Gramalaya Urban and Rural Development Initiatives and Network (Guardian) - Section 25 Company

{second update}

Trichy, Tamil Nadu, India

October 2012

Microfinance Institutional Rating

Investment Grade	Above	α	α+
			α
			α−
		β	β+
			β
	Below		β−
		γ	γ+
			γ

	May 2009	Aug 2011	Aug 2012
RATING	β	β	β
RATING OUTLOOK*	*positive*	*positive*	*positive*
Dimensions rated	**Grade**		
Governance & strategy	β	β	β+
Organization & Management systems	β	β+	β+
Financial performance	β	β	β

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

Visit: 16-18 August 2012

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Structure

Synopsis

- Gramalaya Urban and Rural Development Initiative and Network (Guardian) is a not for profit organization registered under Section 25 of the Companies Act 1956. It was established in November 2007 by its parent organisation Gramalaya, for providing loans exclusively for Water and Sanitation (WatSan) to the poor households.
- Guardian started its operations by lending to Gramalaya promoted Self Help Groups (SHGs). Later, Guardian adopted lending through Joint Liability Groups (JLGs).
- Guardian lends only for WatSan and has, over the time, gained expertise in lending to WatSan. It has a competitive edge because of better understanding of dynamics and risks of this segment. However, being a specialised lender also leads to higher operational cost related to identification of new clients each time (~ 80% of clients are in 1st cycle).
- Guardian has well developed operational systems and policies for loan appraisal, collection practices, loan tracking and financial planning. The organization has further improved its loan appraisal system. It is testing a new integrated web based MIS software (Delphix) and plans to migrate the data to it by the end of October, 2012.
- Guardian has an outreach of 11,944 active borrowers with total loan portfolio of Rs 638.7 lakh on 31 March 2012. Guardian has added four new branches (3 out of 4 branches opened in April 2012) since the last rating. The expansion will be supported by Water.org through Gramalaya.
- The organization has a **strong and experienced Board.** The level of participation of the board members in strategic decision making and in exercising oversight is good**. The second line** of management comprises of Manager-Operations and Manager – Credit. Both are associated with Guardian since its inception.
- Guardian has a good performance on **adherence to client protection principles**.
- Growth of Guardian has been restricted on account of its limited capacity to mobilize funds and it has high dependence on two funders (IOB and Acumen fund), funds from them constitute 95.5% of total funds. The credit tightening by the banks to MFIs across the country has negatively affected Guardian. It has **a low capital adequacy ratio (CAR) of 7.2%** on 31 March 2012.
- Guardian has been **incurring operating losses** since beginning and but has maintained a **good portfolio quality** with PAR (>30 days) of 0.1% on 31 March 2012. Its current repayment rate was 99.6% during 2011-12.

Synopsis ...continued

Main Performance Indicators				
	31-Mar-09	**31-Mar-10**	**31-Mar-11**	**31-Mar-12**
Gross Portfolio (Rs in lakh)	148.9	366.8	528.3	638.7
Number of active borrowers	3 642	8 521	10 784	11 944
Return on Assets (RoA)*	-6.9%	-9.1%	-1.9%	-1.9%
RoA with non-operational income*	-6.9%	6.4%	3.2%	1.3%
Portfolio Yield	17.9%	19.8%	20.6%	20.4%
Portfolio at Risk (>30days)	0.0%	0.1%	0.1%	0.1%
Operating Expense Ratio (OER)	12.4%	18.2%	12.3%	13.8%
Avg. Loan Disbursement (Rs)	6 797	7 071	8 276	8 618
Avg. Loan Outstanding (Rs)	4 090	4 305	4 899	5 347
Borrowers per field staff	364	852	770	543
Capital Adequacy Ratio	-3.9%	4.7%	6.3%	7.2%

* RoA is before non-operational income, including that brings it to profit

In M-CRIL's view, at present Guardian needs to be supported by soft loans from Development Financial Institutions (DFIs). A rating update after one year is suggested to ascertain changes in the creditworthiness of the institution. This rating is valid, subject to no other significant changes in the organizational structure and external operating environment.

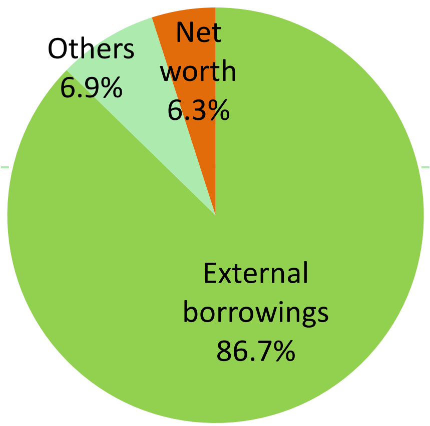
Strengths

- Experienced and qualified Board, increased participation in decision making and monitoring
- Water.org has sanctioned Rs2.3 crore of grant to meet its operational expenses. This grant will be released evenly during the next 42 months.
- Stable second line of management; motivation of staff is high
- Standardized systems and procedures and good quality of clients
- Good accounting practices and MIS
- Transparency in communicating interest rates and other product terms to the clients
- Good loan tracking, internal control and monitoring systems.
- Excellent portfolio quality with PAR >60 days at 0.1% on 31 Mar 2012
- Low interest rate.

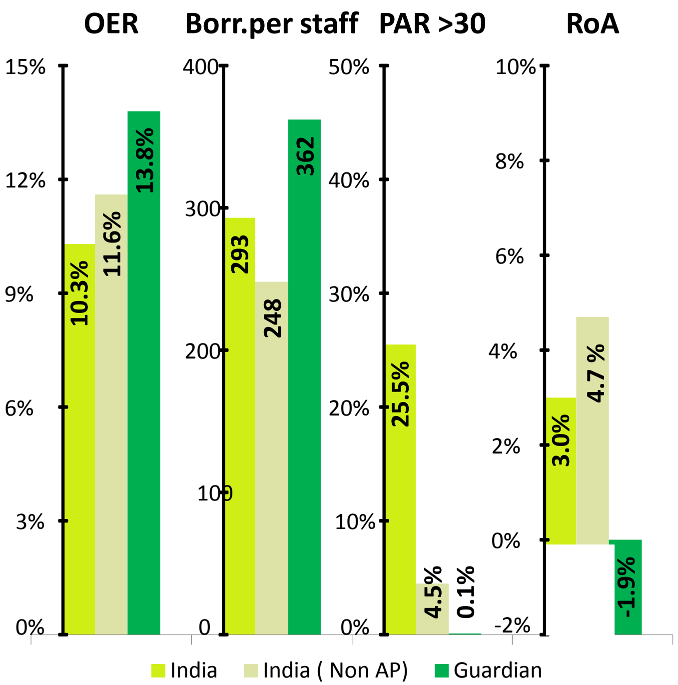
Issues

- Low capital adequacy of 7.2% as on 31 March 2012 which limits the ability of Guardian to leverage debt funds
- The operating expenses ratio (OER) remains high at 13.8% during FY 2011-12. This is due to its operational model (only one cycle of loan to most of the clients).
- Incurring operating losses since beginning due to high operational cost and relatively lower interest rate charged to clients. RoA (before grants) was at (-)1.9% for FY 2011-12. It earned profits, if grant is taken into account
- Profitability is affected because of its low interest rate of 18% p.a. Now increased to 21%.
- No formal policy on avoiding multiple lending and addressing client grievances

Sources of funding



Comparison of GUARDIAN's performance
With benchmarks as per M-CRIL Microfinance
Review 2011



Rating rationale

Governing Board: Guardian has an experienced and qualified Board . The board members actively participate in formulation of strategies and monitoring management's performance.

