

Cashpor Micro Credit Limited (CMC)

Varanasi, Uttar Pradesh, (India)

<p><1st rating Update> Credit Rating grade</p>	<p>Social Rating grade</p>
<p>β+ beta plus</p>	<p>Σα alpha</p>
<p>Assessment Recommended; reasonable safety, reasonable systems.</p>	<p>Assessment Strong adherence to social mission and values</p>
<p>Visit dates 18-20 July, 2005</p>	<p>Visit dates 10-14 August, 2005</p>
<p>Validity of ratings: till July 2006</p> <p>Operational head: Prof David Gibbons, Chairman; Mr J S Tomar, Managing Director</p>	

Credit rating	Social rating
<p>CMC has reasonable governance. However, the loss of its second line of leadership has affected its performance on this parameter. Performance on managerial parameters is good and on financial parameters is reasonable. A decline in discipline amongst member groups and poor cash planning has affected performance on managerial parameters. High operating expenses and increasing unproductive assets have affected the financial parameters.</p> <p>Considering very high operating expenses, on account of the increasing personnel requirements and idle funds, CMC is likely to continue making losses in the year 2005-06. This would be covered from a grant of Rs32 million (\$725,000)¹ expected during 2005-06 from USAID. Lenders will need to ascertain the actual flow of grants during the year to cover operating expenses and maintain capital adequacy.</p>	<p>CMC has strong adherence to its social objectives of providing microfinance services to poor women in some of the most under-developed regions of the country.</p> <p>By implementing a standardized Grameen model, with a robust client targeting system in place, CMC is serving substantial numbers of the rural poor in some of the most backward districts in north India, where there are few organisations offering microfinance services. This is being achieved with use of commercial loan funds, whilst trying to charging clients a relatively low interest rate compared to other Grameen MFIs. This is a strategy which delays operational self sufficiency but avoids charging the poor the costs of expansion.</p> <p>CMC is further deepening its poverty outreach by expanding operations into Bihar, the least developed State in the country.</p>

Note: This is the summary combined credit rating and social rating report, from the more detailed reports. This document is part of the evolution of the social rating tool. It does not cover all parameters now defined as part of social performance.

¹ 1US\$ = Rs44

Parameter based rating grades²

Credit Rating	Grades	Social Rating	Grades
<i>Governance</i>	$\beta+$	<i>Mission Balance and systems</i>	$\Sigma\alpha$
<i>Managerial factors</i>	$\alpha-$	<i>Social Goal: Outreach</i>	$\Sigma\alpha+$
<i>Financial performance</i>	$\beta+$	<i>Social Goal: Appropriate Services</i>	$\Sigma\beta+$
Overall	$\beta+$	Overall	$\Sigma\alpha$

Programme Strengths

Credit Rating	Social Rating
Governance, experience and strategy	Social mission and systems alignment
1 Well-experienced Board of Directors 2 Diversified sources of funds for expansion	1 Clear and targeted social objectives 2 Strong poverty targeting approach, integrated with monitoring and staff incentives
Management and operations	Social Goal: Outreach
1 Very sound and effective MIS and accounting system 2 Strong internal audit and control systems 3 Qualified and experienced staff	1 Operations in backward and under-served regions 2 Deep outreach to the poor (below \$1/day at purchasing power parity) and to the structurally poor (Scheduled Castes and Scheduled Tribes)
Financial	Social Goal: Appropriate services
1 High Yield to APR ratio	1 Timely credit on low interest

Risk factors affecting credit rating

- High operating expenses:** CMC's operating expenses are high at 33.1%, an increase from 22% last year, mainly due to an increase in salary expenses. This follows a reduction in interest rate charged to clients in new branches (from 20% flat to 26% on reducing balance), which will affect the yield on portfolio.
- Low capital adequacy:** Despite receipt of grants from SIDBI and USAID, the capital adequacy ratio has come down to 5.2% from 11% last year. This is mainly due to erosion of capital by losses of Rs37 million (\$840,000) during 2004-05. To cover its deficits, the company has raised two loans of Rs9 million (\$204,000) each from ICICI, with a moratorium of 42 months; and is also likely to receive another grant of Rs32 million (\$725,000) during 2005-06 from USAID.
- Increasing arrears in Mirzapur district:** Though the overall Portfolio at Risk (>60days) stands at 3.6% and is within CMC's target, its portfolio at risk in its oldest and largest district, Mirzapur (with ~50% of the portfolio), has increased to 6.7%. This is a risk factor for the future as portfolios in new branches grow older, and may begin to show arrears.

² M-CRIL's grading sheet attached at the end

Vision statement: “We see all the BPL [Below Poverty Line] women in the BIMARU^a states having access to micro credit services, and many utilising them to lift themselves and their families out of poverty”

Mission statement: “To identify and motivate poor women in the rural areas and to deliver financial services to them in an honest, timely and efficient manner so that our vision is realised and CMC itself becomes a financially sustainable MFI for the poor”.

