



SMERA Comprehensive Grading

M4C2

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

Comprehensive Grading

Hindusthan Microfinance Private Limited



To verify the grading, please scan the QR Code

Date of Report:

30th October, 2018

Valid Till:

29th October, 2019

SMERA's MFI Comprehensive 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					
M3					
M4		M4C2			
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of “**M4C2**”. It signifies “**Average**” capacity of the MFI to manage its operations in a sustainable manner and “**Good**” performance on code of conduct dimensions.

Grading Rationale

Microfinance Capacity Assessment Grade	HMPL obtains “ M4 ” as its performance grade which signifies “average capacity of the organization to carry out its activities in a sustainable manner”.
Code of Conduct Assessment Grade	HMPL obtains “ C2 ” 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**.*



To verify the grading, please scan the QR Code

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

This Grading is based on the data and information (Data) provided by the MFI and obtained by SMERA from sources it considers reliable. Although reasonable care has been taken to verify the Data, SMERA, makes no representation or warranty, expressed or implied with respect to the accuracy, adequacy or completeness of any Data relied upon. SMERA is not responsible for any errors or omissions or for the results obtained from the use of the Grading or the Grading Report and especially states that it has no financial liability, whatsoever, for any direct, indirect or consequential loss of any kind arising from the use of its Gradings.

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The SMERA Grading Report should not be distributed/ published/ reproduced in any form without SMERA's prior written approval.

Historical Rating Grades

Date	Rating Agency	Rating/Grading
15/Nov/2017	SMERA Ratings Limited	M4C2
13/Sep/2016	SMERA Ratings Limited	MF3
06/Sep/2016	SMERA Ratings Limited	COCA 3
29/May/2015	SMERA Ratings Limited	MF3
29/May/2015	SMERA Ratings Limited	COCA 4
30/Apr/2014	SMERA Ratings Limited	MF4

Microfinance Capacity Assessment Grading Symbols and Definitions

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

Code of Conduct Assessment Scale and Definitions

Grading Scale	Definitions
C1	MFIs with this grade have excellent performance on Code of Conduct dimensions
C2	MFIs with this grade have good performance on Code of Conduct dimensions
C3	MFIs with this grade have average performance on Code of Conduct dimensions
C4	MFIs with this grade have weak performance on Code of Conduct dimensions
C5	MFIs with this grade have weakest performance on Code of Conduct dimensions

Company Profile

Name of the MFI	Hindusthan Microfinance Private Limited (HMPL)	
Operational Head – Microfinance Business	Name	Mr. Anil L. Jadhav Mr. Satishkumar G. Rao
	Designation	Chairman & Managing Director Executive Director
	Mobile No.	9820002549 9820292898
	Email ID	anil.jadhav@hindusthanmfi.com satish.rao@hindusthanmfi.com
	Date of Joining	25/Jul/2007 13/Oct/2014
Date of Incorporation/Establishment	27/Jul/1996	
Date of commencement of microfinance business	04/Nov/2008	
Legal Status	NBFC-MFI	
Business of the company	Microfinance services using Joint Liability Group (JLG) Model	
Correspondence Address	704-705/B, Sagar Tech Plaza, Sakinaka Junction, Andheri Kurla Road, Andheri East, Mumbai-400 072, Maharashtra	
Geographical Reach (As on 30/Sep/2018)	No. of States	03
	No. of Districts	14
	No. of Branches	25
	No. of Active Borrowers	17,134
	No. of Total Employees	230
	No. of Field/Credit Officers	116

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)
Joint Liability Group (JLG)	Income Generation Loan	10,000 - 50,000	24.81	1.00	25.81
Individual Loan (IL)	Individual Business Loan	10,000 - 50,000	24.81	1.00	25.81

**Reducing Balance Basis.*

Note: HMPL provides income generating loans to joint liability groups and small business loans to individuals. The group consists of 3 to 20 members each. Member must be female only. HMPL offers loans ranging between Rs. 10,000 to Rs. 50,000 at an interest of 24.81% p.a. on reducing balance basis along with 1% of the loan amount as loan processing fees and insurance fees at actuals. The tenure for which the microfinance loans are offered is 12 to 24 months.



