



CRISIL MFI Grading

**Swayanshree Mahila Sambaya
Limited**

mfR5

**Date Assigned
December 17, 2012**

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MICROFINANCE INSTITUTION (MFI) GRADING

mfR1	<p>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 MFI 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.</p> <p>MFI Grading scale: mfR1 - highest; mfR8 – lowest</p>
mfR2	
mfR3	
mfR4	
mfR5	
mfR6	
mfR7	
mfR8	

MFI GRADING HISTORY

MFI Grading	Assigned in
mfR5	September 23, 2009

FACT SHEET

Year of establishment	2006
Commencement of microfinance operation	2006
Legal status	Registered as a cooperative society under Orissa Self Help Co-operative Act, 2001
CEO/Chief functionary	Mrs. Nayana Mohanty
Corporate office & contact details	<p>Mrs. Nayana Mohanty, CEO Swayanshree Mahila Sambaya Limited Mahaveer Lane, Near Badambadi Special Primary School Gayatri Sikhyaniketan, Arunodaya Market Cuttack – 753 012, Odisha Tel: +91 671 2334077 E-mail: swayanshree_ctc@yahoo.com</p>
Statutory auditors	G. Panda & Company, Chartered Accountants



ABOUT THE MFI

As on September 30, 2012

Lending model	Lending to self-help groups (SHGs)
Products	<ul style="list-style-type: none"> • Savings*: <ul style="list-style-type: none"> ○ The MFI receives savings from members on a monthly basis. The minimum mandatory saving is Rs.30 per member per month, at 4.00 per cent interest. There is no maximum saving limit. ○ The MFI also has a fixed deposit scheme, <i>Mahila Vikash Patra</i>, with a one-year tenure at 10.00 per cent interest per annum. On premature withdrawal, members receive 4.00 per cent interest on the fixed deposit. • Microfinance loans: <p>The MFI offers loans of ranging between Rs.5,000 and Rs.50,000 for income-generating activities, for a period of up to 24 months:</p> <ul style="list-style-type: none"> ○ General loan: Maximum loan size Rs.50,000, at an interest of 18.00 per cent per annum (reducing balance basis). Processing fee of 1.00 per cent of loan amount. ○ Festival loan: Maximum loan size Rs.5,000, at a flat interest rate of 9.00 per cent per annum. Processing fee at the rate of 1.00 per cent of loan amount. ○ Asha loan: Maximum loan size Rs.6,000, at no interest. Processing fee at the rate of 1.00 per cent and service charges at the rate of 1.00 per cent of loan amount. <p>One member can avail only one loan at a time and the maximum limit is five times of the member’s savings. Loan repayment is on monthly basis. The repayment period for loans up to Rs.15,000 is 18 months and loans exceeding Rs.15,000 have a repayment period of 24 months.</p> • Credit insurance: <p>Borrowers are offered credit insurance in alliance with Kotak Mahindra Old Mutual Life Insurance Limited and Birla Sun Life Insurance Company Limited. The MFI collects Rs.4 per Rs.1,000 of the loan amount as premium. The insurance also covers the</p>

	borrower's spouse and the maximum loan size covered is Rs.50,000.
Borrower base	1,3546 borrowers (2,4496 members)
Employees	50 (33 credit officers)
Number of branches	3
Loan outstanding	Rs.111.60 million (Rs.100.04 million as on March 31, 2012)
Loans disbursed	Rs.138.79 million in 2011-12 and Rs.99.67 million in 2010-11 (refers to financial year, April 1 to March 31)
Geographical reach	Two districts of Odisha (Cuttack and Khurda)

*As SMSL is a cooperative, it is allowed to raise thrift/deposits from its members.



