

Date: 16th Nov 2011

MF Global Sector - NBFC

Mahindra & Mahindra Financial Services

Q2FY12 Result Update: Maintain Hold

CMP: Rs 637

Target: Rs 670

Result Highlights



- Mahindra & Mahindra Financial Services (MMFSL) result is in line with our estimate which is on account of improve in spread by 20bps and lower credit cost. Apart from that the disbursement grew by 32% YoY. For the quartet NII grew (24% YoY) with 50 bps QoQ improve in the spread on account of increase in lending cost. Substantial improvement in Asset Quality with GNPA at 4.1% as compare to 6.5% in Q2FY14, Provision coverage remains high at 75%
- Loan book grew by 56%YoY & 14%QoQ, resulted in healthy NII growth of 25%YoY. AUM grew by 12% QoQ and 45% YoY with the growth in Car, Commercial vehicle and used Vehicle but the highlight for the quarter is the disbursement growth of 32% YoY in high yielding used vehicle and commercial vehicle which lead to increase its proportion to 11% of total AUM. As compare to 8% in Q2FY11.
- Gross spread improved by 20 bps QoQ (on account of increase in incremental lending yield), We believe pressure in net interest margin of 150-200 bps for FY12E and FY13E respectively.
- Gross NPA improved by 179 bps YoY at Rs6.7bn compared to Rs6.8 bn in Q1FY12 and Net NPA by 12bps YoY at Rs1.7bn, provision coverage improve sequentially at 76%. Overall we maintain our thesis of improvement in asset quality due to improved cash flows in rural areas , normal monsoon and change in AUM mix as compare to earlier i.e tractor (risky assets) proportion of AUM comes to 20% as compare to 25% in FY09.
- During the quarter company have added further 11 branches taking its total network to 570.
- Housing finance business gained traction with a disbursement of Rs 625mn in the quarter and Rs 1,217mn for H1FY12 as compare to Rs830 mn H1FY11. Company believe that to have \$1bn book size by FY15E
- During Q2FY12, proportion of funds raised through commercial paper (CP) increased to 10% (from 2.1% in Q1FY12). Low cost of funds via CP route has been attributed as a rational of change in funding mix.
- Tier-I CRAR for MMFSL stands at 14.7% as of Sept -11 (against 15.8% in Q1FY12). Overall CRAR stands at 17.3%, which is comfortable against minimum regulatory requirement of 15%. We believe that current CRAR enable company to grow with a CAGR of 30% FY12E-13E

Sensex	16882		
Nifty	5068		
Stock Data			
BSE Code	532720		
NSE Code	M&MFIN		
Bloomberg	MMFS IN		
Reuters	MMFS.BO		
Share Issued (mn)	104.0		
Market Cap (Rs mn)	80,314		
52 Wk H/L (Rs)	913/398		
Face Value (Rs)	10		
Avg. daily vol. (12M)	82,121		
Return (%)	1m	3m	12m
Absolute	4.0	(1.8)	(22.1)
Rel. to Sensex	(1.2)	(0.3)	(16.9)
Key Financials	FY11	FY12E	FY13E
EPS	48.2	50.7	63.8
BVPS	248	299	355
ABVPS	241	281	335
Gross NPA (%)	5	4	4
Net NPA	1	1	1
ROAA	4.8	3.5	3.5
ROE	19.4	17.0	2 18.0

Result Highlights

Particular	Q2FY11	Q1FY12	Q2FY12	YOY%	QOQ%
NII	3,327	3,537	4,146	25	17
Other Income	74	124	91	24	(26)
Total income	3,401	3,661	4,237	25	16
Operating expenses	676	756	887	31	17
Staff cost	540	772	765	42	(1)
PPP	2,184	2,132	2,585	18	21
Provision - NPL	334	570	543	62	(5)
PBT	1,850	1,562	2,043	10	31
Tax	615	505	677	10	34
PAT	1,232	1,055	1,363	11	29
Shareholders Fund	19,632	26,554	28,020	43	6
Loan Liability	82,934	1,05,757	1,27,474	54	21
Fixed Assets	629	764	883	40	16
Cash Equivalent	4,908	4,087	4,635	(6)	13
Loan Assets	1,04,565	1,43,084	1,63,517	56	14
Net Current Assets	(9,736)	(17,923)	(15,884)	63	(11)
Deferred Tax Assets	2,200	2,193	2,249	2	3
Disbursements (Vehicle)	33,630	38,340	44,524	32	16
Disbursements (HFC)	410	590	625	52	6

