



Microfinance Grading Report -

Bal-Mahila Vikas Samiti

(VAMA)

August 2009

Bal-Mahila Vikas Samiti (VAMA)

Year of incorporation: 1998	Mr. Indra Bhushan Verma,
Year of commencement of microfinance activities: 2006	9-C, Maharana Pratap Nagar,
Legal Status: society	Near Jiwaji Club,
Type of Institution: NGO -MFI	Jhansi Road, Gwalior-2
Lending Model: Joint Liability Group (JLG) and Self Help Group (SHG)	Madhya Pradesh
	Tel- 0751 - 2457438
	Mobile - +91- 98262 99566
	Email- vama1988@rediffmail.com

MFI Grading

mfR1
mfR2
mfR3
mfR4
mfR5
mfR6
mfR7
mfR8

mfR1: highest

mfR8: lowest

CRISIL's microfinance institution (MFI) grading is a current opinion on the ability of an MFI to conduct its operations in a scalable and sustainable manner. The grading is assigned on an eight-point scale, with 'mfR1' being the highest, and 'mfR8' the lowest. The MFI grading is a measure of the overall performance of an MFI on a broad range of parameters under CRISIL's MICROS framework. It includes a traditional creditworthiness analysis using the CRAMEL approach, modified to be applicable to the microfinance sector. The acronym MICROS stands for Management, Institutional arrangement, Capital adequacy and asset quality, Resources and asset-liability management, Operational effectiveness, and Scalability and sustainability.

Disclaimer: CRISIL's MFI grading reflects CRISIL's current opinion on the ability of an MFI to conduct its operations in a scalable and sustainable manner. The MFI grading does not constitute an audit of the graded MFI by CRISIL. In the case of NGO-MFIs, CRISIL's MFI gradings apply only to their microfinance programmes. CRISIL MFI gradings are based on information provided by the graded MFI, or obtained by CRISIL from sources it considers reliable. However, CRISIL does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions for the results / opinions obtained from the use of such information. CRISIL especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of this report

This grading does not opine on the MFI's ability for timely payment of interest and principal. Nor is it a recommendation to purchase, sell, or hold any financial instrument issued by the graded MFI, or to make loans / donations/ grants to the graded MFI. The MFI grading assigned by CRISIL cannot be used by the MFI/NGO-MFI in any form for mobilizing deposits/savings/thrift from its members or general public.

© 2008- CRISIL-All rights reserved

For any information of the MFI gradings assigned by CRISIL, please contact the Rating Desk on +91 22 6691 3047/64 or email to CRISILratingdesk@crisil.com

1 Rationale

CRISIL has assigned its microfinance institution (MFI) grading of 'mfR5' to Bal-Mahila Vikas Samiti (VAMA). The grading reflects VAMA's following strengths:

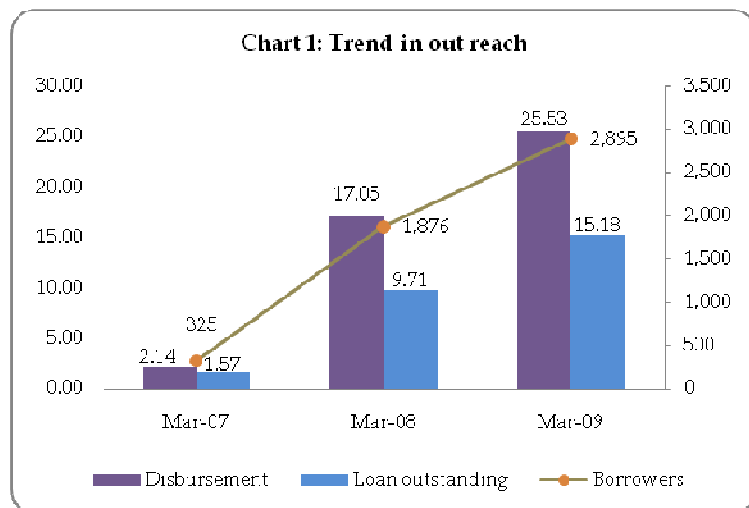
- ❖ Good asset quality
- ❖ Long track record in social developmental programmes
- ❖ Good customer profile and limited market competition

The grading strengths are partially offset by the following weaknesses:

- ❖ Weak risk management practices
- ❖ Low borrower-to-member ratio and high member dropout rate
- ❖ Large exposure to agriculture and allied activities

Profile

The society VAMA was incorporated in December 1988 under the Madhya Pradesh Societies Registration Act XXI of 1860. Since inception, the society's activities focussed on livelihood creation, healthcare and sanitation, gender-related issues, water conservation, agricultural development. It started its microfinance programme in 2006 under the name VAMA Microfinance. Until December 2008 the VAMA followed only the self-help group (SHG) model; in 2009, it started following the joint-liability group (JLG) model. As on July 31, 2009, VAMA had 2976 members under the JLG model and 9207 members under SHG model. During



2008-09 (refers to financial year, April 1 to March 31), VAMA's disbursements increased substantially to Rs.25.56 million from Rs.17.05 million in the previous year.

VAMA offers insurance coverage to its clients through tie-up with Birla Sun Life Insurance Company Limited. The society collects a premium from every borrower for an insurance policy that covers the life of the borrower. In case of the accidental death of the borrower, the insurance claim is settled after deducting the loan outstanding of the borrower.

VAMA offers loans for a period of 6 to 24 months at 18 per cent flat interest per annum. The loan amount varies from Rs.5,000 to Rs.20,000. In addition, the society also charges a loan processing fee (3 per cent of the loan amount), and one-time membership fee and insurance premium - each Rs.100 - from its borrowers.

Lending Methodology

VAMA conducts a field survey, which involves assessment of economic and social profile of the region, before choosing an area of its operation. Once the area is selected, the field executive, who is responsible for group promotion and loan recovery, organises a general meeting of targeted members, wherein the branch manager presents details about the organisation, its social developmental activities and the microfinance programme. Only those women who are interested to become members are invited to the subsequent meeting, during which, the women from same locality form groups of 5 to 8 members. After group formation, the field officer spends three days explaining the microfinance programme's policies, promoters' details, and loan product and repayment details to the groups. After completion of the three-day programme, a staff member from the head office conducts the oral group recognition test (GRT), to ensure the members' proper understanding of the programme's policies and procedures.

The field officer and the members decide the regular centre meeting day and time, and on the first centre meeting day the loan application forms are collected from the members. In

the interim, the field officer collects the relevant details of the members and carries out financial indexing based on the members' monthly income, economic activity, type of house and other related information to gauge the loan repaying ability of the members. The loan committee at head office sanctions the loan after verifying the records of the borrowers.

Management

VAMA has adequate credit approval mechanisms, process and control system and defined policies and workable operational manuals are in place. The credit approval mechanism is adequate, as all the loans are approved by a loan committee at head office level. The loan committee comprises a member of the board, project manager, project coordinator and field officer. The committee sanctions the loan after verifying the records of the borrowers and due diligence from field executive.

The society's internal auditing is done by an external audit firm, but the firm which conduct internal audit for VAMA lacks experience in auditing microfinance programme. Currently, the internal audit, verifying the reconciliation processes and other accounts of VAMA, is done quarterly. CRISIL believes that an internal audit system is critical for evaluation of the functioning of various departments of a non-governmental microfinance institution (NGO-MFI) such as VAMA, as it ensures that the operations are in keeping with organisational procedures.

Although VAMA has an adequate operational manual, and policies on credit approval and human resources (HR), it is marked by weak adherence to policy by the staff. This is because of staff being not adequately trained on policies and procedures of VAMA. The society's operations are marked by lack of proper communication of group formation, interest rate and other charges. The society has a separate team for planning and documentation; the team is responsible for documenting all project reports including social developmental activities, financial statements, and annual reports. Also, registers and documents are not properly updated by field level staffs.

VAMA does not have any special in-house software for management information system (MIS); it uses Tally and Excel software to generate various reports. Although the manual MIS system is sufficient for the current level of operations, it needs to be updated ahead of the society's planned expansion. The society is in the process of installing software that will generate the required reports. Although it has shifted its savings programme to a separate cooperative, account details and demand generations of savings are maintained by its MIS team. And also VAMA microfinance field staff responsible for group formation and collection of repayments of microfinance loans are being used for savings collection.

VAMA has moderate cash management system, as daily cash handling, including collection, depositing cash with the bank, and disbursements, are handled by the branch manager. The head office verifies these statements including prepayment statements once in month. The branch occasionally holds higher cash balances which vary from Rs.75,000 to Rs.1,00,000. However, there is no proper safety locker available to keep cash in safe custody.

