

January 23, 2012

<b>Reco</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs659	Rs800
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,049
Sensex	16,739

### Price Performance

(%)	1M	3M	6M	12M
Absolute	7	4	(8)	(8)
Rel. to Nifty	(1)	5	3	4

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	835/590
Market Cap (Rs bn/USD mn)	69/1,367
Daily Avg Volume (No of sh)	124051
Daily Avg Turnover (US\$m)	1.6

### Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	57.4	57.4	57.4
FII/NRI	33.3	34.5	34.7
Institutions	5.7	4.5	3.6
Private Corp	0.6	0.5	0.6
Public	3.1	3.1	3.8

Source: Capitaline

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- MMFS' results inline with expectation with NII at Rs4.2bn and net profit at Rs1.5bn. Strong AUM growth of 40%, with slight margin contraction of 30bps drives growth
- Strong growth in new/used CV drives improvement in product mix. Lower share of bank term loans in funding (-468 bps) and higher bonds/securitization helps protect NIMs
- MMFS' asset quality witnessed slight deterioration with GNPA / NNPA increasing by 10.4%/ 14.1% qoq. Provision cover also came down by 84bps qoq to 74.4%
- Consistent increase in branch addition along with interest rate cycle reversing, to keep the earnings momentum strong. Maintain BUY with PT of Rs800

### Results inline with exp; AUM growth strong @ 40%

MMFS' results were inline with expectations with NII at Rs4.2bn and net profit at Rs1.5bn. NII grew by 23.2%yoy driven by 39%yoy (32.2%qoq) growth in value of asset financed, albeit NIM's contracted by 31bps qoq to 9.6% as cost of borrowings increased by 22bps qoq to 7.3% as against 28bps increase in yield on advances.

The AUMs grew by a strong 40.1% yoy driven by strong growth across the segments especially commercial vehicles and refinance which has grown by 20%/ 28%yoy respectively. However Auto/ Utility vehicles grew by just 3%qoq, resulting in 200bps reduction in its shares in AUM mix to 30%. On the liability side while banks share (including assignments) declined by 304bps to 60.4%, bonds and fixed deposit share increased by 230 bps and 55bps to 20.8% and 8.3% respectively.

### Yield analysis

%	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (bps)	QoQ (bps)
Yield on advances	18.0	19.0	16.6	17.4	17.7	-26	28
Yield on total assets	17.6	18.2	15.4	16.5	16.9	-72	35
Yield on earning assets	18.5	19.1	16.0	17.1	17.5	-105	32
Cost of borrowings	6.6	6.9	7.5	7.6	7.8	119	22
Cost of funds	6.1	6.0	6.1	6.6	7.3	113	66
Spread	11.9	12.3	8.5	9.6	9.7	-225	10
NIM	11.5	12.2	9.3	9.9	9.6	-184	-31
NIMs ex assignments	10.4	10.9	8.6	9.3	9.0	-138	-30
Spreads-reported	11.7	12.1	10.0	10.2	10.2	-150	0

Source: Company, Emkay Research

Note: 1. Calculated on basis of average quarterly balances

### Valuation table

Y/E March 31	Net Rev	APAT	EPS	ABV	RoA	RoE	PE	P/ABV
	Rs mn	Rs mn	(Rs)	(Rs)	(%)	(%)	(x)	(x)
FY10	10,671	3,444	35.9	171.5	4.3	21.5	18.4	3.8
FY11	13,524	4,631	45.2	235.8	4.1	22.0	14.6	2.8
FY12E	17,178	5,827	56.9	272.9	3.7	21.5	11.6	2.4
FY13E	22,478	7,871	76.8	330.0	3.8	24.4	8.6	2.0

