

MAS Financials Services Ltd

On the track to excel

MAS Financial Services (MAS) is a Gujarat based NBFC, which is two decades old. It primarily lends to Micro Enterprises (ME) and SME, which contribute 60% and 23% of its AUM respectively. Company's business and financing is in five categories i.e. micro-enterprise loan, SME loans, two wheeler loans, commercial vehicle loans and housing loans. Company's AUM has grown at healthy 33.4% CAGR over FY2013-17 with strong asset quality (GNPA -1.1%, NNPA -0.9%). **Expanding offerings to support AUM growth:** MAS had begun its journey with a clear focus to ME and gradually expanded its offerings to two wheeler & CV segments for its existing client. FY2012 onwards, MAS commenced lending to SME and Housing loan, which is growing at a very healthy rate. To leverage existing client base and network further it has extended loans to the agricultural input and equipment segment.

Fairly strong AUM growth at 33.4% CAGR over FY2013-17: Focused approach towards asset financing, ability to find out gaps and the underserved sections of the micro enterprise SME, Vehicle Finance, segments has helped the company to achieve a strong 33.4% CAGR in AUM over FY2013-17.

Healthy return ratios: MAS has reported average ROE/ROA of 27.9%/3.2% over last 5 years. Higher return ratios are largely driven by lower Cost to Income(C/I) (33.5%) and lower provisioning expenses. C/I has declined from 43.7% in FY2013 to 33.5% in FY2017, and we believe C/I would continue to decline further.

Strong asset quality; sufficient CAR to support growth: Robust credit assessment process and clever understanding of targeted market has helped to keep GNPA at 1% over last 5 years. As on 1QFY2018, CAR stood at 23.8% and post IPO CAR would further increase. With strong internal capital generation ability, present high CAR and IPO proceeds would not require MAS to dilute equity for high growth in near future.

High valuations underpinned by high growth potential and profitability: Close peers, Capital First and Shriram City Union Finance are trading at ~3x FY2017 book, however both the companies report moderate ROE of 11%. At the upper end of the price band, MAS is valued at 6.85x of FY2017 book value (Pre-IPO) and on post dilution basis at 4.1x of Book value. Although valuations are on the higher side, looking at the strong and sustainable growth and ROE prospects of the company, **we recommend a Subscribe to the issue.**

Key Financials

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
NII	71	90	105	136	172
YoY Growth (%)	-	27	16	30	27
PAT	27	33	40	51	69
YoY Growth (%)	-	19	23	27	35
EPS	6	7	8	10	14
Book Value	21	26	32	37	67
P/E	83	70	57	45	33
P/BV	21	18	14	12	7
ROE (%)	26	28	28	30	27
ROA (%)	3	3	3	3	3

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band d

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Issue Open: Oct 06, 2017
 Issue Close: Oct 10, 2017

Issue Details

Face Value: ₹10
Present Eq. Paid up Capital: ₹91.5cr
Offer for Sale: **0.49cr Shares
Fresh issue: ₹233cr
Post Eq. Paid up Capital: ₹96.5cr
Issue size (amount): *₹457cr -**460 cr
Price Band: ₹456-459
Lot Size: 32 shares and in multiple thereafter
Post-issue implied mkt. cap: *₹2,492cr - **₹2,508cr
Promoters holding Pre-Issue: 80.7%
Promoters holding Post-Issue: 73.2%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	73%
Others	27%

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Company Background

MAS Fin Ser is a Gujarat-headquartered NBFC with more than two decades of business operations and as of June 30, 2017, it operated across six States and the NCT of Delhi. The financing activity are primarily focused on middle and low income customer segments, and include five principal categories: (i) micro-enterprise loans; (ii) SME loans; (iii) two-wheeler loans; (iv) Commercial Vehicle loans (which include new and used commercial vehicle loans, used car loans and tractor loans); and (v) housing loans.

