



SMERA RATINGS LIMITED

**SMERA
Comprehensive
Grading**

M1C2

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

SMERA MFI Grading

RGVN (North East) Microfinance Limited

Date of Report:

27th April, 2017

Valid Till:

26th April, 2018

SMERA's MFI Comprehensive Grading Scale

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

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

Scale	C1	C2	C3	C4	C5
M1		M1C2			
M2					
M3					
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of “**M1C2**”. It signifies highest capacity of the MFI to manage its operations in a sustainable manner and good performance on code of conduct dimensions.

Grading Rationale

Microfinance Capacity Assessment Grade	RGVN obtains “ M1 ” as its performance grade which signifies “highest capacity of the organization to carry out its activities in a sustainable manner”.
Code of Conduct Assessment Grade	RGVN obtains “ C2 ” as its Code of Conduct Assessment Grade which signifies good performance on COCA dimensions.

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



Conflict of Interest Declaration

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

Disclaimer

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

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Historical Rating Grades

Date	Rating Agency	Comprehensive rating grade
27-Feb-2017	SMERA Ratings	M1
May 2016	SMERA Ratings	COCA 2

SMERA's MFI Grading Scale

Microfinance Capacity Assessment Grading Symbols and Definitions

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

Code of Conduct Assessment Scale and Definitions

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

Company Profile

Name of the MFI	RGVN (North East) Microfinance Limited
Year of Incorporation	2008
Year of Commencement of Microfinance Operations	2010
Legal Status	NBFC-MFI
Business of the Company	Microfinance lending to Joint Liability Group (JLG)
Correspondence Address	House No. 2, Padma Path, Zoo Road, Tiniali, Bi-Lane No.8, Guwahati - 781 024 Assam India
Telephone	(91) (361) (2464612)
Geographical Reach (As on 31/Dec/2016)	No of States : 06 No of Branches : 136
Total Employees (As on 31/Dec/2016)	703
Active Borrowers (As on 31/Dec/2016)	353,394
Total Portfolio Outstanding (As on 31/Dec/2016)	Owned Portfolio - Rs.582.88 crore
Operational Head	Ms. Rupali Kalita, Managing Director Email ID: rupali_rgvn@yahoo.com
Visit of the Assessment team	07 th April, 2017 to 13 th April, 2017

Product Profile

Loan Products	Interest Rate	Processing Fees	Loan Size	Tenure
Joint Liability Group	24% Reducing	1.00%	Rs15,000 to Rs.50,000	1 year for loan below Rs.15,000 and 02 years for above Rs.15,000
Self Help Group				
Micro Enterprise Loan				
Entrepreneur Development Loan				

Note: Interest rate for Arunachal, Nagaland, Meghalaya, Sikkim, Tripura and BTAD Branches of Assam is 20% (reducing).

Background

RGVN (North East) Microfinance Limited (RGVN), a Public Limited Company registered under the Company's Act, 1956 was incorporated in July, 2008. RGVN is a NBFC-MFI carries microfinance and social development activities in North-Eastern states. RGVN has taken over the 'Credit & Savings Programme' (CSP) of its parent company RGVN Society which was started in the year 1995 with the mission of extending microcredit to the unbanked and underserved people of North-Eastern States of the country.

The day-to-day operations of the company are managed by Ms. Rupali Kalita, Managing Director. Ms. Kalita has worked as a Rural Development Banker and has over three decades of experience in the micro lending and social development.

RGVN provide loans to members of Joint Liability Group (JLG) consisting of five-six members who come together for the purpose of availing micro credit on individual basis or through group mechanism against mutual guarantee. As on 31/Dec/2016, RGVN is currently operating in 36 districts spread across six states of North-Eastern region. As on 31/Dec/2016, RGVN deals with 353,394 members/borrowers with a total outstanding portfolio of Rs. 582.88 crore.

RGVN has received in-principle approval from RBI for setting-up Small Finance Bank (SFB) and they are expected to receive the final SFB license from RBI on 07th April 2017. There were 72 applications to get SFB license, out of which RBI granted in-principle license to 10 players.

