



Press Release

MAG Finserv Company Limited (MFCL)

December 22, 2020

Sl. No.	Instrument/Facility	Amount (INR. Crore)	Rating	Rating Action
1.	Long Term Fund Based Facility – Cash Credit	10.40	IVR BBB-/ Under credit watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)	Assigned
2.	Long Term Fund Based Facility – (Proposed) Cash Credit	4.60	IVR BBB-/ Under credit watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)	Assigned
3.	Long Term Fund Based Facility – (Proposed) Term Loan	15.00	IVR BBB-/ Under credit watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)	Assigned
	Total	30.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of MAG Finserv Company Limited (MFCL) derives strength from its experienced promoter and management team, healthy performance marked by increase in collection efficiency, healthy operational indicators along with comfortable capital adequacy and adequate asset quality. However, moderate scale of operation, geographical concentration of the branches and competition existing in this industry are the rating constraints.

The rating on watch with developing implication reflects industry headwinds arising out of COVID-19 crisis. However, the extent of implication is yet to be ascertained.



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Key Rating Sensitivities:

Upward rating factor(s):

- Substantial scaling up its operations and diversifying its loan portfolio geographically, while maintaining the asset quality indicators, adequate capital position and profitability.

Downward rating factor(s)

- Adverse movement in the collection efficiency which impacts the asset quality significantly thereby increasing the credit cost for the Company.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoter and management team:

Promoters of MFCL are well qualified, having long track record of over three decades in corporate and finance domain. The promoter of MFCL, Mr. Ananta Mohotkar thought of starting a NBFC with an aim to address the needs of marginal clients. With professionally qualified, experienced and competent promoters and management it established itself in Loan against gold, two-wheeler loan and self-help groups market in 2005 in Phaltan with an AUM of INR0.28 Crore.

Healthy performance albeit pandemic situation:

Around 65% of the company borrowers reside in rural area that had faced limited repercussion on account of the pandemic. Thereby the company witnessed moratorium from less than 50% of its borrower's right from April 2020. Citing the same the company did not opt for moratorium from all its bankers, it had availed moratorium from only 35% (of the outstanding loan as on March 31, 2020). Further the company had witnessed a monthly collection efficiency of 93% in September 2020 post end of moratorium window that demonstrates the earning potential of its borrowers and further provides a visibility on the asset quality of the company.

Healthy operational indicators:

Gold loan is the major product segment for the company that fetches a higher IRR on account of its daily interest compounding. Scale of operations grew at CAGR of ~24% over the past four years. Total AUM grew from INR94.33 Crore as on March 31, 2019 to INR100.16 Crore



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as on March 31, 2020, this was mainly because of shift in company's concentration on the Gold loan segment on account of its inherent benefits and healthy spread availability and with expansion in number of branches from 16 in FY19 to 18 in FY20. With increase in the NIM margins and efficiency absorption of operating expenses, the company witnessed an increase in its ROTA from 2.37% as on March 31, 2019 to 3.20% as on March 31, 2020 that continued to remain strong at 3.08% as on September 30, 2020. Aligned to the growth in Annual yield and maintenance of borrowing cost, the NIM of the company improved to 10.26% in FY20 from 8.63% in FY19. The company had overall gearing of 3.32x in FY20 v/s 3.62x in FY19.

Comfortable Capital Adequacy:

With increase in the scale of operations, accretion of profits y-o-y with balanced dependence on debt has led to a robust CAR of 27.54% as on March 31, 2020. This further improved to 30.89% as on September 30, 2020. Also, with a robust LTV of 65% and underlying commodity witnessing an appreciative value, the loan against gold has comparatively lower risk associated to it.

Healthy Asset Quality:

There has being y-o-y increase in the scale of operations of MFCL, the company had maintained its asset quality over the years with standard asset constituting above 99% of the assets outstanding for the past four years ended March 31, 2020. Further, the Gross Non-Performing Assets of 0.76% and Net Non-Performing ratio of 0.61% as on March 31, 2020 and stands well within the market standards.

Key Rating Weaknesses

Geographical concentration in operation:

MFCL operations are moderately diversified with presence particularly in the western parts of Maharashtra (16 branches) followed by Karnataka (2 branches). The company generates more than 95% of its revenue from the state of Maharashtra with its competitive advantage of reach and local knowledge in those states. As on September, 2020 ~ 43% of MAG portfolio comprises of gold loan. The company's focus on Gold loans segment enabled it to disburse INR41.01 Crore of loan in H1FY21.



