

**[ICRA]BBB- rating assigned to Rs. 250 crore Bank Loans of Smile Microfinance Limited****RATING HISTORY**

| Instrument Rated     | Amount     | Amount Outstanding | Rating     |
|----------------------|------------|--------------------|------------|
|                      | (in crore) | (In crore)         | July 2011  |
| Long Term Bank Loans | 250.0      | -                  | [ICRA]BBB- |

ICRA has assigned [ICRA]BBB- (pronounced ICRA triple B minus) rating to the Rs. 250 crore<sup>1</sup> proposed long term bank loans of SMILE Microfinance Limited (SMILE)<sup>2</sup>. The rating is based on the long track record of the promoters in microfinance and the strong franchise and brand royalty in Tamil Nadu, the comfortable capitalisation levels, and good loan monitoring, internal audit and control systems. ICRA has taken note of the equity infusion of Rs. 12.5 crore from DWM in March 2011. However, the operating environment continues to remain weak and funds flow to the MFI sector is uncertain which has impacted SMILE's business growth. Regular funds flow would be critical for SMILE's growth plans going forward. Further, SMILE operates in 20 districts within Tamil Nadu which increases the concentration risk. SMILE's asset quality indicators have remained good in the past and have not been impacted by the deterioration in the credit environment. While the recent RBI regulations could augur well for MFIs in the long term, the restrictions on interest rates could impact profitability in the near term particularly given that the operating cost levels for SMILE could increase in the current fiscal<sup>3</sup> and internal capital generation levels would remain moderate. The rating also factors in the good governance structure with an experienced Board and senior management and a comfortable liquidity profile.

**About the Company**

SMILE Microfinance was set up by Dr. N. Sethuraman, a social entrepreneur, in the year 2004 to provide credit services to the urban poor in Chennai. He earlier founded the Mahasemam Trust in 1999 to provide financial and non financial assistance to poor in and around Madurai. SMILE was registered as a Non-Deposit taking NBFC in January 2006. SMILE is engaged in providing credit to economically backward women through the Joint Liability Group Mechanism. In fiscal 2010, DWM committed equity of Rs. 50 crore for 66.5% stake and completed infusion of all tranches in by March 2011. In fiscal 2011 SMILE disbursed loans of 377 crore serving 3.3 lakh members through 143 branches.

**Share Holding Pattern as on March 31, 2011**

|                 |       |
|-----------------|-------|
| Promoter Group  | 20.0% |
| DWM Investments | 66.6% |
| Others          | 13.3% |

SMILE reported a net profit of Rs 9.1 crore and total income of Rs. 48.1 crore on a total asset base of Rs 192 crore vis-à-vis net profit of Rs 1.8 crore and total income of Rs. 16.9 crore on an asset base of Rs. 166 crore in fiscal 2010.

<sup>1</sup> Rs. 1 crore = Rs. 10 million = Rs. 100 Lakh

<sup>2</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>3</sup> The operating agreement with Mahasemam Trust has been terminated and all branches and employees, hitherto owned by Mahasemam would be transferred to SMILE from April 2011.

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