



## Shri Kshetra Dharmasthala Rural Development Project

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**mfR3**

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## MICROFINANCEINSTITUTION (MFI) GRADING

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mfR1	<p>CRISIL's microfinance institution (MFI) Grading is a current opinion on the ability of an MFI to conduct its operations in a scalable and sustainable manner. The MFI Grading is assigned on an eight-point scale, with 'mfR1' being the highest, and 'mfR8' the lowest. The MFI Grading is a measure of the overall performance of an MFI on a broad range of parameters under <b>CRISIL's MICROS</b> framework. It includes a traditional creditworthiness analysis using the CRAMEL approach, modified to be applicable to the microfinance sector. The acronym MICROS stands for Management, Institutional arrangement, Capital adequacy and asset quality, Resources and asset-liability management, Operational effectiveness, and Scalability and sustainability.</p> <p><b>MFI Grading scale: mfR1 - highest; mfR8 – lowest</b></p>
mfR2	
<b>mfR3</b>	
mfR4	
mfR5	
mfR6	
mfR7	
mfR8	

## MFI GRADING HISTORY

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MFI Grading	Assigned in
mfR3	December 2012
mfR3	November 2008
mfR3	December 2006



## FACT SHEET

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<b>Name of the MFI</b>	:	Shri Kshetra Dharmasthala Rural Development Project (SKDRDP)
<b>Year of establishment</b>	:	1982 (microfinance operations commenced in 1996)
<b>Legal status</b>	:	Registered under the Indian Trusts Act, 1881
<b>Trustee</b>	:	Dr. D Veerendra Heggade
<b>Corporate office &amp; contact details</b>	:	Dr. LH Manjunath, Executive Director, SKDRDP Dharmashri Building, Belthangady Taluk Dakshin Kannada District Dhamasthala – 574 216, Karnataka Tele/Fax: +91 8256 277215 Email: ed@skdrdpindia.org
<b>Lenders</b>	:	Several scheduled commercial banks and financial institutions
<b>Statutory auditors</b>	:	Rao & Basri, Chartered Accountants

## ABOUT THE MFI

<b>Lending model</b>	: Self-help group (SHG)
<b>Borrower base</b>	: <ul style="list-style-type: none"> <li>2.31 million borrowers (2.59 million members) as on March 31, 2013</li> <li>2.75 million borrowers (2.87 million members) as on September 30, 2013</li> </ul>
<b>Employees</b>	: 5,572, including 3,833 credit officers and excluding the off-roll <i>Seva Pratinidhi</i> who undertake group formation activity
<b>Number of branches</b>	: 123
<b>Loan outstanding</b>	: Rs.18.92 billion as on September 30, 2013
<b>Loans disbursed</b>	: Rs.20.43 billion in 2012-13 (refers to financial year, April 1 to March 31)
<b>Geographical reach</b>	: 23 districts of Karnataka

## PRODUCT PORTFOLIO

Loan	Purpose	Maximum size *	Repayment (months)	Interest rate **
First loan	Income-generating activities (eligibility on completion of three months of savings)	10,000	18	18.00
Revolving fund	Consumption (education, marriage, purchase of household products, and repayment of other loans)	25,000	36	18.00
Livelihood loan	Agriculture, income-generating activities	30,000	48	18.00
Infrastructure loan	Purchase of farm assets (machines and equipment), construction (borewells, tanks, and sheds), and land improvement	30,000	60	18.00
Swagruha	House construction and repair/renovation	1,00,000	120	12.50
SRI loan	Co-sanctioned with NABARD for paddy	10,000	6	9.00



	cultivation and purchase of farm equipment			
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\* Per member      \*\* Declining basis

### Insurance and other products:

- **Jeevan Madhur:** SKDRDP offers life insurance in association with Life Insurance Corporation of India (LIC). The product has a 15-year tenure and provides a maximum life cover of upto Rs.30,000. About 2.74 lakh new policies were canvassed and 95 per cent of the policies were renewed in 2012-13.
- **Sampoona Suraksha:** SKDRDP has tied up with four subsidiaries of General Insurance Company (GIC) to provide for medical expenses, including cashless hospitalisation, disability, and maternity-related expenses. The scheme provides a cover of Rs.10,000 per person, for which the MFI collects an amount of Rs.380 per annum. The scheme had 13 lakh members in 2012-13, during which 62,281 claims (amounting to Rs.364.40 million) were settled.
- **NPS-Lite:** SKDRDP has also tied up with Provident Fund Regulatory Development Authority of India (PFRDA) to promote this product on a fixed-commission basis. In 2012-13, SKDRDP sold pension schemes to about 1.30 lakh members.



### **Credit sanctioning process**

Members' credit applications are screened by their SHG and federation, and then forwarded to SKDRDP, which grades the group on a four-point scale. An SHG that scores two points or more becomes eligible for credit, while the others need to undertake further training.

- SKDRDP borrows from commercial banks and disburses the funds to the SHGs for onward lending to members, at a diminishing interest rate of 10–18 per cent.
- SKDRDP charges 1.00 per cent as processing fees except for the subsidised loan.
- A member's cumulative loans cannot exceed 30 times his/her savings (for income-generating activities) and 20 times the savings (for non-income-generating activities).
- Life cover is mandatory for loans above Rs.50,000.



