25 July 2016

1QFY17 Results Update | Sector: Financials

Mahindra Financial Services

BSE SENSEX	S&P CNX
28,095	8,636

Bloomberg	MMFS IN
Equity Shares (m)	563.5
M.Cap.(INR b)/(USD b)	180.9/2.7
52-Week Range (INR)	364/173
1, 6, 12 Rel. Per (%)	-2/44/20
Avg Val (INR m)	395

Financials & Valuation (INR b)

Y/E Mar	2016	2017E	2018E
NII	32.1	36.1	42.3
PPP	20.9	22.9	26.8
PAT	6.7	7.8	10.2
EPS (INR)	11.9	13.9	18.1
EPS Gr. (%)	-19.2	16.5	30.4
BV/Sh.(INR)	107.8	117.8	130.9
RoAonAUM%	1.9	1.9	2.2
RoE (%)	11.4	12.3	14.5
P/E (x)	26.9	23.1	17.7
P/BV (x)	3.0	2.7	2.5

CMP: INR321 TP: INR393 (+22%) Buy

Asset quality under stress, could turn around in 2H

- Mahindra & Mahindra Financial Services' (MMFS) 1QFY17 PAT declined 2% YoY and 77% QoQ to INR0.9b (44% below our estimate of INR 1.56b). Asset quality too deteriorated sharply during the quarter. While 1Q is a seasonally weak quarter, the sequential deterioration was much worse this quarter, with GNPLs inching up 270bp QoQ to 10.7% (the highest increase in a decade). However, given good monsoons and pick-up in economic activity, management expects performance to turnaround in 2HFY17.
- AUM grew 10.9% YoY (and 1.8% QoQ) to INR417b. The product mix was fairly unchanged QoQ. While growth in car financing picked up impressively (+14.8% YoY), continuing the upward trend of the past few quarters, growth in tractor financing continued to remain sluggish (3.9% YoY).
- NIM on AUM contracted a sharp 110bp YoY (and 360bp QoQ) to 7.1%. While CoF declined ~40bp YoY, loan yields were down ~160bp YoY. The quarter saw pressure on yields as growth was driven by lower-yielding products like CV, CE and SME, and due to INR1.3b of interest reversals on mounting GNPAs.
- **Other highlights:** Provisions made during the quarter declined 30% YoY to INR2.25b. However, in 1Q, the company reversed provisions of INR1.92b made on some loss assets (more than 24 months overdue), for which the estimated realizable value of collateral exceeded net NPA. Without the reversal, the company would have incurred pre-tax loss of INR580m v/s PBT of INR1.34b.
- **Valuation and view:** Business environment for MMFS continues to remain weak. While its reported NPLs are likely to remain high (due to rural stress and change in NPL norms), we view this as a cyclical adjustment and not a structural breakdown. The company's long-term prospects remain strong as stabilization of the rural economy (led by good monsoons) and asset quality, volume pick-up and margin expansion should drive earnings upgrade. We are decreasing our FY17/18 estimates by 3% each to factor in higher credit cost. The stock is trading at 2.7/2.5x FY17E/18E P/B and 23.1/17.7x FY17E/18E P/E. We thus maintain our **Buy** rating with a target price of INR393 (3x FY18E P/B).

Quarterly Performance **(INR Million)**

Y/E March	FY16				FY17				FY16	FY17E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Operating Income	13,608	14,200	14,002	16,721	13,664	14,006	14,776	23,268	58,532	65,714
Other Income	76	183	85	176	93	140	120	238	519	591
Total income	**13,684**	**14,383**	**14,087**	**16,897**	**13,757**	**14,146**	**14,896**	**23,506**	**59,051**	**66,305**
YoY Growth (%)	6.7	5.1	0.9	9.9	0.5	-1.6	5.7	39.1	5.7	12.3
Interest Expenses	6,445	6,542	6,696	6,711	6,910	6,993	7,077	8,650	26,393	29,629
Net Income	**7,239**	**7,841**	**7,391**	**10,186**	**6,847**	**7,153**	**7,820**	**14,857**	**32,658**	**36,676**
Operating Expenses	2,635	2,808	2,946	3,391	3,260	3,070	3,700	3,731	11,781	13,761
Operating Profit	**4,604**	**5,033**	**4,445**	**6,795**	**3,587**	**4,083**	**4,120**	**11,126**	**20,877**	**22,915**
YoY Growth (%)	-0.2	0.7	-6.8	5.7	-22.1	-18.9	-7.3	63.7	0.3	9.8
Provisions	3,228	2,772	3,406	1,089	2,245	2,800	2,400	3,378	10,495	10,823
Profit before Tax	**1,376**	**2,261**	**1,039**	**5,706**	**1,341**	**1,283**	**1,720**	**7,748**	**10,383**	**12,093**
Tax Provisions	486	799	367	2,003	472	0	0	3,785	3,656	4,256
Net Profit	**890**	**1,462**	**672**	**3,703**	**870**	**1,283**	**1,720**	**3,963**	**6,727**	**7,837**
YoY Growth (%)	-42.6	-29.4	-50.8	11.1	-2.2	-12.2	156.0	7.0	-19.1	16.5
Cost to Income Ratio (%)	36.4	35.8	39.9	33.3	47.6	42.9	47.3	25.1	36.1	37.5
Provisions/Operating Profits (%)	70.1	55.1	76.6	16.0	62.6	68.6	58.3	30.4	50.3	47.2
Tax Rate (%)	35.3	35.3	35.3	35.1	35.2	0.0	0.0	48.8	35.2	35.2

