



SMERA RATINGS LIMITED

**SMERA
Comprehensive
Grading**

M3C3

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

Comprehensive MFI Grading

SAKHI SAMUDAYA KOSH

Date of Report:

30th March, 2017

Valid Till:

29th 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			M3C3		
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of “M3C3”. It signifies above average capacity of the MFI to manage its operations in a sustainable manner and average performance on code of conduct dimensions.

Grading Rationale

<p>Microfinance Capacity Assessment Grade</p>	<p>SSK obtains “M3” as its performance grade which signifies “Above average capacity of the organization to carry out its activities in a sustainable manner”. The organization has excellent portfolio quality and management system but it has a relatively low capital base. Its loan portfolio is also concentrated in a limited geographical area.</p>
<p>Code of Conduct Assessment Grade</p>	<p>SSK obtains “C3” as its Code of Conduct Assessment Grade which signifies average performance on COCA dimensions.</p>

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

Conflict of Interest Declaration

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

Disclaimer

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

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

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

Historical Rating Grades

Date	Rating Agency	Comprehensive rating grade
Aug 2016	SMERA Ratings Limited	MFI 3
Mar 2016	M2i Consulting	Score:83%, Very Good Level of Adherence

Microfinance Capacity Assessment Grading symbols and definitions

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

Code of Conduct Assessment scale and definitions

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

Company Profile

D&B D-U-N-S® Number	86-346-0849
Name of the MFI	SAKHI SAMUDAYA KOSH (SSK)
Year of Commencement of Operations	2006
Legal Status	Section 25 of Indian Companies Act, 1956
Business of the Company	Microfinance Services Using Self Help Group (SHG) Model
Correspondence address	Plot No. 56B, Behind Lokhandwala Vihar, Hotgi Road, Solapur – 413 003 Maharashtra India
Geographical Reach (As on 28/Feb/2017)	No of States : 01 No of Districts : 06 No of Branches : 06
Total Employees (As on 28/Feb/2017)	33
Active Borrowers (As on 28/Feb/2017)	8,528
Operational Head	Mr. Rajesh Badakh, CEO Email ID: rajeshbadakh@gmail.com
Visit of the Assessment team	15 th March,2017 to 18 th March,2017

Product Profile

Products	Description	Loan Size (Rs)	Interest Rate (A) (In %)	Processing Fee (B) (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
Short Term Loan	Loan Payable within 1 year	Upper loan ceiling per member Rs. 15000/-	26% daily reducing	1%	27%
Agri Loan	Loans are related to Agri and Agri Allied	15000/- to 25000/-	26% daily reducing	1%	27%
Enterprise Loan	Business Loan	25000/- to 50,000/-	26% daily reducing	1%	27%
Cattle Loan	Loan given for livestock	25,000/- to 50,000/-	26% daily reducing	1%	27%
H.E.S Loans (HESL)	House Repair Loan	10,000/-	21% daily reducing	1%	22%
House Repair Loan (HRL)	House Repair Loan	15000/-	-	-	-
Festival Loan (FL)	Festival Loan	5,000/-	22% Daily reducing	1%	23%
Micro Enterprise Loan (MEL)	Micro Enterprise Loan	50,000/- to 2,50,000/-	22% daily reducing	1%	23%

Promoters Profile

Name	Position	Qualification	Brief Profile
Ms. Prema Gopalan	Chairperson	M. Phil, MSW	<ul style="list-style-type: none"> • Founder and Executive director of Swayam Shikshan Prayog (SSP),SSK's parent NGO. • Expertise in monitoring and evaluation of community driven projects in micro finance, rural enterprise, water and sanitation, disaster reduction and local governance.
Mr. Sadananda	Director	Engineering (Mechanical) Diploma in Business Management	<ul style="list-style-type: none"> • Consultant on rural enterprise, Rural Market Development, Public-Private Partnership, Sector and Sub-Sector Analysis, feasibility study and HR development
Ms. Lalitha Mahadevan	Director	B. Com.	<ul style="list-style-type: none"> • Development banker with almost four decades of experience • Head of the women and environment cell of NABARD between 1992 and 2001
Mr. Narahari Rao	Director	B. Sc., LLB, Cost and Works Accountant (ICWA)	<ul style="list-style-type: none"> • Management professional with extensive experience in the development, design and execution of systems covering the areas of Organizational Restructuring, Business process review, Information Technology, Business Intelligence, Feasibility studies for new projects, Financial management, Working Capital control, Funds management and Human Resource management. • He has held positions of General Manager, Financial Controller, etc. in various companies in the Pharmaceutical, Engineering, Logistics, Packaging and Printing industries in India, Oman and the UAE.

