



SMERA Comprehensive Grading

M3C2

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

SMERA Comprehensive Grading

YVU Financial Services Private Limited
(YFS)



To verify the grading, please scan the QR code

Date of Report:

31st October, 2019

Valid Till:

29th October, 2020

SMERA's MFI Comprehensive 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		M3C2			
M4					
M5					
M6					
M7					
M8					

- The MFI obtains comprehensive MFI grading of “**M3C2**”. It signifies **above average** capacity of the MFI to manage its operations in a sustainable manner and **good** performance on code of conduct dimensions.



To Verify the Grading, please scan the QR code

Grading Rationale

Microfinance Capacity Assessment Grade	YVU Financial Services Private Limited obtains “ M3 ” as its performance grade which signifies “high capacity of the organization to carry out its activities in a sustainable manner”.
Code of Conduct Assessment Grade	YVU Financial Services Private Limited obtains “ C2 ” as its Code of Conduct Assessment Grade which signifies “good 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**.*

Disclaimer: MFI grading is not a comment on debt servicing ability, not a buy-sell recommendation and must not be used for raising fund.

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
27-Oct-2018	SMERA	M3C3
03-Nov-2017	CARE Ratings	M5C3
23-Aug-2016	CARE Ratings	MFI3

Microfinance Capacity Assessment Grading Symbols and Definitions

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

Code of Conduct Assessment scale and definitions

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



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Company Fact Sheet

Name of the MFI	:	YVU Financial Services Private Limited (YFS)	
Operational Head – Microfinance Business	:	Name	Mr. Bikendrajit Singh Akoijam
	:	Designation	Managing Director
	:	Mobile No.	(91) 8837080144
	:	Email ID	bikendrajit@yvumf.com
Date of Incorporation/Establishment	:	12 th August, 2016	
Date of commencement of microfinance business	:	9 th July, 1993	
Legal Status	:	NBFC – MFI	
Business of the company	:	Microfinance Services Under Joint Liability Group (JLG) Model	
Correspondence Address	:	Waiview Bhawan, Thoubal Wangmataba, Thoubal, Manipur – 795138	
Geographical Reach (As on 30/Sep/2019)	:	No. of States	3
	:	No. of Districts	9
	:	No. of Branches	15
	:	No. of Active Borrowers	26,561
	:	No. of Total Employees	128
	:	No. of Field/Credit Officers	64
No. of Lenders	:	8 lenders (including Bank and institutional lenders)	
Statutory Auditors	:	D. Pathwary & Co., Guwahati	

Background:

The promoters of YVU Financial Services Private Limited (YFS) started providing microfinance services 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.

Product Profile

Product	Description	Loan size (Rs.)	Repayment (in Months)	Interest Rate (In %) Reducing Balance	Processing Fees (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
Income Generation Loan (Group)	JLG Loan	5,000 to 80,000	12- 24	24.00% (Manipur Based Branches) or 24.90% (Assam and Tripura Based Branches)	1.00	25.00 or 25.90%
Income Generation Loan (Individual)	Individual Loan	5,000 to 1,00,000	12- 24	24.00% (Manipur Based Branches) or 24.90% (Assam and Tripura Based Branches)	1.00	25.00 or 25.90%
Consumption Loan	Individual Loan	5,000 to 50,000	12- 24	24.00% (Manipur Based Branches) or 24.90% (Assam and Tripura Based Branches)	1.00	25.00 or 25.90%

Capital Structure as of 30/Sep/2019

Authorized Capital	Rs. 10.00 crore
Paid Up Capital	Rs. 6.53 crore

Shareholding Pattern

Shareholders –Equity Shares as on 30/Sep/2019

Name of Proprietor/ Partner / Shareholders	Shares in %
YVU Microfin	38.84
YVU Staff Mutual Benefit Trust	35.14
Tikendrajit Singh Akoijam	5.21
Bikendrajit Singh Akoijam	3.6
Akoijam Bino Devi	1.64
North Eastern Development Finance Corporation Limited	12.42
Akoijam Bikeshwori Devi	0.5
Akoijam Ibochouba Singh	0.25
Akoijam Tikeswori Devi	0.47
Huirongbam Iboyaima Singh	0.22
Kongbrailatpam Ingobi Sharma	0.84
Longjam Nokul Singh	0.25
Ningombam Satyabati Devi	0.37
Waikhom Ibohal Singh	0.25
Total	100.00

