



SMERA RATINGS LIMITED

SMERA Comprehensive Grading

M3C3

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

Comprehensive Grading

Institute of Rural Credit and
Entrepreneurship Development (IRCED)

Date of Report:

23rd November, 2017

Valid Till:

22nd November, 2018

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					
M3			M3C3		
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive grading of “**M3C3**”. It signifies “Above average” capacity of the MFI to manage its operations in a sustainable manner and “Average” performance on code of conduct dimensions.

Grading Rationale

Microfinance Capacity Assessment Grade	IRCED obtains “ M3 ” as its performance grade which signifies “above average capacity of the organization to carry out its activities in a sustainable manner”.
Code of Conduct Assessment Grade	IRCED obtains “ C3 ” as its Code of Conduct Assessment Grade which signifies average performance on COCA dimensions.

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

Conflict of Interest Declaration

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

Disclaimer

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

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Historical Rating Grades

Date	Rating Agency	Rating/Grading
18-Jan-2016	SMERA Ratings Limited	COCA 3
27-Oct-2016	SMERA Ratings Limited	MF3
19-Oct-2015	CARE Ratings Limited	MF3
07-Feb-2014	CARE Ratings Limited	MF3
19-Mar-2012	CRISIL Ratings Limited	mfR5
06-Mar-2010	SMERA Ratings Limited	MF4

Microfinance Capacity Assessment Grading Symbols and Definitions

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

Code of Conduct Assessment Scale and Definitions

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

Company Profile

Name of the MFI	Institute of Rural Credit and Entrepreneurship Development	
Operational Head – Microfinance Business	Name	Mr. Prathamesh K. Kulkarni
	Designation	Head – Finance & HR
	Mobile No.	+91 – 9421342190
	Email ID	Irced2007@yahoo.co.in
	Date of Joining	12 th April, 2014
Date of Incorporation/Establishment	1994	
Date of commencement of microfinance business	08 th December, 2005	
Legal Status	NGO-MFI	
Business of the company	Microfinance services under Joint Liability Group (JLG), and Self-Help Group (SHG) under Banking Correspondent (BC) Model	
Correspondence Address	IRCED Bhavan, Mahaveer Colony, Kunte Mala, Old Dhamni Road, Sangli - 416 416, Maharashtra	
Geographical Reach (As on 31/Oct/2017)	No. of States	2
	No. of Districts	7
	No. of Branches	14
	No. of Active Borrowers	10,937
	No. of Total Employees	57
	No. of Field/Credit Officers	34

Product Profile

Products	Description	Loan Size (Rs)	Interest Rate (A) (In %)	Processing Fee (B) (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
Income Generation Loan	JLG/SHG	15,000 – 50,000	25%	1%	26%
Dairy Loan	JLG/SHG	15,000 – 50,000	24%	1%	25%
Education Loan	JLG/SHG	5,000 – 8,000	24%	1%	25%
Sanitation Loan	JLG/SHG	5,000 – 10,000	24%	1%	25%
Seasonal Loan	JLG/SHG	2,000 – 10,000	0%	0%	0%

Board of Directors/Promoters Profile

Name	Position	Qualification	Brief Profile
Dr. Pramod Nathaji Lad	Chairman	B.A. , Ph.D.(Social Sciences)	He has 10 years of experience in MFI sector.
Mr. Kiran Bhalchandra Kulkarni	Secretary & C.E.O.	B.Sc.(Chemical)	He has 21 years of experience in MFI sector.
Mr.Ramnath Changdev Pachore	Treasurer	H.SC.	He has 10 years of experience in MFI sector.
Mr. Madhav Sambhayappa Mathpati	Member	B.Com.	He has 10 years of experience in MFI sector in capacity of accountant.
Mr. Vivek Madhukar Katti	Member	B.E. (Mechanical)	He has 8 years of experience in Muthoot Finance in capacity of Regional Head.
Mr. Prasad Dilip Mudholkar	Member	B.Com.	He has 8 years of experience in MFI sector in capacity of Software Engineer.
Mr. Rajesh Bhausaheb Badakh	Member	B.Com, D.B.M.	He has 15 years of experience in MFI sector as CEO of SSK, Solapur.

Management Team Profile

Name	Position	Qualification	Brief Profile
Mr. Prathamesh K. Kulkarni	Head – Finance & HR	B.Com. C.S.	He has 7 years of experience in MFI sector.
Mr. Gautam Kamble	Area Manager	H.Sc.	He has 9 years of experience in MFI sector.

