Annexure - I

MANAGEMENT DISCUSSION & ANALYSIS

ECONOMIC OVERVIEW

Global Economy

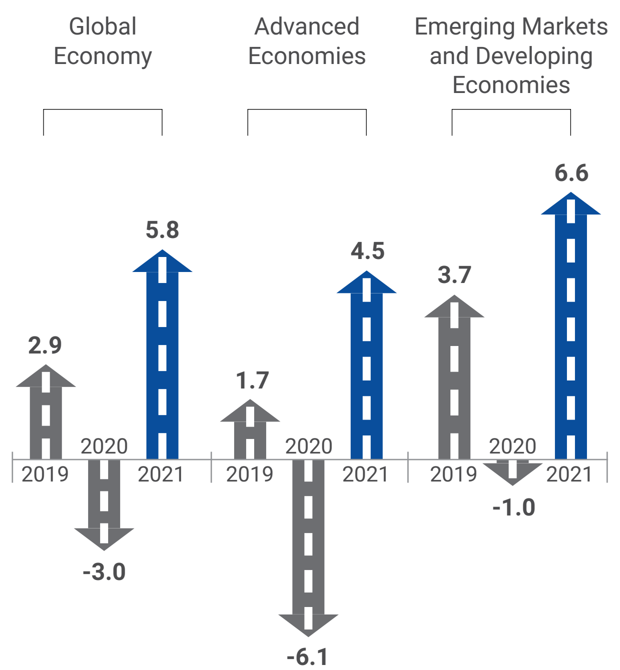
Global economy grew by 2.9% in 2019, as against 3.6% in 2018, as per the International Monetary Fund (IMF) estimates. The subdued growth is a consequence of elevated trade barriers, Brexit-related concerns, geopolitical tensions, and macroeconomic stress in several emerging economies. Despite the headwinds, conditions eased since the beginning of 2020 with positive developments in US-China trade negotiations, a successful Brexit, and continued monetary easing.

COVID-19 Impact

The outbreak of novel coronavirus (COVID-19) in the first quarter of 2020 posed fresh challenges for global activities and economies. The severe spread of the virus plunged the world economy into a recession, worse than the financial crisis a decade ago. As a result of the pandemic, global economy is expected to contract by 3% in 2020. A series of stimulus packages have been announced by major developed economies and financial institutions to limit the economic damage and stabilise markets. IMF predicts growth will rebound to 5.8% in 2021, with normalisation in economic activity helped by policy support.

WORLD ECONOMIC OUTLOOK APRIL 2020 GROWTH PROJECTIONS

The COVID-19 health crisis will have a severe impact on economic activity in 2020



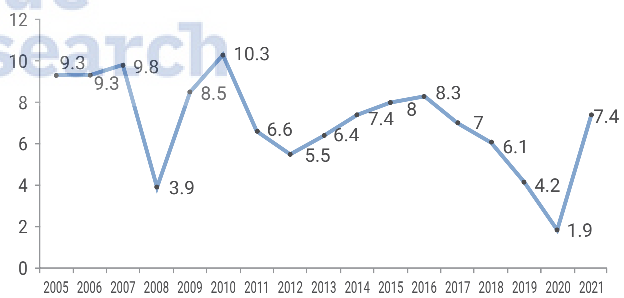
(Source: IMF World Economic Outlook, April 2020)

Indian Economy

India's Gross Domestic Product (GDP) grew by 4.2% in FY 2019-20, compared to 6.1% growth clocked in FY 2018-19. Primary factors responsible for the deceleration in growth include global economic slowdown, subdued consumption and private investment, and liquidity constraints aggravated by the non-banking financial (NBFC) crisis. To give a boost to the economy, the Reserve Bank of India (RBI), in the year 2019, slashed the benchmark repo rate by 135 basis points (bps) to 5.15% in five successive rate cuts from February to October 2019, with significant easing of monetary policy.

The outbreak of COVID-19 has created unprecedented challenges for the Indian economy. Strict containment measures and the nationwide lockdown have stalled the economic activity and is expected to impact both consumption and investment. IMF has pegged economic growth at 1.9% for FY 2020-21 with potential downsides.

INDIA GDP (%)



(Source: IMF, 2020 Support Measures)

In July 2019, the Union Budget 2019-20 had articulated the vision of the Honourable Prime Minister to make India a US$ 5 trillion economy by FY 2024-25. The march towards this milestone has, however, been challenged by less than expected growth of India's GDP so far this year, on the back of a decline in world output. Nonetheless, policymakers have been implementing substantial fiscal and monetary measures to support affected households and businesses. On the fiscal front, the government has rolled out a ₹ 1.7 trillion relief package for India's marginalised population to help them mitigate the challenges caused by the pandemic. Further, a mammoth ₹ 20 lakh crore economic relief package has also been announced to help the economy combat the COVID-19 crisis. In a bid to maintain financial stability, the RBI reduced the repo rate by a cumulative 115 bps to 4% and reverse repo rate by 155 bps to 3.35% since the beginning of the crisis to boost lending to the productive sectors. It also slashed the cash reserve ratio by 100 bps to release ₹ 1.37 lakh crore across the banking system. In addition, it allowed commercial banks and non-banking finance companies to offer their customers a three-month moratorium on payment of instalments on their loans. Further, in May 2020, it extended such moratorium period by another three months to 31st August 2020. Growth is expected to recover to 7.4% in FY 2021-22, buoyed by fiscal and monetary stimulus.

