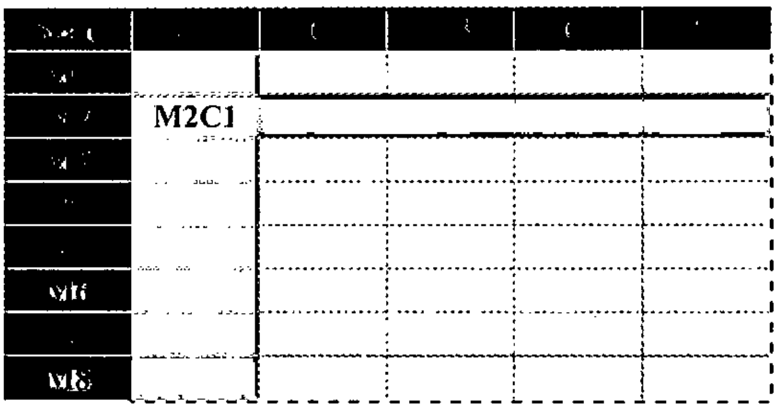
Comprehensive MFI Grading

Digamber Capfin Limited (DCL)

Comprehensive Grade Assigned: *M2C1*

Date assigned: *September 28, 2018*



Digmaber Capfin Limited (DCL) has been assigned a comprehensive MFI grade of **M2C1**. This signifies high capacity of the MFI to manage its operations in a sustainable manner and excellent performance on code of conduct dimensions.

Grading Rationale

Microfinance Grading	DCL has been assigned"**M2**" as its performance grade which signifies 'high' capacity of the organization to carry out its activities in a sustainable manner'. The organization has sound management, good portfolio quality, standard operating processes, diversified operations and management information system but it has a relatively moderate size of operations.
Code of Conduct Assessment Grade	DCL has been assigned "**C1**" as its Code of Conduct Assessment Grade which signifies 'excellent' performance on COCA dimensions.

*Comprehensive MFI Grading provides opinion of the Rating Agency on MFI's capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. MFI Grading has been done on the dimensions of **Transparency, Scale of Operations, Operational Setup and Sustainability**. Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behavior and Sensitive Indicators**.*

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CARE (including its holding company and wholly owned subsidiaries) has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of CARE have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading.

Disclaimer

CARE's microfinance (MFI) grading is a one-time assessment and the grading is not kept under periodic surveillance. CARE's analysis draws heavily from the information provided by the microfinance institution as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. It does not imply that CARE performs an audit function to detect fraud. In case of NGO MFIs, gradings apply only to their microfinance programs.
CARE's MFI grading is not a recommendation to buy, sell or hold any financial instrument issued by the MFI or to make loans/ donations/ grants to the MFI. It is not an assessment of the debt servicing ability of the MFI. The grading assigned by CARE cannot be used by the MFI in any form for mobilizing deposits/savings/thrift from its members or general public.
CARE's MFI grading also does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the microfinance grading.

Historical Rating Grades (COCA)

Year	Name of the Agency	Average Score	Grade
December, 2014	SMERA	74%	COCA 4 (4th on 6 point scale)
April, 2017	CARE	83%	M3C2

Historical Rating Grades

Date	Rating Agency	Comprehensive Rating Grade
June, 2014	CARE	MFI 3+
December, 2015	CARE	MFI 2
April, 2017	CARE	MFI 2

Historical Rating (CARE) (Bank Loan Ratings)

Date	Rating assigned	
	Long Term	Short Term
March, 2017	*Withdrawn*	
December, 2016	CARE BB+; Positive	-

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Comprehensive MFI Grading: DCL

Date	Rating assigned	
	Long Term	Short Term
February, 2016	CARE BB+	-
February, 2015	CARE BB+	-
February, 2014	CARE BB	-