Optionally Convertible Preference Shares (OCPS)	
Shareholders	% Holding
Small Industries Development Bank of India	60.00
North Eastern Development Finance Corporation Limited	40.00
Total	100.00

Promoters/Directors Profile

Name of Director	Designation	Qualification	Profile
Mr. Tikendrajit Singh Akoijam	Director	B.Sc.	• He has over 49 years of experience in developmental sector and over 21 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).
Mr. Bino Devi Akoijam	Director	B.A.	• She is an entrepreneur running business for more than 31 years. • She is also actively involved in social development activities.
Mr. Bikendrajit Singh Akoijam	Managing Director	MBA (IIPM) & Master of Professional Accounting (La Trobe University)	• He has over 9 years' of experience in MFI Sector. • He is one of the founding members of MiFAM (Micro Finance Association of Manipur). He is currently 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. Wahengbam Prabin Singh	Nominee Director (NEDFi)	MBA	• He is working as Assistant General 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.
Mr. Ibohal Meitei Chingakham	Independent Director	MBA, PhD	• 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 24 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. Maibam Rajendra Singh	Independent Director	B.V.Sc. And A.H.	• 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. Nagaraja Vekantaramiya	Additional Director (non-executive & Independent)	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.
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SMERA Observations:

- YFS has seven-member board. Board members have adequate experience in microfinance, Banking, finance, risk and development sectors.
- There has been no change in the board profile since the previous grading assessment. More than 30% board comprises of independent directors.
- SMERA believes that a well-diversified board, including a proportionate composition of independent directors, augurs well from a strategic perspective.

Management's Profile

Name	Position	Qualification	Brief Profile
M. Premkumar Singh	Finance Manager	M.Com	He has been associating with YFS since 2008 and has over 11 years of working experience in the field of microfinance. He has experience in data mining with skills of Programing Language like C#, php and Python and SQL. He has also handled the MIS as MIS Manager before being transferred to Finance Department.
Ak. Jagdish Singh	MIS Manager	MCA	He has technical expertise in Hardware, Software and Networking. He is proficient in data mining, data processing and data handling with skills of Programing Language like Python, Java, C, C++, Visual Basic etc. He has been working with this company since 2015.
K. David	Assistant General Manager – in charge	MBA	He has 3 Years of experience in Microfinance sector. He joined the company as Branch Manager. He was then promoted to Regional Manager. He is currently working in the position of Assistant General Manager (in-charge) of the company. Regional Managers of the Company report to him.
Mr. Irom Ananda Singh	Regional Manager	B.Sc	He has 15 Years of experience in Microfinance sector. Before he was promoted to Regional Manager, he had served the company for over a decade as Branch Manager.
Dimbeshwar Brahma	Regional Manager	Graduate	He has 4 Years of experience in Microfinance sector. Over the years, he has served the Company in various capacities.

Laishram Bidyakiran Devi	HR Manager	MBA	She has six months of experience in Microfinance sector. Before she was promoted to HR Manager she had served the company as Branch Manager.
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SMERA Observations:

- YFS senior management has extensive senior management team has extensive experience across sectors such as microfinance, banking, finance, audit, risk and development and MIS experts.
- A majority of the senior management members have been associated with it for long tenure and have risen from ranks.
- YFS has dedicated department wise / function wise heads and no major functional overlaps have been observed.
- The senior management reports to the MD, except in areas of internal audit, in which case they report directly to the board of directors.

