

BAI-Webinar: Quantitative rating model and valuation of microfinance refinancing

Speakers: Dr. Marc-Patrick Adolph, IPConcept (Luxemburg) S.A. & Luca Soppelsa, FS Impact Finance

February 4, 2021

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Dr. Marc-Patrick Adolph works in the valuation function of IPConcept (Luxemburg) S.A.. His responsibilities include the valuation of hard-to-value assets, in particular private debt & equity instruments as well as structured products. Mr Adolph is involved in the development, implementation and operation of new concepts for the in depth asset analysis, monitoring and valuation procedures. He wrote his doctoral thesis on Structured Eurobonds at the Chair of Monetary Economics at the University of Trier.



Luca Soppelsa leads the daily operation of the risk and monitoring team of FS Impact Finance. He is responsible for developing, analysing and reporting on the risk profiles of countries and individual assets under management. In addition, he assesses the risk/opportunity of new investments and manages distressed credit exposures and workout strategies. Before joining FS Impact Finance, Luca gathered a multifaceted finance expertise by working for ten years on international, multi-stakeholder projects in the audit, banking and green finance sectors. Since 2013, the focus of his day-to-day work has been on frontier markets. Luca holds a Master in International Economics and Business (Globalisation and Development) from Utrecht University and a Master in Management from the University of Trento. He is a Certified Risk Manager and Renewable Energy Finance Expert by the Frankfurt School of Finance & Management.

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February 25, 2021
11:00 a.m. – 12:15 p.m.

Theme: „Fund Secondaries in Corona-Zeiten: Marktzugang,
Liquiditätsoptionen und andere aktuelle Trends“

further webinars are currently being planned

<https://www.bvai.de/veranstaltungen/bai-webinare>

Quantitative rating model and valuation of microfinance refinancing

February 2021



Agenda

1. Problem & Objective
2. Quantitative credit rating
3. Valuation of refinancing instruments
4. Results & Impacts
5. Fund management perspective

