



## 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)*

## SMERA Comprehensive Grading

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Nightingale Finvest Private Limited  
(NFPL)



To verify the grading, please scan the QR Code

***Date of Report:***

**28<sup>th</sup> February, 2019**

***Valid Till:***

**27<sup>th</sup> February, 2020**

## 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 MFI 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.

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

## Grading Rationale

|                                               |                                                                                                                                                                                 |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Microfinance Capacity Assessment Grade</b> | NFPL obtains “ <b>M3</b> ” as its performance grade which signifies “ <b>Above Average</b> ” capacity of the organization to carry out its activities in a sustainable manner”. |
| <b>Code of Conduct Assessment Grade</b>       | NFPL obtains “ <b>C3</b> ” as its Code of Conduct Assessment Grade which signifies “ <b>Average</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**.*



To verify the grading, please scan the QR Code



## 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

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## Historical Rating Grades

| Date                             | Rating Agency         | Rating/Grading |
|----------------------------------|-----------------------|----------------|
| 15 <sup>th</sup> Jan , 2016      | Care Ratings          | MFI 3+         |
| 25 <sup>th</sup> February , 2017 | SMERA Ratings Limited | M3             |
| 29 <sup>th</sup> March , 2017    | SMERA Ratings Limited | M3C3           |
| MAR 22, 2018                     | SMERA Ratings Limited | M3C3           |

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

## SMERA's Comprehensive Grading Scale

### Microfinance Capacity Assessment Grading Symbols and Definitions

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

### Code of Conduct Assessment Scale and Definitions

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

## Company Profile

|                                                               |                                                                                                                                          |                                                                            |
|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Name of the MFI                                               | Nightingale Finvest Private Limited (NFPL)                                                                                               |                                                                            |
| Organization Head – Microfinance Business                     | Name                                                                                                                                     | Mr. Mantu Nath Sarma                                                       |
|                                                               | Designation                                                                                                                              | Managing Director                                                          |
|                                                               | Mobile No.                                                                                                                               | (91) (9954758857)                                                          |
|                                                               | Email ID                                                                                                                                 | <a href="mailto:nightingale20006@gmail.com">nightingale20006@gmail.com</a> |
|                                                               | Date of Joining                                                                                                                          | 1997                                                                       |
| Date of Incorporation/Establishment                           | 13-Nov-1987                                                                                                                              |                                                                            |
| Date of commencement of microfinance business (as a NBFC-MFI) | 01-Mar-2011                                                                                                                              |                                                                            |
| Legal Status                                                  | NBFC-MFI                                                                                                                                 |                                                                            |
| Business of the company                                       | Microfinance activity under Joint Liability Group (JLG)                                                                                  |                                                                            |
| Correspondence Address                                        | Second Floor, Chakradhar Villa,<br>R.G. Baruah Road,<br>Opp. All India Radio, Krishna Nagar<br>Chandmari,<br>Guwahati – 781 003<br>Assam |                                                                            |
| Geographical Reach<br>(As on 31/Jan/2019)                     | No. of States                                                                                                                            | 04                                                                         |
|                                                               | No. of Districts                                                                                                                         | 16                                                                         |
|                                                               | No. of Branches                                                                                                                          | 37                                                                         |
|                                                               | No. of Active Borrowers                                                                                                                  | 50692                                                                      |
|                                                               | No. of Total Employees                                                                                                                   | 149                                                                        |
|                                                               | No. of Field/Credit Officers                                                                                                             | 85                                                                         |

*Nightingale (formerly known as Nightingale Charitable Society which was registered in the year 1997 under Societies Registration Act 1860) commenced its microfinance operations in the year 2004 in the state of Assam. Later in 2011, the promoters obtained a Non-Banking Finance Company (NBFC) license from Reserve Bank of India to carry out microfinance business in the name of Nightingale Finvest Private Limited (hereinafter referred to as NFPL).*

## 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) |
|-------------------------------------|-----------------|--------------------------|---------------------------|--------------------------------------------------------|
| Loan for income generation activity | 10,000 – 70,000 | 25.15                    | 1.00                      | 26.15                                                  |

*NFPL provides loan for income generation activities and loan size varies from Rs. 10,000 in the first cycle and Rs.20, 000 Rs. 30,000 upto Rs.70, 000 in the consecutive cycles with the interest rate 25.15 per cent. The management is currently focusing on JLG funding.*

## Capital Structure as on 31/Jan/2019

|                           |                 |
|---------------------------|-----------------|
| <b>Authorized Capital</b> | Rs. 10.00 crore |
| <b>Paid Up Capital</b>    | Rs. 8.12 crore  |

## Shareholders -Equity Shares as on 31/Jan/2019

| Name of Shareholders                                       | Shares in %   |
|------------------------------------------------------------|---------------|
| Mantu Nath Sarma                                           | 16.35         |
| Pratap Chakravarty                                         | 12.26         |
| Rukunuddin Ahmed                                           | 10.05         |
| Jiten Bhagabati                                            | 6.66          |
| Dipmani Sarma                                              | 5.06          |
| North Eastern Development Finance Corporation Ltd. (NEDFI) | 14.36         |
| Others                                                     | 35.26         |
| <b>Total</b>                                               | <b>100.00</b> |

## Optionally Convertible Preference Shares as on 31/Jan/2019

| Shareholder                                                | Amount (in lacs) |
|------------------------------------------------------------|------------------|
| Small Industries Development Bank of India (SIDBI)         | 42.86            |
| North Eastern Development Finance Corporation Ltd. (NEDFI) | 57.14            |
| <b>Total</b>                                               | <b>100.00</b>    |

