CARE Ratings
Professional Risk Opinion

No. CARE/HO/RL/2021-22/2360

Shri Ankit Jain
Chief Financial Officer
Mas Financial Services Limited
6, Ground Floor, Narayan Chambers,
Behind Patang Hotel, Nehru Bridge Corner,
Ashram Road, Ahmedabad,
Gujarat 380009.

September 24, 2021

Confidential

Dear Sir,

Credit rating for proposed Subordinate Bonds

Please refer to your request for rating of proposed long-term Subordinate Bond issue aggregating to Rs.100 crore of your Company. The proposed subordinate bond would have tenure of 67 months with bullet repayment at the end of maturity.

2. The following ratings have been assigned by our Rating Committee:

Sr. No.	Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
1.	Subordinated Debt (proposed)	100.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
	Total Instruments	100.00 (Rs. One Hundred Crore Only)		

3. Please arrange to get the rating revalidated, in case the proposed issue is not made within a period of six months from the date of our initial communication of rating to you (that is September 24, 2021.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

4. In case there is any change in the size or terms of the proposed issue, please get the rating revalidated.

5. Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

Instrument type	ISIN	Issue Size (Rs cr)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Debenture Trustee	Details of top 10 investors

6. Kindly arrange to submit to us a copy of each of the documents pertaining to the NCD issue, including the offer document and the trust deed.

7. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by <date>, we will proceed on the basis that you have no any comments to offer.

8. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

9. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER

NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

10. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

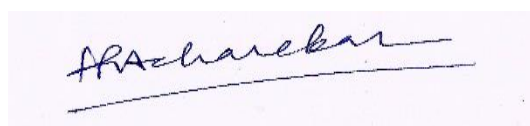
11. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

12. CARE ratings are **not** recommendations to buy, sell or hold any securities.

13. If you need any clarification, you are welcome to approach us in this regard. We are indeed, grateful to you for entrusting this assignment to CARE.

Thanking you,

Yours faithfully,



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Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

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Press Release

MAS Financial Services Limited

Rating

Instrument	Amount (Rs. Crore)	Rating[1]	Rating Action
Subordinate Bonds (proposed)	100.00	**CARE A+; Stable (Single A Plus; Stable)**	**Assigned**
Total	**100.00 [Rs. hundred crore only]**		

Details of instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the subordinate bond of MAS Financial Services Limited (MFSL) derives strength from long-standing track record and experience of the promoters of MFSL in the lending business, established appraisal systems which have helped the company maintain asset quality, experienced senior management team, comfortable capitalization levels, diversified loan portfolio, diversified resource profile with multiple banks and financial institutions and comfortable liquidity as the company has been maintaining cash balance to meet any exigencies.

The rating factors in the impact on profitability on account of Covid-19 as the company saw significant decline in disbursements as well as assignment of loans portfolio during FY21 (refers to period from April 01 to March 31) resulting in decline in the Assets Under Management (AUM). As result of lower disbursements, the company saw impact on the income and profit levels for the year as compared to the previous year. Further, with the company has been maintaining higher liquidity which along with the profitability has been impacted.

With the second Covid wave, the company has seen rise in Gross Stage 3 assets have seen impact financial risk profile of the company was impacted

moderate geographical diversification, comfortable asset quality on the back of adequate appraisal systems, strong and diversified resource base with multiple banks and financial institutions, comfortable capital adequacy, strong financial risk profile marked by high net interest margin (NIM) and return on total assets (ROTA) and comfortable liquidity profile with increase in the cash balance as liquidity back-up for the next one year of debt servicing.

The ratings continue to remain constrained on account of its concentrated borrower profile and exposure to micro enterprises and small and medium enterprises (SME) sectors which are high-yield generating and low-price sensitive segments and at the same time are relatively riskier in nature and moderate geographical diversification.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Moreover, CARE continues to assess the impact of the on-going COVID-19 pandemic on the company and the sector's performance at large.

Rating Sensitivities
Positive Factors - Factors that could lead to positive rating action / upgrade
- *Improvement in asset quality with decline in gross non-performing assets (NPA) levels below 1% on a sustainable basis*
- *Significant increase in the scale of operations with corresponding increase profitability in terms of NIM and ROTA*

Negative Factors - Factors that could lead to negative rating action / downgrade
- *Deterioration in asset quality with increase in net NPA / tangible net-worth levels above 10% on a sustainable basis*
- *Decline in capital adequacy ratio (CAR) below 20% on a sustainable basis*
- *Significant decline in profitability in terms of NIM and ROTA*

