MAS Financial Services Limited

Issue Snapshot:

Issue Open: Oct 06 – Oct 10, 2017

Price Band: Rs. 456 – 459 (A discount of Rs 45 is offered to eligible Employees)

Issue Size: *100,22,702 Equity Shares (including *Fresh issue of 50,76,253 Equity Shares + Offer for sale 49,46,449 equity shares including Employee Reservation)

Offer Size: Rs.457.03 crs – 460.04 crs

QIB	Upto	50% eq sh
Retail	atleast	35% eq sh
Non Institutional	atleast	15% eq sh

Face Value: Rs 10

Book value: Rs77.53 (June 30, 2017)

Bid size: - 32 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 49.56 cr
Post issue Equity:	Rs. 54.65 cr

Listing: BSE & NSE

Book Running Lead Manager: Motilal Oswal Investment Advisors Limited.

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	80.69	73.19
Public	19.31	26.81
Total	**100.0**	**100.0**

Source for this Note: RHP
* = Assuming issue subscribed at the higher band

Background & Operations:

MAS Financial Services Ltd 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. Its 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. As of March 31, 2017 and June 30, 2017, its AUM was Rs. 33,325.65 million and Rs. 34,517.41 million, respectively. 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. As of June 30, 2017 it 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.

MAS Financial's financing products include:
<u>*Micro-Enterprise Loans*</u>. It provides two categories of micro-enterprise loans: (i) loans up to Rs. 75,000, typically to self-employed individuals engaged in trading or manufacturing business; and (ii) loans ranging between Rs. 75,000 and Rs. 300,000, typically to sole proprietors and partnership firms.

<u>*Small and Medium Enterprise (SME) Loans*</u>. It provide loans up to Rs. 50 million to its SME customers, which category primarily includes small and medium sized manufacturers, dealers and service providers engaged in various industries. The SME loan segment includes working capital loans (up to Rs. 50 million), loans for machinery and facilities (up to Rs. 20 million) and includes loans against property (up to Rs. 20 million) and loans extended to housing finance Companies

<u>*Two-wheeler Loans.*</u> It provides two-wheeler loans primarily to farmers, self-employed and salaried individuals as well as professionals

<u>*Commercial Vehicle Loans*</u>. It provides loans up to Rs. 700,000 for the purchase of new and used commercial vehicles, used cars as well as tractors. In this segment, its customers primarily include traders and manufacturers (for loading vehicles), travel businesses and small road transport operators.

<u>*Housing Loans*</u>. It provides housing loans to customers for the purchase of new and old houses, construction of houses on owned plots, home improvement and for the purchase and construction of commercial property. Its customers in this segment typically include salaried and self-employed individuals and also extends loans to developers for construction of affordable housing projects. The loan amount typically ranges between Rs. 50,000 and Rs. 5 million for residential property and between Rs. 50,000 and Rs. 10 million for commercial property

In addition to MAS Financial's sales team, it has entered into commercial arrangements with a large number of sourcing intermediaries, including commission based DSAs and revenue sharing arrangements with various dealers and distributors where part of loan default is guaranteed by such sourcing partners. As of June 30, 2017, it had 332 such sourcing intermediaries for its two-wheeler loan segment and 395 such sourcing intermediaries for Commercial Vehicle loan segment. As of June 30, 2017, it had entered into arrangements with 55 sourcing intermediaries for housing loan segment, who typically are affordable housing project developers and property agents.

Objects of Issue:

The Offer consists of a Fresh Issue by MAS Financial and an Offer for Sale by the Selling Shareholders. The Company will not receive any proceeds from the Offer for Sale. The Company proposes to utilize the Net Proceeds towards funding the following objects:

- Augmenting its capital base to meet future capital requirements.
- Receive the benefits of listing of the Equity Shares on the Stock Exchange.
- General Corporate Purposes

The following table sets forth certain information relating to the operations and financial performance in the periods specified:

Particular (Rs.in Mn)	As of March 31, 2015	As of March 31, 2016	As of March 31, 2017	As of June 30, 2017
AUM				
Micro-Enterprise Loans	13,863.36	17,345.54	19,848.57	19,953.21
SME Loans	2,149.46	4,289.64	7,638.37	8,362.34
Two-wheeler Loans	2,396.60	2,575.68	2,853.86	3,192.80
Commercial Vehicle Loans	1,642.72	1,438.85	1,220.60	1,223.33
Housing Loans	943.79	1,348.80	1,764.25	1,785.73
Total AUM	20,995.93	26,998.51	33,325.65	34,517.41
Gross NPA	208.13	279.06	352.7	392
Gross NPA/ AUM (%)	0.99	1.03	1.06	1.14
Net NPA	170.94	239.28	305.48	330.5
Net NPA/ AUM (%)	0.81	0.89	0.92	0.96
Net Worth	2,100.45	2,329.87	3,820.26	4,385.31
Return on Average Net Worth	22.83	24.87	23.68	23.86
Particular	**Fiscal 2015**	**Fiscal 2016**	**Fiscal 2017**	**Three month period ended June 30, 2017**
Revenue from operations	2,374.31	3,034.51	3,637.46	1,040.19
Profit after tax	399.83	508.21	685.58	234.14
Total Disbursement	20,884.02	30,464.23	34,681.68	8,994.99

Competitive Strengths

Track record of consistent growth with quality loan portfolio: MAS Financial 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. It has been in operation for more than two decades, and as of June 30, 2017, 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. MAS Financial has also entered into revenue sharing arrangements with a large number of sourcing partners, where part of a loan default is guaranteed by these sourcing partners, effectively making them directly accountable for the quality of the loan portfolio they originate. A significant part of its business is also represented by loans extended to other financial institutions, and has developed stringent and ongoing loan portfolio diligence measures that enable it to ensure the quality of the receivables underlying the loans to such financial institutions. MAS Financial's quality loan portfolio also enables it to effectively assign or securitize a significant portion of it from time to time, thereby reducing operational risks.

