



SMERA RATINGS LIMITED

SMERA MFI Grading

M2

*(High capacity of the MFI
to manage its operations
in a sustainable manner)*

SMERA MFI Grading

Svasti Microfinance Private Limited

Date of Report:

29th December, 2017

Valid Till:

28th December, 2018

Conflict of Interest Declaration

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

Disclaimer

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

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Historical Rating Grades

Date	Rating Agency	Rating/Grading
31/Mar/2017	CARE Ratings	BB+

SMERA's MFI Grading Scale

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

Company Profile

Name of the MFI	Svasti Microfinance Private Limited	
Operational Head – Microfinance Business	Name	Mr. Bhagavathi Subramaniam Narayanan
	Designation	Executive Director, CFO & CIO
	Mobile No.	9840099120
	Email ID	narayanan@svasti.in
	Date of Joining	15 th March, 2010
Date of Incorporation/Establishment	23 rd February, 1995	
Date of commencement of microfinance business	01 st October, 2010	
Legal Status	NBFC-MFI	
Business of the company	Microfinance services using Joint Liability Group (JLG) Model	
Correspondence Address	New No.187 (Old No.107) Peters Road, Chennai, Tamil Nadu – 600 086	
Geographical Reach (As on 30/Sep/2017)	No. of States	03
	No. of Districts	13
	No. of Branches	30
	No. of Active Borrowers	84,854
	No. of Total Employees	400
	No. of Field/Credit Officers	208

Product Profile

Products	Description	Loan Size (Rs)	Interest Rate (A) (In %)	Processing Fee (B) (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
Pragati	JLG	15,000 – 50,000	25.88%	1%	26.88%
Unnati	JLG	15,000 – 50,000	25.88%	1%	26.88%
Individual Loan	Loan Against Property	1,00,000 – 5,00,000	24%	2% or Rs. 10,000/- (Whichever is Higher)	26%

Capital Structure (as on 30/Sep/2017)

Authorized Capital	In Rs.	5.23	Crore
Paid-up Capital	In Rs.	2.33	Crore

Shareholding Pattern

EQUITY SHARES	
Shareholders	% Holding
P Arunkumar	7.25
B Narayanan	7.25
Svasti Financial Services Private Limited	0.34
Svasti ESOP Trust	8.58
Michael and Susan Dell Foundation	15.68
Kotak Mahindra Investments Limited	2.36
Mr. Somasekhar Sundaresan	2.14
Mrs. Lakshmi Rao	2.57
Indovest Holdings Private Limited	1.16
Mr. N Gautam	0.86
Mr. Arunachalam Srinivasan	0.64
Mr. Anand Ladsariya	0.64
Mr. Rajendra Sah	0.64
Mr. Vivek Triloknath	0.85
Mr. Vikas Chhariya	1.29
Mr. Devang Bhuta	0.64
Mr. Harshad Lahoti	0.43
Mr. Rajiv Dadlani	0.43
Mr. Dileep Raghunath	0.21
Nitin Agarwal HUF	0.21
Bamboo Financial Inclusion Mauritius (Formerly known as Blue Orchard Mauritius)	20.86
Andaman Finance and Investment Private Limited	12.47
Rising Sun Holdings Private Limited	12.47
Total	100.00

Promoters Profile

Name	Position	Qualification	Brief Profile
Mr. P. Arunkumar	Executive Director, CEO	B. Sc.,LLB	He has more than six years of experience at ICICI Bank as legal advisor to the corporate banking, project finance, structured finance, private banking and treasury operations. He was part of the core strategic team that planned and executed the bank's foray into international markets.
Mr. Bhagavathi Subramaniam Narayanan	Executive Director, CFO & CIO	B.Com, FCA, CISA	As an auditor, he has been involved in conducting central audits of Oriental Bank of Commerce and Andhra Bank. As a banking technology consultant he has been involved in projects for providing technology solutions to banking operations of ICICI Bank, ING Vysya Bank and Lord Krishna Bank. He also was a key member of the startup team of myTiger.com, a business intelligence venture, where his contribution lay primarily in heading the technology team.
Mr. M. N. Venkatesan	Director	B.Com, FCA	Mr. Venkatesan is a Chartered Accountant and Senior Partner, Mr. Narain & Co., Chartered Accountants, Chennai, a 57 year old firm. He has been in charge of RBI appointed central statutory audits of Andhra Bank, Oriental Bank of Commerce, State Bank of Mysore, Corporation Bank and The Lord Krishna Bank Limited. Presently, he is the central statutory auditor of Allahabad Bank. He was the Director of Indian Overseas Bank from December 2002 to December 2008.
Mr. Arun Asok	Director (Nominee – Blue Orchard)	MBA (IIM Ahmedabad)	Mr. Arun Asok is a MBA from IIM Ahmedabad. He has seven years of experience in NBFC.

