



## SMERA Comprehensive Grading

**M3C2**

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

## Comprehensive Grading

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Agora Microfinance India Limited



To verify the grading, please scan the QR Code

***Date of Report:***

**27<sup>th</sup> April, 2018**

***Valid Till:***

**26<sup>th</sup> April, 2019**

## SMERA's MFI Grading Scale

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

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

Scale	C1	C2	C3	C4	C5
M1					
M2					
M3		M3C2			
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of “**M3C2**”. It signifies above average capacity of the MFI to manage its operations in a sustainable manner and good performance on code of conduct dimensions.



To verify the grading, please scan the QR Code

## Grading Rationale

<b>Microfinance Capacity Assessment Grade</b>	AMIL obtains “ <b>M3</b> ” as its performance grade which signifies “Above average capacity of the organization to carry out its activities in a sustainable manner”.
<b>Code of Conduct Assessment Grade</b>	AMIL obtains “ <b>C2</b> ” as its Code of Conduct Assessment Grade which signifies “Good performance on COCA dimensions”.

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

## Conflict of Interest Declaration

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

## Disclaimer

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

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## Historical Rating Grades

Date	Rating Agency	Rating/Grading
31-Jul-2017	SMERA Ratings	C2
28-Feb-2017	SMERA Ratings	M4

## SMERA's MFI Grading Scale

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

### Code of Conduct Assessment scale and definitions

Grading Scale	Definitions
C1	MFI with this grade have <b>excellent</b> performance on Code of Conduct dimensions
C2	MFI with this grade have <b>good</b> performance on Code of Conduct dimensions
C3	MFI with this grade have <b>average</b> performance on Code of Conduct dimensions
C4	MFI with this grade have <b>weak</b> performance on Code of Conduct dimensions
C5	MFI with this grade have <b>weakest</b> performance on Code of Conduct dimensions



To verify the grading, please scan the QR Code

## Company Profile

D&B D-U-N-S® Number	65-085-9536	
Name of the MFI	Agora Microfinance India Limited	
Operational Head – Microfinance Business	Name	Ms. Meenal Patole
	Designation	CEO & Managing Director
	Telephone No.	(91) (22) (25271552)
	Email ID	<a href="mailto:meenalpatole@amil.co.in">meenalpatole@amil.co.in</a>
	Date of Joining	1 <sup>st</sup> March, 2011
Date of Incorporation/Establishment	31 <sup>st</sup> May, 1996	
Date of commencement of microfinance business	1 <sup>st</sup> August, 2011	
Legal Status	NBFC-MFI	
Business of the company	Microfinance services under Individual and Joint Liability Group (JLG) Model	
Correspondence Address	Unit No.710, 7th Floor, Vashi Infotech Park, Plot No.16, Sector 30A, Vashi, Navi Mumbai-400703 Maharashtra India	
Geographical Reach (As on 31/Mar/2018)	No. of States	1
	No. of Districts	2
	No. of Branches	10
	No. of Active Borrowers	18,562
	No. of Total Employees	65
	No. of Field/Credit Officers	41

- *AMIL is an NBFC–MFI registered with RBI, commenced its microfinance operations in the year 2011. AMIL is promoted by Ms. Meenal Patole (CEO & Managing Director) and Agora Microfinance NV. AMIL was established with an aim to provide affordable, convenient and timely financial services to low income urban clientele in a financially sustainable manner.*

## **Product Profile**

Products	Description	Loan Size (Rs)	Interest Rate (A) (In %)	Processing Fee (B) (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
Business Loan	Income Generating Loan	15,000-50,000	24.64	1.00	25.64%
Housing Loan	Group Loan	15,000-50,000	24.64	1.00	25.64%
Education Loan	Group Loan	15,000-50,000	24.64	1.00	25.64%
Emergency Loans	Group Loan	Upto Rs.20,000	24.64	1.00	25.64%
Non Micro - Individual Loan	Asset Generating Loan	Upto Rs. 1,00,000	26.00	2.00	28.00%

## **Capital Structure as of 31/Mar/2018**

<b>Authorized Capital</b>	Rs. 4.00 crore
<b>Paid Up Capital</b>	Rs. 3.33 crore

## **Shareholding Pattern**

EQUITY SHARES	
Shareholders	% Holding
Meenal Patole	9.9999
Agora Microfinance NV	89.9999
<b>Total</b>	<b>100.00%</b>

