

## Comprehensive MFI Grading

S V Creditline Pvt Ltd (SVCL)

Comprehensive Grade Assigned: M2C2

Date assigned: March 31, 2017

Scale	C1	C2	C3	C4	C5
M1					
M2		M2C2			
M3					
M4					
M5					
M6					
M7					
M8					

SV Creditline Pvt Ltd (SVCL) has been assigned a comprehensive MFI grade of **M2C2**. This signifies high capacity of the MFI to manage its operations in a sustainable manner and good performance on code of conduct dimensions.

### Grading Rationale

<b>Microfinance Grading</b>	SVCL has been assigned “ <b>M2</b> ” indicating the ability of SVCL to manage its microfinance activities in a sustainable manner is high.
<b>Code of Conduct Assessment Grade</b>	SVCL has been assigned “ <b>C2</b> ” as its Code of Conduct Assessment Grade 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.

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

**Historical Rating Grades (COCA)**

Year	Name of the Agency	Average Score	Grade
Feb 2012	M2i Consulting	84%	C2

**Historical Rating Grades (MFI Grading)**

Year	Rating Agency	Comprehensive Rating Grade
June 2016	ICRA	MFI 2+
February, 2015	CARE	MFI 2
December 30, 2013	CARE	MFI 2
October 15, 2012	CARE	MFI 3+

**Historical Rating (Bank Loan Ratings)**

Date	Rating assigned	
	Long Term	Short Term
January 2017	BBB-; Negative	-
December 2015	BBB-	-
February 2015	BBB-	-

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January 2014	<i>BBB-</i>	-
March 2013	<i>BB+</i>	-

**Microfinance Grading Symbols and Definitions**

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

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

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<b>MFI's profile (February 2017)</b>	
<b>Name of the MFI</b>	S V CreditlinePvt Ltd (SVCL)
<b>Legal form</b>	NBFC-MFI
<b>Operational Head</b>	Mr. K.K Singh (National Business Head)
<b>Year of starting microfinance</b>	2008
<b>Branches (Month YYYY)</b>	210 (February 28, 2017)
<b>Active borrowers</b>	7,03,540 (February 28, 2017)
<b>Total staff</b>	2261 (February 28, 2017)
<b>Operational area</b>	Rajasthan, Madhya Pradesh, Uttar Pradesh, Bihar, Uttarakhand, Haryana, Chhattisgarh, Punjab
<b>Visit of the Assessment team</b>	17 <sup>th</sup> to 24 <sup>th</sup> March 2017
<b>Correspondence address</b>	5th Floor, Tower B, SAS Towers, Medicity, Sector 38, Gurgaon – 122001

<b>Details of Loan Products (December 31, 2016)</b>				
<b>Product</b>	<b>Description</b>	<b>Loan size (Rs)</b>	<b>Interest Rate (p.a.)</b>	<b>APR (Interest Rate and Processing fees)</b>
Income Generating Loan (IGL)	Loan given for starting a business or for expansion of business	15,000 to 20,000 (Unnati)	23.7%	24.7% (Processing fee of 1%)
		21,000 to 25,000 (Pragati)		
		26,000 to 40,000 (Samridhi)		
E-Rickshaw	Loan given for purchasing E-Rickshaw	70,000 to 1,20,000	23.7%	24.7% (Processing fee of 1%)
Housing	Loan given for buying a house or for repairs of house	50,000 to 5,00,000	23.7%	24.7% (Processing fee of 1%)

**Ownership/Equity Structure**

<b>Shareholding Pattern (September, 2016)</b>	
<b>Shareholder</b>	<b>% Shareholding</b>
S.V. Corporation Ltd*	50%
Vans Pte Ltd, Singapore**	50%
<b>Total</b>	<b>100%</b>