E: MOSL Estimates

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Exhibit 1: Quarterly performance v/s expectations and deviations for the same

Y/E March	1QFY17A	1QFY17E	Var (%)	Comments
Income from ops	13,664	14,500	-6	
Interest Expense	6,910	6,778	2	
Net Income	**6,847**	**7,852**	**-13**	**INR1.3 of interest reversal and changing product mix**
% Change (Y-o-Y)	-5	8		
Operating Expenses	3,260	2,810	16	Includes one-off ex-gratia amount
Operating Profit	**3,587**	**5,042**	**-29**	
% Change (Y-o-Y)	-22	10		
Other Provisions	2,245	2,700	-17	Credit cost lower due to provision reversal
Profit before Tax	**1,341**	**2,342**	**-43**	
Tax Provisions	472	785	-40	
Net Profit	**870**	**1,558**	**-44**	**Lower NII and higher opex drive PAT miss**
% Change (Y-o-Y)	-2	75		

Source: MOSL, Company

Significant deterioration in asset quality

- Asset quality witnessed sharp deterioration during the quarter, both on a QoQ as well as YoY basis. While generally Q1 is a seasonally weak quarter, the sequential deterioration was much worse this quarter, with GNPLs inching up 270 bp QoQ (highest increase in a decade). GNPA stood at 10.7% as of 1QFY17, as compared to 8.0% as of 4QFY16 as well as 1QFY16. On an absolute basis, GNPA increased 50% YoY and 37% QoQ to INR44b.
- NNPA too increased sharply to 5.4%. PCR declined to 52% as of 1QFY17 compared to 57% as of 1QFY16 and 62% as of 4QFY16. NPA recognition remains as at 120-dpd.
- Notably, the company has relaxed its existing provisions norms (MMFS used to follow aggressive provisioning policy vis-a-vis mandated by regulator) resulting the provisions are lower by INR 1.92b; this would have resulted in a loss
- As a result, annualized credit cost for the quarter stood at 2.3% v/s 1.2% in 4QFY16 and 3.7% in 1QFY16.

Growth remains moderate; Margins fall on rising NPLs

- AUM grew 10.9% YoY (and 1.8% QoQ) to INR417b. Product mix was fairly unchanged from the prior quarter. While growth in car financing has picked up smartly (14.8% YoY) as witnessed in the past few quarters, growth in the tractor financing segment continues to remain sluggish (3.9% YoY).
- Value of assets financed during the quarter increased a moderate 8.4% to INR65.6b. Disbursements (calculated) grew a moderate 8.9% YoY, marginally up from 7.7% YoY in the prior quarter to INRINR45.5b. Growth in CV/CE disbursements continued its strong trend at 41% YoY. Growth in tractor financing disbursements threw a positive surprise at 15% YoY. However, this was off a low base.
- NIM on AUM contracted a sharp 110bp YoY (and 360bp QoQ) to 7.1%. While CoF declined ~40bp YoY, loan yields were down ~160bp YoY. While we believe there is some pressure on loan yields due to competition as well as declining interest rates, bulk of this decline is due to interest reversals on mounting GNPAs.
- Funding mix has changed significantly over the past year. Proportion of bank loans declined from 39.6% in 1QFY16 to 33.1% in 1QFY17, while that of market

borrowings (NCD + CP) increased from 38.6% to 47.9% over the same time period. Despite this, CoF declined only 40bp YoY.

Subsidiaries' performance

- **Mahindra Rural Housing Finance (MRHFL):** In 1QFY17, number of loan disbursed by MRHFL grew 14% YoY to 28,654 (growth is much slower than that in the past several quarters); consequently, disbursement amount grew 19% to INR4.1b. PAT for the quarter was at INR81m, up 19% YoY. O/s loan book stood at INR35.6b (up 50% YoY, +9% QoQ). Company intends to penetrate deeper in semi-urban centers, at present ~10% of loan book is from semi-urban areas.