VAMA has a dedicated HR manual, wherein policies and procedures relating to recruitment, remuneration, promotion, and incentives are mentioned. However, there is no HR department.

The Gwalior-Chambal region has large rural population and is not financially well-networked. Moreover, there are no big MFIs in that area, save a few individual money lenders. CRISIL, therefore, believes that VAMA has strong growth opportunities in and around the Gwalior-Chambal region

Institutional Arrangement

VAMA is governed by an eleven-member board, which includes the Founder and Executive Secretary, Mr. Indra Bhushan Verma, who has more than two decades of

experience in social development, journalism, panchayat raj institutions and microfinance. Other board members do not have any prior experience in the microfinance programme, but they have adequate experience in the field of social development, health, rural management and accounts. The board meets regularly and discusses the policies and other various issues related to microfinance.

VAMA's management team, except a few staff members at its head office, lacks competence in managing the society's proposed expansion plan, and is wholly dependent on the secretary for fund raising, motivation, and important policies and decision making. The management team requires training to manage group formation, document maintenance and report preparation. The second-line management is yet to be nurtured.

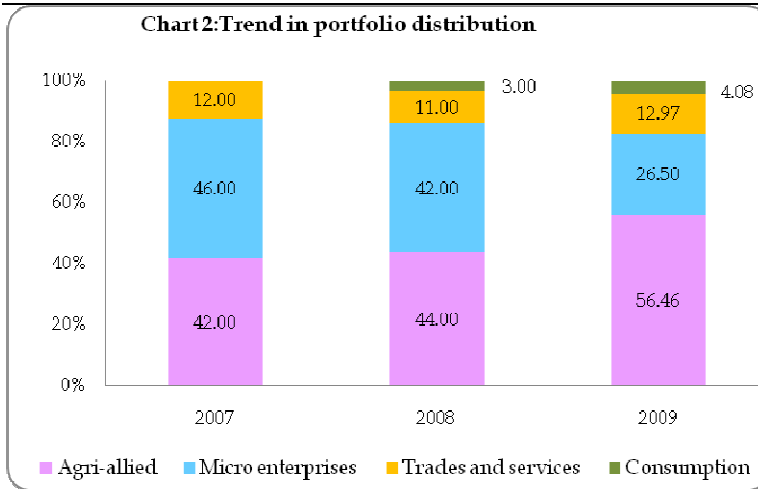
Capital Adequacy and Asset Quality

Capital Adequacy

VAMA had a net worth of 4.4 million as of March 31, 2009, which improved from Rs.0.13 million as of March 31, 2008 mainly because of capital grants and internal accruals. Capital grants infusion has also resulted in a significant improvement in VAMA's debt-equity ratio to 3.41 times as on March 31, 2009 from 100.53 times as on March 31, 2008. As a registered society, VAMA has limited ability to raise equity from external sources; hence, the management has indicated plans to convert the legal structure of the society into a non-banking financial company (NBFC) for raising capital and funds to meet its future growth.

Asset Quality

VAMA has good asset quality, with 98.83 per cent of its loan portfolio being current for the month of March 31, 2009; the on-time payment rate has been more than 98 per cent in the past three years.

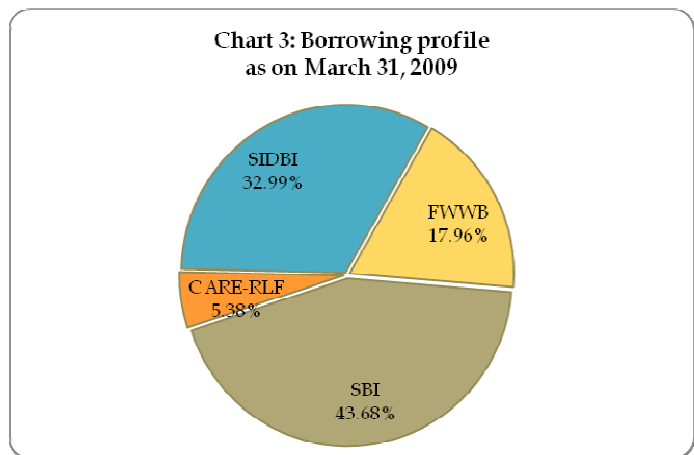


Although the society’s asset quality is good, CRISIL believes that there are certain risks which may adversely affect VAMA’s credit risk profile in the medium term. First, the society’s lending to

agriculture and consumption is large, at around 60 per cent of total loan outstanding as of March 31, 2009. VAMA operates in the drought-affected Gwalior-Chambal region. Hence, the repayment ability of the agrarian borrowers could be severely affected by the current year’s drought in this region. Second, the society does not carry out any end-use verification of loans; the borrowers could use the loans for such activities that may hamper their repayment capability.

