

MAS Financial Services

Estimate change

TP change

Rating change



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Bloomberg	MASFIN IN
Equity Shares (m)	55
M.Cap.(INRb)/(USD\$)	42.1 / 0.6
52-Week Range (INR)	1108 / 645
1, 6, 12 Rel. Per (%)	-17/-16/-27
12M Avg Val (INR M)	30

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Total income	3.3	3.4	3.9
PPP	2.7	2.7	3.0
PAT	1.4	1.5	1.8
EPS (INR)	26.3	28.2	32.6
EPS Gr. (%)	-13.8	7.6	15.3
BVPS (INR)	206	232	261

Ratios (%)

NIM	6.1	6.3	6.7
C/I ratio	18.7	21.4	22.8
RoA on AUM	2.5	2.8	3.0
RoE	13.9	12.9	13.2
Payout	5.7	10.0	10.0

Valuations

P/E (x)	29.3	27.2	23.6
P/BV (x)	3.7	3.3	2.9
Div. yield (%)	0.2	0.4	0.4

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	73.6	73.6	73.6
DII	10.5	10.6	11.9
FII	1.6	1.6	1.4
Others	14.3	14.2	13.1
FII Includes depository receipts			

CMP: INR769
TP: INR1,000 (+ 30%)
Buy

In line operating profit, but lower credit cost led to higher PAT beat

- PAT was largely flat QoQ and YoY at INR368m (40% beat) in 1QFY22. The beat was primarily driven by credit costs of INR141m (53% lower than our estimate). Operating profit at INR636m (2% miss) was largely in line with our expectations.
- Disbursements were impacted (but less so compared to its peers in MSME and SME lending) due to the lockdowns and the management's cautious approach. Disbursements fell ~20% QoQ to INR10.4b. This also impacted consolidated AUM, which fell 4% QoQ and 8% YoY to INR54.6b.
- Even though asset quality deteriorated by ~30bp QoQ to 2.2%, it has been rather healthy compared to its peers in MSME/SME lending. Capital adequacy and liquidity on the Balance Sheet continue to remain strong.
- Earnings and Balance Sheet growth have been muted because of the management's cautious approach. We expect a steady improvement in both loan growth and earnings once the COVID-related disruptions subside, given its strong Balance Sheet and track record of good execution in the past. We upgrade our FY22E/FY23E estimate by ~5%/2% and expect a RoA/RoE ~3.5%/13% in FY23E. We maintain our Buy rating with a TP of INR1,000 per share (3.8x FY23E BVPS).

AUM declined sequentially; spreads and NIM stable QoQ

- Disbursements declined QoQ. As a result, standalone AUM fell 4% QoQ (down 9% YoY) to INR51.6b. However, the same in its Housing subsidiary rose 3% QoQ and 4% YoY to INR2.9b. In the AUM mix, share of Micro Enterprises loans continued to decline, down 180bp to 53.5%, offset by gains in 2Ws and CV loans.
- Given the environment and muted disbursements, MASFIN has not been actively undertaking higher assignment transactions. This led to the share of off-balance sheet loans declining by a further 260bp QoQ to 22%.
- Yield on loans (calculated) improved by ~40bp QoQ to 12.7%, but was mitigated by an equal increase in the CoB (calculated). This led to overall spreads remaining stable QoQ at 4.9%.
- Healthy efficiency in operating expenses led to the C/I ratio declining by 740bp QoQ to 19%. The opex-to-AUM ratio fell ~45bp to 1.1%.

Collection efficiency though impacted, was still very good; GNPL ratio at 2.2%

- Collection efficiency stood at 93% in 1QFY22 (v/s 95% in 4QFY21), still healthy considering that the quarter was severely impacted by COVID-related lockdowns. GS3 ratio stands at 2.2% v/s 1.9% in 4QFY21.
- 1+ dpd loans increased by 21bp QoQ to 6.5% in 1QFY22. Asset quality in 1QFY22 remained strong despite challenges on the collection front. Total standalone COVID-related provisions stood at INR543m (1.34% of on book loans).
- It did not restructure any loans in 1QFY22. However, the management said it has a restructuring pipeline of INR150-200m (30-40bp of standalone AUM). It will objectively restructure customer loans on individual merits of the case and where there is a genuine need for restructuring.

