Research Report on S.M.I.L.E. Microfinance Limited

Overview:

S.M.I.L.E. Microfinance Limited is a non-banking finance company (NBFC), registered with and regulated by Reserve Bank of India (RBI). They are engaged in providing micro finance services to women from poor segments of rural and urban Tamil Nadu. Their vision is to help. They believe they can achieve this by providing financial and non-financial services to poor and thereby recognizing them as bankable segments.

It was started in 2004 to provide credit services to the urban and rural poor in the state of Tamil Nadu. The company started as non-deposit taking NBFC in January 2006 and later on received an MFI license in May 2015.

SML provides credit to economically-backward women through the joint liability group mechanism. This model ensures credit discipline through weekly/ fortnightly / monthly meetings, mutual support and peer pressure within the group to make sure individual members are diligent in utilizing the loan and are prompt in repaying the loans. Because of this model failure of any individual member to repay the loan would ensure the group to make the payment on behalf of defaulting member or they would use peer pressure to ensure timely payment.

They have first mover advantage in Chennai as they were the first urban MFI to set up operations in 2005. Their loan and profitable track record and our focus on women empowerment are their distinct competitive advantage. They finance the expansion by accessing both debt and equity. Tamil Nadu region accounts for the majority of the portfolio for SMFL. The two main districts i.e. Chennai and Madurai account for 28% of total AUM as on 31.03.2020

S.M.I.L.E's Loan methodology:

- SMFL operates under the JLG lending model in which the groups undergo a three-day training program (Compulsory Group Training-CGT) regarding the loan process, product details, group formation, and group liability.
- Then Field Development Officers (FDOs) complete the loan application process and submit the documentation to the branch manager along with KYC details.
- After verifying all the details, the loan is sanctioned by Divisional Manager for loans up to Rs.30,000. If the loan amount exceeds Rs.30,000, then the loans are sanctioned by the Zonal Manager.
- Loan verification takes place at the branches where BM will verify the passbook of each member to make sure that the account number and IFSC code they provided are correct. These details are then sent to HO and the loan is disbursed to the client through NEFT.
- Every borrower is given with the repayment schedule indicating the due dates and the passbook for the loan account.
- The portfolio is monitored on an on-going basis by post disbursement verification of assets created out of loan amount. The repayment happens on fortnightly basis at the centers during center meetings.

Eligibility Criteria:

- In joint liability group member should be a women
- The household income of members in rural areas should be no more than Rs. 1,25,000/- per year and that in semi urban or urban should be no more than Rs. 2,00,000/- per year.
- At least 2 years of residence in branch area of operations, Residence 25kms within branch radius.
- Evaluation with S.M.I.L.E's branch manager indicating acceptance to adhere to company's rules & regulations and show willingness and ability to pay regularly.
- One loan per household at a time
- Members are not enrolled who have borrowed from more than 2 MFI's (or) have loan amount greater than Rs. 1,25000/-
- Business model provides for migrating of JLG borrowers to Enterprise lending borrowers.

Products:

S.M.I.L.E believes in innovation as a tool to offer customized products and services to address the needs of the clients. Through its products and services its endeavours to include value poor indigenous population into economic activities by supporting productive projects, which allows its clients to increase their income and reap benefits for their families and communities. It offers group loans. These loans are used by women for income generating activities.

Loan Products	**Types of Loans**	**Purpose**	**Long term/ Duration**	**Loan Size**	**Rate of interest (reducing balance) w.e.f 1st Jan 2020**
IGP Loans (Income Generation Program Loans)	JLG	Income Generation	25-52 fortnights	Rs 5000/- to Rs 50000/-	23.50%
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Educational Loans	JLG	Education	12 fortnightly	Rs 10000/- to Rs 30000/-	22.00%
Educational Loans	JLG	Education	12 monthly	Rs 10000/- to Rs 30000/-	22.00%
Functional Loans	Individual	Family Function	1 day	Rs 20000/- to Rs 50000/-	Interest Free

Out Reach:

Operational Information	**2018**	**2019**	**2020**
No of Branches	100	105	137
No of Clients	2,97,476	3,05,256	3,16,765
No of Borrowers	2,90,607	2,85,719	2,84,396

Cum. Disbursements (in crores)	4195.58	4954.24	5841.92
Gross loan portfolio (in crores)	473.66	515.00	606.47

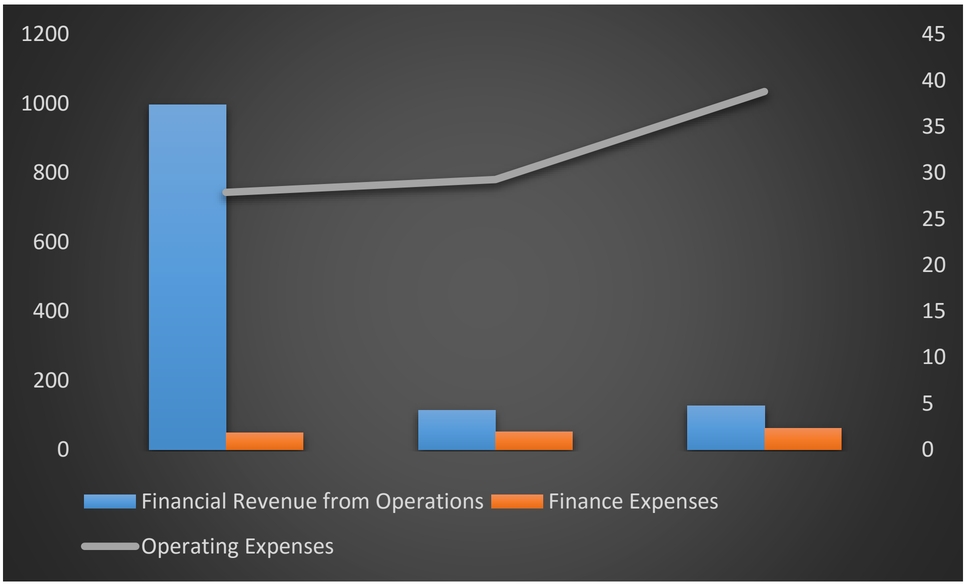
Shareholding Pattern:

Category	No of shares	% of shares
Promoters & Promoter Group	3219997	18.57%
Other Members	2565003	14.79%
Foreign Shareholding: DWM Investments (Cyprus) Limited	11554639	66.64%
Total	17339639	100%

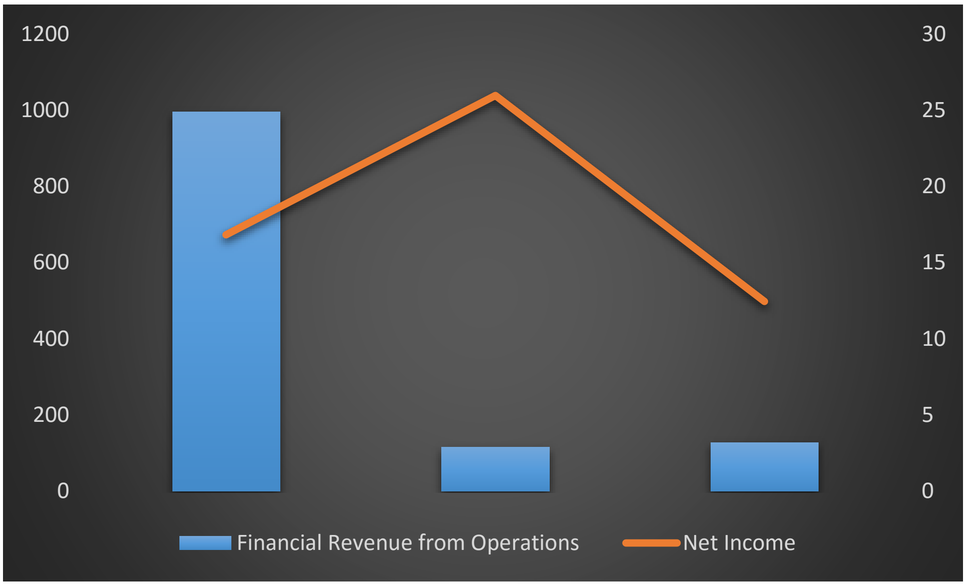
Valuations:

(In crores)

Particulars	2018	2019	2020
Total AUM	473.84	515.00	606.47
Total Net worth	109.22	135.19	144.28
Total external borrowings	438.42	402.46	521.66



Particulars	**2018**	**2019**	**2020**
Financial Revenue from Operations	996	114.29	127.10
Finance Expenses	47.91	52.24	61.47
Operating Expenses	27.87	29.26	38.79
Net Operating Income	22.58	31.69	23.46
Net Income	16.83	25.97	12.44



Particulars	**2018**	**2019**	**2020**
Cost of funds ratio	14.75%	12.43%	13.30%
Capital adequacy ratio	23.29%	25.44%	23.64%
Debt to equity ratio	4.01 times	2.98 times	3.62 times
Earnings per share (EPS)	14.98	9.71	4.81
Return on Equity (RoE)	22.41%	25.93%	16.79%
Return on Assets (ROA)	4.65%	5.60%	3.75%
Operating Expense Ratio (OER)	6.80%	5.92%	6.92%

Peer Comparison:

Particulars	S.M.I.LE	Sonata Finance	Sahayog Microfinance	Fusion Microfinance
Joint Liability Group Loans (JLG)				
Loan Amount	Rs 5000-Rs 50000	Rs 9750 - Rs41450	Rs 25000	Rs 15000- Rs 50000
Rate of interest	23.50%	22.14-23.99%	26.00%	24.40% & 24.60%
Tenure	12-20 Months	12-24 Months	2 Years	1-2 Years
Individual Lending				
Loan Amount	Rs 20000-Rs 50000	Rs 26500 – Rs 100000	-	-
Rate of interest	Interest free	24.16-24.45%	-	-
Tenure	1 day	24 months	-	-
Micro Enterprise Loan				
Loan Amount	-	Rs 100000- Rs 500000	Rs 100000	-
Rate of interest	-	23.58-23.92%	24% diminishing	-
Tenure	-	24-36 Months	2 Years	-

Recent updates:

The recent outbreak of Covid-19 is likely to impact asset quality and credit costs. The ability to withstand event risks and avoid further deterioration in the asset quality leading to impact in the overall profitability will be the key considerations.

The microfinance sector has seen strong growth in loan portfolios on account of improving funding profile, control over operating expenses, improving margins, and moderate leverage levels. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. However, it remains exposed to event-based risks and marginal profile of borrowers.

Over-borrowing a concern in growing microfinance sector:

Smile Microfinance CEO Murali Srinivas feels that the microfinance sector needs to leverage technology to ensure sustainable growth. For sustainable growth, they have to upgrade ourselves with the changing times and focus more on innovations and leveraging technology by adopting microfinance 2.0.

It's really encouraging that the microfinance sector is witnessing growth. The primary reason behind the growth is the ability to maintain high repayment rates. However, in this growth scenario we have to be very cautious as it brings risks like over-borrowing. Instead of aggressively focusing on disbursement of loans we need to utilise the opportunity to take the sector to the next level--Microfinance 2.0.