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## IFMR Capital structures the first multi originator securitisation in microfinance

IFMR Capital recently concluded a multi-originator securitisation of micro-loans originated by four microfinance institutions in India. The Rs. 308 million (\$6.5 million) transaction is backed by around 42,000 micro-loans originated by Asirvad Microfinance Pvt Ltd, Sahayata Microfinance Pvt Ltd, Satin Creditcare Network Ltd, and Sonata Finance Pvt Ltd.

IFMR Capital was the structurer, arranger and an investor in the subordinated strip of the transaction. "Using the multi-originator securitisation structure, we have been able to help a number of MFIs access mainstream capital markets. Given the sizes of the institutions and the limited availability of capital to generate unencumbered portfolios, accessing capital markets on their own is an unviable option for most small and medium MFIs", said Sucharita Mukherjee, CEO of IFMR Capital. "By pooling together the loan portfolios of these high-quality MFIs, we have demonstrated that these MFIs can access funding at a much lower cost than their average cost of funds. To the best of our knowledge, this is the first multi-originator securitisation of micro-loans in the world".

*IFMR Capital Mosec I*, the multi-originator Special Purpose Vehicle, has issued two tranches of securities: a 77 percent senior-rated tranche with an expected maturity of 6 months, and a 23 percent subordinated strip with an expected maturity of 11 months. CRISIL has assigned the highest short term rating of P1+ (so) to the senior tranche, to which Dhanalakshmi Bank subscribed. The closing of this transaction has resulted in the emergence of a new pricing benchmark in the less-than-6-month-maturity asset class.

Regarding their investment in the senior tranche, Amitabh Chaturvedi, MD and CEO of Dhanalakshmi Bank, said, "Our initiative towards microfinance serves both social and organizational commitment. This transaction shows how a business investment can be innovatively driven with sustainable objectives".

As per the waterfall mechanism in the structure, the senior tranche will be fully paid out before the subordinated strip begins to receive cash flows. The *IFMR Capital Mosec I* securitisation has an average credit enhancement of 13 percent in the form of cash collateral provided by the four MFIs. The senior tranche has additional credit enhancement provided by the junior strip, to which IFMR Capital subscribed. The originators will continue to service the underlying loans. The structure has been designed to align the interests of the originator and structurer with the interests of investors.

"This is a landmark transaction for emerging MFIs like Asirvad as it opens the door to a whole new set of investors and also enables us to leverage our resources in the most efficient way", said Mr SV Raja Vaidyanathan, Chairman of Asirvad Microfinance.

Ajay Verma, CEO of Sahayata Microfinance, said, "This transaction provides a new source of funding for emerging MFIs. Access to reliable funds from the capital markets will allow Sahayata to achieve their business plan targets and better leverage their balance sheet".



“This structure will help financial institutions like Satin to diversify their sources of funds by accessing the capital markets through innovative financial instruments that were earlier not available leading to more structured low-cost capital. It will eventually lead to reduced cost to the ultimate beneficiaries – the end-borrowers”, said H P Singh, Chairman cum Managing Director of Satin.”

Mr Anup Singh, MD, Sonata Finance said, “After the spurt of private equity investments in small MFIs like Sonata, this is an equally welcome development. I am happy that the structure developed by IFMR Capital enables us to directly access mainstream capital markets.”

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