



MAS Rural Housing and Mortgage Finance Limited

Instrument	Amount (in Rs crore)	Rating Action
		August 2015
Long Term Bank Facilities	150	[ICRA]A- Re-affirmed; outlook revised from stable to positive

The rating of [ICRA]A- (pronounced ICRA A Minus) has been re-affirmed for Rs. 150 crore long term bank lines of MAS Rural Housing and Mortgage Finance Limited (MRHMFL)[†]. The outlook on the ratings has been revised from Stable to Positive.

The revision in outlook for MRHMFL follows change in outlook of rating of its parent MAS Financial Services (MAS) (rated [ICRA]A-(positive)), which holds ~60% stake in MRHMFL. While arriving at MRHMFL's rating, ICRA has taken a consolidated view on credit profile of its parent MAS and MRHMFL (collectively referred to as MAS group) owing to common systems, management and infrastructure shared between the two companies and the strategic importance of MRHMFL to MAS given that MRHMFL's home loan business is an important extension to the existing bouquet of financial products offered by MFSL. Although the present scale of operations of MRHMFL is modest (portfolio size of Rs. 94 crore as on March 31, 2015), management intends to scale up the portfolio at a robust pace going forward (CAGR of 100% over FY16-18) and share of home loans in the combined portfolio of MAS group is likely to go up from below 5% as on March 31, 2015 to around 15%-20% over the next 3-4 years. The rating also factors in the group's track record of operating in retail finance segments, offering loans to lower and middle income group, its experienced promoters and management team, its good origination, appraisal and monitoring systems which have enabled it to maintain healthy earnings and keeping asset quality under control. The rating also factors in the financial flexibility MAS group enjoys owing to its relationship with a large number of banks with funding at competitive rates and its favourable asset liability maturity profile with access to un-utilized bank lines. Overall, the ability of the group to profitably grow the portfolio in these relatively newer segments while managing the risks associated with the borrower profile and maintain adequate capitalisation levels would remain key rating sensitivities and any change in the rating of the parent could lead to a rating change for MRHMFL.

MRHMFL is focussed on relatively lower income borrower profile who are more susceptible to income shocks. While the credit assessment of these borrowers requires special skill sets and entail higher risk, the credit profile of the borrowers could be volatile due to lack of stability in income as well as due to their low disposable incomes and limited cushion available to meet the unforeseen expenses. To mitigate these risks, the company has developed adequate credit appraisal norms (like multiple levels of credit checks to ascertain the income and expense levels to arrive at the disposable income, restrictions on Loan-to-Value (LTV) ratios and Fixed obligation to income ratio) and good portfolio tracking systems.

MRHMFL's funding profile is reasonable for the present scale of operations and the company has access to NHB refinance. However the company would be require to tie-up longer tenure resources to fund incremental disbursements and manage its asset-liability profile given the relatively longer tenure of home loans. The company earns a yield of around 13%-14% on its portfolio. With the cost of funds being ~10%-11% the company reported interest spreads of around 4% and net interest margins of 6%-7%. Sharing of management, branch and systems infrastructure with parent has enabled the company to report relatively lower operating expenses vis-a-vis peer HFCs (3.05% for FY2015) operating in similar segments and stage of operations which coupled with low credit costs have enabled the company to reported reasonable profitability indicators (PAT/ATA of 2.5% and ROE of 9.5% for FY2015). Going forward, ICRA expects the profitability indicators of the company to improve (ROE of

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



10-12%) supported by some further moderation in operating costs and as it leverages its capital provided the company is able to keep its credit costs under control.

Company profile

MAS Rural Housing and Mortgage Finance Limited (MRHMFL) is a subsidiary of MAS Financial Services Limited (MAS). It was set up as a Housing Finance Company (HFC) in 2007 to provide housing loans to the affordable segment belonging to low and middle income group. The company offers only home loans to salaried and self-employed segments with average ticket size of Rs. 8 lakhs. Apart from home loans the company also gives loans for purchase of shops as well as project funding for affordable housing projects. The company operates through 34 out of 64 branches of MFSL, and is presently serving rural and semi-urban areas of Gujarat (88% of portfolio as on March 31, 2015), Maharashtra (11% of portfolio as on March 31, 2015), Rajasthan, and Madhya Pradesh. MRHMFL had a portfolio of Rs 94 crore outstanding as on March 31, 2015, with 78% of the portfolio towards home loans, 17% portfolio towards builder loans and balance towards loans for purchase of commercial property. In FY2015, the company reported a PAT of Rs. 1.99 crore on asset base of Rs. 94.88 crore as compared to PAT of Rs. 1.39 crore in FY2014 on asset base of Rs. 66.13. The company reported Nil Gross NPAs as on March 31, 2015.

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