



**SMERA  
Comprehensive  
Grading**

**M2C2**

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

## **SMERA MFI Grading**

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Chaitanya India Fin Credit Private Limited

***Date of Report:***

**23<sup>rd</sup> March, 2018**

***Valid Till:***

**22<sup>nd</sup> March, 2019**

## 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		M2C2			
M3					
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grading of “M2C2”. It signifies high capacity of the MFI to manage its operations in a sustainable manner and good performance on code of conduct dimensions.

## Grading Rationale

<b>Microfinance Capacity Assessment Grade</b>	Chaitanya obtains “M2” as its performance grade which signifies “high capacity of the organization to carry out its activities in a sustainable manner”. The organization has excellent portfolio quality and management system but it has a relatively low capital base. Its loan portfolio is also concentrated in a limited geographical area.
<b>Code of Conduct Assessment Grade</b>	Chaitanya 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**.*

## Conflict of Interest Declaration

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

## Disclaimer

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

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## Historical Rating Grades

Date	Rating Agency	Rating/Grading
October 2015	ICRA	M2
Feb 2016	SMERA Ratings	COCA 3
January 25, 2017	SMERA Ratings	M2C2

## Microfinance Capacity Assessment Grading Symbols and Definitions

Grading Scale	Definitions
M1	MFIs with this grade are considered to have <b>highest</b> capacity to manage their microfinance operations in a sustainable manner.
M2	MFIs with this grade are considered to have <b>high capacity to manage their microfinance operations in a sustainable manner.</b>
M3	MFIs with this grade are considered to have <b>above average</b> capacity to manage their microfinance operations in a sustainable manner.
M4	MFIs with this grade are considered to have <b>average</b> capacity to manage their microfinance operations in a sustainable manner
M5	MFIs with this grade are considered to have <b>inadequate</b> capacity to manage their microfinance operations in a sustainable manner.
M6	MFIs with this grade are considered to have <b>low</b> capacity to manage their microfinance operations in a sustainable manner.
M7	MFIs with this grade are considered to have <b>very low</b> capacity to manage their microfinance operations in a sustainable manner.
M8	MFIs with this grade are considered to have <b>lowest</b> 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 <b>excellent</b> performance on Code of Conduct dimensions
C2	MFIs with this grade have <b>good performance on Code of Conduct dimensions</b>
C3	MFIs with this grade have <b>average</b> performance on Code of Conduct dimensions
C4	MFIs with this grade have <b>weak</b> performance on Code of Conduct dimensions
C5	MFIs with this grade have <b>weakest</b> performance on Code of Conduct dimensions

## Company Profile

Name of the MFI	Chaitanya India Fin Credit Private Limited	
Operational Head – Microfinance Business	Name	Mr. Anand Rao
	Designation	Joint Managing Director
	Mobile No.	9886743054
	Email ID	<a href="mailto:anand@chaitanyaindia.in">anand@chaitanyaindia.in</a>
	Date of Joining	2009
Date of Incorporation/Establishment	31 <sup>st</sup> March, 2009	
Date of commencement of microfinance business (as an NBFC-MFI)	05 <sup>th</sup> September, 2013	
Legal Status	NBFC-MFI	
Business of the company	Microfinance Services Under Joint Liability Group (JLG) Model	
Correspondence Address	145, 2nd floor N R Square 1st Main Road, Sirsi circle, Chamarajpet Bangalore - 560 018 Karnataka India	
Geographical Reach (As on 31/Jan/2018)	No. of States	03
	No. of Districts	30
	No. of Branches	144
	No. of Active Borrowers	1,90,437
	No. of Total Employees	1,274
	No. of Field/Credit Officers	812

- *Chaitanya commenced its microfinance operations in October 2007 at Nayakanahatti village in Chitradurga district for two years at NGO. Later in 2009 Chaitanya obtained a Non-Banking Finance Company (NBFC) license from Reserve Bank of India for a newly registered company, Chaitanya India Fin Credit Private Limited (Chaitanya) and obtained NBFC-MFI license in the year 2013.*

## 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)
JLG Loan	Income Generation Loan	5,000 - 1,00,000	12-24	24.64%	1.00%	25.64%



### Capital Structure as of 31/Jan/2018

Authorized Capital	Rs. 25.00 crore
Paid Up Capital	Rs. 20.71 crore

### Shareholding Pattern

#### Shareholders -Equity Shares as on 31/Jan/2018

Name of Proprietor/ Partner / Shareholders	Shares in %
Chaitanya Rural Intermediation	100.00
<b>Total</b>	<b>100.00</b>