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Other highlights

- Average ticket size of SME loans reduced to INR2.2m from INR3.5m QoQ.
- **HFC subsidiary:** AUM has been flat (~INR2.8-2.9b) for the past nine quarters. Gross Stage 3 assets increased by 22bp QoQ to ~0.6%.
- Tier I ratio stood at 26.6%. RoTA declined by ~10bp QoQ to 2.9% in 1QFY22.

Key highlights from the management commentary

- The management is ready to capitalize on all future growth opportunities. It aspires to grow AUM to ~INR100b over the next 3-4 years.
- MASFIN has enablers in place to achieve its long term loan book growth guidance of ~25%.

Valuation and view

Despite operating in a tough environment, with high exposure to micro loans/SME sector, MASFIN has exhibited healthy asset quality due to its unique business model and ability to leverage its relationship with partner NBFCs. Given that the external environment has still not become the most conducive and customers, especially in vulnerable MSME segments, will take time to recover from the COVID-led setbacks, asset quality and business growth will remain the key monitorables. Historically, MASFIN has managed liquidity well, with higher sell-downs. We like MASFIN's focus on profitability over growth. We expect loan growth to remain muted in FY22E, and then steadily recover to 11-14% over FY23-FY24E. We increase our FY22E/FY23E PAT estimate by ~5%/2% to factor in lower opex and credit cost, despite modelling a decline in loan growth. We maintain our Buy rating, with a TP of INR1,000 per share (3.8x FY23E BV).

Quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E 1QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue from Operations	1,604	1,523	1,421	1,391	1,485	1,574	1,669	1,822	5,939	6,549	1,429	4
Interest Income	1,416	1,199	1,080	1,141	1,283	1,347	1,414	1,531	4,831	5,574		
Gain on assignments	157	245	229	174	149	175	200	226	806	750		
Other operating Income	31	79	111	76	53	52	55	65	302	225		
Interest expenses	694	701	639	611	699	741	793	909	2,645	3,142	629	11
Total income	910	821	782	781	786	832	876	913	3,294	3,407	800	-2
Growth YoY (%)	-4.4	-14.2	-26.4	-22.8	-13.7	1.3	12.1	17.0	-17.8	3.4	-12.1	
Operating Expenses	122	125	163	206	149	165	200	214	616	728	150	0
Operating Profit	788	696	619	575	636	667	676	699	2,678	2,679	650	-2
Growth YoY (%)	4.2	-4.0	-24.8	-26.0	-19.2	-4.2	9.2	21.7	-13.8	0.0	-17.5	
Provisions	299	240	135	75	141	150	150	160	749	601	300	-53
Profit before tax	489	456	484	500	495	517	526	540	1,929	2,078	350	41
Growth YoY (%)	-21.9	-8.7	-25.4	7.8	1.3	13.4	8.7	8.0	-15.5	7.7	-28.4	
Tax Provisions	123	114	122	134	127	133	135	139	494	534	88	45
Net Profit	366	342	362	365	368	384	391	401	1,435	1,544	262	40
Growth YoY (%)	-10.2	-14.9	-25.2	5.9	0.6	12.4	8.0	9.7	-13.8	7.6	-28.3	

Key Operating Parameters (%)

