



MFI Grading Report

Asirvad Microfinance Pvt. Ltd (AMPL)

September 2009

Asirvad Microfinance Private Limited**'mfR4'**

Year of Incorporation: August 2007	R.Raghavender Anand Chief Executive Officer Asirvad Microfinance Pvt Ltd 1 st first floor, Deshabandhu Plaza, No. 47, Whites Road, Chennai – 600014 Tel: +91-44-43510081/83 Fax: +91-44-28522960 Mobile: 97890 86986 E-mail : anand@asirvad.org
Legal Status: Private Limited Company	
Type of Institution: MFI	
Lending Model: Grameen model (Lends to joint liability groups of women)	

MFI Grading

mfR1
mfR2
mfR3
mfR4
mfR5
mfR6
mfR7
mfR8

mfR1: highest

mfR8: lowest

CRISIL's microfinance institution (MFI) grading is a current opinion on the ability of an MFI to conduct its operations in a scalable and sustainable manner. The grading is assigned on an eight-point scale, with 'mfR1' being the highest, and 'mfR8' the lowest. The MFI grading is a measure of the overall performance of an MFI on a broad range of parameters under CRISIL's MICROS framework. It includes a traditional creditworthiness analysis using the CRAMEL approach, modified to be applicable to the microfinance sector. The acronym MICROS stands for Management, Institutional arrangement, Capital adequacy and asset quality, Resources and asset-liability management, Operational effectiveness, and Scalability and sustainability.

This grading is a one-time exercise and the grading will not be kept under surveillance. The grading is valid for a period of one year from the date of this letter.

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1. Rationale

The microfinance institution (MFI) grading of 'mfR4' of **Asirvad Microfinance Private Limited** reflects the MFI's following strengths:

- Adequate capitalisation levels
- Profitable operations
- Adequate loan monitoring systems and audit system
- Management's experience in retail financial services

The above-mentioned grading strengths are partially offset by:

- Short operating track record
- Moderate resource profile
- Heightened credit risks despite near 100 per cent on time collections

Profile

AMPL was incorporated in August 2007 and obtained its non-banking financial company (non-deposit taking) (NBFC-ND) license from the Reserve Bank of India (RBI) in December 2007. The company is an MFI engaged in the business of lending to women borrowers organised into joint liability groups (JLGs). It follows Grameen Bank methodology which entails weekly meetings of borrowers organised as groups to repay their loans. The company started operations on January 21, 2008 in Chennai and has since expanded to several districts in Tamil Nadu. As on June 30, 2009, the company had 65,894 members (54,511 borrowers) and a loan outstanding of Rs.172 million spread across 7 districts (refer Table 1). AMPL has a tie-up with Bajaj Allianz Life Insurance Co. Limited to provide insurance cover to its borrowers.

Mr. S V Raja Vaidyanathan and Mr. S.V. Krishnamurthy are the core promoters of the company, and together with their family and friends own 75.50 per cent stake in the company (refer chart 1). The promoters' stake in the company has come down from 99 per cent in July 2009, as AMPL has issued shares to Lok Capital LLC, Mauritius (Lok Capital), a

specialised microfinance investment fund. Lok Capital holds 24.01 per cent stake in AMPL and the balance 0.49 per cent is held by the employees and the MFI's advisor.

Table 1: Outreach Summary

For the period ended	Unit	Jun-09	Mar-09	Jun-08	Mar-08
Members	No.	65,894	57,276	15,317	6,092
Loans disbursed during the period	No.	15,619	43,822	10,543	6,092
Borrowers	No.	54,511	48,425	10,543	6,092
Employees	No.	132	130	48	19
Districts	No.	7	7	3	2
Disbursements during the period	Rs.Mn	82.48	226.49	52.72	30.46
Loan outstanding	Rs.Mn	172.03	150.86	40.25	28.56

Company's Mission and Vision

AMPL's mission is "to empower at least one million families by 2015 by providing financial help." The company's vision is "to organise groups of committed poor women and provide innovative financial services in a sustainable manner with a view to eradicate poverty through viable income generation activities."

