CRISIL Comprehensive MFI Grading

Annapurna Finance Pvt Ltd

May 2021

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Annapurna Finance Pvt Ltd

Comprehensive grade assigned: M1C1

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

The microfinance institution (MFI) has obtained a 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	Annapurna Finance Pvt Ltd has been assigned **'M1'** as its performance grade, which signifies '**Highest**' capacity to manage its microfinance operations in a sustainable manner. The organisation has a long track record in lending to self-help groups (SHGs) and joint liability groups (JLGs). Backed by its strong board, systems and processes, the MFI has emerged as a one of the largest entities in the country's microfinance space. It has demonstrated its ability to raise capital from investors on a timely basis. Its resource profile remains diversified. Even after the Covid-19 pandemic struck, its asset quality has remained 'Above Average'. It has been able to diversify its borrowings profile by repeat access of debt from its lenders. Its earnings profile has been improving year-on-year (y-o-y). Stiff competition from small banks and other MFIs and reduction in geographic concentration remain key grading monitorables.
Code of Conduct Assessment Grade	Annapurna Finance Pvt Ltd has been assigned **'C1'** as its Code of Conduct Assessment (CoCA) Grade, which signifies 'excellent' performance on CoCA dimensions. The MFI adheres to the Reserve Bank of India (RBI) and Self Regulatory Organisation (SRO) guidelines. It has put in place appropriate practices on staff training and borrower orientation. The internal audit regularly monitors the efficacy of the above aspects

	and results are submitted to the governing board for review. The company's governing board is composed of qualified personnel who comprise over 50% of the overall board strength.

*Comprehensive MFI Grading provides opinion of CRISIL on the 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 and Grievance Redressal** and **Data Sharing**. Some of these indicators have been categorised as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour** and **Sensitive Indicators**.*

Conflict of interest declaration

CRISIL (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 CRISIL have been a member of the Board of Directors of the MFI for a period of 12 months preceding the date of the comprehensive grading.

CRISIL's Grading History of Annapurna Finance Pvt Ltd

Date	MFI grading
April 2020	M1C1*
March 2019	M1C1*
December 2018	mfR1
December 2017	mfR2
October 2016	mfR2
July 2010	mfR4

**MFI grading along with Code of Conduct Assessment*

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 the **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

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Section 1: Microfinance Capacity Assessment Grading

Fact sheet

Name	:	Annapurna Finance Pvt Ltd
Year of establishment	:	1986
Year of commencement of microfinance programme	:	2009
Legal status	:	• Private limited company • Registered as a non-banking financial company-microfinance institution (NBFC-MFI) with the RBI
Registered office and corporate office details	:	Plot No. 1215/1401, Khandagiri Bari Khandagiri – 751 030, Odisha Website: https://annapurnafinance.in Email: info@ampl.net.in
Chief executive officer (CEO)	:	Mr Gobinda Chandra Pattanaik
Number of lenders	:	More than 60 lenders, including banks, development finance institutions, and NBFCs
Statutory auditors	:	S R Batliboi & Co LLP, Kolkata – West Bengal

About the MFI's operations

As on January 31, 2021

Area of operations	:	Across 313 districts in 18 states (top 5 states contribute to ~75 % of the total portfolio)
Lending model	:	Joint liability group (JLG), Self-help groups (SHGs), Micro enterprise (MEL) and individual.
Borrower base	:	17,76,616 borrowers (19,89,809 members)
Employees	:	7,341 (4,630 credit officers)
No. of branches	:	856 (313 districts)
Assets under management (AUM)**	:	Rs 45,604.84 million (including managed portfolio of Rs 2,816.43 million)

** *Includes managed portfolio under business correspondent operations*

Social and transparency indicators

As on January 31, 2021	%
Average loan outstanding/per capita GNI (2018 figure)*	19.98
Women staff/total staff	9.85
Women borrowers/total borrowers	98.68
Lending rate charged by MFI	21.25
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 loans from other MFIs a parameter to select/screen clients?	Yes
Is access to loans from other MFIs/residual income a factor in appraising the client's repayment capacity?	Yes
Does the MFI appraise the client's income/poverty/asset level and use this data to target other low-income clients?	Yes
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

RESERVE BANK OF INDIA (RBI) guidelines[1]

Parameter	RBI requirements for NBFC-MFIs
Capital requirement	Rs 50.00 million in net-owned funds (Rs 20.00 million for North-east MFIs)
Multiple lending	No more than two MFIs can lend to the same borrower
Annual income of households qualifying for MFI loans	➢ Rural areas: ≤Rs 1.25 lakh ➢ Non-rural areas: ≤Rs 2.00 lakh
Disbursements	➢ First cycle: ≤Rs 75,000 ➢ Subsequent cycle: ≤Rs 1.25 lakh
Borrower indebtedness	➢ ≤Rs1.25 lakh
Loan tenure	➢ ≥24 months for amount in excess of Rs 30,000 ➢ Moratorium period ≥ frequency of repayment
Loan repayment	➢ Repayable in weekly, fortnightly, or monthly instalments, as per the borrower's choice
Interest rate	The lower of the following: ➢ Cost of funds, plus margin (capped at 10% for large MFIs and 12% for others) ➢ Average base rate of the five largest commercial banks by assets, multiplied by 2.75%
Loan purpose	More than 50% of the loans are for income-generation activities

[1] RBI guide lines are as on November 8, 2019.

Loan loss provision	Shall not be less than: **Standard assets** ➢ 1% of the outstanding loan portfolio **Non-standard assets** ➢ 50% of the loan instalments, which are overdue for ≥90 days and ≤180 days And ➢ 100% of the loan instalments, which are overdue for ≥180 days
Penalty	➢ No penalty on delayed payments ➢ No penalty on prepayments
Recovery practices	➢ Shall adopt non-coercive methods ➢ To be made only at a centrally designated place ➢ At residence, only if a customer fails to appear at the designated place more than twice
Capital adequacy	15.00%
Credit information company (CIC)	Membership of at least one CIC
Self-regulatory organisation (SRO)	Membership of at least one SRO
Qualifying assets	85.00%

**RBI guidelines are not binding for the NGO-MFI. However, many NGO-MFIs voluntarily adhere to the guidelines as a good practice.*

MFI grading rationale

CRISIL's microfinance institution (MFI) grading of Annapurna Finance Pvt Ltd (AFPL) reflects the following strengths:

- Established track record along with experienced board and management
- Strong systems and processes
- Adequate policy framework in place
- Good earnings profile, supported with above-average field productivity
- Above Average asset quality
- Well-diversified resource profile

However, these strengths are offset by the following weaknesses:

- Susceptibility to risks arising out of the political environment due to unsecured lending operations
- Geographic concentration of loan portfolio

Key monitorables

1. **Collections and disbursements need close monitoring:** Disbursements were stopped in all the branches from the last week of March 2020 until the end of May 2020 due to the Covid-19 pandemic. However, after the Ministry of Home Affairs guidelines allowed functioning of NBFC-MFIs with minimum staff in non-hotspots and non-containment zones, AFPL started field operation activities from June 01, 2020. The MFI had disbursed Rs 22,391 million as of January 2021 and collection efficiency was around 94%.

Covid-19 impact

- Due to the ongoing Covid-19 pandemic and subsequent lockdowns imposed across India, AFPL's branch operations were impacted. Disbursements stopped in all the branches from the last week of March until the end of May 2020
- Although disbursements began on a moderate scale from June 2020, AFPLs targeted only existing clients with a strong repayment track record
- On the collection front, the numbers stood at around 36% and 62% in April and May 2020, respectively, due to the lockdown. In February 2021, average collection across India was around 96%.
- Collection gained traction from June 2020 and collection efficiency has shown an improving trend over the last 8 months as below:

State-wise collection status

State	Collection efficiency									
	Jan 2021	Dec 2020	Nov 2020	Oct 2020	Sept 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	April 2020
Assam	66%	71%	72%	73%	73%	100%	100%	100%	59%	28%
Bihar	98%	100%	96%	98%	98%	100%	100%	100%	105%	71%
Chhattisgarh	93%	95%	87%	87%	98%	100%	100%	100%	74%	42%
Gujarat	97%	100%	97%	98%	98%	100%	100%	100%	0%	0%
Haryana	98%	100%	97%	98%	98%	100%	100%	100%	0%	0%
Himachal Pradesh	99%	100%	100%	100%	100%	100%	100%	100%	0%	0%
Jharkhand	99%	100%	98%	98%	99%	100%	100%	100%	0%	0%
Karnataka	100%	100%	100%	100%	100%	100%	100%	100%	0%	0%
Madhya Pradesh	97%	99%	94%	98%	96%	100%	100%	100%	84%	59%
Maharashtra	93%	92%	88%	88%	90%	100%	100%	100%	10%	9%
Meghalaya	97%	95%	100%	95%	95%	100%	100%	100%	0%	0%
Odisha	95%	88%	89%	74%	79%	100%	100%	100%	30%	17%
Punjab	98%	99%	89%	90%	89%	100%	100%	100%	30%	0%
Rajasthan	99%	99%	99%	100%	100%	100%	100%	100%	99%	49%
Tamil Nadu	99%	99%	98%	100%	100%	98%	100%	100%	102%	102%
Tripura	93%	87%	87%	87%	84%	100%	100%	100%	96%	85%
Uttarakhand	100%	100%	100%	100%	100%	0%	0%	0%	0%	0%
West Bengal	95%	86%	89%	88%	84%	100%	100%	100%	96%	81%
Total	**94%**	**93%**	**90%**	**90%**	**88%**	**100%**	**100%**	**100%**	**62%**	**36%**

- The above table illustrates the collection efficiency of the MFI during the pandemic. Collections were not made in April and May as mandatory moratorium was provided to borrowers. However, collection rate has been showing month-on-month improvement from June 2020.
- Collections need to be closely monitored as they were hampered due to the pandemic-induced lockdown and floods in areas of operation such as Assam, Chhattisgarh, and Odisha. The MFI's vulnerability in these respective locations can be a challenge in recovering to its pre-Covid levels of collection and disbursement.

Profile

AFPL is an NBFC-MFI based in Odisha undertaking microcredit operations in 18 states. In 2009, the founders of People's Forum, a registered society operating in Odisha, acquired Gwalior Finance & Leasing Company, an existing NBFC. The acquired NBFC was subsequently renamed Annapurna Microfinance Pvt Ltd (AFPL) and commenced operations as a NBFC-MFI in October 2013.

People's Forum (PF) was established in 1989 and registered in 1990 under the Societies Registration Act, 1860. In 1995, PF started forming women SHGs and facilitated SHG-bank linkage to provide members access to formal savings and credit services. However, the SHG-bank linkage programme proved to be more challenging than expected as bankers were hesitant to lend to SHGs. To tackle the challenges faced by SHG members, PF commenced its microfinance operations under a dedicated programme - Mission Annapurna. PF's legal status restricted its ability to raise capital and scale up operations. To address this, an NBFC was acquired and microfinance operations were transferred to AFPL. Subsequently, AFPL received equity and funding support from various investors.

AFPL mainly targets rural and semi-urban clientele. As on January 31, 2021, it had outstanding loans of Rs 45,605 million with 17,76,616 borrowers in 313 districts across 18 states. AFPL primarily lends loans to women organised as SHGs and JLGs. The loan ticket size ranges between Rs 10,000 and Rs 1,00,000 and accounted for about 90.00 % of its outstanding portfolio on the same date. The repayment tenure of the loans varies from 1-2 years. The NBFC-MFI also offers non-income-generating loans for varied purposes, including water and sanitation, micro-housing, micro-enterprises, and dairy amongst others. The loan ticket for such loans is Rs 1,000 and Rs 25,00,000 and repayment tenure extends up to 2 years. Loans are sanctioned depending upon the client's repayment capacity, number of loan cycles, and type of activity. Since 2015, the MFI has also started SWASTH loan for sanitation and hygiene-related requirements apart from micro enterprise loans to individuals which account for ~1.4% and 0.14% of the portfolio, respectively. The MFI is also exploring other loan products such as loans for education, home improvement, dairy development, and crop loans that constitute a small portion of the portfolio.

AFPL's operations are decentralised at the state level; it has 22 regional offices (two each in Assam, Bihar, Chhattisgarh, Odisha, Rajasthan, Maharashtra and Madhya Pradesh, and one each in Punjab, Haryana, Jharkhand, West Bengal, Tamil Nadu, Karnataka and Gujarat).

Since April 2017, the NBFC-MFI has also initiated lending under the JLG model for its new urban centres. The management cites an industry-led transition towards the JLG model and quicker scalability as the key reasons for the development. The management has also indicated that going forward, expansion of new branches in both Odisha and other states would be undertaken under the JLG model. However, existing branches operating on the SHG model would continue to operate and expand under the same methodology. Also, under the new structure, the NBFC-MFI would have exclusive branches for both SHG and JLG to streamline operations. Key distinguishing factors between AFPL's SHG and JLG models are as listed below:

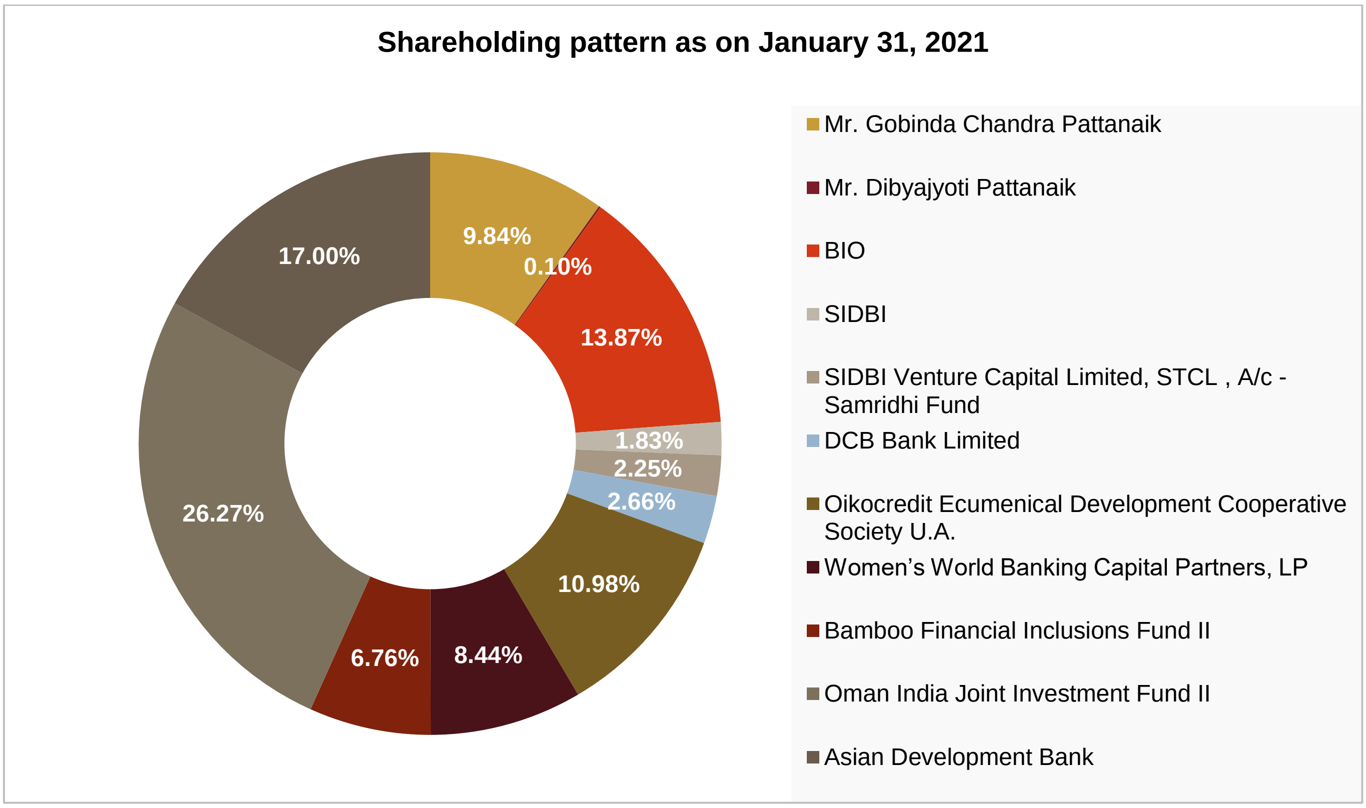
Parameters	AFPL's SHG Business Model	AFPL's JLG Business Model
Formation basis	Mutual trust amongst all members of the group	Joint liability (mutual guarantee)
Number of members	7-20 per group	4-7 per group
Number of groups in centre	1 in a centre	2-4 groups in a centre
Loan tenure	12-24 months	12-24 months
Loan amount	Any amount (no upward limit)	Rs 10,000 to Rs 1,00,000 (variation of Rs 10,000 between minimum and maximum loan amount among JLG members in a group)