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Competitive nature of industry:

MFCL is exposed to stiff competition from other varied sized NBFCs. The lending industry focused around gold, two wheeler vehicle loan, LAP and secured business loan are highly fragmented with unorganized lenders also vying for the same set of borrowers. However, MFCL professional management and focused approach towards these lending and conservative underwriting policy standards is expected to grow its business while mitigating the risks attached to them.

Moderate scale of operation although improving:

The company has posted improvement in its scale of operations from an AUM of INR0.28 Crore in FY05 to INR100.16 Crore in FY20 and has an outstanding loan book of ~INR96 Crore as on September 30, 2020 (H1FY21). As on March 31st, 2020, MFCL had 18 branches spread across western parts of Maharashtra (16 Branches) and Karnataka (2 Branches), it has basically a regionally concentrated portfolio. The moderate scale of operations is likely to keep operating expenses comfortable in the near future.

Analytical Approach &Applicable Criteria:

Standalone

Rating methodology for Financial Institutions/NBFCs

Financial ratios & Interpretation (Financial Sector)

Liquidity: Adequate

The current liquidity profile is adequate with comfortable level of cash and bank balances as on March, 2020. The company maintains gold stock of ~INR10 crore with itself at any point in time which provides it with a resilient liquidity cushion to meet uncertainties. The monthly debt obligation of the company including interest component is ~ INR1.00 Crore and considering the gold stock and unencumbered cash balance the company had a strong coverage of over 12 months to meet the debt obligation. The Company avails long-term loans from banks and financial institutions with a repayment tenor spread across 3 to 5 years. However, average loan duration for Gold and MFI loans remain at around 12 to 24 months, thereby providing sufficient liquidity cushion to the Company in short term up to 1 year. The average working



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capital utilisation of the company stands ~ 80% for the last 12 months ended September 30, 2020.

About the Company:

MAG Finserv Company Limited commenced its operation from 2005 onwards by acquiring equity in an existing NBFC registered with RBI that was incorporated in 1995 and belonged to Bhosale Group (previously known as Bhosale Leasing & Finance Co. Ltd). The promoter has its roots from rural area, therefore understands the need of the rural economy and has accordingly framed the loan schemes without any peculiar complication and which is understandable for the common people at large. The company is engaged in the business of providing loans against gold, two-wheeler loans, LAP and micro financing. Over 90% of its AUM comprises of Gold loan, two wheeler loan and LAP and less than 10% comprises of micro financing. Currently the company has 18 branches spread across Maharashtra and Karnataka.

Financials:

(INR. Crore)

For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	17.83	24.14
Interest	9.03	12.19
PAT	2.22	3.44
Total Debt	81.14	85.22
Total Net-worth	22.42	25.69
Total Loan Assets	94.78	100.16
Ratio (%)		
PAT Margin (%)	12.43	14.24
Overall Gearing Ratio (x)	3.62	3.32
GNPA (%)	0.61	0.76
NNPA (%)	0.51	0.61
CAR (%)	27.11	27.54

* Classification as per Infomerics standards

Status of non-cooperation with previous CRA: Brickwork Ratings had moved the rating of MAG Finserv Company Limited into Issuer Non-Cooperating category as per the Press Release dated December 15, 2020.



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Any other information: N.A.

Rating History for last three years:

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facility – Cash Credit	Long Term	10.40	IVR BBB-/Under credit watch with developing implications	--	--	--
2.	Long Term Fund Based Facility – (Proposed) Cash Credit	Long Term	4.60	IVR BBB-/Under credit watch with developing implications	--	--	--
3.	Long Term Fund Based Facility – (Proposed) Term Loan	Long Term	15.00	IVR BBB-/Under credit watch with developing implications	--	--	--
Total			30.00				

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	NA	NA	NA	10.40	IVR BBB-/Under credit watch with developing implications
Long Term Fund Based Facility – (Proposed) Cash Credit	NA	NA	NA	4.60	IVR BBB-/Under credit watch with developing implications
Long Term Fund Based Facility – (Proposed) Term Loan	NA	NA	NA	15.00	IVR BBB-/Under credit watch with developing implications