



## SMERA Comprehensive Grading

**M2C2**

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

## Comprehensive Grading

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Vedika Credit Capital Limited (VCCL)



To verify the grading, please scan the QR Code

***Date of Report:***

**31<sup>st</sup> October, 2018**

***Valid Till:***

**30<sup>th</sup> October, 2019**

## SMERA's MFI 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		M2C2			
M3					
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of “**M2C2**”. It signifies **high** capacity of the MFI to manage its operations in a sustainable manner and **good** performance on code of conduct dimensions.



To verify the grading, please scan the QR Code

## Grading Rationale

<b>Microfinance Capacity Assessment Grade</b>	VCCL obtains “ <b>M2</b> ” as its performance grade which signifies “High capacity of the organization to carry out its activities in a sustainable manner”.
<b>Code of Conduct Assessment Grade</b>	VCCL obtains “ <b>C2</b> ” as its Code of Conduct Assessment Grade which signifies “Good 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

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## Historical Rating Grades

Date	Rating Agency	Rating/Grading
29 <sup>th</sup> Sep, 2018	SMERA	M2
29 <sup>th</sup> Aug, 2018	Brickwork Ratings	BBB+
07 <sup>th</sup> May, 2018	Brickwork Ratings	MF 3
31 <sup>st</sup> Mar, 2017	SMERA Ratings	M3C3
19 <sup>th</sup> Jan, 2017	Brickwork Ratings	MFI 3
01 <sup>st</sup> Aug, 2016	Brickwork Ratings	BBB-

## SMERA's MFI Grading Scale

Grading Scale	Definitions
M1	MFIs with this grade are considered to have <b>highest</b> capacity to manage their microfinance operations in a sustainable manner.
M2	MFIs with this grade are considered to have <b>high capacity to manage their microfinance operations in a sustainable manner.</b>
M3	MFIs with this grade are considered to have <b>above average</b> capacity to manage their microfinance operations in a sustainable manner.
M4	MFIs with this grade are considered to have <b>average</b> capacity to manage their microfinance operations in a sustainable manner
M5	MFIs with this grade are considered to have <b>inadequate</b> capacity to manage their microfinance operations in a sustainable manner.
M6	MFIs with this grade are considered to have <b>low</b> capacity to manage their microfinance operations in a sustainable manner.
M7	MFIs with this grade are considered to have <b>very low</b> capacity to manage their microfinance operations in a sustainable manner.
M8	MFIs with this grade are considered to have <b>lowest</b> 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 <b>excellent</b> performance on Code of Conduct dimensions
C2	MFIs with this grade have <b>good performance on Code of Conduct dimensions</b>
C3	MFIs with this grade have <b>average</b> performance on Code of Conduct dimensions
C4	MFIs with this grade have <b>weak</b> performance on Code of Conduct dimensions
C5	MFIs with this grade have <b>weakest</b> performance on Code of Conduct dimensions



To verify the grading, please scan the QR Code

## Company Profile

Name of the MFI	Vedika Credit Capital Limited (VCCL)	
Operational Head – Microfinance Business	Name	Mr. Balwant Kumar
	Designation	Chief Operating Officer
	Mobile No.	9534188888
	Email ID	<a href="mailto:Coo@teamvedika.com">Coo@teamvedika.com</a>
Date of Incorporation/Establishment	15 <sup>th</sup> March, 1995	
Date of commencement of microfinance business	2007	
Legal Status	NBFC-MFI	
Business of the company	Microfinance Services Under Joint Liability Group (JLG) Model	
Correspondence Address	406, Shrilok Complex, 4th Floor, H.B. Road, Ranchi-834 001 Jharkhand	
Geographical Reach (As on 30/September/2018)	No. of States	7
	No. of Districts	73
	No. of Branches	152
	No. of Active Borrowers	2,40,851
	No. of Total Employees	1,248
	No. of Field/Credit Officers	1,114

## **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)
Samuh Shayata RIN	Income Generating Loan	21,500	25.00	1.00	26.00
Samridhi	Income Generating Loan	35,000	24.60	1.00	25.60
Vikas Sahayata RIN	Income Generating Loan	24,800	25.00	1.00	26.00
Unnati	Income Generating Loan	31,800	24.60	1.00	25.60
Sampati	Income Generating Loan	72,800	24.60	1.00	25.60
Vridhhi	Income Generating Loan	41,300	24.60	1.00	25.60
Cross Sale	Product Loan	2,500	24.60	1.00	25.60

