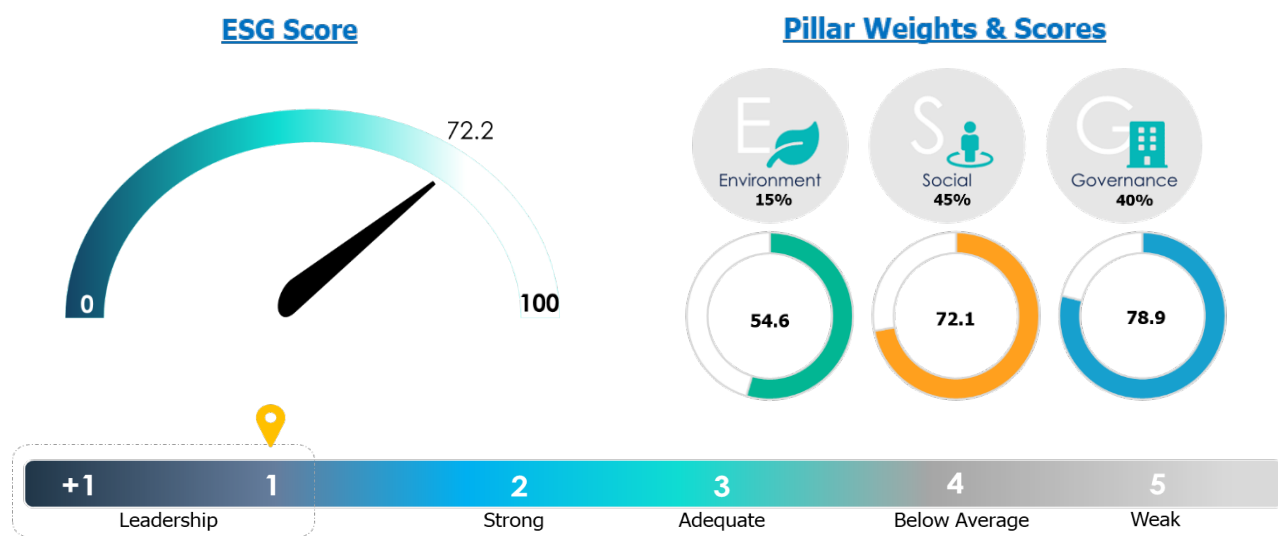


Rating Rationale

MML	Rating Score	Rating Symbol*	Rating Action
ESG Rating	72.2	CareEdge-ESG 1	Assigned

* Please refer to www.careedgeesg.com for detailed understanding of CareEdge-ESG's rating symbols and definitions.

Leadership position in managing ESG Risk through best-in-class disclosures, policies, and performance



Please note: all scores mention in this document are on the scale of 0 – 100

Rating Rationale

The rating assigned to Muthoot Microfin Limited (MML) reflects its advanced ESG stewardship, driven by strong consumer grievance redressal mechanisms, with an above 95% resolution rate, and comprehensive employee welfare programmes. MML has effectively enhanced employee retention through initiatives such as subsidised housing accommodation and support for EV acquisition. MML's governance is supported by comprehensive board approved policies on business ethics, anti-corruption, and cybersecurity, evidenced by its ISO 27000 certification. The company's corporate social responsibility (CSR) initiatives have significantly impacted marginalised communities, with 100% beneficiaries coming from these vulnerable segments.

MML has made strides in climate risk assessment, building resilience to climate-related challenges. However, the rating is moderated by the absence of a dedicated ESG Committee at the board level,

and inadequate training on essential topics such as anti-bribery and anti-corruption. Early-stage environmental initiatives such as limited green financing temper the rating.

Social Score

With a social score of **72.1**, MML surpasses the industry median of 56.5, reflecting its strong performance in consumer protection, data privacy and security, human capital, and community support and development. MML has a robust consumer grievance redressal mechanism with a detailed escalation matrix resulting in an above 95% resolution rate in FY24. The non-banking financial company and micro finance institution (NBFC-MFI) has established strong data security measures exemplified through its ISO 27000 certification and zero data breaches in FY24. MML has demonstrated strong commitment towards diversity, equity, and inclusion attributed from 1:1 female to male pay-parity and a target to achieve an 8% female to male ratio in the near term (11M-FY25 stood at 6% improving from 4% in FY24). The company has taken proactive measures in fostering employee welfare through myriad initiatives such as EV acquisition funding support and subsidised accommodation support for employees. Exhibiting best-in-class work culture, MML has been achieving "Great Place to Work" certification for six consecutive years. MML's commitment to community support is evident, with 100% of CSR beneficiaries coming from vulnerable and marginalised groups and complete utilisation of CSR funds.

