

Private & Confidential



**BHARTIYA SAMRUDDHI
FINANCE LIMITED**

MICRO FINANCE RATING REPORT



Reporting to the World



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MICRO FINANCE RATINGS

Bhartiya Samruddhi Finance Limited Hyderabad, Andhra Pradesh, INDIA.

Rating Grade: *mfR2*

Validity: March 07, 2003

A **Microfinance rating (*mfR*) grade** is CRISIL's current opinion on the ability of the micro finance institution to conduct operations in a scalable and sustainable manner.

CredibilityFirst assigns the rating grade on an eight point international scale from *mfR1* (**highest grade**) to *mfR8* (**lowest grade**).

The **microfinance rating grade** is a measure of the overall weighted average performance of the MFI on a broad range of parameters under the **MICROS[®] methodology**. It includes the traditional creditworthiness analysis using the CRAMEL approach, modified as applicable to the MFI sector. MICROS stands for **M**anagement, **I**nstitutional arrangement, **C**apital adequacy & asset quality, **R**esources, **O**perational effectiveness and **S**calability & sustainability.

Based on the scores assigned for each of the sub-parameters of MICROS, the composite grades (grade 1 to grade 8, with 1 being the highest and 8 being the lowest) are shown in the table below. The scores are assigned on the basis of international benchmarks.

<u>Parameter</u>	<u>Grade</u>
➤ <i>Management</i>	2
➤ <i>Institutional Arrangement</i>	1
➤ <i>Capital Adequacy & Asset Quality</i>	3
➤ <i>Resources</i>	2
➤ <i>Operational Effectiveness</i>	3
➤ <i>Scalability & Sustainability</i>	3

Based on the total weighted average score, the rating grade for BSFL is *mfR2*

Validity: This rating is valid for the current capital structure of the company. If this capital structure were to change or there were to be any other significant change in the company or the external environment, CRISIL would recommend a review whenever such changes take place or at the end of one year, **whichever is earlier**.

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ACRONYMS	
ALM	Asset Liability Management
AP	Andhra Pradesh, a state in India
ASSEFA	The Association of Serva Seva Farms, a NGO based in Chennai
BASICS	Bhartiya Samruddhi Investments and Consulting Services Limited, the holding company
CAGR	Compounded Annual Growth Rate
COO	Chief Operating Officer
CORDAID	Catholic Organization for Relief and Development, Netherlands
CRISIL	The Credit Rating Information Services of India Limited
CSA	Customer Service Agent
DID	Developpement international Desjardins, Canada
FD	Fixed Deposit
FWWB	Friends of Women's World Banking, Ahmedabad
FX	Field Executive
GTB	Global Trust Bank Limited
HDFC	Housing Development Finance Corporation Limited
HO	Head Office
ICICI	ICICI Bank Limited
IFC	International Finance Corporation, Washington D.C., USA
IGS	Indian Grameen Services, a Section 25 company under the management of BASICS
IIM	Indian Institute of Management
IIM-A	Indian Institute of Management , Ahmedabad
IIT	Indian Institute of Technology
IRMA	Institute of Rural Management, Anand, Gujarat
JLG	Joint Liability Group
LPF	Loan Processing Fee
MACTS	Mutually Aided Co-operative Society. It is a Society registered under APMACS Act 1995.
MD	Managing Director
MFA	Micro Finance Agent



ACRONYMS (continued)	
MFI	Micro Finance Institution
MIT	Massachusetts Institute of Technology, USA
MYRADA	Mysore Resettlement and Development Agency. NGO based in Karnataka with operations spread over three southern Indian states
NBFC	Non-Banking Financial Company
PAR	Portfolio at Risk
PRADAN	Professional Assistance for Development Action. A well-known NGO for rural livelihood promotion
RBI	Reserve Bank of India, which is India's Central Bank
ROA	Return on Assets
ROSCAS	Rotating Savings and Credit Associations. Commonly used terms for ROSCAS in India are Kameti, Kuri, Chit, Chit funds, Vishi, Bishi and Nidhi
SEWA	Self- Employed Women's Association, a Gujarat based organization
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SMEs	Small and Medium Enterprises
SSIs	Small Scale Industries
UPS	Uninterrupted Power Supply

Indicator	Definition
<i>Employee productivity</i>	No. of active borrowers / no. of loan officers
<i>Operational efficiency</i>	Total expenses / average total fund deployed
<i>Administrative efficiency</i>	Administrative cost / average loan portfolio
<i>Portfolio Yield</i>	Interest Income / average loan portfolio
<i>Loan Loss Rate</i>	Write-offs / average loan portfolio
<i>Personnel expense / avg. gross portfolio</i>	(employee expenses + brokerage on deposits/incentives)/ average loan portfolio
<i>Operational self-sufficiency</i>	Operating income / operating expenses
<i>Operating income</i>	Total fund based income + total fee based income
<i>Operating expenses</i>	Total interest paid + total expenses + total write-offs and provisions + depreciation on owned assets
<i>Adjusted operating expenses</i>	Operating expenses adjusted for inflation, subsidy
<i>Return on equity</i>	Profit after tax / average net worth
<i>Return on assets</i>	Profit after tax / average total funds deployed



FACT SHEET (As at September 30, 2001)

Legal structure	Public Limited company, Registered as NBFC
Contact person	Mr. S Viswanatha Prasad Chief Operating Officer Bhartiya Samruddhi Finance Limited 403, Nirmal Towers, Dwarkapuri Colony Punjagutta, Hyderabad 500 082, India. Tel : (91)40 – 335 0171 Fax : (91)40 – 335 8846
Years of incorporation	1996
Geographical presence	13 branches (units) across Andhra Pradesh, Maharashtra, Orissa and Karnataka
Business approach	Follows different lending strategies -Direct loans -Loans to Joint Liability Groups (JLGs) -Loans to Self Help Groups (SHGs) / Federation of SHGs -Onlending through intermediaries
Active borrowers	20,629
Total staff	104+97 (CSAs)
Loan officers per unit	12
Loans outstanding (Rs million)	202.18
Avg. Loan size disbursed (Rs)	9,801
Portfolio at risk (> 30 days)	12.59%
Operational self-sufficiency	100.78%
Financial self-sufficiency	55.57%
Return on assets	0.15%
Return on equity	0.73%

