



## Improving Collections & Moratorium Book provide comfort

We interacted with the management of MAS Financial Services Ltd. (MAS). The key take-away which makes us remain positive on the stock for the long-term, is the continuously improving trend in the collection efficiency of both MAS and its NBFC partners. Higher collections translate into a lower moratorium book which is a key positive, especially when the company primarily operates in the stressed MSME segment.

### Collection Efficiency & Moratorium

MAS has made significant improvement in the collections and moratorium book during Q1FY21, with collection efficiency improving from 45-50% in April-May'20 to 87% in July'20 and 88%+ post the moratorium period ended in Aug'20. Higher collections translate to a lower moratorium book, which at the end of August'20 stands at ~12%.

Similar progress has been witnessed by the NBFC partners, where the collection efficiency improved from 5-30% in April-May'20 to 93% in July'20 and a further improvement to 96% in August'20. The book under moratorium at the end of Aug'20 for these NBFC partners stood at ~4%.

### Operational Performance

The company will continue to maintain a cautious stance when it comes to disbursements going into Q2FY21. During Q1FY21, the company disbursed only Rs.108Cr worth of disbursements owing to the lockdown and only to the existing customers. However, it has now started analysing new proposals where it believes that credit is due and where the income of the borrower has not been significantly impacted by COVID-19.

We expect Q3FY21 to show a significant progress in terms of disbursements after a subdued H1FY21. The management has also indicated based on their assessment, MAS could see normalised disbursements ranging between Rs. 1000-1500 Cr, Q4FY21 onwards.

The company is comfortably placed in terms of liquidity with ~Rs. 1300 Cr of cash on hand and ~Rs. 600-700 Cr worth of un-utilised bank lines. This liquidity would be adequate for the next 1 year to pay-off all the debt obligations of MAS.

## Outlook & Valuation

Despite operating in a tough environment and serving pained sectors such as the MSME segment, we believe that the company is well-placed to gather growth momentum as the demand for credit picks-up. The unique business model, comfortable liquidity position, prioritizing asset quality over profitability and growth and a competent management, assures us that MAS is slated for a robust growth as macro conditions improve. **We keep our estimates unchanged and revise our rating to HOLD, given the recent run-up in the stock. We value MAS at 3x P/BV on FY23 BV and arrive at a target price of Rs. 872.**

## Key Financials (Standalone)

(Rs. Cr)	FY20	FY21E	FY22E	FY23E
NII	284	299	336	398
PPOP	322	336	371	429
Net Profit	179	171	211	251
NNPA	1.1%	1.6%	1.4%	1.1%
BV	190	217	251	291
P/BV	4.2	3.7	3.2	2.8
ROA	4.3%	3.7%	4.3%	4.6%
ROE	18.4%	15.4%	16.5%	17.0%

Source: Company, Axis Research

(CMP as of Sep 9, 2020)

CMP (Rs)	806
Upside /Downside (%)	8%
High/Low (Rs)	1270/448
Market cap (Cr)	4,404
Avg. daily vol. (6m) Shrs.	30,909
No. of shares (Cr)	5.47

### Shareholding (%)

	Jun-20	Mar-20	Dec-19
Promoter	73.6	73.6	73.5
FII	1.4	1.5	1.6
MFs / UTI	8.8	8.9	9.1
Others	16.1	16.0	15.8

### Financial & Valuations

Y/E Mar (Rs. Cr)	2021E	2022E	2023E
NII	299	336	398
PPOP	336	371	429
Net Profit	171	211	251
EPS (Rs.)	31.3	38.7	45.9
BV	216.8	250.7	290.6
P/BV	3.0	2.6	2.3
ROAA	3.7%	4.3%	4.6%
NNPA (%)	1.6%	1.4%	1.3%

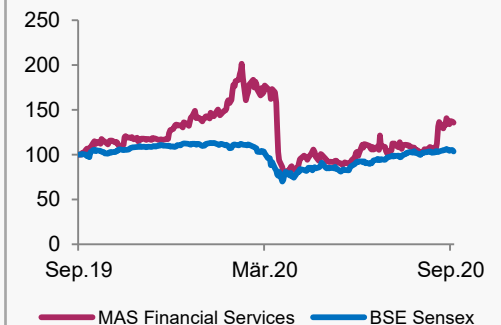
### Change in Estimates (%)

