

MAS Financial Services

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR755
TP: INR1,000 (+35%)
Buy

Demand outlook positive; ready for the next growth phase

- PAT rose 4% QoQ and 13% YoY to INR383m (in line) in 2QFY22. Total income grew 3% QoQ, but fell 2% YoY, to INR808m (7% miss), while OPEX rose 40% QoQ and 68% YoY to INR209m. Provisions/credit costs stood at INR83m (est. INR140m).
- MASFIN delivered a record high quarterly disbursement of INR14.8b (up 42% QoQ and 80% YoY). After exhibiting a sequential decline in four out of last five quarters, AUM grew 6% QoQ to INR57.9b.
- Asset quality (deteriorated by ~10bp QoQ to 1.9%), but has still been rather healthy compared to peers in MSME/SME lending. Capital adequacy as well as liquidity on the Balance Sheet continues to remain strong.
- While there has been a marginal deterioration in GS-III, it witnessed a sharp recovery in disbursement and AUM growth. MASFIN continues to focus on profitability over growth. We expect loan growth to revert to ~14% in FY22E and then increase to ~17% in FY23E. We have kept our earnings estimates largely unchanged and model a RoE/RoA of 15%/3% over FY23-24E. We maintain our Buy rating, with a TP of INR 1,000/share (3.5x Sep'23E BV).

Bloomberg	MASFIN IN
Equity Shares (m)	55
M.Cap.(INRb)/(USDb)	40.6 / 0.5
52-Week Range (INR)	1108 / 716
1, 6, 12 Rel. Per (%)	-5/-30/-60
12M Avg Val (INR M)	32

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Total income	3.3	3.6	4.5
PPP	2.7	2.8	3.5
PAT	1.4	1.7	2.1
EPS (INR)	26.3	31.3	38.2
EPS Gr. (%)	-13.8	19.3	21.9
BVPS (INR)	206	234	269

Ratios (%)

NIM	6.1	6.5	7.2
C/I ratio	18.7	22.6	22.2
RoA on AUM	2.5	3.0	3.1
RoE	13.9	14.2	15.2
Payout	30.5	10.0	10.0

Valuations

P/E (x)	28.8	24.1	19.8
P/BV (x)	3.7	3.2	2.8
Div. yield (%)	1.1	0.4	0.5

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	73.6	73.6	73.6
DII	10.0	10.5	11.2
FII	1.7	1.6	1.3
Others	14.7	14.3	14.0

FII Includes depository receipts

AUM up 6% sequentially; margin improves by ~10bp QoQ

- Disbursements exhibited a sharp improvement. As a result, standalone AUM increased by 6.3% QoQ (up 3.5% YoY) to INR54.8b. Housing subsidiary AUM rose 1.9% QoQ and 6.6% YoY to INR3b. In the AUM mix, Micro Enterprise loans (MEL) fell 8% YoY, while SME loans rose 22%. 2W loan AUM was flat YoY.
- MASFIN has not been actively undertaking high assignment transactions. This led to the share of off-Balance Sheet loans declining by 300bp QoQ to 19%.
- Yield on loans (calculated) improved by ~10bp QoQ to 12.8%, but was mitigated by an increase of ~20bp QoQ in CoB (calculated). This led to overall spreads declining by ~14bp QoQ to 4.8%.
- Healthy improvement in disbursements led to C/I ratio increasing by 690bp QoQ to 26%, while OPEX-to-AUM ratio increased by ~45bp QoQ to 1.6%.

Improvement in collection efficiency; GNPL ratio at 1.9%

- Collection efficiency stood at 97% in 2Q (v/s 93% in 1QFY22). GS3 ratio now stands at 1.9% v/s 1.8% in 1QFY22.
- 1+dpd loans decreased by ~36bp QoQ to 6.1% in 2QFY22. This was primarily a fallout of the lagged effect of higher delinquencies in the second COVID wave. Total standalone COVID provisions stood at INR492.4m (1.12% of on-book loans).
- Total restructured advances stood at INR296m (~54bp of AUM).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Other highlights

- Average ticket size of SME loans remained stable at INR3.4m.
- **HFC subsidiary** – AUM have been flat (INR2.9-3b) for the past 10 quarters. Gross Stage 3 increased by 6bp QoQ to ~0.65%.
- Tier I ratio stood at 24%. RoTA remained stable QoQ at 2.9% in 2QFY22.

