Midland Microfin Limited

February 10, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	210.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**210.00 (Rs. Two Hundred Ten Crore Only)**		
Long Term Long Term Instruments	20.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Non Convertible Debentures	11.89	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Non Convertible Debentures	50.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**81.89 (Rs. Eighty-One Crore and Eighty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of Midland Microfin Limited (MML) derives strength from the company's established track record, adequate loan origination and portfolio management systems in place along with healthy asset quality metrics. The rating is also supported by moderately diversified resource base, adequate liquidity position and improving gearing levels. However, the ratings are constrained by inching up of softer delinquencies, pressure on profitability due to rise in credit cost, high albeit reducing geographical concentration of operations, and inherent risks involved in the microfinance industry including unsecured lending, marginal profile of borrowers, socio-political intervention risk and regulatory uncertainty.

Rating Sensitivities

Going forward the ability of the company to sustainably grow its loan book while maintaining profitability and asset quality metrics would be key rating sensitivities. Also, the ability of the company to maintain low gearing level, raise equity capital to fund the planned growth and further diversification of portfolio would be key monitorable.

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

- Sustainable growth with GNPA being maintained below 1.5% on continued basis
- Improvement in geographical diversification with reduction in top state concentration
- Maintaining healthy capitalization levels well above the regulatory requirements

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

- Weakness in capitalization profile of MML with gearing rising above 8 times
- Significant deterioration in the asset quality and consequently profitability profile of the Company

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: The promoters of MML belong to the Midland group of Punjab engaged into asset finance and lending business. The management of MML is headed by Mr Amardeep Samra, Promoter and Managing Director, who has extensive experience of more than two decades in the field of finance, hire-purchase, leasing, commercial real estate development and management of Agri based co-operative societies. The overall operations of MML are governed by the Board of 7 members that comprises of three independent directors, one nominee director, one non-executive non-independent director and two promoter directors. MML has formed different board committees for technically review and formulation of policies and procedure for the working of the MFI including audit committee, risk management committee, board management committee, Asset Liability committee etc. MML has created separate departments with clearly demarcated roles and responsibilities for handling different functions. The promoters of MML belong to the family which is also the promoter of the 'Capital Small Finance Bank', based out of Punjab.

Adequate track record of operations with healthy growth in loan book in past: MML has an established track record and has been carrying out microfinance lending activities since January 2011 and is one of the medium sized NBFC-MFI in the country. MML's portfolio grew 42.3% y-o-y in FY20 to Rs 778.5 crore. Growth in FY21 was relatively moderate at 3.0% y-o-y to Rs 801.5 crore, due to difficult macroeconomic environment, however, it rebounded in 9MFY22 with y-t-d growth of 13.1%, as on December 31, 2021. The portfolio is expected to cross Rs 1,200 crore level by FY22 end.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

MML has widespread branch network with 260 branches present across 129 districts of 11 states (viz. Punjab, Rajasthan, Haryana, UP, Bihar, Jharkhand, and Himachal Pradesh) and 1 Union Territory ending December 31, 2021. The company had client base of 4.69 lakhs borrowers as on Dec 2021 with average ticket size of Rs 18,751.

Adequate loan origination, appraisal & portfolio management systems in place: MML has adequate internal controls and procedures regarding origination, appraisal, and portfolio management for its current scale of operations. MML also has a separate internal audit team conducting audit of the centre meetings, branches, and head office at regular intervals. The MIS helps in monitoring disbursements, collection, and cash reconciliation daily along with maintaining security of data and faster access to reports for day-to-day monitoring. MML has adequate IT infrastructure and management information systems in place for monitoring of its operations.

Declining yet manageable asset quality: MML has been able to maintain good asset quality since 2011 when it started its operations. The asset quality is supported by rigorous supervision by operations team and regular checks and controls of finance and internal audit department. Impacted by unfavourable economic environment, the gross NPA registered uptick to 2.7% as on December 31, 2021, and 1.7% as on March 31, 2021, from 0.6% as on March 31, 2020 reflecting pressure on asset quality. The softer delinquencies are also high with 0+DPD and 60+DPD at 12.7% and 6.9% as on December 31, 2021, but lower than peak of 41.4% and 12.7%, respectively, witnessed during FY21. Overall, the asset quality of MML remains a key monitorable, given the fact that it caters to a customer segment with an inherently weaker credit profile and those who are more susceptible to economic vulnerabilities and socio-political risks, if any.

Diversified Resource Profile: MML has banking relations with more than 30 banks/FIs and has availed term loan which forms the major (80.5%) source of total borrowing end December-2021, remaining being NCDs and preference shares. MML has raised fund from organization like NABARD & SIDBI which form 14.2% of total borrowing. The company has also made securitization transaction to access funds with its securitized portfolio standing at Rs 106 crores (12% of AUM, IGAAP) as on December 31, 2021.

Key Rating Weaknesses

Relatively high gearing levels albeit improved with recent equity infusion: x The adjusted gearing improved to 4.4x as on December 31, 2021 from 5.2x as on March 2021 driven by equity infusion of Rs 74.4 crore in September 2021z it still remains high relative to similar rated peers. Further, the improvement is expected to moderate driven by debt funded portfolio growth expected over the medium term. Capital adequacy ratio (CAR) remains adequate at 43% as on December 31, 2021.

Moderate earnings level constrained by increase in credit cost: ROTA declined to 1.4% in FY21 from 2.1% in FY20, which again further declined to 1.0% in 9MFY22. The decline is profitability is primarily because of increase in credit costs caused by higher provisioning against increased delinquencies during the period. Profitability profile also got impacted by decline in net interest margin during the period. Operating expense to average total assets remains high at 5.3% in FY21, albeit improved from 6.3% in FY20. The Company's ability to maintain credit costs, while growing the portfolio, will be key monitorable factor for the rating.

