



**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**

---

S.M.I.L.E. Microfinance Limited

***Date of Report:***

***28<sup>th</sup> July, 2020***

***Valid till:***

***27<sup>th</sup> July, 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		<b>M2C2</b>			
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.

## Grading Rationale

<b>Microfinance Capacity Assessment Grade</b>	SMILE Microfinance obtains “ <b>M2</b> ” as its performance grade which signifies “ <b>High</b> capacity of the organization to carry out its activities in a sustainable manner”.
<b>Code of Conduct Assessment Grade</b>	SMILE Microfinance obtains “ <b>C2</b> ” as its Code of Conduct Assessment Grade which signifies “ <b>Good</b> 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
May 31, 2019	SMERA	M2C2
March 29, 2019	ICRA	M2
June 25, 2018	ICRA	M2C2
March 30, 2018	ICRA	M2
April 24, 2017	ICRA	M2C3
April 10, 2017	ICRA	M2
May 31, 2016	SMERA	COCA 3
March, 2016	ICRA	M3+

## Microfinance Capacity Assessment Grading Symbols and Definitions

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

## Code of Conduct Assessment Scale and Definitions

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

## Company Fact Sheet

Name of the MFI	:	SMILE Microfinance Limited	
Operational Head – Microfinance Business	:	Name	Mr. P. Murali Srinivas
	:	Designation	Managing Director and Chief Executive Officer
	:	Mobile No.	(91) (9818136808)
	:	Email ID	md@smileltd.in
Date of Incorporation/Establishment	:	March 21, 1995	
Date of commencement of microfinance business	:	April 27, 2004	
Legal Status	:	NBFC – MFI	
Business of the company	:	Microfinance Services Under Joint Liability Group (JLG) Model	
Correspondence Address	:	No. 14/25, Chakrapani street, West Mambalam, Chennai - 600 033 Tamil Nadu India	
Geographical Reach (As on 31/Mar/2020)	:	No. of States	07
	:	No. of Districts	43
	:	No. of Branches	137
	:	No. of Active Borrowers	2,84,396
	:	No. of Total Employees	799
No. of Lenders	:	No. of Field/Credit Officers	666
	:	29 lenders (including Banks and Institutional lenders)	
Statutory Auditors	:	Deloitte Haskins & Sells LLP, Chennai	

*The promoters of SMILE Microfinance Limited acquired Sri Madhava Finance Pvt Ltd, on April 27, 2004, renamed it and started micro finance business.*

## 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)
Income Generating Loan (IGL)	Loan for income generating activity	5,000 – 50,000	Fortnightly/ Monthly	23.50	1.00	24.50
Parallel IGP Loans		5,000 – 50,000				
Educational Loan	Loan for Education	10,000 – 30,000		22.00	1.00	23.00
Functional Loan	Individual Loan/Family Function	20,000 – 50,000		-	-	-

## Capital Structure as of 31/Mar/2020

Authorized Capital	Rs. 20.00 crore
Paid Up Capital	Rs. 17.34 crore

## Shareholding Pattern (as on March 31, 2020)

Equity Shares	
Shareholders	% Holding
DWM Investments (Cyprus) Limited	66.64
Promoters Holding	18.57
Other Individual share holders	14.79
<b>Total</b>	<b>100.00</b>

## Promoters/Directors Profile

Director Details		Profile
Name:	Mr. P. Murali Srinivas	Mr. Murali Srinivas, qualified as a Bachelor's in physics, Master in Political Science and done his Leadership program at Harvard Business School, USA has got 20 years of rich experience in, Corporate & Development Sector viz., Microfinance; Insurance, Bottled Water and Business Process Outsourcing across many Indian States, developing Operational excellence in Organisations & Building New Markets and creating economics based business models. He is a successful Entrepreneur and was a Co-Promoter, Director and COO of Mimo Finance and Co-Founder & Director of Acer Engineers Pvt. Ltd., He has worked as a, COO in Healing Fields Foundation, GM in OSI Technologies Pvt. Ltd., etc.,
Designation:	Managing Director & CEO	
Qualification:	Bachelors (Physics), Masters (Political Science), Leadership Program at Harvard business school, USA	
Name:	Ms. Indrani Bhagwan Singh	Ms. Indrani Bhagwan Singh holds a BA degree in Economics and has attended a course in Microfinance at Naropa University, USA. After a long stint in Syndicate Bank holding senior level positions for more than 25 years, she moved to a career in microfinance with FWFB specializing in capacity building and training besides program implementation till 2007. Presently an independent consultant to microfinance and microenterprises, her engagements in the development sector and community development has given her expertise in working with national and international entities like CARE India, Hand in Hand, IFAD, WFP, Economic Perspectives and the Sa-Dhan.
Designation:	Director	
Qualification:	B.A. (Economics), Microfinance Certification at Naropa University, USA	
Name:	Mr. J. Bradley Swanson	Mr. J. Bradley Swanson, Partner of DWM is a member of senior management and overseas DWM'S private equity business in global emerging markets. Prior to joining DWM, Brad served with investment banks and fund managers in Washington DC (Global Environment Fund), London (Bankers Trust and BNP), and New York (DLJ), mainly focusing on emerging markets. Brad holds a BA from Princeton University and a MBA from Columbia University.
Designation:	Nominee Director	
Qualification:	BA from Princeton University and a MBA from Columbia University	



Name:	Ms. Aleem Remtula	Mr. Aleem Remtula joined the DWM private equity team as a Vice President in 2009 after an internship in 2008. He has six years of experience with socially responsible, double and triple bottom line venture capital and private equity funds in U.S and Europe. Prior to joining DWM, Aleem served as an Investment Associate for Bridges Community Ventures, a UK-based private equity and venture capital firm and worked as a Senior Associate at the New York City Investment Fund. Aleem received his MBA from Harvard Business School and his BA in Economics and Finance from Princeton University.
Designation:	Nominee Director	
Qualification:	MBA from Harvard Business School and BA in Economics and Finance	
Name:	Mr. Rajan Samuel	Mr. Rajan Samuel, qualified as a Bachelor of Commerce & Administration and holding Diploma and Certificate Programs in Organisational Development, Microfinance and Islamic Finance is a strategic, international specialist in Microfinance and experienced in managing economic development & Microfinance programs in Asia, Africa, Eastern / Central Europe by working at senior levels for nearly 30 years and has undertaken assignments in 25 Countries. Mr. Rajan Samuel's extensive experience includes work for the , World Bank for a NRF, Habitat for Humanity, Opportunity International, USA and Malaysia, USAID – IRC, Tbilisi, Georgia, DANIDA, BRC, Baku, Azerbaijan and provision of services as Independent Consultant. Mr. Rajan Samuel has established 15 independent microfinance institutions in 10 Countries including Rural Banks, Cooperatives & Credit Unions and Non-Bank Finance Companies.
Designation:	Independent Director	
Qualification:	Bachelor of Commerce & Administration and holding Diploma and Certificate Programs in Organisational Development	

