

September 24, 2014

Shri Dibyajyoti Pattanaik,
Director,
Annapurna Microfinance Pvt Ltd
Plot No. 1215/1401, Khandagiri Bari,
Bhubaneswar – 751030, Odisha

Confidential

Dear Sir

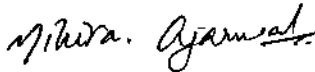
Grading of Micro Finance Institution (MFI)


Please refer to our letter dated September 11, 2014 on the captioned subject.

2. As already advised, our Rating Committee has assigned a grading of 'MFI 2' (MFI Two) to your organisation.
3. The rationale for the grading is enclosed as an **Annexure - I** to this letter.
4. CARE's grading is an opinion of CARE on the relative capability of the organisation to undertake micro-financing activity and does not constitute a recommendation to buy, hold or sell any financial instrument issued by the organisation or to make loans/ donations/ grants to the said organisation.

Thanking you,

Yours faithfully,


(Nikita Agarwal)
Deputy Manager


(Vincent Chamaria)
Manager

Encl. – As above

Annapurna Microfinance Pvt. Ltd

MFI Grading Report

Year of incorporation	1986 (as Gwalior Finance and Leasing Company Private Limited)	MFI 2 Third on the eight point scale with "MFI 1" being the highest and "MFI 5" being the lowest
Legal status	NBFC-MFI	
Year of acquisition	2009 (Renamed as Annapurna Microfinance Private Limited in February 2010)	
Year of commencement	March 2010 (In 2004 under Peoples Forum)	
Lending model	Self Help Group (SHG)	
Managing Director	Mr. Gobinda Pattanaik	
Number of states of operation	2 (as on March 31, 2014)	
Branches	54 (as on March 31, 2014)	
Employees	429 (as on March 31, 2014)	

CARE has assigned grading of 'MFI 2' Annapurna Microfinance Pvt. Ltd (AMPL). Grading is assigned on a eight point scale with 'MFI 1' being the highest and 'MFI 5' being the lowest. There is no individual definition for each grading. CARE's MFI grading is a measure of overall performance of the MFI based on TOSS framework.

Credit Analysis and Research Ltd – September 2014

Kolkata

Toss Framework

Transparency		High
<ul style="list-style-type: none"> ○ Constituted as a private limited company. ○ Registered with RBI as NBFC - MFI. Legal form is subjected to greater regulatory norms and reporting. ○ Experienced Board of Directors of seven directors with two independent directors and three nominee directors from Incofin, BIO & SIDBI. ○ Existence of monitoring committees like audit, HR & credit committee, etc. ○ Credit policies are well established documented and communicated. ○ Transparency in lending process is adequate. ○ Transparency in usage of funds is adequate. ○ Overall disclosures are adequate. ○ Internal audit team is present; and it covers each branch at least once in a month and prepares and submits audit report on monthly basis. 		
Operational Setup		Strong
<ul style="list-style-type: none"> ○ Majority shareholding is with the institutional investors. ○ Long experience of promoters in the area of banking and financial services. ○ Separate departments with no overlapping of roles. ○ Strong loan appraisal & monitoring systems. ○ Adequate system for tracking over-dues and collection of delinquent loans after escalation depending on duration of overdue. ○ MIS is adequate for current level of operations with satisfactory degree of computerization at branches and head office. ○ Good maintenance of accounting and record ○ Organizes training of employees with senior management and eminent personalities from the field of finance/management. 		
Scale of Operations		Medium
<ul style="list-style-type: none"> ○ Medium client base. As on March, 2014 it covers more than 1.5 lakh active borrowers. ○ In terms of gross loan portfolio, amongst mid-size MFIs in India. ○ As on March 31, 2014, it had owned portfolio outstanding of Rs.98.19 crore and managed portfolio of Rs.72.20 crore. ○ It operates in around 3000 villages covering 26 districts in 2 states. ○ Low geographical reach with operations spread into 2 states (as on March 31, 2014) and it has started diversifying to other states to reduce its concentration in Orissa. New branches opened in Madhya Pradesh and Maharashtra in April 2014. Feasibility studies underway for opening branches in Bihar and Jharkhand. 		
Sustainability		Above Average
<ul style="list-style-type: none"> ○ Reasonable second line of leadership. Majority of the senior management has more than five years of experience in the microfinance sector. ○ Capital adequacy ratio at comfortable levels. ○ Legal form allows equity infusion from the investors. ○ Good asset quality in FY14. Has maintained a high collection efficiency of more than 99% in past two years. ○ Successfully started tapping securitization route from FY11. ○ AMPL has been able to maintain OSS level above 100% in past three financial years. ○ In March 2014, Belgian Investment Company (BIO) together with Incofin has invested Rs.30 crore partly as equity (Rs.6 crore) and partly as CCD (Rs.24 crore). The process of CCD conversion is in its final stage. ○ Has presence in areas with high penetration of MFIs. ○ The sector faces socio-political risks, regulatory uncertainty but has huge unmet potential demand. Some clarity has come on the regulatory front with RBI guidelines for NBFC MFI and retention of Priority Sector Lending (PSL) status to NBFC-MFI. 		

