

Microfinance Institutional Rating



Grameen Shakti Microfinance
Services Private Limited (GSMS)

NBFC - MFI

May 2023

M-CRIL - incorporating EDA Rural Systems
inclusive microeconomics

Grameen Shakti Microfinance Services Private Limited

Kolkata, West Bengal, India

Legal form: NBFC-MFI

May 2023

Microfinance Institutional Rating (MIR)

Investment Grade	Above	α	α+	RATING	Mar 2022	April 2023
			α		α-	α-
Below	β	β	β+	RATING OUTLOOK*	Positive	Positive
			β	Category	Grade	
Below	γ	γ	β-	Governance and strategic positioning	α-	α-
			γ+	Organisation and Management	α-	α-
			γ	Financial performance	α-	α-

*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

Visit dates: 12-14 April 2023

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Disclaimer

- ▶ Our services were performed, and this report was prepared in accordance with the Engagement Letter dated 22 March 2023 subject to the terms and conditions included therein.
- ▶ The information captured in this Report is based on the documentation and information received from time to time from Grameen Shakti Microfinance Services Pvt. Ltd. The findings contained herein are limited to the extent of the procedures conducted by M-CRIL till 28 April 2023 which are described in this document. Accordingly, changes in circumstances or information newly available after this date could affect the findings outlined in this Report.
- ▶ We have relied upon representations of employees of Grameen Shakti Microfinance Services Pvt Ltd., that all data and information provided by them are correct to the best of their knowledge. We accept no responsibility for any fact or information that has been intentionally withheld or otherwise omitted which could have had a material bearing on our findings.
- ▶ M-CRIL has relied upon the information supplied in connection with this engagement including management information. M-CRIL did not audit or otherwise verify the information supplied in connection with this engagement, from whatever source obtained, except as may be specified in this Report.
- ▶ In no circumstances shall we be liable, for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by any person to whom we make information requests.
- ▶ The findings contained in this Report are limited to the extent of the procedures performed by M-CRIL, which are described in this Report. The findings, which are hearsay in nature, should not be construed as an opinion, legal or otherwise, on the rights and liabilities of the Company or any other third party that may be, directly or indirectly, concerned with findings in this Report.
- ▶ All the information presented in this Report from our market sources/third parties are the personal perceptions of the sources. Wherever possible, we have corroborated the information provided to us with the information that may be available in the public domain or that which has been provided to the client, however, we have not done so independently.
- ▶ The Report furnished by us is solely for the information of Grameen Shakti Microfinance Services Pvt Ltd, which had requested M-CRIL to undertake the engagement. Hence, the Report should not be used, circulated, quoted or otherwise referred either wholly or in part.
- ▶ Grameen Shakti Microfinance Services Pvt Ltd shall be fully and solely responsible for applying independent judgment, with respect to the findings included in this Report, to make appropriate decisions in relation to future course of action, if any. We shall not take responsibility for the consequences resulting from decisions based on information included in the Report.

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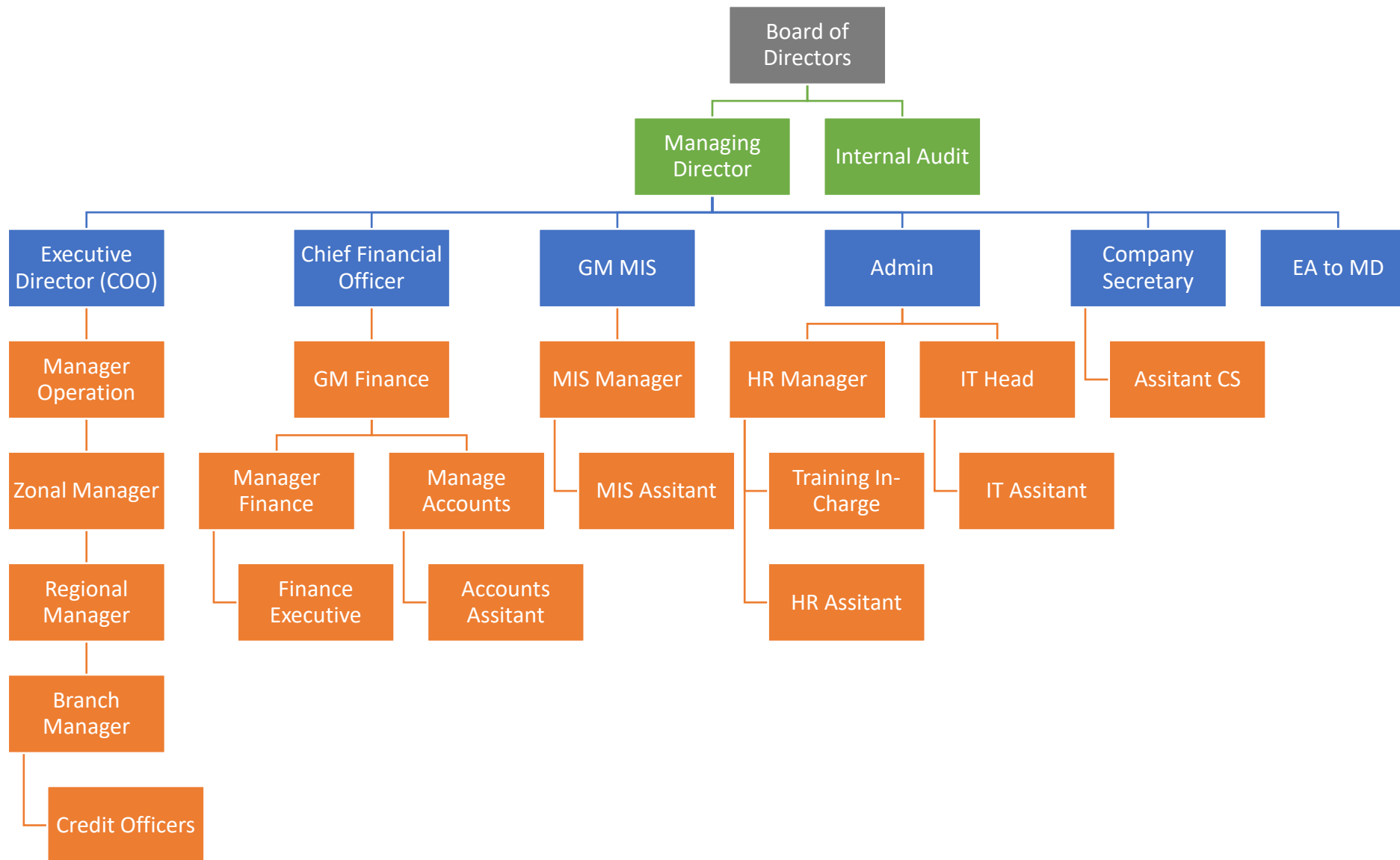