Name:	Mr. V.S. Padmanaban	Mr. V.S.Padmanaban Holds B.Com., M.F.M., CA (Final) qualification and has expertise in Finance and Accounts; has more than two decades of experience in Finance, Accounts, Auditing and Taxation matters; has experience in a variety of sectors including large health care, textiles, poultry and auditing and also in both listed and unlisted entities.
Designation:	Nominee Director	
Qualification:	B.Com., M.F.M., CA (Final) qualification	
Name:	Mr. Suresh K. Krishna	Mr. Suresh K. Krishna had been at the helm of activities at Grameen Koota Financial Services Pvt. Ltd. since its inception in 1999. He stepped down from the position of Managing Director in July 2015 and continued as non-executive Director till July 2017. He has studied international microfinance models and strategies from several reputed establishments including Grameen Bank, Germany and Harvard Business School, USA. He has served on the boards of AKMI, Sa-dhan, MFIN, FKCCI (Federation of Karnataka Chamber of Commerce & Industry), Financial Inclusion Improves Sanitation and Health (FINISH), Netherlands. He is currently the Chairman of Microfinance Focus, and Managing Trustee of Navya Disha and GK Development Trust. Also serves in the Boards of Buzz India Trust, MIFOS Initiative - USA and Sudhanand Health Care, Bina Artha – a Microfinance Institution in Indonesia. He has co-founded Grameen Affordable Shelters P. Ltd., to provide affordable housing for the low income households, and he is also Director in Grameen Foundation for Social Development, Centrum Microcredit Pvt. Ltd., Waste Ventures India P. Ltd.
Designation:	Additional Director	
Qualification:	Master in Sociology MPEFB – From IIMB	

**SMERA Observations:**

- SMILE has seven-member board. Board members have strong experience in microfinance, banking, and finance domain.
- SMERA believes that a well-diversified board, including a proportionate composition of independent directors, augurs well from a strategic perspective.

## Management's Profile

Management Details		Profile
Name:	Mr. P. Murali Srinivas	<p>P. Murali Srinivas, Managing Director &amp; CEO, qualified as a bachelor's in physics, master's in political science and done his Leadership program at Harvard Business School, USA has got 20 years of rich experience in, Corporate &amp; Development Sector viz., Microfinance; Insurance, Bottled Water and Business Process Outsourcing across many Indian States, developing Operational excellence in Organisations &amp; Building New Markets and creating economics-based business models. He is a successful Entrepreneur and was a Co-Promoter, Director and COO of Mimo Finance and Co-Founder &amp; Director of Acer Engineers Pvt. Ltd., He has worked as a, COO in Healing Fields Foundation, GM in OSI Technologies Pvt. Ltd., etc.,</p>
Designation:	Managing Director & CEO	
Qualification:	Bachelor's in physics, master's in political science and done his Leadership program at Harvard Business School, USA	
Name:	Ms. R. Venkatasubramanian	<p>R. Venkatasubramanian, Company Secretary, is an Associate Member of the Institute of Company Secretaries of India and holds a Bachelor degree in Commerce. He has experience in Educational, Skill development and Online marketing industries. He has worked with Everonn group of Companies, Matrimony.com group of Companies and Laurus Edutech group of Companies. His association with different corporate, both public as well as private sector during his productive career as a Company Secretary has endowed him with fruitful experience in handling compliances of Companies Act, Listing agreements, SEBI, Corporate Governance, RBI matters, Foreign Direct Investments.</p>
Designation:	Company Secretary	
Qualification:	B.com & CS	
Name:	Ms. V.T. Prabakaran	<p>V.T. Prabakaran, Chief Financial Officer, has extensive experience with Canara Bank, a leading Public sector bank, for about 24 years. While in the Bank, had a mix of rural, urban and metropolitan exposure, branch banking and administrative exposure. Has expertise in credit appraisals, recovery and legal matters. He successfully completed the assignments of introducing the Bank's</p>
Designation:	Chief Financial Officer	
Qualification:	M.COM, CAIIB	

		systems and procedures in the Lakshmi Commercial Bank branches of Haryana State, taken over by Canara Bank and also setting up of two new branches of the Bank, one in Haryana State and one in Tamil Nadu State. As Head of Finance Department in two manufacturing companies in Chennai he handled resources planning & mobilization, accounts, statutory audit and statutory compliances.
Name:	Mr. K.Raja Raman	K. Raja Raman, Head - Audit & Risk Management (Internal Audit), is a fellow member of the Institute of Chartered accountants of India and a Law graduate. He has varied experience in banking & financial sector. Has worked in Centurion bank, Karur Vysya Bank, Vysya Bank Housing Finance Ltd, Canfin Homes Ltd in various capacities both in operations and audit. He has also handled numerous bank audits, and has been in charge of treasury audit of Standard Chartered bank. He has international exposure having handled US tax returns at Florida, USA.
Designation:	Head - Audit & Risk Management	
Qualification:	FCA, B.COM, LLB	
Name:	Mr. Balaji N	Balaji N, Head - HR & Admin has more than 17 years of experience across different domains in various IT, ITES and BPO Industry. He is a post graduate in Business Administration and has done his specialization in Human Resources. He has got rich experience in complete employee life cycle management, Compensation and Benefits, creating policies and procedures, budgeting, training and development, General Administration and Facility Management, Transport Management, Procurement and Vendor Management. To mention a few of his previous employment, he was associated with Datamark Prodapt, Somnia Solutions, and AGS Health Pvt Ltd.,
Designation:	Head- HR & Admin	
Qualification:	B.Sc, M.A, M.B.A	
Name:	Mr. G. Parthasarathy	G. Parthasarathy, Head - Accounts is an Associate Member of the Institute of Chartered Accountants of India and Institute of Cost and Works Accountants of India. He has varied experience in Manufacturing, Textiles, Educational and NGO Sectors. Has worked in Vadilal Ice Creams, Sanghi Polyesters, and Everonn Group of
Designation:	Head- Accounts	
Qualification:	B.Com, A.C.A, Grad. C.W.A.	

