



## **Swadhaar FinServe Private Limited**

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**mfR3**

**Date Assigned  
June 28, 2013**



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## MICROFINANCE INSTITUTION (MFI) GRADING

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mfR1	<p>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 MFI 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 <b>CRISIL’s MICROS</b> 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.</p> <p><b>MFI Grading scale: mfR1 - highest; mfR8 – lowest</b></p>
mfR2	
<b>mfR3</b>	
mfR4	
mfR5	
mfR6	
mfR7	
mfR8	

## MFI GRADING HISTORY

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MFI Grading	Assigned in
mfR4	June 29, 2012
mfR5	March 29, 2011
mfR4	January 29, 2010
mfR5	December 30, 2008

**FACT SHEET**


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<b>Name of the MFI</b>	: Swadhaar FinServe Private Limited (SFPL)
<b>Legal history</b>	: <ul style="list-style-type: none"> <li>• Incorporated in March 2006 and registered with RBI in May 2008</li> <li>• Took over the entire microcredit portfolio of Swadhaar FinAccess (SFA), a Section 25 company in September 2008</li> </ul>
<b>Legal status</b>	: Private limited company registered as a non-banking financial company (without accepting public deposits) <i>(SFPL has applied to RBI for a NBFC-MFI license during September 2012)</i>
<b>Chief executive</b>	Ms. Veena Mankar, Managing Director
<b>Contact details and registered office</b>	: Mr. Abhishek Agrawal (CFO) Swadhaar FinServe Private Limited Tenement 1/3 & 1/4, Old MHB Colony, Anand Nagar Nehru Road, Santacruz (East) Mumbai – 400055, Maharashtra Tel: +91-22-26261200 Fax: +91-22-61378797/98 Email: aagrawal@swadhaar.com Website: www.swadhaar.com
<b>Lenders</b>	: 11 as on March 31, 2013
<b>Statutory auditors</b>	: M/s. Haribhakti & Co,

## ABOUT THE MFI

As on March 31, 2013

<b>Lending model</b>	: Lends to individuals and joint-liability groups (JLGs)			
<b>Microfinance loans</b>	<b>Type</b>	<b>Amount</b>	<b>Tenure</b>	<b>Interest</b>
	JLG	Rs.8,000–Rs.34,000	12–24 months	26.00%
	Top-up	Rs.2,000–Rs.5,000	12 months	26.00%
	Individual/ business	Rs.8,000–Rs.75,000	3–12 months	30.00%
	<b>Notes:</b>			
	<ul style="list-style-type: none"> <li>• <b>Interest:</b> Diminishing-balance basis for all loans</li> <li>• <b>Processing fee:</b> 1 per cent of loan amount for JLG and top-up loans, and 2–3 per cent for the business (excluding service tax)</li> <li>• <b>Insurance:</b> Charged on actuals. Borrowers pay only a premium and there are no additional charges.</li> </ul>			
<b>Borrower base</b>	: 96,600 borrowers			
<b>Employees</b>	: 369 (205 credit officers)			
<b>No. of branches</b>	: 25 ( <i>declined from 39 last year following consolidation of individual loan branches</i> )			
<b>Loan outstanding</b>	: Rs.1,151.94 million as on March 31, 2013 (Rs.786.04 million as on March 31, 2012)			
<b>Loans disbursed</b>	: <ul style="list-style-type: none"> <li>• Rs.1,223.20 million during 2012-13 (refers to financial year, April 1 to March 31)</li> <li>• Rs.956.45 million during the 2011-12</li> </ul>			
<b>Geographical reach</b>	: Eleven districts in Gujarat and Maharashtra			

## SOCIAL AND TRANSPARENCY INDICATORS\*

As on March 31, 2013

in per cent

Average loan outstanding/per capita gross national income (GNI), 2012	17.00
Percentage of women staff	24.00
Percentage of women borrowers	100.00
Effective lending rate	26.00
Is the interest rate (on declining basis) communicated to clients in writing?	Yes
Are processing charges communicated to clients in writing?	Yes
Does the MFI provide an official receipt 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 factored in appraising the client's repayment capacity?	Yes
Does the MFI appraise the client's income/poverty/asset level and use this data to target other low-income clients?	Yes
Does the MFI capture and analyse reasons for client dropout rate?	Yes
Are clients provided head-office designated contact details as part of the grievance redressal mechanism?	Yes

\*Source: Based on Central Statistical Organisation (CSO) data  
GNI is based on current prices and is a quick estimate for financial year 2012-13