Rs million

Financial Summary				
	30/09/01 6 months	31/03/01 12 months	31/03/00 12 months	31/03/99 12 months
Number of active loans (nos)	20,629	13,889	7,958	2,850
Voluntary savings (nos)	0.00	0.00	0.00	0.00
Total outstanding loan balance	202.18	154.80	111.31	58.65
Average loan balance (Rs)	9,801	11,145	13,987	20,578
Equity capital	40.50	40.50	40.50	40.49
Reported net worth	43.67	43.48	42.41	41.38
Total funds deployed	223.62	195.21	128.84	72.42
Total income	20.55	32.56	22.39	10.95
Profit before tax	0.16	2.18	2.44	1.63
Profit after tax	0.16	1.28	1.04	0.75
Amount written off	1.80	1.58	0.75	0.01
Portfolio at risk (> 30 days late)	12.59	17.38	24.25	13.62
Administrative efficiency	7.69%	5.91%	6.27%	7.66%
Operational efficiency	11.52%	9.57%	11.87%	14.40%
Portfolio yield	19.77%	20.02%	20.20%	25.90%
Operational self-sufficiency	100.78%	107.16%	112.22%	117.46%
Financial self sufficiency (after inflation and subsidy adjustment)	55.57%	83.60%	92.56%	96.96%
Total debt/ net worth (times)	3.75	3.29	1.75	0.63
Return on assets (not adjusted for subsidy and inflation)	0.15%	0.79%	1.03%	1.62%
Return on equity	0.73%	2.97%	2.48%	3.00%



Board of Directors	
Name	Profile / Other Directorships
Prof. Malcolm Harper	Emeritus Professor, Cranfield School of Management (UK)
Ms. Bharti Gupta Ramola	Executive Director, PricewaterhouseCoopers India
Mr. Deep Joshi	Programme Director, PRADAN
Mr. S. Loganathan	Executive Director, The Association for Sarva Seva Farms
Mr. Joe Madiath	Executive Director, Gram Vikas, Orissa
Mr. Anoop Seth	Vice President (Finance), Bechtel Enterprises Limited
Ms. Jayashree Vyas	MD, SEWA Bank, Ahmedabad
Mr. Vijay Mahajan	Managing Director

Shareholding as on January 3, 2002	
Investor	% holding
BASICS Limited	47.04
ICICI Limited, India	4.85
HDFC Limited, India	2.43
Stichting Hivos Triodos Fonds, Netherlands	11.41
International Finance Corporation, USA	22.82
ShoreBank Corporation, USA	11.41
Other individual investors	0.04
Total	100.00



Outreach Summary			
	30/09/01	31/03/01	31/03/00
Loan outstanding (Rs million)	202.18	154.80	111.31
No of active loans	20,629	13,889	7,958
No of units	13	11	5
Loan accounts/ unit	1,587	1,263	1,592
No of credit officers (including CSAs)	155	108	57
Avg. loan balance (in Rs)	9,801	11,145	13,987
Loan outstanding / unit (Rs million)	15.55	14.07	22.26

Rs million

Loan Outstanding (as on September 30, 2001)		
Lending Institution	Loan Outstanding	Interest Rate (%)
Global Trust Bank	4.02	11.00
Small Industries Development Bank of India	46.07	11.00
CORDAID, Netherlands	20.00	10.00
BASICS Limited	42.50	12.00
HDFC Limited	9.30	12.00
Developpement international Desjardins, Canada	12.33	6.00
ICICI Bank Limited (cash credit facility)	29.37	13.50
TOTAL	163.59	

Rs million

Resources of BSFL						
As on	30/09/01		31/03/01		31/03/00	
	Rs	%	Rs	%	Rs	%
Net Worth	43.67	19.10	43.48	21.85	42.41	32.17
Loans from group companies	42.50	18.59	42.75	21.48	30.70	23.29
Bank and term loans	121.10	52.96	100.08	50.29	43.50	33.00
Current liabilities	21.39	9.36	12.70	3.38	15.21	11.54
Total	228.65	100.00	199.01	100.00	131.82	100.00



Rs million

Portfolio Summary								
	30/09/01		31/03/01		31/03/00		31/03/99	
1. Principal outstanding, end of period	202.18		154.80		111.31		58.65	
2. Number of active loans (clients), end of period	20,629		13,889		7,958		2,850	
3. Average principal balance per client	9801		11145		13987		20578	
5. Loan losses written off over the period	1.80		1.58		0.75		0.01	
6. Loan loss rate	0.89%		1.02%		0.68%		0.02%	
7. Total outstanding balance associated with loans that are	Rs million	%	Rs million	%	Rs Million	%	Rs million	%
On time (and never refinanced)	171.16	84.66	120.31	77.72	74.12	66.59	45.86	78.20
Late (at least 1 payment)								
1-30 days	5.57	2.75	7.58	4.90	10.20	9.17	4.80	8.18
31-60 days	4.13	2.04	9.41	6.08	10.00	8.99	3.06	5.21
61-90 days	3.38	1.67	3.19	2.05	7.17	6.44	1.58	2.69
91-180 days	5.52	2.73	3.58	2.31	4.39	3.94	2.80	4.77
181-360 days	4.38	2.17	6.87	4.44	4.02	3.61	0.56	0.95
1 year or more	8.04	3.98	3.87	2.50	1.41	1.26	0.00	0.00
Total	202.18	100.00	154.80	100.00	111.31	100.00	58.65	100.00
8. Portfolio-at-risk delinquency rate (more than 30 days late)	12.59%		17.38%		24.25%		13.62%	
9. Portfolio-at-risk delinquency rate (more than 90 days late)	8.88%		9.25%		8.81%		5.72%	



