Ratings

CRISIL
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CRISIL Comprehensive MFI Grading

Janalakshmi Financial Services Limited

April 2017

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CRISIL

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CRISIL Comprehensive MFI Grading

Janalakshmi Financial Services Limited

Comprehensive Grade: ***M1C2***

Date assigned: ***April 12, 2017***

Scale	C1	C2	C3	C4	C5
M1		M1C2			
M2					
M3					
M4					
M5					
M6					
M7					
M8					

The MFI obtains Comprehensive MFI grade of **M1C2**. This signifies highest 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	Janalakshmi Financial Services Limited obtains **"M1"** as its performance grade which signifies "highest capacity to manage their microfinance operations in a sustainable manner". The NBFC-MFI has a long track record in MFI operations and enjoys a strong market share. The company has advanced systems and processes and is backed by an experienced board and qualified senior management team. It has demonstrated timely capital raise from investors. Its resource profile remains diversified. However, the asset quality post demonetisation has remained moderate. An increase in loan loss provisioning expenses and higher operating expenses upon transformation into a small finance banks are expected to result in a moderate earnings profile over the medium term.
Code of Conduct Assessment Grade	Janalakshmi Financial Services Limited obtains **"C2"** as its Code of Conduct Assessment Grade which signifies "good performance on COCA dimensions". The NBFC-MFI is a member of SRO. Its fair practice code covers most of the code of conduct parameters. Board-level sub-committees review operational and financial performance periodically. Policies on credit, audit, risk management, HR, and grievance are documented. The NBFC-MFI undertakes credit history checks through the RBI approved credit bureaus. It provides training to its employees on a monthly basis on

	code of conduct. Certain aspects on code of conduct practices have scope for improvement which include the need for better training to its clients given their limited awareness on credit pricing and insurance. Loan documents – application form and loan card are yet to be provided in vernacular languages to clients.

Comprehensive MFI Grading provides opinion of the Rating Agency on MFI's capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. MFI Capacity Assessment Grading has been done on the dimensions of ***Capital Adequacy****,* ***Governance****,* ***Management Quality*** *and* ***Risk Management Systems****. Assessment on Code of Conduct has been done on the indicators pertaining to* ***Transparency****,* ***Client Protection****,* ***Governance****,* ***Recruitment****,* ***Client Education, Feedback & Grievance Redressal*** *and* ***Data Sharing****. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on* ***Integrity and Ethical Behaviour*** *and* ***Sensitive Indicators****.*

Conflict of Interest Declaration

The Rating Agency (including its holding company and wholly owned subsidiaries) has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of the Rating agency have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading.

Disclaimer

CRISIL Comprehensive MFI Grading is a current opinion on MFI's capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. The report ("Report") contains two sections:

a) CRISIL Microfinance Institution (MFI) Capacity Assessment Grading

b) Code of Conduct Assessment (CoCA)

CRISIL's Microfinance Institution (MFI) Capacity Assessment Grading is a current opinion on the ability of an MFI to conduct its operations in a sustainable manner. The MFI Capacity Assessment Grading is assigned on an eight-point scale, with 'M1' being the highest, and 'M8' the lowest. The MFI Capacity Assessment Grading is a measure of the overall performance of an MFI on a broad range of parameters under CRISIL's MICROS framework. It includes a traditional creditworthiness analysis using the CRAMEL approach, modified to be applicable to the microfinance sector. The acronym MICROS stands for Management, Institutional arrangement, Capital adequacy and asset quality, Resources and asset-liability management, Operational effectiveness, and Scalability and sustainability. MFI Capacity Assessment Grading scale: M1 - highest; M8 – lowest. CRISIL's MFI Capacity Assessment Grading is not a credit rating and does not indicate the credit worthiness of an MFI.

The Code of Conduct Assessment (CoCA) reflects a MFI's adherence to Industry code of conduct. CRISIL during the CoCA exercise, has relied upon the grading methodology and Harmonized CoCA tool (HCT) formulated by SIDBI besides an interaction with the MFI's management, and other information sources that are publicly available and considered reliable.

CRISIL has taken due care and caution in preparation of the Report. The Report is prepared based on the request of the CRISIL client ("Client"). The Report is prepared based on the information provided by the Client, its representatives and/or otherwise available to CRISIL from sources it considers reliable. CRISIL does not guarantee the accuracy, adequacy or completeness of any information contained in this Report and is not responsible for any errors or omissions, or for the results obtained from the use of such Report. The Report is not a recommendation to purchase, sell or hold any financial instrument issued by the assessed MFI, or to make loans and donations / grants to the institution graded. The Report does not constitute an audit of the MFI graded by CRISIL. This Report should be used in its entirety only and shall not be reproduced in any form which is out of context and without prior written permission from CRISIL.

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Historical Grading History of Janalakshmi Financial Services Limited

Date	Rating Agency	MFI grading
January 18, 2016	CRISIL	mfR1
November 27, 2014	CRISIL	mfR1
October 3, 2013	CRISIL	mfR1
August 29, 2013	CRISIL	mfR2
August 27, 2012	CRISIL	mfR2
August 25, 2011	CRISIL	mfR3
February 10, 2011	CRISIL	mfR4
August 31, 2010	CRISIL	mfR3
July 17, 2009	CRISIL	mfR3

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

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

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MFI's profile (March 2017)	
Name of the MFI	Janalakshmi Financial Services Limited (JFSL)
Legal form	Public limited company (closely held)
Promoter	Mr. Ramesh Ramnathan, Chairman
Managing Director	Mr. V. S. Radhakrishnan
Year of starting microfinance	2008
Branches (September 30, 2016)	213
Active borrowers	5.50 million
Total staff	13,424
Operational area	19 states across India
Lenders	More than 50 lenders including institutional banks, NBFCs, DFIs and sector specific lenders
Visit of the Assessment team	From 18th March 2017 to 27th March 2017
Registered office address	'Rajashree Saroja Plaza', No. 34/1 Andree Road, Shantinagar Bengaluru – 560 071, Karnataka
Correspondence address	Divyasree Chambers, No.11, O Shaugnessy Road, VII Floor B Wing, Off Langford Road Bengaluru – 560 025, Karnataka

Loan products:

Loan type	**Amount**	**Interest pa (%)**	**Loan processing fee (%)***	**APR (Interest Rate and Processing fees)**	**Tenure (months)**
Small batch loans- JLG monthly loan (IGL)	Rs.15,000 to Rs.50,000	22.36	1	~22.90	12-24
Nano loans (for capex and working capital requirements)	Rs.60,000 to Rs.0.2 million	26	2.5	~26.50	12-36
Rural finance- Vegetable cultivation, Nursery, Sericulture, Poultry broiler farming, dairying plus agriculture	Rs.60,000	22	1	~22.50	24
Micro & Small Enterprise Loan	Up to Rs.2.5 million	18–22	2	~18.50-22.50	36
Home Improvement Loan	Rs.50,000 to Rs.0.125 million	Data awaited	Data awaited	Data awaited	36

** excluding service tax of 15 per cent*

Board of directors (as on September 30, 2016)

Name	Designation	Profile
Mr. Ramesh Ramanathan	Chairman	Co-founder of Janaagraha, an NGO based in Bangalore. He was an Ex-Managing Director, European Head of Corporate Derivatives – Citibank N.A. New York. He is also on the board of Sanghamithra Rural Financial Services – Mysore.
Mr. Raghunath Srinivasan	Executive Vice Chairman	Former civil servant with more than three decades of experience in banking and the financial sector. He was Deputy CEO of ANZ Grindlays Bank and later was Senior Advisor for ANZ Investment Bank, Fitch Ratings and JP Morgan.
Mr. Uday M Chitale	Independent Director	Chartered accountant by profession and a senior partner in M/S M.P. Chitale and Co. He has served on expert committees set up by ICAI, SEBI, RBI, IRDA, and IBA.
Mr. Viswanatha Prasad	Investor Director	Mr. Viswanatha Prasad is a senior Microfinance professional who has over eight years of operating and senior management experience in the microfinance sector, preceded by a decade in the mainstream financial sector. He is a co-founder of The Bellwether Microfinance Fund and is also the promoter of Caspian Advisors, the Fund Manager of Bellwether. Prasad was earlier associated with Bhartiya Samruddhi Finance Limited (BASIX Group), where he served as COO and then CEO.

Mr. Narayan Ramachandran	Independent Director	Former Country head-India, Morgan Stanley. Mr. Ramachandran has also served as the Head and Co-Lead Portfolio Manager of Morgan Stanley's Global Emerging Markets and Global Asset Allocation teams, managing over $25 billion in assets. Before joining Morgan Stanley, he was the Managing Director at Rogers Casey (now CRA Rogers Casey). He is B.Tech in chemical engineering from IIT, Bombay and an MBA from the University of Michigan.Ramachandran holds the Chartered Financial Analyst designation.
Mr. V S Radhakrishnan	CEO & Managing Director	Ex-Banker with ING Vysya Bank and HSBC with banking experience of over 25 years. He holds an MBA from IIM-A and a CAIIB from Indian Institute of Banking & Finance.
Mr. T S Siva Shankar	Investor Director	Mr. Siva Shankar holds the position of a director in the Private Equity division of Citigroup Venture Capital International. He holds a B. Tech degree from IIT, Madras and an MBA from IIM, Lucknow.
Mr. Vikram Gandhi	Independent Director	Mr. Vikram Gandhi is Founder and CEO of VSG Capital Advisors – a firm engaged in mergers and acquisitions, advisory and investment services both in the private and social sectors. He has held various senior positions with renowned institutions, such as,: • Vice Chairman of Investment Banking and Global Head of Financial Institutions Business for Credit Suisse, in New York and Hong Kong. • Co-Head of Global FIG in Morgan Stanley, New York; • Country Head and President - Global E-Commerce Committee, at Morgan Stanley India. He holds an MBA from the Harvard Business School. He is also a qualified Chartered Accountant
Mr. Akhil Shriprakash Awasthi	Investor Director	Mr. Akhil Awasthi is the Managing Partner of the Tata Capital Growth Fund. He was one of the founding members / early managers of India's first private sector Mutual Funds, ITI Pioneer AMC (now Franklin Templeton). He is also a Founding Partner at Barings Private Equity. He has completed the Advanced

		Management Program from the Harvard Business School, has a Post Graduate qualification in Management from University of Delhi & is a qualified Mechanical Engineer. He is actively involved with Indian Venture Capital Association and Indian Management Association.
Mr. Ling Wei Ong	Investor Director	Mr. Ling Wei Ong is an Executive Director of Morgan Stanley. Mr. Ong joined the Firm in 2005 and monitors the group's investments including structuring and valuation, finance and compliance. Mr. Ong received a BS in Accountancy from Nanyang Technological University and is a Chartered Accountant (Singapore). Prior to joining Morgan Stanley, Mr. Ong was with Deloitte & Touché in Singapore for over seven years. Mr. Ong is a native of Singapore and is based in Hong Kong.
Mr. Nirav Mehta	Alternate Director to Mr. Ling Wei Ong	Mr. Nirav Mehta is an Executive Director of Morgan Stanley, and is the co-head of the group's Private Equity operations in India. Prior to joining Morgan Stanley, he has worked with ICICI Venture, as part of the private equity investment team focusing on growth and buyout transactions.
Ms. Vijayalatha Reddy	Independent Director	Ms. Reddy joined the Indian Foreign Service in 1975 and has served on diplomatic assignments in Lisbon, Washington DC, Kathmandu, Brasilia, and as Counsel General in Durban and Deputy Chief of Mission in Vienna. Ms. Reddy has also served at the Ministry of External Affairs and the Ministry of Commerce in New Delhi in various capacities. She has served as the Deputy Director General of the Indian Council for Cultural Relations and as the Head of the Administration Division in the Ministry of External Affairs. Ms. Reddy served as Ambassador of India to Portugal from 2004 to 2006 and Ambassador of India to the Kingdom of Thailand from 2007-2009. She served as Secretary (East) in Ministry of External Affairs, New Delhi from January 2010 to March 2011. Ms. Reddy served as the Deputy National Security Advisor and the secretary, National Security Council Secretariat, from

		March 2011 to March 2013. She holds a Master Degree in English Literature from Central College, Bangalore University.
Mr. V Narayanmurthy	Nominee Director	Shri Narayanamurthy Vishnubhotla is presently working as a General Manager in IDBI Bank Limited. He has about 26 years of experience in a wide range of functions including corporate banking, project appraisal, corporate planning & policy, corporate communications, organization systems & procedures, strategic investments and corporate social responsibility. He has Master's Degrees in Business Economics and Financial Management and is a Certified Associate of the Indian Institute of Banking & Finance
Mr. Puneet Bhatia	Investor Director	Mr. Puneet Bhatia is Managing Director and Country Head -India for TPG Asia. Prior to joining TPG Asia in April 2002, Mr. Bhatia was Chief Executive, Private Equity Group for GE Capital India ("GE Capital"). He was with ICICI Bank Limited from 1990 to 1995 in the Project and Corporate Finance & group and thereafter worked as Senior Analyst with Crosby Securities from 1995 to 1996 covering the automobiles and consumer sectors. He has a B.Com Honors degree from the Shri Ram College of Commerce, Delhi and an M.B.A. from the Indian Institute of Management, Calcutta.
Mr. Anil Rai Gupta	Investor Director	Mr. Anil Gupta is Joint Managing Director of Havells India Ltd. With his marketing acumen, strategic planning and execution, he has helped transform the Havells brand to not only a customer focused but a customer friendly entity. He graduated in Economics from Sri Ram College of Commerce, Delhi University. He holds a degree of MBA (Marketing and Finance) from Wake Forest University, North California, USA
Mr. R Ramaseshan	Independent Director	Former IAS and MD & CEO of a commodity exchange; He has predominant experience is in public finance and tax reforms and equity and commodity markets. He currently works with over six states to reform their

		agricultural market system.

Key performance indicators				
	Unit	**Mar-16**	**Mar-15**	**Mar-14**
Portfolio at Risk (>30 days)	%	0.49*	0.92	0.61
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	%	17.35#	27.99	28.19
Operating Expense Ratio (OER)	%	8.31	7.59	7.87
Funding Expense Ratio (FER)^	%	11.23	11.19	11.67
Write-offs to average portfolio$	%	0.63	0.42	0.14
Return on Assets (RoA)	%	1.96	2.02	2.84
Return on portfolio (AUM)	%	2.51	2.61	3.36
Return on Equity (RoE)	%	14.41	9.69	14.43
Active borrowers per staff	No.	489	374	383
Active borrowers per branch	No.	13,469	10,000	9,156

*22.58 % as on Jan-17, # 26.50 per cent as on Dec-16, ^ based on year-end average borrowings, $ - refers to gross NPA / gross advance (reported)

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	Complied
2	Net worth to be in excess of Rs.5 Crore	
3	Income of borrower not to exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas*	
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	
5	Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs.30,000, with prepayment without penalty*	
7	Pricing guidelines are to be followed	
8	Transparency in interest rates to be maintained	
9	Not more than two MFIs lend to the same client	

** For the assets classified as qualifying*

Section 1: Microfinance Capacity Assessment Grading

About the MFI operations

Lending model	Joint liability groups and individual lending (JLGs and ILs)
Products *(details in the loan products table below)*	▪ Microfinance loans ○ Group loan (GL) ○ Individual loan (IL) [1] – include MSME loans, home improvement loans, and dairy loans among others
Borrowers base	• 55,02,984 borrowers as on September 30, 2016 • 46,22,578 borrowers as on March 31, 2016 • 23,44,162 borrowers as on March 31, 2015
Employees	• 13,424 (8,321 credit officers) as on September 30, 2016 • 9,411 (6,453 credit officers) as on March 31, 2016 • 6,257 (6,099 credit officers) as on March 31, 2015
Branches	• 386 branches across 197 cities as on September 31, 2016 • 343 branches as on March 31, 2016
Loan outstanding	• Rs.1,24,156 million as on December 31, 2016 • Rs.1,27,011 million as on September 30, 2016 • Rs.1,09,827 million as on March 31, 2016 • Rs.37,736 million as on March 31, 2015
Loans disbursed	• Rs.50,915 million during 2016-17 (April-September 2016) • Rs.1,15,157 million during 2015-16

[1] These loans are not reckoned under 'Priority Sector Lending' norms issued by RBI and form part of the 15.00 per cent non-priority sector lending portfolio permitted to NBFC-MFIs by the regulator.

