SMERA RATINGS LIMITED

SMERA Comprehensive Grading

M3C3

(Above average capacity of the MFI to manage its operations in a sustainable manner and average performance on code of conduct dimensions)

Comprehensive MFI Grading

Vedika Credit Capital Limited (VCCL)

Date of Report:

31th March, 2017

Valid Till:

30th March, 2018

SMERA's MFI Comprehensive Grading Scale

The grading is done on 8 x 5 matrix. The matrix assesses the entity on two broad parameters:

- Capacity to manage their microfinance operations in a sustainable manner
- Performance on COCA dimensions

Scale	C1	C2	C3	C4	C5
M1					
M2					
M3			M3C3		
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of "**M3C3**". It signifies above average capacity of the MFI to manage its operations in a sustainable manner and average performance on code of conduct dimensions.

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Grading Rationale

Microfinance Capacity Assessment Grade	VCCL obtains **"M3"** as its performance grade which signifies "above average capacity of the organization to carry out its activities in a sustainable manner".
Code of Conduct Assessment Grade	VCCL obtains **"C3"** as its Code of Conduct Assessment Grade which signifies average 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 Capacity Assessment Grading has been done on the dimensions of ***Capital Adequacy****,* ***Governance****,* ***Management Quality*** *and* ***Risk Management Systems****. 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 Behaviour*** *and* ***Sensitive Indicators****.*

Conflict of Interest Declaration

The Rating Agency (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 the Rating agency 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

This Grading is based on the data and information (Data) provided by the MFI and obtained by SMERA from sources it considers reliable. Although reasonable care has been taken to verify the Data, SMERA, makes no representation or warranty, expressed or implied with respect to the accuracy, adequacy or completeness of any Data relied upon. SMERA is not responsible for any errors or omissions or for the results obtained from the use of the Grading or the Grading Report and especially states that it has no financial liability, whatsoever, for any direct, indirect or consequential loss of any kind arising from the use of its Gradings.

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Historical Rating Grades

Date	Rating Agency	Comprehensive Rating Grade
01st Aug, 2016	Brickwork Ratings	BBB- (Triple 'B' Minus)
19th Jan, 2017	Brickwork Ratings	MFI 3 (MFI Three)

Microfinance Capacity Assessment 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

Grading Scale	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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Company Profile

Name of the MFI	Vedika Credit Capital Limited (VCCL)	
Operational Head – Microfinance Business	Name	Balwant Kumar
	Designation	COO
	Mobile No.	(91) (9534188888)
	Email ID	coo.mf@teamvedika.com
Date of Incorporation/Establishment	19th March, 1995	
Date of commencement of microfinance business	2007	
Legal Status	NBFC-MFI	
Business of the company	Microfinance Services under JLG model	
Correspondence Address	406, Shrilok Complex, 4th Floor, H.B. Road, Ranchi-834 001 Jharkhand	
Geographical Reach (As on 28/Feb/2017)	No. of States	4
	No. of Districts	32
	No. of Branches	62
	No. of Active Borrowers	98966
	No. of Total Employees	386
	No. of Field/Credit Officers	342
Visit of the Assessment team	22nd March, 2017 to 28th March, 2017	

Product Profile

Products	Description	Loan Size (Rs)	Interest Rate (A) (In %)	Processing Fee (B) (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
UNNATI-14700	Group	14,700	25.40	1.00	26.40
UNNATI-29600	Group	29,600	25.74	1.00	26.74

Capital Structure (As On 31/Mar/2017)

Authorized Capital	In Rs.	25.00 Crore
Paid-up Capital	In Rs.	15.72 Crore

Shareholding Pattern (As On 31/Mar/2017)

EQUITY SHARES	
Shareholders	**% Holding**
Gautam Jain	21.26
Ummed Mal Jain	11.76
Vikram Jain	12.26
Kanta Devi Jain	9.50
Others	45.22
TOTAL	**100.00**

Board of Directors/Promoters Profile

Name	Position	Qualification	Brief Profile
Gautam Jain	Managing Director	MBA (Marketing)	Mr. Gautam Jain, aged about 46 years, is the managing director of the company. He is MBA in marketing by qualification. He has over a decade of experience in the financial domain.
Ummed Mal Jain	Director	LLB	Mr. Ummed Mal Jain, aged about 70 years, is a chairman of the company. He was an advocate in Patna High Court.
Vikram Jain	Director	B.Com (H)	Mr. Vikram Jain, aged about 43 years, is a director of the company. He had a Food Grain business (a family business) before joining VCCL.
Praveen Kumar Chaturvedi	Professional Director	MSc, LLB and MBA (IIM Ahmedabad)	Mr. Praveen Kumar Chaturvedi, aged about 67 years, is the professional director of the company. He is MSc, LLB and MBA (IIM Ahmedabad) by qualification. He has 36 years of experience in the banking industry. He retired as a General Manager from Indian Overseas Bank.
Vinod Kumar Gupta	Independent Director	MSc (Physics) and CAIIB	Mr. Vinod Kumar Gupta has over 35 years of experience in the banking industry. He retired as a General Manager from Bank of Maharashtra.

