Midland Microfin Limited

March 19, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	20.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Total Long Term Instruments	**20.00 (Rs. Twenty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned for the non-convertible debentures of Midland Microfin Limited (MML) derives strength from the rich experience of the promoters / promoter group being present in lending business for over 50 years, good loan origination / appraisal and portfolio management systems in place, healthy asset quality over the years with a track record of around a decade in microfinance operations. The ratings also factor in improved profitability metrics during FY20 and 9MFY21 on account of healthy growth in loan with assets under management (AUM) reported to Rs.778 crores end March 31, 2020 and Rs. 738 crore end December 31, 2020 with moderately diversified resource base, adequate liquidity position and improving gearing levels. However, the ratings are constrained by high albeit reducing geographical concentration of operations, inching up of softer delinquencies 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 scale up its loan book while maintaining profitability and healthy asset quality coupled with company's ability to maintain healthy liquidity would be key rating sensitivities. Also, the ability of the company to reduce gearing level, raising equity capital to fund its planned growth and further diversification of portfolio would be key aspects to monitor.

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

- Improvement in geographical diversification with reduction in top state concentration
- Maintaining healthy capitalization levels well above the regulatory requirements
- Sustainable growth with GNPA coming below 1%

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

- Weakness in profitability, asset quality and/or capitalization profile of MML with gearing rising above 8 times and/or decline in asset quality
- Delay in raising equity capital

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.

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

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 2-3 years

MML has been carrying out microfinance lending activities since January 2011 and has gained considerable experience in the group lending business and is one of the medium sized NBFC-MFI in the country. MML's AUM grew to Rs.771 crores (+40% Yo-Y) as on March 31, 2020 registering a six-year compounded annual growth rate (CAGR) of 50%. As on December 31, 2020, the company's AUM stood at Rs. 738 crores, marginally down from March 2020 levels underpinned by muted business operations in first half of FY 21 due to covid-19 related disruptions. The MFI operations of the company are present in 101 districts of 7 states (viz. Punjab, Rajasthan, Haryana, UP, Bihar, Jharkhand and Himachal Pradesh) with 197 branches ending March 31, 2020. End FY 20, the company had client base of more than 3.90 lakh borrowers with average ticket size of about Rs 31,356. The company has recently ventured into retail product loans like advances for water purifier, sewing machines, solar products and mobile phones etc.

Good loan origination, appraisal & portfolio management systems in place

MML has good internal controls and procedures from group formation, loan appraisal and sanction to disbursement, and collection with checks at multiple levels to ensure transparency 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 on a daily basis 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. The overall collection efficiency (including arrears and prepayments) of MML remained healthy till August with 99%, however, in October 2020, it declined to 71% but again improved to 89% end February 2021. The current collection efficiency stood at 100% in August 2020 though declined to about 83% in October 2020 and now improved to 97% end February 2021.

End December 2020, the company's 90+dpd registered uptick to reach 1.51%, up from 0.58% end FY 20. The softer delinquencies have also sharply risen with 0+DPD of 0.67% and 30+DPD of 0.60% end March 31, 2020 that increased with 0+dpd of 35.60% and 30+ DPD of 18.93% as on December 31, 2020. Majority of the NPA is lagged as 0.54% of loan book has 90+ DPD as on March 31, 2020 and 1.51% in 90+ dpd. 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 40 banks/FIs and has availed term loan which forms the major (80.93%) source of total borrowing end September- 2020. MML has raised fund from organization like MUDRA, NABARD & SIDBI which form 16.08% of total borrowing. The company has also made securitization transaction to access funds with its securitized portfolio standing at Rs 94.60 crores (12% of AUM) as on March 31, 2020 which reduced to Rs. 34.59 crore (5% of AUM) as on December 31, 2020. MML has also raised funds through issue of long term NCDs and ECBS (around 14% of borrowing ending December -2020). The company also has long-term preference shares of Rs.39.12 crores as on March 31, 2020

Key Rating Weaknesses

Improving, albeit relatively high gearing levels though comfortable capital adequacy for current level of operations

MML's capital adequacy ratio (CAR) and Tier-I CAR stood at 24.57% and 15.87% respectively end March 31, 2020 which increased to 30.78% and 20.23% respectively as on September 30, 2020 and further increased to 32.99% and 23.53% as on December 31, 2020. With company's ability to raise equity capital to fund the planned growth, the capitalisation levels are expected to remain comfortable. Gearing levels of the company declined to 7.61 times in FY20 and further improved to 4.45 times as on December 31, 2020 driven by strong loan book growth

at CAGR of 50% for past 6 years that led to increased level of borrowings. While MML's gearing remains higher compared to its similar rated peers, some improvement was registered post the recent round of capital infusion in current fiscal with gearing coming down to 5.4 times end September 2020. As per management, the company is in process of rating equity capital of another around Rs.100 crore by end fiscal FY21, which may lead to material improvement in capitalization profile of the company and reduction in gearing levels.

