Madura Micro Finance Limited

May 04, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	100	**CARE BBB+; Stable [Triple B Plus; Outlook: Stable]**	Assigned
Total Facilities	**100 (Rupees One Hundred crore 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) primarily factors in experienced promoters and management team, good asset quality & profitability indicators and comfortable capitalization levels. The rating also takes note of adequate loan appraisal, MIS and risk management systems. However, the rating is constrained by geographical concentration of loan portfolio and regulatory & political risks inherent in the microfinance industry.

Going forward, the ability of the company to grow its portfolio while sustaining good asset quality, 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. She is a neuro scientist and has a total experience of 22 years with 10 years in the MFI sector. The board of MMFL comprises three Independent Directors and 5 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 is headed by Mr M. Narayanan, President and CFO, who has about 25 years of experience in banking & financial services and 10 years in 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. The Branch/cluster manager then meets the group in the center meeting to assess its integrity and repayment capacity. 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. After verifying all the details, loan is sanctioned by GM-Credit at HO. Loans are disbursed to individual bank accounts through cheque/NEFT. Every borrower is given with the repayment schedule indicating the due dates and the passbook for the loan account. The portfolio is monitored on an on-going basis by post disbursement verification of assets created out of loan amount. The repayment happens on monthly basis in the branches by the group members. At the end of each day, the collected amount is deposited into the designated bank branch and updated in the system. This facilitates in generation of the reports 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. The company has appointed KPMG so as to standardize the internal

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

audit process. The collections are monitored by a 6-member collection team assisted by 55 credit risk associates (CRAs). At present, the company uses in-house software 'Sakthi Sangamam' for loan origination and processing, member acquisition, group formation and collections. 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. MMFL is in the process of migrating to 'Oracle Finance' software. The migration to new software is expected to be completed in 9 months.

Good Asset quality

MMFL have maintained healthy asset quality primarily on account of better collection efficiency. The collection efficiency has been consistently strong and maintained above 99% in the past three years. Gross NPA and Net NPA stood at 0.23% and 0.12% as on March 31, 2016, as against 0.18% and 0.10%, respectively, as on March 31, 2015. As on December 31, 2016, GNPA and NNPA stood at 0.17% and 0.08%. Net NPA to Networth stood comfortable at 0.59% as on March 31, 2016, and 0.38% as on December 31, 2016. As on February 28, 2017, 1+ DPD and 30+ DPD stood at 3.75% and 1.73% as against 1.19% and 0.57%, respectively, as on March 31, 2016.

Comfortable capitalization levels

The company has maintained comfortable capital adequacy levels over the years. CAR and Tier 1 CAR stood comfortable at 20.12% and 19.15% as on March 31, 2016, as compared with 23.57% and 22.63% as on March 31, 2015. In September 2016, AVT & Co Ltd. has infused fresh equity of Rs.40 crore into the company. Subsequently, CAR and Tier 1 CAR has improved to 22.35% and 21.38% as on December 31, 2016. Overall gearing stood at 4.55x times as on March 31, 2016, as against 3.67x times as on March 31, 2015. On account of fresh equity infusion in September 2016, Overall gearing has improved to 3.73x times as on December 31, 2016.

Growing scale of operations and good profitability levels

After the demise of founding member, MMFL has witnessed slower growth. Later, Dr. Thara Thiagrajan has taken charge and with increased focus on MFI business, MMFL has witnessed continuous growth in the scale of operations over the last three years thus increasing its outreach. Over the last three years, the loan portfolio has grown at a CAGR of around 51% from Rs.230 crore as on March 31, 2014 to Rs.524 crore as on March 31, 2016 backed by growth in disbursements during the same period. The disbursements increased from Rs.223 crore in FY14 (refers to the period April 1 to March 31) to Rs.554 crore in FY16 thus registering a CAGR of around 57%. With the growth in the loan portfolio, interest income on loan portfolio had grown at the CAGR of around 52% from Rs.46 crore in FY14 to Rs.106 crore in FY16. NIM has marginally decreased from 11.97% in FY15 to 11.21% in FY16 due to increase in interest expenses. Operating expenses to average total assets has increased from 5.86% in FY15 to 6.20% in FY16 due to increase in employee costs. ROTA also marginally declined from 4.32% in FY15 to 3.78% in FY16.

Key Rating Weaknesses

Resource profile

MMFL's funding profile has improved from FY15 where its major source of funding is term loans from banks and financial institutions which constituted 100% of the total borrowings. However, in FY16, the company has issued NCDs amounting to Rs.76.60 crore. As a result, contribution from banks and FIs dropped to 83% and NCDs accounted for 16% as on March 31, 2016. Within banks, MMFL enjoys limit from 20 banks.

Geographically concentrated loan portfolio

As on March 31, 2016, MMFL operated with 246 branches in 44 districts across 4 states as against 223 branches in 37 districts across 3 states as on March 31, 2015. The total branches have increased from 246 in FY16 to 261 in 9mFY17. The company is operating in 4 states namely TN, Karnataka, Maharashtra and Kerala. The portfolio is geographically concentrated with TN accounting for 85% share followed by Maharashtra (8%), Karnataka (5%) and Kerala (2%) as on December 31, 2016. 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.

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. Dr Tara Thiagarajan is the Chairman and Managing Director of the company. As on December 31, 2016, promoters hold 46% stake and the remaining is held by Elevar Unitus Corporation (Private Equity Investor) (13%), AVT & Co Ltd (13%), Midland Rubber & Produce Company Limited (13%), Employees Welfare Trust (7%) and others (8%). As on December 31, 2016, the company is operating with 261 branches in 45 districts across 4 states with AUM of Rs.775 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 FY16 (refers to the period April 01 to March 31), the company reported PAT of Rs.19.2 crore on a total income of Rs.118.8 crore.

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.*

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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	-	-	December 2019	100.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	100.00	CARE BBB+; Stable	-	-	-	-

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