Key Performance Ratios

Financial Ratios	31/Mar/2015	31/Mar/2016
Capital Adequacy Ratio (CAR)		
Capital Adequacy Ratio (%)	20.92	20.59
Productivity / Efficiency Ratios		
No. of active borrowers per staff member	263	259
No. of active borrowers per field/credit officers	323	307
No. of active borrowers per branch	2119	1689
Gross portfolio o/s per field/credit officers (In Lakhs)	46.47	57.36
Average outstanding per borrower (In Lakhs)	0.14	0.19
Profitability / Sustainability Ratios		
Yield on Portfolio (%)	17.40	20.09
Operational Self Sufficiency (%)	1.04	1.08
Operating Expense Ratio (OER)	6.47	5.96
Funding Expense Ratio (FER)	11.74	14.50
Return on Assets (RoA)	0.40	0.75
Return on Equity (RoE)	2.44	5.04
Portfolio at Risk (>30 days)	1.19	0.99
Write-offs to average portfolio (%)	0.01	0.03

Highlights of Microfinance Operations

Particulars	31/Mar/2014	31/Mar/2015	31/Mar/2016	28/Feb/2017
No. of States	3	3	4	4
No. of Districts	12	19	26	32
No. of Branches	19	27	44	62
No. of Active Members	55416	57229	74346	98966
No. of Active Borrowers	55416	57229	74346	98966
No. of Total Employees	206	217	286	386
No. of Field/Credit Officers	168	177	242	342
No. of SHGs	-	-	-	-
No. of JLGS	1691	7829	12474	21928
No. of Individual Lending Loan Accounts	-	-	-	-
OWNED PORTFOLIO				
Particulars	**31/Mar/2014**	**31/Mar/2015**	**31/Mar/2016**	**28/Feb/2017**
Total loan disbursements during the year (in crore) **(Owned Portfolio)**	38.30	66.49	149.76	167.26
Total portfolio outstanding (in crore) **(Owned Portfolio)**	54.87	82.00	138.81	177.79
MANAGED/BC PORTFOLIO				
Particulars	**31/Mar/2014**	**31/Mar/2015**	**31/Mar/2016**	**28/Feb/2017**
Total loan disbursements during the year (in crore) **(Managed/BC Portfolio)**	Nil	Nil	Nil	111.24
Total portfolio outstanding (in crore) **(Managed/BC Portfolio)**	Nil	Nil	Nil	66.66

Compliance with RBI's Directives for MFIs

RBI's Direction	Company Status (Auditor Certified)	Compliance
85% of total assets to be in the nature of qualifying assets	Income generation loan forms over 85% of total assets	Complied
Net worth to be in excess of Rs 5 Crore	Net owned funds is Rs.26.81 crore as on March 31, 2016	Complied
Income of borrower not to exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas	VCCL extends loans to households whose income does not exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles	Loans size has not exceeded Rs. 60,000 in first cycle and Rs. 100,000 in subsequent cycles	Complied
Total indebtedness of the borrower not to exceed Rs. 100,000 (excl medical and education loans)	Total indebtedness of the borrower has not exceeded Rs. 100,000	Complied
Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty	Tenure of loans is not less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty.	Complied
Pricing guidelines are to be followed	Loans are provided at 25.74% reducing balance basis which meets the RBI criteria.	Complied
Transparency in interest rates to be maintained	Interest, Processing Fees and Insurance Premium charged are duly mentioned in the loan card provided to the client.	Complied
Not more than two MFIs lend to the same client	VCCL verifies the same though credit check from credit bureaus	Complied

