

Comprehensive COCA grading

Belstar Investment and Finance Private Limited



Comprehensive COCA Grade Assigned: C2

Date assigned: May 29, 2017

The *Belstar Investment and Finance Private Limited* (“**BELSTAR**”) obtains comprehensive COCA grade of **C2**.

Code of Conduct Assessment Grade	BELSTAR obtains “ C2 ” as its Code of Conduct Assessment Grade which signifies the good performance on COCA dimensions.
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*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 Behavior and Sensitive Indicators**.*

Conflict of Interest Declaration

The Rating Agency 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.

Analyst Declaration

The analysts and QA certify that they do not hold any shares of the company being graded and the analysts and QA do not have any conflict of interest with reference to the company being graded.

Disclaimer

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Outstanding. The objective of the Code of Conduct assessment exercise is to assess the extent of adherence to common Code of Conduct by MFIs during the period of assessment. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the graded entity. ICRA however has not conducted any audit of the graded entity or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than grading to the entity graded. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

Historical Ratings of BELSTAR:

Instrument details	Amount (Rs. Cr)	Rating Action	Date of Action
NCDs	70.00	[ICRA]A/Stable: Reaffirmed	07 Apr 2017
Subordinated debt	30.00	[ICRA]A/Stable: Reaffirmed	07 Apr 2017
Commercial Paper	50.00	[ICRA]A1: Reaffirmed	07 Apr 2017
NCDs	70.00	[ICRA]A/Stable: Assigned	31 Mar 2017
Subordinated debt	30.00	[ICRA]A/Stable: Assigned	31 Mar 2017
Commercial Paper	50.00	[ICRA]A1: Assigned	31 Mar 2017

Grading: MFI 2+ was assigned by CARE in Mar-17 on a scale of MFI 1 to MFI 5, with MFI 1 being the highest grade.

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

FACT Sheet:

Name	Belstar Investment and Finance Private Limited ("BELSTAR")
Incorporation	11-01-1988
Registered Office	Old No. 14, New No. 33, 48 th Street, 9 th Avenue, Ashok Nagar, Ch-600 083
Corporate Office	Old No. 14, New No. 33, 48 th Street, 9 th Avenue, Ashok Nagar, Ch-600 083
Status	NBFC-MFI
Constitution	Private Limited Company
Auditors	M/s. Sankaran & Co
Activities	Microfinance
Managing Director	Dr. Kalpana Sankar
Share Capital (Mar-17)	Rs. 23.25 crore
Net Worth (Mar-17)	Rs. 90.34 crore

MFI's profile (March 31, 2017)	
Name of the MFI	Belstar Investment and Finance Private Limited
Operational Head	Mr. S. Chandrasekar (VP - Operations, Finance & IT) Mr. K.B. Balakumaran (Chief Operations Officer)
Branches	155
Active borrowers	3.36 lakh
Total staff strength	1093 of which 1021 were field officers
Operational area	Tamil Nadu, Karnataka, Madhya Pradesh, Odisha, Kerala, Pondicherry & Maharashtra.
Visit of the Assessment team	Tamil Nadu, Madhya Pradesh and Maharashtra.

Loans offered:

Description	Loan size as on December 31, 2016 (Rs. crore)	APR (Interest Rate and Processing fees)
IGP (Income Generation Program) Loans	536.31	25.0% + 1% Processing fees
Education Loans	18.56	25.0% + 2% Processing fees
House Improvement Loan	0.65	25.0% + 2% Processing fees
Consumer Goods	9.26	25.0% + Rs.100
Sanitation Loan	0.17	25.0% + 2% Processing fees
MSME (Micro, Small & Medium Enterprises) Loan	1.83	24.0% + 1.5% Processing fees

Ownership/Equity Structure:

Shareholding Pattern (as at 31 st March 2017)	
Shareholders	% Shareholding
Muthoot Finance Ltd	64.60%
Sarvam Financial Inclusion Trust	31.51%
Hand in Hand Consulting Services Private Ltd	1.85%
Dr. Kalpana Sankar	1.73%
Ms. D. Bindhu	0.17%
Ms. Kamini Dhandapani	0.14%
Mr. CV Sankar	0.00%
Total	100.00%

Profile of Board of Directors:

