CRISIL RATINGS

June 2014

India's 25 Leading MFIs

Sector regaining growth momentum - Capital availability critical

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Foreword

CRISIL is pleased to present its compendium on the microfinance sector. The publication carries an opinion piece on CRISIL's near to medium term outlook for the sector. This is followed by an article highlighting the key role of securitisation in the resource profile of microfinance institutions (MFI) and a commentary on the strong performance of CRISIL-rated MFI securitisation transactions. The compendium is also enriched with an overview of leading 25 players in Indian MFI space along with CRISIL's analysis of the key strengths and challenges of these players.

CRISIL has been centrally associated with the sector for more than a decade. CRISIL, currently, has ratings or grading outstanding on more than 60 MFIs. These companies account for more than 70 per cent of the overall loan assets for the sector. CRISIL also has ratings outstanding on microfinance securitisation transactions aggregating more than Rs.1300 crore involving over 20 originators. This wide coverage enables CRISIL to get a ringside view of the sector.

This publication is part of CRISIL's endeavour to provide investors and other stakeholders with adequate and timely opinion pieces. The compendium is especially relevant in the present times, as the microfinance sector, displaying extraordinary resilience, has firmly put behind the Andhra Pradesh crisis that erupted in 2010 and has now emerged as one of the fastest growing segments in the Indian financial space.

Some of the key conclusions of our analysis are:

- MFIs are set to report buoyant growth over the medium term; their loan assets are likely to reach Rs.35000 crore by March 2015
- Structural improvements in the sector including greater regulatory clarity and introduction of credit bureau has increased stakeholder confidence bringing with it high calibre investors both on the equity and debt side. A legislative protection would further enable long term stability and orderly development
- Although, the players are well capitalised, high growth rate would necessitate continuous equity infusion - this will remain an important differentiator for MFIs
- The regulatory cap on margins would impact profitability of large players in the near term. However, improvement in operating efficiencies would mitigate the impact over the medium term

We hope this compendium would be useful to you. We would be happy to receive your comments and feedback: please do feel free to write to us at crisilratingdesk@crisil.com.

Pawan

Pawan Agrawal
Senior Director – CRISIL Ratings

Microfinance loan assets to reach Rs.35,000 crore by March 2015

Regular infusion of capital however will be critical to maintain growth momentum

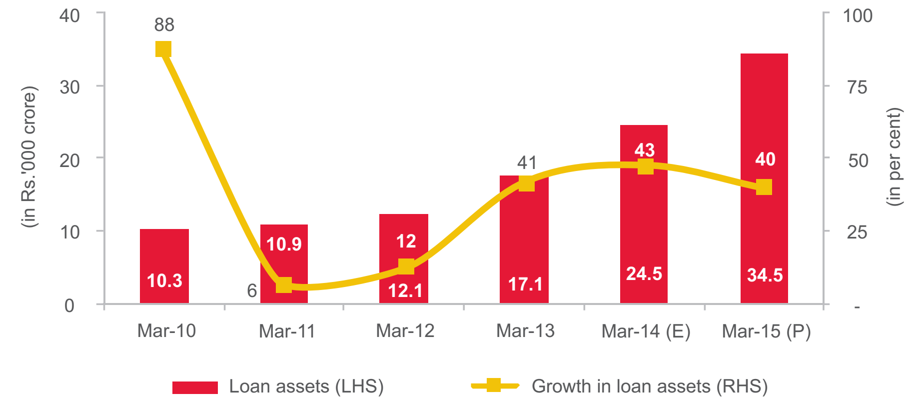
Executive summary

Microfinance institutions[1] (MFIs) are set to report buoyant growth over the medium term, having firmly put the Andhra Pradesh crisis[2] behind them. Their loan assets are likely to reach Rs.35,000 crore by March 2015. Greater regulatory clarity, including the recognition of the industry body MFIN as a self-regulatory organisation by the Reserve Bank of India (RBI), and a stable operating environment have enhanced stakeholders' confidence in the sector. Consequently, there has been improvement in the flow of debt funding and equity capital to the sector, resulting in a 43 per cent growth in MFIs' loan assets during 2013-14 (refers to financial year, April 1 to March 31). Although the MFIs are adequately capitalised for their current scale of operations, their ability to raise equity capital regularly will be critical to maintain growth momentum. The profitability of most large MFIs (those with loan assets exceeding Rs.100 crore) that operate as non-banking financial companies (NBFCs) may also decline by 30 to 40 basis points every year over the next 2 years, after improving in 2013-14. The decline will be because of regulatory obligation to operate at a lower interest margin cap of 10 per cent. CRISIL believes that MFIs will look to improve their operating efficiency and reduce operating expenses to maintain profitability. The extent to which the MFIs maintain profitability will be a key determinant of their financial performance over the medium term. Further the risks inherent in the business model due to the weak credit profile of the borrowers and unsecured nature of the loan remains. The sector also remains susceptible to local legislative and socio-political issues. Implementation of a new law at the national level, protecting the MFIs from dual regulations, would further enable long term stability and orderly development.

Buoyant growth to continue: loan assets to reach Rs.35,000 crore by March 2015

The MFIs' loan assets[3] have grown at a compounded annual growth rate (CAGR) of 42 per cent over the two years period ended March 2014 *(refer to Chart 1)*. CRISIL believes that MFIs will maintain this growth momentum and their loan assets will grow by nearly 40 per cent during 2014-15. However, the growth may moderate to 30 per cent over the medium term due to increase in asset base following contiguous years of very high growth. CRISIL's analysis of 25 leading MFIs (accounting for over 95 per cent of the sector's loan portfolio) reveals that the MFIs have achieved this growth predominantly by improving branch efficiency—as indicated by growth in the average number of borrowers per branch *(refer to Chart 2)*. The sector is also expected to witness some degree of consolidation, with the large MFIs growing at a much faster pace than the smaller MFIs. MFIs that opted to restructure their debt obligations under the corporate debt restructuring (CDR) mechanism continue to face a hostile operating environment and their loan books continue to decline because of paucity of funds, though there have been some initial signs of positive developments in case of these MFIs as well.

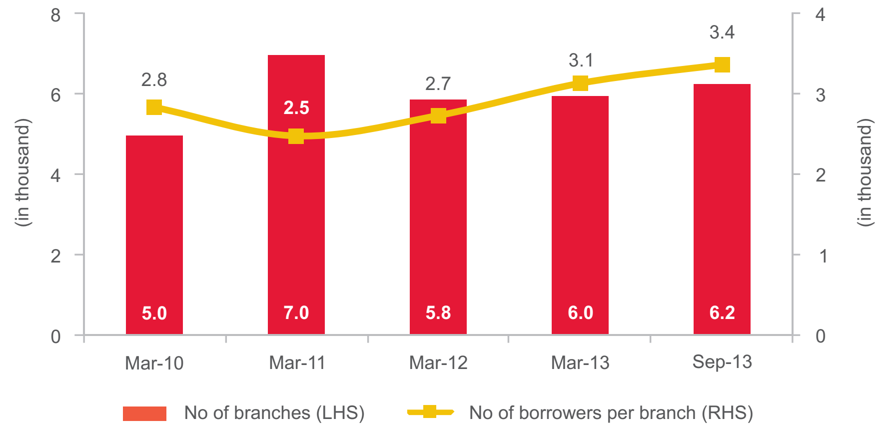
Chart 1: MFIs will maintain growth in loan assets



Source: CRISIL estimates

[1] *Excludes loan assets of MFIs opting for restructuring of debt*
[2] *Major upheaval in the sector witnessed after the Government of Andhra Pradesh promulgated its ordinance for MFIs operating in the state in October 2010*
[3] *Includes managed assets*

Chart 2: Improving branch efficiency

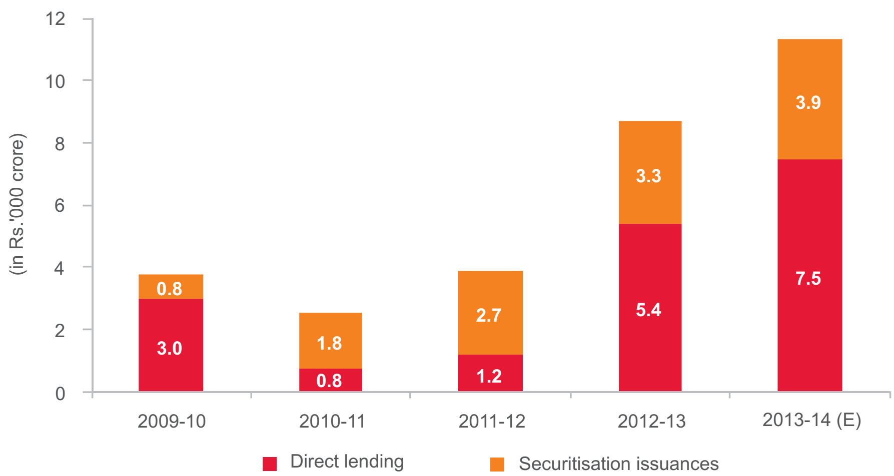


Source: CRISIL estimates

Enhanced stakeholder confidence drives increasing debt fund availability especially for large MFIs

The Reserve Bank of India (RBI) significantly strengthened the regulatory framework by introducing a separate category of NBFCs—for NBFCs that operate as MFIs (NBFC-MFIs) in May 2012, and issuing a comprehensive set of guidelines for them. The fact that MFIs have maintained operational stability and healthy portfolio performance outside Andhra Pradesh, despite having to undergo major alterations in business model to adhere to the new regulations, has helped enhance stakeholder confidence in the sector. This is reflected in the increasing quantum of debt funding after a brief period of consolidation in 2010-11 following the Andhra Pradesh crisis *(refer to Chart 3)*. Favourable regulatory dispensation with respect to classification of banks' exposures to MFIs, both in the form of direct lending, and as investments in securitised instruments, as priority sector lending, has also contributed immensely to the increase in debt fund availability. MFIs tend to be highly dependent on banks for their funding requirements. It is, therefore, critical that banks' exposure to MFIs continue to be categorised as priority sector lending, given the MFIs high reliance on banks for funding.

Chart 3: Increased quantum of incremental funding

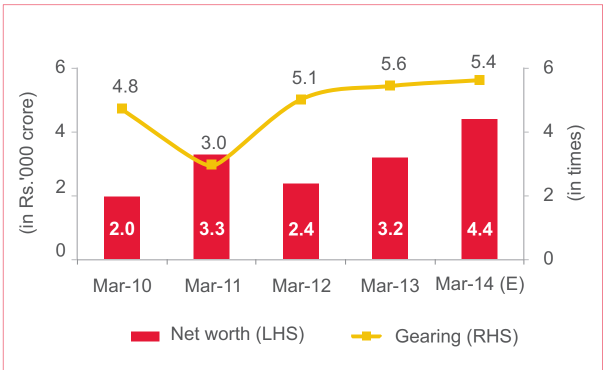


Source: CRISIL estimates

Capitalisation adequate; however ability to raise capital regularly is critical

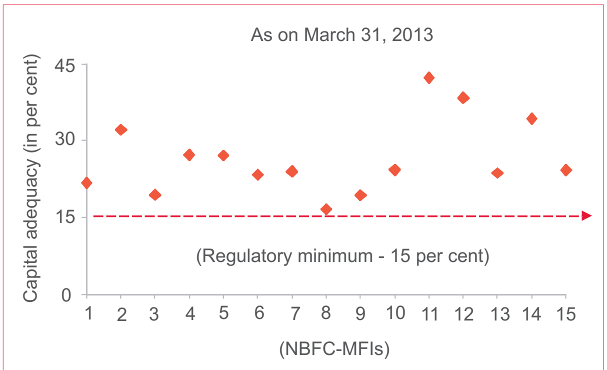
MFIs have raised equity capital of Rs.1500 crore in the 30 months ended September 30, 2013. The extent of capitalisation in the sector is adequate for its current and planned scale of operations—this is indicated by the moderate gearing[4] of MFIs *(refer to Chart 4)*. CRISIL does not expect gearing levels in the sector to increase materially from current levels and believes that Rs.1800 crore of equity capital will be raised by the MFIs over the next 2 years, to maintain growth momentum. However, regular capital infusions will lead to a significant dilution in the already low promoters' shareholding across most MFIs. Low promoter shareholding with no single dominant shareholder may pose structural constraints in raising equity over a longer time horizon.

Chart 4: Capitalisation comfortable for current scale



Source: CRISIL estimates

Chart 5: Comfortable capital adequacy ratio



Source: CRISIL estimates

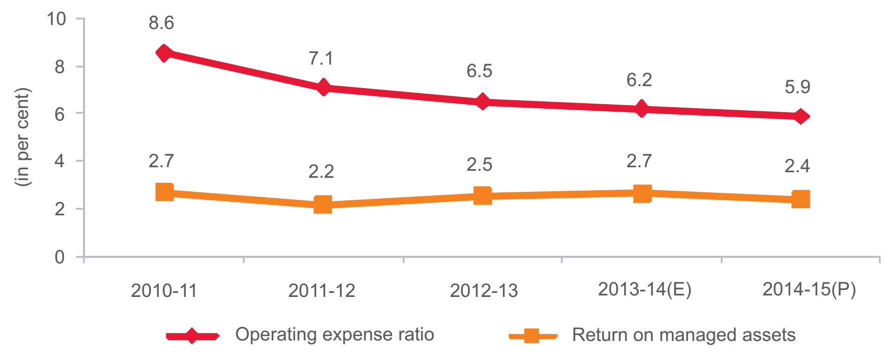
CRISIL's analysis of the 25 leading MFIs reveals that the capital adequacy ratios of most NBFC-MFIs comfortably exceeded the regulator-specified minimum of 15 per cent as on March 31, 2013 *(refer to Chart 5)*. However, it is critical that they raise capital on a regular basis—to maintain market share and grow at an industry-average rate of 40 per cent during 2014-15 and 30 per cent over the medium term.

Profitability likely to decline by 30 to 40 basis points every year over the next 2 years

RBI's guidelines on pricing of credit require the large MFIs to operate at a margin cap of 10 per cent (applicable for NBFC-MFIs from April 1, 2014). This will result in a 100-to-120 basis-point reduction in net interest margin for these MFIs. Nevertheless, their operating expense ratios are expected to improve on account of scale up in operations and improvement in operating efficiency. Their profitability, measured as returns on managed assets (defined as profit after tax as a percentage of average of total managed assets) is therefore expected to decline by 30 to 40 bps each year over the next 2 years *(refer to Chart 6)*, after improving in 2013-14.

[4] *Borrowings include off-balance sheet funding*

Chart 6: Profitability to decline over the medium term

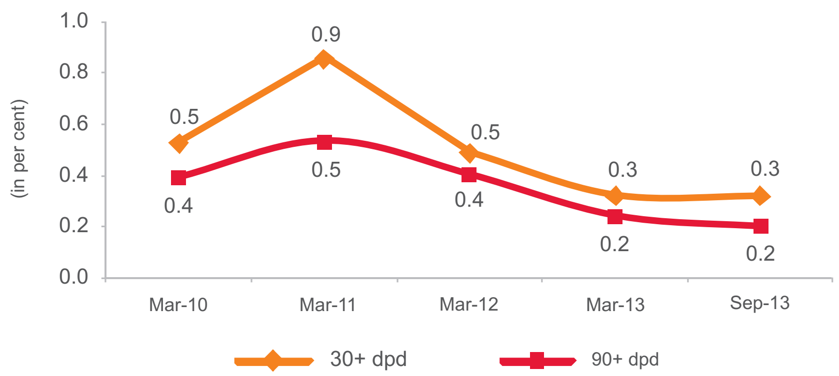


Source: CRISIL estimates

Asset quality structurally strengthened, but susceptible to socially sensitive factors remain

The promulgation of ordnance by the Government of Andhra Pradesh adversely affected the collection performance of MFIs operating in the state. The Malegam sub-committee was then set up to monitor the functioning of MFIs in the country, leading to recognition of NBFCs operating as MFIs as a separate category, NBFC-MFIs. The subsequent slew of regulations released by the RBI for NBFC-MFIs led to greater transparency and an improved operating environment for MFIs. A major outcome of the guidelines was the involvement of credit bureaus to record and monitor the creditworthiness of borrowers of microfinance loans. There is greater emphasis today on credit score checks prior to disbursement of loans, and subsequent data sharing with credit bureaus during the tenure of the loans. The credit bureau checks enable MFIs to assess the extent of total leverage of prospective customers, and their track record. Active use of credit bureaus, Highmark and Equifax, formed especially for the sector, restricts instances of multiple lending and over-indebtedness of borrowers, and has structurally strengthened the asset quality for the sector. Additionally, MFIN has prescribed a code of conduct that provides guidelines for MFI operations, and greater uniformity in their functioning. Leaving aside the Andhra Pradesh crisis and a few district-specific issues, the MFIs have maintained healthy asset quality as reflected in 30+ days past due of below 1 per cent for the sector[5] over the past 5 years *(refer to Chart 7)*. The CRISIL-rated microfinance pools have also demonstrated strong collection performance across vintages *(refer to Chart 8)*.

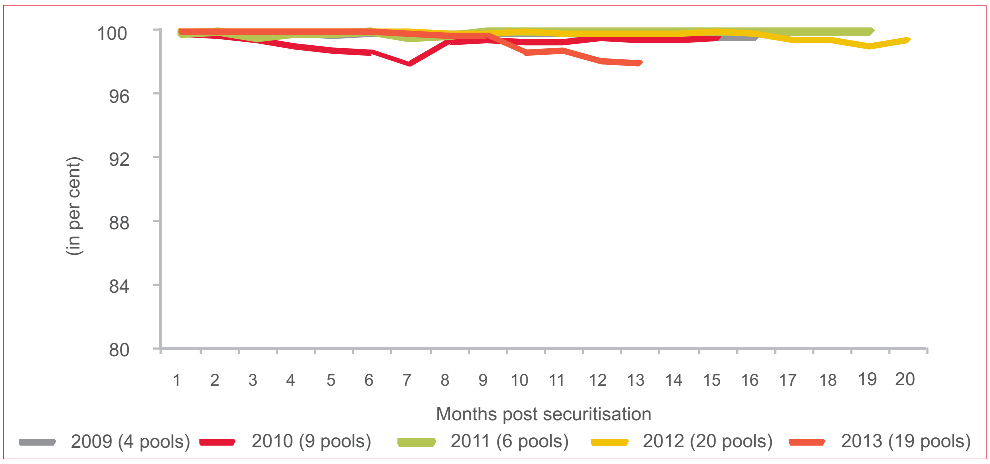
Chart 7: Healthy asset quality reflected in low delinquencies



Source: CRISIL estimates

[5] *Excludes Andhra Pradesh based MFIs*

Chart 8: Strong performance of CRISIL-rated pools



Microfinance is often the only formal provider of finance to people in the low income strata of society, especially in the rural areas. Thus, in order to maintain access to formal sources of funding, borrowers are incentivised to repay loans on time. Furthermore, the social pressure under the joint liability group mechanism motivates borrowers to meet their financial commitments on a timely basis. The MFIs' underlying business risk characteristics has also improved gradually since 2010, with stronger underwriting practices. Integration of advanced technology to monitor the performance of collection centres, and stronger borrower discipline in repayments have also contributed to the robust performance of microfinance loans.