Loans Outstanding by Loan Product				
Loan Products	30/09/01	31/03/01	31/03/00	31/03/99
Agriculture and Allied Loans				
Crop JLG	28.24%	20.49%	20.22%	38.90%
Crop Loans – Onlending	1.34%	2.11%	9.41%	3.67%
Agri Invt. Loans	3.89%	4.20%	6.05%	6.19%
Agri Allied Loans	18.74%	19.00%	16.46%	8.66%
Sub-Total	52.21%	45.80%	52.14%	57.42%
Non-Farm Loans				
Micro Enterprises	36.00%	36.81%	26.63%	3.09%
Small Enterprises	0.33%	0.72%	2.17%	6.01%
Growth Micro Enterprises	0.47%	1.17%	3.97%	17.15%
Sub-Total	36.80%	38.70%	32.77%	26.25%
Loans to Groups (does not include Agri JLGs)				
Gen Purpose SHG	2.40%	4.20%	14.67%	12.15%
SHG without cash security	1.30%	3.03%	0.00%	0.00%
Federations of SHG/MACTS	4.71%	6.39%	0.00%	0.00%
Gen Purpose - ROSCAS	0.70%	0.24%	0.00%	0.00%
Sub-Total	9.11%	13.86%	14.67%	12.15%
Loans to Individuals				
Gen Purpose – Individual	0.17%	0.14%	0.43%	4.18%
House Repair & Expansion Loans	0.46%	0.40%	0.00%	0.00%
Vehicle Loans – Employees / CSAs	1.25%	1.09%	0.00%	0.00%
Sub-Total	1.88%	1.63%	0.43%	4.18%
TOTAL	100%	100%	100%	100%
End use of loans to SHGs/MACTS could also be for agricultural and allied activities. Hence agrarian concentration could be much more				



Product Profile of BSFL				
Product	Definition	Interest rate* & payment	LPF & cash security	Principal repayment
Farm Loans - up to Rs 50,000 only				
Crop Loans	Short term loans for cultivation of multiple crops. Only through JLGs.	24% payable with principal	20% cash security	In minimum 2 instalments in less than 11 months period.
Agri Invt.	Loans for land development, irrigation or agri equipment etc.	24% payable with principal	2% LPF	Cash flow based repayments Term upto 3 years
Agri-Allied	Loans for allied activities like milch animals, poultry, piggery, fishery or sheep/goat rearing	24% payable with principal	2% LPF	Cash flow based monthly repayments. Quarterly repayments for goat & sheep rearing Term upto 2 years
Non-Farm Loans - up to Rs 50,000				
Micro Enterprises	Enterprises including manufacturing, trade & services for loans up to Rs 50,000	24% payable monthly	10% cash security + 2% LPF	Cash flow based monthly repayments. Preferably of 24 instalments and maximum of 36 with proper justification
General Purpose Loans				
SHG with CS	Loans through SHG with no end-use restriction	15% payable monthly/ bi-monthly	20% cash security +2% LPF	With at least monthly/bi-monthly payment of interest. Term upto 2 years.
SHG without CS	Loans through SHG with no end-use restriction	21% payable monthly/ bi-monthly	2% LPF	With at least monthly/bi-monthly payment of interest. Term upto 2 years.
Federations of SHG / MACTS	Loans through Federation of SHG/MACTS with no end-use restriction	18% payable monthly/ bi-monthly	2% LPF	With at least monthly/bi-monthly payment of interest. Term upto 2 years.
General purpose Individual	Loans up to Rs10,000 to two-time repeat borrowers or individuals introduced by them, with no end-use restriction	24% payable monthly	2% LPF	12 equal monthly instalments
House Repair and expansion loan	Loans to 3 rd time repeat borrowers Up to Rs 50,000 only	18% payable monthly	2% LPF	Term upto 3 years monthly repayments
Vehicle Loan to Employees / CSAs	Up to a maximum of Rs 40,000	15% payable monthly		Term upto 5 years cash flow based monthly repayments

* interest is charged on declining balance



Assessment of BSFL using MICROS
methodology

MANAGEMENT

Sub-Parameter	Comments
<p>History & track record <i>Number of years in micro credit</i> <i>Associate entities, their performance</i></p> <p><i>Growth of MFI in the past w.r.t programme, geography, clients, branches</i></p>	<ul style="list-style-type: none"> ➤ Started MFI programme in 1996 (first MFI to become an NBFC). ➤ Parent company has received substantial low-cost funds. ➤ Other group companies - Indian Grameen Services (IGS) and Krishna Bhima Samruddhi LAB (KSLAB). ➤ IGS largely provides technical assistance and support services. KSLAB is one of the first RBI approved Local Area Banks to commence operations. ➤ Sharing of costs exists to a small extent (between IGS and BSFL). ➤ Very good. Has been able to implement multiple lending methodologies, have diverse clients (Rs 5,000-Rs 200,000) and expand into four states. ➤ 108% CAGR in loan portfolio over the last three years and has now expanded to cover 2,400 villages in eighteen districts.
<p>Alliances and network <i>Strategic alliances, partners contribution, MFI's gains through the relationship</i></p> <p><i>Donor agencies support, appreciation, etc.</i></p>	<ul style="list-style-type: none"> ➤ Good alliances at local as well as international level. ➤ Has partnered with ICICI for software development for MFIs. ➤ Has good relationships with NGOs. ➤ Good relationships with funding agencies. ➤ Has been able to attract equity from IFC, HDFC, ICICI, ShoreBank Corporation and Stichting Hivos Triodos Fonds.
<p>Documentation levels <i>Extent of documentation in terms of manuals on MFI's products, policies, processes, authorizations, etc.</i></p>	<ul style="list-style-type: none"> ➤ Good documentation of operational procedures – loan appraisal, collection and recovery, products. CRISIL Team during visit to one of the branches checked the documentation in place. ➤ Operational manual in place.