Highlights of Microfinance Operations

Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	31/Oct/2017
No. of States	02	02	02	02
No. of Districts	03	04	06	07
No. of Branches	06	07	11	14
No. of Active Members	21,795	25,673	25,370	27,710
No. of Active Borrowers	6,798	10,369	8,230	10,937
No. of Total Employees	42	42	55	57
No. of Field/Credit Officers	25	27	31	34
No. of SHGs	438	710	715	975
No. of JLGS	265	417	305	364
No. of Individual Loans	0	0	0	0
OWNED PORTFOLIO				
Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	31/Oct/2017
Total loan disbursements during the year (in crore)	8.13	9.66	6.82	4.52
Total portfolio outstanding (in crore)	5.00	8.48	8.03	9.40
MANAGED/BC PORTFOLIO				
Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	31/Oct/2017
Total loan disbursements during the year (in crore)	4.89	3.40	3.25	1.90
Total portfolio outstanding (in crore)	4.61	4.72	5.29	5.65

Compliance with RBI's Directives for MFIs

RBI's Direction	Company Status (Auditor Certified)	Compliance
85% of total assets to be in the nature of qualifying assets	Qualifying assets form 85% of total assets	Complied
Net worth to be in excess of Rs 5 Crore	Net worth stood at Rs.4.72 crore as on March 31, 2017.	Being an NGO-MFI
Income of borrower not to exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas	IRCED extends loans to households whose income does not exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles	Loans size has not exceeded Rs. 60,000 in first cycle and Rs. 100,000 in subsequent cycles	Complied
Total indebtedness of the borrower not to exceed Rs. 100,000 (excl. medical and education loans)	Total indebtedness of the borrower has not exceeded Rs. 100,000	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	The maximum interest on loan products offered by the company is 26.00%.	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	IRCED verifies the same though credit check from credit bureaus and the guidelines have been followed	Complied

RBI's Direction	Company Status (Auditor Certified)	Compliance
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	IRCED is charging processing of 1.00% + GST on the disbursed loan amount	Complied
Collateral free loans	IRCED does not accept any collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	IRCED does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	IRCED 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.	IRCED shares its client data with all four credit bureaus on weekly basis	Complied
Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs	IRCED provides loans for income generation activities. The aggregate amount of loans is more than 50% as on March 31, 2017.	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.	IRCED has a CRAR of 51.98% as on March 31, 2017.	Complied
The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1% of the outstanding loan portfolio or b) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more'.	IRCED has made appropriate loan loss provisions	Complied

Section 1: Microfinance Capacity Assessment Grading

Operating Environment

- SMERA estimates the MFI sector to grow at a CAGR of 20%-25% and is expected to touch Rs.120000 crore by the end of FY2018.
- MFIs have reported an increase of ~58% in average loan per borrower in FY2016 as compared to FY2014. SMERA believes seasoned customer profile over multiple loan cycles have helped MFIs to increase its loan ticket size.
- The fund flow to the sector has improved on account of increased confidence on MFI sector coupled with reduction in interest rate (100-150 bps). Further large MFIs are exploring the route of Non-convertible debentures (NCDs) and Pass through Certificates (PTCs); whereas small –mid size MFIs have an increased access to funds from banks and financial institutions
- Support systems such as Self-Regulatory Organizations (SRO), Credit Information Bureaus (CIB) among others have been established to ensure credit check and process adherence among MFIs. This regulatory framework will bring more accountability and transparency within the sector.
- Despite all developments in the sector the inherent risk exist such as unsecured nature of lending, vulnerable customer profile, exposure to vagaries of political situation in states, and cash handling (though which is expected to reduce with demonetization step taken by Government), and so on.
- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which is expected to moderate microfinance sector growth in FY2016-17 as compared to the previous year.

