

FINAL TERM SHEET
SENIOR UNSECURED NON-CONVERTIBLE DEBENTURES
TO BE ISSUED BY
SMILE MICROFINANCE LIMITED

Date: August 24, 2016

All terms of the investment, including structure, tenor, amount and pricing are subject to change as a result of adverse changes in the capital markets or the financial condition of the Issuer or the Group.

The contents of this Term Sheet are confidential and no person may release or disclose the contents without the prior written consent of IFMR Investment Managers Private Limited.

ISSUE DETAILS

Issuer	SMILE Microfinance Limited
Type of instrument	Non-Convertible Debenture (NCD)
Nature of instrument	Rated, Transferable, Redeemable, Non-convertible debentures
Ranking	Senior Unsecured
Mode of issue	Private Placement
Guarantor	N/A
Subscriber/ Debenture holder	IFMR FImpact Long Term Multi Asset Class Fund
Debenture Trustee	CATALYST TRUSTEESHIP LIMITED
Listing	Unlisted; to be listed in WDM segment of BSE within 15 days of request from Debenture Trustee
Long Term Rating (minimum)	BBB-
Issue size	INR 200,000,000 (Rupees Twenty crore only)
Tenor	Upto 72 months from the deemed date of allotment



Objects of issue	To augment the long term resources of the company										
Details of Utilization of Proceeds	The Issuer shall utilize the proceeds of the Issue solely for meeting the Objects of the Issue as stated in the Disclosure Document										
Coupon Rate	Equivalent of 15.50% per annum monthly coupon										
Coupon Payment Frequency	Quarterly										
Coupon Payment Dates	Quarterly on 30 th March, 29 th June, 29 th September and 30 th December of every calendar year after deemed date of allotment until the date of maturity. If any of the mentioned day is a holiday, then the coupon payment has to be made on the immediately succeeding business day										
Default Interest Rate	In the event of a payment default or any other Event of Default, of the amounts due under this Issue, the Issuer shall pay an additional interest rate of 5% (Five per cent) per annum over and above the applicable Coupon rate from the date of the occurrence of the payment default on the outstanding principal amount of the-Debentures until such default is cured or the Debentures are redeemed pursuant to such default, as applicable.										
Prepayment Penalty	<p>In case of early redemption of the Debentures at the instance of the Issuer, on any date other than the Due Date and not arising due to an Event of Default, the Issuer shall pay a penalty on the principal amount prepaid as per the table given below.</p> <table border="1" data-bbox="404 1025 1263 1225"> <thead> <tr> <th>Date of Prepayment</th> <th>Penalty</th> </tr> </thead> <tbody> <tr> <td>Within 3 years from Deemed Date of Allotment</td> <td>5%</td> </tr> <tr> <td>After 3 years but within 4 years from Deemed Date of Allotment</td> <td>4%</td> </tr> <tr> <td>After 4 years but within 5 years from Deemed Date of Allotment</td> <td>3%</td> </tr> <tr> <td>After 5 years from Deemed Date of Allotment</td> <td>2%</td> </tr> </tbody> </table> <p>Prepayment shall be subject to the consent of the Majority Debenture Holders, which shall not be unreasonably withheld. The Issuer shall give the Debenture Trustee and the Debenture Holders at least 30 (Thirty) days written notice prior to the date of such meeting where consent of the Debenture Holders shall be sought.</p>	Date of Prepayment	Penalty	Within 3 years from Deemed Date of Allotment	5%	After 3 years but within 4 years from Deemed Date of Allotment	4%	After 4 years but within 5 years from Deemed Date of Allotment	3%	After 5 years from Deemed Date of Allotment	2%
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After 5 years from Deemed Date of Allotment	2%										
Delay penalty	In the case of a delay in the execution of Debenture Trust Deed attributable to the Issuer, the Issuer shall refund the subscription with the agreed rate of interest or shall pay penal interest of 5% (Five percent) per annum over and above the applicable Coupon Rate until such time the conditions have been complied with at the option of the Investor.										
Step-up of Coupon	In the event the Credit Rating of the Issuer is downgraded, the Coupon shall be increased by 0.5% for every notch of rating downgrade, applicable from the date of such downgrade until such event is cured, on the outstanding principal amount										



