



Micro-Finance Rating - Risk Assessment

Grameen Koota (GK)

(T Muniswamappa Trust)

Bangalore, Karnataka (India)

<p><3rd Rating Update></p> <p>Rating grade</p> <p>β+</p>	<p>Assessment: Reasonable safety, reasonable systems recommended, needs monitoring</p>
<p>Visit dates: 29-02 February, 2007 Operational head: Ms Vinatha M Reddy</p> <p>Maximum validity of rating*: till February 2008</p>	

Rating

Grameen Koota (GK) has seen a decline in its overall rating grade despite very strong financial performance. The reasons for the downgrade are internal as well as external. The politically sensitive environment with respect to microfinance and high competition are external threats. An unstable middle management at Head Office (HO) level and a weak Board are weaknesses internal to the organisation and have been left unaddressed for a while. Given these internal weaknesses and external threats, the uncertainty related to the impending transformation to an NBFC is compounded.

In M-CRIL's view, on account of a significant institutional presence, overall good performance, as well as considering the growth plans of the organisation, GK can absorb loan funds of up to Rs38crores till February 2008. This includes the loan funds that the organisation has received since the rating visit. However, Grameen Koota should appoint independent persons to its Board immediately and lenders should ensure regular monitoring in view of the above weaknesses.

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.



Category wise rating

<u>Category</u>	<u>Rating grade¹</u>
A <i>Governance aspects</i>	$\beta+$
B <i>Managerial factors</i>	$\beta+$
C <i>Financial performance</i>	α
Overall	$\beta+$

Key Risk Factors

- 1. Volatile political environment (with respect to MF):** In the state of Karnataka, microfinance has become a politically sensitive issue. This is more so when viewed from the perspective of competition faced by the Government's Stree Shakti programme from MFIs and in view of the 'Andhra Pradesh Crisis' of March last year. A similar incident, though on a smaller scale, happened at one of the GK branches (at *Davangere*). However, with the facilitation of the RBI, the GK management controlled it quickly, before the damage could escalate. Field operations remained largely unaffected. In this context, from the lenders perspective, it would be prudent to monitor further developments at the macro level.
- 2. Second line of leadership:** Over the last 2-3 years, GK has continually faced high turnover in middle management at the HO due to which there is the lack of a second line of leadership. In the last year, management turnover has been still higher because of which robustness in the application of systems has suffered. Since the MFI has grown fast and plans to continue to do so, the persistence of this weakness would increase overall organisational risk.

Key Programme Strengths

Governance, experience and strategy	Management and operations	Financial
1 Long years of experience in microfinance 2 Good credit culture 3 Competitive product design and service delivery	1 Qualified and experienced staff 2 Strong field operations/presence 3 Reasonable staff productivity	1 Excellent repayment rate and portfolio quality 2 Good performance on profitability and sustainability

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



Grameen Koota – 3rd update

Organisational Profile as on 31 December 2006

Legal form	Years of m-f Operation	Number of			
		Active borrowers	Staff	Branches	Active borrowers/ Staff member
Trust	7.5 years	73,123	361	44	202

Microfinance programme: Operational highlights as on 30 September 2006

Outstanding borrowings of MFI (Rs)	Total loan portfolio of MFI (including portfolio under ICICI partnership) (Rs)	Portfolio managed for other financial institution (Rs)	Cumulative loans disbursed by MFI (Rs)	Average loan size from MFI to borrowers (Rs)
23.9 crores	30.5 crores	9.3 crores	120.4 crores	3,325

Key financial ratios as on 30 September 2006

Portfolio at risk (>=60 days)	Current repayment rate	Risk weighted capital adequacy ratio	Weighted average cost of funds	Yield to APR ratio
0.0%	99.9%	11.4%	11.0%	93.9%
Yield on portfolio	Other income to average portfolio	Financial cost ratio	Loan loss provisioning ratio	Operating expense ratio
35.1	7.0%	11.2%	2.0%	18.4%
Total income to average total assets	Total expenses to average total assets	Return on average total assets	Operational self sufficiency	Financial self sufficiency
33.8%	29.0%	4.8%	116.5%	111.6%

Notes

1. Outstanding borrowings of MFI do not include funds mobilised under the partnership model.
2. The number of centres in GK's programme was 3,246 on 31 December 2006. The number of members per centre is 40. 'Members' refer to the women who participate in the centre meetings coordinated by GK.
3. Other income includes income from subscription fee, sale of publications, interest on FDRs and miscellaneous income.
4. The ratio of repayment rate and PAR₆₀ has been calculated from the MIS reports generated by GK as on 31 December 2006. Accuracy of data generated by the MIS has been verified by the rating team through an audit of the systems at GK.



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Comparative highlights Grade distribution

Category	Rating grade				Movement ³
	May 2003	September 2004	September 2005	January 2007	
Governance	α	α-	α-	β+	↓
Management	α-	β+	β+	β+	↔
Financial performance	β	β	α-	α	↑
Overall	β	β	α-	β+	↓

Select indicators/ratios

Indicator/ratio	May 2003	Sep 2004	Sep 2005	Jan 2007	Change ²
1 Growth					
Loans outstanding (Rs crore)	0.79	3.73	11.45	21.2	Increase
Managed portfolio (Rs crore)	0.0	0.28	3.1	9.3	Increase
Outstanding borrowings (Rs crore)	1.09	3.72	7.74	23.9	Increase
Active borrowers	2,719	10,341	22,367	73,123	Increase
Average loan size (Rs)	3,000	5,240	2,716	3,325	Increase
2 Credit performance					
Current repayment rate	99.7%	100.0%	100.0%	99.9%	↔
Portfolio at risk (>=60 days)	0.5%	0.0%	0.0%	0.0%	↔
3 Efficiency and profitability					
Active clients per staff	60	101	186	202	↑
Loans to total assets	67%	73.3%	70.3%	74.2%	↑
Annual return on assets	-26.6%	-7.8%	2.1%	4.8%	↑
Operating expense ratio	57.0%	35.8%	25.3%	18.4%	↑
Operating self-sufficiency	48.3%	77.5%	106.4%	116.5%	↑
Financial self-sufficiency	40.6%	72.6%	101.2%	111.6%	↑
Capital adequacy ratio	-25.4%	-4.6%	6.1%	11.4%	↑

Note: Loans to total assets includes portfolio managed under ICICI partnership model

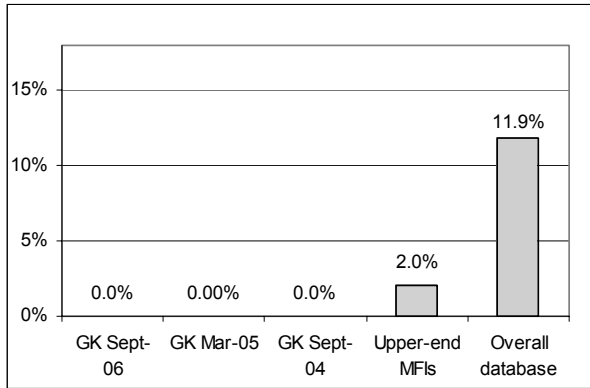
² An upward arrow indicates an improvement over the previous rating and vice versa for a downward arrow; a constant arrow indicates very low or no change.