## OUTREACH SUMMARY

As on/ For the year ending March 31	Unit	2013	2012	2011
Members	No.	1,03,722	82,195	56,727
Borrowers / Active loan accounts	No.	96,600	80,201	56,727
Groups	No.	18,465	15,522	10,450
Districts covered	No.	11	10	10
Branches	No.	24	39	38
Loans disbursed during the period	Rs. million	1,223.20	956.45	695.54
Loan outstanding – own	Rs. million	808.02	711.78	477.63
Loan outstanding – Managed	Rs. million	343.92	74.26	26.42
Assets under management	Rs. million	1,151.94	786.04	504.05
Women clients to total clients, end of period	%	97.25	97.85	88.47

## PRODUCTIVITY AND EFFICIENCY INDICATORS

As on end	Unit	Mar-13	Mar-12	Mar-11
Credit officers/ Total employees	No.	56	59	67
Loan outstanding/Credit officer	Rs.Mn	5.62	3.12	1.78
Loan outstanding/Borrower	Rs. Mn	11,925	9,801	8,885
Loan outstanding/Branch	Rs. Mn	48.00	20.15	13.26
Borrowers/Credit officer	No.	471	318	200
Borrowers/Branch	No.	4,025	2,056	1,493

## GRADING RATIONALE

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CRISIL's microfinance institution (MFI) grading assigned to Swadhaar FinServe Private Limited (SFPL) reflects the organisation's following strengths:

- Experienced board and senior management
- Technical and managerial support from ACCION Gateway Fund (ACCION)
- Above-average asset quality, supported by adequate risk management practices
- Comfortable capitalisation to meet near-term growth projections

These strengths are partially offset by the following weaknesses:

- High cost of borrowings
- Modest earnings profile
- Geographic concentration of asset under management (AUM)

### Profile

SFPL is an NBFC that works with the urban poor in the states of Maharashtra and Gujarat, enabling them to become self-reliant by engaging in income-generating activities, and by participating in its livelihood and financial literacy programmes. SFPL had loans outstanding of Rs.1,151.94 million as on March 31, 2013, with 96,600 borrowers spread across 24 branches in Maharashtra and Gujarat. As on the same date, it registered authorised capital of Rs.750.00 million and paid-up capital of Rs.467.60 million. SFPL offers four loan products:

- SWAHIT: A JLG loan for women
- SWAYOG: An individual loan (IL) for small and under-banked entrepreneurs (currently the loan is offered only through two branches in Mumbai)
- Top-up loans: For JLG borrowers from the second cycle onwards
- Business loans: IL borrowers for a maximum period of 12 months.

## Shareholding details as on March 31, 2013

Shareholder	No. of shares (in mn)	%
ACCION Africa Asia Investment Company	19.65	38.02
M V Mauritius Limited	8.33	16.11
Padmini Trust	6.96	13.47
Michael & Susan Dell Foundation	6.45	12.49
Swadhaar FinServe Employee Welfare Trust	4.92	9.52
Promoters & Promoters' Family & Friends	3.06	5.92
Mauritius Unitus Corporation	2.31	4.47
<b>Total</b>	<b>51.68</b>	<b>100</b>

### Notes:

- Padmini Trust (PT) is the beneficial trust for Mrs. Padmini Somani, daughter of Mr. Narotam S Sekhsaria. The social investment in SFPL is to help it pursue development objectives.
- Rs.49.19 million is recoverable from Employee Welfare Trust [Face value of Rs.10 on 4,919,625 shares allotted to the Trust].
- Accion International (AI) is a global microfinance accelerator that has with 62 MFI partnerships in 31 countries.

## Governing Board

Name	Designation	Profile
Ms. Lalita Gupte	Chairperson	She has more than three decades of experience in the financial sector. She is a nominee of the promoters and a chairperson of ICICI Ventures Funds Management Co. She has also served as the joint-MD of ICICI Bank Limited, as well as on the boards of Nokia Corporation, Bharat Forge Limited, Kirloskar Brothers Limited and First Source Solutions Limited.
Ms. Veena	Managing	She has over 30 years of development and commercial

Mankar	Director	banking experience. She has served as an independent consultant to international banks, was the country representative of WestLB, Germany in India, and the founder-MD of Global Trade Finance. She is also a consultant to FIMBank, Malta, a niche international trade finance bank, and serves as a nominee director on the boards of their factoring joint ventures in Dubai and Egypt.
Ms. Anita Ramchandran	Independent Director	Ms. Ramachandran is the founding MD of Cerebrus Consultants. Her fields of specialisation include organisation restructuring, HR strategy, compensation and benefits, and performance management.
Mr. Siddhartha Hanumara Chowdri	Nominee Director – ACCION	Mr. Chowdri is the India Country Manager for ACCION International. He works as a microfinance consultant on several of ACCION’s projects in India.
Ms. Valérie Kindt	Nominee Director – ACCION	Ms. Kindt has worked in ACCION’s Global Programs department of since 2000 and currently serves on the board of United Villages, a Bottom-of-the Pyramid goods distributor. Ms. Kindt also manages the India Global Training Center and the Swadhaar technical assistance and management contract. Her areas of expertise include microfinance start-ups, product development, and capacity-based lending.
Mr. Srinivas Bhaskar Rao	Nominee Director – Padmini Benefit Trust	Mr. Rao has extensive experience in the development banking sector and has been promoting and funding small and medium enterprises in the industrially backward areas in Maharashtra for more than 22 years.

