CRISIL RATINGS

Microfinance Institution Gradings

Chaitanya India Fin Credit Private Limited (CIFCPL)

mfR5

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CRISIL RATINGS

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	:	Chaitanya India Fin Credit Private Limited
Date of Incorporation	:	Registered as Non Banking Finance Company (NBFC) on September 25, 2009
Commencement of MF operation	:	November 2009
Registered office	:	Chaitanya India Fin Credit Private Limited 169, Ist Floor, 5th Main, Chamrajpet, Bangalore – 560018 Tel : +91-80 -26677690
Chief Executive	:	Mr. Anand Rao, Managing Director
Corporate office & Contact Details	:	Mr. Samit Shetty Director Chaitanya India Fin Credit Private Limited 169, Ist Floor, 5th Main, Chamrajpet, Bangalore – 560018 Tel : +91-80 -26677690 Mobile: +91-9972599289 E-mail: admin@chaitanyaindia.in
Statutory Auditors	:	Ramesh Ashwin & Karanth

ABOUT THE MFI

Lending model	:	Lending to Joint Liability Groups
Products	:	Microfinance business loans: Rs.2,000 to 15,000 per member. The MFI extends 12 months loans to groups at an interest rate of 28.21 per cent for the loan period on declining basis. The MFI also charges 1 per cent as loan processing fees and 0.50 per cent of the loan amount as fees for insurance cover.
Borrower base	:	2,278 borrowers (2,278 members) as on April 30, 2010
Employees	:	30 (12 credit officers) as on April 30, 2010
No. of Branches	:	3
Loan outstanding	:	Rs.14.30 million as on April 30, 2010
Loans disbursed	:	Rs.4.75 million during April 2010
Geographical reach	:	3 districts of Karnataka

Social Indicators (as on March 31, 2010)

in per cent

Average loan outstanding/GNI (2009 figure)*	13
Percentage of women staff	-
Percentage of women borrowers	100
Effective IRR (including interest rate, processing fee & any other loan fee) charged by the organisation?	29.7
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?	No
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

*GNI is based on current prices. Source: CCER computations based on Central Statistical Organisation (CSO) data

**CIFCPL started its operations in November 2009

Outreach Summary

As on / For the period ended	Unit	Apr-10	Mar-10
Members	No.	2,278	1,674
Borrowers	No.	2,278	1,674
No. of groups	No.	475	416
Villages covered	No.	70	51
Branches	No.	3	3
Districts	No.	3	3
Disbursements	Rs.Mn	4.75	12.55
Loan outstanding	Rs.Mn	14.30	10.54

Productivity and Efficiency Indicators

For the period ending	Unit	Mar-10
Loan outstanding/ credit officer	Rs. Mn	1.17
Members / credit officer	No.	186
Borrowers / credit officer	No.	186
Members/branch	No.	558
Borrowers/ branch	No.	558
Loan outstanding/branch	Rs. Mn	3.51

GRADING RATIONALE

CRISIL's microfinance institution (MFI) grading on Chaitanya India Fin Credit Pvt Ltd (CIFCPL) reflects the following weaknesses:

- Short operating track record
- Inadequate resource mobilisation
- Asset quality and credit risks untested through a full business cycle

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

- Promoters' extensive experience in social development activities in rural areas
- Small but adequate capitalisation levels

Profile

CIFCPL incorporated in 2009 is a non-deposit taking non-banking financial company (NBFC-ND) registered with the Reserve Bank of India (RBI). The MFI extends loans only to women and follows the joint liability group (JLG) model of lending. Under this model, the borrowers are organised into five-member groups; while loans are extended to individual members, all the members, are jointly liable for the repayment. The company had disbursed its first loan in November 2009 and had loan outstanding of Rs.14.30 million and 2278 borrowers spread across three branches as on April 30, 2010.

The core promoters, Mr. Anand Rao and Mr. Samit Shetty, together with their associates control entire equity stake in CIFCPL as on April 30, 2010. The company offers 52-week loans (amount ranges from Rs. 2,000 to Rs. 15,000) at a 15 per cent (flat rate basis). In addition, the MFI also charges one per cent upfront transaction fee towards processing and documentation at the time of loan disbursement from its borrowers. The company provides life insurance cover to its borrowers (collects 0.50 per cent of the loan amount for the same) and has tie-up with IDBI Fortis Life Insurance Company Limited for the same.

Loan process

CIFCPL, before choosing an area for its operations, conducts a field survey to assess the market potential, competition, socio-political set up and economic profile of the region. Once the MFI selects an area, the customer relationship staff (CRS), who is responsible for the group promotion and loan recovery, organises a general meeting of the targeted members and the branch manager presents details about the organisation, its social developmental activities and microfinance programme. Only those women interested in becoming members are invited to the subsequent meeting, during which, the women from same locality organise themselves into a group of four to six members.

