



## Micro-Finance Rating - Risk Assessment

### Grameen Koota (GK)

(T Muniswamappa Trust)  
Bangalore, Karnataka (India)

<2 <sup>nd</sup> Rating Update>		<b>Assessment:</b> Recommended Reasonable safety, good systems
<b>Rating grade</b>	<b>α-</b> alpha minus	
<b>Visit dates:</b> 14-17 December, 2005 <b>Operational head:</b> Ms Vinatha M Reddy		
<b>Maximum validity of rating*:</b> till December 2006		

#### Rating

Grameen Koota (GK) has overall good performance. The organisation has shown good performance on governance and financial indicators. The performance on management is also reasonable, with main weakness in only the present audit mechanism of the organisation. The present control systems need attention along with improvement in the scope, scale and frequency of internal audit mechanism.

The organisation has shown improvement over the last rating on key financial indicators like capital adequacy, profitability and sustainability, which has led to an improvement in its overall performance. Moreover, the organisation has commendable approach to fund mobilisation and has been successful in mobilising both loan and grant funds from diverse sources. It has established a good repayment history with its lenders. Despite rapid expansion, the organisation has been able to maintain a good portfolio quality. The areas of concern are high competition and client drop out rate in some of its operational area.

**In M-CRIL's view**, on account of significant institutional presence, overall good performance, as well as considering the growth plans of the organisation, GK can absorb – from all sources – funds worth Rs14.2 crores till September 2005.

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 grade<sup>1</sup></u>
A <i>Governance aspects</i>	$\alpha-$
B <i>Managerial factors</i>	$\beta+$
C <i>Financial performance</i>	$\alpha-$
<b>Overall</b>	<b><math>\alpha-</math></b>

### Key Risk Factors

1. **Weak internal audit:** Although GK has improved its internal audit mechanism since the last rating, it could not be implemented effectively due to lack of stable audit team over the last one year. Moreover, the current audit team is under-staffed, considering the future expansion plans of the organisation. As the organisation has grown rapidly during the last one year and plans to continue with it, it is imperative to back the planned growth with a strong control system. The organisation has already faced a minor case of fraud during the last year, pointing out the need to plug in the present gaps in its service delivery mechanism. Further, the present audit mechanism needs to be streamlined and implemented with a wider scope, scale and frequency.

### Key Programme Strengths

<b>Governance, experience and strategy</b>	<b>Management and operations</b>	<b>Financial</b>
<ol style="list-style-type: none"> <li>1 Long years of experience in microfinance</li> <li>2 Complete focus of GK on microfinance activities</li> <li>3 Good credit culture</li> <li>4 Good fund mobilisation strategy</li> </ol>	<ol style="list-style-type: none"> <li>1 Good MIS and accounting system</li> <li>2 Qualified and experienced staff</li> <li>3 Reasonable staff productivity</li> </ol>	<ol style="list-style-type: none"> <li>1 Excellent repayment rate and portfolio quality</li> <li>2 Good mobilisation of funds</li> <li>3 Good performance on profitability and sustainability</li> </ol>

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



## Grameen Koota – 2<sup>nd</sup> update

### Organisational Profile

Legal form	Years of m-f Operation	Number of			
		Active borrowers	Staff	Branches	Active borrowers/ Staff member
Trust	6.5 years	22,367	120*	22	186

\* Total staff of GK is 151, however as 31 staff members are still under training, they have not been considered

### Microfinance programme: Operational highlights

Outstanding borrowings of MFI (Rs)	Total Loan portfolio of MFI (Rs)	Portfolio managed for other financial institution (Rs)	Cumulative loans disbursed by MFI (Rs)	Average loan size from MFI to borrowers (Rs)
7.7 crores	11.4 crores	3.1 crores	35.0 cores	2,716

### Key financial ratios

Portfolio at risk (>=60 days)	Cumulative repayment rate	Risk weighted capital adequacy ratio	Weighted average cost of funds	Yield to APR ratio
0.0%	100.0%	6.1%	10.2%	90.9%
Yield on portfolio	Other income to average portfolio	Financial cost ratio	Loan loss provisioning ratio	Operating expense ratio
31.7%	16.0%	13.0%	1.1%	25.3%
Total income to average total assets	Total expenses to average total assets	Return on average total assets	Operational self sufficiency	Financial self sufficiency
34.5%	32.5%	2.1%	106.4%	101.2%

#### Notes

1. All figures are estimated for the organisation's microfinance programme as on 30 September 2005.
2. Total portfolio of MFI also includes the portfolio managed for other financial institution (ICICI Bank).
3. The number of members in GK's programme was 29,480 on 30 September 2005. 'Members' refer to the women who participate in the centre meetings coordinated by GK.
4. Average loan size for income generation loans is Rs7,150 and other loans is Rs962.
5. Other income includes income from subscription fee, emergency fund, sale of publications, interest on FDRs and miscellaneous income.
6. The ratio of repayment rate and PAR<sub>60</sub> has been calculated from the MIS reports generated by GK. 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 <sup>3</sup>
	May 2003	September 2004	September 2005	
Governance	α	α-	α-	⇔
Management	α-	β+	β+	⇔
Financial performance	β	β	α-	↑
<b>Overall</b>	<b>β</b>	<b>β</b>	<b>α-</b>	<b>↑</b>

Select indicators/ratios

Indicator/ratio	May 2003	Sep 2004	Sep 2005	Change <sup>3</sup>
<b>1 Growth</b>				
Loans outstanding (Rs lakhs)	79.3	373.5	1145.9	Increase
Outstanding borrowings (Rs lakhs)	109.3	372.4	774.7	Increase
Active borrowers	2,719	10,341	22,367	Increase
Average loan size (Rs)	3,000	5,240	2,716*	Decrease
<b>2 Credit performance</b>				
Cumulative repayment rate	99.7%	100.0%	100.0%	⇔
Portfolio at risk (>=60 days)	0.5%	0.0%	0.0%	⇔
<b>3 Efficiency and profitability</b>				
Active clients per staff	60	101	186	↑
Loans to total assets	67%	73.3%	70.3%	↓
Annual return on assets	-26.6%	-7.8%	2.1%	↑
Operating expense ratio	57.0%	35.8%	25.3%	↑
Operating self-sufficiency	48.3%	77.5%	106.4%	↑
Financial self-sufficiency	40.6%	72.6%	101.2%	↑
Capital adequacy ratio	-25.4%	-4.6%	6.1%	↑

Note\*: The decrease in average loan size is on account of small loan size of emergency loans and supplementary loans

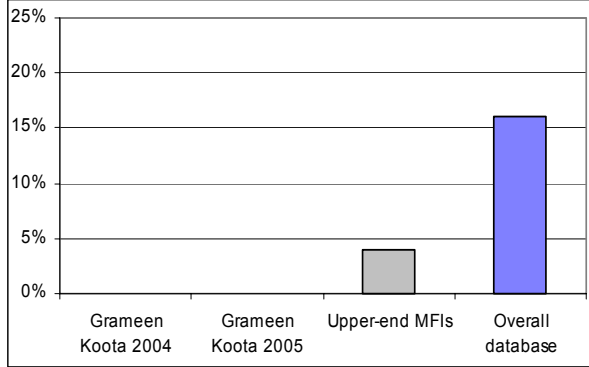
<sup>3</sup> An upward arrow indicates an improvement over the previous rating and vice versa for a downward arrow; a constant arrow indicates very low or no change.