## Promoters/Directors Profile

Name of Director	Designation	Profile
Samit Shankar Shetty	Managing Director	<ul style="list-style-type: none"> <li>• MBA from the Indian Institute of Management, Ahmedabad, B.E. Bangalore University.</li> <li>• Worked with Olam International Limited (A global leader in the supply chain management of agricultural products and food ingredients) for almost a decade.</li> <li>• Associated with Chaitanya since 2008 April. .</li> <li>• Currently Executive Director of the company and directly in charge of operations.</li> </ul>
Anand Rao	Joint Managing Director	<ul style="list-style-type: none"> <li>• MA (International Relations) Syracuse University USA, Masters of Management, IIT Mumbai, B.E. Bangalore University.</li> <li>• Founder, Chaitanya Foundation – (a MFI) 2007 – 2009.</li> <li>• Head of Projects, Small Scale Sustainable Infrastructure Development Fund (SIDF) Bangalore, 2004-2009.</li> <li>• Currently managing director of the company and handles internal audit, HR, accounting and finance functions within the company.</li> </ul>
K. Subramanyam Ravi	Independent Director	<ul style="list-style-type: none"> <li>• A qualified Chartered Accountant.</li> <li>• Visiting faculty of Regional Training Institutes of AG’s Office, Bangalore, Member Audit Board, Bangalore, Income Tax Department, Bangalore, Karnataka Power Corporation Ltd., Bangalore.</li> <li>• Auditor for Sakhi Samodhaya Khosh, Sampark and Souharda Cooperative society</li> </ul>
Rachamadugu Nandakumar	Independent Director	<ul style="list-style-type: none"> <li>• Science graduate and a Certified Associate of Indian Institute of Bankers.</li> <li>• An ex-banker with almost 40 years of experience in various disciplines like Credit, Administration, General Banking, Audit, Finance and HR.</li> <li>• Chief Executive Officer of EMMVEE GROUP of companies.</li> </ul>

Ramesh Sundaresan	Nominee Director	<ul style="list-style-type: none"> <li>• Graduate from NIT Trichy and Post Graduate from Indian Institute of Management Lucknow.</li> <li>• Managing Director of Invenio, a subsidiary of Singapore based multinational Olam International Limited</li> </ul>
Lisa G Thomas	Nominee Director	<ul style="list-style-type: none"> <li>• Investor’s nominee Director at Chaitanya.</li> <li>• MBA from the University of Chicago Booth School of Business, USA and Bachelor of Science from University of Oregon, USA.</li> <li>• More than 10 years of experience in venture capital and private equity investing, financial analysis, microfinance industry, strategic planning, project management and governance.</li> <li>• Co-founder and Chief Investment Officer of VestedWorld Inc., Chicago, USA.</li> </ul>

## **Management's Profile**

<b>Name</b>	<b>Position</b>	<b>Qualification</b>	<b>Brief Profile</b>
Mr. Vasudev S.B.	Financial Controller	Chartered Accountant	<ul style="list-style-type: none"> <li>Specialised in financial management, taxation and corporate affairs</li> </ul>
Mr. Srinivasan C V	Chief Financial Officer	Chartered & Cost Accountant	<ul style="list-style-type: none"> <li>20 years of experience in heading finance and accounts functions in varied industries</li> </ul>
Mr. Mattar Rakesh Krishna	Manager - Accounts & MIS	B.Com. (Mangalore University)	<ul style="list-style-type: none"> <li>Accounts Officer of CIFCPL</li> </ul>
Mr. Ganesh K V	Head of operations	B.Sc. (Bangalore University)	<ul style="list-style-type: none"> <li>Previously associated with ICICI Bank as Branch Manager and HDFC Bank as Assistant Vice President</li> <li>Prior to joining CIFCPL, associated with IFMR rural Channels and Services Pvt. Ltd., as Deputy CEO</li> </ul>
Mr. Suhas Athwale	Process Manager and IT Manager	Bachelor Of Business Management	<ul style="list-style-type: none"> <li>Specialised in Process improvement.</li> <li>Six Sigma -Green Belt Certified in Quality control</li> </ul>
Ms. Dimple J Shah	Company Secretary	Graduate, Qualified Company Secretary	<ul style="list-style-type: none"> <li>Previous working experience with JP Morgan Chase as Senior Financial analyst for almost 3 years</li> </ul>
Mr. Shreepad Mohan Vaze	HR Manager	B. Com. (Karnataka University, Dharwad)	<ul style="list-style-type: none"> <li>Specialised in Training young professionals</li> </ul>
Mr. Guruswamy	Audit Manager	M.A.	<ul style="list-style-type: none"> <li>Previously worked in Watershed Development Programs for rural community with the State Government</li> </ul>
Mr. Avinash Bhat	Product Manager	M.B.A. (R.I.T.M., Bangalore)	<ul style="list-style-type: none"> <li>Associated with CIFCPL for last 2 years as Product Manager of Two Wheeler Loan</li> </ul>