INDUSTRY OVERVIEW

Financial Services Industry

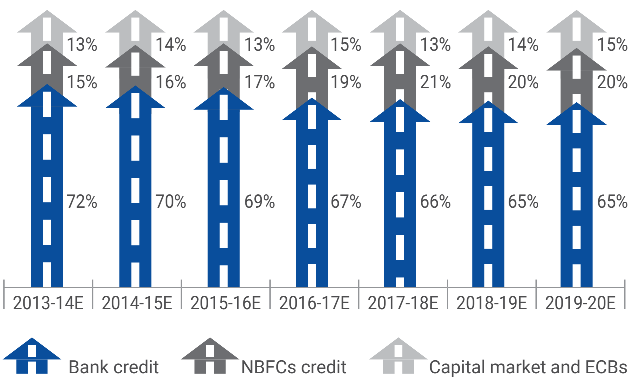
The Indian banking and financial services industry plays an important role in driving growth of the Indian economy and expanding the credit market. Over the last decade, India's financing requirements have risen on the back of increasing population, rising incomes, and growing awareness and aspirations. The government and regulators have been taking proactive measures to strengthen the sector through favourable policies, promotion of financial inclusion and liquidity infusion, among others.

As per the rating agency ICRA, the incremental credit flow from banks stood at ₹ 5.9 trillion during FY 2019-20, almost half of ₹ 11.9 trillion in the previous year as muted economic growth curtailed fresh credit demand apart from increased risk aversion among lenders. While the near-term outlook in the light of the COVID-19 is likely to stay weak, the secular drivers to credit growth remain intact. Greater financial inclusion, increased demand for private consumption, spurt in digital lending, and initiatives boosting growth in retail loans will be the key growth drivers going forward.

NBFCs in India

Growth of non-banking financial companies (NBFCs) has been pivotal in fulfilling credit requirements of the unserved and underserved markets. NBFCs are considered as an

NBFCs share in systemic credit growing steadily



Note :

1. Banks' credit includes outstanding of private banks, public sector banks, Regional Rural Banks (RRBs), Cooperative banks and SFBs.
2. Capital market borrowing and External Commercial Borrowing (ECB) includes corporate bond, commercial papers outstanding; but excludes amount raised by banks and NBFC.

Source: RBI, SEBI, Company Reports, CRISIL Research

alternative to mainstream banking, providing credit access to unbanked customers. NBFCs, with their deep market understanding, unique business models and technology adoption, have the capability to widen credit access to the lower strata of the society and increase their reach and market share. Since September 2018, the sector has been facing liquidity and funding constraints following defaults of a few large NBFCs. However, the government and the RBI have been taking constant measures to improve systemic liquidity and strengthen the governance framework of NBFCs.

As of March 2020, NBFCs accounted for 20% of the overall systemic credit.

COVID-19 Impact and Support Measures

The COVID-19 outbreak and subsequent nationwide lockdown has severely impacted the disbursements, asset quality, and liquidity of NBFCs due to disruption in business activities. A recovery is likely in the second half of FY 2020-21; however, this depends on the overall economic turnaround. Meanwhile, the central bank and government have announced numerous liquidity-boosting measures to help banks, NBFCs, and other financial intermediaries to deal with the liquidity challenges caused by the pandemic.

Notable Announcements:

- Targeted Long-Term Repo Operations (TLTRO) of ₹ 50,000 crore to enable NBFCs to lend to micro segments of each sector in the economy.
- Special liquidity scheme of up to ₹ 30,000 crore for NBFCs, housing financiers and microfinanciers. Under this scheme, investments can be made in investment grade debt securities of non-bank and housing finance companies and microfinance institutions which will be fully guaranteed by the government.
- Extension of the partial credit guarantee scheme to cover lower-rated NBFCs. This scheme will result in liquidity to the tune of ₹ 45,000 crore, under which the 20% first loss guarantee will be borne by the government.

The outstanding credit of NBFCs increased at a CAGR of 13% from FY 2016-17 to FY 2019-20, however, NBFCs grew by 7% year-on-year in FY 2019-20. COVID-19 is expected to further slowdown loan book growth of NBFCs in the first half of FY 2020-21 amid lockdown. In the next three fiscals, NBFCs loan book is expected to grow at a CAGR of 5% to 7%.

