



Ref No: ICRA/Chen/Grading/MFI/16-17/04

March 21, 2017

Ms. Indrani Bhagwan Singh
Chairman & Managing Director
S.M.I.L.E Microfinance Limited
"The Galaxy"
No. 30, 48th Street, 9th Avenue
Ashok Nagar
Chennai – 600 083

Dear Madam,

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

Please refer to your letter dated February 10, 2017 for grading of the aforesaid entity. Our Rating Committee, after due consideration, has assigned "M2" (pronounced M two) 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 high.†

In any of your publicity material or other documents wherever you are using the above grading, it should be stated as "M2". 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 along with any subsequent revisions/changes is valid till March 16, 2018, 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


(R. Srinivasan)
Assistant Vice President
r.srinivasan@icraindia.com



(A M Karthik)
Assistant Vice President
a.karthik@icraindia.com

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



ICRA assigns MFI grade of M2 to SMILE Microfinance Limited

| Instruments* | Amount (Rs.crore) ¹ | Grading Action (March 2017) |
|--------------|--------------------------------|-----------------------------|
| MFI Grading | NA | M2 / assigned |

*Instruments details are provided in Annexure-1

Grading Action

ICRA has assigned the MFI grade of M2 (pronounced M two) to SMILE. Microfinance Limited (SML). The grading indicates that in ICRA's current opinion, the graded MFI's ability to manage its microfinance activities in a sustainable manner is high. The grading is valid till March 2018². ICRA's MFI Grading is not a comment on any specific debt servicing capability of the MFI.

Rationale

The grading factor in the company's established franchise in Tamil Nadu, its adequate internal control systems, conservative appraisal process, its efficient collection and monitoring system and comfortable capitalisation profile. The company has been witnessing good business growth supported by adequate funding. The improvement in scale augmented its operational efficiency and thereby supported its profitability. SML has taken initiatives to broad base its senior management team in line with its envisaged business growth plans.

The grading also takes note of SML's geographic concentration risk with its operations largely limited to Tamil Nadu.

Key grading drivers

Strengths

- Established franchise in Tamil Nadu; however, operations concentrated in the districts of Chennai and Madurai
- Adequate internal controls, commensurate with the current scale of operations
- Healthy asset quality aided by efficient loan appraisal, monitoring and collection systems
- Comfortable capitalisation profile; ability to raise capital going forward to maintain a risk adjusted capital profile is critical
- Good profitability profile supported by an improvement in operating efficiency

Challenges

- Geographic concentration risk with operations primarily limited in Tamil Nadu and Pondicherry
- Moderate scale and Limited diversity in earnings profile
- Ability to improve funding diversity to support business expansion

Description of key grading drivers highlighted above:

The company has a long standing presence in Tamil Nadu with a total network of 95 branches as on January 31, 2017 spread across Tamil Nadu and Pondicherry. During the current fiscal, the company forayed into Kerala to diversify its geographical presence. During 10MFY2017, the company's portfolio grew by 71.8% to Rs. 292.4 crore as on January 31, 2017 (27.3% growth during FY2016) aided by adequate funding support and growth in member base. During 10MFY2017, the company secured total debt (including securitisation) of Rs. 290.5 crore as against Rs. 244.4 secured during FY2016 and thus disbursed Rs. 423.2 crore during 10M FY2017 as against Rs. 292.8 crore during FY2016. After a decline in member base during FY2016 (to 2.1 lakh as on March 31, 2016 from 3.0 lakh as on March 31, 2015), it improved during 10MFY2017 to 2.7 lakh as on January 31, 2017. During FY2016, SML consolidated its branch presence with total number of branches reducing from

¹ Rs. 1 crore = Rs. 10 million = Rs. 100 lakh

² For complete grading scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications



101 as on March 31, 2015 to 88 as on March 31, 2016; it made a measured expansion in its branch network to 95 as on January 31, 2017. The growth in portfolio and improved operating efficiencies are reflected in the company's operating expenses to average managed assets ratio reducing from 10.5% in FY2015 to 9.2% in FY2016 and further to 6.4% in 9M FY2017. Consequently, its net profitability³ improved from 0.2% in FY2015 to 1.2% in FY2016 and 2.5% in 9M FY2017. Going forward, the company's ability to expand its member base considering the competitive pressures and diversify into new geographies at a healthy pace would be crucial for business scalability. The company aims to grow its portfolio at a CAGR of 47% during FY2017-FY2019.

The company has adequate internal control systems and management bandwidth for the current scale of operations; the management is taking efforts to augment the same with the expansion in business volumes and geographical presence, going forward.

SML's 0+ dpd remained low at 0.2% as on January 31, 2017 (0.1% as on March 31, 2016) because of its presence in Tamil Nadu, where the collections were relatively less impacted post demonetisation, and also aided by the company's efficient monitoring and collection mechanism.

SML has a comfortable liquidity profile with adequate funding support from banks and diversification of funding sources with securitisation transactions and private placement of debenture issues coupled with the short tenures of its microfinance loans. The company however would have to further diversify its funding profile to secure funds at competitive rates and in a timely manner to support its business growth going forward. Its capitalisation profile is also comfortable with net worth of Rs.90.2 crore (provisional) and managed gearing of 2.7 times (provisional) as on December 31, 2016, which is likely to support its near to medium term growth plans. However ability to raise capital going forward, as no fresh capital support is expected from the current shareholders, would be crucial for maintaining a comfortable capital structure.

Analytical approach: NA

Links to applicable Criteria

[ICRA's Grading Methodology for Microfinance Institutions](#)

Company Profile:

SMILE Microfinance Limited was started in the year 2004 to provide credit services to the urban and rural poor. The company was registered as a non-deposit taking NBFC in January 2006, and subsequently received the MFI licence in May 2015. SML is engaged in providing credit to economically backward women through the joint liability group mechanism. As on January 31, 2017, SML had a total member base of 2.7 lakh with a portfolio (including securitization) of Rs. 292.4 crore. DWM Investments (Cyprus) Limited infused equity of Rs. 25 crore in FY 2010 and Rs.25 crore in FY 2011 and acquired a 66.6% stake in the company.

As per the provisional financials for 9M FY2017, SML reported a net profit of Rs. 6.2 crore on a total managed asset base of Rs. 340.6 crore.

During FY2016, SML reported a net profit of Rs. 2.7 crore on a total managed asset base of Rs. 244.4 crore vis-a-vis a net profit of Rs. 0.6 crore on a total managed asset base of Rs. 179.6 crore during FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable



Complexity level of the rated instrument:

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

Name and Contact Details of the Rating Analyst(s):

Analyst Contacts

Mr. Rohit Inamdar

+91 12445 45847

rohit.inamdar@icraindia.com

Mr. A M Karthik

+91 44 4596 4308

a.karthik@icraindia.com

Mr. Vivekanandan L

+91 44 4297 4306

l.vivekanandan@icraindia.com

Name and Contact Details of Relationship Contacts:

Mr. L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com



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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: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai

Mr. L. Shivakumar

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-
24331390

Kolkata

Mr. Jayanta Roy

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai

Mr. Jayanta Chatterjee

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore

Mr. Jayanta Chatterjee

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14,
1 & 2, Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad

Mr. L. Shivakumar

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924;
Fax: +91-79-25569231

Pune

Mr. L. Shivakumar

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202,
Range Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad

Mr. Jayanta Chatterjee

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B.
Somajiguda, Raj Bhavan Road, Hyderabad—
500083
Tel:- +91-40-40676500