Strong second line of management: Guardian has a stable second line of management comprising the Manager- Credit and Manager- Operations. They have been associated with Guardian since inception.

Relatively low operating efficiency: Guardian's OER is high. It increased from 12.3% during 2010-11 to 13.8% in FY 2011-12.

Improved systems: Guardian has improved its loan appraisal and monitoring systems and processes. The present MIS is adequate in generating all necessary reports. Guardian plans to migrate the data to a new improved software by end of October, 2012.

Adherence to client protection principles: Guardian targets poor households who do not have toilets and safe drinking water connections. The credit products are suitably designed. The interest rates are reasonable and product features are communicated accurately.

Fund mobilization: Growth of Guardian has been restricted on account of its limited capacity to mobilize debt funds. It has high dependence on IOB and Acumen fund which have provided 95.5% of its total funds.

Good loan tracking and monitoring systems: The overdue tracking is good. The COs ensure on-time repayment and are closely monitored by Unit Officers. Each branch gets audited once in a month. Moreover, managers regularly monitor branch operations and visit the groups and clients.

Low capital adequacy: Guardian has a low Capital Adequacy Ratio (CAR) of 7.2% as on 31 March 2012.

Operational losses: Guardian has been incurring operating losses since beginning but because of grant from donors, the organization has been able to post net profit.

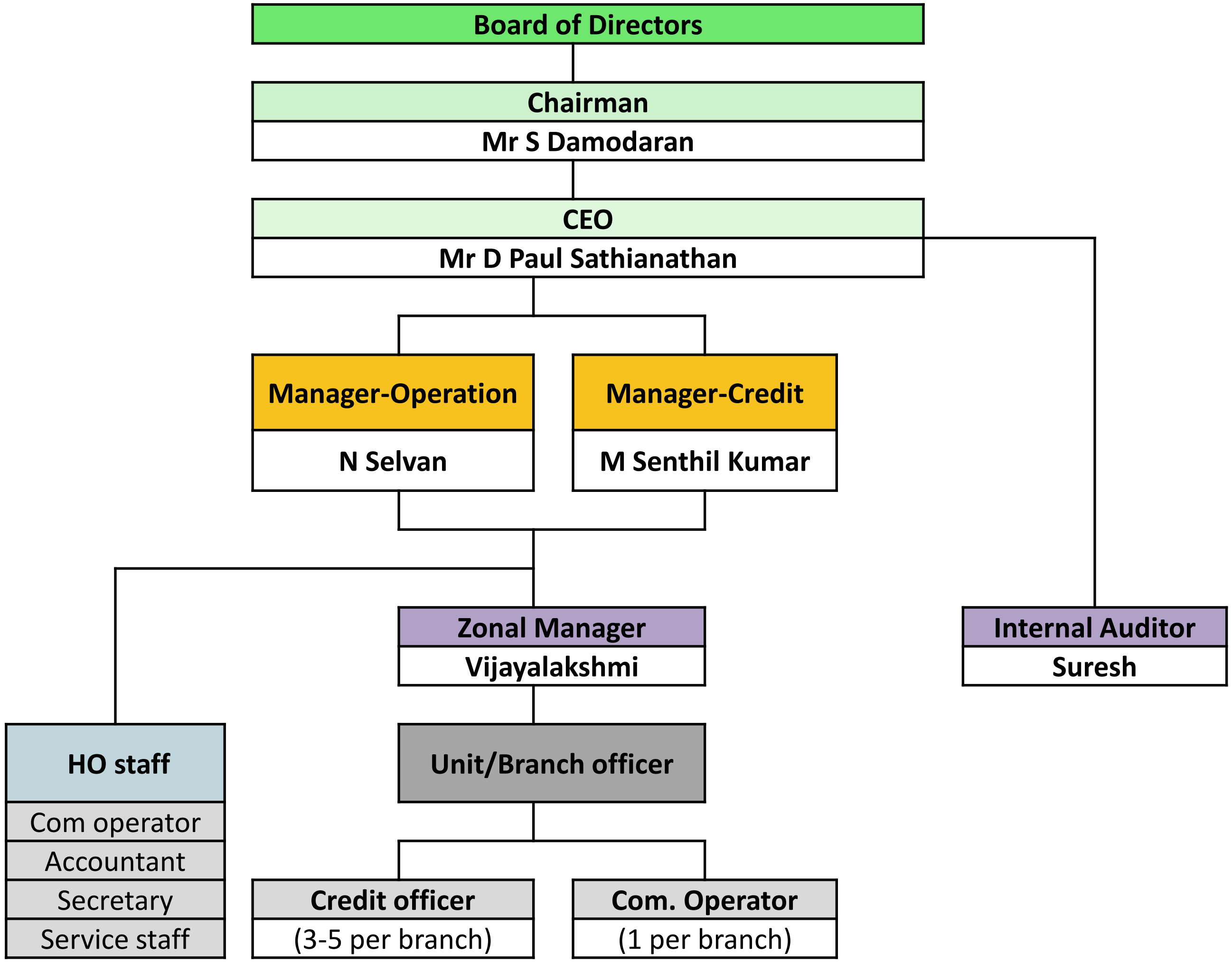
Good portfolio quality: Guardian has a good portfolio quality with PAR_{30days} on 31 Mar 2012 at 0.1%.

Introduction

- Guardian was established as a not for profit (section-25) company in November 2007 with an objective of providing microfinance services to urban and rural poor exclusively for creating water and sanitation facilities in their houses.
- It was promoted by Gramalaya, an NGO which is pioneer in the same field for more than two decades.
- The organization started its operations by lending through the Self-Help Groups (SHGs) promoted by its parent organization- Gramalaya and later opted for Joint Liability Group (JLG) model for expansion in areas where Gramalaya's presence was not there.
- As on 31 March 2012, Guardian had its operational presence only in Tiruchirapalli district and was operating through four branches. However, it expanded its operations to adjacent districts in April 2012 and opened branches in Namakkal, Perambalur and Pudukkottai districts. The organization had a borrower base of 11,944 clients organised in both SHGs and JLGs as on 31 Mar 2012.
- Guardian has a six member Board. The founder director of Gramalaya NGO, Mr S Damodoran joined the Board in October. The position for the Director representing Acumen Fund India fell vacant after the representative Mr Chandrashekhar resigned on 31 May 2012.
- The organization is led by Mr D Paul Sathianathan who is the Chief Executive Officer (CEO) assisted by two managers who are responsible for finance, operations, administration, accounting and MIS. Human resource management is taken care by the CEO.

