



**SMERA
Comprehensive
Grading**

M2C2

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

SMERA Comprehensive Grading

Sambandh Finserve Private Limited



To verify the grading, please scan the QR code

Date of Report:

29th February, 2020

Valid Till:

28th February, 2021

SMERA's MFI Comprehensive Grading Scale

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

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

Scale	C1	C2	C3	C4	C5
M1					
M2		M2C2			
M3					
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of “**M2C2**”. It signifies **High** 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

Microfinance Capacity Assessment Grade	Sambandh Finserve Private Limited obtains “M2” as its performance grade which signifies “High capacity of the organization to carry out its activities in a sustainable manner”.
Code of Conduct Assessment Grade	Sambandh Finserve Private Limited obtains “C2” as its Code of Conduct Assessment Grade which signifies ‘Good performance on COCA dimensions’.

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

Disclaimer: MFI grading is not a comment on debt servicing ability, not a buy-sell recommendation and must not be used for raising fund.

Conflict of Interest Declaration

SMERA (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 SMERA have been a member of the Board of Directors of the MFI for a period of 12 months preceding the date of the comprehensive grading.

Disclaimer

SMERA's Ratings / Gradings / Due Diligence and other credit assessment related services do not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a buyer's or lender's independent assessment. Rating / Grading / Due Diligence are based on the information provided by the rated entity and obtained by SMERA from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true and correct, SMERA makes no representation or warranty, expressed or implied with respect to the accuracy, adequacy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions 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 Ratings / Gradings / Assessments.

Historical Rating Grades

Date	Rating Agency	Rating/Grading
31-Oct-2019	SMERA	M2
25-Feb-2019	SMERA	M2C2
24-Nov-2018	SMERA	M2
23-Mar-2018	SMERA	M2C2
31-Oct-2017	SMERA	M2
29-Mar-2017	SMERA	M3C3
30-Sep-2016	SMERA	MF3

Microfinance Capacity Assessment Grading Symbols and Definitions

Grading Scale	Definitions
M1	Highest capacity of the MFI to manage its operations in a sustainable manner.
M2	High capacity of the MFI to manage its operations in a sustainable manner.
M3	Above average capacity of the MFI to manage its operations in a sustainable manner
M4	Average capacity of the MFI to manage its operations in a sustainable manner
M5	Inadequate capacity of the MFI to manage its operations in a sustainable manner
M6	Low capacity of the MFI to manage its operations in a sustainable manner.
M7	Very low capacity of the MFI to manage its operations in a sustainable manner
M8	Lowest capacity of the MFI to manage its operations in a sustainable manner

Code of Conduct Assessment Scale and Definitions

Grading Scale	Definitions
C1	Excellent performance of the MFI on Code of Conduct dimensions
C2	Good performance of the MFI on Code of Conduct dimensions
C3	Average performance of the MFI on Code of Conduct dimensions
C4	Weak performance of the MFI on Code of Conduct dimensions
C5	Weakest performance of the MFI on Code of Conduct dimensions

Company Fact Sheet

Name of the MFI	:	Sambandh Finserve Private Limited (SFPL)	
Operational Head – Microfinance Business	:	Name	Mr. Anup Ghosh
	:	Designation	Chief Operating Officer
	:	Mobile No.	9833464007
	:	Email ID	anup.ghosh@sambandhfin.com
Date of Incorporation/Establishment	:	3 rd July, 1996	
Date of commencement of microfinance business	:	2 nd October, 2006	
Legal Status	:	NBFC-MFI	
Business of the company	:	Microfinance Services Under Joint Liability Group (JLG) Model	
Correspondence Address	:	Sambandh Finserve Pvt. Ltd. Odisha State Office, 2 nd Floor, Plot No- 216, District Center, Chandrasekharapur, Bhubaneswar-751016, Odisha India	
Geographical Reach (As on 31/Dec/2019)	:	No. of States	5
	:	No. of Districts	33
	:	No. of Branches	89
	:	No. of Active Borrowers	2,11,308
	:	No. of Total Employees	778
	:	No. of Field/Credit Officers	372
No. of Lenders	:	39 (including Banks and institutional lenders)	
Statutory Auditors	:	SRB & Associates, Bhubaneswar	

Background:

Sambandh Finserve Private Limited (SFPL) is an Inclusive Financial Institution, registered as a Non-Banking Finance Company – Micro Finance Institution (NBFC-MFI) with the Reserve Bank of India and offering customized solutions in the areas of Inclusive Finance through its lending and financing solutions to the low-income, marginalized and scheduled tribe community of Chhotanagpur region in the Eastern India.

Product Profile

Product	Description	Loan size (Rs.)	Repayment (in Months)	Interest Rate (In %) Reducing Balance	Processing Fees (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
Saral	JLG	10,000 - 80,000	12-24	24.53	1.00	25.53
Suvidha	SHG	10,000 - 50,000	12-24	24.64	1.00	25.64
Suvidha (Yes Bank)	JLG	12,000 - 36,000	12-24	24.00	1.00	25.00
Samrudhhi (Reliance Commercial LTD)	JLG	15,000 - 35,000	12-24	26.00	1.00	27.00
Watsan	Individual-Sanitation	15,000, 18,000, 20,000	12-24	21.00	1.00	22.00
Sugriha-Housing Improvement Loan	Individual	50,000 - 100,000	12-48	24.00 - 28.00	2.00	26.00 - 30.00
Micro Business Loan	Individual	50,000 - 50,00,000	12-48	26.00 - 28.00	2.00	28.00 - 30.00

Capital Structure as of 31/Dec/2019

Authorized Capital	Rs. 42.00 crore
Paid Up Capital	Rs. 29.25 crore

Shareholding Pattern (as on December 31, 2019)

Equity Shares	
Shareholders	% Holding
Mr. Deepak Kindo	13.34
Mr. Livinus Kindo	5.74
Mr. Dibyalochan Jena	0.00
Mrs. M. M. Kindo	5.60
Mr. Alok Tirkey (Friends of Sambandh Trust)	8.57
BOPA Pte Ltd.	28.13
Dia Vikas Capital Private Limited	27.80