Diversified product offerings presenting significant growth opportunities: MAS Financial 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. Housing loan and two-wheeler loan segments are targeted towards salaried and self-employed individuals. It covers a diversified customer demographic through various financing products. Its diversified product portfolio and customer base aligned with increasing market demand is a key component of its growth and success. Its wide, multi-channel business sourcing network enables it to introduce new financing products with relatively low incremental investment and operating expenses. MAS also enables it to reduce its exposure to sector-specific declines, local or regional economic downturns, disruptions from political circumstances and/or natural disasters. Its target customer segments present significant growth opportunities for business. Its business is also operationally aligned to easily adapt to the changing financing environment for its target customer segments introduced by recent GoI measures to encourage formal banking channels.

Access to diversified sources of capital and cost-effective funding: MAS Financial's quality portfolio and stable credit history has enabled it to obtain capital for its business operations without overleveraging or significant equity dilution. It has a dedicated resource mobilization team to effectively address its funding requirements, reduce cost of borrowings, diversify sources of funds, manage interest rate risk and invest any surplus funds. Its funding requirements has historically been met primarily through term loans. It has established long-term relationships with various banks and financial institutions which provide ease of access to funding from such institutions. MAS's quality loan portfolio, stringent credit appraisal and risk management processes, and stable credit history has resulted in improved credit status with its lenders over the years, thereby enabling to reduce its cost of borrowings from banks and other financial institutions. As of June 30, 2017, its total outstanding debt including security deposits received from customers (excluding assignments) was Rs. 18,603.32 million. In Fiscal 2017, and in the three month period ended June 30, 2017, it obtained Rs. 15,125.07 million and Rs. 3,081.90 million, respectively, through assignment and/ or securitization of loans. As of June 30, 2017, its debt to equity ratio was 4.24.

Deep market knowledge through extensive sourcing channels: MAS Financial has developed an extensive operational network in Gujarat and Maharashtra. It focus on developing grass root level market knowledge and operational experience in markets it operates, in order to better understand customer requirements and ensure better collection, reduced loan delinquencies and greater efficiency of operations. In addition to its sales team, it has 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, MAS had 332 such two-wheeler sourcing intermediaries and 395 Commercial Vehicle sourcing intermediaries. For its housing loan segment, it has similar arrangements with affordable housing project developers and property agents. As of June 30, 2017, it had 55 sourcing intermediaries in housing finance. It leverage its in-depth market knowledge to identify and develop close working relationships with MFIs, HFCs and other NBFCs focused on markets similar to its. As of June 30, 2017, MAS had 98 such institutional borrowers. These measures enable it to diversify deployment of capital

Robust credit assessment and risk management framework: MAS Financial target customers include micro-enterprises, SMEs, traders and individuals from low and middle income customer segments. It 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. In addition to document verification and credit bureau reports, it conduct site verification, interviews, and market and banking reference checks on the applicant, co-applicant and guarantor, as applicable. It has also introduced stringent credit checks for the underlying loan portfolios associated with loans extended to its institutional borrowers, including inspection of the hypothecated loan portfolio to ensure that they meet the requisite credit policies stipulated by it and carry out replacement of any substandard underlying asset. MAS continuously monitor the quality of such hypothecated loan portfolio.

Experienced management team with reputed investors: The industry knowledge and experience of MAS Finacial senior management has enabled it to maintain consistent growth of its business over the years. Its promoters, Kamlesh Chimanlal Gandhi, Chairman and Managing Director and Mukesh Chimanlal Gandhi, Chief Financial Officer and Director – Finance, each has over 21 years of experience in the financial services sector. Its senior management team has enabled it to develop and implement a consistent business plan and operational procedures. The experience of its promoters and senior management allows it 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.

Business Strategy:

Strengthen marketing and sourcing channels while maintaining stable growth and quality of portfolio: The quality of portfolio has enabled MAS Financial to maintain and continue focus on maintaining stable growth with a quality portfolio going forward. Its 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. As of June 30, 2017 it had over 3,165 Customer Locations in six States and the NCT of Delhi served through its 121 branches. It continue to strategically and selectively open new branches or expand in new locations, typically expanding into geographies with a growth potential. It intends to further increase its penetration in the States of Madhya Pradesh, Rajasthan, Karnataka, Tamil Nadu and the NCT of Delhi. It also continue to establish knowledge partnerships with these financial institutions to further strengthen its existing relationships, and also to increase local market knowledge. It 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 product offerings: MAS Financial continue to undertake market assessment studies to strategically evaluate additional product offerings. as part of its SME loans, it intends to extend loans to the agricultural input and equipment segment. It also intends to finance working capital requirements, both long and short term, of manufacturers, distributors and dealers of agricultural input products. MAS Financial also intend 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 to generate quality leads for it. As it expand its operations, it endeavour to expand its portfolio of products across various sectors by monitoring customer requirements.

