



Micro-Finance Rating - Risk Assessment

GRAMUTTHAN (GU)

Kendrapara, Orissa (India)

DRAFT REPORT

***Validity** This rating is valid till the next loan proposal made by the MFI to any financial institution or till any other significant change in the structure of the loan programme or in its external environment. A **rating update** (comprehensive repeat rating) is recommended whenever such changes take place or at the end of **one year** from the date of the initial assessment, whichever is earlier. Any substantial additional information that becomes available could also result in a rating update or a rating review (revision of rating grade based on a desk analysis).

Liability The rating assigned is a professional opinion of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.



Key Risk Factors

- 1 Low capital adequacy:** The capital adequacy of GU is very low, due to accumulated losses owing to high operating expenses in the past, and a relatively low yield on portfolio. Although the capital adequacy position has improved slightly since the last rating (from negative 3.9% to positive 0.1%), it continues to be very low. This might adversely affect the future growth plans of the organisation.
- 2 Risk of natural disasters:** GU operates in an area which is prone to floods, cyclones and heavy rain. GU has faced problem of delayed repayment from clients due to floods and cyclones in certain parts of its operational area in the past. The microfinance operations of the organisation had also been affected due to diversion of resources for relief work. Similar disasters may adversely affect the repayment of loans extended to clients in the affected areas.
- 3 Insurance product:** GU has started offering life insurance services on its own to its members. Although the sum assured is limited, the insurance product poses a serious risk, particularly since the operational area of the organisation is prone to natural disasters.

Key Programme Strengths

| Governance, experience and strategy | Management and operations | Financial |
|----------------------------------------------------|---------------------------------------------|--------------------------------------------------------------------------------------|
| 1 Long years of experience in the operational area | 1 Committed and experienced staff resources | 1 High Yield to APR ratio 2 Productive deployment of assets in the loan portfolio |



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Organisational Profile

| Legal form | Years of m-f Operation | Number of | | | |
|------------|------------------------|------------------|-------|----------|-----------------------------------|
| | | Active borrowers | Staff | Branches | Active borrowers/ Staff member |
| Society | 9 years | 13,458 | 50 | 9 | 269 |

Microfinance programme: Operational highlights

| Outstanding borrowings of MFI (Rs)* | Loan portfolio managed by MFI++ (Rs) | Cumulative loans disbursed by MFI (Rs) | Average loan size from MFI to borrowers (Rs) |
|-------------------------------------|--------------------------------------|----------------------------------------|----------------------------------------------|
| 1.8 crores | 4.7 crores | 11.1 crores | 8,124 |

* In addition to the above, the organisation has to repay Rs1.6 crore to ICICI under partnership model

++ Including Rs1.4 crore outstanding under partnership model for ICICI

Key financial ratios

| | | | | |
|--------------------------------------|----------------------------------------|--------------------------------------|--------------------------------|----------------------------|
| Portfolio at risk (>=60 days) | Current repayment rate | Risk weighted capital adequacy ratio | Weighted average cost of funds | Yield to APR ratio |
| 13.1% | 97.0% | 0.1% | 4.6% | 96.1% |
| Yield on portfolio | Other income to average portfolio | Financial cost ratio | Loan loss provisioning ratio | Operating expense ratio |
| 17.3% | 5.4% | 9.8% | 2.0% | 9.4% |
| Total income to average total assets | Total expenses to average total assets | Return on average total assets | Operational self sufficiency | Financial self sufficiency |
| 19.6% | 22.6% | -3.1% | 86.4% | 64.4% |

Notes

- All figures are estimated for the organisation's microfinance programme as on 30 Sep 2005.
- 'Members' refer to the women and men who are members of the SHGs promoted by GU. The number of members in GU's programme was 22,244 (including 113 men) on 30 Sep 2005.
- Other income includes income that the organisation receives as documentation charges and bank interest.
- Loan loss provisioning has been made for the current year at 2% of the average portfolio, increasing the reserves to 2% of the total portfolio (including managed portfolio) as on 30 Sep 2005.
- The ratio of repayment rate and PAR₆₀ has been calculated from the MIS reports generated by GU. Accuracy of data generated by the MIS has been verified by the rating team through an audit of the systems at GU.



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Comparative highlights Grade distribution

| Category | Rating grade | | Movement ³ |
|-----------------------|--------------|--------------|-----------------------|
| | October 2003 | October 2005 | |
| Governance | β | | |
| Management | β | | |
| Financial performance | β | | |
| Overall | β | | |

