UTKARSH MICRO FINANCE LIMITED

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GRADING

ICRA has assigned an MFI grading of M1 (pronounced M one) to Utkarsh Micro Finance Limited (UMFL). The grading indicates that in ICRA's current opinion, the MFI's ability to manage its microfinance activities in a sustainable manner is the highest. The grading is valid till July 2017.

Grading Rationale

The highest MFI grading for UMFL is supported by its good loan origination, internal audit, MIS, risk management and collection mechanisms, its experienced board, management team and strong investor profile which have been strengthened further over the last one year. These positives, coupled with UMFL's good financial flexibility arising out of relationships with a large number of lenders as well as its ability to raise equity in a timely manner have helped the company to scale up operations (portfolio of Rs 1593 crore as on June 30, 2016 with 66% growth in client base) while expanding and diversifying across 10 states while reducing its concentration in the state of Uttar Pradesh from 44% as on March 31, 2015 to 33% as on June 30, 2016 and maintaining good asset quality (0+ delinquencies of 0.18% as on June 30, 2016) and profitability indicators (ROE of 15.8% in 2015-16). Nevertheless, ICRA has noted UMFL's high pace of growth, and relatively high attrition rates for the industry and ability of the company to diversifying into newer geographies as well as newer products (housing loans and microenterprise loans) while maintaining the asset quality indicators would be important from a grading perspective

Despite the high pace of growth, the company has been able to maintain good capitalisation indicators supported by frequent capital infusions as well as improving internal capital generation. However, the company would need additional capital to maintain the pace of growth, as well as reduce foreign shareholding below 50% to meet the SFB guidelines. The company has tied up Rs. 395 crore of domestic equity to bring down the foreign shareholding in order to meet SFB requirements and is awaiting RBI approval for infusion of capital. Based on the track record of UMFL's equity raising in the past and its strong investor profile, ICRA expects the company to be able to raise equity in a timely manner going forward as well.

UMFL had a diversified funding profile, with 44 direct lenders and increasing share of debt market instruments in the overall resource mix. As for UMFL's liquidity profile, it is comfortable supported by the well relatively shorter tenor assets vis-a-vis liabilities. However the company would require regular flow of funds for meeting its growth plans. As the company converts to a Small Finance Bank, its funding requirements would increase by 20-25%, and the company would need to develop a deposit franchise over the medium term to replace the maturing liabilities, maintaining regulatory reserve requirements (cash reserve ratio and statutory liquidity ratio), as well as for growth. In the short term, the company would be dependent on refinance from SIDBI, NABARD, MUDRA, funding through NCDs, CDs, securitisation and Inter Bank Participation Certificate (IBPC), borrowings from NBFC, Bulk deposits, for meeting its funding requirements till retail deposits build up

UMFL earning profile is good, (ROE of 15.8% in 2015-16 on a higher capital base post infusion) and is supported by moderate operating expenses (6.67% as a percentage of average managed advances) despite the relatively higher pace of growth. However, diversity of earnings continues to be low, as the company is almost entirely dependent on JLG segment (94% of the total portfolio) for income. As for incremental profitability, operating expenses are expected to increase owing to the conversion to a SFB which would affect profitability in near term. Going forward, there could be some decline in profitability indicators owing to expenses related to broad basing the management team, IT related expenses and one time infrastructure costs. Over the long term, ability of the company to raise a stable low cost liability franchise and maintain good asset quality indicators will be important for maintaining good profitability indicators.

Table 1: Rationale Table

	FY2014	FY2015	FY2016	Q1 FY2017
Equity Capital	25.86	41.15	41.8	41.8
Net Worth (Reported)	74.28	213.24	252.6	265.4
Net Loan portfolio (On Balance Sheet)	284.59	628.93	1,205.4	1,374.8
Total Assets(On Balance Sheet)	471.24	942.82	1,538.8	1,607.5
Managed Assets (incl. off balance sheet receivables)	542.25	1,047.48	1770.0	1825.4
Total Income	70.32	134.96	253.8	91.4
Net Interest Income (Net of BO Costs & Profits from Securitization)	28.76	55.89	113.1	43.4
Profit Before Tax (PBT)	13.58	26.48	61.1	21.0
Profit After Tax (PAT)	8.22	16.02	36.8	12.9
Yield on Average Earning Assets (%)	18.57	17.68	18.6%	21.6%
Cost of average interest bearing funds (%)	12.49%	12.05%	11.6%	12.5%
Gross Interest Spread (%)	6.08%	5.63%	7.1%	9.0%
Net Interest Margin (%)	7.89%	7.91%	9.1%	11.0%
Operating Expenses /Average Managed Assets	4.66%	4.94%	5.1%	6.4%
Provisions & Write offs / Average Managed Assets (%)	0.52%	0.52%	0.6%	0.6%
Cost to Income Ratio (%)	55.85%	56.23%	50.7%	54.7%
PBT (excluding extraordinary items) / Average Total Assets	3.73%	3.75%	4.9%	5.3%
PAT / Average Total Assets (%)	2.26%	2.27%	3.0%	3.3%
Return on Average Net worth(%)	11.86%	11.14%	15.8%	19.9%
Equity Dividend / Profit After Tax	0.00%	0.00%	0.00%	0.00%
Equity Dividend Rate(%)	0.00%	0.00%	0.00%	0.00%
Total Debt / Net worth	510.60%	328.57%	4.88	4.74
Capital / Risk Weighted Assets	22.45%	35.06%	20.7%	NA
Tier I Capital / Risk Assets	22.22%	22.17%	14.4%	NA

