

March 27, 2020

MAS Rural Housing and Mortgage Finance Limited: Rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Facilities Programme	150.00	0.00	[ICRA]A (Stable); Reaffirmed and Withdrawn
Total	150.00	0.00	

*Instrument details are provided in Annexure-1

Rationale

The rating has been withdrawn in accordance with ICRA's Policy on Withdrawal and Suspension of Credit Rating and as desired by the company. While the instruments have not been fully redeemed, the no objection certificate for the withdrawal of the rating has been received from the lender. The rating was based on the consolidated view of the credit profiles of MAS Financial Services Limited (MFSL) and MAS Rural Housing and Mortgage Finance Limited (MRHMFL) (together referred to as MAS) owing to their common management and shared infrastructure.

Key rating drivers and their description

Credit strengths

Demonstrated track record, steady growth, stable management team and comfort on governance and experience of promoters – 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 assets under management (AUM) grew at a CAGR of ~30% during FY2017-19, though the growth for FY2021 is expected to be lower at 15-20%. 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.

Reasonably diverse product mix with strong franchise in Gujarat – MAS has a reasonably diverse product portfolio including working capital loans for micro enterprises, machinery funding and other small ticket loans for small and medium enterprises (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 finance 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.

Well-managed asset quality on the back of good appraisal process and strong internal controls – MAS' credit appraisal and internal control processes have evolved over the past two decades as they are reviewed and improved at regular intervals. The company has a centralised credit team, which grants sanctions, while the branches work as centres for origination, preliminary credit checks and collections. Multiple checks are performed at the centralised unit prior to disbursement with mandatory field visits carried out for the retail segment and meetings with promoters conducted for

the corporate segment (NBFCs). With the benefit of the reduction in the corporate tax rate applied towards the maintenance of the asset quality indicators (supported by write-offs), the Gross Stage 3 assets as a percentage of AUM remained rangebound between 1.0% and 1.3% over the last seven quarters. While the company has tightened the credit norms and continues to monitor the asset quality given the challenging environment, its ability to maintain its asset quality indicators over cycles considering the high share of unsecured/difficult-to-repossess asset classes would remain a key rating sensitivity, going forward.

Adequate capitalisation with moderate gearing levels – MAS remained adequately capitalised with a reported CRAR of 30% for MFSL as on December 31, 2019 and a net worth of Rs. 924 crore at the consolidated level as on March 31, 2019 (Rs. 1,036 crore as on December 31, 2019 as per provisional financials). The current capitalisation is adequate to support the company's near-to-medium-term growth plans as the growth rate is likely to moderate over the next two years. Though the gearing level is currently moderate at 3.12 times (on-book gearing on a consolidated basis, as on December 31, 2019), it is expected to increase, going forward, in order to support growth. ICRA expects the overall capitalisation levels to remain adequate in the medium term as its portfolio qualifies for PSL. Moreover, MAS will continue to assign 30-40% of its portfolio as a source of funding.

Diversity in funding relationships; comfortable liquidity profile – Though its dependence on bank funding is high, including direct assignments, MAS has reasonable diversity in its lender base with more than 25 distinct funding relationships as on December 31, 2019. 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

Relatively risky portfolio mix – MAS' retail portfolio includes a significant share of two-wheelers, used cars and machinery loans where the eventual loss given defaults could be high when the assets need to be monetised. Further, through its corporate portfolio, the company has significant exposure to NBFC-MFIs, which remain exposed to marginal borrower profiles and have faced headwinds on account of the liquidity pressure and consumption slowdown. 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 AUM, as on September 30, 2019, comprised unsecured or difficult-to-repossess assets.

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. The opportunity for cross-sell, fee-based and other distribution income remains relatively unexplored at present.

Liquidity position

Not applicable

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies ICRA's Credit Rating Methodology for Housing Finance Companies ICRA's policy on Withdrawal and Suspension of Credit Rating
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 105 branches as on December 31, 2019.

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

Consolidated key financial indicators (audited; as per Ind-AS)

	FY2018	FY2019	9M FY2020*
Net Interest Income (Rs. crore)	198	269	224
PAT (Rs. crore)	105	155	146
Net Worth	779	924	1,036
Total Managed Assets	4,694	6,078	7,176
AUM	4,360	5,564	6,244
Gross Stage 3 (as a % of AUM)	1.13%	1.20%	1.06%
PAT/ AMA	2.60%	2.87%	2.93%
PAT / Average Net Worth	17.98%	18.03%	19.63%

*Provisional 9M FY2020 financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					27-Mar-20	27-Feb-19	12-Jan-18	29-Nov-16
1	Long-term bank facilities	Long Term	150.00	150.00	[ICRA]A (Stable); reaffirmed and withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)

Amount in Rs. crore

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	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current and Outlook	Rating
NA	Term Loan 1	17-Mar-11	NA	31-Jan-19	0.02		
NA	Term Loan 2	27-Mar-14	NA	31-Jul-21	3.57		
NA	Term Loan 3	10-Mar-15	NA	30-Apr-22	5.83		
NA	Term Loan 4	10-Mar-15	NA	31-Mar-22	2.71		
NA	Term Loan 5	21-Mar-16	NA	31-Mar-23	7.08		
NA	Term Loan 6	21-Mar-16	NA	31-Mar-23	3.54		
NA	Term Loan 7	19-Nov-12	NA	30-Nov-19	2.5		
NA	Term Loan 8	31-Aug-13	NA	1-Jun-20	5.05		
NA	Term Loan 9	21-Mar-15	NA	31-Dec-22	14.23		
NA	Term Loan 10	21-Mar-15	NA	31-Dec-22	6.67	[ICRA]A (Stable); Reaffirmed and Withdrawn	
NA	Term Loan 11	1-Dec-14	NA	23-Nov-21	3.5		
NA	Term Loan 12	1-Dec-14	NA	23-Nov-21	1.5		
NA	Term Loan 13	15-Nov-16	NA	01-Jan-27	5.74		
NA	Term Loan 14	26-Mar-13	NA	1-Jan-20	0.11		
NA	Term Loan 15	27-Nov-13	NA	1-Jan-27	3.15		
NA	Term Loan 16	14-Oct-14	NA	12-Feb-21	1		
NA	Term Loan 17	20-Dec-16	NA	31-Dec-23	8.33		
NA	Term Loan 18	20-Dec-16	NA	31-Mar-21	7.5		
NA	Unallocated Limits	NA	NA	NA	67.96		

Source: MRHMFL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
MAS Financial Services Limited	100.00%	Full Consolidation
MAS Rural Housing and Mortgage Finance Limited	100.00%	Full Consolidation

*MRHMFL is fully owned by MFSL and its promoters

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