Press Release

Midland Microfin Limited

September 22, 2021

Ratings Reaffirmed and Assigned

Total Term Loan Facilities Rated*	Rs. 25.00 Cr
Long Term Rating	ACUITE BBB+/ Positive (Reaffirmed)
Total Term Loan Facilities Rated*	Rs. 10.00 Cr
Long Term Rating	ACUITE A-(CE)/ Stable (Assigned; converted to Final from Provisional rating)

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB+' (read as ACUITE Triple B plus)** to the Rs. 25.00 Cr bank facilities of Midland Microfin Limited (MML). The outlook is **'Positive'**.

Acuité has converted from provisional to final long term rating of **'ACUITE A-(CE)/ Stable' (read as ACUITE A minus (Credit Enhancement))** on the Rs.10.00 Cr. partially credit enhanced loan facilities of Midland Microfin Limited (MML). The outlook is **'Stable'**.

The rating factors in company's established presence in the areas of operations, experienced management and representation of institutional investors on the MML's board. The rating takes into account the demonstrated ability of promoters to infuse the capital at regular intervals, which has helped Midland Microfin Limited to grow its AUM from ~Rs. 351 Cr. as on March 31, 2018 to ~Rs. 816 Cr. as on July 31, 2021. The ratings consider the company's adequate capitalization profile with capital adequacy ratio (CAR) at 35.91 percent as on June 30, 2021. The rating also considers the efficient risk management systems and collection process adopted by the company as reflected in its asset quality with GNPA of 1.21 percent as on June 30, 2021 (provisional).

The rating is constrained by the relatively high leveraged capital structure with a gearing of 4.51 times as on June 30, 2021 (provisional) (5.05 times as on March 31, 2021). Acuité takes note of MML's funding plan through capital infusion for FY2022, which would help the company in bringing down it's leverage. The rating is also constrained by inherent risks associated with lending in this segment.

The transaction has Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc (Credit Enhancer/ Guarantor) covering 18% of the initial principal value of the facility amount. The level of guarantee as a percentage of the aggregate outstanding principal of the facility is capped at 24%. Additionally, the facility has security in the form of exclusive first charge on identified book debts and receivables with 110% margin (qualifying under priority sector) in favour of the bank. MML shall make payments of interest and principal amounts due along with all other obligations (if any) under the Facility Documents by T-3 business days. In case of non-payment by MML, the Guarantors shall be severally and jointly liable to make the payments by the due date.

About Midland Microfin Limited

Punjab based, Midland Microfin Limited (MML) is an NBFC-MFI engaged in providing microcredit to women borrowers via Joint Liability Group (JLG) model. The company is promoted by Mr. Amardeep Singh Samra who acquired an existing NBFC - Sajan Hire Purchase Private Limited in 2010 and re-named it to Midland Microfin Limited. The company commenced its operation in Jalandhar Punjab in 2011 and since then has expanded its presence in 7 states across the northern region. MML currently operates through a branch network of 218 branches as on April 30, 2021.
The latest rationale of MML can be found in https://www.acuite.in/documents/ratings/revised/24935-RR-20201218.pdf

About Northern Arc Capital Limited ("Northern Arc")

Northern Arc, previously known as IFMR Capital Finance Ltd., is a Non-Deposit taking Non-Banking Financial Company (ND-NBFC) incorporated in 1989. It is involved in the placement (arranging funding for its clients via loan syndication, securitisation and assignment among others) and lending business. The company acts as a link between mainstream capital markets investors and high-quality last mile lending institutions and businesses. The company's business is categorized as finance sector exposure, i.e., microfinance, affordable housing finance, commercial vehicle finance, consumer finance, agri finance and small business loans, and non-finance sector exposure, i.e., mid-market finance and corporates.

Northern Arc reported Assets Under Management (AUM) of Rs. 4,953.7 Cr. (provisional) as on March 31, 2021 as against Rs. 4,484 Cr. as on March 31, 2020. Northern Arc's asset quality moderated with GNPA (90+dpd) at 2.28% (provisional) as on March 31, 2021 as against 0.5% as on March 31, 2020. The company's Profit After Tax (PAT) stood at Rs. 56.05 Cr (provisional) as on March 31, 2021 (Rs. 89.62 Cr as on March 31, 2020). The company's debt/equity ratio was 1.96 times as on March 31, 2020 as compared to 2.55 times as on March 31, 2019. However, the debt/equity ratio increased to 2.53 times as on March 31, 2021.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MML, the rating of MML (ACUITE BBB+/ Positive), and has further factored in the credit enhancement arising from the structure. The suffix (CE) indicates credit enhancement arising from the PCE in the form of unconditional, irrevocable, payable on demand guarantee covering 18% of the initial principal value of the facility amount. The strength of the underlying structure and continued adherence to the same is central to the rating.
Accounting for the Partial Credit Enhancement, the agency has enhanced the rating of the Rs. 10.00 Cr facility to ACUITE A- (CE)/ Stable. The Credit Enhancement (CE) in the rating is solely for the rated issue and its terms and structure.

The notched up rating of the loan facility incorporates the PCE in the form of guarantee by Northern Arc Capital Limited ("Northern Arc"), acting as the Credit Enhancer/ Guarantor.

