

October 03, 2022

Midland Microfin Limited: Provisional [ICRA]A(SO) assigned to PTC Series A1 and Provisional [ICRA]A-(SO) assigned to PTC Series A2 issued by Goldfish 09 2022, backed by a pool of microloan receivables

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Goldfish 09 2022	PTC Series A1	28.20	Provisional [ICRA]A(SO); Assigned
	PTC Series A2	1.03	Provisional [ICRA]A-(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No ratings would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a Provisional [ICRA]A(SO) rating to PTC Series A1 and a Provisional [ICRA]A-(SO) rating to PTC Series A2 under a securitisation transaction backed by microloan receivables originated by Midland Microfin Limited (Originator/MML). The pass-through certificates (PTCs) are backed by a pool of Rs. 37.66-crore microloan receivables (underlying pool principal of Rs. 32.04 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts and the credit enhancement available in the form of (i) a cash collateral (CC) of 8.00% of the pool principal to be provided by the originator, (ii) subordination of 12.00% of the pool principal for PTC Series A1 and 8.80% for PTC Series A2 and (iii) the subordination of the entire excess interest spread (EIS) in the structure. The provisional ratings are also based on the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and cash collateral
- Absence of overdue contracts as on pool cut-off date
- Pre-securitisation amortisation of ~27% as on the cut-off date

Credit challenges

- Geographically concentrated pool at state level with top 3 states having a 74% share
- Performance of pool would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool's performance would be exposed to political and communal risks
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 12.00% of the pool principal (includes principal payable to PTC Series A2). After PTC Series A1 has been fully paid, a subordination of 8.80% of the pool principal will be available for PTC Series A2. Further credit support is available in the form of an EIS of 11.85% for PTC Series A1 and 11.27 % for PTC Series A2. A CC of 8.00% of the initial pool principal, to be provided by MML, would act as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall.

As per the transaction structure, PTC Series A2 payouts are completely subordinated to PTC Series A1. The collections from the pool, after making the promised interest payouts to PTC Series A1, will be used to make the expected principal payouts to PTC Series A1, followed by the expected interest payouts to PTC Series A2. The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. Post the maturity of PTC Series A1, interest payouts will be promised to PTC Series A2 and all excess cash flows, after meeting the promised interest PTC Series A2 payouts, will be passed on for the expected PTC Series A2 principal payout (to the extent of billed pool principal). The entire principal repayment to PTC Series A2 is promised on the scheduled maturity date. All prepayment amounts would be passed on to PTC Series A1 (till the PTC Series A1 principal is not fully amortised) every month and its future payouts would be revised accordingly. After the maturity of PTC Series A1, the same would be passed on to PTC Series A2. The EIS available after meeting the expected and promised PTC payments will flow back to the originator.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that have moderate seasoning with a weighted average seasoning of ~7 months and pre-securitisation amortisation of ~27% as on the pool cut-off date. The geographical concentration of the loan contracts in the current pool is high at the state level with the top 3 states constituting ~74% of the pool principal.

The performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

Past rated pools' performance: ICRA has rated six standalone PTC transactions of MML in the past, which have now matured. All the matured pools had reported a cumulative collection efficiency of more than 95% with nil CC utilisation till the last payout date.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.00-5.00% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 3.0-9.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount for PTC Series A1 is promised on the scheduled maturity date of the transaction. After PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the principal amount for PTC Series A2 is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the analysis of the performance of MML's portfolio till August 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Power of Attorney
6. Chartered Accountant's (CA) certificate
7. Any other documents executed for the transaction including for the CC

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

Midland Microfin Limited (MML) is a registered non-banking financial company-microfinance institution (NBFC-MFI), which started microfinance operations in January 2011. MML was initially engaged in the hire purchase business and had been incorporated in 1988 as Sajan Hire Purchase Pvt Ltd. Sajan Hire Purchase was acquired by Mr. Amardeep Samra's Midland Group in 2010. The company got registered with the Reserve Bank of India (RBI) as an NBFC-MFI in January 2015. As on August 31, 2022, Midland operated in 11 states and 2 Union Territories through its network of 312 branches.

The company reported a net profit of Rs. 22.3 crore in FY2022, translating into a return on average managed assets (RoMA) of 1.7% and a return on average net worth of 11.4% against Rs. 14.6 crore, 1.5% and 11.2%, respectively, in FY2021.

Key financial indicators

	FY2020	FY2021	FY2022
Total income	184.1	192.3	219.8
Profit after tax	18.7	14.6	22.3
Total assets	978.0	1,095.6	1,569.0
Gross NPA	0.57%	1.20%	3.07%
Net NPA	0.05%	0.22%	0.96%

Amount in Rs. crore

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr No	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					October 03, 2022			
1	Goldfish 09 2022	PTC Series A1	28.20	28.20	Provisional [ICRA]A(SO)	-	-	-
		PTC Series A2	1.03	1.03	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Goldfish 09 2022	PTC Series A1	September 2022	9.90%	June 2024	28.20	Provisional [ICRA]A(SO)
	PTC Series A2	September 2022	13.00%	June 2024	1.03	Provisional [ICRA]A-(SO)

*Scheduled maturity date at transaction initiation; may change on account of prepayments
Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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