CareEdge RATINGS

Mas Financial Services Limited (Revised)

May 02, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5,000.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Total Bank Facilities	**5,000.00 (Rs. Five Thousand Crore Only)**		
Market Linked Debentures	300.00	**CARE PP-MLD A+; Stable (Principal Protected-Market Linked Debentures Single A Plus; Outlook: Stable)**	**Assigned**
Subordinated Bonds	100.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Assigned**
Market Linked Debentures	475.00	**CARE PP-MLD A+; Stable (Principal Protected-Market Linked Debentures Single A Plus; Outlook: Stable)**	**Reaffirmed**
Non-Convertible Debentures	500.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Subordinated Bonds	100.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Total Long Term Instruments	**1,475.00 (Rs. One Thousand Four Hundred Seventy-Five Crore Only)**		
Commercial Paper	250.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Short Term Instruments	**250.00 (Rs. Two Hundred Fifty Crore Only)**		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments and bank facilities of MAS Financial Services Limited (MFSL) derive strength from long-standing track record and experience of the promoters of MFSL in the lending business, experienced senior management team, established appraisal systems which have helped the company maintain asset quality even through the stressed witnessed during the Covid-19 pandemic, comfortable capitalization levels, diversified loan portfolio, diversified resource profile with multiple banks and financial institutions and comfortable liquidity as the company has been maintaining cash balance to meet any exigencies.

Due to the Covid-19 pandemic, the company's profitability was impacted as the company saw significant decline in disbursements as well as assignment of loans portfolio during FY21 (refers to the period April 01,2020, to March 31,2021) resulting in decline in the Assets Under Management (AUM). As a result of lower disbursements, the company saw impact on the income and profit levels for the year as compared with the previous year. With the second Covid-19 wave, the company has seen rise in Gross Stage 3 assets. Furthermore, the company has been maintaining higher liquidity. The company has increased the disbursement levels from the second quarter of FY22 which has led to increase in AUM to Rs.6,049 crore as on December 31, 2021 (March 31, 2020: Rs.6,274 crore). The company held special Covid-19 provision of ~Rs.44.26 crore (0.95% of on-book loan portfolio) in its books as on December 31, 2021.

The ratings continue to remain constrained on account of its concentrated borrower profile and exposure to micro enterprises and small and medium enterprises (SME) sectors which are high yield generating and low-price sensitive segments and at the same time are relatively riskier in nature and moderate geographical diversification. Moreover, CARE Ratings continues to assess the impact of the on-going COVID-19 pandemic on the company and the sector's performance at large.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in asset quality with decline in gross non-performing assets (NPA) levels below 1% on a sustainable basis.
- Significant increase in the scale of operations with corresponding increase in profitability in terms of NIM and ROTA.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality with increase in net NPA / tangible net-worth levels above 10% on a sustainable basis.
- Decline in capital adequacy ratio (CAR) below 20% on a sustainable basis.
- Significant decline in profitability in terms of NIM and ROTA.

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing track record, experience of the promoters in the lending business and experienced senior management team with established credit appraisal systems

The promoters of MFSL have established track record of over two decades in the lending business. MFSL initially started its lending activities in the state of Gujarat and has gradually ventured and established its footprint in six other states and has expanded its operations across 114 branches at a standalone level and 69 branches of its housing finance company (HFC) subsidiary and is present in around 3,500 locations, including through its wholesale portfolio, and is catering to the funding requirement of around seven lakh live customers. Furthermore, the senior management team of MFSL consists of experienced professionals who have been in the lending business and have been associated with MFSL since its inception. These personnel continue to head the main functions at MFSL. The company has established its credit appraisal processes and systems over the years which have helped it maintain asset quality through the impact of demonetization, implementation of Real Estate (Regulation and Development) Act, 2016 (RERA) and Goods and Service Tax (GST), liquidity crunch faced by the NBFCs during FY19 and the COVID-19 pandemic. As per the management of the company, the credit appraisal processes of MFSL are reviewed and revised at regular intervals based on its experience in the market. The credit appraisal process at MFSL is centralised. Sanctions are accorded by the centralised credit team, whereas sourcing and collection functions are carried out at branch level. Multiple checks are carried out at centralised unit prior to disbursement.

