Madura Micro Finance Limited

August 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated Debentures	50.00	50.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Long-term Loans from Banks	300.00	300.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Non-convertible Debentures	36.60	36.60	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Non-convertible Debentures	40.00	0.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable) Rating Withdrawn
Total	**426.60**	**386.60**	

** Instrument details are provided in the Annexure-1*

Rating action

ICRA has upgraded the long-term rating on the Rs. 300.00-crore[1] long-term bank loan facilities, Rs. 50.00-crore subordinated debentures and Rs. 36.60-crore non-convertible debentures (NCDs) of Madura Micro Finance Limited (MMFL) to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]BBB (pronounced ICRA triple B). The outlook on the rating is Stable. ICRA has withdrawn the long-term rating on the Rs. 40.00-crore NCD programme of MMFL, as these debentures were fully redeemed on maturity and there was no amount outstanding against the rated instruments.

Rationale

The revision in the rating factors in the company's ability to grow its portfolio while maintaining healthy profitability indicators and a comfortable capital structure. MMFL has also steadily augmented its internal control and monitoring systems, which are crucial for future business growth. The rating continues to factor in MMFL's track record in the microfinance business and its experienced senior management team. The company has adequate financial flexibility with funding relationships with about 33 lenders as of June 2018, which provides comfort from a liquidity perspective. ICRA notes that MMFL's portfolio concentration in Tamil Nadu (TN) has moderated to about 83% in June 2018 from 95% in March 2015, though the single-state concentration remains quite high compared to peers.

The rating also takes into consideration the risks related to unsecured lending, and the political and operational risks associated with microfinance. Access to credit bureaus, and the regulatory ceiling on borrower indebtedness, to an extent, reduce concerns regarding borrower overleveraging and multiple lending. MMFL's 0+ dpd reduced to 4.5% in June 2018 from 6.1% in December 2017, though the same is higher than the pre-demonetisation levels. Going forward, MMFL's ability to keep asset quality under control as the business expands to newer geographies, secure growth capital in a timely manner and maintain control on lending norms would be crucial from a rating perspective.

[1] *100 lakh = 1 crore = 10 million*

Outlook: Stable

The stable outlook factors in the company's comfortable financial risk profile and reasonable asset quality indicators. The ratings may be upgraded if the company is able to improve its geographical diversification while maintaining a comfortable asset quality and financial risk profile. The ratings may be downgraded if there is a significant deterioration in MMFL's asset quality, profitability or capitalisation profile.

Key rating drivers

Credit strengths

Established track record in microfinance operations and experienced senior management team – MMFL commenced operations in 2006 and has an established track record of over a decade in extending microfinance loans to self-help groups (SHGs). The company's portfolio grew at a CAGR of about 48% in the last four financial years and stood at Rs. 1,393 crore as on June 30, 2018 with an active member base of 7.4 lakh. MMFL strengthened its senior management team in the recent past with personnel having adequate experience in their functional domains, which would support its growth going forward. In addition, it is broad-basing its middle-level management structure to support its operations in the newer states.

Adequate internal controls and monitoring systems – MMFL has enhanced its information technology (IT) and management information systems by implementing an Oracle-based IT system. This has supported the improvement in data availability for management decisions and seamlessly integrates the operational data with the accounting system. MMFL has also revamped its business process management by implementing a web-based work flow system for the real-time tracking of loan applications. ICRA takes cognisance of MMFL's adequate loan appraisal system involving field verification and credit bureau checks. MMFL undertakes 100% cashless disbursements while repayments are currently remitted directly to the branches by the borrowers. MMFL's dedicated internal audit team undertakes surprise audits of its branches, in addition to the quarterly audit.

Healthy profitability indicators – MMFL's net profitability (profit after tax (PAT)/average managed advances (AMA) at 3.7% for FY2018 vis-à-vis 3.8% in FY2017) remains healthy despite the increase in credit costs (1.6% of AMA in FY2018 compared to 0.9% in FY2017), supported by its moderate leverage and healthy operating efficiencies (operating expenses/AMA at 5.3% in FY2018). Going forward, it would be crucial for the company to keep credit costs at modest levels and maintain healthy operating efficiencies as the business expands and diversifies into new geographies.

Comfortable capitalisation profile; regular capital infusion crucial for business expansion – MMFL's capitalisation is comfortable with a capital to risk (weighted) assets ratio (CRAR) of 25.7% as on March 31, 2018 and a gearing of 3.9 times and 4.4 times (provisional) as on March 31, 2018 and June 30, 2018 respectively. ICRA takes note of the company's planned portfolio expansion at a CAGR of about 35-40% during FY2019-FY2021. Thus, it is crucial for the company to secure equity capital, in a timely manner, to keep the capitalisation profile under control. MMFL secured equity capital of about Rs. 24.5 crore and Rs. 40 crore in FY2018 and FY2017, respectively.