Mrs. Rajitha Uday	Head – Fund Raising	PGDBA (Annamalai University)	<ul style="list-style-type: none"> <li>• Around 23 years of experience in Retail banking including banks like Bank of Baroda, HDFC bank and Dhanlaxmi Bank</li> </ul>
Mrs. Nivedita Nayak	Projects Head	P.G.D.R.M. (X.I.M.)	<ul style="list-style-type: none"> <li>• More than 9 years of experience across Microfinance operations, Financial Inclusion, Digital Payments and Design Engineering Sectors</li> </ul>
Mr. Deepak Kumar Jha	President-Operation (North)	P.G.D.R.M. from I.R.M.A.	<ul style="list-style-type: none"> <li>• Previously worked with Bharat Financial Inclusion (Previously known as SKS Microfinance) in different capacities</li> <li>• Worked with Deworm the World Initiative (DTWI) as Program Manager in Bihar</li> </ul>

## HIGHLIGHTS OF MICROFINANCE OPERATIONS

Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	31/Jan/2018
No. of States	01	02	02	03
No. of Districts	15	22	23	30
No. of Branches	47	83	114	144
No. of Active Members	69,966	1,30,688	1,71,938	1,90,437
No. of Active Borrowers	78,506	1,35,860	1,79,108	2,38,424
No. of Total Employees	404	785	1,175	1,274
No. of Field/Credit Officers	252	472	761	812
No. of SHGs	0	0	0	0
No. of JLGS	14,117	27,111	36,508	45,751
No. of Individual Loans	3,282	6,497	7,282	2,789
OWNED PORTFOLIO				
Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	31/Jan/2018
Total loan disbursements during the year (in crore)	146	291	375	422
Total portfolio outstanding (in crore)	89.85	187.89	213.05	289.52
MANAGED/OFF PORTFOLIO				
Particulars	31/Mar/2015	31/Mar/2016	31/Mar/2017	31/Jan/2018
Total loan disbursements during the year (in crore)	11.5	37.17	49.46	44.21
Total portfolio outstanding (in crore)	9.23	28.89	31.77	41.61

## Compliance with RBI's Directives for MFIs

RBI's Direction	Chaitanya Status	Compliance
85% of total assets to be in the nature of qualifying assets	Qualifying assets forms 94.32% of total assets as on 31/Dec/2017.	Complied
Net worth to be in excess of Rs 5 Crore	Net Owned Funds stood at Rs 20.71 Crore as on 31/Jan/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*	Chaitanya 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*	Chaitanya offers loan in the range of Rs 5000 to Rs 90,000 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)*	Apart from taking declaration from the client, Chaitanya 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 in range of 22% to 24.64% 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	Chaitanya verifies the same though credit check from credit bureaus.	Complied

RBI's Direction	Chaitanya Status	Compliance
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	Chaitanya is charging processing fee of 1.00% on the disbursed loan amount plus applicable service tax.	Complied
Collateral free loans	Chaitanya does not accept any Collateral for extending the credit.	Complied
MFIs shall not collect any Security Deposit / Margin from the borrower.	Chaitanya does not collect any security deposit / margin from the borrower.	Complied
No late payment or prepayment penalties	Chaitanya 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.	Chaitanya 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	Chaitanya provides 79.96% of total loans for income generation activities as on 31/Dec/2017.	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.	As per the audited financials CRAR of Chaitanya stood at 20.69% as on 31/Dec/2017 which complies with the minimum CRAR requirement of 15% for NBFC-MFIs as prescribed by RBI. Chaitanya 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 20%-25% and is expected to touch Rs.150000 crore by the end of FY2018.
- MFIs have reported an increase of ~15% in average loan amount disbursed per account during Q2 FY 17-18 compare 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 improve and stood at 5.41% in Q2 FY 17-18.



### **Reasonable track record of operations and extensive industry experience of promoters**

- Chaitanya commenced its microfinance operations in October 2007 at Nayakanahatti village in Chitradurga district for two years at NGO. Later in 2009 Chaitanya obtained a Non-Banking Finance Company (NBFC) license from Reserve Bank of India for a newly registered company, Chaitanya India Fin Credit Private Limited (Chaitanya) and obtained NBFC-MFI licence in the year 2013.
- Chaitanya has six-member on board as on Jan-2018 having extensive experience in the banking and finance segment. The board has two promoter directors, two nominee directors (representatives from Investors) and two independent directors with banking & finance/Microfinance expertise. The board meets on a quarterly basis and if required frequency of the meeting increases. Among the board members, Mr. Anand Rao and Mr. Samit Shetty are takes strategic decisions and are actively involved in the day-to-day business operations.
- Mr. Anand Rao with strong understanding of local business and social environment in Karnataka has been involved with an NGO for over 5 years before setting up the NBFC-MFI along with Mr. Samit Shetty who worked with Olam International Limited (A global leader in the supply chain management of agricultural products and food ingredients) for almost a decade.

