

Due Diligence Report- Institute of Rural Credit and Entrepreneurship Development (IRCED)

**Assistant General Manager,
Small Industries Development Bank of India,
Kolhapur BO**

Dear Sir/Madam,

We have completed our engagement in performing Due Diligence Assessment (including financial and tax due diligence) of Institute of rural Credit and Entrepreneurship Development (IRCED) in accordance with the terms of our engagement letter dated **22 March, 2016**.

Objectives

- The overall objective of our engagement was to assist the (Investor) by Due Diligence Assessment (including financial due diligence) of Institute of rural Credit and Entrepreneurship Development (IRCED) in connection with your proposed investment in the target enterprise. Our on-site work was conducted at IRCED Head Office in Sangli from 25/03/2016 to 26/03/2016.
- We have prepared our report highlighting the key issues noted in connection with the agreed upon procedures performed on IRCED in relation of financial year 2014-15.
- We have reported broadly on matters, which we have noted, and which appeared significant to us.
- Because of its special nature, our report may not be suited for any purpose other than to assist you in your evaluation of IRCED, and as such, is restricted for your internal use only. Additionally, our report reflects events and circumstances as they currently exist.
- The terms of reference for this engagement have been established between Small Industries Development Bank of India [SIDBI] and us and we will not accept any responsibility whatsoever to any other party to whom the report may be shown or who may acquire a copy of the report. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.
- Our report is based on inquiries and discussions with management, a review of accounts and other documents made available to us, and analytical procedures

applied to data provided. We have relied on the information provided by the management and have not carried out any investigation to verify the same.

- We have reviewed the accounts and affairs of said entity while keeping in mind, the overall objectives of the investor. Our examination and reporting has also considered the issues as per prescribed format of reporting but was not confined to those matters only.
- Our observations on the prescribed matters are attached in Annexure to this report.
- Our observation/ suggestion on addition to those covered in annexure are as under:
 - (a) Since MOA & AOA are silent in respect of borrowing power, we suggest IRCED should decide the quantum.
 - (b) IRCED is providing loan loss provision at 0.02% (Appx.) which is negligible; we suggest it should be at least 1% of yearly surplus.
 - (c) Registration for Provident Fund is yet to be obtained, we suggest till it is received IRCED should deduct minimum amount of PF and equal amount to be contributed by them and it should be kept in form of fixed deposit with the Banks.
 - (d) The operation, HRD and accounting manual should be placed in Board Meeting for their approval.

For Kirtane & Pandit LLP
Chartered Accountants
FRN 105215W/W100057

S. B. Bhagwat
Partner
Membership No.8072

Pune, March 29, 2016

Institute of Rural Credit & Entrepreneurship Development (IRCED)

Sr. No.	Particulars	Auditors' Comments
➤	History and Development	<p>IRCED is a Non Governmental Organization registered under The Society Registration Act, 1860 and Bombay Trust Act, 1950. It started its social development activities through the Food Grain Banks.</p> <p>Activity of the Society is Micro Finance under Self Help Group and Joint Liability Group.</p> <p>IRCED is promoted by Mr. Kiran Kulkarni who is the brain behind the Grain Bank Project which was initiated in Raigad District of Maharashtra. He has graduated with a Bachelor of Science degree in 1985 and since then has engaged in social activities for tribal and women empowerment in the rural areas.</p> <p>The organization is based in Sangli, Maharashtra and at present the areas of operation are Satara, Sangli, Solapur and Kolhapur and Belgaum District in Karnataka.</p> <p>IRCED falls under the "MFI Model" of Micro Credit in India.</p>
➤	Nature of Activity	<p>IRCED has been involved in various social development initiatives particularly in the domain of Income generation initiative, dairy segments, affordable housing and sanitary units and seasonal loan.</p> <p>IRCED offers 4 loan products primarily:</p> <ol style="list-style-type: none"> 1. Income Generation 2. Dairy Development 3. Affordable Housing & Sanitation Units 4. Seasonal Loans
➤	Management & Area of Operation	<ol style="list-style-type: none"> 1. The Board of Directors consists of well qualified and experienced persons in the field of Banking, Microfinance & Development sector. Refer Annexure I. 2. IRCED is presently working in the drought prone areas of Maharashtra. 3. There are 7 Branches in total. Out of them 6 are located in Maharashtra whereas 1 Branch is located in Karnataka.
A Review Of Capital Structure		
1	Shareholding/Capital structure of the enterprise with comments, if any.	<p>As the organization is registered as a Trust, there is no Authorized Capital. The organization works on the Capital Grants received from the Government as well as other Sources. Total Capital Grant of IRCED as on 31/03/2015 is Rs. 18.02 Lakhs.</p> <p>Total number of members in their Board is seven and any one can withdraw the membership at will. No other provisions for the same have been made.</p>