Management's Profile

Name	Position	Qualification	Brief Profile
Mr. P. Arunkumar	Executive Director, CEO	B. Sc., LLB	He has more than six years of experience at ICICI Bank as legal advisor to the corporate banking, project finance, structured finance, private banking and treasury operations. He was part of the core strategic team that planned and executed the bank's foray into international markets.
Mr. Bhagavathi Subramaniam Narayanan	Executive Director, CFO & CIO	B.Com, FCA, CISA	As an auditor, he has been involved in conducting central audits of Oriental Bank of Commerce and Andhra Bank. As a banking technology consultant he has been involved in projects for providing technology solutions to banking operations of ICICI Bank, ING Vysya Bank and Lord Krishna Bank. He also was a key member of the start-up team of myTiger.com, a business intelligence venture, where his contribution lay primarily in heading the technology team.
Ms. Nuzhat Mulla	Senior Vice President, Finance	CA	She has working experience in Moore Stephens and Deloitte as Statutory and Internal Auditor. She has handled the Audits of one of the IL&FS Group Company, HDFC Mutual Fund, HDFC Ergo, TCS e-serve etc. She has worked as Finance head of IITL Group which was into allied activities including NBFC, Insurance Broking, Real estate etc.
Mr. Ashish Chandorkar	Business Head, LAP	B.Sc. (Hons.) Electronics & M.B.A. (Marketing)	He has 18 years of experience in Sales, Credit-operations and Product & Business development in Retail Asset Lending industry. Before joining SMPL he has worked with Citi Group, Cholamandalam Finance, DBS, Tata Capital and ICICI Bank.
Mr. Ravikumar Nagaram	Regional Manager-Operations	B.Com	He has working experience in MFI Sector in Spandana Sphoorthy Microfinance Pvt. Ltd., as State Head, Maharashtra. He has an overall experience of 18 years.
Mr. Nitesh Kumar Sinha	Vice President-Audit	MBA (Rural Management)	He has working experience in MFI Sector in organisations like NEED, Ujjivan Financial Services and BASIX.
Mr. Narayan Bhaskar	Vice President- HR & Admin	B.Com, Post-Graduation, Diploma in HRD, LLB, LLM	He has overall experience of 18 years in Human Resource, Administration and Legal Department. Prior to joining SMPL he has worked with ICICI Bank and

			Pangea3.
Mr. Sudhakar Seetha	Regional Manager - Outside Mumbai	B.A	He has working experience in MFI Sector in Share Microfin Pvt Limited, as State Level In-charge, Internal Audit. He has overall experience of 17 years.
Mr. Peeyush Dubey	Regional Manager - Outside Mumbai	MBA (Rural Management)	He has working experience in MFI Sector in NEED Livelihood Microfinance Private Limited as a Branch Manager. He has overall experience of 9 years.

HIGHLIGHTS OF MICROFINANCE OPERATIONS

Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	30/Sep/2017
No. of States	01	02	03	03
No. of Districts	02	04	11	13
No. of Branches	11	17	27	30
No. of Active Members	34,556	49,236	72,503	84,854
No. of Active Borrowers	34,556	49,236	72,503	84,854
No. of Total Employees	158	250	372	400
No. of Field/Credit Officers	77	121	201	208
No. of SHGs	0	0	0	0
No. of JLGS	7,012	10,494	14,500	16,971
No. of Individual Loans	0	0	44	81
OWNED PORTFOLIO				
Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	30/Sep/2017
Total loan disbursements during the year (in crore)	32.12	50.44	78.63	95.67
Total portfolio outstanding (in crore)	30.74	48.18	78.88	132.13
MANAGED/BC PORTFOLIO				
Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	30/Sep/2017
Total loan disbursements during the year (in crore)	9.43	38.51	35.92	0.00
Total portfolio outstanding (in crore)	9.76	30.02	29.72	13.25
SECURITISED PORTFOLIO				
Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	30/Sep/2017
Total loan disbursements during the year (in crore)	9.27	0.00	9.25	0.00
Total portfolio outstanding (in crore)	6.41	2.83	1.57	1.07