Key Operating Parameters (%)												
	FY21				FY22				FY22E			
Y/E March	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY21	FY22E	1QE	Var. (%)
Yield on loans (Cal.)	17.6	15.5	13.4	12.3	12.7							
Cost of funds (Cal.)	9.1	9.0	8.2	7.3	7.8							
Spreads (Cal.)	8.5	6.5	5.2	4.9	4.9							
NIM on AUM (Cal.)	6.3	6.0	6.0	6.0	6.0							
Credit Cost (%)	2.1	1.8	1.0	0.6	1.1							
Cost-to-Income Ratio	13.5	15.2	20.8	26.4	19.0							
Tax Rate	25.2	25.0	25.2	26.9	25.7							
Balance Sheet Parameters												
Standalone AUM (INR b)	56.6	53.0	50.5	53.7	51.6							
Change YoY (%)	1.4	-10.1	-15.2	-10.0	-8.8							
Disbursements (INR b)	1.1	8.2	10.3	12.9	10.4							
Change YoY (%)	-91.0	-39.7	-22.0	0.4	864.2							
Borrowings (INR b)	30.0	32.3	29.9	36.6	35.4							
Change YoY (%)	1.4	8.3	-2.0	17.2	18.3							
Debt/Equity (x)	2.9	3.0	2.6	3.1	2.9							
Asset liability Mix												
AUM Mix (%)												
Micro Enterprises	60.5	59.4	60.0	55.3	53.5							
SME loans	29.6	31.0	30.5	34.9	35.1							
2W loans	7.1	6.8	6.4	6.1	7.3							
CV loans	2.8	2.8	3.1	3.8	4.1							
Borrowings Mix (%)												
Direct Assignment	50.0	44.0	39.0	29.0	26.0							
Cash Credit	24.0	26.0	31.0	32.0	31.0							
Term Loan	25.0	24.0	23.0	31.0	32.0							
NCD	0.0	5.0	6.0	7.0	10.0							
Subsidiary Debt	1.0	1.0	1.0	1.0	1.0							
Asset quality parameters (%)												
GS 3 (INR m)	597	632	490	644	737							
GS 3 (%)	1.41	1.56	1.32	1.94	2.21							
NS 3 (INR m)	441	417	327	418	494							
NS 3 (%)	1.14	1.16	1.00	1.52	1.74							
PCR (%)	26.1	34.0	33.3	35.0	32.9							
Return Ratios (%)												
RoA	3.2	2.9	3.1	3.0	2.9							
Tier I ratio	32.2	32.7	30.4	24.8	26.6							

E: MOFSL estimates

**Highlights from the management commentary****Business updates**

- **Most disbursements were done in the last 45 days of 1QFY22.**
- Around 57% of AUM is sourced via its NBFC partners. About 65% of its SME book is sourced via partners.

Liabilities and margin

- Around INR10b of sanctions is to be utilized in the remaining nine months of FY22.
- Around INR2b of direct assignment was undertaken in 1QFY22.
- Cost of borrowing stood at 8.72% (v/s 9.24% YoY).
- During 1QFY22, MASFIN rolled over INR11b of short term working capital loans.
- MASFIN raised INR1b of term loans in 1QFY22. It has further sanctions of INR3b in the pipeline.

Asset quality

- Collection efficiency is currently at 96.5% and is back to pre-COVID levels.

- The management is in the process of assessing the financial situation of its customers to grant a restructuring during 2QFY22.
- **It currently has INR150-200m of restructuring pipeline.**
- It expects a total recovery of INR330m in the SAMBHAV account. It is hopeful of receiving 7-8% of the total recovery amount collected by third-party agents.
- **Stage 3: 2.48% in 2W, 2.08% in MEL, 1.22% in SME and 2.33% in SRTO.**
- **Stage 2: 2.13% in 2W, 1.53% in MEL, 2.9% in SME and 3.54% in SRTO.**

Guidance

- **The management is ready to capitalize on all future growth opportunities. It aspires to grow AUM to ~INR100b over the next 3-4 years.**
- **MASFIN is geared up to penetrate states other than Gujarat.**
- The management expects the Retail business to pick up. The ratio of the organically sourced business to the NBFC sourced business can touch 65:35, with a growing business reach and increase in distribution to 5000 centers.
- It has enablers in place to achieve its long term loan book growth guidance of ~25%.
- It expects a good growth in disbursements, with healthy numbers in Jul'21 and the initial few days of Aug'21.

Key exhibits

Exhibit 1: Disbursements were impacted by the lockdowns...