1. Problem

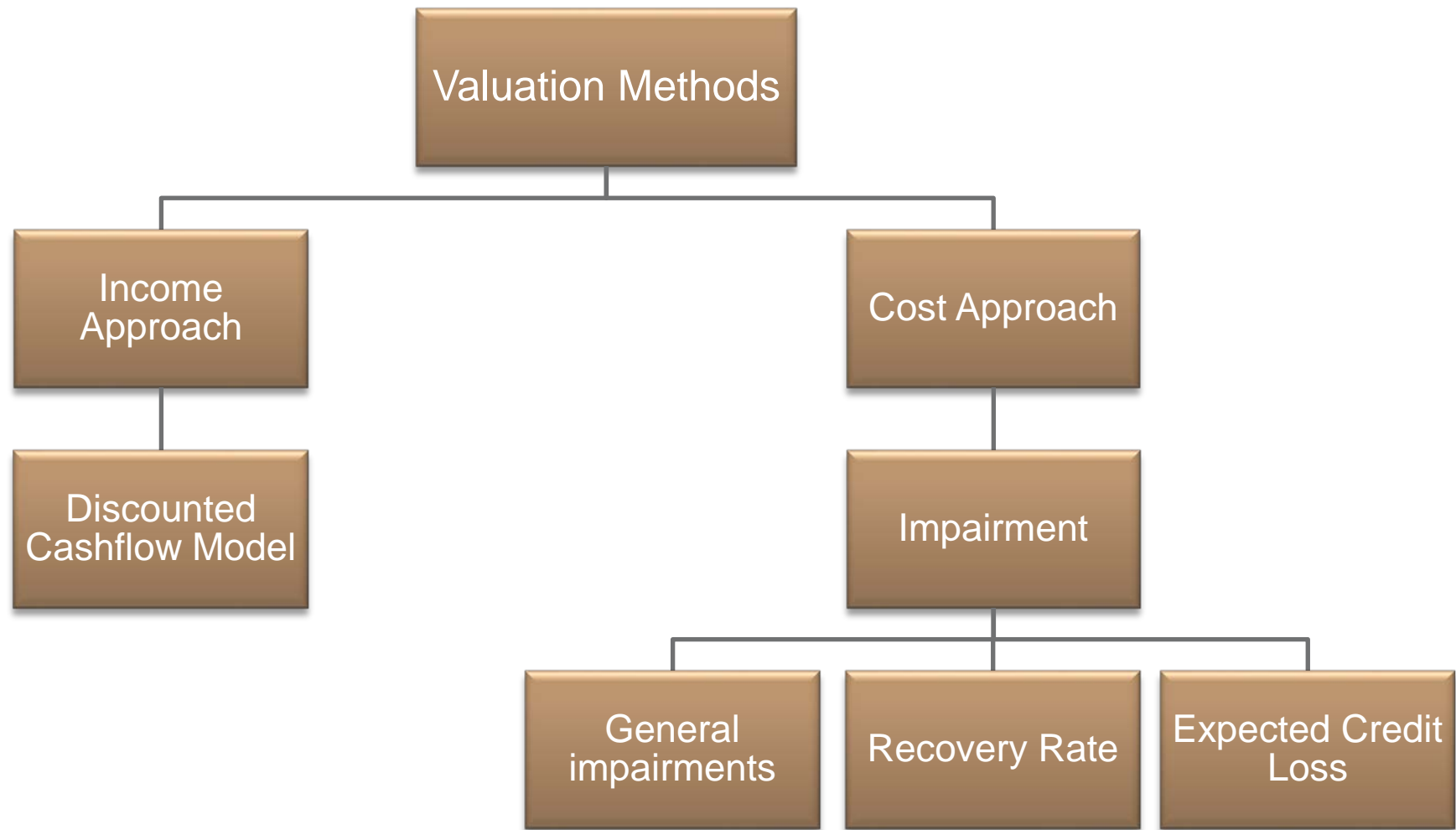
Investment Fund Level

- Periodic valuation necessary
- Net Asset Value calculation at fair value

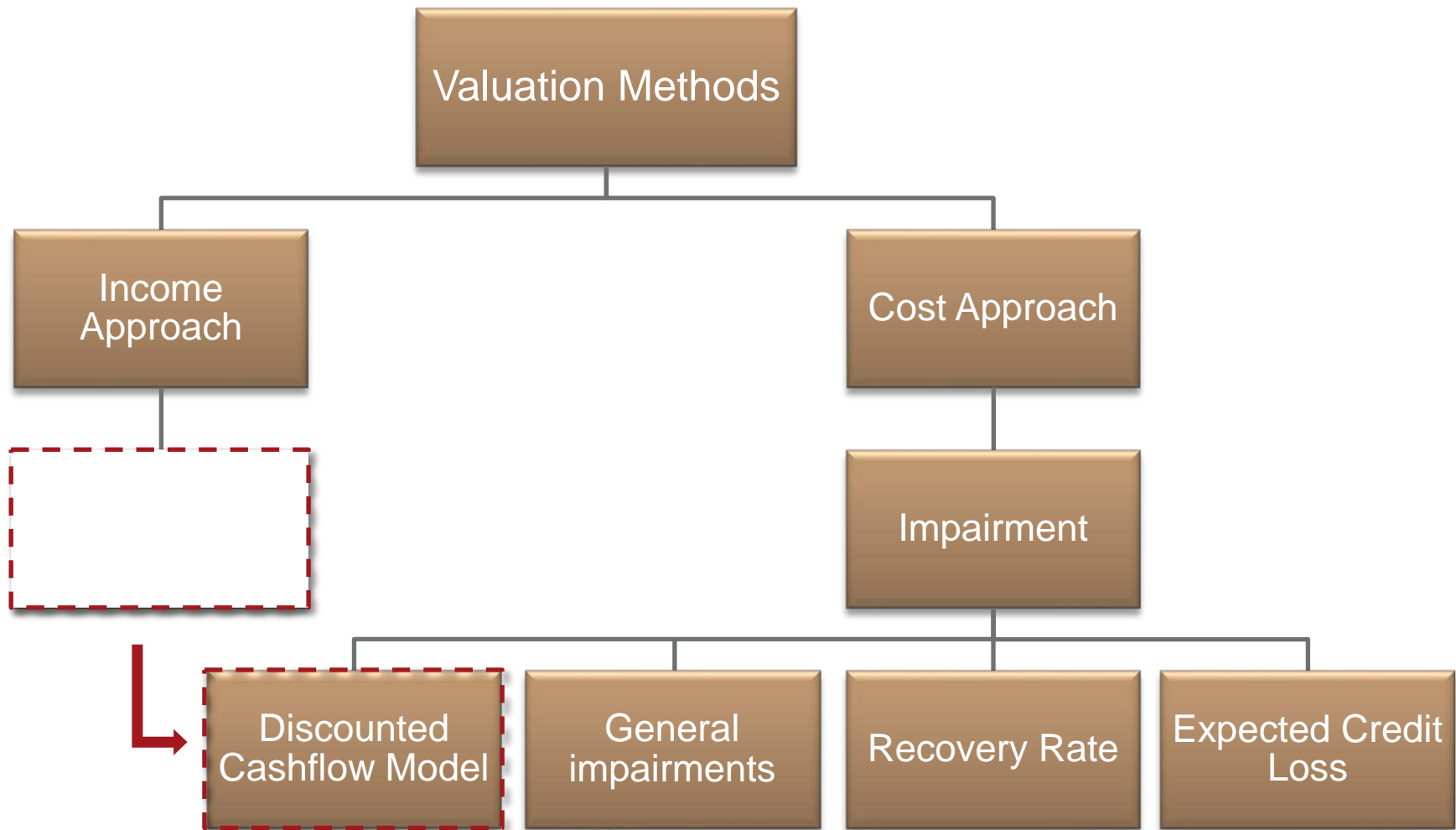
Asset Level

- No active market
- No credit ratings available

1. Status quo – Common methods



1. Status quo – Common methods



1. Objective

Rating

- Up-to-date credit rating
- Focus on quantitative factors

Valuation

