

Fusion Microfinance Private Limited (FMPL)

MFI Grading Report

Year of incorporation	September, 1994*	MFI Grading MFI 1 MFI 2+ MFI 2 MFI 3+ MFI 3 MFI 4+ MFI 4 MFI 5
Year of commencement of microfinance operations	January 2010	
Legal status	NBFC-MFI#	
Lending model	Joint Liability Group (JLG) model	
Chief Executive Officer	Mr. Devesh Sachdev	
Geographical areas of operation	4 States (Uttar Pradesh, Uttarakhand, Madhya Pradesh & Delhi)	
Branches	41 (as on March 31, 2014)	
Employees	319 (as on March 31, 2014)	

* Originally incorporated as Ambience Fincap Pvt Ltd and renamed as FMPL as on May, 2009

#Granted NBFC – MFI License on January 28, 2014

CARE has assigned grading of ‘**MFI 2**’ (**MFI Two**) to **Fusion Microfinance Pvt. Ltd (FMPL)**. Grading is assigned on a eight-point scale with MFI 1 being the highest and MFI 5 being the lowest. There is no individual definition for each grading. CARE’s MFI grading is a measure of overall performance of the MFI on the following broad range of parameters.

Credit Analysis and Research Ltd
New Delhi

May 2014

TOSS FRAMEWORK

Transparency		
		Above Average
<ul style="list-style-type: none"> ○ Registered as Non-Banking Finance Company- Microfinance Institute (NBFC-MFI). Legal form is subjected to greater regulatory norms and reporting. ○ Separate departments with clearly demarcated roles and responsibilities for handling different functions. FMPL has formed different board committees for technical review and formulation of policies and procedure for the working of the MFI including Audit Committee, Risk Management Committee, Board Management Committee, and Head Office Executive Committee. Credit policies are well established, documented and communicated. ○ Transparency in lending process is adequate. ○ Transparency in usage of funds is adequate. ○ FMPL is registered with Equifax Credit Information Services and Highmark Credit Information Services for credit bureau check of all loans before disbursement. ○ Overall disclosures are above average. Information on operational and financial performance is provided on the company's website. ○ Internal Audit team of FMPL consists of an eleven member team, headed by an audit committee consisting of one independent director, VP-Audit and one external director. All the branches are compulsorily audited on a monthly basis for 2 days with a detailed quarterly audit and the head office is audited on a quarterly basis. The Internal Audit Manager also reports directly to the audit committee of the Board of Directors. 		
Operational Setup		
		Above Average
<ul style="list-style-type: none"> ○ Long experience of the promoters in the area viz. banking, finance, law, administration and social developmental services. The promoters ventured into Microfinance business in January 2010 through Fusion Microfinance Pvt Ltd. ○ Supported by five member board with strong academic and managerial expertise in banking, finance, law, administration and social developmental services. ○ Separate departments at head office with minimum overlapping of roles. ○ Good loan appraisal & monitoring systems. Separate credit department at head office for loan appraisal. ○ Adequate system for tracking over-dues. ○ MIS is adequate for current level of operations. In April 2014, FMPL has recently switched to a better IT platform 'Shakti' from 'Bijli' which can handle large amount of data and enable real time data processing. Presently, it is in the implementation stage and the entire process is to be completed by June, 2014. ○ Branches are connected to central server located at the HO (New Delhi) via internet. ○ Risk management systems are adequate for current level of operations. ○ Performance based incentives for all employees and moderate attrition rate. The attrition is primarily in the lower levels, viz.; loan officers. ○ Separate helpline and grievance redressal department at head office to address the borrowers' complaints. 		
Scale of Operations		
		Medium
<ul style="list-style-type: none"> ○ Moderate client base. FMPL is a moderate player among Indian MFIs, with 170077 active individual members and a loan portfolio of Rs. 135.28 crore as on March 31, 2014. ○ The staff strength as on March 31, 2014 was 319, including 194 loan officers. ○ FMPL is currently operating in five states (i.e. Delhi, Uttar Pradesh, Madhya Pradesh, Uttarakhand and Haryana). The operations are spread across 34 districts with 41 branches (as on March 31, 2014). 		

Sustainability	
	Above Average
<ul style="list-style-type: none"> ○ Reasonable second line of leadership. The senior management team has experience in microfinance sector. ○ Capital adequacy ratio at comfortable levels. Net-worth as on March 31, 2014 (prov.) stood at Rs.24.10 crore. ○ Legal form allows equity infusion from the investors. ○ Good asset quality as on March 31, 2014. FMPL has been able to improve and sustain its asset quality over the medium term ○ Operating Self Sufficiency (OSS) at 114.14% in FY14 (prov.). However, sustenance of OSS at reasonable level is vital. ○ FMPL has a good mix of banks and financial institutions to meet its funding requirements (18 in total). Furthermore, NMI LLP and Incofin have invested Rs.16.25 crore as CCDs, which are to be converted to equity shares by Sept, 2014. Also, SIDBI has provided term loan of Rs.1.65 crore to the company. 	

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GRADING RATIONALE

Brief Profile of the organization

Fusion Microfinance Pvt Ltd (FMPL) was originally incorporated as Ambience Fincap Pvt Ltd (AFPL) in September 1994. In May 2009, AFPL was acquired by the current promoters Mr. Devesh Sachdev and Mr. Ashish Tewari; and was subsequently renamed as FMPL to undertake microfinance business in India.

FMPL received the registration as an NBFC-MFI from RBI on Jan 28, 2014, earlier it used operate as a non-deposit taking NBFC registered under RBI.

FMPL started its microfinance operations in January 2010 and was further augmented it by acquiring the microfinance division of Aajeevika (a not for profit body operating in Delhi). At the time of acquisition, Aajeevika had a base of 1280 members with a loan book of Rs. 0.63 crore.

In August 2011, FMPL began offering small-ticket vehicle loans (STVLs) to truck operators. Since August 2013, the company has stopped disbursement of STVLs in an effort to discontinue the loan product.

FMPL provides loans to individual female members in a Joint Liability Group (JLG) with each group consisting of five members. The loans provided to individuals are based on the mutual guarantee from members. It lends to JLG borrowers at 26% interest rate (on a reducing balance) for a period of one year, 17 months and 24 months with a payment frequency of 28 days.

