Internal Guidelines On Corporate Governance

Digamber Capfin Limited

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1. Company's Philosophy On Corporate Governance:

Digamber Capfin Limited (the "Company" or "DCL") is an NBFC (Non-Banking Financial Company) registered as a Micro Finance Institution registered with Reserve Bank of India.

The Company recognizes its role as a corporate citizen and endeavours to adopt the best practices and the highest standards of Corporate Governance through transparency in business ethics, accountability to its customers, government and others. The Company's activities are carried out in accordance with good corporate practices and the Company is constantly striving to better them and adopt the best practices.

Corporate Governance for the Company is the 'way of the life' in the Company and there exists evidence enough through the policies, and procedures laid down by the Company, about its commitment to the same. The Company ensures good governance through the implementation of effective policies and procedures, which is mandated and regularly reviewed by the Board or the committees of the members of the Board.

2. RBI Guidelines On Corporate Governance:

In order to enable NBFCs to adopt best practices and greater transparency in their operations, RBI has on July 01, 2015 issued Master Circular – "Non-Banking Financial Companies – Corporate Governance (Reserve Bank) Directions, 2015 and also issued Master Direction on Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 dated September 01, 2016. As per the said guidelines, same is applicable on non-deposit accepting Non-Banking Financial Company with Asset size of Rs. 500 crores and above. Our Company is non-deposit accepting systemically important non-banking financial company (NBFC-NDSI), accordingly for better governance and in pursuance of the aforesaid guidelines, the company has framed following internal guidelines on corporate governance.

3. Corporate Governance:

A. REGULATORS

DCL, being a company incorporated under the provisions of the Companies Act, 1956 and exist within the purview of the Companies Act, 2013 and registered with Reserve Bank of India (RBI) as Non-Banking Financial Company- Micro Finance Institution (NBFC-MFI) is regulated by Ministry of Corporate Affairs (MCA), RBI and SEBI (Due to issuance of Listed NCDs) and any other regulators/authorities from time to time.

B. BOARD OF DIRECTORS

DCL has got a pool of very dynamic and effective Board members who not only have apt qualifications but also have in store a good experience in the sphere of microfinance, banking, technology, finance and social performance management. Each member of the board has the expertise in a different field.

The Board of the Company is elected by shareholders and also responsible to the shareholders. DCL's business is conducted by its employees, managers and officers, under the direction of the Managing Director and Whole-Time Director, with the oversight of the Board to enhance the long-term value of the Company for its shareholders. The Board monitors the performance of the Managing Director and Whole-Time Director to assure that the long-term interests of the shareholders are being served.

The Board of DCL is involved in strategy formulation and also approves the business plan of DCL. The senior Management team updates the Board regularly on operations and key developments in each department. There are specific verticals for each function. DCL conducts Board Meetings and maintains board meeting minutes. The Board along with its constituted Committees provides direction and guidance to the Company's Leadership Team and further direct, supervises as well as reviews the performance of the Company.
In addition to the aforesaid Audit Committee periodically reviews the compliances of all applicable laws applicable in the Company as well as steps taken by the Company to rectify the instances of non-compliance, if any.

The Executive Directors are responsible for the execution of strategy and the day-to-day management of DCL and are supported by a team of senior executives.
In Compliance with Section 165 of the Companies Act, 2013 ('the Act'), a director shall not hold the office of a director in more than 20 companies. Provided that the maximum number of public companies in which a person can be appointed as a director shall not exceed 10.

➢ Independent Director

Section 149 (4) of the Companies Act, 2013 requires every listed public company shall have at least one-third of the total number of directors as independent directors and the Central Government may prescribe the minimum number of independent directors in case of any class or classes of public companies.

Rule 4 of Companies (Appointment and Qualification of Directors) Rules, 2014 has prescribed following class or classes of companies shall have at least two directors as Independent Directors:

(i) the Public Companies having paid up share capital of ten crore rupees or more; or
(ii) the Public Companies having turnover of one hundred crore rupees or more; or

(iii) the Public Companies which have, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees:

As per section 149(6) of Companies Act, 2013 an Independent Director in relation to a company, means a director other than a Managing Director or a Whole-Time Director or a Nominee Director,

1) who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;

2) a) who is or was not a promoter of the company or its holding, subsidiary or associate company;

   b) who is not related to promoters or directors in the company, its holding, subsidiary or associate company;

3) who has or had no pecuniary relationship other than remuneration as such director or having transaction not exceeding ten percent of his total income or such amount as may be prescribed with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;

4) None of whose relatives:

   (i) is holding any security of or interest in the company, its holding, subsidiary or associate company during the two immediately preceding financial years or during the current financial year:

   Provided that the relatives may hold security or interest in the company of face value not exceeding fifty lakh rupees or two percent of the paid-up capital of the company, its holding, subsidiary or associate company or such higher sum as may be prescribed;

   (ii) is indebted to the company, its holding, subsidiary or associate company or their promoters, or directors, in excess of such amount as may be prescribed during the two immediately preceding financial years or during the current financial year;

   (iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, its holding, subsidiary or associate company or their promoters, or directors of such holding company, for such amount as may be prescribed during the two immediately preceding financial years or during the current financial year; or

(iv) has any other pecuniary transaction or relationship with the company, or its subsidiary, or its holding or associate company amounting to two per cent. or more of its gross turnover or total income singly or in combination with the transactions referred to in sub-clause (i), (ii) or (iii);

5) who, neither himself nor any of his relatives:

(a) holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;

Provided that in case of a relative who is an employee, the restriction under this clause shall not apply for his employment during preceding three financial years.

(b) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of-

- a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or

- Any legal or a consulting firm that has or had any transaction with the company, its holding, Subsidiary Associate company amounting to ten per cent or more of the gross turnover of or such firm;

(c) Holds together with his relatives two per cent or more of the total Voting power of the company; or

(d) Is a Chief Executive or director, by whatever name called, of any non-profit organization that receives twenty-five per cent or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent. or more of the total voting power of the company; or

6) who possesses such other qualifications as may be prescribed by the Companies Act, 2013 for this purpose;

While appointing a person as an Independent Director and whenever any change is occurred, Company takes a declaration from Independent Director regarding meeting the independence criteria as prescribed in Companies Act, 2013.

C. COMPOSITION OF THE BOARD OF DIRECTORS

As per provisions of the Act and under the powers confirmed under Article of Association of the company, the Board of DCL will have at all times a minimum of 3 (three) Directors and maximum director shall not be exceed at any time as permissible in Companies Act, 2013.

Every Listed Company and every other public company having paid–up share capital of one hundred crore rupees or more or turnover of three hundred crore rupees or more Shall have at least one women director on its Board.

The current Board of DCL comprises 7 (Seven) Directors, including 1(One) Managing Director, 1 (one) Whole-Time Director, 3 (Three) Independent Directors including One Women Director, 1 (One) Non-Executive Director and 1 (One) Nominee Director of financial institutions i.e., SIDBI.
Rajiv Jain is appointed as Chairman of Company. The Chairman of the Company shall be the Chairman of the Board.

The composition of the Board is in conformity with the existing Articles of Association of the Company. The Board meeting are held at least 4 (Four) times a year in such a manner that not more than (120) one hundred and twenty days intervenes between two consecutive meetings of the Board.

The Board of DCL ensures that no Director of the company shall be:

(a) In the list of willful defaulters as published by the Credit Information Bureau (India) Limited pursuant to the directions of the Reserve Bank of India from time to time; and

(b) Disqualified to discharge his duties as a director with respect of any Applicable Law.

In the event if any Director appears on the list of wilful defaulters, the Company shall take necessary corrective action, including, if necessary, replacement of such Director, within 30 (thirty) Days of receipt of such notice.

D. DUTIES OF BOARD OF DIRECTORS

In accordance with the provisions of Section 166 of the Companies Act, 2013 and as a matter of Corporate Governance, the directors of the Company have the following duties:

1) Subject to the provisions of this Act, a director of a company shall act in accordance with the articles of the Company;

2) A director of a company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, and the community and for the protection of environment;

3) A director of a company shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment;

4) A director of a company shall not involve in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company;

5) A director of a company shall not achieve or attempt to achieve any undue gain or advantage either to himself or to his relative, partners, or associates and if such director is found guilty of making any undue gain, he shall be liable to pay an amount equal to that gain to the company;

6) A director of a company shall not assign his office and any assignment so made shall be void.

7) If a director of the company contravenes the provisions of this section such director shall be punishable with fine which shall not be less than one Lakh rupees but which may extend to five Lakh rupees.

E. BOARD PROCESS

The Board is presented with relevant information on various matters relating to the working of the Company especially those that require deliberation at a strategic level, ahead of each Board meeting. All statutory and material information is placed before the Board to enable them in effective and efficient decision-making. The department heads are invited to the Board and Committee meetings to appraise the Board on various issues concerning the operations of the Company.

