

MAS Financial Services Ltd.

Industry	Financial
Bloomberg	SATIN IN
BSE CODE	540749

NIM compression and elevated credit cost continue to impact profitability

RATING **NEUTRAL**

CMP	721
Price Target	761
Potential Upside	6%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	764/485
Mkt Capital (Rs Cr)	3943
Free float (%)	18%
Avg. Vol 1M (,000)	21
No. of Shares (Cr)	5
Promoters Pledged %	

Fig. in Rs Cr

FINANCI	FY19	FY20E	FY21E
NII	352	386	487
PPP	288	316	399
PAT	152	185	223
NIM %	7.1	6.1	6.4
EPS (Rs)	28	34	41
EPS	47	22	21
ROE (%)	18.1	18.9	19.4
ROA (%)	4.8	4.4	4.7
BV	166	193	229
P/B (X)	4.3	3.7	3.2
P/E (x)	25.9	21.3	17.7

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2QFY20 Results Update

- ❑ NII has grown at the rate of 6% majorly driven by strong AUM growth of 26% YoY. Total operating expense has grown at the rate 11% while Net income has grown at the rate 6%, which led to slight rise in the C/I ratio to 23.52% from 23.21% YoY. PAT has grown at the rate of 35% YoY.
- ❑ NIM has remained impacted on the back of higher share of direct assignment & higher incremental cost of borrowings. The average cost of borrowings has increased to 8.71% as at 2QFY20. The spreads in the assignment income has increased to 2.88% from 2.51% QoQ.
- ❑ AUM has grown at the rate of 26% YoY, the growth was majorly driven by SME segment by 49% YoY, while MSME grew at the rate of 24% YoY, two wheeler grew at the rate of 7% while commercial vehicle has registered a growth of 8% YoY.
- ❑ The disbursement during the quarter has grown at the rate of 17% YoY. The share of On book to Off book stood stable at 37%:63%
- ❑ The company adopted the policy of using the majority part of the tax benefit to further strengthen the quality of the portfolio by aggressively writing off the stage 3 Assets. The GNPA has slightly increased to 1.27% from 1.23% QoQ, while NNPA has increased from 85 bps to 1.06% QoQ. The PCR has remained stable at 31% range. The credit cost stands increased during the quarter to 1.57%.
- ❑ MASFIN has resorted to higher share of direct assignment (48%) & term loans (20%) while cash credit has declined from 34% to 31% and sub debt has remained at a similar level.
- ❑ MASFIN is highly concentrated in three states with 86% of the portfolio out of total 102 branches. Out of these 55% of the branches are concentrated in Gujarat, 21% of the branch is present in 21% and 10% of the branch are present in Rajasthan.
- ❑ The sourcing intermediaries has increased in all the segment like NBFCs from 127 to 133 QoQ, 2 wheeler has increased from 315 to 321 sequentially, sales feet on street has increased from 604 to 734 while commercial vehicle has witnessed has decreased from 340 to 325.
- ❑ 58% of the asset comes through NBFC intermediaries.
- ❑ The CRAR stood at 26.88% as at 2QFY20 while tier 1 stood at 25.52%.
- ❑ Mrs. Darshana Pandya is now elevated to CEO while Mr. Ankit Jain to the position of CFO.

View and Valuation

Although loan growth remains high at mid twenty, but gradually slowing down across the segment due to macro challenges. Impacted by higher cost of fund MASFIN has resorted to higher share of direct assignment but with better spreads QoQ. The margin was mainly affected as management has not been able to pass on the rise in the cost of borrowings. The stress in the MSME segment with non-availability of funds is leading to higher delinquency in the segment. Thus, tax rate cut benefit is being eroded by higher credit cost. Lower demand, increase working capital cycle, less availability of fund, risk averseness of the bank to MSME class of customer has led to stress across the sector and hence the MSME loan book segment growth is likely to remain under pressure thus impacting the asset quality of the book. We value the stock at Rs 761 at 3.3x BV FY21e and due to limited upside, we downgrade the stock to Neutral.