As of Q4FY17 and Q1FY18, the company's AUM was ₹3,332.6cr and ₹3,451.7 cr, respectively. AUM increased at a CAGR of 33.4% from ₹1,053.2cr as of FY13 to ₹3,332.6cr as of FY17. As of June 30, 2017 MAS had more than 500,000 active loan accounts, across more than 3,165 Customer Locations in six States and the NCT of Delhi, served through our 121 branches.

Exhibit 1: Business Segments

	ME	SME	Two Wheeler	CV	Housing
AUM (₹ Cr)	1,984.86	763.84	285.39	122.06	3,332.57
% of AUM	60	23	9	4	5
Average Ticket Size	₹36,000	₹55lacs	₹43,000	₹1.5lacs	₹14lacs
4 Yr CAGR	32	138	6	3	44
Loan Tenure	36 Months	-	36 Months	60 Months	240 Months

Source: RHP, Angel Research

Key Management Personnel

Mr. Kamlesh Chimanlal Gandhi is Chairman & Managing Director (Founder of MAS). He received the higher secondary school examination certificate from the Gujarat Secondary Education Board, Gandhinagar in 1983. He has over 21 years of experience in the financial services sector.

Mr. Mukesh Chimanlal Gandhi is a whole-time Director and Chief Financial Officer of the Company. He has been associated with the Company since May 25, 1995. He holds bachelor's and master's degrees in commerce from Gujarat University. He is also the chairman of the Gujarat Finance Company Association and a director of the Finance Industry Development Council.

Darshana Saumil Pandya is an executive Director of the Company. She has been associated with the Company since June 1, 1996. She holds a bachelor's degree in commerce from Gujarat University. Presently, she also holds the position of the Chief Operating Officer of the Company.

Issue details

This IPO is a mix of OFS and issue of fresh shares. The issue would constitute fresh issue worth of ₹233cr and OFS worth of ₹227cr. OFS largely would offer exit to early investors namely FMO, DEG & Sarva Capital.

Exhibit 2: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	3,99,96,975	80.7	3,99,96,975	73.2
Investor/Public	95,72,239	19.3	1,46,48,491	26.8
	4,95,69,214	100.0	5,46,45,466	100.0

Source: RHP Note: Calculated on upper price band

Objects of the offer

- To achieve benefits of listing equity shares on stock exchanges and to carry out the offer for sale. Listing of equity shares will enhance MAS' brand name and provide liquidity to existing shareholders.
- The Company would utilise the proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements.

Expanding offerings to support AUM growth: MAS has begun its journey with a clear focus to ME and gradually expanded its offering in two wheeler & CV to existing client. FY12 onwards MAS has commence lending to SME and Housing loan, which is growing at a very healthy rate. To Leverage existing client base and network further it has extended loans to the agricultural input and equipment segment.

Exhibit 3: Segmental Gross AUM (₹ Cr)

	FY13	FY14	FY15	FY16	FY17	CAGR FY13-17
ME	651	948	1,386	1,735	1,985	32%
YoY Growth %		46	46	25	14	
SME	24	75	215	429	764	138%
YoY Growth %		214	185	100	78	
Two Wheeler	227	229	240	258	285	6%
YoY Growth %		1	5	7	11	
CV	110	139	164	144	122	3%
YoY Growth %		26	18	-12	-15	
Housing Loan	41	65	94	135	176	44%
YoY Growth %		60	44	43	31	
Total AUM	1,053	1,743	2,354	2,820	3,421	33%
YoY Growth %		66	35	20	21	

Source: RHP

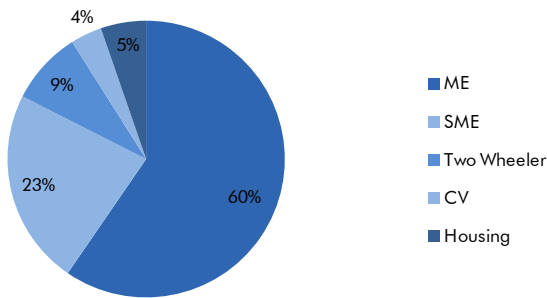
We believe ME & SME would continue to support advance growth going forward. However, housing finance and newly ventured segment i.e. farm loan would propel loan growth going forward. It intends to offer loans to farmers to acquire accessories, implements and tractors in collaboration with dealers, manufacturers and distributors as sourcing intermediaries. The proximity of these sourcing intermediaries with farmers enables them to generate quality leads for MAS.