Social and Transparency Indicators

As on September 30, 2016 In per cent

Average loan outstanding/per capita GNI (2015 figure)*	~28.00
Women staff/total staff	~21.00
Women borrowers/total borrowers	99.20
Lending rate charged by MFI	22.36
Are interest rates (on reducing balance method) communicated to clients in writing?	Yes
Are processing/commission charges communicated to clients in writing?	Yes
Does the MFI provide an official receipt to clients after repayment collections?	Yes
Is access to loan from other MFIs a parameter to select/screen clients?	Yes
Is access to loan from other MFIs/residual income a factor in appraising the client's repayment capacity?	Yes
Does the MFI appraise the client's income/poverty/asset level and use this data to target other low-income clients?	Yes
Does the MFI capture and analyse reasons for client dropout?	Yes
Are clients provided head office (HO) contact details as part of the grievance redressal mechanism?	Yes

**Per capita gross national income (GNI) is based on current prices.*

Source: Central Statistical Organisation

#Details are as provided by the MFI, and not verified by CRISIL.

MFI Grading Rationale

CRISIL's microfinance institution (MFI) grading of Janalakshmi Financial Services Limited (JFSL) reflects the following strengths:

- Sizeable market share
- Experienced board & qualified senior management
- Proven track record in timely capital raise
- Diversified resource profile
- Advanced technology and back-end processes

The above-mentioned strengths are partially offset by the organisation's following weaknesses:

- Moderate asset quality
- Earnings profile likely to remain under pressure

Key grading sensitive:

- Transitioning into a banking platform which is expected to strengthen the institutional framework, diversify the company's resource profile, and better client servicing ability thus enabling improved scalability.
- Expected impact of political sensitivity and potential farm loan waivers in area of operations on JFSL's asset quality and credit profile.

Profile

JFSL is a Bengaluru-based MFI that provides microfinance services to the urban poor. It commenced operations in April 2008 by taking over the portfolio of Janalakshmi Social Services (JSS), a not-for-profit company that had earlier acquired the urban microfinance programme of Sanghamithra Rural Financial Service (SRFS), and had commenced its own microfinance programme in July 2006. JFSL had a loan outstanding of Rs.1,27,011 million to nearly 5.50 million borrowers across 197 cities as on September 30, 2016. By end of December 31, 2016 these advances extended to 5.69 million accounts stood at Rs.1,24,156 million.

The company offers group loans of Rs.15,000–Rs.50,000 for business and family needs, with a tenure of up to 2 years. The borrowers are charged a declining interest rate of 22.36 per cent. The company charges processing fee of 1 per cent of the total loan amount (exclusive of service tax).

In September 2015, the company had received an in-principal license from Reserve Bank of India (RBI) to operate as a small finance bank (SFB). In order to ensure compliance with regulatory norms including a ceiling on foreign shareholding (capped at 49 per cent or below for SFBs), the company has pared down its foreign stake by introducing capital infusion from domestic investors. As on December 31, 2016, foreign shareholding of the company remains capped at below 49 per cent. The company has recently received the final license from RBI to operate as a SFB. The management expects banking operations to commence over the near-term.

Social development activities

Through its parent holding company Jana Urban Foundation (JUF), JFSL focuses on various social development activities. JUF aims to reduce the vulnerabilities of the customers and improve their economic well-being of people. It also plans to undertake various initiatives including women’s empowerment and child development.

Jana Centre community activities

Education & Skills	Livelihoods
▪ Skill/Vocational Training ▪ Edutainment Activities ▪ Career Guidance ▪ Spoken English Classes ▪ Domestic Fire Safety Awareness	▪ Sales & Operation Training/ Placements ▪ Recruitment Drives ▪ PAN Card Enrolment
Entitlements	**Health**
▪ Central & State Govt. DBT Schemes ▪ Education & Scholarship ▪ Health & Maternal Care	▪ Parenthood Workshops ▪ Breast & Cervical Cancer Awareness ▪ General Health & Nutrition ▪ Yoga Classes

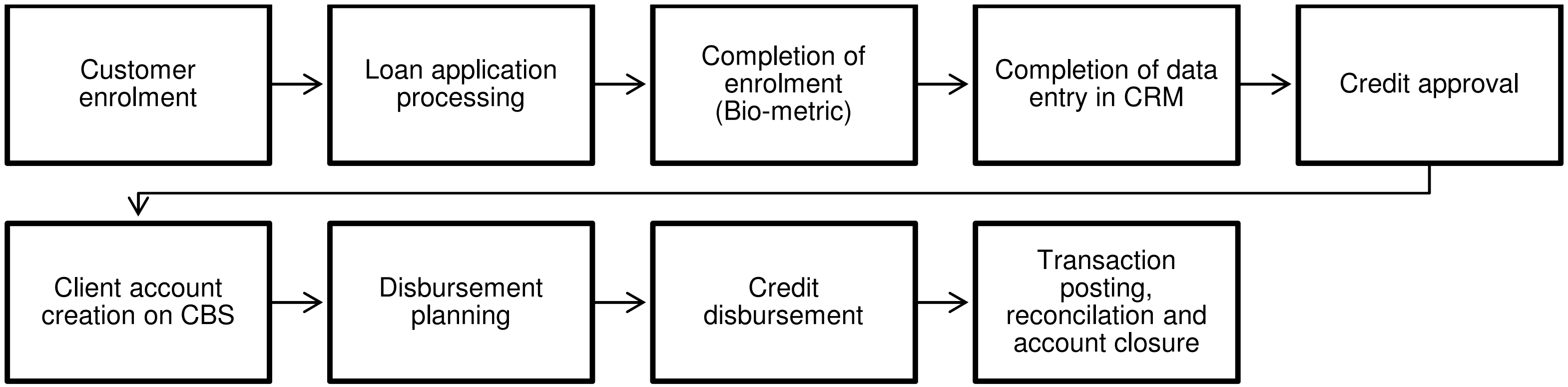
Operational methodology

JFSL is an NBFC-MFI which mainly operates in urban and semi-urban area. It mandatorily conducts a field survey to select an operational area. The company conducts a detailed check on the prospective operational area involving customer relationship executives and branch manager at various level. Once this is done, the customer relationship executives- Marketing (CReM) starts sourcing of potential clients and brief them about the organisation, its development activities, and its microfinance programme.

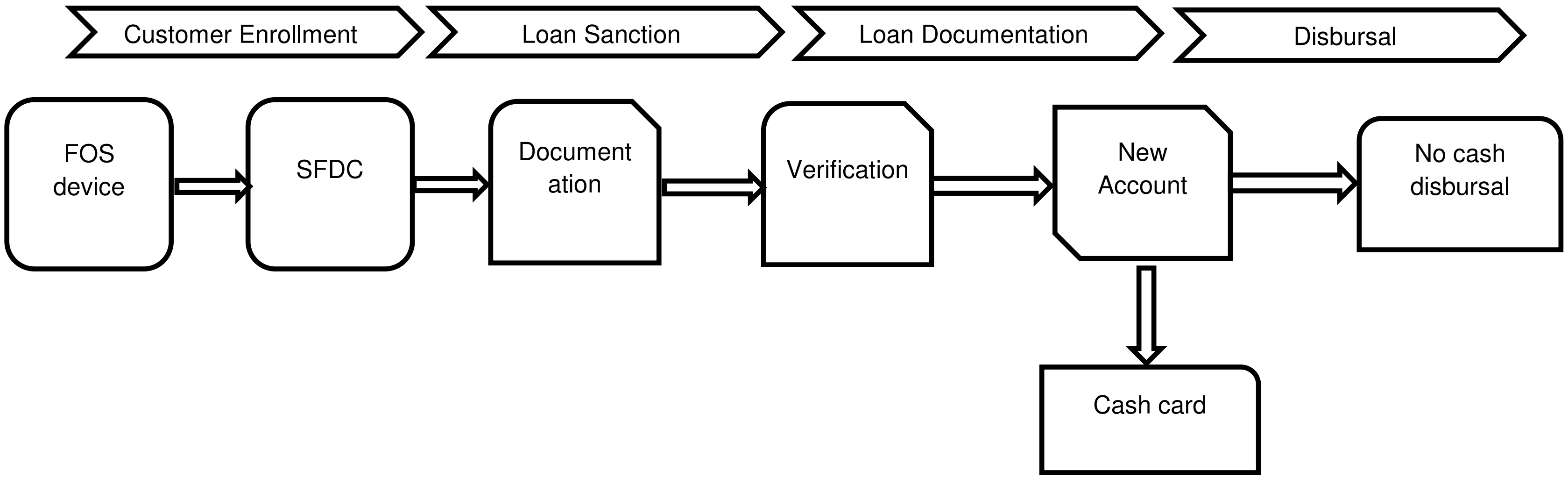
Interested participants are organised into groups of 5 members and are given the meeting dates, time, and venue. CReM subsequently pass the customer details to customer relationship executives- Sales (CReS) who Responsible for borrower training, document collection and field verification (FVR), and filing of loan applications loan appraisal and credit recommendations. Area head (AH) conducts the batch verification (BVR) and house visit for potential borrowers. Loans have been approved by the branch head (BH) and AH which gets disbursed through cash card in the branch offices. Customer relationship executive- collections (CReC) is responsible for collection of loan instalments on monthly basis.

Ratings

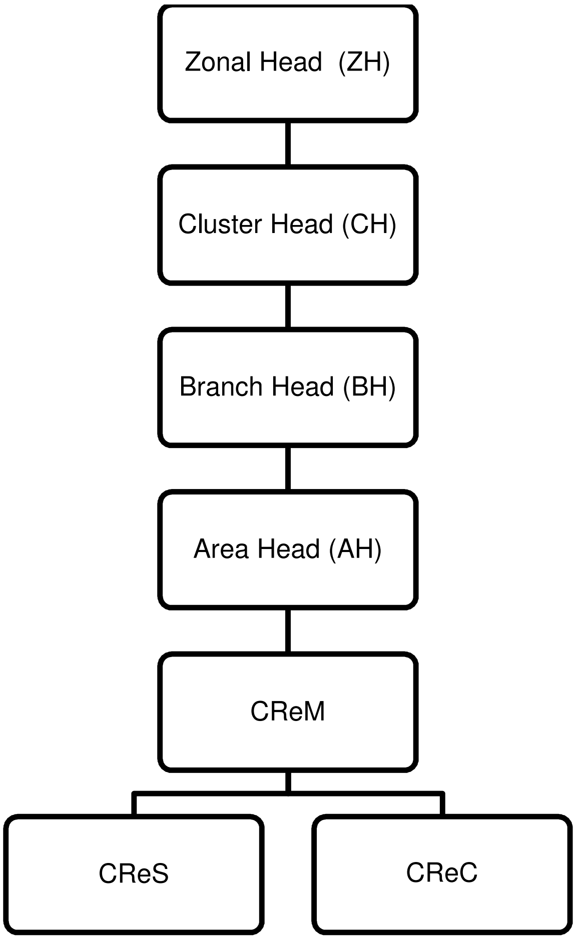
Operational flow



Role of technology in the operation flow



Hierarchy of field staff/ operations team



Designation	**Roles and responsibilities (branch level)**
Customer relationship executive-Marketing (CReM)	Responsible for sourcing potential clients and group formation/ lead generation
Customer relationship executive-Sales (CReS)	Responsible for Borrower training, house verification, document collection and field verification (FVR), and filing of loan applications loan appraisal and credit recommendations
Customer relationship executive-Collection (CReC)	Responsible for collection of loan instalments
Area Head (AH)	Responsible for batch verification (BVR) and loan sanction authority
Branch Head (BH)	Final loan sanctioning authority at the branch level after various credit sanction processes are completed; overall monitoring at branch level

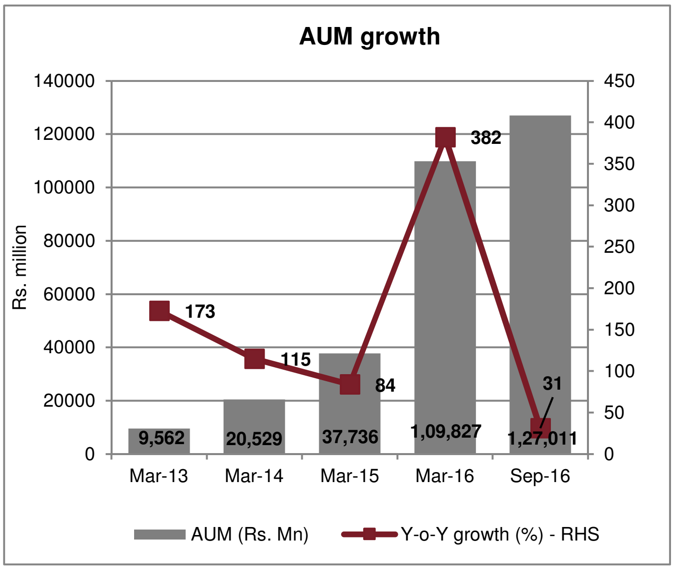
Loan products:

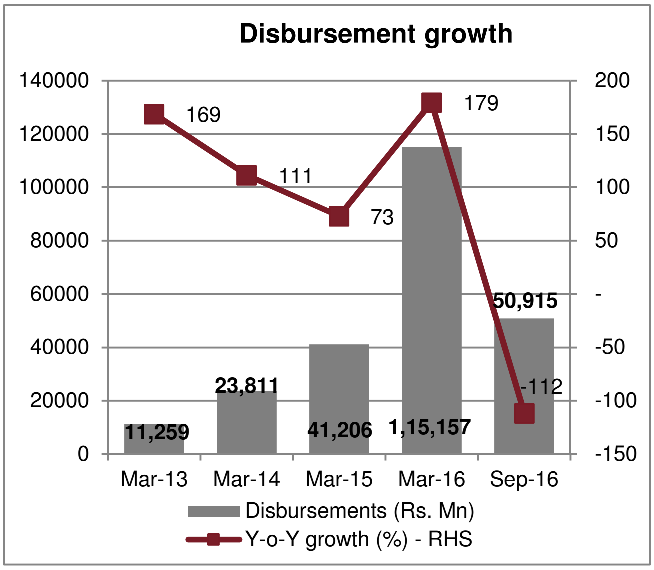
Loan type	**Amount**	**Interest pa (%)**	**Loan processing fee (%)***	**Tenure (months)**
Small batch loans- JLG monthly loan (IGL)	Rs.15,000 to Rs.50,000	22.36	1	12-24
Nano loans (for capex and working capital requirements)	Rs.60,000 to Rs.0.2 million	26	2.5	12-36
Rural finance- Vegetable cultivation, Nursery, Sericulture, Poultry broiler farming, dairying plus agriculture	Rs.60,000	22	1	24
Micro & Small Enterprise Loan	Up to Rs.2.5 million	18–22	2	36
Home Improvement Loan	Rs.50,000 to Rs.0.125 million	Data awaited	Data awaited	36