Capital Structure (as on 30/Sep/2018)

Authorized Capital	In Rs.	18.00	Crore
Paid-up Capital	In Rs.	13.01	Crore

Shareholding Pattern

Shareholders	% Holding
Mr. Anil Laxmanrao Jadhav	33.62%
Mr. Satishkumar G. Rao	29.91%
Mr. L.B. Prakash	5.56%
Mrs. Sujata Anil Jadhav	4.82%
Mr. Laxmanrao K Jadhav	3.16%
Ms. Bhagyashree A Jadhav	2.24%
Mr. Shubham A Jadhav	1.40%
M/s Hindusthan IT Solution	0.80%
Mr. Debajeet Das	5.96%
Mr. Bhutada S. Rampratap	5.96%
Mr. Alokkumar B Agarwal	2.98%
Mr. Damodar Y. Gothivarekar	2.98%
Mr. Ameya S. Shenoy	0.60%
TOTAL	100.00%

OPTIONALLY CONVERTIBLE PREFERENCE SHARES (OCPS)

Shareholders	% Holding
SIDBI	100.00
Total	100.00

Board of Directors/Promoters Profile

Name	Position	Qualification	Brief Profile
Mr. Anil L. Jadhav	Chairman and Managing Director	Graduate	He has vast exclusive experience of more than three decades in managing credit cooperatives Societies for providing micro finance (credit and savings services) to the urban poor in Maharashtra.
Mr. Satishkumar G. Rao	Executive Director	Post Graduate	He has vast experience in banking sector for more than two decades. He has worked in higher positions in Bank of Baroda, HDFC Bank, Yes Bank and United Overseas Bank, Singapore having an illustrious career.
Mr. L. B. Prakash	Director	Post Graduate	He had worked with the USAID's Financial Access for Investing in the Development of Afghanistan (FAIDA) project in Afghanistan as a Banking Capacity Team Leader. He also had worked over three decades in development sector in South Asia, especially in microfinance and livelihoods.
Ms. Sujata Jadhav	Director	Graduate	She has prior experience of working in information technology sector. She had joined as an intern in New Satara Cooperative Credit Society Limited and later on was actively involved in HMPL as a Director.
Mr. A. Ramanathan	Independent Director	Post Graduate	He is the former Chief General Manager of Micro Credit Innovations Department, NABARD. He has vast experience of more than three decades in Management of Rural Financial Institutions/Micro Finance Institutions.
Mr. V. Nagaraja	Independent Director	Post Graduate	He has more than three decades of experience in the banking sector and also headed PNB Capital Services Ltd., a Merchant Banking and NBFC subsidiary of Punjab National Bank as a Managing Director for about five years. He has been on the Committees / Working Groups constituted by the Reserve Bank of India and the Indian Banks' Association.

Management Team Profile

Name	Position	Qualification	Brief Profile
Mr. Ganesh H. Hankare	Vice President (Finance & Accounts)	MBA-Finance (Symbiosis Institute of Business Management)	Prior to joining HMPL, he had worked for Five years in Finance and Accounts. He shouldered the responsibility successfully as manager Finance and Accounts for last 3 ½ years and at present is Vice President (Finance & Accounts) for last 6 months.
Mrs. Shaineela Shakir Ansari	Finance Manager	MBA-Finance	She is associated with HMPL since 2009 and plays an important supportive role for the Management in taking crucial financial decisions.
Ms. Bhagyashree Jadhav	HR - Corporate Strategy & Project Management	BFM	She is associated with HMPL since 2013 and looks after the entire human resources (HR) department most effectively.
Mr. Harishchandra Patil	Central Process Unit - Corporate Strategy & Project Management	BMM	He has 2 years of experience in HMPL in the Internal Audit team. He has independently handled all the Five Central Processing Units as Manager (CPU). Currently he is designated as Manager (Corporate Strategy & Project Management).
Mr. Vivek Hirlekar	Audit Manager	B.A.	He has exclusive 10 years of experience in MFI sector. He has worked as Audit-in-Charge for last 4 years in Equitas Microfinance Pvt Ltd (now Equitas Small Finance Bank) before joining HMPL. Currently he is designated Manger - Audit and monitor the internal audit of all branches of HMPL.
Mr. Mohan Nanaware	IT Manager	Diploma -IT	He has exclusive dedicated assignment in Information and Technology department for last 4 years in HMPL. Before joining HMPL he has experience of 10 years in IT sector in various companies.

Highlights of Microfinance Operations

Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	30/Sept/2018
No. of States	03	03	03	03
No. of Districts	16	26	14	14
No. of Branches	35	60	25	25
No. of Active Members	59,279	94,913	21,040	17,134
No. of Active Borrowers	59,279	94,913	21,040	17,134
No. of Total Employees	315	408	232	230
No. of Field/Credit Officers	195	225	116	116
No. of JLGS	7,768	13,077	5602	4626
No. of Individual Loans	0	0	1346	2384
OWNED PORTFOLIO				
Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	30/Sept/2018
Total loan disbursements during the year (in crore)	27.20	29.24	35.18	4.96
Total portfolio outstanding (in crore)	30.60	31.82	34.46	27.73
MANAGED/BC PORTFOLIO				
Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	30/Sept/2018
Total loan disbursements during the year (in crore)	91.08	82.83	0.08	4.96
Total portfolio outstanding (in crore)	82.30	114.02	3.56	3.61

