

MAS Financial Services

BSE SENSEX	S&P CNX
38,158	11,520
Bloomberg	MASFIN IN
Equity Shares (m)	55
M.Cap.(INRb)/(USDb)	32.9 / 0.5
52-Week Range (INR)	701 / 541
1, 6, 12 Rel. Per (%)	5/-13/-
12M Avg Val (INR M)	123
Free float (%)	26.7

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
NII	2.5	3.1	3.9
PPP	2.1	2.6	3.2
PAT	1.0	1.3	1.7
EPS (INR)	19.2	24.4	30.7
BV/Share (INR)	132.8	151.1	174.1
RoA on AUM (%)	2.7	2.8	2.8
RoE (%)	20.7	17.2	18.9
Valuations			
P/E (x)	31.3	24.5	19.6
P/BV (x)	4.5	4.0	3.4

CMP: INR600 TP: INR780 (+30%)
Buy

A quarter characterized by strong growth, healthy asset quality

- MAS Financial Services' (MASFIN) PAT (Ind-AS) rose 80% YoY to INR313m, driven by higher operating profit (+64% YoY) and stable asset quality.
- With disbursement growth of 24% YoY, AUM rose 30% YoY to INR42.5b. Growth was broad-based across segments (in the range of 20-35% YoY).
- The share of various products in total AUM is as follows: MEL: 64%, SME finance: 24%, 2W finance: 9% and CV finance: 3.4%.
- Margin expanded 100bp YoY, driven by a 25bp YoY decline in CoF. Asset quality was robust. **GNPL ratio of 1.19% is among the best in our NBFC coverage universe.** However, PCR is modest at 20%.
- Ind-AS PAT was down to INR168m in 1QFY18 v/s INR230m in the year-ago period. Key factors impacting profitability were (a) fair value negative impact of CCD and CCPS (INR63m), b) ECL-led positive impact (INR15m) and (c) negative impact of assigned portfolio (INR5m).

Valuation view: Margin improvement, operating efficiency and controlled credit cost are expected to lead to RoA improvement of 60bp+ and consistent RoE of 18%+. We believe MASFIN has all the ingredients of a good investment: (a) a small base and presence in well-developed states for strong growth, (b) relentless management focus on generating sustainable, high return ratios, (c) healthy capitalization and d) consistent and healthy asset quality, despite catering to the lower end of the socio-economic customer segment. We maintain our estimates for FY19/20 and reiterate **Buy** with a target price of INR780 (24x Jun'20E EPS, implied 4.3x Jun'20E BV).

Quarterly Performance

Y/E March	FY18				FY19E				FY18	FY19
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Income	1,041	1,061	1,130	1,135	1,288	1,353	1,434	1,536	4,368	5,610
Interest expenses	489	396	395	352	468	496	531	585	1,632	2,080
Net Income	552	665	735	783	820	857	903	951	2,735	3,530
Growth Y-o-Y (%)	24.0	38.0	50.4	61.3	48.5	28.8	22.8	21.5	43.8	29.1
Operating Expenses	175	178	225	179	203	215	228	246	757	892
Operating Profits	377	488	510	604	617	642	675	705	1,979	2,638
Growth Y-o-Y (%)	24.4	43.6	54.9	85.2	63.7	31.6	32.2	16.8	52.4	33.4
Provisions	76	103	123	148	137	140	150	152	449	579
Profit before tax	301	385	388	456	480	502	525	553	1,529	2,059
Growth Y-o-Y (%)	29.4	34.3	37.3	98.8	59.4	30.4	35.4	21.2	48.4	34.6
Tax Provisions	127	134	134	157	167	173	181	190	552	710
Net Profit	174	251	253	299	313	328	344	363	978	1,349
Growth Y-o-Y (%)	16.8	31.8	36.9	100.6	79.6	30.9	35.6	21.5	45.1	38.0
Int. Exp/Int. Income %	47.0	37.3	34.9	31.0	36.3	36.7	37.0	38.1	37.4	37.1
Cost to Income Ratio %	31.7	26.7	30.6	22.9	24.7	25.1	25.3	25.8	27.7	25.3
Prov to Operating Profits %	20.1	21.1	24.1	24.4	22.2	21.8	22.2	21.6	22.7	21.9
Tax Rate %	42.1	34.8	34.6	34.5	34.7	34.5	34.5	34.3	36.1	34.5

E: MOSL Estimates

30% YoY AUM growth in
1QFY19

AUM growth aided by disbursement growth

- AUM (ex. Housing finance) grew 3% QoQ and 30% YoY to INR42.5b, driven by 24% YoY growth in disbursements to INR10.0b.
- The share of MSME finance continues to inch up from 61% in 1QFY18 and 62.6% in 4QFY18 to 63.9% in 1QFY19.
- NII grew 48%+ YoY to INR820m. Opex/avg. AUM declined 30bp YoY to 1.8% in 1QFY19.