## Promoters Profile

| Name                                | Position                                                                 | Qualification                                                                        | Brief Profile                                                                                                                                                                                                                                                                                                  |
|-------------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mr. Mantu Nath Sarma (Co-Founder)   | Managing Director                                                        | M.Com.                                                                               | <ul style="list-style-type: none"> <li>Mr. Mantu Nath Sarma is postgraduate in commerce, possesses over 18 years of experience in the field of MSME and Microfinance.</li> </ul>                                                                                                                               |
| Mr. Pratap Chakravarty (Co-Founder) | Director (Operation)                                                     | B.A.                                                                                 | <ul style="list-style-type: none"> <li>Mr. Pratap Chakravarty is graduate in Arts, has 16 years of experience in the field of microfinance.</li> <li>He has been working for empowerment of the less privileged women in rural and urban areas.</li> </ul>                                                     |
| Mr. Rukunuddin Ahmed                | Director (Finance)                                                       | Diploma in Engineering                                                               | <ul style="list-style-type: none"> <li>Mr. Rukunuddin Ahmed has a diploma in engineering, with over 18 years of experience in micro credit, financial structuring and Administration.</li> </ul>                                                                                                               |
| Ms. Olee Bora                       | Nominee Director (North Eastern Development Finance Corporation Limited) | B.A., M.B.A.                                                                         | <ul style="list-style-type: none"> <li>Ms. Olee Bora is a graduate from the University of Allahabad and MBA from the University of Guwahati. She is the General Manager (MSE, MF, HRD &amp; Administration) in North Eastern Development Finance Corporation Ltd, Guwahati.</li> </ul>                         |
| Mr. Kanchan Dutta                   | Independent Director                                                     | F.C.A.,D.I.S.A.,C.I.S.A.                                                             | <ul style="list-style-type: none"> <li>Working as a Chartered Accountant at Kolkata.</li> <li>He is associated with a number of leading microfinance institutions in India as an advisor and auditor.</li> <li>Mr. Dutta is an expert in governance, fund management, accounting and administration</li> </ul> |
| Mr. Biswa Bandhu Mohanty            | Additional Director                                                      | Post- Graduate in Political Science and graduate in Economics from Utkal University. | <ul style="list-style-type: none"> <li>He is ex-Chief General Manager retired from NABARD.</li> <li>He is presently Director of another three NBFC-MFIs.</li> </ul>                                                                                                                                            |



## Management Profile

| Name                 | Position                          | Qualification   | Brief Profile                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------|-----------------------------------|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gopal Chandra Kalita | Advisor                           | B.A.            | <ul style="list-style-type: none"> <li>• He is a retired Assistant General Manager of Reserve Bank of India and ex Managing Director of Nalbari Urban Co-operative Bank Ltd.</li> <li>• He was associated with RBI in various departments and responsible for the inspection of branch offices, Regional Offices of different commercial banks. SBI and Head Offices of (Urban) Cooperative Banks.</li> <li>• He was associated with Nalbari urban Co-Operative bank as a Managing Director. He is associated with NFPL since 2011 as an Advisor responsible for internal control.</li> </ul> |
| Sanjib Ghosh Biswas  | Advisor (Internal Control)        | M.sc, M.B.A.    | <ul style="list-style-type: none"> <li>• He is a retired Chief Manager of State Bank of India and.</li> <li>• He is associated with NFPL from Dec 2019 as an Advisor responsible for internal control.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                             |
| Kabita Das,          | Assistance. Manager (Operational) | B.A.            | <ul style="list-style-type: none"> <li>• She is associated with Nightingale since 2002. Working as an Assistance Manager Operation</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Mrinmoy Das          | Manager (MIS & IT)                | B.A.,P.G.D.C.A. | <ul style="list-style-type: none"> <li>• He is a Postgraduate in Arts and Post Graduate Diploma in Computer Application (PGDCA) and Diploma in Computer Software Engineering (DCSE).He is associating with the organization in MIS/IT Department from last 6 years. He is monitoring all the work of MIS /IT Department. and looking after the funders loan document preparation.</li> <li>• Prepare and submit EPF return, TDS return, GST Return, Professional Tax Return. and prepare various report.</li> </ul>                                                                           |
| Anamika Kakati       | Office Assistant                  | B.A.            | <ul style="list-style-type: none"> <li>• She holds a Bachelor in Arts degree and has an experience of 12 years and looking after the operation and prepare NEFT sheet for all branches and prepare the operational data .</li> </ul>                                                                                                                                                                                                                                                                                                                                                          |
| Sanjay Paul          | Asst. Manager MIS                 | B.A.            | <ul style="list-style-type: none"> <li>• He holds a Bachelor in Arts degree and has an experience of 7 years and now he looking after the BC System with Reliance.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Manoj Kalita         | Jr. Accountant                    | H.S.            | <ul style="list-style-type: none"> <li>• He is looking after the Accounts entries of Head office and Branches</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