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

Name	Position	Qualification	Brief Profile
Ms. Meenal Patole	CEO and Managing Director	M.A., M. Phil	<ul style="list-style-type: none"> <li>• M.A., M. Phil and Certificate course of Financial Institutions for Private Enterprise Development from JFK School of Government, Harvard University.</li> <li>• Specialist in Livelihood and Microfinance. She has managed projects with the British Council Division, EDA Rural Systems Ltd, ACTED (France), CARE India etc.</li> </ul>
Mr. Tanmay Chetan	Supervisory Board Member, Agora Microfinance NV	Master's in Public Administration	<ul style="list-style-type: none"> <li>• Master's in Public Administration from the Harvard Kennedy School and management degree from the Indian Institute of Forest Management.</li> <li>• Over 15 years of experience in microfinance in various fields like credit ratings, consulting, investing management and implementation.</li> <li>• First CEO of AMK Limited (2003-07), a Greenfield microfinance company of Cambodia.</li> </ul>
Mr. Asit Mehta	Independent Director	Chartered Accountant	<ul style="list-style-type: none"> <li>• Practicing Chartered Accountant with over 30 years of working experience.</li> <li>• Director of Phoenix India Strategy Advisors LLP and a professional director in some other companies.</li> </ul>
Mr. Pradeep Sarin	Independent Director	B.com, CAIIB	<ul style="list-style-type: none"> <li>• Financial services professional with over 35 years of experience across institutions, markets and customer segments.</li> </ul>



			<ul style="list-style-type: none"> <li>• Previously, Head Strategy and Business Development at IFMR Holdings Group, a for profit business.</li> <li>• Prior experience has been as wholesale banker with Standard Chartered Bank and with State Bank of India in business and strategy roles both in India and abroad.</li> </ul>
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### **Management's Profile**

<b>Name</b>	<b>Position</b>	<b>Qualification</b>	<b>Brief Profile</b>
Ms. Meenal Patole	CEO and Managing Director	M.A., M. Phil	<ul style="list-style-type: none"> <li>• M.A., M. Phil and Certificate course of Financial Institutions for Private Enterprise Development from JFK School of Government, Harvard University.</li> <li>• Specialist in Livelihood and Microfinance. She has managed projects with the British Council Division, EDA Rural Systems Ltd, ACTED (France), CARE India etc.</li> </ul>
Mr. Amandeep Singh	Head – Financial Analysis & Planning and Operations	B. Com. (Hons), PGDBM (IRM), PGDFM (IIFM, Bhopal)	<ul style="list-style-type: none"> <li>• Over 08 years of experience in Strategy, Financial Analysis and Planning &amp; Operations.</li> <li>• Received recognition as “Most Influential CFOs of India” from Chartered Institute of Management Accountants.</li> </ul>

## **HIGHLIGHTS OF MICROFINANCE OPERATIONS**

<b>Particulars</b>	<b>31/Mar/2015</b>	<b>31/Mar/2016</b>	<b>31/Mar/2017</b>	<b>31/Mar/2018</b>
No. of States	01	01	01	01
No. of Districts	01	01	02	02
No. of Branches	06	07	11	10
No. of Active Members	8,095	11,408	15,929	18,562
No. of Active Borrowers	8,095	11,408	15,929	18,562
No. of Total Employees	49	43	56	65
No. of Field/Credit Officers	29	28	36	41
No. of SHGs	0	0	0	0
No. of JLGS	1,273	2,256	3,401	4,261
No. of Individual Loans	2,345	1,831	1,296	930
<b>OWNED PORTFOLIO</b>				
<b>Particulars</b>	<b>31/Mar/2015</b>	<b>31/Mar/2016</b>	<b>31/Mar/2017</b>	<b>31/Mar/2018</b>
Total loan disbursements during the year (in crore)	10.74	18.73	25.40	28.64
Total portfolio outstanding (in crore)	8.28	16.24	23.64	29.25

### **SMERA Comments**

- In FY 2018 total loan portfolio of AMIL witnessed a growth of ~23% as compared to the previous financial year.*



**BRANCH-WISE DETAILS AS ON 31/Mar/2018**

Branches Names	No. Of Active Borrowers	Portfolio Outstanding (In Rs. Crore)	Par % (>30 Days)
Cheetah Camp	1,987	3.23	2.56%
Khardev Nagar	1,796	3.15	1.20%
Lumbini Baug	2,072	3.31	1.47%
Santacruz	1,633	2.68	2.48%
Vikroli	2,973	4.41	2.86%
Deonar	2,268	3.43	15.54%
Vashi Naka	1,464	2.35	1.76%
Bhandup	1,918	3.07	0.95%
Mumbra	1,304	1.96	0.00%
MH Nagar	389	0.36	5.75%
Digha	758	1.31	0.00%
<b>Total</b>	<b>18,562</b>	<b>29.25</b>	<b>3.37%</b>

