



SMERA MFI Grading

M4

*(Average capacity of the
MFI to manage its
operations in a
sustainable manner)*

SMERA MFI Grading

**Prayas Organisation For Sustainable
Development**



To verify the grading, please scan the QR Code

Date of Report:

13th June, 2019

Valid Till:

11th June, 2020



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 MFI 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

SMERA is a division of Acuité Ratings & Research Limited that offers various rating and grading services to MSMEs. SMERA's Ratings / Gradings / Due Diligence and other credit assessment related services are based on the information provided by the rated entity and obtained by SMERA from sources it considers reliable. Although reasonable care has been taken, SMERA/Acuité makes no representation or warranty, expressed or implied with respect to the accuracy, adequacy or completeness of any information used. SMERA/Acuité is not responsible for any errors or omissions in the Rating / Grading / Assessment or the Rating / Grading / Assessment Report. SMERA/Acuité has no financial liability, whatsoever, for any direct, indirect or consequential loss of any kind arising from the use of its Ratings / Gradings / Assessments. SMERA's Ratings / Gradings / Due Diligence and other credit assessment related services do not constitute an audit of the rated entity and should not be treated as a recommendation or opinion or a substitute for buyer's or lender's independent assessment.

Historical Rating Grades

Date	Rating Agency	Rating/Grading
18-May-2018	CARE Ratings	M5C3
31-Mar-2017	CARE Ratings	M5C3

SMERA's MFI Grading Scale

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.



To verify the grading, please scan the QR Code

Disclaimer: MFI Grading is not a comment on debt servicing ability, not a buy-sell recommendation and must not be used for raising fund.

Company Profile

Name of the MFI	Prayas Organisation For Sustainable Development	
Operational Head – Microfinance Business	Name	Mr. Ghanshyam Patel
	Designation	Operational Manager
	Mobile No.	7096030010
	Email ID	ghanshyam@prayas4development.org
	Date of Joining	01 st May, 2016
Date of Incorporation/Establishment	11 th November, 1997	
Date of commencement of microfinance business	01 st January, 2006	
Legal Status	Trust	
Business of the company	Microfinance Services Under Joint Liability Group (JLG) Model	
Correspondence Address	Satyam-1/308, Business Park, Above Sbi/Hdfc Bank, Trimandir Sankul, Adalaj, Gandhinagar-382421	
Geographical Reach (As on 30/April/2019)	No. of States	3
	No. of Districts	11
	No. of Branches	22
	No. of Active Borrowers	28,869
	No. of Total Employees	122
	No. of Field/Credit Officers	48

Product Profile

Products	Description	Loan Size (Rs)	Interest Rate (A) (In %)	Processing Fee (B) (In %)	APR (Interest Rate and Processing fees) (In %) (C=A+B)
JLG Loan	Income Generating Loan	5,000 – 30,000	26.00	1.00	27.00
Water & Sanitation	Loan for Sanitation Toilet	5,000 – 30,000	26.00	1.00	27.00
Individual Loan	Business Loan	35,000 – 80,000	26.00	1.00	27.00

Board of Director's/Promoter's Profile

Name	Position	Qualification	Brief Profile
Dr. Dineshnarain Haridayanarain Awasthi	Chairperson	Ph. D	He is the Ex-Director of Entrepreneurship Development Institute Of India, Ahmedabad.
Mr. Bhadresh Keshavlal Rawal	Director	B.Sc. (Agriculture), MBA (HR)	He is the promoter director of the entity.
Mr. Ramkrishna Hemkumar Mistry	Trustee	M.Com	He is experienced in the development sector. Previously he was associated with Janvikas, an NGO in Ahmedabad.
Mr. Rajesh Ramprit Sigh	Trustee	MBA	He is the partner of SM. Investment Services, Ahmedabad.
Ms. Shilpa Kaushikbhai Pandya	Trustee	PGD in Social Security	She is experienced in social sector. She is a consultant of Shaisav, an NGO Bhavnagar.
Mr. Ashis Mondal	Trustee	PGD (Rural Development)	He is the director ASA, Bhopal.
Ms. Purvi Bhavsar	Trustee	PGD (Rural Development)	He is the Co-founder and the Joint Managing Director of PAHAL Financial Services.