Senior Management Profile

Name	Position	Qualification	Years of Experience in Microfinance industry
Mr. Rajesh Badakh	CEO	M.M.S.	08
Mr. Pramod Madhekar	Operations Manager	B.Sc	02
Mrs. Laxmi Chandane	Senior Area Head	M.S.W	08
Mr. Amar Shrimal	Account & Finance Manager	M. Com	05

Key Performance Ratios

Ratios	Mar-2014	Mar-2015	Mar-2016
	12	12	12
<u>Capital Adequacy Ratio (CAR)</u>			
Capital Adequacy Ratio (%)	23.6%	27.3%	26.9%
<u>Productivity / Efficiency Ratios *</u>			
No. of Active Borrowers Per Staff Member	209	211	262
No. of Active Borrowers per field executives	386	370	648
Gross Portfolio o/s per field executive (` in thousands)	3,333	2,253	3,573
Average Outstanding Balance Per borrower (In Rs.)	12,777	11,968	14,317
Cost Per Active borrower (In Rs.)	1,066	1,116	902
<u>Asset / Liability Management</u>			
Yield on Portfolio (%)	23.4%	22.7%	25.00%
<u>Profitability / Sustainability Ratios</u>			
Operational Self Sufficiency (%)	107%	102.6%	107.6%
Operating Expense Ratio (OER)	13.4%	16.4%	17.3%
Funding Expense Ratio (FER)	12.44%	11.62%	13.45%
Return on Assets (RoA)	1.3%	0.5%	1.4%
Portfolio at Risk (>30 days)	0.20	0.85	0.38
Return on Equity (RoE)	8.06%	2.67%	7.26%

**Overall Productivity/efficiency ratios factors the total assets under management i.e. owned and managed portfolio during the period under study.*

Highlights of Microfinance Operations

Particulars	31/Mar/2014	31/Mar/2015	31/Mar/2016	28/Feb/2017
No. of States	01	01	01	01
No. of Districts	06	06	06	06
No. of Branches	05	06	06	06
No. of Active Members	7723	8871	11024	8528
No. of Active Borrowers	7723	8871	11024	8528
No. of Total Employees	37	42	42	33
No. of Field/Credit Officers	20	24	17	20
No. of SHGs	1170	1596	1822	2406
No. of JLGS	0	0	0	0
No. of Individual Loans	0	0	0	0
OWNED PORTFOLIO				
Particulars	31/Mar/2014	31/Mar/2015	31/Mar/2016	28/Feb/2017
Total loan disbursements during the year (in crore) (Owned Portfolio)	9.37	10.82	7.43	4.55
Total portfolio outstanding (in crore) (Owned Portfolio)	6.67	5.41	6.07	5.89
MANAGED/BC PORTFOLIO				
Particulars	31/Mar/2014	31/Mar/2015	31/Mar/2016	28/Feb/2017
Total loan disbursements during the year (in crore) (Managed/BC Portfolio)	2.04	5.10	5.26	2.02
Total portfolio outstanding (in crore) (Managed/BC Portfolio)	3.95	7.39	9.76	6.40

