




MAS Financial Services

Estimate change 
 TP change 
 Rating change 

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Bloomberg	MASFIN IN
Equity Shares (m)	55
M.Cap.(INRb)/(USDb)	36.1 / 0.5
52-Week Range (INR)	1269 / 448
1, 6, 12 Rel. Per (%)	-4/-39/3
12M Avg Val (INR M)	24

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Total income	4.3	4.2	5.0
PPP	3.3	3.4	4.0
PAT	1.8	1.7	2.0
EPS (INR)	33.2	30.8	36.9
EPS Gr. (%)	19.2	-7.0	19.5
BVPS (INR)	182	205	232
Ratios			
NIM (%)	9.2	8.5	8.8
C/I ratio (%)	23.2	20.2	20.4
RoA on AUM (%)	3.2	2.7	2.8
RoE (%)	19.8	16.0	16.9
Payout (%)	24.1	26.0	24.4
Valuations			
P/E (x)	19.9	21.4	17.9
P/BV (x)	3.6	3.2	2.8
Div. yield (%)	1.2	1.2	1.4

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	73.6	73.6	73.5
DII	11.9	10.7	10.7
FII	1.4	1.5	2.4
Others	13.1	14.2	13.4

FII Includes depository receipts

CMP: INR661

TP: INR810 (+ 23%)

Buy

Sharp improvement in collection efficiency; Cautious on growth

- MASFIN posted 1QFY21 PAT of INR356m (7% miss). While NII was largely in-line, lower-than-expected opex (35% below est.) resulted in a 10% beat in PPOp (INR775m). Lower opex was due to a tweak in the employee cost structure toward a variable structure.
- The entire provisioning in 1QFY21 (INR299m v/s est. of INR200m) was toward contingent provisions for COVID-19. It stands at 1.6% of balance sheet loans. **Jun/Jul'20 collections (in value terms) stood at 74%/87% (v/s 45–50% over Apr–May'20).**
- Overall earnings and balance sheet growth are largely in line with expectations. We maintain our estimates for FY21/FY22E and expect RoA/RoE at ~3.8%/16.4%.

AUM declines QoQ; share of assignments increases

- Due to lockdown and the lack of visibility, disbursements did not materialize over Apr–May'20. Disbursements executed over Jun/Jul'20 stood at INR1,080m/INR878m. Overall AUM declined ~5% QoQ to INR56.5b (1%+ YoY). Share of off-balance sheet loans increased to 45% (up 74bp/800bp QoQ/YoY). Management is positive on disbursements normalizing post October 2020.
- The AUM mix was largely stable QoQ, with the largest share coming from Micro and SME loans at ~61%/~30% (v/s 65%/25% YoY). During the quarter, ATS increased by 14%/35% in micro enterprise / CV loans and declined by 46%/5% in SME/2W loans.
- As of Jul'20, liquidity stood at INR13b (excl. CC line sanctions of INR7b). Furthermore, the company has INR11.3b worth of term loans and direct assignment sanctions in hand. The company has not opted for moratorium from any of its lenders.

Asset quality stable QoQ; COVID-19 contingency provision at 1.6%

- **Moratorium was offered to all customers. As the collection rate is at 76%/87% for June/July, this effectively translates into 26%/13% of customers (by value) under moratorium for June/July 2020 v/s 51%/55% over Apr/May'20.**
- On the balance sheet, GS3/NS3 is stable sequentially at 1.41%/1.14%. In the HFC subsidiary, the GNPL ratio was largely stable at 36bp.

Key highlights from management commentary

- NBFC partners' collection efficiency was at 80%/93% in Jun/July'20.
- The company changed the employee cost structure more in favor of variable pay (to 50% v/s 30% earlier), and owing to moderate disbursements, opex reduced sharply. Over the longer period, it maintains guidance of 1.4–1.5% opex to AUM v/s 0.8% reported in 1QFY21.
- Expect disbursements to normalize mid-3QFY21.

Valuation and view

- MASFIN operates in a tough operating environment, with large exposure to micro loans / the MSME sector. Thus, asset quality and business growth are key monitorables. Historically, the company has managed liquidity well with higher sell-downs, which was reflected in its 1QFY21 earnings as well. It has one of the best capitalizations among the NBFCs, with Tier I of ~32%.

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- We like MASFIN's focus on profitability over growth. In this environment, growth is likely to remain muted. We largely maintain estimates. The stock trades at 3.2x/2.8x P/B of FY21/FY22E. Buy, with TP of INR810 (3.5x FY22E BV).

