नाबार्ड

Study of the business models of NBFC-MFIs

A study report by

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राष्ट्रीय बैंक स्टाफ महाविद्यालय

National Bank Staff College, Lucknow

"Shaping Minds to Excel"

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Executive Summary

1. The microfinance sector in India provides formal credit to the excluded segment of the society and hence plays a crucial role in providing the last mile connectivity in rural India. Microfinance operations in India are spread across 636 districts of 37 states and union territories* Sa-Dhan: 31 December 2020.

2. As per RBI, the Gross Loan Portfolio (GLP) of microfinance institutions as on 31 March 2020 stood at Rs 2.32 lakh crore. GLP of microfinance institutions has grown at a CAGR of 21.23% during the last four years. NBFC-MFIs and Scheduled Commercial Banks (SCBs) hold a major chunk of the microfinance portfolio, with a combined share of 72 per cent as on March 31, 2020. In addition, SHG-BLP, also contributes to the overall microfinance universe. As on March 31, 2020 there were 56.77 lakh SHGs, with loans outstanding of ₹1.08 lakh crore under SHG-BLP.

3. Two states, namely Tamil Nadu and West Bengal having the highest concentration of microfinance operations were selected for the study. In each state, two NBFC-mFIs i.e. Madura and Ashirvad in TN and Arohan & ASAI in West Bengal having multi state presence, different lending models and AUM more than Rs. 500 crore were identified. Field visits were undertaken to cover two branches for each mFI, one urban and other rural. The team had focussed group discussions with borrowers of the mFIs during the field visits.

4. Study findings:

a. The coverage of the states by mFI varies from 25% (ASAI) to 79% (Ashirvad) of the total states in the country, a strategy to reduce concentration risk. Both Madura and ASAI mFIs have an average 5 and 7 branches respectively in each district as against average 3 branches per district for those mFIs which are operating in comparatively larger number of the States (Arohan and Ashirvad).

b. The number of active borrowers varied from 7.41 lakhs (ASAI) to 23.66 lakhs (Ashirvad). In addition to wider geographical coverage of more number of clients, the number of borrowers is also related to the group model of lending adopted by the MFIs. Among the four MFIs studied, three MFIs have adopted JLG lending model wherein member vary from 3 -20 in a group. Madura has based its lending on 'SHG Model' having 8-20 members in a group.

c. The average number of centres per branch is much more in case of those mFIs which are geographically less diverse (223 in ASAI) when compared to geographically more diverse mFIs {Arohan (130) and Ashirvad (204)}.

d. A Branch has Branch manager, Asstt. Branch manager (ASAI), accounts officer, cashier and loan officers. The average staff per branch among study mFIs varied from 5 in Ashirvad to 9 in Arohan. The level of staff was directly related to the business volume, product profile and collection efficiency of the mFI.

e. Arohan was much better capitalised than other mFIs. In case of Madura, the capital has been stagnating for the all the 3 years. In Madura, Ashrivad and ASAI mFIs, the majority of the shareholding (> 75%) is held by Parent holding company. All the mFIs under the study had CRAR more than RBI prescribed minimum of 15%.

f. Reserves are mainly due to security premium and retained earnings. Both these components had contributed 84% (Madura) to 90% (Arohan, Ashirvad, ASAI) of the total reserves as on 31 March 2020.

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*SADHAN as on 31 December 2020

g. Borrowings by NBFC-mFIs are more than 74% of their respective balance sheet size as on 31 March 2020. Bank borrowing is the major source of funds for these mFIs primarily because of longer repayment periods varying from 1-3 years and lower interest rates. Banks constitute 55-60% of the total number of lenders to these mFIs. The share of borrowing from Bank/FI/NBFCs is in the range of 21-79% of the total resources for different NBFC-mFIs. The average cost of borrowing for NBFC-mFIs during 2019-20 ranged from 10.86% (Arohan) to 13.40% (ASAI).

h. MFIs are keeping liquidity equivalent to one month disbursements or 2 months repayments. However, most of the mFIs studied had undrawn amount under the loan sanctioned. These undrawn positions are being used as liquidity management tool by mFIs.

i. Madura lending model was based on SHG model while that of Arohan and Ashirvad followed JLG model. ASAI was directly lending to the individuals. Peer 'Comfort' was observed to be the underlying principle of group formation rather than Peer 'Pressure'.

j. Group members are subjected to Compulsory Group Training-1 (CGT-1) by Field / loan officer for one day. A CGT-2 is conducted in the next 1-2 days so as to recap the learnings of CGT-1, visit the house of the borrowers & for family background check, ascertain income status, duration of stay at present residence, neighbour feedback on customer, etc. The branch head (in some mFIs, Area manager) conduct a 'Group Recognition Test (GRT)', wherein he cross verifies the details of the customer in the loan application.

k. All mFIs have Loan origination software. In respect of KYC, 3 documents namely Aadhaar card, Voter Card and Bank statement are being collected by all the mFIs from the primary borrower. In addition, a co-applicant/ nominee is also made party to the loan. Both borrower and co-applicant are covered under insurance up to the loan amount. Processing charges of 1% of the loan amount are being charged by the mFIs. The loan disbursement per branch per annum is in the range of Rs. 4.72 to 5.86 crores.

l. All mFIs are members were using services of either one or two Credit bureau agencies namely Crif-Highmark, CIBIL, Equifax and Experian. They seek customer reports indicating no. of loans agency wise, amount overdue, current outstanding etc.

m. More than 85% of the loans of all four mFIs were qualifying assets. Turn Around Time (TAT) for loan sanction is 5-7 days for all the mFIs and 2 days for disbursements.

n. In addition to regular income generation loan, some mFIs (Arohan, Ashirvad) also have cross sell products (asset financing) such as Mixer -grinder, TV, solar lights, Cycle loans which are of qualifying asset nature with tenure ranging from 3-24 months.

o. Collection of repayments depending upon the repayment schedule is done at a particular place designated as centre on a pre-decided day and time and is mostly in cash.

p. More than 40% of the mFI customers did not know about the facility of loan availability from the banks. Others indicated documentation, time consuming process as well as no doorstep collection, insensitive behaviour of bank staff, etc. as major reasons for not availing loans from banks. Around 80% of the customers have education below class X. The borrowers only remember the repayment amount and only a few (normally group leaders) were able to provide any information about the rate of interest and tenure of the loan. Faster and doorstep processing along with flexibility of collection and repayment were major attraction for availing loan from mFI.

q. COVID resulted in fall in disbursements across all the mFIs studied. The percent fall in disbursements in Tamil Nadu ranged from 35-40% and that of West Bengal ranged from 62-64%. The recovery are as low as 52% in case of Arohan, 66% in ASAI and 69% in Ashirvad. All the mFIs studied have indicated to have extended moratorium on repayments.

r. All the mFIs under study are member of Self-Regulatory Organisation (SRO) and have adopted Code of Responsible Lending (CRL) prescribed by SROs. Grievance Redressal Mechanism is prominently displayed in all the branches of mFIs. The customers of the mFIs are provided with loan pass book which contains the toll free number of MFIN and mFI for any complaints.

s. It was observed that mFIs were having higher AUM in select states e.g. Ashirvad (TN, Bihar, WB ~ 43% of AUM); Madura (TN ~60% of AUM), ASAI (WB ~62% of AUM). This would affect the performance of the pool if exposed to socio- political and natural calamities risks which may have impact on income generation capability of borrowers.

t. Internal risk rating should further refine 'Business risk' parameter by including 'Geographical Diversity in lending' taking into account the high concentration of loan portfolio in select states/ districts aspect. Collection efficiency and recovery from delinquent accounts is another parameter which needs to be considered in the rating model. Others areas of consideration are "Average Growth in PAT", "Return on Asset' and "Provision Coverage Ratio (%)".

u. There is no standard format by HO for presentation of book debts. Further, ROs don't have viewing rights for assigned portfolio with ROC. Registration of charge with ROC is done only once, any subsequent changes in the assigned book debts are not registered.

v. While monitoring, DDMs do not have the data pertaining to the book debt assigned by the mFIs. Broad guidelines for post disbursement monitoring and asset verification are required.

5. Recommendations

a. In view of the limitations in the capacity of loan officers and branch managers in making a true and closer to reality assessment of the household income, there is need to devise suitable mechanism to capture the true picture of income of the household.

b. CICs depend on the member MFIs for credit information about borrowers. Moreover, it is not mandatory for banks that directly lend to micro finance customers to report credit information of their borrowers to the CICs. There is a time lag between disbursal of credit and uploading of credit information into CBs databases, adding to the risk. Self-Regulatory organisation (SRO) needs to be given this responsibility of monitoring the reporting mechanism for data uploading to CIC and asked to submit periodic compliance reports to the RBI.

c. CGT and GRT creates awareness about the products and their requirements. Such short duration training can also be instituted in JLG Bank programme**.**

d. Modifications in the NABARD internal risk rating model to incorporate "Geographical Diversity in lending', Collection efficiency and recovery from delinquent accounts and as also other parameters related to profitability.

e. HO may consider issuing guidelines to ROs to cover the following aspects wherever feasible

   i. Institution of a suitable mechanism to facilitate ROs for desk level scrutiny of assigned portfolio

   ii. Explore need to look into the exposure norms to be linked to "percentage of the total borrowings of mFI".

   iii. Need for standardisation of inputs under SWOT analysis

   iv. Standardised format for presentation of book debts

v. Viewing rights for assigned portfolio with ROC and stipulation of minimum residual maturity of the assigned book debts.

vi. Registration of the charge with ROC in respect of fresh book debts assigned.

f. Portfolio monitoring of the loan accounts need to be taken by HO/ ROs on half yearly basis.

g. DDMs need to be provided with the details of assigned book debts in respect of their district for field level monitoring and monitoring format need to be strengthened.

h. Capacity building of staff in interpretation of financial statements especially w.r.t IndAS, preparation of MoS, monitoring of the assigned book debts, post disbursement documentation, etc. is required.

1.0 Introduction

Poverty is a major issue in most of the developing economies. Besides other factors, failure to access credit, is considered as one of the major causes of poverty. Microfinance plays an important role in minimising the gap between the demand and supply of credit by formal financial institutions. Microfinance is provision of financial services to people at the bottom of the economic pyramid. Microfinance supports income generating activities and impacts livelihoods in both rural and urban areas. This sector provides impetus to the unorganised sector, driving businesses, empowering women and creating jobs.

mFIs have become an effective tool for poverty reduction, women empowerment and financial inclusion both in rural and urban India. Currently a range of institutions in both the public sector and private sector offers microfinance services in India. Banks provide microfinance services in addition to their general banking activities. The informal institutions that undertake microfinance activities are referred to as Microfinance Institutions (mFIs) and are mainly in private sector. These include NBFC-mFIs, NBFCs, NGOs, etc.

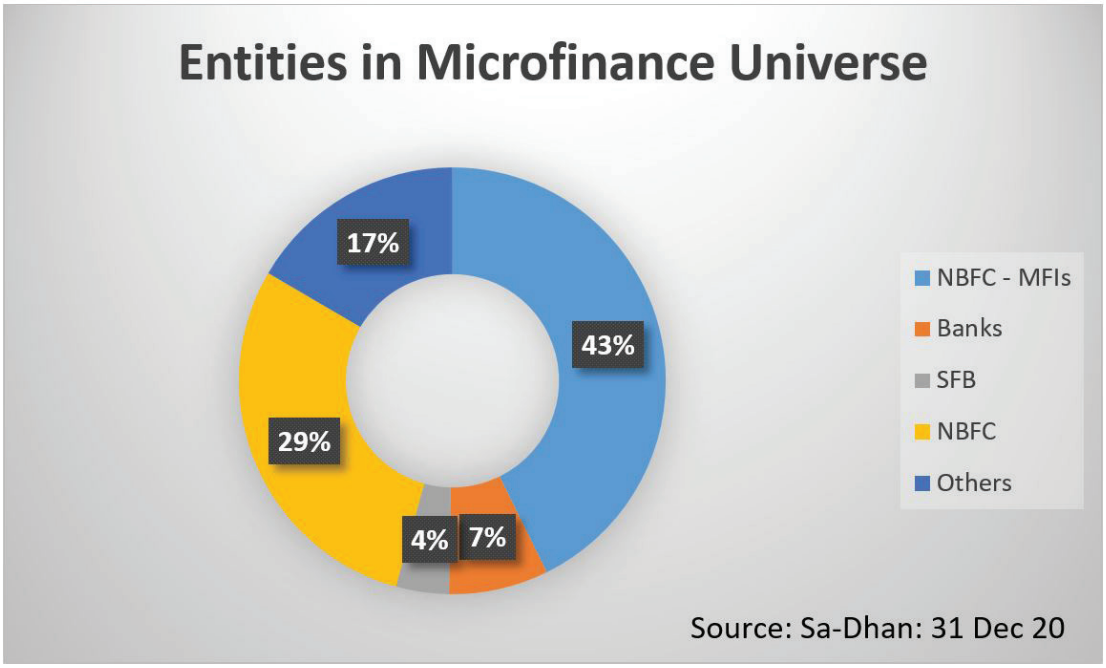
2.0 Status of Microfinance in India

Micro Finance Institutions (Development and Regulation) Bill, 2012 seeks to provide a statutory framework to regulate and develop the micro finance industry in the country. This bill also specifies that all NBFC□ mFIs must be members of at least one Self□Regulatory Organization (SRO) recognized by the RBI and comply with the Code of Conduct prescribed by the SRO.

