

MAS Financial Services

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR308 TP: INR390 (+26%) Buy

Consistent execution with improvement in direct retail

Earnings in line; NIM and spreads expand QoQ

- 4QFY24 PAT grew ~23% YoY to INR681m (in line). FY24 PAT at INR2.48b rose ~23% YoY. PPOP stood at INR1.13b (in line) and grew 27% YoY.
- Operating expenses jumped ~46% YoY to INR555m, with the C/I ratio and the opex-to-AUM ratio increasing to 33% and 2.2%, respectively. Credit costs stood at INR214m, translating into annualized credit costs of 0.9% (vs. 1.1% in 3Q)
- MASFIN's credit rating was upgraded to CARE AA- (Stable) from CARE A+ (Positive). The company is building capabilities in the north and south regions and will look to diversify geographically over the medium term.
- Direct retail distribution improved to ~67%, which the management expects to increase to 70-75% over the next few years. The company has ingredients in place to deliver healthy AUM growth, maintain its margin trajectory, and keep asset quality stable, resulting in benign credit costs. We estimate PAT CAR of ~27% with RoA/RoE of 3%/18% in FY26. Reiterate BUY with a TP of INR390 (based on 2.7x FY26E BV).

Healthy disbursement momentum; AUM rose ~25% YoY

- Standalone AUM grew ~5% QoQ and ~25% YoY to ~INR101b. AUM in HFC rose ~44% YoY to INR6b. AUM of micro-enterprise loans/SME loans/2Ws grew 13%/25%/21% YoY. Salaried personal loans stood at ~6% of the AUM mix, and MASFIN expects to keep it below ~10% of the mix.
- Its thrust on distribution and branch expansion continued, with direct retail distribution contributing ~67% of the AUM mix as of Dec'23.

Sequential expansion in NIM and spreads

- CoF (calc.) declined ~40bp QoQ to 9.3%, while yields (calc.) declined ~25bp to 14.3%, driving ~15bp expansion in spreads to ~5% (4.8% in 3Q).
- The management expects the cost of borrowings to remain stable at current levels in the next fiscal year. The majority of its borrowings are linked to MCLR. The credit rating upgrade will help the company negotiate the spreads above MCLR whenever bank loans come up for repricing or when it takes a new sanction from banks. We expect NIMs of 6.2%/6.1% for FY25/FY26.

Minor decline in 1+dpd; asset quality stable

- 1+dpd declined ~5bp QoQ to 5.7% in 4QFY24. Total standalone Covid-related provisions stood at ~INR188m (~0.25% of on-book loans).
- GNPA/NNPA (basis AUM) were stable QoQ at 2.25%/1.5%. PCR on Stage 3 assets declined ~250bp QoQ to ~39%.

Other highlights

- The average ticket size of micro enterprise loans rose to ~INR53k (~42k in 3Q).
- RoTA increased ~5bp QoQ to ~2.95% in 4QFY24.

Bloomberg	MASFIN IN
Equity Shares (m)	164
M.Cap.(INRb)/(USDb)	50.6 / 0.6
52-Week Range (INR)	388 / 229
1, 6, 12 Rel. Per (%)	4/-13/6
12M Avg Val (INR M)	79

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Total income	6.1	7.9	9.8
PPP	4.2	5.5	7.0
PAT	2.5	3.2	4.0
EPS (INR)	15.1	19.7	24.4
EPS Gr. (%)	23.3	30.2	24.1
BVPS (INR)	105	123	145

Ratios (%)

NIM	6.2	6.2	6.1
C/I ratio	31.0	30.0	29.0
RoA on AUM	3.0	3.1	3.0
RoE	15.6	17.3	18.3
Payout	10.0	10.2	9.8

Valuations

P/E (x)	20	16	13
P/BV (x)	2.9	2.5	2.1
Div. yield (%)	0.5	0.7	0.8

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	73.7	73.7	73.7
DII	14.4	8.4	11.0
FII	1.8	1.6	1.6
Others	10.1	16.2	13.7

FII Includes depository receipts

HFC subsidiary:

- MAS Housing reported AUM of ~INR6b, which grew ~44% YoY.
- GS3 increased to ~0.9% (~0.8% in 3Q)

Key highlights from the management commentary

- Continued to guide for 20-25% CAGR in AUM over the medium term. Guidance for RoA of 2.75%-3.0% (which factors in any future credit rating upgrade).
- The management will set up a team to implement the core banking solution (CBS) and will share an update in the next few quarters.