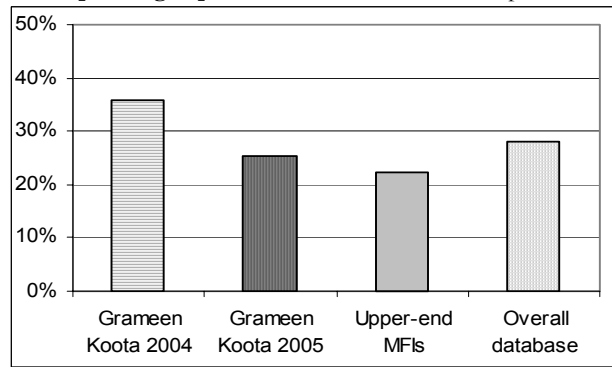
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Grameen Koota – financial overview

Portfolio at risk (>=60 days): 30 September 2005

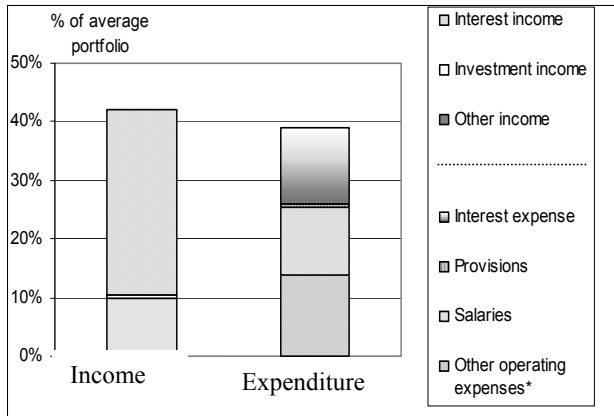


Operating expense ratio: 1 Oct 2004 - 30 Sep 2005

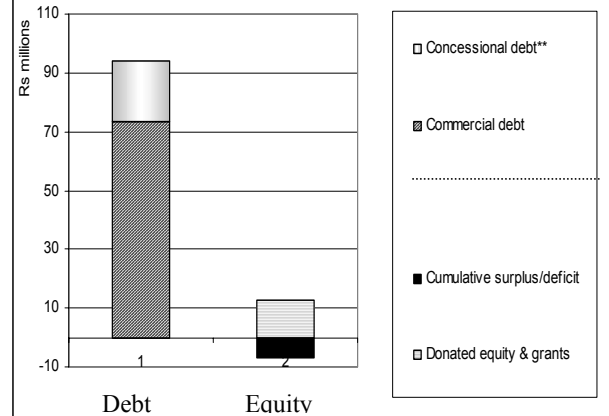


- Note: 1.  $n_{upper-end} = 10$   $n_{database} = 110$ ; Database updated as on 31 December 2004.  
 2. Outliers and rated NGOs with no direct lending have been removed for analysis. Upper-end figures reflect MFIs with top 10% scores.  
 3. The upper-end MFIs and overall database ratios represent simple 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 2004-30 Sep 2005



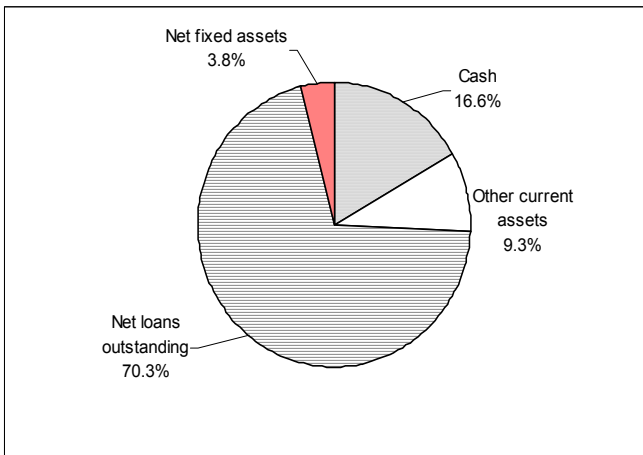
Debt and equity composition: 30 September 2005



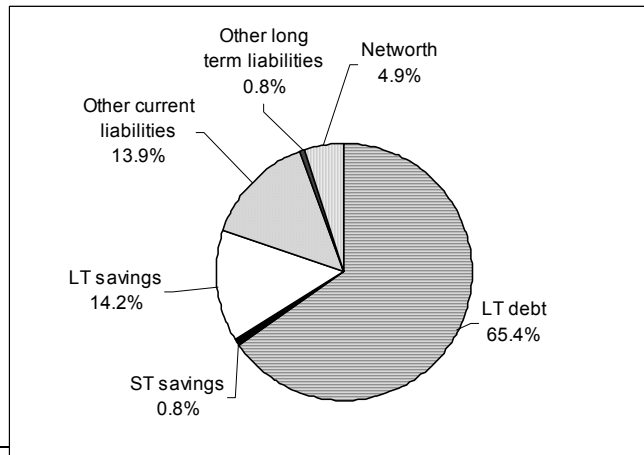
\* Other operating expenses include travel, depreciation and administrative expenses

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

Asset composition: 30 Sep 2005



Liability & net worth composition: 30 Sep 2005





## 1 Organisational background

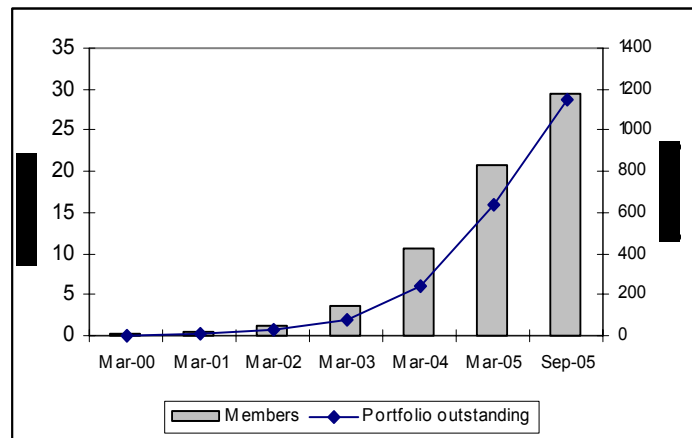
Inspired by the Grameen Bank, Grameen Koota (GK) was promoted by the T. Muniswamappa Trust. Although, the Trust was registered in the year 1995, its microcredit programme, viz. GK, took shape in 1999. The Trust, apart from its microcredit programme, carries out other social activities in the field of education and solid waste management.