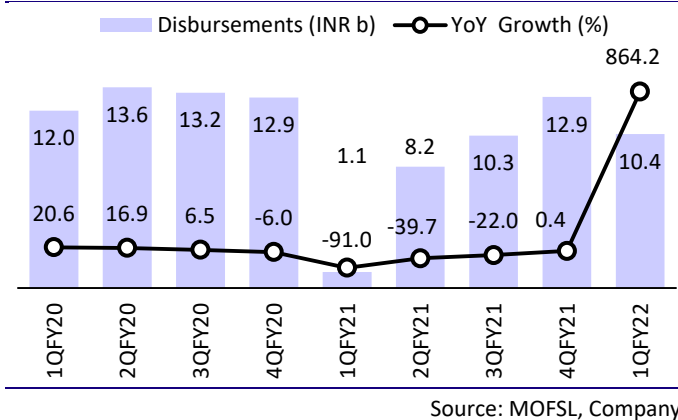


Exhibit 2: ...leading to AUM declining by 9% YoY

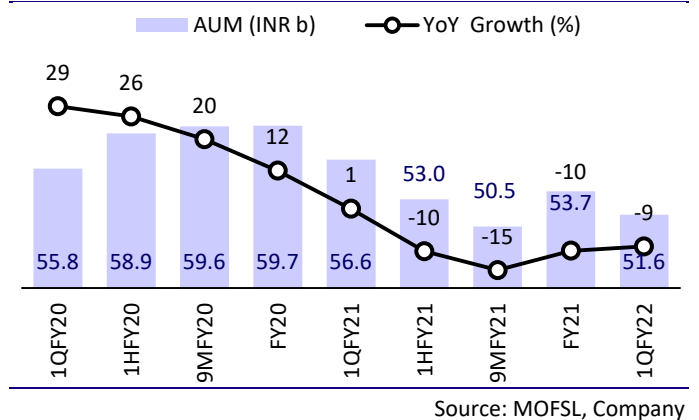


Exhibit 3: Share of MEL loans declines by ~180bp QoQ (%)

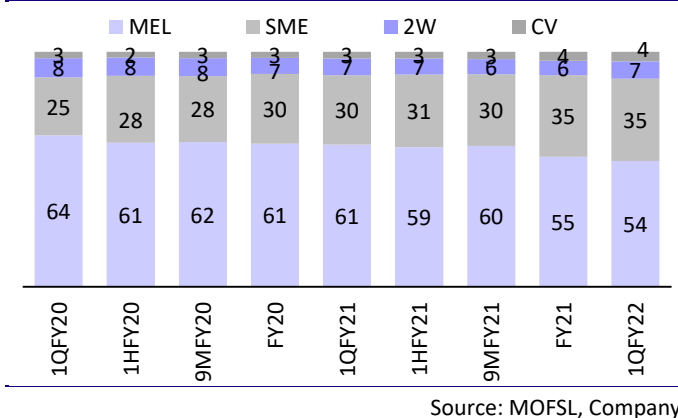


Exhibit 4: Spreads (calculated) largely stable sequentially (%)

