Madura Micro Finance Limited

March 05, 2021

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term – Bank Facilities	779.29 (reduced from 950.00)	CARE BBB+ (Triple B Plus) (Credit Watch with positive implications)	Rating reaffirmed and continues on credit watch with positive implications
Non-Convertible Debenture issue-I	Nil (Reduced from 40.00)	-	withdrawn
Non-Convertible Debenture issue-II	33.00	CARE BBB+ (Triple B Plus) (Credit Watch with positive implications)	Rating reaffirmed and continues on credit watch with positive implications
Non-Convertible Debenture issue-III	40.00	CARE BBB+ (Triple B Plus) (Credit Watch with positive implications)	Rating reaffirmed and continues on credit watch with positive implications
Non-Convertible Debenture issue-IV	36.00	CARE BBB+ (Triple B Plus) (Credit Watch with positive implications)	Rating reaffirmed and continues on credit watch with positive implications
Total Facilities	**888.29 (Rs. Eight hundred and Eighty Eight crore and Twenty Nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instruments of Madura Microfinance Limited (MMFL) continues to be on credit watch with positive implications following the announcement by the Board of Directors of MMFL approving (i) the acquisition of 76.2% of the share capital of MMFL from its existing shareholders by CreditAccess Grameen Limited (CAGL) and (ii) a scheme of arrangement amongst CAGL, MMFL and their respective shareholders and creditors, providing for the amalgamation of MMFL into CAGL. The scheme is subject to regulatory and other approvals. Further, MMFL will be applying for NCLT approval post receiving the SEBI approval for the merger, post which it will be merged with CAGL. The same is expected to be completed by July 2021. CARE will follow the developments in this regard and will consider taking appropriate rating action, if warranted, in due course.

The assigned ratings continue to factor in the experienced promoters and management team, adequate loan appraisal, collection, risk management, and MIS systems. The ratings also consider comfortable capital adequacy levels and comfortable liquidity profile of MMFL as on December 31, 2020. The ratings are, however, constrained by moderately diversified resource profile, moderate profitability, moderation in the asset quality, although depicting improvement in the collection efficiency in the month of February 2021 as compared to April 2020.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in profitability on sustainable basis
- Scaling up of operations while maintaining asset quality with GNPA below 1% on a sustained basis
- Maintain adequate capitalization while maintaining net adjusted gearing at less than 3 times on a sustained basis
- Growth in loan book with geographical diversification of operations

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant increase in GNPA going forward and/or deterioration in collection efficiency on a sustained basis
- Increase in overall gearing levels beyond 6 times.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and management team

Madura Micro Finance Limited was founded by Dr K. M. Thiagarajan, who was the former Chairman and CEO of Bank of Madura. The company is currently headed by Dr Tara Thiagarajan, who is the Managing Director having total experience of more than 20 years with more than 10 years in the MFI sector. The Board of MMFL comprises of eight directors, out of which 3 are independent directors, with extensive experience in banking and microfinance operations. The company has strengthened the senior management team by recruiting experienced professionals to look after various departments like Credit, Risk & Legal, HR, Business Development, etc. The operations are headed by Mr Narayanan M, CEO, who has about 25 years of experience in banking & financial services and 10 years in the microfinance industry.

Adequate loan appraisal and collection system

MMFL operates under the SHG lending model in which the group is formed and undergoes Basic Awareness Training (BAT) regarding loan process, product details, group formation and group liability. MMFL's field officers, who are provided with tabs, complete the loan application process, and submit the documentation to the branch manager along with KYC details. The Branch Manager then meets the group in the center meeting to assess its integrity and repayment capacity. All the relevant documents including KYC and details of each group member are sent to the Head Office. The credit bureau check is done at the HO by centralized credit team. After verifying all the details, loan is sanctioned. The loans are disbursed to individual bank accounts through cheques/NEFT. Every borrower is given with the repayment schedule indicating the due dates and the passbook for the loan account. The portfolio is monitored on an on-going basis by post disbursement verification of the purpose of loan taken. The repayment happens on a monthly basis in the branches by the group members. At the end of each day, the collected amount is deposited into the designated bank branch and updated in the system. This facilitates in generation of the reports the same day and assists in reconciliation.

