



SMERA RATINGS LIMITED

M4C3

Comprehensive MFI Grading

Grameen Development & Finance
Private Limited

Date of Report:

31th March, 2017

Valid Till:

30th March, 2018

SMERA's MFI Comprehensive Grading Scale

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

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

Scale	C1	C2	C3	C4	C5
M1					
M2					
M3					
M4			M4C3		
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of "M4C3". It signifies average capacity of the MFI to manage its operations in a sustainable manner and average performance on code of conduct dimensions.



Grading Rationale

Microfinance Capacity Assessment Grade	GDFPL obtains “ M4 ” as its performance grade which signifies “average capacity of the organization to carry out its activities in a sustainable manner”.
Code of Conduct Assessment Grade	GDFPL obtains “ C3 ” as its Code of Conduct Assessment Grade which signifies average 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.

A SMERA Grading does not constitute an audit of the graded entity and should not be treated as a recommendation or opinion or a substitute for investor's independent assessment of whether to buy, sell or hold any security.

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

Historical Rating Grades

Date	Rating Agency	Comprehensive rating grade
11-07-2014	CRISIL	mfR5
06-10-2015	CRISIL	mfR5
May 2016	M2i	80%, Good level of adherence



Microfinance Capacity Assessment Grading Symbols and Definitions

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

Code of Conduct Assessment Scale and Definitions

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

Company Profile

Name of the MFI	Grameen Development & Finance Private Limited	
Operational Head – Microfinance Business	Name	Sarat Chandra Das
	Designation	Managing Director
	Mobile No.	+91-9957570215
	Email ID	grameendevfpl@gmail.com
	Date of Joining	01-01-2008
Date of Incorporation/Establishment	20-07-1989	
Date of commencement of microfinance business	Date of registration: 20-07-1989 Date of first disbursement made to the clients: 27-09-2012	
Legal Status	NBFC-MFI	
Business of the company	Microfinance	
Correspondence Address	Vill: Dubjeni, Kuls Road, PO/PS: Chhaygaon, Dist: Kamrup, Assam, PIN: 781124	
Geographical Reach (As on 28/Feb/2017)	No. of States	3
	No. of Districts	7
	No. of Branches	17
	No. of Active Borrowers	18025
	No. of Total Employees	90
Visit of the Assessment team	No. of Field/Credit Officers	59
	13 th March, 2017 to 17 th March, 2017	



Product Profile

Products	Description	Loan Size (Rs)	Interest Rate (A) (In %)	Processing Fee (B) (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
Product 1 (JLG Loan)	12 months minimum and 24 months maximum. (Tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 30,000 with prepayment without penalty).	Loan amount does not exceed Rs. 50,000 in the first cycle and Rs. 60,000 in subsequent cycles.	25%, 24%, 20%, 12%, 4%	1%	26%, 25%, 21%, 13%, 5%
Product 2 (Individual Loan)	12 months minimum and 24 months maximum. (Tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 30,000 with prepayment without penalty).	Loan amount does not exceed Rs. 60,000 in the first cycle and Rs. 1,00,000 in subsequent cycles	25%	1%	26%
Product 3 [Secured Individual Loan (Under Non-Qualifying Asset)]	12 months minimum and 24 months maximum. (Tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 30,000 with prepayment without penalty).	Loan amount does not exceed Rs. 60,000 in the first cycle and Rs. 2,00,000 in subsequent cycles	25%	1%	26%

Capital Structure (As On 28/Feb/2017)

Authorized Capital	In Rs.	7.00	Crоре
Paid-up Capital	In Rs.	3.51	Crоре

Shareholding Pattern (As On 28/Feb/2017)