SMERA Comments

As on Sept 30, 2018, the company has asset under management of Rs. 31.34 crore (Own Portfolio of Rs. 27.73 crore and BC of Rs. 3.61 crore). The microfinance operations are spread over 25 branches in 14 districts with 17,134 active borrowers. As on Mar 31, 2017, the company had asset under management of Rs. 145.84 crore (Own portfolio of Rs. 31.82 crore and BC of Rs. 114.02 crore), HMPL's asset quality has significantly impacted post demonetization and the on-time repayment declined from 99.83% in FY2015-16 to 66.31% in H1FY2018. Post demonetization the management has decided to focus more on its own portfolio compare to BC. The BC portfolio stood at Rs.3.61 crore as on Sept 30, 2018 compare to Rs.114.02 crore as on March 31, 2017.

As on Sept 30, 2018, the company remains exposed to high geographical concentration risk with major portfolio outstanding in the state of Maharashtra with ~88.93 per cent and remaining (only 11.07 per cent) across Madhya Pradesh and Chhattisgarh . The company needs to improve geographical diversification of operations to mitigate political and other risks. 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.

Ageing Schedule of the Loan Portfolio

Period	FY 2016	FY 2017	FY2018	30/Sept/2018
	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)
On-time	112.71	126.05	37.29	30.86
1-30 days	0.06	2.83	0.12	0.14
31-60 days	0.02	2.09	0.06	0.04
61-90 days	0.02	5.89	0.08	0.08
91-180 days	0.04	8.27	0.16	0.07
181-360 days	0.05	0.71	0.60	0.15
Above				
> 360 days	--	--	0.36	--
Gross Total	112.90	145.84	38.67	31.34
Less: Write-off	--	--	0.65	--
Net Total	112.90	145.84	38.02	31.34

- Post demonetization The Company's on-time repayment has declined from 99.83% in FY2015-16 to 86.43% in FY2017. HMPL was taking several measures to address the concerns in the field by educating the borrowers and inducting more staff to improve the collection efficiency. Currently HMPL asset quality has improved and on-time repayment rate stood at 98.47% as on Sept 30, 2018. The PAR 1-30 days stood at 0.45% as on Sept 30, 2018 as compared to 1.94% as on March 31, 2017. The PAR >30 days stood at 1.08% as on Sept 30, 2018 as compared to 11.63% as on March 31, 2017. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to improve its asset quality.

Geographical Outreach (as on 30/Sep/2018)

Name of the State	No. of Branches	No. of Borrowers	Portfolio o/s (in crore)	% of Total Portfolio o/s
Maharashtra	22	14,748	27.87	88.93%
Madhya Pradesh	2	2,144	3.03	9.67%
Chhattisgarh	1	242	0.44	1.40%
Total	25	17,134	31.34	100.00%

As on Sept 30, 2018, the company remains exposed to high geographical concentration risk with major portfolio outstanding in the state of Maharashtra with ~88.93 per cent and remaining (only 11.07 per cent) across Madhya Pradesh and Chhattisgarh . The company needs to improve geographical diversification of operations to mitigate political and other risks. 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.

Compliance with RBI's Directives for MFIs

RBI's Direction	Company Status (Auditor Certified)	Compliance
85% of total assets to be in the nature of qualifying assets	Qualifying assets is 85.00% of total assets	Complied
Net worth to be in excess of Rs 5 Crore	Net worth stood at Rs.15.86 crore as on March 31, 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	HMPL extends loans to households whose income does not exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles	Loans size has not exceeded Rs. 60,000 in first cycle and Rs. 100,000 in subsequent cycles	Complied
Total indebtedness of the borrower not to exceed Rs. 100,000 (excl. medical and education loans)	Total indebtedness of the borrower has not exceeded Rs. 100,000	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, with prepayment without penalty.	Complied
Pricing guidelines are to be followed	The maximum interest on loan products offered by the company is 24.81%.	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	HMPL verifies the same though credit check from credit bureaus and the guidelines have been followed.	Complied

RBI's Direction	Company Status (Auditor Certified)	Compliance
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	HMPL is charging processing of 1.00% + GST on the disbursed loan amount	Complied
Collateral free loans	HMPL does not accept any collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	HMPL does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	HMPL 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.	HMPL shares its client data with all four credit bureaus on weekly basis	Complied
Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs	HMPL provides loans for income generation activities. The aggregate amount of loans is not less than 50 per cent of the total loans given by the MFIs.	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.	HMPL has a CRAR of 48.81% as on March 31, 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'.	HMPL has made appropriate loan loss provisions	Complied

Section 1: Microfinance Capacity Assessment Grading

Operating Environment

- 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 will bring more accountability and transparency within the sector.
- Despite all developments in the sector the inherent risk exist such as unsecured nature of lending, vulnerable customer profile, exposure to vagaries of political situation in states, and cash handling (though which is expected to reduce with demonetization step taken by Government), and so on.