Power equipment, hybrid seeds penetration, and higher usage of bio-pesticides and bio-fertilisers will drive growth close to 15% in FY2017 and over 10% thereafter, compared to a single digit growth for most large sub segments in Fiscal 2016. (Source: CRISIL Agri Report, 2016)

Agricultural finance segment had a market size of ₹8.8 trillion in FY2016. The expectation of good monsoons is expected to increase demand for agriculture credit. A growth of 13-15% is expected going ahead in agricultural financing in India.

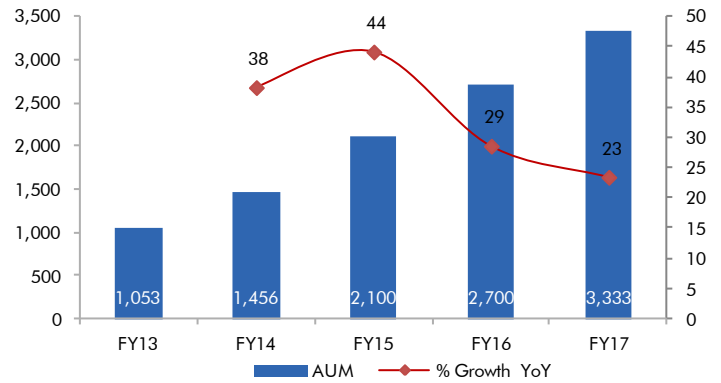
Fairly strong AUM growth at 33.4% CAGR over FY2013-17: Focused approach towards asset financing, the ability to find out gaps and the underserved sections of the micro enterprise SME, Vehicle Finance segments has helped the company to achieve a strong 33.4% CAGR in AUM over FY2013-17.

Exhibit 4: Loan Book Composition (%) FY17



Source: RHP

Exhibit 5: AUM Growth Trend

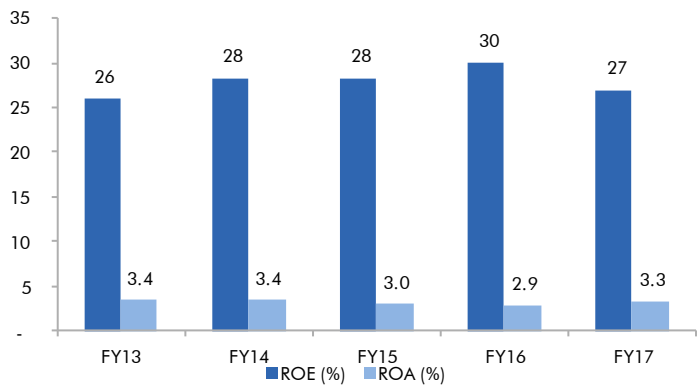


Source: RHP

Micro-financing is aimed at aiding the under-privileged in undertaking economic activity, smoothening consumption and mitigating vulnerability to income shocks (in times of illness and natural disasters), thereby increasing their savings. Focused players like MAS, have been able to grow their book at healthy rate by catering to these segments. Additionally, NBFCs have been gaining market share in the growing credit market in India.

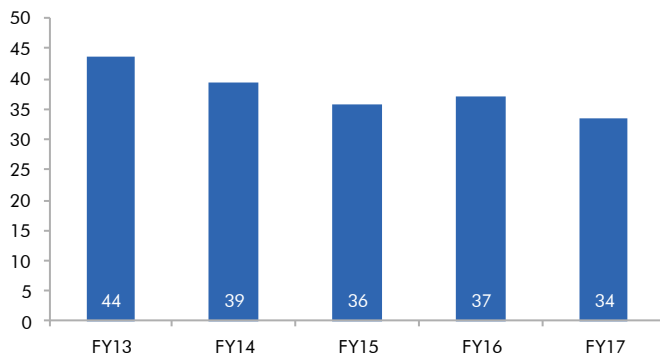
Healthy return ratios: MAS has reported average ROE/ROA of 27.9%/3.2% over last 5 years. Higher return ratios are largely driven by lower Cost to Income(C/I) (33.5%) and lower provisioning expenses. C/I has declined from 43.7% in FY2013 to 33.5% in FY2017, and we believe C/I would continue to decline further.