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

Name of the Shareholder	Shares Held	Shareholding (%)
Dia Vikas Capital Private Limited	11,521,095	29.81
North Eastern Development Finance Corporation Limited	3,000,000	7.76
Small Industries Development Bank of India	5,000,000	12.94
Norway Microfinance Initiative (NMI)	7,346,939	19.01
Oiko Credit Ecumenical Co-operative Society	7,673,469	19.85
Others	4,110,799	10.63
Total	38,652,302	100.00

Promoters Profile

Name	Position	Profile
Brij Mohan	Chairman	<ul style="list-style-type: none"> • Associated with RGVN since July, 2008. • Former Executive Director of Small Industries Development Bank of India (SIDBI), Lucknow • He was closely involved in setting up of SIDBI Foundation for Micro Credit (SFMC) as an apex financing & development micro-finance entity in 1998.
Rupali Kalita	Managing Director	<ul style="list-style-type: none"> • Associated with RGVN since inception. • Present MD of RGVN (NE) MFL. A Rural Development Banker with more than 20 years of experience in the banking sector. She has been working for empowerment of the under privileged women in rural as well as urban sector through financial intermediation by persistently encouraging them to build up their confidence and to emerge as successful entrepreneur.
Mr. Robert Douglas Dunn	Nominee Director	<ul style="list-style-type: none"> • Mr Robert Douglas Dunn (BA Hons) is an Australian citizen. He became Chief Executive Officer and Director of Opportunity International Australia Ltd in 2008 providing financial and technical support for microfinance services to 20 financial institutes across Asia. • Robert also serves on the Boards of the Port Authority of New South Wales and Logosdor Limited. Prior to joining Opportunity International Australia, Robert was the Finance Director with Patrick Corporation, one of Australia's leading transport logistics companies. He is a member of the Australian Institute of Company Directors and of Chartered Accountants Australia and New Zealand.
S.K. Baruah	Nominee Director NEDFI	<ul style="list-style-type: none"> • Presently General Manager & Company Secretary in North Eastern Development Finance Corporation Ltd (NEDFI). • He looks after Corporate Affairs, Human Resource, Administration, Finance at NEDFI
Dr. Amiya Kr. Sharma	Nominee Director	<ul style="list-style-type: none"> • Associated with RGVN since September, 2008 • Former Co-Chairman of Sa-Dhan and Present ED of Rashtriya Gramin Vikas Nidhi (Society), Dr. Sharma is actively involved in various activities related to the voluntary sector and also assisted in development of many NGOs in the region
UgenTashi	Nominee Director - IDBI Bank Ltd	<ul style="list-style-type: none"> • Associated with RGVN since March, 2015 • Presently the Regional Head-Retail Banking, IDBI Bank Ltd, Guwahati
Sanjeev Gupta	Nominee Director -	<ul style="list-style-type: none"> • Presently heading Guwahati Regional Office for

	SIDBI	<p>entire Northeast Region since June 2015.</p> <ul style="list-style-type: none"> • Almost three decades of experience in various disciplines like Credit Operations, Audit, and Vigilance & Administration.
Njord Andrewes	Nominee Director - NMI	<ul style="list-style-type: none"> • He is an Investment Director of NMI Global Fund, Netherlands. Prior to that he was a Sr. Equity Research Analyst at Lazard Capital and Janney Montgomery Scott, LLC.
Suvalaxmi Chakraborty	Nominee Director - Oiko Credit	<ul style="list-style-type: none"> • A Chartered Accountant by profession • Presently heading Guwahati Regional Office for entire Northeast Region since June 2015. • Almost two decades of experience in various disciplines like Project and Corporate finance, Treasury and Integrated Multi Currency fund, Asset Liability Management, Rural/Agri and Micro Banking etc
Deep Joshi	Independent Director	<ul style="list-style-type: none"> • Associated with RGVN since Jan, 2011. • Three decades of experience in rural development, especially rural livelihood promotion. He also has extensive experience of SHGs and was associated with the SHG-Bank Linkage Program in the course of his work in PRADAN (NGO). He is one of the Promoter Directors of Bhartiya Samruddhi Investments and Consulting Services Limited (BASICS), has served as chairman of a Local Area Bank.
Ranjit Goswami	Independent Director	<ul style="list-style-type: none"> • Almost three decades of experience in SBI in various disciplines like Treasury, Credit, Rural Development, Banking Operations, HR and Inspection.

SMERA Comments

- As on Dec 31, 2016, RGVN have eleven members on board with seven nominee directors (which include 06 representatives from Investors) and two independent directors with banking & finance/Microfinance expertise.
- The board meets on a quarterly basis and if required frequency of the meeting increases. Board is actively involved in strategy formulation, developing & approving business plans, fund mobilization. Board meetings also cover the overall performance, recruitment, updating policy, to ensure the use of resources, approve annual work plan and budgets, implement programmes that are in line with the mission and vision, monitor MFI's performance and review monthly reports. The management team updates the board regularly on operations and key developments in each department.