Long track record of operations and extensive industry experience of promoters

- Hindusthan Microfinance Private Limited (HMPL) is registered as NBFC-MFI (RBI Registration No. B-13.01761) as per the NBFC-MFI guidelines of Reserve Bank of India. Originally Shaarathi Credit & Finance Private Limited was incorporated in the year 1996, was taken over in 2008 by the current management & later on management took over the entire business of the company. Currently the company operates in three states i.e. Maharashtra, Madhya Pradesh and Chhattisgarh covering both rural and urban areas. HMPL provides income generating loans to joint liability groups of woman belonged to weaker section of the society.
- HMPL has six-members in its board as on Sep 30, 2018 having extensive experience in the banking, microfinance and social development space. The board has Chairman and Managing Director, Executive Director, two Directors, two Independent Directors with banking & finance/microfinance expertise.
- The key members, Mr. Anil Jadhav, Chairman and Managing Director, has more than three decades of experience in managing credit cooperatives for providing micro finance. Mr. Satishkumar G. Rao, Executive Director, has vast experience in banking for more than two decades. He has worked in Bank of Baroda, HDFC Bank, Yes Bank and United Overseas Bank, Singapore. The other board members have vast experience in the banking and finance field.
- HMPL's core management team and second line of management has an adequate understanding of MFI ecosystem with vast experience in banking, finance and microfinance.

Name	Position
Mr. Anil L. Jadhav	Chairman and Managing Director
Mr. Satishkumar G. Rao	Executive Director
Mr. L. B. Prakash	Director
Ms. Sujata Jadhav	Director
Mr. A. Ramanathan	Independent Director
Mr. V. Nagaraja	Independent Director

Diversified Resource Profile

- As on March 31, 2018, HMPL has developed funding relationships with 18 lenders (10 Banks & 8 NBFCs/FIs). These relationships have helped the company in meeting its funding requirements to a large extent. The total borrowing stood at 31.38 crore as on March 31, 2018
- HMPL has been able to raise Tier-II capital (Subordinated Debt) from Capital First Limited to the tune of Rs.5.00 crore and the company has also availed optionally convertible preference shares (OCPS) from SIDBI.
- The debt availed from the NBFC stood at Rs. 9.87 crore(including subordinated debt from capital first), which is 31.45 per cent of the total borrowing , and the debt availed from the bank stood at Rs. 21.51 crore which is 68.55 per cent of the total borrowing as on March 31, 2018.
- The average cost of funds (COF) for the company stood at 14.95% as on March 31, 2018 as compared to 14.14% in the previous year. The loans availed from banks carry interest rate in the range of 11.40%-14.00%, whereas term loans borrowed from NBFCs/FIs carry higher interest rate in the range of 11%-16.25%.

Adequate Capitalisation and Comfortable Liquidity Profile

- HMPL has an adequate capitalisation marked by gearing of 1.98 times as on March 31, 2018 as compared to 3.37 times as on March 31, 2017. The leverage of the company has decreased mainly on account of decrease in the borrowing from the last financial year. The total borrowing stood at Rs. 31.38 crore as on March 31, 2018 as compared to Rs. 45.60 crore as on March 31, 2017 including subordinated debt fund from capital first Ltd. of Rs. 5.00 crore. The total networth has increased and stood at Rs. 15.86 crore as on March 31, 2018 as compared to Rs. 13.52 crore as on March 31, 2017. The company's capital adequacy ratio (CAR) stood healthy at 48.81 per cent as on March 31, 2018 as compared to 39.75 per cent as on March 31, 2017. HMPL's capitalisation in relation to managed asset base has been comfortable on account of equity infusion and internal accruals in FY2018.
- HMPL 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. However regular flow of funds is critical to maintain the projected growth and the same would have a key bearing on its liquidity profile.

High Geographical Concentration (as on 30/Sep/2018)

Name of the State	No. of Branches	No. of Borrowers	Portfolio o/s (in crore)	% of Total Portfolio o/s
Maharashtra	22	14,748	27.87	88.93%
Madhya Pradesh	2	2,144	3.03	9.67%
Chhattisgarh	1	242	0.44	1.40%
Total	25	17,134	31.34	100.00%

As on Sept 30, 2018, the company remains exposed to high geographical concentration risk with major portfolio outstanding in the state of Maharashtra with ~88.93 per cent and remaining (only 11.07 per cent) across Madhya Pradesh and Chhattisgarh . The company needs to improve geographical diversification of operations to mitigate political and other risks. 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.