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2	Comment on the management structure of the organization.	<p>IRCED is managed by the Managing Committee consisting of seven members. The MC has tenure of 5 years. As per the bye laws, in the event of death or resignation of any member, the Secretary shall be entitled to fill up the vacancy/ies by appointing other persons. Out of seven members one member has resigned in January, 2016.</p> <p>The Memorandum and Articles of Association have been prepared internally and have been filed with the Charity Commissioner.</p>
3	List out associate concerns or subsidiaries of the enterprise. Also give name of concerns in which any of its promoters/ partners/ directors are interested.	<p>IRCED has no Associate Concerns. However, two of the Trustees of IRCED are holding other positions in the following Financial Institutions. They are:</p> <ol style="list-style-type: none"> 1. Rajesh Badakh – CEO, Sakhi Samuday Kosh (MFI) 2. Vivek Katti – Regional Head, Mutthut Finance
B	Business Operations	
1	Whether IRCED has adequate procedures for appraisal of credit proposals/requests, assessment of credit needs and repayment capacity of the borrowers commensurate to target group?	<p>Yes. IRCED has adequate procedures commensurate to the requirements to uneducated or not well educated group of Borrowers.</p> <ol style="list-style-type: none"> 1. Before the Sanction, the Field Officer conducts the Due Diligence of the Borrower Group including the KYC Verification. Before the GRT, training sessions are conducted by the Staff of IRCED for the Borrower Groups. 2. Group Recognition Tests are conducted by the Branch Manager to verify the member's knowledge level. Loan Application Form is then filled up by the Field Officer and the Branch Manager forwards the complete file along with the Application to the Head Office. 3. Loan Proposal is then reviewed by the Sanction Committee which meets every week at the HO. The Loan is sanctioned or rejected based on the recommendation of the Branch Manager and Finance Manager.
2	How disbursement of loans and collection of repayment installments of loan take place?	<p>Disbursement Process:</p> <ol style="list-style-type: none"> 1. Funds are transferred by IRCED to the Bank Account of the Borrower Group. The BM hands over the cheque to the Field Officer/Secretary/President of the Group. 2. The President and the Secretary withdraw the amount from the Bank in the presence of the Field Officer and the Cash is then brought to the Branch. It is then distributed to each member of the Group. All the members, concerning Field Officer and the Branch Manager have to be present at the time of the Disbursement.

Sr. No.	Particulars	Auditors' Comments
		<p>3. Loan Processing Fees and Insurance Premium is collected from the Borrower Group at the time of Disbursement.</p> <p>4. End Use Verification is carried out after 7 days of the Disbursement by the Field Officer.</p> <p>Repayment Collection Process:</p> <p>1. The Branch Manager generates the demand Collection Sheet on a weekly basis.</p> <p>2. IRCED provides Loan Cards to the group members for the tracking of future repayments. The same is updated by the Field Officer at the time of Repayment.</p> <p>3. The Cash collected is handed over to the BM and Reconciliation Sheet is prepared.</p> <p>4. IRCED has tie ups with certain Banks for the collection of Cash from the Branch Offices. The representatives of the Bank collect the cash and the same is deposited in the Accounts of IRCED. In remote places where there is no tie up with any Banks, the BM deposits the Cash in the Banks.</p>
3	What are the eligibility criteria for availing micro finance loan?	<p>No individual loans are given. Loans are given only to SHG/JLGs. For the purpose of acquiring a Loan, Bank Account is mandatory, Annual Household Income Levels have been revised by the RBI:</p> <p>Rural Areas – Rs. 100000/- per member Non Rural Areas – Rs. 160000/- per member No. Of Members in SHG – 10 to 20 No. Of Members in JLG – 04 to 11</p>
4	What security or margin or guarantee is obtained for micro finance loans?	<p>As per the RBI Guidelines dt 08/04/2011, no MFI is allowed to take any primary or collateral security or any separate guarantee for Micro Finance Loan. Only Joint Liability of the Borrower Group acts as a Guarantee.</p>
5	What are the charges borrowers have to pay while availing micro finance loan?	<p>The Borrower Group has to pay 1% Processing Charges and the Insurance Premium based on the Insurance Policies, at the time of Disbursement. The same is collected by IRCED in Cash. No other charges are to be borne by the Borrower.</p>
6	Whether the Society has complied with the prudential norms on income recognition and provisioning against sub-standard / doubtful / loss assets;	<p>RBI Prudential Norms are not applicable to the Society in its activity of Micro Finance. Further, till date there has been only one case of default for which IRCED has made a Loan Loss Provision to the extent of 100% IRCED has filed a suit against the Borrower in the Court of Law under the Charges of Cheque Bouncing/Dishonouring of Cheque.</p>
B-1	BUSINESS RISK	
1.	Whether there are any factors observed which may affect continuity/quality of income of the enterprise?	<p>Long term sustainability depends on the Financial Health of the MFI. Tangible Net Worth of IRCED has increased from Rs. 20.83 Lakhs as on 31/03/2013 to Rs.</p>