- **Mahindra Insurance Broker (MIBL):** MIBL's total income grew 15% YoY to INR365m, lower than 20% YoY growth in number of policies. However, net premium grew only 7% YoY to INR2.7b and PAT was at INR101m up 5% YoY.

Valuations and view

- MMFS has underperformed peers by a wide margin over the last 2 years due to asset quality pressures. While it's reported NPLs are likely to remain at remain high, due to weak rural economy, prolonged economic recovery, and subsequent migration to 90dpd NPL recognition norms, we view this as a cyclical adjustment and not a structural breakdown.
- Long-term prospects remain exciting, and as the rural economy stabilizes, MMFS should once again be in a pole position to capture the upturn. Accelerating growth and sharp decline in stressed assets would lead to a buoyant earnings growth.
- Asset quality improvement, volume growth pick-up, and margin expansion should drive earnings upgrades. We are decreasing our FY17/18 estimates by 3% each to factor in higher credit cost. The stock is trading at 2.7/2.5x FY17E/18E P/B and 23.1/17.7x FY17E/18E P/E. Maintain **Buy** with a target of INR393 (3x FY18E P/B).

Exhibit 2: Downgrade FY16/17 estimates to factor in higher credit costs

INR B	Old est		New Est		% Change	
	FY17	FY18	FY17	FY18	FY17	FY18
NII (incl. Sec. Inc)	36.5	42.3	36.1	42.3	-1.1	0.0
Other Income	0.6	0.7	0.6	0.7		
Total Income	**37.1**	**42.9**	**36.7**	**42.9**	**-1.0**	**0.0**
Operating Expenses	13.8	16.1	13.8	16.1	0.0	0.0
Operating Profits	**23.3**	**26.8**	**22.9**	**26.8**	**-1.7**	**0.0**
Provisions	10.8	10.6	10.8	11.1	0.0	4.5
PBT	**12.5**	**16.2**	**12.1**	**15.8**	**-3.1**	**-3.0**
Tax	4.4	5.7	4.3	5.5	-3.1	-3.0
PAT	**8.1**	**10.5**	**7.8**	**10.2**	**-3.1**	**-3.0**
AUM	**467**	**548**	**467**	**548**	**0.0**	**0.0**
Margins	8.9	8.8	8.8	8.8	-0.1	0.0
Credit Cost	2.77	2.36	2.77	2.47	0.0	0.1
RoA on AUM	**2.0**	**2.3**	**1.9**	**2.2**	-0.1	-0.1
RoE	**12.7**	**14.9**	**12.3**	**14.5**	**-0.4**	**-0.4**

Source: MOSL

Key conference call highlights

Asset quality

- 1Q is a seasonally slow quarter in term of economic activity as well as recoveries. While the asset quality deterioration (270bp sequentially) is higher this quarter than last year, it is due to migration to 120dpd. On 150dpd basis, the asset quality deterioration from Q4FY16 to Q1FY17 was less than that in the prior year.
- Management highlighted that customers serving the existing EMIs but are not able to pay for overdues; Loans are still being serviced in around 45% of NPLs accounts; however, the borrowers do not have enough cash flows to clear past overdues.
- With good monsoons so far, farmers should witness better cash flows in Q3 and Q4. Hence, it is likely that GNPLs could reduce to 7-8% by Q4FY17 on a 120dpd basis.
- In all likelihood, MMFS should transition to 90dpd NPA recognition by Q4FY17. Management expects 2H to be very good for the company and this should be an end of asset quality woes.
- **Data points on asset quality:** a) On 90dpd basis, GNPLs as of 1QFY17 would have been close to 15% while interest reversal would be INR3b b) Collection efficiency for the quarter stood at 87%, largely unchanged on a YoY basis. c) Slippages during the quarter were INR16bn while recoveries were INR3.9b d) Interest reversal in the quarter was INR1.3b.
- **Commentary on key states**: a) A.P., Telangana and Tamil Nadu continue to show improvement while Karnataka is stabilizing. b) U.P. is witnessing good volume growth; however, there is delay in payments by government to contractors c) Maharashtra and M.P. should witness an uptick after 2 years of drought (around 25% of NPLs are from these two states).

Growth

- Disbursement growth during the quarter has been driven by CV/CE and SME segments. These are relatively lower yielding segments, hence pressurizing overall loan yields.
- In the housing financing business, the company focuses only on rural areas. Loans are small-ticket and given for home improvement. The customer is the same as that for their core financing business. However, over time, the company plans to generate 20-25% of business from semi-urban areas.

