Midland Microfin Limited

March 20, 2024

Facilities@	Amount (₹ crore)	Rating[1]	Rating Action
Term loan facility	0.40 (Reduced from ₹5.19 crore)	CARE A- (CE); Stable	Reaffirmed

Details of instruments/facilities in Annexure-1

@The above rating is based on credit enhancement (CE) in the form of guarantee from a bankruptcy remote cover pool comprising of microfinance loans originated by MML.

Unsupported rating [2]	CARE BBB+

Note: Unsupported rating does not factor in the explicit credit enhancement

Rationale and key rating drivers for the credit enhanced debt

CARE Ratings Limited (CARE Ratings) has reaffirmed the rating of 'CARE A- (CE); Stable' [Single A Minus (Credit Enhancement); Outlook: 'Stable'] to the term loan (TL) facility (long term) borrowed by Midland Microfin Limited (MML), covered with guarantee from SPV holding pool of microfinance loan receivables assigned through CredAvenue Titus Trust 2020 ("SPV".

The TL is structured as a covered loan that is an on balance sheet liability of the borrower like a normal loan. In addition, the borrower has identified a pool of security ("Covered Pool"), which is made bankruptcy remote from the borrower and held by the SPV. This Covered Pool is evaluated based on the transaction structure to evaluate the rating of the Covered Pool. The transaction structure has "Trigger Events", which provide for early repayment of TL, before the TL is due for payment, out of collections from Covered Pool.

The Reserve Bank of India (RBI), on September 24, 2021, has placed restriction on the transfer of loans by specifying who can be transferee of a loan. While the special purpose vehicle (SPV) is not an eligible transferee, CARE Ratings believes that since this transaction was concluded before September 24, 2021 and RBI's directions are not specifically retrospective, transfer of loan as contemplated in this transaction will be feasible. The investors may seek necessary legal advice.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Upward revision of MML's standalone rating.

Negative factors

- Downward revision in the standalone rating of MML.
- Not adhering to key transaction terms envisaged at the time of the rating.

Analytical approach

For CE Rating, the rating reaffirmation is based on inter alia, observed & expected performance of the underlying contracts in the cover pool, presence of credit enhancement and adherence to the transaction structure.
For unsupported ratings, CARE Ratings has taken a standalone view for assessing the financial position of MML.

Detailed rationale and key rating drivers

Transaction structure:

MML (borrower and servicer in this transaction) has borrowed a TL. The TL is secured by way of hypothecation of the current and future receivables arising out of a cover pool comprising microfinance loans originated by MML, on a first and exclusive charge basis in favour of the Trustee for the benefit of the lender. The lender is eligible to receive monthly interest and principal payment. Entire principal and interest amount is promised to the lender only on the final maturity date. However, it is expected that the facility would amortise on a monthly basis. Amount payable on the facility on a monthly basis shall be based on the expected amortisation schedule.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.
[2] As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

As per the redemption schedule, on a monthly basis, promised interest and expected principal will be transferred till 36th month (expected final maturity date, or non-occurrence of trigger event). If the borrower fails to make any of the monthly promised interest and / or expected principal payment till 36th month, it will be considered as a trigger event, whereupon the cashflows arising from the cover pool will be utilised to make accelerated payment to the lender. The principal and interest amounts are promised to the lender only by the final maturity date (48 months from the first drawdown date).

On the occurrence of a trigger event, the cover pool assets shall be immediately assigned to CredAvenue Titus Trust 2020. The Trust has appointed MML as the servicer for the cover pool assets transferred. The collections from the cover pool along with the cash collateral will be used for payments to the lender as per the payment mechanism given below:

- Cash collateral to be utilised for making payment to the lender immediately.
- On T-1 day, servicer shall fund the Collection and Payment (C&P) account to the extent of collections from the underlying cover pool.
- On T day, the trustee shall transfer the entire amount from the C&P account to the designated account of the lender for debt servicing.

