Micro-Credit Ratings International Ltd.

Rating of Cashpor Micro Credit (CMC)

CMC – *fourth update*	**Varanasi, INDIA**
Section 25 Company-not for profit	***Report – July 2010***

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CREDIT RATING	α
RATING OUTLOOK*	*positive*

*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

Date of visit	**06-09 July 2010**
Date of previous rating	25 May-03 Jun 2009
Previous rating	α–

Investment Grade	Above	α++	
		α	α+
			α
			α–
		β	β+
			β
	Below		β–
		γ	γ+
			γ

Main Performance Indicators

	Mar-09	Mar-10
Gross Portfolio (Rs crore)	181.1	267.4
of which, Managed Portfolio	66.6	70.5
Number of active borrowers	3 14 203	4 17 039
RoA	0.4%	3.3%
Portfolio Yield	26.7%	25.6%
Portfolio at Risk (>60days)	0.7%	0.3%
Operating Expense Ratio	14.1%	12.6%
Average Loan Disbursed (Rs)	9 111	9 920
Average Loan O/s (Rs)	5 763	6 412
Borrowers per field staff	298	371

Synopsis

CMC, a not for profit company, carries out microfinance operations in Eastern UP and Bihar. During its 12 years of operations, it has made significant changes in its model of credit delivery before settling down in 2007 with the mini branch model, similar to that of ASA, Bangladesh. The new model has helped CMC strengthen its internal control. In the last two years, CMC has been able to improve its staff productivity and reduce its OER while also maintaining good loan portfolio quality.

An able leadership, a strong Board, good quality senior management, high reputation and strong institutional linkages have helped CMC in reaching a commendable size. Despite being a "not for profit" legal entity, it has been able to maintain and improve its Capital Adequacy Ratio by internal accruals and by mobilising Tier II capital. Apart from its good financial performance, CMC has earned a reputation for double bottom line performance through its poverty focus. The Board of Directors of CMC decided to reduce the rate of interest charged from clients from the earlier ~31% to 25.8% from July 1, 2010. This was done after CMC achieved much better profitability during 2009-10.

In M-CRIL's opinion, CMC has the capacity to absorb additional loan funds for its planned growth.

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

Highlights

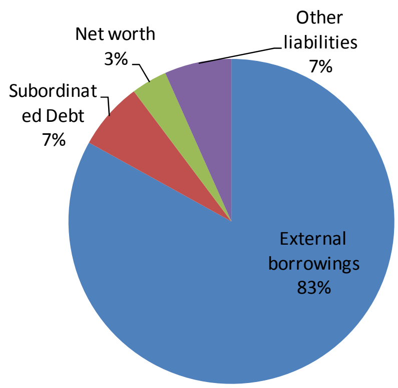
Strengths

- Strong Board and good corporate governance standards
- Good quality management
- Strong internal control
- Excellent portfolio quality
- Good profitability

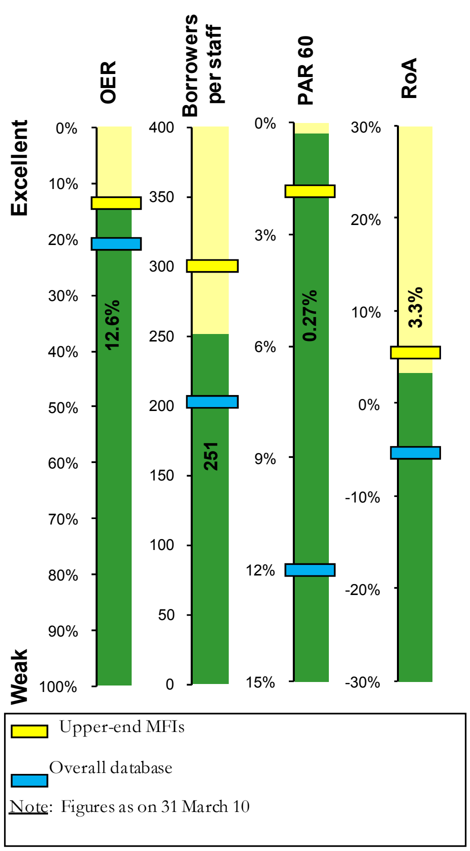
Issues

- Limited access to Tier I capital
- Increasing competition in the areas of operation
- High client drop-out rate (~20%)

Sources of Funding



Comparison of CMC's performance with MFIs rated by M-CRIL



Rating Rationale

Strong leadership and good management: CMC has a well respected Board. All the members have excellent professional experience and qualifications. The Board and its committees are involved in strategic decision making, supervision and review of various systems. The organisation has a professionally qualified MD with good leadership skills. The second line of management consists of individuals with long experience in operations. CMC enjoys a combination of good governance and a strong management team.

Excellent portfolio quality: CMC has been able consistently to maintain an excellent portfolio quality with PAR (>60 days) on 31 March 2010 at 0.27% reduced from 0.65% on 31 March 2009. During the year, CMC has written off loans with PAR (>50 weeks) worth Rs47.7 lakhs (0.2%).

Profitable operations: CMC improved its profitability in 2009-10, with RoA of 3.3%, compared to 0.4% for 2008-09. The profitability increased substantially due to a reduction in its OER, Financial Cost Ratio, a change in policy on recognition of income on assigned loans. CMC plans to reduce its OER further to offset the effect of the recent reduction in interest rate.

Internal Control and Audit: The monitoring system of CMC is elaborate with a long hierarchy and formal monitoring schedules and reports at all levels. CMC now has a strong Internal Audit team consisting of individuals with experience in its microfinance operations.

Capital Adequacy: Being a not for profit company, CMC has limited access to Tier 1 capital but it has done well to mobilise subordinate debt. The Tier 1 capital adequacy of CMC on 31 March 2010, was low at 4.7% but improved significantly from 0.2% on 31 March 2009. Its Tier 1 & 2 CAR was a reasonable 12.4%. Using the strict criterion for Tier 2 capital applied to the banking sector, CMC's CAR amounts to 9.4%.

Human Resource: CMC operates in relatively remote field areas with weak infrastructure and amenities which make it difficult to attract talented human resources. However, it has done well to provide training to its staff. CMC was able to reduce its staff attrition to 16.5% from the earlier 21.6% by rationalising the salary structure.

Increasing presence of MFIs: The presence of MFIs in Eastern UP and Bihar has increased substantially. All major national MFIs are present along with a few regional ones. The risk of multiple and overlending to clients has increased. However, CMC mainly targets clients in remote rural areas where multiple lending is limited compared to semi-urban/ urban areas.

Comparative Performance Highlights

Comparative Rating Grades

Category	Rating grade					Movement
	June 2004	July 2005	May 2006	June 2009	July 2010	
Governance & strategic positioning	β+	β+	α−	α−	α	⇑
Organisation & Management	β	α−	α−	α−	α	⇑
Financial performance	α−	β+	β+	α−	α−	⇔
Overall	α−	β+	β+	α−	α	⇑

Select indicators/ratios

Indicator/ratio	June 2004	June 2005	Mar 2006	Mar 2009	Mar 2010	Change
1 Growth						
Loans outstanding (Rs crore)	11.9	27.0**	51.0**	181.1**	267.4**	Increase
Outstanding borrowings (Rs crore)	13.7	37.9*	57.9*	199.8*	321.1*	Increase
Active borrowers	34,687	76,645	1,23,359	3,14,203	4,17,039	Increase
Average loan size (Rs)	6,050	5,945	6,677	9,100	9,920	Increase
2 Credit performance						
Current repayment rate	99.9%	98.8%	97.9%	98.3%	99.8%	⇑
Portfolio at risk (>=60 days)	4.2%	3.6%	2.5%	0.7%	0.3%	⇑
3 Efficiency and profitability						
Borrowers per field staff	92	156	197	298	371	⇑
Net loans to total assets	73.1%	62.5%**	78.6%**	83.9%**	76.3%**	⇩
Operating expense ratio	22.0	33.1%	27.5%	14.1%	12.6%	⇑
Annual return on assets	-5.0%	-13.0%	-15.8%	0.4%	3.3%	⇑
Operating self-sufficiency	83.4%	62.8%	61.2%	101.7%	115.1%	⇑
Capital adequacy ratio (Tier 1&2)	11.0%	5.2%	0.2%	10.5%	12.4%	⇑

*Includes the amount invested by banks on portfolio managed by CMC
**Including managed portfolio

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

Country overview

India has one of most extensive banking infrastructures in the world. However, millions of poor people do not have access to basic banking services like savings and credit. In the past, both public and private commercial banks in India perceived rural banking as a high-risk, high-cost business i.e. a business with high transaction costs and high levels of uncertainty. Rural borrowers, on their part, felt that banking procedures were cumbersome and that banks were unwilling to give them credit. It was not until the early 1980s, that the Indian government realized the need for microfinance to facilitate the lives of the poor.