Highlights Of Microfinance Operations

Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	30/Sep/2019
No. of States	2	3	3	3
No. of Districts	6	6	9	9
No. of Branches	8	11	15	15
No. of Active Members	9,806	14,967	25,350	26,561
No. of Active Borrowers	9,806	14,967	25,350	26,561
No. of Total Employees	52	74	121	128
No. of Field/Credit Officers	30	46	61	64
No. of JLGS	4,461	6,994	9,131	9,551
No. of Individual Loans	7,044	1,184	1,182	1,111
Owned Portfolio				
Particulars	31/Mar/2016	31/Mar/2017	31/Mar/2018	31/Mar/2019
Total loan disbursements during the year (in crore)	16.47	27.76	52.80	26.59
Total portfolio outstanding (in crore)	10.28	18.81	37.07	40.07

Loan utilisation schedule:

Loan Utilisation	31/Mar/2017 (%)	31/Mar/2018 (%)	31/Mar/2019 (%)	30/Sep/2019 (%)
Agriculture	0.01	0.35	2.48	2.80
Cattle	2.96	2.99	4.06	4.22
Business	97.02	96.66	93.45	92.98
Consumption	0.01	0.00	0.004	0.00
Total	100	100	100	100

SMERA Observations:

- More than 99% of the disbursed loan has been utilised for income generating purpose throughout the period of study.
- More than 90% of the disbursed loan has been used for business purpose.

Compliance with RBI's Directives for MFIs

RBI's Direction	YFSs Status	Compliance
85% of total assets to be in the nature of qualifying assets	Qualifying assets forms 96.33% of total assets as on 30/Sep/2019.	Complied
Net worth to be in excess of Rs 5 Crore	Net worth of YFS stood at Rs. 9.37 Crore as on 30/Sep/2019.	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 households whose income does not exceed Rs 100,000 in rural and Rs 160,000 in 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 5,000 to Rs 15,000 in first cycle and Rs 20,000 to Rs 80,000 in subsequent cycles 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 check on the loans outstanding through credit bureaus.	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, with prepayment without penalty.	Complied
Pricing guidelines are to be followed	Loans are provided at a rate of 24.00% on reducing balance basis which meets the RBI criteria.	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	YFSs 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 Crif Highmark, Equifax, Experian and CIBIL.	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 99% of total loans for income generation activities as on 30/Jun/2019.	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.	CRAR of YFS stood at 24.25% as on 30/Sep/2019 which complies with the minimum CRAR requirement of 15% for NBFC-MFIs as prescribed by RBI. YFS does not have any exposure in Andhra Pradesh.	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 instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments 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 25%-30% and is expected to touch Rs. 2,35,000 – 2,45,000 crore by the end of FY2020.
- MFI industry has reported a robust growth of ~38% in gross loan outstanding in FY2019 as compared to FY2018. Total gross loan outstanding of MFI sector stood ~ Rs.188000 crore by the end of FY2019. SMERA believes seasoned customer profile over multiple loan cycles along with the inclusion of fresh borrowers have helped MFI industry to increase its total loan outstanding.
- The fund flow to the sector has improved on account of increased confidence on MFI sector. 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, Financial Institutions and Business Correspondent partners. SMERA believes that the RBI guidelines on co-origination of priority sector loans by NBFCs and banks are significant step towards an efficient framework for micro lending in India. SMERA estimates Rs. 25,000-30,000 crore of potential lending every year under this origination mechanism over the medium term. Further the process of acquisition of smaller MFIs by the larger MFIs and Banks is likely to continue in the current financial year.
- 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, the recent NBFC crisis in September 2018 has restrained MFIs' fund mobilization process which has moderated MFI sector growth in the last two quarters of FY2018-19 as compared to the previous year. Asset Quality has improved and Portfolio at Risk (PAR) > 30 stood at 1.73% as on 31st March, 2019. *(Data Source - MFIN)*

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

- The promoter of YVU Financial Services Private Limited (YFS) started microfinance 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 9 years of experience in Microfinance sector and social development sector.
- YFS has seven-member on its board as on Sep 30, 2019 having extensive experience in the microfinance and social development segment.

Diversified resource profile

Resource Profile	%(as on 31/03/2018)	%(as on 31/03/2019)
Banks	19	30
FIs	64	28
NBFCs	17	42
Total	100	100

- YFS has developed funding relationships with 8 lenders (including Private Bank/NBFCs/FIs). 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.
- The overall cost of funds (COF) for YFS stood comfortable at 13.80% as on March 31, 2019 as compared to 13.48% in the previous year. The loans availed from NBFCs carry relatively higher interest rate in the range of 14.75%-15.50%.

