CRISIL RATINGS

Microfinance Institution Grading Report

Utkarsh Micro Finance Private Limited

mfR5

Report Date
June 08, 2010

Analytical Contacts	
Mr. Ramraj Pai Director rpai@crisil.com +91 22 3342 3036	Mr. T Raj Sekhar Senior Manager trajsekhar@crisil.com +91 44 6656 3136

CRISIL MFI Gradings

DISCLAIMER

CRISIL's microfinance institution (MFI) grading reflects CRISIL's current opinion on the ability of an MFI to conduct its operations in a scalable and sustainable manner. The grading and this Report (together Grading) are a one-time exercise and the Grading will not be kept under surveillance. CRISIL recommends that the user of the Grading seeks a review of the Grading if the graded institution experiences significant changes/events during this period which could impact the graded institution/its grading.

The Grading is based on information provided by the graded MFI or obtained by CRISIL from sources it considers reliable. However, CRISIL does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results / opinions obtained from the use of such information. The Grading does not constitute an audit of the graded MFI by CRISIL. In the case of Non-Government Organisation-MFIs (NGO-MFIs), CRISIL's MFI gradings apply only to their microfinance programmes.

The Grading does not opine on the MFI's ability for timely payment of interest and principal, nor is it a recommendation to purchase, sell, or hold any financial instrument issued by the graded MFI or to extend/recall loans / donations/ grants or take any financial exposure to the graded MFI. The MFI grading assigned by CRISIL should not be used by the MFI/NGO-MFI in any form for mobilising deposits/savings/thrift / funds etc. from its members/clients or general public.

Neither CRISIL, nor any director, representative or any employee of CRISIL has any liability for any direct or consequential loss arising from the use of this Grading. CRISIL especially states that it has no financial liability, whatsoever, to the Institution or to any other user of this Grading. The Grading and the information contained therein are the intellectual property of CRISIL. The Grading should not be reproduced or distributed or communicated directly or indirectly in any form to any other person or published or copied in whole or in part, for any purpose or by any means without the prior written permission of CRISIL.

For any information of the MFI Gradings assigned by CRISIL, please contact the Rating Desk on +91 22 3342 3000 or email to CRISILratingdesk@crisil.com

MFI GRADING

mfR1
mfR2
mfR3
mfR4
mfR5
mfR6
mfR7
mfR8

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.

MFI Grading Scale: mfR1 - highest; mfR8 – lowest

FACT SHEET

Name of the MFI	:	Utkarsh Micro Finance Pvt. Ltd.
Year of Incorporation	:	May 1990 (Formerly known as Shre Pathrakali Finance Company Pvt. Ltd.)
Year of commencement of Microfinance Programme	:	September 2009
Registered office	:	Utkarsh Micro Finance Pvt. Ltd. Kalpataru Flat No. 1A, 4/56, K.B. Dasan Road, Alwarpet, Chennai-600018
Chief Executive & Managing Director		Mr. Govind Singh,
Corporate office & Contact Details	:	Mr. Abhisheka Kumar, Head-Finance & Accounts Utkarsh Micro Finance Pvt. Ltd S-2/639-56, Varuna Vihar colony, J.P Mehta Road, Cantt. Varanasi-221 002, Uttar Pradesh Telephone No. +91-542-2282002 Mobile: +91-97932 35888 E-Mail: communications@utkarshmfi.com
Auditors	:	BSR & Company

ABOUT THE MFI

Lending model	:	Grameen Bank model of lending
Products	:	• Microfinance loans ○ Business loan: Rs.6,000-10,000. The MFI extends 46 weeks loans to groups (of 5 members) at an interest rate of 15 per cent for the loan period on flat basis. The MFI also charges two percent of the disbursed amount as loan processing fees. • Birla Sun Life Insurance Company Ltd. and Kotak Mahindra Old Mutual Life Insurance Ltd.
Borrower base	:	15,429 borrowers (16,373members) as on May 31, 2010
Employees	:	188 (121 credit officers) as on May 31, 2010
No. of Branches		25 as on May 31, 2010
Loan outstanding	:	Rs.114.21 million as on May 31, 2010
Loans disbursed	:	Rs.145.81 million during September 2009- May 2010*
Geographical reach	:	8 districts of Uttar Pradesh as on May 31, 2010

* The MFI started its operations in September 2009.

