

Press Release

Midland Microfin Limited

October 03, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE A- CE Positive Reaffirmed	-
Bank Loan Ratings	11.00	ACUITE A- CE Positive Assigned Provisional To Final	-
Bank Loan Ratings	325.00	ACUITE BBB+ Positive Reaffirmed	-
Non Convertible Debentures (NCD)	60.00	ACUITE BBB+ Positive Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	406.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has converted from provisional to final the long-term rating of '**ACUITE A- (CE)** (read as **ACUITE A minus (Credit Enhancement)**) on the Rs.11.00 Cr. partially credit enhanced term loan facility of Midland Microfin Limited (MML). The outlook is '**Positive**'.

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+** read as (**ACUITE triple B plus**) on the Rs. 325.00 crore bank facilities (including proposed facilities) of Midland Microfin Limited (MML). The outlook is '**Positive**'.

Acuite has reaffirmed the long-term rating of '**ACUITE A-(CE)** (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 '**Positive**'.

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+** read as (**ACUITE triple B plus**) on the Rs. 60.00 crore Non-Convertible Debentures of Midland Microfin Limited (MML). The outlook is '**Positive**'.

The rating continues to factor 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. The company received a capital infusion of Rs. 74.42 crores from Kitara and ICICI bank in Sept 2021. Midland Microfin Limited's AUM grew from ~Rs. 799 Cr. as on March 31, 2021, to ~Rs. 1137 Cr. as on March 31, 2022. The ratings consider the company's adequate capitalization profile with capital adequacy ratio (CAR) at 33.72 percent as on March 31, 2022. The rating is constrained by the relatively high leveraged capital structure with a gearing of 4.60 times as on March 31, 2022 (5.05 times as on March 31, 2021). Given the growth trajectory it is expected that leverage would continue to remain high in the range of 4.5 to 5.5 times. Hence the company would need to have further round of capital infusions to keep the growth momentum. The rating is also factors in slight moderation is asset as marked by GNPA levels which increased to 3.07 percent as on March 2022 from 1.69 percent as on

March 2021, however they have maintained ontime portfolio at ~94 percent for the month ended March 2022.

For Rs. 10.00 Cr. PCE transaction:

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.

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The final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, deed of guarantee, legal opinion, debenture trust agreement, deed of hypothecation and other documents relevant to the transaction.

About the company

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 11 states across the northern region. MML currently operates in 140 districts with a branch network of 274 branches as on March 31, 2022.

About the Guarantor

Northern Arc, previously known as IFMR Capital Finance Ltd., is a Non-Deposit taking NonBanking 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 highquality 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. 6874 Cr. as on March 31, 2022, as against Rs. 5,220.87 Cr. as on March 31, 2021. Northern Arc's asset quality improved with GNPA (90+dpd) at 0.51% as on March 31, 2022 as against 2.23% as on March 31, 2021. The company's Profit After Tax (PAT) stood at Rs. 163.73 Cr for the period ending FY2022 (Rs. 67.51 Cr as of FY2021). The company's debt/equity ratio was 2.53 times as on March 31, 2021 as compared to 1.96 times as on March 31, 2020. However, the debt/equity ratio increased to 3.50 times as on March 31, 2022.

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.

For Rs. 10.00 Cr. PCE transaction:

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.

Standalone/Unsupported rating – (MML):

ACUITE BBB+/ Positive

For Rs. 11.00 Cr. PCE transaction:

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. 11.00 Cr facility to ACUITE Provisional 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.

Standalone/Unsupported rating – (MML):

ACUITE BBB+/ Positive

Key Rating Drivers

Strength

Strength of underlying structure

The Rs. 10.00 Cr. and Rs. 11.00 Cr. transaction has a PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18 percent of the issue size of facilities. The level of guarantee as a percentage of the aggregate outstanding principal of the issuance is, however, capped at 24 percent. If due to the amortization of the facilities, the credit enhancement percent exceeds 24 percent of the aggregate outstanding principal of the facilities, the Guarantee Cap shall be reduced to 24 percent of the aggregate outstanding principal of the facilities (Revised Guarantee Cap). MML shall make payments of interest and principal amounts due along with all other obligations (if any) under the Transaction Document on T-3 business days. In the event of failure of the Issuer to comply, on T-3 Business Days, the Trustee shall invoke the PCE and the credit enhancement shall be dipped on T-1 Business days. The issuances shall be secured by way of a first ranking, exclusive and continuing charge on identified receivables. The Hypothecated Receivables shall at all times be equal to the value of 1.1 times the outstanding amounts of the facility.

