

CRISIL Comprehensive MFI Grading

Madura Micro Finance Limited

April 2017



Ratings

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CRISIL Comprehensive MFI Grading

Madura Micro Finance Limited

Comprehensive Grade: *M2C1*

Date assigned: *April 21, 2017*

Scale	C1	C2	C3	C4	C5
M1					
M2	M2C1				
M3					
M4					
M5					
M6					
M7					
M8					

The MFI obtains Comprehensive MFI grade of **M2C1**. This signifies high capacity of the MFI to manage its operations in a sustainable manner and excellent performance on code of conduct dimensions.

Grading Rationale

<p>Microfinance Capacity Assessment Grade</p>	<p>Madura Micro Finance Limited obtains “M2” as its performance grade which signifies “high capacity to manage their microfinance operations in a sustainable manner”.</p> <p>The NBFC-MFI has a strong regional presence. Backed by a strong board and experienced senior management team, the company has adequate systems and processes. Capitalisation levels remain healthy to support near-term growth. Resource profile remains diversified. However, the operations remain geographically concentrated. Asset quality is average and remains susceptible to unexpected operating and credit risks such as impact of drought or potential farm loan waivers. Also, impact of higher loan loss provisioning on the improving earnings profile remains to be seen.</p>
<p>Code of Conduct Assessment Grade</p>	<p>Madura Micro Finance Limited obtains “C1” as its Code of Conduct Assessment Grade which signifies “excellent performance on COCA dimensions”.</p> <p>The NBFC-MFI is a member of SRO. Its fair practice code covers most of the code of conduct parameters. The NBFC-MFI undertakes credit history checks through a RBI approved credit bureau. Women participation in overall workforce remains significantly higher. Around 95.00 per cent of the employees across branches are women. The company provides training on code of conduct to its employees twice a year. The code of compliance report is not available publicly.</p>

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*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.

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Historical Grading History of Madura Micro Finance Limited

Date	Rating Agency	MFI grading
November 29, 2012	CRISIL	mfR3
November 3, 2011	CRISIL	mfR3
October 25, 2010	CRISIL	mfR3
August 31, 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.

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M8	MFIs with this grade are considered to have lowest capacity to manage their microfinance operations in a sustainable manner.
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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

MFI's profile (March 2017)

Name of the MFI	Madura Micro Finance Limited (MMFL)
Legal form	Registered as a non-banking financial company – microfinance institution (NBFC-MFI) with Reserve Bank of India (RBI)
Managing director	Mr. M Narayanan
Year of starting microfinance	2006
Branches (February 28, 2017)	213
Active borrowers	4,96,755
Total staff	1,616
Number of lenders	36 lenders (including banks, sector-specific lenders, and development finance institutions)
Operational area	45 districts in 5 states: Tamil Nadu, Kerala, Karnataka, Maharashtra, and Madhya Pradesh
Visit of the assessment team	From March 20 to 25, 2017
Correspondence address	Madura Micro Finance Limited 36, 2 nd Main Road, Kasturba Nagar Adyar, Chennai – 600 020, Tamil Nadu

Loan Products

Loan product	Groups	Amount (Rs.)	Tenure (months)	Interest rate (%) (reducing balance rate)	Loan processing fee (%)	APR (interest rate and processing fees) (%)	Repayment frequency
Activity term loan I	Self-help groups	10,000-24,000	24	22.50	1.00	~23.00	Monthly
Activity term loan II	(SHGs)	10,000-30,000	24	22.50	1.00	~23.00	Monthly

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Activity term loan III	10,000-36,000	30	22.50	1.00	~23.00	Monthly
Activity term loan IV	10,000-42,000	30	22.50	1.00	~23.00	Monthly
Activity term loan V	10,000-45,000	30	22.50	1.00	~23.00	Monthly
Entry-level loan	10,000-20,000	20	22.50	1.00	~23.00	Monthly
Certified activity term loan	10,000	20	22.50	1.00	~23.00	Monthly
Business development loan	5,000-10,000	20	22.50	1.00	~23.00	Monthly

Groups are graded by the monitoring team, based on regular meetings and profiles of individual group activities, for the second loan. Groups are eligible for an activity term loan after the successful completion of their first loan repayment.

Board of directors (as on February 28, 2017)

Name	Designation	Experience and Qualifications
Dr. Tara Thiagarajan	Managing Director & Promoter	<ul style="list-style-type: none"> • PhD from Northwestern University; Chairperson of MMFL • Director of Tamarai Group of Companies and Microcredit Foundation of India • Has around a decade of experience in microfinance activities
Mr. Ashok Mirza	Director	<ul style="list-style-type: none"> • BS (Electrical Engineering) from Banaras Hindu University (BHU) • Over 35 years of experience in information technology (IT) (worked with Crompton Greaves and IBM); was the regional director of Hinditron Technologies • Founder-director of the Apcom Group, including Dax Networks and Cenza Technologies
Mr. R. Ramaraj	Director	<ul style="list-style-type: none"> • BTech, MBA from IIM Calcutta • Working as an independent consultant and senior advisor to Sequoia Capital • Founder-director of Microland Limited; previously worked as the director of Sterling Cellular and was a co-founder of Sify Limited
Mr. N.C. Sarabeswaran	Independent Director	<ul style="list-style-type: none"> • Chartered accountant • Currently, director of the GMR Group; also served as RBI's nominee director in ING Vysya Bank and Tamilnad Mercantile Bank
Mr. Puneet Agarwal	Independent Director	<ul style="list-style-type: none"> • BTech from IIT Delhi, MBA from Purdue University • Director of product management with Google and member of the leadership team driving the Google Wallet initiative • Also worked as the COO of a VC-funded mobile payments start-up and director of product management & marketing at Capital One

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Mr. Sandeep Narain Farias	Investor Director	<ul style="list-style-type: none"> Integrated law & arts (Honours) degree from National Law School of India Founder and managing director of Elevar Equity; served as a director of Ujjivan Financial Services Limited and Comat Technologies
Mr. Mohan Eddy	Whole-time Director	<ul style="list-style-type: none"> BE (Mechanical), Guindy, and MBA from IIM Calcutta Director & senior vice president at Satyam Computer Services Limited; director & co-founder at Satyam Renaissance Consulting Limited; and managing consultant at Sundaram Information Systems
Mr. Ajit Thomas	Director	<ul style="list-style-type: none"> BTech from IIT Delhi, MBA from Purdue University 10 years of diversified experience Associated with MMFL for the past 1 year
Mr. Siva Kameswari Vissa	Independent Director	<ul style="list-style-type: none"> Chartered Accountant with 28 years of diversified experience; recently associated with MMFL

Key performance indicators				
	Unit	Mar-16	Mar-15	Mar-14
Portfolio at Risk (>30 days)	%	0.60*	0.40	0.70
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	%	20.12	23.57	28.43
Operating Expense Ratio (OER)	%	6.22	5.91	10.63
Funding Expense Ratio (FER)^	%	13.38	12.96	11.16
Write-offs to average portfolio\$	%	0.76	0.84	1.20
Return on Assets (RoA)	%	3.77	4.30	4.89
Return on portfolio (AUM)	%	4.38	5.02	5.74
Return on Equity (RoE)	%	19.91	18.42	16.42
Active borrowers per staff	No.	285	286	225
Active borrowers per branch	No.	2,039	1,879	1,366

*1.70 % as on Feb-17, ^ 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

As on February 28, 2017

Area of operations / geographic reach	:	45 districts in 5 states: Tamil Nadu, Kerala, Karnataka, Maharashtra, and Madhya Pradesh
Lending model	:	SHG-based lending
Borrower base	:	<ul style="list-style-type: none"> ▪ 4,96,755 (as on February 28, 2017) ▪ 4,07,730 (as on March 31, 2016) ▪ 3,17,583 (as on March 31, 2015) ▪ 2,09,042 (as on March 31, 2014)
Employees	:	<ul style="list-style-type: none"> ▪ 1,616 (as on February 28, 2017) ▪ 1,430 (as on March 31, 2016)
No. of branches	:	<ul style="list-style-type: none"> ▪ 213 (as on February 28, 2017) ▪ 200 (as on March 31, 2016) ▪ 169 (as on March 31, 2015) ▪ 153 (as on March 31, 2014)
Assets under management (AUM)	:	Rs.7,803.66 million (including managed portfolio Rs.38.40 million)

Loan Products

Loan product	Groups	Amount (Rs.)	Tenure (months)	Interest rate (%) (reducing balance rate)	Loan processing fee (%)	Repayment frequency
Activity term loan I	SHGs	10,000-24,000	24	22.50	1.00	Monthly
Activity term loan II		10,000-30,000	24	22.50	1.00	Monthly
Activity term loan III		10,000-36,000	30	22.50	1.00	Monthly
Activity term loan IV		10,000-42,000	30	22.50	1.00	Monthly
Activity term loan V		10,000-45,000	30	22.50	1.00	Monthly
Entry-level loan		10,000-20,000	20	22.50	1.00	Monthly
Certified activity term loan		10,000	20	22.50	1.00	Monthly
Viyabra Viruthi Loan		30,000-1,00,000	12	28.30	2.00	Monthly
Business development loan		5,000-10,000	20	22.50	1.00	Monthly

Groups are graded by the monitoring team, based on regular meetings and profiles of individual group activities for the second loan. Groups are eligible for an activity term loan after the successful completion of their first loan repayment.

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Social and Transparency Indicators

As on December 31, 2016

In Per cent

Average loan outstanding/per capita GNI (2015 figure)*	25.00
Women staff/total staff	50-55 per cent
Women borrowers/total borrowers	~100.00
Lending rate charged by MFI	22.50-28.30
Are interest rates (on reducing basis) 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 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

Reserve Bank of India (RBI) Guidelines

Parameter	RBI requirements for NBFC-MFIs*
Capital requirement	Rs.50.00 million in net-owned funds
Multiple lending	Not more than two MFIs can lend to the same borrower
Annual income of households qualifying for MFI loans	<ul style="list-style-type: none"> ➤ Rural area: Less than or equal to Rs.1 lakh ➤ Non-rural area: Less than or equal to Rs.1.6 lakh
Disbursements	<ul style="list-style-type: none"> ➤ First cycle: Less than or equal to Rs.60,000 ➤ Subsequent cycle: Less than or equal to Rs.1 lakh
Borrower indebtedness	<ul style="list-style-type: none"> ➤ Less than or equal to Rs.1 lakh
Loan tenure	<ul style="list-style-type: none"> ➤ Greater than or equal to 24 months for amount in excess of Rs.30,000 ➤ Moratorium period greater than or equal to frequency of repayment
Loan repayment	<ul style="list-style-type: none"> ➤ Repayable in weekly, fortnightly, or monthly instalments, as per the borrower's choice
Interest rate	<p>Lower of the following:</p> <ul style="list-style-type: none"> ➤ Cost of funds plus margin (capped at 10 per cent for large MFIs and 12 per cent for others) ➤ Average base rate of the five largest commercial banks by assets multiplied by 2.75 per cent
Loan purpose	More than 50 per cent of loans are for income-generating activities
Loan loss provision	<p>Shall not be less than:</p> <p>Standard assets</p> <ul style="list-style-type: none"> ➤ 1 per cent of the outstanding loan portfolio <p>Non-standard assets</p> <ul style="list-style-type: none"> ➤ 50 per cent of the loan instalments which are overdue for ≥90 days and ≤180 days <p>And</p> <ul style="list-style-type: none"> ➤ 100 per cent of the loan instalments which are overdue for ≥180 days

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Penalty	<ul style="list-style-type: none"> ➤ No penalty on delayed payments ➤ No penalty on prepayments
Recovery practices	<ul style="list-style-type: none"> ➤ Shall adopt non-coercive methods of recovery ➤ Recoveries to be made only at a central designated place ➤ Recoveries at residence only if a customer fails to appear at the designated place more than twice
Capital adequacy	15.00 per cent
Credit information company (CIC)	Membership of at least one CIC
Self-regulatory organisation (SRO)	Membership of at least one SRO
Qualifying assets	85.00 per cent

**Compliance of the above is not mandatory for not-for-profit MFIs and co-operative societies*

MFI GRADING RATIONALE

CRISIL's MFI grading of MMFL reflects the following strengths:

- Strong regional presence
- Experienced board and qualified senior management
- Adequate systems and processes
- Diversified resource profile
- Improving earnings profile

However, these strengths are offset by the following weaknesses:

- Geographic concentration of loan portfolio
- Heightened competition from MFIs and small finance banks
- Asset quality susceptible to operating and credit risks

PROFILE

MMFL was established as an NBFC in 2005 and registered with the RBI in February 2006 to commence its microcredit operations. It lends to women micro-entrepreneurs organised into SHGs; it caters to both rural and urban areas. The company commenced its microfinance operations in early 2006, in Tamil Nadu. Since then, it has grown to 246 branches spread across 44 districts in 5 states, with total AUM amounting to Rs.5,530 million.