** excluding service tax of 15 per cent*

Management

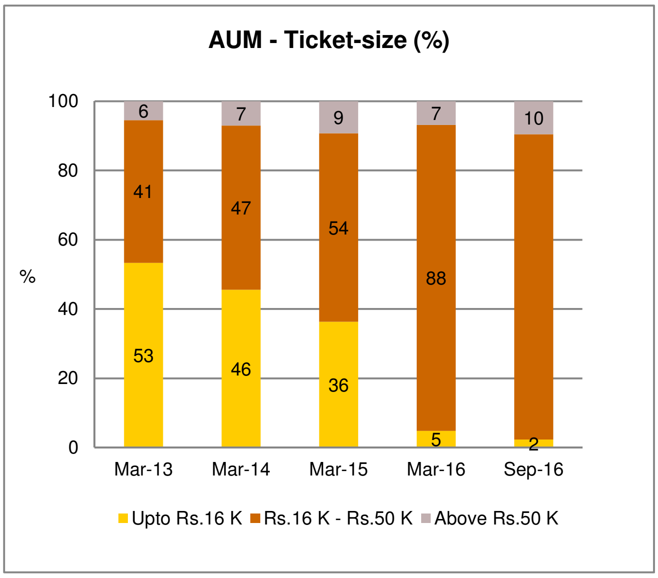
A) Track record

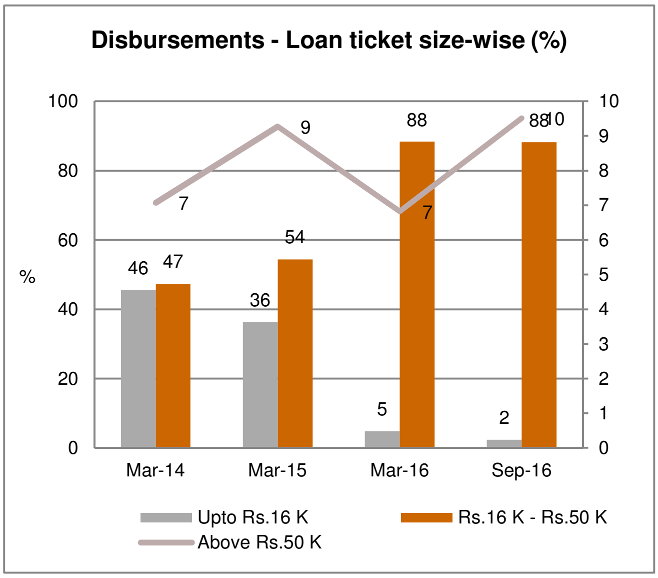




- JFSL has a track record of over a decade in MFI operations. It presently operates in 197 cities across 19 states through a network of 386 branches. As on September 30, 2016, it had a portfolio of Rs.1,27,011 million (including securitised assets of Rs.19,918 million), which has significantly increased from Rs.20,529 million (as on March 31, 2014). The significant growth in AUM post Mar-15 was a result of a sharp growth in loan ticket-size led by higher disbursements besides an increase in borrower base.
- By leveraging on its experienced and professional management, early investment in technology, and advanced systems and processes, the company has been able to gain operational scale-up. Over the years, it has gained a strong foothold in the Indian microfinance market and has been able to expand its operations. The company plans to commence banking operations during the first quarter of the financial year 2017-18.

B) Product-mix





- JFSL has a diversified product portfolio; apart from the conventional unsecured micro loans the company has been able to build a sizeable exposure in high-ticket secured/unsecured loans. Besides, the NBFC-MFI also cross-sells third-party insurance and micro-pension products. As of Dec-16, non-MFI advances account for about 12% of the total loan book of JFSL. The company may tend to benefit from the experience gained in catering to a diverse set of clientele as it transforms itself into a banking entity.
- Average loan ticket size has been augmented significantly as compared to the previous years; this was a part of the management's strategy to retain clientele in existing regions besides tap underpenetrated regions of central and northern country through disbursals of relatively high ticket-unsecured micro loans. While this move was aimed at targeting the client base through its banking network upon the proposed transformation, CRISIL believes that this points towards an aggressive management risk appetite. Micro-lending is inherently susceptible to risks arising out of contagion and political sensitivity; rapid growth in unchartered territories may lead to downside credit and operational risks impacting the quality of portfolio adversely.

C) Credit approval mechanisms

Credit approval mechanisms	▪ Decentralised at branches ▪ Adequate field practices for area survey, customer selection, group formation and CGT/GRT, disbursements, and recovery ▪ The credit approval request is raised on Sales Force Dot Com (SFDC); the system permits a provision of approval/rejection by the relevant authority.
Loan sanction authority	▪ Branch Head and Area Head
CGT and GRT/BVR	▪ The CReS conducts CGT to explain the MFI's policy, loan products, and repayment details. ▪ **CGT form captures:** o Branch address and centre

	○ Start date and closing date of CGT ○ Dates of CGT and names of member present ○ Concept of JLG model and seating arrangement ○ Signature on attendance register ○ Documentation required for loan ○ Loan utilisation check and its importance ▪ The area head (AH) conducts a batch verification (BVR) to check the understanding of members. ▪ **GRT/BVR form captures:** ○ Name of the customer and age ○ Amount of loan applied and loan purpose ○ Group record maintenance ○ About the organisation's policies and procedures ○ Loan product and repayment details ○ Collective responsibility ▪ The company plans to integrate the CGT/GRT with mobile based application; it has currently implemented the same in few location on pilot basis. *However, CRISIL team observed low awareness during the field visit on certain aspects particularly loan instalment amount, processing fees, interest rate and benefits of availing insurance cover. Low attendance levels of about 60-70 per cent were observed in regular centre meetings during the field visits.*
House verification	▪ Done by the customer relationship executive- Sales (CReS) ▪ Randomly checked by the IA team
Credit information company (CIC) tie-up	▪ Currently, the company is affiliated with a CIC for gauging borrower-level indebtedness. It also uses services of CIBIL for credit verification while sanctioning non-MFI / SME loans.
Extent of data capturing	▪ JFSL captures following details as a part of the credit approval mechanism: ○ Income profile of borrowers ○ Income-generating activity details ○ Family and residential details ○ Landholding details
Disbursements	▪ Loan is disbursed to the members at branches through prepaid cards under a tie-up with two private banks. ▪ The prepaid card platform is integrated with biometric enabled front-end devices and CRM.

Loan utilisation checks (LUCs)	▪ Undertaken by the Customer relationship executive- Collection (CReC)
Collections	▪ Monthly; at centre meetings

	D) Documentation	
Centre	**Loan application**	**Captures** ✓ Client's demographic profile ✓ Religion and family details ✓ Classification - Rural/Urban ✓ Occupation, monthly income, and current sources of credit ✓ Landholding details and house type ✓ Purpose for availing loan ✓ Loans availed from other MFIs and outstanding balance ✓ Loan application amount ✓ Guarantor details
	Documents collected	▪ KYC - Valid ID proofs (Aadhaar card/voter ID card) ▪ Photographs of the borrowers ▪ Mutual guarantee form ▪ Declaration form
	Loan card/ Passbook	**Disclosures:** ✓ Name of the organisation (including address and contact details –for grievance redressal) ✓ Name of the borrower & co-borrower and address ✓ Loan purpose ✓ Loan amortisation schedule *(including bifurcation of principal and interest amount)* ✓ Loan date (sanction and disbursement date) and amount ✓ Financial details: o Principal loan amount o Loan processing fees o Interest rate (on a reducing basis) o Terms and conditions of the loan
Branch / HO	**Policy manuals**	The company maintains the following policy manuals: • Human resources (HR) • Accounts, cash management, and finance • Operations, credit approval and loan write-offs • IA and risk management • MIS and information technology (IT)
	Accessibility	Branch staff has access to a majority of policy manuals through the HR portal

	Documents / registers maintained	• Documents/registers maintained at branches: ▪ Cash book ▪ Disbursement register ▪ Loan document ▪ Stock register ▪ Job rotation register ▪ Visitor register ▪ Key movement register ▪ Cash pickup and cash delivery ▪ Petty cash register ▪ Suspense register ▪ Internal audit compliance report

E) MANAGEMENT INFORMATION SYSTEMS (MIS) & INFORMATION TECHNOLOGY (IT)

JFSL adopts a three-tier structure for technology applications and MIS platform.

Technology platform	Relevance	Deliverables
CRM (Salesforce.com – SFDC)	Integrated technology which ensures automated loan processing	• Hosts client data – acquisition, family details, products, loans, credit underwriting, reports, and dashboards • Support credit scoring, credit bureau integration, turnaround time (TAT) monitoring, Balanced Scorecard for branches and business analytics
Back-end CBS	Accounting base for client loan accounts	• Generation of financial statements and scenario analysis
Front-end automation	Integrates field transactions with backend servers	• The technology deploys netbook devices supported by smart cards / magnetic stripe cards for product /account linkage • Facilitates customer authentication, de-duplication performed using biometrics • Can handle card issuance,

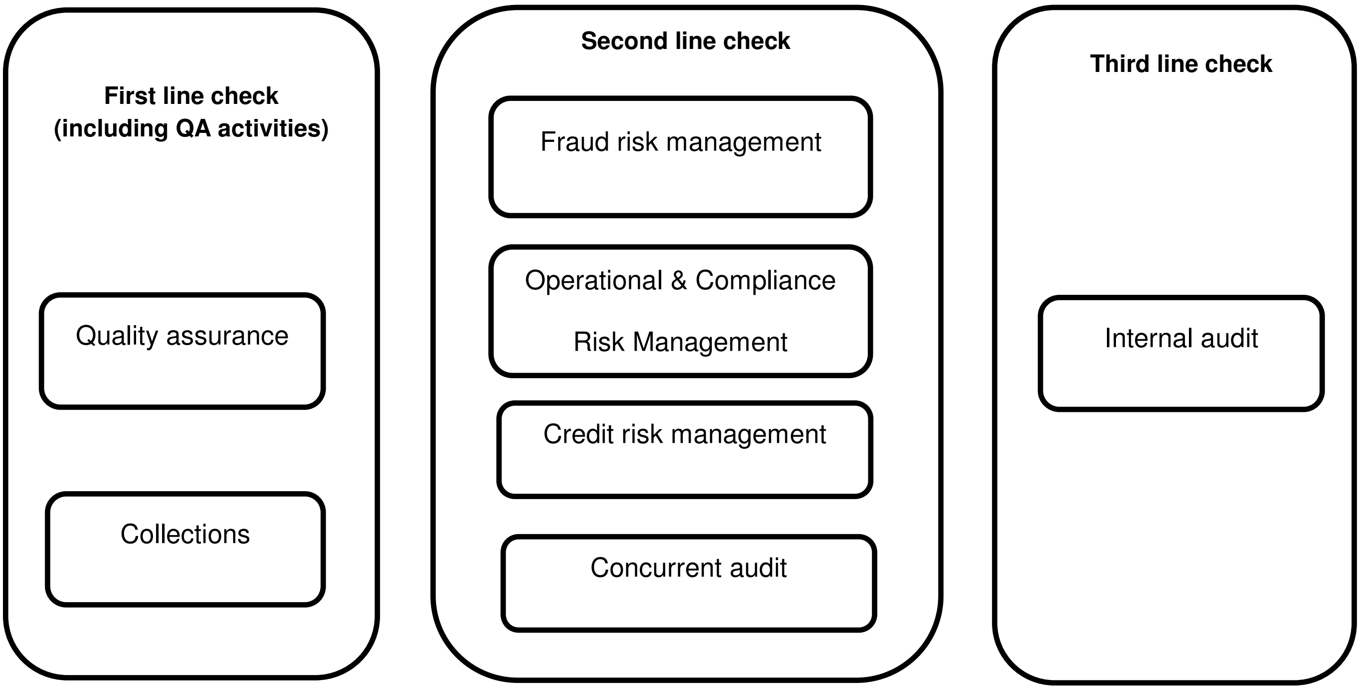
		enrolment, collections, and disbursements among others

1) MIS	
MIS platform	• Integrated core banking system (CBS) • The CBS holds the back end which captures the biometric-based transaction through customer relationship management (CRM)
MIS features	**a) User interface** ▪ User-friendly interface; has standardised reporting formats for capturing field data ▪ Capable of providing reliable information in a time-bound manner **b) Report generation & portfolio tracking** ▪ Advanced MIS, which can be used to generate consolidated reports on asset quality, field productivity, loan utilisation, repayment history, and other advanced data analytical reports. **c) Upgradation flexibility** • Can be easily upgraded as per operational scalability and change in product mix **d) Functional integration** ▪ MIS platform is integrated with other business functions such as accounting and operations including collections, bank transactions, and business overheads
Updating of KYC & entry of operational data	▪ Decentralised at branches
Reconciliation of collections & disbursements (at HO)	▪ Daily reconciliation of receivables at the HO
2) IT	
IT automation for field operations and portfolio tracking	**Extent of automation: Advanced; adequate technology and IT infrastructure; field-level automation streamlines data capture process** ▪ Automated; state-of-the-art technology at the field level, connected to JFSL's back-end server (SFDC) through CRM. ▪ Software used at branch level enables real-time data transfer to the HO ▪ Hand-held devices capture biometric of clients/borrowers at field level ▪ JFSL recently introduced e-KYC at field level which can enable undertake credit bureau check of clients on real time basis; this function is expected

	to further optimise transaction turnaround time.
Security mechanisms	
Data back-up & recovery	▪ Adequate data security mechanisms ▪ Integrated software; centralised information saved in remote server ▪ Restricted user rights for updation and viewing operational information at branch-level for ensuring client data privacy

F) IA & risk monitoring mechanisms:

JFSL operates on the following structure to track business, monitoring and assessment of the controls.



Dedicated Team of IA	▪ Dedicated team of internal auditors ▪ JFSL has quality assurance team that visit the branches once in 45 days and is responsible for proper execution of process in the branch related to products and processes. ▪ It also has risk management team which focuses on identification and assessment of risk and formulating control measures.
Frequency	▪ Quarterly
Process, documentation, coverage and scope	▪ Internal audit process focuses on current process, performance, and compliance status of the previous findings ▪ During visits, the IA team verifies and checks process compliance on field and at branches: ▪ **At field level:** ▪ Centre meetings

	▪ Loan cards/passbook ▪ Client's house and KYC details ▪ Loan collection practices ▪ CGT/GRT ▪ Loan utilisation check ▪ Client grievance
Rigour of IA/ observations	▪ Internal auditor spends 3-5 days, based on size of the branch (AUM and borrower base). ▪ Branch teams are also required to submit compliance report on the audit observations within 10 days. ▪ As per the HO policy, the internal audit team is rotated periodically.
Compliance / Action-taken reports	▪ Available at branches and also e-mailed to the HO
Reporting structure	▪ Internal audit function reports to the IA committee at the board level ▪ Participation as a member of Risk Committee meetings
G) Cash management: Adequate	
Cash policy	▪ Policy exists; JFSL expects its branches to maintain minimum day-end cash balance; however owing to demonetisation results in high day-end cash balance ▪ Typically, branches do not maintain cash overnight. The cash is deposited in bank on the same day of collections; however on need-basis intra-branch cash transfer exists
Cash insurance	• Cash-in-transit - Yes • Cash-in-safe - Yes
Cash security	▪ Lockers and vault – Yes ▪ Surveillance cameras – Yes
H) HR management: Structured and comprehensive	
Separate HR department	▪ JFSL has a dedicated HR department at the HO with well-delineated policies for recruitment, training, learning & development and employee benefits.
Recruitment strategies and process	▪ It has different recruitment strategies: ✓ Walk-in interviews ✓ Internal referrals under employee referral programme ✓ Advertisements ✓ Lateral recruitment
Staff training	✓ In-house ▪ New recruitments: Induction training and job orientation training ▪ Existing employees: Training arranged for any change in processes and introduction of new processes ✓ On-the-job training

	✓ Separate training centre
Percentage of woman staff	▪ Moderate representation at ~21 per cent (as on September 30, 2016)
Employee Protection	▪ JFSL has a dedicated grievance cell, retention policy, whistle blower policy and workplace harassment policy are also in place. ▪ A committee to investigate and redress any grievance has been formed, which meets at least quarterly.
Employee Benefits	▪ Employees get benefits such as Employee Provident Fund, gratuity, productivity-linked incentives, and group health insurance, which varies based on employee rank and salary.

