Acuite
RATINGS & RESEARCH

Press Release

MAS Financial Services Limited

March 13, 2019

Rating Assigned

Total facilities	**Rs. 3500.00 Cr.**
Total Bank Facilities Rated*	**Rs. 3200.00 Cr.**
Long Term Rating	ACUITE AA-/Stable
Total Commercial Papers Rated	**Rs. 300.00 Cr.**
Short Term Rating	ACUITE A1+

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE AA-' (read as ACUITE double A minus)** to the Rs. 3200.00 Cr. bank facilities of MAS Financial Services Limited (MFSL). The outlook is **'Stable'**.

Acuité has assigned its short-term rating of '**ACUITE A1+' (read as ACUITE A one plus)** to the Rs. 300.00 Cr. proposed Commercial Paper Programme of MAS Financial Services Limited (MFSL).

About MFSL:

MFSL, incorporated in 1995, is the flagship company of MAS group. The company is registered with RBI as a Non deposit-taking, non-banking financial company. MFSL provides financing directly and indirectly to Micro Enterprises (MEL), Small and Medium Enterprises (SME), along with loans for commercial vehicles and two wheelers. MFSL primarily operates in six states, namely, Rajasthan, Gujarat, Maharashtra, Tamil Nadu, Karnataka, Madhya Pradesh and National Capital Territory of Delhi, through a network of 78 branches. MAS group is based out of Ahmedabad (Gujarat). MFSL's equity shares were listed on BSE and NSE in October 2017. The promoter and promoter group hold 73.5 percent of the aggregate shareholding in the company.

About MFSL's subsidiary –MRHMFL:

MAS Rural Housing Mortgage Finance Limited (MRHMFL), incorporated in 2008, is a non-deposit taking Housing Finance Company registered with National Housing Board. MFSL held 59.6 percent stake as on March 31, 2018 and the remaining is held by promoters of MFSL. The company is engaged in providing housing loans, commercial loans and project loans for affordable housing segment.

Analytical Approach

Acuité has adopted a consolidated approach of MFSL and MRHMFL's (hereinafter referred to as 'The group') business and financial risk profile for arriving at the rating. The consolidation is in view of common promoters and management, shared brand name, and strong operational and financial synergies between the two companies. Extent of consolidation: Full

Key Rating Drivers

Strengths

- **Established player with a strong foothold in MSME segment:**

  MFSL, the group's flagship company, commenced operations in 1996 at Gujarat by extending credit to Micro, Small and Medium Enterprises (MSMEs) and two-wheeler financing. The group gradually expanded its geographical reach to other states beyond Gujarat and diversified its product portfolio to include Commercial Vehicle Loans including used car loans and tractor loans. Established in 2008, MRHMFL, a subsidiary of MFSL, has presence in housing, commercial and project loans with a focus on affordable housing segment.

Presently, the group's (MFSL + MRHMFL) operations are spread over six states and one Union Territory and operates through a network of 125 branches. The group also has established relationships with dealers and intermediaries for supporting their forays in commercial vehicle and two-wheeler segments. Besides direct lending to MSME and CV segment, the Group lends to NBFCs and MFIs for onward lending to the above segments.

The group's Asset under Management (AUM includes on book and off book portfolio) has grown to Rs. 4318.4 Cr. as on March 31, 2018 as against Rs. 3332.6 Cr. as on March 31, 2017. The group had AUM of Rs. 4862.5Cr. as on September 30, 2018. Of the overall AUM as on September 30, 2018, loans to MSME segment contributed 31 percent, commercial vehicle loans contributed 2 percent, 6 percent were two-wheeler loans, wholesale loans to NBFCs and MFIs contributed 56 percent and loans for housing and project loans contributed 5 percent.

The operations of the group are headed by Mr. Kamlesh Gandhi (Founder, Chairman and Managing Director) and Mr. Mukesh Gandhi (Co-founder, whole-time Director and Chief Financial Officer) having over three decades of expertise in the financial services sector. They are supported by professionals with significant experience in various functional areas.

Acuité believes that MAS Group's business profile will continue to benefit from the established presence in the retail and MSME segment backed by strong managerial support along with a fairly diverse product portfolio and strong distribution network.