Moderate capitalisation and comfortable liquidity profile

Capital Adequacy	% (as on 30/Sep/2019)
Tier -I Capital (A)%	17.26
Tier -II Capital (B)%	6.99
Capital to risk adjusted ratio (CRAR) (%) (A+B)	24.25

- YFS Microfinance has moderate capitalization marked by total equity capital of Rs. 7.85 crore as on March 31, 2019 as compared to Rs. 6.55 crore in the previous year on account of capital infusion and internal accruals. The company's gearing has increased to 4.69 times as on March 31, 2019 as compared to 2.42 times in the previous year on account of increased borrowings from the lenders.
- YFSs capital adequacy ratio (CRAR) stood at 24.25 per cent as on September 30, 2019. CRAR is comfortable than the RBI stipulated CRAR for NBFC-MFI of 15 per cent.
- YFS has a comfortable liquidity position due to well matched maturity of assets and liabilities. The tenure of loans is about 12-24 months, whereas the incremental bank funding is typically with tenure of about 12-36 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.

Improvement in operational performance in FY2019

Particulars	FY 2017	FY 2018	FY 2019
Net financial margin (In thousands)	3,941	4,234	6,229
Operating expenses	11,726	14,846	26,394
Operational Self Sufficiency (%)	120.14	115.04	105.45
Operating Expense Ratio (OER) (%)	11.61	10.86	10.09

- YFS's has reported net profit of Rs. 0.46 crore on operating income of Rs. 6.94 crore in FY2019. In FY2018, YFS had reported net profit of Rs.0.31 crore on operating income of Rs.3.24 crore.
- As on Sep 30, 2019, YFS has an outstanding loan portfolio of Rs.40.07 crore spread over 15 branches of 3 states with about 26,561 borrowers.
- The company has reported growth of ~97% in its total outstanding portfolio as on 31st March, 2019 as compared to the previous year. Net financial margin has increased by 47.11% in the same period due to increased scale of operation.
- Net interest margin (NIM) has been stable at 11.37% as on 31st March, 2019 as compared to 12.20% in the previous year.

- The operational self-sufficiency (OSS) of the company stood at 105.45% in FY2019 as compared to 105.04% in the previous year. The company's operating expense stood moderately high at 10.09% in FY2019.

Geographical Reach

Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	30/Sep/2019
No. of States	2	3	3	3
No. of Districts	6	6	9	9
No. of Branches	8	11	15	15

- YFS has moved its operations to 3 states over the years and has increased no. of branches from 11 to 15 in 9 districts of 3 different states.
- However single state and two-state concentration remained high at 76% and 96% as on September 30, 2019. Moreover, no district has accounted for greater than 5% of the company's total loan book.
- In order to mitigate any potential risk arising out of geographical concentration, YFS has to diversify its presence across states.

Name of the State	No. of Branches	No. of Borrowers	Portfolio o/s (in crore)	PAR % (>30 days)	% of Total Portfolio o/s
Assam	3	4,105	7.93	0.00	19.79
Manipur	10	21,406	30.53	0.11	76.18
Tripura	2	1,050	1.61	0.00	4.03
Total	15	26,561	40.07	0.04	100.00

- YFS's operations concentrated in 03 states i.e Manipur, Assam and Tripura.
- As on September 30, 2019, YFS's portfolio is concentrated in the state of Manipur accounting for ~ 76 percent, and ~ 24 percent in other 2 states i.e. Assam and Tripura.
- It would also be key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

Productivity and efficiency of employees

Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	30/Sep/2019
No. of States	2	3	3	3
No. of Districts	6	6	9	9
No. of Branches	8	11	15	15
No. of Active Members	9,806	14,967	25,350	26,561
No. of Active Borrowers	9,806	14,967	25,350	26,561
No. of Total Employees	52	74	121	128
No. of Field/Credit Officers	30	46	61	64
No. of JLGS	4,461	6,994	9,131	9,551
No. of Individual Loans	7,044	1,184	1,182	1,111