As on March 31, 2014 FMPL was operating in 34 districts consisting of 4392 villages across four states in India (i.e. Madhya Pradesh, Uttar Pradesh, Uttarakhand and Delhi). The operations of the company are managed by a workforce of 319 people spread across 41 branches and head office in Delhi. The loan portfolio is moderately diversified among the four states, with concentration in Uttar Pradesh standing at approximately 55% during FY14.

As on March 31, 2014, FMPL had 127,581 active borrowers with a total outstanding portfolio of Rs.137.73 crore (including managed portfolio of Rs.35.05 crore). Loan disbursement during FY14 was Rs. 167.51 crore.

TRANSPARENCY

<p>Governance</p>	<ul style="list-style-type: none"> • FMPL is registered as a limited company (NBFC). The advantage of this legal form is that it allows equity infusion from individual/institutional investors. • FMPL is headed by a five member board having rich experience across banking, finance, law, administration and social developmental services. Board consists of two nominee directors and one independent director. • The Chief Executive Officer (CEO), Mr. Devesh Sachdeva, heads the MFI and work under the supervision and control of Board of Directors. CEO has the direct reporting of all department heads and is the chairman of all the meetings of the Board and Board Committees. • The Board of Directors periodically assesses strategic, operational, technology and financial matters besides laying down policies and procedures for operational management of the company. Board meets on quarterly basis to monitor the progress and discuss financial & operational performance. Apart from this, the board meets as and when required to discuss the various issues relating to the business. • FMPL has formed different board committees for technically review and formulation of policies and procedure for the working of the MFI including Audit Committee, Risk Management Committee, Board Management Committee, and Head Office Executive Committee.
<p>Internal Controls</p>	<ul style="list-style-type: none"> • The Internal Audit team of FMPL consists of eleven members headed by a team consisting of Vice President-Audit, one independent director and one external director. All the branches undergo regular monthly audit, along with a compulsory detailed quarterly audit and the head office is audited on quarterly basis. • Audit of head office covers the Credit, Accounts and Finance, Human Resource, Administration and MIS. • Audit of branches encompasses different processes such as process credit, accounts and finance, HR and admin, IT etc. • The auditors prepare the report and discuss the same with the branch, with co-ordination with the HO. • After discussing the report at the branch, the auditors send the report to the Head of the Audit department. The audit head reviews the

	<p>report and submits it to the CEO with copy to Chief Operations Officer (COO) for their perusal and corrective action. Thereafter the audit report is send to the branch for compliance with the comments.</p> <ul style="list-style-type: none"> • On the receipt of the audit report, the concerned branch has to send first compliance within two weeks from the receipt of the report. • The Audit Committee reviews the audit reports submitted by the internal audit team. The Audit Committee meets periodically at an interval of two months. The audit committee considering the observations and recommendations and deliberating on corrective steps, issue necessary instructions/ guidelines to all or any one of the concerned department/branch. In its subsequent meeting the committee also reviews the action taken report.
Policies	<ul style="list-style-type: none"> • Credit, Recovery, Risk Management and HR policies are clearly defined and documented. • Credit policies are strictly adhered to for group formation, KYC norms, field verification, credit appraisal, end use verification etc. • Credit policy communication is done verbally through group meetings and training sessions to the group members. • FMPL has recently formulated a Management Risk Committee, with consultation with International Finance Corporation (IFC). • HR policies encompass recruitment and selection, induction and training, leave policy, performance management and compensation management.
Transparency in lending process & utilization of funds	<ul style="list-style-type: none"> • Lending policies are communicated to the borrowers through 3 day training programs at the group meetings. Majority of borrowers are aware about the credit policies. • The loan pass book clearly mentions the rate of interest charged from the borrowers, the processing fee, amount of installment etc. • Loan documentation is maintained at the branch level. • Borrowers are made to sign a loan agreement clearly stating the terms & conditions and the covenants, thereof. • FMPL submits information on utilization, collection and delinquency of funds as per the requirement of lender.
Overall disclosures	<ul style="list-style-type: none"> • Information on microfinance activities is provided on its websites including the details on outreach, client base, loan portfolio and net-worth.

Grievance redressal mechanism	<ul style="list-style-type: none"> • FMPL has a separate grievance redressal department (i.e. helpline department) at the head office. The contact number (toll free number) of this department is printed on the pass book provided to the borrowers. • Executives from this department interact with the borrowers after the disbursements have been done to ensure that the disbursements have been done in a proper manner and that the borrowers have actually received the amount. <p><i>FMPL has grievance redressal mechanism in place to handle customer grievance or feedback with a dedicated phone number at HO.</i></p>
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OPERATIONAL SETUP

Ownership and management	<ul style="list-style-type: none"> • FMPL has been promoted by Mr. Devesh Sachdev and Mr. Ashish Tewari. • The management is headed by Mr. Devesh Sachdev, CEO who is assisted by Mr. Ashish Tewari, COO. • FMPL has a FIVE member board with strong academic and managerial expertise in banking, finance, microfinance, venture funding, private equity and social developmental services.
Organizational Structure	<ul style="list-style-type: none"> • FMPL has created separate departments with clearly demarcated roles and responsibilities for handling different functions. • FMPL has formed different board committees for technical review and formulation of policies and procedure for the working of the MFI including Audit Committee, Risk Management Committee, Board Management Committee, and Credit Committee. • The detail organization structure is presented below in page no. 24.
Level of decentralization of branches	<ul style="list-style-type: none"> • At the branch level, the Branch Manager (BM) is supported by the Loan Officers (LO's) to carry out various activities at the branch level. • FMPL has created a reporting structure for effective monitoring of operations. <p><i>FMPL has structured the process wherein the loan manager reports to the Branch Manager (BM), BM to Area Manager (AM), AM to Divisional Manager (DM) and DM to Regional Manager (RM). The RM directly reports to the VP-Operations. Thereby bringing coordination at branch, region and HO level.</i></p>
Second line of	<ul style="list-style-type: none"> • FMPL is headed by the CEO Mr. Devesh Sachdev. He is ably supported