Growth Drivers for NBFCs:

- Aggressive approach to tap the underserved segment
- Niche focus of NBFCs that are specialised in certain segments enabling increase in market share
- Understanding the market and customising the product to customer needs

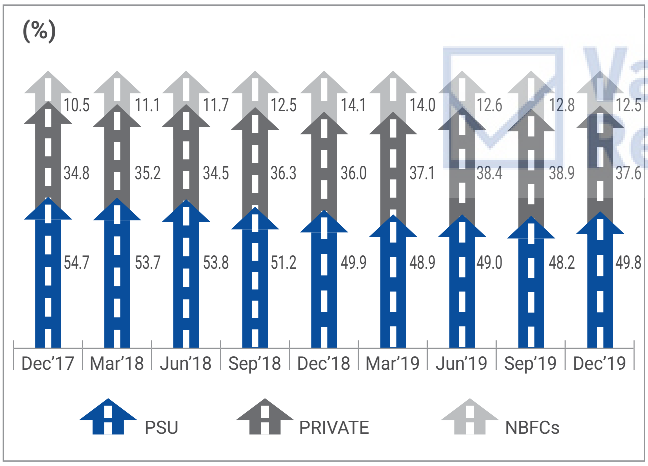
- Higher loan-to-value as NBFCs offer higher amounts of loan against security as compared to banks

- Lower turnaround time as NBFCs are able to meet immediate funding requirements with faster loan processing systems

MSME Sector

MSMEs constitute an important part of the Indian economy as they significantly contribute to the country's overall GDP, manufacturing output, employment, and exports. The sector provides employment to over 120 million persons and contributes around 45% to the overall exports from India. With the growing number of MSMEs in India, access to adequate credit to enable them to meet their working capital needs and expand their businesses has become increasingly important. Over the past few years, the share of private banks and NBFCs in MSME lending has increased significantly, especially at the lower end. MSME lending has seen maximum disruption through differentiated business models, innovative approaches to credit underwriting, and offering of innovative products with a lower turnaround time.

Share of Lenders in MSME Sector



(Source: MSME Pulse, TransUnion CIBIL - April 2020)

However, the nationwide lockdown and slowdown in economic activity in the light of COVID-19 pandemic has created challenges for the MSME sector. The government and the RBI have implemented various policy measures to provide much-needed relief to the sector and encourage financial institutions to extend additional credit to MSMEs. Notable initiatives include announcement of setting up of a collateral-free automatic loan provision worth ₹ 3 lakh crore for MSMEs; in the form of a fully guaranteed emergency credit line; allocation of ₹ 20,000 crore as subordinate debt facility and a ₹ 50,000 crore equity infusion for MSMEs through Fund of Funds. The government also took the opportunity to revise the definition of MSMEs to include the additional criteria of turnover and eliminate the existing distinction between manufacturing and service units. Further, a company with investments up to ₹ 50 crore and turnover up to ₹ 250 crore can also be classified as a medium enterprise.

MSME classification*

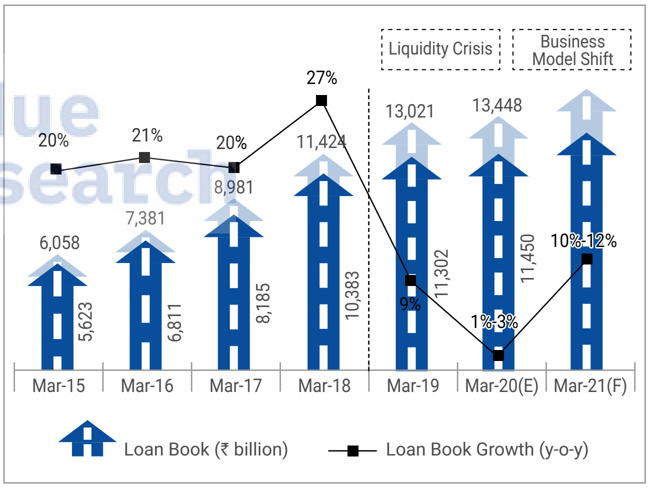
	Micro Enterprises	Small Enterprise	Medium Enterprise
Investment in Plant and Machinery or Equipment	<= ₹ 1 crore	<= ₹ 10 crore	<= ₹ 50 crore
Turnover	<= ₹ 5 crore	<= ₹ 50 crore	<= ₹ 250 crore

* New definition of MSME was announced in June 2020

Housing Finance

Housing is considered a vital engine for economic development. Rapid urbanisation, increasing income levels, emerging nuclearisation, and growing aspirations are the key growth drivers of the housing sector. With the country's mortgage being underpenetrated at nearly 10%, NBFCs and HFCs have taken advantage of this potential and have been the biggest drivers of housing finance growth. Moreover, NBFCs and HFCs with their strong origination skills, excellent customer service, and robust distribution model have been effective in tapping the home finance market.

Trend in AUM & loan book growth of HFCs



(Source: NHB, BWR Research)

The Indian housing finance market grew at a CAGR of 16% from FY 2014-15 to FY 2019-20 on account of a rise in disposable income, healthy demand and a greater number of players entering the segment. However, it is expected to grow at a slower pace of 2% to 3% in FY 2020-21 owing to economic implications of the COVID-19 pandemic. Post FY 2020-21, the market is expected to witness gradual recovery and grow at a CAGR of 11% over the next two years.

ICRA estimates the total outstanding housing credit at ₹ 20.7 lakh crore as on 31st December 2019, with COVID-19-induced slowdown seen impacting disbursements in the quarter ended March 2020. Asset quality of all segments of housing loans is expected to be impacted over the next few quarters. Moreover, affordable housing loans will witness increase in delinquencies over the medium term due to higher proportion of self-employed borrowers, as people defer their home purchase and home improvement decisions unless they achieve stability in income levels.