## Highlights of Microfinance Operations

| Particulars                                                                           | 31/Mar/2016 | 31/Mar/2017 | 31/Mar/18   | 31/Jan/2019 |
|---------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
| No. of States                                                                         | 04          | 04          | 4           | 4           |
| No. of Districts                                                                      | 10          | 14          | 16          | 16          |
| No. of Branches                                                                       | 18          | 24          | 34          | 37          |
| No. of Active Members                                                                 | 26,407      | 31,271      | 42,698      | 50,692      |
| No. of Active Borrowers                                                               | 26,407      | 31,271      | 42,698      | 50,692      |
| No. of Total Employees                                                                | 75          | 101         | 136         | 148         |
| No. of Field/Credit Officers                                                          | 34          | 46          | 67          | 85          |
| No. of JLGS                                                                           | 5,282       | 5,599       | 8,540       | 10,138      |
| OWNED PORTFOLIO                                                                       |             |             |             |             |
| Particulars                                                                           | 31/Mar/2016 | 31/Mar/2017 | 31/Mar/2018 | 31/Jan/2019 |
| Total loan disbursements during the year (in crore)<br><b>(Owned Portfolio)</b>       | 26.14       | 39.67       | 52.17       | 61.30       |
| Total portfolio outstanding (in crore)<br><b>(Owned Portfolio)</b>                    | 25.35       | 31.70       | 43.53       | 62.73       |
| BC PORTFOLIO                                                                          |             |             |             |             |
| Particulars                                                                           | 31/Mar/2016 | 31/Mar/2017 | 31/Mar/2018 | 31/Jan/2019 |
| Total loan disbursements during the year (in crore)<br><b>(Owned Portfolio)</b>       | 0.00        | 6.07        | 20.06       | 20.80       |
| Total portfolio outstanding (in crore)<br><b>(Owned Portfolio)</b>                    | 0.00        | 4.97        | 15.49       | 19.04       |
| Securitized Portfolio                                                                 |             |             |             |             |
| Particulars                                                                           | 31/Mar/2016 | 31/Mar/2017 | 31/Mar/2018 | 31/Jan/2019 |
| Total loan disbursements during the year (in crore)<br><b>(Securitized Portfolio)</b> | 0.00        | 0.00        | 3.00        | 4.99        |
| Total portfolio outstanding (in crore)<br><b>(Securitized Portfolio)</b>              | 0.00        | 0.00        | 1.99        | 4.54        |

### SMERA Comments

- As on Jan 31, 2019, NFPL has an outstanding loan portfolio of Rs.86.31 (in crore) (including owned portfolio of Rs. 62.73 (in crore) and BC of Rs. 19.04 (in crore) and Securitized Portfolio of Rs 4.54 crore. Spread over 37 branches of 16 districts with about 50,692 borrowers. NFPL is having BC portfolio of Rs.19.04 crore as on Jan 31, 2019 from Reliance Capital. NFPL expanded its borrower base by adding 03 new branches. In FY 2019. The company remains exposed to geographical concentration risk with major portfolio outstanding in the state of Assam with ~93.93 per cent and remaining (only 6.07 per cent) across three states, Meghalaya, Arunachal Pradesh, and Mizoram. Further Management has informed that, NFPL is planning to cover more un-served and underserved areas in the State of Assam, Arunachal Pradesh, and Mizoram, except Meghalaya due to less population density.

## Compliance with RBI's Directives for MFIs

| RBI's Direction                                                                                                       | Company Status<br>(Auditor Certified)                                                                                                                                                   | Compliance |
|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 85% of total assets to be in the nature of qualifying assets                                                          | Qualifying assets forms 92.78 % of total assets as on 31/March/2018.                                                                                                                    | Complied   |
| Net worth to be in excess of Rs 5 Crore                                                                               | Net Owned Funds stood at Rs 6.7646 crore as on 31/March/2018.                                                                                                                           | Complied   |
| Income of borrower not to exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas     | Nightingale extends loans to borrowers whose income does not exceed Rs.100,000 in the rural areas and Rs.160,000 in the urban areas                                                     | Complied   |
| Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles                                 | Nightingale offers loan in the range of Rs 10,000 to Rs 70,000 depending on client repayment capacity, type of activity etc.                                                            | Complied   |
| Total indebtedness of the borrower not to exceed Rs. 100,000 (excl. medical and education loans)                      | Nightingale conducts credit bureau check on the loans outstanding from other MFIs. The company ensures the total indebtedness of the borrower does not exceed 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 | Nightingale offers loans of Rs.10,000 for a tenure of 12 months and loans of Rs.20,000 to less than Rs.30,000 for a period of 18 months and loans of Rs.30,000 and above for 24 months. | Complied   |
| Pricing guidelines are to be followed                                                                                 | Loans are provided in range of 20% to 25.15% 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                                                                        | Nightingale verifies the same through credit check from credit bureaus.                                                                                                                 | Complied   |

| RBI's Direction                                                                                                                                                                                                                                                                                                                                               | Company Status<br>(Auditor Certified)                                                                     | Compliance |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|------------|
| Loan pricing to include processing fee (not exceeding 1% of the loan amount)                                                                                                                                                                                                                                                                                  | Nightingale is charging processing fee of 1.00% on the disbursed loan amount plus applicable GST          | Complied   |
| Collateral free loans                                                                                                                                                                                                                                                                                                                                         | Nightingale does not accept any Collateral for extending the credit.                                      | Complied   |
| MFIs shall not collect any Security Deposit / Margin from the borrower.                                                                                                                                                                                                                                                                                       | Nightingale does not collect any security deposit / margin from the borrower.                             | Complied   |
| No late payment or prepayment penalties                                                                                                                                                                                                                                                                                                                       | Nightingale 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.                                                                                                                                                                   | Nightingale 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                                                                                                                                                                                                                                     | Nightingale provides more than 91.62 % of total loans for income generation activities as on 31/Mar/2018. | Complied   |
| NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 percent of its aggregate risk weighted assets.                                                                                                                                                                                     | CRAR stood at 17.89% as on 31/March/2018                                                                  | Complied   |
| The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1% of the outstanding loan portfolio or b) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more'. | The statutory auditor has certified the appropriate provisions have been made                             | Complied   |

## Section 1: Microfinance Capacity Assessment Grading

- 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 ~15% in average loan amount disbursed per account during Q2 FY 17-18 compare to Q2 FY 16-17. SMERA believes seasoned customer profile over multiple loan cycles have helped MFIs to increase its loan ticket size.
- The fund flow to the sector has improved on account of increased confidence on MFI sector coupled with reduction in interest rate (100-150 bps). Further large MFIs are exploring the route of Non-convertible debentures (NCDs) and Pass through Certificates (PTCs); whereas small –mid size MFIs have an increased access to funds from banks and financial institutions.
- Support systems such as Self-Regulatory Organizations (SRO), Credit Information Bureaus (CIB) among others have been established to ensure credit check and process adherence among MFIs. This regulatory framework has brought more accountability and transparency within the sector.
- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which has moderated microfinance sector growth in FY2016-17 as compared to the previous year. Post demonetization Asset Quality has declined, however it has improve and stood at 5.41% in Q2 FY 17-18.