		Companies. Has a wide international exposure having worked in Bangkok – Thailand for 14 years from 1993 till 2007 in both Manufacturing and Textile Industries. Extensive experience in conceptualizing and implementing financial procedures, maintenance & finalization of accounts and Audits, with working capital management.
<b>Name:</b>	Mr. S. Siva Kumar	S.Sivakumar, Head - IT has more than 16 years of experience across different domains in Microfinance & Health Care. He holds a master’s degree in computer application (MCA). He is a Microsoft Certified Database Administrator & Professional with a decade of experience in Project Management, Data Architecture and Application Development & Deployment in IT sector. He is a recognized IT expert, has good analytical skills to understand the market needs and develop solutions for the Business. He has demonstrated ability to direct and motivate teams to complete tasks meeting specifications & deadlines. He has been able to deliver operating IT policies in support of the business goals of the organization. Proven people management skills; Identifying and addressing individual skill gaps, facilitating individual development opportunities and aligning the team to team goals. He has good track record in end to end project Management activities, planning, resource administration, estimation, scoping, IT risk management, business analysis. He has very good experience in different platforms / environments like Microsoft technologies and Open source Software & FIREWALL. He has extensive hands on experience using SQL Server databases 2000/2005/2008 in OLTP/OLAP/BI environment & several of its tools.
<b>Designation:</b>	Head- IT	
<b>Qualification:</b>	MCA	
<b>Name:</b>	Mr. K. Ilangovan	Illangovan, Deputy General Manager - Operations has more than 3 decades of experience across different domains in Aviation & Microfinance Industry. He is a graduate in Business Administration and also holds a Diploma in Electrical Engineering. He is very strong in Operations and Manpower handling and he has got rich
<b>Designation:</b>	Deputy General Manager- Operations	
<b>Qualification:</b>	D.E.E, B.B.A.	

		experience in various departments like Operations, Expansion & Finance. His rich experience of 24 years in Indian Coast Guard Aviation and 9 years in Microfinance Industry supported him to take up the task of handling the end to end Operations for this Company.
Name:	Mr. K. Ajitha	Ms. Ajitha K as HEAD - Learning and Development has about 24 years of experience in L&D and has worked with various organisations - Reliance Life, Sterling, Sulekha online media & her last assignment was with IFMR (NBFC MFI). She has completed her Bachelor degree in Mathematics from University of Madras and also certified NLP & Six Sigma Professional.
Designation:	Head - Learning and Development	
Qualification:	BA, Certified NLP & Six Sigma Prof.	
Name:	Mr. V.Sathiyarayanan	V. Sathiyarayanan, Regional General Manager, Madurai Region is a B.A. Degree Holder and has done CAIIB Part-I and an Ex-Banker having 33 years of Experience in rural, Urban, Semi urban Branches as Branch Head and Administrative Offices of the Bank including SHG Wing.
Designation:	Regional General Manager (Chennai Region)	
Qualification:	B.A, CAIIB-I	
Name:	Mr. P. Sethupathy	P. Sethupathy, Head - HR & Admin Madurai Region is a M.A. Degree Holder and has 27 years of experience in Field Operations. He had worked for 7 years in Government Literacy Program as Divisional Coordinator and then he has worked 5 years in SHG Field. He worked in many designations in SMILE and then he has joined in HR department and presently working as AGM - HR since 2013.
Designation:	Deputy General Manager - HR & Admn (Madurai Region)	
Qualification:	M.A.	
Name:	Mr. SKV Somasundaram	SKV Somasundaram, Deputy General Manager - Operations (Madurai Region) is a B.Sc (Mathematics) degree holder and has done Post Graduation in Journalism and Mass Communication and he is also a Law graduate. He has extensive experience in Microfinance field Operations such as expansion and recovery for about 11 years. He has contributed much in Evolving Policy & Procedures.
Designation:	Deputy General Manager- Operations (Madurai Region)	
Qualification:	B.SC, M.A, BL, PGDCA	

**SMERA Observations:**

- SMILE senior management team has extensive experience across sectors such as microfinance, banking, finance, audit, risk and development and MIS experts.
- SMILE has dedicated department wise / function wise heads and no major functional overlaps have been observed.
- The senior management reports to the CEO & 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

<b>RBI's Direction</b>	<b>SMILE s Status</b>	<b>Compliance</b>
85% of total assets to be in the nature of qualifying assets	SMILE has more than 85% of total assets to be qualifying assets.	Complied
Net worth to be in excess of Rs 5 Crore	Net worth of SMILE stood at Rs. 144.28 Crore as on March 31, 2020	Complied
Income of borrower not to exceed Rs 125,000 in the rural areas and Rs 200,000 in the urban and semi-urban areas*	SMILE extends loans to households whose income does not exceed Rs 125,000 in rural and Rs 200,000 in urban areas.	Complied
Loans size not to exceed Rs 75,000 in first cycle and Rs 125,000 in subsequent cycles*	SMILE offers loan in the range of Rs 5,000 to Rs 50,000 depending on client repayment capacity, type of activity etc.	Complied
Total indebtedness of the borrower not to exceed Rs 125,000 (excl medical and education loans)*	Apart from taking declaration from the client, SMILE 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 rate of 23.50% on reducing balance basis which meets the RBI criteria.	Complied
Transparency in interest rates to be maintained	Interest, Processing fees and insurance premium charged are duly mentioned in the loan card provided to the client.	Complied
Not more than two MFIs lend to the same client	SMILE verifies the same though credit check from credit bureaus.	Complied

<b>RBI's Direction</b>	<b>SMILE s Status</b>	<b>Compliance</b>
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	SMILE is charging processing fee of 1.00% on the disbursed loan amount plus applicable service tax.	Complied
Collateral free loans	SMILE does not accept any Collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	SMILE does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	SMILE 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.	SMILE 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	Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs	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 SMILE stood at 23.64% as on 31/Mar/2020 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

### **Financial Snapshot (In Rs. Crores)**

<b>Particulars</b>	<b>31/03/2018</b>	<b>31/03/2019</b>	<b>31/03/2020</b>
Total AUM (in Crores)	473.84	515.00	606.47
On Balance Sheet Portfolio Outstanding (in Crores)	471.47	443.66	546.96
Securitized Portfolio Outstanding (in Crores)	2.38	71.34	59.51
Total Net Worth (in Crores)	109.22	135.19	144.28
Total External Borrowings (in Crores)	438.42	402.46	521.66

