

MAS Financial Services

BSE SENSEX	S&P CNX
35,591	10,652
Bloomberg	MASFIN IN
Equity Shares (m)	55
M.Cap.(INRb)/(USDb)	29.4 / 0.4
52-Week Range (INR)	643 / 365
1, 6, 12 Rel. Per (%)	-7/1/-14
12M Avg Val (INR M)	21
Free float (%)	26.5

Financials & Valuations (INR b)

Y/E Mar	2019E	2020E	2021E
NII	3.4	4.0	5.0
PPP	2.9	3.5	4.3
PAT	1.5	1.8	2.1
EPS (INR)	28.4	32.6	39.1
BV/Share (INR)	154.0	178.5	207.9
RoA on AUM (%)	3.1	2.9	2.7
RoE (%)	19.8	19.6	20.3

Valuations			
Y/E Mar	2019E	2020E	2021E
P/E (x)	19.6	17.0	14.2
P/BV (x)	3.6	3.1	2.7

CMP: INR538 TP: INR650 (+21%) Buy

AUM growth on track; higher assignment transactions drive PAT outperformance

- Consol. PAT grew 51% YoY to INR461m (30% beat), driven by higher-than-expected assignment transactions (INR7.8b; 16% of opening AUM) and related up-fronting of income (according to the regulation under Ind-AS).
- Standalone AUM increased 34% YoY to INR49.1b, driven by 35% YoY growth in micro-enterprise loans (MEL) to INR30.6b. **MEL now comprises 62% of total AUM.** SME loans stood at INR11.9b, comprising 24% of total AUM.
- Borrowing mix was largely stable sequentially. The share of assignment in overall funding stood at 50% versus 49% in the previous quarter.
- **Cost of funds increased ~25bp QoQ to 9.1%. Incremental cost of funds stood at 9.75% in the quarter.** Calculated margins were stable YoY at 8.5%.
- Asset quality has been largely stable – GNPL ratio increased by 10bp YoY to 1.3%, while NNPL ratio was stable at 0.9%.

Valuation 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) 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. However, there might be modest challenges to growth and margins over the near term. **We expect RoA (on AUM)/RoE of 2.9%/19% in FY20. We increase our FY19/20 estimates by 12/6% to factor in higher assignment income in FY19 and higher AUM growth in FY20.** Reiterate **Buy** with a TP of INR650 (3.2x Dec'20E BV, 18x Dec'20E earnings).

Quarterly Performance

Y/E March	FY18				FY19				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY18	FY19
Total Income	1,041	1,239	1,247	1,135	1,288	1,421	1,705	1,701	4,662	6,114
Interest expenses	489	518	448	352	468	528	639	658	1,807	2,293
Net Income	552	721	799	783	820	893	1,066	1,042	2,855	3,821
Growth Y-o-Y (%)	24.0	49.5	63.4	61.3	48.5	23.9	33.4	33.1	50.1	33.9
Operating Expenses	175	195	244	179	203	219	223	241	794	886
Operating Profits	377	525	555	604	617	674	843	801	2,061	2,936
Growth Y-o-Y (%)	24.4	54.7	68.5	85.2	63.7	28.4	51.8	32.7	58.8	42.4
Provisions	76	121	86	148	137	126	141	139	429	543
Profit before tax	301	405	469	456	480	548	702	663	1,632	2,393
Growth Y-o-Y (%)	29.4	41.4	66.3	98.8	59.4	35.5	49.5	45.3	58.3	46.7
Tax Provisions	127	159	163	157	167	193	240	230	606	830
Net Profit	174	246	306	299	313	355	461	432	1,025	1,563
Growth Y-o-Y (%)	16.8	29.1	65.5	100.6	79.6	44.7	50.7	44.6	52.2	52.4
Int. Exp/Int. Income %	47.0	41.8	35.9	31.0	36.3	37.1	37.5	38.7	38.8	37.5
Cost to Income Ratio %	31.7	27.1	30.5	22.9	24.7	24.5	20.9	23.1	27.8	23.2
Prov to Operating Profits %	20.1	22.9	15.4	24.4	22.2	18.7	16.7	17.3	20.8	18.5
Tax Rate %	42.1	39.3	34.8	34.5	34.7	35.2	34.3	34.8	37.2	34.7

