

CRISIL Comprehensive MFI Grading

CreditAccess Grameen Limited

Comprehensive Grade Assigned: **M1C1**

Scale	C1	C2	C3	C4	C5
M1	M1C1				
M2					
M3					
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grade of **M1C1**. This signifies ‘**Highest**’ capacity of the MFI to manage its operations in a sustainable manner and ‘**Excellent**’ performance on code of conduct dimensions.

Grading Rationale

Microfinance Capacity Assessment Grade	The sample MFI obtains “ M1 ” as its performance grade which signifies “Highest” capacity to manage their microfinance operations in a sustainable manner”. The organization is an apex MFI with strong market share. Its systems and processes remain strong in relation to peers. It has an experienced board & qualified senior management. The organisation is adequately capitalised and has a well-diversified resource mix. It has good earnings profile and above-average field productivity. Increasing competitive intensity in small-ticket lending segment and susceptibility to political sensitivity remain potential risks.
Code of Conduct Assessment Grade	The sample MFI obtains “ C1 ” as its Code of Conduct Assessment Grade which signifies ‘Excellent’ performance on COCA dimensions. The organisation has been complying with stipulated regulatory guidelines and code of conduct (COC) principles. A board approved fair practices code is in place. No

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	instance of staff misbehaviour with clients was observed. Relevant policy manuals have been formulated and disseminated. The scope of internal audit has been discussed internally. However, the code of compliance report is yet to be uploaded in public domain.
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*Comprehensive MFI Grading provides opinion of the Rating Agency on MFI's capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. MFI Capacity Assessment Grading has been done on the dimensions of **Capital Adequacy, Governance, Management Quality and Risk Management Systems**. Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour and Sensitive Indicators**.*

Conflict of Interest Declaration

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

Disclaimer

CRISIL Comprehensive MFI Grading reflects CRISIL's current opinion on the ability of an MFI to manage its operations in a sustainable manner (Capacity assessment) and its performance on code of conduct (COC) dimensions. The report ("Report") contains two sections:

- a) CRISIL Microfinance Institution (MFI) Capacity Assessment Grading
- b) Code of Conduct Assessment (CoCA)

CRISIL's Microfinance Institution (MFI) Capacity Assessment Grading is a current opinion on the ability of an MFI to conduct its operations in a sustainable manner. The MFI Capacity Assessment Grading is assigned on an eight-point scale, with 'M1' being the highest, and 'M8' the lowest. The MFI Capacity Assessment Grading is a measure of the overall performance of an MFI on a broad range of parameters under CRISIL's MICROS framework. It includes a traditional creditworthiness analysis using the CRAMEL

approach, modified to be applicable to the microfinance sector. The acronym MICROS stands for Management, Institutional arrangement, Capital adequacy and asset quality, Resources and asset-liability management, Operational effectiveness, and Scalability and sustainability. MFI Capacity Assessment Grading scale: M1 - highest; M8 – lowest. CRISIL's MFI Capacity Assessment Grading is not a credit rating and does not indicate the credit worthiness of an MFI.

The Code of Conduct Assessment (CoCA) reflects a MFI's performance on code of conduct dimensions. CRISIL during the CoCA exercise, has relied upon the grading methodology and Harmonized CoCA tool (HCT) formulated by SIDBI besides an interaction with the MFI's management, and other information sources that are publicly available and considered reliable.

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Grading History of CreditAccess Grameen Limited

Date	Rating Agency	MFI grading
October 4, 2017	CRISIL	mfR1
September 30, 2016	CRISIL	mfR1
September 1, 2015	CRISIL	mfR1
November 27, 2014	CRISIL	mfR2
November 26, 2013	CRISIL	mfR2
June 24, 2013	CRISIL	mfR3
October 1, 2012	CRISIL	mfR3
August 31, 2011	CRISIL	mfR3
July 29, 2010	CRISIL	mfR3
May 7, 2009	CRISIL	mfR3

Microfinance Capacity Assessment Grading symbols and definitions

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

Code of Conduct Assessment scale and definitions

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

FACT SHEET

Name	:	CreditAccess Grameen Limited (formerly, Grameen Koota Financial Services Private Limited)
Year of incorporation	:	June 12, 1991
Year of commencement of microfinance programme	:	1999
Legal status	:	NBFC-MFI (Public limited company incorporated under Companies Act, 1956)
Registered and corporate office details	:	#49, 46th Cross, 8th Block, Jayanagar Bengaluru – 560 071, Karnataka Tel: +91 80 2263 7300 Fax: +91 80 2664 3433 Website: www.grameenkoota.org
Chief Executive Officer (CEO) and Managing Director	:	Mr. Udaya Kumar
Number of lenders	:	50 lenders (including banks and institutional lenders)
Statutory auditors	:	S R Batliboi & Co LLP, Maharashtra

ABOUT THE MFI'S OPERATIONS

As on September 30, 2018

Area of operations / geographical reach	:	<ul style="list-style-type: none"> 156 districts across nine states (Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, Chhattisgarh, Odisha, Puducherry, Goa, and Kerala) Karnataka & Maharashtra account for ~57 per cent and 26 per cent of the overall AUM respectively
Lending model	:	<ul style="list-style-type: none"> Joint liability group (JLG) Individual retail finance
Borrower base	:	<ul style="list-style-type: none"> 20,77,658 borrowers (23,71,449 members)
Employees	:	<ul style="list-style-type: none"> 7,355 (5262 Kendra Managers)
No. of branches	:	656
Gross loan portfolio (GLP)	:	Rs.57,941.25 million

SOCIAL AND TRANSPARENCY INDICATORS

As on September 30, 2018

In per cent

Average loan outstanding/per capita GNI (2015 figure)*	31.89
Women staff/total staff	7.00
Women borrowers/total borrowers	99.98
Lending rate charged by MFI	18-22
Are interest rates (on reducing basis) communicated to clients in writing?	Yes
Are processing/commission charges communicated to clients in writing?	Yes
Does the MFI provide an official receipt to clients after repayment collections?	Yes
Is access to loan from other MFIs a parameter to select/screen clients?	Yes
Is access to loan from other MFIs a factor in appraising the client's repayment capacity?	Yes
Does the MFI appraise the client's income/poverty/asset level?	Yes
Is the data collected on the above used by the MFI to target other low-income clients?	No
Does the MFI capture and analyse reasons for client dropout?	Yes
Are clients provided head office contact details as part of the grievance redressal mechanism?	Yes

*Per capita gross national income (GNI) is based on current prices.

Source: Central Statistical Organisation data

RESERVE BANK OF INDIA (RBI) GUIDELINES

Parameter	RBI requirements for NBFC-MFIs*
Capital requirement	Rs.50.00 million in net-owned funds
Multiple lending	Not more than 2 MFIs can lend to the same borrower
Annual income of households qualifying for MFI loans	<ul style="list-style-type: none"> Rural area: Less than or equal to Rs.1 lakh Non-rural area: Less than or equal to Rs.1.6 lakh
Disbursements	<ul style="list-style-type: none"> First cycle: Less than or equal to Rs.60,000 Subsequent cycle: Less than or equal to Rs.1 lakh
Borrower indebtedness	<ul style="list-style-type: none"> Less than or equal to Rs.1 lakh
Loan tenure	<ul style="list-style-type: none"> Greater than or equal to 24 months for amount in excess of Rs.30,000 Moratorium period greater than or equal to frequency of repayment
Loan repayment	<ul style="list-style-type: none"> Repayable on weekly, fortnightly, or monthly instalments as per the borrower's choice
Interest rate	Lower of the following: <ul style="list-style-type: none"> Cost of funds plus margin (capped at 10 per cent for large MFIs and 12 per cent for others) Average base rate of the 5 largest commercial banks by assets multiplied by 2.75 per cent
Loan purpose	More than 50 per cent of loans are for income-generating activities
Loan loss provision	Shall not be less than: Standard assets <ul style="list-style-type: none"> 1 per cent of the outstanding loan portfolio Non-standard assets <ul style="list-style-type: none"> 50 per cent of the loan instalments which are overdue for ≥ 90 days and ≤ 180 days And <ul style="list-style-type: none"> 100 per cent of the loan instalments which are overdue for ≥ 180 days

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Penalty	<ul style="list-style-type: none"> • No penalty on delayed payments • No penalty on prepayments
Recovery practices	<ul style="list-style-type: none"> • Shall adopt non-coercive methods of recovery • Recoveries to be made only at a central designated place • Recoveries at residence only if a customer fails to appear at the designated place more than twice
Capital adequacy	15.00 per cent
Credit information company (CIC)	Membership of at least one CIC
Self-regulatory organisation (SRO)	Membership of at least one SRO
Qualifying assets	85.00 per cent

**Compliance of the above is not mandatory for not-for-profit MFIs.*

MFI GRADING RATIONALE

CRISIL's microfinance institution (MFI) grading of CreditAccess Grameen Limited (CA Grameen) reflects the following strengths:

- Apex MFI with sizeable advances and strong market share
- Well-institutionalised company:
 - Possesses an experienced board & qualified senior management
 - Strong systems and processes
 - Adequate policy framework in place
- Adequately capitalised; has recently tapped the capital markets for its IPO
- Well-diversified resource profile
- Good earnings profile supported with above-average field productivity

However, these strengths are offset by:

- Surging competitive intensity in small-ticket lending segment
- Susceptibility to risks arising out of political sensitivity and fragile nature of unsecured lending operations

PROFILE

CreditAccess Grameen Limited (CA Grameen) is a non-banking financial company (NBFC-MFI) which commenced microcredit operations under the leadership of Mrs. Vinatha M Reddy in 1999 as a department / division under T. Muniswamappa Trust (TMT), a registered Public Charitable Trust/NGO. In 2007-08, this microfinance program got transferred and transformed into an NBFC. The company operates under the brand name 'Grameen Koota'. The company has received regular capital support from CreditAccess Asia N.V. (CAA), an international social investor which currently holds 80.30% stake in the company.

CA Grameen extends loans to economically challenged women borrowers under the JLG model of lending. It offers different income-generating loan products, with a ticket size of Rs.5,000 to Rs.60,000. The tenure varies from 1 to 2 years. Loans are sanctioned depending upon the client's repayment capacity, number of loan cycles, and type of activity. The MFI charges an interest rate of 19 and 21 per cent per annum on a diminishing balance basis. The MFI offers emergency, family welfare and home improvement loans ranging between Rs.1,000 to Rs.25,000 at an interest rate of 18 per cent for a tenure of 11 weeks – 4 years. The company also offers business loans, details of which are as under:

- 1) Unsecured loans – Presently, the company offers two unsecured loans – a) Udyog amount of which ranges between Rs.0.5 lakh – Rs.1.25 lakh. The loan is offered for income generation purposes and is priced at an interest rate of 22% with a repayment tenure of two years. Another unsecured credit,

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Suvidha is a short-term loan repayable within six months. The loan is offered for managing working capital requirements and is priced at an interest rate of 20%.

- 2) Two-wheeler loans – Offered for purchase of two-wheelers priced at an interest rate of 22%. Loan amount varies between Rs.0.25 lakh to Rs.0.6 lakh and is repayable over a period of two years.
- 3) HTBL – Secured business loans amounting between Rs.1 – Rs.5 lakh priced at an interest rate of 22%. The loans are repayable over a period of five years for which the company obtains property / mortgage as a collateral.

Since the previous assessment, the company has enhanced its maximum loan ticket size per client to Rs.0.8 lakh per client from Rs.0.6 lakh (with an overall ceiling of Rs.1.00 lakh) based on total client over-indebtedness. Also, advances higher than Rs.0.25 lakh are now disbursed in cashless mode.

Operating and lending methodology

CA Grameen's target clientele includes women at the bottom of the social pyramid who are not covered under formal financial services. As per the guidelines received from the head office (HO), the branch manager (BM) and Assistant Branch Manager (ABM) of the NBFC-MFI undertake a preliminary analysis of the census data of target villages and an area survey. The findings and observations from this preliminary survey enable gauging the region's demographic profile, potential for micro-lending and future expansion decisions.

Various factors such as population density, availability of basic infrastructure facilities, literacy levels, water supply, presence of banks / financial institutions, and academic institutions are assessed. The preliminary area survey also focuses on the assessment of socio-economic status of local households, need for formal financial services, including savings and credit, competitive landscape, instances of communal unrest, if any, and political climate. Typically, a presence of around 2,500 - 5,000 women borrowers is considered essential as a part of branch establishment criteria which typically operates within a geographic radius of 25 kilometres (Kms).

