MAS Financial Services Limited

June 17, 2021

Rating

Instrument	Amount (Rs. Crore)	Rating[1]	Rating Action
Proposed Principal Protected Market Linked Debenture (MLD) Issue	200.00	**CARE PP-MLD A+; Stable (Principal Protected-Market Linked Debentures Single A Plus; Outlook: Stable)**	**Assigned**
Total	**200.00 [Rs. Two-hundred crore only]**		

Details of instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed principal protected market linked debenture (MLD) issue of MAS Financial Services Limited (MFSL) derives strength from long-standing track record and experience of the promoters of MFSL in the lending business, experienced senior management team, diversified loan portfolio, moderate geographical diversification, comfortable asset quality on the back of adequate appraisal systems, strong and diversified resource base with multiple banks and financial institutions, comfortable capital adequacy, strong financial risk profile marked by high net interest margin (NIM) and return on total assets (ROTA) and comfortable liquidity profile with increase in the cash balance as liquidity back-up for the next one year of debt servicing.

The rating, however, remains 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. Moreover, CARE continues to assess the impact of the on-going COVID-19 pandemic on the company and the sector's performance at large.

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 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*

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing track record and experience of the promoters in the lending business and experienced senior management team

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 99 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.

Diversified loan portfolio

The loan portfolio of MFSL consists of micro enterprises loans, SME loans, two-wheeler loans, commercial vehicle 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). Moreover, about 24% of the consolidated total loan portfolio of MFSL as on March 31, 2021 has been directly assigned to banks and financial institutions. 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 three years ended FY20

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

(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.

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 34% of the consolidated total loan portfolio of MFSL 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 66%.

Comfortable asset quality on the back of adequate appraisal systems

On a consolidated basis, the gross and net NPAs of MFSL stood at 1.86% and 1.46%, respectively, as on March 31, 2021 as compared with 1.37% and 1.06%, respectively, as on March 31, 2020. 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 NPA levels have remained comfortable even after migration to a more stringent NPA recognition policy, growth in loan portfolio, 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 COVID-19 pandemic. This was possible mainly on account of adequate credit appraisal processes and systems adopted by the company. As per the management of the company, the credit appraisal processes of MFSL are reviewed and revised at regular interval 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. The asset quality is also 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. Moreover, the delinquencies are lower in case of micro-enterprises and SME loans which collectively account for around 86% of MFSL's consolidated total loan portfolio as on March 31, 2021.

Comfortable capital adequacy ratio and strong and diversified resource base with multiple banks and financial institutions

In October 2017, MFSL came out with an Initial Public Offer (IPO) and raised 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. The CAR of MFSL stood at 26.85% as on March 31, 2021 as compared with 31.97% as on March 31, 2020. Out of total CAR, Tier-I CAR stood at 24.81% and 29.88% as on March 31, 2021 and March 31, 2020, respectively. Also, even after the IPO, promoter holding in MFSL has been retained at 73.60% as on March 31, 2021. Also, MFSL has healthy relations with 31 banks, NBFCs and other financial institutions for meeting its borrowing requirements 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. Existing capitalization level and strong resource base is envisaged to provide impetus to MFSL for growth in its loan portfolio over the medium term.

Strong financial risk profile marked by high Net Interest Margin (NIM) and Return on Total Assets (ROTA)

With growth in its loan portfolio, the profitability ratios of MFSL have marginally moderated on a consolidated basis. The NIM and ROTA of MFSL during FY21 stood at 4.85% and 2.88%, respectively, as compared with 7.18% and 4.17%, respectively, during FY20. After adjusting the off-book loan portfolio, the NIM of MFSL stood 4.64% and 3.48% respectively during FY20 and FY21 whereas the ROTA stood at 2.69% and 2.06% during FY20 and FY21 respectively. The profitability of MFSL declined in FY21 mainly due to decline in its total loan portfolio and consequent decline in its total operating income and increase in its provisions in FY21 pursuant to COVID-19 pandemic. However, this was partly off-set by decline in its operating expenses in FY21 as a percentage of average total assets.

Key Rating Weaknesses

Concentrated borrower profile

A significant portion of MFSL's exposure is to its top-10 borrowers. As on March 31, 2021, the top-10 exposures of MFSL accounted for more than 65% of its consolidated tangible net-worth as on even date indicating relatively high borrower concentration risk. This is because of significant exposure of MFSL to other NBFCs and NBFC-MFIs. 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. Also, about 56% of the consolidated exposure of MFSL in these segments is through NBFCs and NBFC-MFIs. However, the same is partly mitigated by 5%-15% cash collateral and corporate / personal guarantees taken by MFSL from the NBFCs and NBFC-MFIs.

