SMERA Comprehensive Grading

M3C3

(Above Average capacity of the MFI to manage its operations in a sustainable manner and average performance on code of conduct dimensions)

Comprehensive Grading

YVU Financial Services Private Limited

To verify the grading, please scan the QR Code

Date of Report:

27th October, 2018

Valid Till:

26th October, 2019

SMERA's MFI Grading Scale

The grading is done on 8 x 5 matrix. The matrix assesses the entity on two broad parameters:

- Capacity to manage their microfinance operations in a sustainable manner
- Performance on COCA dimensions

Scale	C1	C2	C3	C4	C5
M1					
M2					
M3			M3C3		
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of "**M3C3**". It signifies Above Average capacity of the MFI to manage its operations in a sustainable manner and Average performance on code of conduct dimensions.

To verify the grading, please scan the QR Code

Grading Rationale

Microfinance Capacity Assessment Grade	YFS obtains "**M3**" as its performance grade which signifies "Above Average capacity of the organization to carry out its activities in a sustainable manner".
Code of Conduct Assessment Grade	YFS obtains **"C3"** as its Code of Conduct Assessment Grade which signifies "Average performance on COCA dimensions''.

*Comprehensive MFI Grading provides opinion of the Rating Agency on MFI's capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. MFI Capacity Assessment Grading has been done on the dimensions of **Capital Adequacy**, **Governance**, **Management Quality** and **Risk Management Systems**. Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency**, **Client Protection**, **Governance**, **Recruitment**, **Client Education, Feedback & Grievance Redressal** and **Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour** and **Sensitive Indicators**.*

Conflict of Interest Declaration

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

Disclaimer

SMERA is a division of Acuité Ratings & Research Limited that offers various rating and grading services to MSMEs. SMERA's Ratings / Gradings / Due Diligence and other credit assessment related services are based on the information provided by the rated entity and obtained by SMERA from sources it considers reliable. Although reasonable care has been taken, SMERA/Acuité makes no representation or warranty, expressed or implied with respect to the accuracy, adequacy or completeness of any information used. SMERA/Acuité is not responsible for any errors or omissions in the Rating / Grading / Assessment or the Rating / Grading / Assessment Report. SMERA/Acuité has no financial liability, whatsoever, for any direct, indirect or consequential loss of any kind arising from the use of its Ratings / Gradings / Assessments. SMERA's Ratings / Gradings / Due Diligence and other credit assessment related services do not constitute an audit of the rated entity and should not be treated as a recommendation or opinion or a substitute for buyer's or lender's independent assessment.

Historical Rating Grades

Date	Rating Agency	Rating/Grading
03-Nov-2017	CARE Ratings	M5C3
23-Aug-2016	CARE Ratings	MFI3

SMERA's MFI Grading Scale

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

Code of Conduct Assessment scale and definitions

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

To verify the grading, please scan the QR Code

Company Profile

Name of the MFI	YVU Financial Services Private Limited	
Operational Head – Microfinance Business	Name	Mr. Bikendrajit Singh Akoijam
	Designation	Managing Director
	Mobile No.	8837080144
	Email ID	bikendrajit@yvumf.com
	Date of Joining	14th November, 2008
Date of Incorporation/Establishment	1993	
Date of commencement of microfinance business	2008	
Legal Status	NBFC MFI	
Business of the company	Microfinance Services Under Joint Liability Group (JLG) Model	
Correspondence Address	Thoubal Wangmataba, Waiview Bhawan Manipur	
Geographical Reach (As on 30/Sep/2018)	No. of States	3
	No. of Districts	8
	No. of Branches	12
	No. of Active Borrowers	19,574
	No. of Total Employees	92
	No. of Field/Credit Officers	50

Product Profile

Products	Description	Loan Size (Rs)	Interest Rate (A) (In %)	Processing Fee (B) (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
Income Generation Loan (Group)	JLG Loan	5,000 to 80,000	24.00	1.00	25.00
Income Generation Loan (Individual)	Individual Loan	5,000 to 1,00,000	24.00	1.00	25.00
Consumption Loan	Individual Loan	5,000 to 1,00,000	24.00	1.00	25.00

CAPITAL STRUCTURE (as on September 30, 2018)

Authorized Capital	In Rs.	10.00	Crore
Paid-up Capital	In Rs.	5.53	Crore

SHAREHOLDING PATTERN (as on September 30, 2018)

