



*The Power of Distribution*

27<sup>TH</sup> ANNUAL REPORT

**2021-22**

**1995**

**2022**

***EVERY TIME WE REACH  
A MILESTONE,  
WE BELIEVE  
WE HAVE  
JUST BEGUN...***

# What's Inside

## CORPORATE OVERVIEW

- 01 Every Time We Reach A Milestone,  
We Believe We Have Just Begun!
- 02 Founder and CMD's Message
- 04 Corporate Snapshot
- 06 Journey this far
- 09 Financial Performance Summary
- 10 Leveraging Technology across the  
Spectrum to Harness Efficiency
- 12 Celebrating 25 years of MAS
- 14 Corporate Social Responsibility
- 15 Board of Directors
- 16 Corporate Information

## STATUTORY REPORTS

- 17 Notice
- 27 Directors' Report
- 55 Management Discussion & Analysis
- 65 Report on Corporate Governance

## FINANCIAL STATEMENTS

### Standalone

- 93 Auditors' Report
- 102 Balance Sheet
- 103 Statement of Profit and Loss
- 104 Statement of Changes in Equity
- 105 Statement of Cash Flows
- 107 Notes to the Financial Statements

### Consolidated

- 184 Auditors' Report
- 192 Balance Sheet
- 193 Statement of Profit and Loss
- 194 Statement of Changes in Equity
- 195 Statement of Cash Flows
- 197 Notes to the Financial Statements



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The reviving economy demonstrated a symbiotic relationship between our vision and our customers' advancement.

**EFFICIENT.**


**AS AN EFFICIENT  
DISTRIBUTOR OF  
FINANCIAL SERVICES,  
ECONOMICAL.**

**WE ENSURE THAT OUR  
CUSTOMERS GET FUNDS AT  
AFFORDABLE RATES,  
EMPOWER.**

**AND EMPOWERED OUR  
CUSTOMERS WITH  
AFFORDABLE CREDIT.**

We have been lending to the low- and middle-income sectors, empowering them to invest in productive ventures and join the financial mainstream. Over time, this process of affordable borrowing, investing and achieving growth, brings prosperity to them and encourages them to forge long-lasting relationships with us. As they advance in their business lifecycles, their connections with us get stronger and this enables us to grow. Our expansion and stronger foundations enable us to meet their needs more holistically and efficiently.

We have enkindled a virtuous cycle between the business progress of our customers and our own growth.



**SO, NATURALLY,  
EVERY TIME WE  
REACH A MILESTONE,  
WE BELIEVE WE HAVE  
JUST BEGUN!**

## Founder and CMD's Message

**AS WE MOVE FORWARD, WE INTEND TO STAY ANCHORED TO OUR BELIEF THAT GROWTH ALONG WITH QUALITY IS THE KEY TO ENHANCE SHAREHOLDERS' VALUE.**



Dear Shareholders,

The year gone by has been marked by recovery in the economy. It has also endorsed your Company's ability to deliver a strong performance in good and bad times. Although the country experienced two waves of COVID-19 during FY2022 – the second and third wave – which resulted in partial lockdowns in various states and health and economic hardships for citizens, we stayed strong and continued to support our customers.

We resumed our growth path with a 16.27% growth in AUM in FY2022 to ₹ 6,246.8 crore, while our revenue increased from ₹ 593.9 crore to ₹ 657.5 crore and our PAT climbed from ₹ 143.5 crore to ₹ 157.8 crore. I am pleased to declare a final dividend of ₹ 1.75 per equity share as an endeavour to reward the shareholders who have put so much faith in us throughout this journey of more than 25 years.

With respect to our liabilities management, your Company withstood the litmus test very successfully during this most challenging period. The composition of our liability mix ensured healthy ALM and a well diverse resource mix, providing a testimony to its very efficient liability management. Our capital adequacy ratio, as on 31st March 2022, stood at 26.35% against regulatory norms of 15% and our Tier I capital was 23.08% as against requirement of 10%. Our Tier II capital was just 3.27%, which will increase from time to time depending on the requirement and also as a source of structural liquidity to strengthen ALM.

