



SMERA RATINGS LIMITED

**SMERA  
Comprehensive  
Grading**

**M8C5**

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

## **Comprehensive MFI Grading**

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**Sahara Utsarga Welfare Society**

***Date of Report:***

**31<sup>st</sup> March, 2017**

***Valid Till:***

**30<sup>th</sup> March, 2018**

## SMERA's MFI Comprehensive Grading Scale

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

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

Scale	C1	C2	C3	C4	C5
M1					
M2					
M3					
M4					
M5					
M6					
M7					
M8					M8C5

The MFI obtains comprehensive MFI grading of “**M8C5**”. It signifies lowest capacity of the MFI to manage its operations in a sustainable manner and weakest performance on code of conduct dimensions.

## Grading Rationale

<b>Microfinance Capacity Assessment Grade</b>	SUWS obtains “ <b>M8</b> ” as its performance grade which signifies “Lowest capacity of the organization to carry out its activities in a sustainable manner”.
<b>Code of Conduct Assessment Grade</b>	SUWS obtains “ <b>C5</b> ” as its Code of Conduct Assessment Grade which signifies weakest 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	Rating/Grading
19-08-2013	CRISIL	mfR4

## Microfinance Capacity Assessment Grading symbols and definitions

Grading Scale	Definitions
M1	MFIs with this grade are considered to have <b>highest</b> capacity to manage their microfinance operations in a sustainable manner.
M2	MFIs with this grade are considered to have <b>high</b> capacity to manage their microfinance operations in a sustainable manner.
M3	MFIs with this grade are considered to have <b>above average</b> capacity to manage their microfinance operations in a sustainable manner.
M4	MFIs with this grade are considered to have <b>average</b> capacity to manage their microfinance operations in a sustainable manner
M5	MFIs with this grade are considered to have <b>inadequate</b> capacity to manage their microfinance operations in a sustainable manner.
M6	MFIs with this grade are considered to have <b>low</b> capacity to manage their microfinance operations in a sustainable manner.
M7	MFIs with this grade are considered to have <b>very low</b> 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 <b>excellent</b> performance on Code of Conduct dimensions
C2	MFIs with this grade have <b>good</b> performance on Code of Conduct dimensions
C3	MFIs with this grade have <b>average</b> performance on Code of Conduct dimensions
C4	MFIs with this grade have <b>weak</b> performance on Code of Conduct dimensions
C5	MFIs with this grade have weakest performance on Code of Conduct dimensions

## Company Profile

D&B D-U-N-S® Number	86-026-4861	
Name of the MFI	Sahara Utsarga Welfare Society	
Operational Head – Microfinance Business	Name	Mr. Sudipta Banerjee
	Designation	Secretary
	Mobile No.	(91)-(9831238605)
	Email ID	<a href="mailto:suws.sudipta@gmail.com">suws.sudipta@gmail.com</a>
	Date of Joining	3 <sup>rd</sup> July,1996
Date of Incorporation/Establishment	1996	
Date of commencement of microfinance business	1998	
Legal Status	Welfare Society	
Business of the company	Microfinance services using Joint Liability Group (JLG)	
Correspondence Address	10/9, Chinar Park P.O: Hatiara, P.S. Baguiati New Town, Kolkata- 700157 West Bengal	
Geographical Reach (As on 28/Feb/2017)	No. of States	01
	No. of Districts	09
	No. of Branches	91
	No. of Active Borrowers	61375
	No. of Total Employees	448
	No. of Field/Credit Officers	426
Visit of the Assessment team	23 <sup>rd</sup> March, 2017 to 26 <sup>th</sup> March, 2017	

### **Product Profile**

Products	Description	Loan Size (Rs)	Interest Rate (A) (In %)	Processing Fee (B) (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
SHG	SHG	2000-20000	24.83%	1%	25.83%

### **Board of Directors/Promoters Profile**

Name	Position	Qualification
Kashinath Banerjee	President	M.A., B.Ed.
Sudipta Banerjee	Secretary	B.Com. Library Sc.
Sumita Chatterjee	Treasurer	M.A., B.Ed.
Manju Sen	Member	P.U.
Sahanara Khatun	Member	Under Graduate
Narayan Ch. Saha	Member	M.Com, MBA(Fin.), CAIIB (Banking)
Mala Ghosh	Member	B.Sc., P.G.Dipl. in Musicology.