Resources and Asset-Liability Management

VAMA’s borrowings are inadequate to meet the credit demand from its clients; this has resulted in a very low borrower-member ratio of 26 per cent as of March 31, 2009. This could result in many members dropping out in the short term.



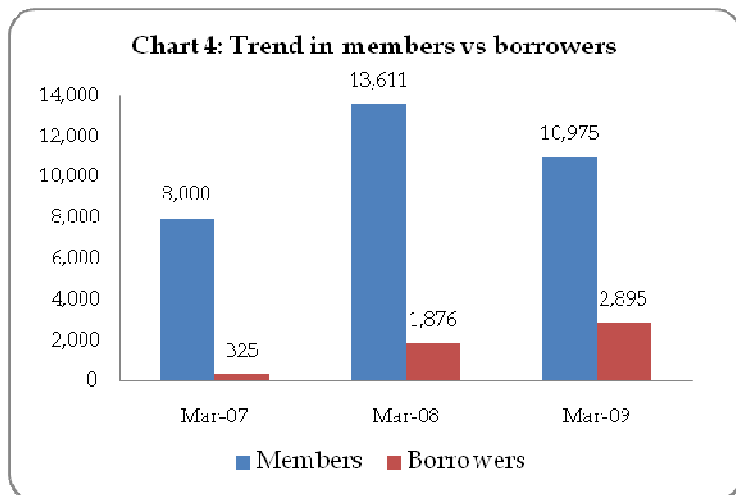
Thus, adequate fund mobilisation would remain one of the key grading sensitivity factors for VAMA, not only for retaining its existing clients, but also for achieving the expected growth.

VAMA's costs of borrowings were at interest rates ranging between 10.50 per cent and 14 per cent, and the weighted average cost of borrowings, at 13.0 per cent, is marginally higher than that of entities of a comparable size in this sector. The asset-liability maturity profile of VAMA is comfortable as all its disbursements the borrowers carry tenure of 6 to 24 months, while its borrowings have tenure of 18 months and above.

Operational Effectiveness

VAMA's different activities, such as social development and microfinance programme, share the society's infrastructure and HR. This significantly reduces the operational cost of the microfinance programme. Hence, the operational self sufficiency ratio of VAMA was 136 per cent as of March 31, 2009.

Although the field level productivity improved over the previous year's level, it remains very low as compare to the industry average. As loan outstanding per credit officer was Rs.0.54 million and the number of borrowers per credit



officer was 107 as on March 31. Similarly, the society had 1448 borrowers per branch as on above date. This is mainly because of the large number of waiting members without loan maintained by the field officers. CRISIL believes that VAMA's operating cost of the microfinance programme will increase over the medium term as the society will need to maintain a large volume of record for the number of members without loans.

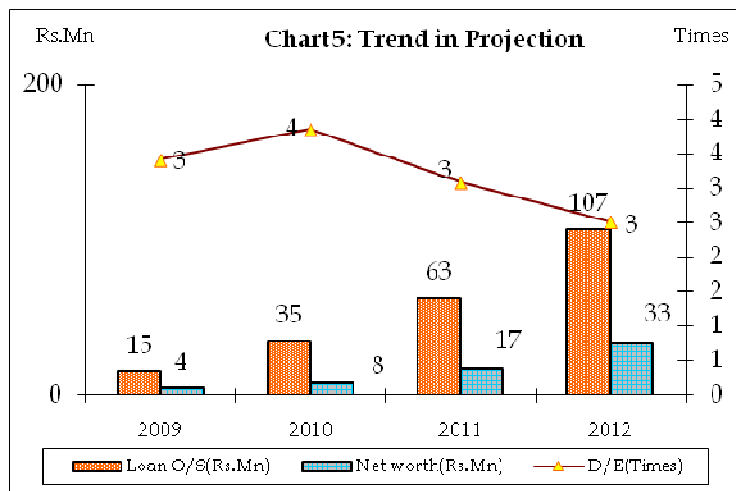
Productivity and efficiency indicators		
For the period ended	31/03/2009	31/03/2008
Loan outstanding/ credit officer (Million)	0.56	0.46
Members / credit officer (No.)	406	648
Borrowers / credit officer (No.)	107	89
Borrower / Branch (No.)	1448	938
Borrower/Member (%)	26	13