The shortlisted villages are then assigned to loan officers / Kendra Managers (KM). The field staff undertakes projection meetings with informal groups at various levels, including the Panchayat, to provide updates about the organisation's details, its credit and non-credit interventions - developmental activities and microfinance programme, and terms and conditions to be followed by potential clients. The audience interested in membership are invited to the subsequent meeting, during which women in the age group of 18-55 years from the same locality organise themselves into joint liability groups (JLGs) of 5-10 members. While the organisation prefers the enrolment of married women as members in which case their spouse acts as the co-guarantor, women above 35 years of age (typically widows / divorcees / unmarried) are also allowed to become members. In such cases, their parents or close relatives are expected to act as the co-guarantors. However, members within the same family and relatives are not permitted to become members of the same group.

After the JLG is formed, the field staff conducts household surveys to assess the demographic profile of borrowers, such as earnings, residential status, household assets, and the rationale for credit requirement. During this process, the staff also ensures that the basic loan application forms – Member Basic Data Form (MBDF) are filled by potential borrowers. The MBDF captures details of potential borrowers – residential address, occupation and income profile, family members, bank account, marital status, ethnicity, and details of land holding, including farm land. The organisation also obtains a self-attested declaration from the borrowers of their annual household income level and total indebtedness. A photograph of the borrower and her husband is also obtained. The MBDF is duly signed by the borrower and by the BM. Along with the MBDF, the field staff also collects the relevant KYC documents from the borrowers. While the members are encouraged to submit their Aadhar card, in exceptional cases other alternative documents such as an election / voter card is also accepted. Members are required to provide a self-attested declaration for granting accessibility to information in their Aadhar card as a part of the organisation's data sharing and privacy policy.

The MBDF and documents collected from the members are sent to the centralised data entry team at the respective Regional Processing Centres (RPCs) set up by the organisation. The central data team (CDT) at the RPCs undertakes the validation of the KYC documents and verification of the indebtedness levels of potential clients from the credit bureau. Subsequently, the branches are informed about the eligibility criteria of the members, including the reasons why cases are rejected (owing to higher than permitted loans / indebtedness levels, history of delinquency, etc.). The branch staff then communicates the outcome of the validation process to the group members; the JLGs may, therefore require a reshuffle owing to some members dropping out at this stage. At CA Grameen, a JLG may comprise five (lower limit) to 10 members (upper limit). Similar norms for a centre comprises 10 members (lower limit) and 30 members (upper limit); thus, a centre has three to four groups on an average.

The group formation and validation process is followed by a 5-day compulsory group training (CGT) process which focuses on imparting details pertaining to the terms and conditions of credit offerings, pricing, repayment, and importance of attending centre meetings. The concept of joint liability is also emphasized at this stage. The BM then undertakes a re-interview of the members on the sixth day after which an authorisation is issued for finalising the group. A group recognition test (GRT) is then scheduled by the ABM to understand the awareness among the members about the product offerings, group cohesiveness, and overall efficacy of the CGT process. The CGT and GRT processes involve joint participation of the branch staff and KM at various stages. The observations during the CGT and GRT process are duly recorded by the field staff in pre-designed formats for further credit processing. From the second and subsequent loan cycle onwards, members are not allowed to fill up the detailed MBDF form and instead, the KM obtains details of occupational cash flow (income, expenses, and residual income) from the borrower to be used for the necessary loan processing.

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Disbursement and collections

CA Grameen disburses loans to its clients on the scheduled disbursement dates in cash at its branch offices. Pre-printed loan cards are issued to members and receipts are issued for the processing fees collected from the members who are allowed a moratorium period of up to 1 week from the date of the loan disbursement. The KM monitors the loan utilisation of each borrower within 1 month from the date of disbursement. Collections / recovery of loan instalments along with the interest is done on a weekly basis from the subsequent week during regular group meetings held at the respective centres. The meeting time and day is fixed for each centre at the time of submission of the MBDF by the members. Part-repayment is not allowed, although loan foreclosure in full is permitted at the centre meetings.

The HO shares a link with its branches for downloading top sheets and a branch cash conformation (BCC) report on a daily basis. The top sheet contains member-wise details of the principal and interest amount to be collected from the respective centres. The Data Operator (DO) and BM handle the top sheet at the Kendra meeting.

The DO enters details of the daily collection (against actual demand) and disbursements in the branch loan software that are cross-checked by the BM. Upon final authorization by the BM on the MIS, the position is updated at the head office (HO) server. The MIS has a provision for accounting pre-payments as well as marking the attendance of members. The cashier at the branches physically counts the daily collections and issues his signature on the top sheet if the collections are found to be in line with the demand. This forms the basis of updating the daily collections by the DO in the branch MIS.

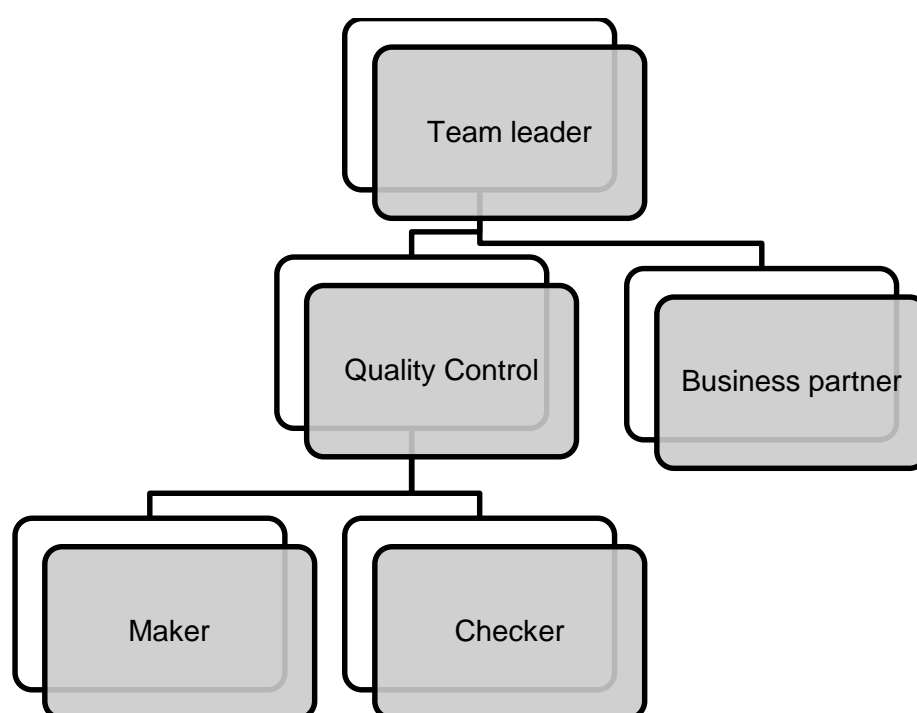
Processes at CA Grameen's RPC

At CA Grameen, the processes of document verification, KYC, validation of preliminary member data, and their updation in the MIS is decentralized at the Regional Processing Centres (RPCs). The core activities at a RPC include client enrollment data verification, processing of KYC documents, and their updation in the MIS. MBDF and KYCs are shared by branches to RPC on a daily basis where they undergo screening towards quality control (QC) process. Critical QC checkpoints include receipt of valid KYCs and receipt of complete loan application form bearing member's and spouse's signature besides photographs. MBDF team verifies the KYCs and reconciles for uniformity of member details. Presently, there are eleven functional RPCs including at Kolhapur, Nagpur, and Aurangabad in Maharashtra, and Belgaum, Davangere, and Bengaluru in Karnataka.

The branches send the KYC and MBDF forms to the nearest designated RPC. Each team member at the RPC is assigned unique login ID and password for better work assignment, authentication, and tracking. A RPC is headed by a team leader who is responsible for its overall functioning, including monitoring the flow and ensuring the execution of document processing within the specified turnaround time (TAT). The QC team at

the RPC undertakes preliminary sorting and verification of the documents received along with checking of the accuracy of the details filled in the MBDF. The QC team creates / assigns a unique ID for each borrower, centre (Kendra) and group. The QC team is supported by a Business Partner who undertakes co-ordination with the branches on pending issues, required follow-ups & their resolution.

Hierarchy of a RPC



If the member details are found to be appropriate, then the documents are handed over to the Maker team for processing. The maker team enters personal and demographic details of members in the online portal which include marital status, socio-economic profile, and bank account. On the contrary, if the documents are not found to be in order, then the respective file is either returned to branches so as to rectify the discrepancy in the documents. The RPC team contacts the branch staff in the event of any factual discrepancies arising out of omissions of preliminary details and gets the same rectified.

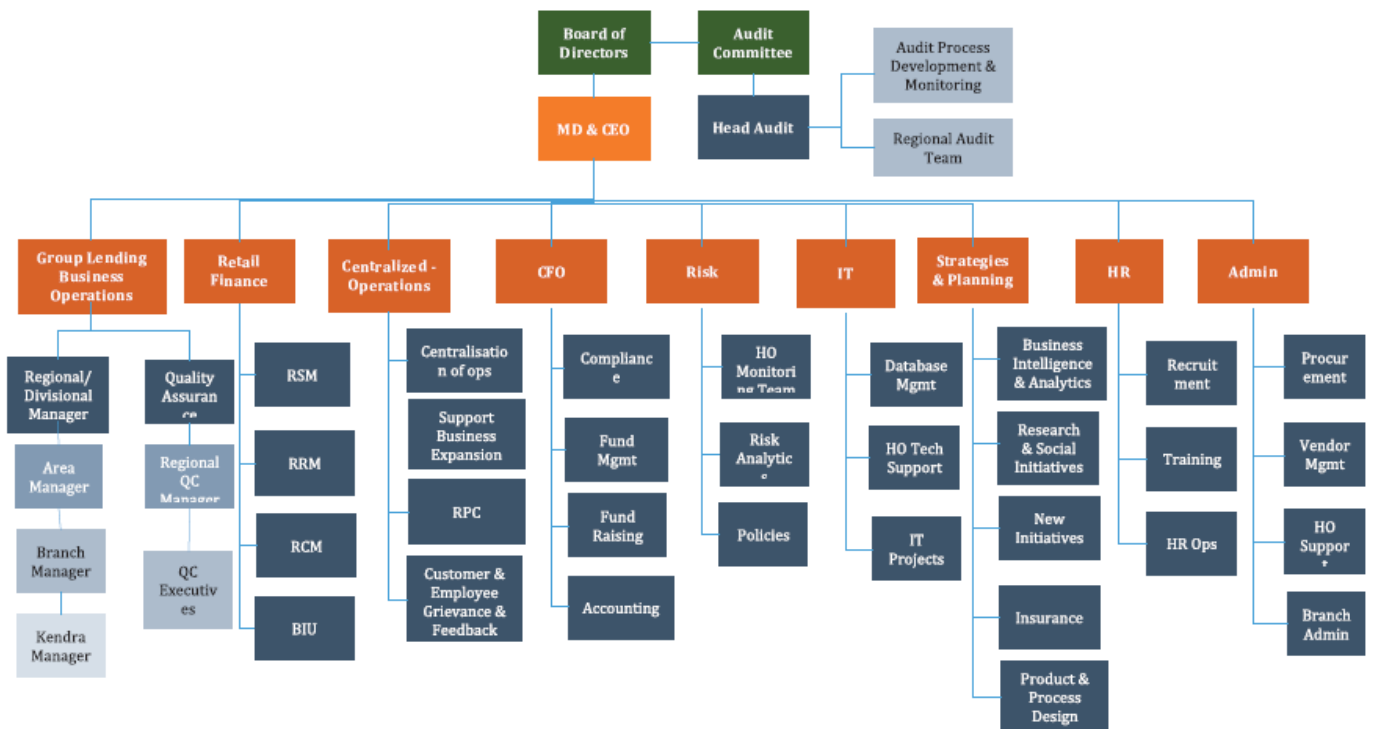
Once the details are entered by the Maker team in the online portal, the checker team authorises them if found to be in order. Subsequent to the authorization, the member account is activated and can be viewed by HO for monitoring and analysis purposes. The HO team then shares account details to a CIC for authentication of member's KYC which acts as an additional verification layer. The authenticated accounts are shared with another CIC for verifying credit history of members; response from CIC on member's credit history is also shared with branches.

