



SMERA RATINGS LIMITED

**SMERA
Comprehensive
Grading**

M2C2

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

SMERA MFI Grading

Chaitanya India Fin Credit Private Limited

Date of Report:

28th March, 2017

SMERA's MFI Comprehensive Grading Scale

The grading is done on 8 x 5 matrix. The matrix assesses the entity on two broad parameters:

- Capacity to manage their microfinance operations in a sustainable manner
- Performance on COCA dimensions

Scale	C1	C2	C3	C4	C5
M1					
M2		M2C2			
M3					
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of “**M2C2**”. It signifies high capacity of the MFI to manage its operations in a sustainable manner and good performance on code of conduct dimensions.



Grading Rationale

Microfinance Capacity Assessment Grade	Chaitanya obtains “M2” as its performance grade which signifies “high capacity of the organization to carry out its activities in a sustainable manner”. The organization has excellent portfolio quality and management system but it has a relatively low capital base. Its loan portfolio is also concentrated in a limited geographical area.
Code of Conduct Assessment Grade	Chaitanya obtains “C2” as its Code of Conduct Assessment Grade which signifies good performance on COCA dimensions.

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



Conflict of Interest Declaration

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

Disclaimer

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

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Historical Rating Grades

Date	Rating Agency	Comprehensive rating grade
October 2015	ICRA	M2
Feb 2016	SMERA	COCA 3



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SMERA's MFI Grading Scale

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

Code of Conduct Assessment scale and definitions

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



Company Profile

Name of the MFI	Chaitanya India Fin Credit Private Limited
Year of Commencement of Operations	2009
Legal Status	Non-Banking Finance Company (NBFC-MFI)
Business of the Company	Engaged in business of microfinance under JLG model
Correspondence address	#98, 3rd Floor, Sirsi Circle Near Nalanda Theater, Chamarajpet Bangalore - 560 018 Karnataka India
Geographical Reach (As on 31/Dec/2016)	No of States : 02 No of Branches : 110
Total Employees (As on 31/Dec/2016)	1076
Active Borrowers (As on 31/Dec/2016)	183,444
Total Portfolio Outstanding (in crores) (As on 31/Dec/2016)	Owned Portfolio - 245.93 Securitized Portfolio (Off Balance Sheet) – 45.03
Operational Head	Mr. Samit Shetty, Managing Director Email ID: samit@chaitanyaIndia.in
Statutory Auditor & Address	M/s Ramesh Ashwin & Karanth Premier Presidency, #35/17, 1 st Floor, Langford Road, Opp. St. Joseph College, Bangalore - 560025 Tel: 080 - 41464630



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Background

Chaitanya commenced its microfinance operations in October 2007 at Nayakanahatti village in Chitradurga district for two years at NGO. Later in 2009 Chaitanya obtained a Non Banking Finance Company (NBFC) license from Reserve Bank of India for a newly registered company, Chaitanya India Fin Credit Private Limited (Chaitanya).

Chaitanya provides loans to joint liability group who comes together for the purpose of availing bank loan on individual basis or through group mechanism against mutual guarantee. Chaitanya offers loans in the range of Rs.15,000 to Rs.75, 000 depending on client repayment capacity, type of activity etc with tenure varying from 12 months to 24 months at an effective interest rate of 25% (on a reducing balance). The NBFC-MFI also offers various non-JLG products like Gold Loans and Two wheeler loans, which has a relatively lower share in the portfolio.

During nine month ended FY2017 (9MFY2017), Chaitanya reported a net profit of Rs 2.41 crore (Provisional) and total income of Rs.49.48 crore (Provisional, including Securitization income) on asset base of Rs 337.70 crore (Provisional)

**Product Profile**

Product	Description	Loan size (Rs)	Repayment (in Months)	Interest Rate (In %) Reducing Balance	Processing Fees (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
JLG Loan	Livestock, vegetable vending, family enterprises, artisans etc	5,000 to 90,000	12 months to 24 months	25.00	1.00	26.00
Vehicle Loan	Purchase of Vehicle	15,000 to 50,000	12 months to 24 months	25.00	1.00	26.00
Housing/Mortgage	Housing Loan	100,000 to 250,000	12 months to 48 months	22.00	1.00	23.00
Gold Loan	Pledge of Gold	2,000 to 100,000	12 months	25.00	-	25.00



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Capital Structure as of 31/Dec/2016

Authorized Capital	Rs.25.00 crore
Paid Up Capital	Rs.18.29 crore

Shareholding Pattern

Shareholder's -Equity Shares as on 31/Dec/2016

Name of Proprietor/ Partner / Shareholders	Shares	Shares in %
Chaitanya Rural Intermediation Development	18,291,567	100.00
Total	18,291,567	100.00



