

May 5, 2021

Mr. Rajiv Jain
Managing Director
Digamber Capfin Ltd
J 54/55, Anand Moti, Gopal Pura,
Himmat Nagar, Tonk Road, Jaipur – 302018

CONFIDENTIAL

Dear Sir,

Code of Conduct Assessment of Micro Financing Institution (MFI)

Please refer to your request for grading of your organization.

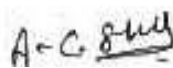
1. Our Grading Committee has assigned a grading of '**M2C1**' to your organization. The MFI grading is assigned on an eight point scale with "MFI 1" being the highest and "MFI 8" being the lowest whereas Code of Conduct Assessment is assigned on a five point scale with "C 1" being the highest and "C 5" being the lowest. A brief detail of grading framework of Micro Financing Institution (MFI) along with MFI grading scale and Code of Conduct Assessment Scale & Definition is given in the report attached.
2. This is a one-time assessment of the MFI which can be reviewed by CART only upon specific request from your organization and shall not be subject to any surveillance. The grading will be valid till **April 29, 2022 i.e. one year from the grading assignment date.**
3. COCA grading is specific to your organization and not specific to any debt instrument or borrowing programme.
4. COCA grading is meant for specific use of institutional investors/lenders and shall not be used for raising funds from the public.
5. CART's grading is an opinion of CARE Advisory Research and Training Limited on the relative capability of the organisation to undertake micro-financing activity and does not constitute a recommendation to buy, hold or sell any financial instrument issued by the organisation or to make loans/ donations/ grants to the said organisation.
6. If you need any clarification, you are welcome to approach us in this regard.

Thanking you.

Yours faithfully,



(Dharmish Shah)
Sr. Analyst
Enclosure: As Above.



(Amitkumar Shah)
Sr. Manager



WHOLLY OWNED SUBSIDIARY OF CARE RATINGS LTD.

Comprehensive MFI Grading: DCL

Comprehensive MFI Grading

Digamber Capfin Ltd (DCL)

Comprehensive Grade Assigned: M2C1

Date assigned: April 30, 2021

Scale	C1	C2	C3	C4	C5
M1					
M2	M2C1				
M3					
M4					
M5					
M6					
M7					
M8					

Digamber Capfin Ltd (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 ” indicating that the ability of DCL to manage its microfinance activities in a sustainable manner is high.
Code of Conduct Assessment Grade	DCL has been assigned “ C1 ” as its Code of Conduct Assessment Grade signifies ‘excellent’ performance on COCA dimensions.

*Comprehensive MFI Grading provides opinion of the CARE advisory Research and Training Limited (CART) on MFI’s capacity to carry out its microfinance operations in a sustainable manner and CART’s assessment on adherence to industry code of conduct. MFI Capacity Assessment Grading has been done on the dimensions of **Operational and Financial Performance, Capital Adequacy, Asset Quality, Funding profile, Operational setup, Management Quality, and Risk Management Systems**. MFI Grading 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**.*

Disclaimer

CART's microfinance (MFI) grading is a one-time assessment and the grading is not kept under periodic surveillance. CART's analysis draws heavily from the information provided by the microfinance institution as well as information obtained from sources believed by CART to be accurate and reliable. However, CART 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 CART performs an audit function to detect fraud. In case of NGO MFIs, gradings apply only to their microfinance programs.

CART'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 CART cannot be used by the MFI in any form for mobilizing deposits/savings/thrift from its members or general public.

CART's MFI grading also does not indicate compliance/violation of various statutory requirements. CART shall not be liable for any losses incurred by users from any use of the microfinance grading.

