



## Delas IFMR Capital 2012

Conditional ratings of [ICRA]A-(SO)<sup>†</sup> and [ICRA]BBB-(SO) have been assigned to PTC Series A1 and PTC Series A2 respectively, to be issued by Delas IFMR Capital 2012, backed by micro loan receivables pool originated by Grameen Financial Services Private Limited (GFSPL).

Table 1: Rating Summary

Description	Principal (Rs. Crore <sup>*</sup> )	Scheduled Maturity	Rating
PTC Series A1	18.76	December 2013	[ICRA]A-(SO)!
PTC Series A2	1.09	December 2013	[ICRA]BBB-(SO)!
Originator's Residual Share	2.02		Unrated
Total	21.88		

The conditional ratings are 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 GFSPL furnishing to ICRA an independent legal opinion on the transaction from the transaction legal counsel<sup>†</sup>. The conditional ratings are based on the strength of cash flows from the selected pools of contracts; the credit enhancement available in the form of (i) cash collateral of 10.00% of the pool principal, (ii) principal subordination of 14.25% of the pool principal for PTC A1 (includes principal amount payable to PTC A2 and Originator's residual share) and of 9.25% for PTC A2 (includes principal amount payable to the Originator's residual share), (iii) subordination of the Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure.

The selected pool consists of unsecured microfinance loans (less than or equal to Rs. 25,000 each), and is characterised by minimum seasoning of at 1 month and no overdue on the selected loans as of date, but a relatively high residual tenure (22 months). The current pool comprises of Income Generating Loans<sup>‡</sup> only. According to the transaction structure, the entire pool of selected contracts will be assigned to a Special Purpose Vehicle (Trust) at par. The Trust will issue two series of PTCs backed by the receivables. The upfront purchase consideration to be paid by PTC A1 to the Trustee will be 85.75% of the total pool principal i.e. Rs. 18.76 crore and that payable by PTC A2 to the Trustee will be 5.00% of the total pool principal i.e. Rs. 1.09 crore. The Originator will have a right to the residual share of 9.25% of the pool principal value, subordinated to the PTCs, which the Trust will hold for the benefit of the Originator. Any payment to the Originator will be made only after all the PTC Payouts are fully made. The yield to the PTC A1 is fixed at a rate less than the pool yield.

Though the pool would be receiving cashflows on a weekly, bi-weekly and four-weekly basis, payouts to the PTCs would be made on a monthly basis. Every month, only the interest payment is promised to PTC A1. The principal repayment to PTC A1 and to PTC A2 is promised on the last payout date. However, the balance monthly excess cashflow—excess of collections from the loan pool over the scheduled PTC A1 payouts—will be used to accelerate the principal amortisation of PTC A1. After PTC A1 has been fully paid out, all the cashflows will be passed on to the PTC A2 first by way of principal amortization, and later by way of residual, such that the yield to PTC A2 does not exceed the specified yield..

Based on the analysis of the past performance of GFSPL's microfinance loan portfolio and the expected future performance of the selected pool of loans, ICRA believes that the credit support provided has been adequately sized to cover the credit / liquidity risk in the transaction. While the RBI

<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>\*</sup> 100 Lakh = 1 crore = 10 million

<sup>‡</sup> On Jun 3, 2010, RBI has put out draft guidelines relating to certain issues like minimum holding period and minimum retention requirement for securitisation transactions by NBFCs and has invited comments on the same. However, the said guidelines are at a 'draft' stage right now. ICRA expects to get a legal opinion on these lines, in addition to the 'true sale' opinion on the transaction.

<sup>‡</sup> These are Group Loans given to borrowers who are organised in groups of five, where each group member is responsible for repayment by the other group members.



has clarified its stance on the sector, bank funding to the sector continues to be slow. The operations-intensive nature of the MFI lending business, together with the continuing uncertainty regarding the collection performance of the underlying pool--given the slowdown in incremental loan disbursements to the borrower segment--constrain the rating of the PTCs in this transaction.