Particulars	Mar-10	Mar-11	Mar-12
Gross loan portfolio (Rs lakhs)	366.8	528.3	638.7
Outstanding borrowings (Rs lakhs)	384.6	496.9	637.9
Number of active clients	8 521	10 784	11 944

Organizational structure



Microfinance policies

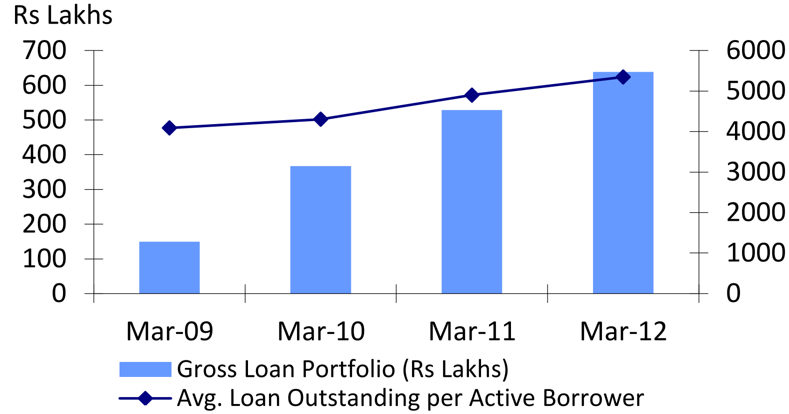
- Guardian follows both SHG and JLG models of microfinance for its lending purpose. At present, Guardian lends for WatSan and related activities.
- Prior to opening a unit/branch, a detailed survey of area is carried out by the Credit Officer (CO) in order to estimate the number of target households, number of toilets, water connections and water tanks.
- COs conduct village level meetings to sensitize the people about their work and products. Identification and formation of groups is a well defined process in Guardian.
- Individual applicants make oral proposals for loan at the group. A combined loan application to Guardian is then prepared at the group level.
- Loan application is prepared by the COs who visit applicants' houses to ensure that all required details are complete and correct. COs then appraise and propose loans on the basis of income and cash flows of the applicants. Guardian introduced individual loan appraisal format last year to capture data on multiple borrowings and family's income and expenditure.
- Unit officer (UO) again visits the applicant's house to verify the information provided in the application and forwards the loan application to the Loan Committee (LC) consisting of the Chairman/CEO, Manager- Credit, Manager- Operations, Zonal Manager and an HO staff. The LC is based at Head Office (HO).
- All loan applications are approved by the LC. Applications are rejected if the group members are close relatives, client's age is more than 55 years or if members have more than one other borrowing. Disbursement is done at the Unit Office in presence of all the group members. Presence of any one monitoring staff and UO is compulsory.
- Loan Utilization Check (LUC) is compulsory for all disbursements. The CO is supposed to visit the client, 2-4 times, until the work is completed. The LUC reports are regularly monitored by the UO.

Loan products

- Guardian offers six loan products to its clients, which are broadly classified in the table below:

Loan Products	Urban/Rural (in Rs)	Insurance & admin. Fees
New Water Connection	7 000/5 000	100
New Toilet Construction	10 000	100
Renovations (Water / Toilet)	5 000	100
Rain water harvesting	5 000	100
Water purifier	3 000	100
Bio-gas plant *	10 000	100

Portfolio and Average Outstanding Size



* Bio-gas plant loan product introduced in 2010, but not yet started

- Guardian stopped income generating product (Non-WatSan loans) in 2010.
- The repayment period for all loans is 18 months with monthly repayment frequency. The interest rate for all loan products was 18% p.a. on declining basis which has been increased to 21% p.a. effective since April 2012. However, Guardian has stopped collecting 5% security deposit on all fresh disbursements after April 2012.
- The Effective Interest Rate (EIR) decreased from 23.6% (incl. security deposits and extra insurance premium) in FY2010-11 to 22.0% in FY2011-12 due to reduction in processing fee from 2% to 1%. In 2012-13, it has increased marginally to 22.7%, an increase of 0.8%, after hike in the interest rates and discontinuation of 5% security deposit.
- Guardian has the policy to charge a penalty of Rs100/week/group for delay in repayment which is however not practiced strictly.
- Foreclosure and prepayments are allowed with no additional charges however Guardian has not experienced any prepayments so far. Part payments of an installment is not accepted.

Insurance products

- Till 2010, Guardian used to provide an in-house life assurance to its client and spouse for a premium of 1% of the loan amount. The cover was limited to the loan outstanding amount and for the tenure of the loan.
- The organization has now tied up with Life Insurance Corporation of India (LIC) for providing insurance facility to clients (spouse is not covered) under LIC's group insurance product.
- Insurance is compulsory for all clients. The following table describes the latest insurance product offered by Guardian. The premium has been reduced from Rs200 to Rs 100 since April, 2012.

Product	Premium	Period of Insurance	Coverage
Group insurance (provided only to the clients and not their spouse)	Rs 100 (for all loans disbursed by Guardian)	2 years	Rs 10,000

- As on 31 March 2012, Guardian received three claims. On rating date, all the claims were settled by the organization. Maximum claim settlement time was one month.

Governance and Strategy

Board of Directors
Operational growth & Strategy
Competition
Second line of leadership
Funding

Governance and strategy

Guardian has a reasonable performance on governance with a grade of β+. The performance has improved since the previous rating. The founder director of Gramalaya has joined as the Chairman of the Board. The Board participates actively in the formulation of strategies, monitoring and control. Board's participation in monitoring of Guardian's operations has increased. Guardian has a stable second line of management and has expanded its operations to neighbouring districts. Limited sources of funding on account of its lending exclusively for WatSan.

Board of Directors

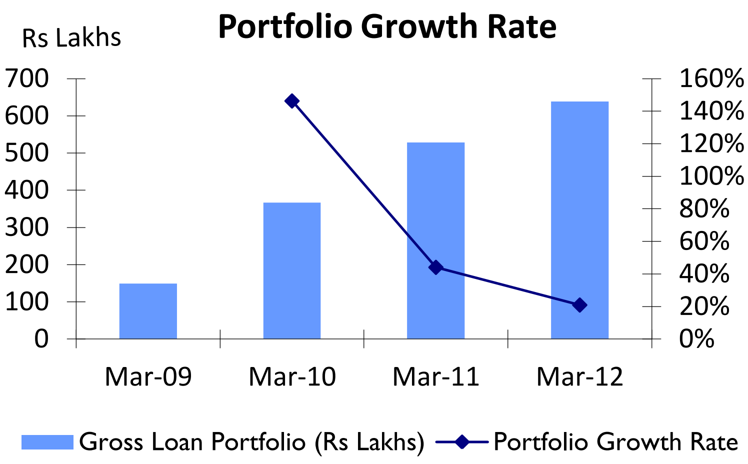
- Guardian has an experienced and qualified six member governing Board. Mr S Damodaran who is the founder director of Gramalaya has joined as the Chairman of the Board. The position for the representative of Acumen Fund Inc(India) fell vacant after the resignation of Mr Chandrasekhar.
- The Board started Directors Annual Review Tour (DART) to evaluate the quality of implementation of systems and processes in the field. Feedback from staff and clients are generated which are taken into consideration while preparation/review of business plan and formulation of policies. DART is conducted before the Annual General Meeting (AGM). DART report provides direction to the CEO for future action.
- The Board meets at least once every quarter to discuss and review Guardian's quarterly performance, Project Management Committee (PMC) decisions, policy issues, financial planning and fund mobilization.
- There are two sub-committees- Project Management Committee (PMC) which comprises the Chairman, *CEO, two managers, internal auditor and UOs* and the Loan Committee (LC). The committees meet every month. PMC discusses monthly performance, internal audit findings, fund allocation and operations of all the branches. LC appraises the loan applications for all disbursements.