## **Key Performance Ratios**

<b>Financial Ratios</b>	<b>31/Mar/2015</b>	<b>31/Mar/2016</b>	<b>28/Feb/2017</b>
<b><u>Capital Adequacy Ratio (CAR)</u></b>			
Capital Adequacy Ratio (%)	27.76	25.59	28.18
<b><u>Productivity / Efficiency Ratios</u></b>			
No. of active borrowers per staff member	144	143	137
No. of active borrowers per field/credit officers	153	149	144
No. of active borrowers per branch	722	703	674
Gross portfolio o/s per field/credit officers (In Rs.)	1035312	1042738	1112605
Average outstanding per borrower (In Rs.)	6737	6946	7495
Borrowers per field/credit officers	153	149	144
<b><u>Profitability / Sustainability Ratios</u></b>			
Yield on Portfolio (%)	25.84	23.89	28.18
Operational Self Sufficiency (%)	82.56	94.56	100.98
Operating Expense Ratio (OER)	80.26	93.94	67.91
Funding Expense Ratio (FER)	14.48	5.24	6.31
Return on Assets (RoA)	-4.83	-1.22	0.25
Return on Equity (RoE)	-18.20	-5.20	1.10
Portfolio at Risk (>30 days)	1.25	1.38	6.97



### Highlights of Microfinance Operations

Particulars	31/Mar/2014	31/Mar/2015	31/Mar/2016	28/Feb/2017
No. of States	1	1	1	1
No. of Districts	8	9	9	9
No. of Branches	88	91	91	91
No. of Active Members	84718	94964	104943	113539
No. of Active Borrowers	61115	65705	64023	61375
No. of Total Employees	461	455	447	448
No. of Field/Credit Officers	433	428	428	426
No. of SHGs	6448	6599	6516	6531
No. of JLGS	-	-	-	-
No. of Individual Loans	61115	65705	64023	61375
<b>OWNED PORTFOLIO</b>				
Particulars	31/Mar/2014	31/Mar/2015	31/Mar/2016	28/Feb/2017
Total loan disbursements during the year (in crore) <b>(Owned Portfolio)</b>	80.63	74.47	96.56	89.65
Total portfolio outstanding (in crore) <b>(Owned Portfolio)</b>	44.22	44.31	44.63	47.37

## Compliance with RBI's Directives for MFIs

RBI's Direction	Company Status (Auditor Certified)	Compliance Status
85% of total assets to be in the nature of qualifying assets	Qualifying assets forms 93.22% of total assets as on 28 <sup>th</sup> Feb, 2017	Complied
Net worth to be in excess of Rs 5 Crore	Net Owned Funds stood at Rs 11.53 crore as on 28 <sup>th</sup> Feb, 2017	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*	SUWS extends loans to households whose income does not exceed Rs 1,00,000 in rural and Rs 1,60,000 in urban areas	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	SUWS offers loan in the range of Rs 5000 to Rs 20000 depending on client repayment capacity, type of activity etc	Complied
Total indebtedness of the borrower not to exceed Rs 100,000 (excluding medical and education loans)*	SUWS does not extend loan to any borrowers where total indebtedness exceeds Rs100,000 (excluding medical and education loans)	Complied
Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	SUWS offers maximum loans of Rs 20,000 for tenure for maximum 12 months.	Complied
Pricing guidelines are to be followed	Loans are provided in range of 24.83% 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	SUWS does not lend any client where borrowing exceeds from 1 MFI.	Complied
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	SUWS is charging processing fee of 1% on the disbursed loan amount.	Complied
Collateral free loans	SUWS does not accept any Collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	SUWS does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	SUWS does not take late payment or prepayment penalties from the clients.	Complied

<p>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.</p>	<p>SUWS share its client Data with Equifax.</p>	<p>Complied</p>
<p>Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs</p>	<p>SUWS provides more than 96.86% of total loans for income generation activities as on 28<sup>th</sup> Feb, 2017.</p>	<p>Complied</p>
<p>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.</p>	<p>SUWS stood at 28.18 % as of 28th Feb, 2017 which complies with the minimum CRAR requirement of 15 % for NBFC-MFIs as prescribed by RBI. SAHARA does not have any exposure in Andhra Pradesh.</p>	<p>Complied</p>
<p>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'.</p>	<p>SUWS maintained loan provisions as per the prescribed RBI guidelines.</p>	<p>Complied</p>