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 has comfortable asset liability maturity (ALM) with no cumulative mismatches on a standalone basis. MFSL, on a standalone basis, has sanctioned fund based working capital limits of Rs.1,795 crore (now reduced to Rs.1,695 crore), out of which average utilization during trailing 14 months ended May 2021 remained comfortable at around 76%. Moreover, as on March 31, 2021, MFSL had undrawn term loan limit of around Rs.75 crore and undrawn direct assignment limit of around Rs.800 crore on a standalone basis. Furthermore, it had free cash and bank balance of around Rs.1,000 crore as on March 31, 2021, on a standalone basis which can take care of upcoming 8-9 months' standalone debt servicing obligations (principal + interest) of MFSL. 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
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Consolidation
Rating Methodology - Market Linked Notes
Rating Methodology - Non-Banking Finance Companies (NBFCs)
Rating Methodology - Housing Finance Companies (HFCs)
Financial Ratios - Financial Sector

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 99 branches on a standalone level and 69 branches of its HFC subsidiary in seven states (viz., Gujarat, Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, Tamil Nadu and Delhi) and also through other smaller NBFCs and MFIs. As on March 31, 2021, MFSL had relationship with 127 NBFC and NBFC-MFIs and around 56% of the total assets under management (AUM) of MFSL was built through these NBFCs and NBFC-MFIs.
As on March 31, 2021, MFSL, on a consolidated basis, reported total AUM of around Rs.5,657 crore as against total AUM of around Rs.6,253 crore at the previous year end and catered to more than seven lakh live customers across around 3,500 locations. In October 2017, MFSL came out with 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 (MFSL - Consolidated) (Rs. Crore)	FY20 (A)	FY21 (Ab.)
Total Operating Income	722.43	627.71
PAT	181.26	145.52
Interest Coverage (times)	1.80	1.69
Total Assets	4,706.15	5,411.23
Net NPA (%)	1.06	1.46
ROTA (%)	4.17	2.88

A: Audited as per IND-AS; Ab.: Abridged

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: Detailed explanation of covenants of the rated instrument is given in Annexure-3

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

Annexure-1: Details of Instrument / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Debentures-Market Linked Debentures	-	-	-	**	200.00	CARE PP-MLD A+; Stable

***Not Applicable as the MLD issue is proposed*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instruments / Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	2,500.00	CARE A+; Stable	-	1)CARE A+; Stable (15-Sep-20)	1)CARE A+; Stable (06-Aug-19)	1)CARE A+; Stable (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
2.	Fund-based - LT-Cash Credit	LT	2,000.00	CARE A+; Stable	-	1)CARE A+; Stable (15-Sep-20)	1)CARE A+; Stable (06-Aug-19)	1)CARE A+; Stable (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
3.	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	-	-	1)Withdrawn (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
4.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	-	1)Withdrawn (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)

Sr. No.	Name of the Instruments / Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
5.	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)Withdrawn (15-Sep-20)	1)CARE A1+ (06-Aug-19)	1)CARE A1+ (13-Aug-18) 2)CARE A1+ (12-Jul-18)
6.	Commercial Paper	ST	250.00	CARE A1+	-	1)CARE A1+ (15-Sep-20)	1)CARE A1+ (06-Aug-19)	1)CARE A1+ (13-Aug-18)
7.	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	-	1)CARE A+; Stable (15-Sep-20) 2)CARE A+; Stable (25-May-20)	-	-
8.	Debentures-Market Linked Debentures	LT	75.00	CARE PP-MLD A+; Stable	-	1)CARE PP-MLD A+; Stable (31-Mar-21)	-	-
9.	Debentures-Market Linked Debentures	LT	200.00	CARE PP-MLD A+; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument

Particulars	Key Indicative Terms of the Issue
Issuer / Company	MAS Financial Services Limited (MFSL)
Type of Instrument	Principal Protected Market Linked Redeemable Non-Convertible Debentures (MLDs)
Nature of Instrument	Secured
Mode of Issue	Private Placement
Listing	The MLDs are proposed to be listed on the Bombay Stock Exchange (BSE)
Issue Size	Rs.200 crore
Tenor	30 Months from the Deemed Date of Allotment
Underlying / Reference Index	Government Security: 5.85% GS 2030 (ISIN: IN0020200294) Maturing on December 01, 2030
Coupon	**Scenario** — **Coupon (XIRR)** If Final Fixing Level > 75% of Initial Fixing Level — 8.50% XIRR If Final Fixing Level <= 75% of Initial Fixing Level and Final Fixing Level > 25% of Initial Fixing Level — 8.45% XIRR If Final Fixing Level <= 25% of Initial Fixing Level — 0.00%
Security	The MLDs shall be secured by way of a first ranking exclusive and continuing charge to be created pursuant to the deed of hypothecation to be executed between MFSL and the Debenture Trustee over certain identified receivables of MFSL. A security cover of 1.10x of the value of the outstanding principal amount of the MLDs shall always be maintained until the redemption of the MLDs.
Objects of the Issue	The proceeds of the proposed MLD issue shall be utilized for the following purposes: • General corporate purposes • For the ordinary course of business of MFSL, including repayment / refinancing of existing debt No part of the proceeds shall be utilized directly / indirectly towards capital markets (debt and equity), land acquisition or usages that are restricted for bank financing.
Put Option	Not Applicable
Call Option	Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Market Linked Debentures	Highly Complex

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

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