## SOCIAL AND TRANSPARENCY INDICATORS<sup>1</sup>

As on March 31, 2013

in per cent

Average loan outstanding/per capita GNI (2011 figure)*	11.17
Women staff/total staff	57.19
Women borrowers/total borrowers	76.13
Lending rate (excluding the processing fee)	10.00 (fixed) – 18.00 (diminishing)
Are interest rates (on declining basis) communicated to clients in writing?	Yes
Are processing charges communicated to clients in writing?	Yes
Does the MFI provide an official receipt to clients after repayment collections?	Yes
Is access to loan of other MFIs a parameter to select/screen clients?	No
Is access to loan of other MFIs/residual income a factor in appraising the client's repayment capacity?	No
Does the MFI appraise the client's income/poverty/asset level and use this data to target other low-income clients?	Yes
Does the MFI capture and analyse reasons for client drop-out rate?	Yes
Are clients provided head office contact details as part of the grievance redressal mechanism?	Yes

\*Per capita Gross National Income (GNI) is based on current prices

Source: CRISIL Centre for Economic Research (CCER) computations based on Central Statistical Organisation (CSO) data

<sup>1</sup> Details are as provided by the MFI and not verified by CRISIL

## RBI GUIDELINES and MFI's RESPONSES\*

Reserve Bank of India (RBI) Guidelines	SKDRDP's Response
1) Aggregate amount of loan extended for income generating activity is not less than 70 per cent of the total loans given by MFIs.	Yes
2) Borrower's household annual income in rural areas should not exceed Rs.60,000 and for non-rural areas it should not exceed Rs.120,000.	Yes
3) Loan does not exceed Rs.35,000 in first cycle and Rs.50,000 in subsequent cycles.	Yes
4) Total indebtedness of the borrower does not exceed Rs.50,000.	Yes
5) Tenure of loan is not less than 24 months when loan amount exceeds Rs.15,000.	Yes
6) Borrower should have right for prepayment without penalty.	Yes
7) Loan should not have any collateral.	Yes
8) Loan is repayable by weekly, fortnightly or monthly instalments at the choice of the borrower.	Yes
9) Qualifying assets should not be less than 85 per cent of total assets of the MFI (excluding cash, balances with banks and financial institutions, government securities and money market instruments)	Yes
10) Margin cap 12 per cent	Yes
11) Interest on individual loans should not be more than 26 per cent per annum, calculated on reducing balance basis.	Yes
12) Processing fee should not exceed 1 per cent of the gross loan amount.	Yes
13) Only three components are to be included in pricing of loans, such as (a) processing fee not exceeding 1 per cent of the gross loan amount; (b) interest, and (c) insurance premium.	Yes
14) Only the actual cost of insurance should be recovered; administrative charges to be recovered as per IRDA guidelines.	NA
15) There should not be any penalty for delayed payment.	Yes
16) No security deposit/margin are to be taken.	Yes

\* The above details are as provided by the MFI and not independently verified by CRISIL.



## CRISIL MFI Grading

### Board of Trustees

Designation	Name	Qualification	Profile
President, Founder and Author	Dr. D Veerendra Heggade	BCom	Trustee of Shri Kshetra Dharmasthala temple and SKDRDP's chief patron. Also heads the temple's educational trust, which runs numerous educational institutes in the state. Awarded the Padma Bhushan in 2000 by the Government of India
Trustee	Mrs. Hemavathi Heggade	BA	Founder's spouse; involved in Jnana Vikasa, SKDRDP's women programme
Member	Mr. D. Surendra Kumar	BA, LLB	Founder's brother; board member of the temple's educational trust and Managing Director (MD) of Kuduma Fasteners Pvt Ltd
Member	Mr. R.V. Shastri	MCom	Ex-Chairman and MD of Canara Bank
Member	Mr. B.B. Shanbhogue	CA	Chartered Accountant
Member	Mr. Uday Kumar Shetty	BCom, LLB	Lawyer

## Board of Directors

Director	Name	Profile
Executive	Dr. L.H. Manjunath	Veterinary doctor; previously general manager (GM), Syndicate Bank. More than 25 years of experience in rural credit. Joined SKDRDP in 2002
Finance	Mr. Shantharam R Pai	CA; joined SKDRDP in 2010
Credit	Mr. T. Sampath Kumar	BCom, LLB; Ex-GM of Syndicate Bank; with SKDRDP for the past six years
Human Resources	Mrs. Mamatha Rao	Four years of experience through Maharashtra Apex Corporation Limited; joined SKDRDP in 2002
Sampoorna Suraksha	Mr. Abraham M K	BA and MA, Joined SKDRDP in 2014
Personnel	Mr. Vishwanatha Shetty	Associated with SKDRDP for the past 31 years; handles recruitment and training



### MFI GRADING RATIONALE

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The microfinance institution (MFI) grading assigned by CRISIL to Shri Kshetra Dharmasthala Rural Development Project (SKDRDP) reflects the following strengths:

- A track record of over a decade in microfinance and social development
- Parent support and synergy from renowned temple
- Comfortable asset quality, supported by adequate credit-approval mechanisms
- Profitable operations driven by high operating efficiency and access to low-cost funds

These strengths are partially offset by the following weaknesses:

- Regulatory risks: Deposits are collected regularly from members
- Geographic concentration of operations in a single state
- Below-average capitalisation and a high gearing

#### Profile

SKDRDP is a charitable trust that undertakes rural development in various parts of Karnataka. It was established in 1982 by Dr. D Veerendra Heggade, trustee of a renowned temple called Shri Kshetra Dharmasthala. It launched its microfinance programme in 1996, following a self-help group (SHG) model wherein groups of 15–20 members are collectively responsible for repayment of loans sanctioned to each individual. The trust focuses on marginal farmers, landless labourers, and local populace engaged in seasonal occupations.

Every SHG has a leader and all the SHGs in a village are organised into a federation, headed by a president. The SHGs meet periodically to mobilise savings, deliver credit, and collect repayments. The groups also undertake livelihood development programmes. The MFI trains SHGs on maintenance of required documentation, book-keeping, and on the conduct of meetings and allied affairs.

