Midland Microfin Limited

December 20, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating	Rating Action
Long-term bank facilities	310.00	CARE BBB; Positive (Triple B; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total bank facilities	**310.00 (₹ Three hundred ten crore only)**		
Non-convertible debentures	34.00	CARE BBB; Positive (Triple B; Outlook: Positive)	Assigned
Non-convertible debentures	8.03 (Reduced from 11.89)	CARE BBB; Positive (Triple B; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	50.00	CARE BBB; Positive (Triple B; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total long-term instruments	**92.03 (₹ Ninety-two crore and three lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings of Midland Microfin Limited (MML) derive strength from the Company's established track record and the healthy asset quality over the years. The ratings are also supported by the moderately diversified resource base, adequate liquidity position.

However, the ratings are constrained by the high albeit reducing geographical concentration of operations, inching up of softer delinquencies, relatively high gearing levels, moderate profitability profile, and inherent risks involved in the microfinance industry including unsecured lending, the marginal profile of borrowers, socio-political intervention risk, and regulatory uncertainty.

Rating sensitivities

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

- Sustainable growth while maintaining asset quality
- Improvement in geographical diversification with a reduction in the top state concentration.
- Maintaining healthy capitalization levels with gearing below 5x

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

- Weakness in the capitalisation profile of MML with gearing rising above 8x.
- Significant deterioration in the asset quality, and consequently, profitability profile of the company.

Outlook: Positive

The revision in the outlook from 'Stable' to 'Positive' for the long-term instruments of MML factors in the consistent improvement in the company's financial metrics along with the expected improvement in its scale of operations. MML is also expecting an equity infusion upto ₹200 crore in the next six months, which will provide it much needed capital to fund future growth. The outlook may be revised back to 'Stable' in case there is a moderation in the asset quality and overall financial profile.

Detailed description of the key rating drivers

Key rating strengths

Adequate track record of operations with healthy growth in the loan book in the 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 non-banking financial company-microfinance institutions (NBFC-MFIs) in the country. MML's portfolio grew by 42% y-o-y in FY22 to ₹1,138 crore. Furthermore, it has grown to ₹1,654 crore, up by 45% in H1 FY2023.

MML has a widespread branch network, with 316 branches present across 11 states – Punjab, Rajasthan, Haryana, Uttar Pradesh, Bihar, Jharkhand, Himachal Pradesh, Gujarat, Madhya Pradesh, Uttarakhand, West Bengal, and one Union Territory – Chandigarh, as on September 30, 2022. The company had a client base of 6.12 lakh borrowers as on September 30, 2022, with an average ticket size of ₹35,000.

Adequate loan origination, appraisal, and 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 audits 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 the 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 its operations.

Healthy asset quality metrics: MML has been able to keep asset quality under control since 2011 when it commenced its operations. Impacted by the unfavourable economic environment, the GNPA registered an uptick to 2.97% as on September 30, 2022, and 3.07% as on March 31, 2022, from 1.69% as on March 31, 2021, however remained comfortable. The softer delinquencies also increased with 0+DPD and 60+DPD at 7.72% and 5.17%, respectively, as on September 30, 2022, as compared to 5.82% and 4.02% respectively, during the year ending March 31, 2022. Restructured portfolio also stood small at 0.9% of gross loans.

CARE notes that the company's loan book has expanded rapidly over the past two years with sizable disbursements of ₹1,338 crore in FY22 and ₹1,054 crore in H1FY23 and going forward its ability to maintain asset quality metrics remain key monitorable. Also, the Company 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 and financial institutions (FIs) and has availed term loans, which form the major (82%) source of the total borrowings as on September 30, 2022, the remaining being non-convertible debentures (NCDs) and preference shares. MML has raised funds from organisations like the National Bank for Agriculture and Rural Development (NABARD) and the Small Industries Development Bank of India (SIDBI), which form 9% of the total borrowings. The company has also made securitisation transactions to access funds with its securitised portfolio standing at ₹125 crore (8% of the assets under management [AUM]), as on September 30, 2022.

Key rating weaknesses

Relatively high gearing levels: The adjusted gearing of the company has increased to 6.25x as on September 30, 2022, from 5.24x as on March 2021, with rapid loan book expansion. The capital adequacy ratio (CAR) remains adequate at 25.61% as on September 30, 2022. Going forward, the company is in process of raising fresh equity of ₹200 crore by the end of Q1FY24, which in turn, is expected to result in an improvement in the Company's gearing profile

Moderate earnings level constrained by an increase in credit cost: Cost of funds improved from 12.02% to 9.89% in FY22 and 10.80% in H1 FY2023, due to maturing of high-cost borrowing raised in the past. However, their credit cost has increased from 0.70% as on March 31, 2022 to 2.62% as on September 30, 2022 primarily because of the increase in credit costs caused by rise in delinquencies and increased provisioning against standard assets. Overall, their return on total assets (ROTA) has increased to 1.67% in FY22 from 1.41% in FY21 and further improved to 1.99% in H1 FY2023. The operating expense to average total assets remains high, at 5.7% in FY22 and 6.4% in H1FY23, mainly due to the expansion of geographical reach. The company's ability to maintain credit costs while growing the portfolio will be a key monitorable factor for the rating.