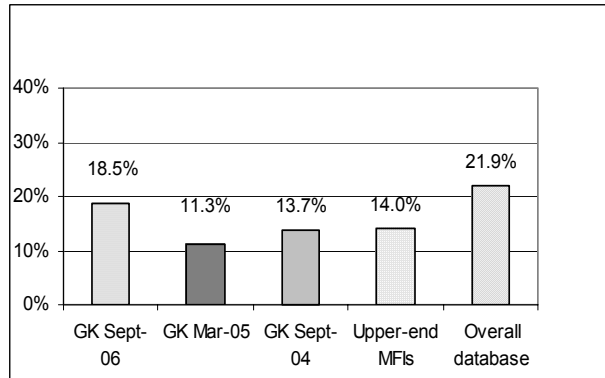
Grameen Koota – 3rd update

Grameen Koota – financial overview

Portfolio at risk (>=60 days): 30 September 2006



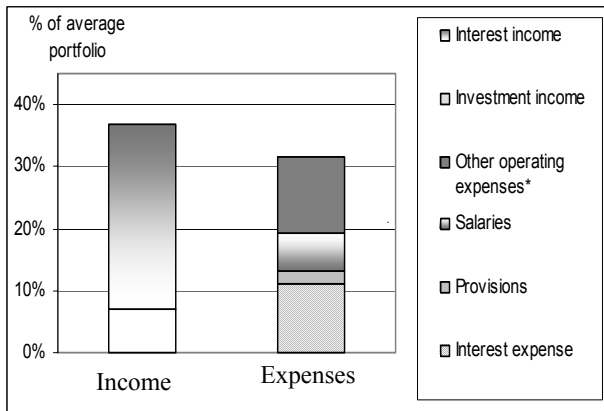
Operating expense ratio: 1 Oct 2005 - 30 Sep 2006



- Note: 1. $n_{upper-end} = 10$ $n_{database} = 110$; Database updated as on 31 December 2005.
 2. Outliers and rated NGOs with no direct lending have been removed for analysis. Upper-end figures reflect MFIs with top 10% scores.
 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.

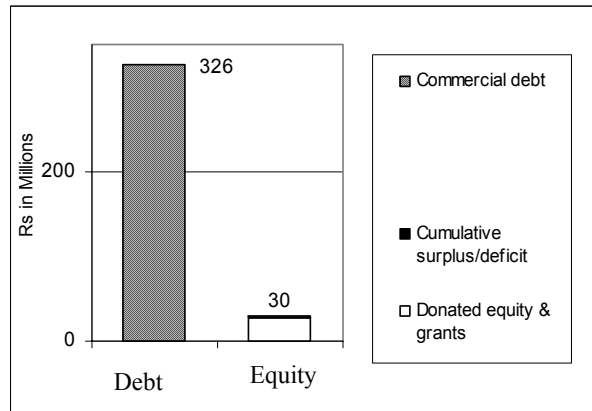
Income and expense distribution:

1 Oct 2005-30 Sep 2006



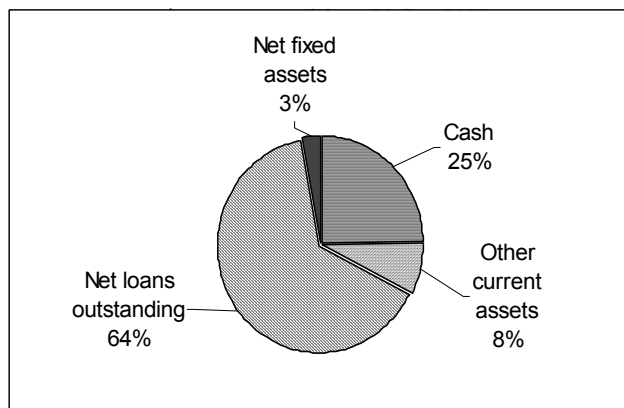
Debt and equity composition:

30 September 2006

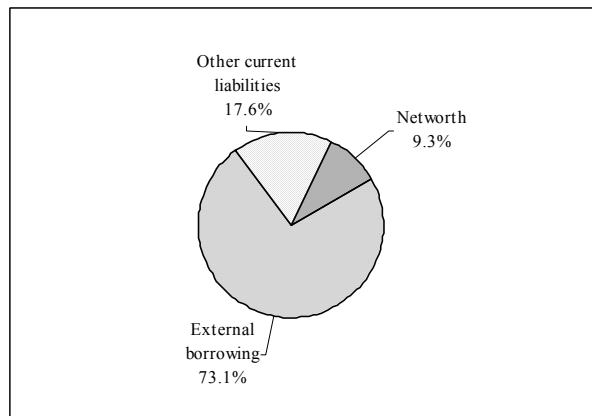


* Other operating expenses include travel, depreciation and administrative expenses

** Concessional debt is borrowing+comp.savings taken at < Bank PLR +50 basis points, & voluntary savings taken at < bank deposit rates



Liability & net worth composition: 30 Sep 2006





1 Organisational background

Grameen Koota (GK) was promoted by the T. Muniswamappa Trust. Although, the Trust was registered in the year 1995, its microcredit programme, as GK took shape in 1999. The operations of GK are in essence about replicating the Grameen model in Karnataka, with context specific modifications when necessary. GK has the vision of reaching out to 10% of Karnataka's poor population by 2010. It operates in both rural areas and urban slums.

At the time of rating visit, GK was in the process of purchasing an NBFC based in Kolkata. The due diligence process had finished and GK plans to transfer the microfinance portfolio to the NBFC by the end of the first quarter of financial year 2007-08. The NBFC is called Sanni Collections.

GK, which focuses only on microfinance, has an eleven-member Board, comprising client representatives, staff members and trustees. The Board was constituted in 2001 and meets bi-annually for taking policy decisions.

2 Microfinance operations

2.1 Background of microfinance operations

GK received its first external funding of US\$35,000, in March 1999 from Grameen Trust, Bangladesh. However, growth during 1999-2003 was slow and it was only after 2002-03 that the organisation started to grow at a faster rate. As on 31 December 2006, GK was operating through 44 branches, spread across 12 districts in Karnataka, and had an outreach of 91,478 members organised in 3,246 Kendras. Out of this membership base, the number of active borrowers was 73,123.