\* Investment Company owned by Mr. Sunil Sachdeva

\*\* Investment Company owned by Mr. Vijay Parekh

Profile of Board of Directors

Board of Directors (February 28, 2017)				
Sr No	Name	Executive/ Non-Executive	Education	Brief profile
1	Mr Surinder Singh Kohli, Chairman	Independent Director	Diploma in Industrial Finance	Vast experience in managing key positions in various FI's. He is presently on board of organizations such as Maharashtra Airport Development Company Ltd, SMERA, Punjab Infrastructure Development Board and India SME technology Services Ltd. In addition, he has also served as CMD of SIDBI, IIFCL, Punjab and Sind Bank and PNB.
2	Mr Vijay Parekh, Promoter Director	Executive	Post Graduate	Has served as President of American Express Company (International) and Vice-Chairman and Board Member of American Express Bank. He has a rich and varied experience in global banking.
3	Mr Sunil Sachdeva, Promoter Director	Executive	Graduate	He is an entrepreneur and has set up various social enterprises; Co-Founder of "MedantaMedicity" Hospital; Other business interests are in the areas of financial services, technology, hospitality, infrastructure and real estate.
4	Mr Rakesh Arora, Director	Independent Director	Chartered Accountant	Experience of over two decades into finance and taxation. Currently associated as Group CFO with the SAS group
5	Ms. Anita Roy	Independent Director	M.B.B.S, Ex-IPS	Ms. Anita Roy is an expert in housing projects in India and abroad, having several years of work experience in senior management team of Police on several roles such as Deputy Inspector General in Central Bureau of Investigation. Dr. Roy completed her M.B.B.S. Dr.

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				Roy is well known for her team headship and people management skills.
6	Mr. S.P Singh	Independent Director	-	He is the General Manager at SIDBI and has more than two decade of experience in the areas of Development Banking, Credit Administration, evolving of structured products, portfolio Management, Profit centre operations, and Relationship Management in the financial service sector.

Key Performance Ratios		
	March, 2015	March, 2016
Portfolio at Risk (>30 days)	0.10%	0.29%
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	16.33%	17.17%
Operating Expense Ratio (OER)	11.70%	11.11%
Funding Expense Ratio (FER)	12.85%	14.43%
Write-offs to average portfolio	0.50%	0.38%
Return on Assets (RoA)	2.33%	1.98%
Return on Equity (RoE)	18.38%	16.19%
Active borrowers per loan / credit officer*	540	463
Active borrowers per branch	2,781	3,157

\*As on February 28, 2017, Active borrowers to field officer ratio stood at 455

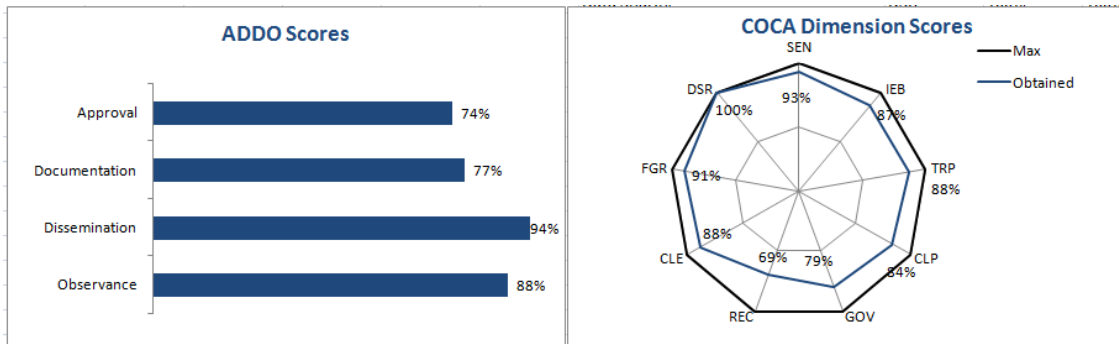
**Compliance with RBI's Directions for MFIs**

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 Rs5 Crore	In compliance
3	Income of borrower not to exceed Rs100,000 in the rural areas and Rs160,000 in the urban and semi-urban areas	In compliance
4	Loans size not to exceed Rs60,000 in first cycle and Rs100,000 in subsequent cycles	In compliance
5	Total indebtedness of the borrower not to exceed Rs100,000 (excl medical and education loans)	In compliance
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs30,000, with prepayment without penalty	In compliance
7	Pricing guidelines are to be followed	In compliance
8	Transparency in interest rates to be maintained	In compliance
9	Not more than two MFIs lend to the same client	In compliance

## **Section 1: Microfinance Grading**

CARE has assigned M2 microfinance grading to SVCL indicating the ability of SVCL to manage its microfinance activities in a sustainable manner is high. It is based on the current operational setup consisting of over 7 lac borrowers spread across 8 states in 122 districts and 210 branches as on February 28, 2017. The grading also takes into considerations good processes for loan origination, collection and monitoring; experienced senior management team with long track record in microfinance operations and good MIS systems as well as good access to funding which has helped the company to scale up operations. The company has been able to diversify geographically with its presence in 8 states, however the concentration in the state of UP at 45% remains high. **(Detailed Methodology shared in Annexure)**