SKDRDP is one of India's top five MFIs in terms of loans outstanding and client base. As on September 30, 2013, the MFI had an outstanding portfolio of Rs.21.13 billion, across 123 branches in 23 districts of Karnataka, covering 20,842 villages, 245,000 SHGs, and 2,866,000 members (2,751,814 borrowers). The MFI also incorporated a Section 25 company, Shri Dharmasthala SIRI Gramodyog Samasthe, to market the goods produced by its SHGs.



### MODE OF OPERATION

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The NGO-MFI currently operates as per the following models:

- **Self-help group (SHG):** These are extended credit to set up microenterprises. A male SHG typically has about 8–10 members while a female group has 15–20 members.
- **Pragati Bandhu Groups:** Five to eight marginal farmers form a labour-sharing group to mobilise weekly savings and conduct regular financial transactions. SKDRDP extends farm credit to these groups for cultivation of coconut, areca nut, spices, and rubber, as well as for the construction of cattle sheds, gobar-gas plants, bore-wells, and houses.
- **Jnanavikasa Vikas Kendra (JVK):** This comprises a group of 10–20 women from the working class and the economically/socially backward communities. JVKs meet weekly to conduct capacity-building programmes on education, health, finances, and income-generating activities such as dairy farming, floriculture, and vegetable cultivation.
- **Business Correspondence (BC) model:** In 2012-13, SKDRDP diversified to six new districts of Karnataka and began BC operations in these regions for the Ratnakar Bank Limited, Pragathi Gramin Bank, Corporation Bank, and IDBI Bank.
  - Under the BC model, SKDRDP identifies and shortlist SHGs, opens savings accounts and makes collections, and facilitates loan documentation, disbursement, and repayment.
  - The MFI receives a fixed commission of Rs.1,000 per group (for account opening and linking), 2.00 per cent of the collection proceeds, and 3.00 per cent of disbursement.
  - Going forward, the management intends to increase focus on this risk-free BC model by leveraging its extensive network, established SHG relationships, and the strong presence of its parent temple.
  - The BC model is expected to account for about 50 per cent of the MFI's total loan portfolio by 2014-15.



### **Mobilisation of savings and potential regulatory risks**

- SKDRDP mobilises members' savings and deposits these in the SHG account in the nearest bank branch. In areas with low bank penetration, the NGO-MFI retains savings for on-lending and makes returns to members on loan closure/dropout.
- Members are required to save Rs.10–Rs.20 per week, on which they receive an interest of 7.00 per cent per annum.
- In March 2013, the NGO-MFI had outstanding deposits of Rs.2,715.93 million, which accounted for about 14.00 per cent of its outstanding portfolio (about Rs.20,000 million). Its deposit-net worth was about 2.82 times as on the same date.
- SKDRDP has been following this practice since June 2006. However, it may face regulatory action for this as the Reserve Bank of India (RBI) prohibits trusts and societies from mobilising deposits/savings under Section 45S of the RBI Act, 1934.

### **SKDRDP's credit-plus activities**

- The London-based Ashden Foundation, an international organisation working in the field of renewable energy, honoured SKDRDP with Ashden Gold Award in 2012-13 for providing informed choices to the poor in the selection and adoption of renewable energy.
- Motivated by Ashden Gold Award, SHG members installed 7,600 go-bar gas plants and 2,800 solar home-lighting systems in 2012-13.
- SKDRDP in association with Chikmagalur Municipal Corporation implemented the primary waste collection and management in Chikmagalur city. Aided by government grants, SHG members constructed 70,000 sanitation units in 2012-13.
- About 92,000 members received microfinance assistance for housing, including repair, construction, extension, and renovation, electrification.
- The MFI-NGO distributed 1,500 desk-benches worth Rs.51.00 lakh to the schools of Davangere district.
- It distributed agriculture equipment worth Rs.18.19 lakh in Belgaum district, Rs.30.11 lakh in Tumkur District, and Rs.1.27 lakh in Somwarpet Taluka, Coorg district.



- In collaboration with Horticulture Department, the NGO-MFI distributed coconut, mango, guava and other plants to selected beneficiaries. It also conducted 25 farmer trainings on Systematic Rice Intensification (SRI) paddy cultivation in Shikaripur Taluka.
- Awareness camps on child marriage helped prevent this practice in four Dharwad families, and nearly a hundred people participated in its de-addiction camp at Kundapur Taluka.
- SKDRDP disbursed Destitute Aid of Rs.1.46 crore, SujnanaNidhi (Student Scholarship) of Rs.10.18 crore, and providing pure drinking water at Rs.2.00 per twenty liters under their Shuddha Ganga programs in 7 Districts.

### About the Shri Kshetra Dharmasthala temple

Shri Kshetra Dharmasthala (SKD) in the Dakshina Kannada District of Karnataka is a famous *Shaivite* shrine, receiving some of the largest cash offerings in South India from devotees. It performs a number of charities, including *abhayadana* (providing shelter) and *annadhana* (providing food), offering free food daily to over 10,000 pilgrims. Through SKDRDP, the temple donates for community development, including water-harvesting projects, construction of sanitation units, *gobar-gas* installations, and conducting *krishi melas*.

For over seven centuries, the temple has been managed by the Heggade lineage. Dr. Veerendra Heggade, its current trustee, is the 21<sup>st</sup> to succeed as the temple guardian, a position that holds immense influence in the local community. The trustee performs a number of social functions, ranging from charity (the trustee donates generously from the temple offerings) to the resolution of civil disputes (the local community honours the Heggade verdict).