Long Track Record of Operations and Extensive Industry Experience of Promoters

- IRCED was established as a Society in October, 1994 by Mr. Kiran Bhalchandra Kulkarni (Secretary and Chief Executive Officer), Mr. Ramnath Pachore and with three other members. Current advisory committee member includes Mr. Rajesh Badakh & Mr. Vivek Katti. Mr. Pramod Lad is a current chairman of the IRCED.
- IRCED received assistance from CORDAID for starting Self Help Group (SHG). In the year 2002-04, CARE India supported IRCED to start Grain Banks Project under its CASHE programme. IRCED provided networking and training support to NGOs who wanted to do grain bank in their area of operation. During 2002-03, IRCED established 144 grain banks with the help of other NGOs. In 2000, IRCED worked on the promotion of organic farming as a solution to saline land problem in Krishna river basin and in several droughts prone areas. IRCED is selected by National Programme on Organic Farming organized by Govt. of India as service provider. With the support from RABOBANK Foundation, Netherlands, IRCED, designed Grain Bank with transactions in money.
- In 2005, Mr. Kiran Bhalchandra Kulkarni initiated microfinance activity by lending to SHGs & JLGs with finance from Corporation Bank, State Bank of India, Indian Bank and SIDBI. At present, IRCED operates through 13 branches in Maharashtra & 1 branch in Karnataka.
- IRCED core committee and second line of management has an adequate understanding of MFI ecosystem with more than a decade of experience in field of microfinance and social development. The day to day operations are looked after by Dr. Pramod Nathaji Lad (Chairman) who has more than a decade of experience in social development.
- IRCED has seven-member on its board as on Oct 31, 2017 having extensive experience in the microfinance and social development. The board has Chairman, Secretary & C.E.O., Treasurer and 4 Members with finance/microfinance expertise.

Limited Resource Profile

- As on Oct 31, 2017, IRCED has developed funding relationships with five lenders (three Banks & two NBFCs/FIs). These relationships have helped IRCED in meeting its funding requirements to meet the projected growth. Apart from owned portfolio, IRCED has BC portfolio. The total portfolio outstanding is of Rs.15.05 crore as on Oct 31, 2017. IRCED has been able to raise Tier-II capital (Subordinated Debt) from SIDBI.
- The overall cost of funds (COF) for IRCED stood comfortable at 13.43% as on March 31, 2017 as against 11.27% as on March 31, 2016 on account increase of borrowing cost. The loans availed from NBFCs/Banks carry higher interest rate in the range of 12.30%-14%. IRCED is presently working as a business correspondent with Yes Bank, Shrimant Malojiraje Sahakari Bank, Swarna Pragati Housing Microfinance Pvt. Ltd., Kamal Nagari Sahakari Patsanstha and Wai

Junta Urban Co-operative Bank. The managed loan portfolio of the company stood at Rs.5.65 crore as on Oct 31, 2017.

Comfortable Capitalisation and Comfortable Liquidity Profile

- IRCED has comfortable capitalisation marked by gearing of 1.42 times as on March 31, 2017 as compared to 2.18 times as on March 31, 2016. The company's capitalisation stands comfortable with capital adequacy ratio (CAR) of 51.98 per cent as on Mar 31, 2017 as against CAR of 37.67 per cent as on March 31, 2016. The NBFC-MFI capitalisation in relation to managed asset base has been comfortable on account of equity infusion and internal accruals at regular interval.
- IRCED has a comfortable liquidity position due to well matched maturity of assets and liabilities. The tenure of loans is about 12-24 months, whereas the incremental bank funding is typically with tenure of about 12-36 months. However regular flow of funds is critical to maintain the projected growth and the same would have a key bearing on its liquidity profile.

Geographical Concentration

- IRCED's operations are spread in two states i.e. Maharashtra and Karnataka. However ~99% of the loan portfolio is concentrated in Maharashtra.
- The company is exposed to high level of political uncertainty in the state of Maharashtra where the company has majority of the microfinance operations. Any political intervention in the existing states would significantly affect the company's asset quality indicators. 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.

Sound Asset Quality

- IRCED has maintained sound asset quality with on-time repayment rate of 98.09% as on Oct 31, 2017. The PAR 1-30 days stood at 0.11% as on Oct 31, 2017 as compared to 0.00% as on 31st March, 2016. The PAR >30 days stood at 1.80% as on Oct 31, 2017 as compared to 0.00% as on 31st March, 2016. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control.

Operational Performance

- IRCED has reported net profit of Rs.31.35 lakhs on operating income of Rs.196.68 lakhs in FY2017. In FY2016, IRCED had reported net profit of Rs.51.31 lakhs on operating income of Rs.196.84 lakh in the previous year.
- As on Oct 31 2017, the IRCED has an outstanding loan portfolio of Rs 9.40 crore spread over 14 branches of 2 states with about 10,937 borrowers.