## Senior Management

Name	Designation	Educational Qualifications
Ms. Veena Mankar	Managing Director	<ul style="list-style-type: none"> <li>▪ PGDBA, IIM Ahmedabad</li> <li>▪ BA (Economics), Lady Shree Ram College, Delhi University</li> </ul>
Mr. Rajaram	Chief Executive Officer	<ul style="list-style-type: none"> <li>▪ BCom., Mysore University</li> </ul>

Kamath	(Seconded by ACCION)	
Mr. Abhishek Agrawal	Chief Financial Officer (Seconded by ACCION)	<ul style="list-style-type: none"> <li>▪ CA, Institute of Chartered Accountants of India (ICAI)</li> <li>▪ MBA from Rai International University</li> </ul>
Ms. Soju Annie George	Vice President - Operations	<ul style="list-style-type: none"> <li>▪ PGDRM, Institute of Rural Management, Anand (IIRMA)</li> <li>▪ B.Sc. (Agriculture), College of Agriculture, Trivandrum</li> </ul>
Mr. Atanu Bhaumik	General Manager – Infrastructure	<ul style="list-style-type: none"> <li>▪ ICWA, BCoM, Mumbai University</li> </ul>
Mr. Venkateshwara Prabhu A	General Manager – Human Resources and Product Development	<ul style="list-style-type: none"> <li>▪ MMM, Mumbai University</li> <li>▪ EPHRM, IMM (Kolkatta)</li> <li>▪ BE (Industrial Production), Mangalore University</li> </ul>
Ms. Reena Sen	Vice President – President (Acting Deputy Chief Financial Officer)	<ul style="list-style-type: none"> <li>▪ CA, ICAI</li> <li>▪ B.Com and LLB, Raipur University, Chhattisgarh</li> </ul>
Mr. Sitaram Pasupathy	General Manager - Risk and Compliance	<ul style="list-style-type: none"> <li>▪ BCom, Mumbai University</li> <li>▪ Certified Associate of Indian Institute of Bankers</li> </ul>
Mr. Mukesh Manjkhola	General Manager- Commercial	<ul style="list-style-type: none"> <li>▪ MA in Economics</li> </ul>
Mr. Premal Brahmbhatt	General Manager – Internal Audit	<ul style="list-style-type: none"> <li>▪ MBA</li> </ul>
Ms. Preeti Telang	GM Training, Consumer Protection and Social Initiative	<ul style="list-style-type: none"> <li>▪ MSW and MBA</li> </ul>

**MANAGEMENT**

<p><i>Improvisation on the credit approval mechanism over a period</i></p>	<ul style="list-style-type: none"> <li>• SFPL has an adequate credit-approval and loan-documentation mechanism. The branches sanction the loans based on a credit scoring process that evaluates the borrower’s residual cash flow and previous credit history. The MFI’s demarcation of operations and business development has enhanced its risk monitoring and performance management processes. The central data-processing unit, in coordination with the field staff, conducts a credit check on potential borrower’s residual income, credit history, and indebtedness. Applicants with a negative credit history are rejected at the first stage. The branch staff also telephonically verifies the borrowers’ employment details.</li> <li>• SFPL has made sustained efforts to strengthen its credit-approval mechanism. It takes group photographs before sanction, and the operation officer conducts house verification for each member after loan disbursement. As per management, the details of around 60 per cent of the borrowers are verified through tele-calling by a separate team, post loan disbursal.</li> </ul>
<p><i>Strong centralised data processing, back-office and MIS support</i></p>	<ul style="list-style-type: none"> <li>• All SFPL branches use a software-based MIS to track collections and disbursements, the receipts for which are sent to the HO on a daily basis Reconciliation is done based on these receipts as well as the bank and cash-flow statements of each branch. The MIS also enables the branches to generate demand and portfolio at risk (PAR) statements. The reconciliation is done based on the receipts sent by the branches, cash flow statements, and bank statements.</li> <li>• The MFI has outsourced data entry to an external agency. The loan documents are processed centrally, which saves time for the field staff and reduces the scope for error. The repayment</li> </ul>

