



Micro-Finance Rating - Risk Assessment

Asomi

Guwahati, Assam (India)

Rating grade	β beta	Assessment: Moderate safety, moderate systems acceptable, needs improvement to handle large volumes
Visit dates: 12-15 May, 2005 Operational head: Mr Subhra Jyoti Bharali Maximum validity of rating*: till May 2006		

Rating

Asomi is a start-up MFI lead by a management graduate with development experience and operating in a politically difficult area – Assam, with good potential for microfinance activities. Asomi has good performance on governance and moderate performance on management and financial indicators. Portfolio tracking systems and control systems are still being developed. Three of the four branches have been performing well, while one of the branches, with civil unrest in its operating area, has moderate performance.

In M-CRIL's view, on account of good microfinance potential in its operational area, strong governance, approach to sustainability and the growth plans of the organisation, [Asomi can be provided with loan funds for on-lending to its borrowers with grant support to facilitate strengthening of its management systems.](#) However, given the negative net worth of the organisation and underdeveloped management systems, lending to Asomi should be conditional to –

- 1 Grant mobilisation (Rs4 lakhs) to increase capital adequacy to above 8%
- 2 Implementation of planned portfolio monitoring systems and control systems

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. **This rating is valid, subject to** no other significant changes in the organisational structure and external operating environment.

for Micro-Credit Ratings International Ltd

Sanjay Sinha, Managing Director

***Validity** This rating is valid till the next loan proposal made by the MFI to any financial institution or till any other significant change in the structure of the loan programme or in its external environment. A **rating update** (comprehensive repeat rating) is recommended whenever such changes take place or at the end of **one year** from the date of the initial assessment, whichever is earlier. Any substantial additional information that becomes available could also result in a rating update or a rating review (revision of rating grade based on a desk analysis).

Liability The rating assigned is a professional opinion of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.



Asomi assessment

Category wise rating

<u>Category</u>	<u>Rating grade¹</u>
A <i>Governance aspects</i>	$\alpha-$
B <i>Managerial factors</i>	β
C <i>Financial performance</i>	β
Overall	β

Key Risk Factors

- 1 **Operational area:** Asomi's operational area – north eastern state of Assam, has its peculiar problems –
 - i **Civic unrest:** Assam has experienced insurgency and civic unrest due to ethnic issues. Most of the areas in Assam are prone to frequent civic unrest which has a potential to disrupt microfinance operations
 - ii **Annual floods:** Assam experiences floods almost every year, which affects road connectivity. Although most of Asomi clients being in the highlands are not directly affected, collection and disbursement operations get disrupted due to road submergence.
- 2 **Equity mobilisation:** Although Asomi has the management capacity to mobilise external grants, it has till now concentrated mostly on the grant support of its promoter, Mr Bharali. Due to high start-up costs, the net worth of the organisation is negative. If Asomi continues to rely on its promoters' grants for funding its operations, there is a risk that it would not be able to improve its capital adequacy to gain confidence of lenders.
- 3 **Management systems:** Since Asomi's plans to expand outreach rapidly, it needs to expedite designing and implementation of portfolio tracking and control systems, failing which, any delinquency related problems in the outfit would not be addressed effectively.

Key Programme Strengths

Governance, experience and strategy	Management and operations	Financial
1 Well-qualified Board of Directors with good network at the local and national level 2 Good microfinance potential in operational area	1 Qualified and stable staff	1 Moderately good repayment rate

¹ M-CRIL's grading sheet is attached at the end of the report.



Asomi assessment

Organisational Profile

Legal form	Years of m-f Operation	Number of			
		Active borrowers	Staff	Branches	Active borrowers/ Staff member
Society	2 years	1,504	20	4	75

Microfinance programme: Operational highlights

Outstanding borrowings of MFI (Rs)	Loan portfolio of MFI (Rs)	Cumulative loans disbursed by MFI (Rs)	Average loan size from MFI to borrowers (Rs)
34.6 lakhs	18.6 lakhs	43.9 lakhs	2,922

Key financial ratios

Portfolio at risk (>=60 days)	Current repayment rate	Risk weighted capital adequacy ratio	Weighted average cost of funds	Yield to APR ratio
5.7%	89.0%	-1.5%	10.3%	69.9%
Yield on portfolio	Other income to average portfolio	Financial cost ratio	Loan loss provisioning ratio	Operating expense ratio
29.3%	16.6%	33.6%	3.1%	59.0%
Total income to average total assets	Total expenses to average total assets	Return on average total assets	Operational self sufficiency	Financial self sufficiency
14.1%	29.5%	-15.4%	47.9%	45.5%

Notes

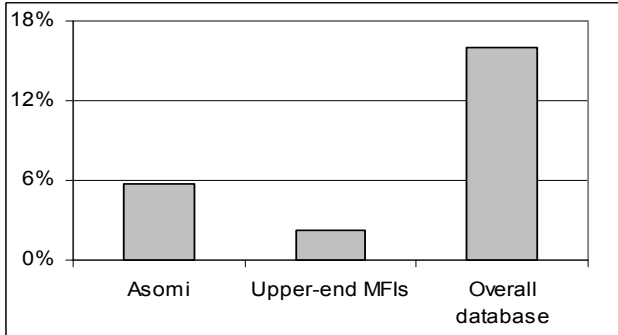
1. All figures are estimated for the organisation's microfinance programme as on 31 March 2005.
2. 'Clients' refer to the men/women who participate in the centre meetings coordinated by Asomi, unless otherwise referred. Number of clients in Asomi's programme was 3,563 on 31 March 2005.
3. Other income includes interest earned on investments, income from insurance service (welfare), membership fee and sale of passbooks.
4. Loan loss provisioning has been done by M-CRIL team on the basis of portfolio quality of Asomi.
5. The ratio of repayment rate and PAR₆₀ has been calculated from the MIS reports generated by Asomi. Accuracy of data generated by the MIS has been verified by the rating team through complete verification of accounts.
6. Asomi has a total of 25 staff members, 20 of which have been apportioned to microfinance programme on activity basis



