

CRISIL Comprehensive MFI Grading

Unacco Financial Services Private Limited

April 2017



Contacts Details

CRISIL

Mr. T Raj Sekhar

Director

Phone: +91 20 3965 2087

Email: rajsekhar.t@crisil.com

Mr. Upendra Talwalkar

Manager

Phone: +91 22 3342 3392

Email: upendra.talwalkar@crisil.com

Ratings

CRISIL Comprehensive MFI Grading

Unacco Financial Services Private Limited

Comprehensive Grade: *M4C2*

Date assigned: *April 12, 2017*

Scale	C1	C2	C3	C4	C5
M1					
M2					
M3					
M4		M4C2			
M5					
M6					
M7					
M8					

The MFI obtains Comprehensive MFI grade of **M4C2**. This signifies average 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	<p>Unacco Financial Services Private Limited obtains “M4” as its performance grade which signifies “average capacity to manage their microfinance operations in a sustainable manner”.</p> <p>The company has adequate documentation and operating procedures. Its board and senior management have adequate experience in microfinance operations. The capitalisation levels remain healthy to support near-term growth. While its asset quality remains above-average, geographical concentration could potentially impact quality of its portfolio. Moreover, resource profile has scope for attaining diversification.</p>
Code of Conduct Assessment Grade	<p>Unacco Financial Services Private Limited obtains “C2” as its Code of Conduct Assessment Grade which signifies “good performance on COCA dimensions”.</p> <p>The NBFC-MFI is a member of SRO and credit bureau. Its fair practice code covers most of the code of conduct parameters. The board reviews regulatory guidelines and code of conduct on a regular interval. The NBFC-MFI undertakes credit history checks through the RBI approved credit bureau. It provides training to its employees on a quarterly basis on code of conduct. The NBFC-MFI does not maintain documentation on the process of grievance handling in its operation manual. Disclosure of operational information externally remains limited. Clients interviewed demonstrated low awareness on grievance redressal issues.</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

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

- a) CRISIL Microfinance Institution (MFI) Capacity Assessment Grading
- b) Code of Conduct Assessment (CoCA)

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

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

CRISIL has taken due care and caution in preparation of the Report. The Report is prepared based on the request of the CRISIL client ("Client"). The Report is prepared based on the information provided by the Client, its representatives and/or otherwise available to CRISIL from sources it considers reliable. CRISIL does not guarantee the accuracy, adequacy or completeness of any information contained in this Report and is not responsible for any errors or omissions, or for the results obtained from the use of such Report. The Report is not a recommendation to purchase, sell or hold any financial instrument issued by the assessed MFI, or to make loans and donations / grants to the institution graded. The Report does not constitute an audit of the MFI graded by CRISIL. This Report should be used in its entirety only and shall not be reproduced in any form which is out of context and without prior written permission from CRISIL.

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Ratings

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Historical Grading History of Unacco Financial Services Private Limited

Date	Rating Agency	MFI grading
January 29, 2016	CRISIL	mfR4
November 28, 2014	CRISIL	mfR4
September 26, 2013	CRISIL	mfR4
May 30, 2012	CRISIL	mfR5

Microfinance Capacity Assessment Grading symbols and definitions

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

Code of Conduct Assessment scale and definitions

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

Ratings

MFI's profile (January 2017)	
Name of the MFI	Unacco Financial Services Private Limited (UF SPL)
Legal form	Private limited company registered with the Reserve Bank of India (RBI) in 1992 as a non-deposit taking, non-banking financial company microfinance institution (NBFC-MFI)
Managing director	Mr. N. Irabanta Singh
Year of starting microfinance	2008
Branches (January 31, 2017)	24
Active borrowers	47,697
Total staff	144
Operational area	5 states (15 districts)
Visit of the assessment team	From February 7 to March 11, 2017
Correspondence address	Building No-12, SB Complex, Bishnu Rabha Path, Bhetapara Chariali Ward No-58 Guwahati - 781 028, Assam

LOAN PRODUCTS

Details of loan products (January 2017)				
Product	Description	Loan size (Rs.)	Interest rate	APR (Interest rate and processing fees)
Income generation loan – Joint Liability Groups (JLGs) (Assam, West Bengal and Manipur)	Loans are given to JLGs for income generating activity with an option of weekly / fortnightly repayment frequency in the states of Assam, West Bengal and Manipur.	5,000 - 30,000	25	~25.5
Income generation loan – JLG (Mizoram and Tripura)	Loans are given to JLGs for income generating activity with an option of fortnightly repayment frequency in the states of Mizoram and Tripura.	5,000 - 30,000	20	~20.5

Ratings

Profile of board of directors (December 2016)

Sr. No.	Name	Designation	Education	Brief profile
1	Mr. N. Irabanta Singh*	Promoter and managing director	MSc	<ul style="list-style-type: none"> • Around 13 years of experience in microfinance; currently, managing director of UFSPL
2	Mr. Ajit Kumar Maity	Director (Independent)	Graduate in Science and Arts	<ul style="list-style-type: none"> • Professional director at UFSPL and the CEO of the Village Welfare Society, a Kolkata-based MFI • He is guiding the company's operations.
3	Mr. Prabal Kumar Mitra	Director (Independent)	Graduate	<ul style="list-style-type: none"> • Ex-deputy managing director of State Bank of India (SBI) • He has also worked as the global head of SBI, heading more than 9,500 domestic branches, 66 international branches, associates, and subsidiaries; assisted the bank in achieving efficiency and effectiveness in all its operations through internal inspection and audit, provided the management with analysis, appraisals, observations, and recommendations concerning the activities reviewed, and ensured integrity of the bank with a special focus on the 'People Risk' aspect

4	Mr. W Prabinkumar Singh	Nominee director	MBA	<ul style="list-style-type: none"> • Nominee director of North East Development Financial Institution (NEDFi) • 13 years of experience in the microfinance sector
5	Smt. Th. Sucheta Devi	Nominee director	-	<ul style="list-style-type: none"> • Nominee director of Dedicated Employee Welfare Trust (DEWT)

**also part of senior management*

Ratings

Key performance indicators				
	Unit	Mar-16	Mar-15	Mar-14
Portfolio at Risk (>30 days)	%	0.02*	0.01	0.94
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	%	43.01#	44.28	49.52
Operating Expense Ratio (OER)	%	8.55	9.85	11.98
Funding Expense Ratio (FER)^	%	12.11	11.17	11.52
Write-offs to average portfolio\$	%	0.37	0.26	0.11
Return on Assets (RoA)	%	3.63	2.55	4.19
Return on portfolio (AUM)	%	4.26	2.97	4.92
Return on Equity (RoE)	%	9.78	6.60	10.39
Active borrowers per staff	No.	334	298	265
Active borrowers per branch	No.	1,816	1,522	1,673

*0.05 % as on Dec-16, #41.55 per cent as on Sep-16, ^ based on year-end average borrowings, \$ - refers to gross NPA / gross advance (reported)

Compliance with RBI's Directions for MFIs

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

* For the assets classified as qualifying

Ratings

Section 1: Microfinance Capacity Assessment Grading

About the MFI's operations

As on January 31, 2017

Area of operations / geographical reach	:	5 states (15 districts)
Lending model	:	JLGs
Borrower base	:	47,697 borrowers (47,697 members)
Employees	:	144 (77 relationship officers)
No. of branches	:	24
Assets under management (AUM)	:	Rs.484.55 million

Social and Transparency Indicators

As on January 31, 2017

In per cent

Average loan outstanding/per capita gross national income (GNI) (2015 figure)*	11.62
Women staff/total staff	5.56
Women borrowers/total borrowers	100.00
Lending rate charged by MFI	Assam and West Bengal: 25.00 Mizoram and Tripura: 20.00
Are interest rates (on reducing basis) communicated to clients in writing?	Yes
Are processing/commission charges communicated to clients in writing?	Yes
Does the MFI provide an official receipt to clients after repayment of collections?	Yes
Is access to loan from other MFIs a parameter to select/screen clients?	Yes
Is access to loan from other MFIs/residual income a factor in appraising the client's repayment capacity?	Yes
Does the MFI appraise the client's income/poverty/asset level and use this data to target other low-income clients?	Yes
Does the MFI capture and analyse reasons for client dropout?	Yes
Are clients provided head office contact details as part of the grievance redressal mechanism?	Yes

*Per capita GNI is based on current prices.

Source: Central Statistical Organisation data

Ratings

RBI Guidelines

Parameter	RBI requirements for NBFC-MFIs
Capital requirement	Rs.50.00 million in net-owned funds
Multiple lending	Not more than two MFIs can lend to the same borrower
Annual income of households qualifying for MFI loans	<ul style="list-style-type: none"> ➤ Rural area: ≤Rs.1.00 lakh ➤ Non-rural area: ≤Rs.1.6 lakh
Disbursements	<ul style="list-style-type: none"> ➤ First cycle: ≤Rs.60,000.00 ➤ Subsequent cycle: ≤Rs.1.00 lakh
Borrower indebtedness	<ul style="list-style-type: none"> ➤ ≤Rs.1.00 lakh
Loan tenure	<ul style="list-style-type: none"> ➤ ≥24 months for amount in excess of Rs.30,000.00 ➤ Moratorium period ≥ frequency of repayment
Loan repayment	<ul style="list-style-type: none"> ➤ Repayable in weekly, fortnightly, or monthly instalments, as per the borrower's choice
Interest rate	<p>Lower of the following:</p> <ul style="list-style-type: none"> ➤ Cost of funds plus margin (capped at 10.00 per cent for large MFIs and 12.00 per cent for others) ➤ Average base rate of the five largest commercial banks by assets multiplied by 2.75 per cent
Loan purpose	More than 50.00 per cent of loans are for income-generating activities
Loan loss provision	<p>Shall not be less than:</p> <p>Standard assets</p> <ul style="list-style-type: none"> ➤ 1.00 per cent of the outstanding loan portfolio <p>Non-standard assets</p> <ul style="list-style-type: none"> ➤ 50.00 per cent of the loan instalments that are overdue for ≥90 days and ≤180 days <p>And</p> <ul style="list-style-type: none"> ➤ 100 per cent of the loan instalments that are overdue for ≥180 days
Penalty	<ul style="list-style-type: none"> ➤ No penalty on delayed payments ➤ No penalty on prepayments

Recovery practices	<ul style="list-style-type: none"> ➤ Shall adopt non-coercive methods of recovery ➤ Recoveries to be made only at a central designated place ➤ Recoveries at residence, only if a customer fails to appear at the designated place more than twice
Capital adequacy	15.00 per cent
Credit information company (CIC)	Membership of at least one CIC
Self-regulatory organisation (SRO)	Membership of at least one SRO
Qualifying assets	85.00 per cent

Ratings

MFI Grading Rationale

CRISIL's microfinance institution (MFI) grading of UFSPL reflects the following strengths:

- Second largest player in North-East
- Experienced board and senior management
- Adequate documentation and operating procedures
- Healthy capitalisation level

However, these strengths are offset by the following weaknesses:

- Intensifying competition from peer MFIs and small finance banks
- Undiversified resource profile
- Geographical concentration of operations
- Average earnings profile