20bps QoQ Improvement in Gross Spread Annualize

Q4FY11: 12.1%

Q1FY12: 10.0%

Q2FY12: 10.2%

Provision cost comes down

Prov/Avg Assets

Q4FY11: 1.4%

Q1FY12: 1.6%

Q2FY12: 1.4%

Advance growth of 56% YoY and 14% QoQ- Indicate traction CV product portfolio

Disbursement grew 32% YoY, Traction in CV. Disburse Rs 5,343 mn vs Rs 2,354 mn in Q2FY11

Result Highlights



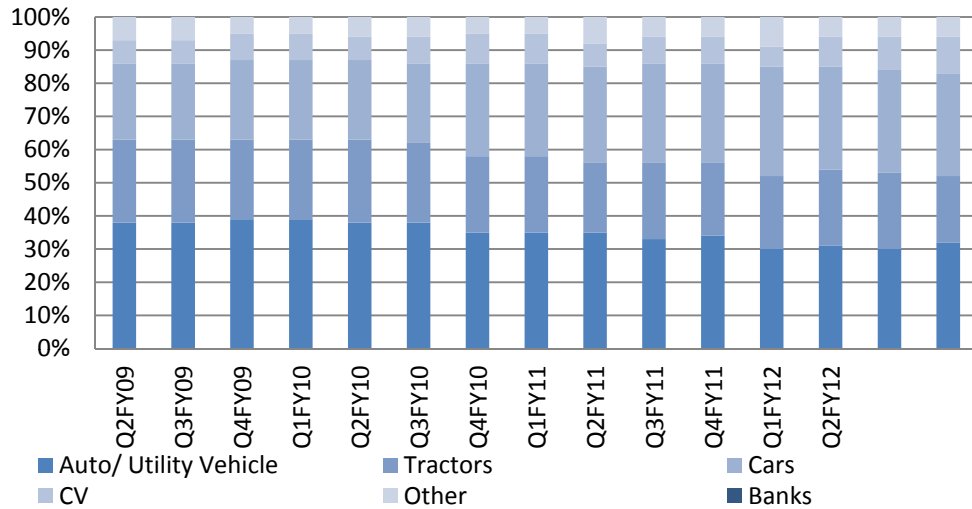
Particular	Q2FY11	Q1FY12	Q2FY12	YOY bps	QOQ bps
Spread Analysis					
Total Income/ Avg total assets	17.0	16.2	16.5	(50)	30
Interest Cost/Avg total assets	5.5	6.2	6.3	80	10
Gross Spread	11.5	10.0	10.2	(130)	20
Overhead/ Avg total assets	4.4	4.0	3.9	(50)	(10)
NPA Provision / Avg total assets	1.7	1.6	1.4	(30)	(20)
Net Spread	5.4	4.4	4.9	(50)	50
Asset Quality					
Gross NPA (Rs in mn)	6,744	6,776	6,688		
Net NPA (Rs in mn)	1,182	1,373	1,654		
Gross NPA %	6.5	4.7	4.1		
Net NPA %	1.1	1.0	1.0		
Provision coverage	82.5	79.7	75.3		
AUM Break up (%)					
Auto/Utilities	34	30	32		
Tractor	22	23	20		
Cars	30	31	31		
Commercial Vehicle	8	10	11		
Pre Owned Vehicle/ Others	6	6	6		

Gross Spread improved by 20bps QoQ - No Securitization in the quarter. Interest Cost increase by 10 bps on account of higher borrow from CP market