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	and accrued interest, if any, of the Debentures. For the purpose of this clause, if the Issuer is rated by more than one rating agency, then the lowest of the ratings shall be considered.
Step-down Coupon	<p>of</p> <p>There shall be no step-down of coupon for a period of 3 years from the Deemed Date of Allotment.</p> <p>In the event the Credit Rating of the Issuer is upgraded, the Issuer shall be eligible for a reduction of 0.25% in coupon for every notch of rating upgrade (as measured from the Credit Rating applicable on the Deemed Date of Allotment), on the outstanding principal amount and accrued interest, if any, of the Debentures. The coupon applicable for year 4, 5, and 6 shall be computed at the beginning of year 4, 5 and 6, respectively based on the formula given below:</p> <p>Coupon applicable = 15.5% - (No. of rating notches upgrade x 0.25% subject to a maximum of 0.5% per annum)</p> <p>Once determined as mentioned above, coupon shall remain unchanged for each of the years 4, 5 & 6, respectively. For the purpose of this clause, if the Issuer is rated by more than one rating agency, then the lowest of the ratings shall be considered.</p>
Coupon Type	Fixed Coupon Rate
Day Count Basis	"Actual/ Actual" basis
Redemption Amount	INR 10,00,000 (Rupees Ten Lakh only) per Debenture plus accrued Coupon, if any.
Face Value	INR 10,00,000 (Rupees Ten Lakh only) per Debenture
Issue Price	INR 10,00,000 (Rupees Ten Lakh only) per Debenture
Call Option Dates	Shall be the date falling on completion of 36 (Thirty Six) months from the Deemed Date of Allotment
Call Notification Time	30 days before exercise date
Call Option Price	INR 10,00,000 (Rupees Ten Lakh only) per Debenture
Put Option Dates	Shall be the date falling on completion of 36 (Thirty Six) months from the Deemed Date of Allotment
Put Notification Time	30 days before exercise date
Put Option Price	INR 10,00,000 (Rupees Ten Lakh only) per Debenture



Issue Timing 1. Issue Opening Date 2. Issue Closing Date 3. Pay in Date 4. Deemed Date of Allotment	August 30, 2016 August 30, 2016 August 30, 2016 August 30, 2016
Redemption Schedule	Bullet; as per Annexure 2
Issuance mode of the Instrument	Dematerialized only
Trading mode of the Instrument	Dematerialized only
Depository	NSDL / CDSL
Security	NA
Transaction Documents	(a) Information Memorandum; (b) Debenture Trustee Agreement; (c) Debenture Trust Deed; (d) Trustee Appointment Letter; (e) Rating Letter; (f) Board Resolutions; (g) Shareholder Resolutions; (h) Issuer's confirmation of allotment of debentures; and (i) Any other document related to the Debentures
Conditions Precedent to Disbursement	The key conditions precedent to disbursement are: 1. Consent from the Trustee 2. Governmental and corporate authorizations, as applicable 3. Transaction Documentation 4. Certificate of the Issuer confirming that issuance and allotment of the Debentures would not cause any borrowing, or similar limit binding on the Company, to be exceeded; 5. The Representations and Warranties are true and correct; 6. Evidence of an appointed trustee; 7. Evidence that the fees, costs and expenses have been paid or will be paid by the Deemed Date of Allotment; 8. Confirmation by the compliance officer or his representative of the Debenture Holders that their Client Acceptance and Anti Money Laundering (CAAML) file is completed in accordance with their internal regulations in