Board of Directors (March 2017)			
Sr No	Name	Board Position	Brief profile
1	Dr. Kalpana Sankar	Managing Director	Dr Kalpana Sankar has a double doctorate in theoretical nuclear physics and women's development. She has over 25 years of experience in microfinance in Tamil Nadu and has been a consultant with UNOPS, UNDP, Christian Aid, and Wetlands International on gender and microfinance issues. She was working as Key Person in Tamil Nadu Women Development Corporation, Govt. Of Tamil Nadu. Also, she is the Managing Trustee of Hand in Hand India.
2	Dr. N. Jeyaseelan	Director	Dr N. Jeyaseelan has piloted several microfinance initiatives in the banking sector, including the Indian Bank's Special Unit for Microfinance Project. A PhD in Microfinance, he has done several assignments in self-help groups, microfinance and micro insurance programmes across several countries. He has served as consultant to the UNDP, UNOPS, GIZ, IFAD, Agricultural Finance Corporation, Tamil Nadu Corporation for Development of Women Ltd, and Water Partner International (USA).
3	Mr. A. Subramanian	Independent Director	Mr. A. Subramanian former Executive director of Indian Bank and former General Manager in Oriental Bank of Commerce in charge of Treasury, International banking, Investor relations and HR. He has four decades of banking experience both in administrative office and the field. While in service he was an active member of Accounts and Taxation committee of Indian Banks Association since 2004.
4	Mr. K.R. Bijimon	Investor Director	Mr Bijimon is the Chief General Manager of Muthoot Group and oversees credit and operations of zonal offices, internal audit, marketing, IT and vigilance divisions of the Company. He is also the Chief Operating Officer for the global operations of Muthoot Group (USA, UK, UAE, Hong Kong, Singapore and Sri Lanka). A Fellow Member of the Institute of Chartered Accountants of India and a Fellow Member of Certified Management Accountants, Institute of Sri Lanka, Mr Bijimon has over 18 years of experience in the field of financial services and is employed in the Muthoot Group since inception.
5	Mr. George Muthoot Alexander	Investor Director	Mr. George M. Alexander has done his Master's in Business Administration from University of North Carolina's Kenan & Flagler Business School and Bachelor's in Mechanical Engineering from University of Kerala College of Engineering. Currently working as Sr. Vice President of Muthoot

Board of Directors (March 2017)			
			Finance, he takes care of operations in the state of Karnataka and has the additional responsibility of monitoring the global operations of The Muthoot Group in the US. Prior to joining his family business, George had worked for ING and Kotak Mahindra Bank in India. He is the eldest son of George Alexander Muthoot, Managing Director, The Muthoot Group.
6	Mr. George Muthoot Jacob	Investor Director	Mr. George Muthoot Jacob is the Sr. Vice President - Legal, Corporate Affairs & Marketing of the Company. He also holds an LLM in International Economic Law from the University of Warwick, Coventry, United Kingdom. He completed his bachelor's degree in law from the National University of Advanced Legal Studies, Kochi. He renders his expertise in the field of legal, compliance, and corporate governance, internal audit, risk management, marketing and sales of the Company. He is the son of George Jacob Muthoot, Joint Managing Director, The Muthoot Group.

Source: Company website

Key Performance Ratios				
Rs. crore	Mar-14	Mar-15	Mar-16	Mar-17
	12M	12M	12M	12M
PAT (reported before extraordinary items)	2.6	3.0	6.1	10.4
Net worth	30.80	33.80	39.90	90.35
Borrowings (managed)	111.8	208.6	278.2	652.5
Gearing	3.63	6.17	6.97	7.22
Yield on advances (Net of origination costs)	22.44%	21.24%	23.50%	23.10%
Cost of funds	10.89%	11.31%	12.67%	11.54%
NIM	11.49%	9.34%	9.45%	9.11%
Cost to income ratio	71.90%	70.99%	64.07%	84.55%
Operating Expense/ATA	8.26%	6.63%	6.06%	5.4%
Provisions/ATA	0.18%	0.40%	0.21%	0.81%
Profit before tax /ATA	3.05%	2.31%	3.19%	2.92%
Profit after tax /ATA	2.06%	1.53%	2.12%	1.91%
Return on Avg Net Worth	10.30%	9.29%	16.57%	16.03%

