Madura Micro Finance Limited

April 6, 2018

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	205.55 (enhanced from Rs.100 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Total	**205.55 (Rupees Two Hundred Five crore and Fifty Five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long term bank facilities of Madura Micro Finance Limited (MMFL) continues to factor in the experienced promoters and management team, good profitability indicators and comfortable capitalization levels. The rating also takes note of adequate loan appraisal, MIS & risk management systems and improved resource profile. However, the rating is constrained by geographical concentration of loan portfolio and regulatory & political risks inherent in the microfinance industry. Asset quality has witnessed slight moderation in FY17 (refers to the period April 01 to March 31) and 9mFY18 (refers to the period April 01 to December 31) in trend with the industry.

Going forward, the ability of the company to grow its portfolio, improve its asset quality & reduce delinquencies, maintain profitability and geographically diversify its loan portfolio will form the key rating sensitivities. Any change in the regulatory environment is also a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and management team

Madura Micro Finance Limited (MMFL) was founded by Dr K M Thiagarajan, who was the former Chairman and CEO of Bank of Madura. Now, the company is headed by Dr Tara Thiagarajan, who is the Chairman and Managing Director and has a total experience of 22 years with 10 years in the MFI sector. The board of MMFL comprises three Independent Directors and five directors with extensive experience in banking and microfinance operations. The company has strengthened the senior management team by recruiting experienced professionals to look after various departments like Credit, Risk & Legal, People excellence, Business Development, etc. The microfinance operations are headed by Mr M Narayanan, President and CFO, who has about 25 years of experience in banking & financial services and 10 years in the microfinance industry.

Adequate loan appraisal and collection system

MMFL operates under the SHG lending model in which the group undergoes training programs in various activities. The group also undergoes Basic Awareness Training (BAT) regarding loan process, product details, group formation and group liability. MMFL's Member Welfare Associates (MWAs) and Member Relationship Associates (MRAs) who are the field officers, are provided with tabs and they complete the loan application process and submit the documentation to the branch/cluster manager along with KYC details. All the branches have been provided with scanner. All the relevant documents including KYC, each group member details are sent to the Head Office. The credit bureau (Equifax and High Mark) check is done at the HO. Loans are disbursed to individual bank accounts through cheque/NEFT. The portfolio is monitored on an on-going basis by post disbursement verification of assets created out of loan amount. The collection is updated in the system daily and this facilitates in generation of the reports on the same day and assists in reconciliation process as well.

Risk management systems & MIS

The risk and legal team handles four functions, namely, Collections, Internal audit, Risk management and Legal. The internal audit team visits the branches every quarter. At present, the company uses in-house software 'Sakthi Sangamam' for loan origination and processing, member acquisition, group formation and collections. The company is also in the process of implementing 'Oracle Loans' software. The branches can access data from HO through web. System generated reports containing demand and collection reports, pending payments reports, etc., will be sent to all the branches on a daily basis. The system would be able to generate various reports like PAR report, disbursement report, cash status, audit report etc. Selection of new branches is done after a detailed analytical study on the geography.

Comfortable capitalization levels

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

The company has maintained comfortable capital adequacy levels over the years. In September 2016, AVT & Co Ltd. has infused fresh equity of Rs.40 crore into the company. Subsequently, CAR and Tier I CAR has improved from 20.12% and 19.15% as on March 31, 2016 to 26.99% and 20.46% as on March 31, 2017. As on December 31, 2017, CAR and Tier I CAR further improved to 28.25% and 22.55% on account of fresh equity infusion of around Rs.25 crore by AVT group during Q1FY18. Overall gearing has improved from 4.55x times as on March 31, 2016 to 4.29x times as on March 31, 2017.

Growing scale of operations and good profitability levels

MMFL has witnessed continuous growth in the scale of operations over the last three years thus increasing its outreach. The loan portfolio has grown at 57% from Rs.524 crore as on March 31, 2016 to Rs.820 crore as on March 31, 2017, backed by growth in disbursements during the same period. The disbursements increased from Rs.554 crore in FY16 (refers to the period April 1 to March 31) to Rs.763 crore in FY17. During 9mFY18, the company made disbursements of Rs.657 crore. With the growth in the loan portfolio, interest income on loan portfolio grew by 54% from Rs.106 crore in FY16 to Rs.163 crore in FY17. NIM has improved from 11.21% in FY16 to 11.82% in FY17 on account of reduction in cost of borrowings from 13.38% in FY16 to 12.29% in FY17. Operating expenses to average total assets remained at 6.14% in FY17 as compared to 6.20% in FY16. ROTA has marginally increased from 3.78% in FY16 to 3.90% in FY17.

Improved Resource profile

MMFL's funding profile has improved from FY15 when its major source of funding is term loans from banks and financial institutions which constituted 100% of the total borrowings. During FY16 & FY17, the company has issued NCDs amounting to Rs.127 crore. The share of borrowings from FIs has reduced from 47% as on March 31, 2016 to 36% as on March 31, 2017 and further to 25% as on September 30, 2017 and the share of bank borrowings has increased from 37% as on March 31, 2016 to 47% as on March 31, 2017 and to 54% as on September 30, 2017. As a result, the cost of borrowings has come down from 13.38% in FY16 to 12.29% in FY17. Of the total borrowings, NCDs constituted 17% as on March 31, 2017 (PY: 16%).

