SONATA FINANCE PRIVATE LIMITED

Loan and Interest Rate Determination Policy

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Policy Overview:

Poverty and exclusion continue to dominate socio-economic and political discourse in India as they have done over the last six decades in the post-independence period. Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The ongoing reforms attach great importance to removal of poverty and to addressing the wide variations across states and the rural- urban divide. Though the Indian economy recorded impressive growth rates until recently, its impact has not fully percolated to the lowest deciles. Despite being one of the ten fastest growing economies of the world, India is still home to one-third of the world's poor. Further analysis shows that poverty is getting concentrated continuously in the poorer states.

The present economic growth of our country is sustainable when primary sector growth picks up. Proper credit flow is required for planning such growth. Since the existing banking structure is not in a position to meet this demand, a quicker and effective outreach is possible through the NBFC-MFIs/Non-Government Organizations(NGOs)/ Self Help Promoting Institutes (SHPIs)/ other Financial Institutions (FIs) which would be a better model to achieve the set goal. Hereafter, NBFC-MFIs/ Non-Government Organizations (NGOs)/ Self Help PromotingInstitutes (SHPIs)/ Other Financial Institutions (FI) will be called MFI in the policy.

Scope of Policy

The policy would govern all term loan exposures to Joint Liability Group (JLG), Individual Lending (IL) and Utility Loan etc. The policy would also govern lending under, Refinance, Co-Lending Model and all other loans including housing loan, sanitization loan etc. However, the lending under the business correspondent model shall be dealt as per the terms and conditions of the respective banks. 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

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 deregulated the interest rates in the segment and harmonized micro-lending norms across banks and non-bank lenders effective from April 01, 2022.

Sonata Finance Private Limited (herein referred to as "the Company") has accordingly updated its Loan and interest rate determination policy as per the aforesaid Master Directions.

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.

The Company shall provide flexibility of repayment to it borrowers and therefore has given options to choose repayment periodicity amongst weekly, fortnightly or monthly.

Definition of Qualifying Asset

The definition of 'qualifying assets' has been aligned with the definition of 'microfinance loans' and accordingly all loans falling under the criteria of microfinance loans as mentioned herein above are qualifying assets. The minimumrequirement of microfinance loans for NBFC-MFIs shall be 75 per cent of the total assets.

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 at50 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.

In case of existing loans, for which outflows on account of monthly loan repayment exceed the 50% of monthly household income, then the existing loan shall be allowed to mature until the monthly loan repayment obligations comes within the 50% of the household income.

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 model for arriving at the interest rate is covered as ***Annexure 2*** of this policy. The Company will maintain the maximum rate of interest which is worked out based on the methodology described in **Annexure 2.** The Company had calculated the maximum interest rate of 25.68% p.a. as per ***Annexure 2*** and shall maintain the same until reviewed further. Apart from the interest rate as per above the company shall not charge any other expense from the borrower, except the processing fee of maximum 1% of the total loan amount. The Company shall be collecting insurance premium on consent of borrower which shall be passed to the insurance Company on disbursal of loan.

The Company has considered various components forming part of interest rate model and decided to keep the component wise spread as under:

1. **Borrowing cost** maximum variation of upto 2% of actual Cost of Fund calculated while setting up pricing of the loan;
2. **Operational expenses** maximum variation of upto 1 % of actual operating expenses calculated while setting up pricing of the loan;
3. **Credit Cost** maximum variation of upto 2 % of the credit cost calculated while setting up pricing of the loan

The review of the component of interest rate will be done every year or when there would be significant change in any of the component of the ***Annexure 2***.

However, since the borrowers' profile of the company do not vary across the borrowers, therefore, company has decided to keep the interest rate cap similar across all the borrowers.

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

4. Guidelines on Conduct towards Microfinance Borrowers

4.1 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. 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.

4.2 Engagement of Recovery Agents

Recovery agents shall mean agencies engaged by the company for recovery of dues from its borrowers and the employees of these agencies.

The company shall have a due diligence process in place for the engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process. Sonata ensures that the recovery agents engaged by them carry out verification of the antecedents of their employees, which shall include police verification.