Microfinance Grading Symbols and Definitions

Grading Scale	Definitions
M1	MFIs with this grade are considered to have **highest** capacity to manage their microfinance operations in a sustainable manner.
M2	MFIs with this grade are considered to have **high** capacity to manage their microfinance operations in a sustainable manner.
M3	.MFIs with this grade are considered to have **above average** capacity to manage their microfinance operations in a sustainable manner.
M4	MFIs with this grade are considered to have **average** capacity to manage their microfinance operations in a sustainable manner
M5	MFIs with this grade are considered to have **inadequate** capacity to manage their microfinance operations in a sustainable manner.
M6	MFIs with this grade are considered to have **low** capacity to manage their microfinance operations in a sustainable manner.
M7	MFIs with this grade are considered to have **very low** capacity to manage their microfinance operations in a sustainable manner.
M8	MFIs with this grade are considered to have **lowest** capacity to manage their microfinance operations in a sustainable manner.

Code of Conduct Assessment scale and definitions

C1	MFIs with this grade have **excellent** performance on Code of Conduct dimensions
C2	MFIs with this grade have **good** performance on Code of Conduct dimensions
C3	MFIs with this grade have **average** performance on Code of Conduct dimensions
C4	MFIs with this grade have **weak** performance on Code of Conduct dimensions
C5	MFIs with this grade have **weakest** performance on Code of Conduct dimensions

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MFI's profile (March 31, 2018)	
Name of the MFI	Digamber Capfin Ltd. (DCL)
Legal form	NBFC- MFI
Director	Mr. Amit Jain
Year of starting microfinance	2009
Branches (Month YYYY)	82 (March 31, 2018) covering 41 districts
Active borrowers	107449 (March 31, 2018)
Total staff	563 (March 31, 2018)
Operational area	Rajasthan, Madhya Pradesh, Haryana, Gujarat, Karnataka
Visit of the Assessment team	August 13 to September 10, 2018
Correspondence address	J-54-55, II Floor, Anand Moti, Tonk Road, Gopal Pura Mode, Jaipur, Rajasthan 302018

Details of Loan Products (March 31, 2018)				
Product	**Description**	**Loan size (Rs.)**	**Interest Rate (p.a.)**	**APR (Interest Rate and Processing fees)**
Joint Liability Group Loan	Loan given in JLG only (upto 3 loan cycles)	Rs.15,000 - Rs.50,000	22-26% p.a.	23% to 27% (Processing fee of 1% + GST)
Trader one	Individual loan to missing middle link borrowers	Rs.30,000 - Rs.1,00,000	22-26% p.a.	23% to 27% (Processing fee of 1% + GST)

Ownership/Equity Structure

Shareholding Pattern (March 31, 2018)	
Shareholder	**% Shareholding**
Promoters	49.48%
Non-Institution – Bodies Corp	1.45%
Non-Institution – Individual	49.07%
Total	**100.00%**

Profile of Board of Directors

Board of Directors (As on August 31, 2018)				
Sr. No	**Name**	**Education**	**Brief profile**	**Designation**
1	Mr. Rajiv Jain	B.Sc., M.C.A.	He is one of the promoters of the company and has more than two	Chairman & Managing Director

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Board of Directors (As on August 31, 2018)				
Sr. No	**Name**	**Education**	**Brief profile**	**Designation**
			decades of experience in the financial sector.	(CMD)
2	Mr. Amit Jain	B. Sc., L.L.B.	He is one of the promoters of the company and has more than two decades of experience in the financial sector.	Executive Director (ED)
3	Dr. Basant Gupta	M.Sc., Ph.D.	He comes from education field and runs an education society. He is geologist and having vast knowledge of area, cast and culture. He guides DCL how to develop learning processes at different levels for training purpose.	Director (Non-Executive)
4	Mr. Naveen Sharma	B.Sc., D. Pharma	He is 41 years old and has been associated with healthcare industry and experience in promoting new product related to health care industry.	Director (Non-Executive)
5	Mr. Manoj Gupta	B.Sc.	Associated with the company since 2011, is involved in developing a vision and strategic plan to guide the organization.	Director (Non-Executive)
6	Mr. Nayan Ambali	B. tech.	Co-founder of conflux technologies and Rupie finance and serves on its board. Prior to that he was SoX compliance consultant to Bank of America and Metlife.	Independent Director
7	Mr. Lalit Kumar Jain	B. Com., LLB from Rajasthan University	He has an experience of more than 40 years in banking sector with specialization in finance and credit.	Independent Director
8	CV Arun Kumar	BA, CAIIB and MBA	He is 46 years old and presently Deputy General Manager of SIDBI, Jaipur, having experience in MSME Credit, Micro Finance, and Internal Audit & Risk Management and take care interest of lending institutions of the Company.	Director (Nominee-SIDBI)