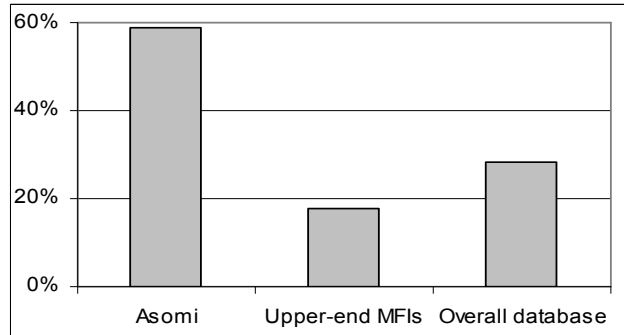
Asomi assessment

Asomi – financial overview

Portfolio at risk (>=60 days): 31 March 2005



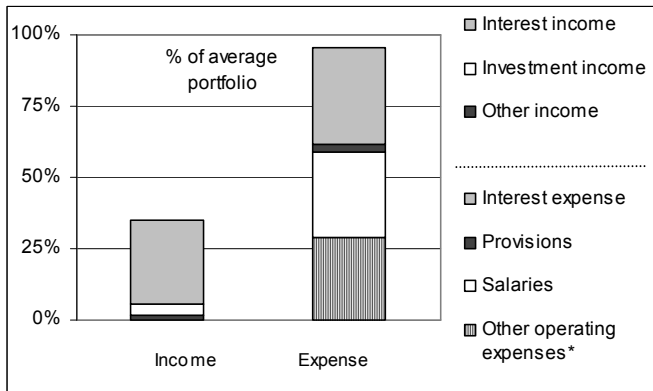
Operating expense ratio: 1 April 2004-31 March 2005



- Note:** 1. $n_{\text{upper-end}} = 10$ $n_{\text{database}} = 212$ (excluding outliers); Database figures as on 31 December 2004
 2. Outliers and rated MFIs with no direct lending have been removed for analysis. Upper-end figures reflect top 10 MFIs.
 3. The upper-end MFIs and overall database ratios represent simple averages for their respective samples.
 4. The performance of either the Upper-end MFIs or all MFIs (overall database), do not necessarily reflect M-CRIL's rating standards.

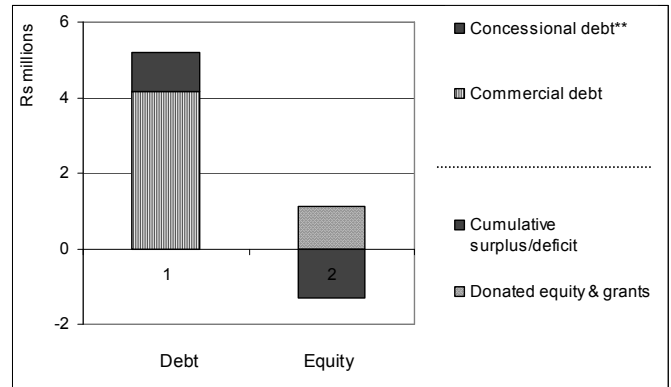
Income and expense distribution:

1 April 2004-31 March 2005



Debt and equity composition:

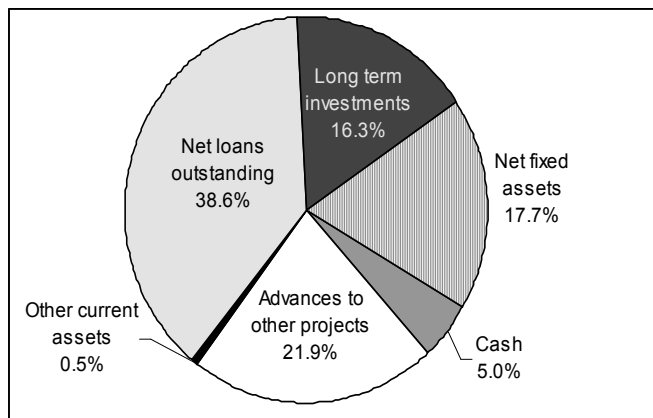
31 March 2005



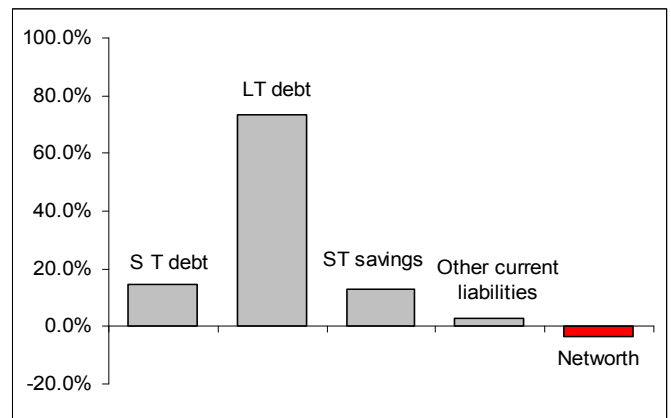
* Other operating expenses include travel, depreciation and administrative expenses

** Concessional debt is borrowing+comp.savings taken at < Bank PLR, voluntary savings taken at < bank deposit rates

Asset composition: 31 March 2005



Liability & net worth composition: 31 March 2005





Asomi assessment

1 Organisational background

Asomi – an institution for promotion of secure and sustainable livelihood – is a multiservice NGO registered as under Societies Registration Act 1860 in year 2001. It has interventions in the areas of promotion of people owned enterprises and agriculture diversification, besides microfinance.