ATA – Average total assets

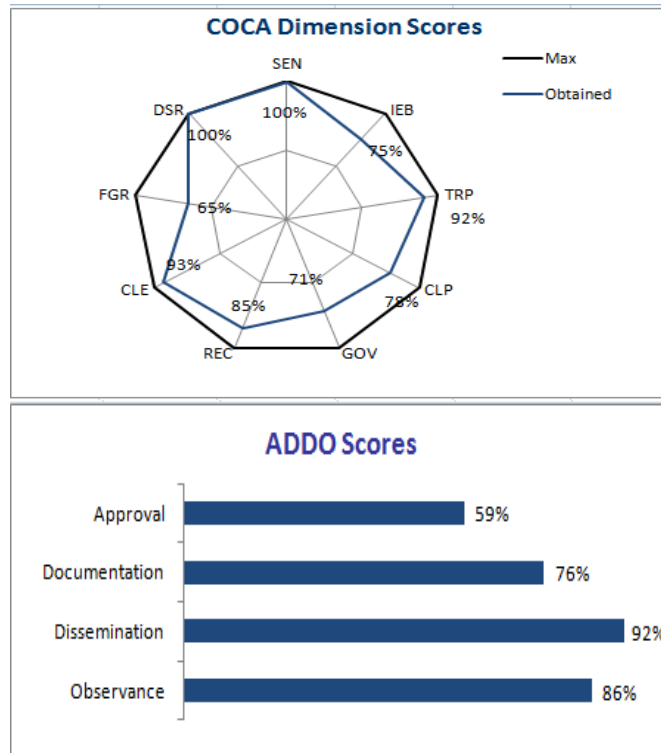
Source: ICRA Analysis

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 and the qualifying assets stands at 92%; Certified by auditors.
2	Net worth to be in excess of Rs 5 crore	Complied. BELSTAR had a net worth of Rs.90.34 crore as on March 31, 2017.
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*	Complied. Most of the borrowers interacted with were found to be in compliance with respect to the income level. Also, the income mentioned in the application forms was in compliance with the norms.
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	Complied.
5	Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	Complied.
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	Complied; currently, maximum loan size of all borrowers is Rs. 50,000 which are offered for a tenor of 25 months (including moratorium of one month).
7	Pricing guidelines are to be followed.	Complied. Interest rate charged is 25%
8	Transparency in interest rates to be maintained	Complied.
9	Not more than two MFIs lend to the same client	Complied. BELSTAR does not lend as a third lender.

* For the assets classified as qualifying
Source: CA certificate.

Section 1: 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

BELSTAR's performance on the code of conduct takes into account MFI's strong performance on Transparency, Recruitment, Client Education and Data Sharing. The overall score is further enhanced by BELSTAR's high score on sensitive parameters. There is scope of improvement across Client Protection, governance and Feedback and Grievance Redressal Mechanism. BELSTAR's overall score is impacted by low scores in Integrity and Ethical Behaviour.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths

- BELSTAR communicates with borrowers in a transparent and professional manner with use of single effective interest rates throughout the loan tenor and receipts (at the group level) issued for all payments. All the communications are done in vernacular except for the repayment schedule.
- The operational staff is punctual and courteous towards the borrowers with no instances of borrower complaints about the operational staff's behavior observed.
- The processing fees charged is 1%, which is in line with the prescribed guidelines.
- All the borrowers need to undergo training for where they are informed about the products offered by the company, terms and conditions, responsibilities etc.
- Key financial statements for FY2016 have been displayed on BELSTAR's website.
- No instances of collateral or security deposit being taken from the borrowers were observed. The same has been documented in the operational manual as well. Interviewed branch managers were aware regarding the guidelines.
- BELSTAR shares data with all 4 bureaus on a weekly basis. Review of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases.
- BELSTAR's board reviews its interest rate every quarter with respect to compliance with RBI's guidelines.
- BELSTAR offers consumer durable (non-credit) products and no instances came to notice where a borrower had been made to buy these product as a precondition for loan.
- BELSTAR does have a board approved policy of recovering delinquent loans. There is a clear guideline on dealing with delinquent clients, for different stages of default.
- BELSTAR has a policy to collect Aadhaar card as a mandatory KYC document.
- Majority of the clients receive acknowledgement when they apply for a loan.
- MFI has a system of documenting why a loan has not been sanctioned against an accepted loan application.
- The code of conduct compliance report of the MFI is available in the public domain.
- BELSTAR does have an approved IT policy on maintaining the privacy and security of client data.

