



ICRA

ICRA Limited

CONFIDENTIAL

Ref No: ICRA/Chen/Grading/MFI/15-16/5

March 08, 2016

**Ms. Indrani Singh**  
**Chairman & Managing Director**  
**S.M.I.L.E Microfinance Limited**  
**"The Galaxy"**  
**No. 30, 48<sup>th</sup> Street, 9<sup>th</sup> Avenue**  
**Ashok Nagar**  
**Chennai - 600 083**  
**Ph No: 044 - 42910100, 23718588.**

Dear Madam,

**Re: ICRA MFI Grading of S.M.I.L.E Microfinance Limited**

Please refer to your letter dated February 25, 2016 for grading of the aforesaid entity. Our Rating Committee, after due consideration, has assigned "M3+" (pronounced M three plus) grade to the captioned entity. This grading indicates that in ICRA's current opinion, the Graded MFI's ability to manage its microfinance activities in a sustainable manner is moderate.<sup>†</sup>

In any of your publicity material or other documents wherever you are using the above grading, it should be stated as "M3+". We would appreciate if you can sign on the duplicate copy of this letter and send it to us as a token of your acceptance and use of the assigned grade. The rationale for assigning the above grading will be sent to you on receipt of your confirmation about the use of the grade, as above. Any intimation by you about the above grading to any Banker / Lending Agency / Government Authorities / Stock Exchange / Project Promoter / Consultant / Customers would constitute use of this grading by you.

The above grading alongwith any subsequent revisions/changes are valid till March 03, 2017, unless revalidated by a fresh mandate. ICRA reserves the right to suspend, withdraw or revise the above at any time on the basis of new information or such other circumstances, which ICRA believe, may have an impact on the grade assigned to you.

The grading, as aforesaid, however, should not be treated as a recommendation to lend or not to lend or to do business with any such graded entity.


You are required to keep us informed of the progress details of your company and any developments, which may have a direct or indirect impact on the performance of the company.

We thank you for your kind cooperation extended during the course of the grading exercise.

With kind regards,

Yours sincerely,  
for ICRA Limited

  
(Pavetha Ponniah)  
Vice President

  
(Vivekanandan L)  
Analyst

<sup>†</sup> For complete rating scale and definitions please refer to ICRA's Website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

Karumuthu Centre, 5<sup>th</sup> Floor  
634, Anna Salai, Nandanam  
Chennai - 600035

Tel : +91 - 44 - 45964300  
Fax : +91 - 44 - 24343663  
CIN : L74999DL1991PLC042749

website : [www.icra.in](http://www.icra.in)  
email : [info@icraindia.com](mailto:info@icraindia.com)

**ICRA assigns MFI Grade of M3+ to S.M.I.L.E. Microfinance Limited**

Instrument	Amount (Rs. crore)	Grading Action
MFI Grading	NA	M3+ / assigned

ICRA has assigned the MFI grade of M3+ (pronounced M three plus) to S.M.I.L.E. Microfinance Limited (SMILE / the company). The grading indicates that in ICRA's current opinion, the graded MFI's ability to manage its microfinance activities in a sustainable manner is moderate. The grading is valid till March 2017<sup>1</sup>. ICRA's MFI Grading is not a comment on any specific debt servicing capability of the MFI.

The assigned grading takes into consideration SMILE's ability to secure funding, its low leveraging (0.8 times as on December 2015 on a net worth of Rs. 83.6 crore) and its ability to sustain good asset quality and earnings. The company had secured incremental funding from banks (Rs. 46.0 crore) and raised funds via the securitization route (Rs. 102 crore) cumulatively totalling to Rs.148 crore during the 10mFY2016 vis a vis 40 crore during FY2015. The above supported the improvement in disbursements to about Rs. 229 crore during 10mFY2016, as compared to the full year disbursement of Rs. 221 crore during the previous fiscal. Consequently, the gross portfolio witnessed growth from Rs. 133.7 crore in March 2015 to Rs. 151.9 crore in January 2016. The grading is also supported by its track record in the microfinance business in Tamil Nadu, experience of the management team, its prudent lending policies, along with adequate internal controls, monitoring systems and efficient collection mechanisms, which aids in maintaining a good asset quality (0+ dpd at 0.2% in December 2015).

The grading however takes into consideration the political risks arising out of the company's regionally concentrated nature of the business and the steady moderation in the active member base (from 2.2 lakh in March 2015 to 1.7 lakh in December 2015). While the company has waiting member base of about 0.5 lakh as of January 2016 (0.8 lakhs in March 2015), which along with its established franchise in Tamil Nadu provides some visibility; ability of the company to expand its member base and diversify geographically in a highly competitive business environment would be critical from a grading perspective.

