



## **MFI GRADING: MAHASEMAM TRUST (MT)**

*IND MFI 3 (High sustainability, reliability and scalability)*

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## **INDIA RATINGS MICROFINANCE INSTITUTION GRADING**

MFI grading is a reasonable indicator of the scalability, sustainability and reliability of the MFI's business capabilities. The grading covers over 260 questions covering governance, compliance, scale of operations, financials and impact on employees and borrowers. The product applies to entities whose only business / objective is microfinance loans. In case the entity has other activities or is a part of a group involved in various activities, then the grading will be applicable to the microfinance program only.

<b>Grading</b>	<b>Definition (Sustainability, reliability and scalability)</b>
<b><i>IND MF1</i></b>	Highest
<b><i>IND MF2</i></b>	Higher
<b><i>IND MF3</i></b>	High
<b><i>IND MF4</i></b>	Above Average
<b><i>IND MF5</i></b>	Average
<b><i>IND MF6</i></b>	Below Average
<b><i>IND MF7</i></b>	Low
<b><i>IND MF8</i></b>	Lowest

## GRADING RATIONALE

IND MF13 (on scale of IND MF11 – MF18) is driven by following parameters:

Parameters	Remarks
Governance	Moderate governance Practices with evolving organizational structure
Compliance	Effective compliance on account of following RBI guidelines despite not being regulated
Operational Setup	Good operational setup with scope of improvement in branch safety features
Scale of operations	Moderate and concentrated scale of operations
Financial Sustainability	Healthy financial sustainability on account of comfortable earnings, good asset quality and modest capitalization
Employee Management	Succession planning of employees needs to be strengthened along with development of HR manual
Impact on borrowers	Effective maintenance borrower's socio-economic indicators.

STRENGTHS	WEAKNESS
<ul style="list-style-type: none"> <li>Moderate scale of operations</li> <li>Strong Profitability and Earnings profile</li> <li>Products offered across entire life span of the borrowers</li> <li>Presence in TN (state with better credit behavior, and better social metrics)</li> </ul>	<ul style="list-style-type: none"> <li>Geographical concentration</li> <li>Evolving second line of management</li> <li>Lack of branch safety features</li> </ul>

## INDUSTRY OVERVIEW

Microfinance (excluding bank led self-help group lending programs) in India has evolved from being a USD 3billion in FY11 to USD 11bn in FY17 (till date). Of this, almost 90% lending is through 55-60 NBFCs while the balance 10% is through various trusts, NGOs, societies etc while MFIs reporting to MFIs. The sector is dominated by NBFC-MFIs; the role of these institutions in financial inclusion has also been acknowledged by RBI; many MFIs have either converted to a bank (or a small finance bank) or will convert in the coming few months. These MFIs have adapted to operational and credit structures in line with RBI guidelines and have a thriving business model mainly driven by joint-liability group loans. Over FY11-FY16, the average loan ticket size has increased from about INR 12,000 to about INR 25,000. Although the increasing ticket sizes have been supported by increasing incomes till FY14, the increase in real incomes has not kept pace with the increasing ticket size in FY15-FY16.

In Ind-Ra's opinion, a typical two-income joint liability group borrower household could service INR50,000-INR60,000 of debt in over two years. Considering on an average 2 lenders, average ticket size of INR 25,000 and the fact that there could also be bankled self-help group borrowing, Ind-Ra opines that a segment of the borrowers could be overleveraged (total borrowing equal to or greater than household's debt serviceability through its own income). This is likely to create asset quality issues. Ind-Ra understands incremental growth for the MFI sectors in the last few years has largely come from existing borrowers and the addition of new borrowers has been limited as it entails a high operating cost. Additionally, this portfolio remains highly susceptible to political and other idiosyncratic risks. Stronger MFIs are trying to mitigate this risk though a lower loan concentration and higher profitability and equity buffers. Ind-Ra also expects MFIs to recognize this risk and transition gradually to also providing individual loan products by building credit assessment and recovery capability.

Demonetisation, announced in November 2016 coupled with political interference has resulted in certain states being affected more than others. The impact of political interference on collections for MFIs with large operations in Uttar Pradesh (UP), Madhya Pradesh and Maharashtra has been significant. Since then, the collections have improved mainly in UP. Ind-Ra expects these MFIs to have credit costs in the affected states in the range of 5-10% when recognized (post expiry of RBI dispensation).

On the liability side, Ind-Ra estimates MFIs transitioning into SFBs could require up to INR600 billion of non-equity funding (deposits, refinance, securitisation and other measures) by FY20. In case, an SFB is unable to ramp-up deposits, it may have to depend on off-balance sheet transactions beyond Ind-Ra's assumption of 25% of the total loans under management by FY20. For NBFC-MFIs, the bank funding is expected to continue as dominant source of funds since they would qualify as priority sector loans for the lender.