MMFL's main focus is to improve the socio-economic conditions of underprivileged individuals. The initial seeds of MMFL's operational and lending philosophy were laid by its founding chairman, Dr. K. M. Thiagarajan, who was formerly the chairman and chief executive officer of Bank of Madura (BoM), based in Tamil Nadu. During the 1990s, BoM used its rural branch network extensively to promote and lend to SHGs, so much so that the project even received due recognition from the National Bank for Agriculture and Rural Development (NABARD). In 2000, BoM merged with ICICI Bank, and lending operations to these SHGs were undertaken in a scalable manner. In August 2003, with a view to continue social development and lending to SHGs, Dr. Thiagarajan established Microcredit Foundation of India - a Section 25 company which took over the management of existing SHGs in Tamil Nadu under a partnership model with ICICI Bank.

The limitations imposed by the not-for-profit structure, particularly towards strengthening capital structure and maintaining adequate loan loss buffer to cover actual credit losses, were considered major hindrances in scaling up. Accordingly, MMFL was incorporated in 2005 as an NBFC, which formally commenced microcredit operations in 2006 by acquiring the borrowers and staff of Microcredit Foundation of India.

Operating models

MMFL presently functions as per two distinct operating models: cluster-based model and branch-based model.

A) Cluster-based model:

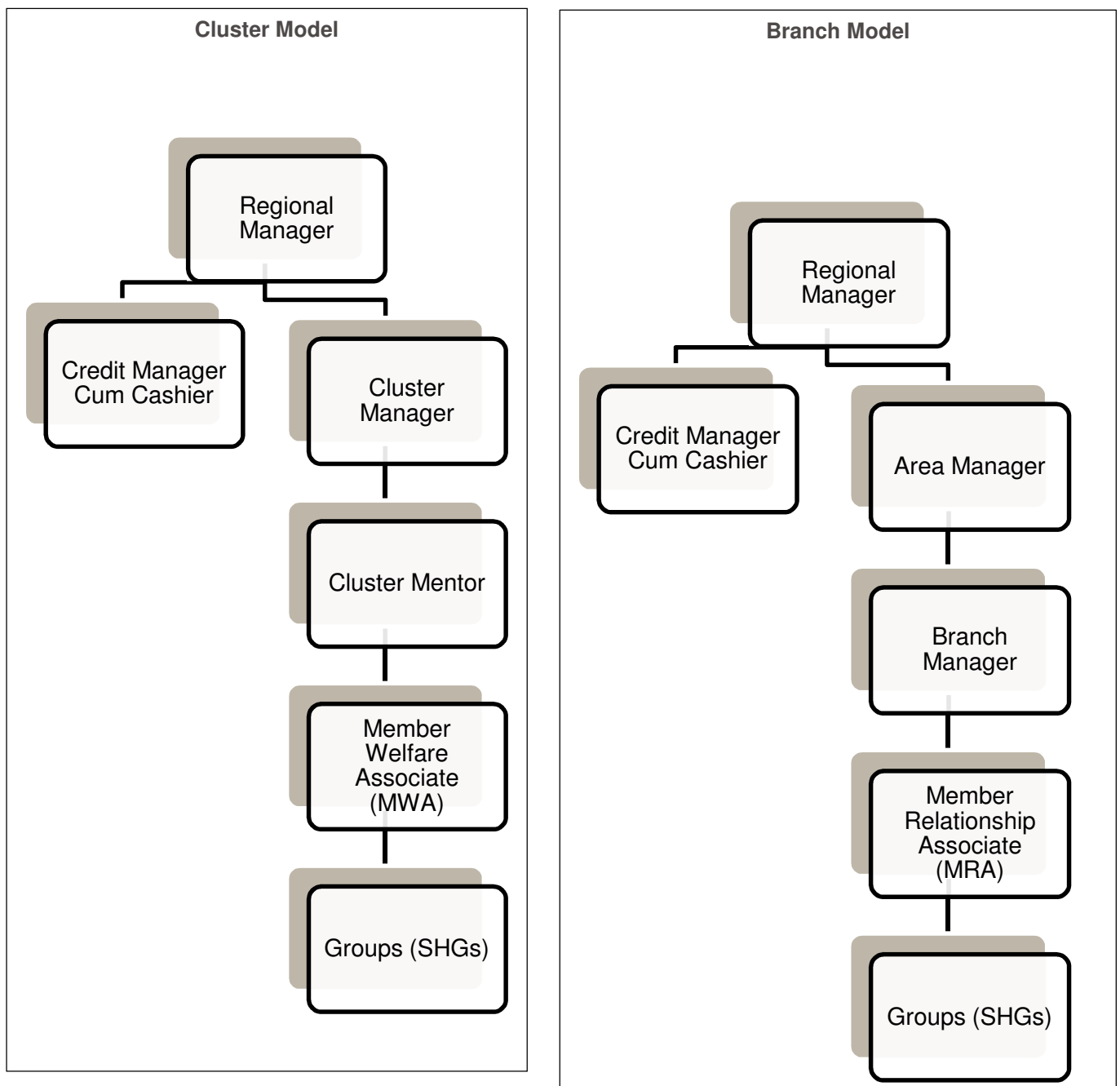
The cluster-based model has the inherent traits of a traditional SHG model. In addition, it involves a participative management process, focusing on engaging SHG women members in the credit administration process. Originally promoted by Dr. K. M. Thiagarajan, the model has been in use for over two decades now; the organisation has also replicated it in a few other regions. Several members have been associated with MMFL for over two decades.

Experienced members of the women SHGs are encouraged by MMFL to join as member welfare associates (MWA) and undertake group meetings and collections. Loan recoveries are remitted to MMFL's branches. MWAs demonstrating sound performance are eligible for promotion as per the designated cadre in the hierarchy. Typically, MMFL's cluster covers three branches. Each branch is supported by one cluster mentor

who manages about seven to eight MWAs who, in turn, handle a total base of 3,000-4,000 members and average assets under management worth Rs.30 million.

B) Branch model:

This model is similar to the joint liability group model adopted by industry players. The cluster-based model is suitable for operating regions that demonstrate the inherent characteristics of the SHG approach; however, new operational areas, particularly in the central and western states of the country, lack a matured credit culture. Thus, for better operational efficiency, MMFL's management has chosen to adopt the branch model. The regional manager is the apex authority in the branch model who is supported by an area manager, a branch manager, and a member relationship associate (MRA). Each branch has a branch manager supported by 4-6 MRAs who form groups and undertake collections. An MRA presently handles about 1,000-1,200 members and manages average assets under management worth Rs.10-12 million.



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Lending and operational methodology

The MFI initially selects an operational area after conducting a field survey to understand its demographic and socio-economic profile and other MFIs operational in the area. It then designates an MWA/MRA, responsible for group promotion, to organise a general meeting for targeted members. The MWA/MRA presents details of the meeting to the organisation, its social development activities, and microfinance programme. Those interested in membership are invited to the group formation meeting at the centre; in this meeting, 8 to 12 married women in the age group of 20 to 55 years and from the same locality organise themselves into SHGs.

After the group is formed, member details are captured in the handheld electronic device/tab by the MWA/MRA in a family survey report. These member details are further screened through credit bureau checks (High Mark verification). Members accomplishing the requisite credit norms then undergo a basic awareness training (BAT) programme conducted by MWA/MRA, where the members are provided details regarding the MFI's policy, loan products, and repayment, within a month of the group formation. Following the BAT programme, the cluster mentor/branch manager and MWA/MRA conduct an oral group recognition test (GRT) to ascertain members' understanding of the organisation's policies and procedures. Loan agreement, registration forms, and know-your-customer (KYC) documents are collected from each borrower at this stage.

In the subsequent process, the MRA/MWA undertakes house verification of the borrowers along with scrutiny of loan documentation. The branch manager/cluster mentor undertakes random verification of the details shared by clients in their applications through house visits. The documents are then sent to the regional office and then sent to the corporate office post final verification. Family survey report is verified through hard copy documents. In case of any mismatch, queries are sent to the branch/cluster office through mail, and responses are sought from the concerned MRA/MWA. Loans are sanctioned after clarification and verification of member documents; cheques are dispatched to the respective branches.

Group meetings are organised twice a month. Loan repayments are undertaken in the first group meeting. The second meeting focuses on social development activities, awareness creation, and discussions pertaining to the income generation activities undertaken by the SHG members. The group leader (animator) assumes the responsibility of undertaking collections and also updates each individual member's passbook. The collected amount is deposited via the credit manager-cum-cashier at the MFI branches. This activity is carried out by one of the group members on the same day; this member also gets the SHG's passbook updated. MMFL undertakes an assessment of the SHGs post the completion of the loan cycle. This assessment is made considering various parameters, including convening of group meetings, attendance of members at these meetings (centre meetings and development interventions), timely upkeep of registers, and loan repayment by the members. Based on the assessment, SHGs are assigned a grade, which acts as an eligibility criteria for subsequent loans; besides, it helps design appropriate strategies for improving the quality of weak SHGs.

Since its previous assessment, the MFI has upgraded from mobile-based collections to Android-based applications - Shakti CRM and Shakti Collection - for capturing the borrower's demographic profile data and

updating repayment in the management information system (MIS). The MRA/MWA collects data through Shakti CRM in the family survey report and copies of KYC documents. Shakti Collection, on the other hand, is used by the credit manager-cum-cashier for the collection process. The MFI has also introduced Shakti Sangamam, a web-based core loan processing application, for better operational efficiency.

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Management

A. Track record: Strong institutional track record of management in microfinance, banking, and rural finance

- The management of MMFL has a long track record, spanning over a decade, in undertaking microfinance operations, including credit and non-credit services. The experience of the founders and the management in SHG formation and lending to the bottom of the pyramid through BoM, which was later merged with ICICI Bank, has been factored in.
- The MFI is involved in various development activities, including SHG formation, women empowerment, and awareness creation. This expertise has enabled MMFL to become familiar with local issues and operational dynamics in the operating area.

B. Product mix: Diverse product mix

- The MFI has launched several products for its large client base as per the requirement. Its product profile ranges from microfinance loans, individual loans, and festival loans to large ticket size enterprise-finance loans. It also offers a 1-month moratorium period.
- Products are offered to clients irrespective of the purpose of the loan (agriculture, poultry, or business loan). Based on its in-house data analysis of the requirements of village entrepreneurs, it had launched a separate product offering called 'Retail Microcapital' for providing credit to small retailers, which was disseminated through fast-moving consumer goods (FMCG) distributors. MMFL, however, has discontinued the product temporarily, owing to concerns over the quality of clients sourced through this channel. It has planned a direct implementation of the product without the involvement of any distribution channels to have better control over client acquisition and asset quality.
- Products are developed on the basis of survey, research, or stakeholder input and employee feedback.
- MMFL's product bouquet has scope for diversification. It doesn't have any specific credit offerings designed in accordance with the nature of the client's income-generating activity with suitable modifications structured towards moratorium, pricing, and tenure. Moreover, MMFL is yet to launch high-ticket loan products (Rs.1–5 lakh) targeted towards micro, small, and medium enterprises.

Non-credit service:

- The MFI offers the following non-credit services, among others:
 - Group insurance
 - Financial literacy and general awareness programmes
 - Micro business education programmes in partnership with National Skill Development Corporation
 - Community health services, such as medical check-ups and eye camps; has tie-ups with Aravind Eye Hospital, Vasan Eye Care, Agarwal Eye Hospital, and local clubs.
- The MFI also offers vocational courses (adult literacy programme) to youth through Tata Consultancy Services.