SOCIAL AND TRANSPARENCY INDICATORS#

As on March 31, 2012

in per cent

Average loan outstanding/per capita GNI (2011 figure)*	12.70
Women staff/total staff	55.56
Women borrowers/total borrowers	100.00
Effective IRR**	18.00
Are interest rates (on declining basis) communicated to clients in writing?	Yes
Are processing charges communicated to clients in writing?	Yes
Does the MFI provide an official receipt to clients after repayment collections?	Yes
Is access to loan of other MFIs a parameter to select/screen clients?	Yes
Is access to loan of other MFIs/residual income a factor in appraising the client's repayment capacity?	Yes
Does the MFI appraise the client's income/poverty/asset level and use this data to target other low-income clients?	Yes
Does the MFI capture and analyse reasons for client drop-out rate?	Yes
Are clients provided head office contact details as part of the grievance redressal mechanism?	Yes

*Per capita Gross National Income (GNI) is based on current prices
Source: CRISIL Centre for Economic Research (CCER) computations based on Central Statistical Organisation (CSO) data

**Does not include processing fee charged by the organisation

#Details are as provided by the MFI and not verified by CRISIL

OUTREACH SUMMARY

As on/Period ended	Units	Sep-12	Mar-12	Mar-11	Mar-10
Members	No.	24,496	22,711	18,979	14,155
Borrowers	No.	13,546	13,194	10,810	8,008
Groups	No.	2,336	2,156	1,747	1,275
Branches	No.	3	2	2	1
Districts covered	No.	2	2	2	2
Villages covered	No.	205	205	190	178
Women borrowers	%	100	100	100	100
Disbursements	Rs. million	79.07	138.79	99.67	67.61
Loan outstanding	Rs. million	111.60	100.04	71.55	48.68

PRODUCTIVITY INDICATORS

As on end	Units	Sep-12	Mar-12	Mar-11	Mar-10
Credit officers/total employees	%	66.00	66.67	66.67	67.57
Members/branch	No.	8,165	11,356	9,490	14,155
Borrowers/branch	No.	4,515	6,597	5,405	8,008
Members/credit officer	No.	742	757	678	566
Borrowers/credit officer	No.	410	440	386	320
Groups/credit officer	No.	71	72	62	51
Borrowers/members	%	55	58	57	57
Loan outstanding/borrower	Rs.	8,238.59	7,582.23	6,618.87	6,078.92
Loan outstanding/branch	Rs. million	37.20	50.00	35.78	48.68
Loan outstanding/credit officer	Rs. million	3.38	3.33	2.56	1.95



MFI GRADING RATIONALE

The grading assigned to the microfinance programme of Swayanshree Mahila Sambaya Limited (SMSL) reflects the following strengths:

- Adequate management track record
- Sustainable operations
- Above-average asset quality

These strengths are offset by the following weaknesses:

- Small net worth and scale of operations
- Potential liquidity risks and limited resource profile
- Moderate credit approval and process controls
- Geographical concentration of loan portfolio

Profile

SMSL commenced its operations in 2006 in the urban slums of the Cuttack district of Odisha. The organisation grew from the Cuttack Urban Service Improvement Project started in 1998 by the Cuttack Municipal Corporation. The project was supported by the UK-based Department for International Development. Swayanshree, SMSL's promoting organisation (registered as a society in October 1998 under the Societies Registration Act, 1860) undertook lending to women self-help groups (SHGs) in the urban slums of Cuttack under this project. It was further supported by the CASHE Project (Credit and Saving for Household Enterprise), undertaken by CARE, Odisha from 2002 to 2006.

In order to institutionalise its microfinance programme with a proper legal status for mobilising savings/capitals from its members, Swayanshree promoted SMSL as an independent MFI and registered it as cooperative society in November 2006 under the Orissa Self-Help Co-operative Act, 2001. Swayanshree transferred its microfinance programme to SMSL, and since then, SMSL has been providing microfinance services, including credit and insurance to its SHG members. It started lending to individuals organised as joint-liability groups (JLGs) in 2007, but discontinued lending through this model in 2009. SMSL also received technical support from BASIX to implement its MIS system and develop its operational policies and technical services from ACCESS Development Services under the *Gramya Shakti* project.

In addition to microfinance, SMSL is also involved in providing other credit-plus services such as health awareness, legal counselling, and microenterprise training to its members. A majority of SMSL's operations are concentrated in the municipal areas of Cuttack.