### **Diversified resource profile**

- As on Jan 31, 2018 Chaitanya has developed funding relationships with a large number of lenders i.e 39 lenders (including 8 PSU banks) however their resources profile continues to remain concentrated towards borrowings from NBFCs which stood at ~ 89% of total borrowings.
- The cost of funds (COF) for Chaitanya is relatively higher at 16.54% in FY 2017 on account of increase in borrowings from NBFCs. While these relationships with NBFCs have helped chaitanya in meeting its funding requirements to meet the projected growth, however the company has to explore its funding base majorly towards PSU Banks/FIs for reducing its cost of borrowing.
- Leverage of the company has improved to 5.13 times in FY2017, compared to 6.80 times in FY2016.

### **Moderate capitalisation and comfortable liquidity profile**

- The company's comfortable capitalisation is reflected in the capital adequacy ratio (CAR) of 20.69 per cent as on Jan 31, 2018 (Provisional) as against CAR of 29.33 per cent as on March 31, 2017. The NBFC-MFI capitalisation in relation to managed asset base have been comfortable on account of equity infusion and internal accruals at regular interval.
- The NBFC-MFI has also raised Tier II capital to the extent of Rs. 25.00 crore till Jan 31, 2018. (Rs. 5.00 crore – IFMR, Rs. 5.00 crore Capital First & Rs. 15.00 crore - Karvy Capital Limited).
- As discussed with the management, Chaitanya has planned to infuse Rs. 100 crore of capital by July, 2018, which would help it to bring down the borrowing cost and maintain comfortable leverage. Chaitanya intends to grow its portfolio in the range of 30% to 40% over the medium term and hence the equity infusion is expected to support its growth plans.
- Chaitanya 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.

### **Income and Profitability**

- The company reported a profit before tax of Rs. 1.74 crore on total income of Rs. 65.57 crore in FY2017 compared to Rs. 2.27 crore on total income of Rs. 37.24 crore in FY2016.
- As on Jan 31 2018, the Chaitanya has an outstanding loan portfolio of Rs.331.13 crore (including BC and securitized portfolio) spread over 144 branches of 3 states with about 2,38,424 borrowers. The companies' portfolio outstanding witnessed a growth of ~52% as on Jan 31, 2018 over FY 2016.
- Yield on Portfolio of Chaitanya has improved to 29.79% in FY 2017 as compared to 25.23% in FY 2016.
- The Company's operating expense stood moderately high at 11.98% as on Mar 31, 2017 on account of expansion of operations in new geographical areas.

### **Moderate Geographical Reach**

- Chaitanya's operations concentrated in 03 states i.e Karnataka, Maharashtra and Bihar. As on Jan 31, 2018, Chaitanya's portfolio is concentrated in the state of Karnataka accounting for ~ 82 percent, and ~ 18 percent in other two states i.e. Maharashtra and Bihar.
- However, it would also be key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

### **Sound asset quality**

- Chaitanya has maintained sound asset quality with on-time repayment rate of 92.86% as on Jan 31, 2018.

Period	FY 2015	FY 2016	FY 2017	31/Jan/2018
	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)
On-time	98.69	216.11	208.04	307.54
1-30 days	0.0015	0.01	6.80	1.03
31-60 days	0.0016	0.00	7.90	1.09
61-90 days	0.0022	0.00	6.52	0.70
91-180 days	0.1996	0.35	14.58	2.52
181-360 days	0.1795	0.26	0.65	15.47
> 360 days	0.0087	0.05	0.32	2.77
Write-off	0.01	0.02	0.09	0.05
<b>Total</b>	<b>99.08</b>	<b>216.78</b>	<b>244.82</b>	<b>331.13</b>

- The PAR 0-30 days stood at 0.31% as on Jan 31, 2018 as compared to 0.005% as on Mar 31, 2016. The PAR >30 days stood at 6.82 % as on Jan 31, 2018 as compared to 0.31 % as on Mar 31, 2016. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the company to keep asset quality indicators under control. The PAR % has remained comfortable and not impacted significantly despite of demonetization in the month of November 2016.