After group formation, the CRS conducts household survey (HH) to determine the demographics of the borrowers including their earnings, assets and the reason for availing the loan. After conducting the HH survey, the CRS conducts compulsory group training (CGT) for the groups regarding CIFCPL's policy, promoters' details, and loan product and repayment details. The CRS also ensures that the loan application forms are accurately filled by the potential borrowers. After being trained by the CRS, the customer relationship manager (CRM) conducts a second round of training to ascertain whether all the members have understood the MFI's policies and procedures. The CRM then proceeds to conduct the HH survey check to verify the creditworthiness of the potential borrowers and eliminate the non-creditworthy ones. In this check, the CRM assesses the credit risk as well as the cash flow risk of the borrowers.

Following the HH survey check, the CRM finalises the repayment date and time for the centre and takes up the forms to the Loan Sanction Committee (LSC) after entry into the management information system (MIS). The LSC comprising the CRM and all the CRS of the branch determines the extent of loan to be sanctioned. After loan approval, the branch forwards the request to the head office and the head office disburses the required amount through cheque. Generally, the loans are disbursed from the branch office.

Management

Short track record in microfinance activities

- CIFCPL's MFI grading is constrained by its short track record of six months in microfinance activities. The efficacy of the company's approach to microfinance operations, and its impact on asset quality, is yet to be proven.

Adequate credit approval mechanisms

- Currently, the MFI has adequate credit approval mechanism with diligent conduct of household surveys to ascertain the creditworthiness of the potential borrowers by the field staff and cross-verification at the managerial level.
- The company has clearly defined policies for conducting

microfinance operations, which facilitates better understanding of the company's policies among the field staff.

Lack of internal audit

- At the time of assessment, CIFCPL did not have a separate internal audit function. This is because of its small scale of operations and the existing operations being concentrated in a small geographical area. The management has indicated that the same would be in place as company's scale of operations increase and it expands to new geographies.

Software-based loan tracking system and online monitoring of branch level operations

- CIFCPL has implemented web based loan monitoring software at its head office, regional office and branches. The software provides the flexibility to generate monitoring and demand collection reports on a daily basis.
- Also, the MFI extensively uses online word and spreadsheet tools for sharing information between the head office and the branches. The branch offices are required to update the online sharing tool daily, thereby ensuring adequate monitoring of branch level operations by the top management.
- CRISIL believes that CIFCPL's MIS is adequate for its current scale of business; however, it needs to be strengthened further.

Adequate human resource (HR) systems and processes

- CIFCPL has clearly defined structure with separate accounting and HR department. Also, the company has well-defined operational as well as HR policies, which ensures smooth flow of operations.

Institutional Arrangement

Promoters have no microfinance experience but have corporate and rural experience

- The promoter director, Mr. Samit Shetty was associated with marketing of agricultural products in African countries for Olam International and Mr. Anand Rao has extensive experience in social development activities in the rural districts of Karnataka.
- CRISIL believes that the promoters' experience in operating

in rural areas will be beneficial for CIFCPL over the long term.

Professional board and senior management

- CIFCPL's board comprises two promoter directors and two independent directors. Although the core promoters have limited track record in microfinance activities, the experience of the independent directors is likely to assist the MFI in building strategic alliances.
- The MFI's senior management comprises three personnel having adequate experience in social development and microfinance activities. CIFCPL's financial controller, Mr. Vasudeva Balaya has more than a decade of industry experience.

Capital Adequacy and Asset Quality

Small net worth but is adequate to adequately leverage and achieve its business plan in the medium term

- CIFCPL had a relatively small net worth of Rs.23.54 million as on March 31, 2010, compared with other start-up NBFC-MFIs. The MFI's capitalisation level is sufficient to support its business growth over the medium term; however, it is inadequate for the level of business that the company has projected for the long term.
- CIFCPL has projected a capital requirement of Rs.50 million during the next two years and its growth plans are moderate compared with other start-up MFIs assessed by CRISIL during the past two years. Given the relatively lower capital requirement, the MFI has indicated that the promoters and their associates would be able to meet CIFCPL's capital requirements for the next two years.

Good asset quality but portfolio yet to season

- CIFCPL had an on time repayment rate of 100 per cent during April 2010. However, with only six months of operations, the loan portfolio is yet to season, and the true asset quality will be evident only when the company completes at least one loan cycle.
- CRISIL believes that disparity in loan amounts to individual members of a group might have an impact on the CIFCPL's

credit risk profile over the near to medium term apart from inherent risks of competition from other MFIs operating in that area and multiple lending to individual borrowers.

Resources and Asset Liability Management

Start up and yet to demonstrate resource raising capability

- CIFCPL had not resorted to any borrowing till May 30, 2010, and the small loan portfolio is entirely funded by capital.
- The company's business plan is likely to have gearing of 2.91 times as on March 31, 2011, which is expected to increase to 5.51 times as on March 31, 2012.
- CRISIL believes that the MFI's ability to borrow significantly over the near term would largely depend on its ability to demonstrate the microfinance operations on a scalable and sustainable basis.

No asset liability mismatch (ALM) risk as loan portfolio is funded entirely through net worth

- The MFI's loan portfolio of Rs.10.54 million as on March 31, 2010, was entirely funded through its net worth. Thus, the company does not face any ALM risk at the time of assessment. However, ability to borrow on time would become critical to avoid liquidity and refinancing risks as CIFCPL expands its loan portfolio using borrowings.