Key highlights from management commentary

- The management sounded confident of its preparedness to capitalize on all future growth opportunities. MASFIN aspires to grow its AUM to ~INR100b over the next three years.
- Enablers are in place to achieve its long term loan book growth guidance of 20-25%.

Valuation and view

Despite operating in a tough operating environment, with a high exposure to Micro loans/SME sector, MASFIN has exhibited healthy asset quality because of its unique business model and ability to leverage its relationship with partner NBFCs. Historically, MASFIN has managed its liquidity well (with higher sell downs) and still continues to have an adequate buffer on its Balance Sheet. While there has been a marginal deterioration in GS-III in 2QFY22 relative to peers, its Balance Sheet appears to be well insulated. MASFIN witnessed a sharp recovery in disbursement and AUM growth. The company will continue to focus on profitability over growth. We expect loan growth to revert to ~14% in FY22E and further increase to ~17% in FY23E. We have kept our earnings estimates largely unchanged and model a RoE/RoA of 15%/3% over FY23-24E. We maintain our Buy rating, with a TP of INR1,000 (3.5x Sep'23E BV).

Quarterly Performance

(INR M)

Y/E March	FY21				FY22				FY21	FY22	2QFY22E	Act. v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Revenue from Operations	1,604	1,523	1,421	1,391	1,485	1,567	1,705	1,950	5,939	6,707	1,606	-2
Interest Income	1,416	1,199	1,080	1,141	1,283	1,352	1,460	1,688	4,831	5,782	1,334	1
Gain on assignments	157	245	229	174	149	155	190	206	806	700	170	-9
Other operating Income	31	79	111	76	53	61	55	56	302	225	102	-40
Interest expenses	694	701	639	611	699	759	809	871	2,645	3,139	741	2
Total income	910	821	782	781	786	808	896	1,079	3,294	3,569	865	-7
<i>Growth Y-o-Y (%)</i>	-4.4	-14.2	-26.4	-22.8	-13.7	-1.6	14.7	38.3	-17.8	8.3	5.2	
Operating Expenses	122	125	163	206	149	209	220	227	616	805	200	5
Operating Profits	788	696	619	575	636	599	676	852	2,678	2,763	665	-10
<i>Growth Y-o-Y (%)</i>	4.2	-4.0	-24.8	-26.0	-19.2	-14.1	9.3	48.3	-13.8	3.2	-4.6	
Provisions	299	240	135	75	141	83	130	105	749	460	140	-41
Profit before tax	489	456	484	500	495	515	546	747	1,929	2,304	525	-2
<i>Growth Y-o-Y (%)</i>	-21.9	-8.7	-25.4	7.8	1.3	12.9	12.9	49.5	-15.5	19.4	15.0	
Tax Provisions	123	114	122	134	127	132	140	193	494	592	135	-2
Net Profit	366	342	362	365	368	383	406	554	1,435	1,712	390	-2
<i>Growth Y-o-Y (%)</i>	-10.2	-14.9	-25.2	5.9	0.6	12.0	12.1	51.8	-13.8	19.3	13.9	
Key Operating Parameters %												
Yield on loans (Cal)	17.6	15.5	13.4	12.3	12.7	12.8						
Cost of funds (Cal)	9.1	9.0	8.2	7.3	7.8	8.0						
Spreads (Cal)	8.5	6.5	5.2	4.9	4.9	4.8						
NIM on AUM (Cal)	6.3	6.0	6.0	6.0	6.0	6.1						
Credit Cost (%)	2.1	1.8	1.0	0.6	1.1	0.6						
Cost to Income Ratio	13.5	15.2	20.8	26.4	19.0	25.9						
Tax Rate	25.2	25.0	25.2	26.9	25.7	25.6						
Balance Sheet Parameters												
Standalone AUM (INR B)	56.6	53.0	50.5	53.7	51.6	54.9						
Change YoY (%)	1.4	-10.1	-15.2	-10.0	-8.8	3.5						
Disbursements (INR B)	1.1	8.2	10.3	12.9	10.4	14.8						
Change YoY (%)	-91.0	-39.7	-22.0	0.4	864.2	80.0						
Borrowings (INR B)	30.0	32.3	29.9	36.6	35.4	40.8						
Change YoY (%)	1.4	8.3	-2.0	17.2	18.3	26.5						
Debt/Equity (x)	2.9	3.0	2.6	3.1	2.9	3.3						
Asset liability Mix												
AUM Mix (%)												
Micro Enterprises	60.5	59.4	60.0	55.3	53.5	52.7						
SME loans	29.6	31.0	30.5	34.9	35.1	36.5						
2W loans	7.1	6.8	6.4	6.1	7.3	6.6						
CV loans	2.8	2.8	3.1	3.8	4.1	4.2						
Borrowings Mix (%)												
Direct Assignment	50.0	44.0	39.0	29.0	26.0	22.0						
Cash Credit	24.0	26.0	31.0	32.0	31.0	31.0						
Term Loan	25.0	24.0	23.0	31.0	32.0	34.0						
NCD	0.0	5.0	6.0	7.0	10.0	10.0						
Sub Debt	1.0	1.0	1.0	1.0	1.0	1.0						
Asset Quality Parameters (%)												
GS 3 (INR m)	597	632	490	644	737	854						
GS 3 (%)	1.41	1.56	1.32	1.94	2.21	2.30						
NS 3 (INR m)	441	417	327	418	494	580						
NS 3 (%)	1.14	1.16	1.00	1.52	1.74	1.80						
PCR (%)	26.1	34.0	33.3	35.0	32.9	32.1						
Return Ratios (%)												
ROA	3.2	2.9	3.1	3.0	2.9	2.9						
Tier I ratio	32.2	32.7	30.4	24.8	26.6	24.0						