Risk management systems & MIS

The Risk and legal team handles four functions, namely, Collections, Internal audit, Risk management and Legal. The internal audit team visits the branches every quarter and submits the report to the Board. At present, the company uses in-house software for loan origination and processing, member acquisition and group formation and collections. The company has implemented systems in which the data are stored in cloud storage technology and all the branch related data can be accessed from HO. System-generated reports containing demand and collection reports, pending payments reports, etc., will be sent to all the branches daily. The system would be able to generate various reports like PAR report, disbursement report, cash, status, audit report, etc. Selection of new branches is done after a detailed analytical study on the geography.

Established track record and expansion into newer geographies

MMFL has an established track record of more than a decade of operations. In FY20 MMFL was able to expand its presence in 21 new districts, leading to an addition of 107 new branches. Despite such robust branch expansion, MMFL reported a moderate growth in AUM of around 8% in FY20 compared to 65% growth in FY19, partly on account of expansion being made in the later part of the year and the impact of Covid-19. The AUM as on March 31, 2020 stood at Rs.2,110 crore as compared to Rs.1,957 crore as on 31st March 2019. MMFL currently has member base of 12,15,315 (P.Y.: 9,56,712).

Comfortable capitalization profile

MMFL has adequate levels of capitalization well above the regulatory requirements of 15%. Total CAR and Tier I CAR stood at 23.01% (PY: 19.45%) and 19.53% (PY: 16.63%) respectively as on March 31, 2020. As on 30th September 2020, it had CAR of around 25% supported by internal accruals. Overall gearing was around 4.41x times as on March 31, 2020 and 3.96x as on September 30, 2020, as against 5.56x as on March 31, 2019.

Key Rating Weaknesses

Resource profile concentrated on term loans from banks

As on March 31, 2020, MMFL had relationship with around 33 lenders including 20 Banks. However, majority of the borrowing is concentrated in term loans. As on March 31, 2020 the total borrowings comprised of Term loans (82.87%), NCDs (8.03%), Sub Debt (4.38%) and borrowings under securitization constituting 4.72% total borrowings.

Moderate profitability profile during FY20 and continued in H1FY21

During FY20, MMFL reported reduction in ROTA to 3.81% as compared to 5.22% in FY19 due to the weakening in the operating efficiency on account of robust branch expansion, combined with the reduction in the portfolio growth rate, and the increase in credit costs impacted the profitability metrics. Further, the profitability moderated in H1FY21 with ROTA declined to 1.70% as compared to 3.50% in H1FY20 majorly on account of the increase in the credit cost. The profitability is likely to moderate going further on account of the potential high credit costs in the wake of Covid-19.

Moderate asset quality indicators due to the impact of Covid 19, albeit an improvement in collection efficiency:

MMFLs collection efficiency, as cited by the management, improved from 2% in the month of April'20 to around 90% in the month of February'21, as compared to the pre covid levels of 98.5% collection efficiency. Despite the significant improvement in the collection efficiency, MMFL reported deterioration in the gross NPA and Net NPA, as on March 31, 2020, to 1.60% and 0.59% respectively, as compared to 0.91% and 0.36% as on March 31, 2019. However the same improved as on September 30, 2020 to 1.21% and 0.25% respectively, majorly on account of stay on NPA recognition as per the Hon'ble Supreme Court of India's order. Going forward the improvement in the collection efficiency and the asset quality metrics would remain key monitorable.

Liquidity: Adequate

As on December 31, 2020, MMFL had cash and balance with banks to the tune of Rs.238 crore. Further, MMFL had contracted inflows from advances (including interest) to the tune of Rs.1,463 crore upto next 1 year against contracted debt repayment (Including interest expense) to the tune of Rs.1,260 crore upto next 1 year, depicting adequate liquidity to satisfy the debt obligations for the next 1 year. Further, MMFL's ALM profile remains adequate on account of short term nature of its loan assets, as most of the loans amortize on a monthly basis with a maximum tenure of up to 2 years. The funding profile is concentrated towards long term funds and the trend is expected to continue resulting in comfortable liquidity profile. As per ALM profile as on December 31, 2020, there were no negative cumulative mismatches in any of the time buckets.