Sr. No.	Particulars	Auditors' Comments												
		37.51 Lakhs as on 31/03/2015 mainly due to increase in the profits and its retention in the business as well as the Grants received by them.												
2.	Whether most of the revenue of the business is being generated from single or few customers? Give number of total customers.	The Organization provides Micro Finance to the needy self help groups of women. Hence, maximum revenue of the Organization is generated by way of Interest and Processing Charges from a number of Borrowers. Total number of Customers as on 31/03/2015: 4719 Total number of Customers as on 31/01/2016: 5237												
3.	Whether there are limitations over availability of working funds such as government restrictions, legal impediments etc?	No Limitations, legal impediments arise over the availability of Working Funds. The Society can arrange for the funds as per the requirements.												
4.	Whether there is any perceived threat to going concern assumption. If yes, give details?	No perceived threat to Going Concern Assumption. Operating Self Sufficiency Ratio has been maintained above 100% for the past 3 years. For FY 2015, it is 115%. Hence, as such there is no threat to Going Concern Assumption.												
5.	Asset Quality	In the area of Micro Finance, PAR (Portfolio At Risk) is the parameter used on wide scale to judge the quality of the Asset. IRCED has reported to no over dues for the past 3 Years. The Organization has been able to maintain a good Portfolio Quality in FY 2015. 85% of the Portfolio is concentrated in the State of Maharashtra.												
B-2	INSURANCE													
1	Whether adequate insurance cover has been taken by the enterprise for assets including cash, cash in transit, Fixed assets, inventories including material in transit and lying with third parties, etc?	IRCED has provided Cash In Transit Insurance for all the Branches. Also, it provides Life Insurance Cover to its Borrowers and co-borrowers from third Party. A Group Insurance has been provided for the same from LIC. Hence, IRCED already has a risk mitigation strategy in place to cover the loan in the event of death of any of the members. Following are the details of the Insurance Policies: (Rs. In Lakhs)												
		<table border="1"> <thead> <tr> <th>Insurance Agency</th> <th>Type of Insurance</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>The Oriental Insurance Company Ltd.</td> <td>Cash in Transit</td> <td>927.00</td> </tr> <tr> <td>LIC</td> <td>Group Life Insurance</td> <td>268.05</td> </tr> <tr> <td>Kotak Mahindra</td> <td>Group Life Insurance</td> <td>Policy Cover Note is yet to be received. (Taken on 22/03/2016)</td> </tr> </tbody> </table>	Insurance Agency	Type of Insurance	Amount	The Oriental Insurance Company Ltd.	Cash in Transit	927.00	LIC	Group Life Insurance	268.05	Kotak Mahindra	Group Life Insurance	Policy Cover Note is yet to be received. (Taken on 22/03/2016)
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Sr. No.	Particulars	Auditors' Comments									
2	Whether any substantial insurance claim has been rejected or pending during review period? If yes, give details.	One Death Claim lodged with the LIC which has been settled and paid. No claims have been rejected or are pending for the last 3 years.									
B-3	CONTRACTS										
1	Whether there are any conditions in the contract entered into by the enterprise which are/ could be detrimental to the interest of the enterprise?	IRCED functions as per the RBI's Malegaon Committee Report on MFIs. Hence, no such contracts/conditions detrimental to interest of the Organization have been entered into/agreed upon.									
2	Provide details of contracts entered into by the enterprise, which have not been renewed, or are incomplete, or contracts wherein due to some deficiencies, the enterprise will not be able to legally bind the counter party.	No such cases were observed.									
C	General Governance/ Management Functioning										
C-1	BOARD OF DIRECTORS										
1	Whether proper minutes are prepared/ kept for the Board/ other Meetings?	Yes. The Managing Committee (MC) meets once in every three months for the purpose of transacting business, passing various resolutions, etc. at which a quorum of 4 MC Members is required out of seven. One member has resigned in January, 2016 All the General Body Meetings are convened in accordance with the Provisions of the Society Registration Act, 1860. <table border="1" data-bbox="831 1240 1469 1335"> <thead> <tr> <th>Date</th> <th>Meeting</th> <th>Minutes Verified</th> </tr> </thead> <tbody> <tr> <td>07/10/2015</td> <td>MC</td> <td>Yes</td> </tr> <tr> <td>08/12/2015</td> <td>MC</td> <td>Yes</td> </tr> </tbody> </table>	Date	Meeting	Minutes Verified	07/10/2015	MC	Yes	08/12/2015	MC	Yes
Date	Meeting	Minutes Verified									
07/10/2015	MC	Yes									
08/12/2015	MC	Yes									
2	Report nature and extent of interest of directors/MC Members in transactions, which are or were unusual in their nature or conditions or significant to the business of enterprise?	No such transactions were found as IRCED is a non-profit organization and the Members/Trustees do not receive any monetary benefits.									
C-2	SECRETARIAL COMPLIANCES										
1	Whether all records as required by the MSCS Act 2002 have been properly maintained and updated by the company?	Not Applicable. IRCED is a Society registered under The Societies Registration Act, 1860 and The Bombay Trust Act, 1950. Hence, the provisions of MSCS Act, 2002 are not applicable in the particular case.									
2	Whether all returns required to be filed by the Society as per Societies Registration Act, 1860 and Bombay Trust Act, 1950 have been filed timely with Charity Commissioner/ Other Registrars?	Yes. Timely filing of all required documents is carried out by IRCED with the Charity Commissioner. <ol style="list-style-type: none"> 1. Audited Balance Sheets 2. Annual Budget as passed by the Board. 3. FCRA – Form FC3 and Form FC4 4. Income Tax Returns with the Tax Commissioner 									