## MANAGEMENT

<p><i>SKDRDP has emerged as a major player in the country</i></p>	<ul style="list-style-type: none"> <li>▪ SKDRDP has emerged as India's second-largest MFI due to its decade-long track record in microfinance and support from its parent temple. As on September 30, 2013, it had an outstanding portfolio of Rs.18.92 billion, including an owned portfolio of Rs.12.92 billion and a BC portfolio of Rs.6.00 billion.</li> </ul>
<p><i>Moderate credit-approval process</i></p>	<ul style="list-style-type: none"> <li>• SKDRDP lends to SHG groups assessed by the village federation, following which it conducts due diligence. Each group is graded manually on a four-point scale, based on savings, repayment, attendance, book-keeping, and type of income-generating activity. Groups with the highest grades (A and B) are eligible for credit. The MFI also conducts loan utilisation checks to mitigate credit risks.</li> <li>• SKDRDP collects weekly savings of Rs.10 - Rs.20 from borrowers, which is adjusted towards the end of the loan cycle and not against the principal outstanding at the end of that instalment/week. Thus, in such cases, the revised interest is not strictly computed on a diminishing-balance basis.</li> <li>• CRISIL believes there is scope for improvement in current operating processes. The NGO-MFI is yet to tie up with a credit information bureau (CIB) to gauge a potential borrower's credit history and indebtedness. Given borrowers' access to multiple loans from different MFIs, CRISIL believes that SKDRDP's loan appraisal process needs to be much more structured. Its voluntary compliance to CIB guidelines would help mitigate systemic risks and reduce instances of indebtedness and multiple lending. CRISIL also opines that automating the grading process can significantly reduce the turnaround time (TAT) as well as the scope for human error.</li> </ul>



<p><i>MIS is adequate for current scale of operations</i></p>	<ul style="list-style-type: none"> <li>• SKDRDP's management information system (MIS) is adequate for its current scale of operations. Since the previous assessment, the NGO-MFI has realigned its MIS and all branches now use a loan tracking software and can self-generate group-wise and member-wise reports on their individual demand, collection, and arrears position.</li> <li>• Going forward, SKDRDP plans to focus on the BC model and has already implemented customised software at the group level. However, this does not yet provide member-wise loan details, and is still to be aligned with the proposed overdraft model.</li> <li>• CRISIL thus believes that the MFI is yet to achieve MIS stability in terms of data migration and generation of consolidated reports. Further, it could also benefit from IT investments in a core banking solution (CBS) and instant loan tracking through mobile- and web-based applications.</li> </ul>
<p><i>Adequate internal audit process</i></p>	<ul style="list-style-type: none"> <li>▪ With significant increase in its scale of operations, SKDRDP has commensurately strengthened its internal audit (IA) function. The NGO-MFI has a 23 core-member IA team and about 530 support staff at branches and regional offices.</li> <li>▪ The MFI conducts IA and 'quick audits' every quarter and the group audits are conducted annually, combining field-level observations, verification of member attendance at meetings, savings, cross-checking loan applications, and other branch records.</li> </ul>
<p><i>Satisfactory loan recovery practices and cash management systems</i></p>	<ul style="list-style-type: none"> <li>• SKDRDP employs full-time field-officers for group formation, collections, and development activities. It also has off-roll employees - Seva Pratinidhis - who are responsible for group formation and community development. The Pratinidhis act as group leaders and assistants of cash collectors.</li> <li>• At its collection centres, SKDRDP has deployed handheld devices</li> </ul>

	<p>called Simputers, integrated with MIS module, to reduce transactional errors by giving member-wise details on demand, outstanding balance, and savings mobilised. A mobile van collects day-end collections from the centres and deposits these in the nearest bank on the same day.</p>
<i>Adequate human resources (HR)</i>	<ul style="list-style-type: none"> <li>• SKDRDP has a rational policy on recruitment, internal promotion, and performance appraisal. It conducts training and skill development for all employees at-least once a year, for which it has three training centres and four trainers. At the group level, 18 trainings are conducted from the induction of a new group. As a few groups have nonetheless scored low in the grading process, CRISIL believes that the training process needs to be strengthened.</li> <li>• SKDRDP has gradual growth policy for its employees—a majority of its mid-management has been promoted from the level of field staff or from the temple trust’s development projects. Migratory staff is entitled to accommodation in the temple-owned premises.</li> </ul>
<i>Moderate IT systems</i>	<ul style="list-style-type: none"> <li>• SKDRDP’s IT systems are commensurate with its current scale of operations. It has a dedicated monitoring team at the HO that works in coordination with the IT staff to ensure smooth flow of operational data between HO and branches. In order to match its growth potential, the NGO-MFI is planning to upgrade its server capacity from 1 tetra-byte to 3 tetra-byte for faster delivery of output.</li> </ul>



## INSTITUTIONAL ARRANGEMENT

<i>Proven track record in microfinance operations</i>	<ul style="list-style-type: none"><li>▪ SKDRDP is promoted by the trustees of a well-known and cash-rich temple in Karnataka. The trust's various community development programmes implemented through the MFI have strengthened the latter's relationships with beneficiaries, a majority of which are also its borrowers.</li><li>▪ The temple's established presence and the financial support it extends to SKDRDP have helped enhance the MFI's portfolio, enabling it maintain a healthy credit culture in its operational area.</li></ul>
<i>Founders and management have extensive microfinance experience</i>	<ul style="list-style-type: none"><li>▪ The MFI's board has a healthy mix of members from the microfinance and development domains. The chief temple trustee heads the board along with two family members, while the three independent trustees have extensive experience in the fields of banking, finance, and law. The board meets on a quarterly basis to discuss key performance issues on microfinance operations and development initiatives.</li><li>▪ The MFI has delegated adequate autonomy to its executive director, who has been instrumental in scaling up the microfinance portfolio. Many of the branch managers have been working with the MFI for close to a decade, and have been promoted from the level of field executives.</li><li>▪ SKDRDP has revised its recruitment policy with operational growth, and has begun laterally inducting personnel with banking and finance experience.</li></ul>