Geographical concentration of portfolio, albeit reducing: On an overall basis, the company operates in 11 states and one Union Territory through a network of 316 branches, as on September 30, 2022. Bihar, Uttar Pradesh, and Punjab are the key areas of operations for the company, contributing 37%, 19%, and 14% of the portfolio, as on September 30, 2022. This is followed by Rajasthan (12%), Jharkhand (7%), Haryana (5%), and the rest in Gujarat, Madhya Pradesh, Himachal Pradesh, West Bengal, and Uttarakhand. The top three states contribute 67% of the total AUM as on September 30, 2022, reduced from 76% as on March 31, 2021. The top three states concentration to the tangible net worth (TNW) remain high, at 400% as on September 30, 2022.

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

Liquidity: Adequate

The company has a favourable liquidity position, given the longer tenure borrowings repayable over two to 10 years as against the shorter tenure of MFI loans of up to two years, as also reflected by a well-matched asset and liability management (ALM) as on September 30, 2022. The company has unencumbered liquid assets of around ₹357 crore as on September 30, 2022, and its expected inflows in the up to one-year bucket are ₹995 crore against the expected outflow of ₹791 crore. The company always maintains a sufficient liquidity buffer to meet its immediate disbursement requirements and any emergent payments.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies
Policy on Withdrawal of Ratings

About the company

MML was originally incorporated as Sajan Hire Purchase Pvt Ltd (SHPPL) on May 28, 1988. SHPPL was engaged in the hire-purchase business. Subsequently, in January 2011, the name of the company was changed to Midland Microfin Limited. The hire-purchase business was also discontinued at the same time. MML is registered with the Reserve Bank of India (RBI) as an NBFC-MFI since January 2015.

MML currently operates in 11 states – Punjab, Rajasthan, Haryana, Bihar, Uttar Pradesh, Jharkhand, West Bengal, Uttarakhand, Madhya Pradesh, Gujarat, Himachal Pradesh, and one Union Territory – Chandigarh. The operations are managed through a network of 316 with more than 6.12 lakh active JLG borrowers as on September 30, 2022. The AUM stood at ₹1,654 crore (including a securitised pool of ₹125 crore) as on September 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1 FY 2023 (UA)
Total operating income	192.35	219.78	171.37
PAT	14.63	22.28	17.93
Interest coverage (times)	1.18	1.28	1.31
Total assets	1,094.60	1,562.76	2,027.70
Net NPA (%)	0.35	0.96	0.87
ROTA (%)	1.41	1.68	1.99

A: Audited; UA: unaudited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	20-09-2024	310.00	CARE BBB; Positive
Debentures-Non-convertible debentures	INE884Q07061	04-Jul-2016	12%	04-Jan-2024	7.11	CARE BBB; Positive
Debentures-Non-convertible debentures	INE884Q07038	04-Jul-2016	12%	04-Jan-2024	0.92	CARE BBB; Positive
Non-convertible debentures	INE884Q07616	18-Jan-2021	11.62%	18-Jan-2024	25.00	CARE BBB; Positive
Non-convertible debentures	INE884Q07608	26-Nov-2020	11.73%	26-Nov-2023	25.00	CARE BBB; Positive
Debentures-Non-convertible debentures	Proposed	21-Dec-2022	13.63%	15-Dec-2026	34.00	CARE BBB; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Debentures-Non-convertible debentures	LT	8.03	CARE BBB; Positive	-	1)CARE BBB; Stable (10-Feb-22)	1)CARE BBB; Stable (30-Mar-21) 2)CARE BBB; Stable (11-Feb-21)	1)CARE BBB; Stable (27-Mar-20)
2.	Fund-based - LT-Term loan	LT	310.00	CARE BBB; Positive	-	1)CARE BBB; Stable (31-Mar-22) 2)CARE BBB; Stable (10-Feb-22)	1)CARE BBB; Stable (11-Feb-21)	1)CARE BBB; Stable (27-Mar-20)
3.	Debentures-Non-convertible debentures	LT	50.00	CARE BBB; Positive	-	1)CARE BBB; Stable (10-Feb-22)	1)CARE BBB; Stable (11-Feb-21) 2)CARE BBB; Stable (06-Nov-20)	-
4.	Loan-Long term	LT	8.78	CARE A-(CE); Stable	-	1)CARE A-(CE); Stable (28-Mar-22) 2)CARE A-(CE); Stable (20-Aug-21)	1)Provisional CARE A-(CE); Stable (30-Mar-21)	-
5.	Debt-Non-convertible	LT	-	-	-	1)Withdrawn	1)CARE BBB;	-

	debenture/Subordinate debt					(31-Mar-22) 2)CARE BBB; Stable (10-Feb-22)	Stable (19-Mar-21)	
6.	Unsupported rating	LT	0.00	CARE BBB	-	1)CARE BBB (28-Mar-22)	-	-
7.	Debentures-Non-convertible debentures	LT	34.00	CARE BBB; Positive				

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Capital adequacy	Should be greater than 20%
II. Debt-to-equity ratio	Should be less than 6.5x
III. Off balance sheet portfolio	Should be less than 30%
IV. RoA	Should be positive

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

Sr. No.	Name of Instrument	Complexity Level
1.	Debentures-Non-convertible debentures	Simple
2.	Fund-based - LT-Term loan	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings 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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About us:

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