Key Performance Ratios		
Particulars	**March, 2017**	**March, 2018**
Portfolio at Risk (>30 days)	3.41%	2.04%

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Key Performance Ratios		
Particulars	**March, 2017**	**March, 2018**
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	18.65%	18.47%
Operating Cost Ratio (OCR)	9.68%	6.84%
Operating Self Sufficiency (OSS)	110.14%	126.55%
Funding Expense Ratio (FER)	12.43	12.50
Write-offs to average portfolio	0.73%	0.99%
Return on Assets (RoA)	1.17%	3.56%
Return on Net-worth (RoNW)	8.83%	31.04%
Active borrowers per loan officer	495	276
Active borrowers per branch	1,293	1,310

Compliance with RBI's Directions for MFIs

Sr No	RBI's Direction	Status
1	85% of total assets to be in the nature of qualifying assets	**In compliance**
2	Net worth to be in excess of Rs.5 Crore	**In compliance**
3	Income of borrower not to exceed Rs100,000 in the rural areas and Rs160,000 in the urban and semi-urban areas	**In compliance**
4	Loans size not to exceed Rs.60,000 in first cycle and Rs100,000 in subsequent cycles	**In compliance**
5	Total indebtedness of the borrower not to exceed Rs100,000 (excl. medical and education loans)	**In compliance**
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs.30,000, with prepayment without penalty	**In compliance**
7	Pricing guidelines are to be followed	**In compliance**
8	Transparency in interest rates to be maintained	**In compliance**
9	Not more than two MFIs lend to the same client	**In compliance**

Section 1: Microfinance Grading

Transparency

- DCL was incorporated in April, 1995 and got registered with the Reserve Bank of India as non-deposit taking non-banking finance company (NBFC) on September 09, 1999. It got registered as NBFC-MFI with RBI in September, 2013. The advantage of this legal form is that it can attract equity infusion from individual/institutional investors.
- DCL is promoted by Mr. Rajiv Jain (CMD) and Mr. Amit Jain (ED).
- DCL is governed by a 8 member board comprising 2 Independent directors, 3 Non- Executive, 2 Executive and 1 Nominee Director. All the Board members

along with the two promoter directors having more than two decades of experience in their respective fields.

- The board meetings are conducted generally on monthly basis to monitor the activities of the organization.
- For effective monitoring and to increase transparency, DCL has also formed sub-committees of directors for providing guidance on audit, risk management, credit, nomination and remuneration, executive and Ombudsman.
- Branch Audit activities are carried out by separate Internal Audit teams which directly report to the ED and Board. Internal audit team is led by respective Internal Audit Managers (IAM), one for Rajasthan and Gujarat jointly while one for Madhya Pradesh, Haryana regions jointly. Internal audit executives (IAE) report to their respective IAMs. Presently, there are 8-10 IAEs under each IAM.
- Further, DCL has developed the internal audit team for auditing of all the functions i.e. HR, Finance, Accounts etc. at HO. The team will directly report to ED and Board.
- At branch level, a comprehensive audit is done by IAE on monthly basis. Each IAE covers around 4-5 branches in a month. It takes around 5 days for an IAE to conduct audit of a branch.
- Clearly defined and documented credit and HR policies.
- Transparency in lending process is adequate with the lending norms and tenor and interest rate charged explained to the borrowers as well as printed on loan cards.
- Submits stock & debtors statement on monthly basis containing individual loan details of its borrowers, collection details and PAR details. Further, it also submits activity-wise loan details on a monthly basis to the lender.
- Information is shared with all four credit bureau including Highmark as per the latest RBI guidelines.
- Overall disclosures are adequate.