Promoters Profile

Name of Director	Designation	Profile
Samit Shankar Shetty	Managing Director	<ul style="list-style-type: none"> • MBA from the Indian Institute of Management, Ahmedabad, B.E. Bangalore University. • Worked with Olam International Limited (A global leader in the supply chain management of agricultural products and food ingredients) for almost a decade. • Associated with Chaitanya since 2008 April. . • Currently Executive Director of the company and directly in charge of operations.
Anand Rao	Joint Managing Director	<ul style="list-style-type: none"> • MA (International Relations) Syracuse University USA, Masters of Management, IIT Mumbai, B.E. Bangalore University. • Founder, Chaitanya Foundation – (a MFI) 2007 – 2009. • Head of Projects, Small Scale Sustainable Infrastructure Development Fund (SIDF) Bangalore, 2004-2009. • Currently managing director of the company and handles internal audit, HR, accounting and finance functions within the company.
K. Subramanyam Ravi	Independent Director	<ul style="list-style-type: none"> • A qualified Chartered Accountant. • Visiting faculty of Regional Training Institutes of AG’s Office, Bangalore, Member Audit Board, Bangalore, Income Tax Department, Bangalore, Karnataka Power Corporation Ltd., Bangalore. • Auditor for Sakhi Samodhaya Khosh, Sampark and Souharda Cooperative society
Rachamadugu Nandakumar	Independent Director	<ul style="list-style-type: none"> • Science graduate and a Certified Associate of Indian Institute of Bankers. • An ex-banker with almost 40 years of experience in various disciplines like Credit, Administration, General Banking, Audit, Finance and HR. • Chief Executive Officer of EMMVEE GROUP of companies.

Ramesh Sundaresan	Nominee Director	<ul style="list-style-type: none"> Graduate from NIT Trichy and Post Graduate from Indian Institute of Management Lucknow. Managing Director of Invenio, a subsidiary of Singapore based multinational Olam International Limited
Davis Frederick Golding	Nominee Director	<ul style="list-style-type: none"> Investor's nominee Director at Chaitanya . Graduate from Duke University 1981 He is the Director of Equator Capital Partners based in USA which is engaged in providing fund management services.

Observations

- Chaitanya has six-member board as on Dec-2016 having extensive experience in the banking and finance segment. The board has two promoter directors, two nominee directors (representatives from Investors) and two independent directors with banking & finance/Microfinance expertise.
- The board meets on a quarterly basis and if required frequency of the meeting increases. Board is actively involved in strategy formulation, developing & approving business plans, fund mobilization. Board meetings also cover the overall performance, recruitment, updating policy, to ensure the use of resources, approve annual work plan and budgets, implement programmes that are in line with the mission and vision, monitor MFI's performance and review monthly reports. The management team updates the board regularly on operations and key developments in each department.



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Senior Management Profile

Name	Designation
Vasudeva S.B	Financial Controller
Srinivasan C V	Chief Financial Officer
Ganesh K V	President Operations
Rakesh Mattar	Accounts & MIS Manager
Guruswamy S M	Audit Manager
Dimple J Shah	Company Secretary
Jignesh J Balani	IT Manager
Shreepad Mohan Vaze	HR Manager
Jeyaseelan L	Divisional Manager
Vinayak S. Patil	Divisional Manager
Nagaraj C	Divisional Manager



Key Performance Ratios

Financial Ratios	31/Mar/2014	31/Mar/2015	31/Mar/2016
Capital Adequacy Ratio (CAR)			
Capital Adequacy Ratio (%)	33.11%	22.46%	18.20%
Productivity / Efficiency Ratios*			
No. of Active Borrowers Per Staff Member	186	169	166
No. of Active Borrowers per field executives	324	278	277
Gross Portfolio o/s per field executive (Rs in thousands)	3,506	3,566	3,981
Average Outstanding Balance Per borrower (In Rs)	12,814	12,837	14,377
Cost Per Active borrower (In Rs)	1060	1176	1116
Asset / Liability Management			
Yield on Portfolio (%)	25.6%	27.1%	25.2%
Profitability / Sustainability Ratios			
Operational Self Sufficiency (%)	111.7%	105.6%	106.5%
Operating Expense Ratio (OER)	12.3%	12.0%	10.5%
Funding Expense Ratio (FER)	12.74%	13.0%	13.44%
Return on Assets (RoA)	2.2%	1.1%	1.3%
Portfolio at Risk (>30 days)	0.13%	0.40%	0.30%
Return on Equity (RoE)	8.4%	6.0%	10.6%

Highlights of Microfinance Operations

Particulars	31-03-14	31-03-15	31-03-16	30-09-16	31-12-16
No. of states	1	1	2	2	2
No. of districts	10	15	21	21	21
No. of branches	29	47	83	100	110
No. of sub-groups	8,864	14,117	27,111	40,162	38,161
No. of centers	4,334	7,082	13,672	20,978	19,862
No. of active borrowers	44,074	69,995	130,688	174,016	183,444
No. of active loans	46,329	74,306	135,860	181,644	193,551
No. of loans disbursed during the period	48,206	78,114	137,582	102,734	139,874
No. of total employees	237	414	785	972	1076
No. of field staff (Cos)	136	252	472	601	694
Loan disbursements during the period (Rs in thousands)	852,918	1,452,074	2,905,463	2,443,563	3,268,598
Net Loan portfolio outstanding (Rs in thousands)	564,764	898,511	1,878,874	2,395,315	2,459,325
Total Securitized Portfolio (Off Balance-sheet)	0	92,283	288,930	644,571	450,268
Loan amount outstanding per active loan (In Rs)	12,190	12,092	13,829	13,187	12,706
Active borrowers per field staff	324	278	277	290	264
Average Ticket Size (in Rs.)	17,693	18,589	21,118	23,785	23,368

Observations

As on Dec 2016, the company had an outstanding portfolio of Rs. 290.96 crores (including off Balance sheet) spread over 110 branches of 21 districts with about 183,444 borrowers. Further Chaitanya's Assets under Management (AUM) in FY 2016 witnessed robust growth of 109% over FY15 (59% growth seen in FY2015).

In FY 2016, The Company expanded its borrower base by adding 36 new branches in its branch network over FY2016 and 27 new branches in current financial year till date.(Dec 31,2016)

The disbursement almost doubled in FY 2016 compared to the previous year on account of good funding from banks and financial institutions. Further company also raised funds through securitization channel.