EQUITY SHARES	
Shareholders	% Holding
Sarat Chandra Das	3.44
Tapan Chandra Kalita	1.53
Mahendra Kalita	1.53
Subhash Kalita	1.53
Parthosakti Patwari	0.84
Ajanta Sarma	0.69
Nandita Sinha	1.37
Sunita Devi	1.37
Vikramaditya Das	1.72
Hiranya Kalita	1.72
Mira Das	1.72
Sujit Banik	1.72
Prabin Chandra Das	1.72
Sajalika Kakati	0.50
Gautam Das Jointly with Prabin Ch Das	10.93
Saumya Siddhartha Mohan	1.72
Dandi Ram Kalita	1.55
Dilip Kr Das	0.69
Hirdaya Das	1.72
Kamal Das	0.69
Monimohan Nath	0.69
Amiya Kumar Das	0.69
Khanindra Barman	1.72
Manoj Kumar Saud	1.72
Khargadhar Das	1.03
Godfrey N Areng	8.59
Chidananda Das	1.03
Goutam Das	1.03
Ranjita Kalita	1.03
Sanjib Kalita	1.03
Nitul Chandra Kalita	1.03
Jitu Kalita	1.03
Rudra Kalita	0.69
Rumi Thakuria	1.03
Pradip Kalita	1.03



SMERA RATING: AA-1

Hirakjyoti Kalita	1.03
Pranjal Malakar	1.03
Biswajit Mazumdar	0.69
Khargadhar Das	0.69
Gopinath Das	1.03
Aniruddha Kalita	0.69
Jitumoni Sarma	0.69
Hiranya Patowary	0.69
Gitanjali Mahanta	1.03
Gyanesh Pandey	5.95
P & G Corporate Services	5.57
NEDFi	17.18
Dipak Rabha	0.34
Srimanta Das	0.34
Jay Prakash Saloi	0.34
Rupkowar Das	0.34
Nirmali Nath	0.34
Total	100.00

OPTIONALLY CONVERTIBLE PREFERENCE SHARES (OCPS)	
Shareholders	% Holding
SIDBI	83.33
Gyanesh Pandey	16.67
Total	100.00

Board of Directors/Promoters Profile

Name	Position	Qualification	Brief Profile
Sarat Chandra Das	Chairman and Managing Director	BFSc, PGDRD, ADCP, MBA	<p>Mr. Sarat Chandra Das has 18 years of experiences in the development sector and microfinance management he has been an asset to the associated organizations. He was associated with Rashtriya Grameen Vikas Nidhi (RGVN), Guwahati, for a period of 7 years in its core microfinance program where he worked in various capacities and finally became the operation head. He then associated himself with the industry association - Sa-Dhan, New Delhi with its financial standards group as a senior program executive and worked there for a year and a half. After Sa-Dhan he joined HDFC bank, corporate banking division, and looked after the agri and microfinance portfolio of the NER of India independently for a year.</p> <p>Sarat Chandra Das is one of the promoters of the company. Before joining as the Managing Director of the company, he was leading Grameen Sahara - a development support organization running various development projects with professional management teams. His vast experience in microfinance from field operation management to policy making and strategy formulation has helped the Company in achieving goodwill among the beneficiaries.</p>
Dandiram Kalita	Director	BA	<p>Dandiram Kalita is a retired banker. He joined Allahabad Bank and served there for over 35 years. While he was with Allahabad bank he worked in various capacities and retired as a senior manager. During his association with Allahabad bank he also served the PSU Bank Officers' association as its secretary for several terms. He holds a crucial</p>

			<p>directorship position in the company, GDFPL and brings in with him extensive experience of branch banking and retail banking. He has been the integral part of the various committees, such as the Audit Committee, Sexual Harassment Committee, Social Performance Management Committee, Grievance Redressal Committee and so forth, formed in the company. He along with the other Directors is responsible for taking various finances related decisions in the company.</p>
Srijib Kumar Baruah	Nominee Director	MBA, LLB, CS	<p>Srijib Kumar Baruah is the Executive Director of NEDFi. Srijib Kumar Baruah represents NEDFi in most of the NBFC-MFIs operating in North East Region. Mr. Baruah has been on board with GDFPL from 2014 as a Nominee Director and brings in with him vast knowledge and experience. His area of expertise includes Civil Administration, Accounts, Company Secretarial Affairs, Human Resource Development, Legal & Recovery, Business Development, Consultancy & Advisory and Micro Finance.</p>
Tilak Das	Director	BSc (Agriculture)	<p>Tilak Das retired from State Bank of India as Deputy General Manager & Head of Rural and Agri business. He has experience of 35 years with responsibilities like financial inclusion, SHG bank linkage, and development of rural & agri business.</p>
Mrinal Baishya	Director	MA, LLB	<p>Mrinal Baishya retired from United Bank of India as General Manager. He has experience for about 40 years in coordinating, supervising, and implementing the bankable projects through the network of rural and semi urban branches more particularly in microfinance sector.</p>