Operational Setup

- DCL has a well-defined organizational structure in place with several board committees for various functions. These include Audit Committee (meets every quarter), Risk Management Committee (quarterly), Staff Welfare Committee (monthly), System Audit Committee (monthly), Grievance Redressal Committee (monthly).

- The company has formed various departments like H.R., Finance, Operations-cum-Marketing, Credit (Hub), MIS, Information Technology and Audit whose respective Heads report directly to the ED and further ED reports directly to CMD.
- Branch Manager (BM) is supported by the Field Officers (FO) to carry out the field level operations. BM reports to Unit Manager (UM) and UM reports to Area Manager who in turn reports to State Head.
- Each department has its respective head which is looking after the particular operations. Loan approval is given by HO, having dedicated credit team. BM and Field officers provide data regarding the client. Turn-around time from group formation to disbursement is around 15 days.
- Disbursement to the borrowers is done from HO through NEFT to the particular bank account of the borrower which reduces the cash transition risk.
- DCL has a standard training manual in local language (Hindi) for induction training for all levels of hierarchy including FO, BM, UM and SH. The training is provided by the senior executives of the company apart from HR team.
- Refresher training is also provided from time to time depending upon the need of the existing staff and change in IT systems and operational processes of the company apart from training by external professionals.
- The human resource policies at DCL with respect to selection, remuneration, promotion and other benefits are well documented and defined. DCL also conducts training programs to ensure that the staff is well equipped to handle the operations in an efficient and effective way. DCL has created separate departments including HR, Finance, Credit, MIS, IT, Audit and Operations-cum-Marketing with clearly demarcated roles and responsibilities.
- The company has a laid down HR Policy manual which includes mention of post-wise salary grade and other allowances provided to the employees. There is also a well-defined incentive structure for various grades which is based on new client addition, collection efficiency and branch audit grade.
- DCL has in place proper appraisal system with the loan appraisal at the HO level

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by the appropriate authority which helps in reducing the time taken for loan processing.

- DCL has in place proper disbursement policies. Disbursement is being done at the HO level through direct transfer to the bank a/c of the borrowers which has not only reduced cash handling risk but has also resulted in reduction in the operating costs.
- Overall, DCL's loan collection process is adequate. The present software being used by the company facilitates flow of information on a real time basis between branches and HO that helps the company in loan monitoring and taking decisions faster.
- Overall, DCL's overdue monitoring system is adequate.
- MIS and accounting system of DCL is adequate at the current level of operations. The present MIS has the capacity to handle large amount of information in case of increase in the size of operations of the company.
- Thus DCL has an adequate risk mitigation strategy in place to cover the loan in the event of the death of the borrower.

Scale of Operations

- Active JLG individual members at 107,449 (91,798 as on March 31, 2017) as on March 31, 2018.
- Total AUM as on March 31, 2018 of DCL stood at Rs. 274.78 crore (Rs.137.06 crore as on March 31, 2017) having entire outstanding portfolio from micro-finance business.
- Loan disbursed in micro-finance sector during FY18 was Rs.268.56 crore (Rs.193.03 crore in FY17).
- Covers 41 districts across the state of Rajasthan, Madhya Pradesh, Haryana, Karnataka and Gujarat.

Sustainability

- DCL has reported a sustained growth in income and net profit in last 4 years. During FY18, DCL reported a PAT of Rs.8.32 crore as compared to Rs.1.50 crore during FY17. The portfolio yield on portfolio of DCL stood at 22.63% during FY18 which increased from 20.43% in FY17.