Diversified loan portfolio

The loan portfolio of MFSL (consolidated) consists of micro enterprises loans, SME loans, two-wheeler loans, commercial vehicle (CV) loans and housing finance loans. MFSL was initially engaged in lending of two-wheeler and micro enterprises loans and later on forayed into commercial vehicle loan, SME loan and housing loan segments. Even in the aforesaid loan categories, significant amount of the loan portfolio is built up through NBFCs and Non-Banking Finance Companies – Micro Finance Institutions (NBFC-MFIs). Around 49% of the AUM was through NBFC-MFI route, while 51% was through direct lending as on December 31, 2021, as compared to around 56% of AUM was through NBFC-MFI route, while 44% was through direct lending as on March 31,2021. Moreover, as on December 31,2021, around 19% of consolidated loan portfolio of MFSL has been directly assigned to banks and financial institutions as compared to 24% as on March 31,2021. Due to product diversification, MFSL has been able to grow its consolidated total loan portfolio at a compound annual growth rate (CAGR) of around 23% during the three years ended FY20 (refers to the period April 1 to March 31), before registering a y-o-y dip of 9.52% during FY21 due to impact of COVID-19-related disruptions. As on December 31, 2021, the AUM stood at Rs.6,049 crore (March 31, 2020: Rs.6,253 crore) out of which micro enterprise loans constituted 47%, SME Loans constituted 38%, two-wheeler loans constituted 6%, CV loans constituted 4% and housing finance loans constituted around 5% of AUM.

Moderation in asset quality parameters due to Covid-19

Over the years, the company has maintained comfortable asset quality parameters. In line with the RBI regulations, the NPA recognition policy was changed by the company in FY18. Till FY17, the NPA recognition policy was 120+DPD (days past due). However, from FY18 onwards, the same has been revised to 90+DPD. The slippages are mainly driven by direct exposure while the asset quality remains comfortable due to very less delinquencies in the loans to NBFCs and NBFC-MFIs, majority of which have comfortable financial risk profile. Also, these loans are backed by security deposits in the form of cash collateral and corporate / personal guarantees taken by MFSL from the NBFCs and NBFC-MFIs. With the Covid-19 impacting the target segment, which is vulnerable to level of economic activity, the collection efficiency of the company was around 75% during H1FY21 which improved to around 95% during H2FY21. Collection efficiency remained around 97.5% for 9MFY22.

The company saw increase in the Gross Stage 3 assets and Net Stage 3 assets (consolidated basis) (on AUM basis) from 1.86% and 1.46%, respectively, as on March 31, 2021, to 2.27% and 1.70% as on December 31,2021. Provision coverage for NPA of MFSL (standalone basis) increased from 38.61% for FY21 (April 2020 to March 2021) to 41.37% for 9MFY22 (April 2021 to December 2021). Additional management overlay provision for economic activity on account of COVID-19 stood at Rs. 47.25 crore as on December 31,2021 as against Rs. 59.54 crore as on March 31,2021. The company's restructured loan (on standalone basis) stood at Rs.25.20 crore of loans constituting 0.44% of AUM as on December 31, 2021.

Comfortable capital adequacy ratio and strong and diversified resource base with multiple banks and financial institutions
The company has been maintaining comfortable capital adequacy over the years. In October 2017, MFSL came out with an Initial Public Offer (IPO) and raised equity capital of Rs. 233 crore. MFSL had also raised Rs. 100 crore in March 2017 and Rs. 35 crore in April 2017 in the pre IPO round of funding which along with accretion of profit has helped the company reach a tangible net worth base of Rs.1,253 crore (consolidated) as on December 31, 2021(March 31,2021- Rs. 1,178 crores). Post the IPO, the promoter holding in MFSL has been at 73.62% as on December 31, 2021.
The company’s overall gearing stood at 3.18 times as on December 31,2021 as compared to 2.98 times as on March 31, 2021, and 2.82 times as on March 31, 2020. The company expects to maintain gearing levels below 4.5 times on a steady state basis.
The company reported Capital Adequacy Ratio (CAR) of 27.41% with Tier I CAR of 23.84% as on December 31,2021 as compared to CAR of 26.85% (March 31, 2020-31.97%) with Tier I CAR of 24.81% (March 31,2020- 29.88%) as on March 31, 2021. The company has been maintaining its capitalisation levels through internal accruals and assignment of loan portfolio over the last few years (off-book constituting around 20% to 40% of AUM) which has helped the company raise resources. Overall capitalisation level is expected to remain adequate in medium term as majority of the company’s loan portfolio qualifies for priority sector lending (PSL) and the company is expected to continue using assignment of loans as source of funding.
Also, MFSL has relations with around 30 banks, NBFCs and other financial institutions for meeting its borrowing requirements including direct assignment lines and co-lending agreements based on which MFSL is able to raise resources in a timely manner and at competitive rate of interest, thereby providing significant financial flexibility to MFSL. Most of the banks and financial institutions are also the ones to whom MFSL sells its loan portfolio under the direct assignment route. The existing capitalization level and strong resource base is envisaged to provide impetus to MFSL for growth in its loan portfolio over the medium term.