To ensure due notice and appropriate authorization, the company shall provide the details of recovery agents to the borrower while initiating the process of recovery. The agent shall also carry a copy of the notice and the authorization letter from the company along with the identity card issued to him by the company or the agency. Further, where the recovery agency is changed by the company during the recovery process, in addition to the company notifying the borrower of the change, the new agent shall carry the notice and the authorization letter along with his identity card.

The notice and the authorization letter shall, among other details, also include the contact details of the recovery agency and the company.

The up-to-date details of the recovery agencies engaged by the Sonata shall also be hosted on its website.

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 onus 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 place decided mutually by the borrowers 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 place on two or more successive occasions.

The company or its employees shall not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, the following practices shall be deemed as harsh:

(i) Use of threatening or abusive language

(ii) Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.

(iii) Harassing relatives, friends, or co-workers of the borrower

(iv) Publishing the name of borrowers

(v) Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation

(vi) Misleading the borrower about the extent of the debt or the consequences of non-repayment.

5. 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 with the following:

- The loan agreement 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 overdue up to 30 days

SMA-1 More than 30 days and up to 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.***

6. Client Selection and Loan Underwriting Process :

6(a). Client Selection and Loan Underwriting Process

For the credit services Company's primary focus is to target women leaving at the lowest strata of the society particularly in rural and semi urban areas. For the selection of the poor client and delivering the credit products at their door steps, company's follows defined process which is defined below in seriatim

1: SELECTION OF POTENTIAL VILLAGE

- Business expansion team select the potential branch location based on the secondary data and area survey. Based on the recommendation of the business expansion team proposed branch locations are approved by the Managing Director.
- Once the branch location is finalized, Branch Manager and other branch staff do the village survey of all the potential village falling under 15 KM of the branch radius.
- Based on the village survey and defined village selection criteria, Branch Manager select the potential village for extending credit services to poor household

2: Group Formation, Training and Group Recognition Test

- Once the potential village is identified by the branch staff, they go in the village and mobilize the women client to organize into the groups, based on the defined group formation criteria
- Upon the group formation field staff conduct a 5-7 days' training for the group members. Training is conducted to make the group members aware about the company, it's product and service, process in complete details. Group members are also trained on how to raise (concern if they have any
- After successful training of the group, Branch Manager conducts the group recognition test (GRT) where he checks poverty level knowledge of the group members, and commitment for joint liability of the group members , basis this test group is passed or fails. If group is passed, then the group members will be eligible for taking loans. During the GRT BM also verify the loan amount requested by the members and cashflow of the household which is prepared by the field staff.

3:LoanApplication, Appraisal and Loan

- During the group training, field officer takes the loan proposal and do the loan appraisal by asking other group members about the credential of the borrowers
- Field officer also visit the house of the borrowers to cross verify the information furnished by the borrowers and also take consent of the borrowers' spouse
- Field officer collect the information to complete the household cashflow in the format attached as appendix -1
- Based on the cashflow assessment filed officer determines the loan amount may be recommended for the applicant Once the field officer completes his/her loan appraisal then the Branch Manager crosses verify the appraisal done by the field office and approve/recommend the loan amount as per the loan approval authority delegated as per para 21
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4: Loan Disbursement and Utilization Check

- All the loans are disbursed centrally in the borrower's bank account using digital infrastructure
- All the borrowers receive text message on their register mobile number once loan disbursed in their bank account
- All the disbursements are verified by the calling team to ensure borrowers has received the right amount in their bank account
- Post the loan disbursement loan utilization check is also done by the branch staff and operations supervisors

5: Loan Repayments

- Borrowers have given choice to choose their repayment frequency when they are applying for the loan
- Borrowers also have various digital repayment options such as BBPS, UPI and net banking system etc. to make their repayment
- In case borrowers have any limitation to make the digital payment then they can make the payment in cash either at the Sonata Branch office or the designated bank account through their respective centers

6.(B) Credit Underwriting Model Validation:

The underwriting model shall be verified by the monitoring department on regular intervals. In case of any observation by the monitoring team wrt. deterioration in the loan portfolio quality, the team shall analyze the reasons for it. Once identified then the same shall be presented to senior management team. The senior management team shall discuss and identify the suitable corrective action. If the reason for deterioration in the loan portfolio quality is model deficiency the senior management may review the entire underwriting model and take necessary action.