Around 75% of our portfolio is channelled towards MSME loans, which qualifies as Priority Sector Lending. Through direct assignment and co-lending transactions, with door-to-door maturity and derisking, we are further strengthening our liability management. There are sufficient tie-ups for the line of credit under these arrangements also.

Over a longer term horizon too, despite economic up-cycles and down-cycles and various micro and macro headwinds, including demonetisation, GST, the NBFC liquidity crisis and COVID, amongst others, we have displayed resilience and delivered robust and sustainable growth. During the past 15 years, since we first raised capital, our AUM has increased at a CAGR of 24.58% between FY2007 and FY2022 while our PAT and Net Worth have grown at CAGRs of 23.21% and 31.62%, respectively. Our Net Stage 3 Assets remained below 2.00% over the period and we maintained a healthy return on assets and equity. Most importantly, our growth journey was fuelled predominantly from internal accruals which clearly differentiates us in the industry where capital is raised very frequently. All these strong enablers have given us the confidence to expect consistent and steady growth momentum in the future too.

As we move forward, we intend to stay anchored to our belief that growth along with quality is the key to enhance shareholders' value. We anticipate growth for the next five years to be in the range of 20% - 25% with scope to recalibrate it depending on the macro situation, prioritising asset quality and profitability, thereby maintaining healthy ROA and ROCE.

We will continue serving the informal LIG and MIG class of customers spread over rural, semi urban and urban areas leveraging our experience of two and a half decades and striving to add value to our clients.

We also believe that the SME and Housing finance sectors offers huge potential and we plan to maintain adequate focus on these as they are expected to be our key growth drivers. Our distribution network, within our current states in operation,

will be strengthened and we will endeavour to provide one of the most efficient financial services, which we term as the Power of Distribution. We will also explore the potentiality of entering into new geographies. Our distribution through various NBFCs, which has exhibited an immaculate track record over a long period of more than 10 years, also plays an important part in serving the underserved efficiently. However, swift expansion of our own distribution network will result in a progressively larger percentage of business being sourced and serviced through our own network.

Technology plays a very important role in increasing reach and efficiencies. Our focus on technology will result in digitising our product cycles. This, along with selective tie-ups with fintechs, will enable us to create an optimum technology platform, which will enable us to deliver the last-mile of credit to our borrowers very effectively and also increase our penetration.

With respect to liability management, we will continue to maintain an ideal debt resource mix, ensuring continuous flows of funds while maintaining optimum utilisation of capital. The assets created by the Company are expected to generate good securitisation/assignment/co-lending demand and this will enable us to de-risk and maintain the off-book portfolio.

Towards achieving operational excellence, we will continue 'Learning and Unlearning', which is a constant endeavour at ~~HAAS~~ and will strive to improve the efficiency in all areas of operation.

I would like to take this opportunity to thank all our stakeholders for the confidence that they have placed in us and we look forward to rewarding this trust with sterling and sustainable results. I would especially like to thank our employees and our core team, in particular, for being the bedrock of strength on which we have been able to stay resilient throughout tough times. I sincerely acknowledge the support of all the stakeholders.

Before I sign off, let me reiterate on behalf of Team ~~HAAS~~ our commitment to our mission of "Excellence through Endeavours" and maximising shareholders' value.



**Kamlesh C. Gandhi**  
Chairman and Managing Director

# Corporate Snapshot

As India progresses towards its aspiration of attaining nationwide financial inclusion, HFS Financial Services supports this larger goal by financially empowering individuals and enterprises, especially those segments that are at the inception of their formal financial journey, with access to credit. Our offerings span retail financing products for MSMEs, home loans, two-wheeler loans, used car loans and commercial vehicle loans. Essentially, we cater to the needs of retail customers, particularly those in the low-income and middle-income segments, and offer enterprise loans to MSMEs.