Source: Company, Emkay Research

**Key financials – Quarterly**

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Interest Income	3,391	3,960	3,317	3,902	4,178	23.2	7.1	11,397	9,177	24.2
Other Income	96	107	163	159	138	43.7	-12.8	460	280	64.4
Net Income	3,487	4,067	3,480	4,061	4,316	23.8	6.3	11,857	9,457	25.4
Total Operating Expenses	1,170	1,426	1,362	1,472	1,466	25.2	-0.4	4,299	3,348	28.4
As % Of Net Income	33.6	35.1	39.1	36.2	34.0			36.3	35.4	
Employee Expenses	310	470	519	510	469	50.9	-8.1	1,498	1,045	43.3
As % Of Net Income	8.9	11.6	14.9	12.6	10.9			12.6	11.1	
Other Expenses	899	1,013	886	1,011	1,051	17.0	4.0	2,949	2,404	22.7
As % Of Net Income	25.8	24.9	25.5	24.9	24.4			24.9	25.4	
Operating Profit	2,278	2,584	2,074	2,539	2,797	22.8	10.1	7,410	6,008	23.3
As % Of Net Income	65.3	63.5	59.6	62.5	64.8	-0.8	3.6	62.5	63.5	-1.6
Provisions	260	115	561	523	494	90.1	-5.6	1,578	1,138	38.7
PBT	1,733	2,439	1,513	2,016	2,303	32.9	14.2	5,831	4,585	27.2
Total Tax	574	874	491	661	756	31.6	14.4	1,907	1,519	25.5
Adjusted PAT	1,349	1,584	1,022	1,355	1,547	14.7	14.1	3,924	3,256	20.5
Extra Ordinary Items	285	29	0	0	0			0	285	
Reported PAT	1,159	1,566	1,022	1,355	1,547	33.5	14.1	3,924	3,066	28.0
Reported EPS	12.0	15.3	10.0	13.2	15.1	25.3	14.1	38	32	20.0

Source: Company, Emkay Research

**Strong growth in CV's/ refinances drive AUM growth**

The AUMs grew by a strong 40.1% yoy (9.9%qoq) driven by strong growth across the segments except Auto which grew by a lower 3%qoq. Among all the segments CV's and refinance have relatively grown by a higher 20%/ 28%qoq respectively, resulting in improvement in their mix in the overall product portfolio. Other segments viz Cars and tractors has also grown by a healthy 10%qoq each.

**AUMs mix**

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Auto/ Utility vehicles	42	47	48	57	58	40.1	3.0	30.0
Cars	46	47	49	55	60	31.6	9.9	31.0
Tractors	32	35	36	35	39	21.8	9.9	20.0
Commercial Vehicles	11	14	16	19	23	110.2	19.9	12.0
Refinance & Others	8	9	10	11	14	63.5	28.2	7.0
Total	139	152	159	177	195	40.1	9.9	100.0

Source: Company, Emkay Research

**Asset financing mix for the quarter**

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Auto/ Utility vehicles	13	10	10	12	16	25.0	32.2	27.0
Cars	21	13	12	14	19	-12.2	32.2	32.0
Tractors	2	9	8	8	12	373.3	44.6	20.0
Commercial Vehicles	2	4	4	5	6	236.9	22.6	11.0
Refinance & Others	4	4	3	5	6	54.3	21.7	10.0
Total	42	40	38	45	59	38.8	32.2	100.0

Source: Company, Emkay Research

**New Business during quarter**

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
New Contracts	107,458	97,265	93,171	111,394	141,772	31.9	27.3	346,337	270,509	28.0
Value of asset financed	42,390	39,637	38,340	44,524	58,857	38.8	32.2	141,721	104,562	35.5

Source: Company, Emkay Research

## Term loans' share in borrowings declines – helps controlling borrowing costs

As interest rate continues to remain at higher levels, the company incrementally raised money through bonds/ securitisation, resulting in 468bps decline in term loans' share in overall funding mix. However, still banks constitute a large 48.8% of the total funding, followed by bonds at 20.8% and securitization at 11.6%.

### Borrowing profile – instrument-wise

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Bonds	23	22	22	25	32	40.9	24.8	20.8
Bank Term Loans	50	66	70	74	75	49.7	1.2	48.8
Securitisation	17	19	16	14	18	3.7	29.3	11.6
Fixed Deposit	8	8	9	11	13	57.7	18.8	8.3
Commercial Paper	10	0	2	14	16	61.1	13.0	10.5
<b>Total</b>	<b>108</b>	<b>116</b>	<b>120</b>	<b>138</b>	<b>153</b>	<b>42.2</b>	<b>10.9</b>	<b>100.0</b>

Source: Company, Emkay Research

### Borrowing profile – lender-wise

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Insurance Cos	6	12	12	12	12	88.8	2.1	8.0
Mutual Fund	19	10	12	25	32	64.8	26.0	20.8
Banks	67	86	87	90	96	43.3	6.6	62.6
Others	15	9	9	11	13	-11.8	21.6	8.7
<b>Total</b>	<b>108</b>	<b>116</b>	<b>120</b>	<b>138</b>	<b>153</b>	<b>42.2</b>	<b>10.9</b>	<b>100.0</b>

Source: Company, Emkay Research

## Seasonal increase in the NPAs higher than past

Q3 usually witnesses seasonal increase in the NPAs over Q2 in case of MMFS. However, the sequential increase in the gross NPAs (10%) this time has been higher than past three years. However, the provision cover still stood robust at 75.3% in previous quarter to 74.4% in Q3FY12.