Sa-dhan and Microfinance Institutions Network (MFIN) perform the functions of SRO on voluntary basis in Indian Microfinance Industry. Sa-Dhan has 226 members comprising of Community Based Organisations, NBFC-mFIs, Banks, SFBs and NBFCs. MFIN is a premier industry association comprising 58 NBFC-mFIs and 39 Associates including Banks, Small Finance Banks (SFBs) and NBFCs. It is also the Self-Regulatory Organization (SRO) for the regulated NBFC-mFI. Both of these associations offer a great deal of resources, guidance, and forums for institutional discussion so that the most pressing issues facing the industry can be collectively addressed.

The microfinance sector in India provides formal credit to the excluded segment of the society and hence plays a crucial role in providing the last mile connectivity in rural India. Microfinance operations in India are spread across 636 districts of 37 states and union territories (Sa-Dhan: 31 December 2020). In terms of geographic spread, 76% of the loan portfolio is rural and 24% urban. Tamil Nadu followed by West Bengal are the leading states in microfinance lending in the country. Sa-Dhan, SRO for MFIs in the country has reported Mushirabad, Burdwan, South 24 Parganas, Nadia, Hooghly, Howrah (West Bengal); Cuddalore, Coimbatore, Viullipuram (TN) and Mysuru (Karnataka) as top 10 districts in micro finance portfolio.

As on 31 December 2020, the microfinance universe comprised of 200 microfinance entities (Sa-Dhan). NBFC-mFIs dominate the microfinance space by virtue of their numbers, comprising of 43% of the total entities. The category wise breakup of these entities is presented as under:

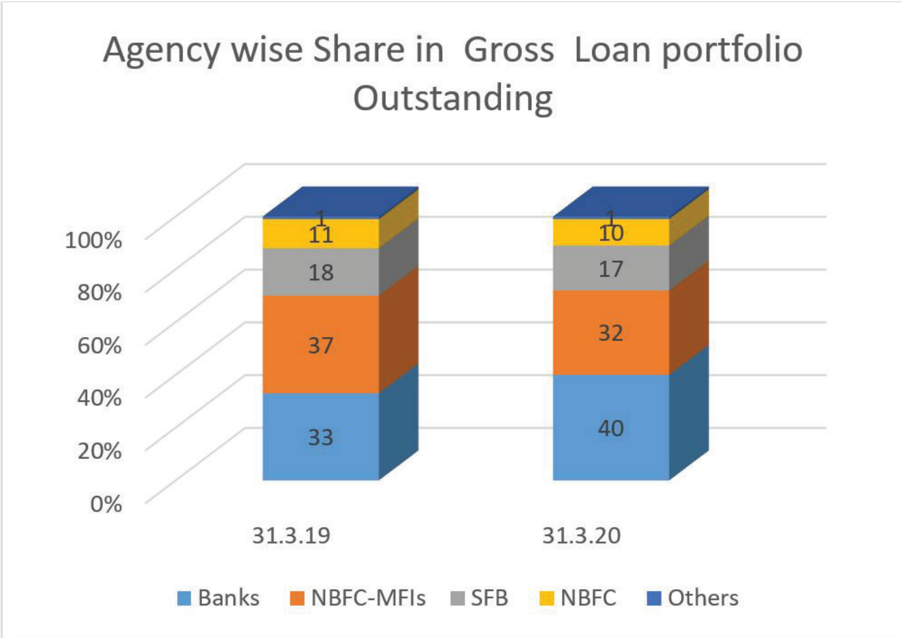


As per RBI, the Gross Loan Portfolio (GLP) of microfinance institutions as on 31 March 2020 stood at Rs 2.32 lakh crore. The GLP of microfinance institutions in the last four years is presented as under:

(Rs. In Cr)

Agency	31.3.17	31.3.18	31.3.19	31.3.20
Banks	40993	44802	67009	73792
NBFC-mFIs	30349	48522	59897	92281
SFB	29030	27824	30322	40556
NBFC	6026	13027	20191	22702
Others	901	1621	1894	2456
Total	**107299**	**135796**	**179313**	**231787**

GLP of microfinance institutions is growing at a CAGR of 21.23% in the last four years. NBFC-MFIs and Scheduled Commercial Banks (SCBs) hold a major chunk of the microfinance portfolio, with a combined share of 72 per cent as on March 31, 2020. The remainder is held by Small Finance Banks (SFBs), NBFCs and others (including not-for-profit mFIs). Apart from the mFI led model, National Bank for Agriculture and Rural Development (NABARD) which has pioneered the Self Help Group-Bank Linkage Programme (SHG-BLP), also contributes to the overall microfinance universe. As on March 31, 2020 there were 56.77 lakh SHGs, with loans outstanding of □1.08 lakh crore under SHG-BLP.



Source: MFIN Micrometer no. 33

3.0 NABARD refinance to NBFC-mFIs

NBFC-MFIs are an important clientele for our refinance business and our exposure to these institution is increasing every year. Based on the refinance sanction position as on 31 December 2020, it was observed that 21 NBFC-mFIs had taken refinance from us. Majority of the NBFCs-mFIs which have been provided refinance are systemically important i.e. having Asset under Management (AUM) of more than Rs. 500 crore. It is gathered that NBFCs-mFIs having AUM less than Rs. 500 crore are being financed by our subsidiaries NABFINS, NABSAMRUDHI and NABKISSAN.

The state wise no. of mFIs which have been sanctioned refinance is as under:

(Rs. In Cr.)

State	No. of mFIs given refinance	Ref. O/s
Tamil Nadu	4	1031.05
West Bengal	3	625.50
Karnataka	3	1752.25
Haryana	2	1328.23
UP	3	440.05
Odisha	1	293.90
Punjab	1	85.40
Gujarat	1	36.50
Telangana	1	490.00
Jharkhand	1	30.00
Kerala	1	414.50
Total	**21**	**6527.38**

Our understanding of their business models and functioning of NBFC-mFIs is limited and based on secondary information. Thus it was envisaged to study the field level functioning of these entities so as to explore broad basing our products portfolio as also fine tune our appraisal and monitoring mechanism.

4.0 Study objectives and methodology

From the secondary information on the status of microfinance gathered from SADHAN and MFIN, it was found that there is high concentration of microfinance operations in Tamil Nadu and West Bengal. Accordingly, these two states were selected for the study with the following broad objectives:

i. To map the outreach of the mFIs for dispensation of services

ii. To study the resource mobilisation mix of the NBFC-mFIs

iii. To understand the process of formation and nurturing of groups in JLG lending model.

iv. To describe the functioning of different lending models of NBFC-mFIs

v. To examine the risk profile of the mFIs

vi. To identify the steps in appraisal system and monitoring of refinance to NBFC-mFI by ROs

Based on the discussions and feedback from respective ROs, two NBFC-mFIs having multi state presence, different lending models and AUM more than Rs. 500 crore were identified for the study in each state. The study team visited one urban and one rural branch for each mFI in the selected states. The details of the study team composition, NBFC-MFI selected along with the study dates are presented as under:

State	Districts	NBFC-MFI	Branches	Study Dates	Study Team
West Bengal	Kolkatta Howrah	Arohan ASAI	Akra & Beliaghata (Arohan) Madhyamgram & Gangadharpur (ASAI)	22-25 February 21	Dr. Vivek Pathania, FM and Shri. A.K.Sarkar, FM
Tamil Nadu	Madurai Dindigul Chennai	Madura Finance Ashirvad NABFINS	Thiruvedakam & Perugalathur, (Madura) Chindaripet & Kodai Kanal	16-20 March 21	Dr. Vivek Pathania, FM and Shri. N.Vikraman, FM

A questionnaire was developed for collection of information addressing different aspects NBFC-mFI business models. The study methodology involved interactions at MFI HO, district level branches, centres and borrowers. In addition, discussions were also held with our ROs and Subsidiary office.

5.0 Study findings

The study findings are based on the information submitted by mFIs through questionnaires, their annual reports, interaction with borrowers and observations in the field. The salient findings are presented as under:

5.1 Outreach of MFIs

For Microfinance Institutions, a bouquet of products and a sharp perspective on improving customer experience, are key to their growth and business sustainability. To this effect, they adopt a diversified approach in their operations, encompassing geographic diversification of their service area, product diversification and business diversification. Increased outreach affects the financial performance as also mFIs ability to fulfil the social objective of reaching out to more number of lower strata segments.

The geographical coverage expansion of the any mFI is dependent on the

- Availability of funds: Shortage of funds forces mFIs to concentrate on their existing branches which results in incremental build-up of portfolios.
- Restriction on maximum operating margin which limits the lending rate and reduces the net interest margin of mFIs as operating costs increase with geographical expansion.

Concentration risk: Increased lending in a limited geographical area exposes the mFI to concentration risk over a period of time. Further, competition in highly concentrated markets and lack of diversity in portfolio and borrowers has adverse effect on the operating margin. This also results in reduced focus on expanding into underserved markets, eventually defeating the broader objective of financial inclusion. Moreover, intense competition pushes some of the small and medium cap mFIs to the brink of extinction.

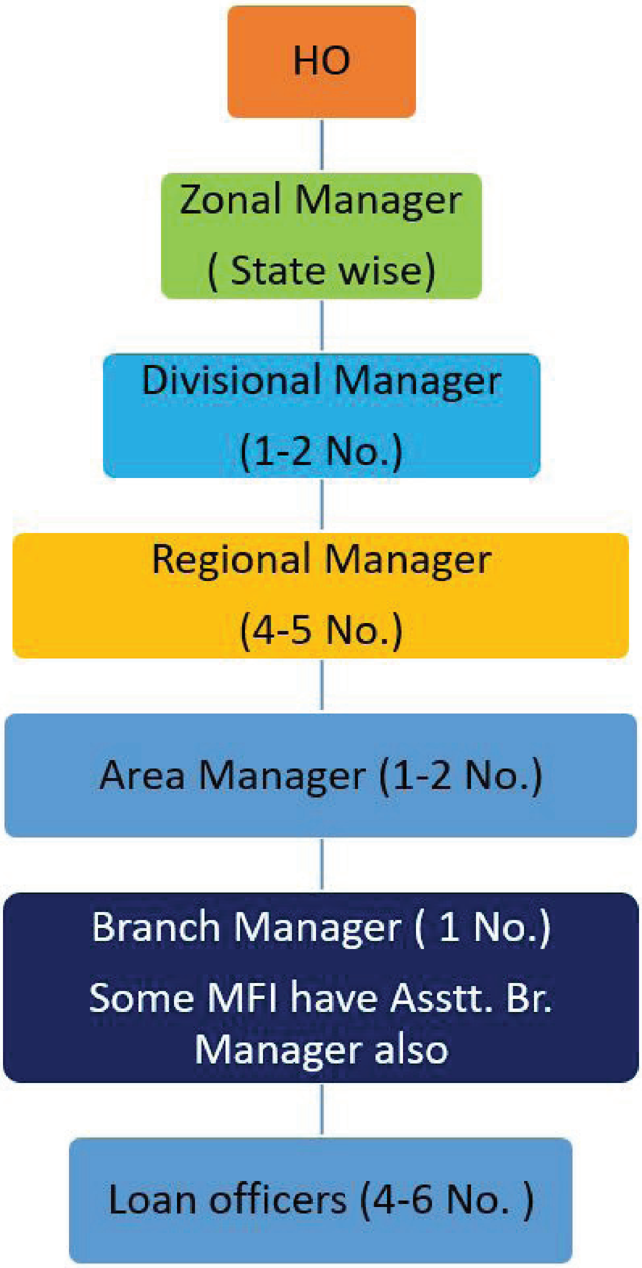
All the four mFIs visited during the study had multi State operations. The outreach of the MFIs visited during the study is given in Annexure **1.**

- As evident from the table, for mFIs under study the coverage of the states taking FY20 as benchmark, varies from 25% (ASAI) to 79% (Ashirvad) of the total states in the country. This may be due to their capacity for scaling of operations, as larger mFIs (Arohan and Ashirvad) were more geographically diversified in outreach than smaller ones.
- Expanding geographical outreach has also manifested in increase in number of branches, centres, greater coverage of market segments, and higher gross loan portfolio among the mFIs. It could also be a strategy to reduce concentration risk.
- Those mFIs, which have lower coverage and have presence in fewer states, tend to generate business through intensification of the branch network in each state. Both Madura and ASAI mFIs have an average 5 and 7 branches respectively in each district as against average 3 branches per district for those mFIs which are operating in comparatively larger number of the States (Arohan and Ashirvad).
- Further, in order, to be more geographically diversified, mFIs target both urban and rural clients. However, based on the field level discussions during study, in respect of all the mFIs visited only a very small percentage of the branches were actually in the rural areas. Majority of the branches visited during the study were urban followed by semi urban branches located in taluka/ block headquarters.
- The number of active borrowers varied from 7.41 lakhs (ASAI) to 23.66 lakhs (Ashirvad). In addition to wider geographical coverage of more number of clients, the number of borrowers is also related to the group model of lending adopted by the MFIs. Among the four MFIs studied, three MFIs have adopted 'JLG Type' group lending model wherein number varies from 3 -20 in a group. Madura has based its lending on 'SHG Model' having 10-20 members, hence the number of active borrowers per branch is more.
- Geographical diversification by microfinance institutions is also necessitated by their resource mobilisation through loan portfolio securitisation. This is also preferred by the banks so as to diversify their loan portfolio as also to eliminate region specific credit risks. The banks prefer assignment of loan portfolio in different regions and segments while they enter into securitisation arrangements with mFIs.
- The average number of centres per branch is much more in case of those MFIs which are geographically less diverse (223 in ASAI) when compared to geographically more diverse MFIs {Arohan (130) and Ashirvad (204)}.