Financial Ratios	31/Mar/2017	31/Mar/2018	31/Mar/2019
No. of Active Borrowers Per Staff Member	189	202	210
No. of Active Borrowers per field executives	327	325	416
No. of members per Branch	1,226	1,361	1,690
Gross Portfolio o/s per field executive (in thousands)	34.27	40.89	60.77
Average Outstanding Balance per client (in Rs)	10,483	12,568	14,623
Cost per Active client	1,213	1,056	1,113

- The company's branch network and client network has expanded from 11 branches to 15 branches servicing 9,806 borrowers as March 2017 to 26,561 borrower to March 2019.
- YFS field productivity remains average in comparison to its peers; the company has been able to improve its field outreach and asset productivity indicators over the years.
- The growth is partially also driven by an improvement in loan ticket size; average loan outstanding per client was worth Rs. 12,568 as on Mar 2018 and Rs. 14,623 as on Mar 2019.
- The company would be required to register a consistent improvement in productivity whilst diversifying its operations.

Sound asset quality

- YFS has maintained sound asset quality with on-time repayment rate of 99.90% as on March 31, 2019.

Period	FY 2017	FY 2018	FY 2019	30/Sep/2019
	Portfolio o/s	Portfolio o/s	Portfolio o/s	Portfolio o/s
On-time (in crore)	10.24	18.8	37.06	40.03
1-30 days (in crore)	0.004	0	0	0.003
31-60 days (in crore)	0.022	0	0.003	0.025
61-90 days (in crore)	0.0001	0	0	0.012
91-180 days (in crore)	0.005	0.001	0	0
181-360 days (in crore)	0.003	0	0	0.003
> 360 days (in crore)	0.008	0.004	0	0
Write-off (in crore)	0	0.011	0.005	0
Total	10.28	18.81	37.07	40.07
On-time (in %)	99.61	99.95	99.97	99.90
PAR 0-30 days (in %)	0.04	0.00	0.00	0.01
PAR >30 days (in %)	0.37	0.03	0.01	0.10
PAR >90 days (in %)	0.16	0.03	0.00	0.01

- The PAR 0-30 days stood at 0.01% as on September 30, 2019 as compared to 0.00% as on March 31, 2019. The PAR >30 days stood at 0.10% as on September 30, 2019 as compared to 0.01% as on March 31, 2019.
- Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control.

Adequate IT Systems Audit Mechanism

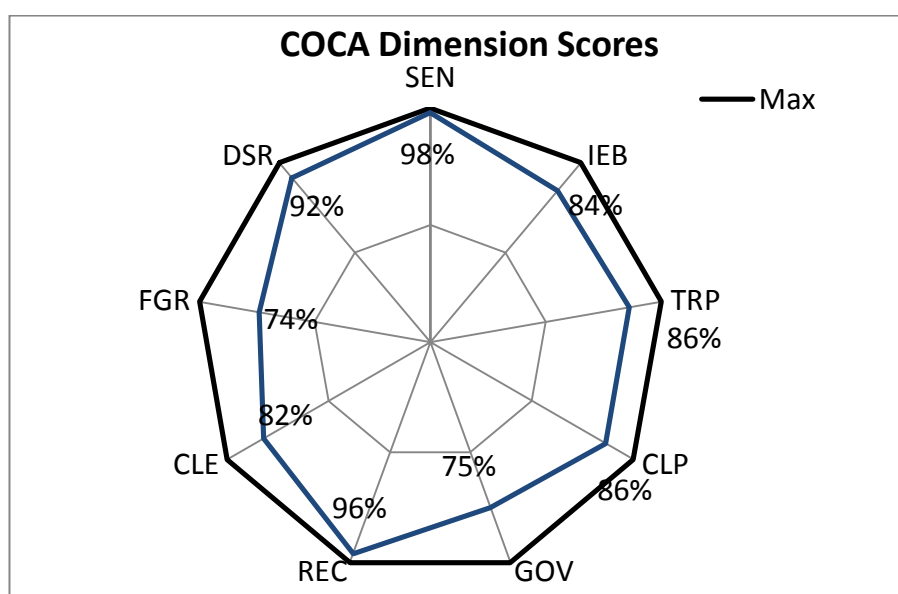
- YFS's management information system (MIS) and Information Technology (IT) infrastructure is adequate for its current scale of operations. It has dedicated MIS and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches. The company uses customised software "BIJLI" to maintain its MIS in Head Office and branches.
- **Credit Bureau Checks**
The company conducts compulsory credit bureau check of its borrowers from Equifax. The company shares the credit data with all four credit bureaus i.e. CIBIL, Experian, CRIF High Mark and Equifax on monthly basis as per the RBI norms.
- **Helpline Number**
The company has a dedicated helpline number, where calls are recorded automatically and addressed within 7 working days.
- **Internal Audit Process**
The company has a dedicated team of internal auditors who undertakes compulsory branch and borrower audit once in every quarter. All audits are surprise audits.