<p>leadership</p>	<p>by Mr. Ashish Tewari (COO), Mr. Ankur Singhal (VP – Risk and Audit), Mr. Praveen Choudhary (VP- Business Operations), Mr. Gourav Sirohi (AVP- Finance), Mr. Lalit Mishra (AVP –HR), Mr. Deepak Madaan (CS and Compliance)</p> <ul style="list-style-type: none"> Majority of the senior members understand the issues involved in day to day functioning of the company as they have relevant experience in microfinance sector and have sufficient domain expertise.
<p>Human resources management:</p>	<ul style="list-style-type: none"> Total staff strength as on March 31, 2014 is 319, including 194 Loan Officers (LO). Qualification and experience is stipulated for each of the levels in the organization. The recruitment process is centralized at head office and is mainly handled by the human resource department along with the senior management team. Applicants are screened by the functional heads. Proper recruitment process followed for each level of staff – written test and followed by personal interview. Compulsory induction training is given to all new recruits on joining together with field training. Clearly defined compensation system encompassing basic salary and other incentives. The staff incentive considers group formation, number of clients served, collection and recovery of loan installments. <p><i>The human resource policies at FMPL with respect to selection, remuneration and other benefits are well documented. FMPL is in the growth stage where the inflow of newer recruits would increase and to handle that it has a training department who would be able to help the recruits handle the responsibilities in a short possible time. Moreover, FMPL has structured training process and an allocated department that handles all HR duties.</i></p>
<p>Operational methodology</p>	<ul style="list-style-type: none"> FMPL follows a five-member ladies group lending methodology under Joint Liability Group model, wherein the group members undertake the responsibility of forming a group for the purpose of joint liability to ensure timely repayment of loans. The borrowers are only women predominantly in rural and semi-urban areas and very few in urban areas, come from low income

	<p>backgrounds, with no access to organized credit and in most cases do not have a credit history. FMPL has tie-ups with Equifax and Highmark Credit Information Services</p> <ul style="list-style-type: none"> • A centre is set up for the disbursement of loans and recovery of installments. • The centre is started with minimum 3 groups (with each group having 5 members) and then more groups are added upto 10 groups. • The borrowers are typically involved in small trade, cottage industries, agricultural and allied based projects, animal husbandry projects, service enterprise and other textile related projects. • A well-defined process is followed for the formation of the JLG groups. • The MFI runs an awareness campaign before the launch of its operations in the area. An area wise extensive Sensitization regarding JLG lending concept is undertaken. FMPL uses the hub-and-spoke, to select potential areas based on demographic and socio-economic profile. Expansion of the microfinance programme is done organically, moving from the current area of operations to adjacent districts. • Introduction meetings are conducted by the loan officers wherein the people are made aware about the products and benefits of microfinance by explaining the concept as well as on the spot clarification of the doubts. Interested people are then asked to form groups according to the criteria, which is clearly explained during Introduction Meetings.
<p>Appraisal process</p>	<ul style="list-style-type: none"> • Group Formation Meeting (GFM) is conducted after members fulfill the criteria. Member and group characteristics are checked and hence groups are formed while members are asked to bring documents for KYC. Customer Scoring is done by rating the customer on different parameters. The repayment capacity is also assessed based upon the information collected by the field functionaries. • Three day Mandatory Group Trainings (MGTs) are conducted wherein the members are made aware about the products and its benefits by the loan officers. Lending process & policies are informed in detail and members are trained with regard to credit discipline. • Group Eligibility Test (GET) is conducted by the GET officer at

	<p>branch, which recognizes the group members according to the laid down criteria for availing the loan. If the group is passed the documents are forwarded to the Head Office for sanctioning of the loans.</p> <ul style="list-style-type: none"> • The documents are sent at head office. Documents are checked by Credit Department for authenticating the credentials. Appraisal and sanction note is prepared based on customer profile form, GET report, F.I. Report etc. All requisite documents are scrutinized and additional verification is done if required. Thereafter sanction is done by Credit Department and conveyed to the branches. <p><i>FMPL has in place a proper appraisal system. The loan appraisal is done by credit department at the head office to check the member eligibility & JLGs repayment capacity which ensures proper checks on all disbursements.</i></p>
<p>Disbursement process</p>	<ul style="list-style-type: none"> • FMPL disburses all its loans in cash to the individual JLG members at the centre. • Information to clients/group on the decision of lending is communicated. Discussions are held regarding the disbursement with the groups and the terms and conditions of the contract are explained. • The Branch Manager/ Loan officer will verify the identity of the members with the photos on loan application and the proof of identity submitted earlier. Post the signing of the contract and completion of requisite documentations; loan is disbursed to the clients at the centre. • The members are issued receipts for the loan processing fees deposited. • Loan details are updated in the individual client loan ledger. • Member Helpline Department at HO Cross verify the disbursement credentials by calling to at least two members in each group to ensure that loan has been reached to the ultimate beneficiary or not. <p><i>FMPL has in place proper disbursement policies. Disbursement is done at the centre with cash being provided directly to JLG borrowers.</i></p>
<p>Loan collection process</p>	<ul style="list-style-type: none"> • Collections are done at the centre meetings conducted at an interval of 28 days. • Loan Officers carry information about the expected collections and disbursements in the weekly demand sheet. This sheet holds information on the loans and due amounts of each client at the loan centre. As principal and interest payments are received from clients, they are recorded on the demand sheet.

	<ul style="list-style-type: none"> • Instalments are paid by the clients during the centre meetings. Instalments are handed over to Group Co-ordinator who further hands it to the Loan Officer who makes entries in customers pass books and minutes register, which is kept at the centre. • Pass books are issued to the clients with records of loan disbursement and an entry for every payment made by the client. On their monitoring visits to the loan centres, Branch Managers and other supervisory staff verify the accuracy of the entries made in the pass book and minutes register. • At the branch, the Loan Officer prepares a cash position report for the cash collected at the JLG meetings for the day and submits it to the branch manager along with the demand sheet. • The branch manager must tally the total loan repayment amounts collected against the amounts due. Having verified the collections from all the Loan Officers, the branch manager deposits the total cash collections in the bank on the same day. At HO level, cash deposited by the branch is tallied with the repayment due on the same day. • The client Loan Ledgers maintained at the branch should be updated with the transactions of the day.
<p>Overdue management process</p>	<ul style="list-style-type: none"> • In the initial stages of over-dues, the loan officer does the follow up and if the overdue period is elongated then the BM steps in to make recovery. • In case of non-recovery of loan by the BM, the area manager and the divisional manager steps in. If the delay continues further, the RM steps in with co-ordination with the operations team at head office and make efforts for recovery. • FMPL maintains a strict policy of no further loan disbursement in case of members of delayed or non-payment of instalments. <p><i>Overall, FMPL's collection and overdue monitoring system is good, and a computerized MIS system ensures helps in faster access of information for monitoring.</i></p>
<p>Management Information Systems</p>	<ul style="list-style-type: none"> • FMPL has implemented 'Shakti' software developed by Shakti Solutions. The Shakti Solution's MFI offering also provides its partners with alternate channels such as POS, mobile banking etc. that allow the businesses to provide online, real time and secure services to customers even in remote areas using the branchless banking concept. Presently, the software is in implementation stage shifting from the erstwhile 'Bijli'.