Key Risks to our rating and target

- ❑ Rising delinquency with rising stress in the sector
- ❑ Increase in cost of fund and unable to pass on the burden will impact Margins.

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2QFY20 Results Below Our Expectations

Strong Growth

Fig. in Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	134	158	152	156	164	21.7%	5.0%	439	559	27.1%
Interest Exp.	48	59	57	64	73	50.0%	13.0%	170	207	21.2%
NII	86	99	95	91	91	5.8%	-0.6%	269	352	30.9%
Other Income	0	4	3	3	4	1267.5%	7.4%	11	14	21.2%
Total Income	86	103	99	95	95	9.8%	-0.3%	280	366	30.5%
Opex Exp.	20	20	19	19	22	11.3%	15.6%	73	77	6.8%
PPP	66	83	80	76	72	9.3%	-4.3%	208	288	38.7%
Provisions	13	13	16	13	23	80.0%	73.6%	43	55	27.5%
PBT	54	69	64	63	50	-7.1%	-20.5%	165	234	41.6%
Tax	19	24	22	22	3	-83%	-85.1%	62	82	32.5%
Extra Items	-	-	-	-	-	-	-	-	-	-
Net Profit	35	45	42	41	47	34.7%	14.3%	103	152	47%

Concall Highlights

- Lower demand, increase working capital cycle, less availability of fund, risk averseness of the bank to MSME class of customer these led to stress across the sector. Lesser availability of funds is leading to lesser growth thus lesser profitability.
- Cost of Borrowing has increased from 9.26% to 9.71% QoQ. NIM has declined mainly on the back of an increase in the cost of borrowings and excess liquidity. Management has not been able to pass on the rise in cost as the NBFCs are facing margin pressure thus lower profitability.
- Management has guided the cost of funds to decrease by FY20.
- Management states that its focus remains on the MSME segment.
- The sourcing of the fund mix is similar to last quarter.
 - In 2QFY20 MASFIN has raised Rs 681 Cr from a direct assignment from PSU bank and further having Rs 1600 Cr sanction from the bank.
 - Management has Rs 1800 Cr of cash credit facility which is utilized up to 65-70% of the total limit in the working capital loan. The CC limit is availed for 20% of the balance sheet size.
 - MASFIN has raised Rs 210 Cr from the bank in 2QFY20 and has sanctions up to limit of Rs 500 Cr for incremental growth.
 - With the new corporate tax, regime management is getting additional benefits on providing higher for stage 3 stress assets.
 - MASFIN remains cautious about the commercial vehicle and two-wheeler segments industry because of the decline in the quality of portfolio and profitability.
 - 58% of the asset comes through NBFC intermediaries.
- SME loans are secured by hypothecation of current assets and any additional collateral security.
- The south hub branches are basically to promote CV business with a focus on the used vehicle. The share of Karnataka, Tamil Nadu & Delhi is at 5%.
- Collection personnel stood at 350-400 as of 2QFY20.
- The concentration of the top 10 borrowers in the MFI segment is around 15%.
- No capital raising plan in the near term.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	19.3	23.3	23.2	19.8	18.9	20.3	23.5	0.32	3.23
Empl. Cost/ Tot. Exp. %	13.1	14.7	13.0	12.3	11.9	13.1	13.5	0.56	0.38
Other Exp/Tot. Exp.%	4.7	8.3	9.9	6.0	6.1	5.4	8.0	-1.84	2.59
Provision/PPP %	24.9	22.7	18.9	15.9	19.9	17.1	31.1	12.21	13.97
Tax Rate %	35.3	35.0	35.6	34.5	35.0	35.0	6.6	-29.00	-28.44
Int Exp./Int Inc. (%)	31.2	35.1	36.1	37.2	37.4	41.3	44.4	8.38	3.12
Other Inc./NII %	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.06	0.00
PPP/ Net Income %	80.7	76.7	76.8	80.2	81.1	79.7	76.5	-0.32	-3.23
PAT/ Net Income %	39.2	38.5	40.1	44.2	42.2	42.9	49.2	9.10	6.30
NII Growth % (YoY)	68.1	50.7	23.7	30.2	17.5	16.0	5.8	-17.92	-10.27
PPP Growth YoY %	103.4	65.2	27.4	51.3	20.6	24.8	9.3	-18.10	-15.49
PAT Growth %	116.2	81.6	42.2	51	29.1	33.7	34.7	-7.59	0.96

