Madura Micro Finance Limited

December 06, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term – Bank Facilities	785.55 (Rupees Seven Hundred Eighty Five crore and Fifty Five Lakh only)	**CARE BBB+ (Triple B Plus) (Credit Watch with positive implications)**	Placed on Credit watch with Positive Implications
Non-Convertible Debenture issue-I	40.00 (Rupees Forty crore only)	**CARE BBB+ (Triple B Plus) (Credit Watch with positive implications)**	Placed on Credit watch with Positive Implications
Non-Convertible Debenture issue-II	33.00 (Rupees Thirty Three crore only)	**CARE BBB+ (Triple B Plus) (Credit Watch with positive implications)**	Placed on Credit watch with Positive Implications
Non-Convertible Debenture issue-III	40.00 (Rupees Forty crore only)	**CARE BBB+ (Triple B Plus) (Credit Watch with positive implications)**	Placed on Credit watch with Positive Implications
Non-Convertible Debenture issue-IV	36.00 (Rupees Thirty Six crore only)	**CARE BBB+ (Triple B Plus) (Credit Watch with positive implications)**	Placed on Credit watch with Positive Implications

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instruments of Madura Micro Finance Limited (MMFL) are placed on credit watch with positive implications following the announcement by the Board of Directors of MMFL approving (i) the acquisition of 76.2% of the share capital of MMFL from its existing shareholders by CreditAccess Grameen Limited (CAGL) and (ii) a scheme of arrangement amongst CAGL, MMFL and their respective shareholders and creditors, providing for the amalgamation of MMFL into CAGL. The scheme is subjected to regulatory and other approvals. CARE will closely follow the developments in this regard and will consider taking appropriate rating action in due course. CAGL is a NBFC-MFI with AUM and networth of Rs.7,905 crore and Rs.2,501 crore as on September 30, 2019 respectively.

The rating assigned to the bank facilities and debt instruments of MMFL continues to factor in the experienced promoters and management team, adequate loan appraisal & collection system, risk management systems & MIS, comfortable capital adequacy levels and healthy profitability levels. The rating also takes notes of improvement in scale of operations and good asset quality despite slight moderation during FY19 (refer to the period April 01 to March 31) and H1FY20 (refers to the period April 01 to September 30) due to impact of Gaja cyclone in Tamil Nadu. The ratings are however constrained by geographical concentration of loan portfolio despite improvement in the same, 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.

Rating Sensitivities

Positive Factors:

- Improvement in geographical diversification while increasing the scale of operations
- Maintain healthy profitability on a sustained basis.

Negative Factors:

- Weakening of asset quality parameters
- Weakening of capital adequacy levels

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

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 more than 20 years with more than 10 years in the MFI sector. The board of MMFL comprises three 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, CEO 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 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.

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 significant growth in scale of operations with total AUM increased from Rs. 1,184 crore as on March 31, 2018 to Rs. 1,958 crore as on March 31, 2019 registering growth of 65% and further increased to Rs. 2,053 crore as on September 30, 2019. The total disbursements grew by 69% from Rs.1,063 crore during FY18 to Rs. 1,792 crore during FY19. As on March 31, 2019, the company operates in 74 districts with 357 branches having member base of 9,56,712 as against 59 districts with 282 branches having member base of 6,88,546 in March 31, 2018. As on September 30, 2019, the company operates in 84 districts with 420 branches with a member base of 11,09,195.

Good asset quality indicators despite slight moderation during FY19 and H1FY20 due to impact of Gaja cyclone in Tamil Nadu
Gross NPA and Net NPA slightly moderated to 0.90% (PY: 0.52%) and Nil (PY: Nil) as on March 31, 2019. As on September 30, 2019, GNPA and NNPA moderated to 1.41% and 0.41% respectively. The moderation in asset quality was majorly due to the impact of Gaja cyclone in Tamil Nadu. 30+dpd moderated from 1.53% as on March 31, 2018 to 3.72% as on March 31, 2019. As on September 30, 2019, the 30+dpd stand at 4.10% of the AUM. The ability of the company to improve its collection efficiency and maintain asset quality at comfortable levels remains critical for rating perspective.

Comfortable capitalization profile
The total CAR and Tier I CAR stood at 19.45% (PY: 25.70%) and 16.63% (PY: 21.00%) as on March 31, 2019 and 19.86% and 17.57% as on September 30, 2019 respectively. Overall gearing was around 5.14x times as on March 31, 2019 and 4.49x as on September 30, 2019 as against 3.94x as on March 31, 2018. 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 FY19
MMFL has been able to maintain healthy profitability profile in the past on account of lower operating expenses. During FY19, NIM has improved to 11.77% in FY19 as against 11.22% in FY18. Opex to Average total assets improved from 5.42% in

