MAS Financial Services Limited

August 06, 2019

Ratings

Facilities / Instrument	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	4,150.00 (enhanced from Rs.2,900 crore)	**CARE A+; Stable [Single A Plus; Outlook: Stable]**	**Reaffirmed**
Short Term Bank Facilities	100.00	**CARE A1+ [A One Plus]**	**Reaffirmed**
Total Facilities	**4,250.00 [Rupees Four Thousand Two Hundred and Fifty Crore only]**		
Commercial Paper Issue *	250.00	**CARE A1+ [A One Plus]**	**Reaffirmed**
Total	**250.00 (Rupees Two Hundred and Fifty Crore only)**		

Details of facilities/instrument in Annexure-1
** The company has agreed to keep sanctioned fund-based working capital limits unutilized to the extent of commercial paper (CP) issued*

Detailed Rationale & Key Rating Drivers

The ratings continue to derive strength from long standing track record & experience of promoters of MAS Financial Services Limited (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) & return on total assets (ROTA) and comfortable liquidity profile with increase in cash balance on the back of its policy to keep liquidity back-up for the next three months of debt servicing .

The long term 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.

Ability of MFSL to significantly grow its scale of operations while maintaining its asset quality, profitability, liquidity & capital adequacy and improving its risk management systems with anticipated growth in its scale of operations would be the key rating sensitivities.

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 78 branches at a standalone level & 69 branches of its housing finance company (HFC) subsidiary and is present in more than 3,300 locations, including through its wholesale portfolio and is catering to the funding requirement of around 5 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 last three years ended FY19.

Moderate geographical diversification

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

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 37% of the consolidated total AUM of MFSL as on March 31, 2019 driven by operational familiarity of the promoters with the Gujarat market whereas other states and union territories account for balance 63%.

Comfortable asset quality on the back of adequate appraisal systems
On a consolidated basis, the gross and net non-performing assets (NPAs) of MFSL stood at 1.35% and 1.10% respectively as on March 31, 2019 as compared to 1.26% and 1.15% respectively as on March 31, 2018. 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 process of MFSL is 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 approx. 84% of MFSL's AUM as on March 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 29.13% as on March 31, 2019 as compared to 31.29% as on March 31, 2018. Out of total CAR, Tier-I CAR stood at 27.40% and 29.06% as on March 31, 2019 and March 31, 2018 respectively. Also, even after the IPO, promoter holding in MFSL has been retained at 73.47% as on March 31, 2019. Also, MFSL has healthy relations with 32 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.

Liquidity analysis
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 59%. Moreover, as on March 31, 2019, MFSL had undrawn term loan limit of ~Rs.109 crore and undrawn direct assignment limit of ~Rs.969 crore on a standalone basis. Further, it had free cash and bank balance of ~Rs.369 crore as on March 31, 2019 on a standalone basis which can take care of upcoming around five months of standalone debt servicing obligations (principal + interest) of MFSL. As stated by the company, 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. 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.

Key Rating Weaknesses

Concentrated borrower profile

A significant portion of MFSL's exposure is to its top-10 borrowers. As on March 31, 2019, the top-10 exposures of MFSL accounted for approx. 54% of its consolidated tangible net-worth as on March 31, 2019 indicating relatively high borrower concentration risk. This is because of significant exposure of MFSL to other NBFCs and NBFC-MFIs. Deterioration in quality of any 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.

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 to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Non Banking Finance Companies (NBFCs)
Rating Methodology - Housing Finance Companies (HFCs)
Rating Methodology: Factoring Linkages in Ratings
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, housing finance company (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 78 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 March 31, 2019, MFSL, on a consolidated basis, reported total AUM of Rs.5,564 crore as against total AUM of Rs.4,318 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.

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

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 Facilities/Instrument

Name of the Instrument/Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	NA	NA	March 07, 2026	2,050.00	CARE A+; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	2,100.00	CARE A+; Stable
Fund-based - ST-Working Capital Limits	NA	NA	NA	100.00	CARE A1+
Commercial Paper	NA	NA	7-364 days	250.00	CARE A1+

NA: Not Applicable

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 2019-2020	Date(s) & Rating(s) Assigned in 2018-2019	Date(s) & Rating(s) Assigned in 2017-2018	Date(s) & Rating(s) Assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	2,050.00	CARE A+; Stable	-	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 (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+ (13-Aug-18) 2)CARE A1+ (12-Jul-18)	-	-
6.	Commercial Paper	ST	250.00	CARE A1+	-	1)CARE A1+ (13-Aug-18)	-	-

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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