Select indicators/ratios

| Indicator/ratio | October 2003 | October 2005 | Change ¹ |
|---------------------------------------|--------------|--------------|---------------------|
| 1 Growth | | | |
| Loans outstanding (Rs lakh) | 89.9 | 320.2 | Increase |
| Outstanding borrowings (Rs lakh) | 64.1 | 179.1 | Increase |
| Active borrowers | 9,384 | 13,458 | Increase |
| Average loan size (Rs) | 4,391 | 8,124 | Increase |
| 2 Credit performance | | | |
| Cumulative repayment rate | 97.0% | 97.0% | ↔ |
| Portfolio at risk (>=60 days) | 10.3% | 13.1% | ↓ |
| 3 Efficiency and profitability | | | |
| Active clients per staff | 112 | 114 | ↔ |
| Loans to total assets | 76.2% | 88% | ↑ |
| Annual return on assets | -16.9% | -4.1% | ↑ |
| Operating self-sufficiency | 45.2% | 86.4% | ↑ |
| Financial self-sufficiency | 38.5% | 64.4% | ↑ |
| Capital adequacy ratio | -3.9% | 0.1% | ↑ |

The overall rating of GU remains the same as that at the time of the previous rating, in spite of the improved performance on asset management and sustainability indicators, as well as the slightly improved capital adequacy position. This is mainly because of the life insurance product that GU has started offering in-house, and also because of the significant weaknesses in the system for tracking overdues and the internal control systems of the organisation, which have resulted in poor quality of loan portfolio.

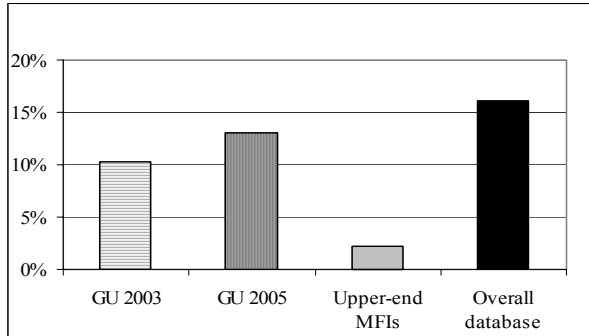
¹ An upward arrow indicates an improvement over the previous rating and vice versa for a downward arrow; a constant arrow indicates very low or no change.



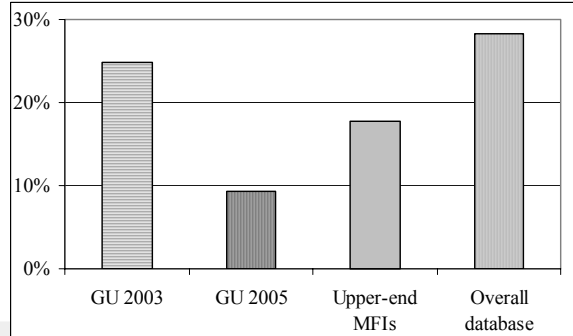
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GU – financial overview

Portfolio at risk (>=60 days): 30 Sep 2005

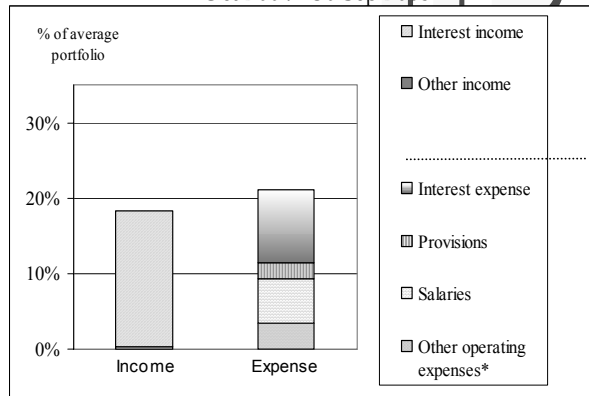


Operating expense ratio: 1 Oct 2004 - 30 Sep 2005

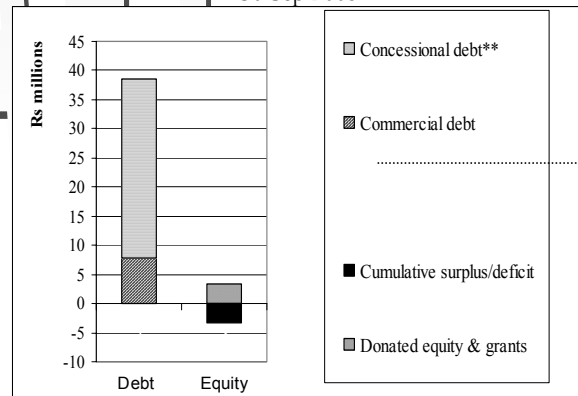


- Note:**
1. $n_{upper-end} = 10$ $n_{database} = 212$ (excluding outliers); Database figures as on 31 December 2004
 2. Outliers and rated MFIs with no direct lending have been removed for analysis. Upper-end figures reflect top 10 MFIs.
 3. The upper-end MFIs and overall database ratios represent simple averages for their respective samples.
 4. The performance of either the Upper-end MFIs or all MFIs (overall database), do not necessarily reflect M-CRIL's rating standards.