Compliance with RBI's Directives for MFIs

RBI's Direction	SSK Status	Compliance
85% of total assets to be in the nature of qualifying assets	Income generation loan forms 91.00% of total assets	Complied
Net worth to be in excess of Rs 5 Crore	Corpus Funds stood at Rs 2.08 cr	Non-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*	SSK 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*	SSK offers loan of Rs.15,000 in 1st cycle and will get additional Rs 5,000 in subsequent cycle 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)*	SSK conducts credit check on the loans outstanding through credit bureau.	Complied
Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	SSK offers loans of Rs 15,000 for tenure of 12 months and loans of above RS 15,000 for 24 months.	Complied
Pricing guidelines are to be followed	Loans are provided at 26.00% 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	SSK verifies the same though credit check from credit bureau.	Complied

RBI's Direction	SSK Status	Compliance
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	SSK is charging processing fee of 1.00% on the disbursed loan amount plus applicable service tax	Complied
Collateral free loans	SSK does not accept any Collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	SSK does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	SSK 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.	SSK shares its client data with Crif Highmark and Equifax	Complied
Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs	SSK provides 76% 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 Audited financials CRAR of SSK to be 26.9% as of 31/Mar/2016 which complies with the minimum CRAR requirement of 15% for NBFC-MFIs as prescribed by RBI. SSK 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 instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more'.	Appropriate provisions have not been made	Non Complied

Section 1: Microfinance Capacity Assessment Grading

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 Organisations (SRO), Credit Information Bureaus (CIB) among others have been established to ensure credit check and process adherence among MFIs. This regulatory framework will bring more accountability and transparency within the sector.
- Despite all developments in the sector the inherent risk exist such as unsecured nature of lending, vulnerable customer profile, exposure to vagaries of political situation in states, and cash handling (though which is expected to reduce with demonetization step taken by Government), and so on.
- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which is expected to moderate microfinance sector growth in FY2016-17 as compared to the previous year.

Long track record of operations and extensive industry experience of promoters

- Sakhi Samudaya Kosh (SSK) is a not-for-profit company registered under section 25 of Companies Act, 1956 on 24/Feb/2006. SSK was established as microfinance arm by Swayam Shikshan Prayog (SSP), non-governmental organization (NGO) formed in 1989 by Mrs. Prema Gopalan as a self-education network for women's empowerment, including poverty alleviation and promoting literacy and social justice for women.
- In the year 2006, microfinance operations were separated from SSP and SSK was formed primarily to provide microfinance services to SHGs formed by SSP. It was formed to provide the technical expertise and staff to administer micro-credit to SHGs in a sustainable manner.
- SSK has four-member on board as on Feb-2017 having considerable experience in development and financial sector.
- Rajesh Badakh, CEO is Development professional with almost a decade of working experience at grass root level in Maharashtra with strong understanding of local communities especially in western Maharashtra.

Limited resource profile

- SSK has developed funding relationships with 07 lenders (including 03 PSU banks) however their resources profile continues to remain concentrated with borrowings from Indian Bank accounting for 80 per cent of the total borrowings (outstanding debt) as on Feb 28, 2017.
- The cost of funds (COF) for SSK stood relatively better at 13.44% in FY 2016 on account of majority of its exposure from PSU banks. SSK'S ability to raise adequate resources from diverse set of lenders to meet the projected growth will be monitored in future.

Comfortable capitalisation and liquidity profile

- SSK has a comfortable capitalisation profile with capital adequacy (CAR) at 26.9% as on March 31, 2016 on infusion of internal accruals and grants at regular interval during the period under study.
- SSK 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.
- SSK intends to grow its portfolio in the range of 30% to 40% over the medium term and hence achievement of future targets mainly depends on the ability of SSK to acquire diverse set of lenders.

Sound asset quality

Period	FY 2014	FY 2015	FY 2016	28/Feb/2017
	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)
On-time	10.595	12.649	15.723	12.21
1-30 days	0.017	0.039	0.048	0.046
31-60 days	0.000	0.020	0.000	0.024
61-90 days	0.000	0.003	0.000	0.001
91-180 days	0.000	0.015	0.011	0.009
181-360 days	0.000	0.032	0.000	0.004
> 360 days	0.004	0.000	0.001	0.000
Write-off	0.000	0.044	0.046	0.000
Total	10.616	12.802	15.829	12.294

Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control. Further, Portfolio at Risk (>30 days) continues to be comfortable and it stood at 0.31% as on 28/Feb/2017.