Others

- The company has realigned its recovery teams with an exclusive focus on the NPA bucket. For example, there are different teams handling the 0-2 buckets v/s 3-4 buckets v/s 5+ buckets. Management believes this will streamline recovery processes and lead to better recoveries.
- While the employee expenses were up 29% YoY, some of the expenses were one-time. On a run-rate basis, the expenses were up 18-20% YoY.
- In the SME financing business, the company focuses on three segments – Auto, Agriculture and Engineering. The company uses its extensive relationship networks to grow the business. Within the auto industry, loans are given to OEMs as well as suppliers. The ticket sizes range from INR20mn to INR50mn while the tenure is around 5-6 years.

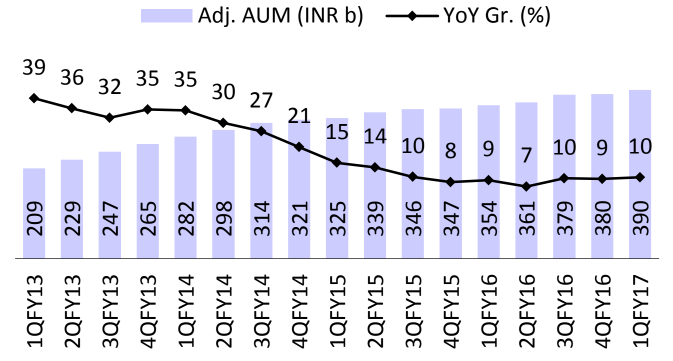
Exhibit 3: Quarterly Snapshot

	FY15				FY16				FY17	Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	QoQ	YoY
Profit and Loss (INR m)											
Net Income	**6,881**	**7,521**	**7,477**	**9,001**	**7,239**	**7,841**	**7,391**	**10,186**	**6,847**	**(33)**	**(5)**
Operating Expenses	**2,269**	**2,521**	**2,706**	2,571	**2,635**	**2,808**	**2,946**	**3,391**	**3,260**	**(4)**	**24**
Employee	1,084	1,174	1,183	1,149	1,294	1,384	1,354	1,556	1,675	8	29
Others	1,185	1,347	1,523	**1,422**	1,341	1,425	1,592	1,836	1,585	(14)	18
Operating Profits	**4,611**	**5,000**	**4,771**	6,429	**4,604**	**5,033**	**4,445**	**6,795**	**3,587**	**(47)**	**(22)**
Provisions	2,250	1,842	2,691	**1,493**	3,228	2,772	3,406	1,089	2,245	106	(30)
PBT	**2,362**	**3,158**	**2,080**	4,936	**1,376**	**2,261**	**1,039**	**5,706**	**1,341**	**(76)**	**(3)**
Taxes	813	1,087	716	**1,602**	486	799	367	2,003	472	(76)	(3)
PAT (before EO)	**1,549**	**2,071**	**1,364**	3,334	**890**	**1,462**	**672**	**3,703**	**870**	**(77)**	**(2)**
Asset Quality											
GNPA (INR m)	20,278	21,314	24,991	20,997	29,411	35,283	39,851	32,242	44,147	37	50
NNPA (INR m)	10,954	10,126	11,426	8,182.0	12,767	16,453	17,016	12,351	21,060	71	65
%GNPAs to total assets (%)	6.2	6.3	7.1	5.9	8.0	9.4	10.1	8.0	10.7		
%NNPAs to total assets (%)	3.0	3.1	3.4	2.4	3.6	4.6	4.6	3.2	5.4		
PCR (Calc., %)	46.0	52.5	54.3	61	56.6	53.4	57.3	61.7	52.3		
Ratios (%)											
Cost to Income	33.0	33.5	36.2	28.6	36.4	35.8	39.9	33.3	47.6		
Tax Rate	34.4	34.4	34.4	32.5	35.3	35.3	35.3	35.1	35.2		
CAR	18.1	17.9	18.1	*18.3*	18.1	18.2	17.8	17.3	19.5		
Tier I	*15.6*	*15.5*	*15.6*	15.5	*15.3*	*15.5*	*15.0*	*14.6*	*14.3*		
RoA - calculated	1.9	2.5	1.6	3.8	1.0	1.6	0.7	3.8	0.9		
RoE - calculated	12.0	15.5	9.9	24	6.2	10.0	4.5	24.5	5.7		
Key Details (INR b)											
AUM (Reported)	343	357	365	369	376	384	403	409	417	2	11
AUM (Adjusted)	325	339	346	347	354	361	379	380	390	3	10
On book Loans	305	319	329	329	341	347	366	367	378	3	11
Off book Loans	20	20	17	18	13	14	14	14	12	(15)	(11)
Borrowings	262	276	280	280	284	291	303	308	312	1	10
On book Borrowings	240	255	262	263	269	276	288	294	299	2	11
Off book (Securitization)	22	21	18	18	14	15	15	14	13	(10)	(13)
AUM Mix (%)											
Auto/Utility vehicles	30	29	30	31	31	31	31	31	31		
Tractors	19	18	19	18	18	18	17	17	17		
Cars	23	23	23	23	23	23	24	24	24		
Commercial Vehicles	14	14	13	13	13	12	12	12	13		
Refinance & others	14	16	15	15.0	15	16	16	16	15		
Value of assets fin mix. (%)											
Auto/Utility vehicles	33	32	33	33	31	31	31	30	29		
Tractors	20	18	19	18	16	15	16	15	17		
Cars	22	22	21	22	24	23	23	22	22		
Commercial Vehicles	9	10	9	9	10	11	10	11	13		
Refinance & others	16	18	18	18.0	19	20	20	22	19		
Total Borrowing Mix (%)											
Bank Term loans	50	49	46	43	40	35	33	35	33		
Bonds/NCDs	21	19	21	22	28	32	34	35	39		
Securitization	8	8	7	6	5	5	5	5	4		
Fixed deposits	15	16	16	17	17	17	16	16	15		
Commercial Papers	6	9	9	12	11	10	12	10	8		