Amounts in Rs. crore, Source: Company Financials, ICRA Analysis

Company Background

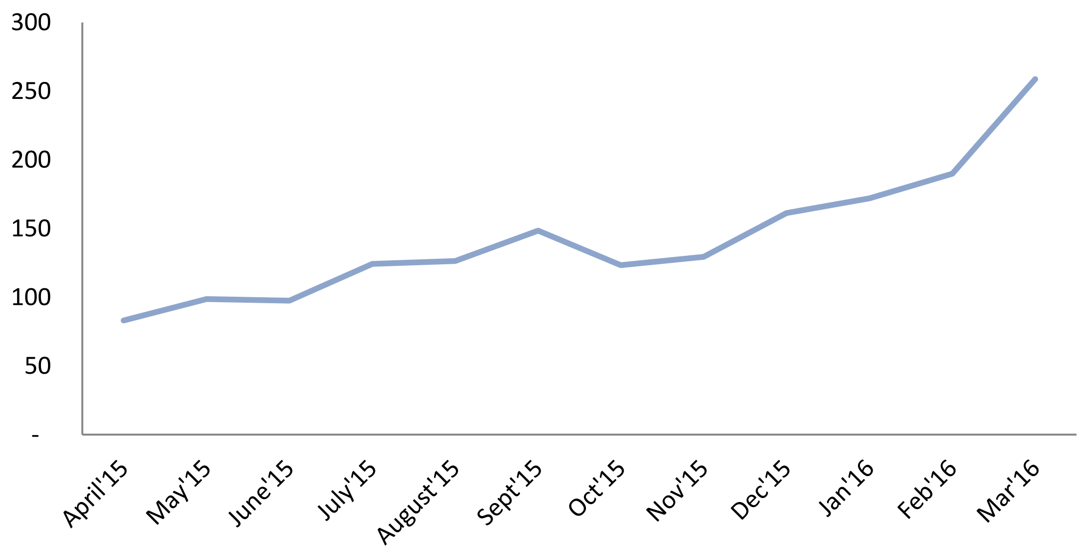
Utkarsh Micro Finance Ltd is registered with the Reserve Bank of India as an NBFC as Non Banking Finance Company (NBFC-MFI) with its registered and Corporate office in Varanasi (Uttar Pradesh). UMFL received an in principle Small Finance Bank license and is planning to convert into an SFB by Q4FY17. The Company is promoted by Mr. Govind Singh, the former Business Head for Micro banking at ICICI Bank. The company is presently operating in 10 states, namely UP (33% of portfolio on June 30, 2016), Bihar (35%), Maharashtra (13%), Uttarakhand (4%), Madhya Pradesh (5%), Delhi/NCR (2%), Haryana (5%), Jharkhand (2%) and below 1% in both Chattisgarh and Himachal Pradesh. UMFL reported a Profit After Tax of Rs 36.8 crore on a managed asset base of 1770 crore in 2015-16 vis-à-vis PAT of Rs 16 crore on a managed asset base of Rs 1048 crore in 2014-15. UMFL reported a Profit after Tax of Rs 12.9 crore on a managed asset base of 1825.4 crore in Q1 2016-17. It has also started building in the SFB related cost since April 2016.

Table 2: Shareholding Pattern as on March 31, 2016

Promoters	7.5%
Utkarsh ESOP Welfare Trust	2.3%
CDC Group PLC	20.1%
NMI Frontier Fund KS (NMI)	17.3%
International Finance Corporation (IFC)	14.3%
Individual Shareholders	8.5%
Intellecash Micro Fin. Network Co. Pvt. Ltd.	0.1%
AGIMDC Co. Ltd.	1.9%
AGIMDC II Co. Ltd.	15.3%
Sarva Capital LLC	12.8%
Total	**100.0%**

Source: Company Financials

Chart 1: UMFL's disbursement trend



Amounts in Rs. crore, Source: ICRA Analysis

Strengths and Challenges

Strengths

- Experienced and professional management team; strong investor profile.
- Robust loan origination, risk management, internal audit and MIS systems leading to healthy asset quality
- Comfortable capitalization indicators supported by regular capital infusion; foreign shareholding likely to be lowered to meet SFB requirements
- Financial flexibility arising from diversified funding mix; need to deepen the liability franchise on conversion to an SFB
- Healthy profitability indicators supported by lower operating expense levels

Challenges

- Ability to smoothly transition into a small finance bank
- Recruiting training and retaining manpower, as it converts into an SFB
- Issues like multiple borrower identities and limited coverage of credit bureaus need to be addressed to reduce industry level risks
- Ability to manage political, communal and other risks across geographies of operations
- High pace of growth, albeit growth largely driven by addition of new clients
- Ability to deepen the liability franchise and develop a strong deposit base on conversion to an SFB

Key Sensitivities

- Ability to maintain asset quality while growing into new geographies and diversifying the product profile
- Ability to raise adequate volume of external funds – both debt and equity – to meet growth targets

Business Mix

Ability to manage the transition to a bank would be critical

RBI granted an in-principle approval to UMFL to set up an SFB in September, 2015. Conversion to an SFB is expected to be positive for UMFL in the medium to long run, as it will strengthen its funding profile and also expand the scope of its activities.

However, in the short term, the company would face challenges in terms of earmarking funds for maintaining regulatory reserve requirements (cash reserve ratio and statutory liquidity ratio), transitioning of existing bank lines, reducing foreign shareholding to below 50%, and likely pressure on profitability given the negative carry on regulatory reserve requirements apart from other transition related costs. ICRA notes that the company is in advanced stages of raising domestic equity to reduce its foreign shareholding. The company has also recruited the key managerial personnel with experience in the banking sector, to further strengthen its team.

