Microfinance Institution Gradings

Fusion Microfinance Private Limited (FMPL)

mfR5

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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		Fusion Microfinance Private Limited (FMPL)
Date of Incorporation		Registered as a Non Banking Finance Company (NBFC)
Commencement of MF operation		Jan 2010
Registered office		303 -304, 3rd Floor, Building No.2, Community Centre, Naraina Phase –I, New Delhi – 110028 Tel : + 91- 11-46243350 -55
Chief Executive Officer		Mr. Devesh Sachdev
Corporate office & Contact Details		Mr. Devesh Sachdev Chief Executive Officer, 303 -304, 3rd Floor, Building No.2, Community Centre, Naraina Phase –I, New Delhi – 110028 Tel : +91 -11- 46243350 E-Mail: devesh@fusionmicrofinance.com
Statutory Auditors		BSR & Company

ABOUT THE MFI

Lending model	:	Lending to JLG
Products	:	Microfinance loans • JLG loan: Rs.8, 000 to 20,000 per member. The MFI extends 46 weeks loans to groups at an interest rate of 31.74 per cent for the loan period on effective interest rate (IRR) basis. • The MFI also charges 2 per cent as loan processing fees and 1 per cent as insurance fees along with Rs.100 as one time membership fee.
Borrower base	:	12656 borrowers (12904 members) as on September 30, 2010
Employees	:	93 (48 credit officers) as on September 30, 2010
No. of Branches	:	12
Loan outstanding	:	Rs.105.64 million as on September 30, 2010
Loans disbursed	:	Rs.112.5 million during the year 2010-11(refer April 1 to March 31)
Geographical reach	:	12 districts (Madhya Pradesh, Uttrakand, Uttar Pradesh and Delhi)

Social Indicators and Transparency Indicators

Social indicators	
Average loan outstanding/GNI (2009 figure)* (in %)	23
Women staff/total staff (in %)	16
Women borrowers/total borrowers (in %)	100
Effective IRR (including interest rates, processing fees & any other fees charged by the organisation? (in %)	33.38
Client dropout rate (in %)	0
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/asset level and use it to target low income clients?	Yes
Does the MFI capture and analyse reasons for client dropout rate?	No
Is any head office designated contact details provided to clients as part of grievance redressal mechanism offered to clients?	Yes

OUTREACH SUMMARY

For the period ended	Unit	Sep-10	Mar-10
Groups	No.	2,471	458
Members	No.	12,904	2,292
Loans disbursed during the year	No.	11735	2,157
Borrowers	No.	12,656	2,157
Branches	No.	12	4
Villages covered	No.	377	25
Districts covered	No.	12	4
Women borrowers	%	100	100
During the year disbursement	Rs.Mn	134.09*	6.2
Loan O/S- own	Rs.Mn	87.11	15.87
Loan O/S-managed	Rs.Mn	18.53	0
Total loan O/S	Rs.Mn	105.64	15.87

**including managed portfolio*

PRODUCTIVITY AND EFFICIENCY INDICATORS

For the period ended	Unit	Sep-10	Mar-10
Total employees including village coordinators	No.	93	24
Village coordinators (credit officers)	No.	48	11
Loan outstanding/ credit officer	Rs.Mn	2.20	1.44
Members / credit officer	No.	269	208
Borrowers / credit officer	No.	264	196
Members/branch	No.	1,075	573
Borrowers/ branch	No.	1,055	539
Loan outstanding/branch	Rs.Mn	8.80	3.97
Borrower/Member	%	98.08	94.11

GRADING RATIONALE

CRISIL's microfinance institution (MFI) grading reflects Fusion Microfinance Private Limited's (FMPL's) following strengths:

- Satisfactory risk management practices for current scale of operations
- Adequate capitalisation for next one year
- Experienced senior management