5.2 Functional Structure and Human Resource mapping of mFIs

Around 20% of the mFI staff is located at its HO and balance in the different hierarchical set up. Branch has majority of the mFI staff which will include Branch manager, Asstt. Branch manager (ASAI), accounts officer, cashier and loan officers. The average staff per branch among study mFI varies from 5 Ashirvad to 9 in Arohan. The level of staff is directly related to the product profile and collection efficiency of the mFI.

A typical functional structure and human resource hierarchy in all the mFIs studied is as under:



5.3 Asset Under Management and Gross loan portfolio of the mFIs

The Gross Loan Portfolio (GLP) and Asset Under Management (AUM) in respect of mFIs studied are presented as under:

(Rs. In Crore)

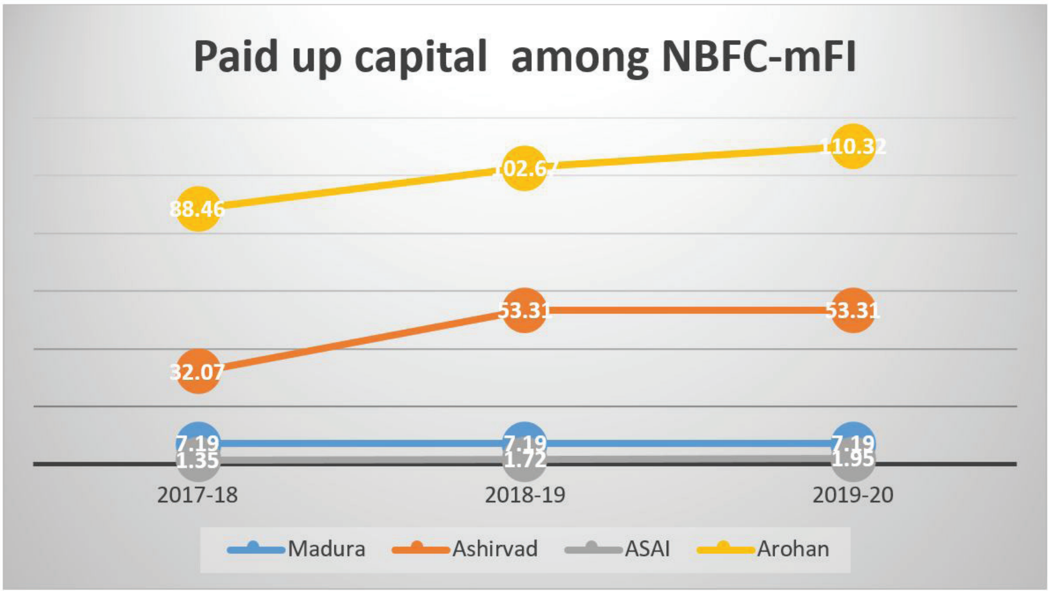
NBFC-mFI	GLP		AUM	
	2018-19	2019-20	2018-19	2019-20
Ashirvad	3838.77	5487.53	4247	5871
Madura	1859.74	2110.27	2152	2272
Arohan	4045.00	4854.00	4045	4854
ASAI	1035.81	1336.16	1236	1511

5.4 Resource mobilisation by NBFC-mFIs

The resource mobilisation by NBFC-mFIs for the last three years is presented in Annexure-II. The components of resources are discussed as under:

5.4.1 Capital:

Capital is important source of fund and facilitates NBFC-mFI to leverage funds from financial institutions. The capital structure of the four mFIs studied is presented in the graph below.



In accordance with the provision of Section 45-IC of the Reserve Bank of India Act 1934, the NBFC-mFIs have to transfer 20% of the profit after tax to statutory reserve. All the mFIs have transferred profit to this reserve.

Further, the entire PAT in respect of all the mFI in last 3 years has been transferred to reserves to increase the capital base.

The composition of reserves during 2019-20 in respect of mFI studied is presented in table below:

Reserves composition (2019-20)

(Rs. in Cr.)

Particulars	Ashirvad	Madura	ASAI	Arohan
Security premium account	558.1	83.7	115.4	520.2
Statutory reserve	94.2	62.2	19.9	68.1
Capital redemption reserve	5.0	-	-	-
General Reserve	0.4	-	0.8	0.8
Others (Share Option, FV of fin. Assets, etc.)	0.4	-	-	14.6
Surplus in P&L	328.1	248.6	76.9	248.7
Total	**986.2**	**394.4**	**213.0**	**852.3**

As observed from the table, the accretion in the reserves is

- ✓ Mainly due to security premium and retained earnings. Both these components contribute 84% (Madura) to 90% (Arohan, Ashirvad, ASAI) of the reserves.
- ✓ MFIs have offloaded their equity by right issue as a result the contribution of security premium to the reserves ranges from 21% (Madura) to 61% (Arohan).
- ✓ All mFI except Madura have issued equity shares during the last 3 years as a result there is more accretion to the security premium.

5.4.3 Capital-to-risk weighted assets ratio (CRAR)

The CRAR of these mFI is presented as under:

Ashirvad		Madura		ASAI		Arohan	
2019	2020	2019	2020	2019	2020	2019	2020
28.90%	25.37%	19.40%	23.00%	25.08%	25.31%	20.05%	24.80%

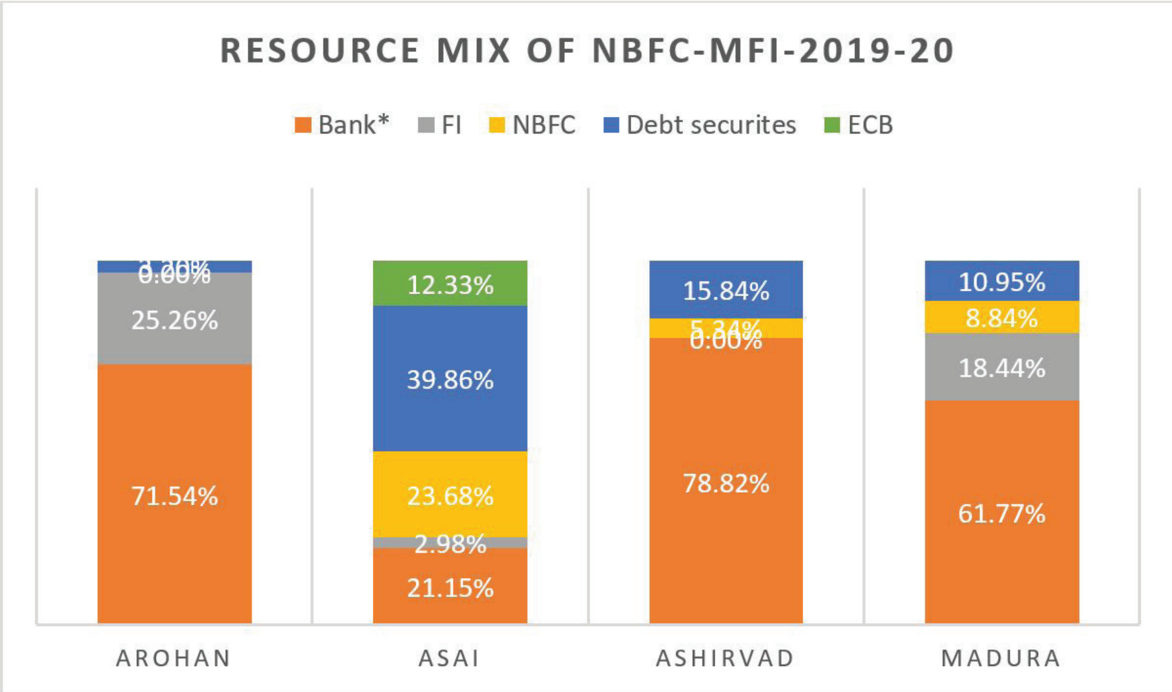
As observed from the table, all the mFIs under the study had CRAR more than RBI prescribed minimum of 15%.

5.4.4 Borrowings

The NBFC-mFIs are availing term loans from Banks, NBFCs and Financial Institutions as also borrowing through NCDs, External Commercial Borrowing, Commercial Paper, etc. It was observed that the borrowings by NBFC-mFIs are more than 74% of their respective balance sheet size. The quantum of borrowings by each NBFC-mFI as percentage of their balance sheet is presented in the table below.

Year	Borrowings as % of balance sheet			
	Madura	Ashirvad	ASAI	Arohan
2018-19	86.52%	80.28%	91.83%	78.47%
2019-20	79.62%	76.12%	83.87%	79.41%

The status of resource mobilisation from different sources by NBFC-mFIs under study is presented in the chart below:



ECB: External Commercial Borrowings

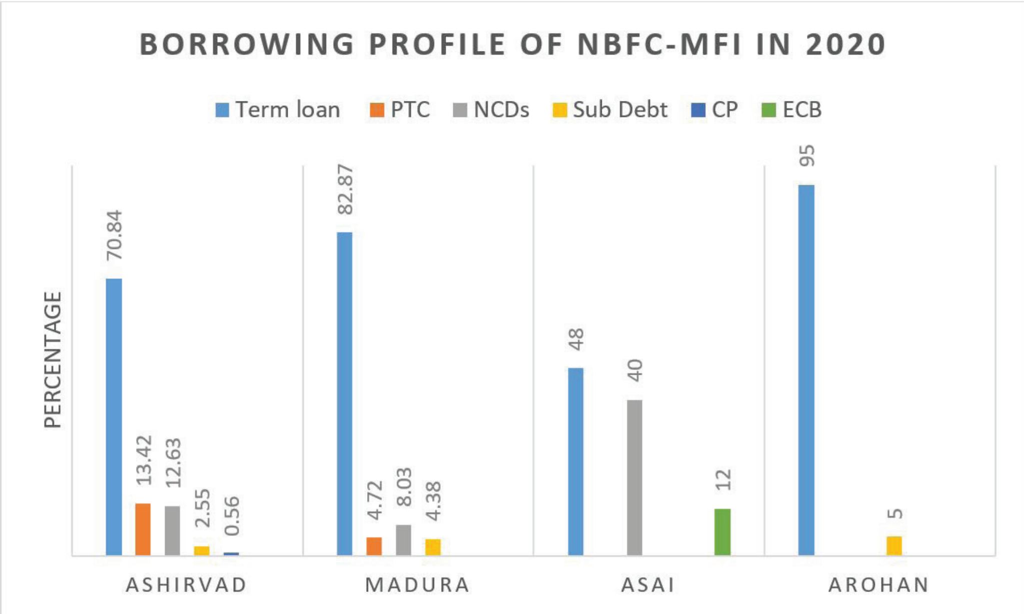
As observed from the graph, among different sources of resource mobilisation, bank borrowing is the major source of funds for these mFIs primarily because of longer repayment periods varying from 1-3 years and lower interest rates. The share of borrowing from Bank/FI/NBFCs is in the range of 21-79% of the total resources for different NBFC-mFIs.

The lenders providing funds to mFIs range from Public sector banks, Private sector banks, foreign banks, Development Financial Institutions, NBFCs, Mutual Funds and Foreign Institutional Investors. The mFI wise no. of lenders as on 31 March 2020 is presented as under:

NBFC-mFI	No. of lenders	No. of lending banks
Madura	35	21
ASAI	31	NA
Ashirvad	65	36
Arohan	44	31

Debt securities in the form of NCDs and CPs are next most preferred route of resource mobilisation. All NCDs have been issued on private placement by most of the mFI, hence these mFIs have not created any Capital Redemption Reserve. However, CPs have not been raised by 3 out of the 4 mFI studied, primarily due to Asset Liability Management (ALM) issues for the mFIs.

The instrument wise resource mobilisation is presented in graph below:



RBI has permitted specified Micro Finance Institutions (MFIs) to avail external commercial borrowings (ECB) up to $ 10 million per financial year under the automatic route for lending to self-help groups or for micro-credit or for bonafide micro finance activity including capacity building. ASAI being an affiliate of international institution has also raised funds through External Commercial Borrowings (ECBs). The benefit of ECBs indicated by the agency is longer repayment period of normally 4-5 years, bullet repayment and lower interest rates.

5.4.5 Liquidity Management by mFIs

Normally, the mFIs are keeping liquidity equivalent to one month disbursements or 2 months repayments. However, most of the mFIs studied have open positions w.r.t the sanctioned loans i.e. they had undrawn amount under the sanction. These undrawn positions are being used as liquidity management tool by mFIs. This is another benefit for mFI from bank borrowings.

Further, the repayments of term loans from Banks is either monthly or quarterly intervals. However, in case of NBFCs or financial institutions besides monthly or quarterly repayments, bullet repayment facility is also being provided. The rate of interest varies according to the tenor of the loan and repayment schedule, being higher for bullet repayments.

The coupon rates of NCD raised by mFIs in 2020 are in the range of 12.50-14.00% depending upon secured/ unsecured nature of loan and with riders such as call/put options after 23-36 months of issue.