With Portfolio concentration in Karnataka and Maharashtra at ~ 98 per cent and ~ 02 per cent, respectively (as on Dec 31, 2016), the company remains exposed to geographical concentration risk. However as informed by the management, the company is planning to reduced concentration in Karnataka and come with branches in Bihar to reduce the risk to certain extent

Compliance with RBI's Directives

RBI's Direction	Chaitanya Status	Compliance
85% of total assets to be in the nature of qualifying assets	Qualifying assets forms 91.29% of total assets as on 31/Dec/2016	Complied
Net worth to be in excess of Rs 5 Crore	Net Owned Funds stood at Rs 48.31 cr as on 31/Dec/2016	Complied
Income of borrower not to exceed Rs 100,000 in the rural areas and Rs 160,000 in the urban and semi-urban areas*	Chaitanya extends loans to households whose income does not exceed Rs 100,000 in rural and Rs 160,000 in urban areas	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	Chaitanya offers loan in the range of Rs 5000 to Rs 90,000 depending on client repayment capacity, type of activity etc	Complied
Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	Apart from taking declaration from the client, Chaitanya conducts credit check on the loans outstanding through credit bureaus	Complied
Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	Chaitanya offers loans of Rs 15,000 for a tenure of 12 months and loans of Rs 20,000 to Rs 30,000 for a period of 18 months and loans above Rs 30,000 for 24 months	Complied
Pricing guidelines are to be followed	Loans are provided in range of 22% to 25.00% reducing balance basis which meets the RBI criteria.	Complied
Transparency in interest rates to be maintained	Interest, Processing fees and insurance premium charged are duly mentioned in the loan card provided to the client	Complied
Not more than two MFIs lend to the same client	Chaitanya verifies the same though credit check from credit bureaus	Complied



RBI's Direction	Chaitanya Status	Compliance
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	Chaitanya is charging processing fee of 1.00% on the disbursed loan amount plus applicable service tax	Complied
Collateral free loans	Chaitanya does not accept any Collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	Chaitanya does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	Chaitanya does not take late payment or prepayment penalties from the clients.	Complied
Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.	Chaitanya shares its client data with Crif Highmark, Equifax, Xperian and CIBIL.	Complied
Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs	Chaitanya provides 91.29% of total loans for income generation activities.	Complied
NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 percent of its aggregate risk weighted assets.	As per provisionals CRAR of Chaitanya stood at 27.3 % as of 31st Dec 2016 which complies with the minimum CRAR requirement of 15% for NBFC-MFIs as prescribed by RBI. CHAITANYA does not have any exposure in Andhra Pradesh.	Complied
The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1% of the outstanding loan portfolio or b) 50% of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more'.	The statutory auditor has certified the appropriate provisions have been made	Complied

Section 1: Microfinance Capacity Assessment Grading

Operating Environment

- SMERA estimates the MFI sector to grow at a CAGR of 20%-25% and is expected to touch Rs.100000 crore by the end of FY2019.
- MFIs have reported an increase of ~58% in average loan per borrower in FY2016 as compared to FY2014. SMERA believes seasoned customer profile over multiple loan cycles have helped MFIs to increase its loan ticket size.
- The fund flow to the sector has improved on account of increased confidence on MFI sector coupled with reduction in interest rate (100-150 bps). Further large MFIs are exploring the route of Non-convertible debentures (NCDs) and Pass through Certificates (PTCs); whereas small –mid size MFIs have an increased access to funds from banks and financial institutions
- SMERA expects licensing of small finance banks to MFIs to fuel competition for deposits and bring innovative banking solutions to customers
- Support systems such as Self Regulatory Organisations (MFIN), Credit Information Bureaus (CIB) among others have been established to ensure credit check and process adherence among MFIs. This regulatory framework will bring more accountability and transparency within the sector.
- Despite all developments in the sector the inherent risk exist such as unsecured nature of lending, vulnerable customer profile, exposure to vagaries of political situation in states, and cash handling (though which is expected to reduce with demonetization step taken by Government), and so on.
- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which is expected to moderate microfinance sector growth in FY2016-17 as compared to the previous year.



Reasonable track record of operations and extensive industry experience of promoters

- Chaitanya commenced its microfinance operations in October 2007 at Nayakanahatti village in Chitradurga district for two years at NGO. Later in 2009 Chaitanya obtained a Non Banking Finance Company (NBFC) license from Reserve Bank of India for a newly registered company, Chaitanya India Fin Credit Private Limited (Chaitanya).
- Chaitanya has six-member on board as on Dec-2016 having extensive experience in the banking and finance segment. The board has two promoter directors, two nominee directors (representatives from Investors) and two independent directors with banking & finance/Microfinance expertise. The board meets on a quarterly basis and if required frequency of the meeting increases. Among the board members, Mr. Anand Rao and Mr. Samit Shetty are takes strategic decisions and are actively involved in the day-to-day business operations.
- Mr. Anand Rao with strong understanding of local business and social environment in Karnataka has been involved with an NGO for over 5 years before setting up the NBFC-MFI along with Mr. Samit Shetty who worked with Olam International Limited (A global leader in the supply chain management of agricultural products and food ingredients) for almost a decade.

