

Improved livelihoods for women

Anticipated transaction impact

Additional sewing microenterprises launched by poor women in Nuevo Laredo State, Mexico

Impact score Pass (17/21)
Credit score Pass (15/21)

Loan Overview

Commitment limit	USD 100,000
Tenor and structure	24 months, monthly payments
Interest rate	10.50%
Collateral	None
Corp. Guaranty	Cricket Textile

Financial Overview

2022 Revenue	USD 110 k
2022 Dec Portfolio	USD 347 k
Dec 2022 Net assets	USD 165 k

Company Information

Legal name	Fomento Altitud S.A. de C.V. Sofom E.N.R.
Founding year	2011
Corporate address	Monterrey, Mexico
Nature of business	Microfinance focused on sewing machines
Website	www.altitudsofom.com

Company management

Name	Nationality	Position
Gabriel Rivera	Mexico	Founder & CEO

Recommendation

Approval of a USD 100,000 term loan given the company's positive impact rating and financial stability.

Altitud

Business overview

Altitud is a ten-year old microfinance institution based in Monterrey, Mexico that provides small loans to women setting up apparel microenterprises. Since inception, the organization has helped launch more than one thousand home-based sewing businesses.

Altitud offers 6-12 month loans for the purchase of sewing machines that cost, on average, about USD 500. In conjunction with its sister company, Cricket Textile, they also offer training in sewing techniques and connections to commercial sewing contracts. The business earns net interest income (interest collected from customers less interest paid to lenders) as well as loan fees. Altitud has been profitable for the past three years and through the first nine months of 2021 as well.

Figure 1 Altitud's impact model working with women in Monterrey



Altitud is a *Sociedad Financiera de Objeto Múltiple-Entidad Regulado* (SOFOM ER), one of 1,500 non-bank finance companies in Mexico that provide most of the credit to individuals and small and medium-sized businesses in the country. SOFOMs are lightly regulated by the Mexican government and are unable to accept deposits. They fill an important role in a country where 32% of the adult population is unbanked and credit card rates range from 24.5% to 151.1% (Mexican Central Bank, 2020.) Twenty percent of Altitud's business comes from non-sewing microenterprises such as restaurants, grocery stores and beauty shops.

Altitud's biggest bottleneck to growth is the lack of affordable capital to on-lend to its customers. In February 2022, Altitud borrowed a USD 50,000 24-month term loan from Beneficial Returns which carries a 10.75% interest rate. As of February 2023, Altitud has paid 47% of its first loan from Beneficial Returns. All payments were made on time. The total outstanding principal is USD 26,330.

Altitud is seeking for on-lending capital.

Impact

Sourcing 80% of its borrowers through Facebook, Altitud offers loans to women who are generally the head of household, aged 30-50 and with children at home. Altitud focuses on women (85% of borrowers) who have completed their primary education and fall into the D/D+ category in Mexico's socio-economic index. One step above the poorest Mexicans, women in this category spend 40-50% of their income on food and most households earn the minimum wage (USD 7/day.)

Altitud's goal is to provide its customers with a dependable way to earn a solid living without having to leave their homes. *Maquiladoras* (factories run by US businesses) the major employers in the area for low-skilled workers, are often located far from population centers and don't offer flexibility for workers who also must care for children. The Altitud model of distributed production has proven especially effective during the pandemic when factories closed or reduced their staffing to comply with COVID restrictions.

Ninety-six percent of Altitud borrowers repay their loans in full and, of those, 92% report an increase in income. An independent study showed that the average Altitud borrower earns nearly USD 25/day completing commercial contracts as well as alterations and other individual sewing projects in their neighborhood.

Transaction overview

Altitud's biggest bottleneck to growth is the lack of capital to on-lend to its customers. As of December 2022, it had only USD 34,000 of cash available to lend. Historically, the business has faced very high borrowing costs (30%+) which are considered the market rate in Mexico. In December 2020 the business refinanced USD 67,000 of its outstanding debt with a USD 250,000, 24-month loan from Open Road Alliance. This loan carries a 5% interest rate.

BR's second loan is structured as a fully-amortizing, two-year loan. The average tenor for an Altitud microloan is under twelve months, so the business can "turn" our money more than once during the two-year term. When BR made its first loan to Altitud, we hoped Altitud will become a long-term BR customer and that our loan facility to Altitud will grow in concert with its own loan portfolio. Based on their performance so far, we remain confident this will be a long-term partnership.

It is not practical to secure our loan with sewing machines located throughout the greater Monterrey area. We will take a corporate guaranty from Cricket Textile, the sister company, which is 100% owned by Gabriel Rivera.

Our loan was documented on a pro bono basis by Von Wobeser of Mexico City.