Leverage existing network and customer base to develop housing finance business: The housing finance sector is projected to grow at 14% CAGR in Fiscal 2017 and 18% in Fiscal 2018. The GoI encourages the availability of credit to the affordable housing industry and has implemented various policies and initiatives, particularly in relation to affordable housing. MAS Financial will continue to provide financing for such housing projects. Loans given to develop affordable housing projects are considered as 'housing loans' as per NHB guidelines. MAS intends to expand its housing finance business by increasing the geographic reach of MRHMFL's operations. MRHMFL currently operates in

Gujarat, Maharashtra, Rajasthan and Madhya Pradesh. It intends to establish additional branches in States that has favourable business potential for affordable housing loans. It also intends to leverage its existing operational network and customer base to cross-sell housing loans to its existing customers. MAS also intends to establish more local sourcing arrangements in regions identified through market potential studies undertaken by it.

Leverage technology to foster growth: All MAS Financial branches has been centrally connected to its corporate office in Ahmedabad, Gujarat. It continues to focus on developing and strengthening its IT capabilities to support growth and improve the quality of its services. It intends to develop and implement analytics capabilities for lead generation, market mapping, improving customer responsiveness and anticipating customer requirements. It further intends to develop data mining and analytics capabilities to improve predictability of repayment patterns and set up early warning systems. MAS also intend to develop data-driven insights to understand its target customers' propensity towards certain financial products. It intends to devote its analytics resources towards identifying growth opportunities across multiple dimensions – products, customers and channels to optimise profitability and growth.

Industry:

Financial Inclusion in India

Given the sheer size of the Indian population and considering that a large section still lacks access to formal banking services, driving financial inclusion has always been a key priority for the government. The banking system and 'priority sector' lending have been the most explored channels to bring majority of the population under the ambit of formal credit institutions. India is on the threshold of a high-growth trajectory, hence financial inclusion is imperative for sustaining equitable growth. In India, the major reasons for financial exclusion are poverty, low income, financial illiteracy, high transaction cost, and lack of infrastructure, primarily IT infrastructure. Consequently, a significant proportion of the population still does not have access to formal banking facilities. The global average of adult population with an account (at a bank, financial institution or with mobile money providers) is about 62%. India is far behind at about 53%. However, its average is above that of South Asia, which is relatively low at about 46% due to poor financial inclusion, especially certain of its neighbouring countries. (Source: CRISIL Microfinance Industry Information, 2016 ("CRISIL MFI Information, 2016"))

Financial inclusion is a comprehensive exercise that constitutes several products and services, such as provision bank accounts, insurance facilities, payment and remittance mechanisms, financial counselling, and most crucially, affordable credit. The government undertook several initiatives, which were orchestrated by the National Bank for Agriculture and Rural Development ("**NABARD**") and executed through entities such as regional rural banks, cooperatives and commercial banks. During the late 1970s, these lending institutions achieved significant reach and increasing number of individuals did avail of credit facilities. However, major delinquencies in repayment severely impaired the financial health of the entities. Furthermore, despite the rapid expansion in the scale of the institutions, several households continued to face difficulties in accessing credit facilities. (Source: CRISIL MFI Information, 2016) Within the large suite of products and services under financial inclusion, microfinance institutions have a major role to play in the provision of credit. The sheer size of the market (in terms of financially-excluded households), a business model that offers sustainable credit to the poor at affordable rates and a repayment cycle spread over a longer duration, have been key growth drivers for micro finance industries ("**MFIs**") operating in India. (Source: CRISIL MFI Information, 2016)

Non-Banking Finance Companies in India

A non-banking financial company ("**NBFC**") is a company registered under the Companies Act, 1956, and is engaged in business of loans and advances; acquisition of shares/stock/bonds/debentures/securities issued by government or local authority or other securities of marketable nature; leasing; hire-purchase; insurance business; and chit business. 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. A strong linkage at the grassroots level makes them a critical cog in the financial system. They cater to the masses in rural and semi-urban reaches, who have limited access to formal financing channels and lend to the informal sector and people without credit histories, thereby enabling the government and regulators to realise the mission of financial inclusion. The outstanding loans of NBFCs grew at approximately 20% between Fiscals 2012 and 2016. As of March 2016, they accounted for 15% of the overall systemic credit. (Source: CRISIL Overview of NBFCs in India, 2016 ("CRISIL NBFC Overview, 2016"))

Competitive advantage of NBFCs

By virtue of access to low-cost funds and an extensive branch network, banks compete with NBFCs, especially on the cost front. However, with their strategic presence in lending segments as well as geographies, NBFCs have carved out a niche for themselves to effectively compete with banks. The niche product focus of NBFCs enables them to make customized offerings. Currently, NBFCs dominate construction equipment finance, while they are slowly gaining market share in housing, loan against property, and microfinance. In emerging segments such as small and medium enterprise finance and wholesale finance, NBFCs have doubled their market share in the past five years even though it is still at a lower level. Low penetration in tier-II and tier-III cities, product and process innovation, and continued focus on core businesses will be the key enablers for steady growth. (Source: CRISIL NBFC Overview, 2016)

Microfinance sector in India

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. Microcredit is the most common product offering of the microfinance industry. It refers to loans of very small amounts to borrowers who typically lack collateral, steady employment and verifiable credit history. Microfinance in India is synonymous with microcredit; this is because savings, thrift and micro insurance constitute a miniscule segment of the space. The NABARD is the main felicitator and mentor of microfinance initiatives in the country, with a focus on rural areas. It is assisting eligible NBFC-MFIs by providing them long-term refinance support. (Source: CRISIL MFI Information, 2016)

