**PL Salaried NB Risk Based Pricing**

**June’24**

**SMFG India Credit Co. Ltd.**

***(Formerly Fullerton India Credit Co. Ltd.)***

This document is solely for internal use. No part of it may be circulated, quoted, or reproduced for distribution outside the organization, without prior written approval from SMFG India Credit Company Limited *(Formerly, Fullerton India Credit Co. Ltd.)*

|  |  |
| --- | --- |
| **Document Title** | PL Salaried NB Risk Based Pricing |
| **Date of Note** | June’24 |

| **Name** | **Designation** | **Date** | **Signature** |
| --- | --- | --- | --- |
| **Approved By** | | | |
| **Suprio Banerjee** | CRO |  |  |
| **Ajay Pareek** | CBO |  |  |
| **Reviewed By** | | | |
| **Vitasta Kaul** | Head– Risk Strategy & Governance |  |  |
| **Bodhisattwa Gupta** | Policy Risk Head (PL & Digital) |  |  |
| **Samanwita Maity** | GM & Head of Analytics |  |  |
| **Prepared By** | | | |
| **Sanjana Jha** | AVP, AIM |  |  |
| **Sudipta Dash** | Manager, AIM |  |  |

**REVISION HISTORY**

| **Version** | **Author** | **Date of revision** | **Modifications** | **Rationale for modification** |
| --- | --- | --- | --- | --- |
| 1 | Anil Rulaniya |  | First Issued Version | NA |
| 2 | Sanjana Jha |  | Second Issued Version |  |

Contents

[**1.** **Overview** 4](#_Toc169802317)

[**2.** **Executive Summary** 4](#_Toc169802318)

[**3.** **Risk Grading** 6](#_Toc169802319)

[**4.** **Pricing Framework for PLSAL:** 7](#_Toc169802320)

[**4.1** **Metro**: 7](#_Toc169802321)

[**4.2** **Tier -1:** 9](#_Toc169802322)

[**4.3** **Tier – 2:** 11](#_Toc169802323)

[**4.4** **Tier – 3/4** 13](#_Toc169802324)

[**5.** **Recommendation** 16](#_Toc169802325)

[**6.** **Methodology:** 17](#_Toc169802326)

[**7.** **Annexure:** 18](#_Toc169802327)

[**7.1** **Existing Pricing Grid and Profitability:** 18](#_Toc169802328)

1. **Overview**

In the ever evolving and fast-paced business environment, it is imperative for any organization to keep itself updated and aligned to the latest market standards. Hence, it is pivotal to have a competitive pricing policy which is in sync with the market. To provide an optimum profitability at the portfolio level, the pricing should be correctly aligned to the estimated risks as per Risk Grades.

A new Application Scorecard (gen 4.0) has been developed for the New Borrower bureau-hit customers for customer acquisition. Hence, the existing Risk Grading which is based on the old Application Scorecard will stand invalid. Therefore, in this document revision of the Risk Grading framework has been done to categorize the leads accurately as per their associated risks. Along with that, the Risk Based Pricing analysis has been performed to enhance the Tier-wise profitability. Based on the output of the analysis and the recommendation of the business team, this document also describes an overview of the revised pricing grid.

1. **Executive Summary**

The final Risk Grades defined as per the analysis:

|  |  |
| --- | --- |
| **New Risk Grade** | **App Score** |
| A | >=307 |
| B | 293-<307 |
| C | 275-<293 |
| D | 259-<275 |
| E | <259 |

As the PL salaried customers are vastly distributed across geographies and show different risk profiles across different Tiers, Tierwise customization of pricing is essential. To enhance disbursal and optimize profitability in the Metro, Tier-1 and Tier-2 geographies, existing pricing grid was revised. However, as recommended by the Business Team, the profitability for Tier-3 and Tier-4 was in line with the business plan with the existing pricing. Hence, the pricing for Tier-3 and Tier-4 was not revised but only validated on the latest leads of Jul’23-Dec’23