The MFIs are expected to maintain strong collection performance over the medium term. However, the Government of Andhra Pradesh's ordinance for MFIs demonstrated the vulnerability of MFIs to regulatory and legislative risks. It triggered a chain of events that adversely impacted the business models of Andhra Pradesh based MFIs by impairing their growth, asset quality, profitability, and solvency. Since the business of these institutions involves lending to the poor and economically weaker sections of the society, it will remain exposed to local level socially sensitive factors, including charging high interest rates, and, consequently, to risk of tighter regulations and legislation. Implementation of a new law at the national level, protecting the MFIs from dual regulations, would further enable long term stability and orderly development. Moreover, with MFI operations concentrated in specific geographies, geographic concentration risks persist—these risks include natural disasters, social unrests, or political upheavals. Additionally, the fact that microfinance loans are unsecured limits potential for recovery in the event of default.

Conclusion

The MFIs are set to maintain buoyant growth over the medium term, with the large MFIs outpacing the smaller ones in growth. MFIs will also enhance their geographical diversity by venturing into new, under-penetrated regions. The sector is expected to retain stakeholders' confidence and continue to attract debt and equity capital from banks, developmental institutions and private equity investors. However, MFIs ability to raise capital on a regular basis will be critical to maintain growth momentum. Furthermore, the profitability of most NBFC-MFIs may decline over the near term, in light of the recent guideline on reduction in margin cap. MFIs' reliance on banks and financial institutions for funding is expected to continue. Therefore, priority sector status for banks on direct lending to MFIs is critical to ensure continuous flow of credit to the sector. The sector continues to be susceptible to local legislative and socio-political issues. Implementation of a new law at the national level, protecting the MFIs from dual regulations, would further enable long term stability and orderly development.

Securitisation: The MFIs' key funding source

Microfinance emerges the largest asset segment to be securitised after commercial vehicles

Executive summary

Securitisation remains the key source of funds for MFIs. Microfinance issuances have helped expand India's securitisation market, hitherto dominated by commercial vehicle (CV) loans, construction equipment loans, and single loan sell-downs. Microfinance issuances are now the largest asset segment in the Indian securitisation space, after commercial vehicle loans, both by value and number of transactions.

In the wake of the Andhra Pradesh ordinance in 2010, avenues for raising funds had become scarce for MFIs. MFIs turned to securitisation to raise funds, driven by the banks' keenness to lend to the priority sector. Implementation of the Malegam Committee's recommendations has helped stabilise the regulatory environment for MFIs. The Reserve Bank of India now categorises MFIs as a distinct class of non-banking financial companies (NBFCs), and has introduced regulations especially for the NBFC-MFIs.

Trends in microfinance securitisation

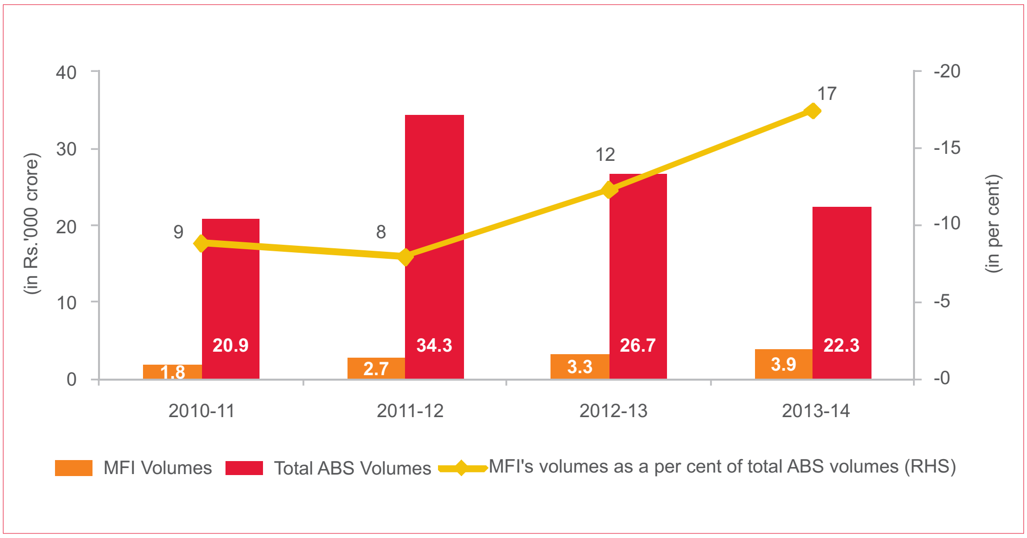
Key developments in India's microfinance securitisation space include the following:

Growing share of microfinance transactions

- Microfinance issuances constitute around 17 per cent of all issuances in the domestic securitisation market, second only to CVs, in terms of transaction value and volume
- MFI loans enjoy status of priority-sector assets, which provides impetus to securitisation activity in microfinance

The share of microfinance volumes in the total asset-backed security (ABS) rated issuances increased to around 17 per cent in 2013-14 *(refer to Chart 9)* from 9 per cent in 2010-11. By number of transactions, around 35 per cent of all ABS transactions have been microfinance transactions in the last three years. CRISIL believes that the share of microfinance in the Indian securitisation market will continue to grow in coming years.

Chart 9: Microfinance share in total Asset-backed rated securitisation volumes



Growing preference for multi-originator transactions: Several originators that had initially undertaken transactions in an individual capacity have entered into multi-originator securitisation transactions *(refer to Chart 10)*. Such transactions enhance geographical and originator diversification in the transaction. In addition, pooling of smaller quantum from multiple originators creates a meaningful issuance size for the transaction, and reduces the cost of issuance. In 2013-14, 56 per cent of the microfinance issuances have been through multi-originator transactions. The total number of originators increased to 26 in 2013-14 *(refer to Chart 11)* from 9 in 2010-11.

Chart 10: MFI issuances

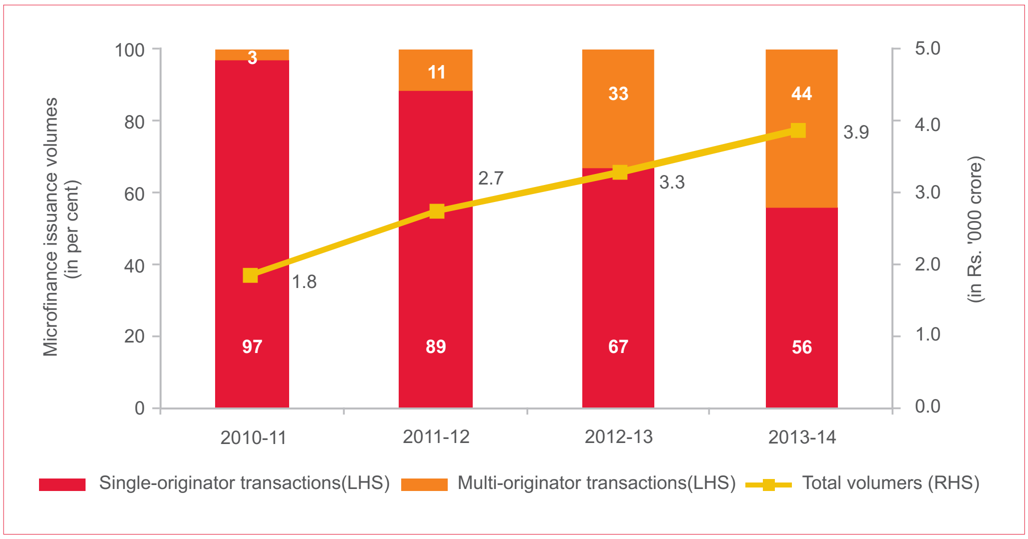
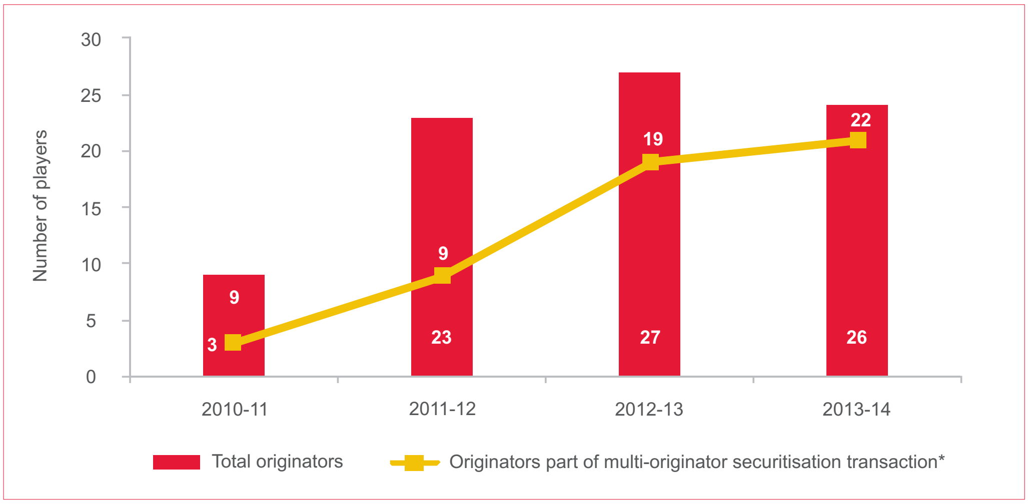


Chart 11: Originator preferences in microfinance transactions



** Originators who are a part of single-originator as well as multi-originator transactions are counted under multi-originator transactions*

Securitisation, a vital funding option for MFIs

- Around 35 originators have sought to raise funds through securitisation since 2008-09, when the first securitisation transaction was issued. Around 250 transactions with volumes of around Rs.12500 crore have been issued to date—estimated at a fourth of all assets funded through securitisation.
- 26 MFIs have opted for securitisation in 2013-14, up from 9 in 2010-11

The Andhra Pradesh ordinance had weakened the confidence of lenders and investors in the microfinance sector, constraining the flow of funds from the banking system. However, securitisation has emerged as an important source of funding for MFIs. CRISIL estimates the share of MFI securitisation in all assets funded through securitisation at 25 per cent.

Investor base expands with private banks investing in microfinance pools

- Around six private banks have invested in CRISIL-rated MFI transactions
- New investor classes, such as wealth management clients, have also shown interest in microfinance-backed securitisation instruments

Private banks have begun investing in microfinance pools. With microfinance loans being recognised as priority sector lending, the demand for microfinance securitisation transaction has increased. New investors such as high-net worth individuals have also invested in microfinance instruments, thereby expanding the investor base.

MFI securitisation issuances were first pass-through certificates (PTCs) to be listed on domestic bourses

- The first listed MFI securitisation instrument in the Indian market was rated by CRISIL and was listed on the Bombay Stock Exchange
- This development will help create liquidity in the secondary market, and has potential to attract more investors

The first listed securitisation transaction was backed by microfinance receivables, displaying strong investor confidence in this asset class. The listing agreement requires originators to disclose information on the quality of the pool, its payment structure, adequacy of credit enhancement, risks associated with the structure, the risk-mitigating factors, and the performance of servicer. The listing of the transaction is an important step towards the development of India's debt capital markets as it facilitates the creation of a secondary market for securitised debt, thereby creating liquidity for these instruments.

Conclusion

Securitisation has become an important source of funding for MFIs and, will remain an important avenue for funding their growth. Furthermore, due to the robust performance of the rated microfinance pools and stable regulations governing MFIs, CRISIL believes that microfinance's share in the Indian securitisation market will continue to expand.

CRISIL-rated MFI securitisation transactions exhibit strong performance

Transactions show no cash collateral utilisation, have strong collection performance, and benefit from robust structural characteristics

Executive summary

Since 2008-09, when CRISIL rated the first microfinance securitisation transaction, it has rated 59 transactions for 28 originators till February 28, 2014. The CRISIL-rated microfinance transactions maintain strong performance. Consider the following facts:

- Their median collection ratios exceed 99 per cent across vintages
- Their overdues are negligible at less than 1 per cent
- There have been 63 rating upgrades in 25 transactions in 2013
- There has been no rating downgrade in any microfinance securitisation transaction so far

The structural characteristics of microfinance securitisation transactions are unique, and provide a high degree of safety to investors against risks. CRISIL-rated microfinance transactions have more than one of the following structural features:

- Ultimate principal repayment
- Turbo amortisation
- Multiple forms of credit enhancements
- Increasing number of 'multi-originator' securitisation transactions

The performance of microfinance transactions is significantly enhanced by these structural characteristics. Despite the challenges faced in collections following the Andhra Pradesh ordinance of October 2010, investors were paid in full and before scheduled maturity, in all CRISIL-rated microfinance transactions. As a transaction amortises over its life, these structural features lead to improvements in credit protection available to investors; this has translated into a sizeable number of upgrades. No CRISIL-rated microfinance transaction has ever been downgraded, and the stipulated credit enhancement has remained unutilised in all microfinance transactions[6] .

The performance of microfinance transactions has been strong since CRISIL's first rating in 2008-09. The operating environment has improved since the Andhra Pradesh crisis in 2010, driven by the following factors:

- MFIs in India are now recognised as a specific category—as non-banking financial companies (NBFC-MFIs), and have regulations pertaining specifically to them
- Increasing use of technology to monitor branch performance on real-time basis has resulted in improved collection practices
- Substantial data sharing with credit bureaus raises transparency in the credit process

The collections have recovered to levels seen prior to the Andhra Pradesh ordinance. Despite improvement in the regulatory environment, however, the sector remains vulnerable on account of the unsecured nature of the loans, and the political and geographic concentration risks. CRISIL expects the performance of the rated microfinance transactions to remain strong, as the aforesaid risks are offset by the unique structural features of these transactions.

[6] *One transaction, however, was structured as a premium transaction without any internal form of credit enhancement. The only form of protection available to investor payouts was in the form of the stipulated credit enhancement. There was negligible utilisation of credit enhancement to meet collection shortfalls in the transaction.*

MFI transactions show strong performance

Since rating the first microfinance securitisation transaction in 2008-09, CRISIL has rated 59 microfinance transactions for 28 originators. CRISIL has ratings outstanding on 22 transactions, each of which exhibits healthy collection performance. Their median cumulative collection ratio (CCR)[7] exceeds 99 per cent [8] leading to negligible overdues in the transactions *(refer to Chart 12)*, while the median overdues have been negligible at less than 1 per cent for all vintages *(refer to Chart 13)*.

Chart 12: Median Cumulative Collection Ratio

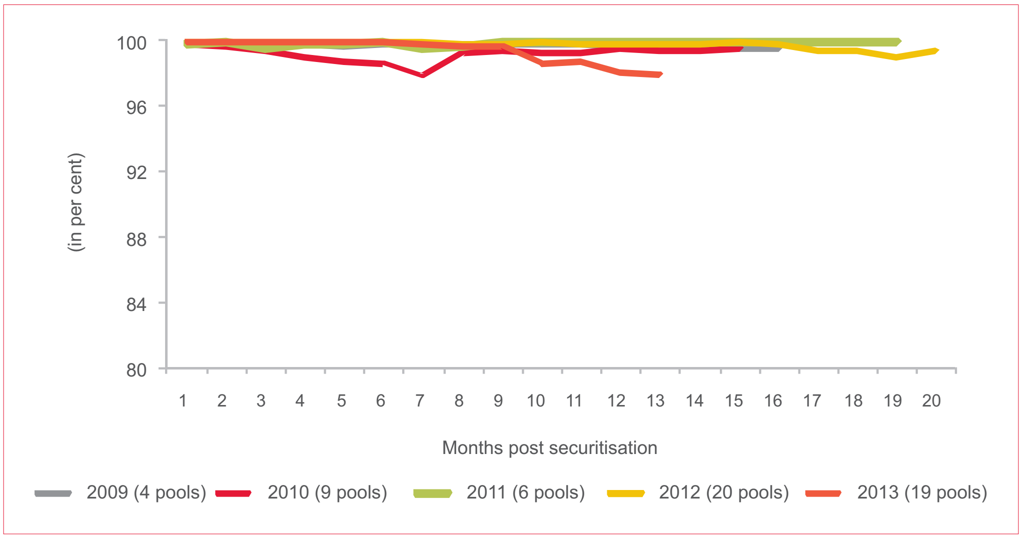
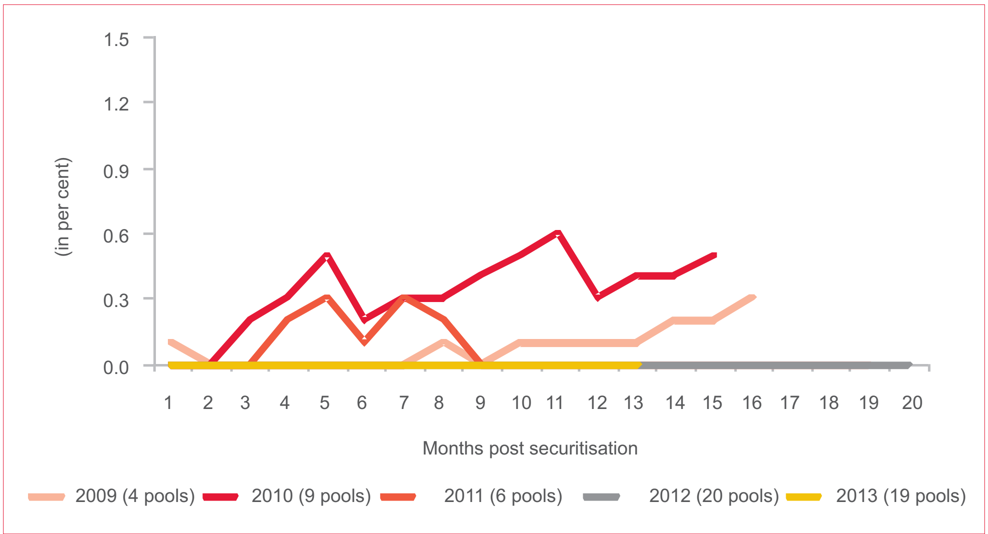


Chart 13: Median Total Overdues



[7] *CCR is defined as the ratio of total collections to total billings including opening overdues.*
[8] *As of December 2013 payouts.*

Unique structural features enhance investor protection

The unique structural features of CRISIL-rated microfinance securitisation transactions provide a high degree of cover against delinquencies, and protection against temporary liquidity issues. The features thus enhance the degree of certainty in investor payouts. The features may be summarised as follows:

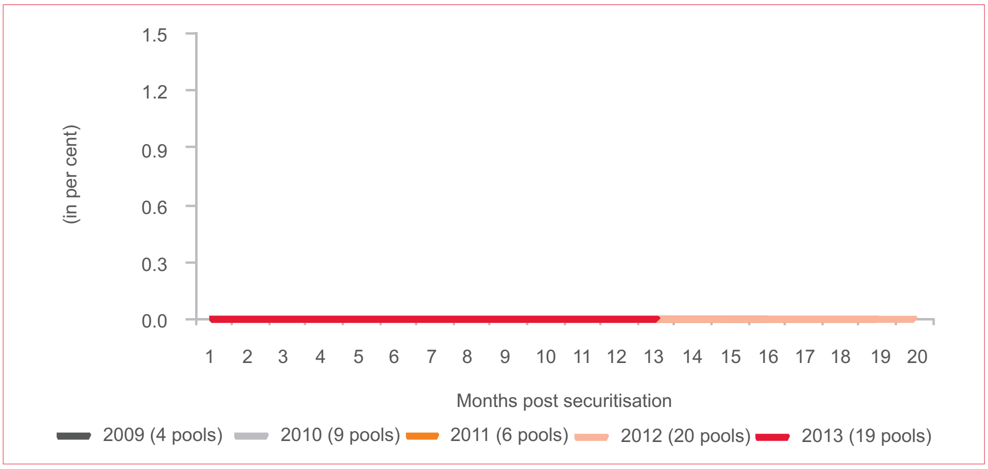
1. The principal repayment to investors in most transactions is on an ultimate basis. This means that although there is an indicative schedule for repayment of principal, only interest is serviced on time, while the principal is to be serviced only by the legal final maturity date. This allows for liquidity issues, if any, to be managed effectively in the transactions.
2. The turbo amortisation feature allows for use of excess interest spread in the transactions for accelerating principal repayments to investors. Thus, investors are fully paid off well before the final maturity date, reducing the likelihood of default on investor payouts due to low collection efficiency from underlying loans towards the end of the transaction period.
3. The investors in microfinance transactions benefit from credit protection from multiple layers such as subordination of receivables, over-collateralisation, excess interest spread, and the stipulated cash collateral. The second-loss credit facility is an additional layer of protection that has recently been introduced to microfinance transactions. These multiple layers of credit protection absorb initial losses in the transactions.
4. A popular mode of securitisation of microfinance loan receivables involves multi-originator transactions, where the securitised pool is entitled to receivables from more than one originator. MFIs are often concentrated in certain geographic regions, resulting in higher concentration risk and vulnerability to regulatory and political changes. Thus, pools with multiple originators benefit from geographical diversification, given the presence of originators from several regions.