5.4.6 Average effective cost of borrowing

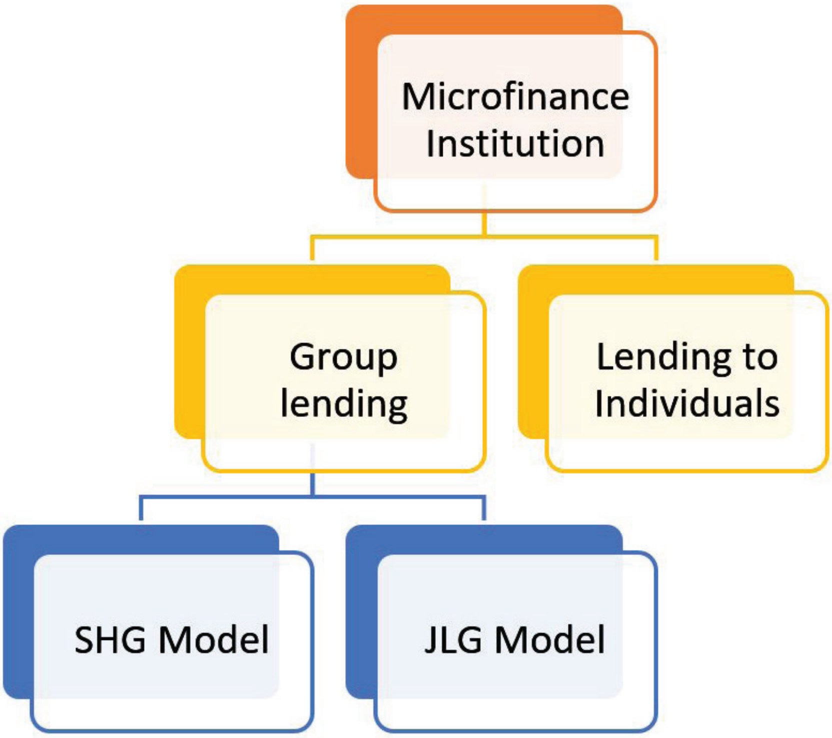
Average cost of borrowing of NBFC-mFI studies is presented as under:

NBFC-mFI	2020	2019
Arohan	10.86%	10.94%
ASAI	13.60%	13.40%
Ashirvad	11.49%	12.31%
Madura	11.36%	11.31%

5.5 Lending Models of mFIs

5.5.1 Customer on boarding and lending models of NBFC mFIs

Out of the four NBFC-mFIs studied, in case of three mFI group lending model was predominant whereas in case of ASAI mFI, it was directly lending to the individuals. Madura lending model was based on SHG model while that of Arohan and Ashirvad followed JLG model. However, the number of members in JLG group varied from 3-20 and 8-20 in SHG model. The number was based on the density of the beneficiaries in a village/ area. Peer 'Comfort' was the underlying principle of group formation rather than Peer 'Pressure'. An illustration of different lending models is presented as under:



5.5.2 Process of formation and nurturing of Groups

A mFI branch normally has one branch manager and 3-5 staff who are designated as Field Development Officer (Ashirvad)/ Loan Officers (Arohan, ASAI) and Member Relation Associate (Madura). All are having common functions of group formation, collection of repayments and sourcing loan application. All branches of mFIs are geotagged. Branches are then spread into the area of operation by way of centres. Each branch may have 200-300 centres in its fold depending upon the limit of customers per centre. Normally, once the customer number exceeds 3000 a new branch is opened.

The working of the branches are from Monday to Saturday. Saturdays are not earmarked for any collection meeting. Any missed payments by customers are again collected by the loan officer on Saturday. In some mFIs (ASAI, Arohan) 2nd and 4th Saturdays are holidays.

There are varied approaches in formation of groups among the NBFC-mFIs. It depends upon the collection workload of the field officers. Normally, a field officer conducts 5-6 meetings per day normally beginning from 8 a.m. onwards. Arohan has fixed a norm of 5 beneficiaries per JLG and five JLGs per Centre. ASAI does lending to individual customers and for administrative purpose its centre has 5-35 customers in a radius of 400-500 m and one member each is designated as President, Secretary and Cashier. In Ashirvad, the group membership ranges from 3-5, with 2-5 groups per centre i.e. 25 members. An mFI centre is normally formed keeping in view a radius of 500 m to 1 km so that group members find it convenient to reach as per requirements.

Customers/ members join mFIs groups based on the 'word of mouth' from existing members of the mFIs. For on boarding a customer to an existing group a 'no objection' is sought from the existing members of the group for her inclusion. When a new group is formed the mFI staff takes into consideration that the members have comfort level with each other, are of the same locality, undertaking similar activities, etc.

During group formation, the loan officer undertakes KYC and Credit Bureau check of the members. In respect of KYC, 3 documents namely Aadhaar card, Voter Card and Bank statement are being collected by all the mFIs from the primary borrower. In addition, a co-applicant/ nominee is also taken, who has to submit one of the above 3 documents for his identity.

The group members are then subjected to Compulsory Group Training-1 (CGT-1) by Field / loan officer for one day at a particular place or centre. The members are briefed about the mFI functioning, appraised about the need for monthly/ weekly meetings, timings of meeting and punctuality, loan amount that can be given, insurance, documentation, processing charges, EMI of loan, RoI, repayment period, date as well as time of repayments, etc. ASAI does CGT/GRT for customers when new centre is being formed and not of the members who join the centre later. In case of SHGs, a Basic appraisal training is done enumerating the above mentioned points.

A CGT-2 is conducted in the next 1-2 days so as to recap the learnings of CGT-1, visit to the house of the borrowers & family background check, ascertain income status, duration of stay at present residence, neighbour feedback on customer, etc. The process of loan application generation starts at this stage. The loan application satisfying KYC norms and Credit Bureau check is uploaded on loan management software and forwarded to the branch head.

The branch head (in some mFIs, Area manager) conduct a 'Group Recognition Test (GRT), wherein he cross verifies the details of the customer in the loan application and also the CGT learnings. This mechanism ensures that good quality and informed customers are created by mFIs.

5.5.3 Sanction and disbursement of loan

Each mFI has multifarious loan products differing in quantum, depending upon the loan cycle and catering to different needs of the customers. As indicated above, all mFIs have Loan origination software. The loan application is filled and along with the KYC documents uploaded through software by loan officer. Physical loan applications are collected by field officers and kept in the branch (ASAI, Madura). Each loan application will have photographs and KYC borrower and co-applicant normally husband/ mother of the borrower. Insurance of borrower and co-applicant is being sourced from LIC, Bajaj Allianz, ICICI Prudential, etc. and sum assured is equal to loan amount. The insurance rate (LIC) is Rs. 4.50 per Rs. 1000/- plus GST. Further, it is reported that the borrower and co-applicant should not be more than 55 years as beyond this age no insurance cover is available. Processing charges of 1% of the loan amount are being charged by the mFIs.

All mFIs are members of either one or two Credit bureau agencies namely Crif-Highmark, CIBIL, Equifax and Experian. They seek customer reports indicating no. of loans agency wise, amount overdue, current outstanding etc. The charges per hit of Bureau differ from each other. Crif Highmark is charging Rs. 5 per hit and Equifax charges Rs. 2.65 per hit. The mFIs have reported of uploading their client data on weekly frequency. The Credit Bureau report is valid for 15 days.

The quantum of first loan amount in all the mFIs ranges from Rs. 10000-30000/- depending upon the requirement and loan cycle. Thereafter, repeat dose of loans can go up to Rs. 75000/- subject to overall indebtness limit of Rs. 1.25 lakh. Loan sanctioning and disbursement process is centralised at HO except for ASAI. The HO team cross verifies the application details with credit bureau report, KYC documents, etc. before according sanction to the loan.

After sanction of the loan, the borrower along with nominee/ co -applicant are called at the branch for signing of loan application/ inter se agreement (SHGs) to facilitate disbursement of loan. On receipt of advice of fulfilment of loan disbursement documentation at branch level, the HO releases the amount to the respective bank account. In ASAI mFI, sanction and disbursement of loans is at branch level and not centralised. Thereafter, the data is fed to central loan management system.

After disbursement of the amount, some of mFIs (Arohan, Ashirvad) send SMS to the registered mobile number about the disbursement details. The end use and amount of the loan disbursed is also being checked by the branch manager within 30 days as also through tele verification wherever provided by the mFI. Depending upon the repayment frequency fixed, one instalment period is considered moratorium before the repayment actually starts.

Each JLG will have a centre book / Group loan passbook which provides details of the members present in meetings, member wise loan sanctioned, total amount of collection during the meeting, etc. which is then countersigned by group leader(s) and the loan officer of mFI. All individual members are also issued a separate loan card with photograph of borrower and co-applicant. The loan card provides details of loan amount, ROI charged, instalments amount, processing and insurance charges, instalment schedule, etc.

In addition to regular income generation loan, some mFIs (Arohan, Ashirvad) also have cross sell products (asset financing) such as Mixer -grinder, TV, solar lights, Cycle loans which are of qualifying asset nature with tenure ranging from 3-24 months. These agencies have tied with distributors for delivery of the product once the loan is sanctioned to the borrower.

Arohan has a product 'BAZAR' wherein it provides working capital assistance for small businesses in the range of Rs.15000 to Rs.50000/-. The loan can be availed by those borrowers who have their own shop. The maximum limit of loan under Bazar is Rs.1.50 lakh. The RoI in case of this non-qualifying asset loan is 25% and collection is fortnightly. ASAI has no cross sell/ distributor/ non-financial products. In addition, the non-qualifying products constitute gold loans, secured MSME loans and those loans which breach over indebtness framework.

5.5.4 Collection of the repayments

Collection of repayments depending upon the repayment schedule is done at a particular place designated as centre on a pre-decided day and time. Collection is normally done by the loan officers from 8.00 am to 12 p.m. All members have to be present at stipulated date and time to physically pay their loan instalment. Collection is mainly through cash. In Arohan, the beneficiary can also directly deposit the amount to their loan id through their app "MeraArohan". The screen shot of the payment details is forwarded to the loan officer through WhatsApp for updating the centre book and their loan passbook. However, the frequency of such payments was observed to be low (around 10%). Ashirvad and Arohan mFI also send SMS alert to the borrower 2-3 days before the due date of instalment.

The cash collected by the loan officers is either brought to the branch (ASAI, Madura) or is deposited in mFI account at the nearest banking outlet available. However, the cash has to be deposited within the normal banking hours. In order to take benefit of flexible working hours, mFIs such as Ashirvad are also depositing cash in arrangements made with 'Finocare Payment Bank' outlets. All other mFIs except ASAI have indicated to have availed insurance for cash at branch, fraud and transit.

Besides collection by loan officers, in Madura mFI, the SHG leader also collects the amount from all members and deposit it in bank branch in Madura account. The slip is collected by the field staff/ loan officer or brought to the branch by group leader and thereafter entries are made in the loan accounts.

During the centre meeting day, if all the recoveries of the group members are not affected, then the loan officer does not sign the loan books of centre and loan cards of other borrowers of the group who have made the payments. It is understood that this puts pressure on the other members to pressurise the erring member to repay or in event of her inability to do so, the other members contribute.

5.5.5 Lending portfolio of mFI

The loans disbursed during the financial year and outstanding as on 31 March 20 in respect of four mFIs visited during the study is presented as under:

Particulars	Ashirvad	Madura		ASAI	Arohan	
	JLG model	SHG Model	Individual	Individual	JLG model	MSME
Total disbursed as on 31 March 20 (Cr.)	4661	1858.32	6.2	2053.37	4699.9	295.83
Total O/s as on 31 March 20 (Cr.)	5487.93	2094.1	16.17	1336.16	4425.95	328.97
Amt. disbursed per loan officer (Rs. In lakh)	NA	94.55		106.12	117.38	
Av. Amt of loan per active borrower (Rs.)	19699.92	15345.84		27710.80	21673.45	
Tenure of loans (months)	12-32	25-31		12-24	12-24	6-18
Tenure of Repayment	Monthly	Monthly		Weekly	Monthly	
ROI	20.67%	21.30%		21%	20.99%	20-25%

- As observed from the above, ASAI is lending directly to the individual and does not follow group concept. Arohan and Madura are following group lending model as also lending to MSME and individuals.
- The average disbursement per loan officer ranges from Rs. 94.55 to Rs. 117.38 lakhs per year. Hence, the disbursement per branch will be in the range of Rs. 4.72 to 5.86 crores. This is in consonance with the data collected from select branches visited during the study.
- Av. Amt. of loan is highest in respect of ASAI which is directly lending to individuals. More than 85% of the loans of all four mFIs were qualifying assets. mFIs were adhering to the margin caps stipulated by RBI for qualifying assets.
- Turn Around Time (TAT) for loan sanction is 5-7 days for all the mFIs and 2 days for disbursements.
- Loans for income generation are being sanctioned under agriculture, MSME, and other purposes. Besides, some of the mFIs are also sanctioning loans for Retail finance. The ROI for retail finance is 24.50% and tenure extends from 12-24 months.
- The income generation loans given by mFIs were more than 50% as stipulated in qualifying asset criteria. The purpose wise - mFI wise income generation as percentage of total loans outstanding as on 31 March 20 are presented as under:

NBFC-MFI	Income Generation			Retail finance
	Agriculture	MSME	Others	
Ashirvad	NA	NA	-	-
Madura	63.50%	36.21%	-	0.29%
ASAI	32.61%	67.39%	-	-
Arohan	53.37%	4.41%	42.22%	-

5.5.6 Business Correspondent Model

Business correspondent's helps mFIs to leverage staff, process, infrastructure and consumer related synergies across their micro finance and BC businesses. It helps to improve efficiency, scale and optimisation of services by integrating their mFI and BC. In case of mFIs under study, only ASAI has reported undertaking BC model transactions, while others have dispensed with this model. This may be because of their own portfolio being huge and diversified. The selection of the borrower under BC model is as per the criteria fixed by the partner bank, loan application sourced by mFI are then sanctioned by the partner bank and disbursed to the bank account of the borrowers. The entire portfolio remains in the books of the mFI as managed portfolio and it has to undertake follow-up and recovery from the borrowers.

Under the arrangements, the bank normally requires credit enhancements in the form of FD/ cash collateral for mitigating the probability of default in the portfolio. The amount of managed portfolio, service fees received and quantum of cash collateral provided as credit enhancement by ASAI is presented in the table below.