<ul style="list-style-type: none"> It presently does not offer services related to savings, pension, and remittances. 	
C. Credit approval mechanisms: Adequate	
Credit sanction	<ul style="list-style-type: none"> Partially centralised with the head office
Loan sanctioning authority	<ul style="list-style-type: none"> Cluster mentor/branch manager and MWA/MRA approve the loan after due diligence
CGT & GRT	<ul style="list-style-type: none"> BAT is conducted before sanctioning the loan to the borrowers. After the successful competition of BAT, tests are conducted to capture the awareness of borrowers on: <ul style="list-style-type: none"> Size of loan Centre location, meeting date, and time Loan products, interest rate, tenure, and other terms Roles and responsibilities as a group member Number of members present, including centre leader
House verification	<ul style="list-style-type: none"> House verification is done by MRA/MWA. It is also randomly carried out by the branch manager/cluster mentor for better assessment of borrowers and their repayment capability.
Credit information company (CIC) verification	<ul style="list-style-type: none"> The MFI is affiliated with a credit bureau: High Mark; it avails the services of the credit bureau to verify the credit history of potential borrowers while sharing outreach details. After checking with the credit bureau, BAT is conducted in group meetings and documents are collected, and then further process takes place.
Extent of data capturing	<ul style="list-style-type: none"> The MFI captures each borrower's socio-economic and demographic indicators in the loan application, including family details, loan repayment ability, occupation, income/savings profile, type of property, and assets owned; all of this is captured through Android-based applications (Shakti CRM and Shakti Collection).
Disbursements	<ul style="list-style-type: none"> Loan amount is disbursed through cheque.
Loan utilisation checks (LUCs)	<ul style="list-style-type: none"> House verification and loan utilisation checks are done by MRA/MWA. Random checks are also carried out by the branch manager/cluster mentor for better assessment of borrowers and their repayment capability.
Collections	<ul style="list-style-type: none"> Loan instalments are collected during centre meetings and are deposited at an MFI branch by a member (randomly chosen) of the group. The MFI practices cashless transaction, starting from

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	loan disbursement to repayment collection. It has restricted repayment frequency to monthly.
D. Documentation: Adequate	
Loan application agreement	<p>Captures:</p> <ul style="list-style-type: none"> ✓ Client's demographic profile and KYC details ✓ Group address ✓ Group formation date ✓ Landholding details ✓ Loan facility applied ✓ Interest rate ✓ Purpose of availing loan ✓ Repayment frequency
Documents collected	<ul style="list-style-type: none"> ▪ KYC - valid ID proofs (borrower) ▪ Declaration of self-indebtedness ▪ Letter of acceptance of terms and conditions
Loan card/passbook	<ul style="list-style-type: none"> ▪ Product terms and conditions - including interest rate, tenure, usage fees, and repayment schedule - are printed on the loan cards and communicated verbally to the clients during group training; they are also displayed at the branches. • Loan card – vernacular language • Disclosures in loan card: <ul style="list-style-type: none"> ✓ Name of the organisation, address, and contact details ✓ Name of the group ✓ Purpose of the loan ✓ Interest rate (on reducing balance method) ✓ Insurance premium ✓ Loan processing fees ✓ Date of loan and centre meeting dates ✓ Segregation of principal and interest • Loan card does not disclose: <ul style="list-style-type: none"> x Brief details of credit history x LUC details
Policy manuals	<ul style="list-style-type: none"> ▪ Human resources ▪ Operations ▪ Internal audit ▪ MIS and IT ▪ Accounts, cash management, and finance

<p>Documents/registers maintained</p>	<ul style="list-style-type: none"> ▪ Client registration and loan applications ▪ Attendance register ▪ Centre meeting register ▪ Cash movement register ▪ Field movement register ▪ Stock/inventory register ▪ Default register ▪ Log book vehicle register ▪ Cash and key register ▪ Cheque register ▪ Cash not remitted into account register ▪ Inward/outward register ▪ Insurance claim register ▪ Visitors' register ▪ Master data – SHG register
<p>E. MIS & IT</p>	
<p>1) MIS – Adequate</p>	
<p>MIS platform</p>	<ul style="list-style-type: none"> ▪ The MFI uses user-friendly and dedicated web-based software (Shakti Sangamam) for processing loans and tracking microfinance operations. ▪ It can generate various consolidated reports, including portfolio at risk (PAR), operational progress, and cash management. It is integrated with the Android-based applications (Shakti CRM and Shakti collection). ▪ Shakti Sangamam is synchronised with a mobile-based application and integrated with credit bureau checks. ▪ MMFL deploys an Android-based application to capture borrower details and repayment data. This facilitates tracking of receivables and operational status on real-time basis and also reduces turnaround time.
<p>Updating of KYC and entry of operational data</p>	<ul style="list-style-type: none"> ▪ Decentralised at branches
<p>Reconciliation of collections & disbursements (at HO)</p>	<ul style="list-style-type: none"> ▪ Daily reconciliation of receivables at branches ▪ Netting off approach, wherein expected disbursements are adjusted against collections
<p>2) IT – Above-average IT system</p>	

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<p>IT automation for field operations and portfolio tracking</p>	<p>A) Extent of automation:</p> <ul style="list-style-type: none"> ▪ Manual collection process ▪ Daily collection figures are updated in the MIS at the MFL branch. These entries are then checked at the HO. In case any modifications are required, rectification is done at the HO level. <p>B) Portfolio tracking</p> <ul style="list-style-type: none"> ▪ Portfolio is tracked daily at the HO level through web-based loan-tracking software that is integrated with the MIS platform.
<p>Security mechanisms</p>	
<p>Data back-up and recovery</p>	<p>Regular data backup, stored on the remote server</p>
<p>Client data privacy / branch controls on access to and updation of client data</p>	<ul style="list-style-type: none"> ▪ MMFL has a policy on privacy and usage of client data. It is to be shared only with an RBI-approved credit bureau and others, as required by regulators/funders. ▪ It does not have specific policy on storage and preservation of client documents. ▪ Borrowers demonstrated good awareness of the MFI's privacy policies, financial literacy, and indebtedness. ▪ The MFI's IT systems are adequate to handle customer data. Shakti CRM and Shakti Collection were introduced to capture data regarding borrowers and repayment collection for better operational efficiency and reduced TAT. ▪ Employees undergo IT and security awareness training. The MFI maintains separate IT/MIS policies, and they are accessible by all branches.
<p>F. Internal audit & risk monitoring mechanisms: Average</p>	
<p>Team size</p>	<ul style="list-style-type: none"> ▪ The MFI has an 11-member internal audit team; each auditor spends 6 days (2 days for verification of branch documents, 3 days for field visit, and 1 day for report preparation and discussion during the internal audit).
<p>Frequency</p>	<ul style="list-style-type: none"> ▪ Quarterly
<p>Process, documentation, coverage, and scope</p>	<ul style="list-style-type: none"> ▪ The internal audit team verifies loan documentation and conducts random verification of borrowers' details, such as address, household income, attendance and awareness levels, participation in group meetings, process deviations/violations, and interest rate. The MFI also captures data based on client protection and quality of client data, among others. Process

	<p>compliance and financial statements are also checked at the branch level.</p> <ul style="list-style-type: none"> ▪ The internal audit team also tracks borrowers' attendance, loan utilisation, data verification, and aspects related to client protection; these findings are well-documented in audit reports and discussed in board meetings as well. ▪ Customer relationship associates check and verify field data on random basis for better risk assessment.
Compliance / action-taken reports	<ul style="list-style-type: none"> ▪ The audit committee comprises four members of the MMFL's governing board, headed by an independent director; their findings are documented and shared in board meetings as well as with respective departments. The MFI prepares detailed compliance and action-taken reports.
G. Cash management: Adequate	
Cash management	<ul style="list-style-type: none"> ▪ Cash management policy is in place. ▪ Collections are deposited in the respective MFI branch on the same day.
Cash insurance	<ul style="list-style-type: none"> ▪ MMFL has a tie-up with Bajaj Allianz General Insurance Company Limited for cash insurance. The insurance limit is about Rs.10 lakh.
Maximum cash balance policy	<ul style="list-style-type: none"> ▪ As a policy, the NBFC-MFI does not maintain day-end cash at its branches.
Cash security	<ul style="list-style-type: none"> ▪ Lockers and vault – Yes ▪ Surveillance cameras – None
Cash movement	<ul style="list-style-type: none"> ▪ Inter-branch cash transfers – None
H. HR management: Adequate	
Separate HR department	<ul style="list-style-type: none"> ▪ MMFL has a dedicated HR department at the HO with well-delineated policies for recruitment, selection, and training.
Recruitment strategies and process	<ul style="list-style-type: none"> ▪ Recruitment process is adequate for the current size of operations. ▪ Recruitments are done through advertisements, local colleges, references, and local consultants. Local recruitments are taken care of by the state/regional HR team besides internal referrals.
Staff training	<ul style="list-style-type: none"> ▪ Adequate staff training policy is in place. MMFL has established a dedicated staff training centre at Madurai for its field executives. ▪ It conducts induction/orientation training (classroom training) and 1 month field training and has trainings by in-house teams through video and interactive sessions. To enhance the soft skills of its

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	<p>credit officers, a 2-day programme is organised by the training department annually. It covers skill management, negotiation, leadership, and team building.</p> <ul style="list-style-type: none"> ▪ The MFI has a standardised induction module (video) to ensure uniformity in employees' understanding of Madura's mission, vision, and nature of work. ▪ There is regular training provided on social performance, including assessment, performance tracking, training on how to handle customers and complaints, code of conduct, and customer protection measures.
<p>Attrition rate in the last 1 year</p>	<ul style="list-style-type: none"> ▪ Moderate (~15 per cent) ▪ Majority of the staff exits are at the field level.
<p>Employee grievance</p>	<ul style="list-style-type: none"> ▪ The MFI has an employee grievance redressal system apart from a whistle-blower policy and a policy for prevention of sexual harassment at workplace. ▪ The internal complaint committee at MMFL does not have representation from external members. The employee grievance policy addresses grievances of both permanent and temporary employees. ▪ The MFI obtains feedback from employees on various aspects, including enrichment of job role, product design, and client servicing. It also conducts a survey on satisfaction of employees through an external agency.
<p>Employee benefits and appraisal</p>	<ul style="list-style-type: none"> • It has a well-defined performance appraisal process, which grades individuals on multiple dimensions according to their designation. • For field staff, MMFL has a performance management tool (Shakti Sadhanai), which assesses three parameters (forecasting monthly targets on quarterly basis, measuring and tracking it on monthly basis, and helping identify strong/weak cluster/branch offices). It also comprises productivity parameters relevant to assessing the overall health of the business and individuals. • Staff receive a fixed salary with all other benefit packages that include provident fund, staff advances, ESIC dues, maternity/paternity leaves, marriage leaves, festival bonus, group life insurance coverage, mediclaim and job rotation. • Staff members are not yet covered under medical insurance. However, they are entitled for mediclaim. Incentive schemes are aligned for the front line staff.

- The MFI applies a six-tier incentive structure for field staff. It is based on key performance indicators, which is based on members handled and productivity score (*including sub-parameters for client retention, new member registration, client acquisition, and maintenance of group cohesiveness*). Incentive for mentors and cluster and regional managers is calculated based on the productivity structure. The incentive of MWAs is based on the number of clients handled.