Asomi has a fifteen member Executive committee, comprising of eminent people from the field of microfinance, academics and management professionals from different disciplines, with interest in social work.

2 Microfinance operations

2.1 Background of microfinance operations

After its inception in 2001, Asomi started working with the community, and among other things, in September 2002, experimented with formation of credit groups in four different districts of western Assam, adjoining Guwahati. At the time of the rating visit, Asomi was working in 4 districts of Assam through 4 branches. It had an outreach of 3,563 clients (3,508 women and 55 men) organised into 5 member groups, following Grameen Bank model of microfinance delivery.

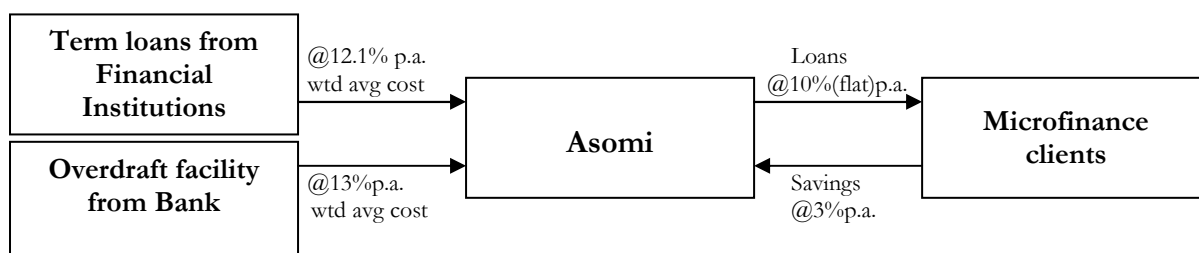
The chief executive officer (CEO) is the secretary of the executive committee, who is also the promoter of Asomi. He is assisted by 2 staff members (an accountant and an assistant) at the head office in Guwahati. The four branches are led by a unit in charge each assisted by an accountant and 3-4 field staff (13 total field staff). Five other staff assists the CEO in managing other development programmes.

For its operations (microfinance as well as other interventions), the organisation has relied mainly on the grant support of the promoter, Mr Bharali. To fund loans to its microfinance clients, Asomi has raised loans from local banks –

Source of funds	Cumulative amounts received (Rs)	Outstanding on 31 March 2005 (Rs)	Rate(s) of interest
NEDFi, Guwahati	22.5	16.4	11.2%
PG Bank, Guwahati*	25.8	18.3	12.6%
Total	48.3	34.7	

* besides the term loan, PG bank has also provided overdraft (OD) facilities against fixed deposits (FD) maintained by Asomi in PG bank. As on 31 March 2005, the OD was Rs6.8 lakhs against FD of Rs7.5 lakhs.

The flow of funds to and from the organisation is as given in the following diagram:





Asomi assessment

2.2 Microfinance policies

Asomi follows two kinds of microfinance interventions – Suoni Gaon Programme and Grameen model microfinance programme. Under Suoni Gaon Programme, a village is developed in holistic manner including provision of financial facilitation. This is an action research project and none of its assets and liabilities appears in Asomi books. Therefore for the purpose of this rating, the Suoni Gaon Programme has not been covered.

Under the Grameen bank based microfinance delivery, Asomi has formed client groups and carries out savings and lending operations. There is a formal client enrolment, training, testing and induction methodology followed in the field in the operational areas identified through mass survey. Asomi offers following microfinance products to its clients

Savings

Asomi collects Rs 6/ per client per week as compulsory savings. Before disbursement of loan the savings are kept with the groups and after disbursement the savings are collected by Asomi. An interest of 3% pa is paid on the average outstanding savings deposits at the end of the year.

Asomi also provides its clients with an option to deposit voluntary savings on which 3% interest is paid as in case of compulsory savings. Any client which does not avail a fresh loan after completion of earlier loan repayment, savings repaid with accrued interest.

Loan products

Asomi offers loans to clients with the loan size increasing from Rs2,000 to a maximum of Rs10,000 per client, depending on the loan cycle. The client needs to have more than 80% attendance and 4-8 weeks of regular savings before becoming eligible for getting a loan. Asomi collects a deposit of 10% of the loan amount before disbursement while 5% is collected as processing fee. The security deposit is refunded to the clients after the conclusion of the loan term. The loan term is fixed at 50 weeks and prepayments are discouraged. Asomi also offers a moratorium on repayments ranging from 1-6 weeks in different parts of its operational area during annual floods, depending upon the level of inundation and access.

An interest rate of 10% flat is charged on the loan, with repayments scheduled in equal instalments.

Asomi is also exploring the feasibility of introducing a short term loan product (25 weeks) and also an agriculture loan product with a term of 18 months.

Insurance

Asomi collects a welfare fund of Rs5 per client per week. Against this fund, Asomi facilitates the provision of life insurance to its clients and their spouses. Asomi has taken corporate agency of ICICI prudential life insurance company for this purpose. The coverage amount (linked to loan size) is paid after netting the outstanding loan of Asomi. This in turn acts as credit insurance for Asomi on the outstanding loans to its clients.



Asomi assessment

3 Observations

3.1 Governance & strategy

Asomi shows good performance on governance with a grade of **α-**. This is due to a strong Board and well thought out strategies for scaling up operations. A higher grade has been limited by insufficient mobilisation of grant funds to finance start-up operational losses.

➤ Microfinance policymaking

Asomi has a number of professionals from diverse background on its board. Some of them have substantial experience in microfinance. The CEO of Asomi designs most of the policies while the board members make good contribution to policymaking of all three programmes of Asomi, including microfinance. All the board members are well networked at the local and national level.