GRADING RATIONALE

People's Forum (PF) was incorporated as a society in 1990 under society's registration act XXI of 1860 by Mr. Gobinda Pattanaik. It started operation in Khurda district of Orissa with the objective to form and promote self help groups (SHGs) of the poor and oppressed women and to attain improvement in their socio-economic condition through economic activities. Other than micro finance activity, the organization is also involved in various developmental activities for their clients including entrepreneurship development programs, rural marketing, training institutions, business development support services etc.

In FY07, PF segregated its microfinance activity from its developmental activities and created an independent project called 'Mission Annapurna'. PF promotes self help groups (SHGs) consisting of women members and operating in rural and urban areas. On the strategic front, they have realized that with the growing demand for microfinance activities, they would face lots of limitation with the current legal form. In November 2009, the Promoters of PF acquired Gwalior Finance and Leasing Company Private Limited, a NBFC registered in Varanasi (Uttar Pradesh). The name of the NBFC was changed to Annapurna Microfinance Private Limited (AMPL) in February 2010. Post acquisition, AMPL initiated the process of inheriting the microfinance business of People's Forum. In FY13, the entire microfinance operations of PF was transferred to AMPL (portfolio aggregating Rs.6.89 crore) and at present PF is not having any microfinance loan assets in its books. Parallel to this all the staffs who were working with PF for microfinance activities were also transferred to AMPL's payroll.

Major activities of AMPL include the following:

- Formation and nurturing of SHGs
- Inculcating savings habit among the poor.
- Insurance coverage to its client and spouse.
- Imparting skill to the SHG members by way of giving vocational training on various income generating activities.
- Organizing health camps, eye camps, and medical check-up camps.

As on March 31, 2014, AMPL had 158,667 individual borrowers with total outstanding portfolio (including managed portfolio) of Rs.170.39 crore. The organization's operation spreads across 2 states (Orissa & Chhattisgarh) with 54 branches covering over 26 districts and around 3,000 villages. The operations of the company are managed by a workforce of 429 people.

TRANSPARENCY

AMPL is registered as a private limited company (NBFC-MFI) and is headed by a seven member board. It is governed by the provisions of the Companies Act 1956 for constitution and selection into board. The board of directors meets on a regular basis to monitor the activities and discuss the financial and operational performance of the company. The board comprises of members from diverse background with rich experience across banking, social development and micro financing sectors. AMPL has been successful in diversifying its profile of board members over the years. It has total 7 board members with three investment directors each from Incofin, SIDBI & BIO and two independent directors.

Apart from the executive committee headed by the Managing Director, there are special committees like audit committee, credit committee, loan monitoring committee and risk management committee each headed by an experienced professional having rich experience in their domain and meets at an interval of one to three months.

Mr. Gobinda Chandra Pattanaik, Managing Director of AMPL has more than two decades of experience in implementing various social developmental and micro enterprise activities. He is ably assisted by Mr. Dibyajyoti Pattanaik, whole time director and Chief Financial Officer (CFO) of AMPL. Mr. Dibyajyoti Pattanaik holds a management certificate from Boulder Institute of Management, USA in Micro Finance.

Policies

AMPL has clearly defined and documented credit policies. Credit policy communication is done verbally through group meetings, training sessions and training booklets distributed among the SHG members.

Transparency in lending process

AMPL communicates its lending policies to the borrowers through written documents and its training programs at the group meetings. During the visit by the rating team the SHG borrowers were aware of their monthly installments, their outstanding liabilities and loan eligibility criteria. Loan documents and registers are maintained neatly at branches and borrowers have record of their transactions in the form of 'Loan Pass Book' having all the details of the loans. AMPL calculates interest chargeable on loan amount on reducing balance basis at monthly rest.

Transparency in utilization of funds

AMPL maintains the member wise details of loan portfolio with utilization report for onward submission to the bankers. Besides, AMPL also regularly submits operational and financial



information to money lenders. Every borrower is lent from the funds of one of the lending banks or institutions specifically to keep the transactions transparent and traceable during internal audit and review process of the lenders.