SIDBI	10.81
Total	100.00

Non-Convertible, Redeemable, Cumulative Preference Shares (NCRCPs)	
Shareholders	% Holding
Scient Capital Pvt. Ltd.	100.00
Total	100.00

Promoters/Directors Profile

Director Details		Profile
Name:	Mr. Livinus Kindo	Mr. Livinus Kindo is a retired IAS officer of 1973 batch, Orissa cadre. His final posting before retirement was in capacity of Member Board of Revenue (Chief Secretary Rank), Orissa. Mr. Kindo is an Economics Post Graduate (Gold Medalist) and has done his M.Phil from Glasgow University, U.K. Mr. Kindo is the founder of Regional Rural Development Centre, Rajgangpur and carries a wide exposure in the area of cooperative banks and societies in Orissa. He has varied publications to his credit covering areas such as 'Tribal Economy' & 'Credit Delinquency in India'. He is one of the promoters of Sambandh in capacity of Chairman and has been a constant source of support for the growth of the institution.
Designation:	Chairman	
Qualification:	M.A. Economics, M. Phil.	
Name:	Mr. Deepak Kindo	Mr. Deepak Kindo is the founder of Sambandh, and is an experienced professional in MFI sector. He is a Post Graduate from Indian Institute of Forest Management, Bhopal and has worked for a brief stint with 'Friends of Women's World Banking of India'. Mr. Deepak has attended numerous microfinance training programs at national and international level in addition to getting exposed to operational aspects of Micro finance institutions located in Asia Pacific and North America. Prior to Sambandh, Mr. Kindo was in Board of
Designation:	M.D. & C.E.O.	
Qualification:	M.B.A.(P.G.D.F.M.)	

		Adhikar Micro Finance Pvt. Ltd. An MFI based out of Odisha. In capacity of MD & CEO Mr. Deepak Kindo is committed to take Sambandh to greater heights.
Name:	Mr. Saurabh Baroi	Mr. Baroi, at present is General Manager in Dia Vikas Capital Pvt Ltd. A Post Graduate in Rural Management with expertise in areas including Institutional Development, Partnership Management, Mentoring, Technical Capacity Building, Legal Transformation & Due Diligence of MFIs. Prior to joining Dia Vikas Capital, he has worked with both national and international agencies such as CARE India, Access Development Services & CAPART.
Designation:	Nominee Director	
Qualification:	P.G.D.R.M.	
Name:	Mr. Shreekanta Das	He is a Banker and has decades of MSME lending experience while acting in various roles at Small Industries Bank of India (SIDBI). He currently serves as Deputy General Manager at SIDBI Foundation for Micro Credit (SFMC), Lucknow.
Designation:	Nominee Director	
Qualification:	MA(Economics)	
Name:	Ms. DeSilva Niroshani Sawanawadu	With an original background as an IT professional and initial career in IT Management, Ms. Niroshani has been involved in the microfinance field focusing on IT and MIS implementation since 2007. She has developed a strong operational track record in the microfinance industry and recently she has been responsible for building one of the leading microfinance companies in Myanmar – from greenfield to sustainable operation within a short time span of 2 years. Niroshani is also a CGAP certified trainer and have obtained experience in Social Performance Management through several social audits of MFIs in Africa and Asia during her time with EDA Rural Systems (India).
Designation:	Nominee Director	
Qualification:	M.B.A. (I.T.)	
Name:	Mr. Kuchibhatla Prasad	Mr. Prasad has a wide experience of 33 years with Reserve Bank of India in various
Designation:	Independent Director	
Qualification:	M.Sc., C.A.I.I.B	

		capacities with Chief General Manager, RBI as his last position held. His experience covers the areas of Supervision and Examination of Non-Banking Financial Institutions & Banks including the Developmental Financial Institutions. Before joining RBI, functioned as Senior Breeder with USAID and Rockefeller Foundations in developing disease resistant and high yielding Rice Varieties at Hyderabad with All India Coordinated Rice Improvement Project for four years.
Name:	Mr. Vinod Kumar Jha	Shri. Vinod K Jha, is an experienced professional providing strategic business advisory solutions in the areas of finance, marketing and business development. A Science Graduate from Mumbai University, he has rich and varied experience in this field for the past 16 years. He is also closely associated with premier organisations like Carbon Minus India in the area of renewable energy and environment protection and is a supporter and advisory for championing the vision of “Zero defect-zero effect” of our Prime Minister. He also has a presence in the socio-economic space and has worked with MFIs including C-DOT, Bihar and has helped them with their strategic and sustainable growth. His core skill areas include Institutional Development, Strategic Ideation, Mentoring and Incubation in New Realms.
Designation:	Independent Director	
Qualification:	B.Sc.	

SMERA Observations:

- SFPL has seven-member board. Board members have strong experience in microfinance, Banking, finance, risk and development sectors.

- The board consists of two promoter directors, three nominee directors and two independent directors. Less than one third of the board has representation of independent directors.
- SMERA feels that SFPL should strengthen its governance structure by inducting more independent members in its Board.

Management's Profile

Management Details		Profile
Name:	Mr. Deepak Kindo	Mr. Deepak Kindo is the founder of Sambandh, and is an experienced professional in MFI sector. He is a Post Graduate from Indian Institute of Forest Management, Bhopal and has worked for a brief stint with 'Friends of Women's World Banking of India'. Mr. Deepak has attended numerous microfinance training programs at national and international level in addition to getting exposed to operational aspects of Micro finance institutions located in Asia Pacific and North America. Prior to Sambandh, Mr. Kindo was in Board of Adhikar Micro Finance Pvt. Ltd. An MFI based out of Odisha. In capacity of MD & CEO Mr. Deepak Kindo is committed to take Sambandh to greater heights.
Designation:	M.D. & C.E.O.	
Qualification:	M.B.A.(P.G.D.F.M.)	
Name:		Mr. James Raj
Designation:		Chief Financial Officer
Qualification:		B.Com.(Hons), M.Com., P.G.D.B.M.(L.I.B.A.)
Name:		Mr. Sanjib Puhan
Designation:		Head-Corporate Strategy
Qualification:		M.B.A., M.Com, L.L.B.
Name:		Mr. Anup Ghosh
Designation:		Chief Operating Officer
Qualification:		PGDRM (XIIS), Exec. Program in Applied Finance – IIM (C)