(Rs. in crore)

BC arrangement	ASAI	
	2019	2020
Loan disbursed through managed portfolio	518	468
O/s portfolio	368	320
Service fee	30	27
	(5.79%)	(5.77%)
Credit Enhancements		
Cash collateral	21.54	26.94
	(4.16%)	(5.76%)

5.5.6 Customer profile of the mFIs

The team during the field visit had group discussions with the mFI borrowers and the salient observations are as under:

- ✓ All the mFIs are extending loan to women only.
- ✓ These borrowers have bank accounts with public or private sector banks located in their vicinity. More than 40% did not know about the facility of availability of loans from the banks. Others indicated documentation, time consuming process as well as no doorstep collection, insensitive behaviour of bank staff, etc. as major reasons for not availing loans from banks. None of these customers could appreciate the difference in rate of interest on loan from bank and mFI.

- ✓ Around 80% of the customers have education below class X. This could be one reasons for low level of awareness about the financial products available with bank.
- ✓ Even w.r.t loan from mFIs, the borrowers only remember the repayment amount and only a few (normally group leaders) were able to provide any information about the rate of interest and tenure of the loan.
- ✓ These women borrowers though are undertaking farming, the land remains in their husband name, and hence are unable to source loan from the village cooperative society independently.
- ✓ Faster and doorstep processing along with flexibility of collection and repayment were major attraction for availing loan from mFI. Further, it is understood that these women do not have other options for meeting their household fund requirements. This could be one reason of their prompt repayments towards the loan amount.
- ✓ Since instalment amounts are low, some of the borrowers have indicated to have borrowed the amount from friends / relatives to meet the repayment obligation fearing that default may debar them from further loans.
- ✓ A large number of mFI customers were into their 3/5 loan cycle indicating total reliance on mFI loans and long association.
- ✓ Less than 20% of the customers interacted during the study have also borrowed from other small finance banks or NBFCs. Normally, second loan cycle is given only when previous loan is fully repaid.
- ✓ Most of the loans taken by the customers were for income generation like small business, Jari work, agriculture, etc. The loan could be for their own petty business or for meeting their husband/ sons requirements. However, the purpose for which loan was taken was different in many cases from what was indicated in the loan card. Some of the borrowers have taken loan for payment of school fees, marriage, medical exigency, etc. but the purpose indicated is agriculture, small business, etc.

5.5.7 Impact of COVID on Disbursements and Recovery

In order to assess the impact of the first wave of COVID on the disbursements and recovery of mFIs, month wise data was sought from mFIs from April 2019 to January 2021. The summary of the disbursement and recovery pattern is presented in the table below.

	TN		WB	
Particulars	**Ashirvad**	**Madura**	**Arohan***	**ASAI**
Av. Disbursement per month/ customer as on 31 March 20 (Rs.)	38964.83	15485.83	38441.16	17111.45
Av. Disbursement per month / customer as on 31 January 21 (Rs.)	23415.60	10014.98	13834.29	6399.22
Percentage fall in disbursements during COVID period	-39.91%	-35.33%	-64.01%	-62.60%
Recovery as % of demand as on 31 March 20	97.74%	96.71%	96.98%	99.55%
Recovery as % of demand as on 31 Jan 21	69.34%	92.27%	52.15%	65.72%
* Data pertaining to Arohan as on 30 Sept. 21 due to filing of DRHP				

As observed therefrom, the impact was much more in West Bengal state as compared to Tamil Nadu. The percent fall in disbursements in Tamil Nadu ranged from 35-40% and that of West Bengal ranged from 62-64%. There were no disbursements of loans during April and May 21 months due to lockdown before picking up in June month when unlock started. This would impact the operating profits of mFIs. Further, lockdown also affected the movement of the loan officers for collection, resulting in collection delinquencies manifesting in lower recovery pattern. The recovery are as low as 52% in case of Arohan, 66% in ASAI and 69% in Ashirvad. All the mFIs studied have indicated to have extended moratorium on repayments. In Madura, the recovery is comparatively much better probably due to SHG model of lending wherein the group leader due to local presence facilitated the collection from members and deposit of the same at local bank.

5.6 Code of Conduct Assessment (COCA)

All the mFIs under study are member of Self-Regulatory Organisation (SRO) i.e. MFIN and SA-DHAN. Besides this, these mFIs also have COCA grading which relates to norms for ethical finance. These include RBI's fair practices guidelines for Non-Banking Financial Companies, Industry code of conduct (Sa-Dhan-MFIN) and Smart Campaign's Client Protection Principles (CPP). All the mFIs have adopted Code of Responsible Lending (CRL) prescribed by SROs, which includes most critical elements which are required to be adopted by mFIs while delivering microcredit loan.

The six dimensions being assessed under Code of Conduct are

- ✓ **Client origination:** To avoid instances of multiple financing and over indebtness of the borrower while providing financial services. A board approved policy for on boarding of the customers. All mFIs were doing credit bureau check before on boarding customer and had board approved policy for lending.
- ✓ **Loan pricing:** The mFIs are disclosing the rate of interest, processing fee, insurance charges, insurance cover & risk covered to their clients. They are also maintaining of margin caps/ ROI as per RBI guidelines.
- ✓ **Loan appraisal:** There is a board approved internal policy for assessment of customer's loan requirement and repayment capacity before making loan.
- ✓ **Client data security**: All mFIs are maintaining client data privacy and security.
- ✓ **Staff conduct:** The branch manager/ field staff is reported to be courteous to the customer and refrain from coercive collection under difficult times or odd hours. The loan terms and conditions are being briefed to the customer.
- ✓ **Client relationship and feedback:** All the mFIs studied had a Grievance redressal mechanism, helplines for any feedback, system of tele-verification of loan disbursement and sanction (Arohan).

5.7 Grievance Redressal System

The Grievance Redressal Mechanism is prominently displayed in all the branches of mFIs. All the customers of the mFIs are provided with loan pass book. The loan pass book indicates the toll free number of MFIN and mFI for any complaints. Further, a compliant box is being kept at branch level whose keys are with higher ranking officer, generally, Area Manager. Area manager observes the complaints, if any, during his visit to the branch usually indicated as fortnightly. Complaints are usually in respect of non-disbursement of credit, non-receipt of SMS, loan applied but not granted, etc. Majority of the customers of the mFI visited during the field visit did not have any idea about the grievance redressal mechanism.

5.8 Risk Management

Credit risk, operation risk, geographical risk, liquidity risk, interest rate risk, asset-liability management risk and political risk are the major risks faced by the microfinance industry. These uncertainties create new business opportunities with inherent risks. A key factor in determining a company's capacity to create sustainable value is the level of risk that the company is willing to take (at strategic and operational level) and its ability to manage them effectively. The mFIs risk management processes focus on ensuring that these risks are identified timely and are reasonably addressed. The Board of mFIs provides an oversight to the organization on all risk management aspects of the organization. The mFIs have in place a risk management policy which provides an overview of the principles of the risk management. To ensure a proper vigilance and monitoring on the risks, a separate Risk Management committee is set up in each mFI for overall review of the risk profile. The committee has independent directors, nominee directors besides director of board. The focus of their role is to coordinate development of required policies and threshold and to ensure that the risks which are not within the threshold be flagged and followed-up for their redressal

Arohan has developed in-house risk models and has sound risk identification and management system. It is also implementing Enterprise Risk Management (ERM). It is using advanced analytics tools and measures such as static pools, moving averages, trend analysis, portfolio projection models which are fully developed with in-house expertise are used to derive appropriate benchmarks ensuring accurate predictive capabilities.

It has developed a credit risk model software named 'SCoPE' for credit risk management function providing continuous surveillance of nascent delinquency (Early Par), as well as, standard PAR30. The adoption of SCoPE model enables the branches to monitor, review, engage and self-correct their portfolios. Monthly Portfolio Quality Review (PQR) at the corporate level is reviewed by a cross functional team comprising Risk, Business Operations, Central Operations, Finance, Internal Audit and Internal Control & Quality (IC&Q) vertical. It also has Branch Risk (BRisk) assessment algorithm, which provides key visibility of operational risks. The BRisk grading of the entire enterprise at all levels up to the branches provides the operations team, the management and the Board with an assessment of the operational health of the active branches while indicating the emerging risks for the following quarter(s).

ASAI has comprehensive internal audit system under which the branches are audited every 6 months.

5.8.1 Internal Risk Rating

The mFIs were risk rated based on our internal risk rating model. The rating is presented in **Annexure III.** The gist of rating marks and risk category assigned to each mFI is presented as under:

MFI	Marks	Risk Rating
Ashirvad	72.1	NBD-2
Madura	40.2	NBD-5
Arohan	61.70	NBD-3
ASAI	62.60	NBD-3

Under our internal Risk rating model business risk includes growth in loan portfolio, Operating self-sufficiency, Cost of funds, Client outreach, Trends in loan disbursement, No. of client per loan officer parameters. .

It was observed that mFIs were having higher AUM in select states e.g. Ashirvad (TN, Bihar, WB ~ 43% of AUM); Madura (TN ~60% of AUM), ASAI (WB ~62% of AUM). This would affect the performance of the pool if exposed to socio- political and natural calamities risks which may have impact on income generation capability of borrowers. Therefore, there is a need to further refine 'Business risk' parameter by including 'Geographical Diversity in lending' taking into account the high concentration of loan portfolio in select states/ districts aspect.

Collection efficiency and recovery from delinquent accounts is another parameter which needs to be considered in the rating model as it in turn affects the liquidity position of the mFI and reflects the efficiency of credit monitoring.

Further, the following aspects in internal risk rating need to be looked into to make it more fruitful

- ✓ Under "Average Growth in PAT in three years" parameter, if any mFI has suffered loss in one year due to unavoidable circumstances, it will have 'o' score.
- ✓ In "Return on Asset' parameter there is no frequency interval >0.0 to <=1%, thereby score of '0' is being given on return on Assets up to 1%.
- ✓ In case of "Provision Coverage Ratio (%)", scoring rule of >1.0 has score of more than 8, which effectively means the provisioning is more than 100%.

6.0 RO level issues in appraisal and monitoring

The team had discussions with officials of DOR in respective ROs on the issues faced by them in appraisal and preparation of MoS for NBFC-mFI proposals. In addition, the DDM of Dindigul and Madurai districts also accompanied the study team for taking up monitoring of the NBFC-mFI loan portfolio in respective districts as advised by RO. The salient points emanating from the discussions are as under:

6.1 Appraisal and Preparation of MoS

i. The financial statements of some of the NBFC-mFIs prepared for different years are in different accounting systems i.e. IGAAP and IndAS. This creates difficulty in culling out information of those select parameters wherein growth projections are to be considered as treatments to account heads are different in both the accounting systems.

ii. While preparing the risk rating statement, parameters for certain financial ratios e.g. current ratio, leverage ratio are not evident/ clear from the balance sheet prepared under IndAS. Hence ROs, follow either the maturity statement/ ALM statement. However, the figures do not match as some items are not covered in these statements.

iii. The eligibility of the required quantum of refinance by NBFC-mFI is based on the eligible AUM. For arriving at eligible AUM, overdue portfolio, securitised amount, BC portfolio is to be excluded. Many a times these figures are not explicit in the accounts.

iv. There is no clarity on the validity of DPN as security. Normally, the validity of DPN is for 3 years but HO guidelines are silent on the same.

v. SWOT analysis for scrutiny format is being prepared from the Grading report of the mFI. Grading reports differ depending upon the agency and hence there is a need for standardisation of inputs under SWOT analysis.

vi. Item V (5) of MoS format dealing with security norms deals with the assignment of book debts in favour of NABARD. Most of DMoS indicate that "Assignment of book debts and registration of charge with ROC has been obtained for earlier release of refinance". It implies that the book debts which are assigned to RO in respect of refinance sanctioned earlier, which has been either repaid or the outstanding refinance is much less than total book debts, become applicable to the fresh sanction. However, while stipulating this action, we need to review the entire portfolio w.r.t overdue accounts, or accounts wherein principal has been repaid within the quarter, etc. Many of the book debt reports contain such accounts.

vii. We are one of the major lenders to mFIs, hence there is a need to look into the exposure norms to be linked to "percentage of the total borrowings of mFI".

viii. Based on the reports of book debt assigned to NABARD submitted by ROs, it is observed that there is no standard format for presentation of book debts. In some cases, the details of the repayment period of loan, outstanding principal amount, last instalment date, overdue amount, etc. are mentioned but in others these indicators are missing.

ix. Book debts which are assigned have more than 20000 accounts depending upon the quantum of refinance. It is a difficult task to cross check the loan portfolio assigned w.r.t our requirements. Hence, HO may consider suitable mechanism to facilitate ROs for desk level scrutiny of assigned portfolio. Many book debts have residual period of less than 2-3 months, which contradicts our guidelines for assignment of book debts.

x. It is gathered that at present viewing rights for book assignment is available with HO and ROs don't have viewing rights for assigned portfolio with ROC. The same need to be extended to ROs for effective monitoring as the loan portfolio of mFI is for max. 2 years whereas refinance is for five years.

xi. During the visits, it was gathered that registration of charge takes place only once when the book debts are assigned and thereafter the mFI replenishes the accounts which are closed, have become NPA, etc. However, the registration of the charge in respect of these accounts does not take place. In such an event, after two years, the book debts on which charge has been created will close (considering 2 years repayment period) and we are effectively left with no charged book debt after that, as refinance remains outstanding for five years.

