

CARE/CRO/RL/2019-20/1392

Mr. Prabhakaran  
Chief Financial Officer  
S.M.I.L.E. Microfinance Limited  
No.14/25, Chakrapani Street,  
West Mambalam,  
Chennai,  
Tamil Nadu 600033

October 01, 2019

**Confidential**

Dear Sir,

**Credit rating for bank facilities**

On the basis of recent developments including operational and financial performance of your company for FY19 (audited) and Q1FY20 (provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	250.00 (Rs. Two Hundred and Fifty crore only)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed

2. Refer Annexure 1 for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as Annexure-2. We request you to peruse

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 03, 2019, we will proceed on the basis that you have no any comments to offer.

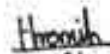
4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

8. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
9. CARE ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



**Hareesh H**  
Analyst

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Encl.: As above

**Disclaimer**

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

CARE's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**Annexure 1**  
**Details of Rated Facilities**

**1. Long-term facilities**

**1.A. Rupee Term Loan**

Sr. No.	Lender	Rated Amount (Rs. Crore)	Debt Repayment Terms
1.	CSB Bank Limited	10.00	Repayable in 24 monthly installments ending August 31, 2021
	<b>Total</b>	<b>10.00</b>	

**1. B. Fund Based limits**

Sr. No.	Name of Bank	Type of facility	Rated Amount (Rs. Crore)
1.	Proposed	LT Fund Based	240.00
	<b>TOTAL</b>		<b>240.00</b>

**Total long-term facilities (1.A+ 1.B) Rs. 250.00crore**

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**Annexure  
Press Release**

**Ratings**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Rating<sup>1</sup></b>	<b>Rating Action</b>
Long term Bank Facilities	250.00 (Rs. Two Hundred and Fifty crore only)	<b>CARE BBB; Stable (Triple B; Outlook: Stable)</b>	<b>Reaffirmed</b>
Non-convertible Debenture-I	38.70 (Rs. Thirty Eight crore and Seventy Lakh only)	<b>CARE BBB; Stable [Triple B; Outlook: Stable]</b>	<b>Reaffirmed</b>
Non-convertible Debenture-II	25.80 (Rs. Twenty Five crore and Eighty Lakh only)	<b>CARE BBB; Stable [Triple B; Outlook: Stable]</b>	<b>Reaffirmed</b>
Non-convertible Debenture-III	20.00 (Rs. Twenty crore only)	<b>CARE BBB; Stable [Triple B; Outlook: Stable]</b>	<b>Reaffirmed</b>

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the debt instruments and bank facilities of S.M.I.L.E. Microfinance Limited (SMFL) continues to factor in the established track record of operations, its experienced management team, adequate loan appraisal, MIS & risk management systems, good profitability & asset quality indicators and comfortable capitalization levels. The ratings, however, continues to be constrained by moderate scale of operations with geographical concentration of its loan portfolio, moderately diversified funding profile and regulatory & political risks inherent in the microfinance industry.

Going forward, the ability of the company to grow its portfolio, maintain good asset quality and profitability while geographically diversifying its loan portfolio will form the key rating sensitivities.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

## **Detailed description of the key rating drivers**

### **Key Rating Strengths**

#### ***Established track record and experienced management team***

SMFL has an established track record of operations spanning over a decade in microfinance business primarily in the state of Tamil Nadu. The company is currently managed by Mr. Murali Srinivas, who is the Managing Director & CEO of the company. He has 20 years of experience in Corporate & Development Sector viz., Microfinance, Insurance, Bottled Water and Business Process Outsourcing. Mr. Murali Srinivas is ably supported by an experienced management team in managing day to day operations. The company has 6 directors in the board including 3 directors representing DWM Investments Limited, 2 Independent Directors and Managing Director.