Initially, the liabilities mix is expected to majorly consist of equity, NCDs and borrowing from banks and other Financial Institutions. UMFL will concentrate on raising bulk deposits from trusts, associations, societies, temples, municipal corporations and clubs. However, the ability of UMFL to strengthen its retail deposit base in the long term will be critical.

Favourable growth prospects for the sector; borrower–lender discipline holds key to sustainable operations

The microfinance sector in India reported an over 80% growth during FY2016 (60% during FY2015). This growth has been supported by availability of funds, better client penetration, branch expansion as well as increasing ticket sizes. In ICRA's estimate, MFIs are likely to continue to grow at a healthy pace over the next three years considering the large potential for lending in the target customer segment.

The growth would however be contingent on effective management of competitive pressures by MFIs and by maintaining discipline by both lenders and borrowers. With increasing focus on improving efficiencies, MFIs have shifted to fortnightly and monthly collection cycles from weekly, as well as increase in ticket sizes. Ticket sizes are likely to further increase in light of the increase in maximum leveraging per borrower introduced by RBI in April 2015. With RBI also allowing loans upto Rs. 30,000 (from 15,000 earlier) to be disbursed with less than 24 months tenure, the instalment burden is expected to increase for the borrowers.

While access to credit bureaus and the regulatory ceiling on borrower indebtedness has reduced concerns on overleveraging and multiple lending, issues related to multiple identity proofs as well as gaps in information available with the bureaus (lack of data related to the SHG programme, non NBFC-MFIs, lending through business correspondent model) remain. ICRA also notes that the increased gap between collection meetings could lead to weaker group dynamics which coupled with the increase in ticket sizes may lead to overleveraging by the end borrowers. Some dilution in lending norms has been witnessed, leading to issues in specific pockets of states like UP, MP, and Gujarat, although they were mostly contained by timely action of concerned entities (MFIs, lenders, SROs, government body, etc.). Given the rising competition in this segment with various MFIs growing at a rapid pace as well as with new entrants especially through the BC model, MFIs would need to carefully assess the debt repayment capacity of borrowers so as to limit the risk of overleveraging and the consequent threat to their portfolio credit quality.

Nevertheless, ICRA takes note of the efforts at an industry level to alleviate these concerns through mandatory use of credit bureaus, standardisation of KYC documents and digitisation of SHG programme so as to assess the actual leveraging status of the borrower. ICRA takes comfort from the fact that MFIN, the self-regulatory organisation for NBFC-MFIs has restricted the per borrower limit to Rs. 60,000. Also, RBI's January 2016 guideline mandating banks to report SHGs member level data to the credit bureaus is also a step in a positive direction, although the implementation of the same remains to be seen considering the weak systems of most SHGs.

The overall growth prospects for MFIs remain favourable, supported by better availability of funds, strong branch expansion, and increase in ticket size. However, it would be critical for lenders to manage political, operational risks while controlling overleveraging in the high growth phase. Tactful and timely resolution of issues by all stakeholders and strong discipline at the field level (both by MFIs and borrowers) would be important in maintaining asset quality. Also, strong expansion in a scenario of high employee attrition rates would result in the quality of recruitment and training becoming a key success factor for MFIs.

Group lending mechanism with peer guarantees, remains the foundation for credit discipline

UMFL operates a five-member group structure under the joint liability group model, wherein group members take the joint liability for forming the group and repayment of the loans. A centre comprises of two to six groups. The borrowers are primarily women from rural and semi-urban regions, with weak income backgrounds, and without access to organised credit. In most cases, the borrowers do not have a credit history. While this makes unsecured lending risky, the group dynamic – across geographies – has proven to be effective in curtailing shortfall in collections from any one borrower. UMFL's borrowers are largely engaged in animal husbandry, small trade, cottage industries, agricultural and textile related projects. The average ticket size in this segment is around Rs. 16500 at an interest rate of 24% per annum with an option of weekly, fortnightly or monthly repayments.

The company also offers microenterprise loans of ticket sizes over Rs 30,000 and loans for affordable housing. It has specialised branches for these products. The company also contributes 2% of its profit before tax to Samutkarsh Welfare Services – the group's non-profit arm – for providing credit plus services to its clients.

Table 3: Highlights of Operations

	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Jun-16
No of States	2	5	8	8	10	10
Total Branches	75	102	142	240	321	358
Total Centres	7826	14369	20476	37752	60484	65722
Total Active Borrowers	106369	197874	317900	601465	995810	1074988
Growth	***-***	***86%***	***61%***	***89%***	***66%***	***8%***
Credit Portfolio (Managed)	75	178	356	728	1432	1593
JLG Portfolio			344	692	1343	1498
Avg Portfolio per Borrower	7,051	8,996	11,199	12,105	14,380	14,819
Growth	***-***	***28%***	***25%***	***8%***	***19%***	***3%***
No. of Employees	408	623	1032	1752	2636	2853
Credit Officers	216	341	575	972	1520	1611
Active Borrowers per Branch	1418	1940	2239	2506	3102	3002
Active Borrowers per Credit Officer	492	580	553	619	655	667

As on June 30, 2016, UMFL was operating in 10 states with 358 branches. Of the total portfolio outstanding of Rs. 1,593 crore as on June 30, 2016, 94% was through the JLG mechanism, 5.8% on account of microenterprise loans and the balance being affordable housing loans.