	<ul style="list-style-type: none"> • This software is quite comprehensive, capturing all client details, loan purpose, client attendance, loan details and also the track record of the loan repayment and delinquency details, if any is appropriately maintained. • At HO Level to facilitate the better data processing and support; high end Hardware that includes Computers, Laptops, Data Cards, Printers, Projector, Photostat Machine, Security System, Security Sensors, Bio- Metrics, Cameras, Security alarms, Smoke Sensors are being used • In each branch computers, one computer with networking equipment has been installed. FMPL has also issued computers and data cards to all cluster managers and, divisional and regional authorities for better communication and reporting. Daily collection and disbursement data is entered in the system at the Branch Office. • All the branches are connected with Head Office through Internet. It helps the branches to share the routine reporting to HO by e-mail and HO sends the necessary information to branches for smooth functioning of branch working. • FMPL has entered into long term partnership with database Management Company called Cubrid, for data backup and disaster management, through cloud computing and data-setting. <p><i>MIS and accounting system of FMPL is adequate and can manage large volumes of data in the medium term. The MIS system provides information for the loan portfolio management both at the operational level and managerial level. It also helps in maintaining security of data and faster access to reports for day-to-day monitoring.</i></p>
<p>Cash management systems</p>	<ul style="list-style-type: none"> • The branch manager at the branch office tallies the total loan repayment amounts collected against the amounts due on a daily basis. Having verified the collections from all the Loan Officers, the branch manager deposits the total cash collections in the bank on the same day.FMPL has opened separate bank accounts for each of the branches. • FMPL maintains separate records for loan disbursements and loan repayments. The disbursement accounts are centralized and controlled from HO. • In case the collections are not deposited in the bank account because of a bank holiday or any other unavoidable reason, prior approval should be taken from the VP-Business or the Chief Operating Officer at head office. • A summary report of all the cash collections made by the Loan Officers is sent to the head office on a daily basis.

Insurance	<ul style="list-style-type: none"> • FMPL has tied up with Kotak Mahindra Insurance Co. Ltd to cover the life of members and their spouse. This coverage protects both the borrower and the spouse from debt. Thus in an event of death of a member or member's husband, sum assured is given to the nominee after receiving the principal amount of loan outstanding. • The sum assured equals the amount borrowed for each borrower and spouse. The product premium is Rs.267. • Insurance premium is collected at the time of loan disbursement. Processing of claims takes a maximum of 15 days and the documentation that needs to be submitted for claims processing includes copy of the death certificate issued by the local authorities along with a request letter from the JLG to process the insurance claim. • FMPL has taken insurance from United India Insurance for covering cash in transit and cash in safe at branch of upto Rs. 5 lakh. <p><i>Thus FMPL has already a risk mitigation strategy in place to cover the loan in the event of the death of the borrower or her spouse.</i></p>
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SCALE OF OPERATIONS

Key Factors	
Client base (Number)	<ul style="list-style-type: none"> • As on March 31, 2014, FMPL had 127,581 active JLG borrowers with number of JLG groups being 31858.
Assets under management	<ul style="list-style-type: none"> • FMPL has disbursed loans to the tune of Rs.167.51 cr during the period from April 1, 2013 to March 31, 2014. • Outstanding loan portfolio stood at Rs.102.67 cr as on March 31, 2014.
Geographical diversification	<ul style="list-style-type: none"> • FMPL started its operations with branches in Saharanpur, Uttar Pradesh. As on March 31, 2014, the company is operating in 34 districts of 4 states in India (Uttar Pradesh, Madhya Pradesh, Uttarakhand and Delhi) through a network of 41 branches and workforce of 319 • As on March 31, 2014, approximately 55% of loan portfolio is concentrated in UP, 24% in MP, 19% in Uttarakhand and balance in Delhi.

Total income	<ul style="list-style-type: none">• Total income during FY14 (prov.) was Rs 25.04 crore, which improved from Rs. 10.86 crore in FY13.
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SUSTAINABILITY

Particulars	Unit	FY11	FY12	FY13	FY14
		A	A	A	Prov.
Net worth	Rs. Cr	12.19	12.71	21.09	24.10
Total income	Rs. Cr	3.15	6.87	10.86	25.04
Total operating expenses	Rs. Cr	2.51	4.23	4.79	9.45
Financial Cost	Rs. Cr	0.60	1.92	5.46	9.82
Depreciation	Rs. Cr	0.19	0.22	0.21	0.36
Provisions & write off	Rs. Cr	0.06	0.36	0.14	0.80
Profit/(Loss) after tax	Rs. Cr	-0.19	0.15	0.28	3.10
Loan outstanding – Own	Rs. Cr	11.52	21.79	41.44	102.67
Loan outstanding – Managed	Rs. Cr	0.00	15.46	15.32	35.05
Key ratios					
PAT Margin	%	-5.97	2.20	2.55	12.39
Return on total assets (ROTA)	%	-1.64	0.57	0.49	2.75
Operational Self- Sufficiency	%	94.37	102.25	102.61	114.14
Financial Cost ratio on AUM	%	5.19	5.16	9.62	7.13
Operating expense ratio (OCR)	%	21.76	17.34	10.19	9.72
Loan Loss Provision ratio (AUM)	%	0.52	1.47	0.30	0.82
Portfolio yield on own portfolio	%	20.34	29.59	28.84	28.03
Other income to avg. portfolio	times	6.97	8.14	3.45	4.77
Return on AUM	%	27.31	28.15	23.10	25.75
Overall gearing ratio*	times	0.69	1.53	1.05	1.93
Capital Adequacy Ratio (CAR)	%	61.38	46.87	50.71	36.44
PAR > 30 days (AUM)	%	1.40	0.00	0.00	0.00

*compulsorily convertible debentures (CCDs) of Rs.16.25 crore, which are convertible by Sept 30, 2014 are considered a part of net worth while calculating overall gearing.