Detailed description of the key rating drivers
Key Rating Strengths
Long-standing track record, experience of the promoters in the lending business and experienced senior management team with established credit appraisal systems
The promoters of MFSL have established track record of over two decades in the lending business. MFSL initially started its lending activities in the state of Gujarat and has gradually ventured and established its footprint in six other states and has expanded its operations across 99 branches at a standalone level and 69 branches of its housing finance company (HFC) subsidiary and is present in around 3,500 locations, including through its wholesale portfolio, and is catering to the funding requirement of around seven lakh live customers. Furthermore, the senior management team of MFSL consists of experienced professionals who have been in the lending business and have been associated with MFSL since its inception. These personnel continue to head the main functions at MFSL.
The company has established its credit appraisal processes and systems over the years which have helped the company maintain asset quality through the impact of demonetization, implementation of Real Estate (Regulation and Development) Act, 2016 (RERA) and Goods and Service Tax (GST), liquidity crunch faced by the NBFCs during FY19 and the COVID-19 pandemic. As per the management of the company, the credit appraisal processes of MFSL are reviewed and revised at regular interval based on its experience in the market. The credit appraisal process at MFSL is centralised. Sanctions are accorded by the centralised credit team, whereas sourcing and collection functions are carried out at branch level. Multiple checks are carried out at centralised unit prior to disbursement.

Diversified loan portfolio
The loan portfolio of MFSL (consolidated) consists of micro enterprises loans, SME loans, two-wheeler loans, commercial vehicle (CV) loans and housing finance loans. MFSL was initially engaged in lending of two-wheeler and micro enterprises loans and later on forayed into commercial vehicle loan, SME loan and

housing loan segments. Even in the aforesaid loan categories, significant amount of the loan portfolio is built up through NBFCs and Non-Banking Finance Companies – Micro Finance Institutions (NBFC-MFIs). As on March 31, 2021, around 56% of the AUM was through NBFC-MFI route while 44% was through direct lending. Moreover, about 24% of the consolidated total loan portfolio of MFSL as on March 31, 2021 has been directly assigned to banks and financial institutions. Due to product diversification, MFSL has been able to grow its consolidated total loan portfolio at a compound annual growth rate (CAGR) of around 23% during three years ended FY20 (refers to the period April 1 to March 31), before registering a y-o-y dip of 9.52% during FY21 due to impact of COVID-19 related disruptions. As on June 30, 2021, the AUM stood at Rs.5,266 crore (March 31, 2020: Rs.6,253 crore) out of which micro enterprise loans constituted 52%, SME Loans constituted 34%, two-wheeler loans and CV loans constituted 7% and housing finance loans constituted around 6% of AUM.

Comfortable asset quality parameters with some impact due to Covid-19

Over the years, the company has maintained comfortable asset quality parameters. In line with the RBI regulations, the NPA recognition policy was changed by the company in FY18. Till FY17, the NPA recognition policy was 120+DPD (days past due). However, from FY18 onwards, the same has been revised to 90+DPD. The slippages are mainly driven by direct exposure while the asset quality remains comfortable due to very less delinquencies in the loans to NBFCs and NBFC-MFIs, majority of which have comfortable financial risk profile. Also, these loans are backed by security deposits in the form of cash collateral and corporate / personal guarantees taken by MFSL from the NBFCs and NBFC-MFIs.

With the Covid-19 impacting the target segment which is vulnerable to level of economic activity, the company saw impact on its collections during the year. During the first wave, the collection efficiency of the company was around 75% during H1FY21 which improved to around 95% during H2FY21. The Gross Stage 3 assets and Net Stage 3 assets (consolidated basis) (on AUM Basis) from 1.37% and 1.06% respectively as on March 31, 2020 to 1.86% and 1.46% respectively as on March 31, 2021. The company's restructured around Rs.4 crore of loans constituting 0.11% of loan portfolio as on March 31, 2021.

During Q1FY22 (refers to period from April 01 to March 31), the company saw impact on its collection efficiency which declined to around 89% in the month of May, 2021 due to emergence of the second Covid wave. The Gross Stage 3 assets stood at 2.12% and Net Stage 3 assets stood at 1.64% as on June 30, 2021 on AUM basis.

Comfortable capital adequacy ratio and strong and diversified resource base with multiple banks and financial institutions

The company has been maintaining comfortable capital adequacy over the years. In October 2017, MFSL came out with an Initial Public Offer (IPO) and raised equity capital of Rs.233 crore. MFSL had also raised Rs.100 crore in March 2017 and Rs.35 crore in April 2017 in the pre-IPO round of funding which along with accretion of profit has helped the company reach a tangible net worth base of Rs.1,178 crore (consolidated) as on March 31, 2021. Post the IPO, the promoter holding in MFSL has been retained at 73.60% as on March 31, 2021.