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Members with satisfactory responses on credit history and meeting regulatory norms on maximum number of lenders are eligible for sourcing credit. The Kendra Managers (KM) then proceeds for 5-day CGT while the BM conducts house visit and re-interview on the sixth day. This is followed by a GRT by the Area Manager (AM) who activates the loan account once the members are satisfactorily tested on concepts of credit and group lending dynamics. Later, the data entry operators in the branches enter loan application details of members including loan amount, tenure, frequency of repayment, insurance details, and mode of disbursement. The BM then approves the loan online followed by verification from a CIC for a re-assessment of member's credit profile. Each RPC caters to about 70 branches. The team size varies between 12 to 30 members per RPC based on size of business volume of the region to which it caters.

The company is presently piloting the deployment of tablets (hand-held devices) in its branches to enable automation of client enrollment and collections. The Kendra managers would be able to undertake credit bureau checks through the hand-held devices. This would lead to time synergies since eligible loan applications would be shared directly to a RPC instead of routing it through processing by branches. Final credit bureau checks would be conducted by a RPC prior to disbursement.

ORGANISATIONAL STRUCTURE



MANAGEMENT

A. Track record: Long vintage in the microfinance space spanning about two decades
<ul style="list-style-type: none"> ▪ Creditaccess Grameen Limited has emerged as one of the topmost micro-lending institution in the country. An experience of about two decades in the MFI domain, strong institutional parentage, support of an experienced board & management besides seasoned internal processes, the organisation is one of the apex players demonstrating robust growth whilst maintaining healthy financial performance. With recent public listing of the organisation, reporting and compliance framework is expected to be streamlined further. ▪ Based on CRISIL estimates as of Sep-18, the company had a market share of over 3% in terms of its total outstanding GLP and factoring advances by various category of lenders, - MFIs, MFIs transitioned into small finance banks (SFBs), banks, NBFCs, and BCs. As of September 30, 2018 the company had GLP of Rs.57,941.2 million which increased from Rs.13,396 million as of March 31, 2015. The company operated through its 656 branches.
B. Product mix: Provides a mix of credit and non-credit offerings; intensifying market competition in small-ticket lending space remains a key grading monitorable
<ul style="list-style-type: none"> ▪ As a micro-lender, the company's product mix primarily comprises small-ticket unsecured advances to economically backward women organized as JLGs. Besides income generating loans, the company also offers supplementary loans, emergency loans, education loans, home construction / improvement loans, and credit for water and sanitation projects. The company also undertakes development interventions focused on water, sanitation, & hygiene. ▪ In order to improve client retention, diversify revenue sources and withstand market competition, the company has been offering secured and unsecured credit products albeit of a higher ticket size. These loans do not fall under the purview of qualifying assets and are offered under the company's Retail Finance vertical. Over time with crowding of the market comprising wide categories of lenders focusing on the micro and small ticket loan segment, the company would be required to ramp up its presence in this segment whilst adhering to regulatory ratios.
C. Credit approval mechanisms: Has put in strong credit management practices in place; deployment of alternate data on credit risk mapping a key prerogative

Loan management practices	<ul style="list-style-type: none"> ▪ The company has well-defined norms for credit sanction at diverse stages starting from client enrollment to disbursement which are expected to be adhered to by its branches. ▪ The branch manager sanctions credit for MFI loans. The credit sanction authority for secured and unsecured credit (non-MFI loans) is vested with specialised branches as per specified norms. Emergency loans could be sanctioned by the credit officer based on client credit history, member attendance and centre's strength. ▪ The company has institutionalized internal caps on overall borrower indebtedness and the number of lending MFIs; there has been an increase in loan ticket since the previous grading assessment. ▪ Loans are disbursed at the branches while the loan utilization checks are undertaken by the Kendra Manager. Collections are administered on weekly, fortnightly, and monthly options as per client's choice. As per company's management, majority of the borrowers prefer weekly and fortnightly modes of repayment. The company has not put in place formal loan rescheduling policy in place.
Credit information company (CIC) tie-up	<ul style="list-style-type: none"> ▪ The company has a tie-up with all CICs - Equifax, Highmark, Transunion CIBIL, and Experian. It shares credit data of its borrowers with all four CICs. ▪ As far as MFI advances are concerned, the company obtains a response on the credit history of potential clients from one of the leading CICs. Additionally, the company also avails customized services from CICs to detect intensity of competition, region wise credit quality and instances of defaults. For non-MFI advances the company resorts to the credit microfinance and retail / consumer databases.
D. Documentation	
Loan application agreement	Captures <ul style="list-style-type: none"> ✓ Client's demographic profile and KYC details ✓ Classification – Rural / Urban ✓ Family members' details ✓ Occupation, monthly income, and present sources of credit ✓ Household assets and livestock details ✓ Loan purpose ✓ Loans availed from other MFIs and outstanding balance ✓ Accessibility to medical centre and schools

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		<ul style="list-style-type: none"> ✓ Self-certification on indebtedness and veracity of information
	Loan documents	<p>The MFI collects following loan documents as a pre-credit sanction practice:</p> <ul style="list-style-type: none"> ✓ Duly filled in loan application agreement ✓ Minimum two KYC documents - Valid ID proofs (<i>Aadhaar</i> card, voter ID, or ration card) ✓ JLG mutual guarantee agreement ✓ Declaration of self-indebtedness <p>In wake of the recent government verdict on restricting mandatory submission of Aadhar as a KYC document, engagement by MFIs at appropriate forums is critical in order to avoid possible client overlap.</p>
	Loan card/passbook	<p>Disclosures:</p> <ul style="list-style-type: none"> ✓ Name of the borrower and her spouse / father ✓ Loan purpose ✓ Interest rate (on a reducing basis) ✓ Loan processing fees ✓ Insurance premium ✓ Loan amortisation schedule with bifurcation of interest and principal ✓ LUC details ✓ Contact details - complaint resolution and grievances
	Policy manuals	<ul style="list-style-type: none"> ✓ Operations (covers credit approval and loan write-offs) ✓ Internal audit and risk management ✓ MIS and Information Technology (IT) ✓ Human resources (HR) ✓ Accounts, cash management, and finance
	Documents/ registers maintained	<ul style="list-style-type: none"> ✓ Asset register ✓ Job rotation register ✓ Compliance register ✓ Stock Register ✓ Old visitors register ✓ MBDF sent register ✓ Courier register ✓ Audit register ✓ Member leave letter file ✓ Staff leave file ✓ Fund memo ✓ Visitor's register

		<ul style="list-style-type: none"> ✓ Vault register ✓ Cheque register ✓ Internal audit reports and compliance register ✓ Field movement register ✓ Attendance register ✓ Stock register ✓ Customer grievance register ✓ Death intimation register and insurance claim tracker
E. Management information systems (MIS) & Information Technology (IT)		
1) MIS – Advanced loan tracking mechanisms; the company deploys an integrated MIS platform		
MIS platform		<ul style="list-style-type: none"> ▪ Integrated core banking software
MIS features		<ul style="list-style-type: none"> • The interface is user-friendly. There are standardised reporting formats for capturing and reporting field data. • The MIS deployed by the company is advanced and is able to generate consolidated reports on outreach and productivity, asset quality, loan utilisation, and member-wise repayment history. The software is also able to provide funder-wise reports. • Data warehousing is in place for efficient data reporting and analytics. The company has put in place required policy framework on Information security and client data privacy with embedded escalation matrix. • MIS platform is integrated with other business functions such as accounting and operations including collections, bank transactions, and business overheads. • There is daily reconciliation of receivables at branches. The company adopts netting off approach wherein expected disbursements are adjusted against collections. As a future-ready strategy, the company plans to use predictive analytics in its credit underwriting processes.
Updating of KYC & entry of operational data		<ul style="list-style-type: none"> • The company is presently in the process of automating its client enrolment across its branches. However there is use of adequate technology on document processing, collections, and capturing of internal audit observations. • The RPCs undertake document processing and data entry. Each RPC handles about 70 branches assigned to it.

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	<ul style="list-style-type: none"> Scanning of documents, data entry, and reporting processes are being automated through introduction of a cloud-based solution which is integrated with mobile technology.
2) Information technology - Technology and IT infrastructure are commensurate in line with growth in operations; process of rolling out hand-held devices and mobile-based applications for end-to-end automation is underway	
Degree of automation for operations and portfolio tracking	<ul style="list-style-type: none"> During the previous grading assessment, the company had indicated its plans to automate field processes. At present, the processes of client origination and collection are yet to be automated. Over the past one year, the company has introduced hand-held tablet devices in its branches so as to automate the entire collection process. This includes client on-boarding which would be managed on hand-held devices / tablets. With focus on achieving paperless branches, automation in branches aims at document scanning by branches and sent to RPCs. The credit bureau checks would also be undertaken at branches. The company has enabled a business analytics tool for better data slicing and creation of efficient dashboards for internal analytics. The internal audit team has been provided with hand-held devices equipped with an Android-based application. The team receives updates on the audit plan, duty allocation and audit observations on the application. The branch manager receives alerts on a web-based software wherever compliance is required; the audit team can either accept or reject the compliance through the application. Necessary dash boards have been created at the HO for tracking internal audit progress. The HO is able to track the daily performance of the branches, including collections, disbursements, asset quality, and other operational metrics.
Security mechanisms	
Data back-up & recovery	<ul style="list-style-type: none"> Daily data back-ups on incremental data processed are obtained while complete data back-up is obtained on a weekly basis. Integrated software and core banking solutions (CBS); centralised information saved on remote server

	<ul style="list-style-type: none"> As a part of its disaster recovery architecture, the company uses a managed services model wherein an external data and IT services provider hosts the data with accessibility vesting with CA Grameen.
Client data privacy	<ul style="list-style-type: none"> Restricted user rights for updating and viewing operational information at the branch level
F. Internal audit & risk monitoring mechanisms: Strong internal controls to mitigate operational risks	
Team size	<ul style="list-style-type: none"> 110 members which comprise audit assistants and their team leaders (TLs). CA Grameen's Area Manager oversees around five to six branches while a Divisional Manager handles 25 to 40 branches. A Regional Manager handles around 55 to 65 branches.
Process, documentation, coverage and scope	<ul style="list-style-type: none"> Annual plan for the branches and head office is approved by beginning of each calendar year from the Audit Committee. Audit committee comprises five members, majority of which are independent members. The organisation has a mechanism of undertaking quarterly audit of its branches which also involves assigning a grading based on pre-defined parameters. Branches with weaker grades undergo early audit for the subsequent period. On an average every branch undergoes five to six audits per annum while nearly 80% of total Kendras (centres) under a branch are covered under an audit. Moreover, entire loan documentation of a branch besides processes at RPC, divisional offices (DOs), regional offices (ROs), and Centralised Retail Finance department are covered under the audit process. A web portal has been designed for creating a monthly audit plan. Auditors carry a tab and receive critical notifications on the audit plan and branches to be audited. The team records its observations which are later submitted to the Audit Head. A detailed checklist for audit purpose and based on the audit observations, the branches are assigned a grading with the support of an audit scale. The auditors capture audit observations in an online tablet based on a pre-defined checklist. Branches are expected to comply with the audit observations within 15 days through an internal web-portal. There is an escalation matrix based on timeliness and degree of compliance whereby audit observations remaining un-complied are escalated to senior leadership. During each subsequent audits, the auditors are

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	<p>required to verify compliances by branches with respect to each of the previous audits.</p> <ul style="list-style-type: none"> • An audit dashboard is available to track the audit progress. • The audit team is rotated on a bi-monthly basis; the company has put in a mechanism of 'Home audits' and 'Away audits' to manage potential conflict of interest wherein audit teams are assigned branches different from their native place / area of residence. Typically, the audit team members are either freshers or experienced personnel without microfinance background. Alternatively, existing team members from Operations background are appointed as members of audit team. The audit manpower requirements are approved by the Audit committee. <p>At field:</p> <ul style="list-style-type: none"> • CGT/GRT • Centre meetings • House verification (HVC)/LUC • Loan cards / passbook • New member visits • Insurance claims verification <p>At branches:</p> <ul style="list-style-type: none"> • Operational documentation • Financial documentation: Cash book/cash in hand/unissued cheques
Rigour of internal audit / process	<ul style="list-style-type: none"> • As per the HO's policy, the internal audit team is rotated on a periodic basis. • The audit assistant's work schedule is synced with that of the TL through an online application; the TL approves the job schedule
Risk mechanisms	<p>Quality control (QC)</p> <ul style="list-style-type: none"> • CA Grameen has a dedicated QC team that focuses on adherence to processes at centre meetings and in branch operations with emphasis on branches with weak audit scores including errors in KYC documentation, trainings, and technology. One QC personnel oversees five branches. • The QC team member reports to the Business Head, however is not assigned any business targets. Each division of the company contains