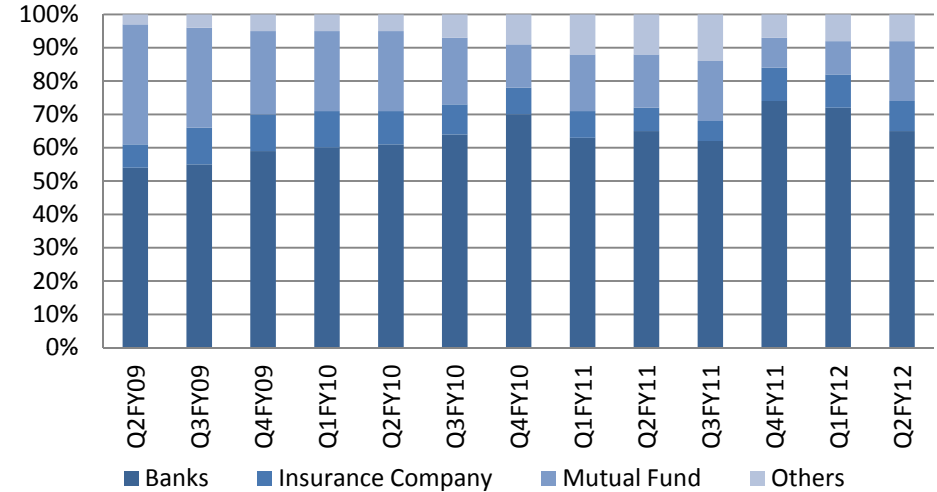
Assets Quality have improved substantially from 6.5% in Q2FY11 to 4.1%. Provision coverage of 75% gives comfort for marginal slippages

Traction in all product segment- Specifically to high yielding used vehicle and CV