Overall disclosures

AMPL submits its operational and financial information to Sa-dhan to make them available on public domain. It also submits detailed lending information to its bankers and financial institutions. It is also filing its audited results every year with the registrar of companies. Apart from mandatory disclosures, as a part of voluntary disclosure it publishes its operational details and other major updates on its website.

Internal Controls

AMPL has separate internal audit team comprising of 25 members and headed by Mr. Arun Prasad Sahoo having more than eight years of experience of working in an MFI. Besides it has separate risk management committee to examine and evaluate AMPL's framework of risk management, control and governance processes. It verifies and submits its reviews reports on branch functioning, cash holding & insurance limits, branch lending limits and SGH borrowing parameters. The internal audit team members from the head office visit all branches on a monthly basis for audit of its accounts and the receipts, vouchers and all other books maintained at the branch level to ensure adequate control and governance. *Thus AMPL has a clearly defined audit calendar.*

OPERATIONAL SETUP

Managerial Factors

Ownership

The promoter stake (about 38.21%) of AMPL is with Shri Gobinda Chandra Pattanaik & Shri Dibyajyoti Pattanaik. While Incofin, a Belgium based institutional investor is holding 44.16%, SIDBI holds about 6.0% and BIO holds 11.63% of total shareholding. Incofin manages Rural Impulse Fund II in India, which is specifically designed for investment in MFIs across India. Mr. Aditya Bhandari from Incofin is in the Board of AMPL from July 2012. In addition to this, AMPL's board is also represented by two independent directors (Mr. Sean Nossel and Mr. KK Tiwary), both having adequate experience across micro financing and social developmental sector.

Management

Shri Gobinda Chandra Pattanaik, founding member and Managing Director, looks after the day-to-day affairs of the organisation along with a dedicated team of professional having rich experience



in the field of microfinancing. He has more than two decades of experience in banking, rural credit and priority sector lending. He is ably assisted by his brother Shri. Dibyajyoti Pattanaik, the Whole Time Director cum CFO of AMPL. He played a key role in transformation of Mission Annapurna project of People's Forum to AMPL. Further, they are supported by the highly qualified board of directors having rich experience in varied fields with considerable experience in micro financing and other social developmental activities.



Level of decentralization of branches

At the branch level, branch manager is responsible for the day-to-day affairs of the concerned branch. The branch manager is supported by field/ credit officers. At the branch level, meetings are conducted twice in a month by the branch manager. This has created a reporting structure for effective ascertainment of branch performance. Staff review meetings are held at the head office on monthly basis. *Disbursement takes place only with the concurrence of the head office credit department. HO also has the final say in sanction of loans and policy matters. Therefore level of decentralization in AMPL is negligible.*

Second line of leadership

The second line of leadership includes all the functional heads. All of them have strong leadership quality and rich experience in the field of microfinance.

Human resources management

Staff strength and experience	<ul style="list-style-type: none">• Total staff of 429 (as on March 31, 2014) including 223 field assistant /credit officers. Field credit officers are mostly graduates but also include few post graduates.• Experience amongst the field credit officers varies but majority of them have more than 1-3 years experience.
Recruitment and selection	<ul style="list-style-type: none">• Majority of the recruitment is done through giving newspaper classified advertisements and employee referrals.• The recruitment process is centralized at head office and mainly handled by the senior management.
Training systems	<ul style="list-style-type: none">• Compulsory induction training is given to all new recruits on joining for one month at HO together with on the job practical training at branch level.• At regular intervals, HR & administration department conducts training & development programs in their premises for providing inputs to the existing staff on new policies and procedures and enhances their effectiveness & productivity.• The employees are also sponsored for participating in workshops and training sessions organized by others.
Remuneration and incentive structure	<ul style="list-style-type: none">• Clearly defined compensation system encompassing basic salary and other incentives.• Incentive structure is based on the overall performance, profitability

	and assets quality of the branch and paid annually. Annual increment is also based on performance and branch manager's overall assessment of the staff.
--	---

Operational aspects

Operational methodology

AMPL provides loans to Self Help Groups (SHGs) consisting of 10-15 women members. Field Credit Officer (FCO) conducts survey and interacts with the ward member, collects the data of the number of people living in the locality below poverty line. Orientation meeting is conducted by the FCO and Branch Manager (BM) and general overview including the group formation procedures is provided to the persons interested in accessing services from AMPL. The groups are homogeneous based on the economic status and geographical location. Each group elects its president and secretary to manage the operations of the group. AMPL encourages SHG members for savings and supports them in opening a bank account in the name of SHG in the nearest bank. FCO interacts with the members at the SHG meeting and all the activities of the group are done at this level.