	<p>collection, cash vouchers, and overdue details are updated at the HO level.</p>
<p><i>Strengthening risk management system including internal audit (IA)</i></p>	<ul style="list-style-type: none"> <li>• The MFI formed a risk management department in 2011-12, after it experienced eight employee frauds in the year, amounting to Rs.1.67 lakh. If the cases under investigation were to be included, the loss amount would be Rs.33.37 lakh, of which Rs.15.88 lakh has been provided in the books. Further, a claim of Rs.14.95 lakh has been lodged with the insurance agency. According to the management, no new fraud has been reported in the past six months.</li> <li>• The risk department was further strengthened with a Senior Risk GM and will identify the company’s critical risk areas and suggest control and monitoring measures. It has already framed policies on KYC, business continuity, restructuring of advance, and fraud management. These policies will be implemented on approval from the senior management.</li> <li>• SFPL has a competent, seven-member IA team that audits documentation and field-level operations, as well as support functions such as HR and back-office. The exhaustive audit reports comprise findings on cash management, reconciliation of branch and HO accounts, field-level findings, and document-level deviations. The IA department also introduced an IA score card system, which was implemented across branches in the last quarterly audit. The senior management used the results to take appropriate action and will also be used to incentivise the branch staff.</li> </ul>
<p><i>Scope for improvement in group</i></p>	<ul style="list-style-type: none"> <li>• SFPL does not have any mechanism to quantify attendance in centre meetings, as this isn’t an eligibility requirement for repeat loans. Although SFPL does emphasise on group orientation</li> </ul>

<i>cohesiveness</i>	during pre-disbursement period, CRISIL believes that there is scope to improve group cohesiveness as attendance levels are low at centre meetings.
<i>Scope for improvement in cash management practices</i>	<ul style="list-style-type: none"> <li>• Branches have adequate cash-in-transit cover but some were observed to maintain a high balance of closing cash. In order to streamline cash management practices, SFPL hired an external agency in 2012-13 to provide cash collection services from its branches. The NBFC-MFI is also in the process of implementing a mobile-based application for recovery collections.</li> </ul>
<i>Customer centric initiative</i>	<ul style="list-style-type: none"> <li>• The MFI undertakes Financial Literacy Programme, under which Swadhaar FinAccess (SFA) provides financial education through structured modules to the communities where the MFI operates. The programme covers critical elements of financial behaviour for both existing borrowers and non-customers.</li> <li>• In an attempt to digitise cash-based financial transactions, the MFI has initiated mobile banking in its collection mechanism, for which it is piloting a project with Airtel Money. Although implementation success has so far been marginal, the management is keen on completing the project as it expects this to reduce opex in the future.</li> </ul>

## **INSTITUTIONAL ARRANGEMENT**

<i>Experienced governing board, accompanied by a strong line of senior</i>	<ul style="list-style-type: none"> <li>▪ SFPL has an six-member governing board, comprising a chairman, a managing director, an independent director, two nominee directors from ACCION, and a nominee director of its social investor. Following the resignation of Ms. Goel, a nominee director of a microfinance investment fund, SFPL appointed Mr. Anal Jain as an observer during 2012-13. The MFI's commitment</li> </ul>
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<p><i>management</i></p>	<p>to fair governance practices is reflected in its plans to appoint two more independent directors in the near term.</p> <ul style="list-style-type: none"> <li>▪ Ms. Lalita Gupte, chairperson of SFPL and former joint-MD of ICICI Bank Limited, has over three decades of experience in the financial services industry and has served on the boards of Nokia Corporation, Bharat Forge Limited, Kirloskar Brothers Limited, and First Source Solutions Limited.</li> <li>▪ MD Ms. Veena Mankar also has 30 years of experience in the development and banking space. She was the MD of Global Trade Finance Private Limited (subsequently merged with SBI Factors and Commercial Services Limited) and serves as a nominee director on the boards of overseas factoring companies.</li> <li>▪ The company has a qualified and experienced senior management team with experience in banking, finance, and corporate domains. SFPL currently has five subcommittees for finance, audit, nomination compensation and governance, risk management, and the recently constituted asset-liability management. Majority of the senior management members are a part of the subcommittees and meet regularly to strengthen systems and processes and resolve business issues.</li> <li>▪ SFPL has adopted a conservative growth philosophy and its portfolio achievements for 2012-13 were in line with its growth projections shared with CRISIL in the last grading assessment. CRISIL believes that the MFI's experienced management team will enable it to meet its midterm growth projections as well.</li> </ul>
<p><i>Continued parentage support</i></p>	<ul style="list-style-type: none"> <li>• ACCION is the MFI's highest shareholder, with a 38.02 per cent stake as on March 31, 2013. Besides lending technical and financial support to SFPL, it also provides guarantee support to help it raise external finance.</li> <li>• The MFI's are CEO and CFO are seconded by ACCION, and its</li> </ul>

	continued parentage has enabled the MFI to significantly improve its systems and processes.
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## CAPITAL ADEQUACY AND ASSET QUALITY

