March 27, 2020

MAS Financial Services Limited: Rating reaffirmed; rating on bank facilities programme withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated Debt Programme	60.00	60.00	[ICRA]A (Stable); Reaffirmed
Long-term Bank Facilities Programme	7.50	0.00	[ICRA]A (Stable); Withdrawn
Total	**67.50**	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating is based on the consolidated view of the credit profiles of MAS Financial Services Limited (MFSL) and MAS Rural
Housing and Mortgage Finance Limited (MRHMFL) (together referred to as MAS) owing to their common management and shared infrastructure. The rating factors in MAS' established track record and steady growth, strong franchise in the western states of India and stable management, supported by the long-standing experience of the promoters in the retail financing business. The rating also factors in MAS' well-managed asset quality, which has remained rangebound on account of the management's focus on the quality of originations and standard of the appraisal and monitoring systems. Further, the rating factors in the adequate capitalisation and moderate on-book gearing levels. With a significant share of its assets qualifying for priority sector lending (PSL), MAS uses direct assignment as a funding source and has funding relationships with several public and private sector banks. It has also tied up funding in advance in the form of sanctioned but unutilised lines, which support its well-matched asset liability maturity profile.

The rating is, however, constrained by MAS' relatively risky portfolio mix as it has direct (through retail) as well as indirect (through corporate loans) exposure to borrowers having higher susceptibility to income shocks. While the corporate book has exhibited a comfortable asset quality thus far, the economic downturn may be challenging for some of the entities in the segment. Notwithstanding the tightening of the credit norms by MAS on the retail side, the asset quality metrics are vulnerable in the small ticket business loan and two-wheeler financing segments, where the eventual loss given default could be higher. Going forward, the company's ability to maintain strict control over its asset quality indicators as it grows its portfolio would remain a rating sensitivity. The rating is also constrained by the lack of diversity in earnings as the revenue is largely derived from the interest income from the portfolio advances.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that MAS will continue to benefit from its long track record of operations and the experience of its promoters.

Key rating drivers and their description

Credit strengths

Demonstrated track record, steady growth, stable management team and comfort on governance and experience of promoters – MAS has an established track record of more than two decades in the lending business. With the company targeting the lower and middle-income groups, it has been growing its business steadily over the years, adjusting cautiously to the dynamic environment and economic cycles. The consolidated assets under management (AUM) grew at a CAGR of ~30% during FY2017-19, though the growth for FY2021 is expected to be lower at 15-20%. MAS is led by a stable senior management team with some of the personnel being associated with the company since its inception. ICRA also draws comfort from the governance and experience of the promoters who have provided guidance and direction to the company for over two decades.

Reasonably diverse product mix with strong franchise in Gujarat – MAS has a reasonably diverse product portfolio including working capital loans for micro enterprises, machinery funding and other small ticket loans for small and medium enterprises (SMEs), financing for two-wheelers and commercial vehicles in addition to a housing finance portfolio under its subsidiary, MRHMFL. A significant portion of its portfolio also comes from lending to partner entities in the non-banking financial sector (NBFCs/non-banking finance company-microfinance institutions (NBFC-MFIs)/housing finance companies (HFCs)). The company has deeply penetrated Gujarat and enjoys a strong franchise in the neighbouring states of Rajasthan and Maharashtra. Going forward, its ability to successfully increase its footprint in new states while maintaining strong credit underwriting norms would be a monitorable.

Well-managed asset quality on the back of good appraisal process and strong internal controls – MAS' credit appraisal and internal control processes have evolved over the past two decades as they are reviewed and improved at regular intervals. The company has a centralised credit team, which grants sanctions, while the branches work as centres for origination, preliminary credit checks and collections. Multiple checks are performed at the centralised unit prior to disbursement with mandatory field visits carried out for the retail segment and meetings with promoters conducted for the corporate segment (NBFCs). With the benefit of the reduction in the corporate tax rate applied towards the maintenance of the asset quality indicators (supported by write-offs), the Gross Stage 3 assets as a percentage of AUM remained rangebound between 1.0% and 1.3% over the last seven quarters. While the company has tightened the credit norms and continues to monitor the asset quality given the challenging environment, its ability to maintain its asset quality indicators over cycles considering the high share of unsecured/difficult-to-repossess asset classes would remain a key rating sensitivity, going forward.

Adequate capitalisation with moderate gearing levels – MAS remained adequately capitalised with a reported CRAR of 30% for MFSL as on December 31, 2019 and a net worth of Rs. 924 crore at the consolidated level as on March 31, 2019 (Rs. 1,036 crore as on December 31, 2019 as per provisional financials). The current capitalisation is adequate to support the company's near-to-medium-term growth plans as the growth rate is likely to moderate over the next two years. Though the gearing level is currently moderate at 3.12 times (on-book gearing on a consolidated basis, as on December 31, 2019), it is expected to increase, going forward, in order to support growth. ICRA expects the overall capitalisation levels to remain adequate in the medium term as its portfolio qualifies for PSL. Moreover, MAS will continue to assign 30-40% of its portfolio as a source of funding.

Diversity in funding relationships; comfortable liquidity profile – Though its dependence on bank funding is high, including direct assignments, MAS has reasonable diversity in its lender base with more than 25 distinct funding relationships as on December 31, 2019. It has strong funding relationships with multiple banks and financial institutions and employs direct assignment as a source of funds, thereby reducing its overall cost of borrowings. The company's liquidity profile is also comfortable with no mismatches in its asset-liability maturity profile, given the relatively shorter tenure of its loans in addition to the high on-balance sheet liquidity and unutilised bank sanctions in hand.