Social Indicators (as on March 31, 2010)

Average loan outstanding/GNI (2009 figure)*	21%
Percentage of women staff	6%
Percentage of women borrowers	100%
Effective IRR (including interest rate, processing fee & any other loan fee charged by the organisation?	32.3%
Client drop out rate	NA**
Are interest rate (on declining basis) communicated to clients in writing?	Yes
Are processing charges communicated to clients in writing?	Yes
Is an official receipt provided by the MFI to clients after repayment collections?	Yes
Is access to loan of other MFIs one of the parameters to select/screen clients?	Yes
Is access to loan of other MFIs/residual income one of the factors to appraise repayment paying capacity of clients?	Yes
Does the MFI appraise the client's income/poverty level/asset and use it to target low income clients?	Yes
Does the MFI capture and analyse reasons for client drop out rate?	NA**
Is any designated contact details in head office provided to clients as part of grievance redressal mechanism offered to clients?	No

*Source Central statistical Organisation (CSO)

**UMFPL started its operations in September 2009.

Outreach Summary

For the period ending/as on	Unit	May-10	Mar-10
Members	No.	16,373	8,727
Loans disbursed	No.	7,207	8,222
Borrowers	No.	15,429	8,208
Branches	No.	25	15
Groups	No.	3,300	1,753
Villages covered	No.	931	436
Districts	No.	8	5
Women borrowers	%	100	100
Disbursements during the period	Rs.Mn	68.31	77.50
Loan outstanding	Rs.Mn	114.21	63.44

Productivity and Efficiency Indicators

As on	Unit	May-10	Mar-10
Loan outstanding/ credit officer	Rs.Mn	0.94	0.89
Loan outstanding/branch	Rs.Mn	4.57	4.23
Members / credit officer	No.	135	123
Borrowers / credit officer	No.	128	116
Members/branch	No.	655	582
Borrowers/ branch	No.	617	547

GRADING RATIONALE

Microfinance Programme

CRISIL's microfinance institution (MFI) grading reflects Utkarsh Micro Finance Pvt Ltd's (UMFPL) following weaknesses:

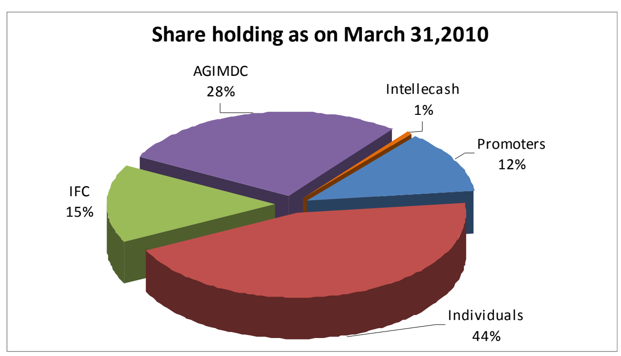
- Short track record of operations
- Lack of time bound audit compliance mechanism
- Asset quality and credit risk untested through full business cycle

The above-mentioned weaknesses are partially offset by the following strengths:

- Centralised management information system (MIS) with good reporting capability
- Experienced senior management and diversified board
- Good capitalisation as start up MFI