GK, which focuses only on microfinance, has an eleven-member board, comprising client representatives, staff members and trustees. The Board was constituted only 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 is only after 2002-03 that the organisation started to grow at a faster rate. As on 30 September 2005, the organisation was operating through 22 branches and had an outreach of 29,480 members organised in 1,052 Kendras . Growth of GK’s microfinance programme over the years has been reflected below:



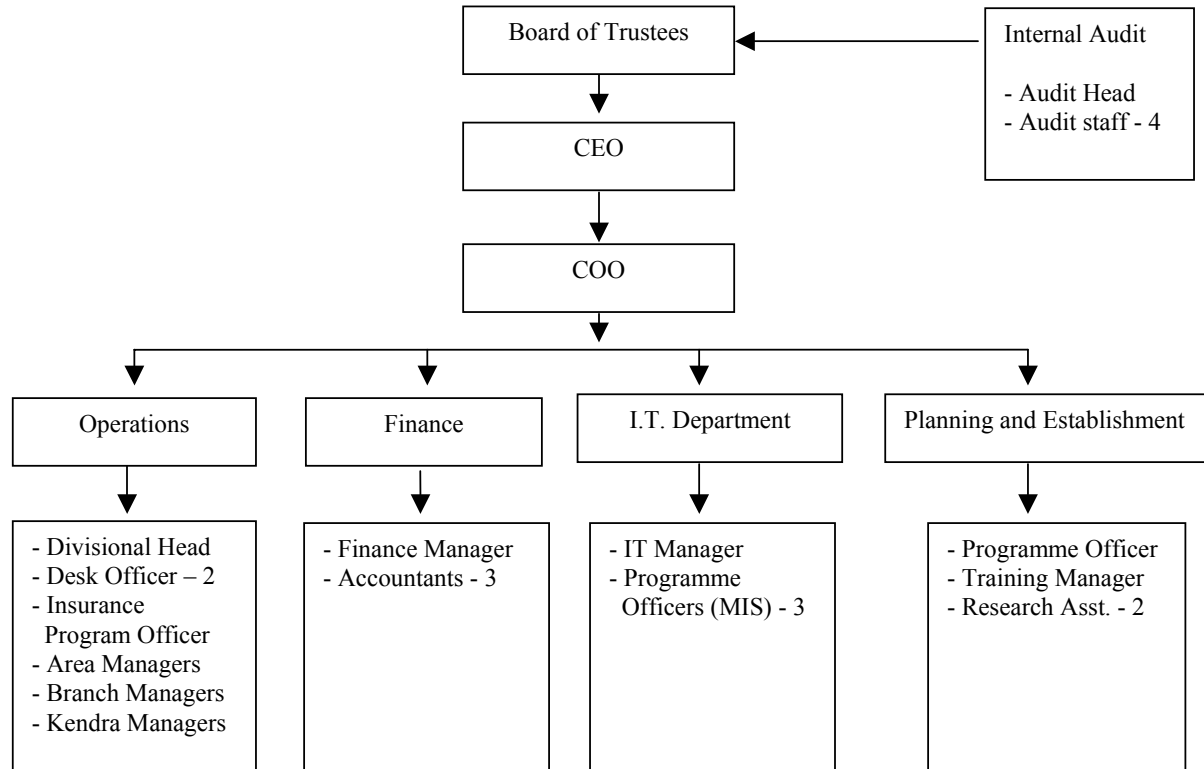
The Chief Executive, Ms Vinatha Reddy is assisted by a Chief Operating Officer. Over the last one year, the Head office has been restructured into different departments with each department given specific roles and responsibilities. The different departments include Operations, Finance, Planning and Establishment, Information Technology (IT) and Audit. Divisional Manager heads the Operations Department. Area Managers are responsible for monitoring branches under them, and co-ordinating with the Head office through Desk Officers. Desk Officers 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 IT Department is responsible for consolidation of computerised data sent by branches every month. IT Department is also working on the specifications of a new Web Based Software called Mifos (Microfinance Open Source) being developed by Grameen Technology Centre and a Bangalore based company called Aditi Software. Finance Department is responsible



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for overall management and allocation of funds among different branches. Planning and Establishment department is responsible for planning future expansion. Audit Department is responsible for conducting internal audits and reports directly to the Board/CEO/COO.

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 151 staff as on 30 September 2005, out of which 31 are newly recruited and still under training. GK is in the process of hiring more staff for future expansion. Staff under different departments is represented below:



For its operations, GK has taken loan funds from various sources, details of which are provided below.

### Funds for on-lending

Particulars	Loan sanctioned (Rs.)	Availed Loan Amount	Outstanding as on 30 September 2005	Interest rate
HDFC Ltd, Bangalore	92,88,000	92,88,000	63,33,987	12%
HDFC Bank, Chennai	82,50,000	82,50,000	82,50,000	10.25%
FWWB, Ahmedabad	4,90,00,000	4,40,00,000	2,76,39,252	13.5%
UTI Bank Bangalore	1,50,00,000	1,50,00,000	1,03,12,500	12%
ING Vysya Bank	50,00,000	50,00,000	39,58,391	12%
SIDBI	1,40,00,000	40,00,000	29,33,336	11%
Canara Bank	20,00,000	20,00,000	-	10.5%
ABN AMRO Bank, Mumbai	3,50,00,000	1,50,00,000	1,38,50,000	12.25%
ICICI Bank (partnership model)	10,25,00,000	5,86,94,000	4,57,58,140	10%
<b>Total</b>	<b>24,00,38,000</b>	<b>16,12,32,000</b>	<b>11,90,35,606</b>	



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### Funds for fixed assets

Particulars	Loan sanctioned (Rs.)	Availed Loan Amount	Outstanding as on 30 September 2005	Interest rate
Grameen Trust, Bangladesh	40,00,700	40,00,700	17,23,724	2%
ICICI Bank Ltd.	6,00,000	6,00,000	5,50,000	10.5%
ICICI Bank, Bangalore	70,000	70,000	28,722	12%
Deutsche Bank Mumbai	2,500,000	2,500,000	15,62,500	9%
Bajaj Auto Finance Ltd.	1,52,100	1,52,100	15,413	13%
Haritha Finance Ltd.	90,841	90,841	-	13%
Vysya Bank	1,40,000	1,40,000	-	13%
TVS Finance & Service	5,95,000	5,95,000	30,508	13%
Canara Bank	70,000	70,000	-	13%
Mahindra & Mahindra Finance	8,48,000	8,48,000	2,83,729	13%
<b>Total</b>	<b>90,66,641</b>	<b>90,66,641</b>	<b>41,94,596</b>	