#### ***Adequate loan appraisal, collection system & MIS***

SMFL operates under the JLG lending model in which the groups undergo three day training program (Compulsory Group Training-CGT) regarding loan process, product details, group formation and group liability. Field Development Officers (FDOs) complete the loan application process and submit the documentation to the branch manager along with KYC details. After verifying all the details, loan is sanctioned by Divisional Manager for loans upto Rs.40k. If the loan amount exceeds Rs.40k, then the loans are sanctioned by the Zonal Manager. Loan disbursement takes place at the branches on Wednesdays where BM will verify the passbook of each member to make sure that the account number and IFSC code they provided are correct. These details are then sent to HO and the loan is disbursed to the client through NEFT. Every borrower is given with the repayment schedule indicating the due dates and the passbook for the loan account. The portfolio is monitored on an on-going basis by post disbursement verification of assets created out of loan amount. The repayment happens on fortnightly basis at the centers during center meetings. The internal audit team visits the branches every quarter. The company uses software BR.Net. System generated reports containing demand and collection reports, pending payments reports, etc. will be sent to all the branches on a daily basis.

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### ***Comfortable capitalization levels***

The company has maintained comfortable capital adequacy levels over the years. As on March 31, 2019, the company had networth of Rs.133 crore. CAR increased to 28.24% as on March 31, 2019 as compared to 23.29% as on March 31, 2018. The improvement in CAR is due to internal accruals and decline in on-book loan portfolio during FY19. As on June 30, 2019, CAR remained at 28.40%. Overall gearing improved from 4.13x times as on March 31, 2018 to 3.06x times as on March 31, 2019

### ***Good profitability levels***

Net Interest Margin (NIM) increased from 8.36% in FY18 to 9.08% in FY19 on account of reduction in cost of borrowings. Opex to Avg.total assets reduced from 5.75% in FY18 to 5.19% in FY19 with increase in the scale of operations. With credit cost remaining intact, ROTA increased from 3.48% in FY18 to 4.61% in FY19. During Q1FY19, NIM remained at 8.82% and ROTA remained at 4.57%.

### ***Good Asset Quality***

SMFL have maintained healthy asset quality over the years. The collection efficiency has been consistently strong and maintained above 99% in the past three years. The company follows 90 days DPD as per RBI regulations. Gross NPA and Net NPA stood at 0.26% and Nil as on March 31, 2019 as against 0.10% and Nil respectively as on March 31, 2018. As on June 30, 2019, GNPA and NNPA stood at 0.37% and Nil respectively. 30+ DPD stood at 0.42% as on March 31, 2019 (PY: 0.16%) and 0.47% as on June 30, 2019.

### ***Liquidity: Adequate***

As on June 30, 2019, ALM continuous to be adequate with no cumulative mismatches in any of the time brackets up to one year. It is mainly because the tenure of advances given by SMFL is mostly in the range of 1 to 2 years with significant portion of the loans having tenure of 1 year. The company also has cash and liquid investments of about Rs.59 crore and undrawn line of credit of Rs.9 crore as on June 30, 2019.

### ***Industry Outlook and Prospects***

Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels. RBI has revised the lending norms

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for the MFI sector, post Andhra Pradesh (AP) crisis in 2010 and Malegam Committee Report on NBFC-MFI in 2011. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. However, on account of various events post demonetization, collection efficiency of the MFIs had deteriorated during FY17. This has impacted the asset quality of the MFIs leading to increase in credit costs during FY17 and FY18. However with improvement in the scenarios during FY18, the overall industry had grown by around 47% during FY19 in terms of AUM and collection efficiency of the overall industry improved with 30+dpd improved to 1.73% as on March 31, 2019 from 4.03% as on March 31, 2018 (source: MFIN).

With further improvement expected in the overall MFI industry over the medium term, the ability to withstand event risks and avoid further deterioration in the asset quality leading to impact in the overall profitability will be the key considerations.

**Key Rating Weaknesses:**

***Moderately diversified resource profile***

The share of term loans from banks has decreased from 51% as on March 31, 2018 to 37% as on March 31, 2019, whereas, share of term loans from financial institutions increased from 14% as on March 31, 2018 to 28% as on March 31, 2019. The share of NCDs decreased from 33% as on March 31, 2018 to 32% as on March 31, 2019. Going forward, SMFL needs to further diversify its funding source and look to borrow at cheaper rates in order to reduce the finance costs.