## Compliance with RBI's Directives for MFIs

RBI's Direction	Company Status	Compliance
85% of total assets to be in the nature of qualifying assets	Income generation loan forms over 90.92% of total assets	Complied
Net worth to be in excess of Rs 5 Crore	Net owned funds stood at Rs.12.62 crore as on March 31, 2018	Complied
Income of borrower not to exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas	AMIL extends loans to borrowers whose income does not exceed Rs.1,00,000 in the rural areas and Rs.1,60,000 in the urban areas	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles	AMIL offers Micro Loans in the range of Rs. 15,000 to Rs. 60,000 and Non Micro Loans upto Rs. 1,00,000 depending on client repayment capacity, type of activity etc.	Complied
Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)	AMIL conducts credit bureau check on the loans outstanding from other MFIs. The company ensures the total indebtedness of the borrower does not exceed Rs. 60,000 for Micro Loans	Complied
Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty	Tenure of loans is not less than 24 months for loan amount in excess of Rs. 30,000, with prepayment without penalty	Complied
Pricing guidelines are to be followed	Loans are provided at 24.64% reducing balance basis which meets the RBI criteria as on 31 <sup>st</sup> March, 2018	Complied
Transparency in interest rates to be maintained	Interest, Processing fees and insurance premium charged are duly mentioned in the loan card provided to the client	Complied
Not more than two MFIs lend to the same client	AMIL verifies the same through credit check from credit bureaus	Complied

RBI's Direction	Company Status	Compliance
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	AMIL is charging processing fee of 1.00% on the disbursed loan amount plus applicable service tax	Complied
Collateral free loans	AMIL does not accept any Collateral for extending the credit	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	AMIL does not collect any security deposit / margin from the borrower	Complied
No late payment or prepayment penalties	AMIL does not take late payment or prepayment penalties from the clients	Complied
Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.	AMIL shares its client data with Crif Highmark, Equifax, Experian and CIBIL	Complied
Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs	AMIL provides more than 71.27 % of total loans for income generation activities as on 31 <sup>st</sup> March, 2018.	Complied
NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 percent of its aggregate risk weighted assets.	CRAR of AMIL stood at 45% as of 31 <sup>st</sup> March, 2018 (as per provisional financial) which complies with the minimum CRAR requirement of 15% for NBFC-MFIs as prescribed by RBI	Complied
The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1% of the outstanding loan portfolio or b) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more'.	The statutory auditor has certified and the appropriate provisions have been made	Complied

## Section 1: Microfinance Capacity Assessment Grading

### Operating Environment

- SMERA estimates the MFI sector to grow at a CAGR of 20%-25% and is expected to touch Rs.170000 crore by the end of FY2018.
- MFIs have reported an increase of ~15% in average loan amount disbursed per account during Q2 FY 17-18 as compared to Q2 FY 16-17. SMERA believes seasoned customer profile over multiple loan cycles have helped MFIs to increase its loan ticket size.
- The fund flow to the sector has improved on account of increased confidence on MFI sector coupled with reduction in interest rate (100-150 bps). Further large MFIs are exploring the route of Non-convertible debentures (NCDs) and Pass through Certificates (PTCs); whereas small –mid size MFIs have an increased access to funds from banks and financial institutions.
- Support systems such as Self-Regulatory Organizations (SRO), Credit Information Bureaus (CIB) among others have been established to ensure credit check and process adherence among MFIs. This regulatory framework has brought more accountability and transparency within the sector.
- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which has moderated microfinance sector growth in FY2016-17 as compared to the previous year. Post demonetization Asset Quality has declined, however it has improved and Portfolio at Risk (PAR) > 30 stood at 5.98% in Q3 FY 17-18.

