



SMERA Comprehensive Grading

M2C1

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

SMERA Comprehensive Grading

Midland Microfin Limited (MML)



To verify the grading, please scan the QR Code

Date of Report:

19th December, 2018

Valid Till:

18th December, 2019



Supported By SIDBI

SMERA's MFI 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	M2C1				
M3					
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of “M2C1”. It signifies “High” capacity of the MFI to manage its operations in a sustainable manner and “excellent” performance on code of conduct dimensions.



To verify the grading, please scan the QR Code

Grading Rationale

Microfinance Capacity Assessment Grade	MML obtains “ M2 ” as its performance grade which signifies “high capacity of the organization to carry out its activities in a sustainable manner”.
Code of Conduct Assessment Grade	MML obtains “ C1 ” as its Code of Conduct Assessment Grade which signifies excellent 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**.*



To verify the grading, please scan the QR Code

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

SMERA is a division of Acuité Ratings & Research Limited that offers various rating and grading services to MSMEs. SMERA's Ratings / Gradings / Due Diligence and other credit assessment related services are based on the information provided by the rated entity and obtained by SMERA from sources it considers reliable. Although reasonable care has been taken, SMERA/Acuité makes no representation or warranty, expressed or implied with respect to the accuracy, adequacy or completeness of any information used. SMERA/Acuité is not responsible for any errors or omissions in the Rating / Grading / Assessment or the Rating / Grading / Assessment Report. SMERA/Acuité has no financial liability, whatsoever, for any direct, indirect or consequential loss of any kind arising from the use of its Ratings / Gradings / Assessments. SMERA's Ratings / Gradings / Due Diligence and other credit assessment related services do not constitute an audit of the rated entity and should not be treated as a recommendation or opinion or a substitute for buyer's or lender's independent assessment.

Historical Rating Grades

Date	Rating Agency	Rating/Grading
19/Sep/2018	Brickwork Ratings	MF2
26/Jul/2018	Brickwork Ratings	BBB+
02/Jan/2018	CARE Ratings	BBB
31/Oct/2017	SMERA Ratings	M2C1

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	Midland Microfin Limited	
Operational Head – Microfinance Business	Name	Mr. Amitesh Kumar
	Designation	EVP – Operations and Chief Financial Officer
	Mobile No.	7837218817
	Email ID	amitesh@midlandmicrofin.com
	Date of Joining	20-Jan-2011
Date of Incorporation/Establishment	27-May-1988	
Date of commencement of microfinance business	2011	
Legal Status	NBFC-MFI	
Business of the company	Microfinance Services Under Joint Liability Group (JLG) Model	
Correspondence Address	The Axis, Plot No.1, RB Badri Dass Colony, G. T. Road, Jalandhar – 144 001, Punjab	
Geographical Reach (As on 31/October/2018)	No. of States	5
	No. of Districts	70
	No. of Branches	128
	No. of Active Borrowers	2,61,831
	No. of Total Employees	1,260
	No. of Field/Credit Officers	615

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)
Business Loan	Income Generation Loan – One Year	11,000-25,000	24.80 (Reducing Basis)	1.00	25.80
Business Loan	Income Generation Loan – 18 Months	26,000 – 30,000			
Business Loan	Income Generation Loan – Two Years	31,000 – 50,000			
Credit Plus Product	WPL Classic LL (11 M/9 M/6 M)- 4200	4,200			
	WPL Classic RO+MF+SDF (11 M/9 M/6 M)- 8500	8,500			
	WPL EF Nakshatra(11 M/9 M/6 M) – 4499	4,499			
	SWM – Singer (12 M/(11 M/9 M/6 M)) – 3695	3,695			
	Sunking Boom- 2899 (11 M/9 M/6 M)	2,899			
	Sunking Pro 200-1499 (11 M/9 M/6 M)	1,499			
	Dlight S550-2495 (11 M/9 M/6 M)	2,495			



Capital Structure (as on October 31, 2018)

Authorized Capital	In Rs.	57.00	Crore
Paid-up Capital	In Rs.	41.73	Crore

Shareholding Pattern

EQUITY SHARES	
Shareholders	% Holding
a) Promoters	
Resident	14.34
Non-Resident	25.70
Body Corporate	0.83
Total	40.87
b) Promoter Group Member	
Resident	24.08
Non-Resident	2.25
Body Corporate	5.46
Total	31.79
c) Financial Institution	
Resident-SIDBI Bank	5.34
Non-Resident- KITARA PIIN 1501	22.00
Total	27.34
Total	100.00

PREFERENCE SHARES	
Shareholders	% Holding
a) Financial Institution - SIDBI	10.90
b) Promoter Group Member	89.10
Total	100.00