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

Source	Grants as on 30 September 2005 (Amount in Rs)
CGAP, USA	23,46,875
Cow Found	6,55,250
Grameen Foundation, Australia	23,95,00
Grameen Foundation, USA	28,77,363
ICICI Bank	15,00,000
India Development Service, USA	9,56,750
SIDBI	18,80,000
UNITUS	14,47,569
Other Donations (foreign)	3,14,281
Other Donations (local)	1,96,720
<b>Total</b>	<b>1,24,14,308</b>

## 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-members group and up to 6 or 4 such groups form a centre – the management unit for the organisation. The older branches have 5 members group, whereas new branches have 10 members group. 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 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 instalment of Rs25 each.



### Savings products

GK has compulsory as well as voluntary savings product. Compulsory savings product is being offered in all the branches and is called as Margin Money. Under compulsory savings, each member deposits Rs10 per week with the organisation. The interest paid on compulsory savings is 4.0% p.a. Compulsory savings can be withdrawn only on the termination of client's membership with GK. Voluntary savings product is being offered in only six old branches of the organisation. The members make Voluntary savings according to their convenience and it can be deposited and withdrawn any time, provided a minimum balance of Rs25 is maintained. The interest paid on these savings is also 4.0% p.a.

In addition, the organisation collects Re1 per week from each member as Village Development Fund (VDF). VDF is being collected in only 14 branches of the organisation. VDF can be withdrawn by the members for undertaking developmental activities as defined by the Kendra.

### Loan products

In the year 2005-06, the organisation has continued with its earlier products, with only difference in the loan size offered under the Income Generation Loans (IGL). The minimum loan size has been increased from Rs5,000 to Rs7,000 and maximum loan size from Rs15,000 to Rs20,000.

Loan Product	Interest Rate	Repayment Norms
Income generation loan / Grameen Koota loans (GKL)	18.0% flat rate 2.0% upfront processing fees	Purpose: Income generation Term - 50 weeks Loan size: Cycle 1 upto Rs7,000 Cycle 2 upto Rs10,000 Cycle 3 upto Rs12,000 Cycle 4 upto Rs15,000 Cycle 5 upto Rs17,000 Cycle 6 upto Rs20,000
Supplementary Loan	Rs2,000; 18.0% flat rate 2.0% upfront processing fees	Purpose: re-establishment of business Term: 50 weeks Disbursed after 6 months of the IG loan
Emergency Loan	No interest; only documentation charges: Rs15 up to loan size Rs.500; Rs30 for loan size of Rs500-1,000	Term: 10 weeks Eligibility: after 25 weeks of membership of GK

### Insurance product

Till the last rating, GK was offering an internal insurance product to its clients. However, over the last year, the organisation has discontinued with its internal insurance product and has started with three new insurance products in collaboration with United India Insurance Company and ICICI Lombard General Insurance Company.



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Loan Care Insurance – It is a loan insurance product being offered in collaboration with ICICI Lombard. GK collects 2% of the loan amount as Emergency Fund from the client and pays 0.3% of the loan as premium to ICICI. In case of death of the client, ICICI pays an amount equivalent to the outstanding loan to GK. A total of 23 claims have been settled under this policy. Though loan insurance has been outsourced, the organisation has continued to pay funeral expenses on the death of the clients from its internal funds. For a client with less than 1 year membership with GK, Rs500 is given for meeting funeral expenses, while for the clients who had been members for more than 1 year, Rs1,000 is given.

Arogya Raksha Yojana – This is a health insurance product being offered on a pilot test basis in only two branches of GK in collaboration with ICICI Lombard. This is a cash-less insurance programme, under which a client pays a premium of Rs120 per year. Members enrolled under the scheme are given ID card based on which they can take free treatment from pre-selected hospitals. However, members have to bear the cost of medicines. The product is facing some difficulties as there have been cases under which either the client was made to pay for consultation charges or was not treated well by the concerned doctors. The Programme officer (Insurance) at GK head office submits such cases to ICICI Lombard for re-imburement of any payment made by the client beyond the cost of medicines.

Livestock Insurance – GK is offering this product to the clients in collaboration with United India Insurance Company. Under this, a client pays 5-6% of the cost of animal as an annual premium. This product is not very popular with the clients (90 policies), 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.

### 3 Observations

#### 3.1 Governance & strategy

GK shows reasonable performance on governance with a grade of **α-**. This is similar to the last rating grade. Though the organisation has improved its performance on strategic fronts, the grade has been restricted on account of relatively inexperienced Board in terms of microfinance activities and low vertical concentration of operations.

##### ➤ Strategy for microfinance operations

Grameen Koota's strategy for its microfinance operations has improved since the last rating. Over the last one year, the organisation has taken steps to build its second line of leadership, which rests mainly with the CEO and COO. The organisation has departmentalised its Head office with the aim to delegate different functions to these departments. Though formation of new departments (Monitoring and Human Resource) and establishment of roles and responsibilities for the carved out departments is still in the process, this is a step in the right direction. In the future, the present capacities of staff would need to be enhanced further for these departments to function efficiently in conjunction with each other.

The organisation has had a rapid expansion over the last one year. While, the members of the organisation has grown by over 100%, the portfolio during the same period has grown by



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over 200%. Over the last one year, the organisation has brought a small change in its expansion strategy. Along with spreading the horizontal spread of its operations, it has restricted the operational area of its new branches from 25Kms radius to only 10Kms radius. This is a good strategy, as the visited areas during the rating visit reflected a reasonable scope for vertical expansion. This would also enable the organisation to curtail its operational cost. The organisation is planning to continue its rapid expansion plan over the next financial year as well. However, the present control systems and audit mechanism of the organisation is an area of concern and would need to be upgraded to support future expansion plan.

Competition is another area of concern especially as new competitors like SHARE, Asmitha and Spandana have started to enter in some of the areas where GK is expanding. These new entrants have the potential to give GK a tough competition on account of interest rates and their high scale of expansion. As a result the organisation is planning to bring down its interest rate to 15% flat by the end of financial year 2006-07. The organisation is also facing competition from other smaller NGOs who have been de-motivating GK groups and have succeeded in breaking some of the kendras of GK. Moreover, the new branches of GK are not able to expand as fast as the management had expected, as a result of slow group formation due to competition. The government programme of *Stree Shakti* is also very active in GK's operational area. Many of the GK's clients are also the clients of Stree Shakti. Multiple membership always has the potential to result in repayment problem.