<b>Particulars</b>	<b>31/03/2018</b>	<b>31/03/2019</b>	<b>31/03/2020</b>
Financial Revenue from Operations (in Crores)	9.96	114.29	127.10
Finance Expenses (in Crores)	47.91	52.24	61.47
Operating Expenses (in Crores)	27.87	29.26	38.79
Net Operating Income (in Crores)	22.58	31.69	23.46
Net Income (in Crores)	16.83	25.97	12.44

<b>Particulars</b>	<b>31/03/2018</b>	<b>31/03/2019</b>	<b>31/03/2020</b>
Cost of funds ratios (%)	14.75	12.43	13.30
Capital Adequacy Ratio (%)	23.29	25.44	23.64
Operational Self Sufficiency (%)	129.30	138.36	122.63
Operating Expense Ratio (OER) (%)	6.80	5.92	6.92
Portfolio at Risk (>30 days) (%)	0.16	0.42	0.28
Debt to Equity ratio (in times)	4.01	2.98	3.62

## **HIGHLIGHTS OF MICROFINANCE OPERATIONS**

<b>Particulars</b>	<b>31/Mar/2017</b>	<b>31/Mar/2018</b>	<b>31/Mar/2019</b>	<b>31/Mar/2020</b>
No. of States	03	03	03	07
No. of Districts	27	28	28	43
No. of Branches	96	100	105	137
No. of Active Members	2,83,548	2,97,476	3,05,256	3,16,765
No. of Active Borrowers	2,69,372	2,90,607	2,85,719	2,84,396
No. of Total Employees	512	559	580	799
No. of Field/Credit Officers	254	286	305	421
No. of JLGS	85,944	94,150	1,02,540	1,16,793
No. of Individual Loans	-	-	-	-
<b>Owned Portfolio</b>				
<b>Particulars</b>	<b>31/Mar/2017</b>	<b>31/Mar/2018</b>	<b>31/Mar/2019</b>	<b>31/Mar/2020</b>
Total loan disbursements during the year (in crore)	564.09	706.15	757.65	887.68
Total portfolio 3outstanding (in crore)	307.81	471.47	443.66	546.96
<b>Securitized/Off Balance sheet Portfolio</b>				
<b>Particulars</b>	<b>31/Mar/2017</b>	<b>31/Mar/2018</b>	<b>31/Mar/2019</b>	<b>31/Mar/2020</b>
Securitized volume during the years (in crore)	38.38	2.38	71.34	59.51

### **Loan utilisation schedule:**

<b>Loan Utilisation</b>	<b>31/Mar/2017 (%)</b>	<b>31/Mar/2018 (%)</b>	<b>31/Mar/2019 (%)</b>	<b>31/Mar/2020 (%)</b>
Agriculture	31.99	28.11	29.32	33.51
Allied Activities	21.25	18.85	15.38	13.80
Business	46.76	53.04	55.30	52.70
Consumption	-	-	-	-
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

## Section 1: Microfinance Capacity Assessment Grading

### Operating Environment

- MFIs have reported an increase of ~25% in gross loan outstanding as on Q3 FY 19-20 as compared to Q3 FY 18-19, touching the total GLP of 2,11,302 crores as on 31st December, 2019. SMERA believes seasoned customer profile over multiple loan cycles have helped MFIs to increase its loan ticket size. Loans originated after February 2017 (Post Demonetisation) constitute 97% of the total industry gross loan portfolio. However, SMERA believes the COVID lockdown might adversely impact the projected growth of the current players in the sector.
- The fund flow to the sector has improved in FY 2020 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, Business Correspondent partners and co-origination financing models in the last few years.
- The outbreak of COVID-19 has significantly impacted the operations of Micro Finance Institutions (MFIs). The MFI sector which has registered the CAGR growth of over 35% in last five years, amidst this pandemic crisis, faces serious challenges on collections, asset quality and cash flow management. Due to the moratorium, the collection level has been severely impacted in turn affecting cash flow and ALM.
- It is understood that with the micro finance lenders allowing moratorium to its microfinance clients till August 2020, the real impact on delinquencies would only come post the moratorium window is lifted. MFIs might see steep increase in delinquency level as lower income self-employed groups and micro businesses are the severely impacted. It seems it would be difficult for MFIs to recover instalments over next few months even post moratorium. However, rural areas expected to witness lesser delinquencies as compared to urban and semi urban areas. Credit costs on account of higher provisioning and delinquencies may more than double, thereby profitability expected to be impacted severely in FY21
- SMERA believes that industry might require top-up loan to help MFI beneficiaries to mitigate the impact of pandemic and restart their business operations. Given the current liquidity position, most of the MFIs are not in a position for fresh disbursement though ease of lockdown can push demand of fresh loan.
- Going forward, it is expected that the revival of agricultural related activities would be faster and would gradually start putting MFI back to the track ahead of other asset class. Further, high degree of self-regulations through enhanced process and controls, strong technological adoption and continuous innovation in the industry are the strong pillars which might help the industry to overcome the tough times. However, SMERA would keep close watch on the developments and reforms measures pertaining to the industry.

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

- The company was incorporated as ‘Sri Madhava Finance Private Limited’ on March 21st, 1995. Later on the promoters of SMILE Microfinance acquired the entity and converted to public limited company. The company obtained its NBFC – NDC license from RBI in January 2006 and later obtained NBFC – MFI license in 2015. It has commenced its microfinance operations in 2004 at Chennai, Tamil Nadu as a first urban MFI in a Metropolitan City.
- SMILE has seven-member on board as on March 2020 having extensive experience in the banking, finance and microfinance segment. The board meets on a quarterly basis and if required frequency of the meeting increases.
- Mr. Murali Srinivas with extensive experience in developing Operational excellence in Organizations & Building New Markets and creating economics-based business models has been a successful Entrepreneur and was a Co-Promoter, Director and COO of Mimo Finance and Co-Founder & Director of Acer Engineers Pvt. Ltd., He has worked as a, COO in Healing Fields Foundation, GM in OSI Technologies Pvt. Ltd., etc.

### **Diversified resource profile**

<b>Resource Profile</b>	<b>% (as on 31Mar20)</b>	<b>% (as on 31Mar19)</b>
Banks	30.98	36.44
FIs/NBFC's	69.02	63.56
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

- SMILE has developed funding relationships with a large number of lenders. The company has availed loans from 29 lenders (including 15 PSU Banks and Private Banks and 14 NBFCs/Financial Institutions) for on-lending through microfinance operations. Out of total debt outstanding the borrowing from PSU/Private Banks contributes 30.98 per cent of external borrowings as on March 31, 2020.
- The debt availed from the PSU Banks/Private Banks/NBFC/FIs have been drawn at an interest rate in the range between 11.00%-15.50%.