Key Performance Ratios

Financial Ratios	31/Mar/2015	31/Mar/2016	28/Feb/2017
Capital Adequacy Ratio (CAR)			
Capital Adequacy Ratio (%)	25.20%	16.61%	15.03%
Productivity / Efficiency Ratios			
No. of active borrowers per staff member	262	168	200
No. of active borrowers per field/credit officers	312	277	306
No. of active borrowers per branch	712	881	1060
Gross portfolio o/s per field/credit officers (In Rs.)	3,191,523	3,239,355	4,381,525
Average outstanding per borrower (In Rs.)	10,246	11,676	14342
Borrowers per field/credit officers	312	277	306
Profitability / Sustainability Ratios			
Yield on Portfolio (%)	16	22.10	23.67
Operational Self Sufficiency (%)	109	109	109
Operating Expense Ratio (OER)	7	10	9.40
Funding Expense Ratio (FER)	6	11	13.61
Return on Assets (RoA)	0.6	0.9	1.53
Return on Equity (RoE)	2.0	5.8	12.74
Portfolio at Risk (>30 days)	0.20	0.23	0.62
Write-offs to average portfolio (%)	0	0	0



Highlights of Microfinance Operations

Particulars	31/Mar/2014	31/Mar/2015	31/Mar/2016	28/Feb/2017
No. of States	1	2	3	3
No. of Districts	2	6	7	7
No. of Branches	2	14	17	17
No. of Active Members	2087	9968	14983	18025
No. of Active Borrowers	2087	9968	14983	18025
No. of Total Employees	15	38	89	90
No. of Field/Credit Officers	4	32	54	59
No. of SHGs	0	0	0	0
No. of JLGS	180	1533	2701	2948
No. of Individual Loans	0	0	22	36

Owned Portfolio				
Particulars	31/Mar/2014	31/Mar/2015	31/Mar/2016	28/Feb/2017
Total loan disbursements during the year (in crore) (Owned Portfolio)	2.54	12.66	22.02	27.13
Total portfolio outstanding (in crore) (Owned Portfolio)	2.10	10.21	17.49	25.85

Managed/BC Portfolio				
Particulars	31/Mar/2014	31/Mar/2015	31/Mar/2016	28/Feb/2017
Total loan disbursements during the year (in crore) (Managed/BC Portfolio)	0	0	0	0
Total portfolio outstanding (in crore) (Managed/BC Portfolio)	0	0	0	0

Securitized Portfolio				
Particulars	31/Mar/2014	31/Mar/2015	31/Mar/2016	28/Feb/2017
Total loan disbursements during the year (in crore) (Securitized Portfolio)	0	0	0	0
Total portfolio outstanding (in crore) (Securitized Portfolio)	0	0	0	0

Compliance with RBI's Directives for MFIs

RBI's Direction	Company's Status	Compliance
85% of total assets to be in the nature of qualifying assets	Income generation loan forms 93% of total assets as of 31/Dec/2016.	Complied
Net worth to be in excess of Rs 5 Crore	NOF is Rs. 4.02 crore as on 28-Feb-2017. This is more than required Rs. 2.00 crore of NOF prescribed by RBI for NBFC-MFIs registered in NE India.	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*	GDFPL extends loans to households whose income does not exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	Loans size has not exceeded Rs. 60,000 in first cycle and Rs. 100,000 in subsequent cycles	Complied
Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	Total indebtedness of the borrower has not exceeded Rs. 100,000	Complied
Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	GDF's loan tenure is not less than 24 months when the loan size is above Rs. 30,000 with borrower having the right to prepay without penalty.	Complied
Pricing guidelines are to be followed	The maximum interest on loan products offered by GDF is 25% and upfront fee is not more than 1% of loan amount disbursed. Net Interest Margin as on 31-12-2016 is 10% which is below permissible limit.	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	GDFPL verifies the same though credit check from credit bureaus	Complied
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	The maximum interest on loan products offered by GDF is 25% pa in reducing balance basis and upfront fee is not more than 1% of loan amount disbursed.	Complied
Collateral free loans	GDFPL does not accept any	Complied