Board of Director's/Promoter's Profile

Name	Position	Qualification	Brief Profile
Mr. Vijay Kumar Bhandari	Chairman, Non - Executive Director	C.A.	<ul style="list-style-type: none"> • Fellow member of Institute of Chartered Accountants of India. • Former General Manager of Central Bank of India, with more than three decades of experience in various capacities as Senior Internal Auditor, Branch Manager, Regional Manager and Zonal manager. He held his last position as general manager-in-charge of credit, credit monitoring, treasury, investment, fund management, merchant banking and international banking division of Central bank of India. • Also on the Board of various companies as an Independent Director.
Mr. Amardeep Singh Samra	Managing Director	B.Com.	<ul style="list-style-type: none"> • Specialization in Finance, Marketing and Administration. • Co-ordinator of Punjab & Haryana Finance Co's Association. • Director of The Nurmahal Co-op. Marketing cum Processing Society Ltd. • Member of Young Presidents Organisation (YPO) Punjab Chapter.
Mr. Shant Kumar Gupta	Independent Director	L.L.B.	<ul style="list-style-type: none"> • Chairman and Promoter of 'HAMCO GROUP'. • He is a Director of S.R. Impex Ltd., Vill Dhogri, Jalandhar (mfg. of power cables). He is also very active on the social front and is Founder Chairman of 'Hamco Charitable Trust', an NGO involved in imparting free computer education to poor and needy students with an objective to bring them at par with their counterparts.
Mr. Harpal Singh Chhokar	Non- Executive Director	B.A. (Honours), A.C.A.	<ul style="list-style-type: none"> • Graduated from the University of East Anglia in Accounting and Law in the UK. • Chartered Accountant with Grant Thornton. Subsequently Mr. Harpal

			<p>Singh has worked as a Manager in the Investment Management, Assurance and Audit department of PricewaterhouseCoopers (PWC) in Los Angeles, California and London.</p> <ul style="list-style-type: none"> • He is also a member of the Institute of Chartered Accountants of England & Wales.
Mr. Janak Raj Gupta	Independent Director	C.A.	<ul style="list-style-type: none"> • Fellow member of Institute of Chartered Accountants of India. • He has a rich experience for carrying audit of Non-Banking Finance Companies (NBFCs).
Mr. Sachin Nithyanand Kamath	Nominee Director	C.A.	<ul style="list-style-type: none"> • Chartered Accountant by profession and one of the founder members of Kitara Capital International Limited. • Worked in various positions in the field of investments for Paradigm Investments Pvt Ltd; BOI Mutual Fund and JV Gokal Group in India. • Chief Investment Officer at Ajit Khimji Group of Companies in Oman.
Ms. Kamna Raj Aggarwalla	Independent Woman Director	B.A.	<ul style="list-style-type: none"> • Member of the Advisory Board to Government of Punjab for Small Scale Industries. • Regional Chairperson of Northern Region Engineering Export Promotion Council of India. • Former chairperson of the Confederation of Indian Industry (CII), Punjab and also the Member of the board of CII Northern Region.

Management's Profile

Name	Position	Qualification	Brief Profile
Mr. Amitesh Kumar	EVP- Operations Chief Financial Officer	B.Sc. (Horticulture), MBA (Agri- Business and Rural Management)	<ul style="list-style-type: none"> • He has experience of almost a decade in various segments like fund raising, brand development, positioning and promotion, leading and managing client relationships, strategic planning & Operations etc. • He had worked as an Area Manager in SKS Microfinance for three years. Where he initiated operations in western U.P, Delhi-NCR, Punjab and Haryana State based on the Grameen Model and trained & developed workforce at middle level management. • More than 10 years of quantifiable achievement with direct financial management, company development and achieving desired levels of growth as key responsibilities. He has been instrumental in building the organization from grass roots and played an anchor role in taking the corporate to one of the most successful NBFC-MFI. • He is having very rich experience in measuring performance potential of the company along with end-to-end view of the company's full value chain—from clients' needs to back-office operations to competitors' positioning. • He is an expert negotiator & analyst with strong team building skills by employing an energized and participative management style. He focuses on key business drivers that convey a broad understanding of the value proposition and how the company fulfills it.

Mr. Gagandeep Sharma	AVP – Audit and Legal	B.Com. C.A. Inter, LLB	<ul style="list-style-type: none"> • He has 22 years of experience as an Income Tax consultant. • He has almost 20 years of experience in the audit of various NBFCs along with income tax consultant. • He is associated with MML since 2010. • He designed standardized audit systems and processes for MML and provided strategic mentoring and intensive, operational hand-holding support to audit team.
Ms. Anjali Jindal	Manager – HR	B.A. (Hons.) Maths, PGDCA	<ul style="list-style-type: none"> • She has 13 years of experience in Human Resource field. • She is a seasoned professional and has got experience in setting up the Human Resources Systems, engineering and re-engineering of the processes. • She was associated with various banks in the department of credit appraisal. • She is associated with MML in the department of H.R, and responsible for structuring of recruitment, training, placement and reporting programs in MML.
Ms. Sharon Arora	Company Secretary	B.Com, LLB., ACS	<ul style="list-style-type: none"> • She has more than 4 years in her stream and was earlier associated with one the renowned NBFC providing financial services in all the major cities of India. • She is experienced in handling Secretarial compliances. • She is overseeing Corporate Compliance Program under various Laws and Regulations i.e. SEBI, Reserve Bank, FEMA etc. • She is also responsible to ensure that MML is in compliance with rules and regulations of regulating agencies and the culture in the organization meets the company’s standards of conduct.

