

**FOR IMMEDIATE RELEASE**

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**ICRA assigns conditional A1+(SO) rating to payouts backed by a micro-finance loan pool originated by Grama Vidiyal Microfinance Limited (GVMFL)*****GVMFL Microfinance Loan Pool D. A. Sep-10***

ICRA has assigned a conditional A1+(SO) rating to the Purchaser payouts backed by micro-finance loan receivables pool originated by Grama Vidiyal Microfinance Limited (GVMFL). A1+ is the highest-credit-quality rating<sup>†</sup> assigned by ICRA to short-term debt instruments. Instruments rated in this category carry the lowest credit risk.

The conditional rating is subject to the fulfillment of all conditions under the structure, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction and GVMFL furnishing to ICRA an independent legal opinion on the transaction from the transaction legal counsel. The conditional rating is based on the strength of cash flows from the selected pools of contracts; the credit enhancement available in the form of cash collateral of 11.0% of the pool principal, principal subordination of 14.50%, subordination of the Excess Interest Spread (EIS) in the structure, and the integrity of the legal structure.

The selected pool consists of unsecured micro-finance loans (less than or equal to Rs. 20,000 each), and is characterised by low initial tenure of contracts (50 weeks), minimum seasoning of at least 5 weeks and no overdue on the selected loans as of date. The current pool comprises of only Group Loans<sup>8</sup>. According to the transaction structure, the entire pool of selected contracts will be directly assigned to a single Purchaser. The Purchaser will have a senior right to the extent of 85.50% of the pool value while the Originator will have a subordinated residual share of 14.50%, which the Purchaser will hold for the benefit of the Originator. The yield to the Purchaser is fixed at a rate less than the pool yield. Though the pool would be receiving the cashflows on a weekly basis, the payout to the Purchaser would be made on a monthly basis.

The balance monthly excess cashflow— excess of collections from the loan pool over the scheduled Purchaser payouts—will be used to accelerate the principal amortisation of the Purchaser. Additional support for meeting the Purchaser payouts is through the availability of cash collateral to the extent of 11.00% of the total pool principal.

Based on the above factors as well as the analysis of the past performance of GVMFL's micro-finance loan portfolio and its expected future performance, ICRA believes that the credit support provided has been adequately sized to cover the credit / liquidity risk in the transaction.

**About the Originator**

GVMFL, a non-deposit taking NBFC is a micro-finance institution based out of Tamil Nadu. Established in 1997, the company provides credit to economically backward women mainly in rural, urban and semi-urban areas through a joint liability (or group lending) mechanism for building productive assets. As on July 31, 2010, GVMFL had a member base of 9.7 lakh members primarily in the state of Tamil Nadu and Union Territory of Pondicherry. It has also started operations in Maharashtra, Madhya Pradesh and Uttar Pradesh, where currently only a negligible part of the portfolio is concentrated. As on July 31, 2010, it had a portfolio size of Rs. 638.23 crore, of which 84.7% pertains to the group loan product, 5.3% pertains to Business Loans or Individual Loans, Special Loans or Emergency Loans account for another 6.0% of the portfolio, while a Livelihood enhancement Loan contributes the remaining 4.0%. For the year ended March 31, 2010, GVMFL reported net profit of Rs. 14.5 crore on assets of Rs. 599.4 crore and a regulatory capital adequacy of 13.95% (Tier I: 13.95%). The 0+ delinquency level for overall the

<sup>1</sup>100 lakh = 1 crore = 10 million

<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

<sup>8</sup> Given to borrowers who are organised in groups of five, where each group member is responsible for repayment by the other group members. These loans are given for income-generating purpose only.



portfolio of GVMFL was 0.01% as on July 31, 2010. While the credit quality has been good in the past, the borrower segment being people from below poverty line, without adequate credit history or collateral does pose a high potential credit risk in the transaction. Further, the operations-intensive nature of the business makes the servicing role very critical.

GVMFL has a rating of LBBB outstanding from ICRA for its long-term debt programs. The rating of LBBB is the moderate-credit-quality rating assigned by ICRA. The rated instrument carries higher than average credit risk. The key financial indicators of GVMFL are placed in Table 2 below.

In the past, ICRA has assigned ratings to Purchaser Payouts under 3 transactions involving bilateral assignment of microfinance loan receivables, originated by GVMFL. All the ICRA-rated transactions have performed well with 100% collections and nil delinquencies till 31 August 2010. The rating of the Purchaser Payouts in these three transactions is stable at the initial level.

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Table 2: Key Financial Indicators

<b>Amounts in Rs. crore</b>	Mar-10 (Audited)	Mar-09 (Audited)	Mar-08* (Audited)
Equity Capital	5.4	4.9	3.8
Net Worth (Reported)	71.9	47.8	18.9
Net HP, Loan & Lease receivables (Net of Advances Received)	398.2	164.0	118.9
Total Assets	607.7	221.8	126.6
Total Income	112.1	51.1	28.9
Net Interest Income (Net of BO Costs & Profits from Securitisation)	71.8	32.5	18.0
PBT (reported)	22.5	10.5	5.5
PAT (reported)	14.5	7.1	4.6
Yield on Average Earning Assets (%)	22.1%	27.5%	26.2%
Cost of average interest bearing funds (%)	9.0%	11.6%	11.1%
Gross Interest Spread (%)	13.1%	15.9%	15.1%
Net Interest Margin (%)	13.4%	16.7%	15.6%
Operating Expenses /Average total Assets (%)	8.7%	12.0%	11.7%
Provisions & Write offs / Average Total Assets (%)	0.5%	0.1%	0.0%
Cost to Income Ratio (%)	64.6%	68.7%	70.7%
PBT (excluding extraordinary items) / Average Total Assets	4.2%	5.4%	4.8%
PAT (excluding extraordinary items) / Average Total Assets (%)	2.7%	3.6%	4.0%
Return on Average Net worth(%)	24.2%	21.1%	39.4%
Dividend/PAT (reported) (%)	0.0%	0.0%	0.0%
Dividend rate(%)	0.0%	0.0%	0.0%
Total Debt/Net Worth (reported)(times)	6.82	3.40	4.81
Capital / Risk Assets (%)	13.9%	20.4%	13.4%
Tier I Capital / Risk Assets	13.9%	20.4%	13.4%
Capital in relation to Managed Assets (%)	9.8%	16.8%	13.4%
Tier I Capital in relation to Managed Assets (%)	9.8%	16.8%	13.4%
Gross NPAs / Gross Hire Purchase & Loan Receivables	0.0%	0.0%	0.1%
Net NPAs / Net Hire Purchase & Loan Receivables	0.0%	0.0%	0.0%

\* The financial results for the year ending March 2008 include the nine month results of Grama Vidiyal Trust (earlier holding company of GVMFL) and three month results of GVMFL.



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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](http://www.icra.in)