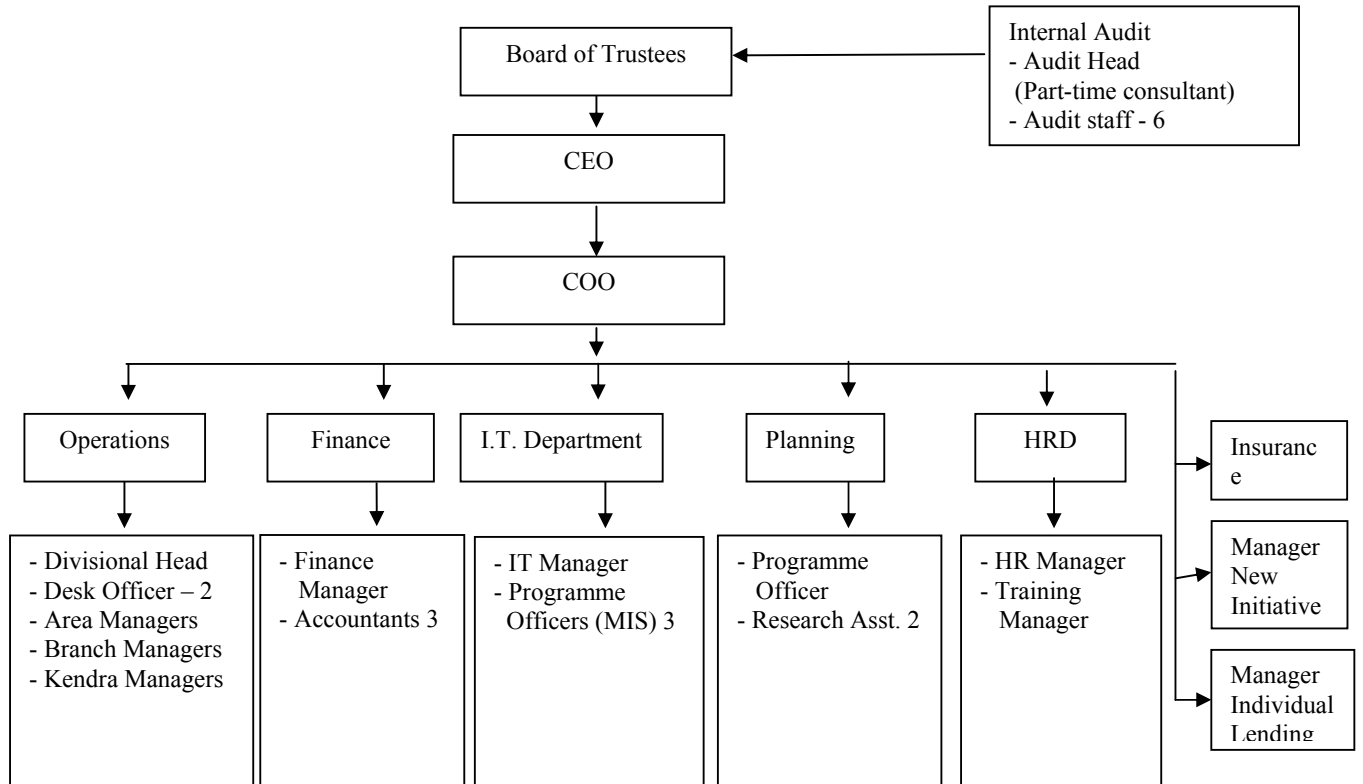
The Chief Executive, Ms Vinatha Reddy is assisted by a Chief Operating Officer. By the time of the last rating in September 2005, the Head office had been restructured into departments with each department given specific roles and responsibilities. The following year has been about consolidation of the organisational structure.

The departments at the Head Office include Operations, Finance, Planning and Monitoring, Information Technology (IT) and Audit. The Chief Operating Officer assisted by the 2 Divisional Managers is responsible for the Operations Department. Area Managers are responsible for monitoring branches under them, and co-ordinating with the Head Office through Desk Officers who, in turn, are responsible for co-ordinating between branches and different departments of the Head Office. Desk Officers are also responsible for manual consolidation of data sent by the branches every week, whereas the IT Department consolidates the computerised data sent by branches every month. The IT Department is also working on the specifications for a new Web Based Software called Mifos (Microfinance Open Source) being developed by Grameen Technology Centre and a Bangalore based company, Aditi Software. The Finance Department is responsible for overall management and allocation of funds among different branches. There is a Planning and Monitoring department and also an Audit Department, presently led by a part-time consultant, that conducts internal audits and reports directly to the Board and top management.



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At the branches, operations are led by Branch Managers (BMs). Each BM is supported by Kendra Managers (KMs), who are responsible for handling field operations. The organisation had a total of 361 staff on 31 December 2006. GK's organisational structure is depicted below



For its operations, GK has taken loan funds from various sources, details of which are provided below. The repayment term ranges from 12 to 48 months and the repayment frequency varies from monthly to quarterly.

Funds for on-lending

Particulars	Sanctioned loan amount	Outstanding as on 30 September 2006	Interest rate %
HDFC Ltd, Bangalore	4,82,50,000	3,60,00,000	12.0
HDFC Bank, Chennai	92,88,000	37,94,047	10.4
FWWB, Ahmedabad	7,40,00,000	4,02,86,065	13.5
UTI Bank Bangalore	6,50,00,000	4,79,37,500	10.8
ING Vysya Bank	50,00,000	26,66,967	11.5
SIDBI	1,40,00,000	1,11,51,672	10.5
ABN AMRO Bank, Mumbai	13,50,00,000	9,09,70,000	10.8
ICICI Bank (partnership model)	20,25,00,000	9,32,53,408	10.0
Total	55,30,38,000	32,60,59,659	



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Loan Funds for fixed assets

Particulars	Sanctioned loan amount	Outstanding as on 30 September 2006	Interest rate %
Grameen Trust, Bangladesh	40,00,700	7,65,641	2.0
ICICI Bank Ltd.	1,16,70,100	8,86,539	10.5
Deutsche Bank Mumbai	25,00,000	9,37,500	9.0
Mahindra & Mahindra Finance	8,48,000	1,16,567	7.0
Total	1,90,18,800	27,06,247	

In addition to above loan funds, the organisation has mobilised grants from the following sources for its microfinance programme:

Grants & Donations	Amount in Rs (as on 30 September 2006)
CGAP, USA	23,46,875
Cow fund	6,55,250
Grameen Foundation, Australia	2,39,500
Grameen Foundation, USA	17,46,300
India Development Service, USA	2,31,975
Other donations (foreign)	4,75,775
Other donations (local)	2,90,784
SIDBI, Bangalore	18,80,000
Hivos	1,39,25,396
UNITUS	16,70,278
Total	2,34,62,133

2.2 Microfinance policies

Operations of GK are completely segregated from the Trust. The organisation follows the Grameen model under which women are organised into 5 or 10-member groups and up to 6 or 4 such groups form a centre – the management unit for the organisation. The older branches have 5 member groups, whereas new branches have 10 member groups. A well-defined process of group identification, formation and regularisation is followed. An initial survey is conducted for the selection of the village. GK has a policy of working only with poor women, who are identified using the CASHPOR housing index. The groups formed are subjected to a one-week systematic training programme called the Compulsory Group Training (CGT). The Area Manager/Branch Manager conducts a final Group Recognition Test (GRT) to re-evaluate the eligibility of the formed groups. The groups that pass the GRT are formalised as Grameen Koota groups. All the members are issued identity cards, with the photograph of the member duly stamped by the branch, against the subscription fees of Rs100, payable over the next four years in equal annual instalments of Rs25 each. However, since September 2006, the collection of subscription fees has been stopped and identity cards are issued free of cost.

Savings products

GK being a trust is not legally authorised to mobilise savings. Collecting savings was possible in the past due to a relatively liberal regulatory environment. However, recently it has become a



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risky proposition in light of the stricter regulatory environment. The impending transformation to an NBFC structure also precipitated termination of the savings product so as to obviate legal complications.

Mobilisation of group funds and voluntary savings was stopped from 31 March 2005. However, the organisation does collect Margin Money. It is in the nature of a security deposit/collateral collected over a period of time rather than up-front. The amounts previously collected as group fund and voluntary savings were adjusted towards Margin Money. However, since the incident at Davangere branch in August 2006 (elaborated later), the practice of collecting Margin Money has also been stopped. The funds thus mobilised have been returned to the clients during the last two months of December 2006 and January 2007. As on 31 January 2007, a residual amount of around Rs10 lakh was left with GK as liability on account of margin money, primarily due to migration of the concerned clients. This amount is to be returned when it is claimed.