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	12.1	12.1	12.5	13.6	12.1	11.5	11.3	-1.21	-0.21
Cost Of Funds	8.2	9.6	10.3	11.1	9.9	10.0	10.5	0.21	0.52
Spreads	3.9	2.4	2.2	2.4	2.2	1.5	0.8	-1.42	-0.73
NIM	8.6	8.1	8.2	8.8	7.9	7.1	6.7	-1.49	-0.44

Exhibit: Calculated Yield and Cost

Spreads were Impacted

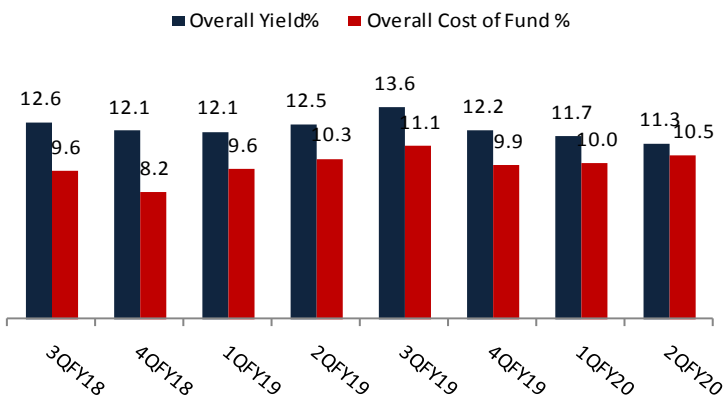
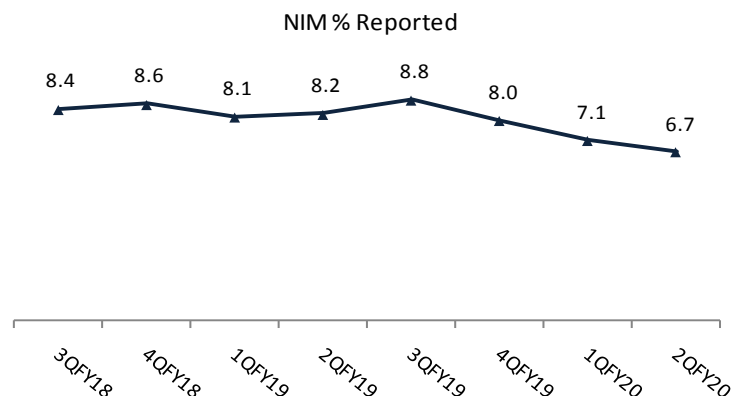


Exhibit: Net Interest Margin

NIM has Slightly Deteriorated



Asset & Borrowings Growth Trend

Fig. in Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	896	934	1260	996	1163	1242	1371	1201	1360
Growth YoY %	3	47	18	24	30	33	9	21	17
AUM	3474	3658	4157	4317	4625	4915	5338	5578	5894
Growth YoY %	26	33	32	32	33	34	28	29	26
Borrowings	1785	1603	1785	3432	3844	4490	4604	2959	2980
Growth YoY %	15	17	28	17	25	52	36	315	302