## CAPITAL ADEQUACY AND ASSET QUALITY

<p><i>Below-average capitalisation and high gearing</i></p>	<ul style="list-style-type: none"> <li>Despite capital infusion of Rs.0.53 billion in 2012-13, SKDRDP had a corpus of Rs.0.96 billion in relation to an owned portfolio of Rs.20.81 billion and borrowed funds of Rs.20.00 billion as on March 31, 2013. As on same date, its debt-to-equity was high at about 24 times and capital adequacy remained low at 4.57 per cent.</li> </ul>
<p><i>Legal structure may weaken capitalisation in medium term</i></p>	<ul style="list-style-type: none"> <li>Although SKDRDP has so far been able to mobilise adequate bank finance for on-lending purposes, its current legal structure constrains its ability to raise equity from external investors.</li> <li>The management however opines that even though microfinance operations form an integral initiative of the temple trust, a for-profit reconstitution could affect the trust's religious sanctity. Hence, it expects the not-for-profit legal structure (widely esteemed by members) to prevail in the medium term.</li> <li>SKDRDP projects a corpus of Rs.1.34 billion against a portfolio of Rs.31.49 billion by March 2015. CRISIL opines that despite support from the temple trust, SKDRDP's capitalisation may remain weak due to modest accruals. Correspondingly, gearing would continue to remain high at over 22 times in the medium term.</li> </ul>
<p><i>Average asset quality, but operational risks may affect credit profile</i></p>	<ul style="list-style-type: none"> <li>The NGO-MFI registered an on-time repayment rate (OTRR) of 96.21 per cent as on September 30, 2013, down from 98.19 per cent as on March 31, 2013. Portfolio at risk greater than 30 days (PAR&gt;30 days) also deteriorated to 3.58 per cent from 1.56 per cent in this period.</li> <li>CRISIL believes that the NGO-MFI's credit profile could be affected in the medium term by the following risks: <ul style="list-style-type: none"> <li>As operations are confined in Karnataka, any unforeseen event in the state could materially affect its corpus and portfolio</li> </ul> </li> </ul>



	<p>quality.</p> <ul style="list-style-type: none"> <li>○ In 2012-13, SKDRDP diversified to 6 new districts which operate under the BC model. Asset quality may dilute marginally considering the presence of multiple players in these regions and the fact that its portfolio there is yet to season.</li> <li>○ The NGO-MFI's plan to use overdraft instead of term loans for credit sanctioning could affect the borrowers' regular repayment habit and affect credit quality.</li> </ul>
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## RESOURCES AND ASSET LIABILITY MANAGEMENT

<i>Sustained mobilisation of funds</i>	<ul style="list-style-type: none"> <li>• SKDRDP raised external borrowings of Rs.6.00 billion in 2011-12 and Rs.5.23 billion in 2012-13, thus emerging as one of the few MFIs that could raise substantial funds after the Andhra Pradesh crisis.</li> <li>• The NGO-MFI had an outstanding debt of Rs.18.92 billion as on September 30, 2013. This was sourced from 24 lenders, including a number of public-sector banks, seven financial institutions, and two private-sector banks and two regional rural banks (RRBs). The maximum borrowing rate was at 12 per cent per annum, and the top four lenders together accounted for 60 per cent of the outstanding debt.</li> <li>• The MFI's financing mix mitigates concentration risks and also rationalises the cost of funds. The MFI is planning to mobilise additional borrowings of Rs.150 million by March 31, 2014. Given its long banking relationships, SKDRDP is unlikely to experience any major constraints in raising bank finance in near to medium term.</li> </ul>
<i>Receipt of deposits from</i>	<ul style="list-style-type: none"> <li>• Since June 2006, SKDRDP has been collecting weekly member savings/deposits along with loan repayment. As on March 31,</li> </ul>



<i>members may pose a regulatory risk</i>	<p>2013, it had mobilised member deposits of Rs.2.72 billion, which accounted for about 12 per cent of the overall external resources raised (deposits and bank borrowings).</p> <ul style="list-style-type: none"> <li>• As Section 45S of the RBI Act, 1934 prohibits trusts and societies from accepting deposits and mobilising savings, the management has indicated plans to realign credit offerings in the near term.</li> <li>• Going forward, it would collect savings from members within newly formed six districts; currently operating under BC model as well.</li> </ul>
<i>Comfortable liquidity position</i>	<ul style="list-style-type: none"> <li>▪ As on March 31, 2013, SKDRDP had cash and cash equivalents of Rs.2.61 billion. On a standalone basis, overall collections from SHG groups have been sufficient to meet lenders' dues and operational expenses.</li> <li>▪ A major portion of bank borrowings have a tenure of 3–5 years, while loans extended by the MFI have an average maturity of 2–3 years. Thus, it is not susceptible to an immediate negative asset-liability mismatch, and its midterm liquidity position is adequate to service its debt obligations in a timely manner.</li> </ul>

