



CONFIDENTIAL

Ref No: ICRA/Chen/GS/MFI/15-16/1

November 18, 2015

Ms. Indrani Singh
Chairman & Managing Director
S.M.I.L.E Microfinance Limited
No; 4, Dr. Natesan Road
Ashok Nagar
Chennai – 600 083

Dear Madam,

Re: ICRA-assigned MFI Grading to S.M.I.L.E Microfinance Limited.

Please refer to our letter no. ICRA/Chen/Grading/MFI/14-15/8 dated March 03, 2015 communicating the decision of ICRA's Rating Committee to assign the **M3 (pronounced M three)** grading to your company. Also, please refer to your email dated September 10, 2015 requesting for a review of the same.

Please note that the Rating Committee of ICRA, after due consideration has revised the grading assigned to your company to "**M3+**" (**pronounced M three plus**). 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.†

The above grading along with any subsequent revisions/changes is valid till March 01, 2016, unless followed 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

(K. Ravichandran)
Senior Vice President & Co-Head, Corporate Ratings

(AM Karthik)
Assistant Vice President

† For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications.

Seen by 23/11/15
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S.M.I.L.E. Microfinance Limited

Instruments	Amount (Rs. crore)	Grading Action
MFI Grading	NA	M3+ / revised from M3

ICRA has revised the MFI grade outstanding on SMILE Microfinance Limited[†] to M3+ (pronounced M three plus) from M3 (pronounced M three). 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 2016. ICRA's MFI Grading is not a comment on any specific debt servicing capability of the MFI.

The grading action takes into account the improvement in company's funding profile during the current financial year which is expected to improve the liquidity position and support business expansion and, the improvement in profitability indicators during H1 FY2016. The funding profile of the company continue to improve in the current financial year as it secured incremental funding from banks and raised funds via the securitization route totalling to Rs.96 crore during the first seven months ending October 2015. Further, the company has funding pipeline, which are at various stages of approval/sanctions, if received in a timely manner, would further support business growth and profitability going forward. The Company's gross portfolio has increased from Rs. 133.7 crore in March 2015 to Rs. 154.2 crore in September 2015 and the total disbursement stood at Rs. 151.3 crore during H1 FY2016 vis-à-vis Rs. 89.1 crore during H1 FY2015. The scale up of operations coupled with cost control measures undertaken by the Company including consolidation of branches and rationalization of manpower has resulted in net profit of Rs. 2.1 crore (provisional) for H1 FY2016 as against net profit of Rs. 0.6 crore for FY2015. SMILE has a comfortable capitalisation with net-worth of about Rs.83.6 crore (provisional) as in September 2015, which is likely to support the near to medium term growth of the Company. The grading continues to takes into account the SMILE's track record in the microfinance business along with its established franchise in Tamil Nadu, its adequate internal control systems, conservative appraisal process and its efficient collection and monitoring system, which is reflected by its strong asset quality profile (0+dpd of 0.1% in September 2015).

ICRA takes note of the geographically concentrated business profile with entire operations in Tamil Nadu and Pondicherry and the steady moderation in the active member base (from 2.2 lakh in March 2015 to 1.7 lakh in September 2015). While the company has waiting member base of about 0.7 lakh as of September 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 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 September 2015, SMILE had a total member base of 2.4 lakh across 23 districts of Tamil Nadu and the Union Territory of Pondicherry.

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating publications.



Recent Results

As per the provisional financial statements for H1 FY2016, SMILE achieved a net profit of Rs. 2.1 crore on a total managed asset base of Rs. 195.5 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.

November 2015

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