Highlights from management commentary

Business updates

- Highly capitalized for future growth. Sufficient capital to continue the growth momentum.
- Sufficient liquidity to cover opex and debt liabilities for at least next 12 months.
- SME and Housing finance offers huge potential and company will maintain adequate focus as it is anticipated as one of the key growth drivers.
- The company plans to tie up with fintech company to widen distribution with focus on underwriting and asset quality
- Targets an AUM mix of Micro-Enterprises and MSME (80%), 2W and CV (20%) and Housing (10%)

Liabilities and Margins:

- Liquidity buffer of INR8.75b and unutilized cash credit facility of INR3.85b and INR10b of undrawn bank lines/assignments.
- It targets to maintain 20%-25% of the AUM in the form of direct assignments.
- CoB was stable QoQ at 8.7%

Asset Quality:

- Gross Stage 3 Assets is 2.30% and Net Stage 3 Assets is 1.80% of AUM .
- Stage 3 (>90 DPD Assets) on Assigned portfolio is INR 407 Mn which has been taken into consideration while calculating Stage 3 As % Of AUM.
- Housing subsidiary GS 3 Assets is 0.65% and NS 3 Assets is 0.46% of AUM.
- Housing subsidiary Stage 3 (>90 DPD Assets) on Assigned portfolio is INR 0.6 Mn. which has been taken into consideration while calculating Stage 3 As % Of AUM.
- Total restructured pool (including under OTR 1.0) stood at INR290mn (54bp of the AUM)
- Micro-enterprises: Recovery rate from low 70s has improved to 85%-90%. Expect continuing improvement in this segment over the next 2 quarters.
- Total special COVID provision as on 30th Sept 2021 stands at INR 492.4 Mn (1.12% of the on book assets)
- For housing subsidiary special COVID provision as on 30th Sept 2021 stands at ~INR 30 Mn. which is around 1.21% of the on book assets.

Others:

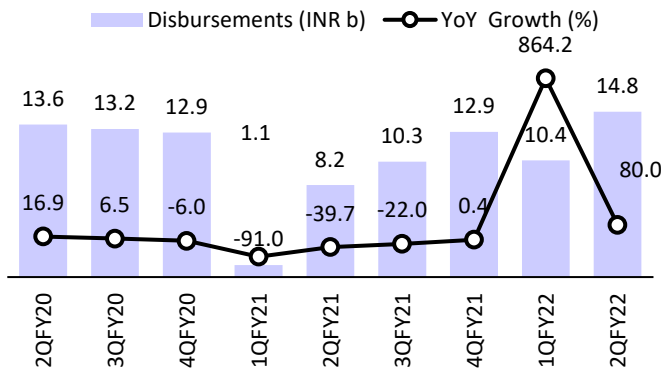
- Higher opex to NII was due to increased collection costs and increased activity levels.
- MAS has 3500 distributional channels and aims to increase to 4500 by FY22
- Rejection ratio is around 40-45% mainly due to stringent norms.
- Micro-Enterprise and MSME loans form 89% of the AUM mix.