Income and expense distribution:
1 Oct 2004 - 30 Sep 2005



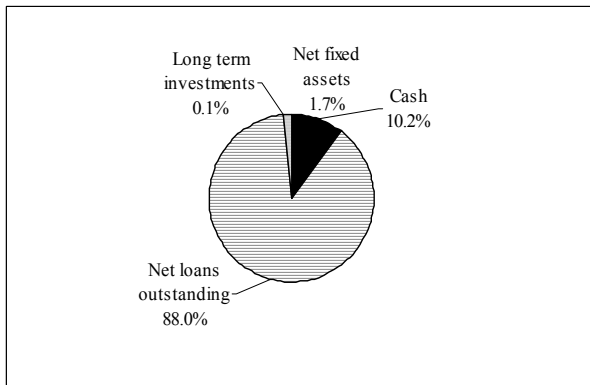
Debt and equity composition:
30 Sep 2005



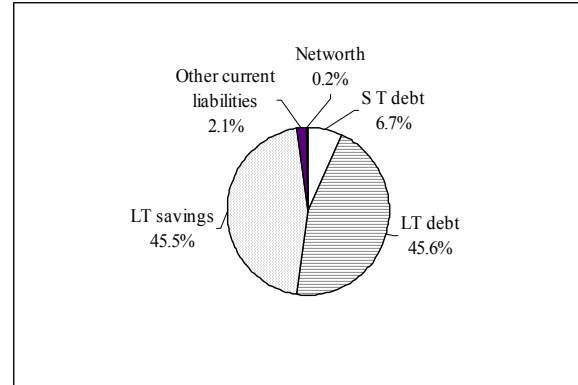
* Other operating expenses include travel, depreciation and administrative expenses

** Concessional debt is borrowing+comp.savings taken at < Bank PLR, voluntary savings taken at < bank deposit rates

Asset composition: 30 Sep 2005



Liability & net worth composition: 30 Sep 2005





1 Organisational background

Gramutthan (GU) – registered under the Societies Registration Act, 1860 – was set up in 1990 for the socio-economic development of the rural areas in the coastal belt of Orissa. The initial focus of the organisation was on health and sanitation, and it was involved in promotion of smokeless cooking stoves and construction of sanitary latrines.

In 1996, the organisation started promoting Self Help Groups (SHGs) of women, encouraged them to lend to members from their pooled savings and provided training on book-keeping, fund management etc. In 1998, GU received a loan from the Rashtriya Mahila Kosh for onward lending to the SHG members, and was thus able to expand its microfinance operations. The microfinance programme of GU received a major thrust in 2001 when it got associated with the CASHE project of CARE.

Presently, while microfinance continues to be the main focus area of the organisation, it is also involved in other grant-based projects such as education and disaster management.

GU has an eleven members Board, consisting mostly of persons experienced in rural development and representatives from the member community of the organisation. Since the last rating, GU has added Mr Subrat Singh Deo, former CEO of RGVN (another MFI in Orissa) and presently an independent consultant, as a member on the Board.

2 Microfinance operations

2.1 Background of microfinance operations

At the time of the rating visit in October 2005, GU was working in four districts of Orissa through nine branches. It had an outreach of 22,244 members, organised into 1,682 SHGs (as on 30 Sep 2005).

The organisation is led by the Executive Secretary, who is also the promoter of GU and one of the members of the Board. The Executive Secretary is assisted by one Project Leader. Other senior staff at the Head Office includes one accountant and one MIS officer.

Field operations are managed by Branch Co-ordinators (BCOs), who are assisted by 4-5 Community Organisers (COs). In addition to the Community Organisers, there are also animators who are temporary staff, paid incentives for group formation.

For its operations, GU has availed of loan funds from various sources. In addition to loan funds, the savings that GU collects from its members are also a major source of funds for the organisation. The details of loan funds received by GU have been summarised in the following table:



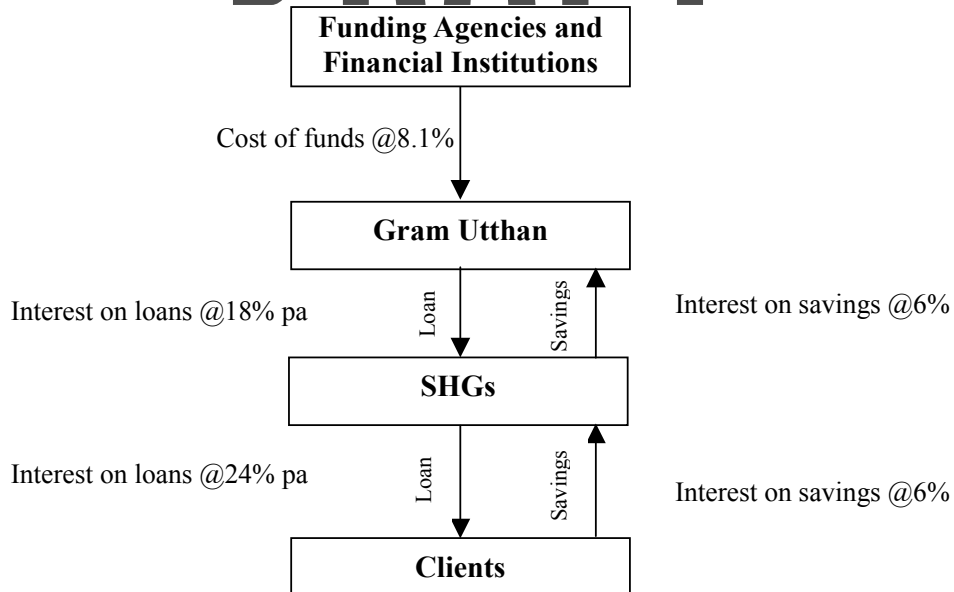
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| Source of funds | Cumulative amounts received (Rs lakh) | Outstanding on 30 Sep 2005 (Rs lakh) | Rate(s) of interest |
|-----------------|---------------------------------------|--------------------------------------|---------------------|
| CARE-CASHE | 217.7 | 69.5 | 8.0% |
| NMDFC | 28.3 | 15.0 | 1.0% |
| SIDBI | 20.0 | 17.1 | 9.0% |
| FWWB | 30.0 | 27.5 | 11.5% |
| ABN Amro Bank | 50.0 | 50.0 | 11.0% |
| NBCDFC | 7.5 | | 4.5% |
| RMK | 12.0 | | 8.0% |
| Total | 365.5 | 179.1 | |

