BUSINESS PLAN · INDIA

Microfinance Institution (MFI)

Group and micro lending for financial inclusion

BFSI

AISEVAK.IN · BY ABL DIGITAL TECHNOLOGIES

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1. Executive Summary

This plan sets out a **Microfinance Institution (NBFC-MFI)** in India — an RBI-registered NBFC-MFI that provides small, collateral-free loans to low-income & rural borrowers (mostly women), predominantly through the Joint Liability Group (JLG) model, for income-generating & household needs. It earns the spread between lending yield & cost of funds net of credit losses, on a **regulated, leveraged balance sheet**, with a distinctive **high-touch, group-based, doorstep** operating model. Like an NBFC, it needs RBI registration & minimum Net Owned Funds, must hold capital adequacy (CRAR), and operates under the RBI microfinance regulatory regime (household-income eligibility, indebtedness/repayment-capacity caps, no collateral, transparent pricing).

India's microfinance sector serves crores of low-income, largely rural & women borrowers under-served by banks, playing a major financial-inclusion role. An NBFC-MFI is a **regulated, leveraged, field-intensive lending business**: it deploys owned + borrowed capital as micro-loans, carries credit risk on its balance sheet, and is governed by RBI's microfinance framework (loans to households below an income threshold, a cap on repayment obligations as a share of household income, collateral-free lending, board-approved transparent pricing). Its economics rest on **NIM (yield − cost of funds), credit costs (PAR/NPA), the high field-operating cost of doorstep group lending, leverage & collection discipline**; success rests on group discipline, field productivity, asset quality, cost of funds & compliance — it is credit-risk-, field-cost-, capital- & regulation-driven.

This is a regulated, capital-intensive financial business — funded by substantial promoter/equity capital (to meet NOF & CRAR) plus debt/borrowings for on-lending. This plan models an NBFC-MFI with **₹12 crore capital** (₹9 crore equity/NOF + borrowings), building a micro-loan book toward **₹35 crore AUM** by Year 1 and **₹110 crore** by Year 3. *(NBFC-MFI; NOF/CRAR/cost-of-funds/NIM/PAR-driven, RBI-regulated, JLG/high-touch, leveraged balance-sheet — figures illustrative.)*

2. Business Description, Vision & Legal Structure

Concept: An RBI-registered NBFC-MFI lending small, collateral-free JLG loans to low-income/rural (mostly women) borrowers, funded by equity + borrowings, earning the spread net of credit costs on a regulated balance sheet via a high-touch doorstep model.

Vision: To responsibly advance financial inclusion for under-served low-income households.

Mission: Deliver fair, transparent micro-credit with group discipline, doorstep service & sound asset quality - inclusion that is sustainable.

Legal structure

- **Company + RBI NBFC-MFI registration** — mandatory; minimum Net Owned Funds (₹5–10 crore threshold applies; higher for comfort/CRAR).
- **Qualifying-assets/microfinance regime:** RBI microfinance rules on eligibility, indebtedness caps & pricing apply.

> **Regulatory anchor:** an NBFC-MFI is RBI-regulated — Certificate of Registration, minimum NOF, CRAR (≥15%), the RBI microfinance framework (household-income eligibility, cap on monthly repayment obligations vs. household income, collateral-free, board-approved transparent pricing, no prepayment penalty), fair-practices, KYC/AML, IRACP provisioning & reporting. Group discipline, field productivity, asset quality (PAR/NPA), cost of funds, capital & compliance determine success; it is credit-risk-, field-cost-, capital- & regulation-driven — a balance-sheet business.

3. Promoter & Ownership

Led by promoters with microfinance, rural-lending, banking or financial-inclusion expertise & the capital to meet NOF/CRAR (RBI fit-and-proper). The team includes field operations (loan officers/branch managers — the core), credit/risk, collections, compliance, treasury/funding & technology. Group discipline, field productivity, asset quality & governance are the differentiators. Ownership, capital & investors are editable inputs; RBI norms apply.

4. Market Analysis — India

India's microfinance market serves crores of low-income, largely rural & women borrowers, a major financial-inclusion segment under-served by formal banks, with strong demand for small income-generating & household credit. Demand is inclusion-/rural-/livelihood-driven & regulation-shaped. The market rewards group discipline, field productivity, asset quality, cost of funds, borrower relationships & compliance; it is credit-cycle-, field-cost-, funding- & regulation-sensitive (including political/waiver risk), met with group model, field discipline, collections & capital.