Valuation and view

- We model a standalone AUM/PAT CAGR of 23%/27% over FY24-FY26E, with RoA/RoE of 3.0%/18.3% in FY26E. The company has maintained a high earnings quality, backed by healthy AUM growth. With improvement in economic activity, we expect its earnings growth to be strong in future.
- MASFIN has developed a niche expertise to serve the MSME market and continues to demonstrate healthy loan growth momentum, while its asset quality is perhaps the best among MFI and SME lending peers.
- **Reiterate BUY with a TP of INR390 (premised on 2.7x FY26E BV).** Key risk: Slowdown in the economic environment leading to a sluggish loan growth and deterioration in asset quality.

Quarterly Performance

(INR M)

Y/E March	FY23				FY24E				FY23	FY24	4Q FY24E	Act. v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue from Operations	1,983	2,300	2,515	2,703	2,801	2,982	3,206	3,295	9,491	12,246	3,567	-8
Interest Income	1,677	1,941	2,183	2,325	2,362	2,490	2,651	2,757	8,066	10,223	2,974	-7
Gain on assignments	157	178	158	198	242	272	319	336	680	1,170	337	0
Other operating Income	150	182	173	180	196	219	236	202	745	853	256	-21
Interest expenses	928	1,108	1,276	1,435	1,428	1,461	1,638	1,615	4,748	6,142	1,857	-13
Total income	1,055	1,192	1,238	1,268	1,373	1,520	1,569	1,680	4,743	6,104	1,710	-2
Growth Y-o-Y (%)	34	48	40	36	30	28	27	33	41	29	35	
Operating Expenses	348	416	421	381	427	484	467	555	1,566	1,894	549	1
Operating Profits	707	775	818	887	946	1,036	1,102	1,125	3,177	4,210	1,161	-3
Growth Y-o-Y (%)	11	28	35	39	34	34	35	27	29	33	31	
Provisions	85	121	142	182	188	236	257	214	530	896	276	-22
Profit before tax	623	654	676	704	758	800	845	911	2,647	3,314	886	3
Growth Y-o-Y (%)	26	27	25	17	22	22	25	29	25	25	26	
Tax Provisions	157	164	170	149	186	200	221	230	637	837	223	4
Net Profit	465	491	506	556	573	600	624	681	2,010	2,478	663	3
Growth Y-o-Y (%)	26	28	26	23	23	22	24	23	28	23	19	
Key Operating Parameters (%)												
Yield on loans (Cal)	12.7	13.5	14.2	14.5	14.3	14.5	14.5	14.3				
Cost of funds (Cal)	7.7	8.1	8.7	9.7	9.6	9.2	9.7	9.3				
Spreads (Cal)	5.0	5.4	5.5	4.8	4.7	5.3	4.8	5.0				
NIM on AUM (Cal)	6.5	6.9	6.7	6.5	6.7	7.0	6.7	6.8				
Credit Cost (%)	0.5	0.7	0.8	0.9	0.9	1.1	1.1	0.9				
Cost to Income Ratio	33.0	34.9	34.0	30.1	31.1	31.9	29.7	33.0				
Tax Rate	25.3	25.0	25.2	21.1	24.5	25.0	26.1	25.3				
Balance Sheet Parameters												
Standalone AUM (INR B)	66.8	71.4	76.1	80.9	84.2	90.5	96.7	101.3				
Change YoY (%)	29.5	30.1	32.5	29.5	25.9	26.7	27.2	25.1				
Disbursements (INR B)	21.5	22.6	22.2	24.9	22.8	25.0	26.6	27.9				
Change YoY (%)	106.8	53.2	39.0	27.0	5.8	10.5	19.8	11.9				
Borrowings (INR B)	50.5	58.4	59.3	59.1	59.9	67.1	68.0	70.8				
Change YoY (%)	42.6	43.0	36.2	29.8	18.5	15.0	14.5	19.9				
Debt/Equity (x)	3.7	4.3	4.2	3.9	3.8	4.1	4.0	4.0				
Asset liability Mix												
AUM Mix (%)												
Micro Enterprises	51.8	50.3	49.7	47.9	47.8	47.1	44.9	43.3				
SME loans	36.6	37.4	37.3	36.9	36.5	35.7	35.7	36.9				
2W loans	5.8	6.6	6.6	6.9	6.8	6.9	6.9	6.6				
CV loans	5.0	3.8	3.8	4.6	5.3	6.2	6.8	7.4				
Borrowings Mix (%)												
Direct Assignment	20.0	18.0	19.0	21.0	23.0	23.3	23.9	24.0				
Cash Credit	26.0	25.0	21.0	18.0	17.0	16.0	16.0	11.9				
Term Loan	43.0	45.0	47.0	50.0	48.0	50.6	51.9	54.0				
NCD	9.0	9.0	10.0	8.0	8.0	7.1	4.6	6.8				
Sub Debt	2.0	2.0	3.0	3.0	4.0	3.0	3.5	3.3				
Asset Quality Parameters (%)												
GS 3 (INR m)	1,177	1,308	1,380	1,327	1,355	1,555	1,747	1,906				
GS 3 (%)	2.27	2.26	2.23	2.15	2.13	2.17	2.23	2.25				
NS 3 (INR m)	742	837	901	814	795	916	1,023	1,164				
NS 3 (%)	1.63	1.60	1.60	1.52	1.47	1.47	1.48	1.51				
PCR (%)	37.0	36.0	34.7	38.6	41.3	41.1	41.4	38.9				
Return Ratios (%)												
ROA	2.9	2.8	2.7	2.9	3.0	2.9	2.9	3.0				
Tier I ratio	22.5	21.2	21.2	20.8	21.1	21.2	20.6	20.3				