Scalability and sustainability

VAMA has three years of experience in undertaking microfinance operations in the Gwalior-Chambal region of Madhya Pradesh; then society has plans to expand and increase its scale of operations over the medium term. The society's projections for 2011-12 assume an increase in advances to Rs.62.4 million from 15.18 million in March 31, 2009. CRISIL believes is ambitious in light of VAMA's relatively weak resource profile. CRISIL believes that VAMA will face several challenges in areas such as risk management system, maintaining asset quality, and raising funds (equity and borrowings) for its growth.

VAMA's ability to maintain its good asset quality, register good asset growth with comfortable leverage, develop a software-based portfolio tracking system, diversify its resource profile and

improve productivity at field level could strengthen the grading assigned in subsequent assessments. Conversely, CRISIL may revise its grading on VAMA downwards if the society's high growth in advances is not matched by its tracking mechanism, there are high delinquencies, and its resource profile remains modest.



2 ANNEXURES

2.1 Business operations	12
2.1.1 Outreach and operational summary	12
2.1.2 Efficiency and Productivity Indicators	12
2.1.3 Loan Product Details	13
2.1.4 Sector wise loan outstanding details	13
2.2 Borrowing Profile (as on March 31, 2009)	13
2.3 Asset quality	14
2.4 Financial Statements of VAMA microfinance programme	15
2.4.1 Income and Expenditure Statement	15
2.4.2 Balance Sheet	16
2.4.3 Key Financial Ratios	17
2.5 Projected Financial Statements as provided by VAMA	18
2.5.1 Income and Expenditure Statement	18
2.5.2 Balance Sheet	19
2.5.3 Key Financial Ratios	20

2.1 Business operations

2.1.1 OUTREACH AND OPERATIONAL SUMMARY

For the period ended March 31,	Unit	2009	2008	2007
Groups	No.	1407	1282	581
Members	No.	10975	13611	8000
Loans disbursed during the year	No.	5,698	2,536	325
Borrowers	No.	2,895	1,876	325
Branches	No.	2	2	1
Villages covered	No.	434	389	389
Districts covered	No.	1	1	1
Women borrowers	%	100	100	100
Total disbursements during the year	Rs. Mn	25.53	17.05	2.14
Total loan outstanding	Rs. Mn	15.18	9.71	1.57

2.1.2 EFFICIENCY AND PRODUCTIVITY INDICATORS

For the Period ended	Unit	Mar-09	Mar-08	Mar-07
Total employees	No.	36	32	14
Village coordinators(credit officers)	No.	27	21	9
Loan outstanding/ credit officer	Rs.Mn	0.56	0.46	0.17
Borrowers / credit officer	No.	107	89	36
Borrowers/ branch	No.	1448	938	325
Loan outstanding/branch	Rs.Mn	7.59	4.86	1.57

2.1.3 LOAN PRODUCT DETAILS

Loan purposes	Micro enterprises, dairy, infrastructure, agriculture & services
Duration	6-24 months
Loan Size	Rs.5,000-20,000
Interest Rate	18% (flat rate)
Repayment	Monthly
Doc.fee/Membership fee	Rs.100
LPF	3%
Moratorium	1 month

2.1.4 SECTOR WISE LOAN OUTSTANDING DETAILS

Rs. million

For the period ending March 31,	2009	%	2008	%	2007	%
Agri-allied	8.68	56.46	4.27	44.00	0.65	42.00
Micro enterprises	4.07	26.50	4.07	42.00	0.72	46.00
Trades and services	1.99	12.97	1.07	11.00	0.19	12.00
Consumption	0.63	4.08	0.29	3.00	-	-
Total	15.38	100.00	9.70	100.00	1.56	100.00