Institutional Arrangement

A) Ownership structure and governing board	
Board profile	<ul style="list-style-type: none"> ▪ MMFL has a nine-member governing board comprising a promoter director, directors, an investor director, independent directors, and a whole-time director. ▪ The managing director and promoter, Dr. Tara Thiagarajan, has rich experience in microcredit services and development activities. Her significant experience in data analytics has enabled the transformation of various processes at MMFL. ▪ Other board members have adequate experience in rural finance, banking, technology, risk, product management, and operations. The governing board has average composition of independent directors (two out of seven board members, including the promoter); there is scope for strengthening the board profile through broad-basing the composition of independent directors from diverse backgrounds. ▪ There is no fixed term for board members; the MFI has a two-member advisory board, which comprises members of repute in the financial services industry.
Board meetings	<ul style="list-style-type: none"> ▪ Meetings are conducted on quarterly basis; the MFI conducts meetings regularly to discuss the given agenda and focus on issues related to operations, expansion, audit, competition, funding, and party transactions. ▪ Minutes of the meetings (MoMs) are very well-documented and capture issues related to social performance.
Profile of senior management	<ul style="list-style-type: none"> ▪ Senior management has adequate experience in microfinance, agriculture, human resource, IT, banking, marketing, rural finance, and strategy, which provides scope for developing and nurturing each department.
B) Management practices, goals, and strategies	
Planning / budgeting / performance review	<ul style="list-style-type: none"> ▪ Above average. Strategic goals are laid out and disseminated to the staff through internal meetings held on a timely basis. ▪ Board meetings focus on review of operational performance and financials; however, they do not include audit and risk management, process improvement, and social performance data tracking. ▪ A dedicated internal audit department is in place to identify gaps in processes; however, there is scope for strengthening monitoring and controls.
Committees	<ul style="list-style-type: none"> ▪ Audit ▪ Nomination & remuneration ▪ Risk management ▪ Asset liability management (ALM) ▪ Corporate social responsibility

	<ul style="list-style-type: none"> ▪ IT ▪ Sexual harassment
Accounting policies	<ul style="list-style-type: none"> ▪ As per accepted accounting standards • Income recognition: <ul style="list-style-type: none"> ○ Interest income on MFI loans: Accrual basis ○ Interest income on deposits with banks: Accrual basis ○ Loan processing fees: Upfront (when collected from members) ○ Other income: Accrual basis • Others: <ul style="list-style-type: none"> ○ Borrowing cost: Over loan tenure
Disclosures	<ul style="list-style-type: none"> ▪ Adequate public disclosures through annual reports, newsletters, CSR magazines, and websites
Audit report	<ul style="list-style-type: none"> ▪ No adverse comments or qualifications issued by statutory auditors
Auditors/ change in auditors, if any / rotation policy	<ul style="list-style-type: none"> ▪ Audit firm - S. Nagarajan, S.N.S. Associates, Chennai, Tamil Nadu

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Board of directors (as on February 28, 2017)

Name	Designation	Experience and Qualifications
Dr. Tara Thiagarajan	Managing Director & Promoter	<ul style="list-style-type: none"> ▪ PhD from Northwestern University; Chairperson of MMFL ▪ Director of Tamarai Group of Companies and the Microcredit Foundation of India ▪ Has around a decade of experience in microfinance activities
Mr. Ashok Mirza	Director	<ul style="list-style-type: none"> • BS (Electrical Engineering) from BHU • Over 35 years of experience in IT (worked with Crompton Greaves and IBM); was the regional director of Hinditron Technologies • Founder-director of the Apcom Group, including Dax Networks and Cenza Technologies
Mr. R. Ramaraj	Director	<ul style="list-style-type: none"> ▪ BTech, MBA from IIM Calcutta ▪ Working as an independent consultant and senior advisor to Sequoia Capital ▪ Founder-director of Microland Limited; previously worked as the director of Sterling Cellular and was a co-founder of Sify Limited
Mr. N.C. Sarabeswaran	Independent Director	<ul style="list-style-type: none"> ▪ Chartered accountant ▪ Currently, director of the GMR Group; also served as RBI's nominee director in ING Vysya Bank and Tamilnad Mercantile Bank
Mr. Puneet Agarwal	Independent Director	<ul style="list-style-type: none"> ▪ BTech from IIT Delhi, MBA from Purdue University ▪ Director of product management with Google and member of the leadership team driving the Google Wallet initiative ▪ Also worked as the COO of a VC-funded mobile payments start-up and director of product management & marketing at Capital One
Mr. Sandeep Narain Farias	Investor Director	<ul style="list-style-type: none"> • Integrated Law & Arts (Honours) degree from National Law School of India

		<ul style="list-style-type: none"> • Founder and managing director of Elevar Equity; also served as a director of Ujjivan Financial Services Limited and Comat Technologies
Mr. Mohan Eddy	Whole time Director	<ul style="list-style-type: none"> ▪ BE (Mechanical), Guindy, MBA from IIM Calcutta ▪ Director & senior vice president at Satyam Computer Services Limited; director & co-founder at Satyam Renaissance Consulting Limited; and managing consultant at Sundaram Information Systems
Mr. Ajit Thomas	Director	<ul style="list-style-type: none"> ▪ BTech from IIT Delhi, MBA from Purdue University ▪ 10 years of diversified experience ▪ Associated with MMFL for the past 1 year
Mr. Siva Kameswari Vissa	Independent Director	<ul style="list-style-type: none"> ▪ Chartered accountant ▪ 28 years of diversified experience ▪ Recently associated with MMFL

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SENIOR MANAGEMENT (as on February 28, 2017)

Name	Designation	Experience and Qualifications
Mr. M. Narayanan	CEO	<ul style="list-style-type: none"> ▪ BCom, CAIIB ▪ 25 years of experience in the banking industry; active member of the strategic planning, investment, forex, and ALCO committees ▪ Also worked as VP, corporate banking, ICICI Bank, and group treasury head of the GMR Group, Bengaluru
Mr. Ruben Thomas	Senior Vice President, Retail Microcapital	<ul style="list-style-type: none"> ▪ BA and MA (Economics) from The American College, Madurai, MBA (Sales and Marketing) from Thiagarajar School of Management ▪ Heads the retail microcapital business at Madura. Was previously part of the start-up team at Vodafone. Most recently, he was general manager of sales at Vodafone. Prior to Vodafone, he headed marketing and sales for PepsiCo India in Tamil Nadu and Kerala and was awarded the President's Ring of Honour
Mr. A. Ravishankar	Sr. Vice President, Business Development	<ul style="list-style-type: none"> • Ex-CEO of a food processing company • Has experience in the agriculture sector; was previously associated with the Andhra Pradesh government, working on farmer's access to market programmes, as a consultant
Mr. Sanin Panicker	Company Secretary	<ul style="list-style-type: none"> ▪ BCom, ACS ▪ More than 5 years of experience, including pre-qualification stint with a practicing company secretary. Was previously associated with Directus Consultants
Mr. Shyam Kumar	General Manager, Credit	<ul style="list-style-type: none"> ▪ MBA (Marketing, Research, and Advertisement) from School of Management, Annamalai University ▪ 20 years of experience in financial services and auto ancillary industries. Has expertise in credit analysis, product development, sales & marketing, and collections. Has worked with NBFCs, such as CitiFinancial and Equitas Microfinance, and with HDFC Bank

Mr. G. Parthasarathy	Vice President, Business Development	<ul style="list-style-type: none"> ▪ LLB; MBA (Marketing) ▪ Has over 15 years of experience in business development, customer relationship, and team management with GE Money, HDFC Bank, and Muthoot Group; was previously associated with BEBB India as National Head, Risk Management.
Ms. Rajeena Thomas	General Manager, People Excellence	<ul style="list-style-type: none"> ▪ MBA (Human Resources) ▪ Over 10 years of experience in the business partner role, involving various projects at corporate HR level, focusing on organisational development ▪ Was previously associated with L&T Finance Limited as zonal HR head
Mr. Ganesh Kumar	AGM process and training	<ul style="list-style-type: none"> ▪ BCom ▪ Has more than 32 years of experience in training and banking operations. ▪ Worked with various companies, such as Southern Railways, BoM, Equitas Microfinance, and ESAF Microfinance. Was previously associated with Engfluence, Chennai
Mr. Ravikumar Doddala	Business Head – Group Lending	<ul style="list-style-type: none"> ▪ MBA ▪ Has more than 20 years of experience in sales and marketing, business development, channel management and heading profit centre ▪ Has worked with various companies, such as Apollo Tyres Limited, Cholamandalam Investment and Finance Company Limited., Equitas Microfinance, and Tata Motors Finance Limited.
Mr. Raja Elayakumar	Head – Internal Audit	<ul style="list-style-type: none"> ▪ Degree in Agriculture ▪ Has more than 30 years of experience in rural lending and credit programmes, loan recovery, dairy and poultry, horticulture, wasteland development, and rural based businesses ▪ Joined ICICI Bank Limited, and later Bank of Madura prior to his association with Madura Micro Finance Limited.
Mr. K. Manoharan	Head - Training	<ul style="list-style-type: none"> ▪ Degree in Agriculture

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		<ul style="list-style-type: none"> ▪ Has more than 30 years of experience in agriculture/horticulture, and rural credit/banking ▪ Worked with ICICI Bank of Limited and later Bank of Madura where he was active in shaping SHG-development. Has been later associated with Madura Micro Finance Limited.
Mr. Samuel Mathews	AVP – Finance and Accounts	<ul style="list-style-type: none"> ▪ Chartered Accountant with additional Master’s degree in Business Finance ▪ Has more than 10 years of post-qualification experience including in accounts/finance, treasury, and process automation ▪ Worked with Anna Aluminium Company, Geojit BNP Paribas, HDFC Standard Life, and Muthoot Mini Financiers.

Advisory Committee

Name	Profile
Mr. M. V. Subbiah	Former chairman of Murugappa Group of Companies, Chennai
Dr. Marti G. Subrahmanyam	Stern School of Business; New York University, USA

CAPITAL ADEQUACY & ASSET QUALITY

A) Capital adequacy: Adequate capitalisation levels for near-term growth projections					
As on February 28, 2017					
Net worth (NW)	Rs.1,922.21 million				
Debt / NW	3.26 times				
Capital to risk adjusted ratio (CRAR)	20.12%*				
<i>*as on March 31, 2016</i>					
Capital composition (%)	Feb-2017	Mar-16	Mar-15	Mar-14	
Capital (including share premium)	34.5	24.9	30.4	36.5	
Accumulated surplus / internal reserves (adjusted for miscellaneous expenditure not written off)	65.5	75.1	69.6	63.5	
Total	100.00	100.00	100.00	100.00	
<ul style="list-style-type: none"> MMFL's net worth improved to Rs.1,922.21 million as on February 28, 2017, from Rs.867.51 million as on March 31, 2015. It comprises capital of ~35 per cent, with share of profit reserves constituting the rest. During 2016-17, the company raised additional equity amounting to Rs.600 million from institutional investors such as AVT & Company Limited and Midland Rubber & Produce Company Limited. While the capitalisation levels of MMFL remain adequate for near-term growth, capital infusion at regular intervals remains critical in order to meet optimistic growth projections. The management expects to raise incremental equity of Rs.300 million over the near term. Capital adequacy ratio (CAR) of 20.12% as of February 2017 remains higher than the regulatory requirement of 15%. 					
B) Asset quality: Asset quality remains key monitorable in lieu of demonetisation and recent farm loan waiver; single state concentration remains high at 85 per cent					
Trends in asset quality (key indicators)	Particulars	Feb-17	Mar-2016	Mar-2015	Mar-2014
	On-time repayment (%)	96.30	98.80	99.20	99.10
	PAR = 0-30 days (%)	2.00	0.60	0.40	0.20
	PAR > 30 days (%)	1.70	0.60	0.40	0.70
State-wise portfolio concentration (As on February 28, 2017)					
State/UT	Portfolio (Rs. Million)	Portfolio concentration (%)			PAR > 30 days/TNW (Times)

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Karnataka	413.35	5.3	0.01
Kerala	150.39	1.9	0.01
Maharashtra	597.69	7.7	0.02
Tamil Nadu	6,642.44	85.1	0.04
Total	7,803.87	100	0.08

Trends in asset quality

Month/Year	Regular (%)	PAR > 30 days (%)	PAR > 60 days (%)	PAR > 90 days (%)
Mar-15	99.2	0.40	0.20	-
Mar-16	98.8	0.60	0.20	-
Feb-17	96.3	1.70	0.40	-

- Post demonetisation (November 2016), players in the microfinance industry have witnessed a drastic drop in collection efficiency, led by a combination of factors. This includes ban on high-value currency required for meeting debt repayment & other household obligations, impacting the immediate liquidity profile of bottom-of-the-pyramid clients. Besides, there was a sharp reduction in cash flows from income-generating activities as a result of stagnation in economic activities led by the cash crunch.

Demand collection schedule

Month	Demand	Collections	Collection (%)
Apr-15	268.6	256.5	95.5
Mar-16	401.2	388.4	96.8
Sept-16	491.9	474.7	96.5
Nov-16	564.7	547.2	96.9
Dec-16	609.1	578.7	95.0
Jan-17	637.4	581.1	91.2
Feb-17	660.3	604.8	91.6

- Historically, MMFL has reported on-time repayment of nearly 99 per cent, which has been in line with the industry trends; however, its asset quality has deteriorated post demonetisation, with gradual improvement in February 2017. The PAR > 30 days was over 2 per cent as of February 2017; it was nearly 0.40 per cent as of March 2015. The

top three states - Tamil Nadu, Karnataka, and Maharashtra account for 98 per cent of the overall AUM.