Quick Facts

Total population[1]	1.18 billion
GNI per capita (US$)[2]	1,122
% population under $2/day (PPP)[3]	79.9%
Total unemployment (% of labour force)[4]	7.8%
% of population with access to banking services	<40%
Average inflation (CPI), 2009-10	10.7%

Sources
1 www.indiastat.com
2 World Bank 2009, www.worldbank.org
3 World Bank (2009)] http://devdata.worldbank.org
4 www.treas.gov/press/releases/hp266.htm

In the early 1990s, the microfinance business was given a filip by innovative initiatives taken by non-government microfinance institutions (MFIs). They offered micro-credit to poor people for financial and business services and for self-employment. Nevertheless, the existing banking policies, procedures and systems including deposit and loan products remained untailored to the requirements of the poor. The inadequacy of the banking sector to meet the needs of the poor despite vast infrastructure was explored by a NABARD committee. The conclusions reached were; a) the poor are bankable, b) the poor need timely & better access to services and products rather than subsidized credit and c) there is a need to build a synergy between existing groups of poor people and the financial resources of banks.

Currently, a range of institutions in both the public sector and private sector offer microfinance services in India. Such institutions are broadly categorized as: formal institutions and informal institutions. The former category comprises Apex Development Financial Institutions, Commercial Banks, Regional Rural Banks, and Cooperative Banks provide microfinance services in addition to their general banking activities. The semi-formal institutions that undertake microfinance services as their main activity are referred to as Microfinance Institutions (MFIs). While both private and public ownership can be found in the case of formal financial institutions offering microfinance services, the MFIs are mainly found in the private sector.

Presently, there is no unified regulatory mechanism in place for MFIs. While NBFCs are regulated by the Reserve Bank of India, NGO-MFIs, non-profit companies, and mutual benefit MFIs are regulated by the specific Act under which they are registered. As such, they are not subjected to minimum capital requirements and other prudential norms. The capital requirement for transformation into an NBFC is stringent – minimum entry capital of Rs2 crore (US$0.5 million), maintenance of capital adequacy of 12% and liquid assets of 15%.

Types of MFIs	Estimated No.*	Legal status
1 Not-for-profit MFIs		
NGO-MFIs	400-500	Societies Registration Act, 1860 or similar Provincial Acts Indian Trust Act, 1882
Non-profit companies	20	Section 25 of the Companies Act, 1956
2 Mutual Benefit MFIs		
Mutually-Aided Cooperative Societies (MACS) and similarly set up institutions	200-250	Mutually Aided Cooperative Societies Act enacted by State Government
3 For Profit MFIs		
Non-Banking Financial Companies (NBFCs)	45	Indian Companies Act, 1956 Reserve Bank of India Act, 1934
Total	**700-800**	

* The estimated number includes only those MFIs, which are actually undertaking lending activity. M-CRIL estimates including the following sources:
NABARD 2007, www.nabard.org
RBI, June 2009, 'Report on Trend and Progress of Banking in India'

In 2006, the MFI sector in India faced difficulties due to a hostile political situation in Andhra Pradesh (a hub of microfinance activities in India). MFIs were asked to reduce interest rates and to give an assurance that clients would not be pressurised unduly for the recovery of loans. Subsequently, Tamil Nadu and A.P. passed ordinances against usurious rates of interest.

However, there has been a substantial improvement of the overall scenario and MFIs have, since then, attracted huge quantities of private investment from international and domestic sources with multi-million dollar equity deals at high valuations ranging up to 11 times book value. Many MFIs have converted to NBFCs so as to attract such equity and greater loan funds. Banks have lent substantially to MFIs (around Rs14,000 crore or over US$3.0 billion) as part of their priority sector lending, in various forms such as working capital term loans, overdraft facilities and portfolio buy-outs. Regional disparities have diminished with more MFIs operating in the north, though 20 of the largest 24 MFIs (in terms of client numbers) are located in the South. However a new phenomenon of multiple lending to the same clients has emerged as a key problem in microfinance as over-lending in some cases has led to the emergence of localised delinquency crises (Kolar and Lucknow).

MFIs have recently been experimenting with new products (housing loans, micro-insurance collaborations, investments, remittances) and loans to individuals. Some MFIs have also attempted to support livelihood activities to offer more value to clients.

Microfinance Operations

Main Indicators	31 Mar-06	31 Mar-07	31 Mar-08	31 Mar-09	31 Mar-10
Gross total (managed) Loan Portfolio (Rs crore)	50.8	86.0	147.3	181.1	267.4
Gross Own Loan Portfolio (Rs crore)	27.1	60.0	141.3	114.5	196.9
Number of Active Borrowers	1,23,359	2,01,703	3,03,245	3,14,203	4,17,039
Asset Quality					
Portfolio at Risk (>60 days)/Gross Loan Portfolio	0.0%	2.3%	1.6%	0.7%	0.27%
Loan Loss Provisioning Expense/Avg gross portfolio	1.5%	0.7%	1.1%	0.9%	-0.05%
Loan Loss Reserves / Portfolio at Risk (>60 days)	NA	79.6%	83.7%	106.7%	83.40%
Write-offs / Average Gross Portfolio	0.00%	0.06%	0.63%	0.86%	0.24%
Efficiency and Productivity					
Operating Expenses/Average Gross Loan Portfolio	29.8%	21.3%	13.4%	14.1%	12.6%
Cost per Borrower (Rs)	816	662	498	670	614
Average Outstanding Loan Size (Rs)	4,121	4,266	4,859	5,763	6,412
Number of Borrowers/Field staff	189	218	282	298	371
Number of Borrowers/Total staff	146	172	202	200	251

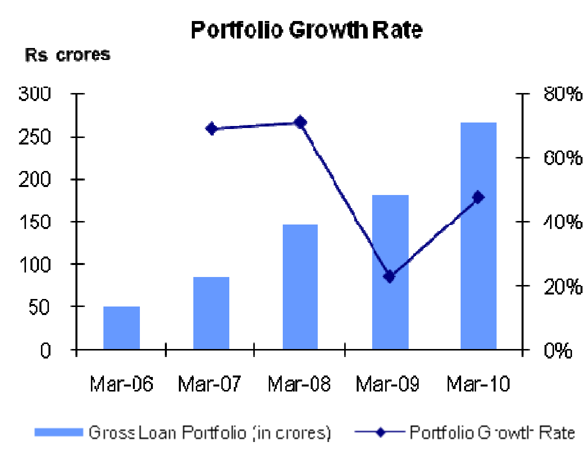
Cashpor Micro Credit (CMC) is a part of the Cashpor group of microfinance institutions. The group consists of Cashpor Trust, Cashpor Financial and Technical Services Pvt Ltd (CFTS), Cashpor Micro Credit (CMC) and Cashpor Financial Services Pvt Ltd (CFS). The microfinance services are delivered through CMC.

Cashpor started its operations in eastern Uttar Pradesh, India in 1996 through Cashpor Financial and Technical Services Pvt Ltd (CFTS). In 2003, following a RBI notification, which allowed only registered NBFCs and Section 25 companies to provide microfinance services, CFTS transferred all its microfinance activities to CMC, a Section 25 company.