Healthy earning profile despite improvement in FY19 and H1FY20

MML's earning profile improved in FY20 with PAT of Rs.18.73 crores during over total income of Rs.184.15 crores keeping PAT margins at 10.17% up from 7.44% during FY19. Increase in profits is on account of growth in loan book by 34% YOY during the period. In FY20, its profitability increased with reported NIM% of 9.16%. Reduction in opex/ATA to 5.94% in FY20 from 7.65% in FY19 and decline to 4.87% as on September 30, 2020 that has helped in reporting improved ROTA of 2.13% in FY20 up from 1.47% in FY19. MML reported PAT of Rs.9.49 crore over total income of Rs.97.86 crores as on September 30, 2020. For nine months ending December 31, 2020, the company reported PAT of Rs. 13.90 crore over total income of Rs. 145.89 crore.

Geographical concentration of portfolio; albeit reducing

On an overall basis, the company is operating in 101 districts of 7 states through a network of 197 branches end March 31, 2020. MML is Punjab based organization hence reported majority 37% portfolio in the state end December 31, 2020 followed by Bihar (32%) Rajasthan (13%) and Uttar Pradesh (8%) and rest 10% in Haryana, Jharkhand and Himachal Pradesh. Concentration in Punjab has been reducing from 45% end Mar-19 to 43% end Mar-20 and further in end Oct 2020 39%. Top State concentration to Net Worth has reduced to 285% as on March -20 and further to 208% as on September-20.

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.

Industry Outlook and Prospects

April to June 2020 quarter has been unprecedented both for microfinance lending institutions and microfinance borrowers. With lockdown impacting livelihood of clients, MFIs provided moratorium to clients as per RBI guidelines. However, the moratorium was not extended to MFIs by all lenders, which caused double squeeze. Policy support in the form of TLTRO and Special Liquidity Facility helped MFIs overcome the difficult period; small and medium MFIs bore the brunt of liquidity challenge. The period demonstrated the resilience of the sector and its ability to adapt to changing situation by way of remote back-end operations, increased use of digital methods for spreading client awareness on COVID protocols and moratorium as well as repayments. Green shoots are evident in the sector as clients seek to start credit cycle to rebuild their livelihoods and funders and investors maintaining their support. With translation of policy intent to actual liquidity flow to even small and medium MFIs, it is hoped that by the year end, the repayment and disbursement cycle will inch towards pre COVID times. MFIN also reported that MFI in total holds the largest share of the portfolio in micro-credit with a total loan outstanding of Rs 92,675 crore which is around 40.7% of total micro-credit. NBFC-MFIs are the second largest provider of micro-credit with a loan amount outstanding of Rs 70,819 crore, accounting for 31.1% to total industry portfolio. (Source: MFIN)

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 1.7 times of expected outflows. The company maintains sufficient liquidity buffer at all times to meet its immediate disbursement requirements and any emergent payments. The company has cash and bank balance of Rs. 6.09 crore with unutilised credit of Rs. 10 crore as on February 28, 2021. Additionally, the company had unencumbered investments/FD of Rs 187.8 crore as on date

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
Financial Ratios- Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
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 seven states (i.e. Punjab, Rajasthan, Haryana, Bihar, Uttar Pradesh, Jharkhand and Himachal Pradesh). The operations are managed through a network of 197 branches across 101 districts with more than 3.91 Lac active JLG borrowers with AUM of Rs.777.71 crores (including securitized pool of Rs.94.60 crores) ending March 31, 2020 and AUM of Rs. 764.91 crore (including securitized pool of Rs. 34.59 crore) as on December 31, 2020 .

Brief Financials (Rs. crore)	FY19 (A)*	FY19 (A)#	FY20 (A)#
Total income	113.3	115.89	184.35
PAT	10.5	8.65	18.73
Total Assets	745.1	778.28	985.03
Assets under Management	549.1	547.24	777.71
Net NPA (%)	Nil	0.04	0.01
ROTA (%)	1.85	1.47	2.13

A: Audited
**: IGAAP*
#: INDAS
Note: Ratios are computed based on average of annual opening and closing balances

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
Debt-Non-convertible Debenture	March 23, 2021	13.00%	30-09-2022	20.00	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 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.	Debentures-Non Convertible Debentures	LT	25.00	CARE BBB; Stable	1)CARE BBB; Stable (11-Feb-21)	1)CARE BBB; Stable (27-Mar-20)	1)CARE BBB; Stable (28-Nov-18)	1)CARE BBB; Stable (05-Sep-17)
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)	1)CARE BBB; Stable (05-Jan-18) 2)CARE BBB; Stable (05-Sep-17)
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	LT	20.00	CARE BBB; Stable	-	-	-	-

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Debt-Non-convertible Debenture	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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