Operational Effectiveness

Earnings profile to remain modest over the medium term

- Given the substantial start-up costs and the time taken for branches to reach optimal capacities, CRISIL expects CIFCPL's earning profile to remain weak over the next one to two years. As a result of large start-up costs the company is not likely to register net profit in 2010-11 (refers to financial year, April 1 to March 31).
- As per the audited financial statements, CIFCPL has registered an income of Rs.1.34 million and incurred loss of Rs.1.33 million for the year ended March 31, 2010.
- Apart from significant operating expenses, any increase in delinquency levels (nil as on May 30, 2010) could lead to higher provisioning and write-offs, further impacting the profitability.

Scalability and Sustainability

Ability to borrow and expand to new geographies needs to be demonstrated

- The MFI has a short operating track record and CRISIL believes that CIFCPL needs to demonstrate its ability to scale and sustain its operations over the next one year.
- CIFCPL's projections for 2011-12 assume to increase to Rs.291 million in advances from Rs.11 million as on March 31, 2010. However, the ability of the MFI to achieve its projected numbers would be contingent upon overcoming of the following challenges:
- Raise the required quantum of funds at regular intervals to support growth
- Replicate systems and processes in new areas, and maintain healthy portfolio quality
- Adopt a more formal audit compliance mechanism, and improve its cash management.
- High concentration of operations in few districts of Karnataka

FINANCIAL INDICATORS

Income and expenditure statement*

Rs. million

For the year ended March 31	2013	2012	2011	2010*
	Projected	Projected	Projected	Actual
Fund based income	**102.67**	**49.21**	**12.03**	**1.21**
Interest and finance charges paid	**52.14**	**23.44**	**3.50**	**-**
Gross spread	**50.53**	**25.77**	**8.53**	**1.21**
Fee based income	**8.39**	**4.38**	**1.33**	**0.13**
Total income	**111.06**	**53.60**	**13.36**	**1.34**
Gross surplus	**58.92**	**30.15**	**9.86**	**1.34**
Expenses				
Personnel expenses	32.98	22.02	9.47	1.05
Administrative expenses	3.55	2.45	1.54	1.50
Total expenses	**36.53**	**24.47**	**11.01**	**2.54**
Provision for loan loss	4.39	2.10	0.49	-
Depreciation	2.54	1.97	1.25	0.18
Profit before tax	**15.46**	**1.62**	**-2.89**	**-1.38**
Tax	-	-	-	-0.05
Profit after tax	**15.46**	**1.62**	**-2.89**	**-1.33**

* seven months

Balance sheet

Rs. million

Balance sheet as on March 31	2013	2012	2011	2010
	Projected	Projected	Projected	Actual
Liabilities				
Paid up capital	100.00	50.00	30.00	23.54
Reserves and surplus	5.71	-3.00	-4.22	-1.33
Net worth	**105.71**	**47.00**	**25.78**	**22.21**
Borrowings	**449.97**	**258.82**	**75.15**	**0.01**
Current liabilities & provisions	**6.98**	**2.59**	**0.49**	**0.49**
Total liabilities	**562.66**	**308.41**	**101.42**	**22.71**
Assets				
Loans and advances	531.03	290.87	96.96	10.54
Current assets	**24.77**	**10.74**	**1.45**	**1.63***
Total funds deployed	**555.80**	**301.61**	**98.40**	**21.32**
Net fixed assets	6.86	6.79	3.02	1.39
Total assets	**562.66**	**308.41**	**101.42**	**22.71**

* Current assets include cash and bank balances of Rs.9.15 mn and bank deposits of Rs.0.92 million

CRISIL RATINGS

Key Financial ratios*

in per cent

Year ended	2013	2012	2011	2010*
Yield				
Fund based yield	23.95	24.61	20.09	11.35
Portfolio yield	24.98	25.38	22.38	11.06
Fee based income / Avg. funds deployed	1.96	2.19	2.23	1.26
Total income / Avg. funds deployed	25.91	26.80	22.32	12.61
Cost of funds				
Interest paid/Avg. funds deployed	12.16	11.72	5.85	-
Interest paid/Avg. borrowings	14.71	14.04	9.31	-
Interest spread				
Gross spread/Avg. funds deployed	11.79	12.88	14.25	11.35
Spreads on lending	9.24	10.57	10.78	11.35
Overheads				
Operating expense ratio	8.52	12.23	18.39	23.87
Personnel expense ratio	7.69	11.01	15.82	9.80
Administrative expense ratio	0.83	1.22	2.57	14.06
Profitability				
Net profit / Avg. net worth	20.25	4.45	-12.03	NM
Net profit / Avg. funds deployed	3.61	0.81	-4.82	NM
Operational self sufficiency	116.17	103.12	82.23	49.33
Asset quality				
Loan loss prov. / Avg loan outstanding	1.07	1.08	0.91	-
Capitalisation				
Total debt/net worth (times)	4.26	5.51	2.91	-
Capital adequacy	19.65	15.79	25.79	172.93