## Section 1: Microfinance Capacity Assessment Grading

### **Track record in the microfinance space and promoters experience**

- Sahara Utsarga Welfare Society (SUWS) was established in 1993 it came into microfinance operation effectively in the year 1998.
- SUWS has seven-member board as on March 2017 having extensive experience in the banking and finance segment. SMERA feels that SUWS should strengthen its governance structure by inducting more independent members in its Board.
- Mr. Sudipta Banerjee, Secretary is associated with SUWS since 1993. Mr. Banerjee has over 2 decades of experience in the microfinance industry.

### **Concentrated Resource Profile**

- SUWS has developed funding relationships with 5 lenders. However the company's resources profile continues to remain concentrated towards borrowings from 2 lenders which stood at 63% of total external borrowings as on February 28, 2017.

### **Ongoing default because of weak liquidity profile**

- There is ongoing default on the bank borrowings. The legal proceedings are under process.

### **Moderate capitalisation**

- SUWS has moderate capitalisation marked by gearing of 3.3 times as on March 31, 2016. CRAR stood at 28.18% as on Feb 28, 2017.

### **Weak Asset Quality**

- SUWS has a weak asset quality as on Feb 28, 2017. Portfolio at Risk (>30 days) stood high at 8.55% as on 28/Feb/2017.

### **Portfolio Concentration**

- SUWS's microfinance operation is concentrated in the state of West Bengal. The company is exposed to high level of political uncertainty in the state of West Bengal where the company has entire microfinance operations. Any political intervention in the existing state would significantly affect the company's asset quality indicators.

### **Income and Profitability**

- SUWS has reported net loss of Rs.6118 (in thousands) on total income of Rs.105212 (in thousands) in FY2016 as compared to net loss of Rs.24174 (in thousands) on total income of Rs.113316 (in thousands) in FY2015.

### **Moderate MIS & IT infrastructure considering the current scale of operations**

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

### **Moderate Audit Mechanism**

- The company does quarterly audit of its branches, the scope of audit majorly covers field and borrower visit, loan documents verification, and head office audit. The audit findings are presented to the audit committee set-up at board level.

### **Inherent risk prevalent in the microfinance sector**

- SUWS's business risk profile is susceptible to regulatory and legislative risks, along with the inherent risk exist such as unsecured nature of lending, vulnerable customer profile, exposure to vagaries of political situation in states, and cash handling associated with the MFI sector.