Any group member at group meeting can avail internal loan from their savings after discussion with the group members and passing of the resolution for availing loan. After monitoring the performance for a period of three months, groups are considered for sanction of loans.

Application, appraisal, disbursement, collection and overdue management process

Application & Appraisal Process:

AMPL has a systematic loan application process in place. BM along with FCO visits the group for loan assessment. Grading is done by BM and only those groups which score 75% marks or more qualify for next level of screening by the Appraisal officers at the HO level. At the branch level, AMPL has branch credit committee consisting of BM, FCO, Appraisal Officer and AM. Head office credit committee consists of CEO, COO, CFM, Operation Manager (OP), Risk Manager (RM) and ZM. Head office credit committee sanctions the loan proposal based on the recommendation of the BM, AM, Appraisal Officer and on the past repayment history of the groups (if any). Head office credit committee members also directly interact with SHG members over the phone for further assessment of the borrowers. At the time of appraisal, AMPL tracks the percentage of the clients that are borrowing from other banks or MFIs through High Mark Credit Bureau and cross checks it with the self declaration

form collected from the clients. The FCO collects the loan application from each group along with supporting documents such as the voter ID card and/or ration card for compliance with KYC guidelines.

Loan appraisal process is centralized with branch managers giving recommendation for loan approval and sending it to H.O. for final sanction.

Disbursement process:

AMPL has well-defined loan disbursement practices. Based on the final approval from the head office, the credit committee issues sanction letter to the accounts department. The account manager checks availability of funds and cheques are issued at the HO level with signatories being the CEO and AM. Cheque is handed over to the operation department (disbursement officer) for withdrawal or in the cases where AMPL has opened a bank account at the branch level. The accountant directly transfers funds through RTGS to the concerned bank account of the branch. AM has authority to withdraw cash from the bank. The loan is disbursed in cash by the BM of the concerned branch in the presence of the operation team member, AM and FCO to borrowers at branch office and collects insurance premium and loan processing fees from the borrowers. At the time of disbursement, following documents are collected from the SHG members.

- Interest Agreement of the SHG group
- Demand promissory note

AMPL provides individual pass book and repayment schedule to the SHG members for tracking of the future repayments.

Loan collection and Overdue Monitoring process:

AMPL has reasonable loan collection and overdue monitoring systems. BM verifies the demand collection sheet along with the record kept at the branch level and issues demand collection sheet (via hard copy) to FCO. Prior to the recovery of loan, FCO conducts pre-recovery visit and informs the borrowers about the repayment date and amount.

Repayment/collection is done at the SHG meeting by the FCO on a monthly basis. FCO has the receipt book in their custody and every time the repayment is collected from the SHG, money receipt is issued. Cash collected is deposited to the branch bank account on the same day if collected before closure of banking hour otherwise deposited in the next day and the collection details are updated in the EMI register maintained at the branch level. BM does the cash reconciliation as per the information filed in the EMI register filled by each FCO. The



same is also verified by scrutinizing demand collection sheet with the bank receipts. In overdue cases, FCO does the follow-ups in the initial stages and if the overdue period is elongated then the branch manager steps in to make the recovery. In case of non-recovery of loan by the branch manager, area manager, operations team and risk management team step in at subsequent stages and make efforts for recovery.

Management Information Systems

AMPL has a systematic accounting and MIS system which has been evolving along with the growth in operations. Operational data is maintained in FIMO, an on line software developed by a private vendor (Jayam Solutions) at each of its branches and head office and is able to generate the necessary reports. Thus with surge of operations in FY13, AMPL has moved to real time platform by implementing web- based software to generate financial reports. There exist separate user accounts at the branch level and rights to access are defined for different users at the HO. Further, AMPL has successfully implemented the mobile technology which facilitates instant recording of collection information & other details, thereby enhancing the quality of central level monitoring.

Risk management systems

Cash management system:

AMPL has opened individual branch bank accounts for the deposition of the recoveries. It also maintains 2 centralized bank accounts for the deposition of the cash wherein the branches does not have its own bank account. FCO deposits the cash in the bank on the same or the next day (if collections takes place on Sunday/or after banking hours). If cash cannot be deposited on the same day it is kept in vaults present in branch offices. Daily Cash monitoring of the branches bank account by the accounts department at the HO is possible through online mode.

