

## Brief Overview

CMP (INR)	358.75
Target (INR)	410
Upside(%)	14.3%
Recommendation	<b>Buy</b>

BSE Code	532720
NSE Code	M&MFIN
Reuters Ticker	MMFS.BO
Bloomberg Ticker	MMFS IN

## Stock Scan

Market cap (INR Cr.)	22193
Outstanding Shares (Cr.)	61.78
Face Value (INR)	2
Dividend Yield(%)	1.81
TTM P/E (x)	12.2
Industry P/E (x)	21.2
Beta vs. Sensex	1.66
52 Week High/ Low (INR)	484/285
Avg. Daily Vol. (NSE)/1 yr.	1987118

## Shareholding Pattern (%)

	Sep-2019	Jun-2019	Mar-2019
Promoters	51.19	51.19	51.19
Institutions	40.40	40.40	40.41
Non-institutions	7.95	8.41	8.40

## Research Analyst

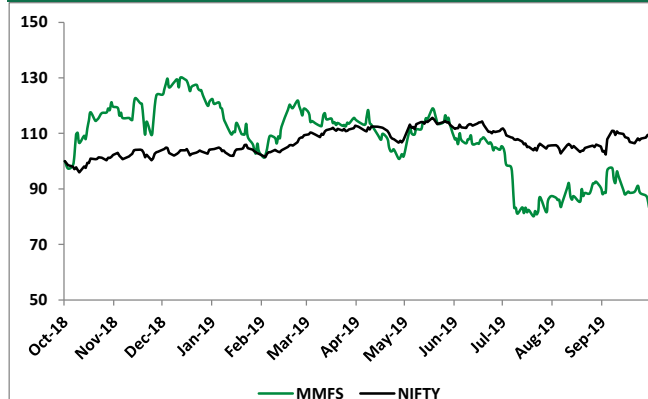
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## Company Overview

The financing arm of Mahindra Group is primarily engaged in the financing of auto and utility vehicles, tractors, cars, commercial vehicles and construction equipment and pre-owned vehicles. Apart from vehicle financing, the company is also into granting Personal Loans and SME Financing. The Co. provides housing finance to individuals through its subsidiary Mahindra Housing Finance Ltd, and Insurance broking services to Corporates & Individuals through its subsidiary Mahindra Insurance Broking Ltd.

**The diversified funding profile of the company with perfect blend of long and short term sources of finance, implementation of a robust system for reducing the non-performing assets and tie ups with strong OEM's like Maruti, Hyundai, Nissan & being the preferred choice for M&M vehicles, we value MMFS on a SOTP basis and arrive at a Target Price of 410.**

## Stock vs. Nifty (Relative Returns)



Source: NSE

## Investment Rationale

**Adequate Monsoon:** According to the rainfall data available with Skymet from 1 June - 8 September, India has so far received 782 mm of rainfall against the normal of 764.5 mm. This is expected to bring back buoyancy in the rural demand. Expectations for a good Rabi crop have grown stronger, owing to a plentiful southwest monsoon this year (25-year high), leading to higher agri. output. MMFS' rural focus is expected to boost the topline for the company.

**Government Spending:** Moreover the revival of government spending in rural India from July'19 along with settlement of major dues to the private sector followed by renewed push for increasing PM Kisan transfers are expected to provide much needed boost to the rural economy. Strong rural economy is likely to augur well for improving the sagging tractor demand as well as two-wheeler demand. M&M being the largest player in the tractor segment with closer to 45% market share MMFS is poised to benefit from the rising tractor demand.

**Corporate Tax rate cut:** For the last few quarters, the company's effective tax rate has been around 35%. Hence the new effective tax rate implemented by Ministry of Finance of around 25% is expected to boost the bottom-line of the company.

## Financial Performance at a glance (Standalone)

Particulars (INR Cr)	FY17	FY18	FY19A	FY20E	FY21E
<b>Net Interest Income (NII)</b>	3,316	4,147	4,778	5,500	6,480
Growth (%)	3%	25%	15%	15%	18%
<b>Total Income</b>	6,238	7,206	8,809	10,120	11,780
Growth (%)	6%	16%	22%	15%	16%
<b>Provision &amp; Write Offs</b>	1,309	1,227	635	750	1,100
<b>Profit After Tax</b>	400	892	1,558	1,784	2,063
Growth (%)	-40%	123%	75%	15%	16%
EPS	7.09	15.35	25.33	28.89	33.39
BVPS	113.88	150.61	176.59	196.74	225.19
P/E (x)	43.0	19.9	12.0	10.6	9.1
P/BV (x)	2.7	2.0	1.7	1.6	1.4
ROE (%)	6.2%	9.6%	14.3%	14.7%	14.8%

