Comprehensive MFI Grading

Fusion Microfinance Pvt. Ltd. (FMPL)

Comprehensive Grade Assigned:
Date assigned: *12 May 2017*

Scale	C1	C2	C3	C4	C5
M1					
M2					
M3					
M4					
M5					
M6					
M7					
M8					

The institution obtains comprehensive MFI grade of **M3C1**. This signifies that the institution is performing averagely in running its operations in a sustainable manner.

Grading Rationale

Microfinance Capacity Assessment Grade	Fusion scores **M3** on the microfinance capacity assessment. Fusion has strong systems & internal control mechanisms, a healthy CAR, diversified lender's base and an experienced professional team to implement the future strategies of the MFI. The main reasons that have restricted the overall grade is the weakening of portfolio quality of Fusion (PAR_{60} of 16.5% as on 31 March 2017), high concentration of portfolio in four states (around 70% in UP, MP, Uttarakhand and Haryana) where the external factors have been unfavourable for MFIs due to the recent demonetisation drive and the resulting impact on the growth, efficiency and financial ratios.
Code of Conduct Assessment Grade	Fusion scores an excellent **C1** with respect to compliance with the code of conduct. Fusion can improve its score on governance aspects by ensuring that at least a third of its Board of is independent and it is chaired by a non-executive member. Fusion trains its staff well on communicating the product terms to its clients and has an effective grievance redress mechanism.

Comprehensive MFI Grading provides opinion of the Rating Agency on MFI's capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. MFI Capacity Assessment Grading has been done on the dimensions of ***Capital Adequacy****,* ***Governance****,* ***Management Quality*** *and* ***Risk Management Systems****. Assessment on Code of Conduct has been done on the indicators pertaining to* ***Transparency****,* ***Client Protection****,* ***Governance****,* ***Recruitment****,* ***Client Education, Feedback & Grievance Redressal*** *and* ***Data Sharing****. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on* ***Integrity and Ethical Behaviour*** *and* ***Sensitive Indicators****.*

Conflict of Interest Declaration

The Rating Agency (including its holding company and wholly owned subsidiaries) has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of the Rating agency have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading.

Disclaimer

Standard disclaimer of the Rating Agency

M-CRIL's policy to address potential conflict of interest has three pillars: the time gap between services (technical and rating), personnel involved and oversight by an independent committee.

- In case of an MFI being provided technical services, M-CRIL will not rate that MFI for a period of one year from the date of completion of the TA assignment. For example, if the TA project ended on 30 June 2016, M-CRIL will not take up a rating before 30 June 2017.
- Even at this stage, if M-CRIL takes up a rating assignment, the professionals in the rating team will be different from those who provided technical services.
- In addition, if an MFI provided TA is rated (more than one year after the end of the TA) M-CRIL will (for another two years) disclose in its rating report the professional fee received for the TA as well as the nature of the service provided.
- All M-CRIL ratings are, in any case, reviewed by an independent Rating Committee (see guidelines on the Rating Committee below)
- These conditions apply in the same way to the provision of technical services after a rating.

Historical Rating Grades

Date	Rating Agency	Comprehensive rating grade
July 2014	M-CRIL	83.0% (CoCA)

Microfinance Capacity Assessment Grading symbols and definitions

Grading Scale	Definitions
M1	MFIs with this grade are considered to have **highest** capacity to manage their microfinance operations in a sustainable manner.
M2	MFIs with this grade are considered to have **high** capacity to manage their microfinance operations in a sustainable manner.
M3	MFIs with this grade are considered to have **above average** capacity to manage their microfinance operations in a sustainable manner.
M4	MFIs with this grade are considered to have **average** capacity to manage their microfinance operations in a sustainable manner
M5	MFIs with this grade are considered to have **inadequate** capacity to manage their microfinance operations in a sustainable manner.
M6	MFIs with this grade are considered to have **low** capacity to manage their microfinance operations in a sustainable manner.
M7	MFIs with this grade are considered to have **very low** capacity to manage their microfinance operations in a sustainable manner.
M8	MFIs with this grade are considered to have **lowest** capacity to manage their microfinance operations in a sustainable manner.

Code of Conduct Assessment scale and definitions

C1	MFIs with this grade have **excellent** performance on Code of Conduct dimensions
C2	MFIs with this grade have **good** performance on Code of Conduct dimensions
C3	MFIs with this grade have **average** performance on Code of Conduct dimensions
C4	MFIs with this grade have **weak** performance on Code of Conduct dimensions
C5	MFIs with this grade have **weakest** performance on Code of Conduct dimensions

MFI's profile (March 2017)	
Name of the MFI	Fusion Microfinance Private Limited
Legal form	NBFC-MFI
Organization Head	Mr. Devesh Sachdev
Year of starting microfinance	2010
Branches (31 March 2017)	264
Active borrowers	7,33,562
Total staff	2,191
Operational area	U.P, M.P, Bihar, Haryana, Uttarakhand, Odisha, Chhattisgarh, Jharkhand, Maharashtra, Delhi, Punjab and Rajasthan
Visit of the Assessment team	31st March to 17th April
Correspondence address	Fusion Microfinance Private Limited, H1, Community Centre, Near Gurudwara, Naraina Vihar, New Delhi-110028

Details of Loan Products (March 2017)				
Product	**Description**	**Loan size (Rs)**	**Interest Rate (declining)**	**APR (Int. Rate & Processing fees)**
IGL	1st/2nd cycle	20,000/25,000	25.7%	27.5%
IGL	subsequent cycles	35,000/ 40,000/50,000	24.5%	25.6%

Ownership/Equity Structure

Shareholding Pattern (31 March 2017)	
Shareholder	**% Shareholding**
Devesh Sachdev	5.13%
Ashish Tewari	0.61%
Mini Sachdev	0.85%
RIF North (Incofin)	10.46%
NMI Frontier Fund	13.78%
Gourav Sirohi	0.03%
Sandeep Kumar Sharma	0.02%
Fusion Employee Benefit Trust	2.61%
Belgian Investment Company for Developing Countries SA	14.60%
Oikocredit, Ecumenical Development Co-operative Society U.A.	14.39%
Creation Investments Fusion LLC	28.05%
Total	**100.00%**

Profile of Board of Directors

Board of Directors (March 2017)			
Sr No	**Name**	**Education**	**Brief profile**
1	Devesh Sachdev	PGDM, XLRI	Had 16 years of experience in service industry before starting Fusion. Has worked previously with Citigroup and BSA. Currently serves on the board of M-FIN
2	Aditya Bhandari	Chartered Accountant	Over 13 years of experience in private equity, venture capital, investment banking and corporate finance. Holds board level position in several MFIs in India
3	Njord Andrews	M.B.A (finance)	Prior Experience in equity research with Lazard Capital Market. Currently serving as Investment director in Norwegian Microfinance Initiative (NMI)
4	Albert Hofsink	Bachelors in Accounting	Extensive experience in financial sector. Currently serving on the board of Musoni Microfinance in Kenya, Yalelo Limited in Zambia and on advisory board of 4F fund based out of Netherlands
5	Anita Serrate	Executive Program	Over 15 years of experience with banks, NBFCs and MFIs at international level. Previously worked with organizations like Morgan Guaranty and Euroclear Bank
6	Ken Vander Weele	PHD International Economics	President of Investment Services division at Opportunity International for 9 years. Involved in forming 3 microfinance banks in Eastern Europe
7	Javed Ahmad Siddiqui	M.B.A Marketing	Over 10 years of experience with SIDBI in various departments such as Business Development, Administration and HR
8	Nitin Gupta	M.B.A & Law Graduate	Held important position with organizations such as Master Card, GE Capital and Rediff.com. Founder of Argus Partners and Non-executive co-founder of Lets Buy.
9	Pradip Kumar Saha	B. SC (Hons.)	36 years of experience in development banking. Worked previously with organizations like IDBI and SIDBI

Key Performance Ratios		
	31-Mar-16	31-Mar-17
Portfolio at Risk (>60 days)	0.32%	16.56%
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	21.11%	36.21%
Operating Expense Ratio (OER)	8.20%	9.47%
Funding Expense Ratio (FER)	10.60%	12.50%
Write-offs to average portfolio	0.20%	0.60%
Return on Assets (RoA)	2.88%	1.90%
Return on Equity (RoE)	16.33%	10.1%
Active borrowers per staff	554	529
Active borrowers per branch	2,735	2,768

Compliance with RBI's Directions for MFIs

#	**RBI's Direction**	**Status**
1	85% of total assets to be in the nature of qualifying assets	Compliant
2	Net worth to be in excess of Rs 5 Crore	Compliant
3	Income of borrower not to exceed Rs 100,000 in the rural areas and Rs 160,000 in the urban and semi-urban areas*	Partially-compliant
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	Compliant
5	Total indebtedness of the borrower not to exceed Rs 100,000 (excluding medical and education loans) *	Compliant
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	Compliant
7	Pricing guidelines are to be followed	Compliant
8	Transparency in interest rates to be maintained	Compliant
9	Not more than two MFIs lend to the same client	Compliant

** For the assets classified as qualifying*

Fusion has been marked partially compliant for the income criteria because during the field survey, the income quoted by approximately 70% of the surveyed clients exceeded the RBI caps.

Section 1: Microfinance Capacity Assessment Grading

CAR Summary

Fusion has an experienced nine-member board, which includes two independent directors. The Board is chaired by the promoter-CEO of the institution. The portfolio (CAGR of 109.1%) and client base (CAGR of 82%) have been increasing steadily over the past four years (since March 2013). However, the growth slowed down in the current FY 2016-17 due to the impact of demonetisation, which is evident from the moderate increase in gross portfolio of ~28% and ~55% for borrowers since the end of FY 2015-16. The portfolio quality has also been impacted with PAR_{60} of 16.5% on 31 March 2017 but the MFI seems to be recovering as the collections (of both delinquent and current loans) have gradually improved from November 2016 to March 2017.

Fusion has strong systems and internal control mechanisms. It uses the customized Shakti software to maintain client database. Bi-monthly audits are conducted for all branches and monthly audits for large branches. Fusion received an equity infusion of Rs162 crores in August 2016 which boosted its CAR to 36.2% as on 31 March 2017 though it has not been able to leverage it due to the slowdown. It is encouraging that despite the setback, Fusion has been able to keep the operating expenses (9.5%) in check and managed to achieve a RoA of 1.9% as on 31 March 2017 which are comparable to the previous year's performance (OER of 8.2% and RoA of 2.8%) considering the impact of demonetisation.

MFI Strengths and weaknesses pertaining to CAR

Strengths	Weaknesses
• Board members have ample experience in banking, corporate finance and risk management. • Experienced senior management team; no attrition at the senior level in past 2 years. • Diversified sources of funds – 46 lenders including public and private banks, DFIs • Healthy capital adequacy with an equity infusion of Rs 162 crores from Creation Investments, a PE fund and other institutions. • Board and management committees monitor client dropout and TAT for disbursement in order to reduce the numbers regularly. • Efficient cloud based MIS (Shakti) for maintaining client database, credit bureau integration for initiating CB checks at branches, planning disbursements & surprise centre visits and reporting. • Sufficient liquidity of 6% average cash to average assets ratio during the FY 2016-17. • Introduction of innovative delivery channels like cashless disbursements through NEFT.	• Significant impact on portfolio quality due to demonetisation, though an improving trend is seen from November 2016 onwards. • Decrease in RoA due to slowdown of disbursements during the demonetisation phase. • Board is not chaired by a non-executive member. • Low awareness of clients on product terms. • Majority of the portfolio is concentrated in highly competitive areas.