The final pricing recommended as per the analysis:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Metro/Tier-1** | | | | |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** |
| **<=18k** | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 |
| **18-25k** | 28.50 | 29.00 | 30.00 | 30.00 | 30.00 |
| **25-30k** | 24.00 | 25.50 | 27.50 | 30.00 | 30.00 |
| **30-35k** | 23.00 | 24.00 | 25.00 | 28.00 | 30.00 |
| **35-40k** | 21.50 | 22.00 | 23.50 | 25.00 | 30.00 |
| **40-50k** | 19.50 | 21.00 | 22.00 | 24.00 | 30.00 |
| **50-75k** | 17.50 | 18.50 | 20.00 | 24.00 | 30.00 |
| **75-100k** | 16.50 | 17.50 | 20.00 | 22.00 | 30.00 |
| **100-150k** | 16.00 | 17.00 | 19.50 | 20.00 | 30.00 |
| **>150k** | 15.50 | 16.50 | 19.00 | 20.00 | 30.00 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Tier-2** | | | | |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** |
| **<=18k** | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 |
| **18-25k** | 29.50 | 30.00 | 30.00 | 30.00 | 30.00 |
| **25-30k** | 26.00 | 26.50 | 29.50 | 30.00 | 30.00 |
| **30-35k** | 24.00 | 25.00 | 27.00 | 29.00 | 30.00 |
| **35-40k** | 22.50 | 23.50 | 25.00 | 26.00 | 30.00 |
| **40-50k** | 21.00 | 22.50 | 23.00 | 25.00 | 30.00 |
| **50-75k** | 21.00 | 22.50 | 23.00 | 25.00 | 30.00 |
| **75-100k** | 20.00 | 21.00 | 21.50 | 23.00 | 30.00 |
| **100-150k** | 19.00 | 19.00 | 21.00 | 21.00 | 30.00 |
| **>150k** | 18.50 | 18.50 | 20.50 | 20.50 | 30.00 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Tier-3/4** | | | | |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** |
| **<=18k** | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 |
| **18-25k** | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 |
| **25-30k** | 28.00 | 28.50 | 30.00 | 30.00 | 30.00 |
| **30-35k** | 26.00 | 27.00 | 29.00 | 30.00 | 30.00 |
| **35-40k** | 24.50 | 25.50 | 27.00 | 28.00 | 30.00 |
| **40-50k** | 23.00 | 24.50 | 25.00 | 27.00 | 30.00 |
| **50-75k** | 23.00 | 24.50 | 25.00 | 27.00 | 30.00 |
| **75-100k** | 22.00 | 23.00 | 23.50 | 25.00 | 30.00 |
| **100-150k** | 21.00 | 21.00 | 21.00 | 22.00 | 30.00 |
| **>150k** | 20.50 | 20.50 | 20.50 | 21.00 | 30.00 |

1. **Risk Grading**

Risk grading is the mechanism of differentiating the incoming leads based on the associated risks with it. Bureau insights captured by the new Application Scorecard in terms of App score is used for Risk Grading. There are 5 Risk Grades (A, B, C, D and E) as per the existing framework, Grade-A being the best and Grade-E being the worst category of the incoming leads.

Revised Risk Grading has been done keeping the distribution of bookings similar as observed in the existing Risk Grade framework. This will help in maintaining portfolio stability and enhancing profitability on the existing distribution. Below figure describes the distribution of booking as per Existing and New Risk Grades:

The revised Risk Grade provides a better risk segregation in terms of badrate (Ever 30+ in 6 months) and loss rate.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Distribution basis New App Score** | | | **Distribution basis Existing App Score** | | |
| **Risk Grade** | **App Score** | **Badrate%** | **Loss%** | **App Score** | **Badrate%** | **Loss%** |
| A | >=307 | 2.7% | 2.2% | >=340 | 4.0% | 3.1% |
| B | 293-307 | 5.1% | 3.6% | 316-339 | 5.6% | 4.2% |
| C | 275-293 | 7.6% | 5.6% | 282-316 | 6.5% | 4.9% |
| D | 259-275 | 11.6% | 9.0% | 263-281 | 7.7% | 5.8% |
| E | <259 | 13.9% | 9.3% | <263 | 7.8% | 5.8% |
| **Overall** | | **5.8%** | **4.4%** |  | **5.8%** | **4.4%** |