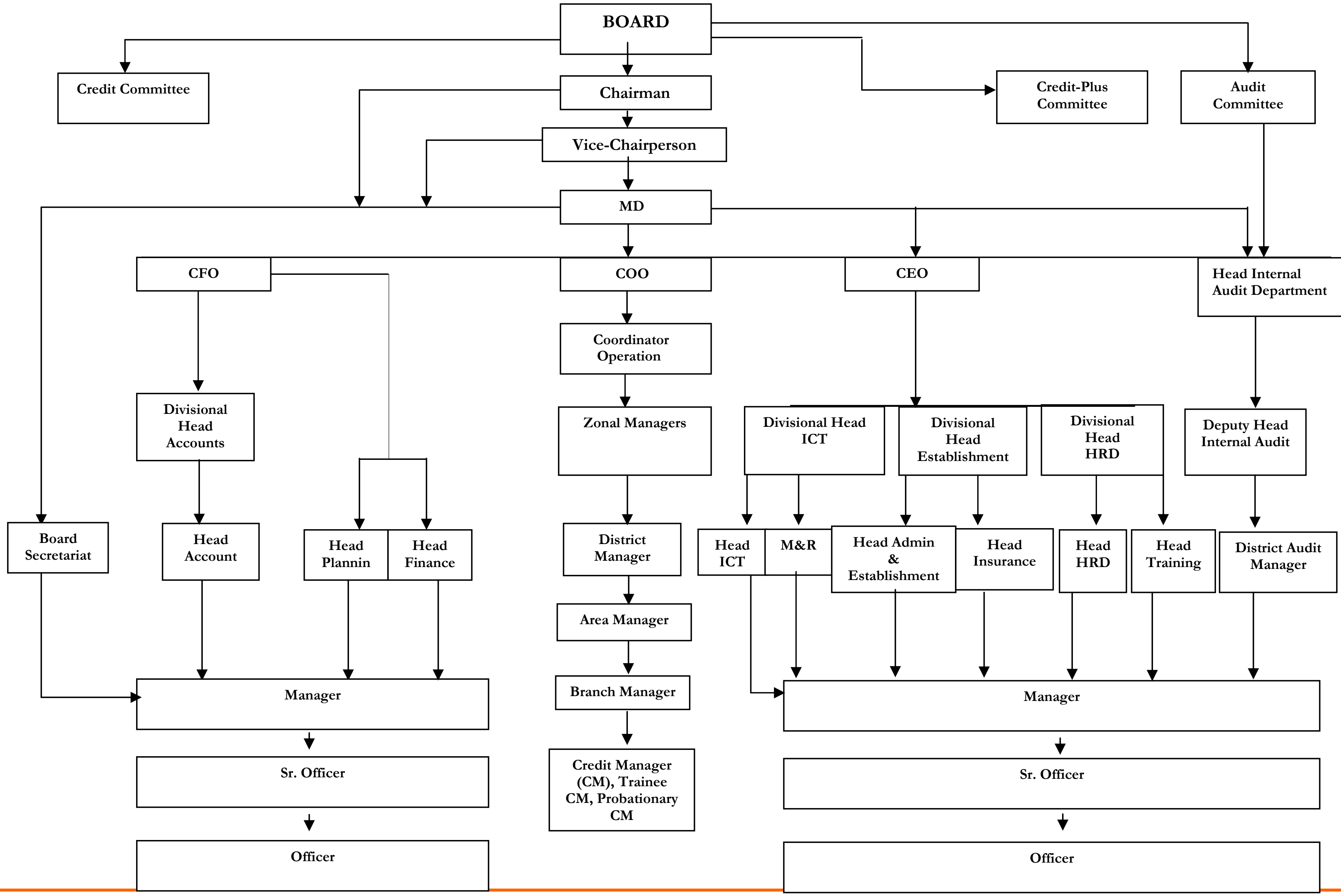
CMC's target group consists of rural women from low income families with emphasis on Scheduled Castes and Scheduled Tribes. CMC uses its own tool called the "Cashpor Housing Index" to assess the poverty level of the clients. CMC has its operations in 19 districts of Uttar Pradesh (13) and Bihar (6).

CASHPOR's Board consists of nine members who are experts in the field of microfinance, banking, finance and development. All the members except the Managing Director are independent and non-executive. The Chairman, Prof David Gibbons is an internationally acknowledged expert in microfinance and has more than 20 years of microfinance experience. Ms Moumita Sensarma is the non-executive Vice Chairperson. She was earlier the Head of Microfinance & Sustainable Growth for ABN Amro Bank. Mr Mukul Jaiswal took over as the Managing Director (MD) of CMC from 1st June 2009. He is Chartered Accountant by profession and has been associated with the company since inception as the Statutory Auditor of the company (one of the partners in the firm of auditors). Other staff at the Head Office are organised into various departments. CMC's detailed organisational structure is presented on the next page.

As on 31 March 2010, the microfinance operations of CMC covered 4,17,039 borrowers in 269 branches in 10 districts of eastern Uttar Pradesh and Bihar. The total portfolio was Rs 267.4 crores. Out of this, Rs 70.5 crore (26%) of the portfolio was managed by CMC for other lending institutions. As can be seen in the graph below, the rate of portfolio growth increased in 2009-10 compared to 2008-09. The total portfolio increased by a healthy 48% during the year. While the managed loan portfolio increased by 6%, on-balance sheet loans grew by 72%.



The position of the CEO, the Head Finance and the Coordinator Operations were vacant at the time of the rating visit. The Board has approved these positions and these will be filled up soon.


BOARD
Credit Committee
Chairman
Credit-Plus Committee
Audit Committee
Vice-Chairperson
MD
CFO
COO
CEO
Head Internal Audit Department
Coordinator Operation
Divisional Head Accounts
Zonal Managers
Divisional Head ICT
Divisional Head Establishment
Divisional Head HRD
Deputy Head Internal Audit
Board Secretariat
Head Account
Head Plannin
Head Finance
District Manager
Head ICT
M&R
Head Admin & Establishment
Head Insurance
Head HRD
Head Training
District Audit Manager
Area Manager
Manager
Branch Manager
Manager
Sr. Officer
Credit Manager (CM), Trainee CM, Probationary CM
Sr. Officer
Officer
Officer

Microfinance policies

In 2007 CMC overhauled its operational structure and implemented the ASA-mini branch model with assistance from ASA-Bangladesh. As can be seen in the above organisational structure, this led to the formation of elaborate designations and reduced the span of control leading to improved supervision and control at each level of hierarchy. The mini branch model has a structure which ensures that every four to five similar designations have a reporting and supervising authority. Four to five BMs are supervised by an Area Manager (AM). Four to five AMs report to District Manager (DM). DMs are managed by Zonal Managers, each of whom report to the COO. Each designation has to submit their supervision plan to their respective reporting authority. While all the supervisors except Area Managers are primarily responsible for growth and compliance of the policies, Area Managers focus exclusively on policy compliance. Incentives of the Area Manager are decided upon the number of visits to branches that they complete in a month while for others it is based upon the quantum of loan amount managed. This structure has significantly enhanced the monitoring efficacy of the organisation.

CMC delivers micro-credit using the group model. Clients are organised into centres (groups) of 10-25 members who hold weekly meetings. All the members in a centre have joint responsibility for repaying a loan. Groups are trained on policies and procedures of the organisation. Illiterate clients are trained to put their signatures before they are considered for loan application. Successful completion of a Group Recognition Test (GRT) makes them eligible for borrowing first cycle loan. Loans are initially approved by the group and loan applications are signed by the group leader on behalf of the group members. Loan applications are then collected and recommended by the Centre Managers and are then sanctioned by the Branch Managers (BMs). The loan amount gradually increases with the loan cycle (number of times they have availed the loan).

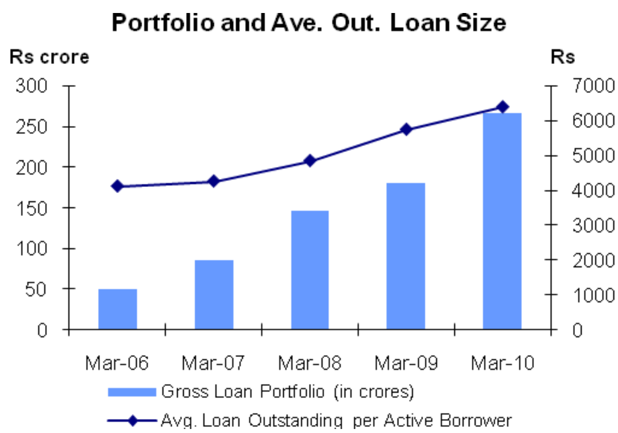
<u>Loan products</u>

CMC provides loans for income generating activities such as livestock, trading, agriculture and other village enterprises. Loan size ranges from Rs2,000 to Rs14,000. CMC also provides larger loans to its senior members in the group. These loans range from Rs 15,000 to Rs25,000. Earlier these bigger size loans were given to individual client without group guarantee but from 2009-10, the product was re-designed and these loans were also offered to the borrowers within the group and with joint liability of the group members. CMC did not disburse bigger loans in 2008-09 due to scarcity of loan funds but started disbursing these loans in 2009-10 again and had a portfolio of Rs16.7 crores as on 31 March 2010 as against just Rs43 lakhs as on 31 March 2009.

In the first cycle of income generating loans, clients are entitled to a sum up to Rs10,000. In the 2nd and 3rd cycles, they are eligible for a maximum of Rs12,000 and Rs14,000 respectively. The repayment period as per the new policy implemented from July 1 2010 is 52 weeks including a 2 weeks repayment moratorium in the beginning of the loan. The repayment before this change was 47 weeks (46 weekly instalments plus one week of repayment moratorium). Loans now bear an effective rate of interest (IRR) of 25.8% per annum, against an earlier effective rate of 31.7% per annum.

General Loan	
Target Clientele	Women – Poor (as assessed by the CASHPOR Housing index)
Term	52 weeks (50 weeks and first 2 weeks of moratorium)
Interest rate	25.8% per annum
Interest type	Declining
Upfront charges	Nil
Repayment Policy	50 weekly instalments
Maximum loan	Progressively increases with each loan cycle that the borrower completes and is also dependant on the credit needs of the borrower, ranging from Rs8,000 to Rs25,000
Prepayment	Allowed only in case of loan foreclosure. Loan foreclosure is permitted only after 35 weeks of loan disbursement
Part payments	Allowed only in case of default clients

The average loan outstanding of CMC has been increasing steadily. This increased to Rs6,412 as on 31 March 2010 against Rs5,763 as on 31 March 2009, an increase of 11%. In the same period, the average loan disbursed amount increased by 9% from Rs9,111 to Rs9,920.



