

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	MASFIN IN
Equity Shares (m)	55
M.Cap.(INRb)/(USDb)	49.4 / 0.6
52-Week Range (INR)	925 / 469
1, 6, 12 Rel. Per (%)	18/30/21
12M Avg Val (INR M)	75

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Total income	3.4	4.7	6.0
PPP	2.5	3.1	4.1
PAT	1.6	2.0	2.7
EPS (INR)	28.9	37.1	49.1
EPS Gr. (%)	10.0	28.6	32.2
BVPS (INR)	231	262	302

Ratios (%)

NIM	6.0	6.2	5.9
C/I ratio	27.3	34.8	32.1
RoA on AUM	2.7	2.8	2.9
RoE	13.2	15.1	17.4
Payout	10.4	17.3	18.0

Valuations

P/E (x)	31.3	24.3	18.4
P/BV (x)	3.9	3.4	3.0
Div. yield (%)	0.2	0.7	1.0

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	73.7	73.7	73.6
DII	10.2	9.4	10.0
FII	1.5	1.5	1.7
Others	14.5	15.4	14.7

FII Includes depository receipts

CMP: INR903 **TP: INR1,060 (+17%)** **Buy**

Earnings in line; AUM growth healthy and asset quality stable

- MAS Financial Services (MASFIN)'s PAT rose 28% YoY to INR491m (in line) in 2QFY23. NII grew 48% YoY to INR1.2b (7% beat). PPOP rose 28% YoY to INR775m (in line) during the quarter.
- PAT grew 27% YoY to INR956m in 1HFY23 (PY: INR752m). Disbursements surged 75% YoY to INR441b in 1HFY23 (PY: INR252b).
- Credit costs grew 35% YoY to INR121m (est. INR99m). Total COVID-related provisions stood at INR219m (~0.4% of on-book assets).
- In 2QFY23, disbursements grew 5% QoQ and 53% YoY to ~INR22.6b.
- Asset quality was stable QoQ, with GS3/NS3 at 2.3%/1.6%. In MSME and SME lending, MASFIN remains relatively better placed than its peers. Capital adequacy and liquidity on the Balance Sheet remained healthy.
- **Maintain BUY with a TP of INR1,060 (premised on 3.5x FY24E BV).**

AUM up 7% sequentially; spreads and margins improve

- Disbursements exhibited a healthy improvement. As a result, standalone AUM increased 7% QoQ and 30% YoY to INR71.4b. AUM in its Housing subsidiary rose 27% YoY to INR3.8b.
- The growth in 2QFY23 was broad based with Micro Enterprise (MEL) growing 27% and SME loans rising 33% YoY. AUM under the new segment of Salaried Personal loans (launched in 2QFY23) stood at INR1.3b. The yield in this segment has been in the range of 14%-19%.
- MASFIN started undertaking assignment transactions, but the share of off-Balance Sheet loans declined 200bp QoQ to 16%.
- Yield on loans (calculated) and CoF increased ~80bp/40bp QoQ to 13.5%/8.1%. This led to overall spreads increasing ~40bp QoQ.
- Operating expenses were elevated, with the C/I ratio surging ~200bp QoQ to ~35%, while the OPEX-to-AUM ratio grew ~20bp to 2.4%.

Sequentially stable asset quality

- The 1+dpd loans dipped ~20bp QoQ to 4.9% in 2QFY23. Total standalone COVID-related provisions stood at INR219m (~0.4% of on-book loans).
- The OTR pool fell to INR210m from INR237m in 1QFY23 (~30bp of AUM).

Other highlights

- Average ticket size of SME loans increased to INR2.3m (from INR1.7m in the previous quarter).
- MASFIN's RoTA declined ~15bp QoQ to ~2.8% in 2QFY23.

HFC subsidiary:

- AUM grew 27% QoQ to INR3.8b. GS3 rose marginally to ~0.6% (PQ: 0.54%).
- MASFIN's housing finance subsidiary is expected to contribute meaningfully and grow at a pace of 25-30% over the next five years.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and

Key highlights from the management commentary

- The management guided for a growth of 20-25%. The company will not need equity growth capital if it grows at 20-25% over the next two-to-three years.
- Management expects the contribution of vehicle finance in the AUM mix to increase to ~15% in the subsequent years.
- CRAR as of Sep'22 stood at 24.1% (Tier 1 of 21.2%). High levels of capital adequacy are based on non-dilutive growth and accretion has occurred from internal accruals.