### **Operating Environment**

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

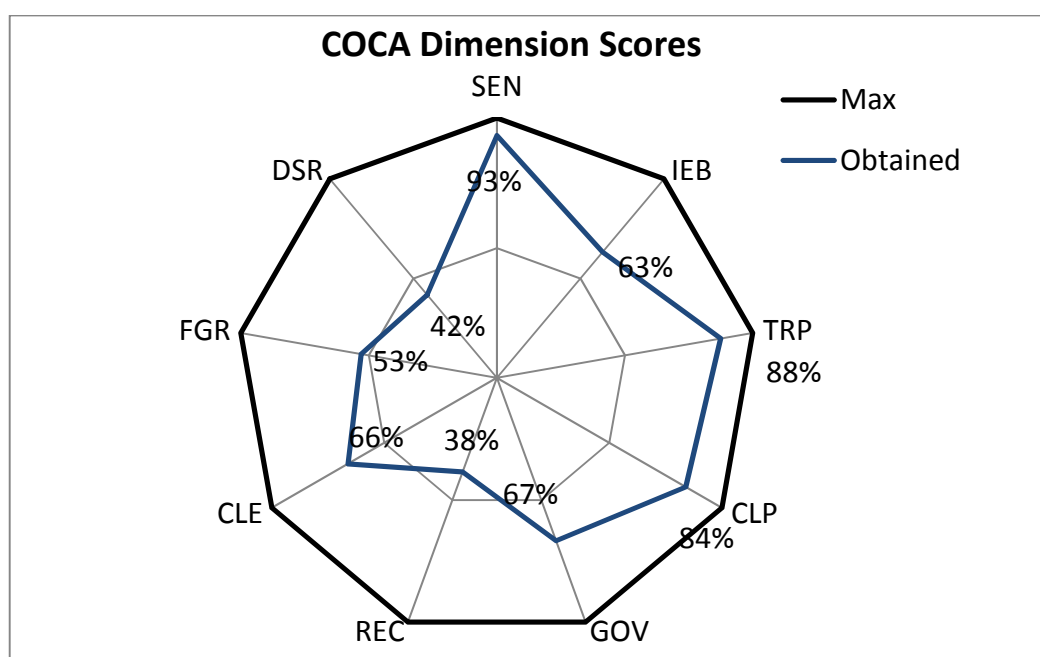


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- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which has moderated microfinance sector growth in FY2016-17 as compared to the previous year.

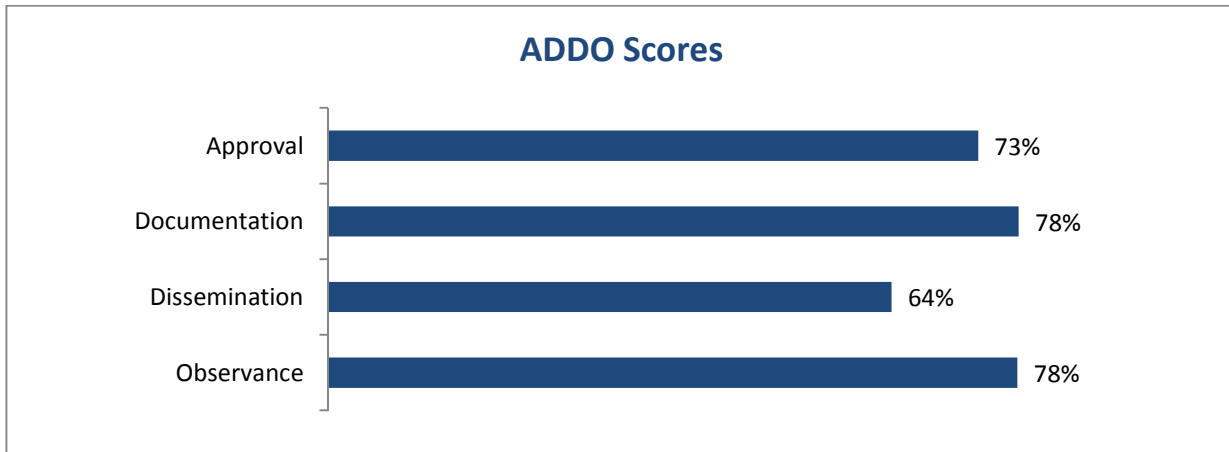
## Section 2: Code of Conduct Assessment

COCA Grading – C5 (Weakest Performance on Code of Conduct dimensions)



### SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	93%
Integrity and Ethical Behavior	IEB	63%
Transparency	TRP	88%
Client Protection	CLP	84%
Governance	GOV	67%
Recruitment	REC	38%
Client Education	CLE	66%
Feedback & Grievance Redressal	FGR	53%
Data Sharing	DSR	42%



SUWC with an overall grade of “C5”, indicate **Weakest Performance on Code of Conduct dimensions.**



## Code of Conduct Assessment Summary

The Code of Conduct report for SUWC 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 SUWC exhibits weakest 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 SUWC's adherence towards ethical operational practices.

## Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• SUWC has seven-member on its board as on Mar 31, 2017 having extensive experience in the banking and finance segment.</li> <li>• Membership with Sa-dhan.</li> <li>• Developed its own client protection principles and is displayed in all the branches</li> <li>• Compulsory training on products terms and conditions to client prior to every loan.</li> <li>• Compulsory check on over indebtedness of every borrower.</li> </ul>	<ul style="list-style-type: none"> <li>• SUWS needs to strengthen its governance structure by inducting more independent members in its Board.</li> <li>• There is no proper system to track cash flow analysis and surpluses available with clients.</li> <li>• Moderate Management Information System (MIS) and Information Technology (IT) considering the current scale of operations and projected growth.</li> <li>• Awareness to its clients/members pertaining to interest rate, insurance claim settlements, grievance Redressal mechanism found to be weak.</li> <li>• Internal Audit checklist should cover more Code of Conduct aspects like awareness regarding Reserve Bank of India (RBI) compliance and Self-Regulatory Organization (SRO) among its staff members.</li> <li>• Credit policies are not well documented and communicated to the staff members.</li> <li>• Awareness among client and staff on SRO Grievance Redressal mechanism was found to be weak.</li> <li>• Awareness among the staff on RBI compliances was found to be weak.</li> <li>• Inadequate loan appraisal &amp; monitoring systems.</li> </ul>

