Press Release

MAS Financial Services Limited

February 26, 2020

Rating Reaffirmed

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

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

About MFSL:

MFSL, incorporated in 1995, is the flagship company of MAS group (MAS Financial Services Limited (MFSL) + MAS Rural Housing and Mortgage Finance Limited-MRHML). 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 105 branches as on December 31, 2019. 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 equity shareholding in MFSL.

About MFSL's subsidiary –MRHMFL:

MAS Rural Housing and Mortgage Finance Limited (MRHMFL), incorporated in 2008, is a non-deposit taking Housing Finance Company registered with National Housing Board. MFSL held 59.67 percent stake as on June 30, 2019 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 'MAS 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 in the 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, MAS group's operations are spread over six states and one Union Territory and the group operates through a network of 151 branches. MAS 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 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 experience in the financial services sector. They are supported by professionals with significant experience in various functional areas.

The group's Asset under Management (AUM includes on book and off book portfolio) has grown to Rs.5609.6 Cr. as on March 31, 2019 as against Rs. 4318.4 Cr. as on March 31, 2018. The group's AUM increased to Rs. 6177.3 Cr. as on September 30, 2019 on the back of robust disbursements in the MSME segment. Of the overall AUM as on September 30, 2019, wholesale loans to NBFCs and MFIs contributed ~55 percent, loans to MSME segment contributed ~34 percent, commercial vehicle loans contributed ~2 percent, two-wheeler loans of 4 percent, and loans for housing, non-housing and project loans contributed ~5 percent.

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

- **Healthy resource mobilization ability; Demonstrated ability to raise funds through direct assignment transactions on a regular basis:**

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.6177.3 Cr. as on September 30, 2019. The funding mix comprises of bank borrowings (term loans and cash credit limits) along with owned funds and direct assignment. As on September 30, 2019, the borrowing mix comprised direct assignment of 48 percent, cash credit of 31 percent, term loan of 20 percent and subordinated debt of 1 percent.

MAS 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 February 17, 2020, MFSL had a market capitalisation of around Rs.5500 Cr. As on September 30, 2019, 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.

The philosophy of MAS 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. MAS group's net worth stood (adjusted for minority interest) at Rs. 992.21 Cr. as on September 30, 2019 as against Rs. 779.19 Cr. as on March 31, 2018. MFSL on a standalone basis has comfortable capitalisation level with overall Capital Adequacy Ratio of 26.88 percent as on September 30, 2019 (29.13 percent as on March 31, 2019), mainly by way of Tier I capital of 25.52 percent (27.4 percent as on March 31, 2019) as against regulatory threshold of 15 percent. The regulatory framework for priority sector advances and direct assignment transactions will be key monitorables in view of the significant dependence of MFSL on direct assignment deals for raising funds.

The healthy performance of the past pools over a period has enabled the company to regularly raise funds through this route from various banks. MFSL raised Rs.2284 crores in FY 2019 through direct assignment transactions and Rs.1187 crores for the first six months ended September 30, 2019. The buyers for MFSL's pools include leading PSU banks, some of whom have also extended credit facilities to MAS group. The continued appetite from the group's pools indicate the confidence of the buyers in the group's underwriting and monitoring standards.

Acuité 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 profitability metrics:**

MAS 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.

MAS group's asset quality remained healthy among peers with Gross NPA of 1.91 percent as March 31, 2019 as against 1.57 percent as on March 31, 2018. The company reported GNPA of 1.59 percent as on September 30, 2019. Of the total AUM of Rs. 6177.3 Cr. as on September 30, 2019 the retail lending portfolio was 45 % and the wholesale NBFC/MFI portfolio contributed the remaining. The GNPA was entirely contributed by retail segment. The company has demonstrated collection efficiency* of ~88 percent in the thirteen months ended November 30, 2019. MAS group's Provision coverage ratio stood at 19.45 percent as on September 30, 2019. MAS group reported Net NPA of 1.28 percent as on September 30, 2019(1.51 percent as on March 31, 2019).

The group's earning profile is supported by strong profitability and an increasing scale of operations. The Net Interest Margins improved to 8.62 percent in FY2019 as against 8.14 percent in the previous year. The group's profitability was also supported by the profits on securitization transactions of Rs.94.26 Cr. during FY 2019 on profit before taxes (PBT) of Rs.238.01 Cr. (Rs.80.09Cr during FY2018 on a PBT of Rs.167.77 Cr). During six months ended September 30, 2019, the profits on securitization transactions were Rs.44.31 Cr on a PBT of Rs.89.51 Cr. The group's Return on Average Assets (ROAA) improved to 4.49 percent in FY2019 from 4.13 percent in FY2018. The group's Return on Average AUM has also improved to 3.11 percent in FY2019 from 2.75 percent in FY2018. The group has maintained high operating efficiency which is reflected in its Operating expenses to earning assets ratio of 2.43 percent in FY2019 as against 2.86 percent in FY2018.

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

- **High exposure to NBFC loans:**

MAS group has high exposure to segments such as NBFCs and MFIs. The group's loans to NBFCs and MFIs composition to the overall AUM had increased to 57 percent in FY 2019 as against 56 percent in FY 2018 and 52 percent in FY 2017. The same stood at ~55 percent as on September 30, 2019. The top 20 borrowers for MAS group from this segment contributed ~24 percent of the overall AUM as on September 30, 2019.