Parameters	AFPL's SHG Business Model	AFPL's JLG Business Model
Rate of interest	21.25% declining	21.25% declining
Group savings account	Mandatory to open a group savings account in a bank	Not mandatory to open a group savings account in a bank
Type of programme	Bank linkage	No bank linkage
Training duration	1-2 months	20-30 days
Peer pressure to repay the loan	No peer pressure in a group to repay the loan	Peer pressure in a group to repay the loan
Ownership and control	With group members	With MFI

Ownership structure

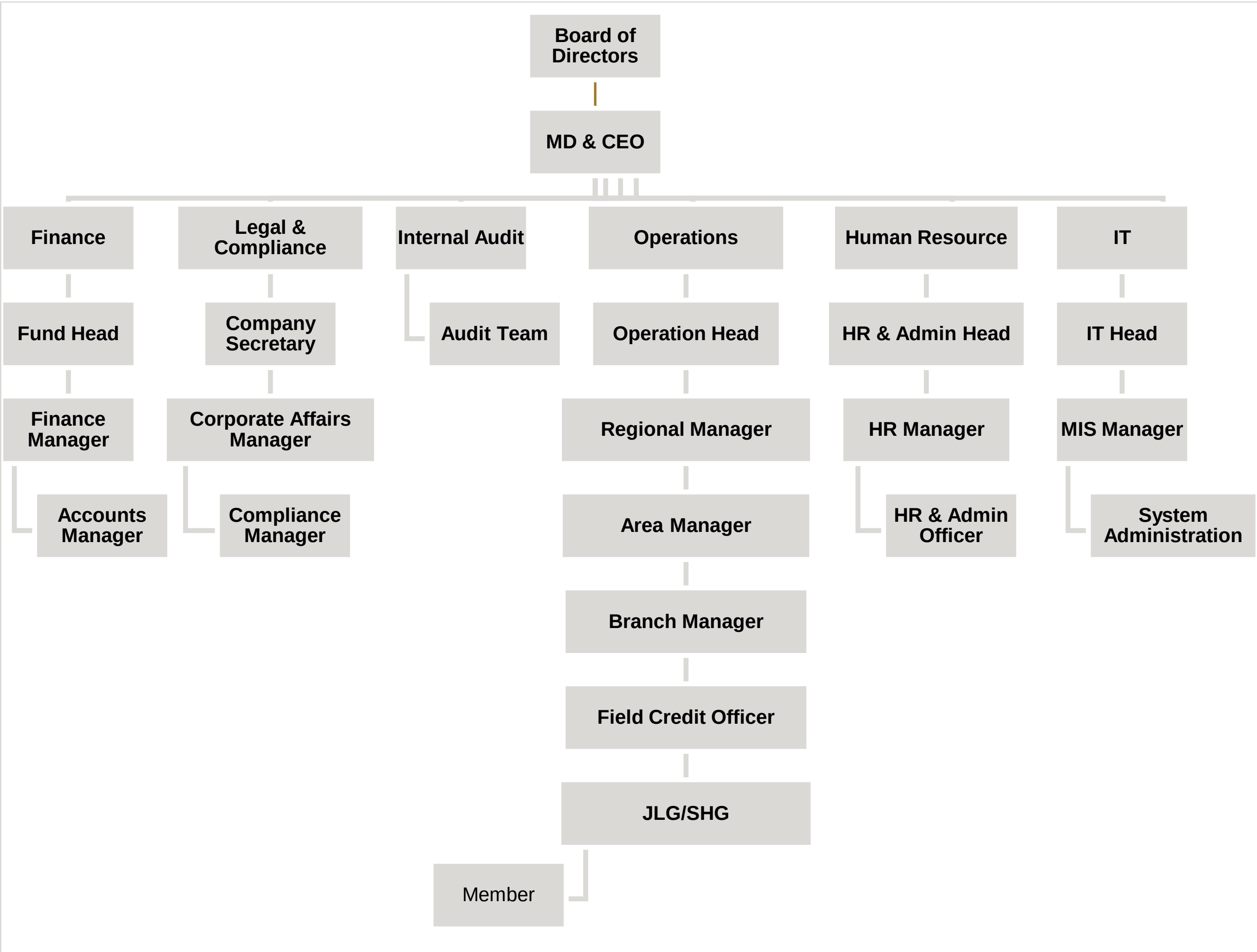
AFPL's ownership structure remains well-diversified; as on January 31, 2021, the NBFC-MFI had 11 shareholders comprising individuals, foreign investors, private banks and development finance institutions. Major investors are social sector investors with medium-term investment horizon.

Name of the shareholder	Shareholding (%) as on January 31, 2021	Shareholding (%) as on March 31, 2019
Equity shareholder		
Oman India Joint Investment Fund II	26.27	26.27
Asian Development Bank	17.00	17.00
BIO	13.87	13.87
Oikocredit Ecumenical Development Cooperative Society U.A.	10.98	10.98
Mr Gobinda Chandra Pattanaik	9.84	9.84
Women's World Banking Capital Partners, LP	8.44	8.44
Bamboo Financial Inclusions Fund II	6.76	6.76
SIDBI Venture Capital Ltd, STCL , A/c - Samridhi Fund	2.25	2.25
DCB Bank Ltd	2.66	2.66
SIDBI	-	1.83
Mudra	1.83	-
Mr Dibyajyoti Pattanaik	0.10	0.10
Total equity holding	**100.00**	**100.00**



Shareholding pattern as on January 31, 2021
9.84%
0.10%
13.87%
1.83%
2.25%
2.66%
10.98%
8.44%
6.76%
26.27%
17.00%
Mr. Gobinda Chandra Pattanaik
Mr. Dibyajyoti Pattanaik
BIO
SIDBI
SIDBI Venture Capital Limited, STCL , A/c - Samridhi Fund
DCB Bank Limited
Oikocredit Ecumenical Development Cooperative Society U.A.
Women's World Banking Capital Partners, LP
Bamboo Financial Inclusions Fund II
Oman India Joint Investment Fund II
Asian Development Bank

Organisation structure:

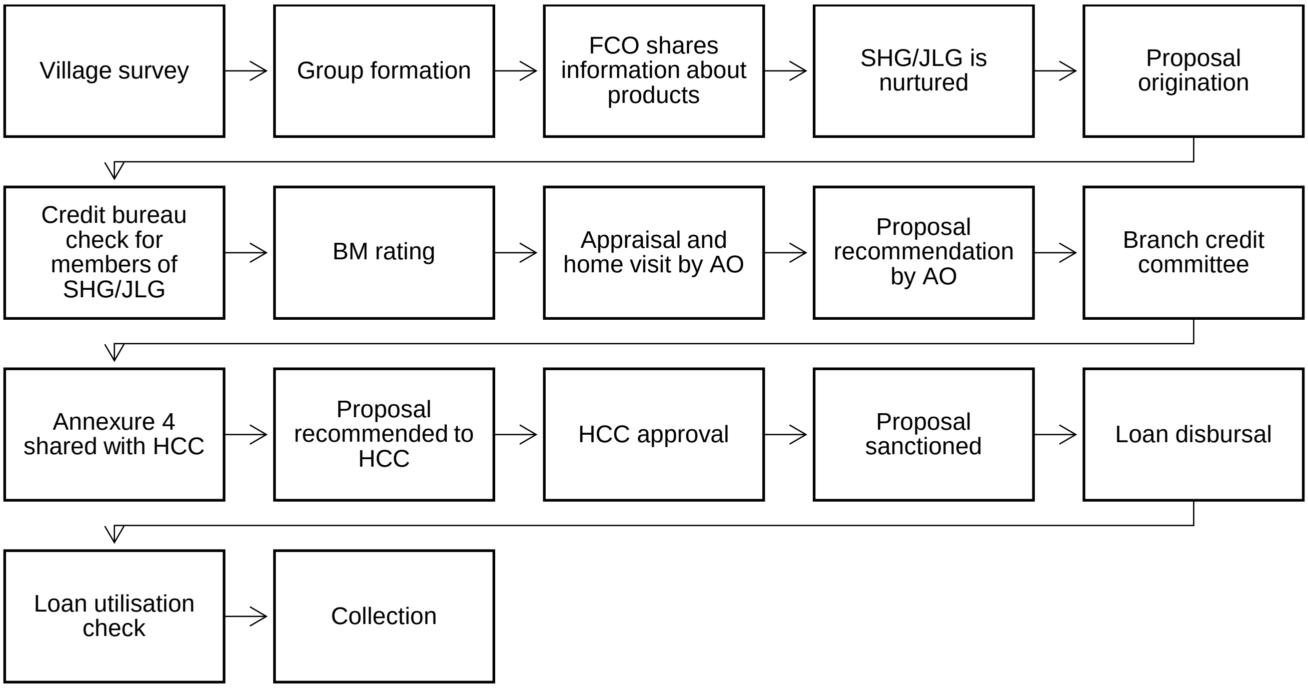


Lending methodology

Lending and operational methodologies

AFPL primarily targets rural and semi-urban clientele, who are not covered under formal financial services. AFPL conducts village surveys to understand the region's demographic profile and potential for establishing a microfinance programme. AFPL's branches cover a 25 km radius. 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 Field Credit Officer (FCO) of the NBFC-MFI submits the survey report to the branch manager (BM). The BM then shares the report with the area manager, who in turn submits the report to the risk department. The report contains details of business potential (existing SHGs and unbanked customers meeting eligibility criteria) and competition in the village/s surveyed. The risk department finally shares the report with the director after conducting surveys and assessing business potential, operational feasibility and feedback from the appraisal team in certain cases. The director then approves expansion into the surveyed village/s. After this, the FCO conducts a meeting with potential clients to provide information about the organisation, its product and loan process. Interested members then form an SHG. An existing SHG may also approach the FCO for loan. SHGs are nurtured for the next 2-3 months. During this period, the SHG is required to open a bank account and initiate group savings. Further, during this nurturing period, the FCO trains group members about the loan product, group responsibility and importance of timely repayment. After nurturing, the proposal is originated in which the FCO fills up the proposal form. Simultaneously, credit bureau (CB) checks for SHG members being initiated through the head office staff; the outcomes on member-wise credit history are then shared with branches.

On completion of the nurturing phase, the BM undertakes a rating of the group. If it meets the cut-off, the proposal is forwarded to the credit team for appraisal. If it does not meet the cut-off score, the group is nurtured further so that the cut-off score can be met. The credit team is allocated with an appraisal officer (AO) to evaluate the loan application of individual SHG members. The appraisal process involves evaluation of each borrower's credit history, household cash flow, and asset ownership. The AO validates the KYC documents and verifies the indebtedness levels of potential clients from the CB report. The AO also visits client homes and their families. Based on his assessment of the client, the AO may recommend reduction in the loan amount as suggested by the FCO/BM. All the applications of the groups visited by the AO are discussed in the Branch Credit Committee's (BCC) meeting comprising the AO, BM, assistant branch manager (ABM) and FCOs concerned. If the AO and branch team agree with the recommendation, the proposal is forwarded to the head office (HO) for sanction. In case the BCC is unable to reach a consensus, the proposal is referred to the Head Office Credit Committee (HCC), which takes the final decision on loan sanction. After receiving sanction from HCC, branches are informed about the decision and the loan amount is transferred through NEFT/RTGS to the branch account for disbursal. Once the loan amount is credited to the branch account, the branch staff withdraws the required amount within 2-3 days through cheque, for loan disbursement. The branch team communicates the disbursal date to the SHG and loans are disbursed at the branch. For cashless disbursement, the loan amount is directly transferred to the borrower's account post confirmation of the BM. For monthly collection of repayments, the demand sheet is generated by the BM and the FCO visits SHG/JLG with the demand sheet and collects the repayments in the presence of all members at a common meeting place. After one month of disbursement, the BM / area manager selects 5-15 borrowers per group randomly and visits them to check whether the loans are being actually put to use for which they were sanctioned.



Operational methodology for selecting new area

AFPL conducts a feasibility study before selecting a new area for MFI operations. AFPL primarily focusses on the following parameters:

- Total village population
- Literacy level of the villagers
- Caste composition
- Village location
- Major activities (source of income)
- Number of existing SHGs
- Communication facilities
- Infrastructural facilities
- Other MFIs and their products
- Repayment culture of the region
- Access to formal financial institutions
- Migration status

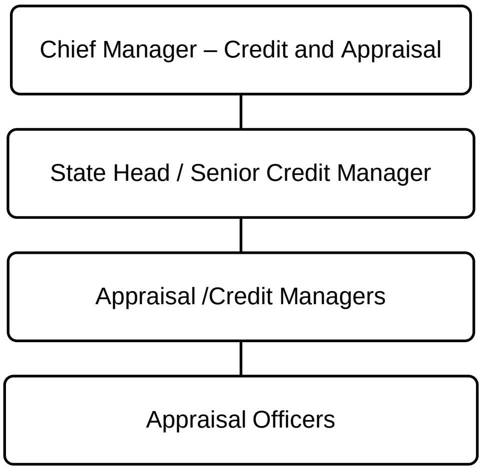
After new area identification, a branch is opened considering its location, minimum area (around 1,500 sq. ft.), stability of power supply, proximity to banking facilities, and safety & security measures.

Hierarchy of the operations team

The AFPL operations team has about 7,341 employees (including FCOs, BMs and ABMs) as on January 31, 2021. This team is headed by the Chief Operating Officer (COO). The operations team is responsible for sourcing business and loan collections. The team's role also involves nurturing SHGs & JLGs and maintaining client relationships. FCOs are promoted as Development Officers (DOs) and DOs are promoted as ABMs.

Hierarchy of the credit team

AFPL's credit team includes AOs, credit managers, senior credit managers and management information systems (MIS) team. The credit team reports to the Chief Manager – Credit and Appraisal. The team is responsible for appraising the loan proposal and ensuring high asset quality.



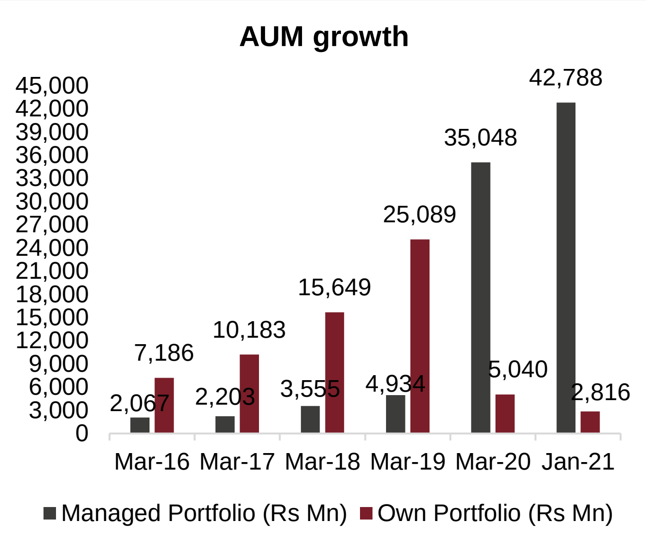
Earlier, credit was largely centralised at the head office; with growth in size and scale, credit has been decentralised at the state level. Separate operations and credit teams ensure that client quality is not compromised during the field teams' quest to meet business targets. Separate teams also reduce the generally prevalent field risks, such as existence of ghost client and ring leaders, through maker and checker practice, where field teams are responsible for sourcing business and originating proposals and the credit team is responsible for appraising the entire proposal before forwarding it for HO approval. The MIS team supports the credit and operations teams in day-to-day activities, such as generation of various reports, including PAR statements, loan processing report, disbursement reports, demand sheets, collection sheets and reconciliation reports.

