



Press Release
MAG FINSERV COMPANY LIMITED
June 29, 2023
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed 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 MFCL's adequate capitalization levels, increased scale of operations as well as healthy asset quality marked by on time portfolio at 93 percent and GNPA (180+dpd) at 0.94 percent as on March 31, 2023. MFCL's AUM stood at Rs. 212.80 Cr as on March 31, 2023 as compared to Rs. 156.70 Cr as on March 31, 2022. The total disbursements for FY2023 stood at Rs. 290.81 Cr. The company's CRAR stood at 20.32 percent as on March 31, 2023. 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 FY2023, gold loans comprised 89.54 percent of total disbursements vis a vis 92.59 percent during FY22. The rating is however, constrained by geographical concentration, 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). The AUM stood at Rs. 212.80 Cr as on March 31, 2023.

Analytical Approach

Acuite 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 March 31, 2023 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. 212.80 Cr. as on March 31, 2023 as compared to Rs. 156.70 Cr as on March 31, 2022. Asset quality has remained healthy marked by on time portfolio at 94.75 percent for FY2023. On time dpd profile has remained in the range of 89 – 94 percent since FY2020 till YTD. Gross NPA stood at 0.94 percent (NNPA: - 0.09 percent) as on March 31, 2023 as against 1.08 percent (NNPA: - 0.11 percent) as on March 31, 2022.

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 March 31, 2023 Gold loan is a major part of the AUM. Gold loan comprised 70.23 percent 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. In order to enable speedier expansion, the company has recently implemented an asset-light franchise model for its gold loan portfolio. In this model, the Company will now grant franchise of MAG Finserv to qualified partners, preferably to those who have expertise as branch managers, rather than opening own branches and investing in fixed assets and opex for the same. Additionally, MFCL and the Central Bank of India have now engaged into a co-lending agreement, and MAG and CBoI will lend jointly. This arrangement is crucial as it gives MCFL ample funding without leveraging the balance sheet.

Weakness

High geographical concentration

MFCL has its presence in only 2 states Maharashtra and Karnataka with branch base of 46 as on March 31, 2023. The loan book is concentrated in Maharashtra, with ~91 percent of the loan book concentrated in the state as on March 31, 2023. Within Maharashtra, the top 2 districts (Pune and Satara) constitute ~72 percent as on March 31, 2023. The company's operations are expected to remain confined to the states of Maharashtra and Karnataka 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. 42.36 Cr. and a total Debt of Rs. 187.82 Cr and resulting into a gearing of 4.43 times as on March 31, 2023 (Provisional). The gearing levels have continued to remain over 4 times for the company since 2021. 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

None

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 March 31, 2023 . The company had cash and cash equivalent of Rs. 2.81 Cr as on March 31, 2023.

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	FY23 (Prov)	FY22 (Actual)
Total Assets	Rs. Cr.	240.05	180.24
Total Income*	Rs. Cr.	17.84	15.09
PAT	Rs. Cr.	5.55	3.97
Net Worth	Rs. Cr.	42.36	37.38
Return on Average Assets (RoAA)	(%)	2.64	2.44
Return on Average Net Worth (RoNW)	(%)	13.92	12.12
Debt/Equity	Times	4.43	3.66
Gross NPA	(%)	0.94	1.08
Net NPA	(%)	0.09	0.11

*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 25 February 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

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Apr 2022	Proposed Bank Facility	Long Term	86.60	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	10.40	ACUITE BBB Stable (Assigned)
	Proposed Bank Facility	Long Term	25.00	ACUITE BBB Stable (Assigned)
	Secured Overdraft	Long Term	3.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Maharashtra	Not Applicable	Cash Credit	30 Apr 2022	12.15	30 Jun 2026	Simple	8.32	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	86.60	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	11.09	ACUITE BBB Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Secured Overdraft	27 Mar 2023	13.00	27 Mar 2025	Simple	3.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	29 Jul 2022	9.80	29 Jul 2025	Simple	15.52	ACUITE BBB Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	18 Dec 2018	13.25	01 Jun 2023	Simple	0.47	ACUITE BBB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Nitin Chavan Analyst-Rating Operations Tel: 022-49294065 nitin.chavan@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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