



The Power of Distribution

SMC Ranking

★ ★ ★ ☆ ☆ (2.5/5)

Issue Highlights

Industry	Financial Services
Total Issue (Shares) - Offer for sale	4,946,449
Total Issue (Shares) - Fresh Issue	5,076,253
Net Offer to the Public	10,022,702
Issue Size (Rs. Cr.)	457-460
Price Band (Rs.)	456-459
Offer Date	6-Oct-17
Close Date	10-Oct-17
Face Value	10
Lot Size	32

Issue Composition

	In shares
Total Issue for Sale	10,022,702
QIB	4,935,098
NIB	1,480,529
Retail	3,454,569
Employee reservation portion	152505

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	80.69%	73.19%
QIB	16.54%	16.38%
NIB	2.63%	3.70%
Employee Reservation Portion		0.28%
Retail	0.13%	6.44%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- Fresh Issue: The Company proposes to utilise the proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements.
- Offer for Sale: The Selling Shareholders will be entitled to the proceeds of the Offer for Sale.

Book Running Lead Manager

- Motilal Oswal Investments Advisors Limited

Name of the registrar

Link Intime India Private Limited

About the Company

MAS Financial Services Limited is a Gujarat-based NBFC with more than two decades of business operations and as of June 30, 2017, the company operates across six States and the NCT of Delhi. The company's business and financing products 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.

Competitive Strength

Track record of consistent growth with quality loan portfolio: The Company offers a wide range of products that address the specific financing requirements of middle and low income individuals as well as micro, small and medium enterprises. The company 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 its 121 branches. The AUM increased at a CAGR of 33.37% from Rs. 10,531.91 million as of March 31, 2013 to Rs. 33,325.65 million as of March 31, 2017. The company has developed stringent credit quality checks and customized operating procedures that involve regular monitoring of its loan portfolio and have maintained relatively low NPA ratios.

Diversified product offerings presenting significant growth opportunities: The Company offers a diverse range of financial products and services targeted at the low and middle income customer segments. Its micro-enterprise loan and SME loan segments extend loans to manufacturers, dealers, distributors and related service providers in various industries. The company's housing loan and two-wheeler loan segments are targeted towards salaried and self employed individuals. It covers a diversified customer demographic through its various financing products. The multi-channel business sourcing network enables the company to introduce new financing products with relatively low incremental investment and operating expenses. It also enables to reduce exposure to sector-specific declines, local or regional economic downturns, disruptions from political circumstances and/or natural disasters.

Access to diversified sources of capital and cost-effective funding: The Company has stable credit history and quality portfolio which has enabled it to obtain capital for business operations without overleveraging or significant equity dilution. The funding requirements have historically been met primarily through term loans. The company has established long-term relationships with various banks and financial institutions which provide ease of access to funding from such 132 institutions. The quality loan portfolio, stringent credit appraisal and risk management processes, and stable credit history have resulted in improved credit status with lenders over the years, thereby enabling the company to reduce its cost of borrowings from banks and other financial institutions. The company also obtains funds through assignment and/or securitization of its loan portfolio to banks, which purchase such portfolio to meet their priority sector and retail lending commitments. Furthermore, the company also issued non-convertible debentures and commercial paper to supplement its funding requirements. The company's Cost of Borrowings as of March 31, 2017 was 9.47%, compared to 8.41% in Fiscal 2013.

Deep market knowledge through extensive sourcing channels: The company has developed an extensive operational network in Gujarat and Maharashtra. It mainly focuses on developing grass root level market knowledge and operational experience in

markets where it operates, in order to better understand customer requirements and ensure better collection, reduced loan delinquencies, greater efficiency of operations, grow loan portfolio and increase customer base. The company has also entered into commercial arrangements with a large number of sourcing intermediaries including commission based DSAs as well as sourcing partners where part of a loan default is guaranteed by such sourcing partners. As of June 30, 2017, it had 332 such two-wheeler sourcing intermediaries and 395 Commercial Vehicle sourcing intermediaries.

Robust credit assessment and risk management framework: The Company has developed customised credit analysis procedures for each product depending on the nature of the customer, purpose of the loan and the amount of loan advanced. Typically, the company analyses past financial information and the applicant's business trends to assess their income levels. In addition to document verification and credit bureau reports, it conducts site verification, interviews, the viability of their business and financing products and market and banking reference checks on the applicant, co-applicant and guarantor, as applicable.