Weaknesses

- Of the ADDO parameters, the company scores low indicating that the company needs to improve on what is reported to the board viz. annually reviewed Code of conduct compliance report. Policy on having independent audit team to verify the credit bureau checks post disbursement etc would help the company increase score on the same.
- One third of BELSTAR's board is not independent, as the board comprised only one independent director out of the six directors.
- MFI's Board has not reviewed whether the formats in use are understandable by MFI's clients.
- Board has not reviewed management performance report/Internal Audit report on whether all clients receive the necessary loan documents in the past year.
- Grievance redressal mechanism established by industry association MFIN/Sa-Dhan is not being disseminated to the borrowers and the borrowers were not aware of the same.
- BELSTAR does not have policy on upper limit for incentives related to monthly client enrolment targets.
- Internal audit guidelines do not require audit checks to be performed on whether client data has been stored with adequate security.
- BELSTAR does not have a dedicated grievance redressal officer at head office; Grievance redressal officer is Banabihari Panda who also manages Chief Risk Officer (CRO) function. However, ICRA notes that complaints and sharing of reports on a quarterly basis to the board. No acknowledgement is being provided to borrowers on receipt of grievance.

Significant observations - Higher Order Indicators

1. Integrity and Ethical Behavior.

Strengths

- BELSTAR has a dedicated internal audit team and the internal audit head directly reports to the internal audit committee. BELSTAR has constituted an audit committee of the board, which meets on a regular basis. Minutes of the audit committee have been maintained. The committee has regularly reviewed the audit team strength.
- There is a board approved policy for recovering of delinquent loans
- Summary of grievance redressal reports are presented to the board.
- Interviews with employers reveal that they never had to make good any shortfalls in collections with their own money
- The board reviews its recruitment policies at least once annually
- BELSTAR honours a notice period of minimum one month while terminating the employee. Submission of relieving letter from the previous employer is mandatory for new joiners. BELSTAR also provides the notice period of one month, two months and three months to junior level employees, middle management & senior management respectively.
- Borrowers confirmed receiving detailed trainings on the product and organisation policy.
- The operational staff confirmed that they have received training on the following:
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans
 - RBI direction.
 - Communication to be provided to new clients.
- Discussions with clients revealed that they receive accurate receipts (as a group) for all transaction.
- Internal audit report has been reviewed by the MFI's Board, regarding appropriate vouching or by MFI staff.
- BELSTAR has a board approved policy of dealing with delinquent customers at each stage of default.
- The board has reviews the recruitment policies along with all other policies annually.

Weaknesses

- While the employees confirmed that they were not made to pay for shortfall in collections, the same is not documented in the HR manual.
- BELSTAR does not have structured compliance report on code of conduct parameters which is presented to the board on a regular basis. However we note that BELSTAR presents its policy on fair practice code covering majority of the headings from the code of conduct.
- BELSTAR's incentive policy does not specify an upper limit for incentives related to monthly client enrolment targets and number of clients managed.
- Staff satisfaction related to compensation and incentive is not covered by internal audit.
- Grievance redressal mechanism established by industry association (viz. Sa-Dhan, MFIN) is not disseminated to the borrowers and the borrowers were not aware of the same.
- BELSTAR lack in recording complaints at branches diligently and action taken reports on the complaints received from clients.
- Records indicate that MFI has not taken steps to ensure compliance with the code of conduct in areas where it is weak