The organisation also has a client drop out rate of 10%. Apart from competition, migration of the clients is one of the major factors contributing to this.

The organisation 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 fund. The organisation's overall grade during the last rating was restricted due to its negative networth. However, over the last one year the organisation has done well to mobilise grants resulting in a positive networth and a capital adequacy base of 6.1%. Though the present capital base of the organisation is still relatively small, it will improve in future with sanctioned grant funds of Rs1.5 crores from HIVOS and Rs15 lakhs from UNITUS, part of which is likely to come in near future. In addition, the organisation has Rs4 lakhs of Flexi Grant from SIDBI, which is yet to be utilised. Future inflow of grants, coupled with positive Return on Assets (RoA) would further improve its capital base.

Over the next one year, the organisation plans to acquire an NBFC and transfer its microfinance operations to this newly acquired NBFC. The organisation is yet to decide on the NBFC that will be acquired. Moreover, the finer details of transferring operations from GK to NBFC are yet to be worked out.

### ➤ Experience in microfinance

GK has long years of microfinance experience of 6.5 years. The organisation has drawn immensely from the activities of other established Grameen organisations such as SHARE, ASA and CFTS.



### 3.2 Managerial factors

GK displays reasonable performance on managerial factors with a grade of  $\beta+$ . This is similar to the previous rating grade. Inadequate internal controls and audit mechanism and lack of integrated accounting and management information system has restricted the grade on management aspects.

➤ Human resource quality and management

GK has reasonably qualified and professional managerial staff. The understanding of the staff of the various operational and procedural aspects is adequate. The organisation is in the process of hiring more staff as it gears up for expanding its operations rapidly over next year. New recruitment and building strong leadership line to successfully lead different departments of the organisation would require consistent capacity building inputs. Though the organisation has a systematic on the job training for all staff members, detailed training on financial analysis and financial planning would further enhance the skill sets of the staff. The present staff productivity is reasonable at 306 active borrowers per field staff (excluding 22 field staff under training). Over the last year, the organisation has had moderate level of staff dropouts. GK had performance based incentive system for its staff members, which is being now revised to performance cum target driven system. The targets for the staff are still being fixed and the system is likely to be in place over the next two months.

➤ 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. Over the last one year, the organisation was maintaining both manual records as well as data in the software. However, since the software seems to be working fine, the new branches have only computerised recording, while the old branches are slowly phasing out its manual records, except some basic records. 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, branch's overall position with overdues and ageing analysis and branch's daily cash position report.

For manual records, there is complete standardisation of records and reports across branches. Branches maintain member's profile, kendra joining register, kendra meeting attendance register, branch's outreach register, client exit poll register, projection meeting 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% and has a write off policy, under which, a loan can be written off after 180 days.



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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 Disk (CD). The reports sent from branches to Head office includes 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 the same 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. However, in the future, the organisation is planning to introduce a web based accounting cum MIS software called Mifos for its microfinance programme. The new software seems promising and is likely to be in place by October 2006.

### ➤ Tracking system for overdues

GK has adopted a policy of zero tolerance to overdues. The organisation had no overdues as on 30 September 2005 except for a sum of Rs94,000, which is outstanding due to a fraud committed by one of the staff in the recent past. The enforcement of strict credit discipline both at the staff and client level and presence of a good system for tracking of overdues has resulted in this performance. At the branch level, information regarding demand for each individual and consolidated demand for centre is maintained. The staff is not allowed to leave the centre till he collects the full repayment due from the centre. In case, any client is not able to pay on a particular day, the centre pays on her behalf. Even a delay of 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 requirements. Accordingly, it approaches multiple funding agencies for its fund requirements.

Internally, the cash planning at the branches is done on a quarterly basis, based on overall growth target of organisation, which is decided in the beginning of each financial year. Head office is informed of cash situation on a weekly basis and the demand for cash is sent on a monthly basis. The Head office holds review meeting 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 through demand draft. Branches are required to maintain next days disbursement and Rs2,000-5000 for other expenses in cash and deposit the balance collections to bank on a daily basis. Since there are no fixed dates for disbursements and they are made throughout the month, branches need to maintain high cash balances throughout the month. Moreover, it was observed that on many instances, cash maintained at the branch is higher than the requirement and the excess cash is not being deposited to bank on a daily basis. The organisation loses interest on the high cash maintained at the branch level. Moreover, it involves risk of fund misappropriation.

Though the organisation has improved its internal audit mechanism since the last rating, the effective implementation of the same has begun only over the last three months. The internal



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audit team has been unstable over the last year with audit staff leaving the organisation. The new audit team of five members has been re-constituted only 3 months back. The organisation plans to have three types of audits – main audit, surprise audit and kendra meeting visit. Plan is to conduct main audit of all the branches twice in a year; surprise audit once in every quarter and about 80-100 kendra meeting visits in a month. However, in the last one year, the organisation has been able to conduct main audit of only 6 branches and surprise audit for only 4 branches due to instability in the audit team.

Main audit involves thorough checking of all records and verification of 80-90% of the client passbooks, apart from visiting kendras. However, the present system of passbook verification only twice a year (during main audit) is clearly inadequate and needs to be made more frequent, specially since the field staff is allowed to make on the spot emergency loan disbursements to the clients from the collections. The report for the main audit is sent to the CEO/COO and respective branch.

Surprise audit is to ensure a check on whether the branch's operations, on any given day, are being performed as per the plans and policies of the organisation. It also entails physical verification of cash at the branch.

For internal audits, the auditors have proper printed formats to be filled, which serves as the basic guideline for the auditors. The organisation also plans to strengthen its follow up on the internal audit visits to ensure compliance.

In the recent past, the organisation has faced its first case of fraud. One of the staff, had issued ghost loans worth Rs1,52,000, of which Rs29,000 was under IG loan and balance was under Emergency loan. The staff kept issuing subsequent ghost loans to cover up the repayments of the past fake loans. The matter came to the notice of BM after 3 months on a visit to the kendra. At present, the concerned staff is absconding and Rs94,000 is still outstanding. The organisation is in the process of filing a legal case against the staff. Emergency loans have very high demand and are disbursed on the spot to the client from the collections. Since all the disbursements are made at the field, it becomes important to have regular kendra visit and 100% passbook verification at least once in every two months. The organisation is also reconsidering its present disbursement mechanism with a view to tighten its internal controls.

The present team is under staffed for conducting a rigorous and more frequent audit, and considering the organisation's future expansion plan, definitely is a very important issue. The organisation would do well to recruit few more people in its internal audit team, as planned. The organisation has also started to build its monitoring department, the roles and responsibilities for which are presently being formulated.