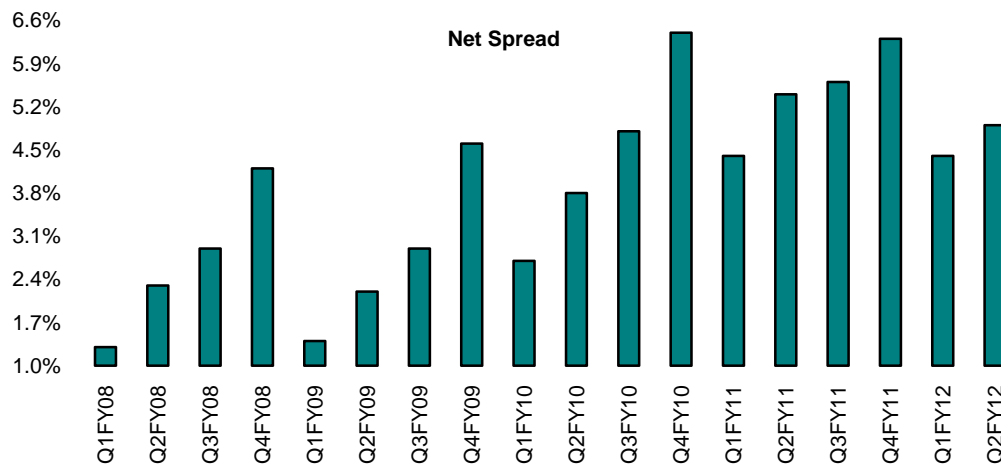
Result Highlights



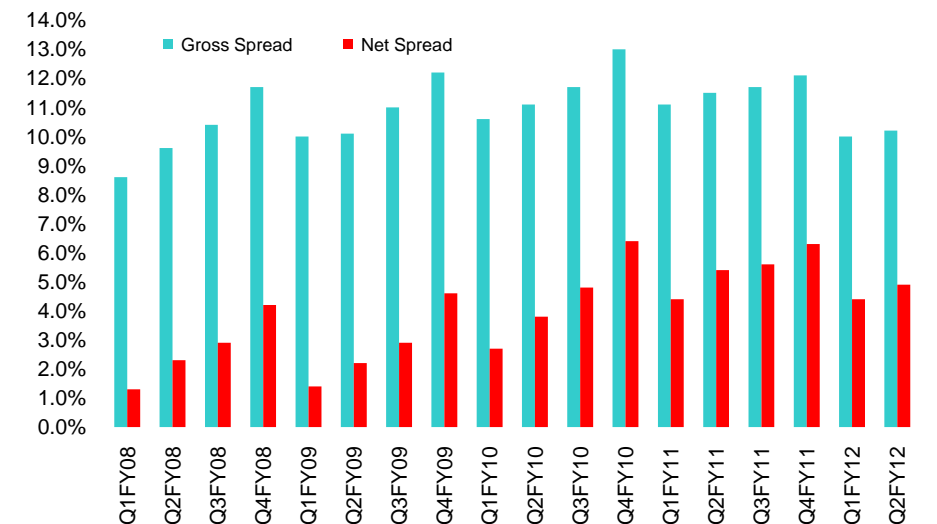
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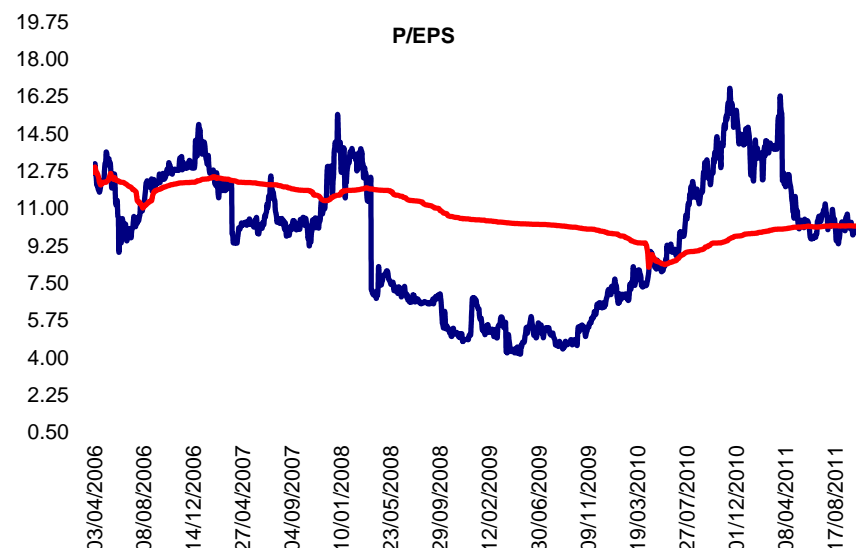
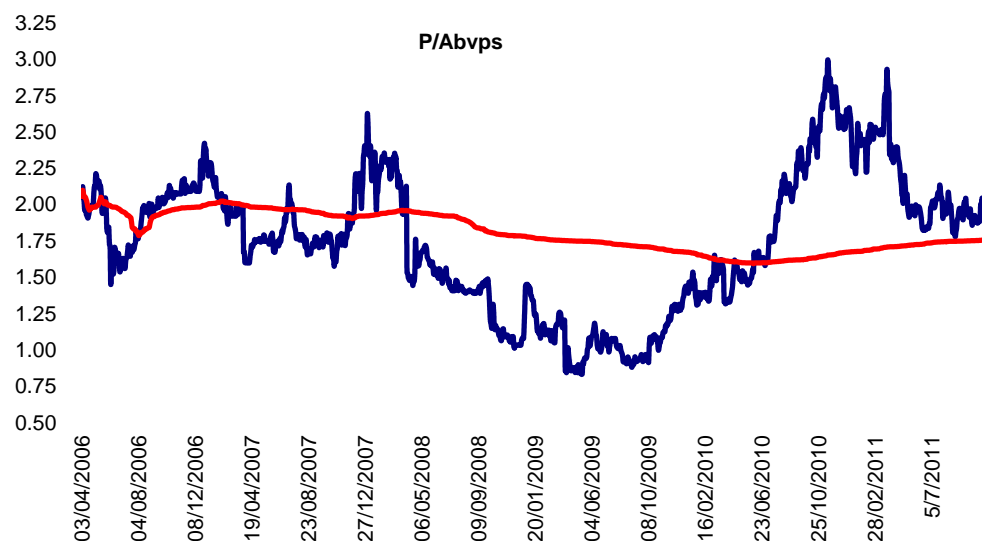


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Outlook & Valuations

We believe that with the improvement in overall macroeconomic scenario, with significant growth in lifestyle, disposable income and stable monsoon, will stimulate MMFSL's business growth and therefore will also help to fetch better earning visibility for the company. We expect that loan book growth momentum will sustain, We revised our profitability, based on the current scenario of pressure on margin, and higher provision .