Credit challenges

Relatively risky portfolio mix – MAS' retail portfolio includes a significant share of two-wheelers, used cars and machinery loans where the eventual loss given defaults could be high when the assets need to be monetised. Further, through its corporate portfolio, the company has significant exposure to NBFC-MFIs, which remain exposed to marginal borrower profiles and have faced headwinds on account of the liquidity pressure and consumption slowdown. These concerns are partly mitigated by the security deposits taken against each sanction and personal guarantees from some of the promoters. However, the overall risk profile remains high as 40% of AUM, as on September 30, 2019, comprised unsecured or difficult-to-repossess assets.

Lack of diversity in earnings – MAS' income profile is concentrated towards interest income with processing fee income and late payment charges being the only other avenues for revenues. The opportunity for cross-sell, fee-based and other distribution income remains relatively unexplored at present.

Liquidity position: Strong

MFSL's liquidity is **strong** with no negative cumulative mismatches in the asset-liability maturity profile as on September 30, 2019, supported by the relatively shorter tenure of the assets (18-20 months on an average). At the consolidated level, the company maintained high liquid balances (~Rs. 392 crore as on September 30, 2019 and ~Rs. 821 crore as on December 31, 2019) in the form of cash and bank balances and liquid investments. The liquidity profile is further supported by the unavailed sanctions for term loans and direct assignments received from banks in addition to the unutilised CC lines of Rs. 1,455 crore as on September 30, 2019. Overall, ICRA expects MAS to be able to meet its near-term commitments through inflows from advances as well as sanctioned but unutilised funding lines.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating or revise the outlook to Positive with the scaling up of operations such that the product and geographical diversity improves along with an improvement in the profitability (RoMA >3.5%) and asset quality while also diversifying the income sources.

Negative triggers – ICRA could downgrade the rating or revise the outlook to Negative if there is a deterioration in the asset quality (90+dpd on AUM basis >3.0%) or if the on-book gearing increases beyond 5 times. The sustained weakening of the earnings or liquidity profile would also impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies ICRA's policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Parent/Group Company: NA
Consolidation/Standalone	The rating is based on the consolidated financial statements of MAS Financial Services Limited

About the company

MAS Financial Services Limited (MFSL; formerly known as Marketing & Allied Services) is a non-deposit accepting NBFC, set up in 1988 by Mr. Kamlesh Gandhi and Mr. Mukesh Gandhi. While the company initially provided consumer durable financing, it currently provides corporate loans to NBFC-MFIs and other NBFCs engaged in retail finance, small ticket business loans, small commercial vehicle loans, two-wheeler loans and machinery finance. The company is predominantly present in Gujarat, Rajasthan and Maharashtra. It has diversified geographically with a presence in six states through 105 branches as on December 31, 2019.

MAS Rural Housing and Mortgage Finance Limited (MRHMFL), a subsidiary of MFSL, is an HFC registered with the National Housing Bank (NHB). It caters to the middle and lower income groups through home loan products and loans for the purchase or construction of commercial properties. The company offers only home loans to salaried and self-employed segments with an average ticket size of Rs. 8 lakh. Apart from home loans, the company gives loans for the purchase of shops as well as project funding for affordable housing projects. Although it uses the common infrastructure of the parent at the branch level, a dedicated sourcing and credit team has been set up for the same.

Consolidated key financial indicators (audited; as per Ind-AS)

	FY2018	FY2019	9M FY2020*
Net Interest Income (Rs. crore)	198	269	224
PAT (Rs. crore)	105	155	146
Net Worth	779	924	1,036
Total Managed Assets	4,694	6,078	7,176
AUM	4,360	5,564	6,244
Gross Stage 3 (as a % of AUM)	1.13%	1.20%	1.06%
PAT/ AMA	2.60%	2.87%	2.93%
PAT / Average Net Worth	17.98%	18.03%	19.63%

**Provisional 9M FY2020 financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018		FY2017	
					27-Mar-20	27-Feb-19	12-Jan-18	30-Oct-17	02-Feb-17	16-Dec-16
1	Subordinated Debt Programme	Long Term	60.00	60.00	[ICRA]A (Stable); reaffirmed	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A - (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Positive)
2	Long-term Bank Facilities Programme	Long Term	7.50	7.50	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A - (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Positive)
3	Issuer Rating	Long Term	-	-	-	-	IrA- (Positive); withdrawn	IrA- (Positive); on notice of withdrawal	IrA- (Positive) ; on notice of withdrawal	IrA- (Positive) ; put on 1-year notice of withdrawal

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE348L08033	Subordinated Debt	22-Jun-15	14.00%	22-Jun-22	40.00	[ICRA]A (Stable)
INE348L08025	Subordinated Debt	18-Mar-15	13.50%	18-Sep-21	20.00	[ICRA]A (Stable)
NA	Term Loan 1	16-Mar-15	NA	30-Jun-20	7.50	[ICRA]A (Stable); withdrawn

Source: MAS Financial Services Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
MAS Financial Services Limited	100.00%	Full Consolidation
MAS Rural Housing and Mortgage Finance Limited	100.00%	Full Consolidation

**MRHMFL is fully owned by MFSL and its promoters*

Analyst Contacts

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Supreeta Nijjar
+91-124-4545 324
supreetan@icraindia.com

Deeksha Agarwal
+91-124-4545 833
deeksha.agarwal@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

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