Y/E Mar	FY21E	FY22E	FY23E
NII	-	-	-
PPOP	-	-	-
PAT	-	-	-

### Axis vs Consensus

EPS Estimates	2021E	2022E	2023E
Axis	31.3	38.7	45.9
Consensus	33.7	37.5	N.A
<b>Mean Consensus TP (12 Months)</b>			<b>770</b>

### Relative performance



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### ***Moratorium and Collections***

- Though MAS has seen a significant improvement in collections over April to August'20, the collections were impacted in August'20 owing to heavy rainfalls in certain geographies where MAS has significant presence. The management expects collections to improve from September'20.
- Collections in Gujarat have been fairly robust with businesses gradually getting back on track. However, in certain districts of Maharashtra which are severely impacted by COVID-19, the businesses would take slightly longer to recover and the collections from such parts could be slightly delayed.
- Certain MFI-NBFC partners are still seeing lower collections as certain geographies continue to remain under strict lockdown. The MFI partners present in the district worst affected by COVID-19 and continue to remain under lockdown are seeing collection efficiency of 40-50%, however on an average, MFI partners collections have now reached 70-80%.
- MAS is seeing strong collection trends in the Micro-enterprise and SME segment, however, the collections in the CV business are lower at 60-65%. The CV book forms a very small part of the total portfolio.
- On the housing finance subsidiary, the collection efficiency has improved to 85% in August'20 from 83% in July'20.

### ***Operational Performance***

- Post the washout in Q1FY21, on the back of COVID-19 and the lockdown, MAS continued to witness muted disbursements of Rs. 88 Cr in July'20. Till date, the company has disbursed Rs. ~250 Cr. The management indicated that MAS would end Q2FY21 at disbursements ranging between Rs. 500-600 Cr.
- With the unlock phase and businesses trying to recover from the COVID-19 related disruption, there are some businesses who are looking to undertake small capex, or see the need to borrow for machinery or require working capital loans. Thus, the demand has been visible from both the micro as well as SME segment. On the back of the festive season, some demand pick-up could also be seen in the 2-Wheeler space in H2FY21.
- Disbursements in Q3 would be significantly better than Q2, however it would still not be near the pre-COVID levels. Post a weak show in H1FY21, and with businesses limping back to normalcy gradually (currently running at 65-70% of pre-COVID levels), the management does not target a double digit AUM growth in FY21. FY22 onwards, for the short to medium term, MAS aims to grow AUMs at 15-20% CAGR.
- On the housing subsidiary, MAS is cautious as in the past few years the sector has been reeling under the stress of demonetization, GST and a slowdown in the housing finance space. Given the customer profile of the company and the small base, MAS is likely to witness growth of 20-25% in the coming couple of years. Over the medium term, MAS would aim at achieving housing AUM of Rs. 1000 Cr. Disbursements have been muted as the company has disbursed Rs. 3-4 Cr during the month of August'20.
- On the liquidity front, MAS is comfortable placed, however, due to higher liquidity NIMs in the near term would continue to stay under pressure.
- The company is trying to pay off some of its high cost debt by opting for pre-payments. With most of the borrowing being from banks, the new borrowings would be at a lower rate. We believe, that we could see a gradual downtrend in the CoF.
- As a prudent measure and with the intent to strengthen its Balance Sheet, MAS would make higher provisions for the impact of COVID-19 even in Q2FY21. The management re-iterated that credit costs would remain range bound between 1.75% - 2.25% for FY21E.
- On the sourcing mix, the management continues to maintain the view that a change in the sourcing mix would be visible only in the medium to long term (3-5 yrs). The company currently is comfortable sourcing ~55-57% from the NBFC partners.