Sr. No.	Particulars	Auditors' Comments
C-3	STATUTORY COMPLIANCES	
1	Whether enterprise has obtained registration/ licenses under various laws applicable to the enterprise?	Annexure II
2	Comment on the cases of non adherence by the enterprise to applicable laws and its provisions.	As on date, number of regular employees is 35 and the Society is under correspondence with the Provident Fund Department for registration.
3	Assessment status of the enterprise under Income Tax/ Sales Tax/ Excise/ Customs/Service Tax and liabilities arising there from.	Income Tax Return for AY 2015-16 has been filed on 26/12/2015 and the status is processed. No other Acts are applicable.
4	Details of pending claims and/or litigations in respect of any Excise, Custom or service tax orders etc	Nil.
5	Whether enterprise is regular in payment of statutory dues? Report the amount of likely interest or penalty on the same, if any.	Yes. IRCED is regular in payment of all the Statutory Dues. Hence, there are no penalties.
C-4	LEGAL CASES	
1	Details of cases pending against the enterprise or filed by the enterprise or legal notices/claims received by the enterprise. Also give estimated amount involved in litigations as well as non financial impact of the same.	IRCED has filed a case against Mrs. Sumangala Basgouda Patil, CEO of Chetan Organization for recovery of Rs. 7,64,091/- as the Cheque issued by her was returned unpaid due to insufficient funds. Outstanding in books of IRCED is Rs.3,50,000/-
2	Whether contingent liability arising from legal cases has been properly disclosed in financial accounts?	NIL
C-5	INTERNAL CONTROLS	
1	Whether internal controls present in the organization are commensurate with the size and nature of the business operations?	Yes. IRCED has developed Operational HRD and Accounting Manuals internally. The Operational Manual contains the details of the MFI and provides guidelines to the Field Staff and Operational Manager. The Manual also provides a Checklist which helps the staff to perform day to day activities with due precautions to be taken before loan sanction, collections, data entry and accounting. The Accounting Manual contains the guidelines for maintaining their Incomes and Expenditures, Balance Sheets and other Accounts. The HRD Manuals contain the policies, procedures and rules related to selection, recruitment, training and evaluating the staff performance and promotions. The Manual also contains that all the policies are subject to annual review.
2	Whether internal controls present in the business are operational and effective and properly monitored and weaknesses, if any, are reported to senior management?	Checks and control procedures are laid down in internal procedures to minimize the risk of mistakes and for prevention of and control of embezzlement of funds. MIS System is effectively utilized to keep strict internal control

Sr. No.	Particulars	Auditors' Comments
		on all operations and activities.
3	Whether audit trail is available for all transactions entered into by the enterprise?	Accounts are maintained in Tally Software. As such audit trail is available. IRCED has a set of an effective MIS System to control/monitor the daily collections. On daily basis the collections/likely collections/disbursements are monitored with the daily reports which are sent by the Branch Offices.
4	Whether there is a system of periodical monitoring and reporting system? If yes, how far it is effective?	IRCED has got a system for collecting various reports from their Branches on a daily, weekly and monthly basis. Daily Collection Sheet, Weekly Progressive Report and Monthly Progressive Report and all the transactions are monitored based on these Reports.
5	Whether enterprise has a policy for periodical confirmation of balances from borrowers and other parties and its reconciliation with book balances?	<p>IRCED is carrying out their major transactions with Corporation Bank. IRCED is also maintaining accounts with State Bank of India and routing few transactions with them. Reconciliation Statements are not being prepared periodically. However, the balances with IRCED and the Banks were tallied on the day of our Visit.</p> <p>IRCED has been suggested to prepare Reconciliation Statements at least on a monthly basis.</p> <p>IRCED is also obtaining confirmation of balances from their borrowers at the end of every six month.</p>
6	Whether proper cut off procedures are implemented by the enterprise regarding accrual of revenue and cost, in last 3 accounting years?	<p>The Interest is presently being applied manually on a monthly compounding basis. Proper control is being exercised for accounting of revenues. They are also having a proper control over the Cost.</p> <p>During the last 3 years, there has been a bad debt of Rs.3.50 Lakhs which has been fully provided for.</p>
C-6	INTERNAL AUDIT SYSTEM	
1	Whether there is any system of conducting periodical Internal Audit of the enterprise and whether such internal audits are commensurate with the size and nature of the operations?	Earlier there was no separate Internal Audit System for carrying out the due diligence of the Micro Finance Operations. However, IRCED has now appointed a person as an Internal Auditor recently (i.e. In Feb. 2016). He has already started the audit and so far no Report has been submitted. Earlier the Internal Audit was conducted by Chartered Accountant Firm. However, their audit was restricted to back office operations. Annual Internal Audit is proposed to be carried out by IRCED's own staff. But it needs to be strengthened and a proper system needs to be devised for reporting and monitoring, at least on monthly intervals.