Stable financial risk profile marked by high Net Interest Margin (NIM) and Return on Total Assets (ROTA)
During FY21, the company has changed its accounting policy related to amortising the gain on assignment of financial assets over the residual tenure instead of booking upfront gain. As per the requirement of Ind AS 1, the new accounting policy has been implemented retrospectively from April 01, 2019, which was the earliest period presented.
During 9MFY22, the company witnessed growth in disbursements (largely from Q2FY22) as consolidated disbursement was Rs. 4,190 crore as compared to FY21 where MFSL saw decline in disbursements at Rs. 3,485 crore (FY20-Rs. 5,264 crore) as the company did not disburse for a larger part of the year on account of Covid-19. As a result, the total income increased from Rs. 480 crore (consolidated) in 9MFY21 (refers to period from April 01, 2020- December 31, 2020) to Rs.502 crore (consolidated) for 9MFY22. MFSL reported Profit After Tax (PAT) of Rs.118 crore for 9MFY22 as compared to PAT of Rs.109 crore for 9MFY21 showing growth of 8.25% (y-o-y) and PAT of Rs. 146 crores with total income of Rs. 628 crores for FY21.

The Net Interest Margin (NIM) for 9MFY22 stood at 4.43% as compared to 4.8% for FY21 and 7.18% for FY20. After adjusting the off-book portfolio, the NIM declined to 3.65% for 9MFY22 from 4.64% for FY21. The Return on Total Assets (ROTA) for 9MFY22 stood at 2.73% as compared to 2.88% for FY21 and 4.17% for FY20. Adjusted for off-balance sheet portfolio ROTA for 9MFY22 stood at 2.24% as compared to 2.06% for FY21 and 2.69% for FY20.

Key Rating Weaknesses
Concentrated borrower profile
MFSL has a significant proportion of AUM (~49% as on December 31, 2021) through its relationship with NBFCs and MFIs. As a result, MFSL has high borrower concentration. As on December 31,2021, top 10-exposures of MFSL accounted to more than 72% of its consolidated tangible net-worth (March 31, 2021: ~65%). Though the present credit profile of the top exposures is moderate but any deterioration in the credit quality of these exposures may lead to sharp increase in NPA levels of MFSL. Accordingly, credit quality of its large exposures would remain a key credit monitorable.

Exposure to relatively riskier micro enterprises and SME sectors
The portfolio of MFSL comprises retail products like micro enterprises loans, SME loans, two-wheeler loans and commercial vehicle loans, which are high yield generating and low-price sensitive segments and at the same time are relatively riskier in nature. As on December 31, 2021, around 51% (March 31, 2021: 44%) of the AUM was through direct sourcing while the remaining was through NBFCs and NBFC-MFIs (March 31, 2021: 56%). However, the exposure through NBFCs/MFIs is partly mitigated by 5%-15% cash collateral and corporate / personal guarantees taken by MFSL from the NBFCs and NBFC-MFIs.