Sound asset quality

Period	FY 2016	FY 2017	FY2018	30/Sept/2018
	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)
On-time	112.71	126.05	37.29	30.86
1-30 days	0.06	2.83	0.12	0.14
31-60 days	0.02	2.09	0.06	0.04
61-90 days	0.02	5.89	0.08	0.08
91-180 days	0.04	8.27	0.16	0.07
181-360 days Above	0.05	0.71	0.60	0.15
> 360 days	--	--	0.36	--
Gross Total	112.90	145.84	38.67	31.34
Less: Write-off	--	--	0.65	--
Net Total	112.90	145.84	38.02	31.34

- Post demonetization The Company's on-time repayment has declined from 99.83% in FY2015-16 to 86.43% in FY2017. HMPL was taking several measures to address the concerns in the field by educating the borrowers and inducting more staff to improve the collection efficiency. Currently HMPL asset quality has improved and on-time repayment rate stood at 98.47% as on Sept 30, 2018. The PAR 1-30 days stood at 0.45% as on Sept 30, 2018 as compared to 1.94% as on March 31, 2017. The PAR >30 days stood at 1.08% as on Sept 30, 2018 as compared to 11.63% as on March 31, 2017. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to improve its asset quality.

Subdued Operational Performance

- HMPL has reported net loss of Rs.1.54 crore on operating income of Rs.12.60 crore in FY2018, as compared to net profit of Rs.1.38 crore on operating income of Rs.18.64 crore in the previous year. The company has reported net loss mainly on account of decrease in financial revenue from the operation compared to its expenses, and financial revenue has decreased due to reduction in BC commission, Post demonetization.
- HMPL's yield on portfolio stood at 28.06% in FY 2018 as compared to 30.16% in FY 2017. The operational self-sufficiency (OSS) of the company has significantly declined to 81.37% in FY2018 as compared to 104.48% in the previous year. The company's operating expense stood high at 10.77% in FY2018 as compared to 8.52% in the previous year.

Adequate IT infrastructure and MIS considering the current scale of operations

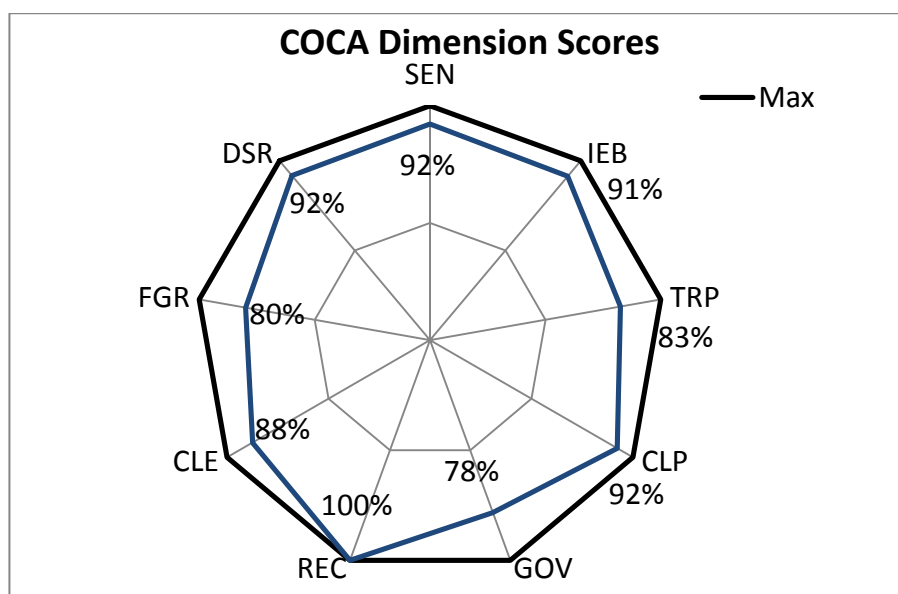
- HMPL's Information Technology (IT) infrastructure and Management Information System (MIS) is considerably good for its current scale of operations. The microfinance data is captured in the software which gives real time access to operational data points for management review. It has dedicated MIS at Central Processing Unit (Unit) and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches. The company also has an internal audit team which undertakes branch audit 3-4 times in every month.

Inherent risk prevalent in the microfinance sector

- HMPL's business risk profile remain susceptible to socio-political risk, 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.