Experienced management team with reputed investors: The Company believes that the industry knowledge and experience of its senior management has enabled the company to maintain consistent growth of business over the years. The experience of promoters and senior management allows the company to identify market opportunities, offer products and services targeted at specific customer segments, develop customer and product specific credit policies, while ensuring effective risk management and quality of loan portfolio. The company's investors include development finance institutions such as FMO, DEG and private equity investors such as Sarva Capital and India Business Excellence Fund - III, and in the past, ICICI Venture Fund and Bellweather Microfinance Fund.

Strategy

Strengthen marketing and sourcing channels while maintaining stable growth and quality of portfolio: The quality of portfolio has enabled the company to maintain and continue focuses on maintaining stable growth with a quality portfolio going forward. The AUM increased at a CAGR of 33.37% from Rs.1053.19 Cr as of March 31, 2013 to Rs. 3332.56 Cr as of March 31, 2017. The company continues to strategically and selectively open new branches or expand in new locations, typically expanding into geographies with a growth potential. It also intends to increase penetration in the States of Madhya Pradesh, Rajasthan, Karnataka, Tamil Nadu and the NCT of Delhi. With diversified product portfolio, the company has significant cross-selling opportunities among existing customers and serves their future financing requirements with other products. The company will continue to expand network of sourcing intermediaries. The company intends to maintain an optimal balance between growth, quality of portfolio and profitability to ensure greater penetration in existing markets and increasing expansion into new territories.

Expand its product offerings: The Company continues to undertake market assessment studies to strategically evaluate additional product offerings. The company intends to finance working capital requirements, both long and short term, of manufacturers, distributors and dealers of agricultural input products. It also intends to offer loans to farmers to acquire accessories, implements and tractors in collaboration with dealers, manufacturers and distributors as sourcing intermediaries.

Leverage existing network and customer base to develop housing finance business: The company intends to expand housing finance business by increasing the geographic reach of MAS Rural Housing & Mortgage Finance Limited ("MRHMFL") operations. MRHMFL currently operates in Gujarat, Maharashtra, Rajasthan and Madhya Pradesh. The Company intends to establish additional branches in States that have favourable business potential for affordable housing loans. It intends to leverage existing operational network and customer base to cross-sell housing loans to existing customers. As of June 30, 2017, the company has strategic arrangements with 55 sourcing intermediaries in the housing loan segment, who are typically affordable housing project developers and property agents. The company intends to establish more local sourcing arrangements in regions identified through market potential studies undertaken by us.

Leverage technology to foster growth: The Company continues to focus on developing and strengthening IT capabilities to support growth and improve the quality of services. It believes that improving technology infrastructure will allow the company to respond to challenges on a real-time basis and improve risks management capabilities. The company intends to devote analytics resources towards identifying growth opportunities across multiple dimensions – products, customers and channels to optimize profitability and growth.

Risk Factors

Business requires substantial funds: The business of the company requires substantial funds, and any disruption in funding sources would have a material adverse effect on liquidity and financial condition.

Risk from higher levels of NPAs: The quality of portfolio may be impacted due to higher levels of NPAs and business may be adversely affected if the company fails to provide for such higher levels of NPAs.

Company's business is highly regulated: The Company is subject to regulations in relation to minimum capital adequacy requirements and a decline in its CRAR will require the company to raise fresh capital which may not be available on favourable terms, or at all. This in-turn may affect company's business, prospects, results of operations and financial condition.

Business relies significantly on its operations in the States of Gujarat and Maharashtra: The business of the company relies significantly on its operations in the States of Gujarat and Maharashtra. Any adverse changes in the conditions affecting these States can adversely impact its business, financial condition and 28 results of operations.

Peer comparison

Co_Name	Operating Income	APAT	EPS	P/E	P/BV	BV	FV	CMP	MCAP
Capital First	2772.87	238.92	26.24	27.96	3.11	235.55	10.00	733.70	7177.39
M & M Fin. Serv.	7146.20	511.64	8.13	50.82	3.38	122.39	2.00	413.20	23501.37
Shri.City Union.	4703.59	578.08	86.70	23.67	2.61	786.61	10.00	2051.95	13532.29
MAS Financial Services Ltd	363.75	69.33	12.69	36.18	3.98	119.55	10.00	459.00	2508.23

*MAS Financial Services ratios post issue based on FY17

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 459, the stock is priced at pre issue P/E of 32.82x on its FY17 EPS of Rs. 13.99. Post issue, the stock is priced at a P/E of 36.18 x on its EPS of Rs. 12.69. Looking at the P/B ratio at Rs. 459, the stock is priced at P/B ratio of 5.74x on the pre issue book value of Rs.80 and on the post issue book value of Rs. 115.21 the P/B comes out to 3.98x.