Loan Methodology and Product Offerings

The JLGs, each group consisting of five members belonging to the same locality or street, are formed after proper verification by the field development officer (FDO). Four to five such groups, mostly from neighbouring areas, form a centre. Many such centres make a branch. After group formation, AMPL staff spends three days in explaining to the group its policy, promoters' details, and loan product and repayment details. After completion of the three-day programme, the branch manager or area manager conducts group recognition test (GRT) for that particular centre. The eligible groups are selected and allowed to register with the company after paying a one-time admission fee of Rs.30 per member. The loans are then sanctioned after a proper verification of the members' address and identity proof, and after ascertaining their regular attendance to the pre-GRT meetings.

AMPL has only one loan product, and the loan amount is restricted to Rs.5,000 and Rs.10,000 (Rs.15,000 for centre leader) per borrower in first and second loan cycles respectively. The loans carry an interest rate of 12 per cent flat per annum and are for a period of 50 weeks. The company also charges Rs.300 as documentation fee, out of which Rs.36.51 is paid to the insurance company towards insurance coverage.

Management

The MFI has taken some important measures to improve its systems, processes and controls from the time of previous assessment in August 2008. The prominent amongst these being stabilisation of loan monitoring software, collection of data using mobile technology, capturing centre meeting attendance (recently implemented in May 2009), improving cash management and ceasing to recruit staff laterally from an another MFI in the state (since November 2008). However, CRISIL believes that there is still scope for improvement in AMPL's loan appraisal and closer monitoring of centre meeting attendance.

Being a start-up company, AMPL during early part of its expansion in 2008-09 relied significantly on lateral recruitment of staff across its organisational hierarchy from a large Tamil Nadu based MFI. As on November 2008, such staff accounted for close to 60 per cent of the total employee base of AMPL. However, the management realising the risks posed by such recruitment approach stopped such lateral recruitments post November 2008. As a result, the percentage of such laterally recruited employees declined to 37 per cent as on July 31, 2009. Nevertheless, with 32 per cent of the field staff and 72 per cent of the branch managers being laterally recruited from one entity, CRISIL believes that the credit and operational risks continue to remain high in the short to medium term. These risks are accentuated by absence of access to documented operations manual at the MFI's branches (at the time of assessment) which could result in the field staff adopting divergent policies and procedures during group formation, credit underwriting and loan monitoring process.

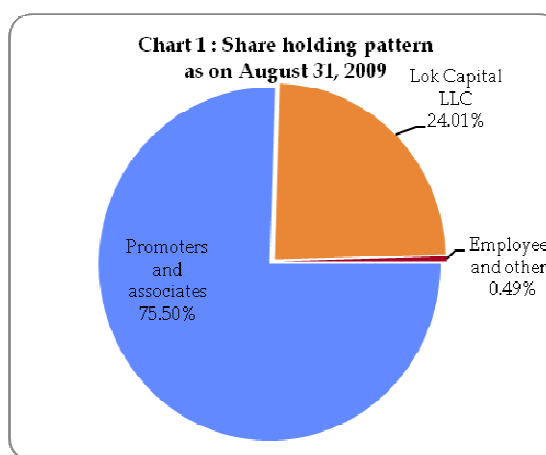
The MFI has centralised its back-end operations with loan applications and know your customer (KYC) documentation being entered at regional centres in Madurai and Chennai. However, AMPL has not fully taken advantage of its centralised back end processing and its software's capabilities to avoid the possibility of lending to its existing borrowers registering as members with a new centre. Similarly, the MFI has started tracking centre meeting attendance only recently at the branch level and has not started analysing the attendance trends at the regional office/head office level.

Institutional Arrangement

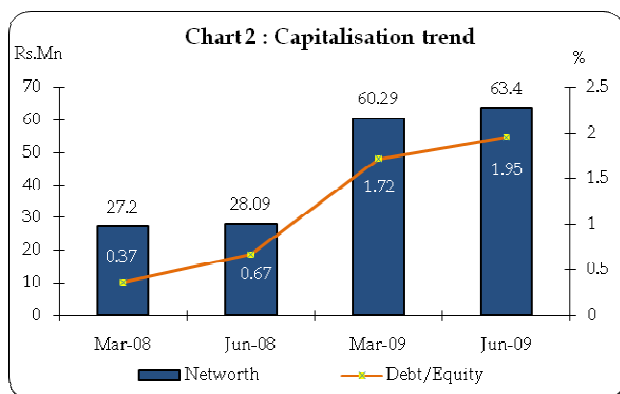
AMPL is governed by a five-member board comprising professionals with finance and banking experience. In addition to the two promoters, the board has three independent