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

Comprehensive MFI Grading: DCL

MFI's profile (March 31, 2021)	
Name of the MFI	Digamber Capfin Ltd (DCL)
Legal form	Public Limited Company RBI Classification: NBFC-MFI
Directors	Mr. Amit Jain Mr. Rajiv Jain
Year of starting microfinance	2009
Branches (Month YYYY)	151 (March 31, 2021)
Active borrowers	248,193 (February 28, 2021)
Total staff	1,327 (March 31, 2021)
Operational area	8 States (Haryana, Himachal Pradesh, Jammu, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh and Uttarakhand).
Virtual Visit & telecommunication of the Assessment team	April 16, 2021 – April 24, 2021
Registered Address	J 54/55, Anand Moti, Gopal Pura, Himmat Nagar, Tonk Road, Jaipur – 302018

Details of Loan Products (March 31, 2021)				
Product	Loan Amount	Rate of interest	Processing Fees	Tenor
Joint Liability Group Loan	15000 - 50000	22%-26%	1%+GST	12-48 M/BiW/W
Individual Micro Loan	60000-100000	22%-26%	2%+GST	12-48 M/BiW/W

Ownership/Equity Structure

Equity Shareholding Pattern (March 31, 2021)	
Shareholder	% Shareholding
Directors and Promoters	59.95%
Relatives	18.89%
Friends and Others	21.16%
Total	100.00%

Profile of Board of Directors

Board of Directors (March 2021)				
Sr	Name	Designation	Education	Brief profile
1	Mr. Rajiv Jain	Managing Director	BSC	He is one of the Promoters of the Company and has more than two decades of experience in Financial Sector.
2	Mr. Amit Jain	Executive Director	BSc. LLB	He is one of the promoters of the Company and has more than two decades of experience and more than a decade of experience in MFI Sector
3	Mr. Nayan Ambali	Independent Director	B.Tech	He is the co-founder of Conflux Technologies, Rupie Finance and serves on its Board of Directors

Comprehensive MFI Grading: DCL

4	Mr. Lalit Jain	Independent Director	B.com, LLB	He is a seasoned banker with more than 40 years of experience. He has worked across the various functions of the Banks.
5	Mr. Jatin Chhabra	Non-Executive Director	M.Sc. (Chemistry)	He is presently working as project head in health care Sanstha. Installation of various plants such as solar defluoridation plants, RO plants at various regions is core of his activities which makes him expertise in analysis of rural & semi rural areas
6	Mr. Dharmendra Saxena	Nominee Director SIDBI	Engineering Degree in Computer Technology	He is a Certified Associate of Indian Institute of Bankers and has been an Alumnus of IIM, Ahmedabad. He comes with a rich experience of more than 24 years of cross functional expertise in Banking Sector
7	Dr. Amita Gill	Independent Director	M.Sc., M. Phil, PHD in Higher Energy Physics, University of Rajasthan, Jaipur.	She has served in the department of Science & Technology, GoR (Government of Rajasthan) at various positions as Project officer (PO), Project Director (PD), Officer on Special Duty (OSD) and Director, Special Secretary to Government of Rajasthan.

Key Performance Ratios	
	March 2020
Portfolio at Risk (>30 days)	0.14%
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	19.84%
Operating Expense Ratio (OER)	8.07%
Funding Expense Ratio (FER)	9.87%
Write-offs to average portfolio	0.58%
Return on Assets (RoA)	5.39%
Return on NetWorth (RONW)	31.51%
Active borrowers per loan / Field Staff	322
Active borrowers per branch	1683

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 Rs.125,000 in the rural areas and Rs.200,000 in the urban and semi-urban areas	In compliance
4	Loans size not to exceed Rs.75,000 in first cycle and Rs125,000 in subsequent cycles	In compliance
5	Total indebtedness of the borrower not to exceed Rs.125,000 (excl medical and education loans)	In compliance
6	Tenure of loans not to be less than 24 months for loan amount	In compliance