E: MOSL Estimates

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34% YoY AUM growth in
3QFY19

AUM growth strong, MEL gaining share

- Disbursements grew 29% YoY to INR12.4b.
- Standalone AUM increased 34% YoY to INR49.1b, driven by 35% YoY growth in micro-enterprise loans to INR30.6b. MEL now comprises 62% of total AUM.
- Share of other products in AUM – SME: 24%, 2W: 10%, CV: 3%.
- GNPL ratio increased 10bp YoY to 1.3%, but NNPL ratio was stable at 0.9%.
- Segmental yield: MEL/SME/2W/CV at 15.5%/14.9%/16.9%/17.5% for 3QFY19 v/s 15.5%/15.9%/18.9%/17.9% for 3QFY18.

MAS Housing subsidiary:
AUM grew by 31% YoY to
INR2.5b

MAS Housing subsidiary – performance highlights

- AUM growth picked up from the mid-teens trend in the past quarter to 31% YoY this quarter. AUM at quarter-end stood at INR2.5b.
- PAT for the quarter was INR10m, implying ~1.6% RoA.
- GNPL/NNPL ratio remained stable at 32bp/25bp on a YoY basis.

Others

- Share of off-balance sheet AUM increased from 37% to 40% YoY.
- AUM sourced by channel partners (i.e. NBFCs) remained sequentially stable at 60%.
- Capitalization remains robust, with a tier I ratio of 29.3%.

Valuation and 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.
- With a tier I ratio of 29.4%, MASFIN is well capitalized for the next three years of growth, in our view.
- Since the company has a higher share of assignment transactions, quarterly earnings volatility is likely to increase going forward, especially depending upon the type of portfolio assigned.
- We increase our estimates for FY19/20 by 12/6% to factor in higher assignment income in FY19 and higher AUM growth in FY20.
- We use RI model with Rf of 7.5%, CoE of 15.2% and terminal growth rate of 5% to arrive at a target price of INR650 (3.2x Dec'20E BV, 18x Dec'20E earnings).

Buy.

Exhibit 1: Upgrading estimates to factor in stronger assignment income in FY19E and higher AUM growth in FY20E

INR b	Old Est.		New Est.		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
NII	3.2	3.9	3.4	4.0	5.3	2.8
Other Income	0.4	0.5	0.5	0.5	7.1	5.3
Total Income	3.6	4.4	3.8	4.5	5.5	3.0
Operating Expenses	0.9	1.1	0.9	1.1	-1.1	-1.0
Operating Profits	2.7	3.3	2.9	3.5	7.7	4.4
Provisions	0.6	0.7	0.5	0.7		
PBT	2.1	2.6	2.4	2.7	11.4	5.6
Tax	0.8	0.9	0.8	0.9	10.5	5.6
PAT	1.4	1.7	1.6	1.8	11.9	5.6
AUM	53	67	55	69	4.1	4.0
NIM (%)	6.6	6.6	6.8	6.5		
ROAA (%)	4.2	4.1	4.9	4.6		
RoAE (%)	17.8	18.9	19.8	19.6		

Source: MOSL, Company

**Conference call highlights****Business**

- Working closely with fin-tech companies to understand technology and processes.
- Have been able to pass on increased borrowings cost to customers.
- Avg. ticket size in SME has reduced QoQ due to business mix shift.
- Lending rates have been increased by 50-75bp for on-lending (60% of portfolio).
- INR39m of other income is treasury income due to money parked in FDs.
- Blended yield 16.6%.
- Sometimes lend to NBFCs, if well capitalized, despite loss incurred in a quarter.
- Minimum AUM of NBFCs for on-lending: INR20m.
- For top-10 borrowers, MASFIN has average exposure of 7% of its balance sheet.
- Most NBFCs with which the company works have avg. growth rate of 35%.

Asset quality

- Slippages INR160m in 3QFY19, INR140m in 2QFY19, INR230m in 3QFY18.
- Provisions have increased due to portfolio growth and stage 3 provisions increasing.