6.2 Desk and field Monitoring

i. ROs don't have the recourse to undertake a test check of the loan portfolio assigned by mFIs to other banks so as to ascertain that book debts assigned to us are not the same portfolio which are assigned by the MFI to the banks.

ii. As per our guidelines, the book debt assigned by the mFIs should contain loan having residual period of more than 18 months. However, in some of the book debts assigned the loan period was 46 weeks i.e. residual period of less than 18 months.

iii. On scrutiny of assigned book debts the following observations were observed

   a. Many loan accounts which have been assigned had overdue amount. This amount could be due to extension of moratorium by the mFIs but is an important input which need to be focussed by ROs while conducting monitoring. However, some observed accounts appeared to more than PAR90+ which should not have reflected in the assigned books. e.g. an account having first instalment paid on 21.12.17 with repayment period of 106 weeks is having 26 outstanding instalments as on 30.9.20 (ASAI).

   b. In some of the accounts, there is no outstanding principal but were still reflecting in the assigned book debts.

   c. Assigned book debt also had some loan accounts which were non –qualifying assets nature (Ashirvad). The rate of interest being charged on the assigned book debts ranges from 18%-26% which indicated variance in maximum and minimum interest rate of more than 4% contradicting RBI guidelines.

iv. Refinance is sanctioned by the RO wherein HQ of the mFI is located. This assigned portfolio contains loans for different states. RO undertakes monitoring of portfolio of the mFI in its state through DDM/ RO officials. However, the performance of assigned loans of other state is not made available. Hence, the monitoring should be portfolio based spread across different states. HO/ other ROs can be involved in taking up such portfolio monitoring.

v. DDMs do not have the data pertaining to the book debt assigned by the mFI. The team had discussions with the area office of mFIs and details of the same are also not available at their level. Hence, in event of no information about which loan accounts have been assigned the monitoring exercise becomes futile. Further, the monitoring formats should include a feedback mechanism on the select loan accounts and awareness level of the customers which is presently missing. The feedback could be on the ultimate use of the loan vis-à-vis indicated by mFI, loans from other sources and whether these are reflected in the credit bureau report generated by mFI, ascertaining the demand and collection information at branch level to arrive at the collection efficiency, etc.

vi. Further, broad guidelines for post disbursement monitoring and asset verification are required.

7.0 Policy issues and Recommendations:

1. MFIs and SROs

a. **Assessment of Household Income:** The household income assessment is based on select parameters which are subjective in nature. In absence of financial history of these borrowers, it is difficult to objectively assess the income of the borrowers based on the selected parameters. In addition, there is limitation in the capacity of loan officers and branch managers in making a true and closer to reality assessment of the household income. There is need to devise suitable mechanism to capture the true picture of income of the household.

b. **Facilitating Fair Lending practices:** The Credit Bureaus (CBs) provide accurate information about a prospective customer's credit history. While there are multiple CICs operating in the micro finance and retail credit market, they depend on the member MFIs for credit information about borrowers. Moreover, it is not mandatory for banks that directly lend to micro finance customers to report credit information of their borrowers to the CICs, making it difficult for small and medium sized MFIs to ascertain the level of indebtedness of prospects. Further, there is a time lag between credit check of a prospective customer and the disbursement of funds, normally observed to be around 7-9 days. Further, the reporting of customer data to CIC is done weekly after the disbursement. It is possible for another lender to disburse loan to the prospect in this time window, thereby leading to possibility of over-indebtedness despite checks with Credit Bureaus. It was also observed that only few MFIs upload credit information of their borrowers "immediately" after disbursal. There is often a time lag between disbursal of credit and uploading of credit information into CBs databases, adding to the risk.

c. It is recommended that Self-Regulatory organisation (SRO) needs to be given this responsibility of monitoring the reporting mechanism and asked to submit periodic compliance reports to the RBI. MFIs should make credit checks closer to disbursement and should share the disbursement data with CBs not later than 2 to 3 days after disbursement. It is also recommended that the CBs develop an integrated platform to avoid multiple subscription and assimilation of data from large number of sources.

2. Policy changes by NABARD, HO

a. **Group training:** The JLGs which are formed by mFI are subjected to CGT and GRT which creates awareness about the mFI products and their requirements. Such short duration training can also be instituted in JLG Bank programme. This may create bring greater synergies among the bank borrowers and officials in the long run and provide more financing avenues to the banks.

b. **Internal Risk Rating:** 'Business risk' parameter can be supplemented by including 'Geographical Diversity in lending' taking into account the high concentration of loan portfolio in select states/ districts aspect. Collection efficiency and recovery from delinquent accounts is another parameter which can be considered in the rating model as it in turns affects the liquidity position of the mFI and reflects the efficiency of credit monitoring.

c. Further, the following aspects in internal risk rating need to be looked into to make it more fruitful

   i. Under "Average Growth in PAT in three years" parameter, if any mFI has suffered loss in one year due to unavoidable circumstances, it will have 'o' score.

   ii. In "Return on Asset' parameter there is no frequency interval >0.0 to <=1%, thereby score of '0' is being given on return on Assets up to 1%.

   iii. In case of "Provision Coverage Ratio (%)", scoring rule of >1.0 has score of more than 8, which effectively means the provisioning is more than 100%.

d. **Issue of guidelines :** HO may consider issuing guidelines to ROs to cover the following aspects wherever feasible

   i. Institution of a suitable mechanism to facilitate ROs for desk level scrutiny of assigned portfolio

   ii. Explore need to look into the exposure norms to be linked to "percentage of the total borrowings of mFI".

   iii. Need for standardisation of inputs under SWOT analysis

   iv. Standardised format for presentation of book debts

   v. Viewing rights for assigned portfolio with ROC and stipulation of minimum residual maturity of the assigned book debts.

   vi. Registration of the charge with ROC in respect of fresh book debts assigned.

e. **Portfolio monitoring** of the loan accounts need to be taken by HO/ ROs on half yearly basis.

3. RO/DDMs

a. DDMs need to be provided with the information of assigned book debts in respect of their district for field level monitoring.

b. DDM monitoring format need to be strengthened by including additional inputs such as ultimate use of the loan vis-à-vis indicated by mFI, loans from other sources and whether these are reflected in the credit bureau report generated by mFI, ascertaining the demand and collection information at branch level to arrive at the collection efficiency, etc.

4. NBSC

Capacity building of staff in interpretation of financial statements especially w.r.t IndAS, preparation of MoS, monitoring of the assigned book debts, post disbursement documentation, etc.

Annexure -I

Physical outreach and size of mFIs

Particulars	Tamil Nadu						West Bengal					
	Madura			Ashirvad			ASAI			Arohan		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
No. of States / UT	7	7	8	20	22	22	6	6	7	11	13	16
No. of Districts	59	73	93	245	290	315	48	49	60	156	202	229
No. Branches	321	357	468	832	942	1030	273	320	410	435	593	711
No.of centres	NA	NA	NA	145394	175354	209956	51687	69674	91230	45515	74610	92200
Centre/branch	-	-	-	175	186	204	189	218	223	105	126	130
Total staff	2234	2678	3672	4167	4951	6206	1639	1991	2654	3318	4765	6272
Staff/branch	7	8	8	5	5	6	6	6	6	8	8	9
Loan officers	1190	1382	1972	NA	NA	NA	1197	1450	1935	2256	3227	4256
Active borrowers (Lakh)	6.88	9.56	12.15	15.02	18.07	23.66	5.17	5.92	7.41	11.37	18.65	23.05
Active Borrower per loan officer	2143	2678	2596	-	-	-	1894	1850	1807	2614	3145	3242
Balance sheet size (Cr.)	1263	2072	2149	2706	4258	5912	632	864	1087	2303	3853	5280
Gross loan portfolio (Cr.)	1184	1879	1973	2434	3838	5502	774	1036	1336	2171	4045	4854

Annexure -II

Year wise resource mobilsation by NBFC-mFIs

(Rs. In Cr.)

S. No	Particulars	Tamil Nadu						West Bengal					
		Madura			Ashirvad			ASAI			Arohan		
		2017-18	**2018-19**	**2019-20**	**2017-18**	**2018-19**	**2019-20**	**2017-18**	**2018-19**	**2019-20**	**2017-18**	**2018-19**	**2019-20**
1	**Bank Borrowing**	443.05	820.09	950.97	962.01	1123.47	2956.44	147.06	130.87	115.30	1150.85	1834.43	2858.29
	Subordinated term loans	0.00	0.00	24.87	0.00	0.00	0.00	30.00	55.00	55.00	24.76	75.42	75.53
	Cash credit	1.88	5.63	0.01	0.00	0.00	0.00	0.00	0.00	0.00	49.66	75.05	59.32
	Sub Total	**444.93**	**825.72**	**975.85**	**962.01**	**1123.47**	**2956.44**	**177.06**	**185.87**	**170.30**	**1225.27**	**1984.90**	**2993.14**
2	**Financial Institutions**	133.68	363.54	315.40	50.00	0.00	0.00	0.00	30.00	24.00	400.16	809.89	1059.12
	Subordinated term loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	50.00	0.00	0.00
	Sub total	**133.68**	**363.54**	**315.40**	**50.00**	**0.00**	**0.00**	**0.00**	**30.00**	**24.00**	**450.16**	**809.89**	**1059.12**
3	**NBFC borrowings**												
	Secured	120.47	172.72	151.24	309.86	163.06	190.09	225.37	193.89	190.70	Included in FI figures		
	Unsecured	0.00	0.00	0.00	75.52	50.35	50.37	0.00	0.00	0.00	2.74	0.00	0.00
	Sub total	**120.47**	**172.72**	**151.24**	**385.38**	**213.41**	**240.46**	**225.37**	**193.89**	**190.70**	**2.74**	**0.00**	**0.00**
4	**Borrowing under securtisation**	**75.72**	**137.86**	**80.79**	**318.35**	**118.15**	**590.87**	**0.00**	**0.00**	**0.00**	**0.00**	**56.61**	**6.66**
5	**Debt Securities**												
i	**Debentures**												
	Secured	153.75	138.25	137.29	432.56	323.31	330.13	90.32	247.66	321.00	116.94	62.45	0.00

	Unsecured	0.00	14.95	0.00	172.57	412.43	243.48	0.00	0.00	0.00	74.99	109.72	134.16
	Subordinated (Unsecured)	50.00	50.00	50.00	114.07	114.14	116.33	0.00	0.00	0.00	0.00	0.00	0.00
	Sub Total	**203.75**	**203.20**	**187.29**	**719.20**	**849.88**	**689.94**	**90.32**	**247.66**	**321.00**	**191.93**	**172.17**	**134.16**
ii	**Commercial Paper**	**0.00**	**0.00**	**0.00**	**14.83**	**49.61**	**22.90**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
6	**External commercial Borrowings**	**24.34**	**21.49**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**99.25**	**0.00**	**0.00**	**0.00**
	Total	**1002.89**	**1724.53**	**1710.57**	**2449.77**	**2354.52**	**4500.61**	**492.75**	**657.42**	**805.25**	**1867.36**	**3023.57**	**4193.08**
	Capital	7.19	7.19	7.19	32.07	53.31	53.31	1.35	1.72	1.95	88.22	101.16	110.32
	Reserves/ other equity	229.24	314.77	394.40	249.56	751.10	986.20	74.93	143.08	212.95	291.61	580.05	852.30
	Sub Total	**236.43**	**321.96**	**401.59**	**281.63**	**804.41**	**1039.51**	**76.28**	**144.80**	**214.90**	**379.83**	**681.21**	**962.62**

Annexure -III

Internal Risk Rating for NBFC-MFIs : Madura mFI, TN as on 31 March 2020

(Rs. In Cr.)

Sr. no.	Category	Parameter Name	Formula	Scoring Rule	Score	Weightage	Parameter Value	Score Obtained	Marks obtained (Score obtained *Weightage*"10") Col. 9 * Col. 7 * "10"	Category Weights
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
1	**Capital Adequacy**	Capital Adequacy Ratio (%)	CRAR % = (Capital/ Risk Weighted Assets)*100	>=25%	10	10%	20.89	8	8	**15%**
				>=20% and <25%	8					
				>=15% and <20%	6					
				< 15%	0					
2	**Capital Adequacy**	Leverage Ratio	Total Outside Liabilities / Owned Funds	>7	0	5%	5.37	4	2	
				>5.5 and <=7	2					
				>5 and <=5.5	4					
				>4.5 and <=5	6					
				>4 and <=4.5	8					
				<=4	10					
3	**Asset Quality**	Gross NPAs (%) ratio	Gross NPA/Gross Advances	>1.5%	0	7%	4.69%	0	0	**22%**
				>1% and <=1.50%	4					
				>0.50% and <=1%	6					
				>0% and <=0.5%	8					
				<=0%	10					
4	**Asset Quality**	Growth in GNPA (%) ratio (YoY)	Growth in GNPA (%)ratio (YoY	>150%	0	6%	193.13%	0	0	

				>100% and <=150%	2					
				>50% and <=100%	6					
				>0% and <=50%	8					
				<=0%	10					
5	**Asset Quality**	Provision Coverage Ratio (%)	(Provisions made*100)/Gross NPA	>2	10	5%	0.67	4	2	
				>1.0 and <=2.0	8					
				>0.7 and <=1.0	6					
				>0.0 and <=0.7	4					
				<=0.0	0					
6	**Asset Quality**	Write Off Ratio (%)	Principal Amount Written Off / Average Outstanding Loan Portfolio	>2.00%	0	4%	3.14%	0	0	
				>1.00% and 2.00%	2					
				>0.75% and <=1.00%	4					
				>0.5% and <=0.75%	6					
				>0.25% and <=0.5%	8					
				<=0.25%	10					
7	**Profitability**	Return on Assets (%)	Net operating Income - Taxes / Average Assets	>=3 %	10	6%	-0.01%	0	0	**17%**
				>=2% and <3%	8					
				>=1% and <2%	6					
				<=0%	0					
8	**Profitability**	Yield on loan portfolio (%)	Financial revenue from loan portfolio/ average gross loan portfolio	>25%	10	6%	19.84%	6	3.6	
				>20% and <=25%	8					
				>15% and <=20%	6					
				<=15%	2					

