

Muthoot Microfin Peer Benchmarking and GAP Analysis

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1 Introduction

CARE Analytics and Advisory Private Limited (CareEdge Advisory) conducted comprehensive Peer Benchmarking for Muthoot Microfin which is the foundation for the GAP Analysis Report. This report identifies gaps in the Environment, Social, and Governance categories of the company and highlights the positioning of Muthoot Microfin vis-a-vis industry best practices.

The following is the list of peers considered for benchmarking:

Peers: Spandana Sphoorty, CreditAccess Grameen, Satin Creditcare Network, Fusion Microfinance, and Annapurna Finance.

The report provides a detailed GAP Analysis for Muthoot Microfin in the Environmental, Social, and Governance themes with illustrations of best examples across the industry peers. It indicates an assessment of the policies, processes, data, guidelines & disclosures of Muthoot Microfin. Further, it highlights key action items for the gaps identified and the timeline for Muthoot Microfin to incorporate the same.

This exercise also highlights crucial areas for improvement within Muthoot Microfin on the ESG front, enabling the prioritization of action items and optimization of resources.

Acknowledgement

We extend our heartfelt gratitude to Muthoot Microfin for entrusting our company CARE Analytics & Advisory Pvt. Ltd. (CAAPL) with the opportunity to collaborate on this project. We are truly grateful for the confidence and trust placed in us. The partnership with Muthoot Microfin has been immensely rewarding, and we extend our gratitude for their professionalism, cooperation, and unwavering commitment to excellence throughout the course of this undertaking.

We also express our appreciation to the Muthoot Microfin Team who generously shared their insights and provided us with the necessary resources to conduct our research effectively. We look forward to continuing our partnership and delivering value in future endeavors.

2 GAP Analysis Approach

Objective:

The objective of providing ESG Peer Benchmarking and GAP Analysis is to help the company to identify key areas to accomplish in the journey of becoming strong ESG performers in the industry. These GAPs would help the entity to identify “critical” and “good to have” action items at their end.

To identify these gaps, following is the approach we followed:

2.1 Peer Benchmarking & GAP Analysis

Peer Benchmarking of Muthoot Microfin was conducted based on publicly available information, disclosures & data provided by the Muthoot Microfin Team. All the indicators across **E**nvironment, **S**ocial, and **G**overnance themes were analyzed according to industry best practices and disclosure standards for the Financial Services sector. Post Peer Benchmarking, we extensively analyzed individual themes within the E, S, and G categories for all peers, to highlight areas where the company falls short and to recognize the best practices adopted by the peers. The gaps identified in the company are benchmarked against the peers showcasing development opportunities for Muthoot Microfin.

2.2 How to read the GAP Analysis report:

The following sections are covered in our Peer Benchmarking & GAP Analysis report:

- Detailed GAP Analysis for Environmental, Social, and Governance themes highlighting the **Key Strengths** and detailed **Areas of Improvement** for Muthoot Microfin
- **“Action Items & Best Practices” Table:**
 - The **Gaps Identified** exhibit the Areas of Improvement for the company in the environment, social, and governance theme with respect to compliance, policy, performance, and strategy category
 - The **Industry Best Practices** exhibit the Industry Optimal Standards across the industry peers which go beyond mandatory requirements but can help Muthoot Microfin in the long run to align with industry best practices
 - The **Action Plan** outlines the Steps and Strategies to be adopted by Muthoot Microfin to work on the Areas of Improvement highlighted in the report

3 Analysis of gaps in the Environment pillar

3.1 Our approach:

In the environment pillar, we look into the company's preparedness to monitor and improve its operational efficiencies to minimize the impact on the environment which ultimately drives the transition towards a green economy. We look into evidences that the company has in its policies and procedures which factor key environmental risks in the company's operations. Moreover, we also look for evidences of future plans to channelize their strategy towards greening our economy. Better-performing peers demonstrate robust procedures and systems that ensure environmental factors are looked into as part of the decision-making process and have plans in place to align with larger macroeconomic goals. Based on this, the following are key pointers or evidences we look for:

- Monitoring and reporting the company's own emissions and energy usage
- Monitoring and reporting the company's commitment towards sustainable finance
- Future plans to channelize the company's operations and reduce the carbon footprint

3.2 Our findings:

Key Strengths

- Promoting and implementing solar inverters in the branches to reduce greenhouse gas emissions by harnessing clean energy
- A year-on-year reduction of 16.8% in Scope 1 and 2 Emission Intensity and 17% in Energy Intensity
- Replaced 85% of laser printers in branches with inkjet printers that generate less waste compared to traditional laser printers
- Reduced paper usage by 87% to minimize deforestation and reduce waste generation, leading to the conservation of natural resources

Areas of Improvement

- Incorporating ESG Considerations into the Lending Process and promoting loans compliant with the company's internal ESMS framework
- Specific commitments and targets to implement energy-efficient initiatives into the business operations, thus reducing GHG emissions
- Assessment and reporting of Scope 3 emission to comprehensively understand and address its carbon footprint