Key Rating Weaknesses

Slight moderation in asset quality and increase in delinquencies post demonetization

MMFL have maintained healthy asset quality primarily on account of better collection efficiency. However, post demonetization, GNPA moderated from 0.22% as on March 31, 2016 to 0.49% as on March 31, 2017 in trend with the industry. NNPA was NIL as on March 31, 2017. As on December 31, 2017, GNPA and NNPA further moderated to 0.75% and 0.05% respectively. Though the company's delinquency levels were higher in Karnataka and Maharashtra, the exposure to these states remained lower at 10% of total loan portfolio outstanding as on December 31, 2017 and as a result, the impact on the overall asset quality was relatively lower.

However, on-time portfolio has moderated from 98.81% as on March 31, 2016 to 93.20% as on March 31, 2017 and stood at 93.90% as on December 31, 2017. 30+ DPD moderated from 0.57% as on March 31, 2016 to 2.11% as on March 31, 2017. As on December 31, 2017, 30+ DPD stood at 2.11%. However, the delinquency levels are lower for the accounts disbursed post January 2017. Once the old portfolio runs down, delinquency levels are expected to improve.

Geographically concentrated loan portfolio

As on December 31, 2017, MMFL operated with 248 branches in 48 districts across 4 states and 1 UT. The company is operating in TN, Karnataka, Maharashtra, Kerala and Puducherry. The portfolio is geographically concentrated with TN accounting for 84% share followed by Maharashtra (6%), Karnataka (4%), Kerala (3%) and Puducherry (1%) as on December 31, 2017. Although strong presence in a particular region helps the company to understand the dynamics of the particular region, it is exposed to geographical concentration risk. MMFL plans to expand into new regions such as Bihar and Orissa, going forward in order to grow and diversify its loan book.

Prospects

On account of various events post demonetization, collection efficiency of the MFIs/newly converted SFBs has deteriorated in some of the regions. This has impacted the asset quality of the MFIs/SFBs leading to increase in credit costs for MFIs with significant presence in these regions. It is expected that the loss on account of this event is likely to be in the range of 5-10% of the total loan portfolio for the sector.

Given the current situation and any further deterioration in the situation from hereon, the profitability of the MFIs/SFBs are expected to take a severe hit in FY18 on account of higher provisioning costs. Overall FY18 is expected to be a challenging year for the sector with growth expected to moderate on the back of demonetization as the MFIs/SFBs will primarily concentrate on overhaul of entire operations to minimize future losses. The portfolio growth for the sector is expected to be around 25 to 30% y-o-yin FY18 as compared to 50-60% y-o-y growth achieved in the past few years. However given the market potential, the sector is likely to continue its high growth post normalization of situation with MFIs continuing to attract funds and improving operational efficiencies to maintain profitability.

The credit view will continue to factor in risks associated with unsecured lending, socio-political intervention, geographic concentration and operational risks related to cash based transaction. The financial performance of MMFL has witnessed improvement in FY17 & 9mFY18 supported by significant growth in loan portfolio. Despite the MFI industry undergoing difficult times post-demonetization, on account of limited presence to the states which has witnessed higher delinquencies in MFI loans, the asset quality of MMFL witnessed slight moderation. Notwithstanding increase in provisions towards NPA, profitability levels (as reflected in ROTA) continue to remain stable. With established presence in the state of Tamil Nadu, relatively better profitability and stable performance, MMFL is better placed to grow its business by expanding into new regions.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Financial Ratios-Financial Sector](#)
[CARE's Rating Methodology for Non Banking Finance Companies (NBFCs)](#)

About the Company
Madura Micro Finance Limited (MMFL) is a Non-Banking Finance Company (NBFC) established in September 2005 and started operations in early 2006. The company got converted to NBFC-MFI in December 2013. The lending model has its origins at the former Bank of Madura where beginning in 1995, the late Dr K M Thiagarajan who was the Chairman and CEO, experimented with a new model of SHG (Self Help Group) training and lending as a means to create a sustainable profit-based model of rural lending. In the year 2001, Bank of Madura merged with ICICI Bank. Subsequently, Dr K M Thiagarajan started rural lending through Micro Credit Foundation of India in 2003 and later started MMFL in 2005. Currently, Dr Tara Thiagarajan is the Chairman and Managing Director of the company. As on September 30, 2017, promoters hold 46.08% stake and the remaining is held by Elevar Unitus Corporation (Private Equity Investor) (12.93%), AVT & Co. Ltd (12.77%), Midland Rubber (12.77%), Employees Welfare Trust (7.40%) and others (8.05%). As on September 30, 2017, the company is operating with 226 branches in 45 districts across 4 states and 1 Union territory with AUM of Rs.895 crore.
MMFL is engaged in the activity of extending loans to economically backward women through Women Self Help Groups for income generation purposes. The main objective of the company is to assist the poor women for their upliftment, promoting entrepreneurship and providing micro credit/finance in different loan cycles at reasonable rates of interest.
During FY17 (refers to the period April 01 to March 31), the company reported PAT of Rs.30.2 crore on a total income of Rs.179.8 crore. During 9mFY18 (refers to the period April 01 to December 31), the company reported PAT of Rs.29.9 crore on a total income of Rs.165.7 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	119	180
PAT	19	30
Interest coverage (times)	1.55	1.67
Total Assets	601	947
Net NPA (%)	0.11	0.00
ROTA (%)	3.78	3.90

A- 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

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.*

Analyst Contact:
Name: Mr P Sudhakar
Tel: 044-2850 1003
Email: p.sudhakar@careratings.com

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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
Fund-based - LT-Term Loan	-	-	April 2020	205.55	CARE BBB+; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	205.55	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Dec-17) 2)CARE BBB+; Stable (04-May-17)	-	-
2.	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Dec-17) 2)CARE BBB+; Stable (02-Aug-17)	-	-
3.	Debentures-Non Convertible Debentures	LT	33.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Dec-17)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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