Demand drivers

- **Financial inclusion & the credit gap** (rural/low-income).
- **Women's livelihood & income-generating** credit.
- **Under-service by banks** (last mile).
- **Rural economy & formalisation.**
- **Group/JLG trust** model.

Market sizing (illustrative framing)

Layer	Definition	Indicative scale
TAM	Microfinance in India	Very large & inclusion-driven
SAM	Region/state & segment	Substantial
SOM (Yr 1–3)	Micro-loan book (AUM)	Scaling

Target segments

- Low-income rural/semi-urban women (JLG).
- Micro-entrepreneurs & livelihoods.
- Household/income-generating needs.
- Graduation to individual/micro-enterprise loans.

5. Competition & Competitive Advantage

Landscape: other NBFC-MFIs, SFBs (small finance banks), banks' MFI/BC channels, SHG-bank linkage & informal lenders. The MFI competes on field reach & service, group discipline, asset quality, cost of funds, borrower relationships & responsible pricing.

The business's edge

- **Field reach & doorstep service.**
- **Group/JLG discipline & low defaults.**

- **Field productivity & cost control.**
- **Asset quality & collections.**
- **Responsible pricing & compliance.**

6. Products & Revenue Model

Stream	Model	Basis
JLG / group micro-loans	Interest yield (spread)	Core AUM
Individual / micro-enterprise loans	Interest yield	Graduation
Income-generating / livelihood loans	Interest yield	Core
Cross-sell (insurance/other, as permitted)	Fee/commission	Non-interest
BC / on-lending / assignment	Spread + fee (capital-light)	Scale/efficiency

> Revenue is primarily **net interest income = lending yield − cost of funds** on micro-loan AUM (funded equity + borrowings), plus permitted cross-sell fees; assignment/BC adds capital-light scale. Profit = NIM × AUM − credit costs (PAR/NPA) − high field opex, geared by leverage. Pricing is regulated (transparent, board-approved). Group discipline, field productivity, asset quality, cost of funds & leverage drive it — the decisive MFI levers.

7. Go-to-Market — Outreach & Growth

- **Field/branch expansion** (rural/semi-urban clusters).
- **Group formation & centre meetings** (JLG discipline).
- **Borrower relationships & retention** (repeat cycles).
- **Responsible growth** within indebtedness caps.
- **Funding & partnerships** (banks/BC/co-lending).

Growth approach

Expand field/branches in chosen clusters → form & train JLGs → lend responsibly (within RBI caps) → maintain group discipline & doorstep collections → build a seasoned, high-quality book → fund competitively → grow AUM within CRAR/ALM, always balancing outreach with asset quality & over-indebtedness risk. Field discipline, group model, collections & capital build a sustainable inclusion book.

8. Operations Plan (field-intensive, regulated)

- **Field operations:** branches, loan officers, group formation, centre meetings, doorstep disbursal & collection — the high-touch core (main cost & discipline driver).
- **Credit & compliance:** household-income eligibility & indebtedness checks (credit bureau/MFI-CIC), collateral-free, transparent pricing, KYC/AML per RBI microfinance rules.
- **Collections & asset quality:** group discipline, centre-meeting repayments, PAR monitoring, early-warning & recovery.
- **Treasury & ALM:** borrowings (banks/NBFCs/NCDs), cost of funds, liquidity & asset-liability matching.
- **Technology:** field/mobility apps, LMS, bureau integration, cashless disbursal, analytics.

Micro-lending workflow

Stage	Activity	Metric
Form group	JLG/training	Group quality
Appraise	Eligibility/bureau	Indebtedness/caps
Disburse	Doorstep/cashless	AUM/yield
Collect	Centre meetings	PAR/on-time
Fund/comply	Treasury/CRAR	Cost of funds/CRAR

9. Regulatory, Licences & Compliance (India)

- **RBI:** NBFC-MFI Certificate of Registration; minimum NOF; CRAR ≥15%; RBI microfinance framework.
- **Microfinance rules:** household-income eligibility; cap on repayment obligations vs. household income; collateral-free; transparent board-approved pricing; no prepayment penalty.
- **Prudential:** IRACP provisioning; qualifying-assets; ALM; credit-bureau (MFI-CIC) reporting.
- **Conduct:** fair-practices, no coercive recovery, KYC/AML, RBI returns; self-regulatory (MFIN/Sa-Dhan) codes.