Senior Management Profile

Name	Position
Rupali Kalita	Managing Director
Prem Kiran Varikuty	Vice President
Gunajit Bayan	Associate Vice President
Pragati Mour	Company Secretary and Compliance Officer
Tarun Sarma	Head - Training
Suhail Haque	Head - Human Resource
Pranjal Pratim Goswami	Head - Risk & SPM
Manoj Bhattacharjee	Head - Administration
Devashish Bhattacharya	Zonal Manager
Amarendra Deka	Zonal Manager
Trailokya Goswami	Zonal Manager
ParashBorthakur	Zonal Manager
Dipenjoy Deb	Zonal Manager

SMERA Comments

RGVN's management team and second line of management have relevant experience in the MFI industry and better understanding in banking, microfinance and social development.

Key Performance Ratios

Financial Ratios	31/Mar/2014	31/Mar/2015	31/Mar/2016
<u>Capital Adequacy Ratio (CAR)</u>			
Capital Adequacy Ratio (%)	28.81%	38.56%	20.94%
<u>Productivity / Efficiency Ratios*</u>			
No. of Active Borrowers Per Staff Member	298	405	479
No. of Active Borrowers per field executives	573	773	988
Gross Portfolio o/s per field executive (Rs in thousands)	4,272	7,819	16,527
Average Outstanding Balance Per borrower (In Rs)	7,461	10,106	16,722
Cost Per Active borrower (In Rs)	676	652	595
<u>Asset / Liability Management</u>			
Yield on Portfolio (%)	26.4%	23.2%	21.7%
<u>Profitability / Sustainability Ratios</u>			
Operational Self Sufficiency (%)	125.6%	132.1%	142.4%
Operating Expense Ratio (OER)	9.3%	8.4%	4.8%
Cost of Funds (COF)	14.65%	11.52%	11.95%
Return on Assets (RoA)	4.6%	5.0%	5.7%
Portfolio at Risk (>30 days)	0.51%	0.19%	0.18%
Return on Equity (RoE)	22.85%	16.91%	25.70%
<u>Gearing Ratio</u>			
Total Debt to Equity (Times)	2.90	2.02	4.46

Highlights of Microfinance Operations

Particulars	31/03/2014	31/03/2015	31/03/2016	31/12/2016 (9M)
No. of states	05	05	06	06
No. of branches	107	104	131	136
No of districts	33	33	34	36
No. of active borrowers	166,623	226,614	291,552	353,394
No. of total employees	560	560	609	703
No. of field officer	291	293	295	372
Loan disbursements during the period (Rs. in crore)	172.82	308.73	560.88	429.60
Net portfolio outstanding (Rs. in crore)	124.32	229.10	487.54	582.88

SMERA Comments

As on Dec 31 2016, the company has an outstanding loan portfolio of Rs. 582.88 crore spread over 136 branches of 36 districts with about 353,394 borrowers. RGVN's Assets under Management (AUM) witnessed a robust growth of ~113% in FY2016 over the previous year (~84% growth in FY2015).

In FY2016, the company expanded its borrower base by adding 27 new branches and 05 new branches in the 9MFY2016-17.

In FY 2016, the disbursement almost doubled compared to the previous year on account of good funding from banks and financial institutions.

As on Dec 31, 2016, the company remains exposed to geographical concentration risk with major portfolio outstanding in the state of Assam with ~ 94 per cent and remaining (only 06 per cent) across five states namely Meghalaya, Arunachal Pradesh, Sikkim, Nagaland and Tripura.