Inherent risk prevalent in the microfinance sector

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

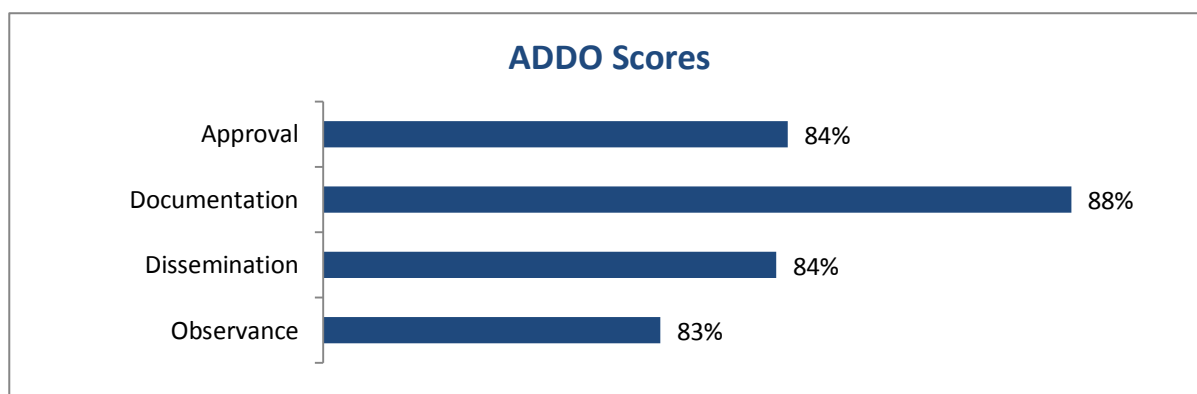
Section 2: Code of Conduct Assessment

COCA Grading – C2 (Good 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	86%
Client Protection	CLP	86%
Governance	GOV	75%
Recruitment	REC	96%
Client Education	CLE	82%
Feedback & Grievance Redressal	FGR	74%
Data Sharing	DSR	92%



YFS with an overall grade of “C2”, indicate **Good Performance on Code of Conduct dimensions**.

Code of Conduct Assessment Summary

The Code of Conduct report for YVU Financial Services Private Limited (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 **good** 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 YFSs adherence towards ethical operational practices.

Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
• Board approved policies, compliant with the RBI guidelines. • Code of Conduct framed as per the YFS mission, vision, values and displayed in all branch offices & HO. • Membership with Sa-dhan. • Board with rich experience from Banking and finance background. • Experienced and qualified management with more than a decade of experience in MFI industry. • Credit policies are well established documented and communicated. • Adequate loan appraisal & monitoring systems. • High standard of governance and integrity by inducting persons with good and sound reputation in the industry and understanding of microfinance industry. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower. • Awareness among client on interest rate and insurance claim settlements was found to be moderate to high in the visited branches. • Efficient systems and strong internal audit team to check misappropriations and regular monitoring of compliance. • Dedicated customer helpline number for client feedback/grievance. • Data sharing with credit bureau (Equifax, CIBIL, Experian and High Mark).	• In the visited branches, the contact number and address of SRO nodal official (as applicable), was not displayed. • MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review; however SMERA feels that there is enough scope for improvement.