Diversified resource profile

- As on Dec 31, 2016 Chaitanya has developed funding relationships with a large number of lenders i.e 39 lenders (including 10 PSU banks) however their resources profile continues to remain concentrated towards borrowings from NBFCs which stood at ~ 68% of total borrowings. The borrowings from IFMR Capital accounts for ~ 14.41% of the total borrowings (outstanding debt) as on Dec 31, 2016.
- The cost of funds (COF) for Chaitanya is relatively higher at 15.79% in FY 2016 on account of increase in borrowings from NBFCs. While these relationships with NBFCs have helped chaitanya in meeting its funding requirements to meet the projected growth, however the company would have to increase its funding mix from banks to bring down the cost of borrowing.

Moderate capitalisation and comfortable liquidity profile

- The company's comfortable capitalisation is reflected in the capital adequacy ratio (CAR) of 21.86 per cent as on Sep 30, 2016 (Provisional) as against CAR of 18.20 per cent as on March 31, 2016. The NBFC-MFI capitalisation in relation to managed asset base have been comfortable on account of equity infusion and internal accruals at regular interval. In order to support the projected growth Chaitanya's infused additional equity of Rs. 20 crore during the current financial year (FY 2016-17), subsequent to which the networth of the company has increased to Rs. 48 crore (provisional) as on September 30, 2016.
- The NBFC-MFI have also raised Tier II capital to the extent of Rs. 10.00 crore as on date (Rs. 5.00 crore – IFMR & Rs. 5.00 crore Capital First) till Sept 30, 2016. Further as informed by the management, the NBFC-MFI have raised Tier II Capital to the Tune of Rs. 15 Crores from Karvy Capital Limited as on Dec 29, 2016
- Chaitanya has a comfortable liquidity position due to well matched maturity of assets and liabilities. The tenure of loans is about 12-24 months, whereas the incremental bank funding is typically with tenure of about 12-36 months. However regular flow of funds is critical to maintain the projected growth and the same would have a key bearing on its liquidity profile.
- Chaitanya intends to grow its portfolio in the range of 30% to 40% over the medium term and hence the company requires an equity infusion to support its growth plans.

Scalability

Parameters	2015	2016	Increase/Decrease
No of Branches	47	83	↑ 86.00
Active Clients	70,000	1,30,000	↑ 86.00
Loan Book	99.07	216.78	↑ 119.00
JLG Loan Book	90.00	203.00	↑ 126.00
02 Wheeler Loan Book	6.87	12.04	↑ 75.00
Gold Loan Book	2.28	1.93	↓ 15.35

The loan book recorded a healthy growth on account of improvement in access to funds from banks and financial institutions in FY 2016. However as informed by management, the company is de-scaling its gold loan business.

Chaitanya has ventured into various housing finance products (though small ticket size) for house improvements which ranges Rs.50, 000 to Rs.75,000. Additionally, a mortgage loan (on housing) which ranges Rs.100, 000 to Rs.250, 000. Further as informed by management, the company is exploring to offer big ticket size housing loans (under partnership model with housing finance companies) to its microfinance clients and others.



Profitability

The company reported a profit before tax of Rs. 2.27 Crore (ROA of 1.3%) on total income of Rs.37.24 crore in FY2016 and Rs.1.08 crores (ROA 1.1%) on Rs 20.11 crore in FY2015 compared to Rs.1.13 crores (ROA 2.2%) on Rs 10.85 crore in FY2014. The Reduction in ROA during FY2016 and FY 2015 was largely increase in the size of assets towards end of the year supported by significant increase in disbursements. Further The company's operating costs as a proportion of managed advances reduced to about 10.5% for FY2016 as compared to 12.30% for FY2014.

Return of Equity (ROE) increased in FY 2016 over previous year was largely due to rise in profits driven by significant increase in portfolio with marginal increase in capital base.

Profitability / Sustainability Ratios	2014	2015	2016
Operational Self Sufficiency (%)	111.7%	105.6%	106.5%
Operating Expense Ratio (OER)	12.3%	12.0%	10.5%
Funding Expense Ratio (FER)	15.73%	16.17%	15.79%
Return on Assets (RoA)	2.2%	1.1%	1.3%
Portfolio at Risk (>30 days)	0.13%	0.40%	0.30%
Return on Equity (RoE)	8.4%	6.0%	10.6%

Moderate Geographical Reach

- Chaitanya's operations concentrated in 02 states i.e Karnataka and Maharashtra at ~ 98 per cent and ~ 02 per cent, respectively (as on Dec 31, 2016), As informed by management, the company is planning to start its microfinance presence in Bihar and reduce its concentration in the state of Karnataka.
- SMERA believes that the company is exposed to political uncertainty in the state of Karnataka where the company has majority of the microfinance operations. Any political intervention in the existing states would materially affect the company's asset quality indicators.
- It would be key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

Sound asset quality

Loan O/S*	FY 2014		FY 2015		FY2016		31-Dec-16	
	No. of Active borrower	Portfolio o/s	No. of Active borrower	Portfolio o/s	No. of Active borrower	Portfolio o/s	No. of Active borrower	Portfolio o/s
		(Rs. in Crore)		(Rs. in Crore)		(Rs. in Crore)		(Rs. in Crore)
On Time	44,013	56.40	69,801	98.69	130,290	216.11	163,939	261.49
1-30 days	10	0.00	2	0.00	26	0.01	14,712	22.42
31-60 days	1	0.00	3	0.00	6	0.00	4,465	6.82
61-90 days	1	0.00	5	0.00	-	0.00	58	0.06
91-180 days	49	0.07	96	0.20	206	0.35	58	0.04
181-360 days	-	0.00	88	0.18	160	0.26	212	0.13
> 360 days		0.00		0.01		0.05		
TOTAL	44,074	56.48	69,995	99.08	130,688	216.78	183,444	290.96

*It includes owned as well as Securitized Portfolio

- Although Chaitanya's Assets under Management (AUM) in FY 2016 witnessed robust growth of 109% over FY15 (59% growth seen in FY2015), the NBFC-MFI has maintained sound asset quality with over 99.60% over the same period. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control.