The company reported Capital Adequacy Ratio (CAR) of 26.85% as on March 31, 2021 as compared with 31.97% as on March 31, 2020 with Tier I CAR of 24.81% (P.Y.: 29.88%). Out of total CAR, Tier-I CAR stood at 24.81% and 29.88% as on March 31, 2021 and March 31, 2020, respectively. The company has been assigning loan portfolio over the last few years (off-book constituting around 30% to 40% of AUM) which has helped the company raise resources and maintain comfortable capital adequacy. Overall gearing stood at 2.98 times as on March 31, 2021 as compared to 2.82 times as on March 31, 2020. The company expects to maintain gearing levels below 4.5 times on a steady state basis. As on June 30, 2021, the company reported CAR of 26.95% with Tier I CAR of 24.81% with overall gearing of 2.96 times.

Also, MFSL has healthy relations with 31 banks, NBFCs and other financial institutions for meeting its borrowing requirements based on which MFSL is able to raise resources in a timely manner and at competitive rate of interest, thereby providing significant financial flexibility to MFSL. Most of the banks and financial institutions are also the ones to whom MFSL sells its loan portfolio under the direct assignment route. Existing capitalization level and strong resource base is envisaged to provide impetus to MFSL for growth in its loan portfolio over the medium term.

Strong financial risk profile marked by high Net Interest Margin (NIM) and Return on Total Assets (ROTA)
With growth in its loan portfolio, the profitability ratios of MFSL have marginally moderated on a consolidated basis. During FY21, the company saw decline in disbursements as the company did not disburse for a larger part of the year on account of Covid-19. The company saw major part of disbursements largely during the last quarter of FY21. As a result, the total income declined from Rs.710.01 crore (consolidated) for FY20 to Rs.627.71 crore for FY21. The Net Interest Margin (NIM) for FY21 stood at 4.85% as compared to 7.18% for FY20. After adjusting the off-book portfolio, the NIM declined from 4.64% for FY21 to 3.48% for FY20. The profitability of MFSL declined in FY21 mainly due to decline in its total loan portfolio and consequent decline in its total operating income, increase in its provisions in FY21 pursuant to COVID-19 pandemic and negative carry on sizeable and increased cash holding during the period. However, this was partly off-set by decline in its operating expenses in FY21 as a percentage of average total assets. The Return on Total Assets (ROTA) for FY21 stood at 2.88% as compared to 4.17% for FY20. Adjusted for off-balance sheet portfolio ROTA for FY21 stood at 2.06% as compared to 2.69% for FY20.
During FY21, the company has changed its accounting policy related to amortising the gain on assignment of financial assets over the residual tenure instead of booking upfront gain. As per the requirement of Ind AS 1, the new accounting policy has been implemented retrospectively from April 01, 2019 which was the earliest period presented. The company reported Profit After Tax (PAT) of Rs.145.52 crore on total income of Rs.627.71 Crore (consolidated) for FY21 as compared to PAT of Rs.168.09 crore (restated) on total income of Rs.710.01 crore (restated) for FY20

Key Rating Weaknesses
Concentrated borrower profile
A significant portion of MFSL's exposure is to its top-10 borrowers. As on March 31, 2021, the top-10 exposures of MFSL accounted for more than 65% of its consolidated tangible net-worth as on even date indicating relatively high borrower concentration risk. This is because of significant exposure of MFSL to other NBFCs and NBFC-MFIs. Though the present credit profile of the top exposures is moderate but any deterioration in the credit quality of these exposures may lead to sharp increase in NPA levels of MFSL. Accordingly, credit quality of its large exposures would remain a key credit monitorable.

Exposure to relatively riskier micro enterprises and SME sectors
The portfolio of MFSL comprises retail products like micro enterprises loans, SME loans, two-wheeler loans and commercial vehicle loans, which are high yield generating and low-price sensitive segments and at the

same time are relatively riskier in nature. Also, about 56% of the consolidated exposure of MFSL in these segments is through NBFCs and NBFC-MFIs. However, the same is partly mitigated by 5%-15% cash collateral and corporate / personal guarantees taken by MFSL from the NBFCs and NBFC-MFIs.

Moderate geographical diversification

The lending activities of MFSL are directly carried out in seven states. MFSL initially started its lending activities in the state of Gujarat and has gradually ventured and established its footprint in six other states of Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, Tamil Nadu and Delhi. However, as significant amount of MFSL's lending activities are carried out through NBFCs and NBFC-MFIs, it has resulted in highly diversified exposure of MFSL. Gujarat accounts for around 34% of the consolidated total loan portfolio of MFSL as on March 31, 2021, driven by operational familiarity of the promoters with the Gujarat market, whereas other states and union territories account for balance 66%.