## 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

**SVCL was found to have a good governance structure with Board having majority 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. However, high attrition has meant that the field staff is not trained in cash flow analysis for assessment of repayment capacity.**

### MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Standardized operating procedures in place with documented policies with respect to loan sanctions, conduct of the staff, field operations, credit appraisal and systems.</li> <li>Good governance with reputed members in the management committee and independent directors which form majority of the board.</li> <li>Changes in RBI Guidelines, Code of Conduct and operational practices disseminated regularly.</li> <li>High focus on client relationship and empathetic behavior towards borrowers.</li> <li>Internal audit is conducted on ongoing basis</li> <li>Public disclosure is adequate.</li> </ul>	<ul style="list-style-type: none"> <li>There have been instances found wherein the average income of the borrowers was higher than that stipulated by RBI for qualifying as Micro Finance Loans. Staff is not adequately trained on cash flow analysis.</li> <li>The operational manual was not updated with the latest circulars and guidelines and few branches did not have the circular file maintained.</li> <li>The loan documents were not available in the regional language in Punjab thus leading to difficulty for some of the borrowers at branches located in the rural interiors.</li> </ul>



**Significant observations**

<b>Higher Order Indicators</b>	
<b>Integrity and Ethical Behavior</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• The Board and board level committees in place which help good oversight in observations with Code of Conduct.</li> <li>• There is no documented HR policy that shortfall in collections will not be recovered from employees, unless in proven cases of fraud.</li> <li>• The company also has not identified areas of weaknesses in term of code of conduct wherein it was weak.</li> </ul>
<b>Sensitive Indicators</b>	<ul style="list-style-type: none"> <li>• The sample of borrowers surveyed revealed that they are well aware of the loan products, interest rates and charges for loan and 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.</li> <li>• The borrowers had no grievances with respect to conduct, punctuality and behavior of the loan officers.</li> <li>• However, certain instances were identified where the income of the borrowers exceeded the income specified under the RBI Guidelines as determined through interaction with the borrowers.</li> <li>• The company seeks Voter ID/AADHAR for all borrowers for assessment of their application in line with the recent MFIN Guidelines. However, the company doesnot mandatorily insist on AADHAR for second cycle loans.</li> <li>• The borrowers are not provided sanction letters, however the loan forms/loan cards mention terms and conditions of the loan along with the annualized interest rates.</li> </ul>

<b>Building Blocks</b>	
<b>Transparency</b>	<ul style="list-style-type: none"> <li>• The policies of the MFI are in place and documented in its operational manual and HR manual.</li> <li>• 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 are in local languages and loan cards given to borrowers have interest &amp; principal amount, fees and insurance printed on them and further, the loan officers have explained them to borrowers.</li> <li>• The MFI has sent formal mails regarding the most recent RBI directions to its branch and operational staff, however the operational manual has not been updated with the recent RBI directions and the MFI is in process of implementing the same.</li> <li>• The MFI has a system to review the prevailing base rates of the five largest banks and the same are presented to the board and recorded in the board minutes.</li> <li>• The borrowers are not provided sanction letters; however the loan forms/loan cards mention terms and conditions of the loan along with the annualized interest rates.</li> <li>• Apart from microfinance loans, the MFI also provides E-Rickshaw loans up to Rs. 1,20,000 and housing loans up to Rs. 5,00,000 which are considered as non-qualifying loans.</li> <li>• 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.</li> </ul>
<b>Client Protection</b>	<ul style="list-style-type: none"> <li>• The products and charges (interest, Size, tenure and processing fees) were in compliance with the RBI guidelines.</li> <li>• Insurance is provided through IRDA approved insurance agency.</li> <li>• The company doesn't seek any collateral/security deposit on loans extended or charge its borrowers beyond the permissible charges.</li> <li>• There are no voluntary products in the portfolio of the company. The company doesn't engage in product bundling.</li> <li>• The loan cards given to the clients have documented repayment schedule and the charges and interest rates printed on them.</li> </ul>