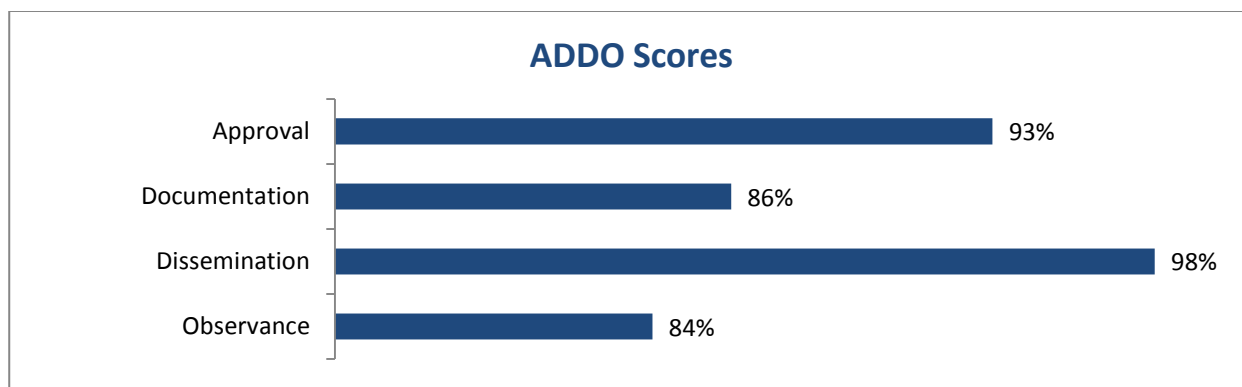
Section 2: Code of Conduct Assessment

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



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	92%
Integrity and Ethical Behavior	IEB	91%
Transparency	TRP	83%
Client Protection	CLP	92%
Governance	GOV	78%
Recruitment	REC	100%
Client Education	CLE	88%
Feedback & Grievance Redressal	FGR	80%
Data Sharing	DSR	92%



HMPL 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 Hindusthan Microfinance Private Limited (HMPL) 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 HMPL 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 HMPL's adherence towards ethical operational practices.

Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> • HMPL has six board members, out of which two are independent directors. • Board with rich experience in banking and finance. • HMPL obtains an external CA certification for compliance with the criteria regarding qualifying assets, aggregate amount of loans for income generating activity and the pricing. • HMPL communicates with borrowers in a transparent and professional manner, uses single effective interest rates and marks entries in their passbooks while making disbursement. Additionally, it communicates with its clients in the vernacular language. • Experienced and qualified management who have considerable experience in microfinance industry. • Board approved policies, compliant with the RBI guidelines. • Circulars with the most recent directions were available in each of the visited branches. • HMPL displays the effective rate of interest on its products in all the visited branches. • Review of loan files and documents do not reveal any instance of fines, penalty being imposed on clients. • Awareness among the branch staff on RBI compliance was found to be adequate in the visited branches. • HMPL provides insurance to its clients through an IRDA approved agency. • Code of Conduct framed as per the HMPL mission, vision, values and displayed in all branch offices & HO. • Credit policies are well established documented and communicated. HMPL's manual mandates CB checks for capturing 	<ul style="list-style-type: none"> • Proportion of branch staff interviewed was not aware of reschedulement policy and procedure. • HMPL do not have a policy to provide written undertaking to the client whenever grievance is received. • Proportion of the clients interviewed during the COCA visit, it has been observed that awareness among the clients related to annualized interest rates and insurance claim settlement was found moderate. • HMPL do not provide acknowledgement to clients for the complaints received from clients. Further action taken reports on the complaints received from clients are not maintained in the branches. • Awareness among client and staff on grievance redressal mechanism was found to be moderate in the visited branches. • Audited financial statements for last three years are not available on the company's website.

<p>overall indebtedness.</p> <ul style="list-style-type: none"> • Adequate loan appraisal & monitoring systems. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower in the group. • Data sharing with all credit bureaus (Equifax, Highmark, Experian and CIBIL). • HMPL prepare monthly reports about the number, nature and resolution of grievances for management review. The report is send to board every month for review. • Microfinance operational data is available on the company's website. • Grievance redressal system set up by the MFI is displayed prominently by the MFI in all its branches. • Operational staff is punctual and courteous towards borrowers, as reflected in the absence of borrower complaints about the collection process. • HMPL has trained staff for the purpose of raising clients' awareness and education. • Staff members receive orientation training on regular basis. • The code of conduct compliance report of the MFI is available in the public domain. • The company has a system of documenting why a loan has not been sanctioned against an accepted loan application. • The company has a written policy for debt restructuring for clients, facing repayment stress. 	
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Significant Observations

HIGHER ORDER INDICATORS	
Integrity and Ethical Behaviour	<ul style="list-style-type: none"> • The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit. • The company has a written policy for debt restructuring for clients, facing repayment stress. • HMPL prepare monthly reports about the number, nature and resolution of grievances for management review. The report is send to board every quarter for review. • HMPL 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. • In all the branches visited, the contact number and address of SRO nodal official was displayed. • Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit. • Proportion of the clients interviewed during the COCA visit, it has been observed that awareness among the clients related to annualized interest rates and insurance claim settlement was found moderate. • Fixed Component compensation of staff is not impacted in event of overdues. HMPL, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.
Sensitive Indicators	<ul style="list-style-type: none"> • Proportion of the clients interviewed during the COCA visit, it has been observed that awareness among the clients related to annualized interest rates and insurance claim settlement was found moderate. • HMPL enter into a loan agreement with clients. All terms and conditions with pricing details are mentioned in the loan agreement. A loan card is issued to individual borrowers of the group which covers all loan details. • Awareness among the staff on RBI guidelines was found to be adequate. • There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • HMPL shares accurate data with all credit bureaus on a weekly basis. • HMPL do 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.