Impact of De-monetization on Asset Quality

The step of De-monetization impacted the Microfinance industry as a whole the resultant of which collection ratio declined to 80% in the first week. However Subsequent increased in supply of new currencies by RBI had led to improvement in collections in the fourth week. The below table (Shared by client) represents the collection efficiency of Chaitanya post de-monetization.

Week	Dates	Collection Efficiency (in %)
1st	14th Nov – 18th Nov	86.77
2nd	21st Nov – 25th Nov	88.71
3rd	28th Nov – 2nd Dec	92.59
4th	5th Dec – 9th Dec	93.07
5th	12th Dec – 16th Dec	97.01
6th	19th Dec – 23rd Dec	99.02

7th	26th Dec – 30th Dec	99.43
8th	2nd Jan – 6th Dec	99.37

Adequate IT Systems Audit Mechanism

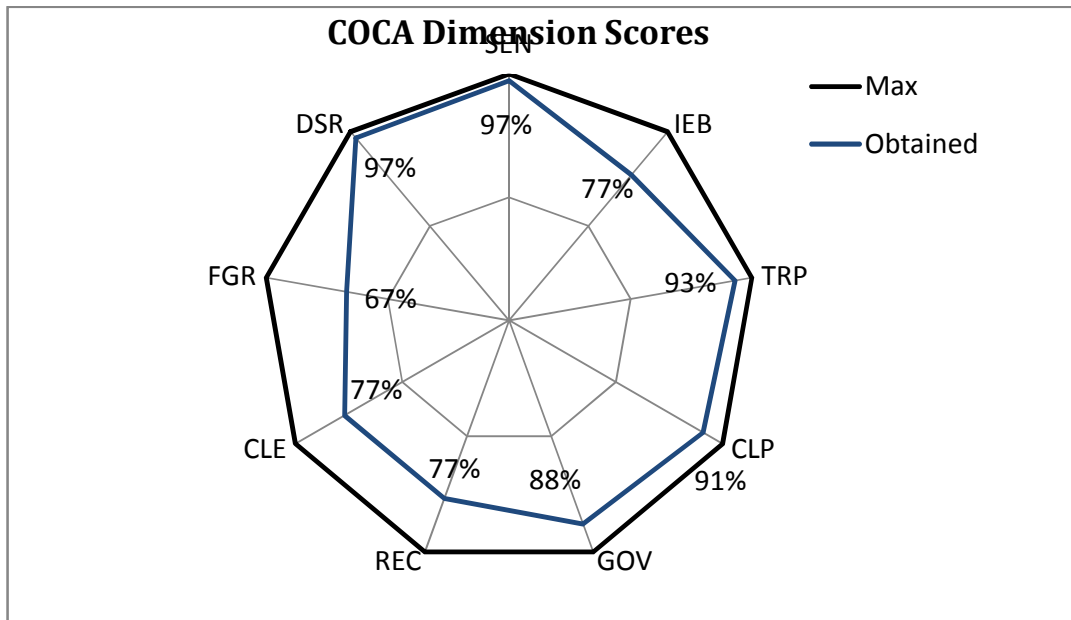
- Last year Chaitanya migrated from Oracle 10-G to MIFOS-X as its CORE-IT platform which is originally developed by the Grameen Foundation and currently managed by Conflux Technologies. It has custom built Credit Risk Management Software that assists in credit assessment for JLG loans. Further the Collateral Management System in it is useful to manage Jewellery loan book. The current system is robust has enabled the Head Office to access to access comprehensive microfinance solutions.
- Considering the significant increase in scale of operations, Chaitanya have strengthened its internal audit team. The audit plan is proposed and the frequency of audit is determined on the basis of outstanding loan portfolio, risk assessment, portfolio at risk and previous audit findings. The audit team comprises of one Audit Officer per region headed by Audit Manager, which carries out branch and field audits according to a pre-defined plan.
- Apart from internal audit team, the company has appointed an external audit firm to undertake accounts and administrative audit every quarter. Every quarter both the field audit and the accounting audit findings are submitted to the audit committee.

Inherent risk prevalent in the microfinance sector

- Chaitanya's business risk profile is susceptible to regulatory and legislative risks, along with the inherent risk exist such as unsecured nature of lending, vulnerable customer profile, exposure to vagaries of political situation in states, and cash handling associated with the NBFC-MFI sector. However, Chaitanya has an experienced team of professionals that monitors regulatory, compliances and frame policies to mitigate the probability of such risks.