9	**Profitability**	Average Growth in PAT in three years (%)	Financial revenue from loan portfolio/ average gross loan portfolio	>25%	10	5%	2.59%	4	2	
				>10% and <=25%	8					
				>5% and <=10%	6					
				<=15%	4					
				<0%	0					
10	**Business Risk**	Growth in Loan Portfolio (%)	y-o-y growth in loan portfolio	>70%	10	5%	6.91%	2	1	
				>50% and <=70%	8					
				>30% and <=50%	6					
				>10% and <=30%	4					
				<=10%	2					
11	**Business Risk**	Operating Self Sufficiency (%)	Operating revenue/ (Financial expenses + Loan-loss provision Expenses + Operating expenses)	>120%	10	3%	99.58%	0	0	
				>110% and <=120%	7					
				>100% and <=110%	4					
				<= 100%	0					
12	**Business Risk**	Cost of Funds Ratio (%)	Interest and fee expenses / Average funding liabilities	>15%	0	5%	9.84%	10	5	**19%**
				>13.5% and <=15%	4					
				>12.5% and <=13.5%	7					
				<=12.5%	10					
13	**Business Risk**	Client outreach (in lakhs) (Customers in Number)	Number of Clients (in lakhs)	>10 lakhs	10	2%	11.03	10	2	

				>5 and <=10 lakhs	6					
				<=5 lakhs	2					
14	**Business Risk**	Trend in Loans disbursement	Amount of loans disbursed during the year Vs Average loans disbursed during the last three years	Increased by >=15%	10	2%	-18.24	0	0	
				Increased by >0% and <15%	7					
				Decreased by >0% and <15%	4					
				Decreased by <=15%	0					
15	**Business Risk**	No. of clients per Loan Officer	No . Of active borrowers/ No. of staff members	>500 and <=700	10	2%	292.39	0	0	
				>450 and <=500	8					
				>350 and <=450	6					
				<=350	0					
16	**Management Risk**	Promoter's shareholding	NA	>60%	10	3%	12.50%	0	0	
				>40% and <=60%	5					
				<=40%	0					
17	**Management Risk**	Leadership competency	NA	Leaders are of huge reputation (>20 years of management experiences with same/multiple organizations under same industry)	10	2%	Leaders are of huge reputation (>20 years of management experiences with same/ multiple organizations under same industry)	10	2	

				Leaders are of huge reputation (>15 to <=20 years of management experiences with same/multiple organizations under same industry)	8					**5%**
				Leaders are of huge reputation (>10 to <=15 years of management experiences with same/multiple organizations under same industry)	6					

				Leaders are of huge reputation (>5 to <=10 years of management experiences with same/multiple organizations under same industry)	4					
				Leaders are of huge reputation (>2 to <=5 years of management experiences with same/multiple organizations under same industry)	2					
				Leaders are new to the industry	1					
				Leaders are experienced in the industry but carry "negative reputation"	0					
18	**Liquidity**	Current Ratio	(Current Assets - Interest accruals, discounts, unamortised fees etc)/(Current liabilities - ST provisions)	> 2	10	7%	1.23	4	2.8	**17%**
				>1.5 and <=2	7					
				>1 and <=1.5	4					
				<= 1	0					

19	**Liquidity**	Securitised portfolio (%)	Securitised portfolio/Average Gross loan portfolio	>20%	10	4%	0.78%	0	0	
				>15 % and <=20%	8					
				>10% and <=15%	6					
				<=10%	0					
20	**Liquidity**	Cash Flow Ratio	Cash + short term investment / total assets	>15%	10	3%	20.72%	10	3	
				>10% and <=15%	7					
				>8% and <=10%	4					
				<= 8%	0					
21	**Liquidity**	Asset Coverage Ratio	((Assets – Intangible Assets) – (Current Liabilities – Short-term Debt)) / Total Debt outstanding	>=1.50	10	3%	1.19	6	1.8	
				>1.25 and <=1.50	8					
				>1.0 and <=1.25	6					
				<=1.0	0					
22	**Account Conduct**	Conduct on Previous/ Existing Loan accounts (if any) for the last 1 year	NA	Accounts running regular	10	2.50%	Accounts running regular	10	2.5	**5%**
				Accounts remained irregular for less than or equal to 15 days	8					
				Accounts remained irregular for 16-30 days	6					

				Accounts remained irregular for 31-45 days	4					
				Accounts remained irregular for more than 45 days	2					
				No loan account previously	NA					
23	**Account Conduct**	Relationship with the Bank	NA	>=5 years	10	2.50%	>=5 years	10	2.5	
				>=3 years and <5 years	8					
				>=1 year and <3 years	6					
				<1 year	4					
				Not satisfactory	2					
				No prior relationship	NA					
	Total								**40.2**	

Annexure -III

Internal Risk Rating for NBFC-mFI : ASA International India Microfinance Ltd., West Bengal as on March 2020

(Rs. In Cr.)

Sr. no.	Category	Parameter Name	Formula	Scoring Rule	Score	Weightage	Parameter Value	Score Obtained	Marks obtained (Score obtained *Weightage*"10") Col. 9 * Col. 7 * "10"	Category Weights
1	2	3	4	5	6	7	8	9	10	11
1	**Capital Adequacy**	Capital Adequacy Ratio (%)	CRAR % = (Capital/ Risk Weighted Assets)*100	>=25%	10	10%	25.62%	10	10.00	**15%**
				>=20% and <25%	8					
				>=15% and <20%	6					
2	**Capital Adequacy**	Leverage Ratio	Total Outside Liabilities / Owned Funds	>7	0	5%	4.06	8	4.00	
				>5.5 and <=7	2					
				>5 and <=5.5	4					
				>4.5 and <=5	6					
				>4 and <=4.5	8					
				<=4	10					
3	**Asset Quality**	Gross NPAs (%) ratio	Gross NPA/Gross Advances	>1.5%	0	7%	2.22%	0	0.00	**22%**
				>1% and <=1.50%	4					
				>0.50% and <=1%	6					
				>0% and <=0.5%	8					
				<=0%	10					
4	**Asset Quality**	Growth in GNPA (%) ratio (YoY)	Growth in GNPA (%) ratio (YoY	>150%	0	6%	353%	0	0.00	
				>100% and <=150%	2					
				>50% and <=100%	6					

				>0% and <=50%	8					
				<=0%	10					
5	**Asset Quality**	Provision Coverage Ratio (%)	(Provisions made*100)/Gross NPA	>2	10	5%	73.61%	10	5.00	
				>1.0 and <=2.0	8					
				>0.7 and <=1.0	6					
				>0.0 and <=0.7	4					
				<=0.0	0					
6	**Asset Quality**	Write Off Ratio (%)	Principal Amount Written Off / Average Outstanding Loan Portfolio	>2.00%	0	4%	0.43%	8	3.20	
				>1.00% and 2.00%	2					
				>0.75% and <=1.00%	4					
				>0.5% and <=0.75%	6					
				>0.25% and <=0.5%	8					
				<=0.25%	10					
7	**Profitability**	Return on Assets (%)	Net operating Income - Taxes / Average Assets	>=3 %	10	6%	3.26%	10	6.00	**17%**
				>=2% and <3%	8					
				>=1% and <2%	6					
				<=0%	0					
8	**Profitability**	Yield on loan portfolio (%)	Financial revenue from loan portfolio/ average gross loan portfolio	>25%	10	6%	20%	8	4.80	
				>20% and <=25%	8					
				>15% and <=20%	6					

				<=15%	2					
9	**Profitability**	Average Growth in PAT in three years (%)	Financial revenue from loan portfolio/ average gross loan portfolio	>25%	10	5%	#REF!	10	5.00	
				>10% and <=25%	8					
				>5% and <=10%	6					
				<=15%	4					
				<0%	0					
10	**Business Risk**	Growth in Loan Portfolio (%)	y-o-y growth in loan portfolio	>70%	10	5%				**19%**
				>50% and <=70%	8					
				>30% and <=50%	6		29.73%	4	2.00	
				>10% and <=30%	4					
				<=10%	2					
11	**Business Risk**	Operating Self Sufficiency (%)	Operating revenue/ (Financial expenses + Loan-loss provision Expenses + Operating expenses)	>120%	10	3%	119%	7	2.10	
				>110% and <=120%	7					
				>100% and <=110%	4					
				<= 100%	0					
12	**Business Risk**	Cost of Funds Ratio (%)	Interest and fee expenses / Average funding liabilities	>15%	0	5%	186%	0	0.00	
				>13.5% and <=15%	4					
				>12.5% and <=13.5%	7					

				<=12.5%	10					
13	**Business Risk**	Client outreach (in lakhs) (Customers in Number)	Number of Clients (in lakhs)	>10 lakhs	10	1.50%	740920	6	0.90	
				>5 and <=10 lakhs	6					
				<=5 lakhs	2					
14	**Business Risk**	Trend in Loans disbursement	Amount of loans disbursed during the year Vs Average loans disbursed during the last three years	Increased by >=15%	10	2%	24%	10	2.00	
				Increased by >0% and <15%	7					
				Decreased by >0% and <15%	4					
				Decreased by <=15%	0					
15	**Business Risk**	No. of clients per Loan Officer	No . Of active borrowers/ No. of staff members	>500 and <=700	10	2%				
				>450 and <=500	8					
				>350 and <=450	6		383	6	1.20	
				<=350	0					
16	**Management Risk**	Promoter's shareholding	NA	>60%	10	3%	90.00%	10	0.30	**5%**
				>40% and <=60%	5					
				<=40%	0					

17	**Management Risk**	Leadership competency	NA	Leaders are of huge reputation (>20 years of management experiences with same/multiple organizations under same industry)	10	2%	15-20 years%	8	1.60	
				Leaders are of huge reputation (>15 to <=20 years of management experiences with same/multiple organizations under same industry)	8					
				Leaders are of huge reputation (>10 to <=15 years of management experiences with same/multiple organizations under same industry)	6					
				Leaders are of huge reputation (>5 to <=10 years of management experiences with same/multiple organizations under same industry)	4					
				Leaders are of huge reputation (>2 to <=5 years of management experiences with same/multiple organizations under same industry)	2					
				Leaders are new to the industry	1					

				Leaders are experienced in the industry but carry "negative reputation"	0					
18	**Liquidity**	Current Ratio	(Current Assets - Interest accruals, discounts, unamortised fees etc)/ (Current liabilities - ST provisions)	> 2	10	7%	2.69	10	7.00	**17%**
				>1.5 and <=2	7					
				>1 and <=1.5	4					
				<= 1	0					
19	**Liquidity**	Securitised portfolio (%)	Securitised portfolio/ Average Gross loan portfolio	>20%	10	4%	30.81%	10	4.00	
				>15 % and <=20%	8					
				>10% and <=15%	6					
				<=10%	0					
20	**Liquidity**	Cash Flow Ratio	Cash + short term investment / total assets	>15%	10	3%	7.55%		0.00	
				>10% and <=15%	7					
				>8% and <=10%	4					
				<= 8%	0					
21	**Liquidity**	Asset Coverage Ratio	((Assets – Intangible Assets) – (Current Liabilities – Short-term Debt)) / Total Debt outstanding	>=1.50	10	3%	0.82	0	0.00	
				>1.25 and <=1.50	8					
				>1.0 and <=1.25	6					

				<=1.0	0					
22	**Account Conduct**	Conduct on Previous/ Existing Loan accounts (if any) for the last 1 year	NA	Accounts running regular	10	2.5%	regular	10	2.50	**5%**
				Accounts remained irregular for less than or equal to 15 days	8					
				Accounts remained irregular for 16-30 days	6					
				Accounts remained irregular for 31-45 days	4					
				Accounts remained irregular for more than 45 days	2					
				No loan account previously	NA					
23	**Account Conduct**	Relationship with the Bank	NA	>=5 years	10	2.5%	less than one year	4	1.00	
				>=3 years and <5 years	8					
				>=1 year and <3 years	6					
				<1 year	4					
				Not satisfactory	2					
				No prior relationship	NA					
			Total						**62.60**	

Annexure -III

Internal Risk Rating for NBFC-mFI: M/s Arohan, West Bengal as on 31 March 2020

(Rs. In Cr.)

