Midland Microfin Limited (Revised)

June 23, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	310.00	CARE BBB+; Stable	Revised from CARE BBB; Positive
Non-convertible debentures	8.03	CARE BBB+; Stable	Revised from CARE BBB; Positive
Non-convertible debentures	50.00	CARE BBB+; Stable	Revised from CARE BBB; Positive
Non-convertible debentures	34.00	CARE BBB+; Stable	Revised from CARE BBB; Positive

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings reflect the company's growing asset base, track record of regular capital infusion from the promoters along with improving profitability profile. With sale of sizable stressed assets to asset reconstruction company (ARC), CARE Ratings Limited (CARE Ratings) expects COVID-19-related stress on the Company's loan book to be largely over. The ratings are further supported by the diversified resource base and adequate liquidity position.

However, the ratings are constrained by the relatively high gearing level, high albeit reducing geographical concentration of operations 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, individually or collectively, lead to positive rating action/upgrade:

- Sizeable equity raises leading to improvement in net worth and improved gearing.
- Significant growth in the loan book portfolio whilst ensuring lower geographical concentration and controlled asset quality

Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Weakness in the capitalisation profile of Midland Microfin Limited (MML) with gearing rising above 6x.
- Significant deterioration in the asset quality, and consequently, profitability profile of the company.

Analytical Approach: Standalone

Outlook: Stable

The 'Stable' outlook 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.

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 57% y-o-y in FY23 to ₹1,789 crore.

MML has a widespread branch network, with 329 branches present across 12 states and two Union Territories – Punjab, Rajasthan, Haryana, Uttar Pradesh, Bihar, Jharkhand, Himachal Pradesh, Gujarat, Madhya Pradesh, Uttarakhand, West Bengal and Odisha and UTs- Chandigarh and Jammu & Kashmir as on March 31, 2023. The company had a client base of 6.43 lakh borrowers as on March 31, 2023, with an average ticket size of ₹35,000.

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

Healthy asset quality metrics:
MML has been able to keep asset quality under control since 2011 when it commenced its operations. During fiscal 2023, MML has reported improvement in GNPA ratio from 3.07% as on March 31, 2022 to 0.06% as on March 31, 2023 owing to ARC transaction of ₹155 crore in the month of March 2023. Owing to this ARC transaction, the softer delinquencies also improved with 0+DPD and 60+DPD at 1.98% and 1.13%, respectively, as on March 31, 2023, as compared to 5.82% and 4.02% respectively, during the year ending March 31, 2022. Restructured portfolio also stood negligible at 0.01% of gross loans.

CARE Ratings notes that the company's loan book has expanded rapidly over the past two years with sizable disbursements of ₹1,950 crore in FY23 and ₹1,339 crore in FY22 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 40 banks and financial institutions (FIs) and has availed term loans, which form the major (70%) source of the total borrowings as on March 31, 2023, 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), Micro Units Development & Refinance Agency Ltd (MUDRA) and the Small Industries Development Bank of India (SIDBI), which form 7% of the total borrowings. The company has also made securitisation and direct assignment transactions to access funds with its securitised/assigned portfolio standing at ₹335 crore (19% of the assets under management [AUM]), as on March 31, 2023. The company has been able to raise funds at competitive rates as compared to peers.

Adequate profitability, albeit constrained by an increase in credit cost:
The cost of funds has increased from 9.89% in FY22 to 11.99% in FY23, due to rising interest rate scenario. However, with the deregulation of interest rates, rise in yields was much higher leading to improvement in net interest margins (NIMs) to 10.5% in FY23 (vs. 7.6% in FY22). Improved NIMs along with income from sale of DA transactions led to improvement in the profitability profile with return on total assets (ROTA) increasing to 2.64% in FY23 from 1.68% in FY22. This was despite the rise in credit costs, as MML tried to clean its book. The credit cost has increased from 0.70% as on March 31, 2022 to 2.90% as on March 31, 2023 with the company selling its stressed assets to ARC. Overall, the operating expense to average total assets remained high, at 6.39% in FY23 and 5.66% in FY22, mainly due to the expansion of geographical reach, as the company has opened 55 new branches in FY23.
Going forward, CARE Ratings expects MML to maintain adequate profitability profile.

Key rating weaknesses

Improving gearing levels, though remains high:
The adjusted gearing of the company has improved marginally to 4.5x as on March 31, 2023, from 4.7x as on March 31, 2022 owing to regular capital infusion. The company received ₹33 crore in FY23 and further ₹8 crore in Q1FY24 in the form of compulsory convertible preference shares (CCPS) from the existing investors. Along with the promoters who held 56.3% of the shareholding as on March 31, 2023, the company is backed by Kitara Capital (33.8% shareholding, including 1.1% of Ajit Singh Khimji) and ICICI Bank (9.9%).