Comprehensive MFI Grading: DCL

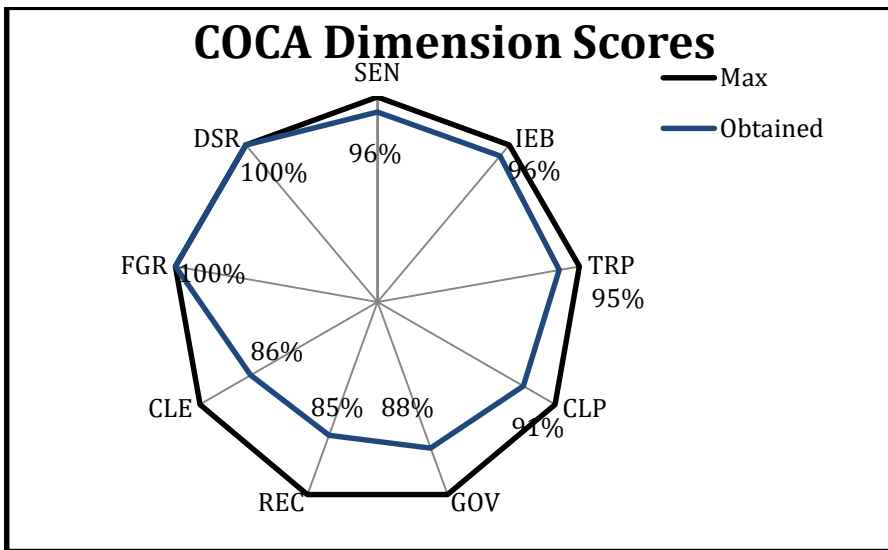
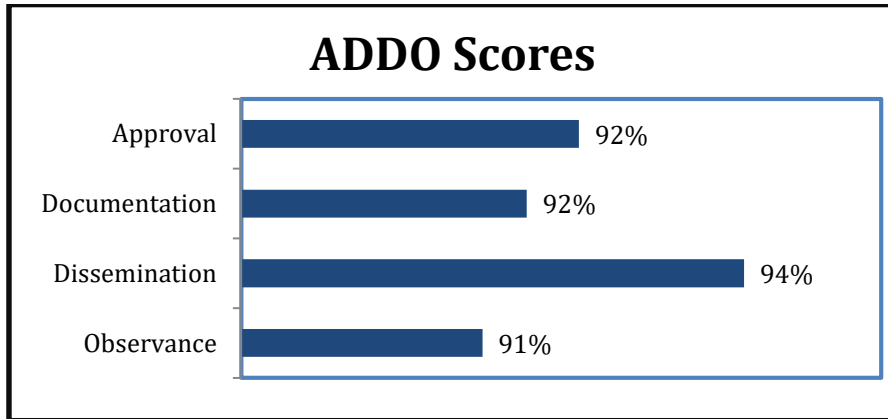
	in excess of Rs.30,000, with prepayment without penalty	
7	Pricing guidelines are to be followed	In compliance
8	Transparency in interest rates to be maintained	In compliance
9	Not more than two MFIs lend to the same client	In compliance