Exhibit 6: consistently delivering strong returns



Source: RHP

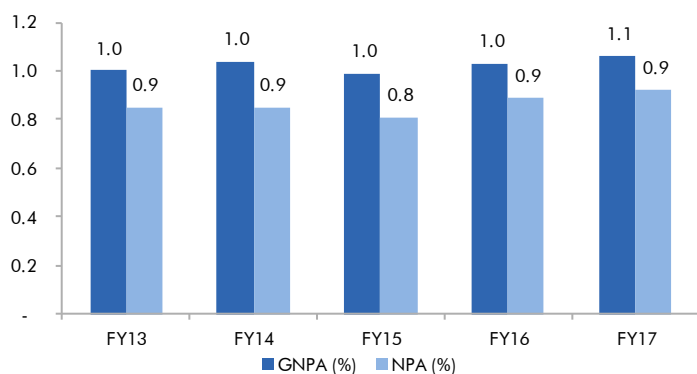
Exhibit 7: Cost to Income ratio (%)



Source: RHP

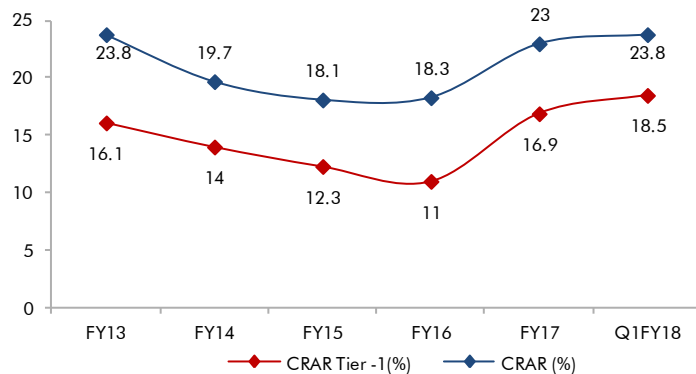
Strong asset quality; sufficient CAR to support growth: Robust credit assessment process and clever understanding of targeted market has helped the company to keep GNPA at 1% over last 5 years. The Company has been strategically expanding its footprint after understanding targeted market in detail. Presently, it has very strong foothold in Gujarat & Maharashtra. As on 1QFY2018, CAR stood at 23.8% and post IPO, CAR would further increase. With strong internal capital generation ability, present high CAR and IPO proceeds, MAS would be able to grow without dilution in the near term.

Exhibit 8: Robust Asset Quality



Source: RHP

Exhibit 9: Capital Adequacy Ratio



Source: RHP

Outlook & Valuation

High valuations underpinned by high growth potential and profitability: Close peers, Capital First and Shriram City Union Finance are trading at ~3x FY2017 book, however both the companies report moderate ROE of 11%. At the upper end of the price band, MAS is valued at 6.85x of FY2017 book value (Pre-IPO) and on post dilution basis at 4.1x of Book value. Although valuations are on the higher side, looking at the strong and sustainable growth and ROE prospects of the company, we recommend a Subscribe to the issue.

Exhibit 10: Relative comparison

Company	Adv Growth FY13-17	EPS Growth FY13-17	GNPA	NPA	ROE	ROA	P/B	PE
MAS	37.0	26.0	1.1	0.9	26.9	3.3	6.9	33.2
Capital First	27.0	40.0	1.7	1.0	11.9	1.6	3.1	22.9
Shriram City Union Finance	10.0	1.0	6.7	1.8	11.7	2.6	2.7	24.4

Source: Company, Angel Research, Valuation are based on FY17 numbers

Key risk

Risky Borrower

MAS' operations involve transactions with relatively high risk borrowers. Any default from the customers could adversely affect the business, results of operations and financial condition.