Sub-Parameter	Comments
<i>Adherence of the documented policies, procedures, etc. in day to day operations</i>	<ul style="list-style-type: none"> ➤ Adherence to policies exists at the branch level. Detailed checks by CRISIL Team reveals that loan documentation includes application, loan agreement, demand promissory note, co-obligation/guarantee, borrower & guarantors identity proof, no overdue letter from banks, etc.
<p>Management Information Systems</p> <p><i>Credit approval mechanism</i></p> <p><i>Loan and overdue Monitoring systems</i></p> <p><i>Cash flow management system & Fraud control</i></p>	<ul style="list-style-type: none"> ➤ Defined formats for different lending mechanisms in place. The appraisal process is rigorous and involves assessment of credit risk, cash flow, security and livelihood implications. ➤ Customer service agent's (CSA) commissions are linked to collections and this ensures proper appraisal of new borrowers. ➤ Repayments are on a monthly/quarterly basis. ➤ The existing mechanism of CSA and field executive (FX) following overdues for first two months, the Branch Manager following from the third month – results in Senior Managers at the HO reviewing each loan account only after three months and is more lenient than the other MFIs studied by CRISIL. ➤ MIS systems at the Branch level provide overdues (days wise), upcoming repayments (CSA-wise, FX-wise). ➤ Scope for further improvement in MIS usage. The company has started analyzing repeat borrower data only recently. ➤ Data is consolidated once in a month at the HO. Analysis includes portfolio analysis (sectoral concentration, PAR, collection efficiency, etc). ➤ Branch projects and submits to HO the weekly fund requirement. ➤ Loan disbursement is only by cheque. ➤ However, repayments are in cash. FX and CSA travel far to collect repayments and hence cash is not always deposited on the same day.
<p>Use of IT in operations</p> <p><i>Extent of hardware and software infrastructure</i></p> <p><i>IT operations management</i></p>	<ul style="list-style-type: none"> ➤ All the branches as of date have a computer, UPS and a printer. The current Foxpro system is being upgraded to Oracle soon. ➤ Data is consolidated once in a month at the HO. Branch has a Transaction Assistant to enter the data. Security levels satisfactory.



Sub-Parameter	Comments
<p>Human Resource Management</p> <p><i>Selection & recruitment processes</i></p> <p><i>Training</i></p> <p><i>Role definition</i></p> <p><i>Accountability & responsibility</i></p> <p><i>Attrition rates</i></p>	<ul style="list-style-type: none"> ➤ Campus recruitment of graduates and postgraduates in agricultural sciences, management and engineering from local colleges. ➤ Salaries in line with those paid by Agro chemical companies locally. CSA recruitment is at unit level. ➤ Job training is on the field. Managers are encouraged to attend programs on MFI and related subjects conducted by IIMs and IRMA ➤ Roles are clearly defined and followed both in HO as well as in branches. ➤ Partly performance-based for employees. For CSAs it is purely performance-based. ➤ 13.3%, which is fairly high. However, attrition is in the lower and middle levels.
<p>Processes, Controls & Audit</p> <p><i>Head office level controls</i></p> <p><i>Group, centre, branch office level control systems</i></p> <p><i>Are independent audits being carried out? Nature and scope of audits, quality of such reports</i></p> <p><i>Efficacy of internal audit</i></p>	<ul style="list-style-type: none"> ➤ Controls of fund disbursements by HO to branches, monitoring of portfolio quality, sectoral limits, part linkage of employee salaries to performance and linkage of CSA commissions to portfolio quality and growth. Has internal audit in place. ➤ HO allows operational flexibility at Branch Level in identifying villages and customers. However, it keeps control in form of sectoral exposure and appraisal systems. ➤ Branch level audit is done by local auditors. BSFL should examine having a single auditor for all the branches to have consistency in audit quality. ➤ Accounting quality reasonable. ➤ Has an internal auditor in place. The company has an internal audit system commensurate with current size of its operations.
<p>Social impact on environment/local impact</p> <p><i>Availability of Impact Assessment Studies</i></p> <p><i>Credibility and conclusions of the impact assessment study</i></p>	<ul style="list-style-type: none"> ➤ Each year, BSFL commissions an independent external agency to conduct a customer satisfaction audit to obtain and assess feedback from customers on its products and services. ➤ In 1999, an impact assessment study of micro finance interventions (for livelihood promotion) by BASIX group was conducted. The study indicates positive impact of the BASIX group's intervention.

INSTITUTIONAL ARRANGEMENT

Sub-Parameter	Comments
Management, ownership & governing board	
<i>Pedigree of promoters, their experience, recognition in this field, years of experience</i>	<ul style="list-style-type: none"> ➤ Experienced and well-recognized promoters. ➤ Mr. Mahajan is an alumnus of IIT Delhi and IIM-A and promoted PRADAN (a NGO) in 1982. Mr. Deep Joshi is a graduate of MIT's Sloan School of Management and worked with Ford Foundation prior to joining PRADAN. Ms. Ramola (IIM-A), currently Executive Director, PWC, had earlier worked with ICICI and Nehru Foundation for Development.
<i>Involvement in the day-to-day operations</i>	<ul style="list-style-type: none"> ➤ No involvement in day-to-day operations by Vijay Mahajan, the founder promoter and MD. Has capable team to manage day-to-day operations.
<i>Structure of the Board, diversity of the technical expertise on the board - such as finance, law, marketing, etc.</i>	<ul style="list-style-type: none"> ➤ BSFL's board comprises eminent people with experience in the finance, micro credit, education and NGO sectors. ➤ Most of these directors' work with well-known NGOs in the country (ASSEFA, MYRADA, etc).
<i>Professional reputation of the board members</i>	<ul style="list-style-type: none"> ➤ Among the best in the industry. Has been able to get academicians and people with experience in the social sector.
<i>Independence of the Board from the management</i>	<ul style="list-style-type: none"> ➤ Most operational decisions are taken by the COO and his team. ➤ All the departmental heads have relevant experience in their respective fields.
<i>Organization structure</i>	<ul style="list-style-type: none"> ➤ The company has a flat organization structure wherein unit heads (branch head) report to the COO, who is supported by various divisional heads.
<i>Experience of key management personnel</i>	<ul style="list-style-type: none"> ➤ All the departmental heads have relevant experience (more than five years) in the functions that they handle. For eg. finance is handled by a manager who has experience in both raising resources and handling accounts. Similarly, operations are taken care of by an IRMA graduate who has field experience.
<i>Management's understanding of issues in MFI sector</i>	<ul style="list-style-type: none"> ➤ BSFL's management has constantly explored new lending strategies and has built market linkages for their clients. ➤ Management monitors international best practices and development finance strategies closely and adapts the same to Indian conditions.