EQUITY SHARES	
Shareholders	**% Holding**
Ak. Bikeshwori devi	0.50
Ak. Mobi Singh	0.25
Ak. Tikendrajit Singh	5.21
Ak. Tikeshwori Devi	0.47
Akoijam Bino Devi	1.64
Bikendrajit Singh Akoijam	3.60
H. Iboyaima Singh	0.22
K. Ingobi Sharma	0.84
L. Nokul Singh	0.25
N. Satyabati Devi	0.37
North Eastern Development Finance Corporation Limited	12.42
W. Ibohal Singh	0.25
YVU Microfin	38.84
YVU Staff Mutual Benefit Trust	35.14
Total	**100.00**

Optionally Convertible Preference Shares (OCPS)	
Shareholders	**% Holding**
Small Industries Development Bank of India	100.00
Total	**100.00**

Board of Directors/Promoters Profile

Name	Position	Qualification	Brief Profile
Mr. Akoijam Tikendrajit Singh	Director	B.A.	• He has over 44 years of experience in developmental sector and over 18 years in microfinance. • He is presently working as Chief Organiser of Youth Volunteers' Union (YVU), a "National Youth Award" winner in 1986-87. He is one of the founder members of YVU, a leading NGO in North East India.

			• He is also the Chief Executive Officer of YVU Microfin (an MFI).
Prof. Ch. Ibohal Meitei	Independent Director	MBA (Aligarh Muslim University), FDP (IIMA), Ph.D.	• He is a professor at Manipur Institute of Management Studies, Manipur University. • He is also the Director of Centre for Entrepreneurship and Skill Development, Manipur University. • He has over 23 years of industry and academic experiences. He had completed a term for the directorship of Manipur Institute of Management Studies, Manipur University (2008-11). • He has attended various courses at IIM Kolkata, IIM Bangalore, IIM Kozhikode, IIM Lucknow, MDI, Gurgaon in the area of Strategic Management and Business Policy. • He has also been associating in the administrative affairs of the Manipur University in various capacities during his service in Manipur University since 1995.
Mr. W. Prabin Kumar Singh	Nominee Director (NEDFi)	MBA	• He is working as Manager, MF & MSE Department of NEDFi. • He has extensive experience in the MFI sector. • Before joining NEDFi, he was working as Senior Project Executive at North East Small Finance Bank (earlier known as RGVN) • He is also representing NEDFi in the Board of other NBFC-MFIs.

Ms. Akoijam Bino Devi	Director	B.A.	• She is an entrepreneur running business for more than 30 years. • She is also actively involved in social development activities.
Mr. Bikendrajit Singh Akoijam	Managing Director	MBA (Finance & Marketing) & Master of Professional Accounting (La Trobe University, Melbourne)	• After completing MBA, he was working in a stock broking company for 1 year. He joined YVU Microfin (an MFI) in 2008 as General Manager and worked there till 2010. • He is serving as General Secretary of MiFAM (Micro Finance Association of Manipur). • He is also an executive member of NEMFA (North East Microfinance Association). • He is also a director in three other companies namely; Swel Finvest Private Limited, YVU Milk Producer Company Limited and Leichal Media & Entertainment Private Limited.
Mr. M. Rajendra Singh	Independent Director	Master of Veterinary Science	• He is the retired Joint Director of Veterinary and Animal Husbandry Department. • He is also the Chairman of All Manipur Government Employees Union. • He is also involved in the activities of many NGOs.
Mr. V. Nagaraja	Independent Director	M.Com	• He was associated with Brickwork Ratings till January 2017, as Head-Ratings, since April 2009. From February 2017 he was appointed as member of their External Rating Committee. • He is serving as a Professional/Independent Director on the Boards of RORS Finance Private

			Limited, Hindusthan Microfinance Private Limited and Unnati Microfin Private Limited. • Earlier he has worked with Punjab National Bank for more than 37 years and retired as Chief General Manager. • He headed PNB Capital Services Ltd., New Delhi, a Merchant Banking and NBFC subsidiary of PNB, as its Managing Director for about four and half years. • He is the member of the empowered Committee constituted by the Reserve Bank of India to monitor the functioning of Regional Rural Banks in the States of Punjab, Haryana and Himachal Pradesh. • He was also a member of the Committee on Improvement in Concurrent Audit system of Commercial Banks. He was also a member of the Committee of Procedures, Performance Audit and Customer Service.