Chart 1: Pace of Growth for UMFL (Overall)

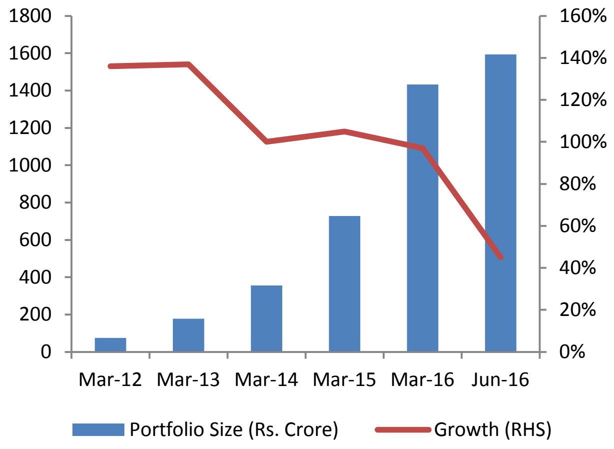
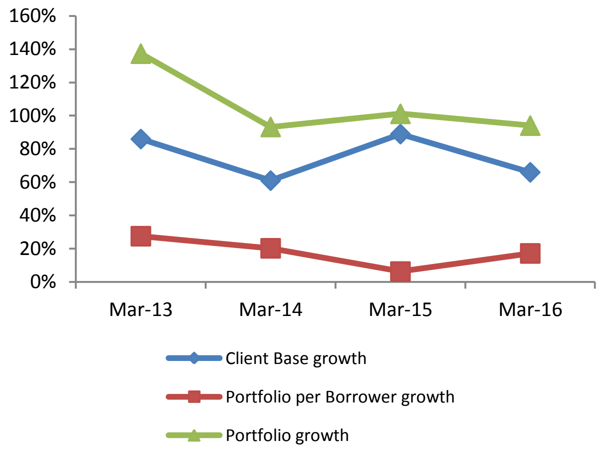


Chart 2: Growth Drivers for UMFL (JLG)



Improved geographical diversity

Table 4: Geographical Distribution of Portfolio

	Mar-14		Mar-15		Mar-16		Jun-16	
State	**Portfolio**	**Share**	**Portfolio**	**Share**	**Portfolio**	**Share**	**Portfolio**	**Share**
Uttar Pradesh	207	58%	325	45%	505	35%	532	33%
Bihar	101	28%	216	30%	490	34%	562	35%
Uttarakhand	21	6%	43	6%	61	4%	67	4%
Delhi NCR	12	3%	23	3%	34	2%	36	2%
MP	14	4%	30	4%	70	5%	81	5%
Maharashtra	0	0%	76	10%	179	12%	199	13%
HP	1.5	1%	2	0%	4	0%	5	0%
Haryana	0	0%	13	2%	68	5%	77	5%
Chattisgarh	0	0%	0	0%	0.1	0%	0.6	0%
Jharkhand	0	0%	0	0%	20	1%	33	2%
Total	**357**	**100%**	**728**	**100%**	**1432**	**100%**	**1593**	**100%**

Over the past three years, UMFL has gradually diversified geographically and is currently present in 10 states. Correspondingly, the share of UP in its overall portfolio has reduced to 33% with exposure to Bihar, Maharashtra and Haryana increasing. In the near to medium term, the company proposes to deepen its presence in the existing states. Also, while UMFL is likely to introduce new loan products after converting into an SFB, its microfinance portfolio is expected to remain a significant proportion of its overall portfolio over medium term.

Experienced and professional management team; strong investor profile

Table 5: Board of Directors as on June 30, 2016

Name	**Designation**
Mr. Govind Singh	MD & CEO
Mr. Trilok Nath Shukla	WTD & COO
Mr. Vishal Mehta	Nominee Director from Sarva Capital
Ms.Sushma Kaushik	Nominee Director from Aavishkaar Goodwell
Mr. Knut Frigaard	Nominee Director from NMI
Mr.Nagarajan Srinivasan	Nominee Director from CDC
Ms.Ramni Nirula	Independent Director
Ms.Shubhalakshmi A. Panse	Independent Director
Mr. Tantra Narayan Thakur	Independent Director

UMFL's board has four investor directors (representatives from Aavishkaar, NMI, Sarva Capital and CDC), three independent directors, all of them with a background in financial services, and two whole-time directors.

The board meets on a quarterly basis and more often, if required. The board is actively involved in strategy formulation and also approves the company's business plan. The board is also involved in areas related to recruitment and training, social performance initiatives and in introduction of new products.

Mr. Govind Singh is the promoter of the company and holds the position of Managing Director and CEO. Mr. Singh is assisted by functional heads (core team members) who have been associated with the company since inception. The company has developed a good second and third line of management for managing the microfinance operations. Further, the team has been strengthened with fresh recruitments at senior level in key areas like liabilities, IT, risk, operations, compliance and treasury amongst others to smoothen the transition. Field officers are on the rolls of the company and handle the operations. Field officers report to branch managers who in turn report to area managers. Each area manager handles 3 branches and reports to the divisional manager. The divisional manager reports to the regional or zonal manager, who in turn reports to head of JLG operations.

After converting into an SFB, even as the company would start scaling up other verticals, microfinance lending through the JLG model is expected to remain a dominant proportion of the portfolio over the medium term. The company is in the process of broad-basing and diversifying its management team as it converts into an SFB by end of FY2017. ICRA notes that the company would need to recruit and train personnel to offer newer products and also adhere to greater compliance requirements as a small finance bank.

