

Building a rural tourism model

Rural Tourism Network Enterprise (RTNE), a rural tourism initiative launched by IFMR Trust, has recorded significant success in its pilot project in Sindhudurg district, Maharashtra. RTNE is a business model that seeks to identify gaps in the rural tourism sector, and invest in financially viable rural tourism business opportunities across the country, for the benefit of travellers and providers of accommodation and travel services. Simultaneously, by making use of local resources and entrepreneurial capabilities, RTNE ensures that the host communities also benefit.

RTNE is tapping into a big shift in domestic traveller preference. "The domestic traveller is demanding new destinations, budget deals, shorter breaks, and better value-for-time at a destination," explains Karmveer Rathore of the RTNE team.

RTNE began operations in 2008 by carrying out an extensive survey of the rural tourism landscape, to examine various business models and understand weaknesses and opportunities in the existing system. The survey indicated that although rural tourism business models like home-stays, farm-stays and community-managed guesthouses had gained in popularity, rural tourism had not yet reached its growth potential.

This is due to several gaps in the rural tourism supply chain, such as lack of information about the destination, accommodation content and real-time availability of room inventory; lack of access to easy and cost-effective bookings; non-availability of cost-effective accommodation; and inadequate safety and hygiene at the accommodation. RTNE seeks to overcome these challenges by extending financial and non-financial services to rural tourism stakeholders.

Non-financial services

To tackle non-availability of information, RTNE is building an offline-online platform that will be shared across all destinations identified by RTNE with property owners, travel



Sindhudurg, in coastal Maharashtra, is a district with rich tourism potential

agents and customers. The latest information from adjoining areas and markets on customer traffic, seasonal fluctuations, customer demand for new products and other industry trends will also be available on this platform. Destination management companies (DMCs) will run the system, with one DMC per district covering all smaller destinations in the district.

The first DMC has been set up in Sindhudurg, a coastal district in Maharashtra with a number of tourist attractions. The Sindhudurg Paryatan Mahiti Kendra (a DMC), set up in 2009 at Kumbharmath, Malvan Road, Malvan taluka, acts as a one-stop tourism shop. It covers 15 sub-destinations in eight talukas of Sindhudurg and makes available over 100 different accommodation options in the range of Rs 500 and Rs 3,000 for a night's stay.

The DMC offers the best rates to its customers and the best travel agent commissions (TACs). The booking process is easy and based on a real-time payment solution, thereby reducing 'no shows' and improving cash flows. Bala Tandel, owner of Omkar Deluxe Homestay, says: "This is my first tourist season and RTNE's

presence has helped us a lot in understanding customer requirements and making us quality-conscious. RTNE sends customers who pay in advance and therefore we do not have to wait for drive-in customers who negotiate heavily on their arrival. Our revenues have increased."

While the Sindhudurg DMC is set up by NE Rural Tourism Pvt Ltd, the legal name for RTNE, the plan is to scale up this model through franchisees.

RTNE is taking many other innovative steps to increase rural tourism. It has developed a two-night, three-day holiday package in Sindhudurg, at Rs 1,000/day/person, which includes lodging at an RTNE-verified property, all meals, local sightseeing, fun activities, and logistics. The product was sold to 18 people from Mumbai soon after its launch. There are other packages too that have been developed and customised according to the customers' needs.

RTNE works towards improving the quality of available accommodation options by first classifying them into 'RTNE Trusted', 'Needs Improvement'

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and 'Non-Saleable' categories. Says Saurabh Jha of the RTNE team: "We are working on improving the quality of places falling under the last two categories. Our attempt is to bring all of them into the 'RTNE Trusted Property' category."

For this purpose, RTNE has designed a training module and organised training for 30 home-stay owners. "Our aim was mainly to break the mindset. We want home-stay owners to realise that with minimal intervention and training they could move up the value curve and charge from the present Rs 300/person/night to Rs 1,000/person/night," says Rathore. The training was conducted by the Loke couple at their Pitru Chaya home-stay in Shirgaon, Devgad taluka, Sindhudurg.

Ravi Khanvilkar, home-stay owner and president of Tarkarli Tourism Development Society (comprising 40 home-stays), says: "RTNE is helping us at every step. They not only consult with us on everything but go a step further by providing training, basic solutions and finance to implement it. This is supported by sending us customers."

