

July 29, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs638	Rs800
EPS change FY12E/13E (%)	-7/-1.4
Target Price change (%)	-8
Nifty	5,482
Sensex	18,197

Price Performance (%)	1M	3M	6M	12M
Absolute	4	(15)	(6)	16
Rel. to Nifty	6	(10)	(5)	14

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Financial Services
Bloomberg	MMFS@IN
Equity Capital (Rs mn)	1040
Face Value(Rs)	10
No of shares o/s (mn)	104
52 Week H/L	913/528
Market Cap (Rs bn/USD mn)	66/1,494
Daily Avg Volume (No of sh)	33174
Daily Avg Turnover (US\$m)	0.5

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	57.4	57.5	60.8
FII/NRI	34.7	34.2	27.1
Institutions	3.6	4.4	6.9
Private Corp	0.6	0.4	1.2
Public	3.8	3.5	4.0

Source: Capitaline

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- MMFS' results inline with expectation with NII at Rs3.3bn and net profit at Rs1.0bn
- NII grew by 27.1%yoy to Rs3.3bn driven by 5%qoq growth in AUM's to Rs158.7bn, albeit NIM's contracted by 288bps qoq to 9.3% on expected lines
- Asset quality deteriorated sharply as the GNPA increased by 23.5%qoq to Rs6.8bn and with inadequate provisioning net NPA almost doubled sequentially to Rs1.4bn
- Have lowered our FY12E/FY13E estimates by 7%/1.4% for lower spreads. Expect 29% CAGR in earnings over FY11-13E. Return ratios robust at ~3.8% RoAs and 23% RoE

### NII growth inline with expectations

MMFS's NII grew by 27.1%yoy to Rs3.3bn driven by 34.3%yoy growth in value of asset financed, albeit NIM's contracted by 288bps to 9.3% on expected lines as the company did not report any interest income from assignments during the quarter as against Rs532mn reported in the preceding quarter.

### Lower yields on advances impacted margins

While, MMFS has been able to control its cost of borrowings with large (70%) fixed rate borrowings, lower yield on advances impacted the margins during the current quarter driven by no assignment income. The yield on advances declined by 237bps qoq to 16.6%. The cost of borrowings remained under control as the same increases by just 49bps qoq to 5.5%.

### Yield analysis

%	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (bps)	QoQ (bps)
Yield on advances	17.2	18.7	18.2	19.0	16.6	-63	-237
Yield on total assets	16.7	18.0	17.9	18.2	15.4	-127	-283
Yield on earning assets	17.6	19.0	18.8	19.1	16.0	-156	-308
Cost of borrowings	6.6	6.5	6.6	5.0	5.5	-103	49
Cost of funds	5.6	5.8	6.2	6.0	6.1	49	4
Spread	11.1	12.5	12.2	14.1	10.5	-53	-357
NIM	11.1	12.2	11.6	12.2	9.3	-176	-288
NIMs ex assignments	9.8	11.0	10.6	11.1	8.6	-128	-253
Spreads-reported	11.1	11.5	11.7	12.1	10.0	-110	-210

Source: Company, Emkay Research

Note: 1. Calculated on basis of average quarterly balances

### Valuation table

Y/E March 31	Net Rev Rs mn	APAT Rs mn	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY10	10,671	3,444	35.9	171.5	4.3	21.5	17.8	3.7
FY11	13,696	4,631	46.3	235.8	4.3	22.5	13.8	2.7
FY12E	17,689	5,890	57.5	273.6	3.8	21.7	11.1	2.3
FY13E	23,254	7,811	76.2	330.1	3.9	24.2	8.4	1.9

Source: Company, Emkay Research

**Key financials – Quarterly**

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Net Interest Income	2,609	3,178	3,391	3,960	3,317	27.1	-16.2
Other Income	90	93	96	107	163	80.4	52.3
Net Income	2,699	3,271	3,487	4,067	3,480	28.9	-14.4
Total Operating Expenses	1,018	1,160	1,170	1,426	1,362	33.8	-4.5
As % Of Net Income	37.7	35.5	33.6	35.1	39.1		
Employee Expenses	365	369	310	470	519	42.1	10.5
As % Of Net Income	13.5	11.3	8.9	11.6	14.9		
Other Expenses	681	825	899	1,013	886	30.3	-12.5
As % Of Net Income	25.2	25.2	25.8	24.9	25.5		
Operating Profit	1,653	2,077	2,278	2,584	2,074	25.5	-19.7
As % Of Net Income	61.2	63.5	65.3	63.5	59.6	-2.7	-6.2
Provisions	543	335	260	115	561	3.4	387.8
PBT	1,110	1,742	1,733	2,439	1,513	36.3	-38.0
Total Tax	368	577	574	874	491	33.3	-43.9
Adjusted PAT	742	1,165	1,349	1,584	1,022	37.7	-35.5
Extra Ordinary Items	0	0	285	29	0		
Reported PAT	742	1,165	1,159	1,566	1,022	37.7	-34.7
Reported EPS	7.7	12.1	12.0	15.3	10.0	29.1	-34.7