	collateral for extending the credit.	
MFIs shall not collect any Security Deposit / Margin from the borrower.	GDFPL does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	GDFPL 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.	GDFPL shares its client data with Equifax, CRIF High Mark, Experian 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	GDF provides all the microfinance loans only for income generation activities and it is captured in loan application.	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.	CAR is 15.03% as on 28 February 2017.	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 aggregate loan provision to be maintained by GDF at any point of time is not less than 1% of the outstanding loan portfolio.	Complied

Section 1: Microfinance Capacity Assessment Grading

Satisfactory track record of microfinance operations and extensive industry experience of promoters

- Grameen Development & Finance Private Limited is a non-banking financial Institution under Sec 451A of RBI Act 1934. As a part of transformation of microfinance program of Grameen Sahara to Non-Banking Financial Company (NBFC) Grameen Sahara acquired an old NBFC based from Punjab in the year 2010. Now NBFC is operating under the name of Grameen Development and Finance Pvt. Ltd. (GDFPL).
- GDFPL has five-member board having extensive experience in the banking and finance segment. GDFPL has 2 independent directors in its Governing Board.
- Mr. Sarat Chandra Das has 18 years of experiences in the development sector and microfinance management. He was associated with Rashtriya Grameen Vikas Nidhi (RGVN), Guwahati, for a period of 7 years in its core microfinance program where he worked in various capacities and finally became the operation head. He then associated himself with the industry association - Sa-Dhan, New Delhi with its financial standards group as a senior program executive and worked there for a year and a half. After Sa-Dhan he joined HDFC bank, corporate banking division, and looked after the agri and microfinance portfolio of the NER of India independently for a year.
- Sarat Chandra Das, before joining as the Managing Director of the company, he was leading Grameen Sahara - a development support organization running various development projects with professional management teams. His vast experience in microfinance from field operation management to policy making and strategy formulation has helped the Company in achieving goodwill among the beneficiaries.

Concentrated Resource Profile

- GDFPL has developed funding relationships with 7 lenders. However the company's resource profile continues to remain concentrated towards borrowings from NEDFI which stood at 82% of total external borrowings as on February 28, 2017.
- The cost of funds (COF) for GDFPL stood at 13.61% as on Feb 28, 2017 as compared to 11.0% in the previous year on account of increase in borrowings from NBFCs/FIs. While these relationships with NBFCs/FIs have helped GDFPL in meeting its funding requirements to meet the projected growth, however the company would have to increase its funding mix from PSU/Private Banks to bring down the cost of borrowing.



Moderate capitalisation and comfortable liquidity profile

- GDFPL has a moderate capitalisation marked by gearing of 6.29 times as on March 31, 2016 as compared to 4.61 times in the previous year. The equity capital infusion in the company has not been commensurate with the growing asset base.
- The company has received preference share capital from SIDBI (83.33%) and remaining through promoter group.
- CRAR has declined over the years and it stood low at 15.03% as on February 28, 2017 as compared to 25.20% in FY2015.
- GDFPL 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.

Sound Asset Quality

- GDFPL has maintained sound asset quality over the years. The on-time repayment rate stood at 98.57% as on 28/Feb/2017. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control. Moreover, Portfolio at Risk (1-30 days) continues to be comfortable and it stood at 0.81% as on 28/Feb/2017.