		Manager (NCM) and seven years with FWWB India / Ananya Finance in Senior Management role. During his career, he has attended extensive Training and Exposure visits both Nationally and Internationally.
Name:	Mr. Krishna Chandra Mohanta	He is a qualified Company Secretary from the Institute of Company Secretaries of India and an LLB graduate. He has more than 9 years of experience in the field and has earlier worked in the private sector handling similar responsibilities.
Designation:	Company Secretary	
Qualification:	B.Sc., Company Secretary, LLB	
Name:	Mr. Dhiraj Sinha	He has experience of almost two decades working in the corporate and not for profit sector and has been a part of the microfinance and Banking domain for the last twelve years. Mr. Sinha has been instrumental in managing the IT and non – IT projects in and around Asian and African countries in the domains of retail banking, CBS, internet banking and Anti Money Laundering. His prior experiences in IT management and implementation are helping Sambandh automate critical and non-critical IT & MIS processes at SFPL.
Designation:	Head - Small Finance Works	
Qualification:	M.A, Micro Insurance	
Name:	Mr. Arjun Pagal	Mr. Arjun Pagal holds a PGDMN from EDII Ahmedabad, Gujarat. He has about 10 years of experience in PR, developing communication materials, creative design, social marketing and event promotional activities in the areas of Financial Inclusion, Financial Literacy, SHG Banking and Microfinance. Along with the excellent skills that he possesses, he has also demonstrated his expertise in documentation & content development while working with a variety of organizations that supports the widening outreach of financial inclusion in the country. He is currently looking after the overall communication & branding initiatives of SFPL.
Designation:	Manager- Corporate Communication	
Qualification:	P.G.D.M.N.	

Name:	Ms. Rita Kiro	Ms. Kiro has 10 years of experience in Human Resource Management. Her last assignment was with a renowned Hotel Chain as a Human Resource Manager and was part of the pre-opening team. She has completed her PGDPM from Xavier Institute of Social Service. She has joined SFPL with focus to strengthen the SPM implementation and reporting to Board, Investors/Funders and Employees. Her current role involves heading the Human Resource Team in alignment with the strategic growth plans of the organisation.
Designation:	Manager, H.R.	
Qualification:	M.B.A.(P.G.D.P.M.)	
Name:	Mr. Manoj Kumar Ekka	Mr. Manoj Kumar Ekka has done his Masters in Computer Science from Utkal University, Odisha. He commands extensive knowledge and vast experience in the microfinance operations. He is in-charge of Field Operations at SFPL. He is responsible for adding value to the organization by playing a critical role in ensuring effective execution of the core operational duties.
Designation:	Head - Credit	
Qualification:	M.Sc. (Comp. Sc.)	
Name:	Mr. Manoj Felix Ekka	He has academic experience of working as a lecturer of Mathematics in one of the Colleges in Sundargarh District of Odisha. He joined SFPL since its inception and acquired hands-on experience working at the grass-root level. He has strong communication and people management skills and this has helped SFPL in policy formulation and in team building.
Designation:	Regional Business Leader	
Qualification:	M. Phil (Math)	
Name:	Mr. Elias Lugun	He has been involved in the Field Operations in SFPL since its inception and has hands-on experience of the operations. At present he is the Head of Internal Audit and Control System and manages the compliance of policies and detection of frauds.
Designation:	Manager, IA & C	
Qualification:	MBA (Marketing)	
Name:	Mr. Felix Xess	He has expertise in Accounting with a
Designation:	Manager, Accounts	

Qualification:	B. Com	Bachelor's Degree in Commerce. He has drawn rich experience from his past services in Christian Missionary organizations at Bangalore and Ranchi. He has extensive working experience in Tally and supervises the entire book-keeping and accounting processes at SFPL.
Name:	Mr. Sanjay Das	He is a Rural Management professional, has over 11 years of experience in the field of Microfinance and Rural Banking. In his last associations, he has worked with a Private Sector Bank and other leading NBFC-MFIs in Risk Monitoring and Business Expansion roles. He has recently joined SFPL to lead the business expansion plans in the western part of India.
Designation:	Regional Business Leader	
Qualification:	PG in Rural Management	
Name:	Mr. Sidhant Mohanty	He currently looks after fund raising, financial analysis, preparing financial modelling & projections and stakeholder liaisoning.
Designation:	Manager – Finance	
Qualification:	Masters in Finance & Control	
Name:	Mr. Jyotiranjana Mohanty	He has over 7 years of experience in the fields of Finance Control and supervision of Accounts & Finance. Prior to this, he had undertaken Audits of several PSUs, Banks and Private/Public companies from the sectors of manufacturing, service and export industries. He has proven experience and interest in Internal audit, Taxation and Internal Control Systems.
Designation:	Manager – Finance	
Qualification:	Chartered Accountant	
Name:	Mr. Rohit Kujur	He has worked as an Asst. Professor and has an experience of totaling six years in varied functions across the organization. Presently, he is engaged in managing the SPM & PE team.
Designation:	Dy. Manager – SPM & PE	
Qualification:	MSW	
Name:	Mr. Budhnath Oram	He has extensive knowledge and experience in software development and implementation. He is in-charge of MIS at SFPL and has helped develop the Innovative Information System, currently
Designation:	Dy. Manager – MIS	
Qualification:	MCA	

		being used in the organisation. He manages the Information Technology enhancement and implementation in the organization.
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SMERA Observations:

- SFPL’s senior management has extensive experience across sectors such as Microfinance, Banking, finance, audit and MIS experts.
- A majority of the senior management members have been associated with it for long tenure and have risen from ranks.
- SFPL has dedicated department wise / function wise heads and no major functional overlaps have been observed.
- The senior management reports to the MD, except in areas of internal audit, in which case they report directly to the board of directors.