Guidance:

- MAS targets INR100b in AUM over the next 3 years and 20%-25% CAGR over the next 5 years

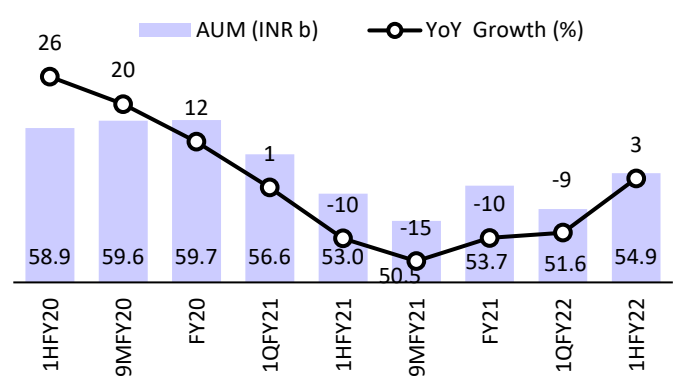
Key exhibits

Exhibit 1: Disbursements reach record high...



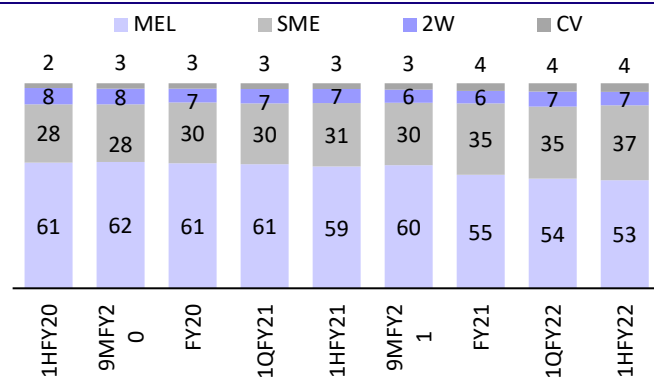
Source: MOFSL, Company

Exhibit 2: ...leading to sequential AUM increase of 6%



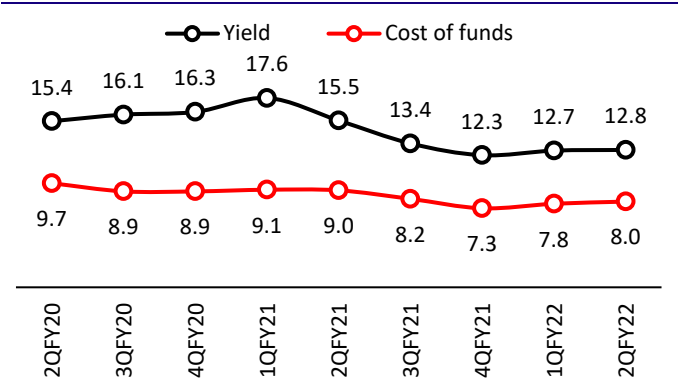
Source: MOFSL, Company

Exhibit 3: Share of MEL loans continues to reduce (%)



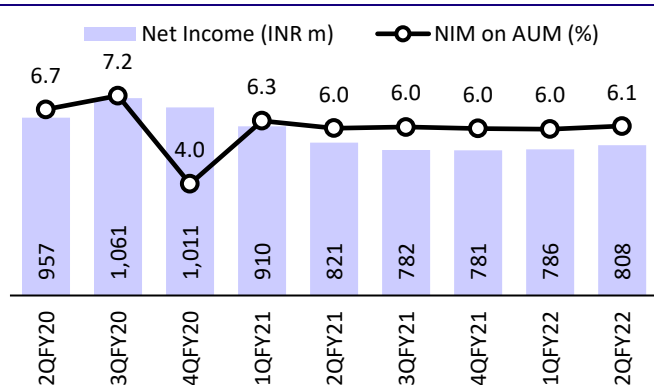
Source: MOFSL, Company

Exhibit 4: Spreads (cal.) largely stable sequentially (%)