RTNE provides managerial inputs on costing, pricing and operations. Normally, at home-stays, bookings are taken by various family members with no single database at home. This wastes time, duplicates bookings, and ultimately inconveniences the customer. RTNE has provided a customised booking register to its partner home-stays, whereby each member of the family taking a booking can check the room status on any particular day; information is stored by multiple people in a specific format at one common place. "This has not only improved the response time for a particular enquiry, it has also drastically reduced duplicate bookings and resultant conflicts due to miscommunication," says Rathore. Prior information available in a systematic way helps the home-stay owner plan grocery and kitchen purchases in advance, he adds.

RTNE's non-financial services are supported by three revenue streams. It earns commissions on servicing direct enquiries for rooms, commissions on servicing direct enquiries for local travel and logistics, and a fixed transaction fee on bookings through B2B channels.

Access to financial resources

RTNE is developing innovative financial products that focus on financing



One of the RTNE-approved accommodation options in Sindhudurg

minimal quality improvements to home-stay models so that there will be increased revenue for the service-provider. The RTNE team is designing and customising a financial product for Swami Samarth Nihari Nivas at Devbagh village, Malvan taluka, Sindhudurg. The team has done a need audit and assessed that an investment of Rs 30,000 is required for interior design and furnishings. RTNE is facilitating technical support for the design from Konkani Bamboo and Cane Development Centre (Konbac). Rang de, a non-profit peer-to-peer online micro-lending platform, is acting as an escrow agent and will provide finance to Swami Samarth Nihari Nivas through RTNE's DMC, at a flat interest rate of 10% per annum. The amount can be repaid either through monthly instalments or will be deducted from the sales revenue. The accommodation will move up the value curve and will charge from the present rate of Rs 500/room to Rs 1,000/room during peak season.

As the service and collection agent, RTNE will retain 3% of the amount as a collection fee after servicing the interest and principal amounts.

With help from Rang de, RTNE is also developing a system where customers can 'Adopt a Home-Stay', suggest improvements, make investments in changes at the home-stay, and receive income on this social investment. Niraj Vashi, CEO, Nivalink, a pioneering web-based customised travel solutions-provider, says: "RTNE is trying to do the difficult task of funding and organising the very unorganised and little-promoted arena of rural and home-stay tourism. Considering the wealth India has in terms of culture, craft, ethnicity, cuisine and naturally scenic locales, and the fact that urban India is constantly looking to explore

the green and the unexplored, RTNE represents a tremendous opportunity for the cause of tourism and rural uplift. It's an idea that should be supported by all to help it grow into a national-level movement."

Immediate plans

RTNE, in collaboration with Konbac and Culture Aangan, a Sindhudurg-based organisation dedicated to the preservation of art, culture, and traditional customs and lifestyles, is planning a 'tourism village' at Khavane, 20 km from Kudal, with 15 families. RTNE will provide the village finance and market reach, while Culture Aangan will offer training, design and operational services.

In the near future, RTNE plans to expand its base to cover the adjoining Konkani districts of Ratnagiri and Raigadh. Operations in Uttarakhand will start in 2010. RTNE also plans to conduct workshops and road shows to invite potential DMC franchisees in new destinations. RTNE is documenting its learning, which will be published in a rural tourism guidebook in early-2010.

By a rough estimate, only 5,000 villages (100 villages per destination) directly benefit from around half the total tourism demand at 50 major destinations in India. RTNE has the potential to directly impact 50,000 villages in 500 destinations, increasing livelihood resources and diversifying the local economy. Hari Nair, CEO, HolidayIQ, India's largest travel and holiday information portal, observes: "What makes RTNE unique is how they work very closely with small hoteliers and property owners. Leveraging on the customers that HolidayIQ offers, they have been able to make a meaningful difference to rural tourism stakeholders in the Sindhudurg region."

Redefining cattle insurance

A joint collaboration of IFMR Holdings and Dairy Network Enterprise (DNE), together with HDFC Ergo GIC, has led to the development of an innovative cattle insurance product that has been introduced in Tamil Nadu's Thanjavur district.