- Consistent
- Coherent

2. Rating model

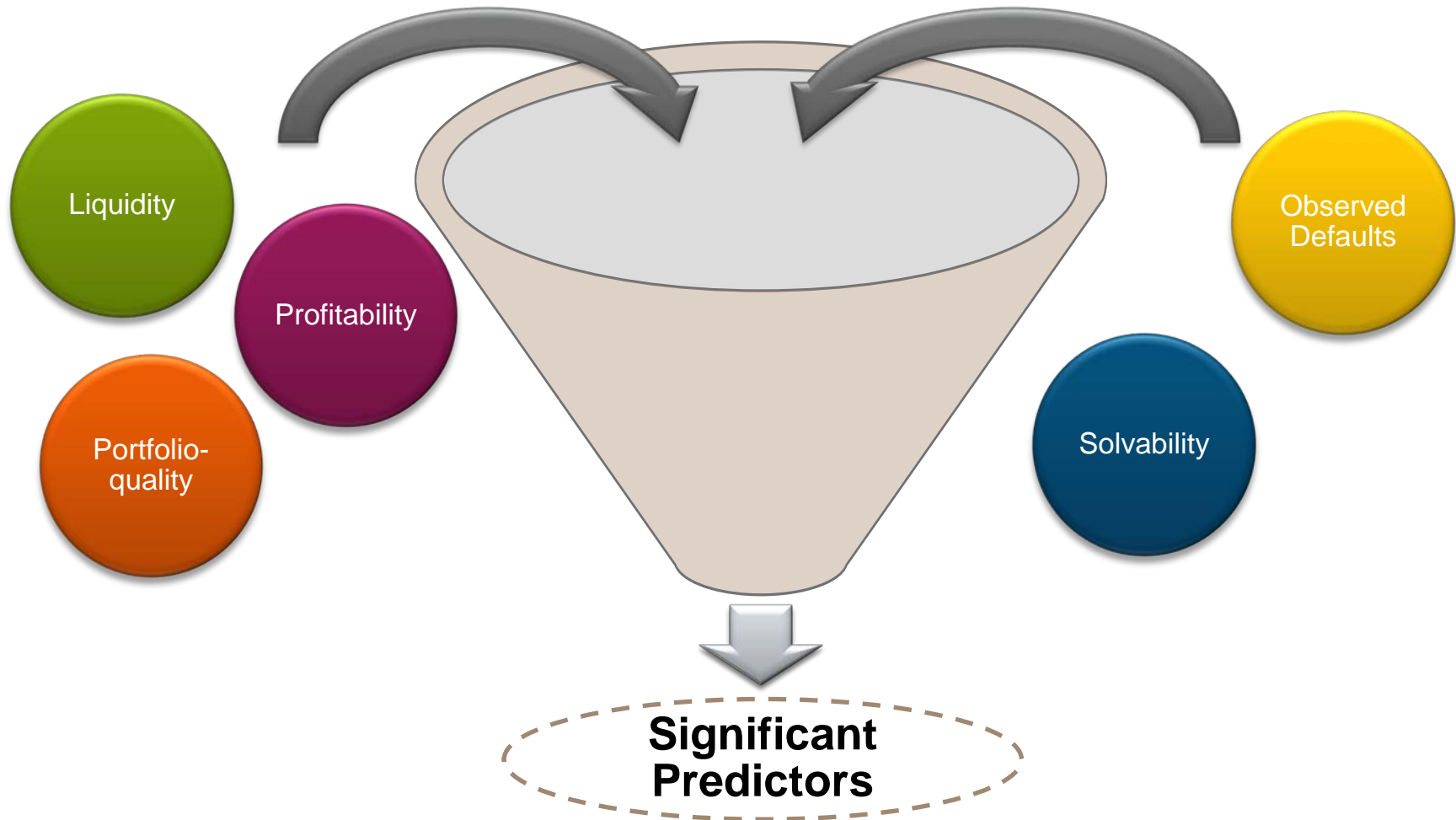
Rating

- Up-to-date credit rating
- Focus on quantitative factors

Valuation

- Consistent
- Coherent

2. Rating model – Parameterization



2. Rating model – Overruling

Rating aging

- No new data from microfinance institutions

Natural disaster

- Earthquake
- Typhoon

Political /
economical crisis

- Oil crisis
