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MAS Fin asset quality to grow at 25% for next few years

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WE MET THE management of MAS Financial Services (MASFIN) mainly lending to MSE, SME and individuals with total AUM of ₹36.6billion as of H2FY18. Management remains highly focused to retain its best in class return ratios of +25% and asset quality but will continue to grow at 25% on steady state basis for next few years. We believe, company will continue to create strong niche for itself within the mid/lower end segment delivering high NIMs of 7-8% with strong asset quality, but at valuations of 6.2x H2FY18 BV & 4.3x BV (post IPO) looks priced in.

MASFIN has identified 600 different segmental value chains especially in the MSE & SME segment which has helped it to grow at 36% CAGR in last 5 years and 25% y-o-y in H2FY18. Underwriting has been based on various credit models and continues to improve on regular basis on close working relationships with various customers. But key challenge on underwriting has been making the assessment process "real time system based" and hence as scale picks-up granular credit assessment and monitoring becomes a key challenge.

MASFIN has been able to maintain strong asset quality with GNPA/NNPAs at 1.2%/1.0% as on H2FY18 as retail AUM (directly sourced) asset quality remains strong. Credit cost has inched up in H2FY17 on moving to 90dpd but only concern remains on the lower PCR of 19% (only retail financing remains at risk) but according to management they have ring fenced most of the business loans underwritten as relationships with its customers remain much stronger.

MASFIN has been able to display best in class ratios in last few years with ROAs of 4% & ROEs of +23-26%. Though, ROEs have come off to 14-15% post capital infusion of ₹2.33billion via IPO in October, but management remains highly focused on return ratios which should improve to +20% going ahead and does not need to raise capital (raised 3 times in last 20 years).