## Significant Observations

HIGHER ORDER INDICATORS	
<b>Integrity and Ethical Behaviour</b>	<ul style="list-style-type: none"> <li>• The MFI does not have the policy to place reports on COC compliance before the board. However the same is reviewed by management level at regular interval.</li> <li>• Audit findings related to grievance and field audit are presented at board level.</li> <li>• SUWS has no policy for recovering delinquent loans.</li> <li>• Limited policy on time frame and process for client's complaint resolution.</li> <li>• As informed by the management that the MFI has recruited staff from another MFI in the past.</li> <li>• In all the branches visited, the contact number and address of SRO nodal official was displayed.</li> <li>• Staff compensation and incentive is not covered under scope of Internal Audit.</li> <li>• Awareness among client and staff on SRO Grievance Redressal mechanism was found to be weak.</li> <li>• Fixed Component compensation of staff is not impacted in event of overdues. SUWC, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.</li> </ul>
<b>Sensitive Indicators</b>	<ul style="list-style-type: none"> <li>• In the sample of clients during COCA on the total indebtedness of borrower was within the prescribed limit stipulated by RBI.</li> <li>• Interactions with clients revealed that they had not been made to pay for a service or product as a precondition for loan.</li> <li>• Not a single instance was found where security deposit/collateral/blank cheques/stamp papers had been obtained from a client, whose loan has been classified as a microfinance loan.</li> <li>• Awareness to its clients/members pertaining to interest rate and insurance claim settlements found moderate to weak.</li> <li>• SUWC provide repayment schedule to the clients including break-up of principle and interest.</li> <li>• Awareness among the staff on RBI compliance was found to be inadequate.</li> <li>• There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• SUWC shares data with Equifax and not with all Credit Bureaus.</li> <li>• SUWC does not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans. However the organization does not have a well-documented policy on pre-payments.</li> <li>• The MFI get an external CA agency to certify its compliance with RBI's directions in relation to margin for lending by MFIs to qualify as priority sector loans.</li> </ul>

BUILDING BLOCKS	
<b>Transparency</b>	<ul style="list-style-type: none"> <li>• Awareness among the staff on RBI guidelines was found to be inadequate.</li> <li>• SUWC has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages.</li> <li>• Circulars with the most recent directions are not available in the visited branches.</li> <li>• SUWC, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.</li> <li>• The loan interest rate and processing fees is mentioned on the loan passbook provided to the client.</li> <li>• Clients interviewed were moderately aware of the charges and price for all services availed.</li> <li>• SUWC do not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans. However the organization does not have a well-documented policy on pre-payments.</li> <li>• SUWC does not issue any sanction letters to the clients. However all terms and conditions of the loan including annualized interest rates are covered in the loan agreement but not provided to the client.</li> <li>• Code of conduct compliance report of SUWC &amp; previous financial year annual financial statement and report is not available in the public domain.</li> <li>• SUWC provide repayment schedule to the clients including break-up of principle and interest.</li> <li>• SUWC do not document why a loan has not been sanctioned against an accepted loan application.</li> </ul>
<b>Client Protection</b>	<ul style="list-style-type: none"> <li>• SUWC do not have a board-approved policy regarding client data security.</li> <li>• Employees are trained on aspects of appropriate behavior with the clients.</li> <li>• SUWC has no documented policy on client data security which forms part of its fair practice code</li> <li>• Framed client protection included policies on expected staff conduct with employees.</li> <li>• Staffs were found to be aware of the need to have professional conduct with the clients.</li> <li>• Internal Audit checklist should cover more aspects like awareness regarding Reserve Bank of India (RBI) compliance and Self-Regulatory Organization (SRO) among its staff members.</li> <li>• Limited backup of client's data maintained in electronic form.</li> <li>• Awareness among the branch staff on RBI compliance was found to be inadequate.</li> </ul>