- Military intervention

Pandemic

- **COVID-19**

3. Valuation model

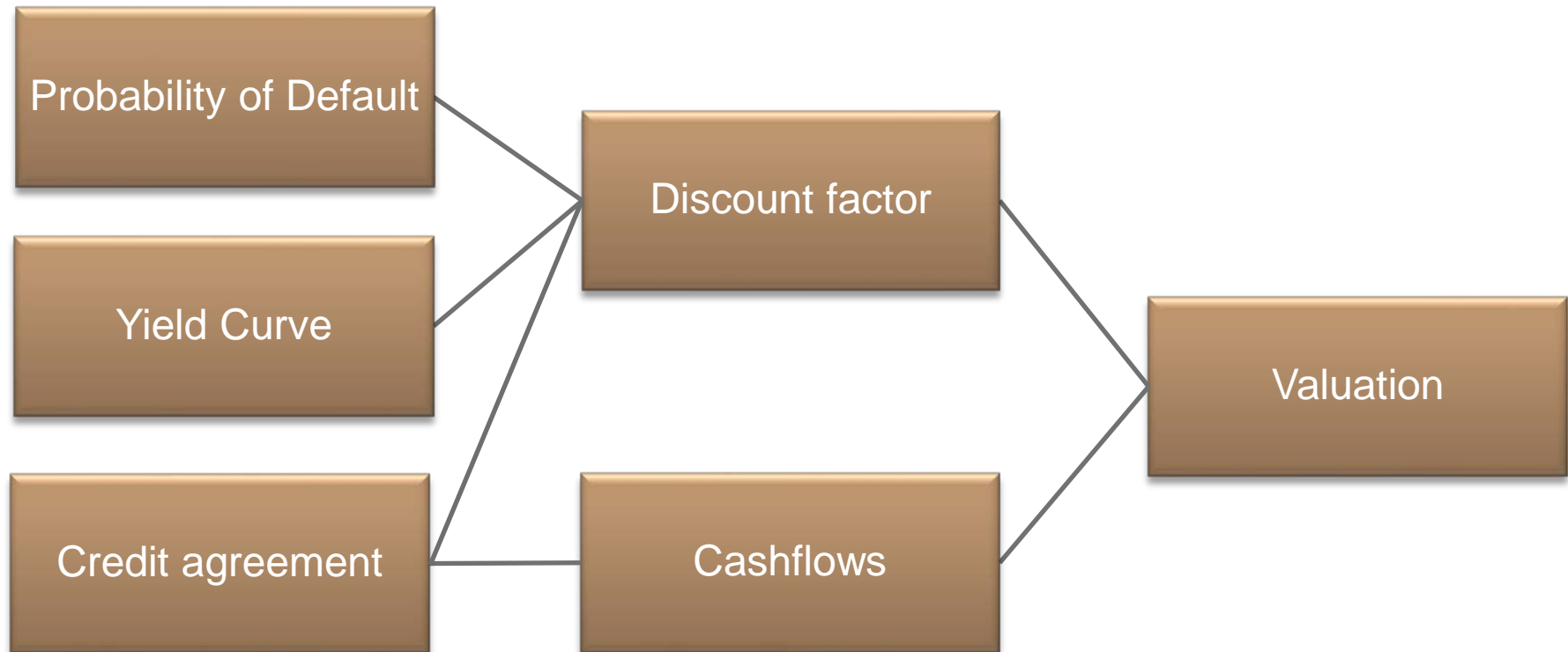
Rating

- Up-to-date credit rating
- Focus on quantitative factors

Valuation

- Consistent
- Coherent

3. Valuation model



3. Valuation- and rating model – Advantages

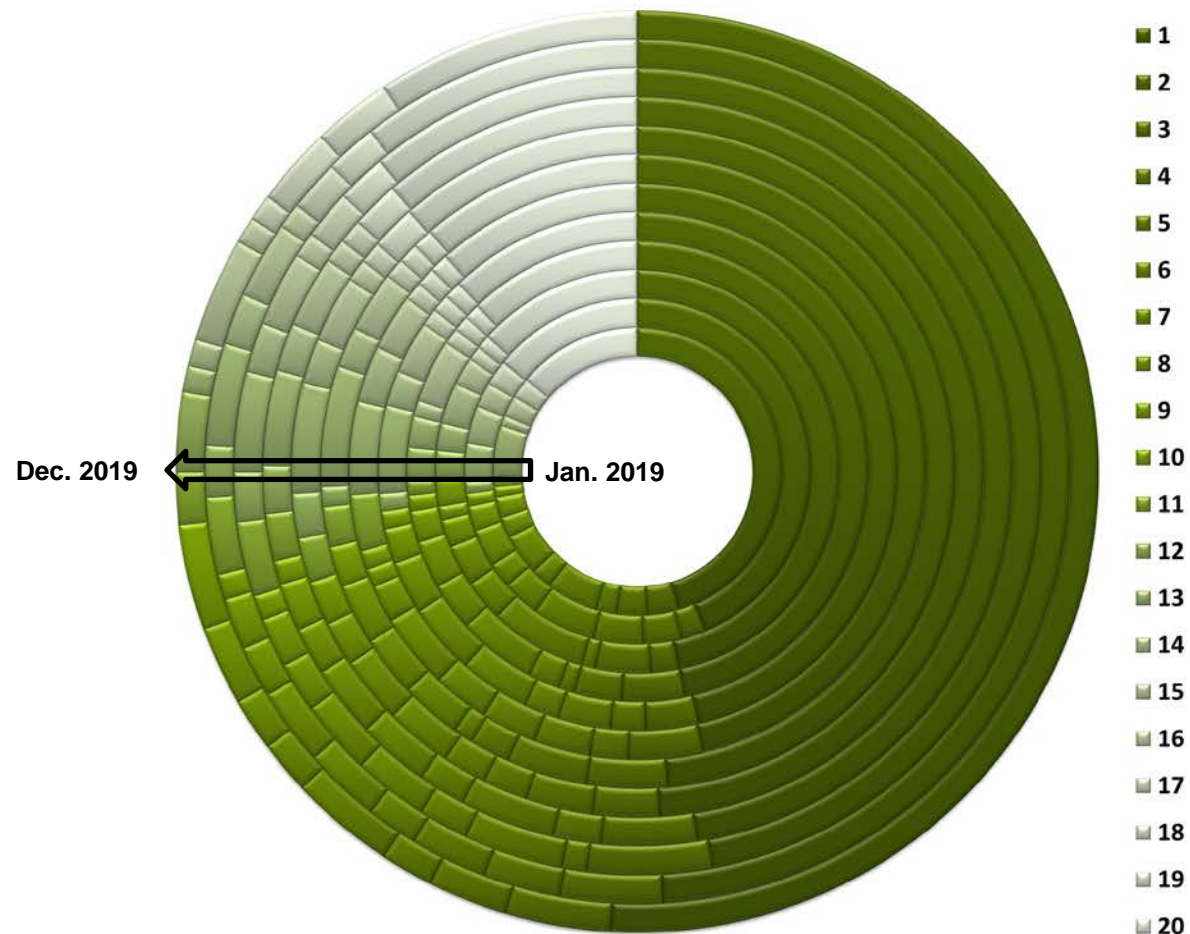
Rating

- Solely quantitative and MFI-specific rating
- Application in the risk management procedures