2. Sensitive Indicators

Strengths

- Discussions with borrowers revealed that the borrowers were aware of the amount and number of instalments they were required to pay.
- No instances of the following were found:
 - A borrower being made to pay for a service or product as a precondition for loan.
 - Fine or penalty being levied or collected from the borrowers.
 - Collateral or security deposit being taken from the borrowers.
 - Borrowers being charged processing fee in excess of 1%.
 - Loan size or tenure being non-compliance with RBI directions.
 - BELSTAR charging clients additionally for insurance, apart from premium payable.
 - Indebtedness of borrower was more than that stipulated by RBI.
 - Clients had to make payment to informal agents or bribes.
 - Unauthorised sharing of client data by BELSTAR.
- BELSTAR undertakes a review of its pricing regularly. The company also gets certified on complying with RBI guidelines by an external CA on a quarterly basis.
- The difference between the interest rate charged on any two loan products is not more than 4%.
- During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose.
- BELSTAR has a clear policy regarding documents to be collected for identity and address proof. The company requires borrowers to have Aadhar card (mandatory), Family Ration Card and Voter ID. The copy of KYC collected from clients is verified with original documents along with an "OSV" (Original Seen and Verified) declaration of the field staff. ICRA did not come across any instance where a loan classified as qualifying microfinance loan, identity

Strengths

- proof (with a verified with original declaration) had not been obtained.
- Review of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases. Credit bureau checks are conducted centrally. However onus on ensuring disbursements being made within 15 days of disbursement lies with the loan office/branch manager leaves scope for error.
- Interviews with borrowers revealed that the staff did not indulge in the following:
 - Abusive language or threats
 - Visiting borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders.
- There were no adverse observations in the Auditor's report for the year FY2016 regarding accounting standards followed by the MFI.
- The MFI gets an external CA agency to certify its compliance with RBI's directions on loan pricing.
- BELSTAR is a member of 4 credit bureaus and reports data to each of the bureau on a weekly as well as monthly basis.
- Most of the borrowers interacted with were found to be in compliance with respect to economic status.

Weaknesses

- Though the MFI provides sanction letters at the group level for SHGs, the same is not provided to the borrowers individually. Noted there was once instance wherein the clients have not received the sanction letter.

Significant observations – Building Blocks

1. Transparency

Strengths

- BELSTAR's board takes into consideration the guidelines and directions issued by Reserve Bank of India (RBI) with respect to vernacular language being used in communication, use of only single and effective interest rate, issue of receipt for any payments. The same have been documented in manuals and circulars.
- The branch managers and staff members were aware of the need to communicate in a transparent manner with the borrowers and were given training on the same.
- The borrowers confirmed that they had been communicated all terms and conditions such as interest rates, loan tenure, processing fee etc during the group training prior to disbursement.
- All the field staffs interviewed were aware of the terms and conditions that need to be communicated to the borrowers.
- The loan card provides the complete repayment schedule with interest and principal separately mentioned.
- Discussions with clients revealed that they or someone in their families were able to read and understand the text in documents, such as loan cards, loan agreements etc, shared by BELSTAR.
- All the borrowers were found to be aware of the amount and number of instalments they were required to pay.
- BELSTAR disseminates a single, effective annual rate to its borrowers. The processing fees charged is 1%, which is in line with the prescribed guidelines.
- No instances of fine or penalty being levied or collected from the borrowers were observed. The borrowers also confirmed that no fine has been paid by them.
- BELSTAR has a board approved policy stating that no security deposit will be collected, or collateral will be obtained for loans meant to qualify under priority sector classification.
- No instances of collateral or security deposit being taken from the borrowers came to ICRA's notice during the field visit. The same has been documented in the credit policy manual as well. Interviewed branch managers were aware regarding the guidelines.
- Any changes in its interest rate are documented through formal circulars and the same were found in each of the branches visited.
- Circulars with the most recent direction were available in branches visited.
- The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis.
- Review of latest loan files revealed that the loans had been disbursed at the latest rate of interest.
- BELSTAR's board has reviewed its interest rate with respect to compliance with RBI's guidelines.
- The staff had received training regarding the documents to be provided to clients.
- BELSTAR had developed acknowledgement formats, which the applicants get when they fill up a loan application form.
- Majority of the branches displayed the updated effective rate of interest applicable and

Strengths

- review of the latest loan files revealed that loans were disbursed as per latest terms.
- Loan agreement is provided to clients as part of loan pass book stating terms and conditions of the loan.
- The financial statement for FY2016 was available at the company's website.

Weaknesses

- The internal audit report does not track whether all clients receive the necessary loans documents and thus the same was not reviewed by the board.
- MFI's Board has not reviewed in the past year whether the formats in use are understandable by MFI's clients particularly in new areas of operations.