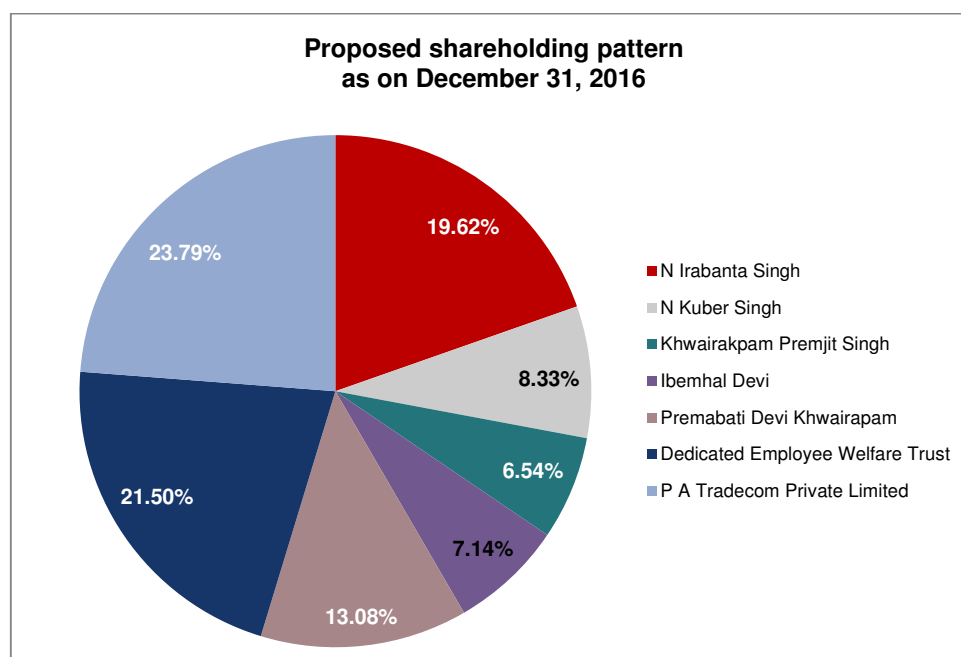
Profile

UFSPL, the erstwhile Shavi Trexim & Holdings Pvt Ltd (STHPL), is an NBFC-MFI. UFSPL, registered with the RBI in 1992, was engaged in share trading and hire purchase financing. The company was taken over by the present owners in 2008 to use it as a vehicle for delivering microfinance services. Its name was subsequently changed to UFSPL in 2009. Its managing director and co-founder, Mr. N. Irabanta Singh, has more than a decade of experience in microfinance in Luxmi Development Institute (LDI), a not-for-profit organisation based in Manipur. LDI's microfinance operations started in 2000 by providing working capital loans to individuals. In 2008, LDI adopted a hybrid-Grameen model for its microfinance operations and in July 2008, Mr. Singh (and associates) acquired STHPL, to hive-off LDI's microfinance activities to the newly acquired NBFC.

As on January 31, 2017, UFSPL had outstanding loans of Rs.484.55 million to 47,697 borrowers of 15 districts in five states. UFSPL lends to women organised as JLGs. These loans, termed as income generation loans, account for its entire AUM as individual loans are yet to be introduced by the MFI. The loan size varies from Rs.5,000.00 to Rs.30,000.00, depending on the repayment capacity of individual clients, number of loan cycles, and type of activity. Loans are offered at an interest rate of 25.00 per cent (reducing basis) per annum and 20.00 per cent (reducing basis) per annum for 12 months with weekly and fortnightly repayment in instalments. In addition, a processing fee of 1.00 per cent of the loan amount, exclusive of service tax, is collected from each borrower at the time of loan disbursement. The MFI also has a tie-up with Bajaj Allianz Life Insurance Company Limited to offer credit and life insurance services to its borrowers and their spouses.

Ownership structure

As on December 31, 2016, Mr. N. Irabanta Singh and his associates owned 54.71 % stake in UFSPS while the Employees' Trust and an NBFC accounted for the remaining 45.29 %.



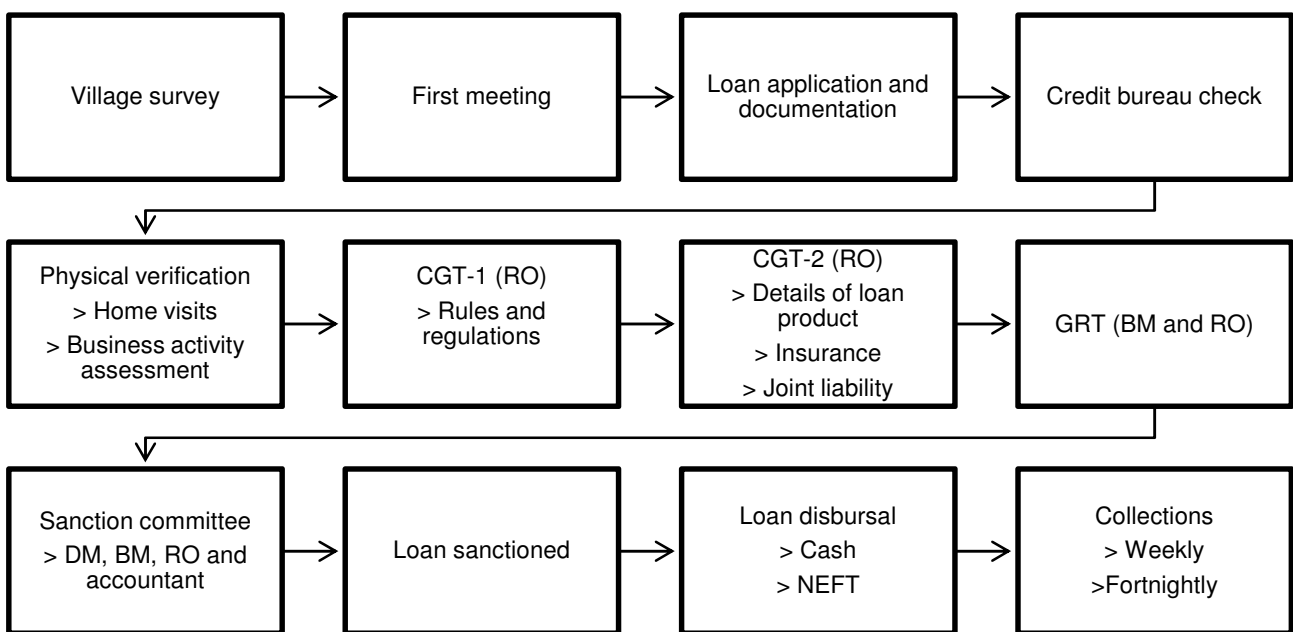
Lending and operational methodology

UFSPS conducts field surveys to understand the region's demographic profile and prepares a detailed report on the potential target population, economic viability, operational feasibility, political scenario, competition and other external risks involved before zeroing on an area for its microfinance activities. It then designates a relationship officer (RO), responsible for group promotion, to organise the first meeting for targeted members. In the meeting, targeted members are acquainted with the organisation's details, its developmental activities, and microfinance programme. The audience interested in membership are invited to the subsequent meeting, during which women from the same locality organise themselves into JLGs of maximum five members, which are further organised into centres with two to four JLGs.

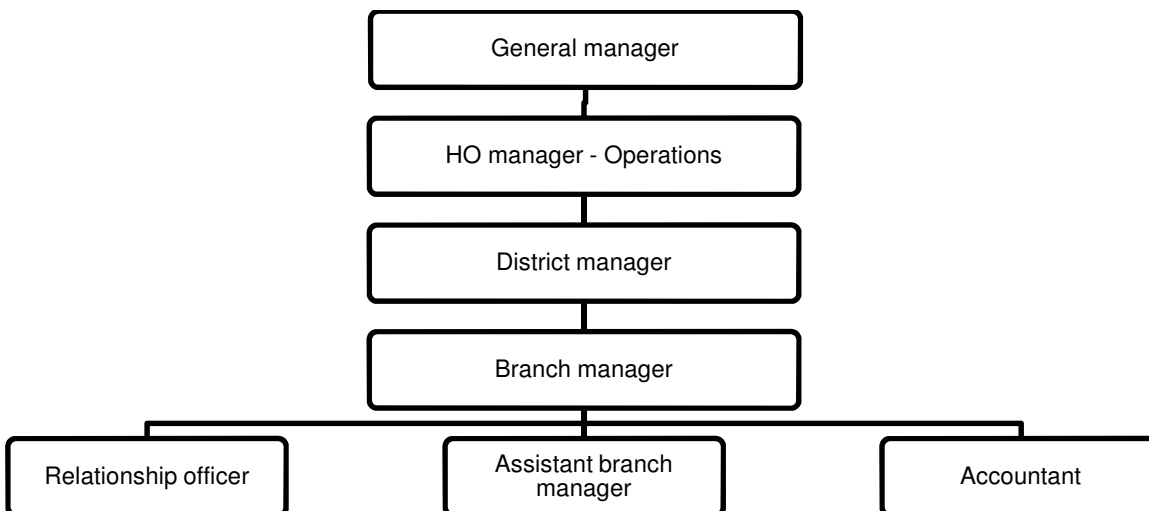
Once the group is formed, loan application forms are filled by borrowers and know your customer (KYC) documents are submitted. Based on information provided in the forms and KYC documents, credit bureau check is undertaken. House visits are undertaken for the members who qualify for loan after credit bureau (CB) checks. Once the house visit is completed, the RO undertakes 2 days' compulsory group training (CGT) to explain the MFI's policy, loan product, and repayment details. Members are also trained on maintenance of

Ratings

documentation, bookkeeping, organising meetings, and allied activities. A group recognition test (GRT) is then conducted by the branch manager (BM) to gauge the members' understanding of the organisation's policies and procedures. If the BM is satisfied with the client's awareness levels during GRT, their application is presented to the sanction committee comprising the district manager (DM), BM, relationship officer (RO) and accountant. The committee reviews the application and sanctions the same along with the recommendation of loan amount. Subsequently, loan is disbursed at the branch either in cash or through national electronic funds transfer (NEFT) payment in the client's account.



Hierarchy of operation team



Loan products

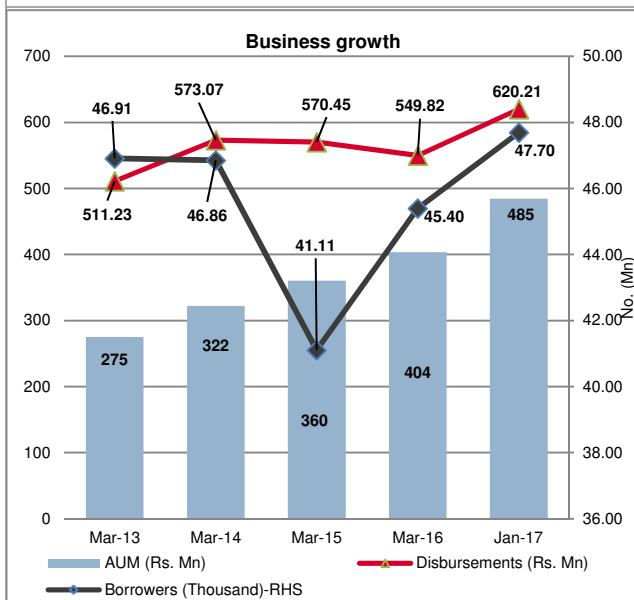
Loan product	Lending model	Amount (Rs.)	Tenure (Month)	Interest rate (%) (reducing balance rate)	Loan processing fee excluding service tax (%) #	Repayment frequency
Income generation loan (Assam, West Bengal and Manipur)	JLG	5,000 - 30,000	12	25	1	Weekly/Fort nightly
Income generation loan (Mizoram and Tripura)		5,000 - 30,000	12	20	1	Fortnightly

Apart from the loan processing fee, the MFI also collects insurance charges from borrowers as per actuals.