Grameen Shakti – Introduction

- ▶ “Society for Model Gram Bikash Kendra (SMGBK)” was engaged in microfinance activities since 2014, later it acquired a NBFC named Srija Chemo Pvt Ltd in 2015 and applied to RBI for a NBFC-MFI License.
- ▶ In 2017, Srija Chemo Pvt Ltd. was reclassified as a NBFC-MF and in 2018, the Company changed its name to “Grameen Shakti Microfinance Services Pvt Ltd. (GSMS).”
- ▶ GSMS currently has 6 members in its Board, including 3 Independent Directors, 1 Executive and Non-executive Director and Managing Director (MD).
- ▶ Mr. Ganesh Chandra Modak, MD of GSMS, oversee the institution's operations and is supported by a team of professionals that includes the Chief Manager Finance, Company Secretary & Compliance Officer, COO, Head of HR & Admin, Head of Accounts, Head of MIS and Head IT.
- ▶ The aim of GSMS is to empower financially excluded, economically backward and underserved women by offering a range of financial services. The company has been exclusively engaged in providing financial services to rural poor women through joint liability group (JLG) model.
- ▶ As on 31 March 2023, GSMS had a presence in 17 districts across 3 states through a network of 28 branches. GSMS has 35,233 active borrowers and a total AUM of ₹100.74 crore. West Bengal accounts for 49% of total AUM, followed by Bihar (39%) and Jharkhand (12%).
- ▶ The company mainly offers three products to its clients – General Loan, Hygienic Latrine Project (HLP) and Solar Project Loans with rate of interest ranging between 26-28%.
- ▶ In order to improve accuracy and productivity, GSMS has prioritized the implementation of digital solutions for its operational processes. A new app for its CO is to be launched in the current financial year, it will support activities related to LOS & LMS, this will reduce turn around time (TAT) while also enabling cashless disbursements and collection.
- ▶ GSMS reported a profit after tax (PAT) of ₹1.8 crore in FY2022-23, up from ₹1.6 crore in FY2021-22.



Organisational Structure



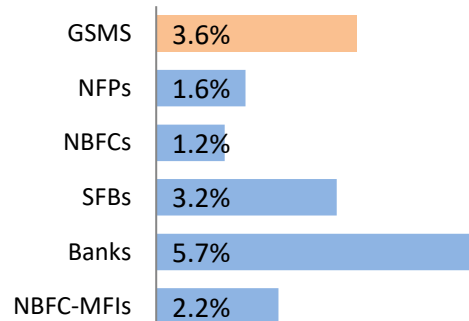
Rating Rationale

- ↑ **Experienced board and second line management:** Grameen Shakti (GSMS) has a proactive six-member Board of Directors with an average of 29 years of relevant experience, that is dedicated to the company's mission. Moreover, they have a strong and qualified second line of management with good domain experience.
- ↑ **Stable operational efficiency:** For the past few years, the operating expense ratio (OER) has improved, with opening of 8 new branches and business expansion, there has been a reasonable rise in OER from 6.8% to 7.1% in the FY2022-23.
- ↔ **Geographically diversified operations:** GSMS' operations are spread across 17 districts in 3 states, GSMS is planning to expand in two new states, Chhattisgarh and Odisha.
- ↑ **Sufficient capital adequacy position:** As of 31 March 2023, the company reported a CAR of 23.8%, which is near to industry standard of 15%.
- ↑ **Diversified borrowing profile:** The company's borrowing base is well diversified. GSMS has borrowed from varied public sector banks, societies, DFIs and NBFCs.
- ↑ **Low staff attrition:** For the past three years, GSMS has had a low staff attrition rate. Year to date (YTD), the staff attrition rate is 3.3%.
- ↑ **Profitability:** GSMS has recorded the same profitability as previous year, Return on Assets (RoA) 2.7% in FY2021-22 & FY2022-23.
- ↓ **High competition:** GSMS faces stiff competition from NBFCO-MFIs and SFBs in majority of its operational areas. As a result, ~60% of its clients have multiple and high amount loans.
- ↓ **Low Liquidity Position ratio:** The cash & bank balance to total asset is 2.6% in March 2023 up from 1.8% in March 2022.
- ↔ **Improved Portfolio At Risk (PAR):** Overall portfolio quality in March 2023 has improved in comparison with March 2022 owing to improvement in collections. PAR₃₀ was high, at 10.6% in March 2022 and reduced to 3.6% in March 2023.

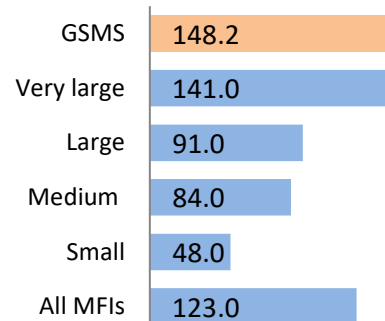


Benchmarking analysis

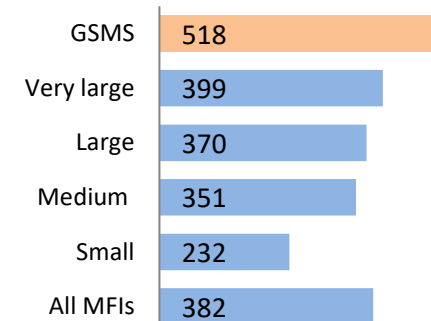
PAR>30days



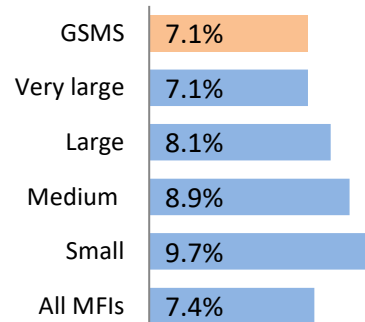
Portfolio per CO (Rs in Lakh)



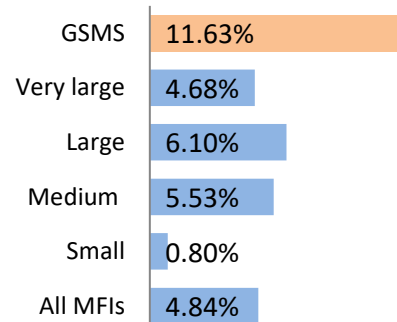
Borrowers per CO



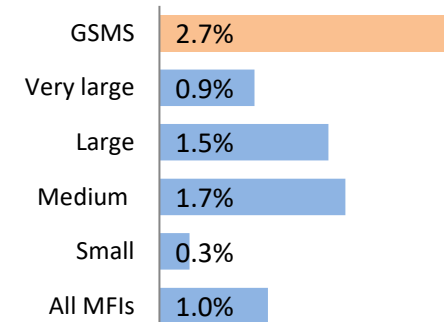
Operating efficiency



Return on Equity



Return on Asset



Source : Sa-Dhan's Quarterly Microfinance Report (Q3 of FY2022-23)



