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# ICRA upgrades long term bank loan and NCD programme limits of Share Microfin Limited(SML) from LBBB+ to LA-(stable), short term bank lines from A2+ to A1 and subordinated debt programme from LBBB(stable) to LBBB+ (stable)

ICRA has upgraded the ratings of Rs. 384 crore long term bank lines of Share Microfin Limited from LBBB+ (pronounced L triple B plus) † to LA-(pronounced L A minus) with a stable outlook and also upgraded the short term bank lines of SML from A2+ (pronounced A two plus) to A1(pronounced A one). ICRA has also upgraded the rating of Rs. 50 crore long term NCD programme of SML from LBBB+ (stable) to LA-(stable) and also upgraded the rating of Rs. 100 crore subordinated debt programme of SML from LBBB (stable) to LBBB+ (stable).

The upgrade in rating factors in SML's improved earnings profile following a reduction in operating expenses in relation to total managed portfolio (9.5% in FY2009 and 7.2% in FY2010 and further to 6.2% in Q1 FY2011) and continued control on credit costs, leading to improvement in profitability (Profit after Tax /Average Managed Assets) from 5.0% in FY 2009 to 6.2% in Q1 2011. The upgrade also takes into account improvement in SML's internal controls and processes, connectivity of all its branches, which have enabled the company to grow its lending book while keeping a strict control over asset quality (4 weeks+ delinquencies were 0.23% as on June-10). Despite good internal capital generation(Return on Net worth of 46% in FY2010, 56% in Q1 2011) gearing of SML increased from 5.44 times as on Mar-09 to 7.32 times (excluding Tier-II Capital) as on Mar-10 because of high growth in portfolio (82% in FY2010) and limited fresh equity infusions. The gearing of SML including the debt against the assigned book as of March 2010 stood at 8.81 times compared to 6.71 times as on Mar-09. Nevertheless, the company reported Capital adequacy ratio of 21.33% as on March 31, 2010 (16.72% on managed assets) because of raising Rs 100 crore of Tier 2 capital .The company will have to mobilize fresh equity to meet its growth plans and protect its capitalisation profile going forward. The rating also factors in comfortable liquidity profile of the company. The rating also factors in strong branch network of the company, its demonstrated ability to expand profitably while maintaining a strict control on asset quality, its conservative lending norms and an elaborate internal audit system to mitigate the inherent risks associated with the business to an extent. Though the proportion of portfolio concentrated in the state of Andhra Pradesh has come down from 76% as on Mar-08 to 52% as on June-2010, it continues to remain high and exposes the company to regional risks.The rating is also constrained by low fee based income earned by the company, risks associated with the collateral free small ticket loan lending business, political risk and possibility of multiple lending to the same borrower by different Microfinance institutions (MFIs) and hence overleveraging, low income borrowers , operational risks arising out of cash handling, and dependence on wholesale funding sources.

**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

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

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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*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*