MAS Housing subsidiary
AUM grew by 17% YoY to
INR2.1b

MAS Housing Subsidiary – performance highlights

- AUM grew 3% QoQ and 17% YoY to INR2.1b.
- PAT grew 26% YoY to INR9m.
- GNPL/NNPL ratio was marginally better at 33bp/24bp compared to 44bp/36bp last year.

Others

- Share of off-balance sheet AUM remained largely stable on a QoQ and YoY basis at 37%.
- Asset quality remains robust. GNPL ratio of 1.19% is among the best in our NBFC coverage universe. However, PCR is modest at 20%.
- AUM sourced by channel partners (i.e. NBFCs) increased from 58% to 60% sequentially.
- Capitalization remains robust with Tier I ratio of 27.6%.

Valuation and view

- Margin improvement, operating efficiency and controlled credit cost should drive RoA improvement of 60bp+ and the company is expected to report 18%+ ROE on a consistent basis. The recent capital raise would be sufficient for the next three years of growth, in our view.
- We believe MASFIN has all the ingredients of a good investment: (a) a small base and presence in well-developed states for strong growth, (b) superior asset quality, (c) relentless management focus on generating sustainable, high return ratios, (d) healthy capitalization and (e) consistent dividend payout.
- Since the company has a higher share of assignment transactions, quarterly earnings volatility is likely to increase going forward, especially depending upon type of portfolio assigned.
- We largely maintain our estimates for FY19/20E and reiterate **Buy** rating with a target price of INR780 (24x June 2020 EPS, implied 4.3x June 2020 BV).



Conference call highlights

Business

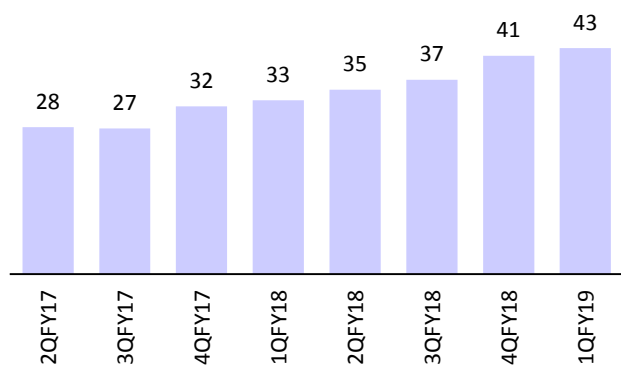
- Portfolio assignment is in the range of 35-40% of AUM every quarter.
- Yield: MEL: 15.42%, SME: 15.46%, 2W: 18.3%.
- Cost of off-balance sheet items: 8.3%.
- 59% of AUM through channel partners.
- Fresh disbursement in 1QFY19: ~INR10b.
- 3-4 new NBFC relationships added in 1QFY19.
- % of customers refinancing: 30-40%.
- Rejection rate in SME and MEL: 25-35%.
- There are multiple lenders for smaller NBFCs, so don't envisage much effect due to small finance banks getting into the space.
- Top-10 borrowers constitute 20% of AUM.
- 50% are MFI-NBFCs and 50% are other kind of NBFCs.

Guidance

- Will continue to consolidate MEL and SME; will together be ~70-75% of loan book in medium term.
- Cost of funds to increase by FY19-end.
- Aiming for 17-18% RoE.
- Aim INR10b in housing finance in 2-3 years, from thereon aim to grow 30-40%.

