

Rating Rationale

November 30, 2017 | Mumbai

MAS Financial Services Limited

Rating Reaffirmed

Rating Action

Rs.20 Crore Commercial Paper Programme Series I	CRISIL A1+(SO) (Reaffirmed)
Rs.75 Crore Commercial Paper Programme Series II	CRISIL A1+(SO) (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL A1+(SO)' rating on the series I and II commercial paper programmes of MAS Financial Services Limited (MFSL) based on an irrevocable and unconditional standby facilities from Bank of India (BoI; 'CRISIL AA+/CRISIL A+[^]/ Negative/CRISIL A1+') and IDBI Bank Ltd (IDBI Bank; 'CRISIL A+/CRISIL A[#]/CRISIL BBB+[^]/FAA/ Negative/CRISIL A1+') and a defined payment mechanism to ensure timely repayment to investors.

Rs 20 crore commercial paper programme series I - based on standby facility provided by BoI

Rs 75 crore commercial paper programme series II - based on standby facility provided by IDBI Bank Ltd.

[#]Tier I Perpetual Bonds/Upper Tier II Bonds (under Basel II)

[^]Tier I Bonds (under Basel III)

Analytical Approach

For arriving at the rating, CRISIL has combined the business and financial risk profiles of MFSL and its subsidiary, MAS Rural Housing and Mortgage Finance Ltd (MAS Housing; 'CRISIL A-/Stable'). That's because both the companies, together referred to as the MAS group, have extensive business and operational linkages, and the same senior management and brand. Furthermore, for arriving at the rating for commercial papers guaranteed by BoI and IDBI Bank, CRISIL has applied its analytical approach of rating instruments backed by guarantees.

Key Rating Drivers & Detailed Description

Strengths

* Strong credit profile of the banks acting as the standby facility providers

BoI

BoI is the fourth-largest public sector bank in India, with assets of Rs 6,03,277 crore, a network of 5127 branches, and 7717 automated teller machines across India, as on September 30, 2017. The bank has a strong presence in the corporate segment with the bulk of its business and earnings coming from large corporate clients. It has a strong presence overseas with around 25% (as on September 30, 2017) of its total business coming from outside India. Government shareholding in the bank was 75.1% as on September 30, 2017.

IDBI Bank

Industrial Development Bank of India Ltd (IDBI) was constituted by the Government of India (GoI) under the Industrial Development Bank of India Act, 1964, and was reconstituted as a banking company on October 1, 2004, to undertake commercial banking and development banking activities. The bank had total assets of Rs 3,76,637 crore, and total advances and deposits of at Rs 2,18,673 crore and Rs 2,65,679 crore, respectively, as on September 30, 2017. GoI owned 75.1% of the shares as on this date.

Payment mechanism and soundness of the transaction structure

Payment mechanism

Trigger Date	Payment-related activity
(T-2)nd day*	At or before 10:00 AM MFSL to deposit requisite amount for repayment of commercial papers issued under the programme in the designated account
(T-2)nd day*	At or before 11:00 AM MFSL to inform IPA and standby facility providers whether or not the requisite amount has been

	deposited in the IPA account
(T-2)nd day*	At or before 2:00 PM IPA to issue notice of demand to standby facility providers should MFSL fail to deposit the requisite amount in the designated account
(T-1)st day*	At or before 2:00 PM Standby facility providers to deposit the requisite funds in the designated account to ensure timely payment to investors in the commercial paper programmes

* Day refers to a business day for both the standby facility provider and the IPA; 'T' refers to the due date of payment to the investors in the commercial paper programmes

As per the terms of the structure, in case of a failure by the company to deposit the requisite amount at least one working day before the date of maturity of the concerned tranche of commercial paper, the standby facility provider shall deposit the necessary funds in the designated account to ensure timely payments to investors, irrespective of timely intimation by the IPA. Furthermore, according to the agreement, standby facility providers are obliged to deposit the requisite amount irrespective of any dispute with the company or the IPA.