### **Comfortable capitalisation and comfortable liquidity profile**

- SMILE Microfinance has adequate capitalization marked by total equity capital of Rs.144.28 crore as on March 31, 2020 as compared to Rs.135.19 crore in the previous year on account internal accruals. The company's gearing stood at 3.62 times.
- SMILE's capital adequacy ratio (CRAR) stood at 23.64 per cent as on March 31, 2020 as compared to 25.44 per cent in the previous year. CRAR is more comfortable than the RBI stipulated CRAR for NBFC-MFI of 15 per cent.
- As informed by management company has a cash & liquid investment of Rs. 38.61 Cr. as on June 30,2020 and they have available sanctions of about Rs. 35 Cr., collection efficiency during June and third week of July is about 36% and 38% respectively, further Management is expecting collection efficiency to be at 50% in post moratorium period, however during July-Aug period debt repayment stood at Rs. 38.02 Cr, indicating adequate liquidity profile of the company.
- SMILE 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 21-36 months.

### **Improvement in operational performance in FY2020**

<b>Particulars</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
Net financial margin (In thousands)	50.45	60.95	62.26
Operating expenses	27.87	29.26	38.80
Net Interest Margin (%)	8.12	11.19	10.00
Operational Self Sufficiency (%)	129.30	138.36	122.63
Operating Expense Ratio (OER) (%)	6.80	5.82	6.92

- SMILE's has reported net profit of Rs. 12.44 crore on operating income of Rs. 127.10 crore in FY2020. In FY2019, SMILE had reported net profit of Rs.25.97 crore on operating income of Rs.114.29 crore. SMILE profitability has gone down due to expansion of operation and high provisioning during FY20.
- As on Mar 31, 2020, SMILE has an outstanding loan portfolio of Rs.606.47 crore spread over 137 branches of 7 states with about 3.17lakhs borrowers.
- Net interest margin (NIM) has been stable at 10.00% as on 31<sup>st</sup> March 2020 as compared to 11.19% in the previous year.
- The operational self-sufficiency (OSS) of the company improved to 122.63% in FY2020 as compared to 138.36% in the previous year. The company's operating expense ratio stood comfortable at 6.92% in FY2020.

### **High Geographical Concentration**

<b>Particulars</b>	<b>31/Mar/2017</b>	<b>31/Mar/2018</b>	<b>31/Mar/2019</b>	<b>31/Mar/2020</b>
No. of States	03	03	03	07
No. of Districts	27	28	28	43
No. of Branches	96	100	105	137

- SMILE has moved its operations from 3 states to 7 states during FY20 and branch number also has increased from 105 to 137 in 43 districts of 7 different states.
- However, majority of the portfolio is concentrated in Tamil Nadu, accountable for 96.25% of the total loan portfolio.
- In order to mitigate any potential risk arising out of geographical concentration, SMILE 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
Tamil Nadu	119	2,73,968	583.72	0.28	96.25
Pondicherry	02	5,746	11.07	0.00	1.82
Chhattisgarh	08	2,466	6.07	0.00	1.00
Kerala	04	1,681	4.05	0.00	0.67
Karnataka	01	265	0.77	0.00	0.13
Jharkhand	02	198	0.59	0.00	0.10
Madhya Pradesh	01	72	0.21	0.00	0.03
<b>Total</b>	<b>137</b>	<b>2,84,396</b>	<b>606.47</b>	<b>0.28</b>	<b>100.00</b>

- SMILE's operations cater to 7 states. As on March 31, 2020, SMILE's portfolio is concentrated in the state of Tamil Nadu accounting for ~ 96 percent,
- 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**

<b>Particulars</b>	<b>31/Mar/2017</b>	<b>31/Mar/2018</b>	<b>31/Mar/2019</b>	<b>31/Mar/2020</b>
No. of States	3	3	3	7
No. of Districts	27	28	28	43
No. of Branches	96	100	105	137
No. of Active Members	283,548	297,476	305,256	316765
No. of Active Borrowers	269,372	290,607	285,719	284396
No. of Total Employees	512	559	580	799
No. of Field/Credit Officers	254	286	305	421
No. of JLGS	85,944	94,150	1,02,540	1,16,793
No. of Individual Loans	0	0	0	0

<b>Financial Ratios</b>	<b>31/Mar/2018</b>	<b>31/Mar/2019</b>	<b>31/Mar/2020</b>
No. of Active Borrowers Per Staff Member	520	493	356
No. of Active Borrowers per field executives	1,016	937	676
No. of members per Branch	2,975	2,907	2,312
Gross Portfolio o/s per field executive (in thousands)	16,567.97	16,885.18	14,405.37
Average Outstanding Balance per client (in Rs)	16,305.32	18,024.63	21,324.71
Cost per Active client	959	1008	1558

- The company's branch network and client network has expanded from 105 branches to 137 branches servicing over 3.17 lakh borrowers as on March 2020 from 3.05 lakh borrower in March 2019.
- SMILE'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 growth is partially also driven by an improvement in loan ticket size; average loan outstanding per client was worth Rs. 16,305.32 as on Mar 2018 and Rs. 21,324.71 as on Mar 2020.
- The company would be required to register a consistent improvement in productivity whilst diversifying its operations.

## Sound asset quality

- SMILE has maintained sound asset quality with on-time repayment rate of 99.72% as on March 31, 2020.

Period	FY 2017	FY 2018	FY 2019	FY 2020
	Portfolio o/s	Portfolio o/s	Portfolio o/s	Portfolio o/s
On-time (in crore)	345.61	472.93	512.04	604.75
1-30 days (in crore)	0.24	0.17	0.79	0.00
31-60 days (in crore)	0.14	0.13	0.55	0.18
61-90 days (in crore)	0.12	0.13	0.30	0.20
91-180 days (in crore)	0.06	0.32	0.73	0.37
181-360 days (in crore)	0.01	0.16	0.56	0.29
> 360 days (in crore)	0.00	0.00	0.03	0.67
Write-off (in crore)	0.06	0.48	0.57	1.09
<b>Total</b>	<b>346.19</b>	<b>473.84</b>	<b>515.00</b>	<b>606.47</b>
On-time (in %)	99.83	99.81	99.43	99.72
PAR 0-30 days (in %)	0.07	0.03	0.15	0.00
PAR >30 days (in %)	0.10	0.16	0.42	0.28
PAR >90 days (in %)	0.02	0.10	0.26	0.22

- The PAR 0-30 days stood at 0.00% as on March 31, 2020 as compared to 0.15% as on March 31, 2019. The PAR >30 days stood at 0.28% as on March 31, 2020 as compared to 0.42% 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.
- Further non-collection during national wide lockdown will be rescheduled as prescribed by RBI, so overdue portfolio will be considered as rescheduled accounts.