Valuation and view

- We model an AUM/PAT CAGR of 29%/30% over FY22-FY24E with an RoA/RoE of 2.8%/17% in FY24E, respectively. The company has maintained a high quality of earnings backed by healthy growth. With the issue of bad assets decisively behind and economic activity picking up, we expect earnings growth to be strong in the coming years.
- MASFIN has successfully navigated a tough environment, with a large exposure to Microloans and the MSME sector. Disbursements and loan growth demonstrated healthy momentum, while asset quality is perhaps the best among its MFI and SME lending peers.
- Historically, MASFIN has managed its liquidity well (with higher sell-downs) and still continues to have an adequate buffer on its Balance Sheet. **Maintain BUY with a TP of INR1,060 (premised on 3.5x FY24E BV).**

Quarterly Performance												(INR m)
Y/E March	FY22				FY23E				FY22	FY23E	2QFY23E	Act. v/s Est. (%)
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23				
Revenue from Operations	1,485	1,567	1,718	1,804	1,983	2,300	2,509	2,697	6,575	9,489	2,111	9
Interest Income	1,283	1,352	1,473	1,590	1,677	1,941	2,215	2,462	5,695	8,295	1,811	7
Gain on assignments	149	155	175	147	157	178	194	294	642	822	169	5
Other operating Income	53	61	70	67	150	182	100	-59	237	372	132	38
Interest expenses	699	759	831	905	928	1,108	1,308	1,456	3,195	4,801	1,003	11
Total income	786	808	887	899	1,055	1,192	1,201	1,241	3,379	4,688	1,109	7
Growth Y-o-Y (%)	-13.7	-1.6	13.4	15.1	34.3	47.5	35.4	38.1	2.6	38.7	37.2	
Operating Expenses	149	203	280	294	348	416	431	435	921	1,630	355	17
Operating Profits	636	605	607	605	707	775	770	807	2,458	3,059	753	3
Growth Y-o-Y (%)	-19.2	-13.1	-4.5	5.3	11.1	28.2	26.9	33.3	-8.2	24.5	24.5	
Provisions	141	90	68	38	85	121	70	59	341	335	99	22
Profit before tax	495	515	539	567	623	654	700	747	2,117	2,724	654	0
Growth Y-o-Y (%)	1.3	12.9	11.4	13.5	25.7	27.0	29.9	31.8	9.7	28.7	27.0	
Tax Provisions	127	132	138	142	157	164	178	195	538	695	167	-2
Net Profit	368	383	401	426	465	491	521	552	1,578	2,029	488	1
Growth Y-o-Y (%)	0.6	12.0	10.8	16.6	26.3	28.0	30.0	29.7	10.0	28.6	27.2	
Key Operating Parameters (%)												
Yield on loans (Cal)	12.7	12.8	13.0	13.1	12.7	13.5						
Cost of funds (Cal)	7.8	8.0	7.9	8.1	7.7	8.1						
Spreads (Cal)	4.9	4.8	5.1	5.0	5.0	5.4						
NIM on AUM (Cal)	6.0	6.1	6.3	6.0	6.5	6.9						
Credit Cost (%)	1.1	0.7	0.5	0.3	0.5	0.7						
Cost to Income Ratio	19.0	25.1	31.6	32.7	33.0	34.9						
Tax Rate	25.7	25.6	25.6	25.0	25.3	25.0						
Balance Sheet Parameters												
Standalone AUM (INR B)	51.6	54.9	57.4	62.5	66.8	71.4						
Change YoY (%)	-8.8	3.5	13.6	16.3	29.5	30.1						
Disbursements (INR B)	10.4	14.8	16.0	19.6	21.5	22.6						
Change YoY (%)	864.2	80.0	55.0	51.6	106.8	53.2						
Borrowings (INR B)	35.4	40.8	43.6	45.5	50.5	58.4						
Change YoY (%)	18.3	26.5	45.6	24.3	42.6	43.0						
Debt/Equity (x)	2.9	3.3	3.4	3.5	3.7	4.3						
Asset liability Mix												
AUM Mix (%)												
Micro Enterprises	53.5	52.7	50.1	52.0	52.7	50.3						
SME loans	35.1	36.5	39.6	36.4	36.6	37.4						
2W loans	7.3	6.6	6.3	6.0	5.8	6.6						
CV loans	4.1	4.2	4.0	5.5	5.0	3.8						
Borrowings Mix (%)												
Direct Assignment	26.0	22.0	21.0	21.0	20.0	18.0						
Cash Credit	31.0	31.0	26.0	28.0	26.0	25.0						
Term Loan	32.0	34.0	37.0	40.0	43.0	45.0						
NCD	10.0	10.0	12.0	7.0	9.0	9.0						
Sub Debt	1.0	1.0	3.0	3.0	2.0	2.0						
Asset Quality Parameters (%)												
GS 3 (INR m)	737	854	1,005	1,050	1,177	1,308						
GS 3 (%)	2.21	2.30	2.35	2.28	2.27	2.26						
NS 3 (INR m)	494	580	667	689	742	837						
NS 3 (%)	1.74	1.80	1.76	1.70	1.63	1.60						
PCR (%)	32.9	32.1	33.7	34.4	37.0	36.0						
Return Ratios (%)												
ROA	2.9	2.9	2.8	2.9	2.9	2.8						
Tier I ratio	26.6	24.0	23.8	23.1	22.5	21.2						