Liquidity: Strong

The liquidity profile of MFSL has remained comfortable on the back of strong and diversified resource base and good amount of unutilized bank limits. It has comfortable asset liability maturity (ALM) with no cumulative mismatches on a standalone basis as on March 31, 2021 supported by lower maturity of assets at 18-20 months as compared to 36-50 months tenor of its term loan and NCD. MFSL, on a standalone basis, has sanctioned fund based working capital limits of Rs.1,795 crore (now reduced to Rs.1,695 crore), out of which average utilization during trailing 14 months ended May 2021 remained comfortable at around 76%. Moreover, as on June 30, 2021, MFSL had undrawn term loan and undrawn direct assignment limit of around Rs.1,300 crore on a standalone basis. Furthermore, it had free cash and bank balance of around Rs.1,000 crore as on March 31, 2021, on a standalone basis which can take care of upcoming 8-9 months' standalone debt servicing obligations (principal + interest) of MFSL. Earlier, amidst the challenging fund-raising environment, especially for NBFCs and HFCs, it had framed a policy of keeping cash in hand equivalent to next three months of debt servicing obligations. However, owing to the crisis due to lockdown pursuant to COVID-19 pandemic, it has increased its liquidity cushion. Furthermore, due to the unutilized fund-based working capital limits and direct assignment limits, the asset liability maturity profile of MFSL is expected to remain comfortable. CARE also takes cognizance of the fact that MFSL has not availed the moratorium from the lenders as a COVID-19 relief measure [as permitted by the Reserve Bank of India (RBI)].

Analytical approach: Consolidated; MFSL and 59.67% stake of its HFC subsidiary, viz., MAS Rural Housing and Mortgage Finance Limited (MRHMFL).

Applicable Criteria

Criteria on Assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Consolidation
Rating Methodology - Market Linked Notes
Rating Methodology - Non-Banking Finance Companies (NBFCs)
Rating Methodology - Housing Finance Companies (HFCs)

About the Company

MFSL was incorporated in the year 1995 by Mr. Kamlesh Gandhi and Mr. Mukesh Gandhi. The company was registered as an NBFC in 1998 with RBI. It was initially engaged in the lending of two-wheeler and micro enterprises loans and later on forayed in commercial vehicle loan and SME loan segments. In the year 2008, MFSL floated a subsidiary, MRHMFL; rated 'CARE A; Stable', a non-deposit taking, National Housing Bank (NHB) registered HFC, which provides housing loans to the low-income group segment in rural and semi-urban areas.

The lending activities of MFSL are carried out by it directly through its own network of 99 branches on a standalone level and 69 branches of its HFC subsidiary in seven states (viz., Gujarat, Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, Tamil Nadu and Delhi) and also through other smaller NBFCs and MFIs. As on March 31, 2021, MFSL had relationship with 127 NBFC and NBFC-MFIs and around 56% of the total assets under management (AUM) of MFSL was built through these NBFCs and NBFC-MFIs.

As on March 31, 2021, MFSL, on a consolidated basis, reported total AUM of around Rs.5,657 crore as against total AUM of around Rs.6,253 crore at the previous year end and catered to more than seven lakh live customers across around 3,500 locations. In October 2017, MFSL came out with an IPO and raised fresh equity capital of Rs.233 crore. MFSL had also raised Rs.135 crore in a pre-IPO round of funding through issue of shares to the Motilal Oswal Group. The shares of MFSL are listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Brief Financials (MFSL - Consolidated) (Rs. Crore)	FY20 (A)*	FY21 (A)
Total Operating Income	710.01	627.71
PAT	168.09	145.52
Interest Coverage (times)	1.77	1.69
Total Assets^	4,806.50	5,411.23
Net NPA (%)	1.06	1.46
ROTA (%)	3.82	2.88

*A: Audited as per IND-AS and *: Restated*

Note: The calculations are as per CARE Ratings' calculation

^: Net of Intangible Assets, Revaluation Reserve & Deferred Tax Assets (DTA)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of Rated Instrument: Detailed explanation of covenants of the rated instrument is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Subordinate Bonds	-	-	-	Proposed	100.00	CARE A+; Stable

CARE Ratings
Professional Risk Opinion

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instruments / Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	3,000.00	CARE A+; Stable	1)CARE A+; Stable (14-Sep-21)	1)CARE A+; Stable (15-Sep-20)	1)CARE A+; Stable (06-Aug-19)	1)CARE A+; Stable (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
2.	Fund-based - LT-Cash Credit	LT	2,000.00	CARE A+; Stable	1)CARE A+; Stable (14-Sep-21)	1)CARE A+; Stable (15-Sep-20)	1)CARE A+; Stable (06-Aug-19)	1)CARE A+; Stable (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
3.	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	-	-	1)Withdrawn (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
4.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	-	1)Withdrawn (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
5.	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)Withdrawn (15-Sep-20)	1)CARE A1+ (06-Aug-19)	1)CARE A1+ (13-Aug-18) 2)CARE A1+ (12-Jul-18)
6.	Commercial Paper	ST	250.00	CARE A1+	1)CARE A+; Stable (14-Sep-21)	1)CARE A1+ (15-Sep-20)	1)CARE A1+ (06-Aug-19)	1)CARE A1+ (13-Aug-18)
7.	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	1)CARE A+; Stable (14-Sep-21)	1)CARE A+; Stable (15-Sep-20) 2)CARE A+; Stable (25-May-20)	-	-
8.	Debentures-Market Linked Debentures	LT	75.00	CARE PP-MLD A+; Stable	1)CARE PP-MLD A+; Stable (14-Sep-21)	1)CARE PP-MLD A+; Stable (31-Mar-21)	-	-