### **About the Originator**

GFSPL (rated LBBB- for its bank lines<sup>§</sup>) is a Bangalore-based MFI-NGO turned NBFC, catering to the needs of poor women in Karnataka and a part of Maharashtra. Grameen Koota (a unit of GFSPL) was started by the T. Muniswammappa Trust as a project that was established in 1995, with the aim of replicating a similar program as that of the Grameen Bank, Bangladesh in the villages of Karnataka. It started its operations in 1999 with the help of seed capital funding of US \$35,000 from Grameen Trust, Bangladesh. In 2007, Grameen Koota was transformed from an NGO- MFI to an NBFC through its acquisition of 'Sanni Collection Pvt. Ltd.', a Kolkata based NBFC. The name given to this NBFC was Grameen Financial Services Pvt. Ltd (GFSPL). GFSPL started business in October 2007. GFSPL is currently concentrated in the state of Karnataka, Maharashtra and Tamil Nadu, with a portfolio size of Rs. 225.19 crore as on December 2011. Out of GFSPL's entire portfolio as on December 2011, about 95% pertains to different group loan products given for income generation activities, whereas about 1% pertains to the Individual loans and the balance 4% of portfolio is constituted by various other loan products.

For the 6-month period ended September 2011, GFSPL reported net loss of Rs. 3.9 crore on assets of Rs. 288.6 crore, vis-à-vis a net profit of Rs. 3.5 crore on the assets of Rs. 289.1 as on March 2011. As of December 2011, GFSPL reported net loss of Rs. 8.2\*\* crore on assets of Rs. 266.3 crore. The regulatory capital adequacy was reported to be 19.1% (Tier I: 19.1%) as of September 2011 as against that of 19.6% (Tier I: 19.6%) as of March 2011. The 0+ delinquency level for the overall portfolio of GFSPL was 2.11% as on 31 December 2011. 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.

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<sup>§</sup> These ratings were put under watch with developing implications in Jan- 11

\*\* The loss before taxes was Rs. 7.1 crore as on 31 December 2011; there was a provision of Rs. 1.0 crore of deferred tax, which would be reversed when the company reports profits.



Table 2: Key Financial Indicators

Amounts in Rs. crore

	Sep-11 (Unaudited )	Mar-11 (Audited)	Mar-10 (Audited)
Equity Capital	24.8	24.8	24.8
Net Worth (Reported)	48.5	52.5	47.4
Net HP, Loan & Lease receivables (Net of Advances Received)	163.3	187.2	232.4
Total Assets	288.6	289.1	304.5
Total Income	28.7	81.7	53.7
Net Interest Income (Net of BO Costs & Profits from Securitisation)	9.7	38.2	29.6
PBT (reported)	(3.9)	3.8	1.8
PAT (reported)	(3.9)	3.5	0.8
Yield on Average Earning Assets (%)	16.4%	20.5%	17.5%
Cost of average interest bearing funds (%)	10.0%	10.7%	8.5%
Gross Interest Spread (%)	6.4%	9.8%	9.0%
Net Interest Margin (%)	6.7%	10.1%	13.1%
Operating Expenses /Average total Assets (%)	12.0%	10.5%	10.8%
Provisions & Write offs / Average Total Assets (%)	1.0%	1.1%	2.1%
Cost to Income Ratio (%)	156.9%	83.1%	78.9%
PBT (excluding extraordinary items) / Average Total Assets	-2.7%	1.0%	0.8%
PAT (excluding extraordinary items) / Average Total Assets (%)	-2.7%	0.9%	0.4%
Return on Average Net Worth (%)	-15.5%	7.0%	2.7%
Dividend/PAT (reported) (%)	0.0%	0.0%	0.0%
Dividend Rate (%)	0.0%	0.0%	0.0%
Total Debt/Net Worth (reported)(times)	4.67	4.33	5.19
Capital / Risk Assets (%)	19.1%	19.6%	19.8%
Tier I Capital / Risk Assets	19.1%	19.6%	19.8%
Capital in relation to Managed Assets (%)	16.6%	16.9%	14.7%
Tier I Capital in relation to Managed Assets (%)	16.6%	16.9%	14.7%
Gross NPAs / Gross Hire Purchase & Loan Receivables	0.0%	0.1%	2.7%
Net NPAs / Net Hire Purchase & Loan Receivables	0.0%	0.0%	1.5%

In the past, ICRA has assigned ratings to PTCs under four transactions of microfinance loan receivables originated by GFSPL. All these transactions have performed well with over 99% collections and negligible delinquencies till December/ January 2012 payouts. The ratings of instruments in two of these transactions were upgraded in July 2011 and one of the transactions was upgraded in October 2011 on account of good performance of the underlying pool and the availability of adequate credit enhancement for the balance tenure of the rated instruments; these three transactions are matured now.

February 2012



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