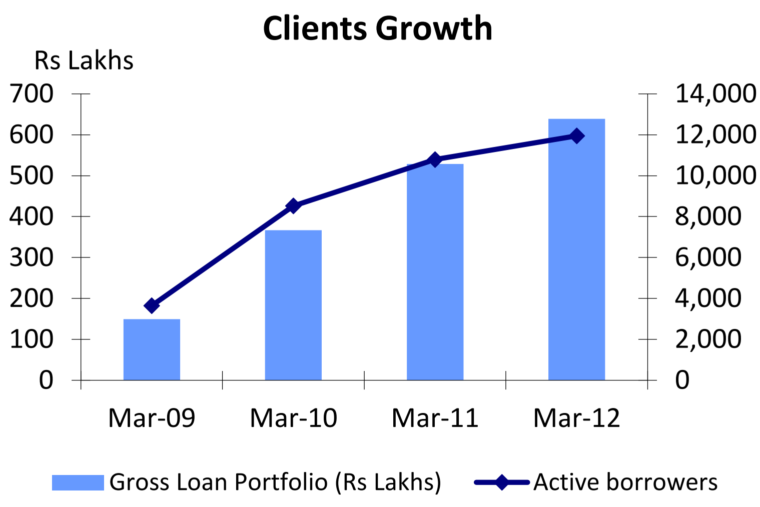
Alignment of practices with mission

- The mission of Guardian is to promote water and toilet facilities which it follows diligently as all the loan products offered are for water and sanitation activities(construction for toilet, connection for water supply, renovation of toilet and water connections, water purifier)
- Guardian was promoted by Gramalaya, an NGO which is pioneer in the same field for more than two decades.
- Guardian has kept their interest rate relatively low at 21% p.a. diminishing to serve the low income segment in line with their mission.
- The individual loan appraisal format includes the details of the existing water and toilet facilities in the households. Loans are not disbursed if the member indicates any other purpose for the loan.
- The LUC visit by the credit officers are spread over from the date of disbursement till the completion of work which ensures the application of the loan for stated WatSan activity.

Operational growth and strategy– *strategy for expansion in adjacent districts*

- Guardian's staff has gained expertise in WatSan. It has competitive advantage since other MFIs do not focus on WatSan and consider it riskier.
- Guardian had its operations concentrated in Tiruchirapalli district operating through four units/branches as on 31 March 2012. It has expanded to three other adjacent districts and is operating through seven units as on 30 June 2012.
- In the expanded districts, Gramalaya had MoU with local partner NGOs *(LEAF Society in Namakkal, Indo Trust in Perambalur, Annai Trust in Pudukkottai)* for educating members on WatSan. Guardian extends its loans to these members. Guardian will get funding support from Water.org for it's expansion in these districts. Water.org has sanctioned Rs2.3 crore of grant which will be received over a period of 42 months.
- On 31 March 2012, Guardian had 11,944 active borrowers with a loan outstanding of Rs638.7 lakhs. The portfolio increased by 21% in FY2011-12. Portfolio stagnated at the same level till February 2012 and increased sharply in March 2012 after the receipt of funds. The borrower base of Guardian witnessed a relatively slower growth of 10.8% in FY2011-12.





Competition – *limited*

- Sarvodaya Nano Finance Limited, Kurinji Social Welfare Society, Peoples Action for Transformation, New Life, Equitas Microfinance India Pvt. Ltd, Sanagamam Women's Multipurpose Thrift and Credit Society, Sarva Jana Seva Kosh and Grama Vidiyal Microfinance Ltd offer microfinance loans in the operational area of Guardian.
- The above mentioned institutions offer loans only for the purpose of income generating activities where as Guardian offers loan exclusively for WatSan purposes (construction for toilet, connection for water supply, renovation of toilet and water connections, water purifier) at relatively lower interest rate.
- One of the core competence of Guardian lies in its strong relationship with its clients and supporting services provided by its parent organization Gramalaya.
- So far, the organization has not faced problems due to competition. No cases of multiple lending were found in the groups visited by the rating team.
- The organization plans to remain in the niche product market.

Second line of management – *stable*

- Guardian has a strong second line of management which has further improved since the last rating.
- The CEO has more than 21 years of experience in developmental activity.
- The second line of management includes two operational heads, Mr N Selvan who leads the field operations and ensures monitoring of branches and Mr M Senthil Kumar who is responsible for credit, accounting, MIS and fund management. The managers have been associated with Guardian since inception, have gained good experience in managing microfinance operations, exhibit excellent field knowledge and are capable of handling the operations independently. Guardian has appointed zonal managers to monitor the operations effectively.

Fund mobilization

- Guardian is trying to expand its resource base and is in touch with commercial banks and other financial institutions. The organization has submitted proposals to various banks including State Bank of India (SBI), South Indian Bank, Union Bank of India (UBI), Canara Bank, ING Vysya and Karur Vysya Bank. However, due to low capital adequacy, legal structure, lending only for consumption purpose (or WatSan) and sector issues, it has not been able to avail funds from these institutions.
- The growth of Guardian has been restricted due to its limited performance on fund mobilization. The major part of the portfolio is funded by the Indian Overseas Bank (IOB) loan which constitutes 57.1% of total source of funds and Acumen Fund loan which constitutes 38.4% as on 31 March 2012.

Name of the lender	Outstanding on 31 March 2012 (in Rs)	Interest rate (%)
Indian Oversea Bank (IOB)	3 64 41 415	12.25
Milaap, Bangalore	28 68 169	7.5
Acumen Fund, USA	2 44 83 026	5.0+libor
Total	**6 37 92 610**	
Weighted Average Cost of Borrowings		**~9.6**

- During FY 2011-12, Guardian had received funds of US$ 0.5 million from Acumen Fund Inc. and Rs35 lakh from Milaap.
- As briefed by the management, IOB has agreed to provide cash credit facility of Rs2.25 crore. Discussions are also on with Acumen Fund, Blue Orchard, Incofin and Triple Jump.
- Water.org has sanctioned an operational grant of Rs 2.3 crore to meet operating and monitoring costs of five new branches which will be received over a period of next 42 months.

Organization and Management

Human resource quality & management
Staff Productivity
Operational efficiency
Accounting & MIS
Loan tracking system
Internal control system
Financial planning
Quality of clients and member groups
Client Protection

Organization and management

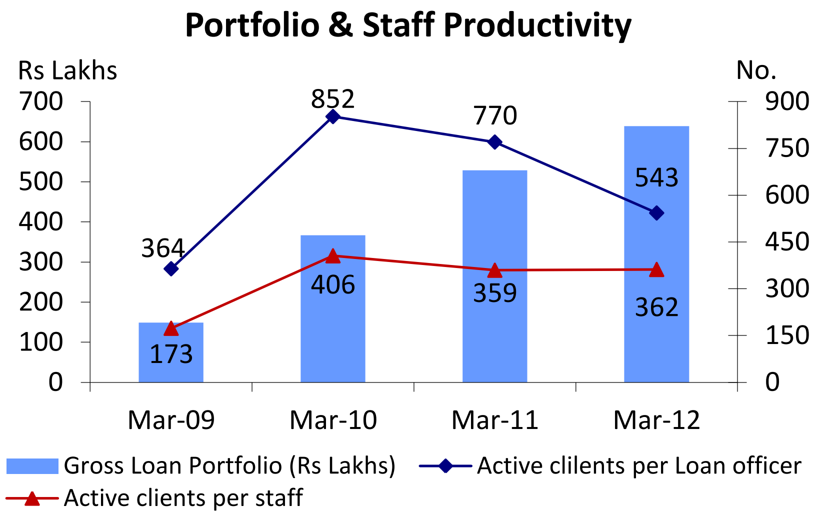
Guardian has improved its performance under organisation and management and has a grade of **β+**. Guardian has improved its monitoring, cash planning, accounting and MIS and introduced performance linked incentive system for the field staff. High OER is an area of concern.