Ratings

Management

A. Track record: Long track record coupled with demonstrated ability to sustain in competitive environment



- UFSPL has a track record of about 9 years in MFI operations. The MFI enjoys good reputation among the local community owing to its long operational presence and relationship with borrowers.

- The MFI is one of the major players exclusively operating in the northeastern markets. As on December 31, 2016, UFSPL had 96.00 per cent portfolio in four northeastern states - Assam, Tripura, Mizoram and Manipur. It is among the few MFIs that have been incorporated in the North East and have demonstrated the ability to scale up sustainably despite multiple challenges in the operational area.

- UFSPL is strengthening its position in the

microfinance sector by leveraging on its experienced and professional management and above-average systems and processes.

- In recent years, growth in UFSPL's loan book has been primarily driven by a corresponding increase in loan ticket size while growth in client base has remained stagnant. This strategy focuses on strengthening UFSPL's competitive position in an environment where two regional players were set to become banks and were able to offer higher ticket size loans along with other products, such as individual loans, savings and deposits. Offering higher ticket size loans was aimed at enhancing client retention and transition to higher loan cycles.
- CRISIL opines that equipped with above average systems and experience management, UFSPL has the potential to establish itself as a strong player in the microfinance sector in north-eastern India, especially after conversion of two leading MFIs operating in the region to banks/small bank. While it has a long track record of operating in Assam, it has recently expanded to three other states, including Tripura, Mizoram and West Bengal. Many of these states have local operational and competitive challenges. CRISIL opines that UFSPL is yet to demonstrate the success of operational expansion in these states through acquisition of significant client base and growth in AUM whilst maintaining above-average asset quality. Diversification of resource profile, including access to sizeable bank finance are crucial factors required to acquire a retail clientele in new and existing geographies.

B. Product mix: Undiversified

- Loan book comprises income-generating loans to JLGs. The product, however, varies based on amount (ticket-size) and tenure so as to suit the borrower’s occupational requirements and repayment capacity. Moreover, based on the location of the borrower, the interest charged on the loan may vary. The MFI charges 20.00 per cent rate of interest (reducing basis) to clients in Mizoram and Tripura while borrowers in Assam and West Bengal are charged 25.00 per cent rate of interest (reducing basis).
- Unlike some medium size and large MFIs operating in the same geography, the MFI is yet to introduce individual loan products targeting specific customer needs. However, the management has expressed its intent to introduce such products for existing borrowers in the medium term.
- The MFI has tied up with Bajaj Allianz Life Insurance Company Limited to offer credit insurance services to its borrowers based on the loan size.
- With aggressive expansion followed by peers and expected launch of small banks, competition in the small ticket loan category is expected to intensify further. Moreover, two regional players, one of which has started operating as a bank, are well acquainted with clients’ loan demands and have started disbursing higher ticket size loans that may pose a challenge to UFSPL in terms of client retention.
- CRISIL opines that the MFI is able to meet the clients’ demands through its loan products in terms of purpose, tenure and repayment frequency. However, product diversification to gain a competitive edge over other peer MFIs and banks offering microfinance loans remains a key monitorable. This may be seen as a measure of intent and ability of the MFI to cater to market needs.

C. Credit approval mechanism: Adequate

Credit approval mechanism	<ul style="list-style-type: none"> • Decentralised at branches • Average field practices for area survey, group formation, disbursements, and recovery. • UFSPL also obtains a group photo of the members of the JLG. A copy of the loan sanction letters is also available at branches.
Loan sanctioning authority	<ul style="list-style-type: none"> • Branch-level sanction committee comprises DM, BM, RO and accountant.
CGT and GRT	<ul style="list-style-type: none"> • RO conducts a 2-day CGT session on day 6 and day 7 of the application process for newly formed groups and day 3 and day 4 for the existing groups. • Groups are trained and oriented about the following: <ul style="list-style-type: none"> ○ UFSPL’s objectives/vision and mission ○ The branch (including FWO, BM, and location) ○ Product loan details: size, tenure, interest rates, processing fee ○ Insurance ○ Documentation required for loan

Ratings

	<ul style="list-style-type: none"> ○ Recovery procedure ○ Meeting procedure ○ Discipline and behaviour (code of conduct) ○ Importance of regular and timely repayments ● The MFI documents attendance for group training in the training register. ● GRT is undertaken by the BM in the presence of the RO. Awareness about the following aspects is verified during GRT: <ul style="list-style-type: none"> ○ Name of the MFI and details of its staff ○ Names of other group members assuming joint liability ○ Centre location, meeting date, and time ○ Role and responsibility as a JLG member ○ Terms and conditions about loan product ○ Location and contact details of branch and head office (HO) ● Clients demonstrate moderate awareness on aspects of credit, such as interest rate charged, repayment tenure, and insurance.
House verification	<ul style="list-style-type: none"> ● 100% house verification done by BM and RO jointly ● Internal auditors during their visit carry out house verification for the sampled clients.
Credit information company (CIC) tie-up	<ul style="list-style-type: none"> ● UFSPL shares credit data of its borrowers with all four CICs - Equifax, Highmark, CIBIL, and Experian. However, it verifies the credit history of potential borrowers from one CIC. Beyond conventional services of verifying borrower indebtedness, the MFI also avails value-added services offered by CICs aimed at detecting increase in competition from peers and area-wise defaults by MFI clients. ● With the conversion of some leading MFIs into banks, efficacy of CIC verification may be compromised as these entities may not be considered while calculating the number of lenders and indebtedness levels (only NBFC-MFIs are considered as per guidelines).
Adherence to KYC and organisational credit policy	<ul style="list-style-type: none"> ● Above average in branches visited by CRISIL
Extent of data capturing	<ul style="list-style-type: none"> ● Above average for size of operations ● The MFI has recently discontinued capturing income and expenditure analysis of client and household in its application form. These details are only verified during house verification.
Disbursements	<ul style="list-style-type: none"> ● At branches

	<ul style="list-style-type: none"> Cash disbursements and NEFT payment (if clients have bank account). The MFI is moving towards NEFT disbursements for better operational controls and cash safety.
D. Documentation	
Loan application agreement	<p>Captures:</p> <ul style="list-style-type: none"> Client's demographic profile Family details Rural/Semi-urban/Urban classification Occupation and current sources of credit Landholding details Purpose for availing loan Active loans from other MFIs/banks/financial institutions (FIs) Previous loans (settled) from other sources Self-certification on indebtedness and veracity of information
Documents collected	<ul style="list-style-type: none"> KYC - Valid ID proofs Demand promissory note JLG mutual guarantee agreement
Loan card/passbook	<p>Disclosures:</p> <ul style="list-style-type: none"> Name of JLG Loan amount Loan cycle Complaint resolution and grievances - contact details Terms and conditions of the loan, including: <ul style="list-style-type: none"> Loan processing fees Interest date Insurance premium Loan amortisation schedule with bifurcation of interest and principal (separately provided to clients)
Policy manuals	<p>Policy documents maintained:</p> <ul style="list-style-type: none"> Programme operations and credit approval Human resource (HR) Management information systems (MIS) and information technology (IT)

Ratings

		<ul style="list-style-type: none"> • Accounts and finance • Audit and training • Transfer policy
	<p>Documents/ registered maintained</p>	<ul style="list-style-type: none"> • Documents/registers maintained by the MFI and updated on a regular basis: <p>Registers</p> <ul style="list-style-type: none"> ○ Loan disbursement register ○ Visitor register ○ Staff meeting register ○ Stock register ○ Sanction committee register ○ GTR stock register ○ Death register ○ Purchase register ○ Asset register ○ Money receipt movement register ○ Microfinance environment register ○ Key register ○ Staff movement register ○ Loan rejection register ○ Loan monitoring register ○ Cash denomination register ○ Cheque issue register <p>Files</p> <ul style="list-style-type: none"> ○ Death claim file ○ Audit report file ○ Leave application file ○ Monthly report file ○ Bank statement file ○ Loan utilisation file ○ Village covered report ○ Bill file ○ Indent file ○ Pay structure file ○ Application file

	<ul style="list-style-type: none"> ○ Due report file ○ Centre visit file (BM) ○ Pre-closure file ○ DM monitoring file ○ Notice file
Loan utilisation checks (LUCs)	<ul style="list-style-type: none"> • Undertaken by RO
Collections	<ul style="list-style-type: none"> • Manual collection process on a weekly and fortnightly basis at centre meetings
E. Management information systems (MIS) & Information technology (IT)	
1) MIS – Adequate MIS and commensurate for current scale of operation	
MIS platform	<ul style="list-style-type: none"> • UFSPL has an online software with user-defined rights that enables the MFI to generate various reports, including portfolio at risk (PAR) statements, loan processing and disbursement reports, and demand report. • Branches are equipped with computer systems enabling them to update MIS and generate daily demand and collection sheets. • MIS is updated at the branch level by the accountant or BM.
MIS features	<p>a) User interface</p> <ul style="list-style-type: none"> • User-friendly interface; has standardised reporting formats for capturing field data • Capable of providing reliable information in a time-bound manner <p>b) Report generation and portfolio tracking</p> <ul style="list-style-type: none"> • MIS is able to generate consolidated reports on asset quality, field productivity, loan utilisation, repayment history, and other advanced data analytical reports. The MIS is able to generate ‘At a glance report’ for branches and the MFI that consists of financial and productivity indicators for the chosen reporting period. <p>c) Upgradation flexibility</p> <ul style="list-style-type: none"> • Capable of easy upgradation as per operational scalability and change in product mix. The management highlighted that the annual maintenance contract gives it the flexibility to introduce enhancements in the MIS based on changes in products and policies.

Ratings

	<p>d) Functional integration</p> <ul style="list-style-type: none"> MIS platform is integrated with other business functions, such as accounting and finance.
Updating of KYC and entry of operational data	<ul style="list-style-type: none"> Decentralised at branches; data is updated daily
Reconciliation of collections and disbursements (at HO)	<ul style="list-style-type: none"> Daily reconciliation of receivables at branches Netting off approach wherein expected disbursements are adjusted against collections
2) Information technology – Above average technology and IT infrastructure	
IT automation for field operations and portfolio tracking	<p>A) Extent of automation:</p> <ul style="list-style-type: none"> Manual collections UFSPL is yet to implement automated IT tools, such as Android-based mobile applications at the field level. This aspect is, however, not expected to hamper field productivity. The MFI operates in rural areas with inadequate technology infrastructure and connectivity due to which transitioning into hand-held devices may be difficult.
	<p>B) Portfolio tracking</p> <ul style="list-style-type: none"> Portfolio is tracked daily with few delays at the HO through online loan tracking software.
Security mechanisms	
Data back-up and recovery	<ul style="list-style-type: none"> Daily emails by branches to HO for data back-up. Regular data back-up, stored on external drives. The MFI has deployed the services of a third-party remote server that is a part of its annual maintenance contract (AMC) with the MIS vendor. UFSPL recently underwent a system audit and is in the process of formulating an IT policy that will govern the aspects associated with data security and IT controls.
Client data privacy / Branch controls on access to and updation of client data	<ul style="list-style-type: none"> Restricted user rights at branches Absence of client data privacy policy
F. Internal audit & risk monitoring mechanisms: Adequate for the current size of operations	
Team size	<ul style="list-style-type: none"> UFSPL has a four-member internal audit team comprising internal audit head and three audit executives. The audit team directly reports to the board audit committee.