E: MOFSL estimates

Highlights from the management commentary

Business update

- The growth in 2QFY23 was broad-based across products with MEL growing ~24%, SME ~33%, 2W ~30% and CV ~20% on a YoY basis.
- The company has increased its branches and distribution to 6,200 centers. Opex/ AUM ratio increased ~20bp QoQ and was higher on account of expanding distribution network. It is likely to remain elevated; however, the company is focused on maintaining its RoA and is reasonably confident that the rising opex ratio will not adversely affect the RoA.
- AUM for the salaried personal loans (launched in 2QFY23) stood at INR13.3b. The yield in this segment has been in the range of 14%-19%. The loans in this segment are originated both through tie-ups with Fintechs as well as through branches. The ticket size in this segment will be increased gradually once the company obtains a better understanding of the segment.

AUM and Disbursements

- AUM mix: ~40% is from NBFCs and ~60% is through direct channels. If the retail distribution grows at a faster pace, it could rise to 65%.
- Micro enterprise loans formed 30-35% of the AUM mix and the company plans to maintain these levels in the subsequent years.
- The disbursements through fin-techs declined to INR2.35b in the current quarter v/s INR3b in the previous quarter. MASFIN was wary of the new RBI guidelines on partnership with Fintechs and plans to increase disbursements through them post obtaining better clarity on the guidelines.
- Disbursements through NBFC partners stood at INR8.8b, and through direct sourcing was at ~INR1.4b (including contribution of INR2.35b from fintechs)
- In the current quarter, the company undertook co-lending of ~INR750m in partnership with BOI, BOM and SIB.

Liabilities

- Management targets to maintain off-books of 20-25% through co-lending and direct assignment transactions.
- MASFIN maintains average liquidity buffer of INR6b and unutilized credit facility stood at ~INR5b
- CRAR as of Sep'22 stood at 24.1% (Tier 1 of 21.2%). High levels of capital adequacy are based on non-dilutive growth and accretion has occurred from internal accruals.

Asset quality

- The company continues to carry management overlay of INR219m (~0.37% of on-book assets) and plans to utilize the same gradually
- Segment wise GS3: 2w – 1.68%, CV - 2.45%, MEL – 1.54%, SME – 1.1%, PL – 4.7%

Yields and CoF

- Margin in 2QFY23 expanded ~40bp sequentially to 6.9%. The company is reasonably confident of its ability to maintain its margin over the medium term as: a) ~70-75% of the loan book is floating rate in nature and b) majority of the

borrowing book is MCLR-linked that is re-priced with a lag of six months to one year.

- The company has raised interest rates by ~30bp over the last six months (since repo rate hikes) depending on the product segment and borrower
- Incremental disbursements are being done at higher interest rates in line with the company’s marginal CoF