Significant Observations

HIGHER ORDER INDICATORS	
Integrity and Ethical Behaviour	• The MFI does have the policy to place reports on COC compliance before the board at the end of every financial year. • The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit. • Board has approved a policy of recovering delinquent loans. • MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review and same is presented to Grievance Redressal committee set up at board level. • 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 is mentioned in the operational manual. • In all the branches visited, the contact number and address of Sa-Dhan nodal official was not displayed. • Awareness among client on interest rate and insurance claim settlements was found to be moderate to high in the visited branches. • The MFI have the policy to place reports on COC compliance before the board. • 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	• Clients interviewed were aware of the charges and price for all services availed. • Awareness among the staff on RBI guidelines was found to be moderate to high. • There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • YFS shares accurate data with all credit bureaus on a frequency prescribed by Sa-Dhan. • 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 organization also has a well-documented policy on pre-payments. • The MFI gets an external CA agency to certify its compliance with RBI's directions for NBFC-MFIs.

BUILDING BLOCKS	
Transparency	• Awareness among the staff on RBI guidelines was found to be moderate to high. • 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's 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 passbook and sanction letter provided to the client. • Clients interviewed were moderately aware of the charges and price for all services availed. • Audit committee verifies through the audit reports whether all clients have received the necessary loan documents. • YFS displays the details of the loan products including their interest rates and client grievance redressal system on its website. • YFS enters into loan agreement with the clients with all the terms and conditions. • Previous financial year annual financial statement and report is not available in the public domain. Code of conduct compliance report of last financial year of YFS is available in the company website.
Client Protection	• YFS has 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. • YFS has framed a Fair Practice Code and has also adopted the RBI fair practices code. • Employees are trained on aspects of appropriate behavior with the clients. • Staffs were found to be aware of the need to have professional conduct with the clients.
Governance	• YFS maintains high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body. • YFS has more than 1/3rd of independent persons in its Governing Board, and the Board is actively involved in all policy formulations and other important decisions. • YFS discloses its MD's compensation in its audited reports (Ref. Audit Report 2019).

	• An audit committee of the Board with an independent director as chairperson. • The MFI has got its accounts audited in a timely manner after the end of the most recent financial year. • No adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • Action taken report based on the last audit report was available in the branches visited. • Staff satisfaction related to compensation and incentive is covered under scope of Internal Audit.
Recruitment	• YFS's board has reviewed its recruitment policies at least once annually. • The MFI has a defined and documented process for responding to reference check requests. • 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 is documented in Operational 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 by itself or through a related party. • Awareness among client on annualized Interest rate & Insurance claim settlement process was found to be moderate to high.
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. • MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review and same is presented to audit committee set up at board level. • YFS has a policy on time frame and process for client's complaint resolution. • Clients were found to be aware of the helpline number. • Feedback mechanisms are regularly tracked and monitored. • In the branches visited, the contact number and address of Sa-Dhan nodal official was not displayed. • Complaints lodged through helpline at H.O and branches are

	documented and resolved. • Awareness among client and staff on MFIN grievance Redressal mechanism was found to be moderate to high. • Dedicated team at HO level to document and follow up on the client complaints.
Data Sharing	• Operational data for FY 2019 is available on the website of YFS. • MFI has a well-defined process for sharing data with the credit bureaus. • MFI has provided data called for by Sa-Dhan and RBI as and when required as per compliance. • YFS shares accurate data with all credit bureaus on a frequency prescribed by Sa-Dhan. • YFS performs compulsory credit bureau checks for all its clients.

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

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

F) 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

Thus an evaluation of MFI would be comprehensive assessment based on the financial and non-financial parameters of any MFI.