However, MML's social score is moderated due to areas identified for further improvement in human capital, human rights, and value chain partners. Low training coverage (FY24: 52%) on skill upgradation to employees underpins the social performance of MML. Mitigating these weaknesses, and conducting CSR projects in aspirational districts and augmenting training coverage for all employees present opportunities for MML to further enhance its social impact and strengthen its overall ESG performance.

Governance Score

CareEdge-ESG has assigned a governance score of **78.9** (industry median: 64.5) reflecting MML's robust governance practices and framework, strong board composition, resolute business ethics, and comprehensive enterprise risk management mechanism. MML has a strong board composition of 10 board members comprising two female board members (accounting for 20%) and 50% independent board members. Governance score benefits from the formation of management level ESG team that is pivotal

towards implementation of a ESG roadmap of MML. MML's governance framework aligns with the extant regulatory requirements, including distinct and regularly reviewed board-approved policies on Code of Conduct, Anti-Bribery, Anti-Corruption, and Whistleblower. The company's transparency is enhanced through its robust grievance redressal mechanism and a detailed escalation matrix for stakeholders. MML's strong investor relations framework and sturdy risk management practices ensure compliance with Securities and Exchange Board of India (SEBI) regulations and related party transactions.

Despite the strong governance score, there are some areas where MML can further strengthen its governance. Absence of a board level ESG committee limits the scope of oversight on sustainability at the board level. While MML currently does not have two-thirds independent directors on its Risk Management Committee (RMC), best-in-class companies typically ensure this level of independence to strengthen governance and enhance risk oversight. Despite these areas for growth, MML's strong focus on compliance, business continuity planning, and stakeholder engagement contribute to its high governance score.

Environment Score

For this industry, the environment pillar has less relevance as opposed to the manufacturing sector, given its low impact on emissions, energy efficiency, and waste management. Therefore, this pillar carries the least weight of 15%. Climate change risk management is the most important theme within this pillar. With a score of **54.6** on environment pillar, MML is placed in top quartile among its peers. This reflects early stage of ESG integration across the sector. Therefore, improvement in disclosures and initiatives shall assist entities in this industry to rapidly transition to better performance on this pillar. MML has initiated several processes, including a robust climate risk framework and an ESG risk register, to proactively identify, manage, and mitigate climate-related risks in its portfolio. With an aim towards effective emissions reduction, MML has undertaken initiatives to incorporate renewable energy in its operations. The company has completed rooftop solar installations at 50 of its branches and aims to maximize renewable energy adoption in its total power requirements. MML has created a green loan book by offering financing for various solar and energy efficient products. However, the green finance portfolio is low, representing only 0.2% of the total asset under management (AUM). MML needs to improve its green loan portfolio to mitigate any of the financed emissions (though small) in its loan book.

In FY24, while its absolute Scope 2 emissions increased, its Scope 2 emissions intensity (per employee) decreased by 3% compared to FY23. While the company has initiated Scope 3 emissions accounting in FY24, there remains a scope to enhance its comprehensiveness by incorporating financed emissions. In FY24, renewable energy comprised only 0.09% of MML's overall energy consumption, highlighting opportunities for increasing the share of renewable energy consumption. Waste management initiatives include reducing paper and e-waste, although overall waste intensity per employee is higher than the industry average. These present significant opportunities to MML for improving its performance via decarbonisation, expanding green financing, detailed accounting of GHG, and waste inventory and comprehensive evaluation of Scope 3. Going forward, to transition to a more sustainable operations and enhance its environmental performance, MML needs to set short-term and long-term targets for reduction of Scope 2 emissions and enlarging categories of green products to fund.

Key Rating Drivers

Strengths

Robust Data Privacy and Cybersecurity Framework

MML upholds a strong, board-approved Client Data Privacy and Security Policy, aligned with the Digital Personal Data Protection Act, 2023. With ISO 27000 certification and no data breaches in FY24, MML demonstrates a high standard of data security. The company enforces rigorous governance through its IT Strategy Committee and Information Security Steering Group. Its cybersecurity framework includes measures such as two-factor authentication, encryption, regular system upgrades, and risk assessments. Data handling is restricted to authorised personnel, with client consent required for data sharing. Regular Internal Audits on Information Security ensures ongoing adherence to privacy and cybersecurity practices.