HIGHLIGHTS OF MICROFINANCE OPERATIONS

Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	31/Oct/2018
No. of States	3	3	5	5
No. of Districts	30	32	66	70
No. of Branches	45	53	104	128
No. of Active Borrowers	1,31,439	1,28,388	2,16,336	2,61,831
No. of Total Employees	383	593	977	1260
No. of Field/Credit Officers	170	308	489	615
No. of SHGs	0	0	0	0
No. of JLGS	39,793	25,677	43,267	52,265
No. of Individual Loans	-	-	01	503
Owned Portfolio				
Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	31/Oct/2018
Total loan disbursements during the year (in crore)	233.74	230.88	535.12	458.43
Total portfolio outstanding (in crore)	144.06	113.15	331.88	427.52
Securitised Portfolio				
Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	31/Oct/2018
Total loan disbursements during the year (in crore)	0.00	0.00	24.54	48.11
Total portfolio outstanding (in crore)	0.00	0.00	18.89	27.33

Compliance with RBI's Directives for MFIs

RBI's Direction	Company Status	Compliance
85% of total assets to be in the nature of qualifying assets	Qualifying assets forms 90.78% of total assets as on 31/Mar/2018.	Complied
Net worth to be in excess of Rs 5 Crore	Net worth stood at Rs. 53.04 crore as on 31/Mar/2018.	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*	MML 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*	Tenure of loans is not less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty.	Complied
Pricing guidelines are to be followed	The maximum interest on loan products offered by MML is 24.80% on reducing basis.	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	MML verifies the same through credit check from credit bureaus	Complied
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	MML is charging processing fee of 1.0% on the disbursed loan amount	Complied
Collateral free loans	MML does not accept any collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	MML does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	MML does not take late payment or prepayment penalties from the	Complied

	clients.	
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.	MML shares its client data with all the Credit Bureaus i.e. Equifax, CRIF Highmark, CIBIL and Experian.	Complied
Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs	MML provides 99% of total loans for income generation activities as on 31/Mar/2018.	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.	MML has a CRAR of 23.72% as on March 31, 2018.	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 installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more'.	MML has made appropriate loan loss provisions	Complied

Section 1: Microfinance Capacity Assessment Grading

- SMERA estimates the MFI sector to grow at a CAGR of 25%-30% and is expected to touch Rs. 180000 crore by the end of FY2019.
- MFIs have reported an increase of ~27% in total loan outstanding FY2018 as compared to FY2017. SMERA believes seasoned customer profile over multiple loan cycles along with the inclusion of fresh borrowers have helped MFI industry to increase its total loan outstanding.
- The fund flow to the sector has improved on account of increased confidence on MFI sector. 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 believes that the RBI guidelines on co-origination of priority sector loans by NBFCs and banks is a significant step towards an efficient framework for microlending in India. SMERA estimates Rs.25,000-30,000 crore of potential lending every year under this origination mechanism over the medium term.
- 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. Post demonetization Asset Quality has declined, however it has improved and Portfolio at Risk (PAR) > 30 stood at 2.4% in Q2 FY 18-19.

Extensive industry experience of promoters and moderate track record of microfinance operations

- Midland Microfin Limited (MML) was originally incorporated as 'Sajan Hire Purchase Private Limited (SHPPL) in 1988 to carry out hire purchase business. In June 2010, Midland group acquired SHPPL for venturing into microfinance business and was renamed as MML in 2011. MML started microfinance operations in the year 2011 and therefore it has short track record of operations. MML is registered as an 'NBFC-MFI' in the year 2015, its head Office at Jalandhar, Punjab.
- MML provides loans to joint liability group consisting of five members who comes together for the purpose of availing loan through group mechanism against mutual guarantee. As on Oct 30, 2018 MML is currently operating in states of Punjab, Haryana, Rajasthan, Uttar Pradesh, Bihar and Maharashtra with 52,265 groups covering around 2,61,831 active borrowers with a total outstanding portfolio of Rs. 454.85 crore.
- As on October 2018, MML has seven members on board having extensive experience in the field of asset finance and banking business. Out of the 7 members on board, 3 members are independent directors. MML's management team also has extensive experience in the financial sector.
- Mr. Vijay Kumar Bhandari, Chairman, Non-Executive Director, Fellow member of Institute of Chartered Accountants of India. Former General Manager of Central Bank of India, with more than three decades of experience in various capacities as Senior Internal Auditor, Branch Manager, Regional Manager and Zonal manager. He held his last position as general manager-in-charge of credit, credit monitoring, treasury, investment, fund management, merchant banking and international banking division of Central bank of India.
- Mr. Amardeep Singh Samra, Managing Director, has around two decades of experience in the field of finance, hire-purchase, leasing, commercial real estate development and management of Agri based cooperative societies. He is co-ordinator of Punjab & Haryana Finance Co's Association. He is also director of the Nurmahal Co-op. Marketing cum Processing Society Ltd.
- Mr. Shant Kumar Gupta associated with the board of MML as an independent director, Chairman and Promoter of 'HAMCO GROUP'. He is a Director of S.R. Impex Ltd. (mfg. of power cables). He is also very active on the social front and is Founder Chairman of 'Hamco Charitable Trust', an NGO involved in imparting free computer education to poor and needy students with an objective to bring them at par with their counterparts.
- Harpal Singh Chhokar associated with the board of MML as a non- Executive Director, is a Chartered Accountant with Grant Thornton. Subsequently Mr. Harpal Singh has worked as a Manager in the Investment Management, Assurance and Audit department of



PricewaterhouseCoopers (PWC) in Los Angeles, California and London. He is also a member of the Institute of Chartered Accountants of England & Wales.

- Janak Raj Gupta associated with the board of MML as an independent director, is a Fellow member of Institute of Chartered Accountants of India. He has a rich experience for carrying audit of Non-Banking Finance Companies (NBFCs).
- Sachin Nithyanand Kamath associated with the board of MML as a Nominee director, is a Chartered Accountant by profession and one of the founder members of Kitara Capital International Limited. Worked in various positions in the field of investments for Paradigm Investments Pvt Ltd; BOI Mutual Fund and JV Gokal Group in India. He is also Chief Investment Officer at Ajit Khimji Group of Companies in Oman.
- Kamna Raj Aggarwalla associated with the board of MML as an Independent Woman Director, is a Member of the Advisory Board to Government of Punjab for Small Scale Industries. She is a Regional Chairperson of Northern Region Engineering Export Promotion Council of India. She is also a Former chairperson of the Confederation of Indian Industry (CII), Punjab and also the Member of the board of CII Northern Region.