### ➤ 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, through their repayments, have shown high level of 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 late fee. Some of the members of GK



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were also member of Stree Shakti. Though this has not resulted in any problem so far, the organisation should avoid such overlap, as multiple membership always has potential to cause repayment problems.

### ➤ Infrastructure

GK has an infrastructure base of Rs 45.0 lakhs as on 30 September 2005. This includes computer hardware and software, vehicles, furniture and fixture at branches and at the Head office. All the branches, including Head office, are rented premises. The organisation has large number of vehicles (two-wheelers) for all its field staff, facilitating their movement. The current level of infrastructure is adequate and is being employed effectively in the overall management of the microfinance programme. However, the organisation should consider purchasing generator sets for its branches in the future.

## 3.3 Financial performance

GK has reasonable performance on financials with a rating grade of **α-**. The current rating grade is two notch above the last rating grade of the organisation. Mobilisation of grants over the last one year and a positive RoA has enabled organisation to improve its capital base, which was the main factor restricting its financial grade in the last rating.

### ➤ Credit performance and asset quality

GK has maintained a consistently excellent credit performance over the years with a current repayment rate of 100% and no PAR. A 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.

In terms of diversification, GK has 40% of its portfolio in trading and manufacturing, 30% in animal husbandry, 12% in equipment purchase, 7% in consumption, 4% in agriculture and balance in other activities.

### ➤ 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 the clients and purchase of fixed assets. In addition to this, over the last one year, the organisation has done well to mobilise grants from both Indian and Foreign institutions, which has improved the capital base of the organisation.

### ➤ Asset, liability and equity composition

As on 30 September 2005, GK's asset utilisation is moderate with 70.3% of its assets deployed in loans. This is mainly due to a high bank balance of 13% in addition to a cash balance of 4%. The high bank balance has resulted mainly from high inflow of funds in the month of September. In addition, the organisation also has 5.3% of assets deployed in investments, as required under the lender's terms and conditions. On the liability side, the



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organisation has relied mainly on external debt, with the external borrowings accounting for 65% of its total liabilities. Margin money (compulsory savings) is the second most important source, forming 14% of the total liabilities.

Last year's rating grade of GK was adversely affected due to its negative networth (Capital Adequacy Ratio of -4.6%). However, the organisation has done an excellent job of mobilising grant funds over the last one year, which has improved its capital adequacy ratio to 6.1%. Though the capital base is still small, it is expected to improve in future with sanctioned grants from Hivos and UNITUS and likely inflow of grants from SIDBI. The likely positive return on asset will further enhance the capital base of the organisation.

### ➤ Profitability and Sustainability

GK has shown a good performance on profitability and sustainability . As on 30 September 2005, the organisation has an OSS of 106.4% and FSS of 101.2%. Till the last year, the organisation was making losses, with RoA of -7.8%. However, it has made profits this year with a positive RoA of 2.1%. Though OER is high at 25.3%, it has declined sharply since the last year (35.8%) resulting in a positive Return on Assets. Over the last one year, while the operational expenses have increased by 88%, the portfolio has grown by over 200%, resulting in a decline in OER.

## 4 Conclusions

Strengths	Weaknesses/Scope for improvement
<u>Organisational</u> <ul style="list-style-type: none"> <li>✓ Long years of experience in microfinance</li> <li>✓ Complete focus on microfinance activities</li> <li>✓ Good credit culture</li> <li>✓ Good fund mobilisation strategy</li> </ul>	<u>Organisational</u> <ul style="list-style-type: none"> <li>✗ Low vertical coverage in existing villages</li> <li>✗ High competition – affecting operations in short to medium term</li> </ul>
<u>Managerial</u> <ul style="list-style-type: none"> <li>✓ Professionally trained and stable staff</li> <li>✓ Reasonable MIS and accounting system, with development of a web based software in progress</li> <li>✓ Reasonable staff productivity</li> </ul>	<u>Managerial</u> <ul style="list-style-type: none"> <li>✗ Relatively weak internal control system</li> <li>✗ High client drop out rate especially in some branches mainly due to migration</li> <li>✗ Moderate fund management system</li> </ul>
<u>Financial</u> <ul style="list-style-type: none"> <li>✓ Excellent repayment rate and portfolio quality</li> <li>✓ Good performance on profitability and sustainability</li> <li>✓ Good mobilisation of funds for on lending from multiple sources</li> </ul>	<u>Financial</u> <ul style="list-style-type: none"> <li>✗ High operating expenses</li> <li>✗ Relatively low capital base</li> </ul>



## 5 Creditworthiness

Grameen Koota has achieved a rating grade of *alpha minus (α-)*.<sup>4</sup> In terms of creditworthiness, this implies **reasonable safety**. GK has overall good performance. The organisation has shown good performance on governance and financial indicators. The performance on management is also reasonable, with the main weakness in the present audit mechanism of the organisation. The present control systems need attention along with improvement in the scope, scale and frequency of internal audit mechanism.

The organisation has shown improvement over the last rating, on key financial indicators like capital adequacy, profitability and sustainability, which has led to an improvement in its overall performance. Moreover, the organisation has commendable approach to fund mobilisation and has been successful in mobilising both loan and grant funds from diverse sources. It has established a good repayment history with its lenders. Despite rapid expansion, the organisation has also been able to maintain a good portfolio quality. The only other areas of concern are high competition and client drop out rate in some of its operational area.

**In M-CRIL's view**, on account of significant institutional presence, overall good performance, as well as considering the growth plans of the organisation, GK can absorb – from all sources – funds worth Rs14.2 crores till September 2005.

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.**

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<sup>4</sup> 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.