The criticality of these structural characteristics became prominent when the operating environment for MFIs became exceedingly challenging after the Andhra Pradesh government's ordinance in October 2010—the ordinance resulted in fall in collections and rise in delinquencies in the MFI sector. Nevertheless, the CRISIL-rated MFI securitisation transactions, including those with substantial exposure to Andhra Pradesh, comfortably paid off investors in full well ahead of the scheduled maturity. In fact, there was no utilisation of cash collateral or a downgrade in any CRISIL-rated MFI securitisation transaction even during this period of high stress.

The above-mentioned characteristic features along with the strong collection performance of microfinance transactions have led to a large number of rating upgrades—35 of the 59 transactions rated by CRISIL were upgraded during their tenure; 25 transactions had been upgraded in 2013—leading to strengthening of investor confidence in securitisation transactions backed by microfinance loan receivables.

As of December 2013 payouts, the credit enhancement stipulated in each of the CRISIL-rated outstanding microfinance transactions remained unutilised *(refer to Chart 14).*

Chart 14: Median CE Utilisation



Improvement in operating environment

The MFIs' operating environment has improved gradually since 2010, with stronger underwriting practices. Integration of advanced technology to monitor the performance of collection centres, and stronger borrower discipline in repayments have also contributed to the robust performance of microfinance loans.

Improvement in regulatory environment

The introduction of the Andhra Pradesh ordinance in October 2010 adversely affected the collection performance of MFIs in the state. The Malegam sub-committee was then set up to monitor the functioning of MFIs in the country, leading to recognition of MFIs as a separate category, NBFC-MFIs. The subsequent slew of regulations released by RBI for NBFC-MFIs has led to greater transparency and an improved operating environment for MFIs.

A major outcome of the guidelines was the involvement of credit bureaus to record and monitor the creditworthiness of borrowers of microfinance loans. There is greater emphasis today on credit score checks prior to disbursement of loans, and subsequent data sharing with credit bureaus during the tenure of the loans. The credit bureau checks enable MFIs to assess the extent of total leverage of prospective customers, and their track record.

Additionally, the Microfinance Institutions Network has prescribed a code of conduct that provides guidelines for MFI operations, and greater uniformity in their functioning.

Integration of technology with collection practices

Many MFIs in the country have invested in technology and information systems. The use of systems similar to the core banking solutions used by commercial banks allow regional and head offices to efficiently monitor the performance of branches from preparation of daily lists for expected collections to capturing collections and delays on a real-time basis.

Borrower discipline

Microfinance is often the only formal provider of finance to people in the low income strata of society, especially in the rural areas. Thus, in order to maintain access to formal sources of funding, borrowers are incentivised to repay loans on time. Furthermore, the social pressure under the joint liability group mechanism motivates borrowers to meet their financial commitments.

Challenges still exist

While the regulatory environment has improved following the Andhra Pradesh ordinance, MFIs continue to be exposed to inherent risks in business model. Given that their borrowers belong to the low income segments, customers are more prone to default; additionally, the fact that microfinance loans are unsecured limits potential for recovery in the event of default.

Moreover, with MFI operations concentrated in specific geographies, geographic concentration risks persist—these risks include natural disasters, social unrests, or political upheavals.

Outlook

CRISIL believes that CRISIL-rated MFI securitisation transactions will maintain healthy performance on the back of strong collections, protection by way of credit enhancements, unique structural characteristics, and improving regulatory environment.

Although the MFIs remain exposed to geographic concentration and administrative risks, these are offset by structural characteristics such as ultimate payment structure, turbo amortisation, multiple forms of credit enhancement and increasing popularity of multi-originator securitisation transactions.

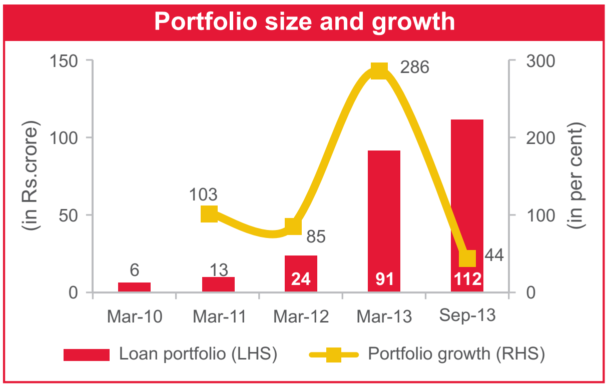
Brief profile of India's 25 leading microfinance institutions

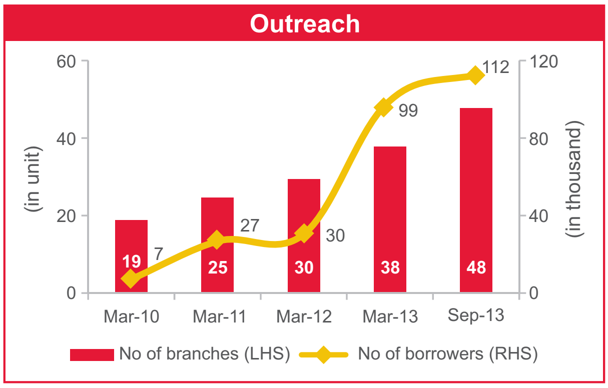
Annapurna Microfinance Pvt Ltd

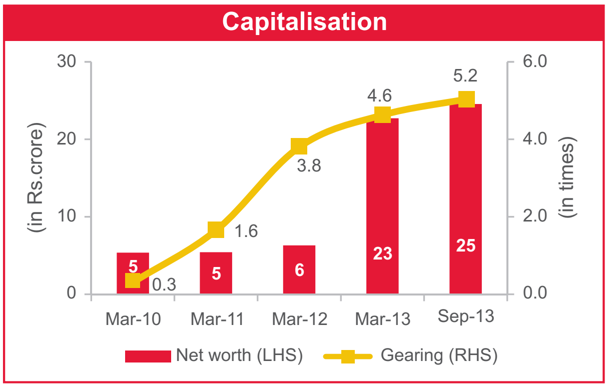
Annapurna Microfinance Pvt Ltd (Annapurna) is a microfinance venture of People's Forum, a development organisation that is more than two decades old. In 2007, People's Forum segregated its microfinance activity from its developmental activities and created an independent project, Mission Annapurna. In November 2009, the promoters acquired Gwalior Finance and Leasing Company Pvt Ltd, a NBFC registered in Varanasi, Uttar Pradesh. The name was changed to Annapurna Microfinance Pvt Ltd in February 2010. The NBFC acquired most of the loan portfolio of People's Forum in 2012-13. Annapurna operates predominantly in Odisha and extends loans for 12-to-24 month tenures to self-help groups with a monthly repayment structure. The company had an outstanding loan portfolio of Rs.112 crore and borrower base of more than 1 lakh as on September 30, 2013.

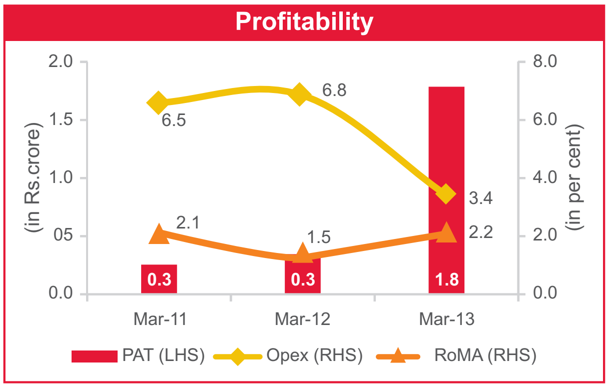
Performance on key parameters

- Maintained substantial growth over the past 3 years; loan portfolio and borrower base grew at a CAGR of 144 and 142 per cent respectively during the 3 years through March 2013
- Asset quality is healthy; 30+ days past due (30+ dpd) remains below 0.5 per cent in the past 3 years
- Has relationship with five banks and four NBFCs for funding needs. Also regularly raises funds through securitisation; securitisation accounted for nearly 36 per cent of outstanding borrowings as on March 31, 2013
- Capitalisation is adequate for current scale of operations; raised Rs.13 crore from Belgian investment firm Incofin Investment Management's Rural Impulse Fund II in July 2012 to improve net worth and support growth in 2012-13
- Profitability improved in 2012-13 supported with a reduction in operating expense; however, ability to maintain profitability will be critical









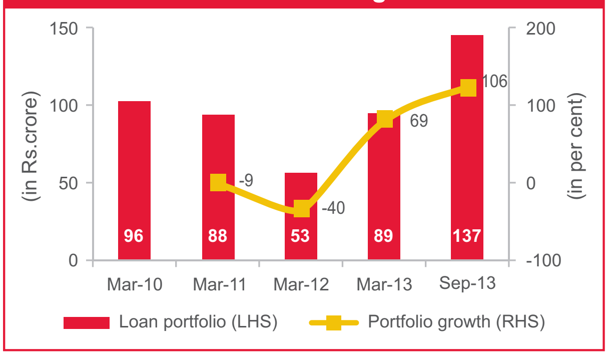
Arohan Financial Services Pvt Ltd

Arohan, a Kolkata-based company, began its microfinance programme in 2006. It was later acquired by IntelleCash Microfinance Network Company Pvt Ltd (IntelleCash) in September 2012 which holds a 56 per cent stake in Arohan. IntelleCash is a subsidiary of investment banking services and advisory firm, Intellectual Capital Advisory Services Pvt Ltd. Post-acquisition, the microfinance portfolio of IntelleCash was consolidated with Arohan. Arohan predominantly operates in West Bengal and Bihar, extending microfinance loans using the joint liability group model with monthly and weekly repayment options. The company had 63 branches with a loan portfolio outstanding of Rs.137 crore as on September 30, 2013.

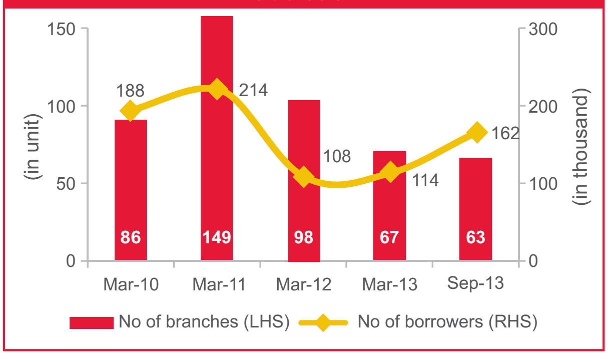
Performance on key parameters

- Loan portfolio grew by 69 per cent in 2012-13, after a brief period of consolidation post the Andhra Pradesh crisis; most of the growth has happened following the takeover by IntelleCash in September 2012
- 30+ dpd has declined sharply over the past 12 months and was nearly 1 per cent as on April 30, 2013; this follows a sustained period of high delinquencies immediately after the Andhra Pradesh crisis
- Has relationships with over 10 lenders comprising banks, NBFCs and financial institutions for funding; also raises funds through securitisation
- Capitalisation comfortable for medium term growth plans; raised Rs.22 crore as capital in September 2013 after first round of capital infusions by IntelleCash
- Profitability remains modest, despite improvement. Ability to improve profitability as operations expand into low-income states like Uttar Pradesh, Jharkhand, Odisha, Chhattisgarh and Madhya Pradesh will be critical

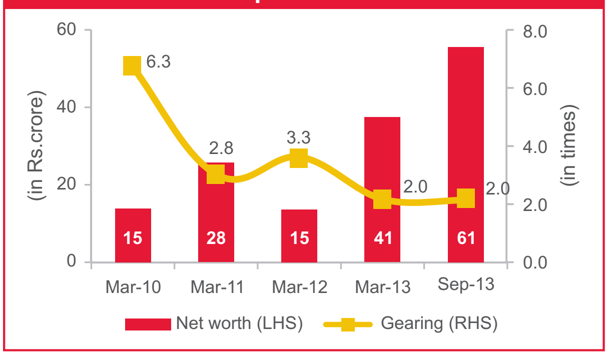
Portfolio size and growth



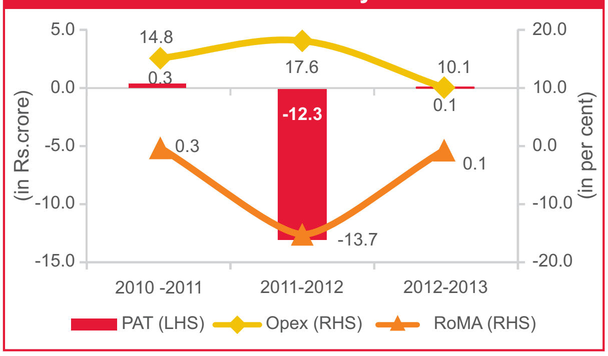
Outreach



Capitalisation



Profitability

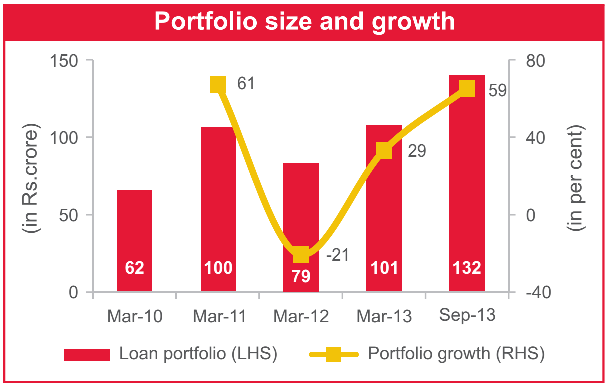


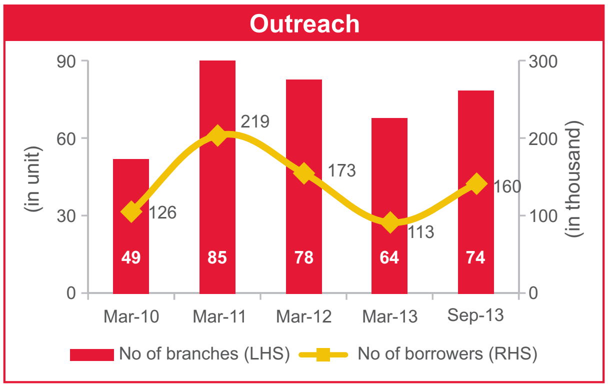
Asirvad Microfinance Pvt Ltd

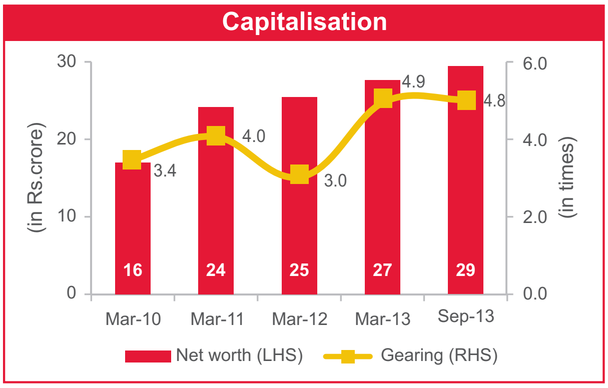
Incorporated in August 2007, Asirvad Microfinance Pvt Ltd (Asirvad) commenced its microfinance operations in Chennai in January 2008. Since then the company has expanded its operations into other districts of Tamil Nadu. Asirvad offers loans to women borrowers organised into joint liability groups, following the Grameen Bank model. The company had a network of 74 branches and portfolio outstanding of Rs.132 crore as on September 30, 2013.

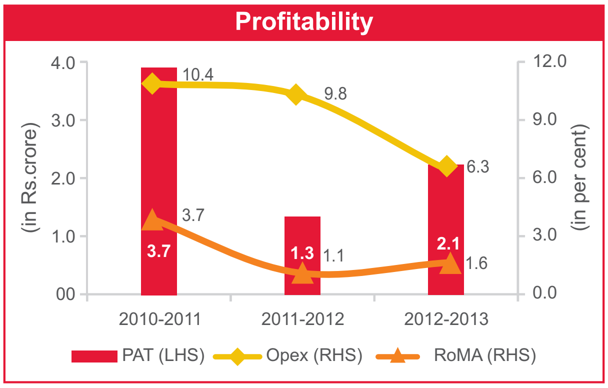
Performance on key parameters

- Loan portfolio increased to Rs.101 crore as on March 31, 2013 from Rs.79 crore a year ago, a year-on-year growth of 29 per cent. This follows a brief period of consolidation and decline in portfolio growth during 2011-12
- 30+ dpd has improved substantially since April 2012 onwards and has remained below 0.1 per cent
- Has relationships with 19 lenders as on March 31, 2013. Also raises funds through securitisation on a regular basis; securitisation accounted for nearly 25 per cent of outstanding borrowings as on March 31, 2013
- Capitalisation is adequate for current scale of operations; needs to strengthen capitalisation through external infusions to grow at industry-average rate and maintain market share
- Profitability remains modest despite improving in 2012-13 on account of reduction in operating expense ratio. However, the reduction in margin cap to 10 per cent in 2014-15 may constrain profitability









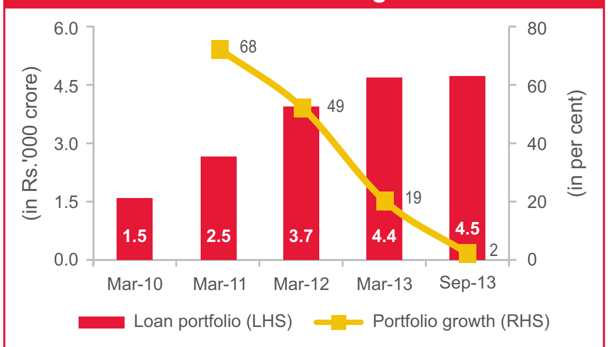
Bandhan Financial Services Pvt Ltd

Bandhan was set up by Mr. Chandra Shekhar Ghosh in 2001 as a non-governmental organisation (NGO), Bandhan-Konnagar, under the West Bengal Societies Registration Act, 1961. In 2006, the NGO acquired NBFC, Ganga Niryat Pvt Ltd, and renamed it as Bandhan Financial Services Pvt Ltd (Bandhan) and transferred the NGO's microfinance activities to the company. Bandhan was reconstituted as an NBFC-MFI in 2013. Currently, Bandhan undertakes microfinance activities and Bandhan-Konnagar implements developmental programmes. Bandhan is the largest MFI in India with a market share of over 20 per cent, loan portfolio of Rs.4,457 crore and borrower base of nearly 50 lakh as on September 30, 2013. The company has a strong presence in West Bengal and other eastern and north-eastern states. Bandhan has received an "in-principle" approval from RBI for commencement of banking business.