Institutional Arrangement

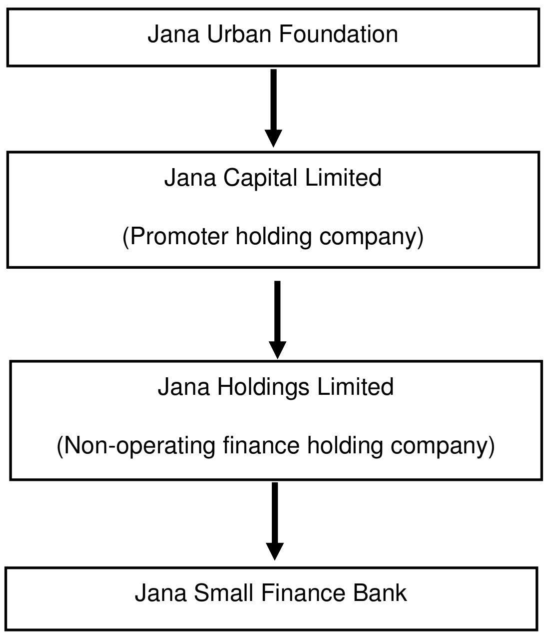
A) Ownership structure and governing board	
Board profile	▪ The organisation has a 16-member governing board with adequate representation of independent directors. The board includes: o Co-founders / Promoter directors: Two o Managing director & CEO (management representative): One o Directors: 13 (includes five independent, six investment, one nominee and one alternate director) ▪ The board members have extensive experience in banking, operations, finance, strategy, development, and microfinance.
Board meetings	▪ Quarterly ▪ During 2015-16, JFSL's board met periodically to review business performance and strategy.
Profile of senior management	▪ JFSL has a structured organisational hierarchy that clearly delineates the roles and responsibilities of staff members in each vertical. Several of the members of senior management have been associated with the organisation for a long tenure and risen from the ranks. The organisation has also been recruiting experienced industry professionals with relevant expertise in banking and operations to lead SFB operations. ▪ Senior management has extensive experience in microfinance, banking, accounting & finance, audit, risk, and HR. Zonal heads has been introduced in the system for different geographic clusters who are responsible for monitoring operational dynamics and functional aspects including business origination and risk review. ▪ Unlike mid-sized and few large-sized peer MFIs, JFSL's reporting hierarchy resembles an elongated structure characterised by a separation of staff involved in client sourcing and servicing similar to the format adopted by banking entities. Management opines that the adoption of such as a reporting hierarchy was a part of its strategy aimed at transforming the company into a banking format over the longer term.
Sub-Committees	▪ The NBFC-MFI has six sub-committees: Audit committee, Asset Liability & Management Committee, Nomination & Remuneration Committee, Risk & Credit Committee, Corporate Social Responsible Committee and Borrowing Committee. ▪ Minutes of each meeting are documented, and progress against actionable is tracked in each subsequent meeting.

Shareholding Pattern of JFSL (As on December 31, 2016)

Category	Shareholding (%)
Promoter holding company	47.16
Domestic shareholders	3.98
Foreign shareholders	48.86
Total	**100.00**

- In order to comply with RBI regulations applicable to small finance banks which prescribe a ceiling on foreign shareholding, the ownership structure has underwent a transition; the company's foreign shareholding was transferred to its holding company, Jana Capital Limited. The company's domestic shareholding levels have increased from about 27% as of Sept 2015 to over 51% as of September 2015 thus enabling JFSL to comply with norms applicable to proposed SFBs on domestic shareholding.
- JFSL is in the mode of reorganizing its organisation structure in line with commencing banking operations. It plans a three-tier structure involving Jana Urban Foundation (JUF) at the apex level followed by promoter holding company and a non-operating finance holding company (NOFHC) which would own the shares of the proposed small finance bank (likely to be branded as 'Jana Small Finance Bank').
- Few MFI's-turned small banks have adopted the regulatory approved structure led by a non-operating finance holding company. In contrast, JFSL's three-tier organisation structure tends to be more complex; its management however expects that while the structure poses some challenges in seeking additional regulatory clearances also delaying the commencement of banking operations, it tends to offer long-term flexibility in setting up new business verticals other than banking over the medium term.

Proposed structure of SFB



B) Management practices, goals and strategies

Planning / Budgeting / Performance review	▪ Strategic planning and performance review process is centralised at the HO and disseminated to staff through internal meetings. ▪ Board meetings' focus on review of operational performance and financials; it also emphasises on the aspects of audit & risk management, compliance and code of conducts. ▪ Dedicated IA and risk departments are in place to identify gaps and risk areas in the microfinance processes. These departments report directly to the respective committees on the board.
Accounting policies	• As per generally accepted accounting standards • **Income recognition:** o Interest income on MFI loans: Internal rate of return (IRR) method o Non-performing loans: Realisation basis o Interest income on deposits with banks: Accrual basis o Loan processing fees: Upfront (as and when collected from members) o Gain on securitisation: On accrual basis • **Others:** o Borrowing costs: Over the tenure of the loan o Loan loss and write-off: One per cent of the outstanding loan portfolio* (As per management estimates, subject to the minimum provision required as per NBFC-MFIs directions, 2011, and as amended from time-to-time) ** Refer to the Loan loss provisioning norms section under Asset quality for details*
Disclosures	▪ Adequate public disclosures confined to regulatory requirements
Audit report	▪ No adverse comments or qualifications issued by statutory auditors
Auditors/ change in auditors, if any/rotation policy	▪ Deloitte Haskins & Sells ▪ There has been no change in auditors in the past 3 financial years.

Board of Directors (as on September 30, 2016)

Name	Designation	Profile
Mr. Ramesh Ramanathan	Chairman	Co-founder of Janaagraha, an NGO based in Bangalore. He was an Ex-Managing Director, European Head of Corporate Derivatives – Citibank N.A. New York. He is also on the board of Sanghamithra Rural Financial Services – Mysore.
Mr. Raghunath Srinivasan	Executive Vice Chairman	Former civil servant with more than three decades of experience in banking and the financial sector. He was Deputy CEO of ANZ Grindlays Bank and later was Senior Advisor for ANZ Investment Bank, Fitch Ratings and JP Morgan.
Mr. Uday M Chitale	Independent Director	Chartered accountant by profession and a senior partner in M/S M.P. Chitale and Co. He has served on expert committees set up by ICAI, SEBI, RBI, IRDA, and IBA.
Mr. Viswanatha Prasad	Investor Director	Mr. Viswanatha Prasad is a senior Microfinance professional who has over eight years of operating and senior management experience in the microfinance sector, preceded by a decade in the mainstream financial sector. He is a co-founder of The Bellwether Microfinance Fund and is also the promoter of Caspian Advisors, the Fund Manager of Bellwether. Prasad was earlier associated with Bhartiya Samruddhi Finance Limited (BASIX Group), where he served as COO and then CEO.
Mr. Narayan Ramachandran	Independent Director	Former Country head-India, Morgan Stanley. Mr. Ramachandran has also served as the Head and Co-Lead Portfolio Manager of Morgan Stanley's Global Emerging Markets and Global Asset Allocation teams, managing over $25 billion in assets. Before joining Morgan Stanley, he was the Managing Director at Rogers Casey (now CRA Rogers Casey). He is B.Tech in chemical engineering from IIT, Bombay and an MBA from the University of Michigan.Ramachandran holds the Chartered Financial Analyst designation.

Mr. V S Radhakrishnan	CEO & Managing Director	Ex-Banker with ING Vysya Bank and HSBC with banking experience of over 25 years. He holds an MBA from IIM-A and a CAIIB from Indian Institute of Banking & Finance.
Mr. T S Siva Shankar	Investor Director	Mr. Siva Shankar holds the position of a director in the Private Equity division of Citigroup Venture Capital International. He holds a B. Tech degree from IIT, Madras and an MBA from IIM, Lucknow.
Mr. Vikram Gandhi	Independent Director	Mr. Vikram Gandhi is Founder and CEO of VSG Capital Advisors – a firm engaged in mergers and acquisitions, advisory and investment services both in the private and social sectors. He has held various senior positions with renowned institutions, such as,: • Vice Chairman of Investment Banking and Global Head of Financial Institutions Business for Credit Suisse, in New York and Hong Kong. • Co-Head of Global FIG in Morgan Stanley, New York; • Country Head and President - Global E-Commerce Committee, at Morgan Stanley India. He holds an MBA from the Harvard Business School. He is also a qualified Chartered Accountant
Mr. Akhil Shriprakash Awasthi	Investor Director	Mr. Akhil Awasthi is the Managing Partner of the Tata Capital Growth Fund. He was one of the founding members / early managers of India's first private sector Mutual Funds, ITI Pioneer AMC (now Franklin Templeton). He is also a Founding Partner at Barings Private Equity. He has completed the Advanced Management Program from the Harvard Business School, has a Post Graduate qualification in Management from University of Delhi & is a qualified Mechanical Engineer. He is actively involved with Indian Venture Capital Association and Indian Management Association.
Mr. Ling Wei Ong	Investor Director	Mr. Ling Wei Ong is an Executive Director of Morgan Stanley. Mr. Ong joined the Firm in 2005 and monitors the group's investments including structuring and valuation, finance and compliance. Mr. Ong received a BS in Accountancy from Nanyang Technological University and is a Chartered Accountant (Singapore). Prior to joining Morgan Stanley, Mr. Ong was with Deloitte & Touché in Singapore for over seven

		years. Mr. Ong is a native of Singapore and is based in Hong Kong.
Mr. Nirav Mehta	Alternate Director to Mr. Ling Wei Ong	Mr. Nirav Mehta is an Executive Director of Morgan Stanley, and is the co-head of the group's Private Equity operations in India. Prior to joining Morgan Stanley, he has worked with ICICI Venture, as part of the private equity investment team focusing on growth and buyout transactions.
Ms.Vijayalatha Reddy	Independent Director	Ms. Reddy joined the Indian Foreign Service in 1975 and has served on diplomatic assignments in Lisbon, Washington DC, Kathmandu, Brasilia, and as Counsel General in Durban and Deputy Chief of Mission in Vienna. Ms. Reddy has also served at the Ministry of External Affairs and the Ministry of Commerce in New Delhi in various capacities. She has served as the Deputy Director General of the Indian Council for Cultural Relations and as the Head of the Administration Division in the Ministry of External Affairs. Ms. Reddy served as Ambassador of India to Portugal from 2004 to 2006 and Ambassador of India to the Kingdom of Thailand from 2007-2009. She served as Secretary (East) in Ministry of External Affairs, New Delhi from January 2010 to March 2011. Ms. Reddy served as the Deputy National Security Advisor and the secretary, National Security Council Secretariat, from March 2011 to March 2013. She holds a Master Degree in English Literature from Central College, Bangalore University.
Mr. V Narayanmurthy	Nominee Director	Shri Narayanamurthy Vishnubhotla is presently working as a General Manager in IDBI Bank Limited. He has about 26 years of experience in a wide range of functions including corporate banking, project appraisal, corporate planning & policy, corporate communications, organization systems & procedures, strategic investments and corporate social responsibility. He has Master's Degrees in Business Economics and Financial Management and is a Certified Associate of the Indian Institute of Banking & Finance
Mr. Puneet Bhatia	Investor Director	Mr. Puneet Bhatia is Managing Director and Country Head - India for TPG Asia. Prior to joining TPG Asia in April 2002, Mr. Bhatia was Chief Executive, Private Equity Group for GE Capital India ("GE Capital"). He was with ICICI Bank Limited from 1990 to 1995 in the Project and Corporate Finance &

		group and thereafter worked as Senior Analyst with Crosby Securities from 1995 to 1996 covering the automobiles and consumer sectors. He has a B.Com Honors degree from the Shri Ram College of Commerce, Delhi and an M.B.A. from the Indian Institute of Management, Calcutta.
Mr. Anil Rai Gupta	Investor Director	Mr. Anil Gupta is Joint Managing Director of Havells India Ltd. With his marketing acumen, strategic planning and execution, he has helped transform the Havells brand to not only a customer focused but a customer friendly entity. He graduated in Economics from Sri Ram College of Commerce, Delhi University. He holds a degree of MBA (Marketing and Finance) from Wake Forest University, North California, USA
Mr. R Ramaseshan	Independent Director	Former IAS and MD & CEO of a commodity exchange; He has predominant experience is in public finance and tax reforms and equity and commodity markets. He currently works with over six states to reform their agricultural market system.