(INR m)												
Quarterly Performance	FY20				FY21				FY20	FY21E	1QFY21E	Act v/s Est (%)
Y/E March	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue from Operations	1,592	1,674	1,836	1,729	1,591	1,765	1,881	2,050	7,224	7,277	1,593	0
Interest Income	1,357	1,394	1,447	1,393	1,412	1,469	1,535	1,649	5,969	6,066	1,449	
Gain on assignments	200	242	344	289	144	250	300	344	1,093	1,038	100	
Other operating Income	35	38	45	46	34	46	46	57	162	173	44	
Interest expenses	640	727	686	690	694	735	768	839	2,961	3,036	704	-1
Total income	953	947	1,150	1,039	898	1,030	1,113	1,211	4,263	4,241	889	1
Growth Y-o-Y (%)	21.1	10.4	11.8	5.3	-5.8	8.7	-3.2	16.6	16.5	-0.5	-6.3	
Operating Expenses	196	222	225	232	122	227	245	263	988	857	187	-34
Operating Profits	756	725	925	807	775	803	868	948	3,275	3,384	703	10
Growth Y-o-Y (%)	25.5	10.3	12.1	0.8	2.5	10.8	-6.2	17.5	13.6	3.3	-7.1	
Provisions	130	226	186	327	299	280	280	278	889	1,137	200	49
Profit before tax	627	499	739	479	476	523	588	670	2,386	2,247	503	-5
Growth Y-o-Y (%)	33.8	-6.9	6.6	-25.1	-24.0	4.8	-20.5	39.7	2.0	-5.8	-19.8	
Tax Provisions	219	33	188	123	120	131	147	164	573	562	121	0
Net Profit	407	467	551	357	356	392	441	506	1,813	1,685	382	-7
Growth Y-o-Y (%)	33.7	35.0	21.3	-14.2	-12.5	-15.9	-20.0	41.8	19.2	-7.0	-6.2	
Key Operating Parameters (%)												
Yield on loans (Cal)	16.0	15.4	16.2	16.5	17.6				18.2			
Cost of funds (Cal)	9.3	9.8	9.1	8.9	9.1				9.5			
Spreads (Cal)	6.8	5.6	7.1	7.5	8.5				8.7			
NIM on AUM (Cal)	7.0	6.6	7.8	7.0	6.2				7.5			
Credit Cost (%)	1.0	1.6	1.3	2.2	2.1				1.6			
Cost to Income Ratio	20.6	23.5	19.6	22.3	13.6	22.0	22.0	21.9	23.2			
Tax Rate	35.0	6.5	25.4	25.6	25.2	25.0	25.0	24.9	24.0			
Balance Sheet Parameters												
Standalone AUM (INR B)	55.8	58.9	59.6	59.7	56.6	59.1	62.1	66.6	59.7			
Change YoY (%)	29.2	26.4	20.3	11.8	1.4	0.3	4.2	11.7	11.8			
Disbursements (INR B)	12.0	13.6	13.2	12.9	1.1				51.7			
Change YoY (%)	20.6	16.9	6.5	-6.0	-91.0				8.4			
Borrowings (INR B)	29.6	29.8	30.5	31.2	30.0							
Change YoY (%)	56.0	34.7	22.4	21.6	1.4							
Debt/Equity (x)	3.1	3.1	3.0	3.0	2.7							
Asset liability Mix												
AUM Mix (%)												
Micro Enterprises	64.5	61.3	61.6	61.0	60.5							
SME loans	24.7	28.5	28.2	29.7	29.6							
2W loans	8.2	7.9	7.6	6.7	7.1							
CV loans	2.7	2.4	2.7	2.6	2.8							
Borrowings Mix (%)												
Direct Assignment	47.0	48.0	50.0	50.0	50.0							
Cash Credit	34.0	31.0	26.0	24.0	24.0							
Term Loan	18.0	20.0	23.0	24.0	25.0							
Sub Debt	1.0	1.0	1.0	1.0	1.0							
Asset Quality Parameters (%)												
GS 3 (INR m)	668	623	652	629	597				629			
GS 3 (%)	1.39	1.27	1.29	1.42	1.41				1.05			
NS 3 (INR m)	528	503	513	464	441				464			
NS 3 (%)	1.14	1.06	1.06	1.14	1.14				0.78			
PCR (%)	20.8	19.3	21.4	26.2	26.1				26.2			
Return Ratios (%)												
ROA	4.1	4.5	5.2	3.2	3.2							
Tier I ratio	26.5	25.5	28.8	28.9	32.2							