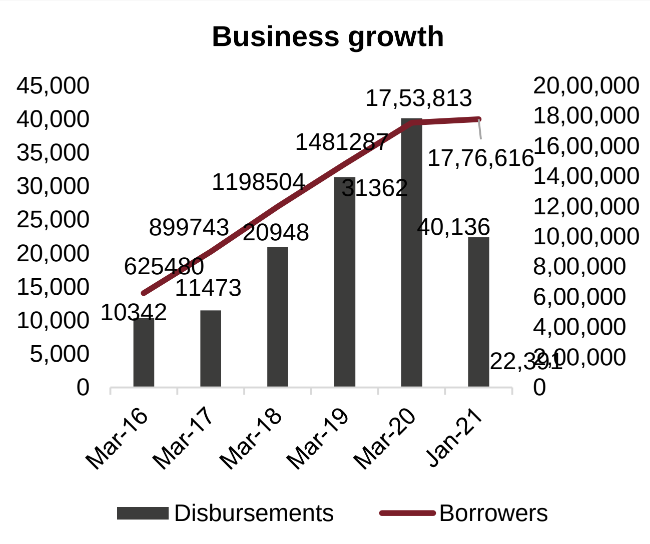
Loan portfolio:

Product name	Loan amount (In Rs)		Tenure (In months)		Repayment mode (Weekly/ monthly)	Interest rate (Reducing)	Loan processing fee	Security
			Min.	Max.				
Trade & Enterprise Loan (SHG)	10,000	1,00,000	12	24	Monthly	21.25%	1%	Nil
Agri & Agri-Allied (SHG)	10,000	1,00,000	12	24	Monthly	21.25%	1%	Nil
Water Sanitation Loan	10,000	25,000	12	24	Monthly	21.25%	1%	Nil
Micro-Enterprise Loan (MEL-Unsecured)	1,00,000	7,50,000	12	60	Monthly	20-28%	2%	Nil
Micro-Enterprise Loan (MEL-Secured)	1,00,000	25,00,000	18	180	Monthly	18-25%	2%	Collateral
Home Loan (Secured)	1,00,000	5,00,000	18	240	Monthly	15-18%	2%	Collateral
Home Improvement Loan (for Active Group Loan Clients)	20,000	1,50,000	18	48	Monthly	21.25%	1%	Nil
Home Improvement Loan (Unsecured-New Clients)	1,00,000	3,00,000	12	48	Monthly	26.00%	2%	Nil
Dairy Development Loan	40,000	1,50,000	12	36	Monthly	23.00%	2%	Nil
Samarth Loan	30000	1,00,000	12	36	Monthly	20.25%	1%	Nil
Consumer Durable Loan	1,500	25,000	6	18	Monthly	22.50%	2%	Nil
JLG	10,000	1,00,000	12	24	Monthly	21.25%	1%	Nil
Solar Light Loan	1,000	10,000	6	12	Monthly	23.00%	1%	Nil
PM SVANidhi	10,000		12		Monthly	21.25%	1%	Nil

Management

Track record: Long institutional track record; growth in scale and outreach on-year over the past three years.





- AFPL has emerged as one of the top micro-lending institutions in India. Experience of about two decades in the MFI domain, strong institutional parentage, and support of an experienced Board and management besides seasoned internal processes have enabled robust growth for the company while maintaining healthy financial performance.
- The MFI enjoys good reputation among the local community. The community development track record has enabled AFPL to gain a better understanding of operational dynamics in rural areas and supported its expansion into new geographies.
- With more than one decade of operations, predominantly in the rural and semi-urban regions of Odisha, AFPL has developed a good understanding of the local market dynamics. As of January 2021, AFPL operated in 313 districts across 18 states through a network of 856 branches. The company had an AUM of Rs 45,605 million with a base of 17,76,616 million borrowers as of January 2021.
- The MFI has reported a compound annual growth rate (CAGR) of >23% in portfolio (total) and de-growth of 15.00% in disbursements, respectively, over a three-year period. While the company initiated its operations under the SHG-model, it has been transitioning its operations in new areas under the JLG model. Given the competitive pressure and as a response to market trends, its medium-term growth is expected to be led by lending under the JLG model. Amid this transitioning, the company would be required to sustain adequate controls to maintain good portfolio quality whilst meeting its growth projections.
- AFPL is one of the few MFIs that operates on a sizeable basis in rural and semi-urban markets with about 90% of its loans disbursed to SHGs and JLGs. As on January 31, 2021, AFPL had 87% rural clients and 13% urban clients. Many of the states, where AFPL operates, have local operational and competitive challenges. CRISIL observes that AFPL is yet to demonstrate the success of operational expansion in these states through acquisition of significant client base and portfolio growth.

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- CRISIL further observes that, AFPL – equipped with strong systems and experienced management – has positioned itself as a strong player in the microfinance sector in eastern India, especially after the conversion of two leading MFIs operating in the region to banks/small banks.

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<tr><td colspan="2">Product mix: Scope of diversification in the product portfolio</td></tr>
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- AFPL's loan book comprises income-generating loans to SHGs and JLGs. The product, however, varies based on amount (ticket-size) and tenure so as to suit the borrower's occupational requirements and repayment capacity. The MFI charges 21.25% rate of interest (reducing basis) to clients across locations and branches.
- AFPL has tied-up with DHFL, HDFC Life Insurance and ICICI Prudential Life Insurance to offer credit insurance services to its borrowers based on the loan size. Further, ICICI Prudential Life Insurance provides for cattle insurance to cover the risk of cattle death during the loan period, and Bharti AXA Life Insurance provides for the insurances of MSME members and home loan.
- The company has dedicated team members for new product development. The HO-based team is responsible for undertaking research and trend study for product development, whereas the field team is responsible for data collection and piloting products.
- AFPL's lending strategy is seeded through PF focussing on inclusive finance. Under its SHG model, the company mandates its groups to open bank accounts and start savings before initiating the loan process. AFPL does not formally work for establishing linkages with government programmes, but the field staff makes SHGs aware about them. The focus in the JLG model lies on attendance to centre meetings, roles and responsibility as a JLG member, and repayment of debt instalments; the impetus on savings and development orientation is limited.
- CRISIL observes that the MFI is able to meet the clients' demands through its loan products in terms of purpose, tenure and repayment frequency. Moreover, product diversification to gain a competitive edge over peers and banks offering microfinance loans remains a key monitorable in case of MSME loans. This may be seen as a measure of intent and ability of the MFI to cater to market needs.

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<tr><td colspan="2">Credit approval mechanism: Adequate</td></tr>
<tr><td>Credit approval mechanism</td><td>

- The loan approval mechanisms at AFPL are partially decentralised at the branches. Field teams and branches provide credit recommendation, which is verified by the HO-based credit committee prior to final approval. The proposal may either be approved or rejected at the HO level. There are separate teams for loan sourcing and credit appraisals. The team reviews 100% clients before loan sanction, while the HO team undertakes CB checks and provides final sanction.
- AFPL's field practices, including those for area surveys, group formation, group training, proposal origination, disbursements and collections remain adequate.
- A separate grading and appraisal process is implemented for sanctioning SWASTH, HIL, education, and dairy development loans. There are exclusive MEL branches with dedicated team members for proposal verification and

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	approval. Technology-enabled credit assessment may offer more utility for borrowers' risk profiling with increase in saturation of peers and amid product mix diversification. With an eye on increasing exposure to new operational areas, AFPL faces the risk of increased competition from other MFIs and small finance banks (SFBs) along with private sector banks. Thus, there is a need for rigorous credit approval mechanism for maintaining high asset quality levels.
Centre meeting observations	• AFPL's field staff conducts a three-day training session of about an hour each to explain the MFI's objectives and policy, loan offerings, pricing, terms & conditions, and repayment details. • FCO / DO nurtures SHGs for 2-3 months for a newly formed group. • CRISIL, during its visits to a few centre meetings, observed that the attendance of borrowers at monthly centre meetings remained low. The group maintains a separate register for attendance of the borrowers. The FCOs capture attendance levels in the register at the time of repayment collection. • Moreover, the awareness demonstrated by clients on aspects of credit, such as interest rate charged, repayment tenure, insurance coverage and its benefits, was moderate in a majority of the centres visited by business associates of CRISIL.
Loan sanctioning authority	• First step – Branch credit committee • Members: FCO, DO, ABM, BM and AO (if AM/ZM is available, he/she is also a part of the BCC) • 2nd step – Head office credit committee • Members: Risk Head, Credit Head, Director, CFO or their representatives
SHG nurturing/ borrower training	• FCO / DO nurtures SHGs for two to three months for a newly formed group • During the nurturing phase, SHGs are trained and provided orientation on the following: – Information about AFPL – Information about the branch (including FCO, BM and location)

	– Product loan details: size, tenure, interest rates, processing fee – Insurance – Documentation required for loan – Recovery procedure – Record-keeping training – Inculcating saving habits – Internal lending concept – Meeting procedure – Discipline and behaviour (code of conduct) – Importance of regular and timely repayments – Business and skill development • After the completion of the groups' nurturing session, SHGs are rated by the BM based on the members' understanding of the following parameters: – Age of the SHGs – Level and frequency of savings – Regularity in meetings and attendance level – Group record maintenance – Literacy levels – Knowledge on the organisation's policies and procedures – Knowledge on loan product and repayment details – Group fund management • Linkage with banks and financial institutions
Appraisal criteria and role of the appraisal officer	• The AO understands the SHG based on the following parameters during the appraisal process: ➢ Socio-economic factors ○ Credit history ○ Group savings ○ Purpose of the loan ➢ Demographic factors ○ Caste composition ○ Age: between 18 and 59 years ○ Residence ➢ Regulatory guidelines

	○ KYC ○ Loan cycle ○ Rate of interest ○ Multiple lending ○ Over-indebtedness ➢ Geographical factors ○ Distance from the branch • The AO verifies the following factors at the time of appraisal: ○ Group orientation ○ Cross checking the proposal form with SHG record and CB report ○ Original KYC verification ○ Regular saving practice ○ Group meeting pattern ○ Multi-lending ○ Group member participation ○ Internal lending from non-MFIs ○ Members from the same family ○ Individual members' house visit ○ Meeting with guardian /spouse ○ Percentage of household covered in the area ○ Eligible members out of total SHG members
House verification	• FCO / DO visits homes of all the borrowers before the SHG group formation. • Undertaken by the AO and randomly checked by the area manager and internal auditor
CIC tie-up	• The MFI avails services of a CIC to verify the credit history of potential borrowers, while also sharing outreach details with all operating CICs • The MFI avails services of CICs, which include CRIF High Mark and Equifax for the borrowers' CB check • The MFI has a separate team at the HO to verify the credit history of potential borrowers before appraisal and post disbursement to share the loan details with all operating CICs

	• The branch staff shares the KYC details of potential borrowers with the HO team for verifying the credit history; the team uploads the Excel sheet in the prescribed format shared by the CIC on system to get the credit history of borrowers • The CB report and the consolidated Excel sheet with credit history of all borrowers get generated within 1-5 hours. The HO team shares the generated individual reports and consolidated Excel sheet with the branch staff • CRISIL believes that the credit approval mechanisms are adequate as the MFI is able to verify the indebtedness of its borrowers
Adherence to KYC and organisational credit policy	Adequate in branches visited by CRISIL

Extent of data capturing	• Adequate for size of operations
	• As a part of the credit approval mechanism, AFPL captures the following details:
	  ○ Borrowers' income profile
	  ○ Land-holding and asset ownership details
	  ○ Income-generating activity details
	  ○ Family and residential details
	  ○ Loans availed from other sources

Disbursements	• The company has transitioned towards cashless disbursements over the past few years. The loan is directly transferred into the borrower's account upon credit sanction
Loan utilisation checks (LUC)	• Checks are undertaken by the CO and BM within 15 days of loan disbursal and randomly verified by the BM and AM, along with internal auditor
Collections	• Manual collection on a monthly basis in centre meetings, at centre leader's home • The MFI recently introduced cashless collection process through POS machines at a few branches
Documentation	

Loan application agreement	• **The loan application agreement captures**:
	  ○ Client's demographic profile
	  ○ Family details
	  ○ Occupation, annual income, and current sources of credit
	  ○ Purpose for availing loan

		○ Active loans from other MFIs/Banks/FIs ○ Bank account details ○ Declaration of annual household income ○ Previous loans (settled) from other sources
	Documents maintained in loan file	• Details of all SHG members • Group formation details with confirmation from SHG • KYC: valid ID, address and age proofs (Aadhaar card / voter ID card/ration card) • Photographs of borrowers • Consolidated CB report • Demand promissory note • Inter-se agreement executed by SHG members • Group proposal/resolution of the SHG • Sanction letter • Disbursement form • Disbursement voucher
	Loan card/passbook	**Disclosures:** • Name of the organisation (including address and contact details – toll free number for grievance redressal) • Name of the group members • Loan purpose • Loan amortisation schedule (including instalment date and bifurcation of principal and interest amounts) • Loan dates (sanction and disbursement dates) and amount • Financial details as follows: ○ Terms and conditions of the loan ○ Principal loan amount ○ Interest rate (on a reducing basis) ○ Loan processing fees
	Policy manuals	• Key organisational policies formulated and implemented: ○ Internal audit and risk management ○ MIS and Information Technology (IT) ○ Accounts, cash management, and finance ○ Back-up restoration ○ Operations ○ Access control

		○ Human resources ○ Environment ○ Social performance management ○ Business continuity and disaster recovery ○ Privacy ○ Change control ○ Equal employment opportunity ○ Asset classification and provisioning ○ Securitisation ○ Outsourcing ○ Revised leave
	Documents/ registers maintained	• Documents/registers are maintained by the MFI and updated regularly: ○ Proposal file ○ Loan ledger ○ Disbursement register ○ Demand collection register ○ Cheque register ○ BCC register ○ BM monitoring register ○ Problem meeting register ○ Stock register (loan card, receipts) ○ Loan utilisation check register ○ HO visitor register ○ Negative area register ○ Cash book ○ Attendance register ○ Movement register ○ Key/vault register ○ Client grievance register ○ Asset register ○ Branch meeting register ○ LPF file ○ Audit file ○ Insurance settlement register
Management information systems (MIS) & Information Technology (IT)		
1) MIS – Above-average MIS and loan tracking systems		

MIS platform	• Cloud-based server database deployed for reporting, application, and production. Automation of field processes through use of hand-held devices in the process of implementation. • Two different types of software deployed, one each for the microfinance and MSME portfolios. The MIS is adequate for the current size of operations and is able to require performance and risk reports, including on cashless operations and operational productivity. The server space has been enhanced in line with the increasing size of operations. • Functionalities: Cashless disbursements and collections through POS machine. • Branches are equipped with computer systems enabling them to update MIS and generate daily demand and collection sheets. • However, owing to fluctuations in power supply and server issues in the rural areas where the MFI operates, access to computer systems to update MIS is a challenge for branch staff. • The MIS is updated at the branch level by the BM for own portfolio on a daily basis. The BM shares the cash balance statement, and the demand vs collection statement on a daily basis with the HO team / zonal team.
MIS features	**a) User interface** • User-friendly interface; standardised reporting formats to capture field data. • Capable of providing reliable information in a time-bound manner. **b) Report generation and portfolio tracking** • Advanced MIS that can generate consolidated reports on asset quality, field productivity, loan utilisation, repayment history, and other advanced data analytical reports. **c) Upgradation flexibility** • Capable of easy upgradation as per operational scalability and change in product mix. **d) Functional integration** • MIS platform not yet integrated with other business functions such as accounting and finance.

Updating KYC & entry of operational data	Decentralised at branches; daily data upgradation.
Reconciliation of collections & disbursements (at HO)	Daily reconciliation of receivables at branches and HO.
2) IT – Adequate technology and IT infrastructure for current size of operations	
IT automation for field operations and portfolio tracking	A) **Extent of automation:** • Manual collection • The MFI had deployed handheld devices for application and loan sourcing purposes in 110 branches, as of June 2016. The remaining branches are equipped with computers and MIS software is installed in all the branches for daily updation. • The branch staff updates the KYC information on handheld devices provided by the MFI; the field staff carry these devices at the time of sourcing the SHG.
	B) Portfolio tracking • Portfolio is tracked daily at the HO through online loan tracking software. • 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	• Adequate data security mechanism
	• Access to database limited to a few designated personnel
	• MIS back-up taken as follows:
	  o Data centre (Cloud server on a daily basis)
	  o Online back-up in zonal centres (Hyderabad and Mumbai)
	  o Online back-up (on a daily basis)
	  o Local server (on a weekly basis)
	  o External hard disk (on a weekly basis)
	  o Vendor back-up (as per service agreement)
	• The MFI has restored the policy under which random restoration of data is undertaken to check the efficacy of the process.