Liquidity

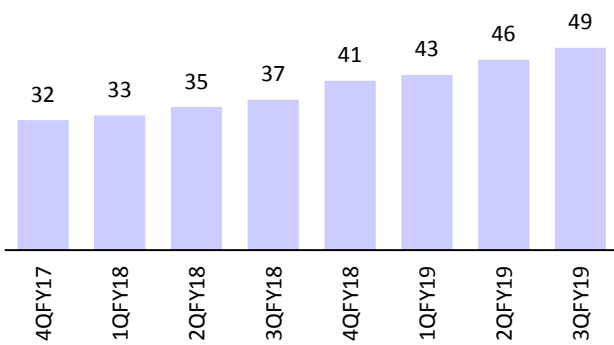
- Incremental cost of borrowings is at 9.75%, likely to remain at similar levels.
- Likely to hit capital markets for capital raising.
- INR7.8 of assignment in 3Q, INR3.5b in 1QFY19.
- Have two quarters of liabilities sanctioned now; likely to raise ECB in FY20.
- Term loans have declined sequentially as it did not go to banks for sanctions due to high rates (10.5-10.75%).

Guidance

- Increasing branches to 150 in 2-3 years; will be in present six states.

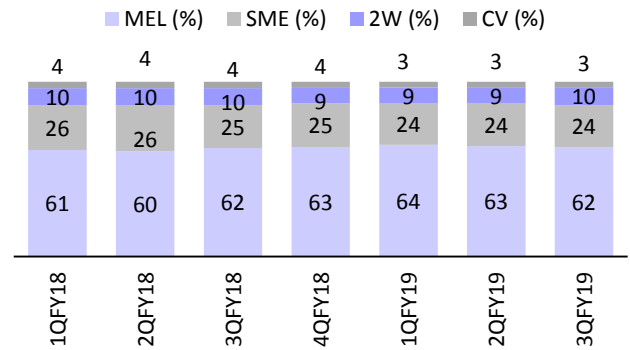
Story in charts

Exhibit 2: AUM (excl. housing finance) trend (INR b)



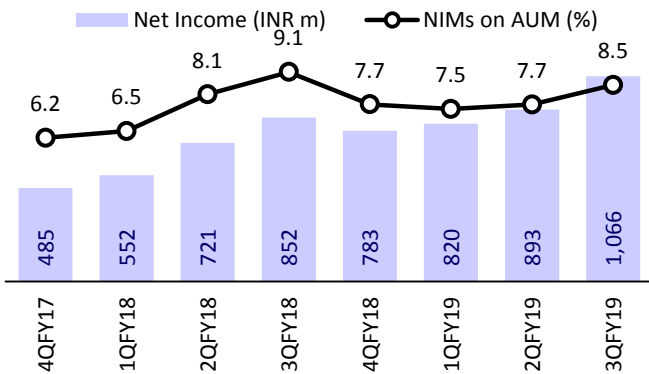
Source: Company, MOSL

Exhibit 3: MEL and SME remain key growth drivers



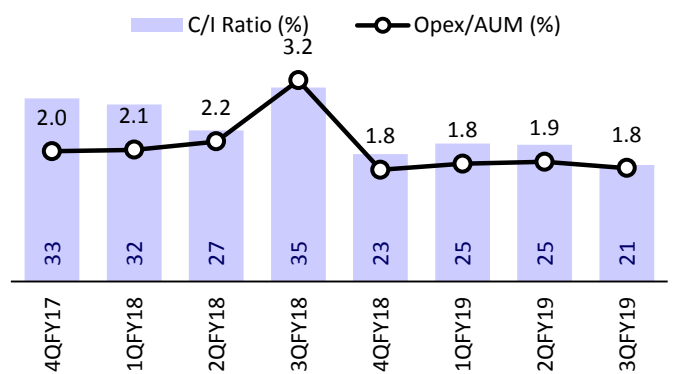
Source: Company, MOSL

Exhibit 4: NIM (calc.) trend



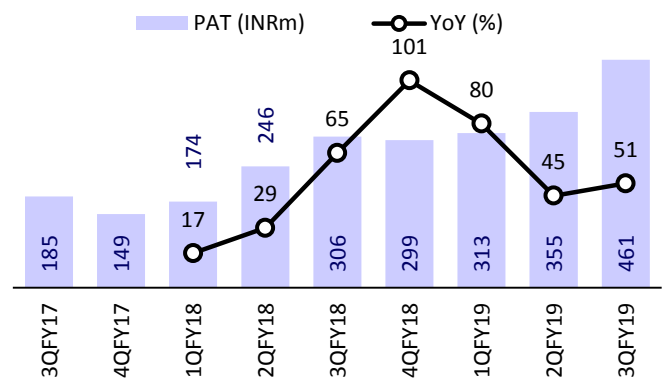
Source: Company, MOSL

Exhibit 5: Trend in C/I ratio (%)