Diversified Resource Profile

- MML has developed funding relationships with a large number of lenders, the company has availed loans from 25 lenders (including PSU Banks/Private Banks/Financial Institutions) for on-lending its microfinance operations. The company also has availed funds from SIDBI by way of Preference Shares.
- MML has raised the fund from seven PSU banks so far. These relationships have helped the company in meeting its funding requirements to meet the projected growth. The debt availed from the lenders have been drawn at an interest rate in the range between 10.00%-14.75%. Apart from owned portfolio, MML has also securitised its portfolio through Kotak Mahindra Bank Limited & Northern Arc Capital Limited and DCB Bank Limited & Profectus Capital Private Limited. The securitised loan portfolio of the company stood at Rs.27.33 crore as on October 31, 2018.
- The cost of borrowing has improved to 14.91% in FY 2018 as compared to 16.66% in FY 2017 due to increased share of borrowing from PSU Banks.

Adequate capitalisation and comfortable liquidity profile

- MML has net owned funds of Rs.51.36 crore as on March 31, 2018 as compared to Rs.40.12 crore in the previous year. The company's gearing stood comfortable at 5.73 times as on March 31, 2018 as compared to 3.68 times in the previous year.

- MML's capital adequacy ratio (CRAR) stood at 23.72 per cent as on March 31, 2018; however it has declined from 42.53 per cent in FY2017. CRAR is comfortable than the RBI stipulated CRAR for NBFC-MFI of 15 per cent.
- MML 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.

Diversified Geographical Reach

- MML's operations are spread in six states i.e. Punjab, Haryana, Rajasthan, Uttar Pradesh, Bihar and Maharashtra. As on October 30, 2018, MML's portfolio is concentrated in the state of Punjab accounting for ~ 50 percent and ~ 50 percent in other five states i.e. Haryana, Rajasthan, Uttar Pradesh, Bihar and Maharashtra.

Name of the State	No. of Branches	No. of Borrowers	Portfolio o/s (including managed portfolio) (in crore)	PAR % (>30 days)	% of Total Portfolio o/s
Punjab	32	1,29,987	227.21	0.54	49.95
Haryana	17	40,115	64.40	1.10	14.16
Rajasthan	40	62,392	98.88	0.66	21.74
Uttar Pradesh	16	13,794	23.82	0.01	5.24
Bihar	23	15,542	30.54	0.00	6.71
Maharashtra	0	1	10.00	0.00	2.20
Total	128	2,61,831	454.85		100.00

- However, 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.

Sound Asset Quality

- MML has a sound asset quality marked by on-time repayment rate of 99.26% as on 31st October, 2018. The companies' on-time repayment has been stable compared to 99.25% in FY2018.

Period	FY 2016	FY 2017	FY 2018	31-Oct-18
	Portfolio o/s	Portfolio o/s	Portfolio o/s	Portfolio o/s

	(in crore)	(in crore)	(in crore)	(in crore)
On-time	144.05	94.65	348.13	451.52
1-30 days	0.00	7.89	0.05	0.73
31-60 days	0.00	3.94	0.00	0.15
61-90 days	0.00	3.13	0.00	0.12
91-180 days	0.00	3.54	0.01	0.16
181-365 days	0.00	0.00	0.52	0.04
> 360 days	0.00	0.00	2.06	2.14
Write-off	0.00	0.00	0.00	0.00
Total	144.05	113.15	350.77	454.85

- The PAR 0-30 days stood at 0.16% as on 31st October, 2018 as compared to 0.014% as on 31st March, 2018. The PAR >30 days stood at 0.57% as on 31st October, 2018 as compared to 0.74% as on 31st March, 2018. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control.

Income and Profitability

- MML has reported net profit of Rs. 1.17 crore on operating income of Rs. 56.80 crore in FY2018. In FY2017, MML had reported net profit of Rs.4.31 crore on operating income of Rs.46.62 crore in the previous year.
- As on Oct 31 2018, the MML has an outstanding loan portfolio of Rs.454.85 crore spread over 128 branches of 6 states with about 2,61,831 borrowers. The companies' portfolio outstanding witnessed a growth of ~30% as on October 31, 2018 over FY 2018.
- Yield on Portfolio of MML stood at 23.35% in FY 2018.
- The operational self-sufficiency (OSS) of the company stood stable at 102.90% in FY2018 as compared to 116.30% in the previous year. The company's operating expense stood high at 11.43% in FY2018.

Robust MIS & IT infrastructure considering the current scale of operations

- MML has robust MIS and IT infrastructure to cater to the current and future needs of the Company. The company has recently migrated to new software, i.e., E-FIMO by Jayam Solutions Pvt Ltd., Hyderabad which has specifically designed to enhance the productivity, business intelligence and to get complete solutions for its processes and risk management. This software is a complete ERP based Core Micro finance solution with automated Credit Bureau Check, Automated Credit and Risk Check, De-Duplication Check, Matrix Based Loan Sanction, Strong BRS System, Hierarchy wise Dash Board, Event based SMS and Email Alerts and other functionalities which would ease down operational processes to large extent.
- MML has strong Internal Audit process to ensure strict control over operational processes and practices which include supervision of operations at branch, cluster and headquarters level.



