Ratings

CRISIL Comprehensive MFI Grading

Muthoot Microfin Limited

April 2017

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CRISIL

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CRISIL Comprehensive MFI Grading

Muthoot Microfin Limited

Comprehensive Grade: ***M2C1***

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

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

Grading Rationale

Microfinance Capacity Assessment Grade	Muthoot Microfin Limited obtains **"M2"** as its performance grade which signifies "high capacity to manage their microfinance operations in a sustainable manner". The organisation tends to benefit from the strong support extended by its parent Muthoot Fincorp Limited (MFL) which has a long track record in extending gold, retail, and housing loans to retail and institutional clients. Based on parent support, the NBFC-MFI has been able to scale up its operations rapidly. The company has adequate systems and processes and is backed by an experienced senior management team. The capitalisation levels remain average. Resource profile remains diversified. The operations of the company however remain geographically concentrated. The earnings profile remains moderate.
Code of Conduct Assessment Grade	Muthoot Microfin Limited obtains **"C1"** as its Code of Conduct Assessment Grade which signifies "excellent performance on COCA dimensions". The NBFC-MFI is a member of SRO. Its fair practice code covers most of the code of conduct parameters. The NBFC-MFI undertakes credit history checks through the RBI approved credit bureau. It provides training to its employees on a quarterly basis on code of conduct. The board's review of regulatory guidelines and code of conduct practices has scope for improvement. The NBFC-MFI is yet to formulate a detailed

	grievance redressal policy and maintain action taken reports on the complaints received from clients

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

Conflict of Interest Declaration

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

Disclaimer

CRISIL Comprehensive MFI Grading is a current opinion on MFI's capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. The report ("Report") contains two sections:

a) CRISIL Microfinance Institution (MFI) Capacity Assessment Grading

b) Code of Conduct Assessment (CoCA)

CRISIL's Microfinance Institution (MFI) Capacity Assessment Grading is a current opinion on the ability of an MFI to conduct its operations in a sustainable manner. The MFI Capacity Assessment Grading is assigned on an eight-point scale, with 'M1' being the highest, and 'M8' the lowest. The MFI Capacity Assessment Grading is a measure of the overall performance of an MFI on a broad range of parameters under CRISIL's MICROS framework. It includes a traditional creditworthiness analysis using the CRAMEL approach, modified to be applicable to the microfinance sector. The acronym MICROS stands for Management, Institutional arrangement, Capital adequacy and asset quality, Resources and asset-liability management, Operational effectiveness, and Scalability and sustainability. MFI Capacity Assessment Grading scale: M1 - highest; M8 – lowest. CRISIL's MFI Capacity Assessment Grading is not a credit rating and does not indicate the credit worthiness of an MFI.

The Code of Conduct Assessment (CoCA) reflects a MFI's adherence to Industry code of conduct. CRISIL during the CoCA exercise, has relied upon the grading methodology and Harmonized CoCA tool (HCT) formulated by SIDBI besides an interaction with the MFI's management, and other information sources that are publicly available and considered reliable.

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Historical Grading History of Muthoot Microfin Limited

Date	Rating Agency	MFI grading
September 2016	CRISIL	mfR2

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

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

MFI's profile (March 2017)	
Name of the MFI	Muthoot Microfin Limited (MML)
Legal form	▪ Public limited company (closely held) ▪ Registered as a non-banking financial company-microfinance institution (NBFC-MFI) with the Reserve Bank of India
Chief executive officer (CEO)	Mr. Sadaf Sayeed
Year of starting microfinance	2015
Branches (February 28, 2017)	369
Active borrowers	7,13,420
Total staff	4,461
Operational area	10 states*
Number of lenders	36 lenders which includes private banks, public banks, and NBFCs, as on March 31, 2017
Visit of the assessment team	From March 18 to March 25, 2017
Registered office address	Muthoot Microfin Limited Thirteenth Floor, Parinee Crescenzo Bandra Kurla Complex Bandra (East), Mumbai – 400051, Maharashtra
Correspondence address	Fifth Floor, Muthoot Towers MG Road, Opposite Abad Plaza Kochi – 682 035, Kerala

**Kerala, Karnataka, Tamil Nadu, Maharashtra, Madhya Pradesh, Odisha, Goa, Haryana, Uttar Pradesh, and Gujarat*

LOAN PRODUCTS

- Loans from Rs.10,000 to Rs.45,000 are disbursed for income-generating activities for up to 24 months, with weekly loan repayment.
- Loans up to Rs.20,000 are disbursed in the first loan cycle.
- The NBFC-MFI has tied up with Kotak Life Insurance, DHFL Pramerica Life Insurance, and IndiaFirst Life Insurance to offer credit insurance services to borrowers, for which it collects an insurance fee of Rs.8 per Rs.1,000, per annum.

Product type	Product name	Loan size (Rs.)	Tenure (months)	Repayment frequency	Interest rate (reducing) (%)	Processing fee (%)	APR (interest rate and processing fees) (%)
Income generation loans	Joint-liability group (JLG) loans	Rs.10,000 - Rs.45,000	12 – 24	Weekly	23.69	1.00	Around 24.00
Water purifier loans	Individual loans	Rs.2,000-Rs.4,000	12	Weekly	23.69	1.00	Around 24.00
Solar lantern loans		Rs.2,000-Rs.3,500	5-6	Weekly	23.69	1.00	Around 24.00
Dairy loan		Rs.30,000 – Rs.50,000	24	Weekly	23.50	1.00	Around 24.00
MSGB loan		Rs.25,000 – Rs.75,000	24	Weekly	24.00	1.50*	Around 24.50
Mobile loan		Rs.2,000-Rs.4,000	12	Weekly	24.00	1.00	Around 24.50
Sewing machine loan		Rs.6,000-Rs.10,000	12	Weekly	24.00	1.00	Around 24.50
Induction stove combo		Rs.9,000-Rs.10,000	12	Weekly	24.00	1.00	Around 24.50

** Loan processing fee is 1.00 per cent of total loan amount for existing client and 1.50 per cent for new client*

BOARD OF DIRECTORS (AS ON DECEMBER 31, 2016)

Name and designation		Profile
Director	Mr. George Lamannil	▪ Over 3 decades of banking and finance experience ▪ Degree in economics and law from University of Mumbai, Diploma in commodities markets ▪ Has worked with BNP Paribas in India as director and legal head. Joined MPG as group executive director and general counsel ▪ He is a visiting lecturer at various institutes.
Director	Mr. Kenneth Dan Vander Weele	▪ Over 42 years of experience ▪ Bachelor of business administration degree from the University of Wisconsin in Madison and a PhD from the Open University, UK
Independent director	Mr. Sabu Zacharias. K	▪ MCom ▪ Started his career with MPG in 1989 and has worked in different roles. He is currently AVP of MPG, and heads the chits division
Independent director	Mr. Maneesh Srivastava	▪ BTech from National Institute of Technology, Bhopal, and MBA from Faculty of Management Studies (FMS) ▪ Has worked with various organisations including HSBC and Tata Group ▪ Currently, he is CEO of Muthoot Housing Finance Company Limited
Additional director	Mr. Thomas Muthoot John	▪ Over 6 years of experience ▪ Bachelor of Economics, University of Madras, Loyola College, Chennai
Additional director	Mr. Keyur Chandrakant Shah	▪ Over 20 years of experience ▪ Bachelor’s degree in electronics engineering and an MBA in Marketing

Key performance indicators		
	Unit	**Mar-16**
Portfolio at Risk (>30 days)	%	0.01*
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	%	15.16#
Operating Expense Ratio (OER)	%	4.62
Funding Expense Ratio (FER)^	%	9.78
Write-offs to average portfolio$	%	-
Return on Assets (RoA)	%	3.53
Return on portfolio (AUM)	%	4.36
Return on Equity (RoE)	%	28.69
Active borrowers per staff	No.	243
Active borrowers per branch	No.	1,638

*2.10 % as on Feb-17, # 26.03 per cent as on Dec-16, ^ based on year-end average borrowings, $ - refers to gross NPA / gross advance (reported)

Compliance with RBI's Directions for MFIs

Sr. No	RBI's Direction	Status
1	85% of total assets to be in the nature of qualifying assets	Complied
2	Net worth to be in excess of Rs.5 Crore	
3	Income of borrower not to exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas*	
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	
5	Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs.30,000, with prepayment without penalty*	
7	Pricing guidelines are to be followed	
8	Transparency in interest rates to be maintained	
9	Not more than two MFIs lend to the same client	

** For the assets classified as qualifying*

Section 1: Microfinance Capacity Assessment Grading

ABOUT THE MFI OPERATIONS

As on February 28, 2017

Area of operations / geographical reach	:	10 states*
Lending model	:	Joint liability group (JLG)
Borrower base	:	7,13,420 (10,08,416 members)
Employees	:	4,461 (3,509 credit officers)
No. of branches	:	369
Assets under management (AUM)	:	Rs.15,795.90 million (including managed portfolio of Rs.6,782.9 million)

**Kerala, Karnataka, Tamil Nadu, Maharashtra, Madhya Pradesh, Odisha, Goa, Haryana, Uttar Pradesh, and Gujarat*

About the group

Muthoot Microfin Limited (MML) is part of the diversified Muthoot Pappachan Group (MPG), which was incorporated in 1887. Muthoot takes its name from the promoter's family name. In 1887, Mr. Muthoot Ninan Mathai (investor founder of the group) commenced wholesale trading of grains at Kozhencherry, a small town in the erstwhile princely state of Travancore (Kerala), and later expanded into chit fund and gold loan businesses.

Late Mr. Muthoot Ninan Mathai had four sons, Mr. Ninan Mathew, Mr. M. George, Mr. M. Mathew, and Mr. Mathew M. Thomas (Muthoot Pappachan), who were involved in the businesses from their initial days. Following a family partition in 1979, Mathew M. Thomas led the foundation of MPG.

Companies within MPG

- **Muthoot Fincorp Limited (MFL):** This is the group's flagship company. Established in 1979, it operates as a registered non-banking finance company (NBFC), with over 3,600 branches across India. Its products include lending against gold, providing business, housing and auto loans among others. MFL is also into microfinance through Muthoot Mahila Mitra (MMM), which provides small loans to women engaged in small income-generating activities. MFI operations under MMM are gradually transferred to MML in order to avoid conflict of interest, and because of regulatory restrictions for asset finance companies to undertake microfinance operations.

Key operational and financial indicators of MFL

(Rs. Million)

Particulars	**Performance for year-ended / as on**		
	2015-16	**2014-15**	**2013-14**
Revenue	20,852	20,389	19,753
PAT	874	838	633
TNW	14,210	13,336	12,499
Borrowing	85,317	87,365	87,138
CRAR (%)	21.00	22.06	21.01

- **Muthoot Capital Services Limited:** The company, incorporated in 1994, is an NBFC registered with the RBI, offering commercial and consumer finance products such as vehicle loans, gold loans, and loans against property, bonds, deposits, investment products and advisory services, among others.

- **Muthoot Housing Finance Company Limited:** This is a subsidiary of MFL and is registered with National Housing Bank. The company caters mainly to housing finance requirements of the lower and middle income categories. It provides loans ranging from Rs.3-25 lakh, with a repayment period of up to 15 years.

SOCIAL AND TRANSPARENCY INDICATORS

As on December 31, 2016 In per cent

Average loan outstanding/per capita GNI (2015 figure)*	25.00
Women staff/total staff	3.00
Women borrowers/total borrowers	100.00
Lending rate charged by MFI	23.50
Are interest rates (on flat basis) communicated to clients in writing?	Yes
Are processing/commission charges communicated to clients in writing?	Yes
Does the MFI provide an official receipt to clients after repayment collections?	Yes
Is access to loan from other MFIs a parameter to select/screen clients?	Yes
Is access to loan from other MFIs/residual income a factor in appraising the client’s repayment capacity?	Yes
Does the MFI appraise the client's income/poverty/asset level and use this data to target other low-income clients?	Yes
Does the MFI capture and analyse reasons for client dropout?	Yes
Are clients provided head office contact details as part of the grievance redressal mechanism?	Yes

**Per capita gross national income (GNI) is based on current prices.*
Source: Central Statistical Organisation data

RESERVE BANK OF INDIA (RBI) GUIDELINES

Parameter	RBI requirements for NBFC-MFIs*
Capital requirement	Rs.50.00 million in net-owned funds
Multiple lending	Not more than 2 MFIs can lend to the same borrower
Annual income of households qualifying for MFI loans	➢ Rural area: Less than or equal to Rs.1 lakh ➢ Non-rural area: Less than or equal to Rs.1.6 lakh
Disbursements	➢ First cycle: Less than or equal to Rs.60,000 ➢ Subsequent cycle: Less than or equal to Rs.1 lakh
Borrower indebtedness	➢ Less than or equal to Rs.1 lakh
Loan tenure	➢ Greater than or equal to 24 months for amounts in excess of Rs.30,000 ➢ Moratorium period greater than or equal to frequency of repayment
Loan repayment	➢ Repayable on weekly, fortnightly, or monthly instalments as per the borrower's choice
Interest rate	Lower of the following: ➢ Cost of funds plus margin (capped at 10 per cent for large MFIs and 12 per cent for others) ➢ Average base rate of the 5 largest commercial banks by assets multiplied by 2.75 per cent
Loan purpose	More than 50 per cent of loans are for income-generating activities
Loan loss provision	Shall not be less than: **Standard assets** ➢ 1 per cent of the outstanding loan portfolio **Non-standard assets** ➢ 50 per cent of the loan instalments which are overdue for ≥90 days and ≤180 days And ➢ 100 per cent of the loan instalments which are overdue for ≥180 days

Penalty	➢ No penalty on delayed payments ➢ No penalty on prepayments
Recovery practices	➢ Shall adopt non-coercive methods of recovery ➢ Recoveries to be made only at a central designated place ➢ Recoveries at residence only if a customer fails to appear at the designated place more than twice
Capital adequacy	15.00 per cent
Credit information company (CIC)	Membership of at least one CIC
Self-regulatory organisation (SRO)	Membership of at least one SRO
Qualifying assets	85.00 per cent

**Compliance of the above is not mandatory for not-for-profit MFIs.*

MFI GRADING RATIONALE

CRISIL's microfinance institution (MFI) grading of Muthoot Microfin Limited reflects the following strengths:

- Strong parent support (capital, technical and managerial)
- Significant scale-up in business volume
- Experienced senior management
- Adequate MIS and technology platform

However, these strengths are offset by the following weaknesses:

- Geographic concentration of operations
- Average capitalisation levels and modest earnings profile
- Asset quality remains key monitorable in lieu of demonetisation and recent farm loan waiver

Key grading sensitive factors for MML:

- Ensuring transition of systems and processes over the medium term
- Strengthening institutional framework

PROFILE

Muthoot Microfin Limited, a Kerala based NBFC-MFI, came into existence with the acquisition of Mumbai-based NBFC Pancharatna Securities Limited in December 2011. The rationale for acquisition was to transfer microcredit operations under MFL to this NBFC (was subsequently awarded the status of NBFC-MFI) so as to gain from the priority sector lending status.