Frequency	<ul style="list-style-type: none"> • Bimonthly
Process, documentation, coverage and scope	<ul style="list-style-type: none"> • Grading-based internal audit process focuses on current process, performance and compliance status of the previous findings. • The internal audit (IA) team covers 100% documentation in branches; however, about 1.00 per cent customers are sampled for audit. In case of any adverse client-related audit findings, the sample of customers is increased to 10.00 per cent in subsequent audits. Frequency of audits may also be increased in case of any process violation. • During visits, the IA team verifies and checks process compliance on field and in branches: • At field level: <ul style="list-style-type: none"> ○ Centre meetings ○ Loan cards / passbook ○ CGT and GRT ○ Client's house and KYC details ○ Loan collection practices ○ Loan utilisation check ○ Insurance claim settlement • At branch level: <ul style="list-style-type: none"> ○ Loan documents ○ Timeliness of data updation and sent to HO ○ Cash verification, asset verification and branch management ○ Staff management skills, discipline and HR-related practices ○ Compliance of previous findings
Rigour of internal audit / observations	<ul style="list-style-type: none"> • Audit of a branch takes 3-4 days based on size of operations. • The internal audit executive shares the audit findings with the respective BM. These findings are also reported to the audit head in the HO. The audit committee is updated about major findings. • Branch teams are also required to submit comments on the audit observations within 7 days. • The internal audit team reports to the board IA committee.
G. Cash management: Average	

Ratings

Cash policy	<ul style="list-style-type: none"> • Exists; branches can maintain maximum cash balance of Rs.50,000.00. Approval from DM is sought for the amount exceeding the stipulated limit. • Collection is deposited in the bank on the same day or the subsequent day. However, this policy is not complied with in few branches visited by the team.
Cash insurance	<ul style="list-style-type: none"> • MFI has availed of both cash-in-safe / cash-in-transit insurance service.
Cash security	<ul style="list-style-type: none"> • Lockers and vault – Yes • Surveillance cameras – None
H. HR Management: Moderate policies and processes	
Separate HR department	<ul style="list-style-type: none"> • UFSPL has a dedicated HR department at the HO with delineated policies for recruitment training and employee benefits.
Recruitment strategies and process	<ul style="list-style-type: none"> • UFSPL has different recruitment strategies: <ul style="list-style-type: none"> ○ Walk-in interviews ○ Internal referrals under employee referral programme ○ Advertisement in local newspapers
Staff training	<ul style="list-style-type: none"> • In-house <ul style="list-style-type: none"> ○ New recruitments: Induction training programme and job orientation training along with field training with existing staff ○ Existing employees: BMs and DMs are trained at HO on a regular basis. The HO team also periodically travels to various branch/regional locations to undertake training on various topics for the branch staff. • On-the-job training • External trainings, especially for senior management team (training process is decided on need assessment basis)
Attrition rate during past one year	<ul style="list-style-type: none"> • Low, 10.00 per cent
Percentage of woman staff	<ul style="list-style-type: none"> • 5.56 per cent as on January 2017
Employee grievance	<ul style="list-style-type: none"> • The MFI has not formulated a policy for redressal of employee grievances. However, a procedure to report misconduct and undesirable behaviour highlighted in service rules has been formulated by the organisation.

	<ul style="list-style-type: none">• UFSPL is yet to formulate a whistle-blower policy and prevention of sexual harassment at workplace policy as per statutory requirements.
Employee benefits	<ul style="list-style-type: none">• Employees get benefits such as employee provident fund, gratuity, and employees' state insurance (ESI), health insurance, bonus and employee loans that vary based on employee rank and salary.

Ratings

Institutional arrangement

A) Ownership structure and governing board	
Board profile	<ul style="list-style-type: none"> • Board comprises five members, with an adequate mix of non-executive / independent directors. The board includes: <ul style="list-style-type: none"> ○ Managing director and promoter: 1 ○ Investor nominees: 2 ○ Independent non-executive directors: 2 • Board members have experience in microfinance, banking and finance, and strategy. • While the experience of the board tends to benefit UFSPL's operations, there is scope to strengthen the board's profile by inviting more professionals from the development, risk and strategy domains.
Board meetings	<ul style="list-style-type: none"> • Quarterly
Profile of senior management	<ul style="list-style-type: none"> • The senior management team has extensive experience across sectors, such as microfinance, banking, IT, finance, and accounts. • UFSPL has dedicated department-wise / function-wise heads with no functional overlaps. The MFI has taken conscious efforts to set up function-wise teams to ensure better HO control on microfinance operations. • Several members of the senior management team have been associated with the organisation for a long time and have risen from the ranks.
Decision making	<ul style="list-style-type: none"> • Centralised with the HO for strategic decisions. • Decentralised with regional offices and branches for operational decisions.
B) Management practices, goals, and strategies	
Planning / budgeting / performance review	<ul style="list-style-type: none"> • Strategic goals clearly laid out and disseminated • The organisation has laid out function-wise/department-wise plans to achieve projected operational and financial growth.
Committees	<ul style="list-style-type: none"> • Three board committees that meet periodically to oversee the performance: <ul style="list-style-type: none"> ○ Audit and finance committee ○ HR committee ○ Grievance redressal
Accounting policies	<ul style="list-style-type: none"> • As per generally accepted accounting standards. • Income recognition: <ul style="list-style-type: none"> ○ Interest income on MFI loans: Accrual basis

	<ul style="list-style-type: none"> ○ Interest income on non-performing (NPA) MFI loans: Realisation basis ○ Interest income on deposits with banks: Accrual (time proportion) basis ○ Loan processing fees: Upfront (as and when collected from members) ○ Other financial services: Upfront ● Others: <ul style="list-style-type: none"> ○ Borrowing costs: Over the tenure of the loan
Disclosures	<ul style="list-style-type: none"> ● Moderate public disclosure. It discloses annual report and operational details including code of conduct assessment report through its website.
Audit report	<ul style="list-style-type: none"> ● No adverse comments or qualifications issued by statutory auditors. ● Has adopted practice of half-yearly audited financial statements through external auditor.
Auditors/ change in auditors, if any / rotation policy	<ul style="list-style-type: none"> ● Agarwal Bajpayee & Company, Kolkata, West Bengal

Ratings

Board of directors (as on December 31, 2016)

Name	Designation	Experience and qualifications
Mr. N. Irabanta Singh*	Promoter and managing director	<ul style="list-style-type: none"> • MSc • Around 13 years of experience in microfinance; currently, managing director of UFSPL.
Mr. Ajit Kumar Maity	Director (Independent)	<ul style="list-style-type: none"> • Graduate in Science and Arts • He is a professional director at UFSPL and the CEO of Village Welfare Society, a Kolkata-based MFI. • He guides the company in its operations.
Mr. Prabal Kumar Mitra	Director (Independent)	<ul style="list-style-type: none"> • Graduate • Ex-deputy managing director of SBI • He has also worked as the global head of SBI, heading almost 9,500+ domestic branches, 66 international branches, associates, and subsidiaries, assisted the bank in achieving efficiency and effectiveness in all its operations through internal inspection and audit, provided the management with analysis, appraisals, observations and recommendations concerning the activities reviewed and ensured integrity of the bank with a special focus on 'People Risk' aspect.
Mr. W. Prabinkumar Singh	Nominee director	<ul style="list-style-type: none"> • MBA • Nominee director of NEDFi • 13 years of experience in the microfinance sector
Smt. Th. Sucheta Devi	Nominee director	<ul style="list-style-type: none"> • Nominee director of DEWT • She has been holding managerial positions for over 10 years.

**also part of senior management*

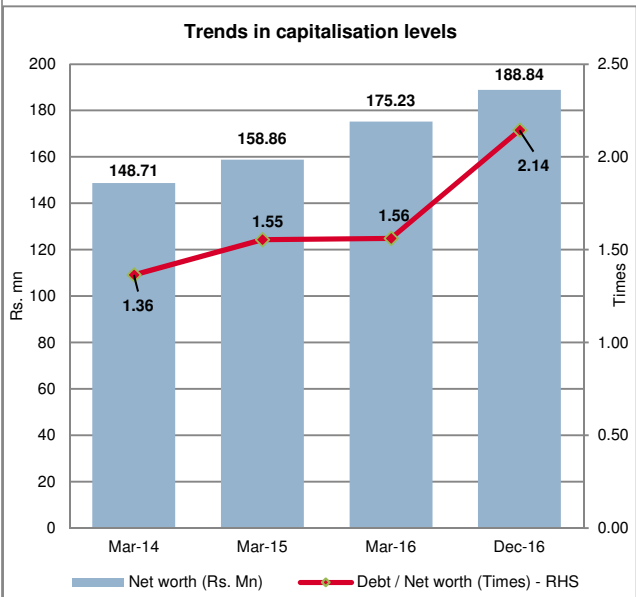
Senior management (as on December 31, 2016)

Name	Designation	Experience and Qualifications	Tenure with the organisation (years)
Mr. Babul Hoque	General manager	<ul style="list-style-type: none"> BSc (Agriculture) About 14 years of experience in retail banking and about 2.5 years of experience in the microfinance sector 	2.5
Mr. Pebam Rakesh Singh	Deputy general manager	<ul style="list-style-type: none"> MSc IT About 8 years of experience in the microfinance sector. Worked as principal of All India Society for Electronics and Computer Technology (AISECT), Imphal Centre 	8
Mr. Okram Polendro Singh	Head - HR	<ul style="list-style-type: none"> Graduate About 11 years of experience with the MFI in different roles 	11
Mr. Pebam Dinesh Singh	Head - Admin	<ul style="list-style-type: none"> MSc (Statistics) About 9 years of experience in managerial and operational activities as operations head 	9
Mr. Pranabjyoti Choudhury	HO manager - MIS	<ul style="list-style-type: none"> MCA Worked as software developer with different organisations 	10
Mr. Arup Kumar Das	Internal auditor	<ul style="list-style-type: none"> MCom About 13 years of corporate exposure with Jenson & Nicholson (I) Ltd and Usha International Limited 	4.5
Mr. Bedanta Goswami	HO manager, Finance	<ul style="list-style-type: none"> BCom; Diploma in Financial Accounting About 19 years of experience in the financial sector 	8

Ratings

Mr. Naorem Suraj Singh	HO manager, Operations	<ul style="list-style-type: none">• Graduate• About 12 years of experience in the microfinance sector	12
Th. Pinky Devi	HO manager, HR	<ul style="list-style-type: none">• MBA• About 7 years of experience in microfinance and about 3 years of experience in telecommunications	7