**Reasonable track record of microfinance operations and satisfactory industry experience of key promoters**

- Nightingale (formerly known as Nightingale Charitable Society which was registered in the year 1997 under Societies Registration Act 1860) commenced its microfinance operations in the year 2004 in the state of Assam. Later in 2011, the promoters obtained a Non-Banking Finance Company (NBFC) license from Reserve Bank of India to carry out microfinance business in the name of Nightingale Finvest Private Limited (hereinafter referred to as NFPL). The Company is also engaged in Social activities like health check-up camps, cleanliness programmes, AIDs awareness, benefits of forestry, etc. The micro credit activities of the Company have since extended to un-served areas where other MFIs are not assessed to the areas and also to underserved areas where services of banks or other MFIs are not adequate or financial support from them are not available to poor and disadvantage people.
- Nightingale has six-member on its board as on Jan 31, 2019 having good experience in the banking and finance segment. The board has three promoter directors, one nominee director (representatives from Investors) and two independent directors with banking & finance/microfinance expertise.
- Mr. Mantu Nath Sarma (Managing Director), postgraduate in commerce, possesses over 18 years of experience in the field of MSME and Microfinance.
- Mr. Pratap Chakravarty, promoter director of NFPL, is graduate in Arts, has 16 years of experience in the field of microfinance. He has been working for empowerment of the less privileged women in rural and urban areas.
- Mr. Rukunuddin Ahmed promoter director of NFPL has a diploma in engineering, with over 18 years of experience in micro credit, financial structuring and Administration.

| Name                     | Position                                                                |
|--------------------------|-------------------------------------------------------------------------|
| Mr. Mantu Nath Sarma     | Managing Director                                                       |
| Mr. Pratap Chakravarty   | Director                                                                |
| Mr. Rukunuddin Ahmed     | Director                                                                |
| Ms. Olee Bora            | Nominee Director(North Eastern Development Finance Corporation Limited) |
| Mr. Kanchan Dutta        | Independent Director                                                    |
| Mr. Biswa Bandhu Mohanty | Additional Director                                                     |

## **Diversified Resource Profile**

- As on March 31, 2018, NFPL had availed loans from 16 lenders. The company's resource profile continues to remain concentrated towards borrowings from NBFCs, and FI's. NFPL had availed term loan from 09 NBFC and FI's. As on March 31, 2018, Out of the total debt outstanding of Rs. 58.47 crore, the borrowings from NBFC's and FI stood at Rs.42.27 crore which is 72.29% of the total borrowings as on March 31, 2018.
- Apart from above mentioned NBFCs and FI's, the company is also dealing with Industrial Development Bank Of India, Assam Gramin Vikash Bank, Small Industries Development Bank of India, and Assam Co-operative Apex Bank, Bandhan Bank and UCO Bank. The borrowings from banks stood at Rs.16.20 crore which is 27.71% of the total borrowings as on March 31, 2018.
- The relationships with these banks, NBFCs and FI's has helped NFPL in meeting its funding requirements; however the company should increase its funding mix in order to meet its desire growth in future. The debt availed from above mentioned NBFCs have been drawn at an interest rate in the range between 13.50%-16.00%, whereas debt availed from banks have been drawn at an interest rate in the range between 10.00%-14.25%. NFPL has availed loan from North Eastern Development Finance Corporation Limited under NEDFI scheme (Funding availed from NEDFI for OBC category and unbanked and under-served areas of North Eastern region).
- The cost of funds (COF) stood at 12.48% as on Mar 31, 2018, as compared to 11.24% in the previous year, due to increase in the interest and fee expense on borrowings. , the loans availed from NBFCs like Electronica Finance Limited and MAS Financial Service Private Limited carry higher interest rate and hence the company has to explore its funding base to Banks.
- Management is in talk with various banks i.e. South Indian Bank, Punjab National Bank, Syndicate Bank, State Bank of India, Bandhan Bank and UCO Bank, and Mudra Bank to increase its funding mix in order to meet its desire growth in future, it will also help in keeping COF in lower side. Further management has informed that it is in talk with SIDBI and North Eastern Development Finance Corporation for equity infusion.

### **Moderate capitalisation and comfortable liquidity profile**

- NFPL has a moderate capitalisation marked by high gearing of 7.01 times as on March 31, 2018 as compared to 6.80 times in the previous year. CRAR stood at 17.89% in FY2018, as compared to 17.74% in FY2017 due to low equity infusion compare to debt availed.
- NFPL 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 24-36 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.

### **Sound Asset Quality**

- NFPL has maintained sound asset quality with 100% on time repayment over the years. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control.

| Period       | FY 2016                     | FY 2017                     | FY2018                      | 31/Jan/2019                 |
|--------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|              | Portfolio o/s<br>(in crore) | Portfolio o/s<br>(in crore) | Portfolio o/s<br>(in crore) | Portfolio o/s<br>(in crore) |
| On-time      | 25.35                       | 36.67                       | 61.02                       | 86.31                       |
| 1-30 days    | 0.00                        | 0.00                        | 0.00                        | 0.00                        |
| 31-60 days   | 0.00                        | 0.00                        | 0.00                        | 0.00                        |
| 61-90 days   | 0.00                        | 0.00                        | 0.00                        | 0.00                        |
| 91-180 days  | 0.00                        | 0.00                        | 0.00                        | 0.00                        |
| 181-360 days | 0.00                        | 0.00                        | 0.00                        | 0.00                        |
| > 360 days   | 0.00                        | 0.00                        | 0.00                        | 0.00                        |
| Write-off    | 0.00                        | 0.00                        | 0.00                        | 0.00                        |
| <b>Total</b> | <b>25.35</b>                | <b>36.67</b>                | <b>59.07</b>                | <b>86.31</b>                |