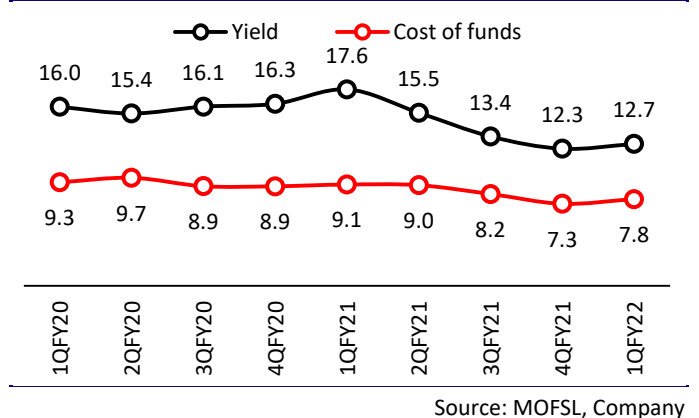
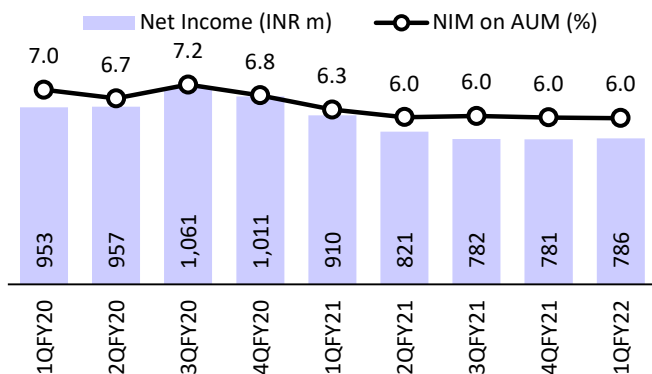
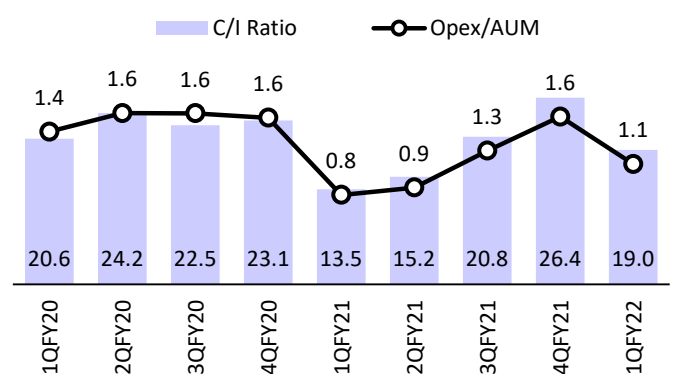
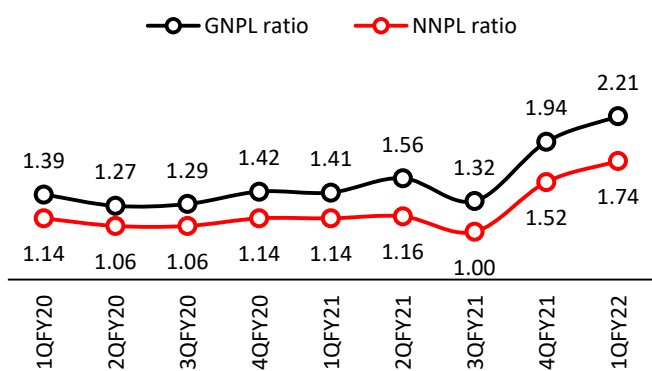


Exhibit 5: NIM on AUM stable sequentially

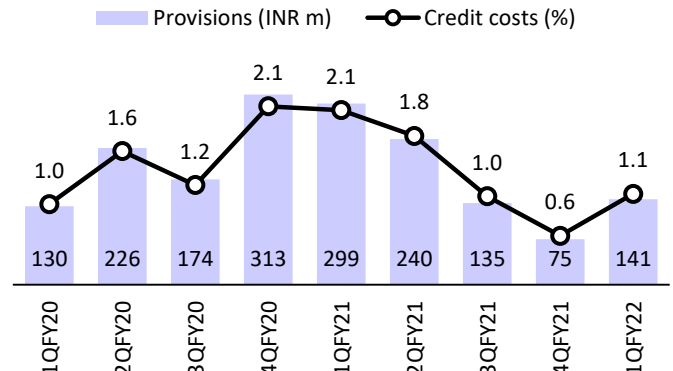
Source: MOFSL, Company; Note: including upfront assignment income

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

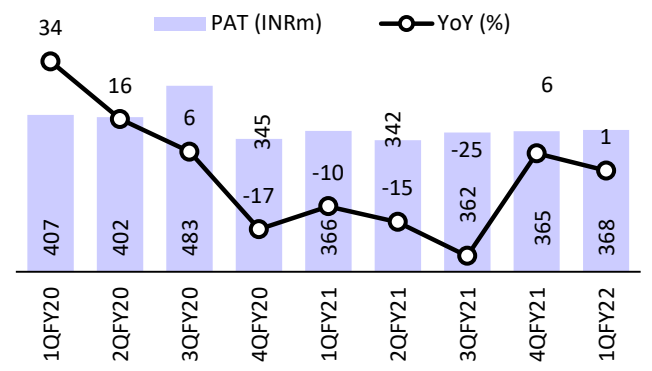
Source: MOFSL, Company

Exhibit 7: GNPL ratio at 2.2%

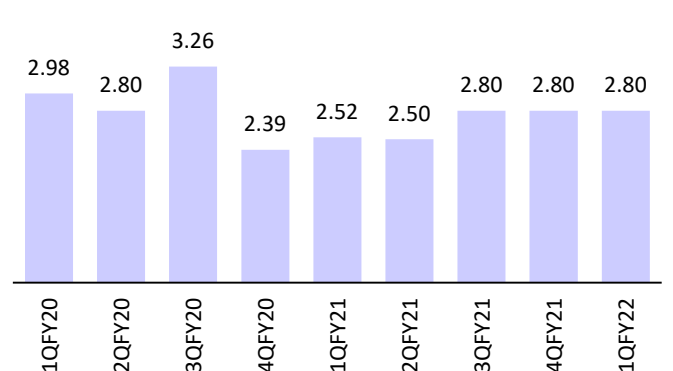
Source: MOFSL, Company

Exhibit 8: Sequentially higher credit costs to provide for the second wave of COVID-related slippages in asset quality