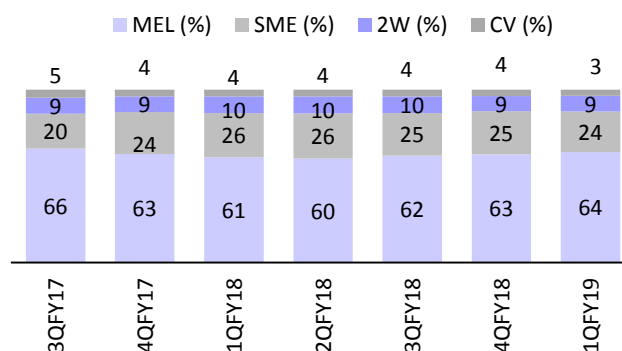
Story in charts

Exhibit 1: AUM (excl. housing finance) trend (INR b)



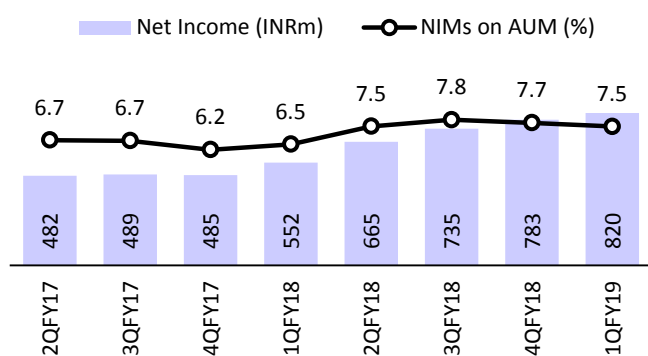
Source: Company, MOSL

Exhibit 2: MEL and SME remain key growth drivers



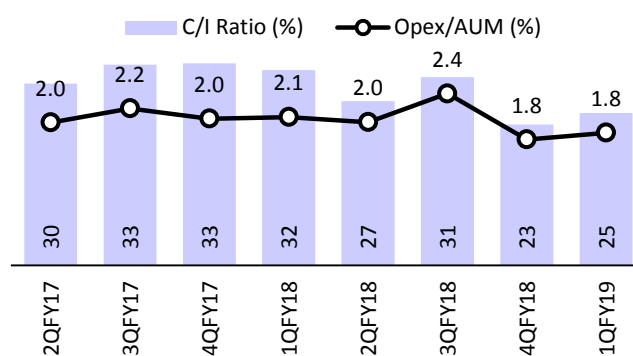
Source: Company, MOSL

Exhibit 3: NIM (calc.) trend



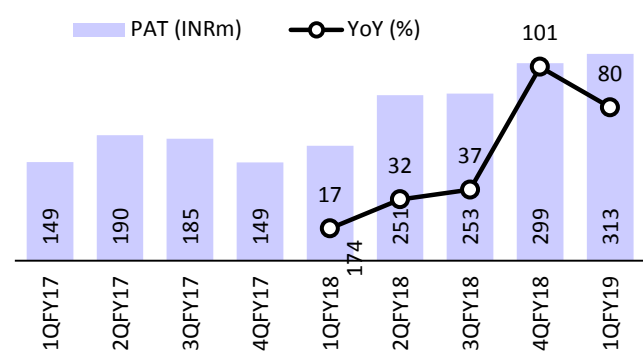
Source: Company, MOSL

Exhibit 4: Trend in C/I ratio (%)



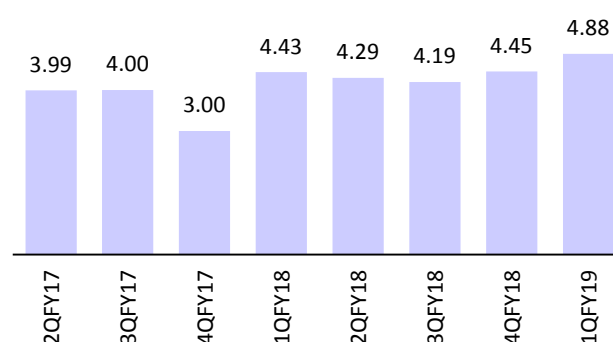
Source: Company, MOSL

Exhibit 5: PAT increased 80% YoY



Source: Company, MOSL

Exhibit 6: Improving RoA (%)