2. Client Protection

Strengths

- During the last one year, BELSTAR's board has discussed the performance of the company on the following, which are in-line with the regulatory requirements:
 - KYC norms
 - The norms regarding loan size, loan tenure and borrower income criteria have been documented in the circulars.
- Internal audit report keeps track of the following parameters and their compliance with RBI directions:
 - Loan Utilization check
 - KYC status of clients
- No instances of the following were observed:
 - Loan size or tenure being in non-compliance with RBI directions.
 - Clients being deliberately made to pre-pay.
 - Offering any un-approved product/service.
 - A party other than the MFI staff or client (and her family member) involved in filling up her loan application.
 - A borrower made to pay for a service or product as a precondition for loan.
 - Charging clients additionally for insurance, apart from premium payable.
 - Indebtedness of borrower was more than that stipulated by RBI.
 - Clients had to make payment to informal agents or bribes.
 - Unauthorised sharing of client data by BELSTAR.
- During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose.
- There was consistency in repayment observed and repayment as per the loan contract among the client sample.
- For all the sampled clients, the indebtedness and income levels matched the stated levels.
- Most of the borrowers interacted with were found to be in compliance with respect to economic status.
- BELSTAR has a clear policy regarding documents to be collected for identity and address proof. The company requires borrowers to have Aadhar card and Family Card/Voter ID. The

Strengths

copy of KYC collected from clients is verified with original documents along with an "OSV" (Original Seen and Verified) declaration of the field staff. ICRA did not come across any instance where a loan classified as qualifying microfinance loan, identity proof (with a verified with original declaration) had not been obtained.

- Discussions with borrowers revealed that they were satisfied with the repayment frequency of loans.
- All the borrowers revealed that they had been disbursed loans within specified time limits.
- BELSTAR offers non credit products which are optional and not a precondition for loans.
- BELSTAR provides insurance to its clients through IRDA approved agency – Exide Life Insurance. The operational staff revealed that they had been trained on how to assess repayment capacity of borrowers which includes house visits and talking to neighbours.
- The maximum loan given by BELSTAR under SHG loans does not exceed Rs 50,000. However, ICRA did not come across any instance where the total loan by BELSTAR to a borrower exceeded Rs 60,000.
- The credit policy specifies guidelines for conducting client meetings, collecting repayments and recovering overdue loans; however, there are no stated policy for informing the clients regarding the interest rates and other costs.
- The operational staff confirmed that they have received training on the following:
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans.
- Discussions with branch staffs that they are aware of process to be followed in case credit bureau reports are found to be inaccurate.
- Branch managers were found to be aware of RBI directions with respect to loan sizes and KYC norms. Majority of the branch managers were aware of the RBI's directions regarding loan tenures, loan purpose, income level of borrowers and turnaround time limits.
- Discussions with borrowers revealed that MFI staff arrives on time for client meetings and staff conduct is professional.
- Before entering a particular state or district, BELSTAR performs state, district and village surveys where micro credit saturation profile of the area is analysed and the same is reviewed by the board.
- The MFI staff confirmed that they had received training regarding the policy of not visiting borrowers at odd hours and not to forcibly enter into dwelling and seize client property without the legal orders.
- Interviews with borrowers revealed that the staff did not indulge in the following:
 - Abusive language or threats, visiting borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders.
- Internal audit report has been reviewed by the MFI's Board, regarding appropriate vouching or by MFI staff. The staff confirmed that they had been trained on the same.
- All clients revealed that they receive accurate receipts for all transaction.
- The MFI takes regular backup of digital data.
- Review of loan files at branches indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all sampled cases.

Weaknesses

- In the past year, BELSTAR's board has not reviewed the following:
 - MFI's performance with respect to indebtedness of borrowers.
 - Turnaround time for loan sanction and disbursement.
 - MFI's performance on informing the clients regarding the product and services of the MFI, conducting client meetings and collecting repayments.
- BELSTAR does not perform verification tests through additional credit bureau checks on sample clients after loan disbursement and the results of the same are not placed before the board.
- Internal audit guidelines do not require internal audit checks to be performed on whether client data has been stored with adequate security.
- Client awareness of the fact that their data can only be shared for authorized purposes was negligible; however, permission had been obtained for the same from each borrower as part of loan agreement form.
- As part of fair practices report, the board has not reviewed the non occurrence or otherwise of the following in the last one year:
 - Abusive language or threats
 - Visiting borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders.

