UTKARSH MICRO FINANCE PRIVATE LIMITED

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GRADING

ICRA has assigned an MFI grade of M3+ (pronounced M three plus) to Utkarsh Micro Finance Private Limited (Utkarsh). The grading indicates that in ICRA's current opinion, the graded MFIs ability to manage its microfinance activities in a sustainable manner is moderate. Within the M3 category, the sign of + (plus) is appended to the Grading Symbol to indicate their relative position within the Grading category concerned. The grading is valid till July 2012. ICRAs MFI Grading is not a comment on any specific debt servicing capability of the MFI.

Website:
www.icra.in

ICRA MFI Grading Rationale

July 2011

Grading Rationale

The M3+ grading reflects Utkarsh's experienced management team, strong investor profile, presence in areas of relatively low microfinance penetration, good loan monitoring and collection mechanisms supported by strong Management Information Systems (MIS). The grading is however constrained by relatively short track record of the company (company has been in operations since July 2009), small size of operations (managed portfolio size of Rs 31.86 crore as on Mar-11) and geographical concentration risk as major part of Utkarsh's operations are concentrated in Eastern parts of Uttar Pradesh (UP) ,high operating costs. Though Utkarsh's portfolio is relatively less seasoned, the company has been able to maintain good asset quality indicators and collection efficiency (100% till Mar-2011) so far.

The grading is also constrained by the uncertain operating and regulatory environment which has severely impacted growth in the microfinance sector and adversely impacted the credit environment. The Ordinance (which was subsequently adopted as an Act in December 2010) issued by the Andhra Pradesh (AP) government in October 2010, has adversely impacted the operations of MFIs operating out of the state, although the asset quality in other states has largely remained unaffected. Funding was also constrained for the sector.However there has been some clarity on regulatory environment post Reserve Bank of India(RBI) guidelines for bank loans to Micro Finance Institutions (MFIs) and draft Micro Finance Institutions (Development and Regulation) Bill, 2011. The RBI had vide its circular dated May 3, 2011 stipulated some lending and pricing norms for MFIs to be eligible for Priority Sector funding. Utkarsh has complied with the conditions regarding pricing and lending norms.

Since Utkarsh has no operations in Andhra Pradesh, its portfolio was unaffected by issues in the state. However such events can largely impact the credit culture in general. Though Utkarsh was able to arrange funds post October 2010 albeit relatively high rates of interest which enabled the company to continue disbursements, the funding profile of Utkarsh is less diversified with absence of larger lenders in its resource profile. Given the nature of the business, regular flow of funds is crucial to maintain as well as grow the business operations. Thus the ability of the company to diversify its resource profile and availability of funding from banks would be critical for the company to grow its portfolio going forward.

Further, regular equity infusions would be critical for maintaining prudent capitalisation levels as the company plan to grow at a fast pace in medium term and the internal accruals are likely to remain insufficient. Utkarsh has already received Rs 6 crore as subscription money for issuing Compulsorily Convertible Debentures(CCDs) to Aavishkaar Goodwell. Moreover it has also signed term sheet for Rs 15.8 crore Compulsorily Convertible Preference Shares (CCPS) with prospective investor.

Inline with the recent RBI guidelines, Utkarsh reduced its incremental lending rates; therefore yields are expected to decline from previous year levels. Further cost of funds is likely to remain high leading to some compression in interest spreads. However, Operating expenses are likely to moderate because of shift to fortnightly repayment mode and spreading of fixed overhead expenses over a larger asset base which are likely to support the profitability of the company. Therefore it would be critical for the company to reduce its operating expenses and maintain asset quality indicators to support its profitability going forward. It would also be important for the company to recruit and train personnel going forward, in line with the planned branch expansion.

Company Background

Utkarsh Micro Finance Pvt. Ltd is registered with the Reserve Bank of India as Non Banking Finance Company (NBFC). Its registered office is in Chennai (Tamil Nadu) and corporate office is in Varanasi (Uttar Pradesh). The company started its operations in July 2009 and subsequently it expanded to twelve other districts in the states of UP and Bihar. Utkarsh utilizes a five-member group lending methodology under Joint Liability Group model, wherein the group members undertake the responsibility of approving the loans, disbursements and repayments. Utkarsh reported Profit After Tax(PAT) of 0.91 crore on a managed asset base[1] of Rs 41 crore vis-a-vis loss of 0.95 crore on an asset base of Rs 11 crore in 2009-10.