GEOGRAPHICAL OUTREACH AS ON 30/September/2017

Name of the State	No. of Branches	No. of Borrowers	Portfolio o/s (in crore)	PAR % (>30 days)	% of Total Portfolio o/s
Maharashtra	24	74,513	131.97	2.87	90.11
Madhya Pradesh	3	4,249	5.85	0.00	3.99
Gujarat	3	6,092	8.63	0.00	5.90
Total	30	84,854	146.45	2.87	100.00

AGEING SCHEDULE OF THE LOAN PORTFOLIO

Period	FY 2015	FY 2016	FY 2017	30/Sep/2017
	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)
On-time	46.89	80.95	105.50	142.01
1-30 days	0.00	0.00	0.74	0.26
31-60 days	0.00	0.00	0.84	0.29
61-90 days	0.00	0.00	1.25	0.28
91-180 days	0.02	0.03	1.71	0.53
181-360 days	0.01	0.03	0.05	2.85
> 360 days	0.00	0.02	0.09	0.24
Write-off	0.00	0.00	0.00	0.00
Total	46.92	81.03	110.18	146.45

NOTE: Ageing Schedule Includes Own Portfolio, Managed Portfolio And Securitised Portfolio of the MFI.

Microfinance Capacity Assessment Grading Rationale

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

Long track record of operations and extensive industry experience of promoters

Svasti Microfinance Private Limited (SMPL) is a non-deposit taking NBFC –MFI registered with the Reserve Bank of India. SMPL was started in October 2008 as Svasti Foundation by promoters Mr. P Arunkumar and Mr. B. Narayanan. During its inception, each of the promoters brought in equity of Rs. 5 Million each. Svasti Foundation started microfinance operations in October 2008. In October 2010, Svasti Foundation transitioned to a NBFC called Svasti Microfinance Private Limited by acquiring existing NBFC called Easy Housing and Finance Limited. In March 2011, SMPL received its second round of equity infusion from Bamboo Finance – the equity arm of Blue Orchard of Rs. 45 Million (USD 1.01 million). Entity received its NBFC-MFI on 19th April 2017. Recently it received equity infusion of Rs. 11 Crore from Poonawala Group in May 2017. Entity received its NBFC-MFI on 19th April 2017.

- SMPL's core management team and second line of management has an adequate understanding of MFI ecosystem with rich experience in banking and financial sector. Mr. P. Arunkumar, Executive Director and CEO of the organization has more than six years of experience at ICICI Bank as legal advisor to the corporate banking, project finance, structured finance, private banking and treasury operations. Mr. B. Narayanan Executive Director, CFO and CIO of the organization was a system auditor, he has been involved in conducting central audits of Oriental Bank of Commerce and Andhra Bank. As a banking technology consultant he has been involved in projects for providing technology solutions to banking operations of ICICI Bank, ING Vysya Bank and Lord Krishna Bank.
- SMPL has four-member on its board as on Sep 30, 2017 having extensive experience in the banking and finance segment. The board has 2 promoter directors and 2 directors with banking & finance/microfinance expertise.

Diversified resource profile

- As on Sep 30, 2017, SMPL has developed funding relationships with 11 lenders (Two Banks & Nine NBFCs/FIs) however their resources profile continues to remain concentrated towards borrowings from NBFCs/FIs which stood at ~ 96% of total borrowings (outstanding debt) as on Sep 30, 2017. SMPL has been able to raise Tier-II capital (Subordinated Debt) from Capital First Limited.
- SMPL is presently working as a business correspondent Edelweiss Financial Services Limited. The managed loan portfolio of the company stood at Rs.13.25 crore as on Sep 30, 2017. SMPL also has securitization of its portfolio through IFMR Capital Finance Private Limited. The securitized portfolio stood at Rs. 1.07 crore as on Sep 30, 2017.
- The overall cost of funds (COF) for SMPL is stood at 12.61% as on March 31, 2017 on account of majority of borrowings from NBFCs/FIs. The loans availed from NBFCs/FIs carry higher interest rate in the range of 14%-16% and hence the company has to explore its funding base majorly towards PSU Banks/Private Banks for reducing its cost of borrowing.