Source: MOSL, Company

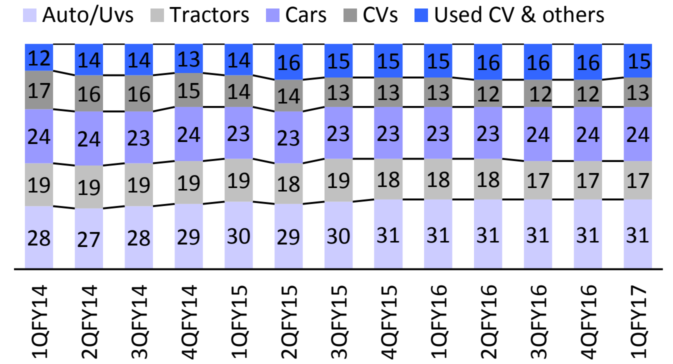
Story in charts

Exhibit 4: AUM growth remains ~10% YoY



Source: Company, MOSL

Exhibit 5: AUM mix remains largely stable (%)



Source: Company, MOSL

Exhibit 6: Borrowing mix continues to shift toward NCDs (%)

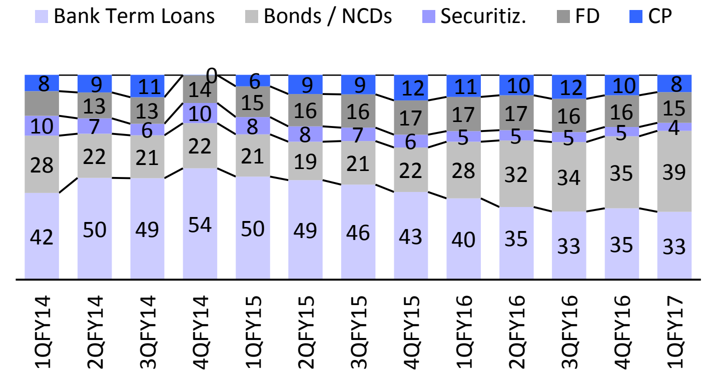


Exhibit 7: Seasonal deterioration in 1Q v/s prior-year 4Q

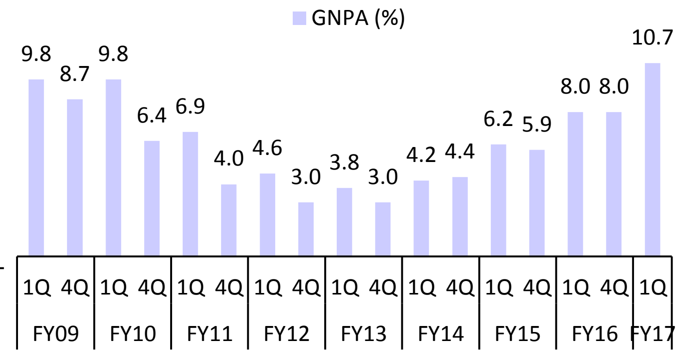
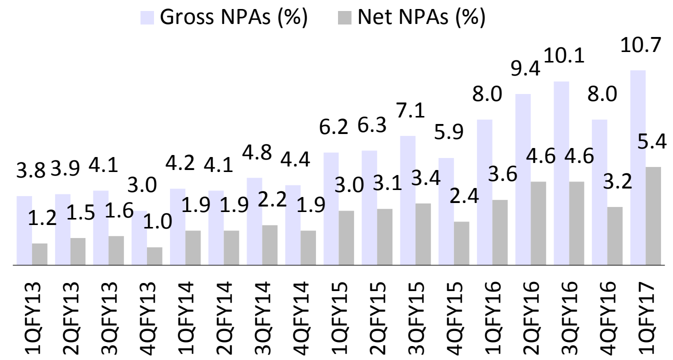
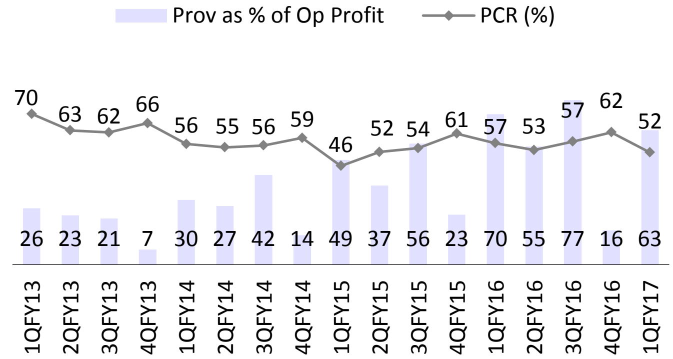