## **CAPITAL STRUCTURE (as on September 30, 2018)**

<b>Authorized Capital</b>	In Rs.	27.00	Crore
<b>Paid-up Capital</b>	In Rs.	23.84	Crore



## SHAREHOLDING PATTERN (as on September 30, 2018)

EQUITY SHARES	
Shareholders	% Holding
Gautam Jain	22.96
Ummed Mal Jain	8.46
Vikram Jain	8.66
Kanta Devi Jain	7.94
Anita Jain	5.02
Vinita Jain	5.24
Sidharth Jain	0.14
Aditya Jain	0.09
Vikram Jain Huf	0.55
Gautam Jain Huf	3.13
Ummed Mal Jain Huf	2.36
Linkline Marketing Pvt Ltd	5.15
Jatinder Finance Pvt Ltd	2.46
Vedika It Solution Pvt Ltd	2.33
Dps Computers & Allied Products Pvt Ltd	1.60
Vedika Agro Mart Pvt Ltd	0.57
Digit	4.58
Gautam Jain Family Welfare Trust	0.76
Vikram Jain Family Welfare Trust	0.79
Vedika Financial Services Private Limited	17.21
<b>Total</b>	<b>100.00</b>

Optionally Convertible Preference Shares (OCPS)	
Shareholders	% Holding
Gautam Jain	8.15
Ummed Mal Jain	6.83
Vikram Jain	0.36
Kanta Devi Jain	0.51
Anita Jain	0.51
Sidharth Jain	0.25
Sidbi	30.57
Nirmal Kumar Pradeep Kumar Huf	25.47
Harsh Vardhan Jain	10.19
Rita Jain	10.19
Vedika Financial Services Private Limited	6.98
<b>Total</b>	<b>100.00</b>

### **Board of Directors/Promoters Profile**

<b>Name</b>	<b>Position</b>	<b>Qualification</b>	<b>Brief Profile</b>
Mr. Gautam Jain	Managing Director	MBA (Marketing)	He is the managing director of the company. He has over a decade of experience in the financial domain.
Mr. Ummed Mal Jain	Director	LLB	He is a chairman of the company. He was an advocate in Patna High Court.
Mr. Vikram Jain	Director	B.Com (H)	He is a director of the company. He had a Food Grain business (a family business) before joining VCCL.
Mr. Praveen Kumar Chaturvedi	Professional Director	MSc, LLB and MBA (IIM Ahmedabad)	He 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	Independent Director	M.Sc. (Physics) and CAIIB	He has over 35 years of experience in the banking industry. He retired as a General Manager from Bank of Maharashtra.
Maqsoodul Hasan Ansari	Independent Director	MBA, Ph.D.	He has 34 years of experience in training for building career in rural development. He served as Head of the Department of Rural Management at XISS, Ranchi for a period of 14 years. He is having a Life membership of the International Institute of Adult and Lifelong Education, New Delhi since the Year 1990. He has written and published small books and produced Audio-visual aids which helped in creating awareness in the rural masses for developmental interventions. He received "Mahatma Gandhi Peace Award" in 2015.
Mr. Deep Kumar Hessa	Independent Director	LL.B & LL.M	He is associated with various NGO's and has knowledge of Rural Tribal area belongs in Jharkhand.

## Management's Profile

Name	Position	Qualification	Brief Profile
Mr. Balwant Kumar Singh	COO	MBA (Finance)	He has over 15 years of experience in microfinance sector. He has expertise in Microfinance sector.
Mr. Abhishek Agarwal	CFO	ACS & MBA (Finance)	He has over 6 years of experience in microfinance sector.
Mr. Gaurav Kumar Vohra	Company Secretary	ACS & LL.B	He looks after the corporate and other statutory compliances of the company.
Mr. Pradeep Kumar Sharma	Audit Head	Graduate	He is experienced in the field of Internal Audit in the organization.
Mr. Biplob Sen Gupta	HR	MBA	He has more than 8 years of experience in HR in various industries like Steel and Power, Microfinance and Telecom industry.