Sr. No.	Name of the Instruments / Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
9.	Debentures-Market Linked Debentures	LT	200.00	CARE PP-MLD A+; Stable	1)CARE PP-MLD A+ (June 17, 2021) 2) CARE PP-MLD A+; Stable (14-Sep-21)	-	-	-
10.	Subordinate	LT	100.00	CARE A+; Stable	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund Based – LT – Term Loan	Simple
2.	Fund Based – LT – Cash Credit	Simple
3.	Debentures – Non-Convertible Debentures	Simple
4.	Debentures-Market Linked Debentures	Highly Complex
5.	Commercial Paper	Simple
6.	Subordinate	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact Us

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

MAS Financial Services Limited

September 27, 2021

Rating

Instrument/facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Subordinate Bonds	100.00	**CARE A+; Stable (Single A Plus; Stable)**	**Assigned**
Total	**100.00 [Rs. One Hundred crore only]**		

Details of instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the subordinate bond of MAS Financial Services Limited (MFSL) derives strength from long-standing track record and experience of the promoters of MFSL in the lending business, established appraisal systems which have helped the company maintain asset quality, experienced senior management team, comfortable capitalization levels, diversified loan portfolio, diversified resource profile with multiple banks and financial institutions and comfortable liquidity as the company has been maintaining cash balance to meet any exigencies.

The rating factors in the impact on profitability on account of Covid-19 as the company saw significant decline in disbursements as well as assignment of loans portfolio during FY21 (refers to period from April 01 to March 31) resulting in decline in the Assets Under Management (AUM). As result of lower disbursements, the company saw impact on the income and profit levels for the year as compared to the previous year. Further, with the company has been maintaining higher liquidity which along with the profitability has been impacted.

With the second Covid wave, the company has seen rise in Gross Stage 3 assets have seen impact financial risk profile of the company was impacted moderate geographical diversification, comfortable asset quality on the back of adequate appraisal systems, strong and diversified resource base with multiple banks and financial institutions, comfortable capital adequacy, strong financial risk profile marked by high net interest margin (NIM) and return on total assets (ROTA) and comfortable liquidity profile with increase in the cash balance as liquidity back-up for the next one year of debt servicing.

The ratings continue to remain constrained on account of its concentrated borrower profile and exposure to micro enterprises and small and medium enterprises (SME) sectors which are high-yield generating and low-price sensitive segments and at the same time are relatively riskier in nature and moderate geographical diversification.
Moreover, CARE continues to assess the impact of the on-going COVID-19 pandemic on the company and the sector's performance at large.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action / upgrade

- *Improvement in asset quality with decline in gross non-performing assets (NPA) levels below 1% on a sustainable basis*
- *Significant increase in the scale of operations with corresponding increase profitability in terms of NIM and ROTA*

Negative Factors - Factors that could lead to negative rating action / downgrade

- *Deterioration in asset quality with increase in net NPA / tangible net-worth levels above 10% on a sustainable basis*
- *Decline in capital adequacy ratio (CAR) below 20% on a sustainable basis*
- *Significant decline in profitability in terms of NIM and ROTA*

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing track record, experience of the promoters in the lending business and experienced senior management team with established credit appraisal systems

The promoters of MFSL have established track record of over two decades in the lending business. MFSL initially started its lending activities in the state of Gujarat and has gradually ventured and established its footprint in six other states and has expanded its operations across 99 branches at a standalone level and 69 branches of its housing finance company (HFC) subsidiary and is present in around 3,500 locations, including through its wholesale portfolio, and is catering to the funding requirement of around seven lakh live customers. Furthermore, the senior management team of MFSL consists of experienced professionals who have been in the lending business and have been associated with MFSL since its inception. These personnel continue to head the main functions at MFSL.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

The company has established its credit appraisal processes and systems over the years which have helped the company maintain asset quality through the impact of demonetization, implementation of Real Estate (Regulation and Development) Act, 2016 (RERA) and Goods and Service Tax (GST), liquidity crunch faced by the NBFCs during FY19 and the COVID-19 pandemic. As per the management of the company, the credit appraisal processes of MFSL are reviewed and revised at regular interval based on its experience in the market. The credit appraisal process at MFSL is centralised. Sanctions are accorded by the centralised credit team, whereas sourcing and collection functions are carried out at branch level. Multiple checks are carried out at centralised unit prior to disbursement.