Reasonable asset quality indicators – MMFL's 0+ dpd improved to 4.5% as on June 30, 2018 (4.7% in March 2018) from 6.1% as on December 31, 2017. The company was facing asset quality related pressures post demonetisation, especially in its exposures in Karnataka and Maharashtra, which resulted in increased credit costs (1.6%) during FY2018 vis-à-vis 0.9% in FY2017 (1.0% in FY2016). The company writes off loans which cross the 180+ dpd and it reports a group's outstanding amount as delinquent even if a single member turns overdue. MMFL's 90+ dpd as on June 30, 2018 was 0.45%, unchanged from March 2018. Going forward, it would be crucial for MMFL to keep its asset quality and credit costs under control as it expands its portfolio in new geographies.

Fairly-diversified funding profile – As on June 30, 2018, 48% of MMFL's borrowings were from banks and 38% were from financial institutions including NBFCs. The share of funding through NCDs stood at 14%. ICRA takes comfort from the fact that the company has active funding relationships with 20 banks and 14 financial institutions. ICRA notes that the short-term nature of MMFL's loans vis-à-vis its borrowings provides a favourable view of its liquidity profile. However, the company has to secure long-term funds going forward as it plans to venture into the longer-tenure loans against property (LAP) segment.

Credit challenges

Geographically concentrated portfolio – MMFL's portfolio remains concentrated with TN accounting for 83% of the loan book as on June 30, 2018 followed by Maharashtra (5%), Karnataka (4%), Kerala (4%) and other states/Union Territories (4%). The company commenced operations in states such as Odisha and Bihar in FY2018 and is expected to start operations in few more states in FY2019. ICRA, however, expects MMFL's portfolio to remain concentrated in TN in the medium term.

Limited diversity in portfolio and earnings profile – The monoline nature of the company's business has resulted in limited earnings diversity. Although the company commenced LAP operations in TN and Co-lending in FY2018, the share of LAP & Co-lending in the overall portfolio was low at 2.46% (June 2018).

Ability to manage political, communal and other risks in microfinance sector – The rating factors in the risks associated with the marginal borrower profile, unsecured lending business, political and operational risks along with the challenges associated with a high pace of growth. The company is taking initiatives to reduce these risks to an extent, by further strengthening its systems and processes, and by diversifying its portfolio across geographies. Going forward, MMFL's ability to on-board borrowers with a good credit history, and recruit and retain employees is crucial, in view of the envisaged business expansion.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company

Madura Micro Finance Limited (MMFL) is a non-banking finance company established in 2005. The company started operations in early 2006 and obtained an NBFC-MFI licence in December 2013. As on June 30, 2018, the company's Chairman and Managing Director, Dr. Tara Thiagarajan, held a 32.39% equity stake in MMFL, while A.V.Thomas Group held 32.23% and private equity investor, Elevar Equity Mauritius, held 12.04%. MMFL provides credit to economically-backward women through the SHG model and had a loan portfolio of Rs. 1,393 crore as on June 30, 2018. MMFL operates in 59 districts across 301 branches and had over 7.4 lakh members in June 2018.

In Q1 FY2019, MMFL reported a net profit of Rs. 15.0 crore on a total managed asset base of Rs. 1,437.7 crore. The company's net worth stood at Rs. 255.5 crore (provisional) as on June 30, 2018. In FY2018, MMFL reported a net profit of Rs. 39.8 crore on a total managed asset base of Rs. 1,217.9 crore compared to a net profit of Rs. 30.2 crore on a total managed asset base of Rs. 950.3 crore in FY2017.

Key financial indicators

	FY 2017	FY 2018
Total Income	179.8	233.1
Profit after Tax	30.2	39.8
Net Worth	176.1	240.5
Managed Portfolio	825.2	1,184.2
Total Managed Assets	950.3	1,217.9
Return on Managed Assets %	3.8%	3.7%
Return on Net Worth %	21.4%	19.1%
Gearing (times)	4.2	3.9
Gross NPA%	0.5%	0.5%
Net NPA%	0.0%	0.0%
CRAR%	27.0%	25.7%