Several initiatives have been undertaken by the government to boost affordable housing under the Pradhan Mantri Awas Yojana (PMAY), with the aim of building 50 million houses in urban and rural India by 2022. Increasing affordability, supported by government incentives, has led to a spurt in home buying, particularly in the affordable housing segment. Till December 2019, the cumulative number of houses sanctioned under PMAY (U) and PMAY (G) was over 96 lakh and 98 lakh units, respectively.

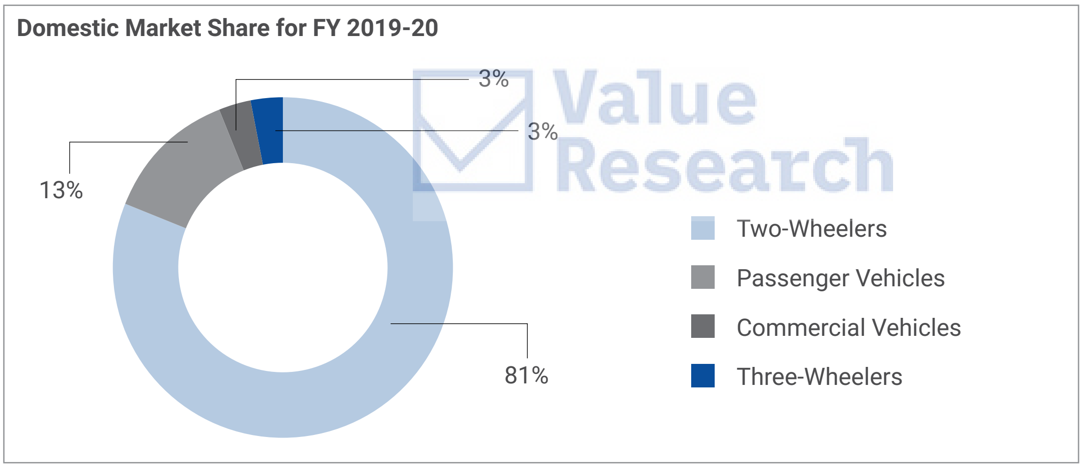
Automobiles

According to Society of Indian Automobile Manufacturers (SIAM), the automobile industry produced a total of 26,362,282 vehicles including passenger vehicles, commercial vehicles, three-wheelers, two-wheelers and quadricycles in FY 2019-20 as against 30,914,874 vehicles in FY 2018-19, registering a de-growth of 14.7% over the same period last year .

Automobile Production Trends

Category	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Passenger Vehicles	3,221,419	3,465,045	3,801,670	4,020,267	4,028,471	3,434,013
Commercial Vehicles	698,298	786,692	810,253	895,448	1,112,405	752,022
Three-Wheelers	949,019	934,104	783,721	1,022,181	1,268,833	1,133,858
Two-Wheelers	18,489,311	18,830,227	19,933,739	23,154,838	24,499,777	21,036,294
Quadricycle*		531	1,584	1,713	5,388	6,095
Grand Total	**23,358,047**	**24,016,599**	**25,330,967**	**29,094,447**	**30,914,874**	**26,362,282**

*Only October-March 2016 data is available for FY 2015-16
Source: SIAM



(Source: SIAM)

The adverse impact of tight financing environment, new axle load norms, higher insurance and ownership costs, and weak consumer sentiments due to the COVID-19 pandemic led to the overall slump in the automotive industry. Regulatory mandate of switching to newer safety and emission norms from April 2020 has significantly increased costs for the industry. While the pre-buying was expected during March 2020 before the BS VI norms were implemented, the nationwide lockdown eroded the potential demand. Macroeconomic headwinds coupled with prolonged economic slowdown will further dampen consumer demand and automobile sales.

Automobile Domestic Sales Trends

Category	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Passenger Vehicles	2,601,236	2,789,208	3,047,582	3,288,581	3,377,389	2,773,575
Commercial Vehicles	614,948	685,704	714,082	856,916	1,007,311	717,688
Three-Wheelers	532,626	538,208	511,879	635,698	701,005	636,569
Two-Wheelers	15,975,561	16,455,851	17,589,738	20,200,117	21,179,847	17,417,616
Quadricycle#		0	0	0	627	942
Grand Total	**19,724,371**	**20,468,971**	**21,863,281**	**24,981,312**	**26,266,179**	**21,546,390**

#Only August 2018 - March 2019 data is available for FY 2018-19
Source: SIAM

Nonetheless, easing of the lockdown and government stimulus package may revive consumer sentiments and boost automobiles market growth. Strong government focus on infrastructure and construction sectors, along with proposed incentive-based vehicle scrappage policy will be an important driving force for commercial vehicles. In two-wheelers, demand from rural areas is expected to outpace urban demand due to better rabi prospects and thrust on rural economy.

BUSINESS PERFORMANCE

MAS is a diversified Non-Banking Finance Company (NBFC) registered with the Reserve Bank of India (RBI). Since its inception in 1995, the Company is engaged in extending specialised retail financing services to the lower income and middle-income groups of the society. For over two decades, MAS has been a part of the financial services sector, catering to the financially underserved masses spread across urban, semi-urban, and rural areas in the formal and informal sectors. The Company offers a wide range of retail finance products such as micro enterprise loans, SME loans, home loans, two-wheeler loans, used car loans, and commercial vehicle loans. A highly experienced management team, huge borrower base, diverse product mix, efficient liability management, and a well-spread branch network underpin the operations of the Company.