Strong and diversified board composition with experienced leadership

MML has a strong board structure, with 50% of its members being independent directors. The company shows significant gender diversity, with two female directors, compared to most of its peers who have only one. The board is made up of individuals with extensive experience across various social and governance areas. Members bring expertise in fields such as accounting, financial services, cybersecurity, international banking, and law. However, MML's board structure is somewhat limited

by the absence of individuals on the board or in senior management with expertise in environment/climate-related matters and the lack of a dedicated ESG/sustainability committee.

Comprehensive climate risk assessment

MML incorporates climate-related risks into its risk management framework through regular portfolio reviews. Utilising credible reports, MML assesses the impact of climate change on disbursement and collections, presenting findings to the Board for action. The company integrates ESG risk assessment into its strategy using a detailed scorecard to evaluate sustainability risks. Through its ESG Risk Register and Climate Risk Framework, MML proactively identifies and mitigates environmental, social, and governance risks, while ensuring robust governance and mitigation practices.

MML also offers insurance products, including the Griha Suraksha Shield, providing protection to borrowers against natural calamities. If a borrower faces financial difficulties due to climate-related disasters, the insurance covers up to three loan instalments, minimising the risk of loan defaults. This initiative demonstrates MML's commitment to safeguarding both its clients and its portfolio from the adverse effects of climate change. By ensuring business continuity and offering a safety net, MML empowers customers—especially those in climate-vulnerable regions—to access credit with greater security and confidence.

Exceptional employee well-being and retention efforts

MML is actively promoting employee welfare through initiatives focused on empowering women and sustainability. In collaboration with a two-wheeler company, MML offers employees an optional EV acquisition programme with highly subsidised EMIs, promoting eco-friendly mobility. Their Pink Hiring Initiative focuses on recruiting women leaders for key roles across India. Their HER Initiative offers a platform to address women employees' concerns and provides workshops on workplace rights.

MML has achieved the prestigious Great Place to Work Certification for the sixth consecutive year (FY25) and is ranked among the top 30 BFSI companies in India by the Great Place to Work Institute. To address the high employee turnover rate, which is common in the microfinance sector, MML has implemented initiatives such as providing accommodation at subsidised rents to improve employee retention. The company's employee turnover rate has reduced from 27% in FY23 to 24% in FY24, lower than the 33% average in its peer set.

Effective grievance redressal system at MML

MML emphasises superior customer service through its Grievance Redressal Policy, which offers a fair and cost-effective process for resolving customer issues, including those related to loans, products, insurance, and interpersonal concerns. The company employs a three-tier system. Customers first register complaints at the branch level, where resolution is aimed within seven days; if unresolved, they can escalate via a toll-free number; and finally, the Appellate Authority at the Head Office addresses remaining grievances. For further escalation, customers can approach the Microfinance Institutions Network (MFIN) or the Reserve Bank of India (RBI). MML ensures transparency by providing grievance information in customer training and displaying it at branches. As of FY24, the company has a 95% complaint resolution rate.

Resilient business continuity strategy

MML has an effective Information Security Risk Assessment practice followed as part of its Information Security Management System (ISMS) programme, in which Business Continuity Plan (BCP) requirements are also considered. The organisation also has a Business Continuity Policy for its critical IT systems. Periodic Disaster Recovery Drills are also performed by the IT team to ensure that the BCP setup performs per the design and plan. The organisation's ability and readiness to manage business interruptions are evaluated to provide continuity of services at a minimum acceptable level and to safeguard the company's financial and competitive position in the short and the long term. In addition, the select clauses of the control group 17 of ISO 27002:2013 relating to Information Security Aspects of Business continuity have also been adopted.

Weaknesses**Opportunity to enhance credibility through independent third-party verification**

The company does not have independent assurance for its emissions and energy data. MML has not set targets related to carbon emissions, renewable energy or waste reduction. Introducing such verifications could strengthen stakeholder trust in the reported data and reinforce the effectiveness of the company's strategies.

Scope for enhancing diversity in human capital

MML's workforce has limited diversity, with only one differently abled employee. The female-to-male employee ratio stands at 6, indicating that only 6% of the total workforce is female, significantly lower than the industry median of 12%.