1 Microfinance Environment

The microfinance sector in India has witnessed stupendous growth post the fallout of the 2010 Andhra Pradesh crisis which had resulted in the halting of funding by banks. The gross loan portfolio of the sector[1] was Rs 60,165 crores, a y-o-y increase of 89% from Q1 of FY 15-16. The average cost of funds for the first quarter of FY 2016-17 was 14.5% and ranged between 9.94% to 18.87%. During the same quarter, MFIs received a total debt funding of Rs 8,384 crores, which represented a y-o-y increase of 125%; 56% of this was from banks.

The Reserve Bank of India (RBI) introduced guidelines (2012, revised in 2014) for NBFC MFIs to be eligible for priority sector lending from banks, which restricts the pricing to lower of: a) cost of funds plus margin, b) 2.75 times the average base rate of the 5 largest commercial banks by assets. Additional conditions include: 85% of lending to bottom 60-70% households (defined by income limits) and disbursing at least 50% of the loans for income generation purposes.

The Mor committee report [2014] advocated enabling changes, post which NBFC-MFIs became eligible to act as BCs for banks and FIs.

In 2015, RBI gave in-principle approval to ten institutions to transform to small finance banks (SFB), of which eight were NBFC-MFIs. This is expected to help the new entities lower their cost of funds as they will be able to raise deposits and at the same time provide other non-credit services to the clients.

The de-monetization of currency notes by RBI in November 2016, has had an impact on the timely repayment of microloans by clients and increased the credit risk of the microfinance firms. The firms have been experiencing delayed repayment because of the cash crisis in the system. In view of this crisis being faced by the borrowers' RBI has relaxed rules for classifying bad loans for small borrowers and has provided additional 60 days for the repayment.

2 Introduction

Fusion Microfinance, an NBFC-MFI, commenced its operations in early 2010 after acquiring Ambience Fincap Private Limited in 2009. The MFI was founded by Mr. Devesh Sachdev whose experience includes banking and finance. The organization started operations based on the Grameen joint liability model of microfinance lending. Fusion aims to reach out to unbanked women entrepreneurs belonging to the economically and socially deprived sections of the society in rural and semi-urban areas.

On 31-March 2017, FMPL was operating in 12 states across 142 districts and served 7,33,562 clients through 264 branches. Fusion set up its first branch in Roorkee in the state of Uttarakhand, which was followed by expansion to Uttar Pradesh, Madhya

[1] Sector as represented by MFIN members

Pradesh and Haryana. In the past two years, Fusion opened branches in Bihar, Chhattisgarh, Jharkhand, Maharashtra, Odisha and Punjab. Moreover, the organization plans to further expand its outreach by commencing operations in Himachal Pradesh and Assam. Fusion Microfinance had a total portfolio of Rs 826.8 crores as on 31 March 2017 and it foresees a CAGR of 51.2% in its gross loan portfolio over the next three years. The growth is expected to come from the recently opened branches reaching their full potential and expansion to other states. Fusion works as a BC of IndusInd bank with a portfolio of Rs 56 crores on 31 March 2017; the share of the BC portfolio in the total portfolio was 6.8% on 31 March 2017 and is expected to go up to 25% by 31 March 2020. Fusion offers loans in the range of Rs15,000 to Rs35,000 for the purpose of income generation. Its loans are targeted to women living in rural and semi-urban areas. Higher size loans of Rs 40,000 and Rs 50,000 are given to graduated clients but the share of such loans in the total portfolio was 0.2% on 31 March 2017. In the past financial year, Fusion launched cashless disbursements through NEFT in certain branches. Approximately 35% of all disbursements in the past financial year were made to the client's bank account.

Fusion uses the customised Shakti software to store client information. Data is stored in cloud with server located in Tokyo and the data restoration site is in USA. Fusion is in the process of building the audit module in the software and has recently integrated the credit bureau check process with its software. All accounting entries are made in the Tally software.

In August 2016, Fusion raised Rs 162 crore from a US-based private equity firm Creation Investments which now holds 28.05% of the total shares. Other investors include Incofin, Norwegian Microfinance Initiative (NMI), Belgian Investment Company for Developing countries (BIO), Oikocredit and Global Financial Inclusion Fund (GAWA), which collectively have a shareholding of 62.70%; the remaining 9.25% is held by the promoter, individuals and an employee benefit trust.

Due to the recent phenomenon of demonetization, Fusion's portfolio quality was affected. However, an analysis of repayment trends indicates that Fusion is recovering from the crisis; As on 31 March 2017, Fusion had successfully recovered 95.5% of total dues for the month of November 2016 and 88.0% of the dues for the month of December 2016. Uttar Pradesh, Madhya Pradesh, Haryana and Uttarakhand were the worst hit states. Fusion has resorted to motivating clients and actively reaching out to the administration in order to reduce its portfolio at risk. The institution expects to write-off 3% to 4% of the sub-standard portfolio.

3 Microfinance Policies

Fusion offers JLG loans to women borrowers in rural and semi-urban areas income generation group members who are usually from the same village and have similar socio-economic status.

Prior to expanding to a new area, the operations team reviews the pin code report to analyse the credit behaviour of the populace. The Area Manager (AM) generates the

Area Lucrative Index, which scores a region on the following parameters: proportion of various religions, proportion of BPL population, economic activities in the area, ongoing government schemes, susceptibility to natural disasters, infrastructure, political atmosphere, law and order situation and competition. The final decision on commencing operations in a new geography is taken by a 3-member committee which includes CEO, AVP-Operations and the Head of Audit. Branches operate within a radius of 30 Km and are located in places with the requisite infrastructure. A branch typically has 5-6 Relationship Officers (ROs) depending on the size of the branch. Activities of the ROs are supervised by the Assistant Branch Manager (ABM) and the Branch Manager (BM). Although the ABM doubles-up as the BM when required, the majority of the tasks carried out by the ABM are administrative in nature.

The branch staff conduct village surveys to identify potential villages for expansion. The key aspects for identifying a village include the number of households, major occupations, type of agricultural land and crops produced, basic infrastructure and presence of other MFIs. Once the villages are finalised, the ROs conduct projection meetings to educate potential customers about the company, its loan products and the terms and conditions associated with availing the loan. Interested women are instructed to mobilise groups and contact the RO. A group should have 4-5 members; groups come together to form centres. Minimum centre size is 10 members and the maximum size is capped at 30 members; the centre size ranges between 10-15 members. Fusion only lends to women clients who are between 18 to 55 years of age and have been living at their current residence for more than 3 years.

Once the members have formed groups, the RO collects the requisite KYCs for generating the CB reports. Two-day Compulsory Group Training (CGT) is conducted for members (provided that there are at least 10 members in the centre) who satisfy the indebtedness criteria of RBI (loans from on other FI and total indebtedness not exceeding Rs 1 lac for own and managed portfolio and Rs70,000 for BC portfolio). During the CGT, the clients are trained about the company, its products, policies, grievance redressal mechanism. Clients are also provided financial literacy training by ROs who use a pre-designed flipchart. The clients are educated on the importance of proper utilisation of loan, pitfalls of over indebtedness, income and expense management and savings. The topics to be covered on day 1 and day 2 of the training which have been mentioned in the tool kit of relationship officers and are also pasted on the walls in the branches. On the 2nd day, the RO visits each members' house and later fills the loan application forms.

Post CGT, the BM conducts the Group Recognition Test (GRT) by visiting the clients' houses and determining the repayment capacity. The BM scores the groups on their knowledge of the loan product, terms and conditions on a scale of 1 to 5. The groups need to score a minimum of 60 points in order to be eligible for the loan. where in visits are made to the houses of all the members. During the house visit their assets and income & expenditure mentioned on the loan application form are verified to assess their repayment capacity.

Once the group is approved by the BM, the loan documents are sent to the HO for data entry. For faraway areas, loan forms are scanned and uploaded in the software and the data entry is done at the regional office. The branch manager gets informed through a message once the KIT is received at HO. Fusion has a 20-member credit team which vets all the loan application forms and the corresponding Credit Bureau reports. Once the loan forms are checked, the loans are sanctioned by the system and is communicated to the BMs via SMS.

Disbursement is conducted at the branch where in all the members are required to be present. At the time of disbursement, clients receive individual loan cards and receipts for payment of the insurance premium and loan processing fees, and a common joint liability agreement for the centre. In some branches, Fusion disburses the loan amount to the client's bank account with the rest of the process remaining the same. The average time between CGT and disbursement is around 11 days. Clients pay the first instalment after the minimum moratorium of 14/28 days. Repayments are collected during the centre meetings which are conducted every 14/28 days with ~98.5% repayments being collected monthly. Loan utilization checks have to be conducted within 30 days of disbursement by the RO and the BM checks the utilization for 25% of the total disbursements within 45 days.

4 Products

Fusion offers small size loans for the purpose of income generation activities. Main loan sizes range between Rs 20,000 to Rs 35,000. Higher size loans of amounts Rs 40,000 and Rs 50,000 are offered to mature clients. As on 31 December 2016, 87.5% of the outstanding loans were of Rs 20,000 and the proportion of loans of amounts Rs25,000 or Rs30,000 was 10.6% of the total number of outstanding loans. Loans are repaid either in equal monthly/fortnightly instalments with a smaller last instalment; for the accelerated product, loan is repaid in 14 equal instalments (out of 26) and smaller size equal instalments for the rest of the tenure.

The interest rate varies between 24.5% and 25.75%, charged at reducing balance. Interest rate varies as per the geography and is higher for states perceived to be risky. Also, the interest rate varies as per the loan sizes, with lower sized loans being slightly more expensive. In addition to the interest, Fusion also charges a loan processing fee of 1% of the loan amount and insurance premium which depends on the service provider. Moratorium period ranges between the repayment frequency period (14 or 28 days) and 45 days. Loan tenure ranges between 19 months to 24 months i.e. 21 instalments to 26 instalments. Fusion does not collect any savings, overdue penalty and pre-closure charges.

Product Name	1st Cycle	2nd Cycle	3rd & above
Target Clients	Women from socially and economically weak households		
Loan range in Rs	20,000/ 25,000	20,000/ 25,000/ 30,000	25,000/ 30,000/ 35,000
Purpose	Income generation activities		
Term (months)	19 to 24		
Repayment frequency	14 days/28 days		
Moratorium period	14 days/28 days		
Processing fee (incl. service tax)	1.15%		
Interest rate % annum (diminishing)	24.5% - 25.75%		
Collateral	Nil	Nil	Nil
Overdue penalty	Nil	Nil	Nil
Prepayment and foreclosure charge	Nil	Nil	Nil

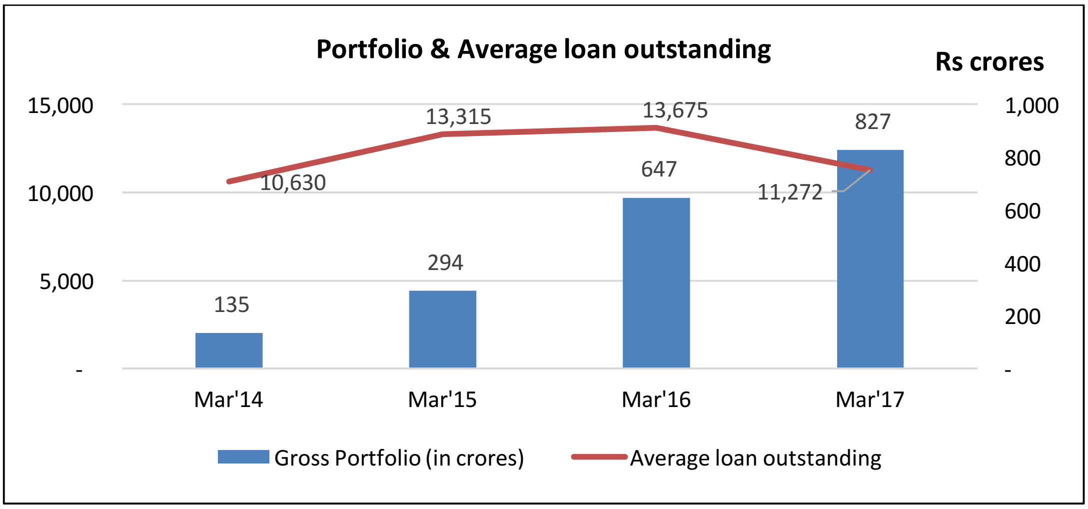
4.1 Top-up loans

As a part of client retention strategy, Fusion plans to introduce top-up loans from April 2017. These loans will be in the range of Rs5,000-10,000 and provided only to existing clients. The final approval for top-up loans will be given by the AM and vetted by the DM.

