Madura Micro Finance Limited

October 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	205.55 (Rupees Two hundred five crore and fifty five lakhs only)	**CARE BBB+; Positive [Triple B Plus; Outlook: Positive]**	**Revised from CARE BBB+; Stable [Triple B Plus; Outlook: Stable**
Non-Convertible Debenture issue-I	40.00 (Rupees Forty crore only)	**CARE BBB+; Positive [Triple B Plus; Outlook: Positive]**	**Revised from CARE BBB+; Stable [Triple B Plus; Outlook: Stable]**
Non-Convertible Debenture issue-II	33.00 (Rupees Thirty Three crore only)	**CARE BBB+; Positive [Triple B Plus; Outlook: Positive]**	**Revised from CARE BBB+; Stable [Triple B Plus; Outlook: Stable]**
Non-Convertible Debenture issue-III	40.00 (Rupees Forty crore only)	**CARE BBB+; Positive [Triple B Plus; Outlook: Positive]**	**Revised from CARE BBB+; Stable [Triple B Plus; Outlook: Stable]**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and various debt instruments of Madura Micro Finance Limited (MMFL) continue to factor in the experienced promoters and management team, adequate loan appraisal & collection system, risk management systems & MIS, comfortable capital adequacy levels, liquidity profile and healthy profitability levels. The ratings also take note of improvement in scale of operations and asset quality indicators during FY18 (refers to the period April 01 to March 31) and Q1FY19 (refers to the period April 01 to June 30). The ratings are however constrained by geographical concentration of loan portfolio amidst efforts taken to diversify its business in the new states, moderately diversified resource profile and regulatory & political risks inherent in the microfinance industry.

In light of growth plans envisaged by the company in the medium term, ability of MMFL to diversify its portfolio to reduce geographical concentration, maintaining good asset quality indicators, comfortable capital adequacy levels and healthy profitability levels would be the key rating sensitivities.

Outlook: Positive

The outlook is revised to 'Positive' based on the expectation that the company's entry into the new states would reduce geographical concentration and maintaining capital adequacy at comfortable levels through periodical capital infusion to support the envisaged business growth going forward. The outlook, however, may be revised to 'Stable' if the company is not able to reduce its geographical concentration from the current level over the medium term.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and management team

Madura Micro Finance Limited was founded by Dr. K. M. Thiagarajan, who was the former Chairman and CEO of Bank of Madura. The company is currently headed by Dr. Tara Thiagarajan who is the Chairman and Managing Director having total experience of 22 years with 10 years in the MFI sector. The board of MMFL comprises two independent directors and six 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, HR, Business Development etc. The 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 is formed and undergoes Basic Awareness Training (BAT) regarding loan process, product details, group formation and group liability. MMFL's field officers are provided with tabs and complete the loan application process and submit the documentation to the branch manager along with KYC details. The Branch 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 check is done at the HO by centralized credit team. After verifying all the details, loan is sanctioned and the Loans are disbursed to individual bank accounts through cheques/NEFT. Every borrower is given with the repayment schedule

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

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 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 and submits the report to the board. At present, the company uses in-house software for loan origination and processing, member acquisition and group formation and collections. The company has implemented Oracle Loans software in which the data are stored in cloud storage technology and all the branch related data can be accessed from HO. 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.

Improvement in scale of operations by expanding into newer geographies

MMFL has witnessed improvement in scale of operations with total AUM increased from Rs. 822.6 crore as on March 31, 2017 to Rs. 1,184.2 crore as on March 31, 2018 registering growth of 43.96% and further increased to Rs. 1,392.9 crore as on June 30, 2018. The total disbursements grew by 39.26% from Rs.763.3 crore during FY17 to Rs. 1,063.0 crore during FY18. During Q1FY19, the company made disbursements of Rs. 429.3 crore as against Rs. 406.3 crore during Q4FY18 and Rs. 169.9 crore during Q1FY18. The improvement in the overall disbursements during FY18 and Q1FY19 was mainly due to increase in the member base from 515,104 in FY17 to 688,546 in FY18 and further to 739,855 in Q1FY19 and expansion into new geographies. During FY18, the company expanded its business in Odisha and Bihar and proportion of the same as on June 30, 2018 was 1.01% and 0.69% respectively. As on June 30, 2018, the company operates in 59 districts with 301 branches as against 45 districts with 217 branches as on March 31, 2017.

Good Asset quality profile with improvement in collection efficiency post demonetization

MMFL's asset quality profile improved during FY18 and Q1FY19 with gross NPA and Net NPA as on March 31, 2018 was 0.52% (PY: 0.49%) and Nil (PY: Nil) and the same as on June 30, 2018 was 0.45% and Nil respectively. 30+dpd reduced from 2.11% in March 2017 to 1.53% in March 2018 and further to 1.27% in June 2018. Though there was an impact in the asset quality profile due to demonetization, collection efficiency improved during FY18 and Q1FY19 thereby reducing delinquency levels. Karnataka and Maharashtra witnessed higher delinquencies during demonetization and 90+ dpd in Karnataka and Maharashtra portfolio was 2.96% and 2.31% respectively as on March 31, 2017 however the same reduced to 1.48% and 0.95% as on June 30, 2018. MMFL has exposure of in Kerala of around Rs. 50.5 crore (3.6% of AUM) as on June 30, 2018 and the regions where the company is currently operating (Kollam, Palakkad, Trivandrum) were not severely affected by floods however the ability to have healthy collection efficiencies in these regions as witnessed in the past remains to be seen.