Profile

UMFPL is registered with the Reserve Bank of India as a non-banking financial company (NBFC). Its registered office is in Chennai (Tamil Nadu) and corporate office is in Varanasi (Uttar Pradesh). The company came into being by acquiring an existing NBFC--Shre Pathrakali Finance Company Pvt Ltd. The change of name of the company was registered with the Registrar of Companies, Ministry of Corporate Affairs on February 11, 2010. The company's operations started in September 2009. UMFPL plans to cater to the whole of northern and central India. It currently offers credit and insurance, and plans to offer other related products and services. It also has plans to start other developmental activities under a suitable legal structure, especially health and market linkages. The company's mission is "to support opportunities for the underprivileged by providing access to financial and non-financial services through optimal and innovative use of resources in a sustainable and scalable manner." It started its operations with four branches (two urban and two rural branches in the Varanasi district of Uttar Pradesh [UP]), and subsequently expanded to four other districts of UP--



Jaunpur, Allahabad, Sant Ravidas Nagar and Ghazipur with 15 branches as on March 31, 2010. As on March 31, 2010, the company had 8,208 borrowers and loan outstanding of Rs.63.44 million.

Loan process

UMFPL targets the women in households who are engaged in income-generating activities, or who intend to begin new income-generating activity on their own. Women are formed into joint liability groups (JLGs)--under the Grameen Bank's lending model--that are accessed and assisted by branches to provide financial services. JLGs congregate at Centres consisting of members not exceeding 30, and the group-lending technique is used to extend loans to women members. The key criteria for organising into JLGs are that members have to be of a similar age group, same area, and be known to each other. The methodology includes weekly Centre meetings and 'stepped-up' loans that can grow each time a client takes a loan and successfully repays, thereby demonstrating good creditworthiness. Loan to a client is recommended by her group/centre, which then takes collective responsibility for repayment of the loan.

The company disburses one-year loans at an interest rate of 15 per cent on a flat basis. In addition, UMFPL charges two per cent (of the disbursed loan amount) as loan-processing fee from its borrowers. The loan size varies between Rs.6,000 and Rs.10,000 based on the client's loan cycle and repayment capacity.

Management

Short track record of operations	• UMFPL started its operations in September 2009. Within seven months of operations, the organisation has opened 15 branches spread across five districts of Uttar Pradesh. Clients that CRISIL interacted with showed average understanding of the organisation's lending norms. This is in spite of the fact that most of the clients are recent members of the organisation. CRISIL believes that although UMFPL has good systems and processes as a start up MFI, it is yet to demonstrate its ability to create strong lending discipline and supporting systems in entered geographies over a long-term period.
Centralised MIS with good reporting capability	• UMFPL has implemented financial information and monitoring organiser (FIMO) software for managing its MIS. The MFI has also got further customisation done on the software by the

vendor. The MIS tracks due repayments and actual collections, portfolio aging along with extra fields, such as loan utlisation check (LUC) and attendance of clients. The data entry into the software is done centrally at the head office, which frees the field staff from the data-entry process. The collection and disbursement sheet (CDS) is sent every day from the branches to the head office. Along with the CDS, the day-end disbursement and repayment collection figures are also sent by short message service (SMS) by the branch staff on a daily basis. This allows the organisation to track and cross verify the SMS sent with operational data, with the hard copies of the CDS. CRISIL believes that the MIS has good reporting capabilities.

- UMFPL is also planning to implement the Dot net version of the FIMO software, which reportedly would facilitate updation of MIS data on a real-time basis.

Strict adherence of operations policy to restrict multiple lending

- UMFPL has made it an operations policy of not being the third lender to any client. CRISIL found good adherence to this policy by the organisation to restrict multiple lending to a minimum. CRISIL believes that this will improve credit worthiness and reduce credit risk arising out of multiple borrowings by clients.

Lack of time bound audit compliance mechanism

- UMFPL has three types of internal audit in terms of number of days and intensity of the audit done. Snap internal audit is done once every month and normally takes a day. Short internal audit is done for two to three days and is also done on a monthly basis. Comprehensive internal audit is for week long and is done on a quarterly basis. Based on the internal audit finding, a fact finding report (containing the operations policy deviations and corresponding corrections required) is sent from the head office (HO) to the branches for compliance. The branches are required to adhere to the rectifications suggested in the fact finding report by themselves. The adherence to rectification is checked and captured in the subsequent audit done by the MFI. CRISIL believes that although the organisation has a good audit set up as a start up MFI, there is lack of flow of compliance document

