Midland Microfin Limited

September 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	910.00 (Enhanced from 510.00)	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	8.03	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	50.00	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	34.00	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the long-term bank facilities and non-convertible debentures (NCDs) of Midland Microfin Limited (MML) continues to factor in the long track record of over a decade of operations, the regular capital infusion from the promoters, along with the improving profitability profile. The ratings are further supported by the diversified resource base and adequate liquidity position.

The ratings take cognisance of the subdued growth in the April to June quarter as the company implemented a new software, which disrupted the business.

The ratings of MML are constrained by the high albeit reducing geographical concentration of the operations and the inherent risks involved in the microfinance industry including unsecured lending, the marginal profile of borrowers, socio-political intervention risk, and regulatory uncertainty. The ability of the company to improve its asset quality while maintaining gearing levels and maintain consistent profitability are the key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

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

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

- Weakness in the capitalisation profile of MML with the gearing rising above 6x.
- Significant deterioration in the asset quality, and consequently, the 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. MML is also expecting an infusion of ₹240 crore in September 2023.

Detailed description of the key rating drivers

Key strengths

Adequate track record of operations

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. Furthermore, it grew by 6% y-t-d to ₹1,895 crore up to August 31, 2023.
MML has a widespread branch network, with 376 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

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

and Union Territories – Chandigarh and Jammu & Kashmir as on June 30, 2023. The company had a client base of 7.35 lakh borrowers as on June 30, 2023, with an average ticket size of ₹41,391.

Going forward, CARE Ratings Limited (CARE Ratings) expects the company to continue to grow at a healthy pace with the assets under management (AUM) expected to rise to around ₹3,400 crore by March 31, 2024.

Healthy asset quality metrics

During FY2023, MML reported an improvement in the gross non-performing assets (GNPA) ratio from 3.07% as on March 31, 2022, to 0.06% as on March 31, 2023, owing to an asset reconstruction company (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 with 5.82% and 4.02%, respectively, during the year ending March 31, 2022. The restructured portfolio also stood negligible at 0.01% of the gross loans. However, in Q1FY24, the asset quality of the company registered an uptick with GNPA and net non-performing assets (NNPA) ratios of 1.73% and 0.84%, respectively, as on June 30, 2023, from 0.06% and 0.03%, respectively, as on March 31, 2023. The gross stressed asset ratio (GNPA + restructured + security receipts) also increased from 4.6% as on March 31, 2023, to 7.1% as on June 30, 2023.

CARE Ratings notes that the company's loan book has expanded rapidly over the past two years with sizeable disbursements of ₹1,950 crore in FY23 and ₹339 crore in Q1FY24, and thus, the portfolio remains relatively unseasoned. Going forward, its ability to maintain asset quality metrics remains a 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 June 30, 2023, the remaining being 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 as on March 31, 2023. The company has also made securitisation and direct assignment transactions to access funds, with its securitised and assigned portfolio standing at ₹378 crore as on June 30, 2023. The company has been able to raise funds at competitive rates.

Adequate profitability

The cost of funds has increased from 9.89% in FY22 to 11.99% in FY23 due to the rising interest rate scenario. However, with the deregulation of interest rates, the rise in the yields was much higher, leading to an improvement in the net interest margins (NIMs) to 10.5% in FY23 (vs. 7.6% in FY22). The improved NIMs along with income from the sale of direct assignment (DA) transactions led to an 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.

While the operating expense to average asset ratio continued to remain high at 7.1% in Q1FY24, the income from the sale of DA transactions along with low credit costs led to an improvement in the profitability profile, with ROTA of 4.1% in Q1FY24.

Going forward, CARE Ratings expects MML to maintain an adequate profitability profile.

Key weaknesses

Improving gearing levels, although remains high

The adjusted gearing of the company has improved to 3.82x as on June 30, 2023, from 4.5x as on March 31, 2023, 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 ₹240 crore in the September quarter, which in turn, is expected to result in further 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 386 branches as on June 30, 2023. Bihar, Uttar Pradesh, Rajasthan, and Punjab are the key areas of operations for the company, contributing to 40%, 23%, 11%, and 8% of the portfolio as on June 30, 2023. This is followed by Jharkhand (6.2%), Haryana (4.2%), and the rest in Gujarat, Madhya Pradesh, Himachal Pradesh, West Bengal, and Uttarakhand. The top four states contribute to 82% of the total AUM as on June 30, 2023.

Going forward, CARE Ratings expects the 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 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 as 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

CARE's Policy on Default Recognition
Financial Ratios – Financial Sector
Rating Methodology – Non-Banking Finance Companies (NBFCs)
Criteria on assigning 'outlook' and 'credit watch' to Credit 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 and two UTs – Punjab, Rajasthan, Haryana, Bihar, Uttar Pradesh, Jharkhand, West Bengal, Uttarakhand, Madhya Pradesh, Gujarat, Himachal Pradesh, Odisha, and two Union Territories – Chandigarh and Jammu and Kashmir. The company had a client base of 7.35 lakh borrowers as on June 30, 2023, with an average ticket size of ₹41,391.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (U/A)
Total operating income	219.78	394.91	106.32
PAT	22.28	46.83	19.92
Interest coverage (times)	1.28	1.37	1.61
Total assets	1,562.76	1,988.06	1,921.15
Net NPA (%)	0.96	0.03	0.84
ROTA (%)	1.68	2.64	4.08

A: Audited; UA: Unaudited. Note: The above results are the 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	26-Aug-2025	910.00	CARE BBB+; Stable
Non-Convertible debenture	INE884Q07061	04-Jul-2016	12%	04-Jan-2024	7.11	CARE BBB+; Stable
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
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+; Stable (03-Jul-23) 2)CARE BBB+; Stable (23-Jun-23)	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	910.00	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Jul-23)	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)

					2)CARE BBB+; Stable (23-Jun-23)			
3	Debentures-Non-Convertible Debentures	LT	50.00	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Jul-23) 2)CARE BBB+; Stable (23-Jun-23)	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 (20-Aug-21)	1)Provisional CARE A- (CE); Stable (30-Mar-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+; Stable (03-Jul-23) 2)CARE BBB+; Stable (23-Jun-23)	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

Sr. No.	Name of the 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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