## HIGHLIGHTS OF MICROFINANCE OPERATIONS

Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	30/Sep/2018
No. of States	4	4	5	7
No. of Districts	26	32	48	73
No. of Branches	44	65	96	152
No. of Active Members	74,346	1,19,147	2,04,678	2,40,851
No. of Active Borrowers	74,346	1,19,147	2,04,678	2,40,851
No. of Total Employees	286	417	660	1,248
No. of Field/Credit Officers	242	355	565	1,114
No. of JLGs	19,063	30,550	52,481	64,919
No. of Individual Loans	0	0	0	0
<b>OWNED PORTFOLIO</b>				
Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	30/Sep/2018
Total loan disbursements during the year (in crore)	149.76	201.16	288.96	198.43
Total portfolio outstanding (in crore)	138.82	210.95	320.67	392.81
<b>Managed/BC PORTFOLIO</b>				
Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	30/Sep/2018
Total loan disbursements during the year (in crore)	0	122.08	189.57	140.81
Total portfolio outstanding (in crore)	0	74.24	125.52	182.92

## Compliance with RBI's Directives for MFIs

RBI's Direction	Company Status	Compliance
85% of total assets to be in the nature of qualifying assets	Qualifying assets forms more than 85% of total assets as on 30/Jun/2018	Complied
Net worth to be in excess of Rs 5 Crore (Rs. 2 Crore for NBFC-MFI registered in North-East India)	Net Owned Funds stood at Rs. 52.03 crore as on 30/Jun/2018	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 borrowers whose income does not exceed Rs.1,00,000 in the rural areas and Rs.1,60,000 in the urban areas.	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles	VCCL offers loan in the range of Rs 25,000 to Rs 50,000 depending on client repayment capacity, type of activity etc.	Complied
Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)	VCCL conducts credit bureau check on the loans outstanding from other MFIs. The company ensures the total indebtedness of the borrower does not exceed Rs.1,00,000.	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.	Complied
Pricing guidelines are to be followed	The maximum interest on loan products offered by VCCL is 24.60% on reducing basis.	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 through credit check from credit bureaus.	Complied

RBI's Direction	Company Status	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 all the credit bureaus.	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 as on 30/Jun/2018.	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 23.76% as on June 30, 2018.	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'.	The statutory auditor has certified the appropriate provisions have been made.	Complied

## Section 1: Microfinance Capacity Assessment Grading

- SMERA estimates the MFI sector to grow at a CAGR of 20%-25% and is expected to touch Rs.170000 crore by the end of FY2019.
- MFIs have reported an increase of ~15% in average loan amount disbursed per account during Q2 FY 17-18 as compared to Q2 FY 16-17. 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. Post demonetization Asset Quality has declined, however it has improved and Portfolio at Risk (PAR) > 30 stood at 5.98% in Q3 FY 17-18.



### **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 (more than 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 seven-member board as on September 2018 having extensive experience in the banking and finance segment. The board has three promoter directors, one professional director and one independent director.
- Mr. Gautam Jain, managing director of the company is an MBA in marketing by qualification. He has over a decade of experience in the financial domain. Mr. Ummed Mal Jain, chairman of the company was an advocate in Patna High Court.
- The top level management of VCCL has adequate experience in the financial and microfinance sector.

### **Diversified Resource Profile**

- VCCL has developed funding relationships with a large number of lenders i.e. 38 lenders (including PSU Banks/Private Bank/Financial Institutions). Out of total debt outstanding of Rs. 367.51 crores, the borrowing from banks contributes ~30 per cent of external borrowings and the rest from NBFCs as on July 31, 2018. VCCL has been able to raise Tier-II capital (Subordinated Debt) from Capital First Limited and MAS Financial Services Ltd.
- These relationships have helped VCCL in meeting its funding requirements to meet the projected growth. Apart from owned portfolio, VCCL also has BC portfolio. VCCL is presently working as a business correspondent with Mas Financial Services and Reliance Capital Limited. The managed loan portfolio of the company stood at Rs.151.44 crore as on July 31, 2018.
- The cost of borrowing has increased to 15.22% in FY 2018 as compared to 14.07% in FY 2017 due to increased borrowing from NBFCs. The loans availed from NBFCs/FIs carry higher interest rate in the range of 13.5%-16% and hence the company has to explore its funding base majorly towards PSU Banks/Private Banks for reducing its cost of borrowing.