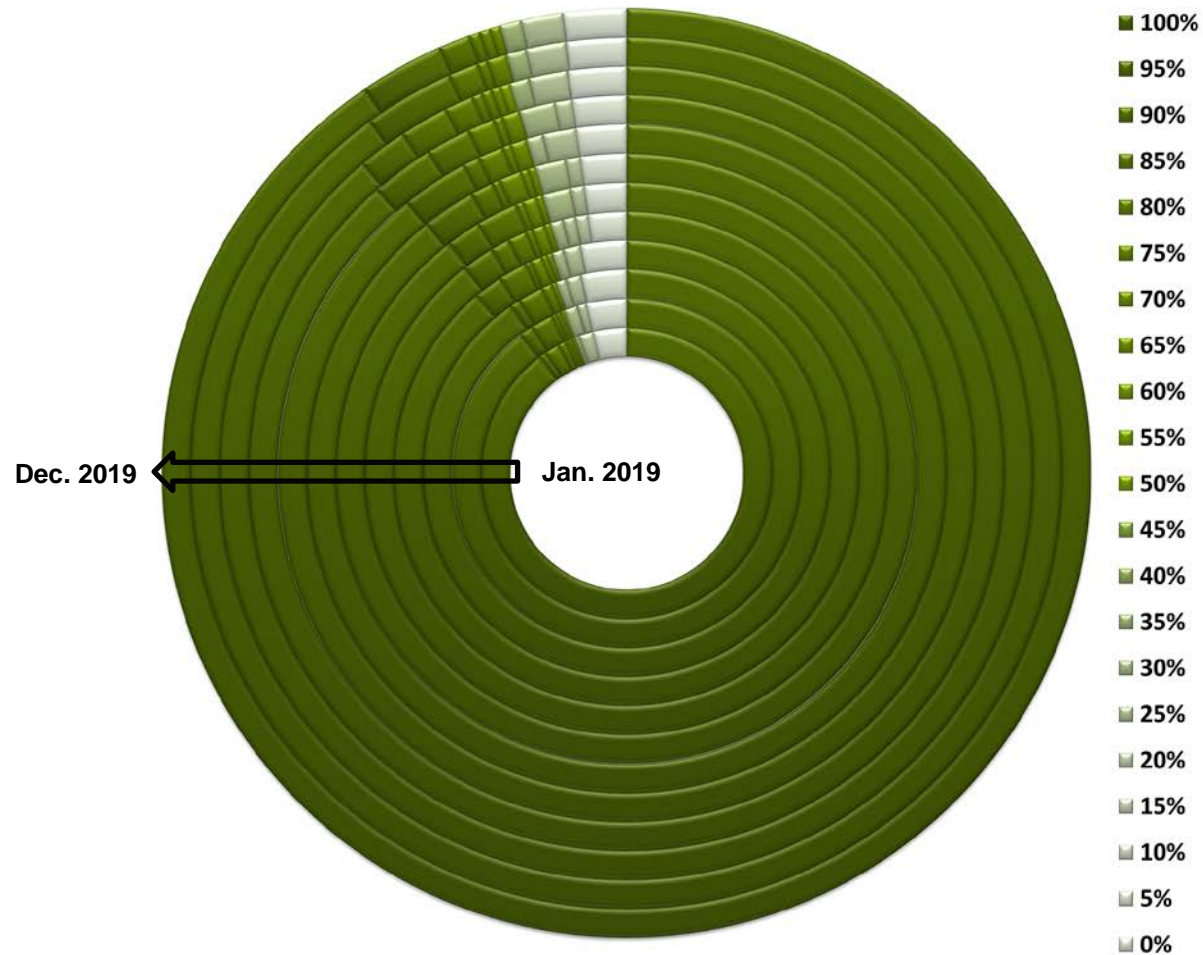
Valuation

- Valuation based on the quantitatively determined probability of default
- Granular and objective valuation

4. Results – Rating distribution



4. Results – Valuation distribution



4. Results – Rating change due to COVID

- Question: *How much does the average rating change (deteriorate) as a consequence of the COVID-19 pandemic?*