Exhibit: AUM Growth %

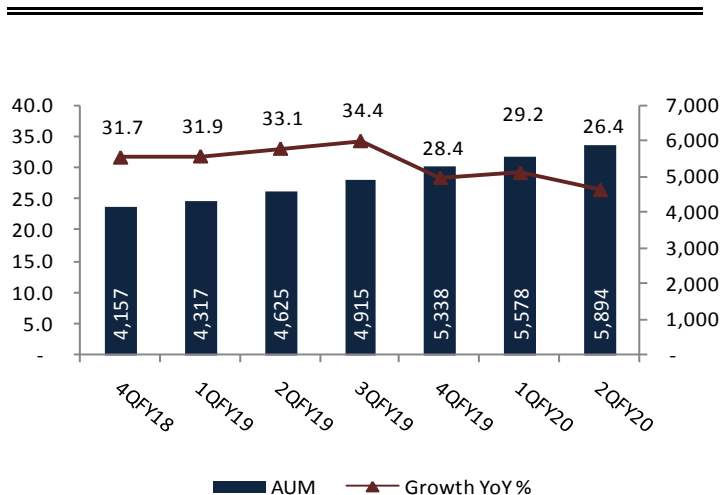
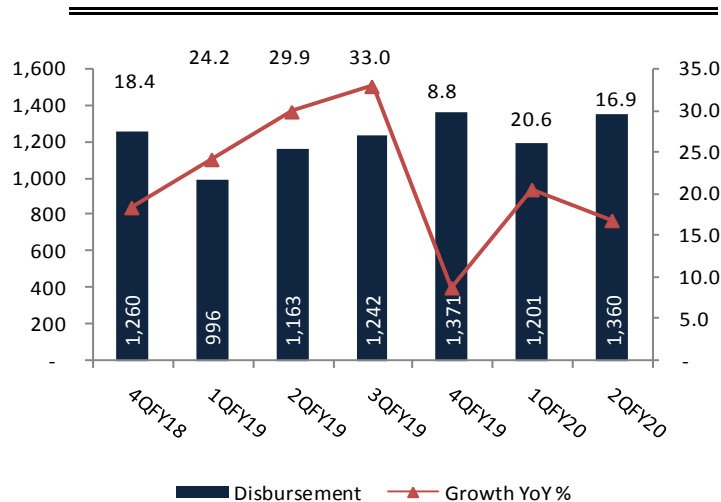


Exhibit: Disbursement Growth %



Asset Mix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Micro-Enterprise loans (MEI)	60.2	62.0	63.0	63.8	62.6	62.3	63.0	64.5	61.3
SME loans	26.0	24.5	25.5	23.8	24.1	24.3	25.3	24.7	28.5
2-Wheeler loans	9.9	9.7	8.0	9.1	9.3	10.2	8.7	8.2	7.9
Commercial Vehicle loans	3.8	3.8	3.5	3.4	3.2	3.2	3.0	2.7	2.4

Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA	47	51	64	63	66	69	75	23	6
GNPA %	1.2	1.2	1.4	1.3	1.2	1.2	1.3	0.1	0.0
NNPA	37	41	45	43	46	47	52	11	5
NNPA %	0.9	1.0	1.0	0.9	0.9	0.8	1.1	0.1	0.2
Total Specific PCR %	21	20	30	31	31	31	31	11	-

