

## Rating Rationale

December 11, 2023 | Mumbai

### MS Fincap Private Limited

'CRISIL BBB-/Stable' assigned to Bank Debt; CP Reaffirmed

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.100 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB-/Stable (Assigned)</b>

<b>Rs.10 Crore Commercial Paper</b>	<b>CRISIL A3 (Reaffirmed)</b>
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*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB-/Stable**' rating to Rs.100 crore proposed long term bank facilities of MS Fincap Pvt Ltd (MS Fincap). It has also reaffirmed its '**CRISIL A3**' rating to Rs.10 crore of commercial paper of MS Fincap.

The rating takes into consideration adequate capital position of MS Fincap backed by timely and need-based support from promoters. The rating also factors in comfortable earnings profile-maintained owing to healthy NIMs and control on credit costs. These strengths are partially offset by geographic concentration of portfolio with limited vintage of operations and limited diversification in resource profile.

The business model of MS Fincap mainly focuses on 5 products i.e., secured lending to micro, small and medium enterprises (MSME), which formed 86% of the portfolio, education loan (5.7%), construction loan (5.1%), School loan (2.9%) and Unsecured business loan (0.1%). Overall assets under management (AUM) grew by nearly 40.5% YTD to Rs 201.6 crore as on September 30, 2023 (Rs 167.6 crore as on March 31, 2023). As on September 30, 2023, it had 35 operational branches and catering to more than 5000 customers.

MS Fincap benefits from strong flexibility of promoters to get in capital through both routes' equity and unsecured loans. The company has raised Rs 59 49CR crore as equity capital from its shareholders, directors, and director relative along with funding of unsecured long-term borrowing done by the promoters into the company . As a result, adjusted networth and adjusted gearing (including Quasi equity) stood at Rs 134 crore and 0.6 time, respectively, as on September 30, 2023, vis-à-vis Rs 124.1 crore and 0.4 time respectively, as on March 31, 2023. The company plans to raise additional capital of around Rs 25 crore, out of which Rs 10 crore is expected to be infused by end of Q2 (Q3) fiscal 2024, and remaining Rs 15 crore by end of fiscal 2024. Strong pedigree of the management has also helped the company to build risk management systems with stringent underwriting norms. While the loan book is relatively unseasoned, the 90+ dpd stands at 0.8% as on September 30, 2023 as against 1.2% as on March 31, 2023 (3.5% as on March 31, 2022) . Collection efficiency stood in the range of 98 -100%. Nevertheless, given the continuous growth in scale of operations, the ability of the company to maintain strong check on its asset quality will remain key rating sensitivity factor.

#### Analytical Approach

To arrive at the ratings, CRISIL Ratings has evaluated the standalone business and financial risk profile of MS Fincap. Since company has been fairly active in infusing funds through unsecured loans from promoters and relatives, CRISIL Ratings have also considered part of the same as quasi equity (i.e. added the same as part of networth). Accordingly, the gearing has also been adjusted considering quasi equity as part of networth.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- **Adequate capitalisation backed by timely and need-based support from promoters:** The company is well-capitalized for the current scale of operations, supported by the ability of the shareholders, directors, and director relative to infuse capital at regular intervals. MS Fincap derives comfort on the flexibility to get in capital from the promoter family business widely known by the name 'D.D. Modi Group'. The promoters have infused equity worth Rs 49 crore into the company since inception, along with funding of unsecured long-term borrowing done by them into the company. As on March 31, 2023, the company has reported adjusted networth (considering quasi equity) and adjusted gearing (considering Quasi equity) of Rs 124.1 crores crore and 0.4 times. Adjusted networth has further improved to Rs 134.0 crore as on September 30, 2023, with adjusted gearing of 0.6 times. Going forward, the promoters propose to infuse approximately Rs 25 crores of equity out of which Rs 10 crores is expected to be infused by mid of December 31, 2023, and remaining 15 crores of infusion is expected to be done by end of Q4 FY2024. The company proposes to expand its current branch network, in order to build a portfolio of about Rs 300 crores by March 31, 2024. The ability to raise equity capital at regular intervals and maintain gearing at comfortable levels will be a key rating sensitivity factor.

- **Comfortable earnings profile-maintained owing to healthy NIMs and controlled credit costs:** MS Fincap has remained profitable since inception. The company has reported a PAT of Rs 3.48 crore on total income (net of interest expense) of Rs 12.43 crore, with NIM (Net interest Margin) of 14.4% (annualised) as on September 30, 2023, as against PAT of Rs 6.04 crore on total income of Rs 17.77 crore with NIM of 11.4% (Net interest margin) as on March 31, 2023. Net interest margin (NIM) remained adequate due to the moderate cost of borrowing, with controlled credit cost at 1.1% (annualised) as on September 30, 2023 vis-à-vis 0.4% as on March 31, 2023 and decent operating costs ranging from 5% to 9% during fiscal 2023 amidst the nascent stage of operations. This has resulted into a comfortable earnings profile with Return on managed assets (RoMA) standing at 3.8% on annualised basis as on September 30, 2023, vis-à-vis 3.6% as on March 31, 2023. CRISIL Ratings believes that the company will have to continue to focus on managing its operational and credit cost while scaling-up its portfolio, so as to enhance profitability.