Loan products

The year 2006-07 has seen significant changes in terms of pricing. There has been substantial reduction in the effective interest rates (with respect to GK) across the various products caused by an adverse political environment. At the time of the last rating, GK was already contemplating reducing the interest rates in light of increasing competition. An incident that happened in September 2006 (henceforth referred to as the *Davangere* incident) necessitated this cut in interest rates. According to GK, in a few of the branches the interest rates on new products was brought down to 10% in August 2006. The trigger to a blanket reduction across all branches emanated from an adverse political environment. **The reduction was for all the new disbursements, except in Davangere branches where the interest rate was reduced even on active loans.** In this incident the local administration ceased the branch records and arrested the staff of one of the Davangere branches. This was due to negative coverage in the local media that carried allegations of exploitative interest rates being charged by GK and questioned the legality of its operations.

The new pricing structure came into effect in September 2006. The following table compares the new interest rate and fee structure with the old:

Loan Product	Interest Rate and fees – old	Interest rate and fees - new	Repayment norms
Income Generation Loan (IGL)	18.0% flat rate 2.0% upfront processing fees	10% flat rate 2.0% upfront processing fees	Purpose: Income generation Term - 50 weeks Loan size: Cycle 1 up to Rs7,000 Cycle 2 up to Rs10,000 Cycle 3 up to Rs12,000 Cycle 4 up to Rs15,000 Cycle 5 up to Rs17,000 Cycle 6 up to Rs20,000
Supplementary Loan (SPL)	18.0% flat rate 2.0% upfront processing fees	10% flat rate 2.0% upfront processing fees	Purpose: Input for an ongoing income generating activity Term: 50 weeks Loan size : Rs2,000 Disbursed after 6 months of the IG loan



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Emergency Loan (EL)	No interest Rs15 up to loan size Rs.500; Rs30 for loan size of Rs500-1,000	3% of loan sanctioned as documentation charge	Term: 10 weeks Eligibility: after 25 weeks of membership of GK Loan size : up to Rs1,000
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Insurance product

GK started with offering an internal insurance product to its clients. However, it was discontinued and during 2005-06, it came out with three new insurance products in collaboration with United India Insurance Company and ICICI Lombard General Insurance Company.

Loan Insurance – This loan insurance product is being offered in collaboration with ING VYSYA Insurance Ltd. The claim arises in case of the death of the client and coverage includes disbursed loan amount and Rs 2,000 for funeral expenses. GK gets 10% of the premium collected as commission.

Health Insurance – GK is in the process of initiating a partnership with SKDRDP (another Karnataka based MFI) in their ongoing health insurance programme called the ‘Sampoorna Suraksha Program’. SKDRDP is an old and highly revered Temple Trust of Karnataka as a result of which it enjoys significant influence with the local network hospitals. As a result the process of settlement of claims is fairly smooth and fast under this scheme. This is the primary reason for GK opting for a partnership with SKDRDP.

‘Sampoorna Suraksha’, launched in April 2004, is a family health insurance scheme. It is a customised product being offered in conjunction with ICICI Lombard. It covers hospitalisation expenses and also provides additional benefits, which are usually not provided by the products available in the market. Hospitalisation expenses are covered in a ‘cashless’ manner through a network of hospitals identified by the insurance company. The additional benefits offered by this scheme are delivery expenses, ‘rest allowance’ during hospitalisation, ‘consolation amount’ on the death of a family head and compensation for damage to a house in case of natural calamities. The costs of additional benefits are not borne by the insurance company. These are met out of the fund formed through accumulation of part of the premium, which is kept with SKDRDP, 30% of the premium goes to the insurance company. For a family of 5, the annual premium comes out to Rs650, out of which Rs450 is passed on to an insurance company and the remaining Rs200 is retained by SKDRDP to meet the cost of additional benefits being offered. The premium is deposited with SKDRDP through 40 equated monthly instalments. The scheme has so far covered 1,46,722 families with 4,03,828 members in its third year

Livestock Insurance – GK is offering this product to clients in collaboration with United India Insurance Company. Under this, a client pays 5-6% of the cost of an animal as annual premium. This product is not very popular with the clients, as for the claim settlement, a certificate from a government vet is required, which the clients often fail to obtain, without paying commission to the vet. This makes the product very expensive and unattractive for the clients.

Emergency Fund – This is the old mechanism of insuring the loan portfolio and is valid for loans with the old pricing structure (with interest at 18% and processing fee at 2%). In this, 2% of the disbursed amount is collected from the members as emergency fund and is utilised for



writing off the outstanding loan amount in case the borrower dies. Compensation for funeral expenses is also paid out of this fund. An amount of Rs 500 is given in case of membership being less than one year and Rs 1,000 in case of membership being greater than a year. This amount is collected in equal instalments over 50 weeks.

3 Observations

3.1 Governance & strategy

GK records moderate performance on governance with a grade of $\beta+$. This is a downgrade from the last rating grade of $\alpha-$. GK has scored well in terms of growth in operations, competitive strategy and financial performance. However, weaker systems on account of an unstable middle management cadre at the HO and uncertainty due to impending transformation to an NBFC structure have contributed to the downgrade. External factors like adverse political environment and heightened competitiveness in the market along with internal factors like the absence of a risk management policy and failure to strengthen the governing body have also contributed to the downgrade.

➤ Governance

GK continues to have a weak governing body. This weakness was pointed out at the time of last rating (in September 2005) also, but the matter remains unresolved. The governing Board does not have members with expertise in microfinance. Out of the 11 members, 9 are internal to the organisation. They are employees, clients and trustees of GK. The other two are independent members, but do not have relevant experience to monitor and guide the organisation effectively. Thus, the decision-making authority rests with the top management comprising of the CEO and COO. The Board meets on a half-yearly basis and has a low level of influence and involvement in operations. In the context of the emerging NBFC structure, taking independent directors and experts in the field of microfinance on the Board would add to the credibility of the organisation.

Over the last few years GK has seen a high turnover of professionals at senior management level. The Board has failed to address this problem. The process of transformation to an NBFC structure is being led by the top management, in consultation with the Board. Both, top management and the Board have inadequate expertise for this process and hence there is significant reliance on external guidance. GK has subscribed to the services of V. Nagarajan & Co., which is one of the leading CA firms serving the microfinance sector. At the time of the rating visit the exact shareholding pattern for the NBFC was yet to emerge.

➤ Strategy for microfinance operations

Growth: GK has significantly increased both the depth of its operations and geographical coverage. It is to facilitate this growth that GK has set in motion the process of transforming its legal status to an NBFC. Subsequent to the process of due diligence, an NBFC (Sanni Collections, Kolkata) has been purchased. The process of registering the name and change of address is underway. Negotiations for mobilising equity capital for the NBFC are in progress with institutions like UNITUS and Bellwether. GK is also in talks with renowned venture capitalist, Mr Vinod Khosla and also other high net worth individuals for this.



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Competition: Competition is another area of concern. GK is facing competition from MFIs like SKS, SHARE, Asmitha, Spandana and the *Stree Shakti* program of the state government. However, the interest rate reduction on its loan products, though precipitated by an adverse political environment, has placed it in a better position to cope with competition, as its interest rates are now less than or at par with all the other players.