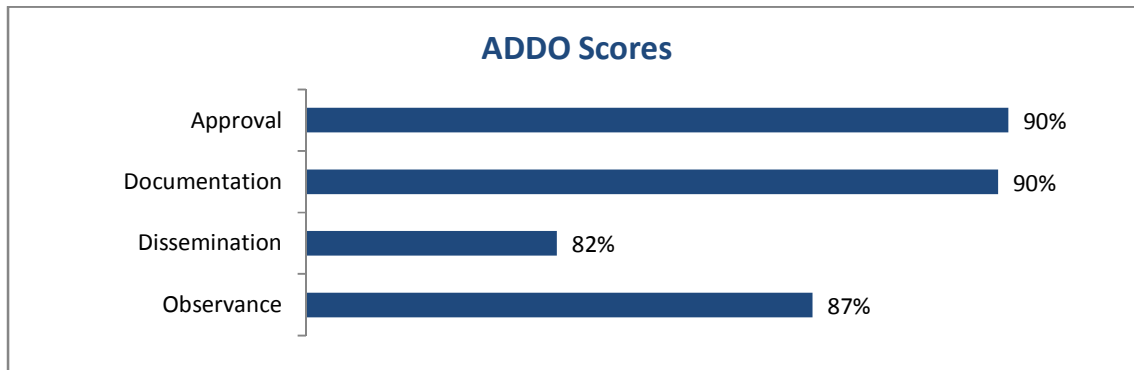
Code of Conduct Assessment

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



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	97%
Integrity and Ethical Behavior	IEB	77%
Transparency	TRP	93%
Client Protection	CLP	91%
Governance	GOV	88%
Recruitment	REC	77%
Client Education	CLE	77%
Feedback & Grievance Redressal	FGR	67%
Data Sharing	DSR	97%



Chaitanya with an overall grade of “C2”, indicate **Good Performance on Code of Conduct dimensions**. The organization has articulated and implemented processes and policies reflecting the firm’s focus on achieving financial and social objectives from its operations. Chaitanya’s Board has experienced professionals to oversee company’s adherence to code of conduct guidelines and other compliance related issues. Further, dissemination and adherence to documented processes and policies was evident at the ground level. However, there is a need to provide refresher training to its clients/members and staff pertaining to directions of Reserve Bank of India (RBI) directions and Self Regulatory Organization (MFIN) grievance mechanism.



SMERA RATINGS LIMITED

Code of Conduct Assessment Summary

The Code of Conduct report for Chaitanya India Fin Credit Private Limited (chaitanya) evaluates the company's adherence to various code of conduct parameters. The study examines and comments upon the common minimum indicators such as:

- Sensitive Indicators
- Integrity and Ethical Behaviour
- Transparency
- Client Protection
- Governance
- Recruitment
- Client Education
- Feedback and Grievance Redressal
- Data Sharing

SMERA believes that Chaitanya exhibits good performance on COCA dimensions. This document details SMERA's approach and methodology for this study and gives observations of its assessment team while conducting the evaluation. The Approval; Documentation; Dissemination and Observance (ADDO) framework has been used for assessment and measuring Chaitanya's adherence towards ethical operational practices.

Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> Board with rich experience from banking and finance with 1/3rd independent members. Experienced and qualified management especially Mr. Shamit Shetty and Mr. Anand Rao who have considerable experience in microfinance industry are instrumental in growth of Chaitanya till date. Transparency in loan pricing and policies. Adequate software based MIS to handle current scale of operations. Compulsory training on products terms and conditions to client prior to every loan. Compulsory check on over indebtedness of every borrower. Board approved policies, compliant with the RBI guidelines. Code of Conduct framed as per the Chaitanya's mission, vision, values and displayed in all branch offices & HO. Membership with MFIN state industry association of microfinance institutions (AKMI) Credit policies are well established documented and communicated. Adequate loan appraisal & monitoring systems. A specialized Credit Manager conducts rigorous assessment for loans exceeding Rs35,000. Chaitanya has a five step grievance escalation process including the Branch Manager, Regional Manager, Grievance Redressal Officer (GRO) of Chaitanya, AKMI toll free number for registering complaints and the RBI. Displays the details of the loan products including their interest rates and client grievance redressal system on its website. Data sharing with credit bureau (Equifax, CIBIL, Experian and High Mark). 	<ul style="list-style-type: none"> Awareness among client and staff on MFIN grievance redressal mechanism was found to be below par. It has an effective system to record complaints received at the toll free number. However, there is no mechanism to record complaints at branch level. Awareness among the staff on RBI compliance was found to be moderate. Chaitanya does not have a policy on displaying the MFIN toll free number in local language at the branches No policy to take written consent of the client for any third party disclosure

Significant Observations

HIGHER ORDER INDICATORS	
<p>Integrity and Ethical Behaviour</p>	<ul style="list-style-type: none"> • The MFI does have the policy to place reports on COC compliance before the board at the end of every financial year. • The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit. • Board has approved a policy of recovering delinquent loans • MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review and same is presented to audit committee set up at board level. • The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year, however the same have not been documented in HR manual. • In all the branches visited, the contact number and address of MFIN nodal official was not displayed. • Staff satisfaction related to compensation and incentive are not covered under scope of Internal Audit • Awareness among client and staff on MFIN grievance redressal mechanism was found to be below par. • Fixed Component compensation of staff is not impacted in event of overdues. Chaitanya, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.
<p>Sensitive Indicators</p>	<ul style="list-style-type: none"> • Clients interviewed were aware of the charges and price for all services availed. • Awareness among the staff on RBI guidelines was found to be moderate. • There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • Chaitanya shares accurate data with all credit bureaus on a frequency prescribed by MFIN . • Chaitanya does not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans. However the organization does not have a well-documented policy on pre-payments. • The MFI gets an external CA agency to certify its compliance with RBI's directions for NBFC-MFIs