- **Healthy resource mobilization ability with significant access to funds through securitization:**

MAS Group commenced its lending operations in 1996. The group's AUM has grown from Rs. 1391 Cr. as on March 31, 2014 to Rs. 4318 Cr. as on March 31, 2018. The funding mix comprises of direct assignments, bank borrowings (term loans and cash credit limits) along with owned funds.

The group has established relationships with majority of the public sector banks which provides the group with requisite financial flexibility for scaling up their operations in a smooth manner. MFSL was listed on the exchanges in October 2017 with an IPO of Rs. 460 Cr. As on December 31, 2018, MFSL's shareholders included marquee investors such as Axis Mutual Fund, Motilal Private Equity and JP Morgan India Smaller Companies Fund Schroder International Selection Fund Indian Opportunities amongst others.
Direct Assignment route has been one of the preferred financing options adopted by MAS Group. RBI's prescription of priority sector targets for banks (presently at 40 % of Adjusted Net Bank Credit for all domestic banks) results in strong demand for priority sector exposures. Over 75 percent of MFSL's AUM as on December 31, 2018 qualifies for priority sector lending. The company engages with leading PSU banks who buy its pools on a regular basis, thereby providing MFSL with low cost financing option. Besides meeting priority sector, the banks also buy non priority pool for consideration of profitability and to maintain a balance between corporate and retail book. The company had disbursed Rs. 3400 Cr. over the period of April to December 31, 2018 and Rs. 1651.4 Cr. were assigned vis-a-vis disbursements of Rs. 3891.4 Cr. in FY2018 of which Rs. 1793.6 were assigned. The healthy performance of the past pools over a period has enabled the company to regularly raise funds through this route from various banks.

The philosophy of the group to sell down a portion of its originated loans on a regular basis helps in managing its liquidity, profitability and also its capital requirements. Since a part of the portfolio is assigned on a regular basis, the growth in the on-book portfolio is limited, thereby keeping its capital and debt requirements relatively moderate. As of December 31, 2018, direct assignments contributed ~50 percent of the borrowing mix. The group's net worth stood at Rs. 817.6 Cr. as on September 30, 2018 as against Rs. 731.2 Cr. as on March 31, 2018. MFSL has comfortable capitalisation level with overall Capital Adequacy Ratio of 27.9 percent as on September 2018 (31.3 percent as on March 31, 2018), mainly by way of Tier I capital of 26.4 percent (29.1 percent as on March 31, 2018) as against regulatory threshold of 15 percent. The regulatory framework for priority sector advances will be a key monitorable in view of the significant dependence of MFSL on direct assignment deals for raising funds.

Acuité nevertheless, believes that the group will continue to benefit from established relationships with various banks and financial institutions which enables MAS to raise funding at competitive cost and manage its liquidity, profitability and capitalisation levels.

- **Healthy asset quality and strong earnings profile:**

The group largely caters to borrower base with mid to low income segment along with Micro enterprises and SMEs. The group has established its presence since 1998 and has navigated through various business cycles on the strength of stringent credit risk mechanisms in place.

MFSL's asset quality remained healthy among peers with Gross NPA of 1.66 percent as March 31, 2018 as against 1.52 percent as on March 31, 2017. The company reported GNPA of 2.02 percent as on September 30, 2018. Of the loan book of Rs. 3226.6 Cr. as on September 30, 2018 the retail lending portfolio was 53 % and NBFC/MFI portfolio contributed the remaining. The GNPA was entirely contributed by retail segment. The company has demonstrated collection efficiency of 96 percent in the last four quarters ended December 2018. The company's Provision coverage ratio stood at 32.1 percent as on September 30, 2018. The company reported Net NPA of 1.37 percent as on September 30, 2018.

The group's earning profile is supported by strong profitability and an increasing scale of operations. The Net Interest Margins improved to 10.56 percent in FY2018 as against 9.35 percent in the previous year. The group's Return on Average Assets (ROAA) improved to 4.2 percent in FY2018 from 3.46 percent in FY2017. The Return on Average AUM has also improved to 2.8 percent in FY2018 from 2.3 percent in FY2017. The group has maintained high operating efficiency which is reflected in its Operating expenses to earning assets ratio of 2.92 percent in FY2018 as against 3.20 percent in FY2017

Acuite believes that the group will be able to sustain its profitability and asset quality metrics on the back of their ability to raise and deploy funds at competitive spreads across various asset classes.