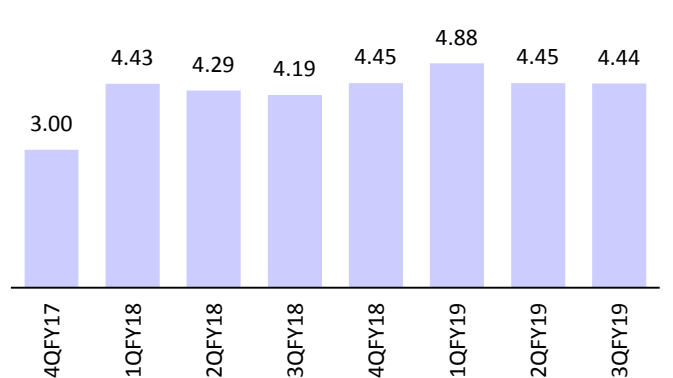
Source: Company, MOSL

Exhibit 6: PAT increased 51% YoY



Source: Company, MOSL

Exhibit 7: RoA trend stable (%)



Source: Company, MOSL; Note: Includes only on-book assets

Financials – Valuation matrix

	Rating	CMP (INR)	Mcap (USDb)	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
				FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
ICICIBC*	Buy	365	31.4	8.0	20.2	32.6	12.9	166	181	1.6	1.4	0.6	1.2	5.0	11.8
HDFCB	Buy	2,033	78.7	79.8	95.9	25.5	21.2	543	621	3.7	3.3	1.8	1.8	16.7	16.5
AXSB	Buy	691	23.9	18.5	39.6	37.3	17.5	266	301	2.6	2.3	0.6	1.2	7.2	13.9
KMB*	Neutral	1,222	33.5	37.9	46.1	32.2	26.5	303	348	4.0	3.5	1.7	1.7	12.1	13.3
YES	Buy	199	6.6	18.5	22.6	10.8	8.8	126	145	1.6	1.4	1.2	1.2	15.5	16.7
IIB	Buy	1,476	12.4	68.8	100.2	21.5	14.7	441	556	3.3	2.7	1.7	2.1	16.5	20.2
FB	Buy	86	2.4	6.1	8.9	14.1	9.7	67	75	1.3	1.1	0.8	1.0	9.5	12.5
DCBB	Neutral	177	0.8	10.2	13.2	17.5	13.4	96	109	1.8	1.6	0.9	1.0	11.6	13.4
SIB	Buy	13	0.3	1.7	2.7	8.0	4.9	29	31	0.5	0.4	0.3	0.5	5.6	8.6
Equitas	Buy	119	0.6	6.3	8.4	19.0	14.1	73	80	1.6	1.5	1.3	1.4	9.0	11.1
RBL	Buy	562	3.3	20.6	28.0	27.2	20.1	176	199	3.2	2.8	1.2	1.3	12.3	14.9
Private Aggregate															
SBIN (cons)*	Buy	288	35.2	8.7	32.3	29.0	8.2	249	276	1.0	1.0	0.1	0.7	2.7	12.3
PNB	Neutral	77	3.3	-17.7	8.0	-4.3	9.7	109	117	0.7	0.7	-0.7	0.4	-13.8	6.8
BOI	Neutral	99	2.4	-24.4	3.7	-4.1	26.6	127	128	0.8	0.8	-0.9	0.2	-15.0	2.7
BOB	Buy	114	4.2	8.9	15.7	12.8	7.2	165	179	0.7	0.6	0.3	0.5	5.3	8.8
CBK	Neutral	250	2.5	17.0	42.3	14.7	5.9	448	484	0.6	0.5	0.2	0.4	3.5	8.2
UNBK	Neutral	81	1.3	4.5	12.8	18.1	6.3	235	245	0.3	0.3	0.1	0.3	2.1	5.5
Public Aggregate															
Banks Aggregate															
HDFC*	Buy	1,886	45.2	42.8	49.6	19.9	17.1	307	343	2.8	2.5	1.8	1.9	15.6	15.3
LICHF	Buy	434	3.2	46.2	56.4	9.4	7.7	324	371	1.3	1.2	1.4	1.5	15.1	16.2
IHFL	Buy	674	4.2	95.6	109.7	7.1	6.1	395	446	1.7	1.5	3.1	3.1	25.6	26.1
PNBHF	Buy	932	2.2	66.0	78.0	14.1	11.9	435	496	2.1	1.9	1.5	1.4	16.1	16.8
REPCO	Buy	398	0.3	40.0	45.1	10.0	8.8	245	287	1.6	1.4	2.4	2.4	17.7	17.0
Housing Finance															
SHTF	Buy	1,015	3.3	108.7	133.3	9.3	7.6	693	808	1.5	1.3	2.4	2.7	16.8	17.8
MMFS	Buy	404	3.4	21.7	27.0	18.7	15.0	172	191	2.4	2.1	2.3	2.3	13.2	14.9
BAF	Neutral	2,596	20.3	68.3	89.1	38.0	29.1	329	408	7.9	6.4	3.8	3.7	22.8	24.2
CIFC	Buy	1,132	2.4	77.2	86.4	14.7	13.1	393	470	2.9	2.4	2.4	2.3	21.5	20.0
SCUF	Buy	1,734	1.6	144.2	158.0	12.0	11.0	949	1,089	1.8	1.6	3.5	3.6	16.3	15.5
LTFH	Buy	133	3.7	11.5	13.3	11.5	10.0	66	78	2.0	1.7	2.3	2.2	18.8	18.5
MUTH	Neutral	501	2.8	50.3	58.0	10.0	8.6	229	270	2.2	1.9	5.8	5.9	23.8	23.3
MAS	Buy	538	0.4	25.3	30.9	21.2	17.4	152	175	3.5	3.1	4.2	4.1	17.8	18.9

