Midland Microfin Limited

August 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	910.00	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	34.00	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	25.00	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to the long-term bank facilities and non-convertible debentures (NCDs) of Midland Microfin Limited (MML) continues to factor in the regular support from shareholders in terms of capital infusion made in March 2024 and expected infusion in FY25, healthy growth in its portfolio, established track record of operations of over a decade, and improved profitability profile. Ratings are further supported by the diversified resource base and the company's adequate liquidity position.

Ratings of MML are constrained by the moderate asset quality metrics, high though reducing geographical concentration of the operations and the inherent risks involved in the microfinance industry, including unsecured lending, marginal profile of borrowers, socio-political intervention risk, and regulatory uncertainty.

Rating sensitivities: Factors likely to lead to rating actions

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

- Significant rise in loan book portfolio while ensuring lower geographical concentration and controlled asset quality.
- Sizeable equity raise, leading to improved 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 assets under management (AUM)/net worth rising above 6x.
- Significantly deteriorating asset quality, and consequently, the company's profitability profile.

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook for the long-term instruments of MML factors in the expectation that the company will be able to continue to grow its portfolio while maintaining asset quality under control.

Detailed description of the key rating drivers:

Key strengths

Healthy capitalisation metrics supported by regular capital infusion

MML has reported healthy capitalisation levels with tangible net worth (TNW) of ₹489 crore as on March 31, 2024, as against ₹345 crore as on March 31, 2023, and further stood at ₹496 crore as on June 30, 2024. Apart from support from its promoters, the company is backed by strong investors namely Kitara Capital and ICICI Bank and with the recent infusion made by the existing shareholders of ₹63 crore in the form of partly paid equity and partly paid CCPS, the share of Kitara stood at 34.53% [vs 32.71% as of March 2023] and ICICI Bank at 9.67% [vs 9.89% as of March 2023]. Overall gearing improved to 4.15x as on March 31, 2024 [vs 4.53x as of March 2023]. However, with the company actively raising borrowings the overall gearing moderated to 4.57x as on June 30, 2024. Capital adequacy ratio (CAR) stands comfortable at 28.34% and Tier-I at 21.92% as on March 31, 2024, and at 27.21% and 21.11% as on June 30, 2024. With the planned infusion in FY25, CARE Ratings expects the company to maintain healthy gearing going forward.

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

Adequate track record of operations

MML has an established track record and has been carrying out microfinance lending activities since January 2011. It is promoted by Amardeep Singh Samra, who has over a decade experience in the micro-finance institution (MFI) industry and is also the board member of Mfin.

The company's portfolio stood at ₹2,550 crore as on March 31, 2024, growing by 42% y-o-y. It further rose to ₹2,592 crore as on June 30, 2024. MML has a widespread branch network, with 486 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 Union Territories – Chandigarh and Jammu and Kashmir, as on June 30, 2024. The company has a client base of 9.95 lakh borrowers with an average ticket size of ₹46,045 as on June 30, 2024.

Diversified resource profile

MML has a diversified resource profile with borrowing from over 40 lenders majorly raising from Banks contributing to 46% as on June 30, 2024 although slightly declined from 50% as on March 31, 2024 and 51% as on March 31, 2023 this is followed by non-banking finance companies (NBFCs) contributing to 24% [vs 29% as on March 31, 2024 and 19% as on March 31, 2023], capital market at 14% [vs 16% as on Mar-24 and 25% as on Mar-23]. MML has borrowings in the form of external commercial borrowing (ECB) which contributes to 16% as on June 30, 2024 [vs 4% as on Mar-24].

The company has raised incremental borrowings at 11.7% for the last six months as on June 30, 2024. Majority of the borrowings are raised in the form of term loan contributing to 86% of the overall borrowings as on June 30, 2024, remaining from non-convertible debenture (14%). The company has also made DA transactions to access funds, which contributes to ₹531 crore as on March 31, 2024. MML has raised funds from organisations such as 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), National Scheduled Castes Finance and Development Corporation (NSFDC), which forms 11% of the total borrowings as on June 30, 2024. The company's ability to raise funds at competitive rates, going forward, will be a key monitorable.

Improving profitability

MML's profitability has been on a rising trend since FY21 with return on total asset (ROTA) at 1.41% to 3.14% in FY24 on the back of rising net interest margins (NIMs) and lower credit cost. Also, MML did DA transactions during the year owing to which, managed income on an average of total assets rose to 2.64% in FY24 from 2.35% in FY23, supporting profitability.

The company reported a profit after tax (PAT) of ₹72.15 crore (+54% y-o-y) on a total income of ₹532.17 crore (+35% y-o-y) in FY24. Further, in Q1FY25, PAT stood at ₹24.03 crore on a total income of ₹158.64 crore.

Owing to higher disbursements made in Q4FY24 and slight reduction in lending rates, average yields moderated to 23.63% in FY24 from 25.71% in FY23 and with cost of funds at a similar range, interest spreads moderated to 11.99% in FY24 from 13.73% in FY23. NIMs improved in FY24 to 10.62% from 10.49% in FY23 with the reduction in gearing levels and credit costs improved to 2.21% in FY24 from 2.90% in FY23. Operating expenses on an average of total assets (Opex) raised to 7.98% in FY24 owing to in line with company's expansion plans.