Distribution Network

MAS believes in offering best-in-class services at the doorstep of its customers. Driven by this mission, it has established a strong distribution network of 105 branches in the major cities of Gujarat, Maharashtra, Rajasthan, Madhya Pradesh, Tamil Nadu, and Karnataka. Its robust network enables the Company to reach out to underserved masses in the hinterlands and ensure efficient last mile delivery of credit.

Further, MAS has forged strong value chains by leveraging the distribution network of partner NBFC-MFIs, NBFCs, HFCs and franchisees to extend its financial services to the underpenetrated regions and Bottom of the Pyramid (BOP) segment. The aim of the Company is to address credit requirements and extend financial services to those who have been underserved or completely excluded by the formal financial sector.

As on 31st March 2020, MAS caters to 7,00,000+ clients in more than 3,450 centres through its robust network of 105 branches.

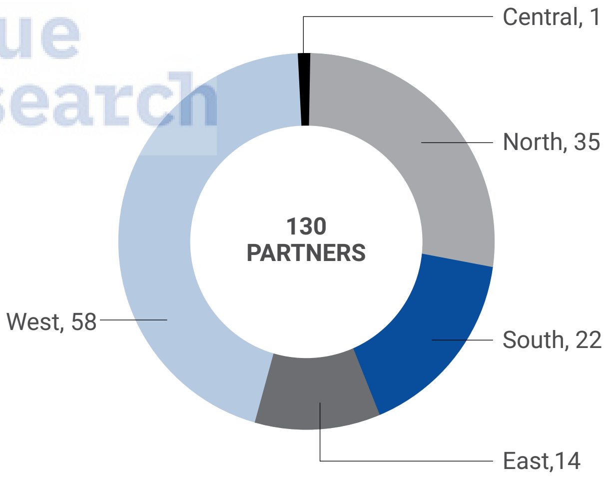
Partnerships with Regional NBFCs and NBFC-MFIs

The Company's strategic model of partnering with NBFCs and NBFC-MFIs for distribution of its products in remote geographies, has ensured good success for MAS, its partners, and customers over the years. The partners can leverage the Company's domain expertise and avail lines of credit offered, while the target clients gain access to formal financial sector as per their requirements. Moreover, MAS can enhance its customer base without sufficient investments in physical infrastructure. Additionally, regional players can undertake last mile credit delivery more effectively, and build stronger networks and customer trust.

The model has enabled the Company to scale business rapidly through partnership with NBFCs and NBFC-MFIs which has almost doubled over the last 5 years to reach 130 partners in FY 2019-20. With this, the Company has not only strengthened its presence pan-India but has also mitigated the risk of overdependence, thus resulting in more robust business model.

In FY 2019-20, AUM through partnership business stood at ₹ 3,497.58 crore, growing at a CAGR of 27.3% from ₹ 1,046.91 crore in FY 2014-15. Out of the 130 partners in FY 2019-20, more than 55% of the partners fall within the AUM range of ₹ 50 – ₹ 500 crore allowing the Company to reach larger customer base at remote geographies and dramatically reducing the turnaround time for extending credit to customers.

2019-20 (Regional NBFCs and NBFC-MFIs Partners)



In FY 2019-20, out of the 130 partner NBFCs and NBFC-MFIs – 20% partners maintained a healthy Capital Adequacy Ratio (CAR) in the range of 15%-20%, while 78% partners maintained a CAR of more than 20%, which is well above the threshold.

MSME Loans

Products Offered

Micro-Enterprise Loan (MEL)

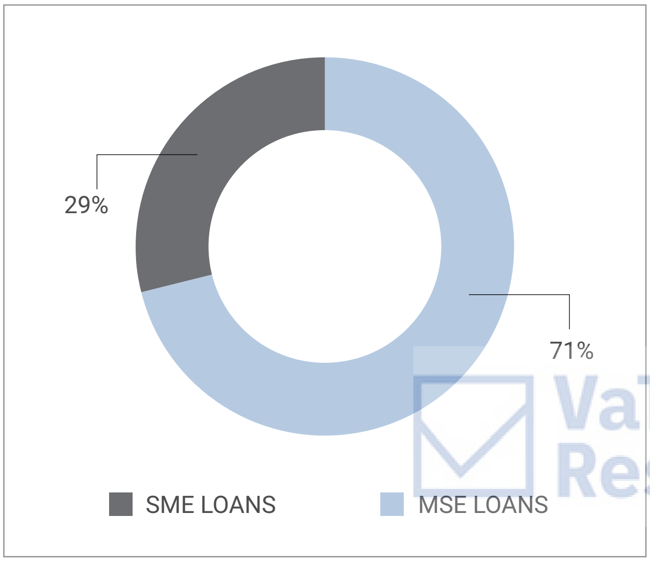
- Loans to small enterprises spread across 190 business categories including retailers, traders, small manufacturers, and service providers with turnover ranging from ₹ 25 lakhs to ₹ 5 crore.
- Loan ticket size ranges from ₹ 1 lakh to ₹ 50 lakhs.