Compliance with RBI's Directives for MFIs

RBI's Direction	RGVN Status	Compliance
85% of total assets to be in the nature of qualifying assets	More than 85% of assets are qualifying assets as on 31/Dec/2016	Complied
Net worth to be in excess of Rs 5 Crore	Net Owned Funds stood at Rs 123.58 crore as on 31/Dec/2016	Complied
Income of borrower not to exceed Rs 100,000 in the rural areas and Rs 160,000 in the urban and semi-urban areas*	RGVN extends loans to households whose income does not exceed Rs 100,000 in rural and Rs 160,000 in urban areas	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	RGVN offers loan in the range of Rs 15,000 to Rs 50,000 depending on client repayment capacity, type of activity etc.	Complied
Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	Apart from taking declaration from the client, RGVN conducts credit check on the loans outstanding through credit bureaus	Complied
Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	RGVN offers loans of Rs 15,000 for tenure of 12 months and loans of above Rs 20,000 for 24 months.	Complied
Pricing guidelines are to be followed	Loans are provided in range of 20% and 24% reducing balance basis which meets the RBI criteria.	Complied
Transparency in interest rates to be maintained	Interest, Processing fees and insurance premium charged are duly mentioned in the loan card provided to the client	Complied
Not more than two MFIs lend to the same client	RGVN verifies the same though credit check from credit bureaus	Complied

RBI's Direction	RGVN Status	Compliance
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	RGVN is charging processing fee of 1.00% on the disbursed loan amount plus applicable service tax	Complied
Collateral free loans	RGVN does not accept any collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	RGVN does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	RGVN does not take late payment or prepayment penalties from the clients.	Complied
Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.	RGVN shares its client data with Crif Highmark, Equifax, Experian and CIBIL.	Complied
Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs	RGVN provides 99.57% of total loans for income generation activities.	Complied
NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 percent of its aggregate risk weighted assets.	As per provisional CRAR of RGVN stood at 20.99 % as of 31st Dec 2016 which complies with the minimum CRAR requirement of 15% for NBFC-MFIs as prescribed by RBI. RGVN does not have any exposure in Andhra Pradesh.	Complied
The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1% of the outstanding loan portfolio or b) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more'.	The statutory auditor has certified the appropriate provisions have been made	Complied

Section 1: Microfinance Capacity Assessment Grading

Long track record of operations and extensive industry experience of promoters

RGVN (North East) Microfinance Limited (RGVN), a Public Limited Company registered under the Company's Act, 1956 was incorporated in July, 2008. RGVN is a NBFC-MFI carries microfinance and social development activities in North-Eastern states. RGVN has taken over the 'Credit & Savings Programme' (CSP) of its parent company RGVN Society which was started in the year 1995 with the mission of extending microcredit to the unbanked and underserved people of North-Eastern States of the country.

As on Dec 31, 2016, RGVN have eleven members on board with seven nominee directors (which include 06 representatives from Investors) and two independent directors with banking & finance/Microfinance expertise.

The day-to-day operations of the company are managed by Ms. Rupali Kalita, Managing Director. Ms. Kalita has worked as a Rural Development Banker and has over three decades of experience in the micro lending and social development.

RGVN's management team and second line of management have relevant experience in the MFI industry and better understanding in banking, microfinance and social development.

Approval for Small Finance Bank

RGVN has received approval from RBI for setting-up Small Finance Bank (SFB) and they are expected to start banking operations in the next six months.

Corporate Governance & Transparency

RGVN conducts board meetings on regular basis and points discussed therein are implemented by second line of management & operations team. It is observed that RGVN exhibits high level of compliance towards corporate governance needs of an MFI. By inducting persons with good and sound reputation in the industry and understanding of microfinance as members of board of directors or governing body.

RGVN, being a public limited company is subject to regulatory compliance and monitoring of RBI & SEBI. RGVN maintains high transparency in the interest rates charged to its clients. The organization discloses all terms & conditions of all financial products to the borrowers including interest rate on the loan and processing fees in local language as well as verbal communication at the time of training. The details are printed on the loan passbook which is available with the borrowers.

Diversified Resource Profile

RGVN's legal status allows raising equity from market or private equity players and it has been successful in mobilizing the funds. The net worth has increased to Rs.100.18 crore in FY 2016 as compared to Rs.86.64 crore in the previous year. As on Mar 31, 2016, RGVN has developed funding relationships with 23 lenders including Nationalized Banks, Private Banks, Domestic Financial Institutions and NBFCs. RGVN has been successful in mobilizing funds from banks & financial institutions. The total borrowings stood at Rs.447.20 crore as on 31/Mar/2016.

The cost of funds (COF) for RGVN improved to 11.95% in FY 2016 from 14.65% in FY 2014 on account of increased funding from banks and Non-Convertible Debentures (NCDs) from financial institutions.