RBI's Direction	Company Status (Auditor Certified)	Compliance
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	VCCL is charging processing fee of 1.00% on the disbursed loan amount plus applicable service tax	Complied
Collateral free loans	VCCL does not accept any collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	VCCL does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	VCCL does not take late payment or prepayment penalties from the clients.	Complied
Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.	VCCL shares its client data with Equifax, CRIF High Mark, Experian and CIBIL.	Complied
Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs	VCCL provides 100% of total loans for income generation activities.	Complied
NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 percent of its aggregate risk weighted assets.	VCCL has a CRAR of 20.59% as on March 31, 2016.	Complied
The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1% of the outstanding loan portfolio or b) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more'.	VCCL has made appropriate loan loss provisions	Complied

Section 1: Microfinance Capacity Assessment Grading

Long track record of microfinance operations and extensive industry experience of promoters

- VCCL was incorporated in 1995 at Kolkata and is engaged in microfinance operations since 2007 (nearly a decade). Vedika was registered as an NBFC-MFI with RBI in June 2015. The company is managed by Jain family. The majority stake of the company is held with Mr. Gautam Jain, Mr. Ummed Mal Jain, Mr. Vikram Jain and Mrs. Kanta Devi Jain. The remaining equity shares are held by other members of Jain family.

- VCCL has five-member board as on March 2017 having extensive experience in the banking and finance segment. The board has three promoter directors, one professional director and one independent director. SMERA feels that VCCL should strengthen its governance structure by inducting more independent members in its Board.

- Mr. Gautam Jain, aged about 46 years, is the managing director of the company. He is MBA in marketing by qualification. He has over a decade of experience in the financial domain. Mr. Ummed Mal Jain, aged about 70 years, is a chairman of the company. He was an advocate in Patna High Court. Mr. Praveen Kumar Chaturvedi, aged about 67 years, is the professional director of the company. He is MSc, LLB and MBA (IIM Ahmedabad) by qualification. He has 36 years of experience in the banking industry. He retired as a General Manager from Indian Overseas Bank. Mr. Vinod Kumar Gupta has over 35 years of experience in the banking industry. He retired as a General Manager from Bank of Maharashtra.

Diversified Resource Profile

- VCCL has developed funding relationships with a large number of lenders i.e. 16 lenders (including 5 PSU Banks/Financial Institutions as on February 28, 2017). However the company's resources profile continues to remain concentrated towards borrowings from NBFCs/FIs which stood at 75% of total external borrowings as on February 28, 2017.

- The borrowings from NBFCs/FIs carry higher interest rate ranges between 13.50%-16.25%. The cost of funds (COF) for VCCL stood relatively higher at 14.50% in FY 2016 as compared to 11.74% in the previous year on account of increase in borrowings from NBFCs/FIs. While these relationships with NBFCs have helped VCCL in meeting its funding requirements to meet the projected growth, however the company would have to increase its funding mix from PSU/Private Banks to bring down the cost of borrowing.

Average capitalisation and comfortable liquidity profile

- VCCL has an average capitalisation marked by gearing of 5.6 times as on March 31, 2016 as compared to 5.0 times in the previous year. The equity capital infusion in the company has not been commensurate with the growing asset base.

- The company has received preference share capital from SIDBI (17.2%) and remaining through promoter group (82.8%).

- CRAR has declined over the years and it stood at 20.59% as on March 31, 2016 as compared to 31.08% in FY2014. However it is above the RBI specified guidelines of 15% for NBFC-MFIs.

- VCCL has a comfortable liquidity position due to well matched maturity of assets and liabilities. The tenure of loans is about 12-24 months, whereas the incremental bank funding is typically with tenure of about 12-36 months. However regular flow of funds is critical to maintain the projected growth and the same would have a key bearing on its liquidity profile.

Sound Asset Quality

- VCCL has maintained sound asset quality over the years. The on-time repayment rate stood at 99.24% as on 28/Feb/2017. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control. Moreover, Portfolio at Risk (1-30 days) continues to be comfortable and it stood at 0.19% as on 28/Feb/2017.

Moderate Geographical Reach

- VCCL's operations are spread in four states i.e. West Bengal, Bihar, Jharkhand and Uttar Pradesh. However ~74% of the loan portfolio is concentrated in West Bengal and Bihar. The company has plans to start its microfinance operations in Assam and Odisha in the next 12-18 months.

- The company is exposed to high level of political uncertainty in the state of West Bengal and Bihar where the company has majority of the microfinance operations. Any political intervention in the existing states would significantly affect the company's asset quality indicators. It would also be key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

Income and Profitability

- Income from operations for VCCL has increased in the last three years. VCCL has reported PAT of Rs.13510 (in thousands) on total income of Rs.299870 (in thousands) in FY2016 as compared to PAT of Rs.4145 (in thousands) on total income of Rs.155723 (in thousands) in FY2015.