The Company was registered with the Reserve Bank of India as an NBFC in 1995. Since then, we have expanded our presence in urban, semi-urban and rural areas through 125 branches in 7 territories: Gujarat, Maharashtra, Rajasthan, Madhya Pradesh, Tamil Nadu, Karnataka, and Delhi NCR. By the end of March 2022, we have 6,75,000+ active customers, in formal and informal sectors, often taking financial services to the customers' doorstep.

We have devised alternative means to assess the credibility of our customers, who typically may lack a formal financial sector credit history and adequate paperwork to prove their eligibility. This enables us to gauge the repayment

ability of our target borrowers and issues credit to a wider spectrum of target borrowers, without compromising our Return on Capital Employed (RoCE). To ensure an additional layer of security, our people analyse the creditworthiness of our borrowers by engaging with them on a regular basis.

Our aim is to be geographically present in all regions and become a leading lender. To achieve and retain this advantage, we leverage the distribution network of our partners, which include non-banking finance companies (NBFCs), microfinance institution NBFCs, housing finance companies and franchisees – to reach out to those who are financially unserved and under-served.

## BOUQUET OF PRODUCTS



### Micro Enterprise Loan

The micro-enterprise space in India is vast and full of aspiration. To enable this segment of the economy to achieve growth, we offer micro enterprise loans.



### Small & Medium Enterprises (SME) Loan

We have a spectrum of credit offerings for SMEs including machinery loans, industrial shed loans, working capital loans and loans against property.





### Two-Wheeler Loan

We empower our self-employed and salaried customers to achieve their dream of personal mobility with our two-wheeler loans.



### Commercial Vehicle

Our commercial vehicle loans for both new and used vehicles support entrepreneurs in executing their business distribution strategies more effectively and cost efficiently.



### Home Loan

We offer affordable housing loans for middle and low-income individuals for the purchase of new and old houses through our subsidiary - **MASS** Rural Housing and Mortgage Finance Ltd., which also offers loans for home improvement, purchase and construction of commercial property. We also extend loans to developers for construction of affordable housing projects.



### VISION

To be one of the most efficient distributors of financial services and create value on a very large scale.



### MISSION

To constantly endeavour, to attain excellence, and create a very wide financial distribution network and to be a catalyst in providing the most efficient financial services which we term as financial inclusion.



### BELIEFS

*"We have miles to go & Promises to keep..."*

*"Together we can and we will"*



## JOURNEY THIS FAR

### 1995

- Year of incorporation
- Commenced retail finance operations with Two-wheeler and Micro-Enterprise loans

### 2008

- Acquired second and third round of capital infusion worth ₹ 435 Mn. and ₹ 400 Mn. from FMO and ICICI Venture, respectively
- Floated housing finance subsidiary

### 2012

Received the fourth round of capital infusion of ₹ 650 Mn. from DEG

### 2014

Sarva Capital purchased 50% CCPS held by FMO in secondary deal

### 2016

- Bank loan rating upgraded to 'IND A' with 'Stable outlook'
- Raised subordinate debentures of ₹ 400 Mn.

### 2006

Received first round of capital infusion of ₹ 65 Mn. from Bellwether Micro Fund

### 2011

Listed NCDs on Bombay Stock Exchange

### 2013

Disbursement & AUM crossed ₹ 10 Bn.

### 2015

- Raised Subordinate Debentures of ₹ 200 Mn.
- AUM crossed ₹ 20 Bn.



**2018**

- Listed Equity Shares on Bombay Stock Exchange & National Stock Exchange
- Received additional capital infusion of ₹ 350 Mn. from Motilal Oswal and raised fresh capital of ₹ 2,330 Mn. through an IPO

**2017**

- AUM crossed ₹ 30 Bn.
- Motilal Oswal infused capital of ₹ 1,000 Mn.