OWNED PORTFOLIO				
Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	30/Sep/2017
Total loan disbursements during the year (in crore)	32.12	50.44	78.63	95.67
Total portfolio outstanding (in crore)	30.74	48.18	78.88	132.13
BC PORTFOLIO				
Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	30/Sep/2017
Total loan disbursements during the year (in crore)	9.43	38.51	35.92	0.00
Total portfolio outstanding (in crore)	9.76	30.02	29.72	13.25

Moderate capitalisation and comfortable liquidity profile

- The company's capitalisation stands moderate marked by gearing of 5.11 times as on March 31, 2017 as compared to 2.59 times as on March 31, 2016. The company's Capital adequacy ratio (CAR) stood 24.60 per cent as on Mar 31, 2017 as against CAR of 30.90 per cent as on March 31, 2016.
- SMPL has a comfortable liquidity position due to well matched maturity of assets and liabilities. The tenure of loans is about 12-24 months, whereas the incremental bank funding is typically with tenure of about 24-36 months. The company has Fixed Deposit of Rs. 4.20 crore and Cash and Bank Balances of Rs. 20.29 crore as on March 31, 2017. However regular flow of funds is critical to maintain the projected growth and the same would have a key bearing on its liquidity profile.

Geographical Concentration

- The company is exposed to geographical concentration risk. As on Sep 30, 2017, SMPL's portfolio is concentrated in the state of Maharashtra accounting for ~ 90 percent and ~ 10 percent in other two states i.e. Madhya Pradesh and Gujarat.
- The company is exposed to high level of political uncertainty in the state of Maharashtra where the company has majority of the microfinance operations. Any political intervention in the existing states would significantly affect the company's asset quality indicators. It would also be key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

Sound asset quality

- SMPL has maintained sound asset quality with on-time repayment rate of 96.96% as on Sep 30, 2017.
- The PAR 0-30 days stood at 0.18% as on Sep 30, 2017 as compared to 0.00% as on Mar 31, 2016. The PAR >30 days stood at 2.86% as on Sep 30, 2017 as compared to 0.099% as on Mar 31, 2016. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control. The PAR % has remained comfortable and not impacted significantly despite of demonetization in the month of November 2016.

Income and Profitability

- The company reported a profit after tax of Rs. 15.42 Lakh on total income of Rs. 20.50 Crore in FY2017 and a profit after tax of Rs. 18.12 Lakh on total income of Rs 12.76 Crore in FY 2016; however the profit after tax is supported by non-operating revenue.
- As on Sep 30 2017, the SMPL has an outstanding loan portfolio of Rs.146.45 crore (including BC and securitized portfolio) spread over 30 branches of 3 states with about 84,854 borrowers. The companies' portfolio outstanding witnessed a growth of ~80% as on Sep 30, 2017 over FY 2016. The Company's operating expense stood moderately high at 10.28% as on 31-March-2017.

Profitability / Sustainability Ratios	31-Mar-15	31-Mar-16	31-Mar-17
Yield on Portfolio (%)	29.36	24.44	23.58
Operational Self Sufficiency (%)	95.52	94.54	96.28
Operating Expense Ratio (OER)	12.20	10.74	10.28
Funding Expense Ratio (FER)	14.43	13.28	12.61
Return on Assets (RoA)	0.27	0.27	0.16
Return on Equity (RoE)	0.11	0.15	0.11
Portfolio at Risk (>30 days)	0.06%	0.099%	3.57%

Adequate IT Systems and Audit Mechanism

- SMPL's management information system (MIS) and Information Technology (IT) infrastructure is adequate for its current scale of operations. It has dedicated MIS and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches. It uses customized in-house software "MERP" to ensure smooth flow of operational data between Head Office and branches. The company also has an internal audit team which undertakes branch and borrower at regular interval.

Inherent risk prevalent in the microfinance sector

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

Financials

Profit & Loss Account (Rs. In Thousands)

Period	FY 2015	FY 2016	FY 2017
Months	12	12	12
Financial revenue from operations	1,11,429	1,27,619	2,04,994
Interest and fee revenue from microfinance loans	95,553	96,451	1,49,782
BC Commission	2,991	17,206	43,643
Other revenue related to financial services	0	0	1,140
Other Operating Revenue	12,885	13,962	10,429
Financial expenses from operations			
Interest and Fee Expense on Borrowings	56,232	58,658	93,086
Gross financial margin	55,197	68,961	1,11,908
Provision for Loan Loss / Write off	0	1,744	3,079
Net financial margin	55,197	67,217	1,08,830
Operating expenses			
Personnel Expense	39,806	49,284	83,250
Depreciation and Amortization Expense	3,026	4,065	5,516
Other Administrative Expense	12,023	12,210	20,000
Net operating income	342	1,658	63
Non-Operating Revenue (h)	1,698	1,600	2,116
Current Tax	0	0	829
Deffered Tax charge/(credit)	484	1,446	(192)
Net Profit After Tax	1,556	1,812	1,542