Insurance:

AMPL has taken insurance for both cash in transit and cash in safe. It also provides life insurance cover to its members from third party insurance company – Bajaj Allinaze. *Thus AMPL has adequate risk mitigation strategy in place to cover the loan in the event of the death of the borrower.*

SCALE OF OPERATIONS

AMPL was incorporated in 1986 as Gwalior Finance and Leasing Company Private Limited, a NBFC registered in Varanasi (Uttar Pradesh). In November 2009, the Promoters of Peoples

Forum (PF) acquired Gwalior Finance and Leasing Company Private Limited and rechristened it as Annapurna Microfinance Private Limited (AMPL). Post acquisition, AMPL initiated the process of inheriting the microfinance business of People's Forum.

The operational details of AMPL are as under:

Key Factors	As on March 31, 2014
Client base (Number)	<ul style="list-style-type: none"> Active SHG individual borrowers at 158,667 (increased from 86,445 as on March 31, 2013). Active SHG at 19,448 (increased from 11,617 as on March 31, 2013)
Assets under management	<ul style="list-style-type: none"> Loan disbursed during FY14 was Rs.179.21 cr as against Rs. 105.23 cr in FY13 Outstanding own portfolio stood at Rs. 98.19 cr as on March 31,2014 (as against Rs. 54.40 cr as on March 31, 2013). Outstanding managed portfolio stood at Rs. 72.20 cr (as against Rs.37.60 cr as on March 31, 2013).
Geographical diversification	<ul style="list-style-type: none"> Covering 26 districts across 2 states of India. Concentration in Odisha (88.99%) and Chatisgarh (11.01%).
Total income	<ul style="list-style-type: none"> Total income increased to Rs.25.89 crore in FY14 (as against Rs. 10.55 crore in FY13).

AMPL plans to diversify its operation by opening new branches in Chhattisgarh, Madhya Pradesh and Maharashtra. Further, it is also undertaking feasibility studies for opening new branches in Bihar and Jharkhand.

SUSTAINABILITY

Financial Sustainability

Financial Performance (Rs. crore)	FY13	FY14	FY15	FY16	FY17
	(A)	(A)	(P)	(P)	(P)
Net worth	24.59	58.37	60.78	64.65	133.73
Total income	10.55	25.89	48.09	72.09	101.79
Total operating expenses	3.22	6.60	15.89	23.73	33.49
Financial Cost	4.57	12.92	27.55	41.27	52.94
Net surplus	1.78	4.20	2.72	4.16	9.47
Loan outstanding – Own	53.86	97.21	155.75	233.63	327.08
Loan outstanding – Managed	37.60	73.19			

Key ratios (%)					
Return on total assets	3.14	2.66	1.05	1.27	2.13
Return on capital employed	13.55	13.19	13.34	15.81	16.22
Cost of Capital	8.45	8.84	11.42	13.49	12.57
Operational Self- Sufficiency	135.36	132.58	110.71	110.92	117.77
Financial Self-Sufficiency	116.09	121.02	102.88	105.55	109.06
Operating Expenses / Total capital employed	5.11	4.22	6.34	7.50	7.73
Capital adequacy ratio	41.76	56.34			
PAR > 30 days	0.17	0.11			
PAR > 90 days	0.17	0.11			

Profitability

Total income of AMPL has increased gradually over past three years with substantial rise in FY14 as business volume increased manifold with the opening of new branches (16 new branches were opened in FY14) & accessibility to funds. Return on total assets has remained moderate. Operational Self-Sufficiency (OSS) has been well above unity in the last two years, reflecting sound sustainability. AMPL needs to control its operational expenses with increasing business volumes to maintain operational expense ratio at reasonable levels in future.

Fund Mobilization

AMPL has been successful in accessing funds from both public sector banks and development financial institutions for onward lending to the SHG borrowers. Moreover, AMPL has been successful in raising fresh capital in FY14. In March 2014, Belgian Investment Company (BIO) together with Incofin (a Belgium investor managing Rural Impulse Fund II) has invested Rs.30 crore in AMPL partly as equity (Rs.6 crore) and partly as CCD (Rs.24 crore). This apart, AMPL has also started tapping funds through securitization route from FY11 with the securitized portfolio outstanding being Rs.72.20 crore as on Mar.31, 2014.

Capital Structure

Capital structure has improved with infusion of equity from Incofin & BIO. The promoters are also expected to infuse equity, however, in small amounts. Further, the proposed takeover of the entire microfinance corpus of PF was executed in FY13. Capital Adequacy Ratio (CAR) of AMPL was comfortable at 56.34% (including securitized assets) as on March 31, 2014.