Source: Company data, Bloomberg, SMIFS Research

## Q2FY20 Result Analysis\_M&M Financial Services Ltd

Particulars (in INR Crore)	Quarter Ended (Standalone)					Half Yearly Ended		
	Q2 FY20	Q2 FY19	YoY %	Q1FY20	QoQ %	H1 FY20	H1 FY19	YoY %
Interest income	2440.74	2086.39	17.0%	2366.46	3.1%	4807.20	3998.01	20.2%
Dividend income	15.06	0.46	3161.9%	9.08	65.8%	24.14	0.46	5128.8%
Rental income	1.72	0.07	2533.1%	1.16	48.8%	2.87	0.09	3185.6%
Fees and commission Income	24.55	22.71	8.1%	17.06	43.9%	41.61	39.44	5.5%
Net gain on fair value changes	4.29	0.08	5093.0%	0.25	1602.9%	4.55	0.26	1654.8%
<b>Income from Operations</b>	<b>2486.37</b>	<b>2109.71</b>	<b>17.9%</b>	<b>2394.01</b>	<b>3.9%</b>	<b>4880.37</b>	<b>4038.26</b>	<b>20.9%</b>
Less Finance Cost	1202.20	930.98	29.1%	1128.21	6.6%	2330.40	1779.74	30.9%
<b>NII</b>	<b>1284.17</b>	<b>1178.74</b>	<b>8.9%</b>	<b>1265.80</b>	<b>1.5%</b>	<b>2549.97</b>	<b>2258.52</b>	<b>12.9%</b>
Other Income	54.48	35.74	52.5%	18.4967	194.6%	72.98	46.86	55.7%
<b>Total Income</b>	<b>1338.65</b>	<b>1214.47</b>	<b>10.2%</b>	<b>1284.30</b>	<b>4.2%</b>	<b>2622.95</b>	<b>2305.39</b>	<b>13.8%</b>
Employee benefits expense	294.03	240.98	22.0%	352.09	-16.5%	646.12	504.43	28.1%
Fees and commission expense	11.02	8.23	33.9%	9.99	10.3%	21.01	10.62	97.8%
<b>Impairment on financial instruments/ Provisions</b>	<b>360.63</b>	<b>231.1154</b>	<b>56.0%</b>	<b>619.619</b>	<b>-41.8%</b>	<b>980.25</b>	<b>524.95</b>	<b>86.7%</b>
Other expenses	178.68	163.86	9.0%	163.57	9.2%	342.25	269.64	26.9%
Depreciation and amortization	35.91	14.48	148.0%	34.33	4.6%	70.24	27.75	153.1%
Total Expenses	880.27	658.67	33.6%	1179.60	-25.4%	2059.86	1337.39	54.0%
<b>Profit before tax</b>	<b>458.38</b>	<b>555.80</b>	<b>-17.5%</b>	<b>104.70</b>	<b>337.8%</b>	<b>563.09</b>	<b>968.00</b>	<b>-41.8%</b>
PBT margin (%)	34.2%	45.8%	-1152bps	8.2%	2609bps	21.5%	42.0%	-2052bps
Current Tax	58.51	224.49	-73.9%	31.94	83.2%	90.45	347.42	-74.0%
Deferred Tax	148.10	-50.09	-395.7%	4.33	3319.6%	152.43	-29.86	-610.4%
Tax Expense	206.61	174.41	18.5%	36.27	469.6%	242.88	317.56	-23.5%
Effective Tax rate	45%	31%	1369bps	35%	1043bps	43%	33%	1033bps
<b>Profit after tax</b>	<b>251.77</b>	<b>381.39</b>	<b>-34.0%</b>	<b>68.43</b>	<b>267.9%</b>	<b>320.20</b>	<b>650.44</b>	<b>-50.8%</b>
PAT margin (%)	18.8%	31.4%	-1260bps	5.3%	1348bps	12.2%	28.2%	-1601bps
<b>EPS</b>	<b>4.08</b>	<b>6.20</b>	<b>-34.2%</b>	<b>1.11</b>	<b>267.6%</b>	<b>5.19</b>	<b>10.57</b>	<b>-50.9%</b>