As provided by the Company

Section 1: Microfinance Grading

Transparency	
	Above Average
<ul style="list-style-type: none"> ○ Registered as Non-Banking Finance Company-MFI (NBFC-MFI). Legal form is subjected to greater regulatory norms and reporting. ○ Experienced promoter and management team. Three independent directors out of total seven board of directors. ○ Member of MFIN (Microfinance Institutions Network) and Sa-dhan and Credit Bureau (Equifax, CIBIL, Highmark and Experian). ○ Credit policies are well established and documented and communicated. ○ Transparency in lending process is adequate. ○ Transparency in usage of funds is adequate. ○ Overall disclosures are high. ○ Has separate team for Internal Audit 	
Operational Setup	
	Strong
<ul style="list-style-type: none"> ○ Created separate departments with clear demarcated roles and responsibilities. ○ Training systems are adequate. ○ Good loan appraisal & monitoring systems. ○ Adequate system for tracking over-dues. ○ MIS is adequate for current level of operations. ○ Risk management systems are adequate. ○ Attrition rate is moderate. 	
Scale of Operations	
	Medium Large
<ul style="list-style-type: none"> ○ As on February 28, 2021, DCL had a client base with 248,193 total borrowers. ○ DCL had assets under management of Rs. 764.91 crores as on March 31, 2021. The AUM is subject to write off as on March 31, 2021. ○ As on March 31, 2021, DCL was operating in across 8 states through 151 branches. ○ Concentrated presence with more than 54% of the portfolio in Rajasthan only. However, DCL is expanding their presence in other states also. 	
Sustainability	
	Above Average
<ul style="list-style-type: none"> ○ Reasonable second line of leadership. Majority of senior management has adequate experience to manage the large and growing scale of operations. ○ Adequate Capital adequacy ratio 19.84% as on March 31, 2020 ○ Good asset quality with gross NPA at 0.16% as on March 31, 2020 and portfolio-at-risk greater than 30 days at 0.18 % as on March 31, 2020. ○ Efforts to expand its sources of borrowings apart from the promoters, the major source of external funding for DCL has been term loan from banks/ FIs. DCL has a lender base of mix of both Banks and FIs as on January 2021. 	

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 a Board having 7 directors, out of which three are independent directors and a strong organizational structure with standard operating processes 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
<ul style="list-style-type: none"> • Standardized operating procedures in place with documented policies with respect to loan sanctions, conduct of the staff, field operations, credit appraisal and systems. • Good governance with reputed members in the management committee and board having seven directors out of which three are independent directors • Changes in RBI Guidelines, Code of Conduct and operational practices disseminated regularly. • Public disclosure is adequate. 	<ul style="list-style-type: none"> • Some of Interviewed Branch Staff were not aware about RBI's guidelines regarding maximum indebtedness of clients. • Staff satisfaction related to compensation and incentives is not covered in internal audit. • Clients are provided training, however not all the clients are aware about the details of the policies or the rate of interest charged. However all the details with respect to loans are mentioned on the Loan Cards.

Significant observations

Higher Order Indicators	
<p>Integrity and Ethical Behavior</p>	<ul style="list-style-type: none"> • 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 with Code of Conduct. • The company provides training to new employee as well as to others on regular basis. • The Company has well documented incentives and promotion policy and staff is well aware about the same.
<p>Sensitive Indicators</p>	<ul style="list-style-type: none"> • The sample of borrowers surveyed revealed that they are well aware of the loan products, however few were not aware of interest rates and charges for loan. There has not been any instance where the borrowers were made to pay for a service or product as a precondition for loan and there has not been any instance of fines or penalties imposed on them. • The borrowers had no grievances with respect to conduct, punctuality and behavior of the loan officers. • The company seeks AADHAR mandatorily for all borrowers for assessment of their application in line with the recent MFIN Guidelines, though the company has mentioned in its KYC policy that either of the below mentioned documents can be taken as identity proof: Voter card, Aadhar card.

Building Blocks	
Transparency	<ul style="list-style-type: none"> • The policies of the MFI are in place and documented in its operational manual and HR manual. • The MFI has complied with RBI's NBFC-MFI directions and no security deposit has been collected from the borrowers. The details of loan products are displayed in the branches and loan cards given to borrowers have interest & principal amount, fees and insurance printed on them and further, the loan officers have explained them to borrowers. • The MFI has fair amount of disclosures in the public domain with key financial and operational parameters available on the website along with detailed financial statements and annual report. • Borrowers informed that branch managers were present at the time Compulsory Group Training and Group Recognition Test. • Borrowers also informed that no penalties or fines were imposed. • Board's approved committees are responsible for Day-to Day operations. DCL has Audit Committee, credit Committee, etc.
Client Protection	<ul style="list-style-type: none"> • The products and charges (interest, Size, tenure and processing fees) were in compliance with the RBI guidelines. • Insurance is provided through IRDA approved insurance agency. • The company doesn't seek any collateral/security deposit on loans extended or charge its borrowers beyond the permissible charges. • The loan cards given to the clients have documented repayment schedule and the charges and interest rates printed on them. • DCL obtains copies of relevant documents from clients, as per standard KYC norms and Aadhar is considered mandatory document, though the company has mentioned in its KYC policy that either of the below mentioned documents can be taken as identity proof: Voter card, Aadhar card, PAN card, license and the company follows the MFIN guidelines on KYC norms. • DCL has clearly defined compensation system encompassing basic salary. • The ability of the field staff to assess the income and expenses of the borrowers and determine their repayment capacity are found to be adequate. The same is imparted through training and the guidelines for the same is the part of the loan documents. • The latest RBI directions have been updated in the operational manual and the staff and the field staff are communicated about the recent RBI directions and