As on September 30, 2012, SMSL had formed 2,336 groups with 24,496 members. It had 13,546 borrowers and a loan outstanding of Rs.100.04 million as on the same date. Its disbursements have grown to Rs.138.79 million in 2011-12 from Rs.99.67 million in 2010-11 (refers to financial year, April 1 to March 31). The NGO-MFI projects an increase in its loan outstanding to Rs.194.34 million in Cuttack and nearby districts by the end of 2013.

In the SHG model, SMSL lends to groups of women, each with 10 to 20 members from the same locality. The loan size is Rs.5,000 to 50,000 and the repayment period is 18 to 24 months. SMSL charges an interest rate of 18.00 per cent per annum (on reducing balance basis). Borrowers are charged 1.00 per cent processing fee. Loan repayment is on monthly basis. The MFI receives savings from members on a monthly basis. The minimum mandatory saving is Rs.30 per member per month at 4.00 per cent interest. There is no maximum saving limit.

It also has a fixed deposit scheme, *Mahila Vikash Patra*. The deposit tenure is one year at 10.00 per cent interest per annum. On premature withdrawal, members receive 4.00 per cent interest on the fixed deposit. The MFI also provides life insurance cover to its members under Kotak Mahindra Old Mutual Life Insurance Limited and Birla Sun Life Insurance Company Limited.



MANAGEMENT

<p><i>Adequate management information system (MIS)</i></p>	<ul style="list-style-type: none"> • The MFI has an adequate loan-tracking software in place. The branches generate collection demand sheets, portfolio at risk (PAR), progress reports, and other reports, but cannot generate consolidated reports including member’s loan history. The various analytical reports at the branch and head office (HO) are consolidated on a monthly basis. • CRISIL opines that the current loan tracking software and MIS are adequate for the MFI’s scale of operations.
<p><i>Moderate credit approval mechanisms</i></p>	<ul style="list-style-type: none"> • SMSL has adequate group formation, credit approval, and loan monitoring mechanisms in place. It also has its operational, credit and gender polices in place. • The field organisers conduct informal meetings, form the groups, facilitate group resolution, and collect basic information about each member’s socioeconomic profile in know-your-customer (KYC) documents. The supervisors then appraise each group as part of second-tier due diligence. The CEO conducts the field appraisal for loan applications above Rs.40,000. Lending decisions are taken in a weekly loan committee, comprising SMSL’s CEO, President, Chairperson, and accountant. • SMSL’s overall documentation process is comparable to MFIs of similar size as it uses standardised loan application and monitoring documents. However, CRISIL believes that there is scope for improvement in the borrower selection process, in terms of capturing information on the other borrowing details of the members. As of now, the NGO-MFI does not conduct a formal loan utilisation check. • The NGO-MFI does not have a system in place to track instances of multiple lending, and lacks a formal mechanism to assess the borrower’s residual income and credit history. The MFI has recently tied-up with a credit bureau but data sharing and verification of credit history is still in process.
<p><i>No structured cash management system</i></p>	<ul style="list-style-type: none"> • During its visit, CRISIL observed instances where high cash balances were being maintained at a rural branch. While the MFI does have

	<p>cash-in-transit insurance, it has experienced instances of theft in the past.</p> <ul style="list-style-type: none"> • Additional funds are transferred from the HO on a need basis. The branch manager's approval is required to maintain cash balance of more than Rs.2.00 lakh. However, there is no formal mechanism of documenting the approvals.
<p><i>No internal audit (IA) function</i></p>	<ul style="list-style-type: none"> • SMSL does not have a separate internal audit team. The branch office supervisors regularly carry out surprise field visits and monitor the functioning of groups and field-level organisers. However, there is no documentation of their observations. To strengthen its risk management process, the MFI is planning to form a separate team to undertake portfolio audit of its branches. • CRISIL believes that efficient internal audit and control systems are crucial for the HO to effectively control field-level operations, and that delays in implementing an internal audit could increase the MFI's operational risk.
<p><i>Satisfactory human resource (HR) management</i></p>	<ul style="list-style-type: none"> • The MFI does not have a dedicated HR team, and the CEO herself manages HR functions. The induction programme is undertaken the CEO and HO supervisor. New joinees are trained for a month by the branch supervisor and branch manager prior to allocation for groups. • The employees are provided with employee provident fund and staff loans. The MFI performs staff appraisal; and the employee turnover is moderate. However, CRISIL believes that the MFI needs a formal HR team to ensure that new and existing employees are conversant with field-related issues and the changing policies in the microfinance sector.
<p><i>Social impact in area of operations aids microfinance activities</i></p>	<ul style="list-style-type: none"> • Swayanshree, SMSL's promoting organisation, has been actively involved in rural community development for around 14 years. This has created a positive impact in its area of operations. Further, the MFI's adequate track record in microfinance activities has helped develop client identification and capacity-building of groups. • SMSL periodically organises health integration and awareness programmes and provides loans for advancement of health and



