Midland Microfin Limited (Revised)

November 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	50.00 (Rs. Fifty crore only)	CARE BBB; Stable (Triple B); Outlook: Stable	Assigned

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 a decade in microfinance operations. The ratings also factors in improved profitability metrics during FY20 and H1 FY 21 and assets under management (AUM) at Rs. 691.4 crores end Sept 2020, moderately diversified resource base and adequate liquidity position. However the ratings are constrained by high 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 grow 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, raise equity capital to fund the planned growth and further diversification of portfolio would be key monitor-able.

Positive Factors:

- Increased profitability
- Maintaining healthy capitalization levels well above the regulatory requirements **Negative Factors:**
- Gearing levels going above 8 times
- Declining asset quality

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, one non-executive non- independent director, one Non-Executive Chairman and one Managing Director. 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. End fiscal 2020, the company's AUM stood at Rs 734.60 crore as on March 31, 2020 that came down to Rs 691.4 crore end

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

H1 FY 21. The MFI operations of the company are present in 101 districts of 7 states (viz. Punjab, Rajasthan, Haryana, Uttar Pradesh, Bihar, Jharkhand, Himachal Pradesh and union territory of Chandigarh) with 197 branches ending March- 20, the company has client base of more than 3.22 lakh borrowers with average ticket size of about Rs 17,000. The company has recently ventured into retail product loans like advances for water purifier, sewing machines, solar products and mobile phones etc.

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 collection efficiency (including arrears and prepayments) remained healthy at around 99% till August- 20, however, the collection efficiency has declined to 78.79% as on September- 20. The current collection efficiency stood at 100% in August 2020 though declined to about 79% in September 2020. End Sept 2020, the company's 90+ dpd inched up to 0.83%, up from 0.54% end FY20. The company's softer delinquencies also increased with 30+dpd at 1.5% end September 30, 2020 as against 0.6% end FY 20. Majority of the NPA is lagged as 0.47% of book has 365+dpd. 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 (80.93%) source of total borrowing end September- 2020. MML has raised fund from organization like MUDRA, NABARD & SIDBI which form 12.49% of total borrowing. SIDBI has also invested in the company and holds 5.32% shares end September 30, 2020. MML has also raised funds through issue of long term NCDs and ECBs. The company also has long-term preference shares and its net-worth stood at Rs. 118.59 crores in FY20.

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

MML's Tier 1 and total CAR improved in last one year and stood at 17.65% and 27.41% respectively as on September 30, 2020, up from 16.29% and 21.97% respectively as on September 30, 2019 and remains well above the regulatory minimum requirements. End March 31, 2020, the gearing levels of company stood at 7.61 times. Gearing levels of the company remains high with continuous loan book growth at CAGR of 56% for past 3 years. As per management, the company has raised equity capital of around Rs.45 crore in October 2020. This would improve the capitalization profile of the company and reduce gearing levels in the medium term.

Moderate earning profile despite improvement in FY19 and H1FY20

MML's earning profile improved in FY20 with company reporting PAT of Rs.18.73 crores during FY20 on total income of Rs 184.1 crore as against net profit of Rs 8.65 crore on total income of Rs 115.8 end FY19 (as per IndAS). Increase in profits for FY20 is on account of growth in net loan book by 33.74% Y-o-Y coupled with margin expansion with NIM% of 8.98 in FY 20 % vs 7.62% during FY19. Reduction in opex/ATA to 6.35% during FY20 from 7.65% during FY19 has helped in reporting improved ROTA of 2.13% during FY20 up from 1.47% for FY19. . End Q1FY21, the company reported PAT of Rs. 5.16 crore over total income of Rs. 46.55 crore with PAT margins at 11.08%.

Geographical concentration of portfolio; albeit reducing

On an overall basis, the company is operating in 101 districts of 7 states through a network of 197 branches end March 31, 2020. MML is Punjab based organization hence reported majority 40.85% portfolio in the state end Sep-20 followed by Bihar (30.29%), Rajasthan (12.75%), Uttar Pradesh (6.85%), Haryana (6.73%), Jharkhand

(2.34%) and Himachal Pradesh (0.19%). Concentration in Punjab has been reducing from 56% end Mar-18 to 45% end Mar-19 and 40.85% end Mar- 20. 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

April to June 2020 quarter has been unprecedented both for microfinance lending institutions and microfinance borrowers. With lockdown impacting livelihood of clients, MFIs provided moratorium to clients as per RBI guidelines. However, the moratorium was not extended to MFIs by all lenders, which caused double squeeze. Policy support in the form of TLTRO and Special Liquidity Facility helped MFIs overcome the difficult period; small and medium MFIs bore the brunt of liquidity challenge. The period demonstrated the resilience of the sector and its ability to adapt to changing situation by way of remote back-end operations, increased use of digital methods for spreading client awareness on COVID protocols and moratorium as well as repayments. Green shoots are evident in the sector as clients seek to start credit cycle to rebuild their livelihoods and funders and investors maintaining their support. With translation of policy intent to actual liquidity flow to even small and medium MFIs, it is hoped that by the year end, the repayment and disbursement cycle will inch towards pre COVID times. MFIN also reported that MFI in total holds the largest share of the portfolio in micro-credit with a total loan outstanding of Rs 92,675 crore which is around 40.7% of total micro-credit. NBFC-MFIs are the second largest provider of micro-credit with a loan amount outstanding of Rs 70,819 crore, accounting for 31.1% to total industry portfolio. (Source: MFIN)

Liquidity: Adequate

The company has a favourable liquidity position given the longer tenure borrowings repayable over 2-10 years as against shorter tenure of MFI loans of up to 2 years as also reflected by a well matched ALM as on September 30, 2020. The company maintains sufficient liquidity buffer at all times to meet its immediate disbursement requirements and any emergent payments. As per provisional Asset Liability Maturity statement date September 30, 2020, MML had cash and deposits (without lien) to the tune of Rs.242 crores as against debt (term loans, NCDs, payable towards securitization) of Rs 527 crore payable in next one year.

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 seven states (i.e. Punjab, Rajasthan, Haryana, Bihar, Uttar Pradesh, Jharkhand and Himachal Pradesh). The operations are managed through a network of 197 branches across 101 districts with AUM of Rs.734.60 crores in FY20.

Brief Financials (Rs. crore)	FY19 (A)*	FY19 (A)#	FY20 (A)#

Total income	113.3	115.89	184.35
PAT	10.5	8.65	18.73
Total Assets	745.1	778.28	979.51
Assets under Management	549.1	547.24	734.60
Net NPA (%)	Nil	0.04	0.01
ROTA (%)	1.85	1.47	2.13

A: Audited
**: IGAAP*
#: INDAS
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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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	Proposed	Proposed	50.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	25.00	CARE BBB; Stable	-	1)CARE BBB; Stable (27-Mar-20)	1)CARE BBB; Stable (28-Nov-18)	1)CARE BBB; Stable (05-Sep-17)
2.	Fund-based - LT-Term Loan	LT	210.00	CARE BBB; Stable	-	1)CARE BBB; Stable (27-Mar-20)	1)CARE BBB; Stable (28-Nov-18)	1)CARE BBB; Stable (05-Jan-18) 2)CARE BBB; Stable (05-Sep-17)
3.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Available

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

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

Analyst Contact
Group Head Name: Ms. Shubha Bhanu
Group Head Contact no.: 011-4533 3242
Group Head Email ID: Shubha.bhanu@careratings.com

Relationship Contact
Ms. Swati Agrawal
Contact no: +91-11-4533 3200 / +91-98117 45677
Email ID: swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the best practices

.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.