The Company is promoted by Mr. Govind Singh, the former Business Head for Microbanking at ICICI Bank. Besides the promoter and other individual shareholders (promoter's friends and associates), Aavishkaar Goodwell (AG) and International Finance Corporation (IFC) have made equity investment in the company. The company has also received an infusion of Rs 6 crore in the form of compulsorily convertible debentures in June-2011.

Table 1: Share Holding Pattern as on 31 March 2011

	Mar-2011	Mar-2010
	% share	% share
Promoters	15.09%	12.04%
Individual shareholders	33.38%	44.71%
International Finance corporation	16.69%	14.90%
Aavishkaar Goodwell India Microfinance	31.04%	27.66%
Intellicash Microfinance Network	0.44%	0.69%
ESOP	3.36%	
	100.0%	100.0%

Table 2: Highlights of Operations

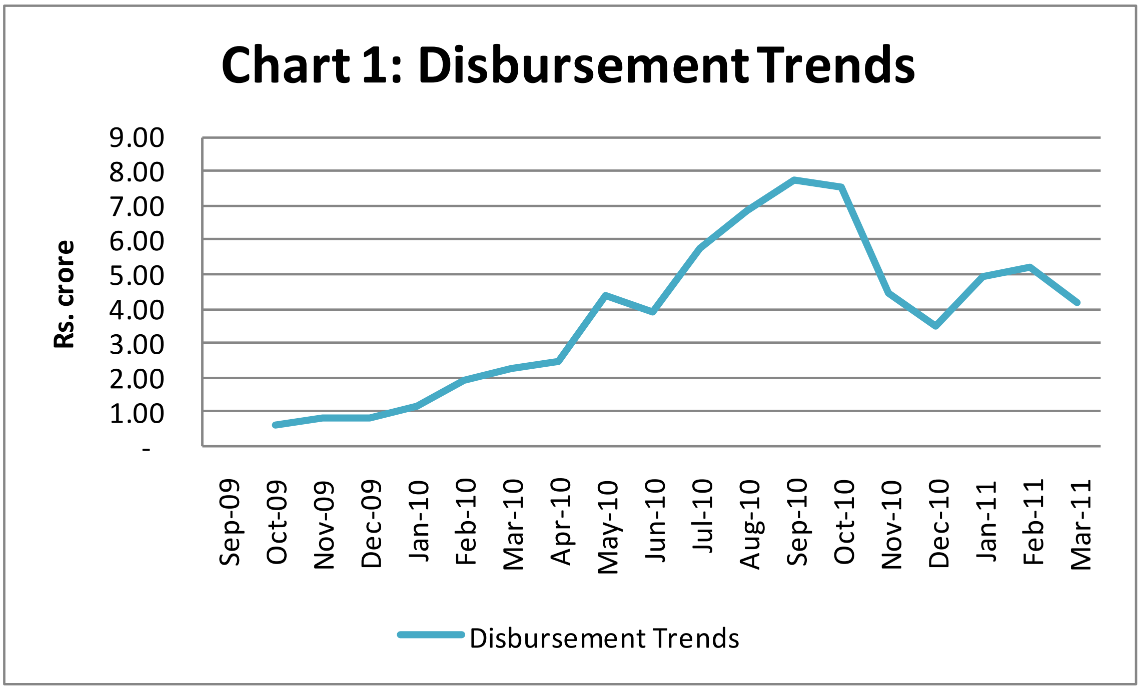
	Mar-11	Mar-10	Sep-09
No of States	2	1	1
Total Branches	52	13	4
Total Centers	3,902	499	25
Total Members	58,623	8,719	388
Total Active Borrowers	55,506	8,208	130
Total Groups	12,456	1,753	78
Credit Portfolio (Managed) (Rs. cr)	31.86	6.34	0.12
No. of Employees	325	114	31
Credit Officers	195	73	20
Active Borrowers per branch	1,067	631	32.5
Active Borrowers per Credit Officer	285	112	6.5