E: MOFSL estimates



Highlights from management commentary

Business update

- **NBFC partners' collection efficiency was at 80%/93% in Jun/July'20. NBFC MFI ranged between 40% and 80%.**
- **Expect disbursements/collections to normalize mid-3Q/3QFY21.**
- Of the total reduction in opex QoQ in 1QFY21, a ~33% reduction is attributable to variable costs/pay and the balance 67% to travel/adv./professional fees, etc.
- It did not implement pay cuts during the quarter, but converted some fixed components to variable.
- Expect the mix of fixed:variable pay to be 50:50 in the coming year (historically, 70% has been fixed pay).
- **The 80bp opex to AUM ratio is not sustainable; it may return to ~1.4% once the situation normalizes.**
- 87% of the focused book is from the MSME segment.

Asset quality

- **Collection efficiencies are calculated against demand/billing for the month for the on-book portfolio. The overall collection ratio on AUM would be +/-2-3%.**
- **Write-backs/Collections (~INR3.5b) from the pre-COVID-19 (Feb'20) period were not included in calculating the ratio.**
- If a customer started paying in June (with no installments honored in April/May), they were issued a fresh repayment schedule.
- Moratorium was offered to all customers. Borrowers were educated and requested to pay if they could.
- Normal collection efficiency pre-COVID-19 was at 97%.

Liquidity/Margins

- **Lending yield was at 15.29% (15.68% in 1QFY20).**
- In July, it raised INR1b under term loans, INR1.50b under the PCG scheme, and availed an INR1.25b refinance facility from SIDBI. Cost of borrowings stood at 9%, 8.5%, and 6.2%, respectively.
- Repayment obligations were at INR6.50b in FY21.
- Expect some compression in CoF (anticipate further linkage to MCLR).

HFC:

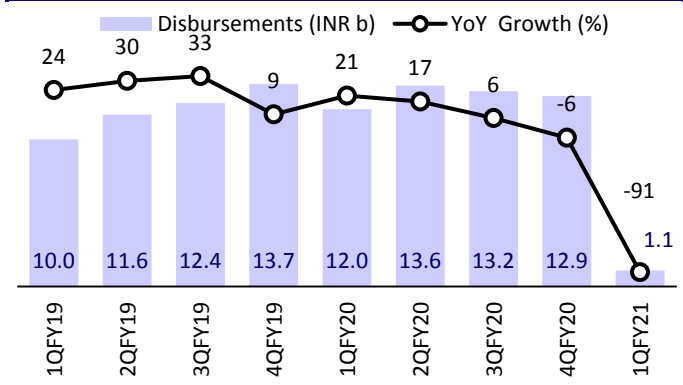
- It is focused on growth in the semi-urban and rural regions.
- Tax adjustments and COVID-19 provisions have led to decline in HFC PAT.

Others:

- Tier I capital is entirely of internal accruals.
- Tax rate is at 25% (last year: 35%).
- NBFC – MFI partners have started receiving funds from NABARD and other lenders as well.