<p><i>Capitalisation is adequate for near term projections</i></p>	<ul style="list-style-type: none"> <li>• As on March 31, 2013, SFPL had a net worth of Rs.441 million, with a capital adequacy ratio (CAR) (including managed portfolio) of about 38 per cent. Net worth entirely comprises infused equity and is adjusted for accumulated losses yet to be written off.</li> <li>• SFPL's projections reflect a portfolio growth of about 55 per cent in 2013-14 and 66 per cent in 2014-15. The management expects accruals as a proportion of net worth to remain negative in the near term. The next round of equity infusion is expected only in 2014-15.</li> <li>• In line with growth projections, the debt-to-equity ratio is likely to deteriorate moderately to 2.70 times by March 2015 from current level of about 1.00 times. CAR is likely to decline to about 27 per cent in the same period. CRISIL believes that while SFPL's current capitalisation levels are adequate to support its near-term growth projections, it would require shoring up its net worth in the medium term to maintain its capital ratio.</li> </ul>
<p><i>Above average asset quality</i></p>	<ul style="list-style-type: none"> <li>• SFPL's loan portfolio has seasoned since the previous grading, as reflected in its healthy on-time repayment rate (OTRR) of 98.68 per cent as on March 31, 2013. The portfolio at risk (PAR)&gt;90 days declined to 1.01 per cent from 1.47 per cent from the previous year. SFPL wrote off Rs.8.92 million towards delinquent assets in 2012-13.</li> <li>• SFPL has an adequate provision on standard and non-performing assets to PAR&gt;90 days. While cumulative loan-loss provisioning (LLP) was 1.38 per cent of average loan outstanding as on March</li> </ul>

	<p>31, 2013, LLP/PAR&gt;90 days was comfortable at over 100 per cent, thus shielding capitalisation against write-offs.</p> <ul style="list-style-type: none"> <li>• The asset quality of the IL loan book was marginally weak, with PAR&gt;30 days at 6.27 per cent and PAR&gt;90 days at 5.36 per cent as on March 31, 2013. In order to conform to regulatory norms, the company has lowered disbursements in this line of business, and IL now accounts for about 4.00 per cent of the overall loan book. Given its modest expansion strategy, the NBFC-MFI's qualifying assets are likely to remain above 85.00 per cent of total assets in the midterm.</li> <li>• SFPL does not follow the usual credit-recovery practice of collecting repayments at centre meetings. Instead, the borrowers make the repayments to the group leader, from whom the field staff recovers the installments. The MFI is likely to continue this practice in the midterm, given the distinct dynamics of the urban lending market.</li> </ul>
<p><i>Risk of geographic concentration</i></p>	<ul style="list-style-type: none"> <li>• Maharashtra and Gujarat account for 56 per cent and 44 per cent each of SFPL's overall portfolio, with nearly 50 per cent comprised by Mumbai and adjoining suburbs. Any adverse credit events in these areas and the resultant contagion may thus materially affect the NBFC-MFI's asset quality and capitalisation levels. The company however intends to expand its footprint in near term by establishing new branches in Madhya Pradesh and Rajasthan. This is expected to mitigate geographic concentration risk to an extent.</li> </ul>

**RESOURCES AND ASSET LIABILITY MANAGEMENT**

<p><i>Diverse funding profile; however cost of funds was high</i></p>	<ul style="list-style-type: none"> <li>• SFPL has accessed resources from ten lenders, including public and private banks, financial institutions, and an apex MFI lender. No single lender accounts for more than 12.00 per cent of overall borrowings, and the top three lenders together accounted for only about 36 per cent of the outstanding debt as on March 31, 2013.</li> <li>• As against Rs.170.00 million raised in 2011-12, SFPL raised cumulative debt funding of Rs.741.50 million from five banks, four NBFCs, and an apex lender in 2012-13, of which Rs.176.50 million was raised through guarantee support from ACCION. Another Rs.404.10 million were raised through securitization route. Bank finance constituted about 50 per cent of the borrowing outstanding as on May 31, 2013. The MFI also recently received a sanction of Rs.30.00 million from a development financial institution for a possible equity stake under a sector-specific fund. The amount would qualify as Tier-I capital and would enable manage capital ratios.</li> <li>• Despite adequate resource mobilisation, the cost of funds remains high at an interest rate of 14.00–15.00 per cent for a majority of the borrowings raised in 2013-14. Resource mobilisation at competitive rates thus remains a key grading monitorable for SFPL.</li> <li>• The company has indicated a near-term plan to raise Rs.700 million from banks and financial institutions and Rs.500 million through the issue of non-convertible debentures (NCDs). It also plans to raise Rs.350.00 million through the securitisation route in 2013-14.</li> </ul>
<p><i>Comfortable asset-liability</i></p>	<ul style="list-style-type: none"> <li>• SFPL had cash and cash equivalents of Rs.386 million (excluding lien-fixed deposits worth Rs.168 million) as on March 31, 2013.</li> </ul>