  The profitability and operating efficiency indicators are comfortable for the past two years. The details are as follows:

Profitability / Sustainability Ratios	2015	2016
Yield on Portfolio (%)	17.40	20.09
Operational Self Sufficiency (%)	104	108
Operating Expense Ratio (OER) (%)	6.47	5.96
Funding Expense Ratio (FER) (%)	11.74	14.50
Return on Assets (RoA) (%)	0.40	0.75
Return on Equity (RoE) (%)	2.44	5.04
Portfolio at Risk (>30 days) (%)	1.19	0.99

Moderate MIS & IT infrastructure considering the current scale of operations

- VCCL's management information system (MIS) and Information Technology (IT) is moderate for its current scale of operations. It has dedicated MIS and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches.

Adequate Audit Mechanism

- Considering the significant increase in scale of operations, VCCL have strengthened its internal audit team. The company does quarterly audit of its branches, the scope of audit majorly covers field and borrower visit, loan documents verification, and head office audit. The audit findings are presented to the audit committee set-up at board level.

Inherent risk prevalent in the microfinance sector

- VCCL's business risk profile is susceptible to regulatory and legislative risks, along with the inherent risk exist such as unsecured nature of lending, vulnerable customer profile, exposure to vagaries of political situation in states, and cash handling associated with the MFI sector.

Operating Environment

- SMERA estimates the MFI sector to grow at a CAGR of 20%-25% and is expected to touch Rs.100000 crore by the end of FY2019.

- MFIs have reported an increase of ~58% in average loan per borrower in FY2016 as compared to FY2014. SMERA believes seasoned customer profile over multiple loan cycles have helped MFIs to increase its loan ticket size.

- The fund flow to the sector has improved on account of increased confidence on MFI sector coupled with reduction in interest rate (100-150 bps). Further large MFIs are exploring the route of Non-convertible debentures (NCDs) and Pass through Certificates (PTCs); whereas small –mid size MFIs have an increased access to funds from banks and financial institutions

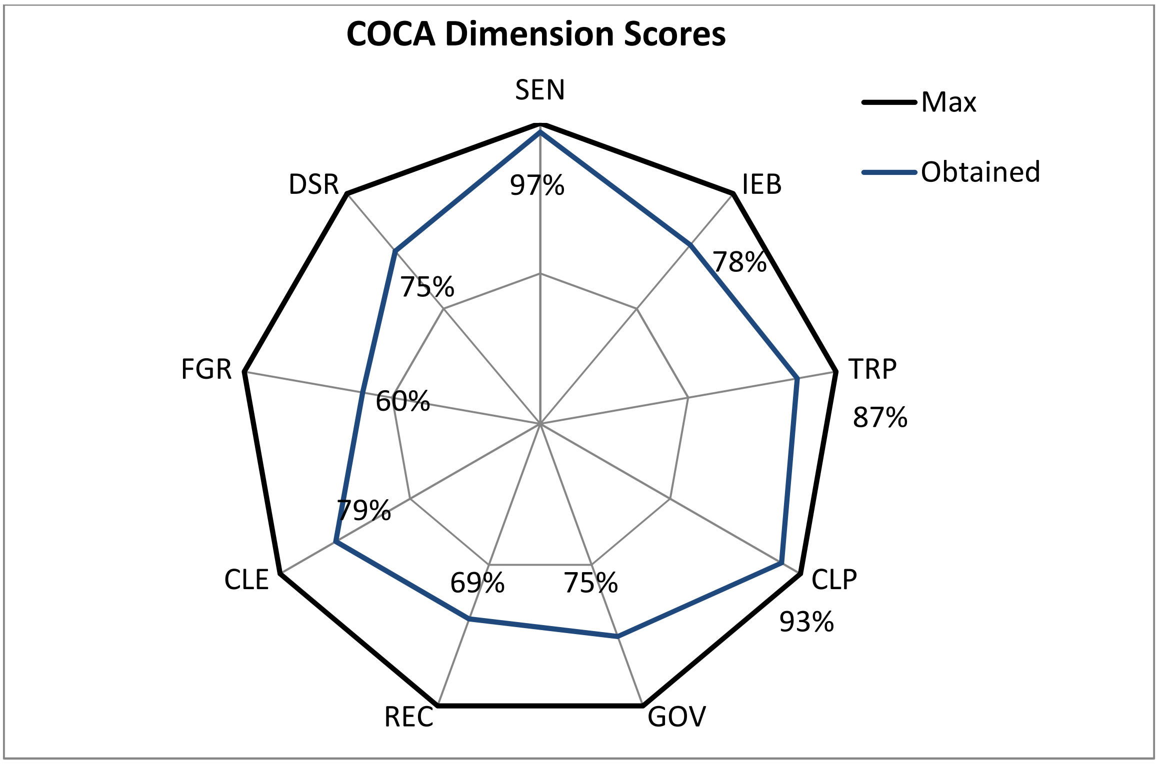
- Support systems such as Self-Regulatory Organizations (SRO), Credit Information Bureaus (CIB) among others have been established to ensure credit check and process adherence among MFIs. This regulatory framework has brought more accountability and transparency within the sector.

- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which has moderated microfinance sector growth in FY2016-17 as compared to the previous year.

SMERA RATINGS LIMITED

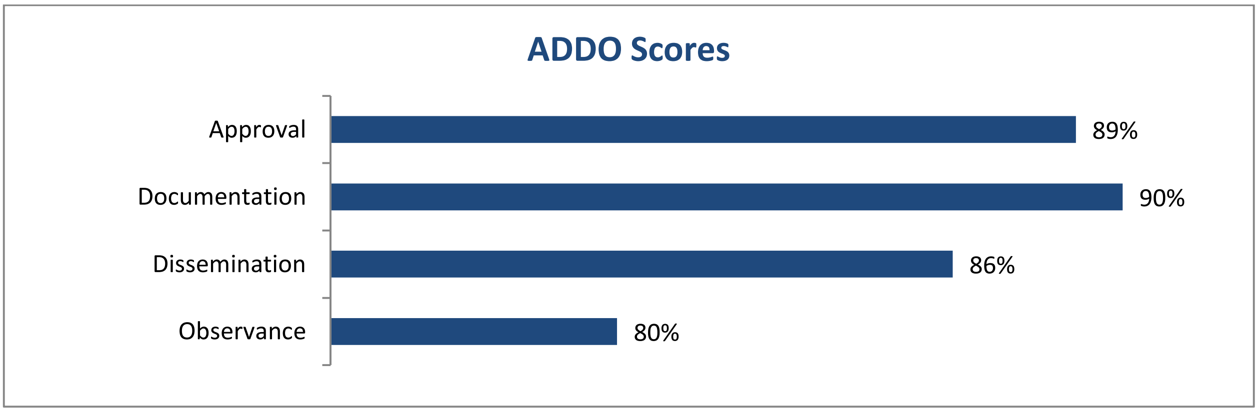
Section 2: Code of Conduct Assessment

COCA Grading – C3 (Average Performance on Code of Conduct dimensions)



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	97%
Integrity and Ethical Behavior	IEB	78%
Transparency	TRP	87%
Client Protection	CLP	93%
Governance	GOV	75%
Recruitment	REC	69%
Client Education	CLE	79%
Feedback & Grievance Redressal	FGR	60%
Data Sharing	DSR	75%



VCCL with an overall grade of "**C3**", indicate **Average Performance on Code of Conduct dimensions**.

Code of Conduct Assessment Summary

The Code of Conduct report for Vedika Credit Capital Limited (VCCL) evaluates the company's adherence to various Code of Conduct parameters. The study examines and comments upon the common minimum indicators such as:

- Sensitive Indicators
- Integrity and Ethical Behaviour
- Transparency
- Client Protection
- Governance
- Recruitment
- Client Education
- Feedback and Grievance Redressal
- Data Sharing

SMERA believes that VCCL exhibits average performance on COCA dimensions. This document details SMERA's approach and methodology for this study and gives observations of its assessment team while conducting the evaluation. The Approval; Documentation; Dissemination and Observance (ADDO) framework has been used for assessment and measuring VCCL's adherence towards ethical operational practices.

Strengths and Weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
• VCCL has five-member board having extensive experience in the banking and finance segment. • Board approved policies, compliant with the RBI guidelines. • Experienced and qualified management with over a decade of experience in microfinance sector. • Code of Conduct framed as per the VCCL mission, vision, values are displayed in all branch offices & HO. • Membership with MFIN and Sa-dhan. • Operational and credit policies are well documented and communicated to its staff members. • Adequate client origination, loan appraisal and recovery mechanism. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower. • VCCL's has a dedicated helpline number for client feedback/grievance. • Data sharing with all credit bureaus (Equifax, CIBIL, Experian and CRIF High Mark).	• VCCL needs to strengthen its governance structure by inducting more independent members in its Board. • Moderate MIS and IT Infrastructure considering the current scale of microfinance operations. • VCCL needs to strengthen its internal audit team, process and system inorder to cope with rising portfolio growth across geographies. • Internal audit checklist needs to be strengthened by incorporating important and critical aspects like awareness of branch staff regarding RBI compliances, Client grievance handling procedure and SRO specified guidelines. • Awareness among clients on interest rate, insurance claim settlement and Grievance Redressal process was found to moderate to weak in the branches visited.

