Midland Microfin Limited (Revised)

March 30, 2021

Ratings

Instrument / Facility Details	Amount (Rs. Crore)	Rating[1]	Rating Action
Term Loan Facility	12.00	Provisional CARE A- (CE); Stable [Provisional CARE Single A minus (Credit Enhancement); Outlook: Stable]	Provisional Rating Assigned
Total Long Term Facility	**12.00 (Rs. Twelve Crore Only)**		

Details of instruments/facilities in Annexure-1.

Unsupported Rating [2]	CARE BBB

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

Detailed Rationale and Key Rating Drivers

CARE has assigned a rating of 'Provisional CARE A- (CE); Stable' [Provisional CARE Single A minus (Credit Enhancement); Outlook: Stable] to the proposed Term Loan Facility (Long term) of Midland Microfin Limited (MML), covered with the Security pool of microfinance loan receivables assigned to CredAvenue Titus Trust 2020.

The rating assigned is provisional, based on the structure provided to CARE by MML, the issuer. The rating will be confirmed after the copies of documents executed in accordance with the structure, a due diligence audit report by an external auditor and an independent legal opinion is furnished by the Issuer, to the satisfaction of CARE.

Rating Sensitivities

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

1. Upward revision of MML's standalone rating.

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

1. Downward revision in the standalone rating of the issuer/originator
2. Non-adherence to the key transaction terms envisaged at the time of the rating

Detailed description of the key rating drivers

Midland Microfin Limited (MML; Borrower and Servicer in this transaction) will borrow a Term Loan (Loan term). The term loan will be 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. The lender is eligible to receive monthly interest and principal payment. Entire principal and interest amount shall be 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 an expected amortization schedule.

As per the redemption schedule, on a monthly basis, expected interest and 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 expected 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 utilized 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).

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE 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).*

On the occurrence of a trigger event, the cover pool assets shall be immediately assigned to CredAvenue Titus Trust 2020. The Trust shall appoint 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, 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 expected interest and principal with turbo par amortization, which indicates that the residual beneficiaries would not receive any collections from the pool until the entire obligation to lender is fully repaid. Until the occurrence of a trigger event, cash flows realized from the cover pool will be utilized 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.

The initial underlying covered pool for the structure consists of following features;

All contracts in the pool are current in payment and there are no over-dues as on the pool cut-off date (February 28, 2021). The weighted average IRR of the pool is 23.31%. The pool is moderately concentrated in terms of geography, with the top 3 states accounting for 74.03% of total pool POS; the top 10 branches comprise 19.98% of the pool principal.

Key Rating Strengths:

1. Three level of protection to the lender. i) MML's internal accruals, ii) Security Pool - provided by CredAvenue Titus Trust 2020, a Special Purpose Vehicle (SPV) to which MML will assign microfinance loan receivables with principal cover of 1.17 times the facility amount (Rs. 12 cr.) and iii) Cash collateral in the form of FD that is maintained at 3.0% of the initial term loan amount.

Key Rating Weaknesses:

1. The collection performance of the portfolio of MML might be impacted due to the prolonged after effects of the Covid-19 pandemic and the ensuing lockdown and moratorium, which may affect the liquidity position of the issuer.

Analytical approach & Applicable Criteria

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

Liquidity Position

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 Special Purpose Vehicle (SPV) to which MML will assign microfinance loan receivables with principal cover of 1.17 times the facility amount (Rs. 12 cr.) 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 expected interest and principal with turbo par amortization, which indicates that the residual beneficiaries would not receive any collections from the pool until the entire obligation to lender is fully repaid.

The company has a favourable liquidity position given the longer tenure borrowings repayable over 2-10 years as against shorter tenure of MFI loans of up to 2 years as also reflected by a well matched ALM as on September 30, 2020. Company's expected inflows in up to one-year bucket were 1.7 times of expected outflows. The company maintains sufficient liquidity buffer at all times to meet its immediate disbursement requirements and any emergent payments. The company has cash and bank balance of Rs. 6.09 crore with unutilised credit of Rs. 10 crore as on February 28, 2021. Additionally, the company had unencumbered investments/FD of Rs 187.8 crore as on date.

Key Rating Assumptions

The analysis for the purpose of rating is based on the fact that credit event will happen and the cashflows generated from cover pool would be utilized to repay the lender.

CARE has applied the methodology for rating Asset / Mortgage Backed Transactions to analyse the transaction to assess whether the Credit cum liquidity enhancement is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying pool, CARE has analyzed 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 has taken the average peak shortfall at 13.0% - 15.0% 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. CARE has found that the Credit cum liquidity enhancement provided is sufficient to cover shortfalls in stress scenario commensurate with the assigned rating.

About the Company

Midland Microfin Ltd (MML) was originally incorporated as 'Sajan Hire Purchase Pvt Ltd (SHPPL)' on May 28, 1988. SHPPL was engaged in hire purchase business. In June 2010, the Midland group of Punjab promoted by Mr. Amardeep Samra and family acquired SHPPL with the aim of venturing into the microfinance business and the name of the company was changed to Midland Microfin Limited in January 2011. The hire purchase business was also discontinued at the same time. MML is registered with RBI as a NBFC-MFI (Non-Banking Financial Company-Microfinance Institute) since January 2015. MML is currently operating in seven states (i.e. Punjab, Rajasthan, Haryana, Bihar, Uttar Pradesh, Jharkhand and Himachal Pradesh). The operations are managed through a network of 197 branches across 101 districts with more than 3.91 Lac active JLG borrowers with AUM of Rs.777.71 crores (including securitized pool of Rs.94.60 crores) ending March 31, 2020 and AUM of Rs. 764.91 crore (including securitized pool of Rs. 34.59 crore) as on December 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	115.89	184.35
PAT	8.65	18.73
Total Assets	778.28	985.03
AUM	547.24	777.71
Net NPA (%)	0.04	0.01
ROTA (%)	1.47	2.13

A- Audited; P- Provisional

Status of non-cooperation with previous CRA:
Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan Facility	-	-	-	12.00	Provisional CARE A-(CE); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan Facility	LT	12.00	Provisional CARE A-(CE); Stable	-	-	-	-

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

Trigger Events
A trigger event shall occur if:

- Trigger Events for invocation of Trust guarantee are as follows:
- Borrower doesn't fund the Designated Account as per the Payment Mechanism
- Servicer doesn't 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

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 2 months.
- Minimum 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 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 Reserve Bank of India (RBI) and applicable NBFC MFI guidelines pertaining to qualifying assets.

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

Sr. No	Name of Instrument	Complexity Level
1	Term Loan Facility	Highly Complex

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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