*Above details provided by the management. The Rating team has not independently verified the same.*

### **High Geographical Reach**

- NFPL's operations are spread in four states i.e. Assam, Meghalaya, Arunachal Pradesh and Mizoram. However ~93.93% of the loan portfolio is concentrated in Assam as on Jan 31, 2019.

| Name of the State | No. of Branches | No. of Borrowers | Portfolio o/s<br>(in crore) | PAR %<br>(>30 days) | % of Total Portfolio o/s |
|-------------------|-----------------|------------------|-----------------------------|---------------------|--------------------------|
| Assam             | 34              | 47,243           | 81.07                       | 0.00                | 93.93                    |
| Meghalaya         | 1               | 676              | 1.35                        | 0.00                | 1.56                     |
| Arunachal Pradesh | 1               | 1,239            | 1.64                        | 0.00                | 1.90                     |
| Mizoram           | 1               | 1,534            | 2.25                        | 0.00                | 2.61                     |
| <b>Total</b>      | <b>37</b>       | <b>50,692</b>    | <b>86.31</b>                | <b>0.00</b>         | <b>100.00</b>            |



- As on Jan 31, 2019, the company remains exposed to high geographical concentration risk with major portfolio outstanding in the state of Assam.
- The grading is constrained on account of high geographical concentration risk. NFPL's operation is confined and restricted to 16 districts. Further, 93.93 percent of the total portfolio is concentrated in the state of Assam.
- The company needs to improve geographical diversification of operations to mitigate political and other risks. 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.

### **Moderate operational performance in FY2018**

- The company has reported net profit of Rs. 1.04 crore on operating income of Rs.10.65 crore (including BC commission of Rs. 93.51 lakhs from Reliance Capital) in FY2018, as compared to net profit of Rs. 78.31 lakhs on operating income of Rs. 7.66 crore in the previous year. Operating income has increased mainly on account of increase in Interest and fee revenue from microfinance loans.
- The operational self-sufficiency (OSS) of the company has declined over the past three years. The OSS stood at 116.20% in FY2018 as compared to 119.48% in the previous year due to increase the financial expenses and operating expenses compare to the total operating income.
- CRAR has declined from FY2016 and it is almost stagnant from last two years, CRAR stood at 17.89% as on March 31, 2018.
- COF has increased from 9.11% in FY 2016 to 12.48% in FY2018, due to high dependency on the NBFC/FI's for funding compare to banks. NFPL should increase its funding mix in order to meet its desire growth in future; it will also help in keeping COF in lower side.
- As on Jan 31, 2019, the NFPL has an outstanding loan portfolio of Rs.86.31 crore spread over 37 branches of 4 states with about 50,692 borrowers.
- Debt-equity stood at 7.01 times as on March 31, 2018 compare to 6.80 times as on March 31, 2017, NFPL should infuse more capital in order to keep debt-equity in the lower side.
- The Company's operating expense stood at 5.89% as on March 31, 2018, and it has decreased from the last year due to increase in the microfinance loan portfolio compare to operating expenses.

### **Moderate MIS & IT infrastructure considering the current scale of operations**

- NFPL's management information system (MIS) and Information Technology (IT) infrastructure is moderate 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.
- The current MIS system deployed in NFPL is 'BIJLI' customized software which seems to be moderate to handle the current and projected growth. The MIS has real time tracking of micro finance activities; head office can easily extract information once branch submitted the details of the borrowers.