Particulars	31-Mar-2016	31-Mar-2017	31-Mar-2018	30-Sep-2018
Total Disbursement during the FY (in crore)	149.76	201.16	288.96	198.43
Total Portfolio (in crore)	138.82	210.95	320.67	392.81
BC PORTFOLIO				
Particulars	31-Mar-2016	31-Mar-2017	31-Mar-2018	30-Sep-2018
Total loan disbursements during the year (in crore)	0	122.08	189.57	140.81
Total portfolio outstanding (in crore)	0	74.24	125.52	182.92

### **Adequate capitalisation and comfortable liquidity profile**

- VCCL has an adequate capitalisation marked by CRAR of 24.90% as on March 31, 2018 compared to 22.37% as on March 31, 2017. Gearing of VCCL stood at 6.49 times as on March 31, 2018 compared to 3.17 times as on March 31, 2017 due to scale up in loan portfolio by ~57% in FY 2018.
- As discussed with the management, equity capital of Rs. 15 crore to be infused within the current financial year.
- 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. The company has Fixed Deposit of Rs. 67.75 lakh and Cash and Bank Balances of Rs. 35.18 crore as on March 31, 2018. 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 a sound asset quality marked by on-time repayment rate of 98.78% as on 30<sup>th</sup> September, 2018. The companies' on-time repayment has improved compared to 96.40% in FY2018.

Period	FY 2016	FY 2017	FY 2018	30/Sep/2018
	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)
On-time	137.43	205.53	312.90	388.01
1-30 days	0.43	3.50	1.64	1.69
31-60 days	0.38	0.73	0.55	0.48
61-90 days	0.20	0.59	0.42	0.26
91-180 days	0.16	0.44	1.06	1.00

> 180 days	0.22	0.17	4.10	1.36
Write-off	0.31	1.29	3.89	0.00
<b>Total</b>	<b>139.13</b>	<b>212.25</b>	<b>324.56</b>	<b>392.80</b>

- The PAR 0-30 days stood at 0.43% as on 30<sup>th</sup> September, 2018 as compared to 0.50% as on 31<sup>st</sup> March, 2018. The PAR >30 days stood at 0.79% as on 30<sup>th</sup> September, 2018 as compared to 3.09% as on 31<sup>st</sup> March, 2018.
- Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control.

### **Diversified Geographical Reach**

- VCCL's operations are spread in seven states i.e. West Bengal, Bihar, Assam, Jharkhand, Odisha, Uttar Pradesh and Tripura.

Name of the State	No. of Branches	No. of Borrowers	Portfolio o/s (in crore)	PAR % (>30 days)	% of Total Portfolio o/s
Jharkhand	20	31148	47.02	1.22	11.97
West Bengal	37	87605	146.96	0.74	37.41
Bihar	43	72815	121.02	0.82	30.81
Uttar Pradesh	18	23057	35.19	1.12	8.96
Odisha	12	2438	5.66	0.00	1.44
Assam	17	23331	35.86	0.17	9.13
Tripura	5	457	1.11	0.00	0.28
<b>Total</b>	<b>152</b>	<b>2,40,851</b>	<b>392.82</b>	<b>0.79</b>	<b>100.00</b>

*NOTE: The table of geographical reach of Loan Portfolio includes the BC portfolio along with the Own Portfolio.*

- However, 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.

### **Improvement in operational performance in FY2018**

- VCCL has reported net profit of Rs. 5.52 crore on operating income of Rs. 84.79 crore in FY2018. In FY2017, VCCL had reported net profit of Rs. 3.41 crore on operating income of Rs.45.59 crore in the previous year.
- As on July 31 2018, the VCCL has an outstanding loan portfolio of Rs.510.33 crore spread over 130 branches of 7 states with about 2,20,244 borrowers. The companies' portfolio outstanding witnessed a growth of ~85% as on 30<sup>th</sup> September, 2018 over the previous year.
- Yield on Portfolio of VCCL has improved to 26.71% in FY 2018 as compared to 25.44% in FY 2017.

- The operational self-sufficiency (OSS) of the company stood stable at 111.03% in FY2018 as compared to 109.83% in the previous year. The company's operating expense stood comfortable at 6.94% in FY2018.

