MAS Financial Services Limited

January 12, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	60.00	Upgraded to [ICRA]A(stable) from [ICRA]A-(positive)
Long-term fund based term loans	57.19	Upgraded to [ICRA]A(stable) from [ICRA]A-(positive)
Issuer Rating	-	[ICRA]A- (positive) withdrawn
Total	117.19	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the rating of the subordinated debt programme and the long term fund based term loans to [ICRA]A (stable) (pronounced ICRA A with a stable outlook) from [ICRA]A- (positive) for MAS Financial Services Limited (MFSL)[1]. ICRA has withdrawn the Issue rating of [ICRA] A- (positive) for MFSL.

Rationale

The rating upgrade factors in the improved capitalisation profile of the company following the strengthening of capitalization position of the company post equity raise in the months of March and April and through the IPO in October 2017 with the net worth improving to ~Rs. 710 crore (as per ICRA estimates) on month end December 2017 which is likely to support the growth plans of the company in the medium term. The rating continues to factor in MFSL's long track record of operating in retail finance, its ability to steadily grow business volumes by developing relationships with its corporate clients, its experienced promoters and management team, its good origination, appraisal and monitoring systems which have enabled it to maintain good asset quality and healthy earnings. The ratings also factor in the financial flexibility enjoyed by MFSL owing to its relationships with a large number of banks and its 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 and two-wheeler financing, 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. Going forward, ability of the company to maintain strict control over its asset quality indicators as it grows its portfolio while maintaining good capitalisation indicators would be important from a credit perspective.

Outlook: Stable

ICRA believes MFSL would continue to benefit from its established presence in the states of Gujarat and Maharashtra, its long track record of operations in the lending business and its experienced senior management team. The outlook may be revised to 'Positive' if the company is able to grow its portfolio at a healthy pace while maintaining strict control over its underwriting norms, asset quality indicators and capitalisation profile. The outlook may be revised to 'Negative' if there is deterioration in the asset quality indicators which would adversely impact its profitability.

---

[1] *For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications*

Key rating drivers

Credit strengths

Equity infusion improves capitalisation – MFSL raised pre-IPO funding of Rs. 135 crore in the months of March and April 2017 subsequent to which they further raised Rs. 460 crore through an IPO in October 2017. Of the Rs. 460 crore, Rs. 233 crore was infused into MFSL with the balance proceeds used for granting exits to its erstwhile investors. The on-book gearing (security deposits included in borrowings) of MFSL moderated to 2.5 times from 3.8 times as on September 30, 2017. As a result of the equity raise and given the healthy internal capital generation of MFSL (23.06% during H1FY2018), ICRA expects the company to be adequately capitalised in the medium term for its growth target of 25-30%.

Diverse product profile and demonstrated ability to grow its business at a healthy pace – Over the years, MFSL has diversified its product offering with small ticket micro and small enterprises lending (MSME) loans, two-wheeler financing, small CV, three wheelers catering to the middle and lower income group, loans to NBFC (non-banking finance company)/NBFC-MFIs (microfinance institutions)/HFC (housing finance company) and affordable housing loans (through its subsidiary, MAS Rural Housing and Mortgage Finance Limited (MRHMFL)). The diverse product offering of the company has enabled them to sustain a healthy CAGR of 31% over FY2014-17. While the company saw some moderation in growth in the housing loan segment and the NBFC/NBFC-MFI/HFC segment subsequent to demonetisation and post implementation of RERA, opportunities in the other segments offer alternate avenues to the company to meet its growth targets.

Strong franchisee in Gujarat and long track record of and experience of the promoters in the lending business – MFSL has been operational for more than 2 decades in the lending business with a strong franchisee base and track record of retail financing in the state of Gujarat. Over the years, the company has expanded into neighbouring states of Maharashtra, Rajasthan and Madhya Pradesh with further plans of venturing into new states. The promoters of MFSL have also developed relations with other retail NBFCs (including NBFC-MFIs) which is one of the key areas of growth for MFSL. The NBFC book constituted 56% of the asset under management as on September 30, 2017 and has grown at a CAGR of 36% during FY2014-17. Going forward, ability of the company to successfully increase its footprint in new states while maintaining strong credit underwriting norms would be a monitorable.

Experienced second line of management – MFSLs management team comprises of senior personnel who have been associated with the company since inception and have grown within the organisation. The ratings factor in the stable management team of the company.

Strong IT systems and good appraisal process; healthy asset quality indicators – Over the course of 2 decades, MFSL has developed its IT systems and processes based on its experience in the market which gets reviewed and revised at regular intervals. The company has a centralised credit team which grants sanctions while the branches work as centers for origination, preliminary credit checks and for collections. Multiple checks are performed at the centralised unit prior to disbursement with mandatory field visits carried out for the retail segment and meeting with promoters conducted for the corporate segment (NBFCs). MFSL has thus been able to maintain strict control on its asset quality indicators with 90+ overdue portfolio on its overall asset under management (AUM) of 1.20% as on September 30, 2017 (1.09% as on March 31, 2017 and 1.08% as on March 31, 2016). Going forward, ability of the company to maintain its asset quality indicators as it grows its portfolio would be a key rating sensitivity.