Compliance with RBI's Directives for MFIs

RBI's Direction	SFPLs Status	Compliance
85% of total assets to be in the nature of qualifying assets	Qualifying assets forms 93.81% of total assets as on 31/Mar/2019.	Complied
Net worth to be in excess of Rs 5 Crore	Net owned funds stood at Rs. 46.59 crore as on 31/Mar/2019.	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*	SFPL extends loans to households whose income does not exceed Rs 100,000 in rural and Rs 160,000 in urban areas.	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	SFPL offers loan in the range of Rs 10,000 to Rs 50,000 depending on client repayment capacity, type of activity etc.	Complied
Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	Apart from taking declaration from the client, SFPL conducts credit check on the loans outstanding through credit bureaus.	Complied
Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	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 a range of 17.00% - 24.53% on reducing balance basis.	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	SFPL verifies the same though credit check from credit bureaus.	Complied

RBI's Direction	SFPLs Status	Compliance
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	SFPL is charging processing fee of 1.00% on the disbursed loan amount plus applicable service tax.	Complied
Collateral free loans	SFPL does not accept any Collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	SFPL does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	SFPL 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.	SFPL 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	SFPL provides more than 50 % of total loans for income generation activities as on 31 st March 2019.	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 SFPL stood at 24.73% as of 31 st March 2019 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 instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more'.	The statutory auditor has certified the appropriate provisions have been made	Complied

HIGHLIGHTS OF MICROFINANCE OPERATIONS

Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	31/Dec/2019
No. of States	3	3	3	5
No. of Districts	16	20	23	33
No. of Branches	30	48	62	89
No. of Active Members	1,20,844	1,86,360	243,419	2,96,102
No. of Active Borrowers	94,561	1,45,388	1,74,880	2,11,308
No. of Total Employees	341	451	559	778
No. of Field/Credit Officers	170	216	260	372
No. of JLGS	12,688	21,524	30,873	35,196
No. of Individual Loans	692	856	965	1,388
Owned Portfolio				
Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	31/Dec/2019
Total loan disbursements during the year (in crore)	87.27	185.72	285.4	272.81
Total portfolio outstanding (in crore)	90.03	166.54	259.67	322.19
Managed/BC Portfolio				
Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	31/Dec/2019
Total loan disbursements during the year (in crore)	33.7	67.85	55.14	52.15
Total portfolio outstanding (in crore)	21.77	46.85	35.84	56.51
Securitized Portfolio				
Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	31/Dec/2019
Total loan disbursements during the year (in crore)	11.14	24.7	13.79	8.75
Total portfolio outstanding (in crore)	18.47	23.16	20.4	24.36

Loan utilisation schedule:

Loan Utilisation	31/Mar/2017 (%)	31/Mar/2018 (%)	31/Mar/2019 (%)	31/Dec/2019 (%)
Agriculture	6.13	7.49	8.38	7.65
Cattle	7.66	11.28	9.86	10.61
Business	86.18	80.72	81.57	80.52
Consumption	0.00	0.05	0.03	0.00
WATSAN/HIL	0.03	0.46	0.17	1.22
Total	100.00	100.00	100.00	100.00

SMERA Observations:

More than 98% of the loan amount disbursed by SFPL as on 31st December, 2019 has been used in income generating activities .SFPL does not issue any Asset generating loan.

Section 1: Microfinance Capacity Assessment Grading

Operating Environment

- SMERA estimates the MFI sector to grow at a CAGR of 25%-30% and is expected to touch Rs. 2,35,000 – 2,45,000 crore by the end of FY2020.
- MFI industry has reported a robust growth of ~38% in gross loan outstanding in FY2019 as compared to FY2018. Total gross loan outstanding of MFI sector stood ~ Rs.188000 crore by the end of FY2019. SMERA believes seasoned customer profile over multiple loan cycles along with the inclusion of fresh borrowers have helped MFI industry to increase its total loan outstanding.
- The fund flow to the sector has improved on account of increased confidence on MFI sector. 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, Financial Institutions and Business Correspondent partners. SMERA believes that the RBI guidelines on co-origination of priority sector loans by NBFCs and banks are significant step towards an efficient framework for micro lending in India. SMERA estimates Rs. 25,000-30,000 crore of potential lending every year under this origination mechanism over the medium term. Further the process of acquisition of smaller MFIs by the larger MFIs and Banks is likely to continue in the current financial year.
- 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, the recent NBFC crisis in September 2018 has restrained MFIs' fund mobilization process which has moderated MFI sector growth in the last two quarters of FY2018-19 as compared to the previous year. Asset Quality has improved and Portfolio at Risk (PAR) > 30 stood at 1.73% as on 31st March, 2019. *(Data Source - MFIN)*

Long track record of operations and extensive industry experience of promoters

- Finserve Private Limited (SFPL) started its microfinance operations on 2nd October 2006. Later in October 2009, to expand its micro credit presence, promoters acquired a Non-Banking Finance Company (NBFC) named Modline Buildcap Private Limited which was later renamed as Sambandh Finserve Private Limited (SFPL) on June 17, 2010.
- SFPL's core management team and second line of management has an adequate understanding of MFI ecosystem with rich experience in banking, microfinance and social development. Mr. Deepak Kindo, Managing Director who previously worked with Friends of Women's World Banking India (FWWB) has almost two decades of experience in field of micro finance.
- SFPL has seven-member on its board as on December 31, 2019 having extensive experience in the Banking and finance segment. The board has two promoter directors, two independent directors and three nominee directors with Banking & finance/microfinance expertise.