In addition, these loans will also be offered to clients who could not pay during the demonetisation phase but have been making regular repayments since then. The AM will give approval for loan disbursement after visiting the client's house. The outstanding instalments will be deducted from the approved loan amount and the remaining amount will be disbursed to clients.

Product Name	Top-up loan		
Target Clients	Existing clients who have repaid 8 EMIs		
Loan range in Rs	5,000	8,000	10,000
Purpose	Income generation activities		
Term (months)	12 months		
Repayment frequency	28 days / 14 days		
Moratorium period	20 days		
Processing fee (incl. service tax)	1.15%		
Interest rate % annum (diminishing)	25%		
Collateral	Nil	Nil	Nil
Overdue penalty	Nil	Nil	Nil
Prepayment and foreclosure charge	Nil	Nil	Nil

Apart from top-up loans, Fusion is also planning to offer emergency loans to meet the urgent needs of clients. These loans will be in the range of Rs 3,000 and Rs 5,000.



Fusion's gross portfolio has seen a consistent growth over the last four years. The average loan outstanding per client dipped as on 31 March 2017 as Fusion's client base increased by around 55% in comparison to the portfolio growth of about 28% during the current FY 2016-17. The slowdown in the portfolio growth is mainly attributed to the demonetisation and the cautious approach followed by Fusion in disbursing bigger loans, which was a suitable strategy.

4.2 Insurance

Fusion provides compulsory credit life insurance to clients and their guarantors for the tenure of the loan. It has partnered with Kotak, Bajaj Allianz and DHFL to provide insurance coverage to its and is working to add HDFC life to its list of partners. Fusion works with multiple insurance partners in order to limit its dependence on a particular insurance company.

Insurance details			
Date introduced	01-Aug-10	15-Nov-14	01-Mar-16
Insurance company	Kotak Life Insurance	Bajaj Allianz	DHFL Pramerica
Coverage - who?	Member / Guarantor	Member / Guarantor	Member / Guarantor
Coverage - what?	Loan Amount	Loan Amount	Loan Amount
Premium amount	Rs.9.30 / 1000	Rs.7.16 / 1000	Rs.8.10 / 1000
Tenure	1 Year / 2 Year	1 Year / 2 Year	1 Year / 2 Year
Claim amount (Loan Amount) – Client and guarantor:	Outstanding loan amount	Full loan amount	Full loan amount

For all partners except Kotak, the outstanding loan amount is written off and the client receives the principal repayments already made. For Kotak, only the outstanding loan is written off. Fusion tries to process all insurance claims within 45 days of receipt of all documents from the claimant. In case the claim is not settled within 45 days, Fusion settles the claim and recovers the amount from the insurance companies.

Insurance Processing Details	31 Mar 17
Total insurance accounts (including Guarantor)	14,67,124
Total no. of claims	9,618
Total no. of payouts	8,040
Payouts within 45 days of receipt of documents at branch	5,699
Payouts within 46-90 days of receipt of documents at branch	1,420

5 Governance and strategy

• Governing Board

Fusion has a nine-member board comprising six nominee directors and two independent directors; the Board is chaired by the CEO-promoter of the company. Below are the details of the nominee directors:

Nominee Directors	Investor company
Mr. Aditya Bhandari	Incofin
Mr. Njord Andrewes	Norwegian Microfinance Initiative (NMI)
Mr. Albert Hofsink	Oikocredit
Ms. Anita Serrate	Belgian Investment Company for Developing countries (BIO)
Mr. Ken Vander Weele	Creation Investments Capital Management
Mr. Javed Siddiqui	SIDBI

The nominee directors have extensive experience in banking, NBFCs, corporate finance, investment banking, equity research. And risk management. The Board also has two independent directors: Mr. Nitin Gupta & Mr. Pradip Kumar Saha.

The Board has seven committees: (i) Audit Committee, (ii) Asset & Liability Management Committee, (iii) CSR Committee, (iv) Remuneration & Nomination Committee, (v) Executive Committee, (vi) Board Risk Management Committee and the (vii) Debenture Allotment Committee.

The Audit and Risk Committees meet every quarter and are headed by an independent director, Mr. P.K. Saha. Apart from Mr. Saha, the audit committee has two more members: Mr Albert Hofsink and Mr. Nitin Gupta. The audit committee examines major audit findings, trends in audit grades of branches, client dropout, trainings imparted to branches on audit function and reviews cases of staff fraud and the actions taken. The Board Risk Management committee includes Mr. Devesh Sachdev, Mr. Njord Andrews and Mr. P.K Saha. The committee discusses operational, credit risk liquidity, funding and interest rate risk and market risks. The following aspects are reviewed during the risk committee meetings: PAR 30, no. of delinquent loans, portfolio concentration - district and state wise, portfolio and client growth.

Fusion also has a management risk committee (MRC) which is led by Mr. Devesh Sachdev and includes all functional heads. The committee meets every month to review operational risks such as problem centres, client dropout, branches with high dropout, TAT for disbursement, client grievances, insurance pending cases, staff attrition, etc. and credit risks such as causes of delinquency, portfolio quality, portfolio exposure - district/state/industry/branch level.

5 Alignment of practices

• Alignment of practices with mission

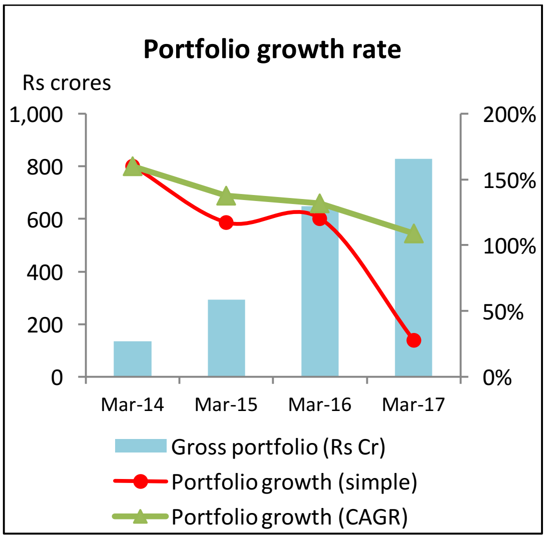
Fusion meets its social vision and business orientation by providing financial services in the form of small ticket size loans to low income households in rural and semi-urban areas. Around 77.4% of its total client base as on 31-December 2016 was from rural areas. It promotes economic opportunities by providing loan for income generation activities only.

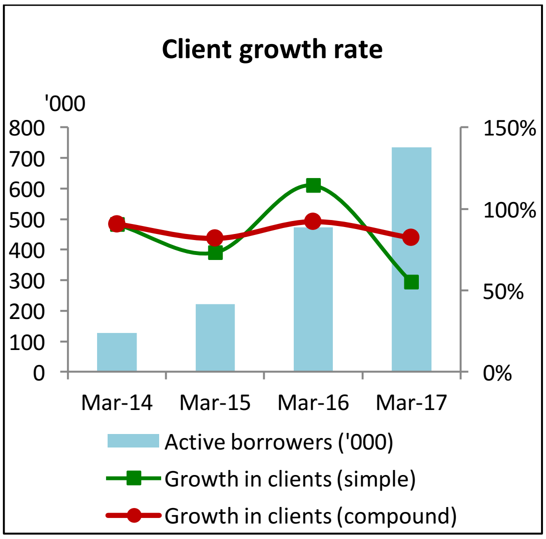
Fusion has been consistently witnessing a strong growth in its revenue and profits and is a self-sustainable institution. Fusion is yet to leverage its distribution channels to offer other products. Financial literacy training is part of the CGT imparted to all clients prior to disbursement. The vision and mission of Fusion is communicated to staff during the induction training.

Vision	Mission
Fusion microfinance has a social vision and business orientation aims to provide underprivileged women with economic opportunities to transform the quality of their lives	A self-sustainable financial institution which leverages the distribution network to channel other products and services

• Operational growth and strategy

Fusion formally commenced operations in January 2010 by setting up its head office in Delhi and 1st branch in Roorkee, Uttarakhand. Since then, it has consistently witnessed a strong growth with expansion of operations to new states and increased penetration in existing states. As on 31 Mar 2017, Fusion had a portfolio of Rs 826.8 crores and recorded a CAGR of 82.0% over the past 4 years. In 2017, the organization commenced operations in Punjab, Chattisgarh and Rajasthan and opened a total of 92 new branches in existing as well as new states.





Fusion plans to start operations in Himachal Pradesh and Assam in the coming financial year and expects to grow at a CAGR of 51.2% over the next 3 years. The growth will be mainly achieved by an increase in outreach of the new branches that are yet to reach their full potential and through expansion in new states. Fusion projects the BC portfolio to contribute around 25% of the total gross portfolio in future. The overall growth of Fusion in the current year was impacted by demonetisation. It is evident from the growth in clients of ~55% and portfolio of ~28% during the year which is much less than the CAGR of 82% for clients and 109.1% for portfolio achieved over the period of last 4 years (1 April 2014 onwards).

Fusion growth projection for 2017-2020

Year	2017-A	2018 (Est)	2019 (Est.)	2020 (Est.)
Gross Portfolio (Rs crores)	827	1,360	2,040	2,860
BC Portfolio (in crores)	56	340	510	715
Average Outstanding	11,272	15,200	16,800	18,400
Clients	7,33,562	8,94,737	12,14,286	15,54,348
States	12	13	13	13
Branches	264	309	392	493

Going forward, Fusion will open smaller branches to serve areas that cannot be served by two neighbouring branches i.e. areas that are more than 30 Km from the branch. The small branches will have a potential of 2,000 to 2,500 clients. Such branches will be headed by an ABM.

Fusion started cashless disbursements in July 2016 and currently more than 30% of its disbursements are taking place through NEFT transactions. It seeks to further increase the share of cashless disbursement as large number of clients already have bank accounts. Fusion also plans to open digital branches by going paperless. The process will be piloted in three branches in the coming days.

• Competition

Fusion cautiously chooses its area of operations with pin code analysis to understand the industry dynamics and avoids areas with large number of MFIs, high indebtedness and high delinquency. Most visited clients had only one loan or no loans from other MFIs/Banks. However, across its areas of operation, Fusion faces a high competition from other financial institutions such as Equitas, Ujjivan, Gram Vidiyal, SKS Microfinance, Janalakshmi, SVCL, Bandhan, Spandana, Share, HDFC and Axis Bank.

Fusion strictly follows RBI's guidelines on multiple lending through a CB check process and does not lend to clients who have exposure to 2 or more financial institutions (including Banks and NBFCs). The average CB rejection rate was around 33% in the past year which is also indicative of loss of potential clients to competitors. The client retention rate on 31 March 2017 was 87% a slight decrease from 91% on 31 March 2016. As for client indebtedness, Fusion allows an outstanding up to Rs 1 lac for own portfolio and Rs 70,000 for BC portfolio.