Insurance

CMC provides life insurance products to its members in alliance with three different insurance companies. The life of the member and her husband is insured. CMC charges 1% of the loan amount from the clients and passes on to the insurance company which provides an insurance cover of an amount higher than the loan amount (the amount of cover depends upon the insurance premium charged by the insurance company). CMC gets a service fee of 0.1% of the insured amount from the insurance companies. In case of death of the client or her husband, CMC deducts the loan outstanding amount from the claim amount and passes on the remaining amount to the family/survivors.

Governance and strategic positioning

The grade of CMC on governance parameters is good at α. It has improved its performance on this parameter as compared to the previous year. An able leadership, a strong and active Board, good quality senior management, reputation of being a socially responsible MFI and stronger institutional linkages have contributed to this performance. CMC's governance has strengthened with active participation of the Vice Chairperson in the Board and the audit committee and a successful transfer of leadership to the new MD. The performance has also improved by further improvement in its linkages with the banks and financial institutions which enabled it in achieving a good portfolio growth rate of 48% during 2009-10, while also improving its capital adequacy ratio.

Board

CMC has strong Board of nine members, comprising of one executive member, two nominee members representing the lenders and six external independent members. Board members are highly qualified and experienced at apex management level in banking, corporate and development sectors. The two Nominee Directors represent ICICI Bank and Dia Vikas Capital. Board meetings are scheduled to take place quarterly or impromptu as required. The Board meetings concentrate on strategic issues such as growth, new products & services to members, interest rates to be charged from borrowers, linkages with financial institutions and banks and regulatory issues. Apart from making decision on various strategic issues, the Board reviews the performance of the management and also gets involved in strategic HR decisions. The Board also deliberates upon the quality of systems and use of technology. The Board of Director at CMC are very actively involved to ensure that CMC performs high on social performance and makes efforts in line with its stated mission and vision. The discussions of the Board were observed to be well recorded in the minutes of the meetings. Governing Board of CMC is observed to be very strong and the organisation fairs very well on this parameter.

Social Performance

CMC has the reputation of being a socially responsible MFI. The organisation is unique in the sense that it focuses exclusively on the poor screened by using the famous "Cashpor Housing Index". The organisation is also active in promoting financial literacy among its members. CMC has decided to venture into non-financial livelihood promotion services for the members also and is planning to launch the services soon.

CMC has been regularly monitoring the impact of its services in terms of poverty reduction since 2004. The results of a study done by ABN-AMRO Bank in December 2008 showed a positive impact on poverty. A similar study undertaken, in December 2009, by the Internal Audit Department of CMC reiterated this finding. These surveys will now be carried out every year by the Internal Audit Department. These findings have enhanced CMC's goodwill in terms of its social relevance and have helped it attract linkages with socially concerned institutions across the globe.

After achievement of a good performance on profitability for the financial year 2009-10 and receiving income tax exemption under section 12A by the income tax authority, CMC Board decided **to reduce its rate of interest** by more than 5% effectively from 1 July 2010. The new product design increases the repayment period from 47 weeks to 52 weeks and provides 2 weeks of repayment moratorium as against 1 week earlier. The effective rate of interest which earlier was 31.7% has now been reduced to 25.8%, which is among the lowest rates charged by the MFIs.

CMC policies w.r.t. to the insurance product was also observed to be designed transparently. It charges 1% of the loan amount as insurance premium from the clients and passes on the entire sum to the insurance company to secure highest possible cover for the clients and their spouses. In case of death of the client or her spouse, the amount reduced from the loan outstanding is passed on to the survivors.

Legal Status

CMC is a Section 25, "not for profit" Company. The Board, after much deliberation decided that "not for profit" company is a suitable form for carrying out CMC's social vision and mission. To fund its future growth, the organisation would rely on its internally generated surplus, Tier II capital, portfolio sale. Till now CMC has performed well in mobilising Tier II capital and has also managed to have some internal accruals to achieve the CAR required for its relatively modest growth targets.

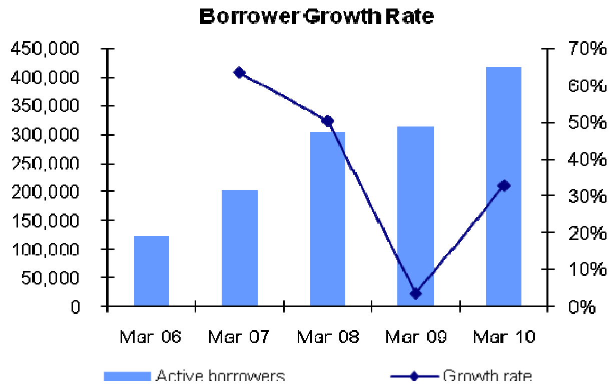
Operational and growth strategy

CMC plans to achieve a total loan outstanding of around Rs355 crores by the end of the year 2010-11. It plans to increase its client base to little over 5,00,000 and around 27% of that would be managed loans (off-balance sheet) and remaining will be on-balance sheet. CMC's planned increase in its portfolio is ~33% which is reasonable considering its objectives to increasing operational efficiencies and maintain a reasonable Capital Adequacy Ratio by means of internal accruals and subordinated debt.

In the financial year 2010-11, CMC plans to improve its branch and staff efficiency. It plans to set up only nine new branches in the same districts of its operations, which is an increase of just 3%. The total number of staff are planned to increase by just 8%. The average clients per field staff is planned to be increased from current 371 to 414. This strategy is formulated to reduce the Operating Expense Ratio (OER) to around 10% from a current 12.6%.

In geographical terms, CMC does not plan to expand its outreach to any new districts in the current year since the focus is entirely on improving the efficiency and maintaining the quality amidst an increasing competition.

As can be seen in the graph, the growth rate rebounded



after a sharp dip in 2007-08 and 2008-09.

Competition

Since the last rating, the competition has further intensified in CMC's area of operation with the entry of SKS, SHARE, Bandhan and a few more new MFIs. The total number of MFIs in seven of CMC's 19 districts is five or more while there are a few which are present in its other districts as well. A major impact of the competition has been a potential over indebtedness among the clients, client drop-outs and an increased staff attrition rate. Though the drop-out rate of clients in CMC has come down from 26% in 2008-09 to 20% in 2009-10, it continues to be high. A reason for high rate of CMC is its strict definition for the drop-out. A client who does not avail a subsequent loan within one month of the closure of previous loan is regarded as drop-out.

The remuneration at CMC was rationalised and increased significantly to make it competitive with the markets rates and that offered by the competitors. The staff attrition rate has also come down from 21.6% in 2008-09 to 16.5% in 2009-10.

CMC has the policy of making disbursements and collections in the branch offices which is a competitive disadvantage since other MFIs make all transactions in the field. To counter the competition in the longer run, CMC intends to rely upon its transparent policies, low rate of interest and an improved relationship with its clients. To build a strong relationship, CMC plans to increase the scale of its non-financial services or credit plus services. It also gives a high emphasis to proper staff behaviour and conduct in its trainings. CMC also prefers to include women field staff in its operations team to make its clients more comfortable.

Also, CMC mainly targets rural areas where the clients are still relatively hesitant to accept multiple loans. The presence of other MFIs is relatively higher in market places, semi-urban regions which reduces the risk of over-indebtedness among the CMC's clients to some extent.

Second line of leadership

The second line of leadership at CMC is good. In June 2009, the Board appointed Mr Mukul Jaiswal as its new Managing Director, who was able to successfully assume the leadership role and completed one year as the MD of CMC. Mr Jaiswal is a Chartered Accountant by profession and has been earlier involved in auditing CMC's financials and operations in the capacity of one of the partners of the firm of statutory auditors for CMC. The new MD has shown an increased focus on strengthening the internal control, fund mobilisation and improving operating efficiencies. CMC has a good second line of management in the form of COO, CFO, Head HR, Head Trainings and Head Internal Audit. The senior management team is well experienced in microfinance and banking operations.

As discussed, the Board of CMC is very well involved. The promoter of the institution Prof. David Gibbons is the key mentor and regularly monitors the performance. As part of the succession planning, Ms Moumita Sensarma, the Vice-Chairperson of the Board also spends time in mentoring the female staff as an Advisor to the "Women Staff Welfare Committee". She is the Chairperson of the CMC's audit committee and the committee looking at new non-financial projects with social relevance. The Vice-Chairperson is expected to succeed the current Chairman Prof. David Gibbons after his retirement.

Fund mobilisation

CMC prefers to borrow term loans of longer tenure which helps it manage its liquidity and disbursements much more conveniently. Also, the terms loans have proved to earn better margins for the organisation than the funds from portfolio sales. The portfolio sales are of higher cost mainly because of the First Loan Default Guarantee (FLDG) which ranges from 5% to 10% of the total portfolio sold. The organisation has been relying upon portfolio sales as a way of filling its credit needs mainly because it helps it maintain a better CAR and are easier to obtain than the term loans. As on 31 March 2010, 26% of its total portfolio was owned by other lending institutions, this was significantly lower than 36.8% as on 31 March 2009. The ratio of owned and managed loans has been planned at 3:1 level. A reduction in this ratio also indicates a relative better performance in raising funds in 2009-10, as compared to 2008-09.