Human resource quality and management - *good*

- As on 31 March 2012, the organization had a total staff strength of 33 with 22 field staff. Staff turnover ratio was at 10.8% during 2011-12, which is reasonable for microfinance sector in India.
- The managerial staff of Guardian is well experienced and qualified. Commitment and motivation of staff at all levels is high. The CEO, Manager- Credit and Manager- Operations have the required experience and expertise in microfinance as well as in managing WatSan loan products.
- The CEO manages the human resource (HR) department in Guardian. Guardian has a well developed HR manual.
- The recruitment and orientation process is well defined. Most of the candidates apply through references. However, in the new areas, management is finding it difficult to identify candidates through referrals.
- The applicants are screened by the functional heads and are invited for two rounds of interviews. The induction of selected candidates includes an orientation of 2 days at HO by the functional heads and two weeks of field training. Probation period is 3 months. Remuneration of operations staff at Guardian is reasonable compared to other MFIs. It has introduced performance based incentive system for field staff which is linked to on-time repayment.
- Monthly performance review for each branch is done by the PMC. Staff appraisals are held annually.
- Opportunities for promotions are limited due to small scale of operations, however, in view of the recent expansion plan, COs are being promoted to UOs.

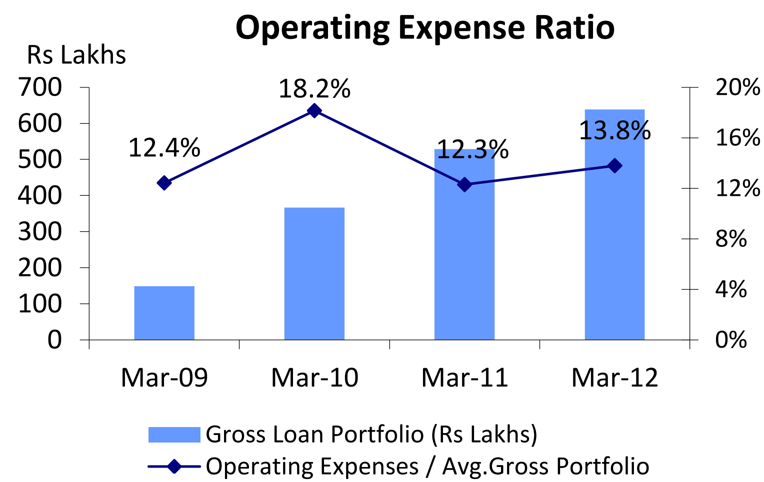
Staff productivity – *high*

- Active borrowers/field staff: 543 on 31 March 2012, has decreased from 770 on 31 March 2011 due to recruitment of field staff in the last quarter of financial year for future expansion. Guardian plans to increase the number of borrowers per field staff with expansion. Active clients per staff is constant at around 360 for the last two years.
- Portfolio per field staff also decreased from Rs37.7 lakh on 31 March 2011 to Rs29.0 lakh on 31 March 2012 because of the above mentioned reason.



Operating efficiency – *decreased*

- The operating expenses ratio (OER) is high at 13.8% during 2011-12. As Guardian disburses loans only for WatSan activities, most of the borrowers drop-out after first cycle loan and the staff has to spend time in identifying new borrowers which increases the operational cost.
- OER increased from 12.3% in 2010-11 to 13.8% in 2011-12 due to an increase in personnel cost .



Accounting and MIS – *good, piloting a new web based integrated software*

- Guardian has a good accounting and management information system (MIS). The accounting manual is also well developed.
- Guardian is currently using 'FAMIS' software (developed by BASIX) for MIS and 'Tally' for accounting. The MIS software is desktop based. Guardian is pilot testing a new web based software Delphix (also developed by BASIX) since July 2012 which has been financed by a grant support from Acumen Fund Inc. It has advanced security and storage features. Guardian plans to migrate the data to Delphix by end of October, 2012.
- The field staff are given a computer generated collection sheet at the beginning of every month for collection. The collection sheet and the receipts issued in the field are then used to feed data in the MIS. The computer operator performs data entry and accounting functions at the unit level, including preparation of daily reconciliation statements, tallying of the cash book, tallying with MIS and accounts at the end of the day.
- Each unit maintains detailed manual cash & bank book and staff collection register. UO verifies manual entries in cash book with that in the MIS software at the end of each working day.
- Cash collections are deposited daily in the bank account of the unit. Unit informs HO about status of repayment, cash and bank balance by the end of the day. Each Unit sends monthly back up of software, financial & portfolio reports and summary report to the HO.
- Data (operational and financial) consolidation is done by the Manager-Credit in Excel at the end of the month.

Accounting and MIS ...continued

- All income (incl. interest income) and expenses are recorded on accrual basis. Depreciation is accounted on the written down value method. As per policy, interest on overdue loans are accrued.
- Guardian maintains loan loss reserves (LLR) at 2% irrespective of portfolio aging, but M-CRIL has analysed Guardian's finances assuming an LLR of 1% to make them comparable with benchmarks. Loans are written off in case of death of the borrower or if the overdue is for more than one year. Guardian has written off loan (including principal and interest on overdues) worth Rs 2.2 lakh (0.3% of gross portfolio) during FY 2011-12.

Loan tracking system – *very good*

- Guardian has a formal process of tracking overdue.
- Each unit maintains CO wise collection sheet and overdue is tracked on a daily bases.
- Loan repayments are made between 5th to 8th of each month. Group is reminded over phone by the CO, two days before the due date.
- In case of overdue, CO enforces joint liability and ensures repayment. In case of delinquency, CO makes repeat visits to the defaulting members. If the group is unable to repay even after 2-3 CO visits, UO intervenes and visits members.
- Any loan overdue by more than one week is monitored by HO, the Operations Manager also visits the groups with overdue.

Internal audit and control – *good*

- Internal audit is managed by the Internal Auditor, Mr Suresh who was earlier designated as the Team Leader. He is the only member responsible for internal audit in Guardian.
- The auditor is well qualified and has been associated with Guardian for a long time. He was trained on auditing processes and procedures before being designated as an internal auditor.
- Units are audited monthly while other HO departments are audited once every quarter. The auditor spends 2 days for auditing a Unit. Internal audit includes complete audit of records, verifying previous audit compliance, visit to groups and verifying loan utilization. Internal audit report is sent to the CEO and is shared with the units. The reports prepared by the auditor were found to be of good quality. The UO is expected to rectify the mistakes and submit a compliance report within a week. The audit findings are discussed in the PMC meeting.
- Guardian has an internal audit manual for the auditor to follow a standardised process for unit audit. The unit wise internal audit reports are reviewed during monthly PMC meeting. The auditor does not prepare any summary/consolidated audit report.
- Monitoring and internal control systems are good for the present level of operations. Each unit is visited by the senior management monthly. The managers do not prepare monitoring visit report, but mention the observations in the unit visit register kept at the Unit office. The BoD visits the units annually under the new initiative - DART.
- One of the Unit Officer was promoted as Zonal Manager (ZM), recently. The ZM regularly monitors the operations of 5 units. As the operations expand, more Zonal Managers will be appointed.
- At unit level, the UO is responsible for supervising the COs and the Computer Operator; ensuring adherence to procedures. The COs are supposed to monitor the clients until the completion of the work (of toilet/water connection/ renovation).