BUILDING BLOCKS	
Transparency	<ul style="list-style-type: none"> • Awareness among the staff on RBI guidelines was found to be moderate. • Chaitanya has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages. • Circulars with the most recent directions were not available in the visited branches. • Chaitanya's in its fair practices code provides importance for transparency in pricing and clear communication to the clients. • The loan interest rate and processing fees is mentioned on the loan passbook and loan agreement provided to the client. • Clients interviewed were moderately aware of the charges and price for all services availed. • Audit committee verifies through the audit reports whether all clients have received the necessary loan documents. • Displays the details of the loan products including their interest rates and client grievance redressal system on its website. • Chaitanya issues loan agreement to the clients with all terms and conditions of the loan including annualized interest rates. However all the details are captured in the loan agreement provided to the client. • Code of conduct compliance report of Chaitanya & previous financial year annual financial statement and report is available in the public domain.
Client Protection	<ul style="list-style-type: none"> • Chaitanya has a board-approved policy regarding client data security. • Employees are trained on aspects of appropriate behavior with the clients. • Chaitanya has documented policy on client data security which forms part of its fair practice code. • Chaitanya does not take written consent of the client for third party disclosures and does not offer Non-credit products to its clients. • Chaitanya has framed a Fair Practice Code and has also adopted the RBI fair practices code. • Employees are trained on aspects of appropriate behavior with the clients. • Staffs were found to be aware of the need to have professional conduct with the clients. • Internal Audit checklist is comprehensive but can be strengthened further by incorporating more aspects like awareness regarding Reserve Bank of India (RBI) compliance and Self Regulatory Organization (MFIN) among clients/members and staff, Privacy of client information.
Governance	<ul style="list-style-type: none"> • MFIs maintain high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body. • Chaitanya have 1/3rd of independent persons in its Governing Board, and the Board is actively involved in all policy

	<p>formulations and other important decisions.</p> <ul style="list-style-type: none"> • Chaitanya disclose its CEO compensation in its audited reports (Ref. Audit Report 2016). • An audit committee of the Board with an independent director as chairperson. • The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year. • No adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • Action taken report based on the last audit report is available in the branches visited • Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit.
<p>Recruitment</p>	<ul style="list-style-type: none"> • Chaitanya's board has reviewed its recruitment policies at least once annually • The MFI has a defined and documented process for responding to reference check requests. • There is documentary evidence to suggest that MFI has honored the notice period for all employees who have left it. • MFI obtain NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs. • The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year, however the same have not been documented in HR manual
<p>Client Education</p>	<ul style="list-style-type: none"> • Chaitanya in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services • Chaitanya does not charge clients for the trainings provided to clients, itself or through a related party. • Awareness among client on annualized Interest rate & Insurance claim settlement process was found to be moderate.
<p>Feedback and Grievance Redressal</p>	<ul style="list-style-type: none"> • The Board has approved a policy for redressal of its clients' grievances, which requires board to be updated on the functioning of grievance redressal mechanism. • MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review and same is presented to audit committee set up at board level. • Chaitanya has a five step grievance escalation process including the Branch Manager, Regional Manager, Grievance Redressal Officer (GRO) of Chaitanya, AKMI toll free number for registering complaints and the RBI. • Clients were found to be aware of the helpline number • Feedback mechanisms are regularly tracked and monitored. • In all the branches visited, the contact number and address of MFIN nodal official was not displayed. • Complaints lodged through helpline are documented and resolved. • Awareness among client and staff on MFIN grievance redressal



	<p>mechanism was found to be below par.</p> <ul style="list-style-type: none">• Dedicated team at HO level to documents and follow up on the client complaints.
Data Sharing	<ul style="list-style-type: none">• Operational & Financial data for FY 2016 is available on the website of Chaitanya.• MFI has a well defined process for sharing data with the credit bureaus.• MFI has provided data called for by MFIN and RBI as and when required as per compliance.• Chaitanya shares accurate data with all credit bureaus on a frequency prescribed by MFIN.• Chaitanya performs compulsory credit bureau checks for all its clients.



SMERA RATINGS LIMITED

ANNEXURES



Microfinance Grading Methodology

A) Operational Track Record

Business Orientation and Outreach of the MFI is an important parameter to gauge the growth strategies of the MFI and to assess its strategies for development. This parameter is analysed using the following sub-parameters.

- Direction & Clarity
- Ability to raise funds
- Degree of association with promoter institution
- Alternate avenues for funds
- Outreach (No. of offices, No. of clients, No. of employees, Portfolio diversification)

B) Promoters & Management Profile

The elements in this parameter helps in assessing the Promoter & management quality evaluated on the basis of the basic educational qualification, professional experience of the entrepreneur; and business attitude that is related to the motivation of carrying out the business and pursuing business strategies. This parameter is analysed using the following sub-parameters.

- Past experience of the management
- Vision and mission of the management
- Profile of the Board Members
- Policies and Processes
- Transparency and corporate governance

C) Financial Performance

SMERA analyses the credit worthiness of the organization through the following financial parameters. Various financial adjustments are done to get more accurate ratios for comparison. Financial analysis helps the MFI to know its financial sustainability. This parameter is analysed using the following sub-parameters.

- Capital adequacy
- Profitability/Sustainability ratios
- Productivity and efficiency ratios
- Gearing and Liquidity ratios



D) Asset Quality

The loan portfolio is the most important asset for any MFI. SMERA analyses the portfolio quality of the MFIs by doing ageing analysis, sectoral analysis, product wise analysis etc. SMERA compares the portfolio management system with organizational guidelines and generally accepted best practices. This parameter is analysed using the following sub-parameters.

- Ageing schedule
- Arrears Rate / Past Due Rate
- Repayment Rate
- Annual Loan Loss Rate

E) System & Processes

SMERA analyses the policies and processes followed by the MFIs, their ability to handle volume of financial transactions, legal issue and disputes, attrition among the employees and client drop out which impact the productivity of the organization. SMERA also analyses asset liability maturity profile of the MFI, liquidity risk and interest rate risk. This parameter is analysed using the following sub-parameters.