Overall PAR position as of Feb-17	PAR (Rs. Million)	Par/TNW (Times)
PAR > 30 days	134.96	0.07
PAR > 90 days	27.46	0.01

- Compared to industry peers, CRISIL believes that the company's collection efficiency post demonetisation is better, albeit asset quality is average. For instance, collection efficiency of regular portfolio has dropped from ~99% as of March 2016 to ~96% as of February 2017. Weak collection rates in Tamil Nadu, Kerala, and Maharashtra have contributed to lower collection efficiency.
- The government's decision of demonetizing high value currency notes (HCVN) adversely impacted the portfolio quality of players in the microfinance sectors. As per RBI, microfinance institutions have been facing issues in collections from clients owing to currency shortage. In December 2016, on time repayment reduced to ~80% of demand. While the situation has improved gradually, collection efficiency of certain players operating in states of Tamil Nadu, Maharashtra, Karnataka, and Uttar Pradesh remains under stress thus posing a risk to their quality of portfolio and in turn capitalisation levels. Moreover, loans to MFI clients are largely 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 disbursements during April-October 2016. CRISIL believes that the credit profile of players with high exposure to these states remains under stress.
- 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, such risks emanating from 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 which contributes to nearly 85 per cent of the company's loan book and also a significant portion of the recent PAR > 30 days, remain the key sensitive factors.

Portfolio concentration (%)		Feb-2017	Mar-2016	Mar-2015
Top state	Tamil Nadu	85.1	91.3	94.6
Top three states	Tamil Nadu, Karnataka, and Maharashtra	98.1	98.9	100.0
Top district	Madurai	8.6	10.0	11.0

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	Top three districts	Madurai, Trichy, & Nagapattinam	20.55	23.4	22.4
	<ul style="list-style-type: none"> MMFL presently operates in four states: Karnataka, Tamil Nadu, Maharashtra, and Kerala. As of February 2017, AUM in a single state (Tamil Nadu) accounted for 85 per cent of the overall AUM, while the top three states (Tamil Nadu, Karnataka, and Maharashtra) accounted for 98 per cent of the overall AUM. 				
Credit insurance	<ul style="list-style-type: none"> Tie-up with ICICI Prudential Life Insurance Company Limited, which covers both the borrower 				
Loan loss provisioning	<ul style="list-style-type: none"> The management of the MFI does not expect any significant surge in credit costs post demonetisation as collection efficiency has been improving gradually. The loan loss provisioning policy too remains in line with regulatory guidelines and is unlikely to witness a significant change; however, some impact of increase in write-offs on asset quality remains to be ascertained. 				
	Asset classification		RBI guidelines		MMFL's policy
	Standard assets		Current loans and arrears up to 90 days		Current loans and arrears up to 90 days
	Sub-standard assets		91 to 179 days		91 to 179 days
	Doubtful assets		180 days and more		180 days and more
	Loss assets		-		-
	Provisioning norms		RBI guidelines		MMFL's policy
	Standard assets		1 per cent of the overall portfolio reduced by provision for NPA		1 per cent of the overall portfolio reduced by provision for NPA
	Sub-standard assets		50 per cent of instalments overdue		50 per cent of instalments overdue
	Doubtful assets		100 per cent of instalments overdue		100 per cent of instalments overdue
	Loss assets				

RESOURCES AND ASSET-LIABILITY MANAGEMENT (ALM)

A) Resource profile: Diversified		
	As on December 31, 2016	
Resource profile	Rs. million	%
Public sector banks	2,106.83	33.70
Private sector banks	1,064.4	17.00
Development finance institutions	1,145.17	18.30
NBFCs and social sector lenders	912.30	14.60
NCDs/ECBs	1,031.60	16.50
Total	6,260.30	100.00
<ul style="list-style-type: none"> ▪ MMFL's resource profile remains well-diversified; as of December 2016, it had accessed borrowings from over 36 lenders. ▪ It has limited single lender concentration. The top lender, NABARD, accounted for about 15% of the overall borrowings. The top five lenders comprise development finance institutions, NCDs/ECBs, and NBFCs constituting about 30% of the overall borrowings. ▪ Share of overall institutional borrowings, including wholesale bank finance, remained at 51% of the outstanding borrowings. Incremental issuance of NCDs and ECBs, which accounted for 17% of the borrowings as of December 2016, has resulted in this trend. 		
B) ALM		
Collection frequency	<ul style="list-style-type: none"> ▪ Monthly 	
ALM and liquidity profile	<ul style="list-style-type: none"> ▪ Comfortable; the company is not susceptible to immediate liquidity pressures arising out of mismatch of funds. On average, the loan tenure is between 1 and 2 years, while external borrowings have a repayment tenure of over 2.5 years. 	

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Borrowing profile as on March 31, 2016

Name of the lenders/bankers to the microfinance programme	Interest (%)	Sanctioned	Outstanding amount
		Amount (Rs. million)	(Rs. million)
ADFT	14.00	40.0	6.7
NABKISAN	12.50	100.0	83.3
AU Financers	12.75	100.0	100.0
Andhra Bank	13.25	100.0	15.0
Axis Bank	12.00	250.0	250.0
Bank of Baroda	12.35	150.0	55.0
Bank of Baroda	12.15	200.0	200.0
Bank of Baroda	12.15	200.0	200.0
Bank of Maharashtra	12.80	100.0	4.7
Canara Bank	12.15	100.0	37.1
City Union Bank	12.75	50.0	36.8
Dena Bank	11.50	50.0	15.0
Development Credit Bank	12.14	100.0	41.7
Development Credit Bank	12.00	100.0	87.5
Dhanalakshmi Bank	13.65	60.0	11.7
Dhanalakshmi Bank	13.65	80.0	28.9
Dhanalakshmi Bank	12.75	100.0	69.2
Dhanalakshmi Bank	12.40	150.0	129.2
Hero FinCorp	14.00	70.0	25.5
Hero FinCorp	12.75	100.0	81.2
IDBI Bank	11.75	160.0	8.9
IDBI Bank	12.50	90.0	5.0
IDBI Bank	12.40	400.0	209.5
IDBI Bank	2.95	750.0	300.0
IFMR	14.25	130.0	30.3
IFMR	14.25	130.0	41.9
IFMR	13.75	100.0	45.1
IDFC Bank	12.75	150.0	100.0
IDFC Bank	12.75	100.0	85.7
Indian Bank	12.90	50.0	17.2
Indian Bank	11.50	200.0	200.0

Lakshmi Vilas Bank	13.05	100.0	44.4
Lakshmi Vilas Bank	12.25	70.0	53.0
L&T finance	12.85	100.0	37.5
Maanaveeya Development & Finance Private Limited	15.00	80.0	13.3
MAS Financial	14.10	100.0	8.3
MAS Financial	14.10	50.0	4.2
Mudra	10.25	350.0	191.0
NABARD	10.50	100.0	50.0
NABARD	11.50	150.0	100.0
NABARD	11.50	200.0	166.7
NABARD	11.50	250.0	212.5
NABARD	11.50	500.0	425.0
Ratnakar Bank	12.90	75.0	9.4
Ratnakar Bank	12.80	100.0	12.5
Reliance Capital	13.50	200.0	89.9
Reliance Capital	13.50	200.0	106.7
Reliance capital	13.00	190.0	98.1
South Indian Bank	12.80	100.0	54.5
South Indian Bank	12.15	50.0	50.0
Tata Capital	12.10	90.0	56.3
Tata Capital	12.10	10.0	6.8
Vijaya Bank	12.90	90.0	25.0
Sundaram Finance	13.00	50.0	35.5
Sundaram Finance	13.00	50.0	41.8
State Bank of Hyderabad	12.25	100.0	97.2
State Bank of India	12.15	500.0	414.4
State Bank of Travancore	12.15	150.0	150.0
Union Bank of India	12.10	180.0	152.7
NCD Incofin	14.84	400.0	400.0
NCD AAV SARL	14.15	366.0	366.0
ECB from WBC	12.80	265.6	265.6
Total	-	9,676.60	6,260.40

OPERATIONAL EFFECTIVENESS

Outreach summary for the period ended / as on end	Unit	Feb-17	Mar-16	Mar-15	Mar-14
Groups / SHGs	No.	38,147	33,544	27,196	18,165
Members	No.	5,16,555	4,35,230	3,53,983	2,48,282
Borrowers	No.	4,96,755	4,07,730	3,17,583	2,09,042
Branches	No.	213	200	169	153
Districts	No.	45	44	38	33
Women borrowers	%	100	100	100	100
Disbursements	Rs. Mn	6,174.32	5,540.3	3,658.7	2,233.6
Loan outstanding (AUM)*	Rs. Mn	7,758.6	5,531.2	3,685.9	2,301.1

*including managed portfolio

Human resource and productivity indicators as on end	Unit	Feb-17	Mar-16	Mar-15	Mar-14
Total employees	No.	1,616	1,430	1,111	930
Field credit officers (FCO)	No.	830	778	619	501
FCO/Total employees	%	51	54	56	54
AUM/FCO	Rs. Mn	9.35	7.11	5.95	4.59
AUM/branch	Rs. Mn	36.43	27.66	21.81	15.04
Borrowers/FCO	No.	599	524	513	417
Borrowers/members	%	96	94	90	84
Borrowers/branch	No.	2,332	2,039	1,879	1,366

- Field productivity of the NBFC-MFI has remained above average. This is reflected as under:
 - Average disbursement per borrower increased to ~Rs.13,588 in 2015-16 from ~Rs.10,685 in 2014-15. Similarly, AUM/branch improved to ~Rs.36.43 million as of February 2017 from ~Rs.21.81 million as of March 2015. Both these improvements were on account of a hike in loan ticket size as a client retention strategy, particularly in existing regions.

- AUM/credit officer increased to Rs.9.35 million by February 2017, from around Rs.5.95 million as of March 2015.
- Borrowers/branches increased to 2,332 from 1,879 during the period.
- Diversified product mix and timely credit sanction too have enabled better client retention.

B) Earnings profile: Improved profitability led by growth in asset base, lower operating expense (opex), and some decline in cost of funds. Increase in credit costs may impact earnings profile over the near term

- MMFL's profit after tax (PAT) sizeably improved from Rs.109.45 million in 2013-14 to Rs.462.84 million for the period ending February 28, 2017. This was due to higher interest income, better field productivity, and some decline in cost of funds. Moreover, opex levels have remained low owing to sizeable growth in asset base; opex ratio was low at 6.99 per cent for the period ending February 28, 2017.
- Improved profitability would however be impacted by some increase in credit costs / loan loss provisioning post demonetisation, which could in turn impact near-term profitability. Moreover, impact of drought on collection efficiency remains to be seen; any decline in collections could trigger an increase in provisioning thus impacting profitability.

SCALABILITY AND SUSTAINABILITY

- The MFI industry witnessed a healthy CAGR of over 40 per cent in the last 3 years (2012-13 to 2014-15). Timely issuance of directives from the RBI, awarding of a universal banking licence to a major MFI player and differentiated banking licences to a few MFIs, and establishment of MUDRA Bank are expected to strengthen stakeholder confidence in the sector further.

Particulars	Mar-16		Dec-15		Sep-15		Jun-15	
	AUM (Rs. cr)	Market share (%)	AUM (Rs. cr)	Market share (%)	AUM (Rs. cr)	Market share (%)	AUM (Rs. cr)	Market share (%)
Bandhan	-	-	-	-	-	-	10,242	21
In-principle SFBs	23,553	38	18,525	37	16,128	37	13,230	27
Other top five NBFC-MFIs	15,479	25	12,895	26	11,469	27	10,707	21
Others*	22,924	37	18,525	37	15,532	36	15,357	31
Industry AUM	61,956	100	49,945	100	43,129	100	49,536	100

*Includes NGO-MFIs which typically account for ~15 per cent of industry AUM

Bandhan has not been reckoned since the quarter of September 2015 as it no longer operates as an NBFC-MFI

- 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. Payments banks, besides accepting deposits, would largely focus on remittances and cross-distribution of financial products. The sector is set for a consolidation following the acquisition of some MFIs by banks and financial institutions in order to withstand competition and fulfil the mandate of priority sector lending. In the view of the above factors, MMFL will have added advantage owing to its advanced systems and processes to compete with such market players, including banks, over the medium term.
- With a long track record of 11 years, the MFI has demonstrated good scalability and sustainability in business growth and volume. It has a deep regional presence, particularly in Tamil Nadu where it has a long operating record. Its operating procedures and technology backend systems remain adequate to growth over the near to medium term.
- The NBFC-MFI 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 have also positively contributed in maintaining stable and sustainable scalability.
- The MFI has been supported by a diverse set of lenders, including banks, financial institutions, and development financial lenders. Moreover, CRISIL also expects the fund-raising ability of sectoral players to improve over the medium term as about eight NBFC-MFIs, which account for a sizeable portion of industry assets, are expected to operate as small banks. Since these players would substitute their bank borrowings with alternative funding

avenues, banks are likely to increase their exposure to existing MFIs in an attempt to meet the mandated priority sector lending targets. This, coupled with stable asset quality, better field productivity, and lower opex, is likely to result in better earnings profile.