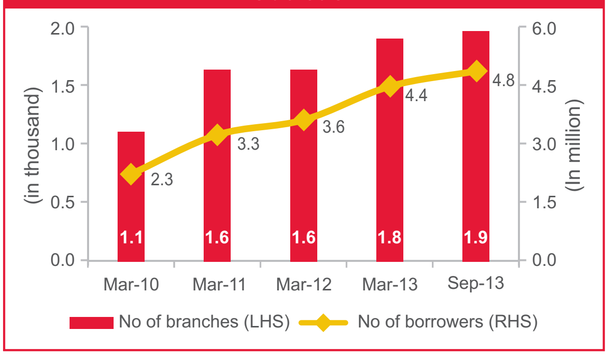
Performance on key parameters

- The portfolio outstanding and borrower base have grown at a CAGR of 44 and 24 per cent respectively during the 3 years ended March 31, 2013. The geographic diversity is set to improve through expansion in operations to other states
- Asset quality is healthy, supported by adequate operational practices and multiple levels of tracking and monitoring
- Has relationships with nearly 30 banks and financial institutions. Focused on improving diversity in resource profile by raising subordinate debt, and issuing non-convertible debentures. Needs to diversify resource profile substantially and reduce dependence on wholesale funding as operations are scaled up
- Capitalisation adequate for current scale of operations, as reflected in large net worth of Rs.1,020 crore and low gearing of 4.2 times as on September 30, 2013
- Earnings profile is above average, with high return on managed assets. Profitability is supported by low operating expense

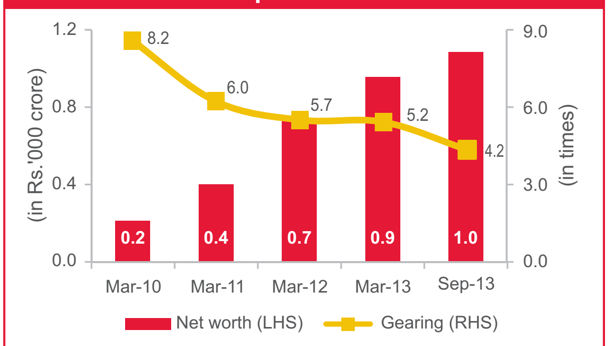
Portfolio size and growth



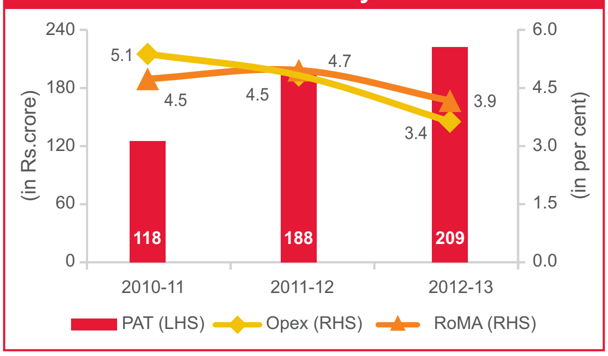
Outreach



Capitalisation



Profitability



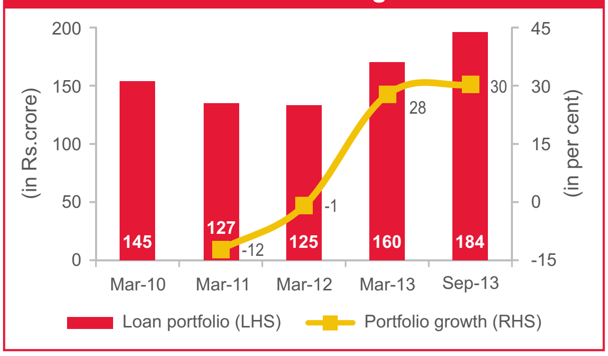
BSS Microfinance Pvt Ltd

BSS Microfinance Pvt Ltd (BSS Microfinance) started its microfinance operations in April 2008 by taking over the operations of Bharatha Swamukti Samasthe Trust (BSS), a MFI operating as a trust since 1997. BSS Microfinance follows the Grameen Bank model of group lending and predominantly offers group loans for a 2-year period with fortnightly repayment. BSS Microfinance, operating predominantly from Karnataka, had a network of 67 branches and loan portfolio of Rs.184 crore as on September 30, 2013.

Performance on key parameters

- Loan portfolio increased to Rs.160 crore as on March 31, 2013 from Rs.125 crore as on March 31, 2012, year-on-year growth of 28 per cent
- Maintains healthy collection performance with collection efficiency of nearly 99 per cent. Operations are, however, predominantly concentrated in Karnataka (which accounted for 93 per cent of the loan portfolio as on March 31, 2013)
- Has relationships with 13 lenders as on March 31, 2013; the company also had secured on-demand loan from BSS Trust and BSS Mutual Benefit Trust outstanding on its books as on March 31, 2013
- Capitalisation remains adequate for current scale of operations; however ability to raise capital from external sources will be crucial to help maintain market share
- Earnings profile is modest, with return on managed assets of 1.1 per cent during 2012-13. Passes on part of operating profit as interest rebates to borrowers; therefore earnings profile remains modest

Portfolio size and growth



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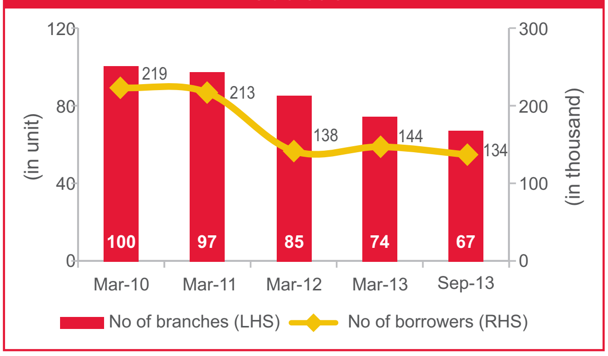
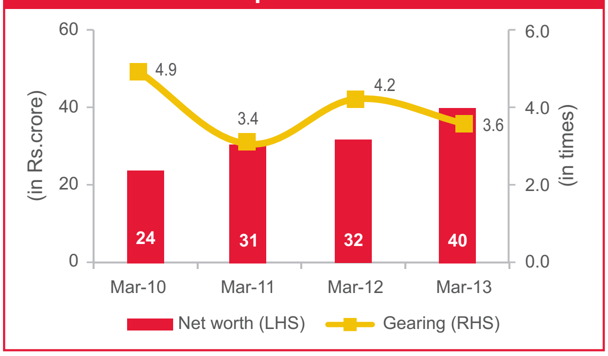
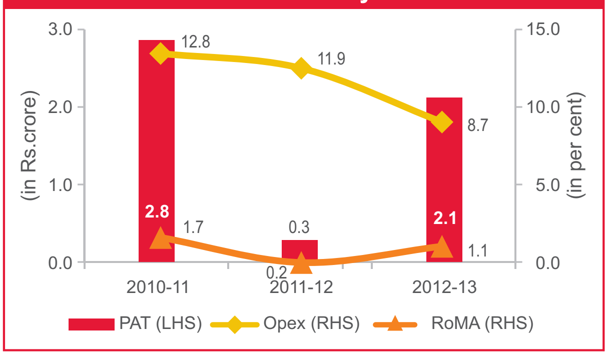


Capitalisation



Profitability



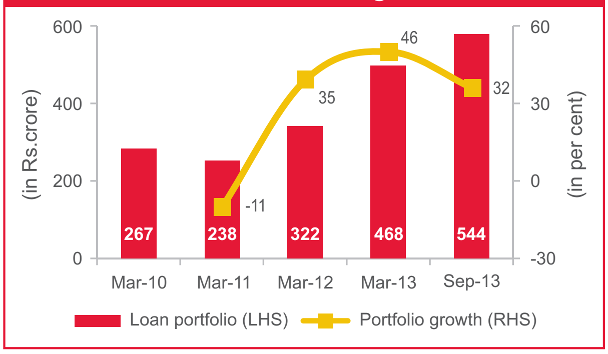
Cashpor Micro Credit

Cashpor Micro Credit (Cashpor) is a not-for-profit company based out of Varanasi, Uttar Pradesh. Set up by Professor David Gibbons, Cashpor provides microfinance services in Uttar Pradesh, Bihar and Chhattisgarh using the Grameen Bank model of lending. Cashpor adopts a dual lending model: direct lending and lending under the banking correspondence model. Under the banking correspondence model, Cashpor acts as a sourcing agent for banks; the loans are originated directly in banks books. Cashpor provides a first loss default guarantee on the portfolio sourced by it while receiving a sourcing fee (difference between the interest paid by the borrower and interest paid to the bank) from such business. The company was operating through a network of 341 branches spread across 31 districts as on December 31, 2013.

Performance on key parameters

- The fast growing MFI has assets under management (AUM) of Rs.544 crore as on September 30, 2013. Has maintained about 40 per cent business growth over the past few years except during 2010-11, when the AUM declined by 11 per cent
- Asset quality is healthy, with 30+ dpd of less than 0.30 per cent for the past 4 years despite having operations concentrated in eastern Uttar Pradesh and four districts of Bihar
- Resource profile is adequate, marked by relationships with multiple lenders including banks, developmental institutions, social investors, financial institutions, and NBFCs. The diversity in lender profile provides reasonable flexibility for access to medium-to-long-term funds including subordinate debt. Consequently, borrowing costs are lower than those of peers
- As a Section-25 company, options to raise core equity capital are limited. However, has demonstrated ability to raise Tier-II capital in the form of subordinate capital on a consistent basis
- Moderate albeit improving profitability, with improving operating efficiency, and low borrowing and credit costs. The profitability is expected to decline from 2014-15 due to reduction in margin by 200 bps from November 1, 2013 onwards

Portfolio size and growth



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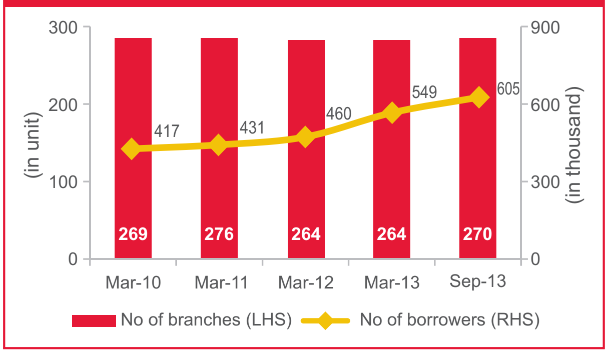
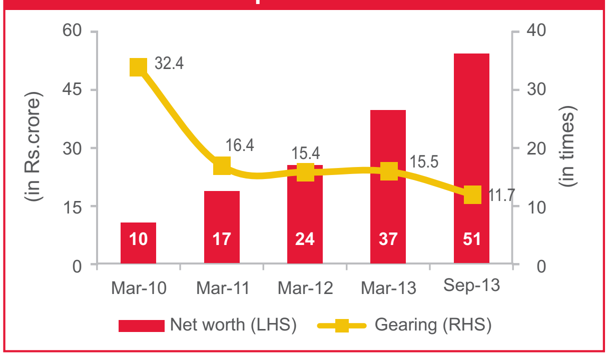
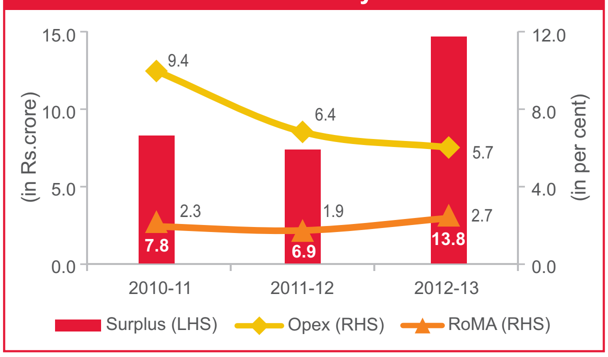


Capitalisation



Profitability

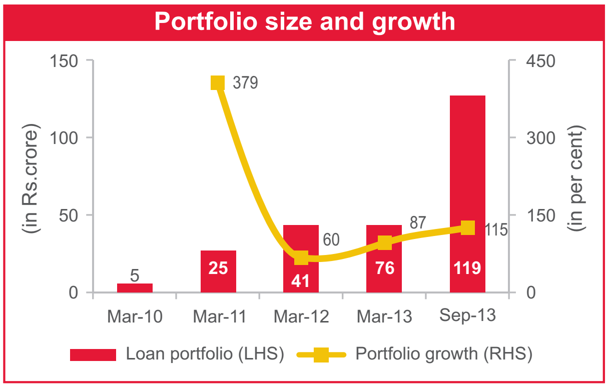


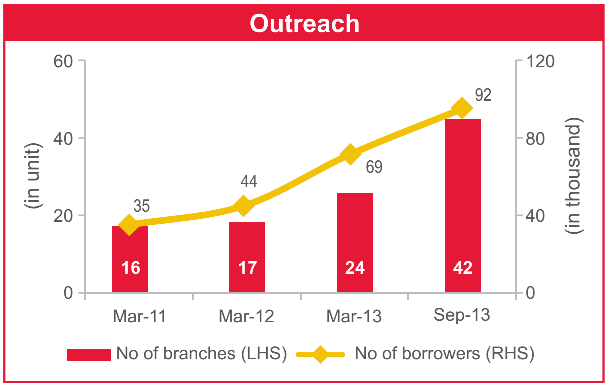
Disha Microfin Pvt Ltd

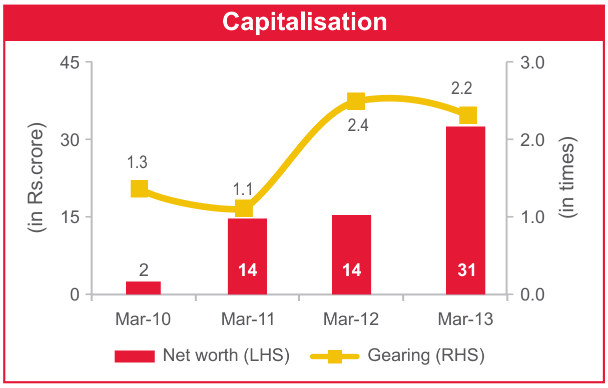
Disha Microfin Pvt Ltd (Disha, formerly Banas Finlease Pvt Ltd), a Gujarat-based MFI, started its operations in 1996 as a distributor of financial service products and ventured into microfinance business in 2009 with the aim of providing high quality financial services to low income households on a commercially sustainable basis. The company has two major products, Gati and Pragati. Gati typically includes loans of Rs.8,000 to Rs.14,000. Pragati comprises higher ticket loans ranging from Rs.15,000 to Rs.20,000, disbursed predominantly for income generating activities. The company operates through a network of 42 branches in Gujarat and had a loan portfolio of Rs.119 crore as on September 30, 2013.

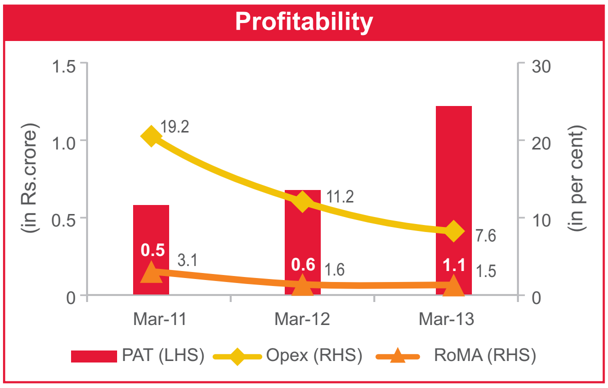
Performance on key parameters

- The loan portfolio and borrower base grew at a CAGR of 143 and 128 per cent respectively during the 3 years ended March 31, 2013. To improve geographic diversity, the company has ventured into Madhya Pradesh and Rajasthan
- Asset quality remains healthy with 30+ dpd never exceeding 0.25 per cent since inception
- Relies predominantly on wholesale funding from banks/financial institutions, and securitisation for funding; securitisation accounted for nearly 20 per cent of its borrowings outstanding as on March 31, 2013
- Capitalisation remains adequate for current and planned scale of operations. The company raised Rs.15 crore of additional capital (share application money received, allotment pending as on March 31, 2013) from Indian (IV) Mauritius Holding Ltd, having nearly 47 per cent stake
- Profitability is moderate, reflected in return on managed assets of 1.5 per cent during 2012-13; however, ability to maintain profitability under the revised regulatory regime will be critical









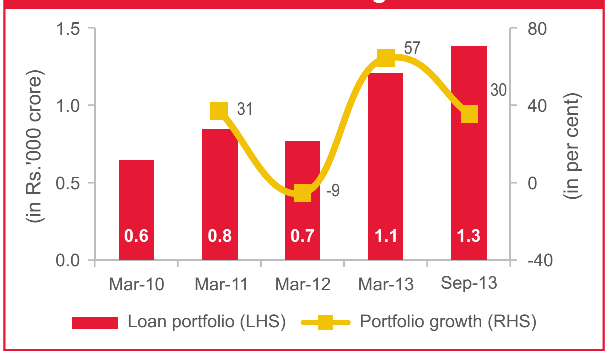
Equitas Micro Finance Pvt Ltd

Equitas Micro Finance Pvt Ltd (Equitas Micro Finance) was set up by Mr. P N Vasudevan in 2007 for providing microfinance services. Equitas Micro Finance, headquartered at Chennai, operates from 104 districts across 7 states/union territories. Equitas group had also diversified into vehicle and housing finance segments in 2011. While the vehicle finance segment has posted significant growth and had outstanding portfolio of Rs.526 crore as on September 30, 2013, the housing finance segment is smaller with outstanding portfolio of Rs.67 crore as on that date.