Source: MMFL and ICRA research; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Aug 2018	Date & Rating in FY2018 Dec 2017	Date & Rating in FY2017 Mar 2017	Date & Rating in FY2016 Aug 2015
1	Loans from Banks	Long term	300.00	300.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non-Convertible Debentures	Long term	36.60	36.60	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-Convertible Debentures	Long term	40.00	40.00	[ICRA]BBB+ (Stable) Rating is **Withdrawn**	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	Subordinated Debentures	Long term	50.00	50.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE500S08018	Subordinated debenture	30-Mar-17	14.25%	29-Mar-24	50.00	[ICRA]BBB+ (Stable)
NA	Term Loan 1	16-Sep-16	NA	29-Sep-18	3.57	[ICRA]BBB+ (Stable)
NA	Term Loan 2	25-Oct-17	NA	28-Nov-19	21.43	[ICRA]BBB+ (Stable)
NA	Term Loan 3	26-Sep-16	NA	30-Aug-19	17.33	[ICRA]BBB+ (Stable)
NA	Term Loan 4	11-Mar-16	NA	18-Mar-19	1.09	[ICRA]BBB+ (Stable)
NA	Term Loan 5	27-Mar-18	NA	31-Mar-21	2.75	[ICRA]BBB+ (Stable)
NA	Term Loan 6	4-Mar-17	NA	18-Jun-20	15.00	[ICRA]BBB+ (Stable)
NA	Term Loan 7	9-Sep-16	NA	30-Nov-18	1.66	[ICRA]BBB+ (Stable)
NA	Term Loan 8	2-Mar-16	NA	22-Mar-19	2.16	[ICRA]BBB+ (Stable)
NA	Term Loan 9	15-Sep-16	NA	26-Sep-19	5.83	[ICRA]BBB+ (Stable)
NA	Term Loan 10	6-Mar-17	NA	18-Sep-20	11.26	[ICRA]BBB+ (Stable)
NA	Term Loan 1	8-Feb-17	NA	31-Jul-19	11.88	[ICRA]BBB+ (Stable)
NA	Term Loan 12	8-Feb-17	NA	31-Jul-19	5.24	[ICRA]BBB+ (Stable)
NA	Term Loan 13	8-Feb-17	NA	28-Sep-19	15.40	[ICRA]BBB+ (Stable)
NA	Term Loan 14	27-Jan-16	NA	20-Aug-18	0.48	[ICRA]BBB+ (Stable)
NA	Term Loan 15	24-Feb-17	NA	30-Jun-19	5.00	[ICRA]BBB+ (Stable)
NA	Term Loan 16	24-Feb-17	NA	18-Oct-19	12.50	[ICRA]BBB+ (Stable)
NA	Term Loan 17	24-Feb-17	NA	27-Dec-19	14.17	[ICRA]BBB+ (Stable)
NA	Term Loan 18	8-Feb-17	NA	27-May-20	11.67	[ICRA]BBB+ (Stable)
NA	Term Loan 19	7-Feb-17	NA	27-Mar-19	1.67	[ICRA]BBB+ (Stable)
NA	Term Loan 20	7-Feb-17	NA	18-Sep-19	5.83	[ICRA]BBB+ (Stable)
NA	Term Loan 21	4-Mar-16	NA	31-Mar-19	0.97	[ICRA]BBB+ (Stable)
NA	Term Loan 22	4-Mar-16	NA	31-Mar-19	0.73	[ICRA]BBB+ (Stable)
NA	Term Loan 23	15-Feb-17	NA	30-Mar-19	1.82	[ICRA]BBB+ (Stable)
NA	Term Loan 24	15-Feb-17	NA	29-Jun-19	2.50	[ICRA]BBB+ (Stable)
NA	Term Loan 25	15-Feb-17	NA	23-Aug-19	2.95	[ICRA]BBB+ (Stable)
NA	Term Loan 26	17-Dec-16	NA	29-Dec-19	2.73	[ICRA]BBB+ (Stable)
NA	Term Loan 27	1-Oct-16	NA	28-Feb-20	4.97	[ICRA]BBB+ (Stable)
NA	Term Loan 28	28-Apr-16	NA	27-Apr-19	13.21	[ICRA]BBB+ (Stable)
NA	Term Loan 29	29-Aug-16	NA	8-Dec-19	7.27	[ICRA]BBB+ (Stable)
NA	Term Loan 30	4-Apr-16	NA	29-Jun-21	6.00	[ICRA]BBB+ (Stable)
NA	Term Loan 31	23-Mar-17	NA	16-Aug-20	15.15	[ICRA]BBB+ (Stable)
NA	Term Loan 32	23-Apr-18	NA	28-Jun-21	40.00	[ICRA]BBB+ (Stable)
NA	Term Loan 33	6-Mar-18	NA	20-Jun-20	23.96	[ICRA]BBB+ (Stable)
NA	Proposed Loan	NA	NA	NA	11.82	[ICRA]BBB+ (Stable)
INE500S07028	Non-convertible Debentures	12-May-15	14.84%	08-May-18	40.00	[ICRA]BBB+ (Stable) **Rating Withdrawn**
INE500S07036	Non-convertible Debentures	19-Aug-15	14.15%	13-Sep-20	36.60	[ICRA]BBB+ (Stable)

Source: *MMFL*

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