3.3 Action Items and Best Practices

Following are some of the “Gaps Identified & Action Plan” related to the Environment theme of Muthoot Microfin

Gaps Identified	Industry Best Practices	Action Plan	Tentative Timeline
Policy			
ESG Considerations into the Lending Process (ESMS policy drafting in the process)	<u>CreditAccess Grameen</u> <ul style="list-style-type: none"> ESG-compliant loans - Loans compliant with the internal ESMS framework & IFC performance standards Social Bond and Loan Framework - Second Party Opinion by Sustainalytics 	1. Development of ESMS policy and framework 2. Adopting the framework into the loan products 3. ESG Due Diligence	1. 2 months 2. 2 months 3. Continuous process
Performance			
Monitoring and Reporting of Scope 3 Emission* (Not available)	<u>CreditAccess Grameen</u> Initiated the process of disclosing Scope 3 emissions considering only business travels	1. Set boundary for Scope 3 emissions 2. Develop a monitoring mechanism	6 months
Strategy			
Implementation of energy-efficient initiatives (Few initiatives implemented)	<u>Benchmarked against Financial Services Industry Best Practices</u>	1. Energy Audits and Assessments 2. <u>Tentative Initiatives:</u> <ul style="list-style-type: none"> High-efficiency HVAC Systems and Energy-Efficient Equipment Renewable Energy Integration 	1-2 years

* A Few Examples of Scope 3 emission activities are - emissions from fuel- and energy-related activities, waste generated in operations, business travel, employee commute, transportation and distribution, purchased goods and services, etc to name a few.

4 Analysis of gaps in the Social pillar

4.1 Our approach:

For the Social pillar, we assess the comprehensiveness of companies' policies and compliances in line with prevalent regulations. We evaluate the firm's performance in addressing issues like employee turnover, engagement, employee diversity, health & safety of employees, and community engagement. Finally, we try to gauge the firm's vision to enhance its overall performance towards its employees, communities, and consumers. For financial entities, performance on the Social pillar has a significant impact on the overall ESG performance of the company, given the high dependency on skilled employees to manage its operations and the direct impact of its products and services on end users. Following are key pointers or evidence we look for:

- Policies on employee engagement, benefits, development, and health & safety
- Policies/mechanisms for engaging with communities and customers
- Reporting and monitoring of key performance metrics, including female composition, employee turnover, and training
- Strategy toward enhancing diversity and inclusion

4.2 Our findings:

Key Strengths

- Occupational Health & Safety Policy to ensure the well-being and safety of all employees in the workplace
- Adoption of ISO 22301:2012 based on which the Business Continuity Management System (BCMS) is designed, implemented, and monitored
- 100% of employees are covered under Health and Accident Insurance
- Employee's Stock Option Plan
- Customers and Community Grievance Handling Mechanism
- Adoption of ISO 27002:2013 relating to Information Security Aspects of Business Continuity with no cyber-attack/data breach cases
- Muthoot Mahila Mitra App for customers to facilitate digital payment methods
- Adhering to regulatory compliances by implementing sexual harassment policy, child labor policy, and local minimum wage laws
- Average training hours per employee is 120 Hrs which includes 4 days of Induction + 14 days of Field Training and 2 days of Refresher

Areas of Improvement

- Coverage of employees in H&S and Skill Upgradation training should be increased to 100%
- The company's low diversity ratio can be improved by increasing the number of women in the workforce
- Employee turnover rates can be reduced by conducting employee satisfaction surveys and understanding the key issues
- Training to be provided to employees on human rights issues and policy of the entity
- Customer Satisfaction Scores (CSAT) or Net Promoter Scores (NPS) to analyze the customer satisfaction level in the company
- Formulating a Vendor Management/Sustainable Sourcing Policy to ensure ethical, sustainable, and responsible business practices throughout the supply chain

4.3 Action Items and Best Practices

Following are some of the “Gaps Identified & Action Plan” related to the Social theme of Muthoot Microfin

Gaps Identified	Industry Best Practices	Action Plan	Tentative Timeline
Policy			
Vendor Management/Sustainable Sourcing Policy (In the process of development)	<u>CreditAccess Grameen</u> Vendor Management policy <u>Fusion Microfinance</u> 100% procurement at the Branch Level is processed from local/nearby vendors/suppliers	Drafting Vendor Management or Sustainable Sourcing Policy and getting approved by the Board	2 months
Performance			
Health & Safety and Skill Upgradation training coverage (H&S = 70% Skill Upgradation = 63%)	<u>Satin Creditcare Network</u> 91% H&S training coverage <u>Fusion Microfinance</u> 100% skill upgradation training coverage	1. Understand the reasons preventing some employees from participating 2. <u>Tentative Initiatives:</u> <ul style="list-style-type: none"> Implement strategies such as integrating training into the onboarding process, setting clear expectations, and linking completion to performance evaluations Make participation mandatory for all employees and regularly monitor compliance 	3 months
Female workforce composition (Female Employees = 3.8%)	<u>CreditAccess Grameen</u> Female Employees = 16.4%	1. Inclusive Recruitment Strategies 2. <u>Tentative Initiatives:</u> <ul style="list-style-type: none"> Career Development Programs & Training Workplace benefits such as flexible work arrangements, parental leave policies, childcare support 	1 year
Employee Turnover Rate (High Employee Turnover = 23.8%)	<u>(Benchmarked against Financial Services Industry Best Practice)</u>	1. Employee satisfaction survey and feedback to highlight the areas of improvement 2. <u>Tentative Initiatives:</u> <ul style="list-style-type: none"> Employee Recognition and Rewards Career Development Opportunities Wellness Programs Competitive Compensation and Benefits 	1. 3 months 2. 3-6 months