Managed fund under partnership model

| Source of funds | Cumulative amounts received (Rs lakh) | Outstanding on 30 Sep 2005 (Rs lakh) | Rate(s) of interest | First loan default guarantee (FLDG) |
|-----------------|---------------------------------------|--------------------------------------|---------------------|-------------------------------------|
| ICICI Bank | 200.0 | 162.5 | 9.5% | 12.0% |
| Total | 200.0 | 162.5 | | |

The flow of funds to and from the organisation is as given in the following diagram:





2.2 Microfinance policies

The organisation's operational policies are largely the same as before. Lending is mainly through SHGs consisting of 10-15 members. Most of the members of GU's microfinance programme are women, and the organisation has only about 100 men belonging to a minority community as members, who have been provided loan from the funds provided by NMDFC. The SHGs are formed after an informal survey in villages near those that already have other SHGs promoted by GU. The SHGs are given loan six months after formation, during which period the members are provided training on topics such as history of GU, concept of microfinance and basic bookkeeping. All financial transactions are carried out in the monthly meetings of the SHGs, which are also attended by the COs. A part of the interest charged from clients is retained by the SHG for internal loaning purpose.

Loan applications originate from the groups, with the group members passing a resolution for the same. The detailed loan application is prepared by the group leader and forwarded to the Branch Co-ordinator through the Community Organiser. The CO then grades the SHG based on parameters such as members' attendance in meetings, internal loan performance and quality of books and records. The loan applications from SHGs scoring beyond a certain minimum score are sent to the HO for the approval of the Loan Committee, after they are approved by the BCO based on criteria such as purpose of loan, group savings and repayment history of the group.

The Loan Committee, consisting of the Executive Secretary, the Project Leader, any one member of the Board, the Branch Co-ordinator and any one senior SHG leader meets on the 2nd of every month to appraise the loan applications from all the branches received and processed during the previous month. Loans are disbursed to a maximum of three members per group in the first loan cycle, and to five members per group in the subsequent loan cycles. Loan utilisation is checked by the BCOs and the COs.

The organisation has also recently started offering micro-enterprise loans of higher amounts to members who have availed of three or more loans. The appraisal process for such loans is almost the same as above, except that, before forwarding the application to the Loan Committee, a viability analysis of the proposed micro-enterprise is carried out by the BCO and the CO and it is ensured that the other members in the group do not have any objection to the loan.

Savings

GU offers one compulsory savings product to its members, wherein each member is required to save Rs30-100 per month. These savings are not withdrawable till the member drops out from the programme. GU offers interest on the savings deposit of members at the rate of 6% pa.

Apart from the above, the SHGs collect voluntary savings from the members and also collect two rupees per month, per member as emergency fund.

Loan products

The organisation has only one loan product offered both for income generation as well as consumption purposes. The loan size varies from Rs1,000-4,000 per member in the first cycle to Rs10,000-15,000 per member in the third and last cycle. The loans are repayable in 12-18



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monthly instalments, and the interest rate charged is 18% on monthly rests. GU also charges 0.5% of the loan amount as upfront loan processing fees. The Micro-Enterprise loans, which are higher than Rs15,000 per member, are also offered with the same terms as the General loans.

Insurance

GU offers life insurance services to its members on its own, by charging 1% of the loan disbursed as premium. In case of death of any borrower, the next of kin is offered a sum assured of Rs500, and the loan outstanding against the deceased client are also written off.

3 Observations

3.1 Governance & strategy

GU shows moderate performance on governance. The organisation has a clear focus on microfinance, and has improved its product design since the last rating. The composition of the Board has improved, and GU has also been able to mobilise a significant amount of loan funds, thus improving the ratio of active clients to total members considerably since the last rating. However, the organisation has started offering a life insurance product on its own, which increases the risk perception of the organisation. The low capital adequacy of the organisation continues to be a matter of concern.