Capital adequacy and asset quality

A) Capital adequacy: Comfortable capitalisation levels to support near-term growth																
As on December 31, 2016																
Capital adequacy ratio (%)*	41.55															
Tangible net worth (TNW)	Rs.188.84 million															
Debt / TNW	2.15 times															
<i>*as on September 30, 2016</i>																
 <p>Trends in capitalisation levels</p> <table border="1"> <thead> <tr> <th>Period</th> <th>Net worth (Rs. Mn)</th> <th>Debt / Net worth (Times) - RHS</th> </tr> </thead> <tbody> <tr> <td>Mar-14</td> <td>148.71</td> <td>1.36</td> </tr> <tr> <td>Mar-15</td> <td>158.86</td> <td>1.55</td> </tr> <tr> <td>Mar-16</td> <td>175.23</td> <td>1.56</td> </tr> <tr> <td>Dec-16</td> <td>188.84</td> <td>2.14</td> </tr> </tbody> </table>	Period	Net worth (Rs. Mn)	Debt / Net worth (Times) - RHS	Mar-14	148.71	1.36	Mar-15	158.86	1.55	Mar-16	175.23	1.56	Dec-16	188.84	2.14	<ul style="list-style-type: none"> • UFSPL had a TNW of Rs.188.84 million as on December 31, 2016, comprising capital of about 44.52 per cent with share of profit reserves constituting the remaining. Over the years, share of internal accretion has been increasing in the TNW of the MFI. • UFSPL remains one of the well-capitalised players in relation to other CRISIL graded players based in north-eastern India. Typically, MFIs based out of this region are characterised by low capitalisation levels following their limited ability to attract capital from institutional investors. • The management expects to raise incremental equity of Rs.100 million in 2017-18; timely capital raise remains critical in the path towards not only meeting growth projections but also to further strengthen its competitive positioning in area of operations.
Period	Net worth (Rs. Mn)	Debt / Net worth (Times) - RHS														
Mar-14	148.71	1.36														
Mar-15	158.86	1.55														
Mar-16	175.23	1.56														
Dec-16	188.84	2.14														
Capital composition (%)																
	Dec-2016 2015-16 2014-15 2013-14															
Capital (including share premium)	44.52 47.98 52.93 56.54															
Profit reserves (adjusted for miscellaneous expenditure not written off)	55.48 52.02 47.07 43.46															
Total	100.00 100.00 100.00 100.00															
<ul style="list-style-type: none"> • Capital adequacy ratio (CAR) of 41.55% as on September 30, 2016, which is higher than the regulatory requirement of 15.00 per cent. The MFI had a low debt-to-equity ratio of 2.15 times as on December 31, 2016. 																

Ratings

- CRISIL opines that while the capitalisation levels of UF SPL remain adequate for near-term growth, capital infusion at regular intervals remains critical in order to raise enough fund for operational expansion.

B) Asset quality: Above-average; portfolio quality remains susceptible to high geographic concentration

Trends in asset quality (Key indicators)	<i>Particulars</i>	Dec-2016	Mar-2016	Mar-2015
	On-time repayment (%)	99.91	99.59	99.33
	Portfolio at risk 0-30 days (%)	0.05	0.02	0.01
	Portfolio at risk > 30 days (%)	0.44	0.39	0.66
	<ul style="list-style-type: none"> • The MFI has reported on-time repayment rate of over 99% for the past 3 years. It encountered delayed recoveries for first 10 days after demonetisation of higher denomination currency notes. Subsequently, recovery normalised with increase in availability of new currency. Thus, there was no major impact on asset quality. • The government's decision of demonetizing high value currency notes (HCVN) adversely impacted the portfolio quality of players in the microfinance sectors. As per RBI, microfinance institutions have been facing issues in collections from clients owing to currency shortage. In December 2016, on time repayment reduced to ~80 per cent of demand. While the situation has improved gradually, collection efficiency of certain players operating in states of Tamil Nadu, Maharashtra, Karnataka, and Uttar Pradesh remains under stress thus posing a risk to their quality of portfolio and in turn capitalisation levels. Moreover, loans to MFI clients are largely disbursed in cash; low availability of liquid cash in the post-demonetization period led to a sharp decline in loan disbursements compared to monthly average disbursements during April-October 2016. CRISIL believes that the credit profile of players with high exposure to these states remains under stress • In addition, farm loan waivers being announced by few states government owing to agriculture distress and crop failures may alter the credit discipline. Cohesiveness of JLGs and allied credit culture is a critical component impacting timely loan repayments, such risks emanating from political sensitivity may have negative implications of portfolio quality of MFIs. 			
Credit insurance	<ul style="list-style-type: none"> • Credit insurance is offered to borrowers (and spouse/son). 			

Loan loss provisioning	Asset classification	RBI guidelines	UF SPL's policy
	Standard assets	Current loans and arrears up to 90 days	Current loans and arrears up to 90 days
	Sub-standard assets	91 to 179 days	Overdue from 91 to 180 days
	Loss assets	180 days and more	Overdue for more than 180 days
	Provisioning norms	RBI guidelines	UF SPL's policy
	Standard assets	1% of overall portfolio reduced by provision for non-performing assets (NPA)	0.35% - 1% of overall portfolio reduced by provision for NPA
	Sub-standard assets	50% of instalments overdue	50% of instalments overdue
Loss assets	100% of instalments overdue	100% of instalments overdue (for NPAs overdue more than 180 days)	

- MFI follows the loan loss provisioning guidelines laid down by the RBI

Portfolio concentration (% to AUM)

As on December 31, 2016

State	Portfolio (Rs. million)	Concentration (%)
Assam	380.69	83.94
Tripura	45.76	10.09
West Bengal	16.29	3.59
Mizoram	10.45	2.30
Manipur	0.35	0.08
Total	453.54	100.00

Ratings

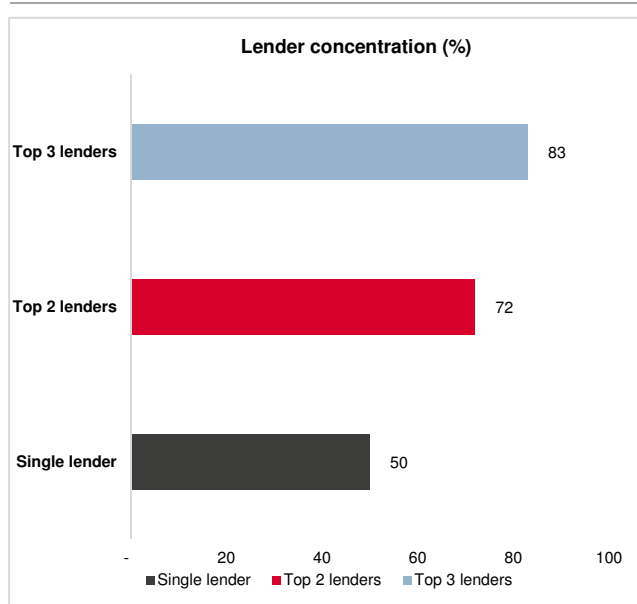
District	Portfolio (Rs. million)	Concentration (%)
Single district (Cachar)	109.78	24.21
Top three districts (Cachar, North Tripura and Nagaon)	199.44	43.97
Top five districts (Cachar, North Tripura, Nagaon, Morigaon and Sonitpur)	281.41	62.05

- There is high single state concentration in Assam. As on December 31, 2016, UFSPL had about 84 per cent of AUM in Assam. Tripura and West Bengal accounted for about 10.09 and 3.6 per cent of AUM, respectively. In addition to high single state concentration, UFSPL has high exposure to few districts.
- The top district accounted for about 24 per cent of the portfolio and top five districts accounted for about 62 per cent of AUM, respectively. However, these are non-contagious districts, thus limiting risks arising out of geographical contagion if any adverse credit event occurs. Moreover, the management's strategy to focus on few under-penetrated regions has led to higher exposure in certain districts. One of the key risks faced by the MFI due to geographical concentration is legislative risk arising out of state-level law that may impact operations unfavourably.
- UFSPL's management is taking conscious efforts to reduce concentration-related risks by expanding into new geographies. By March 31, 2017, it plans to set up new branches in Assam (three branches), Sikkim (one branch) and West Bengal (one branch). It also plans to explore north Assam and Meghalaya as potential locations for future expansion. However, the MFI's ability to expand on a large scale is yet to be demonstrated owing to limited outreach and portfolio exposure in a new operational area.

Resources and asset-liability management (ALM)

A) Resource profile: Scope of diversification exists

Resource profile as on December 31, 2016	Loan outstanding (Rs. million)	(%)
Public sector banks	131.75	32.6
Development finance institutions (DFIs)	203.23	50.2
NBFCs	69.50	17.2
Total	404.48	100.00



- Undiversified resource profile; as of December 31, 2016, UFSPL had sourced borrowings from five lenders.

- As of December 2016, the share of wholesale bank finance accounted for about 32.6% and DFIs accounted for about 50%. Remaining borrowings have been sourced from NBFCs.

- High single lender concentration; top lender – NEDFi accounted for about 50% of overall term borrowings. The top five lenders largely comprise DFIs, scheduled commercial banks and private sector banks.

- UFSPL has raised incremental funding of about

Rs.275 million between April 2016 and January 2017 through term loans from DFI, NBFCs and scheduled commercial banks. The management expects to mobilise Rs.175 million till March 2017 and Rs.430 million in 2017-18.

- The MFI also has plans to explore the business correspondence (BC) route with IDBI Bank for few branches in north Assam with an initial sanction limit of Rs.30 million.

B) Asset liability management (ALM)

Collection frequency	<ul style="list-style-type: none"> • Weekly/fortnightly
ALM and liquidity profile	<ul style="list-style-type: none"> • Comfortable; the company is not susceptible to immediate liquidity pressures arising out of mismatch of funds. • About 55 per cent of the outstanding bank borrowings as of December 2016 are due for maturity within the next 1 year as against collections of the entire microfinance loan portfolio within the same period. Long-term bank borrowings with repayment

Ratings

	<p>tenure exceeding 1 year accounts for about 45 per cent of the company's borrowings.</p> <ul style="list-style-type: none">• Demonetisation of higher denomination notes had some impact on UFSPL's operations with collections dipping compared with actual demand in the initial days. However, the MFI has been able to manage collections subsequently by accepting coins and lower denomination notes. As per the management, for some accounts which were overdue, clients cleared their due once the flow of new currency notes increased. Disbursement was stopped temporarily; however, the same has commenced post normalisation of currency flow and banking operations.
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Borrowing profile as on December 31, 2016

Lender	Interest rate (%)	Tenure (months)	Loan outstanding (Rs. million)
State Bank of India	12.30	3.0	33.00
	11.90	3.0	55.00
IDBI Bank	13.75	2.3	2.50
	13.25	2.3	21.25
	13.15	2.0	20.00
North Eastern Development Finance Corporation Limited	12.25	3.0	15.00
	8.00	3.0	5.00
	8.00	3.0	9.00
	12.25	3.0	38.17
	8.00	3.0	10.91
	8.00	3.0	6.06
	12.25	3.0	90.91
	8.00	3.0	18.18
8.00	3.0	10.00	
Reliance Capital	15.50	1.0	30.57
Maanaveeya Development & Finance Private Limited	15.00	2.4	8.93
	15.00	2.0	30.00
Total			404.48

Ratings

Operational effectiveness

Above average productivity and improving earning profile

Outreach summary for the period ended / as on end	Unit	Jan-17	Mar-16	Mar-15	Mar-14
Groups / JLGs	No.	10,022	9,342	8,278	9,502
Members	No.	47,697	45,400	41,105	46,856
Borrowers	No.	47,697	45,400	41,105	46,856
Branches	No.	24	25	27	28
Districts	No.	15	15	15	15
Women borrowers	%	100.00	100.00	100.00	100.00
Disbursements	Rs. Mn	620.21	549.82	570.45	573.07
Loan outstanding	Rs. Mn	484.55	403.52	360.28	322.34