Management's Profile

Name	Position	Qualification	Brief Profile
Mr. N. Premananda Singh	General Manager - Operation	M.Sc.	He has been associating with YFS for the last 10 years holding various positions ranging from Branch Manager, Regional Manager to Operation Manager till he got promoted to General Manager – Operation.

Mr. M. Premkumar Singh	Finance Manager	M.Com	He has been associating with YFS for the past 9 years and is experienced as he is associated with Branch operation as System Assistant cum Accountant. He has also handled the MIS before being transferred to Finance Department.
Mr. Ak. Jagdish Singh	MIS Manager	MCA	He joined YFS in 2015. He was the MIS assistant before promoting to MIS Manager.
Mr. Ak. Premananda Singh	HR Manager	M.A. (Psychology)	He joined YFS in 2015.He was acting as Office Manager before joining HR Department.
Mr. Irom Ananda Singh	Regional Manager	Graduate	He has 14 Years of experience in Microfinance sector.
Mr. Konsam David Singh	Regional Manager	MBA	He has 2 years of experience in MFI sector.
Mr. Nongmaithem Bikramjit Singh	Accountant	Graduate	He has 6 years of experience in MFI sector.
Ms. Waikhom Brojeshori Devi	System Assistant	B.Sc.	She has 2 years of experience in MFI sector.

HIGHLIGHTS OF MICROFINANCE OPERATIONS

Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	30/Sep/2018
No. of States	2	2	3	3
No. of Districts	5	6	7	8
No. of Branches	7	8	12	12
No. of Active Members	7,927	9,806	14,967	19,574
No. of Active Borrowers	7,927	9,806	14,967	19,574
No. of Total Employees	46	52	74	92
No. of Field/Credit Officers	26	30	46	50
No. of SHGs				
No. of JLGS	1,308	1,515	1,395	1,858
No. of Individual Loans	916	704	1,184	1,240
OWNED PORTFOLIO				
Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	30/Sep/2018
Total loan disbursements during the year (in crore)	13.69	16.43	25.21	19.96
Total portfolio outstanding (in crore)	8.35	10.28	18.81	24.38

Compliance with RBI's Directives for MFIs

RBI's Direction	Company Status	Compliance
85% of total assets to be in the nature of qualifying assets	Qualifying assets forms 97.53% of total assets as on September 30, 2018.	Complied
Net worth to be in excess of Rs 5 Crore (Rs. 2 Crore for NBFC-MFI registered in North-East India)	Net Owned Funds stood at Rs. 5.95 crore as on September 30, 2018.	Complied
Income of borrower not to exceed Rs. 100,000 in the rural areas and Rs. 160,000 in the urban and semi-urban areas	YFS extends loans to borrowers whose income does not exceed Rs.1,00,000 in the rural areas and Rs.1,60,000 in the urban areas.	Complied
Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles	YFS offers loan in the range of Rs 10,000 to Rs 40,000 depending on client repayment capacity, type of activity etc.	Complied
Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)	YFS conducts credit bureau check on the loans outstanding from other MFIs. The company ensures the total indebtedness of the borrower does not exceed Rs.1,00,000.	Complied
Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty	Tenure of loans is not less than 24 months for loan amount in excess of Rs 30,000.	Complied
Pricing guidelines are to be followed	The maximum interest on loan products offered by VCCL is 24.00% on reducing basis.	Complied
Transparency in interest rates to be maintained	Interest, Processing fees and insurance premium charged are duly mentioned in the loan card provided to the client.	Complied
Not more than two MFIs lend to the same client	YFS verifies the same through credit check from credit bureaus.	Complied

RBI's Direction	Company Status	Compliance
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	YFS is charging processing fee of 1.00% on the disbursed loan amount plus applicable service tax.	Complied
Collateral free loans	YFS does not accept any Collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	YFS does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	YFS does not take late payment or prepayment penalties from the clients.	Complied
Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.	YFS shares its client data with all the credit bureaus.	Complied
Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs	YFS provides more than 50% of total loans for income generation activities as on September 30, 2018.	Complied
NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 percent of its aggregate risk weighted assets.	YFS has a CRAR of 30.82% as on September 30, 2018.	Complied
The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1% of the outstanding loan portfolio or b) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more'.	The statutory auditor has certified the appropriate provisions have been made.	Complied

Section 1: Microfinance Capacity Assessment Grading

Operating Environment

- SMERA estimates the MFI sector to grow at a CAGR of 20%-25% and is expected to touch Rs.170000 crore by the end of FY2019.