7. Areas of lending:

a) **Priority areas of Lending:**

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

b) **Restricted areas of Lending:** Lending towards any income-generating activity where the Par >= 90 days exceeds 3% of the total outstanding of such activity.

c) **Prohibited areas of Lending:**

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

- Leather industry
- Tobacco, cigarettes, and bidi making industry.
- Plastic Industries.
- Alcohol and beverages manufacturing and selling.
- Chemical, Aerosols and other toxic industries.
- Chemically harmful pesticides and insecticides.
- Any other environment hazardous industry.
- Activities barred by law.

d) **BC Model: -**

Sonata may become the Business Correspondent of banks and can engage itself in lendingon a service charge basis. The Management may decide the service fees to be taken from a bank based on the market scenario. The company shall ensure that the service charges in BCdeals are not less than the difference between the interest charged from the borrowers and the cost of funds available to Sonata while lending to borrowers from owned funds.

e) **Securitisation:-**

Sonata can also sell portfolio for availing funds via following RBI directives and guidelines on securitization.

f) **Direct Assignment:**

Based on the business requirement, the Company may enter in to direct assignment transaction with appropriate entity. Direct assignment may be of the nature of buying loan portfolio of the entity as well as selling the loan portfolio to the entity. Appropriate entity may include Banks, NBFCs and MFIs. While doing the direct assignment transactions company will follow all the guidelines prescribed by the RBI with respect to Direct assignment transaction.

8. Membership of Credit Information Company:

Sonata 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 SHG/JLG, 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.

9. Provisioning norms

As regards, provisioning on loan portfolio, the Company has adopted Credit Loss Estimation Policy from March 2020 which is in accordance to with IND-AS, the ECL policy is duly approved by the Board of Directors. The ECL policy specifies the parameters such as probability of default (PD), loss given default(LG). PD andLGD are calculated based on five years' historical data which make the ECL rationalized and realistic, forfurther details ECL policy of the company may be referred.

The Company is adhering to RBI notification BI/2019-20/170 DOR (NBFC).CC.PD.No.109/22.10.106/2019-20 dated 13th March 2020 relating to the implementation of IND AS.

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 asrestructured assets, NPA aging, etc. A comparison between provisions required under IRACP and impairment allowances made under Ind AS 109 shall be disclosed by the company in the notes to their financial statements.

Where impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), the company shall appropriate the difference from their net profit or loss after tax to a separate 'Impairment Reserve'. The balance in the 'Impairment Reserve' shall not be reckoned for regulatory capital. Further, no withdrawals shall be permitted from this reserve without prior permission from the Department of Supervision, RBI.

10. Asset classification norms-

- Standard asset means the asset in respect of which, no default in repayment of principal or interest is perceived and which does not disclose any problem nor carry more than normal riskattached 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

11. Processing / Documentation and Other Charges

- All processing/documentation and other charges taken from the customers are expressly stated in the LoanDocuments.

- Processing charges shall not be more than 1% of gross loan amount. Processing charges need not be included in the margin cap or the interest cap.
- GST and other applicable taxes shall be charged as per the guidelines issued by theGovernment from time to time.

- The Company shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges where recovered, shall be as per IRDA guidelines.

However, in case non Micro Finance loans the processing/ documentation charges may vary based on the loan product, geographical location, market competition, customer segment and their risk profile. Generally these factors represents the cost incurred in rendering the services to the customers.

12. Exposure Limits:

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

Indicators	**Limits**
Geographical Concentration	
Portfolio per State	<=50%
Portfolio per District	<=8%
Portfolio per Branch	<=Rs.15 crores
Line of Business/Product Concentration	
Micro Loan	>=75%
Others	<=25%
Exposures	
% of exposure to single borrower	<=10 Lacs (here employees should not be included in thedefinition of borrower)
% of exposure to group/centre borrower	<=0.05% of the total portfolio

Sectoral Exposure:

Sector	**Limits**
Agriculture	15%
Animal Husbandry	55%
Trading & Transport	10%
Production & Social Infrastructure	10%
Other	10%
Total	100%

13. Formation of Self-Regulatory Organization:

NBFC-MFIs will have to become members of at least one Self-Regulatory Organization (SRO)whichis recognized by RBI and will also have to comply with the code of conduct prescribed by SRO.