Muthoot Fincorp Limited (MFL), the flagship company of MPG which offers gold, retail, auto, housing loans, remittances, insurance, and advisory services to retail and institutional customers, transferred the portfolio of Muthoot Mahila Mitra (MMM) to MML, which was launched in 2010 for financial inclusion of the economically-backward. MMM is based on the joint liability group (JLG) model, which focuses on empowerment activities in rural areas and urban slums. MMM's branch operations are presently being transferred to MML. The existing portfolio of MMM in such branches is being run down while fresh disbursements are undertaken in the name of MML.

In March 2015, MML received an NBFC-MFI licence from the RBI. Currently, MFL holds 79.42 per cent stake in MML, Creation Investments India LLC holds 4.95 per cent (as on February 28, 2017), with the remainder held by the promoters.

LENDING METHODOLOGY

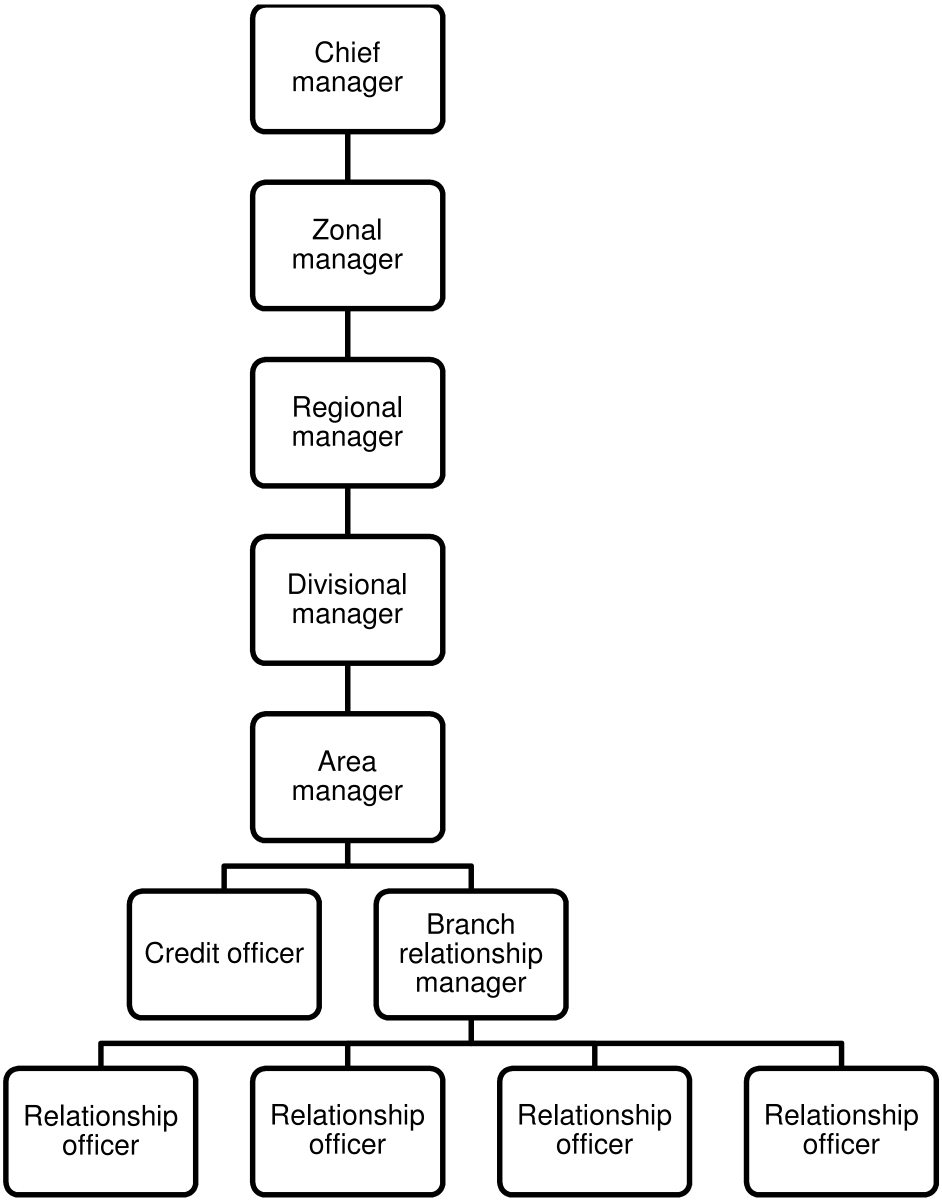
The NBFC-MFI selects an operational area after conducting a field survey to ascertain the region's demographic profile. It then designates a relationship officer (RO), responsible for street survey and group orientation, to organise a general meeting with the targeted members. At the meeting, the RO presents the organisation's details, its product information and microfinance programme. Those interested in membership are invited to a subsequent meeting, during which women from the same locality organise themselves into JLGs.

After group formation, the branch manager (BM) collects the know-your-customer (KYC) details and sends it to the head office for credit bureau check. After the credit bureau check, the RO conducts a compulsory group training (CGT) for 3 days to explain the MFI's policy, the loan product and repayment details. Following the customer orientation programme, the branch relationship manager (BRM) and the credit officer (CO) conduct a group recognition test (GRT) to ascertain the members' understanding of the organisation's policies and procedures. House visits are conducted by the CO on the same day and contact point verification, which includes basic details of each client including occupation, expenses, assets and other details is captured.

The CO then appraises the loan applications and forwards these to the BM for further verification. A loan application form is prepared, and after verification, the branch manager (BRM) approves the loan. Approved loans are disbursed to individual borrowers at MFL's gold loan branches. The BRM and area manager randomly check loan utilisation post disbursement.

Currently, MML is piloting the credit bureau check at field level in Kerala with 500 handheld devices to ROs. The same will be commercially launched in the next financial year 2017-18.

Hierarchy of field staff/ operations team



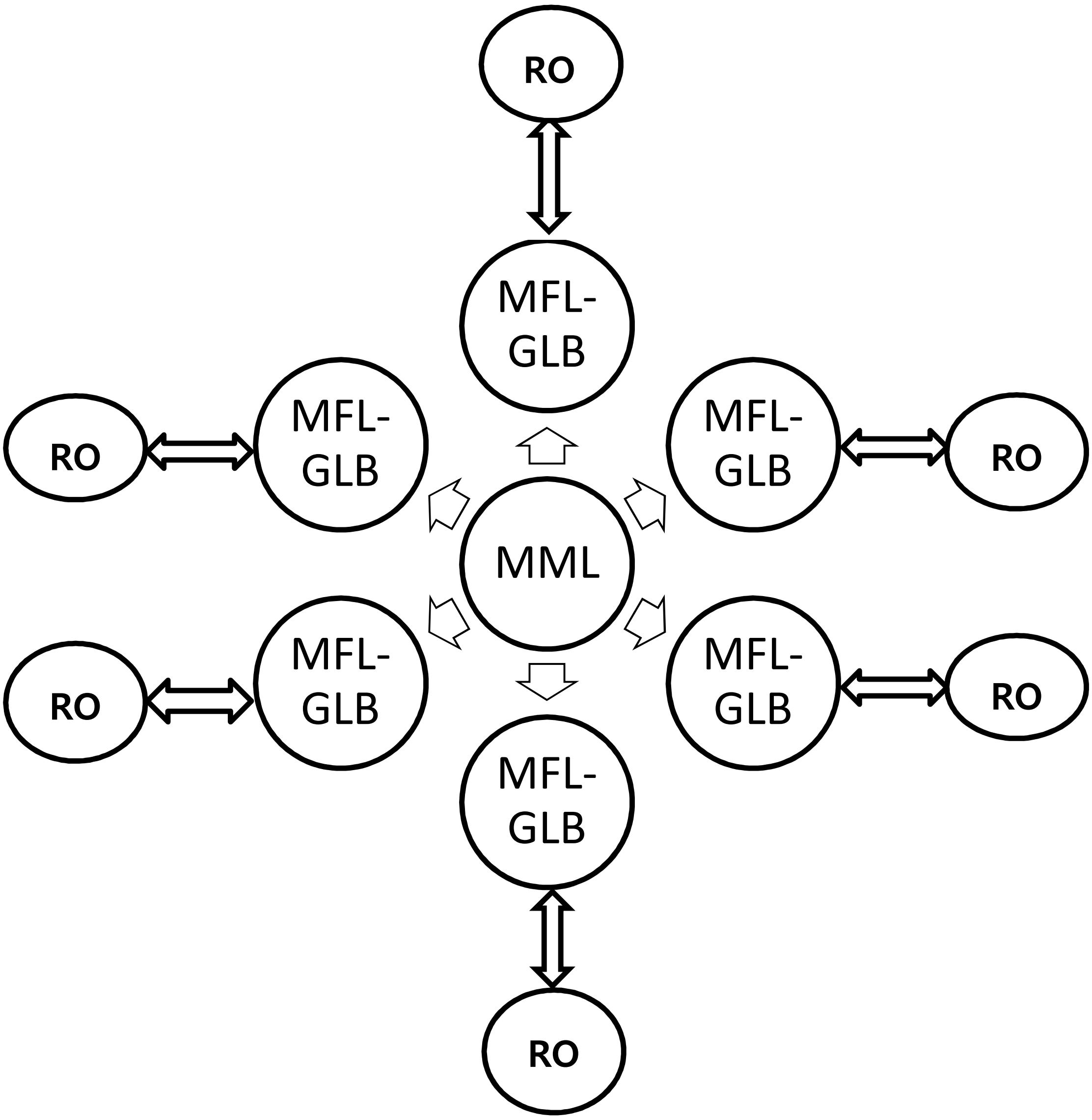
Designation	Roles and responsibilities (branch level)
Relationship officer	MFI appoints 3-4 ROs for a newly set up branch. The RO's main task includes client sourcing, collections, conducting CGT and centre meetings.
Credit officer	Responsible for loan appraisal and credit recommendations.
Branch relationship manager	Final loan sanctioning authority at the branch level after various credit sanction processes are completed, including review of loan application form and credit bureau checks. Also, responsible for loan utilisation check.

Disbursement and collection model

MML follows a unique hub-and-spoke model for disbursement and collection of loans, wherein its branch acts as the hub and branches of its parent, MFL, act as the spoke. MML's operational strategy including branch establishment, disbursement and collection, follows this approach.

Each RO is linked with a particular MFL gold loan branch (GLB). The RO covers an area within a radius of about 5 km and required support for compulsory group training (CGT), group recognition test (GRT), centre meetings, disbursements, and collections is extended by the GLB under a shared agreement with MML.

Cash handling including disbursements are handled by MFL staff; the process has in-built checks and balances to minimise possibility of ghost / fake loans. MFL's branches are equipped with surveillance cameras for better monitoring. MML has commenced the practice of direct cash transfers to bank accounts of its borrowers at present.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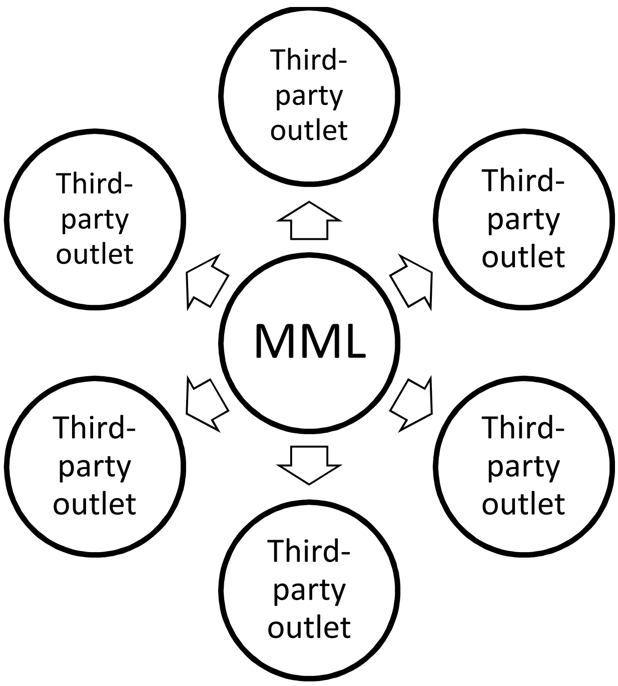
Proposed strategy

To ensure ring-fencing of operations, MML's management plans to significantly minimise the operational dependency on the gold loan branches. At present, MML is piloting alternative strategies such as cashless disbursement (direct account transfers) and enrolling third-party support for collections. The management expects that this strategy would also be beneficial while expanding in newer regions, particularly western and northern markets where the penetration of GLBs remains relatively low.

MML recently tied-up with a third-party service provider to enable collection. As per the agreement, the RO is provided with a QR scanned code (*which is pasted on the centre meeting scroll sheet*) and a mobile handset. During collections, the QR code is scanned by the RO, post which a system-generated message is sent to the branch and the head office (HO), notifying that collection for the respective centre has been completed.