Unsecured Portfolio

As of June 30, 2017, the unsecured loan portfolio was ₹5,10cr (22% of AUM) out of On-book AUM of ₹2,276.2cr. These unsecured loans present a higher risk of loss in case of a credit default as compared to loans to customers in other asset-backed financing products.

Income Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Nil	71	90	105	136	172
- YoY Growth (%)		27	16	30	27
Other Income	16	16	22	26	28
- YoY Growth (%)		1	34	20	8
Operating Income	87	106	126	162	200
- YoY Growth (%)		22	19	28	24
Operating Expenses	38	42	45	60	67
- YoY Growth (%)		10	8	32	12
Pre - Provision Profit	49	64	81	102	133
- YoY Growth (%)		31	26	26	31
Prov. & Cont.	8	15	19	24	27
- YoY Growth (%)		72	34	21	15
Profit Before Tax	41	50	62	79	106
- YoY Growth (%)		23	24	27	35
Exceptional Item	-	-	-	-	-
PBT Post Exceptional Item	41	50	62	79	106
Prov. for Taxation	13	17	21	27	37
- as a % of PBT	32	33	34	34	35
Reported PAT	27	33	41	51	69
Adj PAT	27	33	40	51	69
- YoY Growth (%)		19	23	27	35

Balance sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Share Capital	53	59	59	59	90
Reserve & Surplus	53	68	101	124	242
Net Worth	106	128	160	183	332
Borrowings	514	723	1,031	1,308	1,264
- Growth (%)		41	43	27	(3)
Total Provisions	5	8	9	11	17
Other Liabilities	177	275	372	444	588
Total Liabilities	802	1,133	1,572	1,946	2,201
Cash and Cash equivalents	175	185	218	182	47
Investments	0	0	0	0	0
Total Loans & Advances	601	923	1,322	1,725	2,109
- Growth (%)		53	43	30	22
Fixed Assets	6	6	5	8	9
Other Assets	19	19	27	31	36
Total Assets	802	1,133	1,572	1,946	2,201

Key Ratio

	FY13	FY14	FY15	FY16	FY17
Profitability ratios (%)					
NIMs	11.8	11.8	9.3	8.9	9.0
ROA	3.4	3.4	3.0	2.9	3.3
ROE	25.9	28.3	28.3	30.0	26.9
Cost to Income	43.7	39.4	35.8	36.9	33.5
Asset Quality (%)					
Gross NPAs (cr)	104.8	151.2	208.1	279.1	352.7
Gross NPAs (AUM)	1.00	1.04	0.99	1.03	1.06
Net NPAs (cr)	89.3	122.2	170.9	239.3	305.5
Net NPAs (AUM)	0.85	0.85	0.81	0.89	0.92
Credit Cost	0.81	1.16	1.10	0.98	0.90
CAR	23.8	19.7	18.1	18.3	23.0
Tier1	16.1	14.0	12.3	11.0	16.9
Tier - 2	7.7	5.7	5.8	7.3	6.1
Per Share Data (₹)					
EPS	5.5	6.6	8.1	10.3	13.8
BVPS	21.4	25.8	32.3	36.9	67.0
DPS	0.5	0.8	1.3	4.3	3.2
Valuation Ratios					
PER (x)	83.3	69.8	56.9	44.8	33.2
P/BVPS (x)	21.5	17.8	14.2	12.4	6.9
DuPont Analysis					
NII	8.9	9.3	7.7	7.7	8.3
(-) Prov	1.1	1.5	1.4	1.3	1.3
Adj NII	7.8	7.8	6.3	6.4	7.0
Other Inc.	2.0	1.7	1.6	1.5	1.4
Total Income	9.8	9.5	7.9	7.9	8.4
Opex	4.7	4.3	3.3	3.4	3.2
PBT	5.1	5.1	4.6	4.5	5.1
Taxes	1.6	1.7	1.5	1.5	1.8
ROA	3.4	3.4	3.0	2.9	3.3
Leverage	7.6	8.3	9.4	10.3	8.1
ROE	25.9	28.3	28.3	30.0	26.9

Note- Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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