GK faces varying degrees of competition in almost all of its branches. There are many instances of clients having membership of more than one MFI and this phenomenon of multiple memberships has the potential to result in a repayment problem. According to GK, its client friendly credit methodology gives it an edge over some of its competitors with whom the clients have to incur higher transaction costs in terms of travel expenses and collateral requirements. GK's long established goodwill with the clients also gives it an edge vis-à-vis newer entrants. The organisation has a client drop out rate of 3%. Apart from competition, migration is one of the major factors contributing to this.

➤ Fund mobilisation

GK has shown commendable performance on its strategy of mobilising funds. The organisation's expansion was mainly enabled by the two tranches of Guarantee Fund provided to it by Deutsche Bank, through which it could leverage debt funds. The inflow of grants from institutions like HIVOS, UNITUS and SIDBI has bolstered the net worth of GK. Transformation to an NBFC is a positive strategic initiative aimed at mobilising larger amounts of funds. With the partnership model closing down, GK had started to face a funds crunch by the time of the rating visit in February 2007. However, since the rating visit the organisation has received another Rs12 crores from various banks in March 2007.

➤ Political risk

In the state of Karnataka, microfinance has become a politically sensitive issue. This has been sparked off by the Government's perception of MFIs as competition to its *Stree Shakti* programme. It has been aggravated by the 'Andhra Pradesh Crisis' of March last year, in which the local administration closed down the branches of MFIs (on the pretext of coercive measures being adopted for recovery). A similar incident (see box), though on a smaller scale, happened at the Davangere branch of GK. However, with the facilitation of the RBI, the management controlled it quickly, before the damage could escalate significantly. Field operations remained largely unaffected. In this context, from the lenders perspective, it would be prudent to be aware of further developments at the macro level.

The trigger to the 'Davangere incident' was provided by the co-ordinator of the SHG programme of the town municipality. Apparently, he was facing stiff competition from the microfinance programme of GK and thus turned hostile. With the help of a journalist, he issued statements in the local *Kannada* newspaper on 31 August 2006 alleging that GK was an unauthorised organisation cheating the clients by charging usurious interest rates. The District Collector acted on the media report by commissioning an enquiry. He asked the District Registrar of Societies to look into the matter. The junior officer deputed to carry out the task was not fully aware of the concepts and practice of microfinance, nor did she know about the sector at a broader level.



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During the branch inspection she asked for the original registration documents of the organisation. These could not be provided as they were at the HO. On such a superficial inspection at the field level she arrived at the conclusion that GK was an illegal entity. She seized the loan registers and cheque books at the branch. The aforementioned SHG Coordinator of the municipality followed it up with an FIR (under IPC Section 420), based on which three branch staff were arrested, denied bail and put in judicial custody for 13 days.

GK immediately informed Sa-Dhan, RBI, donors and its Bankers about the incident. As a response, the RBI convened the first ever state-level Microfinance Coordination Forum. Among others, NABARD, SIDBI, the State Level Bankers' Committee, Sanghamithra, the Lead District Manager (*Davangere*), SHG Coordinator (*Davangere*) and the RBI General Manager attended the forum meeting. The forum decided to constitute a committee for meeting the District Collector of *Davangere*. Grameen Koota was asked to demonstrate the legality of the Trust, refrain from breaking the '*Stree Shakti*' groups and reduce interest rates. All of this was accepted by GK. In the aftermath of this event an informal network of MFIs has been initiated in Karnataka for the purpose of building links and creating awareness amongst district officials, bankers, NABARD and the bureaucracy about microfinance. Some of the other members of the network are Ujjivan, SKS and Sanghamithra.

Subsequently, GK applied for bail for its arrested staff and secured their release. During this period of uncertainty, the field operations in other branches remained unaffected.

➤ Experience in microfinance

GK has microfinance experience of 7.5 years. The organisation has drawn immensely from the activities of other established Grameen organisations such as SHARE, ASA and CFTS.

Client Protection and Transparency

Policy and mechanisms: The microfinance programme of GK was inspired by Grameen Bank of Bangladesh conceptualised to make available credit in the marginalised areas of Karnataka. The strategy and operations are fully focussed on microfinance.

Communication and transparency: The policies and rules are communicated during group meetings. The rates of interest, processing fees and loan terms are communicated through meetings and are printed on the loan passbooks as well. Transactions are recorded in the minutes register. Group are visited by the internal audit team and the branch manager.

Responsiveness to clients: The organisation aims to be responsive to its clients. The members select their own peer members in the groups. The meeting timings are fixed jointly by the staff and the groups.

Fair Pricing: The interest rate charged by GK, at 10% (flat) pa and processing fee of 2% of the sanctioned amount, has put GK on a level playing field with its competitors. Earlier the rate of interest at 18% with processing fee of 2% was significantly higher than other local microfinance providers .

Staff behaviour: GK staff behaves respectfully with the clients. Peer pressure and/or group liability is invoked in cases of default. The earlier culture of 'zero tolerance' with respect to defaults has been relaxed a little after the *Davangere* incident. The staff has been instructed not to insist on recovery in case a household is in distress. The staff maintains a professional relationship with the clients.



3.2 Management

GK displays reasonable performance on management factors with a grade of $\beta+$. This is the same as the last rating grade. Improved, yet inadequate, internal control mechanisms and lack of integrated accounting and management information systems, combined with an unstable middle management at the Head Office has restricted the grade on management aspects.

➤ Human resource quality and management

GK has reasonably qualified and professional management staff. The understanding of the staff of the various operational and procedural aspects is adequate. However, at the Head Office, this is still not the case as the various functional managers are newly recruited and are yet to be fully oriented towards their respective tasks. Over the last 2-3 years, GK has been recruiting professionals to lead different functional departments of the organisation. However, it has failed in retaining them and thus has not developed a second line of leadership, which would be crucial to manage the aggressive growth GK envisages.

In the last one year, GK has started the process of formalising and documenting the policies related to HR; a manager has been appointed for the training schedule of the organisation.

Though GK has systematic on-the-job training for all staff members, training on financial analysis and planning would further enhance their skills. The staff productivity is reasonable at 306 active borrowers per field staff. Over the last year, the organisation has had a high level of drop out at the middle management level at the Head Office and also the field staff level. GK has performance cum target driven incentive systems for field staff. Apart from the achievement of targets, it also takes into account the degree of adherence to prescribed processes.

➤ Accounting and MIS

The MIS and accounting system of GK were found to be good. The organisation has installed Microfin Accounting Software for its accounts and Portfolio Tracker for its MIS. Through Microfin, the organisation generates Trial Balance, Income and Expenditure and Balance Sheet on a weekly and monthly basis. Portfolio Tracker is only used to generate daily collection sheets, reflecting demand from each centre. The other reports in Portfolio Tracker do not generate accurate information, due to which the IT team of GK has internally developed a small software package called GK Monitoring, which has been linked to Portfolio Tracker. The software draws information from Portfolio Tracker to generate reports on loans to be approved and to be disbursed, loans disbursed to the clients, dropouts, the branch's overall position with overdues and ageing analysis and the branch's daily cash position report.

For manual records, there is complete standardisation of records and reports across branches. Branches maintain members' profile, kendra joining register, kendra meeting attendance register, branch's outreach register, client exit poll register, projection meeting



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book, cash book, vault register, bank register, loan utilisation check register and fully closed loan account register.