Asset Quality

In FY14, Portfolio at risk (PAR) greater than 30 days and 90 days stood at 0.11%. The organisation has been consistently able to maintain good portfolio quality over the years.

Operational Sustainability

Second line of leadership

Majority of the senior members understand the issues involved in day to day functioning as well as taking strategic decisions as they have developed a good understanding of the microfinance sector. Senior team members include functional heads having strong experience in the field of microfinance.

Competition

Though there does exist a considerable gap in the MFI market in Odisha post AP crisis, it provides opportunities to other players also to tap the vacuum created. Hence AMPL is exposed to competition to certain extent from both National MFIs and local MFIs of Odisha such as Swamshree, Adhikar Microfinance Pvt. Ltd, Mahashakti Foundations etc.

Loan Products

AMPL offers products to cater various financial needs of the borrowers. However, the underline financial details and credit appraisal process of all products are similar. Salient details pertaining to its financial products are as under:

SL. No.	1 st Cycle	2 nd Cycle	3 rd Cycle
Interest	24% Reducing	24% Reducing	24% Reducing
Loan Processing Fee	1%		
Insurance	Rs.6 in every Rs. 1000 of loan for 1 year		
Term	12 Months-18 Months	18 Months-24 Months	24 Months
Average Loan Amount	Rs. 8000-15,000	Rs. 10,000- 20000	Rs. 15000-30000

Access to funds and ability to raise funds

AMPL had below-average access to funds post AP crisis in H2FY11 on account of cautious approach of bankers and FIs. However, the situation has improved considerably in recent times with AMPL reaping the benefits from the infusion of funds in FY14. In March 2014, Belgian Investment Company (BIO) together with Incofin (a Belgium investor managing Rural Impulse Fund II) has invested Rs.30 crore in AMPL partly as equity (Rs.6 crore) and partly as CCD (Rs.24 crore). The process of CCD conversion is in its final stage.

Vision

At present, AMPL has operations in two states (Orissa & Chhattisgarh) with major concentration in Orissa (88.99% of the portfolio outstanding as on March 31, 2014 is concentrated in Orissa). However in coming years AMPL has plans to add Madhya Pradesh (M.P.) and Vidharba region of Maharashtra under its microfinance operation. AMPL has already opened new branches in Maharashtra & MP in April 2014. Further, feasibility studies are underway to open new branches in Bihar and Jharkhand.

Efforts to increase outreach and coverage

Projections are provided by AMPL. For the analysis purpose, projections for the period FY15 to FY17 were considered. AMPL plans to grow rapidly by reaching Rs.233 crore of outstanding portfolios by the end of FY16. The projection given by AMPL appears to be optimistic, and takes into account the significant surge in its operations in FY15 and its intentions to spread its business across four states namely Orissa, Chhattisgarh, Madhya Pradesh and Maharashtra in future. Achievability of future targets is critically dependent upon the ability of AMPL to raise funds from banks and developmental financial institutions.

Regulatory environment & sector outlook

Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen growth in loan portfolio but with consolidation in expansion plans. Overall the credit profile of the MFIs has shown improvement with increasing loan portfolio on account of improving funding profile, control in operating expenses, improving margins post removal of interest rate cap and moderate leverage levels.

Current focus of the microfinance sector is mainly on micro-credit with other products still evolving including thrift, insurance and remittance. However the potential demand for microfinance sector is huge, with The Global Findex Database (February 2013) by World Bank stating that in India only 35% of adults have formal account and 8% have borrowed from a formal financial institution (including microfinance institutions). It further states that this 8% coverage in India is higher than the other BRIC economies (7%) and one of the factors is relatively well developed microfinance industry in India. Going forward, MFIs are likely to expand their client base and reach out to more underserved areas of the country.

The sector is now entering into a Phase IV from a credit risk perspective and the MFIs have adapted to the new business environment more than three years post the AP crisis. This phase is expected to be characterized by a more stable regulatory environment, steady availability of funds, improving profitability with comfortable asset quality & capital adequacy and



relatively lesser impact of concentration risk. While improvement in credit profiles on account of the above factors, credit view will continue to factor in risks associated with unsecured lending, socio-political intervention, geographic concentration and operational risks related to cash based transaction. Entity specific parameters relating to scale of operations, other operational parameters and financial profile along with above factors will determine individual MFI credit views.