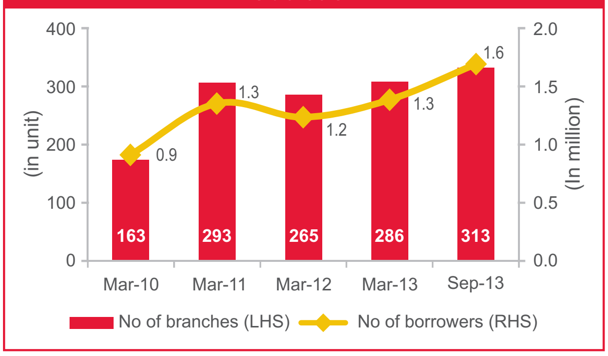
Performance on key parameters

- Loan portfolio grew at a robust 57 per cent during 2012-13, followed by moderate growth of 30 per cent (annualised) during the first half of 2013-14. However, the business remains concentrated in Tamil Nadu, which accounted for 66 per cent of the loan portfolio as on September 30, 2013
- The asset quality has been healthy since inception, except during 2011-12, when the company faced delinquencies in several districts including few districts in Tamil Nadu
- Resource profile is moderately diversified. Apart from bank loans, the company has access to debt capital market although in a limited way. The cost of borrowings is in line with those of large MFIs
- Capitalisation is adequate. The Equitas group has consistently demonstrated ability to raise equity well ahead of requirement. In addition, consistent performance coupled with the high calibre of investors enhances ability to raise capital to support growth in future
- The profitability of Equitas Micro Finance has been healthy with return on assets being over 1.5 per cent over the past three years. However, profitability could be under slight pressure as margin cap is to be reduced by 200 bps since 2014-15

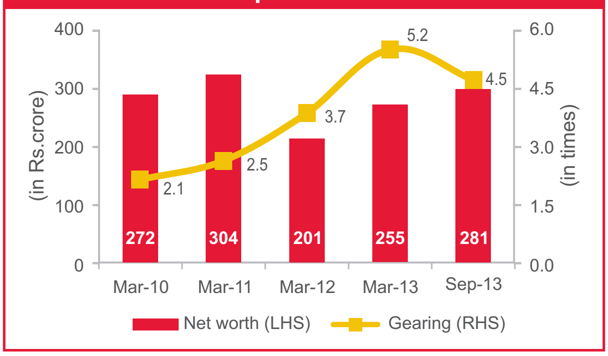
Portfolio size and growth



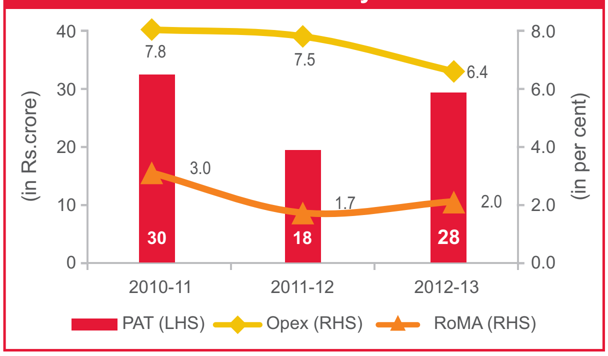
Outreach



Capitalisation



Profitability



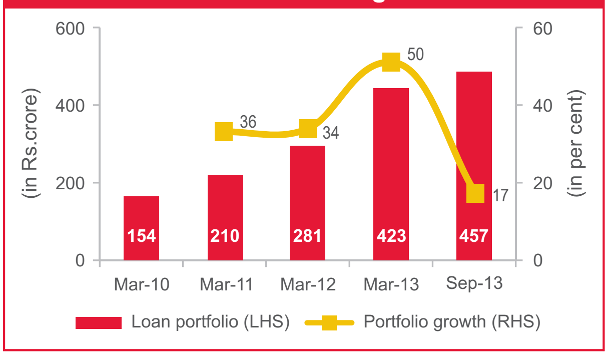
ESAF Microfinance and Investments Pvt Ltd

Evangelical Social Action Forum society was established by Mr. K Paul Thomas in Thrissur, Kerala in 1992. The society commenced its microfinance operations in 1995. In 2006, the society acquired NBFC – Pinnai Finance and Investments Pvt Ltd – renamed it as ESAF Microfinance and Investments Pvt Ltd (ESAF) and transferred the society's microfinance activities to ESAF. The company extends loans to women using the joint liability group model of lending and had operations concentrated predominantly in Kerala. ESAF had a network of 150 branches across 35 districts in the states of Kerala, Tamil Nadu, Chhattisgarh, and Madhya Pradesh as on March 31, 2013.

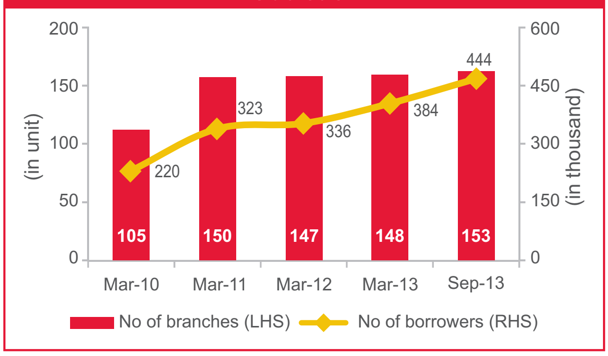
Performance on key parameters

- The medium-sized MFI has a loan portfolio of Rs.457 crore as on September 30, 2013. Business growth has been higher than industry-average during the 3 years through March 2013; the loan portfolio and borrower base grew at a CAGR of nearly 39 per cent and 20 per cent respectively
- Asset quality is moderate; the 30+ dpd has remained at 1 to 2 per cent during the three years ended March 31, 2013
- The funding profile largely comprises loans from banks and NBFCs; has relationship with a large number of lenders. The cost of borrowings is comparable with those of peers. Diversification into capital market will help improve the funding profile over the medium term
- Capitalisation is moderate; the gearing increased to over 8 times as on March 31, 2013 from 4.6 times, a year ago. The company however has recently raised capital to support its medium term growth plans
- The earnings profile is moderate; the return on managed assets has remained over 1.0 per cent during the past 2 years on the back of reducing operating expense ratio. The company's ability to maintain its profitability over the medium term will be crucial

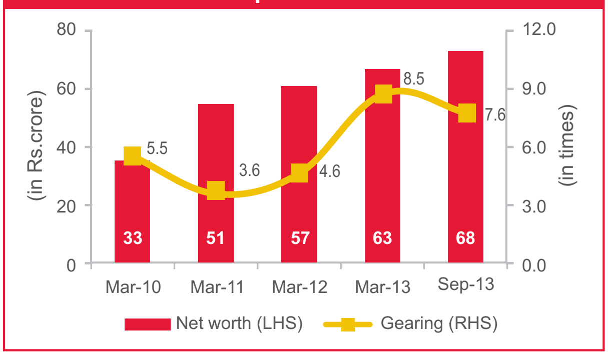
Portfolio size and growth



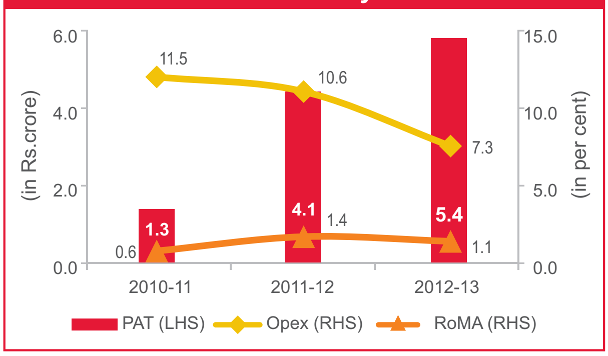
Outreach



Capitalisation



Profitability

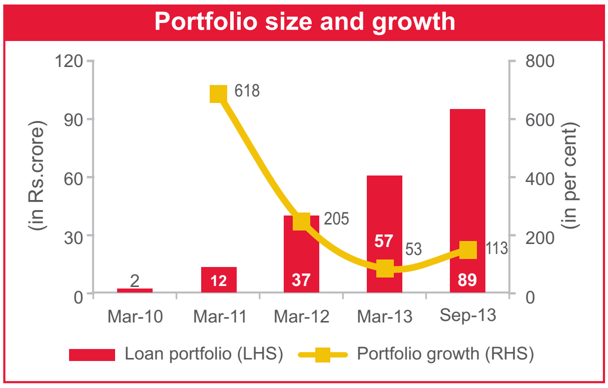


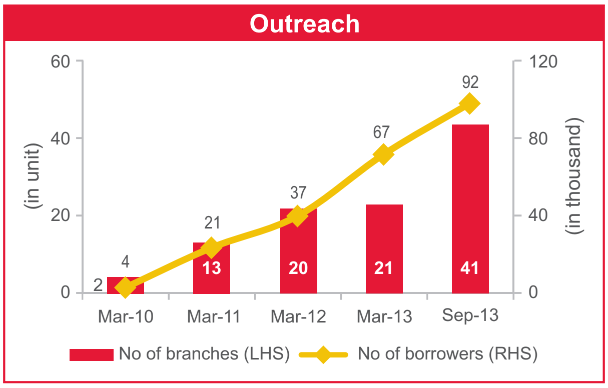
Fusion Microfinance Pvt Ltd

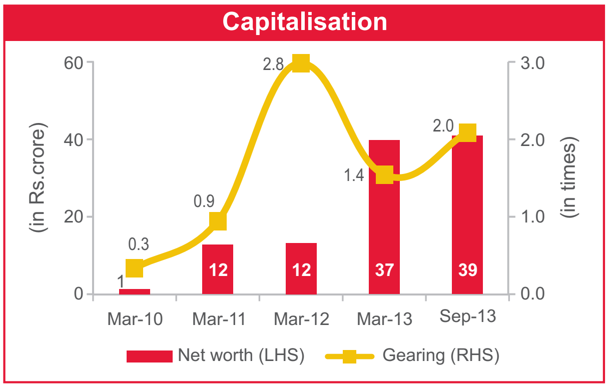
Fusion Microfinance Pvt Ltd (Fusion) entered the microfinance business in January 2010 by acquiring the Rs.63 lakh loan portfolio of Aajeevika, a non-governmental organisation operating in Delhi and Madhya Pradesh. Fusion extends loans to women using the joint liability group model. The company also offers small ticket vehicle loans to truck operators. Fusion is headquartered in New Delhi and is operational in the less penetrated northern and central part of India (New Delhi, Madhya Pradesh, Uttarakhand, and Uttar Pradesh). The company was catering to nearly 1 lakh borrowers through 41 branches and had loan portfolio aggregating Rs.89 crore as on September 30, 2013.

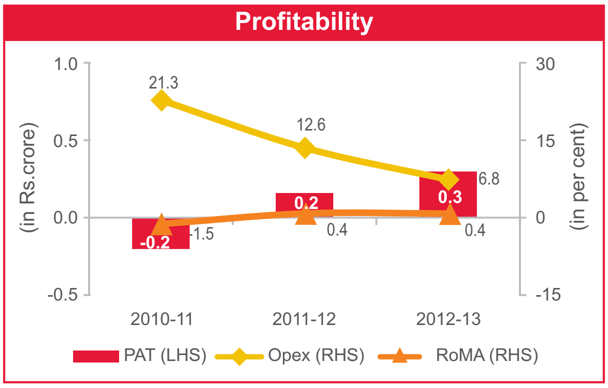
Performance on key parameters

- Portfolio outstanding and borrower base have grown at a CAGR of 222 and 214 per cent respectively during the 3 years ended March 31, 2013. The operations are predominantly concentrated in Uttar Pradesh, Madhya Pradesh and Uttarakhand
- Delinquencies have reduced during the past 18 months after a sharp rise immediately after the Andhra Pradesh crisis
- Resource profile is average; loans from NBFCs and securitisation accounted for 43 and 28 per cent of its overall borrowings as on March 31, 2013
- Adequately capitalised for current scale of operations, with net worth of Rs.39 crore and gearing of 2.0 times as on September 30, 2013. The company strengthened its capital position by raising Rs.25 crore as capital from Norwegian Microfinance Initiative and Incofin-Rural Impulse Fund in March 2013
- Profitability is modest, with return on managed assets of 0.4 per cent during 2012-13; the ability to operate profitably while reducing its margin will be critical









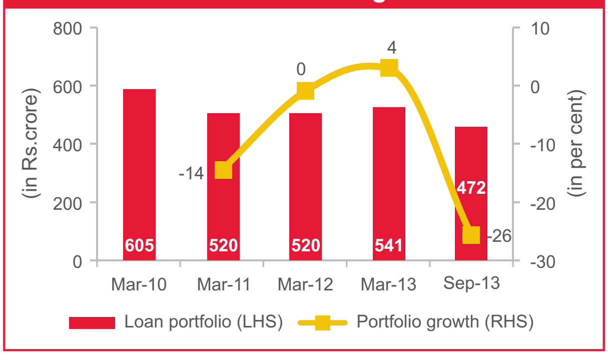
Grama Vidiyal Micro Finance Ltd

Grama Vidiyal Micro Finance Ltd (Grama Vidiyal) is a Tiruchirappalli-based NBFC which started its microfinance operations in early 2008. The company acquired the entire loan portfolio of Grama Vidiyal Trust, which was engaged in microfinance activities since 1996. Grama Vidiyal extends loans predominantly to women using the joint liability group model. The company's operations are primarily concentrated in Tamil Nadu. The company has ventured into Maharashtra and Madhya Pradesh to improve upon its geographic diversity.

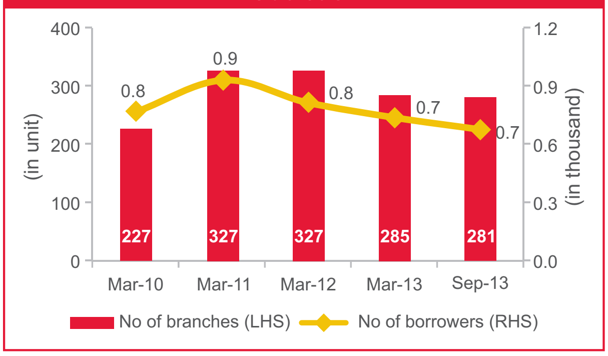
Performance on key parameters

- Loan portfolio remained largely stable over the 2 years ended March 31, 2013
- Has demonstrated strong portfolio performance, with 30+ dpd remaining at less than 0.5 per cent over the past 30 months
- Has relationships with nearly 20 lenders as on March 31, 2013. However, access to incremental funding for growth reduced significantly after the Andhra Pradesh crisis
- Capitalisation is adequate for current scale of operations; however gearing is higher than the industry average
- Profitability is modest, reflected in return on managed assets of 0.4 per cent during 2012-13. Ability to improve profitability over the medium term while reducing its margin to comply with revised regulations will be critical

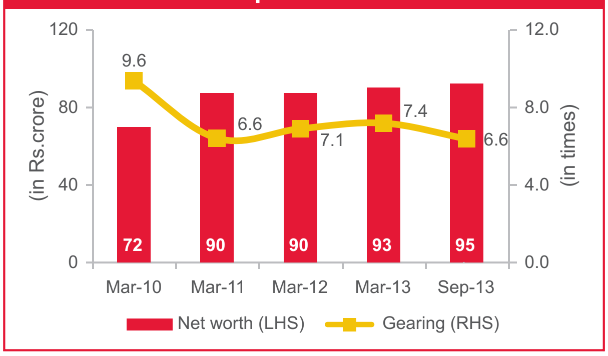
Portfolio size and growth



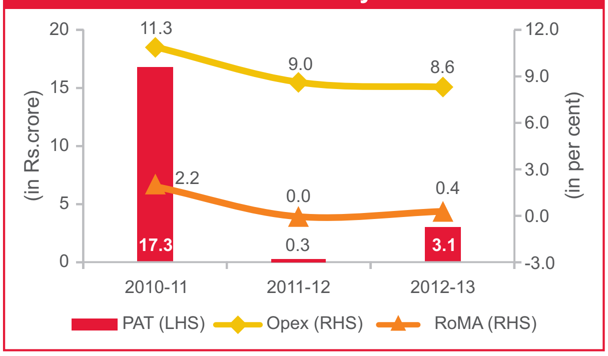
Outreach



Capitalisation



Profitability



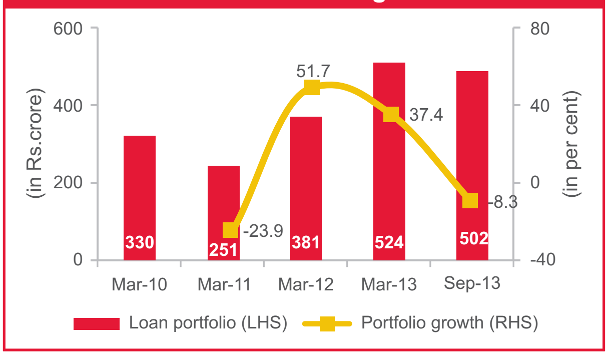
Grameen Financial Services Pvt Ltd

Grameen Financial Services Pvt Ltd (Grameen Financial) is an NBFC set up in 1991 as Sanni Collection Pvt Ltd. The company was taken over by its current management in 2007 and renamed as Grameen Financial Services Pvt Ltd. Grameen Financial commenced its microfinance operations in October 2007 by taking over the microfinance portfolio of Grameen Koota, part of T Muniswamappa Trust. Grameen Koota in turn started its microfinance operations in 1999, after receiving seed fund programme from Grameen Trust, Bangladesh. Grameen Financial had a network of 161 branches and a loan portfolio of Rs.524 crore as on March 31, 2013.

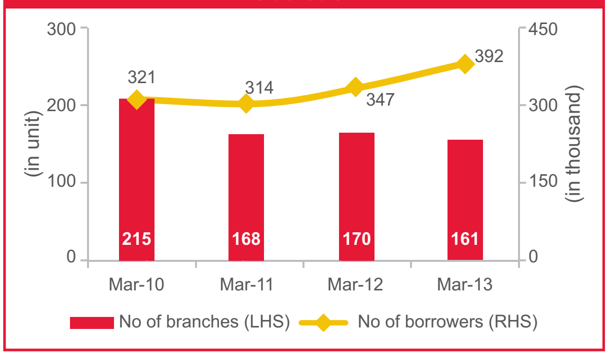
Performance on key parameters

- Portfolio outstanding grew at a CAGR of 44 per cent during the 2 years ended March 31, 2013
- Asset quality is moderate; the 30+ days past due was around 0.9 per cent as on March 31, 2013. Operations are predominantly concentrated in Karnataka (which accounted for 80 per cent of loan portfolio as on March 31, 2013)
- Has relationships with more than 20 lenders, including apex MFIs and public, private, and foreign banks. The company also raises funds through securitisation on a regular basis; securitisation accounted for nearly 26 per cent of its overall borrowings as on March 31, 2013
- Capitalisation remains adequate for its current and planned scale of operations; the company raised Rs.53.2 crore from Creation Investments (Rs 37.5 crore), Incofin and MicroVentures in February 2013 to support its medium term growth plans
- Profitability though modest has improved during 2012-13 primarily on account of significant improvement in operating expense ratio; ability to maintain its profitability over the medium term despite the margin cap will be critical

Portfolio size and growth



Outreach



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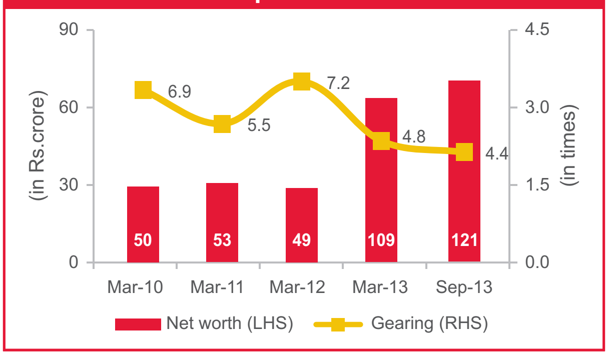
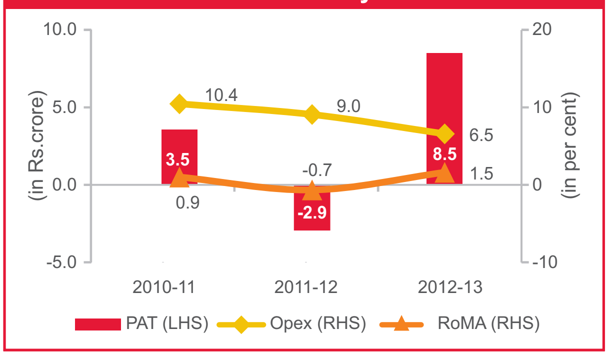


Profitability



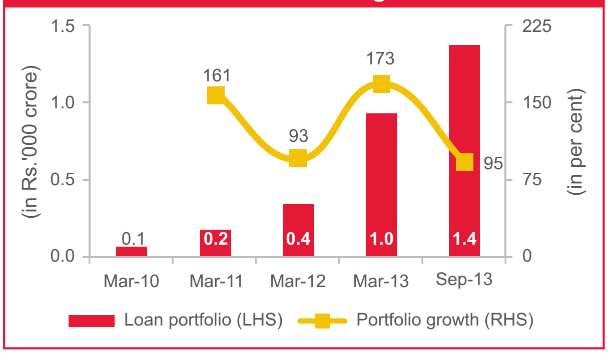
Janalakshmi Financial Services Pvt Ltd

Janalakshmi Financial Services Pvt Ltd (Janalakshmi) commenced microfinance operations in April 2008 by taking over the portfolio of Janalakshmi Social Services (JSS), a not-for-profit company promoted by Mr. Ramesh Ramanathan. JSS had earlier acquired the urban microfinance programme of Sanghamithra Rural Financial Services and started its own microfinance programme in July 2006. Janalakshmi provides microfinance services to the urban poor. Apart from microfinance (94 per cent of the total loan portfolio as on March 31, 2013), the company also offers other loan products such as enterprise loans, housing loans, and individual loans. As on September 30, 2013, Janalakshmi had a network of 101 branches, with outstanding loans of Rs.1,409 crore. The company operates in 11 states, with Karnataka and Tamil Nadu together accounting for 53 per cent of its loan portfolio as on March 31, 2013 (65 per cent as on March 31, 2012).