Financial planning and cash management– *good*

- The organization has prepared a five years detailed business plan with monthly break up of operational and financial parameters.
- The HO holds PMC meeting on 25th of every month and reviews targets against achievements and plans for the next month.
- Each unit sends monthly expected recovery and tentative loan disbursement statements to HO. The head office receives recovery, cash and bank status from each unit by the end of each day. The maximum cash limit allowed in units is Rs 20,000, which is being followed strictly.
- Cash planning and liquidity management is the responsibility of the Manager-Credit and is done on the basis of monthly forecasts. He estimates monthly loan demand and allocates funds, either by transferring from the HO or by allocating funds from recovery and surplus cash at the unit.
- Repayments to all the lenders are well planned and schedule is rigorously followed.
- The average cash and bank balances (excl. FDs) as a proportion of its average total assets for 2011-12 was low at 1.2% however on including FDs it was 9.3%.

Infrastructure – *adequate*

- Guardian has good infrastructure at HO and at unit offices. All its offices are in rented premises. The book value of its net fixed assets is Rs11.7 lakhs on 31 March 2012 which is 1.6 % of the total assets of Guardian.
- Fixed assets mainly include computer, office equipments, furniture and fixtures. The current level of infrastructure seems adequate and is employed effectively.

Quality of clients and member groups – *good credit discipline and awareness level*

- Rating team visited three units (unit II, III and IV). Group/client visits were made in unit II and III.
- The visited group members were well aware of the product features and the processes. Majority of the clients knew the loan product features related to interest rate, processing fee and instalment amount. Members were also informed about the changes in the interest rate. The members were however not very clear about the insurance product.

Client protection – adherence to the client protection principles

Guardian follows the unified code of conduct (CoC) which is jointly issued by two microfinance industry networks (Sa-Dhan and MFIN) though it is not a member of Sa-Dhan. Guardian sends the data (financial and limited social) to the MIX Market which has given it five stars (highest score) for the level of disclosure of financial data. Guardian plans to share data with High Mark, a credit bureau.

1 Appropriate product design and delivery

- Guardian is the first MFI in the World which lends exclusively for water and sanitation facilities. Guardian received an award in 2011 from European Microfinance Network for 'Best Product Innovation' and was first runner up in National Urban Water Award in 2009.
- 86.2% of Guardian's portfolio is for toilet construction and renovation and remaining 13.8% portfolio is to get a new water connection and buy water purifier.
- Guardian introduced a loan for setting up bio-gas plant in 2010, but did not disburse for this purpose because of very low demand from the clients. It now plans to launch a loan product to purchase solar lamps. This is to retain existing clients.
- The loan size offered by Guardian is appropriate for constructing low cost toilets and obtaining new water connections. Guardian has fixed loan repayment period (18 months) with monthly repayment frequency, which is also appropriate for the clients.
- Gramalaya (the promoting NGO) provides orientation/training to Guardian's clients on importance of WatSan and construction of toilets. Before sanctioning of the loan, Guardian provides information to it's clients on suppliers of construction material, quality of materials and their prices.

2 Prevention of over-indebtedness – *no formal policy*

- Guardian does not have a formal and written policy on avoiding multiple lending. However, Guardian tries to avoid lending to members with more than one existing loan.
- Guardian introduced a new loan appraisal format last year to capture data on other borrowings and family's income and expenditure. It has also started to analyse the cash flow of the clients to assess their repayment capacity.
- Guardian has reduced its operations in urban areas to avoid multiple lending.
- All loans are approved by the HO loan committee after considering the repayment capacity of the client.
- Over-indebtedness among clients is not verified by the internal auditor as there is no formal policy.
- In order to understand the prospective borrowers' over-indebtedness and financial behavior, Guardian plans to exchange data with High Mark.

3 Responsible Pricing

- Guardian has relatively lower interest rate (@~ 21% per annum declining basis). Its rate of interest was 18% per annum till March 2012 when it increased its to 21% p.a.
- While it has increased its rate of interest, it has stopped collecting cash security/ collateral. Its effective cost to the client (including processing fee and security deposit) was at 22.0% during 2011-12 which has now increased to 22.7%.
- Guardian allows prepayments and foreclosure of loans without any charges.

4 Transparency

- The loan product features are explained during the group formation, collection of loan application and loan disbursement. After loan disbursement, the CO makes 2-4 visits until the work completion.
- The loan documents are in the local language. The terms and conditions are also printed on the loan document. A printed repayment schedule is provided to the clients at the time of loan disbursement.
- Majority of the visited clients were aware about the interest rate, processing fee, insurance fee and instalment amount. The changes in the interest rate and term were communicated to the clients.
- Receipts are issued to groups for all cash transactions. The internal audit checks the transactions by comparing client loan schedules with the branch records.

5 Fair and respectful treatment of clients

- Guardian gives importance to moral and ethical values. Respectful behaviour with clients is part of the orientation training curriculum. However, the Operations manual does not provide its details. The monitoring staff is supposed to regularly monitor the behaviour of their subordinates with the clients. Staff members are supposed to behave friendly even with the clients with overdue.
- The disbursement procedure does not include too much of paper work but it takes around one month to sanction and disburse the loan.
- The Operations Manual emphasizes on ensuring credit discipline, however, appropriate/inappropriate collection practices are not clearly listed.
- As per the policy, the institution can charge penalty on delay in repayment. However, in most cases, the institution accepts repayments from clients without any penalty up to one month.

6 Mechanism for complaint resolution - *moderate*

- There is no formal complaints' desk/box at unit/branch and HO. The clients can make a complaint to the CO or at the unit office.
- The contact number of the unit office and unit officer are mentioned in the group register. After receiving a compliant, the branch staff is supposed to immediately respond to the client, however, there is no formal process for escalation of complaint .
- During their field visits, monitoring staff, internal auditor and CEO ask feedback from the members and try to know issues.
- The BoD has initiated an annual program where they meet the clients of all units and take their feedback on the services provided by Guardian.
- HO does not maintain any database of complaints received at the branches. Also, there are no checks to ensure proper redressal of clients' grievances by the branches.

7 Privacy of client data

- Guardian is yet to develop a formal policy on external sharing of client data.
- Guardian is in discussion with High Mark Credit Bureau to share the borrowers' database. Guardian shares the relevant client data with the Insurance company. Guardian has not yet taken any data sharing permission from the clients.
- No evidence for data being misused for any other purpose.