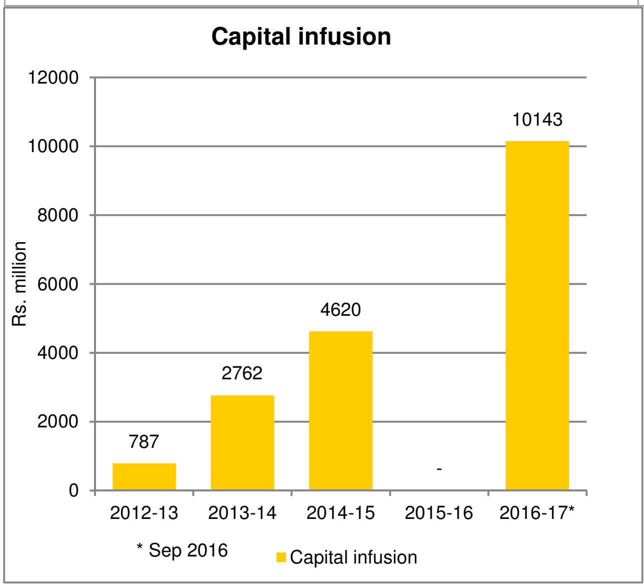
Senior Management (as of September 30, 2016)

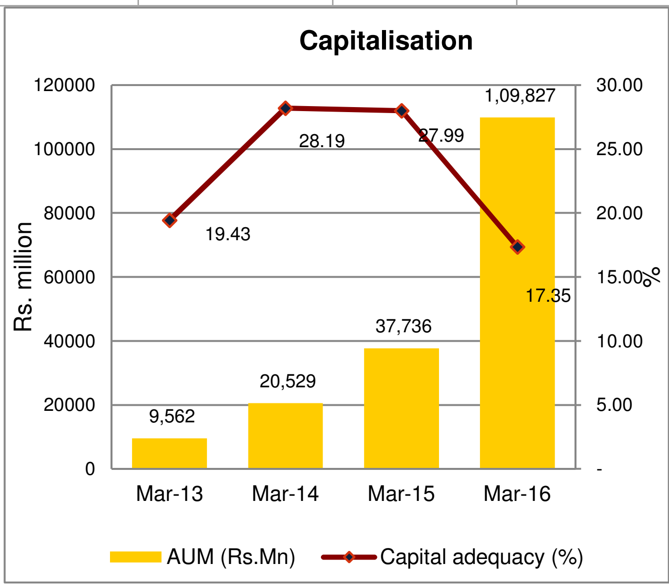
Sl. No.	Name	Designation/Roles and responsibilities
1	Mr. Ramesh Ramanathan	Founder & Chairman
2	Mr. R Srinivasan	Executive Vice Chairman
3	Mr. V S Radhakrishnan	Chief Executive Officer & Managing Director
4	Mr. Jayasheel Bhansali	Chief Financial Officer
5	Mr. Bidhan Chaudhuri	Chief Operating Officer
6	Mr. Santanu Ambedkar	Head - Treasury & Capital Markets
7	Mr. Sumit Sharma	Chief Human Capital Officer
8	Mr. P P Narayanan	CEO, Enterprise Financial Services
9	Mr. Rahul Mallick	CEO, Retail Financial Services
10	Mr. C P Rangarajan	Executive Vice President - Special Projects
11	Mr. Santanu Mukherjee	Chief Innovation & Strategy Officer
12	Mr. Puneet Narang	Chief Marketing Officer

Capital Adequacy & Asset Quality

A) Capital adequacy	
	As on December 31, 2016
Tangible net worth (TNW)	Rs.24.72 billion
Capital adequacy ratio	26.50 per cent

Capital structure (%) composition	**2015-16**	**2014-15**	**2013-14**	**2012-13**
Capital (including share premium)	80.00	91.00	92.00	97.00
Profit reserves (adjusted for miscellaneous expenditure not written off)	20.00	9.00	8.00	3.00
Total	**100.00**	**100.00**	**100.00**	**100.00**





- JFSL's net worth improved to Rs.24.22 billion, as on September 30, 2016, from Rs.11.82 billion, as on March 31, 2015. It comprises capital of ~80 per cent with share of profit reserves constituting the remaining. Capital adequacy ratio (CAR) has improved from 17.35 as on March 31, 2016 to 26.50 per cent as on December 31, 2016, and remains higher than the regulatory requirement of 15 per cent.
- JFSL is one of the few MFI players which has demonstrated proven track record in timely capital raise. JFSL's net worth remains higher than majority of its peers and driven both by equity infusion & accretions to reserves. This in turn has supported significant fund-raise and growth in its asset book. The capital-raise by the company amounting to nearly Rs.10 billion during Apr-16 from domestic and foreign investors remains one of the sizeable equity raise deal in the MFI industry. Besides the company has also been able to pare down the foreign shareholding levels from ~73% in Mar-16 to below 49% by Dec-16 which is a key regulatory requirement to operate as a small finance bank.
- JFSL had a high debt-to-equity ratio of 8.17 times as on March 31, 2016 which has improved to below 5 times

as on December 31, 2016 owing to strengthening of capitalisation during FY 2016-17. Moreover, capital infusion at regular intervals and ability to raise tier-II capital on timely basis has supported the company's ability to attain growth in its loan book whilst also adhering to regulatory requirements towards maintaining capital ratios.

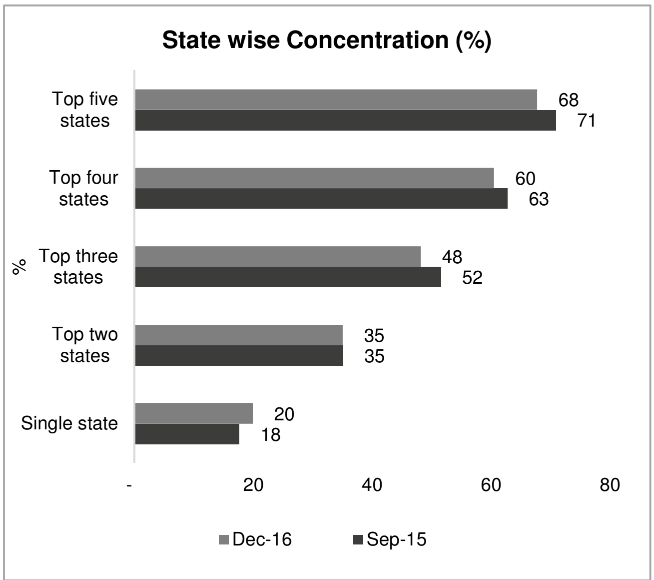
B) Asset quality

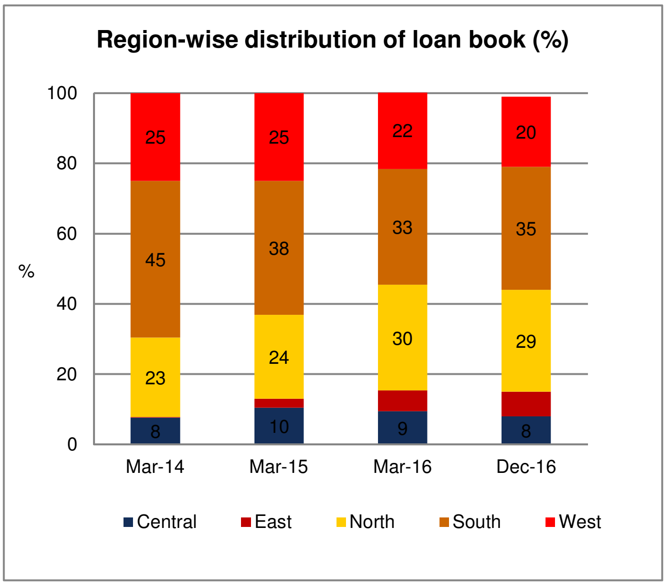
State-wise portfolio concentration (As on December 31, 2016)

State/UT	Portfolio (Rs. Million)	Portfolio concentration (%)	PAR>30 days/TNW (Times)
Karnataka	18,745	15	0.11
Maharashtra	16,306	13	0.07
Tamil Nadu	24,712	20	0.01
Uttar Pradesh	15,280	12	0.24
West Bengal	5,805	5	0.01
Others (State/UT)	43,309	35	0.21
Total	**1,24,157**	**100**	**0.65**

- JFSL is one of the diversified player in terms of geographical presence; as on December 31, 2016, the company's operations covered 226 districts across 19 states. Single state concentration (Tamil Nadu) remains at 20%; while top two states (Karnataka & Tamil Nadu) and top three states (Karnataka, Tamil Nadu & Maharashtra) accounted for about 35% and nearly 48% of the total AUM respectively as of December-2016. These concentration levels have remain fairly unchanged over the past two years.

Portfolio concentration (% to AUM)





- As on same date, however the presence of the company in urban markets remains at >95%. CRISIL opines that strengthening presence in rural markets remains key monitorable not only in terms of adherence standpoint to comply with regulatory directives mandated for SFBs on rural presence but also towards mitigating operating risks specific to urban markets. JFSL has tied up with third party for providing insurance to its clients; credit insurance is offered to borrowers (and their spouse). The management has been gradually stepping up its presence in rural/semi-urban regions by setting up branches through a combination of company-operated / business correspondent led service outlets.

Trends in asset quality

Month/Year	Regular (%)	PAR> 30 days (%)	PAR> 60 days (%)	PAR> 90 days (%)
Mar-16	99.27	0.49	0.37	0.28
Sep-16	98.39	0.95	0.68	0.51
Nov-16	79.45	1.59	1.01	0.72
Dec-16	68.56	12.87	1.34	0.80
Jan-17	62.47	22.58	11.01	1.14

- Post demonetisation (Nov-16), players in the microfinance industry have witnessed a drastic drop in collection efficiency led by a combination of factors; few of which include ban on high-value currency impacting immediate liquidity required for meeting debt repayment & other household obligations besides a sharp reduction in cash flows from income-generating activities as a result of stagnation in economic activities led by the cash crunch. Moreover, loans to MFI borrowers are disbursed in cash; low availability of liquid cash in the post-demonetization period led to a sharp decline in loan disbursements compared to monthly average disbursals during April-October 2016.
- While JFSL historically reported on-time repayment of nearly 99% which was in line with industry trends, its asset quality has deteriorated sharply post demonetisation. The PAR>30 days has increased to over 22% as of Jan-17 from nearly 0.5% as of Mar-16; top 3 states - Tamil Nadu, Karnataka and Maharashtra which account for 48% of overall AUM contribute to nearly 65% of the PAR amount as of Jan-17. Likewise, PAR>60 days too remains high at >11% as of same date.

Overall PAR position[2] as of Feb-17	PAR (Rs. Billion)	PAR/TNW (Times)
PAR>30 days	33.22	1.3
PAR>60 days	21.35	0.9
PAR>90 days	9.45	0.4

- CRISIL believes that the company's collection efficiency has remained below-average in relation to several of

[2] The above PAR position does not consider RBI dispensation allowed to MFIs of upto 90 days for classification of existing standard assets as sub-standard and not delaying the migration of an account across sub-categories of NPA for loans due between November 2016 to January 2017

its similar-sized peers thereby impacting its asset quality and PAR trends post Nov-16. For instance, collection efficiency for regular portfolio has dropped from ~99% as of Oct-16 to ~84% as of Feb-17. Weak collection rates in states of Tamil Nadu, Maharashtra, Karnataka, West Bengal, and Uttar Pradesh have contributed to the lower collection efficiency. CRISIL's channel checks and management's response on the asset quality position reveals that besides weak liquidity of its borrowers post demonetisation, issues such as political intervention on potential loan waivers and rumours of shut-down in the company's operations too have contributed to weakening of asset quality.

- Management expects restoration in the asset quality to pre-demonetisation levels to occur over the next three-four months gradually led by joint campaigning efforts of industry SROs and the company on improving awareness levels of its borrowing community towards timely repayment of debt obligations. Given the above, CRISIL however opines that asset quality remains a key grading monitorable particularly since that average indebtedness per client has been relatively higher in the case of JFSL in relation to its peers.
- In addition, farm loan waivers being announced by few states government owing to agriculture distress and crop failures may alter the credit discipline. Cohesiveness of JLGs and allied credit culture is a critical component impacting timely loan repayments, risks emanating from such political sensitivity may have negative implications of portfolio quality of MFIs. State-specific issues such as the impact of drought-prone conditions in Tamil Nadu and Karnataka which contributes to nearly a fifth of the company's loan book and also a significant portion of recent PAR>30 days remain key sensitive factors.

Loan loss provisioning (LLP) norms -

The company provides LLP as higher of (A) or (B) or (C)

A. For MFI loans higher of -

a) 1% of the outstanding loan portfolio or
b) aggregate of 50% of overdue for instalments due for 90 - 180 days and 100% of overdue for instalments due for greater than 180 days; and for non MFI loans aggregate of 10% of principal outstanding for instalments due for 150 - 480 days and 100% of principal outstanding for instalments due for greater than 480 days

B. 1% of the overall outstanding loan portfolio (for both MFI loans and non MFI loans)

C. Aggregate of -

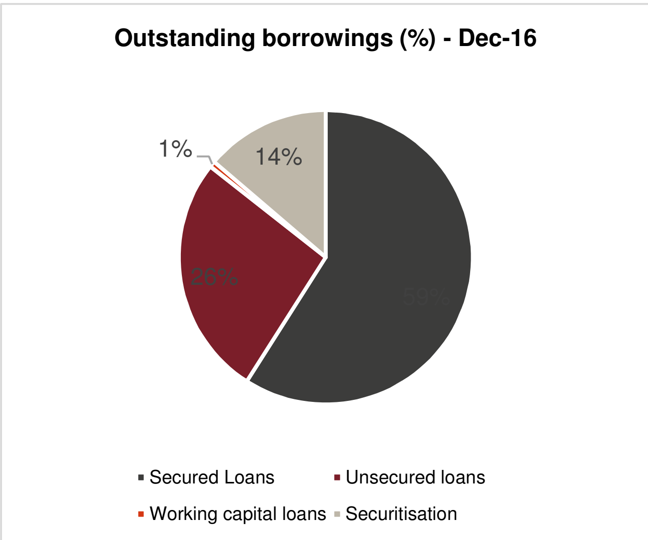
Provisioning norms	**MFI loans**	**Non MFI loans**
Standard assets	0.25%	1% of overall portfolio reduced by provision for NPA
Installments due for 90-180 days	50% of instalments overdue	25% of instalments overdue
Installments due for >180 days	100% of instalments overdue	100% of instalments overdue

- JFSL's loan loss provisioning policy has been in line with the regulatory requirements mandated by the RBI. However, considering expected slippages to increase owing to deterioration in asset quality post demonetisation, the company would be required to significantly step up its provisioning against expected write-offs over the near-term which would increase credit costs sharply.
- The management plans to draw support from the regulatory decision allowing MFIs to provide an additional 90-day window for classification of standard assets. In the aftermath of demonetisation, it estimates Rs.10 billion as expected loss / probable write-offs. Of these, Rs.8 billion is being restructured through sanction of short-duration top-up loans (Rs.8,000 per account) to select borrowers which have demonstrated better repayment track record in the past. The restructured portfolio would attract an additional provisioning to the tune of Rs.2 billion (25% of restructured portfolio as per regulatory norms). Total provisioning for FY 2016-17 (provisioning on restructured assets – Rs.2 billion plus provisioning on standard assets and write-offs-Rs.1.5 billion) is thus estimated at Rs.3.5 billion (around 2.5% of the AUM as of Mar-17 which is expected to range between Rs.125-130 billion).
- Based on the actual quality of portfolio over the next few months, management plans to defer any additional provisioning required to the next financial year. Impact on earnings profile for FY 2017-18 thus remains to be demonstrated. Moreover, CRISIL believes that the impact of any incremental provisioning required is contingent upon underlying quality of the portfolio and management policy towards recognition of loss assets. An early recognition of probable loss assets and a more conservative loan loss provisioning policy could better indicate the financial position of the company.
- JFSL's management has indicated that it would continue to maintain Tier-I capital amounting to Rs.20 billion on a standalone basis. In the event of any material impact of write-offs resulting in erosion of capitalisation levels, the company plans to raise additional equity from domestic investors so as to maintain requisite capital ratios. CRISIL believes this factor to be a critical grading monitorable given the stressed asset quality position.

Resources and Asset-Liability Management (ALM)

A) Resource profile

Resource profile (outstanding borrowings) as on December 31, 2016	Borrowings (Rs. billion)	(%)
Non-convertible debentures (NCDs)	46.21	37.53
Public sector banks	20.88	16.96
Private sector banks	17.91	14.55
Securitisation / bilateral assignments	16.92	13.74
Development finance institutions/ Sector specific lenders	8.36	6.79
NBFCs	5.36	4.35
Foreign banks	3.53	2.87
Commercial paper	2.61	2.12
Others	1.35	1.10
Total	**123.13**	**100.00**



- JFSL's resource profile remains well-diversified; as of December 2016, it had outstanding borrowing from over 50 lenders. Dependence on wholesale bank borrowings has reduced in past two years from nearly 65-70% to nearly 51% as of Dec-16. This is also lower than the average number of ~70% reported by several of large-sized and mid-sized players. It has also diversified its resource profile through incremental issuance of non-convertible debentures (NCDs), which accounted for nearly 37.5 % of the resource profile as on same date. Moreover, unsecured borrowings comprise nearly 26 per cent of total outstanding borrowings which enables more availability of funds to support business growth.
- The company's reliance on securitisation / bilateral assignments as a fund-raising route has also increased since last year; which helps it to manage capital ratios. Cash credit / working capital finance accounted for less than 1% of outstanding borrowings as of December-2016.
- The company is expected to shortly commence small banking operations; while this offers an opportunity to tap the low-cost public deposit route, the entry of small and payment banks would only intensify competition in this space. Thus, strengthening the liability franchisee - replacing a sizeable component of bank borrowings with alternate low-cost funding avenues remains a key challenge.