E: MOFSL estimates



Highlights from the management commentary

Milestones

- Crossed milestone of standalone AUM of ~INR100b in FY24
- Credit rating upgraded to AA- by CARE
- Crossed full-year PAT of ~INR2.5b in FY24

Business Update

- Standalone AUM and PAT grew ~23% YoY
- Gross Stage 3 assets of 1.15%
- CRAR stood at 24% (Tier 1 of ~21%) and leverage of ~4x in standalone entity
- 4QFY24 RoE of ~17% - RoE guidance of ~15-17%
- Consolidated its direct distribution and ~68% of the AUM comes from the direct distribution. Guided that the direct distribution in the AUM mix will settle at ~70-75%

Guidance

- Continued to guide for 20-25% CAGR in AUM over the medium term
- Guidance for RoA of 2.75%-3.0% (which factors in any future credit rating upgrade)
- Plans to penetrate deeper in Rajasthan, Maharashtra, and MP; expects the incremental 20-30 branches over the next 6-9 months (40-45% of the incremental branches will be added in the north and south regions).
- Expanding in the north and south regions in preparation to build the business for the next 3-4 years
- Comfortable with leverage of up to 4.4x-4.5x in the standalone business and 4.5-5.0x in the housing subsidiary
- Used cars financing is being piloted and will be added to the wheels portfolio within 3-4 quarters.
- Over the medium term, it expects ~20-30% contribution to the AUM mix from the north and south regions. Major contribution in the current and the next fiscal year will be from the western region.

Liabilities

- CoB was stable QoQ; expects the cost of borrowings to remain stable at current levels in the next FY.
- Majority of its loans are linked to MCLR. The credit rating upgrade will help the company negotiate the spreads over MCLR whenever bank loans come up for repricing or when it takes a new sanction from banks.
- There was no liquidity squeeze and it does not get impacted by the RBI commentary on NBFCs
- Expects Capital Market borrowings to increase to 8-10% and will help it diversify its borrowings
- Major advantage of the credit rating upgrade will be the ability to better access the debt markets. Expects the proportion of capital market borrowings to increase to 15-20% over the next few years.

NBFC Partnership Model

- Average ticket size in MEL and SME is higher under organic lending compared to the ATS under the partnership model.
- NBFC partners contribute 40-45% in MEL, 25-30% in SME and 20-25% in 2W and CV.