Moderate Capitalisation and Comfortable Liquidity Profile

RGVN's comfortable capitalisation is reflected in the capital adequacy ratio (CAR) of 20.99 per cent as on Dec 31, 2016 (provisional) as against CAR of 20.94 per cent as on March 31, 2016 and 38.56% as on March 31, 2015. The NBFC-MFI capitalisation in relation to managed asset base has been comfortable on account of equity infusion and internal accruals at regular interval. The NBFC-MFI has raised Rs.49.26 crore by issuing non-convertible debentures.

RGVN has a comfortable liquidity position due to well matched maturity of assets and liabilities. The tenure of loans is about 12-24 months, whereas the incremental bank funding is typically with tenure of about 12-36 months. However regular flow of funds is critical to maintain the projected growth and the same would have a key bearing on its liquidity profile.

Profitability

The company reported a profit after tax of Rs. 13.53 crore (ROA of 4.6%) on total income of Rs.77.91 crore in FY2016 as compared to Rs.7.35 crore (ROA 5.0%) on total income of Rs 42.54 crore in the previous year.

RGVN's return on equity (ROE) and return on assets (ROA) increased in FY 2016 over the previous year mainly on account of increase in total income as well as in portfolio leading to improvement in operational self-sufficiency (OSS).

Profitability / Sustainability Ratios	2014	2015	2016
Operational Self Sufficiency (%)	125.6%	132.1%	142.4%
Operating Expense Ratio (OER)	9.3%	8.4%	4.8%
Cost of Funds (COF)	14.65%	11.52%	11.95%
Portfolio at Risk (>30 days)	0.51%	0.19%	0.18%
Return on Assets (RoA)	4.6%	5.0%	5.7%
Return on Equity (RoE)	22.85%	16.91%	25.70%

Sound Asset Quality

Period	FY 2014	FY 2015	FY 2016	31/Dec/2016
	Value of Portfolio o/s (Rs. Thousands)	Value of Portfolio o/s (Rs. Thousands)	Value of Portfolio o/s (Rs. Thousands)	Value of Portfolio o/s (Rs. Thousands)
On time	1,235,346	2,285,061	4,865,112	5,568,451
1-30 days	1,494	740	1,616	214,403
31-60 days	325	374	307	32,386
61-90 days	277	133	401	2,590
91-180 days	442	618	653	2,268
181-360 days	943	641	1,412	1,371
> 360 days	4,329	2,615	5,929	7,300
Total	1,243,156	2,290,182	4,875,430	5,828,769

Adequate credit appraisal processes, monitoring and risk management mechanism have supported the company to keep asset quality indicators under control.

RGVN's Assets under Management (AUM) in FY 2016 witnessed robust growth of 113% over FY15 (84% growth seen in FY2015) while maintaining sound asset quality with over 99.50% over the same period. However the step of De-monetization impacted the Microfinance industry as a whole the resultant of which collection ratio declined to 80% in the first week. However Subsequent increased in supply of new currencies by RBI had led to improvement in collections in the fourth week and on time repayment for RGVN stood at 95.50% as on 31/Dec/2016.

Geographical Concentration

S.No.	Branch Name	No. of active borrowers	Loan Outstanding (in thousands)
1	Assam	330,810	5,466,172
2	Meghalaya	4,647	68,574
3	Arunachal Pradesh	3,342	50,011
4	Sikkim	9,897	162,769
5	Nagaland	1,980	23,825
6	Tripura	2,718	57,417
	TOTAL	353,394	5,828,768

As on Dec 31, 2016, the company remains exposed to geographical concentration risk with major loan portfolio outstanding in the state of Assam with ~ 94 per cent and ~ 06 per cent spread across five states namely Meghalaya, Arunachal Pradesh, Sikkim, Nagaland and Tripura.

SMERA believes that the company is exposed to political uncertainty in the state of Assam where the company has majority of the microfinance operations. Any political intervention in the existing states would materially affect the company's asset quality indicators. It would also be a key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

Moderate level of Management Information System (MIS)

RGVN has appointed department-wise personnel for operations, management information system (MIS), Internal Audit (IA), Finance & Accounts, Risk Audit Team and Human Resource. RGVN has documented operational policies covering details of loan products, field operations, credit approval and monitoring process etc.

RGVN has sound cash management system. All the disbursement to borrowers is made by cheque thereby encouraging minimum use of cash. Further the branch manager has been instructed to deposit excess cash after taking care of disbursement and collection plans in the branch bank account. Further the NBFC-MFI have availed cash in transit insurance and have also provided insurance to its members from third party insurance companies.