- MFIs have reported an increase of ~15% in average loan amount disbursed per account during Q2 FY 17-18 as compared to Q2 FY 16-17.SMERA believes seasoned customer profile over multiple loan cycles have helped MFIs to increase its loan ticket size.

- The fund flow to the sector has improved on account of increased confidence on MFI sector coupled with reduction in interest rate (100-150 bps). Further large MFIs are exploring the route of Non-convertible debentures (NCDs) and Pass through Certificates (PTCs); whereas small –mid size MFIs have an increased access to funds from banks and financial institutions.

- Support systems such as Self-Regulatory Organizations (SRO), Credit Information Bureaus (CIB) among others have been established to ensure credit check and process adherence among MFIs. This regulatory framework has brought more accountability and transparency within the sector.

- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which has moderated microfinance sector growth in FY2016-17 as compared to the previous year. Post demonetization Asset Quality has declined, however it has improved and Portfolio at Risk (PAR) > 30 stood at 5.98% in Q3 FY 17-18.

Long track record of microfinance operations and extensive industry experience of promoters

- YVU Financial Services Private Limited (YFS) started its operation in the year 1996 in the name of Youth Volunteers' Union (YVU). As per the guidance provided by the Governing Board Members of Youth Volunteers' Union, Chand Fairdeal Financiers Private Limited' (CFFPL), an NBFC was acquired in 2007-08 with the aim of transforming its microfinance operation into an NBFC and thereby expand its microfinance outreach. In May 2012, CFFPL was renamed YVU Financial Services Pvt. Ltd.
- YFS's core management team and second line of management has an adequate understanding of MFI ecosystem with rich experience in social development. Mr. Bikendrajit Singh Akoijam, Managing Director of YFS has more than 10 years of experience in Microfinance sector and social development sector.

- YFS has seven-member on its board as on Sep 30, 2018 having extensive experience in the microfinance and social development segment.

Diversified Resource Profile

- YFS has developed funding relationships with 8 lenders (including PSU Banks/Private Bank/NBFCs). These relationships have helped YFS in meeting its funding requirements to meet the projected growth; however their resources profile continues to remain concentrated towards borrowings from NBFCs/FIs.

- The overall cost of funds (COF) for YFS stood comfortable at 12.35% as on March 31, 2018 as compared to 11.35% in the previous year. The loans availed from banks/NBFCs/FIs carry relatively higher interest rate in the range of 14.75%-15.50%.

Moderate capitalisation and comfortable liquidity profile

- YFS has moderate networth of Rs.6.55 crore as on March 31, 2018. Capital adequacy ratio (CAR) of YFS stood at 34.87 per cent as on Mar 31, 2018 as against CAR of 45.88 per cent as on March 31, 2017. The leverage of the company stood comfortable at 2.42 times as on March 31, 2018; however it has increased from 1.49 times in the previous year due to increased borrowing in the last financial year.

- YFS has a moderate liquidity position. The tenure of loans is of 12-24 months, whereas the incremental bank funding is typically with tenure of about 12-24 months. However regular flow of funds is critical to maintain the projected growth and the same would have a key bearing on its liquidity profile.

Sound Asset Quality

- YFS has a sound asset quality marked by on-time repayment rate of 99.98% as on 30th September, 2018. The companies' on-time repayment has been stable compared to 99.96% as on 31st March, 2018.

Period	FY 2016	FY 2017	FY 2018	30/Sep/2018
	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)
On-time	8.3431	10.2389	18.8041	24.3713
1-30 days	0.0005	0.0044	0	0
31-60 days	0	0.0226	0	0
61-90 days	0	0.0001	0	0
91-180 days	0.0082	0.0055	0.0017	0
181-360 days	0	0.0030	0	0.0017
> 360 days	0	0.0081	0.0043	0.0041
Write-off	0.0013	0	0.0114	0
Total	**8.35**	**10.28**	**18.81**	**24.38**

- The PAR 0-30 days stood at 0.00% as on 30th September, 2018 as compared to 0.00% as on 31st March, 2018. The PAR >30 days stood at 0.02% as on 30th September, 2018 as compared to 0.03% as on 31st March, 2018.
- Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the entity to keep asset quality indicators under control.

Moderate geographical concentration

- YFS's operations are spread in three states i.e. Manipur, Assam and Tripura. As on September 30, 2018, YFS's portfolio is concentrated in the state of Manipur accounting for ~ 77 percent, and ~ 23 percent in other two states i.e. Assam and Tripura.