## OPERATIONAL EFFECTIVENESS

<i>Low opex levels and self-sufficiency in operations</i>	<ul style="list-style-type: none"> <li>▪ Although SKDRDP's operating expense (opex) ratio increased to 5.21 per cent in 2012-13 from 3.91 per cent in 2011-12, it still remains considerably lower than that of peer MFIs due to: <ul style="list-style-type: none"> <li>○ The fact that operations in rural areas result in lower rent, personnel costs, and other expenses</li> <li>○ Cross-subsidisation from sharing premises for microfinance and development activities</li> <li>○ Higher productivity due to significant increase in assets in the past three years</li> </ul> </li> <li>▪ Branch expansion, higher provisioning, and the reduction in loan book</li> </ul>
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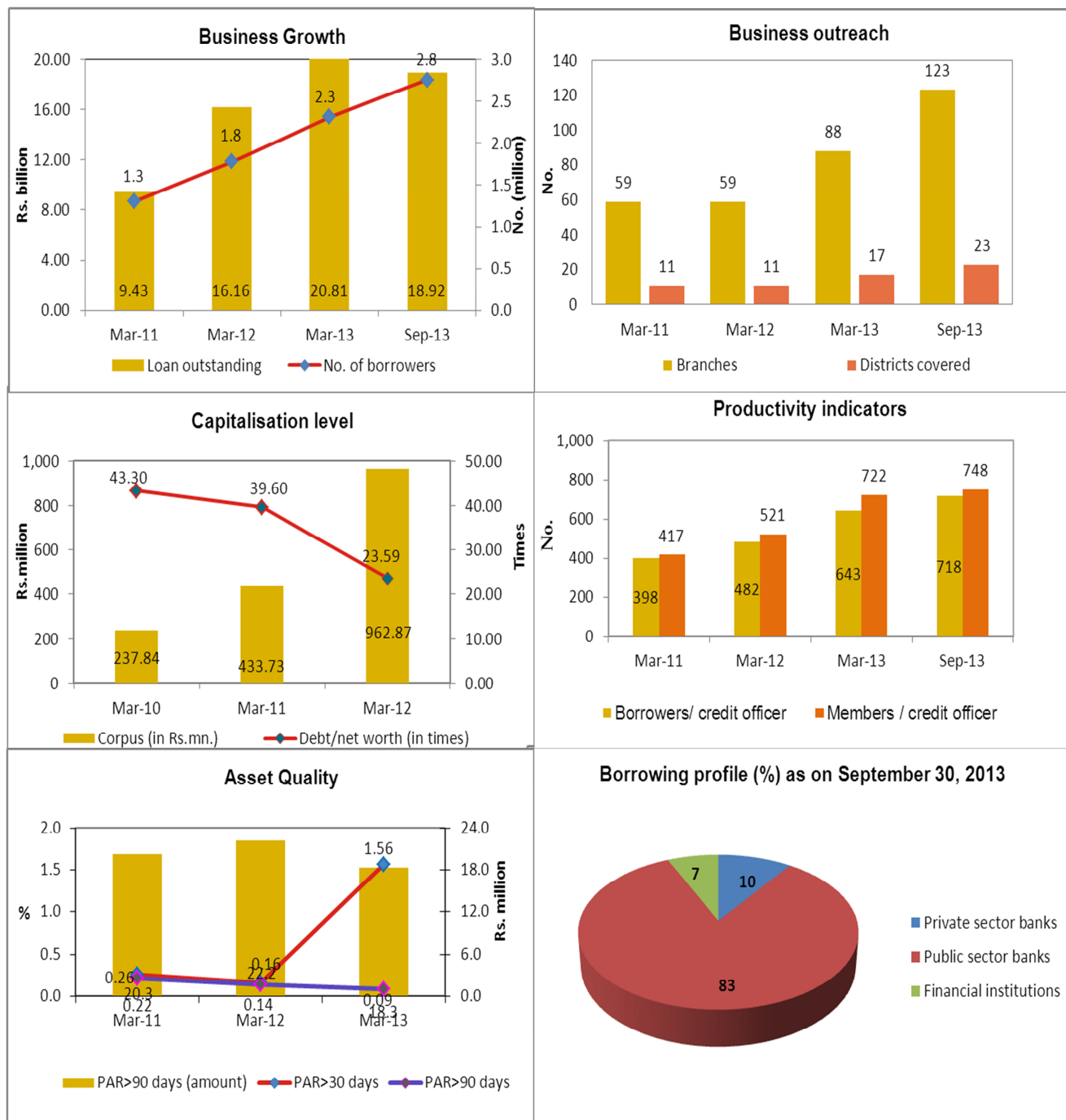


(due to increased focus on the BC model) are expected to increase opex in the midterm by about 100–150 basis points (bp; 100 bp = 1 per cent point). CRISIL however expects the operating self-sufficiency (OSS) to remain over 100 per cent in the medium term.

### SCALABILITY AND SUSTAINABILITY

- SKDRDP has an established presence in its operational area and benefits from the parentage of the temple trust. This has enabled it to develop its portfolio while maintaining healthy asset quality. The MFI's well-established banking relationships have also eased its access to finance.
- The MFI accepts deposits from its members, which is against statutory regulations. The management, however, plans to take appropriate steps in this regard by adopting an overdraft model, with a software determining members' savings to calculate an SHG's credit limit.
- The key grading monitorables would thus be migration to the new model, its effective implementation, and portfolio tracking with appropriate MIS modifications. CRISIL believes that the MFI's sustainability would be contingent upon its ability to improve capitalisation, reduce geographic concentration, and effectively implement the BC model.