Geographical Concentration

- GDFPL's operations are concentrated in three states i.e. Assam, Meghalaya and Nagaland. Moreover, ~90% of the loan portfolio is concentrated in Assam. The company has plans to penetrate the other two states in the next 12-18 months.
- The company is exposed to political uncertainty in the state of Assam where the company has majority of the microfinance operations. Any political intervention in the existing state would significantly affect the company's asset quality indicators. It would also be key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

Income and Profitability

- Income from operations for GDFPL has increased in the last three years. GDFPL has reported PAT of Rs.1693 (in thousands) on total income of Rs.32611 (in thousands) in FY2016 as compared to PAT of Rs. 475 (in thousands) on total income of Rs.10180 (in thousands) in the previous year.

The profitability and operating efficiency indicators are comfortable for the past two years. The details are as follows:

Profitability / Sustainability Ratios	31/Mar/2016	28/Feb/2017
Yield on Portfolio (%)	16.0	22.1
Operational Self Sufficiency (%)	109.0	109.0
Operating Expense Ratio (OER)	7.0	10.0
Funding Expense Ratio (FER)	6.0	11.0
Return on Assets (RoA)	0.6	0.9
Return on Equity (RoE)	2.0	5.8
Portfolio at Risk (>30 days)	0.2	0.2

Moderate MIS & IT infrastructure considering the current scale of operations

- GDFPL's management information system (MIS) and Information Technology (IT) is moderate for its current scale of operations. It has dedicated MIS and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches.

Moderate IT Systems and Audit Mechanism

- GDFPL has moderate IT systems in HO and across all branch offices. The company also has an internal audit team which undertakes branch and borrower audit once in three months.

Inherent risk prevalent in the microfinance sector

- GDFPL'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 MFI sector.

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

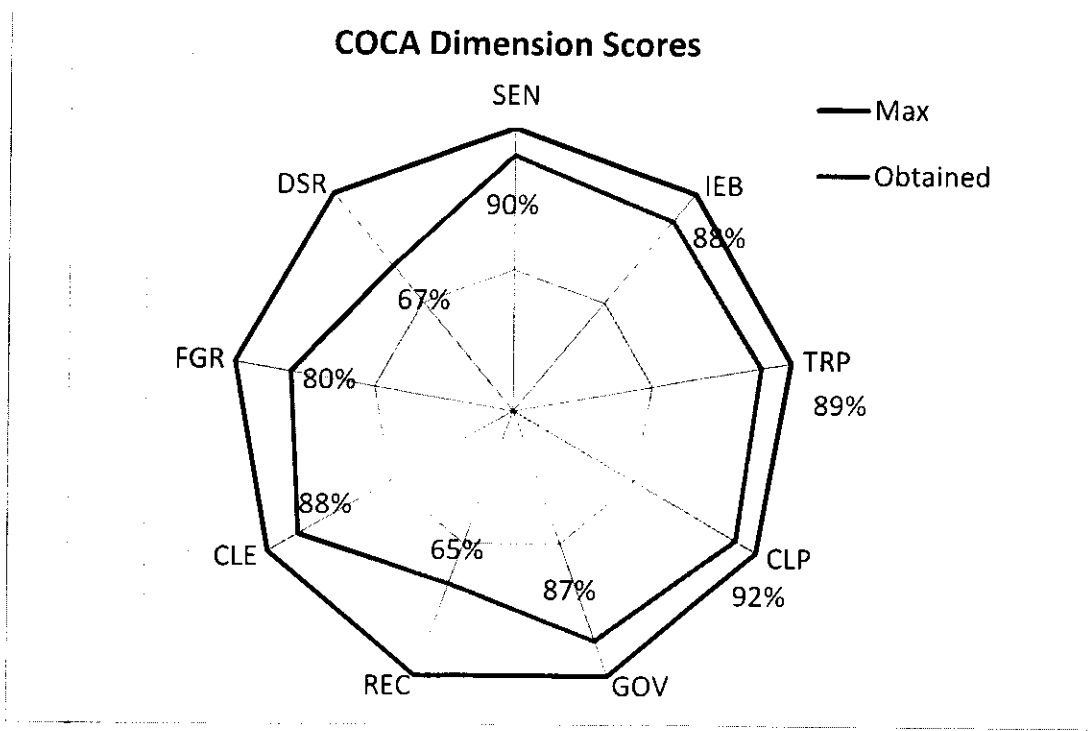


route of Non-convertible debentures (NCDs) and Pass through Certificates (PTCs); whereas small -mid size MFIs have an increased access to funds from banks and financial institutions

- Support systems such as Self-Regulatory Organizations (SRO), Credit Information Bureaus (CIB) among others have been established to ensure credit check and process adherence among MFIs. This regulatory framework has brought more accountability and transparency within the sector.
- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which has moderated microfinance sector growth in FY2016-17 as compared to the previous year.

