MAS Financial Services Limited

February 27, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities	49.69	0.00	[ICRA]A (Stable); withdrawn
Long-term bank facilities	7.50	7.50	[ICRA]A (Stable); reaffirmed
Subordinated debt programme	60.00	60.00	[ICRA]A (Stable); reaffirmed
Total	**117.19**	**67.50**	

**Instrument details are provided in Annexure-1*

Rationale

The rating is based on a consolidated view of the credit profiles of MAS Financial Services Limited (MFSL) and MAS Rural Housing and Mortgage Finance Limited (MRHMFL) (referred together as MAS) owing to their common management and shared infrastructure. The rating factors in MAS' established track record and steady growth in business volumes, while maintaining asset quality, given its good origination, appraisal and monitoring systems and the experience of its promoters and senior management. The rating also factors in the comfortable capitalisation profile with the net worth, in relation to managed advances, of 26.37% as on December 31, 2018. This is likely to support the company's growth plans in the medium term. MAS has demonstrated financial flexibility owing to its relationships with several banks and its favourable asset liability maturity profile with access to unutilised bank lines. The rating is, however, constrained by the relatively risky portfolio mix with the marginal borrower profile in the unsecured small ticket business loans and two-wheeler financing segments, where the eventual loss given default could be higher. A high percentage of its wholesale portfolio also consists of loans to non-banking financial companies (NBFCs), where the borrower profile is marginal and vulnerable to income shocks. Going forward, the company's ability to maintain strict control over its asset quality indicators as it grows its portfolio would remain a rating sensitivity.

Outlook: Stable

ICRA believes MAS will continue to benefit from 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 a deterioration in the asset quality indicators, which would adversely impact its profitability.

Key rating drivers

Credit strengths

Experience of promoters and stable management team; demonstrated track record with steady growth in business volumes – MAS has a stable senior management team with personnel who have been associated with the company since its inception. MFSL has an established track record of more than two decades in the lending business. With lower and middl-income groups as its focus areas, the company has been growing its business steadily (assets under management (AUM) grew at a CAGR of 29% during FY2016-18).

Diverse product mix with strong franchise in Gujarat – MAS has a diversified product portfolio including working capital loans for micro enterprises, machinery funding and other small ticket loans for small & medium enterprises (SMEs), financing for two-wheelers, commercial vehicles, tractors and used cars in addition to a housing finance portfolio. 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.

Comfortable asset quality with 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). As on September 30, 2018, MAS had comfortable asset quality indicators with a 90+ overdue portfolio of 0.80% (0.71% as on March 31, 2018) on its overall AUM. Going forward, the company's ability to maintain its asset quality indicators as it grows its portfolio would be a key rating sensitivity.

Adequate capitalisation with low gearing levels – As on December 31, 2018, MAS' capitalisation profile was comfortable with net worth of Rs. 836.79 crore (Rs. 719.87 crore as on March 31, 2018), which is adequate to support its medium-term growth plans. Given that the company plans to grow its AUM at a CAGR of 20-25% in the medium term and assign almost 40% of its AUM, ICRA expects the capitalisation levels to be comfortable in the medium term.

Diversity in funding relationships; comfortable liquidity profile – MAS is highly dependent on wholesale funding with bank borrowings forming a significant share of its borrowing profile. 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 management profile and given the presence of sufficient unutilised bank lines.

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 in the sector. These concerns are, however, partly mitigated by the security deposits taken against each sanction and personal guarantees from some of the promoters.

Lack of diversity in earnings – MFSL's income profile is concentrated towards interest income with processing fee income and late payment charges being the only other avenues for revenues.

Liquidity position

As on December 31, 2018, MFSL's liquidity profile was comfortable with no negative cumulative mismatches up to five years. It held Rs. 489.60 crore in cash and liquid balances and Rs. 441.20 crore of sanctioned but unutilised lines in addition to Rs. 1,200-crore direct assignment sanctions. MRHMFL held Rs. 55-crore unutilised sanctions and Rs. 28.80 crore as cash and liquid balances as on December 31, 2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
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.

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.

Key financial indicators (consolidated)

Amount in Rs. crore	FY2017	FY2018	9M FY2019[1]
Equity Capital	90.4	54.7	54.7
Net Worth (Reported)	392.2	731.2	850.0
Net Loan Assets	2,104.1	2,706.3	3,175.2
Total Assets	2,196.4	2,860.7	3,786.9
Profit after Tax (PAT)	65.7	105.3	112.8
Yield on Average Earning Assets (%)	17.0%	16.9%	17.8%
Cost of Average Interest-bearing Funds (%)	10.7%	9.3%	9.3%
Net Interest Margin (%)	8.4%	10.0%	10.8%
Operating Expenses/Average Managed Assets	2.2%	2.0%	1.7%
Provisions & Write-offs/Average Managed Assets (%)	0.9%	1.2%	1.1%
PAT/Average Total Assets (%)	3.3%	4.2%	4.5%
Return on Average Net Worth (%)	21.3%	18.9%	19.1%
Total Debt/Net Worth	4.24	2.67	3.22
Gross NPA/Gross Advances	1.4%	1.6%	1.8%
Net NPA/Net Advances	1.2%	1.2%	1.2%

[1]*As per provisional financials (prepared as per Ind-AS); FY2017 and FY2018 numbers are as per audited financials (prepared as per I-GAAP)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

			Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2019	Date & Rating in FY2018 January 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 September 2015	July 2015
1	Subordinated Debt Programme	Long Term	60.00	60.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
2	Long-term Fund-based Facilities	Long Term	7.50	7.50	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
3	Issuer Rating	Long Term	-	-	-	-	Ir A- (Positive)	Ir A- (Positive)	Ir A- (Stable)
4	Commercial Paper	Short Term	-	-	-	-	-	[ICRA]A1	-

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
INE348L08033	Subordinated Debt	22-Jun-15	14.00%	22-Jun-22	40.00	[ICRA]A (Stable)
INE348L08025	Subordinated Debt	18-Mar-15	13.50%	18-Sep-21	20.00	[ICRA]A (Stable)
NA	Term Loan 1	16-Mar-15	NA	30-Jun-20	7.50	[ICRA]A (Stable)
NA	Unallocated Lines	NA	NA	NA	49.69*	[ICRA]A (Stable)

**ratings withdrawn*

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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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.

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