Grameen Koota – 2<sup>nd</sup> update

**Financial statements for GK's microfinance operations**

**Balance Sheet**

		Rs	Rs
	<b>Assets</b>		
14,01,465	Cash in hand and bank		1,94,20,482
51,21,063	Interest bearing deposits		62,62,982
9,25,000	Grant receivable		4,56,432
12,28,374	Other current assets		41,88,880
	<b>Loans outstanding</b>		
3,73,48,187	Total portfolio managed	11,45,95,876	
27,95,980	Managed for other financial institutions	3,11,25,940	
3,45,52,207	Gross loans outstanding	8,34,69,936	
-3,73,482	(Loan loss reserve)	(11,45,959)	
3,41,78,725	Net loans outstanding		8,23,23,977
37,48,695	Net property and equipment		45,05,316
<b>4,66,03,322</b>	<b>Total Assets</b>		<b>11,71,58,069</b>
	<b>Current liabilities</b>		
1,19,040	ICICI funds	1,46,32,200	
5,14,147	Village Development Fund	7,35,064	
25,42,455	Client savings - voluntary	2,20,960	
8,36,546	Caution deposit	14,39,436	
3,25,411	Other current liabilities	2,50,015	
5,16,585	Expenses payable		
3,00,000	Short term debt		
<b>51,54,184</b>	<b>Total current liabilities</b>		<b>1,72,77,675</b>
12,37,698	Emergency fund		
50,73,489	Margin Money		1,64,80,720
1,06,043	Staff welfare fund		1,77,695
8,09,356	Vehicle loans		8,79,650
36,26,630	Grameen Trust (asset loan)	17,23,724	
28,01,676	HDFC	1,45,83,987	
0	ABN AMRO	1,38,50,000	
80,44,642	FWWB	2,76,39,252	
21,87,500	Deutsche Bank (asset loan)	15,62,500	
	ICICI Bank (asset loan)	28,722	
1,15,62,500	UTI Bank	1,03,12,500	
30,00,000	SIDBI	29,33,336	
50,00,000	ING Vysya bank	39,58,391	
<b>4,34,49,534</b>	<b>Total long term debt</b>		<b>7,65,92,412</b>
66,29,717	Donated equity	1,24,14,308	
-57,40,600	Retained net surplus/(deficit)	-83,67,589	
-28,89,513	Current net surplus/(deficit)	17,03,198	
<b>-20,00,396</b>	<b>Total net worth</b>		<b>57,49,917</b>
<b>4,66,03,322</b>	<b>Total Liabilities and Net Worth</b>		<b>11,71,58,069</b>



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### Income Statement – for the period 1 Oct 2004 – 30 Sep 2005

<u>Income</u>	<u>Rs</u>	<u>Rs</u>
Interest on loans	1,79,16,797	
Interest and processing fee on managed portfolio	33,92,216	
Interest on investments	4,02,582	
Emergency fund	13,77,066	
Fees and other charges on loan	48,90,130	
Other income	<u>2,98,743</u>	
<b>Total income</b>		<b>2,82,77,534</b>
<b><u>Financial costs</u></b>		
Interest on borrowings	73,39,921	
Interest paid on managed port	14,08,736	
Interest on member savings	<u>20,230</u>	
<b>Gross financial margin</b>		<b>1,95,08,647</b>
Provision for loan losses	<u>7,72,477</u>	
<b>Net financial margin</b>		<b>1,87,36,170</b>
<b><u>Operating expenses</u></b>		
Salaries	77,44,854	
Travel	22,66,285	
Depreciation	13,05,603	
Administrative/office expenses	51,51,796	
Capacity building expenses	<u>5,64,434</u>	
<b>Total Operating expenses</b>		<b>1,70,32,972</b>
<b>Net Surplus/Deficit</b>		<b>17,03,198</b>



## 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. Financial costs (interest on borrowings and savings, if any) and operating costs are calculated on an **accrual basis**. Although Grameen Koota has no portfolio at risk as on 30 September 2004, loan loss reserve of 1% has been created, as prudential measure hence, provisioning has accordingly been done.

## Glossary

1. Current repayment rate  
Ratio of current principal recovered (net of pre-payments) to the current principal due.
2. Portfolio at risk (PAR<sub>60</sub>)  
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-05	Sep-06	Sep-07	Sep-08	Sep-09	Sep-10
Members	29,480	56,012	95,220	152,353	236,147	354,220
Margin money/year	423	427	432	436	440	445
Yield on average portfolio	31.7%	31.0%	29.0%	29.0%	29.0%	29.0%
Interest paid on margin money	4.0%	4.0%	0.0%	0.0%	0.0%	0.0%
Cost of external funds	11.7%	11.0%	11.0%	11.0%	11.0%	10.9%
Repayment rate from groups	100.0%	98.5%	98.5%	98.5%	98.5%	98.5%
Loan loss reserve ratio	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Number of active loanees/loan a/cs	22,367	43,689	78,557	1,28,129	1,96,474	2,97,190
Number of loans disbursed under EL, supp loans		74,272	1,33,547	2,17,819	3,34,006	5,05,224
Number of loans disbursed from own portfolio		30,583	54,990	89,690	137,532	208,033
Number of loans disbursed under partnership model		13,107	23,567	38,439	58,942	89,157
Average IGL loan size	7150	7,865	8,258	8,671	9,105	9,560
Average loan size for other loans	962	991	1,030	1,072	1,115	1,159



## Grameen Koota – 2<sup>nd</sup> update

### 2 Projected balance sheets

*Rs in thousands*

As on:	Sep-05	Sep-06	Sep-07	Sep-08	Sep-09	Sep-10
<b>Assets</b>						
Cash balance	19,420	15,112	28,379	49,493	81,962	130,516
Managed portfolio	31,126	92,764	239,635	525,191	1,014,092	1,818,680
Own portfolio	83,470	163,531	274,531	389,137	486,284	589,649
Loans outstanding	1,14,596	2,56,295	5,14,166	9,14,329	15,00,376	24,08,328
Loan loss reserve	-1,146	-2,563	-5,142	-9,143	-15,004	-24,083
Net loans outstanding	1,13,450	2,53,732	5,09,025	9,05,185	14,85,372	23,84,245
Investments	6,263	7,202	8,283	9,525	10,954	12,597
Other current assets	4,645	4,878	5,121	5,378	5,646	5,929
Net fixed assets	4,505	4,444	4,355	4,564	4,371	4,457
<b>Total Assets</b>	<b>1,48,284</b>	<b>2,85,369</b>	<b>5,55,163</b>	<b>9,74,145</b>	<b>15,88,306</b>	<b>25,37,744</b>
<b>Liabilities and Net Worth</b>						
External borrowings	1,22,351	2,14,612	4,13,628	7,26,529	11,91,361	19,22,242
Margin money	16,702	38,247	75,240	135,022	228,609	370,395
Other liabilities	3,482	3,656	3,839	4,031	4,232	4,444
Donations and equity	12,414	27,414	49,414	72,414	82,414	87,414
Retained surplus/deficit	-8,368	-6,664	1,439	13,041	36,149	81,689
Current surplus/deficit	1,703	8,103	11,602	23,108	45,540	71,560
Net worth	5,750	28,853	62,456	1,08,564	1,64,104	2,40,663
<b>Total Liabilities and Net Worth</b>	<b>1,48,284</b>	<b>2,85,369</b>	<b>5,55,163</b>	<b>9,74,145</b>	<b>15,88,306</b>	<b>25,37,744</b>