Main Performance Indicators

Main Performance Indicators				
	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
Own Portfolio (₹ crore)	55.5	44.4	51.0	57.1
Assets under Management	55.5	44.4	56.5	100.7
Number of active borrowers	24,407	20,652	25,109	35,233
Average Loan O/S (₹)	22,727	21,514	22,511	28,595
Average loan disbursement	31,230	17,271	29,568	33,400
Portfolio at Risk (PAR30), %	0.3%	17.5%	10.6%	3.6%
Borrowers per field staff (CO)	508	430	483	518
Yield on Own Portfolio	30.5%	21.5%	19.3%	20.6%*
Operating Expense Ratio (OER)	4.7%	5.6%	6.8%	6.9%*
Financial Expense Ratio (FER)	13.3%	11.3%	9.9%	7.6%
Operational Self Sufficiency (OSS)	167.8%	114.9%	146.2%	128.4%
Return on Assets (RoA)	7.5%	0.3%	2.7%	2.7%
Capital Adequacy Ratio (CAR)	18.3%	32.2%	23.4%	26.5%*
Debt-equity ratio	4.3	2.9	3.1	3.1

* taken from GSMS's Provisional Annual Report 2022-23





Lending Methodology

- ▶ The group lending process begins with the selection of an area for the establishment of a branch, followed by the selection of a village by a CO. After the completion of village survey, CO holds a projection meeting in the village to raise awareness about GSMS and the products available. Then interested clients are asked to form groups of 5-10 prospective clients who meet the group formation requirements.
- ▶ CO collects client data and fills it in the application form during the group formation stage. The Credit Bureau (CB) check is completed at the branch.
- ▶ A preliminary survey is conducted by the CO of members to assess their cash flows and repayment capacity. Afterwards, an analysis is done by the Branch Manager (BM) for the applied loan amount.
- ▶ Continuous group training (CGT) is conducted by BM and senior credit officer for 5 days. After which a Group Recognition Test (GRT) is carried out by the Regional Manager.
- ▶ For the first loan cycle, approval from the Branch Manager (BM) and Regional Manager (RM) is compulsory while for the subsequent loan cycles, only approval from the Branch Manager is required. KYC verification and credit bureau check is done centrally at the HO.
- ▶ Instalments are collected during the group's monthly/fortnightly/weekly meetings as per the repayment schedule.
- ▶ Loan utilization check is done after first installment by the BM and RM on a sample basis and of all clients by the credit officer.
- ▶ Repayment is done mostly in cash and only 15-20% is done digitally by scanning the QR code. This type of digital repayment method is more prevalent in Bihar.
- ▶ In the current financial year, GSMS is planning to launch a digital app for the field operations, which will reduce the time consumption during loan origination process from 2-3 days to 1 hour, as the CB check, KYC collection and client details will be captured and shared with HO directly from field.



Product Features

Name of the product	General Loan (Udyogi Loan)	Hygienic Latrine Loan (Swachh Sauchalay)	Solar Energy Loan (Soura-Shakti)
Clientele	Women with Group Methodology	Women with Group Methodology	Women with Group Methodology
Loan size	₹20,000 - ₹1,00,000	₹20,000 - ₹30,000	₹1,500 - ₹30,000
Loan term	1 year to 5 years	1 year to 2 years	1 year
Repayment	Weekly/fortnightly/monthly	Weekly/fortnightly/monthly	Weekly/fortnightly/monthly
ROI or Interest rate (pa)	26%	27%	27%
LPF (% of loan)	1%	1%	1%
Insurance fee	0.8%	0.8%	0.8%
Any Penalty	NA	NA	NA
Collateral /Security	Group guarantee	Group guarantee	Group guarantee



GSMS has strong governance practices and growth strategy. The Board of Directors of GSMS has extensive experience in banking and microfinance services with an average of 29 years of relevant experience. An efficient second line of management assures that GSMS's vision is implemented in field.



Governance and strategy

Governing Board
Second Line of Management
Operational growth and strategies
Fund Mobilization



Governance and strategy...1

Governing board – *strong and diverse board*

- ▶ GSMS has a six-member Board, including 3 Independent Directors which is a good blend of experienced and committed bankers with microfinance experience. Among the 6 directors, 3 are women.
- ▶ There are four Board level committees, including, finance committee, nomination committee, risk committee and audit committee. These committees generally meet every quarter, and the discussions concentrate on strategic issues such as growth, sources of funds, performance review, strengthening of controls and regulatory compliance.
- ▶ At the management level there is an asset liability management (ALM) committee, whistle blower committee, anti-sexual harassment committee and IT committee. While ALM committee meets monthly, other committees meet half yearly.
- ▶ Internal audit committee comprises of four core members who also review risk aspects of the organisation. Reports are channelized through them before being presented to the Board.