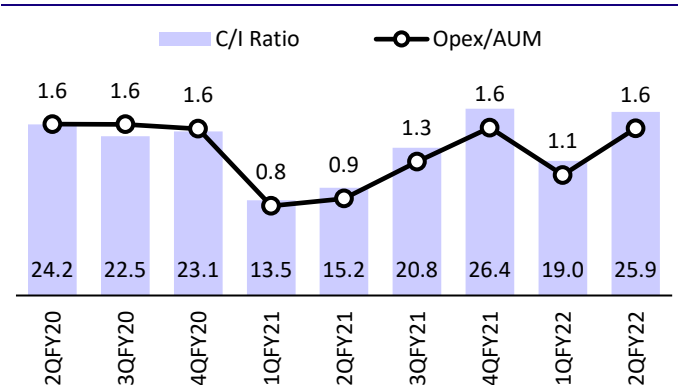
Source: MOFSL, Company

Exhibit 5: NIMs on AUM improved ~10bp sequentially



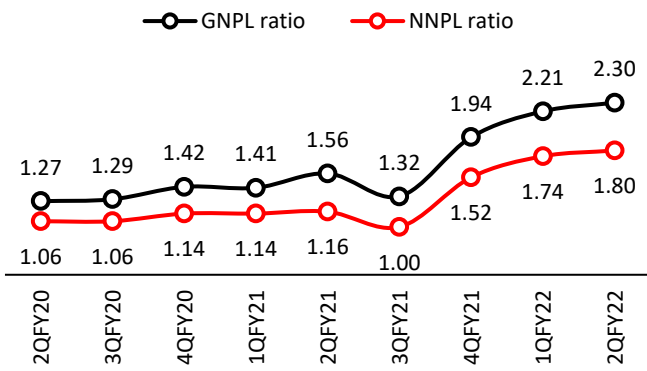
Source: MOFSL, Company; Note: including upfront assignment income

Exhibit 6: Opex to AUM ratio up ~45bp QoQ (%)



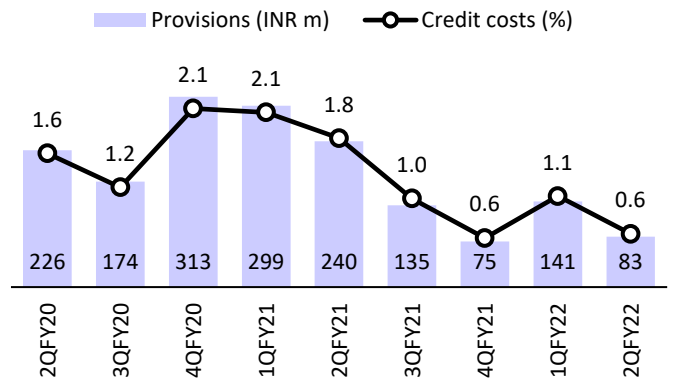
Source: MOFSL, Company

Exhibit 7: GNPL ratio at 2.30%...