### **Adequate MIS & IT infrastructure considering the current scale of operations**

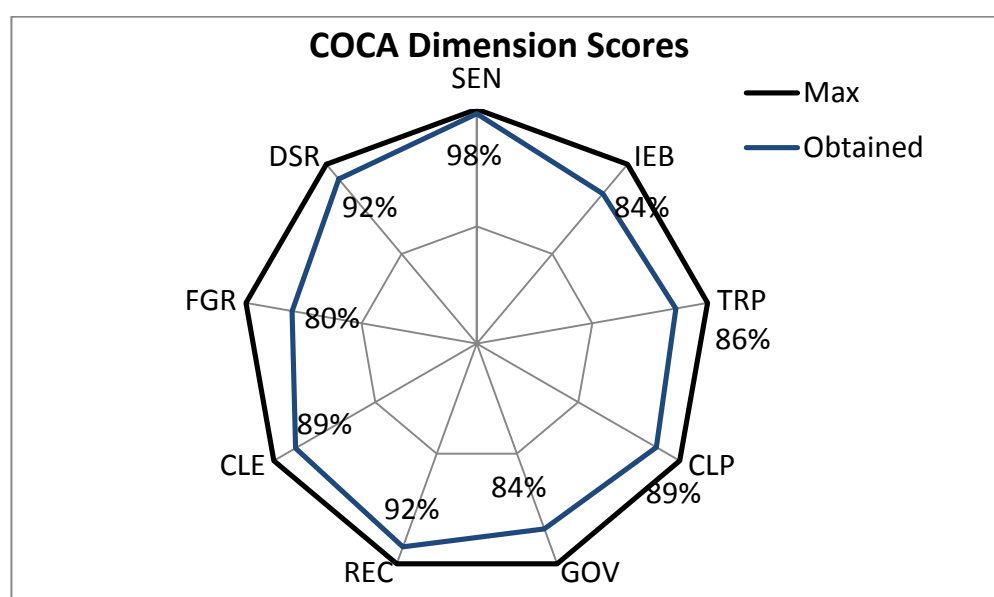
- VCCL's management information system (MIS) and Information Technology (IT) infrastructure is adequate for its current scale of operations. VCCL's management information system (MIS) and Information Technology (IT) infrastructure is adequate for its current scale of operations. It has dedicated MIS and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches. The company uses customised software "BIJLI" to maintain its MIS in Head Office and branches.
- As discussed with the management the company is in process of implementing new ERP solution 'Nelito'. The use of new software would lead to reduction in the operating expenditure, better tracking system, field-force automation, elimination of paperwork, enhanced operational controls and overall increase in the efficiency in the operations.
- The company also has an internal audit team which undertakes branch and borrower audit once in every month.

### **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 and exposure to vagaries of political situation in the area of operation.

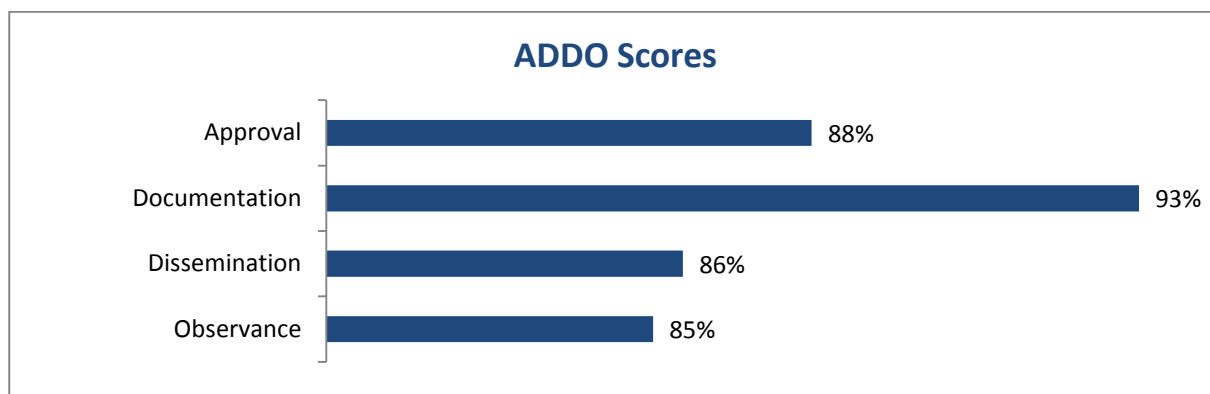
## Section 2: Code of Conduct Assessment

### COCA Grading - C2 (Good Performance on Code of Conduct dimensions)



### SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	98%
Integrity and Ethical Behavior	IEB	84%
Transparency	TRP	86%
Client Protection	CLP	89%
Governance	GOV	84%
Recruitment	REC	92%
Client Education	CLE	89%
Feedback & Grievance Redressal	FGR	80%
Data Sharing	DSR	92%



VCCL with an overall grade of “C2”, indicate **Good** Performance on Code of Conduct dimensions.