Opportunity to develop robust grievance redressal mechanism for value chain partners and extension of BRSR-aligned training

MML currently lacks a formal grievance redressal mechanism for its value chain partners, which is a critical component in addressing concerns, resolving conflicts, and ensuring effective communication. the company does not train its value chain partners on the BRSR principles, anti-corruption and code of conduct. This absence of training initiatives on these themes may limit the alignment of partners with the company's sustainability and ethical practices, potentially impacting on the overall integrity and effectiveness of its value chain.

Scope to expand POSH training coverage across organisations

In FY24, the company trained 45% of its employees on the prevention of sexual harassment-which is below the industry median of 99%. Considering the critical importance of fostering a safe and respectful workplace, the company needs to scale up its training initiatives and ensure comprehensive coverage across the organisation.

Key ESG Parameters of MML

Parameters	Unit	FY24
Environment		
Scope 2 intensity	tCO ₂ equivalent/employee	0.2
Scope 3 intensity	tCO ₂ equivalent/employee	0.03
Renewable energy consumption	% (of total energy consumption)	0.09%
Green finance AUM	% (of total AUM)	0.2%
Social		
Female borrowers' percentage	%	100%
Female to male employees' ratio	Per 100 male employees	6
Female to male median pay	Per ₹100	100.1
Governance		
No. of Female in board	#	2
No. of Female in KMPs	#	1

% board members trained on BRSR	%	100%
Income gap ratio (CMD pay to median. pay)	X:Y	148.5:1

Data source: company, public sources, CareEdge-ESG research & analysis

Rating Sensitivities

Positive Factors

- Implementation of CSR projects in Aspirational Districts.
- Formation of a dedicated ESG committee on board level.
- Increment of women and differently abled workforce.
- Setting targets for emission reduction, increasing renewable energy usage, promoting green financing and minimising waste.

Negative Factors

- Potential occurrence of data breach.
- Reduced branch presence in rural and semi-urban areas.
- Shift in CSR allocation away from vulnerable and marginalised groups.
- Declining female-to-male employees pay ratio.

Analytical approach:

Rating boundary: CareEdge-ESG has considered standalone data of MML for assessment. The same is in line with their disclosure in BRSR.

Methodology/Criteria: For detailed understanding on the criteria and methodology used by CareEdge-ESG, please refer to the methodology document available on the company's website www.careedgeesg.com

About the Company and industry

MML, a part of the Muthoot Pappachan Group, is a leading microfinance institution. Originally established as a division of Muthoot Fincorp in 2010, MML received its NBFC-MFI license from the RBI in 2015. MML provides loans to women microentrepreneurs, offering products such as education, mobile phone, solar lighting, and sanitation improvement loans.

As of March 2024, MML's income-generating loans portfolio stood at ₹11,260.9 crore, constituting 92.3% of the total portfolio, with AUM at ₹12,193.5 crore. MML operates in 19 states through 1,508 branches, with its core operations in Tamil Nadu, Kerala, and Karnataka. The company continues to expand into new regions, including Telangana and states in North India.

Source of information

While assigning the rating, CareEdge-ESG has considered publicly available information such as annual reports of the company and other policies, sustainability reports, certifications, BRSR reports, additional information, and comments provided by the company.


Status of non-cooperation with previous ERP: Not applicable

Rating history for last three years:

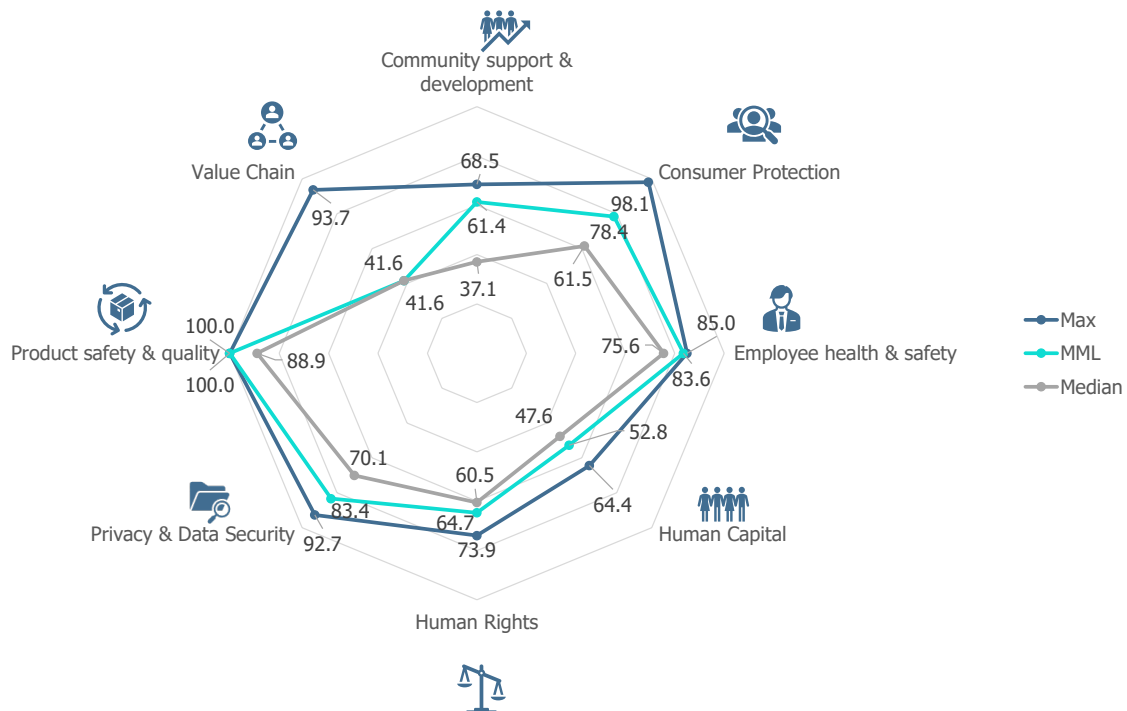
Sr. No.	Name of Product	Current Rating		Rating history		
		Rating	Score	Date(s) & Rating(s) assigned in 2024-25	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23
1	ESG Rating	CareEdge-ESG 1	72.2		-	-

Annexure: Graphical summary of key rating drivers

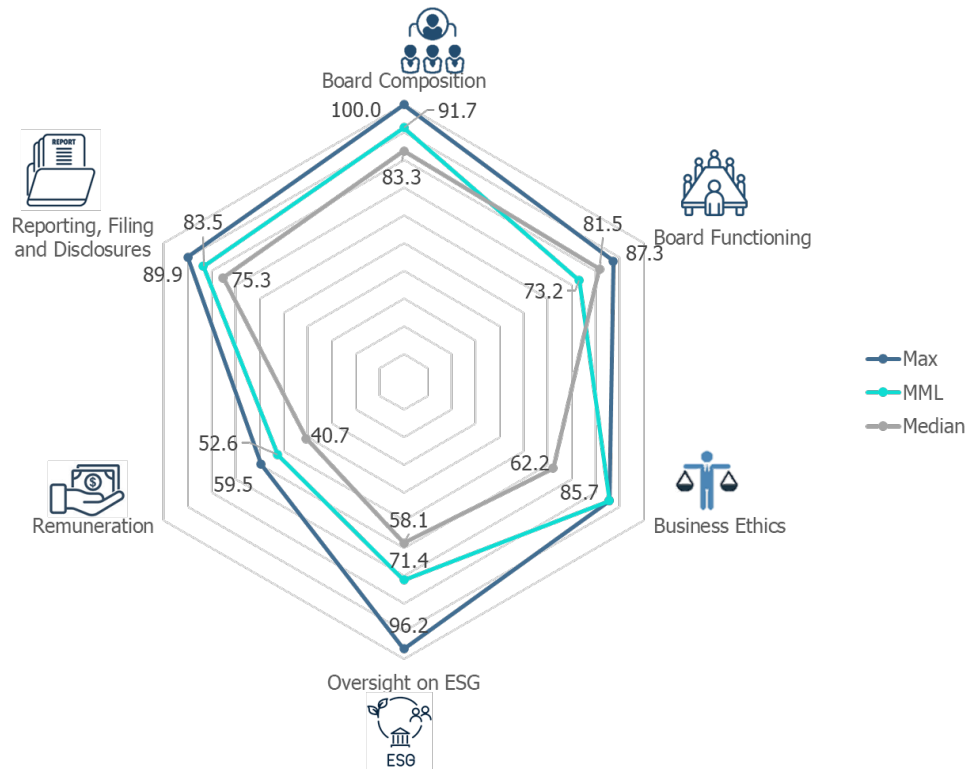
Hierarchy: While arriving at pillar level scores for MML, CareEdge-ESG has assigned theme weights based on relative importance and sectoral hierarchy as depicted in the exhibit below.