<p style="text-align: center;"><b>Governance</b></p>	<ul style="list-style-type: none"> <li>• SUWC has seven-member on its board as on March 31, 2017 having extensive experience in the banking and finance segment. There is a need to strengthen the governance structure.</li> <li>• Audit findings related to grievance and field audit are presented at board level. However no supporting document is available with SMERA.</li> <li>• The MFI does not have the policy to place reports on COC compliance before the board. However the same is reviewed by management level at regular interval.</li> <li>• The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year.</li> <li>• No adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• Action taken audit report not available at branch level.</li> <li>• Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit.</li> <li>• Branch staff interviewed was not fully aware of reschedulement policy and procedure.</li> </ul>
<p style="text-align: center;"><b>Recruitment</b></p>	<ul style="list-style-type: none"> <li>• SUWC'S Board has reviewed its recruitment policies at least once annually.</li> <li>• As informed by management, MFI obtains NOC or relieving letter from the previous employee. However no supporting document is available with SMERA.</li> <li>• SUWC do not have a documented policy 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.</li> </ul>
<p style="text-align: center;"><b>Client Education</b></p>	<ul style="list-style-type: none"> <li>• SUWC, in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services. However no supporting document is available with SMERA.</li> <li>• SUWC does not charge clients for the trainings provided to clients, itself or through a related party.</li> <li>• Awareness to its clients/members pertaining to interest rate and insurance claim settlements found moderate to weak.</li> </ul>
<p style="text-align: center;"><b>Feedback and Grievance Redressal</b></p>	<ul style="list-style-type: none"> <li>• As informed by the management, 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. However no supporting document is available with SMERA.</li> <li>• SUWC do not have a policy on time frame and process for client's complaint resolution.</li> <li>• Clients were found to be aware of the helpline number</li> <li>• In all the branches visited, the contact number and address of SRO nodal official was properly displayed.</li> <li>• The company does not maintain a record of the action taken and complaints resolved.</li> <li>• Awareness among client and staff on SRO Grievance Redressal mechanism was found to be weak.</li> <li>• SUWC do not prepare monthly reports about the number, nature</li> </ul>

	and resolution of grievances and feedback received for management review.
<b>Data Sharing</b>	<ul style="list-style-type: none"><li>• Code of Conduct Report, Operational &amp; Financial data for FY 2016 is not available on the website of SUWS.</li><li>• MFI do not have a documented process for sharing data with the credit bureaus. However SUWS shares data with Equifax and not with all Credit Bureaus.</li><li>• MFI has provided data called for by Sa-Dhan as and when required as per compliance.</li></ul>



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# ANNEXURES

## Microfinance Grading Methodology

### A) Operational Track Record

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

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

### B) Promoters & Management Profile

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

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

### C) Financial Performance

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

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



#### **D) Asset Quality**

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

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

#### **E) System & Processes**

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

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

## COCA Methodology

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

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

<b>Highest Order</b>	
Sensitive Indicators	
<b>Higher Order</b>	
Integrity & Ethical Behaviour	
<b>Building Blocks</b>	
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
<b>Total</b>	<b>250</b>

## Methodology

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

## Sampling guidelines

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

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

### Code of Conduct Assessment exercise requires:

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

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

Sr. No.	Branch	State	No of clients interviewed
1	Bakrahat	West Bengal	19
2	Mahestala	West Bengal	14
3	Diamond Harbour	West Bengal	26
4	Begampur	West Bengal	28
5	Doltala	West Bengal	26
6	Khilkapur	West Bengal	20
7	Nilgange	West Bengal	22
8	Dankuni	West Bengal	27
<b>Total</b>			<b>182</b>