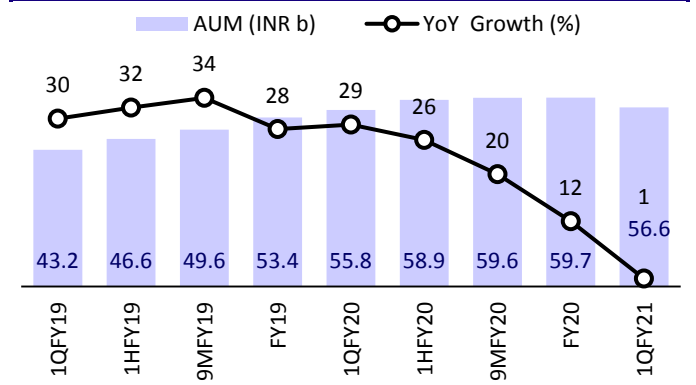
Key exhibits

Exhibit 1: Lockdown impacts disbursements in April/May



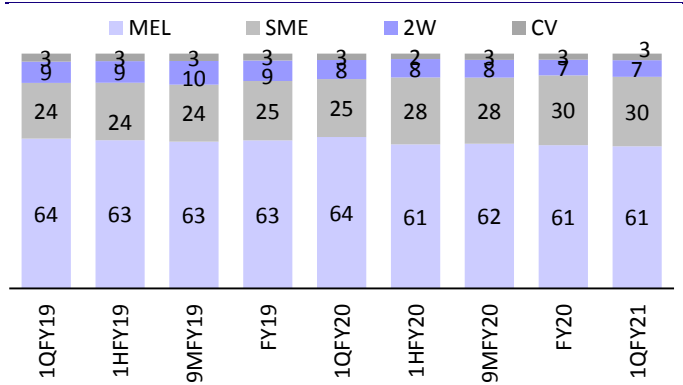
Source: MOFSL, Company

Exhibit 2: ...hence, AUM declines by ~5% sequentially



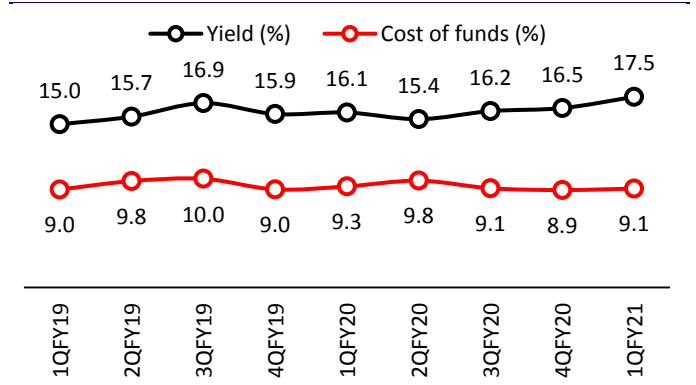
Source: MOFSL, Company

Exhibit 3: AUM mix remains stable sequentially (%)



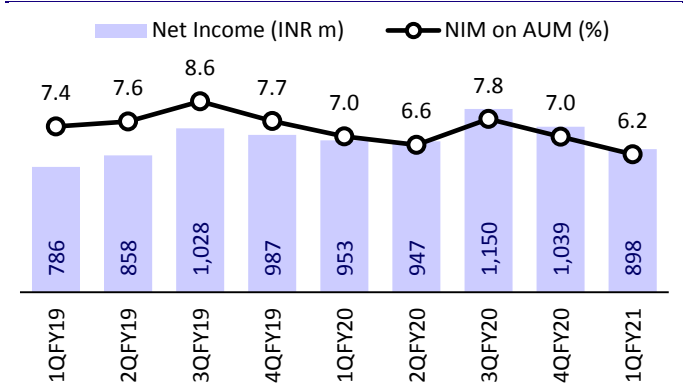
Source: MOFSL, Company

Exhibit 4: Spreads (cal.) improve ~90bp sequentially (%)



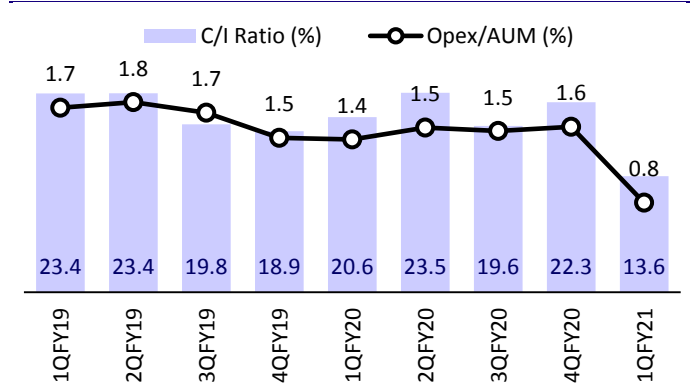
Source: MOFSL, Company

Exhibit 5: NIMs on AUM decline ~80bp QoQ due to lower gains on assignment income



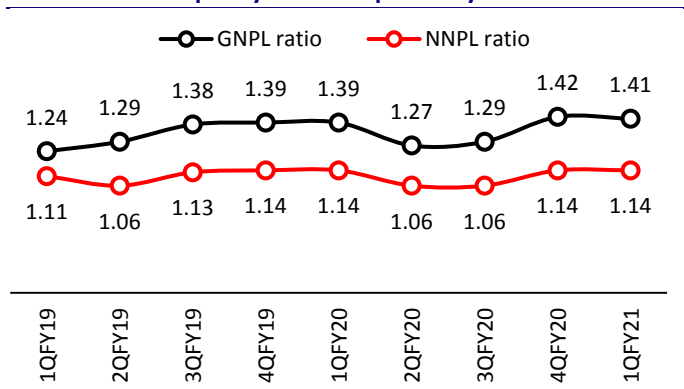
Source: MOFSL, Company; Note: including upfront assignment income