Although the scale of operations for Asomi is small, the board is already contemplating on future corporate strategies including the legal framework to be adopted for Asomi's microfinance programme. This reflects well on the governance of the organisation.

Asomi CEO also had good relations with the local administration, which ensures government support in the fluid political environment that Asomi works in.

➤ Strategy for microfinance delivery

Asomi follows Grameen bank model of microfinance delivery, with small adaptations to suit the local conditions in Assam. Inherently, the model is sustainable and it would help Asomi to achieve financial sustainability in shorter time. To avoid political interference, Asomi has pegged interest rates on loans offered to its clients at 10% flat, whereas the annual percentage rate (APR) is 43%.

Asomi provides loans, savings and insurance services to its clients. In future, it has plans to offer innovative financial services to its clients – like farmer financing and also increase the loan products. For its insurance service, Asomi has taken a corporate agency of a commercial life insurance service provider. This helps Asomi to avoid building any contingent liability, and at the same time also provide credit insurance for Asomi on the outstanding loans to its clients.

➤ Strategy for operational outreach

Asomi has been started with a mandate to serve the people of Assam. There is good microfinance potential in its operational area. This is despite the inherent problems associated with running a social programme in Assam –

- Civic unrest: Assam has experienced insurgency and civic unrest due to ethnic issues. Most of the areas in Assam are prone to frequent civic unrest which has a potential to disrupt microfinance operations
- Annual floods: Assam experiences floods almost every year, which affects road connectivity. Although most of Asomi clients being in the highlands are not directly affected, collection and disbursement operations get disrupted due to road submergence.



Asomi assessment

Expansion strategy: Asomi has 4 branches and one branch has been opened after March 2005. The concentration of clients/households is currently low. All these branches are located far from the HO and the distance among them is also high. All these branches lie on three main roads from Guwahati. Asomi plans to convert the current branches into Area offices and expand outreach with branches to open under the current area offices. This is a good strategy since the current branches will be able to gain experience of operating in the area and risk of expansion would decrease. This is particularly relevant in the context of Assam where the communities within a district have different behaviour and land ownership pattern across different areas in Assam. Asomi plans to concentrate its operations within western Assam in the next 4 years and would expand to rest of Assam after stabilising operations here.

Although there are established MFIs in the area of operation of Asomi, the competition is weak. According to the management of Asomi, the other MFIs have been facing repayment problems from their clients due to weak staff performance. This in turn has provided Asomi with an opportunity to increase client base among the trained clients of other MFIs and also get the best pick of staff from the competitors.

➤ Strategy for funds mobilisation

Asomi has managed to mobilise substantive loan funds to finance its operations however it has not concentrated on mobilising grants. This is mainly due to the promoter's opinion of avoiding grant funds to save the programme from interference from donors. Most of the start-up losses have been funded through his own equity. This does not reflect well in terms of financial planning since limited grant funds has adversely affected the capital adequacy of the programme. However, after the rating visit, Asomi has shown concern about its negative net worth and now plans to mobilise external grants to improve its capital adequacy.

3.2 Managerial factors

Asomi displays moderate performance on managerial factors with a grade of β . Most of the management systems are adequate for the current level of operations. A higher grade has been limited on a comparative scale – the current management systems are moderate with respect to other MFIs in Asia. Asomi has clear plans to develop its management systems for better programme performance.

➤ Human resource quality and management

Asomi has qualified staff both at the HO and Branch level. Its current staff strength is 20 across the HO and 4 branches. Most of the 13 field staff are postgraduates, of which 5 are still under training. For the 8 old field staff, the loan per field staff ratio is 188 which is moderate despite the difficulty in training microfinance clients under operational area of Asomi. Most of the current field staff are being groomed as branch managers, with enough provision for dropouts and would eventually be used for expansion. The training and induction for all staff members is largely on the job and there is a proposal to develop HR function that would take care of recruitments, induction and staff maintenance in due course. There has been only one staff dropout in the last one year. There is some more recruitment on anvil at the senior management level, which is in the right direction and would help strengthen the management capacity of Asomi.



Asomi assessment

➤ Accounting and MIS

Asomi has good accounting systems. All the expenses are recognised on accrual basis, while the income is recognised on cash basis. The HO and branches maintain adequate accounting vouchers and maintain adequate account books. Branches prepare monthly trial balances, balance sheets and profit and loss accounts. The quality of the accounts at the branches is good, with all the vouchers properly documented and authenticated.

MIS reports at Asomi are used for taking decisions by the HO. Branches prepare a monthly progress report which enlists most of the outreach and portfolio performance related data. It is cumulated at the HO. The loan appraisal system is also adequate.

The MIS and accounting system is adequate for the current level of operations, however as the operations scale up, Asomi would have to improve its MIS to support the corresponding scale of operations.

➤ Tracking system for overdues

Asomi has adequate tracking system for overdues. The collection sheets clearly mention the overdue amount and all the clients are followed up. Currently, most of the overdues are in only one branch and it is being strictly monitored. As the operations grow, Asomi would require more sophisticated tracking system.

➤ Financial planning and control systems

Given the current size of operations (only ~1,500 borrowers), the current financial planning and control systems are good. Financial planning is a top-down system, in which CEO sets the branch targets. These are based on the age of the branch, staff, current client base and the potential for growth in respective branch areas. Asomi has also prepared fairly good financial projections and also carries out variance analysis and updates the financial plan regularly.

Cash planning is difficult for Asomi due to insufficient banking network in its operational area. It takes almost 15 days for the funds disbursed by Asomi HO to get recognised as loans to clients. Funds transfer from HO to branches is done by cheques/drafts and takes lot of time since the banks in which Asomi HO and branches have accounts are not always the same (due to poor access) and all the banks have manual operations. Given these limitations, Asomi has managed its cash very well.

