April 28, 2022

MAS Financial Services Limited: Rating reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated Debt	60.00	60.00	[ICRA]A (Positive); reaffirmed and outlook revised to Positive from Stable
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of 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 revision in the outlook factors in the expectation of steady growth in MAS' assets under management (AUM) along with its ability to keep the asset quality under control and maintain healthy profitability metrics. Further, ICRA expects the company to keep its borrowers' concentration under control, given the high vulnerability of its end borrowers. Notwithstanding the recent slippage on the asset quality front because of the unfavourable environment simulated by the Covid-19 pandemic, the same remains comfortable with the gross stage 3 (GS-3) at 2.3% and net stage 3 (NS-3) at 1.8% as on December 31, 2021. The company's ability to further scale up its operations, sustain/enhance its profitability and improve its asset quality indicators will remain a monitorable.

The rating also continues to factor in MAS' established track record for more than two decades backed by the long-standing experience of the promoters in the retail financing business. This, coupled with its strong franchise in the western states of India provides support to its credit profile. The rating also takes into consideration the adequate capitalisation profile. MFSL reported a capital adequacy ratio (CAR) of 27.4% as on December 31, 2021 against the regulatory requirement of 15%. The current capitalisation, along with internal accruals, is adequate to support the company's near-to-medium-term growth plans as it targets to grow its book in the range of 20-25% during the next 2-3 years.

The company has long-standing funding relationships with banks and a diversified lender base of ~30 lenders as on December 31, 2021. Further, the rating factors in the well-matched asset-liability maturity profile with average asset maturity of 18-20 months and term loans and 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 geographical concentration with the top 3 states comprising ~79% of its AUM as on December 31, 2021. Moreover, MFSL 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, MFSL's ability to scale up its operations while not increasing its concentration risk towards the corporate loan book, going forward, remains a key monitorable. ICRA notes that, over the years, MAS 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 (SME) 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 – Incorporated in 1988 and registered as a non-banking financial company (NBFC) in 1995, MFSL has an established track record for more than two decades in the lending business. On a consolidated basis, the AUM increased at a 3-year compound annual growth rate (CAGR) of 24% during FY2017-20. The portfolio witnessed some decline in FY2021 owing to Covid-led disruptions, though it bounced back and the company reported a consolidated AUM of Rs. 6,049 crore as on December 31, 2021 vis-à-vis Rs. 5,372 crore as on March 31, 2021 (Rs. 6,253 crore as on March 31, 2020). ICRA expects the company to grow its business steadily while continuing to target the retail set of customers and adjusting cautiously to the dynamic environment and economic cycles.

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 {NBFCs/non-banking financial company-microfinance institutions (NBFC-MFIs)/housing finance companies (HFCs)}. Going forward, ICRA expects the company to continue to focus on the retail set of customers, leading to a sequential decline in its exposure towards the corporate loan book. MAS had started its operations in Gujarat and has a fair understanding of the borrower profile in western geographies like Gujarat, Rajasthan and Maharashtra. Going forward, its ability to leverage its expertise in the existing geographies and increase its operations in other areas while maintaining strong credit underwriting norms would be a monitorable.

Adequate capitalisation with moderate gearing levels – MAS remains adequately capitalised for its current scale of operations with a reported CRAR of 27.4% for MFSL as on December 31, 2021 against the regulatory requirement of 15% and a net worth of Rs. 1,277 crore on a standalone basis as on December 31, 2021 (~Rs. 1,330 crore and Rs. 1,180 crore as on December 31, 2021 and March 31, 2021, respectively, on a consolidated basis). The current capitalisation, along with internal accruals, is adequate to support the company's near-to-medium-term growth plans as it targets to grow its book in the range of 20-25% during the next 2-3 years. Although the gearing is expected to increase going forward, it is likely to remain within the targeted level of 5 times. As on December 31, 2021, the company reported on-book gearing of 3.62 times on a consolidated basis compared to 3.42 times as on March 31, 2021. 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, 2021. 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 keep asset quality under control, given relatively risky portfolio mix – The company's operations are geographically concentrated with the top 3 states of Gujarat, Maharashtra and Tamil Nadu comprising 79% of the portfolio as on December 31, 2021 (57% as on December 31, 2020). 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. Though the company is strategically balancing its portfolio mix by slightly bringing down its exposure towards the corporate loan book while simultaneously increasing its focus on the retail loan book, its ability to improve the mix further towards a more secured borrower class will be important from a rating perspective. As on December 31, 2021, the exposure towards the corporate book stood at 53% vis-à-vis 58% as on March 31, 2021 (59% as on March 31, 2020).