Housing

- MAS Housing is on the cusp of delivering robust results. MAS Housing AUM of ~INR6b grew ~44% YoY but the guidance remains in the range of 30-35% AUM growth, which it will try to surpass next year as well.
- GS3 at 0.9% and NS3 at 0.66%
- Housing Finance NPA will settle between 0.8-1.2% and guided for credit costs of <1%
- Does not lend on properties where the title of the property is not clear; credit is quite conservative
- Properties if repossessed can be resold if the title of the property is clear

Salaried Personal Loans

- Salaried personal loans are ~6% of the total AUM and will be <10% of the total AUM
- ~35-40% of the business is generated from the Fintech partnerships
- Salaried PL: Stage 3 of 3.38% and Stage 1 of 92%
- Salaried PL yields of ~21%

Commercial Vehicles

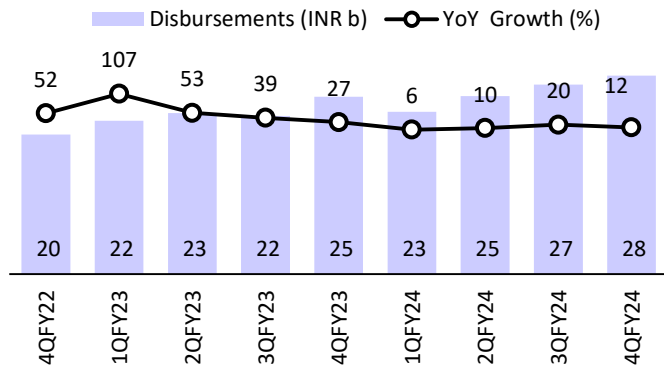
- Stage 3 of ~4.12% and Stage 1 of ~91%
- CV yields of ~19-21%

Others

- Well capitalized on the liability side and it will have more opportunities to tap more avenues given its credit rating upgrade, and bring down its cost of borrowings.
- Once the new branches pick up on volumes, they will start contributing to better growth and business volumes.
- Will set up a team to implement CBS and will share an update on that within the next few quarters.

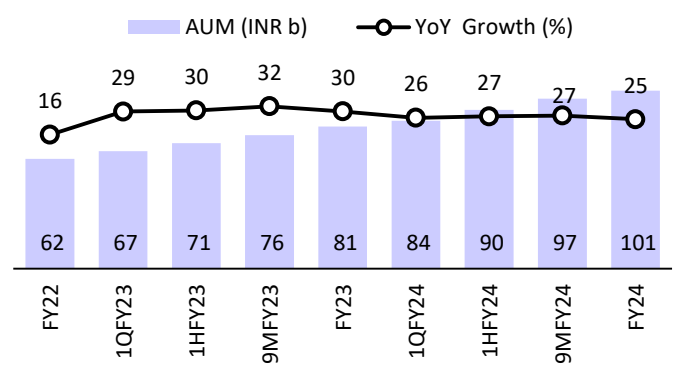
Key exhibits

Exhibit 1: Disbursements grew 12% YoY...



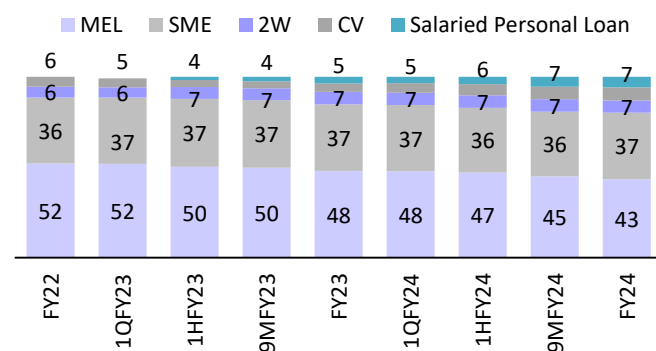
Source: MOFSL, Company

Exhibit 2: ...leading to an AUM growth of ~25% YoY



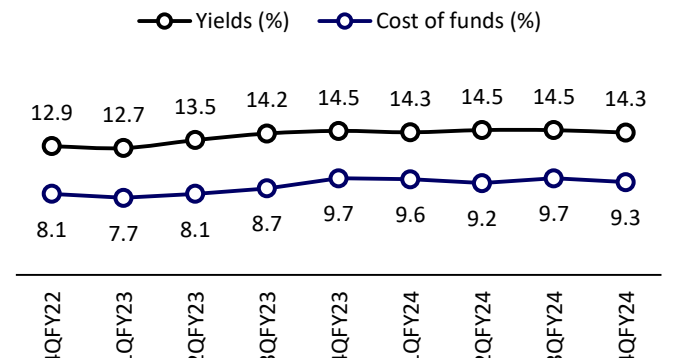
Source: MOFSL, Company

Exhibit 3: Share of MEL loan continues to decline (%)