Subsequently, the RO visits the nearest centre of the service-provider and deposits the collection, for which a written acknowledgement is obtained. The service provider transfers electronic (virtual) money to the RO's account, which is later transferred to MML's HO account. The deposit transaction requires authentication through a one-time password. Alternatively the service-provider's staff visits MML's branch. Branches and the HO are notified through a system-generated message, which also allows the BRM to cross-verify the actual collection against the scheduled demand. Though somewhat complex and time-consuming, the system provides for adequate checks for reconciliation, thereby minimising scope of frauds.



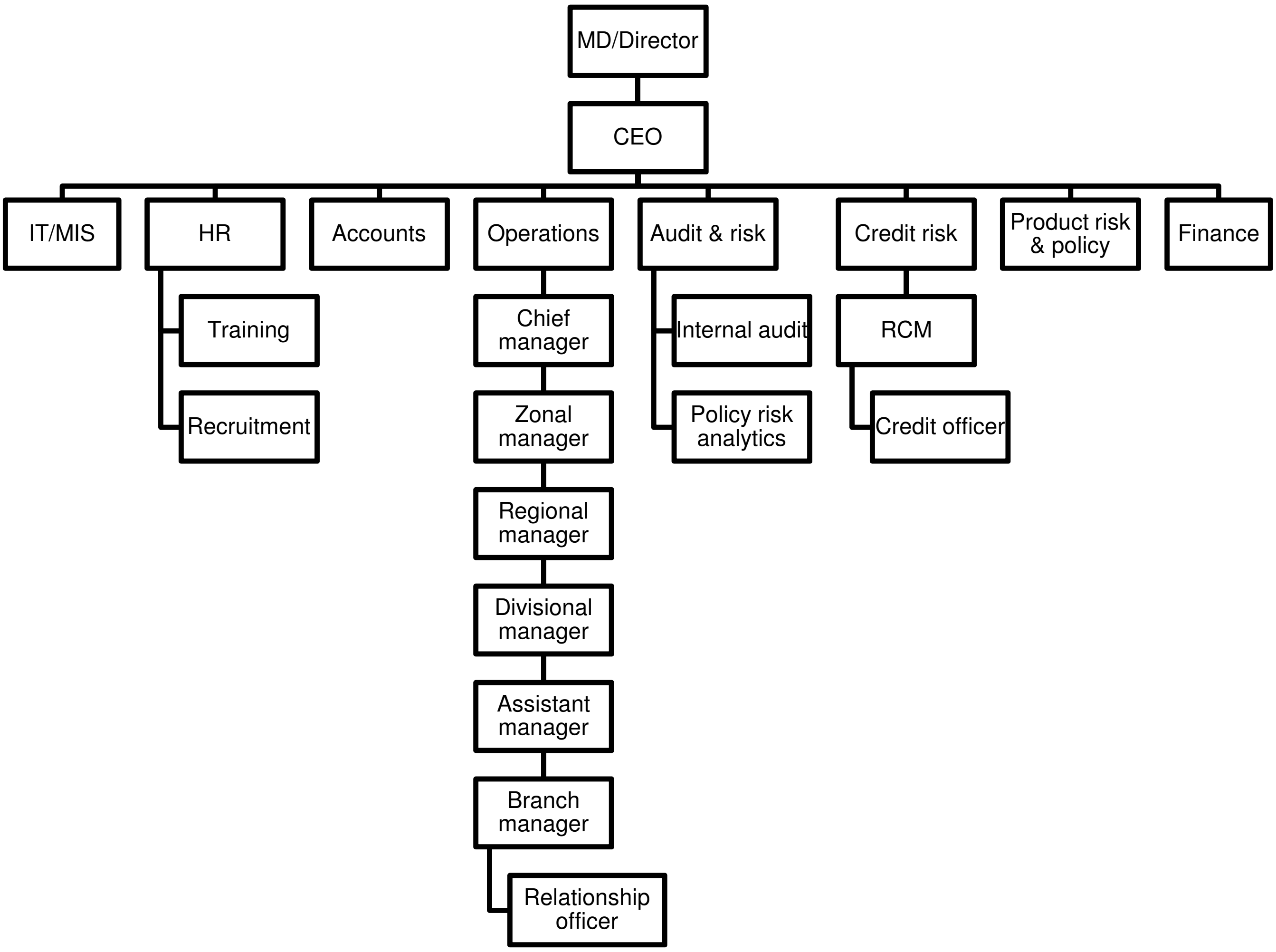
LOAN PRODUCTS

- Loans from Rs.10,000 to Rs.45,000 are disbursed for income-generating activities for up to 24 months, with weekly loan repayment.
- Loans up to Rs.20,000 are disbursed in the first loan cycle.
- The NBFC-MFI has tied up with Kotak Life Insurance, DHFL Pramerica Life Insurance, and IndiaFirst Life Insurance to offer credit insurance services to borrowers, for which it collects an insurance fee of Rs.8 per Rs.1,000 per annum.

Product type	Product name	Loan size (Rs.)	Tenure (months)	Repayment frequency	Interest rate (reducing) (%)	Processing fee (%)
Income generation loans	JLG loans	Rs.10,000 – Rs.45,000	12 – 24	Weekly	23.69	1.00
Water purifier loans	Individual loans	Rs.2,000-Rs.4,000	12	Weekly	23.69	1.00
Solar lantern loans		Rs.2,000-Rs.3,500	5-6	Weekly	23.69	1.00
Dairy loan		Rs.30,000 – Rs.50,000	24	Weekly	23.50	1.00
MSGB loan		Rs.25,000 – Rs.75,000	24	Weekly	24.00	1.50*
Mobile loan		Rs.2,000-Rs.4,000	12	Weekly	24.00	1.00
Sewing machine loan		Rs.6,000-Rs.10,000	12	Weekly	24.00	1.00
Induction stove combo		Rs.9,000-Rs.10,000	12	Weekly	24.00	1.00

** Loan processing fee is 1.00 per cent of total loan amount for existing client and 1.50 per cent for new client*

ORGANISATIONAL STRUCTURE



MANAGEMENT

A. Track record: Long institutional track record of the Muthoot group; the group's vintage in microcredit remains limited in relation to peers.

- MFL has been primarily active in commercial lending against gold. Its operations span 14-15 states. It commenced microcredit operations in 2010 as an extension of its existing business portfolio.
- As a business re-orientation strategy, the MMM's branches are being converted to MML. The existing portfolio of MMM in such branches will remain in its books of accounts till it completely runs down. Fresh disbursements in those converted branches are being undertaken by MML. Key outreach indicators of the group are:

As on / for the year ended February 28, 2017

	Districts	States	Members	AUM	Net income	PAT
	No.	No.	No.	Rs. Million	Rs. Million	Rs. Million
MML	111	9	10,08,416	15,795.90	2,135.64	305.38

- *The group has a long experience in catering to the bottom of the pyramid through various credit offerings. However, track record of the group, particularly that of MML, in undertaking exclusive microcredit operations in relation to peer MFIs is relatively limited. Moreover, the management's recent attempts to ring-fence MML's operations from that of its parent would require smooth transition of existing processes among the entities; efficacy of which would be evident over time.*

B. Product mix: Offers diversified credit products

- The NBFC-MFI offers a single loan product for undertaking income-generating activities. Dairy loan with higher ticket-size is offered to eligible borrowers. In order to augment fee-based income, MML started financing third-party products such as mobile handsets, water purifiers, and solar lights etc.
- It has tied up with Kotak Life Insurance, DHFL Pramerica Life Insurance, and IndiaFirst Life Insurance to offers credit insurance, life insurance, personal accident cover, medical insurance and critical illness cover services to its borrowers.
- The NBFC-MFI is yet to build a seasoned loan book for individual loans and occupation-specific loans. Rather MML supports its parent in promoting commercial loan products of the latter, wherein MFI borrowers with sound repayment track and demonstrating good potential to scale-up small business are referred for higher ticket loans to the parent.
- Thus, appropriate product development strategies and some diversification of the loan book, based on purpose, tenure and repayment frequency, so as to suit the borrower's requirements is the key.

C. Credit approval mechanism: Adequate

Credit approval mechanism	▪ Adequate field practices for area survey, group formation, disbursements, and recovery.

	▪ Decentralised. The branch manager has the authority to approve loans after undertaking due diligence.
Loan sanctioning authority	▪ Loans are approved at the branch level after verification of loan application form and KYC documents. The BM is the final approving authority for all loans after recommendation of the CO.
Collective group training (CGT) and Group recognition test (GRT)	▪ The RO conducts 3 day CGT sessions of about an hour to explain the MFI’s policy, loan products, repayment details, member and group discipline, responsibility of group leader, centre meeting procedure and seating pattern, among others. ▪ A GRT is conducted to check the understanding of members. However, the NBFC-MFI does not maintain any form/document for CGT and GRT. The CO is a part of the team which undertakes GRT and is independent of branch reporting; this reporting structure is aimed at creating a maker checker system at the branch level.
House verification	▪ Undertaken by the CO
Credit information company (CIC) tie-up	▪ MML has tied up with High Mark and Equifax to verify the credit history of potential borrowers while also sharing outreach details.
Disbursements	▪ In cash at branch offices of its parent, MFL. ▪ MML, however, has started online disbursements post demonetisation, involving direct fund transfer to the borrower’s bank account. This process is expected to be implemented across all branches over the medium term for which MML has tied up with two commercial banks.
Loan utilisation checks (LUCs)	▪ Undertaken by the BRM and random checks are conducted by the area manager. ▪ Internal audit and risk team also conducts loan utilisation during surprise visits. ▪ MML’s operating region including areas where it plans to expand, carry in-built risk of financing to already overleveraged households, many of which have borrowed from informal sources and remain outside the purview of any formal credit database. In the absence of stringent

	monitoring on loan utilisation checks (LUCs), the possibility of diversion of funds towards non-income-generating activities may remain unchecked.
Collections	▪ Weekly. At the centre meetings and later deposited at MFL's branches
D. Documentation	
Loan application agreement	**Captures** ✓ Client's demographic profile and KYC details (Aadhaar card, voter ID card, ration card, and bank passbook – any two documents) ✓ Family details ✓ Occupation, monthly income, and present sources of credit ✓ Monthly obligations ✓ Landholding details ✓ Purpose for availing loan ✓ Self-certification on indebtedness and veracity of information
Documents collected	✓ KYC - Valid ID proofs (borrower and guarantor) ✓ Declaration of self-indebtedness ✓ Letter of acceptance of terms and conditions
Loan card/passbook	**Disclosures:** ✓ Name of village/branch and group number ✓ Type and purpose of loan ✓ Address / location details ✓ Name of member (and guarantor) and occupation ✓ Interest rate (on a reducing basis) ✓ Loan date (sanction and disbursement date) and amount ✓ Loan tenure ✓ Insurance premium ✓ Amortisation schedule (principle and interest amount separately) ✓ Complaint resolution and grievances ✓ Additionally, term and conditions of the loan sanction capture following details: o Loan processing fees ✓ Interest rate

Policy manuals	✓ Human resources (HR) ✓ Programme operations ✓ Accounts, cash management, and finance ✓ Internal audit and risk management ✓ MIS and IT
Documents/ registered maintained	✓ KYC documents and loan application form ✓ Staff meeting register ✓ Inward/ outward register ✓ Asset register ✓ Field movement register ✓ Staff vehicle register ✓ Attendance register ✓ Visitor register ✓ Loan utilisation check documents
E. Management information systems (MIS) and information technology (IT)	
1) MIS	
MIS platform	▪ The NBFC-MFI has web-based software with user-defined rights, which enables branches to generate scroll sheets (demand and collection sheets) and various reports including portfolio at risk (PAR) statements, as well as disbursement, arrears and cash management reports respectively. ▪ The back-end IT platform of MML is integrated with that of its parent, MFL. This allows the latter's staff to quickly process collections and few other daily transactions on behalf of MML. ▪ The software does not have inbuilt fields to capture and report certain consolidated reports. However, these can be generated upon request through the support of the back-end IT team. CRISIL, however, believes that with growth in size and operations, the MIS has scope for upgradation on this aspect. ▪ To strengthen its processes and systems, monitoring mechanism and turnaround time, the NBFC-MFI plans to implement mobile-based application to track CGT/GRT, staff movement and disbursement at branch offices. Currently,

	the MFI is piloting an android-based application in a few operational areas. ▪ The NBFC-MFI, though dependent on its parent for collection and disbursement at the MFL branch, is piloting alternative models such as availing third-party collection services in a few operational areas.
MIS features	**a) User interface** ▪ User-friendly interface has standardised reporting formats for capturing field data. ▪ The NBFC-MFI is yet to merge the database of its previous portfolio (under MFL) with the current microcredit operations (under MML), which constraints its reporting ability in a time-bound manner. **b) Report generation and portfolio tracking** ▪ Software is able to generate function-wise/activity-wise reports. However, it has limited ability to generate consolidated reports. **c) Functional integration** ▪ The MIS platform is not yet integrated with other business functions such as accounting and finance.
Updating of KYC and entry of operational data	▪ Decentralised at branches
Reconciliation of collections and disbursements (at the HO)	▪ Reconciliation issues: Collections are initially updated in MFL's server and later in MML's server. This activity is time-consuming and prone to duplication. Moreover, though the servers of MFL and MML are integrated, MML does not have ready access to the significant database of loans extended by MFL over the past 5-6 years. Hence, MML undertakes *de-dupe* checks to assess an individual borrower's credit history and to cross-verify whether his/her name appears in the database of its parent. While this practice suffices from a credit perspective, it limits MML's ability to offer other services such as non-credit offerings.
2) Information technology – average; is in the process to automate field level operations	
	A) **Extent of automation:**