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Interest Earned	559	596	641	741
Interest Expended	275	297	305	342
<b>Net Interest Income</b>	<b>284</b>	<b>299</b>	<b>336</b>	<b>398</b>
Other Income	124	131	141	152
<b>Total Income</b>	<b>408</b>	<b>430</b>	<b>477</b>	<b>551</b>
<b>Total Operating Exp</b>	<b>87</b>	<b>94</b>	<b>106</b>	<b>121</b>
<b>PPOP</b>	<b>322</b>	<b>336</b>	<b>371</b>	<b>429</b>
Provisions & Contingencies	87	107	89	94
<b>PBT</b>	<b>235</b>	<b>229</b>	<b>282</b>	<b>335</b>
Provision for Tax	56	58	71	84
<b>PAT</b>	<b>179</b>	<b>171</b>	<b>211</b>	<b>251</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
<b>SOURCES OF FUNDS</b>				
Share capital	55	55	55	55
Reserves and surplus	984	1,131	1,316	1,534
<b>Shareholders' funds</b>	<b>1,039</b>	<b>1,185</b>	<b>1,370</b>	<b>1,588</b>
Total Borrowings	3,123	3,204	3,107	3,852
Other Liabilities, provisions	395	427	469	515
<b>Total</b>	<b>4,557</b>	<b>4,816</b>	<b>4,946</b>	<b>5,956</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balances	1,026	1,053	648	727
Investments	38	38	37	46
Advances	3,338	3,554	4,069	4,968
<i>Growth</i>	4%	6%	15%	22%
Fixed & Other Assets	155	171	191	214
<b>Total assets</b>	<b>4,557</b>	<b>4,816</b>	<b>4,946</b>	<b>5,956</b>

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
<b>VALUATION RATIOS</b>				
EPS (Rs)	32.7	31.3	38.7	45.9
Earnings Growth (%)	18%	-4%	23%	19%
BVPS (Rs.)	190.0	216.8	250.7	290.6
Adj. BVPS (Rs.)	180.9	203.2	237.1	275.5
RoAA (%)	4.3	3.7	4.3	4.6
ROAE (%)	18.4	15.4	16.5	17.0
P/E (x)	24.6	25.7	20.8	17.6
P/BV (x)	4.2	3.7	3.2	2.8
Dividend Yield (%)	1.4	0.5	0.5	0.6
<b>PROFITABILITY</b>				
Yield on Total Assets (%)	14.0	13.2	13.6	14.1
Cost of Funds (%)	9.7	9.4	9.7	9.8
Core Spread (%)	4.3	3.8	4.0	4.3
NIM (Calc.) (%)	7.1	6.6	7.1	7.6
<b>OPERATING EFFICIENCY</b>				
Cost-Income Ratio (%)	21.2	21.9	22.2	22.0
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	12	5	13	18
Borrowing Growth (%)	22	3	-3	24
Total Capital Adequacy Ratio (CAR)	31.0	33.4	34.6	33.9
Tier I CAR	28.9	31.3	32.5	31.8
<b>ASSET QUALITY</b>				
Gross NPLs (Rsm)	63	94	94	104
Net NPLs (Rsm)	50	75	75	82
Gross NPLs (%)	1.4	2.0	1.8	1.7
Net NPLs (%)	1.1	1.6	1.4	1.3
Coverage Ratio (%)	20.5	20.5	20.5	20.5
Provision/Avg. AUM (%)	2.1	2.3	1.8	1.7
<b>ROAA TREE</b>				
Net Interest Income	6.9%	6.4%	6.9%	7.3%
Non-Interest Income	3.0%	2.8%	2.9%	2.8%
Operating Cost	2.1%	2.0%	2.2%	2.2%
Provisions	2.1%	2.3%	1.8%	1.7%
Tax	1.4%	1.2%	1.5%	1.5%
ROAA	4.3%	3.7%	4.3%	4.6%
Leverage (x)	4.2	4.2	3.8	3.7
ROAE	18.4%	15.4%	16.5%	17.0%

Source: Company, Axis Securities

**About the analyst****Analyst:** Dnyanada Vaidya**Contact Details:** [dnyanada.vaidya@axissecurities.in](mailto:dnyanada.vaidya@axissecurities.in)**Sector:** BFSI**Analyst Bio:** Dnyanada Vaidya is MMS (Finance) with over 3 years of research experience in the Banking/NBFC sector.**Disclosures:**

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