Source: Company, MOSL

Exhibit 7: Financials: Valuations Matrix

	Rating	CMP	Mcap	P/E (x)			P/BV (x)			RoA (%)			RoE (%)		
		(INR)	(USD\$)	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
ICICI* [*]	Buy	334	30.2	22.2	23.4	11.1	1.5	1.4	1.3	0.8	0.7	1.2	6.8	6.2	12.4
AXSB	Buy	632	22.8	568.5	31.5	17.6	2.6	2.4	2.1	0.0	0.7	1.0	0.5	7.8	12.7
KMB*	Neutral	1,270	34.0	39.0	34.2	27.8	4.8	4.2	3.7	1.7	1.6	1.7	12.5	11.8	13.2
YES	Buy	340	11.0	18.4	14.3	11.1	3.0	2.6	2.1	1.6	1.5	1.5	17.7	19.5	21.2
IIB	Buy	1,897	16.0	31.5	23.2	17.5	4.8	4.2	3.3	1.8	2.1	2.4	16.5	19.4	21.0
FB	Buy	81	2.2	17.0	13.8	10.2	1.3	1.2	1.1	0.7	0.8	0.9	8.3	9.1	11.2
DCBB	Neutral	171	0.7	21.5	18.1	15.3	2.0	1.8	1.6	0.9	0.9	0.9	10.9	10.8	11.5
SIB	Buy	18	0.4	9.4	10.4	4.5	0.6	0.6	0.5	0.4	0.3	0.7	6.6	5.7	12.5
Equitas	Buy	160	0.8	172.3	32.7	16.4	2.4	2.3	2.0	0.3	1.1	1.6	1.4	7.1	13.0
RBL	Buy	624	3.7	41.2	30.2	22.3	3.9	3.5	2.6	1.1	1.2	1.4	11.6	12.3	14.1
Private Aggregate															
SBIN (cons)*	Buy	306	38.4	-51.4	34.3	9.3	1.1	1.1	1.0	-0.2	0.1	0.6	-3.5	2.4	11.6
PNB	Neutral	86	3.4	-1.7	-9.7	10.8	0.6	0.7	0.7	-1.7	-0.3	0.3	-29.6	-6.4	6.0
BOI	Neutral	100	2.4	-2.3	19.6	12.1	0.5	0.5	0.5	-1.0	0.1	0.2	-17.8	2.5	4.0
BOB	Buy	152	5.7	-15.5	13.0	7.8	1.0	0.9	0.8	-0.3	0.4	0.6	-5.8	6.9	10.7
CBK	Neutral	285	2.9	-4.5	14.8	6.4	0.6	0.6	0.6	-0.7	0.2	0.5	-12.2	3.9	8.5
UNBK	Neutral	90	1.5	-1.6	-20.9	25.4	0.4	0.4	0.4	-1.1	-0.1	0.1	-23.7	-2.1	1.6
INBK	Buy	329	2.2	12.5	10.2	6.2	0.9	0.9	0.8	0.5	0.6	0.8	8.3	9.4	14.2
Public Aggregate															
Banks Aggregate															
HDFC*	Buy	1,940	45.7	24.4	17.0	15.3	4.0	2.7	2.4	1.9	2.0	1.8	18.6	17.5	16.5
LICHF	Neutral	520	3.7	13.2	11.5	9.7	2.1	1.9	1.6	1.3	1.3	1.4	17.0	17.2	17.8
IHFL	Buy	1,260	7.6	14.0	11.8	9.9	3.6	3.1	2.7	3.4	3.2	3.0	27.9	28.3	29.5
PNBHF	Buy	1,346	3.2	27.0	21.4	17.2	3.5	3.1	2.7	1.6	1.4	1.2	13.9	15.2	16.7
GRHF	Neutral	333	3.4	67.1	53.5	47.3	18.8	15.5	12.9	2.5	2.7	2.6	31.8	31.8	29.7
REPCO	Buy	533	0.5	16.2	13.0	11.6	2.6	2.2	1.8	2.2	2.4	2.4	16.9	18.0	17.2
Housing Finance															
SHTF	Buy	1,315	4.2	19.0	12.0	9.7	2.2	1.9	1.6	2.0	2.5	2.6	12.7	16.9	18.0
MMFS	Buy	486	4.2	27.8	23.9	20.1	3.1	2.8	2.6	2.3	2.3	2.2	12.5	12.4	13.5
BAF	Neutral	2,728	22.1	62.8	43.5	32.9	10.1	8.4	6.9	3.3	3.5	3.6	20.4	21.1	23.0
CIFC	Buy	1,510	3.3	24.2	20.1	16.9	4.7	3.9	3.2	2.7	2.5	2.4	20.9	21.0	20.7
SCUF	Buy	1,988	1.8	19.7	14.5	12.5	2.4	2.1	1.8	2.8	3.2	3.1	12.7	15.4	15.6
LTFH	Buy	180	5.0	26.6	15.2	13.0	3.2	2.7	2.3	1.7	2.4	2.3	14.2	19.3	19.2
MUTH	Neutral	404	2.3	9.4	9.0	8.3	2.1	1.8	1.6	5.5	5.4	5.4	24.1	21.4	20.2
MAS	Buy	598	0.5	31.2	24.4	19.5	4.6	4.1	3.5	4.1	4.1	4.1	21.2	17.7	19.3
CAFL	Buy	650	0.9	19.6	14.7	11.7	2.5	2.2	1.8	1.6	1.6	1.6	13.4	15.7	17.1
Asset Finance															
NBFC Aggregate															
Financials															