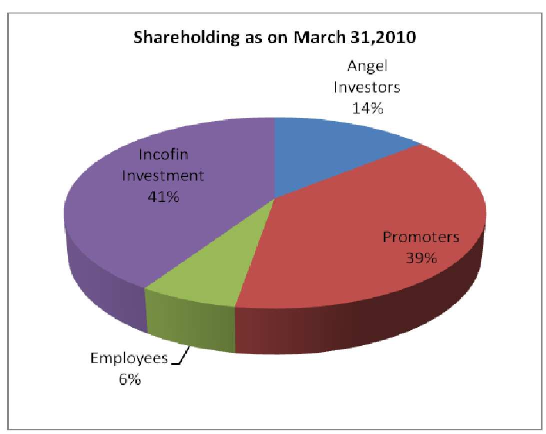
The above-mentioned grading strengths are partially offset by FMPL's following weaknesses:

- Short track record of microfinance operation
- Operations are yet to be sustainable
- Modest resource profile

Profile

FMPL (formerly Ambience Fincap Pvt Ltd. [AFPL]), is a non-deposit taking non-banking financial company (NBFC-ND). AFPL was registered with the Reserve Bank of India (RBI) in 1994 and was engaged in the financial services business. The company was taken over by its present owners in 2009, and the name AFPL was changed to FMPL in 2010, to reflect the new ownership. The company completely shifted its business focus to microfinance in January 2010. Additionally, FMPL also acquired microfinance portfolio (Rs.6.30 million) of Aajeevika in February 2010, after obtaining a no objection certificate from the Friends of Women's World Bank (FWWB). Aajeevika is a charitable trust that reaches out to some of the most disadvantaged women in the community, providing them with access to credit to support their families through entrepreneurship. This helped FMPL scale up its microfinance operations.

FMPL extends loans only to women and follows the joint-liability-group (JLG) model of lending. Under this model, borrowers are organised into five-member groups; while loans are extended to individual members, and all members are jointly liable for repayment. Currently, the MFI operates in Madhya Pradesh, Uttarakhand, Uttar Pradesh and Delhi. As on September 30, 2010, the MFI had 12,904 borrowers and a loan outstanding of Rs.105.6 million (Rs.18.53 million managed portfolio), spread across 12 branches.



The MFI has a tie-up with Kotak Mahindra Insurance Company to provide loan-linked life insurance services to its borrowers and their spouses. FMPL charges one per cent of the total loan disbursement as insurance premium.

Lending Methodology

Before choosing an operational area, FMPL collects secondary data from various sources including the government, to get basic information of that particular area. The MFI's area and branch manager then conduct a field survey, which studies the region's market potential, competition, political impact and socio-economic profile. Once the survey is complete, the MFI's regional manager or zonal head visit the area and recommend commencing operations. FMPL's relationship officer (RO), who is responsible for group promotion and loan recovery, then organises a general meeting of targeted members and the branch manager (BM) presents details about the organisation and its microfinance programme called. Women interested in becoming members are invited to the subsequent meeting, during which, they organise themselves into five-member groups.

The RO then conducts a four-day compulsory group training (CGT) for each group regarding FMPL's policy, promoters' details, and loan product and repayment details. Post-training, the BM conducts an oral group recognition test (GRT) to ascertain whether or not all members have understood FMPL's policies and procedures.

The RO also verifies individual clients' addresses and their economic activity during CGT and issue loan application. The loan appraisal process is done during the GRT. The loan application is then sent to FMPL's head office for a health check, which includes know your customer (KYC), signatures and cash flow statements of individual customers. The management information system (MIS) department captures all relevant member information, does an internal audit to verify this information and sanction the loan. The loan sanction details are communicated to FMPL's branch office and the MFI's head office then releases cash to the branch for disbursement.

MANAGEMENT

Short track record of microfinance operations	• FMPL is a small start-up MFI that has been in operations in the microfinance space for the last ten months. It had assets under management (AUM) of Rs.105.6 million and 12,904 borrowers, as on September 30, 2010.

