

India Ratings Assigns MAS Financial Services' Bank Loans 'IND A'/Stable

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By Priya Sunder

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India Ratings and Research (Ind-Ra) has assigned MAS Financial Services Ltd's (MAS) INR24bn bank loans a Long-Term Rating of 'IND A' with a Stable Outlook.

KEY RATING DRIVERS

The rating reflects the company's established business model in micro, small and medium enterprise (MSME) financing in Gujarat as well as its well-managed asset quality and above-average credit cost buffers. The rating also factors in the geographical diversification of the loan portfolio of MAS's non-banking financial company-micro finance institution (NBFC-MFI) borrowers, which reduces sectoral risk. However, the rating is constrained by MAS' modest capitalisation compared with similar sized peers' as well as its high dependence on short-term bank loans. Ind-Ra understands that interests of private equity investors are high in the company and raising capital may not be an issue if promoters are willing to dilute their holdings. MAS has raised three rounds of convertible capital from investors in the past eight years.

A high proportion of re-finance to NBFCs and NBFC-MFIs (49.5% as at December 2015) in MAS' loan book exposes it to risks arising from the MFI borrower category. Also, the dominance of NBFC-MFIs in its portfolio has resulted in high borrower concentration (top 20 borrowers to total managed loans: 28.6% in FY15). However, MAS' MFI portfolio is well diversified across geographies with the highest exposure to a single state being 22.3% of its book, thus reducing regional concentration risks.

MAS aims to expand its loan book at a CAGR of 23% between FY15-FY20, which is reasonable, in Ind-Ra's opinion, given its relatively small size. This will be driven primarily by small, medium and micro enterprise loans, and the company will continue its focus on the informal customer segment across western and southern India. The higher loan growth in this segment is expected to reduce the share of NBFC-MFIs to 25%-30%, over the longer term.

MAS' gross NPL ratio of 1.7% (as at end-December 2015) is one of the lowest in our rated NBFC universe due to its zero delinquencies in the MFI portfolio, decades of business experience in the state of Gujarat and a conservative loan growth strategy. The shift to the 90-days past due provision norm is likely to have minimal impact on profitability, given that only 1.5% of delinquencies were in this bucket as at end-December 2015. Credit costs in the non-NBFC-MFI portfolio are higher than similar rated peers, though the company can price the risk well. At the same time, any sharp slippages in the NBFC-MFI portfolio could have a disproportionate impact on profitability.

MAS' strong pre-provision operating profit of 7.7% of assets in 9MFY16 (FY15: 7.5%; FY14: 8.8%) is supported by its exposure to the high-yield, low-price-sensitive customer segment. Its pre-provision operating profit/credit cost buffers of 5.0x in 9MFY16 (FY15: 4.0x; FY14: 4.2x) are among the highest compared with its NBFC peers, driven by its high margins and low credit costs. As the company increases the share of SME loans in its portfolio, credit costs could rise over the medium term. Nevertheless, the high yields in this segment are likely to sustain the buffers at these levels.

Banks have been the predominant source of funding for MAS (88.9% of borrowings as at end-December 2015), 77.7% of which have been short term in nature. However, these borrowings are well-distributed among 22 banks, the highest exposure to a single bank being 15.1%. Over the longer term, the company expects 25%-30% of borrowings to be funded through capital markets, which will aid in funding diversification. The company has a well-matched asset liability maturity profile across various tenors, supported by the low maturity profile of its assets (18-20 months). Moreover, the company typically maintains two months of disbursements in the form of unutilised bank lines. As at end-December 2015, MAS had unutilised bank loans of INR7.9bn to support any contingent obligations.

MAS' Tier 1 capital of 12.2% is lower than peers'. However, the company's internal accruals (23% in FY15) are sufficient to support loan growth over the medium term. Given that all NBFCs (except gold loan and housing) are required to maintain 10% Tier 1 capital, MAS plans to maintain Tier 1 capital of 200-300bps above the regulatory minimum over the longer term. Maintaining consistent and adequate capitalisation will be a key rating sensitivity.

RATING SENSITIVITIES

Positive: Diversification of its funding profile, led by a higher proportion of long-term funding and lower borrower concentration, while maintaining asset quality and improving capital buffers, could lead to a positive rating action.

Negative: Inability to raise capital consistently or asset quality shocks, leading to weakening of profitability and capital buffers, could lead to a downgrade.

COMPANY PROFILE

MAS is a systemically important non-deposit-taking NBFC registered with the Reserve Bank of India since 1995. Based out of Ahmedabad, Gujarat, MAS provides re-finance to microfinance institutions and finances small, medium and micro enterprises, two-wheelers and commercial vehicles. MAS has a network of 65 branches, 34 of which are based in Gujarat. As at FYE15, it had INR20bn assets under management, of which 52% were loans to MFIs/NBFCs. It has a housing finance subsidiary that provides affordable housing in semi-urban and rural areas, and has around INR1bn of assets under management.

SOLICITATION DISCLOSURES

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Rating Outstanding

(As on 30/Mar/2016)

Bank Loan

IND A / Stable

INR 24000 m

Applicable Criteria

Financial Institutions Rating Criteria

Rating of Bank Legacy Hybrids and Sub-Debt

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