Sub-Parameter	Comments
<p>Corporate governance practices <i>Are mainstream corporate governance practices sensitized in the operations?</i> <i>Overall assessment in terms of practices, processes and people</i></p>	<ul style="list-style-type: none"> ➤ Board meets every quarter. ➤ Active involvement of branch (unit) managers in planning and budgeting process. ➤ Company has a professional management in place. ➤ Systems and guidelines well laid-out.
<p>Goals & Strategies <i>Articulation of vision - medium & long term</i> <i>Articulation of strategies to achieve stated goals</i> <i>Strategic planning and budgeting</i></p>	<ul style="list-style-type: none"> ➤ Has a vision statement in place. The mission statement talks about providing sustainable livelihoods to rural poor and women through provision of financial and technical assistance. The mission statement also mentions the group's goal of striving to yield a competitive rate of return to its investors so as to access mainstream capital markets and human resources on a continuous basis. ➤ Has added some financial goals recently as requested by equity participants. These are: <ul style="list-style-type: none"> ▪ Operating expenses as % of loan outstanding $\leq 12\%$ ▪ $ROA \geq 1.25\%$ ▪ $PAR (>90 \text{ days on non-crop loans}) < 5\%$ ▪ $PAR (>400 \text{ days on non-crop loans}) < 5\%$ ▪ Loans outstanding to women should be one-third of the loans outstanding ▪ Loans outstandings to direct borrowers ($\leq 400 \text{ USD}$) should be one-third of the loan out standings <p>The company has to meet any three of the five parameters at the end of FY 2005.</p> <ul style="list-style-type: none"> ➤ Goals are translated into a strategic plan and then into a budget at the beginning of the year. Achievement of targets and re-scaling is done every quarter.



CAPITAL ADEQUACY AND ASSET QUALITY

Sub-parameter	Comments
<p>Asset quality <i>Portfolio at risk</i></p> <p><i>Write-off levels</i></p>	<ul style="list-style-type: none"> ➤ PAR (> 30 days) was 17.4% as at March 31, 2001, which is very high. Similarly, PAR (> 90 days) at 9.3% is also high. ➤ Poor performance of on-lent portfolio was the main reason for deterioration in 2000-01. ➤ Agri allied loans and micro enterprise loans segments constituted 54.7% of the total portfolio as at September 30, 2001 compared to 43.09% as at March 31, 2000. PAR>90 days has increased to 8.4% (September 30, 2001) from 5.9% (March 31, 2000) for agri allied loans and to 6.4% from 5.2% for micro enterprise loans. ➤ Since the last two years, BSFL has been establishing market linkages in the dairy segment, which constitutes a bulk of the agri-allied loans. Hence, portfolio at risk for this segment could witness a drop in the future. ➤ Portfolio classification system and loan write-offs are more stringent than RBI norms for NBFCs. Company provides for 10% of the loan overdue for more than 90 days as a portfolio risk reserve.
<p>Capital Adequacy <i>Capital adequacy</i></p> <p>Ability to raise equity</p>	<ul style="list-style-type: none"> ➤ Capital adequacy, which stood at 26.1% as at March 31, 2001, declined to 20.2% as at September 30, 2001. Capital adequacy for the year ending March 31, 2002, however, is likely to increase because of recent infusion of equity of Rs 165.51 million. ➤ Has demonstrated the ability to raise equity from financial institutions.

RESOURCES

Sub-parameter	Comments
<p>Ability to raise resources <i>Current funding sources, adequacy of the same</i></p> <p><i>Diversity in funding sources</i></p> <p><i>Percentage of funding from members</i></p> <p><i>Impact of the legal structure of MFI in raising resources</i></p> <p><i>Ability to attract donor funds, current relationships</i></p>	<ul style="list-style-type: none"> ➤ BSFL will continue to depend on existing lenders for future borrowings. ➤ Company currently has no plans to raise retail resources. ➤ Has been able to borrow from commercial banks (GTB, ICICI), financial institutions (HDFC, SIDBI) and international development finance institutions like DID. ➤ Does not collect savings from borrowers/clients. ➤ The current legal structure as an NBFC imposes limits on BSFL's ability to raise retail resources (RBI guidelines link public deposits to BSFL's credit rating). However, the NBFC status is not a constraint in raising wholesale resources. ➤ Good relationships with donors and lending agencies. (Also discussed under <i>Alliances and Network.</i>)
<p>Cost of funds <i>Average cost of funds</i></p> <p><i>Subsidized borrowings as a % of total liabilities</i></p>	<ul style="list-style-type: none"> ➤ Average cost of funds is 10.7%. Company has raised subsidised funds (10-11%) even from commercial banks. ➤ The entire borrowings are subsidised borrowings considering that the highest interest rate paid for long-term borrowings is 12% and credit facility is at 13.5%.
<p>Liquidity & Asset Liability Management <i>Loans as a % of total assets</i></p> <p><i>Asset liability mismatch</i></p>	<ul style="list-style-type: none"> ➤ Loan portfolio was 78% of total assets as at March 31, 2001 (84% as at March 31, 2000), which is comparable to mainstream NBFCs. ➤ Limited investments in fixed assets is a positive. ➤ There is no ALM as BSFL's borrowings are of long tenure, while the assets are short-term assets.