MFIs are the major players in the microfinance space in India. They are defined as non-deposit taking NBFCs (other than a company licensed under Section 25 of the Indian Companies Act, 1956) with minimum net owned funds of ₹ 50 million (for NBFC-MFIs registered in the north-eastern region, it is ₹ 20 million) and having not less than 85% of its net assets as "qualifying assets". Qualifying assets for NBFC-MFIs are non-collateral loans given to eligible borrowers. MFIs in India are less than two decades old and have seen a spurt in growth and penetration only over the past six years. In India, as per Micro Finance Institutions Network ("**MFIN**") data, NBFC-MFIs have a footprint in 30 states and union territories, and serve as many as 33.2 million clients. They have a total loan portfolio of ₹ 594 billion, as of March 2016. As per MFIN data, in Fiscal 2015, MFIs covered 489 districts (district level data not available for Fiscal 2016). (Source: CRISIL MFI Information, 2016)

Rising penetration driving remarkable growth in microfinance industry

Group lending model helps MFIs widen reach to low-income households Even as banks have been the traditional source of funds, constraints in the form of varying income levels, absence of collateral and significant fixed operational cost in proportion to small-ticket loans have limited their geographical and demographic reach.

MFI attractive for investors - Equity funding in MFI increased by more than 100% in 2015

The microfinance industry in India has gained a lot of investors' attention over the past half-decade, with the top players posting high returns and sustainable growth numbers. Resultantly, many NBFCs have been launched in the space with support from private equity players, venture capitalists as well as banks themselves. Investment in the sector was close to $800 million during 2010 to 2015. (Source: CRISIL MFI Information, 2016)

Key Success Factors

- Geographically diversified portfolio helps MFIs mitigate risks
- Technology to be major enabler for MFIs to monitor portfolios and maintain asset quality
- Managing local stakeholders - key determinant of MFIs' success

Micro, Small and Medium Finance Segment in India

India's micro, small and medium enterprises ("**MSMEs**") contribute enormously to economic development. In Fiscal 2016, MSMEs accounted for about 45% of the country's manufacturing output and 40% of total exports. Further, the sector contributes to the socio-economic development of the country by providing employment in rural and backward areas, thereby reducing regional imbalance. In fact, MSMEs provide about 25% of the country's employment opportunities. Also, approximately 45% of MSMEs are located in rural areas. MSMEs complement large units as suppliers as well. The RBI defines MSMEs in line with the Micro, Small and Medium Enterprises Development Act, 2006. This definition is based on investment in plant and machinery. (Source: CRISIL Micro, Small and Medium Enterprises Finance Opinion, 2016 ("CRISIL MSME Opinion, 2016"))

Increasing competition intensity among financiers to drive MSME credit growth

MSME credit is expected to grow 10-12% annually over the next two years. Banks and NBFCs continue to reach out to a maximum number of borrowers who are now demanding more from financial institutions, in terms of quicker sanction of loans and disbursements, lower interest rates, etc. (Source: CRISIL MSME Opinion, 2016)

Strong profitability due to higher yields and controlled credit cost

NBFCs have net profitability of 4% because of higher yields as well as strong appraisal and collection systems (which controls credit cost). Operating expenditure is high for financiers given the low ticket size, making it imperative for them to have a large workforce to get new business as well as for appraisal and collection. Direct selling agent payouts range from 0.5-1.5% and get added to operating expenditure. Going forward, the cost of funds is expected to come down. Yield is under pressure due to competition and gross non-performing assets could increase as NBFCs become aggressive. Consequently, profitability is expected to lower in the medium term. (Source: CRISIL MSME Opinion, 2016)

NPA levels for NBFCs lower than banks

As a result of a general slowdown in the economy, non-performing asset ("**NPA**") levels have increased. However, due to aggressive collection and recovery mechanism of NBFCs, their NPA levels are lower than banks. Private banks have increased their focus on MSMEs as they rebalance their loan portfolio following the defaulting of loans made to some large customers in the past 1-2 years. The lending norms have also become stricter and pressure on gross NPAs (90 dues past days) is increasing, which range from 4.5-5.0% for NBFCs and 6.0-6.5% for banks in Fiscal 2016. (Source: CRISIL MSME Opinion, 2016)

Auto-finance Industry in India

India is world's sixth largest vehicles manufacturer globally. Further, India is Asia's second largest two wheeler manufacturer and fifth largest producer of commercial vehicles, fourth largest manufacturer of passenger car and the largest manufacturer of tractors. Total production of automobiles in India was 23.9 million units including passenger vehicles, commercial vehicles, three wheelers and two wheelers in Fiscal 2016 as against 23.3 million units in Fiscal 2015. Auto sales across categories domestically rose by 3.78% in Fiscal 2016 from 19.72 million units in Fiscal 2015. Sale of passenger vehicles grew by 7.24% in Fiscal 2016, from 2.6 million units in Fiscal 2015. Commercial vehicle sales expanded by 11.51% in Fiscal 2016 while three-wheeler sales grew by 1.03% and two wheelers registered a growth of 3.01% during Fiscal 2016.