Management Profile

Name	Position	Qualification	Brief Profile
Mr. Ghanshyam Patel	Operational Manager (BO)	PG (Rural Management)	He has 9 years of experience in Microfinance sector.
Mr. Chirag Patel	Chief Finance Officer	B.Com, DIC	He has 16 years of experience in Accounts & Finance Sector.
Mr. Harish Tiwari	Operational Manager (Field)	M.A	He has 13 years of experience in Social & Microfinance Sector.
Mr. Hiren Patel	Accounts Manager	CA	He has 6 Years of experience in Audit & Taxation & Accounting field.

HIGHLIGHTS OF MICROFINANCE OPERATIONS

Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	30/Apr/2019
No. of States	2	3	3	3
No. of Districts	10	11	11	11
No. of Branches	22	22	22	22
No. of Active Members	23,855	26,187	29,886	28,869
No. of Active Borrowers	23,855	26,187	29,886	28,869
No. of Total Employees	111	115	122	122
No. of Field/Credit Officers	56	50	50	48
No. of JLGs	3,195	3450	3771	3659
No. of Individual Loans	348	1,184	2,660	2,577
Owned Portfolio				
Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	30/Apr/2019
Total loan disbursements during the year (in crore)	34.77	32.67	42.80	4.28
Total portfolio outstanding (in crore)	21.37	22.11	28.02	28.85
Managed/BC Portfolio				
Particulars	31/Mar/2017	31/Mar/2018	31/Mar/2019	30/Apr/2019
Total loan disbursements during the year (in crore)	6.13	15.86	19.00	0.00
Total portfolio outstanding (in crore)	3.29	9.47	11.79	10.22

Microfinance Capacity Assessment Grading Rationale

- SMERA estimates the MFI sector to grow at a CAGR of 25%-30% and is expected to touch Rs. 180000 crore by the end of FY2019.
- MFIs have reported an increase of ~27% in total loan outstanding FY2018 as compared to FY2017. SMERA believes seasoned customer profile over multiple loan cycles along with the inclusion of fresh borrowers have helped MFI industry to increase its total loan outstanding.
- The fund flow to the sector has improved on account of increased confidence on MFI sector. Further large MFIs are exploring the route of Non-convertible debentures (NCDs) and Pass through Certificates (PTCs); whereas small –mid size MFIs have an increased access to funds from banks and financial institutions. SMERA believes that the RBI guidelines on co-origination of priority sector loans by NBFCs and banks are significant step towards an efficient framework for micro lending in India. SMERA estimates Rs.25,000-30,000 crore of potential lending every year under this origination mechanism over the medium term.
- Support systems such as Self-Regulatory Organizations (SRO), Credit Information Bureaus (CIB) among others have been established to ensure credit check and process adherence among MFIs. This regulatory framework has brought more accountability and transparency within the sector.
- On the contrary, recent demonetization drive restrained MFIs disbursement and collection process which has moderated microfinance sector growth in FY2016-17 as compared to the previous year. Post demonetization Asset Quality has declined, however it has improved and Portfolio at Risk (PAR) > 30 stood at 2.4% in Q2 FY 18-19.

Long track record of operations and adequate industry experience of promoters

- Prayas Organisation For Sustainable Development (Prayas) is a Trust, based at Gandhinagar of Gujarat registered on 11th of November 1997 under the Trust Registration Act 1950 and the Society Act 1860. The entity was promoted by Mr. Bhadresh Rawal with the aim to work with disadvantage and deprived segments of the society with a prime focus on poor women to can attain socio - economic empowerment and substantial social and economic development. Prayas is engaged in microfinance and social development activities in the three states i.e. Gujarat, Rajasthan and Madhya Pradesh for last two decades.
- Prayas is governed by seven board-members as on April 30, 2019 having adequate experience in the microfinance and social development space. The board has the Promoter Director, Chairman and five Independent Trustees with social development/microfinance expertise.
- The key member Mr. Bhadresh Keshavlal Rawal, Director has more than two decades of experience in managing microfinance operations.
- The Entity's core management team and second line of management has an adequate understanding of MFI ecosystem with satisfactory experience in finance and microfinance sector.