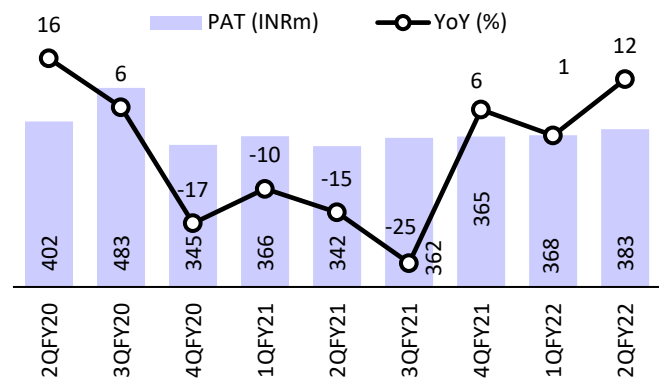
Source: MOFSL, Company

Exhibit 8: Sequentially lower credit costs in line with 4QFY21 levels



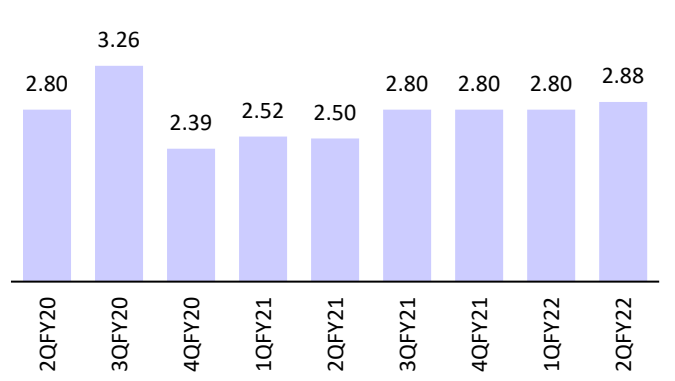
Source: MOFSL, Company

Exhibit 9: PAT up 4% sequentially and 12%YoY



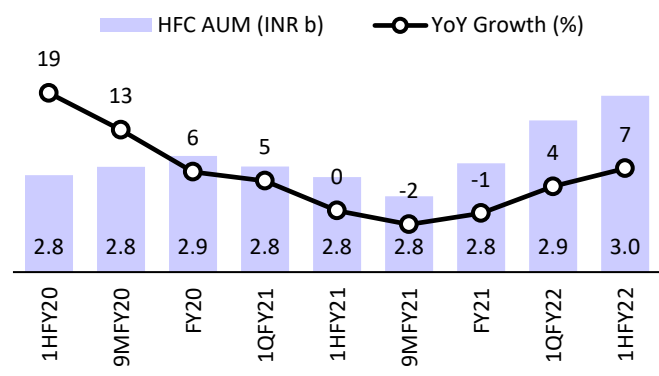
Source: MOFSL, Company

Exhibit 10: RoA trend (%)



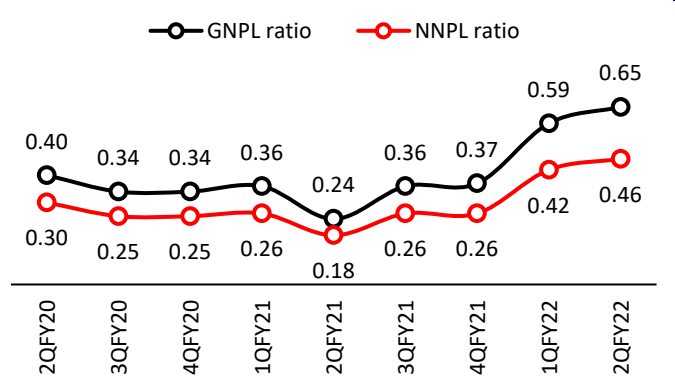
Source: MOFSL, Company. Reported RoA

Exhibit 11: HFC subsidiary AUM was up 7% YoY...



Source: MOFSL, Company

Exhibit 12: ...while asset quality deteriorated marginally (%)



Source: MOFSL, Company

Valuation and view

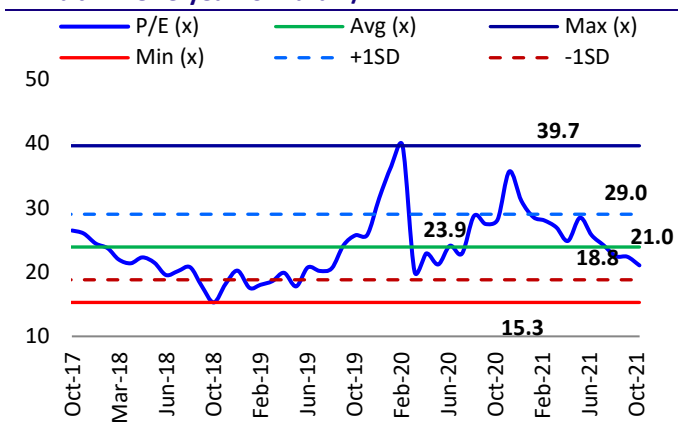
- Despite operating in a tough operating environment, with high exposure to micro loans / SME sector, MASFIN has exhibited healthy asset quality because of its unique business model and ability to leverage the relationship with its partner NBFCs.
- Historically, MASFIN has managed its liquidity well (with higher sell-downs) and still continues to have an adequate buffer on its balance Sheet.
- MASFIN has one of the best capitalizations, with Tier I of ~24% and low debt to equity of ~3.3x.
- While there has been a marginal deterioration in GS-III this quarter, relative to peers the balance sheet appears to be well insulated. Further MAS witnessed a sharp recovery in disbursement and AUM growth.
- We expect loan growth to revert to ~14% in FY22E and then further increase to ~17% in FY23E. We have kept our earnings estimates largely unchanged and model a RoE/RoA of 15%/3% over FY23-FY24E. Maintain Buy, with TP of INR1,000 (3.5x Sep'23E BV).