Diversified loan portfolio

The loan portfolio of MFSL (consolidated) consists of micro enterprises loans, SME loans, two-wheeler loans, commercial vehicle (CV) loans and housing finance loans. MFSL was initially engaged in lending of two-wheeler and micro enterprises loans and later on forayed into commercial vehicle loan, SME loan and housing loan segments. Even in the aforesaid loan categories, significant amount of the loan portfolio is built up through NBFCs and Non-Banking Finance Companies – Micro Finance Institutions (NBFC-MFIs). As on March 31, 2021, around 56% of the AUM was through NBFC-MFI route while 44% was through direct lending. Moreover, about 24% of the consolidated total loan portfolio of MFSL as on March 31, 2021 has been directly assigned to banks and financial institutions. Due to product diversification, MFSL has been able to grow its consolidated total loan portfolio at a compound annual growth rate (CAGR) of around 23% during three years ended FY20 (refers to the period April 1 to March 31), before registering a y-o-y dip of 9.52% during FY21 due to impact of COVID-19 related disruptions. As on June 30, 2021, the AUM stood at Rs.5,266 crore (March 31, 2020: Rs.6,253 crore) out of which micro enterprise loans constituted 52%, SME Loans constituted 34%, two-wheeler loans and CV loans constituted 7% and housing finance loans constituted around 6% of AUM.

Comfortable asset quality parameters with some impact due to Covid-19

Over the years, the company has maintained comfortable asset quality parameters. In line with the RBI regulations, the NPA recognition policy was changed by the company in FY18. Till FY17, the NPA recognition policy was 120+DPD (days past due). However, from FY18 onwards, the same has been revised to 90+DPD. The slippages are mainly driven by direct exposure while the asset quality remains comfortable due to very less delinquencies in the loans to NBFCs and NBFC-MFIs, majority of which have comfortable financial risk profile. Also, these loans are backed by security deposits in the form of cash collateral and corporate / personal guarantees taken by MFSL from the NBFCs and NBFC-MFIs.

With the Covid-19 impacting the target segment which is vulnerable to level of economic activity, the company saw impact on its collections during the year. During the first wave, the collection efficiency of the company was around 75% during H1FY21 which improved to around 95% during H2FY21. The Gross Stage 3 assets and Net Stage 3 assets (consolidated basis) (on AUM Basis) from 1.37% and 1.06% respectively as on March 31, 2020 to 1.86% and 1.46% respectively as on March 31, 2021. The company's restructured around Rs.4 crore of loans constituting 0.11% of loan portfolio as on March 31, 2021.

During Q1FY22 (refers to period from April 01 to March 31), the company saw impact on its collection efficiency which declined to around 89% in the month of May, 2021 due to emergence of the second Covid wave. The Gross Stage 3 assets stood at 2.12% and Net Stage 3 assets stood at 1.64% as on June 30, 2021 on AUM basis.

Comfortable capital adequacy ratio and strong and diversified resource base with multiple banks and financial institutions

The company has been maintaining comfortable capital adequacy over the years. In October 2017, MFSL came out with an Initial Public Offer (IPO) and raised equity capital of Rs.233 crore. MFSL had also raised Rs.100 crore in March 2017 and Rs.35 crore in April 2017 in the pre-IPO round of funding which along with accretion of profit has helped the company reach a tangible net worth base of Rs.1,178 crore (consolidated) as on March 31, 2021. Post the IPO, the promoter holding in MFSL has been retained at 73.60% as on March 31, 2021.

The company reported Capital Adequacy Ratio (CAR) of 26.85% as on March 31, 2021 as compared with 31.97% as on March 31, 2020 with Tier I CAR of 24.81% (P.Y.: 29.88%). Out of total CAR, Tier-I CAR stood at 24.81% and 29.88% as on March 31, 2021 and March 31, 2020, respectively. The company has been assigning loan portfolio over the last few years (off-book constituting around 30% to 40% of AUM) which has helped the company raise resources and maintain comfortable capital adequacy. Overall gearing stood at 2.98 times as on March 31, 2021 as compared to 2.82 times as on March 31, 2020. The company expects to maintain gearing levels below 4.5 times on a steady state basis. As on June 30, 2021, the company reported CAR of 26.95% with Tier I CAR of 24.81% with overall gearing of 2.96 times.

Also, MFSL has healthy relations with 31 banks, NBFCs and other financial institutions for meeting its borrowing requirements based on which MFSL is able to raise resources in a timely manner and at competitive rate of interest, thereby providing significant financial flexibility to MFSL. Most of the banks and financial institutions are also the ones to whom MFSL sells its loan portfolio under the direct assignment route. Existing capitalization level and strong resource base is envisaged to provide impetus to MFSL for growth in its loan portfolio over the medium term.