1. **Pricing Framework for PLSAL:**
   1. **Metro/Tier-1**:

Distribution of approved customers:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 0.1% | 0.1% | 0.0% | 0.0% | 0.0% | **0.2%** |
| **18-25k** | 3.5% | 1.3% | 0.8% | 0.0% | 0.0% | **5.6%** |
| **25-30k** | 6.6% | 4.0% | 2.9% | 0.0% | 0.0% | **13.6%** |
| **30-35k** | 7.6% | 3.7% | 2.8% | 0.0% | 0.0% | **14.1%** |
| **35-40k** | 6.7% | 3.2% | 2.0% | 0.0% | 0.0% | **12.0%** |
| **40-50k** | 10.5% | 4.8% | 3.1% | 0.0% | 0.0% | **18.6%** |
| **50-75k** | 13.1% | 5.0% | 2.9% | 0.0% | 0.0% | **21.1%** |
| **75-100k** | 4.9% | 1.4% | 0.8% | 0.0% | 0.0% | **7.1%** |
| **100-150k** | 3.6% | 0.9% | 0.5% | 0.0% | 0.0% | **5.0%** |
| **>150k** | 2.1% | 0.4% | 0.2% | 0.0% | 0.0% | **2.7%** |
| **Grand Total** | **58.7%** | **25.0%** | **16.0%** | **0.2%** | **0.2%** | **100.0%** |

Revised ROI:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Metro | | | | |  |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | **30.00** |
| **18-25k** | 28.50 | 29.00 | 30.00 | 30.00 | 30.00 | **28.81** |
| **25-30k** | 24.00 | 25.50 | 27.50 | 30.00 | 30.00 | **25.20** |
| **30-35k** | 23.00 | 24.00 | 25.00 | 28.00 | 30.00 | **23.67** |
| **35-40k** | 21.50 | 22.00 | 23.50 | 25.00 | 30.00 | **21.98** |
| **40-50k** | 19.50 | 21.00 | 22.00 | 24.00 | 30.00 | **20.31** |
| **50-75k** | 17.50 | 18.50 | 20.00 | 24.00 | 30.00 | **18.09** |
| **75-100k** | 16.50 | 17.50 | 20.00 | 22.00 | 30.00 | **17.08** |
| **100-150k** | 16.00 | 17.00 | 19.50 | 20.00 | 30.00 | **16.47** |
| **>150k** | 15.50 | 16.50 | 19.00 | 20.00 | 30.00 | **15.90** |
| **Grand Total** | **18.72** | **20.65** | **22.39** | **25.03** | **30.00** | **19.70** |

Revenue%

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 28.5% | 28.5% | 28.5% | 28.5% | 28.5% | **28.5%** |
| **18-25k** | 27.1% | 27.6% | 28.5% | 28.5% | 28.5% | **27.4%** |
| **25-30k** | 22.8% | 24.2% | 26.1% | 28.5% | 28.5% | **23.9%** |
| **30-35k** | 21.9% | 22.8% | 23.8% | 26.6% | 28.5% | **22.5%** |
| **35-40k** | 20.4% | 20.9% | 22.3% | 23.8% | 28.5% | **20.9%** |
| **40-50k** | 18.5% | 20.0% | 20.9% | 22.8% | 28.5% | **19.3%** |
| **50-75k** | 16.6% | 17.6% | 19.0% | 22.8% | 28.5% | **17.2%** |
| **75-100k** | 15.7% | 16.6% | 19.0% | 20.9% | 28.5% | **16.2%** |
| **100-150k** | 15.2% | 16.2% | 18.5% | 19.0% | 28.5% | **15.7%** |
| **>150k** | 14.7% | 15.7% | 18.1% | 19.0% | 28.5% | **15.1%** |
| **Grand Total** | **17.8%** | **19.6%** | **21.3%** | **23.8%** | **28.5%** | **18.7%** |