Accordingly, Sonata has become a member of MFIN and SaDhan at the national level and UPMA atthe state 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, who shall further seek the clarification from the Financial Advisory & Asset and Liability Management Committee

15. Modification and Review/Revision:

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 Company, with the approval of the Board.

Fair Practice in Lending by Sonata:

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, processing Fee and the insurance premium (which includes the administrative charges in respect thereof).

   b. There will be no penalty charged on delayed payment.

   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:

      - Information which adequately identifies the borrower;
      - Simplified factsheet on pricing;
      - All other terms and conditions attached to the loan;
      - Acknowledgements by the company of all repayments including instalments received and the final discharge; and
      - Details of the grievance redressal system, including the name and contact number of the nodal officer of the company.

- 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.

2. Microfinance borrowers, Multiple-lending and Over-indebtedness:

a. The company follows two types of lending methodology to serve its customer, these are - individual and Joint Liability Group(JLG) lending model.

b. There will 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.

c. Company shall not lend to the borrowers whose monthly repayment obligations of all the loans in the household is more than the 50% of the monthly income of the household

d. Company shall also not lend to the borrowers whose annual household income is more than Rs.3 lakhs

3. Non-Coercive Methods of Recovery:

a. The company shall ensure that proper systems for recruitment and training for field staff are in place. The training should cater the training on SRO's and RBI prescribed code of conduct . The Code of Conduct should also incorporate the Guidelines on FairPractices Code issued for NBFCs by RBI vide circular CCNo.80 dated September 28, 2006, and amended from time to time.

b. Recovery should normally be made only at a central designated place. Field staff shall be allowedto make recovery at the place of residence or work of the borrower only if the borrower fails to appear at thecentral designated place on two or more successive occasions.

c. All other elements of the Fair Practices Code issued for NBFCs vide CCNo. 80 dated September 28,2006, and amended from time to time shall be adhered to by the company.

4. Improvement of Efficiency:

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

16. Monitoring and Control:

The 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 SRO formulates specific operational guidelines for member organisations for its implementation and to monitor SROs seeks data from the respective organization and the credit bureau to ensure compliance.

17. Appraisal standards:

Sonata 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 fullfledged 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 systemin vogue.

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

18. Credit Administration:

The Company shall comply with the guidelines relating to issue of acknowledgement for receipt of the loan proposalsand time lines for processing and disposal of the same.

19. Documentation:

a. Documents required for Joint Liability Group (JLG) Loans are:

- Loan Application Form.
- KYC proof
- Demand promissory Note.
- Repayment Schedule Sheet
- Checklist

b. The various Documents required for Individual Loans are stipulated hereunder:

- Two Joint Photographs (Client and Spouse)
- Check List
- Loan Application
- Appraisal Sheet
- Guarantor form
- Notary
- Demand Promissory Note.
- Instalment Receipt
- Repayment Schedule Sheet
- Post Dated Check receiving Sheet
- Client And Guarantor KYC
- Bank Statement
- Post Dated Cheques (PDC's)

20. Credit Risk

The Company already has Risk Management Policy approved by the Board outlining the entire gamut of risks perceived and their mitigates. Although credit risk is also part of risk management function, only certain functions attributed to credit standards are highlighted in this policy.

21. Delegation of Powers:

Approving Authority	Loan Amount
BM	JLG – All the loan under JLG model IL - UP to 35,000
Branch Credit Committee at Branch (Hub In charge, Credit Manager, Branch Manager)	IL - Rs.35,001 to Rs.60,000
Divisional Credit Committee (Divisional Head, Divisional IL In charge, Divisional Accountant)	Rs.60,001- Rs.1,00,000
HO Credit Committee (Chief Financial Advisor, IL Head, one of any other product head)	Rs.1,00,001 – Rs.5,00,000

Delegates will exercise their delegation as per their respective loaning power. No delegated power will be vested at Branch level in regards to advance to MEL.