Exhibit 6: Opex to AUM ratio down to 80bp (%)



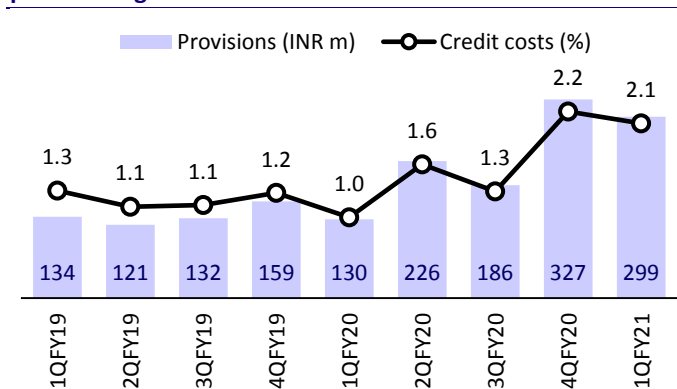
Source: MOFSL, Company

Exhibit 7: Asset quality stable sequentially...



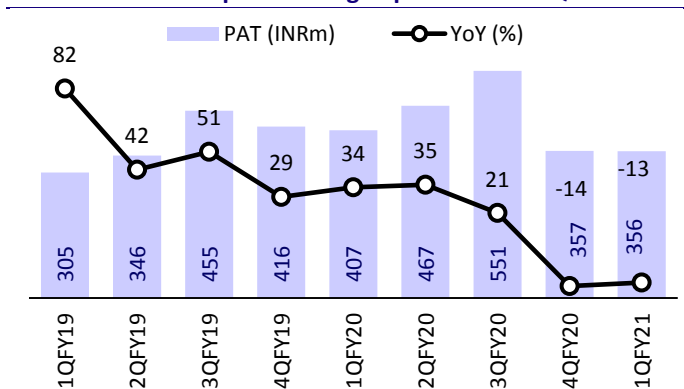
Source: MOFSL, Company

Exhibit 8: ...spiked credit cost due to one-time COVID-19 provisioning



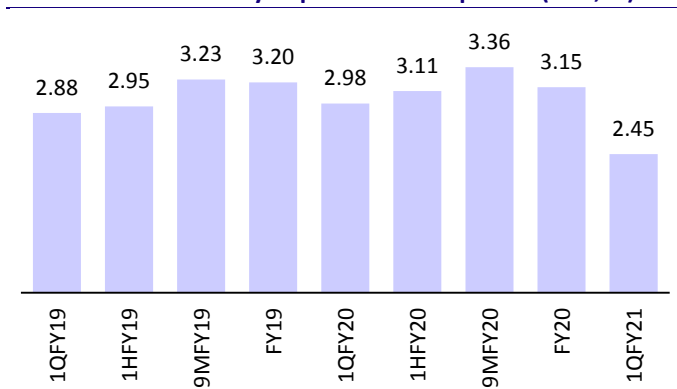
Source: MOFSL, Company

Exhibit 9: Elevated provisioning impacts PAT in 1Q



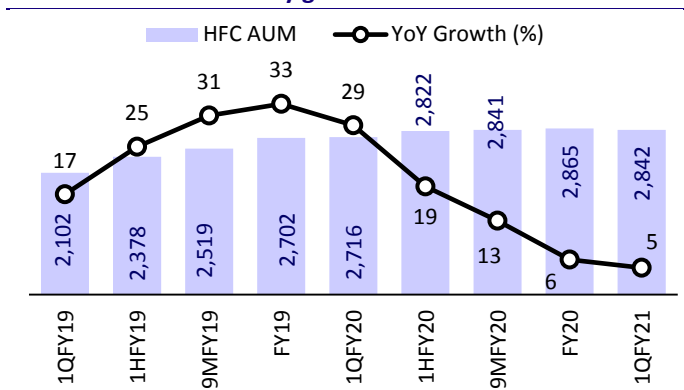
Source: MOFSL, Company

Exhibit 10: Profitability impacted in the quarter (RoA, %)