Geographical Concentration

Name of the Branch	No. of Active Borrowers	Portfolio o/s (in crore) (As on 28-Feb-2017)
Solapur	2,128	2.74
Vairag	1,162	1.84
Osmanabad	1,190	1.53
Naldurg	1,222	1.65
Ambajogai	1,068	1.65
Udgir	1,758	2.88
	8,528	12.29

- SSK Portfolio is concentrated in 06 districts of Maharashtra. SMERA believes that any political intervention in the existing states would materially affect the company's asset quality indicators.
- It would be key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

Income and Profitability

- Although, SSK registered a growth in its loan portfolio and income from operations in FY 2016 over FY 2014 but the scale of operations is relatively moderate in comparison to other MFI players rated by SMERA in the past. Income from operations for SSK has increased during the period under study on account of increase in AUM majorly supported by managed portfolio. PAT stands at Rs.1,025 (in thousands) on total income of Rs.20,064 (in thousands) in FY2016 as compared to a PAT of Rs.980 (in thousands) on a total income of Rs.18,043 (in thousands) in FY2014.
- As on Feb 28, 2017, out of total portfolio outstanding of Rs.122,900 (in thousands), managed portfolio is Rs 64,000 (in thousands) which is ~ 52.07% of total portfolio.
- The profitability and operating efficiency indicators are comfortable in the past three years. The details are as follows:

Profitability / Sustainability Ratios	2014	2015	2016
Operational Self Sufficiency (%)	107%	102.6%	107.6%
Operating Expense Ratio (OER)	13.4%	16.4%	17.3%
Funding Expense Ratio (FER)	12.44%	11.62%	13.45%
Return on Assets (RoA)	1.3%	0.5%	1.4%
Portfolio at Risk (>30 days)	0.20	0.85	0.38
Return on Equity (RoE)	8.06%	2.67%	7.26%

Moderate Systems considering the scale of operations

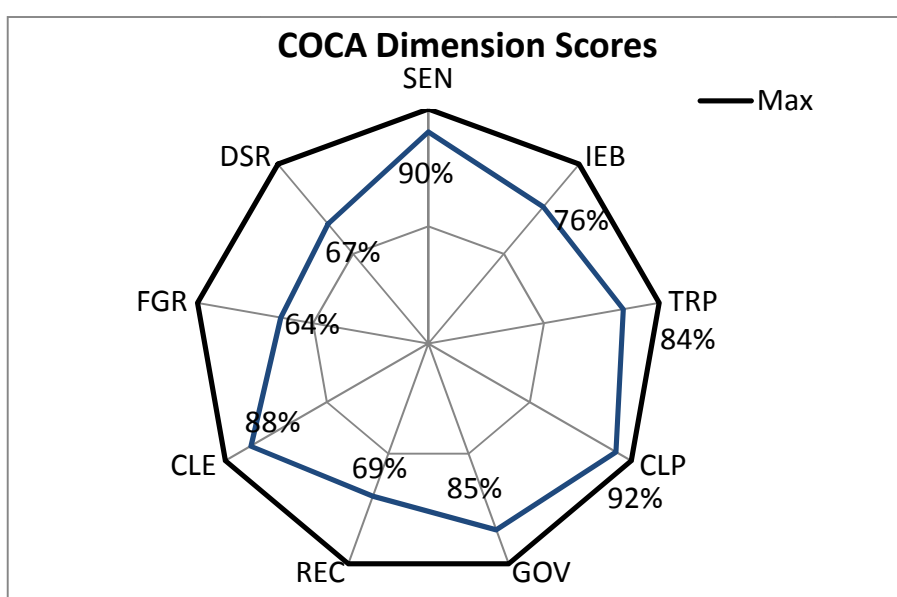
- The current MIS system deployed in SSK is moderate considering the current scale of operations. But considering the projected growth plans, SSK needs to review and refine its existing systems for effective control on day to day affairs.
- SSK's outsourced its internal audit operations to an external auditor; the audit team conducts assessment of deviations from documented policies on a monthly and quarterly basis. The audit findings in cash management, loan disbursement, loan utilization check, loan appraisals, loan recovery etc and the same is presented to the audit committee at board level.