### **Adequate IT Systems Audit Mechanism**

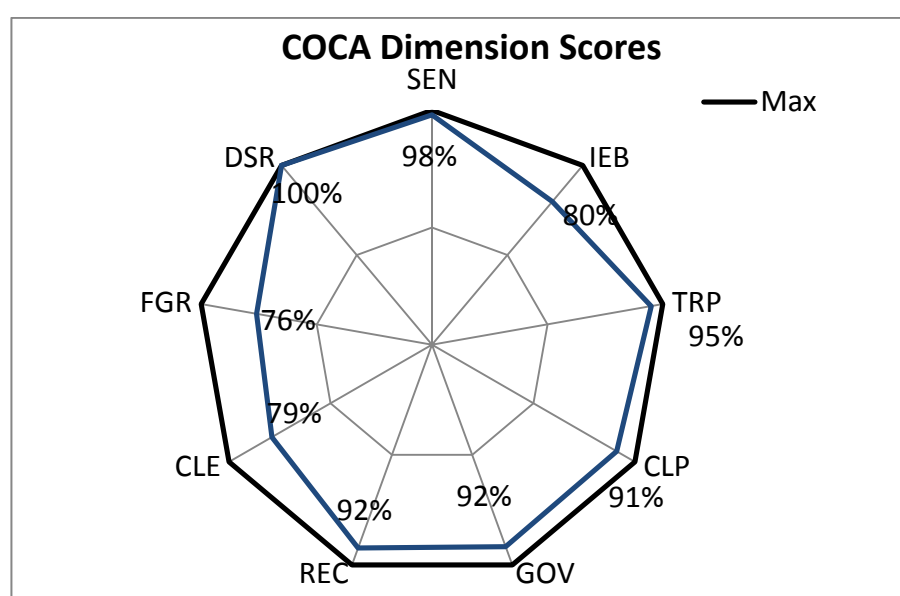
- Chaitanya's management information system (MIS) and Information Technology (IT) infrastructure is adequate for its current scale of operations. It has dedicated MIS and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches. It uses customized software "MIFOS-X", developed by the Grameen Foundation and currently managed by Conflux Technologies. It has custom built Credit Risk Management Software that assists in credit assessment for JLG loans. The current system is robust has enabled the Head Office to access to access comprehensive microfinance solutions.
- As informed by the management, the company is moving shortly to app-based MIS software to enable real-time tracking of micro finance activities and also planned to introduce cashless collection system at a pilot-phase.
- Considering the significant increase in scale of operations, Chaitanya has strengthened its internal audit team. The internal audit team undertakes internal audit at an interval of one month.

### **Inherent risk prevalent in the microfinance sector**

- Chaitanya's business risk profile remain susceptible to socio-political risk, 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.

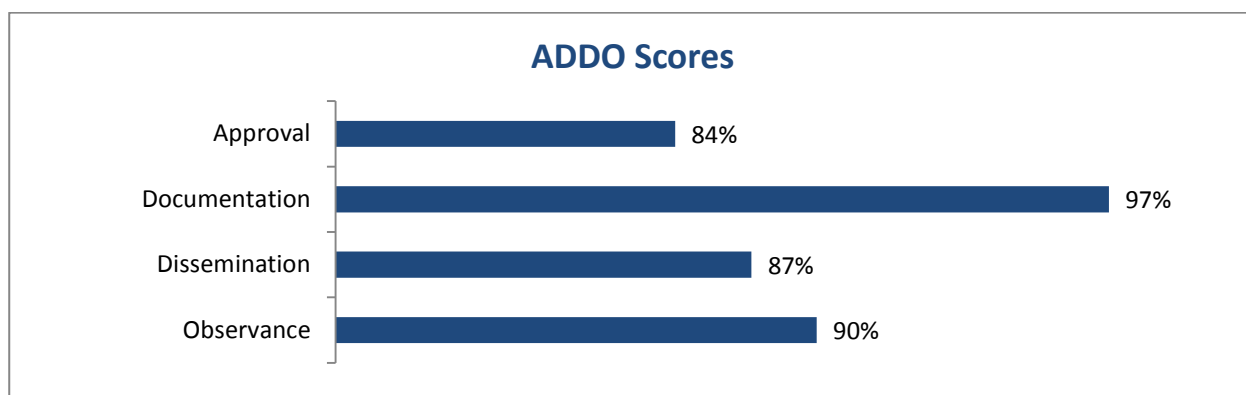
## Section 2: Code of Conduct Assessment

COCA Grading – 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	80%
Transparency	TRP	95%
Client Protection	CLP	91%
Governance	GOV	92%
Recruitment	REC	92%
Client Education	CLE	79%
Feedback & Grievance Redressal	FGR	76%
Data Sharing	DSR	100%



Chaitanya 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 Chaitanya India Fin Credit Private Limited (Chaitanya) 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 Chaitanya 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 Chaitanya's adherence towards ethical operational practices.

## Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Board with rich experience from banking and finance with 1/3<sup>rd</sup> independent members.</li> <li>• Experienced and qualified management especially Mr. Shamit Shetty and Mr. Anand Rao who have considerable experience in microfinance industry are instrumental in growth of Chaitanya till date.</li> <li>• Transparency in loan pricing and policies.</li> <li>• Adequate software based MIS to handle current scale of operations.</li> <li>• Compulsory training on products terms and conditions to client prior to every loan.</li> <li>• Compulsory check on over indebtedness of every borrower.</li> <li>• Board approved policies, compliant with the RBI guidelines.</li> <li>• Code of Conduct framed as per the Chaitanya's mission, vision, values and displayed in all branch offices &amp; HO.</li> <li>• Membership with MFIN state industry association of microfinance institutions (AKMI).</li> <li>• Credit policies are well established documented and communicated.</li> <li>• Adequate loan appraisal &amp; monitoring systems.</li> <li>• A specialized Credit Manager conducts rigorous assessment for loans exceeding Rs 30,000.</li> <li>• Chaitanya has a five step grievance escalation process including the Branch Manager, Regional Manager, Grievance Redressal Officer (GRO) of Chaitanya, AKMI toll free number for registering complaints and the RBI.</li> <li>• Displays the details of the loan products including their interest rates and client grievance redressal system on its website.</li> <li>• Data sharing with credit bureau (Equifax, CIBIL, Experian and High Mark).</li> </ul>	<ul style="list-style-type: none"> <li>• Awareness among the staff on RBI compliance was found to be moderate to low.</li> <li>• It has an effective system to record complaints received at the toll free number. However, there is no mechanism to record complaints at branch level.</li> <li>• Awareness among client and staff on MFIN grievance redressal mechanism was found to be moderate.</li> </ul>



## Significant Observations

HIGHER ORDER INDICATORS	
<b>Integrity and Ethical Behaviour</b>	<ul style="list-style-type: none"> <li>• The MFI does have the policy to place reports on COC compliance before the board at the end of every financial year.</li> <li>• The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit.</li> <li>• Board has approved a policy of recovering delinquent loans.</li> <li>• 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.</li> <li>• 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; however the same have not been documented in HR manual.</li> <li>• In all the branches visited, the contact number and address of MFIN nodal official was displayed.</li> <li>• Staff satisfaction related to compensation and incentives are not covered under scope of Internal Audit.</li> <li>• Awareness among client and staff on MFIN grievance redressal mechanism was found to be moderate.</li> <li>• Fixed Component compensation of staff is not impacted in event of overdues. Chaitanya, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.</li> </ul>
<b>Sensitive Indicators</b>	<ul style="list-style-type: none"> <li>• Clients interviewed were moderately aware of the charges and price for all services availed.</li> <li>• Awareness among the staff on RBI guidelines was found to be moderate to low.</li> <li>• There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• Chaitanya shares accurate data with all credit bureaus on a frequency prescribed by MFIN.</li> <li>• Chaitanya 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. However the organization does not have a well-documented policy on pre-payments.</li> <li>• The MFI gets an external CA agency to certify its compliance with RBI's directions for NBFC-MFIs.</li> </ul>

<b>BUILDING BLOCKS</b>	
<b>Transparency</b>	<ul style="list-style-type: none"> <li>• Awareness among the staff on RBI guidelines was found to be moderate to low.</li> <li>• Chaitanya has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages.</li> <li>• Circulars with the most recent directions were not available in the visited branches.</li> <li>• Chaitanya's in its fair practices code provides importance for transparency in pricing and clear communication to the clients.</li> <li>• The loan interest rate and processing fees is mentioned on the loan passbook and loan agreement provided to the client.</li> <li>• Clients interviewed were moderately aware of the charges and price for all services availed.</li> <li>• Audit committee verifies through the audit reports whether all clients have received the necessary loan documents.</li> <li>• Displays the details of the loan products including their interest rates and client grievance redressal system on its website.</li> <li>• Chaitanya issues loan agreement to the clients with all terms and conditions of the loan including annualized interest rates.</li> <li>• Code of conduct compliance report of Chaitanya &amp; previous financial year annual financial statement and report is available in the public domain.</li> </ul>
<b>Client Protection</b>	<ul style="list-style-type: none"> <li>• Chaitanya has a board-approved policy regarding client data security.</li> <li>• Employees are trained on aspects of appropriate behavior with the clients.</li> <li>• Chaitanya has documented policy on client data security which forms part of its fair practice code.</li> <li>• Chaitanya does not take written consent of the client for third party disclosures and does not offer Non-credit products to its clients.</li> <li>• Chaitanya has framed a Fair Practice Code and has also adopted the RBI fair practices code.</li> <li>• Employees are trained on aspects of appropriate behavior with the clients.</li> <li>• Staffs were found to be aware of the need to have professional conduct with the clients.</li> <li>• Internal Audit checklist is comprehensive but can be strengthened further by incorporating more aspects like awareness regarding Reserve Bank of India (RBI) compliance and Self-Regulatory Organization (MFIN ) among clients/members and staff, Privacy of client information.</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• MFIs maintain high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body.</li> <li>• Chaitanya have 1/3rd of independent persons in its Governing Board, and the Board is actively involved in all policy</li> </ul>