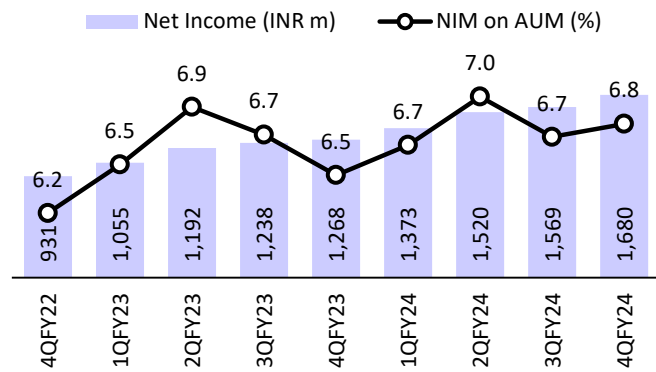
Source: MOFSL, Company

Exhibit 4: Spreads (calculated) increased ~15bp QoQ (%)



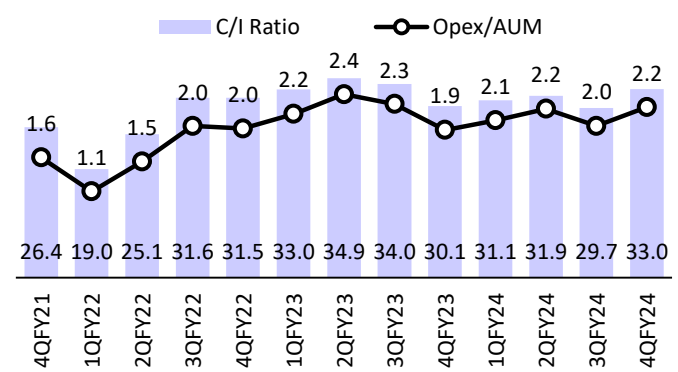
Source: MOFSL, Company

Exhibit 5: NIM on AUM increased ~10bp QoQ

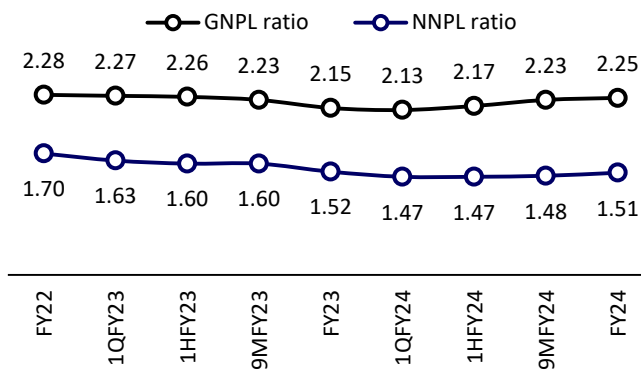


Source: MOFSL, Company; Note: including upfront assignment income

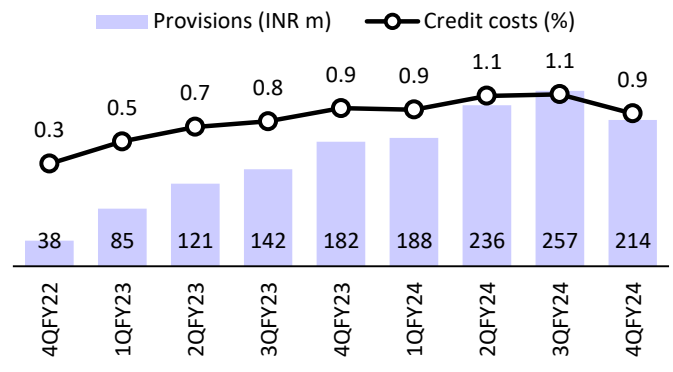
Exhibit 6: Opex-to-AUM increased to ~2.2%



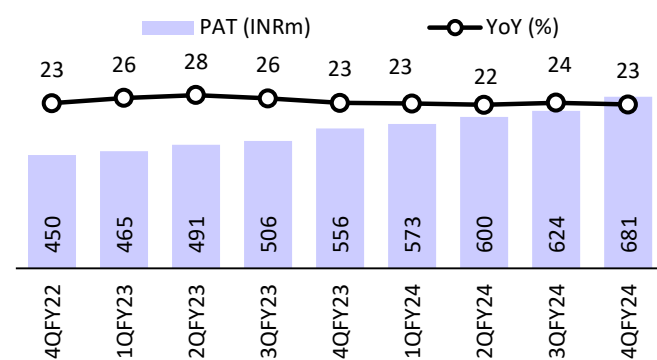
Source: MOFSL, Company

Exhibit 7: GNPL ratio was broadly stable QoQ (%)