Diversified resource profile

Resource Profile	%(as on 31Dec19)
Banks	30.53
FIs	18.62
NBFCs	50.85
Total	100.00

- As on 31st December, 2019 SFPL has developed funding relationships with 39 lenders (12 Banks & 27 NBFCs/FIs) however their resources profile continues to remain concentrated towards borrowings from NBFCs which stood at ~ 51% of total borrowings (outstanding debt) as on 31st December, 2019. SFPL has been able to raise Tier-II capital (Subordinated Debt) from IDFC First Bank and MAS Financial Services Ltd in a tune of Rs. 8 crore and Rs. 5 crore accordingly. The company also has Non-convertible, Redeemable, Cumulative Preference Shares (NCRCPs) from Scient Capital Private Limited.
- SFPL is presently working as a business correspondent with Yes Bank, MAS Financial Services Ltd, ESAF Small Finance Bank and Reliance Commercial Finance Limited. The managed loan portfolio of the company stood at Rs.56.51 crore as on 31st December, 2019. SFPL also has securitization of its portfolio with Kotak Mahindra Bank and Hinduja Leyland Finance Limited. The securitized portfolio stood at Rs. 24.36 crore as on 31st December, 2019.
- The overall cost of funds (COF) for SFPL stood at 14.73% as on 31st March, 2019 as compared to 15.58% in the previous year. The loans availed from NBFCs/FIs carry higher interest rate in the range of 14%-16% and hence the company has to explore its funding base majorly towards PSU Banks/Private Banks for reducing its cost of borrowing.

Adequate capitalisation and comfortable liquidity profile

Capital Adequacy	(as on 31 st March, 2018)	(as on 31 st March, 2019)
Tier -I Capital (in crore)	20.98	46.59
Tier -II Capital (in crore)	9.47	18.65
Total Capital (in crore)	30.45	65.24
FLDG for managed book (in crore)	5.91	5.11
Total Capital (in crore)	23.55	52.04
Risk Weighted Assets	173.04	263.84
Capital to risk adjusted ratio (CRAR) (%) (A+B)	17.60	24.73
Capital Adjusted for FLDG in relation to RWA	36.36	70.35

Tie-up of funding sources

Access to debt	(as on 31 st March, 2018)	(as on 31 st March, 2019)
Net Worth (in crore)	23.56	52.04
Term loan from Bank & FIs (in crore)	225.18	299.17
Off Balance Sheet (in crore)	70.01	56.24
Total Borrowings (in crore)	295.19	355.41
Gearing (assuming assigned book as debt) (times)	8.12	5.05
Cost of Funds (from spreads) (%)	15.58	14.73

- SFPL has adequate capitalization marked by total capital of Rs.52.04 crore as on March 31, 2019 as compared to Rs.23.56 crore in the previous year on account of equity infusion and internal accruals. The company's gearing has improved to 6.83 times as on March 31, 2019 as compared to 12.53 times in the previous year.
- SFPLs capital adequacy ratio (CRAR) has improved to 24.73 per cent as on March 31, 2019 as compared to 17.60 per cent in the previous year. CRAR is more comfortable than the RBI stipulated CRAR for NBFC-MFI of 15 per cent.
- SFPLs' 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 18-48 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.

Income and Profitability

Particulars	FY 2017	FY 2018	FY 2019
Net financial margin (In thousands)	1,00,787	1,53,619	2,49,766
Operating expenses	81,509	1,20,794	1,88,966
Net Interest Margin (%)	10.61	9.89	9.73
Operational Self Sufficiency (%)	110	110	111
Operating Expense Ratio (OER) (%)	7.18	6.59	6.84

- SFPL has reported net profit of Rs. 4.38 crore on operating income of Rs. 60.76 crore in FY2019. In FY2018, SFPL had reported net profit of Rs. 2.68 crore on operating income of Rs.40.36 crore in the previous year. The company has reported a growth of ~34% in its total outstanding portfolio as on 31st March, 2019 as compared 31st March, 2018. Net financial margin has increased by ~63% in the same period due to increased scale of operation. Net interest margin stood stable at 9.73% as on 31st March, 2019 as compared to 9.89% in the previous year.
- The operational self-sufficiency (OSS) of the company comfortable at 111% in FY2019 as compared to 110% in the previous year. The company's operating expense stood comfortable at 6.84% in FY2019.
- Yield on portfolio stood comfortable at 24.46 % as on 31st March, 2019 as compared to 25.47% in the previous year.

Moderate Geographical Concentration

Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	31/Dec/2019
No. of States	3	3	3	5
No. of Districts	16	20	23	33
No. of Branches	30	48	62	89

- SFPL has moved its operations to 5 states over the years and has increased no. of branches from 30 to 89 in 33 districts of 5 different states.
- However single state and two-state concentration remained high at 70.00% and 85.46% as on December 31st, 2019.
- In order to mitigate any potential risk arising out of geographical concentration, SFPL has to diversify its presence across states.

Name of the State	No. of Branches	No. of Borrowers	Portfolio o/s (in crore)	PAR % (>30 days)	% of Total Portfolio o/s
Odisha	57	1,55,689	285.75	0.19	70.00
Chhattisgarh	12	28,474	63.13	0.29	15.46
Jharkhand	9	25,546	54.62	0.34	13.38
Bihar	4	1,005	2.95	0.00	0.72
Gujarat	7	594	1.76	0.00	0.43

Total	89	2,11,308	408.22	0.82	100.00
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- SFPLs operations concentrated in 05 states i.e Odisha, Chhattisgarh, Jharkhand, Bihar and Gujarat.
- As on December 31, 2019, SFPLs portfolio is concentrated in the state of Odisha accounting for ~ 70 percent, and ~ 15 percent in Chhattisgarh.
- It would also be key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

Productivity and efficiency of employees

Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	31/Dec/2019
No. of States	3	3	3	5
No. of Districts	16	20	23	33
No. of Branches	30	48	62	89
No. of Active Members	1,20,844	1,86,360	243,419	2,96,102
No. of Active Borrowers	94,561	1,45,388	1,74,880	2,11,308
No. of Total Employees	341	451	559	778
No. of Field/Credit Officers	170	216	260	372
No. of JLGS	12,688	21,524	30,873	35,196
No. of Individual Loans	692	856	965	1,388

Financial Ratios	31/Mar/2017	31/Mar/2018	31/Mar/2019
No. of Active Borrowers Per Staff Member	277	322	313
No. of Active Borrowers per field executives	556	673	673
No. of members per Branch	2,488	3,029	2,650
Gross Portfolio o/s per field executive (in thousands)	7,662.99	10,951.29	12,150.27
Average Outstanding Balance per client (in Rs)	13,776	16,270	18,064
Cost per Active client	862	831	1,081

- The company's branch network and client network has expanded from 30 branches to 89 branches servicing over 94,561 borrowers as on March 2017 to 2,11,308 borrower as on December 2019.
- SFPL's field productivity remains above average in comparison to its peers; field outreach and asset productivity indicators of the company have been stable over the years.
- The entity would be required to register a consistent improvement in productivity whilst diversifying its operations.