	<p>a member from the risk team. On an average, for every five branches, one QC team members has been assigned. Another three team members from the risk team are stationed at the head office.</p> <ul style="list-style-type: none"> The team reports to the state business head. The QC function operates as a concurrent monitoring cell aimed at detecting and rectifying operational errors for better efficacy of these processes. <p>Risk management</p> <ul style="list-style-type: none"> Separately, the risk team oversees key risk issues such as client saturation, political sensitivity, and local credit culture. The risk team is responsible for overseeing key macro and micro risks including designing of key risk indicators, detecting high-risk areas / early warning signals including branches with high business volumes, areas with high political / communal sensitivity, member drop-out analysis, credit bureau rejections, discrepancy in loan application form, and internal financial controls, among others. Analysis of credit bureau reports, peer reviews, heat mapping, concentration risks, and competition analysis are also targeted. A risk management framework and annual risk plan have been framed. The risk team has a staff strength of 18 team members. District-wise exposure on portfolio saturation is in place and is tracked regularly. The risk team also looks into various risk categories – credit risk, liquidity risk, market risk, internal fraud risk, growth and expansion risk, besides regulatory and political risk.
Reporting structure	<ul style="list-style-type: none"> Internal audit function reports to the Audit Committee at the board level. Risk head reports to the Managing Director and CEO. QC team reports to the state head.
G. HR management: Structured HR policies	
HR department	<ul style="list-style-type: none"> A dedicated HR department is in place; the company has well-defined employee policies which are updated periodically.
Staff management practices	<ul style="list-style-type: none"> Recruitments are shared between business and corporate HR. Staff positions are either filled through internal referrals or advertisements. The company typically does not recruit field staff at the KM level laterally. Lateral recruitments (<i>applicable for branch manager and area manager who are given independent handling of branch/area after the training and orientation programme</i>)

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	<ul style="list-style-type: none"> • Employees are allowed internal job postings (IJPs) based on merit. • The organisation undertakes reference checks of its employees. Freshers hired are required to obtain and produce letters from two government employees which are subsequently verified by the audit and risk team. In case of lateral hirings, the company obtains a no-objection certificate (NOC) besides which a feedback from the previous employer on conduct of the employee is also obtained. Employees are liable for termination in the event of displaying fraudulent behavior or violation of organisation's policies subsequent to an internal enquiry.
Staff training	<ul style="list-style-type: none"> • Both in-house and on-the-job training • Fresh recruits are provided basic training for 28 days - the training schedule includes classroom sessions and field training. On the last day, the final test and interview is conducted for selecting and confirming the candidates for the said post (i.e., trainee KM). Employees are required to undertake code-of-conduct training. • The company operates 40 training centres managed by around 36 team members. Processes on staff induction training, refresher training, fair practices & code of conduct, and leadership programmes are handled at the training centres. Other training development issues handled include promoting awareness on various operational policies including whistle blower, internal code of conduct, and prevention of sexual harassment at workplace (POSH) besides need-based certification training programmes. A dedicated in-house training curriculum module has been designed for imparting training on IT and security policies and processes. <p>Refresher Training</p> <ul style="list-style-type: none"> • Refresher training is provided to existing branch staff on a need basis as per operational requirements in order to update the concerned staff with incremental knowledge on existing process and policies. <p>Soft Skill Training</p> <ul style="list-style-type: none"> • The company's Parivartan Program focuses on motivating and enhancing the soft skills of trainee KMs. • All internal promoted and lateral recruited to the post of BM and AM attend a leadership orientation program for 3 days to enhance their leadership abilities.

Attrition rate during past one year	<ul style="list-style-type: none"> • The company's staff turnover rate remains in line with its industry peers at about 25 per cent; the turnover is largely at the field level. However, the company has not experienced any major staff exits at the mid-management and senior management level.
Performance incentives to field staff	<ul style="list-style-type: none"> • Field staff is entitled to incentives based on the following: <ul style="list-style-type: none"> ○ Client enrolment ○ Client servicing ○ Process adherence • CA Grameen's branches are residential in nature which facilitates transfer of staff at periodic intervals at locations different from their native/home towns as well as areas served earlier.
Employee grievance	<ul style="list-style-type: none"> • A dedicated grievance cell / committee exists for addressing the grievances of staff members.

INSTITUTIONAL ARRANGEMENT

A) Ownership structure and governing board	
Background of the institutional parent & CA Grameen's public offering	<ul style="list-style-type: none"> CreditAccess Asia N.V. (CAA) (erstwhile MicroVentures Asia BV) is a regional microfinance group headquartered in Amsterdam (Netherlands) and has four fully owned operating companies in India, Indonesia, Philippines and Vietnam. It was established in 2006 with a mission 'To provide centralised, efficient and value add resources to the operating companies in India and South-East Asia, which highly enable them to deliver simple, low risk and quality financial services to the unbanked segment of micro and small businesses.' Accordingly, CAA has invested in CA Grameen by way of fresh equity infusion and also by secondary stake purchase from Aavishkar Goodwell, IIM Impulse, Creation Investments and Promoters since 2009. Subsequently, CAA's stake in the Company increased to 99.49%. Besides its investment in CA Grameen, CAA has also invested in an apex MFI in India which has subsequently transitioned into a SFB. The company floated an initial public offer (IPO) during August 2018 for a fresh issuance of Rs.630 crores. Subsequent to the public listing, the parent's stake has diluted to about 80% from a pre-issue level of 99%.
Board profile	<ul style="list-style-type: none"> The company's board was reconstituted in 2017. The initial co-founders resigned from their roles of Chairman & non-executive director. An existing director with long experience in banking & insurance was elevated as the Chairman of the company. Also, another investor nominee & an independent director joined the company's board. CA Grameen has an nine-member board which includes: <ol style="list-style-type: none"> The chairman and Independent director Managing Director (whole-time executive) Four independent directors Three investor nominees Board members have strong experience in microfinance, banking, finance, risk, and development sectors. There has been no change in the board profile since the previous grading assessment. More than 50% of the board comprises independent directors. One-third of the governing board has representation of investor nominees. CRISIL believes that the presence of a well-diversified board, including a higher composition of independent directors, augurs well from a strategic perspective.

Profile of senior management	<ul style="list-style-type: none"> • CA Grameen's senior management team has extensive experience across sectors such as microfinance, banking, finance, audit, risk, and development. Moreover, technical support from CAA, particularly learnings from its international operations have been beneficial for CA Grameen. • A majority of the company's senior management members have been associated with it for a long tenure and have risen from ranks. • CA Grameen has dedicated department-wise / function-wise heads and no major functional overlaps have been observed. • The senior management reports to the CEO and MD, except in areas of internal audit, in which case they report directly to the board of directors.
B) Management practices, goals, and strategies	
Compliance	<ul style="list-style-type: none"> • The company is a systemically important NBFC-MFI. With its recent public listing, the company is now required to comply with regulatory Listing Obligations and Disclosure Requirements (LODR). Moreover, as a part of regulatory requirements, the company would be required to pare down its promoter holding to 75% over the next three years from the present level of ~80%. • As a part of Prevention of Insider Trading, the company has identified key 'designated persons' (DPs) who are amenable to sensitive information. Procedures have been put in place for trading restrictions wherein DPs cannot trade in the company's shares without prior approval during closure of trading window. The company would be required to publish its operational and financial results on a quarterly basis in media and public domain. • There has been no change in the board profile since the previous grading assessment. More than 50% of the board comprises independent directors. One-third of the governing board has representation of investor nominees. • The company uses an external technology tool to manage its compliance requirements including filing of statutory returns. The tool displays pop-ups / alerts on timely basis to the task owner, immediate superior / reporting manager, and his superior based on a hierarchical escalation matrix. Proof of compliance needs to be uploaded in the software. Management of employment stock option scheme (ESOPS) is expected to be handled through the software.
Planning / budgeting / performance review	<ul style="list-style-type: none"> • The company has institutionalised process for performance planning and its review. The strategic goals are formulated by the senior management through inputs from its board and clearly laid out and disseminated to staff. There are function-wise/department-wise plans to achieve projected operational and financial growth. There is also a process for review of the actual performance

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	against its projections. An independent audit function report is submitted directly to the respective committees of the board.
Committees	<ul style="list-style-type: none"> • Nine board committees - <ul style="list-style-type: none"> ○ Audit ○ Nomination and remuneration ○ Shareholders relationship committee ○ Investors' grievances committee ○ Corporate social responsibility (CSR) ○ Investments ○ Information Technology ○ Asset liability management (ALM) ○ Risk management • The committees meet periodically to oversee the performance & comprise independent directors and investor nominees. • The company has transitioned its accounting policies in line with those prescribed for NBFC-SI (ND) towards Ind-AS (Indian Accounting Standards) as against generally accepted accounting standards (Indian GAAP) earlier.
Corporate strategy	<ul style="list-style-type: none"> • The focus of this organisational function encompasses various aspects which include: <ul style="list-style-type: none"> ○ Formulation of corporate strategy ○ Product design and revamp ○ Life and health insurance – product design and claims settlement ○ Performance reporting ○ Management of company's corporate social responsibility (CSR) initiatives ○ Data research and analytics for intelligent decision-making ○ Working on predictive analytics covering risk, strategy, fund-raising, human resource planning and staff turnover. The company plans to implement dashboards in its branches over the near-to-medium term.
Disclosures	Adequate public disclosures confined to regulatory requirements as prescribed for NBFC-MFI (Non-deposit accepting and Systemically Important) and in line with LODR requirements prescribed by SEBI
Audit report	No adverse comments or qualifications issued by statutory auditors in their audit report for financial year March 31, 2018
Auditors	Well-known; Present auditors (S. R. Batliboi & Co LLP, Chartered Accountants) appointed in the financial year 2010-11

BOARD OF DIRECTORS (As on September 30, 2018)

Name & designation		Profile
Managing director & CEO	Mr. Udaya Kumar	<ul style="list-style-type: none"> M.Com, CAIIB (Certified Associate of Indian Institute of Bankers), and graduate in banking operations and technology from Bank Administration, USA. Has served as the head, commercial and banking operations at Barclays Bank PLC, Mumbai for three years. He also served at Corporation Bank for a period of over ten years. He was also associated with ICICI Bank for over eleven years.
Chairman & independent director	Mr. M N Gopinath	<ul style="list-style-type: none"> He holds a bachelor's degree in commerce and a master's degree in business administration from the University of Madras. He is a certificated associate of the Indian Institute of Bankers. He was appointed as a probationary officer at the Bank of India where he worked for a period of 25 years and resigned as Assistant General Manager. He also worked at ICICI Bank Limited for a period of 10 years, from where he retired as a senior general manager. In the past, he has served as a director on the boards of Punjab National Bank and Loyalty Solutions and Research Private Limited. He also served as director on the board of Bank of India for a period of six years. He also was appointed as an Academic Advisor to NIIT Institute of Finance, Banking and Insurance Training Limited, as a Member of the SEBI Council on Mutual Funds and as Chairman of the Academic Council of ICICI Bank Limited. He also serves on the board of ICICI Prudential Pension Funds Management Company Limited and ICICI Prudential Trust Limited.
Nominee director	Mr. Paolo Brichetti	<ul style="list-style-type: none"> He is the founder, chief executive officer and sole executive director of CAA since March, 2017. He was the chief executive officer of CTM Altromercato Soc. Coop for a period of nine years. He serves as a director on the boards of CAA, PT Konsultasi Mikro Ventura, PT Bina Artha Ventura, CreditAccess Philippines Financing Company Inc., Holfinbi Limited and CAA Vietnam Trading Company Limited.