Inherent risk prevalent in the microfinance sector

- SSK'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. However, SSK has an experienced team of professionals that monitors regulatory, compliances and frame policies to mitigate the probability of such risks.

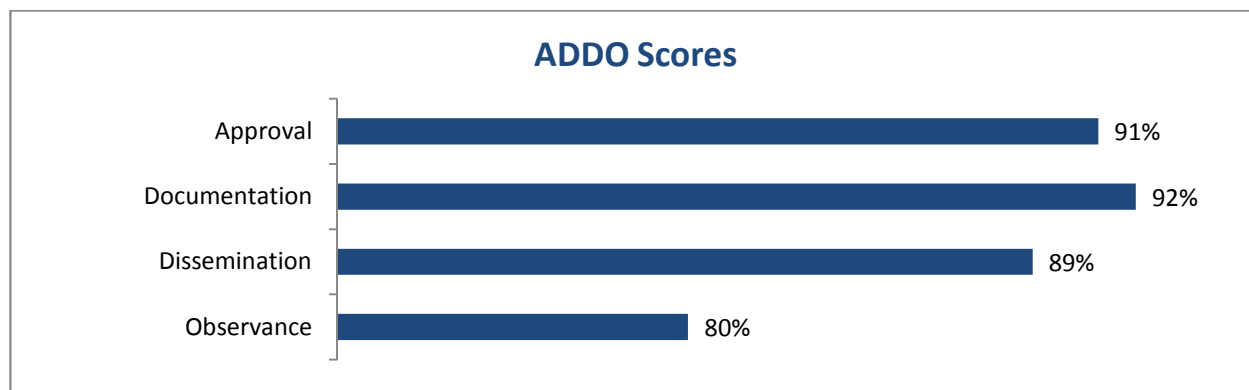
Section 2: Code of Conduct Assessment

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



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	90%
Integrity and Ethical Behavior	IEB	76%
Transparency	TRP	84%
Client Protection	CLP	92%
Governance	GOV	85%
Recruitment	REC	69%
Client Education	CLE	88%
Feedback & Grievance Redressal	FGR	64%
Data Sharing	DSR	67%



SSK with an overall grade of “C3”, indicate **average Performance on Code of Conduct dimensions**. The organization has articulated and implemented processes and policies reflecting the firm’s focus on achieving financial and social objectives from its operations. SSK’s Board has experienced professionals to oversee company’s adherence to code of conduct guidelines and other compliance related issues. Further, dissemination and adherence to documented processes and policies was evident at the ground level. However, there is a need for improvement in following areas.

- Refresher training to its clients/members and staff pertaining to directions of Reserve Bank of India (RBI) directions and Self Regulatory Organization (SRO).
- Data sharing with all credit bureaus prescribed by SRO.
- Designing time frame for grievance resolution.
- Policy for reference check of employees.
- Disclosure of operational data and financial data on public domain

Code of Conduct Assessment Summary

The Code of Conduct report for Sakhi Samudaya Kosh (SSK) 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 SSK exhibits average performance on COCA dimensions. This document details SMERA's approach and methodology for this study and gives observations of its assessment team while conducting the evaluation. The Approval; Documentation; Dissemination and Observance (ADDO) framework has been used for assessment and measuring SSK's adherence towards ethical operational practices.

Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> • Board approved policies, compliant with the RBI guidelines. • Membership with Sa-dhan. • Board with rich experience from development and finance background. • Developed its own client protection principles and is displayed in all the branches • Credit policies are well established documented and communicated. • Adequate loan appraisal & monitoring systems. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower. 	<ul style="list-style-type: none"> • Moderate Management Information System (MIS) and Information Technology (IT) considering the current scale of operations and projected growth. • Internal Audit checklist is comprehensive but can be strengthened further by incorporating more aspects like awareness regarding Reserve Bank of India (RBI) compliance and Self Regulatory Organization (SRO) among clients/members and staff. • Awareness among client and staff on SRO grievance redressal mechanism was found to be below par. • Awareness among the staff on RBI compliance was found to be moderate. • Limited disclosure of financial and operational data on public domain. • Prepayment policy not documented. • Limited system to track cash flow analysis and surpluses.