Training on Human Rights issues (No employees covered) (The process is initiated by creating the modules and schedule the programs – Approval awaited)	<u><i>Satin Creditcare Network</i></u> Training on human rights issues provided to 100% of the employees	<u>Tentative initiatives:</u> <ul style="list-style-type: none"> Implement strategies such as integrating training into the onboarding process, setting clear expectations, and linking completion to performance evaluations Make participation mandatory for all employees and regularly monitor compliance 	6 months
Customer Satisfaction Scores (CSAT) or Net Promoter Scores (NPS) (Not available)	<u><i>CreditAccess Grameen</i></u> <ul style="list-style-type: none"> Customer satisfaction rate of over 98% Minimum awareness level: 99.7% Third-party Impact Assessment on the company's services 	Make a customer survey module and seek feedback to gauge customer loyalty and satisfaction through the Customer Satisfaction Scores or Net Promoter Scores	6-9 months

5 Analysis of gaps in the Governance pillar

5.1 Our approach:

On the governance side, we evaluate companies' board to understand the structure and composition which is best suitable for independent and effective oversight of the companies' affairs. We try to identify strong linkages between board policies and practices with long-term shareholder interest as well as the ability to mitigate all regulatory levels of compliance and business ethics per se. The following are key areas we evaluate:

- Board composition, functioning, and pay practices
- Board-level ESG oversight
- Integration of business ethics into its business

5.2 Our findings:

Key Strengths

- Adherence to regulatory compliance with 50% independent director composition and by assigning adequate independent directors to the committees of the board
- Board Diversity Policy to outline its approach to achieving and maintaining diversity in the constitution of its Board of Directors and management positions
- Implemented a Code of Conduct and Anti-Bribery & Anti-Corruption policy to ensure ethical business conduct in its business operations and regularly sensitizes its employees on the Code of Conduct through various training programs
- No whistle-blower cases were reported during the year
- Directly/indirectly contributing to 11/17 Sustainable Development Goals (SDGs)

Areas of Improvement

- Identification of Lead Independent Director as an industry best practice
- Board Evaluation by an external agency or third party as an industry best practice
- Identification of Chairman position and separation of CEO and MD roles falls under good governance practice
- Board Oversight regarding the integration of Environmental, Social, and Governance (ESG) factors into business activities by constituting Board-level ESG/Sustainability Committee
- Publishing an ESG/Sustainability/Integrated Report in accordance with the recognized global standards
- Obtain a Sustainability Assurance on the ESG reporting practices to provide stakeholders with confidence in the quality of the ESG reporting
- Disclosure of contributions made to any political parties (if any)

5.3 Action Items and Best Practices

Following are some of the “Gaps Identified & Action Plan” related to the Governance theme of Muthoot Microfin

Gaps Identified	Industry Best Practices	Action Plan	Tentative Timeline
Performance			
Lead Independent Director (Not identified)	<u>CreditAccess Grameen</u> The Chairman of the Board is a Lead Independent Director	Identification of Lead Independent Director as an industry best practice	1 year
<u>ESG Oversight</u> <ul style="list-style-type: none"> ESG/Sustainability Committee Publishing ESG/Sustainability/Integrated Report Sustainability Assurance on reporting practices 	<u>CreditAccess Grameen</u> <ul style="list-style-type: none"> Integrated Report in line with GRI Standard External assurance by BDO India LLP <u>Spandana Sphoorty</u> Sustainability Committee	<ul style="list-style-type: none"> Establish Oversight by forming an ESG/Sustainability Committee Develop Reporting Framework and ESG Report External Assurance on sustainable practices Use KPIs to monitor progress and communicate it transparently 	1-2 years
Board Evaluation by an external agency (No disclosure)	<u>CreditAccess Grameen</u> The board evaluation process is conducted by an external agency	Evaluation of the Board to be conducted through an external agency as an industry best practice	1-2 years
Separation of Chairman and MD roles	<u>CreditAccess Grameen and Spandana Sphoorty</u> Chairman and Managing Director roles are different	Separation of Chairman and MD roles falls under good governance practice	1 year
Political Contribution (No disclosure)	<u>CreditAccess Grameen</u> No financial and in-kind political contributions	Providing vivid disclosure of contributions made to any political parties	3 months

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