On a standalone basis, MAS reported GS-3 assets of 2.35% and NS-3 assets of 1.76% as on December 31, 2021 compared to 1.94% and 1.52% respectively, as on March 31, 2021. Though the asset quality indicators have weakened moderately, they remain comfortable for the asset segments in which MAS operates. MFSL had a restructured portfolio outstanding of 0.47% as on December 31, 2021 (0.54% as on September 30, 2021).The company's ability to keep its asset quality under control while growing its book will be a key monitorable.

Ability to further improve its profitability profile; 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 and 9M FY2022. The opportunity for cross-sell, fee-based and other distribution income remains relatively unexplored at present. Given the reduced pressure on the asset quality, the company's credit costs have been lower, thereby supporting its profitability profile. It reported a consolidated profit after tax (PAT) of Rs. 117.7 crore in 9M FY2022 vis-à-vis a PAT of Rs. 107.0 crore in 9M FY2021 (Rs. 145.5 crore in FY2021). The company's ability to grow its book by further improving its profitability will be a key monitorable.

Liquidity position: Strong

MFSL's liquidity is comfortable with no negative cumulative mismatches in the reported asset-liability maturity profile as on December 31, 2021, supported by the relatively shorter tenure of the assets (18-20 months on average). As on December 31, 2021, the company had a liquidity buffer of around Rs. 1,000 crore on a standalone basis, in terms of cash and cash equivalents, and an unutilised cash credit facility of Rs. 700 crore. This is sufficient to cover one year's debt obligations till December 31, 2022. Additionally, the company is carrying unutilised sanctions of Rs. 900 crore in the form of term loans and direct assignment. 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 if the company is able to scale up its operations while keeping the concentration risk in its corporate loan book under control, maintaining prudent asset quality indicators and improving its profitability metrics.

Negative factors – ICRA could downgrade the rating or revise the outlook to Stable if there is a deterioration in the asset quality (90+ days past due (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 Rating Methodology for Non-Banking Finance Companies](#)
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of MFSL

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. As on December 31, 2021, it had a presence in six states and the Delhi National Capital Region (Delhi/NCR) through 114 branches.

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)

MAS Financial Services Limited	FY2020	FY2021	9M FY2022*
Accounting as per	**Ind-AS**	**Ind-AS**	**Ind-AS**
Total income (Rs. crore)	716	621	477
Profit after tax (Rs. crore)	117	146	115
Net worth (Rs. crore)	1,046	1,180	1,277
Loan book (Rs. crore)	6,253	5,657	6,049
Total assets (Rs. crore)	4,807	5,430	5,838
Return on managed assets (%)	2.67%	2.04%	2.24%
Return on net worth (%)	18.35%	13.08%	12.52%
Gross gearing (times)	3.13	3.46	3.53
Gross Stage 3 (%) – Reported	1.38%	1.86%	2.35%
Net Stage 3 (%) – Reported	0.75%	1.46%	1.76%
Solvency (Net stage 3/Net worth)	4.17%	6.86%	7.67%
CRAR (%)	30.96%	43.45%	27.41%

Source: *Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Standalone and unaudited financials as 9M FY2022 financial metrics not available for the subsidiary – MRHMFL*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount (Rs. crore)	Amount outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr-28-2022	**Apr-30-2021**	**-**	**Mar-27-2020**
1	Subordinated Debt	Long Term	60.00	40.00	**[ICRA]A (Positive)**	**[ICRA]A (Stable)**	-	**[ICRA]A (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated Debt	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's 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	Jun 22, 2015	14.00%	Jun 22, 2022	40.00	[ICRA]A (Positive)
INE348L08025	Subordinated Debt	Mar 18, 2015	13.50%	Sep 18, 2021	20.00	[ICRA]A (Positive)

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 subsidiary while assigning the rating*

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About ICRA Limited:

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