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Nominee director	Mr. Sumit Kumar	<ul style="list-style-type: none"> He holds a bachelor's degree in textile technology from the Indian Institute of Technology, New Delhi and a post graduate diploma in management from the Indian Institute of Management, Ahmedabad. He is a managing director with Olympus Capital Holdings Asia India Advisors Private Limited and has been associated with Olympus Capital for over 10 years. He was previously associated with The Boston Consulting Group Pte. Ltd.
Nominee director	Mr. Massimo Vita	<ul style="list-style-type: none"> He holds a masters diploma of 2nd level in development, innovation and change from Bologna University in Bologna, Italy and a degree in economics and commerce from Verona University in Verona, Italy. He also has a DEUF Diplome Francais from the Universite de J. Moulin and was a visiting student for the ERASMUS Programme at University College of Dublin. He completed a three years apprenticeship as a professional auditor as certified by the Italian Ministero Della Giustizia in 2002. He was the Head of the Operation Support of CreditAccess Asia N.V. for a period of almost two years. He was TA Field Expert for the TA Facility of Regional MSME Investment Fund for Sub-Saharan Africa managed by Symbiotics SA for a period of four years. He was also the Partner and board member of Microfinanza S.r.L. for a period of seven and a half years. He was also associated with Arthur Andersen S.p.A. for a period of three years. He is currently the chief risk officer of CAA and serves as a Chair of the Steering Committee for the Risk Management Initiative in Microfinance. He is also a shareholder of Microfinanza Rating S.r.L. since June 2015.
Independent director	Ms. Sucharita Mukherjee	<ul style="list-style-type: none"> Holds a bachelor's degree in economics from Lady Shri Ram College for Women, University of Delhi and a post graduate diploma in management from the Indian Institute of Management, Ahmedabad. She was appointed as a Management Trainee at Deutsche Bank AG India and was transferred to Deutsche Bank Global Credit Derivatives, London as a junior structurer for a period of three years. She was appointed as Vice President at Morgan Stanley Global Capital Markets, London. She was also appointed as chief executive officer at IFMR Holdings Private Limited and IFMR Capital Finance Limited for a period of three years each. She also serves on the board of Dvara Trusteeship Services Private Limited, Dvara Research Foundation and Kaleidofin Private Limited.

Independent director	Mr. Anal Kumar Jain	<ul style="list-style-type: none"> B.Tech (Electrical Engineering) from IIT, Kharagpur. He was associated with IBM World Trade Corporation till May 31, 1978 and was appointed as Assistant Manager at Shaw Wallace and Company Limited from 1978 to 1979. He also served at Ambalal Sarabhai Enterprises Private Limited as Regional Manager for a period of four years, as Vice President Marketing at Wipro Information Technology Limited for a period of three years and as Vice President, Marketing at TATA Information Systems Limited for a period of three years. In 1995 he was appointed as Country General Manager at Sun Micro Systems Intercontinental Operations. He has also been associated with Link Software Services Private Limited, Birla- Horizons International, Birlasoft Limited and Network Appliance Systems (India) Private Limited. He also serves as a director on the boards of Sonata Finance Private Limited, Swadhaar Finserve Private Limited, Sanghamithra Rural Financial Services Private Limited, Inflow Technologies Private Limited, and Skillprofiler Analytics Private Limited.
Independent director	Mr. Prabha Raveendranathan	<ul style="list-style-type: none"> He holds a master's degree in science (Agriculture) from the Faculty of Agriculture, University of Kerala. He has served in Canara Bank for a period of over 35 years and retired as a General Manager. He also serves on the board of ESAF Small Finance Bank Limited.
Independent director	Mr. George Joseph	<ul style="list-style-type: none"> He holds a bachelor's degree in commerce from the University of Kerala. He is a certificated associate of the Indian Institute of Bankers. He has also completed a banking diploma from the Institute of Bankers, London and is an associate of the same. He was associated with Canara Bank for a period of over 36 years and was elevated from the post of General Manager, Canara Bank to Executive Director, Syndicate Bank in 2006. He was associated with Syndicate Bank for a period of 3 years and retired as Chairman and Managing Director in 2009. He serves as a director on the boards of Wonderla Holidays Limited, Muthoot Finance Limited and ESAF Small Finance Bank Limited.

*also part of senior management

SENIOR MANAGEMENT TEAM

Name and designation		Profile
Mr. Udaya Kumar	Managing director & CEO	<ul style="list-style-type: none"> M.Com, CAIIB (Certified Associate of Indian Institute of Bankers), and graduate in banking operations and technology from Bank Administration, USA. Has served as the head, commercial and banking operations at Barclays Bank PLC, Mumbai for three years. He also served at Corporation Bank for a period of over ten years. He was also associated with ICICI Bank for over eleven years. Mr. Udaya Kumar joined the company in September 2010.
Mr. Diwakar Ram Boddupalli	CFO	<ul style="list-style-type: none"> Holds Bachelor's degree and masters' degree in commerce from Osmania University. He has 20 years of experience in the financial services sector. Has worked with Small Industries Development Bank of India, as Chief Manager at ICICI Bank Limited and as Commercial Supervisor at ACCION International. He was also associated with Life Insurance Corporation of India and IFMR Capital Finance Private Limited. Mr. Diwakar joined the company in October 2011.
Mr. Syam Kumar R	Company Secretary & Compliance Officer	<ul style="list-style-type: none"> Holds Bachelor's degree in science from the University of Kerala, Faculty of Science and a bachelor's degree in law from the University of Kerala, Faculty of Law. He was admitted as an associate and was also certified as a fellow of the Institute of Company Secretaries of India. Was previously associated with Airtravel Enterprises India Limited, Keltron Counters Limited, Patspin India Limited, Asianet Satellite Communications Limited, JRG Securities Limited, ELGI Equipments Limited and Muthoot Capital Services Limited. Associated with CA Grameen since January 2018.
Mr. Gururaj Kumar Rao	Head – Internal audit & risk management	<ul style="list-style-type: none"> Holds a Bachelor's degree in commerce from Bangalore University and is a certified internal auditor from the Institute of Internal Auditors. He has 14 years of experience in the area of auditing. Prior to joining CA Grameen in July 2009, he was associated with Yusuf Bin Ahmed Kanoo W.L.L and Mallya Hospital, Bangalore.

Mr. Srivatsa Nanjundaiah	Business Head – Group Lending	<ul style="list-style-type: none"> Is the Vice President, Operations (Karnataka and Tamil Nadu). He holds a pre-university certificate issued by the Education Department, Government of Karnataka. He joined TMT on December 13, 2002 and subsequently transferred to CA Grameen in October 2007. He has over 15 years of experience in microfinance operations.
Mr. Gopal Reddy	Business Head – Group Lending	<ul style="list-style-type: none"> Is the Vice President, Operations (Maharashtra, Madhya Pradesh and Chhattisgarh). He holds a bachelor's degree in commerce from Bangalore University and has over 15 years of experience in microfinance operations. Mr. Gopal joined TMT on May 30, 1999 & was subsequently transferred to CA Grameen in October 2007 and was employed with the company until December 31, 2011. He later rejoined the company on April 10, 2012
Mr. Thrishuli B	Head – Human resources	<ul style="list-style-type: none"> He holds a bachelor's degree in Science as well as Law from Bangalore University and a post graduate diploma in PM&IR from SIMS, Pune. He is a Certified Coach from International Coaching Federation. Prior to joining CA Grameen, he was associated with DTDC Couriers, Wockardt Hospitals, Adecco and Janalakshmi Financial Services. Mr. Thrishuli joined CA Grameen in October 2017.
Mr. Arun Kumar	Head – Information technology	<ul style="list-style-type: none"> He holds a bachelor's degree of technology in textile technology from Allagappa College of Technology, Guindy, Chennai and a post graduate diploma in management from the Indian Institute of Management, Indore. Prior to joining CA Grameen, he was associated with Infosys Technologies Limited and Barclays Bank PLC. Mr. Arun joined CA Grameen in November 2010.
Mr. Anshul Sharan	Head – Strategy and planning	<ul style="list-style-type: none"> Holds a bachelor's degree of technology in metallurgical engineering and materials science from the Indian Institute of Technology, Bombay and a post graduate diploma in management from the Indian Institute of Management, Indore. Prior to joining CA Grameen, he was associated with Reliance Power Transmission Limited, Kanbay Software (India) Private Limited and INDXX Capital Management Services Private Limited. Mr. Anshul joined CA Grameen in July 2012.

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Mr. K N Nagananda Kumar	Head – Centralised operations	<ul style="list-style-type: none"> He holds a bachelor degree in computer science from Bangalore University. He joined CA Grameen in April 2001 in the Department of Information Technology and served until March 2012. He worked with Sysfore Technologies from 2012 to 2016 before re-joining CA Grameen in March 2016
Mr. Vishwanath Bhat	Head – Retail Finance	<ul style="list-style-type: none"> He holds a bachelor degree in engineering from the National Institute of Technology (formerly REC), Calicut, and a post graduate degree in management from NMAMIT (NITTE). Prior to joining CA Grameen, he was associated with Shriram Group of Companies, Cholamandalam Investment and Finance Company, ICICI Bank, Copal Amba (Moody's Analytics Company) and Axis Bank. Mr. Vishwanath joined the company in June 2016

CAPITAL ADEQUACY & ASSET QUALITY

Capital adequacy: Adequately capitalised			
As on March 31, 2018			
Tier – I capital (%) - (A)			28.07
Tier – II capital (%) - (B)			0.87
Capital to risk adjusted ratio (CRAR) (%) - (A + B)			28.94
Capital composition (%)			
<ul style="list-style-type: none"> As of Mar-18, the company had a tangible net worth of Rs.14,270 million which improved from Rs. 6,904 million as of Mar-17 and Rs.4,564 million as of Mar-16. Regular rounds of capital infusion from its parent and better accretion to reserves led to shoring up of capital levels. During August 2018, the company filed for an initial public offering (IPO) of ~Rs.1,131.18 crores comprising fresh issuance amount of Rs.630 crore and an offer for sale of Rs.501 crore by its parent, CAA. The company offered 18.82 million shares for which bids of 25.34 million were received. Through the anchor allotment process, the company mobilised Rs.339.4 crore (\$49.5 million). 			
Asset quality: Asset quality remains susceptible to operational risks and political sensitivity			
<ul style="list-style-type: none"> The company has in-built strong internal processes on client selection, due diligence and client protection leading to above-average asset quality levels. The company's follows a contiguous district expansion strategy with focus on rural regions for gauging deeper understanding of markets and local dynamics. Moreover, focus on rural regions which have typically lower penetration of credit and which possess lesser competitive intensity too has contributed to better asset quality. Over two-thirds of the company's clientele comprise rural-customers as against a corresponding number of less than 40% for the MFI industry. 			
Asset-classification			
	%	Sep-18	Mar-18
0-90 days dpd	98.99^	98.03	99.92
>90 days dpd	1.01^	1.97	0.08
*Owing to reversal of additional provisioning amounting to Rs.129.02 crore			
^ Based on Expected Credit loss (ECL) methodology as per Ind-AS			
		Provisioning (%)#	Sep-18
		0-90 days dpd	37.46^
		>90 days dpd	62.54^
#As a per cent of total provisioning			
<ul style="list-style-type: none"> Historically CA Grameen's on-time repayment had remained ~99 per cent in line with the reported industry trends. The cash-intensive microfinance industry was impacted post demonetisation (November 2016) owing to the government's decision to ban high-value currency. Weak cash flow owing to loss of economic activity and low liquidity impacted the borrowers' debt repayment ability. The announcements of loan waivers in Uttar Pradesh and Maharashtra, and an appeal to the borrowing 			

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community on non-repayment of loans further compounded the issue. This, in turn, crippled the collection efficiency of MFIs. Based on information available from MFIN, PAR>30 days in both of the above states had increased to 37 per cent and 28 per cent by June 2017 from below 1 per cent (pre-demonetisation levels).

Historical trends in asset quality (Key indicators)

Particulars	Sep-17	Jun-17	Mar-17	Mar-16	Mar-15
On-time repayment (%)	93.71	91.06	85.30	99.90	99.97
Portfolio at risk 0-30 days (%)	0.62	1.05	7.81	0.01	0.01
Portfolio at risk > 30 days (%)	5.67	7.98	6.89	0.09	0.05

- Post-demonetisation, the company's repayment rate declined to ~85% by March 2017 before restoring to 94% by September 2017. The company's collection efficiency in Maharashtra declined to 80-85% during the period December 2016 to April 2017 on account of political sensitivity in certain districts of the state and next a liquidity squeeze post demonetisation. There has been significant improvement in the portfolio quality levels post-demonetisation with standard assets accounting for >99% of total advances as of Sep-18. Collection efficiency too has stabilized at 99.1% as of same date.
- The company offers credit insurance to its borrowers and their spouses in a tie-up with a few insurers, thus protecting its portfolio quality. Moreover, CA Grameen's loan loss provisioning policy has been in compliance with regulatory norms. CRISIL's review of the company's loan loss provisioning policy indicates that historically the organisation has adopted a conservative policy wherein it provides for higher provisioning than stipulated under regulatory standards. With recent transitioning to accounting norms under Ind-AS from the erstwhile Indian GAAP, the company is now required to provide for loan loss cover based on ECL methodology.