Comprehensive MFI Grading: DCL

	<p>other operational changes through formal emails/circulars.</p> <ul style="list-style-type: none"> • The operational manual of the MFI provides guidelines for conducting meetings with the borrowers and their conduct. The staff is also trained on the same issues. • The field staff is trained for not using any coercive or abusive language or provide any threat in case of non-payment by the borrowers. The sample of borrowers, surveyed were satisfied with the behavior of the field staff. • The MFI ensures privacy and security of client data and the clients are informed about sharing of their data with credit bureaus and other agencies.
Governance	<ul style="list-style-type: none"> • Good governance with reputed people comprising the Board and presence of board level sub-committees. • Out of 7 directors on board, 3 are independent directors. • DCL has several board level committees like Audit Committee, Risk Management Committee, Nomination Remuneration Committee, Credit Committee etc which deal with various aspects of the microfinance operations. • The key operational and key financial metrics are appraised to the board on a monthly basis. The detailed operational and financial performance is updated to the Board in the quarterly Board Meetings. • The MFI places regular reports on compliance with COC, MFIN and RBI Guidelines before the board. • The statutory auditor A K Chordia & Co has given favorable feedback on the accounting practices and systems followed by the organization. Also, there are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI.
Recruitment	<ul style="list-style-type: none"> • HR policies are in place with criteria for selection and growth opportunities in place. • The MFI does reference check and obtains relieving letters from the new recruits and also provides relieving letter to all the employees who have given adequate notice before quitting.
Client Education	<ul style="list-style-type: none"> • DCL has trained staff for the purpose of increasing clients' awareness and periodic financial literacy trainings are given to borrowers by the MFI staff. • The surveyed borrowers indicated that they were informed about the organization's policies and procedures when they joined the MFI and there has been not been any instance where the MFI has charged its clients for training provided to them.
Feedback and Grievance Redressal	<ul style="list-style-type: none"> • Grievance redressal mechanism is in place and the MFI has a dedicated team at the head office for grievance redressal. All the complaints or feedback received by the MFI have been recorded diligently and the team

Comprehensive MFI Grading: DCL

	<p>keeps a track record of the same.</p> <ul style="list-style-type: none"> • The surveyed borrowers were aware of grievance redressal mechanisms including taking up the complaints with the grievance redressal team at HO (at the Toll Free Number provided in loan cards). • The MFI prepares proper reports on grievances received, resolved and pending. The sample of reports viewed did not have any instance where the complaint was not resolved within 15 days.
Data Sharing	<ul style="list-style-type: none"> • Data is shared with all Credit Bureaus (CIBIL, Equifax, Highmark and Experian). • MFI has provided data called for by RBI on a timely basis. • A brief snapshot of operational and financial data along with the audited financial statements is available on the website.

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

Highest/Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
Total	251

Methodology

Depending upon the size and the operational area of the MFI, Eighteen to Twenty branches and between 360 and 400 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 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. 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.

Comprehensive MFI Grading: DCL

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, CART team had called HO and 23 branches of DCL via team meetings/ zoom meetings/ calls.