Press Release

Midland Microfin Limited (Revised)

March 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	310.00 (Enhanced from 210.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**310.00 (Rs. Three hundred ten crore only)**		
Long-term Instruments	-	-	Withdrawn
Total Long-term Instruments	**-**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has withdrawn the outstanding ratings of 'CARE BBB; Stable' [Triple B; Outlook: Stable] assigned to the NCD issue of Rs 20 crore of Midland Microfin Limited (MML) with immediate effect. The above action has been taken at the request of MML and 'No Due Certificate' received from the debenture trustee.

The rating on bank facilities of MML derives strength from the company's established track record, adequate loan origination and portfolio management systems in place, along with healthy asset quality metrics. The rating is also supported by the moderately-diversified resource base, adequate liquidity position, and improving gearing levels.

However, the rating is constrained by the inching-up of softer delinquencies, pressure on profitability due to rise in credit cost, high albeit reducing geographical concentration of operations, and inherent risks involved in the microfinance industry including unsecured lending, marginal profile of borrowers, socio-political intervention risk and regulatory uncertainty.

Rating Sensitivities

Going forward, the ability of the company to sustainably grow its loan book while maintaining profitability and asset quality metrics would be key rating sensitivities. Also, the ability of the company to maintain a low gearing level, raise equity capital to fund the planned growth, and further diversification of the portfolio would be key monitorable.

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

- Sustainable growth, with GNPA being maintained below 1.5% on a continued basis.
- Improvement in geographical diversification, with a reduction in the top state concentration.
- Maintaining healthy capitalisation levels well above the regulatory requirements.

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

- Weakness in the capitalisation profile of MML, with gearing rising above 8x.
- Significant deterioration in the asset quality, and consequently, profitability profile of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

The promoters of MML belong to the Midland group of Punjab, engaged in asset finance and lending business. The management of MML is headed by Mr Amardeep Samra, Promoter and Managing Director, who has extensive experience of more than two decades in the fields of finance, hire-purchase, leasing, commercial real estate development, and management of agri-based co-operative societies. The overall operations of MML are governed by the board of seven members that comprises three independent directors, one nominee director, one non-executive non-independent director, and two promoter directors. MML has formed different board committees for technical review and formulation of policies and procedures for the working of the MFI, including an audit committee, risk management committee, board management committee, asset Liability committee, etc. MML has created separate departments with clearly demarcated roles and responsibilities for handling different functions. The promoters of MML belong to the family that is also the promoter of the Capital Small Finance Bank, based out of Punjab.

Adequate track record of operations with healthy growth in loan book in the past

MML has an established track record and has been carrying out microfinance lending activities since January 2011 and is one of the medium-sized NBFC-MFIs in the country. MML's portfolio grew 42.3% y-o-y in FY20 to Rs.778.5 crore. Growth in FY21 was relatively moderate, at 3.0% y-o-y to Rs.801.5 crore, due to the difficult macroeconomic environment; however, it rebounded in

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

9MFY22 with y-t-d growth of 13.1%, as on December 31, 2021. The portfolio is expected to cross the Rs.1,200 crore level by FY22-end.

MML has a widespread branch network, with 260 branches present across 135 districts of 11 states – Punjab, Rajasthan, Haryana, Uttar Pradesh, Bihar, Jharkhand, Himachal Pradesh, Gujarat, Madhya Pradesh, Uttarakhand, West Bengal and one Union Territory - Chandigarh, as on December 31, 2021. The company had a client base of 4.69 lakh borrowers as on December 31, 2021, with an average ticket size of Rs.18,751.

Adequate loan origination, appraisal and portfolio management systems in place

MML has adequate internal controls and procedures regarding origination, appraisal, and portfolio management, for its current scale of operations. MML also has a separate internal audit team conducting audits of the centre meetings, branches, and head office at regular intervals. The MIS helps in monitoring disbursements, collection, and cash reconciliation, daily, along with maintaining the security of data and faster access to reports for day-to-day monitoring. MML has adequate IT infrastructure and management information systems in place for monitoring its operations.

Declining yet manageable asset quality

MML has been able to maintain good asset quality since 2011, when it commenced its operations. The asset quality is supported by rigorous supervision by the operations team and regular checks and controls of the finance and internal audit departments. Impacted by the unfavourable economic environment, the gross NPA registered an uptick to 2.7% as on December 31, 2021, and 1.7% as on March 31, 2021, from 0.6% as on March 31, 2020, reflecting pressure on asset quality. The softer delinquencies are also high with 0+DPD and 60+DPD at 12.7% and 6.9%, respectively, as on December 31, 2021, but lower than peak of 41.4% and 12.7%, respectively, witnessed during year ending March 31, 2021. Overall, the asset quality of MML remains a key monitorable, given the fact that it 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 30 banks/FIs and has availed term loans which form the major (80.5%) source of the total borrowings as on December 31, 2021, the remaining being NCDs and preference shares. MML has raised funds from organisations like NABARD and SIDBI, which form 14.2% of the total borrowing. The company has also made securitisation transactions to access funds with its securitised portfolio standing at Rs.106 crore (12% of AUM, IGAAP), as on December 31, 2021.