2.2 Borrowing Profile (as on March 31, 2009)

Lending Institution	Interest rate (%)	Amount disbursed	Tenure (Years)	Loan outstanding as on May 31, 09	Repayment Frequency
FWWB	13.50	11.50	1.5	2.72	Monthly
SBI	10.50	10.00	3	6.62	Monthly
CARE-RLF	11.50	3.00	3	0.82	Quarterly
SIDBI	14.00	5.00	3.5	5.00	Quarterly
Total		29.50		15.16	

2.3 Asset quality

Rs. million

For the period ending March 31,	2009		2008		2007	
	PAR	%	PAR	%	PAR	%
Total outstanding balance associated with loans that are						
On time	15.12	98.83	9.70	99.98	1.56	99.74
Late (at least one payment)						
1-30 days	0.048	0.32	0.002	0.02	0.00	0.26
31-60 days	0.08	0.49	-	-	-	-
61-90 days	0.02	0.16	-	-	-	-
91-180 days	0.03	0.20	-	-	-	-
181 days and above	-	-	-	-	-	-
Total portfolio	15.30	100.00	9.70	100.00	1.56	100.00
Portfolio at risk (> 30 days delinquent)	0.85		-		-	
Portfolio at risk (> 90 days delinquent)	0.20		-		-	

2.4 Financial Statements of VAMA microfinance programme

2.4.1 INCOME AND EXPENDITURE STATEMENT

	Rs. million		
For the year ended March 31	2009	2008	2007
Fund based income			
Interest income from loans	3.03	1.21	0.06
Income from investments /bank deposits	0.02	-	0.01
Other income	0.88	-	-
Total fund based income	3.93	1.21	0.07
Interest and finance charges			
On borrowings	1.49	0.74	0.06
On savings	-	-	0.01
Finance charges	0.10	0.01	-
Total interest and finance charges paid	1.59	0.75	0.06
Gross spread	2.34	0.46	0.00
Fee based income			
Fee based income	0.75	0.65	0.11
Other income	0.23	0.36	0.01
Total fee based income	0.98	1.00	0.12
Total income	4.91	2.22	0.19
Gross surplus	3.32	1.47	0.13
Expenses			
Personnel expenses	1.24	0.61	0.56
Administrative expenses	0.53	0.26	0.18
Total expenses	1.76	0.87	0.75
Provision for loan loss	0.05	-	-
Depreciation	0.18	-	0.04
Profit before revenue grants	1.32	0.60	-0.66
Add: Revenue grants and donations	0.01	0.42	0.38
Profit after revenue grants	1.33	1.01	-0.28

2.4.2 BALANCE SHEET

Rs. million

As on March 31,	2008	2008	2007
Liabilities			
Corpus & capital grants	2.98	-	-
Reserves and surplus	1.46	0.13	-0.88
Net worth	4.44	0.13	-0.88
Borrowings	15.16	11.27	2.57
Members Savings	-	1.79	0.38
Security deposits	0.14	0.54	0.12
Provision for loan loss	0.15	-	-
Other current liabilities	1.43	0.03	0.03
Total current liabilities	1.58	0.03	0.03
Total liabilities	21.33	13.77	2.21
Assets			
Loans outstanding	15.18	9.71	1.57
Cash & bank balances	0.54	1.10	0.43
Deposits with banks	0.68	-	-
Other current assets	0.69	0.04	0.02
Total current assets	1.90	1.13	0.45
Total funds deployed	17.08	10.84	2.02
Net fixed assets	4.25	2.93	0.19
Total assets	21.33	13.77	2.21

2.4.3 KEY FINANCIAL RATIOS

in per cent

Year ended March 31,	2009	2008	2007
Yield			
Fund based yield	28.14	18.87	6.39
Portfolio yield	24.31	21.51	7.29
Fee based income / Avg. funds deployed	7.01	15.61	11.45
Total income / Avg. funds deployed	35.15	34.47	17.83
Cost of funds			
Interest paid/ Avg. funds deployed	11.38	11.66	5.99
Interest paid/ Avg. borrowings	12.02	10.83	1.74
Interest spread			
Gross spread/ Avg. funds deployed	16.76	7.21	0.39
Spreads on lending	16.12	8.04	4.65
Overheads			
Operating expense ratio	13.89	13.55	72.48
Personnel expense ratio	8.86	9.51	52.05
Administrative expense ratio	3.76	4.04	16.89
Profitability			
Net profit / (deficit) on funds deployed	9.56	15.75	-25.88
Operational self sufficiency	136.98	136.76	22.73
Asset quality			
Provisioning & write-off/ Avg. loan outstanding	5.20	8.63	0.00
Capitalisation			
Total debt/net worth (times)	3.41	100.53	-3.34
Capital adequacy	22.09	1.03	NA