Financial performance

Profitability and sustainability
Portfolio quality
Capital adequacy
Asset & Liability composition

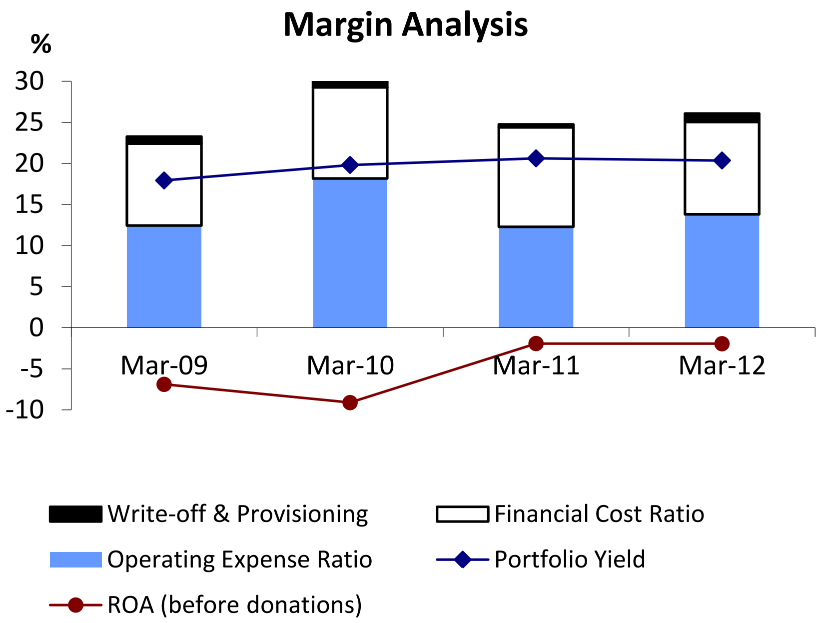
Financial performance

Guardian's financial performance remains at β. The performance is restricted on account of low capital adequacy, negative operational returns and limited fund mobilization. Guardian has maintained a good portfolio quality

Financial Ratios	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12
Capital Adequacy				
Risk Weighted Capital Adequacy Ratio	-3.9%	4.7%	6.3%	7.2%
Asset Quality				
Portfolio at Risk (>30 days)/ Gross Loan Portfolio	0.0%	0.1%	0.1%	0.1%
Current Recovery Rate	100.0%	99.9%	99.5%	99.6%
Loan Loss Reserves/ Gross Portfolio	1.0%	1.0%	1.1%	1.2%
Management				
Operating Expenses / Avg. Gross Loan Portfolio	12.4%	18.2%	12.3%	13.8%
Number of Borrowers / Field Staff	364	852	770	543
Number of Borrowers / total Staff	173	406	359	362
Earnings				
Net operational income / Avg. Assets (RoA) *before donations*	-6.9%	-9.1%	-1.9%	-1.9%
Net operational income / Avg. Assets (RoA) *after donations*	-6.9%	6.4%	3.2%	1.3%
Operating Self Sufficiency (OSS)	79.0%	67.2%	91.9%	90.1%
Portfolio Yield	17.9%	19.8%	20.6%	20.4%
Other income / Avg. Gross Loan Portfolio	0.4%	0.4%	2.1%	3.2%
Interest and fee exp. / Avg. Gross Loan Portfolio	10.0%	11.1%	12.1%	11.3%
Liquidity				
Avg. Cash & Bank balances / Avg. Total Assets (including FDs)	3.9%	13.9%	7.7%	9.3%
Debt/Equity ratio	NA	32.7	17.8	15.5

Profitability and sustainability– *negative operational returns since inception*

- Guardian has been incurring operating losses since beginning, however because of grant for meeting operational expenses from donors (routed through Gramalaya), the organization has been posting net profit in the balance sheet.
- Portfolio yield has remained at around 20% since the last 3 years. The other operating income ratio increased from 2.1% in FY 2010-11 to 3.2% in FY 2011-12. OER increased from 12.3% during 2010-11 to 13.8% in 2011-12. Whereas, FCR decreased from 12.3% to 11.3% for the same period. RoA (before donations) remained same at (-)1.9% for the past 2 years.
- Operational Self Sufficiency (OSS) reduced from 91.9% in for 2010-11 to 90.1% in 2011-12. It is expected to improve with increase in scale .



- External borrowings represent 86.7% of total source of funds as on 31 March 2012. Guardian received borrowings at the rate of Libor+5% p.a. from Acumen Fund and 7.5% p.a. from Milaap. As per the agreement, Acumen Fund Inc bears the exchange rate risk.
- Going forward, for meeting the credit demand of clients in the new branches, Guardian will need to mobilize more debt funds which may increase its cost of funds. To become profitable, Guardian will need to reduce OER or increase its yield.

Portfolio quality – *good*

- Guardian has maintained a good credit performance since beginning despite having its portfolio concentrated in a consumption loan product . It has been maintaining more than 99% current repayment rate for the last four years. Moreover, it has more than 90% on-time repayment rate every month.
- Portfolio quality has improved because of further strengthening of the loan appraisal process and regular tracking of overdue by the field staff.

Portfolio aging on 31 March 2012

Overdue period (in months)	Loan principal outstanding	PAR %
Current	6 38 08 022	
1-2	60 000	0.1
Gross portfolio	**6 38 68 022**	**0.1**

Capital Adequacy– *low*

- The capital adequacy (CAR) of Guardian is low at 7.2% on 31 March 2012 *(after considering Rs5.5 lakhs of risk fund)*. However, CAR has been improving steadily. The net worth increased from Rs 27.6 lakh in March 2011 to Rs 46.7 lakh by end of March 2012.
- Water.org has sanctioned a grant of Rs 2.3 crore to meet Guardian's operating and monitoring expenses . Guardian will receive this grant (through Gramalaya) over a period of next 42 months. The CAR is expected to increase with this receipt.

Asset liability and equity composition

- Net loan portfolio formed 84.2% of the total assets on 31 March 2012. Cash & bank balance (incl. FDs), net fixed assets and other assets account for 11.8%, 2.5% and 1.6% respectively of total assets as on 31 March 2012. The average cash and bank balances (excl.FDs) as a proportion of its average total assets for 2011-12 was low at 1.2% however on including FDs it was 9.3%.
- Guardian's external borrowings constitute 86.7% of total funds (from IOB and Acumen Fund) while the net worth, comprising equity forms 6.3% of the total source of funds.

Future plans and prospects

- Guardian added four branches (3 out of 4 branches opened in April 2012) since August 2011. Guardian plans to start one more branch in Perambalur district after receiving an already sanctioned grant funding from Water.org.
- It will continue to focus on WatSan group lending model for its microfinance operations in the long term. In short and medium term, the institution plans to introduce solar lamp loan product to retain some of its existing clients.
- In order to support its portfolio growth, Guardian plans to mobilize funds from IOB (through cash credit facility), Acumen Fund and other Development Finance Institutions (DFIs). In the next three years, the institution plans to increase capital adequacy through grants.
- Overall, Guardian has good prospects, main challenge will be to reduce its operating expenses.

Financial Statements of Guardian's microfinance programme

Balance Sheet on

31-Mar-09	31-Mar-10		31-Mar-11	31-Mar-12
		ASSETS		
		Current assets		
65 777	17 25 624	Cash in hand and bank	2 32 706	16 08 660
	33 50 000	Fixed deposits	35 40 000	72 30 000
	21 394	Advance(rent, festival, staff and project) receivable	1 95 953	9 69 569
	88 468	Advance taxes (IT & TDS)	4 60 835	68 440
	1 87 264	Staff loans	1 66 499	2 07 769
		GMF Advance		6 00 000
		Loans outstanding		
1 48 94 755	3 66 81 139	Gross loan outstanding	5 28 32 381	6 38 68 022
(- 1 48 948)	*(- 3 77 591)*	*Loan loss reserve*	*(- 5 47 918)*	- 7 68 631
1 47 45 807	**3 63 03 548**	Net loans outstanding	**5 22 84 463**	**6 30 99 391**
1 48 11 584	**4 16 76 298**	**Total current assets**	**5 68 80 456**	**7 37 83 829**
9 45 342	10 87 794	Net property and equipment	12 13 442	11 69 197
1 57 56 926	**4 27 64 092**	**Total Assets**	**5 80 93 898**	**7 49 53 026**

