MAS Financial Services Limited

September 15, 2020

Ratings

Instruments / Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Non-Convertible Debenture (NCD) Issue	500	**CARE A+; Stable [Single A Plus; Outlook: Stable]**	**Reaffirmed**
Commercial Paper Issue *	250	**CARE A1+ [A One Plus]**	**Reaffirmed**
Long Term Bank Facilities	4,500 (enhanced from 4,150)	**CARE A+; Stable [Single A Plus; Outlook: Stable]**	**Reaffirmed**
Short Term Bank Facilities @	-	**-**	**Withdrawn**
Total	**5,250 [Rs. Five thousand two hundred and fifty crore only]**		

Details of instruments / facilities in Annexure-1

** The company has agreed to keep sanctioned fund-based working capital limits unutilized to the extent of commercial paper issued*

@ Withdrawal is based on no-dues certificate from the banker.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the proposed non-convertible debenture (NCD) issue, commercial paper issue and bank facilities of MAS Financial Services Limited (MFSL) continue to derive 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 cash balance as liquidity back-up for the next one year of debt servicing.

The ratings, however, 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. 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 in 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 in 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 105 branches at a standalone level and 69 branches of its housing finance company (HFC) subsidiary and is present in more than 3,450 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.

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

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 40% of the consolidated total loan portfolio of MFSL is 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.

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 32% of the consolidated total loan portfolio of MFSL as on March 31, 2020, driven by operational familiarity of the promoters with the Gujarat market, whereas other states and union territories account for balance 68%.

Comfortable asset quality on the back of adequate appraisal systems

On a consolidated basis, the gross and net NPAs of MFSL stood at 1.37% and 1.06%, respectively, as on March 31, 2020, as compared with 1.34% 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 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 87% of MFSL's consolidated total loan portfolio as on March 31, 2020.

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 31.97% as on March 31, 2020, as compared with 29.13% as on March 31, 2019. Out of total CAR, Tier-I CAR stood at 29.88% and 27.40% as on March 31, 2020 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 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 improved on a consolidated basis. The NIM and ROTA of MFSL during FY20 stood at 7.18% and 4.17% respectively as compared to 8.16% and 4.49% respectively during FY19. The profitability of MFSL declined in FY20 mainly due to increase in its exposure to other NBFCs and NBFC-MFIs which are lower yield generating segments as compared to other loan products and increase in provisions in FY20 pursuant to COVID-19 pandemic. However, this was partly off-set by decline in its operating expenses in FY20 as a percentage of 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 March 31, 2020, the top-10 exposures of MFSL accounted for more than 71% 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 57% 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 around 1,800 crore, out of which average utilization during trailing 14 months ended May 2020 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. Furthermore, it had free cash and bank balance of more than Rs.1,000 crore as on March 31, 2020, on a standalone basis which can take care of upcoming one years' 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-19 relief measure [as permitted by the Reserve Bank of India (RBI)], including interest on working capital facilities. However, owing to sufficient liquidity position, it is regularly servicing interest and principal on its debt obligations.

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 and Factoring Linkages in Ratings
Rating Methodology - Non Banking Finance Companies (NBFCs)
Rating Methodology - Housing Finance Companies (HFCs)
Financial Ratios - Financial Sector
CARE's Policy on Withdrawal of Ratings

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 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 105 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, 2020, MFSL had relationship with 135 NBFC and NBFC-MFIs and around 57% of the total assets under management (AUM) of MFSL was built through these NBFCs and NBFC-MFIs.
As on March 31, 2020, MFSL, on a consolidated basis, reported total AUM of around Rs.6,253 crore as against total AUM of around Rs.5,609 crore at the previous year end and catered to more than seven lakh live customers across more than 3,450 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).

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

Brief Financials (MFSL - Consolidated) (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	604.70	722.43
PAT	154.61	181.26
Interest Coverage (times)	2.06	1.80
Total Assets	3,990.95	4,706.15
Net NPA (%)	1.10	1.06
ROTA (%)	4.49	4.17

A: Audited as per IND-AS
As per Q1FY21 provisional results, MFSL reported total operating income of Rs.167.56 crore and PAT of Rs.36.54 crore

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 / 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 17, 2026	2,500.00	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	2,000.00	CARE A+; Stable
Fund-based - ST-Working Capital Limits	-	-	-	-	0.00	Withdrawn
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
Commercial Paper	-	-	-	7-364 days	250.00	CARE A1+

*** Not Applicable as the NCD 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 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	2,500.00	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	2,000.00	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	-	-	-	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	1)CARE A+; Stable (25-May-20)	-	-	-

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

Particulars	Detailed Explanation		
ISIN	INE348L07043	INE348L07050	INE348L07068
Financial Covenants	Maintain the CAR as may be prescribed by the RBI from time to time.		
Non-Financial Covenants	-	• The NCDs are proposed to be guaranteed by the Guarantor by way of Government of India (GOI) Guarantee. The GOI Guarantee will be issued in accordance with Rule 280 of the General Financial Rules as published by the Ministry of Finance (Department of Expenditure), Government of India from time to time. • The GOI Guarantee may be invoked by the Debenture Holders upon occurrence of any event for invocation set out under the GOI Guidelines (including the inability of the Issuer to repay / pay any part of the outstanding amounts in respect of the NCDs) in accordance with the procedure set out in the GOI Guidelines.	

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - ST-Working Capital Limits	Simple
4.	Debentures-Non Convertible Debentures	Simple
5.	Commercial Paper	Simple

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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