IT automation for field operations and portfolio tracking	▪ Manual collection process ▪ Daily collection figures are updated in the MIS at MFL branch. These entries are then checked at the HO. In case any modifications are required, rectification is done at the HO level. ▪ However, the NBFC-MFI is piloting an android-based application for a few areas as part of efforts to automate the process.
	B) Portfolio tracking ▪ Portfolio is tracked daily at the HO level through a web-based loan tracking software that is integrated with the MIS platform
Security mechanisms	
Data back-up and recovery	▪ Regular data back-up, stored on remote server
Client data privacy / Branch controls on access to and updation of client data	▪ Restricted user rights at branch level; however, branches are able to track portfolio and other operational details of other branches
F. Internal audit and risk monitoring mechanisms: Average for current size of operations; yet to strengthen risk management function	
Team size	▪ Dedicated in-house team of 144 members who report to the deputy VP-Audit. The company has also appointed internal audit firm Thomas Jacob and Company for undertaking internal audit. Likewise, the internal audit of the parent is undertaken by JVR & Associates.
Frequency	▪ Bi-monthly branch audit
Process, documentation, coverage and scope	▪ Internal audit (IA) is carried out extensively for about 10 days per branch, covering review of field and branch office operations. **At field:** ▪ Customer selection ▪ CGT/GRT ▪ Centre meetings ▪ House-verification /LUC ▪ Loan cards ▪ Pre-closures, ghost loans, and overdue

	▪ Cross-product verification ▪ Centre meeting documentations **At branches:** ▪ Registers maintained ▪ Fair practice code ▪ Loan documents and timeliness of data updation ▪ Loan sanctions and disbursement details ▪ Loan application form details and KYC ▪ Branch performance IA team assigns ratings to field staff and branches, based on various parameters. However, the parameters of evaluation of each branch, as well as field staff needs to be strengthened and linked for better assessment.
Compliance / action-taken reports	▪ Not available at branches ▪ IA team sends the audit report to the branch, which has to be resolved within 15 days and sent back to the quality check (QC) team. *CRISIL opines that the compliance report needs to be strengthened, in terms of detailed description of action against the audit points.*
Risk mechanisms	▪ Apart from internal audit, the NBFC-MFI has a dedicated four-member risk team which visits the field and interacts with the borrowers, and broadly covers operational risk and analysis over productivity indicators, delinquency and employee attrition rate. ▪ Size of risk team has recently increased. It submits quarterly reports related to client and the RO and monthly risk score branch-wise. ▪ The attendance level at few centre meetings visited by CRISIL's team remained low at 60-70 per cent. Strengthening group discipline on the field to have better monitoring mechanisms is key grading sensitive factor. ▪ The risk management function has scope for strengthening in terms of capturing operational risks and their analysis in a more granular manner.

G. G) Cash management: Adequate	
Cash management policy	▪ Cash management policy is in place. ▪ Collections are deposited in the MFL branch on the same day.
Maximum cash balance policy	▪ As a policy, the NBFC-MFI does not maintain day-end cash at its branches
Cash deposit policy	▪ Collections are deposited in the MFL branch on the same day by the RO and scroll sheet copy is submitted to the concerned MFI branch and deposited at the MFL branch.
Cash movement	▪ Inter-branch cash transfers – None
Cash security	▪ Lockers and vault – Yes ▪ Surveillance cameras – None
Adherence at branches	▪ Compliant *At branches visited, CRISIL observed that collections are deposited in the MFL branch/Vodafone outlets daily and no cash balances were maintained at the branches. This policy not only reduces idle cash float but also mitigates risks arising from maintaining day-end cash at branches.*
H. HR management: Adequate	
HR department	▪ MML has a dedicated HR department with 24 members at the HO with well delineated policies for recruitment, selection and training.
Recruitment strategies and process	✓ Internal referrals ✓ Advertisements in local newspapers
Staff training	✓ **In-house:** The NBFC-MFI has a training team of 22 members and also maintains an exclusive training centre for its employees. o **Refresher training:** The NBFC-MFI conducts refresher training and audit-related training on quarterly basis for new and old employees. ✓ **On-the-job training:** Employees are sent to the branch to get practical exposure. ✓ **External training:** The NBFC-MFI arranges soft skill training by external experts for its staff at regular intervals.
Attrition rate during past one year	▪ Attrition rate of around 20-22 per cent. However, significant number of the staff have joined during this year.

	▪ Several staff members from MFL have also been transferred to MML in the recent past.
Percentage of woman staff	▪ Significantly low at around 3 per cent against peer MFIs.
Employee benefits	▪ Employees receive benefits such as employee provident fund, productivity-linked incentives, vehicle loans, gratuity, and medical insurance, which varies based on employee rank and salary.
Employee grievance	▪ Has formulated an employee grievance policy, managed by HR personnel. ▪ MML has staff transfer, travel and incentive policies, among others, which are key grading sensitive.

INSTITUTIONAL ARRANGEMENT

A) Ownership structure and governing board	
Board profile	▪ The NBFC-MFI has a 6-member board with significant experience in banking and finance. The promoters also have extensive experience in retail lending, microcredit, and micro-saving businesses. ▪ Key managerial personnel have been seconded on the governing board of MML. ▪ *CRISIL opines that the organisation could benefit from a larger representation, with microfinance experience and independent members, to ensure best industry practices.*
Board meetings	▪ Quarterly
Profile of senior management	▪ Senior management has adequate experience in banking, strategy, and microfinance operations. ▪ Has a well-structured organisational hierarchy that clearly delineates roles and responsibilities in each vertical. It also has an experienced and well-qualified mid-management which includes regional managers, zonal managers, and support staff responsible for expansion and quality of operations at the local level. *CRISIL believes MML will continue to benefit from its experienced management over the medium term. However, there is scope for strengthening of the board profile.*
Decision making	▪ Centralised with governing body and senior management.
Support from parent company	▪ MML's microfinance programme is backed by financial and technical support of its parent. Its operations tend to benefit in terms of area selection and branch establishment where the parent already has a presence with its retail lending network. Moreover, the strategy has revolved around establishing branches within the operational vicinity of its parent's branch network. Accordingly, shared arrangements on staff transfer, technology platform, and branch infrastructure have enabled the subsidiary to quickly expand its operations. ▪ MML is expected to continue to benefit from the parent's capital support on strategy matters. However, its standalone expansion in newer and existing regions while ensuring the adequacy of robust systems and processes remains a grading monitorable.
B) Management practices, goals, and strategies	

Planning / budgeting / performance review	▪ Average. Strategic goals are laid out and disseminated to staff through timely, internal meetings. ▪ Board meetings focus on review of operational performance and financials. However, these reviews do not include audit and risk management, process improvement, and social performance data tracking. ▪ There is a dedicated internal audit department in place to identify gaps in processes. However, there is scope to further strengthen monitoring and controls.
Committees	▪ Audit committee ▪ Nomination and remuneration committee ▪ Asset liability management committee ▪ Risk management committee
Accounting policies	▪ As per accepted accounting standards • **Income recognition:** o Interest income on MFI loans: Accrual basis o Interest income on deposits with banks: Accrual basis o Loan processing fees: Upfront (when collected from members) o Other income: Accrual basis • **Others:** o Borrowing cost: Over loan tenure
Disclosure	▪ Adequate public disclosure through annual reports, newsletters, CSR magazines, and websites
Audit report	▪ No adverse comments or qualifications issued by statutory auditors
Auditors/ change in auditors, if any / rotation policy	▪ Audit firm - Walker Chandiok & Co LLP, Kochi ▪ The NBFC-MFI is yet to formulate an auditor rotation policy.

BOARD OF DIRECTORS (AS ON DECEMBER 31, 2016)

Name and designation		Profile
Director	Mr. George Lamannil	▪ Over 3 decades banking and financial experience ▪ Degree in economics and law from University of Mumbai, Diploma in commodities markets ▪ He has worked with BNP Paribas in India as director and legal head. Joined MPG as group executive director and general counsel ▪ He is a visiting lecturer at various institutes.
Director	Mr. Kenneth Dan Vander Weele	▪ Over 42 years of experience ▪ Bachelor of business administration degree from the University of Wisconsin in Madison and a PhD from the Open University, UK
Independe nt director	Mr. Sabu Zacharias. K	▪ MCom ▪ Started his career with MPG in 1989 and has worked in different roles. He is currently AVP of MPG, and heads the chits division
Independent director	Mr. Maneesh Srivastava	▪ BTech from National Institute of Technology, Bhopal, and MBA from Faculty of Management Studies (FMS) ▪ He has worked with various organisations including HSBC and Tata Group ▪ Currently, he is CEO of Muthoot Housing Finance Company Limited
Additional director	Mr. Thomas Muthoot John	▪ Over 6 years of experience ▪ Bachelor of Economics, University At Madras, Loyola College, Chennai
Additional director	Mr. Keyur Chandrakant Shah	▪ Over 20 years of experience ▪ Bachelor’s degree in Electronics Engineering and an MBA in Marketing

SENIOR MANAGEMENT TEAM

Name and designation		Profile
Mr. Sadaf Sayeed	Chief executive officer	▪ BCom, MBA ▪ He has about 14 years' experience in banking and finance He has worked with various organisations including HDFC Bank and GE Money, in various roles ▪ He is associated with MFL's lending business ▪ He has also been associated with group's microcredit operations since its inception.
Mr. Subhransu Pattnayak	VP - HR strategy	▪ BSc, MBA ▪ Around 9 years of corporate experience with banks and financial institutions ▪ He has been associated with MML from July 2012
Mr. Udeesh Ullas	VP - Operations	▪ MCom ▪ About 11 years' experience in retail banking and microfinance ▪ He has been associated with MPG for 8 years
Mr. Praveen T	Chief financial officer	▪ BCom and CA ▪ About 5 years of relevant experience ▪ He has been associated with MML for 3 years

CAPITAL ADEQUACY & ASSET QUALITY

A) Capital adequacy: Improved capitalisation levels; mobilising adequate equity over the near term remains critical to maintain capital ratios and meeting growth projections

	As on February 28, 2017
Tangible net worth (TNW)	Rs.1,897.19 million
Debt / TNW	4.42 times
Capital to risk adjusted ratio (CRAR)	26.03 per cent*

**as on December 31, 2016*

Capital composition (%)

	Feb-17	Mar-16	Mar-15
Capital (including share premium)	78.6	86.7	104.3
Profit reserves (adjusted for miscellaneous expenditure not written off)	21.4	13.3	-4.3
Total	**100.00**	**100.00**	**100.00**

- MML's net worth improved to Rs.1,897.19 million as on February 28, 2017, from Rs.691.81 million as on March 31, 2016. It comprises capital of around 79 per cent with share of profit reserves constituting the remaining. Capital adequacy ratio (CAR) improved from 15.16 per cent as on March 31, 2016, to 26.03 per cent as on December 31, 2016, and remains higher than the regulatory requirement of 15 per cent.
- During 2016-17, the company raised additional equity amounting to Rs.900 million including compulsorily convertible preference shares (CCPS) of Rs.500 million from Creation Investments India LLC. Creation Investments India LLC, a social investor, owns a 4.95 per cent stake in the company. With a relatively long term investment horizon, it has strategically stepped up its stake in the MFI reflecting a strong commitment towards its investment in MML. The company expects another round of equity investment from the investor amounting to Rs.800 million in 2017-18.
- While the capitalisation levels of MML remain adequate for near-term growth, capital infusion at regular intervals remains critical in order to meet optimistic growth projections. The MFI, however, does not plan to raise tier-II capital from external sources.

B) Asset quality: Key monitorable in lieu of demonetisation and recent farm loan waiver; geographic concentration remains high

Trends in asset quality (key indicators)	***Particulars***	**Feb-17**	**Jan-17**	**Dec-16**	**Nov-16**	**Mar-16**	**Mar-15**

On-time repayment (%)	94.2	94.7	95.4	89.5	99.99	100.00
Portfolio at risk 0-30 days (%)	3.7	2.8	3.6	10.2	-	-
Portfolio at risk > 30 days (%)	2.1	2.5	1.0	0.3	0.01	-
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

State-wise portfolio concentration (As on February 28, 2017)

State/UT	Portfolio (Rs. Million)	Portfolio concentration (%)	PAR>30 days/TNW (Times)
Karnataka	1,004.41	6.6	0.06
Maharashtra	247.67	1.6	0.02
Tamil Nadu	6,490.15	42.5	0.04
Uttar Pradesh	9.27	0.1	-
Haryana	23.44	0.2	-
Gujarat	505.41	3.3	0.01
Kerala	6,845.67	44.9	0.05
Goa	4.04	0.0	-
Odisha	130.23	0.9	0.01
Madhya Pradesh	13.38	0.1	-
Total	**15,260.28**	**100**	**0.17**

Month-wise trends in asset quality

Month/Year	Regular (%)	PAR> 30 days (%)	PAR> 60 days (%)	PAR> 90 days (%)
Mar-15	100.00	-	-	-

Mar-16	99.99	0.01	-	-
Sep-16	99.80	0.1	0.1	-
Nov-16	99.40	0.3	0.2	0.1
Dec-16	98.6	1.0	0.2	0.2
Jan-17	96.6	2.5	0.7	0.2
Feb-17	96.6	2.1	1.0	0.3

- Post demonetisation (November 8, 2016), players in the microfinance industry have witnessed a drastic drop in collection efficiency led by a combination of factors; a few of which include ban on high-value currency impacting immediate liquidity required to meet debt obligations and other household obligations, besides a sharp reduction in cash flow from income-generating activities as a result of stagnation in economic activities on account of the cash crunch.
- While MML historically reported on-time repayment of nearly 99 per cent which was in line with industry trends, its asset quality deteriorated sharply post demonetisation. The PAR>30 days increased to over 2 per cent as of January 2017 from nearly 0.01 per cent as of March 2016.; the top 3 states - Tamil Nadu, Karnataka, and Kerala accounted for 94 per cent of overall AUM.

