

Press Release

Mag Finserv Company Limited

April 01, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	125.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	125.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' (read as ACUITE triple B) to the Rs. 125.00 crore bank facilities of MAG Finserv Company Limited (MFCL). The outlook is '**Stable**'.

The rating factors in the comfortable capital structure as well as healthy asset quality marked by on time portfolio at 93 percent and NNPA (180+dpd) at 0.11 percent as on December 31, 2021. CRAR stood at 26.29 percent (Tier 1: 20.11 percent) and gearing levels stood steady at 3.37 times as on December 31, 2021. The rating further takes into consideration gradual shift in the company's lending profile towards secured and liquid gold loans & improving profitability metrics supported by higher gold loan disbursements. During 9MFY22, gold loans comprised 92% of total disbursements vis a vis 87% during FY21 [FY2020.:67%] thereby taking proportion of gold loans to 66% of total portfolio mix as on Dec 30, 2021.

The rating is however, constrained by geographical concentration, modest scale of operations, limited financial flexibility and highly competitive business of lending against gold. Going forward, the company's ability to raise capital, profitably scale-up its loan portfolio while maintaining the asset quality will be a key monitorable.

About the company

Maharashtra based MAG Finserv Company Ltd commenced its operations as a NBFC from 2005. The Company was started by acquiring a NBFC registered with RBI that belonged to Bhosale Group. The Company offers asset backed financing (over 90% of AUM) in terms of gold loans, two wheeler loans and secured loans (LAP or equipment financing) and unsecured loans that comprise of Microfinance (less than 10% of AUM).

Analytical Approach

Acuité has considered the standalone financial and business risk profile of MFCL to arrive at the rating.

Key Rating Drivers

Strength

- **Experienced Management**

MFCL, a Maharashtra based NBFC is promoted by Mr. Ananta G. Mohotkar (Chairman). He has more than three decades of experience in the NBFC. He looks after the strategic planning and operations of the company. The Mohotkar Family held around 40.62% percent of the shares out of which Mr. Ananta G. Mohotkar holds around 22.38 percent of shares as on December 31, 2021 with remaining stake is being held by directors' friends and relatives. Mr. Ananta G. Mohotkar is supported at board level by Mrs. Sunita A Mohotkar (Director) is engaged in women empower activities from over two decades, she looks after the operations of SHG segment in MFCL Mr. Ganpat R. Mohotkar (Director) have extensive experience of over four decades , He looks after the strategic planning of MFCL. Mr. Ravindra D. Velankar(Independent Director) is a ex-banker having experience of over four decades and is the chairperson of the audit committee. Mr. Ameya Tambekar (Director) is a chartered account by qualification, he has more than 13 years of experience in BFSI sector. In MFCL he heads the compliance and finance department.

Acuité believes that MFCL will continue to benefit from its established presence and experience of the promoters in the gold loan segment.

- **Healthy Asset Quality**

MFCL's loan portfolio stood at Rs. 145.39Cr as on December 31, 2021 as compared to Rs. 128.77 Cr in FY2021 and Rs. 100.162 Cr in FY2020 . Asset quality has remained healthy marked by on time portfolio at 93 percent for 9M-FY2022. On time dpd profile has remained in the range of 89 - 93 percent since FY2020 till YTD. Gross NPA stood at 1.09 percent (NNPA: - 0.11 percent) as on December 31, 2021 as against 1.16 percent (NNPA: - 0.33 percent) as on March 31, 2021 and 0.76 percent (NNPA: - 0.61 percent) as on March 31, 2020.

Going forward, as company scales up its business operations in existing and newer geographies, asset quality is a key monitorable.

- **Shift in lending profile**

MFCL commenced its lending operations in 2005.The NBFC is engaged in providing Gold Loan, Two wheeler loans, LAP and Small Business Loans.As on December 31,2021 Gold loan is a major part of the AUM. Gold loan comprised 66 % of the outstanding portfolio increasing from 43 % in FY 2019.Going forward the company plans to focus on gold loan portfolio which is more secured class of assets in its current offering and plans to grow the gold loan portfolio to 75%-80% of the total AUM. Increase in outstanding gold loan portfolio would make the portfolio more secure and would reduce the risk of losses.

Weakness

- **High geographical concentration & modest scale**

MFCL has its presence in only 2 states Maharashtra and Karnataka with branch base of 22 as on December 31, 2021. 90 percent of the branch concentration is in the Maharashtra.Within Maharashtra, 44 percent of portfolio is concentrated in Satara, 22 percent in Pune, Solapur (11 percent) and Kolhapur (11 percent). While the company's operations are expected to remain confined to the states of Maharashtra and Kerala over the medium term, Acuité believes that geographical concentration will continue to weigh on the company's credit profile.

- **Limited financial flexibility**

The capital structure of MFCL is supported by Networth of Rs. 36.02 Cr, Total Debt of Rs. 121.33 Cr and resultant gearing of 3.37 times as on December 31, 2021. The gearing levels stood

steady around ~4.03 times since FY2021. MFCL has borrowing profile consist of a mix of NBFC/FI and banks. The company has raised these loans at interest rates in the range of 10-12 percent. Acuite believes that the ability of the company to mobilize additional funding through debt/equity will be critical.

Rating Sensitivity

- Ability to raise capital
- Profitable scale up in operations
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in the regulatory environment

Material Covenants

MFCL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Liquidity Position: Adequate

MFCL 's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated December 31, 2021. The company had cash and cash equivalent of Rs.4.72 Cr as on December 31, 2021.

Outlook: Stable

Acuite believes that MFCL will maintain a 'Stable' outlook over the medium term supported by its established presence in the gold loan segment along with experienced promoters and demonstrated ability to maintain asset quality levels. The outlook may be revised to 'Positive' in case of higher-than-expected growth in loan portfolio while maintaining asset quality and capital structure. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	145.20	113.37
Total Income*	Rs. Cr.	11.15	11.95
PAT	Rs. Cr.	2.36	3.44
Networth	Rs. Cr.	28.18	25.83
Return on Average Assets (RoAA)	(%)	1.82	6.06
Return on Net Worth (RoNW)	(%)	8.72	14.25
Total Debt/Tangible Net Worth (Gearing)	Times	4.03	3.30
Gross NPA's	(%)	1.16	0.76
Net NPA's	(%)	0.33	0.61

*Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable):

BRICKWORK, vide its press release dated February 25, 2022 had denoted the rating of MFCL as 'BWR BB-/Downgrade ; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.40	ACUITE BBB Stable Assigned
IDFC First Bank Limited	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	86.60	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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