IndiaRatings & Research
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India Ratings Affirms MAS Financial Services' Bank Loans at 'IND A'/Stable

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By Jindal Haria

India Ratings and Research (Ind-Ra) has affirmed MAS Financial Services Ltd's (MAS) bank loans as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Bank loans	-	-	-	INR30,000	IND A/Stable	Affirmed

The rating reflects MAS's established business model in financing microfinance institutions (MFIs), small non-banking financial companies (NBFCs), and micro, small and medium enterprises (MSME). The rating factors in its well-managed asset quality, above-average operating buffers, and the geographically diversified loan portfolios of its NBFC-MFI borrowers. The rating also factors in MAS's above-average capital buffers. The rating, however, is constrained by MAS's borrower and sector concentration, scope of improvement in operational processes and technological systems and the underlying credit quality of institutional borrowers. The rating also factors in the evolving second line of management.

KEY RATING DRIVERS

Profitability and Capital Buffers Adequate in Mid-Term: MAS's tier 1 capital increased to 29.06% in FY18 from 16.88% in FY17, primarily on account of the capital raised. This combined with its internal accruals (FY18: 29%) provides adequate capital for about 30% loan growth in the medium term and ability to maintain sufficient capital buffers. Ind-Ra expects MAS to maintain its profitability in the medium term (return on average managed assets – FY18: 2.8%).

Institutional Lending Supports Superior Asset Quality: MAS's gross NPL ratio (FY18: 1.71%, 1HFY18: 1.7%; FYE17: 1.6%) is on the lower side in the Ind-Ra-rated NBFC universe, owing to nil delinquencies in the MFI/NBFC portfolio, decades of business experience in Gujarat and loss sharing arrangements with third parties on a portion of their portfolio. Gross NPAs on direct retail advances were within 3%-4% and are comparable with retail peers'. Any sharp slippages in the NBFC-MFI portfolio could have a disproportionate impact on MAS's profitability. The company plans to increase the share of SME in its retail portfolio in the medium term.

Adequate Liquidity: Banks have been the predominant source of funding for MAS, with a share of 67% in non-equity funding mix while security deposits form 25% at end-March 2018. The company maintains surplus liquidity for the short term with its short-term asset funding surplus (excess of short-term assets over short-term liabilities) at 9% of the total advances at end-March 2018. As the share of longer tenor SME assets increases, the company plans to borrow long-term assets to balance the assets and liabilities. Moreover, the company maintains two months of disbursements in the form of unutilised bank lines. MAS plans to incrementally borrow INR12 billion in FY18 and securitise INR20 billion of assets.

Product Portfolio Change Likely to Test Retail Capabilities: MAS's strong pre-provision operating profit of 5.4% of the total managed assets in FY18 (FY17: 4.2%) is supported by its exposure to the high-yield, low-price-sensitive retail customer segment and BBB+ and lower rated or unrated NBFCs/MFIs. Over the last two years, MAS has articulated that it aims to have about 70% non-institutional assets by FY20 (FY18: 42%); however, the share of institutional advances has not changed significantly, as the institutional portfolio has not seen any delinquencies. If the proportion of self-originated retail loans were to be increased, then growth in the retail segments (including housing) has to be much higher than the overall portfolio growth of 30% expected by the company. This could increase operating and credit costs while providing higher yields; but it would also require a larger operational engine and evolved systems and processes supported by technology.

High Concentration Risk: A high proportion of refinance to NBFCs and NBFC-MFIs (58% of assets under management in FY18, 55% in FY17) in MAS's loan book exposes it to high borrower concentration. The top 20 borrowers to total managed loans was 31% in FY18 (FY17: 24%). Also, the dominant share of NBFC-MFIs (FY18: 29% of assets under management; FY17: 32%) in its portfolio poses risks arising from the MFI borrower category. However, MAS's MFI portfolio is well diversified in terms of geography and the company expects to carry adequate equity buffers to mitigate at least a part of the concentration risk.

Delegation and Technology Adaption Gain Importance with Growth: MAS's lending process includes frequent customer contact, even if a loan is regular, which results in strong relationships with SME borrowers. However, in Ind-Ra's opinion, as MAS grows over the medium term it is likely to invest in systems and processes and technological solutions across the loan cycle to bring them at par with some of its peers' and enable it to manage the scale of operations and provide faster access to data through dashboards. In addition, Ind-Ra expects MAS to have a strong second line of management and delegation of responsibilities over the medium term.

RATING SENSITIVITIES

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

Negative: Asset quality shocks leading to the weakening of profitability and capital buffers could lead to a rating downgrade.

COMPANY PROFILE

MAS is a systemically important non-deposit-taking NBFC registered with the Reserve Bank of India since 1995. Based in Ahmedabad, Gujarat, MAS provides refinance to MFIs, finances MSME enterprises and provides funding for the purchase of two-wheelers and commercial vehicles.

At end-March 2018, MAS had a network of 77 branches and INR41.1 billion worth of assets under management, 58% of which were loans to MFIs/NBFCs. It has a housing finance subsidiary that provides funding to affordable housing developers in semi-urban and rural areas with assets under management of about INR2 billion.

FINANCIAL SUMMARY

Parameters	FY18	FY16
Total assets (INR million)	26,618.0	20,177.6
Total equity (INR million)	7,139.2	3,227.1
Net income (INR million)	1,033.7	673.0
Return on average assets (%)	4.4	3.5
Tier 1 capital (%)	29.1	16.9
Source: Company		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (million)	Rating	28 November 2017	29 March 2016
Bank loans	Long-Term	INR30,000.0	IND A/Stable	IND A/Stable	IND A/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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Applicable Criteria

Financial Institutions Rating Criteria
Non-Bank Finance Companies Criteria

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