***Moderate scale of operations with geographically concentrated loan portfolio***

During FY19, SMFL has witnessed moderate growth in scale of operations. Disbursements of SMFL have increased from Rs.706 crore in FY18 to Rs.758 crore in FY19. AUM has witnessed a growth of 9% from Rs.474 crore in FY18 to Rs.516 crore in FY19. On-book loan portfolio reduced from Rs.471 crore as on March 31, 2018 to Rs. 445 crore as on March 31, 2019 with increase in off-book from Rs.2 crore as on March 31, 2018 to Rs.71 crore as on March 31, 2019. It is to be noted that with respect to loan cycle-wise portfolio outstanding, almost 65% of the total loan portfolio is for the customers in third cycle and above.

As on June 30, 2019, SMFL operates with 110 branches in 29 districts. The company is operating in 3 states and 1 union territory namely TN, Puducherry, Kerala and Chhattisgarh (1 Pilot Branch). But the portfolio is geographically concentrated with TN constituting 97.54% of AUM



followed by Puducherry (2.10%), and Kerala (0.36%) as on June 30, 2019. Although strong presence in a particular region helps the company to understand the dynamics of the particular region, it is exposed to geographical concentration risk. Single state exposure as % of tangible networth stood at 3.7x as on March 31, 2019 (PY: 4.3x) and Top 3 districts accounted for 1.4x of tangible net worth as on March 31, 2019.

**Analytical approach:** Standalone

**Applicable Criteria:**

Criteria on assigning Outlook and Credit watch to Credit Ratings

CARE's Policy on Default Recognition

Financial Ratios-Financial Sector

CARE's Rating Methodology for Non Banking Finance Companies (NBFCs)

**About the Company**

S.M.I.L.E. Microfinance Limited (SMFL) is a Chennai based Non-Deposit taking Non-Banking Finance Company (NBFC-ND) started as a private limited company in 2004 and converted to public limited company in November 2005. The company was reclassified as NBFC-MFI in May 2015. SMFL is engaged in the activity of extending loans to women for income generation purposes both in rural and urban areas. Mr. Murali Srinivas is the Managing Director and CEO of the company. As on June 30, 2019, DWM Investments (Cyprus) Limited hold 66.64% stake, promoters hold 18.57% stake and the remaining is held by Other Individual Shareholders (14.79%). As on June 30, 2019, the company is operating with 110 branches in 29 districts having presence in 3 states and 1 union territory with AUM of Rs.480.24 crore.

During FY19 (refers to the period April 01 to March 31), the company reported PAT of Rs.26 crore on a total income of Rs.117 crore. During Q1FY20 (Prov.), the company reported PAT of Rs.6.40 crore on a total income of Rs.29.20 crore.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total operating income	101.6	117.0
PAT	16.8	26.0
Interest coverage (times)	1.51	1.66
Total Assets	562	565
Net NPA (%)	0.00	0.00
ROTA (%)	3.48	4.61

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

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Rating History for last three years: Please refer Annexure-2

### Analyst Contact

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### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	August 2021	250.00	CARE BBB; Stable
Debentures-Non Convertible Debentures - I	INE786V07050	October 05, 2017	12.96%	October 05, 2022	38.70	CARE BBB; Stable
Debentures-Non Convertible Debentures - II	INE786V07043	September 15, 2017	12.96%	September 15, 2022	25.80	CARE BBB; Stable
Debentures-Non Convertible Debentures - III	INE786V07068	December 18, 2017	13.00%	December 18, 2020	20.00	CARE BBB; Stable

### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Rating history			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	38.70	CARE BBB; Stable	-	1)CARE BBB; Stable (21-Aug-18)	1)CARE BBB; Stable (11-Sep-17)	-
2.	Debentures-Non Convertible Debentures	LT	25.80	CARE BBB; Stable	-	1)CARE BBB; Stable (21-Aug-18)	1)CARE BBB; Stable (11-Sep-17)	-
3.	Debentures-Non	LT	20.00	CARE	-	1)CARE BBB;	1)CARE BBB;	-

	Convertible Debentures			BBB; Stable		Stable (21-Aug-18)	Stable (01-Nov-17)	
4	Fund-based-Long Term Bank Facilities	LT	250.00	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Aug-18)	-	-

*Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

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