Second line of management – *stable team*

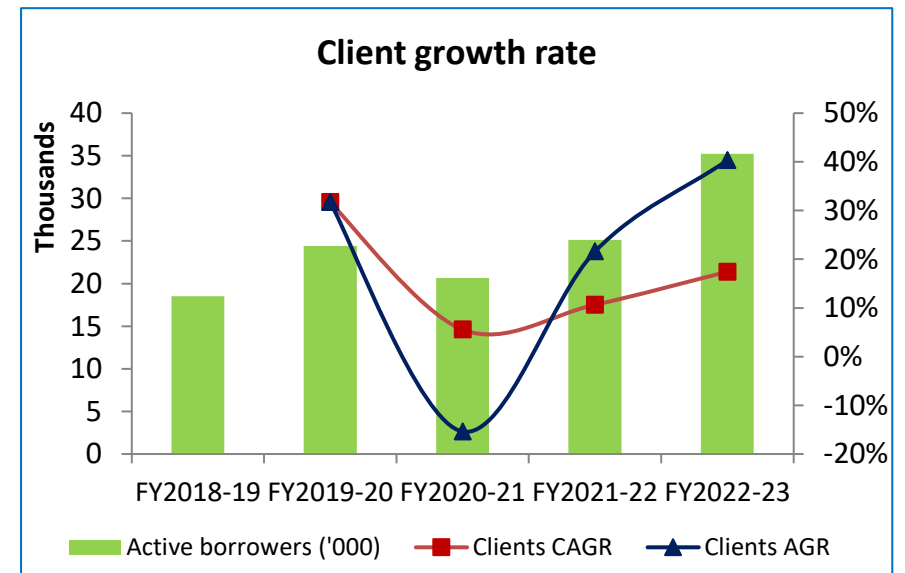
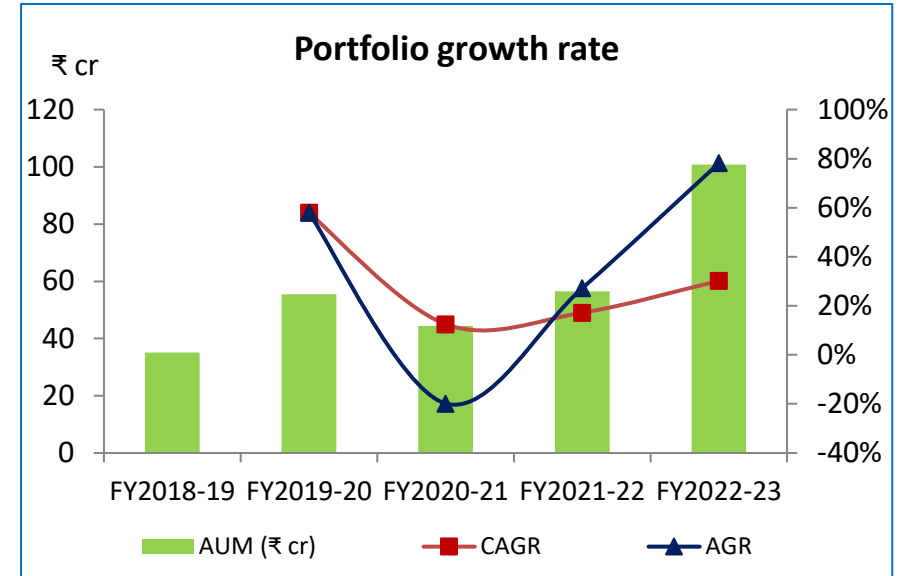
- ▶ GSMS has stable and experienced second line of management
- ▶ Operations are managed by the COO with support from the CFE, CS, DGM (Finance and accounts) and GM MIS (IT and MIS).
- ▶ Lower rate of attrition is faced at the second line of management due to implementation of a promotional policy, which keep the key staff motivated and committed to the firm. Additionally, their involvement in review sessions where strategic decisions are made has increased their sense of ownership in the management decisions, contributing to a more engaged and dedicated workforce.



Governance and strategy...2

Operational growth and strategies – good

- ▶ GSMS has increased its focus on BC portfolio through partnership with Ananya Finance, Monexo, ESAF and CSB.
- ▶ Currently there are 28 branches, with 24 functional across 3 states – West Bengal, Bihar and Jharkhand. GSMS plans to expand in some parts of western Odisha and Chhattisgarh, by the end of year 2023.
- ▶ For expansion plans those areas will be targeted which have less than 40% default rate. Focus is given to existence of MFI culture in the area, crime rate, banking facility (minimum 2 banks) and infrastructure connectivity are aspects looked at while expanding to new areas.
- ▶ GSMS has no plans to offer any new product in the near future, believing that the existing products are sufficient to meet client needs.
- ▶ The company is now focusing on digitizing field operations using mobile application for COs, which will smooth the process of LOS & LMS. The app will automate the process of CB check, KYC data capturing, digital repayment collection, etc. resulting in reduced TAT and improve service delivery. This app is expected to be introduced in the field before H1 of FY2023-24.

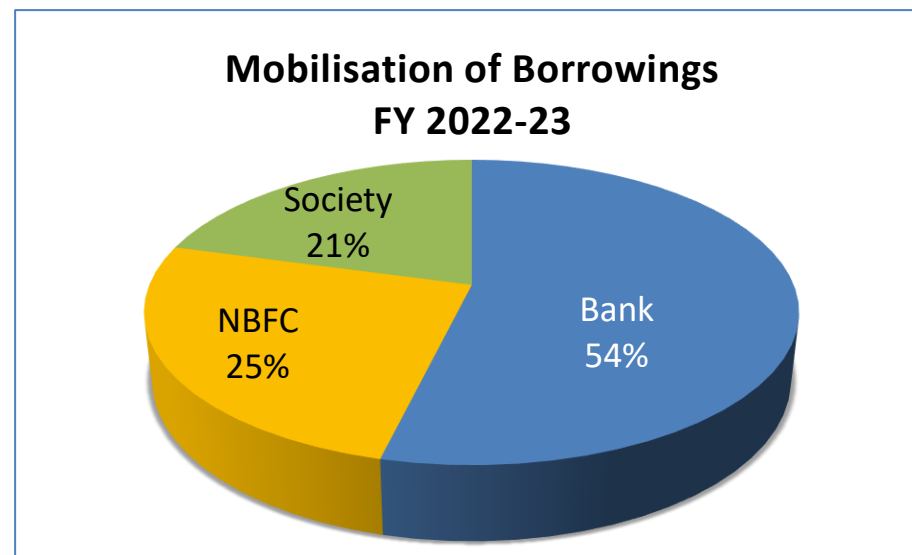


Governance and strategy...3

Fund mobilization – emphasis on BC portfolio

- ▶ In the last FY 2022-23, GSMS has raised its managed portfolio by almost 7x, from ₹5.6 cr. in March 2022 to ₹43.6 cr. in Mar-23.
- ▶ GSMS plans to increase the contribution of debt funding from public sector banks (PSBs). As on 31 March 2023, of total borrowings, PSU/banks contribute 54% and remaining is private fund (46%).
- ▶ GSMS has strong relationship with mid and large sized NBFCs and has raised funds frequently from these institutions.
- ▶ The average cost of borrowings was high at about 13.4% during FY 2022-23, which has increased from 11% in FY 2021-22, as the earlier borrowings were under guarantee by banks.
- ▶ GSMS has raised its borrowings from NBFCs and Society in the FY2022-23 by ₹6.6 Cr. and ₹2.7 Cr. respectively.

Sources of funds (₹ crore)	31-Mar-22	31-Mar-23
Networth	13.6	15.9
Borrowings	45.1	55.8
Managed Portfolio	5.6	43.6



GSMS has adequate HR policies to support the growth of the organization. GSMS also has efficient accounting and a strong internal control & monitoring system in place with strategies to shift towards digitisation.

Organisation and Management

- Human Resource Quality and Management
- MIS and Accounting
- Monitoring, Supervision
- Loan tracking & cash management system
- Internal Audit

Organization and management...1

Human resource quality and management – *good*

- ▶ GSMS has a separate human resource cum training department and adequate policies for recruitment, compensation, promotion, training and transfers.
- ▶ Recruitment of field level staff is centralized and is done by the COO with the respective RM. Special preference is given to local people. After joining, staff is sent to field for a six-day observational period, post which his/her orientation begins for a period of nine days.
- ▶ Every new joiner in field staff starts at CO level and is accompanied by a senior for on-the-job training for 3-5 months depending on his previous experience. Once the probation/training period is completed, feedback from the branch is taken before confirming the employee.
- ▶ A staff member is confirmed after a maximum of 6 months probation and satisfactory performance as reported by BM and RM.
- ▶ Staff training needs are assessed by the human resource department annually, and the training department is informed accordingly.
- ▶ Branch staff was found to be aware of responsible lending practices and RBI rules and regulations. But a lack of confidence was observed within the staff during field visits.
- ▶ Staff incentives are linked with asset quality, feedback from the training department and field audit observations. The incentive structure has no mention of business growth, unlike other MFIs.
- ▶ For the past three years, GSMS has had a low staff attrition rate. Year to date (YTD), the staff attrition rate is 3.3%.
- ▶ Staff performance evaluation is done monthly, with annual promotional cycle. And apart from basic salary, food allowance, state allowance, quarterly incentives and halting allowance are also provided to the staff.