### NPA profile

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Gross NPAs	7,104	5,488	6,776	6,688	7,382	3.9	10.4
Net NPAs	1,306	744	1,373	1,654	1,888	44.6	14.1
Gross NPAs (%)	5.6	4.0	4.6	4.0	4.1		
Net NPAs (%)	1.1	0.6	1.0	1.0	1.1		
Net NPAs/Net worth (%)	6.4	3.0	5.3	6.1	6.5		
Provision cover (%)	81.6	86.4	79.7	75.3	74.4		

Source: Company, Emkay Research

## Preference shares issue to boost CAR

MMFS' board of directors has approved to issue preference shares not exceeding Rs500mn (subject to shareholders' approval). In case, the preference shares are compulsorily convertible, it will add 30bps to tier I CAR or to Tier II CAR if otherwise.

## Valuation and view

MMFSL has been able to deliver strong growth despite rising interest rate scenario, without much impact on the asset quality and margins. We believe with interest rates coming down, and as the company continues to increase its branch network, MMFSL is on a strong footing. We expect earnings to grow at a CAGR of 30% over FY11/13 with average RoE and RoA of 23% and 3.4% respectively. The current valuations at 2.4x/2.0X FY12E/FY13E ABV still remain attractive. Maintain BUY with TP of Rs800.

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

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	10,432	13,329	16,323	21,621
Other income	240	194	634	714
Net Income	10,671	13,524	16,957	22,335
Operating expenses	3,151	4,774	5,930	7,598
Depreciation	99	158	167	186
Preprovision profit	7,421	8,592	10,861	14,550
Provisions	2,215	1,567	2,054	2,625
Profit before tax	5,206	7,024	8,807	11,925
Tax	1,762	2,393	2,994	4,054
Tax rate	34	34	34	34
Adjusted Profit after tax	3,444	4,631	5,812	7,870

**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	23,876	28,195	34,274
Net worth	17,286	24,901	29,220	35,298
Borrowings	64,578	96,750	145,725	205,845
Deferred tax liability	-2,090	-2,167	-2,167	-2,167
Current liabilities	9,087	15,890	16,840	18,105
Total liabilities	88,860	135,374	189,617	257,081
Net block	476	818	1,501	1,652
Investments	687	1,430	1,430	1,430
Loans	83,788	124,650	185,136	248,125
Current assets	3,909	8,476	1,768	1,768
Total assets	88,860	135,374	189,617	257,081

**As % of assets**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Spreads	9.6	9.6	8.8	9.5
NIM	11.8	11.1	10.2	10.3
Other income	0.3	0.2	0.4	0.3
Net Income	11.8	11.0	9.8	9.9
Operating expenses	3.5	3.9	3.4	3.4
Preprovision profit	8.2	7.0	6.3	6.5
Provisions	2.4	1.3	1.2	1.2
Profit before tax	5.7	5.7	5.1	5.3
RoAA	3.8	3.8	3.4	3.5
RoAA (excluding assignments)	4.3	4.1	3.6	3.6
Gross NPA (%)	6.4	4.4	3.5	3.1
Net NPA (%)	0.9	0.6	0.7	0.6

**Valuations**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Adjusted Profit after tax (Rs mn)	3,444	4,631	5,812	7,870
No of shares (mn)	96.0	102.5	102.5	102.5
FDEPS (Rs)	35.9	45.2	56.7	76.8
PER (x)	18.4	14.6	11.6	8.6
Book value (Rs)	180.1	243.0	285.2	344.5
P/BV (Rs)	3.7	2.7	2.3	1.9
Adjusted book value (Rs)	171.5	235.8	272.7	329.6
P/ABV (Rs)	3.8	2.8	2.4	2.0
P/PPP (x)	8.5	7.9	6.2	4.6
RoE (%)	21.5	22.0	21.5	24.4
Dividend yield (%)	1.1	1.5	1.9	2.3

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

Date	Reports	Reco	CMP	Target
24/10/2011	<a href="#">M &amp; M Financial Services Q2FY12 Result Update</a>	Buy	640	800
29/07/2011	<a href="#">M &amp; M Financial Services Q1FY12 Result Update</a>	Buy	638	800
04/05/2011	<a href="#">M&amp;M Financial Services Company Update</a>	Buy	693	870
26/04/2011	<a href="#">M&amp;M Financial Services Q4FY11 Result Update</a>	Buy	781	870

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
20/01/2012	<a href="#">Axis Bank Q3FY12 Result Update</a>	Hold	1,008	1,380
19/01/2012	<a href="#">HDFC Bank Q3FY12 Result Update</a>	Hold	485	510
16/01/2012	<a href="#">Banking Sector Update</a>			
16/01/2012	<a href="#">Dewan Housing Q3FY12 Result Update</a>	Buy	205	275

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