Exhibit: Asset Quality

GNPA increased sequentially

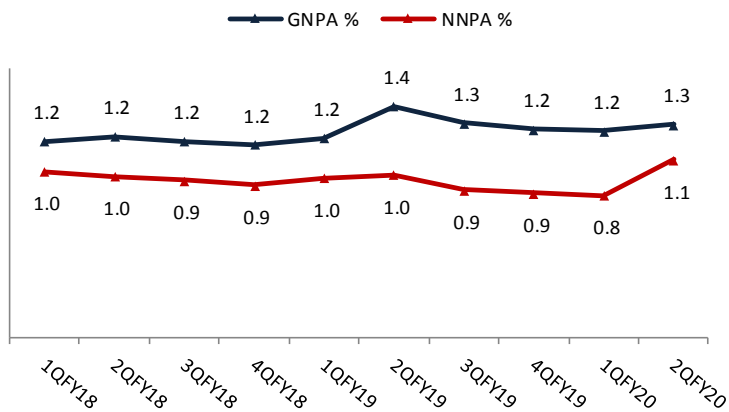


Exhibit: Provisions

PCR has declined

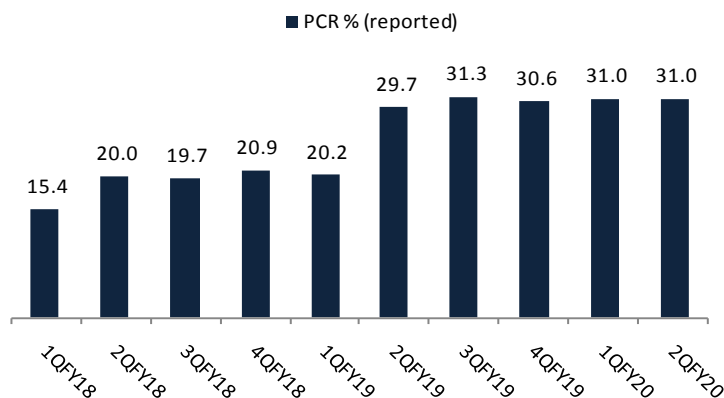


Exhibit: AUM Break Up

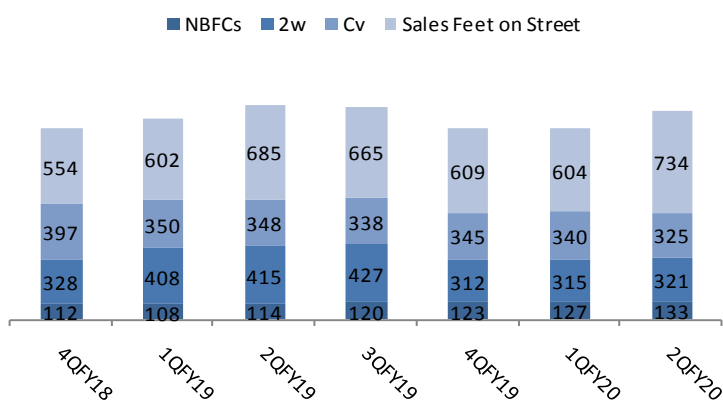
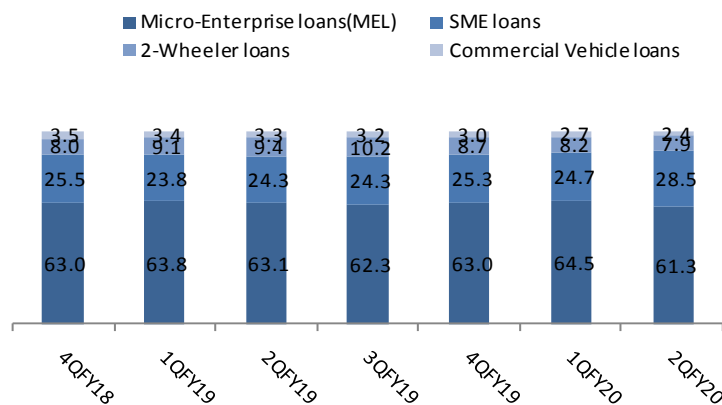


Exhibit: Portfolio Mix



Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
1 – 30 DPD	2.8	2.6	2.6	2.6	2.7	2.8
31 – 60 DPD	1.6	1.3	1.3	1.2	1.1	1.0
61 – 90 DPD	1.0	1.4	1.1	1.0	1.2	1.5
91 – 120 DPD	0.5	0.5	0.4	0.7	0.3	0.3
> 120 DPD	0.7	0.8	0.5	0.7	1.1	1.0

Others

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Stage 1	2,610	2,855	2,828	3,083	3,328	3,521
Stage 2	101	117	97	102	116	125
Stage 3	48	56	62	66	67	62
Assigned Portfolio	1,558	1,633	1,969	2,087	2,067	2,186

On/Off Book Mix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Off Book	37	35	40	39	37	37
On Book	63	65	60	61	63	63

Average Ticket Size

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
MSME	34,285	35,596	30,627	37,384	34,033	36,140
SME	7180000	7700000	5380000	5080000	3680000	3850000
2 Wheeler	42,364	49,348	43,076	51,079	45,161	45,104
Commercial Vehicle	93545	120848	134783	153567	210682	203701

State Wise Break Up

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Rajasthan	8	8	8	8	9	10
Gujarat	37	37	37	38	51	57
Maharashtra	20	20	20	19	19	21
Other	35	35	35	35	21	12