- Operational Control
- Management Information System
- Planning & Budgeting
- Asset Liability Mismatch

F) Financial Performance

SMERA analyses the credit worthiness of the organization through the following financial parameters. Various financial adjustments are done to get more accurate ratios for comparison. Financial analysis helps the MFI to know its financial sustainability. This parameter is analysed using the following sub-parameters.

- Capital adequacy
- Profitability/Sustainability ratios
- Productivity and efficiency ratios
- Gearing and Liquidity ratios

Thus an evaluation of MFI would be comprehensive assessment based on the financial and non-financial parameters of any MFI.

COCA Methodology

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

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

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

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

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

Methodology

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

Sampling guidelines

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

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers) and Gross Loan Portfolio > Rs 500 cr)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment exercise requires:

1. Discussions with key staff members and the senior management at the head office. particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

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

Sr No	Branch	State	No of clients interviewed
1	Bilagi	Karnataka	25
2	Jamakhandi	Karnataka	32
3	Mahalingapura	Karnataka	25
4	Bailhongal	Karnataka	28
5	Khanapur	Karnataka	32
6	Kittur	Karnataka	38
7	Kale	Maharashtra	25
8	Murgud	Maharashtra	22
9	Nesari	Maharashtra	28
Total			255



Financials

Profit & Loss Account (Rs. In Thousands)

Financial Year	FY 2014	FY 2015	FY 2016
Months Covered By P/L	12	12	12
Income			
Financial revenue from operations	97,055	186,425	350,393
Income from Securitization	5,609	3,000	4,014
Other Operating Revenue	5,840	11,685	17,993
Less: Financial expenses from operations	46,308	103,697	193,896
Gross financial profit	62,196	97,413	178,504
Less: Provision for Loan Loss	4,085	4,330	10,012
Net financial profit	58,111	93,083	168,492
Less: Operating expenses			
Depreciation and Amortization Expense	1,829	3,941	5,836
Personnel Expense	28,732	48,342	88,036
Administration Expense	16,152	30,045	51,929
Net income Before Tax	11,398	10,755	22,691
Less: Income Tax	3,441	2,417	7,767
Net income After Tax	7,957	8,338	14,924

Above financials are audited



Balance Sheet (Rs in Thousands)

Date	31/Mar/2014	31/Mar/2015	31/Mar/2016
SOURCES OF FUNDS			
Paid up Capital	92,669	117,069	127,819
Reserves & Surplus	15,933	22,412	34,351
Security Premium	31,943	68,543	87,893
Statutory Reserves	4,316	5,983	8,969
TOTAL EQUITY(A)	144,861	214,007	259,032
LIABILITIES			
SHORT-TERM LIABILITIES			
Short-term borrowings			
Commercial Loans from banks/FI for microfinance	295,632	658,095	892,637
Unsecured Loans from banks/FI	0	4,304	0
Account payable & Other short-term liabilities	19,710	48,245	65,035
TOTAL SHORT TERM LIABILITIES(B)	315,342	710,644	957,672
LONG-TERM LIABILITIES			
Long-term borrowings			
Commercial Loans from banks/FI for microfinance	181,772	460,237	690,493
Concessional Loan/Subordinated Debt	0	0	100,000
Unsecured Loans from directors / friends / relatives	0	0	79,167
TOTAL LONG TERM LIABILITIES(C)	181,772	460,237	869,660
TOTAL OTHER LIABILITIES(D)	497,114	1,170,881	1,827,332
Provision for Loan Loss (E)	4,776	8,995	18,800
Other Provisions (F)	3,479	4,119	25,353
TOTAL LIABILITIES (A+B+C+D+E +F)	650,230	1,398,002	2,130,517



APPLICATION OF FUNDS	31/Mar/2014	31/Mar/2015	31/Mar/2016
Fixed Assets			
Fixed Assets	10,803	16,856	27,115
Less: Depreciation	4,001	7,825	13,157
Net Fixed Assets(A)	6,802	9,031	13,958
Cash and Bank Balances(B)	83,657	330,188	51,837
Investments in Fixed Deposit Including Margin Money (C)	71,884	133,312	135,079
<u>Loan Portfolio *</u>			
Gross Loan Portfolio	476,772	898,511	1,878,874
Less: Impairment Loss Allowance	-	-	-
Net Loan Portfolio(D)	476,772	898,511	1,878,874
Accounts Receivable and Other Assets(E)	9,468	22,234	40,970
Deferred Tax (F)	1,376	3,800	7,859
Intangibles (G)	271	926	1,940
TOTAL ASSETS (A+B+C+D+E+F+G)	650,230	1,398,002	2,130,517

About SMERA

SMERA Ratings Limited is a joint initiative of Small Industries Development Bank of India (SIDBI), Dun & Bradstreet Information services India Private Limited (D&B) and leading public and private sector banks in India. SMERA commenced its operations in 2005 and is empanelled as an approved rating agency by the National Small Industries Corporation Ltd. (NSIC) under the 'Performance & Credit Rating Scheme for Micro & Small Enterprise' of the Ministry of MSME, Government of India. SMERA is registered with the securities and Exchange Board of India (SEBI) as a Credit Rating Agency and is accredited by Reserve Bank of India (RBI) as an External Credit Assessment Institution (ECAI), under BASEL- II norms for undertaking Bank Loan Ratings.

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