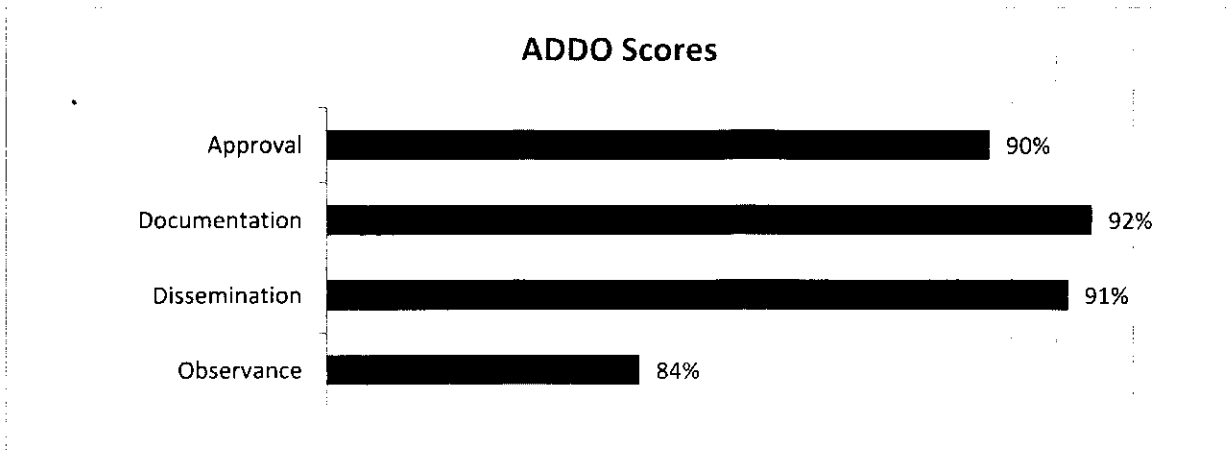
Section 2: Code of Conduct Assessment

COCA Grading - C3 (Average Performance on Code of Conduct dimensions)



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	90%
Integrity and Ethical Behavior	IEB	88%
Transparency	TRP	89%
Client Protection	CLP	92%
Governance	GOV	87%
Recruitment	REC	65%
Client Education	CLE	88%
Feedback & Grievance Redressal	FGR	80%
Data Sharing	DSR	67%



GDFPL with an overall grade of "C3", indicate **Average Performance on Code of Conduct dimensions.**

Code of Conduct Assessment Summary

The Code of Conduct report for GDFPL 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 GDFPL exhibits average 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 GDFPL's adherence towards ethical operational practices.

Strengths and Weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> • GDFPL has five-member board having extensive experience in the banking and finance segment. • Board approved policies, compliant with the RBI guidelines. • Experienced and qualified management with over a decade of experience in microfinance sector. • Code of Conduct framed as per the GDFPL mission, vision, values are displayed in all branch offices & HO. • Membership with Sa-dhan, SRO. • Operational and credit policies are well documented and communicated to its staff members. • Adequate client origination, loan appraisal and recovery mechanism. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower. • GDFPL's has a dedicated helpline number for client feedback/grievance. • Data sharing with all credit bureaus (Equifax, CIBIL, Experian and CRIF High Mark). 	<ul style="list-style-type: none"> • Moderate MIS and IT Infrastructure considering the current scale of microfinance operations. • GDFPL needs to strengthen its internal audit team, process and system in order to cope with rising portfolio growth across geographies. • Internal audit checklist needs to be strengthened by incorporating important and critical aspects like awareness of branch staff regarding RBI compliances, Client grievance handling procedure and SRO specified guidelines. • Awareness among clients on interest rate, insurance claim settlement and Grievance Redressal process was found to moderate in the branches visited. • RBI Circulars with the most recent directions were not properly managed in the visited branches.