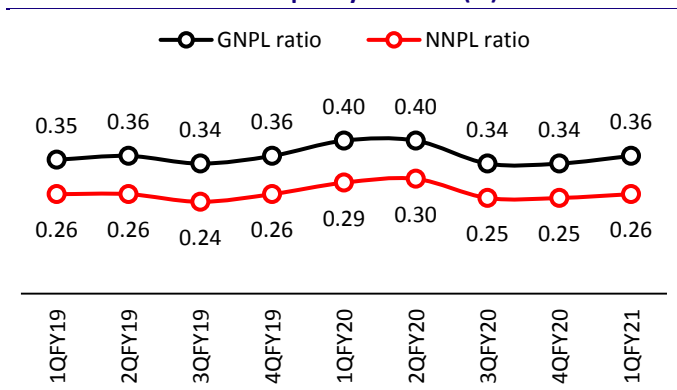
Source: MOFSL, Company. Reported RoA

Exhibit 11: HFC subsidiary growth remains slow...



Source: MOFSL, Company

Exhibit 12: ...while asset quality is stable (%)



Source: MOFSL, Company

Valuation and view

- MASFIN operates in a tough operating environment, with large exposure to micro loans and the MSME sector. Thus, asset quality and business growth are key monitorables.
- Historically, MASFIN has managed to assign 40–45% of the portfolio, which has helped generate strong liquidity. **75% of the SME portfolio qualifies for PSL, leading to a large pool being available for assignment.** Since the company has a higher share of assignment transactions, quarterly earnings volatility is likely to

remain high, especially depending on the type and quantum of portfolio assigned.

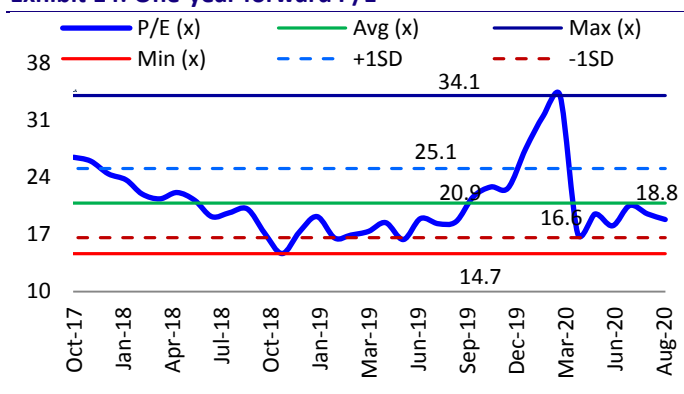
- MASFIN has one of the best capitalizations, with Tier I of ~32% and the least debt to equity of ~3x among NBFCs.
- We like MASFIN’s focus on profitability over growth. In this environment, growth is likely to remain muted. We largely maintain estimates. The stock trades at 3.2x/2.8x P/B of FY21/FY22E. Buy, with TP of INR810 (3.5x FY22E BV).

Exhibit 13: We largely maintain our estimates

INR b	Old Est.		New Est.		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
NII	3.0	3.6	3.0	3.6	-0.1	-0.8
Other Income	1.4	1.5	1.2	1.4		
Total Income	4.4	5.2	4.2	5.0	-3.8	-3.0
Operating Expenses	0.9	1.1	0.9	1.0	-7.5	-3.9
Operating Profits	3.5	4.1	3.4	4.0	-2.8	-2.8
Provisions	1.3	1.4	1.1	1.3		
PBT	2.2	2.7	2.2	2.7	1.3	1.1
Tax	0.5	0.6	0.6	0.7	5.6	5.3
PAT	1.7	2.0	1.7	2.0	0.0	-0.2
AUM	67	76	67	76	0.0	0.0
NIM (%)	4.8	5.1	4.8	5.0		
ROAA (%)	3.7	4.0	3.7	4.0		
RoAE (%)	16.0	16.9	16.0	16.9		