Good IT and internal audit processes to ensure sustainability of operations
UMFL shifted to mobile based collections in FY2014 and has now further moved to tablet based originations; around 50% of the operations have been migrated so far. Though the company's current MIS systems are adequate for its scale of operations, it would need to migrate to a more advanced IT (CBS) platform at the time of conversion to SFB. The company has already retained a CBS vendor and the migration process is in an advanced stage.

Credit Bureau Checks
All sanctions take place after the application is verified by the credit bureau. After the group recognition test for a new group, credit bureau checks for all the applicants are done at the company head office. The company is currently taking 2 IDs from borrowers; however, borrowers covered under Aadhar for UMFL is moderate at around 40%.

Toll Free Number
The company has a toll free number, where in all customer calls received are recorded automatically and resolved within a period of 48 hours.

Internal Audit Process
UMFL has developed a two tier internal audit system where all branches go through atleast one audit every month The company has a 46 member internal audit team and internal audit plan is prepared in advance and the audits scheduled accordingly. All the audits are surprise audits. The short audit is for 2-3 days at every branch with more than 500 clients to be covered monthly while the comprehensive audit is for 6-8 days, with every branch covered atleast once a quarter.

The audit team stays in the respective branches for the period of the audit and verifies the records and documents. The audit members also accompany the field officers to centre meetings to verify the collection processes at the field level. Upon completion of audit, detailed audit reports are prepared and submitted to the Head of Internal Audit who submits a consolidated report to the Managing Director and Audit Committee of the board. An audit report is not complete till the deficiencies observed in the previous audit are complied with. In ICRA's assessment, the overall internal audit processes of the company are satisfactory.

Risk Management Systems
Apart from the regular branch audit, the company also has a a Branch Risk Rating model in place, wherein apart from the feedback from the branch audit report, the status of credit risk and operational risk in the branches is assessed based on portfolio concentration, audit score, turnover of field staff, client

acquisition and portfolio at risk. Scores are assigned in the category of critical, high, moderate and low and the staff incentives are linked to the branch scores.

Accounting Policies

UMFL books interest income on the industry-accepted internal rate of return basis. Its provisioning policy is conservative with provisioning rates in line with the RBI guidelines. As for income recognition on the assigned or securitised portfolios, the company amortises the profit on sale of loan portfolio over the tenure of the loan portfolio assigned or sold.

Good capitalisation indicators supported by external capital infusions

Table 6: Capitalisation Trends

	Mar-13	Mar-14	Mar-15	Mar-16	Jun-16
Net Worth	64.30	74.28	213.24	252.58	265.4
Managed Portfolio	178.26	355.61	728.09	1432.48	1593
Net Worth/ Managed Portfolio	36.07%	20.89%	29.29%	17.63%	16.66%
Gearing (excluding off balance sheet)	2.81	5.11	3.29	4.88	4.7
Gearing (including off balance sheet)	3.45	6.00	3.75	5.73	5.6
CRAR					
Tier 1 CRAR	25.94%	22.21%	22.17%	14.40%	NA
Tier 2 CRAR	0.80%	0.23%	12.89%	6.29%	NA
Total	26.74%	22.45%	35.06%	20.07%	NA

Despite its high pace of growth, the company has been able to maintain good capitalisation indicators supported by regular capital infusion and improving internal capital generation. However, the company would need additional capital to maintain the pace of growth as well as to reduce its foreign shareholding to below 50% to meet the SFB guidelines. The company is in final stages of raising Rs. 395 crore of domestic equity to lower the foreign shareholding in order to meet SFB requirements.

Diversified resource profile; however high dependence on wholesale funding sources

Table 7: Funding Mix

	Mar-13	Share	Mar-14	Share	Mar-15	Share	Jun-16	Share
Term Loan from Banks and FIs	180.27	82%	287.35	66%	511.73	65%	847	57%
Debentures	0.00	0%	75.80	17%	173.80	22%	379	26%
ECBs	0.00	0%	0.00	0%	0.00	0%	32	2%
Off Balance Sheet	40.93	18%	71.02	16%	104.70	13%	218	15%
Total Borrowings	**221.20**	**100%**	**434.17**	**100%**	**790.19**	**100%**	**1476**	**100**
Gearing (Assuming Assigned Book as Debt)	3.45		6.00		3.75		5.6	

As on June 30, 2016, UMFL had a diversified funding profile with 44 direct lenders and an increasing share of debt market instruments in the overall resource mix. The company’s liquidity profile also remains comfortable supported by the relatively shorter tenured assets vis-a-vis liabilities. The company would require a regular flow of funds to meet its growth targets, and also to meet the regulatory reserve requirements (20-25% higher) on conversion to an SFB. UMFL’s ability to develop a deposit franchise over the medium term would be a critical determinant of its liquidity comfort going forward. In the short term, the company would remain dependent on refinance from SIDBI, NABARD, MUDRA; fund raising through capital market instruments, securitisation and inter-bank participation certificates; borrowings from NBFCs and bulk deposits for meeting its funding requirements.