Guidance

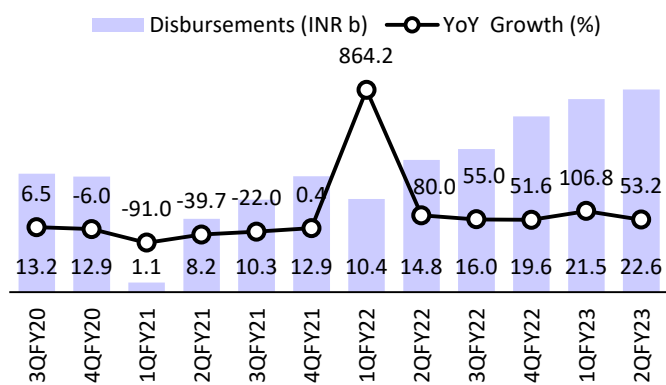
- The management guided for a growth of 20-25%. The company will not need equity growth capital if it grows at 20-25% over the next two-to-three years.
- The company expects the contribution of vehicle finance in the AUM mix to increase to ~15% in the subsequent years.
- Housing finance subsidiary is expected to contribute meaningfully and grow at a pace of 25-30% over the next five years
- The management targets to maintain steady state RoA in the range of 2.75-3.25%
- Management does not plan to increase the leverage beyond 4x-4.5x and the lenders are comfortable at its current capital adequacy.

Others

- The management is in an advanced stage of digitizing MASFIN’s processes and within one-two quarters it should be in a position to offer improved experience to the customers
- The company entered into partnerships with more than 100 NBFCs and is in the process of tying up with more banks for co-lending.
- All businesses are backed by banking-based collections and banking-based disbursements.

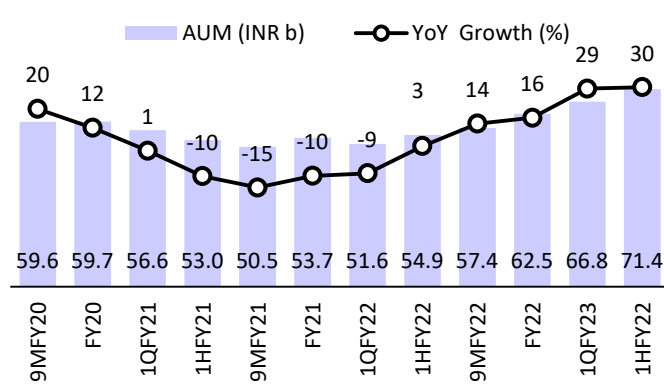
Key exhibits

Exhibit 1: Disbursements at yet another record high...



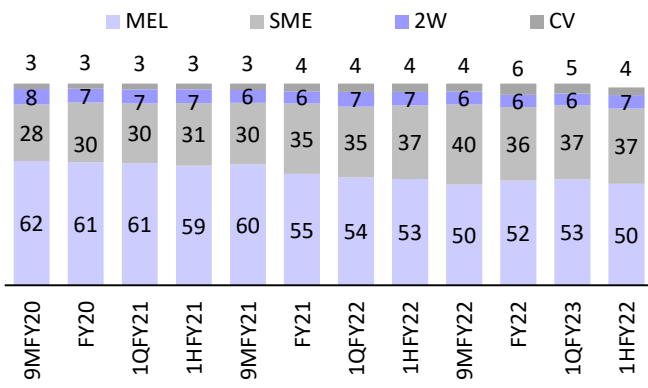
Source: MOFSL, Company

Exhibit 2: ...leading to a sequential AUM increase of 7%



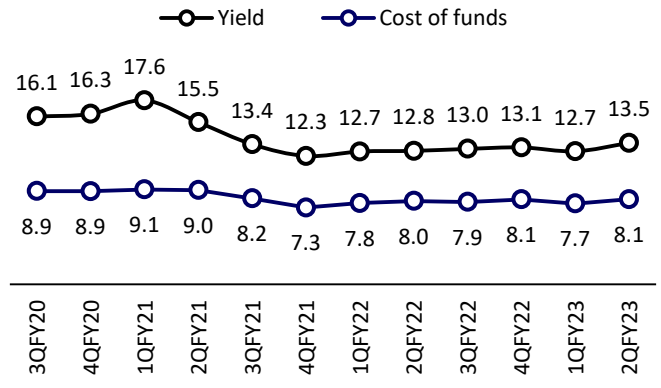
Source: MOFSL, Company

Exhibit 3: Share of MEL loans declines sequentially (%)



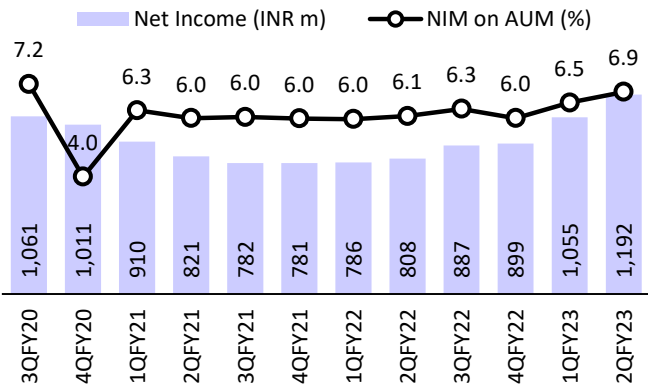
Source: MOFSL, Company

Exhibit 4: Spreads (calculated) expand ~40bp QoQ (%)



