Midland Microfin Limited (Revised)

March 28, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Term Loan	8.78 (Reduced from 12.00)	CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Total Long-Term Instruments	**8.78 (Rs. Eight Crore and Seventy-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Un Supported Rating	**CARE BBB (Triple B)**

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

Rating in the absence of the pending steps/ documents	**Same as Unsupported Rating**

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

CARE Ratings has reaffirmed a rating of 'CARE A- (CE); Stable' [Single A Minus (Credit Enhancement); Outlook: 'Stable'] to the Term Loan Facility (Long Term) borrowed by Midland Microfin Limited (MML), covered with the security pool of microfinance loan receivables assigned through CredAvenue Titus Trust 2020.

The Term Loan (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. 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.

RBI, on September 24, 2021, has placed restriction on transfer of loans by specifying who can be transferee of a loan. While the SPV is not an eligible transferee, CARE believes that since this transaction was concluded before September 24, 2021 and RBI 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

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

- Upward revision of MML's standalone rating.

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

- Downward revision in the standalone rating of MML.
- Non-adherence to the key transaction terms envisaged at the time of the rating.

Detailed description of the key rating drivers

Transaction Structure:

Midland Microfin Limited (MML; Borrower and Servicer in this transaction) has borrowed a Term Loan (TL). The TL 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. 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 definition of the ratings assigned are available at HYPERLINK "http://www.careedge.in" www.careedge.in and other CARE Ratings Ltd.'s publications

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, 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 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 Rating Strengths

1. Three level of protection to the Debentures holders.
   a. MML's internal accrual (Rated 'CARE BBB; Stable', for its long term debt obligation), which is primary obligor.
   b. SPV guarantee - 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
   c. Further cash collateral in the form of FD that is maintained at 3.0% of the initial term loan amount.
2. Sound legal structure of the transaction;
3. Underwriting and collection strategies of MML;

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, which may affect the liquidity position of the issuer or performance of the security cover pool.

Liquidity:

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 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.

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 3 times of expected outflows. The company always maintains sufficient liquidity buffer to meet its immediate disbursement requirements and any emergent payments. The company has unencumbered liquid asset of around Rs.306 crore as of December 2021.

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. CARE has applied the methodology for rating Asset / Mortgage Backed Transactions to analyse the Security Pool to assess whether the Cash Collateral is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying pool, CARE 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 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.

Applicable Criteria

Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Non-Banking Financial Companies
Financial ratios – Financial Sector
Securitisation ABS and MBS
Rating Credit Enhanced Debt

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 eleven states (i.e.) Punjab, Rajasthan, Haryana, Bihar, Uttar Pradesh, Jharkhand, West Bengal, Uttarakhand, Madhya Pradesh, Gujarat and Himachal Pradesh). The operations are managed through a network of 253 branches across 129 districts with more than 4.65 Lac active JLG borrowers as on September 30, 2021. The AUM (IGAAP) was Rs 904 crores (including securitised pool of Rs 106 crores) ending December 31, 2021 and was Rs 799 crore (including securitised pool of Rs. 35 crore) as on March 31, 2021.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (P)
Total operating income	184.15	192.34	103.30
PAT	18.73	14.63	10.13
Interest coverage (times)	1.25	1.18	1.27
Total Assets	985.03	1,115.11	1,257.69
Net NPA (%)	0.05	0.35	0.41
ROTA (%)	2.12	1.39	1.61

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Loan-Long Term		-	-	-	8.78	CARE A- (CE); Stable
Un Supported Rating		-	-	-	0.00	CARE BBB

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT	11.89	CARE BBB; Stable	1)CARE BBB; Stable (10-Feb-22)	1)CARE BBB; Stable (30-Mar-21) 2)CARE BBB; Stable (11-Feb-21)	1)CARE BBB; Stable (27-Mar-20)	1)CARE BBB; Stable (28-Nov-18)
2	Fund-based - LT-Term Loan	LT	310.00	CARE BBB; Stable	1)CARE BBB; Stable (10-Feb-22)	1)CARE BBB; Stable (11-Feb-21)	1)CARE BBB; Stable (27-Mar-20)	1)CARE BBB; Stable (28-Nov-18)
3	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Stable	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	8.78	CARE A-(CE); Stable	1)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)CARE BBB; Stable (10-Feb-22)	1)CARE BBB; Stable (19-Mar-21)	-	-
6	Un Supported Rating	LT	0.00	CARE BBB				

* Long Term / Short Term

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

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

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 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	Loan-Long Term	Highly Complex

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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