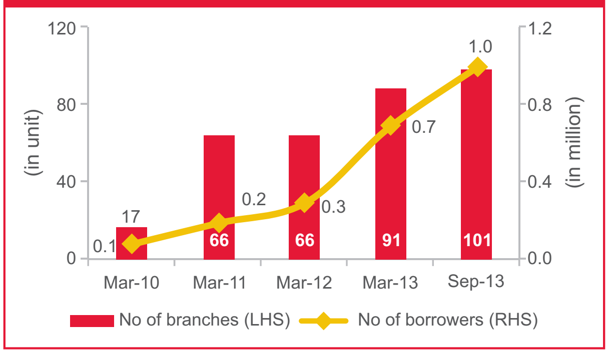
Performance on key parameters

- Janalakshmi is the fastest growing large MFI. Its portfolio outstanding and borrower base have grown at a CAGR of 140 and 104 per cent respectively during the 3 years ended March 31, 2013
- Has sound processes and systems. The 30+ days past due was low at around 0.3 per cent as on September 30, 2013. However, ability to replicate processes in new geographies and maintain asset quality over the medium term is critical
- Dependence on wholesale funding from banks/financial institutions is high at around 85 per cent as on September 30, 2013; has relationship with 30 lenders and raises funds from securitisation regularly
- Capitalisation remains healthy. Raised capital of Rs.325 crore (Rs.222 crore of equity capital, Rs.60 crore of compulsorily convertible preference shares, and Rs.42 crore of compulsorily convertible debentures) in August 2013
- Reported a net profit of Rs.19.2 crore during the half-year ended September 30, 2013, as against net profit of Rs.3.5 crore in the corresponding period of the previous year. Ability to control operating expenses and credit costs while pursuing aggressive growth is critical and will determine earnings profile over the medium term

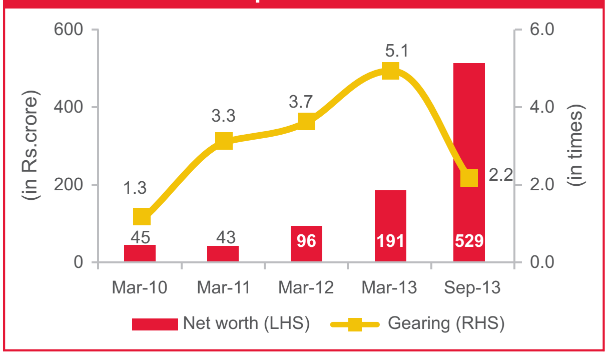
Portfolio size and growth



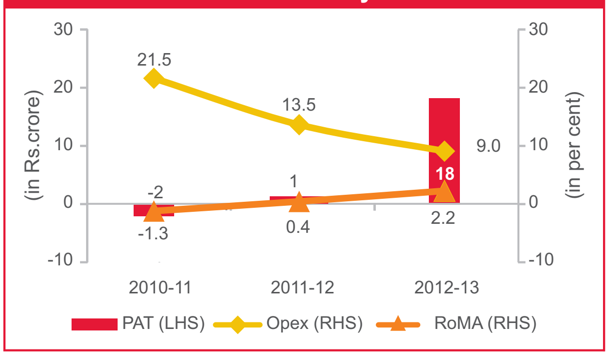
Outreach



Capitalisation



Profitability

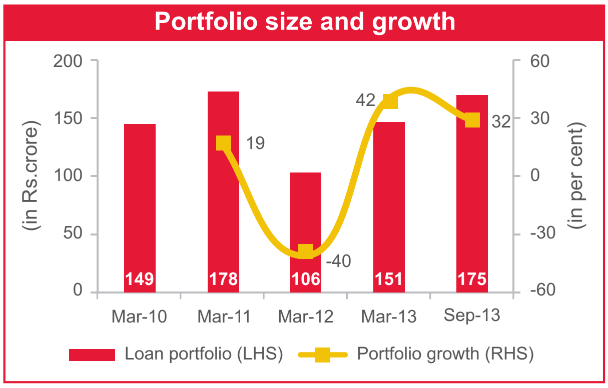


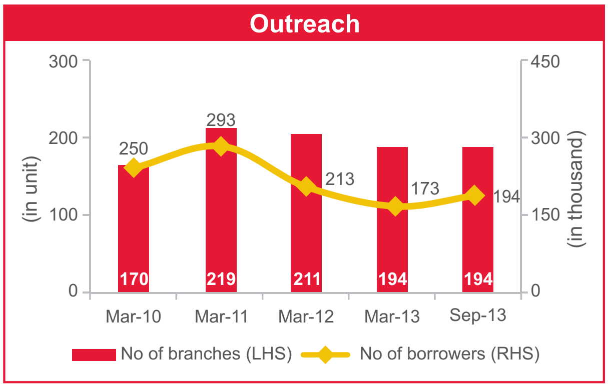
Madura Micro Finance Ltd

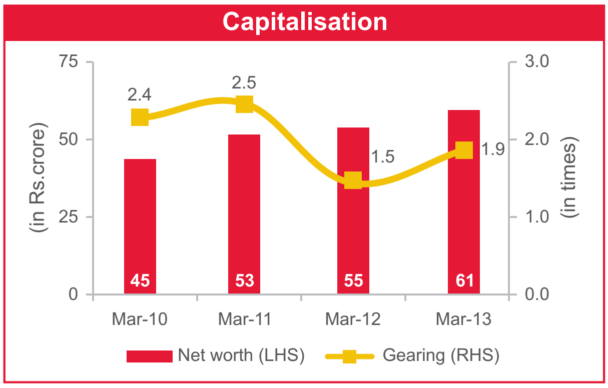
Incorporated in 2006, Madura Micro Finance Ltd (Madura) commenced its microfinance business in late 2006 by extending loans to self-help groups promoted by Micro Credit Foundation of India. The company operates in the rural areas of Tamil Nadu and Puducherry; Madura had nearly 2 lakh borrowers and a loan portfolio of Rs.175 crore as on September 30, 2013.

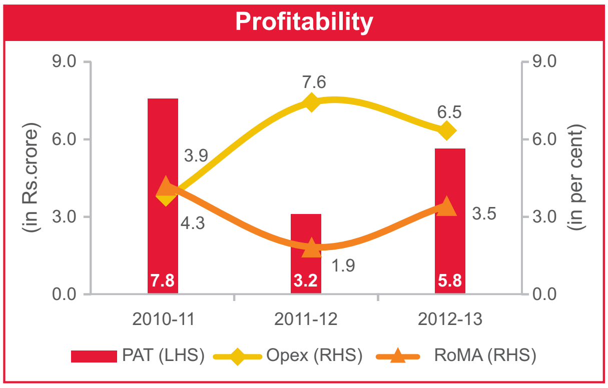
Performance on key parameters

- Loan portfolio grew to Rs.151 crore as on March 31, 2013 from Rs.106 crore as on March 31, 2012, a year-on-year growth of around 42 per cent, after a brief period of consolidation. The company's ability to maintain growth rate and market share over the medium term will be critical
- 30+ dpd has stabilised at less than 1 per cent after increasing following the Andhra Pradesh crisis
- Has relationships with more than 15 lenders as on March 31, 2013; also raises funds through securitisation on a regular basis
- Adequately capitalised for current and planned scale of operations, with net worth of Rs.61 crore and gearing of 1.9 times as on March 31, 2013
- Profitability is above industry average, with return on managed assets of 3.5 per cent during 2012-13. Profitability is supported by low operating expense









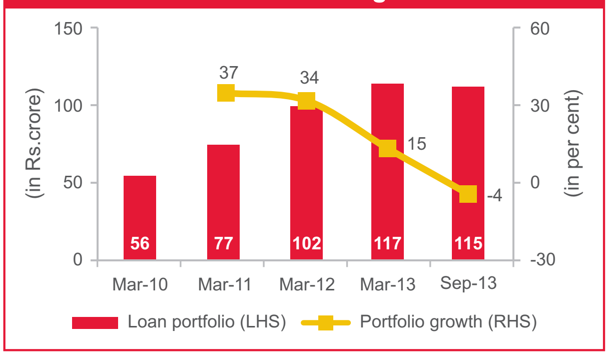
RGVN (North East) Microfinance Ltd

Rashtriya Grameen Vikas Nidhi Society (RGVN Society) is a leading non-governmental organisation, founded in April 1990. The society operating in the north eastern states of India commenced its microfinance operations in 1995. With significant growth in business during the latter part of the previous decade, the microfinance operations were transferred to a NBFC, RGVN (North-East) Microfinance Ltd (RGVN Microfinance) in October 2010. Headquartered in Guwahati, RGVN Microfinance operates through a network of 107 branches spread across 31 districts in the five states of Assam, Nagaland, Meghalaya, Arunachal Pradesh and Sikkim.

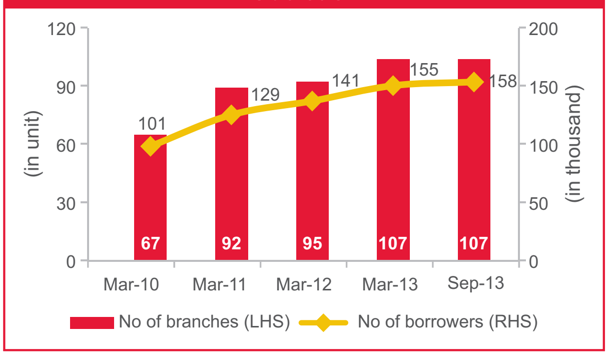
Performance on key parameters

- The mid-sized MFI had loan portfolio of Rs.115 crore as on September 30, 2013. The pace of growth has declined significantly since 2012-13. In addition, the business continues to be highly concentrated in Assam
- Asset quality is moderate; the 90+ days past due was around 0.5 per cent since 2011-12 although it was much higher earlier on account of delinquencies in some districts
- Funding profile is adequate, backed by reasonable diversity including banks, financial institutions and NBFCs
- Capitalisation is adequate with a net worth of Rs.24 crore and gearing of 4.3 times as on March 31, 2013. Developmental institutions like Small Industries Development Bank of India and North Eastern Development Finance Corporation of India have infused equity in the past supporting the company's growth
- Profitability is healthy with return on assets of over 3 per cent over the past two years

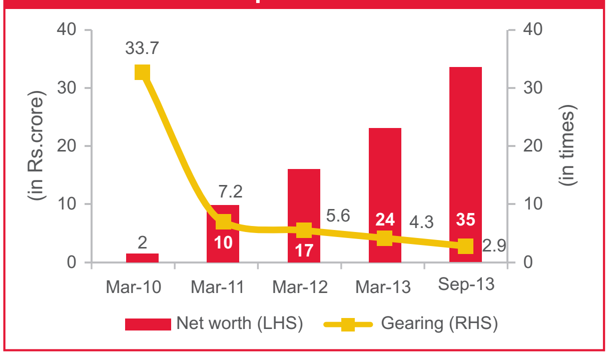
Portfolio size and growth



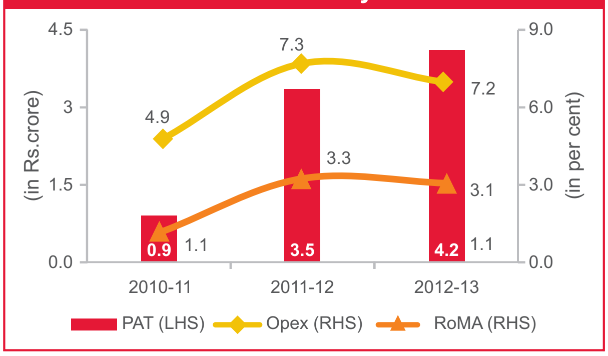
Outreach



Capitalisation



Profitability

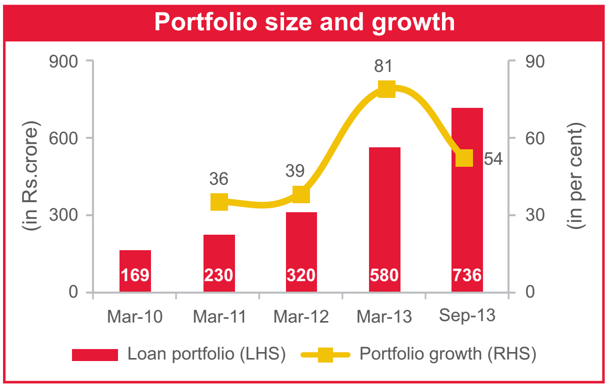


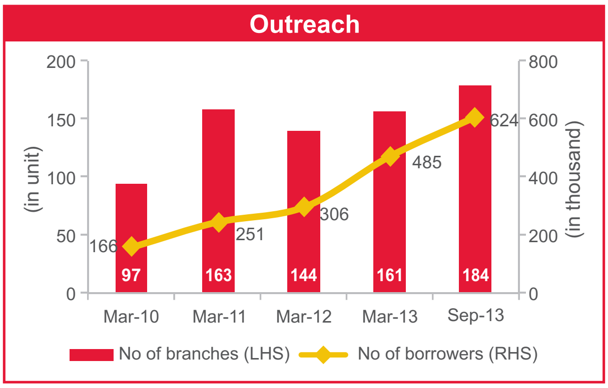
Satin Creditcare Network Ltd

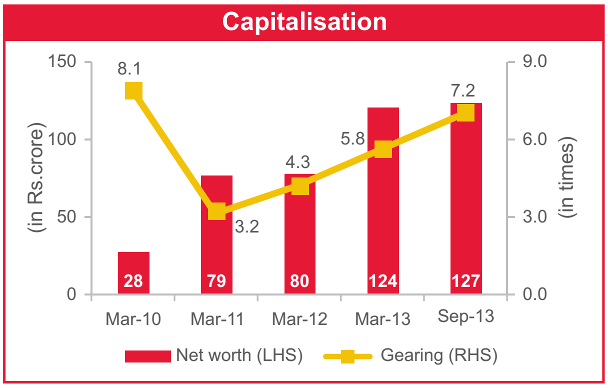
Incorporated as Satin Leasing and Finance Pvt Ltd in October 1990, the company provided credit to shopkeepers and petty traders in the urban markets of Delhi. The company became public in 1994 and is listed in Delhi, Jaipur, and Ludhiana Stock Exchanges. In 2000, the company was renamed as Satin Creditcare Network Ltd (Satin). In 2008, the company commenced its microfinance operations by providing unsecured loans to poor women in villages or small towns. Satin is one of the leading MFIs in northern India with loan portfolio of Rs.736 crore as on September 30, 2013. The company focuses on diversifying its operations across geographies and was present in 10 states as on March 31, 2013.

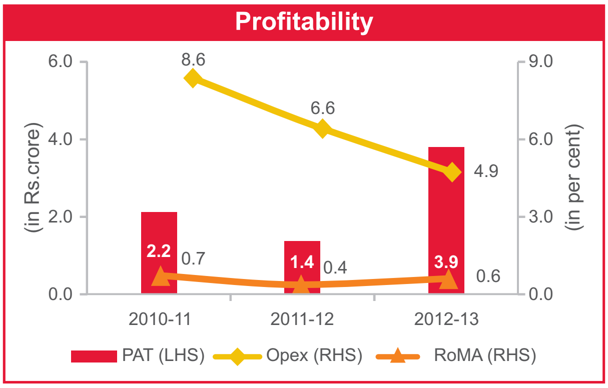
Performance on key parameters

- The portfolio outstanding and borrower base have grown at a CAGR of 51 and 43 per cent respectively during the 3 years ended March 31, 2013. The portfolio is spread across 10 states
- Portfolio performance has been good with 30+ dpd of less than 1 per cent over the past four years
- Resource profile is fairly diversified; portfolio securitisation and non-convertible debentures accounted for nearly 18 and 10 per cent respectively of the company's overall borrowings as on March 31, 2013
- Capitalisation though adequate for current scale of operations needs to be strengthened. Gearing increased to over 7 times as on September 30, 2013 from nearly 3 times as on March 31, 2011
- Profitability is modest though improving. Its return on managed assets improved to nearly 0.6 per cent during 2012-13 from around 0.4 per cent during 2011-12. However, ability to improve its profitability over the medium term while reducing the margin to comply with revised regulations will be critical







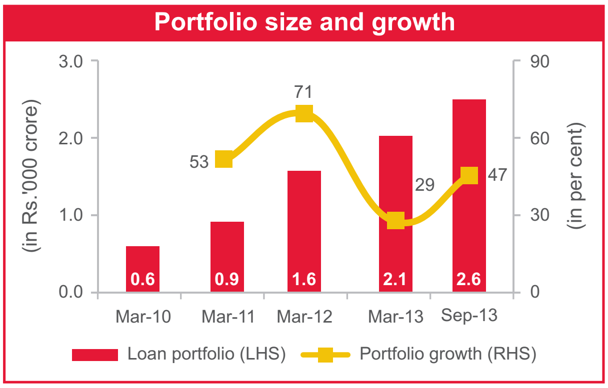


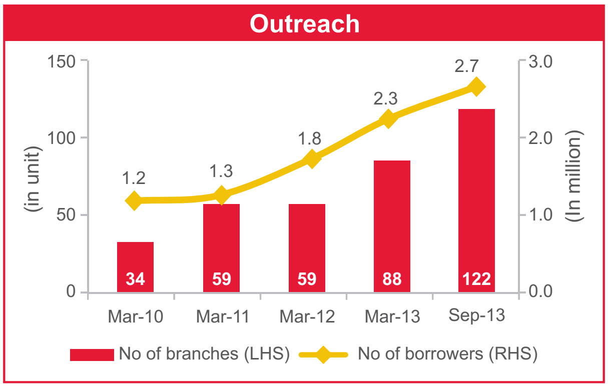
Shree Kshetra Dharmasthala Rural Development Project

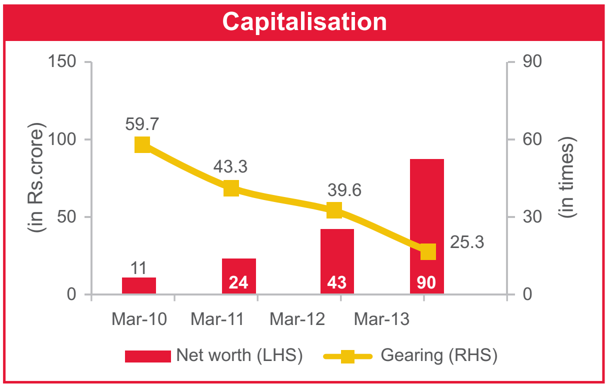
Shree Kshetra Dharmasthala Rural Development Project (SKDRDP) is a charitable trust established in 1982, aimed at undertaking rural development activities in various parts of Karnataka. The organisation is promoted by Dr. D Veerendra Heggade (trustee of Shri Kshetra Dharmasthala – a renowned temple in the region). The trust had 122 branches with a portfolio size of Rs.2,567 crore as on September 30, 2013.