*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

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	5,664	7,117	9,013
Interest Expense	788	1,117	1,423	1,642	1,673	2,293	3,074	4,001
Net Financing income	898	1,046	1,356	1,721	2,513	3,371	4,042	5,012
Change (%)	26.5	16.5	29.6	26.9	46.0	34.2	19.9	24.0
Other operating income	147	205	253	273	364	400	440	484
Other Income	16	13	10	10	0	50	55	61
Net Income	1,061	1,265	1,619	2,005	2,877	3,821	4,538	5,557
Change (%)	21.8	19.2	28.0	23.8	43.5	32.8	18.7	22.5
Operating Expenses	418	453	598	672	790	886	1,072	1,285
Change (%)	9.8	8.3	32.0	12.4	17.6	12.1	21.1	19.9
Operating Profits	643	812	1,021	1,333	2,087	2,936	3,465	4,272
Change (%)	31.0	26.3	25.8	30.5	56.6	40.7	18.0	23.3
Total Provisions	146	195	236	272	473	543	718	975
% to operating income	22.7	24.0	23.1	20.4	22.6	18.5	20.7	22.8
PBT	497	617	785	1,060	1,614	2,393	2,747	3,296
Tax	166	209	271	367	556	830	948	1,137
Tax Rate (%)	33.4	33.8	34.5	34.6	34.4	34.7	34.5	34.5
PAT	331	408	515	693	1,058	1,563	1,800	2,159
Change (%)	20.5	23.3	26.1	34.8	52.6	47.7	15.2	20.0
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	1,550	1,784	2,139
Change (%)	30.1	24.5	29.5	36.7	62.2	47.9	15.1	19.9
Proposed Dividend	35	56	176	132	0	387	446	535

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	7,873	9,211	10,815
Networth	844	1,166	1,395	2,846	7,257	8,419	9,757	11,362
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	26,424	33,563	42,641
Change (%)	48.0	42.8	25.6	5.4	21.5	23.8	27.0	27.0
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	34,913	43,386	54,066
Loans	9,226	13,220	17,249	21,093	27,121	33,294	41,618	52,023
Change (%)	53.5	43.3	30.5	22.3	28.6	22.8	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	954	1,004	1,165
Total Assets	11,331	15,720	19,458	22,011	28,675	34,913	43,386	54,066
E: MOSL Estimates								
Assumptions	2014	2015	2016	2017	2018	2019E	2020E	2021E
AUM (INR M)	14,563	20,996	26,999	33,326	43,184	55,491	69,363	86,704
Change (%)	38.3	44.2	28.6	23.4	29.6	28.5	25.0	25.0
On Balance Sheet	57.4	63.8	63.4	64.4	63.6	62.8	60.0	60.0
Off Balance Sheet	42.6	36.2	36.6	35.6	36.4	37.2	40.0	40.0