Although Fusion's interest rate has come down recently, it is still higher than the industry standard. Large MFIs/Banks like SKS and Bandhan have been providing loans at less than ~20% interest rate. However, if it continues to improve its OER and increases outreach in recently opened branches, Fusion has the capacity to bring down the interest rates further.

Fusion does not offer high ticket size loans as a credit risk mitigation strategy. Even though it has increased the maximum loan size limit to Rs35,000 for 3rd cycle clients, it is still less than the loan sizes offered by its peers. Graduated clients can avail higher ticket loans of Rs40,000 and Rs50,000; however, such loans comprised only 0.2% of the total outstanding portfolio on 31 March 2016.

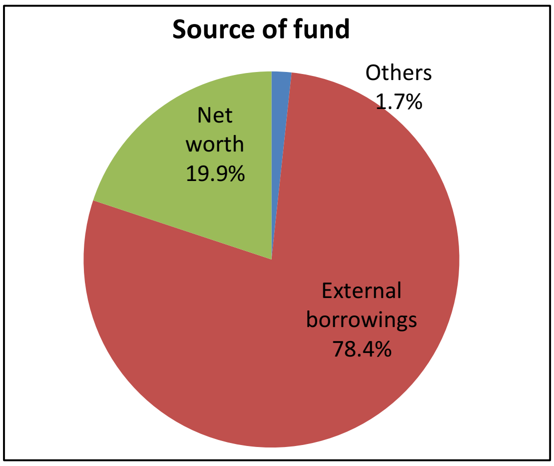
• Second line of management

The institution is led by its CEO Mr. Devesh Sachdev who is the founder of the organization. Senior management staff comprises of Vice president - Risk & Audit, Vice-President - Business & Operations, Vice President - Human Resource, Assistant Vice President - IT & Operations, Chief Financial Officer, AVP – Business Excellence and Senior Manager- Social Performance Management. The management has experience in banking and financial sector.

Fusion has been able to retain its experienced staff as there have been no attrition in the past two years at the manager and higher levels.

- **Fund mobilization**

Fusion has a diversified base of 46 lenders including both public and private sector banks, foreign funds including microfinance investment vehicles, NBFCs and Developmental Financial Institutions (DFIs); some of its largest lenders include the AAV Sarl fund managed by Symbiotics, which accounts for 10.9% of the total outstanding borrowings, Blue Orchard 9.9% and NABARD 10.3% of the total outstanding borrowings as on 31 March 2016.



In August 2016, Fusion mobilised Rs 162 crores from the US based private equity firm Creation Investments and other institutions, which resulted in Creations holding 28.05% of the total shares of Fusion as on 31-Mar-17. As a result, Fusion's total net worth increased to Rs 238.27 crores on 31 March 2017 from Rs 72.79 crores on 31 March 2016. Of the total networth, the share of securities premium was 67.7%. Fusion has issued Optionally Convertible Preference Shares (OCPS) worth Rs 3 crores to SIDBI at 9%. Further, Fusion raised subordinate debt of Rs7 crores from SIDBI and and Rs 50 crores as NCDs from IFMR capital.

As on 31 March 2017, FMPL had total external borrowings of Rs 938.1 crores, which constituted 78.38% of the total sources of funds, a slight increase from 74.1% on 31 March 2016. Equity contributes 19.91% of the total source of funds. The financial expense ratio for the period ending March 2017 was 12.5%, an increase from 10.6% on 31 March 2016. The cost of funds decreased from 15.94% in FY 2014-15 to 13.43% for FY 2015-16 and is projected to increase slightly to 13.73% for FY 2016-17.

Its authorised share capital increased from Rs 28 crores on 31 March 2016 to Rs 45 crores on 31 March 2017 due to the issue of equity shares. Creations investments holds 28.05% of the total shares and the promoter and related individuals hold 5.98%.

6 Organization and Management systems

- **Human resource and management**

The HR team is divided into the following divisions: (i) Head office HR team, which handles new hiring, induction, compensation, payroll, talent management, (ii) Regional HR team, which manages business partnering, joining and exit formalities. Of the 16-member team, 11 members are based at the head office and the remaining 5 members are based at the various regions. Fusion is in the process of hiring an Assistant Vice-President (AVP) to coordinate with the regional teams.

The regional HRs work with the respective state heads to determine manpower requirements and update the recruitment sheet on a weekly basis. The HR department also maintains a database of candidates who call upon Fusion and conducts interviews on Mondays to maintain a pool of resources. The HR department uses the 'RAMCO' (for employee induction and onboarding, time and attendance management, leave management, payroll, MIS, separations, etc. Fusion has a detailed HR manual with guidelines for recruitment, compensation, training and development, exit process.

Candidates for field staff are sought through employee referrals (being the most financially viable and hence most used), walk-ins, employment exchanges, job fairs and advertisement in local newspapers. Fusion is doing away with ads based recruitment (due to high cost) and using the services of employment exchanges, recruitment consultants and hiring graduates from Tier 3 and 4 colleges. For the ROs, only interviews are conducted and for branch manager (BM), a written test (comprising of basic English, quantitative analysis, logical reasoning and general knowledge) is also conducted. 4 reference checks (2 personal and 2 professional) are taken from all candidates. All new recruits undergo a background check which is outsourced to a third party.

Field staff undergo a 3-day classroom training (on organizations' vision and mission, policies and processes, RBI guidelines, code of conduct, client protection principles, HR policies, etc.) at the regional or divisional office. Following this, the recruits are posted in branches where they undergo a 2-4 week on the job training. As an additional security measure, the selected employees also submit an affidavit signed by their parents stating that the latter would be responsible if the employee commits any misconduct, is involved in miss-appropriation of funds etc.

The training function is led by Mr. Sunil Vasu, who oversaw the training of a team of 45 members by external faculty, identified by the head of operations and sourced from the operations team to provide trainings to the field staff. Currently the training modules are being converted into regional languages. Refresher trainings are conducted for the staff in case there are significant changes in the policies or processes.

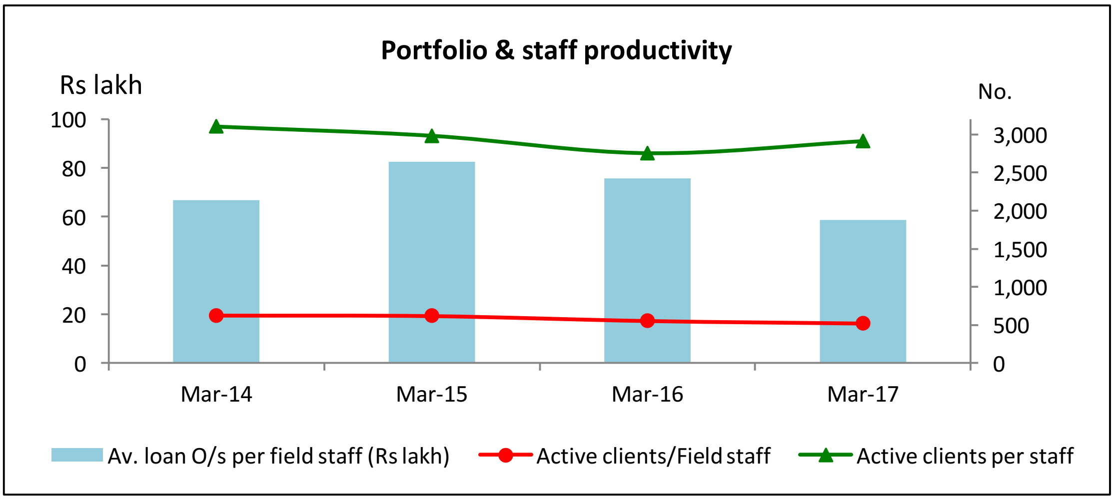
Field staff incentive depends on depends on new customer acquisition, active loan clients, portfolio quality and BMs feedback; incentives are capped to prevent aggressive selling. Appraisal is conducted once in a year; acquisition of new clients, percentage of overdue portfolio, behaviour with other staff and feedback of supervisors determines the performance for the field staff.

The staff attrition rate is on the higher side and has been in the range of 31% to 32% over the past two years; entirely due to the high turnover of field staff as there has been no attrition at the manager and above level in the organization in the past two years. While Fusion makes attempts to record reasons for staff exit, it is unable to do for the field staff that do not remain contactable.

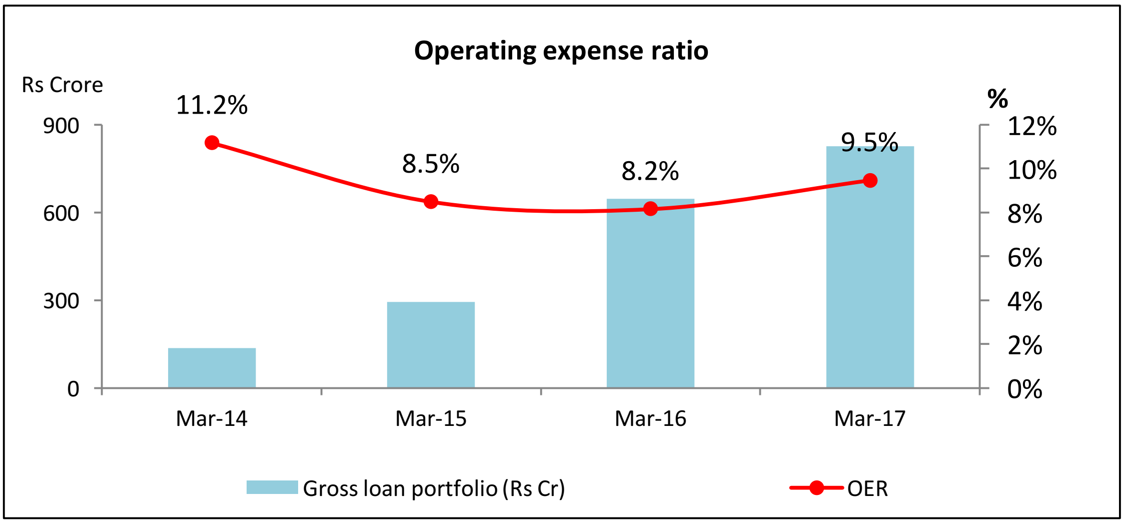
- ## Staff productivity & Operating efficiency

Field staff productivity of Fusion has gradually decreased from 620 active clients per RO on 31 March 15 to 554 on 31 March 16 and to 492 on 31 March 17. Similarly, the number of active clients per total staff has also reduced from 373 on 31 March 14 to 311 on 31 March 17. Fusion opened 92 branches in the past one year and the number of staff increased by 157% (ROs increased by 162%) between end of March 2016 and end of March 2017. The decrease in productivity is attributed to the fact that the new branches are yet to attain their full potential. As on 31 March 2017, the ROs comprised 63.4% of the total workforce.

Gaps in credit appraisal process were observed in the field; the ROs do not record details of other loan instalments in the loan application for cash flow analysis. Awareness of field staff on RBI guidelines was low.



Operating Expense Ratio: OER decreased from 8.5% on 31 March 2015 to 8.2% on 31 March 2016 and then increased to 9.5% on 31 March 2017, due to the increase in the personnel expenses and in the current year mainly because of the slowdown of the portfolio grown from November 2016 onwards due to demonetisation.



- ## Accounts and MIS

IT & MIS

The IT & Operations team comprises of 90 members; including data entry operators (40), credit health check team (20), IT & MIS (10), insurance processing team (10) and daily reconciliation team (10).