Despite an excellent portfolio quality, GK maintains a loan loss reserve of 2% of portfolio and has a write off policy, under which a loan can be written off after 180 days.

Manual information is sent from the branches to Head Office, both weekly and monthly, whereas the computerised information is sent once at the end of the month through compact disks (CDs). The reports sent from branches to Head Office include branch progress report, kendra meeting schedule, cash transaction report, fund and stock request form, client dropout details with reasons, activity, size and cycle wise loan details and financial statements. Desk officers consolidate the manual information for every week and submit these to the concerned departments. The computerised data from different branches is uploaded in the software at the Head Office by the IT department at the end of each month.

The present accounts and MIS software of the organisation are not integrated and can generate only limited reports. In collaboration with Grameen Foundation (USA), GK is in the process of developing web-based MIS software called 'Mifos' for its microfinance programme. The software seems promising and has newer functionalities. As the basic data entry will be taking place in an on-line mode, all reports will be available on a real time basis, thus reducing to nil the present lag (of 15 days) in generating consolidated reports from the individual branch-wise data in the old system.

At the time of the rating visit, GK was in the process of migrating the data from the old software. All the branches are expected to get connected in this manner by the end of the first quarter of financial year, 2007-08. Additional security and other customised features are being developed by a local service provider on the basic module. At present, the software does not have an integrated accounting package but this is being planned for in future.

➤ Tracking system for overdues

GK has adopted a policy of zero tolerance to overdues. There is enforcement of strict credit discipline both at the staff and client level and presence of a good system for tracking of overdues for this purpose. At the branch level, information regarding demand for each individual and consolidated demand for the centre is maintained. Staff is not allowed to leave the centre till she collects the full repayment due from the centre. However, since the *Davangere* incident, staff has been instructed not to insist on repayment in genuine cases of distress being faced by the client. In case, any client is not able to pay on a particular day, the centre pays on her behalf. Even a delay of a few hours in collection of repayment is immediately communicated to the branch and senior management.

➤ Financial planning and control systems

GK has a reasonable financial planning system. At the organisation level, GK uses Microfin software to plan its expansion and the subsequent funds requirement. It approaches multiple funding agencies for its fund requirements.

Internally, cash planning at the branches is done on a quarterly basis using the overall growth target of the organisation. The target is decided in the beginning of each financial year. Head



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Office is informed of the cash situation on a weekly basis and the demand for cash is sent on a monthly basis. The Head Office holds review meetings every month, in which senior management discusses the achievement and next month's plan for each branch. Funds are transferred to most of the branches by demand draft. Branches are required to maintain the next day's disbursement and Rs2,000-5,000 for other expenses in cash and to deposit the balance with the bank. Since there are no fixed dates for disbursements that are made, branches need to maintain high cash balances. Moreover, complete staff turnover of GK's Finance Department over the last six months and absence of any experienced staff to manage funds resulted in exceptionally high cash balances in the branches.

As at the time of the last rating also, many instances of cash at the branches being higher than the requirement and excess cash not being deposited with the bank on a daily basis were observed. The organisation loses interest on the high cash maintained at the branch level. Moreover, this practice carries the risk of fund misappropriation.

The internal audit team has been unstable over the last year with audit staff leaving the organisation. The new audit team of 6 members (all with less than one year's experience) is headed by a part time consultant. The audit involves thorough checking of all records and sample verification of the client passbooks, apart from visiting kendras. However, the present system of passbook verification on a sample basis is clearly inadequate and needs to be made more frequent and should include 100% passbook verification, specially since the field staff is allowed to make on the spot emergency loan disbursements to the clients from collections. The report for the main audit is sent to the CEO/COO.

Since about a year no audit reports are being sent to the branches and thus no compliance report is being prepared by the branches in turn. Findings of the audit are discussed in the monthly meetings at the HO in a general manner and the Area Managers is expected to follow up based on this discussion. This system is not adequate and needs to be made rigorous with timely feedback and follow-up in an objective and specific manner.

➤ Quality of clients/member groups

Visited member groups showed good awareness about organisational procedures and policies. The meetings are carried out regularly and efficiently, with high attendance of members. The groups have shown a high level of appreciation of the credit culture. On many occasions, the groups collectively pay for the instalment of a member, who is not able to pay it in a particular week. The sum is later recovered from the member. Also the groups have been able to enforce group norms such as a late fee. Due to heightened competition the problem of multiple memberships has increased. Though this has not resulted in any problem so far, the organisation should avoid such overlap and develop mechanisms and strategies to do so, as multiple membership always has the potential to cause repayment problems.

➤ Infrastructure

GK has an infrastructure base of Rs87.9 lakh as on 30 September 2006. This includes computer hardware and software, vehicles, furniture and fixture at branches and at the Head Office. All the branches, including the Head Office, are in rented premises. The organisation has a large number of vehicles (two-wheelers) for its entire field staff, facilitating



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their movement. The current level of infrastructure is adequate and is being employed effectively. However, GK given the frequent power cuts, GK should consider purchasing generator sets for its branches.

3.3 Financial performance

GK has good performance on financials with a rating grade of **α**. This is one notch above the previous rating grade. Good portfolio quality and profitability have enabled GK to score highly on this parameter. High RoA has enabled the organisation to improve its capital base and add to its net worth.

➤ Credit performance and asset quality

GK has maintained a consistently excellent credit performance over the years with a current repayment rate of 99.9% and negligible PAR. Strong credit culture, both among staff and clients, and a zero tolerance policy towards overdues has resulted in this performance. The organisation has grown rapidly over the last one year but without compromising on the quality of its portfolio.

➤ Mobilisation of funds

GK has done extremely well to mobilise funds from diverse sources. Its sources of funds include both, Indian and foreign institutions and repayment to its lenders has been timely. The organisation has mobilised loan funds both for on-lending to clients and for the purchase of fixed assets. The organisation has done well to mobilise grants from both Indian and foreign institutions, which has improved the capital base of the organisation.

However, with respect to transforming to an NBFC, the organisation is yet to demonstrate similar competence in mobilising equity capital. Discontinuation of the partnership model by ICICI Bank will further test the fund mobilisation skills of the management.

➤ Asset, liability and equity composition

As on 30 September 2006 GK has moderate asset utilisation with 74% of its assets deployed in loans (including portfolio under partnership). This is mainly due to high cash and bank balances of 25%. In addition, the organisation has 8% of assets deployed in investments, as required under the lender's terms and conditions. On the liability side, the organisation has relied mainly on external debt, with external borrowings accounting for 74% of its total liabilities while the net worth, underpinned by grants inflow over the last few years and improved profitability, stands at 9.3 % taking the CAR to a relatively high level of 11.4%.

➤ Profitability and Sustainability

GK has shown a very strong performance on profitability and sustainability, and has significantly increased its surplus this year. However, due to the sharp decrease in interest rate on loan product its performance on profitability is expected to go down. Improved efficiency would become imperative to rise to the desired levels of profitability. As on 30 September 2006, the organisation had an OSS of 116.5 % and FSS of 111.6%. The RoA has



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increased from 2.1% to 4.8% since the last rating. The OER has further declined from 25% last year to less than 18.5% this year primarily due to an almost 166% increase in the portfolio (including portfolio under ICICI partnership).