Name of the State	No. of Branches	No. of Borrowers	Portfolio o/s (in crore)	PAR % (>30 days)	% of Total Portfolio o/s
Manipur	9	15,984	18.96	0.03	77.76
Assam	2	3,090	4.78	0.00	19.62
Tripura	1	500	0.64	0.00	2.61
Total	**12**	**19,574**	**24.38**	**0.02**	**100.00**

- It would be key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

Improvement in operational performance in FY2018

- YFS has reported net profit of Rs. 31.06 lakh on operating income of Rs. 3.24 crore in FY2018. In FY2017, YFS had reported net profit of Rs.27.26 lakh on operating income of Rs.2.38 crore in the previous year.

- As on September 30 2018, the YFS has an outstanding loan portfolio of Rs. 24.38 crore spread over 12 branches of 3 states with about 19,574 borrowers. The companies' portfolio outstanding witnessed a growth of ~83% in FY2018 over the previous year.
- Yield on Portfolio of YFS has improved to 24.98% in FY 2018 as compared to 23.19% in FY 2017.
- The operational self-sufficiency (OSS) of the company stood at 115.04% in FY2018 as compared to 120.14% in the previous year. The company's operating expense stood comfortable at 10.86 % in FY2018.

Adequate MIS & IT infrastructure considering the current scale of operations

- YFS's management information system (MIS) and Information Technology (IT) infrastructure is adequate for its current scale of operations. YFS's management information system (MIS) and Information Technology (IT) infrastructure is adequate for its current scale of operations. It has dedicated MIS and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches. The company uses customised software ''BIJLI'' to maintain its MIS in Head Office and branches.

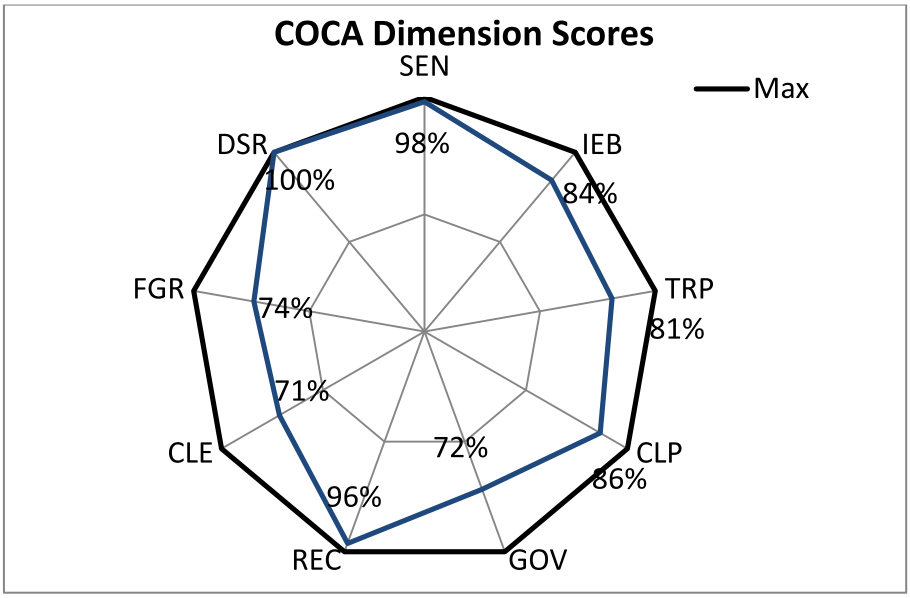
- The company also has an internal audit team which undertakes branch and borrower audit once in every quarter.