Since February 2014, Fusion has been using the Shakti software which is a web-based real time platform developed by Qbrik Technologies (Chennai). Shakti software is equipped with various features such as de-dupe, rescheduling of loans, credit bureau integration, automated SMS, automated periodic reports to various departments, automated incentive calculation etc.

The server is maintained in cloud with the main site in Tokyo and the restoration site in USA. Two full back-ups are taken pre and post end of day. Incremental data is collected on a daily, weekly and monthly basis. At present the disaster recovery server gets activated in 10 minutes and Fusion is working to reduce this time to 1 minute. Back-up files are stored at multiple locations on the cloud. Back-up on physical drive is taken at the end of every month. Data access is user-defined; field staff can access data pertaining to their branches only. It is mandatory to change password within 30 days as per system requirements and the same is stated in the IT policy. The IT system is audited every quarter by J.P. Chawla & Co, and by KPMG on a half-yearly basis. Based on recommendations by SIDBI, a systems audit was conducted by Qadit Systems & Solutions Pvt. Ltd. on Aug-2016.

All branches have access to the Shakti software. Branch staff update details of collections received in the MIS and an excel, which is shared with the reconciliation team at the end of the day.

Fusion has an effective loan document management system. The filled loan forms are tagged with barcodes and sent to the HO for data entry. At each stage of the form processing (completion of data entry, loan sanction), the BMs receive intimation via messages. Fusion has installed scanners at faraway branches to avoid the delay caused due to transportation of loan forms; there are around 170 such branches. For BC branches, Fusion shares the scans of KYC and loan forms with the partner bank which takes 2 days to process the loan request.

Validity of CB report is fixed at 15 days in the system; loans cannot be sanctioned by the system if the report is more than 15 days old. Fusion is working to integrate its MIS with Highmark. Currently, the it takes is around 2 minutes to generate a CB report.

Fusion is in the process of piloting a data mobility solution at 3 branches, in which the client onboarding would be done in the field by using barcodes, QR codes, images of client KYC and guarantor’s photograph.

The MIS team regularly generates reports on portfolio quality across various buckets, demand, analytics of prepayment, advance and late payments, overdue trends, etc.

Accounts

The accounts department is centralized and handled by an 18-member team based at the HO. Tally software is used for making accounting entries. The daily disbursement plan is downloaded from the Shakti software and the fund transfers are initiated accordingly. The branches send details of collections and disbursements in an excel sheet to the MIS team. The accounts team reconciles the data shared by the MIS team with the accounting data. For branches the reconciliation happens on a weekly basis and for the HO it is done on a daily basis.

The financial statements are prepared using the historical cost method on the accrual basis of accounting in accordance with the Companies Act, 2013. Depreciation is calculated on a pro-rata basis using the written down value method. Fusion makes loan loss provision of 1% of own portfolio.

In FY 15-16, Fusion wrote-off 0.2% of its average portfolio and 0.6% in FY 16-17. However, due to the impact of demonetisation, a higher write-off is expected in the coming financial year. Since the current loan loss reserve of 1.0% as on 31 March 2017 will not adequately cover for the increased credit risk due to demonetisation with PAR 60 of 16.5% as on 31 March 2017, Fusion is likely to make a special provision of 1% to 2% of the portfolio that was affected due to demonetisation.

- ## Loan tracking system

The ROs provide orientation to the clients regarding the various terms and conditions of the loan products, repayment schedules, harms of over-indebtedness, etc. during the CGT and at the time of disbursement.

The operation manual contains the various steps to be followed by the ROs in case of delinquent clients. In case the RO is unable to find the resolution (through discussions with other members, house visits and enforcing joint liability), the BM is informed. Thereafter, the AM and DM may also join if required. The various reasons for delinquency and the escalation matrix are documented. Under no circumstances does the branch staff seeks assistance from third parties for recovering the loans. During field visits, the M-CRIL team observed that all the field staff including the branch managers were aware of the various steps to be followed while dealing with default clients.

The portfolio quality at certain branches has been weak due to the impact of demonetisation. The details of daily collections are noted in an excel sheet at the branches. The branch staff regularly follow-up with such clients and motivate them to repay by educating them on the importance of good credit history.

• Internal control (monitoring & supervision, internal audit, overdue tracking and risk management)

The BM and AM are primarily responsible for supervision of field processes and implementation of policies. The AM visits the branches at least twice in a month and the Divisional Manager (DM) visits the branches at least once in a month. Apart from reviewing branch operations, the AM and DM also monitor field processes such as group formation meetings, CGTs, GRTs, center meetings and disbursements. The AMs and DMs document their observations and submit monitoring reports to their respective supervisors on a monthly basis.

The BMs conduct a minimum of 2 surprise center visits (SCVs) every day and record their observations in the SCV form. LUCs are conducted by ROs for 100% of clients to ensure that loan is being utilised for income generating activities. BMs conduct LUCs for about 25% of the clients for its branch within 45 days of disbursement. The SCV module is built in the system. As per the logic, the system allocates the centres to the BM based on visits already done, old score, distance from branch, etc. and the system blocks those centres for which an SCV has been conducted.

Internal Audit

Fusion has an independent Internal Audit (IA) team, which is led by an experienced professional with ample audit experience in banking. The IA department has 132 employees which includes 95 audit officers. Branches are assigned audit officers for a period of one year. For larger branches (clients more than 3,500), there is a dedicated audit officer and for smaller branches (clients less than 3500), 1 audit officer is usually responsible for 2 such branches. Audit is conducted bi-monthly for smaller and monthly for larger branches. For BC branches, each IA officer manages 4 branches as the bank team also conducts quarterly audits.

An excel-based audit tool is used to assess the compliance to the organisation's processes and policies. Depending on the identification of problem indicators, the audit parameters are revised on a quarterly basis. Scope of the audit includes review of processes in the field, branch office operations, fair practices code compliance and back office operations. Parameters are graded on a scale of 0 to 4 where 0 is means non-adherence and 4 means full compliance. Depending on the total score, branches are assigned the following grades:

Score	Branch grade
More than 85%	Green
75.01%- 85%	Yellow
65.01%-75%	Red
Less than 65%	Black

Branch audit has been divided into 6 categories and each of them is assigned a certain weight; maximum weightage is assigned to the field processes (50%) as it includes core components such as CGT, GRT and center meetings. Apart from this, the audit team meets all cases of death settlement and all clients who register a complaint at the toll-free number.

Parameters	Components	Weightage
Field Processes	• Group Formation/CGT • GRT • Center Meetings • House Visit/client visit & KYC verification	50%
Branch Processes	• Loan application process • Loan disbursement process • Insurance • Repayment collection reconciliation	10%
Branch record keeping and Reporting	• Registers maintenance and updating • File and manual updating • Cash MIS to finance and operations	10%
Cash Management	• Cash book • Cash withdrawal/deposit process • Loan upfront fee receipt book • Bank account and cheque book record • Key registers	10%
Monitoring mechanism	• BM Field visit • Weekly Branch meeting • Audit compliance • Village survey	15%
Fair Practices code implementation	• Staff Behaviour with clients • Complaint Resolution	5%

Once the audit visit is concluded, a report is shared with the branch manager who has to provide the action taken report within 30 days. The BM is responsible for responding to the findings shared in the report. In case the action taken report is not submitted within the stipulated times, a penalty is levied on the existing score. The audit scores affect the incentives of branch staff. During the demonetisation phase (November and December), although the branches were audited, scores were not assigned to them, so that the staff do not get penalized for an external factor that caused the stress to the operations and the portfolio quality.

The client grievance redressal team reports to the Head of Internal Audit. The 3 member grievance handling team is led by a team leader. The team is based at the HO and handle calls between 9:30 am to 5:30 pm (Monday to Friday) {2nd and 4th Saturday is off whereas 1st and 3rd Saturday is working}. The team members can speak a total of 3 languages (Hindi, Punjabi and English). However, in near future Fusion will have to strengthen other language skills since it is expanding to other states such as Assam and Orissa.

Fusion uses the Knowlarity software to record all calls received at the toll free number. Details of complaints are captured in an excel sheet and are used to follow-up until resolution is achieved. Although complaint registers and suggestion boxes are available at the branches, no complaints were recorded through either of these channels.

Complains resolution time has been capped at 7 days. If the grievance team is unable to resolve the complaints, it is escalated to the audit head, state head and AVP. Summary of the client grievances are present to the board on a quarterly basis.

Of all the calls received at the toll-free number between Apr-Dec 2016, only 2% were complaints whereas the remaining 98% were enquiries. 89% of the complaints were resolved within a period of 7 days. The resolution time for 11% of the complaints exceeded 7 days. The grievance team plans to initiate outbound calls from 1st April 2017 for obtaining customer feedback on the loan origination and disbursement process, identify fraud and client awareness on salient product terms.

Risk Management

The risk function is handled by the head of Internal Audit. Fusion has developed a basic Risk Management framework and has identified a few KRIs that are monitored on a quarterly basis. Fusion has a board as well as management level risk committee. The board risk committee includes the CEO, an independent director and a nominee director, which meets once in a quarter to review the operational, credit, liquidity and market risks. The management level risk committee comprises of all the functional heads and is headed by the CEO. It meets on a monthly basis to review all functions.

- **Financial planning & cash management:**

The institution has prepared the business planning for the next 3 years (up to FY 2019-20). The business plan is reviewed every quarter.

Fusion has a centralised system of financial planning and overall fund management. The finance department regularly analyses reports to ensure proper Asset Liability Management (ALM).

The finance team extracts the daily disbursement plan from the Shakti software and transfers funds accordingly. For cashless disbursements, an ECS transaction is done to transfer the loan amount to the client’s bank account.

Joint signatures of two branch staff (BM and AM or AM and Divisional Manager) is required to withdraw cash from the branches. Each branch maintains between 5 to 10 cheques at any given time. Withdrawal limit per cheque is fixed at Rs 8 lacs and the disbursement limit per branch is capped at Rs 15 lacs. Branches are expected to retain no cash at the branches. However, exceptions are possible with permission from due authorities. The AM needs to be informed for retaining cash up to Rs 50,000, DM for Rs 75,000, RM for Rs 1 lac, AVP operations for amounts greater than Rs 1 lac, Head-Operations for cash exceeding Rs 2 lacs and for amounts exceeding Rs 4 lacs, the CEO needs to be informed. The BM takes printouts of the approval mails and files them in the cash hold register.

Fusion no longer avails insurance for cash in transit as it is not financially viable with high insurance premium and unsettled claims over the past two years. Hence, in order to mitigate and provide for such risks, Fusion has created a reserve of 0.05% of the volume of transactions (disbursements + collections + loan processing fees + insurance).

As a prudential practice, Fusion tries to maintain a liquidity equivalent to at least next 1.5 months of disbursement targets, which ranges from 3% to 5% of the total assets. However, during the demonetisation period, due to the slowdown of disbursements a higher liquidity equivalent to 4 to 5 months of disbursements was observed. Over the years, Fusion has maintained adequate liquidity with average cash and bank balances as a proportion of average total assets of 5% to 6%. It has improved from 1.4% during FY 2012-13 to 5.2% in FY 2013-14 and since then it has been above 6%.