Client data privacy / Branch controls on access to and updation of client data	• User rights are defined and classified as four levels of users to view, update and access operational information. • Password-enabled access to MIS and mails; periodic random updation of password by the IT team.
3) Information Technology – Adequate technology and IT infrastructure for current size of operations	

IT automation for field operations and portfolio tracking	C) **Extent of automation:** • Manual collection • The MFI has deployed hand-held devices for application and loan sourcing purpose in 110 branches as of June 2016. The remaining branches are equipped with computers and MIS software is installed in all the branches for daily update. • The branch staff updates the KYC information on hand-held devices provided by the MFI; the field staff carry these devices at the time of sourcing the SHG. **D) Portfolio tracking** • Portfolio is tracked daily at the HO through online loan tracking software. • 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	• Adequate data security mechanism • Access to database limited to a few designated personnel • MIS back-up taken as follows: o Data centre (Cloud server on a daily basis) o Online back-up in zonal centres (Hyderabad and Mumbai) o Online back-up (on a daily basis) o Local server (on a weekly basis) o External hard disk (on a weekly basis) o Vendor back-up (as per service agreement) • The MFI has restored the policy under which random restoration of data is undertaken to check the efficacy of the process.
Client data privacy / Branch controls on access to and updation of client data	• User rights are defined and classified as four levels of users to view, update and access operational information. • Password-enabled access to MIS and mails; with periodic random updation of password by the IT team.
F. Internal audit (IA) & risk monitoring mechanisms: Adequate	
Team size	• AFPL has a 110-member internal audit team comprising state teams (audit executives, officers, assistant managers, zonal co-ordinators), and a strategic team at the HO. • Department structure: Audit head

	↓ Zonal co-ordinator ↓ Assistant manager ↓ Officer ↓ Senior executive ↓ Field executive • The audit department is decentralised and state-level teams have been deployed for the audit of branches. The field audit team reports to assistant managers. State teams are headed by zonal coordinators. • Strategic team at HO analyses the trends in audit findings to identify regional and branch-specific issues.
Risk management function	• The company's risk department was launched in 2013 and is exclusive from the internal audit function. Initial technical support from the IFC and Microsave was received towards creating the risk management framework. • At present, the company has an eight-member risk management team, besides three members specialising in geographical information systems (GIS), visualisation-based risk mapping. The company has designed a GIS-based prosperity index that factors in asset holdings, socio-economic status of populace, which is then mapped through the GIS technology for improved decision-making. Support of pin code reports for client saturation profiling and delinquency status is also obtained through the support of CICs. The team also integrates data obtained from census and publicly available databases to create customised and comprehensive maps through graphic visualisation. The risk insights so obtained are presented to the board. • A dedicated risk management framework is in place. The respective department / functional heads have been vested with the responsibility of managing key risks and have been categorised as 'risk owners'. A separate board-level sub-committee on risk management has been constituted and

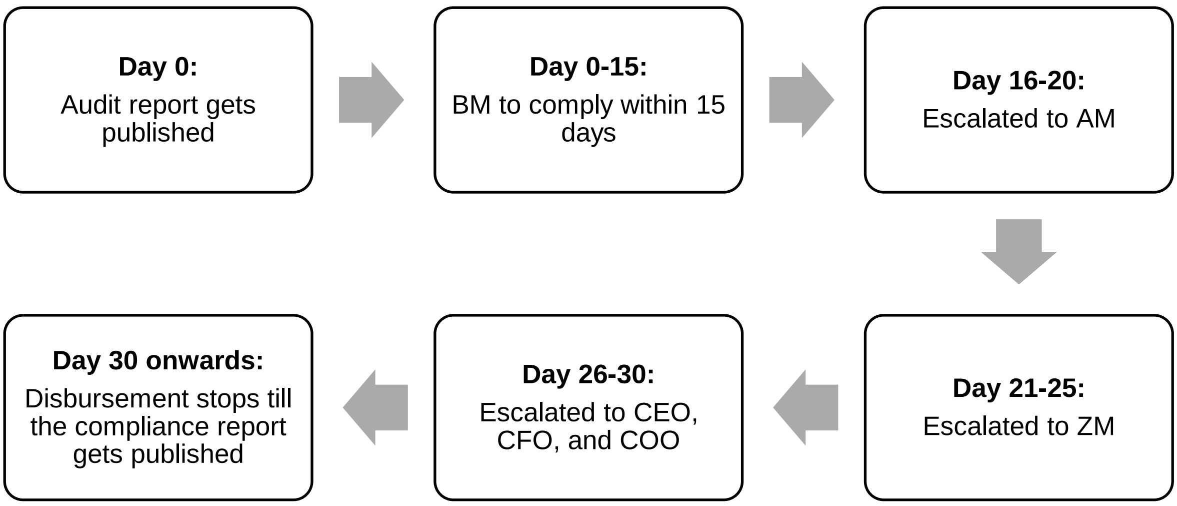
	meets periodically to provide oversight on risk-related issues and designing of key risk mitigants. • The risk framework covers operations risk, credit risk, liquidity risk, and performance on company's asset quality. Besides routine operational risks, issues such as IT downtime and client dropouts are also being factored in as risk mitigation measures. The team also looks into average cash and bank position, lender concentration, current undrawn sanctions and debt proposals at the sanction stage, and adequacy of liquidity to meet expenses and debt repayment. There are internal caps on maximum single lender exposure. Market and liquidity risk is also being tracked through a set of macro and micro indicators. • Organisational policies are typically reviewed in 12 to 15 months. Additionally, risk review measures undertaken include stress testing and sensitivity analysis to gauge the impact of macro and micro risks on key financial indicators, such as income, profitability, capitalisation, and leverage. • A separate risk appetite report is prepared annually and submitted to the management and risk committee for risk review.
Frequency	• Quarterly • Every quarter, the audit executive is changed for branches.
Process, documentation, coverage and scope	• Internal audit focuses on current process, performance and compliance status of the previous findings. • Internal audit (IA) team covers all the documentation in the branches, annexures and client satisfaction level. • During visits, the IA team verifies and checks process compliance on the field and in branches: • **At field level:** ○ Centre meetings ○ Loan cards / passbook ○ Client's house and KYC details ○ Loan collection practices ○ Loan utilisation check ○ Client grievance • **At branch level:**

	○ Loan documents ○ Timeliness of data updation and sent to HO ○ Cash and asset verification and branch management ○ Staff management skills, discipline and HR-related practices ○ Compliance of the previous findings • To control and recover the overdue accounts, the audit team focuses on the below techniques: ○ Greater focus on field visits ○ Categorisation of groups based on their repayment behaviour to understand loan repayment tendencies ○ Balance confirmation on field from borrowers (confirm the repaid amount and outstanding balance with the borrowers) ○ Visit other MFIs in the area to get an understanding of repayment tendency of borrowers • The MFI also conducts state-wise monthly audit, along with the risk team, and shares the audit findings with the senior management. • Also, the audit team conducts monthly meetings at the head office in the presence of senior management from audit, risk, operations and HR departments. In these meetings, the teams discuss the audit findings and take necessary decisions.
Rigour of internal audit / observations	• Audit of a branch takes 5 to 8 days, based on the size of operations. • The audit team uses an Excel-based tool to select a sample for internal audit process. The MFI recently introduced a scoring tool for internal audit of the branches, which focuses on the following: ○ Back office operations ○ Branch management ○ Income and expenditure ○ Operations management ○ Loan files maintenance ○ Field visits • The IA executive shares the audit findings with the respective BM and area manager. It is further studied and differentiated

	into major findings report and sent to respective departments and the HO's strategic team.
	• Branch teams are also required to submit a compliance report on the audit observations within 15 days.
	• The IA team reports to board IA committee and in quarterly board meetings, the audit team presents the below findings to the committee:
	  ○ Trends of issues
	  ○ Compliance adherence
	  ○ Grievance adherence
	  ○ Insurance settlement details

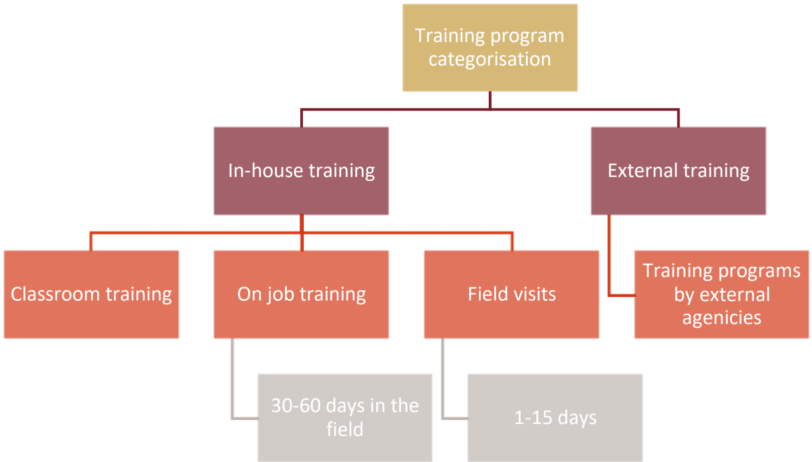
Compliance / action-taken reports	• Based on the responses from the respective departments, the compliance report is prepared and shared with the management committee.
	• If compliance is not adhered to by the staff, the below practices are followed by the management:
	  i. Make the staff understand the severity of compliance
	  ii. Warning / Monetary penalty
	  iii. Performance Improvement Plan of 3 months
	  iv. Termination / employee retention
	• Compliance escalation matrix is followed by all the branches.

Compliance matrix:



Cash management: Average	
Cash policy	• Collections are deposited in the bank on the same day or the subsequent day. However, in a few branches visited by the

	team, this policy was not complied with and the mail approvals from the authority to maintain high cash balance are not in place.
Cash insurance	• The MFI has availed cash insurance services for cash in transit and cash in safe. The overnight cash balances on certain occasions in a few of the branches visited were subsequently higher than the insured amount.
Cash security	• Lockers and vault – Yes • Surveillance cameras – None
HR management: Adequate	
Separate HR department	• AFPL has a dedicated HR department at the HO with well-delineated policies for recruitment training and employee benefits.
Recruitment strategies and process	• AFPL has different recruitment strategies o Walk-in interviews o Internal referrals under employee referral programme o Job portals and placement consultancy o Campus selection particularly for management staff o Lateral recruitment • District employment office
Staff training	• In-house o New recruitments: Induction training programme and job orientation training (duration of the training programme is decided by the HR team depending on the level at which the candidates are recruited). o Existing employees: Amendment training for change in any process and introduction of new process. • On-the-job training. • External trainings, especially for the senior management team (need-based).

	
Attrition rate during past one year	Moderate. Attrition is mainly restricted to field-level staff. • Attrition based on working tenure with MFI: ○ 0 months – 1 year: 54.00 % ○ 1 year - 2 years: 27.00 % ○ More than 2 years: 19.00 %
Percentage of woman staff	10.00% as on January 31, 2021
Employee grievance	• The MFI has formulated a policy for redressal of employee grievances. The policy outlines the procedure to formally raise a grievance with the senior management and HR department. • AFPL has formulated a whistleblower policy and prevention of sexual harassment at workplace policy (as per statutory requirements). The management has indicated that an Internal Complaints Committee, as required under statutory provisions, has recently been formed. The same is expected to be approved by the board in the near term.
Employee benefits	• Employees get benefits, such as employee provident fund, gratuity, productivity-linked incentives, vehicle loans, emergency advance (up to a month' gross salary), and group health insurance, which vary based on the employee's rank and salary. • The company also conducts employee-friendly initiatives, including annual best performer's meet, health check-up camps and sports events, among others to motivate employees.

Institutional arrangement

A) Ownership structure and governing board	
Board profile	• AFPL has a 12 member board with an adequate mix of non-executive / independent directors, comprising: o Managing director o One executive director o Seven investor nominees o Three independent non-executive directors • Board members collectively have vast experience in microfinance, banking, rural finance, technology, strategy and finance. The board profile is adequate to steer the organisation towards meeting its growth plans and lend its vital insights on macro risks and emerging trends.
Board meetings	• Held every quarter; minutes of the committee meetings have been documented
Profile of senior management	• AFPL's senior management team has extensive experience across sectors such as microfinance, banking, finance, audit, risk, and development. Moreover, technical support from team, particularly learnings from its international operations, have been beneficial for AFPL. • A majority of the company's senior management members have been associated with it for a long tenure and have risen through the ranks. • AFPL 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
Decision making	• Strategic decisions are centralised with the HO, further in regards to the operational decision-making the same is decentralised with regional heads.
B) Management practices, goals, and strategies	
Planning / budgeting / performance review	• Strategic goals are clearly laid out and disseminated to the staff. The MFI has formulated a 5-year plan, which outlines operational and strategic goals. • The NBFC-MFI has outlined function/department-wise plans to achieve projected operational and financial growth. The MFI reviews its actual performance against the target. • The audit team reports directly to the respective committees on the board. • A Cyber Security and IT Strategy committee was constituted in June 2018. An Information system audit is also being conducted.

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The prevention of sexual harassment (POSH) policy was updated in 2018.
Cost of funds and margin are reviewed and reset quarterly, in-line with regulatory requirements; however, there is an internal process to obtain a monthly review.
ALM and liquidity review is undertaken monthly from a reporting perspective.
NBS-NDI balance sheet filings and interest rate sensitivity computation are undertaken on a quarterly basis. Quarterly branch returns, which indicate details of branches opened and closed in a particular quarter of a year, are also filed.
The company’s non-convertible debentures (NCDs) are listed; relevant details, including interest repayment, are informed to the Securities and Exchange Board of India (SEBI) and CRAs in-line with LODR requirements.

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<td>Committees</td>
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Following board committees meet periodically to oversee the performance:

<table>
<tr><th>Name of committee</th><th>Committee member</th><th>Designation</th></tr>
<tr><td rowspan="2">Executive Committee</td><td>Mr Gobinda Chandra Pattanaik</td><td>Chairman</td></tr>
<tr><td>Mr Dibyajyoti Pattanaik</td><td>Member</td></tr>
<tr><td rowspan="3">Audit Committee</td><td>Mr Krishna Kumar Tiwary</td><td>Chairman</td></tr>
<tr><td>Mr Ashok Ranjan Samal</td><td>Member</td></tr>
<tr><td>Mrs Christina Stefanie Juhasz</td><td>Member</td></tr>
<tr><td rowspan="4">Risk Committee</td><td>Mr Gobinda Chandra Pattanaik</td><td>Chairman</td></tr>
<tr><td>Mrs Christina StefanieJuhasz</td><td>Member</td></tr>
<tr><td>Mr. Sunit Vasant Joshi</td><td>Member</td></tr>
<tr><td>Mrs. Laetitia Counye</td><td>Member</td></tr>
<tr><td rowspan="4">CSR Committee</td><td>Mr Gobinda Chandra Pattanaik</td><td>Chairman</td></tr>
<tr><td>Mr Dibyajyoti Pattanaik</td><td>Member</td></tr>
<tr><td>Mr Sean Leslie Nossel</td><td>Member</td></tr>
<tr><td>Mr Ashok Ranjan Samal</td><td>Member</td></tr>
<tr><td rowspan="3">Remuneration & Nomination Committee</td><td>Mr Ashok Ranjan Samal</td><td>Chairman</td></tr>
<tr><td>Mr Sean Leslie Nossel</td><td>Member</td></tr>
<tr><td>Mr Krishna Kumar Tiwary</td><td>Member</td></tr>
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		Mr Gobinda Chandra Pattanaik	Member
	Product Committee	Mr Dibyajyoti Pattanaik	Chairman
		Mrs Christina Stefanie Juhasz	Member
		Mr. M R Venkiteswaran	Member
		Mr Ashok Ranjan Samal	Member
	IT Strategy Committee	Mr Ashok Ranjan Samal	Chairman
		Mr Gobinda Chandra Pattanaik	Member
		Mr Dibyajyoti Pattanaik	Member
		Mr. Dlippa Khuntia	Member
		Mr Shankarshan Panda	Member

Accounting policies	• As per generally accepted accounting standards
	• **Income recognition:**
	  ○ Interest income on MFI loans: Time proportion basis
	  ○ Gains on receivables securitised/assigned are amortised over the receivables' life.
	  ○ Interest income on deposits with banks: Accrual basis
	  ○ Loan processing fees: Accrual basis
	  ○ Non-performing loans: Realisation basis
	• **Others:**
	  ○ Non-performing loans: Classifies overdue loans beyond 90 days as non-performing assets (NPAs)
	• Loan loss provisioning: As per RBI guidelines

Disclosures	• Adequate public disclosure. Operational and financial information disseminated through MFI website, annual report, grading reports, and audit financial statements
Audit report	• No adverse comments or qualifications issued by statutory auditors • Quarterly financial audits undertaken through external auditor
Auditors/ change in auditors, if any / rotation policy	• S.R. Batliboi & Company, Kolkata, West Bengal

Board of directors (as on January 31, 2021)

Name	Designation	Experience and qualification
Mr Gobinda Chandra Pattanaik	Managing Director	• MA, LLB • More than 2 decades of experience in development and microfinance sectors
Mr Dibyajyoti Pattanaik*	Director	• Postgraduate diploma in business management • About 16 years of experience in microfinance, micro-enterprise development, and development sector consulting
Mr Krishna Kumar Tiwary	Independent Director	• MCom, FCA • Experience in audit, taxation, project consultancy, microfinance, and NBFC takeovers
Mr Sean Leslie Nossel	Independent Director	• Fellow of Society of Actuaries, UK; CFA, MBA • 22 years of experience in insurance, investment banking, structure finance, private equity, and financial markets
Mr Ashok Ranjan Samal	Independent Director	• Certified Associate of the Indian Institute of Bankers (CAIIB), MA • 32 years of experience in development banking with long association with the microfinance sector
Ms Laetitia Counye	Nominee Director (BIO)	• MS, Business Economics from Vrije University Brussel, Belgium • More than a two decades of experience in debt and equity investments in financial institutions
Mr Venkiteswaran Mecherimadam Ramakrishnan	Nominee Director (Oikocredit)	• Certified Associate of Indian Institute of Bankers • 12 years of experience in the development sector with specific focus on rural finance and financial inclusion
Ms Chritina Stefanie Juhasz	Nominee Director (Women's World Banking)	• BS, MBA • Chief Investment Officer, Women's World Banking Asset Management
Mr Prakash Kumar	Nominee Director (Small Industries Development Bank of India, SIDBI)	• Master in Finance Management from NMIMS • BE Chemical from IIT Delhi • More than 25 years of experience with long association with the microfinance and MSME sector.