^a Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh are the four ‘BIMARU’, most under-developed states in north India on all socio-economic indicators. The acronym is a pun on the Hindi word *bimar* which means ‘ill’.

Context factors: States of Uttar Pradesh and Bihar, North India

- Difficult operating conditions – weak infrastructure, communications and security
- Very few microfinance programmes in the area - huge scope for expansion
- Weak on gender indicators (female literacy less than 40%)
- Weak credit culture (political waiver of agricultural loans)

Organisational Profile (data as on 31 March, 2005)

Legal Form	Years of mF Operation	Model	Number of Branches	Number of Clients	% rural	% women
Section 25 Company [Not for profit]	8 years	Grameen	35	68,229	90%	100%

Number of Staff	% women staff	Client:staff ratio
438	~15%	156

Microfinance programme

Outstanding borrowings	Loan portfolio ^a	Cumulative loans disbursed	Average loan size	Depth ratio ^b
Rs370.9 million US\$8.6 million	Rs270 million US\$6.1 million	Rs870.3 million US\$19.8 million	Rs5,945 US\$135	17%

^a Includes loans disbursed under the partnership model with ICICI bank (not held on CMC’s books)

^b Depth ratio refers to the average loan balance as a percentage of GNI per capita. This measure is sometimes used as a proxy indicator for poverty outreach, with a depth ratio of <20% seen as reflecting outreach to ‘poor or low-end clientele’.

Services

Service focus	Credit – single loan product (general loan)
Loan terms	Starting from Rs4,000 (US\$90); Increasing by Rs3,000 each loan cycle. Maximum Rs14,000 (US\$320). Repayment in 50 weekly instalments
Effective Interest Rate/APR ^c	38.5% in older areas, 26-27% in newer branches (approx. half of the portfolio)
Savings deposits	Not allowed by regulation
Insurance	Life insurance on pilot basis in some areas (with Birla SunLife Insurance Co.)
Non-financial	Veterinary training – in planning stage

^c the average APR for Grameen model MFIs in India is 38.8% (M-CRIL database)

Key financial ratios

Portfolio at risk (>=60 days)	Current repayment rate	Risk weighted capital adequacy ratio	Weighted average cost of funds	Yield to APR ratio
3.6%	98.8%	5.2%	10.0%	98.4%
Yield on portfolio	Other income to average portfolio	Financial cost ratio	Loan loss provisioning ratio	Operating expense ratio
32.3%	10.9%	17.0%	2.2%	33.1%
Total income to av. total assets	Total expenses to average total assets	Return on average total assets	Operational Self Sufficiency	Financial Self Sufficiency
20.4%	32.4%	-13.0%	62.8%	62.5%

Notes on financial ratios:

- Glossary of terms attached at end of this report
- Yield and financial costs include the portfolio managed by CMC for ICICI.
- APR for Mirzapur branch is 38.5%, Ghazipur 26% and for branches under partnership model it is 27.1% (including the interest of 8.75% charged by ICICI to the clients). Weighted average APR is 32.9%.
- The repayment rate and PAR₆₀ have been calculated from the MIS reports generated by CMC. Accuracy of data generated by the MIS has been verified through an audit of the systems at CMC.

Social Goal: Outreach

Areas of operation

States	Districts	Within districts
Uttar Pradesh and Bihar: HDI ranks: 13 and 15 out of 15 states of India Population below poverty line: 31% and 42% (India 26%) ^a	7 districts (5 in UP, 2 in Bihar) all in lowest development quintile on socio-economic indicators, average on infrastructure; Started in Mirzapur , one of '150 most backward' districts of India	Villages and market town areas; some low-income city areas

Depth of outreach – recent client households

	Household access to bank finance		Disadvantaged groups	
	Savings	Credit	SC/ST ³	Woman headed ⁴
Sample ¹	14%	1%	75%	14%
<i>All India</i> ²	36%		24%	10.2%
	Below Poverty Line ⁵			Above
	< \$1-a-day ^a		\$1-2/day	>\$2/day
CMC client data – benchmarked to rating sample	68% [48,000 client households]		27%	5%
<i>Other MFIs</i> ⁶	35%		39%	26%

Notes on secondary and client level data:

- Client data here and in the following tables are from a rating survey of a sample of 104 recent clients drawn at random from 9 village and 3 town clusters. Recent clients are those in the first loan cycle.
- Secondary data from Government of India, Planning Commission 2002, and Census of India, 2001.
- Scheduled Castes (SC) and Scheduled Tribes (ST) are recognised as structurally poor communities in India.
- Woman headed households include a smaller percentage (5% in the sample) which have no male earners.
- International poverty line at purchasing power parity, derived from World Bank estimates for India (2003), adjusted to UP rural/urban differences and estimated at 2005 prices to be Rs13.25 rural and Rs17.96 urban. (This is just above the national poverty line for UP of Rs12.18 rural, Rs16.38 urban). The \$/day cut-offs have been applied to rating sample data for per capita income.
- Data on other MFIs in India comes from EDA client level data for 20 MFIs in India, collected during 2002-4
- Client feedback was obtained through the survey and from FGDs with older clients in sample clusters.