### **Adequate track record of operations and extensive industry experience of promoters**

- AMIL is an NBFC-MFI registered with RBI, commenced its microfinance operations in the year 2011. AMIL is promoted by Ms. Meenal Patole (CEO & Managing Director) and Agora Microfinance NV. AMIL was established with an aim to provide affordable, convenient and timely financial services to low income urban clientele in a financially sustainable manner.
- AMIL has experienced & qualified board members. The board of directors of AMIL comprises of members with experience in financial services, social services & microfinance sector.
- Ms. Meenal Patole (CEO & Managing Director) who is also on the board of MFIN is a specialist in Livelihood and Microfinance. She has managed projects with the British Council Division, EDA Rural Systems Limited, Agency for Technical Cooperation and Development (ACTED) France and CARE India.
- AMIL has four-member on its board as on March 31, 2018 having extensive experience in the banking and finance segment. The board has promoter director, two independent directors and Supervisory Board Member with banking & finance/microfinance expertise.

### **Moderate Resource Profile**

- As on March 31, 2018, AMIL had availed term loans from six lenders (Two PSU Banks and Four NBFC's). The company's resource profile continues to remain concentrated towards borrowings from NBFC's as on March 31, 2018. The relationships with NBFCs have helped AMIL in meeting its funding requirements to meet the projected growth; however the company should increase its funding mix from PSU/Private Banks to bring down the cost of borrowing. The debt availed from above mentioned NBFCs have been drawn at an interest rate in the range between 15%-16%.
- The cost of funds (COF) for AMIL stood at 14.50% as on Mar 31, 2018 as compared to 18.46% in the previous year.

### **Adequate capitalisation and comfortable liquidity profile**

- The company's capitalisation stands adequate with capital adequacy ratio (CAR) of 45 per cent as on March 31, 2018 as against CAR of 52 per cent as on March 31, 2017. The NBFC-MFI capitalisation in relation to managed asset base has been comfortable on account of equity infusion and internal accruals at regular interval.
- AMIL has a comfortable liquidity position due to well matched maturity of assets and liabilities. The tenure of loans is about 12-24 months, whereas the incremental bank funding is typically with tenure of about 12-36 months. However regular flow of funds is critical to maintain the projected growth and the same would have a key bearing on its liquidity profile.

- The overall gearing stood comfortable at 1.68 times as on March 31, 2018 as compared to 1.23 times in the previous year.

### **High Geographical Concentration**

- The portfolio of the AMIL remains concentrated in Mumbai region. Though area covered for lending purpose is spread in the slums of Mumbai with 10 branches. Therefore, AMIL is susceptible to portfolio/geographical concentration coupled with sociopolitical risk.

### **Sound asset quality**

- AMIL has maintained sound asset quality with on-time repayment rate of 96.46% as on Mar 31, 2018.

Period	FY 2015	FY 2016	FY 2017	FY 2018
	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)
On-time	8.08	16.16	22.88	28.21745
1-30 days	0.1059632	0.0248583	0.2856938	0.050509
31-60 days	0.0229143	0.0036117	0.1645693	0.027485
61-90 days	0.018089	0.0076666	0.1163763	0.041763
91-180 days	0.034261	0.0133524	0.0922741	0.184662
181-360 days	0.009815	0.0200007	0.055186	0.423196
> 360 days	0.00	0.0171155	0.0333528	0.308186
<b>Total</b>	<b>8.28</b>	<b>16.24</b>	<b>23.64</b>	<b>29.25</b>

- The PAR 0-30 days stood at 0.17% as on Mar 31, 2018 as compared to 1.25% as on Mar 31, 2017. The PAR >30 days stood at 3.37% as on Mar 31, 2018 as compared to 1.95% as on Mar 31, 2017. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control. The PAR % has remained comfortable and not impacted significantly despite of demonetization in the month of November 2016.

### **Income and Profitability**

- The company reported a profit after tax of Rs. 15.50 Lakh on total income of Rs. 644.59 Lakh in FY2018 and a profit after tax of Rs. 32.06 Lakh on total income of Rs. 556.81 Lakh in FY2017.



- As on March 31, 2018, the AMIL has an outstanding loan portfolio of Rs. 29.25 crore spread over 10 branches of Maharashtra with about 18,562 borrowers. The companies' portfolio outstanding witnessed a growth of ~23% in FY 2018 over FY 2017.
- Yield on Portfolio of AMIL has declined to 22.24% in FY 2018 as compared to 26.65% in FY 2017.
- The operational self-sufficiency (OSS) of the company stood at 102.21% in FY2018 as compared to 106.09% in the previous year. The Company's operating expense stood moderately high at 11.62% as on 31<sup>st</sup> March, 2018.