Loss rate:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 2.6% | 4.9% | 8.5% | 15.8% | 23.6% | **4.6%** |
| **18-25k** | 2.2% | 4.4% | 8.1% | 15.1% | 24.2% | **3.6%** |
| **25-30k** | 2.5% | 4.3% | 8.4% | 15.0% | 24.7% | **4.4%** |
| **30-35k** | 2.3% | 4.2% | 7.9% | 14.9% | 23.9% | **4.0%** |
| **35-40k** | 2.2% | 4.2% | 7.7% | 14.8% | 23.9% | **3.7%** |
| **40-50k** | 2.1% | 4.1% | 8.0% | 14.8% | 22.9% | **3.7%** |
| **50-75k** | 2.0% | 4.1% | 7.5% | 14.3% | 23.3% | **3.3%** |
| **75-100k** | 1.9% | 4.1% | 7.5% | 14.2% | 22.7% | **3.0%** |
| **100-150k** | 1.8% | 4.0% | 7.8% | 14.0% | 23.1% | **2.8%** |
| **>150k** | 1.7% | 4.0% | 7.2% | 13.2% | 22.7% | **2.5%** |
| **Grand Total** | **2.1%** | **4.2%** | **7.9%** | **14.7%** | **23.7%** | **3.6%** |

Profit:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 15.3% | 13.0% | 9.4% | 2.1% | -5.7% | **13.3%** |
| **18-25k** | 14.3% | 12.6% | 9.8% | 2.8% | -6.3% | **13.2%** |
| **25-30k** | 9.7% | 9.3% | 7.1% | 2.9% | -6.8% | **9.0%** |
| **30-35k** | 8.9% | 8.0% | 5.2% | 1.1% | -6.0% | **7.9%** |
| **35-40k** | 7.7% | 6.1% | 4.0% | -1.6% | -6.0% | **6.6%** |
| **40-50k** | 5.8% | 5.2% | 2.3% | -2.6% | -5.0% | **5.0%** |
| **50-75k** | 4.0% | 2.9% | 0.9% | -2.1% | -5.4% | **3.3%** |
| **75-100k** | 3.2% | 2.0% | 0.9% | -3.9% | -4.8% | **2.7%** |
| **100-150k** | 2.8% | 1.5% | 0.1% | -5.6% | -5.2% | **2.3%** |
| **>150k** | 2.5% | 1.1% | 0.3% | -4.8% | -4.8% | **2.1%** |
| **Grand Total** | **6.5%** | **6.0%** | **3.8%** | **-0.5%** | **-5.8%** | **5.9%** |

* 1. **Tier – 2:**

Distribution of approved customers:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 0.2% | 0.2% | 0.1% | 0.0% | 0.0% | **0.5%** |
| **18-25k** | 4.8% | 4.4% | 4.2% | 0.0% | 0.0% | **13.5%** |
| **25-30k** | 5.5% | 4.6% | 3.6% | 0.0% | 0.0% | **13.7%** |
| **30-35k** | 5.5% | 3.6% | 3.2% | 0.0% | 0.0% | **12.4%** |
| **35-40k** | 4.6% | 3.4% | 2.9% | 0.0% | 0.0% | **10.9%** |
| **40-50k** | 7.7% | 5.0% | 3.8% | 0.0% | 0.0% | **16.5%** |
| **50-75k** | 10.8% | 5.2% | 3.6% | 0.0% | 0.0% | **19.7%** |
| **75-100k** | 4.4% | 1.8% | 1.1% | 0.0% | 0.0% | **7.4%** |
| **100-150k** | 2.8% | 0.8% | 0.5% | 0.0% | 0.0% | **4.1%** |
| **>150k** | 0.9% | 0.2% | 0.2% | 0.0% | 0.0% | **1.3%** |
| **Grand Total** | **47.2%** | **29.2%** | **23.2%** | **0.2%** | **0.1%** | **100.0%** |