Key Rating Drivers

Strengths

- **Established presence in the areas of operations**

MML commenced its microfinance operations in 2011, extending micro-credit to women borrowers engaged in income generating activities under Joint Liability Group (JLG) model. The company caters to rural and semi-urban areas where the borrowers are mainly engaged in agri and agri allied activities and providing essential services. MML commenced its operations in Punjab and over the years has expanded its presence in other states namely Bihar, Rajasthan, Haryana, Uttar Pradesh, Jharkhand, Himachal Pradesh and Gujarat. The company has presence in 111 districts with a network of 216 branches with an asset under management (AUM) of Rs. 799.17 Cr. as on March 31, 2021.

MML is promoted by Mr. Amardeep Singh Samra (Managing Director) who has been previously engaged in asset financing, hire-purchase and leasing businesses. Mr. Samra purchased an existing NBFC - Sajan Hire Purchase Private Limited in 2010 and re-named it to Midland Microfin Limited. The company is led by Mr. Samra who is supported by other members on the board which comprise Mr. Vijay Kumar Bhandari, ex- GM Central Bank of India, having around three decades of experience in banking, Mrs. Kamna Aggarwalla, ex-Chairperson of the Confederation of Indian Industry (CII), Punjab amongst others. Private equity investor Kitara Capital have board representation and MML benefits from their expertise. Mr. Sachin Kamath founder member of Kitara Capital International Limited is on the board of MML.

Acuité believes that MML will continue to benefit from its established presence and experience of the promoters in micro finance segment.

- **Demonstrated fund raising ability**

MML's networth stood at Rs. 176.81 Cr. as on March 31, 2021 as compared to Rs. 118 Cr. as on March 31, 2020. The networth comprises equity capital of Rs. 39.13 Cr. and reserves & surplus of Rs. 137.64 Cr. The company has demonstrated fund raising ability by raising funds from private equity investor and promoter group. In FY2021 the company raised around Rs. 44.93 Cr. via right issue. The company also raised Rs. 18.61 crore in FY2019-20 from its existing shareholders comprising promoter group and investors and also upon conversion of optionally convertible preference share into equity. MML also raised funds totaling to ~Rs. 100 Cr. during FY2021 in the form of NCD's under multiple issues throughout the year. MML has demonstrated its fund raising ability with access to funds from Banks, NBFC/FI's, External commercial borrowings, NCD's and also securitization.

Acuité believes that the company's growth prospectus will be supported by promoter's experience in the industry along with their demonstrated track record of resource raising ability.

- **Healthy growth in AUM while maintaining asset quality**

MML's AUM stood at Rs. 799.17 Cr. as on March 31, 2021 as compared to Rs. 777.71 Cr. as on March 31, 2020 and Rs. 549.12 Cr. as on March 31, 2019. The company has reported growth while maintaining asset quality with on-time portfolio at 95.84 percent and gross non performing asset (GNPA) at 1.69 percent as on March 31, 2021. GNPA as on June 30, 2021 stood at 1.21 percent. The company has demonstrated and maintained healthy asset quality despite sharp increase in loan book over the years. The company's AUM comprises mix of on-book and off book exposure. The AUM of Rs. 799.17 Cr. comprised own portfolio of Rs. 764.59 and off-book exposure of Rs. 34.58 crore as on March 31, 2021. MML takes off book exposure through securitized transactions like Pass through Certificates (PTC) and Direct Assignments. The company saw a decline in its earning profile due to lower disbursements in FY2021 with return on average assets (RoAA) at 1.41 percent as on March 31, 2021 from 2.13 percent as on March 31, 2020 and decline in net interest margin (NIM) which stood at 11.86 percent as on March 31, 2021 from 13 percent as on March 31, 2020 and moderation of operating expense to earning assets ratio at 7.57 percent as on March 31, 2021.

The company's overall growth in AUM has been as a result of expansion in newer geographies and thereby also reducing its overall geographical concentration. The increase in scale of operations during FY2020 was attributable to its expansion in its network of branches mainly in districts of Bihar and Uttar Pradesh. The company has expanded its overall network to 216 branches in 111 districts as on March 31, 2021 as compared to 197 branches in 101 districts as on March 31, 2020. MML disbursed loans amounting to Rs. 1,034.6 Cr. during FY2020 and Rs. 836.54 Cr. during FY2019.

Acuité expects MML to maintain the growth momentum in a sustainable manner while diversifying its geographical reach.

Weaknesses

- **Leveraged capital Structure**

MML is engaged in microfinance lending providing short term loans up to 12 - 36 months. The company extends micro-credit through the Joint Liability Group (JLG) model. The company's networth stood at Rs. 176.81 Cr. and total debt stood at Rs. 893.11 Cr. as on March 31, 2021. MML's AUM stood at Rs. 799.17 Cr. as on March 31, 2021 as against Rs. 777.71 Cr. as on March 31, 2020. AUM as on July 31, 2021 stood at Rs. 815.94 Cr.