## Code of Conduct Assessment Summary

The Code of Conduct report for 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 **Good** 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
<ul style="list-style-type: none"> <li>Board approved policies, compliant with the RBI guidelines.</li> <li>Code of Conduct framed as per the VCCL mission, vision, values and displayed in all branch offices &amp; HO.</li> <li>Membership with MFIN.</li> <li>Board with rich experience from banking and finance background.</li> <li>Experienced and qualified management with more than a decade of experience in MFI industry.</li> <li>Credit policies are well established documented and communicated.</li> <li>Adequate loan appraisal &amp; monitoring systems.</li> <li>High standard of governance and integrity by inducting persons with good and sound reputation in the industry and understanding of microfinance industry.</li> <li>Compulsory training on products terms and conditions to client prior to every loan.</li> <li>Compulsory check on over indebtedness of every borrower.</li> <li>Efficient systems and strong internal audit team to check misappropriations and regular monitoring of compliance.</li> <li>Toll Free helpline number for client feedback/grievance.</li> <li>Data sharing with credit bureau (Equifax, CIBIL, Experian and High Mark).</li> </ul>	<ul style="list-style-type: none"> <li>Awareness among client on SRO Grievance Redressal mechanism was found to be moderate in the visited branches.</li> <li>Awareness to its clients/members pertaining to interest rate and insurance claim settlements found average.</li> <li>Awareness among the staff on RBI compliance was found to be moderate in the visited branches.</li> </ul>

## Significant Observations

HIGHER ORDER INDICATORS	
<b>Integrity and Ethical Behaviour</b>	<ul style="list-style-type: none"> <li>• The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit.</li> <li>• Board has approved a policy of recovering delinquent loans.</li> <li>• MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review.</li> <li>• 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.</li> <li>• In all the branches visited, the contact number and address of SRO nodal official was displayed.</li> <li>• Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit.</li> <li>• Awareness among client and staff on SRO Grievance Redressal mechanism was found to be moderate in the visited branches.</li> <li>• 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.</li> </ul>
<b>Sensitive Indicators</b>	<ul style="list-style-type: none"> <li>• Clients interviewed were aware of the charges and price for all services availed.</li> <li>• VCCL does not issue sanction letters to the clients; however they provide loan passbook to the borrowers with all terms and conditions of the loan including annualized interest rates.</li> <li>• Awareness among the staff on RBI compliance was found to be moderate in the visited branches.</li> <li>• There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• VCCL shares accurate data with all credit bureaus on a frequency prescribed by SRO.</li> <li>• 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.</li> <li>• The MFI gets an external CA agency to certify its compliance with</li> </ul>

	RBI's directions.
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BUILDING BLOCKS	
<b>Transparency</b>	<ul style="list-style-type: none"> <li>• Awareness among the staff on RBI guidelines was found to be moderate.</li> <li>• 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.</li> <li>• Circulars of the most recent RBI directions are available in the form of office orders in the visited branches.</li> <li>• VCCL, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.</li> <li>• VCCL does not issue sanction letters to the clients; however they provide loan passbook to the borrowers with all terms and conditions of the loan including annualized interest rates.</li> <li>• Clients interviewed were aware of the charges and price for all services availed.</li> <li>• Audit committee verifies through the audit reports whether all clients have received the necessary loan documents.</li> <li>• Pricing policy of loans is displayed in branches visited.</li> <li>• 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.</li> <li>• Code of conduct compliance report of VCCL &amp; previous financial year annual financial statement and report is available in the public domain.</li> </ul>
<b>Client Protection</b>	<ul style="list-style-type: none"> <li>• VCCL has a board-approved policy regarding client data security.</li> <li>• VCCL has documented policy on client data security which forms part of its fair practice code.</li> <li>• Employees are trained on aspects of appropriate behavior with the clients.</li> <li>• 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.</li> <li>• Employees are trained on aspects of appropriate behavior with the clients.</li> <li>• Staffs were found to be aware of the need to have professional conduct with the clients.</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• MFIs maintain high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body.</li> </ul>