- MMFL's key challenges include:
 - High geographic concentration of loan portfolio
 - Heightened competition owing to aggressive expansion by industry players
 - Asset quality remains key monitorable in lieu of demonetisation and recent farm loan waiver

CRISIL believes that the company's ability to scale up sustainably would depend upon how it addresses these issues, including its ability to geographically diversify its operations. The management, however, does not expect to pursue inorganic growth in the near-to-medium term.

FINANCIAL INDICATORS

Income and expenditure statement

(Rs. Million)

For the period ended	Mar-19	Mar-18	Mar-17	Feb-17	Mar-16	Mar-15	Mar-14
	Mgt. Proj.			Provisio nal	Audited		
Fund-based income							
Interest income from loans	3,034.00	2,488.30	1,590.60	1,477.11	1,060.24	700.63	456.75
Income from investments/bank deposits	-	-	-	55.47	46.50	26.08	13.31
Gain on assigned portfolio	-	-	-	-	-	-	-
Other fund-based income	10.00	10.00	5.50	2.20	9.95	7.91	9.91
Total fund-based income	3,044.00	2,498.30	1,596.10	1,534.78	1,116.68	734.62	479.97
Interest and finance charges	1,160.10	1,029.60	732.80	643.16	521.38	314.48	163.81
Gross spread	1,883.90	1,468.70	863.30	891.62	595.30	420.14	316.16
Fee-based income	142.90	114.50	88.10	79.32	71.02	39.72	25.00
Total income	3,186.90	2,612.80	1,684.20	1,614.10	1,187.70	774.34	504.98
Gross surplus	2,026.80	1,583.20	951.40	970.94	666.32	459.86	341.17
Personnel expenses	549.70	449.20	299.80	230.35	163.67	109.47	71.18
Administrative expenses	363.60	297.00	203.70	219.77	137.47	79.40	57.33
Total expenses	913.30	746.20	503.50	450.11	301.14	188.87	128.51
Write-offs and provisions	-	-	-	-	33.50	24.56	22.79

Provision for loan loss	124.00	103.40	87.80	38.20	20.12	11.47	10.92
Provision for impairment of advance to subsidiary	-	-	-	-	7.41	-	-
Deferred tax	-	-	-	-	-10.34	-6.48	-4.37
Prior period expenses	-	-	-	-	-	3.47	-
Depreciation	12.60	10.20	16.80	19.79	14.78	11.04	11.36
Profit before tax	976.90	723.40	343.30	462.84	299.71	226.92	171.95
Tax	355.00	266.60	130.20	-	107.85	80.60	62.50
Profit after Tax	621.90	456.80	213.10	462.84	191.86	146.32	109.45

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Balance sheet

(Rs. Million)

As at	Mar-19	Mar-18	Mar-17	Feb-17	Mar-16	Mar-15	Mar-14
Liabilities		Mgt. proj.		Prov.		Audited	
Paid-up capital	66.90	66.90	66.90	66.98	55.58	55.58	55.58
Share premium				596.52	207.92	207.92	207.92
Reserves and surplus	4,034.10	3,412.30	2,205.60	1,258.71	635.06	481.70	364.68
Miscellaneous expenditure not written off	-	-	-	-	-	-	-
Tangible net worth	4,101.00	3,479.20	2,272.50	1,922.21	1,059.37	867.51	721.19
Debentures	-	-	-	-	766.00	-	-
Total borrowings (including managed Borrowings)	11,513.20	8,478.30	6,926.30	6,272.40	4,693.79	3,098.66	1,752.94
Borrowings (on-book)	11,513.20	8,478.30	6,926.30	6,272.40	4,693.79	3,098.66	1,752.94
Provision for loan loss	191.10	142.00	95.10	86.00	52.23	35.40	22.98
Other liabilities	393.30	327.80	273.10	471.61	227.01	152.19	152.55
Total current liabilities	584.40	469.80	368.20	557.61	279.24	187.59	175.54
Total liabilities	16,198.60	12,427.30	9,567.00	8,752.21	6,032.99	4,154.35	2,650.25
Assets							
Loans and advances (incl. managed portfolio)	14,986.40	11,301.10	8,509.10	7,765.46	5,229.43	3,535.29	2,297.37
Loan portfolio (on book)	14,986.40	11,301.10	8,509.10	7,765.46	5,229.43	3,535.29	2,297.37
Cash & bank balances	1,056.30	987.70	925.40	7.94	472.78	411.71	182.34

Deposits with banks and other investments	-	-	-	288.33	207.66	137.44	119.80
Deferred tax	-	-	-	-	26.87	16.53	10.05
Advance tax	-	-	-	306.55	-	-	-
Rent advance	-	-	-	-	7.91	5.15	3.94
Tax payments pending adjustment (net of provision)	-	-	-	-	10.06	5.77	-0.46
Other current assets	98.00	88.00	91.80	116.97	60.75	26.70	18.18
Total current assets	1,154.30	1,075.70	1,017.20	719.79	734.68	465.86	213.93
Total funds deployed	16,140.70	12,376.80	9,526.30	8,648.88	6,015.44	4,138.59	2,631.09
Net fixed assets	57.90	50.50	40.70	103.34	17.54	15.76	19.04
Total assets	16,198.60	12,427.30	9,567.00	8,752.21	6,032.99	4,154.35	2,650.25

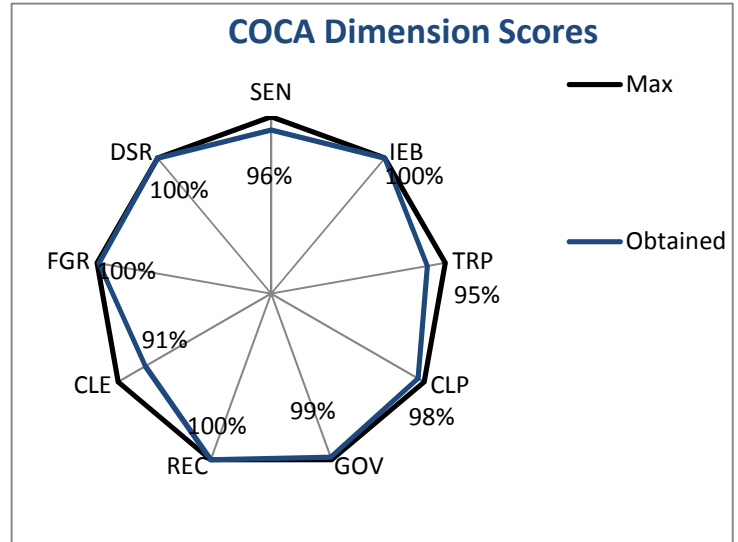
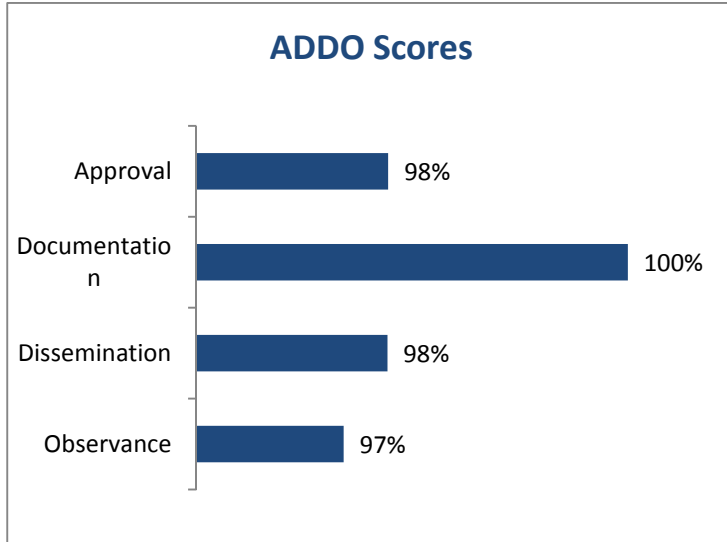
Ratings

Key financial ratios

(In per cent)

For the period ended March 31,	2019	2018	2017	Feb-2017	2016	2015	2014
Yield	Mgt. proj.			Prov.	Audited		
Fund-based yield	21.35	27.17	27.39	22.84	21.99	21.70	36.48
Portfolio yield	23.08	30.11	30.87	24.80	24.19	24.02	39.76
Fee-based income/Avg. funds deployed	1.00	1.25	1.51	1.18	1.40	1.17	1.90
Total income/Avg. funds deployed	22.35	28.41	28.90	24.02	23.39	22.88	38.39
Cost of funds							
Interest paid/Avg. funds deployed	8.14	11.20	12.57	9.57	10.27	9.29	12.45
Interest paid/Avg. borrowings	11.61	15.63	16.82	12.80	13.38	12.96	18.69
Interest spread							
Spreads on lending	9.74	11.53	10.57	10.04	8.61	8.74	17.80
Overheads							
Operating expense ratio	6.49	8.23	8.93	6.99	6.22	5.91	10.63
Personnel expense ratio	3.86	4.88	5.14	3.43	3.22	3.23	5.41
Administrative expense ratio	2.64	3.34	3.78	3.56	3.00	2.67	5.22
Profitability							
Net surplus/Avg. net worth	16.41	20.13	17.06	33.87	19.91	18.42	30.35
Net surplus/Avg. funds deployed	4.36	4.97	3.66	6.89	3.78	4.32	8.32
Operational self sufficiency	144.20	138.29	125.60	140.20	133.75	142.36	151.63
Asset quality							
Provisioning/Avg. loan outstanding	1.45	1.72	1.38	1.32	1.19	1.21	2.00
Capitalisation							
Total debt/net worth (times)	2.81	2.44	3.05	3.26	4.43	3.57	2.43

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

MMFL's board of directors review and discuss the guidelines in every board meeting. MMFL introduced a mobile-based application for capturing KYC and application forms through their own software; this helps get quicker credit approvals from credit bureaus (High Mark and CIBIL). It conducts training for staff members twice a year for creating awareness, reviewing, and updating their policies. It communicates product details, interest rates, terms and conditions, and other details to the client in the first centre meeting (at the time of group formation).

Ratings

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong focus on woman empowerment. Participation of women workforce is significantly high in relation to peers; around 95.00 per cent of the employees across branches are women. • The board reviews the regulatory guidelines and code of conduct in board meetings and makes changes if there is any area of improvement. • MMFL provides training twice a year to its employees, which ensures that employees follow the rules and regulations as per the NBFC-MFI. • It has formulated a code of conduct, which ensures employee behaviour and rights, awareness to the client, and escalation matrix. • It has started using 'tablets' to automate processes. This helps MMFL serve its clients better; quicker credit approvals from credit bureau (in two-three hours) results in lower turnaround time in credit sanction, thereby reducing the waiting time of clients. • It has updated policies for the conduct of internal audit. Auditors have to give grading/ranking to the branches and centres. • MMFL recently updated its HR policies. 	<ul style="list-style-type: none"> • The annual report is available on the public domain. However, the code of compliance report is not available publicly. • A review of the HR policy reveals that there is no policy which outlines that shortfall in collections will not be recovered from employees, unless in proven cases of fraud.