The capital adequacy ratio (CAR) remains adequate at 28.44% as on March 31, 2023. Going forward, the company is in the process of raising fresh equity of ₹200 crore in FY24, which in turn, is expected to result in an improvement in the company's gearing profile.

Geographical concentration of portfolio, albeit reducing:
On an overall basis, the company operates in 12 states and two Union Territories through a network of 329 branches, as on March 31, 2023. Bihar, Uttar Pradesh, Rajasthan and Punjab are the key areas of operations for the company, contributing 39%, 22%, 11% and 9% of the portfolio, as on March 31, 2023. This is followed by Jharkhand (6.5%), Haryana (4.4%), and the rest in Gujarat, Madhya Pradesh, Himachal Pradesh, West Bengal and Uttarakhand. The top four states contribute 82% of the total AUM and 422% of tangible net worth as on March 31, 2023.
Going forward, CARE Ratings expects geographical concentration to continue.

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 March 31, 2023. The expected inflows in the up to one-year bucket are ₹849 crore against the expected outflow of ₹912 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 and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Microfinance Institutions

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 12 states – Punjab, Rajasthan, Haryana, Bihar, Uttar Pradesh, Jharkhand, West Bengal, Uttarakhand, Madhya Pradesh, Gujarat, Himachal Pradesh, Odisha, and two Union Territory – Chandigarh and Jammu Kashmir. The operations are managed through a network of 329 with more than 6.43 lakh active JLG borrowers as on March 31, 2023. The AUM stood at ₹1,789 crore (including a securitised pool of ₹335 crore) as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	192.35	219.78	394.91
PAT	14.63	22.28	46.83
Interest coverage (times)	1.18	1.28	1.37
Total assets	1,094.60	1,562.76	1,988.06
Net NPA (%)	0.35	0.96	0.03
ROTA (%)	1.41	1.68	2.64

A: Audited; UA: unaudited; Note: 'the above results are latest financial results available'

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

Lender details: Annexure-5

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-Sep-2024	310.00	CARE BBB+; Stable
Debentures-Non-convertible debentures	INE884Q07061	04-Jul-2016	12%	04-Jan-2024	7.11	CARE BBB+; Stable
Debentures-Non-convertible debentures	INE884Q07038	04-Jul-2016	12%	04-Jan-2024	0.92	CARE BBB+; Stable
Non-convertible debentures	INE884Q07616	18-Jan-2021	11.62%	18-Jan-2024	25.00	CARE BBB+; Stable
Non-convertible debentures	INE884Q07608	26-Nov-2020	11.73%	26-Nov-2023	25.00	CARE BBB+; Stable
Debentures-Non-convertible debentures	INE884Q08283	21-Dec-2022	13.63%	15-Dec-2026	34.00	CARE BBB+; Stable

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 2023-2024	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
1	Debentures-Non-Convertible Debentures	LT	8.03	CARE BBB+; Stable	-	1)CARE BBB; Positive (20-Dec-22)	1)CARE BBB; Stable (10-Feb-22)	1)CARE BBB; Stable (30-Mar-21) 2)CARE BBB; Stable (11-Feb-21)
2	Fund-based - LT-Term Loan	LT	310.00	CARE BBB+; Stable	-	1)CARE BBB; Positive (20-Dec-22)	1)CARE BBB; Stable (31-Mar-22) 2)CARE BBB; Stable (10-Feb-22)	1)CARE BBB; Stable (11-Feb-21)
3	Debentures-Non-Convertible Debentures	LT	50.00	CARE BBB+; Stable	-	1)CARE BBB; Positive (20-Dec-22)	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	5.19	CARE A-(CE); Stable	-	1)CARE A-(CE); Stable (15-Feb-23)	1)CARE A-(CE); Stable (28-Mar-22) 2)CARE A-(CE); Stable	1)Provisional CARE A-(CE); Stable (30-Mar-21)

							(20-Aug-21)	
5	Debt-Non-convertible Debenture/Subordinate Debt	LT	-	-	-	-	1)Withdrawn (31-Mar-22) 2)CARE BBB; Stable (10-Feb-22)	1)CARE BBB; Stable (19-Mar-21)
6	Un Supported Rating	LT	0.00	CARE BBB	-	1)CARE BBB (15-Feb-23)	1)CARE BBB (28-Mar-22)	-
7	Debentures-Non-Convertible Debentures	LT	34.00	CARE BBB+; Stable	-	1)CARE BBB; Positive (20-Dec-22)	-	-

*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: Lender details

To view the lender wise details of 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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