	<ul style="list-style-type: none"><li>• The borrowers are given valid receipts for every payment made by them.</li><li>• SVCL obtains copies of relevant documents from clients, as per standard KYC norms although the company doesnot specifically seek AADHAR for the second cycle loans as stipulated under the COC rules and follows the MFIN guidelines dated July 18, 2016 on KYC norms.</li><li>• SVCL policy specifies an upper limit for incentives related to monthly client enrolment targets thereby restricting aggressive disbursal which could lead to non-adherence to code of conduct guidelines.</li><li>• The turnaround time (TAT) is around 30 days from the date of loan application to disbursement. SVCL manages to disburse loans within the stipulated timelines in most cases.</li><li>• The company follows the policy of ensuring that the total indebttness of the borrowers from MFIs doesnot exceed Rs. 50,000 as against the Rs.60,000 stipulated under the COC guidelines of SRO and Rs. 1,00,000 stipulated by the RBI. The maximum loan size of the products of the company is restricted to Rs. 35,000. This along with other parameters of income, KYC etc are also regularly monitored through internal audits.Performance of the branches on various parameters of compliance with operational as well as COC are presented to the Audit Committee.</li><li>• The ability of the field staff to assess the income and expenses of the borrowers and determine their repayment capacity was however found to be inadequate. Although, the same is imparted through training, the detailed guidelines for assessment are not documented in the operational manual.</li><li>• However, the latest RBI directions have not been updated in the operational manual but the staff and the field staff are communicated about the recent RBI directions and other operational changes through formal emails/circulars.</li><li>• 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.</li><li>• 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 weresatisfied with the behavior of the field staff.</li></ul>
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	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<p><b>Governance</b></p>	<ul style="list-style-type: none"> <li>• Good governance with reputed people comprising the Board and presence of board level sub-committees.</li> <li>• Out of 6 directors, 4 are independent and 2 are promoter directors.</li> <li>• SVCL has several board level committees which deal with various aspects of the microfinance operations.</li> <li>• The key operational and key financial metrics are apprised to the board on a daily basis. The detailed operational and financial performance is updated to the Board in the quarterly Board Meetings.</li> <li>• The MFI places regular reports on compliance with COC, MIFIN and RBI Guidelines before the board, however, there is no evidence that the MFI has taken to ensure compliance with the code of conduct in areas where it was weak.</li> <li>• MFI does not have specific policy for debt restructuring for clients facing repayment stress. Although, the company acknowledges the clientele whose income earning capacity has been impacted suddenly due to means of accident, serious illness or loss of an important productive asset and encourages such clients to first resume to centre meetings and gradually encourage them to start repayments as seen in the instant case post demonetization wherein considerable period has been extended to the borrowers to repay their loan obligation.</li> <li>• The MFI has a dedicated internal audit team and the head of internal audit reports directly to the Board Committee. Internal audit is done on continuing basis and the report is submitted by the internal auditor to the Board/Sub committees.</li> <li>• The statutory auditor M/s. BSRR &amp; 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.</li> </ul>
<p><b>Recruitment</b></p>	<ul style="list-style-type: none"> <li>• HR policies are in place with criteria for selection and growth opportunities in place.</li> <li>• 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.</li> </ul>

<p><b>Client Education</b></p>	<ul style="list-style-type: none"> <li>• The MFI has trained staff for the purpose of increasing clients' awareness and periodic financial literacy trainings are given to borrowers by the MFI staff.</li> <li>• 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.</li> </ul>
<p><b>Feedback and Grievance Redressal</b></p>	<ul style="list-style-type: none"> <li>• 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 keeps a track record of the same. 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) and further escalation with the SRO in the absence of resolution by the company.</li> <li>• The MFI prepares proper reports on grievances received, resolved and pending. The sample of reports viewed did not have a single instance where the complaint was not resolved within 15 days.</li> <li>• In its loan agreement, the MFI has made a declaration that it is responsible for the behavior of its staff.</li> <li>• However, few of the clientele were not aware about the grievance redressal mechanism and in one instance the complaint register was not found at the branch.</li> </ul>
<p><b>Data Sharing</b></p>	<ul style="list-style-type: none"> <li>• Data is shared on a monthly basis with the credit bureaus CIBIL and on weekly basis with other credit bureaus.</li> <li>• MFI has provided data called for by RBI on a timely basis.</li> <li>• A brief snapshot of operational and financial data along with the audited financial statements is available on the website.</li> </ul>