The control systems in Asomi are adequate for the current size of operations. Currently all the accounts (~3,500) are being checked individually by the CEO. The operations manager is being groomed to eventually take up internal audit function. Since Asomi plans to increase outreach substantially, it needs to implement its planned internal control system before embarking upon the expansion.

➤ Quality of clients/member groups

Visited member groups showed good performance on repayment of loans and overall discipline. Group meetings concentrate largely on financial transactions and are conducted



Asomi assessment

efficiently. In addition, awareness about the organisation's rules/norms is very high and members display a clear understanding of loan products, amounts, instalments and interest rates. This reflects the high degree of consistency in policies of the organisation and their effective and quick dissemination at the lowest level.

➤ Infrastructure

Asomi has a reasonable infrastructure base with net assets of Rs8.4 lakhs as on 31 March 2005. This includes the land donated by promoter for construction of office for Asomi. All the branches offices are rented premises. Asomi is also facilitating its field officers to purchase motorcycles for their work, for which they can obtain a loans under guarantee by Asomi. The current level of infrastructure is adequate and is being employed effectively in the overall management of the microfinance programme. However, as the operations of Asomi expand, it would require improvement in infrastructure in terms of office building, computer hardware and software, vehicles, furniture and fixture at branches and at the head office.

3.3 Financial performance

The financial performance grade of Asomi is **β**. This is due to moderate performance on asset quality, asset liability matching, mobilisation of grants and profitability. The current performance is mainly due to Asomi being a startup NGO. If the growth plans of Asomi comes through without much of political pressures, its performance on financial indicators is likely to improve substantially as the operations scale up.

➤ Credit performance and asset quality

Asomi has been regular in its payments to its lenders. The quality of its loan asset portfolio is reasonable – repayment rate 89% and PAR₆₀ 5.7%. The credit performance of one of the branches of Asomi is poor with PAR₆₀ at 18% while all the other 3 branches have good portfolio quality with PAR₆₀ at less than 1% in each of them. This is credible given the difficult conditions under which Asomi operate. The branch which has recorded high PAR is due to heavy flood and civil unrest in its operating area.

The repayment rate is moderate mainly due to Asomi's policy of offering moratorium on loan collections in case the connectivity gets affected due to floods. At times the clients themselves take more time to repay than the moratorium offered to them. However low PAR₆₀ indicate that most of such overdues are recovered within next few weeks.

➤ Mobilisation of funds

Being a stratup, Asomi had relied largely on the grant support from its promoter Mr Bharali in the first year of inception. However, since last two years, it has received loan support from two local financial institutions – North Eastern Development Finance Corporation Ltd (NEDFi) and PG Bank, the local Regional Rural Bank (RRB).

The growth of Asomi has been limited due to insufficient availability of funds – both grants and loans. Being a startup MFI, it has operational losses, which has made its net worth negative. Given the model of microfinance being followed by Asomi, it can easily break even and start earning profits from the next year. However for this, it needs to mobilise more



Asomi assessment

funds. To improve its net worth, Asomi needs to mobilise equity/grant funds. Given the confidence shown by the local bankers and interest expressed by SIDBI, mobilisation of loan funds is not likely to be a concern. Asomi is also exploring the possibility of entering into a partnership contract with the local bank, where the banks would finance the groups and Asomi would service them.

➤ Asset, liability and equity composition

Asomi has 39% of its assets deployed in loans to microfinance clients; 18% in fixed assets and 16% in investments. The large proportion of assets as investments is used for overdraft facility to finance the portfolio. The idle cash is at a reasonable level of 5%, which shows that most of the assets are deployed productively. Being a multi-service agency (3 programmes), Asomi's microfinance programme has large advances to other projects (22% of Assets). These are temporary short-term advances and are likely to reduce substantially in the next three months. These advances are largely meant to meet procurement costs for Asomi's intervention in enterprise development and are likely to be repaid within next few months since a dairy development project of Asomi has matured.

Asomi has 89% of its liabilities in bank overdraft against investments and term loans from banks. Client savings account for 13% of liabilities while net worth is -4.5%. Asomi does not have an overall good asset liability match. This is predominantly due its large startup allocations. As the operations scale up, the asset-liability mismatch is likely to reduce.

➤ Profitability and Sustainability

Asomi has a high operational expense ratio (OER) of 59% and its operational self-sufficiency (OSS) is at 48%. This does not reflect very well on the profitability of Asomi's microfinance programme with a return on assets (RoA) of -15.4%. However in absolute terms, the operational expenses of Asomi are not high. As noted earlier, the current performance is mainly due to Asomi being a startup MFI. The operational expense ratio is likely to come down as the operations scale up and the operational self sufficiency and profitability is also likely to improve substantially.



Asomi assessment

4 Conclusions

Strengths	Weaknesses
<p data-bbox="188 439 376 472"><u>Organisational</u></p> <ul data-bbox="188 506 794 645" style="list-style-type: none"><li data-bbox="188 506 794 573">✓ Well-qualified Board of Directors with good network at the local and national level<li data-bbox="188 577 794 645">✓ Good microfinance potential in operational area <p data-bbox="188 685 328 719"><u>Managerial</u></p> <ul data-bbox="188 752 555 786" style="list-style-type: none"><li data-bbox="188 752 555 786">✓ Qualified and stable staff <p data-bbox="188 853 312 887"><u>Financial</u></p> <ul data-bbox="188 909 647 943" style="list-style-type: none"><li data-bbox="188 909 647 943">✓ Moderately good repayment rate	<p data-bbox="818 439 1007 472"><u>Organisational</u></p> <ul data-bbox="818 506 1310 573" style="list-style-type: none"><li data-bbox="818 506 1310 528">✗ Politically unstable operational area<li data-bbox="818 533 1310 573">✗ Weak grants mobilisation strategy <p data-bbox="818 685 959 719"><u>Managerial</u></p> <ul data-bbox="818 752 1401 819" style="list-style-type: none"><li data-bbox="818 752 1401 819">✗ Management systems still being developed for the proposed expansion <p data-bbox="818 853 943 887"><u>Financial</u></p> <ul data-bbox="818 909 1270 976" style="list-style-type: none"><li data-bbox="818 909 1270 943">✗ Negative net worth<li data-bbox="818 947 1270 976">✗ High advances to other projects