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, we visited eighteen branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Kakching	Manipur	22
2	Moirang	Manipur	25
3	Nambol	Manipur	19
4	Paona	Manipur	20
5	Singjamei	Manipur	18
6	Porompat	Manipur	23
7	Mayang	Manipur	19
8	Wangjing	Manipur	26
Total			172

Financials

Profit & Loss Account (Rs. In Thousands)

Period	FY 2017	FY 2018	FY 2019
Months	12	12	12
Financial revenue from operations	23,845	32,380	69,411
Less - Financial expenses from operations	7,985	12,448	34,962
Gross financial margin	15,860	19,932	34,449
Provision for Loan Loss / Write off	193	852	1,826
Net financial margin	15,667	19,080	32,623
Operating expenses			
Personnel Expense	8,801	10,447	19,297
Depreciation and Amortization Expense	443	402	380
Other Administrative Expense	2,482	3,997	6,717
Net operating income	3,941	4,234	6,229
Current Tax	1,221	1,267	2,002
Deffered Tax charge/(credit)	(6)	(139)	(370)
Net Profit After Tax	2,726	3,106	4,597

Above financials are audited

Balance Sheet (Rs in Thousands)

As on date	31/Mar/2017	31/Mar/2018	31/Mar/2019
SOURCES OF FUNDS			
<u>Capital</u>			
Equity Capital	34,394	49,394	55,273
Reserve and Surplus	13,040	16,147	23,202
Total Equity	47,434	65,541	78,475
<u>Liabilities</u>			
<u>Short-Term Liabilities</u>			
Account payable & Other short-term liabilities	1,390	1,961	5,854
Total Short-Term Liabilities	1,390	1,961	5,854
<u>Long-Term Liabilities</u>			
<u>Long-Term Borrowings</u>			
Commercial Loans from banks/FI	70,714	1,58,698	3,63,387
Total Long-Term Borrowings	70,714	1,58,698	3,63,387
Total Other Liabilities	72,104	1,60,659	3,69,241
Provisions	2,321	3,273	5,868
TOTAL LIABILITIES	1,21,859	2,29,473	4,53,584

As on date	31/Mar/2017	31/Mar/2018	31/Mar/2019
APPLICATION OF FUNDS			
<u>Fixed Assets</u>			
Gross Block	2,239	2,524	3,135
Depreciation	1,152	1,364	1,648
Net Block	1,087	1,160	1,487
Cash and Bank Balances	3,464	15,856	21,064
Cash Collateral (Margin Money)	11,313	15,563	35,732
Investment in Fixed Deposit	0	4,500	17,116
<u>Loan Portfolio</u>			
Net Loan Portfolio	1,02,826	1,88,101	3,70,665
Accounts Receivable And Other Assets	2,692	3,685	6,628
Intangible Assets	198	190	94
Deferred Tax Asset	279	418	798
TOTAL ASSETS	1,21,859	2,29,473	4,53,584

Financial Ratios

Financial Ratios	31/Mar/2017 12	31/Mar/2018 12	31/Mar/2019 12
<u>Capital Adequacy Ratio</u>			
Capital Adequacy Ratio (%)	45.89	35.04	21.25
<u>Productivity/Efficiency Ratios</u>			
No. of Active Borrowers Per Staff Member	189	202	210
No. of Active Borrowers per field executives	327	325	416
No. of members per Branch	1,226	1,361	1,690
Gross Portfolio o/s per field executive (in thousands)	34.27	40.89	60.77
Average Outstanding Balance per client (in Rs)	10,483	12,568	14,623
Cost per Active client	1,213	1,056	1,113
<u>Asset/Liability Management</u>			
Cost of funds ratio	11.24	13.48	13.80
Yield on Portfolio(nominal)	24.65	25.68	25.17
<u>Profitability / Sustainability Ratios</u>			
Operational Self Sufficiency (%)	120.14	115.04	105.45
Operating Expense Ratio (OER) (%)	11.61	10.86	10.09
Return on Assets (RoA) (%)	2.65	1.65	1.24
Portfolio at Risk (>30 days) (%)	0.38	0.03	0.01
Return on Equity (RoE) (%)	7.93	9.03	11.76
<u>Leverage Ratios</u>			
Total Outside Liabilities to Tangible Networth Ratio (Times)	1.52	2.45	4.71
Debt/Equity Ratio (Times)	1.49	2.42	4.63



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). Acuité Ratings & Research Limited is registered with the Securities and Exchange Board of India (SEBI) as a Credit Rating Agency and is accredited by Reserve Bank of India (RBI) as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings.

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