4 Conclusions

Strengths	Weaknesses/Threats
<u>Organisational</u> <ul style="list-style-type: none"> ✓ Long experience in microfinance ✓ Complete focus on microfinance activities ✓ Good credit culture ✓ Competitive product design and service delivery 	<u>Organisational</u> <ul style="list-style-type: none"> ✗ Volatile political environment ✗ Increasing competition
<u>Managerial</u> <ul style="list-style-type: none"> ✓ Professionally trained staff ✓ Reasonable staff productivity ✓ Strong field operations 	<u>Managerial</u> <ul style="list-style-type: none"> ✗ Weak second line of leadership ✗ Fund management ✗ Inadequate internal audit
<u>Financial</u> <ul style="list-style-type: none"> ✓ Excellent repayment rate and portfolio quality ✓ Good performance on profitability and sustainability ✓ Good mobilisation of funds for on lending from multiple sources 	<u>Financial</u> <ul style="list-style-type: none"> ✗ High cash balance



5 Creditworthiness

Grameen Koota has achieved a rating grade of *beta plus ($\beta+$)*.³ In terms of creditworthiness, this implies **reasonable safety**. Grameen Koota (GK) has seen a decline in its overall rating grade from $\alpha-$ despite very strong financial performance. The reasons for the downgrade are internal as well as external. The politically sensitive environment with respect to microfinance and high competition are external threats. An unstable middle management at the Head Office and a weak Board, are the weaknesses internal to the organisation and have been left unaddressed for a while. Given these internal weaknesses and threats, the uncertainty related to impending transformation to an NBFC structure is compounded.

In M-CRIL's view, on account of a significant institutional presence, overall good performance, as well as considering the growth plans of the organisation, GK can absorb loan funds of up to Rs38crores till February 2008. This includes the loan funds that the organisation has already received since the rating visit. However, Grameen Koota should appoint independent persons to its Board immediately and lenders should ensure regular monitoring in the context of the above threats and weaknesses.

³ The Rating Grade given measures performance on the rigorous standards established by M-CRIL. The assessment uses an instrument designed specifically for the conditions and nature of MFIs operating in Asia and is comparable with other ratings done by M-CRIL in this region.



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Financial statements for GK's microfinance operations

Balance Sheet

<u>30-Sep-05</u>		<u>30-Sep-06</u>	
<u>Rs</u>		<u>Rs</u>	<u>Rs</u>
	<u>Current assets</u>		
1 95 99 304	Cash in hand and bank		7 89 44 427
62 62 982	Short term deposits		1 23 98 810
44 66 490	Other Short term assets		1 23 54 715
	<u>Loans outstanding</u>		
3 11 25 940	Under partnership model - ICICI	9 32 53 408	
8 34 69 936	Gross loans outstanding - own portfolio	21 21 22 127	
- 21 52 785	(Loan loss reserve)	- 61 07 511	
8 13 17 151	Net loans outstanding		20 60 14 616
11 16 45 927	Total current assets		30 97 12 568
45 16 542	Net property and equipment	87 95 653	
45 16 542	Total long term assets		87 95 653
11 61 62 469	Total Assets		31 85 08 221
	<u>Current liabilities</u>		
1 74 36 744	Margin Money		4 41 44 231
18 67 147	Other Short term liabilities		27 84 350
8 79 650	Vehicle Funds		10 03 106
33 14 946	Assets and Operating Funds		17 03 141
1 46 32 200	Advance for onlending under ICICI		0
3 81 30 687	Total current liabilities		4 96 34 828
13 70 766	Emergency Fund		64 17 288
	<u>Long term debt</u>		
1 03 12 500	UTI Bank, Bangalore	4 79 37 500	
39 58 391	ING Vysya, Bangalore	26 66 967	
2 76 39 252	FWWB, Ahmedabad	4 02 86 065	
29 33 336	SIDBI, Bangalore	1 11 51 672	
63 33 987	HDFC Ltd, Bangalore	3 60 00 000	
1 38 50 000	ABN AMRO Bank, Mumbai	9 09 70 000	
82 50 000	HDFC Bank	37 94 047	
7 32 77 466	Total long term debt		23 28 06 251
7 46 48 232	Total long term liabilities		23 92 23 538
1 24 14 308	Donated equity and Balancing figure	2 69 27 114	
- 14 76 061	Retained net surplus	- 76 59 992	
- 61 83 931	Current net surplus	1 03 82 733	
47 54 316	Total net worth		2 96 49 855
11 61 62 469	Total Liabilities and Net Worth		31 85 08 221



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Income and Expenditure Statement

<u>1 Oct 2004 - 30 Sept 2005</u>		<u>1 Oct 2005 - 30 Sept 2006</u>	
	<u>Income</u>	<u>Rs</u>	<u>Rs</u>
1 22 60 710	Interest on loan	5 75 18 019	
3 88 335	Documentation fee on emergency loan	18 92 450	
23 51 280	Processing Fee	1 05 32 340	
4 01 488	Interest on Investment	11 07 140	
3 51 400	Annual Subscription Fee	15 88 700	
3 54 765	Other income	7 21 611	
1 61 07 998	Total income		7 33 60 261
	<u>Financial costs</u>		
84 14 413	Interest on borrowings	2 22 49 898	
27 885	Other financial cost	48 098	
76 65 700	Gross financial margin		5 10 62 265
9 78 700	Provision for loan losses	39 54 726	
66 87 000	Net financial margin		4 71 07 539
	<u>Operating expenses</u>		
24 28 411	Salaries	1 21 10 909	
15 25 454	Travel	45 82 757	
12 10 654	Depreciation	15 16 864	
77 06 412	Administrative and other expenses	1 85 14 276	
1 28 70 931	Total Operating expenses		3 67 24 806
- 61 83 931	Net Surplus/Deficit		1 03 82 733



Notes to the financial statements

1. The Financial Statements have been presented for the microfinance operations and represent an approximate picture only. This has involved appropriate modifications to the existing financial statements. Such modifications can result in differences between the income statement and balance sheet prepared by the organization 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. Financial costs (interest on borrowings and savings, if any) and operating costs are calculated on an **accrual basis**.

Glossary

1. Current repayment rate
Ratio of current principal recovered (net of pre-payments) to the current principal due.
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 net worth 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:	30-Sep-06	Sep-07	Sep-08	Sep-09	Sep-10	Sep-11
Members	70,938	1,20,000	1,80,000	2,61,000	3,65,400	4,93,290
Yield on average portfolio	35.1%	28.0%	23.0%	23.0%	23.0%	23.0%
Cost of external funds	11.0%	12.0%	11.6%	11.3%	10.7%	10.2%
Repayment rate from groups	99.9%	98.0%	98.0%	98.0%	97.0%	97.0%
Loan loss reserve ratio	2.0%	2.5%	2.5%	2.5%	3.0%	3.0%
Number of active loanees/loan a/cs	61,529	1,03,200	1,54,800	2,24,460	3,14,244	4,24,229
Number of loan disbursed - EL		1,75,440	2,47,680	3,59,136	5,02,790	6,78,767
Number of loans disbursed - IGL		1,01,354	1,51,704	2,19,816	3,07,510	4,14,802
Average loan size - EL	969	979	988	998	1,008	1,018
Average loan size - IGL	7,650	8,262	8,427	8,764	9,115	9,844