Weakness

* Revision in credit risk profile of the banks acting as standby facility providers

The commercial paper programmes are backed by standby facility providers and the rating on programmes is constrained by the credit risk profile of the standby facility providers. If, in CRISIL's view, there is significant deterioration in the credit risk profiles of the standby facility providers, BoI and IDBI Bank, the ratings on the instrument may be revised.

About the Company

MFSL (formerly, Marketing and Allied Services) was set up in 1988 by Mr Kamlesh Gandhi and Mr Mukesh Gandhi. The firm was initially engaged in consumer durable financing, and was registered as a non-banking financial company (NBFC) in 1995. It is now engaged in retail asset financing (micro, small, and medium enterprise loans, small and medium enterprise loans, and financing of two-wheelers, three-wheelers, and small commercial vehicles), as well as providing corporate loans to microfinance institutions (MFIs), small NBFCs, and small housing finance companies. MAS Housing, a subsidiary of MSFL, provides housing loans to the low-income-group segment in rural and semi-urban areas.

The MAS group caters to more than 5,00,000 customers across 3200 locations. The group's assets under management (AUM) stood at Rs 3663 crore as on September 30, 2017 (Rs 3333 crore as on March 31, 2017, and Rs 2699 crore as on March 31, 2016). Of the total AUM, loans to MFIs and small NBFCs constituted 53.0%, microloans to other enterprises 17.4%, loans to two-wheeler buyers 7.2%, SME loans against plant and machinery 14.8%, loans to commercial vehicle buyers (including three-wheelers) 2.4%, and the housing portfolio (under MAS Housing) 5.2%. The MAS group had an adjusted networth of Rs. 477 crore as on September 30, 2017 (Rs 396 crore as on March 31, 2017, and Rs 241 crore as on March 31, 2016).

MFSL has closed its initial public offering (IPO) in October 2017. Through this IPO, it issued shares worth around Rs 460 crore, out of which Rs 233 crore was fresh issue of equity shares while the rest was an offer for sale. The group had also raised Rs 135 crore in a pre-IPO round of funding through issue of shares to the Motilal Oswal group, leading to total increase of Rs 368 crore in capital in the past three quarters. This has resulted in significant improvement in the capital base with the networth increasing to Rs 690 crore post the IPO from Rs 396 crore as on March 31, 2017. Consequently, the adjusted gearing¹ of the group has also come down to 4.2 times from 6.3 times as on March 31, 2017.

The group had a profit after tax (PAT) of Rs 68.5 crore on total income of Rs 364.7 crore in fiscal 2017, as against a PAT of Rs 54.9 crore on total income of Rs 310 crore in fiscal 2016.

MFSL had a PAT of Rs 48 crore on a total income of Rs 204 crore in the first half of fiscal 2018, as against Rs 34 crore and Rs 170 crore, respectively, in the corresponding period of the previous fiscal.

¹Adjusted for managed assets

Key Financial Indicators

As on / for the period ended September 31		2017	2016
Total assets	Rs crore	2392	1921
Total income	Rs crore	204	170
Profit after tax	Rs crore	48	34
Gross NPA	%	1.2	1.2
Adjusted gearing	Times	6.7	10.0
Return on assets	%	4.4	3.7

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs cr)	Rating assigned with outlook
NA	Commercial Paper Programme Series I	NA	NA	7-365 days	20	CRISIL A1+(SO)
NA	Commercial Paper Programme Series II	NA	NA	7-365 days	75	CRISIL A1+(SO)

Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014		Start of 2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	95	CRISIL A1+(SO)		No Rating Change		No Rating Change		No Rating Change		No Rating Change	CRISIL A1+(SO)
Fund-based Bank Facilities	LT/ST		--		--		--	06-07-15	Withdrawal		No Rating Change	CRISIL BBB+/Stable

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Links to related criteria

[Criteria for rating instruments backed by guarantees](#)

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for rating short term debt](#)

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