April 30, 2021

MAS Financial Services Limited: Rating reaffirmed

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
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view on MAS Financial Services Limited (MFSL) and its wholly-owned subsidiary, MAS Rural Housing and Mortgage Finance Limited (MRHMFL), together referred to as MAS owing to their common management and shared infrastructure. The rating reaffirmation continues to factor in MAS' established track record of operations, strong franchise in the western states of India supported by the long-standing experience of the promoters in the retail financing business. The rating also factors in MAS' adequate capitalisation and moderate on-book gearing levels, given its strategy to deploy direct assignment to the extent of 30-45% of the assets under management (AUM) since a significant share of its assets qualifies for priority sector lending (PSL). The company has long-standing funding relationships with banks and a diversified lender base of ~30 lenders as on December 31, 2020. Further, the rating factors in its well-matched asset-liability maturity profile with average asset maturity of 18-20 months and term loans & non-convertible debentures (NCDs) with a tenor of 3-5 years. The company maintains healthy liquidity in the form of on-book balance and sanctioned lines to meet its funding requirements in the near term.

The rating is, however, constrained by MAS' relatively high portfolio concentration with the top 3 states comprising ~57% of its AUM as on December 31, 2020. Moreover, the company has direct (through retail) as well as indirect (through corporate loans) exposure to borrowers with higher susceptibility to income shocks. While the corporate book has exhibited a comfortable asset quality thus far, Covid-19-induced stress has impacted the income stream of some of the borrowers, which necessitated higher additional provisioning in Q4 FY2020 and 9M FY2021. ICRA notes that the company has tightened its credit norms on the retail side. However, the vulnerability in the asset quality metrics persists especially in the micro, small and medium enterprise (MSME)/small and medium enterprise (SMEs) and two-wheeler financing segments, where the eventual loss given default could be higher. The company's ability to maintain strict control over its asset quality indicators 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.

Key rating drivers and their description

Credit strengths

Demonstrated track record, steady growth and benefit of experienced promoters and management – 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 AUM increased at a compound annual growth rate (CAGR) of ~25% during FY2017-20, though there was some degrowth in FY2021, given the challenging environment. The growth is expected to pick up in FY2022. 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.

Diverse product mix with strong franchise in western India – MAS has a reasonably diverse product portfolio including working capital loans for micro enterprises, machinery funding and other small ticket loans for 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 (non-banking financial companies (NBFCs)/non-banking financial 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.

Adequate capitalisation with moderate gearing levels – MAS remained adequately capitalised with a reported CRAR of 32.6% for MFSL as on December 31, 2020 and a net worth of Rs. 1,046 crore at the consolidated level as on March 31, 2020 (~Rs. 1,153 crore as on December 31, 2020). The current capitalisation is adequate to support the company's near-to-medium-term growth plans as the growth rate is likely to remain muted over the next two years. With the company maintaining the direct assignment portfolio at 30-45% of the AUM, the on-book gearing has remained moderate (3.19 times on a consolidated basis as on March 31, 2020; 2.78 times as on December 31, 2020). ICRA expects the overall capitalisation levels to remain adequate in the medium term as the portfolio qualifies for priority sector lending (PSL) and assuming the continued use of assignment as a source of funding.

Diversity in funding relationships; comfortable liquidity profile – Though its dependence on bank funding is high, including direct assignment, MAS has reasonable diversity in its lender base with more than 30 distinct funding relationships as on December 31, 2020. 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

Ability to manage Covid-19-induced stress, given relatively risky portfolio mix – The top 3 states of Gujarat, Maharashtra and Rajasthan comprised 57% of MAS' portfolio as on December 31, 2020 (60% as on March 31, 2019). Further, MAS' retail portfolio comprises loans to MSMEs and two-wheeler and commercial vehicle loans where the eventual loss given default could be high when the assets need to be monetised. Through its corporate portfolio, the company has significant exposure to NBFC-MFIs, which remain exposed to marginal borrower profiles with high vulnerability to income shocks. Given the stress induced by Covid-19, the income profiles of some of the borrowers may have been significantly impacted. The impact of the economic slowdown is visible in the asset quality stress plaguing the NBFC sector at present. However, ICRA notes that 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 the AUM, as on December 31, 2020, comprised unsecured or difficult-to-repossess assets. Therefore, the asset quality remains a credit monitorable.

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. Further, the company depends on direct assignment income, which is accounted upfront under Ind-AS, thereby supporting its profitability. However, given the asset quality volatility and the Covid-19-induced slowdown, the securitisation market experienced a slowdown in FY2021. The opportunity for cross-sell, fee-based and other distribution income remains relatively unexplored at present.

Liquidity position: Strong

MFSL's liquidity is comfortable with no negative cumulative mismatches in the reported asset-liability maturity profile as on December 31, 2020, supported by the relatively shorter tenure of the assets (18-20 months on an average). At the consolidated level, the company maintained high on-balance sheet liquid balances of ~Rs. 1,000 crore as on December 31, 2020 (~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 ~Rs. 993-crore (standalone) unavailed sanctions of bank facilities in addition to direct assignment as on

December 31, 2020. 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 factors – ICRA could upgrade the rating or revise the outlook to Positive with the profitable scaling up of operations such that the product as well as geographical diversity improves along with an improvement in the asset quality and diversification of income sources.

Negative factors – 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
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 99 branches as on December 31, 2020.