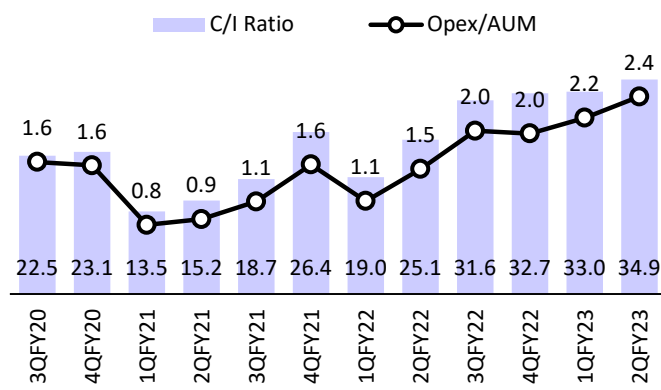
Source: MOFSL, Company

Exhibit 5: NIM on AUM expands ~40bp sequentially



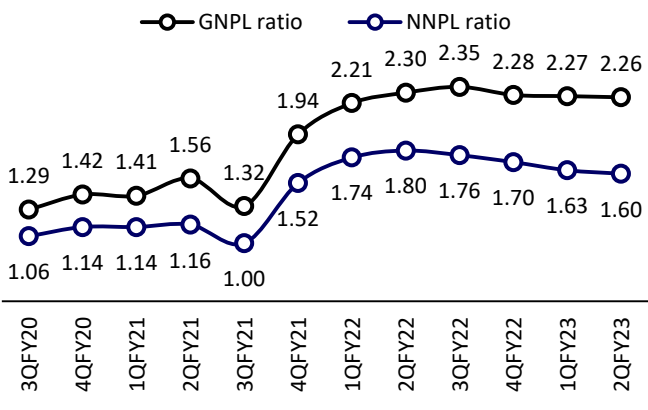
Source: MOFSL, Company; Note: including upfront assignment income

Exhibit 6: OPEX-to-AUM ratio up ~20bp QoQ (%)



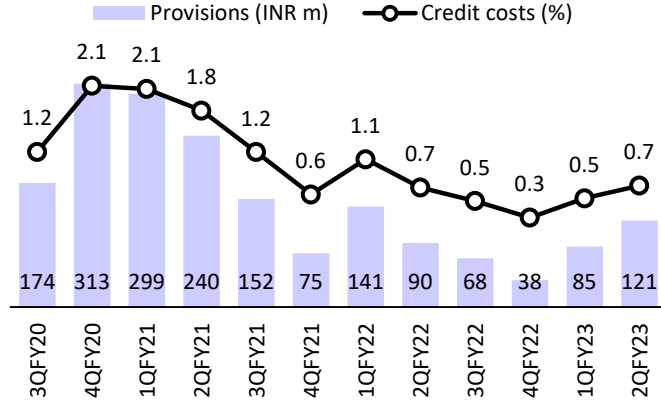
Source: MOFSL, Company

Exhibit 7: GNPL ratio (basis AUM) stable sequentially



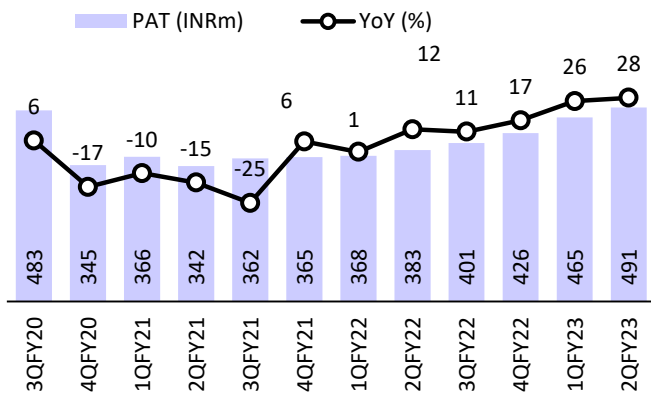
Source: MOFSL, Company

Exhibit 8: Credit costs increase 20bp QoQ (%)