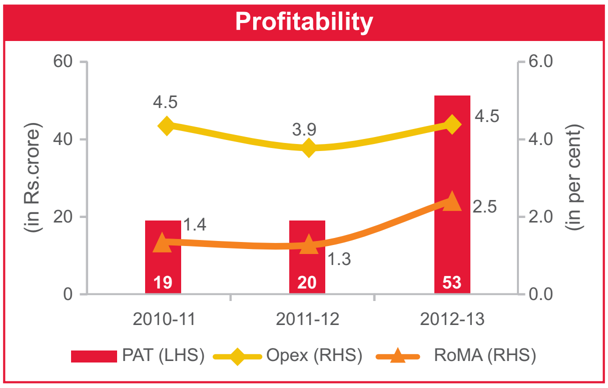
Performance on key parameters

- The portfolio outstanding and borrower base has grown at a CAGR of 50 and 24 per cent respectively during the 3 years ended March 31, 2013
- Asset quality is healthy, as evidenced by on-time repayment of more than 98 per cent of the receivables over the past three years
- Was one of few MFIs that were able to raise funds regularly even during the Andhra Pradesh crisis. However, similar to other MFIs, its reliance on wholesale funding from banks is high
- Capitalisation has improved over the past 2 years driven by increase in corpus; however leverage remains high. Although there has been infusion of about Rs.53 crore during 2012-13, the corpus remains small at Rs.90 crore as on March 31, 2013 in relation to its overall loan portfolio
- Profitability is above-average, with return on managed assets of 2.5 per cent for 2012-13, up from 1.3 per cent for 2011-12. This is despite increase in operating expense ratio to 4.5 per cent in 2012-13 from 3.9 per cent in 2011-12









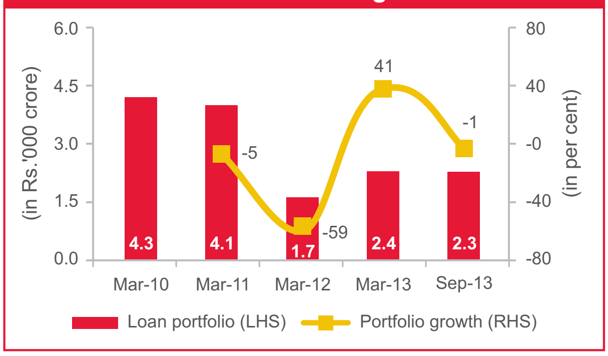
SKS Microfinance Ltd

SKS Microfinance Ltd (SKS) was incorporated as a private limited company in 2003 for taking over the microfinance activities of Swayam Krishi Sangam, a society that was registered in 1997 and began operations in 1998. After obtaining the NBFC license from the Reserve Bank of India in January 2006, SKS took over the operations of Swayam Krishi Sangam. SKS is the only listed MFI in India and had its operations spread across 15 states with no state accounting for more than 20 per cent of its overall loan portfolio as on September 30, 2013. Having successfully survived the Andhra Pradesh crisis despite having a large exposure to the state, SKS is the second largest NBFC-MFI with loan portfolio of Rs.2,348 crore as on September 30, 2013.

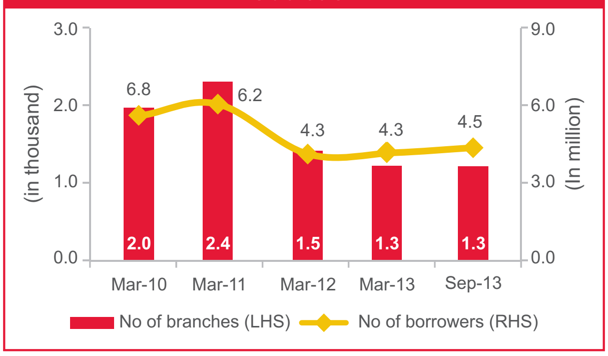
Performance on key parameters

- Loan portfolio grew to Rs.2,359 crore as on March 31, 2013 from Rs.1,669 crore a year ago, a year-on-year growth of around 41 per cent
- The portfolio performance outside Andhra Pradesh remains strong, with healthy collection efficiency of 99.8 per cent; however recovery in the Andhra Pradesh portfolio remains low
- Has relationship with nearly 20 banks and financial institutions. Also raises funds through securitisation on a regular basis
- Capitalisation adequate for current scale of operations, as seen in net worth of Rs.411 crore and gearing of 5.5 times as on September 30, 2013. The company proposes to strengthen capitalisation further to support medium-term growth plan
- Reported a net profit of Rs.5 crore and Rs.16.3 crore respectively during the first and second quarters of 2013-14, after reporting losses during 2011-12 and 2012-13. The profitability is expected to remain above average over the medium term, supported by strong collection performance outside Andhra Pradesh and un-availed deferred tax benefit of Rs.555 crore as on March 31, 2013

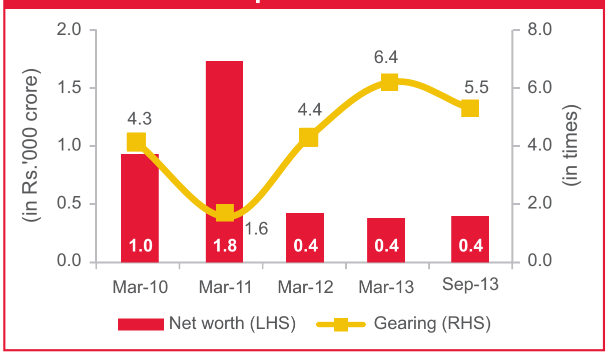
Portfolio size and growth



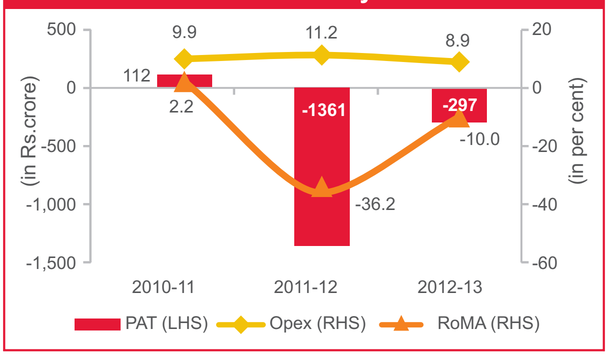
Outreach



Capitalisation



Profitability



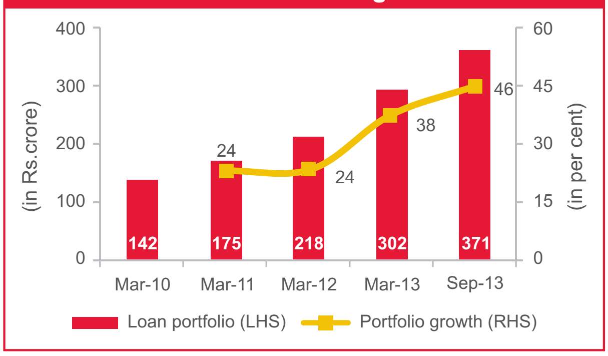
S.M.I.L.E Microfinance Ltd

S.M.I.L.E Microfinance Ltd (SMILE) was set up by Dr. N. Sethuraman in 2004 and is the first urban MFI to set up operations in Chennai in 2005. The company initially shared its member base with its parent institution, Mahasemam Trust. Effective April 2011, the operating agreement between SMILE and Mahasemam Trust was terminated and the two entities now operate independent of each other. The company had a branch network of 158 branches across 23 districts in Tamil Nadu and Puducherry and had a loan portfolio of Rs.371 crore as on September 30, 2013.

Performance on key parameters

- SMILE, a mid-sized MFI based out of Tamil Nadu, reported CAGRs of 29 and 19 per cent, respectively, in loan portfolio and borrower base in the 3 years ended March 31, 2013. The operations are primarily concentrated in Tamil Nadu and Puducherry
- Asset quality has improved since March 2012, as evidenced by its 30+ dpd of less than 0.1 per cent
- Has relationships with nearly 20 lenders comprising banks, NBFCs and other financial institutions. The cost of borrowings is comparable with peers of a similar size
- Capitalisation is adequate for current scale of operations, with net worth of Rs.76 crore, gearing of 4.6 times, and capital adequacy ratio of 24.4 per cent as on March 31, 2013
- Profitability reduced significantly during 2012-13 on account of limited growth in interest income. The return on assets reduced 0.7 per cent from 2.4 per cent during the previous year

Portfolio size and growth



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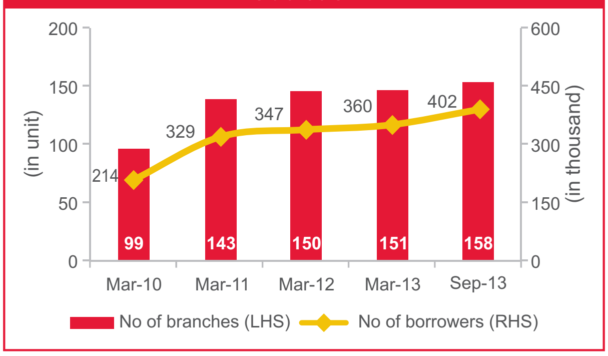
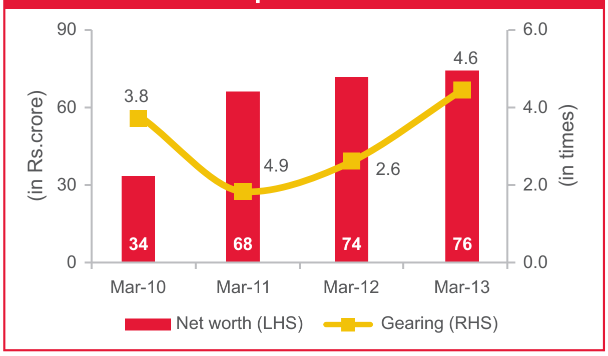
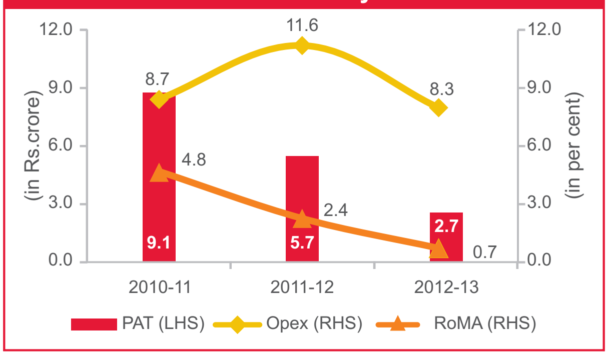


Capitalisation



Profitability

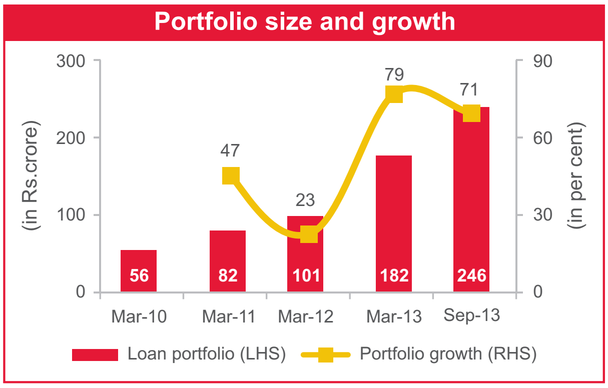


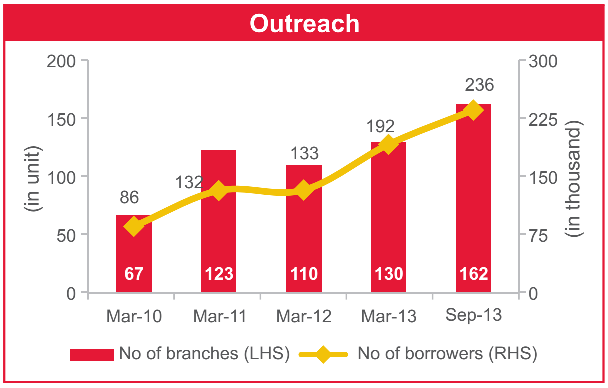
Sonata Finance Pvt Ltd

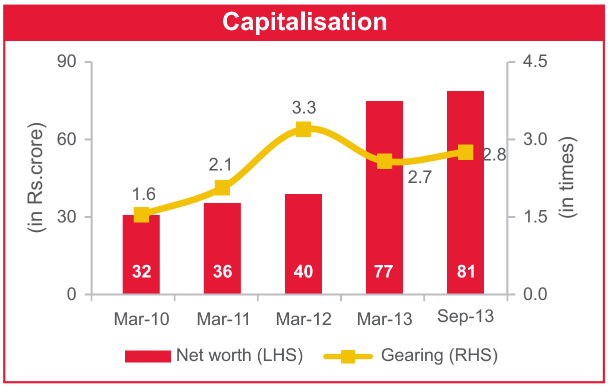
Incorporated in 1995, Sonata Finance Pvt Ltd (Sonata Finance) was acquired by its current management in 2006, following which the company started its microfinance operations. The promoters have experience of managing operations of a large MFI based in northern India. In 2007, Sonata Finance acquired the microfinance unit of the Jeevika Livelihood Support Organisation in Madhya Pradesh. Sonata Finance is one of the fastest growing NBFC-MFIs in northern India and had a network of 162 branches spread across 48 districts in five states, and a loan portfolio aggregating Rs.246 crore as on September 30, 2013.

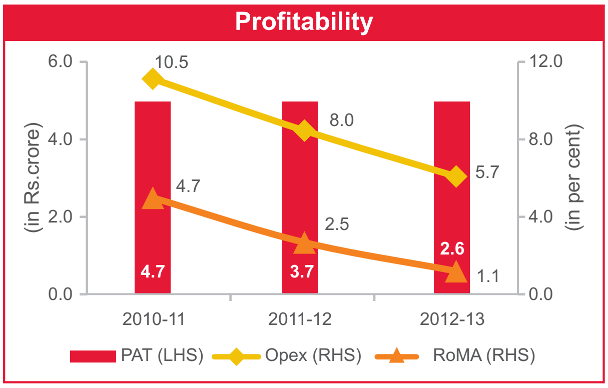
Performance on key parameters

- The portfolio outstanding and borrower base have grown at a CAGR of 48 and 31 per cent respectively during the 3 years ended March 31, 2013. Though the operations are predominantly concentrated in Uttar Pradesh, the company has a presence in five states and is focused on improving its geographic diversity over the medium term
- Systems and processes are sound; they have helped maintain healthy asset quality—with 30+ dpd of 0.2 per cent as on September 30, 2013
- Has relationships with 17 lenders as on September 30, 2013; also raises funds through securitisation on a regular basis. Recently raised funds through issue of non-convertible debenture to further diversify its resource profile
- Adequately capitalised for current scale of operations, with net worth of Rs.81 crore and gearing of 2.8 times as on September 30, 2013; the company has plans to infuse more capital in near future to support medium-term growth
- Profitability is modest but improving. The return on managed assets improved to 2.8 per cent during the first half of 2013-14 from 1.1 per cent during 2012-13. However, ability to maintain profitability while reducing its margin to comply with revised regulations will be critical









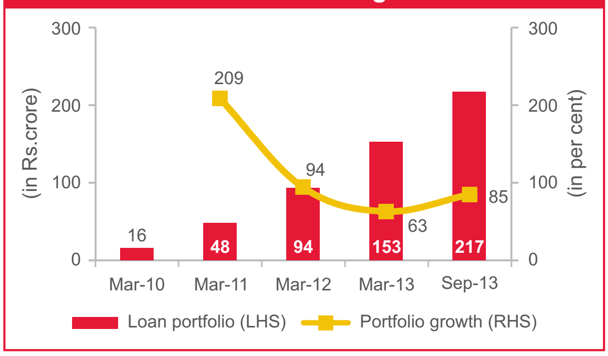
Suryoday Micro Finance Pvt Ltd

Incorporated in 2008, Suryoday Micro Finance Pvt Ltd (Suryoday) commenced full-fledged operations from May 2009. The company, engaged in providing group loans using the Grameen Bank model, has presence in around 70 branches spread across nearly 30 districts in the states of Maharashtra, Tamil Nadu, Gujarat, Odisha, Rajasthan, and Karnataka and had a loan portfolio aggregating Rs.282 crore as on January 31, 2014.

Performance on key parameters

- Suryoday's portfolio outstanding and borrower base have grown at CAGRs of 114 and 85 per cent respectively during the 3 years ended March 31, 2013. Though the operations are concentrated in Maharashtra, the company has a presence in six states and is focused on improving its geographic diversity
- 30+ dpd has remained low during the past 18 months after rising sharply after the Andhra Pradesh crisis. The company has a presence in some districts of Andhra Pradesh
- Has relationship with more than 15 lenders as on September 30, 2013; also raises funds through securitisation on a regular basis
- Adequately capitalised for current scale of operations, with net worth of Rs.79 crore, and gearing of 2.5 times as on September 30, 2013. Has demonstrated ability to raise capital on a regular basis to support its growth plans
- Profitability though modest has been improving due to reduction in operating expense ratio. The return on managed assets improved to 1.1 per cent during 2012-13 from 0.5 per cent during 2011-12. However, ability to maintain improvement in its profitability over the medium term will be critical

Portfolio size and growth



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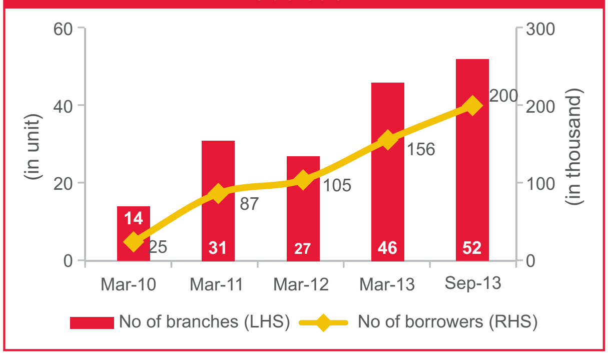
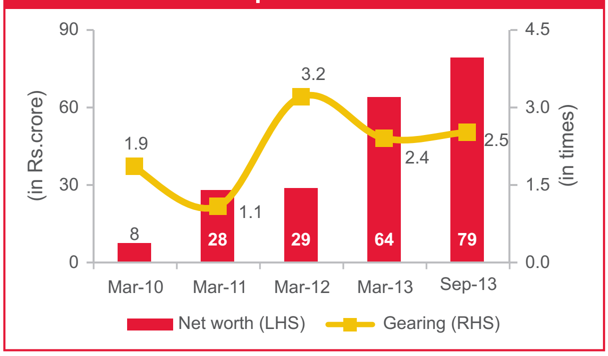
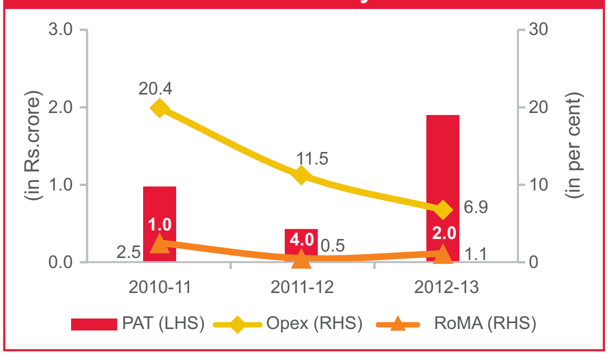


Capitalisation



Profitability



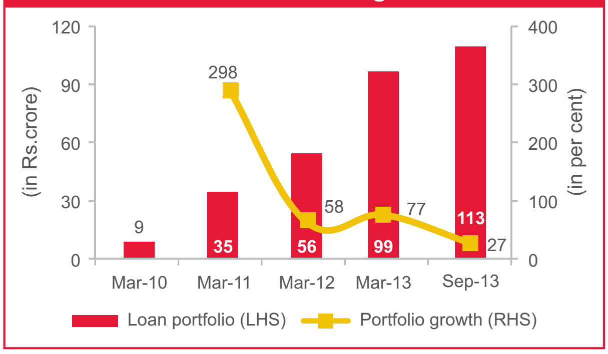
SV Creditline Pvt Ltd

SV Creditline Pvt Ltd (SV Creditline) was incorporated in 1996 as Mantrana Finlease Pvt Ltd and got its present name in September 2008. The company commenced microfinance operations in January 2010. As on December 31, 2013, SV Creditline had a network of 57 branches across 27 districts in three states of Uttar Pradesh, Madhya Pradesh and Rajasthan.