	• Since its inception, FMPL benefited from its relationships with various apex MFIs and technical support providing agencies. The MFI received funding and technical support from Intellecash Micro Finance Network Co (P) Ltd, Ananya Finance For Inclusive Growth Pvt Ltd and MAS Financial Services Ltd.
Adequate credit approval and loan documentation for current scale of operations	• CRISIL believes that FMPL's client due diligence, credit appraisal, and loan documentation mechanisms are comparable to other MFIs with JLG-based lending methodology. It registers members' attendance for training programmes and the area manager or the branch manager conducts group recognition tests (GRTs) as per the prescribed checklist. Branch managers also conduct reference checks of applicant members either from leader or neighbors. • The MFI has detailed cash flow analysis of its potential borrowers to ascertain their credit risk profile before sanctioning loans. There is a mechanism of conducting loan utilisation checks (LUCs) post loan disbursement on standard formats; however, branch level adherence to these LUCs and client verification and attendance capturing process could be improved.
Adequate management information system (MIS) and process control mechanism, commensurate with its scale of operations, but efficacy needs to be ensured	• FMPL recently implemented loan-tracking software at across all branches, and generates daily demand reports for each field officer; branches also report their daily collection, as against their demand and cash and bank balance position to the head office. The software also generates various analytical reports for tracking individual branch as well as consolidated performance. The system, however, does not generate daily actual collection versus demand at the head office level. The reconciliation is based on information sent by branches. To overcome this issue, the MFI installed a mobile-based technology pilot basis to track collection on a daily basis. Once it is fully implemented across all branches, FMPL will be able to generate most crucial reports on a daily basis.
Internal audit team	• FMPL has a four-member internal audit team to verify all

with structured policies, which need to be streamlined	accounts, demand and collection, loan application, and end use. The audit team is also supposed to verify loan documents and sanction the loan. However, CRISIL believes that the internal audit team's size is not commensurate with the business volume and compliance from branch office should be improved. Additionally, client attendance is not properly captured on a weekly basis and CRISIL believes that this is very critical information for sanctioning a second loan.
Moderate cash management system	• According to the MFI's cash holding policy, the maximum cash holding of a particular branch should not be more than Rs. 10,000. But CRISIL's team found that cash holding in a few branches that the team visited had more than Rs.2,50000 on a few occasions. CRISIL believes that this poses higher risk for an MFI operating in remote areas with small office premises without adequate security or safety lockers. • All branches are covered under cash-in-transit (Rs.1 million) and fidelity insurance, which mitigates the risk of loss by misappropriation.
Policy and operational manual in place	• FMPL has an operational manual for credit, internal audit, human resource (HR), and write-off policies, which provides guidelines to the management and field staff at the head office and branches. The document is intended to strengthen the MFI's overall management capacity and to ensure high-quality loan portfolio through the application of standard microfinance practices. • It could also help FMPL's field staff to understand the MFI's policies better.
Adequate HR policies in place	• FMPL has a human resource (HR) department and well-defined staff polices. All employees are covered under the Provident Fund and accidental insurance schemes. However, the employee attrition rate was 13 per cent for the past ten months of operation. Hence, CRISIL believes that employee retention will be a crucial factor for FMPL's future growth.

INSTITUTIONAL ARRANGEMENT

Board has long banking experience but lacks microfinance experts to support proposed growth	• FMPL's has a three-member board consisting of people with logistics, banking and finance backgrounds. CRISIL believes that though the FMPL board has adequate representation from the banking domain, it lacks microfinance experts to support proposed growth. FMPL has two promoters, Mr. Devesh Sachdev and Mr. Ashish Tewari. While Mr. Sachdev has over 15 years of experience in logistics, Mr. Tewari has over a decade's experience in finance and banking. • Out of three board members, two are employees of the company, is characterised by a high level of employee representation in the board, which constrains the organisation in terms of access to management oversight on the MFI's current and future strategy. • The management has indicated that they have a short-list of people with microfinance and banking experience to induct on to the board. CRISIL believes that a diversified board will not only create checks and balances in the MFI but also help make unbiased decisions.
Experienced management team	• FMPL's core management team has an adequate understanding of issues being a small MFI has a good client acquisition system, transparent processes, and adequate product offerings to scale up its operations in the highly competitive microfinance space. In addition, one of the promoters of the company Mr. Ankur Singhal has considerable experience in microfinance space.