ICRA takes note of the cost control measures taken by the company including rationalization of employee base (reduced from 338 in March 2015 to 247 in January 2016) and branch consolidation (101 in March 2015 to 86 in January 2016), which has supported the improvement in the overall profitability (RoA improved from 0.2% in FY2015 to 1.6% in 9mFY2016). Going forward, it would be critical for the company to keep the operating expenses under control as it expands its business volumes and operations and, to secure incremental funding from diverse sources at competitive rates and in a timely manner in relation to the envisaged annual portfolio growth of 25-30% over the next three years.

ICRA also notes that the senior management team is commensurate with the current scale of business; however, the company would have to broad-base its senior management team with expansion in business volumes.

**Company Profile**

S.M.I.L.E. Microfinance Limited was incorporated in the year 2004 to provide credit services to the urban / rural poor. The Company was registered as a Non-Deposit taking NBFC in January 2006. SMILE is engaged in providing credit to economically backward women through the Joint Liability Group (JLG) mechanism. In FY2010 DWM Investments (Cyprus) Limited (DWM), U.S. based Investors, committed equity of Rs. 50 crore for 66.6% stake and completed infusion of all tranches by March 2011. The dispute between the promoter group and DWM, which emerged during Q4FY2014, has been amicably resolved with all legal cases between them being either dismissed or withdrawn. Further, the promoter as per the MOU with DWM is not expected to seek control or interfere in the business of SMILE. As in January 2016, SMILE had a total member base of 2.1 lakh across 23 districts of Tamil Nadu and the Union Territory of Pondicherry.

**Recent Results**

As per the provisional financial statements for 9m FY2016, SMILE achieved a net profit of Rs. 2.1 crore on a total managed asset base of Rs. 204.0 crore. During FY2015, SMILE reported a net profit of Rs. 0.6 crore on a total managed asset base of Rs. 179.6 crore vis-a-vis a net profit of Rs. 5.2 crore on a total managed asset base of Rs. 342.4 crore during FY2014.

**March 2016**

<sup>1</sup> For complete grading scale and definitions please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications



*For further details, please contact:*

*Analyst Contact:*

**Ms. Vibha Batra** (Tel. No. +91-124-454 5302)  
vibha@icraindia.com

*Relationship Contact:*

**Mr. Jayanta Chatterjee**, (Tel. No. +91-80-4332 6401)  
jayantac@icraindia.com

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

© Copyright, 2016, ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



**You can reach us at any of our offices:**

**Registered Office**

**ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office**

**Mr. Vivek Mathur**

Mobile: **9871221122**

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D, 4545300 (B) Fax; +91-124-4545350

**Mumbai**

**Mr. L. Shiva Kumar**

Mobile: **9821086490**

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion, Appasaheb Marathe Marg,  
Prabhadevi, Mumbai - 400 025  
Ph : +91-22-2433 1046/ 1053/ 1062/ 1074/ 1086/ 1087  
Fax : +91-22-2433 1390

**Kolkata**

**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna, 234/ 3A, A.J.C. Bose  
Road, Kolkata-700020.  
Tel: +91-33-2287 0450/ 2240 6617/ 8839/ 2280 0008 Fax:  
+91-33-22470728

**Chennai**

**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre, 498 Anna Salai, Nandanam,  
Chennai-600035.  
Tel: +91-44-2433 3293/ 94, 2434 0043/ 9659/ 8080, 2433  
0724, Fax:91-44-24343663

**Bangalore**

**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

2nd Floor, Vayudhoot Chambers, Trinity Circle, 15-16  
M.G.Road, Bangalore-560001.  
Tel:91-80-25597401/ 4049 Fax:91-80-25594065

**Ahmedabad**

**Mr. L. Shiva Kumar**

Mobile: **9821086490**

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26584924, 26585494, 26582008,26585049  
TeleFax:+91-79- 2648 4924

**Pune**

**Mr. L. Shiva Kumar**

Mobile: **9821086490**

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, SNO 210, CTS 3202, Range Hills  
Road, Shivajinagar,Pune-411 020  
Tel : (91 20) 2552 0194 - 5; Fax : (91 20) 2553 9231

**Hyderabad**

**Mr. M.S. K. Aditya**

Mobile: **9963253777**

Email: [adityamsk@icraindia.com](mailto:adityamsk@icraindia.com)

301, CONCOURSE, 3 rd Floor, No. 7-1-58, Ameerpet,  
Hyderabad 500 016.  
Tel: +91-40-2373 5061 7251 Fax: +91-40- 2373 5152