MAS Financial Services Limited

May 25, 2020

Rating

Instrument	Amount (Rs. Crore)	Rating[1]	Rating Action
Proposed Non-Convertible Debenture (NCD) Issue	500.00	**CARE A+; Stable [Single A Plus; Outlook: Stable]**	**Assigned**
Total	**500.00 [Rupees Five Hundred Crore only]**		

Details of instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed non-convertible debenture (NCD) issue of MAS Financial Services Limited (MFSL) derives strength from long standing track record and experience of 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 cash balance as liquidity back-up for the next one year of debt servicing .

The rating is, however, 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.

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 scale of operations with corresponding increase profitability in terms of in NIM and ROTA*

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

- *Deterioration in asset quality with increase in gross NPA levels above 2.50% on a sustainable basis*
- *Decline in Capital Adequacy Ratio (CAR) below 20% on a sustainable basis*

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 105 branches at a standalone level and 69 branches of its housing finance company (HFC) subsidiary and is present in more than 3,400 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 comprises 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 comprises 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 40% of the total consolidated assets under management (AUM) of MFSL are directly assigned to banks and financial institutions. Due to product diversification, MFSL has been able to grow its total consolidated AUM at a compound annual growth rate (CAGR) of around 27% during three years ended FY19.

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

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

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 AUM of MFSL as on December 31, 2019 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 1.25% and 1.03% respectively as on December 31, 2019 as compared to 1.35% and 1.10% respectively as on March 31, 2019. 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 AUM, impact of demonetization, implementation of Real Estate (Regulation and Development) Act, 2016 (RERA) and Goods and Service Tax (GST) and liquidity crunch faced by the NBFCs during FY19. 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 near zero 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 AUM as on December 31, 2019.

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 30.11% as on December 31, 2019 as compared to 29.13% as on March 31, 2019. Out of total CAR, Tier-I CAR stood at 28.79% and 27.40% as on December 31, 2019 and March 31, 2019 respectively. Also, even after the IPO, promoter holding in MFSL has been retained at 73.59% as on March 31, 2020. Also, MFSL has healthy relations with 33 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 improved on a consolidated basis. The NIM and ROTA of MFSL during FY19 stood at 10.44% and 4.45% respectively. The NIM of MFSL declined marginally in FY19 from 10.84% in FY18 mainly due to reduction in average yield on advances due to increase in its exposure to other NBFCs and NBFC-MFIs which is lower yield generating segment as compared to other loan products. However, MFSL’s ROTA improved from 4.11% in FY18 due to decline in its operating expenses in FY19 vis-à-vis average total assets on the back of increase in its exposure to other NBFCs and NBFC-MFIs.

Key Rating Weaknesses

Concentrated borrower profile

A significant portion of MFSL’s exposure is to its top-10 borrowers. As on December 31, 2019, the top-10 exposures of MFSL accounted for more than 50% 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 60% 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. In FY19, MFSL, on a standalone basis, had sanctioned fund based working capital limits of more than Rs.1,800 crore, out of which average utilization during the year remained comfortable at around 65%. Moreover, as on March 31, 2020, MFSL had undrawn term loan limit of around Rs.196 crore and undrawn direct assignment limit of around Rs.1,103 crore on a standalone basis. Further, it had free cash and bank balance of around Rs.800 crore as on March 31, 2020 on a standalone basis which can take care of upcoming around twelve months of standalone debt servicing obligations (principal + interest) of MFSL. During last year, amidst the challenging fund raising environment, especially for NBFCs and HFCs, it has 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 in order to take care of upcoming one year's debt servicing obligations (principal + interest). 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 company availing the moratorium from the lenders as a Covid relief measure [as permitted by the Reserve Bank of India (RBI)], including interest on working capital facilities.

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
Rating Methodology: Consolidation and Factoring Linkages in Ratings
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 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 Board (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 105 branches on a standalone level and 69 branches of its HFC subsidiary in seven states and also through other smaller NBFCs and NBFC-MFIs.
As on December 31, 2019, MFSL, on a consolidated basis, reported total AUM of around Rs.6,244 crore as against total AUM of around Rs.5,564 crore at the previous year end.
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. The shares of MFSL are listed on Bombay Stock Exchange and National Stock Exchange.

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

Brief Financials MAS - Consolidated (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	476.81	604.70
PAT	105.19	154.61
Interest Coverage (times)	1.90	2.05
Total Assets	2,923.38	4,026.52
Net NPA (%)	1.15	1.10
ROTA (%)	4.11	4.45

A: Audited as per IND-AS

As per 9MFY20 provisional results, MFSL reported total operating income of Rs.539.86 crore with a PAT of Rs.145.55 crore on a consolidated basis.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	-	-	-	500.00	CARE A+; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	2,050.00	CARE A+; Stable	-	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	2,100.00	CARE A+; Stable	-	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)	-
5.	Fund-based - ST-Working Capital Limits	ST	100.00	CARE A1+	-	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+ (06-Aug-19)	1)CARE A1+ (13-Aug-18)	-
7.	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	-	-	-	-

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

Particulars	Key Indicative Terms of the Issue
Type of Instrument	Secured, Rated, Listed, Redeemable Non-Convertible Debentures
Nature of Instrument	Secured
Mode of Issue	Private Placement
Listing	The NCDs are proposed to be listed on Wholesale Debt Market segment of National Stock Exchange / Bombay Stock Exchange
Issue Size	Rs.500 crore
Tenor	3 years
Interest / Coupon Rate	8-9% p.a.
Coupon Payment Frequency	Yearly
Principal Repayment	Bullet payment at the maturity
Security	The NCDs shall be secured through exclusive charge by way of hypothecation of book debts of the company. The company shall maintain security cover of at least 1.10 times of the entire redemption amount throughout the tenure of the NCDs.
Objects of the Issue	The funds raised through the NCD issue, after meeting the expenditures of and related to the issue, will be used for various financing activities, repay existing loans and for business operations.

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

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