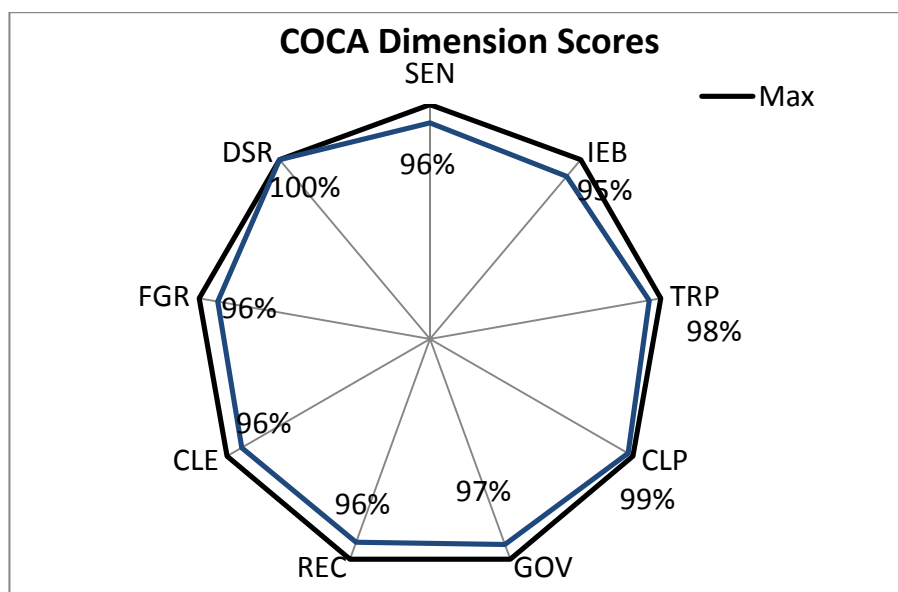
The company's internal audit team undertakes branch and borrower audit once in every quarter.

Inherent risk prevalent in the microfinance sector

- MML'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 and exposure to vagaries of political situation in the area of operation.

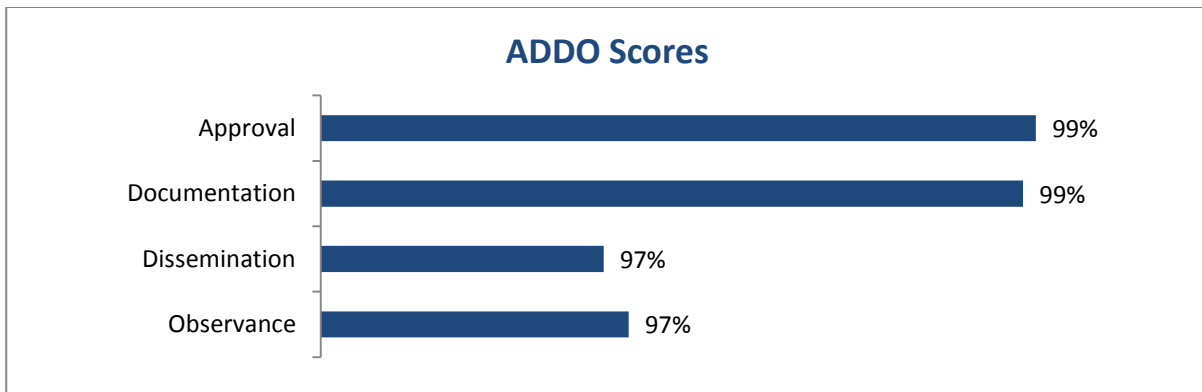
Section 2: Code of Conduct Assessment

COCA Grading - C1 (Excellent Performance on Code of Conduct dimensions)



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	96%
Integrity and Ethical Behavior	IEB	95%
Transparency	TRP	98%
Client Protection	CLP	99%
Governance	GOV	97%
Recruitment	REC	96%
Client Education	CLE	96%
Feedback & Grievance Redressal	FGR	96%
Data Sharing	DSR	100%



MML with an overall grade of “C1”, indicate **Excellent** Performance on Code of Conduct dimensions.

Code of Conduct Assessment Summary

The Code of Conduct report for Midland Microfin Limited (MML) 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 MML exhibits excellent 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 MML's adherence towards ethical operational practices.

Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> • Board approved policies, compliant with the RBI guidelines. • Code of Conduct framed as per the MML mission, vision, values and displayed in all branch offices & HO. • Membership with MFIN and Sa-Dhan. • Board with rich experience from banking and finance background. • Experienced and qualified management with more than a decade of experience in MFI industry. • Credit policies are well established documented and communicated. • Adequate loan appraisal & monitoring systems. • High standard of governance and integrity by inducting persons with good and sound reputation in the industry and understanding of microfinance industry. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower. • A specialized team has been introduced at Head Office under the badge of Arrear Monitoring Team which has been monitoring arrears on daily basis and engaged with Centre Officers and members telephonically to bring down arrears. • Efficient systems and strong internal audit team to check misappropriations and regular monitoring of compliance. • Toll Free helpline number for client 	<ul style="list-style-type: none"> • Awareness among client on the company's Grievance Redressal Mechanism was found to be moderate level. SMERA believes there is a scope of improvement in the area of educating clients on grievance. • Internal audit registers were available in mails. However it is not mandatory, but it is advisable that the reports should also be kept in physical form in branches.