### 3 Projected Income Statements

*Rs in thousands*

For the year ending:	Sep-05	Sep-06	Sep-07	Sep-08	Sep-09	Sep-10
<b>Income</b>						
Interest	21,309	57,488	1,11,717	2,07,132	3,50,132	5,66,762
Other income	6,969	7,665	8,432	9,275	10,203	11,223
<b>Total Income</b>	<b>28,278</b>	<b>65,153</b>	<b>120,149</b>	<b>216,407</b>	<b>360,335</b>	<b>577,985</b>
<b>Cost</b>						
Financial	8,749	20,266	38,124	68,360	1,13,656	1,83,248
Interest on margin money	20	1,099	2,270	0	0	0
Loan loss provision	772	1,417	2,579	4,002	5,860	9,080
Depreciation	1,306	1,111	1,089	1,141	1,093	1,114
Operating expenses (excl. depr.)	15,727	33,157	64,485	1,19,796	1,94,186	3,12,984
<b>Total Cost</b>	<b>26,574</b>	<b>57,050</b>	<b>1,08,547</b>	<b>1,93,299</b>	<b>3,14,795</b>	<b>5,06,425</b>
<b>Surplus/Deficit</b>	<b>1,703</b>	<b>8,103</b>	<b>11,602</b>	<b>23,108</b>	<b>45,540</b>	<b>71,560</b>



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### 4 Projected Cash Flow Statements

*Rs in thousands*

For the year ending:	Sep-06	Sep-07	Sep-08	Sep-09	Sep-10
<b>Inflows</b>					
Opening cash	19,420	15,112	28,379	49,493	81,962
External borrowings	1,42,000	3,03,000	4,77,000	7,72,000	12,48,000
Repayments from members - managed portfolio	41,447	47,751	47,751	47,751	47,751
Repayments from members - own portfolio	2,34,064	4,80,738	8,96,549	15,27,319	24,71,063
Equity investment	5,000	15,000	20,000	10,000	5,000
Grants	10,000	7,000	3,000	0	0
Margin money	23,939	41,104	66,424	1,03,986	1,57,539
Increase in other liabilities	174	183	192	202	212
Interest income	57,488	1,11,717	2,07,132	3,50,132	5,66,762
Other income	7,665	8,432	9,275	10,203	11,223
<b>Total Inflow</b>	<b>541,198</b>	<b>1,030,037</b>	<b>1,755,702</b>	<b>2,871,085</b>	<b>4,589,513</b>
<b>Outflows</b>					
Disbursement - own portfolio	3,14,125	5,91,738	10,11,156	16,24,465	25,74,428
Disbursement - managed portfolio	1,03,085	1,94,623	3,33,307	5,36,652	8,52,338
Repayments to lenders	49,738	1,03,984	1,64,099	3,07,168	5,17,119
Withdrawals of savings deposits	2,394	4,110	6,642	10,399	15,754
Operating expenses (excl. depr.)	33,157	64,485	1,19,796	1,94,186	3,12,984
Interest paid on borrowings	20,266	38,124	68,360	1,13,656	1,83,248
Interest paid on margin money	1,099	2,270	0	0	0
Increase in investments	939	1,080	1,242	1,429	1,643
Increase in other assets	232	244	256	269	282
Fixed assets purchase	1,050	1,000	1,350	900	1,200
<b>Total Outflow</b>	<b>526,086</b>	<b>10,01,659</b>	<b>17,06,209</b>	<b>27,89,123</b>	<b>44,58,996</b>
<b>Net cash balance</b>	<b>15,112</b>	<b>28,379</b>	<b>49,493</b>	<b>81,962</b>	<b>1,30,516</b>

### 5 Key projected performance ratios

For the year ending:	Sep-04	Sep-05	Sep-06	Sep-07	Sep-08	Sep-09
Operational self-sufficiency	106%	114.2%	110.7%	112.0%	114.5%	114.1%
Return on average assets	2.1%	3.7%	2.8%	3.0%	3.6%	3.5%
Operating expense ratio	25.3%	18.5%	17.0%	16.9%	16.2%	16.1%
Average outstanding/borrower (Rs)	5123	5,866	6,545	7,136	7,637	8,104
Portfolio growth rate	141.6%	123.7%	100.6%	77.8%	64.1%	60.5%
Savings to assets	11.3%	13.4%	13.6%	13.9%	14.4%	14.6%
Risk weighted capital adequacy ratio	6.1%	10.9%	12.0%	11.8%	10.9%	10.0%



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### 6 Notes to the projections

1. 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.
2. 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.
3. Estimated external borrowings are subject strictly to performance based on the findings of this microfinance capacity assessment (credit rating).
4. Average loan size to members has been increased by 5-10% every year.
5. Yield on portfolio has decreased as the organisation plans to reduce interest rate to 15% flat.
6. 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.
7. Other income is the income from subscription fee, investments, sale of publications and other miscellaneous sources.
8. Disbursements are taken as the [number of loans disbursed during the year\*average loan size to borrowers].
9. It is assumed that a member would borrow Supplementary and Emergency loans in addition to IGL loans
10. Current account for managed portfolio is the current asset created for the period between the loan repayment of the managed portfolio received from the clients and when it is remitted back to ICICI. The period is 1 month in case of GK.
11. Repayments to lenders is 25%-50% per annum on the projected liability structure and the actual repayments due on the present outstanding debt.
12. Interest paid is taken as the [average cost of external funds \* the average external borrowing liability figure].
13. The organisation plans to continue collecting Margin Money under its microfinance programme even after acquiring an NBFC. However, the interest payment on margin money would be stopped after transfer of mF programme to NBFC.
14. Other current assets and other liabilities have been increased by 5% every year.
15. In the projections the net worth figure includes donations and equity, retained surpluses and current surplus.



## Grameen Koota – 2<sup>nd</sup> update

### List of abbreviations

AM	Area Manager
APR	Annual Percentage rate
BM	Branch Manager
CEO	Chief Executive Officer
CFTS	Cashpor Financial Technical Services
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
<b>α+++</b> alpha triple plus	Highest safety, excellent systems ➤ most highly recommended
<b>α++</b> alpha double plus	Highest safety, very good systems ➤ most highly recommended
<b>α+</b> alpha single plus	Very high safety, good systems ➤ highly recommended
<b>α</b> alpha	High safety, good systems ➤ highly recommended
<b>α–</b> alpha minus	Reasonable safety, good systems ➤ recommended
<b>β+</b> beta plus	Reasonable safety, reasonable systems ➤ recommended, needs monitoring
<b>β</b> beta	Moderate safety, moderate systems ➤ acceptable, needs improvement to handle large volumes
<b>β–</b> beta minus	Significant risk, poor to moderate systems ➤ acceptable only after improvement
<b>γ+</b> gamma plus	Substantial risk, poor systems ➤ needs considerable improvement
<b>γ</b> gamma	Highest risk, poor systems ➤ not worth considering