Organization and management...2

MIS and Accounting – *efficient considering the size of operations*

- ▶ GSMS uses BIJLI Microfinance software developed by Force Ten Technologies. It has been implemented since 2018. It provides an end-to-end solution to manage loan documents, information flow and field force. For accounting, GSMS uses Tally prime.
- ▶ GSMS has centralised MIS. Data entry is done at the branch level but can be rectified only at the HO.
- ▶ The daily collection demand sheet is generated with the help software in branch by each CO. The CO collects the repayment and then ensures entry in the demand sheet along with the borrower's attendance details.
- ▶ At branch, CO or BM have to enter the same amount on BIJLI through a smartphone. The BM verifies CO wise collection and deposits amount in the bank account and the day closing entry is done.
- ▶ The accounting system is also centralized. Editing rights are only with the DGM and Accounts Manager at the HO. The receipts for expenses at branch level are approved by RM and are kept in physical form at the branch level. At the end of the day, the accounting team reconciles all financial transactions in MIS with accounting figures.
- ▶ Daily transactions are updated in the MIS by the BM before day closing and the reconciliation is done on the next day by the accounts team. Any discrepancy is resolved on the same day.
- ▶ The ledgers are tallied on a monthly basis and financial statements are prepared on a quarterly basis to present in the board meeting.
- ▶ Training is given on a regional basis to every branch in that region. Passwords of employees are changed after 45 days, and monthly data backup is done. One server is at the HO and another at the MD's residential premises.



Organization and management...3

Monitoring and supervision — *effective*

- ▶ GSMS has put in place reporting and internal control systems that allow the MFI to track performance, strategy, operations, processes, and risk associated with operations.
- ▶ A Credit Information Report (CIR) is generated for all loans. It also ensures that the loan is paid out within 15 days of the report's creation.
- ▶ At the branch level, the field staff have to conduct a 100% loan utilisation check within 15 days of loan disbursement, whereas the BM must verify it on a sample basis.
- ▶ BMs and RMs randomly check the documents of clients, make visits to clients and follows up on internal audit findings.

Loan tracking & cash management system — *Strong*

- ▶ Before disbursements, the CO conducts training for JLG members on the importance of on-time repayment.
- ▶ The members who have committed default are tracked on a weekly basis by branch staff.
- ▶ GSMS has a centralised financial planning and overall fund management system.
- ▶ The finance department conducts variance analysis, which is then presented to the ALM Committee.
- ▶ The BM updates the cash sheet and collection demand sheet in the software on a daily basis. The Finance team checks cash and bank balances on a daily basis.
- ▶ The maximum cash limit at the branch is ₹10,000. If the amount held exceeds the ceiling at the branches, authorization from a superior authority is required.
- ▶ **The liquidity position of GSMS is low.** The cash & bank balance to total asset is 2.6% in March 2023 up from 1.8% in March 2022.





Organization and management...4

Internal audit — *detailed and adequate*

- ▶ GSMS has put in place reporting and internal control systems that allow the MFI to track performance, strategy, operations, processes, and risk associated with operations.
- ▶ The company has a separate Internal Audit (IA) team headed by a qualified and experienced person who reports to the Board. Audit visits are classified into two – branch audit (once every 45 days) and HO audit (once every 2 months).
- ▶ The scope of a branch audit is primarily focused on field processes (group formation, GRT, center meeting, client/HH visits and verification of KYC), branch process (loan process, disbursement, collection, LUC and insurance), record keeping and reporting, monitoring mechanisms, cash management, and the implementation of the fair practice code. The audit team makes a surprise visit to the centers to check the processes and policies followed while sourcing and loan disbursement.
- ▶ A report is prepared separately for every branch, which is shared with the BM. The branch has to comply to the feedback within 15 days. The IA's opinion is based on a number of criteria, each of which has a score, and each branch has a composite value and a grade assigned to it.
- ▶ The IA team compiles and provides a summary IA findings report to the Board IA Committee on a quarterly basis. The IA Committee monitors & reviews the effectiveness of the IA function in the context of the overall risk management.
- ▶ Major findings of audit reports are shared with senior management and the Board during quarterly meetings.



GSMS is able to scale and sustain its operations. With a high rise in managed portfolio, GSMS has been able to expand its operations. Portfolio quality has been improving, stable operating efficiency and profitability.

Financial performance

- Financial Profile
- Portfolio Quality
- Staff productivity and Operating efficiency
- Capital Adequacy Ratio
- Asset and Liability Composition
- Profitability and Sustainability

Financial Performance...1

Financial Profile

Financial Ratios	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
Capital Adequacy				
Risk Weighted Capital Adequacy	18.3%	32.2%	23.4%	26.5%*
Asset Quality				
Portfolio at Risk ₃₀ / Gross Loan Portfolio	0.3%	17.5%	10.6%	3.6%
Loan Loss Provision/Gross Loan Portfolio	0.5%	2.3%	(-2.0%)	(-0.3%)
Write-offs / Average Gross Portfolio	0.0%	1.5%	2.7%	0.7%
Management				
Operating Expenses/ Average Gross Portfolio	4.7%	5.6%	6.8%	6.9%*
Borrowers/RO	508	430	483	518
Portfolio/RO (₹. Lakh)	115.6	92.6	108.7	148.2
Borrowers/per staff	281	249	318	261
Earnings				
RoE (Net operating income/Average Equity)	40.7%	1.6%	12.0%	11.6%
RoA (Net operating income/Average Assets)	7.5%	0.3%	2.7%	2.7%
Portfolio Yield	30.5%	21.5%	19.3%	20.6%*
Fin. Expense Ratio (Interest & Fee exp. /Avg Portfolio)	13.3%	11.3%	9.9%	7.6%
Liquidity				
Cash and bank balance/Total Assets	4.8%	0.5%	3.5%	2.6%
Current ratio	1.5	2.4	1.8	2.0
Debt Equity Ratio	4.3	2.9	3.1	3.1