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	18.8	19.0	19.3
Cost of Funds	10.1	9.9	9.5	9.6	8.6	9.6	10.3	10.5
Spreads (On books)	11.9	9.2	8.6	7.8	8.7	9.2	8.8	8.8
NIMs (On AUM)	7.2	5.9	5.7	5.7	6.6	6.8	6.5	6.4
Profitability Ratios (%)								
RoE	39.9	36.3	36.9	30.5	20.7	19.8	19.6	20.3
RoA	3.03	2.70	2.69	3.12	4.14	4.87	4.56	4.39
RoA (on AUM)	2.34	2.05	1.97	2.14	2.74	3.14	2.86	2.74
Op. Exps./Net Income	39.4	35.8	36.9	33.5	27.5	23.2	23.6	23.1
Empl. Cost/Op. Exps.	35.0	37.8	40.8	43.7	52.6	59.8	60.3	60.3
Asset-Liability Profile (%)								
Net NPAs to Adv.	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Debt/Equity (x) - On BS	12.1	12.2	12.6	6.5	2.9	3.1	3.4	3.8
Average leverage	11.9	12.2	12.4	8.5	4.0	3.1	3.3	3.6
CAR	19.0	18.1	18.3	23.0	28.0	25.3	23.4	21.8
Valuations								
Book Value (INR)	52.8	72.9	87.2	66.2	132.8	154.0	178.5	207.9
Price-BV (x)					4.2	3.6	3.1	2.7
Adjusted BV (INR)	47.4	65.4	76.7	63.8	130.3	150.9	174.4	202.6
Price-ABV (x)					4.3	3.7	3.2	2.7
EPS (INR)	18.3	22.8	29.5	15.0	19.2	28.4	32.6	39.1
EPS Growth (%)	-18.7	24.5	29.5	-49.1	27.5	47.9	15.1	19.9
Price-Earnings (x)					28.9	19.6	17.0	14.2

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 rate to reach INR52b in 3QFY19. Growth was driven by their flagship product (MEL loans) and new product such as SME loans.

Exhibit 1: Sensex rebased

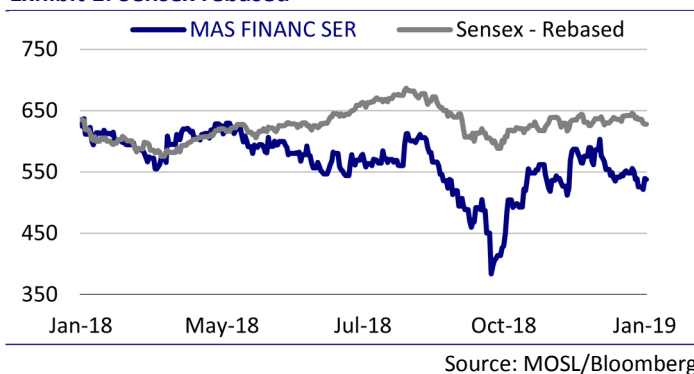


Exhibit 2: Shareholding pattern (%)

	Dec-18	Sep-18	Dec-17
Promoter	73.5	73.4	73.2
DII	9.9	9.9	8.8
FII	2.6	2.6	5.3
Others	14.0	14.1	12.6

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Vistra Itcl I Ltd Business Excellence Trust Iii India Business	7.3
Axis Mutual Fund Trustee Limited A/C Axis Mutual Fund A/C Axis Long Term Equity Fund	4.5
Idfc Sterling Value Fund	3.4
Tata Aia Life Insurance Co Ltd-Whole Life Mid Cap Equity Fund-Ulif 009 04/01/07 Wle 110	1.4

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
Riddhi Bhaveshbhai Bhayani	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Balabhaskaran	Chetan Ramniklal Shah
Umesh Rajanikant Shah	

*Independent

Exhibit 6: Auditors

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

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	28.4	25.7	10.5
FY20	32.6	31.6	3.0
FY21	39.1	39.0	0.2

Source: Bloomberg

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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