EQUITAS MICRO FINANCE SETS PROFIT POLICIES AND ALIGNS MANAGEMENT AND INVESTOR EXPECTATION

Equitas (India) targets clients who are unable to access mainstream banks, and it prioritizes "transparency to clients, employees, society, regulators, government, lenders, and owners." To ensure that its social goals—including profit expectations—are clear to management, the board, and funders, Equitas:

- Established a cap for ROE: When Equitas commenced lending, the institution set a ROE cap of 25% (the target ROE for the company is around 20%) which is based on the typical ROE range of 20 to 25% for nationalized Indian banks. The cap helps ensure that even after the company tapers off growth, benefits of efficiency gains from economies of scale will be passed on to the clients through reduced rates or other services.
- Established a policy on the use of profits: Equitas has a policy of allocating 5% of the company's profits to fund social programs, including medical camps, skills development, and schools for clients' children. Additionally, Equitas has approval to use up to 15% of the company's net worth to create schools. These social programs are managed by an affiliated non-profit.
- Established social performance expectations: In an attempt to align return expectations, the FSP clearly discloses the following to each potential investor prior to investment: the cap on ROE, use of profits to fund various social initiatives, and the Equitas philosophy on social interventions. Because the FSP has been clear about its profit allocation policy from the onset, Equitas has been able to continue funding these programs to benefit its clients even in times of financial stress when ROE was under pressure.