MAS Financial Services Limited

Instrument	Amount (In Rs. Crore)	Rating Action (December 2016)
Subordinated debt programme	60.00	[ICRA]A- (positive) Reaffirmed
Long-term fund based term loans	57.19	[ICRA]A- (positive) Reaffirmed
Issuer Rating	-	IrA- (positive) put on 1 year notice of withdrawal
Long-term fund based cash credit facility	743.41	[ICRA]A- (positive) put on 1 month notice of withdrawal
Long-term Unallocated limits	1049.40	[ICRA]A- (positive) Withdrawn
Commercial Paper Programme	50.00	[ICRA]A1 Withdrawn

ICRA reaffirms the [ICRA]A- (positive) {pronounced ICRA A minus with a positive outlook} ratings for the Rs. 60 crore subordinated debt programme and the Rs. 57.19 crore term loans of MAS Financial Services Limited (MFSL)[†]. Also, ICRA has put the issuer rating on a 1 year notice of withdrawal, the Rs. 743.41 crore cash credit facility on a 1 month notice of withdrawal and withdraws with immediate effect the ratings assigned to the Rs. 1049.40 crore unallocated long term bank lines and the Rs. 50 crore commercial paper programme of the company. The withdrawal of ratings is at the request of the company. As per ICRA's policy, the issuer rating will be withdrawn after one year from the date of this withdrawal notice and the ratings for the cash credit facility will be withdrawn after one month from the date of this withdrawal notice.

The ratings continue to factor in MFSL's long track record of operating in retail finance, offering loans to lower and middle income groups (51% of the managed portfolio as on March 31, 2016), its ability to steadily and profitably grow business volumes by developing relationships with its corporate clients (mostly NBFCs-MFIs and other retail NBFCs, accounting for 49% of managed portfolio as on March 31, 2016), its experienced promoters and management team, its good origination, appraisal and monitoring systems which have enabled it to maintain good asset quality (90+ DPD of 1.44% as on March 31, 2016) and healthy earnings (ROE of 25.5% in FY2016).The ratings also factor in the financial flexibility enjoyed by MFSL owing to its relationships with a large number of banks, its competitive rates of funding and favourable asset liability maturity profile with access to un-utilized bank lines. The ratings are however constrained by the relatively risky portfolio mix of MFSL on account of the marginal borrower profile in the unsecured small ticket business loans (28% of the total managed portfolio as on March 31, 2016) and two-wheeler financing (9%), where the eventual loss-given-default could be higher. Nevertheless, ICRA notes that the company has restricted its retail portfolio to operationally familiar geographies of Gujarat and adjoining regions of Rajasthan and Maharashtra and plans to expand in the relatively new segments of SME (machinery financing) and commercial vehicles, which together accounted for 14% of the managed portfolio as on March 31, 2016. ICRA also notes that, for growth in their overall managed books, MFSL continues to rely on the less capital intensive off balance sheet portfolio the share of which remained stable at 35% as on March 31, 2016 and an increase in focus on off balance sheet portfolio could reduce the incremental capital requirement. Overall, the company's ability to increase its volumes in the new product segments and new geographies profitably while maintaining prudent capitalisation and asset quality on a larger asset base would be key rating sensitivities.

The current capitalisation levels of the company remain adequate (net worth/advances of 14.31% as on March 31, 2016) supported by its high volume of non-recourse assignment transactions. The company raised capital in the form of coupon bearing compulsorily convertible debentures and preference shares from private equity investors these investors still have a three year residual investment horizon. ICRA notes that the promoters would need to buy back these shares at a pre-agreed return, in case alternative exit options are not available to the investors. However, ICRA takes comfort from the fact that in the past, investors have been able to exit through strategic stake sales to new investors. Given the targeted managed book growth of 25%-30% in the medium term, the company's ability to maintain adequate capitalisation would be contingent on raising fresh capital, maintaining profitability and selling down portfolio through non-recourse assignment transactions. Overall, the company's ability to profitably grow its loan book in the relatively new segments while managing

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

the risks associated with the borrower profile would remain key rating sensitivities. An improvement in capitalisation along with sustained profitability and good asset quality would be credit positives.

A decline in the company's yield on advances in FY2016 was cushioned by a decline in its cost of funds which led to an improvement in its net interest margins to 8.23% of its average on-book assets (ATA) during FY2016 from 7.87% during FY2015. The company's operating expenses remained stable with a marginal moderation in credit costs as the asset quality of the company improved. Its overall profitability thus improved with the RoA and RoE reported at 3.24% and 25.50% of ATA during FY2016 vis-a-vis 2.06% and 21.91% of ATA during FY2015. However, notwithstanding the strong profitability indicators, the diversity in the company's earnings remains low with fund based businesses being its core source of revenues.

Company Profile

MAS Financial Services Limited (MFSL) (formerly known as Marketing & Allied Services) is a non-deposit accepting NBFC. The company was set up in 1988 by Mr. Kamlesh Gandhi and Mr. Mukesh Gandhi, and was initially engaged in consumer durable financing. The company registered as an NBFC in 1995. The company currently provides corporate loans to NBFC-MFIs and other NBFCs engaged in retail finance (49% of the managed portfolio as on March 31, 2016), small ticket business loans (28% of the overall portfolio), small commercial vehicle loans (4%), two-wheeler loans (9%) and machinery finance (10%).The company has a network of 72 branches, with most of the branches located in Gujarat and adjoining regions of Rajasthan and Maharashtra. The company has representative branches in Chennai (Tamil Nadu), Bhopal and Indore (Madhya Pradesh), Bengaluru (Karnataka) and New Delhi, primarily to tap the commercial vehicle market.

Recent Results

For FY2016, MFSL reported a profit after tax[1] (PAT) of Rs. 53.39 crore on a total income of Rs. 293.84 crore vis-a-vis a PAT of Rs. 39.00 crore on a total income of Rs 225.91 crore in FY2015. MFSL's reported CRAR stood at 18.36% (Tier I: 11.09%) as on March 31, 2016 vis-a-vis 17.13% (Tier I: 11.28%) as on March 31, 2015.

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[1] PAT before preference dividend

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