Portfolio concentration (%)

State	GLP (Rs. Million) – Mar-18	Portfolio concentration (%)	GLP (Rs. Million) – Sep-18	Portfolio concentration (%)
Karnataka	28,891.7	58	32,743.8	57
Maharashtra	13,296.2	27	14,969.9	25
Others	7,558.7	15	10,227.5	18
Total	49,746.6	100	57,941.2	100

- At present, the company's operations are conducted in eight states and a union territory - Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, Chhattisgarh, Kerala, Odisha, Goa, and Puducherry. The company has been diversifying its portfolio in various parts of the country including central and eastern states. However single state and two-state concentration remained high at 58% and 85% as of Mar-18

which has marginally declined to 57% and 82% as of Sep-18. However, no district (except one) accounted for greater than 5% of the company's total loan book. The geographic concentration levels are expected to remain high over the medium term. A calibrated approach to attain a diversified operational presence would be key in order to mitigate the impact of event risks and those arising out of political sensitivity. In order to mitigate any potential risks arising out of geographical concentration, CA Grameen has been diversifying its presence across states.

RESOURCES AND ASSET-LIABILITY MANAGEMENT (ALM)

A) Resource profile: Well-diversified resource profile			
Resource profile		% (as on Sep-18)	% (as on Mar-18)
Banks		53.24	61.53
FIs		9.44	14.41
NBFCs		7.26	1.70
Foreign sources		18.44	22.36
PTC / DAs		11.62	-
Total		100	100
<ul style="list-style-type: none"> The company has a well-diversified resource profile; as of Sep-18 it has accessed funds from over 50 lenders. Wholesale bank borrowings continue to have a bulk share of the resource profile (~53%) as of Sep-18 which has declined from (~62%) as of Mar-18. This remains in line with industry trends wherein players including apex MFIs have been relying on wholesale bank funding which constitutes over two-thirds of their borrowings profile. The company has been tapping the non-convertible debentures (NCD) & external commercial borrowings (ECB) route actively over the past few years so as to reduce borrowings concentration besides manage its ALM profile. Additionally, the company raises funds from securitization / bilateral assignment route on need basis. The company's cost of borrowings was lower than majority of its peers at around 11% 			
B) Asset liability management (ALM): Adequate			
Collection frequency	<ul style="list-style-type: none"> Weekly, fortnightly, and monthly 		
ALM and liquidity profile	<ul style="list-style-type: none"> A review of the maturity pattern of the company's assets and liabilities as of Sep-18 reveals that the company is not susceptible to immediate risks arising out of any asset liability mismatch. The company's receivables in various buckets (month-wise) were higher than repayments. Average maturity tenor multiple (assets / liability) ranged between 1.95 times and 1.56 times for monthly and upto two-month buckets and about 1.4 times for buckets ranging between six months to a year. The weighted average tenure of the company's borrowings is over 3 years, while that of its advances ranges between 1-3 years. 		

OPERATIONAL EFFECTIVENESS

A). Productivity: Sizeable asset base and above-average field productivity in relation to industry peers

Outreach summary for the period ended / as on end	Unit	Sep-18	Mar-18	Mar-17	Mar-16	Mar-15
Groups	No.	3,31,555	3,02,390	220,062	1,74,646	1,14,223
Members	No.	23,71,449	21,87,174	16,53,611	13,86,588	9,23,018
Borrowers	No.	20,77,658	18,51,324	14,50,298	12,05,974	8,54,188
Branches	No.	656	516	393	298	238
Districts	No.	156	132	96	74	64
Women borrowers	%	99.99	100.00	100.00	100.00	100.00
Disbursements	Rs. Mn	31,869.18	60,817.2	34,026.29	33,488.46	18,939.13
Gross loan portfolio	Rs. Mn	57,941.25	49,746.61	30,754.43	25,387.91	14,470.64

Human resource and productivity indicators as on end	Unit	Sep-18	Mar-18	Mar-17	Mar-16	Mar-15
Total employees	No.	7,355	6,306	4,952	3,836	2,698
Credit officers	No.	5262	4,544	3,667	2,736	1,915
Credit officers/Total employees	%	72	72	74	71	71
AUM/credit officer	Rs. Mn	11.01	10.95	8.39	9.28	7.56
AUM/branch	Rs. Mn	88.33	96.41	78.26	85.19	60.80
Borrowers/credit officer	No.	395	407	395	441	446
Borrowers/members	%	88	85	88	87	93
Borrowers/branch	No.	3,167	3,588	3,690	4,047	3,589

- The company's branch network and clients has expanded from 238 branches servicing 0.9 million borrowers as of March 31, 2015 to 516 branches servicing 2.2 million clients, as of March 31, 2018. During the six month period ended Sep-18, the company further expanded its reach to cover 2.4 clients across its 656 branches.
- CA Grameen's field productivity remains above average in comparison to its peers; the company has been able to improve its field outreach and asset productivity indicators over the years. These include average loan outstanding per client, and branch & staff productivity. The growth is partially also driven by an improvement in loan ticket size; average loan outstanding per client was Rs.0.27 lakh as on Sep-18 and Rs.0.20 lakh as of Mar-18 as against Rs.0.11 lakh as of Mar-17. The company would be required to register a consistent improvement in productivity whilst diversifying its operations.
- The company's profit after tax (PAT) improved to Rs.1,246 million for the year ended March 31, 2018 from Rs.752 million for the corresponding previous financial year. Owing to higher loan loss provisioning and surge in credit costs post the impact of demonetisation the PAT for FY 17 was lower as against Rs.837.76 million in FY16. Further, for the six-month period Sep-18, PAT (adjusted for tax effects) was higher at Rs.1589.2 million led by an effect of higher disbursements in FY 18' and consequential rise in fund-based income. Moreover, credit costs

Ratings

too have declined led by lower provisioning as per revised accounting methodology under Ind-AS contributing to rise in profitability.

- The company's opex levels remained low at 4.5 per cent in FY18 while operational self-sufficiency was adequately higher than 100%.

SCALABILITY AND SUSTAINABILITY

- The domestic microfinance industry is in the phase of consolidation. On one hand the multiplicity of players undertaking microfinance has broadened to include a wide gamut of players – NGO-MFI, NBFC-MFIs, business correspondents (BCs) managing portfolio on behalf of banks besides direct lending by few NBFCs and banks. Secondly, large MFIs have transitioned into banks while few mid-sized and large-sized MFIs have been acquired by banks and NBFCs. Resultantly, market share of NBFC-MFIs which accounted for about three-fourth of the industry size has shrunk to about a third. Banks, small finance banks (SFBs), and NBFCs now account for about 50% of the industry size. Thirdly, while micro-advances by players registered a compound annual growth rate (CAGR) of >40%, noticeably sectoral growth is driven by hike in loan ticket-size. An increase in loan ticket size is a regular industry phenomenon with seasoning of portfolio, completion of additional loan cycles and supported by an improvement in borrower's credit profile led by rise in business incomes. However, alarming growth in sectoral advances in past few years led by competitive pressures and as a client retention strategy adopted by few MFIs appear a risky move which may backfire through deterioration in asset quality. Also, absence of a uniform set of regulations for lenders across diverse categories and with the strategy of significant hike in loan ticket size by banks and SFBs, which do not fall under the purview of 'Microfinance lenders' could raise credit culture issues. Pure-play MFIs may be required to thus factor total household indebtedness as a factor in their credit appraisal of existing and potential borrowers.
- The company has strong level of documented systems and processes and adequate level of internal controls. The company's growth has been supported owing to backing of its institutional parent which has offered continued capital and managerial support. The organisation has a well-experienced & qualified board plus senior leadership which has witnessed further strengthening recently. Moreover, following its public listing, the company's institutional framework has strengthened. Higher regulatory requirements and compliances, heightened level of public disclosures, and strengthening of internal frameworks are expected to strengthen confidence of investor and lender community.
- The company remains a sector leader in terms of size of advances. With its focus market being underprivileged clientele in rural regions, the company is relatively exposed to a limited degree of competition from banks (including SFBs) which have so far focused aggressively on urban markets for building deposit franchisee and credit growth. With its focus expected to remain on relatively underpenetrated rural markets, the company remains well-poised for growth. It has attempted to diversify geographical presence by further penetrating in rural regions including central and eastern states; however share of advances on Karnataka and Maharashtra remains high at >80%. The company's business remains susceptible to inherent risks of unsecured lending and event-specific risks. Besides, impact of drought-prone situation in select regions where the company operates and political sensitivity also are key grading monitorable.

FINANCIAL INDICATORS

Income and expenditure statement

(Rs. Million)

For the period ended	September 2018	March 2018	March 2017	March 2016
	Unaudited (Limited review) – Ind AS	Audited - IGAAP		
Fund-based income				
Interest income from loans	5,548.13	7,954.46	6,566.88	4,064.85
Income from bank deposits / gain on investments	56.83	107.85	127.27	179.47
Gain on assigned portfolio	30.44	-	43.14	60.03
Other fund-based income	31.26	76.21	11.68	22.01
Total fund based income	5,666.64	8,138.52	6,748.97	4,326.36
Interest and finance charges	2,041.60	3,545.68	3,242.53	2,074.28
Gross spread	3,625.05	4,592.84	3,506.44	2,252.08
Fee based income	294.89	613.53	343.64	340.83
Total income	5,961.53	8,752.05	7,092.61	4,667.19
Gross surplus	3,919.93	5,206.37	3,850.08	2,592.91
Personnel expenses	870.95	1,272.10	1,046.85	706.72
Administrative expenses	440.65	672.85	507.02	416.35
Total expenses	1,311.60	1,944.95	1,553.87	1,123.07
Provision for loan loss & write-offs	306.97	1,281.15	1,086.02	140.17
Depreciation	37.28	51.69	44.33	26.06
Profit before tax	2,264.08	1,928.59	1,165.87	1,303.61
Tax	807.25	682.17	413.32	465.85
Profit after Tax	1,456.84	1,246.41	752.55	837.76

Balance sheet
(Rs. Million)

As at	September 2018	March 2018	March 2017	March 2016
	Unaudited (Limited review) – (IND AS)	Audited – (IGAAP)		
Liabilities				
Paid-up capital	1,433.56	1,284.27	856.81	729.53
Share premium	14,817.96	8,825.34	3,659.80	2,287.08
Reserves and surplus	5,879.85	4,169.29	2,391.36	1,632.59
Miscellaneous expenditure not written off	-	8.05	3.85	84.70
Net worth	22,131.37	14,270.85	6,904.11	4,564.49
Total borrowings (including managed Borrowings)	39,449.90	36,028.62	26,682.35	23,067.70
Borrowings (on-book)	39,076.47	36,028.62	26,682.35	22,333.15
Provision for loan loss	884.95	994.92	1,330.00	266.16
Other liabilities	844.82	881.04	720.40	881.67
Total current liabilities	1,729.77	1,875.96	2050.40	1,147.83
Total liabilities	62,937.61	52,175.43	35,636.87	28,045.48
Assets				
Loans and advances (incl. managed portfolio)	58,087.71	49,746.61	30,754.43	25,387.91
Loan portfolio (on book)	57,714.28	49,746.61	30,754.43	24,653.36
Cash & bank balances	2,304.93	1,300.30	3,321.08	1,826.83
Deposits with banks and other investments	1,809.62	121.93	405.28	1,081.57
Other assets & advances	881.57	834.36	1,003.15	370.36
Total current assets	4,996.12	2,256.59	4,727.51	3,276.76