OPERATIONAL EFFECTIVENESS

Sub-parameter	Comments
Office outreach and quality of infrastructure <i>Geographical areas covered</i> <i>Employee productivity</i> <i>Client targeting practices</i>	<ul style="list-style-type: none"> ➤ Geographically diversified across four states (covering 2,400 villages in 18 districts). Very few Indian MFIs have been able to achieve this. ➤ Has recently made inroads into Maharashtra, which holds good potential. Fairly successful in Telangana and Rayalaseema regions of AP. Also has presence in Karnataka and Orissa. ➤ 133 loan accounts per credit officer. Multiple lending segments (individuals, SHGs, federations of SHGs, JLGs), hence, loan accounts per credit officer cannot be compared with other MFIs in South Asia. ➤ Has in place client targeting strategies for various lending segments. ➤ Company has recently started recruiting micro-finance agents (MFAs), who will be trained to promote SHGs.
Efficiency Ratios <i>Staff allocation ratio</i> <i>Operational efficiency</i> <i>Administrative cost per loan action</i>	<ul style="list-style-type: none"> ➤ BSFL has a 1:1 ratio of staff to CSAs (who are not on the company's rolls and are only paid commissions). This is an innovative strategy, which not many MFIs follow. ➤ BSFL's operational efficiency (ratio of expenses to funds deployed) of 9.57% (March 31, 2001) is lower than the South Asian benchmarks available with CRISIL. BSFL does not follow the Grameen Bank approach, where costs of group formation are high. Also, BSFL's average loan size at Rs 9,800 is higher than other Indian MFIs whose loan size are typically in the Rs 3,000-5,000 range. ➤ Expenses have also been controlled by having more CSAs on the field. ➤ The average administrative cost divided by average gross portfolio has fallen to 5.9% (March 31, 2001) from 6.3% (March 31, 2000). This is far lower than the South Asia average available with CRISIL. BSFL's average loan balances are larger than of most MFIs in South Asia. Thus, its administrative costs as a percentage of the loan portfolio, are lower.



Sub-parameter	Comments
<i>Personnel expense levels</i>	<ul style="list-style-type: none"> ➤ BSFL’s ratio of personnel expenses to average. assets is 4.70% (March 31, 2001), which is lower than the South Asia average. Similarly, the ratio of personnel expenses to loan portfolio is 5.67% (March 31, 2001), which is lower than the South Asian average.
<p>Profitability</p> <p><i>Operational self sufficiency (OSS)</i></p> <p><i>Financial self sufficiency (FSS)</i></p> <p><i>Return on equity</i></p> <p><i>Return on assets</i></p>	<ul style="list-style-type: none"> ➤ OSS of 107% (March 31, 2001) indicates that the company is not dependent on donor funds for meeting its expenses. Having achieved this in five years is a positive indicator. ➤ While this ratio is higher than the South Asian average, it is far below the average achieved by financially self-sufficient MFIs across the world. ➤ FSS of 84% (March 31, 2001) indicates that the company is still dependent on subsidised funds, though this percentage is marginally higher than the South Asian average available with CRISIL. ➤ BSFL had a ROE of 2.97% as on March 31, 2001. This cannot be compared with the South Asian average available with CRISIL as most of these MFIs are non-corporates and there is no concept of equity. Further, most trusts and societies do not report profits. ➤ BSFL had a ROA of 0.79% as at March 31, 2001. BSFL’s new equity investors have set 1.25% as the ROA target, which is to be met by 2005.



SCALABILITY AND SUSTAINABILITY

Sub-Parameter	Comments
<p>Resource base sustainability Fund raising strategies in place Are current efficiency, profitability levels sustainable at larger scale of operations, diversity etc?</p>	<ul style="list-style-type: none"> ➤ Has been able to raise funds from well-known commercial and development finance lending agencies. ➤ BSFL needs to monitor its asset quality closely, which is its key weakness. Failure on this front could have an impact on profitability. Current efficiency levels are sustainable.
<p>Organizational sustainability - Ability to develop into a mainstream financial institution Legal structure issues Corporate governance issues Succession issues Human resources</p>	<ul style="list-style-type: none"> ➤ The current legal structure as an NBFC imposes limits on BSFL’s ability to raise retail resources (RBI guidelines link public deposits to BSFL’s credit rating). However, the NBFC status is not a constraint in raising wholesale resources. ➤ BSFL’s board comprises directors who have good experience. ➤ Has a second-rung management in place. Has capable managers. Most group companies also have non-founder leadership in place. Dependence on Mr. Mahajan is only for strategic direction. ➤ Has been able to attract good quality personnel. ➤ Growth avenues for branch level managers limited as of now, which will be of concern in the long term.
<p>Programme sustainability – ability to sustain operations on a larger scale <i>Sectoral expertise has been built</i></p>	<ul style="list-style-type: none"> ➤ Has different lending methodologies, different loan sizes, different regions, and different sectors. ➤ BSFL is now attempting to create expertise in SHG lending through the MFA program.



Sub-Parameter	Comments
<i>Past track record to enter new segments, geographical areas</i>	<ul style="list-style-type: none"> ➤ Has shown good growth in portfolio by geographic expansion. ➤ BASIX group has, since inception, taken a credit plus approach (offering technical support and creating market linkages for its clients). ➤ Has been able to diversify into non-farm loans.
<i>Long-term outlook of programmes are clearly envisioned</i>	<ul style="list-style-type: none"> ➤ The company has made plans to achieve the goals set by its equity participants. ➤ Equity investors like IFC want BSFL to continue its multiple programme approach of targeting SMEs, women and some exposure to the farm sector.



SIGNIFICANT ACCOUNTING POLICIES FOLLOWED BY THE COMPANY

a) Basis of accounting:

Financial statements are prepared under historical cost convention, on accrual basis of accounting and in accordance with the provisions of the Companies Act, 1956 and comply with the accounting standards issued by the Institute of Chartered Accountants of India to the extent applicable, except otherwise stated and the directions issued by the Reserve Bank of India for Non Banking Financial Companies from time to time, wherever applicable.

b) Revenue recognition

- Interest on loans is recognized on accrual basis, as per contracts with the borrowers and is net of rebates for on-time repayment.
- Income on non-performing assets is recognized only when realized and no interest, which has remained past due for more than six months at the end of the accounting period, is treated as income.
- Service contracts income is recognized on the basis of proportionate completion of the contract with reference to the stage of performance and corresponding income.

C) Fixed assets

- Fixed assets are stated at cost.
- Depreciation is provided on the straight-line method at the rates specified in schedule XIV of the Companies Act, 1956
- In respect of additions, the depreciation is provided pro-rata from the date the assets are put into use.

D) Loans and advances

Loans and advances are classified as standard assets, sub-standard assets, doubtful assets and loss assets in terms of the Non Banking Financial Companies Prudential Norms (Reserve Bank) Directions 1998.