<p>feedback/grievance.</p> <ul style="list-style-type: none">• MML has systematized and streamlined its Loan Origination System (LOS) and Loan Monitoring System (LMS) by moving on Mobility Solutions by collaborating with Esthenos.• MML has specialized telecalling team in Head Office to follow up to clients after loan application for loan purpose and check the loan utilization after loan disbursement.• MML take written consent from the client for sharing client data for third party disclosure.• Data sharing with credit bureau (Equifax, CIBIL, Experian and High Mark).	
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Significant Observations

HIGHER ORDER INDICATORS	
Integrity and Ethical Behaviour	<ul style="list-style-type: none"> • The company has 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, further MML regularly updates the board on the extent of compliance with client protection code of conduct. • Board has approved a policy of recovering delinquent loans. Operational staffs are aware of process to be followed with delinquent clients. • The board reviews internal audits reports, specifically regarding behavior by staff towards clients including abusive language or threats, visiting borrowers at odd hours and forcible entry into dwelling and forced seizure of property without the legal orders. Relevant guidelines are included in the company's Zero. Tolerance policy, also borrowers confirmed that no such instances occurred. • MFI prepares monthly reports about the number, nature and resolution of grievances received at the toll free number and feedback received for management review and same is presented to audit committee set up at board level. • MML provides training to its field staff on conduct relating to conducting client meetings, collecting repayments and recovering overdue loans. • 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 and the same is documented in HR manual. • In all the branches visited, the contact number and address of Grievance Redressal officer was properly displayed. • Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit; however same has been mentioned in the HR manual. • Awareness among client on the company's Grievance Redressal mechanism was found to be moderate however; it is understood that it is negligence from the borrower's side. • Fixed Component compensation of staff is not impacted in event of overdue. MML, in its fair practices code provides importance for transparency in pricing and clear communication to the clients. • Clients' awareness of about the redressal process is found to be

	<p>moderate, although the company provides the MFIN toll free number on its loan card. MML has a very robust grievance redressal mechanism most of the grievance received are handled and resolved within MML's toll free no and operates with 99% TAT adherence.</p>
<p>Sensitive Indicators</p>	<ul style="list-style-type: none"> • Almost all borrowers interviewed were aware of the amount to be repaid and the number of installments. In the sample of clients interviewed, there were no instances of a borrower paying for a service or product as a precondition for a loan. • No instance of fine or penalty being levied or collected from the borrowers. • No instance was observed of borrowers being charged processing fee in excess of 1%. • MML gets an external CA agency to certify its compliance with RBI's directions on loan pricing, percentage of qualifying assets and aggregate amount of loans extended for income generating activity. • MML has structured formats for loan application acknowledgment, loan agreement and loan sanction letter. • No instance was found of a loan classified as qualifying microfinance loan, where the size and loan tenure were in excess of the limits defined by RBI. • There had been no instances of a loan classified as qualifying microfinance loan, where the identity proof had not been obtained. MML accepts Aadhar as primary KYCs and Voter ID Card, ration card, M-NREGA Job card as Secondary KYC. However, Aadhar card is mandatory for all the loan cycles. • There was no instance of a client being charged additionally for insurance beyond the premium payable to an IRDA approved insurer. • A review of loan files indicates that CB checks were made not more than 14 days prior to disbursement in all cases. MML's manual mandates CB checks for capturing overall indebtedness. The checks are automated and conducted centrally. • No instance was observed of borrower indebtedness being more than that stipulated by the RBI. • All borrowers interacted with confirmed the polite and professional behavior of MML's staff without any instances of use of abusive language or threats, visiting borrowers at odd hours or forcibly entering into dwellings or seizing property without legal orders. • MML shares Clients data in detailed format with all four credit bureaus (CBs) namely Equifax, High Mark, Experian and CIBIL on a weekly and fortnightly basis. • Clients interviewed were aware of the charges and price for all services availed. • Awareness among the staff on RBI guidelines was found to be

	<p>moderate to high.</p> <ul style="list-style-type: none"> • There is no adverse observation in the Auditor's report regarding accounting standards followed by the MFI. • MML 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. MML has well documented policy on pre- payments.
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BUILDING BLOCKS	
Transparency	<ul style="list-style-type: none"> • Awareness among the staff on RBI guidelines was found to be moderate to high. • MML 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 of the most recent RBI directions are available in the form of office orders in the visited branches. • MML, 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 sanction letters provided to the client. MML also enters into loan agreement with the client and copy of the agreement is shared with the client. • The loan card provides complete repayment schedule with interest and principal separately mentioned. • Clients interviewed were aware of the charges and price for all services availed. • In each of the branches visited, loan documents were maintained in the local language. • MML displays the effective rate of interest on its products, at all its branches. • Audit committee verifies through the audit reports whether all clients have received the necessary loan documents. • Pricing policy of loans is displayed in branches visited. • MML 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. • Code of conduct compliance report of MML & previous financial year annual financial statement and report is available in the public domain.
Client Protection	<ul style="list-style-type: none"> • MML has a board-approved policy regarding client data security.