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

- SMILE'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 " Bankers Realm.Net (BR.Net)", which is a loan management software used to track client's individual portfolio. The implementation of the service created scope for high leverage on IT Operations Management of the Organization. It gives better access for the Branches and comes up with Disaster Recovery Setup. The robust system has enabled the Head Office to access comprehensive microfinance solutions.
- The company has also introduced app-based MIS software to enable real-time tracking of micro finance activities and for its tabs-based process for which SAMSUNG tabs have been given to operation staff.
- **Credit Bureau Checks**  
The company conducts compulsory credit bureau check of its borrowers from CRIF High Mark and Equifax. The company shares the credit data with all four credit bureaus i.e. CIBIL, Experian, CRIF High Mark and Equifax on weekly basis as per the RBI norms.
- **Toll Free Number**  
The company has a dedicated toll free number, where calls are recorded automatically and addressed within 7 working 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.

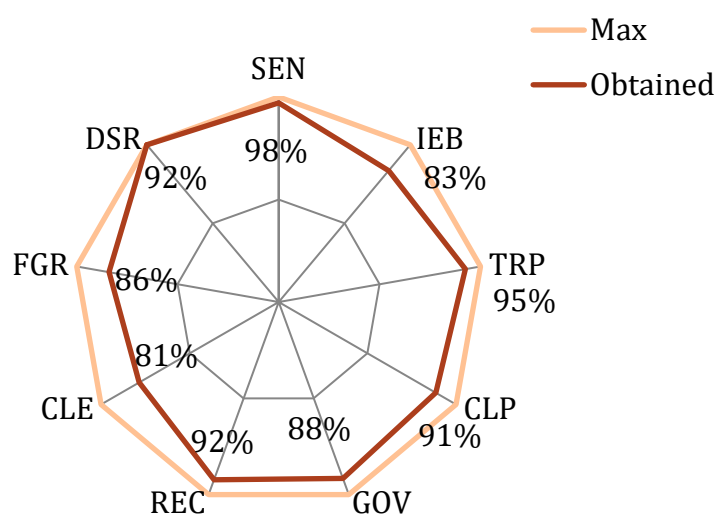
### **Inherent risk prevalent in the microfinance sector**

- SMILE'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

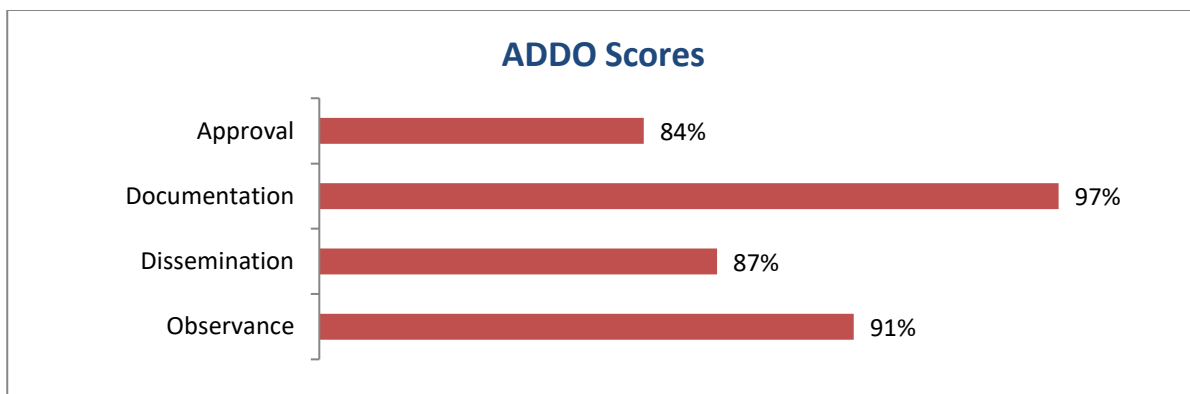
### COCA Grading - C2 (Good Performance on Code of Conduct dimensions)

#### COCA Dimension Scores



#### SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	98%
Integrity and Ethical Behavior	IEB	83%
Transparency	TRP	95%
Client Protection	CLP	91%
Governance	GOV	88%
Recruitment	REC	92%
Client Education	CLE	81%
Feedback & Grievance Redressal	FGR	86%
Data Sharing	DSR	92%



SMILE 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 SMILE Microfinance Limited (SMILE) 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 SMILE 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 SMILE's adherence towards ethical operational practices.

## Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Experienced and qualified management who have considerable experience in microfinance industry are instrumental in growth of SMILE.</li> <li>• Transparency in loan pricing and policies.</li> <li>• Adequate software-based MIS to handle current scale of operations.</li> <li>• Compulsory training on products terms and conditions to client prior to every loan.</li> <li>• Compulsory check on over indebtedness of every borrower. SMILE's manual mandates CB checks for capturing overall indebtedness. The checks are automated and done at the branch level.</li> <li>• Code of Conduct framed as per the SMILE's mission, vision, values are displayed in all branch offices &amp; HO.</li> <li>• SMILE communicates with borrowers in a transparent and professional manner, uses single effective interest rates and marks entries in their passbooks while making disbursement and collection, Additionally, it communicates with its clients in the vernacular language. Credit policies are well established documented and communicated.</li> <li>• SMILE obtains an external CA certification for compliance with the criteria regarding qualifying assets, aggregate amount of loans for income generating activity and the pricing.</li> <li>• Adequate loan appraisal &amp; monitoring systems.</li> <li>• SMILE takes written consent from the client for sharing client data for third party disclosure.</li> <li>• SMILE combines the methodology of selecting and servicing the customers in the</li> </ul>	<ul style="list-style-type: none"> <li>• Awareness of its clients/members pertaining to interest rate and insurance claim settlements found average.</li> <li>• Awareness among the staff on RBI compliance was found to be moderate in the sample branches.</li> <li>• Code of conduct compliance report of last financial year of SMILE is not available in the company website.</li> </ul>



field with the help of latest technology and processes at the back office.