5 Creditworthiness

Asomi has achieved a rating grade of **beta (β)**. In terms of creditworthiness this implies **moderate safety**. Asomi is a start-up MFI lead by a management graduate with development experience and operating in a politically difficult area – Assam, with good potential for microfinance activities. Asomi has good performance on governance and moderate performance on management and financial indicators. Three of the four branches have been performing well while one of the branches with civil unrest in its operating area has moderate performance. Most of the management systems are adequate for the current level of operations however as the operations scale up, Asomi would have to improve its accounting system, MIS, tracking system for overdues and control systems to support the corresponding scale of operations. The current performance of Asomi on profitability and sustainability indicators is poor however; it is likely to improve substantially as the operations scale up.

In M-CRIL's view, on account of good microfinance potential in its operational area, strong governance, approach to sustainability and the growth plans of the organisation, Asomi can be provided with loan funds for on-lending to borrowers with grant support to facilitate strengthening of its management systems. However, given the negative net worth of the organisation and underdeveloped management systems, lending to Asomi should be conditional to

–

- 1 Grant mobilisation (Rs4 lakhs) to increase capital adequacy to above 8%
- 2 Implementation of planned portfolio monitoring systems and control systems



Asomi assessment

Financial statements for Asomi's microfinance operations

Balance Sheet - as on 31 March 2005

31 March 04		Rs	Rs
	<u>Assets</u>		
	<u>Current assets</u>		
23,234	Cash in hand and bank		2,34,119
6,27,750	Interest bearing deposits		7,49,815
-	- Advances to staff		25,000
1,68,678	Advances other projects		10,30,845
	<u>Loans outstanding</u>		
4,91,616	Gross loans outstanding	18,55,414	
(4,916)	(Loan loss reserve)	(37,108)	
4,86,700	Net loans outstanding		18,18,306
13,06,362	Total current assets		38,58,085
	<u>Long term assets</u>		
-	- Long term investments	20,000	
6,88,303	Net property and equipment	8,36,138	
6,88,303	Total long term assets		8,56,138
19,94,665	Total Assets		47,14,223
	<u>Liabilities and Networth</u>		
	<u>Current liabilities</u>		
3,000	Client savings - voluntary 1		3,389
64,528	Client savings - compulsory 1		1,68,865
1,54,350	Security deposit		4,30,050
-	- Interest payable on savings		24,000
	<u>Short term debt</u>		
6,69,581	PG Bank overdraft	6,79,830	
6,69,581	Total short term debt		6,79,830
8,91,459	Total current liabilities		13,06,134
	<u>Long term liabilities</u>		
	<u>Long term debt</u>		
9,16,655	NEDFi	16,36,489	
-	- PG Bank	18,33,455	
9,16,655	Total long term debt		34,69,944
9,16,655	Total long term liabilities		34,69,944
	<u>Net worth</u>		
8,98,834	Donated equity	11,66,615	
(25,7,398)	Retained net surplus/(deficit)	(7,12,283)	
(4,54,885)	Current net surplus/(deficit)	(5,16,187)	
1,86,551	Total net worth		(61,855)
19,94,665	Total Liabilities and Net Worth		47,14,223



Asomi assessment

Income Statement – for the year ending 31 March 2005

31 Mar 04		31 Mar 05
	Income	Rs
1,25,436	Interest and fees on loans	3,02,682
27,750	Interest on investments 1	39,561
6,444	Income from insurance services	1,25,274
580	Other income Insurance commission	6,832
1,60,210	Total income	4,74,349
	Financial costs	
1,71,155	Interest on borrowings	3,42,562
-	Interest on member savings	5,422
(10,945)	Gross financial margin	1,26,365
4,916	Provision for loan losses	32,192
(15,861)	Net financial margin	94,173
	Operating expenses	
1,58,811	Salaries	3,09,715
56,993	Travel	78,152
65,514	Depreciation	1,03,045
64,126	Administrative/office expenses	1,19,448
93,580	Group promotion expenses	0
4,39,024	Total Operating expenses	6,10,360
(4,54,885)	Net surplus/(deficit)	(5,16,187)

Notes to the financial statements

1. The Financial Statements have been estimated for the microfinance operations and represent an approximate picture only. This has involved appropriate modifications to the existing financial statements using data gathered and assumptions made during the rating exercise and also allocations based on an estimation of the degree of use of overall fixed assets and the value of the total staff time being spent on microfinance activities. Such modifications can result in differences between the income statement and balance sheet prepared by the organization itself and the statements presented above.
2. Income includes interest income, fees and earnings from other microfinance related services offered by the MFI rated. All loan portfolio related income is recognised only when it is actually received (**cash basis**). Grants allocated to the organisation's microfinance programme are treated as donated equity in the balance sheet (and not regarded as operational income).
3. Income from insurance services includes the welfare fund collection net of premium paid and commission earned
4. Other income includes membership fee and sale of passbooks.
5. Financial costs (interest on borrowings and savings, if any) and operating costs are calculated on an **accrual basis**. Loan loss provisioning expense and the corresponding balance sheet entry (loan loss reserve) has been computed based on the quality of the portfolio.



