



MAS Financial Services Ltd. - "SUBSCRIBE"

Incorporated in 1995, MAS Financial is a Gujarat-headquartered NBFC (non-banking finance company) with more than two decades of experience. The company's business and financing products are primarily focused on middle and low income customer segments, and include five segments - micro- enterprise loans, SME loans, two-wheeler loans, commercial vehicle loans and housing loans.

Presently, the company has 121 branches and operates across six states mostly in relatively prosperous states such as Gujarat, Maharashtra, Rajasthan, Karnataka, Tamil Nadu and Delhi spanning five product categories. The Company offers diversified products and has expanded into new products like farm input segment, working capital financing for manufacturers and intermediaries of farm input products. Post demonetization, significant business opportunity has opened for MAS as traditional lenders are finding it difficult to survive.

In addition to sales team, the company has entered into commercial arrangements with a large number of sourcing intermediaries, including commission based Direct Selling Agents and revenue sharing arrangements with various dealers and distributors where part of loan default is guaranteed by such sourcing partners. MAS has 98 small NBFC partners for sourcing business.

As of June 30, 2017, 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. Company's journey was slow and took 18 years to reach AUM of Rs 1,000 crore. However, growth has picked up in the past four years. The company's AUM (assets under management) has witnessed a steady a CAGR (compounded annual growth rate) of 33.4 percent from FY13 to FY17. As of March 31, 2017 and June 30, 2017, the Company's AUM was Rs. 33,326 mn and Rs. 34,517 mn respectively.

AUM in micro-enterprise, SME, two-wheeler, CV and housing loan increased at CAGR of 32.14%, 137.64%, 5.86%, 2.62% and 44.09% in FY13-17, respectively. Despite robust growth in AUM, asset quality remained healthy with GNPA ratio close to 1%. As of June 30, 2017, GNPA ratio stood 1.06%.

Investment Rationale and Recommendation

At the upper end of the price band of Rs. 459, the IPO is valued at Price/Book Value of 4x on post issue basis which we believe is reasonable considering the following factors like: a) track record of consistent growth with quality loan portfolio, b) diversified product offerings presenting significant growth opportunities, c) 121 branches with 500,000 active loan accounts, d) access to diversified sources of capital and cost effective funding, e) strong capital adequacy ratio of 23 percent with Tier I capital of 18.5 percent, f) deep market knowledge through extensive sourcing channels, g) robust credit assessment and risk management framework, h) doubled AUM after every three years witnessing more than 30 percent CAGR in AUM, i) successfully acted as a catalyst for small entrepreneurs grow their business, j) experienced management team with reputed investors, k) PAT CAGR of 25.9 percent over the period FY13-17, l) healthy asset quality with negligible NPAs, m) robust return ratios with ROE above 20 percent for last 3 years and ROA of 4 percent, we recommend "SUBSCRIBE" to the issue.

IPO note date	Oct. 06, 2017
Issue date	Oct. 06 – 10, 2017
Listing date	Oct. 18, 2017
Type of issue	Fresh issue: Rs. 2.33 bn OFS: Rs. 2.2 bn
Face Value	Rs. 10
Price Band	Rs. 456 - Rs. 459 per share
Issue allocation	QIB – 50% Retail – 35% NIB – 15%
Lot size	32 equity Shares & multiple of 32 equity shares thereafter
Equity shares post issue	49.06 mn equity shares
Post issue market cap	Rs. 22.5 bn at upper price band
Book Running Lead Managers	Motilal Oswal Investment Advisors Ltd.
Registrar to the issue	Link Intime
Promoters	Kamlesh Chimanlal Gandhi Mukesh Chimanlal Gandhi Shweta Kamlesh Gandhi Prarthna Marketing Private Ltd.

Y/e 31 Mar (Rs. mn)	Q1FY18	FY17	FY16
Revenues	1,040	3,637	3,035
PAT	234	686	508
EPS	4.75	15.33	11.82
Share Capital	439.91	429.56	160
Networth	3,886	3,320	1,830
Book Value (Rs.)	77.5	66.3	34.9
P/BV (x)	5.9	6.9	13
ROE (%)	-	20.65	27.77

Source: RHP, Ajcon Research, *annualized Q1FY18EPS



Objects of the issue

Fresh Issue: The objects of the offer are to utilize the net proceeds from the fresh issue worth Rs. 2.33 bn towards augmenting the capital base to meet future capital requirements.

Offer for sale: Details of selling shareholders

Name of selling shareholder	No. of shares to be sold
DEG – Deutsche Investitions	Up to Rs. 1,126.6 mn
NEDERLANDSE FINANCIERINGS	Up to Rs. 793.38 mn
SARVA CAPITAL	Up to Rs. 350.41 mn
Total	Up to Rs. 2,270.42 mn

Source: RHP



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