Significant Observations

HIGHER ORDER INDICATORS	
Integrity and Ethical Behaviour	<ul style="list-style-type: none"> • 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. • Audit findings related to grievance and field audit are presented at board level. • Board has approved a policy of recovering delinquent loans • Limited policy on time frame and process for client's complaint resolution. • Framed client protection included policies on expected staff conduct with employees • The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year; however the same have not been documented in HR manual. • In all the branches visited, the contact number and address of SRO nodal official was not displayed. • Staff satisfaction related to compensation and incentive are not covered under scope of Internal Audit • Awareness among client and staff on SRO grievance redressal mechanism was found to be below par. • Fixed Component compensation of staff is not impacted in event of overdues. SSK, 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 aware of the charges and price for all services availed. • SSK provides acknowledgement and sanction letters to the clients. • SSK doesn't provide repayment schedule to the clients and the loan card has blank columns which is filled and signed by the field officer. • 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. • SSK shares data with only Highmark and Equifax and not all Credit Bureaus prescribed by SRO. • SSK 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. • The MFI gets 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.

BUILDING BLOCKS	
Transparency	<ul style="list-style-type: none"> • Awareness among the staff on RBI guidelines was found to be moderate. • SSK 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 available in the visited branches. • SSK, 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 provided to the client. • Clients interviewed were aware of the charges and price for all services availed. • Prepayment policy on loans not documented. • Blank cheque had been obtained from a centre leader of the group availing microfinance loan • SSK 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. • SSK issues sanction letters to the clients. However all terms and conditions of the loan including annualized interest rates are covered in the loan agreement provided to the client. • Code of conduct compliance report of SSK & previous financial year annual financial statement and report is not available in the public domain. • SSK doesn't provide repayment schedule to the clients.
Client Protection	<ul style="list-style-type: none"> • SSK has a board-approved policy regarding client data security. • Employees are trained on aspects of appropriate behavior with the clients. • SSK has documented policy on client data security which forms part of its fair practice code • Framed client protection included policies on expected staff conduct with employees.. • Employees are trained on aspects of appropriate behavior with the clients. • Staffs were found to be aware of the need to have professional conduct with the clients. • Internal Audit checklist is comprehensive but can be strengthened further by incorporating more aspects like awareness regarding Reserve Bank of India (RBI) compliance and Self Regulatory Organization (SRO) among clients/members and staff, Privacy of client information. • Limited backup of client's data maintained in electronic form.
Governance	<ul style="list-style-type: none"> • SSK have not disclosed its CEO compensation in its audited reports (Ref. Audit Report 2016). • Audit findings related to grievance and field audit are presented

	<p>at board level</p> <ul style="list-style-type: none"> • The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year. • The MFI has placed regular reports on COC compliance before the board. • No adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • Action taken audit report not available at branch level. • Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit.
Recruitment	<ul style="list-style-type: none"> • SSK'S Board has reviewed its recruitment policies at least once annually • SSK have limited 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. • MFI obtains NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs. • The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year, however the same have not been documented in HR manual
Client Education	<ul style="list-style-type: none"> • SSK, in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services • SSK does not charge clients for the trainings provided to clients, itself or through a related party. • Awareness among client on annualized Interest rate & Insurance claim settlement process was found to be moderate.
Feedback and Grievance Redressal	<ul style="list-style-type: none"> • The Board has approved a policy for redressal of its clients' grievances, which requires board to be updated on the functioning of grievance redressal mechanism. • Limited policy on time frame and process for client's complaint resolution. • Clients were found to be aware of the helpline number • In all the branches visited, the contact number and address of SRO nodal official was not displayed. • The company maintains a record of the action taken and complaints resolved. • Awareness among client and staff on SRO grievance redressal mechanism was found to be below par.
Data Sharing	<ul style="list-style-type: none"> • Operational & Financial data for FY 2016 is available on the website of SSK. • MFI has a well defined process for sharing data with the credit bureaus. • SSK shares data with only Highmark and Equifax and not all Credit Bureaus prescribed by SRO. • SSK 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, we visited following branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Solapur	Maharashtra	25
2	Vairag	Maharashtra	32
3	Osmanabad	Maharashtra	25
4	Naldurg	Maharashtra	28
5	Ambajogai	Maharashtra	32
6	Udgir	Maharashtra	38
7	Head Office	Maharashtra	0
Total			180

