

Press Release
For Immediate Release

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First Mutual Fund Investment in Microfinance in India

A recent micro-loan securitisation, completed by IFMR Capital and Equitas Micro Finance, has enabled the first ever mutual fund investment into the Indian microfinance sector. The Rs. 480 million (\$10.4 million) transaction is backed by over 55,000 micro-loans originated by Equitas Micro Finance, a Chennai-based microfinance institution with approximately 700,000 low-income clients. The transaction was structured by IFMR Capital, which operates as a financial guarantee company for sectors impacting low-income households, and which co-invested in the junior tranche of the securitisation.

"We are pleased to be the originator in the first ever microfinance securitisation programme to reach capital market investors," remarks Mr. S. Bhaskar, COO, Equitas. "This is an important milestone in diversifying the sources of funds for microfinance companies, and will benefit a large number of microfinance borrowers over time."

The transaction has been structured into three separately rated tranches to match investor risk-return profiles, thus expanding the range of institutions that can invest in the asset class. CRISIL (subsidiary of Standard & Poor's) rated the tranches P1+ (so) (the highest possible rating for short term securities), AA (so), and BBB (so).

ICICI Prudential Asset Management, India's third largest mutual fund, subscribed to a majority of the securities. Axis Bank, Dhanalakshmi Bank, and IFMR Capital also subscribed.

"We have invested in the senior A1 tranche based on our analysis of risk and reward. We believe the issue is fairly priced, provides adequate security and is highly rated," says Nilesh Shah, Deputy Managing Director, ICICI Prudential Asset Management.

By investing in micro-loan backed securities, mutual funds and other institutional investors can own an asset that is both high in quality and low in correlation to other asset classes. Micro-loan securitisation also provides banks an attractive way to increase their investment in the microfinance sector through rated, tradable securities.

Manish Saraf, Head Treasury, Dhanalakshmi Bank, said, "Microfinance has always been a focus area for the bank. It was logical for the bank to participate in a transaction that allows banks to engage in direct Priority Sector lending in a tradable form. While the structure permits MFIs to raise funding from non-banking channels over a period of time, the rated instruments will also lower capital charge for banks."

Primary credit enhancement is provided by Equitas in the form of cash collateral, and will absorb any realised losses up to 10.6% of the portfolio cash flows. For the senior and mezzanine tranches, additional credit enhancement is provided by the junior tranche, to which IFMR Capital subscribed. This transaction structure is designed to align the interests of the originator and structurer with the interests of end investors.

“This transaction has allowed Equitas to access funding at a rate significantly lower than its average cost of funds,” said Sucharita Mukherjee, CEO of IFMR Capital. “It also sets a new benchmark for other microfinance institutions that have robust systems and high levels of transparency.”

As the market develops for micro-loan backed securities, more microfinance institutions will be able to access mainstream capital markets. This will allow them to deliver more-affordable financial services to clients who have traditionally been excluded from the financial system.

About IFMR Capital

IFMR Capital is a non-banking finance company based in Chennai, whose mission is to provide efficient and reliable access to capital for institutions that impact low-income households. IFMR Capital acts as a bridge to mainstream capital markets for under-served sectors such as microfinance, small enterprise finance, and agri-commodity backed financing.

About Equitas

Equitas Micro Finance India (Pvt) Ltd aims to extend micro credit to people who are otherwise unable to access finance from the mainstream banking channels. Equitas commenced business in December 2007 with the objective of making available finance at reasonable cost and in a transparent manner to women who are engaged in micro enterprise activities. Equitas has 98 branches with portfolio outstanding of Rs 4,304.7 million as on September 30, 2009.

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