sanitation.

- Mr. Saroj Barik, the founder of Swayanshree, has 19 years of experience in the development and microfinance sectors.

INSTITUTIONAL ARRANGEMENT

Executive committee lacks microfinance experience

- The NGO-MFI has an eleven-member executive committee. The board members are elected representatives of eleven zones, covering all groups. The board meets on a monthly basis to discuss overall performance and operational issues.
- Mrs. Hemalata Swain, SMSL's President, has been associated with the MFI since its inception and is actively involved in its day-to-day operations. She is supported by Mrs. Nayana Mohanty, who has about 20 years of experience in community development and microfinance.

Lack of strong second-tier management

- Although the MFI has a dedicated management team at the HO across various functions, the second-tier management needs to be strengthened as it continues to depend on the CEO for strategic decision-making, programme funding, and relationship management.
- CRISIL believes that going forward, the MFI's management depth in the areas of finance and risk management may prove inadequate with further business growth and thus needs to be strengthened.

CAPITAL ADEQUACY AND ASSET QUALITY

<p><i>Small net worth to support aggressive growth</i></p>	<ul style="list-style-type: none"> • SMSL had a net worth of Rs.21.18 million as on March 31, 2012, which is smaller than that of other similar-sized MFIs. The accumulated surplus accounted for about 84 per cent of the net worth, and capital mobilised from the members accounted for the remainder. • The capital adequacy ratio (CAR) has improved to 20.97 per cent as on March 31, 2012 from 15.45 per cent as on March 31, 2010. Despite this significant improvement in internal accretions, it is leveraged with a debt-to-net worth ratio of 3.57 times as on March 31, 2012. The MFI is projecting portfolio growth of about 94.00 per cent in 2012-13.
<p><i>Above-average asset quality</i></p>	<ul style="list-style-type: none"> • The MFI has an above-average level of asset quality with an on-time repayment rate of 99.05 per cent and portfolio at risk greater than 90 days (PAR>90 days) at 0.31 per cent as on September 30, 2012. The loan loss provisioning as on March 31, 2012 remains adequate to cover PAR>30 days as on September 30, 2012. • Tie-ups with insurance companies to offer credit insurance minimises credit risks to some extent. Moreover, a guarantor (usually a family member) is compulsory for loans greater than Rs.10,000, and the MFI collects post-dated cheques for loans greater than Rs.20,000.
<p><i>Portfolio is concentrated in Cuttack</i></p>	<ul style="list-style-type: none"> • The MFI's operations remain concentrated in one district of Odisha. Its portfolio in Cuttack (Rs.93.11 million) accounted for 92.74 per cent of the total portfolio and 4.40 times of its net worth as on March 31, 2012. • Risks arising from changes in the microfinance sector's external environment and the resultant deterioration in asset quality may erode the MFI's net worth if the portfolio remains concentrated in one area.