## BUSINESS INDICATORS





## FINANCIAL INDICATORS

### Income and expenditure statement

Rs. Million

Year ended March 31	2015	2014	2013	2012	2011
	Projections		Audited		
<b>Fund based income</b>					
Interest income from loans	4,431.00	3,677.00	3,052.49	1,712.24	1,108.80
Income from investments/deposits	-	-	59.77	45.51	19.27
<b>Total fund-based income</b>	<b>4,431.00</b>	<b>3,677.00</b>	<b>3,112.27</b>	<b>1,757.75</b>	<b>1,128.07</b>
<b>Interest and finance charges</b>					
On borrowings	2,343.20	1,944.80	1,614.23	1,019.46	601.51
Finance charges	-	-	1.83	1.51	1.30
<b>Total interest and finance charges paid</b>	<b>2,343.20</b>	<b>1,944.80</b>	<b>1,616.07</b>	<b>1,020.97</b>	<b>602.81</b>
<b>Gross spread</b>	<b>2,087.80</b>	<b>1,732.20</b>	<b>1,496.20</b>	<b>736.78</b>	<b>525.26</b>
<b>Total fee based income</b>	<b>205.04</b>	<b>170.18</b>	<b>141.25</b>	<b>74.91</b>	<b>23.53</b>
<b>Total income</b>	<b>4,636.04</b>	<b>3,847.18</b>	<b>3,253.52</b>	<b>1,832.65</b>	<b>1,151.60</b>
<b>Gross surplus</b>	<b>2,292.84</b>	<b>1,902.38</b>	<b>1,637.45</b>	<b>811.68</b>	<b>548.79</b>
<b>Expenses</b>					
Operating expenses	1,594.77	1,323.66	1,098.64	565.34	403.65
<b>Total expenses</b>	<b>1,594.77</b>	<b>1,323.66</b>	<b>1,098.64</b>	<b>565.34</b>	<b>403.65</b>
Bad debts written off	-	-	-	(0.06)	(0.01)
Provision for loan loss	13.60	11.30	9.43	50.24	18.64
<b>Total write-offs and provisions</b>	<b>13.60</b>	<b>11.30</b>	<b>9.43</b>	<b>50.19</b>	<b>18.63</b>
Depreciation	0.35	0.29	0.24	0.27	0.78
<b>Surplus</b>	<b>684.11</b>	<b>567.13</b>	<b>529.14</b>	<b>195.89</b>	<b>125.74</b>

## Balance sheet

Rs. Million

As at March 31	2015	2014	2013	2012	2011
	Projections		Audited		
Liabilities					
<b>Corpus</b>	<b>1,342.30</b>	<b>1,114.10</b>	<b>962.87</b>	<b>433.73</b>	<b>237.84</b>
Borrowings	29,032.80	24,097.20	20,000.67	14,768.65	8,715.29
<b>Total borrowings</b>	<b>29,032.80</b>	<b>24,097.20</b>	<b>20,000.67</b>	<b>14,768.65</b>	<b>8,715.29</b>
Margin money/Deposits*	-	-	2,715.93	2,407.22	1,582.64
Provision for loan loss	109.70	116.30	123.32	116.10	66.18
Other liabilities	818.07	679.00	563.57	456.03	303.24
<b>Total current liabilities</b>	<b>927.77</b>	<b>795.30</b>	<b>3,402.82</b>	<b>2,979.35</b>	<b>1,952.06</b>
<b>Total liabilities</b>	<b>31,302.87</b>	<b>26,006.60</b>	<b>24,366.35</b>	<b>18,181.73</b>	<b>10,905.19</b>
Assets					
Loans and advances	27,420.65	22,278.71	20,813.92	16,161.19	9,425.57
Cash & bank balances	2,595.50	2,660.00	2,606.28	1,585.27	1,162.66
Deposits with banks	1,003.30	832.80	673.99	350.84	273.60
<b>Total funds deployed</b>	<b>31,019.45</b>	<b>25,771.51</b>	<b>24,094.19</b>	<b>18,097.31</b>	<b>10,861.84</b>
Other assets & advances	280.30	232.50	270.02	82.04	38.20
Net fixed assets	3.12	2.59	2.15	2.39	5.16
<b>Total assets</b>	<b>31,302.87</b>	<b>26,006.60</b>	<b>24,366.35</b>	<b>18,181.73</b>	<b>10,905.19</b>

\*From members



**Key financial ratios**

(in per cent)

Year ended March 31	2015	2014	2013	2012	2011
	Projections		Audited		
<b>Yield</b>					
Fund based yield	16.08	14.75	14.75	12.14	12.54
Fee based income /Avg. funds deployed	0.74	0.68	0.67	0.52	0.26
Total income/avg. funds deployed	16.82	15.43	15.42	12.66	12.80
<b>Cost of funds</b>					
Interest paid/Average funds deployed	8.50	7.80	7.66	7.05	6.70
<b>Interest spread</b>					
Gross spread/Average funds deployed	7.58	6.95	7.09	5.09	5.84
Interest spread	6.52	5.93	5.46	4.71	4.23
<b>Overheads</b>					
Operating expense ratio	5.79	5.31	5.21	3.90	3.71
Personnel expense ratio	5.67	5.20	3.62	3.06	3.61
Administrative expense ratio	4.37	4.01	1.58	0.85	0.87
<b>Profitability</b>					
Return on net worth	59.36	54.61	75.78	58.34	71.86
Return on funds deployed	2.48	2.27	2.51	1.35	1.40
Operational self-sufficiency (OSS)	117	117	119	112	120
<b>Asset quality</b>					
Loan loss provisions/average loan outstanding	0.06	0.05	0.05	0.39	0.24
Provisioning/average loan outstanding	0.45	0.54	0.67	0.91	0.85
<b>Capitalisation</b>					
Total debt/net worth (times)	21.63	21.63	23.59	39.60	43.30
Capital adequacy	4.85	4.95	4.57	2.67	2.51

## ANNEXURES

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### 1.1 OUTREACH SUMMARY

As on/Period ended	Units	Sep-13	Mar-2013	Mar-2012	Mar-2011
Borrowers	No.	2,751,814	2,314,075	1,781,557	1,299,257
Groups	No.	2,45,000	234,000	1,68,705	1,23,586
States	No.	1	1	1	1
Branches	No.	123	88	59	59
Villages covered	No.	20,842	20,842	19,028	7,586
Districts covered	No.	23	17	11	11
Disbursements	Rs. million	998.88	20,425.15	15,884.54	9,209.23
Loan outstanding-own portfolio	Rs. million	18,920.00	20,813.92	16,161.19	9,425.57