CMC has borrowed funds from diversified sources. The detail is as follows:

Rs lakh

Lender	O/s on Mar-10	Interest Rate
ICICI Bank	857.1	11.7%-13.7%
FWWB	1,805.6	10.5%-13.5%
Royal Bank of Scotland	4,286.2	9.0%-15.7%
HDFC Bank	1,966.9	9.5%-14.0%
SIDBI	648.0	9.0%-11.5%
Corporation Bank	562.5	12.0%-13.7%
Maanveeya H&I Pvt Ltd	500.0	10.0%-13.5%
CC from Axis Bank	13.6	12.5%
IOB	2,187.0	9.0%-13.0%
Dena Bank	423.4	12.2%-12.5%
Axis Bank	1,513.8	11.2%-12.0%
Union Bank of India	2,260.0	11.7%-12.5%
Allahabad Bank	642.9	12.0%
NABARD	300.0	9.5%
Kotak Mahindra Bank	1,000.0	11.5%-12.0%
HLF Pvt Ltd	76.4	13.5%
ING Vysya Bank	249.8	13.2%
MAS Financial Services Ltd	500.0	15.0%
Central Bank of India	1,000.0	12.0%
IndusInd Bank – OD	1,990.0	12.5%
ICICI Bank - Unsecured	98.3	9.0%-12.5%
Dia Vikas Capital - Unsecured	300.0	11.7%
Subordinate Debt		
NABARD	100.0	3.5%
Dia Vikas Capital	1,000.0	9.0%
Cordaid	640.4	4.0%-5.0%
Grameen Foundation, USA	33.9	2.0%
Vinod Khosla	103.8	2.0%

Apart from term loans, CMC has financed its operations by assigning the loan portfolio to the following banks:

Lender	O/s on Mar-10	Discount rate	FLDG (%)
ICICI Bank	329,230,941	13.25%	10%
Development Credit Bank	79,138,790	13.00%	10%
Fullerton India Credit Co. Ltd	216,899,895	15.50%	5%
HDFC Bank	34,437,342	12.00%	10%
MAS Financial Services Ltd	44,827,886	15.00%	10%
Total	**705,048,599**		

Organisation and management

The grade of CMC on organisation and management is good at α. CMC has improved its performance on management as compared to the previous rating. The organisation has well established operational methodology, control & audit systems, accounting & MIS, HR systems, planning and cash management. In the previous rating, the grade was restricted on account of weakness in the system ensuring compliance on audit findings, however, the system has now been improved. Staff attrition has reduced and CMC has improved its remuneration policy. Staff productivity has also improved significantly since the last rating.

Human resource quality & management

The quality of staff at CMC is good. The staff attrition rate has reduced significantly and is now in line with the industry benchmarks. During the financial year 2009-10, 16.5% of the total staff (those in the beginning plus those joined during the year) left, as compared to 22.0% in 2008-09 and 27.4% in the year 2007-08. Of the total staff left 72% were assistant field officer under probation period (12% of the total staff).

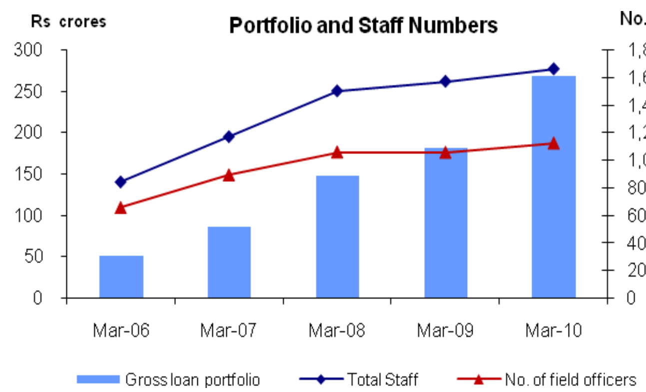
CMC operates in relatively remote field areas with weak infrastructure and amenities which makes it difficult to attract enough talented human resource, especially in ICT and Accounts department where relatively higher educational qualifications are required. CMC has however, done well to train its staff. CMC now has a much larger training team. Four members are based in the Head Office while four are based at three regional training centres. The four trainers based at the regional centres are picked from operations having substantial experience. They provide training to the newly recruited field officers and also provide occasional refresher trainings to the field staff on operational policies and processes. The executives based at the HO are involved in designing the curriculum, assessing the training needs, arranging training programme for the trainers and conducting Management Development Programmes. CMC has hired three professionally qualified training executives in 2009-10 having previous work experience in conducting trainings in the corporate sector (other than microfinance).

CMC has an HR department which apart from performing the administrative roles, maintain a database and knowledge base on the staff members' conduct and performances. The HR department is headed by a senior manager with long experience in CMC's operations. The HR department plays an essential role in strengthening the internal control.

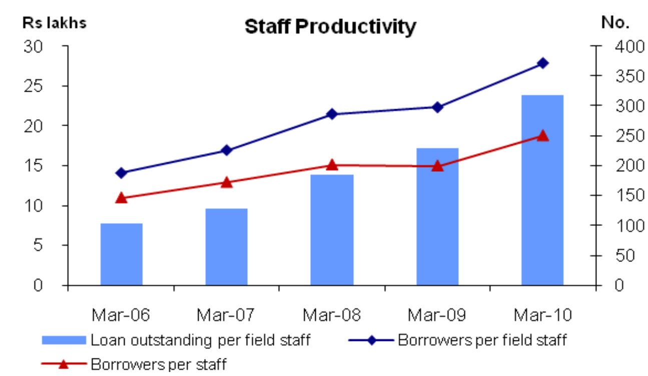
CMC provides performance linked incentives which are function of interest income earned on the loans managed by a staff member. Supervisors get paid on the basis of the incentives received by their subordinates. The Area Managers, however, get incentivised based upon the number of supervisory visits they make to the branch offices. This is to keep their focus exclusively on the compliance of policies and not on growth.

Staff productivity

The staff productivity of CMC has improved in 2009-10 as compared to 2008-09. The borrower per field staff ratio improved from 298 as on 31 March 2009 to 371 as on 31 March 2010. Each branch, on an average had 1,550 borrowers on 31 March 2010, as against 1,247 borrowers as on 31 March 2009. The productivity has improved significantly since the last

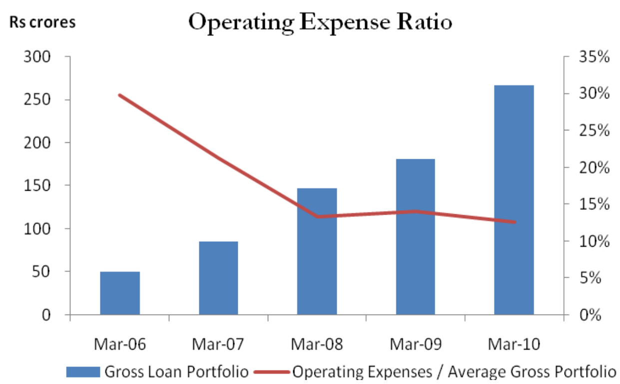


rating and is now comparable to that of other large sized MFIs in the country.



Operating efficiency

The OER of CMC has improved in 2009-10. The OER for the year 2009-10 was 12.6% reduced from 14.1% in the previous year. This improvement has been possible due to an improved staff and branch efficiency. Around 69% of the total operating expenses belong to the staff remuneration and increase in productivity has a significant impact on the OER.



Accounting and MIS

Accounting and MIS of CMC are good. It has an integrated accounting and MIS software. In 2009-10, the ICT department transferred the database to a more robust SQL based system.

The MIS of the organisation has good security features to provide increased security from certain policy violations. The MIS regulates and restricts the acceptance of part payments, pre-payments and immediate disbursement of new loan to a client foreclosing her previous loan.

The ICT staff members at the district offices ensure protection from data manipulation and tampering.

Data entry is done at the District Offices. District office MIS and accounting staff also follow the process of reconciling the accounts with the cash book and bank statement of the branches on a weekly basis.

After developing more robust back end processing, CMC plans to put in place a better technology solution for collecting the data at the point of service, that is, at the level of its members. The system will use mobile phones and biometric technology and would try to provide solution to the internal control challenges faced by the organisation. This is expected to allow CMC to launch newer products including collection of savings on behalf of banks. The project was conceptualised in 2008-09 and the pilot in four branches in was started in 2009-10. The pilot of this new system was underway at the time of the rating visit and CMC is confident of launching this new system by the end of 2010-11.

Analysis of Accounting Policies

The Loan Loss Reserve policy of CMC provides for maintaining a loan loss reserve in following manner:

Portfolio category	% of Portfolio
Portfolio with no arrears	0%
Portfolio with arrears ranging from	
5 weeks to 25 weeks	10%
26 weeks to 50 weeks	50%
>50 weeks	100%

CMC changed its policy in 2009-10 to provide a provision of 50% of the portfolio outstanding on loans with 26 to 50 weeks overdue. Earlier, a reserve of just 10% on these was provided. This is an improvement in the loan loss provisioning policy of CMC.