CAPITAL ADEQUACY AND ASSET QUALITY

Adequate capitalisation	• CRISIL has factored in FMPL's adequate capitalisation to support potential credit risks over the next year as one of its key grading strengths. • As on September 30, 2010, FMPL had net worth of Rs.70.35 million, comprising capital of Rs.76.97 million. Though FMPL's capitalisation is sufficient for its current scale of operations and received capital from Incofin Investment Management, but will be

	inadequate for the increased scale that the MFI expects to achieve over the medium term.
Portfolio is yet to season	• FMPL had an on-time repayment rate of 100 per cent as on September 30, 2010. CRISIL, however, opines that its asset class is yet to season, as around 90 per cent of FMPL's borrowers, as on September 30, 2010, are first-time borrowers. • FMPL's loan portfolio was reasonably diversified as on September 30, 2010. The non-farm-based small business enterprises account for around 65 per cent of its total portfolio, whereas the agriculture (agri) and agri-allied portfolio accounts for 35 per cent, as on September 30, 2010. The loans are secured by loan-linked insurance coverage, which cover borrowers and their spouses. • CRISIL opines that the timely refinancing of repeat borrowers is important to maintain asset quality. Being a small MFI, FMPL faces a potential decline in asset quality because of refinance risk, if it does not mobilise resources regularly to meet borrowers' demand.

RESOURCES AND ASSET LIABILITY MANAGEMENT

Limited funding profile	• CRISIL believes that FMPL's funding profile is limited. As on September 30, 2010, it had total borrowing of Rs.27.09 million from three lenders. Ananya Finance was the largest lender, with a share of around 55 per cent in its total borrowings. The company recently got a sanction of Rs. 5.0 million from a public sector bank. The MFI has been in discussions with various banks and institutional lenders for fresh lines of credit. • CRISIL opines that FMPL's ability to raise adequate and timely resources from a more diverse set of lenders will be a key monitorable, considering its short track record of operations and modest earning profile.
Cost of borrowing is expected to increase	• The weighted average cost of borrowings for 2009-10 (refers to financial year, April 1 to March 31) was around 14.1 per cent; the weighted average cost is around 100 basis points higher than the industry average, considering its dependence on financial

institutions rather than banks. CRISIL believes that FMPL's interest rates will further increase, in the wake of higher inflationary pressures in the macro-economic environment.

- CRISIL believes that, if FMPL unable to mobilise resources on a more regular basis may create liquidity pressures in the wake of increased credit demand from the field.

OPERATIONAL EFFECTIVENESS

Given the early stage of operations, earnings profile is expected to remain modest during 2010-11

- FMPL is a start-up; its operational self sufficiency (OSS) stood at negative in first half of the financial year 2010-11, as the MFI's initial costs and personal expenses are high.
- However, FMPL's earning profile would remain moderate in medium term as the MFI's plans to open more branches in near future would increase its operating expenses. The MFI's cost of borrowing will also increase, negatively affecting its earning profile.
- The MFI projects to post net surplus of Rs.3.88 million during 2010-11. CRISIL, however, believes that this depends on FMPL's ability to mobilise resources at industry average costs and reduce operational costs by achieving optimum level of operations at its new branches.