Mr Satish Chavva	Nominee Director (Oman India Joint Investment Fund)	• BTech, MS and MBA • Over 18 years of experience, including 12 years in private equity.
Mr Sunit Vasant Joshi	Nominee Director, ADB	• Senior investment officer in the Private Sector Financial Institutions Department of the Asian Development Bank. Has rich experience in handling equity and debt transactions in India, Bangladesh and Sri Lanka with MFIs, banks, HFCs and NBFCs. Was previously associated with SBI Capital Markets and McKinsey & Co. in equity capital markets & research.
Ms Dhara Jitendra Mehta	Nominee Director (SVCL)	• CA, MCom, LLB • Over 13 years of experience including experience in private equity.

Senior management team

Name	Designation	Experience and qualification
Mr. Sanjay Pattanaik	Chief Operating Officer	• MA, LLB • About 15 years of experience in microfinance
Mr. Satyajit Das	Chief Finance Officer	• Post Graduate Diploma in Forestry Management • About 11 years of experience in microfinance
Mr. Sabyasachi Sahoo	Head – Credit & Appraisal	• MCom • About 14 years of experience in microfinance
Mr. Rakesh Ranjan Rath	Head – Accounts	• MBA, CA (Inter) • Experience in accounts and internal control, treasury management, and budgetary control
Mr. Suraj Bali Painkra	Head – Internal Audit	• Post Graduate Diploma in Forestry Management • Over 10 years of experience in rural sales and distribution, planning, and strategy
Mr. Subrata Pradhan	Company Secretary	• CS, LLB • Over 5 years of experience in company law, legal, and statutory compliances
Mr. Kumar Vaibhav	Head – Institutional Finance	• PGDFM • Experience in microfinance and banking
Mr. Pramod Kumar Panda	Head – Insurance	• MBA • Experience in the insurance sector
Mr. Laxman Kumar Mohapatra	Head – Treasury	• MBA • Over 13 years of experience in treasury management
Mr. Bodapally Nageswara Rao	State Head – Gujarat	• BCom • Over 23 years of experience Financial Institution
Mr. Manoj Singh	State Head – Madhya Pradesh	• MA • Over 10 years of experience in internal control and treasury management
Mr. Pradeepta Champatiray	Head – Systems	• BA, BCA • Experience in system installation and management
Ms. Bandita Behera	Head – MIS	• MCom, MBA • Experience in data accumulation and management
Mr. Allu Ramana Murthy	State Head – Chhattisgarh	• Graduation • Experience in microfinance product development
Mr. Anoop TP	Head – Risk	• BTech, Post Graduate Diploma in Forestry Management • Experience in risk analysis in MFI
Mr. Nagesh Kumar Sunkari	Head – Operations (Business Correspondence)	• MBA • Over 15 years of experience in the microfinance sector
Ms. Ananya Pan	Head – SPM & Products	• Post Graduate Diploma in Forestry Management • Experience in social performance management initiatives of the company
Mr. Manas Ranjan Pattanaik	Regional Head – North East Zone	• Post Graduate Diploma in Rural Management • Over 15 years of experience in the microfinance sector
Mr. Subrat Sabyasachi Roy	Vice President – Operations	• PGDM • Over a decade's experience in the microfinance sector

Mr. S.A. Sabir	State Head – Karnataka	• MBA • Over a decade's experience in microfinance operations
Mr. Binod Bihari Mishra	State Head – Operations (Western Zonal)	• MCom & LLB, MBA • Over a decade's experience in microfinance operations
Mr. Dilip Khuntia	Head – Technology	• Master of Computer Applications • Experience in new technology implementation and smartphone applications in the microfinance sector
Mr. Pabitra Barik	State Head – Maharashtra	• MBA • Experience in microfinance operations
Mr. Shankarshan Panda	Head – IT	• MBA • Experience in microfinance operations
Mr. Preetam Debashish Sahoo	Dy. Vice President – HR	• MBA, LLB • Experience in microfinance operations
Mr. Anway Sarkar	Head – Branding and Communication	• MBA • Experience in microfinance operations
Mr. Nihar Ranjan Sahu	State Head – Bihar	• MBA • Experience in microfinance operations
Mr. Sanjay Kumar Singh	Business Head – MSME	• PGDFM • Experience in microfinance operations
Mr. Soumik Ghanta	Credit Head – MSME	• PGDFM • Experience in microfinance operations
Mr. Sabyasachi Rout	Head – Inorganic Business	• MBA • Experience in microfinance operations
Mr. Soumya Ranjan Dash	Head – Operations MSME	• PGDM • Experience in microfinance operations
Mr. Shaik Mahaboob Subhani	Head – Digital Finance	• MBA • Experience in microfinance operations

Capital adequacy and asset quality

A) Capital adequacy: Above-average capitalisation; scope for improvement remains as the portfolio is largely unseasoned	
	As on January 31, 2021
Capital adequacy ratio (%) (reported)	23.21
Tangible net worth (TNW)	Rs 7,941.80 million
Debt/TNW, including managed portfolio	6.26 times
Debt/TNW, excluding managed portfolio	5.90 times

- The company had a TNW of Rs 7,941.80 million as on January 31, 2021, with capital constituting about 9.03% and profit reserves constituting the remaining.
- Capital adequacy ratio (CAR) increased slightly to 23.21% as on January 31, 2021, from 22.76% a year ago; however, it remains adequate and higher than the regulatory requirement of 15%.
- The MFI had a moderate debt-to-equity ratio (excluding BC portfolio) of 5.90 times as on January 31, 2021. The ratio (including BC portfolio) was high at 5.48 times as on December 31, 2019.

B) Asset quality: Above average. However, the MFI remains susceptible to high geographic concentration

Trends in asset quality (key indicators)

Particulars	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Jan-21
On-time repayment (%)	99.9	91.68	97.57	98.53	97.57	93.51
Portfolio at risk 0-30 days (%)	0.02	0.62	0.23	0.19	0.30	1.71
Portfolio at risk 31-90 days (%)	0.02	5.40	0.30	0.18	0.86	1.00
Portfolio at risk >90 days (%)	0.06	2.29	1.90	1.10	1.27	3.79

- The asset quality remains above-average with on-time repayment of more than 97% over the past three years. As on January 31, 2021, on-time repayment was 93.51% due to Covid-19. However, following large disbursements in the past one year, a sizeable amount of portfolio remains unseasoned, and its true quality would become evident in the near future.

Credit insurance

- Credit insurance is offered to the borrower (and spouse) during the tenure of the loan.
- The MFI has tied up with DHFL Pramerica Life Insurance Company, HDFC Life Insurance, and ICICI Prudential Life Insurance to offer credit insurance services to its borrowers based on loan size. It has also partnered with ICICI Lombard General

	Insurance for cattle insurance to cover the risk of cattle death during the loan period, and Bharti AXA Life Insurance for the insurance of members for MSME and home loans.
Loan loss provisioning	see table below

Asset classification	RBI guidelines	AFPL's policy
Standard assets	Current loans and arrears up to 90 days	Current loans and arrears up to 90 days
Sub-standard assets	91-179 days	Overdue for 91 days or more
Loss assets	180 days or more	-
Provisioning norms	**RBI guidelines**	**AFPL's policy**
Standard assets	1% of overall portfolio reduced by provision for NPAs	1% of overall portfolio reduced by provision for NPAs
Sub-standard assets	50% of instalments overdue	50% of instalments overdue
Loss assets	100% of instalments overdue	100% of instalments overdue (for NPAs overdue for more than 180 days)

- The MFI follows the loan loss provisioning guidelines laid down by the RBI.
- AFPL's asset classification policy is conservative relative to stipulated regulatory norms.

Portfolio concentration (% to AUM) **As on January 31, 2021**

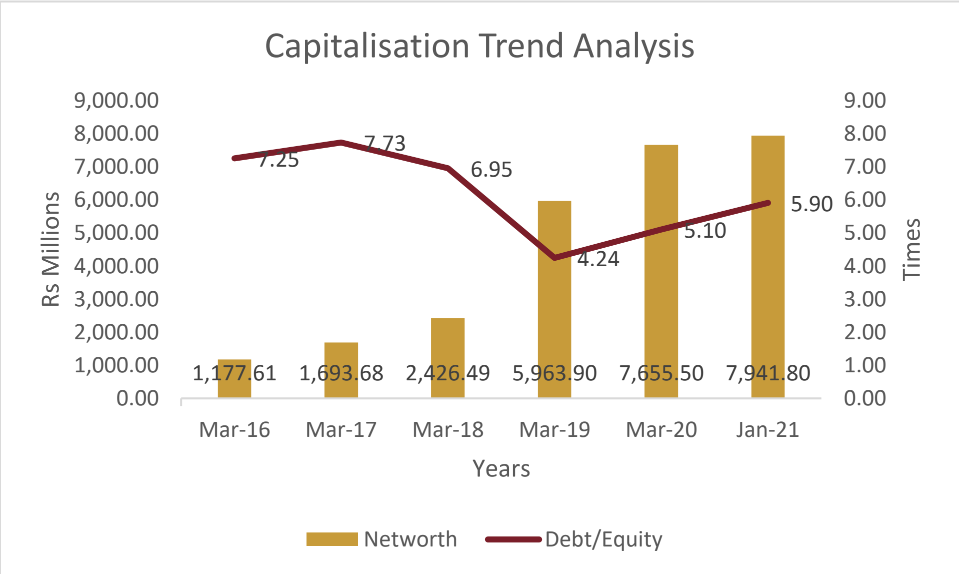
State	Portfolio concentration	Portfolio concentration (%)	Portfolio concentration	Portfolio concentration (%)	Portfolio concentration	Portfolio concentration (%)	Portfolio concentration	Portfolio concentration (%)
	Feb-21		Jan-21		Mar-20		Dec-19	
Odisha	14,806.43	32.78	15,187.08	33.79	14,913.49	38.26	13,522.86	38.06
Madhya Pradesh	7,002.70	15.50	6,820.18	15.17	5,335.81	13.69	4,807.30	13.53
Bihar	5,098.43	11.29	4,916.76	10.94	4,006.64	10.28	3,442.48	9.69
Maharashtra	3,958.81	8.76	3,960.55	8.81	3,613.85	9.27	3,525.38	9.92
Chhattisgarh	3,062.23	6.78	3,038.45	6.76	2,627.66	6.74	2,567.62	7.23
Rajasthan	2,676.76	5.93	2,610.60	5.81	2,142.04	5.50	1,930.47	5.44
Assam	2,291.86	5.07	2,355.18	5.24	2,184.55	5.60	2,352.28	6.62
Punjab	1,582.33	3.50	1,522.36	3.39	1,278.12	3.28	1,015.56	2.86
West Bengal	1,015.71	2.25	1,012.55	2.25	766.046	1.97	628.57	1.77
Jharkhand	1,003.63	2.22	987.09	2.20	684.64	1.76	583.89	1.64
Tamil Nadu	871.08	1.93	796.86	1.77	315.25	0.81	187.19	0.53

Haryana	734.58	1.63	724.06	1.61	444.01	1.14	372.24	1.05
Tripura	503.76	1.12	492.45	1.10	366.08	0.94	334.94	0.94
Gujarat	308.64	0.68	304.20	0.68	251.47	0.65	208.97	0.59
Karnataka	177.09	0.39	146.32	0.33	2.39	0.01	0.00	0.00
Himachal Pradesh	29.12	0.06	28.79	0.06	19.85	0.05	16.24	0.05
Uttarakhand	28.46	0.06	24.31	0.05	0.00	0.00	0.00	0.00
Meghalaya	19.32	0.04	21.89	0.05	26.45	0.07	35.25	0.10
Total*	**45,170.95**	**100.00**	**44,949.67**	**100.00**	**38,978.35**	**100.00**	**35,531.25**	**100.00**

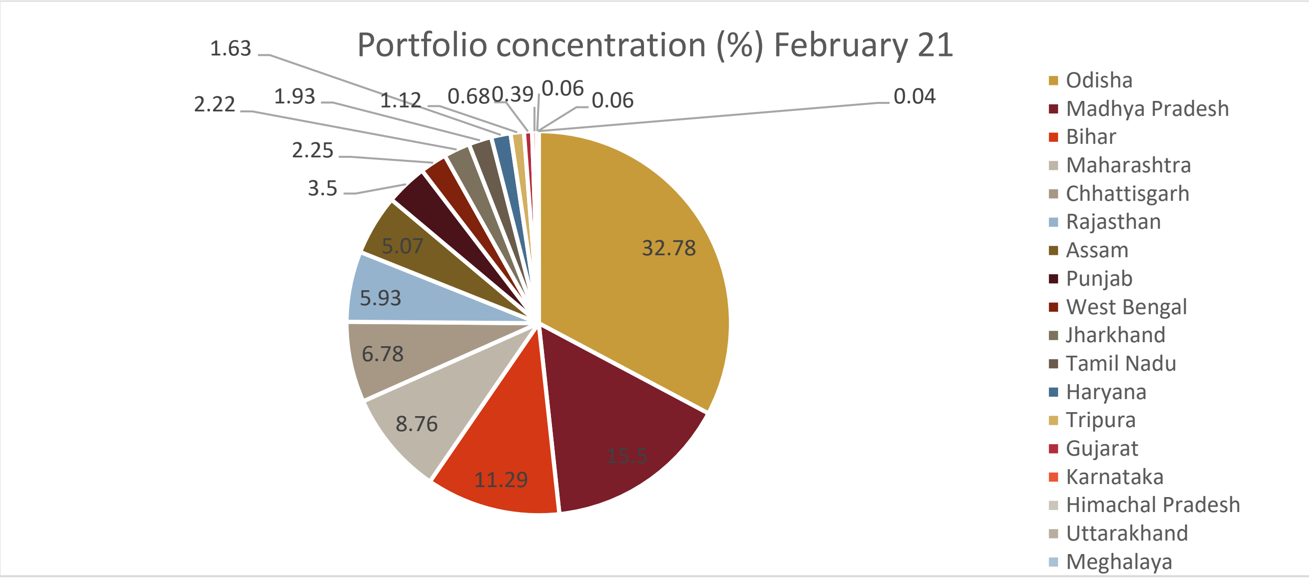
*Includes managed portfolio under the BC arrangement

- Single-state geographic concentration remained slightly high until January 2021, with Odisha accounting for more than 33% of the total loan book, albeit lower than about 38% as of March 2019. Further, Madhya Pradesh and Bihar accounted for 15.50% and 11.29% of the portfolio, respectively; concentration in these states has reduced since the previous assessment.
- Since AFPL strategically follows the contiguous district expansion model, the company expanded its reach to a few more districts of Uttarakhand and Karnataka. However, to diversify geographic presence as a risk-mitigation strategy, the company has been consciously expanding its reach across states. At present, operations are spread across 18 states, including the recently added Uttarakhand and Karnataka. Maintaining stable asset quality in these regions remains a key grading monitorable.