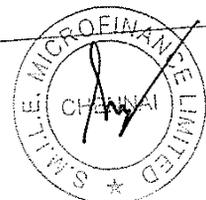
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	<p>respect thereof;</p> <p>9. Rating;</p> <p>Others as agreed between the Debenture Trustee, Debenture holders and the Issuer.</p>
<p>Conditions Subsequent to Disbursement</p>	<p>The key conditions subsequent to disbursement are:</p> <p>1. Listing debentures within 15 days from the date of request from Debenture Trustee</p> <p>And as set out in greater detail in the Debenture Trust Deed.</p>
<p>Other costs and conditions</p>	<p>To be further determined in the Debenture Trust Deed.</p> <p>All costs, charges and expenses (notary's fees, legal opinions, lawyer's fees, advertisements, travel costs, telephone and fax costs, stamp duties) incurred in connection with the negotiation, execution, syndication, filing and registration of the Trust Deed and related documents regardless of whether this transaction is completed or not or whether the NCDs are issued or not.</p> <p>The NCDs will be issued in a form and substance satisfactory to the Fund. Note that specific Fund conditions on Environmental & Social and Corporate Governance issues will be applicable and the Issuer will be required to give separate undertakings to Fund in this regard, as listed in Annexure 1.</p>
<p>Business Days</p>	<p>Means a day (other than Sunday or a Bank Holiday) on which banks are open for general business in Chennai</p>
<p>Business Day Convention</p>	<p>If any coupon payment date falls on a day that is not a working day, the payment shall be made on the immediately succeeding working day. If the redemption date/exercise date/maturity date (also being the last coupon payment date) of the Debentures falls on a day that is not a working day, the redemption proceeds shall be paid on the immediately preceding working day</p>
<p>Key Representation and Warranties</p>	<p>(a) Company is registered with the RBI as an NBFC-MFI</p> <p>(b) No Event of Default has occurred and is continuing on the date of the transaction</p> <p>(c) Debentures shall rank pari passu amongst themselves and with all other senior creditors</p> <p>(d) Company shall not use proceeds from Debenture issuance to fund activities listed in Annexure 1</p> <p>(e) Binding obligation of Transaction Documents</p> <p>(f) No conflict with other obligations / constitutional documents</p> <p>(g) Company has the power and authority to issue Debentures and such Transactions Documents are valid and admissible in evidence</p> <p>(h) No proceedings pending</p>