Sound asset quality

- SFPL has maintained sound asset quality with on-time repayment rate of 98.96% as on December 31, 2019.

Period	FY 2017	FY 2018	FY 2019	31/Dec/2019
	Portfolio o/s	Portfolio o/s	Portfolio o/s	Portfolio o/s
On-time (in crore)	129.51	234.26	313.53	403.98
1-30 days (in crore)	0.37	1.16	0.58	0.90
31-60 days (in crore)	0.04	0.32	0.52	0.55
61-90 days (in crore)	0.06	0.16	0.29	0.22
91-180 days (in crore)	0.06	0.3	0.42	0.54
181-360 days (in crore)	0.25	0.29	0.48	1.43
> 360 days (in crore)	0.00	0.21	0.09	0.61
Write-off (in crore)	0.06	0.04	0.39	0.17
Total	130.29	236.7	315.91	408.22
On-time (in %)	99.40	98.97	99.25	98.96
PAR 0-30 days (in %)	0.28	0.49	0.18	0.22
PAR >30 days (in %)	0.31	0.54	0.57	0.82
PAR >90 days (in %)	0.28	0.41	0.41	0.63

- The PAR 0-30 days stood at 0.22% as on December 31, 2019 as compared to 0.18% as on March 31, 2019. The PAR >30 days stood at 0.82% as on December 31, 2019 as compared to 0.57% as on March 31, 2019.
- Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control.

Adequate IT Systems Audit Mechanism

- SFPL'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. It uses customized software "E- fimo" developed by Jayam Solutions Pvt Ltd., Hyderabad which has specifically designed to enhance the productivity, business intelligence and to get complete solutions for its processes and risk management. This software is a complete ERP based Core Microfinance solution with automated Credit Bureau check, Automated Credit and Risk check, De-Duplication Check, Matrix Based Loan Sanction, Strong BRS system, Hierarchywise Dash Board, Event based SMS and Email Alerts and other functionalities which would ease down operational processes.

- **Credit Bureau Checks**

The company conducts compulsory credit bureau check of its borrowers from CRIF High Mark. The company shares the credit data with all four credit bureaus i.e. CIBIL, Experian, CRIF High Mark and Equifax on fortnightly basis as per the RBI norms.

- **Helpline Number**

The company has a dedicated helpline number, where calls are recorded automatically and addressed within 3 days.

- **Internal Audit Process**

The company has a dedicated team of internal auditors who undertakes compulsory branch and borrower audit once in every quarter. All audits are surprise audits.

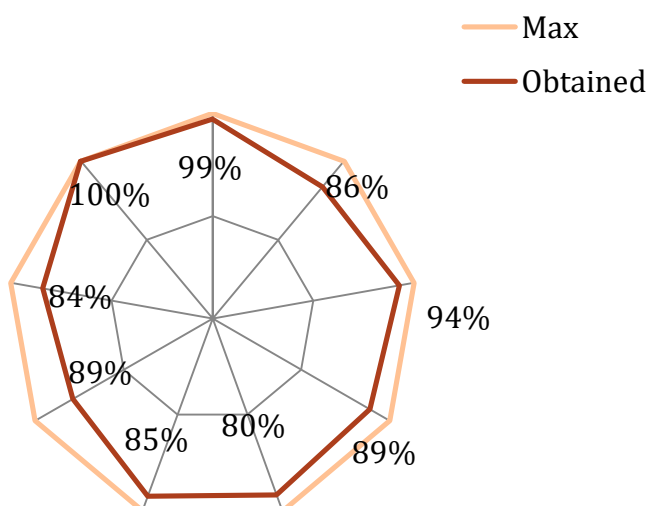
Inherent risk prevalent in the microfinance sector

- SFPL's business risk profile remains susceptible to socio-political risk, regulatory and legislative risks, along with the inherent risks existing such as unsecured nature of lending, vulnerable customer profile and exposure to vagaries of political situation in the area of operation.

Section 2: Code of Conduct Assessment

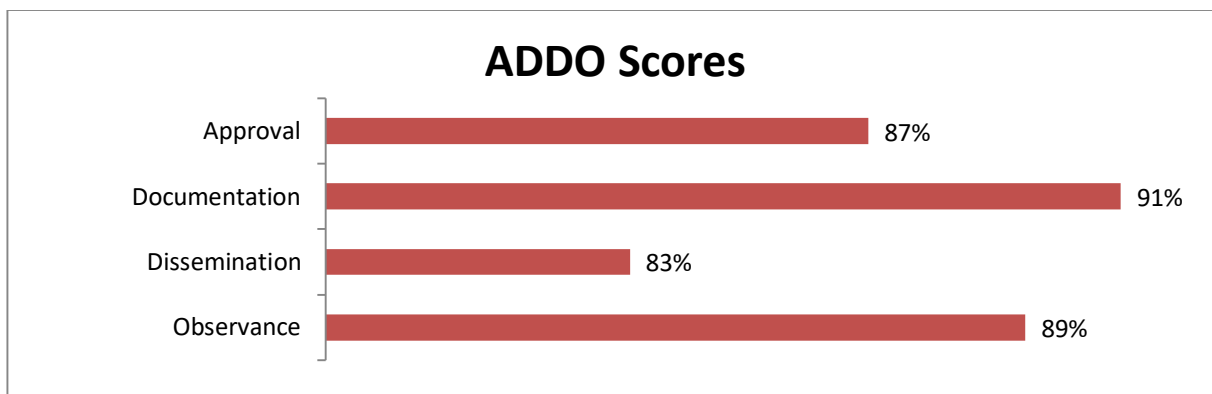
COCA Grading - C2 (Good Performance on Code of Conduct dimensions)

COCA Dimension Scores



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	99%
Integrity and Ethical Behavior	IEB	86%
Transparency	TRP	94%
Client Protection	CLP	89%
Governance	GOV	80%
Recruitment	REC	85%
Client Education	CLE	89%
Feedback & Grievance Redressal	FGR	84%
Data Sharing	DSR	100%



SFPL 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 Sambandh Finserve Private Limited (SFPL) 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 SFPL 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 SFPLs adherence towards ethical operational practices.

Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> • Board approved policies, compliant with the RBI guidelines. • Code of Conduct framed as per the SFPL mission, vision, values and displayed in all branch offices & HO. • Membership with MFIN. • Board with rich experience from Microfinance and finance background. • Experienced and qualified management with more than a decade of experience in MFI industry. • Credit policies are well established documented and communicated. • Adequate loan appraisal & monitoring systems. • High standard of governance and integrity by inducting persons with good and sound reputation in the industry and understanding of microfinance industry. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower. • Awareness among client on SRO Grievance Redressal mechanism was found to be moderate to high in the visited branches. • Efficient systems and strong internal audit team to check misappropriations and regular monitoring of compliance. • Toll Free helpline number for client feedback/grievance. 	<ul style="list-style-type: none"> • Awareness to its clients/members pertaining to interest rate and insurance claim settlements found average. • Loan Utilisation Check (LUC) register was not available in the visited branches; however, LUC file was available in the individual loan files. It is not mandatory but advisable to maintain separate register for LUC.

Significant Observations

HIGHER ORDER INDICATORS	
<p>Integrity and Ethical Behaviour</p>	<ul style="list-style-type: none"> • The MFI have the policy to place reports on COC compliance before the board at the end of every financial year. • The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit. • Board has approved a policy of recovering delinquent loans. • MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review and same is presented to audit committee set up at board level. • 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 and the same is mentioned in the HR manual. • In all the branches visited, the contact number and address of MFIN nodal official was properly displayed. • Awareness among client and staff on MFIN grievance redressal mechanism was found to be moderate to high. • The MFI have the policy to place reports on COC compliance before the board. • Fixed Component compensation of staff is not impacted in event of overdues. SFPL, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.
<p>Sensitive Indicators</p>	<ul style="list-style-type: none"> • Clients interviewed were moderately aware of the charges and price for all services availed. • Awareness among the staff on RBI guidelines was found to be moderate to high. • There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • SFPL shares accurate data with all credit bureaus on a frequency prescribed by MFIN. • SFPL does not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans. The organization also has a well-documented policy on pre-payments. • The MFI gets an external CA agency to certify its compliance with RBI's directions.

BUILDING BLOCKS	
Transparency	<ul style="list-style-type: none"> • Awareness among the staff on RBI guidelines was found to be moderate. • SFPL has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages. • Circulars with the most recent directions were available in the visited branches. • SFPL's in its fair practices code provides importance for transparency in pricing and clear communication to the clients. • The loan interest rate and processing fees is mentioned on the loan passbook and sanction letter provided to the client. • Clients interviewed were moderately aware of the charges and price for all services availed. • Audit committee verifies through the audit reports whether all clients have received the necessary loan documents. • SFPL displays the details of the loan products including their interest rates and client grievance redressal system on its website. • SFPL provides acknowledgement to the clients while they apply for loan. • Previous financial year annual report and Code of conduct compliance report of last financial year of SFPL is available in the public domain.
Client Protection	<ul style="list-style-type: none"> • SFPL has a board-approved policy regarding client data security. • Employees are trained on aspects of appropriate behavior with the clients. • SFPL has documented policy on client data security which forms part of its fair practice code. • SFPL has framed a Fair Practice Code and has also adopted the RBI fair practices code. • Employees are trained on aspects of appropriate behavior with the clients. • Staffs were found to be aware of the need to have professional conduct with the clients.
Governance	<ul style="list-style-type: none"> • SFPL maintains high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body. • SFPL has less than 1/3rd of independent persons in its Governing Board. The Board is actively involved in all policy formulations and other important decisions.

	<ul style="list-style-type: none"> • SFPL discloses its MD’s compensation in its audited reports (Ref. Audit Report 2019). • An audit committee of the Board with an independent director as chairperson. • The MFI has got its accounts audited in a timely manner after the end of the most recent financial year. • No adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • Action taken report based on the last audit report was available in the branches visited. • Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit.
<p style="text-align: center;">Recruitment</p>	<ul style="list-style-type: none"> • SFPL’s board has reviewed its recruitment policies at least once annually. • The MFI has a defined and documented process for responding to reference check requests. • There is documentary evidence to suggest that MFI has honored the notice period for all employees who have left it. • MFI obtain NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs. • The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year; however the same is not documented in HR Manual.
<p style="text-align: center;">Client Education</p>	<ul style="list-style-type: none"> • SFPL in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services • SFPL does not charge clients for the trainings provided to clients by itself or through a related party. • Awareness among client on annualized Interest rate & Insurance claim settlement process was found to be moderate.
<p style="text-align: center;">Feedback and Grievance Redressal</p>	<ul style="list-style-type: none"> • The Board has approved a policy for redressal of its clients’ grievances, which requires board to be updated on the functioning of grievance redressal mechanism. • MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review and same is presented to audit committee set up at board level. • SFPL has a policy on time frame and process for client’s complaint resolution. • Clients were found to be aware of the helpline number. • Feedback mechanisms are regularly tracked and monitored. • In all the branches visited, the contact number and address of MFIN nodal official was properly displayed.

	<ul style="list-style-type: none"> • Complaints lodged through helpline at H.O and branches are documented and resolved. • Awareness among client and staff on MFIN grievance Redressal mechanism was found to be moderate. • Dedicated team at HO level to document and follow up on the client complaints.
<p style="text-align: center;">Data Sharing</p>	<ul style="list-style-type: none"> • Operational and financial data for FY 2019 is available on the website of SFPL. • MFI has a well-defined process for sharing data with the credit bureaus. • MFI has provided data called for by MFIN and RBI as and when required as per compliance. • SFPL shares accurate data with all credit bureaus on a frequency prescribed by MFIN. • SFPL performs compulsory credit bureau checks for all its clients.

