



September 21, 2010

## ICRA assigns MFI grading of M1 to Share Microfin Limited

ICRA has assigned an MFI grade of M1 to Share Microfin Limited (SML). The grading indicates that in ICRA's current opinion, the graded MFIs ability to manage its microfinance activities in a sustainable manner is the highest. The grading is valid till September 2011.

The highest grading factors in established branch network of Share Microfin Limited, good corporate governance, well established systems and processes and access to diversified funding sources, which have helped the company scale up its operations quite significantly over last three years ( active borrower base increased from 10 lakh as on Mar-08 to 25 lakh as on June-10, while maintaining a strict control on asset quality (4 weeks+ delinquencies of 0.23% as on June-2010) and operating costs (cost to income ratio has come down from 75% in FY2008 to 41% in FY2010 and further to 32% in Q1 FY2011) to achieve good profitability (Return on net worth improved from 8% in FY2008 to 46% in FY2010 and further to 56% in Q1 FY2011). The company intends to grow at a fast pace to reach the vast untapped potential in the Indian Microfinance space. ICRA believes the company should be in a position do so as seen in the past in light of good technology platform, good access to funding sources and human resources. Low employee attrition rate, ability to attract and train field officers should help the company in fulfilling the growing requirement for human resources. The liquidity of company is likely to remain comfortable in light of lower duration of liabilities vis a vis its assets and also as a result of access to diverse funding sources. The grading also takes into account political risks associated with the microfinance business, possibilities of multiple lending and overleveraging given the high pace of growth of the MFI industry in general. Nevertheless, ICRA takes comfort from the fact that SML has signed the MFIN (Microfinance Institutions Network) Code of Conduct to mitigate such issues.

### Company Background

SHARE Microfin Limited was founded by Mr. Udaia Kumar in the year 1999-2000 as public limited company. It became a registered NBFC in 2000 and was the first Microfinance Institution (MFI) to obtain a NBFC (Non Deposit taking) license. SML is engaged in micro finance lending activities providing credit to economically backward women through the Joint Liability Mechanism. SML currently serves 30.58 lakh members across 18 Indian states with 53% of its portfolio as on June-2010 being concentrated in Andhra Pradesh. The first round of equity infusion took place in September 2007, when Legatum Ventures invested US\$ 25 million to acquire a majority interest in SML (64%). In the same financial year, another investor, Aavishkaar Goodwell invested US\$ 2 million for a minority interest in SML (5%). Aavishkaar Goodwell further invested Rs 5.06 crore in the company in FY2010. SML has raised Tier-II capital of Rs. 100 crore in the nature of Subordinated debt during the FY 2010. As on March 31, 2010, SML reported a Tier- I capital of Rs 292 crore and Tier II capital of Rs 392 crore. The Tier-I capital adequacy of the company stood at 16% and the Total Capital Adequacy Ratio at 21 % (excluding assigned book). The gearing of SML assuming the assigned book as debt stood at 8.81 times as of 31st March 2010 compared to 6.71 times as on Mar-09. For the quarter ending June-2010, SML reported a PAT of Rs. 44.45 crore on a managed asset base of Rs 2756 crore vis-à-vis PAT of Rs. 108.72 crore on a managed asset base of Rs. 3043 crore in FY2010. The company reported a Tier I capital of Rs. 336.77 crore Total Capital of Rs 436.77 crore an adjusted gearing of 6.87 times as on June-2010 assuming assigned book as debt.



## Share Holding Pattern as on March 31, 2010

Promoters and its associates	29.60%
Legatum Ventures	63.72%
Aavishkaar Goodwell	5.24%
Jacinth Finvest	1.44%

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## Analyst Contacts:

**Ms. Vibha Batra**, (Tel. No. +91 124 4545302)

vibha@icraindia.com

Relationship Contacts:**Mr. Jayanta Chatterjee** (Tel No. +91 9845022459)

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)