Glossary

- 1 Cumulative repayment rate
Ratio of cumulative principal recovered (net of pre-payments) to the cumulative principal due till the date of measurement.
- 2 Portfolio at risk (PAR₆₀)
Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 60 days to the total loans outstanding on a given date.
- 3 Yield on portfolio
The interest income on loans divided by the average loan portfolio for the year.
- 4 Other income to average portfolio
Total income other than from the interest on loans divided by average portfolio.
- 5 Financial cost ratio
Total interest expense for the year divided by the average portfolio.
- 6 Loan loss provisioning ratio
Total loan loss provisioning expense for the year divided by the average portfolio.
- 7 Operating expense ratio
Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
- 8 Average loan portfolio
This represents the average loan outstanding for the year computed on a monthly basis.
- 9 Average total assets
This represents the average total assets for the year calculated on an annual basis.
- 10 Operational Self-Sufficiency
Ratio of total income to total costs for the year.
- 11 Financial Self-Sufficiency
Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. market interest rate), equity (w.r.t. inflation) and in-kind donations.
- 12 Risk weighted capital adequacy ratio
Ratio of networth to risk weighted assets (Risk weights: 100% for all assets except the following: fixed assets & interest bearing deposits: 50%; cash 0%).



Projected Cash Flows and Financial Statements for five years

- The following assumptions and projections - derived from the limited information available from the organisation on its future financial projections – are tentative in nature. These **should not be viewed in isolation nor be regarded as a basis for investing in the future** - only the main risk rating report provides an opinion on investments.
- All assumptions are based on the data gathered during the rating exercise and the savings and credit methodology used by the organisation.

1 Basic Assumptions

(see also Notes to Cash Flow Projections below)

For the year ending:	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Groups	294	441	617	821	1,026	1,334
Members	3,563	5,345	7,482	9,951	12,439	16,171
Interest paid on savings	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Yield on average portfolio	29.3%	35.1%	36.9%	38.7%	40.7%	42.7%
Cost of external funds	12.1%	11.8%	10.9%	10.0%	9.6%	9.4%
Repayment rate from groups	89.0%	97.9%	98.1%	98.4%	98.6%	98.9%
Loan loss reserve ratio	4.0%	3.0%	2.0%	1.5%	1.2%	1.0%
Number of active loans	1,504	3,384	5,093	7,282	9,330	12,432
Number of loans disbursed		3,339	4,991	7,129	9,111	12,152
Average loan size to borrowers	2,390	3,179	3,973	4,768	5,483	6,032

2 Projected balance sheets

Amount in Rs

As on:	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Assets						
Cash balance	2 34 119	4 76 149	15 52 625	29 13 864	43 89 272	61 31 461
Other current Assets	18 05 660	11 73 679	12 91 047	14 20 152	15 62 167	17 18 384
Loans outstanding	18 55 414	68 50 325	1 26 81 045	2 17 10 962	3 19 33 303	4 67 06 490
Loan loss reserve	- 37 108	- 2 05 510	- 2 53 621	- 3 25 664	- 3 83 200	- 4 67 065
Net loans outstanding	18 18 306	66 44 815	1 24 27 424	2 13 85 298	3 15 50 103	4 62 39 425
Long term investments	20 000	50 000	75 000	1 12 500	1 68 750	2 53 125
Net fixed assets	8 36 138	13 77 104	18 20 328	21 13 371	22 95 747	23 96 993
Total Assets	47 14 223	97 21 747	1 71 66 423	2 79 45 185	3 99 66 039	5 67 39 387
Liabilities and Net Worth						
External borrowings	41 49 774	62 74 390	97 95 286	1 37 77 820	1 51 93 840	1 59 11 300
Member savings	6 26 304	17 22 704	33 39 948	55 86 866	84 06 197	1 20 96 642
Other liabilities		8 90 750	12 93 369	17 68 816	22 88 836	29 10 802
Donations and equity	11 66 615	16 66 615	16 66 615	16 66 615	16 66 615	16 66 615
Retained surplus/deficit	- 7 12 283	- 12 28 470	- 8 32 712	10 71 206	51 45 069	1 24 10 552
Current surplus/deficit	- 5 16 187	3 95 757	19 03 918	40 73 863	72 65 483	1 17 43 477
Net worth	- 61 855	8 33 902	27 37 821	68 11 684	1 40 77 167	2 58 20 644
Total Liabilities and Net Worth	47 14 223	97 21 747	1 71 66 423	2 79 45 185	3 99 66 039	5 67 39 387



Asomi assessment

3 Projected Income Statements

Amount in Rs

For the year ending:	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Income						
Interest	3 02 682	15 28 864	36 01 515	66 58 852	1 09 05 722	1 67 86 601
Other income	1 71 667	6 92 736	9 19 451	12 06 500	14 97 331	19 30 324
Total Income	4 74 349	22 21 600	45 20 965	78 65 352	1 24 03 053	1 87 16 925
Cost						
Financial	3 47 984	6 62 069	10 05 835	13 75 185	16 23 465	17 76 895
Loan loss provision	32 192	1 68 401	48 111	72 044	57 535	83 865
Depreciation	1 03 045	2 09 035	3 44 276	4 55 082	5 28 343	5 73 937
Operating expenses (excl. depr.)	5 07 315	7 86 339	12 18 825	18 89 178	29 28 227	45 38 751
Total Cost	9 90 536	18 25 843	26 17 047	37 91 489	51 37 570	69 73 448
Surplus/Deficit	- 5 16 187	3 95 757	19 03 918	40 73 863	72 65 483	1 17 43 477