Rationale to lend

- Altitud's focus on sewing microenterprises and its holistic approach of offering credit, training and commercial orders to its customers is an effective way to increase the likelihood that its borrowers will be financially successful.
- Altitud focuses on poor women who often much choose between earning an income and caring for young children. Financing Altitud means better outcomes for poor families in Mexico.
- Although the interest rates it charges are high (58% per annum), they are competitive by Mexican standards where the average microloan is at 74%. Additionally, and most importantly, Altitud marks up its sewing machines very little. The high interest rate on a low "base price" means its clients are acquiring their sewing machines over time at a total cost that is only marginally higher than had they paid cash for a similar machine at a retail establishment.
- Altitud has passed on savings on interest expenses to their customers. When we first made the loan, the weighted average interest rate for the portfolio was 65%. Weighted average rate as of December 2022 was 58%.
- Through its sister company, Cricket Textile, Altitud brokers commercial sewing orders and spreads the work among hundreds of independent microentrepreneurs. We believe this business model leads to more successful borrowers, which means better loan portfolio performance for Altitud.

- Cricket also markets its distributed, independent workforce to smaller Mexican fashion brands who value an ethical supply chain. This effort is leading to systemic change; the fashion industry now has an alternative to large factories.
- Back channel reference checks with Open Road Alliance, Ashoka, and Co Capital have been uniformly positive. Altitud and its founder are praised for their ethics and their commitment to reducing poverty in Mexico.

Portfolio Performance

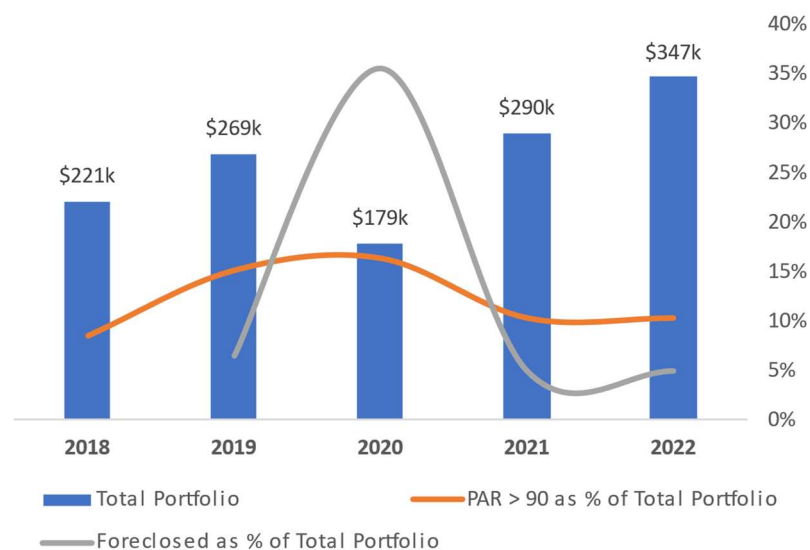
Despite lending to poor people, Altitud has experienced very modest loan losses. This can be attributed to four factors:

- Altitud is primarily financing sewing machines and provides those customers with training and commercial contracts which increases the likelihood that they can repay their loan;
- Altitud is secured by the underlying sewing machines which it repossesses and places with new customers in the event of non-payment;
- Altitud also collects a deposit of 10%-20% of the loan amount which reduced their exposure with each borrower;

Altitud is required to reserve for anticipated loan losses based on how delinquent each borrower is with their payments. Late payments trended up in 2019 and 2020 and have now declined to 10% of the outstanding portfolio in 2022. Currently, 35 of 338 are delinquent for a total of USD 36,561 and Altitud has USD 6,929 deposits from those customers which can be applied to the delinquent amount.

Altitud repossesses sewing machines and other financed equipment when a borrower doesn't pay. The vast majority of these repossessions are done amicably and the debt is extinguished when the equipment is returned. During the height of the pandemic Altitud permitted its customers to tap their deposits to stay current with their loan payments. When those were used up a large number of customers returned their equipment and canceled their loans. In 2022 foreclosure rates are now lower than pre-pandemic levels at 5%.

Figure 2 Improved portfolio performance in 2022



Financial Analysis

<i>in USD '000s</i>	2018	2019	2020	2021	2022
Cash	69	36	76	70	34
Loans Rcvbl (current)	202	228	150	261	311
Loans Rcvbl (>90 days)	19	41	29	29	36
Other A/R	2	4	1	4	2
Allowance for doubtful	(8)	(12)	1	(7)	(12)
Current Assets	284	296	257	356	371
Fixed Assets	3	2	2	3	3
Other Assets	7	7	7	13	13
Foreclosed Assets	0	18	64	15	17
Total Assets	294	323	330	387	404
Loans Payable	122	139	156	182	173
Deposits on Account	33	44	32	38	58
Total liabilities	162	183	188	220	231
Total equity	132	140	142	167	173

	2018	2019	2020	2021	2022
Interest Income	93	106	91	91	110
Interest Expense	(13)	(20)	(20)	(27)	(34)
Net Interest Margin	79	86	71	63	76
Allowance for Loan Loss	1	1	-	1	62
Loan Fees & Masks	9	27	43	46	5
Total Income	90	115	114	111	143
G&A	(84)	(104)	(111)	(102)	(127)
Operating Income	(6)	(10)	(3)	(9)	(15)
Taxes	-	(2)	(1)	(1)	(1)
Net Income	6	8	2	8	14

Altitud's primary source of income is interest income; it generates approximately USD 100,000 per year in revenue this way. Altitud also earns income from loan fees. In 2020 and 2021, the enterprise also earned income from contracts for the production of COVID-19 masks. The mask business has since been transferred to Cricket Textile.