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- Net-worth base of DCL has improved during FY18 with the infusion of equity of Rs.4.81 crore by the promoters. During FY18, MAS Financial Services Ltd. has also provided the unsecured term loan of Rs.10.00 crore to the company in the form of subordinated (Tier II) loan which increased the Tier II capital of the company. Further, DCL has received funding from Bank of Baroda, HDFC, Indian Bank, UCO Bank and Union Bank of India during FY18.
- DCL has maintained moderate asset quality with moderate PAR. Its PAR for more than 90 days stood at 1.43% as on March 31, 2018 [P.Y.: 0.29%].
- DCL reported net profit of Rs.8.32 crore on total income of Rs.53.95 crore for financial year ending March 31, 2018 (FY18) as compared to net profit of Rs.1.50 crore on total income of Rs.27.01 crore for FY17.
- At present, DCL mainly covers 2 states including Rajasthan and Madhya Pradesh with small presence in the states of Gujarat, Karnataka and Haryana. In the coming years, DCL expects and strives to become one of the country's best managed microfinance companies in terms of scale, quality and transparency. It has plans to expand its operations by tapping new markets such as Himachal and Uttarkhand and expand to the untapped markets of Rajasthan and Madhya Pradesh in future.
- Has presence in areas with moderate level of penetration of MFIs with a diversified products offering.

Industry Outlook

The microfinance segment has around 165 lenders in the microfinance segment. This group comprises NBFC-MFIs, NBFCs, Banks, SFBs, and other non-profit entities. Out of these players contributing to more than 90% of microfinance lending are MFIN members/associates.

As of 31st March 2018, NBFC-MFIs accounted for 33% of microfinance lending. The aggregate Gross Loan Portfolio (GLP) of MFIs stood at Rs 48,094 Cr. This represents a y-o-y growth of 50% over FY 16-17. Further NBFC-MFIs have presence in 35 States/UTs. As of March 2018, NBFC-MFIs on aggregated basis have a network of 10,077 branches and employee base of 82,004 staff, of which 64% are loan officers

(52,559) who provide door-step credit to low-income clients served by the NBFC-MFIs. There has been growth of 5% in employees, 5% in loan officers and 4% branches compared with last quarter. On Y-o-Y basis, there has been an increase of 25% in branches, 25% in employees and 31% loans officers.

Compared with Q4 FY 16-17, there has been Y-o-Y growth of 25% in clients and 22% in loan accounts. Average loan outstanding per account is Rs 19,031 representing a growth of 20% over FY 16-17

MFIs have recovered from the effect of demonetization and PAR > 30 has come significantly down from 11% on 31st March 2017 to 4% on 31st March 2018. (MFIN)

Impact of Demonetization -

Post demonetization of high value currency notes, many of the MFIs have faced collection issues as they generally operate in cash. For the first 2 weeks following the announcement of demonetization, the collection ratio reportedly declined to 80%. Subsequent increased in supply of new currencies by RBI led to increase in collections in the fourth week of November. But the collections have come down subsequently due to the dispensation provided by RBI (earlier by 60 days and later increased to 90 days) to financial institutions in terms of recognizing NPAs. This was misrepresented to the borrowers by influential people (as some kind of loan waiver), and thus resulted in fall in collection efficiency in few states like Uttar Pradesh, Maharashtra and Madhya Pradesh.

Post demonetization, MFIs are increasingly looking for cashless disbursement and collection through Jan-Dhan accounts and by leveraging technology. With 8 NBFC-MFIs converting into Small Finance Banks (SFBs) by March 2017, the competitive environment is bound to undergo a major shift within the microfinance industry as a whole. As these entities are expected to remain focused on microfinance, cashless disbursement and collection of loans is bound to increase in the future.