RESOURCES AND ASSET LIABILITY MANAGEMENT

<p><i>Borrowings profile remains to be diversified</i></p>	<ul style="list-style-type: none">• Savings constitute 88 per cent of the total borrowings as on March 31, 2012 and external borrowings constitute the remaining. The MFI needs to diversify its borrowings profile in order to achieve its projected growth.• As on September 30, 2012, the MFI had borrowings from three lenders. This included cash credit (CC) from State Bank of India (SBI) of Rs.3.00 million and term loan from Small Industries Development Bank of India (SIDBI) and Indian Grameen Services. Since February 2012, SMSL has been unable to raise any fresh borrowings.• Currently, the NGO-MFI is in talks with SIDBI for mobilising Rs.20.00 million of borrowings.
<p><i>Potential liquidity risks and constraints in raising incremental resources</i></p>	<ul style="list-style-type: none">• Only 55 per cent of the members are borrowers, and savings constitute 88 per cent of the total borrowings as on March 31, 2012. Given the high dependence on savings, the risk of withdrawals by non-borrowers may result in liquidity constraints.• SMSL is facing constraints in raising resources, and has been unable to raise fresh borrowings from either banks or apex MFIs since February 2012. It could thus achieve a portfolio of Rs.100.04 million as on March 31, 2012, as against a projected portfolio of Rs.124.10 million for the year.• Actions on the regulatory front during the past two years have lent comfort with banks/financial institutions resuming lending to the microfinance sector operating outside Andhra Pradesh. However, smaller MFIs, including SMSL, have found it challenging to raise borrowings.

OPERATIONAL EFFECTIVENESS

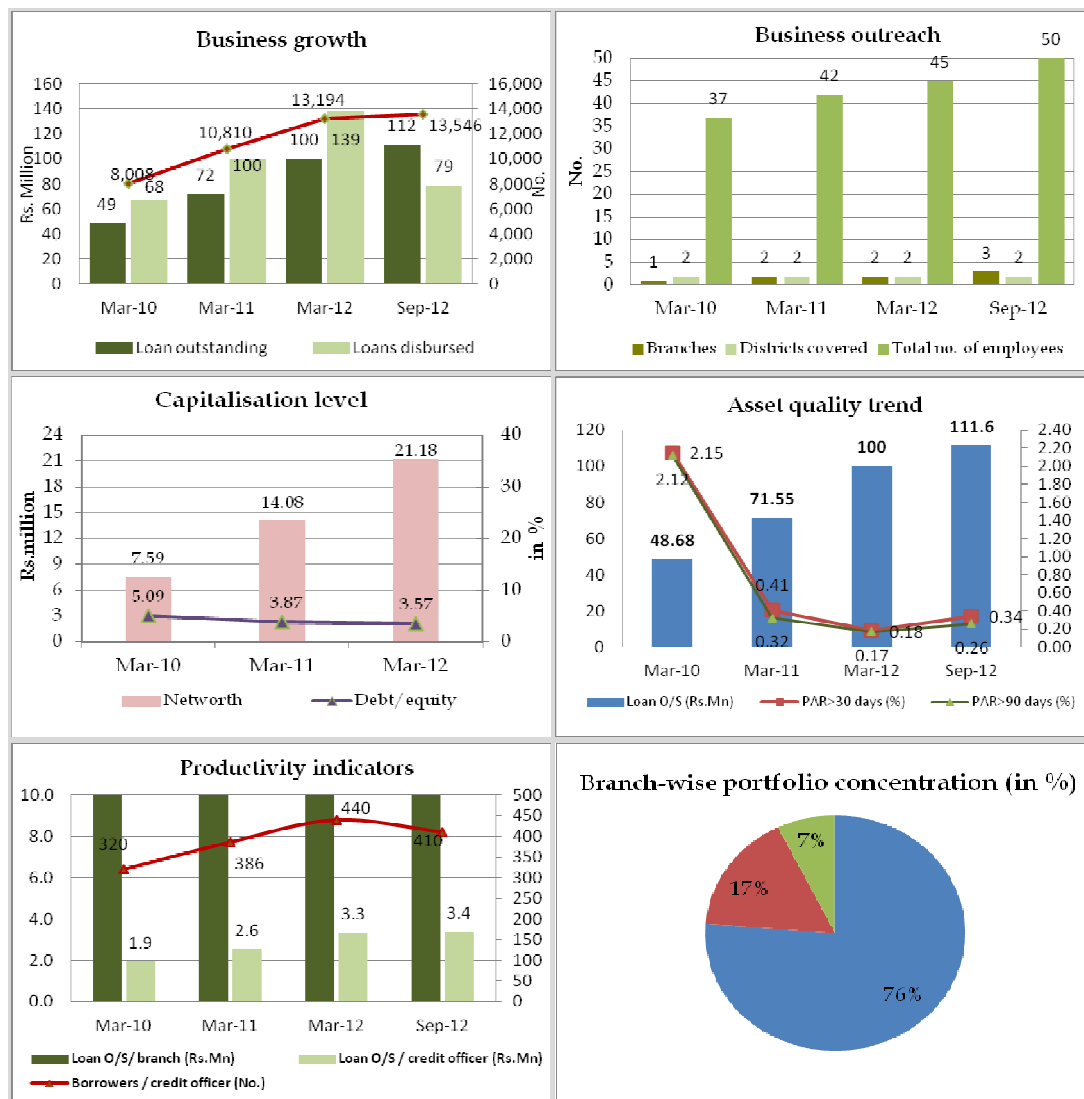
<p><i>Small scale of operations in relation to other mid-sized and large MFIs</i></p>	<ul style="list-style-type: none"> • The NGO-MFI has been able to maintain its operating expenses at a healthy level of 5.85 per cent in 2011-12, backed by low personnel costs. The MFI recruits semi-skilled local populace for its rural branch as professionally qualified personnel from other geographical areas are unwilling to relocate. This has helped curb personnel costs. • From 2009-10 to 2011-12, SMSL registered a y-o-y growth of 28.36 per cent in borrower base, 43.33 per cent growth in loan outstanding, and 43.28 per cent growth in disbursements. • However, further improvement in operating efficiency could be limited by small size of assets. SMSL had a small loan portfolio of Rs.100.04 million as on March 31, 2012. Any de-growth in assets owing to inability to raise timely funds could escalate operating expenses level in the medium term.
<p><i>Above-average operating efficiency</i></p>	<ul style="list-style-type: none"> • SMSL had an adequate operational self-sufficiency (OSS) ratio of 159.10 per cent during 2011-12. • The MFI's earning profile is expected to remain modest but sustainable in the medium term because of its low cost of funding and low expense level. However, any decline in asset quality could impact its profitability in near to medium term.