directors. The board is expected to be further broad based with the induction of representative of Lok Capital in the near term. In CRISIL’s opinion, induction of investor’s representative and well qualified independent directors should allow the company adopt adequate corporate governance and transparency measures. The company also has competent senior management, which has sufficient experience in finance, including microfinance.

AMPL’s Chairman, Mr. Vaidyanathan, has more than two decades of experience in the finance and retail sectors and is currently the President of Reliance Retail Business. He was earlier the Managing Director of Foresight Financial Services Ltd, a NBFC promoted by MA Chidambaram group. Given, the’s significant growth plans, Mr. Vaidyanathan is expected to move full time to AMPL by March 2010. The other promoter Mr. SV Krishnamurthy had promoted Professional Management Consultants Pvt. Limited a leading back-office support provider in BFSI space. The company was subsequently acquired by Sundaram Finance Group.



Capital Adequacy and Asset Quality



AMPL has recently in July 2009, raised Rs.69.5 million from Lok Capital LLC, Mauritius resulting in net worth improving to Rs.133 million as on July 31, 2009 from Rs.60.3 million in March 2009 (refer chart 2). The current capitalisation is adequate to support the MFI’s business growth in the

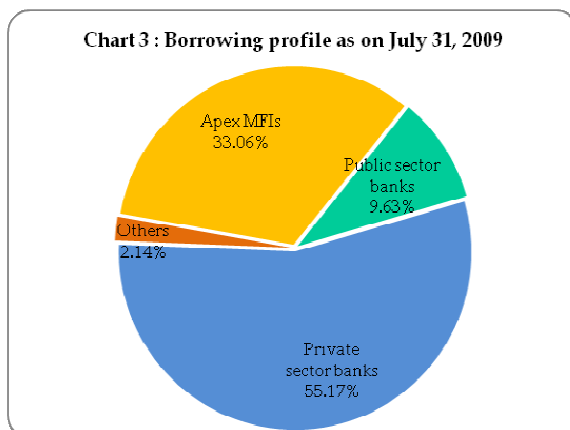
medium term.

AMPL, is expected to become a systemically important non-deposit taking NBFC only in 2010-11 (refers to financial year, April 1 to March 31), when its assets cross Rs.1 billion. The promoters currently hold 75.5 per cent stake in the company and are not averse to further dilution in their stake to support AMPL's business growth in the next two to three years and maintain its capital adequacy ratio above 15 per cent by March 2011.

As on June 30, 2009, 99.98 per cent of the loan portfolio was on-time. The balance amount outstanding was overdue for less than 30 days. However, as the portfolio is unseasoned, the current delinquency levels may not completely reflect the true asset quality in the portfolio. The credit risks remain high on account of risk of non-detection of multiple financing a borrower by multiple lenders, ghost loans and declining centre meeting attendance rates across the industry. While AMPL has been able to recover 100 per cent weekly collections even in centres with less than 50 per cent attendance, CRISIL considers low centre attendance as an indicator of increasing credit risks. CRISIL therefore believes that AMPL's ability to strengthen its processes and controls further would be crucial to minimise such heightened credit risks. AMPL has a loan loss provision policy in place and it provides 0.5 per cent of the loan outstanding. As on March 31, 2009, it had a loan-loss provision of Rs.0.75 million.

Resources and Asset-Liability Management

AMPL's borrowing profile improved significantly from the time of previous assessment in September 2008. The MFI had borrowings of Rs.156 million from four private banks, two apex MFIs, a corporate body and a public sector bank as on July 31, 2009 (refer chart 3). However, given the short operating track record, the company did face some difficulty in raising adequate borrowings on time to meet the credit demand of its clients during March-June 2009. As a result, the MFI had to borrow Rs.50 million from a corporate entity at a high interest rate of 15 per cent during March 2009. To provide greater comfort to lenders, AMPL had in 2008 became one of the first MFIs in the country to provide a tracking tool to its lenders to track their underlying loan portfolio on a day-to-day basis.