Human resource and productivity indicators as on end	Unit	Jan-17	Mar-16	Mar-15	Mar-14
Total employees	No.	144	136	138	177
Relationship officers (RO)	No.	77	72	68	91
CO/Total employees	%	53%	53%	49%	51%
AUM/CO	Rs. Mn	6.29	5.60	5.30	3.54
AUM/branch	Rs. Mn	20.19	16.14	13.34	11.51
Borrowers/CO	No.	619	631	604	515
Borrowers/members	%	100	100	100	100
Borrowers/branch	No.	1,987	1,816	1,522	1,673

- In 2015-16, UFSPL was able to raise incremental funding from existing and new lenders. This has resulted in growth of loan books and improvement in fund-based income. In 2015-16, fund-based income increased to Rs.90.97 million from Rs.73.78 million in 2014-15.
- UFSPL's loan portfolio increased to Rs.484.55 million as on January 31, 2017, from Rs.360.28 million as on March 31, 2015. Increase in loan portfolio is mainly due to a bigger ticket size of loan disbursed to clients.
- Trends in UFSPL's field productivity indicators are as follows:

- AUM/CO increased to Rs.6.29 million as on January 31, 2017, from Rs.5.30 million as on March 31, 2015.
- Borrowers/branches increased to 1,987 as of January 2017 from 1,522 as on March 2015.
- UFSPL's profit after tax (PAT) improved to Rs.16.33 million in 2015-16 from Rs.10.15 million in 2014-15 following growth in loan book leading to higher interest income. Return on fund deployed improved to 3.67 per cent in 2015-16 from 2.58 per cent in 2014-15. However, fee-based income has remained stagnant over the last few years.
- Opex ratio reduced to 8.55 per cent in 2015-16 compared with 9.85 per cent for 2014-15. This reduction in operational expenses is mainly driven by consolidation of few branches and retention of existing clients resulting in reduced acquisition cost. UFSPL registered an operational self-sufficiency of about 135 per cent as on March 31, 2016.
- While the field productivity has remained above-average, overall earnings profile remains average in relation to its peers which tend to benefit from a sizeable growth in operations leading to economies of scale. The MFI's ability to maintain lower level of operational expenses amidst expansion to new areas along with access to low cost funds remains a key factor for its profitability in the near term.

Ratings

Scalability and sustainability

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

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

*Includes NGO-MFIs which typically account for ~15% of industry AUM

Bandhan has not been reckoned since September 2015 quarter as it no longer operates as an NBFC-MFI

- UFSPL has a track record of about 9 years in MFI operations. It has demonstrated its ability to sustain profitable operations in an area characterised by operational challenges and limited external investments.
- UFSPL's systems, processes and technology are adequate to support growth over the near to medium term. Moreover, systems and processes are in line with industry benchmarks. The management has also expressed its intent to continue upgradation of systems and processes to align with the industry's best practices.
- With small finance banks (SFBs) commencing their microcredit operations, competition for UFSPL is set to increase, especially with regard to the ability to offer loans at lower interest rates. Moreover, ability of SFBs to offer a larger bouquet of products such as savings, deposits, remittances, and higher ticket loans, may also prove to be a challenge for the MFI that has been restricted to offer only credit-related products. Also, the MFI operates in a competitive market that not only challenges sustainability of the MFI but also puts the efficacy of its system and processes to test. As on December 31, 2016, there were 10 NBFC MFIs (including UFSPL and a few potential SFBs) operating in Assam with a gross loan portfolio of Rs.11,460 million and a client base of 0.75 million. However, UFSPL has been able to retain its customer base and sustain its operations despite the competitive environment.
- UFSPL has adequate capitalisation levels; however, the MFI is yet to demonstrate the ability to raise equity. CRISIL opines that the MFI's ability to raise capital may be a key imperative for long-term growth and operational expansion.
- There is scope to diversify the board further by inducting professionals with expertise in the field who complement the current growth phase of the MFI and derive future growth aspirations of the organisation.

- UFSPL has a professional senior management with adequate experience to derive growth in the medium term. Its second-line management team has a long association with the organisation. These factors have positively contributed in maintaining stable and sustainable scalability.
- The company has availed loan from a limited number of lenders, including banks, development financial institutions, and NBFCs. However, management has expressed to raise incremental funding in near term. CRISIL opines that reducing lender concentration remains a critical factor to ensure sustainable operations. Moreover, CRISIL expects the fundraising ability of sectoral players to improve over the medium term as about eight NBFC-MFIs, which account for a sizeable portion of industry assets, are soon expected to operate as small banks. As these players would substitute their bank borrowings with alternative funding avenues, banks are likely to increase their exposure to existing MFIs in an attempt to meet the mandated priority sector lending targets.
- Many MFIs based in north-eastern India grapple with local operational challenges, lack of interest from external equity investors and low enthusiasm from lenders for providing term loans. UFSPL's ability to tackle these challenges, apart from surviving in a competitive environment, will be the key to sustainable and scalable operations.
- UFSPL's key challenges include:
 - Resource-raising constraints
 - Geographical concentration of operations
 - Intense challenge from potential small banks that would offer a diverse range of credit and non-credit products

CRISIL believes that the company's ability to scale up operations sustainably would depend upon how it addresses these issues, including its ability to geographically diversify its operations.

Ratings

Financial indicators

Income and expenditure statement

(Rs. Million)

For the year ended March 31,	2018	2017	Dec-2016	2016	2015	2014
	MFI's projections		Provisional		Audited	
Fund-based income	172.84	130.14	73.58	90.97	73.78	80.02
Interest and finance charges	56.95	38.83	28.21	31.51	25.12	20.89
Gross spread	115.89	91.32	45.37	59.46	48.66	59.13
Fee-based income	13.40	9.25	5.26	5.50	5.70	5.72
Total income	186.24	139.39	78.84	96.47	79.49	85.74
Gross surplus	129.29	100.57	50.63	64.96	54.36	64.85
Personnel expenses	32.54	27.86	20.12	25.12	25.86	25.77
Administrative expenses	14.15	12.48	9.56	11.85	11.32	14.23
Total expenses	46.69	40.34	29.69	36.97	37.18	40.00
Total provisions	2.00	1.47	0.50	1.84	0.59	-
Depreciation	1.23	1.29	0.79	1.11	1.58	1.34
Profit/deficit before tax	79.37	57.47	19.65	25.04	15.02	23.51
Tax	23.81	17.24	6.00	8.71	4.87	8.82
Net profit	55.56	40.23	13.65	16.33	10.15	14.69

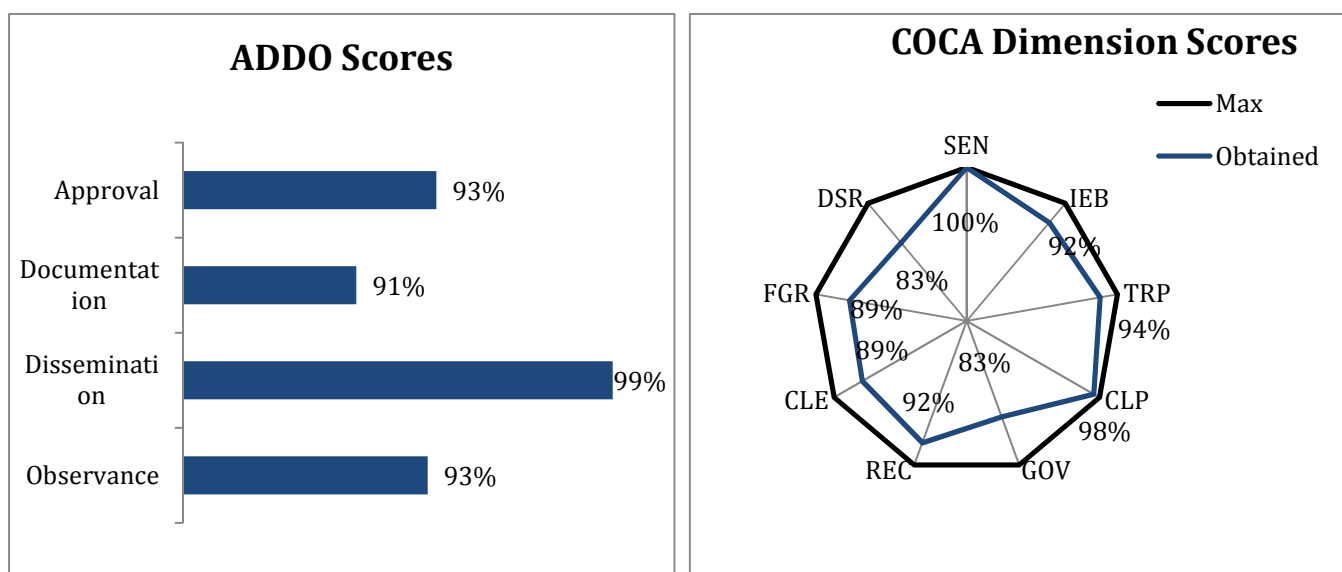
Balance sheet		(Rs. Million)				
As on March 31,	2018	2017	Dec-2016	2016	2015	2014
	MFI's projections		Provisional		Audited	
Liabilities						
Tangible net worth	280.98	225.42	188.84	175.23	158.86	148.71
Borrowings	551.11	391.10	404.92	273.59	246.98	202.87
Provision for loan loss	7.50	5.50	4.54	3.97	3.60	3.89
Total current liabilities	38.03	27.20	29.45	23.56	21.47	17.53
Total liabilities	870.12	643.72	623.21	472.37	427.31	369.11
Assets						
Total loan portfolio	750.04	550.05	456.64	406.06	360.29	322.34
Cash and bank balances	83.83	59.24	100.65	10.29	6.90	3.48
Deposits with banks & FI	31.32	29.27	35.73	30.41	31.72	23.10
Total current assets	115.15	88.50	161.10	61.36	62.71	41.49
Total funds deployed	865.19	638.56	617.74	467.42	422.99	363.83
Net fixed assets	4.93	5.16	5.47	4.95	4.31	5.28
Total assets	870.12	643.72	623.21	472.37	427.31	369.11

Ratings

Key financial ratios						(In per cent)
For the period ended March 31,	2018	2017	Dec-2016	2016	2015	2014
Yield	MFI's projections		Provisional		Audited	
Fund-based yield	22.99	23.53	18.08	20.43	18.75	23.18
Portfolio Yield	25.89	26.48	22.38	22.98	20.68	25.73
Fee-based income/Avg. funds deployed	1.78	1.67	1.29	1.23	1.45	1.66
Total income/Avg. funds deployed	24.77	25.21	19.37	21.67	20.20	24.84
Cost of funds						
Interest paid/Avg. funds deployed	7.57	7.02	6.93	7.08	6.39	6.05
Interest paid/Avg. borrowings	12.09	11.68	11.09	12.11	11.17	11.52
Interest spread						
Spreads on lending	10.90	11.85	7.00	8.33	7.59	11.66
Overheads						
Operating expense ratio	6.37	7.53	7.49	8.55	9.85	11.98
Personnel expense ratio	4.33	5.04	4.95	5.64	6.57	7.47
Administrative expense ratio	2.05	2.49	2.54	2.91	3.28	4.51
Profitability						
Net surplus/Avg. net worth	21.94	20.08	10.00	9.78	6.60	10.39
Net surplus/Avg. funds deployed	7.39	7.28	3.36	3.67	2.58	4.25
Operational self sufficiency	174.27	170.16	133.21	135.05	123.30	137.78
Asset quality						
Provisioning/Avg. loan outstanding	1.15	1.15	1.05	1.04	1.06	1.30
Capitalisation						
Total debt/net worth (times)	1.96	1.74	2.14	1.56	1.55	1.36
Capital adequacy (reported) - %	-	-	-	43.01#	44.28	49.52

#41.55 per cent as on Sep-16

Section 2: Code of Conduct Assessment



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

Code of conduct assessment summary

UFSPL has adequate adherence to various code of conduct dimensions. However, The NBFC-MFI needs to focus on aspects of governance practices, such as written policy regarding board constitution, debt restructuring and few aspects of transparency. It is a member of any self-regulatory organisation (SRO). The NBFC-MFI has formulated a fair practice code based on RBI's and the industry's code and has trained its staff on the same. It also communicates product details, such as interest rates to clients through trainings, branch display and documents. Clients sampled are moderately aware about terms and conditions of the loans.