SCALABILITY AND SUSTAINABILITY

Management has adequate experience to upscale and sustain operations

- CRISIL believes that the senior management team's experience in microfinance will help FMPL expand and sustain operations if it raises capital and resources on time. Even if FMPL achieves its business projections, it would, however, remain a small MFI for next one or two years. This is because its operations are concentrated in a few districts of Uttar Pradesh, Madhya Pradesh, Uttarakhand and Delhi.
- Being a small MFI, other key challenges would be FMPL's ability to attract and retain professionally qualified staff, institutionalise

	better risk management systems, and offer competitive products. This will help FMPL manage its growth and create a niche for itself in the wake of aggressive expansions by larger MFIs.
Areas of susceptibility	• FMPL has limited funding profile, it needs to explore sources for diversifying its funding profile, to retain its clients and achieve projected growth. The MFI's resource mobilisation process will be affected by its small size, short track record of operations and other recent regulatory developments. • FMPL's expansion to new geographies is critical, as most credit risks faced by Indian MFIs are localised and greater diversity and granularity minimises asset quality being impacted by local issues. However, microfinance loans are unsecured loans and the possibility of recovery when local issues combine with increase in borrower indiscipline is remote. Borrower indiscipline could be accentuated by several MFIs lending in the same region.

FINANCIAL INDICATORS

Income and expenditure statement

Rs. million

For the year ended	Mar-13	Mar-12	Mar-11	Sep-10	Mar-10
Fund based income		**Projected**		**Audited**	
Interest income from loans	391.76	142.94	36.32	6.64	0.82
Income from investments /bank deposits	7.50	2.39	0.52	0.34	0.05
Income from assigned portfolio	-	-	-	0.12	-
Other income	-	-	-	0.79	0.04
Total fund based income	**399.25**	**145.33**	**36.84**	**7.89**	**0.91**
Interest and finance charges					
On borrowings	155.03	51.98	8.99	1.14	0.14
Finance charges	-	-	-	0.07	-
Total interest and finance charges	**155.03**	**51.98**	**8.99**	**1.22**	**0.14**
Gross spread	**244.23**	**93.36**	**27.85**	**6.67**	**0.77**
Fee based income					
Processing and admin fees	71.27	35.31	9.57	1.84	0.08
Other income	4.06	1.57	0.42	-	-
Total fee based income	**75.34**	**36.88**	**9.99**	**1.84**	**0.08**
Total income	**474.59**	**182.21**	**46.83**	**9.74**	**0.99**
Gross surplus	**319.57**	**130.23**	**37.84**	**8.52**	**0.85**
Expenses					
Personnel expenses	121.18	56.53	21.40	7.26	2.22
Administrative expenses	55.24	25.59	8.80	3.35	1.65
Total expenses	**176.42**	**82.12**	**30.20**	**10.61**	**3.87**
Write-offs and provisions					
Write-off of bad debts	-	-	-	-	0.30
Provision for loan loss	15.89	6.54	2.07	0.35	0.08
Write-offs and provisions	**15.89**	**6.54**	**2.07**	**0.35**	**0.39**
Amortisation	0.29	0.29	0.27	-	-
Depreciation	3.54	1.87	0.84	0.30	0.10
Profit before Tax	**123.42**	**39.41**	**4.46**	**-2.75**	**-3.50**
Tax	41.26	13.16	0.58	-0.03	0.02
Profit after tax	**82.16**	**26.25**	**3.88**	**-2.72**	**-3.52**

Balance sheet

As on	Mar-13	Mar-12	Mar-11	Sep-10	Mar-10
Liabilities	Projected			Audited	
Share capital	123.82	90.48	54.77	54.77	16.60
Share premium	278.30	111.64	22.35	**22.20**	**-**
Reserves and surplus	109.42	27.26	1.01	-6.62	-3.91
Less: Miscellaneous	0.56	0.85	1.14	-	-
Net worth	**510.99**	**228.54**	**76.99**	**70.35**	**12.69**
Long term borrowings	**1824.17**	**687.32**	**192.44**	**27.09**	**3.93**
Provision	9.44	3.71	1.09	0.44	0.11
Other current liabilities	70.04	22.81	7.53	6.27	3.87
Total current liabilities	**79.48**	**26.51**	**8.62**	**6.71**	**3.97**
Total liabilities	**2414.64**	**942.37**	**278.05**	**104.14**	**20.60**
Assets					
Loans and advances	2121.13	838.20	249.92	87.12	16.61
Investments	-	-	-	0.12	-
Cash & bank balances	103.13	30.61	6.22	6.28	2.37
Deposits with banks	182.42	68.73	19.24	3.51	0.22
Other current assets	0.11	0.11	0.11	5.25	0.30
Total current assets	**285.65**	**99.45**	**25.57**	**15.05**	**2.89**
Total funds deployed	**2406.78**	**937.65**	**275.49**	**102.29**	**19.50**
Net fixed assets	7.85	4.73	2.55	1.86	1.09
Total assets	**2414.64**	**942.37**	**278.05**	**104.14**	**20.60**

