

NOVEMBER 06, 2015

CARE REAFFIRMS CARE AA (AIF) RATING TO IFMR-FIMPACT INVESTMENT FUND

Ratings

Scheme Name	Tenure	Ratings ¹	Remarks
IFMR-FImpact Investment Fund	6 Year	CARE AA (AIF) [Double A (Alternative Investment Fund)]	Reaffirmed

CARE has reaffirmed '**CARE AA (AIF) [Double A (Alternative Investment Fund)]**' rating to the IFMR-FImpact Investment Fund. The asset selection ability and asset management capability in the respective segments for this scheme are expected to be good.

CARE's ratings of Alternative Investment Fund (AIF) schemes are an opinion on the asset selection ability and asset management capabilities in their respective segments for these schemes. These ratings are based on the evaluation of the sponsor, evaluation of the asset management company, investment process adopted by the asset management company (AMC), risk management systems and operations / technology set up.

Rating Rationale

The rating continues to factor in strong support from Sponsor, IFMR group, and its experience in micro finance sector spanning across micro finance loan origination and lending to Micro Finance Institutions (MFIs) and strong commitment of the sponsor towards the scheme. The rating also takes note of limited experience in direct fund management. The rating also continues to factor in strong investment and monitoring process adopted by the company and presence of strong IT & MIS system

Continued support from IFMR group in the capacity of sponsor and the credit quality of the portfolio are key rating sensitivities. The rating considers the investment policy, investment strategy and the portfolio composition.

Sponsor Evaluation:

The scheme rating derives comfort from established track record of the IFMR Trust Group (mainly IFMR Capital) in the microfinance sector. The Group and the investments team have strong existing relationships with over 36 MFIs. IFMR FImpact Investment Fund is sponsored by IFMR Investment Managers Pvt. Ltd. (Investment Manager - AMC) which is advised by the IFMR Investment Adviser Services Pvt. Ltd. (Investment Adviser). The Group also has strong relationships with investors such as Lok Capital, Proparco, Tata Capital and LeapFrog Investments through its various group companies. IFMR Group has invested 15% of the corpus (Rs.15 crore) through IFMR Holdings and IFMR Investment Managers, which is much higher than regulatory requirement. Regulatory requirement on sponsor commitment is 2.5% of corpus.

IFMR Trust Group is professionally managed by an experienced board and senior management with significant experience in microfinance and rural banking. Also, the IFMR Trust Group has Independent directors comprising eminent personalities who bring expertise across various domains.

Asset Management Company Evaluation

IFMR Investment Mangers was incorporated in 2014 and the IFMR FImpact Investment Fund is its first fund. Though, IFMR Investment Managers have limited experience in managing fund, support is drawn from IFMR Trust Group expertise in the microfinance sector. The scheme has invested in debt instruments issued by MFIs and the parent company. IFMR Capital has similar experience of on balance-sheet lending to MFIs. The asset management team follows stringent investment approval process for selection of the investee companies comprising of an in-principle entity approval, detailed due diligence, investment recommendation and investment approval. The underwriting guidelines are broadly on the five pillars namely Corporate Governance, MIS, Strategy & business plan, Client protection and Financial & Operational performance. Further, the risk team of IFMR Capital does the portfolio monitoring of investee companies. The investment and post-investment monitoring processes are automated through the 'Document Management System' in such a manner that different people are involved at each stage of the approval process which ensures independence and eliminates bias.

Total fund corpus is Rs.100 crore which comprises Class A and Class B units. Class A units was subscribed by IFMR Capital(Rs.10 crore) and IFMR Investment Managers(Rs.5 crore). Class B units was subscribed by Insurance companies (Rs.55 crore), Banks (Rs.15 crore) , individuals (Rs.2 crore) ,investment company (Rs.5 crore) and IFMR Capital(Rs.8 crore). IFMR Capital Finance Private Limited initially invested Rs. 14 crore in Class B Units of the Fund and effected secondary market sales subsequently for an amount of Rs. 6 crore. The corpus was invested in 8 MFI entities after stringent

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

screening process. . The maximum exposure to an MFI is capped and is also linked to various parameters of the MFI like gross loan portfolio, net-worth and outstanding debt. The Fund has not invested in any of IFMR Trust Group entities. As the Fund asset tenure is closely matches the scheme maturity, exposure to re-investment and liquidity risks are minimal.

Risk Management Systems

The asset management team has prepared a detailed framework for identifying various risks including market, operational, credit and liquidity risks and the same is factored in the due diligence report. Adherence to financial and other covenants shall be monitored on a regular basis by the team and quarterly updates are prepared on developments including identification of early-warning signals. Internal factors like policy deviation, fraud and external factors like political sensitive scenarios, geographic stress situations etc. are monitored on a regular basis. Any occurrence of the above factors will be updated to the Investment recommendation committee and the Investment Committee. Monthly information is collected from MFIs to analyse their financial and operational performances.

Operations/Technology Set-up

The asset management team has stringent internal controls in place. The asset management team has set up various committees like strategic counsel committee, originator appraisal committee , investment recommendation committee and investment committee to oversee the functioning of the asset management team and ensure strong corporate governance. Computer Age and Management Services Private Ltd is the custodian aiding in preparing periodical NAV reports and the portfolio performance report on monthly basis is being sent to the investors. In addition, detailed information on investee companies on semi-annual basis and an annual report is shared with the investors. The asset management team has developed a fund model in-house that will take care of end-to-end fund structuring and analytics. IT System which ensures data security, data storage etc., is shared with IFMR Trust Group.

Background

IFMR Finance for Freedom Social Venture Fund (“Fund”) is settled as a trust by IFMR Holdings Pvt. Ltd. (IFMR Holdings) under the provisions of the Indian Trusts Act, 1882, pursuant to an Indenture entered into between IFMR Holdings and the Trustee (SBICAP Trustee Company Ltd). The Trust is registered with SEBI as a Category I AIF - Social Venture Fund under the provisions of SEBI (Alternative Investment Funds) Regulations, 2012. IFMR-FImpact Investment Fund is a six year close-ended scheme and is the first scheme of the fund. The broad objective/purpose of the Fund is to promote financial inclusion in India by facilitating development of the Indian microfinance sector. The scheme seeks to achieve this by investing in various instruments of microfinance institutions and its underlying assets. Presently the scheme has two class of investors viz., Impact Investor and First Loss Investors. The scheme also had option for third class of investors ‘Social Investor’ at the time of launch.

IFMR Investment Managers Pvt. Ltd. is the Sponsor and Investment Manager of the Fund, under the terms of the Investment Management Agreement. The Investment Manager are advised by the Investment Adviser (IFMR Investment Adviser Services Pvt. Ltd.) under the terms of an Investment Advisory Agreement.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer: CARE’s Alternative Investment Fund rating is not a recommendation to purchase, sell, or hold a security / fund. It neither comments on the current market price, suitability for a particular investor nor on the prospective performance of the fund with respect to appreciation, volatility of net asset value (NAV), or yield of the fund. The ratings do not address the fund’s ability to meet the payment obligations to the investors.

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