** As on Mar-09*

Utkarsh utilizes a five-member group lending methodology under Joint Liability Group model, wherein the group members undertake the responsibility of forming the group, joint liability, and repayments. The borrowers are mainly women mainly in rural and semi-urban regions, come from weak income backgrounds, with no access to organised credit or any credit history. 2 to 6 groups form a centre. While this makes the lending risky (the loans being unsecured), the group dynamics, which has been historically tested and in varied markets, should be effective in curtailing shortfall in collections from any borrower. The borrowers typically are involved in animal husbandry projects, small trade, cottage industries, agricultural based projects and other textile related

[1] Total Assets +assigned portfolio

projects. For lending in these segments Utkarsh earns yields in the range of 25.94% (they have been reduced post the RBI guidelines dated May 3, 2011)



The portfolio of Utkarsh witnessed a rapid growth in 2010-11 (being the first full year of operations). The disbursements rose sharply in the initial months of the 2010-11 as well, nevertheless the growth remained subdued after September 2010 till December 2010, post which disbursements has gradually picked up. With respect to the guidelines from RBI on 3 May 2011, Utkarsh is compliant with the same for incremental disbursements made May 2011 onwards.

Summary Grading Rationale

	Parameters	Overall Comments
A	**Business Risk**	
1	Operating Environment	The Microfinance sector expanded rapidly in the past few years. However, post the crisis in Andhra Pradesh in October 2010, banks restricted the flow of funds to MFIs, particularly those operating out of Andhra Pradesh. While the recommendations of the Malegam Committee came in, in January 2011 and the RBI accepted the broad framework of the same on 3 May 2011, the RBI's final stance on the same would be a key factor for MFIs. Given this scenario, banks are continuing to watch the situation and are taking a cautious view while lending to MFIs. Given the nature of the business, regular flow of funds is crucial to maintain as well as grow the business operations. However, given that the current penetration of MFIs is still low in India, the potential for growth appears significant. Though, the political risk continues to remain high for these players. Moreover, there is high competition in some areas. Though competition between MFIs may lead to lower interest rates, better-designed products, and better customer service, it may also lead to overleveraging for the borrowers and hence putting them under a higher debt burden. Further with credit bureau (High Mark, Equifax) expected to be operational soon, overlapping will reduce.
2	Governance Structure, Management and Systems	Mr. Govind Singh, the promoter holds 15.09% stake in the company. 33.38% of the stake is held by friends and ex colleagues of Mr. Govind Singh. Further Aavishkaar Goodwell holds 31.03% stake in the company and the International Finance Corporation holds 16.69%. Currently Utkarsh has a six member board, with all the members having good expertise in their respective fields. Two directors are executive, 3 independent and 1 investor representative (Aavishkaar representative). The Board is actively involved in strategy formulation and also approves the company's business plan. The company has an experienced and professional second line of management as well. The company has developed good internal audit systems and has good MIS systems in place. Though the branches are not connected and do not have a computer, data is available online on a daily basis at the head office as the daily collections data is communicated through phone to the regional office where data is entered.
3	Scalability (in relation to business plans)	Utkarsh plans to grow at a fast pace over the next 4 years, and would require regular capital infusion as internal capital generation may not be sufficient. The company has factored in Rs. 117 crore equity infusion over the next 3 years (2012 to 2014) of which Rs 25 crore is planned in the current financial year, part of which has been tied up. Further, the company would have to improve its financial flexibility and diversify its lender profile which is at present limited to relatively smaller private sector banks, MFI focused institutions and NBFCs. With scaling up of business, Utkarsh would require a larger number of trained employees to support its operations. With the shift in repayment frequency from weekly to fortnightly the company is expecting the loan officers to handle a larger number of clients, therefore the loan officers are expected to increase at a lower level than portfolio growth. The company would also need to scale up their training facilities.