Ratings

MFI's strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none">• Board reviews regulatory guidelines and code of conduct practices on a regular interval.• It is member of a credit bureau and SRO; also shares client data with all credit bureaus at regular intervals.• UFSPL provides quarterly training to its employees and the employees sampled have displayed above average levels of awareness about most of the parameters of the code of conduct.• UFSPL has formulated majority of the policies and fair practice code that covers many code of conduct parameters, such as grievance redressal, disclosure and employee behaviour.• Audit covers various parameters, including dedicated parameter for measuring client awareness levels.• The NBFC-MFI disclose its annual report and operation details on its website.	<ul style="list-style-type: none">• No documentation of the process of grievance handling in its operation manual; however, turnaround time (TAT) and escalation matrix is defined for the same.• Most of the interviewed clients and staff demonstrated low awareness regarding grievance redressal of industry association.

Significant observations

Higher Order Indicators	
Integrity and Ethical Behaviour	<ul style="list-style-type: none"> ✓ UFSPL formed an audit committee headed by an independent member which met more than four times during the last year. During each meeting, scope of the internal audit and key audit findings of the last internal audit were discussed. ✓ The NBFC-MFI formed a grievance redressal committee headed by independent board member which periodically reviews summary of client's grievance, complaints and resolution. ✓ NBFC-MFI formulated fair code policy in compliance with RBI guidelines which directs employees about appropriate behaviour towards clients. ✓ UFSPL provides training to all its employees on quarterly basis on the communication to be provided to new clients and other updates. Majority of employees sampled were aware about the feedback and grievance redressal mechanism. ✓ A review of the HR policy reveals that there is no policy which outlines that shortfall in collections will not be recovered from employees, unless in proven cases of fraud. ✓ NBFC-MFI is a member of SRO. It also displays the contact details of SRO nodal officer in its branches. However, mailing address (including contact number) of RBI ombudsman is displayed in all the branches. ✗ It was observed that majority of client's demonstrated low awareness regarding grievance redressal mechanism of the industry association. ✗ IA team does not cover staff satisfaction level with respect to compensation and incentive; however, the management has indicated that the same is covered by the HR team during the employee grievance process.
Sensitive Indicators	<ul style="list-style-type: none"> ✓ It was observed that majority of the sampled clients were aware about the instalment to be paid by them.

Ratings

Moreover, they have also not been made to pay for a service as a precondition to loan.

- ✓ Among the sampled clients, no instances were found where loan size, tenure, utilisation or economic status of borrowers were not in line with the RBI's directions.
 - ✓ In the sampled clients, not a single instance was found where security deposit or penalty was imposed.
 - ✓ Interview with sampled clients revealed that there was not a single instance where the following behaviour was displayed by the NBFC-MFI's staff:
 - Abusive language
 - Visiting client at odd hours; in case of delay, employees inform clients in advance
 - Forcible entry into dwelling
 - Forced seizure of property
 - ✓ In the sample reviewed, it was observed that no additional charges were paid to the MFI, apart from premium payable to an IRDA-approved insurer. Amount charged for insurance is also mentioned in the loan card.
 - ✓ NBFC-MFI undertakes credit bureau check of credit history of clients. Moreover, it shares the client data with all credit bureaus, RBI and SRO.
-

Building blocks

Transparency

- The NBFC-MFI disclose its annual reports and financial statements in the public domain. It also shares the branch details and COCA report on its website.
- UFSPL has a policy that states about qualifying assets; the board has also reviewed the same in the previous year. The NBFC-MFI also obtains the CA certificates for the same.
- A review of minutes of the meeting highlights that the board has reviewed the latest guidelines issued by the RBI. Moreover, UFSPL provides training to employees on RBI guidelines. Moderate awareness on RBI guidelines was observed among sampled employees.
- The NBFC-MFI has a formal mechanism that discloses the reason for rejection of unsanctioned loan against the accepted application. It maintains a loan rejection register to record the same.
- Sampled clients during the assessment exercise highlighted that the terms and conditions of the loan product were communicated to them. Interviewed clients demonstrated good awareness pertaining to interest rate, processing fee, insurance and amount and the number of instalments among others.
- UFSPL's board reviewed the format of form and loan documents as per changes in the regulatory guidelines in its board meeting. New formats were formally implemented which include:
 - GRT format
 - Appraisal form
 - Demand promissory (DP) note
 - Money receipt
 - Sanction letter
 - Loan passbook
 - Related registers
- Following key loan documents used by the MFI are in vernacular language:
 - Sanction letter
 - Demand promissory note
 - Individual loan application form
 - Loan card with repayment schedule
- The NBFC-MFI displays effective rate of interest along with loan processing fee and interest charges at all the branches visited. Moreover, interest rate and other charges are also communicated to the client in the sanction letter and loan card. However, the NBFC-MFI does not disclose annual percentage rate (APR) and equivalent monthly rate in its loan card.
- UFSPL communicates to clients that neither the MFI nor its employees are entitled to collect any kind of penalty, security deposit, and commission. This declaration is also a part of its terms and conditions in the sanction letter.

Ratings

Approval	Documentation
<ul style="list-style-type: none"> ✓ Board approved changes in format of documents in compliance with regulatory guidelines ✓ It also discusses the interest rate regarding compliance with RBI's pricing guidelines in its audit & finance committee and quarterly board meetings 	<ul style="list-style-type: none"> ✓ The NBFC-MFI has documented policy that disseminates that no collateral security or security deposit will be obtained from clients ✓ Relevant loan documents are in vernacular language ✓ Guidelines pertaining to security deposit and penalty to clients are documented in policy manuals
Dissemination	Observance
<ul style="list-style-type: none"> ✓ Office orders pertaining to aspects related to RBI guidelines are documented in branches and moderate level of the staff interviewed were aware of guidelines ✓ It was observed that the sampled branch staff have received training from a senior staff regarding the documents to be provided to clients ✓ Effective rate of interest is displayed in all branches and loan documents 	<ul style="list-style-type: none"> ✓ The NBFC-MFI disclose annual report and operation details on its website. ✓ Field staff is aware of terms and condition of loans ✓ Loan repayment scheduled is provided to all clients, including number of instalments, instalment (principal and interest) and due date ✓ Review of documents and discussion with borrowers do not reveal any instance of fines, penalty being imposed on clients

Client protection

Fair practices

- A review of minutes of the meeting of all the board meetings from April 2015 highlights that the board reviews the operational performance of the NBFC-MFI; it also covers details pertaining to compliance with RBI's qualifying assets guidelines. Moreover, employees are updated about latest RBI guidelines through officer orders and quarterly trainings.
- The NBFC-MFI offers products with weekly and fortnightly repayment frequency. Loan products and tenure guidelines have been documented in circulars. It was observed that most of the clients interviewed were satisfied with repayment frequency. However, majority of interviewed clients highlighted the need for higher ticket size loans.
- UFSPL's board has an approved 'Credit Policies and Procedure Manual' which provides details pertaining to KYC norms issued by the RBI. This policy also highlights data security procedures related to the KYC data of clients. Moreover, the internal audit committee headed by the independent director also reviews adherence to KYC norms and compliance with KYC guidelines laid down by the NBFC-MFI.
- The NBFC-MFI also accepts Aadhar card and voter ID card as ID and address proof.
- Majority of operational staff were aware about the TAT limit. Clients also revealed that loans had been disbursed within the specified limit of about 2 weeks.

Avoiding over-indebtedness

- The operational manual has updated credit policies and procedures. Some guidelines and procedures are also shared through circulars. The manual has detailed guidelines on loan sourcing, appraisal and sanctioning. The manual also outlines the eligibility criteria for selection of clients and pre-intake appraisal (income, business and demographic analysis of client).
- The NBFC-MFI follows RBI guidelines of household income of Rs.1,00,000 in rural areas and Rs.1,60,000.00 in urban areas as eligibility criteria for loans. Moreover, it also adheres to the guideline that it cannot be the third lender or lend more than Rs.50,000 in the first cycle.
- The NBFC-MFI has also provided training to its operational staff regarding repayment capacity assessment of its potential borrowers. Loan application for UFSPL also has a dedicated section for cash analysis and business projections for income generating activity undertaken by the client. Household cash flow is also evaluated during the loan application and sanctioning process.
- Internal audit reports have a parameter that checks credit bureau reports of the borrowers. It also shares data on credit history of its client with the credit bureau.

Ratings

Appropriate interaction and collection practices

- The NBFC-MMFI has clearly defined guidelines for employee interaction with clients. It was observed that there is high awareness about fair practice code among the NBFC-MFI's employees and guidelines on employee's interaction with clients.
- The NBFC-MFI has formulated guidelines pertaining to the following:
 - Informing the clients regarding the product and services of the MFI
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans from delinquent and default clients
- As per the fair practice code formulated by the NBFC-MFI, it will be responsible for the conduct of its staff and will ensure non-occurrence of the following conduct/behaviour from its employees:
 - Abusive language or threats
 - Visiting borrowers at odd hours/ after sunset
 - Forceful entry into dwelling and forced seizure of property
- High degree of satisfaction in the field staff behaviour and collection practices was observed among the clients sampled.
- The NBFC-MFI provides a receipt for each repayment to clients. However, in the sample reviewed, clients in only few centres were able to produce receipts.

Privacy of client information

- Credit policies and procedure manual and fair practice code of UFSPL outline the importance of maintaining the privacy of client's data. Moreover, disclosures in loan card and loan agreement provide an assurance to client that their privacy shall be maintained and data shall only be shared with the regulatory body or approved credit bureau.
- Client data is maintained in online loan tracking software with restricted rights to modify and edit the data. Moreover, software is protected by password, thereby limiting access to the client database. The physical KYC documents and loan application are stored in a locked cupboard to prevent data theft.
- Regular backup of the software database is taken and stored in external drives; it has also deployed the services of a third-party remote server for regular data backup.
- Sampled employees and interviewed clients demonstrated high awareness of client data privacy. Moreover, data privacy is part of the training process for both the employee and client.

Approval	Documentation
✓ Board has reviewed compliance to qualifying asset criteria and non-credit product offering in the last 1 year	✓ Loan size, tenure, purpose, and repayment frequency are as per the RBI guidelines and documented in the form of office orders.