AMPL raised Rs.27.5 million during June 2009 and Rs.37 million during July 2009 and has approached several scheduled commercial banks and apex MFIs to raise the remaining borrowing requirement of Rs.455 million for 2009-10. Thus, the manner in which AMPL is able to raise and diversify its borrowings will be a key monitorable.

As majority of assets are of short term nature (advances have tenure of 50 weeks) and are funded by longer maturity borrowings; therefore, the MFI faces no asset liability mismatches over the short to medium term.

Operational Effectiveness

The company achieved a net profit of Rs.5.12 million and operating self- sufficiency (OSS) ratio of 136 per cent (excluding standard loan loss provisioning) in 2008-09. CRISIL expects the MFI's OSS to improve further during 2009-10 on account of lower operating expense levels. The interest spreads (4.5 per cent during 2008-09) are unlikely to improve significantly as the cost borrowings are expected to increase in tandem with increase in portfolio yield. AMPL had deployed a significant proportion of funds during second half of 2008-09 and therefore its portfolio yield (yield on average loan portfolio) was lower than the actual interest rate charged by the company. Similarly, the ratio of interest to average cost of borrowings was lower in 2008-09 as the bulk of AMPL's borrowings were in the second half of the financial year.

Table 2: Key Employee Productivity Indicators

Particulars	Unit	Jun-09	Mar-09	Jun-08	Mar-08
Loan outstanding/credit officer	Rs. Mn	1.85	1.68	1.09	2.2
Members /credit officer	No.	709	636	414	469
Borrowers /credit officer	No.	586	538	285	469

The company's operating expense levels which were high at 16.17 per cent during 2008-09 are expected to decline further benefiting from increase in scale of operations. The number of borrowers per loan officer (AMPL refers to them as FDO) increased to 538 as on March 31, 2009 and further to 586 as on June 30, 2009 from 469 as on March 31, 2008. AMPL had 709 members per loan officer as on June 30, 2009 (refer Table 2) and productivity is expected to remain high given the company's focus in towns and cities. As loan officer needs to travel much shorter distances in urban and semi-urban areas, the productivity of loan officers is higher in urban areas than in rural areas.

Scalability and Sustainability

AMPL has not achieved both its advances and revenue projections for 2008-09. As against projected disbursements of Rs.335 million for 2008-09, the company could disburse only Rs.226.5 million resulting in lower revenues and net profit for the year (refer Table 3). The company has now projected disbursements of Rs.993 million, income of Rs.133 million and net profit of Rs.22 million for 2009-10.

Table 3: Projected vs. Actual Performance for 2008-09

Particulars	Projected	Actual
Disbursements	335.00	226.49
Total income	40.06	30.71
Profit after tax	8.52	5.12
Share capital	50.00	54.89
Reserves and surplus	9.61	5.63
Net worth	59.61	60.29
Loans and advances	227.19	150.86

The company's ability to achieve the 2009-10 projections will depend on its ability to raise adequate resources on time. While AMPL's capitalisation levels are comfortable to support growth in medium term, lenders would also expect the MFI to further strengthen its systems, processes and controls before committing sizeable funds. The strengthening of these has gained importance with increased competition amongst MFIs and multiple lending by their clients.

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2.1. Financial Statements of AMPL microfinance programme

2.1.1. Income and Expenditure Statement

For the year ended	Rs. million	
	Mar-09 12 months	Mar-08 3 months
Fund based income		
Interest income from loans	15.03	0.42
Income from investments /bank deposits	0.52	0.60
Other income		0.00
Total fund based income	15.55	1.02
Interest and finance charges		
On borrowings	6.25	0.08
Total interest and finance charges paid	6.25	0.08
Gross spread	9.31	0.94
Fee based income		
Fee based income	15.16	2.01
Total fee based income	15.16	2.01
Total income	30.71	3.03
Gross surplus	24.47	2.96
Expenses		
Personnel expenses	9.36	0.86
Administrative expenses	6.04	0.98
Total expenses	15.40	1.84
Write-offs and provisions		
Provision for loan loss	0.60	0.15
Total	0.60	0.15
Depreciation	0.89	0.24
Profit before Tax	7.58	0.72
Revenue grants and donations	0.03	-
Tax	2.48	0.21
Profit after tax	5.12	0.51