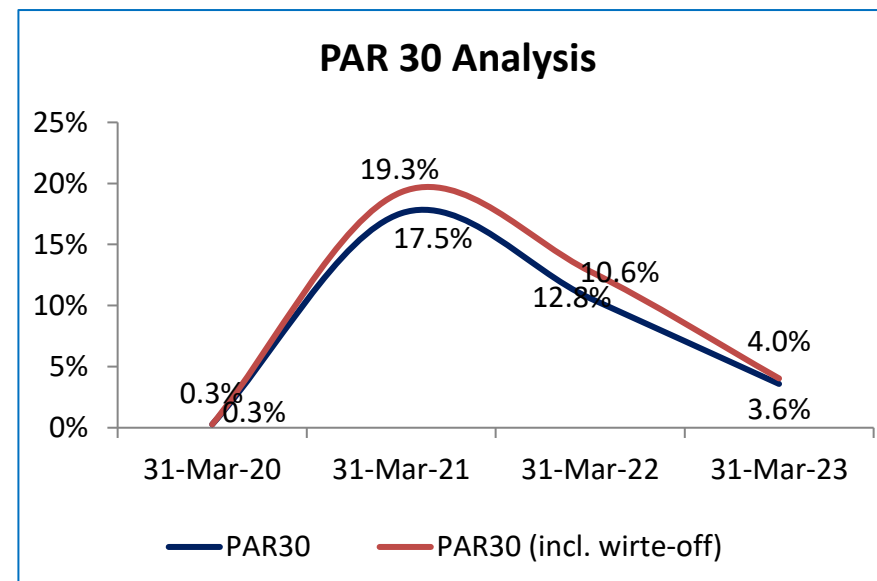
* taken from GSMS's Provisional Annual Report 2022-23



Financial Performance...2

Portfolio Quality – *improving*

- ▶ GSMS's overall portfolio was impacted by the COVID 19 pandemic. But in 2022, GSMS worked on reducing the negative impact and its portfolio quality showed some improvement.
- ▶ The overall PAR improved from Mar-21, owing to the efforts of the operating team that is closely monitoring the loan portfolio and write offs. There is a decrease in PAR30 + write off from 10.6% in Mar-22 to 4.0% in Mar-23.
- ▶ The portfolio quality (PAR30 on gross portfolio) was high at 3.6% as of Mar-23, which is higher than the industry average for NBFC-MFIs (2.2%).
- ▶ As of Dec-22, the on-time repayment rate has declined to 93.32% from 97.72% in March 2022.
- ▶ GSMS is trying to diversify its portfolio across sectors, concentration in agriculture has increased significantly from 26% in Mar-22 to 45% Mar-23, which as a result increases the risk.



Sectoral Distribution of Portfolio %

Particulars	Mar-21	Mar-22	Mar-23
Agriculture	27%	26%	45%
Micro Enterprise	64%	69%	42%
Service Sectors	1%	1%	0%
Others	7%	5%	13%
Total	100	100	100



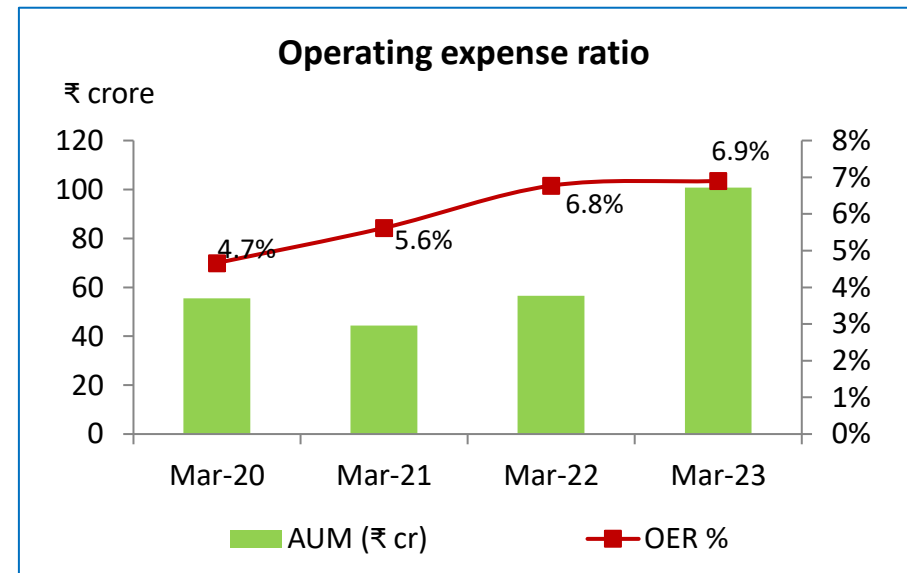
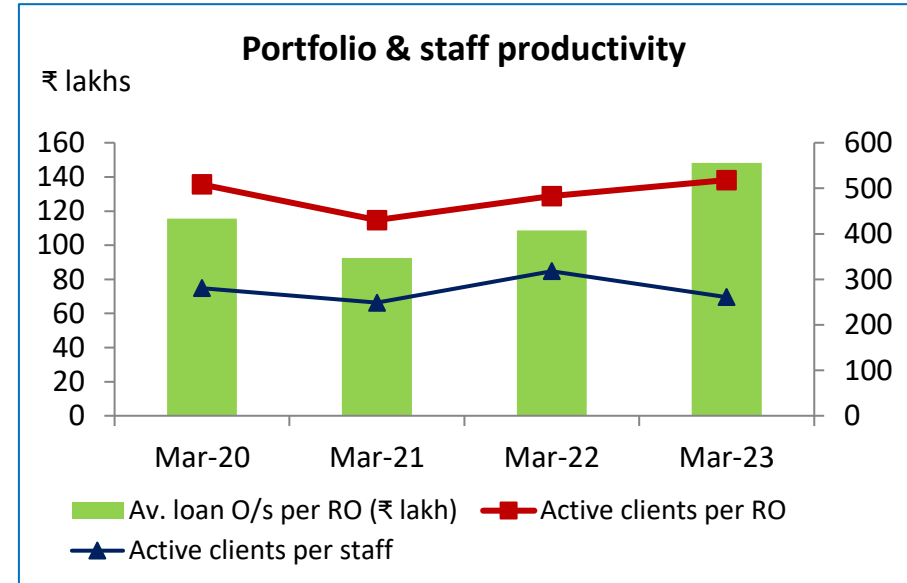
Financial Performance...3

Staff productivity – Good

- ▶ Staff productivity at 518 active clients per CO in Mar-23 is very good for similar/medium sized MFI according to Sa-Dhan data (382 borrowers per field staff for all MFIs and 232 for small MFIs).
- ▶ With expansion of the operations in new states, Chhattisgarh and Odisha, as per the business plan, portfolio and staff productivity will improve in the current financial year.
- ▶ The monthly targets are decided by the branch staff and not the senior management. As the benchmarks are set at the field, these are more realistic and motivating.
- ▶ Due to cut-throat competition and lower ticket size at GSMS, quality client onboarding is becoming tough for the COs.