Source: MOSL, Company

Financials and Valuations

INCOME STATEMENT						(INR Million)		
Y/E MARCH	2014	2015	2016	2017	2018	2019E	2020E	2021E
Interest Income	1,687	2,164	2,779	3,364	4,186	5,190	6,552	8,191
Interest Expense	788	1,117	1,423	1,642	1,673	2,080	2,700	3,461
Net Financing income	898	1,046	1,356	1,721	2,513	3,110	3,852	4,729
Change (%)	26.5	16.5	29.6	26.9	46.0	23.8	23.9	22.8
Other operating income	147	205	253	273	364	400	440	506
Other Income	16	13	10	10	0	20	30	45
Net Income	1,061	1,265	1,619	2,005	2,877	3,530	4,322	5,281
Change (%)	21.8	19.2	28.0	23.8	43.5	22.7	22.4	22.2
Operating Expenses	418	453	598	672	790	892	1,079	1,292
Change (%)	9.8	8.3	32.0	12.4	17.6	12.9	21.0	19.8
Operating Profits	643	812	1,021	1,333	2,087	2,638	3,243	3,988
Change (%)	31.0	26.3	25.8	30.5	56.6	26.4	22.9	23.0
Total Provisions	146	195	236	272	473	579	660	825
% to operating income	22.7	24.0	23.1	20.4	22.6	21.9	20.3	20.7
PBT	497	617	785	1,060	1,614	2,059	2,583	3,163
Tax	166	209	271	367	556	710	891	1,091
Tax Rate (%)	33.4	33.8	34.5	34.6	34.4	34.5	34.5	34.5
PAT	331	408	515	693	1,058	1,349	1,692	2,072
Change (%)	20.5	23.3	26.1	34.8	52.6	27.5	25.4	22.5
Preference Dividend	33	35	35	40	0	0	0	0
Minority Interest	5	8	6	8	10	13	16	20
PAT for Equity Shareholders	293	365	473	646	1,048	1,336	1,676	2,052
Change (%)	30.1	24.5	29.5	36.7	62.2	27.5	25.4	22.4
Proposed Dividend	35	56	176	132	0	334	419	513

BALANCE SHEET						(INR Million)		
Y/E MARCH	2014	2015	2016	2017	2018	2019E	2020E	2021E
Equity Share Capital	160	160	160	430	547	547	547	547
Reserves & Surplus	684	1,006	1,235	2,416	6,710	7,713	8,970	10,509
Networth	844	1,166	1,395	2,846	7,257	8,259	9,516	11,056
Minority Interest	66	92	98	105	113	126	142	161
Other Capital Instruments	935	935	955	975	40	40	40	40
Borrowings	9,292	13,270	16,665	17,564	21,345	28,181	36,114	46,299
Change (%)	48.0	42.8	25.6	5.4	21.5	32.0	28.2	28.2
Other liabilities	195	257	345	522	-80	-96	-115	-139
Change (%)	38.7	32.3	34.0	51.3	-115.4	20.0	20.0	20.0
Total Liabilities	11,331	15,720	19,458	22,011	28,675	36,509	45,696	57,418
Loans	9,226	13,220	17,249	21,093	27,121	34,662	43,336	54,170
Change (%)	53.5	43.3	30.5	22.3	28.6	27.8	25.0	25.0
Investments	1	3	3	0	0	0	0	0
Net Fixed Assets	58	46	82	87	578	664	764	879
Other assets	2,046	2,450	2,124	831	976	1,183	1,596	2,369
Total Assets	11,331	15,720	19,458	22,011	28,675	36,509	45,696	57,418