	<ul style="list-style-type: none"> <li>• VCCL have more than 1/3rd of independent persons in its Governing Board.</li> <li>• As on 30th September 2018, the board comprised of 7 directors, out of which three are independent directors.</li> <li>• VCCL does not disclose its MD/CEO compensation in its audited reports (Ref. Audit Report 2018).</li> <li>• An audit committee of the Board with an independent director as chairperson.</li> <li>• The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year.</li> <li>• No adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit.</li> </ul>
<p style="text-align: center;"><b>Recruitment</b></p>	<ul style="list-style-type: none"> <li>• VCCL's Board has reviewed its recruitment policies at least once annually.</li> <li>• The MFI has a defined and documented process for responding to reference check requests.</li> <li>• VCCL has honored the notice period for employees who have left the organization.</li> <li>• VCCL obtains NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs.</li> <li>• VCCL 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.</li> </ul>
<p style="text-align: center;"><b>Client Education</b></p>	<ul style="list-style-type: none"> <li>• VCCL, in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services.</li> <li>• VCCL does not charge clients for the trainings provided to clients, itself or through a related party.</li> <li>• Awareness among client on annualized Interest rate &amp; Insurance claim settlement process was found to be moderate.</li> </ul>
<p style="text-align: center;"><b>Feedback and Grievance Redressal</b></p>	<ul style="list-style-type: none"> <li>• The Board has approved a policy for Redressal of its clients' grievances, which requires board to be updated on the functioning of grievance Redressal mechanism.</li> <li>• MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review.</li> <li>• Multiple channels for client feedback/grievance redressal.</li> <li>• Tele-calling team has been set up to elicit their satisfaction levels on services and products besides staff behavior.</li> <li>• Complaint Boxes at Branch Offices.</li> <li>• Dedicated Customer Care Helpline.</li> </ul>

	<ul style="list-style-type: none"> <li>• Clients were found to be moderately aware of the helpline number.</li> <li>• In all the branches visited, the contact number and address of SRO nodal official was properly displayed.</li> <li>• Complaints lodged through helpline are documented and resolved.</li> <li>• Awareness among client and staff on SRO Grievance Redressal mechanism was found to be moderate in the visited branches.</li> <li>• Dedicated team at HO level to documents and follow up on the client complaints.</li> </ul>
<p style="text-align: center;"><b>Data Sharing</b></p>	<ul style="list-style-type: none"> <li>• Operational and financial data for FY2018 is available on the website of VCCL.</li> <li>• MFI has a well-defined process for sharing data with the credit bureaus.</li> <li>• MFI has provided data called for by SRO and RBI as and when required as per compliance.</li> <li>• VCCL shares accurate data with all credit bureaus on a frequency prescribed by SRO.</li> <li>• VCCL performs compulsory credit bureau checks for all its clients.</li> </ul>

# ANNEXURES

## 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 policies 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	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	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
<b>Total</b>	<b>250</b>

## 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	Ramgarh	Jharkhand	19
2	Hazaribagh	Jharkhand	18
3	Puri	Odisha	19
4	Nimapada	Odisha	21
5	Phulnakhara	Odisha	18
6	Barrackpore	West Bengal	25
7	Dunlop	West Bengal	15
8	Baguiati	West Bengal	18
<b>Total</b>			<b>153</b>

## Financials

### Profit & Loss Account (Rs. In Thousands)

Period	FY 2016	FY 2017	FY 2018
Months	12	12	12
<b>Financial revenue from operations</b>	<b>3,06,844</b>	<b>4,85,848</b>	<b>8,47,922</b>
Less - Financial expenses from operations	2,01,292	2,96,905	4,88,099
<b>Gross financial margin</b>	<b>1,05,552</b>	<b>1,88,943</b>	<b>3,59,823</b>
Provision for Loan Loss / Write off	5,687	7,214	10,986
<b>Net financial margin</b>	<b>99,865</b>	<b>1,81,729</b>	<b>3,48,837</b>
<b>Less - Operating Expenses</b>			
Personnel Expense	40,836	81,420	1,29,745
Depreciation and Amortization Expense	1480	2,435	3,277
Other Administrative Expense	34,777	54,381	1,31,605
Income Tax	8,515	16,736	32,633
Deffered Tax	780	(6910)	(3,631)
Exceptional items	0	501	0
<b>Net Income</b>	<b>13,477</b>	<b>34,168</b>	<b>55,208</b>