Small & Medium Enterprises (SME) Loan

- Loans to small & medium enterprises, which are engaged in manufacturing, trading or services businesses for purchase of fixed assets like machinery or industrial property and also for their working capital requirements such as purchase of stock, replacing trade credit, etc.
- Loans of up to ₹ 2 crore is extended to these customers.

KEY HIGHLIGHTS: FY 2019-20

Committed to solving the financing difficulty of micro, small and medium enterprises, in FY 2019-20, MAS provided loan amounting to ₹ 4,754.90 crore.



As on 31st March 2020, AUM for MSME loans business stood at ₹ 5,411.33 crore as compared to ₹ 4,714.74 crore as on 31st March 2019, registering a growth of 14.77%.

Two-Wheeler and Commercial Vehicle Loans

Products Offered

Two-Wheeler Loan

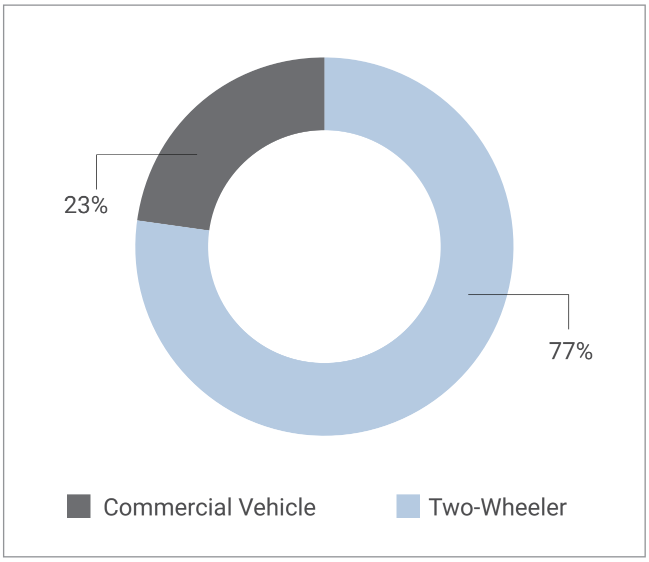
- Loans offered to farmers, self-employed businessmen and professionals, and salaried customers to purchase two-wheelers in urban, semi-urban, and rural areas.
- Loan ticket size ranges from ₹ 15,000 to ₹ 2 lakhs.

Commercial Vehicle Loan

- Loans provided for purchase of commercial vehicles or for captive usage in business.
- Loan ticket size for purchase of old/new commercial vehicle ranges from ₹ 50,000 to ₹ 5 lakhs.

KEY HIGHLIGHTS: FY 2019-20

MAS assists individuals and businesses in fulfilling their dreams – be it buying a dream bike for personal use or expanding their transport/distribution business through critical addition of new and used commercial vehicles. In FY 2019-20, MAS provided loan amounting to ₹ 417.29 crore.



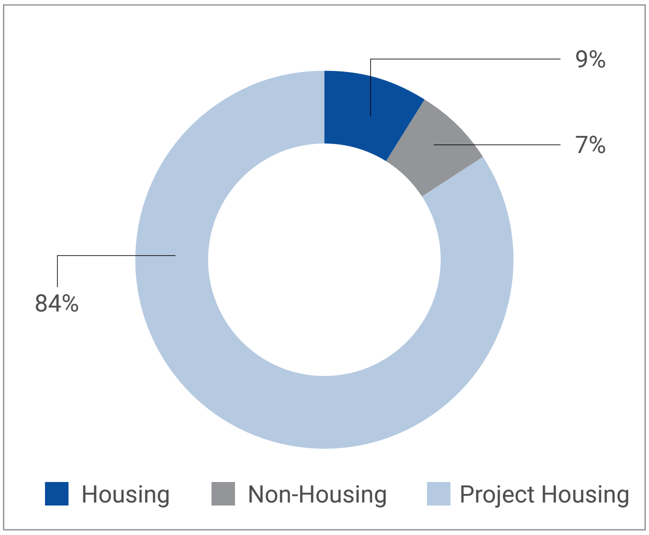
Assets under Management under Commercial Vehicle and Two-Wheeler Loans stood at ₹ 554.95 crore as on 31st March 2020 in comparison to ₹ 623.64 crore as on 31st March 2019, plunging year-on-year by 11.01%.

Housing Loans

MAS Rural Housing & Mortgage Finance Ltd. (MRHMFL), a subsidiary of MAS serves the middle- and lower-income segments of the country, especially in the semi-urban and rural areas. The Company offers housing loans to customers for purchase, construction or renovation of their homes.

KEY HIGHLIGHTS: FY 2019-20

In FY 2019-20, MRHMFL provided housing loan amounting to ₹ 92.08 crore.



As on 31st March 2020, AUM for housing loans business stood at ₹ 286.54 crore as compared to ₹ 270.24 crore as on 31st March 2019. This marked a growth of 6.03%.