Strong financial risk profile marked by high Net Interest Margin (NIM) and Return on Total Assets (ROTA)

With growth in its loan portfolio, the profitability ratios of MFSL have marginally moderated on a consolidated basis. During FY21, the company saw decline in disbursements as the company did not disburse for a larger part of the year on account of Covid-19. The company saw major part of disbursements largely during the last quarter of FY21. As a result, the total income declined from Rs.710.01 crore (consolidated) for FY20 to Rs.627.71 crore for FY21. The Net Interest Margin (NIM) for FY21 stood at 4.85% as compared to 7.18% for FY20. After adjusting the off-book portfolio, the NIM declined from 4.64% for FY21 to 3.48% for FY20. The profitability of MFSL declined in FY21 mainly due to decline in its total loan portfolio and consequent decline in its total operating income, increase in its provisions in FY21 pursuant to COVID-19 pandemic and negative carry on sizeable and increased cash holding during the period. However, this was partly off-set by decline in its operating expenses in FY21 as a percentage of average total assets. The Return on Total Assets (ROTA) for FY21 stood at 2.88% as compared to 4.17% for FY20. Adjusted for off-balance sheet portfolio ROTA for FY21 stood at 2.06% as compared to 2.69% for FY20.

During FY21, the company has changed its accounting policy related to amortising the gain on assignment of financial assets over the residual tenure instead of booking upfront gain. As per the requirement of Ind AS 1, the new accounting policy has been implemented retrospectively from April 01, 2019 which was the earliest period presented. The company reported Profit After Tax (PAT) of Rs.145.52 crore on total income of Rs.627.71 Crore (consolidated) for FY21 as compared to PAT of Rs.168.09 crore (restated) on total income of Rs.710.01 crore (restated) for FY20

Key Rating Weaknesses

Concentrated borrower profile

A significant portion of MFSL's exposure is to its top-10 borrowers. As on March 31, 2021, the top-10 exposures of MFSL accounted for more than 65% of its consolidated tangible net-worth as on even date indicating relatively high borrower concentration risk. This is because of significant exposure of MFSL to other NBFCs and NBFC-MFIs. Though the present credit profile of the top exposures is moderate but any deterioration in the credit quality of these exposures may lead to sharp increase in NPA levels of MFSL. Accordingly, credit quality of its large exposures would remain a key credit monitorable.

Exposure to relatively riskier micro enterprises and SME sectors

The portfolio of MFSL comprises retail products like micro enterprises loans, SME loans, two-wheeler loans and commercial vehicle loans, which are high yield generating and low-price sensitive segments and at the same time are relatively riskier in nature. Also, about 56% of the consolidated exposure of MFSL in these segments is through NBFCs and NBFC-MFIs. However, the same is partly mitigated by 5%-15% cash collateral and corporate / personal guarantees taken by MFSL from the NBFCs and NBFC-MFIs.

Moderate geographical diversification

The lending activities of MFSL are directly carried out in seven states. MFSL initially started its lending activities in the state of Gujarat and has gradually ventured and established its footprint in six other states of Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, Tamil Nadu and Delhi. However, as significant amount of MFSL's lending activities are carried out through NBFCs and NBFC-MFIs, it has resulted in highly diversified exposure of MFSL. Gujarat accounts for around 34% of the consolidated total loan portfolio of MFSL as on March 31, 2021, driven by operational familiarity of the promoters with the Gujarat market, whereas other states and union territories account for balance 66%.

Liquidity: Strong

The liquidity profile of MFSL has remained comfortable on the back of strong and diversified resource base and good amount of unutilized bank limits. It has comfortable asset liability maturity (ALM) with no cumulative mismatches on a standalone basis as on March 31, 2021 supported by lower maturity of assets at 18-20 months as compared to 36-50 months tenor of its term loan and NCD. MFSL, on a standalone basis, has sanctioned fund based working capital limits of Rs.1,795 crore (now reduced to Rs.1,695 crore), out of which average utilization during trailing 14 months ended May 2021 remained comfortable at around 76%. Moreover, as on June 30, 2021, MFSL had undrawn term loan and undrawn direct assignment limit of around Rs.1,300 crore on a standalone basis. Furthermore, it had free cash and bank balance of around Rs.1,000 crore as on March 31, 2021, on a standalone basis which can take care of upcoming 8-9 months' standalone debt servicing obligations (principal + interest) of MFSL. Earlier, amidst the challenging fund-raising environment, especially for NBFCs and HFCs, it had framed a policy of keeping cash in hand equivalent to next three months of debt servicing obligations. However, owing to the crisis due to lockdown pursuant to COVID-19 pandemic, it has increased its liquidity cushion. Furthermore, due to the unutilized fund-based working capital limits and direct assignment limits, the asset liability maturity profile of MFSL is expected to remain comfortable. CARE also takes cognizance of the fact that MFSL has not availed the moratorium from the lenders as a COVID-19 relief measure [as permitted by the Reserve Bank of India (RBI)].