Earnings profile

FMPL started its microfinance business in January 2010. The earning profile of FMPL stands moderate with improving revenue and profitability. Total income for FY14 (prov.) stood at Rs. 25.04 crore improving from Rs.10.86 crore in FY13. Furthermore, the PAT improved to Rs.3.10 crore in FY14 (prov.) from Rs.0.28 crore in FY13. FMPL has disbursed loans to the tune of Rs.167.51 cr during FY14. Outstanding loan portfolio stood at Rs.102.67 cr as on March 31, 2014. Operating Self Sufficiency (OSS) for FY14 stood at 114.14%. *However sustenance of OSS at higher level of operation remains to be demonstrated*

Capitalization levels

FMPL's capitalization level is adequate for the current level of operations. FMPL had a net worth of Rs.24.10 crore as on March 31, 2014 and is expected to increase based on internal accruals and equity infusion in the future. During FY14, SIDBI has provided term loan of Rs. 1.65 crore. Furthermore, the Compulsorily Convertible Debentures (CCD) is to be converted to equity by September, 2014. FMPL's CAR is comfortable at 36.44% as on March 31, 2014.

Fund mobilization

FMPL has got term loans from 8 banks and 8 financial institutions. Furthermore, FMPL has issued CCDs to the main investors NMI and Incofin, consisting of Rs.16.25 crore, scheduled to be converted to equity shares by September, 2014. Furthermore, the aforesaid investors are to bring in another round of CCDs after the conversion. Thereby, FMPL is nicely funded from different sources enabling a good pool of funds.

Asset quality

Though FMPL is in growth phase and has started operations in January 2010 only, it has been able to maintain sound asset quality with almost 100% repayment rate till March'14. This has been possible with rigorous supervision by operations team and regular checks and controls of finance and internal audit department. *FMPL presently has moderate AUM, thereby; sustenance of asset quality at higher levels of operations is to be seen.*

Provisioning for loan losses

FMPL follows the prudential norms prescribed by RBI for provisioning for loan losses:

- Loans where the installment is overdue for a period of 90 days or more or on which interest amount remained overdue for a period of 90 days or more is treated as non-performing assets.
- The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of; a.) 1% of the outstanding loan portfolio or, b) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more.

*Detail financial performance of FMPL is provided in **Annexure**.*

Operational Sustainability

Operational Sustainability	
Second line of leadership	<ul style="list-style-type: none"> Majority of the senior members understand the issues involved in day to day functioning. Involved in strategic decisions as they have developed a good understanding of the microfinance sector. Senior members are experienced in fields like banking & financial services & other social developmental activities. <p><i>FMPL's senior management has adequate expertise to manage the growing scale of operations. Thus at present FMPL has reasonable second line of leadership.</i></p>
Competition	<ul style="list-style-type: none"> In its areas of operation, there is moderate penetration of other MFIs such as Bandhan Microfinance, Satin Creditcare, SV Creditline etc. Hence FMPL is facing moderate competition from other MFIs operating in the area.
Loan Products	<ul style="list-style-type: none"> FMPL offers loans ranging from Rs. 15,000 to 20,000 in the first cycle, which would increase to Rs. 25,000 in the second cycle and up to Rs. 30,000 in subsequent cycle depending upon the need of the customer and past repayment record. The loan is given only for income generating activities. The installments are payable in 28 days (four weeks exact) and the rate of interest charged is 26% per annum.
Vision	<ul style="list-style-type: none"> FMPL plans to expand its outreach with increased penetration in existing states like Uttar Pradesh, Madhya Pradesh, and Uttarakhand and also intends to diversify into new geographies of Punjab, Haryana and Rajasthan. FMPL plans to expand its branch network to 160 across north India over the next three financial years.

Projections

Particulars	Unit	FY15	FY16	FY17
		P	P	P
Net worth	Rs. Cr	106.79	119.94	141.65
Total income	Rs. Cr	48.33	86.45	146.25
Total operating expenses	Rs. Cr	15.31	24.78	43.11
Financial Cost	Rs. Cr	21.89	39.90	67.50
Depreciation	Rs. Cr	0.00	0.00	0.00
Provisions & write off	Rs. Cr	1.13	1.85	2.75
Profit/(Loss) after tax	Rs. Cr	6.60	13.15	21.71
Loan outstanding – Own	Rs. Cr	237.60	420.75	693.00
Loan outstanding – Managed	Rs. Cr	0.00	0.00	0.00
Key ratios				
PAT Margin	%	13.66	15.21	14.84
Return on total assets (ROTA)	%	2.96	3.44	3.70
Operational Self- Sufficiency	%	115.82	117.94	117.43
Financial Cost ratio on AUM	%	9.21	9.48	9.74
Operating expense ratio (OCR)	%	8.16	7.53	7.74
Loan Loss Provision ratio (AUM)	%	0.60	0.56	0.49
Portfolio yield on own portfolio	%	27.30	25.25	25.25
Other income to avg. portfolio	times	0.98	1.01	1.01
Return on AUM	%	25.75	26.26	26.26
Overall gearing ratio	times	1.80	2.83	3.95
Capital Adequacy Ratio (CAR)	%	-	-	-
PAR > 30 days (AUM)	%	-	-	-

Efforts to increase outreach and coverage

- FMPL plans to expand its outreach with increased penetration in existing states like Uttar Pradesh, Madhya Pradesh, and Uttarakhand and also intends to diversify into new geographies of Punjab, Haryana and Rajasthan. FMPL plans to expand its branch network to 160 across north India over the next three financial years.
- FMPL plans to grow at a CAGR of almost 142% over the next 3 years.
- FMPL plans to reach loan portfolio of Rs.693 cr by the end of FY17 with a client base of around a million borrowers.
- FMPL plans to infuse equity of Rs.60 cr during FY15, which will be via private equity route. Besides this, the company would increase its borrowings from diverse sources to reach the requisite scale of operations.
- The achievability of future targets would mainly depend upon FMPL’s ability to raise further funds and geographic diversification of its portfolio further with maintaining the asset quality

Detail projected financial performance of FMPL is provided in Annexure.