Significant Observations

HIGHER ORDER INDICATORS	
Integrity and Ethical Behaviour	• VCCL has constituted Steering Committee comprising of the Board Members, COO, CFO, CS and Audit Head. The Committee meets once in a month and discuss all issues related to the operation, finance of the company including code of conduct compliances. • The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit. • The MFI have a policy for dealing with delinquent loan accounts. • MFI does not prepare monthly reports about the number, nature and resolution of grievances, and feedback received for management review. • The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year; however the same have not been documented in HR manual. • In all the branches visited, the contact number and address of SRO nodal official was not displayed. • Staff compensation and incentive are not covered under scope of Internal Audit. • Fixed component compensation of staff is not impacted in event of overdues. VCCL, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.
Sensitive Indicators	• Awareness among clients on interest rate, insurance claim settlement and Grievance Redressal process was found to moderate to weak in the branches visited. • VCCL does not have a policy to issue sanction letters to the clients with all terms and conditions of the loan including annualized interest rates. However loan details are captured in the loan agreement provided to the client. • Awareness among the branch staff regarding RBI compliances, Client grievance handling procedure and SRO specified guidelines found to be moderate. • There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • VCCL shares timely data with all credit bureaus on a frequency prescribed by SRO. • VCCL does not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans. • The MFI gets an external CA agency to certify its compliance

	with RBI's directions for NBFC-MFIs.

BUILDING BLOCKS	
Transparency	• Awareness among the branch staff regarding RBI guidelines, Client grievance handling procedure and SRO specified guidelines found to be moderate. • VCCL has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages. • Circulars with the most recent directions were not properly managed in the visited branches. • VCCL, in its fair practices code provides importance for transparency in pricing and clear communication to the clients. • The loan interest rate and processing fees is mentioned on the loan passbook and loan agreement provided to the client. • Clients interviewed were not completely aware of the interest rate and processing charges for all services availed. However, it is understood that it is negligence from the borrower's side. • Audit committee verifies through the audit reports whether all clients have received the necessary loan documents. • Pricing policy of loans was displayed in all branches visited by the assessment team. • VCCL do not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans. • Code of conduct compliance report of VCCL is available in the public domain. However current year annual financial statement is not available in the public domain.
Client Protection	• VCCL do not have a board-approved policy regarding client data security. • Employees are trained on aspects of appropriate behavior with the clients. • VCCL has framed a Fair Practice Code and has also adopted the RBI fair practices code, which includes policies on the expected staff conduct with clients. • Employees are trained on aspects of appropriate behavior with the clients. • Staffs were found to be moderately aware of the need to have professional conduct with the clients. • Operational staff members interviewed was moderately aware of the turnaround time limits of the loan application. • Internal audit needs to be strengthened by incorporating important and critical aspects like awareness of branch staff regarding RBI compliances, Client grievance handling procedure and SRO specified guidelines.
Governance	• VCCL has five-member board having extensive experience in the banking and finance segment. VCCL should strengthen its

	governance structure by inducting more independent members in its Board. • VCCL do not have 1/3rd of independent members in its Governing Board. • An audit committee of the Board with an independent director as chairperson. • The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year. • Action taken report based on the last audit report is not managed properly in the branches visited. • Branch staff interviewed is not fully aware of reschedulement policy and procedure.
Recruitment	• VCCL's Board has reviewed its recruitment policies at least once annually. • The MFI does not have a defined and documented process for responding to reference check requests. • VCCL has honored the notice period for all employees who have left the company. • As informed by the management, MFI obtains NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs. However no supporting document is available with SMERA. • The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year; however the same have not been documented in HR manual.
Client Education	• VCCL, in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services. • VCCL does not charge clients for the trainings provided to clients, itself or through a related party. • Awareness among client on annualized Interest rate & Insurance claim settlement process was found to be moderate to weak.
Feedback and Grievance Redressal	• The board has approved a policy for Redressal of its clients' grievances. However no supporting document is available with SMERA. • MFI do not prepare any reports related to number of complaints received, nature and resolution of grievances and feedback received for management review. • Clients were found to be aware of the VCCL's helpline number. • In all the branches visited, the contact number and address of SRO nodal official was not displayed. • Complaints lodged through helpline number are not documented properly in the branches visited. • Awareness among client and staff on SRO Grievance Redressal mechanism was found to be moderate to weak. • There is no dedicated team at HO to document and follow up on the client complaints.
Data Sharing	• Key operational & financial data for FY2016 is accessible on the