Increase in NBFC share in auto-finance market

Banks currently hold 53% share in auto finance outstanding while NBFCs account for the rest. NBFCs have increased their market share from about 40% in Fiscal 2012 to 47% in Fiscal 2016 due to factors such as controlled operating cost, wider and effective reach, strong risk management capabilities to check and control bad debts, and better understanding of their customers. The latent credit demand allowed NBFCs to fill the gap, especially where banks do not have the appetite for risk and capabilities to serve. Stress on books of banks, especially public sector banks, also helped NBFCs to gain share in the auto finance market. Banks largely lend to large fleet operators whereas NBFCs lend to customers with a weaker credit profile such as SFO, FTB and first time users ("**FTU**"). Even in other vehicle segments, banks focus on salaried customers and self-employed customers with a strong credit profile. NBFCs have gained share by catering to customers with a relatively weaker credit profile, focusing on used vehicle financing (banks have a very limited presence in this space) and ensuring faster processing, lower documentation and greater flexibility in borrower appraisal. (Source: CRISIL AF Opinion, 2016)

Housing Finance Industry in India

As of Fiscal 2016, India is home to more than 1.28 billion people, or an estimated 264.9 million households, compared with 207.2 million households in 2004. Rising population and changing income demographics have contributed to a sharp rise in the number of households, especially in urban areas. However, India's population grew at a slower pace of 1.4% CAGR over Fiscal 2002 to Fiscal 2016, compared with 2% over Fiscal 1986 to Fiscal 2000. In the current decade, population growth is expected to slow down further to 1.2%. Any increase in the population directly impacts demand for housing units and, in turn, the requirement for floor space area. The number of households is likely to rise with the change in the age mix, growing number of nuclear families, continuous urbanisation and increasing penetration of financing. Moreover, in the current scenario, population in the younger age brackets is very high. According to CRISIL, the trend to translate into a tremendous increase in working population, will lead to greater demand for housing. (Source CRISIL Housing Finance Industry Information, 2016 ("CRISIL HF Industry Information, 2016")

Loans against property

Loans against property (LAP) are availed by mortgaging property, which acts as collateral to the financier. Financiers prefer advancing loans against property as they offer better security compared to unsecured personal loans. The total outstanding LAP has grown at a CAGR of 29% in the last four years (from Fiscal 2012 to Fiscal 2016). Factors contributing to increase in popularity of LAP include better product awareness, need of small businesses to raise capital and increasing property prices in key markets. Loans against property have been especially popular in metros and tier I cities owing to higher concentration of businesses in such cities. However, financiers have also been extending their LAP products to tier II cities where competition is lower. Self-employed borrowers accounted for almost 85% of LAP disbursements, and residential property accounted for 70% of the total property collaterized in LAPs in Fiscal 2016. (Source: CRISIL LAP Opinion, 2016)

Agricultural value chain financing

Agricultural input and equipment sector

The growth and investment across farm-input segments is expected to lead to a 6% increase in market size to Rs.2.4 trillion by Fiscal 2019. Power equipment, hybrid seeds penetration, and higher usage of bio-pesticides and bio-fertilisers will drive growth close to 15% in the Fiscal

2017 and over 10% thereafter, compared with a single digit growth for most large sub segments in Fiscal 2016. (Source: CRISIL Agri Report, 2016)

Key Concerns

Business operations involve transactions with relatively high risk borrowers: MAS Financial offers a wide range of financial products and services that address the specific financing requirements of low and middle income individuals as well as micro, small, and medium enterprises. Similarly, its housing loans are focused on affordable housing and two-wheeler loans are principally focused on first time users with limited access to capital through formal banking channels. A significant portion of customer base is typically less economically stable than large corporates, and as a result, is usually adversely affected by declining economic conditions. Earning capacity of customers in these segments depends on various macro and micro economic factors that affect them from time to time. It has a greater risk of loan defaults and losses in the event there are adverse economic conditions which may have a negative effect on the ability of its borrowers to make timely payments of their loans.

MAS Financial extends loans to other financial institutions such as MFIs, NBFCs and HFCs: MAS Financial extends loans to MFIs, HFCs and other NBFCs that operates in sectors similar to it, particularly focused on geographical areas where it has limited direct operations. Additionally, these financial institutions are required to maintain an agreed percentage of the loan amount as cash collateral or security deposits along with promoter guarantees in certain cases, provide general repayment undertakings and pay penal interest in case defaults in repayment. There can be no assurance that these financial institutions will not default in their payments. Also, there can be no assurance that MAS will not experience any default or deterioration in the performance of portfolio of receivables that is hypothecated to it under such arrangements. MAS Financial's business depends on the continuity of its relationship with these financial institutions. Its long-term relationship with these financial institutions has been successful in developing a certain level of loyalty and establishing knowledge partnerships, there can be no assurance that it will be successful in maintaining such relationships over time or increasing the number of such relationships. If it is not able to maintain existing relationships or develop new relationships with such institutions on a timely basis or offer interest rates that meet needs, its relationship with these institutions could decline and as a result, its business prospects, financial condition and results of operations could be adversely affected.

As an NBFC, MAS Financial is subject to periodic inspections by the RBI: MAS Financial is subject to periodic inspections by the RBI to verify correctness or completeness of any statement, information or particulars furnished to the RBI for the purpose of obtaining any information or particulars which the Company has failed to furnish on being called upon to do so. If it is unable to resolve such deficiencies to RBI's satisfaction, itsr ability to conduct out business may be adversely affected. Imposition of any penalty or adverse findings by the RBI during the ongoing or any future inspections may have an adverse impact on the business prospects, financial condition and results of operations.