2.1.2. Balance Sheet

Rs. million

As at	Mar-09	Mar-08 (3 months)
Liabilities		
Share capital	54.89	27.00
Reserves and surplus	5.63	0.51
Less: Misc. expenditure	0.23	0.31
Net worth	60.29	27.20
Borrowings	103.92	10.00
Provision for bad and doubtful debts	0.75	0.15
Provision for tax	2.31	0.21
Other liabilities and provisions	1.56	0.27
Total current liabilities	3.86	0.48
Total liabilities	168.83	37.84
Assets		
Loans and advances	150.86	28.57
Investments in mutual funds	0.01	-
Cash & bank balances	0.40	6.20
Deposits with banks	9.00	1.00
Other current assets	4.47	0.93
Total current assets	13.87	8.13
Total funds deployed	164.74	36.70
Net fixed assets	4.09	1.14
Total assets	168.83	37.84

2.1.3. Key Financial Ratios

in per cent

Year ended /As at Yield	Mar-09
Fund based yield	15.44
Portfolio yield	16.76
Fee based income / Avg. funds deployed	15.05
Total income / Avg. funds deployed	30.49
Cost of funds	
Interest paid/ Avg. funds deployed	6.20
Interest paid/ Avg. borrowings	10.97
Interest spread	
Gross spread/ Avg. funds deployed	9.24
Spreads on lending	4.48
Overheads	
Operating expenses / disbursements	6.80
Operating expense ratio	16.17
Personnel expense ratio	9.30
Administrative expense ratio	6.00
Profitability	
Return on net worth	11.71
Return on funds deployed	5.09
Operational self sufficiency (ex. Std. loan loss provisioning)	136.29
Capitalisation	
Total debt/net worth (times)	1.72
Capital adequacy	38.39

2.2. Projected Financial Statements as provided by AMPL

2.2.1. Projected Business Indicators

Indicator as on March 31,	2009 (A)	2010 (P)
Disbursements (Rs. Mn)	335	992.7
Borrowers(No.)	59,000	148,970
Branches(No.)	15	40
Customers / Branch(No.)	3,933	3,724

2.2.2. Projected Profit and Loss Statement

Rs. million	
For the year ended March 31,	2010
Fund based income	131.34
Interest paid on borrowings	61.67
Gross spread	69.68
Fee based income	2.02
Total income	133.36
Gross surplus	71.69
Total operating expenses	36.33
Write-offs and provisions	
Provision for loan loss	2.46
Total	2.46
Depreciation	2.13
Profit before tax	30.78
Tax	9.39
Profit after tax	21.39

2.2.3. Projected Balance Sheet

Rs million

As at	Mar-10
Liabilities	
Share capital	71.52
Share premium	52.33
Reserves and surplus	27.00
Less: Misc. expenditure	(0.15)
Net worth	150.69
Borrowings	562.23
Total long term borrowings	562.23
Provision for loan loss	3.21
Other liabilities and provisions	15.51
Total current liabilities	18.72
Total liabilities	731.64
Assets	
Loans and advances	641.83
Total investments	64.73
Cash and bank balance	13.48
Other current assets	7.03
Total current assets	20.51
Total funds deployed	727.07
Net fixed assets	4.56
Total assets	731.64

2.2.4. Projected Key Financial Ratios

in per cent

Year ended March 31, Yield	2010
Fund based yield	29.46
Portfolio yield	33.14
Fee based income / Avg. funds deployed	0.45
Cost of funds	
Interest paid/ Avg. funds deployed	13.83
Interest paid/ Avg. borrowings	18.51
Interest spread	
Gross spread/ Avg. funds deployed	15.63
Interest spread	10.94
Overheads	
Operating expense ratio	8.63
Profitability	
Return on net worth	20.28
Return on funds deployed	4.80
Operational self sufficiency	130.00
Capitalisation	
Total debt/net worth (times)	3.73
Capital adequacy	20.98