	(immediately after the internal audit) from the branches to the head office. This could lead to lack of time bound compliance of internal audit findings. • As on April 2010, the MFI did not have bank accounts in six of its branches for which it is forced to undertake cash transactions between branches and the head office. Although the organisation has cash in transit and fidelity insurance, CRISIL believes that the lack of bank accounts exposes the organisation to risk of theft and misappropriation.
High staff attrition in the initial phase	• Since its inception (September 2009) to April 2010, 55 employees have quit UMFPL. Typically, hired people leave during the induction and training phase of any MFI. However, CRISIL believes that the high employee turnover in the initial phase of UMFPL underscores its relatively weak recruitment process. CRISIL believes that the ability of the management to identify, recruit, train, motivate and retain staff would be crucial if UMFPL intends to emerge as a major regional player in the next two to three years.
Plan to have good social impact	• UMFPL plans to target under-served populations in relatively untapped rural areas. As mentioned above, the organisation has internal policy of not being the third lender to a client. The MFI lends only to women clients to maximise the impact of disbursed loans in improving income levels. Being in an early stage of operations, however, UMFPL is yet to have a social performance assessment by a third party or itself. The loan/per capital gross national income (GNI)* of the organisation is 21 per cent, which underscores the fact that the organisation caters to lower to medium level income segments.

*Source: Central Statistical Organisation

Institutional Arrangement

Strong and diversified board	• The company is promoted by Mr. Govind Singh, the former business head for ICICI Bank-MicroBanking. The shareholders consist of promoters, International Finance Corporation (IFC),

	IntelleCash, Aavishkaar Goodwell, and individual shareholders, such as the Ex-Deputy Managing Director-ICICI Bank, Senior General Manager-ICICI Bank, Ex-GM (Risk)-ICICI Bank, Chief Executive-Barclays Wealth, Founder-Make My Trip, Ex-GM-Oriental Bank of Commerce, Director (Rural)-Fullerton, DGM-IDBI Bank and others. Apart from Mr. Govind Singh (MD & CEO) & Mr. Trilok Nath Shukla (Head–operations), the board comprises Mr. Ajay Raj Sharma, a retired IPS officer who has served as commissioner of police and director general in the Border Security Force (BSF), Ms. Vijay Lakshmi Das, who is the chief executive officer of Friends of Women World Banking (FWWB). Another member, Mr.Vineet Rai, is a nominee director and has extensive experience in double-bottom-line investments and is the founder of a leading microfinance venture capital firm. Ms. Ramni Nirula, another independent director, is a senior general manager in ICICI Bank Ltd.
Experienced senior management	• The senior management of UMFPL is well qualified and has many years of experience in funding to MFIs and operations at apex level. It has played a significant role in setting up the organisation's operations, strategy formulation and creation of supporting verticals. CRISIL opines that the extensive experience of the senior management in the MFI domain would help it to set up and scale up operations.

Capital Adequacy and Asset Quality

Good initial capital base	• UMFPL had net worth of Rs.68.76 million as on March 31, 2010. Till the same date, there was capital infusion (including share premium of Rs.12.95 million) of Rs.78.22 million. CRISIL believes that although the organisation has good capitalisation as a start-up MFI, the current capitalisation is inadequate to meet the medium to long-term growth plans of the company. Incurring expenses as a start up (along with geographic expansion), the MFI closed the year (seven months) 2009-10 (refers to financial year from April 1 to March 31) with a loss of Rs.9.52 million. CRISIL

	believes that with achievement of the projected growth, by March 2012, UMFPL would become a systemically important NBFC. This would require the MFI to maintain a minimum capital adequacy of 15 per cent. Thus, capital would be critical over the short to medium term to meet the company's projected growth.
Good asset quality but yet to season portfolio	• While UMFPL had presence in five districts of UP as on March 31, 2010, about 66 per cent of the total portfolio was concentrated in Varanasi district. • UMFPL had good asset quality with no delinquency as on March 31, 2010. The company's operations started in September 2009. About 69 per cent of the total loans in 2009-10 (refers to financial year from April 1 to March 31) were disbursed in the last quarter. Thus, CRISIL believes that with the organisation's start up nature of operations, the portfolio is yet to season and, consequently, it is too early to comment on its portfolio quality.