Financial Performance

Table 8: Profitability Indicators

	Mar-13	Mar-14	Mar-15	Mar-16	Jun-16
Net Interest Margin /AMA	7.71%	7.41%	7.72%	8.6%	10.7%
Non Interest Income/AMA	0.80%	0.93%	1.08%	1.51%	0.95%
Operating Expenses/AMA	5.65%	4.66%	4.94%	5.1%	6.4%
Operating Expenses/ Managed advances	9.76%	7.35%	7.22%	6.67%	7.58%
Operating Profit / AMA	2.59%	3.17%	3.33%	5.0%	5.3%
Credit Prov. & Write-offs / AMA	0.26%	0.52%	0.52%	0.6%	0.6%
PBT/ AMA	2.84%	3.23%	3.33%	4.3%	4.7%
PAT/ AMA	1.84%	1.96%	2.02%	2.6%	2.9%
PAT (excl. Minority Interest) / Average Net worth	8.01%	11.86%	11.14%	15.8%	19.91%
Cost Income Ratio	66.50%	55.85%	56.23%	50.7%	54.7%

AMA- Average Managed Assets

UMFL registered an 86% increase in interest income from Rs. 120.97 crore in FY 2015 to Rs. 224.77 crore in FY 2016 which reflected in a 130% increase in PAT from Rs. 16.02 crore to Rs. 36.81 crore during the same period. While due to fall in the cost of funds, interest expenses showed a 72% increase from Rs. 65.07 crore to Rs. 111.64 crore resulting in higher net interest margins.

UMFL's earning profile is healthy as reflected by its ROE of 15.8% in FY2016 on a higher capital base, supported by moderate operating expenses (6.67% of average managed advances) despite the relatively high pace of growth which is a concern. However, diversity in its earnings continues to be low, as the company is nearly entirely dependent on JLG lending (95% of the total portfolio) for income. Going forward, the company's operating expenses are expected to increase in near term owing to the conversion to an SFB, broad-basing of the management team, and investments in technology and infrastructure. Consequently, its profitability in the near term is likely to decline. Over the long term, the company's ability to develop a stable, low-cost liability franchise and to maintain a good asset quality will be important for maintaining healthy profitability.

Table 9: COMPANY PROFILE—Utkarsh Micro Finance Limited

Date of Incorporation	May 15,1990, Started microfinance operations in July 2009	
Constitution	Non-deposit taking NBFC - MFI	
Registered Office Corporate Office	S-2/639-56, Varuna Vihar colony, J.P Mehta Road, Cantt. Varanasi-221002 (U.P.) India	
Net Worth (June 30, 2016)	Rs. 265.4 crore	
Number of Branches (June 30, 2016)	334	
Number of active borrowers (June 30,2016)	10,74,988	
Number of field officers (June 30, 2016)	1,611	
Managing Director	Mr. Govind Singh	
Auditors	BSR and Co (KPMG)	
Shareholding Pattern (Mar 31,2016)	Promoters	7.5%
	Utkarsh ESOP Welfare Trust	2.3%
	CDC Group PLC	20.1%
	NMI	17.3%
	IFC	14.3%
	Individual Shareholders	8.5%
	Intellecash Micro Fin. Network Co. Pvt. Ltd.	0.1%
	AGIMDC Co. Ltd.	1.9%
	AGIMDC II Co. Ltd.	15.3%
	Sarva Capital LLC	12.8%
	Total	**100.0%**
Board of Directors (June-16)	**Name**	**Designation**
	Mr. Govind Singh	MD & CEO
	Mr. Trilok Nath Shukla	WTD & Head JLG
	Mr. Vishal Mehta	Nominee Director from Sarva Capital
	Ms.Sushma Kaushik	Nominee Director from Aavishkaar Goodwell
	Mr. Knut Frigaard	Nominee Director from NMI
	Mr.Nagarajan Srinivasan	Nominee Director from CDC
	Ms.Ramni Nirula	Independent Director
	Ms.Shubhalakshmi A. Panse	Independent Director
	Mr. Tantra Narayan Thakur	Independent Director

Table 10: Profit and Loss Account

	Mar-13	Mar-14	Mar-15	Mar-16	Jun-16
Interest Income (Net of Business Origination Costs and Including processing fees)	26.87	63.76	120.97	224.8	82.3
Interest Expenses (including Preference Dividend)	12.88	34.99	65.07	111.6	39.0
Net Interest Income	14.00	28.76	55.89	113.1	43.4
Non Interest Income	1.67	3.90	8.55	21.3	4.3
Operating Income	15.67	32.66	64.45	134.4	47.7
Operating expenses	11.89	19.58	39.30	72.0	28.7
Operating Profits	3.78	13.09	25.15	62.4	19.0
Provisions including NPA provisions	0.55	2.17	4.11	9.0	2.8
Income from Securitization / Assignment	2.22	2.39	5.44	7.7	4.8
Net profit on sale of securities and assets	0.54	0.28	0.00	0.0	0.0
Profit Before Tax (before extraordinary items)	5.98	13.58	26.48	61.1	21.0
Extraordinary Items	0.00	0.00	0.00	0.0	0.0
Profit Before Tax (PBT)	5.98	13.58	26.48	61.1	21.0
Tax	2.10	5.36	10.46	24.3	8.1
Profit After Tax (PAT)	3.88	8.22	16.02	36.8	12.9
PAT (Reported)	3.88	8.22	16.02	36.8	12.9
Equity dividend	0.00	0.00	0.00	0.0	0.0
Accretion to reserves	3.88	8.22	16.02	36.8	12.9
SUMMARY ASSETS					
Net Hire Purchase/ Loan/ Lease Assets	139.48	284.59	628.93	1205.4	1374.8
Investments - Strategic	0.00	0.00	0.00	0.0	0.0
Investments - Short Term Surpluses	0.05	0.05	0.10	11.3	11.2
Cash & Bank Balances	112.27	161.43	287.45	282.6	176.6
Collaterals for Securitization	0.00	0.00	0.00	0.0	0.0
Advance Tax paid	0.22	5.49	0.00	0.9	0.0
Other Current Assets	4.73	18.12	23.09	32.2	38.3
Net Fixed Assets	0.72	1.55	3.25	6.6	6.6
Total Assets	257.47	471.24	942.82	1538.8	1607.5
Off-balance sheet receivables	40.69	71.02	104.66	231.2	217.9
Total Managed Assets	298.16	542.25	1,047.48	1770.0	1825.4
SUMMARY LIABILITIES					
Equity Share Capital	24.11	25.86	41.15	41.8	41.8
Reserves	40.19	48.41	172.09	210.8	223.6
Net Worth	64.30	74.28	213.24	252.6	265.4
Total Borrowings (including Preference Shares)	180.89	379.26	694.54	1217.0	1258.0
Interest Accrued but not due	0.00	0.00	6.10	15.2	0.0
Provisions for Tax	0.00	5.37	0.12	0.0	3.4
Other Current Liabilities & Provisions	12.28	12.36	28.85	54.0	80.6
Deferred Tax Liability	0.00	-0.02	-0.04	0.0	0.0
Total Liabilities	257.47	471.25	942.82	1538.8	1607.5