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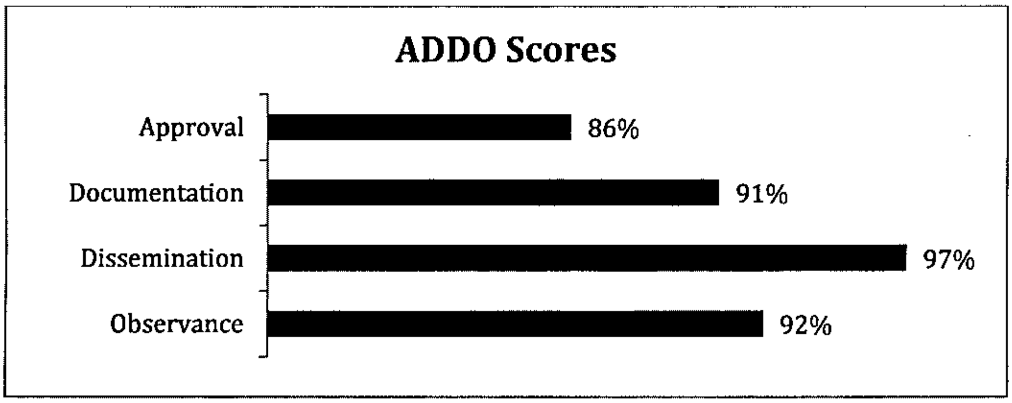
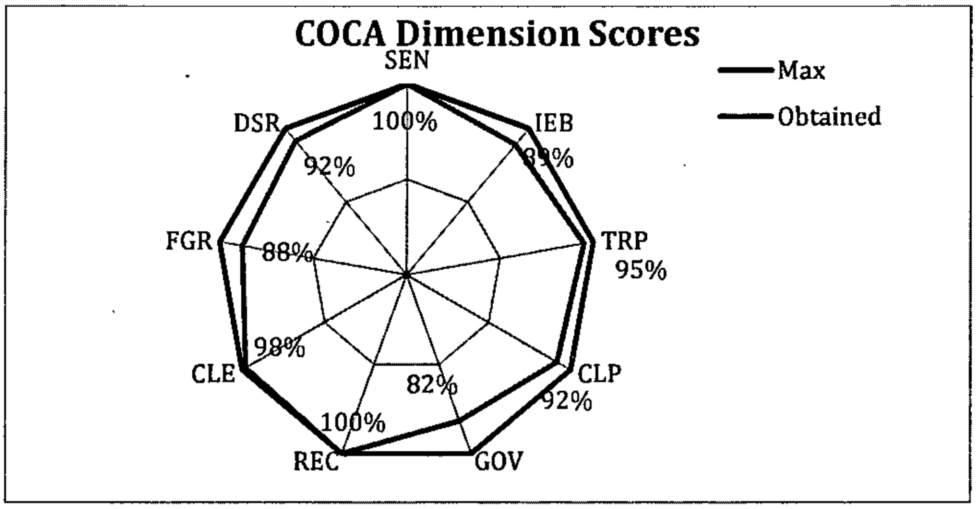
Section 2: Code of Conduct Assessment





SEN: Sensitive Indicators; IEB: Integrity and Ethical Behaviour; TRP=Transparency; CLP=Client Protection; GOV=Governance; REC=Recruitment; CLE=Client Education; FGR=Feedback and Grievance Redressal; DSR=Data Security

Code of Conduct Assessment Summary

DCL was found to have a good governance structure with Board having independent directors and a strong organizational structure with standard operating processes including Credit policies, HR policies in place. The staff was found to be trained and ethical while dealing with clients and there is good amount of transparency in the operations.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
• Good governance with reputed members in the management committee and independent directors which form majority of the board • Standardized operating procedures in place with documented policies with respect to loan sanctions, conduct of the staff, field operations, credit appraisal and systems. • Strong human resource profile through training.	• Internal audit/ management audit guidelines does not have checks regarding timeline for credit bureau check prior to disbursement, staff satisfaction related to compensation • The interviewed clients were not aware about their right to refer the matter to the grievance redressal mechanism established by the Industry Associations.