The priority of payment from cover pool would be the repayment of promised interest and expected principal with turbo par amortisation, which indicates that the residual beneficiaries would not receive any collections from the pool until the entire obligation to the lender is fully repaid. Until the occurrence of a trigger event, cash flows realised from the cover pool will be utilised to make payment to borrower and acquire additional microfinance loan assets from MML, so as to comply with the security cover requirements as per the transaction documents.

Key strengths:

- Three levels of protection to debenture holders.
  - MML's internal accrual (rated 'CARE BBB; Positive, for its long-term debt obligation), which is primary obligor.
  - SPV guarantee - provided by CredAvenue Titus Trust 2020, a SPV to which MML will assign microfinance loan receivables with principal cover of 1.17x the facility amount.
  - Further cash collateral in the form of fixed deposit (FD) that is maintained at 3.0% of the initial term loan amount.
- Sound legal structure of the transaction.
- Underwriting and collection strategies of MML.

Key weakness:

- Borrowers belong to economically weaker section of society and are vulnerable to any economic or geopolitical disruptions.

Liquidity: Adequate

The inherent liquidity in the structure is adequate given the total support available to the lender. The support available to the lender are: (i) MML's internal accruals, (ii) Security Pool - provided by CredAvenue Titus Trust 2020, a SPV to which MML will assign microfinance loan receivables with principal cover of 1.17x the facility amount and (iii) Cash collateral in the form of FD that is maintained at 3.0% of the initial term loan amount. Entire principal is promised to the lender only by the final maturity date (48 months from issue date). The priority of payment from cover pool would be the repayment of promised interest and expected principal with turbo par amortisation, which indicates that the residual beneficiaries would not receive any collections from the pool until the entire obligation to lender is fully repaid.

Applicable criteria

Policy on Default Recognition
CARE's methodology for Asset / Mortgage Backed Securitization
Criteria for Non-Banking Financial Companies
Financial ratios – Financial Sector
Rating Credit Enhanced Debt
Criteria on assigning Outlook to Credit Ratings

Adequacy of credit enhancement structure:
The term loan is secured by way of hypothecation of the current and future receivables arising out of a cover pool comprising of microfinance loans originated by MML, on a first and exclusive charge basis in favour of the Trustee for the benefit of the lender.

Key rating assumptions

The analysis for the purpose of rating is based on a scenario that the credit event will happen and the cashflows generated from Security Pool would be utilised to repay the debenture holders. Since the transaction is sensitive to credit quality of the underlying pool, CARE Ratings has analysed the performance of static pools provided by the Originator and overall portfolio performance of the Originator. Considering the borrower profile and nature of loan, pool characteristics and portfolio performance, CARE Ratings has taken the average peak shortfall at 12.0% - 14.0% of principal outstanding. The base-case shortfalls were stressed along with other key factors, such as the timing of shortfalls, the recovery assumptions and the time to recovery.

About the company

MML was originally incorporated as 'Sajan Hire Purchase Pvt. Ltd. (SHPPL)' on May 28, 1988, and in January 2015, the company was classified as non-banking financial company-microfinance institute (NBFC-MFI). MML is currently rated 'CARE BBB+; Stable' for its long-term obligations.

Promoters of MML belong to the Midland group of Punjab engaged into asset finance and banking business. The management of MML is headed by Amardeep Samra, Managing Director, who has an experience of over 19 years in the field of finance. Vijay Kumar Bhandari is a Chairman (Non- Executive). He is a banker by profession and former General Manager of Central Bank of India.

MML is currently operating in twelve states and two union territories. Operations are managed through a network of more than 434 branches spread across 12 states with more than 8 Lac active borrowers as of December 31, 2023.