FINANCIAL PERFORMANCE

(Amount in ₹ Lakhs)

Particulars	Standalone		Consolidated	
	Year Ended on 31st March, 2020	Year Ended on 31st March, 2019	Year Ended on 31st March, 2020	Year Ended on 31st March, 2019
Revenue from Operations	68,239.78	57,233.34	72,205.89	60,457.65
Other Income	71.75	24.68	35.91	12.01
Total Income	**68,311.53**	**57,258.02**	**72,241.80**	**60,469.66**
Total Expenditure	**44,863.77**	**33,865.07**	**48,381.61**	**36,668.85**
Profit Before Tax	23,447.76	23,392.95	23,860.19	23,800.81
Provision for Taxation (Including Current tax, Deferred Tax & Income Tax of earlier Years)	5,626.45	8,181.44	5,734.05	8,340.16
Net Profit	**17,821.31**	**15,211.51**	**18,126.14**	**15,460.65**
Profit Brought Forward	27,309.10	17,557.38	27,578.60	17,755.10
Net Profit after profit attributable to minority shareholders	-	-	17,995.76	15,353.69
Effect of changes in Group's interest	-	-	-	13.15
Item of other comprehensive income recognised directly in retained earnings - on defined benefit plan	(22.21)	(9.51)	(24.06)	(8.19)
Transition impact of Ind-AS 116	(10.31)	-	(12.45)	-
Profit Available for Appropriation	**45,097.89**	**32,759.38**	**45,537.85**	**33,113.75**
APPROPRIATIONS:				
Transfer to reserve u/s 45-IC of RBI Act, 1934	3,564.26	3,042.30	3,564.26	3,042.30
Transfer to reserve u/s 29-C of NHB Act, 1987	-	-	53.04	61.28
Final Dividend on equity shares	1,967.83	1,180.70	1,967.83	1,180.70
Interim Dividend on Equity Shares	4,372.96	819.93	4,372.96	819.93
Final Dividend on Preference shares	-	-	-	19.09
Dividend distribution tax on Equity Shares	1,307.26	407.35	1,308.56	407.91
Dividend distribution tax on Preference Shares	-	-	-	3.95
Surplus Balance carried to Balance Sheet	**33,885.58**	**27,309.10**	**34,271.20**	**27,578.60**

Details of significant changes in Key Financial Ratios

During FY 2019-20, there were no significant changes (changes exceeding 25% or more as compared to the immediately previous financial year) in Key Financial Ratios.

Details of changes in Return on Net Worth

For FY 2019-20, despite special COVID provisioning, the Company managed to maintain return on Net Worth at a robust level of 18.29% (FY 2018-19: 18.07%). Without the effect of special COVID provisioning, the Company's return on Net Worth for FY 2019-20 would have stood at 19.85%.

LIABILITY MANAGEMENT

Liability management is of utmost importance at MAS. It is the bedrock of the Company's consistent strong performance and impeccable reputation of reliability and rectitude over the years. It enables MAS to tide over the challenges in the industry as well as raise adequate liability as per regulatory requirements.

In the wake of the COVID-19 pandemic and the volatile markets, the Company also assessed its structural liquidity for the period ended 31st March 2020 after taking into account the moratorium extended to its borrower under the RBI relief. Based on the assessment, the Company is comfortably placed to meet its repayment obligations and there is no negative impact on liquidity or cash flow. The Company has also made efforts, over the years, to forge strong bonds with leading banks and various financial institutions. It intends to leverage its strong reputation and fund management experience and expertise to deliver benefits for its clients and value for its stakeholders.

As on 31st May 2020, the Company had total liquidity buffer of around ₹ 700 crore and had unutilised cash credit facility of ₹ 700 crore. The Company has also applied for fresh sanctions from its existing lenders as well as under the various schemes launched by Reserve Bank of India and Government of India.

RESOURCE MOBILISATION

- Share Capital

  As on 31st March 2020, the issued and paid-up Equity Share Capital of the Company stood at ₹ 54,66,20,430 consisting of 5,46,62,043 Equity Shares of ₹ 10 each (As at 31st March 2019: 5,46,62,043 Equity Shares of ₹ 10 each)

- Term loans

  For FY 2019-20, the Company availed term loans amounting to ₹ 929.50 crore with an average tenure of 4 years.

- Assignment of loan portfolio

  The company derecognises certain portion of its loan portfolio through assignments. During FY 2019-20, the Company assigned a part of its loans portfolio amounting to ₹ 2,963.67 crore through various agreements with assignees.

- Non-Convertible Debentures (NCDs)

  The Company had not issued any NCDs during FY 2019-20.

- Commercial Paper (CP)

  For FY 2019-20, the Company had not issued any Commercial Paper (CP) or any short-term instrument.

CREDIT RATINGS

For FY 2019-20, the below credit rating was obtained from Acuité Ratings & Research on 6th March 2020.

- Acuité has reaffirmed its long-term rating of 'ACUITE AA-'(read as ACUITE double A minus) on the ₹ 3,200.00 crore bank facilities with 'Stable' Outlook.

- Acuité has assigned its long-term rating of 'ACUITE AA-'(read as ACUITE double A minus) on the ₹ 1,000.00 crore bank facilities with 'Stable' Outlook.

- Acuité has reaffirmed its short-term rating of 'ACUITE A1+'(read as ACUITE A one plus) on the ₹ 300.00 crore Commercial Paper Programme.

CAPITAL MANAGEMENT

Through a prudent capital management strategy, the Company constantly works towards maximising returns on capital employed. At the same time, it ensures that its strategy is within the purview of the guidelines laid down by the RBI. MAS aims to enhance its capital management practices towards strengthening its balance sheet.