Exhibit 13: We have largely kept our earnings estimates unchanged

INR b	Old Est.			New Est.			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
NII	2.7	3.2	3.7	2.6	3.3	3.9	-3.0	3.2	6.5
Other Income	1.0	1.2	1.4	0.9	1.1	1.4			
Total Income	3.7	4.4	5.1	3.6	4.5	5.3	-3.6	1.2	3.5
Operating Expenses	0.7	0.9	1.1	0.8	1.0	1.2	9.0	9.0	9.1
Operating Profits	3.0	3.5	4.0	2.8	3.5	4.1	-6.7	-0.8	1.9
Provisions	0.6	0.7	0.8	0.5	0.7	0.9	-27.3	-7.3	5.1
PBT	2.3	2.8	3.2	2.3	2.8	3.2	-1.2	0.8	1.1
Tax	0.6	0.7	0.8	0.6	0.7	0.8	-1.2	0.8	1.1
PAT	1.7	2.1	2.4	1.7	2.1	2.4	-1.2	0.8	1.1
AUM	61	69	79	61	72	85	0.0	3.6	6.4
NIM (%)	4.7	5.0	5.0	4.6	5.0	5.0			
ROAA (%)	3.3	3.7	3.7	3.3	3.7	3.6			
RoAE (%)	14.4	15.0	15.0	14.2	15.2	15.1			

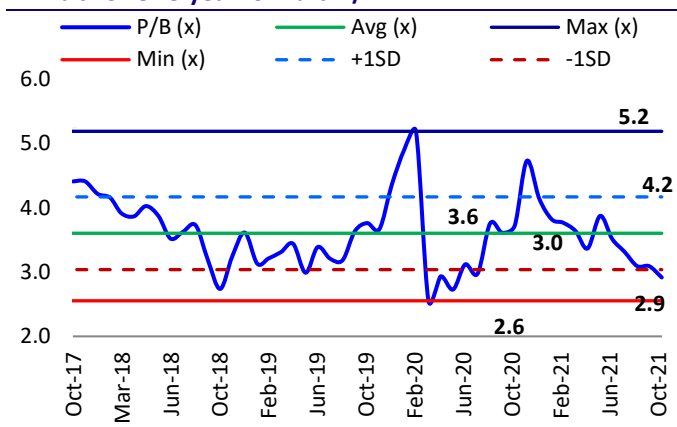
Source: MOFSL, Company

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	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Interest Income	2,779	3,148	3,594	4,645	5,551	4,831	5,782	6,742	7,927
Interest Expense	1,423	1,513	1,705	2,067	2,722	2,645	3,139	3,404	4,003
Net Financing income	1,356	1,634	1,889	2,579	2,829	2,186	2,644	3,338	3,925
Change (%)	29.6	20.5	15.6	36.5	9.7	-22.7	21.0	26.3	17.6
Gains on Assignment	2	0	801	941	1,012	806	700	840	1,008
Nil incl assignment income	1,359	1,634	2,689	3,520	3,841	2,992	3,344	4,178	4,933
Change (%)	29.2	20.3	64.6	30.9	9.1	-22.1	11.8	24.9	18.1
Fees and Others	260	268	115	139	165	302	225	285	351
Total Income	1,619	1,902	2,804	3,659	4,005	3,294	3,569	4,463	5,283
Change (%)	28.0	17.5	47.4	30.5	9.5	-17.8	8.3	25.1	18.4
Operating Expenses	681	604	725	775	899	616	805	990	1,220
Change (%)	30.2	-11.3	20.1	6.8	16.0	-31.4	30.7	22.9	23.2
Operating Profits	938	1,298	2,079	2,885	3,106	2,678	2,763	3,473	4,063
Change (%)	26.5	38.4	60.2	38.7	7.7	-13.8	3.2	25.7	17.0
Total Provisions	236	267	428	545	825	749	460	664	859
% to operating income	25.1	20.6	20.6	18.9	26.5	28.0	16.6	19.1	21.1
PBT	702	1,031	1,652	2,339	2,282	1,929	2,304	2,809	3,204
Tax	271	357	617	818	616	494	592	722	824
Tax Rate (%)	38.5	34.6	37.4	35.0	27.0	25.6	25.7	25.7	25.7
PAT	432	674	1,034	1,521	1,666	1,435	1,712	2,087	2,381
Change (%)	27.7	56.1	53.5	47.1	9.5	-13.8	19.3	21.9	14.1
Proposed Dividend	176	132	200	279	437	82	171	209	238