Overall PAR position as of Feb-17	PAR (Rs. Million)	Par/TNW (Times)
PAR>30 days	329.05	0.18
PAR>60 days	150.89	0.08
PAR>90 days	44.90	0.02

- CRISIL believes that the company’s collection efficiency remained above average in relation to several of its similar-sized peers, so there was less impact on its asset quality and PAR trends post November 2016. For instance, collection efficiency for regular portfolio dropped slightly from around 99 per cent as of September 2016 to around 96 per cent as of February 2017. Weak collection rates in Tamil Nadu, Kerala, and Karnataka contributed to the lower collection efficiency.
- The government’s decision of demonetizing high value currency notes (HCVN) adversely impacted the portfolio quality of players in the microfinance sectors. As per RBI, microfinance institutions have been facing issues in collections from clients owing to currency shortage. In December 2016, on time repayment reduced to ~80 per cent of demand. While the situation has improved gradually, collection efficiency of certain players operating in states of Tamil Nadu, Maharashtra, Karnataka, and Uttar Pradesh remains under stress thus posing a risk to their quality of portfolio and

<table>
<tr><td></td><td>in turn capitalisation levels. Moreover, loans to MFI clients are largely disbursed in cash; low availability of liquid cash in the post-demonetization period led to a sharp decline in loan disbursements compared to monthly average disbursals during April-October 2016. CRISIL believes that the credit profile of players with high exposure to these states remains under stress
• In addition, farm loan waivers being announced by few states government owing to agriculture distress and crop failures may alter the credit discipline. Cohesiveness of JLGs and allied credit culture is a critical component impacting timely loan repayments, such risks emanating from political sensitivity may have negative implications of portfolio quality of MFIs.
• State-specific issues such as the impact of drought-prone conditions in Tamil Nadu which contributes to nearly 43 per cent of the company's loan book, and also a significant portion of recent PAR>30 days, remain key sensitive factors.</td></tr>
<tr><td>Credit insurance</td><td>• Tie-ups with Kotak Life Insurance, DHFL Pramerica Life Insurance, and IndiaFirst Life Insurance covers borrowers (and their spouses) for an amount equal to the loan sanctioned.</td></tr>
<tr><td>Loan loss provisioning</td><td>
<table>
<tr><th>Asset classification</th><th>RBI guidelines</th><th>Muthoot's policy</th></tr>
<tr><td>Standard assets</td><td>Current loans and arrears up to 90 days</td><td>0-90 days</td></tr>
<tr><td>Sub-standard assets</td><td>91 to 179 days</td><td rowspan="3">More than 90 days (classified as NPA)</td></tr>
<tr><td>Doubtful assets</td><td>180 days and more</td></tr>
<tr><td>Loss assets</td><td>-</td></tr>
<tr><th>Provisioning norms</th><th>RBI guidelines</th><th>Muthoot's policy</th></tr>
<tr><td>Standard assets</td><td>1 per cent of overall portfolio reduced by provision for NPA</td><td rowspan="4">1 per cent of outstanding portfolio</td></tr>
<tr><td>Sub-standard assets</td><td>50 per cent of instalments overdue</td></tr>
<tr><td>Doubtful assets</td><td rowspan="2">100 per cent of instalments overdue</td></tr>
<tr><td>Loss assets</td></tr>
</table>
</td></tr>
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Portfolio concentration (% to AUM)

		As on February 2017
Single state	43.3	Kerala
Top 2 states	84.4	Kerala and Tamil Nadu

Top 3 states	94.1	Kerala, Tamil Nadu, and Karnataka
Single district	10.0	Thiruvananthapuram

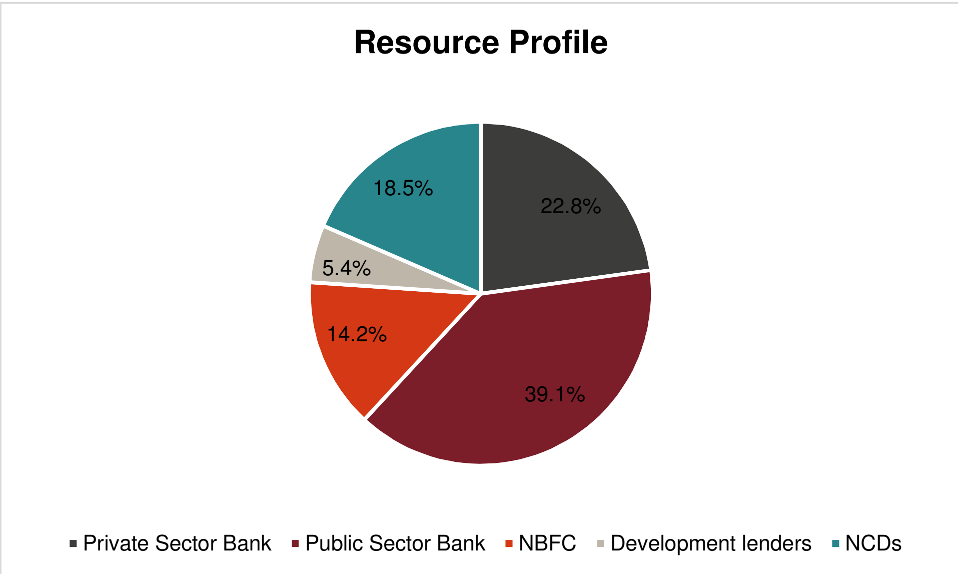
- Addressing high geographic concentration is a key grading monitorable for MML in light of potential risks, which may undermine asset quality. Moreover, CRISIL believes that high geographic concentration, particularly for players with operations saturated in contiguous districts, is a key grading sensitive, given that any event risk could weaken asset quality and, in turn, capitalisation levels.
- The management expects that there would not be any severe impact on its asset quality due to demonetisation and hence there will not be requirement of maintaining additional provisioning. The PAR>30 days as on latest month (February 2017) is below 2.5 per cent of the total portfolio.
- There has been a sudden deterioration in the portfolio quality in Q3 2016-17. Portfolio at risk (PAR) 30 has increased to 7.52 per cent from under 1 per cent in previous quarters. This abnormal increase in PAR is attributed to lower recoveries post demonetisation on November 9, 2016, which resulted in shortage of cash and had a related adverse impact on the income and livelihoods of low-income households.

RESOURCES AND ASSET-LIABILITY MANAGEMENT (ALM)

A) Resource profile: Diversified **As on Mar 31, 2017**

Resource profile	%
Private sector banks	23
Public sector banks	39
NBFCs	14
NCDs	19
Development lenders	5
Total	**100**

- As of March 31, 2017, MML borrowed from about 36 institutional lenders.
- Limited single lender concentration: As of Mar-17, the top lender, Union Bank of India, accounted for about 14 per cent of overall borrowings. Wholesale bank funding accounted for nearly 62% of the outstanding resource profile.



- MML has been able to raise funding without any guarantee of support from its parent. Capital constraints limit MFL's ability to extend guarantee support to MML, which constrains the subsidiary's fund-raising ability to an extent. This highlights the importance of MML's proposed capital raising plan which could better its fund raising ability. The management, however, does not plan to pursue the BC route for tapping resources in the medium term.

B)

Collection frequency	• Weekly
ALM and liquidity profile	▪ The NBFC-MFI is not susceptible to any immediate liquidity pressures arising out of fund mismatch. On average, the loan tenure is between

	1-2 years, while external borrowing has a repayment tenure of over 2.5 years. ▪ As a policy, MML maintains liquid assets of 15-18% of its total asset size (nearly 1 month of operational expenses) as contingency buffer. • The company had free cash balance of Rs.3,000 million as on March 31, 2017, out of which Rs.2,980 million represents unavailed bank sanctions. Moreover, the company also plans to raise Rs.4,000 million from State Bank of India and Indian Bank through direct assignment route.

BORROWING PROFILE AS ON MARCH 31, 2017

Name of the lenders/bankers to the microfinance programme	Interest (%)	Sanctioned amount (Rs. Million)	Availed amount (Rs. Million)	Outstanding amount (Rs. Million)
Axis Bank	12.50	200.00	200.00	100.00
Bank of Baroda	11.35	500.00	-	-
Bank of India	11.00	250.00	-	-
Bank of Maharashtra	11.95	250.00	250.00	146.50
Bandhan Bank	13.00	250.00	250.00	250.00
Catholic Syrian Bank (I)	13.00	150.00	150.00	114.30
Catholic Syrian Bank (II)	12.00	150.00	150.00	126.80
Capital First	13.25	500.00	500.00	437.50
DCB Bank	11.50	150.00	150.00	136.40
Dhanalaxmi Bank (I)	12.65	100.00	100.00	50.00
Dhanalaxmi Bank (II)	12.65	150.00	150.00	127.80
Federal Bank (I)	12.50	100.00	100.00	64.30
Federal Bank (II)	12.50	50.00	50.00	36.80
Hero Fincorp	12.50	250.00	250.00	237.60
HDFC Bank	12.00	250.00	100.00	40.00
IDFC	11.40	600.00	-	-
IDBI (I)	12.75	400.00	400.00	204.50
IDBI (II)	11.50	500.00	-	-
IndusInd Bank	12.50	500.00	500.00	500.00
IFMR (I)	13.70	340.00	340.00	21.00
IFMR (II)	13.00	140.00	140.00	24.70
Kotak Mahindra Bank	11.50	250.00	-	-
Lakshmi Vilas Bank (I)	12.25	150.00	150.00	113.50
Lakshmi Vilas Bank (II)	11.30	500.00	500.00	500.00
Mahindra Finance	11.75	500.00	500.00	458.60
NABFIN	13.50	100.00	100.00	100.00
Oriental Bank of Commerce	11.60	500.00	300.00	300.00
Reliance Capital (I)	14.35	500.00	500.00	15.30
Reliance Capital (II)	13.25	295.00	295.00	251.10
SIDBI	11.65	500.00	500.00	500.00
South Indian Bank	12.55	250.00	250.00	136.40
State Bank of India	13.05	400.00	400.00	88.30

State Bank of Patiala	11.70	250.00	-	-
State Bank of Mauritius	10.75	200.00	200.00	200.00
State Bank of Travancore	13.15	300.00	300.00	210.00
Syndicate Bank	11.40	500.00	500.00	500.00
Tamilnad Mercantile Bank	12.65	100.00	100.00	72.20
Tata Capital	12.60	150.00	150.00	125.00
Union Bank of India (I)	12.15	250.00	250.00	159.70
Union Bank of India (II)	12.15	200.00	200.00	172.20
Union Bank of India (III)	12.30	500.00	500.00	486.10
Union Bank of India (IV)	11.25	750.00	721.20	721.20
United Bank of India	12.50	100.00	100.00	92.00
Vijaya Bank (I)	11.50	250.00	250.00	93.70
Vijaya Bank (II)	11.80	500.00	500.00	450.00
Vijaya Bank (III)	11.60	500.00	500.00	500.00
Yes Bank (I)	12.00	250.00	250.00	156.20
Yes Bank (II)	11.25	250.00	-	-
NCD Blue Orchard	13.00	1,400.00	1,400.00	1,400.00
NCD IFMR Capital	12.00	250.00	250.00	250.00
NCD HLF	12.00	400.00	400.00	400.00
Total		**16,825.00**	**13,846.20**	**11,069.70**

OPERATIONAL EFFECTIVENESS

Muthoot Microfin Limited

Outreach summary for the period ended / as on end	**Unit**	**Feb-17**	**Mar-16**	**Mar-15**
Members	No.	10,08,416	3,95,583	46
Borrowers	No.	7,13,420	2,94,803	46
Branches	No.	369	180	1
Districts	No.	111	47	1
Women borrowers	%	100.00	100.00	100.00
Disbursements	Rs. Mn	17,159.80	7,650.80	0.89
AUM*	Rs. Mn	15,795.90	6,530.37	0.90

**including managed portfolio*

Human resource and productivity indicators as on end	**Unit**	**Feb-17**	**Mar-16**	**Mar-15**
Total employees	No.	4,461	1,211	4
Relationship officers	No.	3,509	940	1
Relationship officers/Total employees	%	79	78	25
AUM/relationship officer	Rs. Mn	4.50	6.95	0.90
AUM/branch	Rs. Mn	42.81	36.28	0.90
Borrowers/relationship officer	No.	203	314	46
Borrowers/members	%	71	75	100
Borrowers/branch	No.	1,933	1,638	46

- The loan portfolio of the company increased to Rs.15,795.90 million as on February 28, 2017, from Rs.6,530.37 million as on March 31, 2016. The company added 189 branches and expanded into 64 new districts during the same period.
- Trends in the company's field productivity indicators are as follows:
  - Average disbursement per borrower decreased to around Rs.24,0523 in February 2017 from around Rs.25,952.25 in 2015-16. Similarly, AUM/branch improved to around Rs.42.81 million as on February 2017 from around Rs.36.28 million as of March 2016. Similarly, AUM/credit officer decreased to Rs.4.50 million as of February 28, 2017, from Rs.6.95 million as of March 31, 2016.

- Borrowers/branch increased to 1,933 as of February 2017 from 1,638 as of March 2016.

- Its profit after tax (PAT) improved to Rs.305.38 million as of February 28, 2017, from Rs.94.10 million in 2015-16 following sizeable growth in loan book leading to higher interest income. Opex ratio remained low at around 4.62 per cent for 2015-16. The company clocked an operational self-sufficiency of around 139 per cent as on March 31, 2016.

SCALABILITY AND SUSTAINABILITY

- The MFI industry witnessed a healthy compound annual growth rate (CAGR) of over 40 per cent during the past 3 years (2013-15). The timely issue of directives from the RBI, award of universal banking licence to a major MFI player and differentiated banking licences to a few MFIs, and establishment of the MUDRA Bank are expected to strengthen stakeholder confidence in the sector further.