	<ul style="list-style-type: none"> • MML has documented policy on client data security which forms part of its fair practice code. • Employees are trained on aspects of appropriate behavior with the clients. • MML 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. • The operational manual clearly states that all the information pertaining to a member will be filed and kept at the branch. No visitor is allowed to check the client information without permission from HO. • No instance of fine or penalty being levied or collected from the borrowers. • No instance was observed of borrowers being charged processing fee in excess of 1%. • There had been no instances of a loan classified as qualifying microfinance loan, where the identity proof had not been obtained. MML accepts Aadhar as primary KYCs and Voter ID Card, ration card, M- NREGA Job card as Secondary KYC. However, Aadhar card is mandatory for all the loan cycles. • There was no instance of a client being charged additionally for insurance beyond the premium payable to an IRDA approved insurer. • A review of loan files indicates that CB checks were made not more than 14 days prior to disbursement in all cases. MML's manual mandates CB checks for capturing overall indebtedness. The checks are automated and conducted centrally. • No instance was observed of borrower indebtedness being more than that stipulated by the RBI. • Staffs were found to be aware of the need to have professional conduct with the clients. • To enhance the performance and efficiency of the employees, various in-house and outdoor training programs are conducted. Before joining, the perspective employees is provided 3-5 days of field exposure visit cum training to make him aware of the roles and commitment towards the organization. Post field training, 7 days Induction training is provided to our employees which helps to acquire requisite skills to perform their job. • Staff members are aware of the importance of maintaining client data confidentiality. The company's manuals also state that the data collected would be utilised only for the purposes specified. • There is a board approved policy for recovering delinquent loans. The operational staff is aware of the guidelines to be followed with delinquent clients.
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	<ul style="list-style-type: none"> • Borrowers also confirmed that they receive accurate receipts for all payments made to MML. No instance was observed where clients paid commissions to informal agents or bribes to the MFI staff. • No incidence of unauthorized sharing of client data by MML has been observed during the visits.
Governance	<ul style="list-style-type: none"> • MML's board comprises seven directors with diverse experience including financial services, academics, investing and corporate. MML inducts members of good and sound reputation which provides positive direction to the MFI. • MFIs maintain high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body. • MML does not have more than 1/3rd of independent persons in its Governing Board. • As on 31st October 2018, the board comprised of 7 directors, out of which 3 are independent directors. • MML discloses its CEO compensation in its audited reports (Ref. Audit Report 2018). • All policies and procedure of the MFI and any subsequent changes to the same are approved by the board. The meeting agenda contains the key operational and financial information of the MFI. • The board meets at least once every quarter and the minutes of the meetings are maintained by the MFI. • MML has a dedicated internal audit team. The internal audit head directly reports to the audit committee. • An audit committee of the Board with an independent director as chairperson. • Internal audit registers were available in mails. However it is not mandatory, but it is advisable that the reports should also be kept in physical form in branches. • 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. • Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit.
Recruitment	<ul style="list-style-type: none"> • MML's Board has reviewed its recruitment policies at least once annually. • MML has a documented system of reference checks and documentary evidence suggested that the company has performed reference checks. • MML has honored the notice period for employees who have left the organization. • MML obtains NOC or relieving letter from the previous employee, in

	<p>case employees are recruited from other MFIs.</p> <ul style="list-style-type: none"> • The MFI has a defined and documented process for responding to reference check requests. • The entity has received reference check requests from other organisations and it has responded to them in a timely manner. • MML has a defined and documented process for responding to reference check requests. • MML 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 and the same have not been documented in HR manual.
<p>Client Education</p>	<ul style="list-style-type: none"> • MML in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services. • MML does not charge clients for the trainings provided to clients, itself or through a related party. • The training includes information about the product, role of CBs, joint liability, meeting process, organisation policy, interest rates, fees and charges, and responsibilities of clients. In addition, MML also conducts annual training of clients where clients are told about terms and conditions on the loan, group liability, indebtedness, transparency and feedback and grievance redressal. • Staff members are trained by senior branch staff on the various client processes to be followed including MGTs the disclosures to be made to borrowers. • Internal audit checklist includes assessment of clients' awareness and understanding. • Borrowers were aware of loan tenures and products and services offered. • Awareness among client on annualized Interest rate & Insurance claim settlement process was found to be moderate. Around 85% of the borrowers interviewed by us recalled the interest rate and processing fees while around 80% were aware of the amount paid for insurance and the insurance claim settlement process.
<p>Feedback and Grievance Redressal</p>	<ul style="list-style-type: none"> • MML's operational manual has details of the grievance redressal mechanism along with the specified time frame. • The members of staff confirmed receiving training from seniors on the grievance redressal mechanism. • Borrowers confirmed that they were informed about the toll free number during MGT and were aware of the grievance redressal mechanism in case of any complaints. Almost all the clients were aware of the MFI's name and branch location. • The grievance redressal system set up by the MFI is displayed prominently in all the branches visited.

	<ul style="list-style-type: none"> • In its pass book the MFI makes a declaration that it is responsible for the behavior of its staff. • MML displays the central toll free number, nodal officer's number, Grievance Redressal Officer's toll free number and the MFIN toll free number in all the branches visited. • The MFI has a dedicated grievance redressal official whose toll free number is provided on the pass book. • MML has a strong internal grievance redressal system with a dedicated in-house call centre. Customer can give a call on Customer Helpline number mentioned on the back side of passbook. Customer also has right to raise a written complaint in the complaint box at branch office / head office. He can also directly approach Company's grievance redressal officer Mr. Amitesh Kumar – EVP - Operations, CFO @ 01815076000. • All complaints and feedback received by MML are recorded diligently. • A summary report on grievance redressal is presented to the board for its review. • 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. • MML take declaration letter from the client that the complaints lodged have been satisfactorily resolved by the Redressal officer. • Clients were found to be moderately aware of the helpline number. • Feedback mechanisms are tracked and monitored. Dedicated team at HO level to document and follow up on the client complaints. • Awareness among client on Grievance Redressal mechanism was found to be moderate.
<p style="text-align: center;">Data Sharing</p>	<ul style="list-style-type: none"> • Operational and financial data for FY2018 is available on the website of MML. • MFI has a well-defined process for sharing data with the credit bureaus. • MFI has provided data called for by SRO and RBI as and when required as per compliance. • MML shares accurate data with all credit bureaus on a frequency prescribed by SRO. • MML performs compulsory credit bureau checks for all its clients.