Significant Observations

HIGHER ORDER INDICATORS	
<p>Integrity and Ethical Behaviour</p>	<ul style="list-style-type: none"> • GDFPL places a compliance report on COC as well as RBI Compliance to the Board quarterly for review. • The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit. • The MFI has a documented policy for dealing with delinquent loan accounts. • GDFPL prepares a monthly report about the number, nature and resolution of grievances, and feedback received for management review in monthly management committee meeting. At the time of Board Meeting a similar report is placed before the Board for review. • 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 SRO nodal official was properly displayed. • Staff compensation and incentive are not covered under scope of Internal Audit. • Fixed component compensation of staff is not impacted in event of overdues. GDFPL, 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"> • Awareness among clients on interest rate, insurance claim settlement and Grievance Redressal process was found to moderate in the branches visited. • GDFPL has a policy to issue sanction letters to the clients with all terms and conditions of the loan including annualized interest rates. • Awareness among the branch staff regarding RBI compliances, Client grievance handling procedure and SRO specified guidelines found to be moderate. • There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • GDFPL shares timely data with all credit bureaus on a frequency prescribed by SRO. • GDFPL 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. • 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 branch staff regarding RBI guidelines, Client grievance handling procedure and SRO specified guidelines found to be moderate. • GDFPL has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages. • RBI Circulars with the most recent directions were not properly managed in the visited branches. • GDFPL, 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 not completely aware of the interest rate and processing charges for all services availed. • Audit committee verifies through the audit reports whether all clients have received the necessary loan documents. • Pricing policy of loans was displayed in all branches visited by the assessment team. • GDFPL do not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans. • Code of conduct compliance report, latest operational and financial data of GDFPL is available in the company's website. • GDFPL do not have a system of documenting for loan rejection against an accepted loan application.
Client Protection	<ul style="list-style-type: none"> • GDFPL do not have a board-approved policy regarding client data security. • Employees are trained on aspects of appropriate behavior with the clients. • GDFPL has framed a Fair Practice Code and has also adopted the RBI fair practices code, which includes policies on the expected staff conduct with clients. • Employees are trained on aspects of appropriate behavior with the clients. • Staffs were found to be aware of the need to have professional conduct with the clients. • Operational staff members interviewed was aware of the turnaround time limits of the loan application. • Internal audit needs to be strengthened by incorporating important and critical aspects like awareness of branch staff regarding RBI compliances, Client grievance handling procedure and SRO specified guidelines.
Governance	<ul style="list-style-type: none"> • GDFPL has five-member board having extensive experience in the banking and finance segment. GDFPL has 2 independent directors in its Governing Board. • Audit committee of GDFPL is headed by an independent director.

	<ul style="list-style-type: none"> • The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year. • Action taken report based on the last audit report is not managed properly in the branches visited. • Branch staff interviewed is not fully aware of reschedulement policy and procedure.
Recruitment	<ul style="list-style-type: none"> • GDFPL's Board has reviewed its recruitment policies at least once annually. • The MFI does not have a defined and documented process for responding to reference check requests. • GDFPL has honored the notice period for all employees who have left the company. • As informed by the management, MFI obtains NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs. However no supporting document is available with SMERA. • 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.
Client Education	<ul style="list-style-type: none"> • GDFPL, in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services. • GDFPL 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.
Feedback and Grievance Redressal	<ul style="list-style-type: none"> • The board has approved a policy for Redressal of its clients' grievances. • GDFPL prepares a monthly report about the number, nature and resolution of grievances, and feedback received for management review in monthly management committee meeting. At the time of Board Meeting a similar report is placed before the Board for review. • Clients were found to be aware of the GDFPL's helpline number. • In all the branches visited, the contact number and address of SRO nodal official is properly displayed. • Complaints lodged through helpline number are documented in Head Office but the same complaint records are not there with the branches visited. • Awareness among client and staff on SRO Grievance Redressal mechanism was found to be moderate. • GDFPL has a dedicated grievance redress/client feedback official.
Data Sharing	<ul style="list-style-type: none"> • Code of conduct compliance report, latest operational and financial data of GDFPL is available in the company's website. • MFI does not have a documented process for sharing client's data with the credit bureaus. • MFI has provided data called for by SRO and RBI as and when