Source: Company, Emkay Research

**AUMs growth strong at 45.7% yoy**

The AUMs grew by a strong 45.7% qoq driven by strong growth across the segments except Auto/ Utility vehicles which has shown a decline of 1%qoq. Key focus areas like CVs have shown strong growth of 16.3% qoq.

**AUMs mix**

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	% of total
Auto/ Utility vehicles	36	42	40	47	48	32.5	1.3	30.0
Cars	33	37	44	47	49	50.6	4.7	31.0
Tractors	25	27	31	35	36	45.7	4.7	23.0
Commercial Vehicles	9	10	11	14	16	82.2	16.3	10.0
Refinance & Others	7	7	8	9	10	45.7	4.7	6.0
Total	109	122	134	152	159	45.7	4.7	100.0

Source: Company, Emkay Research

**Asset financing mix for the quarter**

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	% of total
Auto/ Utility vehicles	10	9	13	10	10	6.7	-0.9	27.0
Cars	8	5	21	13	12	48.2	-6.2	32.0
Tractors	6	14	2	9	8	34.3	-3.3	22.0
Commercial Vehicles	2	2	2	4	4	67.9	0.4	10.0
Refinance & Others	2	4	4	4	3	72.7	-3.3	9.0
Total	29	34	42	40	38	34.3	-3.3	100.0

Source: Company, Emkay Research

**New Business during quarter**

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
New Contracts	73,092	89,959	107,458	97,265	93,171	27.5	-4.2
Value of asset financed	28,544	33,628	42,390	39,637	38,340	34.3	-3.3

Source: Company, Emkay Research

### Banks retain dominant share in borrowing profile

Banks retained dominant share in MMFS' funding profile as their share increased to 58.6% excluding assignments. However share of Assignment in the overall borrowing mix declined to 13.8% from 16.8% in previous quarter.

#### Borrowing profile – instrument-wise

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	% of total
Bonds	25	23	23	22	22	-15.1	-2.5	18.1
Bank Term Loans	36	46	50	66	70	92.0	6.6	58.6
Securitisation	16	16	17	19	16	0.1	-15.5	13.8
Fixed Deposit	6	7	8	8	9	52.2	7.9	7.5
Commercial Paper	1	7	10	0	2	97.3	397.2	2.1
Total	86	98	108	116	120	39.8	2.9	100.0

Source: Company, Emkay Research

#### Borrowing profile – lender-wise

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	% of total
Insurance Cos	7	7	6	12	12	79.9	3.9	10.1
Mutual Fund	15	16	19	10	12	-21.3	15.5	9.8
Banks	53	65	67	86	87	61.9	0.8	72.3
Others	10	11	15	9	9	-11.8	7.3	7.7
Total	86	98	108	116	120	39.8	2.9	100.0

Source: Company, Emkay Research

### Asset quality witnesses sharp deterioration

MMFS' asset quality deteriorated sharply as the GNPA increased by 23.5% qoq to Rs6.8bn. Moreover with inadequate provisioning net NPA almost doubled sequentially to Rs1.4bn.

#### NPA profile

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Gross NPAs	7,105	6,744	7,104	5,488	6,776	-4.6	23.5
Net NPAs	1,247	1,182	1,306	744	1,373	10.1	84.5
Gross NPAs (%)	6.9	5.8	5.6	4.0	4.6		
Net NPAs (%)	1.3	1.1	1.1	0.6	1.0		
Net NPAs/Net worth (%)	6.9	6.2	6.4	3.0	5.3		
Provision cover (%)	82.4	82.5	81.6	86.4	79.7		

Source: Company, Emkay Research

#### ....resulting in higher credit costs

MMFS' credit costs rose sharply to 1.6% of assets during the quarter compared with 0.4% in Q4FY11 and 1.4% for FY11, as the slippage rate rose sharply during the quarter. Moreover with inadequate provisioning the PCR came down to 79.7% from 86.4% in preceding quarter.