### **Adequate IT Systems and Audit Mechanism**

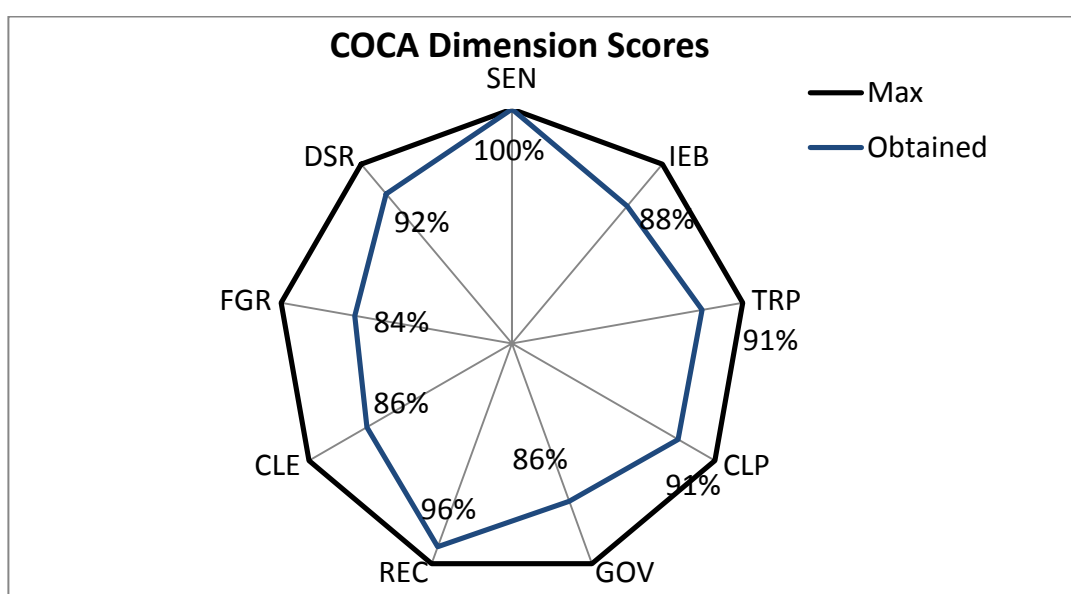
- AMIL's management information system (MIS) and Information Technology (IT) infrastructure is adequate for its current scale of operations. It has dedicated MIS and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches.
- AMIL has installed app based software "BIJLI" which enables real-time tracking of micro finance activities.
- The company also has an internal audit team which undertakes branch and borrower audit twice in three months.

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

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

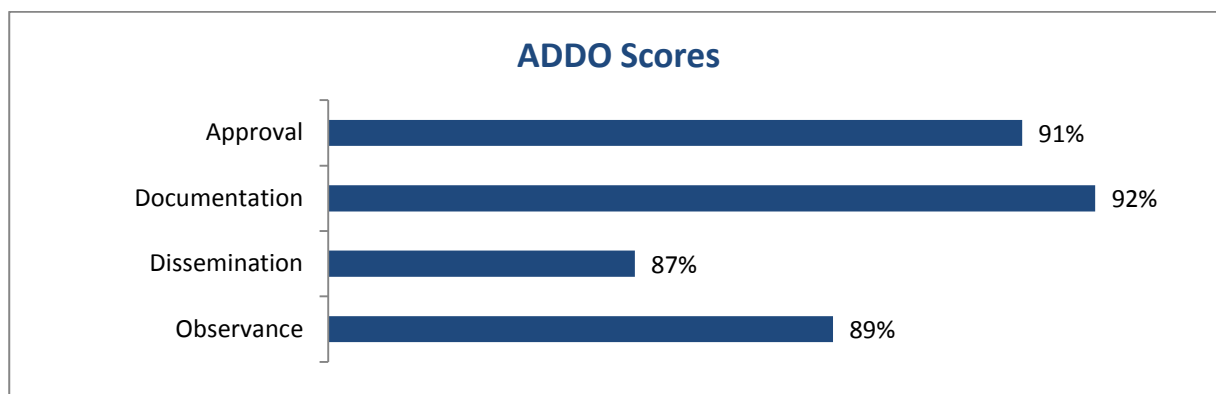
## Section 2: Code of Conduct Assessment

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



### SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	100%
Integrity and Ethical Behavior	IEB	88%
Transparency	TRP	91%
Client Protection	CLP	91%
Governance	GOV	86%
Recruitment	REC	96%
Client Education	CLE	86%
Feedback & Grievance Redressal	FGR	84%
Data Sharing	DSR	92%