Revised ROI:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Tier-2 | | | | |  |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | **30.00** |
| **18-25k** | 29.50 | 30.00 | 30.00 | 30.00 | 30.00 | **29.82** |
| **25-30k** | 26.00 | 26.50 | 29.50 | 30.00 | 30.00 | **27.12** |
| **30-35k** | 24.00 | 25.00 | 27.00 | 29.00 | 30.00 | **25.07** |
| **35-40k** | 22.50 | 23.50 | 25.00 | 26.00 | 30.00 | **23.46** |
| **40-50k** | 21.00 | 22.50 | 23.00 | 25.00 | 30.00 | **21.89** |
| **50-75k** | 21.00 | 22.50 | 23.00 | 25.00 | 30.00 | **21.75** |
| **75-100k** | 20.00 | 21.00 | 21.50 | 23.00 | 30.00 | **20.46** |
| **100-150k** | 19.00 | 19.00 | 21.00 | 21.00 | 30.00 | **19.26** |
| **>150k** | 18.50 | 18.50 | 20.50 | 20.50 | 30.00 | **18.62** |
| **Grand Total** | **21.48** | **23.41** | **24.81** | **26.24** | **30.00** | **22.68** |

Revenue%:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 28.5% | 28.5% | 28.5% | 28.5% | 28.5% | **28.5%** |
| **18-25k** | 28.0% | 28.5% | 28.5% | 28.5% | 28.5% | **28.3%** |
| **25-30k** | 24.7% | 25.2% | 28.0% | 28.5% | 28.5% | **25.8%** |
| **30-35k** | 22.8% | 23.8% | 25.7% | 27.6% | 28.5% | **23.8%** |
| **35-40k** | 21.4% | 22.3% | 23.8% | 24.7% | 28.5% | **22.3%** |
| **40-50k** | 20.0% | 21.4% | 21.9% | 23.8% | 28.5% | **20.8%** |
| **50-75k** | 20.0% | 21.4% | 21.9% | 23.8% | 28.5% | **20.7%** |
| **75-100k** | 19.0% | 20.0% | 20.4% | 21.9% | 28.5% | **19.4%** |
| **100-150k** | 18.1% | 18.1% | 20.0% | 20.0% | 28.5% | **18.3%** |
| **>150k** | 17.6% | 17.6% | 19.5% | 19.5% | 28.5% | **17.7%** |
| **Grand Total** | **20.4%** | **22.2%** | **23.6%** | **24.9%** | **28.5%** | **21.5%** |

Loss rate%

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 2.8% | 4.5% | 9.9% | 15.3% | 22.7% | **4.9%** |
| **18-25k** | 2.4% | 4.4% | 8.1% | 15.1% | 23.4% | **4.9%** |
| **25-30k** | 2.3% | 4.2% | 8.1% | 15.1% | 22.9% | **4.5%** |
| **30-35k** | 2.3% | 4.2% | 7.9% | 15.1% | 24.0% | **4.4%** |
| **35-40k** | 2.1% | 4.1% | 7.7% | 15.4% | 22.7% | **4.3%** |
| **40-50k** | 2.1% | 4.0% | 7.6% | 14.5% | 23.5% | **4.0%** |
| **50-75k** | 1.9% | 4.0% | 7.8% | 14.1% | 23.3% | **3.6%** |
| **75-100k** | 1.9% | 3.9% | 7.6% | 13.9% | 22.2% | **3.3%** |
| **100-150k** | 1.6% | 3.9% | 7.0% | 13.0% | 22.1% | **2.8%** |
| **>150k** | 1.6% | 4.0% | 8.9% | 12.7% | 23.1% | **2.9%** |
| **Grand Total** | **2.1%** | **4.1%** | **7.9%** | **14.8%** | **23.2%** | **4.1%** |