Moderate resource profile

- As on April 30, 2019, Prayas has developed funding relationships with 11 lenders (three Banks & eight NBFCs/FIs). These relationships have helped Prayas in meeting its funding requirements to meet the projected growth.
- Apart from owned portfolio, Prayas has BC portfolio. The total BC portfolio outstanding is of Rs.10.22 crore as on April 30, 2019. Prayas is presently working as a business correspondent with MAS Financial Services.
- The overall cost of funds (COF) for Prayas stood high at 16.39% as on March 31, 2019 (as per the provisional financials provided by the management) as against 15.5% in the previous financial year. The loans availed from NBFCs carry higher interest rate in the range of 13.50%-15.75%.

Moderate capitalisation and liquidity profile

- Prayas has an adequate capitalisation marked by CRAR of 23.58% as on March 31, 2019 as compared to 23.59% as on March 31, 2018.
- The total debt to equity ratio stood comfortable at 3.47 times as on March 31, 2019 as compared to 2.90 as on March 31, 2018. Total corpus of the company has increased to Rs. 8.50 crore in FY2019, as compared to Rs.7.50 crore in the previous year on account of internal accruals.

- Prayas has a moderate liquidity position. The tenure of loans is about 12-24 months, whereas the incremental bank funding is typically with tenure of about 12-36 months. However regular flow of funds is critical to maintain the projected growth and the same would have a key bearing on its liquidity profile.

Moderate geographical concentration

- The company is exposed to moderate geographical concentration risk. As on April 30, 2019, the entity's portfolio is concentrated in the state of Gujarat accounting for ~66 percent and and ~ 34 percent in other two states i.e. Madhya Pradesh and Rajasthan.

Name Of The State	No. of Branches	No. of Borrowers	Portfolio o/s (in crore)	% of Total Portfolio o/s
Gujarat	14	18221	25.70	65.76
Madhya Pradesh	6	7765	9.45	24.17
Rajasthan	2	2883	3.93	10.06
Total	22	28,869	39.08	100.00

- However, it would also be key grading sensitivity factor for the company to replicate its systems, processes and sound asset quality in the newer geographies while improving portfolio diversity.

Sound asset quality

- Prayas has a sound asset quality marked by on-time repayment rate of 99.57% as on 30th April, 2019.

Period	FY 2017	FY 2018	FY 2019	30/Apr/2019
	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)	Portfolio o/s (in crore)
On-time	24.15	31.32	39.68	38.91
1-30 days	0.14	0.03	0.03	0.07
31-60 days	0.12	0.01	0.02	0.01
61-90 days	0.08	0.02	0.01	0.02
91-180 days	0.16	0.02	0.03	0.03
181-360 days	0.01	0.16	0.03	0.03
> 360 days	0.00	0.01	0.01	0.02
Write-off	0.01	0.29	0.18	0.00
Total	24.66	31.58	39.81	39.08



- The PAR 1-30 days stood at 0.17% as on 30th April, 2019. as compared to 0.07% as on March 31, 2018. The PAR >30 days stood at stable 0.27% as on 30th April, 2019 as compared to 0.26% as on March 31, 2018.