<i>maturing profile</i>	<p>On a standalone basis, overall collections from JLGs were sufficient to meet lenders' dues and operational expenses. SFPL maintains an average surplus of Rs.40 million to Rs.50 million (without factoring disbursement from lenders and further on-lending to members). Average monthly disbursements to groups amounted to Rs.100 million during 2012-13.</p> <ul style="list-style-type: none"> <li>• A major portion of SFPL's bank borrowings have tenure of 24-28 months, while its loans have an average maturity of 18–24 months. Thus, the NBFC-MFI is not susceptible to an immediate negative asset-liability mismatch, and its midterm liquidity position is adequate to service its debt obligations in a timely manner.</li> </ul>
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## OPERATIONAL EFFECTIVENESS

<i>Improvement in field productivity; but yield levels have declined</i>	<ul style="list-style-type: none"> <li>• The management undertook a series of initiatives in 2012-13 to improve productivity and reduce opex, including branch mergers and rationalisation of employee headcount. This resulted in a significant improvement in its performance indicators at the year-end:             <ul style="list-style-type: none"> <li>○ Loan outstanding per branch improved to Rs.46.07 million from Rs.20.15 million, and loan outstanding per credit officer improved to Rs.5.38 million from Rs.3.12 million</li> <li>○ Ratio of borrowers per credit officer and per branch improved to 451 from 318 and 3,864 and 2,056</li> </ul> </li> <li>• The fund-based yield however declined to 20.47 per cent from 22.99 per cent as the proportion of IL loans with higher interest declined to about 4 per cent from 9 per cent. The management projects an improvement in yield by about 300 to 500 basis points in the midterm (100 basis points are equivalent to one per cent point).</li> <li>• CRISIL opines that the improvement may be marginal, given that</li> </ul>
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	<p>the proportion of IL loans in the overall portfolio is expected to remain low at about 6 per cent. Moreover, there are regulatory restrictions on margin (up to 10.00 per cent post March 31, 2014) for systemically important microfinance players.</p>
<p><i>Earnings profile is likely to remain modest in near term</i></p>	<ul style="list-style-type: none"><li>• Following higher disbursements and corresponding increase in asset size, SFPL's operating expenses declined to 10.56 per cent as on March 31, 2013 from 16.05 per cent as on March 31, 2012. However, OSS marginally improved to 106.20 per cent in the same period.</li><li>• With the planned branch expansion and higher loan-loss provisioning, SFPL is expected to continue reporting a cumulative loss in 2013-14. Improvement in earning profile would be contingent upon increase in asset size and resultant operational synergies. OSS is however expected to remain over 100 per cent in the near to medium term.</li></ul>

## SCALABILITY AND SUSTAINABILITY

- Regulatory guidelines issued in August 2012 allowed MFIs to transmit incremental cost of borrowings through a corresponding increase in lending rates. The May 2013 notification allowing MFIs to continue with a margin cap of 12.00 per cent upto March 31, 2014 will not only enhance operational sustainability but also strengthen lender confidence.
- SFPL benefits through continued support from ACCION, and its qualified and experienced management team has also enabled it to diversify its lender profile. Last year, the NBFC-MFI significantly strengthened its risk management systems and also reduced opex by improving branch productivity. These factors are expected to enable the NBFC-MFI to scale up its operations over the medium term.
- The NBFC-MFI registered profitable operations in 2011-12 and its net profit and accretion to reserves are expected to remain modest in near term due to high operating expenses and its relatively moderate asset size. CRISIL expects SFPL's sustainability to depend on its ability to reduce geographic concentration, raise adequate and timely resources at competitive rates, while also maintaining strong cohesiveness levels amongst its borrowing community.