3. Governance

Strengths

- The board meets at least once every quarter and the minutes of the meetings are maintained by the MFI.
- The audited financials disclose the compensation of key managerial personnel which consists of managing director compensation
- The policies and procedure of the MFI and any subsequent changes to the same are approved by the board.
- Summary of key changes in the all policies are provided to the board of directors
- BELSTAR has constituted an audit committee of the board, which meets on a regular basis. Minutes of the audit committee have been maintained. The committee has regularly reviewed the audit team strength.
- Board has approved the restructuring policy.
- BELSTAR has a dedicated internal audit team. The internal audit head directly reports to the internal audit committee.
- Loan Utilization Check (LUC) is being done with sample 10% of the borrowers in the group (SHG/JLG).
- The internal audit team conducts audits of 10% of borrower's documents. Action taken report based on the last audit report was available in the branches visited.
- Credit bureau checks are centralized at Head Office.
- There were no adverse observations in the Auditor's report for the year FY2016 regarding accounting standards followed by the MFI.

Strengths

- The board has met regularly over the previous one year (met seven times last year) and the minutes of the board meetings are maintained by the MFI.

Weaknesses

- The MFI has no written policy regarding constitution of the board including the fact that 1/3rd of the members are independent persons. Further, BELSTAR's board does not have one third of directors as independent directors.
- Staff satisfaction related to compensation and incentive is not covered by internal audit.
- BELSTAR does not have structured compliance report on code of conduct parameters which is presented to the board on a regular basis.
- As per discussions with the management, MFI has not taken steps to ensure compliance with the code of conduct in areas where it was weak.

Other observations

- There is no evidence that BELSTAR has restructured loans of clients facing repayment stress in the past.

4. Recruitment

Strengths

- The company presents its changes in recruitment policies to the board. The company has reviewed its recruitment policies and no changes were made during the last one year.
- BELSTAR has a documented guidelines regarding recruitment and submission of relieving letter from the previous employer is mandatory for new joinees.
- BELSTAR has a policy of mandatorily seeking reference check from the previous employer, as it conducts back ground verification of new joinees through a third party.
- BELSTAR responds to the reference check requests from other MFIs while getting reference check of potential hires with at least two recent employers.
- BELSTAR honours a notice period for all employees who are resigning/being terminated. There is documentary evidence to suggest that MFI has honoured the notice period for all employees.

Weaknesses

- There is no written policy stating that the shortfall in collections will not be recovered from employees, unless in proven cases of fraud.
- BELSTAR currently does not have any policy restricting the posting of new joinees at the same geography where they were associated with their previous MFI. However, discussions with management revealed that that even though there is no documented policy on the same, it is strictly followed in practice; the interactions with the field officers have also

confirmed the same.

- BELSTAR has not defined and documented process for responding to reference check requests; however, it is being practiced.

5. Client Education

Strengths

- Discussions with borrowers revealed that they were provided training about the loan product, joint liability, meeting process, organisation policy, interest rates, fees and charges etc. The borrower's further confirmed that no payment has been made for these trainings.
- RAT (Risk Assessment Team) assesses the clients' awareness and verify loan documents including KYC, inter-se agreement, loan application, credit history etc.
- Majority of the clients were found to be aware of the annualized Interest rate, Loan term, Processing fees, Insurance claim settlement process, non-credit products and Insurance charges.
- BELSTAR has a documented process for the communication to be provided to new clients.

Weaknesses

- Borrowers were not aware of the industry association and credit bureaus, while the majority of borrowers were aware that they can avail loan from one more MFI other than BELSTAR.
- Though BELSTAR has a documented process for the communication to be provided to new clients, there is no mention of policy stating interest rate and other costs to be communicated.