Financials

Profit & Loss Account (Rs. In Thousands)

Financial Year	FY 2014	FY 2015	FY 2016
Months Covered By P/L	12	12	12
Income			
Financial revenue from operations	18,043	19,120	20,064
Less: Financial expenses from operations	8,433	8,142	8,579
Gross financial profit	9,610	10,978	11,485
Less: Provision for Loan Loss	196	599	124
Net financial profit	9,414	10,379	11,361
Less: Operating expenses			
Depreciation and Amortization Expense	225	343	385
Personnel Expense	4,971	5,824	5,136
Administration Expense	3,038	3,729	4,418
Net Operating income	1,180	483	1,422
Add: Net Non-Operating Income	269	562	1,198
Less: Net Non-Operating Expense	02	00	1,127
Net Income Before Tax	1,447	1,045	1,493
Less: Income Tax	467	329	468
Net income After Tax	980	716	1,025

Balance Sheet (Rs in Thousands)

As on date	31/03/14	31/03/15	31/03/16
	Audited		
SOURCES OF FUNDS			
<u>Equity</u>			
Capital Fund	5,695	5,695	7,028
Reserves	6,825	7,526	8,538
Tier II Capital (Subordinate debt)	5,200	5,200	5,200
Total Equity (A)	17,720	18,421	20,766
<u>Liabilities</u>			
<u>Short-Term liabilities</u>			
Commercial Loans from Banks/FIs	11,175	988	52,503
Concessional Loan/Subordinated Debt	5,885	348	900
Account payable & other short-term liabilities	6,369	9,984	16,127
Total Short-Term Liabilities (B)	23,429	11,320	69,530
<u>Long-Term Liabilities</u>			
Commercial Loans from Banks/FIs	56,235	65,562	7,300
Concessional Loan/Subordinated Debt	-	-	10,000
Total Long-term liabilities (C)	56,235	65,562	17,300
Provision for Standard Assets	0	0	157
Provision for Bad & Doubtful Debts	0	0	11
Other Provisions	0	0	381
Total Provisions (D)	328	459	549
TOTAL LIABILITIES (A+B+C+D)	97,712	95,762	108,145

Above financials are audited

Date	31/Mar/2014	31/Mar/2015	31/Mar/2016
APPLICATION OF FUNDS			
Fixed Assets			
Fixed Assets	9,450	9,933	19,195
Less: Depreciation	1,758	2,115	2,515
Net Fixed Assets(A)	7,692	7,818	16,680
Cash and Bank Balances(B)	1,619	9,699	6,803
Investments in Fixed Deposit Including Margin Money (C)	9,991	10,127	11,383
<u>Loan Portfolio *</u>			
Gross Loan Portfolio	66,664	54,075	60,748
Less: Impairment Loss Allowance	375	536	168
Net Loan Portfolio(D)	66,289	53,539	60,580
Accounts Receivable and Other Assets(F)	6,926	21,691	56,430
Advance for Capital Assets	8,561	7,237	1,000
Accounts Receivable and Other Assets	3,262	6,914	11,358
Deferred Tax (G)	298	428	341
TOTAL ASSETS (A+B+C+D+E+F+G)	97,712	95,762	108,145

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.

Corporate Office

102, Sumer Plaza
Marol Maroshi Road, Marol
Andheri (East)
Mumbai - 400 059
Tel: +91 22 6714 1111
E-mail: info@smera.in
Website: www.smera.in