Key Financial Ratios

in per cent

Year ended	Mar-13	Mar-12	Mar-11	Sep-10	Mar-10
Fund based yield	23.88	23.96	24.98	25.92	7.24
Portfolio yield	26.48	26.27	27.25	25.62	9.88
Fee based income /Avg. funds deployed	4.51	6.08	6.77	6.06	0.62
Total income / Avg. funds deployed	28.38	30.04	31.75	31.98	7.86
Cost of funds					
Interest paid/Avg. funds deployed	9.27	8.57	6.09	4.00	1.08
Interest paid/Avg. borrowings	12.35	11.82	9.15	14.8	6.88
Interest spread					
Gross spread/Avg. funds deployed	14.61	15.39	18.88	21.92	6.16
Interest spread					
Spreads on lending	11.53	12.14	15.82	10.23	0.36
Overheads					
Operating expense ratio	10.76	13.85	21.04	35.85	31.57
Personnel expense ratio	7.25	9.32	14.51	23.86	17.70
Administrative expense ratio	3.30	4.22	5.96	11.00	13.10
Profitability					
Net profit /(deficit) on net worth	22.22	17.19	8.65	-13.09	-38.44
Net profit / (deficit) on funds deployed	4.91	4.33	2.63	-8.92	-28.00
Operational self sufficiency	135.26	127.86	111.24	77.99	22.01
Asset quality					
Provisioning & write-off/ Avg. loan outstanding	0.67	0.77	1.19	3.62	7.17
Capitalisation					
Total debt/net worth (times)	3.57	3.01	2.50	0.39	0.31
Capital adequacy	24.00	27.11	30.48	74.65	70.49

ANNEXURE

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1.1. Borrowing profile as on September 30, 2010

Lending Institution	Interest rate (%)	Loan O/s
Intellecash Micro Finance Network Co (P) Ltd	15	2.2
Ananya Finance For Inclusive Growth Private Limited	13.50	14.889
MAS Financial Services Ltd	15	10
Total		**27.09**

1.2. Sector wise break up as on September 30, 2010

Sector	Loan O/S(Rs.Mn)	%
Agri	7.29	6.93
Agri-allied	29.15	27.71
Trading	44.64	42.44
Services	22.76	21.64
Others	1.348	1.28
Total	**105.19**	**98.72**

1.3. Region wise break up as on September 30, 2010

Sector	Loan O/S(Rs.Mn)	%
Rural	83.89	79.41
Urban	20.40	19.31
Other	1.35	1.28
Total	**105.64**	**100.00**

1.4. Loan product wise loan outstanding as on September30, 2010

Product	Loan O/S(Rs.mn)
Jagrati	0.10
Roshni	93.51
Unnati	2.27
Gati	4.05
Pragati	1.83
Samridhi	2.40
Bhagyashree	1.36
Others	1.34
Total	**105.51**

1.5. ASSET QUALITY

Year ended	September 30, 2010	
Total outstanding balance associated with loans that are	Amt (Rs. Mn)	%
On time (and never refinanced)	105.64	100
Late (at least 1 payment)	-	-
· 1–30 days	-	-
· 31–60 days	-	-
· 61–90 days	-	-
· 91–120 days	-	-
· 121–360 days	-	-
· 1 year or more	-	-
Total	**105.64**	**100**