Inability to maintain relationships with sourcing intermediaries could have an adverse effect on the business, prospects: In addition to MAS Financial sales team, it has entered into commercial arrangements with a large number of sourcing intermediaries, which include commission based DSAs, as well as revenue sharing arrangements with various dealers and distributors where part of loan default is guaranteed, by the sourcing partner. However, there can be no assurance that the guarantee provided by such sourcing partners would be sufficient to cover the loan defaults. If it is unable to provide services required by these sourcing intermediaries on a timely basis or offer products that meet the needs of the customers, the number of such arrangements and amount of loans originated by them, could decrease and adversely affect the company's business, prospects, financial condition and results of operations.

The quality of the portfolio may be impacted due to higher levels of NPAs: MAS Financial may not be successful in its efforts to improve collections and/or recover existing NPAs. In addition, it may experience greater defaults in principal and/or interest repayments in future. Thus, if MAS Financial is unable to maintain level of NPAs, the overall quality of its loan portfolio may deteriorate and its results of operations may be adversely affected. In the event of any further deterioration in its NPA portfolio, or if its provisioning coverage is insufficient to cover its existing or future levels of NPAs, is ability to raise additional capital and debt funds as well as its business prospects, financial condition and results of operations could be adversely affected.

Business requires substantial funds, and any disruption in funding sources would have a material adverse effect on the liquidity and financial condition: MAS Financial liquidity and profitability are, in large part, dependent upon its timely access to, and costs associated with raising capital. Its funding requirements historically has been met from a combination of term loans, working capital facilities and assignment or securitization of its portfolio to banks and financial institutions to meet their priority sector and retail lending commitments, commercial paper, cash credit, convertible and non-convertible debentures, as well as equity contributions. Its business depends and will continue to depend on its ability to access diversified low cost funding sources. As a financial services company, MAS Financial face certain additional regulatory restrictions on its ability to obtain financing from banks. Pursuing its growth strategy and introducing new product offerings to its customers will have an impact on its long-term capital requirements. With the growth of its business, MAS may be increasingly reliant on funding from debt capital markets. The market for such funds is competitive and its ability to obtain funds at competitive rates will depend on various factors. If it is unable to access funds at an effective cost that is comparable to or lower than its competitors, it may not be able to offer competitive interest rates for its loans. Ability to raise funds on acceptable terms and at competitive rates continues to depend on various factors. If it is unable to obtain adequate financing or financing on terms satisfactory to it and in a timely manner, its ability to grow or support business and to respond to business challenges could be limited and its business prospects, financial condition and results of operations would be materially and adversely affected.

Inability to compete effectively in an increasingly competitive industry may adversely affect net interest margins, income and market share: The financial services market is being served by a range of financial entities, including, traditional banking institutions, captive finance affiliates of players in various industries, NBFCs and small finance banks approved by RBI to enhance credit penetration. Majority of small finance banks which received approval for commencement of operations from RBI are focused on the low and middle income individuals and micro, small and medium enterprises. Many of these competitors may have greater financial resources, may be larger in terms of business volume and may have significantly lower cost of funds compared to MAS Financial. Moreover, interest rate is the most significant factor that determines customer decision making in selecting a financier, and certain captive finance affiliates of vehicle or equipment manufacturers or even real estate companies, may offer loans at lower rates to retain market share. There can be no assurance that it will be able to compete successfully with such competitors and gain market share. Ability to compete effectively will depend, in part, on its ability to maintain or increase margins. Its margins are affected in part by its ability to continue to secure low-cost funding, and the interest rates at which it extends loans to its customers. There can be no assurance that it will be able to react effectively to these or other market developments or compete effectively with new and existing players in the increasingly competitive NBFC and HFC sectors. MAS Financial's inability to compete effectively in the increasingly competitive market may adversely affect its net interest margins, income & market share.

Financial performance is subject to interest rate risk: MAS Financial results of operations, including its interest income from financing activities are dependent on its ability to manage interest rate risk. Its various financing products provide a range of loans at fixed or floating rates of interest. Its funding arrangements also include both fixed and floating rate borrowings. Since its financing products involve both floating and fixed rates, an inability to match its borrowing profile with its loan product portfolio may lead to various risks such as, increase in interest rate. Net interest income from financing activities and net interest margin would be adversely impacted in case of an increase in interest rate, if the yield on MAS Financial interest-earning assets does not increase simultaneously with or to the same extent as its cost of funds. In the event of a declining interest rate environment, if its cost of funds does not decline simultaneously or to the same extent as the yield on its interest-earning assets, it could adversely impact its interest income from financing activities and net interest margin. Interest rates in India has been volatile in the past. There can be no assurance that it will be able to adequately manage interest rate risk. If MAS Financial is unable to effectively manage its interest rate risks, it could have an adverse effect on its net interest margin, thereby adversely affecting its business prospects, financial condition and results of operations.

Company's business is highly regulated and may be adversely affected by future regulatory changes: As an NBFC, MAS Financial has to mandatorily obtain a certificate of registration issued by the RBI. As it continues to grow its loan portfolio and asset base, MAS will be required to raise additional Tier I and Tier II capital in order to continue to meet applicable capital adequacy ratios with respect to its business. There can be no assurance that it will be able to raise adequate additional capital in the future on terms favourable to it, and this may adversely affect the growth of its business. In addition, any change in RBI or other government regulations in relation to securitizations by NBFCs could have an adverse impact on MAS Financial's assignment and securitization plans in the future. In addition, a number of States in India has enacted laws to regulate money lending transactions. These laws establish a maximum rate of interest that can be charged. There is ambiguity on whether or not NBFCs are required to comply with the provisions of these state money lending laws. There are severe civil and criminal penalties for non-compliance with the relevant money lending statutes. In the event that the government of any state in India requires it to comply with the provisions of their respective state money lending laws, or imposes any penalty against it for prior non-compliance, its business prospects, financial condition and results of operations could be adversely affected.