Profit:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 15.1% | 13.4% | 8.0% | 2.6% | -4.8% | **13.0%** |
| **18-25k** | 15.0% | 13.5% | 9.8% | 2.8% | -5.5% | **12.8%** |
| **25-30k** | 11.8% | 10.4% | 9.3% | 2.8% | -5.0% | **10.6%** |
| **30-35k** | 9.9% | 8.9% | 7.1% | 1.8% | -6.1% | **8.8%** |
| **35-40k** | 8.6% | 7.6% | 5.4% | -1.3% | -4.8% | **7.4%** |
| **40-50k** | 7.3% | 6.8% | 3.6% | -1.3% | -5.6% | **6.2%** |
| **50-75k** | 7.4% | 6.8% | 3.5% | -0.9% | -5.4% | **6.5%** |
| **75-100k** | 6.5% | 5.4% | 2.2% | -2.7% | -4.3% | **5.5%** |
| **100-150k** | 5.8% | 3.5% | 2.4% | -3.7% | -4.2% | **4.9%** |
| **>150k** | 5.4% | 2.9% | 0.0% | -3.8% | -5.2% | **4.3%** |
| **Grand Total** | **8.9%** | **8.6%** | **6.2%** | **0.5%** | **-5.3%** | **8.1%** |

* 1. **Tier – 3/4**

Distribution of approved customers:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 0.9% | 1.2% | 1.1% | 0.2% | 0.0% | **3.5%** |
| **18-25k** | 5.6% | 5.7% | 5.2% | 1.1% | 0.0% | **17.6%** |
| **25-30k** | 4.7% | 4.3% | 4.0% | 0.8% | 0.0% | **13.8%** |
| **30-35k** | 4.2% | 3.6% | 3.3% | 0.8% | 0.0% | **11.8%** |
| **35-40k** | 3.9% | 3.0% | 2.7% | 0.6% | 0.0% | **10.2%** |
| **40-50k** | 5.7% | 3.9% | 3.5% | 0.7% | 0.0% | **13.7%** |
| **50-75k** | 8.2% | 4.9% | 4.1% | 0.8% | 0.0% | **18.1%** |
| **75-100k** | 3.7% | 1.7% | 1.3% | 0.2% | 0.0% | **7.0%** |
| **100-150k** | 1.8% | 0.8% | 0.5% | 0.1% | 0.0% | **3.2%** |
| **>150k** | 0.6% | 0.2% | 0.2% | 0.0% | 0.0% | **1.1%** |
| **Grand Total** | **39.4%** | **29.3%** | **25.9%** | **5.3%** | **0.1%** | **100.0%** |

Existing ROI:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Tier-3/4 | | | | |  |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | **30.00** |
| **18-25k** | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | **30.00** |
| **25-30k** | 28.00 | 28.50 | 30.00 | 30.00 | 30.00 | **28.83** |
| **30-35k** | 26.00 | 27.00 | 29.00 | 30.00 | 30.00 | **27.33** |
| **35-40k** | 24.50 | 25.50 | 27.00 | 28.00 | 30.00 | **25.63** |
| **40-50k** | 23.00 | 24.50 | 25.00 | 27.00 | 30.00 | **24.11** |
| **50-75k** | 23.00 | 24.50 | 25.00 | 27.00 | 30.00 | **24.02** |
| **75-100k** | 22.00 | 23.00 | 23.50 | 25.00 | 30.00 | **22.63** |
| **100-150k** | 21.00 | 21.00 | 21.00 | 22.00 | 30.00 | **21.03** |
| **>150k** | 20.50 | 20.50 | 20.50 | 21.00 | 30.00 | **20.52** |
| **Grand Total** | **23.76** | **25.46** | **26.36** | **27.58** | **30.00** | **25.02** |