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	Sangrur	Punjab	24
2	Mansa	Punjab	20
3	Barnala	Punjab	22
4	Bhagta Bhai Ka	Punjab	23
5	Rampura Phul	Punjab	21
6	Bathinda	Punjab	19
7	Salumber	Rajasthan	20
8	Banswara	Rajasthan	22
9	Pratapgarh	Rajasthan	20
10	Dhariawad	Rajasthan	23
11	Mangalwar	Rajasthan	20
12	Dabok	Rajasthan	22
Total			256

Financials

Profit & Loss Account (Rs. In Thousands)

Period	FY 2016	FY 2017	FY 2018
Months	12	12	12
Financial revenue from operations	3,06,898	4,66,231	5,68,004
Less - Financial expenses from operations	1,35,729	2,41,199	2,76,800
Gross financial margin	1,71,169	2,25,032	2,91,204
Provision for Loan Loss / Write off	7,637	7,558	10,094
Net financial margin	1,63,532	2,17,474	2,81,110
<u>Less - Operating Expenses</u>			
Personnel Expense	67,608	94,143	1,61,437
Depreciation and Amortization Expense	3,614	6,037	13,350
Other Administrative Expense	36,197	51,940	90,316
Net Operating Income	56,113	65,354	16,007
Income Tax	22,424	24,574	6,029
Deferred Tax	(3,368)	(2,340)	(1,808)
Net Income	37,057	43,120	11,786

Note: Above financials are taken from audited accounts provided by the management.

Balance Sheet (Rs in Thousands)

As on date	31/Mar/2016	31/Mar/2017	31/Mar/2018
SOURCES OF FUNDS			
Capital			
Equity Capital	2,07,115	2,29,565	3,70,565
Reserves & Surplus	19,727	51,813	38,149
Security Premium	1,12,932	1,35,382	2,68,525
Capital Redemption Reserve	15,826	26,860	36,627
Total Equity	3,55,600	4,43,620	7,13,866
Liabilities			
Short-Term Liabilities			
Interest payable on funding liabilities	1,067	2,641	11
Account payable & Other short-term liabilities	1,37,415	2,11,532	3,52,450
Total Short-Term Liabilities	1,38,482	2,14,173	3,52,461
Long-Term Liabilities			
Long-Term Borrowings			
Commercial Loans from banks/FI	12,62,067	16,32,611	27,85,073
Total Long-Term Borrowings	12,62,067	16,32,611	27,85,073
Total Other Liabilities	14,00,549	18,46,784	31,37,534
Provision for Standard Assets	14,413	22,175	32,324
Other Provisions	15,882	4,830	6,413
TOTAL LIABILITIES	17,86,444	23,17,409	38,90,137

As on date	31/Mar/2016	31/Mar/2017	31/Mar/2018
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	25,426	49,780	87,281
Less: Accumulated Depreciation	3,614	6,037	25,749
Net Block	21,812	43,743	61,532
Cash and Bank Balances	0	2,10,334	12,000
Long Term Investments	2,31,958	8,04,539	3,40,822
Security Deposits	24,905	20,190	4,250
Loan Portfolio			
Net Loan Portfolio	14,42,706	11,32,679	33,52,884
Accounts Receivable And Other Assets	59,458	95,906	1,01,787
Intangible Assets	883	2,956	7,992
Deferred Tax Asset	4,722	7,062	8,870
TOTAL ASSETS	17,86,444	23,17,409	38,90,137

Financial Ratios

Financial Ratios	31/Mar/2016	31/Mar/2017	31/Mar/2018
<u>Capital Adequacy Ratio (CAR)</u>			
Capital Adequacy Ratio (%)	28.11	42.53	23.72
<u>Productivity / Efficiency Ratios</u>			
No. of Active Borrowers Per Staff Member	343	217	221
No. of Active Borrowers per field executives	773	417	442
No. of members per Branch	2,921	2,422	2,080
Gross Portfolio o/s per field executive (in thousands)	8,487	3,678	7,173
Average Outstanding Balance per client (in Rs)	10,976	8,822	16,214
Cost per Active client(in Rs)	817	1,185	1,225
<u>Asset / Liability Management</u>			
Yield on Portfolio (%)	27.58	33.71	23.35
Cost of Fund (COF) (%)	14.31	16.66	14.91
<u>Profitability / Sustainability Ratios</u>			
Operational Self Sufficiency (%)	122.37	116.30	102.90
Operating Expense Ratio (OER) (%)	10.21	11.92	11.43
Return on Assets (RoA) (%)	2.84	2.10	0.38
Portfolio at Risk (>30 days) (%)	0.00	9.37	0.74
Return on Equity (RoE) (%)	17.15	11.71	1.71
<u>Leverage Ratios</u>			
Total Outside Liabilities to Tangible Network Ratio (Times)	3.94	4.16	4.40
Debt/Equity Ratio (Times)	3.55	3.68	5.73



About SMERA

SMERA is a division of Acuité Ratings & Research Limited dedicated to providing SME Ratings & Grading services to MSMEs. SMERA began its operations in year 2005 as SME Rating Agency of India Limited, 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 is empanelled for 'Performance & Credit Rating Scheme for Micro & Small Enterprises' of the Ministry of MSME, Government of India, administered by the National Small Industries Corporation (NSIC).

Acuité Ratings & Research Limited 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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