Capitalisation Trend:



Portfolio Concentration for February 2021:



Resources and asset-liability management (ALM)

A) Resource profile: Adequate diversity in funding over the past one year

Outstanding borrowings as on January 31, 2021	Loan outstanding (Rs million)	(%)
NCDs	17,134.5	37.43
Private sector banks	9,948.0	21.73
Development banks	5,031.1	10.99
External commercial borrowings (ECBs)	4,742.8	10.36
Foreign banks	3,803.9	8.31
Public sector banks	3,556.8	7.77
NBFCs	1,565.6	3.42
Total	**45,782.70**	**100.00**

- **Well-diversified borrowing profile:** AFPL has borrowed from 67 lenders as of January 2021, including a mix of public and private sector banks, NBFCs, DFIs, and foreign institutional investors.
- **Adequate single-lender concentration:** The top lender (NCD - Symboitics) accounted for about 6% of overall term borrowings, while the top-three lenders accounted for 16.00% of outstanding borrowings as of January 2021. NCDs formed a large portion of the borrowings.
- Tenure of bank borrowings is 24-36 months, as against maturity of MFI loans of 12-24 months. Thus, the company is not susceptible to any risks arising from an asset-liability mismatch.

B) ALM

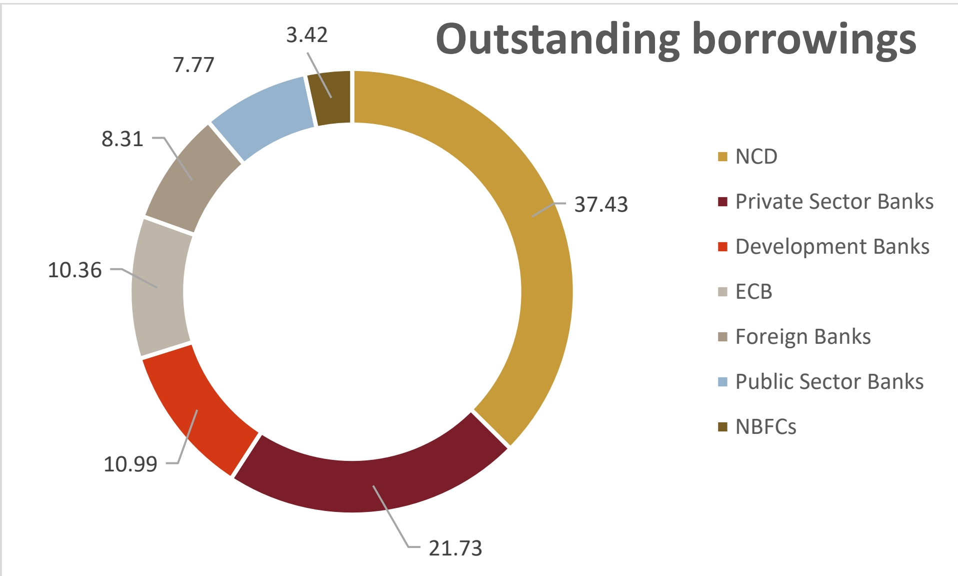
Collection frequency	Monthly
ALM and liquidity profile	• Most of the outstanding bank borrowings as on January 31, 2021, are due to mature in two years. • Average tenure of the advances is 18-48 months.

Borrowing profile as on January 31, 2021

S No	Banks/FIs	Loan outstanding (Rs million)
NCDs		
1	Canara Bank	100.00
2	Punjab & Sind Bank	200.00
3	IFMR FImpact Investment	250.00
4	Indian Overseas Bank	350.00
5	Bank of India	350.00
6	Vivriti Capital (sub-debt)	425.00
7	Asian Development Bank	486.50
8	UCO Bank	500.00
9	Punjab National Bank	500.00
10	Triodos	540.00
11	KARVY (sub-debt)	600.00
12	Union Bank	650.00
13	IFMR Capital/Northern Arc	740.00
14	Indian Bank	750.00
15	Triple Jump	817.40
16	Bandhan Bank	833.33
17	State Bank of India	1,000.00
18	Bank of Baroda	1,250.00
19	ResponsAbility	1,675.00
20	BlueOrchard	2,460.00
21	Symbiotics	2,657.25
Private sector banks		
1	South Indian Bank	5.15
2	DCB Bank	29.17
3	AU Small Finance Bank	40.00
4	IndusInd Bank	45.45
5	Catholic Syrian Bank	67.68
6	Ujjivan Small Finance Bank	154.76
7	YES Bank	195.42
8	Jana Small Finance Bank	231.46
9	Utkarsh Small Finance Bank	245.83
10	Federal Bank	459.38

11	Equitas Small Finance Bank	460.56
12	Kotak Mahindra Bank	515.97
13	IDBI Bank	631.88
14	RBL Bank	692.50
15	Bandhan Bank	1,271.43
16	Axis Bank	1,402.68
17	IDFC First Bank	1,506.25
18	ICICI Bank	1,992.47
Development banks		
1	MUDRA	745.28
2	SIDBI	1,699.80
3	NABARD	2,586.00
ECBs		-
1	Water.Org_Water Credit Inv. Fund	463.00
2	Frankfurt School of Financial Services	354.70
3	Symbiotics	400.00
4	MicroVest	569.76
5	ResponsAbility	648.60
6	Proparco	1,133.70
7	Finnfund	1,173.00
Foreign banks		-
1	Sumitomo Mitsui Banking Corporation	93.75
2	Doha Bank	120.83
3	BNP Paribas	150.00
4	Development Bank of Singapore	208.33
5	Crédit Agricole Corporate and Investment Bank	250.00
6	State Bank of Mauritius	330.95
7	The Hongkong and Shanghai Banking Corporation	370.83
8	Woori Bank	374.24
9	Standard Chartered Bank	1,905.00
Public sector banks		
1	Syndicate Bank	18.18
2	Indian Overseas Bank	58.63
3	Union Bank of India	145.45
4	United Bank of India	181.82
5	Canara Bank	186.28

6	Allahabad Bank	194.44
7	Oriental Bank of Commerce	237.50
8	Indian Bank	477.08
9	UCO Bank	596.65
10	State Bank of India	710.91
11	Bank of Baroda	749.80
NBFCs		
1	Bajaj Finance	116.67
2	Nabsamruddhi Finance Limited	150.00
3	Hero FinCorp	189.66
4	Nabkisan Finance Limited	208.33
5	Maanaveeya (Oikocredit)	215.16
6	Hinduja Leyland Finance	264.99
7	MAS Financial Services	420.83
	Total	**45,782.70**



Operational effectiveness

Outreach summary for the period ended /as of end	Unit	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Jan-21
Groups/SHGs	No	57,897	86,576	126,924	203,070	309,862	373,657
Members	No	794,131	1,007,698	1,370,908	1,676,242	1,977,059	1,989,809
Borrowers	No	625,480	899,743	1,198,504	1,481,287	1,753,813	1,776,616
Branches	No	176	246	374	570	718	856
Districts	No	91	129	174	232	293	313
Women borrowers	%	99.99%	99.95%	99.97%	99.35%	99.00%	98.68%
Disbursements	Rs million	10,342	11,473	20,948	31,362	40,136	22,391
Loan outstanding - own	Rs million	7,186	10,183	15,649	25,089	35,048	42,788
Business correspondent portfolio	Rs million	2,067	2,203	3,555	4,934	5,040	2,816
Consolidated AUM	Rs million	9,253	12,386	19,204	30,022	40,088	45,605
CAR (reported)	%	19.43	22.36	18.68	25.23	26.74	23.21

Human resources and productivity indicators as of end	Unit	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Jan-21
Total employees	No	1,691	2,333	3,409	4,953	5,953	7,341
CO	No	1,177	1,573	2,213	3,065	3,553	4,630
CO/total employees	%	69.60	67.42	64.92	61.88	59.68	63.07
AUM/FCO	Rs million	7.86	7.87	8.68	9.80	11.28	9.85
AUM/branch	Rs million	52.57	50.35	51.35	52.67	55.83	53.28
Borrowers/FCO	No	531	572	542	483	494	384
Borrowers/members	%	78.76	89.29	87.42	88.37	88.71	89.29
Borrowers/branch	No	3,554	3,657	3,205	2,599	2,443	2,075

- **Increase in asset size:** The MFI's loan portfolio has been increasing on-year, logging a CAGR of 23.25% over the three fiscals through January 2021. It increased to Rs 45,605 million as on January 31, 2021, from Rs 30,022 million in fiscal 2019.
- During the period, the scale of operations expanded substantially with the addition of two states.
- AFPL's field productivity indicators have expanded over the past two years. Growth in the MFI's loan book is largely driven by an increase in loan ticket size and borrower base due to new branches.

- Outstanding loans per CO decreased to Rs 9.85 million as on January 31, 2021, from Rs 9.80 million as on March 31, 2019.
- Outstanding loans per branch increased to Rs 53.28 million from Rs 52.67 million.
- Borrowers per CO decreased to 384 from 483.
- CO/total employees declined to 63.07% from 61.88%.

- Margins expanded owing to the scale-up of operations, as evident from profit after tax increasing to Rs 117.90 million as on January 31, 2021, from Rs 828.90 million in fiscal 2020. However, the opex ratio declined slightly to 5.18% from 5.84%. Further, the MFI registered operational self-sufficiency of about 106% in January 2021.
- While field productivity has remained above-average, the earnings profile remains average relative to its peers, which benefit from a sizeable growth in operations leading to economies of scale. The MFI's ability to keep opex low amid expansion into new areas, along with access to low-cost funds, would support its profitability in the near term.

Scalability and sustainability

- Capitalisation has remained strong despite the CAR declining to 23.21% as on January 31, 2021, from 26.74% as on March 31, 2020. Also, the debt-to-equity ratio was adequate at 5.90 times as on January 31, 2021, driven by a significant increase in borrowings. Further, the MFI reported a CAGR of 44.48% in the portfolio (total) between March 2018 and March 2020. Over the same period, growth in the borrower base (CAGR) stood at 6%, and the scale of operations expanded substantially with the addition of around 313 districts across 18 states.
- The documented systems, processes, and internal controls remain adequate for the current level of operations. The organisation has a well-experienced and qualified board, along with senior leadership that has witnessed further strengthening recently. The good reputation of the associate concerns in the local community, garnered through various community development services, has benefited the MFI. The long track record of the parent provides the MFI with a better understanding of the local operational dynamics.
- The MFI has average asset quality, with on-time repayment more than 93% over the past two years. As on January 31, 2021, the on-time repayment was 93.51%. The decline in ORR is due to the pandemic and subsequent lockdown imposed by the government, accompanied by lower disbursement and digital collection in the past one year. Therefore, a sizeable amount of the portfolio remains unseasoned, and its true quality would be evident over the medium term.
- Given the above, a sharp deterioration in collection efficiency and an increase in PAR with political and economical challenges for the company could impact near-term operational scalability partially. Moreover, a significant portion of the company's portfolio in the northern and eastern regions of the country remains unseasoned. Thus, improving collection rates remain a key grading monitorable. Besides, capital raise as projected by the management in the event of unexpected write-offs would be critical to maintain not only capital ratios but also stakeholder confidence.
- The domestic microfinance industry is in a phase of consolidation. First, the multiplicity of players undertaking microfinance has broadened to include a wide gamut of players: NGO-MFIs, NBFC-MFIs, and business correspondents (BCs) managing portfolio on behalf of banks besides direct lending by a few NBFCs and banks. Secondly, large MFIs have transitioned into banks, while a few mid-sized and large-sized MFIs have been acquired by banks and NBFCs. Resultantly, the market share of NBFC-MFIs, which accounted for about three-fourths 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 CAGR of >40%, noticeably sectoral growth was driven by a hike in the loan ticket size. An increase in the loan ticket size is a regular industry phenomenon with the seasoning of the portfolio and completion of additional loan cycles, and supported by an improvement in borrowers' credit profiles led by an increase in business incomes. However, alarming growth in sectoral advances in the past few years, led by competitive pressures and as a client retention strategy adopted by a few MFIs, appears to be a risky move, which may backfire through deterioration in asset quality. Also, the absence of a uniform set of regulations for lenders across diverse categories, and the strategy of a significant hike in the loan ticket size by banks and SFBs, which do not fall under the purview of 'microfinance lenders', could raise credit culture issues. Thus, pure-play MFIs may be required to consider total household indebtedness as a factor in their credit appraisal of existing and potential borrowers.

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Financial indicators

Income and expenditure statement (Rs million)

For the period ended	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	January 31, 2021
Yield			Audited			Provisional
Fund-based income	1,372.23	2,293.30	3,134.23	4,622.92	7,108.60	7,824.90
Interest and finance charges	739.78	1,380.34	1,734.39	2,241.78	3,773.70	4,275.90
Gross spread	**632.45**	**912.97**	**1,399.84**	**2,381.15**	**3,334.90**	**3,549.00**
Fee-based income	129.57	181.43	275.80	428.65	687.60	52.70
Total income	**1501.80**	**2,474.73**	**3,410.03**	**5,051.57**	**7,796.20**	**7,877.60**
Gross surplus	**762.02**	**1,094.40**	**1,675.64**	**2,809.79**	**4,022.50**	**3,601.70**
Personnel expenses	313.22	533.59	768.66	1,305.02	1,833.20	1,688.60
Administrative expenses	96.42	154.74	246.25	416.38	530.10	442.10
Total expenses[2]	**409.64**	**688.33**	**1,014.91**	**1,721.40**	**2,363.30**	**2,130.70**
Total provisions	**54.22**	**92.35**	**491.33**	**145.34**	**527.00**	**1,233.00**
Depreciation	15.06	24.21	31.88	55.94	87.40	66.30
Profit/deficit before tax	**283.09**	**289.51**	**137.52**	**887.10**	**1,081.60**	**437.80**
Tax	101.19	100.44	42.06	304.72	252.70	319.90
Net profit	**181.90**	**189.07**	**95.46**	**582.39**	**828.90**	**117.90**

[2]Total Expenses exclude Provision and other contingencies for January 31, 2021 and March 31, 2020 of Rs 13.00 million and Rs 45.75 million respectively.

Balance sheet (Rs million)

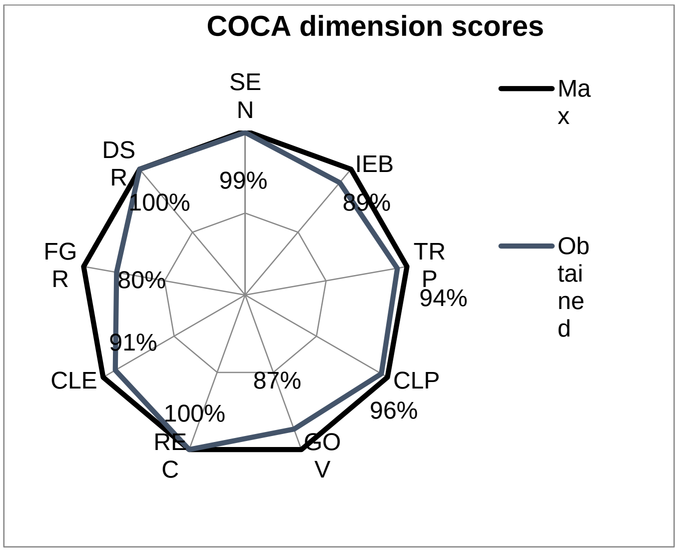
As on	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	January 31, 2021
			Audited			Provisional
			IGAP		Ind AS	Ind AS
Liabilities						
Tangible networth	**1,177.61**	**1,703.68**	**2,426.49**	**5,963.90**	**7,655.52**	**7,941.80**
Optionally convertible preference shares	20.00	10.00	-	-	-	-
Borrowings	**8,558.43**	**13,092.89**	**16,865.15**	**25,315.70**	**39,073.70**	**46,879.80**
Provision for loan loss	72.77	159.31	314.04	311.31	605.33	1840.17
Total current liabilities	**482.72**	**514.71**	**944.65**	**1,392.49**	**1,710.93**	**2,600.58**
Total liabilities	**10,218.76**	**15,311.28**	**20,236.28**	**32,672.09**	**48,440.15**	**57,422.18**
Assets						
Total loan portfolio	9,252.68	12,385.81	19,203.76	30,022.47	40,088.07	45,604.84
Less: Loan portfolio - BC	2,066.90	2,203.49	3,555.25	4,933.94	5,039.70	2,816.43
Total owned portfolio – Principle figure	7,185.68	10,182.81	15,648.76	25,088.53	35,048.37	42,788.41
Interest accrued and processing fees	-	-	-	-	871.28	995.96
Owned Portfolio as per Balance Sheet	7,185.68	10,182.81	15,648.76	25,088.53	35919.65	43784.84
Investments	-	-	-	-	-	-
Cash and bank balances	2,037.83	3,827.70	2,702.79	4,593.77[3]	2,463.65[4]	833.36[5]
Total current assets	**2,993.31**	**5,079.95**	**4,522.00**	**7,468.33**	**12,371.80**	**13,496.80**
Total funds deployed	**10,178.99**	**15,262.75**	**20,170.76**	**32,556.86**	**48,291.45**	**57,281.64**
Net fixed assets	39.78	48.52	65.52	115.23	148.70	140.90
Total assets	**10,218.76**	**15,311.28**	**20,236.28**	**32,672.09**	**48,440.15**	**57,422.18**

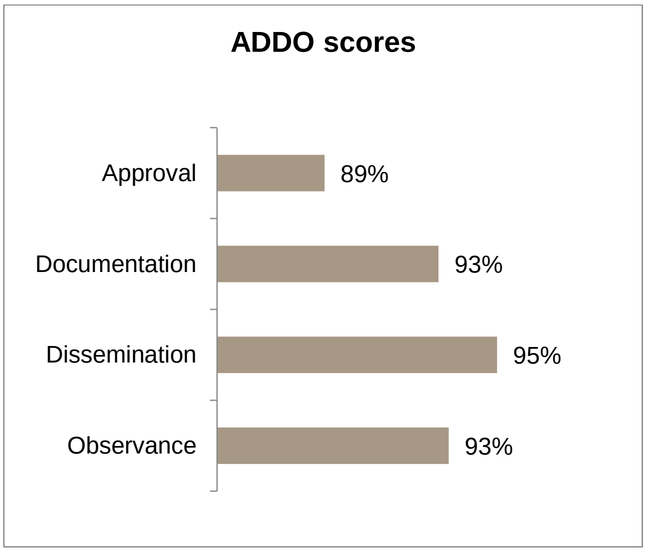
[3]The cash and bank balance till FY 2019 is including unpledged fixed deposits as per IGAP.
[4]As per management, the MFI has started following IND AS principals were in cash and bank balance of Rs 2,463.65 millions are excluding unpledged fixed deposits of Rs 6,375.31 millions. However the same have not been independently verified by CRISIL.
[5]As per management, cash and bank balance of Rs 833.36 millions are excluding unpledged fixed deposits of Rs 8,594.99 millions. However the same have not been independently verified by CRISIL.