Revenue:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Ascr** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 28.5% | 28.5% | 28.5% | 28.5% | 28.5% | **28.5%** |
| **18-25k** | 28.5% | 28.5% | 28.5% | 28.5% | 28.5% | **28.5%** |
| **25-30k** | 26.6% | 27.1% | 28.5% | 28.5% | 28.5% | **27.4%** |
| **30-35k** | 24.7% | 25.7% | 27.6% | 28.5% | 28.5% | **26.0%** |
| **35-40k** | 23.3% | 24.2% | 25.7% | 26.6% | 28.5% | **24.3%** |
| **40-50k** | 21.9% | 23.3% | 23.8% | 25.7% | 28.5% | **22.9%** |
| **50-75k** | 21.9% | 23.3% | 23.8% | 25.7% | 28.5% | **22.8%** |
| **75-100k** | 20.9% | 21.9% | 22.3% | 23.8% | 28.5% | **21.5%** |
| **100-150k** | 20.0% | 20.0% | 20.0% | 20.9% | 28.5% | **20.0%** |
| **>150k** | 19.5% | 19.5% | 19.5% | 20.0% | 28.5% | **19.5%** |
| **Grand Total** | **22.6%** | **24.2%** | **25.0%** | **26.2%** | **28.5%** | **23.8%** |

Loss rate:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 2.7% | 4.5% | 8.3% | 15.6% | 23.0% | **5.9%** |
| **18-25k** | 2.5% | 4.2% | 7.8% | 14.9% | 23.2% | **5.4%** |
| **25-30k** | 2.3% | 4.2% | 7.9% | 15.0% | 23.4% | **5.3%** |
| **30-35k** | 2.2% | 4.1% | 8.1% | 14.8% | 23.1% | **5.3%** |
| **35-40k** | 2.1% | 4.1% | 7.9% | 14.9% | 22.3% | **5.0%** |
| **40-50k** | 2.2% | 4.1% | 7.8% | 14.4% | 22.9% | **4.8%** |
| **50-75k** | 2.0% | 4.0% | 7.8% | 14.4% | 22.7% | **4.4%** |
| **75-100k** | 1.9% | 3.9% | 7.3% | 14.4% | 22.3% | **3.9%** |
| **100-150k** | 1.7% | 3.9% | 7.3% | 12.7% | 22.2% | **3.5%** |
| **>150k** | 1.7% | 4.0% | 8.0% | 14.6% | 21.4% | **3.6%** |
| **Grand Total** | **2.2%** | **4.1%** | **7.8%** | **14.7%** | **22.9%** | **4.9%** |

Profit:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income/Risk Grade** | **GRADE A** | **GRADE B** | **GRADE C** | **GRADE D** | **GRADE E** | **Grand Total** |
| **<=18k** | 15.2% | 13.4% | 9.6% | 2.3% | -5.1% | **12.0%** |
| **18-25k** | 15.4% | 13.7% | 10.1% | 3.0% | -5.3% | **12.5%** |
| **25-30k** | 13.7% | 12.3% | 10.0% | 2.9% | -5.5% | **11.5%** |
| **30-35k** | 11.9% | 10.9% | 8.9% | 3.1% | -5.2% | **10.2%** |
| **35-40k** | 10.6% | 9.5% | 7.1% | 1.1% | -4.4% | **8.8%** |
| **40-50k** | 9.1% | 8.6% | 5.4% | 0.7% | -5.0% | **7.6%** |
| **50-75k** | 9.2% | 8.7% | 5.4% | 0.7% | -4.8% | **7.8%** |
| **75-100k** | 8.4% | 7.4% | 4.4% | -1.2% | -4.4% | **7.0%** |
| **100-150k** | 7.6% | 5.5% | 2.1% | -2.4% | -4.3% | **5.9%** |
| **>150k** | 7.2% | 4.9% | 0.9% | -5.2% | -3.5% | **5.2%** |
| **Grand Total** | **11.0%** | **10.5%** | **7.7%** | **1.8%** | **-5.0%** | **9.5%** |

1. **Recommendation**

Risk grading and Risk Based Pricing analysis were done keeping in mind that all the marginal segments as per Risk Grade A, B and C of all the income bands are profitable basis the revised pricing grid. The pricing of Metro, Tier-1 and Tier-2 geographies was revised to optimize profitability. However, as per the validation of pricing for Tier-3 and Tier-4, both the Tiers are found to be maintaining risk based pricing criteria while maintaining decent profitability. Hence, existing grid is recommended for Tier-3 and Tier-4.