7 Financial performance

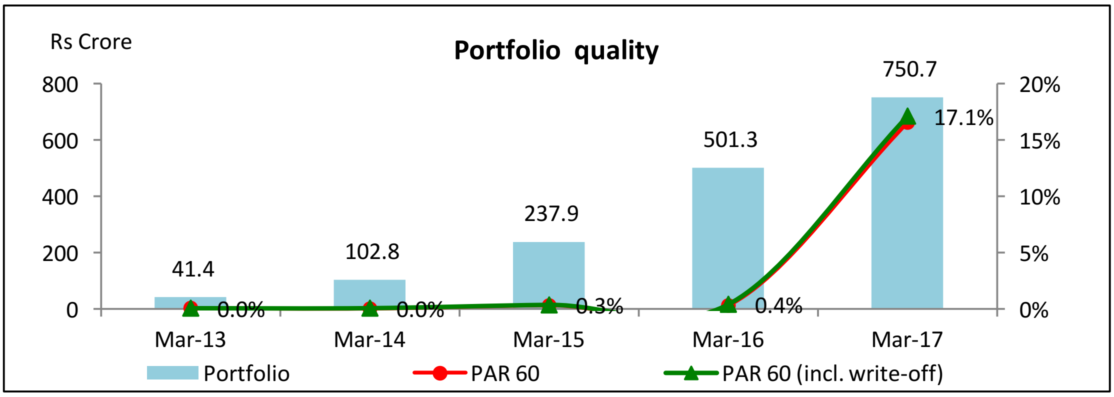
- **Key financial ratios:**

Financial Ratios	31 Mar-14	31 Mar-15	31 Mar-16	31 Mar-17
Capital Adequacy				
Risk Weighted Capital Adequacy ratio (CAR)	29.7%	19.06%	21.1%	36.2%
Asset Quality				
Portfolio at Risk60/ Gross Portfolio	0.0%	0.3%	0.3%	16.5%
Loan Loss Reserve/Gross portfolio	1.0%	1.0%	1.0%	1.0%
Write-offs / Average Gross Portfolio	0.05%	0.05%	0.20%	0.61%
Management				
Operating Expenses/ Avg. Gross Portfolio	11.2%	8.5%	8.2%	9.5%
Cost per borrower (in INR)	781	806	780	929
Number of Borrowers/Field staff	627	620	554	520
Active Borrowers/ branch	3,105	2,982	2,735	2,768
Cost of funds	14.77%	15.94%	13.43%	13.73%*
Fin. Cost Ratio (Int. & Fee exp. /Avg Portfolio)	11.0%	13.2%	10.6%	12.5%
Earnings				
RoE (Net operating income/Avg. Equity)	13.3%	14.5%	16.3%	10.1%
RoA (Net operating income/Avg. Assets)	2.7%	2.3%	2.9%	1.9%
Portfolio Yield (own portfolio)	23.6%	23.3%	22.9%	23.1%
Portfolio Yield (BC portfolio)	-	8.3%	10.0%	11.3%
Operational Self-Sufficiency (OSS)	113.7%	110.7%	113.8%	110.0%
Liquidity				
Avg. Cash & Liquid Assets/Avg. Total Assets	5.2%	6.4%	6.2%	6.0%
Debt-equity ratio	4.97	5.45	4.25	4.14

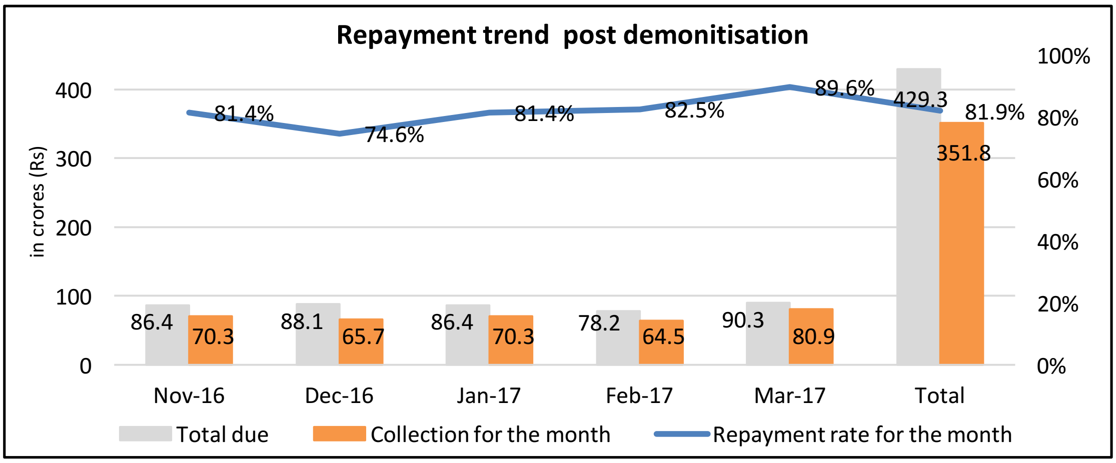
*Projected

- **Credit performance and portfolio quality**

Fusion had maintained good portfolio quality in the past but has been affected by the recent demonetisation move as evident from a PAR_{30} of 22.0% and PAR_{60} of 16.5% as on 31 March 2017. The four states (Haryana, Madhya, Pradesh, Uttarakhand, Uttar Pradesh) which account for 61% of the total portfolio were the worst affected and had a combined PAR_{60} of 25.6% as on 31 March 2017.



Around 2.5% of the total borrowers did not paid a single instalment post demonetisation, which was announced in November 2016. Although the institution faced challenges during the demonetisation phase and the two months following it, the repayment rates have shown an improving trend (as shown below) since then due to a proactive effort of Fusion to make the clients aware of good repayment practices, clarifying RBIs circulars related to repayments and maintaining regular touch points with their good clients.



Although PAR_{60} on 31 March was 16.5%, 95.5% of the total dues for November 2016 was collected by 31 March 2017 and similarly 88% of due for December 2016 has been collected, which indicates that Fusion is making progress towards recovering from the effects of demonetisation.

<u>Total collection received vs total amount due</u>

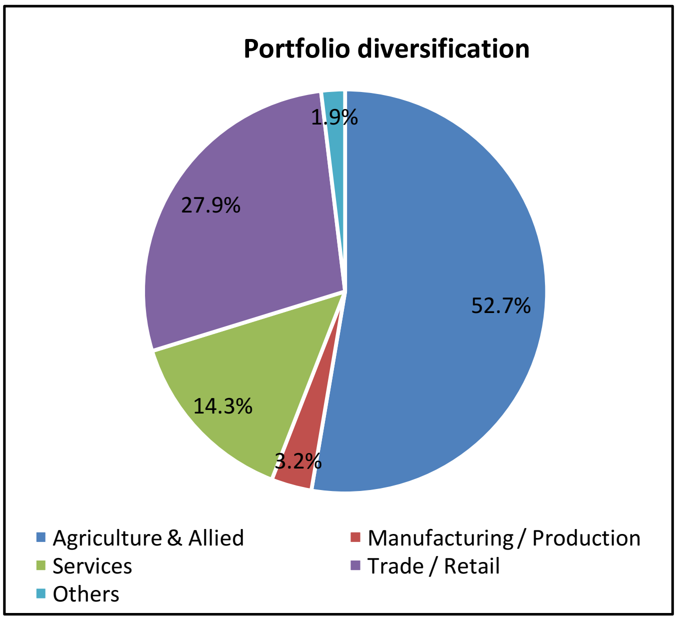
Month	Amount due	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Collection %
Nov-16	8,639.4	7,032.8	677.8	278.7	146.5	112.9	95.5
Dec-16	8,810.3		5,896.8	1093.4	413.8	353.4	88.0
Jan-17	8,636.8			5,659.6	759.5	660.1	82.0
Feb-17	7,819.1				5,128.4	807.3	75.9
Mar-17	9,026.0					6,154.7	68.2
Total	42,931.6	7,032.8	6,574.6	7,031.7	6,448.1	8,088.4	81.9

In the coming month, Fusion will be piloting a top-up product of loan sizes Rs5,000, Rs8,000 and Rs10,000. While the product has been designed to provide mid-cycle loans to existing clients for better retention, it will also be used as a tool to enable clients (who could not repay during the demonetisation period but have been regular in repayments henceforth) pay off their overdue loans. For eligible clients affected by demonetisation, the outstanding instalments will be deducted from the total loan amount and the balance amount will be disbursed to them. Only those clients who have demonstrated good repayment behaviour after demonetization are eligible for the top-up loan. In order to prevent the risk of ever greening of loans, Fusion has put in place strong control mechanisms. The list of eligible clients will be generated at the HO and shared with the branches and the AM will conduct a house visit for such clients before approving the loan. Clients who have outstanding loans from other institutions will not be eligible for receiving the top-up loan. The top up loans will be issued only from April 2017 onwards and the performance of these loans would be evident in the ensuing quarter.

Review of the loan forms indicate that the field staff do not record details of other loans in the cash flow analysis. Since Fusion offers small ticket loans this does not pose a major risk, however, credit appraisal would need strengthening if Fusion moves to the higher loan segment.

Fusion has diversified its portfolio across 11 states, with Uttar Pradesh and Madhya Pradesh's share in the total portfolio outstanding being 26% and 24% respectively, followed by Bihar at 17% Haryana at 11% and Uttarakhand at 8%.

On 31 December 2016, 82.6% of the outstanding loans were of loan size Rs20,000 indicating the large proportion of first time clients in congruence with the growth pattern of Fusion. Fusion's portfolio grew by approximately 120% between 31 March 2015 and 31 March 2016 and 28% between 31 March 2016 and 31 March 2017; the minimum loan tenure is 19 months. Nearly half of the portfolio (52.7%) was used for agriculture and allied activities. The graph alongside shows the sector wise portfolio distribution.



• Balance sheet structure and Asset & Liability management

On 31 March 2017, the net loan portfolio of the company constituted 60.6% of the total assets, a decrease from 79.4% on 31 March 2016. This was due to the slowdown in disbursement because of demonetisation. Fusion had high liquidity at the end of the financial year. Cash and bank balances accounted for 17.4% of the total assets and investments in debt funds account for 17.2% of the total assets.

Fusion has a loan loss reserve of 1% and in FY 15-16 around 0.2% of Fusion's loan portfolio was written-off. Due to the impact of demonetisation, Fusion expects to write off between 3% to 4% of the sub-standard portfolio in the coming financial year. The existing loan loss reserve can account for write-offs of around 5.5% of PAR >60 days portfolio, but if the write-offs exceed this, Fusion's net worth will be affected.

The special additional provision of 1 to 2% of the delinquent portfolio which Fusion is expected to make should be adequate to cover the write-offs.

Fusion has a board approved investment policy; it invests in debt funds which have been rated AAA, AAA+ or short term funds with A+ or B1 rating. It invests maximum finds on the liquid category.

Fusion maintains cash balances of around 5% of total assets which is sufficient for disbursements for 1.5 to 2 months. However, during demonetisation disbursements were put on a hold which to an increase in liquidity amounting to approximately 4 to 5 months of disbursement. The tenure of borrowings ranges between 1 to 9 years, with majority being for a period of 3 years. Although, there is a gap or Rs. 165.65 crores and Rs 229.44 crores in assets and liabilities for the 1 to 3 years and the more than 3 years buckets respectively, it is offset by the positive differences for buckets of less than a year.

(Amount in Rs. Crores)

	1 to 30/31 days	1 to 2 months	Over 2 and upto 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 year upto 3 years	Over 3 years	Total
Assets – Liabilities	419.69	46.65	40.31	82.27	42.89	(165.65)	(229.44)	236.72
Cumulative Mismatch	419.69	466.34	506.65	588.92	631.81	466.16	236.72	3,316.28

On the liability side, external borrowings constitute 76.5%, while the net worth comprising share capital & reserves constitute 19.4%.

Fusion does not face foreign exchange exposure risks as it does not have any external commercial borrowings; the investments by foreign portfolio investors have been listed as debentures, which also saves Fusion any hedging costs. Only the processing fees is paid on the spot rate of dollar.