Importance	Environment	Social	Governance
HIGH	 Climate change risk management	 Customer protection  Community support & development	 Oversight on ESG  Business Ethics  Reporting, filling & disclosures
MEDIUM	 Carbon and other emissions	 Human capital  Privacy & data security  Human rights	 Board functioning
LOW	 Energy efficiency  Effluent & waste	 Product safety & quality  Employee health & safety  Value chain	 Board composition  Remuneration

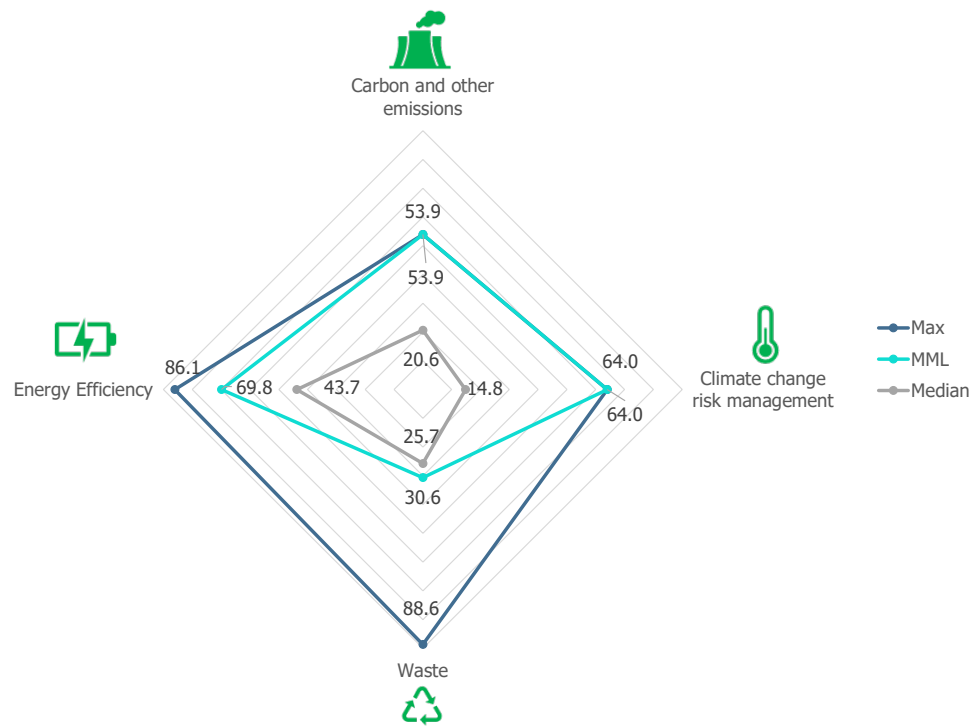
Social Pillar



Governance Pillar



Environment Pillar



Summary of Pillar and Theme Scores:

Theme	MML	Industry Median	Industry Max
Carbon and other emissions	53.9	20.6	53.9
Climate change risk management	64.0	14.8	64.0
Effluent & waste	30.6	25.7	88.6
Energy Efficiency	69.8	43.7	86.1
Total Environment Score	54.6	30.0	54.6
Community support & development	61.4	37.1	68.5
Consumer Protection	78.4	61.5	98.1
Employee health & safety	83.6	75.6	85.0
Human Capital	52.8	47.6	64.4
Human Rights	64.7	60.5	73.9
Privacy & Data Security	83.4	70.1	92.7
Product safety & quality	100.0	88.9	100.0
Value Chain	41.6	41.6	93.7
Total Social Score	72.1	56.5	73.5
Board Composition	91.7	83.3	100.0
Board Functioning	73.2	81.5	87.3
Business Ethics	85.7	62.2	85.7
Oversight on ESG	71.4	58.1	96.2
Remuneration	52.6	40.7	59.5
Reporting, Filing and Disclosures	83.5	75.3	89.9
Total Governance Score	78.9	64.5	78.9
Total ESG Score	72.2	56.8	72.2

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About:

CareEdge is a knowledge based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE ESG Ratings Limited (CareEdge-ESG) is one of the India's pioneer ESG rating provider fostering sustainability with ESG insights. With an aim of being a catalyst of change for a sustainable future with the most credible ESG assessments, CareEdge-ESG provides a 360-degree appraisal for the ESG performance benchmarking cum transition enabling ESG risk mitigation and enhanced decision-making capabilities for all stakeholders.

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