22. 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 recoveryof 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 customers for resolution of complaints against the Company. For benefit of the customers, Toll-free Numbers must be displayed at all the branches.

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. Company should engage in capacity building and empowerment of the groups to the desired extent. Sonata should not disburse loans to the newly formed groups immediately after their formation but disburse only after nurturing and handholding them so as cohesiveness and a sense of purpose arebeing built up in the groups formed by the company.

f. 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
A. Household profile (Life Style) Assessment			
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. Household Income Assessment			
1.	Sector of work (Agri/allied, trading, manufacturing, serviceetc.)		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
C. Household expense assessment			
1.	Household expense		From Cash flow Analysis – Apendix – 1
D. Current Monthly Loan Obligation			
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 householdcash flow

Step 4- Sonata 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.

Apendix -1

Assessment of Household Cash flow

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

S.No.	Details of Income	Value	S.No.	Details of Expenses	In Rs.
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	
	Total Monthly Income = a)+b)+c)iii			**Total Monthly Expense = a)+b)+c)+d)+e)+f)+g)**	

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

Borrower's Signature

Annexure – 2

Model for Pricing of Credit

Sonata Finance Pvt. Ltd. (SFPL) Shall follow a well-defined pricing model to arrive at applicable interest rate on loans lends to its borrowers. SFPL deals with the household who lives at bottom of pyramid, therefore while setting up the interest rate on its loan products, SFPL 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 SFPL.

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

Pricing of Credit = Borrowing cost + Operating cost + Risk premium+ Margin

1. **Borrowing cost:**

Formula used for calculating the borrowing cost will be as under

Borrowing cost = Borrowing cost / 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

Operating cost = Operating cost/ 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 –

Risk rate = (Provision + Write off) / 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.

5. **Maximum Interest Rate**

The Company shall be charging maximum rate of interest of 25.68% from the borrowers and calculation of the same is as under:

(INR in Lakhs)

	Particulars	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Average
A	Average Own Portfolio (quarterly average)	1,17,203.89	1,14,549.57	1,23,874.07	1,18,676.94	97,708.73	1,14,402.64
B	Average AUM (quarterly average)	1,57,319.54	1,48,096.45	1,55,640.83	1,33,090.16	1,12,775.49	1,41,384.50
C	Average borrowing (quarterly average)	1,17,501.82	1,15,673.52	1,16,417.61	1,10,738.31	1,05,255.98	1,13,117.45
D	**Finance Cost**	14,430.04	14,488.94	15,481.29	15,267.40	14,117.10	14,756.96
	Operating Expenses						
	Employee benefit expenses	6,909.69	5,942.73	6,287.79	5,620.19	5,013.26	5,954.73
	Depreciation expense	105.30	116.64	122.70	133.16	88.60	113.28
	Other expenses	2,680.85	2,068.34	2,137.56	1,896.49	1,745.52	2,105.75
E	**Total operating expenses**	**9,695.84**	**8,127.71**	**8,548.05**	**7,649.85**	**6,847.38**	**8,173.76**
F	**Impairment on financial instruments**	4,209.51	3,127.18	8,368.16	3,607.42	8,423.71	5,547.20
G	Finance cost as a % of average borrowing (quarterly)	12.28%	12.53%	13.30%	13.79%	13.41%	13.05%
H	Operating cost as a % of average portfolio (quarterly)	6.16%	5.49%	5.49%	5.75%	6.07%	5.78%
I	Credit cost as a % of average portfolio (quarterly)	3.59%	2.73%	6.76%	3.04%	8.62%	4.85%
J	Margin						2.00%
	Total Cost of the product (G+H+I+J)						25.68%

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

Sr. No.	Parameter	Details
(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)	
Details about Contingent Charges		
(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

InstalmentNo.	Outstanding Principal (in Rupees)	Principal (in Rupees)	Interest (in Rupees)	Instalment (in Rupees)

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 orpartly 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 bemarked as non performing account (**NPA**)

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