Diversity in borrowings with association with multiple banks and financial institutions; comfortable liquidity profile – MFSL has association with multiple banks and financial institutions and has demonstrated its ability to raise funds to facilitate its portfolio growth. MFSL also assigns a significant portion of its corporate portfolio to banks which acts as another source of fund for the company and helps them reduce their overall cost of borrowings. MFSL has also raised tier 2 capital through subordinated debt issuance and raises short term funds through issuance of commercial papers. The liquidity profile of the company is also comfortable with no mismatches in its asset liability management profile and presence of sufficient un-utilised bank lines.

Credit challenges

Relatively riskier product mix – MFSL's retail portfolio includes a significant share of two wheeler, used cars and machinery loans where the eventual loss could be high. Also, in its corporate portfolio, MFSL has significant exposure to NBFC-MFIs which have been facing headwinds subsequent to demonetisaton with the concern partly mitigated by the security deposits taken against each sanction and personal guarantee taken from some of the promoters.

Lack of diversity in earnings – MFSLs income profile is concentrated towards interest income with processing fee income and late payment charges being the only other avenue for revenues. While there is limited interest rate risk on MFSL's portfolio (100% of the portfolio carries a variable interest rate), increase in delinquencies or slowdown in portfolio growth could limit the growth in topline of the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

ICRA's Credit Rating Methodology for Brokerage Houses
ICRA's Approach for Rating Commercial Papers

About the company

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 was registered as an NBFC in 1995 and currently provides corporate loans to NBFC-MFIs and other NBFCs engaged in retail finance (56% of the managed portfolio as on September 30, 2017), small ticket business loans (18% of the managed portfolio), small commercial vehicle loans (3%), two-wheeler loans (8%) and machinery finance (16%). For FY2017, MFSL reported a profit after tax[2] (PAT) of Rs. 67.37 crore on a total income of Rs. 341.52 crore as compared with a PAT of Rs. 53.39 crore on a total income of Rs. 293.84 crore in FY2016. MFSL's reported CRAR stood at 22.96% (Tier I of 16.90%) as on March 31, 2017 as compared with a CRAR of 18.36% (Tier I of 11.09%) as on March 31, 2016. During H1 FY2018, MFSL reported a PAT of Rs. 48.13 crore.

[2] PAT before preference dividend

Key financial indicators (audited)

	FY 2016	FY 2017	H1 FY2018
Net interest income	160	190	127
Profit before tax	82	103	74
Profit after tax	54	67	48
Net advances	1,592	1,936	2,173
Total assets	1,814	2,024	2,392
% Tier 1	10.99%	16.90%	21.30%
% CRAR	18.27%	22.96%	23.81%
Gearing	6.52	3.99	3.88
% Net profit/Average total assets	3.24%	3.51%	4.97%
% Return on net worth	25.50%	22.28%	23.06%
% Gross NPAs (90+DPD)	28	34	42
% Net NPAs	24	30	33
Net NPA/Net worth	11%	8%	7%

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	January 2018	FY2017	FY2016		FY2015	
						Dec-16	Sep-15	Jul-15	Feb-15	Jun-14
1	Subordinated debt programme	Long Term	60.00	60.00	Upgraded to [ICRA]A (stable)	[ICRA]A- (positive)	[ICRA]A- reaffirmed; outlook revised to positive	[ICRA]A- (stable) assigned	[ICRA]A- (stable) assigned	-
2	Long-term fund based term loans	Long Term	57.19	57.19	Upgraded to [ICRA]A (stable)	[ICRA]A- (positive)	[ICRA]A- reaffirmed; outlook revised to positive	[ICRA]A- (stable)	[ICRA]A- (stable)	[ICRA]A- (stable) assigned
3	Issuer Rating	Long Term	-	-	[ICRA]A- (positive) withdrawn	Ir A- (positive)	Ir A- reaffirmed; outlook revised to positive	Ir A- (stable)	Ir A- (stable)	Ir A- (stable) assigned

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 www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long term fund based term loans	NA	NA	NA	57.19	[ICRA]A(stable)
INE348L08025	Subordinated debt	18-Mar-15	13.50%	18-Sep-21	20.00	[ICRA]A(stable)
INE348L08033	Subordinated debt	22-Jun-15	14.00%	22-Jun-22	40.00	[ICRA]A(stable)

Source: MAS Financial Services Limited

ANALYST CONTACTS

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

Supreeta Nijjar
+91 124 4545 324
supreetan@icraindia.com

Amaan Elahi
+91 22 6114 3448
amaan.elahi@icraindia.com

Chirag Sureka
+91 22 6114 3424
chirag.sureka@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
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999