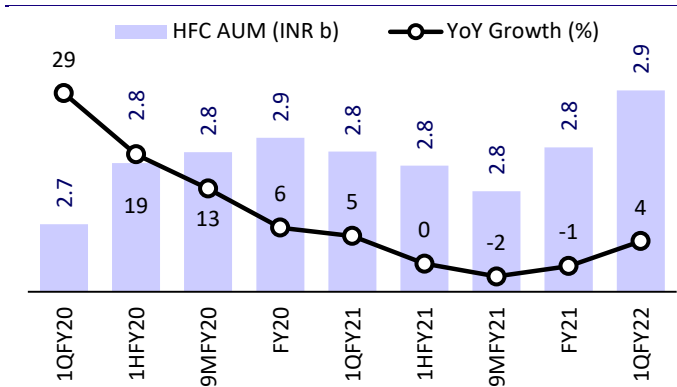
Source: MOFSL, Company

Exhibit 9: PAT flat sequentially as well as YoY

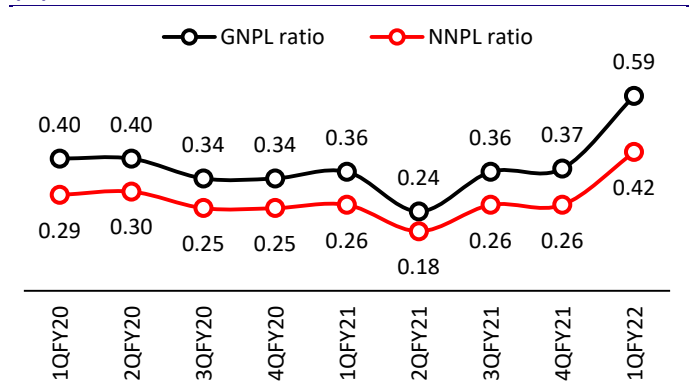
Source: MOFSL, Company

Exhibit 10: RoA trend (%)

Source: MOFSL, Company. Reported RoA

Exhibit 11: Loan growth in the HFC subsidiary remains muted...

