



**Cicago Finance Pvt Ltd.,**

**INTEREST RATE POLICY**

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### **Preamble:**

The guidelines issued by RBI vide its Notification No. DNBS. 204 / CGM (ASR)-2009 dated 2 January 2009 as well as its guidelines on Fair Practices Code for NBFCs, as amended from time to time (RBI Regulations), directs all NBFCs to make available the rates of interest and the approach for gradation of risk on web-site of the companies.

In compliance with the requirements of the RBI regulations including the Fair Practices Code and the good governance practices, the company has put in place the internal guidelines, policies, procedures and and a comprehensive interest rate policy.

The interest policy aims to cover:

- The various components of interest rate component
- Approach for gradations of risk
- Rationale for charging differential rates
- Disclosure of rates of interest, changes thereof and publicity thereto

### **Background**

Cicago Finance is into the business of providing secured and unsecured business loans for the micro enterprises and small enterprises in the urban, semi urban and rural areas. The loan offered to heterogeneous MSME segment, who would otherwise may be excluded from the financial eco system as they may not have adequate documents to prove their ability or intent to repay. Cicago has developed unique subjective assessment credit methodologies to assess these customers and reaches out to them through branch based lending model where our credit officers meet and evaluate the customers after multiple visits to their business, residence and property and have personal discussion to understand their requirements

Such subjective assessments of these customers for low ticket size has its own implication on various aspects which affect the lending rate

Low ticket size and direct visits mean high operating expenses. Untested credit history and lack of documents enhance the credit risk. This perceived risk in the underlying portfolio leads to higher borrowing cost for the company.

The interest rate policy takes into account all the above along with requirement to maintain the profitability.



## **Interest Rate Model**

The interest rate charged by Cicago for the products offered would take into account the following factors

1. Cost of Funds
2. Operating Cost
3. Risk Premium for the Product Segment
4. Profit Margin
5. Market Practices

### **1. Cost of Funds**

Finance cost is the main component in deciding the interest rate charged to the customers. The company borrows from diversified institutions like Banks(including SFBs), NBFCs, HFCs, and Off shore Financial Institutions and DFIs. While the company's borrowings are expected to be a mix of fixed rate as well as floating rate borrowings, considering the customer segment, we choose to keep the loans to the customers with fixed rate. The rate to the customers would therefore factor in the risk associated with fluctuations in the interest rate.

### **2. Cost of operations:**

The cost of operations includes manpower cost, infrastructure cost and other administrative costs. Most of these costs are fixed costs and are committed on the basis of budgeted volume of operations. Since these costs come down with increasing volumes and efficiencies, the pricing factors the estimated cost over a reasonable period of time. Also, other factors such as the complexity of the transaction, capital risk weightage, the size of the transaction, location of the borrower and other factors that affect the costs associated with a particular transaction would be taken into account before arriving at the final interest rate quoted to a customer. As a philosophy, the company will charge clients fixed rate assuming a steady state operation. Thus, the high operating cost in the initial stages of start-up and cost of growth would be borne by the shareholders, till the company attains size and scale.

### **3. Risk Premium**

As per the guidelines issued by RBI on categorization of customers, the customer segment Cicago operates is the low risk segment. Cicago does not plan to enter or deal with the High Risk segments such as politically exposed person of Indian or Foreign Origin, those with dubious reputation as per public information available etc



Within the MSME segment Cicago operates is very heterogeneous and the customer profiles are vastly different with regard to nature of business, cash flow, profitability, complexity of operations etc . Therefore, the risk levels within the self-employed and MSME segment itself can be quite varied. For eg a customer running a provision shop or a Kirana stores with fairly stable cash flow could be a less risky customer to lend to, while a centering contractor with erratic cash flow could presumably carry a higher risk.

However, for the time being, Cicago plans to keep the risk premium stable and uniform across the customer segment, with variance limited to the security, collection frequency, tenure, end use and ticket size.

Cicago would study the repayment behavior of these customers over time and would evolve differential pricing models, for different segments with the guidance of the risk management committee and the board.

#### **4. Profit Margin:**

The interest rate charged to the customers would include a profit margin decided on the basis of the reasonable return expected by the shareholders and the risks involved. The profit margin is arrived at keeping in mind the need to attract fresh capital to sustain growth and also benchmarked with comparable companies.

#### **5. Market Practices and Other parameters**

##### **i) ALCO View & forecast of market interest rates:**

Views of the Asset Liability Management Committee (ALCO) on loan product pricing with respect to prevailing interest rates offered by peer NBFCs for similar products / services shall be taken into consideration. The forecasts and analysis of 'what if' scenarios' conducted by the ALCO are also relevant factors for determining interest rates to be charged. The lending rate as well as the fees charged is fixed, taking into account the sustainability of various factors and it is reviewed periodically by the Asset & Liability Management Committee

##### **ii) Prevailing market practices:**

While the interest rate charged would broadly depend on the above factors, The fees and other charges applicable will depend on the market practices and the cost of providing such services. While we look at the market practices for the fees and other charges, the policies would always be customer centric and efforts would be not to over burden the otherwise vulnerable customer segment.



## ROI Matrix

The prevailing interest rate as on 30<sup>th</sup> Sep 2020, based on the above interest rate policy is enclosed below:

Product	Collateral	Mode	Repayable	Ticket Size	Tenure	ROI
<b>MSME - Rural - Business Loans</b>						
Mini Prime	Land	ACH	Monthly	Rs 1-3 lacs	3-5 years	26-27%
Prime	SORP/SOCP	ACH	Monthly	Rs 1-3 lacs	3-6 years	24-26%
Prime Plus	SORP/SOCP	ACH	Monthly	Rs 3-7 lacs	3-6 years	21-24%
High prime Rural	SORP/SOCP	ACH	Monthly	Rs 7-15 lacs	5-7 years	18-21%
<b>MSME – Urban – Business Loans</b>						
High Prime -Urban	SORP/SOCP	ACH	Monthly	Rs 10-30 lacs	7-10 years	16-21%
<b>MSME - Construction Loans</b>						
LAP-Constructi on	SORP/SOCP	ACH	Monthly	Rs 5-15 lacs	5-10 years	18-21%
<b>MSME - Working Capital Loans</b>						
Unsecured		Cash	Daily/Weekly	Rs 0.50 - 2 lacs	6months-1year	28-31%
Secured	Land/SORP/SOCP	Cash	Daily/Weekly	Rs 2-10 lacs	2-5 years	24-26%

The above structure and interest rate band would act as broad guideline, any deviations required from the interest rate on a case to case basis would be done with approvals from Zonal Heads/Credit Head/CBO/MD as per deviation matrix

## Communication to the customer:

The Company intimates the borrower regarding the loan amount, annualized rate of interest, insurance premium, processing fees even at the time of beginning the interaction. Every customer is communicated the most important terms of the contract including all the above. The sanction letter clearly communicates the terms of contract.

Further, penal interest for delayed payment, cheque bounce charges, tenor of the loan and repayment schedule including instalment amount etc are communicated at the time of sanction/disbursement of the loan.

Intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per terms of the loan documents. Any revision in interest or other charges would be only with prospective effect.



**Disclosure on the website:**

All the information relating to the policies, interest rate etc. are made available in the company website which is constantly updated. Though most of our customers are not tech savvy, we inform them and take effort to make them aware of the disclosures regarding this Interest Rate Policy and the schedule of charges on the Company website. Any changes to the policy and terms and schedule of charges are updated in the website on a dynamic basis.