ANNEXURES

Annexure 1: Profile of board members of FMPL

Name	Age	Qualification	Brief Profile	Designation	Total years of Exp.	Exp. In MFI
Mr. Devesh Sachdev	41	Post Graduate	An XLRI Post Graduate with 19 years of experience in the Service Industry with Citigroup and BSA. He served as the director of BSA in charge of strategy and finance.	CEO	19	4.5
Mr. Ashish Tewari	41	Post Graduate	An Economics, Law and Management Graduate with over a decade of experience in Financial services, has earlier worked with Development Credit Bank , GE and ICICI in various leadership positions , that includes , National Collection Head – Non-core locations , Head –Sales Mortgages , Regional Head North – Secured Assets .	COO	19	4.5
Mr. Aditya Bhandari	31	B.Com & CA	He is a private equity expert and is managing Incofin’s investment portfolio in India where he is in charge of analyzing and negotiating the private equity transactions of Incofin’s pool of funds. He has over 5 years of experience in investment banking, venture capital and corporate finance. His professional repertoire includes working with Aavishkaar Venture Capital, Goldman Sachs and Standard Chartered Bank.	Nominee Director-Incofin	10	5
Mr. Vishwanath Seshadri	52	B.Com CA	Chartered Accountant, Cost & Works Accountant and Commerce graduate from India and have over 25 years of work experience in various general management functions in ICICI Bank, GE Capital and a few other companies in India.	Independent director	25	
Mr. Njord Andrewes	38	BA & MBA (Finance)	Njord Andrewes is the Investment Director of the NMI Global Fund. Prior to joining NMI, Mr. Andrewes was a Senior Equity Research Analyst at Lazard Capital Markets. Before Lazard, Mr. Andrewes was an Equity Research Analyst at Janney Montgomery Scott, LLC. He began his career at Robertson Stephens in Sales and Trading. Mr. Andrewes received an MBA in Finance from Kelley School of Business at Indiana University, and a B.A. in Economics from Hope College.	Nominee Director-NMI	10	

Annexure 2: Profile of senior management of FMPL

Name	Age	Qualification	Brief Profile	Designation	Total Exp.	Exp. in MFI
Mr. Ankur Singhal	36	Post Graduate	Mr. Ankur has been working in the development sector space for nearly a decade now. He started his professional life from PRADAN (a national level NGO). After that he joined IntelleCash, where he worked as Zonal head- (North India) and helped several entrepreneurs to set up microfinance operations. Ankur holds PGDFM from IIFM, Bhopal	VP -Risk & Audit	13	4
Mr. Praveen Choudhary	36	MBA	Mr. Praveen has over 13 years of experience with GE and Development Credit Bank in handling business plans and formulating sales strategies of the north region. He has expertise in identifying potential clients, developing new territories and executing sales plan with analysis.	VP Business Operation	13	4
Mr. Gourav Sirohi	30	Post Graduate (Finance) & CA	An IMT Post Graduate (Finance) and Chartered Accountant with more than 8 years of experience in the field of Direct and Indirect Taxation, Finance , Financial Audit , Company law Matters , Information System Audit and Valuation . Prior to this assignment he was associated with Grant Thornton in Assurance and Auditing for various clients viz. DLF Ltd, Ranbaxy, Spice Jet etc.	AVP – Finance & Accounts	9	3
Mr. Lalit Mishra	34	PGDRM	Lalit has over 9 years of experience in Human Resource field. He is a seasoned professional and has got experience in setting up the Human Resources Systems, engineering and re-engineering of the processes. He has worked with Organizations of repute like IBM, Videocon to name a few.	AVP- Human Resource	11	0.10
Mr. Deepak Madaan	27	LLB & CS	Deepak is LL.B and Company Secretary with more than 3 years of post-qualification experience in the field of Secretarial and legal matters. Prior to this assignment he was associated with Almondz Group in Merchant Banking, Secretarial and Legal Department.	CS	3	0.10

Annexure 3: Details on human resources

As on March 31,	Unit	FY11	FY12	FY13	FY14
Field officers	Number	59	63	89	194
Total employees	Number	96	124	168	319
Employee productivity (Computed)					
Loan per field officer	Rs. Lakh	19.53	59.13	63.77	70.99
Borrowers per field officer	Number	364	586	751	658
Groups per field officer	Number	51	138	205	164
Members per field officer	Number	382	787	967	877
Branch productivity (Computed)					
Members per branch	No.	1734	2478	4099	4148
Individual borrowers per branch	No.	1653	1845	3181	3112
Loan outstanding per branch	Rs. Lakh	93.92	171.55	247.90	329.95

Annexure 4: Operational outreach

Details	Unit	FY11	FY12	FY13	FY14 (prov.)
Number of states	No.	4	4	4	4
Number of districts	No.	8	9	10	34
Number of villages	No.	431	998	2,134	4,392
Branches	No.	13	20	21	41
Number of active JLG groups	No.	2,983	8,706	18,238	31,858
Number of active JLG individual members	No.	22,544	49,553	86,089	170,077
Number of active JLG individual borrowers	No.	21,494	36,905	66,806	127,581
Disbursement (Rs lakhs) – JLG	Rs. Cr	30.28	72.87	135.42	302.93
Loan outstanding (Rs lakhs) – JLG	Rs. Cr	13.73	34.31	52.05	135.28
Total Disbursement during year	Rs. Cr	22.72	48.37	62.55	167.51
Loan outstanding – Own	Rs. Cr	11.52	21.79	41.44	102.67
Loan outstanding – Managed	Rs. Cr	0.00	15.46	15.32	35.05
Total Outstanding Loan portfolio	Rs. Cr	11.52	37.25	56.76	137.73

Annexure 5: Portfolio details

Loan Products

Details	Product 1	Product 2	Product 3	Product 4
Loan Size	15000	20000	25000	30000
Loan Term	1 year 5 month	2 Years	2 Years	2 Years
Interest Rate	26.00%	26.00%	26.00%	26.00%
Repayment Frequency	28 days	28 Days	28 Days	28 Days
Processing Fees (1%)+ Service tax(12.36%)	169	225	281	337
Penalty if any	NIL	NIL	NIL	NIL
Type of Interest rate (Flat or Reducing)	Reducing	Reducing	Reducing	Reducing

Asset Quality*Rs. Crore*

Details (as on March 31)	FY11	FY12	FY13	FY14 (prov.)
Opening NPA	-	0.28	0.00	0.02
Add: Additions during the year	0.28	-	0.02	0.02
Less: Write-off during the year	-	-0.23	-	-0.02
Recoveries during the year	-	-0.05	0.00	0.01
Upgraded during the year	-	-	-	-
Closing Gross NPAs	0.28	0.00	0.02	0.03
Total Advances	12.21	34.31	52.05	135.28
Provision on Standard Asset	0.05	0.12	0.10	1.07
Provision on NPA	0.01	0.00	0.01	0.03
Net NPAs	0.28	0.00	0.02	0.03
Net Advances	12.20	34.31	52.04	135.25
Gross NPA/ Gross Advances (%)	2.30%	0.01%	0.04%	0.02%
Net NPA / Net Advances (%)	2.28%	0.01%	0.04%	0.02%