B) Asset Liability Management (ALM)

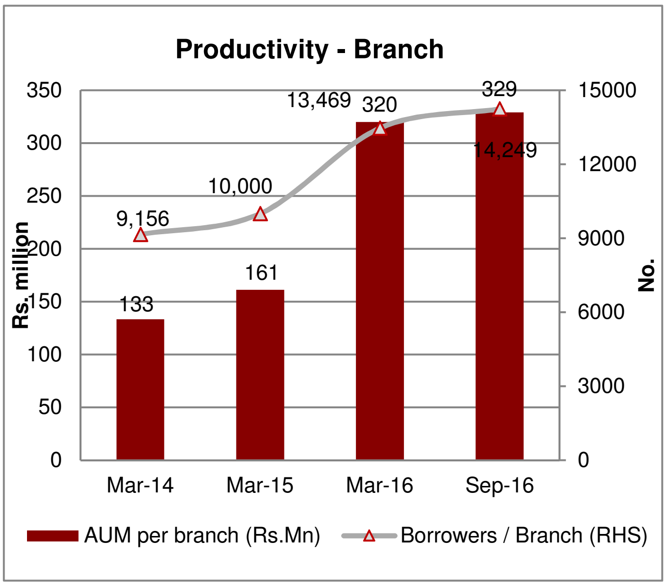
Collection frequency	• Fortnightly and Monthly
ALM and liquidity profile	• Unencumbered cash and bank balance remain sufficient to meet debt obligations over the next ~4-5 months. However, maintaining stable liquidity remains a function of timely collections from its borrowers. The impact of external risk factors such as ban of high-value currency on its clients' income streams and in turn loan repayment rates remains a key monitorable in near term considering the existing asset quality trends.

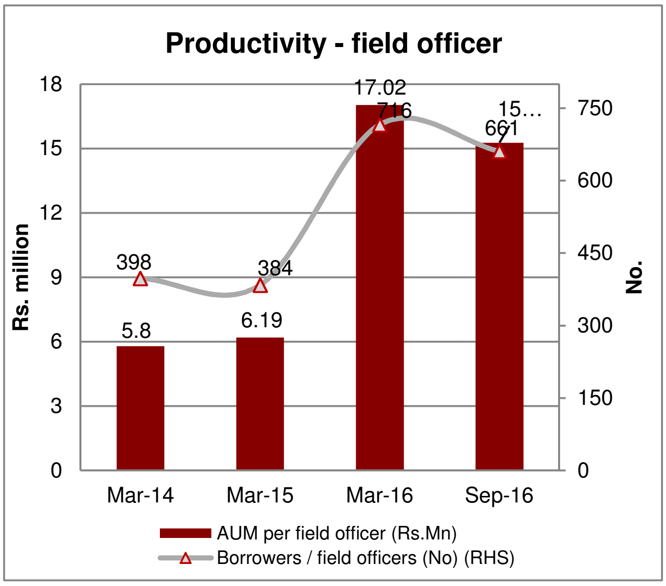
Operational Effectiveness

Outreach summary for the period ended / as on end	Unit	Sep-16	Mar-16	Mar-15	Mar-14
Members	No. (in million)	5.50	4.62	2.34	1.41
Borrowers	No. (in million)	5.50	4.62	2.34	1.41
Branches	No.	386	343	234	154
Cities	No.	197	184	151	85
Women borrowers	%	99.20	99.84	99.91	99.61
Disbursements	Rs. Bn	50.92	115.16	41.20	23.81
Loan outstanding (AUM) – own portfolio	Rs. Bn	107.10	90.68	36.70	18.67
Loan outstanding (AUM) – managed portfolio	Rs. Bn	19.92	19.15	1.04	1.86
Loan outstanding (AUM) – Total portfolio	Rs. Bn	127.02	109.83	37.74	20.53

Human resource and productivity indicators as on end	Unit	Sep-16	Mar-16	Mar-15	Mar-14
Total employees	No.	13,424	9,441	6,257	3,678
Field officers (FOs)	No.	8,321	6,453	6,099	3,545
Women employees	No.	2,764	1,790	1,235	437
FO/Total employees	%	62	68	97	96
AUM/FOs	Rs. Mn	15.26	17.02	6.19	5.79
AUM/Borrower	Rs.	23,095	23,773	16,128	14,560
Disbursement/Borrower	Rs. Mn	10,063	33,092	21,973	-
AUM/branch	Rs. Mn	329.07	320.20	161.28	133.31
Borrowers/FOs	No.	661	716	384	398
Borrowers/branch	No.	14,249	13,469	10,000	9,156
Women employees/Total employees	%	21	19	20	12

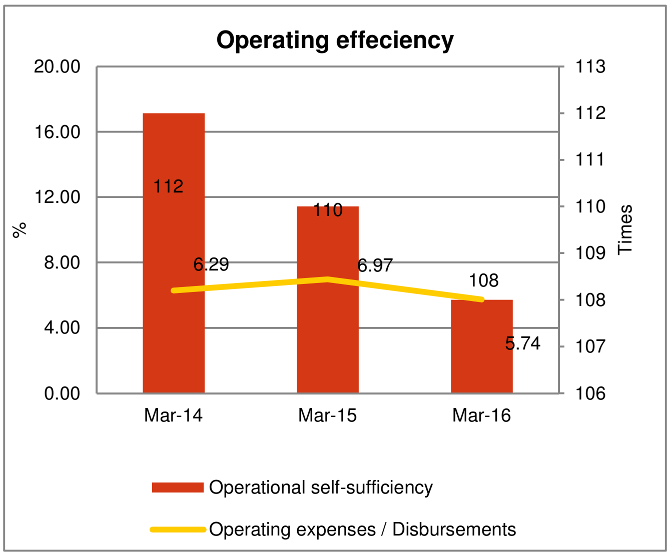
Trends in productivity indicators

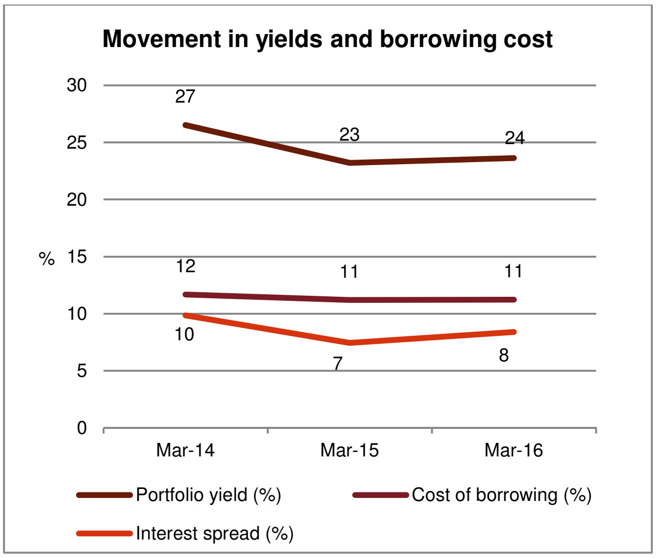




- The loan portfolio of JFSL increased to Rs.107.10 billion as on September 30, 2016, from Rs.36.70 billion as on March 31, 2015. MFI added 152 branches and expanded in new 46 cities during the period.
- Trends in the company's field productivity indicators are as follows:
  - Average disbursement per borrower significantly increased to ~Rs.24,926 in 2015-16 from ~Rs.17,607 in 2014-15 led by a sharp increase in loan ticket-size besides a growth in borrower base.
  - AUM/branch increased to ~Rs.329.07 million as on September 2016 from ~Rs.161.28 million as of March 2015. AUM/field officer increased to Rs.15.26 million as on September 30, 2016, from Rs.6.19 million as on March 31, 2015, mainly driven by an increase in loan ticket size towards the year-end. However, it declined by about 10 per cent as on Sep-16 compared to Mar-16.
  - Borrowers/branch increased to 14,249 as of September 2016 from 10,000 as of March 2015; this is a part of the management's strategy to optimise borrower count per branch which could be later tapped to offer banking services.

Earning Profile





- JFSL's profit after tax (PAT) improved to Rs.1,602.89 million in 2015-16 from Rs.754.11 million in 2014-15 following sizeable growth in loan book, leading to higher interest income. Opex ratio remained moderate at ~8.3% for 2015-16. It registered an operational self-sufficiency of ~108% as on March 31, 2016.
- Improvement in fee-based income was owing to significant increase in sale of third party products. Fee-based income is accounted for about 12 per cent of total income in 2015-16.
- Decline in yields was driven by a reduction in lending rates; however a corresponding reduction in borrowing costs and some decline in operating expense ratio has improved overall profitability.
- CRISIL opines that following transformation into the SFB format, operating expenses (opex) level is expected to increase over the near-term led by higher overheads on manpower, promotion, and other branch costs. Moreover, disbursements post demonetisation have remained relatively lacklustre which would lead to a decline in fund-based income.
- CRISIL opines that the company's earnings profile is expected to remain pressurised owing to the impact of higher credit costs (write-offs and provisioning) during the current (FY 2016-17) and next financial year (FY 2017-18).

CRISIL
An S&P Global Company

Projected P&L (FY 2016-17) * **Rs. billion**

Particulars	Apr-Dec 16	FY 2016-17 (E)
PBT (pre-credit costs)	4.38	5.00
Credit costs	0.81	3.00^
PBT (post credit costs)	3.57	2.00
Less: Tax	1.26	0.7
PAT	2.31	1.30

** Management estimates, ^ Includes an additional contingency provision of Rs.1.5 billion as a prudential measure over and above the provision required as per RBI norms.*

Projected Balance sheet **Rs. billion**

Particulars	FY 2016-17 (E)
TNW (as of Dec-16)	24.72
Add: Estimated PAT	1.30
Rev. TNW	26.02
Add: Prov. for loan loss (incl. add. Prov. on restructured portfolio)	2.70
Adj. TNW	**28.72**

Scalability and Sustainability

- The MFI industry witnessed a healthy CAGR of over ~40 per cent during the past 3 years (FY 2013-15). The timely issue of directives from RBI, award of universal banking license to a major MFI player and differentiated banking licenses to a few MFIs, and establishment of the MUDRA Bank are further expected to strengthen stakeholder confidence in the sector.
- With a long track record spanning over 11 years, JFSL remains one of the largest MFIs in the country in terms of asset size. The company has demonstrated good scalability and sustainability in business growth and volume. Competition in the small ticket-lending segment is set to intensify with 10 small banks expected to commence operations in the near term. The competitive landscape and business modality of individual players would alter since small banks can have diverse financial offerings including savings, deposits, remittances, and higher ticket loans. Payment banks, besides accepting deposits would largely focus on remittances and cross-distribution of financial products. The sector is set for a consolidation following acquisition of some MFIs by banks and FIs in order to withstand competition and fulfil the mandate of priority sector lending. In view of the above factors, JFSL would have added advantage owing to its advanced systems and processes to compete with such market players including the banks over the medium term. JFSL which is pre-dominantly an urban player and is required to ramp up rural presence once it operates as a SFB. Management has indicated to tie-up with business correspondents (BCs) in rural parts over the near term as a strategy.
- The company has a well-diversified board and an experienced and professional senior management. Its second-line management team, too, has a long association with the organisation. These factors, too, have positively contributed in maintaining stable and sustainable scalability. The company is also in process of recruiting professionals from banking and insurance sector considering to be a small finance bank in near term.
- Through demonstration of timely raise of capital, the company has been able to diversify its resource profile and better cost of funds. The growth in assets has also led to better productivity and improved profitability over the past few years.
- Given the above, a sharp deterioration in collection efficiency and increase in PAR post demonetisation has remained a challenge for the company which could impact near-term operational scalability to an extent. Moreover, a significant portion of the company’s portfolio in northern and eastern regions of the country remains unseasoned. Improving collection rates thus remains a key grading monitorable. Besides, capital raise as projected by the management in the event of unexpected write-offs would be critical not only to maintain capital ratios but also to maintain stakeholder confidence.
- The likely benefits from the transition into a banking format such as a better institutional framework, higher regulatory oversight, opportunity to tap the low-cost deposit route and improved liability franchisee, and diversify product offerings are expected to strengthen operational scalability. Improving asset quality and maintaining capitalisation levels as envisaged remain key imperatives.

Financial indicators

Income and expenditure statement **Rs. million**

For the year ended March 31,	2016	2015	2014	2013
	Audited			
Fund-based Income				
Interest income from loans	15,052	6,424	3,572	1,469
Income from investments/bank deposits	573	361	171	55
Total fund based income	**15,626**	**6,785**	**3,743**	**1,524**
Total interest and finance charges paid	**7,551**	**3,195**	**1,604**	**651**
Gross spread	**8,075**	**3,590**	**2,139**	**873**
Fee based and other income	2,220	807	347	171
Total income	**17,845**	**7,592**	**4,090**	**1,695**
Gross profit	**10,294**	**4,397**	**2,486**	**1,043**
Expenses				
Personnel expenses	2,846	1,230	676	390
Administrative expenses	3,763	1,641	822	332
Total expenses	**6,609**	**2,872**	**1,499**	**722**
Write-offs and provisions				
Write-off of bad debts	400	122	21	37
Provision for loan loss	550	169	150	19
Total	**950**	**292**	**171**	**56**
Depreciation	353	162	77	29
Profit before tax	**2,382**	**1,071**	**740**	**236**
Tax	1,035	371	277	81
Deferred tax	-255	-41	-43	-25
Add/Less: Extraordinary income/expenses^	-	-14	-	-
Profit after tax	**1,603**	**754**	**506**	**181**

^Net effect owing to change in method of depreciation

Balance sheet **Rs. Million**

As at March 31,	2016	2015	2014	2013
Liabilities	**Audited**			
Paid-up capital	76	1,253	636	74
Share premium	9,399	8,221	3,961	1,760
Reserves and surplus	**2,810**	1,259	543	73
Less: Intangible assets	469	292	21	10
Tangible Net worth	**11,815**	**10,441**	**5,118**	**1,897**
Borrowings	96,505	37,969	19,132	8,361
Provision for loan loss	928	378	158	58
Other provisions	38	58	61	37
Other liabilities	4,410	872	616	316
Total current liabilities	**5,420**	**1,307**	**1,101**	**543**
Total liabilities	**1,13,740**	**49,717**	**24,967**	**10,669**
Assets				
Microfinance loan outstanding	1,09,865	37,110	20,567	9,561
Less: Managed portfolio	19,149	1,036	1,856	1,327
Net loan outstanding	**90,716**	**36,674**	**18,711**	**8,235**
Total investments	1	1	1	1
Cash & bank balances	5,651	1,451	1,264	1100
Deposit with banks^	14,384	10,202	4,376	968
Staff advances	6	7	38	113
Total funds deployed	**1,10,757**	**48,334**	**24,464**	**10,416**
Net fixed assets	1153	808	334	106
Other current assets	1,830	575	170	148
Total assets	**1,13,740**	**49,717**	**24,967**	**10,669**