Less than two
grades

Between two and
four grades

More than four
grades

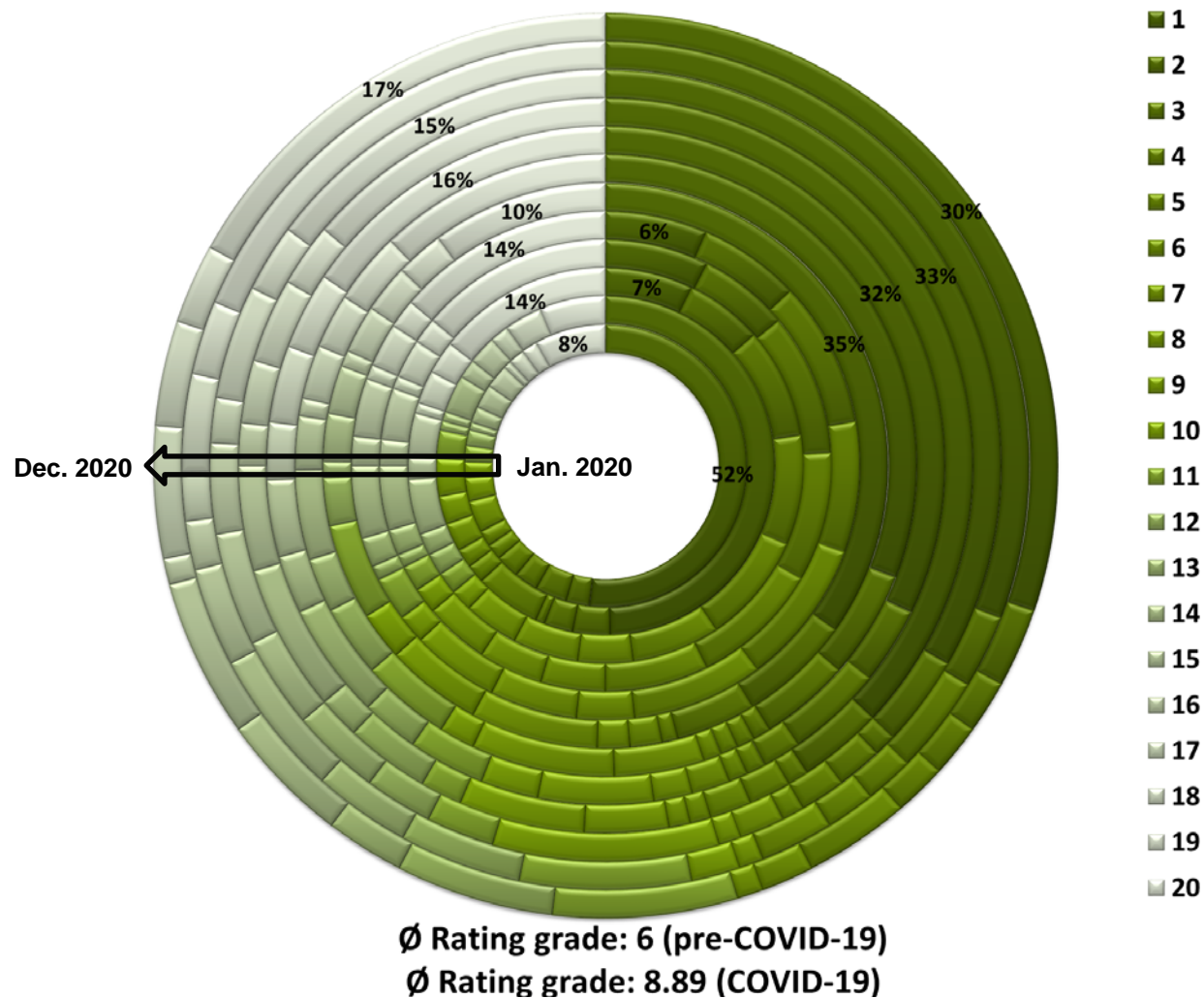
- Question: *How much does the average valuation change (worsen) as a consequence of the COVID-19 pandemic?*