Source: MOFSL, Company

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

Source: MOFSL, Company

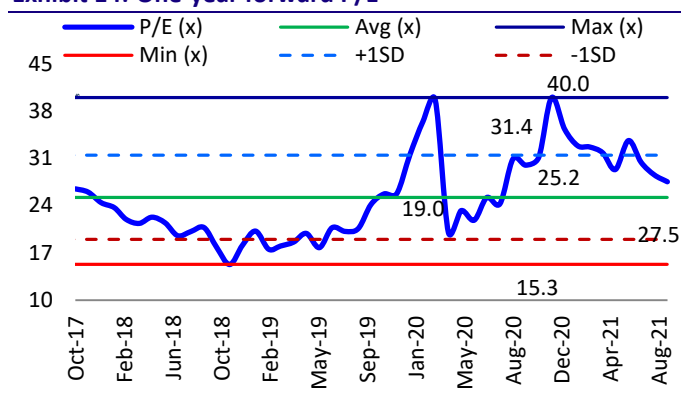
Valuation and view

- Despite operating in a tough operating environment, with high exposure to micro loans/SME sector, MASFIN has exhibited healthy asset quality due to its unique business model and ability to leverage its relationship with partner NBFCs.
- Given that the external environment has still not become the most conducive and customers, especially in vulnerable MSME segments, will take time to recover from the COVID-led setbacks, asset quality and business growth will remain the key monitorables.
- Historically, MASFIN has managed to assign 40-45% of the portfolio to financial institutions, which has helped it generate strong liquidity. Around **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, volatility in quarterly earnings is likely to remain high, depending on the type and quantum of the portfolio assigned.
- MASFIN has one of the best capitalizations, with Tier I of ~26.6% and low debt to equity of ~2.9x among NBFCs.
- We like MASFIN's focus on profitability over growth. We expect loan growth to remain muted in FY22E, and then steadily recover to 11-14% over FY23-FY24E. We increase our FY22E/FY23E PAT estimate by ~5%/2% to factor in lower opex and credit cost, despite modelling a decline in loan growth. The stock trades at 3.3x/2.9x P/BV of FY22E/FY23E. We maintain our Buy rating, with a TP of INR1,000 per share (3.8x FY23E BV).

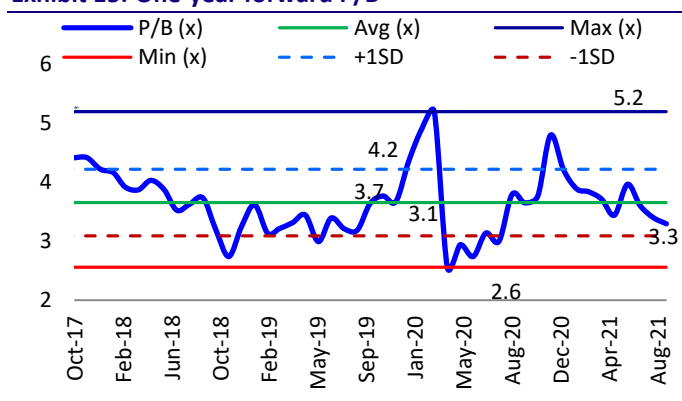
Exhibit 13: Upgrade our FY22E/FY23E EPS estimate by ~5%/2%, factoring in lower opex and credit costs

INR b	Old estimate			New estimate			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
NII	2.2	2.5	2.8	2.4	2.8	3.1	11.7	10.2	10.1
Other Income	1.3	1.6	1.9	1.0	1.2	1.4			
Total Income	3.5	4.1	4.7	3.4	3.9	4.6	-1.7	-3.2	-4.0
Operating Expenses	0.8	1.0	1.3	0.7	0.9	1.1	-6.8	-10.2	-12.3
Operating Profit	2.7	3.1	3.5	2.7	3.0	3.4	-0.2	-1.0	-1.0
Provisions	0.7	0.7	0.8	0.6	0.6	0.7	-17.2	-12.6	-5.1
PBT	2.0	2.3	2.7	2.1	2.4	2.7	6.1	2.7	0.2
Tax	0.5	0.6	0.7	0.5	0.6	0.7	8.6	5.2	2.6
PAT	1.5	1.7	2.0	1.5	1.8	2.0	5.3	1.9	-0.6
AUM	58	65	74	55	61	70	-4.2	-5.1	-5.2
NIM (%)	3.9	4.1	4.1	4.5	4.7	4.8			
RoAA (%)	2.9	3.3	3.4	3.1	3.5	3.5			
RoAE (%)	12.3	13.1	13.5	12.9	13.2	13.3			

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	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	2,779	3,148	3,594	4,645	5,551	4,831	5,574	6,140	7,142
Interest Expense	1,423	1,513	1,705	2,067	2,722	2,645	3,142	3,381	4,011
Net Financing income	1,356	1,634	1,889	2,579	2,829	2,186	2,432	2,759	3,131
Change (%)	29.6	20.5	15.6	36.5	9.7	-22.7	11.3	13.5	13.5
Gains on Assignment	2	0	801	941	1,012	806	750	900	1,080
NII incl. assignment income	1,359	1,634	2,689	3,520	3,841	2,992	3,182	3,659	4,211
Change (%)	29.2	20.3	64.6	30.9	9.1	-22.1	6.4	15.0	15.1
Fees and Others	260	268	115	139	165	302	225	276	340
Total Income	1,619	1,902	2,804	3,659	4,005	3,294	3,407	3,935	4,550
Change (%)	28.0	17.5	47.4	30.5	9.5	-17.8	3.4	15.5	15.6
Operating Expenses	681	604	725	775	899	616	728	896	1,104
Change (%)	30.2	-11.3	20.1	6.8	16.0	-31.4	18.2	23.0	23.3
Operating Profit	938	1,298	2,079	2,885	3,106	2,678	2,679	3,040	3,446
Change (%)	26.5	38.4	60.2	38.7	7.7	-13.8	0.0	13.5	13.4
Total Provisions	236	267	428	545	825	749	601	643	724
As a percentage of operating income	25.1	20.6	20.6	18.9	26.5	28.0	22.4	21.2	21.0
PBT	702	1,031	1,652	2,339	2,282	1,929	2,078	2,397	2,722
Tax	271	357	617	818	616	494	534	616	700
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	1,544	1,781	2,022
Change (%)	27.7	56.1	53.5	47.1	9.5	-13.8	7.6	15.3	13.6
Proposed Dividend	176	132	200	279	437	82	154	178	202