Sr. No.	Particulars	Auditors' Comments
C-7	FRAUD	
1	Report all fraud detected by the enterprise historically and actions taken by the enterprise against such frauds.	According to the information and explanations provided to us, IRCED has not noticed or reported any fraud.
2	Whether adequate provision has been made by the enterprise against frauds detected?	Not Applicable as no frauds have been detected.
D	Accounting	
D-1	ACCOUNTING POLICIES	
1	Whether Accounting Policies of the enterprise are in compliance with Accounting Standards and same are consistently applied?	IRCED's Accounts are maintained according to the applicable Accounting Standards of the ICAI.
2	Whether changes made in accounting policies during review period are approved by Board of Directors and impact of the same has been disclosed in financial statement of the enterprise?	No changes have been made in the Accounting Policies as such.
D-2	FIXED ASSETS	
1	Comment on any defect in title /title documents of the fixed assets of the enterprise e.g. as any defects in re-salability, joint ownership, encumbrances on the use of fixed assets etc	No defects in title of Fixed Assets observed. IRCED does not own any immovable fixed assets such as Land and Building, etc.
2	Whether there is capital work in progress? If yes, check its present status, expected completion date and expected total cost.	No.
3	Whether any revenue expenditure has been capitalized or vice versa?	No.
4	Whether depreciation has been provided by the enterprise at appropriate rates?	Depreciation on Office Equipments has been charged at 15% p.a. and on computers and other related equipments such as printers, tablet PC, etc. are charged at 60% p.a.
D-3	INVESTMENTS	
1	Comment on any defect in title /title documents of the Investments held by the enterprise.	All the Investments of IRCED are in the form of Fixed Deposits. No defect in title observed. The Deposits are made with the Banks as margins stipulated by the Banks in the Sanctions.
2	Whether accrual of income and valuation of investments has been accounted for as per accounting standards?	Yes. Accrual and Income has been accounted properly. There is no requirement for making the valuation of Investments as all the Investments are in the nature of Fixed Deposits in the Bank.
D-4	MICRO CREDITS and DEPOSITS	
1	Whether the enterprise maintains day to day registers for micro	IRCED is not accepting any deposits as the same has been restricted by the Reserve Bank

Sr. No.	Particulars	Auditors' Comments
	deposits?	of India.
2	Whether aging analysis has been prepared for loan dues?	Yes. Aging Analysis is prepared on a monthly basis. As on 31/01/2016, the entire loan dues are less than 30 days.
3	Whether there is proper system in place for identification of sticky or stress accounts.	Close monitoring is done based on the various MIS Reports collected/ received from the Branches.
4	Whether a system for prompt recovery of repayment of loan installments is in place?	Yes. Proper system is in place for effective recovery. For Daily Collection, recovery is made between Monday to Friday and for monthly collection the recovery is initiated effecting from 2 nd Week of every month. So far, repayment is 100%
5	% of Bad Debts to loans. Steps taken by the unit to control the bad debts.	Last three years the amount of Bad Debts was NIL except a loan of Rs.3.50 Lakhs for which 100% provision has been made by IRCED.
6	Whether adequate provisions have been made for doubtful debts?	Yes. However, IRCED does not have any policy for writing off bad debts. They have been suggested to devise a suitable policy approved by the Board for writing off bad debts where 100% provision has been made.
D-5	RECEIVABLES/PAYABLES	Refer Point D7
D-6 A	CASH AND BANK	
1	Whether all original Bank Confirmations are available with enterprise?	Not required as the Accounts are maintained on an online basis.
2	Report instances of bank account/ CC account remained overdrawn for more than 7 days, if so.	No such instances were observed. The CC Accounts are being operated within the sanction Limit/DP whichever is lower.
3	Review of cash flow statement for the last 6-9 months with a view to understand the significant sources and application of funds deployed by Company	The cash flow statements for the last nine months examine by us and same are in line with their business activity/volume.
D-6 B	SUNDRY DEBTORS	
1	Policies for classification of debtors provisioning and write off.	IRCED is monitoring their debtors very closely. As such their repayment is almost 100%. The entire debtors is not more than 30 days old. The loan loss provisioning is made at the rate of 0.02% which we have suggested to increase to 1% At present they do not have any policy for writing off loans. The IRCED may consider to write off loan in cases where 100% provision has been made. A policy in this regard may be got approved from their Board.