SCALABILITY AND SUSTAINABILITY

- SMSL's long track record in microfinance and social development activities has enabled it to establish a strong presence and healthy client relationships in its operating area. The MFI's record has also helped it retain a healthy asset quality and facilitated the development of a healthy credit culture amongst the local populace. However, SMSL still faces challenges in the form of liquidity and concentration risks, which could impact its long-term scalability and sustainability.
- SMSL's immediate to medium term growth will be dependent on its ability to strengthen its resource-raising capabilities from institutional lending agencies to support its business plan.
- Strengthening of the process control and monitoring system and diversification to other geographical areas can help the MFI mitigate operational and concentration risks.
- The MFI is a SHG cooperative and has adequate democratic practices in place, with representation from the grass-root female populace. However, considering the complexity of microfinance operations, professionals need to be inducted to ensure greater stability in operations.

BUSINESS INDICATORS





FINANCIAL INDICATORS

Income and expenditure statement

For the year ended March 31,	Rs. million					
	2015	2014	2013	2012	2011	2010
	MFI's projections			Audited		
Fund-based income	53.56	40.69	27.68	14.96	10.47	7.08
Interest and finance charges paid	14.35	10.89	6.90	3.21	2.49	1.97
Gross spread	39.21	29.80	20.78	11.75	7.98	5.10
Total fee-based income	3.87	2.97	2.59	2.31	2.25	1.55
Total income	57.43	43.66	30.28	17.27	12.72	8.63
Gross surplus	43.09	32.77	23.38	14.06	10.23	6.65
Expenses						
Personnel expenses	8.82	6.79	5.22	3.47	2.69	2.11
Administrative expenses	3.29	2.53	1.94	1.46	1.10	0.95
Total expenses	12.11	9.32	7.17	4.93	3.79	3.06
Write-offs and provisions						
Write-off of bad debts	-	-	-	-	-	-
Provision for loan loss	2.91	3.74	1.31	2.54	0.03	0.66
Total	2.91	3.74	1.31	2.54	0.03	0.66
Depreciation	0.35	0.32	0.31	0.18	0.15	0.10
Surplus	27.72	19.40	14.59	6.30	6.25	3.03