Less than five
percentage points

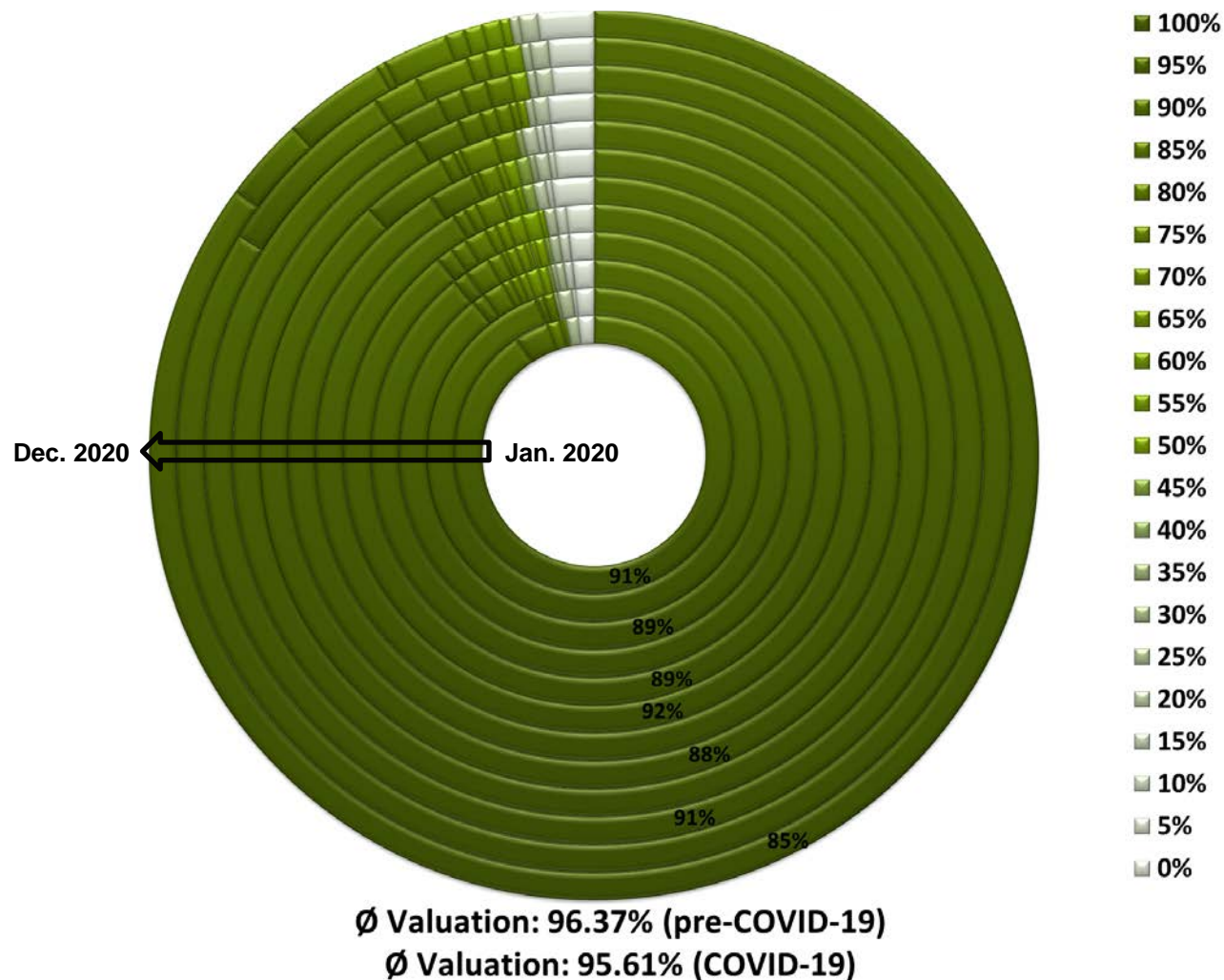
Between five and
ten percentage
points

More than ten
percentage points

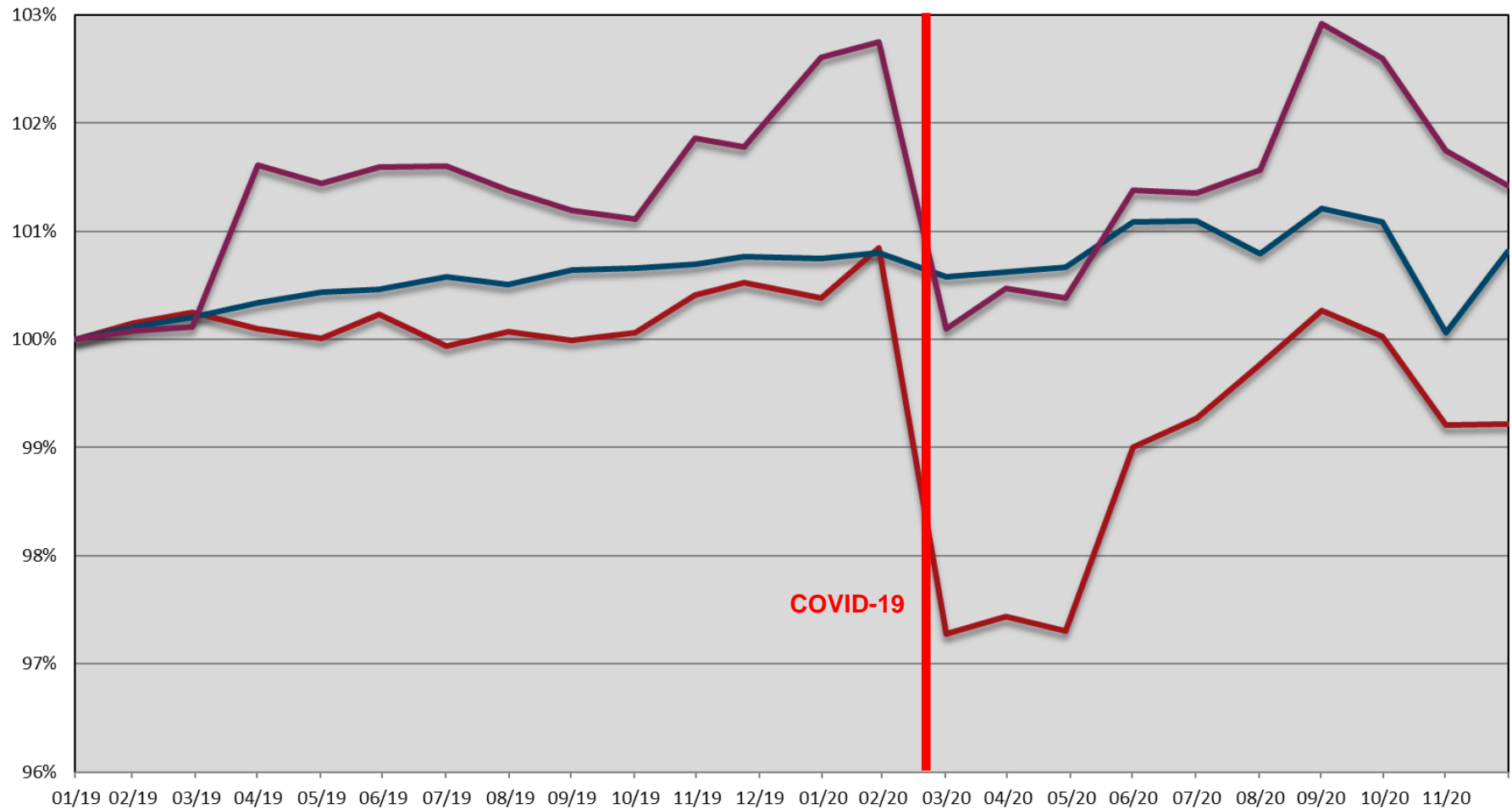
4. Results – COVID-19



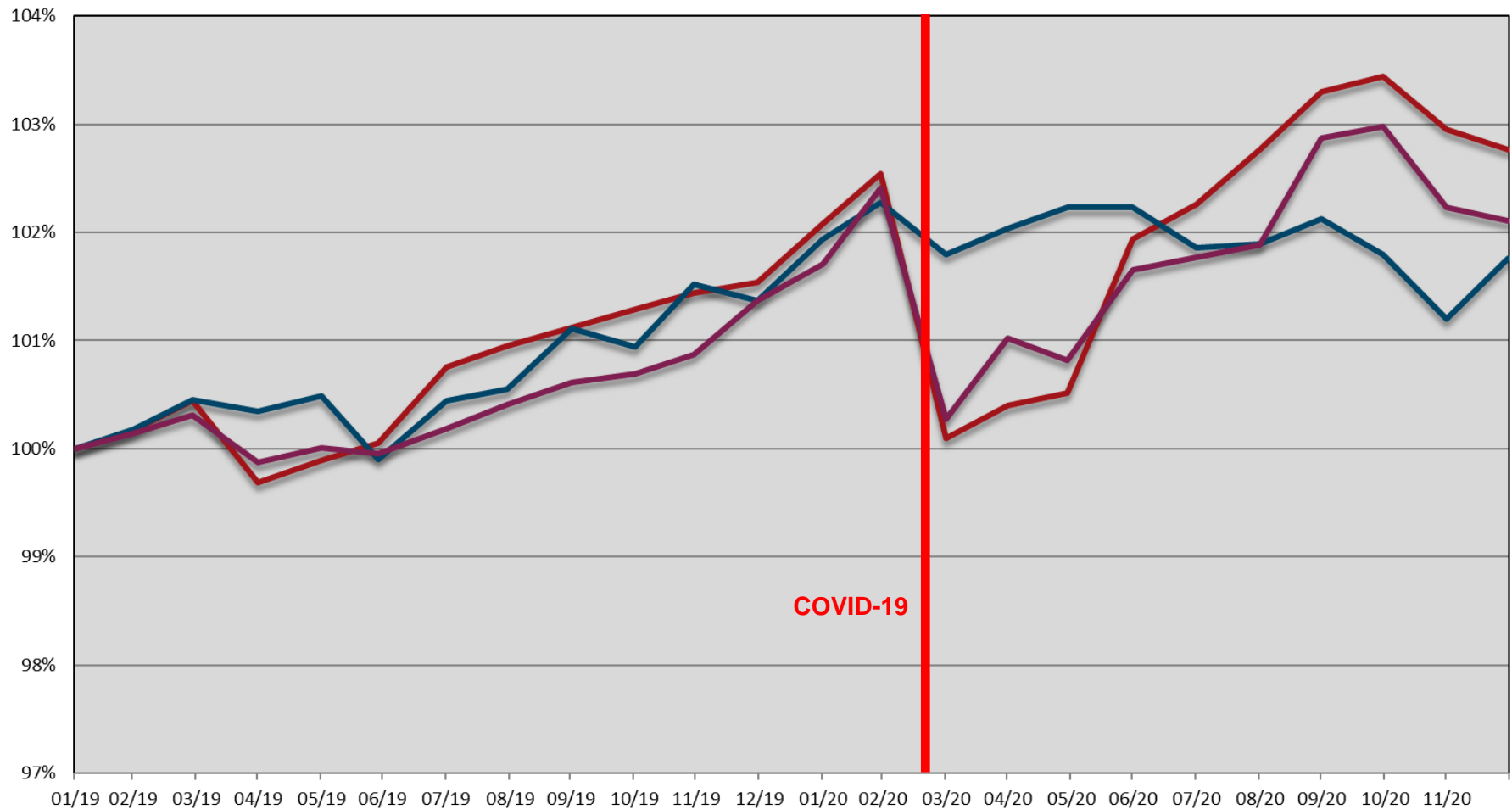
4. Results – COVID-19



4. Results – Valuation development



4. Results – NAV development



5. Fund manager perspective

Close cooperation and constant exchange of information provide added value on both directions:

 **FS** Impact Finance → **IPConcept**

- Additional Quality Checks (Factsheets);
- Early warning indicators;
- Internal rating estimation;
- Direct communication channel to the (M)FIs for ad-hoc pieces of information (e.g. COVID-moratoria and Central Banks regulations, lenders group discussions and restructuring negotiations, etc);

IPConcept →  **FS** Impact Finance

- Pre-disbursement refinancing valuation;
- Refinancing terms negotiation

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