Analytical approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings]
[Criteria on assigning Outlook and Credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial Ratios-Financial Sector]
[CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)]

About the Company

Madura Micro Finance Limited (MMFL) is a Non Deposit taking Non-Banking Finance Company (NBFC-ND) established in September 2005 and started operations in early 2006. The company got NBFC-MFI license in December 2013. The lending model has its origins at the former Bank of Madura where beginning in 1995. The late Dr K. M. Thiagarajan who was the Chairman and CEO, experimented with a new model of SHG training and lending as a means to create a sustainable profit-based model of rural lending. In 2001, Bank of Madura merged with ICICI Bank. Subsequently Dr K. M. Thiagarajan started rural lending through Micro Credit Foundation of India in 2003 and later started MMFL in 2005. Currently, Dr Tara Thiagarajan is the Chairman and Managing Director of the company. Further, in December'2019, the Board of Directors of MMFL approved the acquisition of 76.2% stake in MMFL from its existing shareholders by Credit Access Grameen Limited (CAGL) and a scheme of arrangement amongst CAGL, MMFL and their respective shareholders and creditors, providing for the amalgamation of MMFL into CAGL. The said stake was acquired by Credit Access Grameen Ltd (CAGL) in March 2020. MMFL will be applying to NCLT post receiving the SEBI approval for the merger and on approval will be merged with CAGL. The same is expected to be completed by June or July' 2021.

As on March 31, 2020, the company operates in 95 districts with 464 branches having member base of 12,15,315.

MMFL is engaged in the activity of extending loans to economically backward women through Women Self Help Groups for income generation purposes. The main objective of the company is to assist the poor women for their upliftment, promoting entrepreneurship and providing micro credit/finance in different loan cycles at reasonable rates of interest.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	378	468
PAT	86	80
Interest coverage (times)	1.82	1.55
Total Assets*	2,060	2,135
Net NPA (%)	0.36	0.59
ROTA (%)	5.15	3.81

*A: Audited, *Total Assets adjusted for Deferred Tax assets (Net) and Intangible assets.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	779.29	CARE BBB+ (CWP)
Debentures-Non Convertible Debentures	August 01, 2017	11.50%	July 2020	0.00	-
Debentures-Non Convertible Debentures	December 06, 2017	11.40	December 2020	33.00	CARE BBB+ (CWP)
Debentures-Non Convertible Debentures	August 27, 2018	11.27%	Upto 28 months	40.00	CARE BBB+ (CWP)
Debentures-Non Convertible Debentures	October 29, 2019	11.00%	May 2023	36.00	CARE BBB+ (CWP)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	779.29	CARE BBB+ (CWP)	1)CARE BBB+ (CWP) (07-Apr-20)	1)CARE BBB+ (CWP) (06-Dec-19)	1)CARE BBB+; Positive (04-Mar-19) 2)CARE BBB+; Positive (03-Oct-18) 3)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Stable (05-Dec-17) 2)CARE BBB+; Stable (04-May-17)
2.	Debentures-Non Convertible Debentures	LT	0.00	-	-	1)CARE BBB+ (CWP)	1)CARE BBB+; Positive (03-Oct-18)	1)CARE BBB+; Stable

						(06-Dec-19)		(05-Dec-17) 2)CARE BBB+; Stable (02-Aug-17)
3.	Debentures-Non Convertible Debentures	LT	33.00	CARE BBB+ (CWP)	-	1)CARE BBB+ (CWP) (06-Dec-19)	1)CARE BBB+; Positive (03-Oct-18)	1)CARE BBB+; Stable (05-Dec-17)
4.	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+ (CWP)	-	1)CARE BBB+ (CWP) (06-Dec-19)	1)CARE BBB+; Positive (03-Oct-18) 2)CARE BBB+; Stable (29-Aug-18)	-
5.	Debentures-Non Convertible Debentures	LT	36.00	CARE BBB+ (CWP)	-	1)CARE BBB+ (CWP) (06-Dec-19) 2)CARE BBB+; Positive (30-Oct-19)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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