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

## Code of Conduct Assessment Summary

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

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

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

## Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Board approved policies, compliant with the RBI guidelines.</li> <li>• Code of Conduct framed as per the AMIL mission, vision, values and displayed in all branch offices &amp; HO.</li> <li>• Membership with MFIN.</li> <li>• Experienced and qualified management with more than a decade of experience in MFI industry.</li> <li>• Credit policies are well established documented and communicated.</li> <li>• Adequate loan appraisal &amp; monitoring systems.</li> <li>• Specialized Credit underwriting process for loans exceeding Rs. 30,000.</li> <li>• Compulsory training on products terms and conditions to client prior to every loan.</li> <li>• Helpline number for recording client feedback/grievance.</li> <li>• Data sharing with all credit bureaus (Equifax, Highmark, Experian and CIBIL).</li> <li>• AMIL prepares monthly reports about the number, nature and resolution of grievances for management review. The report is sent to board every month for review.</li> </ul>	<ul style="list-style-type: none"> <li>• Awareness among the staff on RBI compliance was found to be moderate.</li> <li>• AMIL has an effective system to record complaints received on the landline number at H.O. However, there is no mechanism to record complaints at branch level.</li> <li>• Awareness among client and staff on MFIN grievance redressal mechanism was found to be moderate.</li> </ul>

## Significant Observations

HIGHER ORDER INDICATORS	
<b>Integrity and Ethical Behaviour</b>	<ul style="list-style-type: none"> <li>• The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit.</li> <li>• The board has approved a policy of recovering from delinquent loans.</li> <li>• AMIL prepares monthly reports about the number, nature and resolution of grievances for management review. The report is sent to board every month for review.</li> <li>• The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year.</li> <li>• In all the branches visited, the contact number and address of SRO nodal official was displayed.</li> <li>• Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit. As informed by management, as per board mandate the same is prerogative of HR and not internal audit.</li> <li>• Awareness among client on Grievance Redressal mechanism was found to be moderate in the visited branches.</li> <li>• Fixed Component compensation of staff is not impacted in event of overdues. AMIL, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.</li> </ul>
<b>Sensitive Indicators</b>	<ul style="list-style-type: none"> <li>• Clients interviewed were moderately aware of the charges and price for all services availed.</li> <li>• AMIL does not issue sanction letters to the clients with all terms and conditions of the loan including annualized interest rates. However the AMIL shares loan card with same information.</li> <li>• AMIL enter into a loan agreement with clients. All terms and conditions with pricing details are mentioned in the loan agreement. However, copy of the loan agreement is not shared with the client.</li> <li>• Awareness among the staff on RBI guidelines was found to be moderate.</li> <li>• There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• AMIL shares accurate data with all credit bureaus on a frequency prescribed by SRO.</li> <li>• AMIL does not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted.</li> </ul>

	<p>Further no penalty is charged for overdue and pre-closure of loans.</p> <ul style="list-style-type: none"> <li>• AMIL has a documented policy on loan pre-payments.</li> <li>• The MFI gets an external CA agency to certify its compliance with RBI's directions.</li> </ul>
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BUILDING BLOCKS	
<b>Transparency</b>	<ul style="list-style-type: none"> <li>• Awareness among the staff on RBI guidelines was found to be moderate.</li> <li>• AMIL has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages.</li> <li>• Circulars of the most recent RBI directions are available in the form of office orders in the visited branches.</li> <li>• AMIL, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.</li> <li>• The loan interest rate and processing fees is mentioned on the loan card provided to the client.</li> <li>• Clients interviewed were aware of the charges and price for all services availed.</li> <li>• Audit committee verifies through the audit reports whether all clients have received the necessary loan documents.</li> <li>• Pricing policy of loans is displayed in branches visited.</li> <li>• AMIL does not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans.</li> <li>• AMIL has a documented policy on loan pre-payments.</li> <li>• Code of conduct compliance report of the company is available in the company's website.</li> </ul>
<b>Client Protection</b>	<ul style="list-style-type: none"> <li>• AMIL has a board-approved policy regarding client data security which forms part of its fair practice code.</li> <li>• Employees are trained on aspects of appropriate behavior with the clients.</li> <li>• AMIL has framed a Fair Practice Code and has also adopted the RBI fair practices code, which includes policies on the expected staff conduct with clients.</li> <li>• Employees are trained on aspects of appropriate behavior with the clients.</li> <li>• Staff was found to be aware of the need to have professional conduct with the clients.</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• MFIs maintain high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body.</li> </ul>