➤ Strategy for microfinance operations

GU has a clear focus on microfinance operations, and it has a separate set of staff handling the microfinance operations at the field level, although the senior managerial staff is common for the other programmes as well.

In spite of the relative inaccessibility of the villages in GU's operational area, the organisation has achieved a reasonably high concentration of operations, which has improved the efficiency of the operations.

GU has improved the design of its loan products since the last rating, by clearly specifying the size of each instalment and the number of instalments for each loan at the client level. This has simplified the process of monitoring of loans.

The organisation has improved the composition of the Board by inducting Mr Subrat Singh Deo, former CEO of RGVN and presently, an independent consultant in microfinance. The strategy of involving members of the Board in Management Committees (Loan Committee, Delinquency Management Committee etc) also contributes to improving corporate governance.

GU has considerably improved the ratio of active clients to total members (61% from <40% at the time of the last rating), while registering significant growth in the number of members (137% over a period of two years). This has been possible due to a significant inflow of loan funds from CARE as well as from other commercial sources of funds, including ICICI Bank under the partnership model.



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One major cause for concern is the life insurance product of the organisation. Although GU's liability with regard to the sum assured to the nominee of the deceased client is limited to Rs500 per client, the contingent liability of such payouts and also the amount of loan outstanding, which has to be written off, poses a serious risk. The risk is also significantly higher in the case of GU, since the area is prone to natural disasters. Moreover, GU is not legally authorised to offer life insurance to members on its own, as per the guidelines of the IRDA in this regard. The organisation is presently involved in discussions with ICICI Lombard for insurance cover on loan, which will be used to write off the amount of loan outstanding against borrowers who die.

Another matter of concern is the low capital adequacy of the organisation. Although the capital adequacy position has improved since the last rating (CAR of +0.1% as compared to a negative 3.9% at the time of the last rating), yet the capital adequacy is very low. Moreover, GU's yield on its portfolio continues to be low, which limits the organisation's ability to build up reserves to improve the capital adequacy position. This may inhibit the ability of the organisation to access loan funds in the future, unless the organisation is able to mobilise a significant amount of grants. The present legal status of GU as a society limits the ability of the organisation to access equity funds. The organisation is presently exploring the options of transforming into a more suitable legal entity, whereby it would be able to access equity funds from interested investors.

3.2 Managerial factors

GU displays moderate performance on managerial factors. While the MIS has improved since the last rating, the weaknesses in the tracking system for overdues and the internal control systems are matters of concern.

➤ Human resource quality and management

GU has committed managerial staff. Most of the senior staff have substantial experience in major NGOs of Orissa and have good understanding of microfinance operations and ground realities. The organisation has also started inducting qualified young professionals at the managerial level, with the support of SIDBI. Most of the managerial staff have received training on microfinance, accounting and other related topics from CARE.

The field level staff showed good understanding of microfinance, although their skills in accounting and financial analysis were found to be weak.

➤ Accounting and MIS

GU has a reasonable accounting system at the branches and at the Head Office. At the branches, a Cashbook is prepared on a daily basis, based on a Daily Collection Register, which records the collections made from the field each day. On the basis of the Cashbook, a Receipts and Payments statement, General Ledger and Trial Balance are prepared on a monthly basis. At the HO, which also serves as one of the branch offices, the same set of books are prepared, in addition to consolidated financial statements for the organisation as a whole, on a monthly basis. Audited financial statements are prepared annually. The organisation, however, does not have a loan loss provisioning and write-off policy.

The collection statements form the basis of the MIS at GU. Collection statements serve as vouchers for the accounting systems at GU, and are prepared in triplicate (one copy is retained by the CO, one copy is given to the group and the other copy is submitted by the CO in the branch office). The COs prepare a Dues Register, showing the member-wise instalment due amount for each month. However, the Dues Register shows the amounts due as per schedule, and missed instalments or prepayments are not accounted for correctly. Based on the collection statements and the Dues Register, the BCO prepares an individual Savings and Loan register, which shows the outstanding balance of loan and cumulative amount of savings for each client.

At the HO, the MIS officer prepares monthly group-wise reports on the loan portfolio and savings using MS-Excel. While this spreadsheet does report on the repayment rate and portfolio quality, the calculations are based on estimated monthly demand assuming a 13-month repayment term for all loans.

➤ Tracking system for overdues

GU has weak systems for tracking overdues. The branches send a list of overdue accounts (with the amount in arrears, amount outstanding and age) to the HO on a monthly basis. This list forms the basis for GU's report on overdues and PAR. However, the rating team noted that this list is not prepared correctly since the names of several clients having overdues during any particular month were not appearing in the list for the subsequent months, although the clients had defaulted on instalments for the intervening period. Since the list of overdue clients is incorrect, and the Dues Register maintained by the CO also does not reflect on the overdues, tracking of overdues becomes difficult and irregular.