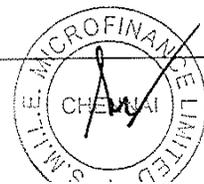


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<p>Reporting Covenants</p>	<p>(i) And as set out in greater detail in the Debenture Trust Deed.</p> <p>(a) MONTHLY REPORTS – List of Hypothecated assets within 10 (ten) calendar days after the end of each calendar month,</p> <p>(a) QUARTERLY REPORTS - within 45 (Forty five) calendar days after the end of each calendar quarter:</p> <p>(i) Information on financials, operations, portfolio growth & asset quality, funding in formats acceptable to the Investor</p> <p>(ii) List of Board of Directors</p> <p>(iii) Shareholding Pattern</p> <p>(iv) Financial covenant compliance certificate</p> <p>(v) Copy of returns filed with RBI</p> <p>(vi) information on:</p> <ul style="list-style-type: none"> • New products introduced, or change in existing product features • New business correspondent relationships or discontinuance of existing relationships • Geographical expansion to any new state • Material changes to the IT / MIS systems • Change in credit bureaus used • Revision in the Business Plan • Changes in the Accounting Policy • Any fraud amounting to more than 1% of GLP <p>(b) ANNUAL REPORTS – within 120 days after the end of each fiscal year</p> <p>(i) Audited financials</p> <p>(ii) A certificate from the Director/CFO confirming that there is no Potential Default or Event of Default;</p> <p>(iii) Copy of all annual information submitted to the RBI; and</p> <p>(iv) corporate social responsibility report</p> <p>(c) EVENT BASED REPORTS – within 5 business days of event occurring</p> <p>(i) change in the shareholding structure</p> <p>(ii) change in the Senior Management officials (any CXO, or equivalent)</p> <p>(iii) change in statutory auditors</p> <p>(iv) Board approval of annual business plan</p> <p>(v) change in the Constitutional Documents of the Company;</p> <p>(vi) Material Adverse Effect.</p> <p>(vii) Any dispute, litigation, investigation or other proceeding which could result in a Material Adverse Effect.</p> <p>(viii) Winding up proceedings</p> <p>(ix) Any Event of Default or Potential Default, and any steps taken / proposed to remedy the same.</p> <p>(x) any prepayment or notice of any prepayment of any Indebtedness of the</p>
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<p>Financial Covenants</p>	<p>Issuer.</p> <p>(a) Capitalisation: Capital Adequacy Ratio calculated as per RBI norms of 16% or higher</p> <p>For the purpose of the calculations of the Capital Adequacy as mentioned above:</p> <ul style="list-style-type: none"> - the first loss credit enhancement provided by the originator on securitization shall be reduced from capital funds and the deduction shall be capped at 15% of the outstanding securitized portfolio. - the first loss credit enhancement provided by the originator on loans originated on behalf of other institutions shall be reduced from capital funds without any ceiling. <p>The deduction shall be made at 50 per cent from Tier I and 50 per cent from Tier II capital.</p> <p>It is also clarified that in computing the amount of subordinated debt eligible for inclusion in Tier II capital, the aforementioned subordinated debt shall be subject to discounting as provided in the NBFC Master Circular.</p> <p>(b) Asset Quality: Ratio of PAR-30 to Gross Loan Portfolio of 3% or lower</p> <p>(c) Earnings: After-tax Net Income to remain positive.</p> <p>(d) Net unhedged foreign currency exposure within +/-50% of Tangible Network</p> <p>(e) Off-Balance Sheet Portfolio to Total Assets ratio of 35% or less.</p> <p>"Gross Loan Portfolio" shall include on balance sheet and off balance sheet portfolio</p> <p>"Off Balance Sheet Portfolio" shall mean principal balance of loans securitized, assigned, originated on behalf of other institutions in respect of which the Issuer has provided credit enhancements in any form or manner whatsoever</p> <p>"Tangible Net Worth" means the Net worth of the Company, net of intangible assets and deferred tax assets.</p> <p>"PAR-30" shall mean the outstanding principal amount of all client loans that have one or more instalments of principal past due for thirty days or more.</p> <p>"Total Assets" means, for any date of determination, the total Assets of the Company on such date, including owned, securitised and managed (non-owned) portfolio.</p>
<p>Key Affirmative Covenants</p>	<p>(a) To utilise the proceeds of this issue in accordance with applicable laws and regulations</p> <p>(b) To ensure presence of atleast 1 independent director on the board at all times</p> <p>(c) To promptly inform notice of winding up / other legal proceedings</p> <p>(d) To promptly inform Material adverse effect</p>