Sr. No.	Particulars	Auditors' Comments
D-7	OTHER CURRENT ASSETS	
1	Whether the associate concern/s is appearing as Debtors? If yes, whether all these are proper, genuine trade transactions? If not, then give the amount of such book debts not pertaining to genuine trade transaction/s.	As per the Consolidated Balance Sheet as on 31/03/2015, the Other Current Assets were Rs. 47,99,473.01/- and the breakup is as under: Head Office Account – Rs.11,63,251.75/- YBL Project(CSR) – Rs. 10,000.00/- Micro Finance Unit – Rs. 36,26,221.26/- The OCA (Other Current Assets) of Micro Finance Unit includes processing fees receivable and grants received for Toilet Administration. All the debtors are on the account of genuine trade transactions.
2	Whether ageing schedule of other current assets has been prepared? Comment upon overdue and recoverability of other receivables.	No ageing schedule for analyzing/monitoring of other Current Assets is being prepared. However, there are no significant amounts of OCA.
3	Comment upon bad and doubtful receivables identified and provisions created against them?	Repayment percentage is almost 100%. As such no Loan Loss Provisions have been made except for one loan account where recovery could not be made and IRCED has made 100% provision for the same.
4	Whether proper records of Book Debts are maintained?	Yes.
5	Whether a system to generate age-wise, party-wise loan dues is in place?	At present there is no system for generating individual party wise loan dues, instead it is generated in the form of group wise loans.
D-8	SHARE HOLDERS' FUNDS	
1	Whether any shares have been forfeited by the company during review period? If yes, give details of the same.	IRCED has not issued any Share Certificates.
2	Whether any shares have been issued for consideration other than cash by the Society during review period? If yes, give details of the same.	IRCED has not issued any Share Certificates.
D-9	SECURED AND UNSECURED LOANS	
1	Details of loans/advances raised	Refer Annexure IV.
2	Borrowing powers	Since the IRCED is trust their Memorandum of Association and Articles is silent on borrowing power. However we suggest that they should decide the quantum.
3	Report all defaults in adherence to conditions given in sanction letters or loan agreements.	As informed by IRCED, they have executed Agreements with the Banks before availing the Loans. The Documents executed are with the Banks. Quarterly CA Certified Book Debt Statements are submitted to the Banks. As per IRCED, there has been no default in complying the terms and conditions of the Sanction Letters.
4	Report any default in the repayment of debentures/ fixed deposits/ Loan	NIL

Sr. No.	Particulars	Auditors' Comments																				
	principal or interest during past 3 years.																					
5	Whether any debentures/ loans of the enterprise have been restructured during past 3 years? If yes, give details of the same.	No.																				
D-10	CURRENT LIABILITIES																					
1	Whether proper records of Creditors/Other liabilities are maintained?	Yes.																				
2	Comment on overdue creditors/Other liabilities and reasons for the same.	Age wise bifurcation is not maintained. Major amount of Rs. 41.01 Lakhs appearing under the Head, "Partnership Loan Recovery" on account of Yes Bank. Monthly recovery on account of Yes Bank is parked in this account and is being remitted by First week of next month.																				
3	Whether all outstanding liabilities for expenses at the year-end are duly accounted for?	Yes.																				
D-11	CONTINGENT LIABILITIES																					
1	Whether proper disclosure has been made in the books of accounts for contingent liabilities including Bank Guarantees and Letter of Credit issued by bank on behalf of the enterprise?	As per the Audited Consolidated Balance Sheet as on 31/03/2015, there are no Contingent Liabilities whatsoever. No Letter of Credits/Bank Guarantees have been issued on behalf of IRCED.																				
D-12	REVENUE																					
1	Whether revenue is being recognized by the enterprise on accrual basis in compliance with Accounting Standards?	Yes. All the revenue is being recognized on accrual basis.																				
2	Whether matching concept is being followed by the enterprise for recognition of the revenues?	Yes. Matching Concept is being followed for the recognition of the revenues.																				
3	Comment on the revenue growth of the enterprise from one historical period to another.	Revenues in the past 3 years: (Rs. in Lakhs) <table border="1" data-bbox="831 1503 1469 1753"> <thead> <tr> <th>Year</th> <th>Total Revenue</th> <th>Growth & %</th> <th>Amt.</th> </tr> </thead> <tbody> <tr> <td>2012-13</td> <td>55.46</td> <td>14.96</td> <td>37%</td> </tr> <tr> <td>2013-14</td> <td>73.77</td> <td>18.31</td> <td>33%</td> </tr> <tr> <td>2014-15</td> <td>128.77</td> <td>55.00</td> <td>75%</td> </tr> <tr> <td>As on 30/09/15</td> <td>84.14</td> <td>-</td> <td></td> </tr> </tbody> </table> <p>Growth rate was slightly reduced during 2013-14 as compared to 2012-13. However, it was significantly improved in 2014-15 and is expected to improve further during the year 2015-16.</p>	Year	Total Revenue	Growth & %	Amt.	2012-13	55.46	14.96	37%	2013-14	73.77	18.31	33%	2014-15	128.77	55.00	75%	As on 30/09/15	84.14	-	
Year	Total Revenue	Growth & %	Amt.																			
2012-13	55.46	14.96	37%																			
2013-14	73.77	18.31	33%																			
2014-15	128.77	55.00	75%																			
As on 30/09/15	84.14	-																				
4	Whether disposal of surplus income is done as per provision of law? If	The yearly surplus is being retained as balance in Income and Expenditure Account in Balance																				