At CMP of 637, the stock is trading at P/ABV of 2.3x and 1.9x of its FY12E and FY13E respectively. We still believe that the conservative provision policy, pan India presence, normal monsoon and rural centric business will lead to the growth momentum for the company and lead to better ROE. We believe that the disbursement momentum to maintain which lead to higher advances growth and further the Rural housing business also saw some traction. We have revised our estimate and believe company to maintain RoE near 18% we believe that 2.0x ABVPS represent to be the fair value. Based on that we revised our price target to Rs 670 at which the stock is valued at 2.4x of FY12E and 2.0x of FY13E ABV, so we maintain our rating at **Hold** with a **price target of Rs.670**



Financial Statements



Profit & Loss (Rs mn)					Balance Sheet (Rs. mn)				
Year to 31 Mar	FY10	FY11	FY12E	FY13E	Year to 31 Mar	FY10	FY11	FY12E	FY13E
Net- Interest Income	10,705	13,977	16,467	19,238	Share Capital	958	1,025	1,025	1,053
Other income	223	105	365	220	Reserves & Others	16,588	24,425	29,638	36,354
Total Operating Income	10,928	14,082	16,832	19,458	Shareholder Fund	17,548	25,450	30,664	37,408
Personal Expenses	1,594	2,239	3,097	3,200	Loan Fund	65,268	97,893	1,45,154	1,67,225
Other Expenses	1,714	2,784	3,520	3,800	Total Eq. & Liability	82,815	1,23,343	1,75,819	2,04,633
Total Expenses	3,309	5,023	6,617	7,000	Cash & equivalent	2,443	3,236	1,927	3,352
Pre -Provision operating profit	7,619	9,059	10,215	12,458	Investments	2,033	6,252	770	880
Total Provision	2,218	1,581	2,526	2,574	Net Loans & Advances	83,184	1,21,030	1,79,903	2,12,285
Profit Before Tax	5,401	7,477	7,689	9,884	Fixed Assets	486	840	909	1,149
Tax	1,840	2,541	2,489	3,163	Net Current Assets	(5,332)	(8,015)	(7,689)	(13,060)
Net Profit	3,561	4,937	5,200	6,721	Total Assets	82,815	1,23,343	1,75,819	2,04,633
EPS (Rs)	37	48	51	64	ABVPS (Rs)	174	241	282	335

Financial Statements

Growth (YoY %)	FY10	FY11	FY12E	FY13E	Key Ratios (%)	FY10	FY11	FY12E	FY13E
Net -Interest Income	22	31	18	17	Total income yield	19.3	16.8	16.0	16.6
Non - Interest Income	137	(53)	249	(40)	Average Cost of Fund	6.1	5.4	6.4	7.1
Total Operating Income	23	29	20	16	Gross spread	13.2	11.4	9.6	9.5
Total Expenses	22	52	32	6	NIM	12.8	11.3	9.4	9.4
Pre-Provision Operating Income	23	19	13	22	Opex./Total Net Income	49	53	46	51
Total Provision	(21)	(29)	60	2	Tax Rate	34	34	32	32
Net Profit	62	39	5	29	Dividend Payout Ratio	20	21	10	8
EPS	62	30	5	26	Debt/Equity (x)	3.7	3.8	4.7	4.5
Balance Sheet					Du Pont Analysis %of Avg Earning Assets				
Loan & Advances	22	45	49	18	Net Interest Income	14.3	13.6	11.0	10.1
Cash & Equivalent	(12)	32	(40)	74	Non Interest Income	0.3	0.1	0.2	0.1
Investment	109	207	(88)	14	Operating Expenses	4.4	4.9	4.4	3.7
Shareholder's Equity	18	45	20	22	Total Provision	3.0	1.5	1.7	1.4
Loan Liability	25	50	48	15	Return on Avg. Assets	4.8	4.8	3.5	3.5
Total Assets	24	49	43	16	Return on Equity	20.3	19.4	17.0	18.0

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