Performance on key parameters

- One of the fastest growing mid-sized MFIs, with a loan portfolio of Rs.113 crore as on September 30, 2013. The loan portfolio and borrower base have grown at CAGRs of 124 and 130 per cent in the 3 years ended March 31, 2013. However, about half the business is concentrated in Uttar Pradesh
- Asset quality is moderate but improving. The 30+ dpd reduced to nearly 0.5 per cent after increasing sharply to around 2 per cent in the wake of the Andhra Pradesh crisis
- The resource profile is adequate; has relationships with over 15 lenders as on March 31, 2013. The cost of borrowing is comparable with peers of a similar size
- Capitalisation is moderate; the net worth and gearing were at Rs.25.2 crore and around 5 times as on September 30, 2013. However, the company will need to raise capital on a regular basis to maintain market share
- Profitability is modest with low return on assets of around 0.6 per cent over the past 2 years. The high operating expense ratio is the primary reason for low profitability. Ability to operate profitably under the revised regulatory regime will be critical

Portfolio size and growth



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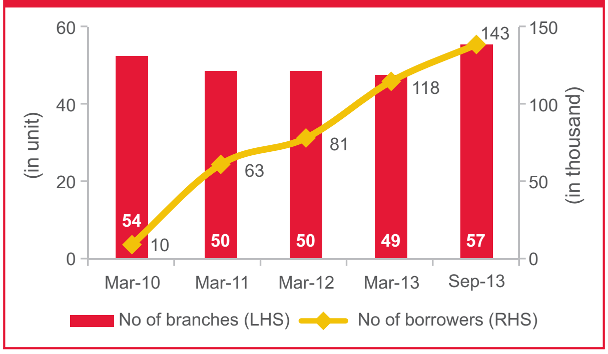

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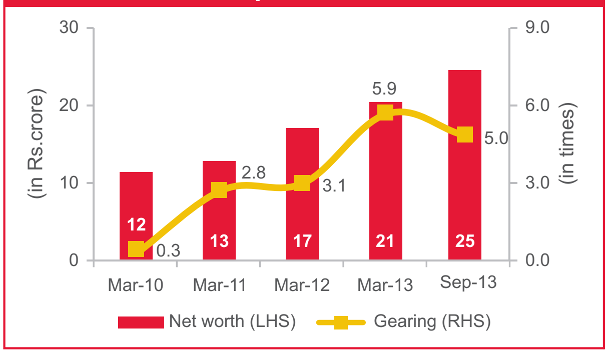
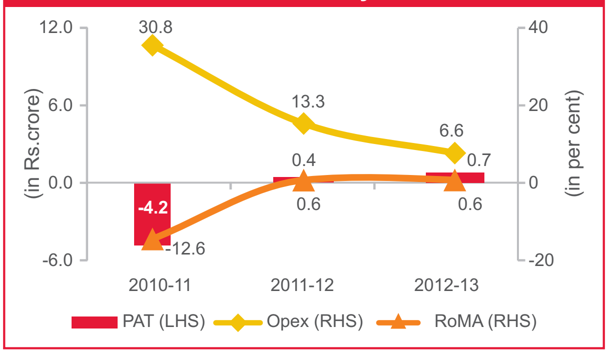


Profitability



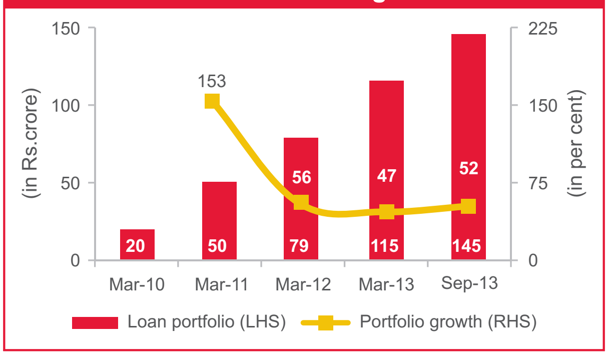
Swadhaar FinServe Pvt Ltd

Swadhaar FinServe Pvt Ltd (Swadhaar), headquartered in Mumbai (Maharashtra), is among the earliest to come up with initiatives aimed at providing financial services to India's economically active urban poor. Prior to launching Swadhaar, the promoters set up a non-profit entity, Swadhaar FinAccess (SFA), in 2005. Although Swadhaar's founders began microcredit activities under SFA, the organisation transferred its lending portfolio to Swadhaar in 2008. SFA now focuses solely on credit-plus products and services, including financial education, insurance, and savings facilitation. Swadhaar had loans outstanding of Rs.145 crore as on September 30, 2013, spread across 40 branches in Maharashtra and Gujarat. Swadhaar has also extended its reach by opening branches in Madhya Pradesh and Rajasthan.

Performance on key parameters

- The portfolio outstanding and borrower base have grown at CAGRs of 80 and 52 per cent respectively during the 3 years ended March 31, 2013. Operations are concentrated in Maharashtra and Gujarat. However, in order to diversify operations, the company has opened branches in Madhya Pradesh and Rajasthan
- Asset quality has improved with reduction in individual loan portfolio; the 30+ dpd reduced to 1 per cent as on March 31, 2013 from around 3.5 per cent. However, ability to replicate processes and maintain sound asset quality in new geographies while improving portfolio diversity will be critical
- Has relationships with nearly 12 banks and financial institutions. Also raises funds through securitisation regularly
- Capitalisation is adequate for current and planned scale of operations, with net worth of Rs.47 crore and gearing of around 2.4 times as on September 30, 2013
- The earnings profile is modest though improving; the return on managed assets increased to 0.9 per cent during 2012-13 from 0.6 per cent during 2011-12

Portfolio size and growth



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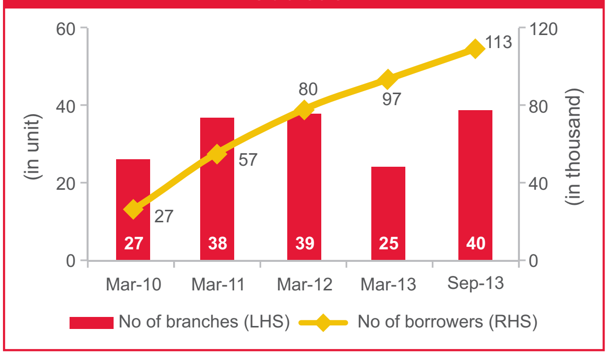

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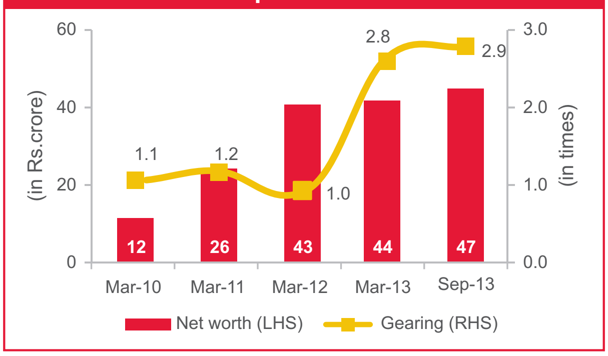

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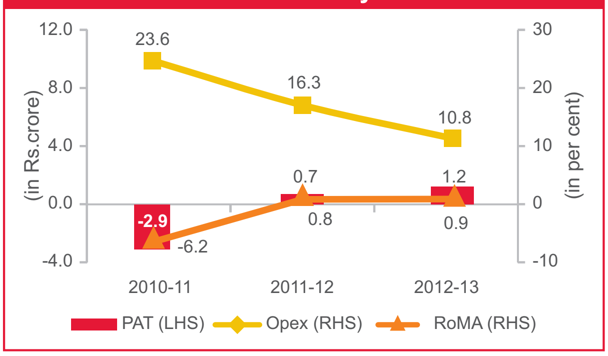


Ujjivan Financial Services Pvt Ltd

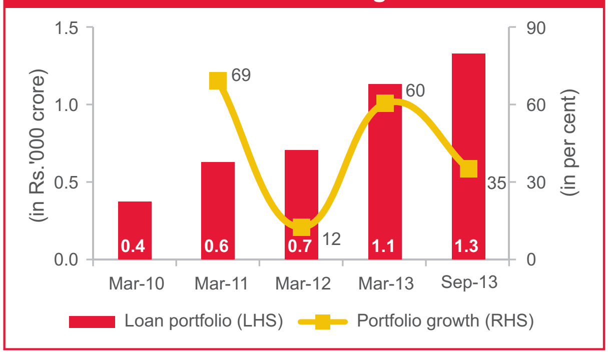
Ujjivan Financial Services Pvt Ltd

Ujjivan Financial Services Pvt Ltd (Ujjivan), set up by Mr. Samit Ghosh, is among the first few MFIs in the country to design and run urban microfinance programmes. The company has a strong and well-diversified board of directors comprising professionals with extensive industry experience. The company has been able to attract capital from multiple sources at regular intervals and demonstrated steady portfolio growth. Ujjivan is one of the most diversified MFIs in the country with operations spread across nearly 20 states. With a loan portfolio of Rs.1,323 crore as on September 30, 2013, the company is also among the top 10 MFIs in India.

Performance on key parameters

- The portfolio outstanding and borrower base have grown at CAGRs of 45 and 21 per cent respectively during the 3 years ended March 31, 2013. The company has a well-diversified portfolio spread across nearly 20 states
- Portfolio performance has improved significantly after a marginal increase post the Andhra Pradesh crisis. The 30+ dpd reached a 5-year low of 0.25 per cent as on March 31, 2013 and its repayment rate reached a record high of 99.73 per cent in March 2013
- Focused on diversifying resource profile; issues non-convertible debentures regularly. Non-convertible debentures accounted for nearly 12.5 per cent of outstanding borrowings as on March 31, 2013
- Healthy capitalisation for current and planned scale of operations. Has attracted capital from multiple sources to support portfolio growth
- Improved earnings profile, as reflected in return on managed assets of nearly 3 per cent during 2012-13 as compared to 0.2 per cent during 2011-12. The profitability improved in 2012-13 primarily because of substantial reduction in operating expense ratio. Ujjivan's ability to reduce its operating expense further and sustain its profitability while reducing its margin to comply with the revised regulations will be critical

Portfolio size and growth



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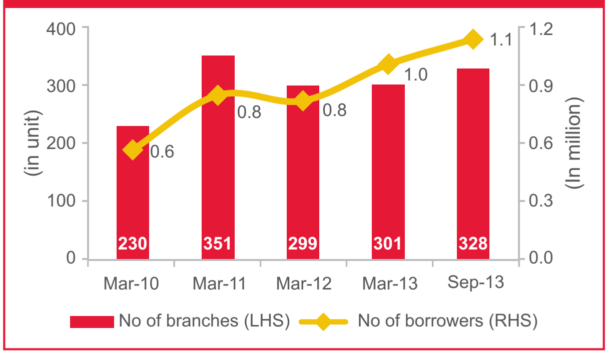

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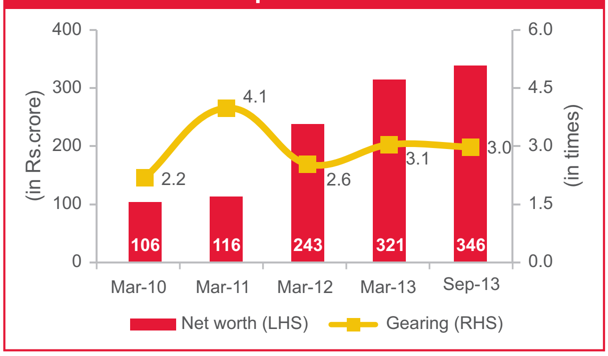

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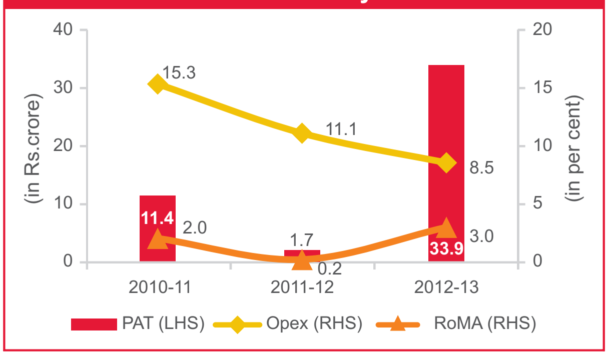


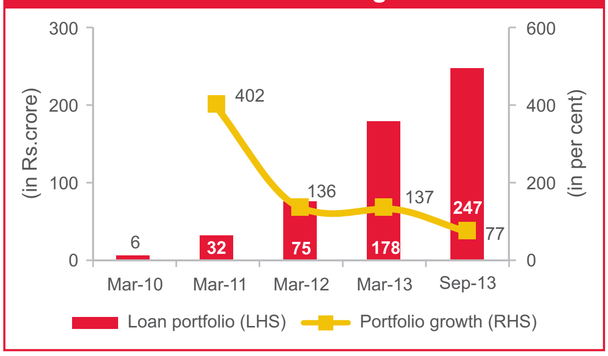
Utkarsh Micro Finance Pvt Ltd

Utkarsh Microfinance Private Ltd (Utkarsh), promoted by Mr. Govind Singh (an ex-banker), commenced operations in August 2009. Based out of Varanasi (Uttar Pradesh), the company is one of the fastest growing mid-sized MFIs and has a network of 112 branches and loan portfolio of Rs.247 crore as on September 30, 2013.

Performance on key parameters

- Has ramped up business considerably over the past three years; the loan portfolio and borrower base grew at CAGRs of 204 and 163 per cent respectively during the 3 years ended March 31, 2013. Operations are however concentrated in Uttar Pradesh, which accounts for nearly 60 per cent of its loan portfolio as on September 30, 2013
- The asset quality has been healthy. The collection efficiency has been maintained at close to 100 per cent. However, ability to maintain healthy asset quality once portfolio growth stabilises at industry-average rates will be critical
- Relies primarily on loans from banks and NBFCs for its funding requirement. Ability to diversify its resource profile and raise funds from debt and capital markets will help scale up business quickly
- Capitalisation is comfortable; the gearing is low at 3.6 times as on March 31, 2013. Has demonstrated ability to raise capital regularly to support growth
- Utkarsh's profitability is moderate, primarily due to its high operating expense ratio. However, the benefits of higher loan book will help improve operating efficiency going forward. Ability to operate profitably under the revised regulatory regime will be critical

Portfolio size and growth



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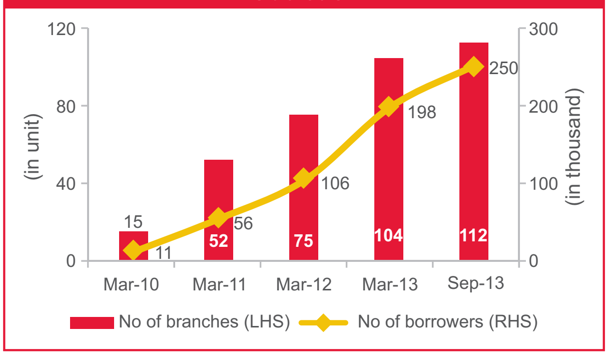
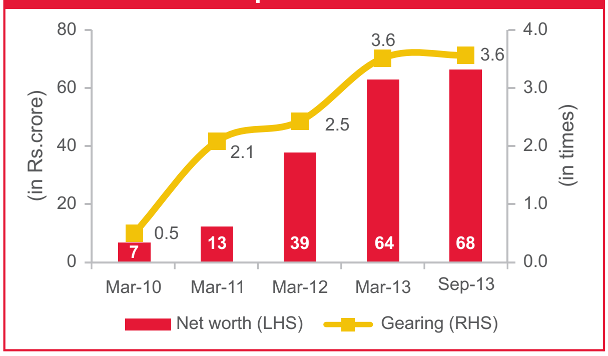
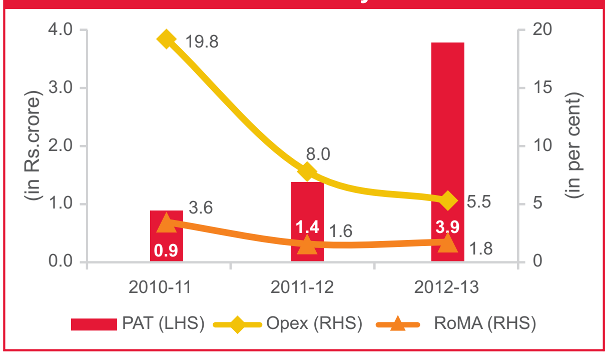


Capitalisation



Profitability



Other Emerging MFIs in India

Other Emerging MFIs in India

Company Name	As on	Location	Loan assets (Rs. Crore)
Adhikar Microfinance Pvt Ltd	Mar-13	Orrisa	116
ASA International India Pvt Ltd	Mar-14*	West Bengal	48
Belstar Investment & Finance Pvt Ltd	Sep-13	Tamil Nadu	80
Chaitanya India Fin Credit Pvt Ltd	Mar-13	Karnataka	31
Future Financial Services Ltd	Dec-13	Andhra Pradesh	204
Growing Opportunity Finance (India) Pvt Ltd	Mar-14	Tamil Nadu	36
Humana People to People India	Mar-13	Delhi NCR	13
IDF Financial Services Pvt Ltd	Sep-13	Karnataka	58
Indian Cooperative Network for Women Ltd	Mar-14	Tamil Nadu	14
M Power Micro Finance Pvt Ltd	Mar-13	Gujarat	17
Mahasemam Trust	Mar-13	Tamil Nadu	57
Margdarshak Financial Services Ltd	Mar-13	Uttar Pradesh	28
Pahal Financial Services Pvt Ltd	Mar-14	Gujarat	46
Rashtriya Seva Samithi	Mar-13	Andhra Pradesh	61
Sahara Utsarga Welfare Society	Mar-13	West Bengal	45
Sahayog Microfinance Ltd	Dec-13	Madhya Pradesh	71
Saija Finance Pvt Ltd	Mar-13	Bihar	25
Samhita Community Development Services	Mar-13	Madhya Pradesh	33
Sanghamitra Rural Financial Services	Mar-13	Karnataka	105
Sarala Women Welfare Society	Mar-13	West Bengal	32
Shikhar Microfinance Pvt Ltd	Dec-13	Delhi	22
Uttrayan Financial Services Pvt Ltd	Mar-13	West Bengal	20
Vedika Credit Capital Ltd	Mar-14*	Ranchi	55
Village Financial Services Pvt Ltd	Mar-13	West Bengal	110
YVU Financial Services Pvt Ltd	Mar-13	Manipur	3

*Provisional

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