Sr. No.	Particulars	Auditors' Comments												
	yes, report details.	Sheet after appropriating 0.02% (Approx.) towards Loan Loss Provision Account.												
D-13	EXPENDITURE													
1	Report unexplained variances, if any, of interest paid or employee cost or administrative expenses with respect to turnover and its impact over margins.	<p>Details of Expenses: (Rs. In Lakhs)</p> <table border="1"> <thead> <tr> <th>Particulars</th> <th>2012-13</th> <th>2013-14</th> <th>2014-15</th> </tr> </thead> <tbody> <tr> <td>Salaries and Honorarium</td> <td>19.69</td> <td>23.47</td> <td>44.39</td> </tr> <tr> <td>Interest paid on Loans</td> <td>24.78</td> <td>27.33</td> <td>44.59</td> </tr> </tbody> </table> <p>IRCED has informed us that Salaries and Other Benefits have been revised upwards and also number of Employees was increased during 2014-15.</p> <p>Interest Paid on loans has increased due to availing of fresh credit facilities from Banks.</p>	Particulars	2012-13	2013-14	2014-15	Salaries and Honorarium	19.69	23.47	44.39	Interest paid on Loans	24.78	27.33	44.59
Particulars	2012-13	2013-14	2014-15											
Salaries and Honorarium	19.69	23.47	44.39											
Interest paid on Loans	24.78	27.33	44.59											
2	Comment on the changes in indirect costs from one period to another and report unexplained variances, if any.	No such variances were observed.												
3	Comment on the indirect and other general and administration costs of the enterprise with respect to its nature and size.	No abnormal increase observed in other Heads of Expenditure.												
4	Report if remuneration paid to the directors/ promoters/ partners/ proprietor are not commensurate with operations and size of enterprise.	No remuneration is paid to Directors/Promoters. Also, no Sitting Fees is paid to the Board Members for attending the Meetings.												
D-14	TAXES (Regulatory Compliances)													
1	Whether dues under various fiscal laws are timely deposited by the enterprise.	Yes. All the Dues are timely deposited by the Organization.												
2	Whether enterprise had deducted tax at source on payment being made by it as per Income Tax Act, 1961 and timely deposited the same?	NIL												
3	Borrowings as per MSCA, 2002	Not Applicable as the Organization has not been registered under MSCA, 2002.												
D-15	RATIO ANALYSIS													
1	Comment on various financial ratios of the enterprise over the review period.	Refer Annexure V												
D-16	RELATED PARTY TRANSACTIONS													
1	Report all material related party transactions during review period.	The organization has not carried out any Related Party Transactions.												
2	Whether proper disclosures have been made for related party	Not Applicable as there are no Related Party Transactions.												

Sr. No.	Particulars	Auditors' Comments
	transactions in the financial statements?	
3	Comment on the related party transactions which are not on arm's length price & its financial impact on the profitability and net worth of the enterprise.	Not Applicable as there are no Related Party Transactions.
4	Comment on overdue outstanding receivables from and payables to related parties.	Not Applicable as there are no Related Party Transactions.
5	Report any interest free advances given or received from related parties and its financial impact.	Not Applicable as there are no Related Party Transactions.
E	SWOT Analysis	Refer Annexure VI.

Branch Office's Responsibility:

A copy of this Due Diligence Report duly signed shall be maintained by the In-charge of the BO for future references (Treated as confidential). It shall be used for the intended purpose and the circulation of this Report should be restricted to the required officials only.

Signature of Due Diligence Auditor	Signature of Auditee Office (Name/s, Grade & Signature)
<p>For Kirtane & Pandit LLP Chartered Accountants FRN: 105215W/W100057</p> <p>S. B. Bhagwat Partner Membership No.8072</p> <p>Pune, March 29, 2016</p>	

**Annexure I
Details of Board of Directors:**

Sr No	Name of the Trustee	Designation	Occupation	Date of Birth	PAN No.	Qualification	Area of Expertise
1	Dr. Pramod Nathaji Lad	Chairman	Social Worker	1962	AAZPL8904F	B.A Ph.D.	Social Science and school Management. Have won lot of awards
2	Mr. Kiran Bhalchandra Kulkarni	Secretary	IRCED- Sec. & CEO	1964	AMZPK3513D	B. Sc. (Chem.)	Grain bank, Micro finance and Organic Farming
3	Mr. Ramnath Changdev Pachore	Treasurer	Social Worker	1963	BHVPP0018G	12 th	25 years of ex. In development sector
4	Mr. Madhav Sambhayappa Mathpati	Member	Acctt.	1951	BDWPM1404N	B.Com.	35 yrs. Of ex. In NGO Sector
5	Mr. Vivek Madhukar Katti Retd. Wg. Cdr.	Member	Regional Head – Mutthut Finance	1967	AAIPK2739C	B.E. P.M.	Air Craft Management and Finance Management
6	Mr. Mohan Ganesh Kininge	Member Resigned in Jan.16	Retired as SBI DGM	1953	ABRPK5961A	B.Com. CAIIB, AMFI	Profitability and NPA management
7	Mr. Rajesh Bhausahab Badakh	Member	CEO -SSK, Solapur	1977	AKUPB3323K	B.Com. MMS	14 yrs exp. In Micro finance

Annexure II

Registration/ licenses under various laws applicable to the enterprise:

Sr. No.	Registration under Law	Registration Number	Date of issue
1	Societies Registration Act, 1860	32148	17/10/1994
2	The Bombay Trust Act, 1950	21805	08/12/1994
3	Income Tax Act, 1961 (U/s 12A of the Act)	THN/CIT/J&T-1/Trust/441442768/2000-01/367	27/03/2001
4	Income Tax Act, 1961 (U/s 80G of the Act)	THN/CIT-II/TECH/806/34/2009-10/3011	04/02/2010
5	Government of India (For Receipt and Utilization of Foreign Contribution) Under FCRA, 2010	0839690063	30/10/2001
6	Under FCRA, 2010 for Change of Bank Account for Foreign Contribution	11/21022/6810078/2001	02/09/2011
7	PAN Card	AAAT13527N	08/12/1994