- Yield on Portfolio of IRCED has marginally declined to 19.93% in FY 2017 as compared to 21.69% in FY 2016 on account of increase in borrowing cost. The operational self-sufficiency (OSS) of the company stood moderate at 103.13% in FY2017 as compared to 130.57% in the previous year. The company's operating expense stood high at 11.27% in FY2017.

Moderate IT infrastructure and MIS considering the current scale of operations

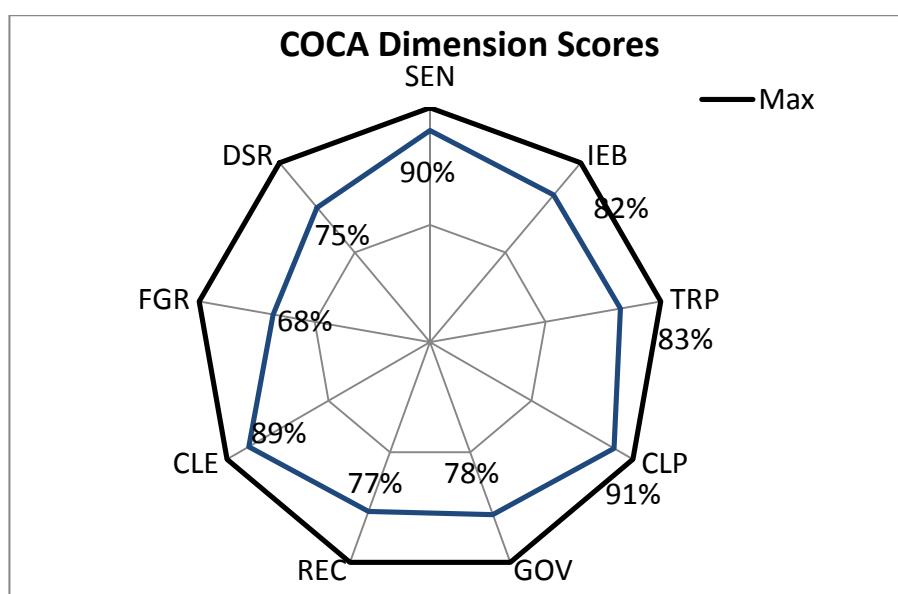
- IRCED's Information Technology (IT) infrastructure and Management Information System (MIS) is moderate for its current scale of operations. The microfinance data is captured in the software which gives access to operational datapoints for management review. It has dedicated MIS at Central Processing Unit (Unit) and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches. The company also has an internal audit team which undertakes branch audit once in a month.

Inherent risk prevalent in the microfinance sector

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

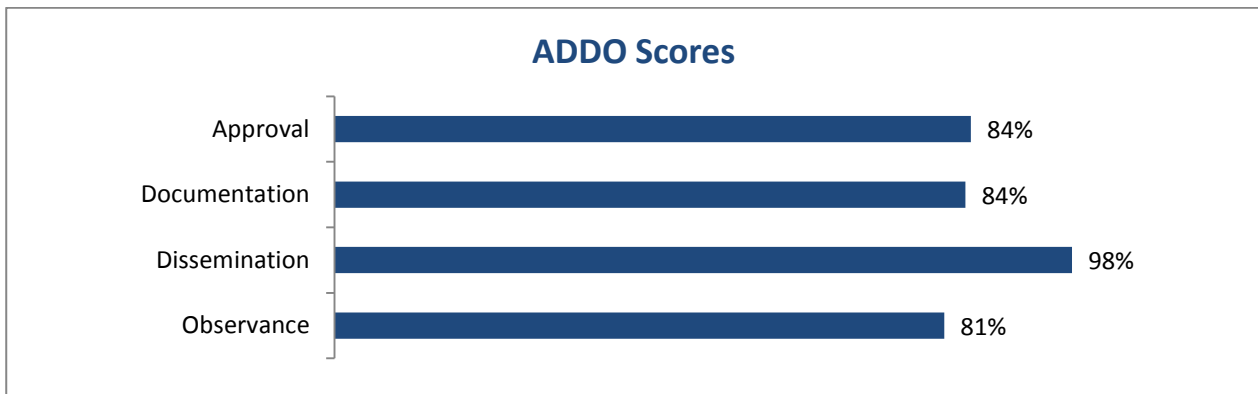
Section 2: Code of Conduct Assessment

COCA Grading – C3 (Average Performance on Code of Conduct dimensions)



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	90%
Integrity and Ethical Behavior	IEB	82%
Transparency	TRP	83%
Client Protection	CLP	91%
Governance	GOV	78%
Recruitment	REC	77%
Client Education	CLE	89%
Feedback & Grievance Redressal	FGR	68%
Data Sharing	DSR	75%



IRCED with an overall grade of “C3”, indicate **Average Performance on Code of Conduct dimensions.**

Code of Conduct Assessment Summary

The Code of Conduct report for IRCED 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 IRCED exhibits average 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 IRCED's adherence towards ethical operational practices.

Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> • IRCED is a NGO-MFI and has seven board members in its board marked by independent chairman. • Board with rich experience in banking and finance. • Board approved policies, compliant with the RBI guidelines. • Experienced and qualified management with more than a decade of experience in MFI industry. • Circulars with the most recent directions were available in soft copy in each of the visited branches. • IRCED displays the effective rate of interest on its products in all the visited branches. • Review of loan files and documents do not reveal any instance of fines, penalty being imposed on clients. • Awareness among the branch staff on RBI compliance was found to be adequate in the visited branches. • IRCED provides insurance to its clients through an IRDA approved agency. • Code of Conduct framed as per the IRCED mission, vision, values and displayed in all branch offices & HO. • Membership with Sa-Dhan • Credit policies are well established documented and communicated. • Adequate loan appraisal & monitoring systems. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower in the group. • Data sharing with credit bureau (Crif Highmark). • Grievance redressal system set up by the MFI is displayed prominently by the MFI in 	<ul style="list-style-type: none"> • IRCED do not have a system of documenting why a loan has not been sanctioned against an accepted loan application. • The code of conduct compliance report, audited financial statements for last three years and microfinance operational data are not available on the company's website. • Proportion of branch staff interviewed was not aware of reschedulement policy and procedure. • IRCED do not have a policy to provide written undertaking to the client whenever grievance is received. • IRCED in its loan agreement do not make a declaration that it is responsible for the behavior of its staff. • IRCED do not have a written policy for debt restructuring for clients facing repayment stress. • Awareness among client and staff on grievance redressal mechanism was found to be moderate in the visited branches.

<p>all its branches</p> <ul style="list-style-type: none">• IRCED has trained staff for the purpose of raising clients' awareness and education.• Staff members receive orientation training on regular basis.• Proportion of the clients interviewed during the COCA visit, it has been observed that awareness among the clients related to annualized interest rates and insurance claim settlement was found good.	
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Significant Observations

HIGHER ORDER INDICATORS	
Integrity and Ethical Behaviour	<ul style="list-style-type: none"> • The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit. • IRCED do not have a written policy for debt restructuring for clients facing repayment stress. As informed by management, no request has been received from clients related to restructuring of loans. • IRCED do not prepare monthly reports about the number, nature and resolution of grievances for management review. As informed by the management, the MFI has not received any grievance in the past one year. • IRCED 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. • In all the branches visited, the contact number and address of SRO nodal official was displayed. • Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit. • Fixed Component compensation of staff is not impacted in event of overdues. IRCED, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.
Sensitive Indicators	<ul style="list-style-type: none"> • Proportion of the clients interviewed during the COCA visit, it has been observed that awareness among the clients related to annualized interest rates and insurance claim settlement was found good. • IRCED enter into a loan agreement with clients. All terms and conditions with pricing details are mentioned in the loan agreement. A loan card is issued to individual borrowers of the group which covers all loan details. • Awareness among the staff on RBI guidelines was found to be adequate. • There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • IRCED shares accurate data with credit bureau on monthly basis. • IRCED performs compulsory credit bureau checks for all its clients. • IRCED do 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. • IRCED do not have a documented policy on loan pre-payments.