	<p>formulations and other important decisions.</p> <ul style="list-style-type: none"> <li>• Chaitanya disclose its CEO compensation in its audited reports (Ref. Audit Report 2017).</li> <li>• An audit committee of the Board with an independent director as chairperson.</li> <li>• The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year.</li> <li>• No adverse observations in the Auditor's report regarding accounting standards followed by the MFI.</li> <li>• Action taken report based on the last audit report is available in the branches visited.</li> <li>• Staff satisfaction related to compensation and incentive is not covered under scope of Internal Audit.</li> </ul>
<p><b>Recruitment</b></p>	<ul style="list-style-type: none"> <li>• Chaitanya's board has reviewed its recruitment policies at least once annually</li> <li>• The MFI has a defined and documented process for responding to reference check requests.</li> <li>• There is documentary evidence to suggest that MFI has honored the notice period for all employees who have left it.</li> <li>• MFI obtain NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs.</li> <li>• 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, however the same have not been documented in HR manual</li> </ul>
<p><b>Client Education</b></p>	<ul style="list-style-type: none"> <li>• Chaitanya in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services</li> <li>• Chaitanya does not charge clients for the trainings provided to clients, itself or through a related party.</li> <li>• Awareness among client on annualized Interest rate &amp; Insurance claim settlement process was found to be moderate.</li> </ul>
<p><b>Feedback and Grievance Redressal</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• Chaitanya has a five step grievance escalation process including the Branch Manager, Regional Manager, Grievance Redressal Officer (GRO) of Chaitanya, AKMI toll free number for registering complaints and the RBI.</li> <li>• Clients were found to be moderately aware of the helpline number.</li> <li>• Feedback mechanisms are regularly tracked and monitored.</li> <li>• In all the branches visited, the contact number and address of MFIN nodal official was displayed.</li> <li>• Complaints lodged through helpline at H.O are documented and resolved, however there is no compliant registering mechanism</li> </ul>

	<p>present in the branches.</p> <ul style="list-style-type: none"> <li>• Awareness among client and staff on MFIN grievance redressal mechanism was found to be moderate.</li> <li>• Dedicated team at HO level to documents and follow up on the client complaints.</li> </ul>
<p><b>Data Sharing</b></p>	<ul style="list-style-type: none"> <li>• Financial data for FY 2017 is available on the website of Chaitanya.</li> <li>• MFI has a well-defined process for sharing data with the credit bureaus.</li> <li>• MFI has provided data called for by MFIN and RBI as and when required as per compliance.</li> <li>• Chaitanya shares accurate data with all credit bureaus on a frequency prescribed by MFIN.</li> <li>• Chaitanya performs compulsory credit bureau checks for all its clients.</li> </ul>

# 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.

<b>Highest Order</b>	
Sensitive Indicators	
<b>Higher Order</b>	
Integrity & Ethical Behaviour	
<b>Building Blocks</b>	
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
<b>Total</b>	<b>250</b>

## 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).

### 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 two branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Aimangala	Karnataka	22
2	Khanasonahalli	Karnataka	25
3	Jagalur	Karnataka	23
4	Bharamasagara	Karnataka	21
5	Santhebennur	Karnataka	28
6	Kadur	Karnataka	18
7	Arsikere	Karnataka	20
8	Tekari	Bihar	22
9	Kurtha	Bihar	28
<b>Total</b>			<b>207</b>

## Financials

### Profit & Loss Account (Rs. In Thousands)

Financial Year	FY 2015	FY 2016	FY 2017
Months Covered By P/L	12	12	12
<b>Income</b>	<b>2,01,110</b>	<b>3,72,400</b>	<b>6,55,790</b>
Financial revenue from operations	1,86,425	3,50,393	5,97,151
BC Commission	0	0	7,110
Income from Securitization	3,000	4,014	25,025
Other Operating Revenue	11,685	17,993	26,504
<b>Less: Financial expenses from operations</b>	<b>1,03,697</b>	<b>1,93,896</b>	<b>3,45,580</b>
<b>Gross financial profit</b>	<b>97,413</b>	<b>1,78,504</b>	<b>3,10,210</b>
<b>Less: Provision for Loan Loss</b>	<b>4,330</b>	<b>10,012</b>	<b>16,330</b>
<b>Net financial profit</b>	<b>93,083</b>	<b>1,68,492</b>	<b>2,93,880</b>
<b>Less: Operating expenses</b>			
Depreciation and Amortization Expense	3,941	5,836	9,716
Personnel Expense	48,342	88,036	1,74,784
Administration Expense	30,045	51,929	91,948
<b>Net income Before Tax</b>	<b>10,755</b>	<b>22,691</b>	<b>17,432</b>
<b>Less: Income Tax</b>	<b>2,417</b>	<b>7,767</b>	<b>5,177</b>
<b>Net income After Tax</b>	<b>8,338</b>	<b>14,924</b>	<b>12,255</b>