Significant observations

	Higher Order Indicators
Integrity and Ethical Behaviour	<ul style="list-style-type: none"> ✓ The board met five times in 2015-16. Key issues discussed included review of the credit policy (updated on January 18, 2017), financial projections, and unaudited financials. It also discussed the areas of improvement, appointment of a new registrar and secretarial auditor, apart from reviewing operating and financial performance. ✓ MMFL has an internal audit committee headed by an independent director. According to the audit manual (internal document), the company conducts a quarterly audit in every branch (one half-yearly audit and two surprise audits). Based on the audits, auditors assign ranking/grading to the branches. In 2016-17, auditors met six times to discuss their observations and areas of improvement. ✓ It has a nine-member governing board. Board meetings take place on quarterly basis and MoMs are well-documented. ✓ It has formulated the credit policies and procedures manual, which has the following key polices and processes: <ul style="list-style-type: none"> ○ Loan sectioned time ○ KYC norms ○ Detailed information about loan products ○ Eligibility criteria of borrowers ✓ It has prepared the 'code of conduct' according to the RBI guidelines, and it provides training to its employees on appropriate behaviour with clients, repayment collection, and recovering overdue loans. ✓ It provides training to its employees on how to communicate with new clients; this is carried out on half-yearly basis. Most of the employees indicated that they were aware of the feedback and grievance redressal mechanism. ✓ The NBFC-MFI is a member of MFIN and Sa-Dhan. It also displays the contact details of the SRO nodal officer for grievance and redressal mechanism in all its branches.

Ratings

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- ✓ The branch manager provides monthly training to staff members on policies and procedures, guidelines by the RBI, and circulars by the HO.
 - ✓ Every branch has targets for field executives based on their productivity and has a separate performance management tool (Shakti Sadhanai) to measure their progress.
 - ✓ MMFL has a policy regarding notice period and feedback in its HR manual.
-

- ✓ It was observed that the majority of the sampled clients were aware of the instalment to be paid by them. Moreover, they were aware that they didn't have to pay for the service as a precondition to the loan. However, clients have to pay Rs.300.00 for loan card, group passbook, and loan register.
 - ✓ In the group of sampled clients, it was observed that no client paid security deposit or collateral deposit to the NBFC-MFI, and no penalty or prepayment charges were paid by the client upon delay in payment or pre-payment of the instalment amount. Moreover, the NBFC-MFI provides written communication about the terms and conditions, a loan card, and a loan sanction letter; this correspondence states that they are not supposed to pay any kind of security deposit or penalty.
 - ✓ In the group of sampled clients, no instances were found wherein the loan size, tenure, utilisation, or economic status of borrowers were not in line with the RBI guidelines.
 - ✓ The sampled clients were aware of the repayment procedure of the loan, i.e., interest payment in the first month and principal plus interest amount from the subsequent month.
 - ✓ Every client was aware of the KYC documents to be submitted for loan purposes:
 - Voter ID
 - Ration card
 - Aadhaar card
 - Bank passbook
 - ✓ The sampled clients received training and awareness of terms and conditions twice a month from the respective field executives.
-

Sensitive Indicators

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- ✓ The NBFC-MFI undertakes credit bureau checks of every loan borrower through credit bureaus (High Mark and CIBIL) before sanctioning loans.
 - ✓ A discussion with the sampled clients revealed that there was no single instance of the following behaviour by the NBFC-MFI's staff:
 - Using abusive language
 - Visiting client at odd hours (in case of delay, employees inform clients in advance)
 - Forcible entry into dwelling
 - Forced seizure of property
 - ✓ The sampled clients stated that they receive a receipt after each instalment payment.
 - ✓ There was no evidence found in branches where client data was used for marketing activities without client permission.
 - ✓ MMFL has terms and conditions mentioned in the code of conduct policy as per which it is mandatory to share members' data with credit bureaus (on weekly basis) and the RBI and MFIL (on quarterly basis).
-

Ratings

Building Blocks

Transparency

- All branches of the NBFC-MFI formulate and display the circulars circulated by the RBI, terms and conditions, toll-free number of the SRO officer, policies, and interest rates. It provides half-yearly training to its employees at the HO; branch managers provide training to their staff members on monthly basis. The sampled employees stated that they were aware of the RBI guidelines.
- After reviewing the MoM of board meeting held on July 28, 2016, it became apparent that the board reviews all the RBI guidelines. So if RBI were to modify guidelines during the year, the board would discuss it in its meetings.
- The sampled clients stated that they were aware of the terms and conditions of the loan products and the same are communicated to them by the field executives in every branch meeting. Documents related to loan products are maintained in local language, which includes terms and conditions, loan card, repayment schedule, group registers, group information form, group application form, individual loan application form, and sanctioned letter.
- MMFL discloses its annual report to its members, and the same is available on its website, which is easily accessible.
- Effective rate of interest, loan processing fee, and interest charges are displayed by the NBFC-MFI at all the branches visited by CRISIL. Rate of interest and other charges are also communicated to the client in the sanction letter and loan card.
- Clients are informed by MMFL that neither the NBFC-MFI nor its employees are entitled to collect any penalty, security deposit, or commission. This also forms part of the terms and conditions in the sanctioned letter and group information form. However, in one branch, the team found that the employees of MMFL charged a penalty of Rs.100.00 in the event of delay in instalment payment.

Approval	Documentation
<ul style="list-style-type: none"> ✓ Board reviews the RBI guidelines in their board meetings; they also review them if modified. ✓ Board has changed the format of the terms and condition sheet and included an acknowledgment form in the loan process. ✓ Board has revised the rate of interest of the loan amount; the new rate of interest is 22.50 per cent. 	<ul style="list-style-type: none"> ✓ Every branch displays the MFIN guidelines on the notice board. ✓ Loan documents are maintained in vernacular language. ✓ Guidelines related to security deposit/collateral deposit and penalty to clients are documented in the terms and condition sheet. ✓ Acknowledgement and application forms have been revised by MMFL.
Dissemination	Observance
<ul style="list-style-type: none"> ✓ Branches displayed the RBI and MFIN guidelines in local languages on their respective notice boards. Sampled staff members were aware of the RBI and MFIN guidelines. 	<ul style="list-style-type: none"> ✓ Sampled field staff were aware of the terms and condition of loans, and the same was communicated to loan borrowers. ✓ Loan repayment scheduled was provided to all clients in local language.

- ✓ Effective rate of interest is displayed in all branches and loan documents.
- ✓ The branch manager provides monthly training to its staff members about policies and procedures, guidelines by the RBI, and circulars by the HO. It also has a weekly review of the target an officer has achieved.
- ✓ All employees of MMFL are aware that they are not supposed to accept security deposit or collateral deposit from the client.
- ✓ The sampled clients stated that they were given a true copy of the loan agreement along with the terms and conditions sheet in local language.
- ✗ The annual report is available on public domain. However, code of compliance report is not available there.

Ratings

Client Protection

Fair practices

- NBFC-MFI's board met five times in 2015-16 to discuss performance. It has a separate committee for operational activities, which ensures loan size of the borrower are as per RBI guidelines. It adhered to the rule that loan tenor should not exceed the guidelines given by the RBI and also repayment of the client should be in line with the repayment schedule. The sampled branch managers were aware of the RBI and MFIN guidelines, the maximum loan size, and loan period. The audit team also mentioned the degree of compliance by branches with regards to RBI and MFIN guidelines, in their audit report.
- The sampled clients and employees stated that they were aware of the maximum loan period, purpose of the loan, income level of households, and repayment frequency of the loan. MMFL's clients follow monthly repayment of loan. Circulars for the above points were displayed on the notice boards of the branches.
- It was observed that the sampled clients were satisfied with repayment frequency and interest rate of MMFL.
- Credit policies and procedure manual has been approved by MMFL's board. It provides details relating to KYC norms issued by the RBI. It also highlights data security procedures related to the KYC data of clients. Moreover, there is an internal audit committee headed by an independent director that reviews adherence to the KYC norms and compliance to the KYC guidelines laid down by MMFL.
- Mandatory documents for loan sanction are Aadhaar card, ration card, voting card, and bank passbook. MMFL also accepts PAN card and electricity bill. It accepts gas bill if the house is rented.
- MMFL adhered to the guidelines of disbursing loans within seven days of receipt of loan application.
- It does not offer any non-credit products to its clients. The NBFC-MFI provides non-credit services, which include medical check-ups, eye camps (tie up with Aravind Eye Hospital, Vasan Eye Care, Agarwal Eye Hospital, and local clubs), and micro business education programmes.

Avoiding Over-indebtedness

- The NBFC-MFI updated its credit policies and procedures manual on January 18, 2017. The credit policy has details regarding process of loan sanction time, KYC norms, detailed information about loan products, and eligibility criteria of borrowers.
- It follows the RBI guidelines for household income of Rs.1,00,000 in rural areas and Rs.1,60,000 in urban areas, which is also its eligibility criteria for loans. Moreover, it also follows the guideline that says it cannot either act as the third lender in the case of an MFI and BC or lend more than Rs.50,000 in the first cycle.
- Loan application of MMFL also includes income and expenses of individual borrowers to ascertain their repayment capacity.
- The NBFC-MFI is a member of the credit bureau. It verifies the indebtedness of borrowers before sanctioning loans. It shares data based on the credit history of its client with the credit bureau (on weekly basis), MFIN, and RBI (on quarterly basis).
- Branch managers provide monthly training to their staff members about the circulars and guidelines of RBI and MFIN on loan eligibility criteria.

Appropriate interaction and collection practices

- MMFL provides half-yearly training to its employees to update them on the change in interest rate, terms and conditions, interaction with new clients, guidelines, and recovering instalment amount from clients. The sampled staff members were aware of and were satisfied with the training and other details.
- The NBFC-MFI provides periodical training to its employees covering the following aspects:
 - Informing clients regarding products and services offered by the MFI
 - Undertaking loan appraisal
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans from wilful defaulters and difficult defaulters
- The sampled staff members stated that they received training on COCA aspects, during which they were told to:
 - Use proper language and behaviour, and consider cultural sensitivities during interaction with clients
 - Contact clients only during office hours and to avoid odd hours
 - Treat all clients with dignity and avoid using any kind of threat or abusive language
- The sampled clients stated that they received a receipt after the instalment payment and that they were aware that they are not supposed to disclose their personal information to any unauthorised person.
- The sampled clients mentioned that they were satisfied with staff behaviour.
- Internal audit covers client awareness, register update, client complaint, and branch performance (outstanding loan amount on date and total number of borrowers).
- The NBFC-MFI does not cover the shortfall of instalments from borrowers in case of non-repayment. Cash is deposited in the bank on the same day collections are done.

Privacy of client information

- The sampled clients were aware of the terms and conditions about sharing information with the credit bureau, RBI, and MFIL. Every client received the terms and conditions sheet in local language, which was also mentioned in the loan card.
- MMFL has started using tablets for field operations; the staff can use the client data for KYC, and loan application form but they don't have right to edit or modify the data. However, the data can be updated in tablet before sending the data to High Mark with approval from the seniors. The software is protected by a password, thereby limiting access to client database. Physical copy of KYC, loan application, and other documents are sent to the HO. Only a photocopy of the documents are kept in the branches.
- The NBFC-MFI has a policy to back up the software database on a daily basis.

Ratings

Approval	Documentation
<ul style="list-style-type: none"> ✓ MMFL has a separate operational committee to ensure adherence to qualifying assets criteria and non-credit products. ✓ Board has reviewed the credit approval process and indebtedness of borrowers in the board meeting. ✓ The board has approved the code of conduct policy, which is displayed in every branch. ✓ On January 18, 2017, the board reviewed and modified the credit policy. ✓ MMFL provides half-yearly training to its employees, on interaction with existing clients as well as new clients. 	<ul style="list-style-type: none"> ✓ Loan size, tenure, purpose, and repayment frequency are as per the RBI guidelines, and they are displayed on the notice board in every branch. ✓ Credit appraisal and client eligibility guidelines documents in credit policy are displayed on the notice board in every branch. ✓ Loan application form includes income and expenses of individuals. ✓ MMFL has a code of conduct policy to undertake credit bureau checks for verifying the credit history of clients. ✓ Every branch has a list of clients who have taken a loan from other MFIs or other channels. ✓ Every branch maintains a group meeting register where they record meeting details and points covered in the meeting. ✓ CRISIL has not found any instance where a client has had any complaint regarding staff members and does not maintain register for the same. ✓ At the time of loan sanction, clients are made to sign a default agreement.
Dissemination	Observance
<ul style="list-style-type: none"> ✓ Sampled branch employees were aware of the RBI guidelines, and the same was displayed on the notice boards of the branches. ✓ The NBFC-MFI communicates change in credit policy and documentation through circulars and employee trainings. ✓ Sampled branches had copies of the code of conduct circular, covering appropriate behaviour with existing and new clients. 	<ul style="list-style-type: none"> ✓ In the audit report, the auditor also tracks client/employee awareness of the RBI guidelines. ✓ All sampled clients were as per income and indebtedness criteria. ✓ Sampled clients were aware that they were paying only the interest amount in the first month, and principal and interest amount from the second month. ✓ High satisfaction level was found in sampled clients with regard to repayment frequency of loan. ✓ The sampled client stated that loan disbursement is in accordance with the timeline given by MMFL.