For the first time in India, an on-the-spot cattle insurance product backed by radio frequency identification (RFID) tags and preventive dairy healthcare is being issued to dairy farmers. With these features, the product addresses major hurdles in cattle insurance in India.

Three entities are involved in offering the product to rural households. They are:

- Pudhhuaru Kshetriya Gramin Financial Services (PKGFS), a company promoted by IFMR Rural Finance (the brand name of IFMR Holdings), that provides high quality financial products and services in remote locations of Thanjavur and Tiruvarur districts of Tamil Nadu.
- Dairy Network Enterprise (DNE), being incubated by IFMR Ventures to plug gaps in the dairy supply chain, which uses a combination of financial investments, technology and technical support.
- Insurance provider HDFC Ergo General Insurance Company Limited (GIC), a 74:26 joint venture between HDFC Limited, India's premier housing finance institution, and Ergo International AG, the primary insurance entity of Munich Re Group.

The product is offered to rural households by PKGFS, which has branches in the villages. If required by clients, PKGFS can give loans for payment of the insurance premium. PKGFS will pay claim amounts to clients within 72 hours of claim approval by HDFC Ergo.

DNE helped in developing the RFID-backed electronic platform which enables issuance of on-the-spot cattle insurance. "By using the electronic platform, we have been able to eliminate paperwork and slash the time required for issuance of insurance policies," explains Avishek Gupta of DNE. "While it normally takes 15 days for issuing a cattle insurance policy, we do it immediately."

DNE also handles critical operational aspects of the product, like sourcing RFID components and veterinary drugs, coordinating with local veterinarians for animal registration, assessing the health of animals, and delivery of

preventive healthcare facilities at the farmer's doorstep.

Animal registration is done at the customer's house. The health status and productivity details of the animals are also recorded using a customised dairy health and productivity management software that enables real-time transfer of data to the insurance company. A detailed history of de-worming, vaccinations and the animal's health records is maintained using specially developed software.

"Apart from reducing the chances of sudden loss in income due to the death of an animal, these measures encourage the insurance company to offer a lower premium," explains Jai Mohan of IFMR Rural Finance. While premiums charged for such a product in India are around 4-4.5% of the value insured, the premium for the IFMR-HDFC Ergo product is around 2.9%, plus healthcare charges.



Use of RFID tags enables fast and accurate identification of insured animals

The customised dairy health and productivity management software, PKGFS's customer management system, and HDFC Ergo's policy issuance system are integrated real-time, to enable on-the-spot issuance of a cattle insurance policy — a first in this market in India.

To ensure fool-proof identification of insured animals, RFID tags are fixed to the animals' ears. First developed in the US in the 1970s, and used for defence and other applications, RFID tags are radio transponders with memory. Each tag contains an integrated circuit chip for storing and processing information, and modulating and demodulating a radio frequency (RF) signal, and an antenna to receive and transmit signals.

Each RFID tag used in the cattle insurance product is uniquely coded, making duplication near impossible. Each tag is designed in such a way that if it is removed from the ear of the animal, the chip is destroyed, leading to non-acceptance of the insurance claim. The tag thereby reduces the possibility of fraudulent claims, which, in turn, means that the insurance company can offer a lower premium.

The tag serves other purposes as well. The cattle health and productivity management software has been designed in such a way that if the veterinarian has to update data on vaccinations given to a particular animal, he has to visit the animal, read the tag, and update the data — he cannot simply enter the data from his office. The RFID tag also enables a faster, more accurate reading of each animal's unique identification number.

When an insured animal dies and a claim is made, wealth managers from PKGFS will verify the genuineness of the claim and coordinate the submission of required documents. This is expected to greatly expedite the claims settlement process; settlements can be made within 72 hours of the animal's death.

"The mix of products, processes and innovations addresses the issues of high transaction costs and information asymmetry in livestock insurance, thereby contributing to significant reductions in premium and an increase in the efficiency and efficacy of the product," explains Jai Mohan.

Although various livestock insurance products have been offered in India since 1971, it is estimated that less than 7% of India's cattle is insured. Major problems identified in the promotion and acceptance of livestock insurance include a high insurance premium thanks to high transaction costs and poor spread of animal healthcare services, rising incidence of fraudulent claims, lack of data on animal mortality, and long time taken to settle claims.