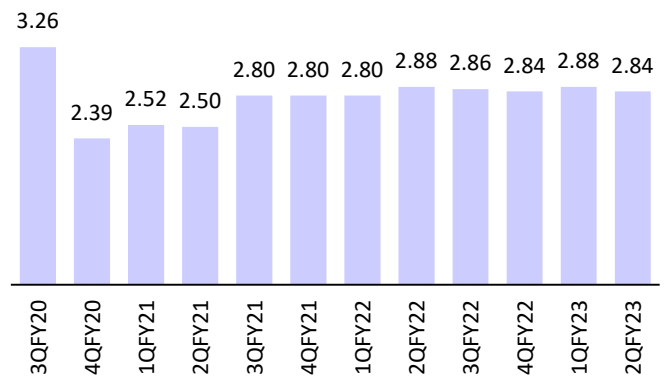
Source: MOFSL, Company

Exhibit 9: PAT up 5% sequentially and 28% YoY



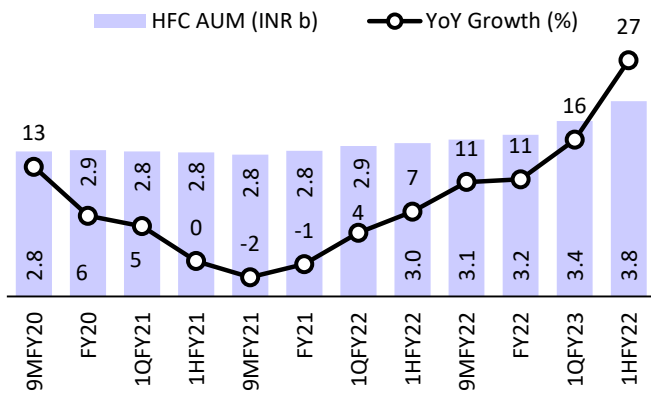
Source: MOFSL, Company

Exhibit 10: RoA (on AUM) has been stable (%)



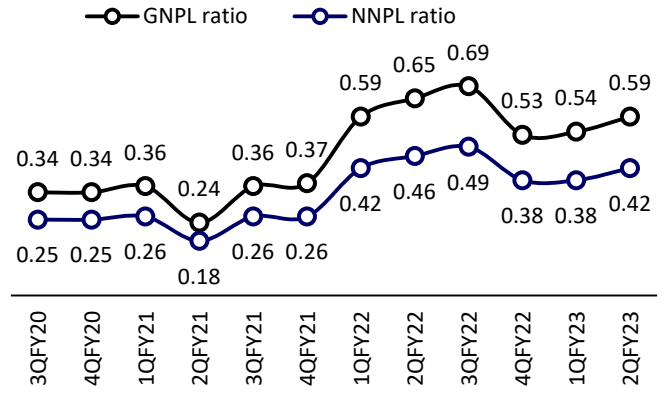
Source: MOFSL, Company. Reported RoA

Exhibit 11: HFC subsidiary's AUM up 27% YoY...



Source: MOFSL, Company

Exhibit 12: ...while asset quality deteriorates sequentially (%)



Source: MOFSL, Company

Valuation and view

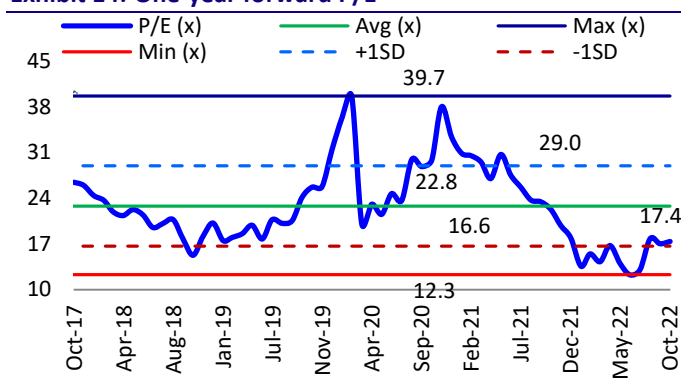
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- MASFIN has successfully navigated a tough environment, with a large exposure to Microloans and the MSME sector. Disbursements and loan growth demonstrated healthy momentum, while asset quality is perhaps the best among its MFI and SME lending peers.
- Historically, MASFIN has managed its liquidity well (with higher sell-downs) and still continues to have an adequate buffer on its Balance Sheet. **Maintain BUY with a TP of INR1,060 (premised on 3.5x FY24E BV).**