	<ul style="list-style-type: none"> • HMPL have a documented policy on loan pre-payments. • HMPL gets an external CA agency to certify its compliance with RBI's directions.
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BUILDING BLOCKS	
Transparency	<ul style="list-style-type: none"> • Awareness among the staff on RBI guidelines was found to be adequate. • HMPL has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages. • Circulars of the most recent RBI directions are available in the form of office orders in the visited branches. • HMPL, in its fair practices code provides importance for transparency in pricing and clear communication to the clients. • Proportion of the clients interviewed during the COCA visit, it has been observed that awareness among the clients related to annualized interest rates and insurance claim settlement was found moderate. • The loan interest rate and processing fees is mentioned on the loan card and loan agreement provided to the client. • Audit committee verifies through the audit reports whether all clients have received the necessary loan documents. • Pricing policy of loans is displayed in branches visited. • HMPL do 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. • HMPL have a documented policy on loan pre-payments. • Code of conduct compliance report of the company is available in the company's website.
Client Protection	<ul style="list-style-type: none"> • The company has a written policy regarding client data security which forms part of its fair practice code. • Employees are trained on aspects of appropriate behavior with the clients. • HMPL 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. • Employees are trained on aspects of appropriate behavior with the clients. • Staffs were found to be aware of the need to have professional conduct with the clients. • Proportion of staff members interviewed were not aware of the guidelines regarding process to be followed with clients who are

	delinquent.
Governance	<ul style="list-style-type: none"> • HMPL has six board members, out of which two are independent directors. • Board with rich experience in banking and finance. • Board approved policies, compliant with the RBI guidelines. • Experienced and qualified management with more than a decade of experience in MFI industry. • Circulars with the most recent directions were available in each of the visited branches. • HMPL discloses its MD's compensation in its audited reports (Ref. Audit Report 2017). • HMPL has an audit committee of the Board with an independent director as its chairman. • HMPL has got its accounts audited in a timely manner after the end of the most relevant financial year. • No adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit. • The company has a written policy for debt restructuring for clients, facing repayment stress.
Recruitment	<ul style="list-style-type: none"> • HMPL's board has reviewed its recruitment policies regularly in board meetings. • The MFI has a defined and documented process for responding to reference check requests. • HMPL has honoured the notice period for employees who have left the organization. • HMPL obtains NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs. • HMPL 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.
Client Education	<ul style="list-style-type: none"> • HMPL in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services. • HMPL do not charge any training fees to its clients, itself or through a related party. • Proportion of the clients interviewed during the COCA visit, it has been observed that awareness among the clients related to annualized interest rates and insurance claim settlement was found moderate. • HMPL do not charge clients for the trainings provided to clients, itself or through a related party
Feedback and	<ul style="list-style-type: none"> • The Board has approved a policy for Redressal of its clients'

<p>Grievance Redressal</p>	<p>grievances, which requires board to be updated on the functioning of grievance Redressal mechanism.</p> <ul style="list-style-type: none"> • HMPL prepare monthly reports about the number, nature and resolution of grievances for management review. The report is sent to board every quarter for review. • Absence of tele calling team to gauge the client satisfaction level on products, services and staff behaviour. • In the visited branches, there were complaint boxes at branch offices. • In all the branches visited, the contact number and address of SRO nodal official was properly displayed. • Complaints lodged through landline no. are documented and resolved within timeline specified by the company. • Awareness among client and staff on SRO Grievance Redressal mechanism was found to be moderate in the visited branches. • In the visited branches, action taken reports on the complaints received from clients were not available. • HMPL in its loan agreement declared that it is responsible for the behaviour of its staff.
<p>Data Sharing</p>	<ul style="list-style-type: none"> • HMPL has a written policy and process for sharing data with credit bureaus for checking the client's credit worthiness. • Audited financials of FY2017 is not available on the company's website. • Microfinance operational data is available on the company's website. • HMPL has provided data called for by SRO and RBI as and when required as per compliance. • HMPL shares accurate data with all credit bureaus on weekly basis. • HMPL performs compulsory credit bureau checks for all its clients.