Geographical concentration of portfolio; albeit reducing: On an overall basis, the company is operating in 129 districts of 11 states & 1 union territory through a network of 253 branches end September 30, 2021. Bihar and Punjab are key areas of operations for the company, contributing 31% and 25% of portfolio as of December 31, 2021. This is followed by Uttar Pradesh (14%), Rajasthan (12%), Jharkhand (7%), Haryana (6%) and rest in Gujarat, Madhya Pradesh, Himachal Pradesh, West Bengal and Uttarakhand. Top two states concentration has reduced to 56% as on December 31, 2021, from 66% as on March 31 2021. Top 2 states concentration to tangible net worth remain high at 202% as on December 31, 2021.

Inherent industry risks: The microfinance sector continues to be impacted by the inherent risk involved viz. socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending and marginal profile of borrowers who are vulnerable to economic downturns besides operational risks related to cash based transaction.

Liquidity: Adequate

The company has a favourable liquidity position given the longer tenure borrowings repayable over 2-10 years as against shorter tenure of MFI loans of up to 2 years as also reflected by a well matched ALM as on September 30, 2020. Company's expected inflows in up to one-year bucket were 3 times of expected outflows. The company always maintains sufficient liquidity buffer to meet its immediate disbursement requirements and any emergent payments. The company has unencumbered liquid asset of ~RS306 crore as of December 2021.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Rating Methodology – Non-Banking Finance Companies (NBFCs)

About the Company

Midland Microfin Ltd (MML) was originally incorporated as 'Sajan Hire Purchase Pvt Ltd (SHPPL)' on May 28, 1988. SHPPL was engaged in hire purchase business. In June 2010, the Midland group of Punjab promoted by Mr. Amardeep Samra and family acquired SHPPL with the aim of venturing into the microfinance business and the name of the company was changed to Midland Microfin Limited in January 2011. The hire purchase business was also discontinued at the same time. MML is registered with RBI as a NBFC-MFI (Non-Banking Financial Company-Microfinance Institute) since January 2015.

MML is currently operating in eleven states (i.e.) Punjab, Rajasthan, Haryana, Bihar, Uttar Pradesh, Jharkhand, West Bengal, Uttarakhand, Madhya Pradesh, Gujarat and Himachal Pradesh). The operations are managed through a network of 253 branches across 129 districts with more than 4.65 Lac active JLG borrowers as on September 30, 2021. The AUM (IGAAP) was Rs 904 crores (including securitized pool of Rs 106 crores) ending December 31, 2021 and was Rs 799 crore (including securitized pool of Rs. 35 crore) as on March 31, 2021.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	6MFY22 (UA)
Total operating income	184.15	192.34	103.30
PAT	18.73	14.63	10.13
Interest coverage (times)	1.25	1.18	1.27
Total Assets	985.03	1,115.11	1257.69
Net NPA (%)	0.05	0.35	0.41
ROTA (%)	2.12	1.39	1.61

A: Audited; UA: Un-audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	210.00	CARE BBB; Stable
Debentures-Non Convertible Debentures	INE884Q07608	November 26, 2020	11.723% (Semi-Annually)	November 26, 2023	25.00	CARE BBB; Stable
	INE884Q07616	January 18, 2021	11.628% (Semi-Annually)	January 18, 2024	25.00	
Debt-Non-convertible Debenture/Subordinate Debt	INE884Q07624	March 23, 2021	13.00%	30-09-2022	20.00	CARE BBB; Stable
Debentures-Non Convertible Debentures	INE884Q07038	July 04, 2014	11.50-11.75 %	Jan 04, 2024	11.89	CARE BBB; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT	11.89	CARE BBB; Stable	-	1)CARE BBB; Stable (30-Mar-21) 2)CARE BBB; Stable (11-Feb-21)	1)CARE BBB; Stable (27-Mar-20)	1)CARE BBB; Stable (28-Nov-18)
2	Fund-based - LT-Term Loan	LT	210.00	CARE BBB; Stable	-	1)CARE BBB; Stable (11-Feb-21)	1)CARE BBB; Stable (27-Mar-20)	1)CARE BBB; Stable (28-Nov-18)
3	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Stable	-	1)CARE BBB; Stable (11-Feb-21) 2)CARE BBB; Stable (06-Nov-20)	-	-
4	Debt-Non-convertible Debenture/Subordinate Debt	LT	20.00	CARE BBB; Stable	-	1)CARE BBB; Stable (19-Mar-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument			Detailed explanation
A. Financial covenants			
GNPA < 6.6%	Gearing < 5x	ROTA > 0%	Not available
Portfolio at risk < 2.5%	Solvency ratio > 16%	Exposure to single entity < 10%	
Off-balance sheet portfolio / Gross loan portfolio < 40%	Off-balance sheet portfolio / asset of < 30%	CAR > 20% Tier-1 capital > 15%	
NNPA < 1.5%	Write-off < 3%	30+dpd < 3%	
90+dpd / tangible net worth <2%	Positive profit after tax		
B. Non financial covenants			Not available
Mergers, acquisitions, investment in associates, JVs and subsidiaries including disposal of any of the above			
Any change in stake of Mr. Amardeep Singh Samra from the urrent stake of 5.62% -			
Any dilution of control over Board composition, other than appointment of independent directors			
Mr. Amadeep Singh Samra ceases to remain as the Managing Director of the company			

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non-Convertible Debentures	Simple
2	Debt-Non-convertible Debenture/Subordinate Debt	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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