^Includes cash collateral / margin money maintained with banks

Key financial ratios **In per cent**

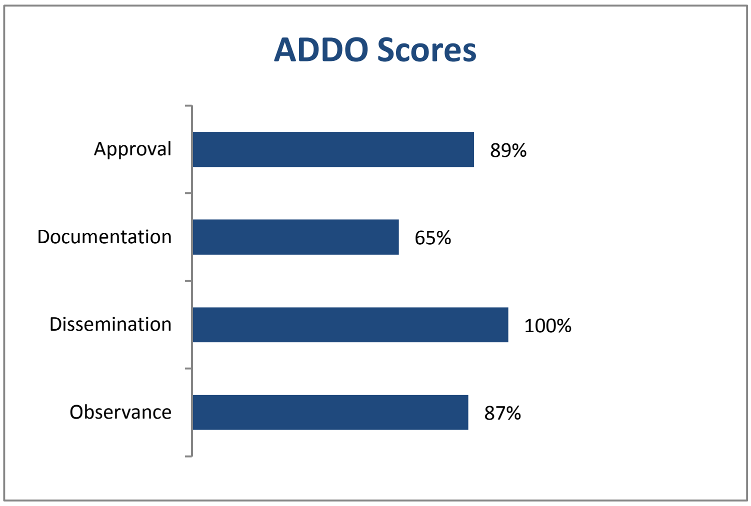
Year ended March 31,	2016	2015	2014	2013
Yield				
Fund-based yield*	19.64	18.64	21.49	21.11
Portfolio yield #	23.63	23.20	26.51	26.31
Fee-based income/Average funds deployed	2.65	2.10	1.87	2.25
Total income/Average funds deployed	22.30	20.74	23.36	23.37
Cost of funds				
Interest paid/Average funds deployed	9.49	8.78	9.20	9.02
Interest paid/Average borrowings	11.23	11.19	11.67	11.40
Interest spread				
Gross spread/Average funds deployed	10.15	9.86	12.29	12.09
Spreads on lending	8.41	7.45	9.82	9.71
Overheads				
Operating expense ratio^	8.31	7.59	7.87	9.26
Personnel expense ratio^	3.58	3.32	3.68	5.00
Administrative expense ratio^	4.73	4.34	4.32	4.07
Profitability				
Return on net worth	14.40	9.77	14.69	12.72
Return on funds deployed	2.02	2.07	2.90	2.50
Operational self-sufficiency	108	110	112	110
Asset quality				
Net write-offs/Average loan outstanding	0.54	0.42	0.14	0.57
Loan loss provisions/Average loan outstanding	1.26	1.30	1.38	0.89
Capitalisation				
Total debt/net worth (times)#	8.17	3.64	3.83	4.41
Capital adequacy (reported)	17.35	27.99	28.19	19.43

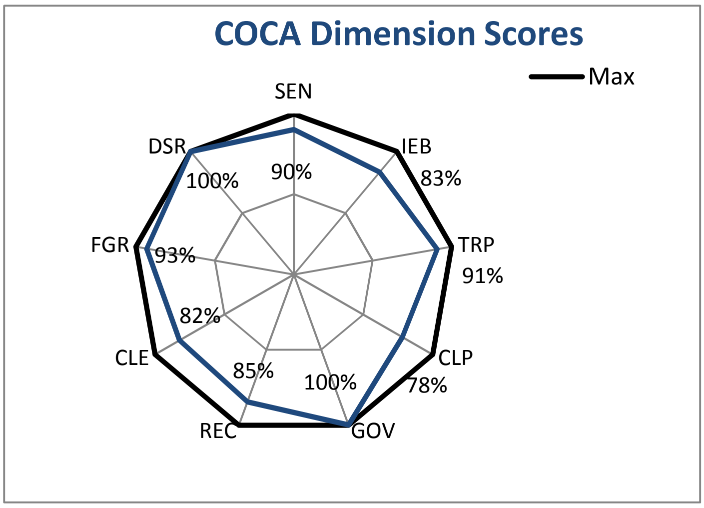
**Yields and cost of fund computations based on average year-end outstanding portfolio*

#Managed/assigned portfolio has not been considered

^Computed factoring managed/assigned portfolio

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

CRISIL's review of JFSL's field operations, internal channel checks and an interaction with the management reveals that the company has been broadly complying with stipulated regulatory guidelines and code of conduct (COC) principles. The company has an adequate institutional framework with regards to formulation and review of regulatory and industry COC policies which are reviewed periodically. The company's board comprises well-qualified and reputed professionals; over one-third of the board members are independent. JFSL has documented policies and operating procedures which have been disseminated to the staff supported by regular training.

The practices of client-specific communication including disclosure of pricing, grievance and redressal, and data sharing practices are in line with accepted COC practices. Also, disclosure of operational and financial performance to external stakeholders through annual reports and company-website remains adequate. Awareness of clients on certain aspects including benefit of availing credit insurance cover and charges paid remains low. Moreover, financial discipline of its borrowing community has scope for improvement – apart from non-uniform client seating arrangement at centre meetings it was observed that receipts issued acknowledging the repayment of loans to clients were maintained by the centre leader.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
• Strong and well-qualified board which has a higher proportion of independent directors. • Board approved policies on credit, products, operations, audit, HR, and risk management. Mechanisms to capture client-specific data remain adequate. • Periodic review of operational and financial performance by board-level sub-committees. Necessary instructions are disseminated to the staff at various levels through circulars. • JFSL provides monthly training to the staff pertaining to the RBI guidelines. • Adequate feedback and grievance redressal mechanism; branches maintain complaint box and toll free numbers are provided to clients. • JFSL has made aware the client about their choices and responsibilities; monitoring team at various levels undertakes periodic checks on operational aspects including COC.	• Yet to provide few loan documents – application form and loan card to clients in vernacular languages. JFSL does not provide a separate sanction letter to its clients. • Majority of clients demonstrated limited awareness about the amount and number of instalments to be repaid besides credit insurance charges and benefits of availing insurance cover. • Average discipline on group cohesiveness – seating arrangement at the meetings was not uniform across the centres. Receipts issued to the clients towards acknowledging loan repayment were maintained with the centre leader thus pointing towards higher need for financial discipline.

Significant observations

	Higher Order Indicators
Integrity and Ethical Behaviour	✓ JFSL has documented relevant regulatory guidelines, policy manuals and operational performance. The company's board discusses the issues on policy changes including regulatory guidelines at their meetings which are documented in the board minute / sub-committee minutes. ✓ Training regarding the RBI guidelines are provided to all JCs on monthly basis by JFSL. ✓ JFSL provides training to the staff relating to: o Conducting client meeting o Collection repayments o Recovering overdue loans o Feedback and grievance redressal mechanism × Policy of debt rescheduling has scope of improvement; the company is yet to formulate an integrated board-approved policy comprising aspects on sanction of top-up loans and intervals of collecting overdue loans.
Sensitive Indicators	✓ Regulatory directions have been documented in circulars. ✓ Changes in pricing based on regulatory guidelines are documented. ✓ All relevant regulatory terms and conditions are communicated to the clients × Majority of clients demonstrated limited awareness about the amount and number of instalments to be repaid besides credit insurance charges and benefits of availing insurance cover. × JFSL does not provide a separate sanction letter to its clients.

Building Blocks

Transparency

- The NBFC-MFI has documented relevant policy manuals, guidelines, and circulars – both regulatory and internal. The same have been communicated to the branches where these circulars are available for staff's directions. The company's board discusses the issues on policy changes including regulatory guidelines at their meetings which are documented in the board minute / sub-committee minutes.
- JFSL communicated the most recent RBI guidelines to the Jana Centres (JCs). With effect from December 2017, the company has mandated its clients to provide voting card as a compulsory know-your-client (KYC) document before availing loans. The documents are filed in the JC for further reference. JFSL provides training to the Branch Managers, Area Managers and field staff including CReS, CReM, and CReC. Also the recent changes in the policies are communicated to the staff at the end of the day in the huddle meetings at the JCs. Branch Manager conducts the huddle meetings, where the staff discusses the day-to-day activities and critical issues faced by them.
- Branch managers demonstrated adequate awareness on regulatory guidelines with respect to household income, client indebtedness, maximum loan size, loan tenure, loan purpose, KYC norms, and non-collection of security deposits from clients among others. It has been observed that few of the staff members, particularly field staff demonstrated low awareness about loan criterion to be followed.
- The company follows the applicable regulatory guidelines with respect to loan pricing – interest rate, processing fees, and insurance charges. No security deposit is being availed as observed by CRISIL. The operational manual provides detailed guidelines to the operating staff on policies and standard operating procedures. The guidelines are reviewed by the board in their meetings.
- The sampled clients interviewed during the survey highlighted that the terms and conditions are communicated and explained to the each of them before and after the loan disbursement. JC explains the terms and conditions to the clients on three instances - first at the time of group formation, second at the time of collection of documents and filling up of the application form and lastly at the time of disbursement of loan at the JC.
- The application forms and sanctioned letters are available in non-vernacular language; however the terms and conditions are mentioned in vernacular language in the application form. JFSL also provides the welcome kit to the client at the time of disbursement along with the sanction letters. The welcome kit includes debit card, user manual, pamphlet which having information about name of the MFI, branch and head office address and contact details. JFSL does not provide a separate copy of the sanctioned letters to its clients. JFSL has also displayed the rate of interest in vernacular language at the sampled JCs.
- JFSL has a system wherein the reason for rejection of loan has been recorded by the JCs and the same is communicated to the client within the stipulated time frame.
- The loan cards provides the complete information about the client and the name of the group, date of disbursement, processing charges, insurance charges, debit card charges, amount of disbursement, interest rate, number of instalments along with the break of principal and interest, and due date of the loan apart from address of the JC & head office along with grievance and redressal details. The complete repayment schedule

is printed on the software generated loan cards. CRISIL however observed that the loan card issued to the clients was similar to a loose bound paper sheet and was susceptible to easy wear-and-tear. Few clients expressed the need for better durable loan cards.

- Majority of the sampled clients and their relatives are able to read and understand the loan cards even though the loan cards in non-vernacular language.
- JFSL has communicated the Annual Percentage Rate (APR) and equivalent monthly rates of interest in the written to the client. It is observed that the difference between the APR and equivalent monthly rates is less than the 1 %, which is as per the RBI guidelines.
- While, all the service charges are communicated in the written to them by JFSL, majority of sampled clients were unaware about of the exact amount and number of instalments of loan. Clients also demonstrated low awareness on credit insurance charges paid and benefits of availing insurance cover.
- There was no such instance found where the JFSL has charged fines and penalty to the clients for delay in payment of instalments. JFSL does not collect any security deposit, collateral blank cheque or stamp papers from the client against the loan and the same has been communicated and followed by the all JCs. JFSL charges processing fees as per the RBI guidelines.

Approval	Documentation
✓ Relevant regulatory guidelines, policy manuals, and operational performance are reviewed by the board and documented by the company along with timely communication to the staff. ✓ Most recent directions are documented at all JCs.	✓ Regulatory directions have been documented in circulars. ✓ Changes in pricing based on regulatory guidelines are documented. × Loan documents – application form and loan card are maintained and provided to clients in non-vernacular languages.
Dissemination	**Observance**
✓ Training regarding the RBI guidelines are provided to all JCs on monthly basis. ✓ Staff has access to operational manuals which lay details on SOPs and regulatory guidelines. ✓ The interest rate is displayed at all JCs in vernacular language.	✓ All relevant regulatory terms and conditions are communicated to the clients ✓ Loan card is provided to all clients. ✓ Majority of clients and their relatives are able to read and understand the loan cards. × Majority of clients demonstrated limited awareness about the amount and number of instalments to be repaid besides credit insurance charges and benefits of availing insurance cover. × JFSL does not provide a separate sanction letter to its clients.

Client Protection

Fair practices

- The company's board during its quarterly meetings reviews the following with respect to qualifying assets / regulatory guidelines:
    - Loan sizes
    - Loan tenure
    - Loan purpose
    - Income of borrowers
    - Repayment Frequency
- The company has documented the above-mentioned aspects in operational manuals. The internal audit reviews the loan size with respect to regulatory compliances.
- During field observations, CRISIL observed compliance with regards to loan size, loan tenure, repayment frequency and purpose for which the loans have been sanctioned. The branch managers as well as field officers are aware about the income level of the borrowers as per the RBI guidelines. However, few instances of borrower's household income exceeding the stipulated regulatory norms were observed.
- JFSL offers credit / non-credit products approved by concerned regulatory authorities.
- JFSL follows KYC norms wherein the images of the original documents are collected and send to the credit bureau for further verification. The verification of the documents is conducted by the third party twice for each of the client for verification of credit verification and indebtedness. It was observed that sampled clients had submitted the KYC documents. The operational manual highlights details on KYC norms to be adhered by the staff; compliance on this aspect is verified by the internal audit staff.
- JFSL provide insurance to the clients through an IRDA approved agency. No client interviewed in the sample revealed that they had been made to pay for a service as a precondition for availing the loan.

Avoiding Over-indebtedness

- The company undertakes survey of the operational area apart from which field visits are undertaken by staff at various hierarchies as a part of due diligence and monitoring.
- Board undertakes a review of the credit policy and associated guidelines.
- Operational manual broadly provides details on guidelines to be followed by staff for undertaking loan appraisal.
- Internal audit assesses on credit bureau checks conducted prior to disbursement. It also conducts a sample assessment of borrowers to verify maximum indebtedness.
- Operating staff has been provided requisite training with regards to loan due diligence.
- JFSL follows regulatory norms on household income level in rural and urban areas.
- While the company has documented process guidelines on checks to be undertaken by field staff regarding determining indebtedness of clients, loans availed through business correspondent (BC) channel are not a part

of the guidelines. Branch staff was found to be aware of the regulatory guidelines on maximum over-indebtedness.

- No instance was observed wherein the company had sanctioned a JLG loan in excess of the stipulated guideline of Rs.60,000 per borrower.
- The company has been collecting UIDAI (Aadhaar number) prior to sanction of loans.

Appropriate interaction and collection practices

- JFSL provides the training to the field officers pertaining to the interaction with client and collection of instalments. The majority of the staff arrives on time at the centre meetings.
- The instructions are given to the staff that the misbehaviour with the client in any circumstances will cause to strict actions against the employee.
- In case of any critical issue relating to recovery of over dues, the field officers are required to inform the JC head and resolve the same on priority basis.
- The field officers collect the instalments on time at the designated meeting centres. The field officer takes the biometric of the present clients and issues the receipt to the clients for which the instalments have been collected. In case of issues in functioning of the tablet-based devices, the officer issues manual receipt to the clients. The filed officer also does the entry on the loan cards pertaining to repayment and issues a signature after the collection. CRISIL observed that receipts issued to clients were maintained with centre leaders; in case of few of the sampled clients loan cards too were maintained with the centre leader.
- It has been generally observed that CReC arrive on time for the centre meetings and also find process of making repayments convenient and safe. Few sample clients expressed that there was a delay in timely arrival of CReC for the centre meetings on few occasions.
- Majority of the sampled clients reported that the field officers demonstrated professional conduct.
- No single instance was observed wherein the field officer used abusive language or threats the client or visited at the odd hours. It also observed that there is not a single instance found where the client had to make the payment to the person other than CReC. However, several of the sampled staff were unaware about the policy of not visiting borrowers at odd hours.
- In case of defaults by clients, the JC head undertakes meetings at the centre and explains the consequences of such defaults. The other group members to explain defaulters highlighting the importance of clearing the overdue. In the event of continuance of the default by the client, the JC issues three notices to defaulters and a red flag. CRISIL observed instances where the defaulters had cleared the dues after the above stated process. The company has a board approved process of debt rescheduling; it has been sanctioning small ticket top-up loans to clients with better repayment track record but experiencing distress in repayment owing to cash crunch post demonetisation.