Resources and Asset Liability Management

Good initial lenders base	• As on May 31, 2010, UMFPL had access to borrowings from five lending institutions which consisted of a foreign bank, a private bank and three other lending agencies. However, all the borrowings are for less than two years period. Two lenders comprised about 67 per cent of the total borrowings as on May 31, 2010. On the same date, the MFI's weighted average cost of funds was relatively high at 13.5 per cent. • UMFPL plans to raise Rs.760 million of debt in 2010-11. Till May 2010, the MFI had sanctions of Rs.140 million. UMFPL plans to have 30 per cent of the portfolio through the managed/assigned route by March 31, 2011. Given the experience of UMFPL's senior management, CRISIL believes that the MFI would be able to manage liquidity and raise resources on time to fund its expansion plans.

Operational Effectiveness

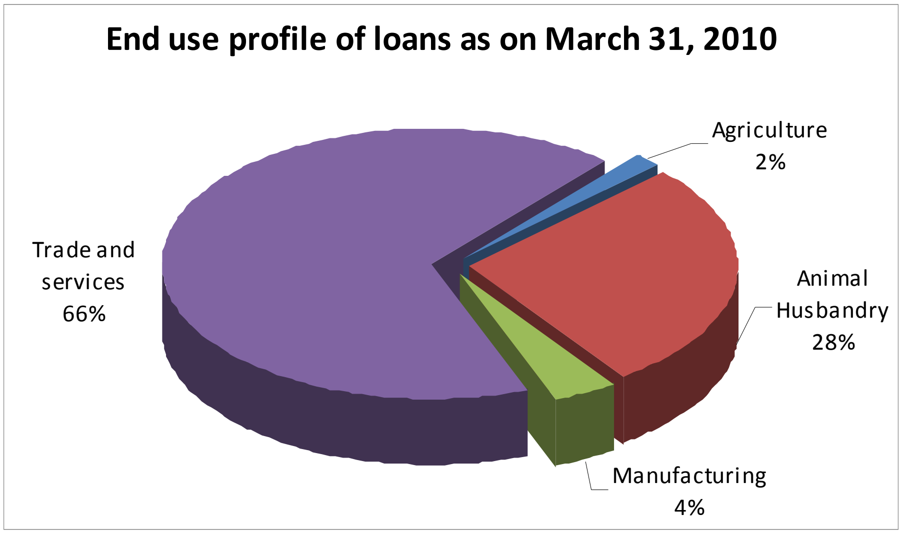
Lack of profitability driven by virtue of it being a start up and expansion in operations	• Incurring expenses on branch and geographic expansion, UMFPL incurred a loss of Rs.9.52 million for 2009-10. The MFI does branch-level profitability analysis and plans to achieve operational self sufficiency (OSS) from the branch level, which will lead to regional and organisational level OSS. Four of its 15 branches had attained OSS of greater than 100 per cent on a cumulative basis as on April 30, 2010. The business plan of the company projects marginal profit in 2010-11. CRISIL believes that ability of the MFI to be a sustainable and profitable MFI would depend on its ability to achieve good operating efficiency and access borrowings at low cost.

