

**5.8 Company Website** - The rates of interest and the approach for gradation of risks shall be made available on the web-site of the company and literature issued by it. The information published in the website or otherwise published shall be updated whenever there is a change in the rates of interest.

Though the primary mode of all operations, processes or procedures set in this Policy are electronic or digital in nature the company may at its discretion decide to use physical/written means for all or any points covered in this Policy.

## **6. Regulatory Reference**

This policy is framed as per the following regulatory references and in accordance with leading industry practice:

- Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023
- Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

## **7. Policy Review and Updates**

The implementation of this Policy shall be monitored and reviewed periodically by the Board of the Company.

This Policy comes into effect from date of Board Approval.

**Annexure –**

Other charges, if applicable:

<b>Description</b>	<b>Charges</b>
Cheque bounce, cheque swapping	Up to a maximum of Rs. 400/- per instance
Mandate bounce	Up to a maximum of Rs. 400 /- per instance
Late Payment Charges	Up to a maximum of 3% higher than the contracted rate for the period of delay.
Charges for Statement Of Account / Amortization Schedule	NIL
Prepayment charges	At the discretion of the Credit Committee. There will be no pre-payment penalty / charges on Microfinance Loans or floating interest rate loans
Stamping charges	Reimbursed on actual basis, subject to state laws-where fixed charges irrespective of loan amount, provided by IB- where ad-valorem charges as a function of loan amount, to be procured by borrower directly.
Credit Life Insurance	At actuals, if any
Mediclaim / General Insurance	At actuals, if any