Sr. no.	Category	Parameter Name	Formula	Scoring Rule	Score	Weightage	Parameter Value	Score Obtained	Marks obtained (Score obtained *Weightage*"10") Col. 9 * Col. 7 * "10"	Category Weights
1	2	3	4	5	6	7	8	9	10	11
1	**Capital Adequacy**	Capital Adequacy Ratio (%)	CRAR % = (Capital/Risk Weighted Assets)*100	>=25%	10	10%	24.80%	8	8.00	**15%**
				>=20% and <25%	8					
				>=15% and <20%	6					
				< 15%	0					
2	**Capital Adequacy**	Leverage Ratio	Total Outside Liabilities / Owned Funds	>7	0	5%	4.49	8	4.00	
				>5.5 and <=7	2					
				>5 and <=5.5	4					
				>4.5 and <=5	6					
				>4 and <=4.5	8					
				<=4	10					
3	**Asset Quality**	Gross NPAs (%) ratio	Gross NPA/Gross Advances	>1.5%	0	7%	2.57%	-	0.00	**22%**
				>1% and <=1.50%	4					
				>0.50% and <=1%	6					
				>0% and <=0.5%	8					
				<=0%	10					

4	**Asset Quality**	Growth in GNPA (%)ratio (YoY)	Growth in GNPA (%)ratio (YoY	>150%	0	6%	289%	-	0.00	
				>100% and <=150%	2					
				>50% and <=100%	6					
				>0% and <=50%	8					
				<=0%	10					
5	**Asset Quality**	Provision Coverage Ratio (%)	(Provisions made*100)/ Gross NPA	>2	10	5%	1.64	8	4.00	
				>1.0 and <=2.0	8					
				>0.7 and <=1.0	6					
				>0.0 and <=0.7	4					
				<=0.0	0					
6	**Asset Quality**	Write Off Ratio (%)	Principal Amount Written Off / Average Outstanding Loan Portfolio	>2.00%	0	4%	0.59%	6	2.40	
				>1.00% and 2.00%	2					
				>0.75% and <=1.00%	4					
				>0.5% and <=0.75%	6					
				>0.25% and <=0.5%	8					
				<=0.25%	10					
7	**Profitability**	Return on Assets (%)	Net operating Income - Taxes / Average Assets	>=3 %	10	6%	2.96%	8	4.80	**17%**
				>=2% and <3%	8					
				>=1% and <2%	6					
				<=0%	0					
8	**Profitability**	Yield on loan portfolio (%)	Financial revenue from loan portfolio/ average gross loan portfolio	>25%	10	6%	19%	8	4.80	

				>20% and <=25%	8					
				>15% and <=20%	6					
				<=15%	2					
9	**Profitability**	Average Growth in PAT in three years (%)	Financial revenue from loan portfolio/ average gross loan portfolio	>25%	10	5%	99.66	10	5.00	
				>10% and <=25%	8					
				>5% and <=10%	6					
				<=15%	4					
				<0%	0					
10	**Business Risk**	Growth in Loan Portfolio (%)	y-o-y growth in loan portfolio	>70%	10	5%				**19%**
				>50% and <=70%	8					
				>30% and <=50%	6		20%	4	2.00	
				>10% and <=30%	4					
				<=10%	2					
11	**Business Risk**	Operating Self Sufficiency (%)	Operating revenue/ (Financial expenses + Loan-loss provision Expenses + Operating expenses)	>120%	10	3%	131%	10	3.00	
				>110% and <=120%	7					
				>100% and <=110%	4					
				<= 100%	0					
12	**Business Risk**	Cost of Funds Ratio (%)	Interest and fee expenses / Average funding liabilities	>15%	0	5%	11%	10	5.00	
				>13.5% and <=15%	4					
				>12.5% and <=13.5%	7					
				<=12.5%	10					

13	**Business Risk**	Client outreach (in lakhs) (Customers in Number)	Number of Clients (in lakhs)	>10 lakhs	10	1.50%	2305034	10	1.50	
				>5 and <=10 lakhs	6					
				<=5 lakhs	2					
14	**Business Risk**	Trend in Loans disbursement	Amount of loans disbursed during the year Vs Average loans disbursed during the last three years	Increased by >=15%	10	2%	26%	10	2.00	
				Increased by >0% and <15%	7					
				Decreased by >0% and <15%	4					
				Decreased by <=15%	0					
15	**Business Risk**	No. of clients per Loan Officer	No . Of active borrowers/ No. of staff members	>500 and <=700	10	2%				
				>450 and <=500	8					
				>350 and <=450	6		408	6	1.20	
				<=350	0					
16	**Management Risk**	Promoter's shareholding	NA	>60%	10	3%	36.51%	0	0.00	**5%**
				>40% and <=60%	5					
				<=40%	0					
17	**Management Risk**	Leadership competency	NA	Leaders are of huge reputation (>20 years of management experiences with same/multiple organizations under same industry)	10	2%		10	2.00	

				Leaders are of huge reputation (>15 to <=20 years of management experiences with same/multiple organizations under same industry)	8					
				Leaders are of huge reputation (>10 to <=15 years of management experiences with same/multiple organizations under same industry)	6					
				Leaders are of huge reputation (>5 to <=10 years of management experiences with same/multiple organizations under same industry)	4					
				Leaders are of huge reputation (>2 to <=5 years of management experiences with same/multiple organizations under same industry)	2					
				Leaders are new to the industry	1					
				Leaders are experienced in the industry but carry "negative reputation"	0					

18	**Liquidity**	Current Ratio	(Current Assets - Interest accruals, discounts, unamortised fees etc)/ (Current liabilities - ST provisions)	> 2	10	7%	1.62	7	4.90	**17%**
				>1.5 and <=2	7					
				>1 and <=1.5	4					
				<= 1	0					
19	**Liquidity**	Securitised portfolio (%)	Securitised portfolio/ Average Gross loan portfolio	>20%	10	4%	8.42%	0	0.00	
				>15 % and <=20%	8					
				>10% and <=15%	6					
				<=10%	0					
20	**Liquidity**	Cash Flow Ratio	Cash + short term investment / total assets	>15%	10	3%	13.04%	7	2.10	
				>10% and <=15%	7					
				>8% and <=10%	4					
				<= 8%	0					
21	**Liquidity**	Asset Coverage Ratio	((Assets – Intangible Assets) – (Current Liabilities – Short-term Debt)) / Total Debt outstanding	>=1.50	10	3%	0.62	0	0.00	
				>1.25 and <=1.50	8					
				>1.0 and <=1.25	6					
				<=1.0	0					
22	**Account Conduct**	Conduct on Previous/ Existing Loan accounts (if any) for the last 1 year	NA	Accounts running regular	10	2.5%		10	2.50	**5%**

				Accounts remained irregular for less than or equal to 15 days	8					
				Accounts remained irregular for 16-30 days	6					
				Accounts remained irregular for 31-45 days	4					
				Accounts remained irregular for more than 45 days	2					
				No loan account previously	NA					
23	**Account Conduct**	Relationship with the Bank	NA	>=5 years	10	2.5%		10	2.50	
				>=3 years and <5 years	8					
				>=1 year and <3 years	6					
				<1 year	4					
				Not satisfactory	2					
				No prior relationship	NA					
			Total						**61.70**	

Annexure -III

Internal Risk Rating for NBFC-mFI: ASHIRVAD, TN as on 31 March 2020

(Rs. In Cr.)

Sr. no.	Category	Parameter Name	Formula	Scoring Rule	Score	Weightage	Parameter Value	Score Obtained	Marks obtained (Score obtained *Weightage*"10") Col. 9 * Col. 7 * "10"	Category Weights
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
1	**Capital Adequacy**	Capital Adequacy Ratio (%)	CRAR % = (Capital/ Risk Weighted Assets)*100	>=25%	10	10%	25.37	10	10	**15%**
				>=20% and <25%	8					
				>=15% and <20%	6					
				< 15%	0					
2	**Capital Adequacy**	Leverage Ratio	Total Outside Liabilities / Owned Funds	>7	0	5%	4.33	8	4	
				>5.5 and <=7	2					
				>5 and <=5.5	4					
				>4.5 and <=5	6					
				>4 and <=4.5	8					
				<=4	10					
3	**Asset Quality**	Gross NPAs (%) ratio	Gross NPA/Gross Advances	>1.5%	0	7%	2.27	0	0	**22%**
				>1% and <=1.50%	4					
				>0.50% and <=1%	6					
				>0% and <=0.5%	8					
				<=0%	10					
4	**Asset Quality**	Growth in GNPA (%)ratio (YoY)	Growth in GNPA (%)ratio (YoY	>150%	0	6%	336.54	0	0	
				>100% and <=150%	2					

				>50% and <=100%	6					
				>0% and <=50%	8					
				<=0%	10					
5	**Asset Quality**	Provision Coverage Ratio (%)	(Provisions made*100)/Gross NPA	>2	10	5%	1.84	8	4	
				>1.0 and <=2.0	8					
				>0.7 and <=1.0	6					
				>0.0 and <=0.7	4					
				<=0.0	0					
6	**Asset Quality**	Write Off Ratio (%)	Principal Amount Written Off / Average Outstanding Loan Portfolio	>2.00%	0	4%	0.40	8	3.2	
				>1.00% and 2.00%	2					
				>0.75% and <=1.00%	4					
				>0.5% and <=0.75%	6					
				>0.25% and <=0.5%	8					
				<=0.25%	10					
7	**Profitability**	Return on Assets (%)	Net operating Income - Taxes / Average Assets	>=3 %	10	6%	4.63	10	6	**17%**
				>=2% and <3%	8					
				>=1% and <2%	6					
				<=0%	0					
8	**Profitability**	Yield on loan portfolio (%)	Financial revenue from loan portfolio/ average gross loan portfolio	>25%	10	6%	22.88	8	4.8	
				>20% and <=25%	8					
				>15% and <=20%	6					
				<=15%	2					
9	**Profitability**	Average Growth in PAT in three years (%)	Financial revenue from loan portfolio/ average gross loan portfolio	>25%	10	5%	117.22%	10	5	

				>10% and <=25%	8					
				>5% and <=10%	6					
				<=15%	4					
				<0%	0					
10	**Business Risk**	Growth in Loan Portfolio (%)	y-o-y growth in loan portfolio	>70%	10	5%	24.67	4	2	
				>50% and <=70%	8					
				>30% and <=50%	6					
				>10% and <=30%	4					
				<=10%	2					
11	**Business Risk**	Operating Self Sufficiency (%)	Operating revenue/ (Financial expenses + Loan-loss provision Expenses + Operating expenses)	>120%	10	3%	143.33	10	3	
				>110% and <=120%	7					
				>100% and <=110%	4					
				<= 100%	0					
12	**Business Risk**	Cost of Funds Ratio (%)	Interest and fee expenses / Average funding liabilities	>15%	0	5%	10.34	10	5	
				>13.5% and <=15%	4					**19%**
				>12.5% and <=13.5%	7					
				<=12.5%	10					
13	**Business Risk**	Client outreach (in lakhs) (Customers in Number)	Number of Clients (in lakhs)	>10 lakhs	10	2%	23.66	10	2	
				>5 and <=10 lakhs	6					
				<=5 lakhs	2					
14	**Business Risk**	Trend in Loans disbursement	Amount of loans disbursed during the year Vs Average loans disbursed during the last three years	Increased by >=15%	10	2%	18.27	10	2	

				Increased by >0% and <15%	7					
				Decreased by >0% and <15%	4					
				Decreased by <=15%	0					
15	**Business Risk**	No. of clients per Loan Officer	No . Of active borrowers/ No. of staff members	>500 and <=700	10	2%	373.19	6	1.2	
				>450 and <=500	8					
				>350 and <=450	6					
				<=350	0					
16	**Management Risk**	Promoter's shareholding	NA	>60%	10	3%	99.38	10	3	
				>40% and <=60%	5					
				<=40%	0					
17	**Management Risk**	Leadership competency	NA	Leaders are of huge reputation (>20 years of management experiences with same/ multiple organizations under same industry)	10	2%	Leaders are of huge reputation (>15 to <=20 years of management experiences with same/ multiple organizations under same industry)	8	1.6	**5%**
				Leaders are of huge reputation (>15 to <=20 years of management experiences with same/ multiple organizations under same industry)	8					

				Leaders are of huge reputation (>10 to <=15 years of management experiences with same/ multiple organizations under same industry)	6					
				Leaders are of huge reputation (>5 to <=10 years of management experiences with same/ multiple organizations under same industry)	4					
				Leaders are of huge reputation (>2 to <=5 years of management experiences with same/ multiple organizations under same industry)	2					
				Leaders are new to the industry	1					
				Leaders are experienced in the industry but carry "negative reputation"	0					
18	**Liquidity**	Current Ratio	(Current Assets - Interest accruals, discounts, unamortised fees etc)/(Current liabilities - ST provisions)	> 2	10	7%	1.42	4	2.8	**17%**
				>1.5 and <=2	7					
				>1 and <=1.5	4					
				<= 1	0					

19	**Liquidity**	Securitised portfolio (%)	Securitised portfolio/ Average Gross loan portfolio	>20%	10	4%	15.13	8	3.2	
				>15 % and <=20%	8					
				>10% and <=15%	6					
				<=10%	0					
20	**Liquidity**	Cash Flow Ratio	Cash + short term investment / total assets	>15%	10	3%	23.52	10	3	
				>10% and <=15%	7					
				>8% and <=10%	4					
				<= 8%	0					
21	**Liquidity**	Asset Coverage Ratio	((Assets – Intangible Assets) – (Current Liabilities – Short-term Debt)) / Total Debt outstanding	>=1.50	10	3%	1.23	6	1.8	
				>1.25 and <=1.50	8					
				>1.0 and <=1.25	6					
				<=1.0	0					
22	**Account Conduct**	Conduct on Previous/ Existing Loan accounts (if any) for the last 1 year	NA	Accounts running regular	10	2.50%	Accounts running regular	10	2.5	**5%**
				Accounts remained irregular for less than or equal to 15 days	8					
				Accounts remained irregular for 16-30 days	6					
				Accounts remained irregular for 31-45 days	4					
				Accounts remained irregular for more than 45 days	2					

				No loan account previously	NA					
23	**Account Conduct**	Relationship with the Bank	NA	>=5 years	10	2.50%	>=3 years and <5 years	8	2	
				>=3 years and <5 years	8					
				>=1 year and <3 years	6					
				<1 year	4					
				Not satisfactory	2					
				No prior relationship	NA					
	Total								**72.1**	

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