Midland Microfin Limited

March 27, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	210.00 (Rs. Two Hundred Ten Crore Only)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	25.00 (Rs. Twenty Five crore only)	CARE BBB; Stable (Triple B); Outlook: Stable	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of Midland Microfin Limited (MML) continues to derive strength from the experience of the promoters / promoter group being present in lending business for about 50 years, good loan origination / appraisal and portfolio management systems in place, healthy asset quality over the years with a track record of around 10 years in microfinance operations. The ratings also factors in improved profitability metrics during FY19 and H1FY20 on account of healthy growth in loan with assets under management (AUM) reported to Rs.685.5 crores end September 30, 2019, moderately diversified resource base and adequate liquidity position. However the ratings are constrained by increasing gearing levels, high albeit reducing geographical concentration of operations and inherent risks involved in the microfinance industry including unsecured lending, marginal profile of borrowers, socio-political intervention risk and regulatory uncertainty.

Rating Sensitivities

Going forward the ability of the company to sustainably growth its loan book while maintaining profitability and asset quality coupled with company's ability to maintain healthy liquidity would be key rating sensitivities. Also, the ability of the company to reduce gearing level, raising equity capital to fund the planned growth and further diversification of portfolio would be key monitor-able.

Positive Factors:

- Increased geographical diversification
- Maintaining healthy capitalization levels well above the regulatory requirements

Negative Factors:

- Gearing levels going above 8 times
- Declining profitability with reported losses

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

The promoters of MML belong to the Midland group of Punjab engaged into asset finance and lending business. The management of MML is headed by Mr Amardeep Samra, Promoter and Managing Director, who has extensive experience of more than two decades in the field of finance, hire-purchase, leasing, commercial real estate development and management of Agri based co-operative societies. The overall operations of MML are governed by an 8 member Board including three independent directors, two nominee directors and three promoter directors. MML has formed different board committees for technically review and formulation of policies and procedure for the working of the MFI including audit committee, risk management committee, board management committee, Asset Liability committee etc. MML has created separate departments with clearly demarcated roles and responsibilities for handling different functions. The promoters of MML belong to the family which is also the promoter of the 'Capital Small Finance Bank', based out of Punjab.

Adequate track record of operations with healthy growth in loan book in past 2-3 years

MML has been carrying out microfinance lending activities since January 2011 and has gained considerable experience in the group lending business and is one of the medium sized NBFC-MFI in the country. MML's AUM grew to Rs.549 crores (+57% Y-o-Y) as on March 31, 2019 with CAGR of 56% for past three years. AUM of the company further grew to Rs.685.5 crores end Sep-19. The MFI operations of the company are present in 87 districts of 6 states (viz. Punjab, Rajasthan, Haryana, UP, Bihar and Himachal Pradesh) with 177 branches ending Sep-19, the company has client base of more than 3.8 lacs borrower with average outstanding per borrower of around Rs.18,000. The company has recently ventured into retail product loans like advances for water purifier, sewing machines, solar products and mobile phones etc.

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

Good loan origination, appraisal & portfolio management systems in place

MML has good internal controls and procedures from group formation, loan appraisal and sanction to disbursement, and collection with checks at multiple levels to ensure transparency of operations. MML also has a separate internal audit team conducting audit of the centre meetings, branches and head office at regular intervals. The MIS helps in monitoring disbursements, collection and cash reconciliation on a daily basis along with maintaining security of data and faster access to reports for day-to-day monitoring. MML has adequate IT infrastructure and management information systems in place for monitoring of its operations.

Good asset quality

MML has been able to maintain good asset quality since 2011 when it started its operations. MML's asset quality is supported by rigorous supervision by operations team and regular checks and controls of finance and internal audit department. The overall collection efficiency of MML remains healthy at above 99% on a cumulative basis. GNPA% stood at 0.48% and reported nil NNPA% end September 30, 2019 as against 0.56% GNPA and Nil NNPA as on Sept 30, 2018. The company reported GNPA% 0f 0.51% end Mar-2019. However in absolute amounts there is marginal increase in GNPA during H1FY20 which nullified in ratio because of strong loan book growth during the period. Company's softer delinquencies also remain under control with 0+DPD of 0.6% and 30+DPD of 0.5% end September 30, 2019. Majority of the NPA is lagged as 0.4% of loan book has 360+ DPD. However, the company's ability to maintain asset quality with further scaling of operations as it expands to new geographies is yet to be seen.

Diversified Resource Profile

MML has banking relations with more than 40 banks/FIs and has availed term loan which forms the major (82%) source of total borrowing end February-2020. MML has raised fund from organization like MUDRA, NABARD & SIDBI which form 8% of total borrowing. SIDBI has also invested in the company and holds 5.6% shares end December 31, 2019. The company has also made securitization transaction to access funds with its securitized portfolio stood at Rs 75.6 crores (11% of AUM) end Sep-19 up from Rs. 18.9 crores end March-2018. MML has also raised funds through issue of long term NCDs and ECBS (18% of borrowing ending Feb-2020). The company also has long-term preference shares of Rs.16.3 crores while its net-worth (excluding preference shares) stood at Rs.108.3 crores end Sep-19.