MAS Rural Housing and Mortgage Finance Limited (MRHMFL), a subsidiary of MFSL, is an HFC registered with 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 the salaried and self-employed segments with an average ticket size of Rs. 8 lakh. Apart from home loans, it gives loans for the purchase of shops as well as project funding for affordable housing projects. Although it uses the infrastructure of the parent at the branch level, a dedicated sourcing and credit team has been set up for the same.

Key financial indicators (audited & consolidated)

MAS Financial Services Limited	FY2019	FY2020	9M FY2021*
Accounting as per	**Ind-AS**	**Ind-AS**	**Ind-AS**
Total income (Rs. crore)	605	722	455
Profit after tax (Rs. crore)	134	117	107
Net worth (Rs. crore)	916	1046	1133
Loan book (Rs. crore)	6253	5609	5055
Total assets (Rs. crore)	3992	4807	4523
Return on managed assets (%)	2.86%	2.67%	~2.80%**
Return on net worth (%)	18.12%	18.35%	~13.04%
Gross gearing (times)	3.02	3.13	~2.64
Gross NPA (%) – Reported	1.35%	1.38%	1.32%
Net NPA (%) – Reported	0.95%	0.75%	1.00%
Solvency (Net stage 3/Net worth)	5.66%	4.17%	~4.55%
CRAR (%)	29.13%	30.96%	32.61%

Source: *Company, ICRA research; * Standalone unaudited numbers; All ratios as per ICRA calculations; **Return on AUM*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 30, 2021	-	Mar 27, 2020	Feb 27, 2019
1	Subordinated Debt Programme	Long Term	60.00	60.00	**[ICRA]A (Stable)**	-	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**
2	Long-term Bank Facilities Programme	Long Term	7.50	0.00	-	-	**[ICRA]A (Stable); withdrawn**	**[ICRA]A (Stable)**

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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE348L08033	Subordinated Debt	Jun 22, 2015	14.00%	Jun 22, 2022	40.00	[ICRA]A (Stable); reaffirmed
INE348L08025	Subordinated Debt	Mar 18, 2015	13.50%	Sep 18, 2021	20.00	[ICRA]A (Stable); reaffirmed

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	MFSL Ownership	Consolidation Approach
MAS Financial Services Limited	100.00% (rated entity)	Full Consolidation
MAS Rural Housing and Mortgage Finance Limited	100%	Full consolidation

Source: *Company*

Note: *ICRA has taken a consolidated view of the parent (MFSL) and its subsidiaries while assigning the rating*

ANALYST CONTACTS

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

Sachin Sachdeva
+91 124 4545300
sachin.sachdeva@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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

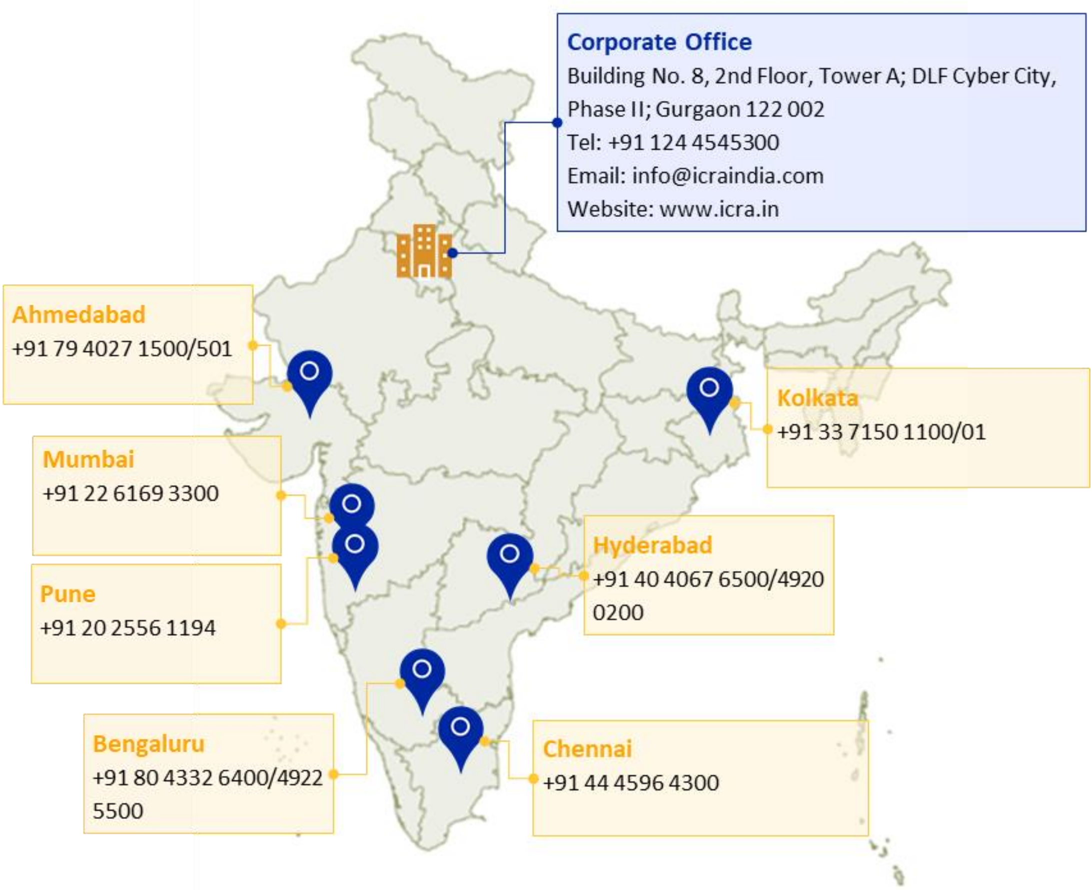
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.