Moderate geographical diversification
The lending activities of MFSL are directly carried out in seven states. MFSL initially started its lending activities in the state of Gujarat and has gradually ventured and established its footprint in six other states of Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, Tamil Nadu and Delhi. However, as significant amount of MFSL’s lending activities are carried out through NBFCs and NBFC-MFIs, it has resulted in highly diversified exposure of MFSL. Gujarat accounts for around 38% of the consolidated total loan portfolio of MFSL as on December 31, 2021 as compared to 34% as on March 31, 2021, driven by operational familiarity of the promoters with the Gujarat market, whereas other states and union territories account for balance 62% as on December 31, 2021.

Liquidity: Strong

The liquidity profile of MFSL has remained comfortable on the back of strong and diversified resource base and good amount of unutilized bank limits. It's asset liability maturity (ALM) had no cumulative mismatches on a standalone basis as on December 31,2021, supported by lower maturity of assets at 18-20 months as compared to 36-50 months tenor of its term loans and NCD. MFSL, on a standalone basis, has sanction on hand of Rs. 906.37 crore and unutilized CC facility of Rs. 704.35 crores as on December 31,2021. Furthermore, MFSL has free cash and bank balance of around Rs.1,030.25 crore as on December 31, 2021, on a standalone basis which can take care of upcoming 6 months' standalone debt servicing obligations (principal + interest). Earlier, amidst the challenging fund-raising environment, especially for NBFCs and HFCs, it had framed a policy of keeping cash in hand equivalent to next three months of debt servicing obligations. However, owing to the crisis due to lockdown pursuant to COVID-19 pandemic, it has increased its liquidity cushion. Furthermore, due to the unutilized fund-based working capital limits and direct assignment limits, the asset liability maturity profile of MFSL is expected to remain comfortable. CARE also takes cognizance of the fact that MFSL has not availed the moratorium from the lenders as a COVID-19 relief measure [as permitted by the Reserve Bank of India (RBI)].

Analytical approach:

Consolidated; MFSL and 59.67% stake of its HFC subsidiary, viz., MAS Rural Housing and Mortgage Finance Limited (MRHMFL).

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Market Linked Notes
Rating Methodology-Non-Banking Finance Companies
Rating Methodology-Housing Finance Companies
Policy on default recognition
Consolidation
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments

About the Company

MFSL was incorporated in the year 1995 by Mr. Kamlesh Gandhi and Mr. Mukesh Gandhi. The company was registered as an NBFC in 1998 with RBI. It was initially engaged in the lending of two-wheeler and micro enterprises loans and later on forayed in commercial vehicle loan and SME loan segments. In the year 2008, MFSL floated a subsidiary, MRHMFL; rated 'CARE A; Stable', a non-deposit taking, National Housing Bank (NHB) registered HFC, which provides housing loans to the low-income group segment in rural and semi-urban areas. The lending activities of MFSL are carried out by it directly through its own network of 114 branches on a standalone level and 69 branches of its HFC subsidiary in seven states as on December 31,2021 (viz., Gujarat, Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, Tamil Nadu and Delhi) and also through other smaller NBFCs and MFIs. As on December 31, 2021, MFSL had relationship with 148 NBFC and NBFC-MFIs and around 49% of the total assets under management (AUM) of MFSL was built through these NBFCs and NBFC-MFIs. As on December 31, 2021, MFSL, on a consolidated basis, reported total AUM of around Rs.6,049 crore as against total AUM of around Rs.5,657 crore as on March 31,2021 and catered to more than seven lakh live customers across around 3,500 locations. In October 2017, MFSL came outwith an IPO and raised fresh equity capital of Rs.233 crore. MFSL had also raised Rs.135 crore in a pre-IPO round of funding through issue of shares to the Motilal Oswal Group. The shares of MFSL are listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Brief Financials (Rs. crore)	31-03-2020 (A)*	31-03-2021 (A)	31-12-2021 (UA)
Total operating income	683.12	593.89	448.81
PAT	178.21	143.50	117.71
Interest coverage (times)	1.85	1.73	1.65
Total Assets^	4,456.45	5,156.34	6,107.45
Net NPA (%)	1.30	1.05	1.70
ROTA (%)	4.37	2.95	2.73#

A: Audited as per IND-AS and *: Restated

Note: The calculations are as per CARE Ratings' calculation

^: Net of Intangible Assets, Revaluation Reserve & Deferred Tax Assets (DTA)