	website of VCCL. However audited financial statement is not available on VCCL's website. • MFI does not have a documented process for sharing client's data with the credit bureaus. • MFI has provided data called for by SRO and RBI as and when required as per compliance. However no supporting document is available with SMERA. • VCCL shares client's data with all credit bureaus on a frequency prescribed by SRO. However no declaration has been taken from the clients for sharing the same. • VCCL performs compulsory credit bureau checks for all its clients.

Microfinance Grading Methodology

A) Operational Track Record

Business Orientation and Outreach of the MFI is an important parameter to gauge the growth strategies of the MFI and to assess its strategies for development. This parameter is analysed using the following sub-parameters.

- Direction & Clarity
- Ability to raise funds
- Degree of association with promoter institution
- Alternate avenues for funds
- Outreach (No. of offices, No. of clients, No. of employees, Portfolio diversification)

B) Promoters & Management Profile

The elements in this parameter helps in assessing the Promoter & management quality evaluated on the basis of the basic educational qualification, professional experience of the entrepreneur; and business attitude that is related to the motivation of carrying out the business and pursuing business strategies. This parameter is analysed using the following sub-parameters.

- Past experience of the management
- Vision and mission of the management
- Profile of the Board Members
- Policies and Processes
- Transparency and corporate governance

C) Financial Performance

SMERA analyses the credit worthiness of the organization through the following financial parameters. Various financial adjustments are done to get more accurate ratios for comparison. Financial analysis helps the MFI to know its financial sustainability. This parameter is analysed using the following sub-parameters.

- Capital adequacy
- Profitability/Sustainability ratios
- Productivity and efficiency ratios
- Gearing and Liquidity ratios

D) Asset Quality

The loan portfolio is the most important asset for any MFI. SMERA analyses the portfolio quality of the MFIs by doing ageing analysis, sectoral analysis, product wise analysis etc. SMERA compares the portfolio management system with organizational guidelines and generally accepted best practices. This parameter is analysed using the following sub-parameters.

- Ageing schedule
- Arrears Rate / Past Due Rate
- Repayment Rate
- Annual Loan Loss Rate

E) System & Processes

SMERA analyses the polices and processes followed by the MFIs, their ability to handle volume of financial transactions, legal issue and disputes, attrition among the employees and client drop out which impact the productivity of the organization. SMERA also analyses asset liability maturity profile of the MFI, liquidity risk and interest rate risk. This parameter is analysed using the following sub-parameters.

- Operational Control
- Management Information System
- Planning & Budgeting
- Asset Liability Mismatch

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 Behaviour	
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 Behaviour	32
Sensitive indicators	26
Building Blocks	**Number of Indicators**
Transparency	40
Client Protection	122
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
Total	**250**

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).

Sampling guidelines

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 MFI (>2,50,000 borrowers) and having gross loan portfolio (GLP)> Rs 500 crore	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment exercise requires:

1. Discussions with key staff members and the senior management at the head office, 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. Review of policy documents and manuals at the head office. 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. Sampling of branches at the head office. 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. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
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, SMERA visited following branches of the MFI. The details of the branches visited are provided below.

Sr. No.	Branch	State	No of clients interviewed
1	Hajipur	Bihar	15
2	Kankarbagh	Bihar	36
3	Rajiv Nagar	Bihar	24
4	Ramgarh	Jharkhand	20
5	Kokar	Jharkhand	37
6	Halisahar	West Bengal	22
7	Barrackpur	West Bengal	16
8	Sonarpur	West Bengal	29
Total			**199**

Financial Statements

Profit and Loss Account (Amount in Thousands)