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

**Includes NGO-MFIs which typically account for around 15 per cent of industry AUM*
Bandhan has not been reckoned since September 2015 quarter as it no longer operates as a NBFC-MFI

- The competition in the small ticket-lending segment is set to intensify with 10 small banks expected to commence operations in the near term. The competitive landscape and business modality of individual players would alter since small banks can have diverse financial offerings such as savings, deposits, remittances, and higher ticket loans. Payment banks, besides accepting deposits would largely focus on remittances and cross-distribution of financial products.
- MML has above average capitalisation levels in relation to its peers. Moreover, it has demonstrated adequate capital-raising ability in the past. CRISIL opines that improvement in capitalisation levels remains critical for accessing low-cost wholesale bank borrowings.
- The company has a well-diversified board and experienced and professional senior management. Its second-line management team, too, has a long association with the organisation. These factors, too, have positively contributed in maintaining stable and sustainable scalability.
- MML's key challenges include:
    - High geographic concentration of loan portfolio
    - Average earnings profile
    - Asset quality remains key monitorable in lieu of demonetisation and recent farm loan waiver
- *CRISIL believes that the company's ability to scale up sustainably would depend on how it addresses these issues, including its ability to geographically diversify its operations.*

FINANCIAL INDICATORS

Income and expenditure statement **Rs. Million**

For the period ended	Mar-19	Mar-18	Mar-17	Feb-17	Mar-16	Mar-15
	Mgt. Proj.			Provisional	Audited	
Fund-based income						
Interest income from loans	5,678.00	3,344.00	2,421.87	1,156.66	381.13	0.04
Income from investments/bank deposits	-	-	-	47.43	10.60	3.76
Gain on assigned portfolio	-	-	-	663.17	31.62	-
Other fund-based income	-	-	-	0.03	-	-
Total fund based income	**5,678.00**	**3,344.00**	**2,421.87**	**1,867.29**	**423.35**	**3.80**
Interest and finance charges	2,688.98	1,701.59	701.92	691.96	210.45	-
Gross spread	**2,989.02**	**1,642.41**	**1,719.95**	**1,175.33**	**212.90**	**3.80**
Fee based income	2,115.47	1,672.20	6.00	268.35	98.21	-
Total income	**7,793.47**	**5,016.20**	**2,427.87**	**2,135.64**	**521.56**	**3.80**
Gross surplus	**5,104.49**	**3,314.61**	**1,725.95**	**1,443.68**	**311.11**	**3.80**
Personnel expenses	1,547.31	1,193.83	713.00	578.62	83.34	0.87
Administrative expenses	380.88	375.20	337.55	341.85	38.43	5.18
Total expenses	**1,928.19**	**1,569.03**	**1,050.55**	**920.47**	**121.77**	**6.05**
Write-offs and provisions	-	-	-	-	-	-
Provision for loan loss	129.67	133.97	70.39	46.97	43.16	0.01
Depreciation	38.75	26.80	11.73	9.34	0.17	0.03

Profit before tax	**3,007.88**	**1,584.81**	**593.28**	**466.90**	**146.02**	**-2.29**
Tax	1,069.43	563.59	208.86	161.52	51.91	-0.71
Profit after Tax	**1,938.45**	**1,021.22**	**384.42**	**305.38**	**94.10**	**-1.58**

Balance sheet **(Rs. Million)**

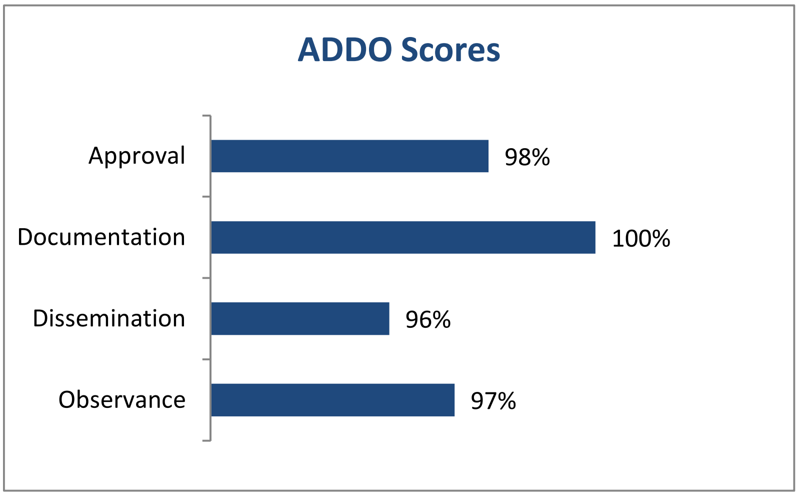
As at	Mar-19	Mar-18	Mar-17	Feb-17	Mar-16	Mar-15
Liabilities	Mgt. Proj.			Provisional	Audited	
Paid-up capital	2,724.00	2,424.00	1,424.00	838.52	600.00	55.00
Preference share capital				43.16		
Share premium	-	-	-	618.32	-	-
Reserves and surplus	3,462.00	1,523.00	502.00	317.25	91.81	-2.29
Special reserve	-	-	-	79.94	-	-
Miscellaneous expenditure not written off	-	-	-	-	-	-
Tangible net worth	**6,186.00**	**3,947.00**	**1,926.00**	**1,897.19**	**691.81**	**52.71**
Total borrowings (including managed Borrowings)	60,984.54	42,019.59	27,096.00	8,388.72	4,128.37	-
Borrowings (on-book)	**26,730.54**	**18,775.59**	**9,114.00**	**8,138.72**	**4,128.37**	**-**
Provision for loan loss	313.86	215.61	103.22	33.40	43.16	0.01
Other liabilities	2,565.29	1,925.90	1,362.68	752.51	415.74	0.16
Total current liabilities	**2,879.15**	**2,141.51**	**1,465.90**	**785.92**	**458.91**	**0.16**
Total liabilities	**35,795.69**	**24,864.10**	**12,505.90**	**11,071.84**	**5,279.09**	**52.88**
Assets						
Loans and advances (incl. managed portfolio)	65,640.54	44,805.35	28,305.00	9,012.97	4,316.37	0.85

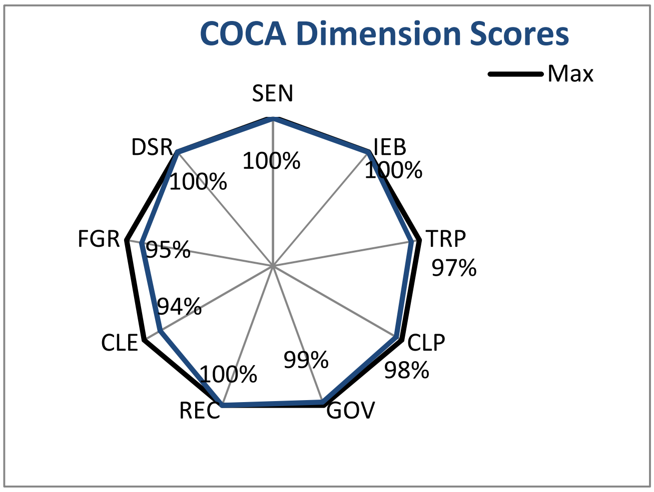
Loan portfolio (on book)	**31,686.54**	**21,561.35**	**10,323.00**	**9,012.97**	**4,316.37**	**0.85**
Cash & bank balances	2,555.16	1,817.45	991.57	1,005.58	220.17	15.71
Deposits with banks and other investments	-	-	-	253.50	538.59	33.66
Advance payment of tax	-	-	-	-	0.48	0.38
Interest accrued	-	-	-	-	150.06	0.67
Other assets & advances	1,711.75	1,368.48	1,104.60	737.98	30.44	1.60
Total current assets	**2,655.26**	**1,893.18**	**1,045.25**	**1,997.06**	**939.75**	**52.02**
Total funds deployed	**35,753.55**	**24,823.01**	**12,472.85**	**11,010.03**	**5,526.12**	**52.87**
Net fixed assets	142.24	116.82	86.73	55.29	22.98	0.01
Capital work-in-progress	-	-	-	6.52	-	-
Total assets	**35,795.69**	**24,864.10**	**12,505.90**	**11,071.84**	**5,279.09**	**52.88**

Key financial ratios **(In per cent)**

For the period ended March 31,	2019	2018	2017	Feb-17	2016	2015
Yield	**MFI's projections**			**Provisional**	**Audited**	
Fund-based yield	19.75	19.21	22.38	15.54	14.85	14.84
Portfolio Yield	21.38	20.89	24.98	17.36	17.66	9.09
Fee-based income/Avg. funds deployed	7.36	9.60	0.06	2.22	2.90	0.00
Total income/Avg. funds deployed	27.11	28.81	22.44	17.76	17.75	14.84
Cost of funds						
Interest paid/Avg. funds deployed	9.35	9.77	6.49	8.93	7.98	0.00
Interest paid/Avg. borrowings	11.82	12.20	8.00	11.06	10.20	-
Interest spread						
Spreads on lending	7.93	7.00	14.38	4.48	4.65	-
Overheads						
Operating expense ratio	4.47	5.66	6.86	11.88	4.62	23.62
Personnel expense ratio	5.38	6.86	6.59	7.47	3.16	3.40
Administrative expense ratio	1.32	2.15	3.12	4.41	1.46	20.22
Profitability						
Net surplus/Avg. net worth	38.26	34.78	20.34	23.59	25.28	-2.96
Net surplus/Avg. funds deployed	6.74	5.87	3.55	3.94	3.57	-2.99
Operational self sufficiency	133	125.56	118.81	127.98	138.88	70.59
Asset quality						
Provisioning/Avg. loan outstanding	1.18	1.35	1.06	0.50	2.00	2.00
Capitalisation						
Total debt/net worth (times)	4.32	4.76	4.73	4.42	5.97	-

Section 2: Code of Conduct Assessment





SEN: Sensitive indicators; IEB: Integrity and ethical behaviour; TRP=Transparency; CLP=Client protection; GOV=Governance; REC=Recruitment; CLE=Client education; FGR=Feedback and grievance redressal; DSR=Data security

Code of Conduct Assessment Summary

Muthoot Microfin Limited has adequate adherence to various code of conduct dimensions. A fair product code based on the RBI guidelines and industry code was formulated by MML and it has also trained its staff on the same. NBFC-MFI communicates product details such as interest rates to clients through trainings, branch display and documents. There is scope of improvement in terms of grievance redressal mechanism and client education regarding the products and services offered by the MFI. Moderate awareness was observed amongst the sampled clients on the products offered and terms and conditions of the loans.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
• MML provides training to its employees on a quarterly basis and the sampled employees displayed adequate levels of awareness about a majority of the parameters of the code of conduct. • The NBFC-MFI's fair practice code covers most of the code of conduct parameters such as disclosure, grievance redressal, internal control system, and employee behaviour. • The NBFC-MFI is a member of SRO. • The NBFC-MFI undertakes credit history checks through the RBI approved credit bureau. • MML's internal audit committee discusses the scope of the internal audit and reviews, and checks whether the changes suggested in the previous audit reports have been implemented by the branches.	• The board's review of regulatory guidelines and code of conduct practices has scope for improvement. • MFI is yet to formulate a detailed grievance redressal policy and maintain action taken reports on the complaints received from clients.

Significant observations

	Higher order indicators
Integrity and ethical behaviour	✓ Muthoot Microfin Limited has formed an audit committee comprising all 3 members of its governing board headed by a senior director. The audit committee discussed the scope of internal audit and key audit findings of the previous internal audits. ✓ The NBFC-MFI has formulated credit policies and procedure manual which had the following key polices and processes: o Recovery of delinquent loans o Loan restructuring o Adherence to RBI guidelines ✓ The operations team and CEO periodically review and resolve clients' grievances and complaints. ✓ The NBFC-MFI has formulated fair code policy for its employees, in compliance with RBI guidelines, to educate them on appropriate behaviour towards clients. ✓ MML provides induction training to all its employees and also provides refresher training on a quarterly basis on the communication to be provided to new clients and sectoral updates. Majority of employees sampled were aware about the feedback and grievance redressal mechanism. ✓ The NBFC-MFI educates clients on various aspects of the loan and policies and procedures of the company in the 3-day CGT process. Updates are also communicated to clients during the centre meetings. Majority of the sampled clients were aware about the policies and procedures and the grievance redressal mechanism. ✓ The HR manual has a documented policy stating collections will not be recovered from employees unless in proven cases of fraud. ✓ The NBFC-MFI mandatorily conducts reference checks for employees who are recruited from other MFIs. ✓ The NBFC-MFI is a member of SRO. The contact details of the SRO nodal office and the RBI ombudsman is displayed at all the branches. It shares data with the RBI and SRO as per requirements.
Sensitive indicators	✓ It was observed that majority of sampled clients were aware about the instalment to be paid. Moreover, they were not asked to pay for a service as a precondition to loan.

	✓ Among the sampled clients not a single instance was found where security deposit or penalty was imposed. ✓ Among the sampled clients, no instances were found where loan size, tenure, utilisation or economic status of borrowers were not in line with the RBI guidelines. ✓ Interviews with sampled clients revealed that there was not a single instance where following behaviour was displayed by NGO-MFI staff: o Abusive language o Visiting client at odd hours; in cases of delay employees informed clients in advance o Forcible entry into dwelling o Forced seizure of property ✓ The clients sampled were highly satisfied with the collection practices and behaviour of the field staff. ✓ Majority of the clients interviewed were issued receipts but were unable to produce it. ✓ NBFC-MFI does not have a written policy in place for undertaking credit bureau checks to verify credit history of clients. ✓ The sampled clients were aware about the terms and conditions about sharing their information with the credit bureau, RBI, and MFIN.