Exhibit 8: GNPA increases 270bp QoQ and YoY



Source: Company, MOSL

Exhibit 9: Provisions to op. profit decline sequentially



Source: Company, MOSL

Exhibit 10: Financials: Valuation metrics

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18
ICICIBC*	Buy	269	23.7	18.1	20.8	11.1	8.4	145	159	1.30	1.09	1.19	1.22	11.1	11.8
HDFCB	Buy	1,247	47.8	58.4	70.2	21.3	17.7	332	386	3.75	3.23	1.90	1.89	18.9	19.6
AXSB	Buy	538	19.4	31.8	37.4	16.9	14.4	243	274	2.21	1.97	1.32	1.31	13.8	14.4
KMB*	Buy	765	21.3	26.8	34.0	28.6	22.5	207	240	3.69	3.19	1.61	1.82	14.2	15.4
YES	Buy	1,183	7.5	78.9	97.3	15.0	12.2	391	468	3.03	2.53	1.81	1.83	22.0	22.7
IIB	Buy	1,157	10.4	50.5	63.8	22.9	18.1	334	389	3.46	2.97	1.92	1.96	16.2	17.6
IDFC Bk	Buy	51	2.6	3.0	4.1	17.1	12.3	42	46	1.20	1.12	1.09	1.12	7.2	9.4
FB	Neutral	66	1.7	3.9	4.7	16.9	14.1	50	54	1.32	1.23	0.67	0.67	8.0	9.0
DCBB	Buy	100	0.4	7.4	8.6	13.6	11.7	69	78	1.45	1.29	0.98	0.93	11.3	11.7
JKBK	Neutral	69	0.5	17.6	21.2	3.9	3.2	146	162	0.47	0.42	0.99	1.05	12.7	13.7
SIB	Buy	22	0.4	3.1	3.7	7.1	5.9	30	33	0.73	0.67	0.61	0.64	10.7	11.7
Private Aggregate			**135.8**			**19.7**	**16.5**			**2.64**	**2.34**				
SBIN (cons)*	Buy	230	27.0	19.3	24.3	11.9	9.4	240	259	1.01	0.93	0.49	0.54	8.3	9.7
PNB	Neutral	130	3.9	15.7	19.9	8.3	6.5	200	220	0.65	0.59	0.44	0.50	8.2	9.5
BOI	Neutral	110	1.4	9.3	23.5	11.9	4.7	337	356	0.33	0.31	0.12	0.27	2.8	6.8
BOB	Buy	156	5.5	14.7	18.7	10.6	8.3	159	173	0.98	0.90	0.48	0.54	9.6	11.2
CBK	Neutral	254	2.1	33.1	42.4	7.7	6.0	505	537	0.50	0.47	0.31	0.36	6.7	8.1
UNBK	Buy	132	1.4	26.8	36.7	4.9	3.6	318	351	0.41	0.37	0.43	0.53	8.7	11.0
OBC	Neutral	116	0.6	22.1	27.9	5.2	4.2	473	494	0.25	0.23	0.28	0.32	4.8	5.8
INBK	UR	153	1.1	22.2	29.1	6.9	5.3	298	320	0.51	0.48	0.49	0.56	7.7	9.4
ANDB	Buy	61	1.9	2.9	8.2	20.6	7.4	129	136	0.47	0.45	0.15	0.39	2.3	6.2
Public Aggregate			**44.8**			**11.8**	**8.7**			**0.76**	**0.71**				
Banks Aggregate			**180.6**			**16.9**	**13.5**			**1.64**	**1.50**				
HDFC*	Buy	1,380	33.0	40.1	46.3	24.2	19.4	194	221	4.64	3.75	1.89	2.10	20.0	22.1
LICHF	Buy	518	4.0	39.5	47.3	13.1	10.9	213	251	2.43	2.07	1.49	1.51	20.1	20.9
IHFL	Buy	742	4.7	68.2	84.0	10.9	8.8	280	315	2.65	2.36	3.84	3.78	23.4	28.2
GRHF	Buy	292	1.6	8.3	10.7	35.1	27.4	28	35	10.28	8.27	2.33	2.34	32.4	33.5
REPCO	Buy	828	0.8	30.3	39.0	27.3	21.2	179	214	4.61	3.87	2.14	2.17	18.2	19.8
DEWH	Buy	225	1.0	29.7	36.4	7.6	6.2	194	221	1.16	1.02	1.19	1.21	16.2	17.5
Housing Finance			**45.1**			**21.3**	**18.0**			**4.30**	**3.80**				
RECL	Neutral	216	3.2	59.2	68.6	3.6	3.1	336	389	0.64	0.56	2.63	2.55	18.9	18.9
POWF	Neutral	222	4.4	46.8	49.1	4.7	4.5	72	107	3.09	2.08	2.69	2.35	85.1	55.0
Infra Finance			**7.7**			**4.2**	**3.8**			**1.20**	**0.97**				
SHTF	Buy	1,198	4.1	75.5	94.2	15.9	12.7	507	581	2.36	2.06	2.17	2.27	15.7	17.1
MMFS	Buy	321	2.7	15.5	18.8	20.7	17.0	119	133	2.69	2.42	2.14	2.26	13.7	15.0
BAF	Buy	8,978	7.3	308.1	380.8	29.1	23.6	1,631	1,956	5.51	4.59	3.14	3.02	20.6	21.2
MUTH	Buy	278	1.7	24.9	32.0	11.2	8.7	157	177	1.77	1.57	3.29	3.47	16.7	19.2
SKSM	Buy	864	1.7	48.8	52.5	17.7	16.5	157	210	5.49	4.12	6.30	4.48	36.7	28.6
Asset Finance			**17.5**			**19.8**	**16.1**			**3.18**	**2.87**				
NBFC Aggregate			**70.3**			**14.6**	**12.6**			**3.14**	**2.72**				
Financials			**250.9**			**16.2**	**13.2**			**1.89**	**1.71**				