State wise loan outstanding

Details (as on March 31,)	FY11	%	FY12	%	FY13	%	FY14 (Prov.)	%
Delhi	2.32	19%	1.82	10%	1.38	4%	2.00	2%
Uttar Pradesh	3.74	31%	6.27	34%	19.96	53%	54.93	55%
Madhya Pradesh	2.84	23%	5.25	28%	5.71	15%	24.20	24%
Uttarakhand	3.33	27%	5.16	28%	10.80	29%	19.41	19%
Total	12.23	100%	18.52	100%	37.86	100%	100.55	100%

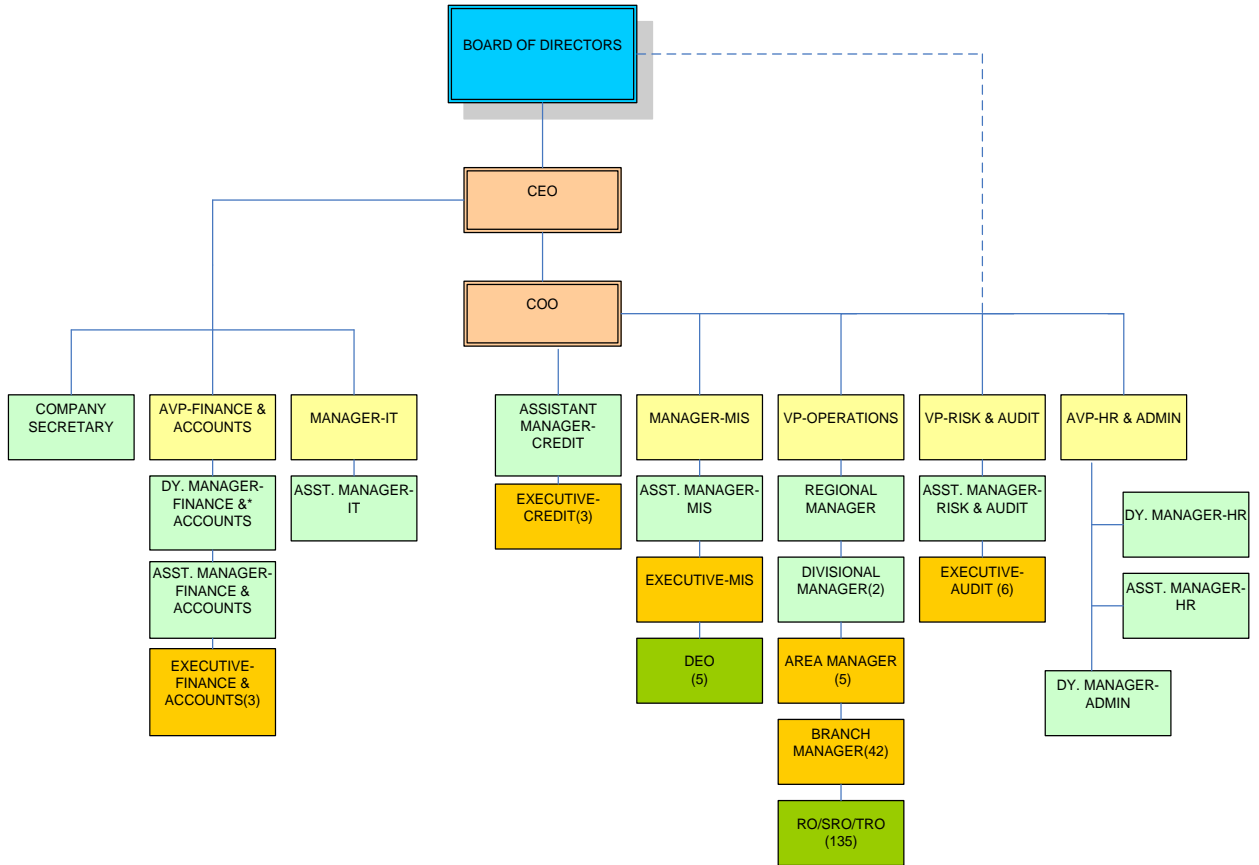
Purpose wise loan outstanding*Rs. Crore*

Details (as on March 31,)	FY11	FY12	FY13	FY14 (prov.)
Agriculture	1.61	0.24	0.43	1.18
Animal Husbandry & fishery & Poultry	4.44	13.75	24.30	57.72
Trade & Services	1.23	1.57	26.10	61.01
Production	4.91	18.75	1.13	2.21
Others	0.04	0.00	0.08	13.16
Total	12.23	34.31	52.05	135.28

Loan Cycle wise loan outstanding*Rs. Crore*

Details	FY11	FY12	FY13	FY14 (prov.)
First Loan cycle	10.87	22.04	33.37	96.99
Second loan cycle	1.36	11.76	14.49	29.90
Third loan cycle	0.00	0.50	4.19	7.03
> Third loan cycle	0.00	0.00	0.01	1.35
Total	12.23	34.31	52.05	135.28

Annexure 6: Organisational Structure



Annexure 7: Past Financials

Income and Expenditure Statement (Year ended March 31)	2011	2012	2013	2014
	A	A	A	Prov.
Income				
Interest income on own portfolio	2.34	4.88	9.23	20.40
Other operating income	0.80	1.99	1.62	4.64
Total income	3.15	6.87	10.86	25.04
Financial costs				
Interest expense	0.60	1.92	5.46	9.82
Net interest income	1.74	2.96	3.77	10.58
Operating expenses				
Personnel Expenses	1.75	2.74	3.44	6.29
Administrative & Other Expenses	0.75	1.49	1.35	3.16
Total operating expenses	2.51	4.23	4.79	9.45
Write offs and provisions	0.06	0.36	0.14	0.80
Depreciation	0.19	0.22	0.21	0.36
Misc. expenses written off	-	-	-	-
PBT	-0.21	0.14	0.26	4.61
Tax	-0.02	-0.02	-0.01	1.50
PAT	-0.19	0.15	0.28	3.10