Comfortable liquidity profile

ALM profile remains comfortable on account of short term nature of its loan assets, as most of the loans amortize on a monthly basis with a maximum tenure of up to 2 years. The funding profile is concentrated towards long term funds and the trend is expected to continue resulting in comfortable liquidity profile. As per ALM profile as on March 31, 2018, there are no negative cumulative mismatches in any of the time buckets.

Comfortable capitalization profile

The company has maintained capital adequacy ratios at comfortable levels during FY18 and Q1FY19 due to equity infusion from the external investors during last two years (Rs. 40.0 cr in FY17 and Rs. 25.0 cr in FY18). The total CAR and Tier I CAR stood at 25.70% (PY: 26.99%) and 21.00% (PY: 20.46%) as on March 31, 2018 and 22.18% and 18.28% as on June 30, 2018 respectively. Overall gearing was around 3.94x times as on March 31, 2018 and 4.43x as on June 30, 2018 as against 4.29x as on March 31, 2017. The ability of the company to mobilize equity capital at timely manner to support the envisaged growth plan remains as a key rating sensitivity.

Healthy profitability profile amidst bad loan write-offs during FY18

MMFL has been able to maintain healthy profitability profile in the past on account of lower operating expenses and loan loss provisioning costs. During FY18, NIM slightly moderated to 11.22% in FY18 as against 11.82% in FY17 due to income reversals on NPA accounts and the company also had written off the bad loans to the extent of Rs. 13.6 crore in FY18 which increased loan loss provisioning costs as a % of average total assets to 1.91% in FY18 from 1.07% in FY17. ROTA however remained healthy at around 3.69% in FY18 as against 3.90% in FY17. MMFL reported PAT of Rs. 39.8 on a total income of Rs. 233.1 crore during FY18 as against PAT of Rs. 30.2 crore on a total income of Rs. 179.8 crore during FY17. During Q1FY19, the company reported PAT of Rs. 15.1 crore on a total income of Rs. 76.4 crore.

Key Rating Weaknesses

Geographically concentrated loan portfolio

Though the company has put in effort to expand into new geographies, the loan portfolio of the company remained geographically concentrated with the proportion of Tamil Nadu was at 82.66% as on June 30, 2018 however it is reduced from 85.25% as on March 31, 2017 (Mar'18: 83.85%). Exposure to top ten districts was at 49.70% of AUM as on June 30, 2018 reduced from 53.04% of AUM as on March 31, 2017. The ability of the company to expand into new regions to reduce geographical concentration without impacting asset quality performance remains as key rating sensitivity.

Moderately diversified resource profile

MMFL currently has relationship with 20 Banks (14 Private Sector and 6 PSU banks) and 13 Financial Institutions (FIs) and the resource profile is comprised of Term loan from Banks, FIs and NCDs constituting 48.3% (PY: 47%), 30.1% (PY: 36%) and 21.7% (PY: 17%) respectively as on March 31, 2018 and 48.0%, 37.6% and 14.4% respectively as on June 30, 2018. The share of Private Sector Banks increased to 34.2% as on June 30, 2018 from 30.1% as on March 31, 2018. The company also raised funds through Sub debt and the share of Sub debt constituted around 4.5% (Rs. 50.0 cr) of the total borrowings as on June 30, 2018.

Industry Prospects

Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels. RBI has revised the lending norms for the MFI sector, post Andhra Pradesh (AP) crisis in 2010 and Malegam Committee Report on NBFC-MFI in 2011. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. However, on account of various events post demonetization, collection efficiency of the MFIs had deteriorated during FY17. This has impacted the asset quality of the MFIs leading to increase in credit costs during FY17 and FY18. However with improvement in the scenarios during FY18, the overall industry had grown by around 50% during FY18 in terms of AUM and collection efficiency of the overall industry improved during FY18 with 30+dpd improved to 4.44% as on March 31, 2018 from 11.05% as on March 31, 2017 (source: MFIN).

With further improvement expected in the overall MFI industry over the medium term, the ability of the company to improve its scale op operations through geographical diversification and withstand event risks and avoid further deterioration in the asset quality leading to impact in the overall profitability will be the key considerations.

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 received NBFC-MFI license 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 June 30, 2018, promoters hold 41.94% stake and the remaining is held by Elevar Unitus Corporation (Private Equity Investor) (12.04%), AVT & Co. Ltd (16.11%), Midland Rubber Ltd (16.12%), Employees Welfare Trust (6.08%) and others (7.72%). As on June 30, 2018, the company is operating with 301 branches in 59 districts across 6 states and 1 Union territory with AUM of Rs.1,392.9 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	180	233
PAT	30	40
Interest coverage (times)	1.67	1.68
Total Assets	947	1,214
Net NPA (%)	0.00	0.00
ROTA (%)	3.90	3.69

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.*

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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	-	-	July 2021	205.55	CARE BBB+; Positive
Debentures-Non Convertible Debentures	August 2017	11.50%	July 2020	40.00	CARE BBB+; Positive
Debentures-Non Convertible Debentures	December 2017	11.40%	December 2020	33.00	CARE BBB+; Positive
Debentures-Non Convertible Debentures	August 2018	11.40%	December 2020	40.00	CARE BBB+; Positive

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+; Positive	1)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Stable (05-Dec-17) 2)CARE BBB+; Stable (04-May-17)	-	-
2.	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (05-Dec-17) 2)CARE BBB+; Stable (02-Aug-17)	-	-
3.	Debentures-Non Convertible Debentures	LT	33.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (05-Dec-17)	-	-
4.	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Positive	1)CARE BBB+; Stable (29-Aug-18)	-	-	-

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