Designed in association with IFMR's Centre for Insurance and Risk Management, the IFMR-HDFC Ergo cattle insurance product was launched in PKGFS areas of operation in September 2009.

While the product is expected to be next introduced in other KGFS areas — in Ganjam district of Orissa and hilly areas of Uttarakhand — DNE is offering the RFID-backed electronic platform and also linkages for vaccines and drugs required for dairy healthcare services to other entities like NGOs, MFIs and dairy enterprises. "The RFID-backed electronic platform not only enables issue of on-the-spot cattle insurance, but it can also be used to plan, monitor and deliver dairy healthcare, feeding and breeding services to farmers across the country," explains Avishek. If required, DNE can facilitate access to finance for different entities planning to use the platform, he adds.

First ever mutual fund investment in Indian micro finance sector

A recent micro loan securitisation, completed by IFMR Capital and Equitas Micro Finance, has enabled the first ever mutual fund investment in the Indian micro finance sector. The INR 480 million (\$10.4 million) transaction is backed by over 55,000 micro loans originated by Equitas Micro Finance, a Chennai-based micro finance 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 micro finance securitisation programme to reach capital market investors," said S Bhaskar, COO, Equitas. "This is an important milestone in diversifying the sources of funds for micro finance companies, and will benefit a large number of micro finance 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 (a 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," said Nilesh Shah, Deputy Managing Director, ICICI Prudential Asset Management.

By investing in securities backed by micro loans, 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 offers banks an attractive way to increase their investment in the micro finance sector through rated, tradable securities.

Manish Saraf, Head Treasury, Dhanalakshmi Bank, said: "Micro finance 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 the 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 the 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 micro finance institutions that have robust systems and high levels of transparency."

Read more here:

www.ifmrtrust.co.in/downloads/IFMR_Capital_Equitas_Press_Release_20112009.pdf

CRISIL upgrades ratings of first micro finance PTCs

Following the first rated securitisation of micro loans in India, the pass through certificates (PTCs, or securities) from the transaction have received a ratings upgrade from CRISIL. The ratings of senior and junior tranches of PTCs have been upgraded to AAA (so) and A (so), from their original ratings of AA (so) and BBB (so) respectively.

The transaction, which was concluded by IFMR Capital in March 2009, involved securitisation of a micro loan portfolio of INR 157 million (principal outstanding) originated by Equitas Micro Finance India Pvt Ltd.

The upgrade is based on the performance of the pool, timeliness of payments to the SPV, and the extent of credit enhancement in relation to outstanding cash flows on the pool.

IFMR Capital, the sole structurer and arranger, has provided second loss credit enhancement in the form of investment in 100% of Series A2 securities, and Series A1 securities have been fully underwritten by a bank investor.

For credit enhancement, Equitas provided a first loss facility in the form of cash collateral equal to 11.7% of the original principal amount of the portfolio. This cash collateral together

with the excess interest spread (EIS) being trapped in the SPV are used to cover any shortfall in repayments on both tranches of securities. The cash collateral has been intact since the beginning of the transaction, and the EIS has built up to an amount of INR 13.4 million as on October 7, 2009.

The upgrade in ratings marks a reiteration of the effective origination capabilities of Equitas, backed by its strong systems and processes for management of micro loan portfolios.

IFMR Capital, which structured and invested in the landmark transaction with Equitas, is promoting micro finance loans originated by high-quality MFIs as an attractive asset class for a new category of securities in the ABS market. The securitisation structure pioneered by IFMR Capital in India is expected to open up new sources of debt capital such as mutual funds, insurance companies, NBFCs, and foreign banks for the micro finance industry.

Banks are also expressing interest in rated micro finance paper due to their liquidity and also due to the expected adoption of Basel-II capital adequacy norms that favour rated assets as against unrated assets on the books of banks.

"The ratings upgrade strengthens our confidence in micro finance as a promising new asset class for debt and equity investors across the globe. The upgrade by three notches together reflects the strength of the underlying assets. This puts micro finance firmly on the map of mainstream capital markets," said Sucharita Mukherjee, CEO, IFMR Capital.



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