The BCO and CO are first held responsible for recovering arrears from clients having less than 90 days of overdues. If they are unable to recover the same, it is brought to the attention of the Delinquency Management Team (DMT) at the Head Office. The DMT consists of the same staff representatives as the Loan Committee, and also has one member of the Board (who is not a member of the Loan Committee). The DMT visits the group and organises a meeting of the other groups in the area, to pressurise the defaulting group to repay.

➤ Financial planning and control systems

GU has good overall planning systems. The organisation prepares detailed annual projections, which are broken down into monthly targets for every branch. The branch-wise targets are further broken down into targets for each Community Organiser, and these are displayed on the wall in the branch office. The performance of each branch is reviewed in the staff meetings held at the end of every month, and targets for the next month are assigned accordingly, in consultation with the BCOs and COs.

Cash planning is done at the HO, and a monthly cash flow statement is prepared based on the amount of loan approved each month by the Loan Committee. The collections made at the branches are not transferred to the HO, and the branches generally disburse loans from funds available with them. In case of need, the HO transfers funds to the branches in cash (through Project Leader or BCO). If any branch has projected surplus of cash (due to



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relatively low projected loan disbursements), the excess amount is deposited in cash in the bank account of the Head Office.

GU has moderate internal control systems. The collection statements are only occasionally cross-checked with the group-level records and the records at the branch office. The organisation does not have a formal internal audit system. The MIS officer and the Project Leader occasionally visit the branches and check the accounts and records maintained, using a simple monitoring sheet. These visits are not planned and are not made regularly. Moreover, no formal reports are prepared for the observations made during the visits. The monitoring sheet used by the staff for these visits lacks rigour and does not give a detailed report on the observations made by them. The weaknesses in the internal control systems may affect the growth and operational stability of the programme in the future.

The organisation plans to have a full-fledged internal audit team in the future, and has already identified two staff to be sent for training on internal audit, supported by CARE.

Due to the relative inaccessibility of the villages where GU operates, collections made by the COs are not deposited in the branch office the same day, and cash remains with the COs for three-five days. This increases the risk of misappropriation of funds and fraud as well as loss of cash in transit. The organisation is planning to introduce cash-in-transit insurance to minimise the risk.

➤ Quality of clients/member groups

Visited member groups showed reasonable performance on repayment of loans and overall discipline. While the awareness about the organisation's rules/norms was observed to be high, the members had limited understanding of the loan terms and the interest and principal component of the loan instalment. Their understanding about the insurance product was also found to be limited.

➤ Infrastructure

GU has an infrastructure base of Rs6.5 lakh as on 30 Sep 2005. This includes computer hardware and software, vehicles, furniture and fixtures at branches and at the head office. All the branches of the organisation operate from rented premises. The field staff use their own bicycles or two-wheelers for their job, and are provided with travelling allowance. The infrastructure available with GU is adequate for its present scale of operations, and is being used effectively.

3.3 Financial performance

The financial performance grade of GU is reasonable. This is mainly due to the improvements in the operational efficiency and sustainability indicators, asset management and the capital adequacy position of the organisation. The moderate quality GU's portfolio is, however, a matter of concern.

➤ Credit performance and asset quality

GU has moderate credit performance, with a current repayment rate of 97% and a PAR₆₀ of



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13.1% as on 30 Sep 2005. The PAR₆₀ has increased since that during the last rating, mainly because of the poor tracking system for overdues. The credit performance of the organisation may deteriorate if improvements are not made in the system for tracking overdues.

In terms of diversification, GU's portfolio is reasonably well diversified with about 41% of loans in animal husbandry, 20% in trade, 27% in agriculture, 3% in consumption and about 9% in housing.

➤ Mobilisation of funds

GU has succeeded in mobilising loan funds from several sources and repayment to its lenders has been timely. CARE continues to be the major lender to GU, and the organisation has also mobilised loan funds from FWWB, ABN AMRO Bank and SIDBI. The organisation has also received a significant amount of funds from ICICI Bank under the partnership model, with the loan portfolio under the partnership model being almost 50% of the organisation's own portfolio. Under this partnership, GU promotes the groups of clients and disburses and manages the loan for ICICI Bank. The loan assets belong to the bank while its management and recovery is GU's responsibility. ICICI Bank charges an interest of 9.5%, with a First Loss Default Guarantee (FLDG) of 12%. Till 30 Sep 2005, GU has disbursed Rs2.0 crores to various groups under the partnership model.

➤ Asset, liability and equity composition

GU has utilised its assets well with about 88% deployed in loans. The cash and bank balances stood at 10.2% of total assets, which is mainly because of the poor banking infrastructure in the operational areas of the organisation. On the liability side, the organisation has relied almost equally on external loan funds as member savings, with both external debt and savings contributing to about 46% each, of the total assets.