4 Projected Cash Flow Statements

Amount in Rs

For the year ending:	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Inflows					
Opening cash	2 34 119	4 76 149	15 52 625	29 13 864	43 89 272
External borrowings	34 00 000	66 60 000	82 00 000	75 00 000	81 70 000
Repayments from members	56 18 540	1 40 02 269	2 49 61 116	3 97 36 913	5 85 22 115
Grants	5 00 000				
Change in other current assets	6 31 981	- 1 17 368	- 1 29 105	- 1 42 015	- 1 56 217
Change in other current liabilities	8 90 750	4 02 619	4 75 447	5 20 020	6 21 966
Member savings & security deposit	24 50 915	39 84 280	61 18 770	84 88 887	1 17 92 760
Interest income	15 28 864	36 01 515	66 58 852	1 09 05 722	1 67 86 601
Other income	6 92 736	9 19 451	12 06 500	14 97 331	19 30 324
Total Inflow	1 59 47 905	2 99 28 914	4 90 44 205	7 14 20 722	10 20 56 822
Outflows					
Disbursement	1 06 13 450	1 98 32 989	3 39 91 034	4 99 59 253	7 32 95 302
Repayments to lenders	12 75 384	31 39 104	42 17 466	60 83 980	74 52 540
Withdrawals of savings & security	13 30 515	23 67 036	38 71 852	56 69 556	81 02 314
Operating expenses (excl. depr.)	7 86 339	12 18 825	18 89 178	29 28 227	45 38 751
Interest paid on borrowings	6 50 833	9 29 895	12 41 283	14 13 569	14 69 353
Interest paid on savings	35 235	75 940	1 33 902	2 09 896	3 07 543
Long term Investments	30 000	25 000	37 500	56 250	84 375
Fixed assets purchase	7 50 000	7 87 500	7 48 125	7 10 719	6 75 183
Total Outflow	1 54 71 756	2 83 76 290	4 61 30 340	6 70 31 450	9 59 25 361
Net cash balance	4 76 149	15 52 625	29 13 864	43 89 272	61 31 461



Asomi assessment

5 Key projected performance ratios

For the year ending:	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Operational self-sufficiency	48%	121.7%	172.8%	207.4%	241.4%	268.4%
Return on average assets	-15.4%	5.5%	14.2%	18.1%	21.4%	24.3%
Operating expense ratio	59.0%	22.9%	16.0%	13.6%	12.9%	13.0%
Average outstanding/borrower (Rs)	1234	2,024	2,490	2,982	3,423	3,757
Portfolio growth rate	277.4%	269.2%	85.1%	71.2%	47.1%	46.3%
Savings to total assets	13.3%	17.7%	19.5%	20.0%	21.0%	21.3%
Risk weighted capital adequacy ratio	-1.5%	11.3%	20.4%	30.2%	42.8%	54.1%

6 6 Notes to the projections

1. The Operating expense ratio is based on current levels and is projected based on changes in overall productivity and growth in staff, branches and portfolio.
2. Estimated external borrowings are subject strictly to performance based on the findings of this microfinance capacity assessment (credit rating).
3. Number of loans disbursed is equal to the loan accounts as all are 50 week loans.
4. Average loan size to members increases by 33% in the first year tapering to 10% in year 5. This is due the proposed increase in higher cycle loans
5. Interest income is taken as [yield on portfolio*average portfolio for the year]. Yield movements are projected to stay the same as there is not likely to be any change in the overall interest structure.
6. Other income is the income that the organisation earns on provision of insurance and other welfare services, membership fees, service charges and sale of stationery
7. Disbursements are taken as the [number of loans disbursed during the year*average loan size to borrowers].
8. Estimates on growth in outreach and demand for loans from the organisation have been made based on current growth levels and future expansion potential and capacity.
9. Repayments to lenders is 25% per annum on the projected liability structure and the actual repayments due on the present outstanding debt.
10. Interest paid is taken as the [average cost of external funds * the average external borrowing liability figure].
11. In the projections the net worth figure includes donations and equity, retained surpluses and current surplus.



7 List of abbreviations

APR	Annual Percentage Rate
CEO	Chief Executive Officer
HO	Head Office
LT	Long Term
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro Finance Institution
MIS	Management Information System
NEDEFi	Noth Eastern Development Finance Corporation Ltd
NGO	Non Government Organisation
OER	Operating Expenses Ration
OSS	Operational Self Sufficiency
PAR ₆₀	Portfolio At Risk (greater than 60 days)
PG Bank	Pragiyotish Gaonlia Bank
RoA	Return on Assets
RRB	Regional Rural Bank
ST	Short Term



M-CRIL's Microfinance Rating Symbols

M-CRIL Grade	Description
<p>$\alpha+++$ alpha triple plus</p> <p>$\alpha++$ alpha double plus</p> <p>$\alpha+$ alpha single plus</p>	<p>Highest safety, excellent systems ➤ most highly recommended</p> <p>Highest safety, very good systems ➤ most highly recommended</p> <p>Very high safety, good systems ➤ highly recommended</p>
<p>α alpha</p> <p>$\alpha-$ alpha minus</p> <p>$\beta+$ beta plus</p> <p>β beta</p>	<p>High safety, good systems ➤ highly recommended</p> <p>Reasonable safety, good systems ➤ recommended</p> <p>Reasonable safety, reasonable systems ➤ recommended, needs monitoring</p> <p>Moderate safety, moderate systems ➤ acceptable, needs improvement to handle large volumes</p>
<p>$\beta-$ beta minus</p> <p>$\gamma+$ gamma plus</p> <p>γ gamma</p>	<p>Significant risk, poor to moderate systems ➤ acceptable only after improvement</p> <p>Substantial risk, poor systems ➤ needs considerable improvement</p> <p>Highest risk, poor systems ➤ not worth considering</p>