CREDIT AND RISK MANAGEMENT

Effective risk management is an intrinsic part of the lending business. Risks may emerge from within the Company, due to its operations and strategy, or from external factors. MAS ensures efficient risk management through timely identification, assessment, and mitigation. The Company has put in place well-structured and tested risk mitigation policies and processes, such as robust credit models and operational systems to successfully manage the risks.

The Company's primary activity is lending to customers or counterparty and therefore the process of receivables management is inherently exposed to various risks. Credit risk mainly arises from loans and advances to customer or counterparty who defaults on their contractual obligations resulting in financial loss to the company. To combat these risks, debtors are under the Company's surveillance and regular follow-ups for collection are executed. Further, to mitigate the risk of fluctuations in interest rates, MAS maintains sufficient spreads, offers relatively short tenure loans and resets lending rates periodically.

At the end of FY 2019-20, the net NPAs of the Company stood at 1.14% of total AUM.

The Company extends loans for an average tenure of 26 months. Besides, it has a diversified portfolio of borrowers within its business segments. The inter-segment and intra segment diversity applied to a very large market size, serves as a very potent protection against market risks that could occur due to various macro-economic developments. Nonetheless, the Company is constantly vigil to market developments and takes appropriate action from time to time to ensure that these changes do not adversely impact the operations of the Company.

OPPORTUNITIES & THREATS

Opportunities

- Diverse product mix and pan-India presence to accelerate growth
- Adequate capitalisation to support medium-term growth plans
- Strong brand presence among lower income and middle-income groups of the society spread across urban, semi urban, and rural areas
- Proven track record of catering to the MSME sector
- Government MSME initiatives to further boost the sector

Threats

- Increasing competition from local and global players
- Exposure to semi-formal and informal lending segment
- Unpredicted Government reforms due to COVID-19 pandemic

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Being in the lending business, the Company realises that the impact of internal risks could outweigh those of external risks as personnel of a company have the potential to influence a significant number of loans as compared to a single borrower. For this reason, internal control at MAS is a constantly evolving process. The Company from time to time strives to improve its internal control systems and operational efficiencies to enhance the quality of its portfolio.

The Company has well-defined internal control systems commensurate with the size and nature of its business. These internal controls are responsible for tracking the originators' activities, quality of logins and stringent credit checks and appraisal, which are evaluated on the basis of the portfolio quality. The Company takes a holistic view of the credit assessment process by framing credit screens based on reliable demographic data and strict adherence of the same with an element of adaptability. At the same time, there is no compromise on the fundamentals of extending credit where it is due. The internal audit department comprises both an internal as well as an external team to identify the gaps, while the risk and monitoring department is expected to periodically scrutinise various trends of the portfolio behaviour and macro developments.

Further, other considerable internal controls at MAS comprise constant monitoring of operational expenditure with an endeavour to bring it down through improved efficiencies rather than just focussing on reducing the expenditure. The efficacy and adequacy of internal controls and their execution are driven by the ethos of striving for constant improvement.

HUMAN RESOURCES

Employees are the most important asset of the Company and pivotal to the growth and success of the organisation. The HR policy of the Company focusses on attracting, retaining, and motivating the best talent in the industry to ensure achievement of business aspirations and objectives. It ensures that its employees adhere to the Company's culture and follow its values and principles. The promoters abide by the highest standards of corporate governance and are proactively involved in the management of the Company, with strategic inputs from an able and well-diversified board.

The key management team at MAS comprises a competent group of committed resources and is well-equipped to design strategies and execute them for sustainable growth of the Company. Majority of the team members have been with the Company since inception, constantly extending their relentless efforts as they align their personal objectives with those of the Company.

The Company constantly endeavours to strengthen its human resources and ensure that its work ethics and culture is followed by every employee. As on 31st March 2020, the employee strength of the Company stood at 887.

OUTLOOK

Over the last decade, NBFCs have assumed critical importance in the financial system. India's financing requirements have been rising significantly on the back of favourable demographics, increasing incomes, and growing awareness and aspirations. The NBFC sector has been growing from strength to strength by serving the underserved retail and MSME segments which are the backbone of India's growth story.

These sectors have been financially under-served or completely excluded by the formal financial sector, which has stalled their development. However, credit flow to these sectors has been growing with increasing participation of banks, NBFCs, and other financial institutions. NBFCs approach the target customer segments with innovative and customised lending products. They have developed efficient loan processing capabilities through the use of technology platform and cost-efficient processes, with an ability to offer faster loan turnaround time.

Going forward, the sector may witness subdued growth as demand for housing assets, consumer goods, micro finance, and working capital finance may remain weak in the light of the COVID-19 pandemic. However, the sector is expected to slowly pick up pace in the medium-to-long term as the measures taken by the government and the RBI have been reflective of the government support to the NBFC sector in order to promote economic growth.

Understanding customers' needs and their predicament, MAS has adopted measures to assist customers and meet their needs and remain a strategic partner that truly extends support, even during times of crisis.

CAUTIONARY STATEMENT

This document contains statements about expected future events, financial and operating results of MAS, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions, and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the management's discussion and analysis of the Company's Annual Report FY 2019-20.