	<ul style="list-style-type: none"> • IRCED gets an external CA agency to certify its compliance with RBI's directions.
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BUILDING BLOCKS	
Transparency	<ul style="list-style-type: none"> • Awareness among the staff on RBI guidelines was found to be adequate. • IRCED has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages. • Circulars with the most recent directions were available in soft copy in each of the visited branches. • IRCED, in its fair practices code provides importance for transparency in pricing and clear communication to the clients. • Proportion of the clients interviewed during the COCA visit, it has been observed that awareness among the clients related to annualized interest rates and insurance claim settlement was found good. • The loan interest rate and processing fees is mentioned on the loan card and loan agreement provided to the client. • Audit committee verifies through the audit reports whether all clients have received the necessary loan documents. • Pricing policy of loans is displayed in branches visited. • IRCED do 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. • IRCED do not have a documented policy on loan pre-payments. • Code of conduct compliance report of the company is not available in the company's website.
Client Protection	<ul style="list-style-type: none"> • IRCED do not have written policy regarding client data security which forms part of its fair practice code. • Employees are trained on aspects of appropriate behavior with the clients. • IRCED has framed a Fair Practice Code and has also adopted Sa-Dhan fair practices code, which includes policies on the expected staff conduct with clients. • Employees are trained on aspects of appropriate behavior with the clients. • Staffs were found to be aware of the need to have professional conduct with the clients. • Proportion of staff members interviewed was not aware of the guidelines regarding process to be followed with clients who are delinquent.

<p style="text-align: center;">Governance</p>	<ul style="list-style-type: none"> • IRCED is a NGO-MFI and has seven board members in its board marked by independent chairman. • Board with rich experience in banking and finance. • Board approved policies, compliant with the fair practice code. • Experienced and qualified management with more than a decade of experience in MFI industry. • Circulars with the most recent directions were available in soft copy in each of the visited branches. • IRCED do not disclose its MD's compensation in its audited reports (Ref. Audit Report 2017). • An audit committee of the Board with an independent member as chairperson. • IRCED has got its accounts audited in a timely manner after the end of the most relevant financial year. • No adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit. • IRCED do not have a written policy for debt restructuring for clients facing repayment stress. As informed by management, no request has been received from clients related to restructuring of loans.
<p style="text-align: center;">Recruitment</p>	<ul style="list-style-type: none"> • IRCED's board has reviewed its recruitment policies regularly in board meetings. • The MFI has a defined and documented process for responding to reference check requests. • IRCED has honored the notice period for employees who have left the organization. • IRCED obtains NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs. • IRCED 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.
<p style="text-align: center;">Client Education</p>	<ul style="list-style-type: none"> • IRCED in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services. • IRCED do not charge any training fees to its clients, itself or through a related party. • Proportion of the clients interviewed during the COCA visit, it has been observed that awareness among the clients related to annualized interest rates and insurance claim settlement was found good.
<p style="text-align: center;">Feedback and Grievance Redressal</p>	<ul style="list-style-type: none"> • The Board has approved a policy for Redressal of its clients' grievances, which requires board to be updated on the functioning of grievance Redressal mechanism.

	<ul style="list-style-type: none"> • IRCED do not prepare monthly reports about the number, nature and resolution of grievances for management review. As informed by the management, the MFI has not received any grievance in the past one year. • In the visited branches, there were complaint boxes at branch offices. • In all the branches visited, the contact number and address of SRO nodal official was properly displayed. • Complaints lodged through landline no. are documented and resolved within timeline specified by the company. • Awareness among client and staff on SRO Grievance Redressal mechanism was found to be moderate in the visited branches. • In the visited branches, action taken reports on the complaints received from clients were not available. • IRCED in its loan agreement do not make a declaration that it is responsible for the behavior of its staff.
<p style="text-align: center;">Data Sharing</p>	<ul style="list-style-type: none"> • IRCED do not have a written policy for sharing data with credit bureaus for checking the client's credit worthiness. However the data sharing process is strictly followed. • Microfinance operational data and financial statements are not available on the company's website. • IRCED has regularly provided data to Sa-Dhan. • Data sharing with credit bureau (Crif Highmark). • IRCED performs compulsory credit bureau checks for all its clients.

Microfinance Grading Methodology

A) Operational Track Record

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

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

B) Promoters & Management Profile

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

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

C) Financial Performance

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

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

D) Asset Quality

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

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

E) System & Processes

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

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

COCA Methodology

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

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

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

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

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

Methodology

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

Sampling guidelines

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

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

Code of Conduct Assessment exercise requires:

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

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

Sr No	Branch	State	No of clients interviewed
1	Palus	Sangli, Maharashtra	22
2	Kavathe Mahankal	Sangli, Maharashtra	26
3	Miraj	Sangli, Maharashtra	10
4	Kothrud	Pune, Maharashtra	16
5	PCMC	Pune, Maharashtra	14
6	Kathras	Pune, Maharashtra	11
7	Karjat	Raigad, Maharashtra	23
8	Panvel	Raigad, Maharashtra	16
Total			138