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

F) 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

Thus an evaluation of MFI would be comprehensive assessment based on the financial and non-financial parameters of any MFI.

COCA Methodology

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

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

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

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

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

Methodology

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

Sampling guidelines

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

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

Code of Conduct Assessment exercise requires:

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

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

Sr No	Branch	State	No of clients interviewed
1	Jharsuguda - 1	Odisha	21
2	Sundargarh - 1	Odisha	22
3	Rajgangpur - 1	Odisha	19
4	Rajgangpur - 2	Odisha	20
5	Rajgangpur - 4	Odisha	21
6	Jagda - 1	Odisha	22
7	Rourkela - 2	Odisha	18
8	Rourkela - 3	Odisha	20
Total			163

Financials

Profit & Loss Account (Rs. In Thousands)

Period	FY 2017	FY 2018	FY 2019
Months	12	12	12
Financial revenue from operations	2,43,661	4,02,859	6,07,568
Less - Financial expenses from operations	1,38,401	2,38,623	3,44,516
Gross financial margin	1,03,592	1,61,718	2,63,052
Provision for Loan Loss / Write off	2,805	8,099	13,286
Net financial margin	1,00,787	1,53,619	2,49,766
<u>Less - Operating Expenses</u>			
Personnel Expense	46,454	68,853	1,18,343
Depreciation and Amortization Expense	2,648	3,585	6,501
Other Administrative Expense	29,430	43,408	64,122
Net Operating Income	20,946	35,342	60,800
Non-Operating Revenue	606	749	0
Income Tax	6,660	9,294	16,989
Net Income	14,892	26,797	43,811

Above financials are audited

Balance Sheet (Rs in Thousands)

As on date	31/Mar/2017	31/Mar/2018	31/Mar/2019
SOURCES OF FUNDS			
<u>Capital</u>			
Equity Capital	1,33,014	1,69,970	2,98,453
Reserves & Surplus	31,422	65,617	2,21,961
Total Equity	1,64,436	2,35,587	5,20,414
<u>Liabilities</u>			
<u>Short-Term Liabilities</u>			
Commercial Loans from banks/FI	7,20,624	11,53,731	16,45,822
Interest payable on funding liabilities	3,699	5,877	17,421
Account payable & Other short-term liabilities	7,226	17,131	84,876
Total Short-Term Liabilities	7,31,549	11,76,739	17,48,119
<u>Long-Term Liabilities</u>			
<u>Long-Term Borrowings</u>			
Commercial Loans from banks/FI	4,43,967	10,18,078	12,15,884
Subordinated Debt	30,000	80,000	1,30,000
Total Long-Term Borrowings	4,73,967	10,98,078	13,45,884
Total Other Liabilities	12,05,516	22,74,817	30,94,003
Provision for Standard Assets	9,003	16,668	26,061
Other Provisions	11,389	16,422	31,631
TOTAL LIABILITIES	13,90,344	25,43,494	36,72,109

As on date	31/Mar/2017	31/Mar/2018	31/Mar/2019
APPLICATION OF FUNDS			
<u>Fixed Assets</u>			
Gross Block	18,445	36,337	47,400
Less: Depreciation	11,638	14,673	21,175
Net Block	6,807	21,664	26,225
Cash and Bank Balances	1,89,371	2,61,431	2,09,888
Cash Collateral (Margin Money)	0	0	3,78,505
Investment in Fixed Deposit	2,43,093	5,15,573	3,55,655
<u>Loan Portfolio</u>			
Net Loan Portfolio	9,00,322	16,65,378	25,96,701
Accounts Receivable And Other Assets	49,829	78,309	1,02,885
Intangible Assets	922	1,139	2,250
TOTAL ASSETS	13,90,344	25,43,494	36,72,109

Financial Ratios

Financial Ratios	31/Mar/2017 12	31/Mar/2018 12	31/Mar/2019 12
<u>Capital Adequacy Ratio</u>			
Capital Adequacy Ratio (%)	16.97	17.60	24.73
<u>Productivity/Efficiency Ratios</u>			
No. of Active Borrowers Per Staff Member	277	322	313
No. of Active Borrowers per field executives	556	673	673
No. of members per Branch	2,488	3,029	2,650
Gross Portfolio o/s per field executive (in thousands)	7,662.99	10,951.29	12,150.27
Average Outstanding Balance per client (in Rs)	13,776	16,270	18,064
Cost per Active client	862	831	1,081
<u>Asset/Liability Management</u>			
Cost of funds ratio (%)	14.86	15.58	14.73
Yield on Portfolio (nominal) (%)	25.47	25.47	24.46
Net Interest Margin (%)	10.61	9.89	9.73
<u>Profitability / Sustainability Ratios</u>			
Operational Self Sufficiency (%)	110	110	111
Operating Expense Ratio (OER) (%)	7.18	6.59	6.84
Return on Assets (RoA) (%)	1.29	1.36	1.41
Portfolio at Risk (>30 days) (%)	0.31	0.54	0.57
Return on Equity (RoE) (%)	14.21	11.98	16.75
<u>Leverage Ratios</u>			
Total Outside Liabilities to Tangible Network Ratio (Times)	7.33	9.66	5.95
Debt/Equity Ratio (Times)	7.26	9.56	5.75

About SMERA Gradings & Ratings

SMERA, widely known as 'The SME Rating Agency', was conceptualised by Ministry of Finance, Govt. of India and the Reserve Bank of India to help Indian MSMEs grow and get access to credit through independent and unbiased credit opinion that banks can rely on. Thus, SMERA became world's first MSME focused rating agency and introduced the concept of SME Ratings in India. SMERA offers SME Ratings, New Enterprise Credibility Scores, SME Credit Due Diligence and SME Trust Seal to Indian MSMEs to help lenders take informed decisions.

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