The capital adequacy position of the organisation is a cause for concern (CAR at 0.1%). This has been caused by poor operational efficiency in the past, since the organisation had promoted a large number of groups, but was unable to extend loans to them due to lack of funds (which resulted in high operating expenses in relation to the size of the portfolio). While the operational efficiency has improved, the organisation may not be able to improve its capital adequacy position significantly without grant inflows. This is because of the low yield that the organisation earns on its portfolio.

➤ Profitability and Sustainability

GU's operations are still not profitable and the RoA continues to be negative, although it has improved from (16.9%) at the time of the last rating, to (3.1%). While the organisation has improved its operational efficiency since the last rating (OER at 9.4% compared to 24.9% at the time of the last rating), the yield on portfolio continues to be low at 17.3% (with a high Yield to APR ratio of 96.1%), which limits the profitability of the organisation. This is mainly due to the present interest rate structure on loans (APR of 18.0%), which is not sufficient to cover the costs of the organisation.

GU's Operational Self-Sufficiency at 86.4% and Financial Self-Sufficiency at 64.4% are better



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than those during the previous rating (OSS: 45.2%, FSS: 38.5%), but are still quite low. These are likely to remain at more or less the same level in the near future, unless there is a significant increase in the yield on portfolio.

4 Conclusions

| Strengths | Weaknesses |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><u>Organisational</u></p> <ul style="list-style-type: none"> ✓ Long years of experience in the operational area <p><u>Managerial</u></p> <ul style="list-style-type: none"> ✓ Committed and experienced staff resources <p><u>Financial</u></p> <ul style="list-style-type: none"> ✓ High Yield to APR ratio ✓ Productive deployment of assets in the loan portfolio | <p><u>Organisational</u></p> <ul style="list-style-type: none"> ✗ In-house life insurance product ✗ Unclear equity mobilisation strategy ✗ Unviable interest rate structure on loan products <p><u>Managerial</u></p> <ul style="list-style-type: none"> ✗ Inadequate internal control systems ✗ Poor system for tracking overdues <p><u>Financial</u></p> <ul style="list-style-type: none"> ✗ Low capital adequacy ✗ Moderate performance on profitability and sustainability ✗ Moderate quality of loan portfolio |



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Financial statements for GU's microfinance operations

Balance Sheet

| <u>As on 30 Sep 2004</u> | | <u>As on 30 Sep 2005</u> | |
|---------------------------------|----------------------------------------|--------------------------|-------------------|
| | | <u>Rs</u> | <u>Rs</u> |
| Assets | | | |
| Current assets | | | |
| 2,901,585 | Cash in hand and bank | | 4,025,824 |
| <u>Loans outstanding</u> | | | |
| | Total portfolio outstanding | 46,528,375 | |
| | Less Portfolio managed for ICICI Bank | 13,609,350 | |
| 20,303,695 | Gross loan portfolio | 32,919,025 | |
| (406,074) | (Loan loss reserve) | (1,080,590) | |
| 23,205,280 | Net loans outstanding | | 31,838,435 |
| 26,106,865 | Total current assets | | 35,864,259 |
| Long term assets | | | |
| | Long term investments | 2,800,000 | |
| 401,010 | Net property and equipment | 651,579 | |
| 401,010 | Total long term assets | | 3,451,579 |
| 23,606,290 | Total Assets | | 39,315,838 |
| Liabilities and Networth | | | |
| Current liabilities | | | |
| | Insurance fund | | 469,415 |
| | Staff corpus fund | | 350,000 |
| <u>Short term debt</u> | | | |
| | ICICI Bank | 2,640,650 | |
| | Total short term debt | | 2,640,650 |
| | Total current liabilities | | 3,460,065 |
| Long term liabilities | | | |
| 8,778,448 | Long term client savings | | 17,876,743 |
| <u>Long term debt</u> | | | |
| 12,385,000 | Care-Cashe | 6,950,000 | |
| 2,156,250 | NMDFC | 1,499,930 | |
| | FWWB | 2,750,000 | |
| | ABN AMRO Bank | 5,000,000 | |
| | SIDBI | 1,714,000 | |
| 14,541,250 | Total long term debt | | 17,913,930 |
| 23,319,698 | Total long term liabilities | | 35,790,673 |
| Net worth | | | |
| 2,557,155 | Donated equity | | 3,303,859 |
| (973,099) | Retained net surplus/(deficit) | | (2,270,563) |
| (1,297,465) | Current net surplus/(deficit) | | (968,195) |
| 286,592 | Total net worth | | 65,100 |
| 23,606,290 | Total Liabilities and Net Worth | | 39,315,838 |