Amounts in Rs. crore, Source: Company, ICRA analysis

Table 11: Growth Ratios

	Mar-13	Mar-14	Mar-15	Mar-16	Jun-16
Interest Income (Net of Business Origination Costs and Including processing fees)	169.7%	137.3%	89.7%	85.8%	46.5%
Interest Expenses (including Preference Dividend)	265.8%	171.8%	86.0%	71.6%	39.6%
Net Interest Income	117.2%	105.5%	94.3%	102.4%	53.3%
Non Interest Income	34.8%	133.0%	119.5%	148.8%	-19.6%
Operating Income	103.9%	108.4%	97.3%	108.6%	41.8%
Operating expenses	69.9%	64.6%	100.7%	83.4%	59.2%
Operating Profits	451.9%	246.6%	92.2%	147.9%	21.7%
Provisions including NPA provisions	150.0%	294.5%	89.6%	118.3%	23.2%
Income from Securitization / Assignment	32.3%	7.7%	128.0%	42.1%	146.7%
Net profit on sale of securities and assets	-	-48.1%	-100%	-	-
Profit Before Tax (before extraordinary items)	179.6%	127.0%	95.0%	130.8%	37.3%
Profit Before Tax (PBT)	179.6%	127.0%	95.0%	130.8%	37.3%
Tax	184.6%	155.0%	95.1%	132.4%	33.1%
Profit After Tax (PAT)	177.0%	111.9%	94.9%	129.7%	40.1%
PAT (Reported)	177.0%	111.9%	94.9%	129.7%	40.1%
Accretion to reserves	177.0%	111.9%	94.9%	129.7%	40.1%
SUMMARY ASSETS					
Net Hire Purchase/ Loan/ Lease Assets	250.8%	104.0%	121.0%	91.7%	14.1%
Investments - Short Term Surpluses	-50.0%	0.0%	102.7%	11011.3%	-0.3%
Cash & Bank Balances	113.0%	43.8%	78.1%	-1.7%	-37.5%
Advance Tax paid	214.3%	2395.5%	-100.0%		-100.%
Other Current Assets	277.0%	283.6%	27.4%	39.2%	19.0%
Net Fixed Assets	56.5%	115.3%	109.4%	101.9%	1.2%
Total Assets	172.9%	83.0%	100.1%	63.2%	4.5%
Off-balance sheet receivables	44.5%	74.5%	47.4%	120.9%	-5.7%
Total Managed Assets	143.4%	81.9%	93.2%	69.0%	3.1%
SUMMARY LIABILITIES					
Equity Share Capital	136.0%	7.3%	59.1%	1.5%	0.0%
Reserves	79.5%	20.5%	255.5%	22.5%	6.1%
Net Worth	97.2%	15.5%	187.1%	18.4%	5.1%
Total Borrowings (including Preference Shares)	221.8%	109.7%	83.1%	75.2%	3.4%
Interest Accrued but not due	-	-	-	149.4%	-100.%
Provisions for Tax	-	-	-97.8%	-100.0%	-
Other Current Liabilities & Provisions	122.1%	0.7%	133.4%	87.2%	49.3%
Deferred Tax Liability	-	-	85.6%	-100.0%	-
Total Liabilities	172.9%	83.0%	100.1%	63.2%	4.5%