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2 Projected Balance Sheets

Rs in thousands

As on:	Sep-06	Sep-07	Sep-08	Sep-09	Sep-10	Sep-11
<u>Assets</u>						
Cash balance	78 944	39 946	57 591	86 493	1 20 025	1 88 865
Other current assets	12 355	28 170	42 800	64 216	83 809	1 20 941
Loans outstanding *	3 05 376	6 26 010	9 51 110	14 27 017	20 95 232	30 23 524
Loan loss reserve	- 6 108	- 15 650	- 23 778	- 35 675	- 62 857	- 90 706
Net loans outstanding	2 06 015	6 10 359	9 27 332	13 91 342	20 32 375	29 32 818
Short term investments	12 399	26 292	39 947	59 935	81 714	1 17 917
Net fixed assets	8 796	14 108	24 451	42 379	64 998	96 599
Total Assets	4 11 762	7 18 877	10 92 121	16 44 364	23 82 921	34 57 140
<u>Liabilities and Net Worth</u>						
External borrowings	3 26 060	6 44 191	9 60 751	14 41 673	20 85 690	30 11 010
Member savings/Margin money	44 144	0	0	0	0	0
Other liabilities	11 908	13 099	23 578	40 082	68 139	1 09 023
Equity	26 927	51 927	91 927	1 31 927	1 66 927	1 96 927
Retained surplus/deficit	- 7 660	2 723	9 660	15 865	30 682	62 165
Current surplus/deficit	10 383	6 937	6 205	14 817	31 483	78 015
Net worth	29 650	61 587	1 07 792	1 62 609	2 29 092	3 37 107
Total Liabilities and Net Worth	4 11 762	7 18 877	10 92 121	16 44 364	23 82 921	34 57 140

Note* - The organisation had portfolio outstanding of Rs40crores in February 2007

3 Projected Income Statements

Rs in thousands

For the year ending:	Sep-06	Sep-07	Sep-08	Sep-09	Sep-10	Sep-11
<u>Income</u>						
Interest and fee income	57 518	1 17 338	1 81 369	2 73 485	4 05 059	5 88 657
Loan fees and other income	14 735	21 910	33 289	49 946	73 333	1 05 823
Total Income	73 360	1 41 377	2 18 135	3 28 674	4 85 828	7 04 961
<u>Cost</u>						
Financial	22 298	60 734	99 490	1 44 672	1 99 455	2 76 029
Loan loss provision	3 955	9 543	8 128	11 898	27 182	27 849
Depreciation	1 517	2 687	4 657	8 072	12 381	18 400
Operating expenses (excl. depr.)	35 208	61 475	96 599	1 41 918	1 99 822	2 66 243
Total Cost	62 978	1 34 440	2 08 874	3 06 560	4 38 839	5 88 520
Profit before tax	10 383	6 937	9 261	22 114	46 990	1 16 441
Tax	0	0	3 056	7 298	15 507	38 425
Profit after tax	10 383	6 937	6 205	14 817	31 483	78 015



4 Projected Cash Flow Statements

Rs in thousands

For the year ending:	Sep-07	Sep-08	Sep-09	Sep-10	Sep-11
Inflows					
Opening cash	78 944	39 946	57 591	86 493	1 20 025
External borrowings	5 25 000	6 05 000	8 60 000	13 10 000	18 50 000
Repayments from clients	5 95 202	11 98 172	18 09 180	26 41 697	38 46 335
Equity investment	25 000	40 000	40 000	35 000	30 000
Increase in other liabilities	1 191	10 479	16 504	28 057	40 884
Interest income	1 17 338	1 81 369	2 73 485	4 05 059	5 88 657
Investment Income	2 128	3 478	5 244	7 437	10 481
Loan fee and other Income	21 910	33 289	49 946	73 333	1 05 823
Total Inflow	13 66 714	21 11 732	31 11 950	45 87 076	65 92 204
Outflows					
Disbursement	10 09 089	15 23 272	22 85 087	33 09 912	47 74 627
Repayments to lenders	1 13 615	2 88 440	3 79 078	6 65 983	9 24 680
Repayment of savings deposits	44 144	0	0	0	0
Operating expenses (excl. depr.)	61 475	96 599	1 41 918	1 99 822	2 66 243
Interest paid on borrowings	60 734	99 490	1 44 672	1 99 455	2 76 029
Increase in other current assets	15 816	14 630	21 416	19 594	37 132
Investment	13 894	13 654	19 988	21 779	36 203
Tax	0	3 056	7 298	15 507	38 425
Fixed assets purchase	8 000	15 000	26 000	35 000	50 000
Total Outflow	13 26 767	20 54 141	30 25 457	44 67 051	64 03 339
Net cash balance	39 946	57 591	86 493	1 20 025	1 88 865

5 Key projected performance ratios

For the year ending:	Sep-06	Sep-07	Sep-08	Sep-09	Sep-10	Sep-11
Operational self-sufficiency	116%	105.2%	104.4%	107.2%	110.7%	119.8%
Return on average assets	4.8%	1.2%	0.7%	1.1%	1.6%	2.7%
Operating expense ratio	18.4%	15.3%	12.8%	12.6%	12.0%	11.1%
Avg o/s per borrower	4,963	6,066	6,144	6,358	6,668	7,127
Portfolio growth rate	166.5%	105.0%	51.9%	50.0%	46.8%	44.3%
Savings to total assets	10.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk weighted capital adequacy ratio	11.4%	9.2%	10.5%	10.6%	10.3%	10.5%



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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. It is assumed that the organisation would be able to raise adequate equity for NBFC transformation.
4. Average loan size to members increases by 8% in the first year and by less than 5% in the later years
5. Interest income is taken as [yield on portfolio*average portfolio for the year]. Yield has taken a declining trend due to cut in interest rates since September 2006.
6. Disbursements are taken as the [number of loans disbursed during the year*average loan size to borrowers].
7. A member can borrow emergency loans up to five times in a year.
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. Increase in members is taken at almost 70% in the first year and 35-50% in the later years.
9. Repayments to lenders is on an average 33% per annum on the projected liability structure.
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.
12. Since the organisation is likely to transfer microfinance operations to an NBFC in the current fiscal year a tax liability @33% has been assumed from the financial year ending September 2008.
13. The outstanding savings have been assumed to be refunded to the members in the current fiscal year before the NBFC transformation.



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7 List of abbreviations

AM	Area Manager
APR	Annual Percentage rate
BM	Branch Manager
CEO	Chief Executive Officer
CGT	Compulsory Group Training
COO	Chief Operating Officer
EL	Emergency Loan
FSS	Financial self-sufficiency
FWWB	Friend's of Women World Banking
GK	Grameen Koota
GRT	Group Recognition Test
HDFC	Housing Development Finance Corporation
ID Card	Identification Card
IGL	Income Generation Loan
IT	Information Technology
KM	Kendra Manager
M-CRIL	Micro-Credit Ratings International Ltd
m-f	Microfinance
MFI	Micro Finance Institution
MIS	Management Information System
NBFC	Non Banking Finance Company
OER	Operating expenses ratio
OSS	Operational self-sufficiency
PAR	Portfolio at Risk
p a	Per annum
RR	Repayment Rate
Rs	Rupees (Indian currency)
SIDBI	Small Industries Development Bank of India
VDF	Village Development Fund



M-CRIL’s Microfinance Rating Symbols

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