*Note: Above financials are taken from audited accounts provided by the management.*

## Balance Sheet (Rs in Thousands)

As on date	31/Mar/2016	31/Mar/2017	31/Mar/2018
<b>SOURCES OF FUNDS</b>			
<b>Capital</b>			
Equity Capital	1,39,643	1,77,227	2,08,434
Reserves & Surplus	1,28,347	1,80,769	2,84,587
<b>Total Equity</b>	<b>2,67,990</b>	<b>3,57,996</b>	<b>4,93,021</b>
<b>Liabilities</b>			
<b>Short-Term Liabilities</b>			
Account payable & Other short-term liabilities	7,38,737	13,52,642	18,96,800
<b>Total Short-Term Liabilities</b>	<b>7,38,737</b>	<b>13,52,642</b>	<b>18,96,800</b>
<b>Long-Term Liabilities</b>			
<b>Long-Term Borrowings</b>			
Commercial Loans from banks/FI	7,61,604	7,36,360	13,33,728
Subordinated Debt	0	1,00,000	3,00,000
<b>Total Long-Term Borrowings</b>	<b>7,61,604</b>	<b>8,36,360</b>	<b>16,33,728</b>
<b>Total Other Liabilities</b>	<b>15,00,341</b>	<b>21,89,002</b>	<b>35,30,528</b>
Provisions	23,501	21,095	74,748
<b>TOTAL LIABILITIES</b>	<b>17,91,832</b>	<b>25,68,094</b>	<b>40,98,297</b>

As on date	31/Mar/2016	31/Mar/2017	31/Mar/2018
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
<b>Gross Block</b>	<b>17,076</b>	<b>21,511</b>	<b>35,269</b>
Less: Accumulated Depreciation	8,910	11,345	14,622
<b>Net Block</b>	<b>8,166</b>	<b>10,166</b>	<b>20,647</b>
Cash and Bank Balances	3,87,132	4,18,580	3,51,848
Investment in Fixed Deposit	1,034	0	6,775
<b>Loan Portfolio</b>			
<b>Net Loan Portfolio</b>	<b>13,88,185</b>	<b>21,09,545</b>	<b>32,06,732</b>
Accounts Receivable And Other Assets	7,637	23,213	5,02,074
Deferred Tax Asset	(321)	6,591	10,221
<b>TOTAL ASSETS</b>	<b>17,91,832</b>	<b>25,68,094</b>	<b>40,98,297</b>

## Financial Ratios

Financial Ratios	31/Mar/2016	31/Mar/2017	31/Mar/2018
<b><u>Capital Adequacy Ratio (CAR)</u></b>			
Capital Adequacy Ratio (%)	19.97	22.37	24.90
<b><u>Productivity / Efficiency Ratios</u></b>			
No. of Active Borrowers Per Staff Member	260	286	310
No. of Active Borrowers per field executives	307	336	362
Gross Portfolio o/s per field executive (Rs in thousands)	5,736	8,034	7,897
Average Outstanding Balance Per borrower (In Rs)	18,672	23,936	21,800
Cost Per Active borrower (In Rs)	1037	1164	1293
<b><u>Asset / Liability Management</u></b>			
Yield on Portfolio (%)	20.09	25.44	26.71
Cost of Fund (COF) (%)	14.50	14.07	15.22
<b><u>Profitability / Sustainability Ratios</u></b>			
Operational Self Sufficiency (%)	108.02	109.83	111.03
Operating Expense Ratio (OER) (%)	5.22	5.83	6.94
Return on Assets (RoA) (%)	1.22	1.95	2.08
Portfolio at Risk (>30 days) (%)	0.91	1.52	3.09
Return on Equity (RoE) (%)	6.42	12.21	13.31
<b><u>Leverage Ratios</u></b>			
Total Outside Liabilities to Tangible Network Ratio (Times)	5.60	5.77	6.55
Debt/Equity Ratio (Times)	5.59	3.17	6.49



## About SMERA

SMERA is a division of Acuité Ratings & Research Limited dedicated to providing SME ratings & grading services to MSMEs. SMERA began its operations in year 2005 as SME Rating Agency of India Limited, 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 is empanelled for 'Performance & Credit Rating Scheme for Micro & Small Enterprises' of the Ministry of MSME, Government of India, administered by the National Small Industries Corporation (NSIC). Acuité Ratings & Research Limited 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.

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