

Covered Bonds

**PRESENTATION AT
THE SECURITISATION SUMMIT**

22 August 2014

- IFMR Capital is an **A+ / A1+** rated, non-deposit taking Non Bank Finance Company, focused on providing debt capital markets access to originators that affect financially excluded households and enterprises
- **IFMR Capital has raised INR 80 billion (c.USD 1.4 bn) for its clients with a zero delinquency track record till date**
- Balance sheet size and profitability grown significantly
- Completed over 150 rated capital market transactions with over 50 originators in the last 5 years
- Ratings upgrades on over 105 tranches of securitizations till date
- IFMR Capital works closely with originators that cater to financially excluded households and enterprises across the country.
 - These originators could meet varying needs of its clients, including working capital, enterprise funding, short term needs, housing requirements etc.
- Over the past 6 years, IFMR Capital has developed considerable competitive advantages in this space including:
 - Strong underwriting guidelines and entity selection criteria
 - Risk models to understand asset performance
 - High quality monitoring and surveillance team that monitors each and every credit multiple times a year
 - Deep relationships borne out of taking own exposure in each transaction
- Each investment decision is backed by strong underwriting capability. Each client of IFMR Capital is amongst the best in its class, capable of delivering strong, sustained performance
 - For this reason, transactions structured and arranged by IFMR Capital have witnessed nil overdues and significant rating upgrades since inception
- Currently, we cover the following asset classes - **microfinance, affordable housing finance, small business loans and commercial vehicle finance**
- Our work has been supported by over 40 marquee investors
- Listed India's first Securitized debt instrument in the domestic stock exchange

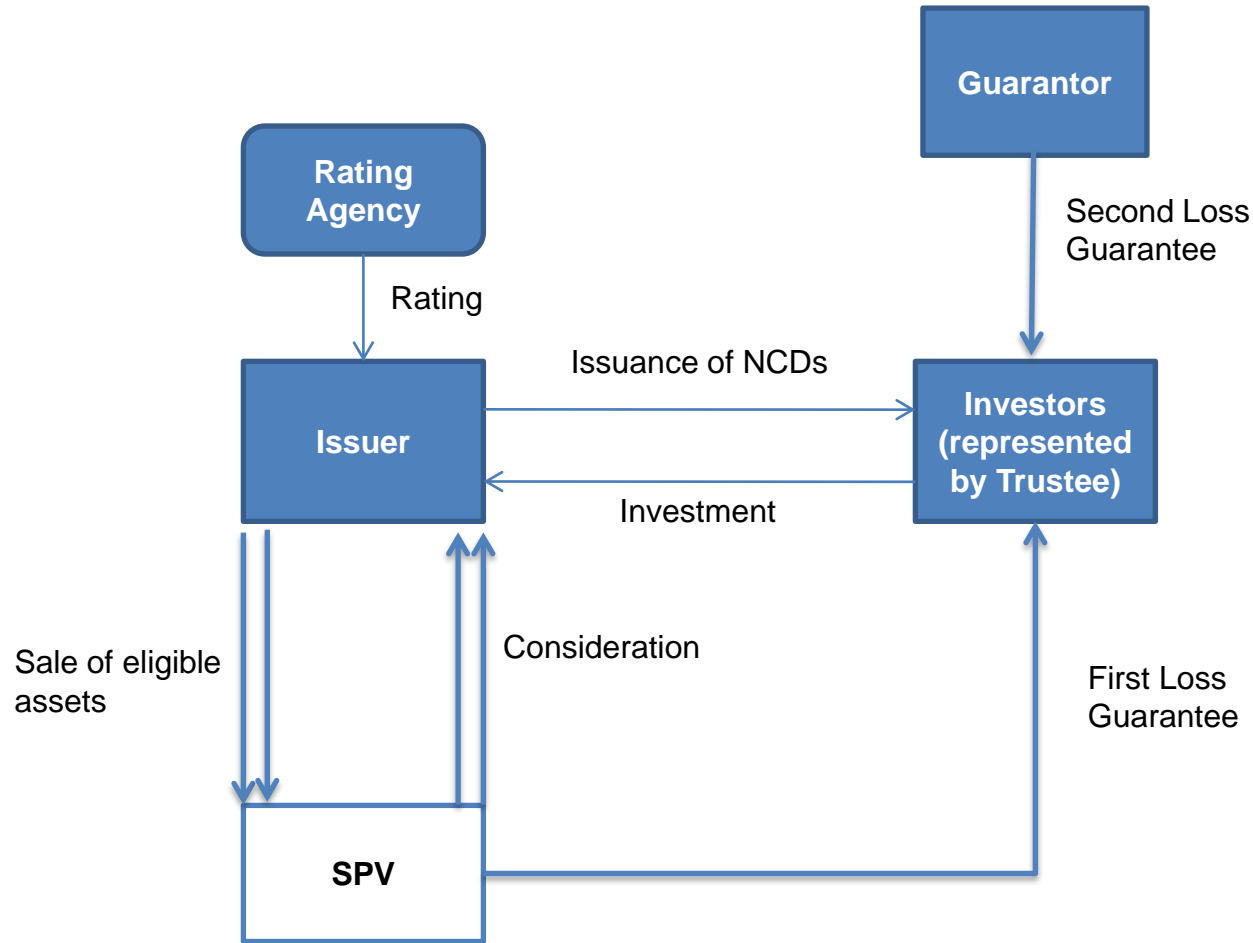
Introduction

What is it?

- A form of a secured bond that has access to a ring-fenced pool of assets that are bankruptcy remote of the issuer
- The assets could remain on the balance sheet of the issuer
 - Germany
 - Denmark
- The assets could be removed from the balance sheet of the issuer and housed in a special purpose vehicle
 - UK
- Rules around liquidity and interest rate risk
 - Could be match financed with no liquidity or interest rate risk
 - Alternatively, the bond has a different payoff period, assets in the SPV are replenished

**How can the market evolve in
India?**

Possible Covered Bond Structure for India



Points to note:

- The SPV requires financing for the initial purchase of assets from the issuer. In the UK market, the financing is provided by the issuer itself
- If the assets are in the form of receivables, the sale may happen multiple times
- The SPV provides FLDG favoring the investors
- A secondary SLDG could also be added for further rating enhancement

Bankruptcy law

- Ring-fencing of assets within the balance sheet of a borrower is difficult.

SPV Tax

- This is an uncertain subject. While clarity is emerging in bits and pieces, the market is today taking calls in every transaction involving SPVs

Stamp duty

- Stamp duty and registration costs are significant in case of transfer of immovable property. Treatment differs across states

Capital adequacy

- Significant work needs to be done with ICAI to work out the capital implications of covered bonds via the SPV route

Support

- Clear incentives need to be created:
 - Guidelines for credit enhanced bonds, add the benefit of partial guarantees
 - Permission for insurance companies to invest

Scope

The market scope for such a product is tremendous

- Banks and corporates seeking to issue higher rated bonds in the international market
- Financial inclusion: lower rated corporates / NBFCs issuing higher rated bonds
- Possible investors – this could appeal to a wider class of investors that need high quality assets
 - Insurance companies
 - Pension funds
 - AMCs

Thank You