Balance Sheet (As on March 31)	2011	2012	2013	2014
	A	A	A	Prov.
Liabilities				
Share capital				
Paid up capital	10.48	10.68	10.70	10.70
Share Application Money	0.00	0.00	0.00	0.00
Reserves and surplus	1.71	2.03	10.39	13.40
Tangible net-worth	12.19	12.71	21.09	24.10
Term liabilities				
Term Loan/ NCDs for lending operations	8.27	19.18	38.91	93.02
Debentures (Compulsorily convertible)	0.00	0.00	16.25	0.00
Preference Shares (Optionally convertible)	0.00	0.00	0.00	0.00
Loans from related parties	0.11	0.11	0.00	1.00
Total term liabilities	8.38	19.29	55.16	94.02
Current liabilities and provisions	0.58	0.85	4.26	27.82*
Deferred tax Liabilities/(asset)	0.02	0.06	0.12	0.45
Total liabilities	21.13	32.78	80.39	145.49
Assets				
Net fixed assets	0.38	0.35	0.45	1.29
Investments	7.44	2.46	20.79	2.30
Current assets				
Cash in hand & at bank	1.58	2.84	8.23	35.04
Total Loan Portfolio	11.52	37.25	56.76	137.73
Less: Managed portfolio	0.00	15.46	15.32	35.05
Loan Portfolio (Own)	11.52	21.79	41.44	102.67
Other Current Assets	0.21	5.33	9.48	4.19
Total Current Assets	13.31	29.97	59.14	141.91

Total Assets	21.13	32.78	80.39	145.49
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** includes compulsorily convertible debentures (CCDs) which are to be converted into fully paid equity shares by Sept 30, 2014 at a conversion price of minimum of Rs.28.50 per equity share, but not exceeding Rs.38 per equity share.*

Annexure 8: Projected financials

Income and Expenditure Statement (Year ended March 31)	2015	2016	2017
	P	P	P
Income			
Interest income on own portfolio	46.49	83.13	140.63
Other operating income	1.83	3.33	5.63
Total income	48.33	86.45	146.25
Financial costs			
Interest expense	21.89	39.90	67.50
Net interest income	24.61	43.23	73.13
Operating expenses			
Personnel Expenses	0.00	0.00	0.00
Administrative & Other Expenses	15.31	24.78	43.11
Total operating expenses	15.31	24.78	43.11
Write offs and provisions	1.13	1.85	2.75
Depreciation	0.00	0.00	0.00
Misc expenses written off	-	-	-
PBT	10.00	19.92	32.89
Tax	3.40	6.77	11.18
PAT	6.60	13.15	21.71

Balance Sheet (As on March 31)	2015	2016	2017
	P	P	P
Liabilities			
Share capital			
Paid up capital	86.95	86.95	86.95
Share Application Money	0.00	0.00	0.00
Reserves and surplus	19.84	32.99	54.70
Tangible net-worth	106.79	119.94	141.65
Term liabilities			
Term Loan/ NCDs for lending operations	192.00	340.00	560.00
Debentures (Compulsorily convertible)*	0.00	0.00	0.00
Preference Shares (Optionally convertible)	0.00	0.00	0.00
Loans from related parties	0.00	0.00	0.00
Total term liabilities	192.00	340.00	560.00
Current liabilities and provisions	2.55	4.13	7.19
Deferred tax Liabilities/(asset)	0.00	0.00	0.00
Total liabilities	301.34	464.07	708.83
Assets			
Net fixed assets	2.09	2.91	4.35
Investments	0.16	0.26	0.46
Current assets			
Cash in hand & at bank	59.56	36.69	5.17
Total Loan Portfolio	-	-	-
Less: Managed portfolio	-	-	-
Loan Portfolio (Own)	237.60	420.75	693.00

	Other Current Assets	1.94	3.46	5.86
Total Current Assets		299.09	460.90	704.02
Total Assets		301.34	464.07	708.83

Annexure 9: FMPL's position with new RBI's guidelines for MFIs

	RBI Norms	FMPL's position
NBFC – MFIs	<ul style="list-style-type: none"> Qualifying assets to constitute not less than 85% of its total assets (excluding cash and bank balances) At least 70% of loans for the income generation activities 	<ul style="list-style-type: none"> Complies
Income of Borrower's Family	<ul style="list-style-type: none"> Rural : <=Rs.60,000 Non-Rural : <=Rs.1,20,000 	<ul style="list-style-type: none"> Complies
Ticket Size	<ul style="list-style-type: none"> <= Rs.15,000/Rs.20,000 – 1st cycle <= Rs.25,000 – 2nd cycle <= Rs.30,000 – 3rd Cycle 	<ul style="list-style-type: none"> Complies
Indebtedness	<ul style="list-style-type: none"> <= Rs.50,000 	<ul style="list-style-type: none"> Complies
Tenure	<ul style="list-style-type: none"> If loan amount > Rs.15,000 then >= 24 months with right to borrower of prepayment without penalty. 	<ul style="list-style-type: none"> Complies
Collateral	<ul style="list-style-type: none"> Without collateral 	<ul style="list-style-type: none"> Complies
Repayment Model	<ul style="list-style-type: none"> 28 days (four weeks) 	<ul style="list-style-type: none"> Complies.
Interest Rate	<ul style="list-style-type: none"> Margin cap – 12% above cost of borrowings 	<ul style="list-style-type: none"> Complies
Processing Fees	<ul style="list-style-type: none"> <= 1% of loan amount 	<ul style="list-style-type: none"> Complies
Insurance	<ul style="list-style-type: none"> Actual cost of insurance can be recovered from borrower and spouse Administrative charges can be recovered as per IRDA guidelines 	<ul style="list-style-type: none"> Complies
Penalty	<ul style="list-style-type: none"> No penalty for delayed payment 	<ul style="list-style-type: none"> Complies
Security Deposits	<ul style="list-style-type: none"> No security deposit/ margin are to be taken. 	<ul style="list-style-type: none"> Complies

Annexure 10: MFI Grading Symbols*

Grading Symbol*	
MFI 1	Highest
MFI 2+	
MFI 2	
MFI 3+	
MFI 3	
MFI 4+	
MFI 4	
MFI 5	Lowest

* There is no individual definition for each grading

DISCLAIMER

CARE's microfinance (MFI) grading is a onetime assessment and the grading is not kept under periodic surveillance. CARE's analysis draws heavily from the information provided by the microfinance institution as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. It does not imply that CARE performs an audit function to detect fraud. In case of NGO MFIs, grading apply only to their microfinance programs.

CARE's MFI grading is not a recommendation to buy, sell or hold any financial instrument issued by the MFI or to make loans/ donations/ grants to the MFI. It is not an assessment of the debt servicing ability of the MFI. The grading assigned by CARE cannot be used by the MFI in any form for mobilizing deposits/savings/thrift from its members or general public.

CARE's MFI grading also does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the microfinance grading.