Considering that the loan loss provisioning provided by CMC is adequate, no adjustment is made by M-CRIL for the computation of profitability ratios.

Loan Write-off

Loans are written off by the management in case of death of the client or her spouse. In cases of defaults, loan can be written-off with an approval of the Board, if the loan has remained overdue for more than 50 weeks after the expiry of the loan period (two years from the disbursement). Even after writing off these loans recovery efforts are continued in the field. For the financial year 2009-10, CMC wrote-off loans worth Rs47.7 lakhs which is significantly lower than Rs1.3 crores that was written off in 2008-09. Apart from writing-off the overdue loans, CMC wrote-off recoverable from staff worth Rs 71.3 lakhs on account of past staff fraud. These frauds occurred during 2005-08 period when CMC followed the Unit Model of operations. After the change in the operation's model, no major fraud has taken place and losses due to fraud have substantially reduced. A provision of Rs48.4 lakhs was already provided in the year 2008-09, the remaining amount was written-off from the income of the financial year 2009-10.

Accounting is done on accrual basis and depreciation is calculated on a straight line basis. Audited financial statements are prepared every six months. Overall, the quality of accounts is very good. CMC's financial statements provide adequate disclosure and details through notes and schedules to the financial statements.

Tracking system for overdues

The tracking system of overdues is good. At the branch level, arrears are tracked every day and prompt action by the Branch Manager is taken. Area Managers also look for the default cases and visit the overdue clients during their regular weekly visits to the branches.

Every week, a detailed report is generated by each branch and is sent to the district office which passes on these reports to the HO where these are consolidated.

The MIS generates overdue reports and other related information. Follow-up on overdues was observed to be good.

Internal control systems

CMC has a long hierarchy of supervisors as can be seen from its organisational structure. Formal monitoring schedules and reports at all supervisory levels are maintained. Specific supervision targets are given for branch and centre visits to AM/ DM and the RMs. Monitoring schedules are prepared by each supervisor and submitted to their senior. Any change in monitoring schedule is required to be approved by the supervisors. The reporting formats are also formalised. There are records for every transaction that takes place including that for the monitoring at every supervisory level. This is to facilitate cross verification and to fix accountability. Overall supervisory systems were observed to be good.

CMC has an internal audit team of 34 trained individuals. The team is headed by an experienced auditor with an experience of over 34 years in a public sector bank. Audit executives are drawn from the operations and include personnel who were earlier working as Senior Centre Managers, Branch Managers and Area Managers and had relatively better operational performance. Before joining the internal audit team, executives go through basic orientation, conducted by the internal audit head.

The audit team consists of a set of two auditors at each district office except for one small district with just one auditor. The Auditors report to the head of Internal Audit. The current system of internal audit requires each branch to be audited once every half year. Audits of all the branches were conducted once for the six months period ending 31 March 2010. The audit formats require auditors to visit atleast two centres of each Credit Manager and report on standard parameters which include compliance with important policies. The quality of audit reports was observed to be reasonable. These were able to bring out critical issues.

The audit team provides a score and grade to the audited branches and the staff which is used by the management and HR department to promote the staff. The grading system was observed to be liberal, a branch scoring more than 75% on policy compliance was graded "A". 91% of the total branches audited in 2009-10 were graded "A" while remaining were graded "B". No branch was graded "C" and "D". This statistics indicates a need to relook at the grading system to make it stricter. However, management looks at the audit score also for making decisions and not just the audit grade which makes the system useful.

The audit department currently audits branch offices and district offices. The Board and the Audit Committee plans to bring Head Office departments in the ambit of the internal audit too. This will however, require substantial capacity building and an increased independence. The audit team will also need personnel from Accounts, ICT and other management domain apart from the microfinance operations.

Since the last rating, CMC has improved its audit compliance system. The process requires circulation of the report to the Branch Manager, Area Manager and the District Manager. The Branch Manager is required to send a compliance report back to the auditors and the auditors need to verify compliance by making a follow-up visit. The system was observed to be now functioning and action taken reports were being submitted by the Branch Managers.

CMC's Board has an audit committee, which consists of three senior board members. The committee receives a summary report from the internal audit department and provides strategic inputs to the department.

Cash management and financial planning

Cash management at CMC is reasonable. Each branch has its own bank account and Branch Manager and one of the Centre Managers have the cheque signing authority. Branches send their requirements to the District offices which after ascertaining the net requirement of the district, requests the HO to transfer the funds. Any excess funds with the branches are transferred to the District office. Fund transfers are made electronically using the RTGS facility of the RBI.

Business planning is done by the Planning Head of CMC. Overall organisational growth targets in terms of the number of clients are set by the Board which are then disaggregated at the district level after ascertaining the potential from the District Managers. Similar disaggregation is made for the branches within each district. The Planning department uses the available figures of the company's yield and average loan size to projects the amount of portfolio, borrowings to be made, profitability and capital adequacy. The management also sets targets for productivity and operating expense ratio. These projections form the basis of targets for disbursement. The plan is regularly monitored for variances but is not updated during the year.

With an improved fund mobilisation, the organisation was able to exceed its target for the year 2009-10. A limited access to Tier I capital for the organisation results in some level of uncertainty, with respect to, the availability of the loan funds, which has increased the difficulty for the organisation to plan its growth and resources such as staff and infrastructure.

Quality of clients/member groups

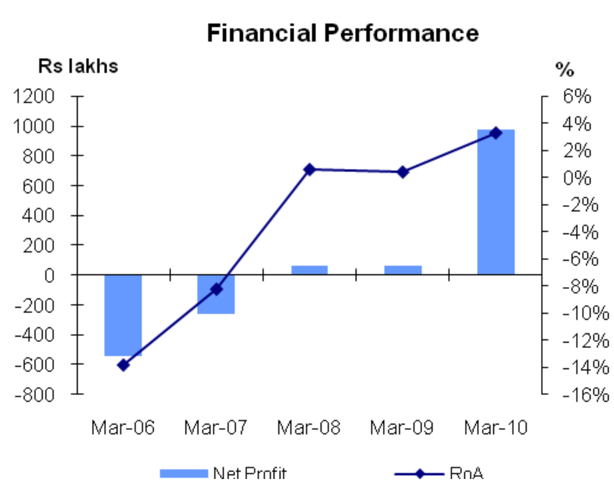
Visited member groups showed good performance on repayment of loans and overall discipline. Member attendance was good. Collections were made from each individual separately which leads to a better identification of borrowers and limits the role of centre leaders. Rotation of centre leaders is made regularly. After counting of the repayments, amount is handed over to one of the members, on rotational basis, to be sent to the branch office. Member awareness about the organisation's rules/ norms and on their loan account details was observed to be good.

Infrastructure

The net fixed assets of CMC amount to Rs75.4 lakhs as on 31 March 2010 reduced from Rs1.3 crores as on 31 March 2009. The Board decided to write-off all the assets below Rs5,000 of value which led to a slightly higher depreciation expense in the financial year 2009-10. The assets mainly comprise of furniture and fixtures, computers, power generators/batteries and vehicles. The current level of infrastructure seems adequate and is employed effectively.

Financial profile

CMC's financial performance is good with a grade of **α−**. The organisation achieved a much better profitability by a reduction in the OER, reduction in the financial cost ratio and also due to a change in accounting policy w.r.t. the recognition of income on assigned portfolio. CMC's CAR improved to 12.4% from 10.5% earlier. It was able to mobilise Tier 2 capital and also had internal profit accruals. However, CMC did not register improvement in its financial grade because of its limited Tier I capital.



Credit performance and portfolio quality

CMC's credit performance is excellent. The repayment rate for the year ending 31 March 2010 was at 99.8% higher than 98.3% for the corresponding previous year. Portfolio at Risk (>60 days) as on 31 March 2010 was at just 0.27%.

The loan products do not have any apparent risk of ever-greening of loans. The disbursement and collection policies have been suitably designed to reduce the risk of ever-greening of loans at the field level.

The loan portfolio is very well diversified across a number of livelihood activities.

Mobilisation of funds, equity and capital adequacy

After facing a shortage of funds for two consecutive years 2007-08 and 2008-09, CMC was able to source more than the expected level of funds in the financial year 2009-10. This helped it exceed its growth targets for the year. Being a not for profit institution, CMC has limited access to Tier 1 capital, however, it has done well to mobilise Tier 2 capital from various sources and since last two years is also generating internal surpluses.