Note: As per the auditor's report, income from services is recognised as per contract terms. The prudential norms for income recognition interest have been provided on cash basis and grant-in-aid has been recognised to the extent of utilisation.

Balance sheet

	Rs. million					
As at March 31,	2015	2014	2013	2012	2011	2010
	MFI's projections			Audited		
Liabilities						
Net worth	74.87	50.89	34.23	21.18	14.08	7.59
Borrowings	119.96	95.99	68.50	8.95	7.89	8.47
Members' savings and deposits*	169.95	129.71	94.94	66.73	46.63	30.17
Provision for loan loss	3.32	2.52	1.92	2.64	0.46	0.68
Other current liabilities	1.25	0.83	3.22	4.04	3.72	3.49
Total current liabilities	4.57	3.36	5.14	6.68	4.18	4.17
Total liabilities	369.36	279.95	202.80	103.54	72.77	50.40
Assets						
Loans portfolio	335.61	254.90	194.34	100.04	71.55	48.68
Cash & bank balances	7.63	10.02	2.48	2.10	0.24	0.65
Deposits with banks	24.93	13.93	4.93	0.43	0.43	0.38
Total current assets	33.22	24.57	8.00	3.06	0.87	1.43
Total funds deployed	368.17	278.85	201.74	102.59	72.24	49.98
Other assets & advances	0.66	0.62	0.59	0.50	0.18	0.14
Net fixed assets	0.53	0.48	0.47	0.45	0.35	0.28
Total assets	369.36	279.95	202.80	103.54	72.77	50.40

*Deposits contributed to 0.58 per cent, 1.52 per cent, and 1.33 per cent of members' savings and deposits as on March 31, 2012, March 31, 2011, and March 31, 2010, respectively.



Key financial ratios

in per cent

Year ended March 31,	2015	2014	2013	2012	2011	2010
	MFI's projections			Audited		
Yield						
Fund-based yield	16.56	16.93	18.19	17.11	17.14	28.32
Portfolio yield	17.99	17.95	18.27	16.74	16.33	28.03
Fee based income/Avg. funds deployed	1.20	1.24	1.70	2.64	3.68	6.21
Total income/Avg. funds deployed	17.75	18.17	19.90	19.76	20.82	34.53
Cost of funds						
Interest paid/Avg. borrowings	5.57	5.60	5.78	4.93	5.35	10.32
Interest spread						
Gross spread/Avg. funds deployed	12.12	12.40	13.66	13.44	13.06	20.42
Interest spread	10.99	11.33	12.41	12.19	11.79	18.00
Overheads						
Operating expense ratio	3.85	4.01	4.91	5.84	6.45	12.62
Personnel expense ratio	2.73	2.82	3.43	3.97	4.41	8.43
Administrative expense ratio	1.12	1.18	1.48	1.87	2.04	4.20
Profitability						
Surplus/Avg. net worth	44.08	45.57	52.68	35.76	57.73	79.84
Surplus/Avg. funds deployed	8.57	8.07	9.59	7.21	10.23	12.12
Operational self-sufficiency (OSS)	193.28	179.93	193.04	159.10	196.71	149.18
Asset quality						
Loan loss provisioning/Avg. loan outstanding	0.98	1.66	0.89	2.96	0.06	2.70
Capitalisation						
Total debt/net worth (times)	3.87	4.43	4.78	3.57	3.87	5.09
Capital adequacy	22.23	19.88	17.52	20.97	19.53	15.45

Note: Debt-to-net worth and interest paid to average borrowings has been calculated considering member savings and deposits.

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