*Above financials are audited*

## Balance Sheet (Rs in Thousands)

Date	31/Mar/2015	31/Mar/2016	31/Mar/2017
<b>SOURCES OF FUNDS</b>			
Paid up Capital	1,17,069	1,27,819	1,82,916
Reserves & Surplus	68,543	87,893	2,32,797
Security Premium	22,412	34,351	44,155
Statutory Reserves	5,983	8,969	11,419
<b>TOTAL EQUITY(A)</b>	<b>2,14,007</b>	<b>2,59,032</b>	<b>4,71,287</b>
<b>LIABILITIES</b>			
<b>SHORT-TERM LIABILITIES</b>			
Short-term borrowings			
Commercial Loans from banks/FI for microfinance	6,62,399	8,92,637	11,72,948
Account payable & Other short-term liabilities	48,245	65,035	66,233
<b>TOTAL SHORT TERM LIABILITIES(B)</b>	<b>7,10,644</b>	<b>9,57,672</b>	<b>12,39,181</b>
<b>LONG-TERM LIABILITIES</b>			
Long-term borrowings			
Commercial Loans from banks/FI for microfinance	4,60,237	7,69,660	9,92,815
Concessional Loan/Subordinated Debt	0	1,00,000	2,50,000
<b>TOTAL LONG TERM LIABILITIES(C)</b>	<b>4,60,237</b>	<b>8,69,660</b>	<b>12,42,815</b>
<b>TOTAL OTHER LIABILITIES(D)</b>	<b>11,70,881</b>	<b>18,27,332</b>	<b>24,81,996</b>
Provision for Loan Loss (E)	8,995	18,800	34,255
Other Provisions (F)	4,119	25,353	26,231
<b>TOTAL LIABILITIES (A+B+C+D+E +F)</b>	<b>13,98,002</b>	<b>21,30,517</b>	<b>30,13,769</b>

<b>APPLICATION OF FUNDS</b>	<b>31/Mar/2015</b>	<b>31/Mar/2016</b>	<b>31/Mar/2017</b>
<b>Fixed Assets</b>			
Fixed Assets	16,856	27,115	42,618
Less: Depreciation	7,825	13,157	21,467
<b>Net Fixed Assets(A)</b>	<b>9,031</b>	<b>13,958</b>	<b>21,151</b>
<b>Cash and Bank Balances(B)</b>	<b>3,30,188</b>	<b>51,837</b>	<b>5,68,552</b>
<b>Investments in Fixed Deposit Including Margin Money (C)</b>	<b>1,33,312</b>	<b>1,35,079</b>	<b>1,90,220</b>
<b><u>Loan Portfolio *</u></b>			
Gross Loan Portfolio	8,98,511	18,78,874	21,30,524
Less: Impairment Loss Allowance			
<b>Net Loan Portfolio(D)</b>	<b>8,98,511</b>	<b>18,78,874</b>	<b>21,30,524</b>
<b>Accounts Receivable and Other Assets(E)</b>	<b>22,234</b>	<b>40,970</b>	<b>86,947</b>
<b>Deferred Tax (F)</b>	<b>926</b>	<b>1,940</b>	<b>1,935</b>
<b>Intangibles (G)</b>	<b>3,800</b>	<b>7,859</b>	<b>14,440</b>
<b>TOTAL ASSETS (A+B+C+D+E+F+G)</b>	<b>13,98,002</b>	<b>21,30,517</b>	<b>30,13,769</b>

## Financial Ratios

Financial Ratios	31/Mar/2015	31/Mar/2016	31/Mar/2017
	12	12	12
<b>Capital Adequacy Ratio</b>			
Capital Adequacy Ratio (%)	22.46	18.20	29.33
<b>Productivity/Efficiency Ratios</b>			
No. of Active Borrowers Per Staff Member	173	166	146
No. of Active Borrowers per field executives	278	277	226
No. of members per Branch	1489	1575	1508
Gross Portfolio o/s per field executive (in thousands)	3,932	4,593	3,217
Average Outstanding Balance per client (in Rs)	14,161	16,587	14,239
Cost per Active client	1177	1116	1608
<b>Asset/Liability Management</b>			
Cost of funds ratio	9.24%	13.44%	16.54%
Yield on Portfolio(nominal)	41.50%	25.23%	29.79%
<b>Profitability / Sustainability Ratios</b>			
Operational Self Sufficiency (%)	105.65	106.49	102.73
Operating Expense Ratio (OER) (%)	16.62	9.23	11.98
Return on Assets (RoA) (%)	0.77	1.29	0.68
Portfolio at Risk (>30 days) (%)	0.40	0.31	12.27
Return on Equity (RoE) (%)	5.03	4.80	2.39
<b>Leverage Ratios</b>			
Total Outside Liabilities to Tangible Network Ratio (Times)	5.47	7.05	5.27
Debt/Equity Ratio (Times)	5.25	6.80	5.13

## About SMERA

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

### Corporate Office

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