**Above financials have taken from audited accounts.*

Balance Sheet (Rs in Thousands)

As on date	31-Mar-15	31-Mar-16	31-Mar-17
	audited	audited	audited
SOURCES OF FUNDS			
Shareholders' Funds			
Capital			
Equity Capital	19,237	19,237	19,237
Reserves & Surplus	1,69,676	1,71,488	1,73,030
Total Capital	1,88,913	1,90,725	1,92,267
Liabilities			
Short-term liabilities			
Short-term borrowings			
Commercial Loans from banks/FI	3,03,643	3,11,643	3,21,836
Concessional Loan/Subordinated Debt	6,667	50,000	1,66,667
Interest payable on funding liabilities	1,604	1,607	2,350
Account payable & Other short-term liabilities	30,167	21,957	16,065
Total Short-term liabilities	3,42,081	3,85,207	5,06,918
Long-term liabilities			
Long-term borrowings			
Commercial Loans from banks/FI	79,286	86,368	2,67,578
Concessional Loan/Subordinated Debt	0	45,833	2,26,042
Total Other Liabilities	4,21,367	5,17,408	10,00,538
Other Provisions	1,989	1,630	3,284
Deferred Tax Liability	0	1,209	1,016
TOTAL LIABILITIES	6,12,269	7,10,972	11,97,105

As on date	31/Mar/2015	31/Mar/2016	31/Mar/2017
	Audited	Audited	audited
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	32,330	42,789	60,834
Less: Depreciation	6,676	10,935	16,757
Net Block	25,654	31,854	44,077
Other Long Term Investments	40,000	2,500	2,500
Cash and Bank Balances	1,05,832	59,700	2,02,944
Security Deposits	44,181	22,700	21,943
Investment in Fixed Deposit	66,451	68,833	42,019
Gross Loan Portfolio	3,07,428	4,81,841	7,91,386
Less: Provisions	3,088	4,820	7,897
Net Loan Portfolio	3,04,340	4,77,021	7,83,489
Loans & Advances to Related Parties	2,098	9,162	6,256
Accounts Receivable And Other Assets	23,477	39,202	93,877
Deferred Tax Asset	236	0	0
TOTAL ASSETS	6,12,269	7,10,972	11,97,105

Financial Ratios

Financial Ratios	31/Mar/2015	31/Mar/2016	31/Mar/2017
	12	12	12
Capital Adequacy Ratio			
Capital Adequacy Ratio (%)	42.03	30.90	24.60
Productivity/Efficiency Ratios			
No. of Active Borrowers Per Staff Member	219	197	194
No. of Active Borrowers per field executives	449	407	361
No. of members per Branch	3,141	2,896	2,685
Gross Portfolio o/s per field executive (in thousands)	6,093	6,697	5,481
Average Outstanding Balance per client (in Rs)	13,576	16,457	15,195
Cost per Active client(in Rs)	1,587	1,332	1,500
Asset/Liability Management			
Cost of funds ratio	14.43%	13.28%	12.61%
Yield on Portfolio(nominal)	29.36%	24.44%	23.58%
Profitability / Sustainability Ratios			
Operational Self Sufficiency (%)	95.52	94.54	96.28
Operating Expense Ratio (OER) (%)	12.20	10.74	10.28
Return on Assets (RoA) (%)	0.27	0.27	0.16
Portfolio at Risk (>30 days) (%)	0.064	0.099	3.57
Return on Equity (RoE) (%)	0.11	0.15	0.11
Leverage Ratios			
Total Outside Liabilities to Tangible Networth Ratio (Times)	2.23	2.71	5.20
Debt/Equity Ratio (Times)	2.06	2.59	5.11

Grading Methodology

A) Operational Track Record

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

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

B) Promoters & Management Profile

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

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

C) Financial Performance

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

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

D) Asset Quality

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

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

E) System & Processes

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

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



About SMERA

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

Corporate Office

102, Sumer Plaza
Marol Maroshi Road, Marol
Andheri (East)
Mumbai - 400 059
Tel: +91 22 6714 1111
E-mail: info@smera.in
Website: www.smera.in