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, Gujarat, Madhya Pradesh, Uttarakhand and West Bengal. The company has presence in 140 districts with a network of 274 branches with an asset under management (AUM) of Rs. 1137.42 Cr. as on March 31, 2022. 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 renamed 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,

exChairperson 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. The company has on-boarded Mr. Praveen Kumar Gupta as an Independent Director who has over 3 decades in the banking sector to further strengthen their management board. 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. 270.85 Cr. as on March 31, 2022, as compared to Rs. 176.81 Cr. as on March 31, 2021. The networth comprises equity capital of Rs. 45.57 Cr. and reserves & surplus of Rs. 225.28 Cr. The company has demonstrated fund raising ability by raising funds from private equity investor and promoter group. MML received a capital infusion of Rs. 74.42 crores from Kitara and ICICI bank in Sept 2021, Kitara being an existing investor increased their stake to 33 percent post the infusion and ICICI Bank got an ownership of 10 percent for infusing Rs 52.42 crores. In FY2021 the company raised around Rs. 44.93 Cr. via right issue. MML received sanctions totaling to ~Rs. 925 Cr. during FY2022 in the form of term loans from Banks & NBFC/FI's 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

MML's AUM stood at Rs. 1137.42 Cr. as on March 31, 2022 as compared to Rs. 799.17 Cr. as on March 31, 2021 and Rs. 777.71 Cr. as on March 31, 2020. The company's AUM comprises mix of on-book and off book exposure. The AUM of Rs. 1137.42 Cr. comprised own portfolio of Rs. 1032.41 and off-book exposure of Rs. 105.11 crore as on March 31, 2022. 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 major disbursements taking place in the H2 FY2022, Net interest margin (NIM) which stood at 11.86 percent as on March 31, 2021 reduced to 10 percent as on March 31, 2022 and moderation of operating expense to earning assets ratio at 6.85 percent as on March 31, 2022 as compared to 7.57percent 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 FY2022 was attributable to its expansion in its network of branches mainly in districts of Bihar and Punjab. The company has expanded its overall network to 274 branches in 140 districts as on March 31, 2022 as compared to 217 branches in 112 districts as on March 31, 2021. MML disbursed loans amounting to Rs. 1,338.5 Cr. during FY2022 and Rs. 688.82 Cr. during FY2021.

Weakness

Leveraged capital structure

MML is engaged in microfinance lending providing short term loans up to 12 - 24 months. The company extends micro-credit through the Joint Liability Group (JLG) model. The company's networth stood at Rs. 270.85 Cr. and total debt stood at Rs. 1245.65 Cr. as on March 31, 2022. MML's AUM stood at Rs. 1137.42 Cr. as on March 31, 2022, as against Rs. 799.17 Cr. as on March 31, 2021. MML's gearing stood at 4.60 times as on March 31, 2022 (5.05 times as on March 31, 2021). The debt comprises term loans from Banks (51.82 percent), NBFCs and FIs (33.27 percent), NCD and others (14.91 percent). MML's gearing improved to 4.60 times as on March 31, 2022, as against 5.05 times as on March 31, 2022. To support the growth momentum MML would require further debt and considering the already leveraged capital structure the promoters may be required to infuse additional equity to support any future business growth. Acuité believes that company's ability to manage its gearing will be a key monitorable.

Inherent risk in microfinance segment

MML primarily extends unsecured loans to economically challenged borrowers who have limited ability to absorb income shocks and it majorly focusses on the rural areas. Since financial assistance to economic challenged borrowers is a sensitive issue, from government

standpoint the regulatory dispensation in respect of the policies becomes relevant. Any changes in the regulatory environment impeding the ability of entities like MML to enforce collections, etc will have an impact on its operational performance. Besides the regulatory risks, the inherent nature of the business renders the portfolios vulnerable to event risks such as natural calamities in the area of operations. The company has maintained on-time portfolio at ~94 percent, however the GNPA increased to 3 percent as on March 2022 as compared to 1.69 percent as on March 2021. Acuité believes that containing additional slippages while maintaining the growth in the loan portfolio will be crucial.

Assessment of Adequacy of Credit Enhancement

MML has significant experience in the MFI segment, and its adequate capital position has been bolstered by capital infusions. Thus, even after considering risks such as geographical concentration and possible asset quality deterioration during the pandemic, Acuité believes that the CE will stand adequate in all scenarios and in the event of any requirement, Northern Arc will provide the necessary support.