Financials

Profit & Loss Account (Rs. In Thousands)

Period	FY 2015	FY 2016	FY 2017
Months	12	12	12
Financial revenue from operations	11,446	19,684	19,668
Interest and fee revenue from microfinance loans	8,995	14,626	16,454
Other Operating Revenue	2,451	5,058	3,214
Less - Financial expenses from operations			
Interest and Fee Expense on Borrowings	4,934	7,436	9,590
Other financial expenses related to financial services	328	28	0
Gross financial margin	6,184	12,220	10,078
Provision for Loan Loss / Write off	161	0	180
Net financial margin	6,023	12,220	9,898
Less - Operating Expenses			
Personnel Expense	3,506	5,289	6,101
Depreciation and Amortization Expense	170	113	115
Other Administrative Expense	1,266	2,210	3,086
Non-Operating Revenue	821	523	2,539
Net Income	1,902	5,131	3,135

Note: Above financials are taken from audited accounts provided by the management.

Balance Sheet (Rs in Thousands)

As on date	31-Mar-15	31-Mar-16	31-Mar-17
	Audited	Audited	Audited
SOURCES OF FUNDS			
Shareholders' Funds			
Capital			
Corpus	7,774	22,321	31,504
Retained earnings (excluding donations)			
Prior Years	2,325	4,226	9,357
Current Year	1,901	5,130	3,127
Depreciation fund	1,213	1,326	1,441
Capital Grants	1,803	1,803	1,803
Total Capital	15,016	34,806	47,232
Liabilities			
Short-term liabilities			
Commercial Loans from banks/FI	20,228	55,513	45,232
Account payable & Other short-term liabilities	5,144	6,369	779
Total Short-term liabilities	25,372	61,882	46,011
Long-term liabilities			
Commercial Loans from banks/FI	29,892	16,913	20,268
Concessional Loan/Subordinated Debt	5,635	2,205	0
Unsecured Loans from directors / friends / relatives	1,054	1,075	1,577
Total Long-term liabilities	36,581	20,193	21,845
Total Other Liabilities	61,953	82,075	67,856
Provision for Standard Assets	723	723	903
TOTAL LIABILITIES	77,692	1,17,604	1,15,991

As on date	31/Mar/2015	31/Mar/2016	31/Mar/2017
	Audited	Audited	Audited
APPLICATION OF FUNDS			
<u>Fixed Assets</u>			
Net Block	1,766	1,794	2,129
Cash and Bank Balances	12,554	7,928	5,073
Investment in Fixed Deposit	9,737	17,287	20,054
<u>Loan Portfolio</u>			
Net Loan Portfolio	50,007	84,830	80,310
Accounts Receivable And Other Assets	3,628	5,765	8,425
TOTAL ASSETS	77,692	1,17,604	1,15,991

Financial Ratios

Financial Ratios	31/Mar/2015	31/Mar/2016	31/Mar/2017
	12	12	12
Capital Adequacy Ratio			
Capital Adequacy Ratio (%)	27.10	37.67	51.98
Productivity/Efficiency Ratios			
No. of Active Borrowers Per Staff Member	162	247	150
No. of Active Borrowers per field executives	272	384	265
No. of members per Branch	1133	1481	748
Gross Portfolio o/s per field executive (in thousands)	3,844	4,890	4,297
Average Outstanding Balance per client (in Rs)	14,138	12,733	16,186
Cost per Active client(in Rs)	727	734	1130
Staff Allocation Ratio	59.5%	64.3%	56.4%
Asset/Liability Management			
Cost of funds ratio	9.26%	11.27%	13.43%
Yield on Portfolio(nominal)	17.99%	21.69%	19.93%
Profitability / Sustainability Ratios			
Operational Self Sufficiency (%)	110.43	130.57	103.13
Operating Expense Ratio (OER) (%)	5.14	6.67	7.01
Return on Assets (RoA) (%)	1.39	4.72	0.51
Portfolio at Risk (>30 days) (%)	0.00	0.00	4.36
Return on Equity (RoE) (%)	7.20	9.25	0.73
Leverage Ratios			
Total Outside Liabilities to Tangible Networth Ratio (Times)	4.13	2.36	1.44
Debt/Equity Ratio (Times)	3.78	2.18	1.42

About SMERA

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

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