RGVN has dedicated internal audit team (headed by head of internal process who directly to the Board of Directors).The team conducts assessment of deviations from documented policies on a monthly and quarterly basis. Every quarter both the field audit and the accounting audit findings are submitted to the audit committee.

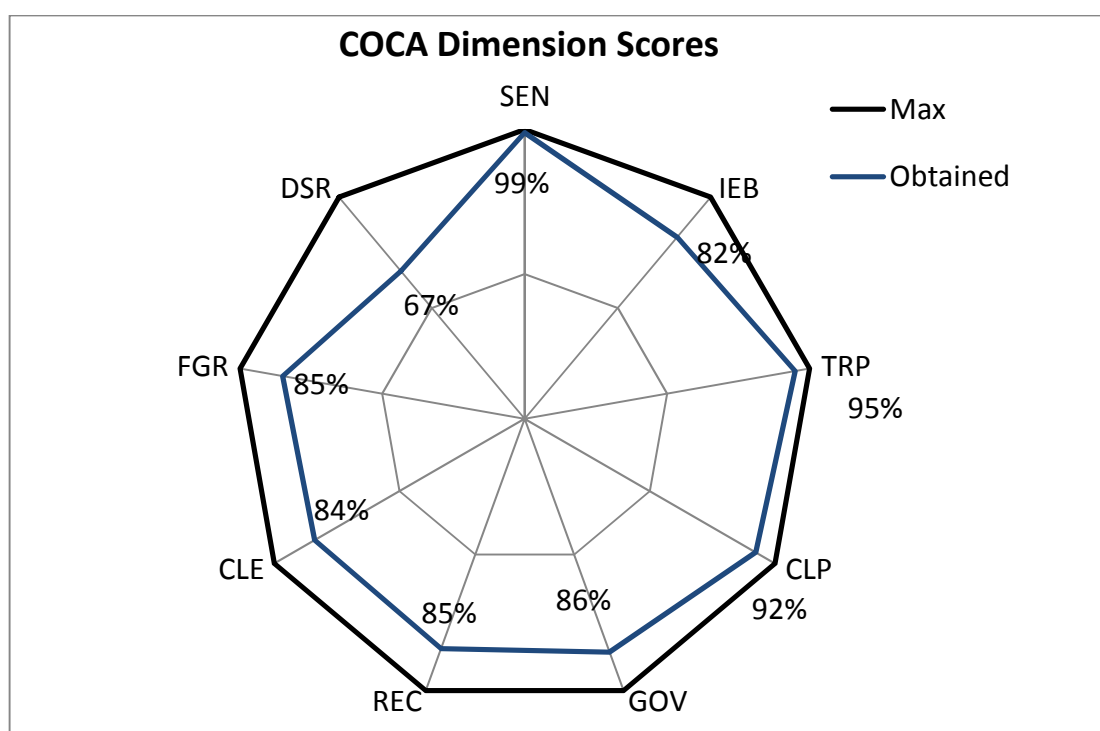
The current MIS system deployed in RGVN is 'BIJLI' customized software which seems to be moderate to handle the current and projected growth. The MIS lacks real time tracking of micro finance activities as Head office have to be dependent on branches for extracting information.

Operating Environment

- SMERA estimates the MFI sector to grow at a CAGR of 20%-25% and is expected to touch Rs.100000 crore by the end of FY2019.
- MFIs have reported an increase of ~58% in average loan per borrower in FY2016 as compared to FY2014. SMERA believes seasoned customer profile over multiple loan cycles have helped MFIs to increase its loan ticket size.
- The fund flow to the sector has improved on account of increased confidence on MFI sector coupled with reduction in interest rate (100-150 bps). Further large MFIs are exploring the route of Non-convertible debentures (NCDs) and Pass through Certificates (PTCs); whereas small –mid size MFIs have an increased access to funds from banks and financial institutions
- Support systems such as Self-Regulatory Organizations (SRO), Credit Information Bureaus (CIB) among others have been established to ensure credit check and process adherence among MFIs. This regulatory framework has brought more accountability and transparency within the sector.
- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which has moderated microfinance sector growth in FY2016-17 as compared to the previous year.