#### Valuation and view

We have lowered our estimates for FY12E/13E by 7%/1.4% to take into account more pressure on spreads and NIMs. We expect 29% CAGR in earnings over FY11-13E. Return ratios robust at ~3.8% RoAs and 23% average RoE over FY11-13E. The current valuations at 2.3x/1.9x FY12E/FY13E ABV still remain attractive. Maintain BUY with revised TP of Rs800 (-8% driven by cut in estimates).

**Key Financials****Profit and loss (Rs mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	10,432	13,137	17,304	22,868
Other income	240	386	386	386
Net Income	10,671	13,696	17,689	23,254
Operating expenses	3,151	4,740	6,567	8,614
Depreciation	99	158	170	184
Preprovision profit	7,421	8,592	10,952	14,455
Provisions	2,215	1,567	2,027	2,621
Profit before tax	5,206	7,024	8,925	11,834
Tax	1,762	2,393	3,034	4,024
Tax rate	34	34	34	34
Adjusted Profit after tax	3,444	4,631	5,890	7,811

**Balance sheet (Rs mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Equity share capital	960	1,025	1,025	1,025
Reserves And Surplus	16,326	23,877	28,269	34,281
Net worth	17,286	24,901	29,293	35,306
Borrowings	64,578	93,642	135,966	181,753
Deferred tax liability	-2,069	-2,167	-2,167	-2,167
Current liabilities	9,087	15,890	12,221	14,011
Total liabilities	88,881	137,541	175,313	228,903
Net block	476	818	1,076	1,189
Investments	687	6,746	687	687
Loans	83,788	124,650	168,406	220,115
Current assets	3,909	3,161	5,857	6,388
Total assets	88,881	137,541	175,313	228,903

**As % of assets**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Spreads	9.6	9.6	8.7	9.0
NIM	11.8	11.2	10.4	10.5
Other income	0.3	0.3	0.2	0.2
Net Income	11.8	11.3	10.5	10.6
Operating expenses	3.5	3.9	3.9	3.9
Preprovision profit	8.2	7.3	6.5	6.6
Provisions	2.4	1.3	1.2	1.2
Profit before tax	5.7	5.9	5.3	5.4
RoAA	3.8	3.9	3.5	3.5
RoAA (excluding assignments)	4.3	4.3	3.8	3.9
Gross NPA (%)	6.4	4.4	3.8	3.4
Net NPA (%)	0.9	0.6	0.8	0.7

**Valuations**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Adjusted Profit after tax (Rs mn)	3,444	4,631	5,890	7,811
No of shares (mn)	96.0	102.5	102.5	102.5
FDEPS (Rs)	35.9	46.3	57.5	76.2
PER (x)	17.8	13.8	11.1	8.4
Book value (Rs)	180.1	243.1	285.9	344.6
P/BV (Rs)	3.5	2.6	2.2	1.8
Adjusted book value (Rs)	171.5	235.8	273.6	330.1
P/ABV (Rs)	3.7	2.7	2.3	1.9
P/PPP (x)	8.2	7.4	6.0	4.5
RoE (%)	21.5	22.5	21.7	24.2
Dividend yield (%)	1.2	1.6	2.0	2.4

**Recommendation History: M & M Financial Services – MMFS IN**

Date	Reports	Reco	CMP	Target
04/05/2011	<a href="#"><u>M&amp;M Financial Services Company Update</u></a>	Buy	693	870
26/04/2011	<a href="#"><u>M&amp;M Financial Services Q4FY11 Result Update</u></a>	Buy	781	870
08/03/2011	<a href="#"><u>M&amp;M Financial Services Initiating Coverage</u></a>	Buy	703	870

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
28/07/2011	<a href="#"><u>Andhra Bank Q1FY12 Result Update</u></a>	Accumulate	137	150
28/07/2011	<a href="#"><u>Punjab National Bank Q1FY12 Result Update</u></a>	Accumulate	1,103	1,270
28/07/2011	<a href="#"><u>Corporation Bank Q1FY12 Result Update</u></a>	Accumulate	515	570
27/07/2011	<a href="#"><u>Bank of Baroda Q1FY12 Result Update</u></a>	Hold	875	950

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