

# IFMR Mezzanine Finance

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Registered as an NBFC

Promoted by IFMR Trust, a for profit Trust headquartered in Chennai

Aims to provide Tier II capital to MFIs in the form of multiple product structures including subordinated debt

Does not seek equity or management representation

- Tier II capital is the measure of financial strength of an entity and is considered the second most reliable form of financial capital from a prudential point of view
  - For MFIs, helps preserve ownership of equity by preventing dilution at an early stage
  - Servicing cost is a tax deductible expenditure
  - Can be accessed at a lower cost than equity
  - Is treated by lenders as akin to equity

- Currently regulations with regard to Tier II capital exists only for NBFCs who are regulated by the Reserve Bank of India
- Requirements
  - Duration: evaluated each year. Should have a balance tenor of at least 5 years (counted on the reporting Friday of March each year). Steep discount applicable if tenor is less than 5 years. (20 % for each year short)
  - Security: Unsecured
  - Subordination: subordinated to all other class of debts. Interest can be paid regularly but is also subordinated.
  - No Principal Payments: No principal payments. Bullet payments at the end of the period
  - Creation of reserves: Specific reserves such as a sinking fund can not be created for subordinated debt payments
  - No Call Options: The lender should not have any call option
  - Subordinated debt is limited to 50% of paid up capital. The total Tier II capital can however be equal to the paid up capital. Instruments like Pref. Cap will need to be issued by an MFI in addition to raising sub debt

## Clients

- MFIs such as Trusts, Societies or Sec-25 companies
- MFIs registered as NBFCs
- Mezz Co.'s main clients will be entities with portfolio outstanding of Rs. 250 million or lesser (A few clients may have larger portfolios as well)

## Principal Criteria

- Entities should be engaged in providing financial services to excluded populations
- MFI should have stable processes
- At least a year old
- Promoters should be a majority share holder
- The MFI should not have a MBT comprising of its own borrowers as an owner
- The MFI should not accept deposits in any form

Subordinated debt structures  
(including debenture  
instruments) and (very rarely)  
convertible debts

Issue preference capital

Mezz Co will be a  
provider of quasi  
equity to MFIs


Guarantee based instruments  
such as First Loss Deficiency  
Guarantees to senior lenders

Subscribe to Junior most  
tranches in a securitization  
deal

- IFMR Mezzanine Finance initially intends offering two main products, which are structured so that equity risk is assumed at a competitive pricing
- Product 1: Long term deeply subordinated loan to help meet regulatory requirements
  - Tenor: 5-7 years (keeping in mind discounting defined by RBI)
  - Periodic interest repayments
  - Principal moratorium for the entire term with bullet repayment at the end
  - Working with banks to ensure our investments can be leveraged significantly
- Product 2: Instrument to meet credit enhancement needs
  - Tenor: 15 months/ longer than the tenor of the senior debt provider to provide a sense of comfort to the senior lender
  - Frequency of interest repayments will be monthly /quarterly
  - Principal moratorium for the entire term with bullet repayment at the end

# Sanction process flow

Receive documents according to the pre-due diligence check list sent to the entity



Scrutinize documents and conduct a preliminary secondary data search



If satisfactory, conduct due diligence field visit



Complete due diligence documentation



If satisfactory, send term sheet to the MFI

Aimed at strengthening the **management** and **processes** of the investee company

Meeting regulations in letter and spirit

Adoption of a strong MIS system

Adoption of a systemic internal audit system

Strengthen management, second line and governance procedures

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# Thank you