Key Rating Weaknesses

Relatively high gearing levels, albeit improved with recent equity infusion

The adjusted gearing improved to 4.4x as on December 31, 2021, from 5.2x as on March 2021, driven by equity infusion of Rs.74.4 crore in September 2021. It still remains high, relative to similarly rated peers. Furthermore, the improvement is expected to be moderately driven by the debt-funded portfolio growth expected over the medium term. The capital adequacy ratio (CAR) remains adequate, at 43.05% as on December 31, 2021.

Moderate earnings level constrained by an increase in credit cost

ROTA declined to 1.4% in FY21 from 2.1% in FY20, which again further declined to 1.0% in 9MFY22. The decline in profitability is primarily because of the increase in credit costs caused by higher provisioning against increased delinquencies during the period. The profitability profile also got impacted by the decline in net interest margin during the period. The operating expense to average total assets remains high, at 5.3% in FY21, albeit improved from 6.3% in FY20. The company's ability to maintain credit costs, while growing the portfolio, will be a key monitorable factor for the rating.

Geographical concentration of portfolio, albeit reducing

On an overall basis, the company is operating in 135 districts of 11 states and one Union Territory through a network of 260 branches, as on December 31, 2021. Bihar and Punjab are the key areas of operations for the company, contributing 31% and 25% of the portfolio, as of December 31, 2021. This is followed by Uttar Pradesh (14%), Rajasthan (12%), Jharkhand (7%), Haryana (6%), and the rest in Gujarat, Madhya Pradesh, Himachal Pradesh, West Bengal, and Uttarakhand. The top two states concentration has reduced to 56% as on December 31, 2021, from 66% as on March 31 2021. The top two states concentration to tangible net worth remain high, at 202% as on December 31, 2021.

Inherent industry risks

The microfinance sector continues to be impacted by the inherent risk involved, viz., socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending and 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 repayable over 2-10 years as against the shorter tenure of MFI loans of up to two years, as also reflected by a well-matched ALM as on December 31, 2021. The company's expected inflows in up to one-year bucket were 3x of the expected outflows. The company always maintains sufficient liquidity buffer to meet its immediate disbursement requirements and any emergent payments. The company has unencumbered liquid assets of around Rs.306 crore as of December 2021.

Analytical approach: Standalone

Applicable Criteria

Policy on Default Recognition
Financial Ratios – Financial Sector
Rating Outlook and Credit Watch
Rating Methodology – Non-Banking Finance Companies (NBFCs)
Policy on Withdrawal of Ratings

About the Company

Midland Microfin Limited (MML) was originally incorporated as Sajan Hire Purchase Pvt Ltd (SHPPL) on May 28, 1988. SHPPL was engaged in the 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. 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 RBI as an NBFC-MFI (Non-Banking Financial Company-Microfinance Institute) since January 2015.

MML is currently operating in 11 states – Punjab, Rajasthan, Haryana, Bihar, Uttar Pradesh, Jharkhand, West Bengal, Uttarakhand, Madhya Pradesh, Gujarat, Himachal Pradesh and 1 union territory - Chandigarh. The operations are managed through a network of 260 branches across 135 districts, with more than 4.69 lakh active JLG borrowers as on December 31, 2021. The AUM (IGAAP) stood at Rs.904 crore (including securitised pool of Rs.106 crore) as on December 31, 2021, and at 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)	9MFY22 (UA)
Total operating income	184.15	192.34	160.06
PAT	18.73	14.63	10.17
Interest coverage (times)	1.25	1.18	1.19
Total Assets	985.03	1,115.11	1,296.80
Net NPA (%)	0.05	0.35	0.84
ROTA (%)	2.12	1.39	1.12

A: Audited; UA: Un-audited

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
Fund-based - LT-Term Loan		-	-	November 30, 2025	310.00	CARE BBB; Stable
Debt-Non-convertible Debenture/Subordinate Debt	INE884Q07624	March 23, 2021	13.00%	-	-	Withdrawn

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 (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	-	Withdrawn	1)CARE BBB; Stable (10-Feb-22)	1)CARE BBB; Stable (19-Mar-21)	-	-

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

Name of the Instrument			Detailed explanation
A. Financial covenants			
GNPA < 6.6%	Gearing <5x	ROTA >0%	Not available
Portfolio at risk <2.5%	Solvency ratio >16%	Exposure to single entity <10%	

Name of the Instrument			Detailed explanation
A. Financial covenants			
Off-balance sheet portfolio/Gross loan portfolio <40%	Off-balance sheet portfolio/asset of <30%	CAR >20% Tier-1 capital >15%	
NNPA <1.5%	Write-off <3%	30+dpd <3%	
90+dpd/tangible net worth <2%	Positive profit after tax		
B. Non-financial covenants			Not available
Mergers, acquisitions, investment in associates, JVs and subsidiaries including disposal of any of the above			
Any change in the stake of Mr Amardeep Singh Samra from the current stake of 5.62%			
Any dilution of control over te board composition, other than the appointment of independent directors			
Mr Amardeep Singh Samra ceases to remain the Managing Director of the company.			

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

Sr. No	Name of instrument	Complexity level
1	Debentures-Non-Convertible Debentures	Simple
2	Debt-Non-convertible Debenture/Subordinate Debt	Simple
3	Fund-based - LT-Term Loan	Simple

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 Limited 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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Neha Kadiyan
Contact no.: 8130340369
Email ID: Neha.Kadiyan@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

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.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

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.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**