Weaknesses

- **Increasing exposure to NBFC loans:**

The group is gradually increasing its exposure to large ticket lending in segments such as NBFCs and MFIs. The top 20 borrowers from the segment contributed ~26 percent of the overall advances in FY2018 as against ~23 percent in FY2017. The loans to NBFCs and MFIs composition to the overall AUM had increased to 56 percent in 2018 as against 52 percent in FY2017 and 47 percent in FY2016.

MAS however, lends only to NBFCs and MFIs which extend loans to MSME segment, Commercial Vehicle and Two Wheelers loans. The exposure is secured by charge on specific receivables. MAS also monitors the performance of these loans on a periodic basis. Notwithstanding the controls and the monitoring practices adopted by MAS in this segment, the group remains exposed to the risks inherent in large ticket lending, since most of the borrowers are typically small to medium size NBFCs (asset size less than Rs. 500 Cr.), where the track record is yet to be fully established. While MAS does its own rigorous internal assessment before initiating the exposure, lending to the NBFC segment is fraught with certain inherent risks. Any NBFC or MFI is exposed to various risk including credit risk, interest rate risk, market risk, liquidity risk and operational risk. The NBFC/MFI segment has witnessed a turbulent environment in the current year which has impacted their financial flexibility and credit profiles. The occurrence of events such as deterioration in the asset quality of the NBFC can impact its ability to meet its commitments to lenders such as MAS. The risks are exacerbated in case of NBFCs having significant exposure to geographies in which MAS also has a significant direct exposure. Any events impacting economic activity in such regions will impact the credit profiles of the retail borrowers in these regions which in turn will have an impact on MAS's direct portfolio and the portfolio of the NBFC/MFI to which MAS has an exposure.

Acuite believes that, while MAS has been able to manage its risks in the wholesale NBFC segment based on its stringent appraisal and monitoring mechanisms, the increased exposure to NBFCSs (as opposed to direct retail lending) results in inherently higher level of portfolio risk. . The spread on the NBFC is significantly lower vis-a-vis retail lending, hence the future earnings and profitability metrics of MAS Group will also be influenced by the relative mix of large ticket to retail portfolio.

- **Competitive landscape:**

MAS has presence in the MSME, two wheeler and CV segment for over two decades and caters to low income Group and Middle Income Group with a focus on rural, semi-urban and urban areas. The target segment mainly comprises small vendors, traders and businessmen who face challenges in accessing bank credit due to various factors such as extensive document requirements of banks, elaborate procedural requirements among others. The NBFCs and financial Institutions have relatively higher ability to tap into rural and semi urban area and provide last mile delivery.

The increased thrust of the Government towards financial inclusion has however, led to various large number of players entering the NBFC segment leading to increased competition in this space from various banks and financial institutions who are tapping the segment with user friendly technologies (fintech models). These players offer similar products at competitive rates which often leads to increased churn of borrowers. In the increasingly competitive market, maintaining underwriting standards and margins will remain a challenging task. Besides maintaining a healthy asset quality on a growing loan book, the ability to control operating expense and cost of funds will be a key determinant of the operating performance for players such as MFSL.

Acuite believes that MAS's overall credit profile will remain susceptible to competitive challenges in key operating segments.

Liquidity Position

MFSL had adequately matched asset liability profile as on December 31, 2018 with cumulative surplus in all maturity buckets. The company has demonstrated an ability to raise funds through assignment of its portfolio which comprises both priority and non-priority sector exposure which supports its liquidity profile. The company has adequate liquidity buffers by way of unutilized working capital limits. The company has working capital limits of Rs. 1850 Cr. which was on an average utilized up to 66 percent over the six month ended January 31, 2019. MFSL's subsidiary, MRHMFL which is into affordable housing offers loans with a tenure of 240 months for residential and 120 months for commercial is adequately capitalized with a CRAR of 24.96 percent as on September 30, 2018. It also has adequate cushion by way of unutilized bank lines the average utilization of which was 14 percent over six months ended January 31, 2019.