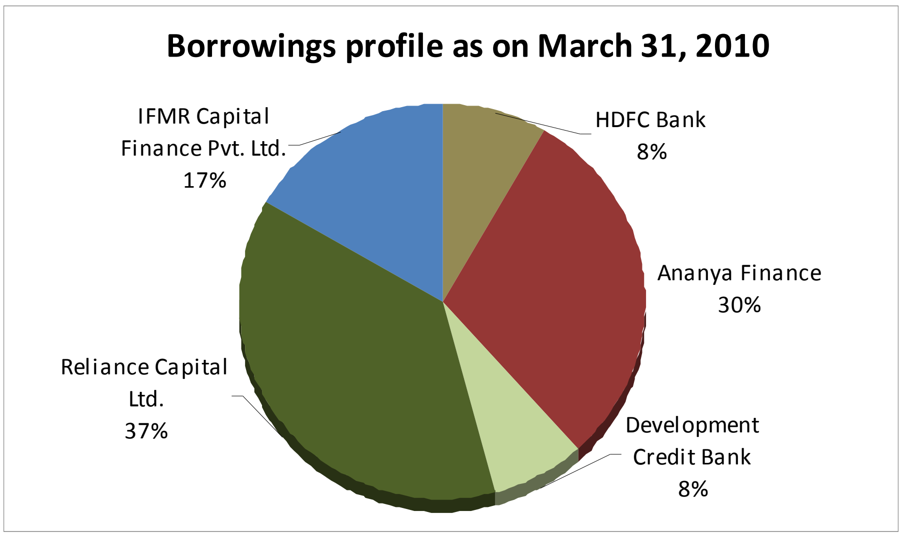
Scalability and Sustainability

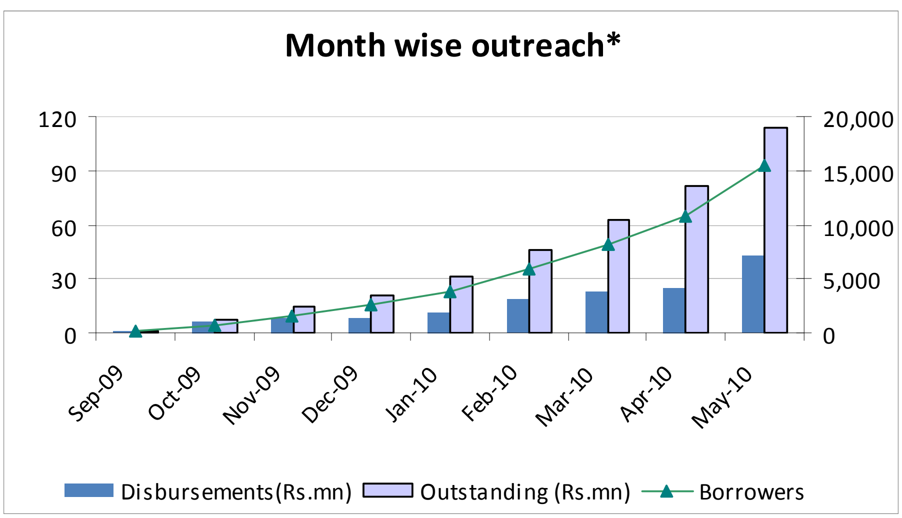
CRISIL believes that with a diversified board, MIS with good reporting capability and qualified senior management, UMFPL has good systems as a start up MFI. CRISIL believes that ability of the organisation to achieve scalability and sustainability rests upon its addressing of the below-mentioned issues:

- Lack of time bound audit compliance mechanism.
- Training of field staff, which mostly comprises fresh recruits.
- High staff attrition levels.
- Attainment of good operating efficiency and reduction in cost of borrowings.
- Growth of the MFI would also be dependant on its ability to raise funds. Much of the growth in the microfinance sector is supported by banks. And any significant change in the priority sector status of lending to MFIs could impact growth of MFIs.

BUSINESS INDICATORS







* The MFI started its operations in September 2009.