E) Provision for loan losses

- Provision for doubtful loans and advances are made as per the norms stated in the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions.
- In addition, the company also sets aside an amount in excess of the above provision, reckoned at 10% of the loan amount outstanding which have become past due over 90 days, to a Portfolio Risk Reserve.



- F) Write-off policy
Unsecured loans, which are overdue since one year and without any payment of interest or principal during the year, are written off.
- G) Employee benefits:
- Provident Fund: Contribution is accounted on actual liability basis and paid into the government provident fund.
 - Gratuity: is being computed as per statutory norms on actuarial valuation basis and paid into a trust created with and for this purpose, through the group schemes of Life Insurance Corporation of India.
- H) Miscellaneous expenditure
Miscellaneous expenditure is written off in equal instalments over five years time.
Miscellaneous expenditure (not written off) consists of statutory payments for increasing authorized capital.
- I) Foreign exchange transactions:
- Foreign currency current assets and current liabilities outstanding at the balance sheet date are translated at the exchange rates prevailing on that date and the net gain or loss is recognized in the income and expenditure account. All other currency gains and losses are recognized in the Income and Expenditure Account.
- J) Loans and advances:
- Asset classification: The company classifies its loan portfolio as per the norms prescribed for classification by the Reserve Bank of India through Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998.

The necessary provisions as per RBI norms have been made. The details as at September 30, 2001 are shown below

(Rs million)

Asset Classification	Loan Outstanding	Provision upto March 31, 2001	Provision during the period	Provision as at September 30, 2001
Standard	190.78	0.00	0.00	0.00
Sub-Standard	10.08	0.97	0.11	1.08
Doubtful	1.32	0.61	0.11	0.71
Loss assets	0.00	0.00	0.00	0.00
Total	202.18	1.58	0.22	1.79

Income and Expenditure Statement

Rs million

For the year ended	30/9/01	31/3/01	31/3/00	31/3/99
Interest from loans				
- Interest on loans	17.40	26.64	17.16	9.84
- Others (recovery of bad debts)	0.24	0.00	0.00	0.00
Income from investments	0.55	0.63	0.58	0.14
Total fund based income	18.19	27.27	17.75	9.98
Interest paid				
On borrowings	7.94	11.57	6.56	2.60
Total interest paid	7.94	11.57	6.56	2.60
Gross spread	10.25	15.71	11.18	7.38
Fee based income				
Loan processing fees	1.94	2.98	1.23	0.33
Service charge from group companies	0.00	0.00	2.22	0.65
Consultancy fees	0.29	2.07	1.18	0.00
Other fee based income	0.13	0.24	0.03	0.00
Total fee based income	2.37	5.29	4.65	0.97
Total income	20.55	32.56	22.39	10.95
Gross profit	12.61	21.00	15.83	8.35
Expenses				
Employee expenses	4.00	5.92	5.63	3.11
Administrative expenses	5.24	7.89	5.39	3.11
Brokerage on deposits/incentives	2.81	1.69	0.92	0.42
Total expenses	12.06	15.50	11.94	6.65
Write-offs and provisions				
Write off of bad debts	0.00	2.20	0.42	0.00
Provision for non-performing assets	0.22	0.82	0.85	0.01
Total	0.22	3.03	1.27	0.01
Depreciation on owned assets	0.18	0.29	0.18	0.06
Profit before tax	0.16	2.18	2.44	1.63
Tax	0.00	0.90	1.40	0.88
Profit after tax	0.16	1.28	1.04	0.75
Accretion to reserves	0.16	1.28	1.04	0.75

Balance Sheet

	Rs million			
Balance Sheet as at	30/9/01	31/3/01	31/3/00	31/3/99
Liabilities				
Equity share capital	40.50	40.50	40.50	40.49
Share application money				0.01
General reserve	2.50	2.34	1.55	0.51
Portfolio risk reserve	0.85	0.85	0.37	0.37
Less : Miscellaneous Expenditure not Written off	(0.18)	(0.20)		
Net worth	43.67	43.48	42.41	41.38
Term loans from financial institutions	87.70	81.08	40.00	
Bank loans	33.39	19.01	3.50	5.00
Loan from holding company	42.50	42.75	30.70	21.00
Total long term borrowings	163.60	142.83	74.20	26.00
Sundry creditors	0.41	0.32	1.00	0.12
Interest accrued but not due	0.96	0.76	0.47	0.00
Cash security from borrowers	17.12	9.57	10.26	5.11
Other liabilities	0.72	0.05	0.26	0.00
Provision for taxation	0.39	0.42	2.47	1.07
Provision for doubtful debts	1.80	1.58	0.75	0.01
Total current liabilities	21.39	12.70	15.21	6.31
Total liabilities	228.65	199.01	131.82	73.68
Assets				
Total investments (G-secs)	0.09	0.09	0.09	0.09
Cash & bank balances	12.55	32.33	7.95	8.57
Advance payment of tax			2.58	0.38
Loans & advances	202.18	154.80	111.31	58.65
Other related current assets	2.82	2.78	2.03	0.26
Interest accrued	5.98	5.21	4.87	4.48
Total current assets	223.52	195.12	128.75	72.33
Total funds deployed	223.62	195.21	128.84	72.42
Net fixed assets (own)	5.04	3.80	2.98	1.26
Total assets	228.65	199.01	131.82	73.68

Economic Indicators used for Operating Expense Adjustment				
	30/09/01	30/03/01	31/03/00	31/03/99
Inflation	4%	7%	7%	7%
Commercial rate for the institution	15%	16%	16%	16%