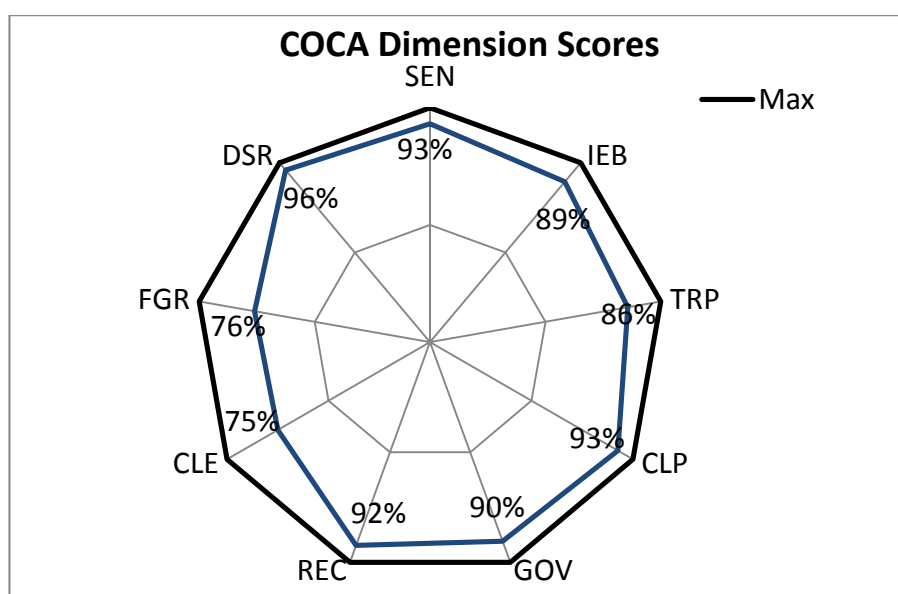


### **Inherent risk prevalent in the microfinance sector**

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

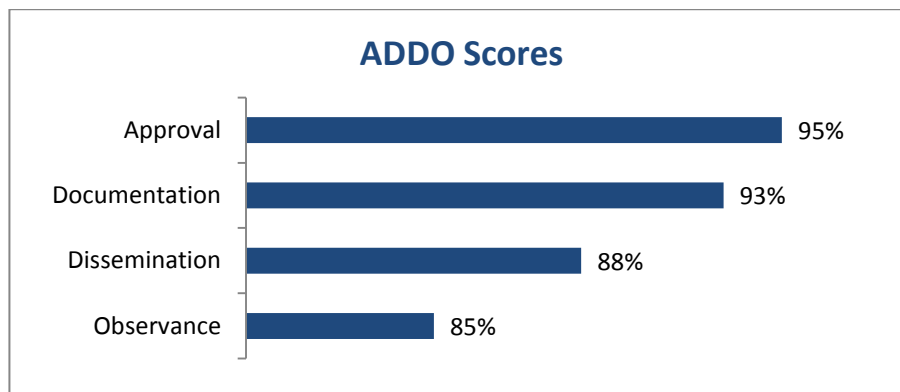
## Section 2: Code of Conduct Assessment

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



### SCORES ON PARAMETERS

| Code of Conduct Parameters     | Code | % Performance |
|--------------------------------|------|---------------|
| Sensitive                      | SEN  | 93%           |
| Integrity and Ethical Behavior | IEB  | 89%           |
| Transparency                   | TRP  | 86%           |
| Client Protection              | CLP  | 93%           |
| Governance                     | GOV  | 90%           |
| Recruitment                    | REC  | 92%           |
| Client Education               | CLE  | 75%           |
| Feedback & Grievance Redressal | FGR  | 76%           |
| Data Sharing                   | DSR  | 96%           |



NFPL 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 Nightingale Finvest Private Limited (NFPL) 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 NFPL 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 NFPL'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 NFPL till date.</li> <li>NFPL 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>NFPL communicates with borrowers in a transparent and professional manner, uses single effective interest rates and marks entries in their passbooks while making disbursement.</li> <li>Compulsory check on over indebtedness of every borrower, all borrowers need to undergo training where they are informed about the products offered by the company, terms and conditions.</li> <li>Credit policies are well established documented and communicated. CB checks are mandatory for all the borrowers. The checks are automated.</li> <li>NFPL has a dedicated 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.</li> </ul> | <ul style="list-style-type: none"> <li>The credit appraisal mechanism at NFPL could be strengthened further. The MFI collects information related to borrower household income and expenses. However, the cash flow analysis appeared to be generic for the applicants with limited focus on actual debt repayment capability of an individual borrower. NFPL has limited system to track cash flow analysis and surpluses.</li> <li>Internal Audit checklist should cover more aspects like awareness regarding Reserve Bank of India (RBI) compliance and Self-Regulatory Organization (SRO) among its staff members.</li> <li>No declaration has been observed in the loan application form, regarding client data sharing with credit bureaus in each visited branches.</li> <li>Clients are moderately aware regarding the fact that their data can only be shared for authorized purposes.</li> <li>MFI does not have a system of documenting why a loan has not been sanctioned against an accepted loan application.</li> <li>The code of conduct compliance report of the MFI is not available in the public domain.</li> </ul> |

## Significant Observations

| HIGHER ORDER INDICATORS                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Integrity and Ethical Behaviour</b> | <ul style="list-style-type: none"> <li>• The MFI has the policy to place reports on COC compliance before the board and the same is reviewed by management level at regular interval.</li> <li>• Audit findings related to grievance and field audit are presented at board level.</li> <li>• Board has approved a policy of recovering delinquent loans.</li> <li>• NFPL has a policy on time frame and process for client's complaint resolution.</li> <li>• Framed client protection included policies on expected staff conduct with employees.</li> <li>• As informed by the management that the MFI has not recruited any staff from another MFI in the past.</li> <li>• In all the branches visited, the contact number and address of SRO nodal official was properly displayed.</li> <li>• Staff compensation and incentive is not covered under scope of Internal Audit.</li> <li>• Awareness among client and staff on SRO Grievance Redressal mechanism was found to be adequate.</li> <li>• Fixed Component compensation of staff is not impacted in event of overdues. NFPL, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.</li> </ul>                                                                                                                                             |
| <b>Sensitive Indicators</b>            | <ul style="list-style-type: none"> <li>• In the sample of clients during COCA on the total indebtedness of borrower was within the prescribed limit stipulated by RBI.</li> <li>• Interactions with clients revealed that they had not been made to pay for a service or product as a precondition for loan.</li> <li>• Not a single instance was found where security deposit/collateral/blank cheques/stamp papers had been obtained from a client, whose loan has been classified as a microfinance loan.</li> <li>• Awareness to its clients/members pertaining to interest rate and insurance claim settlements found adequate.</li> <li>• NFPL provides acknowledgement and sanction letters to the clients.</li> <li>• NFPL provide repayment schedule to the clients including break-up of principle and interest.</li> <li>• There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• NFPL shares data with all credit bureaus prescribed by SRO.</li> <li>• NFPL 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. However the organization does not have a well-</li> </ul> |

|  |                                                                                                                                                                                                                                                                |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>documented policy on pre-payments.</p> <ul style="list-style-type: none"> <li>• The MFI get an external CA agency to certify its compliance with RBI's directions in relation to margin for lending by MFIs to qualify as priority sector loans.</li> </ul> |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