ESG Factors Relevant for Rating

Midland Microfin Limited (MML) belongs to the NBFC-MFI sector which facilitates lending to the unbanked population. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. The entity maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding related party transactions, vigil mechanism and whistle blower policy. The board of directors of the company comprise of 7 directors out of which 3 are independent directors and 1 nominee director. The audit committee is with the objective to monitor and provide an unbiased supervision of the management's financial reporting process. MML also maintains transparency in terms of disclosures pertaining to interest rate policy and its adherence to Fair Practice Code as disseminated by Reserve Bank of India's circular. MML aims to empower women by providing micro loans to help them generate additional income opportunities, hence making an economic contribution by way of financial inclusion. It continues to work on several community development initiatives and has also worked on empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centers and such other facilities for senior citizen and measures for reducing inequalities faced by socially and economically backward groups.

Rating Sensitivity

- Timely infusion of capital
- Movement in capital structure
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metrics
- Changes in the regulatory environment

Material Covenants

MML is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Liquidity Position 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, 2022. The company's liquidity is supported by capital infusion by investors in FY2022. The company has maintained unencumbered cash and bank balances of Rs. 234 Cr. as on March 31, 2022. 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. Acuité believes that the company's liquidity profile will continue to benefit from funding support from its promoters.

Outlook : Positive

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.

Other Factors affecting Rating

Not applicable

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	1564.09	1095.65
Total Income*	Rs. Cr.	115.71	88.64
PAT	Rs. Cr.	22.28	14.63
Net Worth	Rs. Cr.	270.85	176.81
Return on Average Assets (RoAA)	(%)	1.68	1.41
Return on Average Net Worth (RoNW)	(%)	9.95	9.90
Debt/Equity	Times	4.60	5.05
Gross NPA	(%)	3.07	1.69
Net NPA	(%)	0.96	0.34

*Total income equals to Net Interest Income plus other income.

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

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Aug 2022	Term Loan	Long Term	1.04	ACUITE BBB+ Positive (Assigned)
	Proposed Bank Facility	Long Term	25.00	ACUITE BBB+ Positive (Reaffirmed)
	Term Loan	Long Term	24.06	ACUITE BBB+ Positive (Assigned)
	Term Loan	Long Term	22.50	ACUITE BBB+ Positive (Assigned)
	Proposed Non Convertible Debentures	Long Term	60.00	ACUITE BBB+ Positive (Reaffirmed)
	Proposed Bank Facility		113.09	ACUITE BBB+ (Assigned)
	Term Loan	Long Term	59.52	ACUITE BBB+ Positive (Assigned)
	Term Loan	Long Term	19.99	ACUITE BBB+ Positive (Assigned)
	Proposed Term Loan	Long Term	11.00	ACUITE Provisional A-(CE) Positive (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE A-(CE) Positive (Reaffirmed)
	Term Loan	Long Term	59.80	ACUITE BBB+ Positive (Assigned)
05 Jul 2022	Proposed Term Loan	Long Term	11.00	ACUITE Provisional A-(CE) Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE A-(CE) Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	60.00	ACUITE BBB+ Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	25.00	ACUITE BBB+ Positive (Reaffirmed)
17 Jun 2022	Proposed Bank Facility	Long Term	25.00	ACUITE BBB+ Positive (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE A-(CE) Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	60.00	ACUITE BBB+ Positive (Assigned)
22 Sep 2021	Proposed Bank Facility	Long Term	25.00	ACUITE BBB+ Positive (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE A-(CE) Stable (Assigned)
17 Jun 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)
18 Dec 2020	Proposed Bank Facility	Long Term	25.00	ACUITE BBB+ Positive (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+ Positive Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	113.09	ACUITE BBB+ Positive Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB+ Positive Reaffirmed
SBM Bank (India) Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	11.00	ACUITE A- CE Positive Assigned Provisional To Final
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	24.06	ACUITE BBB+ Positive Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	19.99	ACUITE BBB+ Positive Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	22.50	ACUITE BBB+ Positive Reaffirmed
Nabard Financial Services Limited	Not Applicable	Term Loan	Not available	Not available	Not available	59.80	ACUITE BBB+ Positive Reaffirmed
Bandhan Bank	Not Applicable	Term Loan	Not available	Not available	Not available	59.52	ACUITE BBB+ Positive Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.04	ACUITE BBB+ Positive Reaffirmed
SBM Bank (India) Ltd.	Not Applicable	Term Loan	18-06-2021	10.40	Not available	10.00	ACUITE A- CE Positive Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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