Inherent risk prevalent in the microfinance sector

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

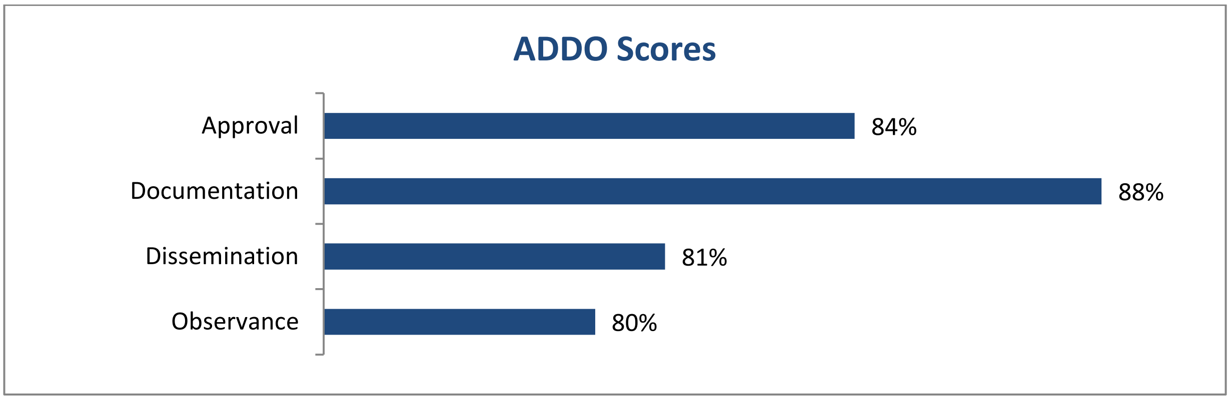
Section 2: Code of Conduct Assessment

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



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	98%
Integrity and Ethical Behavior	IEB	84%
Transparency	TRP	81%
Client Protection	CLP	86%
Governance	GOV	72%
Recruitment	REC	96%
Client Education	CLE	71%
Feedback & Grievance Redressal	FGR	74%
Data Sharing	DSR	100%



YFS with an overall grade of “C3”, indicate **Average** Performance on Code of Conduct dimensions.

Code of Conduct Assessment Summary

The Code of Conduct report for YFS evaluates the company's adherence to various code of conduct parameters. The study examines and comments upon the common minimum indicators such as:

- Sensitive Indicators
- Integrity and Ethical Behaviour
- Transparency
- Client Protection
- Governance
- Recruitment
- Client Education
- Feedback and Grievance Redressal
- Data Sharing

SMERA believes that YFS exhibits **Average** performance on COCA dimensions. This document details SMERA's approach and methodology for this study and gives observations of its assessment team while conducting the evaluation. The Approval; Documentation; Dissemination and Observance (ADDO) framework has been used for assessment and measuring YFS's adherence towards ethical operational practices.

Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
• Board approved policies, compliant with the RBI guidelines. • YFS has seven-member on its board as on September 30, 2018 having extensive experience in the Microfinance and Social Development Sector. • Membership with Sa-Dhan. • Developed its own client protection principles and is displayed in all the branches. • Circulars with the most recent directions were available in each of the visited branches. • Credit policies are well established documented and communicated • Adequate loan appraisal & monitoring systems. • Code of Conduct framed as per the YFS mission, vision, values are displayed in all branch offices & HO. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower. • YFS complies with all RBI guidelines. • Awareness among clients on interest charges and grievance redressal mechanism was found to be moderate to high in the branches visited. • Adequate Management Information System (MIS) and Information Technology (IT) considering the current scale of operations and projected growth.	• Awareness among the staff on RBI compliance was found to be moderate. • Awareness among clients on insurance claim settlement was found to be moderate in the branches visited.

Significant Observations

HIGHER ORDER INDICATORS	
Integrity and Ethical Behaviour	• The MFI have the policy to place reports on COC compliance before the board. • Audit findings related to grievance and field audit are presented to the board. • Board has approved a policy of recovering delinquent loans. • Defined policy on time frame and process for client's complaint resolution. • Framed client protection included policies on expected staff conduct with employees. • The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year and the same has been documented in HR manual. • In all the branches visited, the contact number and address of SRO nodal official was properly displayed. • Staff compensation and incentive is not covered under scope of Internal Audit. • Awareness among client on SRO Grievance Redressal mechanism was found to be moderate. • Fixed Component compensation of staff is not impacted in event of overdues. YFS, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.
Sensitive Indicators	• In the sample of clients during COCA on the total indebtedness of borrower was within the prescribed limit stipulated by RBI. • Interactions with clients revealed that they had not been made to pay for a service or product as a precondition for loan. • Not a single instance was found where security deposit/collateral/blank cheques/stamp papers had been obtained from a client, whose loan has been classified as a microfinance loan. • Awareness to its clients/members pertaining to interest rate and grievance redressal mechanism found moderate to high. • YFS provides sanction letter with all terms and conditions of the loan including annualized interest rates to the clients. • YFS provide repayment schedule to the clients including break-up of principle and interest. • Awareness among the staff on RBI compliance was found to be moderate. • There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • YFS shares data with all the credit bureaus. • YFS does not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no

	penalty is charged for overdue and pre-closure of loans. • The MFI get an external CA agency to certify its compliance with RBI's directions in relation to margin for lending by MFIs to qualify as priority sector loans.