Balance Sheet on ...continued

31-Mar-09	31-Mar-10		31-Mar-11	31-Mar-12
		LIABILITIES AND NET WORTH		
		Current liabilities		
20 38 300	28 59 151	Cash security	45 51 601	51 05 998
		Interest payable to Acumen Fund		13 63 968
12 730	19 095	Others Payables	9 14 909	20 026
2 25 217	2 64 111	Others current liabilities	1 67 769	
22 76 247	**31 42 357**	**Total current liabilities**	**56 34 279**	**64 89 992**
		Long term liabilities		
		Long term debt		
1 40 65 410	3 78 75 981	IOB	4 90 13 964	3 64 41 415
		Milaap	1 00 000	28 68 169
		Acumen Fund Inc, USA		2 44 83 026
1 44 110	5 88 075	Risk fund	5 82 778	
7 000	7 000	Other liabilities		
1 42 16 520	**3 84 71 056**	**Total long term liabilities**	**4 96 96 742**	**6 37 92 610**
		Net worth		
		Reserves(Risk Fund)		5 47 165
(-13 085)	(- 7 35 841)	Retained net surplus/(deficit)	11 50 679	32 42 301
(- 7 22 756)	18 86 519	Current net surplus/(deficit)	16 12 199	8 80 958
(- 7 35 841)	**11 50 678**	**Total net worth**	**27 62 878**	**46 70 424**
1 57 56 926	**4 27 64 092**	**Total Liabilities and Net Worth**	**5 80 93 898**	**7 49 53 026**

Income Statements for the period

Mar-09	Mar-10		Mar-11	Mar-12
		Income		
22 09 957	43 59 238	Interest on loans	86 25 612	86 96 252
4 38 280	9 97 080	Fees and commissions on loan portfolio	13 74 760	14 92 740
37 752	88 496	Investment income	2 89 540	5 61 185
18 816		Other revenue related to financial services	5 07 700	9 10 130
8 555	32 634	Other income	2 38 121	1 34 674
27 13 360	**54 77 448**	**Total operational income**	**1 10 35 733**	**1 17 94 981**
		Financial costs		
14 51 565	26 95 605	Interest paid and payable on borrowings	57 17 691	55 98 014
22 097	3 13 911	Fee and bank charges	1 50 000	38 949
12 39 698	**24 67 932**	**Gross financial margin**	**51 68 042**	**61 58 018**
1 26 938	2 28 644	Provision for loan losses & write-off	1 75 232	5 48 902
11 12 760	**22 39 288**	**Net financial margin**	**49 92 810**	**56 09 116**
		Operating expenses		
15 000	24 86 496	Personnel Cost	31 13 806	36 97 057
	86 900	Rent & Electricity	1 76 400	2 90 155
28 898	7 69 413	Travel and repairs	4 29 476	5 14 717
	3 41 208	Trainings	1 40 694	1 05 014
	2 82 170	Depreciation	3 58 950	3 39 490
1 38 676	9 40 566	Administrative expenses	17 42 713	19 57 506
16 52 942	0	WPI-USA expenses		
18 35 516	**49 06 753**	**Total Operating expenses**	**59 62 039**	**69 03 939**
- 7 22 756	**- 26 67 465**	**Net Surplus/Deficit (Before tax & donations)**	**- 9 69 229**	**- 12 94 823**
	45 53 984	Non-operational income /operational grants	30 41 738	27 21 988
		Non-operational expenses		1 07 432
		Taxes	4 60 310	4 38 775
- 7 22 756	**18 86 519**	**Net Surplus/Deficit (after tax & donations)**	**16 12 199**	**8 80 958**

Annexes

Profile of the Board

S.No.	Board Member	Position on Board	Experience	Since
1	Mr. S.Damodaran	Chairman	He is a double post graduate in commerce and business administration. He is the founder chairman of Gramalaya and has more than 25 years of experience in WatSan. He is a member of National Task Force under Ministry of Urban Development of Govt. of India and Executive Committee member in State-level Sanitation Society of Govt. of Tamil Nadu. He has participated in various SME and MF trainings and conferences.	October, 2011
2	Mrs. J.Geetha	Director	She is a graduate in Science and Sociology and has 12 years of experience in water and sanitation. She is also the Executive Director of Gramalaya, the promoting institution.	Inception
3	Mrs. S.Muthulakshmi	Director	A graduate in Economics and has 20 years of experience in water & sanitation. She is also Fin. Mgr of Gramalaya.	Inception
4	Mr. M.Elangovan	Director	He is a post graduate in commerce, he has more than a decade's experience in the development sector.	Inception
5	Mr. S.Kumarasamy	Director	Over 35 years of experience in Health Dept. and 8 years in social service. Exposure to various microfinance models and undergone various trainings on microfinance. He is also an excellent trainer and imparted various trainings on SHG model. He is the co-founder of Guardian	Inception
6.	Mr D. Paul Sathianathan	CEO, Ex-officio	He worked more than two decades with government in animal husbandry. He is also the co-founder of Guardian	Inception

Note: The position for the representative of Acumen Fund Inc is vacant as the current representative Mr. Chandrasekhar resigned in May 2012.

M-CRIL rating grades

M-CRIL Grade	Description
α+	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
α–	Good governance, good systems and good financial performance; Low risk, can handle large volumes ➢ Recommended
β+	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
β–	Weak governance, weak systems. Significant risk ➢ not acceptable but can be considered after significant improvements
γ+	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.

Abbreviations

CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
CO	Credit Officer
Guardian	Gramalaya Urban and Rural Development Initiatives & Network
HO	Head Office
HR	Human Resource
IOB	Indian Overseas Bank
JLG	Joint Liability Group
LLR	Loan Loss Reserve
M-CRIL	Micro-Credit Ratings International Ltd.
MFI	Micro-Finance Institution
MIS	Management Information System
OER	Operating Expense Ratio
OSS	Operating Self-Sufficiency
PAR	Portfolio at Risk
PMC	Project Management Committee
RoA	Return on Assets
SHG	Self Help Group
UO	Unit Officer
WatSan	Water and Sanitation
WPI	Water Partners International

Glossary

Current repayment rate: Ratio of principal recovered (net of pre-payments) to the principal due for the last one year.

Portfolio at risk ($PAR_{>0}$): Ratio of the principal balance outstanding on all loans with overdues greater than 0 days to the total loans outstanding on a given date.

Yield on portfolio: The interest income on loans divided by the average loan portfolio for the year.

Financial cost ratio: Total interest expense for the year divided by the average portfolio.

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

Operating expense ratio: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.

Average loan portfolio: This represents the average loan outstanding for the year computed on a monthly basis.

Average total assets: This represents the average total assets for the year calculated on an annual basis.

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

Risk weighted capital adequacy ratio: Ratio of net worth to risk weighted assets

M-CRIL Risk weights: 100% for all assets except the following: Fixed assets: 50%; Cash and fixed deposits with banks: 0%. Portfolio outstanding is taken net of loan loss provisioning. As managed loans also appear on the balance sheet as on 31st December 2011, 100% risk weightage has been shown for these. Intangible assets and share application money are reduced from net worth.

Return on assets: Ratio of net income/(loss) after tax to average total assets

Return on equity: Ratio of net income/(loss) after tax to average net worth