AMPL's position with new RBI's guidelines for MFIs

	RBI Norms	AMPL's position*
NBFC – MFIs	<ul style="list-style-type: none"> Qualifying assets to constitute not less than 85% of its total assets (excluding cash and bank balances) Atleast 70% of loans for the income generation activities 	AMPL conforms to this criterion.
Income of Borrower's Family	<ul style="list-style-type: none"> Rural : <=Rs.60,000 Non-Rural : <=Rs.1,20,000 	AMPL's Credit officers carry out verification through household visit and visit to the business entity or activity.
Ticket Size	<ul style="list-style-type: none"> <= Rs.35,000 – 1st cycle <= Rs.50,000 – Subsequent cycle 	AMPL adheres to this guideline.
Indebtedness	<ul style="list-style-type: none"> <= Rs.50,000 	A declaration is obtained from members prior to disbursement.
Tenure	<ul style="list-style-type: none"> If loan amount > Rs.15,000, then >= 24 months 	AMPL adheres to this guideline.
Collateral	<ul style="list-style-type: none"> Without collateral 	Loans are given without collateral
Repayment Model	<ul style="list-style-type: none"> Weekly, fortnightly and monthly 	Monthly repayment model
Interest Rate	<ul style="list-style-type: none"> Margin cap – 12% above cost of borrowings for all MFIs till Mar.31, 2014. From Apr.1, 2014, 10% above cost of borrowings for large MFIs with loan portfolios exceeding Rs.100 cr and 12% for others While the rate of interest on individual loans may exceed 26%, the maximum variance permitted for individual loans between the minimum and maximum interest rate cannot exceed 4 per cent. 	AMPL charges 24% p.a on reducing balance basis to its borrowers
Processing Fees	<ul style="list-style-type: none"> <= 1% of loan amount 	AMPL collects 1% processing fees.
Insurance	<ul style="list-style-type: none"> Actual cost of insurance can be recovered from borrower and spouse Administrative charges can be recovered as per IRDA guidelines 	AMPL adheres to this guideline.
Penalty	<ul style="list-style-type: none"> No penalty for delayed payment 	There is no penalty for delayed payment
Security Deposits	<ul style="list-style-type: none"> No security deposit/ margin are to be taken. 	The company has already stopped collecting security deposit/margin money from the borrowers.

*based on information provided by AMPL

Annexure II

Financial Statements

Income and Expenditure Statement	Rs. Crore					
	FY12	FY13	FY14	FY15	FY16	FY17
	(Audited)			(Projected)		
Year ended March 31,						
Income						
Interest Income on own portfolio	3.01	9.01	19.27	33.41	51.02	73.23
Other Operating Income	0.44	1.54	6.62	14.68	21.07	28.56
Total Income	3.45	10.55	25.89	48.09	72.09	101.79
Financial Costs						
Interest expense on own portfolio	1.31	4.57	12.92	27.55	41.27	52.94
Total Financial Costs	1.31	4.57	12.92	27.55	41.27	52.94
Net Interest Income	2.14	5.97	12.96	20.54	30.82	48.86
Operating Expenses						
Personnel	0.16	1.63	3.73	8.74	13.11	18.60
Administrative	1.46	1.14	2.43	6.56	9.83	13.95
Depreciation	-	0.05	0.15	0.53	0.80	1.04
Total Operating Expenses	1.63	2.81	6.31	15.83	23.74	33.59
Net income Before Loan Loss Provisioning	0.51	3.16	6.65	4.71	7.08	15.27
Provisions & Write off	0.01	0.45	0.44	0.59	0.79	0.94
PBT	0.50	2.71	6.21	4.12	6.30	14.33
Tax	0.15	0.92	2.01	1.40	2.14	4.86
PAT	0.35	1.78	4.20	2.72	4.16	9.47

Balance Sheet	Rs. Crore					
	FY12	FY13	FY14	FY15	FY16	FY17
	(Audited)			(Projected)		
As on March 31,						
Liabilities						
Source of Funds						
Share Capital	5.60	12.94	18.64	33.04	33.04	69.04
Reserves and surplus	0.64	11.80	39.99*	27.74	31.61	64.68
Deferred tax liability (assets)	-	(0.15)	(0.27)	0.00	0.00	0.00
Total Tangible Network	6.24	24.59	58.37	60.78	64.65	133.73
Debt Fund						
Term loans from Banks & FIs	9.54	67.83	141.71	221.76	325.41	379.21
Total Debt	9.54	67.83	141.71	221.76	325.41	379.21
Total Capital Employed	15.79	92.42	200.08	282.55	390.07	512.94
Assets						
Application of funds						
Net Fixed Assets	-	0.21	0.86	1.59	2.39	3.11
Investments	3.41	20.15	31.43	46.16	60.68	74.12
Current Assets-						
Cash & Bank balances	3.78	20.31	83.04	93.42	109.18	126.03
Own portfolio	9.07	53.86	97.21	155.75	233.63	327.08
Other current assets	0.31	2.48	5.77	5.18	5.70	6.27
Total Current Assets	13.16	76.66	186.02	254.36	348.52	459.38
Current liabilities and provisions	0.78	4.60	18.23	19.56	21.52	23.67
Net Current Assets	12.37	72.06	167.79	234.79	327.00	435.71