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
Total	250

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	Virar	Maharashtra	17
2	Nalasopara	Maharashtra	35
3	Dharavi	Maharashtra	14
4	Chinchwad	Maharashtra	14
5	Dattawadi	Maharashtra	20
6	Chandan Nagar	Maharashtra	25
7	Ambarnath	Maharashtra	09
8	Dombivli	Maharashtra	17
Total			151

Financials

Profit & Loss Account (Rs. In Thousands)

Period	FY 2016	FY 2017	FY2018
Months	12	12	12
Financial revenue from operations	1,02,950	1,86,364	1,26,058
Interest and fee revenue from microfinance loans	59,697	94,142	92,983
Other Operating Revenue	43,253	92,222	33,075
Less - Financial expenses from operations			
Interest and Fee Expense on Borrowings	43,538	68,064	57,530
Gross financial margin	59,412	1,18,300	68,528
Provision for Loan Loss / Write off	1,232	122	268
Net financial margin	58,180	1,18,178	68,260
Less - Operating Expenses			
Personnel Expense	24,618	80,657	67,789
Depreciation and Amortization Expense	954	2,501	1,811
Other Administrative Expense	21,293	27,037	27,517
Non-Operating Revenue	7,882	13,417	9,852
Current Tax	6,758	7,393	
Deffered Tax charge/(credit)	4	(252)	(3,559)
Extra Ordinary Items - Income Tax	42	444	
Net Income	12,393	13,815	(15,446)

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

Balance Sheet (Rs in Thousands)

As on date	31-Mar-16	31-Mar-17	31-Mar-18
	audited	audited	audited
SOURCES OF FUNDS			
Shareholders' Funds			
Capital			
Equity Capital	73,211	83,211	1,10,132
Preference Capital	0	20,000	20,000
Reserves & Surplus	12,455	25,073	7,457
Security Premium	6,946	6,946	21,026
Total Capital	92,612	1,35,230	1,58,615
Liabilities			
Short-term liabilities			
Commercial Loans from banks/FI	2,98,893	2,83,111	1,77,177
Account payable & Other short-term liabilities	27,373	11,011	11,006
Total Short-term liabilities	3,26,266	2,94,122	1,88,183
Long-term liabilities			
Commercial Loans from banks/FI	2,07,573	1,22,894	86,595
Concessional Loan/Subordinated Debt	0	50,000	50,000
Total Long-term liabilities	2,07,573	1,72,894	1,36,595
Total Other Liabilities	5,33,839	4,67,016	3,24,778
Provision for Standard Assets	3,060	3,182	3,450
Other Provisions	4,036	1,028	2,128
TOTAL LIABILITIES	6,33,547	6,06,456	4,88,971

As on date	31-Mar-2016	31-Mar-2017	31-Mar-18
	Audited	Audited	Audited
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	9,039	10,756	11,006
Less: Accumulated Depreciation	3,321	5,822	7,633
Net Block	5,718	4,934	3,373
Other Long Term Investments	0	502	500
Cash and Bank Balances	35,448	1,08,945	23,102
Investment in Fixed Deposit	2,58,838	1,11,384	42,518
Loan Portfolio			
Net Loan Portfolio	3,05,987	3,18,214	3,44,627
Accounts Receivable And Other Assets	27,429	62,099	70,914
Deferred Tax Asset	127	378	3,937
TOTAL ASSETS	6,33,547	6,06,456	4,88,971

Financial Ratios

Financial Ratios	31-Mar-2016	31-Mar-2017	31-Mar-2018
	12	12	12
Capital Adequacy Ratio			
Capital Adequacy Ratio (%)	16.63	39.75	48.81
Productivity/Efficiency Ratios			
No. of Active Borrowers Per Staff Member	188	233	91
No. of Active Borrowers per field executives	304	422	181
No. of members per Branch	1694	1582	842
Gross Portfolio o/s per field executive (in thousands)	5,790	6,482	2,971
Average Outstanding Balance per client (in Rs)	19,045	15,363	16,380
Cost per Active client(in Rs)	791	1161	4616
Staff Allocation Ratio	61.9%	55.1%	50.0%
Asset/Liability Management			
Cost of funds ratio	11.98	14.14	14.95
Yield on Portfolio(nominal)	24.43	30.16	28.06
Profitability / Sustainability Ratios			
Operational Self Sufficiency (%)	112.35	104.48	81.37
Operating Expense Ratio (OER) (%)	6.96	8.52	10.77
Return on Assets (RoA) (%)	2.43	1.29	(5.27)
Return on Equity (RoE) (%)	6.95	3.50	(9.82)
Leverage Ratios			
Total Outside Liabilities to Tangible Networth Ratio (Times)	5.76	3.45	2.05
Debt/Equity Ratio (Times)	5.47	3.37	1.98



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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