Amounts in Rs. crore, Source: Company, ICRA analysis

Table 12: Common Size Statements

	Mar-13	Mar-14	Mar-15	Mar-16	Jun-16
Net Interest Income	89.3%	88.1%	86.7%	84.2%	91.0%
Non Interest Income	10.7%	11.9%	13.3%	15.8%	9.0%
Operating Income	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses	75.9%	59.9%	61.0%	53.6%	60.2%
Operating Profits	24.1%	40.1%	39.0%	46.4%	39.8%
Provisions including NPA provisions	3.5%	6.6%	6.4%	6.7%	5.8%
Income from Securitization / Assignment	14.1%	7.3%	8.4%	5.8%	10.0%
Net profit on sale of securities and assets	3.4%	0.9%	0.0%	0.0%	0.0%
Profit Before Tax (before extraordinary items)	38.2%	41.6%	41.1%	45.5%	44.0%
Extraordinary Items	0.0%	0.0%	0.0%	0.0%	0.0%
Profit Before Tax (PBT)	38.2%	41.6%	41.1%	45.5%	44.0%
Tax	13.4%	16.4%	16.2%	18.1%	17.0%
Profit After Tax (PAT)	24.8%	25.2%	24.9%	27.4%	27.1%
PAT (Reported)	24.8%	25.2%	24.9%	27.4%	27.1%
Equity dividend	0.0%	0.0%	0.0%	0.0%	0.0%
Accretion to reserves	24.8%	25.2%	24.9%	27.4%	27.1%
SUMMARY ASSETS (% of Total Assets)					
Net Hire Purchase/ Loan/ Lease Assets	54.2%	60.4%	66.7%	78.3%	85.5%
Investments - Strategic	0.0%	0.0%	0.0%	0.0%	0.0%
Investments - Short Term Surpluses	0.0%	0.0%	0.0%	0.7%	0.7%
Cash & Bank Balances	43.6%	34.3%	30.5%	18.4%	11.0%
Collaterals for Securitization	0.0%	0.0%	0.0%	0.0%	0.0%
Advance Tax paid	0.1%	1.2%	0.0%	0.1%	0.0%
Other Current Assets	1.8%	3.8%	2.4%	2.1%	2.4%
Net Fixed Assets	0.3%	0.3%	0.3%	0.4%	0.4%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Off-balance sheet receivables	15.8%	15.1%	11.1%	15.0%	13.6%
Total Managed Assets	115.8%	115.1%	111.1%	115.0%	113.6%
SUMMARY LIABILITIES (% of Total Liabilities)					
Equity Share Capital	9.4%	5.5%	4.4%	2.7%	2.6%
Reserves	15.6%	10.3%	18.3%	13.7%	13.9%
Net Worth	25.0%	15.8%	22.6%	16.4%	16.5%
Total Borrowings (including Preference Shares)	70.3%	80.5%	73.7%	79.1%	78.3%
Interest Accrued but not due	0.0%	0.0%	0.6%	1.0%	0.0%
Provisions for Tax	0.0%	1.1%	0.0%	0.0%	0.2%
Other Current Liabilities & Provisions	4.8%	2.6%	3.1%	3.5%	5.0%
Deferred Tax Liability	0.0%	0.0%	0.0%	0.0%	0.0%
Total Liabilities	100.0%	100.0%	100.0%	100.0%	100.0%

Amounts in Rs. crore, Source: Company, ICRA analysis

Table 13: Key Financial Ratios

OPERATING RATIOS	Mar-13	Mar-14	Mar-15	Mar-16	Jun-16
Yield on Average Loans (Net of BO Costs)	27.0%	27.0%	24.4%	22.9%	24.3%
Yield on Average Investments	3.7%	4.9%	3.9%	4.6%	6.1%
Yield on Average Earning Assets (Net of BO Costs)	16.4%	18.6%	17.7%	18.6%	21.6%
Cost of Average Interest Bearing Funds	10.9%	12.5%	12.1%	11.6%	12.5%
Gross Interest Spread	5.6%	6.1%	5.6%	7.1%	9.0%
PROFITABILITY RATIOS					
Interest Earned / Average Assets	15.3%	17.5%	17.1%	18.1%	20.9%
Interest Expenses / Average Assets	7.3%	9.6%	9.2%	9.0%	9.9%
Net Interest Margin/Average Assets	8.0%	7.9%	7.9%	9.1%	11.0%
Fee based Income/Average Assets	0.95%	1.07%	1.21%	1.72%	1.09%
Operating Expenses /Average Managed Assets	5.7%	4.7%	4.9%	5.1%	6.4%
Operating Profit / Average Assets	3.25%	4.31%	4.17%	5.72%	5.74%
Write offs & Repo losses (net of recoveries)/Average Managed Assets	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions /Average Managed Assets	0.3%	0.5%	0.5%	0.6%	0.6%
Income from securitization & assignment/ Average Assets	1.3%	0.7%	0.8%	0.6%	1.2%
Net profit on sale of securities and assets / Average Assets	0.3%	0.1%	0.0%	0.0%	0.0%
Profit Before Tax (before extraordinary items)/ Average Assets	3.4%	3.7%	3.7%	4.9%	5.3%
Tax / Profit Before Tax	35.2%	39.5%	39.5%	39.8%	38.6%
Profit After Tax / Average Assets	2.2%	2.3%	2.3%	3.0%	3.3%
Profit After Tax / Average Managed Assets	1.8%	2.0%	2.0%	2.6%	2.9%
Equity Dividend / Profit After Tax	0.0%	0.0%	0.0%	0.0%	0.0%
Profit After Tax / Average Net worth	8.0%	11.9%	11.1%	15.8%	19.9%
EFFICIENCY RATIOS					
Fee Based Income/Operating Expenses	14.1%	19.9%	21.8%	29.5%	25.8%
Operating Cost/Operating Income	66.5%	55.9%	56.2%	50.7%	54.7%
CAPITALISATION RATIOS					
Net Worth/ Total Assets	24.97%	15.76%	22.62%	16.41%	16.51%
Total Debt / Net worth	2.81	5.11	3.29	4.88	4.74
Net NPA/Net worth	0.00%	0.01%	0.03%	0.23%	NA
Capital to Risk Weighted Assets Ratio	42.36%	22.45%	35.06%	20.68%	NA
Tier I Capital to Risk Weighted Assets Ratio	41.75%	22.22%	22.17%	14.40%	NA
ASSET QUALITY					
Gross NPA/Gross Advances	0.00%	0.01%	0.03%	0.17%	NA
Net NPA/Net Advances	0.00%	0.00%	0.01%	0.05%	NA
COVERAGE RATIOS					
PBIT/ Total Interest	146.46 %	138.81 %	140.69 %	154.74 %	153.85 %

Amounts in Rs. crore, Source: Company, ICRA analysis

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