*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

Financials and valuations

Income Statement (INR Million)

Y/E March	2013	2014	2015	2016	2017E	2018E	2019E
Interest Income	36,268	47,079	52,798	56,468	63,541	72,087	83,031
Interest Expended	16,188	21,880	24,967	26,393	29,629	32,962	37,811
Net Interest Income	**20,080**	**25,199**	**27,831**	**30,075**	**33,912**	**39,125**	**45,220**
Change (%)	31.3	25.5	10.4	8.1	12.8	15.4	15.6
Income from Securitisation	2,145	2,137	2,562	2,063	2,173	3,158	3,897
Other Income	533	314	486	519	591	666	747
Net Income	**22,759**	**27,650**	**30,880**	**32,658**	**36,676**	**42,949**	**49,864**
Change (%)	35.9	21.5	11.7	5.8	12.3	17.1	16.1
Operating Expenses	7,420	9,134	10,068	11,781	13,761	16,127	18,903
Operating Income	**15,339**	**18,516**	**20,811**	**20,877**	**22,915**	**26,822**	**30,960**
Change (%)	41.7	20.7	12.4	0.3	9.8	17.0	15.4
Provisions and W/Offs	2,833	5,058	8,275	10,495	10,823	11,059	11,554
PBT	**12,506**	**13,458**	**12,536**	**10,382**	**12,092**	**15,764**	**19,406**
Tax	3,833	4,585	4,219	3,656	4,256	5,549	6,831
Tax Rate (%)	30.7	34.1	33.7	35.2	35.2	35.2	35.2
PAT	**8,673**	**8,872**	**8,318**	**6,726**	**7,836**	**10,215**	**12,575**
Change (%)	39.9	2.3	-6.2	-19.1	16.5	30.4	23.1
Proposed Dividend (Incl Tax)	2,389	2,522	2,730	2,713	2,191	2,856	3,516

Balance Sheet (INR Million)