SMERA RATINGS LIMITED

	<p>required as per compliance.</p> <ul style="list-style-type: none">• GDFPL shares client's data with all credit bureaus on a frequency prescribed by SRO. The company takes declaration from the clients for sharing the client's data.
--	---



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

COCA Methodology

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

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

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

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

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

Methodology

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

Sampling guidelines

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

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

Code of Conduct Assessment exercise requires:

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

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

Sr. No.	Branch	State	No of clients interviewed
1	Chhaygaon	Assam	24
2	Loharghat	Assam	19
3	Dhupdhara	Assam	21
4	Dudhnoi	Assam	16
5	Azara	Assam	15
6	Noonmati	Assam	17
7	Kulhati	Assam	18
8	Sualkuchi	Assam	26
Total			156

Financial Statements

Profit and Loss Account (Amount in Thousands)

Financial Year Months	2014 12 Audited	2015 12 Audited	2016 12 Audited
Financial revenue from operations (a)	3,425	10,180	32,611
Interest and fee revenue from loans	3,420	9,827	30,602
Other Operating Revenue	5	353	2,009
Financial expenses from operations (b)	0	3,995	15,271
Interest and Fee Expense on Borrowings		3,995	15,271
Gross financial margin (c=a-b)	3,425	6,185	17,340
Impairment Losses on Loans (d)	0	0	0
Provision for Loan Loss / Write off	0	0	0
Net financial margin (e=c-d)	3,425	6,185	17,340
Operating expenses (f)	2,045	5,364	14,755
Personnel Expense	1,329	2,881	9,412
Administrative Expense			
Depreciation and Amortization Expense	9	90	235
Other Administrative Expense	707	2,393	5,108
Net operating income (g=e-f)	1,380	821	2,585
Income Tax (k)	445	346	892
Net income after Tax	935	475	1,693

Fiscal Balance Sheet (Amount in Thousands)

As on date	31-Mar-14 Audited	31-Mar-15 Audited	31-Mar-16 Audited
SOURCES OF FUNDS			
Shareholders' Funds			
Equity Share Capital	20,600	25,600	29,100
Share Capital	20,600	25,600	29,100
Reserves & Surplus	446	922	2,617
TOTAL EQUITY	21,046	26,522	31,717
Liabilities			
Short-term liabilities	397	47,843	1,00,941
Short-term borrowings			
Commercial Loans from banks/FI	0	47,752	1,00,500
Account payable & Other short-term liabilities	397	91	441
Long-term liabilities	0	74,625	98,996
Long-term borrowings			
Commercial Loans from banks/FI		74,625	98,996
TOTAL OTHER LIABILITIES	397	1,22,468	1,99,937
Provision for Standard Assets	210	1,022	2,193
Other Provisions	410	356	1,129
Provisions	620	1,378	3,322
TOTAL LIABILITIES	22,063	1,50,368	2,34,976

As on date	31-Mar-14 Audited	31-Mar-15 Audited	31-Mar-16 Audited
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	85	288	4,034
Less: Accumulated Depreciation and Amortization	9	99	335
Net Block	76	189	3,699
Cash and Bank Balances	830	46,457	51,386
Loan Portfolio			
Gross Loan Portfolio	21,058	1,02,128	1,74,925
Less: Provisions	0	0	0
Net Loan Portfolio	21,058	1,02,128	1,74,925
Other Loans	0	0	599
Accounts Receivable and Other Assets	44	1,147	3,143
Intangibles	0	42	696
Deferred Tax Asset	55	296	528
Other Assets	0	109	0
TOTAL ASSETS	22,063	1,50,368	2,34,976

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.