The Tier 1 capital adequacy of CMC on 31 March 2010 was at 4.7% significantly better than 0.2% as on 31 March 2009. The Tier 1 and 2 CAR also improved from 10.5% to 12.4%. This improvement is commendable since during this period, CMC's portfolio grew by as much as 48%. CMC received subordinate debt of Rs3.5 crores from Cordaid and Rs2 crores from Dia Vikas Capital during the year. Cordaid funds are Euro currency denominated and bear an interest of 4% per annum. The organisation however, will make the repayments in Indian rupees at a pre-determined exchange rate and does not bear the risk of foreign exchange fluctuations. Funds from Dia Vikas Capital were received at an interest rate of 9% per annum. Based on the strict criterion for Tier 2 capital applied to the banking sector, CMC's CAR amounts to 9.4%.

As discussed earlier, CMC prefers to obtain term loans of longer tenure which helps it manage its liquidity and disbursements much more conveniently. As on 31 March 2010, 26.4% of the total portfolio was off-balance sheet managed portfolio reduced from 36.8% in the previous year.

Financial Ratios	31 Mar-07	31 Mar-08	31 Mar-09	31 Mar-10
Capital Adequacy				
Risk Weighted Capital Adequacy Ratio (Tier I and II))	-0.7%	1.8%	10.5%	12.4%
Risk Weighted Capital Adequacy Ratio (Tier I)	-2.9%	-1.3%	0.2%	4.7%
Asset Quality				
Portfolio at Risk (>60 days)/ Gross Loan Portfolio	2.8%	1.8%	0.7%	0.27%
Loan Loss Provision Expense/Average Gross Portfolio	1.3%	1.0%	0.9%	-0.05%
Loan Loss Reserves/Portfolio at Risk (>60 days)	85.0%	125.0%	106.7%	83.4%
Write-offs/Average Gross Portfolio	0.1%	0.6%	0.9%	0.24%
Management				
Operating Expenses/Average Gross Loan Portfolio	19.3%	13.4%	14.1%	12.6%
Number of Borrowers/Field Staff	218	282	298	371
Earnings				
Net operating income/Average Equity (RoE)	-	-15.4%	56.6%	126.0%
Net operating income/Average Assets (RoA)	-6.8%	-0.1%	0.4%	3.3%
Portfolio Yield	19.9%	26.6%	27.1%	25.6%
Other income/ Average Portfolio outstanding	0.1%	0.3%	0.5%	1.2%
Financial Cost Ratio (Interest and Fee expenses/Avge Portfolio)	7.1%	12.1%	12.6%	10.3%
Operating Self Sufficiency	73.1%	100.1%	101.7%	115.1%
Average Cash and Bank Balance / Average Portfolio	18.7%	9.8%	9.7%	7.9%

* CMC has taken a legal opinion that since it is not registered as an NBFC with the RBI, the guidelines pertaining to computation of CRAR and restriction on inclusion of TIER II capital in the CRAR does not apply to it.

<u>Asset, liability and equity composition</u>

CMC had 76.3% of its total assets as gross loans outstanding as on 31 March 2010. Cash in hand and at bank were high at 20.1% of the total assets. Cash and bank balances were high at the end of the year due to receipt of loan funds from some lenders in the last month of the financial year. The average cash and bank balance as a percentage of its average assets for the year 2009-10 was a reasonable 7.5%.

Commercial debt accounts for 83.0% of the total liabilities of CMC, while subordinate debt accounts for 6.7%. Net worth accounts for 3.6% of the total source of funds and the rest 6.7% is accounted by current liabilities.

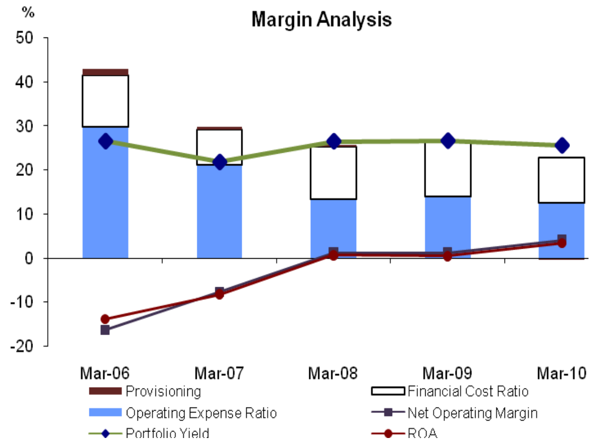
<u>Profitability and sustainability</u>

CMC reported an increased profitability from its operations in the financial year 2009-10 with an RoA of 3.3%. This was after ignoring a onetime income of Rs 2.6 crores due to a change in the accounting policy. CMC changed its accounting policy of recognising its income from sale of loan portfolio to banks and financial institution. Earlier it used to match the income with the life of the loans managed, but after this change it recognises the income from sale instantly.

The operating expenses of CMC have reduced significantly from 14.1% in 2008-09 to a reasonable 12.6%. The organisation plans to bring this down further to a level of 10% in the next financial year. The OER is now comparable to some of the other bigger MFIs operating in the country. A reduction in OER was achieved by improving the staff productivity.

CMC was also able to reduce its Financial Cost Ratio from an earlier 12.6% to 10.3%. It utilised its loans more efficiently by reducing the idle funds as percentage of loan outstanding from 9.7% to 7.9%, cost of funds was also lower in 2009-10 as compared to 2008-09.

For the financial year 2010-11, the profitability of CMC is expected to reduce due to a reduction in its rate of interest and an increase in salaries of the staff. The increase in salaries may however be compensated well by a planned increase in staff productivity. CMC also plans to increase its loan size by 14% which will reduce its OER.



Future plans and prospects

CMC has made commendable improvements in its systems, operations, governance and financials during the last two years. The financial year 2009-10, has witnessed significant improvements in CMC's financial performance and a reasonable growth in its portfolio. With strengthened leadership and management and improved CAR, it is well poised to grow at a reasonable pace in the current year as well. An increased competition in the areas of its operations is however a matter of concern.

Validity This rating is valid, subject to no other significant changes in the organisational structure and external operating environment. A **rating update** (comprehensive repeat rating) is recommended whenever such changes take place or at the end of **one year** from the date of the initial assessment, whichever is earlier. Any substantial additional information that becomes available could also result in a rating update or a rating review (revision of rating grade based on a desk analysis).

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

Financial statements of CMC

Balance Sheets as on

	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10
ASSETS					
Current assets					
Cash in hand and bank	9 48 83 133	14 54 15 066	6 61 22 826	27 98 86 370	70 53 04 444
Other advances and recoverable	40 76 547	2 21 19 813	5 02 72 361	4 86 03 779	5 58 50 364
Other current assets	20 90 026	29 73 280	63 34 509	74 75 583	97 90 880
Deferred Tax Assets			1 33 38 848	1 11 31 746	
Deferred Expenditure	2 22 209	1 11 105			
Loans outstanding					
Gross loan outstanding	50 83 33 131	86 03 96 770	147 33 52 482	181 06 54 282	267 39 81 826
Managed Loans	-23 73 62 640	-26 01 44 331	-6 00 02 072	-66 58 25 340	-70 50 48 599
On Balance Sheet Portfolio	**27 09 70 491**	**60 02 52 439**	**141 33 50 410**	**114 48 28 942**	**196 89 33 227**
Loan loss reserve	-1 03 49 677	-1 56 05 255	-2 03 35 842	- 76 12 209	- 59 41 097
Net loans outstanding	**26 06 20 814**	**58 46 47 184**	**139 30 14 568**	**113 72 16 733**	**196 29 92 130**
Total current assets	**36 18 92 729**	**75 52 66 448**	**152 90 83 112**	**148 43 14 211**	**273 39 37 818**
Long term assets					
Intangible assets	1 34 66 382	89 77 588	44 88 794		
Investments					5 00 00 000
Net property and equipment	97 01 148	1 07 83 701	1 07 20 176	1 25 94 186	75 44 271
Total long term assets	**2 31 67 530**	**1 97 61 289**	**1 52 08 970**	**1 25 94 186**	**5 75 44 271**
Total Assets	**38 50 60 259**	**77 50 27 737**	**154 42 92 082**	**149 69 08 397**	**279 14 82 089**
LIABILITIES AND NET WORTH					
Current liabilities					
Statutory dues payable	11 16 619	13 93 205	18 70 796	23 94 462	25 41 994
ICICI Bank – pending disbursements	4 84 26 393				
Other liabilities	55 96 091	3 24 37 025	3 12 62 850	11 58 27 990	17 38 27 156
Bonus payable	58 99 068	37 02 997	62 86 187	21 79 554	61 21 168
Risk fund reserve			27 87 276	2 56 37 469	23 80 417
Advance from Fullerton			2 50 00 000		
Other provisions				50 10 599	14 22 868
Total current liabilities	**6 10 38 171**	**3 75 33 227**	**6 72 07 109**	**15 10 50 074**	**18 62 93 603**
Long term liabilities					
Long term debt					
ICICI Bank		15 00 00 000	30 42 32 018	4 77 94 094	8 57 14 286
FWWB	3 39 58 337	3 11 80 555	9 05 55 528	11 16 66 649	18 05 55 544
Royal Bank of Scotland	12 16 70 000	21 73 20 000	35 00 20 000	36 15 20 000	42 86 20 000
HDFC Bank	1 75 00 000	8 87 50 000	26 70 35 714	20 21 38 885	19 66 86 499
Citi Bank	-	-	4 00 56 844	64 63 645	-
SIDBI	6 01 00 000	7 70 00 000	8 34 60 000	4 27 80 000	6 48 00 000
Other overdraft	2 77 53 618	-	-	-	-
Corporation Bank	75 00 000	4 37 50 000	3 12 50 000	1 87 47 466	5 62 47 610
Maanveeya H&I Pvt Ltd	2 00 00 000	1 66 66 666	99 99 999	33 33 332	5 00 00 000
Overdraft/CC from Axis Bank	-	84 34 028	3 63 87 312	59 05 932	13 56 953
IOB	-	4 85 95 107	3 19 29 439	11 11 73 052	21 86 96 186
Dena Bank	-	-	4 50 00 000	7 49 69 443	4 23 37 396