Key financial indicators

Brief financials	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total income (₹ crore)	219.78	394.91	370.31
PAT (₹ crore)	22.28	46.83	46.60
Interest coverage (times)	1.28	1.37	NA
Total assets (₹ crore)	1,562.76	1,988.06	2,341.79
Net NPA (%)	0.96	0.03	1.17%
ROTA (%)	1.68	2.64	2.86

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating history for the last three years: Please refer to 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: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Loan-Long Term	-	27-03-2021	12.25	31-03-2024	0.40	CARE A- (CE); Stable
Un Supported Rating	-	-	-	-	0.00	CARE BBB+

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 (20-Sep-23) 2)CARE BBB+; Stable (04-Sep-23) 3)CARE BBB+; Stable (03-Jul-23) 4)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 (20-Sep-23) 2)CARE BBB+; Stable (04-Sep-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)

					3)CARE BBB+; Stable (03-Jul-23) 4)CARE BBB+; Stable (23-Jun-23)			
3	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB+; Stable	1)CARE BBB+; Stable (20-Sep-23) 2)CARE BBB+; Stable (04-Sep-23) 3)CARE BBB+; Stable (03-Jul-23) 4)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	0.40	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 (20-Sep-23)	1)CARE BBB; Positive (20-Dec-22)	-	-

					2)CARE BBB+; Stable (04-Sep-23) 3)CARE BBB+; Stable (03-Jul-23) 4)CARE BBB+; Stable (23-Jun-23)			
8	Debentures-Non Convertible Debentures	LT	25.00	CARE BBB+; Stable	1)CARE BBB+; Stable (20-Sep-23)	-	-	-

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

Trigger events

Trigger events for invocation of trust guarantee are as follows:

- Borrower does not fund the Designated Account as per the Payment Mechanism
- Servicer does not fund the C&P Account as per the Payment Mechanism
- Rating downgrade of the Borrower to BBB- or below
- Rating downgrade of the Facility to a level of BBB+ (CE) or below
- Borrower is unable to maintain the required cover on Cover Pool assets
- Breach of financial and other covenant by the Borrower
- Misrepresentation by the Borrower
- Cross default of the Borrower
- Unlawfulness by Borrower
- Material litigation of the Borrower
- Cessation of business of the Borrower
- Material adverse effect on the Borrower

Consequence of Trigger event

- Assignment of Cover Pool to CredAvenue Titus Trust 2020
- Trustee would immediately dip into the available cash collateral to meet payments to the Lender.
- The Loan Trustee approval shall be required for the Borrower to declare any dividends or make any other distributions to the holders of common equity.
- Step-up in coupon to the extent of 2% (Two Percent) over and above the yield on the loan.
- The Trust Guarantee would be invoked, and all collections deposited in the C&P Account by the Servicer shall be passed by the Trustee to the Loan Trustee for meeting payment to the Lender.
- Upon instruction from the Loan Trustee, the Trustee may also liquidate the cover pool assets and pass the proceeds with turbo par amortisation received from the same to the Loan Trustee for meeting payment to the Lender.

Pool selection criteria:

Each loan constituting the assets in the initial pool selection and subsequent replenishment of the pools, shall meet each of the eligibility criteria listed below.

- Asset should be current (non-delinquent at the time of assignment to the Trust) and should not be delinquent by more than 30 days thereafter. The proportion of assets which are delinquent, but less than 30 days should not be more than 5% of the pool at any point of time.
- Minimum seasoning of two months.
- Minimum internal rate of return (IRR) of 18% and the weighted average of IRR of the pool should not be less than 21%.
- All the contracts in the pool should have paid the equated monthly instalment (EMI) of February 2021.
- Maximum branch concentration of 2.5% and maximum state concentration of 40%.
- Branch with Par 90 less than 3%.
- All applicable "know your customer" requirements prescribed by the RBI have been complied with
- Each client loans must satisfy the Borrower's credit and underwriting policies, including credit referencing agency checks where commonly used.
- Client loans must be loans directly originated by the Borrower and not loans purchased from a third party.
- Each loan under should comply with the guidelines under the Master Circular for Priority Sector Lending dated July 7, 2016, issued by the RBI and applicable NBFC MFI guidelines pertaining to qualifying assets.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of Instrument	Complexity Level
1.	Loan-Long Term	Highly Complex
2.	Un supported rating	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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