FY18 to 4.97% in FY19. MMFL had written off the bad loans to the extent of Rs. 15.1 crore in FY19 which increased loan loss provisioning costs as a % of average total assets to 2.14% in FY19 from 1.91% in FY18. ROTA however remained healthy at around 5.04% in FY19 as against 3.69% in FY18. MMFL reported PAT of Rs. 80.5 crore on a total income of Rs. 374.6 crore during FY19 as against PAT of Rs. 39.8 crore on a total income of Rs. 233.1 crore during FY18. During H1FY20 (IndAS), the company reported PAT of Rs. 37.08 crore on a total income of Rs. 227.26 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 73.96% as on March 31, 2019 however it reduced from 83.85% as on March 31, 2018. As on September 30, 2019, Tamil Nadu concentration stood at 67.83%. Exposure to top ten districts was at 35.09% of AUM as on March 31, 2019 reduced from 51.86% of AUM as on March 31, 2018. The company has been expanding into the other geographies over the last 2 years. 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 more than 40 banks & Financial Institutions (FIs) and the resource profile is comprised of Term loan from Banks, FIs and NCDs constituting 52.2% (PY: 48.3%), 35.2% (PY: 30.1%) and 12.7% (PY: 21.7%) respectively as on March 31, 2019. The company also raised funds through Sub debt and the share of Sub debt constituted around 3.2% (Rs. 50.0 cr) of the total borrowings as on March 31, 2019.

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 47% during FY19 in terms of AUM and collection efficiency of the overall industry improved with 30+dpd improved to 1.73% as on March 31, 2019 from 4.03% as on March 31, 2018 (source: MFIN).

With further improvement expected in the overall MFI industry over the medium term, the ability to withstand event risks and avoid further deterioration in the asset quality leading to impact in the overall profitability will be the key considerations.

Liquidity: Adequate

ALM profile remains adequate 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 September 30, 2019, there are no negative cumulative mismatches in any of the time buckets. The company also has unavailed lines of credit of Rs.40 crore as on September 30, 2019.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and Credit watch 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 September 30, 2019, promoters hold 42.51% stake and the remaining is held by Elevar Equity, Mauritius (Private Equity Investor) (12.04%), AVT & Co. Ltd (16.11%),

Midland Rubber (16.12%), Employees Welfare Trust (4.03%) and others (9.20%). As on September 30, 2019, the company is operating with 420 branches in 84 districts across 6 states and 1 Union territory with AUM of Rs.2099 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)	**FY18 (A)**	**FY19 (A)**
Total operating income	233	375
PAT	40	81
Interest coverage (times)	1.68	1.78
Total Assets	1,214	1,982
Net NPA (%)	0.00	0.00
ROTA (%)	3.69	5.04

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

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	-	-	-	-	785.55	CARE BBB+ (Under Credit watch with Positive Implications)
Debentures-Non Convertible Debentures-I	INE500S07069	August 01, 2017	11.50%	July 31, 2020	40.00	CARE BBB+ (Under Credit watch with Positive Implications)
Debentures-Non Convertible Debentures-II	INE500S07077	December 06, 2017	11.40%	December 5, 2020	33.00	CARE BBB+ (Under Credit watch with Positive Implications)
Debentures-Non Convertible Debentures-III	INE500S08026	August 30, 2018	11.40%	December 31, 2019	15.00	CARE BBB+ (Under Credit watch with Positive Implications)
Debentures-Non Convertible Debentures-III	INE500S07085	August 30, 2018	11.40%	December 31, 2020	25.00	CARE BBB+ (Under Credit watch with Positive Implications)
Debentures-Non Convertible Debentures-IV	INE500S07093	October 29, 2019	11.00%	May 13, 2023	36.00	CARE BBB+ (Under Credit watch with Positive Implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	785.55	CARE BBB+ (Under Credit watch with Positive Implications)	-	1)CARE BBB+; Positive (04-Mar-19) 2)CARE BBB+; Positive (03-Oct-18) 3)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+ (Under Credit watch with Positive Implications)	-	1)CARE BBB+; Positive (03-Oct-18)	1)CARE BBB+; Stable (05-Dec-17) 2)CARE BBB+; Stable (02-Aug-17)	-
3.	Debentures-Non Convertible Debentures	LT	33.00	CARE BBB+ (Under Credit watch with Positive Implications)	-	1)CARE BBB+; Positive (03-Oct-18)	1)CARE BBB+; Stable (05-Dec-17)	-
4.	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+ (Under Credit watch with Positive Implications)	-	1)CARE BBB+; Positive (03-Oct-18) 2)CARE BBB+; Stable (29-Aug-18)	-	-
5.	Debentures-Non Convertible Debentures	LT	36.00	CARE BBB+ (Under Credit watch with Positive Implications)	1)CARE BBB+; Positive (30-Oct-19)	-	-	-

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr P Sudhakar
Contact no. - 044-28501000
Email: p.sudhakar@careratings.com

Relationship Contact
Mr. V Pradeep Kumar
Contact no. : 044-2850 1001
Email ID: pradeep.kumar@careratings.com

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