Building Blocks

Transparency

- Guidelines received from the RBI regarding the disclosure of terms and conditions to clients were discussed in the board meeting. Circulars are maintained at the HO which contain the latest directions given by the RBI. These circulars are sent to every branch via email and then forwarded to the branch employees.
- The branches conduct staff meetings to discuss the contents of the circular. The latest circulars are displayed at the branches. All the staff members interviewed have received training regarding the latest policies and guidelines issued by the RBI and are aware about the same.
- The clients interviewed were also aware of the terms and conditions. Changes are communicated to them during the weekly client meetings.
- MML's annual reports and financial statements up to 2015-16 are displayed on its website.
- The documents shared with clients pertaining to the terms and conditions and product information are maintained in local regional language. MML's board reviewed the documents in the board meeting held in the previous year.
- The branches maintain all the loan documents in vernacular languages. MML maintains the following key loan documents in vernacular languages:
    - Individual loan application form
    - Loan application agreement
    - Sanction letter
    - Loan card
- Majority of the clients interviewed were able to read and understand the text in the documents provided to them by MML. The clients are issued loan cards which include the following data:
    - Loan repayment schedule
    - Interest rates
    - Principal amount to be repaid
    - Insurance charge
    - Processing fees
- The rate of interest and processing charges are displayed at all the branches. Client receives written communication regarding the interest rates and other charges.
- The clients interviewed were not issued any penalties or fines on late payment of EMIs. Neither were they asked to pay any kind of commission or security deposit. The sanction letter/loan card, and the loan application agreement discloses this information.
- MML has a policy that no security deposits or collateral will be collected or obtained for loans from clients that qualify under priority sector classification. The audit committee and the board reviewed the same in the previous year.
- The NBFC-MFI has documented these policies in the operational manuals. Majority of the branch managers interviewed were aware about these guidelines and CRISIL did not find a single instance where security deposit or collateral was obtained from clients.

- The NBFC-MFI reviews whether the interest rates comply with the RBI's pricing guidelines in its quarterly meetings. However, the same is not reviewed in the board meetings. Any changes in the interest rates are documented through formal circulars.
- The COF and margin are discussed in ALCO committee and the same is recorded in the minutes. The ALCO committee also reviews the prevailing base rates of the five largest banks.
- An external CA agency issues a quality assurance (QA) certificate to certify the NBFC-MFI's compliance with the RBI's directions with regards to loan pricing.
- The NFC-MFI's audit committee reviews whether clients have received all the necessary loan documents. MML has also developed acknowledge formats for its clients.
- All the clients interviewed received an acknowledgement after applying for the loan but a copy of the loan agreement was not provided to them and is maintained at the branch.
- In case of rejections against an accepted loan application, the NBFC-MFI documents the reason for not sanctioning of the loan.
- MML has disclosed its code of conduct compliance report on its website.

Approval	Documentation
	✓ The documents pertaining to the loan are available in vernacular language. ✓ The policy manuals have guidelines pertaining to security deposits and penalty to clients.
Dissemination	**Observance**
✓ Circulars pertaining to the RBI guidelines are documented in the branches. Majority of the staff interviewed were aware of these guidelines. The branch conducts meetings to discuss any changes in these guidelines. ✓ The rate of interest applicable on all the loan products is displayed at all the branches and loan documents.	✓ The field staff interviewed were aware about the terms and conditions of loans. ✓ Loan repayment schedule is provided to all clients. ✓ The clients are not charged processing fees in excess of 1.00 per cent of loan amount. ✓ The difference between the interest rates of two products is not more than 4.00 per cent.

Client protection

Fair practices

- MML's board meets on a quarterly basis to review the proportion of qualifying loan assets to total assets. This was last reviewed in December 2016. The board also reviewed the operational performance of the NBFC-MFI with respect to the loan size, loan tenure, and loan purpose of the qualifying loan assets.
- The NBFC-MFI has documented the loan sizes, loan tenure, and loan purpose guidelines in its operational manuals. Majority of the branch managers and branch staff interviewed were aware about the RBI's directions regarding the same.
- The internal audit team keeps track of whether compliance with the RBI's directions is being met with regards to the loan sizes, loan tenure, and loan utilisation during the field visits and financial audits. This forms a part of the audit report. During the field visits undertaken, CRISIL has observed that the loan sizes, loan tenure, and loan utilisation were in line with the limits defined by the RBI.
- The NBFC-MFI's board has not reviewed its performance in the committees held in the previous year with respect to the income level of borrowers. However, this is a part of the operational manuals. Majority of the branch managers interviewed were aware about the income level of the borrowers and amongst the sample of the clients interviewed the economic status was in line with the RBI's directions. The internal audit team conducts house visits and centre visits in order to assess whether the income level of the borrowers are compliant with the RBI's directions.
- The products offered by the MBFC-MFI are varied, with weekly, fortnightly, and monthly repayment frequencies. The clients have the liberty to choose their repayment frequency. Amongst the clients interviewed no evidence was found that they were being made to deliberately pre-pay. The clients are given a moratorium period of 7 days on weekly repayments and 1 month on monthly repayments and no instance was found where the clients were made to repay their loan amounts during their moratorium period.
- Majority of the clients interviewed were satisfied with the repayment frequency. However, many highlighted the need of higher ticket size loans. CRISIL did not find any evidence of any unapproved product/service being offered by the NBFC-MFI.
- The NBFC-MFI's board approved 'Know Your Customer' Policy on December 15, 2016. This provides details of KYC norms issued by the RBI. The policy also mandates that the KYC documents collected from clients are verified with the original documents. The NBFC-MFI's internal audit committee keeps a record of whether the adherence to the KYC norms and compliance with the KYC guidelines are being followed.. This also forms a part of the audit report.
- The NBFC-MFI accepts Aadhaar card as primary ID and address proof and voter ID as secondary ID proof. It was observed that all the branch members interviewed were aware of the RBI guidelines with regards to KYC norms. In the sample of clients interviewed, CRISIL did not find any evidence that any third party was involved in the filling up of the clients' documents and no instance was found where the verified identity proof documents were not obtained.

- The NBFC-MFI's board has reviewed its operating performance on turnaround times for loan sanction and disbursements. However, it does not maintain minutes for the same. The TAT is documented in the circulars and majority of the branch staff interviewed were aware of the TAT limits. It was observed that all the clients had received the loan amount within the specified limit.
- The board has a policy that discloses non-credit products offered will be voluntary and not a pre-condition for loans and it was observed that no client was made to pay for any product or service as a precondition for loan.
- The NBFC-MFI has tie-ups with four insurance providers: Kotak Life Insurance, DHFL Pramerica Life Insurance, HDFC Life, and Bajaj Alliance Life Insurance.

Avoiding over-indebtedness

- The NBFC-MFI has an updated credit policy with details pertaining to loan sanction process, KYC norms, detailed information about loan products, and eligibility criteria of borrowers.
- The NBFC-MFI follows the RBI guidelines for household income of Rs.1,00,000 in rural areas and Rs.1,60,000 in urban areas for eligibility criteria for loans. Moreover, it also follows the guideline that it cannot be the third lender or lend more than Rs.50,000.00 in the first cycle.
- Loan application of MML also includes the income and expenses of the single borrowers, which shows whether they are capable of loan repayment or not.
- The NBFC-MFI is a member of all the credit bureaus. It verifies indebtedness of the borrowers before sanctioning loans to them. MML shares data on credit history of its client with the credit bureau (on weekly basis), MFIN, and RBI (on quarterly basis).
- The NBFC-MFI provides monthly training to its staff members about the circulars and guidelines of the RBI and MFIN about loan eligibility criteria.
- CRISIL did not find a single borrower whose indebtedness was more than that stipulated by the RBI.
- The board reviewed the NFBC-MFI's operational performance with regards to indebtedness of borrowers during the board meeting held on September 23, 2016. However, the board has not reviewed any exceptions the NBFC-MFI may have made in the credit bureau reports. It maintains a record of the same on a quarterly basis and gets an approval from the CEO for any such exceptions.
- The internal audit report keeps a record of whether the RBI compliance is being met with regards to maximum indebtedness of the borrowers. The internal audit team also checks the credit bureau reports and documents the same.
- The NBFC-MFI has made collection of the Aadhaar card for subsequent cycle clients mandatory from July 2016. The same has been documented in the Know Your Customer Policy.

Appropriate interaction and collection practices

- MML has clearly defined guidelines for employee interaction with clients. It was observed that the employees were aware about fair practice code and guidelines on their interaction with clients.
- The board meeting held on September 23, 2016, reviewed the NBFC-MFI's operational performance with regard to the following:
    - Informing the clients regarding the product and services of the MFI

  - Undertaking loan appraisal
  - Conducting client meetings
  - Collecting repayments
  - Recovering overdue loans from wilful defaulters and difficult defaulters
- They also form a part of the operational manual.
- The NBFC-MFI's fair practice code states that it is responsible for the conduct of its staff and will ensure the following conduct/behaviour from its employees:
  - Use courteous language, decorum, and demonstrate cultural sensitivity during all interactions with clients
  - Contact clients only during office hours and avoid odd hours
  - Employee to treat all clients with dignity with any kind of threat or abusive language prohibited
  - Clients are not to be visited for collection on inappropriate occasions such as bereavements and sickness.
- The NBFC-MFI also provides trainings to its employees to ensure adherence to the aforementioned parameters. These parameters were also reviewed by the board on September 23, 2016.
- The clients sampled were highly satisfied with the collection practices and behaviour of the field staff.
- Internal audit covers client grievance and aspects related to the staff behaviour. This was reviewed by the board on September 23, 2016.
- The NBFC-MFI provides a receipt for each repayment to clients. However, in the sample reviewed, majority of the centres were unable to produce the receipts. CRISIL did not find a single instance where clients had to make payments to informal agents or pay bribes.
- The board meeting held on November 23, 2016, reviewed the policy on recovering delinquent loans. The actions initiated against delinquent clients were discussed by the NBFC-MFI and presented to the risk committee on December 29, 2016. The operations manual of the NBFC-MFI has guidelines in place for dealing with delinquent clients at each stage of default. Majority of the staff members interviewed were aware about the guidelines to be followed with respect to delinquent clients.
- The HR manual has a documented policy stating collections will be not recovered from employees unless in proven cases of fraud. None of the staff members interviewed had to make good any shortfalls in collection from their own money.

Privacy of client information

- The sampled clients were aware about the terms and condition about the sharing of their information with the credit bureau, RBI, and MFIN. Every client received the terms and condition sheet in the local language and it was also mentioned in the loan card.
- The board meeting held on November 23, 2016, reviewed the NBFC-MFI's policy on maintaining the privacy and security of the clients' data.
- MML has provided the field executives with a tablet to capture the clients' data. However, they do not have the authority to edit of modify the data. The data can be updated before sending it to High Mark with prior approval from the seniors. The software is protected by password thereby limiting access to client database. The physical

copy of KYC, loan application, and other documents of clients are sent to the HO. Only photocopy of the above mentioned documents are kept in the branches.

- The NBFC-MFI has backup policy for software database on daily basis.

Approval	Documentation
✓ Board has reviewed the operational performance of the NBFC-MFI with respect to qualifying asset criteria and non-credit product offering in the last 1 year. × Board has not reviewed its performance in the committees held in the previous year with respect to the income level of borrowers. × Board has not reviewed any exceptions the NBFC-MFI may have made in the credit bureau reports. ✓ Board has approved fair practice code and credit policies and procedure manual. ✓ Board has reviewed its operating performance on turnaround times for loan sanction and disbursements.	✓ Loan size, tenure, purpose, and repayment frequency are as per the RBI guidelines and documented in form of circulars. ✓ Credit appraisal and client eligibility guidelines are documented in the credit policy. ✓ NBFC-MFI does not have a written policy in place for undertaking credit bureau checks for verifying credit history of clients.
Dissemination	**Observance**
✓ Branch employees sampled have received trainings on the RBI guidelines and credit policies of the NBFC-MFI. ✓ NBFC-MFI communicates change in the credit policy and documentation through email circulars and employee trainings. ✓ All the branches visited had copies of fair practice code outlining desirable behaviour towards clients put up on the display board. ✓ Any change in the RBI guidelines is communicated to clients during centre meetings.	✓ All sampled clients were as per income and indebtedness criteria. ✓ All the branch employees interviewed displayed adequate awareness of the RBI guidelines. ✓ The loan sizes, loan tenure, and loan utilisation amongst the sampled clients was in line with the limits defined by the RBI.

Governance*

- MML has a code of conduct policy highlighting constitution of the board and their process. NBFC-MFI 6-members board includes two directors, two independent directors, and two additional directors. The board meetings take place on quarterly basis and minutes of meeting (MoM) are well documented. The NBFC-MFI has four sub-committees: audit committee, nomination and remuneration committee, risk management committee, and asset liability management (ALM) committee. The sub-committees' board minutes are well documented. The audit report discloses CEO's compensation.
- The audit committee comprises all 3 members of the MML's governing board headed by a director (a senior management member of the group company); and findings are documented and shared in the audit committee as well as with respective departments. The audit team conducts monthly audits in each branch and submits its reports to the zonal head. Based on the audit, auditors assign a ranking to the branches. Majority of the branches visited prepare detailed compliance and action-taken reports. Branch audit report includes borrowers address, household income, attendance levels, awareness levels, participation in the group meetings, process deviations/violations and interest rate.
- No adverse audit observation was made in the auditor's report regarding accounting standards followed by the MFI. In 2016-17, the board met four times to review the credit policy, financial projections, code of conduct, and unaudited financials and discuss the area of improvement.

Approval	Documentation
✓ The NBFC-MFI has a policy for debt restricting for clients who are facing repayment stress. However, the same is not presented to the board for review. ✓ The audit committee comprises all three members of the MML's governing board headed by a director. ✓ The board meets four times in a year to review code of conduct compliance.	✓ The NBFC-MFI has a formal policy in place for debt restructuring and write off.
Dissemination	**Observance**
✓ Moderate awareness was observed amongst the branch staff regarding the debt restructuring policy.	✓ The audit committee meets as per requirements. It met 3 times in 2016-17 and once in 2015-16. ✓ There were no adverse comments or observations found in the auditor's report regarding accounting standards followed by the NBFC-MFI.

**Refer Institutional Arrangement and Internal Audit section in Microfinance Capacity Assessment Grading*

Recruitment

- As per MML's HR manual, trainees are required to serve a 1-month notice period, employees on probation are required to serve a notice period of 1-2 months, and permanent employees are required to serve a notice period of 2 months. In case of termination, the employees have to serve a 1 week/15 days/1 month notice period as specified in the terms and conditions of the offer letter.
- The NBFC-MFI has a recruitment policy but it has not been reviewed by the board in the last 1 year.
- As per the MML's HR manual, when an employee is recruited from another MFI, it mandatorily conducts reference checks with the HR manager of that MFI. The NBFC-MFI conducts third party verification checks on its new recruits.
- The process for responding to reference check requests is well documented in the NBFC-MFI's HR manual. It is required to respond to these requests within 2 weeks.
- The NBFC-MFI's HR manual states that employees recruited up to the branch manager position from another MFI shall not be assigned to the same block where they were serving under the previous employer for a period of 1 year.
- MML has formulated policies related to issuing relieving letters to outgoing employees and obtaining relieving letters at the time of recruitment.