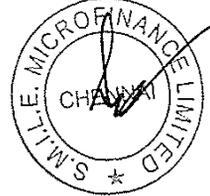


	<p>(e) To provide the investor with access to data / information / meetings with the management team for periodical portfolio monitoring</p> <p>(f) To comply with corporate governance, fair practices code prescribed by RBI</p>
<p>Key Negative Covenants</p>	<p>The issuer shall take the prior written permission from the Investor / Debenture Trustee for the following:</p> <ul style="list-style-type: none"> (a) Change in majority ownership or control; Majority shareholder stake should not fall below 51%, without prior approval (b) Any dilution of control over Board composition, other than appointment of independent directors (c) Mergers, acquisitions, investment in associates, JVs and subsidiaries including disposal of any of the above (d) Change in nature of business of the Company (e) Change in constitutional documents (f) Loans exceeding 15% of networth to any single party and/or guarantees on behalf of third parties (g) Declare dividend on equity shares before payments of coupon that is due and not paid (overdue) on the NCDs (h) Declare dividend on equity/preference shares before payments of coupon that is due and not paid (overdue) on the NCDs when an Event of Default is subsisting (i) Change in auditors (j) Material compromise or settlement <p>The Debenture Trustee shall give its prior written approval/dissent within 15 (fifteen) Business Days after having received a request to give its approval provided such request is accompanied by the relevant information substantiating the request for the Debenture Holders to make a conscious discussion</p>
<p>Events of Default</p>	<ul style="list-style-type: none"> (a) Non-payment of any of the dues under this term sheet, with a grace period of 3 days in case of delays due to technical reasons (b) Default in compliance with financial covenants, subject to a cure period of no less than 30 days as may be specified in the Transaction Documents (c) Default in compliance with non-financial covenants, subject to a cure period of no less than 30 days as may be specified in the Transaction Documents (d) Default or trigger of event of default on any other indebtedness (cross default) (e) Misrepresentation or misleading information in any of the Transaction Documents (f) Insolvency, winding up, liquidation (g) Creditors' processes initiated against the company (h) Repudiation of Transactions Documents (i) Cessation of business (j) Erosion of 50% or more of the Company's net worth



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Disclosure	Fund Disclosure Policy will apply
Language	English
Governing Law and Jurisdiction	Indian Law, Courts in Chennai



ANNEXURE 1

ESG Declaration

The Issuer shall not permit any of the Debenture proceeds to be used to fund any activity listed below:

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES,
2. Production or trade in weapons and munitions,
3. Production or trade in alcoholic beverages (excluding beer and wine),
4. Production or trade in tobacco,
5. Gambling, casinos and equivalent enterprises,
6. Production or trade in radioactive materials (this does not apply to the purchase of medical equipment, quality control (measurement) equipment),
7. Production or trade in unbonded asbestos fibers (this does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%),
8. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length,
9. Production or activities involving harmful or exploitative forms of forced labor,
10. Harmful child labor,
11. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (hazardous chemicals include gasoline, kerosene, and other petroleum products),
12. Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples, without full documented consent of such peoples.



ANNEXURE 2

CASH FLOW SCHEDULE – SENIOR UNSECURED DEBENTURES – SERIES A*

Cash Flow date	Investment	Repayment	Coupon	Cash Flow
30-08-2016	200,000,000			(200,000,000)
29-09-2016		-	2,626,759	2,626,759
30-12-2016		-	7,893,977	7,893,977
30-03-2017		-	7,741,520	7,741,520
29-06-2017		-	7,828,739	7,828,739
29-09-2017		-	7,915,885	7,915,885
30-12-2017		-	7,915,885	7,915,885
30-03-2018		-	7,741,520	7,741,520
29-06-2018		-	7,828,739	7,828,739
29-09-2018		-	7,915,885	7,915,885
30-12-2018		-	7,915,885	7,915,885
30-03-2019		-	7,741,520	7,741,520
29-06-2019		-	7,828,739	7,828,739
29-09-2019		-	7,915,885	7,915,885
30-12-2019		-	7,915,885	7,915,885
30-03-2020		-	7,807,039	7,807,039
29-06-2020		-	7,807,076	7,807,076
29-09-2020		-	7,893,977	7,893,977
30-12-2020		-	7,893,977	7,893,977
30-03-2021		-	7,741,520	7,741,520
29-06-2021		-	7,828,739	7,828,739
29-09-2021		-	7,915,885	7,915,885
30-12-2021		-	7,915,885	7,915,885
30-03-2022		-	7,741,520	7,741,520
29-06-2022		-	7,828,739	7,828,739
30-08-2022		200,000,000	5,214,364	205,214,364