Outlook: Stable

Acuité believes that MFSL will maintain a 'Stable' outlook over the near to medium term owing to its established presence in the key operating segment (i.e. MSME, Two-wheeler and CV) and healthy financial parameters. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalisation indicators. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in asset quality or profitability margins.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	2860.68	2196.43	1811.20
Total Income*	Rs. Cr.	287.67	200.40	158.35
PAT	Rs. Cr.	105.81	69.32	53.39
Net Worth	Rs. Cr.	731.18	344.69	184.38
Return on Average Assets (RoAA)	(%)	4.18	3.46	3.24
Return on Average Net Worth(RoNW)	(%)	19.67	26.20	32.83
Total Debt/Tangible Net Worth (Gearing)	Times	2.00	3.82	6.71
MFSL (Standalone)				
Gross NPA	(%)	1.66	1.52	1.44
Net NPA	(%)	1.28	1.28	1.19

** Total income equals to Net interest income plus otherincome*

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Rating of Non-Banking Financing Entities - https://www.acuite.in/view-rating-criteria-44.htm
- Consolidation of Companies: https://www.acuite.in/view-rating-criteria-22.htm
- Default Recognition -https://www.acuite.in/view-rating-criteria-17.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not applicable

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
NA	Term loan I	NA	NA	NA	56.25	ACUITE AA-/Stable (Assigned)
NA	Term loan II	NA	NA	NA	12.00	ACUITE AA-/Stable (Assigned)
NA	Term loan III	NA	NA	NA	20.00	ACUITE AA-/Stable (Assigned)
NA	Term loan IV	NA	NA	NA	23.45	ACUITE AA-/Stable (Assigned)
NA	Term loan V	NA	NA	NA	52.25	ACUITE AA-/Stable (Assigned)
NA	Term loan VI	NA	NA	NA	43.87	ACUITE AA-/Stable (Assigned)
NA	Term loan VII	NA	NA	NA	45.12	ACUITE AA-/Stable (Assigned)
NA	Term loan VIII	NA	NA	NA	1.67	ACUITE AA-/Stable (Assigned)
NA	Term loan IX	NA	NA	NA	1.25	ACUITE AA-/Stable (Assigned)
NA	Term loan X	NA	NA	NA	1.90	ACUITE AA-/Stable (Assigned)
NA	Term loan XI	NA	NA	NA	5.00	ACUITE AA-/Stable (Assigned)
NA	Term loan XII	NA	NA	NA	12.00	ACUITE AA-/Stable (Assigned)
NA	Term loan XIII	NA	NA	NA	50.00	ACUITE AA-/Stable (Assigned)
NA	Term loan XIV	NA	NA	NA	13.89	ACUITE AA-/Stable (Assigned)
NA	Term loan XV	NA	NA	NA	17.22	ACUITE AA-/Stable (Assigned)
NA	Term loan XVI	NA	NA	NA	20.83	ACUITE AA-/Stable (Assigned)

NA	Term loan XVII	NA	NA	NA	67.50	ACUITE AA-/Stable (Assigned)
NA	Term loan XVIII	NA	NA	NA	45.53	ACUITE AA-/Stable (Assigned)
NA	Term loan XVIII	NA	NA	NA	22.76	ACUITE AA-/Stable (Assigned)
NA	Term loan XIX	NA	NA	NA	20.00	ACUITE AA-/Stable (Assigned)
NA	Term loan XX	NA	NA	NA	50.00	ACUITE AA-/Stable (Assigned)
NA	Proposed Term Loan	NA	NA	NA	617.51	ACUITE AA-/Stable (Assigned)
NA	Cash Credit	NA	NA	NA	1835.00	ACUITE AA-/Stable (Assigned)
NA	Proposed Cash credit	NA	NA	NA	165.00	ACUITE AA-/Stable (Assigned)
NA	Proposed Commercial paper	NA	NA	NA	300.00	ACUITE A1+ (Assigned)

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About Acuité Ratings & Research:
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