6. Feedback & Grievance Redressal

Strengths

- ICRA's branch visits revealed that though BELSTAR has provided a HO toll free number (on the group loan card) and Regional manager contact numbers to borrowers to record their complaints, majority of the borrowers approach either the Field staff or Branch Manager to get their grievances addressed.
- Complaints are logged at the HO level and presented to the board every year.
- The borrowers were aware of the name of the MFI and the branch location.
- Grievance redressal system and escalation matrix set up by the MFI are displayed prominently by the MFI in all its branches.

Weaknesses

- While suggestion box were seen at few branches, there were no grievance redressal registers maintained at the branch level.
- Noted that no acknowledgement is being provided to borrowers on the receipt of grievance.
- The grievance redressal mechanism established by Industry associations is not mentioned in

the training policy manual and not disseminated to borrowers as well. Majority of the BMs and field officers are not aware of industry association and its grievance redressal mechanism.

- Majority of the clients were not aware about the grievance redressal official.
- MFI has not displayed in branches that it is responsible for the actions of its staff and that the clients will be treated fairly despite grievance being lodged, though the same is mentioned in the loan sanction letter.

7. Data Sharing

Strengths

- We note that BELSTAR has user access control in place, in order to safeguard the borrowers'/members' data.
- BELSTAR is a member of all 4 credit bureaus viz. CRIF High Mark, Equifax, CIBIL & Experian and reports data to each of the bureau on a weekly basis.
- High Mark is being used for Credit Bureau check in Tamil Nadu and Pondicherry where the loans were provided only to the SHG members. Equifax is being used for Credit Bureau check in States such as Madhya Pradesh, Karnataka, Maharashtra, Kerala and Odisha where the loans were provided only to the JLG members.
- BELSTAR has provided data when called for by RBI and other Self Regulatory Organisations (SROs).
- While the incremental data backup is taken every week, the full backup of data is taken every month. Data were shared with MFIN once in a month.
- BELSTAR is an associate of Sa-Dhan (Association of Community Development Finance Institutions), MFIN (MicroFinance Institutions Network) & AKMi (Association of Karnataka Microfinance Institutions).

Weakness

- Interaction with the Borrowers' revealed that they are not aware on the fact that their data can only be shared for authorized purposes.

Annexure: Methodologies

Microfinance Grading Methodology

<http://www.icra.in/Files/Articles/mfi%20grading%20methology%20note%20for%20upload.pdf>

COCA Methodology

The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI’s fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and Smart Campaign’s Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

Highest Order	
Sensitive Indicators	
Higher Order	
Integrity & Ethical Behavior	
Building Blocks	
Governance	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	Data Sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	26
Building Blocks	Number of Indicators
Transparency	40
Client Protection	122
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
Total	250

Methodology

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

Sampling guidelines

The following is taken as the guideline to determine the sample size for a COCA exercise.

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment exercise requires:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.

6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited **18** branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Gudiyatham	Tamil Nadu	26
2	Katpadi	Tamil Nadu	20
3	Kattankulathur	Tamil Nadu	14
4	Kundrathur	Tamil Nadu	20
5	Mittur	Tamil Nadu	25
6	Walaja	Tamil Nadu	21
7	Tirupattur	Tamil Nadu	17
8	Vellore	Tamil Nadu	19
9	Pulianthope	Tamil Nadu	39
10	Perambur	Tamil Nadu	18
11	Chinchwad	Maharashtra	22
12	Dhankawadi	Maharashtra	20
13	Chakan	Maharashtra	21
14	Alandi	Maharashtra	22
15	Dhar	Madhya Pradesh	34
16	Dewas	Madhya Pradesh	32
17	Sonkhar	Madhya Pradesh	32
18	Tonkkhurd	Madhya Pradesh	35
Total			437

As part of this assessment, we have called up the below BELSTAR clients.

Sr No	Member's Name	Branch	Contact
1	Punitha	Gudiyatham	+917894561235
2	Bakiyam	Kadayampatti	+919965613994
3	Chandraleaka	Gingee	+918124816105
4	Matchubeebe	Trichy Corporation	+919944618004
5	Fathima	Thalaivasal	+917667188603
6	Neelavathi D	Thirupattur	+919047946507
7	Chithra	Kolathur	+918508065317
8	A.Sangeetha	Kallal	+919047264388
9	Jayalalitha M	Virudhachalam	+917397089728
10	Chinnaponnu B	Sivagangai	+919788981015