MAS group 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.

*calculated as amount collected during the month/ (opening overdues+ dues for the current month)

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.

Rating Sensitivity

- Movement in leverage indicators
- Movement in asset quality and profitability metrics
- Regulatory framework governing the priority sector lending and direct assignment transactions.

Material Covenants

The lenders have stipulated asset quality and leverage indicators and MFSL is adhering to all these covenants.

Liquidity Position

MFSL had adequately matched asset liability profile as on September 30, 2019 with cumulative surplus in all maturity buckets. The company's assets comprise short to medium term exposures depending on the asset class against which the borrowings are in the form of two to three years term loans and cash credit limits. The company has also demonstrated an ability to raise funds through sell down of its portfolio (which comprises both priority and non-priority sector exposure) thereby supporting its liquidity and funding requirements. The company has adequate liquidity buffers by way of unutilized working capital limits. The company has working capital limits of Rs.1835 Cr. which was on an average utilized up to 68 percent over the thirteen month ended November 30, 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 35.26 percent as on September 30, 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 – MFSL Consolidated

Parameters	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	3995.56	2898.37
Total Income*	Rs. Cr.	378.09	289.69
PAT	Rs. Cr.	154.61	105.19
Net Worth	Rs. Cr.	924.14	779.19
Return on Average Assets (RoAA)	(%)	4.49	4.13
Return on Average Net Worth(RoNW)	(%)	18.15	21.97
Total Debt/Tangible Net Worth (Gearing)	Times	2.46	1.87
Gross NPA	(%)	1.91	1.57
Net NPA	(%)	1.51	1.20

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

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
- 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
March 13, 2019	Term Loan I	Long term	56.25	ACUITE AA-/Stable (Assigned)
	Term loan II	Long term	12.00	ACUITE AA-/Stable (Assigned)

	Term loan III	Long term	20.00	ACUITE AA-/Stable (Assigned)
	Term loan IV	Long term	23.45	ACUITE AA-/Stable (Assigned)
	Term loan V	Long term	52.25	ACUITE AA-/Stable (Assigned)
	Term loan VI	Long term	43.87	ACUITE AA-/Stable (Assigned)
	Term loan VII	Long term	45.12	ACUITE AA-/Stable (Assigned)
	Term loan VIII	Long term	1.67	ACUITE AA-/Stable (Assigned)
	Term loan IX	Long term	1.25	ACUITE AA-/Stable (Assigned)
	Term loan X	Long term	1.90	ACUITE AA-/Stable (Assigned)
	Term loan XI	Long term	5.00	ACUITE AA-/Stable (Assigned)
	Term loan XII	Long term	12.00	ACUITE AA-/Stable (Assigned)
	Term loan XIII	Long term	50.00	ACUITE AA-/Stable (Assigned)
	Term loan XIV	Long term	13.89	ACUITE AA-/Stable (Assigned)
	Term loan XV	Long term	17.22	ACUITE AA-/Stable (Assigned)
	Term loan XVI	Long term	20.83	ACUITE AA-/Stable (Assigned)
	Term loan XVII	Long term	67.50	ACUITE AA-/Stable (Assigned)
	Term loan XVIII	Long term	45.53	ACUITE AA-/Stable (Assigned)
	Term loan XIX	Long term	22.76	ACUITE AA-/Stable (Assigned)
	Term loan XX	Long term	20.00	ACUITE AA-/Stable (Assigned)
	Term loan XXI	Long term	50.00	ACUITE AA-/Stable (Assigned)

	Proposed Term loan	Long term	617.51	ACUITE AA-/Stable (Assigned)
	Cash Credit	Long term	1835.00	ACUITE AA-/Stable (Assigned)
	Proposed Cash Credit	Long term	165.00	ACUITE AA-/Stable (Assigned)
	Proposed Commercial Paper	Short term	300.00	ACUITE A1+ (Assigned)

*Annexure – Details of instruments rated

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

Term loan XV	NA	NA	NA	17.22	ACUITE AA-/Stable (Reaffirmed)
Term loan XVI	NA	NA	NA	20.83	ACUITE AA-/Stable (Reaffirmed)
Term loan XVII	NA	NA	NA	67.50	ACUITE AA-/Stable (Reaffirmed)
Term loan XVIII	NA	NA	NA	45.53	ACUITE AA-/Stable (Reaffirmed)
Term loan XIX	NA	NA	NA	22.76	ACUITE AA-/Stable (Reaffirmed)
Term loan XX	NA	NA	NA	20.00	ACUITE AA-/Stable (Reaffirmed)
Term loan XXI	NA	NA	NA	50.00	ACUITE AA-/Stable (Reaffirmed)
Proposed Term loan	NA	NA	NA	617.51	ACUITE AA-/Stable (Reaffirmed)
Cash Credit	NA	NA	NA	1835.00	ACUITE AA-/Stable (Reaffirmed)
Proposed Cash Credit	NA	NA	NA	165.00	ACUITE AA-/Stable (Reaffirmed)
Proposed Commercial Paper	NA	NA	NA	300.00	ACUITE A1+ (Reaffirmed)

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About Acuité Ratings & Research:

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