Improvement in operational performance in FY2019

- The company has reported net profit of Rs.1.16 crore on operating income of Rs.8.15 crore as on 31st March,2019 (as per the provisional financials provided by the management), as compared to net profit of Rs.0.52 crore on operating income of Rs.6.16 crore in the previous year. Operating income has increased mainly on account of increase in interest and fee revenue from microfinance loans.
- The operational self-sufficiency (OSS) of the company has increased over the past year. The OSS stood at 116.94% as on 31st March, 2019 as compared to 107.40% in the previous year due to increases in the total operating income.
- As on Mar 31, 2019, the company has an outstanding loan portfolio of Rs.39.08 crore spread over 22 branches in 3 states with about 28,869 borrowers. The entity's Assets under Management (AUM) witnessed a moderate growth of ~26% in FY2019 over the previous year. The Company's operating expense stood comfortable at 7.57% as on 31st March, 2019.

Adequate MIS & IT infrastructure considering the current scale of operations

- The entity's management information system (MIS) and Information Technology (IT) infrastructure is adequate for its current scale of operations. YFS's management information system (MIS) and Information Technology (IT) infrastructure is adequate for its current scale of operations. It has dedicated MIS and IT team at Head Office to ensure smooth flow of operational data between Head Office and branches. The company uses customised software "BIJLI" to maintain its MIS in Head Office and branches.
- The company also has an internal audit team which undertakes branch and borrower audit on bi-monthly basis.

Inherent risk prevalent in the microfinance sector

- Prayas'es business risk profile is susceptible to regulatory and legislative risks, along with the inherent risk exist such as unsecured nature of lending, vulnerable customer profile, exposure to vagaries of political situation in states, and cash handling associated with the MFI sector.

Financials

Profit & Loss Account (Rs. In Thousands)

Period	FY 2017	FY 2018	FY 2019
Months	12	12	12
Financial revenue from operations	59,650	61,683	81,513
Less - Financial expenses from operations	27,347	29,427	39,140
Gross financial margin	32,303	32,256	42,373
Provision for Loan Loss / Write off	0	3,158	3,981
Net financial margin	32,303	29,098	38,392
Less - Operating Expenses			
Personnel Expense	17,448	16,904	18,555
Other Administrative Expense	8,531	7,012	8,207
Net Income	6,324	5,182	11,630

Note: Above financials are taken from audited expect of FY 2019.

Balance Sheet (Rs in Thousands)

As on date	31/Mar/2017	31/Mar/2018	31/Mar/2019
SOURCES OF FUNDS			
Capital			
Coupon Capital	61,788	74,954	85,069
Total Capital	61,788	74,954	85,069
Liabilities			
Short-Term Liabilities			
Account payable & Other short-term liabilities	25,174	14,375	(189)
Total Short-Term Liabilities	25,174	14,375	(189)
Long-Term Liabilities			
Long-Term Borrowings			
Commercial Loans from banks/FI	1,87,574	2,05,954	2,70,714
Unsecured Loans from directors / friends / relatives	6,075	11,266	24,171
Total Long-Term Borrowings	1,93,649	2,17,220	2,94,885
Total Other Liabilities	2,18,823	2,31,595	2,94,696
TOTAL LIABILITIES	2,80,611	3,06,549	3,79,765

As on date	31/Mar/2017	31/Mar/2018	31/Mar/2019
APPLICATION OF FUNDS			
<u>Fixed Assets</u>			
Net Block	19,766	24,400	25,357
Cash and Bank Balances	10,207	10,190	20,576
Security Deposits	33,254	43,346	49,626
<u>Loan Portfolio</u>			
Net Loan Portfolio	2,13,762	2,21,062	2,80,235
Accounts Receivable And Other Assets	3,622	7,551	3,971
TOTAL ASSETS	2,80,611	3,06,549	3,79,765