Analytical approach: Consolidated; MFSL and 59.67% stake of its HFC subsidiary, viz., MAS Rural Housing and Mortgage Finance Limited (MRHMFL).

Applicable Criteria
Criteria on Assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Consolidation
Rating Methodology - Market Linked Notes
Rating Methodology - Non-Banking Finance Companies (NBFCs)
Rating Methodology - Housing Finance Companies (HFCs)
Financial Ratios - Financial Sector

About the Company
MFSL was incorporated in the year 1995 by Mr. Kamlesh Gandhi and Mr. Mukesh Gandhi. The company was registered as an NBFC in 1998 with RBI. It was initially engaged in the lending of two-wheeler and micro enterprises loans and later on forayed in commercial vehicle loan and SME loan segments. In the year 2008, MFSL floated a subsidiary, MRHMFL; rated 'CARE A; Stable', a non-deposit taking, National Housing Bank (NHB) registered HFC, which provides housing loans to the low-income group segment in rural and semi-urban areas.
The lending activities of MFSL are carried out by it directly through its own network of 99 branches on a standalone level and 69 branches of its HFC subsidiary in seven states (viz., Gujarat, Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, Tamil Nadu and Delhi) and also through other smaller NBFCs and MFIs. As on March 31, 2021, MFSL had relationship with 127 NBFC and NBFC-MFIs and around 56% of the total assets under management (AUM) of MFSL was built through these NBFCs and NBFC-MFIs.
As on March 31, 2021, MFSL, on a consolidated basis, reported total AUM of around Rs.5,657 crore as against total AUM of around Rs.6,253 crore at the previous year end and catered to more than seven lakh live customers across around 3,500 locations. In October 2017, MFSL came out with an IPO and raised fresh equity capital of Rs.233 crore. MFSL had also raised Rs.135 crore in a pre-IPO round of funding through issue of shares to the Motilal Oswal Group. The shares of MFSL are listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Brief Financials (MFSL - Consolidated) (Rs. Crore)	FY20 (A)*	FY21 (A)
Total Operating Income	710.01	627.71
PAT	168.09	145.52
Interest Coverage (times)	1.77	1.69
Total Assets^	4,806.50	5,411.23
Net NPA (%)	1.06	1.46
ROTA (%)	3.82	2.88

*A: Audited as per IND-AS and *: Restated*
Note: The calculations are as per CARE Ratings' calculation
^: Net of Intangible Assets, Revaluation Reserve & Deferred Tax Assets (DTA)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of Rated Instrument: Detailed explanation of covenants of the rated instrument is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Subordinate Bonds	-	-	-	Proposed	100.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instruments / Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	3,000.00	CARE A+; Stable	1)CARE A+; Stable (14-Sep-21)	1)CARE A+; Stable (15-Sep-20)	1)CARE A+; Stable (06-Aug-19)	1)CARE A+; Stable (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
2.	Fund-based - LT-Cash Credit	LT	2,000.00	CARE A+; Stable	1)CARE A+; Stable (14-Sep-21)	1)CARE A+; Stable (15-Sep-20)	1)CARE A+; Stable (06-Aug-19)	1)CARE A+; Stable (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
3.	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	-	-	1)Withdrawn (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
4.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	-	1)Withdrawn (13-Aug-18) 2)CARE A+; Stable (12-Jul-18)
5.	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)Withdrawn (15-Sep-20)	1)CARE A1+ (06-Aug-19)	1)CARE A1+ (13-Aug-18) 2)CARE A1+ (12-Jul-18)
6.	Commercial Paper	ST	250.00	CARE A1+	1)CARE A+; Stable (14-Sep-21)	1)CARE A1+ (15-Sep-20)	1)CARE A1+ (06-Aug-19)	1)CARE A1+ (13-Aug-18)
7.	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	1)CARE A+; Stable (14-Sep-21)	1)CARE A+; Stable (15-Sep-20) 2)CARE A+; Stable (25-May-20)	-	-
8.	Debentures-Market Linked Debentures	LT	75.00	CARE PP-MLD A+; Stable	1)CARE PP-MLD A+; Stable (14-Sep-21)	1)CARE PP-MLD A+; Stable (31-Mar-21)	-	-
9.	Debentures-Market Linked Debentures	LT	200.00	CARE PP-MLD A+; Stable	1)CARE PP-MLD A+ (June 17, 2021) 2) CARE PP-MLD A+; Stable (14-Sep-21)	-	-	-
10.	Subordinate	LT	100.00	CARE A+; Stable	-	-	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument - NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund Based – LT – Term Loan	Simple
2.	Fund Based – LT – Cash Credit	Simple
3.	Debentures – Non-Convertible Debentures	Simple
4.	Debentures-Market Linked Debentures	Highly Complex
5.	Commercial Paper	Simple
6.	Subordinate	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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