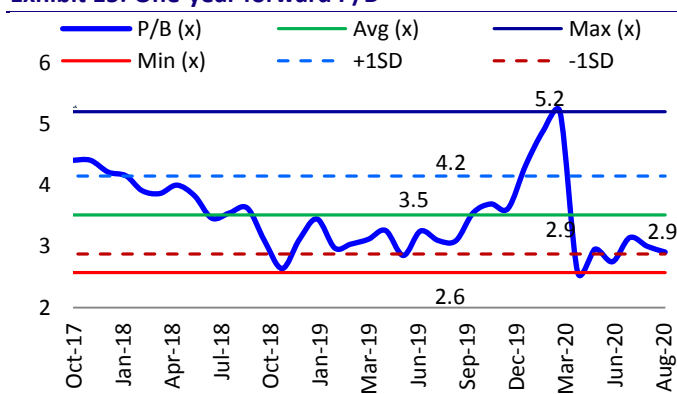
Source: MOFSL, Company

Exhibit 14: One-year forward P/E



Source: MOFSL, Company

Exhibit 15: One-year forward P/B



Source: MOFSL, Company

Valuation matrix

	Rating	CMP (INR)	Mcap (USD b)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HFCs											
LICHF	Buy	271	1.8	6.4	5.6	0.7	0.6	1.0	1.1	11.5	11.8
PNBHF	Neutral	230	0.5	5.2	3.8	0.5	0.4	1.0	1.3	9.1	11.3
Vehicle fin.											
SHTF	Buy	703	2.0	10.4	6.1	0.8	0.8	1.5	2.6	8.7	13.0
MMFS	Buy	134	1.1	18.2	15.0	1.1	1.0	1.2	1.5	6.8	7.0
CIFC	Buy	225	2.3	15.7	11.4	2.0	1.8	1.8	2.2	13.8	16.6
Diversified											
BAF	Neutral	3,419	27.4	46.3	28.3	5.6	4.8	2.5	3.6	12.9	18.3
SCUF	Buy	717	0.6	6.2	5.2	0.6	0.5	2.5	3.0	10.0	11.0
LTFH	Buy	66	1.7	13.3	6.9	0.9	0.8	0.9	1.7	6.7	12.0
MUTH	Neutral	1,177	6.2	13.1	11.5	3.3	2.7	6.7	6.7	27.7	25.6
MAS	Buy	661	0.5	21.4	17.9	3.2	2.8	3.7	4.0	16.0	16.9

Financials and valuations

INCOME STATEMENT								(INR m)	
Y/E MARCH	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Interest Income	1,687	2,164	2,779	3,148	3,594	4,645	5,969	6,066	6,791
Interest Expense	788	1,117	1,423	1,513	1,705	2,067	2,961	3,036	3,180
Net Financing income	898	1,046	1,356	1,634	1,889	2,579	3,008	3,029	3,611
Change (%)	26.5	16.5	29.6	20.5	15.6	36.5	16.6	0.7	19.2
Gains on Assignment	147	5	2	0	801	941	1,093	1,038	1,194
NII incl assignment income	2,949	1,052	1,359	1,634	2,689	3,520	4,101	4,068	4,805
Change (%)	8.9	-64.3	29.2	20.3	64.6	30.9	16.5	-0.8	18.1
Fees and Others	8	213	260	268	115	139	162	173	190
Total Income	1,053	1,265	1,619	1,902	2,804	3,659	4,263	4,241	4,995
Change (%)	23.2	20.1	28.0	17.5	47.4	30.5	16.5	-0.5	17.8
Operating Expenses	481	523	681	604	725	775	988	857	1,021
Change (%)	7.4	8.6	30.2	-11.3	20.1	6.8	27.5	-13.3	19.2
Operating Profits	571	742	938	1,298	2,079	2,885	3,275	3,384	3,974
Change (%)	40.6	29.9	26.5	38.4	60.2	38.7	13.6	3.3	17.4
Total Provisions	146	195	236	267	428	545	889	1,137	1,288
% to operating income	25.5	26.3	25.1	20.6	20.6	18.9	27.2	33.6	32.4
PBT	426	547	702	1,031	1,652	2,339	2,386	2,247	2,686
Tax	166	209	271	357	617	818	573	562	672
Tax Rate (%)	39.1	38.2	38.5	34.6	37.4	35.0	24.0	25.0	25.0
PAT	259	338	432	674	1,034	1,521	1,813	1,685	2,015
Change (%)	36.3	30.3	27.7	56.1	53.5	47.1	19.2	-7.0	19.5
Proposed Dividend	35	56	176	132	200	279	437	438	492