**GOVERNANCE**

STRENGTHS	CHALLENGES
<ul style="list-style-type: none"> <li>Strong Audit practices</li> <li>Issue of detailed end usage of funds certificate</li> </ul>	<ul style="list-style-type: none"> <li>Evolving second line of management</li> <li>Scope for strengthening the organizational structure</li> </ul>

Mahasemam Trust (MT) was set-up in the year 1999. MT extends microfinance loans to women SHGs in the rural areas for self-employment. Over 99% of the trust's loan portfolio consists of women SHG group loans. Although the loans on the books are SHG, they operate in a JLG model with the joint guarantee signed by the groups.

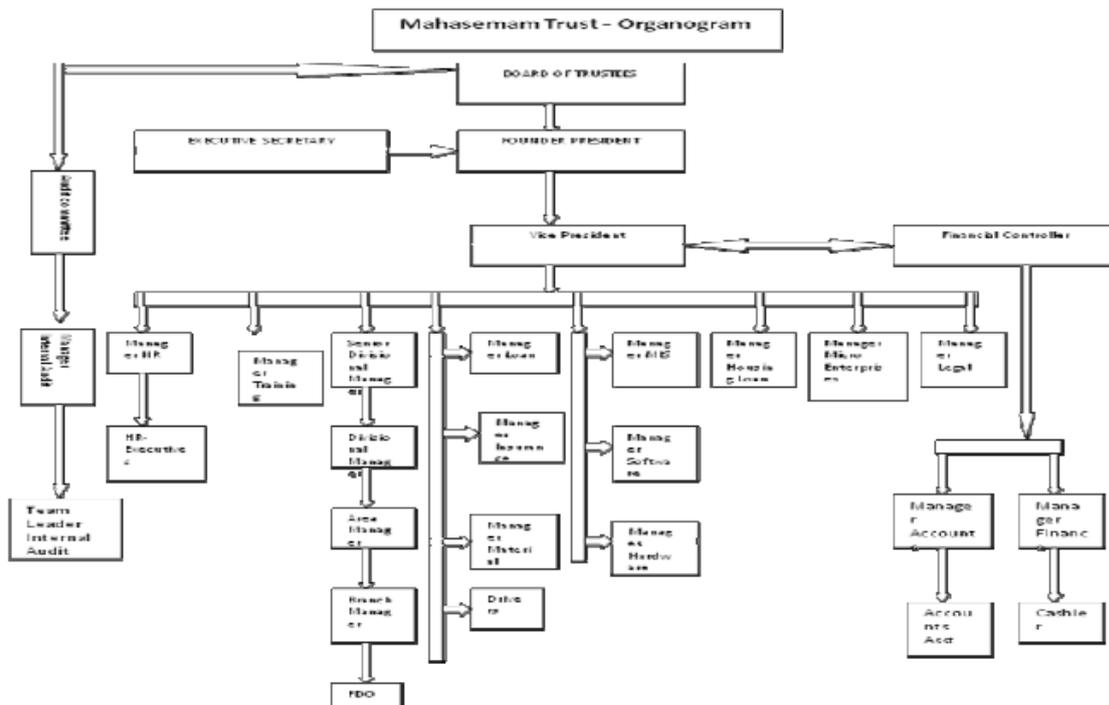
The management plans to focus on growth going forward along with continuing social uplifting facilities by extending loans to microfinance borrowers. Ind-Ra believes there is want of grooming of a strong second line of leadership in the organization to ensure the envisaged growth.

MT follows strong governance practices with respect to field audits conducted periodically by various officers at different hierarchies. It also provides detailed end-use certificates to the lenders of the company, thereby ensuring proper governance on the utilization of borrowed funds.

**Board of Directors**

Sr. No.	Name	Designation	Brief Summary
1	Dr.N.Sethuraman	President	Urologist, having 25 years of Medical and Social service
2	Mr.H.Sivananthan	Trustee	15 yrs experience in secretarial and financial management of hospital & hotels
3	Ms.P.Lakshmi	Trustee	Social worker
4	Ms.D.Usha Devi	Trustee	Representative from SHGs

## Organization Structure



**COMPLIANCE**

STRENGTHS	CHALLENGES
<ul style="list-style-type: none"> <li>• Transparency in lending practices</li> </ul>	<ul style="list-style-type: none"> <li>• Scope of developing robust income assessment model for the borrowers</li> </ul>

Since MT is not regulated by RBI being a trust, the trust still ensures compliance to RBI guidelines is adequate. Before onboarding, the borrowers are trained on the concept of MFI, interest on diminishing principal concept, insurance and processing charges associated with different products offered by the company. Apart from these, there are no charges associated with the products in compliance with RBI guidelines. All the information is disseminated in local language to all its borrowers. All loan products qualify as MFI loans as per RBI standards.