Significant observations

Higher Order Indicators	
Integrity and Ethical Behavior	• Standard operating process and policies are in place with strong degree of adherence and the staff is appropriately trained to abide by the code of conduct. • Fair degree of transparency observed while dealing with borrowers and the staff was found ethical and the management treats borrowers and staff members with dignity. • The Board and board level committees in place which help good oversight in observations on operations and Code of Conduct. • DCL has provided the fair amount of training to the employees regarding redressal of the issues of borrowers. • Staff satisfaction related to compensation and incentive level is not covered by the internal audit. • The interviewed clients were not aware their right to refer the matter to the grievance redressal mechanism established by the Industry Associations.
Sensitive Indicators	• The clients surveyed were well aware of the loan products, interest rates and charges for loan. • The borrowers had no grievances with respect to conduct, punctuality and behavior of the loan officers. • DCL comply with the RBI's latest guidelines for qualifying assets, regarding loan tenor, size, income of borrowers, no prepayment charges

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Higher Order Indicators	
	and interest charges. DCL is RBI registered NBFC-MFI. • The borrowers are not provided sanction letters; however letter mentioning detailed terms and conditions are provided at group level which is kept at center in a common file.

Building Blocks	
Transparency	• The policies of the company are in place and documented in its operational manual and HR manual. • The details of loan products, code of conduct, company's introduction and center meeting instructions are displayed in the branches and are in local languages and loan cards given to borrowers have interest& principal amount on them and further, the loan officers have explained them to borrowers. • The borrowers are not provided sanction letters; however letter mentioning detailed terms and conditions are provided at group level which is kept at center in a common file. • Latest RBI guidelines related to NBFC-MFI are not documented in circulars and are sent to each branch office through email. • DCL's board approves the committees which are responsible for the day to day operational issues. DCL has Audit committee, risk management committee, credit committee, ombudsman committee and remuneration and nomination committee. • DCL's board reviews any change in the RBI guidelines regarding interest rates, fair practice code etc. • DCL provides the compulsory training to the clients regarding the loan products, company details, terms & condition of the loans etc. • DCL provides disclosures in the public domain regarding key financial and operational parameters on its web site.
Client Protection	• The products and charges (interest and fees) were in compliance with the RBI guidelines. • Insurance is provided through IRDA approved insurance agency to the borrowers and charged according to the guidelines.

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Building Blocks	
	• DCL follows the guidelines regarding the collection of loans in case of delinquency. Surveyed borrowers have given the details that loan officer has not threated or used abusive words in center meeting. • The loan cards given to the clients have documented interest rates and EMI written on them. DCL also takes the mutual consent of the borrowers of the same group through Inter-se agreement. • The borrowers of a group are given consolidated single valid receipt for every payment made by them and entry in loan cards is also done. • DCL has turn-around time (TAT) is around 15-20 days from the initial meeting from the borrowers to loan disbursement. • The field staff is trained to assess the income and indebtedness of clients and also have documented criteria in the operational manual. • The operational manual of the DCL provides guidelines for center meetings with the borrowers and their conduct. The staff is also trained on the same issues. • The field staffs are trained for not using any coercive or abusive language or provide any threat in case non-payment by the borrowers. The sample of borrowers surveyed did not have negative comments about the field staff. • The clients are informed about sharing of their data with all the credit bureaus and other agencies.
Governance	• Good governance with reputed people comprising the Board and presence of board level sub-committees. • Out of 8 directors, 5 are Independent/Non-executive, 1 nominee director and 2 are Executive directors. • DCL's board has made several committees which deal with various aspects of the microfinance operations. • All detailed operational activities are reviewed and reported at the board appointed committees. The highlights of these discussions are passed on to the Board Meetings. • The company has taken initiatives to better manage the cash during the current scenario of post-