Exhibit 13: Our FY23/24 estimates remain unchanged

INR b	Old Est.		New Est.		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NII	3.4	4.3	3.5	4.5	3.7	3.8
Other Income	1.2	1.4	1.2	1.5	3.4	4.3
Total Income	4.5	5.8	4.7	6.0	3.6	3.9
Operating Expenses	1.4	1.6	1.6	1.9	17.7	18.0
Operating Profits	3.1	4.1	3.1	4.1	-2.6	-1.6
Provisions	0.4	0.5	0.3	0.5	-15.3	-14.3
PBT	2.7	3.6	2.7	3.6	-0.7	0.3
Tax	0.7	0.9	0.7	0.9	-0.7	0.3
PAT	2.0	2.7	2.0	2.7	-0.7	0.3
AUM	81	100	83	103	2.2	3.4
NIM (%)	4.7	4.8	4.8	4.8		
ROAA (%)	2.8	2.9	2.8	2.8		
RoAE (%)	15.2	17.4	15.1	17.4		

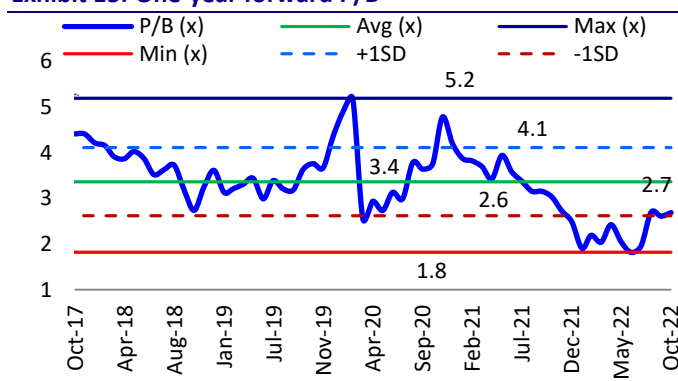
Source: MOFSL, Company

Exhibit 14: One-year forward P/E



Source: MOFSL, Company

Exhibit 15: One-year forward P/B



Source: MOFSL, Company

Financials and valuations

INCOME STATEMENT									INR m
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	2,779	3,148	3,594	4,645	5,551	4,831	5,695	8,295	11,161
Interest Expense	1,423	1,513	1,705	2,067	2,722	2,645	3,195	4,801	6,653
Net Financing income	1,356	1,634	1,889	2,579	2,829	2,186	2,499	3,494	4,508
Change (%)	29.6	20.5	15.6	36.5	9.7	-22.7	14.3	39.8	29.0
Gains on Assignment	2	0	801	941	1,012	806	642	822	1,028
Nil incl assignment income	1,359	1,634	2,689	3,520	3,841	2,992	3,142	4,316	5,536
Change (%)	29.2	20.3	64.6	30.9	9.1	-22.1	5.0	37.4	28.2
Fees and Others	260	268	115	139	165	302	237	372	458
Total Income	1,619	1,902	2,804	3,659	4,005	3,294	3,379	4,688	5,994
Change (%)	28.0	17.5	47.4	30.5	9.5	-17.8	2.6	38.7	27.8
Operating Expenses	681	604	725	775	899	616	921	1,630	1,925
Change (%)	30.2	-11.3	20.1	6.8	16.0	-31.4	49.5	76.9	18.1
Operating Profits	938	1,298	2,079	2,885	3,106	2,678	2,458	3,059	4,068
Change (%)	26.5	38.4	60.2	38.7	7.7	-13.8	-8.2	24.5	33.0
Total Provisions	236	267	428	545	825	749	341	335	466
% to operating income	25.1	20.6	20.6	18.9	26.5	28.0	13.9	10.9	11.5
PBT	702	1,031	1,652	2,339	2,282	1,929	2,117	2,724	3,602
Tax	271	357	617	818	616	494	538	695	919
Tax Rate (%)	38.5	34.6	37.4	35.0	27.0	25.6	25.4	25.5	25.5
PAT	432	674	1,034	1,521	1,666	1,435	1,578	2,029	2,684
Change (%)	27.7	56.1	53.5	47.1	9.5	-13.8	10.0	28.6	32.2
Proposed Dividend	176	132	200	279	437	82	164	351	483

