

## Madura Micro Finance Limited

August 02, 2017

### Ratings

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Non-Convertible Debenture issue (Proposed)	40.00 (Rupees Forty Crore only)	<b>CARE BBB+; Stable [Triple B Plus; Outlook: Stable]</b>	Assigned

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed Non-Convertible Debenture issue of Madura Micro Finance Limited (MMFL) continues to factor in the experienced promoters and management team & 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, moderation in asset quality during FY17 (refers to the period April 01 to March 31) and Q1FY18 (refers to the period April 01 to June 30) and regulatory & political risks inherent in the microfinance industry.

Going forward, the ability of the company to grow its portfolio, improve its 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 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. 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 a 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 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. The company has appointed KPMG so as to standardize the internal 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

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.

### ***Comfortable capitalization levels***

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 1 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 June 30, 2017, CAR and Tier 1 CAR further improved to 27.85% and 21.97% 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***

After the demise of the 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 52% from Rs.354 crore as on March 31, 2015 to Rs.820 crore as on March 31, 2017, backed by growth in disbursements during the same period. The disbursements increased from Rs.336 crore in FY15 (refers to the period April 1 to March 31) to Rs.763 crore in FY17 thus registering a CAGR of around 44%. With the growth in the loan portfolio, interest income on loan portfolio had grown at the CAGR of around 52% from Rs.70 crore in FY15 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. 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.

### **Key Rating Weaknesses**

#### ***Moderation in Asset Quality on account of 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. NNPA was NIL as on March 31, 2017. As on June 30, 2017, GNPA and NNPA further moderated to 1.03% and 0.21% respectively. 30+ DPD moderated from 0.57% as on March 31, 2016 to 2.11% as on March 31, 2017. As on June 30, 2017, 30+ DPD stood at 2.44%.

#### ***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, during FY16 & FY17, the company has issued NCDs amounting to Rs.126.60 crore. As a result, contribution from banks and FIs dropped to 83% and NCDs accounted for 17% as on March 31, 2017. Within banks, MMFL enjoys limit from 20 banks.

#### ***Geographically concentrated loan portfolio***

As on March 31, 2017, MMFL operated with 212 branches in 45 districts across 4 states. 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 March 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.

#### ***Prospects***

Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen growth in loan portfolio on account of improving funding profile, control in operating expenses and moderate leverage levels. Current focus of the microfinance sector is mainly on micro-credit with other products still evolving. Going forward, MFIs are likely to expand their client base and reach out to more underserved areas of the country. The stabilization of the regulatory regime has led to a renewed interest from both domestic and foreign funds in the sector. In recent past, the sector has witnessed strong capital inflows.

Also, post upward revision in loan ticket-size, household income and indebtedness by RBI would aid in the growth of the loan portfolio of MFIs as it widens the base of borrowers and significantly increases the addressable market size. Furthermore, resources are not seen as a major constraint given the significant capital infusion in recent times. If MFIs manage to control the asset quality of their portfolio while adhering to new guidelines, the profitability of the sector is expected to improve with the benefits of operating leverage. 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.

#### **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 June 30, 2017, promoters hold 41.35% stake and the remaining is held by Elevar Unitus Corporation (Private Equity Investor) (12.04%), AVT group (32.23%), Employees Welfare Trust (6.89%) and others (7.50%). As on June 30, 2017, the company is operating with 220 branches in 45 districts across 4 states with AUM of Rs.838 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.

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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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
Debentures-Non Convertible Debentures (Proposed)	-	-	-	40.00	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	1)CARE BBB+; Stable (04-May-17)	-	-	-
2.	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Stable	-	-	-	-

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