## Annexure: Methodologies

### TOSS FRAMEWORK

<b>Transparency</b>		
		High
<ul style="list-style-type: none"> <li>• Constituted as a private limited company</li> <li>• Registered with RBI as Non-Banking Finance Company-Microfinance Institute (NBFC-MFI). Legal form is subjected to greater regulatory norms and reporting</li> <li>• Experienced board and management team with four independent directors out of six</li> <li>• Existence of monitoring committees like Audit, Remuneration, Risk Management Committees etc</li> <li>• Members of MFIN and Sa-dhan</li> <li>• Credit policies are well established documented and communicated</li> <li>• Transparency in lending process is high</li> <li>• Transparency in usage of funds is adequate</li> <li>• Overall disclosures are high</li> <li>• Internal audit team is present; and it covers each branch at least once in a couple of months and prepares and submits audit report</li> </ul>		
<b>Operational Setup</b>		
		Strong
<ul style="list-style-type: none"> <li>• Majority shareholding is with the promoters.</li> <li>• Created separate departments with clear demarcated roles and responsibilities.</li> <li>• Training systems are adequate.</li> <li>• Strong loan appraisal &amp; monitoring systems.</li> <li>• Online data sharing and Credit bureau check with Equifax</li> <li>• Adequate system for tracking over-dues.</li> <li>• MIS is adequate for current level of operations with satisfactory degree of computerization at branches and head office.</li> <li>• Risk management systems are reasonable.</li> <li>• High attrition rate</li> </ul>		
<b>Scale of Operations</b>		
		Medium Large
<ul style="list-style-type: none"> <li>• As on February 28, 2017, SVCL has a medium client base with 703,540 JLG borrowers.</li> <li>• In terms of gross loan portfolio, SVCL is amongst the medium sized MFIs in India with Assets under Management of Rs. 785 crore as on February 28, 2017 including Business Correspondent Portfolio.</li> <li>• As on February 28, 2017, SVCL operates in 122 districts through 210 branches across eight states (Uttar Pradesh, Madhya Pradesh, Uttarakhand, Bihar, Delhi-NCR, Rajasthan, Chattisgarh and Punjab).</li> <li>• Loan portfolio is moderately diversified across geographic locations - Uttar Pradesh (45%), Madhya Pradesh (24%), Chattisgarh (7%), Rajasthan (6%) as on February 28, 2017.</li> </ul>		
<b>Sustainability</b>		
		Above Average

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- Reasonable second line of leadership. Majority of the senior management has more than twelve years of experience in the microfinance sector and served in the senior management of MFIs including CASHPORE, Ujjivan, BASIX etc.
- CRAR at the end of February 28, 2017 was 26.59% with Tier-I CRAR being 18.17%. However, the capital adequacy may deteriorate sharply in case of liquidation of FLDG (Rs. 15.50 crore i.e. 5% of Rs. 340 crore outstanding BC portfolio) and write-off of loans on existing portfolio.
- Legal form allows equity infusion from investors.
- Has presence in areas with low penetration of MFIs.
- The asset quality has moderated post demonetization with portfolio-at-risk greater than 30 days at 13% as on February 28, 2017.
- Lenders base includes PSU/ private banks and other FIs. SVCL has also tapped securitization route.
- The operational self-sufficiency (OSS) ratio of SVCL stood at 115% for FY16 while maintaining greater control over operating expenses with OCR being less than 4%.
- The sector faces socio political risks, regulatory uncertainty but has huge unmet potential demand.

## COCA Methodology

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

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

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

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical 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
<b>Total</b>	<b>251</b>

### Methodology

The Code of Conduct exercise is spread over four to eight days. The first 1-2 days are 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



twenty branches and between 120 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.

<b>MFI Size</b>	<b>No. of branches to be visited</b>	<b>No. of borrowers to be visited</b>
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.
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.

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7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, CARE team visited 19 branches of SVCL. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Ludhiana	Punjab	11
2	Jagraon	Punjab	11
3	Meerut	Uttar Pradesh	19
4	Mawana	Uttar Pradesh	22
5	Mathura	Uttar Pradesh	26
6	KoshiKalan	Uttar Pradesh	20
7	Raya	Uttar Pradesh	17
8	Pilkhuwa	Uttar Pradesh	24
9	Garhmukteshwar	Uttar Pradesh	39
10	Hapur	Uttar Pradesh	32
11	Chaubepur	Uttar Pradesh	20
12	Varanasi	Uttar Pradesh	20
13	Raipur	Chattisgarh	21
14	Naraingarh	Haryana	21
15	Ambala	Haryana	20
16	Indore	Madhya Pradesh	24
17	Ujjain	Madhya Pradesh	30
18	Bhilwara	Rajasthan	13
19	Shahpura	Rajasthan	5
<b>Total</b>			<b>395</b>