On the lower end of the price band of Rs.456, the stock is priced at pre issue P/E of 32.60x on its FY17 EPS of Rs. 13.99. Post issue, the stock is priced at a P/E of 35.94x on its EPS of Rs. 12.69. Looking at the P/B ratio at Rs. 456, the stock is priced at P/B ratio of 5.70x on the pre issue book value of Rs. 80 and on the post issue book value of Rs. 115.21, the P/B comes out to 3.96x.

Industry outlook

The Indian economy is one of the largest economies in the world, with a Gross Domestic Product ("GDP") on purchasing power parity basis of an estimated US\$7.99 trillion in calendar year 2015. Financing requirements in India have risen in sync with the economy's notable growth over the past decade. NBFCs have played a major role in meeting this need, complementing banks and other financial institutions. NBFCs help fill gaps in the availability of financial services with respect to products as well as customer and geographic segments. Financing requirements in India have risen in sync with the economy's notable growth over the past decade.

Outlook

The Company is pursuing and maintaining stable growth and quality of portfolio by expanding product offerings to anchor its belief that growth with quality will enhance the stakeholder's value. The company is planning to expand its product in the high growth agri-inputs and equipments segment. With GNPA's within limits, asset quality intact, decent valuations and expected entry in high growth agri-input segment, the company is expected to see good growth going forward. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Finalisation of Basis of Allotment with the Designated Stock Exchange	Friday, October 13, 2017
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	Monday, October 16, 2017
Credit of Equity Shares to demat accounts of Allottees	Tuesday, October 17, 2017
Commencement of trading of the Equity Shares on the Stock Exchanges	Wednesday, October 18, 2017
Bid/issue Opens on	Friday, October 6, 2017
Bid/issue Closes on	Tuesday, October 10, 2017

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-17 (3 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Revenue from operation	104.02	363.75	303.45
Total expenditure	26.39	93.04	82.29
Operating Profit	77.63	270.70	221.16
OPM%	0.75	0.74	0.73
Other Income	0.32	0.96	0.75
PBDIT	77.95	271.66	221.90
Depreciation	0.36	1.38	1.09
PBIT	77.59	270.28	220.81
Finance costs	41.32	164.24	142.30
PBT	36.27	106.04	78.51
Tax	12.57	36.71	27.06
PAT	23.70	69.33	51.45

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-17	As on 31-Mar-17	As on 31-Mar-16
Non-current assets			
Tangible assets	11.28	8.61	8.17
Intangible assets	0.25	0.14	-
Capital in work in progress	0.42	-	-
Non-current investments	0.01	0.01	0.27
Deferred Tax Asset (net)	4.92	4.22	3.01
Long-term loans and advances	1031.56	884.40	586.35
other non- Current Assets	9.46	9.48	7.94
Total Non- Current Assets	1057.89	906.86	605.75
Current assets			
Cash & Cash Equivalents	150.74	47.37	181.70
Short Term Loan and Advances	1234.29	1224.88	1138.53
Other current assets	21.98	21.99	19.77
Total current assets	1407.01	1294.23	1340.00
Total Assets	2464.90	2201.09	1945.76
Non-current liabilities			
Long-term Borrowings	343.71	310.89	394.84
Defereed tax liabilities(net)	0.63	0.57	0.42
Other Long term liabilities	317.87	252.05	152.67
Long term provisions	4.20	3.71	1.95
Total	666.41	567.21	549.89
Current liabilities			
Short-term borrowings	908.01	767.99	741.12
Trade payables	3.42	2.76	4.69
Other current liabilities	412.34	453.15	396.44
Short-term provisions	21.54	13.41	8.85
Total current liabilities	1345.32	1237.31	1151.10
Total	2011.73	1804.52	1700.99
Net Assets	453.17	396.57	244.77
NET Worth			
Net worth represented by:			
Share capital	91.46	90.43	59.47
preference share issued by the subsidiary company outside the group	4.00	4.00	2.00
compulsorily convertible debentures	49.98	49.98	49.98
Reserves and surplus	297.09	241.62	123.54
Minority interest	10.64	10.55	9.78
Net Worth	453.17	396.57	244.77

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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