Building Blocks	
	demonetization. DCL has started taking payments through UPI based system. • DCL also provides the training to the borrowers for the banking products like opening bank account. • Internal audit is done on monthly basis of each branch. • The compensation of the directors is disclosed in the audited reports and decided by the committee which has independent director as chairperson. • The statutory auditor M/s. A. K. Chordia & Co. has given as favorable feedback on the accounting practices and systems followed by the organization. • The board chairperson is not independent and is executive of the company. • The written policy does not incorporate the fact that 1/3rd of the member are independent person.
Recruitment	• HR policies are well documented and defined for every employee in the hierarchy. • HR policies are in place with criteria for selection and growth opportunities in place. • DCL provides proper notice period for employees also does reference check for new recruits.
Client Education	• DCL gives training to the borrowers regarding company's policies, about loan products, importance of punctuality in repayment. • Surveyed borrowers are aware about the terms and conditions regarding the loans including interest rate, processing fee and insurance charges. • Surveyed borrowers were not aware about the insurance claim settlement process in some instances.
Feedback and Grievance Redressal	• Grievance redressal mechanism is in place and the surveyed borrowers were aware of such mechanisms. • DCL has a board level grievance redressal committee (Ombudsman committee) which discusses the issues which are not resolved at the grievance redressal official. • Information about grievance redressal mechanism by industry associations was lacking in borrowers.
Data Sharing	• Data is shared on a monthly basis with the credit bureaus like High Mark. DCL also shares data with SROs like Sa-dhan and when required by the SROs. DCL is the member of Sa-dhan and

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Building Blocks	
	following the code of conduct prepared by Sa-dhan. • The latest operational and financial data is available on website.

Annexure: Methodologies

Microfinance Grading Methodology

CARE Ratings' MFI Grading Framework

CARE's MFI grading is a one-time assessment of a Micro Finance Institution's (MFI) operational and financial capability to undertake and sustain the targeted level of operations.

CARE evaluates an MFI under a four point framework:

I. **Transparency;**
II. **Operational setup;**
III. **Scale of operations and**
IV. **Sustainability.**

The various aspects covered under each parameter are given below:

I. TRANSPARENCY	III. SCALE OF OPERATIONS
• Governance • Accounting Policies • Internal Control • Transparency in the usage of grants and funds • Transparency in the lending process	• Geographical spread of operations and outreach • Variety of loan Products • Efforts to increase outreach and coverage
II. OPERATIONAL SETUP	**IV. SUSTAINABILITY**
• Promoter/Management Assessment • Organizational Structure • Systems and Procedures • Quality of Information System • Lending policy • Quality of Loan Monitoring process • Litigation • Risk Mitigating mechanisms	***a) Financial Sustainability*** • Resource Profile • Cost Structure • Interest rate policies • Capital Adequacy • Asset quality • Earnings • Liquidity and Asset Liability Management ***b) Operational Sustainability*** • Succession planning

AS

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	• Competition • Resource arrangements • Vision

COCA Methodology

The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non-Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and Smart Campaign's Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

Highest Order	
Sensitive Indicators	
Higher Order	
Integrity & Ethical Behavior	
Building Blocks	
Governance Transparency Client Education	Client Protection, Recruitment Feedback/Grievance Redressal Data Sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behavior	32
Sensitive indicators	27
Building Blocks	**Number of Indicators**
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14

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Feedback & Grievance Redressal	25
Data Sharing	6
Total	**251**

Methodology

The Code of Conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, eight to fifteen branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI is less than eight).

<u>Sampling guidelines</u>

The following is taken as the guideline to determine the sample size for a COCA exercise.

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid-size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFIs (Loan portfolio outstanding of Rs500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment exercise requires:

1. <u>Discussions with key staff members and the senior management at the head office,</u> particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. <u>Review of policy documents and manuals at the head office.</u> These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. <u>Sampling of branches at the head office</u>. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. <u>Discussions with the branch staff at the branch office.</u> Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.

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5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, CARE team visited eight branches of the DCL. The details of the branches visited are provided below.

Branches	Count of Member Name
Bhilwara	14
Bhopal	21
Chomu	6
Indore	8
Jhotwara	10
Jodhpur	20
Kota	22
Rajgarh	19
Shahpura	19
Total No. of Members	**139**

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