MAS Financial may not be able to successfully diversify its product portfolio, which may materially and adversely affect its business prospect: As of June 30, 2017, MAS Financial's AUM in micro-enterprise loan segment constituted 57.81% and SME loan segment constituted 24.23% of its AUM. It intends to increasingly diversify its product portfolio by increasing focus on other product segments. Also, as part of its SME loan segment, it intends to finance working capital needs of manufacturers, distributors and dealers of agricultural input products including seeds, fertilizers, insecticides and pesticides, farming accessories and agricultural equipment. MAS do not have any prior experience in this segment and therefore, may not be able to successfully expand its portfolio in this segment. Also, there can be no assurance that it will be able to establish a robust customer origination network for agricultural input and equipment sector by establishing sourcing arrangements with dealers and distributors of agricultural input and equipment on commercially reasonable terms or at all. Its inability to pursue this growth and expansion strategy successfully or at all, may adversely affect the future financial performance.

Some of MAS Financial loans it provide are unsecured and are susceptible: MAS Financial's micro-enterprise loans are given to customers who primarily include small and medium sized manufacturers, dealers and service providers and are (with the exception of a limited security deposit taken from borrowers) mostly unsecured in nature. It may not be able to recover these loans through its standard recovery proceedings. 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. In addition, there can be no assurance that its monitoring and risk management procedures will succeed in effectively predicting the right income levels of these customers or that its loan loss reserves will be sufficient to cover any actual losses. However, there can be no assurance that these legal proceedings would be commercially feasible or conclude in a manner favourable to it in a timely manner or at all. If there is a default by customers on repayment of such unsecured loans or if it is unable to recover its principal and interest through such legal proceedings, it may experience increased levels of NPAs and may be required to make related provisions and write-offs that may have an adverse effect on its business prospects, financial condition and results of operations.

Any downgrade of credit ratings would increase borrowing costs and constrain access to capital and lending markets and, as a result, would negatively affect net interest margin and business: The cost and availability of capital is dependent on MAS Financial's short-term and long-term credit ratings. Ratings reflect a rating agency's opinion of its financial strength, operating performance, strategic position, and ability to meet obligations. Any downgrade of its credit ratings would increase borrowing costs and constrain access to capital and debt markets and, as a result, negatively affect net interest margin and business. In addition, downgrades of its credit ratings could increase the possibility of additional terms and conditions being added to any additional financing or refinancing arrangements in the future.

Business relies significantly on operations in the States of Gujarat and Maharashtra: A significant portion of MAS Financial's AUM originates from Gujarat and its entire organisation network is monitored from its head office in Gujarat. Its business is dependent on the overall performance of the state of Gujarat. In the event of a regional slowdown in the economic activity in Gujarat or a slowdown in sectors it finance, or any other developments that make its products in Gujarat less economically beneficial, it may experience more pronounced effects on its financial condition and results of operations. MAS also has significant interests and operations in Maharashtra also. While it has expanded its operations to other States such as Madhya Pradesh, Karnataka, Rajasthan, Delhi and Tamil Nadu, its branches, products and customer base continues to be concentrated in the States of Gujarat and Maharashtra. The market for its products in Gujarat and Maharashtra may perform differently from, and be subject to, market and regulatory developments that are different from requirements in other Indian States. It cannot be assured that the demand for its products will grow, or will not decrease, in the future, in this region and these may have an adverse effect on its business prospects, financial condition and results of operations.

MAS Financial Subsidiary's affordable housing finance business is subject to certain tax and fiscal benefits which may be discontinued in the future: MAS Financial's subsidiary is in the affordable housing finance business carrying on its operations in Gujarat, Maharashtra, Rajasthan and Madhya Pradesh. Tax reliefs has been instrumental in driving growth in the housing and housing finance sectors. The government has provided tax reliefs to both borrowers and lenders. The GoI has also provided incentives to the housing finance industry which are aimed at providing low-cost, long-term credit to the low and middle income segments in rural and urban parts of India. In addition, certain other tax benefits are also permitted to be availed by its Subsidiary. Further, Indian tax laws currently allow HFCs to claim a tax deduction up to 20% of profits from the provision of long-term finance for the construction or purchase of houses in India. There can be no assurance that the NHB, RBI and the GoI will continue to offer such tax benefits to borrowers at the current levels or at all, which may adversely affect the demand for housing and consequently housing finance. In addition, the GoI may not implement proposals to facilitate investment in affordable housing. If there is any discontinuation or modification to the tax and fiscal benefits available to MRHMFL, its business prospects, financial condition and results of operations may be adversely affected.

Depends on the accuracy and completeness of information about customers and counterparties: In deciding whether to extend credit or enter into other transactions with customers, MAS Financial rely on information furnished to it by or on behalf of customers (including in relation to their financial transactions and past credit history). It may also rely on certain representations from its customers as to the accuracy and completeness of that information. For ascertaining the creditworthiness and encumbrances on collateral it may depend on the respective registrars and sub-registrars of assurances, credit information companies or credit bureaus such as CIBIL, and on independent valuers in relation to the value of the collateral, and its reliance on any misleading information given may affect its judgement of credit worthiness of potential borrowers, and the value of and title to the collateral, which may affect its business, prospects, results of operations and financial condition.