MT aims to be transparent in the lending process by providing customers with loan cards having information about the principal outstanding, details regarding repayment as on date and arrears if any. There is a borrower grievance mechanism in place whereby borrowers are given contact details of branch as well the head office. MT ensures that borrower grievances are sorted within a fortnight.

Although objective income assessment is difficult with the informal economy. MT tries to assess income of the borrowers by taking into account the residual income after deducting the estimated routine expenses, number of dependents in the family and number of earning members. Photographs of the groups are taken while disbursing the loans and disbursements only happen at the branches. MT follows weekly recovery policy and the collection takes place at the time of center meetings. There are no harsh recovery practices being followed in case of no or partial repayment by the borrowers.

**OPERATIONAL SETUP**

<b>STRENGTHS</b>	<b>CHALLENGES</b>
<ul style="list-style-type: none"> <li>• Operations and credit manual in place</li> <li>• SRO registration</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of branch safety features</li> <li>• Development of disaster recovery mechanism</li> </ul>

MT has a credit policy in place which stipulates the guidelines for routine operations of lending. The maximum amount that a borrower can be leveraged upto is INR 60,000 including loans from other MFIs or banks. Cash insurance is taken by MT. All the borrower data is filled in their in-house developed software and backups are taken daily to ensure no loss of data. MT is registered with Sa-Dhan ensuring proper maintenance and submission of records to the SRO.

Ind-Ra notes that the operational setup can be enhanced as there are no CCTV and vaults at the branch level. Also the cash is not deposited in the bank on a daily basis exposing the branches to the higher risk of thefts.

MT has made aadhar card mandatory as a KYC norm for incremental loan disbursement. Borrower trainings are provided to new as well as existing customers with continuous group training (CGT) and group recognition test (GRT) being conducted for 2 days in different sessions. Group meetings are held monthly at the center leader's house or a common place decided by the group with pledge being recited by the all the borrowers and signed group guarantee in place.

**SCALE OF OPERATIONS**

STRENGTHS	CHALLENGES
<ul style="list-style-type: none"> <li>Presence of multi branch structure</li> </ul>	<ul style="list-style-type: none"> <li>Concentrated operations in a single state</li> <li>Lack of BC agreements</li> </ul>

MT has 46 branches as of March 2017. All the branches are present in the state of Tamil Nadu exposing the company to the geographical concentration risk. The productivity indicators of the company are given in the table below.

Operational Details	Mahasemam Trust	
	FY16	Dec-2016
Gross loan portfolio (INRm)	851.8	1028.5
Growth in portfolio(%)	22.0	21.0
Number of Customers/borrowers ('000)	118.0	130.0
Loan outstanding per client (INR)	7218.7	7911.8
No. of states	1.0	1.0
No. of districts	5.0	5.0
No. of branches	41.0	44.0
No. of field officers	183.0	191.0
Loans outstanding per field officer (INR lakh)	46.5	53.8
Loans outstanding per branch (INRm)	20.8	23.4
Borrowers per field officer	644.8	680.6
Borrowers per branch	2878.0	2954.5

MT offers MFI products to its customers depending on the loan cycle, previous cycle track record, attendance of the members in the previous cycles and income assessment of the borrowers. It also provides MFI loans to small enterprises for the routine operations and income generation purpose.

SN	PRODUCT	TERM & Mode of Repayment	LOAN SIZE (INR)	INTEREST RATE
1	Micro Enterprise livelihood initiatives	50 - Weekly	10,000 – 18,000	24% Diminishing
2	Micro Enterprise livelihood initiatives (Upgrading)	100 - Weekly	20,000 – 25,000	
3	Livestock program(NABKISAN)	100 - Weekly	25,000	20 % Diminishing
4	Micro Business Loan	36 - Monthly	36,000	21 % Diminishing
5	Repair and Renovation	12 - Monthly	15,000	14.5% Diminishing
6	Toilet Construction			
7	Additional working capital	20 - Weekly	5,000	Upfront Rs.200/- & 0% interest
8	Maternity Loan			
9	Educational Loan			
10	Marriage / Functional Loans	End of the function day	10,000	Rs.100/-