#### **Weakness:**

- **Geographic concentration of portfolio and limited vintage of operations:** MS Fincap has been operational since 2017. During these 5 years, the company initially started with MSME financing and unsecured business loan lending. However, the company had to discontinue unsecured business loan segment due to issues faced during pandemic period. The company then shifted completely towards secured loans segments like MSME (LAP) loans, school loans, education loans, and construction loan. Despite being in operations for over 5 years, the growth in portfolio has mainly picked up during last 2-3 years. As of March 31, 2021, the company had portfolio size of Rs 111 crore which grew to Rs 168 crore as of March 2023 and Rs 201 crore as of September 2023. Additionally, the loan products offered by the company have door-to-door tenure of between 5-7 years. Therefore, considering the growth experienced and long tenure of products, the true picture of asset quality may be visible once the portfolio (mainly older originations) achieves more seasoning.

In terms of geographic reach concentration in Rajasthan remains fairly high. Rajasthan accounted for 94% of the total portfolio as on September 30, 2023 (as the company started operations from the state only). Madhya Pradesh followed by Gujarat accounted for 4% and 2% of the portfolio. Higher geographic concentration increases susceptibility to risk arising out of local socio-political factors, which is inherent to the lending business. Hence, managing asset quality metrics along with growth in the portfolio is a key rating sensitivity factor. Further, the ability of the company to further diversify and reduce geographic concentration is monitorable.

- **Limited Diversification in Resource profile:** The company's resource mix comprises term loans from non-banking finance companies (NBFCs) and banks (28%) and the remaining is unsecured loans from promoters (71%). Average cost of borrowing stood at 12.5% in H1 of fiscal 2024. The cost of borrowing is expected to improve over the medium term with the onboarding of public sector banks like SBI and financial institutions like SIDBI and NABSAMRUDHI. The company raised Rs 16 crore during H1 of fiscal 2024 in the form of term loans from NBFCs (3), SFBs (1) and Banks (1). The ability of the company to maintain a diversified resource base as it grows along with the ability to raise funds at competitive rates remains a key monitorable.

#### **Liquidity: Adequate**

As on March 31, 2023, the asset-liability maturity (ALM) profile was comfortable with positive cumulative mismatches in the up to one-year bucket. Liquidity stood at Rs 3.82 crore (excluding the term loan) as on September 30, 2023, against debt of Rs 3.81 crore for the next three months. This represents a liquidity position at a cover of 3.1 times (assuming 75% collection efficiency) considering debt obligation over the two months through November 2023.

#### **Outlook: Stable**

CRISIL Ratings believes that MS Fincap will continue to benefit from support (both financial and managerial) provided by the strong promoters. The company is also expected to maintain adequate capitalisation backed by funding support.

#### **Rating Sensitivity factors**

##### **Upward factors:**

- Demonstration of ability raise sufficient funding through external sources (i.e. loans from banks, Fis, NBFCs, etc) at competitive costs.
- Ability to significantly scale-up loan book while maintaining asset quality in order to minimise any potential credit loss.
- Capitalisation metrics remaining strong with continued support from promoters in form of loans (apart from regular equity infusion) and adjusted gearing remaining below 3 times.

##### **Downward factors:**

- Deterioration in asset quality leading to increase in credit costs thereby affecting earnings profile.
- In ability to raise equity capital leading to deterioration in capital position with gearing increasing to more than 5 times.
- Reduction in support from promoters in infusing funds both through equity or unsecured loans.

#### **About the Company**

MS Fincap is a Jaipur based Non-Banking Financial Company, incorporated in 2016 and licensed by Reserve Bank of India in 2017. MSFC is currently serving in 3 states- Rajasthan, MP and Gujrat with 35 branches as on date. The Company is managed by Mr. Mukund Modi (Executive director), along with brother Mr. Shridhar Modi (Executive director). The promoter family of MS FINCAP has a strong reputation in Jaipur, Rajasthan due to their long-established family business into MSME business loan lending. Mr. Mukund Modi along with brother Mr. Shridhar Modi are the third generation into the family business of organized finance.

Company is well capitalized with current CRAR of 27.02% as on September 30, 2023. MS Fincap has a diversified product portfolio distributed across 5 products, which includes, MSME- Secured Business Loan (86.3%), Education Loans (5.7%), Construction Loans (5.1%), School Loans (2.9%) and Unsecured Business Loans (0.1%). Consequently, the AUM grew at a

rate of 16.1% during fiscal 2023 to reach Rs 167 crore as on March 31, 2023, and it crossed Rs 201 crore as on September 30, 2023 with YTD growth of 40.5%.

### Key Financial Indicators

Particulars	Unit	September 2023 (H1 fiscal 24)	2023	2022
Total assets	Rs crore	212.9	178.8	152.6
Total income	Rs crore	19.4	28.3	23.1
Profit after tax	Rs crore	3.48	6.05	6.00
90+ dpd	%	0.8%	1.2%	3.5%
Adjusted gearing*	Times	0.6	0.4	0.3
Return on managed assets	%	3.8^	3.6	4.4

\*Adjusted Gearing [Networth (considering 75% of unsecured loans from promoters as quasi equity) / Total Debt (including 25% of unsecured loans from promoters)]

^Annualised

**Any other information:** Not Applicable

### Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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### Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Commercial Paper	NA	NA	7-365 days	10	Simple	CRISIL A3
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	100	NA	CRISIL BBB-/Stable

### Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	100.0	CRISIL BBB-/Stable		--		--		--		--	--
Commercial Paper	ST	10.0	CRISIL A3	05-12-23	CRISIL A3		--		--		--	--

All amounts are in Rs.Cr.

### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	100	Not Applicable	CRISIL BBB-/Stable

### Criteria Details

Links to related criteria
<a href="#">Rating Criteria for Finance Companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">CRISILs Criteria for rating short term debt</a>

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