Financial Details
Balance Sheet

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	59	59	59	90	55	55	55	55
>> Equity Capital	59	59	59	90	55	55	55	55
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	56	81	118	237	719	855	1,000	1,196
Networth	115	141	178	327	774	910	1,054	1,251
Change (%)	23	22	26	84	137	18	16	19
Total Borrowings	-	1,213	1,486	1,513	1,785	2,567	3537.94	4314
Change (%)	N/A	N/A	22	2	18	44	38	22
Provisions	13	20	13	16	1	0	0	0
Other Liabilities	944	109	138	168	138	227	128	154
Total Liabilities	1,073	1,483	1,814	2,024	2,698	3,704	4,721	5,719
Investments	11	11	11	11	13	22	40	40
Loans	858	1,228	1,592	1,936	2,546	3,219	4104.01	5004.24
Change (%)	53	43	30	22	32	26	28	22
Fixed Assets	6	5	6	7	57	58	66	79
Other Assets	14	22	30	34	33	37	37	46
Cash Balances	185	217	175	37	48	369	484	559
Total Assets	1,073	1,483	1,814	2,024	2,698	3,704	4,730	5,728

Income Statement

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	177	225	293	341	439	559	677	855
Interest expended	75	106	134	151	170	207	291	368
Net Interest Income	101	120	159	189	269	352	386	487
Change (%)	24	18	33	19	42	31	10	26
Other Income	1	1	1	1	11	14	15	18
Change (%)	(18)	14	8	(4)	1,197	21	7	19
Total Net Income	102	120	160	190	280	366	401	505
Change (%)	23	18	33	19	47	30	10	26
Operating Expenses	40	43	55	60	73	77	85	106
Change (%)	(11)	7	28	10	20	7	10	24
>> Employee Expenses	14	16	22	26	38	47	51	63
Change (%)	11	17	40	17	45	24	8	23
>> Other Expenses	26	27	33	34	35	30	34	43
Pre-provisioning Profit	62	78	105	130	208	288	316	399
Change (%)	64	25	35	24	60	39	10	26
Provisions	14	19	23	27	43	55	75	97
Change (%)	72	34	20	15	60	28	37	30
PBT	48	58	82	103	165	234	241	302
Tax	16	19	28	36	62	82	56	78
Profit After Tax	31	39	53	67	103	152	185	223
Change (%)	84	26	37	26	54	47	22	21
Adjusted Profit After Tax	31	39	53	67	103	152	185	223
Change (%)	84	26	37	26	54	47	22	21

Financial Details
Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	1064	2015	2565	3156	4114	5338	6619	7943
>> Off-Book AUM	206	787	973	1221	1568	2120	2515	7943
AUM Growth (%)	N/A	89.4	27.3	23.0	30.4	29.7	24.0	20.0
Borrowing Growth (%)	N/A	N/A	22.4	1.8	18.0	43.8	37.8	-
Loan/Borrowing (%)	#DIV/0!	1.0	1.1	1.3	1.4	1.3	1.2	#DIV/0!
Disbursement (Rs Cr)	1429	2044	2978	3119	3891	4772	5696	6836
Disbursement Growth (%)	32.6	43.0	45.7	4.7	24.8	22.6	19.4	20.0
CRAR (%)	19	17	18	23	31	29	25	25
>> Tier 1 (%)	13.2	11.5	11.1	16.9	29.1	26.4	24.0	23.5
>> Tier 2 (%)	5.7	5.6	7.3	6.0	2.2	2.7	1.3	1.0
Debt/Equity(x)	#DIV/0!	101.2	107.2	127.9	142.7	125.4	116.0	116.0

Assets Quality Metrics

Gross NPA (Rs)	15	21	28	34	47	66	86	111
Gross NPA (%)	1.0	1.0	1.1	1.1	1.2	1.2	1.3	1.4
Net NPA (Rs)	12	17	24	30	37	46	59	77
Net NPA (%)	0.8	0.9	0.9	1.0	0.9	0.9	0.9	1.0
Specific Provision Coverage (%)	19	18	14	13	21	31	31	31
Provision/Average Advances (%)	1.2	1.2	1.0	0.9	1.2	1.2	1.3	1.3