4	Asset Quality	Though Utkarsh is in growth phase and has started operations less than 2 years ago, it has been able to maintain sound asset quality with 100% repayment rates till March 2011. Further. rigorous supervision by operations team & rigorous follow up audits by Internal Audit Department have also helped the company to maintain asset quality indicators. However the ability of the company to maintain the same level of asset quality while growing the portfolio through various economic cycles is yet to be seen. So far, Utkarsh has not been affected by any political or external environmental issues. They avoid lending to villages prone to community wars, drought prone areas

B	**Financial Risk**	
1	Liquidity and Funding Profile	Utkarsh's funding requirements are substantially met through credit lines from relatively small sized banks and MFI-focussed institutions. While these relationships have helped in meeting funding requirements in the past albeit at high interest rates, the company would have to diversify its resource profile to meet the its business plan. The company maintains a comfortable ALM profile however; regular flow of funds is crucial to maintain as well as grow business operations and would have a key bearing on its liquidity profile.
2	Capitalisation	The capital adequacy of the company has remained comfortable because of continuous capital infusions in the company. Going forward, the company plans to grow at a fast pace over the next 4 years and increase its penetration in states of Central India (UP, Bihar, MP, Chattisgarh). To support its growth plans, Utkarsh would require regular capital infusion as internal capital generation may not be sufficient. Utkarsh has already received Rs 6 crore as subscription money for issuing CCD to Aavishkaar Goodwell. This will be classified as tier 2 capital. Moreover it has also signed term sheet for Rs 15.8 crore CCPS with leading sector specific investor. It has therefore tied up more than 87% of its equity projection for current fiscal year. The promoter has 15.09% stake in the company and is willing to dilute it further for scaling up the operations of the company. However to protect dilution in stake, the promoter has preferential rights of the company convertible into common equity shares at par latest by December 2012. Therefore, in the medium term promoters' stake would remain in the range of 10-15%.
3	Profitability	As the company has been in growth stage, its operating expenses have remained high. Going forward, though yields are expected to decline from previous year levels, (as Utkarsh has reduced the interest rates post RBI guidelines on incremental disbursements to 25.94%), operating expenses are likely to moderate because of shift to fortnightly repayment mode and spreading of fixed overhead expenses over a larger asset base. Nevertheless, expenses of Utkarsh are expected to remain high in the medium term as it plans to grow at a fast pace. Therefore it would be critical for the company to reduce its operating expenses and credit costs low to maintain its asset quality indicators going forward as well

Strengths/Challenges

Strengths

- Growth potential of micro-finance business in India continues to remain good; also the credit penetration in the company's target geographies – UP, MP and Bihar is relatively low. Management is aware of negative areas within the target geographies
- Experienced and professional management team, good second line of management team as well
- Strong investor profile, with IFC and Aavishkaar Goodwell as the investors, company continues to receive equity even post Andhra Crisis
- Good Internal Audit, Loan monitoring and collection and MIS systems
- Relatively prudent credit policies, as company does not offer mid term loans, lends to people staying for atleast 3 years at same location, performs borrower wiser cash flow analysis
- Incentives to loan officers capped beyond forming - 75 members per month thus reducing the risks associated with high growth by compromising portfolio quality
- Company has maintained good asset quality indicators with 100% recovery so far

Challenges

- Small size of operations, growth rate expected to be high over the medium term till the company becomes a medium sized MFI.
- To improve geographical diversification of operations to mitigate political and other risks; though contiguous expansion strategy helps the company in monitoring and controlling costs, but exposes the company to geographical risks
- To improve financial flexibility and diversify funding profile
- Operating costs high; however expected to decline as the portfolio scales up

Business Risk Profile

Operating Environment

Though the potential for microfinance in India continues to remain good, considering that the overall penetration and credit outstanding per borrower is low, therefore leaving a potential for growth and scaling up of operations, however, MFIs continue to face funding and other constraints post the Andhra Crisis in October 2010. RBI set up a committed headed by Mr Y H Malegam to study the issues in the sector which submitted its report in January 2011. While RBI has accepted the broad framework of recommendations of the committee, the regulator has made a few modifications to the Committee's recommendations. The annual household income limits have increased from Rs 50,000 per annum as per committee earlier to Rs 60,000 per annum for rural households and Rs 120,000 per annum for semi urban and urban households. Further, the overall indebtedness limit for a single borrower has been increased from Rs. 25,000 suggested by the Committee earlier to Rs 50,000. Implementing these recommendations, particularly those relating to annual household income, indebtedness of an individual, loan history, could be a challenge although some of them could get addressed once the credit information bureau is functional.