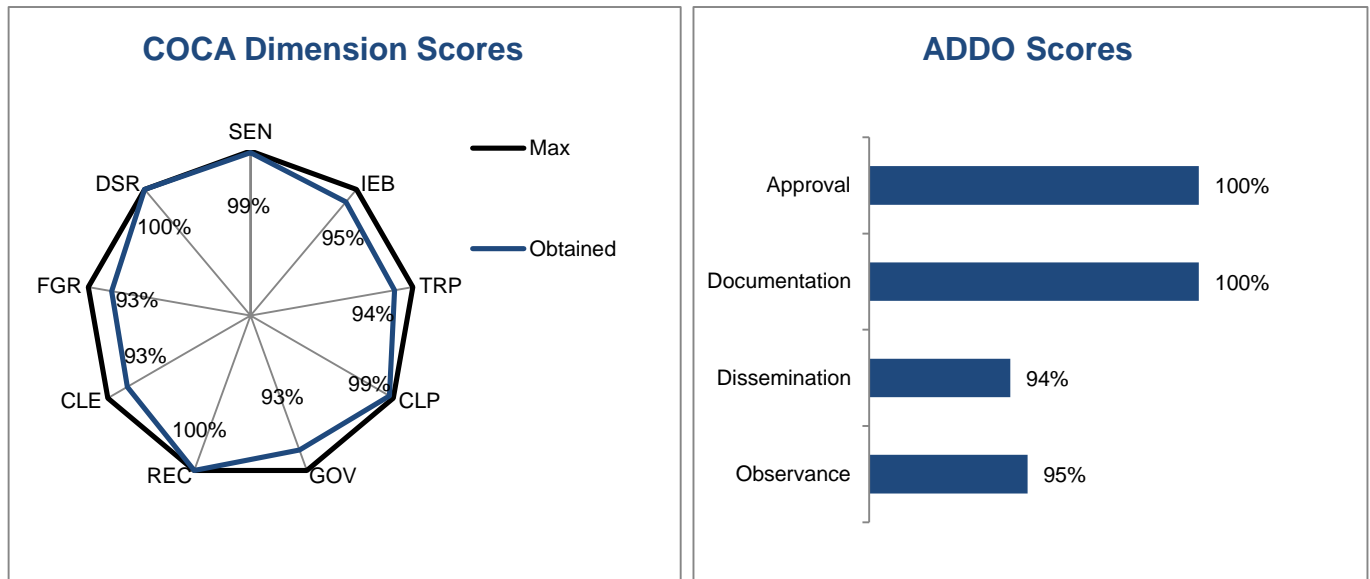
Ratings

Total funds deployed	62,710.40	52,003.20	35,483.93	27,932.12
Net fixed assets	227.20	172.22	152.93	113.36
Total assets	62,937.61	52,175.43	35,636.87	28,045.48

Key financial ratios
(In per cent)

For the period ended	September 2018	March 2018	March 2017	March 2016
	Unaudited (Limited review) – (IND AS)	Audited – (IGAAP)		
Yield				
Fund-based yield	19.82	18.61	21.28	19.18
Portfolio Yield	20.68	19.76	23.70	21.37
Fee-based income/Avg. funds deployed	1.03	1.40	1.07	1.45
Total income/Avg. funds deployed	20.85	20.01	22.36	20.64
Cost of funds				
Interest paid/Avg. funds deployed	7.14	8.11	10.23	9.20
Interest paid/Avg. borrowings	10.84	11.31	13.23	11.77
Interest spread				
Spreads on lending	8.98	7.30	8.05	7.41
Overheads				
Operating expense ratio	4.70	4.56	4.98	4.90
Personnel expense ratio	3.04	2.91	3.26	3.01
Administrative expense ratio	1.67	1.66	1.72	1.89
Profitability				
Net surplus/Avg. net worth	15.96	11.77	13.12	20.20
Net surplus/Avg. funds deployed	5.10	2.85	2.35	3.57
Operational self sufficiency	161	128	120	139
Asset quality				
Provisioning/Avg. loan outstanding	3.30	2.47	4.80	1.40
Capitalisation				
CRAR (%) - (reported)	40.37	28.91	29.71	21.47

Section 2: Code of conduct assessment



SEN: Sensitive indicators; IEB: Integrity and ethical behaviour; TRP=Transparency; CLP=Client protection; GOV=Governance; REC=Recruitment; CLE=Client education; FGR=Feedback and grievance redressal; DSR=Data security

- CRISIL's review of CA Grameen Limited's field operations, internal controls and an interaction with the management reveals that the company has been complying with stipulated regulatory guidelines and code of conduct (COC) principles.
- The NBFC-MFI's board has approved a fair practices code. The board of directors review and discuss the guidelines in the code in board meetings.
- The NBFC-MFI conducts induction and refresher training of staff members for creating awareness, reviewing, and updating their policies.
- The organisation communicates the product details, interest rates, terms and conditions, and other details to the client at the time of group formation.
- No instances were observed wherein the NBFC-MFI had charged excessive lending rates, penal charges, or security deposits from its clients. No instance of staff misbehaviour with clients was observed.
- Policy manuals on operations, credit, and human resource were available in the HO. Branch staff is apprised on key organisational policies through an intranet portal.
- The company has obtained membership of self-regulatory organisations (SROs). It is also a member of leading credit bureaus for the purpose of sharing data on client's credit history.
- For providing loan-linked life insurance and accidental insurance services to its borrowers the company has a tie-up with an IRDA-approved insurer.
- The NBFC-MFI displays summarised operational and financial performance on its website.
- The NBFC-MFI's credit policy includes guidelines on delinquency management including debt rescheduling for delinquent / stressed clients.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> The organisation is a member of self-regulatory organisations (SROs). The company has a strong and well-qualified board with a higher proportion of independent directors. The company has board approved policies in place on operations, internal audit, HR, and risk management apart from fair practices. Performance on key indicators is reviewed by board-level sub-committees. Necessary instructions are disseminated to the staff at various levels through circulars. The product terms and conditions and fair practices code have been displayed in all branches and literature provided to clients. The client institutionalisation and nurturing including pre-credit sanction training practices were found to be above-average. The NBFC-MFI undertakes credit history checks through the RBI approved credit bureau. The company's internal audit committee discusses the scope of the internal audit and reviews whether changes suggested in the previous audit reports have been implemented by the branches. Adequate feedback and grievance redressal mechanism; while complaint boxes are installed in branches, toll free numbers are also provided to clients for raising grievances. Dedicated staff has been appointed for the purpose of grievance redressal. No instance of policy violation including misbehaviour of staff with clients or improper collection practices were observed during field visits. 	<ul style="list-style-type: none"> The annual report is available on the public domain. However, the code of compliance report is yet to be uploaded in public domain. Awareness of clients on grievance and redressal mechanism were found to be moderate. The internal audit does not cover checks to be performed with regards to the adequacy of client data storage and staff satisfaction on compensation.

Significant observations

	Higher Order Indicators
Integrity and Ethical Behaviour	<ul style="list-style-type: none"> ✓ The company is a member of RBI-approved self-regulatory organisations (SROs). ✓ It has formulated an internal code of conduct policy so to comply with regulatory guidelines. The policy is in alignment with RBI's Fair Practices Code of Conduct and is also displayed in branches. ✓ The company has formulated policy manuals which serve as a reference document on operational and policy matters. ✓ Staff has been imparted training on client institutionalisation which includes training and fair collection practices. ✓ A documented human resource policy stating that collection shortfalls would not be recovered from its staff is in place. ✗ Internal audit does not cover staff satisfaction related to compensation and incentive. ✗ Sampled clients demonstrated moderate awareness regarding grievance redressal mechanism of the industry association.
Sensitive Indicators	<ul style="list-style-type: none"> ✓ The company communicates relevant product terms and conditions to its clients. ✓ In the group of sampled clients, it was observed that the company had not charged fines and penalty to the clients for delay in payment of instalments. The NBFC-MFI does not collect any collateral blank cheque from the clients against the loan. ✓ An interaction with sampled clients revealed that there was not a single instance where the following behaviour was displayed by the NBFC-MFI's staff: <ul style="list-style-type: none"> ○ Abusive language ○ Visiting client at odd hours; in case of delay, employees inform clients in advance ○ Forcible entry into dwelling & forced seizure of property ✓ A policy has been formulated that requires the NBFC-MFI to be a member of credit bureaus and to share relevant data. ✓ The field review and interaction with clients did not reveal any instance on deviation from qualifying asset guidelines issued by RBI. ✓ The loan size, tenure, utilisation, economic status of borrowers were found to be in line with the RBI's directions. ✗ Few clients demonstrated low awareness on amount and number of instalments required to be paid.

Building Blocks

Transparency

- CA Grameen adheres to RBI guidelines on Qualifying assets (pricing, tenure, & size). It does not accept any security deposit from its clients.
- The company's board has reviewed adherence to qualifying assets and obtained a CA certificate towards the same.
- It circulates key operating guidelines through office circulars based on any revisions. Briefly, following key circulars are available in its website:
 - Loan terms and conditions
 - Feedback and grievance redressal
 - Policies on code of conduct
 - Contact details for grievance redressal including SRO contact details
- CA Grameen's nominal lending rate is within RBI stipulated norms which is displayed and communicated publicly.
- The NBFC-MFI's staff has been provided training from the company's senior staff on product terms and conditions and on code of conduct details. Level of awareness was observed to be adequate during interaction with the field staff.
- The NBFC-MFI conducts regular trainings for staff to create awareness about the following:
 - Revision in RBI guidelines
 - Policies and procedures
 - Product information
- The company provides the loan card with full repayment schedule. The Kendra Manager signs the loan card after collecting the repayment.
- CRISIL's interactions with JLG clients revealed that a significant portion of the clientele was aware on broad aspects of pricing and loan terms and conditions. Awareness on settlement of insurance was somewhat average.
- Clients are provided with a copy of sanction letter once the loan is approved; loan agreement is provided only upon client's request.
- Clients are aware that neither CA Grameen nor its employees are entitled to collect any security deposit/collateral, commission, penalty, or bribes.
- The NBFC-MFI's operational manual indicates details on guidelines to be followed by its staff on assessment of client's repayment capacity and behaviour with borrowers. This is also a part of staff training and the details are captured in the client screening process.

Approval	Documentation
✓ The company's governing board has discussed relevant regulatory guidelines, policy manuals, and operational performance. The same have been documented by the company.	✓ The documents pertaining to the loan are available in vernacular language. ✓ The policy manuals have guidelines pertaining to security deposits and penalty to clients.

Ratings

Dissemination	Observance
<ul style="list-style-type: none"> ✓ Branches displayed the guidelines on fair practices and product terms and conditions. ✓ Staff receive training on nurturing JLG and on other operational procedures. 	<ul style="list-style-type: none"> ✓ The company issues a sanction letter to the clients which includes relevant regulatory terms and conditions. ✓ All clients are provided a loan card. An interaction with majority of the clients revealed that they were able to read and understand the terms and conditions on the loan card. ✓ The clients are not charged processing fees in excess of 1.00 per cent of loan amount. ✓ The field staff interviewed were aware about the terms and conditions of loans. ✓ The past audited financial statements have been displayed on the company's website.

Client Protection

Fair practices

- The NBFC-MFI has formulated operating guidelines for its staff on:
 - Client origination and targeting practices
 - KYC collection including Aadhar as a mandatory document (based on availability)
 - Undertaking loan appraisal of the underprivileged clients
 - Conducting centre meetings
 - Facilitating collections and managing instances of delinquencies
 - Managing client complaints and grievances
- The NBFC-MFI's board has approved a fair practices code. The company's intranet portal contains its operations policy which can be accessed by its branch staff. The branch staff is also made aware on various aspects of operations and COC through office circulars.
- The NBFC-MFI's governing board has reviewed the compliance w.r.t. qualifying asset criteria, credit approval process, and client indebtedness
- The company has documented the above-mentioned aspects in operational manuals. The internal audit reviews the loan size with respect to regulatory compliances.
- The company's credit and non-credit offerings have been approved by concerned regulatory authorities.
- During its field observations, CRISIL observed compliance with regards to loan size, loan tenure, repayment frequency and purpose for which the loans have been sanctioned. The branch managers as well as field officers were found to be aware about the income level of the borrowers as per the RBI guidelines.
- The company offers insurance to its clients through an IRDA approved agency. No client interviewed in the sample revealed that they had been made to pay for a service as a precondition for availing the loan.

Avoiding Over-indebtedness

- The company undertakes an operational survey apart from which field visits are undertaken by staff members at various hierarchies as a part of due diligence and monitoring.
- Board undertakes a review of the credit policy and related guidelines.
- The company's operational manual offers details on guidelines to be followed by staff for undertaking loan appraisal. The company's operating staff has been trained with regards to loan due diligence.
- The internal audit department undertakes credit bureau checks prior to disbursement. It also conducts a sample assessment of borrowers to verify maximum indebtedness. Branch staff was found to be aware of the regulatory guidelines on maximum over-indebtedness.
- The company follows regulatory norms on household income level in rural and urban areas.
- No instance was observed wherein the company had sanctioned a JLG loan in excess of the stipulated guidelines.