(a) PERIODIC REPORTING TO THE BOARD

In addition to the aforesaid, the following reports/documents/information is submitted to the Board for its noting and/ or approval: -

(i) Annual operating plans/ budgets;

(ii) Minutes of meetings of the Audit Committee and other Committees of the Board;

(iii) The information on recruitment and remuneration of senior officers just below the Board level, including appointment/ removal of the Chief Financial Officer and the Company Secretary;

(iv) Show-cause/ demand/ prosecution and other notices, which are materially important;

(v) Any material default in financial obligations to and by the Company;

(vi) Any issue which involves possible public or product liability claims of substantial nature;

(vii) Details of any joint venture or collaboration agreement (if any);

(viii) Any significant development in Human Resources;

(ix) Non-compliance of any regulatory, statutory requirements and shareholders service such as non- payment of dividend, delay in share transfer, etc.

(b) EVENT BASED BUSINESSES REQUIRING BOARD APPROVAL

Additionally, following list of items of business shall be placed before Board of DCL as and when the need arises: -

1) Calls on shareholders in respect of money unpaid on their shares (if any);

2) issue securities including debentures, whether in or outside India;

3) Borrowing money;

4) Investing the funds of the company;

5) To grant Loan or give guarantee or provide security in respect of loan;

6) Filling casual vacancies in the office of Directors;

7) Making donation to political parties;

8) According sanction for specified contracts in which one or more Directors are interested and to sign the Register of Contracts;

9) Appointment or Resignation of Managing Director or Whole-time Director or Manager;

10) Appointment and removal of the Chief Financial Officer and the Company Secretary (whenever applicable);

11) Appointment of sole-selling agents;

12) Making a declaration of solvency where it is proposed to wind up the company voluntarily;

13) Forfeiture of shares;

14) Approving of financial statement and Board Report;

15) Noting Minutes of Meetings of Committees of the Board;

16) Any material default in financial obligations;

17) Non-compliance of any regulatory / statutory provisions or listing requirements;

18) Sale of investments, subsidiaries or assets which is not in the normal course of business;

19) Show cause notices, prosecutions and penalty notices of material nature;

20) Any material effluent or pollution problems, industrial accidents, labor problems, signing of wage agreement, implementation of Voluntary Retirement Scheme, etc. (to the extent of its applicability);

21) Any issue which involves possible public or product liability claims;

22) Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property;

23) Foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movements (if applicable);

24) Information on recruitment and remuneration of senior officers and transfers or resignations;

25) Details of any joint venture or collaboration agreement;

26) Report of the Compliance Officer regarding share transfer process and analysis of movement of bulk transfers;

27) Material liability – legal or contractual;

28) Fixed deposit advertisements;

29) Certificate regarding compliance with various applicable laws;

30) Events which are significant or have material commercial/financial implications, such as:

    (a) strikes, lockouts, lay-off, closure of units/factory, etc.;

    (b) change in the general character or nature of business;

(c) major expansion plans or execution of new projects;

(d) disruption of operations due to natural calamity or Act of God;

(e) commencement of commercial operations;

(f) developments with respect to pricing/realization arising out of change in the regulatory framework;

(g) litigation / dispute with a material impact;

(h) revision in ratings assigned by credit rating agencies;

(i) issue of any class of securities;

(j) acquisition, merger, demerger, amalgamation, restructuring, scheme of arrangement, spin off of divisions of the company;

(k) change in market lot and sub-division of equity shares of the company;

(l) voluntary delisting of securities from the Stock Exchange(s);

(m) default in the repayment of any deposits or redemption of any securities including debentures and in payment of interest, if any, due thereon;

(n) Any action which will result in alteration in the terms regarding redemption /cancellation / retirement in whole or in part of any securities issued.

(o) information regarding opening, closing of status of ADR, GDR or any other class of securities issued abroad

(p) Formation of a subsidiary company and/or de-subsidization of an existing subsidiary company.

F. COMMITTEES OF THE BOARD

In compliance with the applicable provisions of the Act, and the RBI guidelines on Corporate Governance and in order to meet business exigencies, the Company has constituted Board committees.

The terms of reference, roles and responsibilities of the aforesaid Committees will be further aligned based on the changes in the regulations and business requirements with the approval of Board.

For better governance company has formed following committees:

1. Audit Committee
2. Nomination and Remuneration committee
3. Risk Management Committee

4. Credit Committee
5. Ombudsman Committee
6. Executive Committee
7. Staff Appraisal Committee
8. ALCO Committee
9. Corporate Social Responsibility Committee
10. IT Steering Committee
11. IT Strategy Committee
12. ESOP Support Committee
13. Incentive Distribution Committee
14. Investigation Committee
15. Project Advisory Committee

G. FAIR PRACTICE CODE

Pursuant to the guidelines on Fair Practices Code issued by Reserve Bank of India, the Company has adopted a policy on Fair Practices Code and also a regular review on the implementation of the same is conducted by operating committee members.