RBI has also increased the margin cap for MFIs (Lending yield and other charges - Cost of funds) with asset base higher than Rs. 100 crore from 10% as recommended by the committee to 12%. The margin cap for MFIs with asset base less than Rs. 100 crore remains unchanged at 12%. The margin cap appears reasonable in a scenario of stable/declining interest rates, MFIs with efficient cost structure and good asset quality would be able generate reasonable returns. The Interest rate cap of 26% may be reasonable, incase MFIs are able to borrow at competitive rates; however, being independent of any benchmark rate, it could compress interest spreads in a rising interest rate scenario. Though the RBI has in its guidelines of 3 May 2011, adopted the broad framework recommended by the Malegam Committee (with few changes), it is expected to issue the detailed guidelines soon. So even though some clarity has come in, lenders may possibly wait for the final policy guidelines from RBI before finalising on their lending policies to MFI. However there has been some clarity on regulatory environment post RBI guidelines for bank loans to Micro Finance Institutions (MFIs) and draft Micro Finance Institutions (Development and Regulation) Bill, 2011. The RBI had vide its circular dated May 3, 2011 stipulated some lending and pricing norms for MFIs to be eligible for Priority Sector funding. Utkarsh has complied with the conditions regarding pricing and lending norms.

However, the political risk continues to remain high for these players (especially with the introduction of Andhra Pradesh ordinance). Given the low-ticket sizes, the cost of legal recourse becomes unviable for such loans and thus MFIs depend more on joint liability mechanisms to ensure repayments. However, since a large proportion of borrowers of MFIs are below poverty line and are wage labourers or marginal entrepreneurs, therefore the resilience of their repayment capacity could be impacted due to economic, social or political reasons.

Moreover, with the phenomenal growth of the Indian Microfinance sector over the last couple of years, Microfinance institutions (MFIs) increasingly find themselves competing for the customers especially in Southern India where MFIs penetration is higher. Competition between MFIs may lead to lower interest rates, better-designed products, and better customer service. However, competition could also undermine the operating standards and erode profitability on account of lower yields on loans, fall in repayment rates (as MFIs pressure to withhold future loans no longer act as disincentive to pay back the loans owing to multiple borrowing options). Moreover, competition from informal sources of funding like moneylenders continues to remain a threat, since borrowers maybe initially skeptical of coming to MFIs. Also natural calamities can severely impact the earning capability of such members.

Also, loan waiver schemes introduced by the Government could also impact the credit culture among borrowers adversely. In recent times the asset quality for some MFIs were affected by communal problems in some pockets of Karnataka. The crisis in Andhra Pradesh post October 2010, due to which borrowers of MFIs operating in the state stopped repayment also percolated to neighboring districts of Tamil Nadu.

Governance Structure, Management and Systems

Ownership and Board Structure

Mr. Govind Singh and his family hold 15.09% stake in the company. Further 33.38% of the stake is held by friends and ex colleagues of Mr. Govind Singh. Further Aavishkaar Goodwell holds 31.03% stake in the company and the International Finance Corporation holds 16.69%. The company has received Rs. 6 crore equity infusion in the form of Compulsorily convertible debentures from existing investor Aavishkaar Good well in June 2011. Utkarsh has a six member board as on Mar-11. All the directors are experienced in their respective area of expertise.

Board Processes

The board meets on a quarterly basis and if required it may meet more often. The Utkarsh Board is actively involved in strategy formulation and also approves the company's business plan. The board has two executive directors (Mr. Govind Singh and Mr. Trilok nath Shukla), three independent directors(Ms Ramni Nirula, Ms Vijaylakshmi Das, Mr Ajai Raj Sharma) of which two have extensive expertise in financial sector and Mr. Ajai Raj Sharma is an ex IPS officer. Aavishkaar Goodwell has appointed an representative on the Board, IFC has not nominated a Board member however, IFC representative do attend alternate board meetings of the company,

Management

Mr. Govind Singh is the promoter of the company and is holding the position of Managing Director and CEO. He started the company in July 2009 with an experienced management team acting as functional heads.
Mr Govind Singh was the former business head for microbanking at ICICI Bank. Mr Govind Singh is assisted by functional Heads (Core Team Members) who have been associated with the company since inception and have good experience in microfinance. The other functional heads have also been associated with the Microfinance sector).