Balance Sheet									INR m
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	160	430	547	547	547	547	547	547	547
Reserves and Surplus (excl. OCI)	1,235	1,147	6,674	7,859	8,807	10,724	12,114	13,716	15,536
Net worth (excl. OCI)	1,395	1,576	7,221	8,406	9,354	11,271	12,660	14,263	16,083
OCI	0	159	376	455	455	455	455	455	455
Net worth (Incl. OCI)	1,395	1,735	7,596	8,861	9,809	11,726	13,115	14,718	16,538
Change (%)	19.7	24.4	337.7	16.6	10.7	19.5	11.9	12.2	12.4
Minority Interest	98	0	0	0	0	0	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	34,675	38,417	43,861
Change (%)	25.6	10.6	2.4	45.4	27.1	12.6	-11.7	10.8	14.2
Other liabilities	1,397	101	509	736	1,038	787	944	1,133	1,359
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	48,735	54,268	61,758
Loans	17,249	19,342	25,463	32,185	33,485	38,051	38,836	43,027	49,124
Change (%)	30.5	12.1	31.6	26.4	4.0	13.6	2.1	10.8	14.2
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	6,878	8,153	9,473
Total Assets	19,458	20,269	26,977	37,036	45,718	51,776	48,735	54,268	61,758

E: MOFSL estimates

Financials and valuations

Ratios	(%)								
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Spreads Analysis (%)									
Yield on loans	18.2	17.2	16.0	16.1	16.9	13.5	14.5	15.0	15.5
Cost of Funds	9.5	8.6	9.1	8.9	8.7	7.1	8.5	9.3	9.8
Spreads (On books)	8.7	8.6	6.9	7.2	8.2	6.4	6.0	5.8	5.8
NIM (On Books)	8.9	8.9	8.4	8.9	8.6	6.1	6.3	6.7	6.8
Profitability Ratios (%)									
RoE	33.7	45.3	23.5	19.5	18.8	13.9	12.9	13.2	13.3
RoA	2.5	3.4	4.4	4.8	4.0	2.9	3.1	3.5	3.5
RoA (on AUM)	1.8	2.3	2.8	3.2	2.9	2.5	2.8	3.0	3.1
Op. Exps./Net Income	42.1	31.8	25.9	21.2	22.4	18.7	21.4	22.8	24.3
Empl. Cost/Op. Exps.	35.8	43.4	52.4	60.9	58.3	48.2	48.2	47.0	45.7
Asset-Liability profile (%)									
Net NPA to Adv.	0.9	0.8	1.1	1.0	0.8	0.8	0.9	0.8	0.7
Debt/Equity (x) - On the Balance Sheet	11.9	11.7	2.6	3.3	3.7	3.5	2.7	2.7	2.7
Average leverage	11.7	11.8	4.2	3.0	3.5	3.6	3.1	2.7	2.7
Valuations									
Book Value (INR)	87	37	132	154	171	206	232	261	294
Price-to-BV (x)					4.5	3.7	3.3	2.9	2.6
EPS (INR)	27.0	15.7	18.9	27.8	30.5	26.3	28.2	32.6	37.0
EPS Growth (%)	28	-42	21	47	9	-14	8	15	14
Price-to-Earnings (x)				27.6	25.2	29.3	27.2	23.6	20.8
Dividend per share		3.3	3.7	5.1	8.0	1.5	2.8	3.3	3.7
Dividend yield (%)					1.0	0.2	0.4	0.4	0.5

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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