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## FINANCIAL SUSTAINABILITY

<b>STRENGTHS</b>	<b>CHALLENGES</b>
<ul style="list-style-type: none"><li>• Strong earnings profile</li><li>• Strong Liquidity profile considering 1 year tenor of loans</li></ul>	<ul style="list-style-type: none"><li>• Modest Capitalization</li><li>• Modest fresh corpus infusions</li></ul>

<b>Financial Summary</b>			
<b>Particulars</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b><i>Profit &amp; Loss (INRm)</i></b>			
Interest Income	177.01	208.86	234.50
Interest expenses	77.52	103.57	116.56
Net Interest Revenue	99.49	105.29	117.94
Other Operating Income	4.50	5.91	9.33
Net Operating Income	103.98	111.20	127.27
Personnel Expenses	46.60	51.12	51.79
Operating Expenses	28.87	26.07	27.55
Depreciation and Ammortization	2.01	1.37	1.59
PPOP	26.50	32.63	46.34
Provisions & Write offs	6.90	2.14	11.16
EBT	19.60	30.49	35.18
Non Operating Income	0.34	1.43	0.75
PBT	19.94	31.92	35.94
Tax	0.00	0.00	0.00
PAT	19.94	31.92	35.94
<b><i>Balance Sheet (INRm)</i></b>			
<b><i>Total Assets</i></b>	<b>845.44</b>	<b>1010.60</b>	<b>1148.96</b>
Fixed Assets	37.50	33.17	33.06
Investments	0.00	0.00	0.00
Loan Portfolio	688.87	696.84	851.81
Cash and Bank Balances	112.76	271.94	250.61
Other Assets	6.30	8.65	13.48
<b><i>Total Liabilities</i></b>	<b>845.44</b>	<b>1010.60</b>	<b>1148.96</b>
Networth	105.17	115.61	152.12
Total Debt	722.33	887.47	990.40
Other Liabilities	17.94	7.51	6.44

## MFI GRADING

<i>Ratios</i>			
CET 1 (%)	15.27	16.59	17.86
CRAR (%)	15.27	16.59	17.86
GNPA (%)	0.00	0.00	0.00
NNPA (%)	0.00	0.00	0.00
Debt to Equity	6.87	7.68	6.51
Yield on loans (%)	28.10	30.14	30.28
Cost of Borrowing (%)	11.99	12.87	12.41
NIM (%)	16.28	16.05	16.43
Employee Cost as % of average loans	6.13	5.51	4.80
Operating Cost as % of average loans	9.93	8.32	7.35
PPOP as % of average loans	3.35	3.03	3.58
PPOP to Credit Costs	NA	NA	NA
RoA (%)	2.62	3.44	3.33
RoE (%)	20.94	28.91	26.85
Loan Loss Reserves (%)	0.00	1.00	2.00
Internal Accruals (%)	23.38	30.35	31.08

## EMPLOYEE MANAGEMENT

STRENGTHS	CHALLENGES
<ul style="list-style-type: none"> <li>• Employee diversity</li> <li>• Employee training</li> </ul>	<ul style="list-style-type: none"> <li>• Scope for strengthening succession planning practices for employees</li> </ul>

MT hires employees through various sources such as internal referrals , walk ins etc. The field staff is selected with a minimum qualification of 10+2 and the office staff is selected with a minimum qualification of graduation.

New hires are expected to undergo trainings before joining. MT also conducts follow up trainings on a periodic basis to ensure motivation in the employees. MT has a HR team enlisting eligibility, acceptance and rejection criteria of candidates, KRAs of different hierarchies, termination reasons, etc. However need of an HR manual remains for strengthening of the processes

MT has established reporting structures, hierarchies and grievance procedures for employees.

## BORROWER SOCIAL INDICATORS

STRENGTHS	CHALLENGES
<ul style="list-style-type: none"> <li>• Majority loans for income generation purpose</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance of borrower socio-economic indicators</li> </ul>

Most of the loans extended by MT are given for income generation purpose to the borrowers. Majority of the borrowers are women with spouse as the guarantor in the transaction. Most of the borrowers depend on daily wages as their source of income.

MT CSR activities for its borrowers regarding sanitation and education of the family members of borrowers. MT also facilitate CSR programmes by giving income generation asset to lower income proper repayment borrowers to uplift the standard of living.

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## MFI FACTSHEET

Name	Mahasemam Trust
Incorporation Year	1999
MFI form	Trust
Regulatory body	NA
Group Companies	NA
Head Office	C -5,VTP Apartments,Lake area, Uthangudi post, Madurai -625107
President	Dr.N.Sethuraman
Auditor	N. Sridhar & Co.
Lending Model	SHG and JLG loans

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