BALANCE SHEET									INR m
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	160	430	547	547	547	547	547	547	547
Reserves & Surplus (Ex OCI)	1,235	1,147	6,674	7,859	8,807	10,724	12,083	13,761	15,962
Networth (Ex OCI)	1,395	1,576	7,221	8,406	9,354	11,271	12,629	14,308	16,508
OCI	0	159	376	455	455	455	455	455	455
Networth (Incl OCI)	1,395	1,735	7,596	8,861	9,809	11,726	13,085	14,763	16,964
Change (%)	19.7	24.4	337.7	16.6	10.7	19.5	11.6	12.8	14.9
Minority Interest	98	0	0	0	0	1	0	0	0
Other Capital Instruments	955	0	0	0	0	0	0	0	0
Borrowings	16,665	18,433	18,871	27,438	34,870	39,264	46,896	70,192	86,353
Change (%)	25.6	10.6	2.4	45.4	27.1	12.6	19.4	49.7	23.0
Other liabilities	1,397	101	509	736	1,038	786	770	847	932
Change (%)	8.8	-92.8	405.8	44.5	41.0	-24.3	-2.0	10.0	10.0
Total Liabilities	19,458	20,269	26,977	37,036	45,718	51,775	60,750	85,802	1,04,248
Loans	17,249	19,342	25,463	32,185	33,485	38,051	45,538	68,086	83,762
Change (%)	30.5	12.1	31.6	26.4	4.0	13.6	19.7	49.5	23.0
Investments	3	133	134	223	375	2,350	5,381	5,381	5,381
Net Fixed Assets	82	72	565	572	603	609	647	712	769
Other assets	2,124	722	815	4,056	11,255	10,765	9,185	11,623	14,337
Total Assets	19,458	20,269	26,977	37,036	45,718	51,776	60,750	85,802	1,04,248

E: MOFSL Estimates

Assumptions	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
AUM (INR M)	26,999	31,561	41,570	53,384	59,663	53,724	62,468	83,032	1,03,410
Change (%)	28.6	16.9	31.7	28.4	11.8	-10.0	16.3	32.9	24.5
On Balance Sheet	64.4	61.3	61.8	60.9	55.7	75.4	81.4	82.0	81.0
Off Balance Sheet	35.6	38.7	38.2	39.1	44.3	24.6	18.6	18.0	19.0

E: MOSL Estimates

Financials and valuations

RATIOS	(%)								
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)									
Yield on loans	18.2	17.2	16.0	16.1	16.9	13.5	13.6	14.6	14.7
Cost of Funds	9.5	8.6	9.1	8.9	8.7	7.1	7.4	8.2	8.5
Spreads (On books)	8.7	8.6	6.9	7.2	8.2	6.4	6.2	6.4	6.2
NIMs (On Books)	8.9	8.9	8.4	8.9	8.6	6.1	6.0	6.2	5.9
Profitability Ratios (%)									
RoE	33.7	45.3	23.5	19.5	18.8	13.9	13.2	15.1	17.4
RoA	2.5	3.4	4.4	4.8	4.0	2.9	2.8	2.8	2.8
RoA (on AUM)	1.8	2.3	2.8	3.2	2.9	2.5	2.7	2.8	2.9
Op. Exps./Net Income	42.1	31.8	25.9	21.2	22.4	18.7	27.3	34.8	32.1
Empl. Cost/Op. Exps.	35.8	43.4	52.4	60.9	58.3	48.2	45.8	36.8	35.8
Asset-Liability Profile (%)									
Net NPAs to Adv.	1.4	1.3	1.7	1.6	1.4	1.0	1.2	0.7	0.6
Debt/Equity (x) - On BS	11.9	11.7	2.6	3.3	3.7	3.5	3.7	4.9	5.2
Average leverage	11.7	11.8	4.2	3.0	3.5	3.6	3.6	4.3	5.1
Valuations									
Book Value (INR)	87	37	132	154	171	206	231	262	302
Price-BV (x)					5.3	4.4	3.9	3.4	3.0
EPS (INR)	27.0	15.7	18.9	27.8	30.5	26.3	28.9	37.1	49.1
EPS Growth (%)	28	-42	21	47	9	-14	10	29	32
Price-Earnings (x)				32.4	29.6	34.4	31.3	24.3	18.4
Dividend per share		3.3	3.7	5.1	8.0	1.5	1.5	6.4	8.8
Dividend yield (%)					0.9	0.2	0.2	0.7	1.0

E: MOFSL Estimates

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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