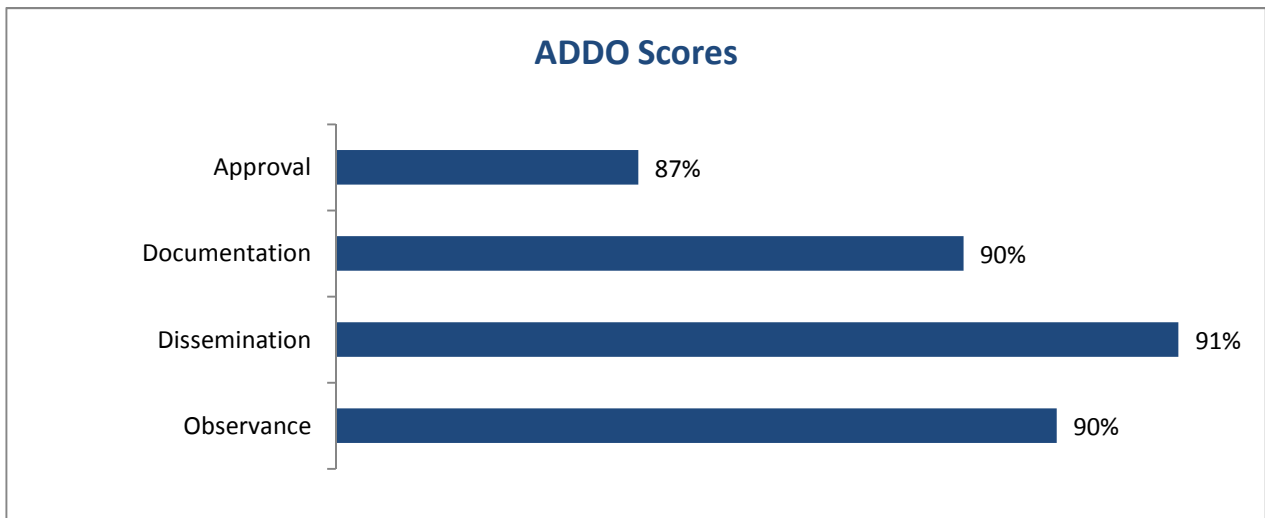
Section 2: Code of Conduct Assessment

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



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	99%
Integrity and Ethical Behavior	IEB	82%
Transparency	TRP	95%
Client Protection	CLP	92%
Governance	GOV	86%
Recruitment	REC	85%
Client Education	CLE	84%
Feedback & Grievance Redressal	FGR	85%
Data Sharing	DSR	67%



RGVN with an overall grade of “C2”, indicate **Good Performance on Code of Conduct dimensions.**

Code of Conduct Assessment Summary

The Code of Conduct report for RGVN evaluates the company's adherence to various Code of Conduct parameters. The study examines and comments upon the common minimum indicators such as:

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

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

Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> • Board with rich experience from banking and finance domain. • Experienced and qualified management who have considerable experience in microfinance industry are instrumental in growth of RGVN till date. • Transparency in loan pricing and policies. • Moderate software based MIS to handle current scale of operations. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower. • Board approved policies, compliant with the RBI guidelines. • Code of Conduct framed as per the RGVN's mission, vision, values and displayed in all branch offices & HO. • Membership with MFIN. • Credit policies are well established documented and communicated. • Adequate loan appraisal & monitoring systems. • Data sharing with credit bureau (Equifax and High Mark). 	<ul style="list-style-type: none"> • RGVN needs to strengthen its governance structure by inducting more independent members in its Board. • Internal audit checklist needs to be strengthened by incorporating important and critical aspects like awareness of branch staff regarding RBI compliances, Client grievance handling procedure and SRO specified guidelines. • Awareness among clients on insurance claim settlement and Grievance Redressal process was found to moderate in the branches visited. • Awareness among the staff on RBI compliance was found to be moderate. • RGVN do not take written consent from the client for sharing client data for third party disclosure. • RGVN needs to strengthen its internal audit team, process and system in order to cope with rising portfolio growth across geographies. • RGVN need to strengthen its insurance claim settlement process.

Significant Observations

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

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

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

	<ul style="list-style-type: none">• Dedicated team at HO level to documents and follow up on the client complaints.
Data Sharing	<ul style="list-style-type: none">• Operational & Financial data for FY 2016 is available on the website of RGVN.• MFI do not have a documented process for sharing data with the credit bureaus. However RGVN shares data with all credit bureaus.• MFI has provided data called for by SRO and RBI as and when required as per compliance.• RGVN performs compulsory credit bureau checks for all its clients.