Gramutthan – 1st update

Income Statement

| <u>01 Oct 2003 to 30 Sep 2004</u> | | <u>01 Oct 2004 to 30 Sep 2005</u> | |
|-----------------------------------|-------------------------------------------------|-----------------------------------|------------------|
| | <u>Income</u> | <u>Rs</u> | <u>Rs</u> |
| 2,154,501 | Interest on own portfolio | 4,333,958 | |
| | Interest on managed portfolio | 1,501,223 | |
| 105,333 | Other income (fees and interest on investments) | <u>319,355</u> | |
| 2,259,834 | Total income | | 6,154,536 |
| | <u>Financial costs</u> | | |
| 658,814 | Interest on borrowings | 2,543,486 | |
| | Financial cost on managed portfolio | 616,282 | |
| 52,302 | Bank charges | <u>129,145</u> | |
| 1,548,718 | Gross financial margin | | 2,865,622 |
| 406,074 | Provision for loan losses | <u>674,516</u> | |
| 1,142,644 | Net financial margin | | 2,191,106 |
| | <u>Operating expenses</u> | | |
| 1,409,349 | Salaries | 2,023,159 | |
| 208,238 | Travel | 213,590 | |
| 35,102 | Depreciation | 28,082 | |
| 787,420 | Administrative/office expenses | <u>894,471</u> | |
| 2,440,109 | Total Operating expenses | | 3,159,302 |
| (1,297,465) | Net Surplus/Deficit | | (968,195) |
| (1,297,465) | Profit before tax (PBT) | | (968,195) |
| | Tax | | |
| (1,297,465) | Profit after tax (PAT) | | (968,195) |



Notes to the financial statements

1. The Financial Statements have been estimated for the microfinance operations and represent an approximate picture only. This has involved appropriate modifications to the existing financial statements using data gathered and assumptions made during the rating exercise and also allocations based on an estimation of the degree of use of overall fixed assets and the value of the total staff time being spent on microfinance activities. Such modifications can result in differences between the income statement and balance sheet prepared by the organization itself and the statements presented above.
2. Income includes interest income, fees and earnings from other microfinance related services offered by the MFI rated. All loan portfolio related income is recognised only when it is actually received (**cash basis**). Grants allocated to the organisation's microfinance programme are treated as donated equity in the balance sheet (and not regarded as operational income).
3. Other income includes income the organisation earns from documentation fees and bank interest.
4. Financial costs (interest on borrowings and savings, if any) and operating costs are calculated on an **accrual basis**. Loan loss provisioning expense and the corresponding balance sheet entry (loan loss reserve) has been computed based on the quality of the portfolio.

Glossary

1. Current repayment rate
Ratio of principal recovered (net of pre-payments) to the principal due during the current year.
2. Portfolio at risk (PAR₆₀)
Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 60 days to the total loans outstanding on a given date.
3. Yield on portfolio
The interest income on loans divided by the average loan portfolio for the year.
4. Other income to average portfolio
Total income other than from the interest on loans divided by average portfolio.
5. Financial cost ratio
Total interest expense for the year divided by the average portfolio.
6. Loan loss provisioning ratio
Total loan loss provisioning expense for the year divided by the average portfolio.
7. Operating expense ratio
Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. Average loan portfolio
This represents the average loan outstanding for the year computed on a monthly basis.
9. Average total assets
This represents the average total assets for the year calculated on an annual basis.
10. Operational Self-Sufficiency
Ratio of total income to total costs for the year.
11. Financial Self-Sufficiency
Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. market interest rate), equity (w.r.t. inflation) and in-kind donations.
12. Risk weighted capital adequacy ratio
Ratio of networth to risk weighted assets (Risk weights: 100% for all assets except the following: fixed assets & interest bearing deposits: 50%; cash 0%).

7 List of abbreviations

| | |
|-------------------|---------------------------------------------------------|
| APR | Annual Percentage Rate |
| BCO | Branch Co-ordinator |
| CASHE | Credit and Savings for Household Enterprise |
| CEO | Chief Executive Officer |
| CO | Community Organizer |
| DCB | Demand Collection Balance |
| FSS | Financial Self Sufficiency |
| FWWB | Friends of Women World Banking |
| GoI | Government of India |
| GU | Gramutthan |
| HO | Head Office |
| HR | Human Resource |
| IRDA | Insurance Regulatory and Development Authority |
| LT debts | Long Term Debts |
| M-CRIL | Micro-Credit Ratings International Ltd |
| MFI | Micro Finance Institution |
| MIS | Management Information System |
| NBCDFC | National Backward Caste Development Finance Corporation |
| NBFC | Non Banking Finance Company |
| NGO | Non Government Organisation |
| NMDFC | National Minorities Development Finance Corporation |
| OER | Operating Expenses Ratio |
| OSS | Operational Self Sufficiency Ratio |
| PAC | Project Advisory Committee |
| PAR | Portfolio At Risk |
| PAR ₆₀ | Portfolio At Risk (greater than 60 days) |
| PAT | Profit after tax |
| PBT | Profit before tax |
| PLR | Prime Lending Rate |
| RBI | Reserve Bank of India |
| RGVN | Rashtriya Grameen Vikas Nidhi |
| RMK | Rashtriya Mahila Kosh |
| RoA | Return on Assets |
| SBI | State Bank of India |
| SHG | Self Help Group |
| SIDBI | Small Industrial Development Bank of India |