Interest income is a function of three variables: portfolio size, the interest rate charged, and payment performance of Altitud's customers. At USD 347k as of December 2022, the portfolio balance is as high as it has ever been. Interest rates remain steady and customer payment performance is consistent with historical averages after a big increase in 2020 due to the pandemic.

Altitud's balance sheet shows healthy debt to equity ratio of 1.3X.

Cricket Textile

Cricket Textile has offered its corporate guaranty for our loan. Cricket is 100% owned by Gabriel Rivera and must be a stand-alone legal entity to comply with Mexican microfinance regulations. Cricket performs two main tasks for Altitud. First, it buys the sewing machines that Altitud finances; they are marked up a reasonable 25%. Second, it secures big garment orders and farms these out to Altitud customers.

Although small, the business is profitable and has generated about USD 50k in net income for each of the past two years. The business has a net worth of USD 178k composed primarily of cash and sewing machine inventory.

Cricket Textile (USD 000s)	2021	2022
Sewing Machine Sales	54	82
Sewing job brokering	24	38
Other income	60	36
Total Income	139	155
Total Expenses	81	98
Net Income	58	57
Cash	135	105
Bank Loans	18	14
Net Worth	123	178

Major risks and mitigating factors

Risk	Risk factor	Probability	Risk mitigating factor
Inability to sustain profitable operations	Failure to find new borrowers.	Moderate	<ul style="list-style-type: none"> Altitud currently focuses on the Monterrey metro region (4.6M inhabitants) and could expand geographically if it reaches market saturation. Expansion would, however, increase operational and credit risks. Net interest margins should improve which will increase profitability without growing portfolio balance.
	Deterioration of loan portfolio.	Moderate	<ul style="list-style-type: none"> Portfolio performance has rebounded from the effects of COVID in 2020. Altitud was profitable even in 2020. PAR>90 and foreclosures on equipment are at acceptable levels.
Devaluation of Mexican peso vs. USD	Inability to service Open Road Alliance and BR debt	Moderate	<ul style="list-style-type: none"> We can restructure the loan to provide Altitud with a longer loan term which would reduce their monthly debt service.

Conclusion

We recommend extending a loan of USD 100,000 to Altitud, noting a solid impact score and positive trends in its financial position. We are especially motivated by its focus on low-income women entrepreneurs who have historically faced even greater obstacles to securing financing and launching businesses.

Appendix 1: Altitud

Impact score: 16 out of 20

Prospective borrowers are rated with 1 point for Low, 2 points for Moderate and 3 points for High. Minimum score of 15 for approval.

	Low	Moderately		High	Score
		Low	High		
1 DEPTH AND BREADTH Is the breadth of impact wide, relative to the current size of the org? How meaningful are the changes to the beneficiaries? Are the beneficiaries truly excluded and marginalized?				✓	4
2 SYSTEMIC CHANGE Is the social enterprise focused on systemic change? Is the social enterprise directly driving policy change or serving as an example to the industry and its peers? What behavior change has taken place? Do the beneficiaries become dependent on the social enterprise?			✓		3
3 COMMUNITY ENGAGEMENT Does the social enterprise engage all stakeholders in their work? Is the social enterprise building local, human resources? Does it actively share its insights with others? Are indigenous communities involved?				✓	3
4 INTENTION How committed to its social or environmental mission is the social enterprise?			✓		3
5 ADDITIONALITY Is Beneficial Returns' investment crucial to the company's goals related to the loan?			✓		3
TOTAL					16

Appendix 2: Altitud

Credit score: 15 of 21

Prospective borrowers are rated with 1 point for Low, 2 points for Moderate and 3 points for High. Minimum score of 15 for approval.

	Low	Moderate	High	Score
1 BELIEF IN MANAGEMENT Does the social enterprise have a strong management team (extensive industry experience, strong leadership and entrepreneurial background)? Is the governance structure adequate?			✓	3
2 ACCOMMODATIVE BUSINESS ENVIRONMENT Is the social enterprise operating in an industry with low level of competition? Does the social enterprise provide products or services that have low threat of substitution?		✓		2
3 QUALITY OF FINANCIAL INFORMATION Can the financial information provided be depended on? Has its financial statements been audited?		✓		2
4 ABILITY TO BE PROFITABLE Does the social enterprise have a positive earnings trend? Are the earnings sustainable?			✓	3
5 STRENGTH OF FINANCIAL POSITION Does the social enterprise maintain adequate financial ratios (DSCR, Debt-to-equity, Current ratio) to support a debt obligation?		✓		2
6 ABILITY TO SERVICE DEBT Does the social enterprise have the ability to establish a strong cash position to meet its debt obligations on time?		✓		2
7 COLLATERAL OR GUARANTEES Is there collateral for the loan with an adequate loan-to-value amount? Is there a guarantor for the loan?	✓			1
TOTAL				15

Appendix 3: Photos