Field officers who are on the rolls of the company handle entire operations. At the field level, the field officers report to the branch managers who in turn report to the Area Managers. Each Area Manager handles 3 branches and reports to a divisional manager who handles 3-4 areas. The Area Manager reports to a Divisional Manager who in turn reports to Regional Manager. The attrition rate of the company is 14-15% as a whole. For the trainee field officers, the attrition rate is higher about 20-25%, while at the level of confirmed field officers it is 10%-12% and that at the senior level is relatively low. The auditors of the company – M/s B S R and Co(KPMG) are reputed auditors and among the BIG 4.

Systems and Processes

IT Systems

Utkarsh has been using a MIS implemented by Jayam Solutions, called FIMO, with an integrated Accounting and HR module. Jayam has provided this application on a SaaS platform (Software as a service), therefore there are no hardware costs and the fee charged is linked to the no of borrowers. This software is comprehensive, capturing all client details, loan purpose, client attendance, loan details and also the track record of the loan repayment and delinquency details, if any is appropriately maintained. The system is scalable upto approximately 10 lakh clients and the company is working on developing a web based module for the same.

Because of power issues in the region of operations all branches of the MFI are not connected. Daily collection and disbursement Data is entered in the system at the Divisional Office. Each Divisional office caters to 9 branches and a dedicated data entry operator enters data for the branches. The credit officers inform the daily collection and disbursement report to the operator on the phone through sms. The Divisional Offices are connected online and therefore the daily collections and disbursement data is available online at the Head Office by end of day.
The loan officers work with a collections and disbursement sheet (CDS) which contain the centre wise collections and disbursements they have to make. The CDS is generated at the divisional office every

Wednesday and Saturday for the next 3 days. One of the credit officers from the branch physically takes the hard copy of these CDS sheets on Wednesday to the Divisional Office (for entered collections, disbursement and attendance data for Monday, Tuesday and Wednesday), The divisional office, hands over the CDS sheets for the coming three days (Thursday, Friday, Saturday) to the Credit officer which contains details on upcoming group, meetings, collections and disbursements to be made.

Some of the key features of the MIS systems of the company are

- Attendance Tracking at member level
- Portfolio cuts based on purpose, region, product, IRR, cycle of loan, religion
- Tracking Loan Utilisation Check in Collection and Disbursement Sheet

Internal Audit Process

Utkarsh has developed a three tier Internal Audit System where all branches go through atleast one of the following types of audits every month The company has a ten member internal audit team and internal audit plan is prepared in advance and the team of auditors schedule the audits accordingly. All audits are surprise audits

- Snap Audit - lasts for a day
- Short Audit – lasts for 2-3 days every branch with more than 500 clients to be covered monthly
- Comprehensive Audit -lasts for 6-8 days, every branch to be covered atleast quarterly

The company has developed a comprehensive checklist, with weightages for each parameter for the comprehensive audit. The checklist is comprehensive and covers the field operations, record keeping, statutory compliances, accuracy of Management Information Systems(MIS), monitoring mechanism and compliance with code of conduct.

The comprehensive audit process for each branch lasts for 6 days. The audit team stays in the respective branches for six days and verifies all the records and documents corresponding to that particular branch. The audit members also accompany the Loan officers to the centre meetings to verify the collection processes at the field level. Upon completion of audit detailed audit reports are prepared and submitted to the Head Internal Audit who consolidates all the audit reports and submits it to the Managing Director. An Audit report is not complete till the deficiencies observed in the previous audit are complied with.

Accounting Policies

Utkarsh books interest income on the industry-accepted Internal Rate of Return (IRR) basis. Utkarsh provisioning policy is also higher than the minimum prescription by RBI.

Scalability

Human resources

With scaling up of business, Utkarsh would require a larger number of trained employees to support its operations. At the field officer level, the basic requirement is that the staff must have passed Class 12, with knowledge of the local language and good communication skills, which are available easily standardised.