| BUILDING BLOCKS          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Transparency</b>      | <ul style="list-style-type: none"> <li>• Awareness among the staff on RBI guidelines was found to be adequate.</li> <li>• NFPL has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages.</li> <li>• Circulars with the most recent directions are available in the visited branches.</li> <li>• NFPL, 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 provided to the client.</li> <li>• Clients interviewed were aware of the charges and price for all services availed.</li> <li>• Prepayment policy on loans is documented.</li> <li>• NFPL 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.</li> <li>• NFPL issues sanction letters to the clients and all terms and conditions of the loan including annualized interest rates are covered in the loan agreement provided to the client.</li> <li>• Code of conduct compliance report of NFPL &amp; previous financial year annual financial statement and report is available in the public domain.</li> <li>• NFPL provide repayment schedule to the clients including break-up of principle and interest.</li> </ul> |
| <b>Client Protection</b> | <ul style="list-style-type: none"> <li>• NFPL do not have a board-approved policy regarding client data security.</li> <li>• Employees are trained on aspects of appropriate behavior with the clients.</li> <li>• NFPL has a documented policy on client data security which forms part of its fair practice code.</li> <li>• Framed client protection included policies on expected staff conduct with employees.</li> <li>• Staffs were found to be aware of the need to have professional conduct with the clients.</li> <li>• Internal Audit checklist should cover more aspects like awareness regarding Reserve Bank of India (RBI) compliance and Self-Regulatory Organization (SRO) among its staff members.</li> <li>• Limited backup of client's data maintained in electronic form.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Governance</b>        | <ul style="list-style-type: none"> <li>• Audit findings related to grievance and field audit are presented</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |



|                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                         | <p>at board level.</p> <ul style="list-style-type: none"> <li>• NFPL has a policy to place reports on COC compliance before the board and the same is reviewed by management level at regular interval.</li> <li>• The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year.</li> <li>• No adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• Action taken audit report not available at branch level.</li> <li>• Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit.</li> </ul>                                                           |
| <b>Recruitment</b>                      | <ul style="list-style-type: none"> <li>• NFPL'S Board has reviewed its recruitment policies at least once annually</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. As informed by the management that the MFI has not recruited any staff from another MFI in the past.</li> </ul>                                                                                                                                                                                                                                                            |
| <b>Client Education</b>                 | <ul style="list-style-type: none"> <li>• NFPL, in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services</li> <li>• NFPL does not charge clients for the trainings provided to clients, itself or through a related party.</li> <li>• Awareness to its clients/members pertaining to interest rate and insurance claim settlements found to be adequate.</li> </ul>                                                                                                                                                                                                                          |
| <b>Feedback and Grievance Redressal</b> | <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>• NFPL 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>• In all the branches visited, the contact number and address of SRO nodal official was properly displayed.</li> <li>• The company maintains a record of the action taken and complaints resolved.</li> <li>• Awareness among client and staff on SRO Grievance Redressal mechanism was found to be adequate.</li> </ul> |
| <b>Data Sharing</b>                     | <ul style="list-style-type: none"> <li>• Latest operational data and FY 2018 is available on the website of NFPL.</li> <li>• MFI has a well-defined process for sharing data with the credit bureaus.</li> <li>• NFPL shares data with all Credit Bureaus prescribed by SRO.</li> <li>• NFPL performs compulsory credit bureau checks for all its clients.</li> </ul>                                                                                                                                                                                                                                                                                                                                   |

## 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.

|                               |                                |
|-------------------------------|--------------------------------|
| <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 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            | Chandmari | Assam     | 23                        |
| 2            | Beltola   | Assam     | 22                        |
| 3            | Shillong  | Meghalaya | 23                        |
| 4            | Dalgaon   | Assam     | 20                        |
| 5            | Nagaon    | Assam     | 16                        |
| 6            | Morigaon  | Assam     | 17                        |
| 7            | Mangaldoi | Assam     | 21                        |
| 8            | Maligaon  | Assam     | 23                        |
| <b>Total</b> |           |           | <b>165</b>                |

## Financial Statements

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

| Financial Year                                   | FY 2016       | FY 2017       | FY 2018         |
|--------------------------------------------------|---------------|---------------|-----------------|
| Months Covered By P/L                            | 12            | 12            | 12              |
| <b>Income</b>                                    |               |               |                 |
| Financial revenue from operations                | <b>55,887</b> | <b>76,614</b> | <b>1,06,468</b> |
| Interest and fee revenue from microfinance loans | 51,060        | 68,310        | 89,119          |
| BC Commission (From Reliance Capital)            | 0             | 1,398         | 9,351           |
| Other Operating Revenue                          | 4,827         | 6,906         | 7,998           |
| <b>Less: Financial expenses from operations</b>  | <b>25,742</b> | <b>42,226</b> | <b>62,247</b>   |
| <b>Gross financial profit</b>                    | <b>30,145</b> | <b>34,388</b> | <b>44,221</b>   |
| <b>Less: Provision for Loan Loss</b>             | <b>582</b>    | <b>635</b>    | <b>1,183</b>    |
| <b>Net financial profit</b>                      | <b>29,563</b> | <b>33,753</b> | <b>43,038</b>   |
| <b>Less: Operating expenses</b>                  | <b>16,001</b> | <b>21,261</b> | <b>28,193</b>   |
| Depreciation and Amortization Expense            | 742           | 1,064         | 987             |
| Personnel Expense                                | 9,655         | 12,429        | 17,021          |
| Administration Expense                           | 5,604         | 7,768         | 10,185          |
| <b>Net income Before Tax</b>                     | <b>13,562</b> | <b>12,492</b> | <b>14,845</b>   |
| <b>Less: Income Tax</b>                          | <b>5,085</b>  | <b>4,661</b>  | <b>4,454</b>    |
| <b>Net income After Tax</b>                      | <b>8,477</b>  | <b>7,831</b>  | <b>10,391</b>   |