Key Rating Weaknesses

Increasing gearing levels; albeit comfortable capital adequacy for current level of operations

MML's capital adequacy ratio (CAR) and Tier-I CAR stood at 21.97% and 16.29% ending September 30, 2019 similar to 21.92% and 14.37% respectively as on Sep-2018. Although capitalization of the company are above the regulatory requirement, it could be stretched towards minimum levels of the company is unable to raise equity capital to fund the planned growth. Gearing levels of the company remains high with continuous loan book growth at CAGR of 56% for past 3 years. End March 31, 2019, overall gearing levels (excl. preference share from networth) of MML stood at 5.9 times which increased to 6.5 times as on Sep-19. However adjusting the debt with cash and bank balance of the company and including preference share in capital adjusted gearing levels stood at 3.75 times end Mar-19 and 4.7 times end Sep-19. As per management, the company is in process of rating equity capital of around Rs.174 crore by end fiscal FY20. This would improve the capitalization profile of the company and reducing in gearing levels is expected for medium terms.

Moderate earning profile despite improvement in FY19 and H1FY20

MML's earning profile improved in FY19 and further in H1FY20. It reported PAT of Rs.10.5 crores during FY19 over total income of Rs.113 crores keeping PAT margins of 9.20% up from 2.02% during FY18. Increase in profits is on account of growth in loan book during the period. During FY18 MML's profitability was impacted by provisioning post demonetization, scaling of operations in newer geographies and hence higher operating expenses. During FY19, its profitability increased with reported NIM% of 7.62% vs 6.39% during FY18. Reduction in opex/ATA to 7.65% during FY19 from 8.58% during FY18 has helped in reporting improved ROTA of 1.85% during FY19 up from 0.38% for FY18. With lower provisioning and operating expenses of the company OSS (operational self-sufficiency) has improved to 113.7% during FY19 up from 102.8% previous year in FY18.

During H1FY20, MML reported PAT of Rs.9.3 crore over total income of Rs.83.4 crores, further NIM% is reported at 7% for the period and ROTA od 2.31%.

Geographical concentration of portfolio; albeit reducing

The company on overall basis is operating in 87 districts of 6 states through a network of 177 branches end September 30, 2019. MML is Punjab based organization hence reported majority 44% portfolio in the state end Sep-19 followed by Bihar (22%) Rajasthan (17%) and Haryana (10%) and rest in Uttar Pradesh and Himachal Pradesh. Concentration in Punjab has been reducing from 56% end Mar-18 to 45% end Mar-19. The top state concentration to net worth has increased 240% end Sep-19 from 211% end Mar-19, however down from 280% end Mar-2018. Going forward, ability of the company to reduce its

geographical concentration would be key rating sensitive.

Inherent industry risks

The microfinance sector continues to be impacted by the inherent risk involved viz. socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending and marginal profile of borrowers who are vulnerable to economic downturns besides operational risks related to cash based transaction.

Industry Outlook and 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)

Liquidity Profile

Liquidity: Adequate

The company has a favorable liquidity position given the longer tenure borrowings repayable over 2-10 years as against shorter tenure of MFI loans of upto 2 years as also reflected by a well matched ALM as on September 30, 2019. Company's expected inflows in up to one year bucket were 1.5 times of expected outflows. The company maintains sufficient liquidity buffer at all times to meet its immediate disbursement requirements and any emergent payments. As on September 30, 2019, MML had free cash and bank balance of Rs.190.3 crores.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's Rating Methodology For Non-Banking Financial Companies
Financial Sector –Financial Ratios

About the Company

Midland Microfin Ltd (MML) was originally incorporated as 'Sajan Hire Purchase Pvt Ltd (SHPPL)' on May 28, 1988. SHPPL was engaged in hire purchase business. In June 2010, the Midland group of Punjab promoted by Mr. Amardeep Samra and family acquired SHPPL with the aim of venturing into the microfinance business and the name of the company was changed to Midland Microfin Limited in January 2011. The hire purchase business was also discontinued at the same time. MML is registered with RBI as a NBFC-MFI (Non-Banking Financial Company-Microfinance Institute) since January 2015.

MML is currently operating in six states (i.e. Punjab, Rajasthan, Haryana, Bihar, Uttar Pradesh and Himachal Pradesh). The operations are managed through a network of 177 branches across 87 districts with more than 3.80 Lac active JLG borrowers with AUM of Rs.685.5 crores (including securitized pool of Rs.75.6 crores) ending September 30, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total income	56.8	113.3
PAT	1.2	10.5
Total Assets	387.3	745.1
Assets under Management	350.8	549.1
Net NPA (%)	Nil	Nil
ROTA (%)	0.38	1.85

A: Audited

Note: Ratios are computed based on average of annual opening and closing balances

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		-	-	*	210.00	CARE BBB; Stable
Non-Convertible Debentures	INE884Q07020	July 04, 2014	11.5%	Oct 04, 2020	1.99	CARE BBB; Stable
Non-Convertible Debentures	INE884Q07053	July 04, 2014	11.5%	Oct 04, 2020	11.12	CARE BBB; Stable
Non-Convertible Debentures	INE884Q07038	July 04, 2014	12%	Jan 04, 2024	0.93	CARE BBB; Stable
Non-Convertible Debentures	INE884Q07061	July 04, 2014	12%	Jan 04, 2024	7.11	CARE BBB; Stable
Non-Convertible Debentures	Proposed				3.85	CARE BBB; Stable

*including proposed

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.	Debentures-Non Convertible Debentures	LT	25.00	CARE BBB; Stable	-	1)CARE BBB; Stable (28-Nov-18)	1)CARE BBB; Stable (05-Sep-17)	1)CARE BBB (15-Jul-16)
2.	Fund-based - LT-Term Loan	LT	210.00	CARE BBB; Stable	-	1)CARE BBB; Stable (28-Nov-18)	1)CARE BBB; Stable (05-Jan-18) 2)CARE BBB; Stable (05-Sep-17)	1)CARE BBB (15-Jul-16)

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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