<ul style="list-style-type: none"> ✓ Board has reviewed credit approval process, indebtedness of borrowers in the last 1 year ✓ Board has approved fair practice code and credit policies and procedure manual 	<ul style="list-style-type: none"> ✓ Credit appraisal and client eligibility guidelines are documented in credit policy ✓ Written policy for undertaking credit bureau check, verifying credit history of clients and sharing the data with credit bureau
Dissemination	Observance
<ul style="list-style-type: none"> ✓ Branch employees sampled demonstrated adequate awareness of RBI guidelines ✓ NBFC-MFI also communicates change in credit policy and documentation through circulars and employee trainings ✓ At all the branches visited, there were copies of fair practice code outlining desirable behaviour (Do's and Don'ts) towards clients 	<ul style="list-style-type: none"> ✓ All sampled clients were as per income and indebtedness criteria ✓ No evidence was found as to whether client data was used for marketing activities without client consent

Ratings

Governance*

- UFSPL is yet to formulate a formal governance policy outlining constitution of the board and other board processes. The NBFC-MFI has a five-member board headed by promoter and managing director. The NBFC-MFI meets on a regular basis and maintains board meeting minutes of all its meetings. Moreover, the NBFC-MFI also discloses the compensation details drawn by the managing director in its annual report.
- More than one-third of the existing (two out of five members) board members of UFSPL are independent directors. Promoter and managing director of UFSPL is the executive member of the board.
- UFSPL is yet to formulate a formal loan restructuring/rescheduling policy as part of its credit policies and procedure manual. Moreover, not a single instance was observed where debt has been restructured. However, as an impact of demonetisation, clients were given some relaxation in repayment and allowed part payment due to unavailability of cash.
- UFSPL's board is provided with financial and operational information regularly which enables the board to provide the informed decision-making to the MFI.
- Internal audit* is undertaken bimonthly and compliance report for the same is submitted to the HO. The NBFC-MFI has formed an audit committee that meets quarterly. The committee meetings are documented in minutes.
- No adverse audit observation was made in the auditor's report regarding accounting standards followed by the MFI. The statutory auditor has not been changed for the last 3 years.

Approval	Documentation
<ul style="list-style-type: none"> ✗ No governance policy in place to steer the board constitution and processes ✓ Board has reviewed adequate staff strength of IA team during the previous year 	<ul style="list-style-type: none"> ✗ No formal policy for debt restructuring ✓ Structured reporting template covers all aspects to present COC compliance reports
Dissemination	Observance
	<ul style="list-style-type: none"> ✓ Audit committee meets periodically to review audit findings and propose course correction measures ✓ No adverse observation made in the statutory auditor's report

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

Recruitment

- UFSPL has documented guidelines regarding the recruitment process; it also reviews and discusses the recruitment policies in its board meeting.
- The NBFC-MFI has documented policies and mechanism pertaining to issuing relieving letters to outgoing employees; the NBFC-MFI has honoured the notice period for all employees; however, terminated employees are not entitled for the notice period as per the policy.
- As per the HR manual/circular of UFSPL, staff will not be assigned to the same serving area of the previous employer for a period of 1 year.
- The NBFC-MFI has a defined and documented process for responding to reference check requests; it was also observed that the MFI has responded to reference check requests.

Approval	Documentation
<ul style="list-style-type: none"> ✓ Board has reviewed recruitment policy in the last 1 year ✓ It does not provide notice period to its terminated employee 	<ul style="list-style-type: none"> ✓ NBFC-MFI has documented system for reference checks on all its new employees. ✓ It also has written policy for notice period for outgoing employees
Dissemination	Observance
	<ul style="list-style-type: none"> ✓ There is documentary evidence that suggests that MFI has responded to reference check requests in a timely manner ✓ It also obtains NOC or relieving letter from all its new joinees

Ratings

Client Education

- UFSPL undertakes GRT for its clients during the loan application process. GRT is aimed at enhancing the awareness of clients on the following aspects:
 - Name of the MFI and its staff details
 - Names of other group members assuming joint liability
 - Centre location, meeting date, and time
 - Role and responsibility as a JLG member
 - Terms and conditions about loan product
 - Location and contact details of branch and HO
- The NBFC-MFI has documented process about raising clients' awareness of the options, choices and responsibilities regarding financial products and services during disbursement.
- Branch managers are trained on a quarterly basis at the regional office/HO for enhancing their awareness on the following, which is disseminated further to the branch staff.
 - Regulatory guidelines
 - Loan products
 - Process updates
 - Code of conduct
- Internal audit covers the parameters that check the client awareness levels and understanding. Majority of interviewed borrowers were found to be aware of loan terms, processing fees, insurance charges and other financial details.
- It was also observed that clients are made aware about the organisational policies and procedures during orientation meetings.

Approval	Documentation
	<ul style="list-style-type: none"> ✓ The NBFC-MFI has documented the process of GRT, its credit policies, and procedure manual which is communicated to the borrowers during CGT.
Dissemination	Observance
<ul style="list-style-type: none"> ✓ BMs are trained on a quarterly basis for client awareness, which is further disseminated to the staff. ✓ IA also captures parameters for measuring client awareness at field level. 	<ul style="list-style-type: none"> ✓ Clients demonstrated good awareness about the following: <ul style="list-style-type: none"> ○ Interest rate ○ Loan term ○ Processing fee ○ Insurance fee

Feedback & Grievance Redressal

- UFSPL outlines various aspects of grievance redressal in its fair practice code (FPC). However, it has not documented the process of grievance handling in its operations manual. However, escalation matrix and process is defined for verifying the status of grievance. It has constituted a grievance redressal committee that is chaired by one of the independent board members of the NBFC-MFI. The committee discusses the grievances received from customers and takes action to address the same. Moreover, the committee also takes note of trends in type of grievance.
- Clients were provided HO's contact details apart from the contact numbers of field staff and branch managers as part of the grievance redressal mechanism. The information about grievance redressal mechanism established by industry associations is also part of the training of the clients; however, interviewed clients demonstrated low awareness about the same.
- Each branch of UFSPL has a complaint box for clients to put their complaints. Moreover, branches also maintain a customer grievance register for documenting the complaints and resolution details.
- Helpline number is managed by the admin manager at the HO. Complaints are documented and respective branches are directed to rectify the same. Random check of the helpline number revealed that the number was functional.
- Internal audit also covers the status and resolution of grievances.
- The NBFC-MFI displays the postal address of RBI ombudsman (including contact number) at all its branches. In addition, helpline number and email ID of head office for registering complaints and feedback are also displayed. Moreover, contact details of the ombudsman and NBFC-MFI's HO are also mentioned in the loan card.
- The NBFC-MFI prepares quarterly reports about the number, nature and resolution of grievances and feedback received for management review.

Approval	Documentation
<ul style="list-style-type: none"> ✓ A summary of the grievance redressal report is presented to the grievance redressal committee headed by independent director of NBFC-MFI. ✓ Frequency of meetings of grievance redressal committee is conducted on a regular basis. 	<ul style="list-style-type: none"> ✗ No documentation about the process of grievance handling in its operation manual; however, TAT and escalation matrix is defined for verifying the grievance status. ✓ Fair practice code of NBFC-MFI includes details related to grievance redressal.
Dissemination	Observance
<ul style="list-style-type: none"> ✓ Employees are trained on aspects related to feedback and grievance redressal. 	<ul style="list-style-type: none"> ✗ Clients demonstrated low awareness of existence of grievance redressal mechanism of the industry associations. ✓ Clients are provided contact details of the ombudsman, NBFC-MFI's HO, the

Ratings

<p>✓ Clients are made aware about grievance redressal mechanism during GRT and disbursements.</p>	<p>branch manager and FE for registering complaints.</p> <p>✓ NBFC-MFI maintains grievance register for capturing details of client's grievance and resolution.</p>
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Data sharing

- UFSPL has a well-defined process for sharing data with the credit bureaus. It is also a member of a credit bureau and shares client data with it on a monthly basis. Moreover, as part of terms and conditions in the group information form, the NBFC-MFI has incorporated client privacy clause. This clause highlights that clients' data may be shared with the credit bureau and regulatory body.
- The NBFC-MFI submits data to the RBI as per requirement. However, it does not disclose operational and financial data on its website.

Approval	Documentation
<p>✓ The NBFC-MFI has formulated a policy that requires it to be member of and share data with any credit bureaus.</p>	<p>✓ NBFC-MFI has a board approved policy for client data security. This policy is part of its credit policies and procedure manual and fair practice code.</p>
Dissemination	Observance
<p>✓ Client are made aware through terms and conditions that their data may be shared with the credit bureau and regulatory body.</p>	<p>✗ The website of NBFC-MFI does not disclose any operational and financial information.</p> <p>✓ It shares data with all credit bureaus.</p>

Annexure: Methodologies

Definition

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

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

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

MICROS – MFI Evaluation Framework

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

Following enunciates the broad grading parameters in the assessment framework.

1) Management

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

- Operational track record, lending model (joint lending group or self-help group, on-lending or business correspondence), business orientation and outreach – nature of market catered (rural, semi-urban, or urban) and regional presence – for instance, whether operations are confined to predominantly rural / urban areas.
- Adherence to regulatory compliances and to the voluntary microfinance code of conduct formulated by MFIs.

- Strategic alliances and networks with other agencies (donors, associations, tie-ups) and memberships of self-regulatory organisations (SROs) among others.
- Systems for providing credit services - client identification, group formation, credit appraisal, tie-up with credit bureaus, recovery of credit, collection of thrift, loan overdue monitoring, cash flow management, and fraud control.
- Processes, internal controls, internal audit – its scope and rigour, quality of accounting practices and reporting, and risk management practices.
- Deployment of information technology, hardware and software infrastructure, adequacy of systems and degree of computerisation, security and disaster recovery management.
- Human resources management.

2) Institutional arrangement

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

- Quality of governing board, management and ownership – pedigree of promoters, experience in the field, board structure, organisation structure, independence of the board from the management, experience of the senior management and its understanding of the sector
- Governance practices
- Goals and strategies – Articulation of vision, goals and strategies, quality of planning

3) Capital adequacy and asset quality

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

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

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

Ratings

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

4) Resources and asset liability management

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

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

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

5) Operational effectiveness

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

- Office outreach and quality of infrastructure
- Operational efficiency - productivity measured through several indicators, such as loans/borrowers to relationship officer, loans/borrowers per branch and staff allocation

ratio. Efficiency is measured through indicators, such as operating expenses to average funds deployed, and operating expenses to disbursements.

- Diversity of income sources - composition of fund and fee-based income.
- Profitability – loan pricing, impact of prepayment, operational self-sufficiency (OSS) ratio, net profitability margin (NPM), return on equity (RoE), return on funds deployed/earning assets (RoA).
- Impact of inflation on earnings (used in countries that have experienced high inflation in the past).

6) Scalability and sustainability

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

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

Ratings

COCA methodology

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

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

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

Chart: COCA Indicators Framework

Number of indicators in each category is presented below:

Higher order indicators	Number of indicators
Integrity and ethical behaviour	32
Sensitive indicators	27
Building blocks	Number of indicators
Transparency	40
Client protection	123
Governance	30
Recruitment	13
Client education	14
Feedback and grievance redressal	25
Data sharing	6
Total	251

Methodology

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

Sampling guidelines

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

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

Code of Conduct Assessment exercise requires:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team, as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen across different states in case the MFI operates in more than one state. Care is exercised to include older branches, as well as branches

Ratings

that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.

4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff are carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximise the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans, as well as the documents collected from the clients.

As part of this assessment, we visited nine branches of the MFI. Details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Lakhipur	Assam	27
2	Sonai		16
3	Silchar		10
4	Sonapur		16
5	Nalbari		34
6	Morigaon		26
7	Dharmanagar	Tripura	19
8	Panisagar		47
9	Kolasib	Mizoram	15
Total			210

About CRISIL Limited

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