BALANCE SHEET								INR m	
Y/E MARCH	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
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	12,264	14,142	16,285
Networth (Ex OCI)	1,395	1,576	7,221	8,406	9,354	11,271	12,811	14,689	16,832
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	13,266	15,144	17,287
Change (%)	19.7	24.4	337.7	16.6	10.7	19.5	13.1	14.2	14.1
Minority Interest	98	0	0	0	0	0	1	1	1
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	38,234	44,797	52,829
Change (%)	25.6	10.6	2.4	45.4	27.1	12.6	-2.6	17.2	17.9
Other liabilities	1,397	101	509	736	1,038	787	943	1,131	1,358
Change (%)	8.8	-92.8	405.8	44.5	41.0	-24.2	20.0	20.0	20.0
Total Liabilities	19,458	20,269	26,977	37,036	45,718	51,776	52,443	61,073	71,473
Loans	17,249	19,342	25,463	32,185	33,485	38,051	42,822	50,173	59,168
Change (%)	30.5	12.1	31.6	26.4	4.0	13.6	12.5	17.2	17.9
Investments	3	133	134	223	375	2,350	2,350	2,350	2,350
Net Fixed Assets	82	72	565	572	603	609	670	737	811
Other assets	2,124	722	815	4,056	11,255	10,765	6,601	7,813	9,145
Total Assets	19,458	20,269	26,977	37,036	45,718	51,776	52,444	61,074	71,474

E: MOFSL Estimates

Financials and valuations

RATIOS	(%)								
Y/E MARCH	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Spreads Analysis (%)									
Yield on loans	18.2	17.2	16.0	16.1	16.9	13.5	14.3	14.5	14.5
Cost of Funds	9.5	8.6	9.1	8.9	8.7	7.1	8.1	8.2	8.2
Spreads (On books)	8.7	8.6	6.9	7.2	8.2	6.4	6.2	6.3	6.3
NIMs (On Books)	8.9	8.9	8.4	8.9	8.6	6.1	6.5	7.2	7.2
Profitability Ratios (%)									
RoE	33.7	45.3	23.5	19.5	18.8	13.9	14.2	15.2	15.1
RoA	2.5	3.4	4.4	4.8	4.0	2.9	3.3	3.7	3.6
RoA (on AUM)	1.8	2.3	2.8	3.2	2.9	2.5	3.0	3.1	3.0
Op. Exps./Net Income	42.1	31.8	25.9	21.2	22.4	18.7	22.6	22.2	23.1
Empl. Cost/Op. Exps.	35.8	43.4	52.4	60.9	58.3	48.2	47.2	46.1	44.9
Asset-Liability Profile (%)									
Net NPAs to Adv.	0.9	0.8	1.1	1.0	0.8	0.8	0.8	0.7	0.7
Debt/Equity (x) - On BS	11.9	11.7	2.6	3.3	3.7	3.5	3.0	3.0	3.1
Average leverage	11.7	11.8	4.2	3.0	3.5	3.6	3.2	3.0	3.1
Valuations									
Book Value (INR)	87	37	132	154	171	206	234	269	308
Price-BV (x)					4.4	3.7	3.2	2.8	2.5
EPS (INR)	27.0	15.7	18.9	27.8	30.5	26.3	31.3	38.2	43.6
EPS Growth (%)	28	-42	21	47	9	-14	19	22	14
Price-Earnings (x)				27.1	24.8	28.8	24.1	19.8	17.3
Dividend per share		3.3	3.7	5.1	8.0	1.5	3.1	3.8	4.4
Dividend yield (%)					1.1	1.1	0.4	0.5	0.6

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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