Key financial ratios (%)

For the period ended	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	January 31, 2021
Yield			Audited			Provisional
Fund-based yield	18.31	18.47	17.98	19.63	17.86	18.10
Portfolio yield	22.66	22.40	21.15	21.87	22.42	22.58
Fee-based income/avg. funds deployed	1.73	1.46	1.58	1.58	1.54	0.11
Total income/avg. funds deployed	20.04	19.93	19.56	21.21	18.21	19.39
Cost of funds						
Interest paid/avg. funds deployed	9.87	11.12	9.95	9.52	9.48	9.89
Interest paid/avg. borrowings	11.84	12.76	11.58	11.67	11.72	11.94
Interest spread						
Spreads on lending	6.46	5.71	6.40	7.96	6.14	6.16
Overheads						
Operating expense ratio	5.67	5.74	6.00	6.55	5.47	4.72
Personnel expense ratio	4.18	4.30	4.41	4.81	4.09	3.63
Administrative expense ratio	1.49	1.44	1.60	1.74	1.09	1.38
Profitability						
Net surplus/avg. networth	20.28	13.03	4.62	15.19	12.17	1.81
Net surplus/avg. funds deployed	2.43	1.52	0.6	2.15	1.85	0.25
Operational self-sufficiency	123.23	113.25	104	121.30	116.11	105.88
Asset quality						
Provisioning/avg. loan outstanding	1.39	1.83	2.43	1.77	2.01	5.67
Capitalisation						
Total debt/networth (times) - including managed portfolio	7.87	7.69	6.9	5.07	5.76	6.26

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

Code of Conduct Assessment Summary

- CRISIL's review of AFPL's field operations, its internal controls, and an interaction with the management reveals that the company has been complying with the stipulated regulatory guidelines and code of conduct principles.
- The NBFC-MFI's board has approved a fair practices code. The board reviews and discusses 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 where the NBFC-MFI had charged excessive lending rates, penal charges, or security deposits from its clients. No instances of staff misbehaviour with clients were observed.
- Policy manuals on operations, credit, and human resource were available in the HO. Branch staff is apprised of 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 clients' credit history.
- For providing loan-linked life insurance and accidental insurance services to its borrowers, the company has a tie-up with an IRDAI-approved insurer.
- The NBFC-MFI displays summarised operational and financial performance on its website.
- There is scope for improvement in terms of client awareness of the grievance redressal mechanism. Moderate awareness was observed among the sampled clients of the terms and conditions of loan products. The company is yet to design and implement a formal debt rescheduling policy.
- For providing loan-linked life insurance services to its borrowers and their spouses, AFPL has tie-ups with HDFC Life Insurance Limited, DHFL Life Insurance Limited, and ICICI Prudential Life Insurance Limited, which are IRDAI-approved agencies.
- The NBFC-MFI's is yet to form credit policy includes guidelines on delinquency management, including debt rescheduling for delinquent / stressed clients.

MFI strengths and weaknesses pertaining to code of conduct(CoC)

Strengths	Weaknesses
• AFPL provides training to its employees on a quarterly basis – the sampled employees displayed adequate levels of awareness of the majority of the parameters of the CoC. • The organisation is a member of SROs. • The NBFC-MFI's FPC covers most of the CoC parameters, such as disclosure, grievance redressal, internal control system, and employee behaviour. • AFPL undertakes credit history checks through the RBI-approved credit bureau. • The board has approved policies in place on operations, IA, HR, and risk management, apart from fair practices. Performance on key indicators is reviewed by board-level sub-committees. Necessary instructions are disseminated to staff at various levels through circulars. • AFPL has designed an HR policy manual that outlines the procedure for recruitment of employees from other MFIs. • Average feedback and grievance redressal mechanism; although complaint boxes are not installed at a few branches, toll free numbers are provided to clients for raising grievances. • AFPL's IA committee discusses the scope of the IA and reviews whether the changes suggested in the previous audit reports have been implemented by the branches. • AFPL provides loan documents – application form and loan card – in languages the client is well-versed in.	• The NBFC-MFI is yet to formulate a formal board-approved debt rescheduling policy. It is also yet to issue separate guidelines on recovery of delinquent loans by its staff. • Client awareness of the grievance redressal mechanism was found to be moderate. • Staff satisfaction with respect to compensation structure is not tracked as internal audit checklist. • The NBFC-MFI does not provide a separate sanction letter or loan agreement to its clients.

Significant observations

Higher Order Indicators	
Integrity and ethical behaviour	✓ AFPL has formed an audit committee, comprising all the three members of its governing board and headed by a board of director. The audit committee has discussed the scope of the IA and key audit findings of the previous IAs. ✓ The NBFC-MFI has developed credit policies and a procedure manual, which cover the following key policies and processes: o Recovery of delinquent loans o Loan restructuring o Adherence to RBI guidelines ✓ The operations team and CEO periodically review and resolve clients' grievances and complaints. ✓ The NBFC-MFI has formulated a fair code policy in compliance with RBI guidelines on appropriate behaviour towards clients. ✓ AFPL provides induction training to all its employees, as well as refresher training on a quarterly basis on the communication to be provided to new clients and sectoral updates. The majority of the employees sampled were aware of the feedback and grievance redressal mechanism. ✓ The NBFC-MFI educates clients on the various aspects of the loan and policies and procedures of the company during the three-day CGT process. Updates are also communicated to clients during centre meetings. The majority of the sampled clients were aware of the policies and procedures and the grievance redressal mechanism. ✓ The HR manual has a documented policy stating collections will not be recovered from employees unless in proven cases of fraud. ✓ The NBFC-MFI is a member of SROs. The contact details of the SRO nodal office and RBI ombudsman are displayed at all the branches. It shares data with the RBI and SRO as per requirements. ✓ AFPL mandatorily conducts reference checks and third-party verification for employees recruited from other MFIs. ✓ The branches do not maintain reports on the actions taken on complaints received from clients. ✓ The policy on debt rescheduling has scope for improvement; the MFI is yet to formulate an integrated board-approved policy comprising aspects such as sanction of top-up loans and intervals of collecting overdue loans. × The sampled clients demonstrated moderate awareness regarding the grievance redressal mechanism of the industry association. Moreover, branches do not display the contact details and address of the SRO nodal officer. × The IA team does not cover staff satisfaction with respect to compensation and incentive.
Sensitive Indicators	✓ It was observed that majority of the sampled clients were aware about the instalment to be paid by them. Moreover, they were not been asked to pay for a service as a precondition for loan.

Higher Order Indicators	
	✓ In the sampled clients, not a single instance was found where security deposit or penalty was imposed. ✓ In the sampled clients, no instance was found where size and tenure of loan, were not in line with RBI guidelines. ✓ Interview with sampled clients revealed that there was not a single instance where following behaviour was displayed by MFI staff: o Abusive language o Visiting client at odd hours (in case of delay, employees informed clients in advance) o Forcible entry into dwelling o Forced seizure of property ✓ The sampled clients were highly satisfied with the collection practices and behaviour of the field staff. ✓ In the sample reviewed, it was observed that no additional charges were paid to the MFI, apart from premium payable to an IRDAI-approved insurer. Amount charged for insurance is also mentioned in the loan card. ✓ The MFI undertakes credit bureau check of credit history of clients. Moreover, it shares the client data with all CB, the RBI, and SRO. × Some of the clients demonstrated low awareness of the number of instalments required to be paid, terms and conditions, credit insurance charges, and benefits of availing insurance cover. × The application forms of existing borrowers were partially filled or were incorrect.

Building Blocks

Transparency

- AFPL follows terms and conditions that adhere to the RBI guidelines on qualifying assets (pricing, tenure, and size). It does not accept any security deposit from its clients. Guidelines received from the RBI regarding the disclosure of the terms and conditions to clients have been discussed in the board meeting. These RBI circulars are sent to every branch via email, which is then forwarded to the branch employees.
- The latest circulars are displayed at the branches. All the staff members interviewed have received training on, and are aware of, the latest policies and guidelines issued by the RBI.
- The sampled clients stated they were aware of the terms and conditions of loan products and this was communicated to them by the field executives at every branch meeting. Documents related to loan products are maintained in local languages and include terms and conditions, loan card, repayment schedule, group registers, individual loan application form, and sanctioned letter.
- The majority of the clients interviewed were able to read and understand the text in the documents provided to them. The clients are issued loan cards, which include the following data:
  - Loan repayment schedule with bifurcation of the principal and interest amount
  - Interest rates – annualised and effective
  - Insurance charge
  - Processing fees
  - Dates of repayment
- The loan application form, loan agreement, and sanction letter are available in regional languages.
- The loan card provides complete information about the client and the name of the group, date of disbursement, processing charges, insurance charges, amount of disbursement, interest rate, number of instalments, break-up of principal and interest, due date of the loan, address of the branch and HO, and grievance redressal details. The complete repayment schedule is printed on the software-generated loan card.
- Although all the service charges are communicated in a written format to clients by AFPL, the sampled clients were unaware of the exact amount and number of instalments of loans. The clients also demonstrated low awareness of credit insurance charges paid and benefits of availing insurance cover.
- The clients interviewed were not issued any penalties or fines on late payment of equated monthly instalments. Neither were they asked to pay any kind of commission or security deposit. The sanction letter/loan card and the loan application agreement disclose this information.
- The clients interviewed stated that they or their relatives were able to read and understand the text in the documents, such as loan cards, loan agreements, and policies shared by the MFI.
- The company has a policy that no security deposit or collateral will be collected or obtained for loans from clients that qualify under priority sector classification. The audit committee and the board reviewed this in the previous year.
- The NBFC-MFI reviews whether the interest rates and margin comply with the RBI's pricing guidelines in its quarterly meetings.

- The NBFC-MFI's annual financial statement and report are available for the previous financial year.
- In case of rejection against an accepted loan application, the NBFC-MFI documents the reason for not sanctioning the loan.

Approval	Documentation
✓ The MFI's governing board has discussed relevant regulatory guidelines, policy manuals, and operational performance. These have been documented by the company.	✓ The policy manuals have guidelines pertaining to security deposits and charging no penalty to the client. ✓ Documents pertaining to the loan are available in regional languages. ✓ Acknowledgment receipt is provided to the clients whose documents are collected by AFPL for sanction.
Dissemination	**Observance**
✓ The RBI guidelines and subsequent circulars pertaining to them are documented in the branches. ✓ AFPL has a dedicated training team that regularly undertakes training session for staff to create awareness about changes in the RBI guidelines, interaction with new and existing clients, policies and procedures, and product information.	✓ Loan cards, which include loan repayment schedule and relevant regulatory terms and conditions, were issued to the clients. ✓ Relevant regulatory terms and conditions are communicated to the clients. ✓ The clients are not charged processing fees in excess of 1% of the loan amount. ✓ The clients interviewed were aware of the number of instalments to be paid by them. ✓ No instance was found where security deposit, collateral, blank cheque, or stamp paper was obtained from the client. × The interviewed field staff had moderate awareness of the terms and conditions of loans.

Client protection

Fair practices

- AFPL's board has reviewed the following with respect to qualifying assets / regulatory guidelines:
  - Loan size
  - Loan tenure
  - Loan purpose
  - Income of borrowers
  - Repayment frequency
- The NBFC-MFI has documented these aspects in operational manuals. The majority of the branch managers and staff interviewed were aware of the RBI's directions regarding this;'.
- AFPL offers credit/non-credit products approved by the concerned regulatory authorities.
- Aadhaar card and Voter ID card are accepted as primary ID and address proof. Awareness of the RBI guidelines with regard to KYC norms was observed among the interviewed branch members. Among the sampled clients, no evidence was found of involvement of any third party in filling up the clients' documents and no instance was found where verified identity proof documents were not obtained.
- AFPL provides insurance to the clients through an IRDAI-approved agency. No sampled clients stated that they were made to pay for a service as a precondition for availing the loan.
- Based on the review of the MFI's operations, no evidence was found of the MFI offering any unapproved product/service.
- The MFI's board meets on a quarterly basis to review the proportion of qualifying loan assets to total assets. Here, AFPL's operational performance with respect to the size, tenure, and purpose of the qualifying loan assets is also assessed.
- The products offered have a weekly/fortnightly/monthly repayment frequency, and the majority of the clients interviewed were satisfied with the repayment frequency. No evidence was found of any unapproved product/service being offered by AFPL.
- The board has a policy that states the non-credit products offered will be voluntary and not a precondition for loans.
- All the clients received the loan amount within the specified limit.
- The interviewed operational staff members were aware of the turnaround time limits for loan disbursement.

Avoiding Over-indebtedness

- The company undertakes a survey of the operational area; apart from this, field visits are undertaken by the staff at various hierarchies as part of due diligence and monitoring.
- The NBFC-MFI follows the RBI guidelines for household income as an eligibility criteria for loans. Moreover, it follows the guideline that it cannot be the third MFI lender or lend more than the regulatory stipulated amount in the first cycle.
- The branch staff were aware of the regulatory guidelines on maximum over-indebtedness.
- The loan application of the company also includes income and expenses of single borrowers, which show whether they are capable of loan repayment.
- The operational manual broadly provides details of the guidelines to be followed by the staff for undertaking loan appraisal.
- No instance was observed where the company sanctioned a JLG loan in excess of the stipulated guidelines.
- The internal audit report keeps a record of whether RBI compliance is being met with regard to maximum indebtedness of borrowers. The internal audit team also checks the credit bureau reports and documents them.
- AFPL follows RBI guidelines for household income of Rs 1,25,000 in rural areas and Rs 2,00,000 in urban areas for eligibility criteria for loans.

Appropriate interaction and collection practices

- The company has clearly defined guidelines for employee interaction with clients. The employees were aware of the FPC and the guidelines on interaction with clients.
- As per the FPC, MFI is responsible for the conduct of its staff and will ensure the following behaviour of employees:
  - Avoiding use of abusive language or threats
  - Not visiting borrowers at odd hours/after sunset
  - Treating all clients with dignity
  - Forceful entry into dwelling and forced seizure of property
- The operational manual contains the NBFC-MFI's operational performance with regard to the following:
  - Undertaking loan appraisals
  - Conducting client meetings
  - Collecting repayments
  - Recovering overdue loans
- The NBFC-MFI also provides training to its employees to ensure adherence to the aforementioned parameters.
- The sampled clients were satisfied with the collection practices and the behaviour of the field staff.
- The internal audit covers client grievance and aspects related to staff behaviour.
- No instance was found where the clients had to make payments to informal agents or pay bribes.
- The interviewed staff members were aware of the guidelines regarding the process to be followed with delinquent clients.