Financial Ratios

Financial Ratios	31/Mar/2017	31/Mar/2018	31/Mar/2019
Capital Adequacy Ratio (CAR)			
Capital Adequacy Ratio (%)	22.52	23.59	23.58
Productivity / Efficiency Ratios			
No. of Active Borrowers Per Staff Member	215	228	245
No. of Active Borrowers per field executives	426	524	598
Gross Portfolio o/s per field executive (Rs in thousands)	4,403	6,315	7,962
Average Outstanding Balance Per borrower (In Rs)	10,337	12,058	13,321
Cost Per Active borrower (In Rs)	1089	913	895
Asset / Liability Management			
Yield on Portfolio (%)	26.6	26.0	26.13
Cost of Fund (COF) (%)	11.3	15.5	16.39
Profitability / Sustainability Ratios			
Operational Self Sufficiency (%)	122.3	107.4	116.94
Operating Expense Ratio (OER) (%)	9.7	8.1	7.57
Return on Assets (RoA) (%)	1.8	1.8	3.11
Portfolio at Risk (>30 days) (%)	1.48	0.72	0.27
Return on Equity (RoE) (%)	11.6%	8.0	13.67
Leverage Ratios			
Total Outside Liabilities to Tangible Network Ratio (Times)	3.54	3.09	3.46
Debt/Equity Ratio (Times)	3.13	2.90	3.47

Grading Methodology

A) Operational Track Record

Business Orientation and Outreach of the MFI is an important parameter to gauge the growth strategies of the MFI and to assess its strategies for development. This parameter is analysed using the following sub-parameters.

- Direction & Clarity
- Ability to raise funds
- Degree of association with promoter institution
- Alternate avenues for funds
- Outreach (No. of offices, No. of clients, No. of employees, Portfolio diversification)

B) Promoters & Management Profile

The elements in this parameter helps in assessing the Promoter & management quality evaluated on the basis of the basic educational qualification, professional experience of the entrepreneur; and business attitude that is related to the motivation of carrying out the business and pursuing business strategies. This parameter is analysed using the following sub-parameters.

- Past experience of the management
- Vision and mission of the management
- Profile of the Board Members
- Policies and Processes
- Transparency and corporate governance

C) Financial Performance

SMERA analyses the credit worthiness of the organization through the following financial parameters. Various financial adjustments are done to get more accurate ratios for comparison. Financial analysis helps the MFI to know its financial sustainability. This parameter is analysed using the following sub-parameters.

- Capital adequacy
- Profitability/Sustainability ratios
- Productivity and efficiency ratios
- Gearing and Liquidity ratios

D) Asset Quality

The loan portfolio is the most important asset for any MFI. SMERA analyses the portfolio quality of the MFIs by doing ageing analysis, sectoral analysis, product wise analysis etc. SMERA compares the portfolio management system with organizational guidelines and generally accepted best practices. This parameter is analysed using the following sub-parameters.

- Ageing schedule
- Arrears Rate / Past Due Rate
- Repayment Rate
- Annual Loan Loss Rate

E) System & Processes

SMERA analyses the policies and processes followed by the MFIs, their ability to handle volume of financial transactions, legal issue and disputes, attrition among the employees and client drop out which impact the productivity of the organization. SMERA also analyses asset liability maturity profile of the MFI, liquidity risk and interest rate risk. This parameter is analysed using the following sub-parameters.

- Operational Control
- Management Information System
- Planning & Budgeting
- Asset Liability Mismatch



About SMERA

SMERA is a division of Acuité Ratings & Research Limited dedicated to providing SME Ratings & Grading services to MSMEs. SMERA began its operations in year 2005 as SME Rating Agency of India Limited, a joint initiative of Small Industries Development Bank of India (SIDBI), Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector Banks in India. SMERA is empanelled for 'Performance & Credit Rating Scheme for Micro & Small Enterprises' of the Ministry of MSME, Government of India, administered by the National Small Industries Corporation (NSIC).

Acuité Ratings & Research Limited is registered with the Securities and Exchange Board of India (SEBI) as a Credit Rating Agency and is accredited by Reserve Bank of India (RBI) as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings.

Corporate Office

102, Sumer Plaza
Marol Maroshi Road,
Marol Andheri (East)
Mumbai - 400 059
Tel: +91 22 6714 1111
E-mail: info@smera.in
Website:
www.smeraonline.com