Ratings

Appropriate interaction and collection practices

- The NBFC-MFI provides training to its field staff pertaining to client interaction and collection of instalments.
- The staff has been instructed that misbehaviour with the client in any circumstances will result in strict actions against the concerned employee.
- In case of any severe issues relating to recovery of over dues, the field staff is required to inform concerned senior authorities for timely resolution.
- The field staff collect instalments on time at the designated meeting centres. The field staff makes an entry on the loan cards pertaining to repayment and issues a signature after the collection.
- Majority of the sampled clients reported that the field officers demonstrated professional conduct.
- No instance was observed wherein a field officer used abusive language or any threat was issued to clients or visit by staff was undertaken at odd hours. Also, no instance was observed wherein a client was asked to make payment to a person other than the concerned field staff.
- Clients expressed satisfaction on turnaround time of loan sanction; few clients indicated some satisfaction on frequency of centre meetings.

Privacy of client information

- The company adheres to guidelines pertaining to the privacy of client information.
- The company informs its clients that concerned data such as credit history would be shared with external stakeholders such as RBI, SROs, or lenders for requisite purposes. For the same purpose, the NBFC-MFI seeks a written permission from its clients.
- The NBFC-MFI obtains backup of client data on regular basis.
- The company shares client related data only with approved credit bureaus and vendors for verification purpose.
- Few clients demonstrated low awareness on the aspect of privacy of client information.

Approval	Documentation
✓ The governing board has reviewed compliance in the past one year on: <ul style="list-style-type: none">○ Qualifying assets criteria○ Conduct of client meetings & collections○ Credit approval process & client indebtedness	✓ The client's credit appraisal and loan eligibility guidelines have been documented.
✓ Governing board has approved fair practice code and procedure manual. Staff is made aware on the operations policy manual through the company's intranet portal.	✓ The loan size, tenure, purpose, and repayment frequency are as per relevant regulatory guidelines and have been documented.
	✓ Written policy is in place for undertaking credit bureau check, verifying credit history of clients and sharing the data with credit bureaus.

- ✓ The NBFC-MFI has designed a credit policy which covers guidelines for handling debt rescheduling & towards recovery of delinquent loans.

Dissemination

Observance

- | | |
|--|--|
| <ul style="list-style-type: none"> ✓ The company's branch employees have received trainings on regulatory guidelines, internal credit policies, and on assessment of client's repayment capacity. ✓ Awareness of branch managers on industry code of conduct on KYC norms and client indebtedness are observed to be adequate. | <ul style="list-style-type: none"> ✓ The household income of clients and indebtedness levels of clients was observed to be in line with the regulatory guidelines during CRISIL field visits. ✓ The loan sizes, loan tenure, and loan utilisation amongst the sampled clients was in line with the limits defined by the SRO. ✗ Few clients demonstrated low awareness on the aspect of privacy of client information including the fact that their data can be shared for authorised purposes. |
|--|--|

Ratings

Governance

- Over 1/3rd of the governing board consists of independent members. The company has an independent member as a Chairperson. The board meets periodically to review operational and policy issues. Minutes of the meetings are well-documented.
- The company's internal audit team conducts bi-monthly / quarterly audits of branches. In the process it reviews adherence to RBI guidelines w.r.t. clients' household income, indebtedness, and awareness on grievance redressal. However, staff satisfaction on compensation and incentive are not captured by internal audit. Instead audit team reviews the staff satisfaction levels captured in the company's HR survey.
- During the past year, the adequacy of internal audit team and manpower planning has been undertaken.
- The NBFC-MFI get its financial accounts audited by a statutory auditor. No adverse observations have been made in the statutory auditor's report.
- The company has formed board-level sub-committees on audit, risk, nomination, stakeholder relations, and CSR besides investment, IT, ALM, and risk management. The audit committee at the board level is headed by an independent chairperson.
- The company has not formed a formal debt restructuring policy; however there was evidence of incremental credit support in the instances of clients facing distress.
- The books of accounts are audited by a reputed audit firm. The company was found to be complying with relevant accounting standards.

Approval	Documentation
<ul style="list-style-type: none"> ✓ The company has written policy regarding constitution of the board; more than 1/3rd of the members are independent. ✓ Audit committee is headed by an independent director as the Chairperson. ✓ A policy towards debt rescheduling for delinquent / clients facing distress has been put in place. 	<ul style="list-style-type: none"> ✓ The NBFC-MFI shares the adherence on code of conduct to the board on quarterly basis.
Dissemination	Observance
<ul style="list-style-type: none"> ✗ Awareness amongst branch staff members on the guidelines regarding process to be followed with clients who are delinquent and was found to be limited. 	<ul style="list-style-type: none"> ✓ Governing board comprises qualified and reputed members. More than 1/3rd of the board members are independent members. ✓ The board meetings are regularly conducted and the minutes of the same are well-documented. ✓ There is timely conduct of statutory audit from a reputed audit firm. No adverse observations have been made in the statutory auditor's report. ✓ There is a separate audit committee and a dedicated internal audit team in place. Audit

committee meets periodically to review audit observations including compliance to code of conduct. Audit observations are presented to the board level committee.

- ✖ The internal audit team does not cover staff satisfaction pertaining to compensation and incentives.

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Recruitment

- The company has documented its guidelines regarding the recruitment process. It has also formalised a process for undertaking reference checks on all its new employees.
- The NBFC-MFI's HR manual provides details on compensation & incentive structure, leave policy, and working hours.
- The employees have to serve notice period as specified in the terms and conditions of the offer letter in case of resignation.
- As per the organisational policy, only freshers are recruited for the cadre of loan officer. In addition, the field employees are transferred from their area on periodic basis. In the instance of an employee being recruited from another MFI, the concerned staff member is not assigned the operating region served during his previous assignment.

Approval	Documentation
<ul style="list-style-type: none"> ✓ The company's board has reviewed the recruitment policy once in the last year. ✓ Employees are required to serve a notice period of 30 days 	<ul style="list-style-type: none"> ✓ An HR policy manual has been designed which outlines the procedure for staff recruitment. Also, an employee background verification employee policy has been formulated. ✓ The organisation also documents reference checks on all its new employees
Dissemination	Observance
	<ul style="list-style-type: none"> ✓ The company undertakes reference checks while recruiting new employees. It obtains NOC or relieving letter from its new joiners. ✓ CRISIL has received documentary evidence that the NBFC-MFI conducts reference checks on its employees.

Client Education

- The NBFC-MFI imparts training to its clients with regards to its credit offerings, operating procedures, and responsibility of the clients including on joint liability, centre meeting attendance, and financial choices. The organisation also focuses on raising awareness of its clients on issues such as clean water, sanitation, and hygiene through one of its non-credit offering specifically designed for this purpose.
- The GRT conducted for its clients during the credit approval process is focused on enhancing the awareness of clients on the following aspects:
 - Name of the organisation and concerned staff details
 - Names of other group members assuming joint liability
 - Location of the centre, meeting date, and time
 - Role and responsibility as a JLG member
 - Terms and conditions about credit offerings
 - Location and contact details of branch and HO
- The clients are also made aware about their rights, responsibilities, and financial details during the loan disbursement process.
- Training to the staff focuses on raising awareness amongst clients on timely servicing of debt, criticality of joint liability mechanism, attendance, savings, and financial literacy. Others aspects covered include enhancing their understanding on offerings, regulatory guidelines, operating procedures, and industry code of conduct.
- Internal audit reviews status of client awareness on various aspects of adherence to code of conduct during its field visits.

Approval	Documentation
	<ul style="list-style-type: none"> ✓ The NBFC-MFI has documented the process of CGT, GRT, credit policies, and operating procedure manual. ✓ The JLG group meeting register detailing observations of centre meeting is available at centres. ✓ The NBFC-MFI has documented the process of CGT, GRT, its credit policies, and procedure manual.
Dissemination	Observance
<ul style="list-style-type: none"> ✓ The company has trained its staff on raising client awareness ✓ Internal audit reviews client awareness and understanding on various aspects of credit and non-credit offerings. 	<ul style="list-style-type: none"> ✓ Clients expressed that the company had made them aware about the issues of options, choices and responsibilities ✗ Few clients displayed weak awareness about lending terms (rate of interest, processing fees, and insurance charges).

Feedback & Grievance Redressal

- The NBFC-MFI trains its staff on feedback and redressal mechanism. Clients are made aware about grievance redressal mechanism during CGT and disbursements.
- The company has displayed contact details in its branches which can be accessed by its clients for grievance and redressal. Contact details for raising grievances have been provided to the clients on the loan card including SRO contact details. Branches also have complaint boxes which clients can use for raising complaints.
- Clients are provided HO's contact details apart from the contact numbers of branches as part of the grievance redressal mechanism. The information about grievance redressal mechanism established by industry associations is also part of the training of the clients; however, interviewed clients demonstrated low awareness about the same.
- The internal audit reviews the status and resolution of grievances.
- Adequate documentation is maintained with regards to complaints raised and resolved. The organisation has established a dedicated grievance redressal cell which tracks the status of complaints received, resolved and pending. Periodic reports indicating the status of the grievances are shared with the senior management and board.

Approval	Documentation
<ul style="list-style-type: none"> ✓ The clients have been provided a formal mechanism to raise their complaints. ✓ Specific reports indicating grievances raised and resolved were available. They are also presented to senior management and board. 	<ul style="list-style-type: none"> ✓ Fair practice code of the company includes details related to grievance redressal. ✓ In all the branches visited, the contact number and address of SRO nodal official has been displayed.
Dissemination	Observance
<ul style="list-style-type: none"> ✓ The company trains its employees on aspects of grievance redressal mechanisms. ✓ The client grievance redressal mechanism forms part of client training. 	<ul style="list-style-type: none"> ✓ Clients were aware about the name of NBFC-MFI and branch locations apart from the head office contact details and SRO nodal officer for raising grievances, if any. ✓ The company has put in place a formal mechanism to record the complaints received from its clients. ✓ A toll-free number for grievance redressal is mentioned on the loan card. However, client awareness levels on grievance redressal policy and escalation matrix were found to be moderate. ✗ Client's awareness of grievance redressal was observed to be moderate.

Data Sharing

- The company is a member of SRO. Requisite data is shared with RBI and SRO.
- The company has obtained the membership of all credit bureaus for the purpose of sharing client data. It has a well-defined process for sharing data with the credit bureaus.
- Client's credit history, including instances of multiple lending & client indebtedness are verified through credit bureaus.
- The NBFC-MFI displays summarised operational and financial performance on its website.

Approval		Documentation	
✓	The NBFC-MFI has formulated a policy that requires it to be member of and share data with any credit bureaus.	✓	The company has a board approved policy for client data privacy which indicates necessary steps adopted for ensuring data security and external sharing of client's information as required.
Dissemination		Observance	
✓	The organisation informs client through terms and conditions that their data may be shared with the credit bureau and regulatory bodies. The loan agreement forms also discloses the same.	✓	It shares data with all credit bureaus.

Annexure: Methodologies

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

Highest order	
Sensitive indicators	
Higher order	
Integrity and ethical behaviour	
Building blocks	
Governance	Client protection, recruitment
Transparency	Feedback/grievance redressal
Client education	Data sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below:

Higher order indicators	Number of indicators
Integrity and ethical behaviour	32
Sensitive indicators	27
Building blocks	Number of indicators
Transparency	40
Client protection	123
Governance	30
Recruitment	13
Client education	14
Feedback and grievance redressal	25
Data sharing	6
Total	251

Methodology

The Code of Conduct exercise is spread over 4-8 days. The first day is spent at the head office. The assessment team visits the branches over the next 3-8 days. Depending on the size and the operational area of the MFI, 8-15 branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI are less than 8).

Ratings

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 centres
Small / mid-sized MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centres)
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centres)
Large MFIs (loan portfolio outstanding of Rs.500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centres)

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 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 are 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 maximise 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 a part of this assessment, we visited 16 branches and the head office of the NBFC-MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Narayangao	Maharashtra	24
2	Chakan		29
3	Bhigwan		21
4	Shirur		35
5	Igatpuri		62
6	Sinnar		
7	Indapur		33
8	Saswad		30
9	Rajpura	Madhya Pradesh	24
10	Sendhwa		20
11	Manavar		21
12	Kukshi		21
13	Kanakpura	Karnataka	24
14	Santhe Kodihalli	Karnataka	23
15	Dharmapuri	Tamil Nadu	20
16	Palacode	Tamil Nadu	24
Total			411

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