In Q1FY25, ROTA continues to remain healthy at 3.48% with NIMs improving to 11.05% and controlled credit costs at 0.59%.

Going forward, CARE Ratings expects adequate profitability with slight moderations due to compression in NIMs and increase in credit costs.

Key weaknesses

Moderate asset quality metrics

Gross non-performing asset (GNPA) and net non-performing asset (NNPA) ratio stood low in FY23 at 0.06% and 0.03% owing to ARC transaction done by the company. However, with rise in slippages in FY24, GNPA and NNPA ratio moderated to 2.97% and 0.82% and 2.93% and 0.83% as on June 30, 2024

With the agitation going on in Punjab under the name of "Karja Mukti" related to misleading customers on the ground of nonpayment of loans, the company faced rise in both softer delinquency [30+dpd at 15.68% and 60+ dpd at 12.80%] and harder delinquency [90+dpd at 7.90%] in Punjab as on March 31, 2024. CARE Ratings notes the improvement in collection efficiency in the state in Q4FY24. Also, overall exposure stands relatively modest in Punjab at 6.60% as of March 2024. CARE Ratings also notes the company's ability to withstand any shocks, noting the comfort provided by its healthy profitability, with a ROTA of 3.14% in FY24 and 3.48% in Q1FY25. The restructured portfolio also stood nil as on March 31, 2024.

Going forward, with the company growing its operation, its ability to maintain asset quality metrics will remain 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.

Geographical concentration of portfolio, albeit reducing

On an overall basis, the company operates in 12 states and two Union Territories through a network of 486 branches as on June 30, 2024. Bihar, Uttar Pradesh, and Rajasthan are the key areas of the company's operations, contributing to 37%, 28%, and 9% of the portfolio as on June 30, 2024. This is followed by Punjab (6.5%), Jharkhand (5.2%), and the rest in Haryana, West Bengal, Madhya Pradesh, Gujarat, Odisha, Uttarakhand, Jammu and Kashmir, and Himachal Pradesh. The top four states contribute to 80% of the total AUM as on June 30, 2024 [vs 81% as on Mar-23 and 82% as on Mar-23]. Going forward, CARE Ratings expects the company to deepen its presence in the current states and open operations in southern region.

Inherent industry risks

The microfinance sector continues to be impacted by inherent risks involved, including 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 of 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, 2024. The company has advances of ₹1,308 crore in the up to one-year bucket as against borrowings of ₹973 crore in the bucket. The company has cash and bank balances of ₹449 crore as on March 31, 2024.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies

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 9.95 lakh borrowers as on June 30, 2024, with an average ticket size of ₹46,045.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	394.91	532.76	158.64
PAT	46.83	72.16	24.03
Interest coverage (times)	1.37	1.46	1.49
Total assets	1,988.06	2,611.83	2,917.21
Net NPA (%)	0.03	0.82	0.83
ROTA (%)	2.64	3.14	3.48

A: Audited UA: Unaudited; Note: 'these are latest available financial results'.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: in Annexure-3

Complexity level of 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
Debentures- Non-convertible debentures (Proposed)	-	-	-	-	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 2024-2025	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
1	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (12-Jun-24)	1)CARE BBB+; Stable	1)CARE BBB; Positive	1)CARE BBB; Stable (10-Feb-22)

						(20-Sep-23) 2)CARE BBB+; Stable (04-Sep-23) 3)CARE BBB+; Stable (03-Jul-23) 4)CARE BBB+; Stable (23-Jun-23)	(20-Dec-22)	
2	Fund-based - LT-Term Loan	LT	910.00	CARE BBB+; Stable	1)CARE BBB+; Stable (12-Jun-24)	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 (31-Mar-22) 2)CARE BBB; Stable (10-Feb-22)
3	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (12-Jun-24)	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 (10-Feb-22)

						3)CARE BBB+; Stable (03-Jul-23) 4)CARE BBB+; Stable (23-Jun-23)		
4	Loan-Long Term	LT	0.40	CARE A-(CE); Stable	-	1)CARE A-(CE); Stable (20-Mar-24)	1)CARE A-(CE); Stable (15-Feb-23)	1)CARE A-(CE); Stable (28-Mar-22) 2)CARE A-(CE); Stable (20-Aug-21)
5	Debt-Non-convertible Debenture/Subordinate Debt	LT	-	-	-	-	-	1)Withdrawn (31-Mar-22) 2)CARE BBB; Stable (10-Feb-22)
6	Un Supported Rating	LT	0.00	CARE BBB+	-	1)CARE BBB+ (20-Mar-24)	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 (12-Jun-24)	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)	-
8	Debentures-Non Convertible Debentures	LT	25.00	CARE BBB+; Stable	1)CARE BBB+; Stable (12-Jun-24)	1)CARE BBB+; Stable (20-Sep-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Not applicable

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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