E: MOSL Estimates

Financials and Valuations

RATIOS

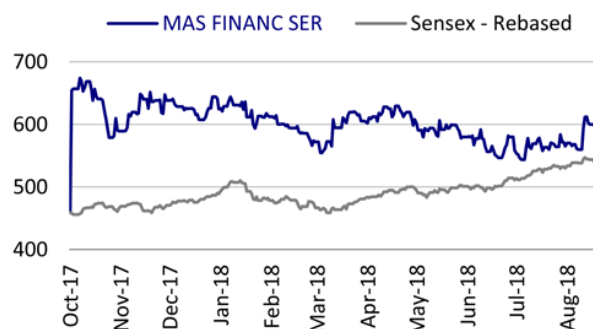
Y/E MARCH	2014	2015	2016	2017	2018	2019E	2020E	2021E
Spreads Analysis (%)								
Yield on loans	22.0	19.1	18.1	17.4	17.3	16.8	16.8	16.8
Cost of Funds	10.1	9.9	9.5	9.6	8.6	8.4	8.4	8.4
Spreads (On books)	11.9	9.2	8.6	7.8	8.7	8.4	8.4	8.4
NIMs (On AUM)	7.2	5.9	5.7	5.7	6.6	6.4	6.4	6.3
Profitability Ratios (%)								
RoE	39.9	36.3	36.9	30.5	20.7	17.2	18.9	20.0
RoA	3.03	2.70	2.69	3.12	4.14	4.10	4.08	3.98
RoA (on AUM)	2.34	2.05	1.97	2.14	2.74	2.77	2.79	2.74
Op. Exps./Net Income	39.4	35.8	36.9	33.5	27.5	25.3	25.0	24.5
Empl. Cost/Op. Exps.	35.0	37.8	40.8	43.7	52.6	57.8	58.3	58.4
Asset-Liability Profile (%)								
Net NPAs to Adv.	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.0
Debt/Equity (x) - On BS	12.1	12.2	12.6	6.5	2.9	3.4	3.8	4.2
Average leverage	11.9	12.2	12.4	8.5	4.0	3.2	3.6	4.0
CAR	19.0	18.1	18.3	23.0	28.0	25.8	23.8	22.1
Valuations								
Book Value (INR)	52.8	72.9	87.2	66.2	132.8	151.1	174.1	202.3
Price-BV (x)					4.5	4.0	3.4	3.0
Adjusted BV (INR)	47.4	65.4	76.7	63.8	130.3	147.9	170.1	197.1
Price-ABV (x)					4.6	4.1	3.5	3.0
EPS (INR)	18.3	22.8	29.5	15.0	19.2	24.4	30.7	37.5
EPS Growth (%)	-18.7	24.5	29.5	-49.1	27.5	27.5	25.4	22.4
Price-Earnings (x)					31.3	24.5	19.6	16.0

E: MOSL Estimates

Corporate profile

MAS Financial Services (MASFIN) is an Ahmedabad-headquartered, non-deposit-taking NBFC incorporated in 1995 by first-generation entrepreneurs, Mr. Kamlesh Gandhi and Mr. Mukesh Gandhi. It operates out of six states, of which Gujarat and Maharashtra account for bulk of the AUM. A quintessential NBFC, it targets the middle and low income customer segments. Over the past five years, MASFIN's AUM grew at a robust 30%+ CAGR to reach INR43b in FY18. Growth was driven by their flagship product (MEL loans) and new product such as SME loans.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18
Promoter	73.4	73.3
DII	10.3	10.3
FII	2.9	4.3
Others	13.5	12.1

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Vistra Itcl I Ltd Business Excellence Turst Iii India Business	7.3
Axis Mutual Fund Trustee Limited A/C Axis Mutual Fund A/C Axis Long Term Equity Fund	5.0
Idfc Sterling Value Fund	2.8
Tata Aia Life Insurance Co Ltd-Whole Life Mid Cap Equity Fund-Ulif 009 04/01/07 Wle 110	1.2

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Kamlesh Chimanlal Gandhi	Chairman & Managing Director
Darshana Saumil Pandya	Executive Director & COO
MUKESH CHIMANLAL GANDHI	Whole Time Director & CFO
Nirav Prakashchandra Patel	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Balabhaskaran	Chetan Ramniklal Shah
Umesh Rajanikant Shah	

*Independent

Exhibit 6: Auditors

Name	Type
B S R & Co LLP	Statutory
Deloitte Haskins & Sells	Statutory
Ravi Kapoor & Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	24.4	-	-
FY20	30.7	-	-
FY21	37.5	-	-

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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