	<ul style="list-style-type: none"> <li>• AMIL has more than 1/3rd of independent director's in its Governing Board, and the Board is actively involved in all policy formulations and other important decisions.</li> <li>• AMIL discloses its CEO compensation in its audited reports (Ref. Audit Report 2017).</li> <li>• An audit committee of the Board with an independent director as chairperson.</li> <li>• AMIL has got its accounts audited in a timely manner after the end of the most relevant financial year.</li> <li>• No adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit. As informed by management, as per board mandate the same is prerogative of HR and not internal audit.</li> <li>• The board has approved a policy of recovering from delinquent loans. As informed by management, no request has been received from clients related to restructuring of loans.</li> </ul>
<p style="text-align: center;"><b>Recruitment</b></p>	<ul style="list-style-type: none"> <li>• AMIL's board has reviewed its recruitment policies regularly in board meetings.</li> <li>• The MFI has a defined and documented process for responding to reference check requests.</li> <li>• AMIL has honored the notice period for employees who have left the organization.</li> <li>• AMIL obtains NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs.</li> <li>• AMIL has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year.</li> </ul>
<p style="text-align: center;"><b>Client Education</b></p>	<ul style="list-style-type: none"> <li>• AMIL in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services.</li> <li>• AMIL does not charge any training fees to its clients, itself or through a related party.</li> <li>• Awareness among client on annualized Interest rate &amp; Insurance claim settlement process was found to be moderate.</li> </ul>
<p style="text-align: center;"><b>Feedback and Grievance Redressal</b></p>	<ul style="list-style-type: none"> <li>• The Board has approved a policy for Redressal of its clients' grievances, which requires board to be updated on the functioning of grievance Redressal mechanism.</li> <li>• AMIL prepares monthly reports about the number, nature and resolution of grievances for management review. The report is sent to board every month for review.</li> <li>• Multiple channels for client feedback/grievance Redressal.</li> <li>• In the visited branches, there were complaint boxes at branch</li> </ul>



	<p>offices.</p> <ul style="list-style-type: none"> <li>• In all the branches visited, the contact number and address of SRO nodal official was properly displayed.</li> <li>• Complaints lodged through landline at H.O are documented and resolved, however there is no compliant registering mechanism present in the branches.</li> <li>• Awareness among client on SRO Grievance Redressal mechanism was found to be moderate in the visited branches.</li> <li>• In the visited branches, action taken reports on the complaints received from clients were not available. However, action taken reports are centrally maintained in Head Office with Grievance Officer.</li> </ul>
<p><b>Data Sharing</b></p>	<ul style="list-style-type: none"> <li>• Financial data for FY 2017 is available on the website of AMIL.</li> <li>• MFI has a well-defined process for sharing data with the credit bureaus.</li> <li>• MFI has provided data called for by MFIN and RBI as and when required as per compliance.</li> <li>• AMIL shares accurate data with all credit bureaus on a frequency prescribed by MFIN.</li> <li>• AMIL performs compulsory credit bureau checks for all its clients.</li> <li>• Microfinance operational data is not available on the company's website.</li> </ul>

# ANNEXURES

## Microfinance Grading Methodology

### A) Operational Track Record

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

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

### B) Promoters & Management Profile

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

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

### C) Financial Performance

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

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

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

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

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

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

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

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

## COCA Methodology

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

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

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

*Chart: COCA Indicators Framework*

Number of indicators in each category is presented below

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

## Methodology

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

## Sampling guidelines

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

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

### Code of Conduct Assessment exercise requires:

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

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

Sr. No.	Branch	State	No of clients interviewed
1	Khardev Nagar	Maharashtra	18
2	Lumbini Baug	Maharashtra	13
3	Deonar	Maharashtra	19
4	Santacruz	Maharashtra	12
5	Vikroli	Maharashtra	16
6	Bhandup	Maharashtra	18
7	Digha	Maharashtra	18
8	Mumbra	Maharashtra	17
<b>Total</b>			<b>131</b>