**BUSINESS INDICATORS**





## FINANCIAL INDICATORS

Income and expenditure statement		Rs. million				
For the year ended	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11	Mar-10
<b>I &amp; E statement</b>	<b>Projected</b>		<b>Audited</b>			
Interest income from loans	616.48	376.96	220.51	160.34	87.34	28.11
Income from investments/bank deposits	-	-	8.55	7.41	3.93	0.89
Gain on assignment / Other income	-	-	3.66	3.84	0.59	0.29
<b>Total fund-based income</b>	<b>616.48</b>	<b>376.96</b>	<b>232.72</b>	<b>171.59</b>	<b>91.86</b>	<b>29.28</b>
<b>Total interest and finance charges paid</b>	<b>259.24</b>	<b>152.12</b>	<b>81.78</b>	<b>42.18</b>	<b>25.19</b>	<b>7.16</b>
<b>Gross spread</b>	<b>357.24</b>	<b>224.84</b>	<b>150.94</b>	<b>129.41</b>	<b>66.67</b>	<b>22.12</b>
<b>Fee-based income</b>	<b>40.73</b>	<b>26.14</b>	<b>18.87</b>	<b>20.23</b>	<b>23.87</b>	<b>9.98</b>
<b>Total income</b>	<b>657.21</b>	<b>403.10</b>	<b>251.59</b>	<b>191.82</b>	<b>115.73</b>	<b>39.26</b>
<b>Gross surplus</b>	<b>397.97</b>	<b>250.98</b>	<b>169.81</b>	<b>149.64</b>	<b>90.54</b>	<b>32.10</b>
<b>Expenses</b>						
Personnel expenses	183.53	118.09	87.34	88.33	69.75	43.28
Administrative expenses	107.60	83.05	52.70	36.80	40.81	25.14
<b>Total expenses</b>	<b>291.13</b>	<b>201.14</b>	<b>140.04</b>	<b>125.13</b>	<b>110.56</b>	<b>68.43</b>
<b>Write-offs and provisions</b>						
Write-off of bad debts	-	-	0.20	0.07	5.03	2.38
Provision for loan loss	35.03	24.09	10.47	16.86	1.45	0.17
<b>Total</b>	<b>35.03</b>	<b>24.09</b>	<b>10.68</b>	<b>16.93</b>	<b>6.48</b>	<b>2.56</b>
Depreciation	12.07	9.17	4.41	4.22	4.02	2.55
<b>Profit before tax</b>	<b>59.73</b>	<b>16.57</b>	<b>14.68</b>	<b>3.35</b>	<b>-30.52</b>	<b>41.43</b>
Tax	-2.53	-1.87	2.51	-3.20	-1.11	-0.37
<b>Profit after tax</b>	<b>62.26</b>	<b>18.45</b>	<b>12.17</b>	<b>6.56</b>	<b>-29.40</b>	<b>-41.06</b>

## Balance sheet

Rs. million

Balance sheet as at	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11	Mar-10
<b>Liabilities</b>	<b>Projected</b>		<b>Audited</b>			
Share capital	747.60	497.60	467.60	467.60	337.20	185.00
Reserves and surplus	50.74	-11.52	-26.85	-38.48	-81.58	-65.18
<b>Net worth</b>	<b>798.34</b>	<b>486.08</b>	<b>440.75</b>	<b>429.12</b>	<b>255.63</b>	<b>119.82</b>
<b>Total borrowings</b>	<b>2157.78</b>	<b>1288.97</b>	<b>877.27</b>	<b>345.12</b>	<b>285.67</b>	<b>134.03</b>
Security deposit			8.34	28.79	54.71	20.98
Loan loss reserve	44.30	26.81	12.65	14.68	3.22	0.52
Other current liabilities	61.88	61.88	70.69	40.81	48.45	7.96
<b>Total current liabilities</b>	<b>106.18</b>	<b>88.69</b>	<b>91.69</b>	<b>84.28</b>	<b>106.38</b>	<b>29.46</b>
<b>Total liabilities</b>	<b>3,062.31</b>	<b>1,863.74</b>	<b>1,409.71</b>	<b>858.53</b>	<b>647.68</b>	<b>283.31</b>
<b>Assets</b>						
<b>Total loans under management</b>	<b>2,948.84</b>	<b>1,782.60</b>	<b>1,151.94</b>	<b>786.04</b>	<b>504.05</b>	<b>195.64</b>
Less: Managed portfolio	-	-	343.92	74.26	26.42	-
<b>Net loans under management (owned portfolio)</b>	<b>2948.84</b>	<b>1782.60</b>	<b>808.02</b>	<b>711.78</b>	<b>477.63</b>	<b>195.64</b>
Investments/fixed deposits with banks	-	-	355.04	63.97	101.32	48.56
Cash & bank balances	71.24	44.22	199.75	52.49	10.10	8.91
Other advances and current assets	-	-	30.76	15.82	-	-
<b>Total funds deployed</b>	<b>3020.09</b>	<b>1826.82</b>	<b>1393.56</b>	<b>844.06</b>	<b>615.47</b>	<b>253.11</b>
Other current assets	15.59	15.59	3.85	4.17	19.30	21.35
Net fixed assets	26.63	21.34	12.30	10.30	12.91	8.85
<b>Total assets</b>	<b>3,062.31</b>	<b>1,863.74</b>	<b>1,409.71</b>	<b>858.53</b>	<b>647.68</b>	<b>283.31</b>