## Balance Sheet (Rs in Thousands)

| Date                                            | 31/Mar/2016     | 31/Mar/2017     | 31/Mar/2018     |
|-------------------------------------------------|-----------------|-----------------|-----------------|
| <b>SOURCES OF FUNDS</b>                         |                 |                 |                 |
| Paid up Capital                                 | 35,900          | 49,097          | 61,297          |
| Reserves & Surplus                              | 12,608          | 10,136          | 20,014          |
| Statutory Reserves                              | 2,001           | 1,566           | 2,078           |
| <b>TOTAL EQUITY(A)</b>                          | <b>50,509</b>   | <b>60,799</b>   | <b>83,389</b>   |
|                                                 |                 |                 |                 |
| <b>LIABILITIES</b>                              |                 |                 |                 |
| <b>SHORT-TERM LIABILITIES</b>                   |                 |                 |                 |
| Commercial Loans from banks/FI for microfinance | 184,977         | 2,81,325        | 3,58,049        |
| Account payable & Other short-term liabilities  | 860             | 1,165           | 1,417           |
| <b>TOTAL SHORT TERM LIABILITIES(B)</b>          | <b>1,85,837</b> | <b>2,82,490</b> | <b>3,59,466</b> |
|                                                 |                 |                 |                 |
| <b>LONG-TERM LIABILITIES</b>                    |                 |                 |                 |
| Commercial Loans from banks/FI for microfinance | 1,53,519        | 1,31,854        | 2,26,695        |
| <b>TOTAL LONG TERM LIABILITIES(C)</b>           | <b>1,53,519</b> | <b>1,31,854</b> | <b>2,26,695</b> |
|                                                 |                 |                 |                 |
| <b>TOTAL OTHER LIABILITIES(D)</b>               | <b>3,39,356</b> | <b>4,14,344</b> | <b>5,86,161</b> |
|                                                 |                 |                 |                 |
| Provision for Standard Assets                   | 2,536           | 3,170           | 4,353           |
| Other Provisions (F)                            | 5,118           | 5,302           | 4,614           |
|                                                 |                 |                 |                 |
| <b>TOTAL LIABILITIES (A+B+C+D+E +F)</b>         | <b>3,97,519</b> | <b>4,83,615</b> | <b>6,78,517</b> |



| <u>APPLICATION OF FUNDS</u>                    | 31/Mar/2016    | 31/Mar/2017     | 31/Mar/2018     |
|------------------------------------------------|----------------|-----------------|-----------------|
| <b>Fixed Assets</b>                            |                |                 |                 |
| Fixed Assets                                   | 4,292          | 4,950           | 5,977           |
| Less: Depreciation                             | 1,663          | 2,727           | 3,686           |
| <b>Net Fixed Assets(A)</b>                     | <b>2,629</b>   | <b>2,223</b>    | <b>2,291</b>    |
|                                                |                |                 |                 |
| <b>Cash and Bank Balances(B)</b>               | 135,044        | 1,40,158        | 2,10,499        |
| <b>Investments in Shares (C)</b>               | 01             | 01              | 201             |
| <b>Loan Portfolio</b>                          |                |                 |                 |
| Gross Loan Portfolio                           | 253,565        | 3,17,041        | 4,35,324        |
| Less: Impairment Loss Allowance                |                |                 |                 |
| <b>Net Loan Portfolio(D)</b>                   | <b>253,565</b> | <b>3,17,041</b> | <b>4,35,324</b> |
|                                                |                |                 |                 |
| <b>Accounts Receivable and Other Assets(E)</b> | 5,653          | 23,448          | 29,367          |
| <b>Deferred Tax (F)</b>                        | 627            | 744             | 835             |
| <b>TOTAL ASSETS (A+B+C+D+E+F)</b>              | <b>397,519</b> | <b>4,83,615</b> | <b>6,78,517</b> |

## Financial Ratios

| Financial Ratios                                          | 31/Mar/2016 | 31/Mar/2017 | 31/Mar/2018 |
|-----------------------------------------------------------|-------------|-------------|-------------|
| <b><u>Capital Adequacy Ratio (CAR)</u></b>                |             |             |             |
| Capital Adequacy Ratio (%)                                | 19.37%      | 17.80%      | 17.89%      |
|                                                           |             |             |             |
| <b><u>Productivity / Efficiency Ratios</u></b>            |             |             |             |
| No. of Active Borrowers Per Staff Member                  | 352         | 310         | 314         |
| No. of Active Borrowers per field executives              | 777         | 680         | 637         |
| Gross Portfolio o/s per field executive (Rs in thousands) | 7,458       | 7,973       | 8,809       |
| Average Outstanding Balance Per borrower (In Rs)          | 9,602       | 11,728      | 13,823      |
| Cost Per Active borrower (In Rs)                          | 606         | 680         | 660         |
| Staff Allocation ratio                                    | 45.3%       | 45.5%       | 49.3%       |
|                                                           |             |             |             |
| <b><u>Asset / Liability Management</u></b>                |             |             |             |
| Cost of Fund                                              | 9.11%       | 11.24%      | 12.48%      |
| Yield on Portfolio (%)                                    | 22.7%       | 22.02%      | 18.63%      |
|                                                           |             |             |             |
| <b><u>Profitability / Sustainability Ratios</u></b>       |             |             |             |
| Operational Self Sufficiency (%)                          | 132.04%     | 119.48%     | 116.20%     |
| Operating Expense Ratio (OER) (Including BC)              | 7.13%       | 6.86%       | 5.89%       |
| Return on Assets (RoA)                                    | 4.06%       | 2.84%       | 2.55%       |
| Portfolio at Risk (>30 days)                              | 0.00%       | 0.00%       | 0.00%       |
| Return on Equity (RoE)                                    | 15.47%      | 11.22%      | 10.30%      |
|                                                           |             |             |             |
| <b><u>Debt coverage Ratios</u></b>                        |             |             |             |
| TOL/TNW                                                   | 6.72        | 6.81        | 7.03        |
| Debt/Equity Ratio                                         | 6.70        | 6.80        | 7.01        |



## About SMERA

SMERA is a division of Acuité Ratings & Research Limited dedicated to providing SME Ratings & Grading services to MSMEs. SMERA began its operations in year 2005 as SME Rating Agency of India Limited, 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

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