- SMILE is committed to the best practices which will help in building deeper relations with its customers.
- Company has vigilant process to prevent and control risk involved in the process of disbursing loans to customers. Risk Control process has been formed to handle day to day operational activities to bring down operational risks.
- SMILE's recruitment policy is well-defined with the applicant required to appear for an interview and provide a relieving letter from the previous employer. SMILE also performs a reference check for all its employees and responds to the reference checks sought by any other entities for its employees.
- The MFI has a system of recording the number, nature and status of resolution of complaints. SMILE has a dedicated tollfree customer helpline number which has been displayed in all the branches, and the number has also been given on all the loan cards and applications.

## Significant Observations

<b>HIGHER ORDER INDICATORS</b>	
<p><b>Integrity and Ethical Behaviour</b></p>	<ul style="list-style-type: none"> <li>• The MFI does have the policy to place reports on COC compliance before the board at the end of every financial year.</li> <li>• The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit.</li> <li>• Board has approved a policy of recovering delinquent loans.</li> <li>• 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.</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 and the same is mentioned in the operational manual.</li> <li>• In all the branches, the contact number and address of MFIN nodal official was properly displayed.</li> <li>• Awareness among client and staff on MFIN grievance redressal mechanism was found to be moderate to high.</li> <li>• The MFI has the policy to place reports on COC compliance before the board.</li> <li>• Fixed Component compensation of staff is not impacted in event of overdues. SMILE, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.</li> </ul>
<p><b>Sensitive Indicators</b></p>	<ul style="list-style-type: none"> <li>• Clients interviewed were aware of the charges and price for all services availed.</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>• SMILE shares accurate data with all credit bureaus on a frequency prescribed by MFIN.</li> <li>• SMILE 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.</li> <li>• The MFI gets an external CA agency to certify its compliance with RBI's directions for NBFC-MFIs.</li> </ul>

<b>BUILDING BLOCKS</b>	
<b>Transparency</b>	<ul style="list-style-type: none"> <li>• Awareness among the staff on RBI guidelines was found to be moderate.</li> <li>• SMILE has documented the pricing of its loan products in its operational manual. In the branches loan documents had been maintained in local languages.</li> <li>• Circulars with the most recent directions are available in the branches.</li> <li>• SMILE in its fair practices code provides importance for transparency in pricing and clear communication to the clients.</li> <li>• The loan interest rate and processing fees is mentioned on the loan passbook and sanction letter provided to the client.</li> <li>• Clients interviewed were moderately 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>• SMILE displays the details of the loan products including their interest rates and client grievance redressal system on its website.</li> <li>• SMILE issues loan agreement to the clients with all terms and conditions of the loan including annualized interest rates.</li> <li>• Previous financial year annual financial statement and report is available in the public domain; however, Code of conduct compliance report of last financial year of SMILE is not available in the company website.</li> </ul>
<b>Client Protection</b>	<ul style="list-style-type: none"> <li>• SMILE has a board-approved policy regarding client data security.</li> <li>• SMILE has documented policy on client data security which forms part of its fair practice code.</li> <li>• SMILE has framed a Fair Practice Code and has also adopted the RBI fair practices code.</li> <li>• Employees are trained on aspects of appropriate behavior with the clients.</li> <li>• Staffs were 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>• SMILE maintains high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body.</li> <li>• SMILE has 1/3rd of independent persons in its Governing Board, and the Board is actively involved in all policy formulations and other important decisions.</li> </ul>

	<ul style="list-style-type: none"> <li>• SMILE has an audit committee of the Board with an independent director as chairperson.</li> <li>• The MFI has got its accounts audited in a timely manner after the end of the most recent financial year.</li> <li>• No adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• Action taken report based on the last audit report was available in the branches.</li> <li>• Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit.</li> </ul>
<p style="text-align: center;"><b>Recruitment</b></p>	<ul style="list-style-type: none"> <li>• SMILE board has reviewed its recruitment policies at least once annually.</li> <li>• The MFI has a defined and documented process for responding to reference check requests.</li> <li>• There is documentary evidence to suggest that MFI has honored the notice period for all employees who have left it.</li> <li>• MFI obtains NOC or relieving letter from the previous employee, in case employer are recruited from other MFIs.</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 and the same is documented in Operational Manual.</li> </ul>
<p style="text-align: center;"><b>Client Education</b></p>	<ul style="list-style-type: none"> <li>• SMILE in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services</li> <li>• SMILE does not charge clients for the trainings provided to clients by 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>• 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.</li> <li>• SMILE has a policy on time frame and process for client's complaint resolution.</li> <li>• Clients were found to be aware of the helpline number.</li> <li>• Feedback mechanisms are regularly tracked and monitored.</li> <li>• In all the branches, the contact number and address of MFIN nodal official was properly displayed.</li> <li>• Complaints lodged through helpline at H.O and branches are documented and resolved.</li> </ul>

	<ul style="list-style-type: none"> <li>• Awareness among client and staff on MFIN grievance Redressal mechanism was found to be moderate to high.</li> <li>• Dedicated team at HO level to document and follow up on the client complaints.</li> </ul>
<p><b>Data Sharing</b></p>	<ul style="list-style-type: none"> <li>• Financial and operational data for FY20 is available on the website of SMILE.</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>• SMILE shares accurate data with all credit bureaus on a frequency prescribed by MFIN.</li> <li>• SMILE performs compulsory credit bureau checks for all its clients.</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

## **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.

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

*Chart: COCA Indicators Framework*

Number of indicators in each category is presented below

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

## Methodology

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

## Sampling guidelines

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

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

## Code of Conduct Assessment exercise requires:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples 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 observed all branches and interacted with Branch Staff and Borrowers of the MFI through call/video conferencing during the Covid situation. The details of the branches are provided below.