10. Organisation & Manpower Plan (field-heavy)

Role	Yr 1	Yr 2	Yr 3
Promoter / leadership	2	3	4
Loan officers & field staff	40	90	170
Branch managers & area heads	8	18	32
Credit, collections & risk	6	13	24
Compliance, treasury, ops & tech	6	11	18
Total	**62**	**135**	**248**

11. Implementation Timeline & Milestones

Phase	Timeline	Milestone
Setup	Month 0–6	Company, capital/NOF, RBI CoR, branches, field team, systems
Launch	Month 6–12	Group formation, first disbursals, ₹35cr AUM, borrowings
Build	Year 2	Scale branches/AUM, diversify funding, seasoning, PAR control
Scale	Year 3	₹110cr AUM; NIM & asset quality within CRAR/ALM

12. Financial Plan (Illustrative)

All figures are illustrative model assumptions for an Indian context, shown so the promoter can replace them with live rates. They are not projections of guaranteed results. NBFC-MFI is a leveraged, regulated, field-intensive balance-sheet business

— high field opex, regulated pricing; credit costs (PAR/NPA) & political/event risk are key swing factors. Capital must meet RBI NOF & CRAR.

12.1 Capital structure & means of finance (initial)

Requirement	₹
Equity capital (Net Owned Funds — RBI minimum met)	9,00,00,000
Initial borrowings (banks/NBFCs/NCDs) for on-lending	3,00,00,000
Total initial capital deployed	**12,00,00,000**
Of which: branches, tech, setup & opex reserve	2,00,00,000
Of which: lendable funds (initial book)	10,00,00,000

12.2 Projected Profit & Loss (3 years)

Particulars	Year 1	Year 2	Year 3
Average AUM (micro-loan book)	22,00,00,000	65,00,00,000	90,00,00,000
Interest income (yield ~22%)	4,84,00,000	14,30,00,000	19,80,00,000
Fee & cross-sell income	30,00,000	90,00,000	1,20,00,000
Finance cost (borrowings ~13%)	1,40,00,000	5,20,00,000	7,60,00,000
Net interest + fee income	**3,74,00,000**	**10,00,00,000**	**13,40,00,000**
Field & operating expenses (high-touch)	2,50,00,000	5,60,00,000	7,30,00,000
Credit costs / provisions (PAR/NPA)	45,00,000	1,60,00,000	2,30,00,000
Profit before tax	**79,00,000**	**2,80,00,000**	**3,80,00,000**
Net interest margin (spread)	~11% (net)	~11.5%	~11%

12.3 Unit economics & key ratios

- **NIM & field cost:** yield (~20–24%, regulated/transparent) minus cost of funds (~12–14%) gives the gross spread; the **high field-operating cost** of doorstep group lending is the distinctive drag, so field productivity (borrowers/officer, AUM/branch) is decisive.
- **Asset quality (PAR/NPA):** group discipline keeps defaults low in normal times, but the sector carries event/political/waiver & over-indebtedness risk — credit costs can spike; PAR monitoring & responsible lending are the core levers.
- **Capital & leverage:** CRAR (≥15%) & NOF bound lending; measured leverage lifts ROE; ALM matches short-tenor micro-loans with funding.

12.4 Illustrative asset-quality & capital metrics

Metric	Year 1	Year 2	Year 3
Closing AUM	35cr	80cr	110cr
PAR>30 / GNPA (illustrative)	<2%	<3%	<3%

CRAR (must stay ≥15%)	>30%	~22%	~18%
Borrowers/loan-officer	~450	~520	~560

> An NBFC-MFI is a leveraged, field-intensive balance-sheet business: profit is NIM × AUM minus high field opex & credit costs, geared by borrowings, constrained by CRAR/ALM & regulated pricing. Asset quality (PAR), field productivity & cost of funds are make-or-break; key risks are credit/event/political/waiver shocks, over-indebtedness, funding/liquidity & regulatory change — met with group discipline, responsible lending, field productivity, provisioning & capital buffers.