The staff is trained at the company’s training centres and the training procedures are standardised. Company has two training centres- Varanasi & Allahabad. It is planning to have another training centre in Bihar. Every employee goes through 5 days of classroom training, followed by a test and 5 days of field training. After the field training, the employee is sent for 3 months of on the job training on the fields. During this period they remain in 1 branch. In the first 1-1.5 months they work with an existing credit officer, post which they are permitted to form groups if they are found capable of doing so.

Utkarsh intends to grow at a fast pace in the medium term. With The shift in repayment frequency from weekly to fortnightly the company is expecting the loan officers to handle a larger number of clients, therefore the loan officers are expected to increase at a lower level than portfolio growth. Also the attrition rates being moderate, particularly at the junior levels, it is important for the company to develop policies to retain the staff.

At senior levels the company plans to retain the senior level management through Employee Stock option Plans(ESOPs). In ICRAs view, with the growth in portfolio, the company would require qualified and experienced executives for monitoring the operations and other support functions such as IT.

Tie-up of funding sources

Access to debt
Utkarsh plans to leverage its net worth to between 3-4 times over the next 4-5 years. Being a non-deposit taking NBFC, it cannot access public deposits and has to rely on secondary sources, mostly banks and FIs for tie-ups of funds. The company was able to raise funds between October to March 2011 to maintain disbursement levels unlike some other MFIs, albeit at higher rates of interest. Going forward the company would have to improve its financial flexibility and diversify its lender profile which is at present limited to relatively smaller private sector banks and NBFCs. Incremental borrowing is likely to continue to be in the form of term loans and assignment.

Access to Capital
The capital adequacy of the company has remained comfortable because of continuous capital infusions in the company. Going forward, the company plans to grow at a fast pace over the next 4 years and increase its penetration in states of Central India (UP, Bihar, MP, Chattisgarh). To support its growth plans, Utkarsh would require regular capital infusion as internal capital generation may not be sufficient. The company has factored in Rs. 117 crore equity infusion over the next 3 years (2012 to 2014) in its business plan. Of this, the company had planned an equity infusion of Rs 25 crore in the current financial year, part of which has been tied up.
The promoter has 15.09% stake in the company and is willing to dilute it further for scaling up the operations of the company. However to protect dilution in stake, the promoter has preferential rights of the company convertible into common equity shares at par latest by December 2012. Therefore, in the medium term promoters' stake would remain in the range of 10-15%. However, going forward, the company would be dependent on external capital for meeting its growth plans.

Asset Quality

Though Utkarsh is in growth phase and has started operations less than 2 years ago, it has been able to maintain sound asset quality with 100% repayment rates till March 2011. The attendance track record of borrowers has also been high, over 85% is most of the branches. The company performs borrower wise cash flow analysis before disbursing the loan and loan utilisation checks in 100% of the cases which has enabled the company in maintaining its portfolio quality. Further, So far, Utkarsh has not been affected by any political or environmental issues. They avoid lending to villages prone to community wars, drought prone areas. However the ability of the company to maintain the same level of asset quality as it grows its portfolio through economic cycles is yet to be seen.

Financial Performance

Profitability

Table 3: Trend in Utkarsh's Profitability indicators

Rs. Crore	**Mar-11**	**Mar-10**
Net Interest Income	4.57	0.39
Assignment Gains	0.06	-
Non Interest Income / Fee Income	1.60	0.07
Operating Income	6.22	0.46
Operating expenses	5.06	1.41
Operating Profit	1.16	(0.95)
Provisions-credit	0.13	0.03
Operating Profit (net of provisions)	1.03	(0.98)
Tax	0.12	0.00
PAT	0.91	(0.95)