Privacy of client information

- JFSL adheres to the guidelines pertaining to the privacy of client information.

- The loan card highlights that client data would be shared with external stakeholders such as RBI, SROs, or lenders for requisite purposes.
- Majority of the sampled clients are aware about the confidentiality of client information.
- JC does not obtain any physical KYC documents from its clients; however the images of these KYC documents are stored electronically with the password protected software.
- JFSL shares client related data only with approved credit bureaus and vendors for verification purpose.
- Few clients demonstrated low awareness on the aspect of privacy of client information.

Approval	Documentation
✓ Board has reviewed compliance to qualifying asset criteria and non-credit product offering in the past one year ✓ Board has reviewed credit approval process, indebtedness of borrowers in the past one year ✓ Board has approved fair practice code, credit policies and procedure manual	✓ Loan size, tenure, purpose, and repayment frequency are as per the RBI guidelines and documented in form of office orders. ✓ Credit appraisal and client eligibility guidelines documents in credit policy
Dissemination	**Observance**
✓ All the branch managers are aware of RBI directions regarding KYC norms × Less than half of the staff was aware of turnaround time limits	× Household income of clients was observed to be higher than the RBI limit during CRISIL field visits. × Receipts issued to clients on loan repayment were maintained with the Centre leader pointing towards weak financial discipline.

Governance

- JFSL has documented board-approved policies on constitution of the board.
- The board of the company largely comprises well-qualified professionals across diverse background and possessing sound reputation.
- Independent members comprise one-third of the overall board composition. The company has an independent member as a Chairperson.
- The board meets periodically to review operational and policy issues. Minutes of the meetings are well-documented.
- The annual report of the company details adequate disclosure on operational and financial performance. Website of the company is updated periodically to highlight relevant operational progress. The compensation of the CEO is disclosed in the audit report.
- The company has a board approved debt restructuring process for its clients. Recently the company has implemented the process of debt rescheduling for select category of clients.
- There is an audit committee at the board level which is headed by an independent chairperson.
- JFSL undertakes quarterly audit of all its branches; a dedicated internal audit team is in place which reports to the board committee.
- Action taken report based on the last internal audit report is available in all the sampled JCs. Few common audit observations noticed:
  - Instances where the co-borrower of two clients is the same person. In such cases, JFSL takes a declaration from both clients that in case of death of the co-borrower; the claim will be settled only once.
- During the assessment it has been observed that the majority of the sampled staff are aware of debt re-schedulement policy and procedure.
- The books of accounts are audited by a reputed audit firm. The MFI was found to be complying with relevant accounting standards.

Approval	Documentation
✓ JFSL has written policy regarding constitution of the board and more than 1/3rd of the members are independent. ✓ Audit committee headed by an independent director as the Chairperson. × Limited review of code of conduct compliance × Board approved policy for debt rescheduling for clients facing distress is in place; however board is yet to approve the amended policy to include top-up loans sanctioned recently.	✓ Documented guidelines with regards to debt rescheduling for clients facing distress are in place.

Dissemination	Observance
✓ Majority of staff is aware about the debt restructuring policy ✓ Awareness amongst staff members on the guidelines regarding process to be followed with clients who are delinquent was found to be limited.	✓ Board comprises qualified and reputed members. More than 1/3rd of the board members are independent members. ✓ Board meetings are regularly conducted and minutes are well-documented. ✓ Separate audit committee and a dedicated internal audit team is in place. Audit committee meets periodically to review audit findings and propose course correction measures. Audit observations are presented to the board level committee. ✓ Timely conduct of statutory audit from a reputed audit firm. ✓ There are no adverse observation made in the statutory auditor's report

Recruitment

- Documented policy on recruitment is in place.
- JFSL undertakes reference check from the previous employer while recruiting from another MFI; CRISIL however has not been able to access documents with regards to reference checks conducted on all its new employees and their timely compliance.
- Notice of one month is provided to employees whose service is being terminated. Clarity over the fact that whether JFSL places a request for NOC / relieving letter from another MFI while recruiting an employee is awaited.
- In the instance of staff being recruited from another MFI, the concerned employee was not being observed to assign the operating region served in his previous assignment.

Approval	Documentation
✓ JFSL provides one month notice to the employees whose service is being terminated	✓ Policy on recruitment are documented ✓ JFSL also documents system of reference checks on all its new employees
Dissemination	**Observance**
	✓ JFSL undertakes reference checks while recruiting new employees

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Client Education

- JFSL provides training to the clients pertaining to its products, processes and responsibility of the clients which includes joint liability and meetings and financial choices relating to the pension schemes.
- JFSL displays a small video in vernacular language on financial literacy programmes such as usage of debit card at the ATM to the clients. JCs also have a demo ATM box for practical training.
- JFSL also provides training to the staff which includes raise awareness amongst clients on timely repayment of debt, importance of joint liability, savings habits, and financial literacy.
- Majority of the sampled clients have been made aware about the loan, process, documents, their responsibilities and choices. Clients expressed that JFSL staff have imparted training before loan disbursal.
- Awareness levels on insurance and its claim settlement process was observed to be low. Moreover, several of the sampled clients were unaware on the benefits of national pension scheme (NPS) which they have subscribed to (NPS is cross-sold by JFSL). Also, client awareness on APR and loan instalment amount was observed to be moderate.

Approval	**Documentation**
	✓ JFSL documented the process of raising client awareness
Dissemination	**Observance**
✓ JFSL provides training to the staff pertaining to raise client awareness	✓ Clients expressed that JFSL had made aware about the issues of options, choices and responsibilities ✓ JFSL also provide the practical training to the clients × Client awareness on insurance and its claim settlement process was low × Client awareness on APR and loan instalment was moderate

Feedback & Grievance Redressal

- JFSL's operational manuals contain details of grievance redressal including contact details and escalation mechanism. Grievance redressal mechanism is also a part of staff and client training.
- CReC and CReM reports the grievance and feedbacks to the JC in-charge who conducts the meeting with the client or group. The same is then reported to the Area head or Cluster head, in case JC in-charge is unable to resolve the matter. JCs have complaint boxes installed where the clients can drop the complaints. JC heads open the complaint box on daily basis to identify and resolve the issues.
- JFSL also have toll free number for feedbacks and grievances. The toll free number is mentioned on loan cards, complaint box, and also on best performer group certificates.
- However, it has been observed that the majority of the sampled clients are unaware about the toll free number. There was not a single instance found where the client made a surprise call.
- Majority of the clients are aware about the name of MFI, branch location, grievance redressal mechanism; however majority of the clients are unaware about the location of head office of JFSL.
- JCs visited maintained client grievance and redressal register wherein client complaints are recorded.
- No separate reports detailing adherence to code of conduct (COC) with respects to complaints received and resolved are presented to the senior management.

Approval	Documentation
× JFSL does not maintain separate report detaining adherence to COC with respect to complaints received and resolved are presented to board	✓ Operational manual contains grievance redressal mechanism ✓ The toll free number for feedbacks and grievances is mentioned on loan cards, complaint box, and also on best performer group certificates.
Dissemination	**Observance**
✓ Grievance redressal mechanism is also a part of staff and client training	✓ Clients aware about the name of MFI, branch location, and grievance redress mechanism × Majority of the sampled clients are unaware about the toll free number and location of head office of JFSL. × No instance found where the client made a surprise call.

Data Sharing

- JFSL is a member of the credit bureaus and share the details of clients on regular basis.
- It has a well-defined process for sharing data with the credit bureaus.
- The company also provides on regular basis as required by Self-regulatory organisations (SROs).
- Operational and financial information which is less than a year old is disclosed on company's website.

Approval	Documentation
✓ JFSL is a member of the credit bureau and share the details of clients	✓ JFSL has a well-defined process for sharing data
Dissemination	**Observance**
	✓ JFSL disclosed operational and financial information which is less than a year old on its official website

Annexure: Methodologies

Definition

CRISIL MFI grading is a current opinion on the ability of an MFI to conduct its operations in a scalable and sustainable manner. It is a measure of the overall performance of an MFI on a broad range of parameters under CRISIL's MICROS framework (discussed in further sections). These MFI gradings are assigned on an eight-point scale mfR1 (highest grading) to mfR8 (lowest grading) with a high grading denoting a greater degree of scalability and sustainability. The universe for evaluating institutions under the MFI grading service consists of MFIs operating across India.

The grading exercise includes a review of the MFI's systems, processes and internal controls, assess quality, organisational efficiency, governance, management, financial performance and strength. However, it is not a credit rating, does not indicate the credit worthiness of an MFI, and is not a comment on debt repayment capability.

CRISIL MFI gradings are one-time assessments based on information provided by MFIs. CRISIL does not monitor the grading on an ongoing basis. These are non-issuance based gradings and reviews are done only at the request of the MFI or a prospective investor/donor/lender on a point-in-time basis.

MICROS – MFI Evaluation Framework

Apart from overall financial performance, business volumes, and ratio analysis, the methodology allots due weightage to financial and non-financial parameters including to key business volumes, performance indicators and ratio analysis on a relative basis

Following enunciates the broad grading parameters in the assessment framework.

1) Management

CRISIL's management analysis focuses on assessing systems and processes adopted by the MFI vis-à-vis best practices among financial intermediaries. The following parameters are analysed:

- Operational track record, lending model (joint lending group or self-help group, on-lending or business correspondence), business orientation and outreach – nature of market catered (rural, semi-urban, or urban) and regional presence – for instance, whether operations are confined predominantly in rural / urban areas
- Adherence to regulatory compliances and to the voluntary microfinance code of conduct formulated by MFIs
- Strategic alliances and networks with other agencies (donors, associations, tie-ups) and memberships of self-regulatory organisations (SROs) among others
- Systems for providing credit services - client identification, group formation, credit appraisal, tie-up with credit bureaus, recovery of credit, collection of thrift, loan overdue monitoring, cash flow management, and fraud control

- Processes, internal controls, internal audit – its scope and rigour, quality of accounting practices and reporting, and risk management practices
- Deployment of information technology, hardware and software infrastructure, adequacy of systems and degree of computerisation, security and disaster recovery management
- Human resources management

2) Institutional arrangement

This sections focuses on assessing management risk including quality, track record, and inter-relations among the MFI's management, promoters and board. It also evaluates the articulated vision of the management / board to the stakeholders. Key parameters under this section include:

- Quality of governing board, management and ownership– pedigree of promoters, experience in the field, board structure, organization structure, independence of the board from the management, experience of the senior management and their understanding of the sector
- Governance practices
- Goals and strategies – Articulation of vision, goals and strategies, quality of planning

3) Capital adequacy and asset quality

CRISIL's assessment of MFI's capital adequacy encompasses the following factors:

- Quantum / size of capital and its position with domestic requirements (applicable for non-bank finance companies – MFI)
- Quality of capital, proportion of internal accretions, access to capital grants / donations (for non-corporate / co-operative legal forms)

The evaluation of asset quality includes an assessment of the MFIs ability to manage credit risks. The analysis is based on information provided by the MFI or obtained at meetings with the management or on field visits for discussions with branch staff and clients or a random review of documentation and experiences of other MFIs. The analysis is based on the following:

- Quality of portfolio, client profile, loan conditions, group guarantee, quality of groups formed by the MFI, loan purpose (economic or consumption), and adverse selection risks
- Seasoning of loan portfolio
- Concentration of credit risk – Diversity in end usage of loans, exposure to disaster prone regions or susceptibility to possible event risks, geographical concentration of operations
- Loan loss levels and movement of provisions and write-offs – portfolio at risk (PAR) greater than 30, 90, 180, 360 days levels, one time repayment rates, provisioning and write-off policies, proportion of write-offs and provisions (after CRISIL's adjustments, in case the MFI does not have an adequate policy), loan provision and write-off policies vis-à-vis prudential norms (for NBFC-MFIs).
- Month-wise analysis of collections against demand, including pre-payments

4) Resources and asset liability management

CRISIL analyses the resource position of MFIs on the basis of their ability to maintain a stable resource base and obtain borrowings at competitive rates. CRISIL's analysis factors in the legal status of the MFI (which imposes restrictions on the acceptance of saving/deposits) and the regulatory environment in the country in which the MFU operates.

Moreover, regulatory risks, if any, are considered separately. The key factors analysed under this parameter include:

- Sources of funds
- Composition of borrowings
- Diversity in borrowing profile-banks, apex MFIs/financial institutions, overseas borrowings, money markets, etc.
- Cost of borrowings- trend and comparison with other MFIs
- Other details- ability to securitise portfolio from impact of foreign exchange currency risks
- Asset liability maturity profile of the MFI, liquidity risk and interest rate risk

5) Operational effectiveness

In measuring operational effectiveness, the key consideration are operational efficiency and profitability. MFIs are incorporated under different legal forms; in most countries they are not regulated and do not need to follow standard accounting practices. CRISIL, therefore, performs appropriate analytical adjustments, which are in line with the practices adopted worldwide in evaluating MFIs. The factors analysed under this parameter includes:

- Office outreach and quality of infrastructure
- Operational efficiency- productivity measured through several indicator such as loans/borrowers to loan officer, loans/borrowers per branch and staff allocation ratio. Efficiency is measured through indicators such as operating expenses to average funds deployed , and operating expenses to disbursements
- Diversity of income sources- composition of fund and fee based income
- Profitability – loan pricing, impact of prepayment, operational self-sufficiency (OSS) ratio, net profitability margin (NPM), return on equity (RoE), return on funds deployed/earning assets (RoA)
- Impact of inflation on earnings (used in countries that have experienced high inflation in the past)

6) Scalability and sustainability

An MFI needs to create a sustainable and scalable business model; its products and processes need to be evolved so as to attain institutional and financial resilience. To assess an MFI's ability attain institutional and financial resilience, the following sub-parameters are analysed:

- Fund and resource base sustainability- sustainability of capital with respect to growth in the MFI's loans, plans to raise capital, and resource diversification strategies in place

- Organisational sustainability- legal structure, governance, succession, human resource issues
- Programme sustainability- sectoral expertise, ability to diversify product mix, enter new regions, retain market share in existing operational areas, long term strategy of the MFI/NGO-MFI in microfinance activity.

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

Highest order	
Sensitive indicators	
Higher order	
Integrity and ethical behaviour	
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 and grievance redressal	25
Data sharing	6
Total	**251**

Methodology

The Code of Conduct exercise is spread over 4-8 days. The first day is spent at the head office. The assessment team visits the branches over the next 3-8 days. Depending on the size and the operational area of the MFI, 8-15 branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI are less than 8).

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 centres
Small / mid-sized MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centres)
Large MFI (>2,50,000 borrowers) Large MFIs (loan portfolio outstanding of Rs.500 crore or more, irrespective of the number of borrowers)	12 – 15 branches (geographically distributed) 18 – 20 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centres) 360-400 clients (20 clients per branch covering minimum two centres)

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 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 are 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 maximise 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, we visited 21 branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Pollachi	Tamil Nadu	19
2	Palladam		21
3	K K Nagar		24
4	Madahvaram		32
5	Dombivli	Maharashtra	27
6	Swargate		20
7	Gowani (Chembur)		29
8	Mira Bhayandar		21
9	Hadapsar		20
10	Kalewadi -1		10
11	Kalewadi - 2		20
12	Virar		23
13	Vashi		25
14	Thane		26
15	Borivali		24
16	Palghar		22
17	Kalyan		22
18	Bahadrgarh	Haryana	27
19	Uttam Nagar	Delhi	20
20	Ghaziabad	Uttar Pradesh	21
21	Bommanahallo	Karnataka	20
	Total		**453**

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