BUILDING BLOCKS	
Transparency	• Branch staffs have received training or orientation from a senior staff regarding the documents to be provided to clients. • YFS has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages. • Circulars with the most recent directions were available in the visited branches. • YFS, in its fair practices code provides importance for transparency in pricing and clear communication to the clients. • The loan interest rate and processing fees is mentioned on the loan card provided to the client. • Clients interviewed were aware of the charges and price for all services availed. • The MFI has well documented pre-closure policy. • YFS does not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans. • YFS provides sanction letter with all terms and conditions of the loan including annualized interest rates to the clients. • Financial data for FY 2017-2018 is available on the website of YFS. • YFS provide repayment schedule to the clients including break-up of principle and interest.
Client Protection	• YFS have a board-approved policy regarding client data security. • Employees are trained on aspects of appropriate behavior with the clients. • YFS has documented policy on client data security which forms part of its fair practice code. • Framed client protection included policies on expected staff conduct with employees. • Staffs were found to be aware of the need to have professional conduct with the clients. • Internal Audit checklist should cover more aspects like awareness regarding Reserve Bank of India (RBI) compliance and Self-Regulatory Organization (SRO) among its staff members. • Awareness among the branch staff on RBI compliance was found to be moderate.
Governance	• YFS has seven-member on its board as on September 30, 2018 having extensive experience in the Microfinance and Social Development segment.

	• Audit findings related to grievance and field audit are presented to the management. • The MFI have the policy to place reports on COC compliance before the board. • The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year. • No adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit. • There is board approved reschedulement policy and procedure in YFS.
Recruitment	• YFS'S Board has reviewed its recruitment policies at least once annually. • There is documentary evidence to suggest that MFI has honored the notice period for all employees who have left it. • MFI obtain NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs. • The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year and the same has been documented in HR manual.
Client Education	• YFS, in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services. • YFS does not charge clients for the trainings provided to clients, itself or through a related party. • Awareness to its clients/members pertaining to interest rate and insurance claim settlements found average.
Feedback and Grievance Redressal	• The Board has approved a policy for Redressal of its clients' grievances, which requires board to be updated on the functioning of grievance Redressal mechanism. • YFS has a policy on time frame and process for client's complaint resolution. • Clients were found to be aware of the helpline number. • In all the branches visited, the contact number and address of SRO nodal official was properly displayed. • It has an effective system to record complaints received at the complaint helpline number. • Awareness among client on insurance claim settlement process mechanism was found to be moderate. • YFS prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review.
Data Sharing	• YFS have a documented process for sharing data with the credit bureaus. • YFS shares data with all the credit bureaus. • Financial data and operational data for FY 2018 are available on the website of YFS. • YFS has provided data called for by RBI and SRO.

ANNEXURES

Microfinance Grading Methodology

A) Operational Track Record

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

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

B) Promoters & Management Profile

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

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

C) Financial Performance

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

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

D) Asset Quality

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

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

E) System & Processes

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

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

COCA Methodology

The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non-Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and Smart Campaign's Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

Highest Order	
Sensitive Indicators	
Higher Order	
Integrity & Ethical Behaviour	
Building Blocks	
Governance	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	Data Sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	26
Building Blocks	**Number of Indicators**
Transparency	40
Client Protection	122
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
Total	**250**

Methodology

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

Sampling guidelines

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

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid-size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers) and having gross loan portfolio (GLP)> Rs 500 crore	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment exercise requires:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, SMERA visited following branches of the MFI. The details of the branches visited are provided below.