Source: Company data, Bloomberg, SMIFS Research

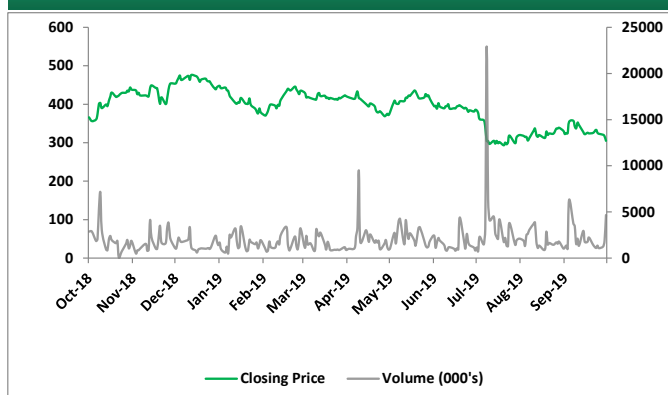
### Q2FY20 Con-call Highlights

- The Company has made an additional Provision of INR40 cr. keeping in mind the current environment. The same has been factored in for stage 1 & stage 2.
- Growth in NPA is not as aggressive as earlier periods. Reduction in the same due to collectability efficiency. Next couple of quarters asset quality to be maintained if not improved.
- The Company has come off from the increasing cost of borrowing. Lower cost going ahead and no pass on to customers is on the cards
- Market share has improved for the company and there has been not much competition in the rural market. Cost of borrowing is expected to
- Farm cash-flow is expected not to have any stress but industrial segment to remain weak atleast for another year.
- The management expects slight growth in disbursement in H2FY20. H2FY19 had good growth so to beat it marginally amidst present environment would be a great achievement.
- AUM growth is expected to be in the range of 15%-20%. New accounts being added are more than the accounts getting matured.
- Focus will be on margin maintenance and curtailing overhead costs.
- Growth engine for MMFS is expected to be in the pre-owned vehicle segment. Pre-owned segment has 3%-4% higher yields compared to new vehicles. At present 8%-9% of the total assets consists of Pre-owned vehicles and the management plans to take it to around 15% leading to higher margins.
- Rural sentiment to remain subdued. As far as collections are considered, there is cash flow in the rural market but since the sentiment is weak cash is being used to repay loans instead of adding assets.
- Dusshera has been above average however as per dealer feedback Diwali and Dhanteras was expected to have a big bumper.
- As far as securitization is concerned, the market is positive. MMFS has already sold around INR2500 worth of portfolio. MMFS has retail portfolio which is much safer and better as a segment hence the Company receives pricing benefit to the tune of around 150 bps leading to effective borrowing cost being lower.

**Source of Funds is not a concern:** The mix of funding is perfectly balanced between short & long term sources. NCD's form about 43% of the total borrowing followed by Bank Loans which make up around 30%. MMFS' ability to secure adequate funding persists; superior parentage ensures continuity of this trend. They haven't faced challenges in raising funds from PSU banks but the cost of borrowing has remained sticky. During Q1FY20, borrowings increased by 28% YoY. The company has funding from various sources which make it immune from any adversities

**Tie Up with OEM's:** Company has tie up with strong OEM's like **Maruti, Hyundai, Renault & Nissan**. It is the first choice for **Mahindra & Mahindra** vehicles. In addition of its own branches, the company has set up over 200 branches at dealerships of OEM's to work closely with dealers & customers. 45% of the total AUM is from M&M assets.

Share Price and Volume Chart



## Outlook and Valuation

### Outlook:

Going forward, we believe the company to have strong growth as the Indian rural market will be emerging as an important growth engine. Government's push on rural spending by increasing Minimum Support Price, normal monsoon will be beneficial for Mahindra Finance as the Company has foremost presence in rural and semi urban areas. The NBFC space is fast catching up with the Banks in terms of credit growth & catering to the remote locations where banks don't have much presence.

### Valuation:

The diversified funding profile of the company with perfect blend of long and short term sources of finance, implementation of a robust system for reducing the non-performing assets and tie ups with strong OEM's like Maruti, Hyundai, Nissan & being the preferred choice for M&M vehicles, we value MMFS on a SOTP basis and arrive at a **Target Price of 410**.

Valuation Matrix

Particulars	Book Value/ Share as on FY21E	PB Assigned	Value/Share
M&M Financial Services Ltd	225	1.75	394
Mahindra Housing Finance Ltd	22	0.60	13
Mahindra Insurance Brokers Ltd	6	0.50	3
<b>Value</b>			<b>410</b>

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