2.5 Projected Financial Statements as provided by VAMA

2.5.1 INCOME AND EXPENDITURE STATEMENT

	Rs. million				
For the year ended March 31,	2014	2013	2012	2011	2010
Fund based income					
Interest income from loans	57.20	45.08	27.72	15.90	8.15
Income from investments /bank deposits	0.78	0.40	0.17	0.05	0.05
Other income	0.00				
Total fund based income	57.98	45.48	27.89	15.95	8.20
Interest paid					
On borrowings	29.33	19.27	11.85	6.79	3.48
Gross spread	28.65	26.22	16.05	9.15	4.71
Fee based income					
Fee based income	20.88	14.66	9.79	6.10	3.65
Total fee based income	20.88	14.66	9.79	6.10	3.65
Total income	78.86	60.15	37.68	22.05	11.84
Gross surplus	49.53	40.88	25.83	15.25	8.36
Expenses					
Personnel expenses	10.94	7.45	5.22	3.53	2.30
Operating expenses	4.75	3.33	2.44	1.75	1.23
Total expenses	15.69	10.77	7.66	5.28	3.53
Write-offs and provisions					
Provision for loan loss	4.19	2.75	1.69	0.97	0.50
Total	4.19	2.75	1.69	0.97	0.50
Depreciation	0.22	0.18	0.19	0.19	0.21
Net surplus/deficit	29.42	27.17	16.29	8.81	4.13

2.5.2 BALANCE SHEET

Rs. million

As on March 31,	2014	2013	2012	2011	2010
Liabilities					
Capital fund	60.39	33.22	16.92	8.11	3.98
Reserves and surplus	29.42	27.17	16.29	8.81	4.13
Net worth	89.81	60.39	33.22	16.92	8.11
Long term borrowings	181.88	123.34	83.34	52.12	31.23
Provision for loan loss	10.16	5.97	3.22	1.52	0.55
Total current liabilities	0.00	0.00	3.22	1.52	0.55
Total liabilities	281.85	189.69	119.78	70.57	39.90
Assets					
Loans and advances	250.56	168.48	106.75	62.50	34.56
Cash & bank balances	9.99	5.96	3.20	1.48	0.45
Deposits with banks	17.01	11.13	5.70	2.44	0.67
Total current assets	27.00	17.09	8.89	3.91	1.13
Total funds deployed	277.56	185.57	115.64	66.41	35.69
Net fixed assets	4.28	4.12	4.13	4.16	4.21
Total assets	281.84	189.69	119.78	70.57	39.90

2.5.3 KEY FINANCIAL RATIOS

	in per cent				
Year ended March 31,	2014	2013	2012	2011	2010
Yield					
Fund based yield	25.04	30.20	30.64	31.24	22.96
Portfolio yield	27.30	32.76	32.76	32.76	23.58
Fee based income / Avg. funds deployed	9.02	9.74	10.75	11.95	10.22
Cost of funds					
Interest paid/ Average funds deployed	12.67	12.79	13.02	13.31	9.76
Interest paid/ Average borrowings	19.22	18.64	17.49	16.30	11.15
Interest spread					
Gross spread/ Average funds deployed	12.37	17.41	17.63	17.93	13.21
Interest spread	5.82	11.56	13.15	14.93	11.81
Overheads					
Operating expense ratio	6.87	7.28	8.62	10.72	10.46
Profitability					
Return on net worth	39.18	58.06	64.99	70.37	50.91
Return on funds deployed	12.71	18.04	17.90	17.26	11.58
Operational self sufficiency	159.52	182.40	176.19	166.56	153.57
Asset quality					
Provisioning & write-off/ Avg. loan outstanding	2.00	2.00	2.00	2.00	1.44
Capitalization					
Total debt/net worth (times)	2.03	2.04	2.51	3.08	3.85
Capital adequacy	35.24	34.99	29.96	25.39	20.93