12.5 Key Performance Indicators to Monitor

- **Asset quality:** PAR buckets; GNPA; collection efficiency; credit cost.
- **Field productivity:** borrowers/officer; AUM/branch; opex/AUM.
- **Margins:** yield; cost of funds; NIM; ROA/ROE.
- **Capital & funding:** CRAR; NOF; leverage; ALM; funding mix.

13. Funding Requirement & Bankability

This NBFC-MFI is **capital-intensive**: it requires substantial **equity (₹9 crore NOF)** to meet RBI minimums & support CRAR, plus **debt/borrowings** (banks, NBFCs, NCDs, on-lending/BC lines) to fund the micro-loan book. Bankability (for its own borrowings) rests on capital adequacy, asset quality (PAR), field discipline, promoter strength & governance — lenders assess CRAR, PAR, ROA, ALM & social/compliance performance. Unlike consulting, this is a leveraged, regulated, field-heavy financial institution: growth is bounded by capital & regulation, returns geared but exposed to event/credit risk. Year-1 PBT ~₹79 lakh growing to ₹3.8 crore reflects a seasoning book with controlled PAR & high field cost. *(Business model, not investment advice; RBI registration & the microfinance framework are prerequisites.)*

13.1 Funding utilisation (initial ₹12 crore)

Use of funds	₹	% of total
Lendable funds (initial micro-loan book)	10,00,00,000	83.3%
Branches, field infrastructure & technology	1,20,00,000	10%
Opex reserve, compliance & pre-operative	80,00,000	6.7%
Total	**12,00,00,000**	**100%**

14. Risk Analysis & Mitigation

Risk	Mitigation
Credit / event / political / waiver risk	Group discipline, geographic diversification, PAR monitoring, provisioning, buffers
Over-indebtedness / regulatory caps	Bureau checks, indebtedness caps, responsible lending, compliance
High field cost / productivity	Field productivity, tech/mobility, branch efficiency, scale
Funding / liquidity / cost of funds	Diversified borrowings, ALM, liquidity buffers, assignment/BC
Capital adequacy / regulation	Capital planning, equity raises, RBI compliance, governance, MFIN codes

15. SWOT Analysis

Strengths Large inclusion market; group discipline/low normal defaults; field reach; geared returns; social impact.	**Weaknesses** Capital-intensive; high field cost; event/political/credit risk; regulated pricing; leveraged & funding-dependent.
Opportunities Financial inclusion; rural growth; graduation loans; cross-sell; digital/cashless; co-lending/BC.	**Threats** Political/waiver & event shocks; over-indebtedness; funding squeezes; regulatory change; competition (SFBs/banks).

16. Recommended AiSevak Tools for This Business

This NBFC-MFI would use AiSevak's BFSI vertical tools in delivery:

- **Field & lending ops:** group-formation/appraisal & bureau/indebtedness-check, doorstep-disbursal/collection & PAR-monitoring, field-productivity analytics tools.
- **Finance & compliance:** treasury/ALM & cost-of-funds, CRAR/NOF & IRACP-provisioning, RBI-microfinance-compliance & fair-practices tools (with Legal & Finance verticals).
- **Practice:** Business Plan, NIM/PAR/field-productivity and capital-adequacy modelling tools to plan & monitor the MFI.

17. Key Assumptions & Notes

- NBFC-MFI is a REGULATED, LEVERAGED, FIELD-INTENSIVE balance-sheet business: RBI CoR, minimum NOF, CRAR ≥15%, the RBI microfinance framework (income eligibility, indebtedness caps, collateral-free, transparent pricing), IRACP & ALM apply.
- Profit = NIM (yield − cost of funds) × AUM − high field opex − credit costs (PAR/NPA), geared by leverage; asset quality, field productivity & cost of funds are make-or-break.
- Requires substantial equity (NOF) + diversified debt; growth bounded by CRAR/regulation; distinctive high-touch JLG doorstep model & regulated pricing.
- Group discipline, field productivity, asset quality, collections, capital & compliance drive economics; figures illustrative; RBI registration & microfinance framework are prerequisites; business model, not investment advice.

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