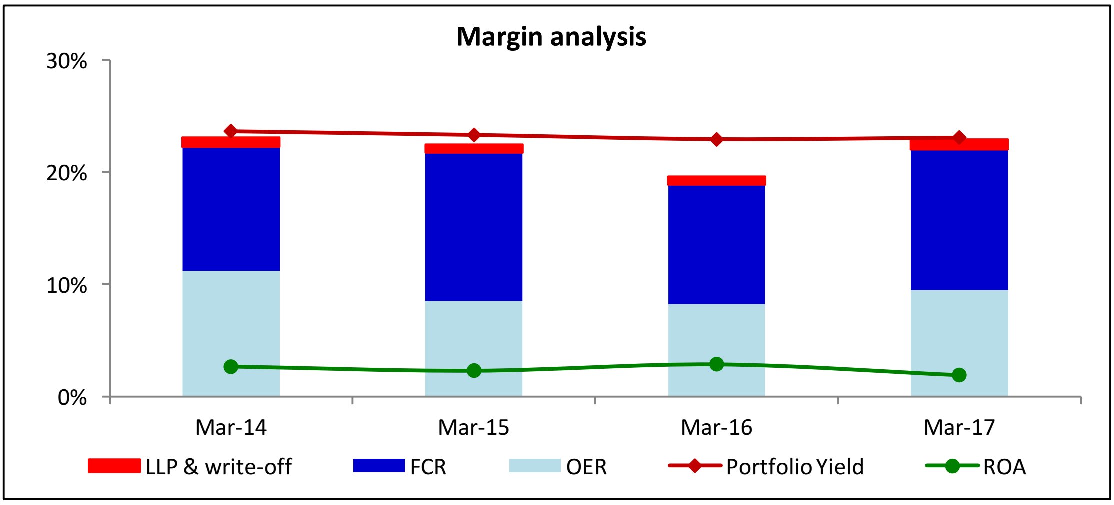
- **Capital adequacy**

Fusion's capital risk weighted Capital Adequacy Ratio (CAR – Tier 1 & 2) increased to 36.2% on 31 March 2017 from 21.1% for 31 March 2016 and exceeds the RBI's requirement of 15% for NBFC-MFIs. The company's net worth increased from Rs 72.79 crores on 31 March 2016 to Rs 238.27 crore on 31 March 2017 due to the equity investment of Rs 162 crores from Creation Investments. SIDBI was issued OCPS worth Rs 3 crores in FY 2015-16.

Although Fusion has been able to leverage its net worth position by securing term loans and issuing debentures, the debt to equity ratio reduced marginally from 4.25 on 31 March 2016 to 4.14 on 31 March 2017. In FY 16-17, Fusion had planned to raise Rs 900 crores, but it was able to secure around Rs 750 crores due to the impact of demonetisation. Fusion plans to raise between Rs 1,100 to Rs 1,200 crores as debt from public banks in FY 2017-18.

• Profitability and sustainability

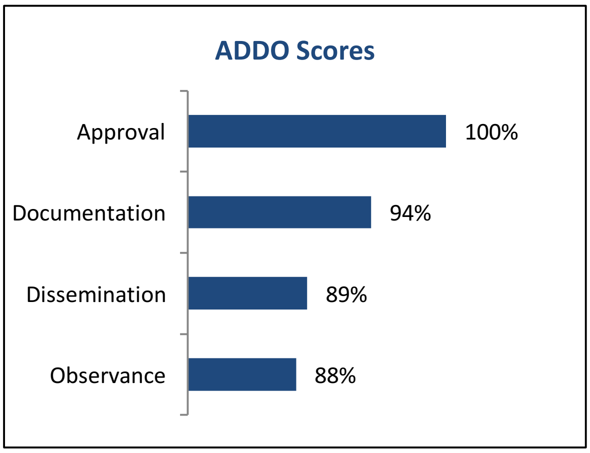
Fusion has reported profits in the past four years starting from FY 13-14 and the profitability has been increasing since. The yield on portfolio decreased slightly from around 23.5% during FYs 2013-14 and 2014-15 to around 22.9% in FYs 2015-16 and again increased slightly to 23.1% in FY 2016-17. The operating expense has been showing a declining trend over the past four years, however, it increased from 8.2% for FY 2015-16 to 9.5% for FY 2016-17 due to an increase in the personnel cost and slowdown of portfolio growth due to demonetisation.

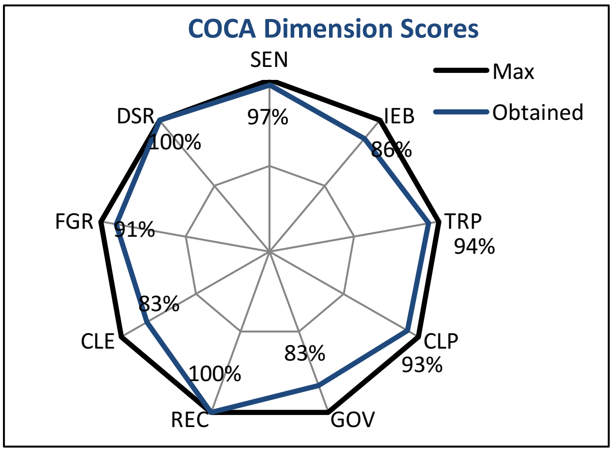


Fusion maintains a reserve of 1% of its own portfolio; write-off increased slightly from 0.2% to 0.6% between FY 2015-16 and FY 16-17. The financial cost ratio increased from 10.6% in FY 2015-16 to 12.5% in FY 2016-17, again due to the demonetisation affect because of which the expected portfolio growth could not be achieved in the last quarter of this financial year. Similarly, the RoA decreased from 2.9% to 1.9% between 31 March 2016 and 31 March 2017 and the Operational Self-Sufficiency (OSS) decreased slightly from 113.8% to 110.0% during the same period. Further, the RoE decreased from 16.3% on 31 March 2016 to 10.1% on 31 March 2017 due to the capital infusion of Rs 162 crores in August 2016.

While Fusion has reported profits in the provisional statement for FY 2016-17, the effect of demonetisation on profitability due to increased provisioning requirements remains to be seen.

Section 2: Code of Conduct Assessment





SEN: Sensitive Indicators; IEB: Integrity and Ethical Behaviour; TRP=Transparency; CLP=Client Protection; GOV=Governance; REC=Recruitment; CLE=Client Education; FGR=Feedback and Grievance Redressal; DSR=Data Security

Code of Conduct Assessment Summary

Fusion scores excellent on the CoCA (final score is 92%). Gaps mainly in governance and partly in indicators related to client education restricted Fusion in achieving a higher score. Score on governance aspects can be improved by increasing the proportion of independent directors, having a non-executive member as the company's Chairman and initiating a system for reporting COC compliance to the Board. Performance on client protection aspects can be improved by providing refresher training to the branch staff on RBI guidelines for NBFC-MFIs, performing additional checks to determine level of over-indebtedness after loan disbursement (on a sample basis) and presenting these results to the Board. Clients' awareness building on the interest rate, processing fee and insurance charges also has scope for improvement.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
• Board members have extensive experience in banking, corporate finance, managing financial inclusion funds and risk management. • Board reviews and approves the CoC every year. • Operational and financial data is displayed on the website in its annual reports • UID is compulsorily collected from all clients and the Internal audit team verifies the KYC documents for a sample of clients. • Incentives of field staff are capped which prevents aggressive lending practices.	• Chairperson is the promoter of the company; only 2 of 9 directors are independent. • Low client awareness on pricing of loans and industry association's grievance mechanism • Low awareness among branch staff on the rescheduling policy and RBI guidelines.

Significant observations

Higher Order Indicators	
Integrity and Ethical Behaviour	• Fusion shares with the Board reports on client feedback and grievance, summary of audit findings which cover parameters related to transparency and client protection. In addition, the Board reviews and approves the FPC and CoC every year. • Fusion has instituted a toll free number for staff to register their grievances; the human resource division (& not internal audit) covers the level of staff satisfaction pertaining to compensation and incentives. • Contact details of the SRO's nodal official was not displayed at the branches and clients are not aware of the grievance redressal mechanism of the Industry Association. However, SRO numbers are printed on loan cards.
Sensitive Indicators	• Fusion takes a self declaration from its clients in the loan application form that their incomes are within the RBI's criteria. Stated income levels of only 28% of the sample clients were in compliance with RBI's income guidelines.

Building Blocks	
Transparency	• Although the declining interest rate for all loan sizes was displayed at most branches, it was not seen at 4 of the visited branches (Ramgarh, Kanke, Rosera and Babai).
Client Protection	• The branch managers were aware about RBI's guidelines on the income criteria, loan size, tenure, purpose etc; however, there is scope for improvement. • The income and expenses information of roughly 20% of the sampled clients matched with the details mentioned in the loan application. Further, details of loans from other MFIs were not being captured in the loan application forms. • Portfolio quality affects the incentives of the field staff. The RO would lose 50% of the total earned incentive if the portfolio quality falls below 99%. However, during the demonization phase Fusion de-linked incentives with portfolio quality and paid an additional Rs1,000 to all the field staff to keep them motivated. • The institution does not collect any shortfall in collections from field staff. • The Internal Audit department conducts post-disbursement Credit Bureau checks for a sample of clients to analyse their indebtedness levels; results of the analysis are presented to the Board.

Building Blocks	
Governance	• The proportion of independent directors is less than one-third. Chairman of the Board is not a non-executive director. • Though the rescheduling policy is communicated to the branch staff through operation manual, their level on awareness on this aspect seemed low; moreover, no loans have been rescheduled by Fusion so far.
Recruitment	• Fusion seeks reference checks for ex-MFI employees and responds to reference checks within a period of two weeks of request and the process of responding to reference checks is documented in the HR manual. • Similarly, the HR manual also documents the practice of not placing the staff of ex-MFI at an area where he/she was serving for a period of one year, at the previous organisation.
Client Education	• All clients undergo a 2-day compulsory group training (CGT), which is provided to all clients free of cost prior to disbursement. • Internal audit team interacts with clients and checks their level of awareness with regards to interest rates, insurance charges, processing fees etc. • Clients displayed low to moderate awareness on product terms; o 23% could recollect the interest rate o 42% could recollect the exact processing fees o 33% could recollect the exact insurance charges o 71% were aware of the insurance claim settlement process
Feedback and Grievance Redressal	• Clients can register their complaints through any of the following channels: field staff, complaint register and complaint boxes at branches or by calling on the toll-free number. Complaints received at the branches are mostly resolved verbally. In case the branch staff are unable to provide a solution, they ask the clients to call the toll-free number. • The step wise grievance redress mechanism is displayed in the branches. The toll-free numbers of Fusion and the SRO are printed in the individual loan cards. • Low clients' awareness on the industry associations' grievance channel. • Approximately one-fourth of the total clients were unaware of the various grievance redressal mechanism channels.
Data Sharing	• Fusion discloses both financial and operational information on the website through its annual reports • Fusion shares client data with all the four credit bureaus (CIBIL, Equifax, HighMark and Experian) on a weekly basis and monthly basis.