Require certain statutory and regulatory approvals and licenses for conducting business: MAS Financial require various approvals, licenses, registrations and permissions for operating its business, including a registration for the Company with the RBI as a NBFC and its Subsidiary with NHB as an HFC. It is also required to comply with the prescribed requirements including exposure limits, classification of NPAs, Know Your Customer ("KYC") requirements and other internal control mechanisms. There can be no assurance that the relevant authorities will issue any of such permits or approvals in a timely manner, or at all, and/or on favourable terms and conditions. Its failure to comply with the terms and conditions, to which such permits or approvals are subject, and/or to maintain or obtain the required permits or approvals may result in an interruption of its business operations and may have a material adverse effect on its business operations, future financial performance and price of the Equity Shares.

Business may be affected by seasonal trends in the Indian economy: MAS Financial business operations and the non-banking financial services and housing finance industries may be affected by seasonal trends in the Indian economy. It has recently commenced extending term loans to farmers for purchase of new tractors, agricultural equipment, related accessories and implements. In India, majority of farmers depend on the monsoon for cultivation owing to the reduced access to artificial irrigation. Generally, the period from October to March is the peak period in India for retail economic activity. Its disbursements are likely to be highest in this period. This increased or seasonal activity is the result of several holiday periods, improved weather conditions, crop harvests and the business conditions its customers operate in. During these periods, it may continue to incur operating expenses, but its revenue from operations may be delayed or reduced.

Profit & Loss

Rs in million

Particulars	Q1FY18	FY17	FY16	FY15
Revenue from Operations	1040.2	3637.5	3034.5	2374.3
Other Income	3.2	9.6	7.5	7.7
Total Income	1043.3	3647.0	3042.0	2382.0
Total Expenditure	263.9	930.4	822.9	637.3
Provisions and Loan Losses	91.5	272.2	235.9	194.9
Employee benefits expense	86.1	293.9	243.8	171.3
Other expenses	86.4	364.3	343.2	271.1
PBIDT	779.5	2716.6	2219.0	1744.7
Interest	413.2	1642.4	1423.0	1117.4
PBDT	366.3	1074.2	796.0	627.3
Depreciation	3.6	13.8	10.9	10.5
PBT	362.7	1060.4	785.1	616.8
Tax (incl. DT & FBT)	125.7	367.1	270.6	208.8
Tax	132.0	377.8	276.8	214.9
Fringe Benefit Tax	0.0	0.0	0.0	0.0
Deferred Tax	-6.4	-10.7	-6.2	-6.1
Reported Profit After Tax before Minority Interest	237.0	693.3	514.5	408.0
Less: Share of profit attributable to minority Interest	2.9	7.7	6.3	8.2
Adj. Profit	234.1	685.6	508.2	399.8
EPS (Rs.)	2.6	7.6	8.5	6.7
Equity	914.63	904.3	594.7	594.7
Face Value	10.0	10.0	10.0	10.0
OPM (%)	74.6	74.4	72.9	73.2
PATM (%)	22.5	18.8	16.7	16.8

Balance Sheet:

Rs in million

Particulars	Q1FY18	FY17	FY16	FY15
Equity & Liabilities				
Shareholders Funds	**3885.5**	**3320.5**	**1830.1**	**1600.7**
Share Capital	914.6	904.3	594.7	594.7
Reserves and surplus	2,970.9	2416.2	1235.4	1005.9
Minority Interest	106.4	105.5	97.8	92.8
Preference Shares issued by the Subsidiary Company outside the group	40.0	40.0	20.0	0.0
Compulsorily Convertible Debentures	499.8	499.8	499.8	499.8
Non-Current Liabilities	**6664.1**	**5672.1**	**5498.9**	**2592.2**
Long-term borrowings	3,437.1	3108.9	3948.4	1648.1
Deferred tax liabilities	6.3	5.7	4.2	3.0
Other long-term liabilities	3,178.7	2520.5	1526.7	929.2
Long-term provisions	42.0	37.1	19.5	11.9
Current Liabilities	**13453.2**	**12373.1**	**11511.0**	**10934.4**
Short-term borrowings	9,080.1	7679.9	7411.2	7454.0
Total outstanding dues of creditors other than micro enterprises and small enterprises	34.2	27.6	46.9	14.9
Other current liabilities	4,123.4	4531.5	3964.4	3387.1
Short term provisions	215.4	134.1	88.5	78.4
Total Equity & Liabilities	**24649.0**	**22010.9**	**19457.6**	**15719.9**
Assets				
Non-Current Assets	**10578.9**	**9068.6**	**6057.5**	**4364.2**

Tangible assets	112.7	86.1	81.7	44.8
Capital work in progress	4.1	0.0	0.0	1.0
Intangible assets	2.5	1.4	0.0	0.0
Non-current investments	0.1	0.1	2.7	3.5
Deferred tax assets (net)	49.2	42.2	30.1	22.6
Long-term loans and advances	10,315.6	8844.0	5863.5	4190.6
Other non-current assets	94.6	94.8	79.4	101.8
Current Assets	**14070.1**	**12942.3**	**13400.0**	**11355.7**
Cash and bank balances	1,507.4	473.7	1817.0	2176.7
Short-term loans and advances	12,342.9	12248.8	11385.3	9029.7
Other current assets	219.8	219.9	197.7	149.2
Total Assets	**24649.0**	**22010.9**	**19457.6**	**15719.9**

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