Axis Bank			8 18 25 937	14 56 77 208	15 13 84 406
Union Bank of India				2 50 00 000	22 59 97 305
Allahabad Bank					6 42 85 700
NABARD					3 00 00 000
Kotak Mahindra Bank					10 00 00 000
HLF Pvt Ltd					76 42 167
ING Vysya Bank					2 49 82 081
MAS Financial Services Ltd					5 00 00 000
Central Bank of India					10 00 00 000
Overdraft from IndusInd Bank					19 89 97 592
ICICI Bank - Unsecured loan	2 55 00 000	6 71 33 250	4 75 00 000	3 68 33 333	98 33 337
Dia Vikas Capital - Unsecured loan					3 00 00 000
Subordinate Debt					
NABARD				1 00 00 000	1 00 00 000
Dia Vikas Capital				8 00 00 000	10 00 00 000
Cordaid			2 94 82 500	2 94 82 500	6 40 36 985
SIDBI					
Grameen Trust, Bangladesh					
Grameen Foundation, USA			89 93 250	83 27 329	33 85 500
Calvert Foundation, USA					
Vinod Khosla			91 93 100	1 01 72 900	1 03 82 200
Total long term liabilities	**31 39 81 955**	**74 88 29 606**	**146 69 21 641**	**133 19 85 768**	**250 59 41 747**
Net worth					
Share Capital	5 39 00 000	5 39 00 000	5 39 00 000	5 39 00 000	5 39 00 000
Grant	4 45 33 657	4 88 07 459	5 06 07 459	5 06 18 929	4 97 28 654
Deferred tax asset			1 33 38 848	1 11 31 746	
Retained net surplus/(deficit)	-3 42 39 202	-8 83 93 524	-11 40 42 555	-10 76 82 975	-10 17 78 120
Current net surplus/(deficit)	-5 41 54 322	-2 56 49 031	63 59 580	59 04 855	9 73 96 205
Total net worth	**1 00 40 133**	**-1 13 35 096**	**1 01 63 332**	**1 38 72 555**	**9 92 46 739**
Total Liabilities and Net Worth	**38 50 60 259**	**77 50 27 737**	**154 42 92 082**	**149 69 08 397**	**279 14 82 089**

Income statements for the year ending

	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10
Income					
Interest income	6 82 37 780	9 75 38 638	29 65 19 878	38 26 96 779	45 06 50 023
Service charge for managing portfolio	2 16 34 380	3 89 57 940	37 94 797	1 67 99 801	6 81 61 134
Interest on bank deposit	20 00 807	11 74 549			
Other income	3 95 537	16 18 989	54 32 947	97 05 595	2 31 76 243
Provisioning written back				77 13 034	
Total operational income	**9 22 68 504**	**13 92 90 116**	**30 57 47 622**	**41 69 15 209**	**54 19 87 400**
Financial costs					
Interest and fee expenses on borrowings	3 95 77 683	4 89 24 571	13 58 96 889	18 67 92 975	20 88 43 303
Gross financial margin	**5 26 90 821**	**9 03 65 545**	**16 98 50 733**	**23 01 22 234**	**33 31 44 097**
Provision for loan losses	50 67 313	40 46 627	47 30 587	-	- 16 71 112
Write-off of loans outstanding		3 86 053	67 26 153	1 28 64 486	47 69 133
Write-off of "recoverable from staff"					25 85 555
Net financial margin	**4 76 23 508**	**8 59 32 865**	**15 83 93 993**	**21 72 57 748**	**32 74 60 521**
Operating expenses					
Salaries	6 23 73 100	8 61 28 429	10 50 77 091	13 80 78 177	17 70 15 998
Travel	99 50 881	1 53 57 498	79 68 095	82 66 345	1 02 01 122
Depreciation	57 85 812	61 89 096	63 90 326	66 54 073	74 31 728
Administrative/office expenses	2 25 00 302	2 56 83 246	3 15 16 498	5 74 53 682	6 15 50 520
Other pre-operative exp written off	1 11 104	1 11 014	1 11 105		
Total Operating expenses	**10 07 21 199**	**13 34 69 283**	**15 10 63 115**	**21 04 52 277**	**25 61 99 368**
Net Surplus/Deficit (Before tax)	**-5 30 97 691**	**-4 75 36 418**	**73 30 878**	**68 05 471**	**7 12 61 153**
Non Operational Income	697	2 20 29 042			
Non Operational Expenses	10 57 328	1 41 655	2 82 505	1 96 540	
Tax Expense			6 88 793	7 04 076	
Prior year's adjustments					2 61 35 052
Net Surplus/Deficit (after tax)	**-5 41 54 322**	**-2 56 49 031**	**63 59 580**	**59 04 855**	**9 73 96 205**

Notes to the financial statements

1. Accounting is done on accrual basis.
2. During the year, "recoverable from staff" worth Rs71,27,233 were written-off. These relate to the cases of staff fraud of last many years. A provision for Rs48,39,155 was created in the year 2008-09 out of which Rs45,41,678 was used this year to write-off these amounts. The remaining amount of Rs25,85,555 was written-off from the current year's income.
3. In the financial year 2009-10, CMC changed its policy to recognise the complete income from assignment of loans to banks and financial institution at the time of sale. Earlier the income used to be capitalised and recognised proportionately through the life of the managed loan. Prior period adjustment of Rs2.6 crores is made for this change in the policy. This income is not taken into account for calculation of the profitability ratios
4. CMC received exemption from income tax under the section 12A of the Income Tax Act and did not make any provision for the payment of income tax for the current financial year. It also reversed the Deferred Tax Assets of Rs1.11 crores. The adverse effect of this transaction was ignored while computing profitability ratios.

Glossary

1. Current repayment rate: Ratio of principal recovered (net of pre-payments) to the principal due for the last one year.
2. Portfolio at risk ($PAR_{>0}$): Ratio of the principal balance outstanding on all loans with overdues greater than 0 days to the total loans outstanding on a given date.
3. Yield on portfolio: The interest income on loans divided by the average loan portfolio for the year.
4. Other income to average portfolio: Total income other than from the interest on loans divided by average portfolio.
5. Financial cost ratio: Total interest expense for the year divided by the average portfolio.
6. Loan loss provisioning ratio: Total loan loss provisioning expense for the year divided by the average portfolio.
7. Operating expense ratio: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. Net operating margin: Difference of (yield on portfolio+ yield on other income) and (financial cost ratio+ loan loss provisioning + interest loss provisioning) – also known as spread on portfolio
9. Average loan portfolio: This represents the average loan outstanding for the year computed on a monthly basis.
10. Average total assets: This represents the average total assets for the year calculated on an annual basis.
11. Operational Self-Sufficiency: Ratio of total income to total costs for the year.
12. Risk weighted capital adequacy ratio: Ratio of net worth to risk weighted assets
    M-CRIL Risk weights: 100% for all assets except the following: Fixed assets: 50%; Cash and fixed deposits with banks: 0%. Portfolio outstanding is taken net of loan loss provisioning. A risk weight equal to the FLDG % has been provided on the off balance sheet managed loans.
13. Return on assets: Ratio of operational income/(loss) to average total assets
14. Return on equity: Ratio of operational income/(loss) to average net worth

Abbreviations

APR	Annual Percentage Rate
CDS	Collection and Disbursement Sheet
CFS	Cashpor Financial Services Ltd
CMC	Cashpor Micro Credit
FLDG	First Loss Deficit Guarantee
FSS	Financial Self Sufficiency
FWWB	Friends of Women's World Banking
HO	Head Office
HR	Human Resource
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro-Finance Institution
MD	Managing Director
MIS	Management Information System
NBFC	Non Banking Financial Institution
OER	Operating Expense Ratio
OSS	Operating Self Sufficiency
PAR	Portfolio At Risk
RBI	Reserve Bank of India
RoA	Return on Assets
RoE	Return on Equity
SIDBI	Small Industrial Development Bank of India
UP	Uttar Pradesh