Annualised

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

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument / Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	August 5,2026	3,000.00	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	2,000.00	CARE A+; Stable
Debentures-Market Linked Debentures	INE348L07076	March 30, 2021	8.80%	March 30, 2023	65.00	CARE PP-MLD A+; Stable
Debentures-Market Linked Debentures	INE348L07084	June 23, 2021	8.50%	December 23, 2023	100.00	CARE PP-MLD A+; Stable
Debentures-Market Linked Debentures	INE348L07092	September 17, 2021	8.50%	September 18, 2023	100.00	CARE PP-MLD A+; Stable
Debentures-Market Linked Debentures	INE348L07100	November 25, 2021	8.50%	January 24, 2024	100.00	CARE PP-MLD A+; Stable
Debentures-Market Linked Debentures(Proposed)	-	-	-	-	410.00	CARE PP-MLD A+; Stable
Debentures-Non Convertible Debentures (Tranche-1)*	INE348L07043	July 24, 2020	9.00%	January 24, 2022	100.00	CARE A+; Stable
Debentures-Non Convertible Debentures (Tranche-2)*	INE348L07050	July 30, 2020	9.00%	January 30, 2022	50.00	CARE A+; Stable
Debentures-Non Convertible Debentures (Tranche-3)*	INE348L07068	August 19, 2020	9.00%	February 19, 2022	100.00	CARE A+; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	250.00	CARE A+; Stable
Debentures-Subordinated Bonds	INE348L08041	October 20, 2021	10.75%	May 20, 2027	50.00	CARE A+; Stable
Debentures-Subordinated Bonds	INE348L08058	December 29, 2021	10.75%	December 29, 2027	50.00	CARE A+; Stable
Debentures-Subordinated Bonds (Proposed)	-	-	-	-	100.00	CARE A+; Stable
Commercial Paper	-	-	-	7-364 days	250.00	CARE A1+

*NCDs of Rs.250 crore is redeemed but not withdrawn

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	3000.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Sep-21)	1)CARE A+; Stable (15-Sep-20)	1)CARE A+; Stable (06-Aug-19)
2	Fund-based - LT-Cash Credit	LT	2000.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Sep-21)	1)CARE A+; Stable (15-Sep-20)	1)CARE A+; Stable (06-Aug-19)
3	Fund-based - ST-Working Capital Limits	ST	-	-	-	-	1)Withdrawn (15-Sep-20)	1)CARE A1+ (06-Aug-19)
4	Commercial Paper-Commercial Paper (Standalone)	ST	250.00	CARE A1+	-	1)CARE A1+ (14-Sep-21)	1)CARE A1+ (15-Sep-20)	1)CARE A1+ (06-Aug-19)
5	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Sep-21)	1)CARE A+; Stable (15-Sep-20) 2)CARE A+; Stable (25-May-20)	-
6	Debentures-Market Linked Debentures	LT	75.00	CARE PP-MLD A+; Stable	-	1)CARE PP-MLD A+; Stable (14-Sep-21)	1)CARE PP-MLD A+; Stable (31-Mar-21)	-
7	Debentures-Market Linked Debentures	LT	200.00	CARE PP-MLD A+; Stable	-	1)CARE PP-MLD A+; Stable (14-Sep-21) 2)CARE PP-MLD A+; Stable (17-Jun-21)	-	-
8	Bonds-Subordinated	LT	100.00	CARE A+; Stable	-	1)CARE A+; Stable (27-Sep-21)	-	-
9	Debentures-Market Linked Debentures	LT	200.00	CARE PP-MLD A+; Stable	-	1)CARE PP-MLD A+; Stable (21-Oct-21)	-	-
10	Bonds-Subordinated	LT	100.00	CARE A+; Stable				
11	Debentures-Market Linked Debentures	LT	300.00	CARE PP-MLD A+; Stable				

* Long Term / Short Term

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 instrument	Complexity level
1	Bonds-Subordinated	Simple
2	Commercial Paper-Commercial Paper (Standalone)	Simple
3	Debentures-Market Linked Debentures	Highly Complex
4	Debentures-Non Convertible Debentures	Simple
5	Fund-based - LT-Cash Credit	Simple
6	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**