## Financial Statements

### Profit and Loss Account (Amount in Thousands)

Financial Year	2014	2015	2016
Months	12	12	12
	Audited	Audited	Audited
<b>Financial revenue from operations (a)</b>	<b>1,13,010</b>	<b>1,13,316</b>	<b>1,05,212</b>
Interest and fee revenue from loans	96,771	97,140	87,975
Other Operating Revenue	16,239	16,176	17,237
<b>Financial expenses from operations (b)</b>	<b>49,097</b>	<b>44,887</b>	<b>15,742</b>
Interest and Fee Expense on Borrowings	49,097	44,887	15,742
<b>Gross financial margin (c=a-b)</b>	<b>63,913</b>	<b>68,429</b>	<b>89,470</b>
<b>Impairment Losses on Loans (d)</b>	<b>1,858</b>	<b>5,853</b>	<b>491</b>
Provision for Loan Loss / Write off	1,858	5,853	491
<b>Net financial margin (e=c-d)</b>	<b>62,055</b>	<b>62,576</b>	<b>88,979</b>
<b>Operating expenses (f)</b>	<b>79,064</b>	<b>82,055</b>	<b>87,690</b>
Personnel Expense	52,676	54,348	53,245
<u>Administrative Expense</u>			
Depreciation and Amortization Expense	1,566	1,594	1,575
Other Administrative Expense	24,822	26,113	32,870
<b>Net operating income (g=e-f)</b>	<b>-17,009</b>	<b>-19,479</b>	<b>1,289</b>
<b>Net Non-Operating Income/(Expense)</b>	<b>1,811</b>	<b>-4,695</b>	<b>-7,407</b>
Non-Operating Revenue (h)	1,811	1,088	1,049
Non-Operating Expense(i)	0	5,783	8,456
<b>Net income before taxes (j=g+h-i)</b>	<b>-15,198</b>	<b>-24,174</b>	<b>-6,118</b>
Income Tax (k)	0	0	0
<b>Net income after Tax (j-k)</b>	<b>-15,198</b>	<b>-24,174</b>	<b>-6,118</b>

**Fiscal Balance Sheet As On Date (Amount in Thousands)**

As on date	31-Mar-14	31-Mar-15	31-Mar-16
	Audited	Audited	Audited
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
Equity Share Capital	51,561	51,561	51,561
<b>Share Capital</b>	<b>51,561</b>	<b>51,561</b>	<b>51,561</b>
Reserves	92,897	68,724	62,605
<b>TOTAL EQUITY</b>	<b>1,44,458</b>	<b>1,20,285</b>	<b>1,14,166</b>
<b>Liabilities</b>			
<b>Short-term liabilities</b>	<b>2,88,581</b>	<b>3,55,937</b>	<b>3,66,063</b>
<u>Short-term borrowings</u>			
Commercial Loans from banks/FI	2,48,900	2,80,618	2,76,493
Interest Payable	27,926	65,851	79,097
Account payable & Other short-term liabilities	11,755	9,468	10,473
<b>Long-term liabilities</b>	<b>68,547</b>	<b>22,907</b>	<b>21,957</b>
<u>Long-term borrowings</u>			
Commercial Loans from banks/FI	68,068	22,500	21,600
Deferred Grants	479	407	357
<b>TOTAL OTHER LIABILITIES</b>	<b>3,57,128</b>	<b>3,78,844</b>	<b>3,88,020</b>
Provision for Loan Loss	5,620	7,491	4,308
<b>Provisions</b>	<b>5,620</b>	<b>7,491</b>	<b>4,308</b>
<b>TOTAL LIABILITIES</b>	<b>5,07,206</b>	<b>5,06,620</b>	<b>5,06,494</b>

As on date	31-Mar-14	31-Mar-15	31-Mar-16
	Audited	Audited	Audited
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross Block	17,909	19,195	19,844
Less: Accumulated Depreciation and Amortization	9,155	10,819	12,445
<b>Net Block</b>	<b>8,754</b>	<b>8,376</b>	<b>7,399</b>
Cash and Bank Balances	39,523	35,929	32,105
Investment in Mutual Funds	2,354	2,339	2,339
<b>Loan Portfolio</b>			
Gross Loan Portfolio	4,42,251	4,43,113	4,46,292
Less: Provisions	0	0	0
<b>Net Loan Portfolio</b>	<b>4,42,251</b>	<b>4,43,113</b>	<b>4,46,292</b>
Accounts Receivable and Other Assets	14,324	16,863	18,359
<b>TOTAL ASSETS</b>	<b>5,07,206</b>	<b>5,06,620</b>	<b>5,06,494</b>

## 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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