## Financials

### Profit & Loss Account (Rs. In Thousands)

Period	FY 2016	FY 2017	FY 2018
Months	12	12	12
<b>Financial revenue from operations</b>	<b>30,513</b>	<b>55,681</b>	<b>64,459</b>
Interest and fee revenue from microfinance loans	29,199	53,139	58,783
Other Operating Revenue	1,314	2,542	5,676
<b>Financial expenses from operations</b>			
Interest and Fee Expense on Borrowings	9,971	25,523	26,509
<b>Gross financial margin</b>	<b>20,542</b>	<b>30,158</b>	<b>37,950</b>
Provision for Loan Loss / Write off	884	985	5,838
<b>Net financial margin</b>	<b>19,658</b>	<b>29,173</b>	<b>32,112</b>
<b>Operating expenses</b>			
Personnel Expense	16,062	17,552	20,497
Depreciation and Amortization Expense	904	485	498
Other Administrative Expense	5,960	7,939	9,722
Non-Operating Revenue	6	9	155
Non-Operating Expense	58	0	0
<b>Net Profit After Tax</b>	<b>(3,320)</b>	<b>3,206</b>	<b>1,550</b>

*\*Above financials have taken from audited accounts except of FY 2018.*



## Balance Sheet (Rs in Thousands)

As on date	31-Mar-16	31-Mar-17	31-Mar-18
	Audited	Audited	Provisional
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
<b>Capital</b>			
Equity Capital	6,770	33,300	33,300
Reserves & Surplus	(59,232)	(56,026)	(53,835)
Security Premium	1,31,267	1,47,677	1,47,036
<b>Total Capital</b>	<b>78,805</b>	<b>1,24,951</b>	<b>1,26,501</b>
<b>Liabilities</b>			
<b>Short-term liabilities</b>			
Short-term borrowings			
Commercial Loans from banks/FI	82,278	1,26,505	0
Account payable & Other short-term liabilities	3,267	4,550	4,270
<b>Total Short-term liabilities</b>	<b>85,545</b>	<b>1,31,055</b>	<b>4,270</b>
<b>Long-term liabilities</b>			
Long-term borrowings			
Commercial Loans from banks/FI	40,764	26,985	2,12,162
<b>Total Other Liabilities</b>	<b>1,26,309</b>	<b>1,58,040</b>	<b>2,16,432</b>
Provision for Standard Assets	1,621	1,324	0
Other Provisions	5	1,039	1,010
<b>TOTAL LIABILITIES</b>	<b>2,06,740</b>	<b>2,85,354</b>	<b>3,43,943</b>

As on date	31/Mar/2016	31/Mar/2017	31/Mar/2018
	Audited	Audited	Provisional
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
<b>Gross Block</b>	2,265	2,438	2,750
Less: Depreciation	1,748	1,902	2,220
<b>Net Block</b>	<b>517</b>	<b>536</b>	<b>530</b>
Cash and Bank Balances	37,304	11,272	10,420
Security Deposit	922	26,951	36,250
Investment in Fixed Deposit	0	2,000	0
<b>Gross Loan Portfolio</b>	<b>1,62,468</b>	<b>2,36,347</b>	<b>2,92,258</b>
Accounts Receivable And Other Assets	4,987	7,796	4,213
Intangible Assets	542	452	272
<b>TOTAL ASSETS</b>	<b>2,06,740</b>	<b>2,85,354</b>	<b>3,43,943</b>

## Financial Ratios

Financial Ratios	31/Mar/2016	31/Mar/2017	31/Mar/2018
	12	12	12
<b>Capital Adequacy Ratio</b>			
Capital Adequacy Ratio (%)	46.59	52.00	45.00
<b>Productivity/Efficiency Ratios</b>			
No. of Active Borrowers Per Staff Member	265	284	286
No. of Active Borrowers per field executives	407	442	453
No. of members per Branch	1630	1448	1856
Gross Portfolio o/s per field executive (in thousands)	5,802	6,565	7,128
Average Outstanding Balance per client (in Rs)	14,242	14,838	15,745
Cost per Active client	2010	1631	1655
<b>Asset/Liability Management</b>			
Cost of funds ratio	8.10%	18.46%	14.50%
Yield on Portfolio(nominal)	35.94%	26.65%	22.24%
<b>Profitability / Sustainability Ratios</b>			
Operational Self Sufficiency (%)	90.33	106.09	102.21
Operating Expense Ratio (OER) (%)	28.22	13.03	11.62
Return on Assets (RoA) (%)	(1.58)	1.30	0.44
Portfolio at Risk (>30 days) (%)	0.38	3.87	3.37
Return on Equity (RoE) (%)	(4.15)	1.57	0.55
<b>Leverage Ratios</b>			
Total Outside Liabilities to Tangible Network Ratio (Times)	1.60	1.26	1.71
Debt/Equity Ratio (Times)	1.56	1.23	1.68



## About SMERA

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

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