Rs. Crore	**Mar-11**	**Mar-10**
Net worth	12.61	6.88
Other Borrowings (incl. Pref. Shares)	19	4
Total Liabilities	**33**	**11**
Securitized/Assigned portfolio	8	-
Managed Assets	41	11
On Balance sheet MFI portfolio	24	6
Yield on Average Loans[2]	31.81%	25.10%
Yield on Average Investments[3]	6.68%	4.65%
Yield on Average Earning Assets	27.05%	21.35%
Cost of Average Interest Bearing Funds	14.26%	13.62%
Lending Spreads	17.55%	11.48%
Gross Interest Spread	12.78%	7.74%
Net Interest Margin /Average Managed Assets (AMA)	14.73%	19.5%
Non Interest Income/AMA	5.09%	3.48%
Operating expenses / AMA	16.12%	71.04%
Operating Profit / AMA	3.70%	-48.02%
Credit Prov. & Write-offs / AMA	0.41%	1.60%
Operating Profits (net of credit provisions) / AMA	3.29%	-49.62%
PBT/ AMA	3.29%	-47.91%
PAT/ AMA	2.90%	-47.98%

As the company has been in growth stage, its operating expenses have remained high. 2009-10 being the first year of operations, the company reported a loss, because of fixed overhead expenses. However company was able to report marginal profits for 2010-11. Utkarsh was charging an interest 31.74% earlier which has been reduced to 25.94% post the RBI guidelines. Though yields are expected to decline from previous year levels, operating expenses are likely to moderate because of shift to fortnightly repayment mode and spreading of fixed overhead expenses over a larger asset base. Nevertheless, expenses of Utkarsh are expected to remain high in the medium term as it plans to grow at a fast pace. Therefore it would be critical for the company to reduce its operating expenses and maintain asset quality indicators to support its profitability going forward.

Capitalisation

Table 4: Capitalisation indicators

Rs crore	Mar-11	Mar-10
Net worth	12.63	6.88
FLDG[4] for assigned book	1.58	-
Tier 1 Capital Adequacy Ratio (CRAR)	11.05	6.88
Risk Weighted Assets	25.83	6.63
CRAR	42.78%	103.77%
Gearing assuming assigned book as debt	2.13	0.51

[2] Since the managed asset base of the company has grown from Rs 11 crore as on Mar-10 to Rs 31.8 crore as on Mar-11 , the ratios for FY2010 have been annualized and monthly averages taken for calculations

[4] First Loss Default Guarantee

The capital adequacy of the company has remained comfortable because of continuous capital infusions in the company. The company has been prudent in accounting for assignment transactions and knocks off the FLDG from the networth while calculating the CRAR. To support its growth plans, Utkarsh would require regular capital infusion as internal capital generation may not be sufficient.

Liquidity

The average tenure of Utkarsh's loan portfolio is 35- 40 weeks while duration of liabilities is higher at 12-24 months. The long tenure of the loans and the portfolio collections would support fresh disbursements to some extent.

July 2011

COMPANY PROFILE—Utkarsh Micro Finance Private Limited

Date of Incorporation	15 May 1990 , Started microfinance operations in July 2009
Constitution	Non-Deposit Taking NBFC
Registered Office	S-2/639-56, Varuna Vihar colony, J.P Mehta Road, Cantt. Varanasi-221002 (U.P.) India
Corporate Office	S-2/639-56, Varuna Vihar colony, J.P Mehta Road, Cantt. Varanasi-221002 (U.P.) India
Equity Share Capital (Mar-11) (Issued, subscribed and paid up)	Rs. 10.21 crore
Net worth (Mar-11)	Rs. 12.61 crore
Number of Branches (Mar-11)	52
Number of active borrowers (Mar-11)	55,506
Number of field officers (Mar-11)	195
Balance Sheet size (Mar-11)(including managed book)	Rs 41 crore

Managing Director	Mr Govind Singh
Auditors	BSR and CO

Shareholding Pattern (Mar-11)		% share
	Promoters	15.09%
	Individual shareholders	33.38%
	International Finance corporation	16.69%
	Aavishkaar Goodwell India Microfinance	31.04%
	Intellicash Microfinance Network	0.44%
	ESOP	3.36%
	Total shareholders	100.0%

Board of Directors (Mar-11)		
	Name	Designation
	Govind Singh	MD & CEO
	Trilok Nath Shukla	Head Operations
	Ajai Raj Sharma	Independent Director
	Ramni Nirula	Independent Director
	Vijayalakshmi Das	Independent Director
	Vineet Rai	Investor Director

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