Annexure III

**Aging analysis of loan portfolio as on 31/03/2015:
(Rs. In Lakhs)**

Period	No. of loans in Arrears	Loan Portfolio	PAR
Current portfolio	4719	500.08	NIL
<30 days past due	4719	500.08	NIL
31-60 days past due	NIL	NIL	
61-90 days past due	NIL	NIL	
91-180 days past due	NIL	NIL	
180 days and above	NIL	NIL	
Total	4719	500.08	NIL

Annexure IV
Details of loans raised:

(Rs. In Lakhs)

IMCED- SOURCES OF FUNDS							
As on							
Name of the Institution	Amt Sanctioned	Date of Sanction	Amt disbursed	O/s as on 31/03/2015	Rate of Int(%)	Repayment conditions	Payment to begin from
1. Term Loans:							
IGS(Indian Gramin Service) Trust	50.00	23/08/2014	50.00	46.37	15%	Monthly	10/10/2014
Corporation Bank	200.00	27/03/2015	200.00	150.15	12.35%	Monthly	29/05/2015
SBI	70.00	November 2014	70.00	59.15	13.85%	Monthly	December 2014
Habitat 58 Housing Scheme	29.00	June 2013	29.00	20.80	0%	Monthly	July 2014
Habitat 250 Toilets Scheme	25.00	February 2015	25.00	20.00	0%	Monthly	April 2015
2. Cash Credit Limit:							
SBI	250.00	12/01/2016	-	Not Available	12.30%	Monthly (Servicing of Interest)	29/02/16
Indian Bank	300.00	21/03/2014	-	202.27	13%	Monthly (Servicing of Interest)	24/04/14
Sub-total							
GRAND TOTAL	971.00		971.00	498.74 (excluding SBI CC Limit)			

Annexure V
Ratio Analysis:

Sr. No.	Particulars	2012-13	2013-14	2014-15	Remarks
1.	<u>Current Ratio/Quick Asset Ratio:</u>				
A.	Total Current Assets	1,87,53,775	1,38,98,127	2,75,12,824	Current Ratio decreased in 2014-15 as proportionate liabilities were increased, however proportionate assets did not increase.
B.	Total Current Liabilities	99,04,147	1,31,92,566	2,86,03,651	
	Current Ratio(A/B)	1.89	1.05	0.96	
2.	<u>Ratio of Tangible Net Worth to Total Assets</u>				
A.	Tangible Net Worth	27,03,334	38,83,538	58,32,361	The ratios in all the past 3 years are almost at the same level.
B.	Total Assets	4,93,66,408	4,49,78,278	8,03,69,316	
	Ratio(A/B)	0.05	0.09	0.07	
3.	<u>Ratio of Long Term Debts to Tangible Net Worth:</u>				
A.	Long Term Debts	2,57,78,400	1,28,18,451	2,57,27,605	The ratio has improved during the last two years as compared to 2012-13.
B.	Tangible Net Worth	27,03,334	38,83,538	58,32,361	
	Ratio(A/B)	9.54	3.30	4.41	
5.	<u>Net Profit Ratio/operating Profit:</u>				
A.	Net Profit	2,81,499	11,80,204	19,48,422	The ratio has improved tremendously due to increase in advances granted as well as increase in interest income.
B.	Operational income & bank interest	31,07,181	60,73,628	94,11,553	
	Net profit ratio(%)(A/B)	9.06%	19.43%	20.70%	

**Annexure VI
SWOT Analysis:**

Institute of Rural Credit and Entrepreneurship Development (IRCED) came into existence in 1994. It is promoted by Mr. Kiran Kulkarni. The organization is engaged in Micro Finance Business with the social objective of women empowerment.

Strength:

1. The entity has obtained COCA3 rating which stands for "Above Average Level of Adherence" to all parameters and consequently complies well with the code of conduct laid out from SMERA Ratings Ltd., which indicates good operational efficiency. The Rating Report has been obtained on 18th January, 2016 and is valid up to 17th January, 2017.
2. The entity is a registered as an NGO, having social objective and no mere profit motive; as such it does not have market risk in the form of competitors, takeovers from other financial institutions etc.
3. The organization has maintained the recovery rate at almost 100% and has an effective recovery system.
4. IRCED and its main promoter, Mr. Kiran Kulkarni has received several awards and recognitions from several government and other institutions.

Weakness:

1. As the entity is engaged in the micro finance business, it advances clean loan to the weaker section. Thus in case of any default there is no collateral to fall upon for recovery from the borrower on account of non-availability of any security.

Opportunity:

1. There is a scope for expansion of the micro finance business as the Indian population below poverty line or just above the poverty line still forms a substantial chunk.
2. The entity is registered under The Societies Registration Act,1860 and The Bombay Trust Act, 1950; as such it can extend its scope of activity beyond the state of Maharashtra.

Threat:

1. The entity is not governed by any regulatory authority except by a remote control by Central Registrar and Charity Commissioner.