Sr. No.	Branch	State	No of clients interviewed
1	Wangjing	Manipur	19
2	Chingamakhong	Manipur	18
3	Moirang	Manipur	19
4	Awang	Manipur	21
5	Thoubal Khunou	Manipur	18
6	Mayang	Manipur	25
7	Nambol	Manipur	15
8	Porompat	Manipur	18
9	Kakching	Manipur	17
Total			**170**

Financials

Profit & Loss Account (Rs. In Thousands)

Period	FY 2016	FY 2017	FY 2018
Months	12	12	12
Financial revenue from operations	**19,854**	**23,845**	**32,380**
Less - Financial expenses from operations	5,258	7,985	12,448
Gross financial margin	**14,596**	**15,860**	**19,932**
Provision for Loan Loss / Write off	(44)	193	852
Net financial margin	**14,640**	**15,667**	**19,080**
Less - Operating Expenses			
Personnel Expense	7,951	8,801	10,447
Depreciation and Amortization Expense	376	443	402
Other Administrative Expense	2,942	2,482	3,997
Net Operating Income	**3,371**	**3,941**	**4,234**
Income Tax	1,218	1,221	1,267
Deffered Tax	(167)	(6)	(139)
Net Income	**2,320**	**2,726**	**3,106**

Note: Above financials are taken from audited accounts provided by the management.

Balance Sheet (Rs in Thousands)

As on date	31/Mar/2016	31/Mar/2017	31/Mar/2018
SOURCES OF FUNDS			
Capital			
Share Capital	**34,394**	**34,394**	**49,394**
Retained earnings			
Prior Years	4,489	6,809	8,990
Current Year	2,320	2,181	2,485
Reserves & Surplus	1,702	2,247	2,869
Security Premium	1,803	1,803	1,803
Total Equity	**44,708**	**47,434**	**65,541**
Liabilities			
Short-Term Liabilities			
Account payable & Other short-term liabilities	1,130	1,390	1,961
Total Short-Term Liabilities	**1,130**	**1,390**	**1,961**
Long-Term Liabilities			
Long-Term Borrowings			
Commercial Loans from banks/FI	50,575	70,714	1,58,698
Total Long-Term Borrowings	**50,575**	**70,714**	**1,58,698**
Total Other Liabilities	**51,705**	**72,104**	**1,60,659**
Provisions	**2,316**	**2,321**	**3,273**
TOTAL LIABILITIES	**98,729**	**1,21,859**	**2,29,473**

As on date	31/Mar/2016	31/Mar/2017	31/Mar/2018
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	**1,807**	**2,239**	**2,524**
Less: Accumulated Depreciation	901	1,152	1,364
Net Block	**906**	**1,087**	**1,160**
Cash and Bank Balances	2,849	3,464	15,856
Security Deposits	8,592	11,313	15,563
Investment in Fixed Deposit	0	0	4,500
Loan Portfolio			
Net Loan Portfolio	**83,516**	**1,02,826**	**1,88,101**
Accounts Receivable And Other Assets	2,187	2,692	3,685
Intangible Assets	390	198	190
Deferred Tax Asset	289	279	418
TOTAL ASSETS	**98,729**	**1,21,859**	**2,29,473**

Financial Ratios

Financial Ratios	31/Mar/2016	31/Mar/2017	31/Mar/2018
Capital Adequacy Ratio (CAR)			
Capital Adequacy Ratio (%)	52.92	45.88	34.87
Productivity / Efficiency Ratios			
No. of Active Borrowers Per Staff Member	172	189	202
No. of Active Borrowers per field executives	305	327	325
Gross Portfolio o/s per field executive (Rs in thousands)	3,030	3,493	3,414
Average Outstanding Balance Per borrower (In Rs)	10,534	10,483	12,568
Cost Per Active borrower (In Rs)	682	626	780
Asset / Liability Management			
Yield on Portfolio (%)	23.77	23.19	24.98
Cost of Fund (COF) (%)	10.28	11.24	12.35
Profitability / Sustainability Ratios			
Operational Self Sufficiency (%)	121.54	120.14	115.04
Operating Expense Ratio (OER) (%)	13.34	11.61	10.86
Return on Assets (RoA) (%)	2.78	2.65	1.65
Portfolio at Risk (>30 days) (%)	0.11	0.38	0.03
Return on Equity (RoE) (%)	6.75	7.93	9.03
Leverage Ratios			
Total Outside Liabilities to Tangible Networth Ratio (Times)	1.16	1.52	2.45
Debt/Equity Ratio (Times)	1.13	1.49	2.42

About SMERA

SMERA is a division of Acuité Ratings & Research Limited dedicated to providing SME ratings & grading services to MSMEs. SMERA began its operations in year 2005 as SME Rating Agency of India Limited, a joint initiative of Small Industries Development Bank of India (SIDBI), Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector Banks in India. SMERA is empanelled for 'Performance & Credit Rating Scheme for Micro & Small Enterprises' of the Ministry of MSME, Government of India, administered by the National Small Industries Corporation (NSIC).
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