BALANCE SHEET								(INR m)	
Y/E MARCH	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Equity Share Capital	160	160	160	430	547	547	547	547	547
Reserves & Surplus (Ex OCI)	684	1,006	1,235	1,147	6,674	7,859	9,385	10,633	12,156
Networth (Ex OCI)	844	1,166	1,395	1,576	7,221	8,406	9,932	11,179	12,702
OCI		0	0	159	376	455	455	455	455
Networth (Incl OCI)	844	1,166	1,395	1,735	7,596	8,861	10,387	11,634	13,158
Change (%)	35.1	38.1	19.7	24.4	337.7	16.6	17.2	12.0	13.1
Minority Interest	66	92	98	0	0	0	0	0	0
Other Capital Instruments	935	935	955	0	0	0	0	0	0
Borrowings	9,292	13,270	16,665	18,433	18,871	27,438	34,870	34,530	40,299
Change (%)	48.0	42.8	25.6	10.6	2.4	45.4	27.1	-1.0	16.7
Other liabilities	195	1,284	1,397	101	509	736	310	372	447
Change (%)	38.7	559.9	8.8	-92.8	405.8	44.5	-57.8	20.0	20.0
Total Liabilities	11,331	15,720	19,458	20,269	26,977	37,036	45,568	46,537	53,903
Loans	9,226	13,220	17,249	19,342	25,463	32,185	33,378	37,983	44,328
Change (%)	53.5	43.3	30.5	12.1	31.6	26.4	3.7	13.8	16.7
Investments	1	3	3	133	134	223	375	375	375
Net Fixed Assets	58	46	82	72	565	572	603	663	730
Other assets	2,046	2,450	2,124	722	815	4,056	11,212	7,515	8,470
Total Assets	11,331	15,720	19,458	20,269	26,977	37,036	45,568	46,537	53,903

E: MOFSL Estimates

Assumptions	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
AUM (INR M)	14,563	20,996	26,999	31,561	41,570	53,384	59,663	66,638	76,428
Change (%)	38.3	44.2	28.6	16.9	31.7	28.4	11.8	11.7	14.7
On Balance Sheet	57.4	63.8	63.4	64.4	61.3	61.3	60.3	55.9	57.0
Off Balance Sheet	42.6	36.2	36.6	35.6	38.7	38.7	39.7	44.1	43.0

E: MOFSL Estimates

Financials and valuations

RATIOS	(%)								
Y/E MARCH	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Spreads Analysis (%)									
Yield on loans	22.1	19.3	18.2	17.2	16.0	16.1	18.2	17.0	16.5
Cost of Funds	10.1	9.9	9.5	8.6	9.1	8.9	9.5	8.8	8.5
Spreads (On books)	12.0	9.4	8.7	8.6	6.9	7.2	8.7	8.3	8.0
NIMs (On Books)	7.2	9.3	8.9	8.9	8.4	8.9	9.2	8.5	8.8
Profitability Ratios (%)									
RoE	30.2	33.6	33.7	45.3	23.5	19.5	19.8	16.0	16.9
RoA	2.29	2.50	2.45	3.39	4.38	4.75	4.39	3.66	4.01
RoA (on AUM)	1.77	1.90	1.80	2.30	2.83	3.20	3.21	2.67	2.82
Op. Exps./Net Income	45.7	41.3	42.1	31.8	25.9	21.2	23.2	20.2	20.4
Empl. Cost/Op. Exps.	30.4	32.8	35.8	43.4	52.4	60.9	59.4	54.8	55.2
Asset-Liability Profile (%)									
Net NPAs to Adv.	0.8	0.8	0.9	0.8	1.1	1.0	0.8	1.4	1.5
Debt/Equity (x) - On BS	12.1	11.4	11.9	11.7	2.6	3.3	3.5	3.1	3.2
Average leverage	11.9	11.2	11.7	11.8	4.2	3.0	3.4	3.3	3.1
CAR	19.0	18.1	18.3	16.9	31.9	29.1	29.0	29.1	28.7
Valuations									
Book Value (INR)	52.8	72.9	87.2	36.7	132.1	153.8	181.7	204.5	232.4
Price-BV (x)						4.3	3.6	3.2	2.8
Adjusted BV (INR)	47.4	65.4	76.7	32.6	126.5	147.0	175.8	192.3	218.1
Price-ABV (x)						4.5	3.8	3.4	3.0
EPS (INR)	16.2	21.1	27.0	15.7	18.9	27.8	33.2	30.8	36.9
EPS Growth (%)	-14.8	30.3	27.7	-41.9	20.6	47.1	19.2	-7.0	19.5
Price-Earnings (x)						23.8	19.9	21.4	17.9
Dividend per share				3.3	3.7	5.1	8.0	8.0	9.0
Dividend yield (%)				0.5	0.6	0.8	1.2	1.2	1.4

E: MOFSL Estimates

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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