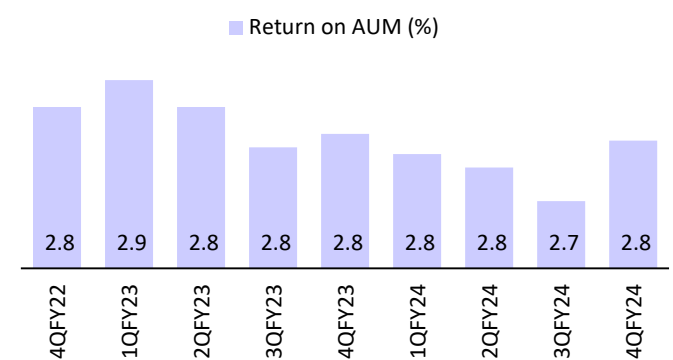
Source: MOFSL, Company

Exhibit 8: Credit costs declined 25bp to ~90bp (%)

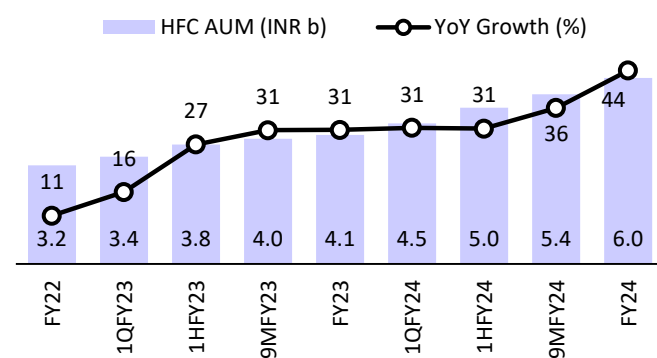
Source: MOFSL, Company

Exhibit 9: PAT up 9% QoQ and 23% YoY

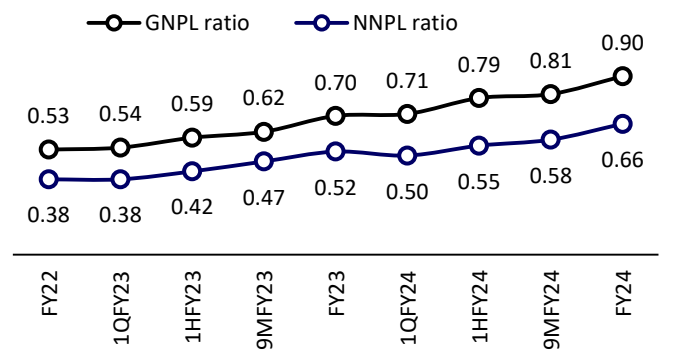
Source: MOFSL, Company

Exhibit 10: Return on AUM (%)

Source: MOFSL, Company. Reported RoA

Exhibit 11: HFC subsidiary's AUM grew 44% YoY...

Source: MOFSL, Company

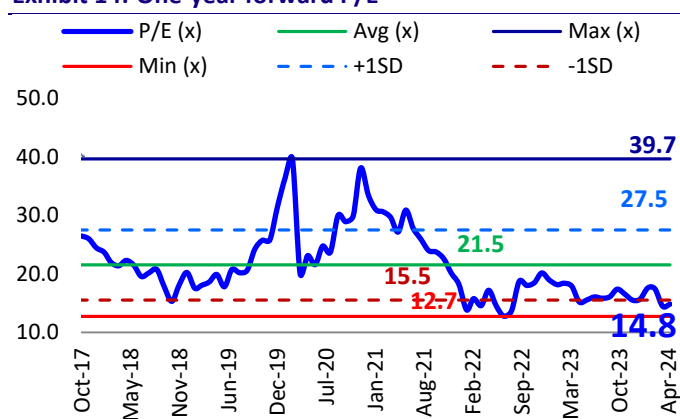
Exhibit 12: ...while asset quality declined QoQ (%)