### 1.2 PRODUCTIVITY AND EFFICIENCY INDICATORS

As on/Period ended	Units	Sep-13	Mar-13	Mar-2012	Mar-2011
Borrowers/branch	No.	22,372	26,296	30,196	22,021
Borrowers/credit officer	No.	718	643	482	398
Loan outstanding/borrower	Rs.	6,875.46	8,994.49	9,071.39	7,254.58
Loan outstanding/branch	Rs. million	153.82	236.52	273.92	159.76
Loan outstanding/credit officer	Rs. million	4.94	5.78	4.38	2.89



### 1.3 BORROWINGS

(as on September 30, 2013)

Name of the lender	Loan o/s (Rs. Million)
National Housing Bank	31.75
Karnataka Vikas Grameena	34.42
State Bank of India	38.13
DBCDC	117.30
Indian Overseas Bank	139.58
NABARD	170.12
Kaveri Grameena bank	195.39
State Bank of Travancore	200.86
ING Vysya Bank	222.22
SIDBI	258.64
IDBI	345.70
State Bank of Patiala	472.05
Syndicate Bank	558.08
Pragathi Grameena bank	597.03
Bank of India	821.24
Karnataka Bank	1,527.33
Union Bank of India	1,629.30
State Bank of Mysore	2,539.54
Canara Bank	2,932.80
Vijaya Bank	3,020.76
Corporation Bank	3,067.02
<b>Total</b>	<b>18,919.23</b>



## 1.4 ASSET QUALITY

Rs. Million

	Sep-13		Mar-13		Mar-12		Mar-11	
Total outstanding balance associated with loans that are	PAR	%	PAR	%	PAR	%	PAR	%
On time	18,202.99	96.21	20,437.56	98.19	16,131.28	99.81	9,398.45	99.71
Late (at least one payment)								
1-30 days	39.82	0.21	51.43	0.25	4.03	0.02	2.69	0.03
31-90 days	185.06	0.98	306.61	1.47	3.70	0.02	4.14	0.04
91-180 days	233.14	1.23	3.09	0.01	3.49	0.02	5.05	0.05
181 days and above	258.99	1.37	15.23	0.07	18.68	0.12	15.24	0.16
Total portfolio	18,920.00	100.00	20,813.92	100.00	16,161.19	100.00	9,425.57	100.00
Portfolio at risk (> 30 days)	3.58		1.56		0.16		0.26	
Portfolio at risk (> 90 days)	2.60		0.09		0.14		0.22	



### Microfinance in India and recent developments

Over 120 million households in India currently face financial exclusion. Over the past decade, the microfinance sector has played a key role in bringing basic financial services to the economically underprivileged, enabling them to raise their income level and improve living standards through small-scale credit, savings, and other basic financial products. Since its emergence in the 1980s, India's microfinance sector has grown tremendously in terms of both size and financial maturity, reaching out around 2.75 crore people across India, with a portfolio outstanding around Rs. 223 billion as on March 31, 2013.

### Channels of microfinance

There are two major delivery channels for microfinance in India—self-help groups (SHGs) and microfinance institutions (MFIs). SHGs typically have 10–20 members of the same locality who meet weekly or monthly to contribute a set savings amount, which is then lent to other members. SHGs are promoted by various non-governmental organisations (NGOs) and the apex agricultural credit bank, National Bank for Agriculture and Rural Development (NABARD), under its SHG-bank linkage program. MFIs on the other hand mainly deliver their services via the Grameen model, (developed by Grameen Bank, Bangladesh) or the ASA model, developed by ASA, a leading Bangladesh-based NGO-MFI. However, the target clientele for both channels—SHGs and MFIs—are those without access to banking services or who depend on informal sources such as friends and money lenders for their credit requirements.

### Priority-sector lending status

The Government of India requires banks to invest a percentage of their portfolio in specific sectors, at a concessional rate of interest to boost economic development in the country. The RBI has laid down a number of qualification criteria for NBFC-MFI to receive priority-sector status. For instance, income-generating activities need to account for at least 75 per cent of its loan portfolio, and qualifying assets must account for 85 per cent of the total assets (excluding cash, balances with banks and financial institutions, government securities and money market instruments).

## Regulatory Environment

After Andhra Pradesh crisis, the Reserve Bank of India (RBI) appointed the Malegam Committee in October 2010 to identify MFI challenges and suggest remedial action. The RBI has broadly accepted the Committee's recommendations toward promoting fair competition, protecting client interests, and improving pricing transparency with regard to MFIs operating as non-banking financial institutions (NBFCs), as these falls under RBI authority. The Microfinance Institutions (Development and Regulation) Bill, 2012 is awaiting parliamentary approval by the national. It proposes RBI as the sole regulator of MFIs.

The first microfinance credit bureaus in India, High Mark and Equifax, were set up in 2011 to help MFIs address credit risks by assessing the repayment capacity of potential borrowers. Equifax also collects client data from MFIs. According to High Mark and Micro Finance Institutions Network (MFIN), more than 120 MFIs, accounting for approximately 90 per cent of all such institutions in the country, have enrolled in credit bureaus.

In November 2013, the RBI announced the criteria for self-regulating organization (SRO) for microfinance industry as per Malegam committee suggestion to ensure effective monitoring of the functioning of NBFC-MFIs, their compliance with the regulations and code of conduct and in the best interest of the customers of the NBFC-MFIs, the Reserve Bank has decided to accord recognition to industry associations as SRO of NBFC-MFIs. The membership of NBFC-MFIs in the industry association/SRO will be seen by the trade, borrowers and lenders as a mark of confidence and removal from membership will be seen as having an adverse impact on the reputation of such removed NBFC-MFIs. While membership to the SRO is not mandatory, NBFC-MFIs are encouraged to voluntarily become members of at least one SRO.



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