Key Financial Ratios

Year ended	30/9/01	31/3/01	31/3/00	31/3/99
Yield				
Interest income / average loans	19.77%	20.02%	20.20%	25.90%
Fee income / average funds deployed	2.26%	3.27%	4.62%	2.11%
Spread				
Fund based income/ average funds deployed	17.37%	16.83%	17.63%	21.60%
Interest Paid/ average funds deployed	7.58%	7.14%	6.52%	5.63%
Gross spread/average funds deployed	9.79%	9.69%	11.11%	15.97%
Interest Paid/ average borrowings	10.36%	10.66%	13.10%	14.44%
Interest spread	7.01%	6.17%	4.54%	7.16%
Profitability				
PBT/ average funds deployed	0.15%	1.34%	2.42%	3.52%
PAT / average funds deployed	0.15%	0.79%	1.03%	1.62%
Operational efficiency (expense levels)	11.52%	9.57%	11.87%	14.40%
Provisions / average loans	0.24%	2.28%	1.50%	0.03%
Provisions / average funds deployed	0.21%	1.87%	1.26%	0.03%
PAT / reported net worth	0.73%	2.97%	2.48%	3.00%
Operational self-sufficiency	100.78%	107.16%	112.22%	117.46%
Financial self-sufficiency	55.57%	83.60%	92.56%	96.96%
Capitalization				
Total debt / reported net worth	3.75	3.29	1.75	0.63
Capital adequacy	20.21%	26.10%	34.99%	64.01%

Projected Income and Expenditure Statement

Rs million

For the year ended	31/03/02	31/03/03	31/03/04
Interest from loans	43.34	66.81	90.26
Income from investments			
- Income from investments	2.74	2.47	3.50
Total fund based income	46.08	69.28	93.75
Interest paid			
On borrowings	15.69	15.67	18.19
Gross spread	30.39	53.61	75.56
Fee based income			
Loan processing fees	1.28	1.74	1.74
Other fee based income	5.00	5.00	5.00
Total fee based income	6.28	6.74	6.74
Total income	52.36	76.02	100.49
Gross profit	36.67	60.35	82.30
Expenses			
Employee expenses	7.29	12.87	18.14
Administrative expenses	8.81	15.01	21.16
Brokerage on deposits/incentives	1.98	3.48	4.91
Total expenses	18.08	31.36	44.21
Write-offs and provisions			
Write off of bad debts	10.15	15.64	21.13
Provision for non-performing assets	1.77	2.73	3.68
Total	11.92	18.37	24.81
Depreciation on owned assets	0.43	0.65	0.71
Profit before tax	6.25	9.98	12.57
Tax	2.25	3.59	4.53
Profit after tax	4.00	6.38	8.05
Accretion to reserves	4.00	6.38	8.05

Projected Balance Sheet

Rs million

Projected Balance Sheet as at	31/03/02	31/03/03	31/03/04
Liabilities			
Equity share capital	206.00	206.00	206.00
General reserve	4.08	6.97	10.30
Portfolio risk reserve	3.11	6.60	11.32
Less: Miscellaneous Expenditure not Written off	0.00	0.00	0.00
Net worth	213.19	219.57	227.62
Term Loans from financial institutions	70.76	72.65	140.39
Bank loans	13.55	58.35	45.42
Loan from Holding Company	0.00	50.00	50.00
Total long term borrowings	84.31	181.00	235.81
Total short term borrowings	0.00	0.00	0.00
Cash security from borrowers	24.26	37.16	49.94
Other liabilities	3.00	6.19	19.20
Provision for doubtful debts	3.35	6.00	9.76
Total current liabilities	30.60	49.35	78.89
Total liabilities	328.10	449.93	542.32
Assets			
Investment in G-Secs			
- G-secs	0.09	0.09	0.09
- Others	5.00	0.00	0.00
Total investments	5.09	0.09	0.09
Cash & bank balances	53.64	38.37	2.00
Loans & advances	254.94	392.99	530.93
Other related current assets	9.01	10.65	1.15
Total current assets	317.59	442.01	534.08
Total funds deployed	322.68	442.10	534.17
Net fixed assets (own)	5.42	7.83	8.14
Total assets	328.10	449.93	542.32

Economic Indicator assumptions for Adjustment of Projected Operating Expenses			
	31/03/02	31/03/03	31/03/04
Inflation	3%	3%	3%
Commercial rate for the institution	15%	14%	14%



Ratios based on Projected Financials

Key financial ratios			
Year ended	31/03/02	31/03/03	31/03/04
Capital adequacy	79.14%	53.36%	42.13%
Yield			
Interest income / average loans	21.15%	20.62%	19.54%
Fee income / average funds deployed	2.43%	1.76%	1.38%
Spread			
Interest income /average funds deployed	17.79%	18.12%	19.21%
Interest paid/ average funds deployed	6.06%	4.10%	3.73%
Gross spread/average funds deployed	11.74%	14.02%	15.48%
Interest paid/ Average borrowings	13.81%	11.81%	8.73%
Interest spread	3.98%	6.31%	10.48%
Profitability			
PBT/ average funds deployed	2.41%	2.61%	2.58%
PAT / average funds deployed	1.54%	1.67%	1.65%
Operational efficiency	6.98%	8.20%	9.06%
Provisions / average loans	5.82%	5.67%	5.37%
Provisions / average funds deployed	4.60%	3.76%	6.77%
PAT / reported net worth	1.88%	2.91%	3.54%
Operational self-sufficiency	113.55%	115.10%	115.21%
Financial self-sufficiency	102.32%	101.03%	96.00%
Capitalization			
Total debt / reported net worth	0.40	0.82	1.04



Assumptions the Projected Financial Statements

1. Branch, borrower and employee assumptions are as follows:

Figures in nos	2001-02	2002-03	2003-04
Units at the beginning of the year	11	13	17
Units added/formed during the	2	4	2
Units at the end of the year	13	17	19
Borrowers at the beginning of the year	13889	27059	41459
Borrowers added during the year	13170	14400	14400
Borrowers at the end of the year	27059	41459	55859
Borrowers per unit	2081	2439	2940
Borrowers per credit officer	165	150	150
Credit Officers (FX+CSAs)	164	276	372

2. Loan processing fee at 2% assumed for 37% of projected loan portfolio outstanding (non-crop, non agri-loans and non-vehicle loans).

3. Loan loss provision assumptions are as follows:

Asset classification	% of Loan O/S	% of Provision
Standard assets	93.3	0.00
Sub-standard assets	6.3	4.83
Doubtful assets	0.4	100.00
Loss assets	0.0	100.00

4. Bad debts to be written off have been assumed at 3.98% for the next three years. This percentage is based on the fact that 3.98% of the loan portfolio was outstanding for more than one year as at September 30, 2001.

5. Interest income on cash security assumed at 8% per annum.