Operating efficiency – reasonable

- ▶ The Operating Expense Ratio (OER) marginal increase from 6.8% in FY 2021-22 to 6.9% in FY 2022-23 due to increases in the personnel expenses.
- ▶ With operational expansion and further increase in the loan portfolio, OER will remain below the industry standards as per Sa-Dhan data for similar/medium sized MFIs (8.0%).



Asset and Liability Composition – *moderate*

- ▶ For the last three years, the net loan portfolio to total assets ratio has been declining from 89.5% in March 2021 to 83.4% in March 2023, which is reasonable by industry standards.
- ▶ GSMS has a low Cash Position Ratio (cash and bank balances/total assets) at 2.6% as on 31 March 2023. However, it has improved from 0.7% in March 2021 and further increased to 1.8% in March 2022.
- ▶ GSMS has demonstrated effective liquidity management strategies. All inflows and outflows, as well as maturity gaps, are regularly tracked.

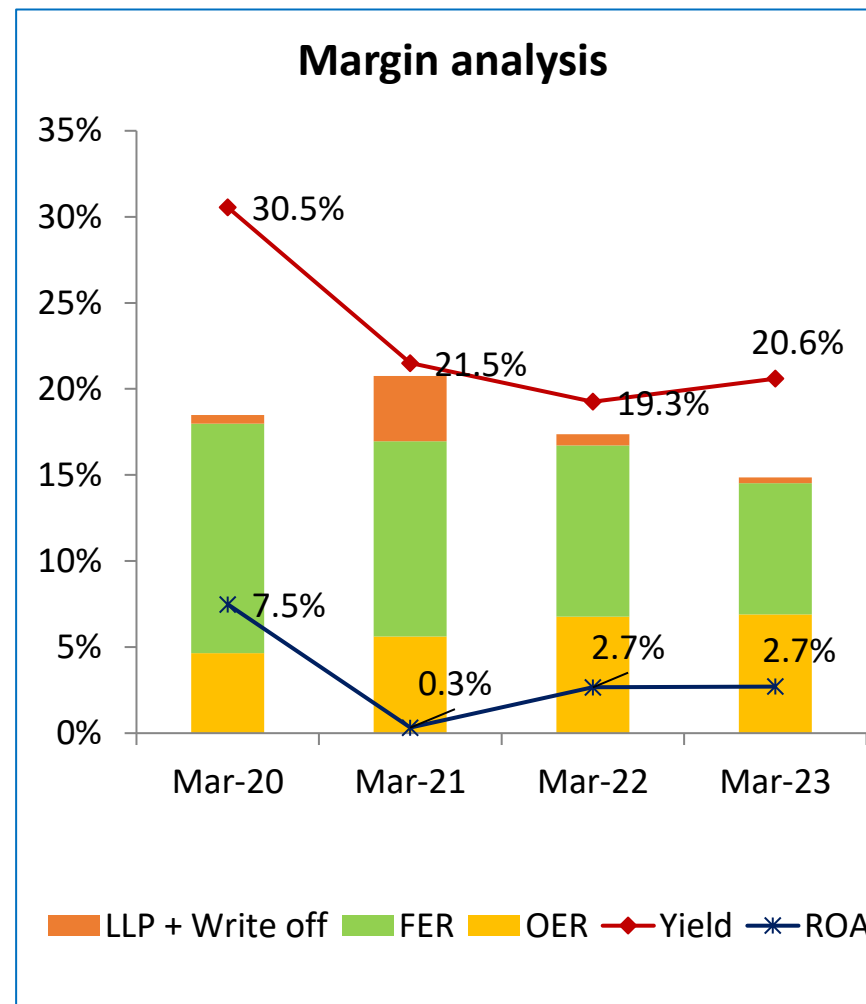
Capital Adequacy – *good*

- ▶ GSMS's risk-weighted Capital Adequacy Ratio (CAR) was healthy at 26.5% on 31 March 2023. The CAR is, nevertheless, higher than the RBI's requirement (15%) for NBFC-MFIs. The present CAR has a scope of improvement for attracting external lenders.
- ▶ The company's net worth increased from ₹13.6 crore in March 2022 to ₹15.9 crore in March 2023, with reserves and surplus accounting for the growth.



Profitability and Sustainability – good

- ▶ Despite the effects of COVID-19, GSMS has been able to maintain operations and recorded positive returns. GSMS earned ₹18.4 lakhs in profit after tax (PAT) in FY2020-21, ₹1.6 crore in FY2021-22, and ₹1.7 crore in FY2022-23.
- ▶ Since the pandemic, Yield (~17.1%) is on a fall, but the rate has decreased over time and OER (~6.9%) is on a rise due to personnel expenses.
- ▶ However, the Financial Expense Ratio (FER) fell from 9.9% in FY2022-23 to 7.6% in FY2022-23. as well as the loan loss provisioning plus write-off decreased from 0.6% to 0.3% during the same period.
- ▶ As a result, the Return on Assets (RoA) has stayed stable from FY 2021-22 to FY2022-23 at 2.7%. GSMS has maintained a decent RoA as per industry standards (NBFC-MFIs at 0.8%).





Annexes

Annex 1

Balance Sheet of GSMS as on...

amount in ₹ lakh	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
ASSETS				
<u>Current assets</u>				
Cash and bank balance	23.4	34.7	104.8	179.5
Current investments	-	-	-	-
Trade receivables	-	-	-	-
Short term loans & advances	162.3	(3,883.7)	86.0	131.7
Other current assets	279.5	2,940.9	274.0	223.5
Net loan portfolio	5,547.0	4,437.4	5,095.8	5,712.1
Total current assets	6,012.2	3,529.4	5,560.5	6,246.8
<u>Long term assets</u>				
Assets (tangible & intangible)	25.8	20.8	26.5	44.1
Other non-current assets	-	-	-	-
Long term loans and advances	-	1,204.7	-	-
Non-current investment	-	-	-	-
Deferred tax asset	285.2	203.4	241.0	555.6
Total long-term assets	311.0	1,428.9	267.4	599.6
Total assets	6,323.2	4,958.3	5,827.9	6,846.5



Annex 1...continued

Balance Sheet of GSMS as on...

amount in ₹ lakh	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
LIABILITIES AND NET WORTH				
<u>Current liabilities</u>				
Short term provisions	199.8	221.0	105.7	112.5
Borrowings	1,496.0	1,050.6	2,966.1	2,982.4
Other payables	17.0	19.9	42.9	51.0
Other liabilities	2,369.1	1,818.2	30.5	40.8
Total current liabilities	4,081.8	3,109.7	3,145.2	3,186.8
<u>Long term liabilities</u>				
Long term borrowings	1,092.1	631.1	1,300.6	2,040.0
Total provisions	-	-	-	-
Deferred tax liabilities	5.5	9.7	17.2	24.8
Total long-term liabilities	1,097.6	640.7	1,317.8	2,064.7
Total liabilities	5,179.4	3,750.4	4,463.0	5,251.5
<u>Net worth</u>				
Share Capital	164.0	876.3	876.3	913.4
Reserves and surplus	979.8	331.6	488.7	681.5
Total net worth	1,143.8	1,207.9	1,365.0	1,595.0
Total liabilities and net worth	6,323.2	4,958.3	5,827.9	6,846.5