Financial Year	2014	2015	2016
Months	12	12	12
	Audited	Audited	Audited
Financial revenue from operations (a)	**1,17,065**	**1,55,723**	**2,99,870**
Interest and fee revenue from loans	1,01,093	1,43,156	2,78,940
Other Operating Revenue	15,972	12,567	20,930
Financial expenses from operations (b)	**81,567**	**96,602**	**2,01,292**
Interest and Fee Expense on Borrowings	81,567	96,602	2,01,292
Gross financial margin (c=a-b)	**35,498**	**59,121**	**98,578**
Impairment Losses on Loans (d)	**4,247**	**2,683**	**5,686**
Provision for Loan Loss / Write off	4,247	2,683	5,686
Write off loss assets	0	0	0
Net financial margin (e=c-d)	**31,251**	**56,438**	**92,892**
Operating expenses (f)	**39,379**	**50,525**	**77,093**
Personnel Expense	23,669	30,616	40,836
Administrative Expense			
Depreciation and Amortization Expense	583	710	1,480
Other Administrative Expense	15,127	19,199	34,777
Net operating income (g=e-f)	**-8,128**	**5,913**	**15,799**
Net Non-Operating Income/(Expense)	**11,243**	**1**	**6,974**
Non-Operating Revenue (h)	11,243	1	6,974
Net income before tax (j=g+h-i)	**3,115**	**5,914**	**22,773**
Current Tax	2,222	2,366	8,465
Deffered Tax charge/(credit)	57	-597	798
Income Tax (k)	**2,279**	**1,769**	**9,263**
Net income after tax (j-k)	**836**	**4,145**	**13,510**

SMERA RATINGS LIMITED

Fiscal Balance Sheet (Amount in Thousands)

As on date	31-Mar-14	31-Mar-15	31-Mar-16
	Audited	Audited	Audited
SOURCES OF FUNDS			
Shareholders' Funds			
Equity Share Capital	70,345	70,345	1,39,643
Share Capital	**70,345**	**70,345**	**1,39,643**
Reserves & Surplus	96,047	99,300	1,28,379
TOTAL EQUITY	**1,66,392**	**1,69,645**	**2,68,022**
Liabilities			
Short-term liabilities	**16,316**	**4,65,217**	**7,39,499**
Short-term borrowings			
Commercial Loans from banks/FI	16,131	4,63,370	7,37,135
Account payable &Other short-term liabilities	185	1,847	2,364
Long-term liabilities	**4,96,025**	**3,83,869**	**7,61,605**
Long-term borrowings			
Commercial Loans from banks/FI	4,96,025	3,83,869	7,61,605
TOTAL OTHER LIABILITIES	**5,12,341**	**8,49,086**	**15,01,104**
Provision for Loan Loss	5,512	8,195	13,882
Provision	2,289	2,581	8,807
Provisions	**7,801**	**10,776**	**22,689**
Deffered Tax Liability	138	0	339
TOTAL LIABILITIES	**6,86,672**	**10,29,507**	**17,92,154**

As on date	31-Mar-14	31-Mar-15	31-Mar-16
	Audited	Audited	Audited
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	6,857	9,816	14,289
Less: Accumulated Depreciation and Amortization	5,078	5,776	6,890
Net Block	**1,779**	**4,040**	**7,399**
Cash and Bank Balances	1,27,727	2,00,871	3,87,132
Investment	5,237	486	1,034
Loan Portfolio			
Gross Loan Portfolio	5,48,767	8,20,085	13,88,185
Less: Provisions	0	0	0
Net Loan Portfolio	**5,48,767**	**8,20,085**	**13,88,185**
Accounts Receivable and Other Assets	2,433	2,929	7,637
Intangibles	729	637	767
Deferred Tax Assets	0	459	0
TOTAL ASSETS	**6,86,672**	**10,29,507**	**17,92,154**

About SMERA

SMERA Ratings Limited is a joint initiative of Small Industries Development Bank of India (SIDBI), Dun & Bradstreet Information services India Private Limited (D&B) and leading public and private sector banks in India. SMERA commenced its operations in 2005 and is empanelled as an approved rating agency by the National Small Industries Corporation Ltd. (NSIC) under the 'Performance & Credit Rating Scheme for Micro & Small Enterprise' of the Ministry of MSME, Government of India. SMERA is registered with the securities and Exchange Board of India (SEBI) as a Credit Rating Agency and is accredited by Reserve Bank of India (RBI) as an External Credit Assessment Institution (ECAI), under BASEL- II norms for undertaking Bank Loan Ratings.

Corporate Office

102, Sumer Plaza
Marol Maroshi Road, Marol
Andheri (East)
Mumbai - 400 059
Tel: +91 22 6714 1111
E-mail: info@smera.in
Website: www.smera.in