Sr No	Branch	State	No of clients interviewed
1	Kattumannarkovil	Tamil Nadu	15
2	Mayiladuthurai	Tamil Nadu	16
3	Kumbakonam	Tamil Nadu	18
4	Peralam	Tamil Nadu	21
5	Karaikal	Puducherry	23
6	Puducherry	Puducherry	16
7	Ponneri	Tamil Nadu	15
8	Chintharipet	Tamil Nadu	19
9	Mandya	Karnataka	20
10	Kozhinjampara	Kerala	22
11	Ottapalam	Kerala	17
12	Wadakkanchery	Kerala	16
13	Alathur	Kerala	19
14	Wadraf Nagar	Chhattisgarh	21
15	Ramanujganj	Chhattisgarh	21

16	Garhwa	Jharkhand	19
17	Japla	Jharkhand	18
18	Baihar	Madhya Pradesh	20
<b>Total</b>			<b>374</b>

## Financials

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

Period	FY 2018	FY 2019	FY 2020
Months	12	12	12
<b>Financial revenue from operations</b>	<b>9,96,703</b>	<b>11,42,933</b>	<b>12,71,023</b>
Less - Financial expenses from operations	4,79,086	5,22,410	6,14,659
<b>Gross financial margin</b>	<b>5,17,617</b>	<b>6,20,523</b>	<b>6,56,364</b>
Provision for Loan Loss / Write off	13,077	11,052	33,798
<b>Net financial margin</b>	<b>5,04,540</b>	<b>6,09,471</b>	<b>6,22,566</b>
<b>Operating expenses</b>	<b>2,78,696</b>	<b>2,92,575</b>	<b>3,87,972</b>
Personnel Expense	1,92,053	1,99,042	2,49,288
Depreciation and Amortization Expense	2,554	2,720	8,700
Other Administrative Expense	87,089	90,813	1,29,984
<b>Net operating income</b>	<b>2,25,844</b>	<b>3,16,896</b>	<b>2,34,594</b>
Non-Operating Revenue	19,455	26,788	20,159
Non-Operating Expense			55,000
Current Tax	97,205	85,198	76,881
Deffered Tax charge/(credit)	(20,257)	(1,236)	(1,538)
<b>Net Profit After Tax</b>	<b>1,68,351</b>	<b>2,59,722</b>	<b>1,24,410</b>

*Above financials are audited FY17 and FY18 as per IGAAP and FY20 as per INDAS.*

## Balance Sheet (Rs in Thousands)

As on date	31/Mar/2018	31/Mar/2019	31/Mar/2020
<b>SOURCES OF FUNDS</b>			
<b><u>Capital</u></b>			
Equity Capital	1,73,396	1,73,396	1,73,396
Reserve and Surplus	5,44,749	8,04,471	8,95,401
Security Premium	3,74,020	3,74,020	3,74,020
<b>Total Equity</b>	<b>1,092,165</b>	<b>1,351,887</b>	<b>1,442,817</b>
<b><u>Liabilities</u></b>			
<b><u>Short-Term Liabilities</u></b>			
Commercial Loans from banks/FI	18,27,428	16,41,118	82,467
Account payable & Other short-term liabilities	97,379	2,21,595	1,61,446
<b>Total Short-Term Liabilities</b>	<b>19,24,807</b>	<b>18,62,713</b>	<b>2,43,913</b>
<b><u>Long-Term Liabilities</u></b>			
<b><u>Long-Term Borrowings</u></b>			
Commercial Loans from banks/FI	25,56,749	23,83,555	51,34,134
<b>Total Long-Term Borrowings</b>	<b>25,56,749</b>	<b>23,83,555</b>	<b>51,34,134</b>
<b>Total Other Liabilities</b>	<b>4,481,556</b>	<b>42,46,268</b>	<b>53,78,047</b>
<b>Provisions</b>	<b>69,210</b>	<b>74,451</b>	<b>32,545</b>
<b>TOTAL LIABILITIES</b>	<b>56,42,931</b>	<b>56,72,606</b>	<b>68,53,409</b>

As on date	31/Mar/2018	31/Mar/2019	31/Mar/2020
<b>APPLICATION OF FUNDS</b>			
<b><u>Fixed Assets</u></b>			
<b>Net Block</b>	<b>6,111</b>	<b>7,254</b>	<b>15,523</b>
Cash and Bank Balances	5,15,693	6,64,787	8,19,053
Cash Collateral (Margin Money)	3,38,337	4,34,285	4,33,033
<b><u>Loan Portfolio</u></b>			
<b>Net Loan Portfolio</b>	<b>47,12,818</b>	<b>44,50,147</b>	<b>59,00,259</b>
Accounts Receivable And Other Assets	46,836	90,941	70,559
Intangible Assets	603	1,422	9,261
Deferred Tax Asset	22,533	23,770	38,754
<b>TOTAL ASSETS</b>	<b>56,42,931</b>	<b>56,72,606</b>	<b>68,53,409</b>

## Financial Ratios

Financial Ratios	31/Mar/2018 12	31/Mar/2019 12	31/Mar/2020 12
<b><u>Capital Adequacy Ratio</u></b>			
Capital Adequacy Ratio (%)	23.29	25.44	23.64
<b><u>Productivity/Efficiency Ratios</u></b>			
No. of Active Borrowers Per Staff Member	520	493	356
No. of Active Borrowers per field executives	1,016	937	676
No. of members per Branch	2,975	2,907	2,312
Gross Portfolio o/s per field executive (in thousands)	16,567.97	16,885.18	14,405.37
Average Outstanding Balance per client (in Rs)	16,305.32	18,024.63	21,324.71
Cost per Active client	959	1,024	1,364
<b><u>Asset/Liability Management</u></b>			
Cost of funds ratio (%)	14.75	12.43	13.30
Yield on Portfolio (nominal) (%)	22.87	23.61	23.30
Net Interest Margin (%)	8.12	11.19	10.00
<b><u>Profitability / Sustainability Ratios</u></b>			
Operational Self Sufficiency (%)	129.30	138.36	122.63
Operating Expense Ratio (OER) (%)	6.80	5.92	6.92
Return on Assets (RoA) (%)	4.65	5.60	3.75
Portfolio at Risk (>30 days) (%)	0.16	0.42	0.28
Return on Equity (RoE) (%)	22.41	25.93	16.79
<b><u>Leverage Ratios</u></b>			
Total Outside Liabilities to Tangible Networth Ratio (Times)	4.10	3.14	3.73
Debt/Equity Ratio (Times)	4.01	2.98	3.62



## 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.

SMERA is a wholly owned subsidiary of Acuité Ratings & Research Limited. Acuité, 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, is registered with SEBI as a credit rating agency.

---

© 2020 SMERA Gradings & Ratings Private Limited

---

**Registered Office**  
905, Lodha Supremus, Lodha  
iThink Techno Campus, Near  
Kanjurmarg Railway Station,  
Kanjurmarg (East)  
Mumbai - 400 042  
Tel: +91 22 6714 1111  
Email – [info@acuite.in](mailto:info@acuite.in)

Website:  
[www.microfinanalytics.com](http://www.microfinanalytics.com)