MAS Financial Services Limited

July 12, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	2,900.00	**CARE A+; Stable [Single A Plus; Outlook: Stable]**	Assigned
Short Term Bank Facilities	100.00	**CARE A1+ [A One Plus]**	Assigned
Total Facilities	**3,000.00 (Rupees Three Thousand Crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MAS Financial Services Limited (MFSL) derive strength from long standing track record & experience of its promoters 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 resource base with long standing association with multiple banks, comfortable capital adequacy, strong financial risk profile marked by high net interest margin (NIM) & return on total assets (ROTA) and comfortable liquidity profile.

The long-term rating is, however, constrained on account of its concentrated borrower profile and exposure to relatively riskier micro enterprises and small and medium enterprises (SME) sectors.

Ability of MFSL to significantly grow its scale of operations while maintaining its asset quality, profitability & capital adequacy, reducing its reliance on bank finance 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, experience of the promoters in the lending business and experienced senior management team

The promoters of MFSL have established track record of over 2 decades in the retail lending business. MFSL initially started its lending activities in the state of Gujarat and gradually has ventured and established its footprint in other 6 states. In the past 2 decades, MFSL has expanded its operations across 124 branches and 3311 locations 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 retail 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, small and SME loan and housing loan segments. Even in the aforesaid loan categories, significant amount of portfolio is built up through NBFCs and NBFC-MFIs. Moreover, about 35% of the total 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 AUM at a CAGR of 26.49% during last three years ended FY18.

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

Moderate geographical diversification

The lending activities of MFSL are directly carried out in 7 states. MFSL initially started its lending activities in the state of Gujarat and has gradually ventured and established its footprint in other 6 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 / NBFC-MFIs it has resulted in highly diversified exposure of MFSL. Gujarat accounts for around 35% of the standalone total loan portfolio of MFSL as on March 31, 2018 driven by operational familiarity of the promoters with the Gujarat market whereas other 28 states and union territories account for balance 65%.

Comfortable asset quality on the back of adequate appraisal systems

The gross and net Non-Performing Assets (NPAs) of MFSL stood at 1.11% and 0.88% respectively as on March 31, 2018 as compared to 1.06% and 0.92% respectively as per March 31, 2017. 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 demonetisation, implementation of Real Estate (Regulation and Development) Act, 2016 (RERA) & GST. 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, 2018.

Comfortable capital adequacy ratio and strong resource base with its long standing association with multiple banks

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. Post capital infusion in FY18, the capital adequacy ratio (CAR) of MFSL improved to 31.29% in FY18 as compared to 22.94% in FY17. Out of total CAR, Tier-I CAR stood at 29.06% and 16.88% as on March 31, 2018 and March 31, 2017 respectively. Also, even after the IPO, promoter holding in MFSL has been retained at 73.33% as on March 31, 2018. Also, the promoters of MFSL have healthy relations with 28 banks and 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 / financial institutions are also the ones to whom MFSL sells its 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 next 5 years.

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 marked by improvement in NIM to 7.58% in FY18 as compared to 6.79% in FY17. The same is due to reduction in weighted average cost of borrowings from 9.44% in FY17 to 8.67% in FY18. Moreover, ROTA of MFSL has also registered an improvement to 2.70% in FY18 compared to 2.20% in FY17. The same is due to growth in micro enterprises loans and two-wheeler loans in FY18 (which collectively account for approx. 70% of the total AUM as on March 31, 2018) as yield on these two products is higher compared to other loan products.

Comfortable liquidity profile

The liquidity profile of MFSL has remained comfortable on the back of strong resource base and good amount of unutilized bank limits. It has comfortable ALM without any mismatches. In FY18, the average utilization of the working capital limits remained comfortable at 55.61%. Also, the sanctioned fund based working capital limit has been enhanced for FY19. The total unutilized limits of MFSL can take care of upcoming 2-3 months of disbursements. Furthermore, due to the unutilized fund based working capital limits, the asset liability maturity profile of MFSL is expected to remain favourable.

Key Rating Weaknesses

Concentrated borrower profile

A significant portion of MFSL's exposure is to its top 10 borrowers. As on March 31, 2018, the top 10 exposures of MFSL accounted for approx. 57% of its tangible net-worth as on March 31, 2018 indicating 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 rating 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 55% of the 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 its 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
Rating Methodology - Non Banking Finance Companies (NBFCs)
Rating Methodology: Factoring Linkages in Ratings
Criteria for Short Term Instruments
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 a non-banking financial company (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, 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 directly through its own network of 124 branches in 7 states and also through other smaller NBFCs and microfinance institutions (MFIs).

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)	FY17 (A)	FY18 (A)
Total operating income	364.70	454.96
PAT	69.32	105.82
Tangible Net-worth	385.53	723.68
Total AUM	3332.60	4318.40
Overall gearing (times)	3.35	2.06
Interest coverage (times)	1.64	1.96
CAR (%)	22.94	31.29
ROTA (%)	2.20	2.70
Gross NPA (%)	1.06	1.11
Net NPA (%)	0.92	0.88

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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Annexure-1: Details of Facilities

Name of the 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	332.12	CARE A+; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	1792.50	CARE A+; Stable
Fund-based - LT-Working Capital Demand loan	NA	NA	NA	200.00	CARE A+; Stable
Fund-based - LT-Proposed fund based limits	NA	NA	NA	575.38	CARE A+; Stable
Fund-based - ST-Working Capital Limits	NA	NA	NA	100.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (25-Mar-16) 2)CARE A1+ (SO) (16-Jul-15)
2.	Fund-based - LT-Term Loan	LT	332.12	CARE A+; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	1792.50	CARE A+; Stable	-	-	-	-
4.	Fund-based - LT-Working Capital Demand loan	LT	200.00	CARE A+; Stable	-	-	-	-
5.	Fund-based - LT-Proposed fund based limits	LT	575.38	CARE A+; Stable	-	-	-	-
6.	Fund-based - ST-Working Capital Limits	ST	100.00	CARE A1+	-	-	-	-

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CIN - L67190MH1993PLC071691