**2020**

- Completed 25 years of operations
- AUM crossed ₹ 60 Bn. on a consolidated basis

**2019**

- AUM crossed ₹ 50 Bn.
- Bank loan rating upgraded to "ACUITE AA -" with Stable outlook and Short-term rating assigned as ACUITE A1+

**2021**

- Inclusive Finance India Award 2020 – NBFC lending to Micro and Small Enterprises
- Raised ₹ 650 Mn. via market-linked NCDs (MLD)

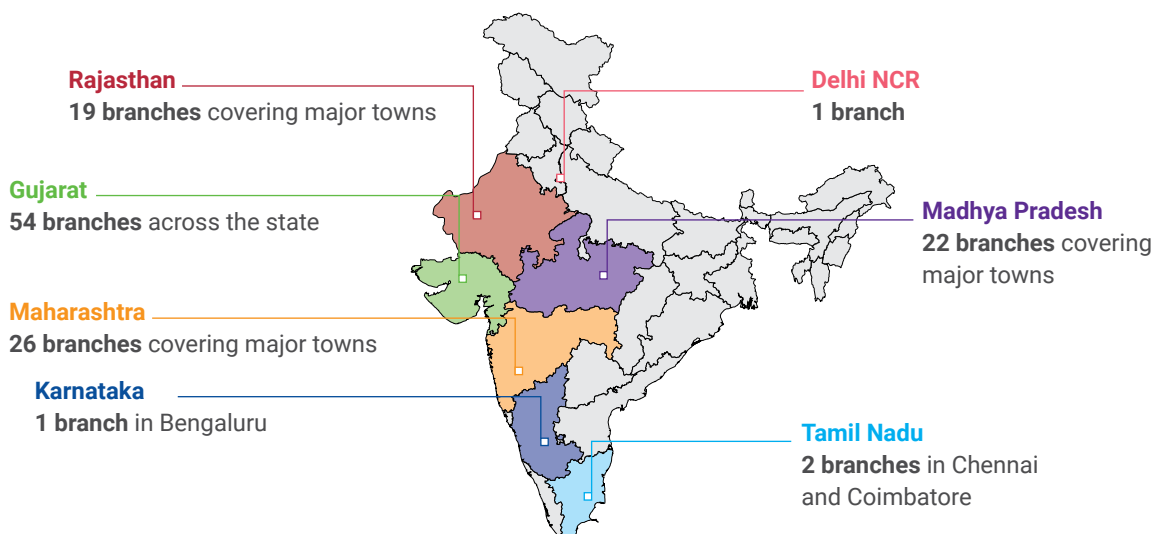
**2022**

- Consolidated AUM crossed ₹ 65 Bn.
- ASSOCHAM 8th MSMEs Excellence Awards March 2022 – Best MSME Lending of the Year



## PAN-INDIA FOOTPRINT

### Strong Retail Presence & Distribution Network



Map not to scale. For illustrative purpose only.

## STRATEGIC ADVANTAGES



### Vast market opportunity

We meet the financial needs of a large and growing base of retail borrowers who have hitherto been overlooked by the formal financial sector. As aspirations and incomes grow within the country, the size of our market increases.



### Wide and deep pan-India reach

With a geographic footprint in 7 territories across the country, with 4,438 service points, and the promise of doorstep delivery of services, we have been able to reach out to customers across the interiors of the country.



### Robust Liability Management and Asset Creation

Our capital requirements are met predominantly from internal accruals and we focus on maintaining a healthy ALM. While creating assets, we follow the rule of 'Credit where it is due' which enables us to ensure the right product mix and add value to our unique distribution model.



### A broad spectrum of loan products

With our finger on the pulse of our target group of middle- and low-income families, we have been steadily expanding the range of our loan offerings, to include new and customised products, which encourage social mobility and employment prospects.



### People-centric approach

While we have technology at our core, to facilitate our employees and customers, we continue to focus on people engagement and satisfaction as our goal. Thanks to our committed employees, we have been able to deliver and delight our customers and earn their loyalty, while supporting our partners and winning the trust of our stakeholders.



### Local partnerships

Through our extensive network of 151 partner companies, we gain access to borrowers in the formal and informal sectors of the urban, semi-urban and rural areas who prefer to deal with local rather than pan-India intermediaries.