## Key financial ratios

in per cent

Year ended	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11	Mar-10
	Projected		Audited			
<b>Yield</b>						
Fund-based yield (A)	25.44	23.41	20.47	22.99	21.15	16.92
Portfolio yield	26.06	29.10	29.02	26.96	25.95	22.28
Fee-based income/Avg. funds deployed	1.68	1.62	1.69	2.77	5.50	5.77
Total income/Avg. funds deployed	27.12	25.03	22.16	25.76	26.65	22.69
<b>Cost of funds</b>						
Interest paid/Avg. funds deployed (B)	10.70	9.45	7.24	5.78	5.80	4.14
Interest paid/Avg. borrowings (C)	15.04	14.04	13.26	13.96	12.81	10.49
<b>Interest spread</b>						
Gross spread/Avg. funds deployed (A) - (B)	14.74	13.96	13.23	17.21	15.35	12.79
Spreads on lending (A) - (C)	10.40	9.37	7.21	9.03	8.34	6.44
<b>Overheads</b>						
Operating expense ratio	12.01	12.49	10.67	16.04	24.71	39.55
Personnel expense ratio	7.57	7.33	6.65	11.32	15.59	25.02
Administrative expense ratio	4.44	5.16	4.01	4.72	9.12	14.53
<b>Profitability</b>						
Net profit/(deficit) on net worth	9.69	3.98	2.67	1.91	-15.66	-38.64
Net profit/(deficit) on funds deployed	2.57	1.15	0.88	0.84	-6.57	-23.73
Operational self-sufficiency	110.00	104.29	105.90	101.78	79.13	48.65
<b>Asset quality</b>						
Provisioning/avg. loan outstanding (%)	1.87	1.83	0.01	0.03	0.01	-
<b>Capitalisation</b>						
Debt/net worth (times)*	2.70	2.65	1.99	0.80	1.12	1.12
Capital adequacy	26.69	26.71	34.33	58.08	47.90	53.05



**Annexure**

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### Human resource summary

As on/Period ending	Mar-13	Mar-12	Mar-11
No. of total employees	369	425	425
No. of employees added during the year	154	155	194
No. of employees left during the year	206	158	97
No. of women employees	90	78	88
No. of branch employees	308	351	345
No. of credit/Loan/field officers	214	285	283
No. of HO and HUB Staff	61	74	80

### Borrowing Profile (as on May 2013)

Rs. million

S. No	Name of the Bank	Loan Out- standing
1	Central Bank Of India	48.65
2	Maanaveeya Devlopment and Finance Private Limited	100.00
3	Ratnakar Bank Limited	93.18
4	IDBI Bank Limited	73.33
5	Gruh Finance	93.93
6	Standard Chartered Bank	68.75
7	Development Credit Bank Ltd	91.98
8	MAS Financial Services Ltd	86.11
9	IFMR Capital Limited	15.26
10	Reliance Capital Limited	95.03
	<b>Total</b>	<b>766.22</b>

**Asset Quality**

Rs. million

Particulars	Mar-13		Mar-12		Mar-11	
	Total		Total		Total	
	Amt	%	Amt	%	Amt	%
<b>Total outstanding balance associated with loans that are:</b>						
On time (and never refinanced)	1,136.58	97.92	766.95	96.91	487.06	95.68
<b>Late (at least 1 payment)</b>	-					
• 1–30 days	1.52	0.13	3.12	0.39	5.37	1.05
• 31–90 days	2.13	0.18	4.41	0.56	5.87	1.15
• 91–180 days	2.53	0.22	6.36	0.80	5.70	1.12
• 181–360 days	7.22	0.62	5.20	0.66	0.02	0.00
• 1 year or more	10.77	0.93	5.39	0.68	5.04	0.00
<b>Gross portfolio</b>	<b>1,160.75</b>	<b>100.00</b>	<b>791.42</b>	100.00	<b>509.07</b>	<b>100</b>
<i>Write-off during the period (April 01 to Mar 31)</i>	8.92		5.38		5.02	
<b>Net portfolio</b>	<b>1,151.83</b>		<b>786.04</b>		<b>504.05</b>	
<b>PAR&gt;30(%) Pre write-off</b>		1.95		2.70		3.27
<b>PAR&gt;90(%) Pre write-off</b>		1.77		2.14		2.12

**Note:**

- Gross portfolio includes managed portfolio.

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