Source: MOFSL, Company

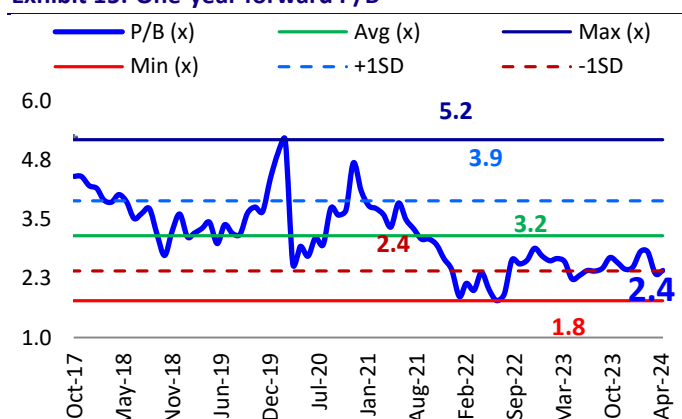
Exhibit 13: Our EPS estimates for FY25/FY26 are broadly unchanged

INR b	Old Est.			New Est.			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
NII	4.1	5.5	6.8	4.1	5.3	6.7	-1.6	-3.6	-1.2
Other Income	2.1	2.4	2.8	2.0	2.6	3.1	-2.6	4.6	9.9
Total Income	6.2	8.0	9.6	6.1	7.9	9.8	-1.9	-1.1	2.1
Operating Expenses	2.0	2.4	2.9	1.9	2.4	2.8	-4.2	-3.4	-0.4
Operating Profits	4.2	5.5	6.7	4.2	5.5	7.0	-0.8	-0.1	3.2
Provisions	1.0	1.2	1.4	0.9	1.2	1.6	-6.4	-0.1	11.8
PBT	3.3	4.3	5.3	3.3	4.3	5.4	0.8	-0.1	0.9
Tax	0.8	1.1	1.3	0.8	1.1	1.3	1.0	-0.1	0.9
PAT	2.5	3.2	4.0	2.5	3.2	4.0	0.7	-0.1	0.9
AUM	103	124	149	101	126	154	-1.6	1.1	2.8
NIM (%)	4.5	4.9	4.9	4.5	4.7	4.8			
ROAA (%)	2.8	2.9	3.1	3.0	3.1	3.0			
RoAE (%)	15.6	17.6	18.3	15.6	17.3	18.3			

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	FY19	FY20	FY21	FY22		FY24	FY25E	FY26E
Interest Income	4,645	5,551	4,831	5,611	8,066	10,223	13,238	16,750
Interest Expense	2,067	2,722	2,645	3,195	4,748	6,142	7,926	10,072
Net Financing income	2,579	2,829	2,186	2,416	3,318	4,081	5,312	6,678
Change (%)	36.5	9.7	-22.7	10.5	37.3	23.0	30.2	25.7
Gains on Assignment	941	1,012	806	639	680	1,170	1,521	1,901
NII incl assignment income	3,520	3,841	2,992	3,054	3,998	5,251	6,833	8,579
Change (%)	30.9	9.1	-22.1	2.1	30.9	31.3	30.1	25.6
Fees and Others	139	165	302	321	745	853	1,037	1,222
Total Income	3,659	4,005	3,294	3,375	4,743	6,104	7,869	9,801
Change (%)	30.5	9.5	-17.8	2.5	40.5	28.7	28.9	24.5
Operating Expenses	775	899	616	921	1,566	1,894	2,364	2,842
Change (%)	6.8	16.0	-31.4	49.5	69.9	21.0	24.8	20.2
Operating Profits	2,885	3,106	2,678	2,454	3,177	4,210	5,506	6,959
Change (%)	38.7	7.7	-13.8	-8.4	29.5	32.5	30.8	26.4
Total Provisions	545	825	749	341	530	896	1,192	1,606
% to operating income	18.9	26.5	28.0	13.9	16.7	21.3	21.7	23.1
PBT	2,339	2,282	1,929	2,113	2,647	3,314	4,313	5,353
Tax	818	616	494	538	637	837	1,087	1,349
Tax Rate (%)	35.0	27.0	25.6	25.5	24.1	25.2	25.2	25.2
PAT	1,521	1,666	1,435	1,575	2,010	2,478	3,226	4,004
Change (%)	47.1	9.5	-13.8	9.7	27.6	23.3	30.2	24.1
Proposed Dividend	279	437	82	164	197	248	329	393

