



Future Financial Services Ltd.

Brizo IFMR Capital 2015

Ratings of Provisional [ICRA]A-(SO)[†] and Provisional [ICRA]BB+(SO) have been assigned to PTC Series A1 and PTC Series A2 respectively, issued by Brizo IFMR Capital 2015 backed by a pool of micro loan receivables originated by Future Financial Services Ltd (FFSL).

Table 1: Rating Summary

Description	Principal (Rs. Crore)	Maturity	Rating
PTC Series A1	20.90	May 2017	Provisional [ICRA]A-(SO)
PTC Series A2	1.92	May 2017	Provisional [ICRA]BB+(SO)
Total	22.82		

The provisional ratings are subject to the fulfillment of all conditions under the structure, review of documentation pertaining to the transaction by ICRA, confirmation of the yield on the PTCs, and the receipt by ICRA of a legal opinion on the transaction documentation and the satisfactory due diligence audit of the pool. The provisional ratings are based on the strength of cash flows from the selected pool of contracts; the credit enhancement available in the form of (i) cash collateral of 4.00% of the pool principal to be provided by the Originator; (ii) principal subordination of 13.00% of the pool principal for PTC A1 and 5.00% of the pool principal for PTC A2; (iii) subordination of the Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure.

The pool consists of unsecured micro loans given by FFSL, a NBFC-MFI[†], to borrowers with weak economic profile under a joint liability model. The pool consists of monthly-paying loan contracts, with moderate seasoning, no overdue and a moderate residual tenure (21 months).

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 87.00% of the total pool principal i.e. Rs. 20.90 crore and that payable by PTC A2 to the Trustee will be 8.00% of the total pool principal i.e. Rs. 1.92 crore. The promised cashflow schedule for PTC A1 on a monthly basis will comprise interest (at the pre-determined yield) on the o/s PTC principal on each payout date and the entire principal on the final maturity date. PTC A2 is subordinate to PTC A1. On each payout date, all excess cashflow, after meeting the promised PTC A1 Payouts, will be paid out to meet the expected PTC A1 by way of accelerated principal amortization (to the extent of pool principal billing) followed by interest payout to PTC A2. After the maturity of PTC A1, interest payouts will be promised to PTC A2 and all excess cashflows, after meeting the promised PTC A2 payouts, will be passed on to PTC A2 for its principal acceleration. Therefore, actual tenure of the PTCs is expected to be shorter owing to such acceleration. Any residual collections available after meeting PTC payouts will flow back to the Originator every month.

Based on the analysis of the past performance of FFSL's JLG 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.

About the Originator

Future Financial Services Ltd (FFSL, rated [ICRA]BBB and assigned a grading of M2+ by ICRA) is an NBFC involved in microfinance activities, with presence in the states of Karnataka, Tamil Nadu, Andhra Pradesh, Gujarat, Madhya Pradesh and Puducherry. The Company is promoted by Mr. Dasaratha Reddy, who is presently the CEO of the company. Mr. Reddy has been carrying out microfinance activities in AP for over 25 years through an NGO and also by setting up a Mutually

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

[†] 100 Lakh = 1 crore = 10 million

[†] Non-Banking Finance Company-Micro Finance Institution



Aided Cooperative Society for the rural poor women in the state. In 2007, the promoter took over an NBFC, Future Financial Services Ltd (FFSL) to carry out the microfinance activities in the other states as well.

The company's overall performance was adversely impacted post the AP Ordinance in October 2010, due to its exposures on the state (about 23% of its overall portfolio as on Sep-10). Consequently, FFSL restructured all its term liabilities as on Mar-11, through Corporate Debt Restructuring (CDR) Cell with Small Industries Development Bank of India (SIDBI) as the Monitoring Institution. FFSL was the first MFI to admit to the CDR process post the AP Crisis; they have also successfully exited the same in March 2014. India Value Fund Advisors (IVFA), a private equity fund, had acquired 18% equity in Sep-10, and subsequently increased its holding in the company through multiple rounds of capital infusion. At present, IVFA holds 63.4% stake in the company. IVFA formed a Central Management Company (CMC) – India FinServe Advisors Private Limited (IFAPL) at Bangalore. The management team of IFAPL oversees all the key business aspects at FFSL.

As on March 2015, FFSL was present in 211 branches spread over 32 districts in the states of Karnataka, Tamil Nadu (TN), Andhra Pradesh (AP), Gujarat, Madhya Pradesh and Puducherry with a portfolio size of Rs.444 crore. The company has portfolio of around Rs. 20.5 crores in the state of AP, where it has discontinued the operations. The 0+ delinquency level in the non-AP portfolio is low at 0.71%. The incremental delinquencies have remained low over past two years. Other than extending micro loans under the JLG model, FFSL has also introduced a Micro Enterprise Loan (MEL) and Rural Micro Enterprise Loan (RMEL) products that commenced from May-13 and Jan-15 respectively. As on Mar-15, the MEL and RMEL products respectively form about 5.3% and 3.3% of FFSL's portfolio.

In FY2015, the company reported a net profit of Rs. 13.28 crore vis-a-vis a net profit of Rs. 8.2 crore in FY2014. As on March 2015, the company had a net worth of Rs. 83.5 crore and managed gearing of 5.2 times. FFSL's regulatory capital adequacy was slightly stretched at 16% as on March 2015.

In the past, ICRA has assigned ratings to PTCs under six transactions of micro loan receivables and two small business loans originated by FFSL, of which 5 transactions have matured. All the ICRA-rated FFSL transactions have performed well with about 99% collection efficiency and very low delinquencies till May 2015 payouts.

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