H. CODE OF CONDUCT

The Company has adopted a code of conduct for employees of the Company and due care is taken that the employee adheres to it.

I. COMPLIANCE OFFICER

Company Secretary appointed by the board of the company pursuant to Section 203 of the Companies' Act, 2013 and rules made thereunder shall be the Compliance Officer of the Company.

J. STATUTORY AUDITORS

The Statutory Auditors of the Company shall be appointed in terms of provisions provided in Chapter X under Companies Act, 2013 along with rules provided for this purpose and amendments thereafter, if any, subject to recommendation made by Audit Committee for this purpose.

As DCL falls under the class of category provided as per rule 5 of Companies (Audit and auditor) rules, 2014, Company is required to rotate Audit firm as per section 139 (2) and (3) of Companies Act, 2013 and same is already complied by the company.

As per RBI Direction, DCL shall rotate the partner/s of the Chartered Accountant firm conducting the audit, every three years so that same partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the company after an interval of three years, if the Company, so decides. The Company shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

Reserve Bank of India has issued RBI/2021-22/25Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 Dated April 27, 2021 Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) and company shall follow the said guidelines as per applicability and requirement.

K. DISCLOSURES AND TRANSPARENCY

DCL shall require place following information before Board at regular intervals as may be prescribed by the Board in this regard: -

Conformity with Corporate Governance Standards viz, in composition of various committees, their role and functions, periodicity of the meetings, and compliance with coverage and review functions etc.

DCL has also disclosed the following in their Annual Report, with effect from March 31, 2016:

(i) Registration/ license/ authorization, by whatever name called, obtained from other financial sector regulators;
(ii) Ratings and grading assigned by credit rating agencies and migration of ratings during the year;
(iii) Penalties, if any, levied by any regulator;
(iv) Information namely area, country of operation along with no of branches;
(v) Details of products & their features offered by the company, NPAs and movement of NPAs;
(vi) Financial inclusion initiatives taken by the company during the year;
(vii) Exposures, current partners, Capital adequacy ratio, major operational details and other disclosures, as per prescribed format of RBI.

L. POLICIES ADOPTED BY THE COMPANY

The following major policies have been framed and adopted by the Company, viz.

(a) Client Grievance Redressal Mechanism
(b) Vigil Mechanism/ Whistle Blower Policy

(c) HR Manual Policy
(d) Operational Policy
(e) DCL - JLG Policy (LOAN POLICY)
(f) Branch Audit Policy
(g) Others as per regulatory requirement

M. FIT AND PROPER CRITERIA OF DIRECTORS (SUBJECT TO APPLICABILITY ON THE COMPANY AS PER RBI GUIDELINES)

- DCL has put in place a policy with the approval of the Board of Directors for ascertaining the fit and proper criteria of the directors at the time of appointment, and on a continuing basis. The policy on the fit and proper criteria shall be on the lines of the Guidelines prescribed by RBI.

- DCL shall obtain a declaration and undertaking from the directors giving additional information on the directors. The declaration and undertaking shall be on the lines of the format prescribed by RBI;

- DCL obtain a Deed of Covenant signed by the directors, which shall be in the format as prescribed by RBI;

- Compliance officer of DCL shall furnish to the Reserve Bank a quarterly statement on change of directors, and a certificate from the Managing Director of the Company that fit and proper criteria in selection of the directors has been followed. The statement submitted by Company for the quarter ending March 31, should be certified by the auditors.

N. REVIEW

The Board of Directors on yearly basis review of this policy and can amend this Policy, as and when deemed fit from time to time.

O. CONTENT ON THE WEBSITE

(i) Appropriate disclosure regarding this Policy shall be made on the Company website at https://www.digamberfinance.com/code.php

(ii) The information published in the website should be updated whenever there is a change in the policy.

P. AMENDMENT

In case of any amendment(s), clarification(s), circular(s), etc. issued by the relevant authorities not being consistent with the provisions laid down in this Policy, then such amendment(s), clarification(s), circular(s), etc. shall prevail upon the provisions herein and this Policy shall stand amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s), etc.

Q. POLICY REPEALABLE

This policy constitutes the entire document in relation to its subject matter. In the event that any term, condition or provision of this policy being held to be a violation of any applicable law, statute or regulation, the same shall be repealable from the rest of this policy and shall be of no force and effect, and this policy shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Policy.

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Digamber Capfin Limited

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