Margin Metrics

Yield On Advances (%)	14.7	13.4	12.8	11.9	12.1	11.8	11.3	11.7
Cost Of Funds (%)	9.7	9.4	9.5	10.1	10.3	9.5	9.5	9.4
Spread (%)	5.0	4.0	3.3	1.7	1.6	1.8	1.2	1.8
NIM on AUM (%)	8.4	7.1	6.9	6.6	7.3	7.1	6.1	6.4

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	42.7	46.9	45.7	44.4	38.8	37.0	42.9	43.1
Other Income/NII (%)	0.7	0.7	0.6	0.5	4.3	4.0	3.9	3.6
Operating Profit/Net Income (%)	60.8	64.4	65.6	68.2	74.1	78.8	78.8	79.1
Net Profit/Net Income (%)	30.5	32.4	33.4	35.4	36.9	41.6	46.2	44.2
Cost to Income (%)	39.2	35.6	34.4	31.8	25.9	21.2	21.2	20.9
Employee Exp/Net Income (%)	13.4	13.3	14.0	13.8	13.5	12.9	12.7	12.4
Cost on Average Assets (%)	3.3	2.6	2.4	2.1	2.0	1.6	1.4	1.5
Provision/PPP (%)	23.3	25.0	22.2	20.6	20.6	18.9	23.7	24.4
Tax Rate (%)	34.7	33.0	34.6	34.6	37.4	35.0	23.3	26.0

Valuation Ratio Metrics

EPS (Rs)	10	12	17	16	19	28	34	41
Change (%)	14.8	25.6	36.9	(6.0)	20.6	47	21.7	20.6
ROAE (%)	29.7	30.5	33.5	26.7	18.8	18.1	18.9	19.4
ROAA (%)	3.4	3.1	3.2	3.5	4.4	4.8	4.4	4.7
Dividend Payout (%)	-	-	-	-	9.5	26.7	22.0	12.0
Dividend yield (%)	-	-	-	-	0.3	0.5	0.2	0.2
DPS	-	-	-	-	1.5	3.6	1.5	1.5
Book Value(Rs)	36	44	56	76	142	166	193	229
Change (%)	(23)	22	26	37	86	18	16	19
P/B (X)	-	-	-	-	4.2	4.3	3.7	3.2
P/E (X)	-	-	-	-	31.4	25.9	21.3	17.7

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	19.2	17.6	17.8	17.7	18.6	20.7	18.3	18.1
<i>Interest expended</i>	8.2	8.3	8.1	7.9	7.2	7.7	7.8	7.8
<i>Net Interest Income</i>	11.0	9.4	9.6	9.9	11.4	13.0	10.4	10.3
<i>Non-Fund Based Income</i>	0.1	0.1	0.1	0.0	0.5	0.5	0.4	0.4
<i>Total Income</i>	11.1	9.4	9.7	9.9	11.9	13.6	10.8	10.7
<i>Total Operating Expenses</i>	4.3	3.4	3.3	3.1	3.1	2.9	2.3	2.2
<i>>> Employee Expenses</i>	1.5	1.3	1.4	1.4	1.6	1.7	1.4	1.3
<i>>> Other Expenses</i>	2.9	2.1	2.0	1.8	1.5	1.1	0.9	0.9
<i>Operating Profit</i>	6.7	6.1	6.4	6.8	8.8	10.7	8.5	8.4
<i>Provisions</i>	1.6	1.5	1.4	1.4	1.8	2.0	2.0	2.1
<i>Others</i>								
<i>PBT</i>	5.2	4.6	5.0	5.4	7.0	8.7	6.5	6.4
<i>Tax</i>	1.8	1.5	1.7	1.9	2.6	3.0	1.5	1.7
<i>PAT/RoAA</i>	3.4	3.1	3.2	3.5	4.4	5.6	5.0	4.7
<i>Equity Multiplier (x)</i>	8.8	10.0	10.3	7.6	4.3	3.2	3.8	4.1
<i>ROAE</i>	29.7	30.5	33.5	26.7	18.8	18.1	18.9	19.4

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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