Social Responsibility and Gender Approach (all clients – women)

Systems	Observations ⁷
<ul style="list-style-type: none"> ⇒ Written code of conduct covering staff relations with clients; compliance part of internal audit ⇒ Grameen style orientation to services and products ⇒ staff teach clients to sign their names in collection register – though do not ensure follow-up ⇒ staff incentives include depth of outreach and full repayment ⇒ mechanism for client feedback to head office (phone number) ⇒ some internal studies to track reasons for client drop-out 	<ul style="list-style-type: none"> • 87% clients no schooling or less than primary • for half the women clients (42% rural, 80% urban), enterprise or other employment is not their main activity ⇒ staff teach clients to sign their names in collection register – though do not ensure follow-up ⇒ 64% clients fully aware of loan terms ⇒ Reliance on peer pressure to ensure repayments; some negative reactions ⇒ Feedback mechanisms not effectively used ⇒ Need to strengthen staff training and internal audit and financial control systems, especially to cope with current expansion

Social Goal: Appropriate services

Client feedback ⁷	Exit
<ul style="list-style-type: none"> ⇒ Affordable interest rate (compared to moneylenders: 5-10% per month) ⇒ Discipline of weekly repayments (some clients) ⇒ Timely availability 	
<ul style="list-style-type: none"> ⇒ No-cash policy (newly introduced as a security measure) means clients (or their relatives) have to go to banks for credit collection and repayments – time and cost implications; bank staff do not cooperate ⇒ Some ask for flexibility in repayments, at least over 2 weeks ⇒ Scope for emergency loan (1 in 5 households borrowed from moneylender in previous year) ⇒ Asking for cattle insurance (in earlier pilot, withdrawn by CMC when all clients started claiming) 	<ul style="list-style-type: none"> ⇒ Drop-out rate ~13%; slightly higher rate among ‘very poor’ ⇒ Many opt to leave when loan not required; may rejoin (though this is not tracked).

Social Goal: Outcomes

A comparison of available entry level data (from the housing index) for a small sample of 83 clients, compared with their situation after 4+ loans, found that 41% had moved to ‘non-poor’, 21% of the ‘very poor’ had moved to ‘moderate poor’.

Wealth rank comparison – after 4+ years		
Cashpor wealth ranks (housing index)	1999/2000 At entry	2004
‘Very Poor’	35%	4%
‘Moderate Poor’	65%	55%
‘Non Poor’	-	41%

[CMC/ABN-AMRO, 2005 N=83]

An earlier study comparing non-clients, showed clients less likely to borrow from a moneylender, more likely to invest in productive assets and to report an increase in household income.

A comparison of client (>2 years with Cashpor) and non-client households [EDA/SIDBI 2005]			
Indicators	Clients	Non-clients	Difference
N	151	97	
Use of moneylender (previous year)	35%	69%	-34%
Invested in productive assets (previous 2 years)	63%	21%	+42%
Reported increase in household income (current year)	64%	33%	+31%

M-CRIL’s Microfinance Rating Symbols

M-CRIL Grade	Credit Rating description	Social Rating description
α++	Excellent systems, highest safety ➤ most highly recommended	Excellent adherence to social mission and values
α+ α α-	Very good systems, high safety ➤ (very) highly recommended	Strong adherence to social mission and values
β+ β	Satisfactory systems and safety ➤ recommended, needs monitoring and improvement to handle large volumes	Satisfactory adherence to social mission and values
β- γ+	Weak systems, significant risk, ➤ acceptable after improvement	Weak adherence to social mission or values; no social mission or values
γ	Weak systems, very high risk ➤ not ready for investment	

Glossary of financial terms

Annual percentage rate (APR): Expected earnings from a loan portfolio based on the stated terms of the financial institution’s loan products (including interest and any service fees)

Financial spread: Portfolio yield minus financial costs (interest paid on borrowings, interest paid on deposits and loan loss provision expenses)

Loan loss provisioning ratio: Total loan loss provision expense for the year divided by the average portfolio

Operating expense ratio: Ratio of staff, travel, administration costs, other overheads and depreciation charges of the MFI (non- financial costs) to the average loan portfolio for the year

Operational Self-Sufficiency: Ratio of total income to total expenses for the year

Financial Self-Sufficiency: Ratio of total income to total adjusted expenses for the year. Adjustments are made for subsidised cost of funds (relative to market interest rate), equity (with respect to inflation) and in-kind donations.

Portfolio at risk (>=60 days): Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 60 days to the total loans outstanding on a given date

Repayment rate (cumulative): Ratio of cumulative principal recovered (net of pre-payments) to the cumulative principal due till the date of measurement

Yield on portfolio: Interest and fee income from loans to clients divided by the average loan portfolio for the year

Risk weighted capital adequacy ratio: Ratio of net worth to risk weighted assets (Risk weights: 100% for all assets except: fixed assets & interest bearing deposits - 50%; cash - 0%).