BALANCE SHEET							INR m	
Y/E MARCH	FY19	FY20	FY21	FY22		FY24	FY25E	FY26E
Equity Share Capital	547	547	547	547	547	1,640	1,640	1,640
Reserves & Surplus (Ex OCI)	7,859	8,807	10,724	12,404	14,056	15,595	18,492	22,103
Networth (Ex OCI)	8,406	9,354	11,271	12,951	14,602	17,234	20,132	23,743
OCI	455	455	455	455	455	455	455	455
Networth (Incl OCI)	8,861	9,809	11,726	13,406	15,057	17,690	20,587	24,198
Change (%)	16.6	10.7	19.5	14.3	12.3	17.5	16.4	17.5
Minority Interest	0	0	1	0	0	0	10	10
Other Capital Instruments	0	0	0	0	0	0	0	0
Borrowings	27,438	34,870	39,264	46,896	61,432	73,026	99,271	1,19,689
Change (%)	45.4	27.1	12.6	19.4	31.0	18.9	35.9	20.6
Other liabilities	736	1,038	786	341	291	377	415	456
Change (%)	44.5	41.0	-24.3	-56.7	-14.6	29.6	10.0	10.0
Total Liabilities	37,036	45,718	51,775	60,642	76,780	91,092	1,20,272	1,44,343
Loans	32,185	33,485	38,051	45,538	59,102	72,648	99,271	1,19,689
Change (%)	26.4	4.0	13.6	19.7	29.8	22.9	36.6	20.6
Investments	223	375	2,350	5,381	8,261	7,877	7,877	7,877
Net Fixed Assets	572	603	609	647	730	897	986	1,065
Other assets	4,056	11,255	10,765	9,077	8,687	9,670	12,148	15,722
Total Assets	37,036	45,718	51,776	60,642	76,780	91,092	1,20,282	1,44,353

E: MOFSL Estimates								
Assumptions	FY19	FY20	FY21	FY22		FY24	FY25E	FY26E
AUM (INR M)	53,384	59,663	53,724	62,468	80,926	1,01,257	1,25,802	1,53,522
Change (%)	28.4	11.8	-10.0	16.3	29.5	25.1	24.2	22.0
On Balance Sheet	60.9	55.7	75.4	81.4	81.0	77.8	80.0	79.0
Off Balance Sheet	39.1	44.3	24.6	18.6	19.0	22.2	21.1	22.0

E: MOSL Estimates								
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Financials and valuations

RATIOS	(%)							
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)								
Yield on loans	16.1	16.9	13.5	13.4	15.4	15.5	15.4	15.3
Cost of Funds	8.9	8.7	7.1	7.4	8.8	9.1	9.2	9.2
Spreads (On books)	7.2	8.2	6.4	6.0	6.6	6.4	6.2	6.1
NIMs (On Books)	8.9	8.6	6.1	5.8	6.3	6.2	6.2	6.1
Profitability Ratios (%)								
RoE	19.5	18.8	13.9	13.0	14.6	15.6	17.3	18.3
RoA	4.8	4.0	2.9	2.8	2.9	3.0	3.1	3.0
RoA (on AUM)	3.2	2.9	2.5	2.7	2.8	2.7	2.8	2.9
Op. Exps./Net Income	21.2	22.4	18.7	27.3	33.0	31.0	30.0	29.0
Empl. Cost/Op. Exps.	60.9	58.3	48.2	45.8	39.9	46.0	47.1	48.2
Asset-Liability Profile (%)								
Net NPAs to Adv.	1.6	1.4	1.0	1.2	1.2	1.5	0.9	0.9
Debt/Equity (x) - On BS	3.3	3.7	3.5	3.6	4.2	4.2	4.9	5.0
Average leverage	3.0	3.5	3.6	3.6	3.9	4.2	4.6	5.0
CAR	29.1	31.0	26.9	26.4	25.3	23.3	21.8	21.0
Valuations								
Book Value (INR)	51	57	69	79	89	105	123	145
Price-BV (x)	6.0	5.4	4.5	3.9	3.5	2.9	2.5	2.1
Adjusted BV (INR)	49	55	67	76	86	100	118	139
Price-ABV (x)	6.3	5.6	4.6	4.0	3.6	3.1	2.6	2.2
EPS (INR)	9.3	10.2	8.8	9.6	12.3	15.1	19.7	24.4
EPS Growth (%)	47	9	-14	10	28	23	30	24
Price-Earnings (x)	33	30	35	32	25	20	16	13
Dividend per share	5.1	8.0	1.5	3.0	3.0	1.5	2.0	2.4
Dividend yield (%)	0.6	0.9	0.2	0.3	0.3	0.5	0.7	0.8
E: MOFSL Estimates								

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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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
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