Governance*

- MMFL has a formal governance policy outlining the constitution of the board and other board processes. The MFI has seven sub-committees: audit, nomination and remuneration, risk management, ALM, corporate social responsibility, IT, and prevention of sexual harassment. The MoMs of sub-committees' board meetings are well-documented. The NBFC-MFI discloses the remuneration of chairperson in its annual report.
- MMFL has a nine-member governing board comprising a chairperson/MD, four directors, three independent directors, and one whole-time director. Board meetings take place on quarterly basis and MoMs are well-documented.
- The audit committee comprises four members of MMFL's governing board, headed by an independent director; findings are documented and shared in board meetings as well as with the respective departments and branches. The MFI prepares detailed compliance and action-taken reports.
- The audit team conducts quarterly audits in every branch (one half-yearly audit and two surprise audits) and submit their report to the head office; based on the audit, auditors assign ranking/grading to the branches. In 2016-17, the audit committee met six times. Branches address the adverse comments given by auditors in the audit report, and rectify irregularities.
- No adverse audit observation was made in the auditor's report regarding accounting standards followed by the MFI. The below mentioned points are exceptions, though:
 - Penalty under Income Tax Act, 1961, for the assessment year 2007-08 of Rs.71.02 lakh, which is pending with the High Court of Madras.
 - Fraud in the NBFC-MFI has been documented by the auditors in the audit report of 2015-16.
- In 2016-17, the board met five times to review the credit policy, projections, code of conduct, and unaudited financials and discuss areas of improvement.

Approval	Documentation
<ul style="list-style-type: none"> ✓ The NBFC-MFI has a policy on board constitution and processes. ✓ The audit committee comprises four members of MMFL's board, headed by an independent director, and the board met five times in 2015-16. ✓ The code of conduct compliance report was discussed in the last five board meetings. 	<ul style="list-style-type: none"> ✓ The NBFC-MFI prepares and presents the code of compliance report to the board on quarterly basis.
Dissemination	Observance
	<ul style="list-style-type: none"> ✓ The audit committee met six times to review audit findings and determine the correct action to be taken to rectify issues. It also discussed areas of improvement. MoM for the same was maintained.

Ratings

	<ul style="list-style-type: none">✓ Branches rectified the mistakes raised by the audit committee during the audit process.✓ No major adverse observations / qualifications made in the statutory auditor's report, except intra-group transactions.
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Recruitment

- The HR policy is reviewed by the board once in the board meeting, and necessary changes are made on periodic basis, if required. As per the HR manual of MMFL, every employee is required to serve 30 days' notice period. Employees will be terminated if their service is not in the interest of the organisation, and termination of employees will be carried out according to local labour laws.
- MMFL recruits employees from other MFIs; the process is as follows:
 - Reference checks
 - Feedback form from the previous MFI
 - Reliving letter from the previous MFI
- MMFL does not hire employees from other MFIs belonging to the same area and location.

Approval	Documentation
<ul style="list-style-type: none"> ✓ The Board reviewed the recruitment policy once in the last year. ✓ MMFL has an HR policy manual, which outlines the procedure for recruitment of employees from other MFIs. ✓ Every employee has to serve a notice period of 30 days. 	<ul style="list-style-type: none"> ✓ The NBFC-MFI has a policy on issuing relieving letters. ✓ It has documented a policy for conducting reference check of new employees. ✓ It has documented a policy on notice period for outgoing employees.
Dissemination	Observance
	<ul style="list-style-type: none"> ✓ Documentary evidence has been provided to CRISIL for verification of the actual implementation of the aforementioned policies. ✓ The NBFC-MFI has its own HR system where it can keep track of whether an employee is serving notice period.

Ratings

Client Education

- MMFL's field executives provide training to its clients in the first meeting. They aim to enhance the awareness of the clients on the following aspects:
 - About MMFL and its roles and responsibilities
 - Formation of a group
 - Vintage of the group
 - Attendance in the centre meeting
 - Purpose of group formation
 - Duties and responsibilities of members and centre leader
 - Objectives and rules and regulations of the group
 - Interest rate of the loan applied
- Moreover, clients are also made aware of their rights, responsibilities, and financial details during disbursement.
- Branch employees are trained on half-yearly basis at the HO training centre for improving their awareness of the following:
 - Regulatory guidelines
 - Loan products
 - Process updates
 - Code of conduct
 - Deal with the clients
- Branch managers also arrange training for staff members on monthly basis.
- The sampled clients stated that they were aware of the different products and roles and responsibilities of MMFL.
- Internal audit evaluates client awareness levels directly, which includes:
 - Interest rate
 - Loan period
 - Processing charges
 - Insurance charges
 - Insurance claim settlement
 - Client awareness about other products of MMFL

Approval	Documentation
	<ul style="list-style-type: none"> ✓ The NBFC-MFI's branches maintain and display procedure manuals and product details. ✓ Every branch maintains the group meeting register where the field executive records details of every meeting.
Dissemination	Observance

- ✓ Branch managers provide weekly training to their staff members on client awareness. Also, the NBFC-MFI provides the same training to all the employees on half-yearly basis.
- ✓ Internal auditors also cross-verify with clients whether they are aware of the terms and conditions and roles and responsibilities of both the client and the field executive.
- ✓ Clients receive training from the field executive about roles and responsibilities of the clients, centre leader, and the NBFC-MFI.
- ✓ Clients were aware of the following:
 - Interest rate
 - Loan term
 - Processing fee
 - Insurance fee
 - Insurance claim settlement process

Ratings

Feedback & Grievance Redressal

- MMFL has outlined various aspects of grievance redressal in its fair practice code. Clients and branches are aware of the escalation matrix and process. MMFL has instituted a grievance redressal committee comprising the CEO, head of HR, and a senior management member. The committee discusses the grievances raised by customers/employees and takes obligatory action if required. It also takes note of trends in types of grievances.
- Every branch of MMFL maintains a visitor book and a complaint book for clients. If a branch receives any complaint from a clients, it forms a team consisting of a branch manager, field executive/credit officer, and system operator to provide appropriate solutions to the client. The sampled clients are aware of the branch and HO location. The grievance redressal mechanism is also mentioned in the loan agreement.
- Every branch of the NBFC-MFI has displayed a toll-free helpline number of the nodal officer of MFIN. It is also mentioned in the group loan register given to the group leader. Moreover, the nodal officer contact details are mentioned on the loan card. The sampled clients were aware of this grievance redressal mechanism.
- The toll-free number is managed by company-operated call centres. All the complaints, feedback, and suggestions are recorded diligently by the call centre team and submitted to the head of the grievance committee.
- A call was made by the CRISIL representative team to the toll-free number to verify it. The number wasn't answered during lunch hours and after office hours. However, there is a provision of call-back.
- The NBFC-MFI maintains a visitor book or complaint book where customers can raise complaints, suggestions, and feedback. It has been noted that a suggestion was made to the NBFC-MFI by the customers to extend working time as the majority of the time was spent by the customers in travelling. Extended working hours would ensure that customers would get their service on the same day. Every branch has to sanction loans within 25 km radius. The sampled clients stated that two groups are located beyond 25 km.
- The clients were also provided phone numbers of field staff and branch managers. It was observed that all the passbooks were updated with contact details of the field executive and branch manager.

Approval	Documentation
<ul style="list-style-type: none"> ✓ Clients can lodge complaints through a toll-free number. However, no instances were reported where clients had escalated their complaint to senior management. 	<ul style="list-style-type: none"> ✓ Fair practice code of the NBFC-MFI includes details related to grievance redressal. ✓ The sampled clients were aware of the grievance redressal policy and escalation matrix. A toll-free number for the same is mentioned on the loan card.
Dissemination	Observance
<ul style="list-style-type: none"> ✓ Employees are trained on aspects related to feedback and grievance redressal. ✓ Clients are made aware of the grievance redressal mechanism during the first group meeting and disbursements conducted by field executives. 	<ul style="list-style-type: none"> ✓ The sampled clients were provided with contact details of the MFIN nodal officer, the NBFC-MFI, the branch manager, and field executives for registering complaints.

✓ The sampled clients were aware of the escalation matrix.

✓ The NBFC-MFI maintains a grievance and visitor register for capturing details of clients' grievances and resolutions.

✓ Every branch of the NBFC-MFI displayed contact details of MFIN.

✓ The NBFC-MFI provides the terms and conditions sheet to the clients in local language. It includes the grievance redressal mechanism as well.

Ratings

Data Sharing

- MMFL, being a member of the credit bureau, shares the data of clients with the bureau on weekly basis. As part of the terms and conditions in the loan application form, the NBFC-MFI has incorporated the client privacy clause, which highlights that clients' data may be shared with the credit bureau and regulatory bodies.
- MMFL is required to share the data with RBI and MFIN on quarterly basis. The NBFC-MFI also publishes the annual report, which is available on its website.

Approval	Documentation
<p>✓ The NBFC-MFI has formulated terms and conditions, which are mentioned in every loan application form, which requires it to be member of and share data with any credit bureau.</p>	<p>✓ NBFC-MFI has a policy for client data security. This policy is part of the credit policies and procedures manual and fair practice code it follows.</p>
Dissemination	Observance
	<p>✓ The sampled clients were aware of the terms and conditions that states the NBFC-MFI shares client data with the credit bureau and RBI weekly, and MFIN on quarterly basis.</p> <p>✓ The NBFC-MFI publishes its annual report, which is available on its website.</p>

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 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 and assessment of its 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 the 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 the overall financial performance, business volumes, and ratio analysis, the methodology allots due weightage to financial and non-financial parameters, including key business volume, performance indicators, and ratio analysis on a relative basis.

The 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, and tie-ups) and memberships of 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

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- Processes, internal controls, and 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, and security and disaster recovery management
- HR management

2) Institutional arrangement

This section 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 covered include:

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

3) Capital adequacy and asset quality

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

- Quantum / size of capital and its position with domestic requirements (applicable for NBFC-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 MFI's 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, and geographic concentration of operations
- Loan loss levels and movement of provisions and write-offs – PAR greater than 30, 90, 180, or 360 days levels, one time repayment rates, provisioning and write-off policies, proportion of write-offs and provisions (after CRISIL's adjustments, if the MFI does not have an adequate policy), and 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 the 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 MFI operates.

Moreover, regulatory risks, if any, are considered separately. 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 considerations 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 include:

- Office outreach and quality of infrastructure
- Operational efficiency – Productivity is measured through several indicators 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 ratio, net profitability margin, return on equity, and return on funds deployed/earning assets
- Impact of inflation on earnings (used in countries that have experienced high inflation in the past)

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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 to 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, and human resource issues
- Programme sustainability – sectoral expertise, ability to diversify product mix, entering new regions, retaining market share in existing operational areas, and 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	Client protection, recruitment
Transparency	Feedback/grievance redressal
Client education	Data sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below:

Higher order indicators	Number of indicators
Integrity and ethical behaviour	32
Sensitive indicators	27
Building blocks	Number of indicators
Transparency	40

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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)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centres)
Large MFIs (loan portfolio outstanding of Rs.500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	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 22 branches of the MFI. Details of the branches visited are provided below.

Sr. No.	Branch	State	No. of clients interviewed
1	Tambaram	Tamil Nadu	21
2	Acharapakkam		15
3	Peraiyur		30
4	Melur		21
5	Keelavalavu		24
6	Alangudi (Keeranur)		26
7	Keeramangalam		24

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8	Kumbakonam		20
9	Peravurani		42
10	Lalgudi		19
11	Trichy		32
12	Bhavani		22
13	Vellakoil		24
14	Palladam		36
15	Dharapuram		23
16	Pollachi		22
17	Kozhinjampara		Kerala
18	Shikrapur	Maharashtra	26
19	Kopargaon		21
20	Hadapsar		21
21	Daund		20
22	Bengaluru	Karnataka	4 (individual clients)
Total			514

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