Approval	Documentation
× The board has not reviewed recruitment policy in the last 1 year.	✓ NFBC-MFI has documented policy for issuing relieving letters and for notice period for outgoing employees.
Dissemination	**Observance**
	✓ CRISIL has received documentary evidence that the NBFC-MFI conducts reference checks on all its employees. ✓ No documentary evidence has been provided to CRISIL for verification of the actual implementation of responding to reference check requests, providing/collecting relieving letters, and honouring the employees' notice periods.

Client education

- MML conducts CGT for its clients during the loan application process. CGT is conducted for 3 days. The clients are educated on the following aspects:
  - Composition and age of the JLG
  - Loan purpose
  - Product details and interest rate of the loan applied
  - Policies and procedures of the NBFC-MFI
  - Importance of attendance in the centre meetings
  - Duties and responsibilities of the group
  - Objectives and rules and regulations of the group
- During the disbursement, the clients are also made aware about their rights, responsibilities, and financial details.
- Branch employees undergo induction training and are also given refresher training on a quarterly basis to help enhance their awareness on the following:
  - Loan products
  - Regulatory guidelines
  - Code of conduct
  - Feedback and grievance redressal procedure
  - Process and policy updates
- The knowledge acquired during the trainings is disseminated to clients during CGT and centre meetings.
- Moderate awareness was observed amongst clients pertaining to their options, choices, and their responsibilities. However, all the clients interviewed confirmed that they were informed about the NBFC-MFI's policies and procedures at the time of joining.
- Internal audit evaluates clients' awareness levels regarding their options and responsibilities.

Approval	Documentation
	✓ NBFC-MFI has documented the process of CGT, GRT, its credit policies, and procedure manual.
Dissemination	**Observance**
✓ Employees are trained on client awareness on quarterly basis. ✓ Audit has a dedicated parameter for measuring client awareness levels.	✓ Clients display moderate awareness about the following: o Interest rate o Loan term o Processing fee o Insurance charges o Insurance claim settlement process o Any other product or service ✓ The clients were not charged any money for the trainings provided by the NBFC-MFI.

Feedback and grievance redressal

- MML's fair practice code (FPC) outlines the major aspects of grievance redressal. This is also documented in their operations manual. The escalation matrix and the process is clearly defined in the operations manual. The NBFC-MFI does not have a grievance redressal committee, all complaints are handled by the operations team. In case the complaints are not resolved at the operations level, they're handled by the CEO, and then the board. However, the board rarely reviews complaints as these are mostly resolved by the operations team and the CEO.
- There is a complaint box present at every branch where clients can put their complaints. On receipt of a complaint, the branch manager tries to resolve the issue at his end. The branches do not maintain a complaints register but the same is maintained at the NBFC-MFI's HO. The internal audit team also checks whether the complaints are resolved at the branch level and sends a consolidated report to the branches on a monthly basis.
- The NBFC-MFI displays the following at all its branches:
  - Postal address of the RBI ombudsman
  - Telephone number and email ID of the head office
- Contact details of the ombudsman and the NBFC-MFI's HO are also mentioned in the loan card and sanction letter.
- Helpline number is managed by the grievance cell at the head office. The HO documents all the complaints and directs the respective branches to rectify the same. The helpline number was functional at the time of the random check.
- Majority of the clients interviewed were aware of the grievance redressal mechanism, and the location of the NBFC-MFI's branch office and HO. Contact details of the field executive and branch manager are provided to clients and are updated in the loan cards.
- As per the records maintained at the HO, the NBFC-MFI received 112 complaints from October 7, 2016, to December 31, 2016. Out of these complaints 10 are still open and not yet resolved.

Approval	Documentation
× The NBFC-MFI does not have a grievance redressal committee as complaints are handled by the operations team and the CEO. × A summary of the grievance redressal report was not presented to the board for review as all complaints are resolved either at the operational level or at the CEO level.	✓ The NBFC-MFI's fair practice code and operational manual includes details related to the grievance redressal mechanism. ✓ The NBFC-MFI has formulated a detailed grievance redressal policy with TAT and escalation matrix.
Dissemination	**Observance**
✓ The employees receive training on aspects related to feedback and grievance redressal. ✓ Clients are made aware about grievance redressal mechanism during CGT and disbursements.	✓ Majority of the clients interviewed were aware of the grievance redressal procedure and location of the branch office and HO.

✓ Clients are aware about their right to escalate their complaint to industry association. ✓ The NBFC-MFI does not prepare monthly reports about the number, nature, and resolution of the grievances and feedback received for the management's review.	✓ Contact details of the ombudsman, NBFC-MFI's HO, the branch manager and FE are provided to clients for registering complaints. ✓ A grievance register is maintained at the HO which captures details of the clients' grievance and resolution. ✓ Contact details of the HO and SRO is displayed at the branches of the NBFC-MFI. × The branches do not maintain action taken reports on the complaints received from clients.

Data sharing

- MML is a member of all the credit bureaus and has a well-defined process for sharing data with the credit bureaus. The data is shared on a weekly basis and consolidated data is shared on a monthly basis.
- The NBFC-MFI is a member of SRO and also shares data with the RBI and SRO as per requirements. It also updates operational and financial data on its website on a regular basis.

Approval	Documentation
✓ The NBFC-MFI has a defined policy for sharing data with credit bureaus.	✓ NBFC-MFI has a board approved policy for client data security. This policy is part of credit policies and procedure manual and fair practice code followed by the NBFC-MFI.
Dissemination	**Observance**
✓ Client are made aware through terms and conditions that their data may be shared with the credit bureau and regulatory body. The loan agreement forms also disclose the same.	✓ Majority of the clients interviewed were aware that the data shared by them is confidential and the NBFC-MFI cannot share it with any third party without authorisation.

Annexure: Methodologies

Definition

CRISIL MFI grading is a current opinion on the ability of an MFI to conduct its operations in a scalable and sustainable manner. It is a measure of the overall performance of an MFI on a broad range of parameters under CRISIL's MICROS framework (discussed in further sections). These MFI gradings are assigned on an eight-point scale mfR1 (highest grading) to mfR8 (lowest grading) with a high grading denoting a greater degree of scalability and sustainability. The universe for evaluating institutions under the MFI grading service consists of MFIs operating across India.

The grading exercise includes a review of the MFI's systems, processes and internal controls, assess quality, organisational efficiency, governance, management, financial performance and strength. However, it is not a credit rating, does not indicate the credit worthiness of an MFI, and is not a comment on debt repayment capability.

CRISIL MFI gradings are one-time assessments based on information provided by MFIs. CRISIL does not monitor the grading on an ongoing basis. These are non-issuance based gradings and reviews are done only at the request of the MFI or a prospective investor/donor/lender on a point-in-time basis.

MICROS – MFI evaluation framework

Apart from overall financial performance, business volumes, and ratio analysis, the methodology allots due weightage to financial and non-financial parameters such as key business volumes, performance indicators, and ratio analysis on a relative basis.

The following enunciates the broad grading parameters in the assessment framework.

1) Management

CRISIL's management analysis focuses on assessing systems and processes adopted by the MFI vis-à-vis best practices among financial intermediaries. The following parameters are analysed:

- Operational track record, lending model (joint lending group or self-help group, on-lending or business correspondence), business orientation and outreach – nature of market catered (rural, semi-urban, or urban) and regional presence – for instance, whether operations are confined predominantly in rural / urban areas.
- Adherence to regulatory compliances and to the voluntary microfinance code of conduct formulated by MFIs.
- Strategic alliances and networks with other agencies (donors, associations, tie-ups) and memberships of self-regulatory organisations (SROs) among others.

- o Systems for providing credit services - client identification, group formation, credit appraisal, tie-up with credit bureaus, recovery of credit, collection of thrift, loan overdue monitoring, cash flow management, and fraud control.
- o Processes, internal controls, internal audit – its scope and rigour, quality of accounting practices and reporting, and risk management practices.
- o Deployment of information technology, hardware and software infrastructure, adequacy of systems and degree of computerisation, security and disaster recovery management
- o Human resources management

2) Institutional arrangement

This section focuses on assessing management risk including quality, track record, and inter-relations among the MFI's management, promoters and board. It also evaluates the articulated vision of the management / board to the stakeholders. Key parameters under this section include:

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

3) Capital adequacy and asset quality

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

- o Quantum / size of capital and its position with domestic requirements (applicable for non-bank finance companies – MFI)
- o Quality of capital, proportion of internal accretions, access to capital grants / donations (for non-corporate / co-operative legal forms)

The evaluation of asset quality includes an assessment of the MFI's ability to manage credit risks. The analysis is based on information provided by the MFI or obtained at meetings with the management or on field visits for discussions with branch staff and clients or a random review of documentation and experiences of other MFIs. The analysis is based on the following:

- o Quality of portfolio, client profile, loan conditions, group guarantee, quality of groups formed by the MFI, loan purpose (economic or consumption), and adverse selection risks
- o Seasoning of loan portfolio

- Concentration of credit risk : Diversity in end usage of loans, exposure to disaster prone regions or susceptibility to possible event risks, geographical concentration of operations
- Loan loss levels and movement of provisions and write-offs: Portfolio at risk (PAR) greater than 30, 90, 180, 360 days levels, one time repayment rates, provisioning and write-off policies, proportion of write-offs and provisions (after CRISIL's adjustments, in case the MFI does not have an adequate policy), loan provision and write-off policies vis-à-vis prudential norms (for NBFC-MFIs).
- Month-wise analysis of collections against demand, including pre-payments

4) Resources and asset liability management

CRISIL analyses the resource position of MFIs on the basis of their ability to maintain a stable resource base and obtain borrowings at competitive rates. CRISIL's analysis factors in the legal status of the MFI (which imposes restrictions on the acceptance of saving/deposits) and the regulatory environment in the country in which the MFI operates.

Moreover, regulatory risks, if any, are considered separately. The key factors analysed under this parameter include:

- Sources of funds
- Composition of borrowings
- Diversity in borrowing profile-banks, apex MFIs/financial institutions, overseas borrowings, money markets, etc.
- Cost of borrowings: Trend and comparison with other MFIs
- Other details: Ability to securitise portfolio from impact of foreign exchange currency risks
- Asset liability maturity profile of the MFI, liquidity risk and interest rate risk

5) Operational effectiveness

In measuring operational effectiveness, the key consideration are operational efficiency and profitability. MFIs are incorporated under different legal forms; in most countries they are not regulated and do not need to follow standard accounting practices. CRISIL, therefore, performs appropriate analytical adjustments, which are in line with the practices adopted worldwide in evaluating MFIs. The factors analysed under this parameter include:

- Office outreach and quality of infrastructure
- Operational efficiency: Productivity measured through several indicator such as loans/borrowers to loan officer, loans/borrowers per branch and staff allocation ratio. Efficiency is measured through indicators such as operating expenses to average funds deployed, and operating expenses to disbursements.
- Diversity of income sources: Composition of fund and fee-based income

- Profitability: Loan pricing, impact of prepayment, operational self-sufficiency (OSS) ratio, net profitability margin (NPM), return on equity (RoE), return on funds deployed/earning assets (RoA)
- Impact of inflation on earnings (used in countries that have experienced high inflation in the past)

6) Scalability and sustainability

An MFI needs to create a sustainable and scalable business model; its products and processes need to be evolved so as to attain institutional and financial resilience. To assess an MFI's ability to attain institutional and financial resilience, the following sub-parameters are analysed:

- Fund and resource base sustainability: Sustainability of capital with respect to growth in the MFI's loans, plans to raise capital, and resource diversification strategies
- Organisational sustainability: Legal structure, governance, succession, human resource issues
- Programme sustainability: Sectoral expertise, ability to diversify product mix, enter new regions, retain market share in existing operational areas, long-term strategy of the MFI/NGO-MFI in microfinance activity

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COCA methodology

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

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

Highest order	
Sensitive indicators	
Higher order	
Integrity and ethical behaviour	
Building blocks	
Governance	Client protection, recruitment
Transparency	Feedback/grievance redressal
Client education	Data sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below:

Higher order indicators	**Number of indicators**
Integrity and ethical behaviour	32
Sensitive indicators	27
Building blocks	**Number of indicators**
Transparency	40
Client protection	123

Governance	30
Recruitment	13
Client education	14
Feedback and grievance redressal	25
Data sharing	6
Total	**251**

Methodology

The Code of Conduct exercise is spread over 4-8 days. The first day is spent at the head office. The assessment team visits the branches over the next 3-8 days. Depending on the size and the operational area of the MFI, 8-15 branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI are less than 8).

Sampling guidelines

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

MFI size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (less than 8 branches)	All branches	15 clients per branch covering minimum two centres
Small / mid-sized MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centres)
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centres)
Large MFIs (loan portfolio outstanding of Rs.500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centres)

Code of Conduct Assessment exercise requires:

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

As part of this assessment, we visited 23 branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No. of clients interviewed
1	Chennai 10	Tamil Nadu	10
2	Chennai 9		15
3	Kelambakkam		20
4	Acharapakkam		22
5	Peraiyur		28
6	Alangudi		14
7	Pudukkottai		14
8	Kumbakonam		24
9	Peravurani		29
10	Lalgudi		17
11	Bhavani		18
12	Vellakoil		21
13	Dharapuram		20
14	Pollachi		21
15	Alathur	Kerala	21
16	Vadakkencherry		26
17	Palakkad 2		25
18	Palakkad 1		22

19	Cherai		23
20	Cochin 2		22
21	Sangamner	Maharashtra	31
22	Sinnar		23
23	Uttamnagar		21
Total			**487**

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