Annexure 1: Methodologies

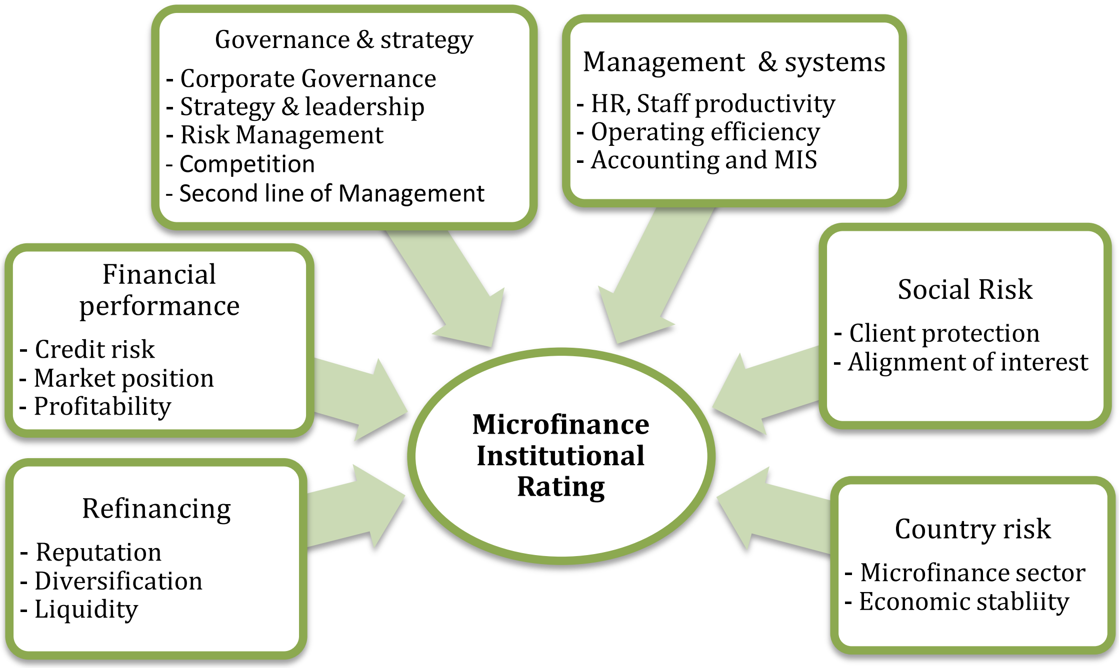
Microfinance Grading Methodology

The Microfinance Institutional Ratings provide an opinion on the long-term institutional sustainability and creditworthiness through a comprehensive assessment of risks, performance, market position and responsible practices.

M-CRIL uses a comprehensive rating tool, assessing the institution on Governance & Strategy, Management systems and Financial performance, which builds into its existing framework key aspects of social performances shown below:

Aspects covered in the Rating framework **Additional aspects covered in MIR**
Governance and Strategy
• Ownership Structures • Quality and appropriateness of Board composition • Corporate Governance • Strategic decision making process, Growth strategy • Product formulation and suitability • Market positioning & Competition • Second line of management • Funding Sources, future funding requirements and ability to meet these • Mission Orientation and systems to achieve mission • Focus of Board on double bottom line performance
Management systems
• Systems for loan origination, disbursement and collection • Quality of human resources • Operational efficiency & productivity • MIS & accounting practices • Supervision and internal audit • Compliance with regulatory framework
Financial performance
• Credit performance and portfolio quality • Profitability & sustainability • Portfolio growth • Portfolio yield • Liquidity • ALM, capital adequacy • Earning potential • Effective costs of services in comparison with accessible alternatives and microfinance costs • Policy on profits

The report will provide a detailed assessment on key aspects of risks assessed. The assessment would cover organisation's strategy, governance, management and operational policies according to M-CRIL's MIR rating tool.



M-CRIL would ideally require the following information to conduct the assessment. The list includes data which can be shown during the field visit (like minutes of Board meetings):

a. A brief note on the history and organizational structure/organogram and policy statements – vision, mission, statement of values etc.
b. Profiles of promoters and Board Members and board meeting minutes.
c. Details of other staff including field and managerial staff with information on parameters like their designation, educational qualification, years of experience etc.
d. Audited Financial Statements of last three years of the organization.
e. Information on loans and grants availed by the organization.
f. Data related to operations of the organization such as number of staff (field and managerial level), portfolio figures, number of members, number of groups, number of loans disbursed, amount of loans disbursed, number of loans recovered, amount of loans recovered etc.
g. Manuals on Human Resource policies, Operational Policies, Internal Audit or any other functional groups.
h. Any impact assessment or client/staff satisfaction survey done by the organization.
i. Any other documents or information which the organization may think fit for the purpose of assessment

In addition, before starting the assignment a customised excel sheet is sent to the MFI to fill and return. The excel sheet requires information on loan products, borrower profile per branch (rural/urban/men/women), average cash, bank balance and portfolio for last 12 months etc. The information is used for working out financial ratios and social performance indicators.

COCA Methodology

The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and Smart Campaign's Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

<table>
<tr><th colspan="2">Highest Order</th></tr>
<tr><td colspan="2">Sensitive Indicators</td></tr>
<tr><th colspan="2">Higher Order</th></tr>
<tr><td colspan="2">Integrity & Ethical Behavior</td></tr>
<tr><th colspan="2">Building Blocks</th></tr>
<tr><td>Governance
Transparency
Client Education</td><td>Client Protection, Recruitment
Feedback/Grievance Redressal
Data Sharing</td></tr>
</table>

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	**Number of Indicators**
Integrity and Ethical Behaviour	32
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
Total	**251**

Methodology

The Code of Conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, eight to fifteen branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI is less than eight).

Sampling guidelines

The following is taken as the guideline to determine the sample size for a COCA exercise.

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers & Gross loan portfolio >Rs 500 crores)	18-20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers)

Code of Conduct Assessment exercise requires:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.

7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited 19 branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Assandh	Haryana	23
2	Babai	Madhya Pradesh	18
3	Bakhtiyarpur	Bihar	20
4	Behat	Uttar Pradesh	6
5	Bhopal	Madhya Pradesh	26
6	Bina	Madhya Pradesh	18
7	Chhutmalpur	Uttar Pradesh	22
8	Dhampur	Uttar Pradesh	23
9	Gulawati	Uttar Pradesh	21
10	Handiya	Uttar Pradesh	20
11	Kanke	Jharkhand	21
12	Patiala	Punjab	22
13	Patna	Bihar	21
14	Raja Talab	Uttar Pradesh	20
15	Ramgarh	Jharkhand	20
16	Roorkee	Uttarakhand	21
17	Rosada	Bihar	21
18	Saharanpur	Uttar Pradesh	20
19	Vidisha	Madhya Pradesh	21
Total			**384**

Annexure 2: Financial Statements of FMPL

Balance Sheets as on

ASSETS	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17
Current assets				
Cash in hand	25,33,60,857	52,49,82,074	61,66,60,178	191,67,42,872
Trade Receivables	-	16,28,967	93,16,951	-
Short term Loans & Advances	71,11,959	57,45,010	1,20,04,644	38,17,92,161
Other current assets	4,92,23,601	8,73,36,958	11,56,78,042	12,66,43,768
Short term Investment	2,29,28,776	-	-	210,55,00,000
Deferred tax	45,03,576	1,19,99,280	1,19,99,280	3,49,87,225
Loan portfolio				
Gross portfolio	102,75,62,982	237,88,23,310	501,33,20,967	750,73,96,824
(Loan loss reserve)	1,02,75,630	2,37,88,233	5,01,33,210	7,50,73,969
Net loans outstanding	101,72,87,352	235,50,35,077	496,31,87,757	743,23,22,855
Total current assets	**135,44,16,121**	**298,67,27,366**	**572,88,46,852**	**1199,79,88,880**
Long term assets				
Tangible and Intangible	1,29,42,097	1,20,58,890	2,11,94,835	4,16,42,844
Long term Loans and advances	-	16,00,000	-	-
Other non-curent assets	7,06,40,887	16,81,04,000	32,01,69,959	21,85,53,847
Total long term assets	**8,35,82,984**	**18,17,62,890**	**34,13,64,794**	**26,01,96,691**
Total assets	**143,79,99,105**	**316,84,90,256**	**607,02,11,646**	**1225,81,85,572**
Liabilities and Net worth				
Liabilities				
Salaries and bonus payable	63,66,258	1,22,67,226	3,69,18,625	51,19,055
Other current liabilities	7,61,58,017	10,58,26,715	22,90,14,524	48,92,67,922
Long term provisions	25,40,675	56,05,123	71,87,099	-
Other long term liabilities	92,73,064	1,40,99,192	1,32,31,316	-
External borrowings				
Short term	60,60,66,355	139,18,21,929	199,40,84,476	320,40,58,403
Long term	33,41,05,157	114,77,82,845	263,78,29,855	617,69,72,457
Total liabilities	**103,45,09,526**	**267,74,03,030**	**491,82,65,895**	**987,54,17,837**
Net worth				
Share capital	26,95,29,900	18,28,28,430	62,69,26,830	38,17,47,170
Securities premium reserve	10,83,79,795	23,13,16,648	31,72,18,248	161,41,43,889
Statutory reserve	68,72,655	1,74,90,300	4,43,23,497	8,01,38,697
Opening retained net surplus/(deficit)	(53,61,838)	1,87,07,229	5,94,51,848	16,34,77,177
Current net surplus/(deficit)	2,40,69,067	4,07,44,619	10,40,25,328	14,32,60,802
Total net worth	**40,34,89,579**	**49,10,87,226**	**115,19,45,751**	**238,27,67,735**
Total liabilities and net worth	**143,79,99,105**	**316,84,90,256**	**607,02,11,646**	**1225,81,85,572**

Income statement for end of the period

	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17
Income				
Interest income	19,35,67,622	44,46,91,661	89,22,49,153	155,03,54,317
Processing fee on loan portfolio	168,72,072	3,08,75,223	6,01,26,213	8,31,03,880
Bad debts recovered	-	-	-	-
Interest on term deposits	97,23,626	2,05,21,574	2,79,02,476	3,62,83,370
Income from Securitization	2,08,49,000	4,24,51,274	6,23,92,408	6,96,68,538
Profit on sale of MFs	75,43,223	53,46,080	2,24,50,483	16,11,30,500
Dividend income on MFs	3,08,337	-	-	-
Income from BC services	-	49,32,727	3,71,40,952	6,87,50,799
Others	7,52,499	5,73,759	11,79,342	7,05,854
Total income	**24,96,16,379**	**54,93,92,298**	**110,34,41,027**	**196,99,97,259**
Financial costs				
Interest on borrowings	8,11,30,158	23,50,11,200	46,20,83,842	92,76,82,051
Processing fee and other bank charges	1,69,87,051	4,22,98,392	1,94,50,493	3,42,43,505
Gross financial margin	**15,14,99,170**	**27,20,82,706**	**62,19,06,692**	**100,80,71,704**
Provision for loan losses	73,09,643	1,35,12,603	2,63,44,976	2,49,40,759
Write-off	4,55,578	10,19,289	73,87,128	4,66,53,790
Net financial margin	**14,37,33,949**	**25,75,50,814**	**58,81,74,588**	**93,64,77,154**
Operating expenses				
Personnel	6,71,08,343	11,83,85,361	25,80,65,378	46,71,44,423
Administrative expenses	2,85,30,273	5,13,77,644	9,68,71,150	19,70,20,848
Depreciation	37,96,938	80,96,026	1,03,62,077	1,74,82,126
Total operating expenses	**9,94,35,554**	**17,78,59,031**	**36,52,98,605**	**68,16,47,397**
Taxes (Current- Deferred)	1,42,12,061	2,66,03,556	8,87,10,000	7,57,53,755
Net surplus/deficit	**3,00,86,334**	**5,30,88,227**	**13,41,65,983**	**17,90,76,002**
Proposed dividend on preference shares	-	12,05,753	27,44,384	-
Transferred to Statutory Reserve	60,17,267	1,06,17,645	2,68,33,197	3,58,15,200
Tax on Preference Dividend	-	2,41,078	5,63,074	-
Depreciation (Companies Act, 2013)	-	2,79,132	-	-
Net surplus/deficit transfer to Balance sheet	**2,40,69,067**	**4,07,44,619**	**10,40,25,328**	**14,32,60,802**