Annex 2

Income Statement for the period

amount in ₹ lakh	2019-20	2020-21	2021-22	2022-23
<u>Income</u>				
Interest income from loans	1,179.2	1,090.4	823.3	932.8
Commission from BC services	-	0.3	12.4	171.0
Loan processing fee	97.1	7.9	52.0	59.4
Other income	0.1	1.3	2.1	3.9
Interest on term deposits	20.6	25.5	25.0	29.0
Provision for gratuity - written back	-	4.4	-	-
Bad debt recovery	-	-	74.1	59.6
Total income	1,297.0	1,129.8	988.8	1,255.7
<u>Financial costs</u>				
Interest on borrowings	482.8	559.7	416.5	454.0
Other borrowing costs	73.7	19.4	42.0	64.9
Gross financial margin	740.5	550.7	530.3	736.7



Annex 2...continued

Income Statement for the period

amount in ₹ crore	2019-20	2020-21	2021-22	2022-23
Gross financial margin				
Provisions	21.5	117.3	(94.4)	(22.4)
Write-offs	-	76.6	124.3	45.4
Net financial margin	719.0	356.8	500.5	713.8
<u>Operating expenses</u>				
Employee benefit expenses	124.9	167.9	177.1	302.2
Administrative & operating expenses	62.2	108.5	124.4	164.7
Depreciation and amortization	7.6	10.7	10.6	14.4
Total operating expenses	194.7	287.1	312.2	481.3
Profit before tax (PBT)	524.3	69.6	188.3	232.5
Tax obligations	137.4	47.1	23.6	52.9
Deferred Tax	4.7	4.2	7.6	7.5
Profit after tax (PAT)	382.2	18.4	157.1	172.1



Annex 3

Profile of the Board on 31 March 2023

Board Member	Position on Board	Qualification	Relevant experience (in years)
Ganesh Chandra Modak	Managing Director	Master in Commerce	30 years
Sukriti Mukhopadhyay	Director	Master in Arts & Social Work	20 years
Sundari Modak	Director	Bachelor in Arts	15 years
Pranab Kumar Saha	Independent Director	B. Pharm	39 years
Maitrayee Banerjee	Independent Director	Master in Arts	35 years
Gautam Sen	Independent Director	Master in Arts	36 years



Abbreviations

ALM	Asset Liability Management	IT	Information Technology
BC	Banking Correspondent	JLG	Joint Liability Group
BM	Branch Manager	LAF	Loan application Form
CAGR	Compound Annual Growth Rate	LLP	Loan Loss provisioning
CB	Credit Bureau	LPF	Loan Processing Fee
CFE	Chief Finance Executive	LUC	Loan Utilisation Checks
CGM	Chief General Manager	MFI	Micro Finance Institution
CGT	Compulsory Group Training	MIS	Management Information System
CO	Credit Officer	NBFC	Non-Banking Finance Company
COO	Chief Operations Officer	OER	Operating Expense Ratio
DFI	Development Finance Institutions	OSS	Operational Self Sufficiency
GLP	Gross loan portfolio	PAR	Portfolio at Risk
HO	Head Office	PSB	Public Sector Bank
HR	Human Resources	RBI	Reserve Bank of India
IA	Internal Audit		



Annex 5

Glossary

- ▶ **Active borrowers per field staff:** Amount of borrower / Number of field staff
- ▶ **Active borrower per staff:** Number of borrower / Total staff
- ▶ **Average loan size:** Total loan amount disbursed in the period / Number of disbursed loans
- ▶ **Average outstanding:** Gross portfolio / Number of active borrowers
- ▶ **Assets under management:** Sum of assets managed by the institution including own portfolio, off-balance sheet portfolio and securitised portfolio.
- ▶ **Capital Adequacy Ratio:** Total net worth / Total risk weighted assets
- ▶ **Cost per Borrower (active client) :** Operating expenses/Average number of active borrowers
- ▶ **Client drop-out ratio:** Number of clients dropped out during the period/(average number of clients during the period)
- ▶ **Financial expense ratio:** Total interest expense during the period /Average portfolio
- ▶ **Debt-equity ratio:** Total liabilities/Total equity
- ▶ **Loan loss provisioning ratio:** Total loan loss provisioning expense during period /Average portfolio
- ▶ **Operational Self-Sufficiency (OSS):** Ratio of total income to total costs for the period
- ▶ **Operating expense ratio:** Total operating expenses (incl. depreciation) during the period/average loan portfolio
- ▶ **Portfolio at risk (PAR (>30days)):**The principal balance outstanding on all loans with overdues greater than or equal to 30 days /Total loans outstanding on a given date.
- ▶ **Return on assets (RoA):** Operational income (or loss) after tax during the period /Average assets
- ▶ **Return on equity (RoE):** Ratio of operational income (after tax)/(loss) to average net worth
- ▶ **Staff attrition rate:** Number of staff who left the institution during the year/(average number of staff during the year)
- ▶ **Yield on portfolio:** Interest, fee income and commission for off-balance sheet portfolio during the year/Average gross loan portfolio for the year



Annex 6

M-CRIL Rating Grades

M-CRIL Grade	Description
$\alpha+$	Strong governance, excellent systems and healthy financial position. Without a foreseeable risk ➤ Most highly recommended
α	Good governance, excellent/good systems, healthy financial position ➤ Highly recommended
$\alpha-$	Good governance, good systems and good financial performance; Low risk, can handle large volumes ➤ Recommended
$\beta+$	Reasonable performance, reasonable systems. Reasonable safety but may not be able to bear an adverse external environment and much larger scale ➤ recommended, needs monitoring
β	Moderate systems. Low safety ➤ acceptable only after improvements are made on specified areas
$\beta-$	Weak governance, weak systems. Significant risk ➤ not acceptable but can be considered after significant improvements
$\gamma+$	Weak governance, poor quality systems. High risk ➤ needs considerable improvement
γ	Weak governance, poor systems, weak financial position. Highest risk ➤ not worth considering

In addition, a 'Positive' outlook given by M-CRIL suggests that the institution is expected to improve its rating in one year period to one higher notch, 'Neutral/Stable' suggests that the institution is likely to retain its rating till the end of one year from the rating, and 'Negative' outlook suggests that it is expected that the institution will lower its rating performance by one notch in one year period.