MML's gearing stood at 5.05 times as on March 31, 2021 (7.10 times as on March 31, 2020). The debt comprises term loans from Banks and NBFC/FI's (~69 percent of the total borrowings), NCD's (~23 percent), External commercial borrowings (~8 percent). MML's gearing improved to 4.51 times as on June 30, 2021 (provisional) with an outstanding debt of Rs. 818.01 Cr.

While in a steady operating environment, it becomes relatively easy for NBFC's like MML to raise additional debt. However, in the current environment the company could face challenges in raising further debt to support its future business growth considering its existing levels. Hence, the promoters may have to go for additional equity infusion to support its future growth and to maintain the gearing at an optimal level. The approach of the banks has become more stringent especially after certain recent credit events. Hence, considering the already leveraged capital structure the promoters may be required to infuse additional equity to support any future business growth.

Acuité believes that leveraged companies like MML could face challenges in raising additional debt due to a very selective and cautious approach adopted by Banks and FIs.

- **Inherent risk in microfinance segment**

While the company mostly focuses on rural areas which were less impacted by the current pandemic, however, the company's performance is expected to remain exposed to the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to any changes in the regulatory framework. The current lockdowns and economic disruptions may slow down the process of scaling up of operations, thereby, affecting the return metrics. Although MML has demonstrated healthy asset quality in the past with low Gross Non-Performing Assets (GNPA) at 1.69 percent as on March 31, 2021, rise in delinquency is expected due to impact of Covid-19 as the credit profiles of some of the borrowers could be impaired for a much longer time.

Acuité believes that containing additional slippages while maintaining the growth in the loan portfolio will be crucial.

Rating Sensitivity

- Timely infusion of capital
- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in the regulatory environment

Assessment for Adequacy of Credit Enhancement

The transaction has PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18% of the initial principal value of the facility amount. The level of guarantee as a percentage of the aggregate outstanding principal of the facility is capped at 24%.

Liquidity: Adequate

MML's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated March 31, 2021. The company's liquidity is supported by capital infusion by investors in FY2021. The company has maintained unencumbered cash and bank balances of Rs. 178.87 Cr. as on June 30, 2021. The borrowing profile of MML of Rs. 753.98 Cr. as on June 30, 2021 mainly comprised Term loans from Banks, NBFC/FI's (~65 percent), NCD's (~26 percent) and ECB and Inter corporate loan (~9 percent). The borrowings of MML have an average maturity of 24 to 48 months for its term loans. While, the average lending tenure of ~12 to 24 months. Hence, there is inherent financial flexibility in the company. MML's collections during June and July 2021 were around Rs. 85 Cr., and Rs. 86 Cr. respectively.
Acuité believes that the company's liquidity profile will continue to benefit from funding support from its promoters.

Material Covenants

The following covenant is included in the structure: the maximum permissible ratio of PAR90 net off Loan Loss Provisions (on the Borrower's entire portfolio including receivables sold or discounted on a non-recourse basis) shall be 5.00%.
MML is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Outlook:

Acuité believes that the rating on the Rs. 25.00 Cr loan facility will maintain a 'Positive' outlook.

Also, Acuité believes that the rating on the Rs. 10.00 Cr PCE loan facility will maintain a 'Stable' outlook over the near to medium owing to the structure of the transaction, with Northern Arc as guarantor.

Acuité believes that MML's credit profile will benefit from the buoyancy in the environment once the economic revival is demonstrated on sustainable basis. The rating could be upgraded if the company is able to demonstrate a sustained growth in AUM while maintaining capital structure, asset quality and profitability metrics at healthy levels. Conversely, the outlook may be revised to stable if the company faces higher than expected asset quality pressures or deterioration in capital structure parameters.

About the Rated Entity - Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	1095.65	978.01
Total Income*	Rs. Cr.	88.64	84.65
PAT	Rs. Cr.	14.63	18.73
Net-worth	Rs. Cr.	176.81	118.59
Return on Average Assets (RoAA)	(%)	1.41	2.13
Return on Net Worth (RoNW)	(%)	9.90	18.55
Total Debt/Tangible Net Worth (Gearing)	Times	5.05	7.10
Gross NPA's	(%)	1.69	0.57
Net NPA's	(%)	0.34	0.05

* *Total income equals to Net interest income plus other income*

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Rating of Non-Banking Financing Entities - https://www.acuite.in/view-rating-criteria-44.htm
- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Explicit Credit Enhancements - https://www.acuite.in/view-rating-criteria-49.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
June 17, 2021	Proposed Bank Facility	Long term	25.00	ACUITE BBB+/ Positive (Reaffirmed)
	Proposed Bank Facility	Long term	10.00	ACUITE PROVISIONAL A-(CE)/ Stable (Assigned)
December 18, 2020	Proposed Bank Facility	Long term	25.00	ACUITE BBB+/ Positive (Assigned)

Annexure- Details of Instruments rated

Lender's Name	ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
Not applicable	-	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+/ Positive (Reaffirmed)
SBM Bank India Limited	-	Term Loan	June 18, 2021	10.40%	June 21, 2023	10.00	ACUITE A-(CE)/ Stable (Assigned; converted to final from provisional rating)

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About Acuité Ratings & Research:
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