Balance Sheet	Rs. Crore					
As on March 31,	FY12	FY13	FY14	FY15	FY16	FY17
	(Audited)			(Projected)		
Miscellaneous expenses not written off	-	-	-	0.00	0.00	0.00
Total Application of Funds	15.79	92.42	200.08	282.55	390.07	512.94

Annexure III: Commercial sources of funds

(Rs. Crores)

Bankers/ Financial Institution	Bank facility	Sanctioned Amount	Disbursed Amount	Amount Outstanding on 31.07.2014
Maanaveeya Development & Finance Pvt Ltd	Term Loan	15.00	15.00	11.25
IFMR	Term Loan	18.50	18.50	11.25
Development Credit Bank (DCB)	Term Loan	15.25	15.22	9.39
Annanya Finance	Term Loan	1.00	1.00	0.94
MAS	Term Loan	38.25	38.25	20.14
UCO Bank	Term Loan	12.50	12.50	9.37
IDBI Bank	Term Loan	5.00	5.00	3.63
Indian Overseas Bank	Term Loan	20.93	20.93	15.55
Ratnakar Bank	Term Loan	27.50	27.50	18.93
Canara Bank	Term Loan	10.00	10.00	8.16
SIDBI	Term Loan	3.00	3.00	1.24
Reliance Capital	Term Loan	15.00	15.00	9.12
OBC	Term Loan	4.40	4.40	4.08
Hinduja Leyland Finance	NCD	10.00	10.00	8.75
Symbiotics	NCD	29.20	29.20	29.20
Ratnakar Bank	NCD	15.00	15.00	15.00
Total		240.53	240.50	175.98

Annexure IV: Operational outreach

Particulars	Unit	FY11	FY12	FY13	FY14
Number of states	No.	1	2	2	2
Number of districts	No.	14	16	18	26
Branches	No.	30	30	38	54
Number of active SHG	No.	2,324	3,395	11,617	19,448
Number of active SHG individual members	No.	27,124	30,192	1,17,677	201,014
Number of active SHG individual borrowers	No.	27,124	21,543	86,445	158,667
Loan Portfolio					
Total Disbursement during year	Rs. Crore	13.93	27.77	105.23	179.72
Loan outstanding – Own	Rs. Crore	10.49	9.07	54.46	98.19
Loan outstanding – Managed portfolio	Rs. Crore	2.40	14.62	37.60	72.20
Total Loan portfolio	Rs. Crore	12.89	23.69	92.06	170.39

Annexure V: Details on human resources of AMPL

Particulars	FY12	FY13	FY14
Credit officers	148	186	223
Total employees (including credit officers)	262	324	429
Employee productivity			
Number of o/s borrowers per credit officer	145	464	712
Number of groups per credit officer	23	62	87
Number of SHG members per credit officer	204	633	901
Branch productivity			
Number of members per branch	1005	3097	3722
Number of individual borrowers per branch	995	2275	2939

Annexure VI: MFI Grading Symbols

Grading Symbol*	
MFI 1	Highest
MFI 2+	↓
MFI 2	
MFI 3+	
MFI 3	
MFI 4+	
MFI 4	
MFI 5	Lowest

* There is no individual definition for each grading

DISCLAIMER

CARE's microfinance (MFI) grading is a onetime assessment and the grading is not kept under periodic surveillance. CARE's analysis draws heavily from the information provided by the microfinance institution as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. It does not imply that CARE performs an audit function to detect fraud. In case of NGO MFIs, grading apply only to their microfinance programs. CARE's MFI grading is not a recommendation to buy, sell or hold any financial instrument issued by the MFI or to make loans/ donations/ grants to the MFI. It is not an assessment of the debt servicing ability of the MFI. The grading assigned by CARE cannot be used by the MFI in any form for mobilizing deposits/savings/thrift from its members or general public. CARE's MFI grading also does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the microfinance grading.