FINANCIAL INDICATORS

Income and expenditure statement

Rs. million

For the year ended	Mar-13	Mar-12	Mar-11	Mar-10*
		Projected		Audited
Fund based income				
Interest income from loans	797.16	461.16	115.64	3.85
Income from investments /bank deposits	6.91	2.94	1.01	0.60
Total fund based income	**804.07**	**464.09**	**116.66**	**4.45**
Interest and finance charges				
On borrowings	351.61	176.89	38.13	0.23
Finance charges	-	-	-	0.01
Total interest and finance charges paid	**351.61**	**176.89**	**38.13**	**0.24**
Gross spread	**452.46**	**287.20**	**78.53**	**4.21**
Fee based income				
Processing charges	105.26	62.22	14.29	0.69
Total fee based income	**105.26**	**62.22**	**14.29**	**0.69**
Total income	**909.33**	**526.32**	**130.95**	**5.14**
Gross surplus	**557.71**	**349.43**	**92.82**	**4.90**
Expenses				
Personnel expenses	204.31	123.27	53.57	9.15
Administrative expenses	86.56	51.85	20.84	4.56
Total expenses	**290.87**	**175.13**	**74.41**	**13.71**
Provision for loan loss	57.06	30.28	9.93	0.32
Depreciation	3.07	2.09	1.26	0.37
Profit/loss before tax	**206.71**	**141.94**	**7.22**	**-9.50**
Tax	67.13	46.71	0.00	0.01
Profit after tax	**139.58**	**95.24**	**7.22**	**-9.52**

*The operation commenced in September 2009.

Balance sheet

Rs. million

Balance sheet as on	Mar-13	Mar-12	Mar-11	Mar-10
Liabilities	**Projected**			**Audited**
Paid up capital	577.50	227.50	227.50	65.27
Share premium	-	-	-	12.95
Reserves and surplus	233.79	94.21	-1.03	-9.46
Net worth	**811.29**	**321.71**	**226.47**	**68.76**
Borrowings- own	3408.61	1970.51	670.66	35.00
Total long term borrowings	**3408.61**	**1970.51**	**670.66**	**35.00**
Provision for loan loss	-	-	-	0.32
Other liabilities	75.75	41.48	15.78	2.01
Total current liabilities	**75.75**	**41.48**	**15.78**	**2.33**
Total liabilities	**4295.64**	**2333.70**	**912.91**	**106.09**
Assets				
Loans and advances	3741.70	2055.20	784.12	63.44
Investments	-	-	-	0.50
Cash & bank balances	167.75	64.97	44.78	19.43
Deposits with banks	378.73	207.42	78.90	19.41
Other assets & advances	0.08	0.13	0.18	1.34
Total current assets	**546.57**	**272.53**	**123.87**	**40.17**
Total funds deployed	**4288.26**	**2327.72**	**907.98**	**104.11**
Net fixed assets	7.38	5.98	4.93	1.98
Total assets	**4295.64**	**2333.70**	**912.91**	**106.09**

Key Financial ratios

In per cent

Year ended	Mar-13	Mar-12	Mar-11	Mar-10*
		Projected		Audited
Yield				
Fund based yield	24.31	28.69	23.05	7.33
Portfolio yield	27.50	32.48	27.29	10.40
Fee based income /Avg. funds deployed	3.18	3.85	2.82	1.14
Total income / Avg. funds deployed	27.49	32.53	25.88	8.46
Cost of funds				
Interest paid/Avg. funds deployed	10.63	10.93	7.53	0.39
Interest paid/Avg. borrowings	13.07	13.39	10.81	1.17
Interest spread				
Gross spread/Avg. funds deployed	13.68	17.75	15.52	6.93
Spreads on lending	11.23	15.29	12.25	6.15
Overheads				
Operating expense ratio	8.79	10.82	14.70	22.58
Personnel expense ratio	6.18	7.62	10.59	15.07
Administrative expense ratio	2.62	3.21	4.12	7.52
Profitability				
Return on net worth	24.64	34.75	4.89	-23.72
Return on funds deployed	4.22	5.89	1.43	-15.67
Operational self sufficiency	129.42	136.93	105.83	35.11
Asset quality				
Loan loss provisions / Avg. loan O/S	1.97	2.13	2.34	0.86
Capitalisation				
Total debt/net worth (times)	4.20	6.13	2.96	0.51
Capital adequacy	21.64	15.61	28.70	103.00

*Annualised