* Post revision, overall NB HITS profitability stands at 7.6% (without removal of L2 and L3 costs) basis the recent distribution (Jul’23-Dec’23) and ROI as per the revised pricing grid.
* The overall ROI for Metro and Tier-1 geographies was reduced by ~130 bps keeping in mind the competitive market scenario. This revision is expected to enhance disbursals and thereby increase business
* Post revision, the overall ROI for PL salaried portfolio is expected to be reduced by ~65 bps.

|  |  |  |  |
| --- | --- | --- | --- |
| **Tier** | **#Book** | **ROI Existing** | **ROI Revised** |
| Metro/Tier-1 | 10773 | 21.04 | 19.70 |
| T2 | 2026 | 22.66 | 22.68 |
| T3/4 | 8900 | 25.02 | 25.02 |
| **Overall** | **21699** | **22.82** | **22.16** |

1. **Methodology:**

Methodology for calculating below metrics used in score cut-off analysis:

1. **Bad rate (ever30+12 month)**: Weighted Bad rate is considered similar to scorecard validation base for approved and rejects. For the segment where no off-us performance available (did not get any loan outside post getting rejected by SMICC) similar bad rate considered as of rejected applications where off-us performance is available. This was assumed due to the similar score distribution observed between the two population sets – rejected leads with no off-us performance and rejected leads with off-us performance.
2. **PD (Ever 90+12 month):** Relationship between actual bad rate(ever30in12m) and actual PD was determined by linear regression. Estimated PD is calculated basis the derived relationship
   1. PD Year1 for booked population was computed (Probability of default (90+ DPD) in first year of sourcing)
   2. PD multipliers (denoting how much the PD changes post origination from year 1 to year 2 to year 3 and so on) have been computed by using historic trends. PD for subsequent years has been computed using these multipliers
   3. LGD (Loss given default has lifetime recoveries) is assumed with 10% improvement compared to current estimates (in line with business plan where Recovery rate has been improved to 13.5% from 11% in FY23-24)
   4. EL Adjustment factors considered as 83% basis revised method planned for adaptation in FY24-25 (instead of existing 88%)
   5. POS Rundown for Lifetime ANR has been taken basis Ideal Single Loan POS rundown as per PPR
3. **Estimated Loss rate (NCL%)**at score band level: Loss rate is calculated as PD (Probability of default) \* LGD (Loss given default) \* EL Adjustment Factor
   1. PD differs at score band level while LGD and EL adjustment factor are assumed to be same across score bands (in line with the current product level LGD and EL adjustment factors assumed in ECL estimation).
   2. LGD is assumed as 62%. This incorporates 10% improvement over current estimates of 69% in line with business plan where Recovery rate has been improved to 13.5% in FY24-25 from 11% in FY23-24.
4. **PBT (excluding L2, L3 Cost):** Profit has been calculated as: *Net Revenue* – *Expense* – *Loss*. However, recent time approval rates for the existing Green, Amber and Red leads have been applied on the overall count of leads so that profitability can be computed basis estimated approved leads (and not on the total leads).
   1. *Net revenue*: Interest Income (as per pricing grid introduced in Apr’24) – Cost of Fund
   2. *Expense*: L1 cost + Loan Origination Cost
   3. *Loss*: as per definition mentioned above
   4. Approval rate: Tier wise weighted approval rates of existing Risk Status have been applied on the New Risk Status. Further Risk grade wise weightage has been applied to arrive at the final approval rate within each risk grade. Thus, Risk Status wise approval rate is converted into Risk Grade wise approval rate. These approval rates are finally applied on the recent leads count to calculate the estimated count of approved customers
5. **Lifetime ANR**: Lifetime ANR is computed summing up the Y-o-Y rundown of the principle outstanding for the average lifetime of the loan from historical data.
6. **Annexure:**
   1. **Existing Pricing Grid and Profitability:**