- The clients expressed satisfaction regarding the turnaround time of loan sanction; a few clients indicated some dissatisfaction about the frequency of centre meetings.

Privacy of client information

- AFPL adheres to guidelines pertaining to the privacy of client information.
- The sampled clients were broadly aware of the terms and conditions of the availed loans. However, they displayed limited awareness regarding information sharing with the credit bureau, RBI and SROs
- The physical copy of KYC, loan application, and other documents of clients are sent to the HO
- The NBFC-MFI obtains a regular backup of client data regularly
- Internal audit checks do not have adequate security guidelines on the storage of client data with adequate security.

Approval	**Documentation**
✓ The board has reviewed the operational performance of the NBFC-MFI, concerning the qualifying asset criteria ✓ The board has approved the FPC, credit policies and procedure manual ✓ The governing board has reviewed past year compliance, on ○ Qualifying assets criteria ○ Conducting client meetings and collections ○ Credit approval process and client indebtedness ✓ The board has reviewed its performance regarding borrowers' indebtedness ✓ The NBFC-MFI has designed a credit policy covering guidelines for handling debt rescheduling and recovery of delinquent loans × No formal board-approved debt rescheduling policy in place	✓ The loan size, tenure, purpose and repayment frequency are as per the RBI guidelines and are documented in the form of circulars ✓ The credit appraisal and client eligibility guidelines are documented in the credit policy ✓ There is a written policy for undertaking credit bureau checks for verifying the credit history of clients ✓ Operational manuals have details about documents required for KYC norms, prices of its collection and verification
Dissemination	**Observance**
✓ All branch managers are aware of RBI directions regarding KYC norms ✓ The sampled branch employees have received training on regulatory guidelines, credit policies of the MFI and assessment of the client's repayment capacity	✓ The loan sizes, tenure and utilisation among the sampled clients were in line with the limits defined by the RBI × Some clients demonstrated low awareness regarding the privacy of client information, including

	that their data can be shared for authorised purposes

Governance

- NBFC-MFI's current board members have a sound reputation, with more than one-third of the board members as independent
- Board meetings take place quarterly, and minutes of the meeting are documented properly
- The board meets periodically to review operational and policy issues. Minutes of the meetings are well documented. NBFC-MFI has various board sub-committees, including audit, nomination and remuneration and risk management
- The company's annual report details adequate disclosure of the operational and financial performance. Its website is updated periodically to highlight relevant operational progress. The CEO's compensation is disclosed in the audit report
- No adverse audit observation in the auditor's report regarding accounting standards followed by the MFI. In fiscal 2020, the board met four times to review the credit policy, financial projections, interest rates, RBI circulars, CoC, provisioning and unaudited financials and to discuss improvement areas
- The account books are audited by a reputed audit firm
- The company was found to be complying with relevant accounting standards

Approval	**Documentation**
✓ The company has constituted an audit committee of the board, with an independent director as the chairperson ✓ The audit committee has discussed the scope of the audit	✓ The company has a formal internal audit policy document ✓ The MFI shares the adherence of the CoC with the board on a quarterly basis × The MFI has not formulated a debt restricting policy for its client-facing repayment stress
Dissemination	**Observance**
× Limited awareness of branch staff members regarding the process to be followed with delinquent clients	✓ AFPL has a dedicated internal audit team, directly reporting to the board committee ✓ There were no adverse comments or observations found in the auditor's report regarding accounting standards followed by AFPL in fiscal 2020 × Internal audit does not capture staff satisfaction on compensation and incentives

Recruitment

- The NBFC-MFI has a recruitment policy; there are documented guidelines regarding recruitment.
- The NBFC-MFI's HR manual provides details on the compensation and incentive structure, leave policy and working hours
- As per the HR manual, when an employee is recruited from another MFI, the company mandatorily conducts reference checks with the HR manager of that MFI
- The process for responding to reference check requests is well documented in the NBFC-MFI's HR manual. The organisation is required to respond to these requests within a specified time
- Responses to requests for reference checks are made within two weeks, and a detailed process is documented in the HR manual
- AFPL has formulated policies regarding issuing relieving letters to outgoing employees and obtaining relieving letters at the time of recruitment
- AFPL has formulated a whistle blower policy and the same is documented in the manual

Approval	Documentation
✓ The board reviewed the recruitment policy once in the last year ✓ AFPL has designed an HR policy manual, outlining the procedure for recruitment of employees from other MFIs ✓ The policy contains clauses that highlight sufficient notice periods to be provided by all employees	✓ The NFBC-MFI has a documented policy for recruitment, issuing relieving letters and notice period for outgoing employees ✓ The MFI has a documented system of reference checks for new employees
Dissemination	**Observance**
	✓ The MFI undertakes mandatory reference checks with the previous employer and third-party verification is carried out for new recruits ✓ If the MFI recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for one year

Client education

- AFPL conducts CGT for its clients during the loan application process. The clients are educated on the following aspects:
    - Brief information about the company and its offerings
    - Loan purpose
    - Product details and interest rate of the loan applied
    - Policies and procedures of the NBFC-MFI
    - Importance of attendance in centre meetings
    - Duties and responsibilities of the group
- The clients are also made aware of their rights, responsibilities and financial details during the LD process
- Branch employees undergo induction training for enhancing their awareness on the following:
    - Loan products
    - Regulatory guidelines
    - CoC
    - Feedback and grievance redressal procedure
- Process and policy updates all clients interviewed agreed that they were briefed about AFPL's policies and procedures at the time of joining, although it was observed that many of them were not aware of their options, choices and responsibilities

Approval	Documentation
	✓ Documented processes of CGT, GRT, credit policies and procedure manual are present. ✓ Every branch maintains the group meeting register, where the field executive records details of each meeting
Dissemination	**Observance**
✓ The MFI has trained its staff on raising client awareness ✓ Internal audit reviews client awareness and understanding on various aspects of credit and non-credit offerings	✓ AFPL didn't charge any money from clients for trainings provided × Clients display weak awareness about the following: ○ Interest rate ○ Loan term ○ Processing fee ○ Insurance charges ○ Insurance claim settlement process ○ Any other product or service

	× Few clients displayed moderate awareness about lending terms (interest charges payable, processing fees, and insurance charges)

Feedback and Grievance Redressal

- Every branch of AFPL maintains a visitor and a complaint book for clients. If a branch receives any complaint from a client, it forms a team consisting of a branch manager and a field executive/credit relationship officer to provide appropriate solutions to the client. The sampled clients are aware of the branch and HO location. The grievance redressal mechanism is also mentioned in the loan agreement
- The NBFC-MFIs have established a dedicated feedback and grievance redressal mechanism to handle/receive complaints. It provides an avenue for clients to record their complaints
- Contact details of the ombudsman and AFPL's HO and toll-free number are mentioned on the loan card. The helpline number is managed by the grievance cell at the HO
- The feedback and grievance redressal mechanism forms a part of staff training
- No separate reports detailing adherence to COC for complaints received and resolved are presented to the senior management
- In all the branches visited, the contact number and address of SRO nodal official were not displayed

Approval	Documentation
✓ Clients can lodge complaints through a toll-free number. However, no instance of complaint escalation to the senior management × A summary of the grievance redressal report is yet to be presented to the board for review. Complaints are resolved at the operational level	✓ AFPL's fair practice code and operational manual include details of the grievance redressal mechanism ✓ All branches of the MFI display the grievance redressal mechanism and contact details, which can be accessed by clients ✓ The toll free number for feedback on grievances is mentioned on loan cards, and is displayed at branches
Dissemination	**Observance**
✓ The employees receive training on aspects related to feedback and grievance redressal ✓ Clients are made aware of the grievance redressal mechanism during the first group meeting and disbursements conducted by field executives	✓ Majority of interviewed clients were aware of the branch location; however, low awareness levels were observed about the HO address × Contact details of the SRO are not displayed at the branches of AFPL × Low awareness levels were observed regarding the grievance redressal mechanism among the majority of sampled clients

Data Sharing

- Being a member of leading credit bureaus, AFPL has a well-defined process for data sharing. Data is shared on a weekly basis and consolidated data is shared on a monthly basis
- AFPL is a member of SROs and shares data with the RBI and SRO as per requirements
- The MFI displays summarised operational financial performance on its website

Approval	Documentation
✓ AFPL has a defined policy for sharing data with credit bureaus	✓ The NBFC-MFI has a board-approved policy for client data security. This policy is a part of credit policies and procedure manual and fair practice code
Dissemination	**Observance**
✓ Clients are made aware through terms and conditions that their data may be shared with the credit bureau and regulatory body. The loan agreement forms also disclose the same	✓ AFPL's annual report is available on its website × Sampled clients had limited awareness that the data shared by them is confidential and the NBFC-MFI cannot share it with any third party without authorisation

Annexure: Methodologies

Definition

CRISIL MFI grading is a current opinion on the ability of an MFI to conduct its operations in a scalable and sustainable manner. It is a measure of the overall performance of an MFI on a broad range of parameters under CRISIL's MICROS framework (discussed in further sections). These MFI gradings are assigned on an eight-point scale mfR1 (highest grading) to mfR8 (lowest grading) with a high grading denoting a greater degree of scalability and sustainability. The universe for evaluating institutions under the MFI grading service consists of MFIs operating across India.

The grading exercise includes a review of the MFI's systems, processes and internal controls, assess quality, organisational efficiency, governance, management, financial performance and strength. However, it is not a credit rating, does not indicate the credit worthiness of an MFI, and is not a comment on its debt repayment capability.

CRISIL MFI gradings are one-time assessments based on information provided by MFIs. CRISIL does not monitor the grading on an ongoing basis. These are non-issuance based gradings and reviews are done only at the request of the MFI or a prospective investor/donor/lender on a point-in-time basis.

MICROS – MFI Evaluation Framework

Apart from overall financial performance, business volumes, and ratio analysis, the methodology allots due weightage to financial and non-financial parameters including to key business volumes, performance indicators and ratio analysis on a relative basis.

The following enunciates the broad grading parameters in the assessment framework.

1) Management

CRISIL's management analysis focuses on assessing systems and processes adopted by the MFI vis-à-vis best practices among financial intermediaries. The following parameters are analysed:

- Operational track record, lending model (joint lending group or self-help group, on-lending or business correspondence), business orientation and outreach – nature of market catered (rural, semi-urban, or urban) and regional presence – for instance, whether operations are confined predominantly to rural / urban areas.
- Adherence to regulatory compliances and to the voluntary microfinance code of conduct formulated by MFIs.
- Strategic alliances and networks with other agencies (donors, associations, tie-ups) and memberships of SROs among others
- Systems for providing credit services - client identification, group formation, credit appraisal, tie-up with credit bureaus, recovery of credit, collection of thrift, loan overdue monitoring, cash flow management, and fraud control
- Processes, internal controls, internal audit – its scope and rigour, quality of accounting practices and reporting, and risk management practices

- Deployment of information technology, hardware and software infrastructure, adequacy of systems and degree of computerisation, security and disaster recovery management
- Human resources management

2) Institutional arrangement

This section focuses on assessing management risk including quality, track record, and inter-relations among the MFI's management, promoters and board. It also evaluates the articulated vision of the management / board to the stakeholders. Key parameters under this section include:

- Quality of the governing board, management and ownership– pedigree of promoters, experience in the field, board structure, organisation structure, independence of the board from the management, experience of the senior management and their understanding of the sector
- Governance practices
- Goals and strategies – Articulation of vision, goals and strategies, quality of planning

3) Capital adequacy and asset quality

CRISIL's assessment of MFI's capital adequacy encompasses the following factors:

- Quantum / size of capital and its position with domestic requirements (applicable for non-bank finance companies – MFI)
- Quality of capital, proportion of internal accretions, access to capital grants / donations (for non-corporate / co-operative legal forms)

The evaluation of asset quality includes an assessment of the MFIs ability to manage credit risks. The analysis is based on information provided by the MFI or obtained at meetings with the management or on field visits for discussions with branch staff and clients or a random review of documentation and experiences of other MFIs. The analysis is based on the following:

- Quality of portfolio, client profile, loan conditions, group guarantee, quality of groups formed by the MFI, loan purpose (economic or consumption), and adverse selection risks
- Seasoning of loan portfolio
- Concentration of credit risk – Diversity in end usage of loans, exposure to disaster prone regions or susceptibility to possible event risks, geographical concentration of operations
- Loan loss levels and movement of provisions and write-offs – portfolio at risk (PAR) greater than 30, 90, 180, 360 days levels, one time repayment rates, provisioning and write-off policies, proportion of write-offs and provisions (after CRISIL's adjustments, in case the MFI does not have an adequate policy), loan provision and write-off policies vis-à-vis prudential norms (for NBFC-MFIs).
- Month-wise analysis of collections against demand, including pre-payments

4) Resources and asset liability management

CRISIL analyses the resource position of MFIs on the basis of their ability to maintain a stable resource base and obtain borrowings at competitive rates. CRISIL's analysis factors in the legal status of the MFI (which imposes restrictions on the acceptance of saving/deposits) and the regulatory environment in the country in which the MFU operates.

Moreover, regulatory risks, if any, are considered separately. The key factors analysed under this parameter include:

- Sources of funds
- Composition of borrowings
- Diversity in borrowing profile-banks, apex MFIs/financial institutions, overseas borrowings, money markets, etc.
- Cost of borrowings- trend and comparison with other MFIs
- Other details- ability to securitise portfolio from impact of foreign exchange currency risks
- Asset liability maturity profile of the MFI, liquidity risk and interest rate risk

5) Operational effectiveness

In measuring operational effectiveness, the key considerations are operational efficiency and profitability. MFIs are incorporated under different legal forms; in most countries they are not regulated and do not need to follow standard accounting practices. CRISIL, therefore, performs appropriate analytical adjustments, which are in-line with the practices adopted worldwide in evaluating MFIs. The factors analysed under this parameter includes:

- Office outreach and quality of infrastructure
- Operational efficiency- productivity measured through several indicator such as loans/borrowers to loan officer, loans/borrowers per branch and staff allocation ratio. Efficiency is measured through indicators such as operating expenses to average funds deployed , and operating expenses to disbursements
- Diversity of income sources- composition of fund and fee-based income
- Profitability – loan pricing, impact of prepayment, operational self-sufficiency (OSS) ratio, net profitability margin (NPM), return on equity (RoE), return on funds deployed/earning assets (RoA)
- Impact of inflation on earnings (used in countries that have experienced high inflation in the past)

6) Scalability and sustainability

An MFI needs to create a sustainable and scalable business model; its products and processes need to be evolved so as to attain institutional and financial resilience. To assess an MFI's ability to attain institutional and financial resilience, the following sub-parameters are analysed:

- Fund and resource base sustainability- sustainability of capital with respect to growth in the MFI's loans, plans to raise capital, and resource diversification strategies in place
- Organisational sustainability- legal structure, governance, succession, human resource issues
- Programme sustainability- sectoral expertise, ability to diversify product mix, enter new regions, retain market share in existing operational areas, long-term strategy of the MFI/NGO-MFI in microfinance activity.

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, a 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 Transparency Client education	Client protection, recruitment Feedback/grievance redressal Data sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below:

Higher order indicators	**Number of indicators**
Integrity and ethical behaviour	32
Sensitive indicators	26
Building blocks	**Number of indicators**
Transparency	40
Client protection	122
Governance	30
Recruitment	13
Client education	14
Feedback and grievance redressal	25
Data sharing	6

Total	**250**

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 eight).

Sampling guidelines

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

MFI size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (less than eight branches)	All branches	15 clients per branch covering minimum two centres.
Small / mid-size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two 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 are also 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. Proper care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximise the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from 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 clients.

As part of this assessment, visit was conducted across 17 branches, interviewed 331 clients and 85 client house visits of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Berhampur MEL	Odisha	5
2	Hinjilicut		9
3	Chhatrapur		26
4	Digapahandi		25
5	Aska		20
6	Pataudi	Haryana	5
7	Samalkha		12
8	Gohana		26
9	Assandh		26
10	Gharaunda		25
11	Melur	Tamil Nadu	25
12	Melur MEL		10
13	Andipatti		27
14	MaduraiMEL		10
15	Kalaburagi Rural	Karnataka	25
16	Jewargi		23
17	Sedam		32
Total			**331**

About CRISIL Limited

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It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

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