Microfinance Grading Methodology

A) Operational Track Record

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

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

B) Promoters & Management Profile

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

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

C) Financial Performance

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

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

D) Asset Quality

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

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

E) System & Processes

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

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

COCA Methodology

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

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

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

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

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

Methodology

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

Sampling guidelines

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

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

Code of Conduct Assessment exercise requires:

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

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

Sr. No.	Branch	State	No of clients interviewed
1	Sonapur	Assam	18
2	Khetri	Assam	23
3	Nagaon	Assam	16
4	Samuguri	Assam	18
5	Tezpur	Assam	19
6	Jamugurihat	Assam	27
7	Borgang	Assam	26
8	Laluk	Assam	23
9	Narayanpur	Assam	20
10	Bandardewa	Assam	21
11	Tezpur	Assam	26
12	Missamari	Assam	16
13	Borihat	Assam	23
14	Bijaynagar	Assam	23
15	Baihata	Assam	20
16	Borka	Assam	19
17	Rangpo	Sikkim	19
18	Singtam	Sikkim	18
19	Gangtok	Sikkim	20
20	Jorthang	Sikkim	24
Total			419

Financial Statements

Profit & Loss Account (Rs. In Thousands)

Financial Year	2014	2015	2016
Months	12	12	12
	Audited		
Income			
Financial revenue from operations	332,297	425,417	779,148
Financial expenses from operations	(150,121)	(160,384)	(371,985)
Gross financial margin	182,176	265,033	434,496
Less: Provision for Loan Loss	(1,832)	(14,095)	(20,900)
Net financial margin	180,344	250,938	413,596
Less: Operating expenses			
Depreciation and Amortization Expense	(2,385)	(4,422)	(4,344)
Personnel Expense	(86,253)	(92,808)	(128,030)
Administration Expense	(23,966)	(50,422)	(41,122)
Net Operating income	67,740	103,286	240,100
Add: Non-Operating Revenue	2,598	5,496	1,185
Net income Before Exceptional items	70,338	108,782	241,285
Less: Expenses for Small Finance Bank	0	337	8,732
Less: Prior Period Expenses	0	0	8,283
Net income Before Tax	70,338	108,445	224,270
Less: Income Tax	(23,278)	(34,907)	(88,907)
Net income After Tax	47,060	73,538	135,363
Less: Dividend Payout	0	0	0
Net income After Tax (After Appropriations)	47,060	73,538	135,363

Note: Above financials are taken audited statements.

Balance Sheet (Rs in Thousands)

As on Date	31/03/14	31/03/15	31/03/16
	Audited		
SOURCES OF FUNDS			
Owners Capital	180,110	386,523	386,523
Reserves & Surplus	154,876	479,941	615,304
Share Premium	20,000	0	0
TOTAL EQUITY(A)	354,986	866,464	1,001,827
Liabilities			
Short-term liabilities			
<u>Short-term borrowings</u>			
Commercial Loans from banks/FI for microfinance	580,649	1,038,408	2,063,104
Interest payable on funding liabilities	5,371	8,551	51,234
Account payable & Other short-term liabilities	39,465	61,299	141,755
Total Short Term Liabilities(B)	625,485	1,108,258	2,256,093
Long-term liabilities			
<u>Long-term borrowings</u>			
Commercial Loans from banks/FI for microfinance	450,240	714,265	2,408,921
Concessional Loan/Subordinated Debt	0	0	0
Total Long Term Liabilities(C)	450,240	714,265	2,408,921
TOTAL OTHER LIABILITIES(D)	1,075,725	1,822,523	4,665,014
PROVISION FOR LOAN LOSS(E)	21,144	32,263	48,754
TOTAL LIABILITIES (A+B+C+D+E)	1,451,855	2,721,250	5,715,595

APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	14,148	17,095	18,840
Less: Depreciation	6,172	10,051	11,281
Total Fixed Assets(A)	7,976	7,044	7,559
Cash and Bank Balances(B)	152,060	323,512	637,749
Loan Portfolio *			
Gross Loan Portfolio	1,243,156	2,291,001	4,875,430
Less: Impairment Loss Allowance	-	-	-
Net Loan Portfolio(C)	1,243,156	2,291,001	4,875,430
Accounts Receivable and Other Assets(D)	45,232	87,366	173,335
Deferred Tax (E)	2,389	11,270	21,522
Intangibles (F)	1,042	1,057	0
TOTAL ASSETS (A+B+C+D+E+F)	1,451,855	2,721,250	5,715,595

About SMERA

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

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