Y/E March	2013	2014	2015	2016	2017E	2018E	2019E
Equity Share Capital	1,126	1,127	1,128	1,129	1,129	1,129	1,129
Reserves & Surplus	43,420	49,815	55,566	59,752	65,397	72,756	81,815
Net Worth	**44,546**	**50,942**	**56,694**	**60,881**	**66,526**	**73,885**	**82,944**
Borrowings	**188,723**	**239,306**	**262,633**	**306,248**	**327,523**	**381,345**	**440,641**
Change (%)	35.2	26.8	9.7	16.6	6.9	16.4	15.5
Total Liabilities	**233,269**	**290,249**	**319,327**	**367,129**	**394,049**	**455,230**	**523,585**
Investments	7,315	10,051	10,857	14,833	16,317	17,622	19,032
Change (%)	45.6	37.4	8.0	36.6	10.0	8.0	8.0
Loans and Advances	**236,483**	**291,943**	**324,314**	**366,577**	**404,350**	**470,797**	**544,002**
Change (%)	36.3	23.5	11.1	13.0	10.3	16.4	15.5
Net Fixed Assets	1,068	1,195	1,100	1,135	1,259	1,265	1,198
Net Current Assets	-11,597	-12,940	-16,944	-15,417	-27,876	-34,454	-40,646
Total Assets	**233,269**	**290,248**	**319,327**	**367,129**	**394,049**	**455,230**	**523,585**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2013	2014	2015E	2016	2017E	2018E	2019E
Spreads Analysis (%)							
Yield on Portfolio	17.7	17.8	17.1	16.3	16.4	16.4	16.3
Cost of Borrowings	9.9	10.2	9.9	9.3	9.4	9.3	9.2
Interest Spread	7.8	7.5	7.1	7.0	7.1	7.1	7.1
Net Interest Margin (on AUMs)	9.6	9.3	9.1	8.8	8.8	8.8	8.7
Profitability Ratios (%)							
RoE	23.4	18.6	15.5	11.4	12.3	14.5	16.0
RoA (on balance sheet)	4.3	3.4	2.7	2.0	2.1	2.4	2.6
RoA on AUM	3.9	3.1	2.6	1.9	1.9	2.2	2.3
Average Leverage (x)	5.4	5.5	5.7	5.8	6.0	6.0	6.2
Average leverage on AUM (x)	6.1	6.0	6.1	6.2	6.4	6.6	7.0
Efficiency Ratios (%)							
Int. Expended/Int.Earned	44.6	46.5	47.3	46.7	46.6	45.7	45.5
Op. Exps./Net Income	32.6	33.0	32.6	36.1	37.5	37.5	37.9
Empl. Cost/Op. Exps.	30.1	32.6	45.6	47.4	47.9	48.2	48.6
Secur. Inc./Net Income	9.4	7.7	8.3	6.3	5.9	7.4	7.8
Asset-Liability Profile (%)							
Loans/Borrowings Ratio	125.3	122.0	123.5	119.7	123.5	123.5	123.5
Net NPAs to Adv.	1.1	2.0	2.5	3.4	2.6	1.8	1.4
Valuation							
Book Value (INR)	79.1	90.4	100.5	107.8	117.8	130.9	146.9
BV Growth (%)	37.7	14.3	11.2	7.3	9.3	11.1	12.3
Price-BV (x)	**4.1**	**3.6**	**3.2**	**3.0**	**2.7**	**2.5**	**2.2**
Adjusted BV (INR)	76.1	83.8	91.1	93.6	105.8	121.2	138.2
Price-ABV (x)	**4.2**	**3.8**	**3.5**	**3.4**	**3.0**	**2.6**	**2.3**
OPS (INR)	27.2	32.9	36.9	37.0	40.6	47.5	54.8
OPS Growth (%)	29.3	20.6	12.3	0.2	9.8	17.0	15.4
Price-OP (x)	**11.8**	**9.8**	**8.7**	**8.7**	**7.9**	**6.8**	**5.9**
EPS (INR)	15.7	15.7	14.7	11.9	13.9	18.1	22.3
EPS Growth (%)	29.8	0.4	-6.3	-19.2	16.5	30.4	23.1
Price-Earnings (x)	**20.5**	**20.4**	**21.8**	**26.9**	**23.1**	**17.7**	**14.4**
Dividend	3.6	3.8	4.0	4.0	3.3	4.3	5.3
Dividend Yield (%)	**1.1**	**1.2**	**1.2**	**1.2**	**1.0**	**1.4**	**1.7**

E: MOSL Estimates

Corporate profile

Company description

Mahindra and Mahindra Financial Services (MMFS) is a subsidiary of India conglomerate Mahindra & Mahindra (M&M). MMFS was set up two decades ago, with the objective of financing the vehicles sold by parent M&M. Over last decade MMFS has transformed itself from a captive lender to the largest semi-urban and rural focused diversified NBFC. MMFS as a branch network of 1172 branches, ~16000 employees, 1.8m customers and asset under management of INR417b. MMFS has two subsidiaries viz. Mahindra rural housing finance and Mahindra insurance brokers.

Exhibit 11: Sensex rebased

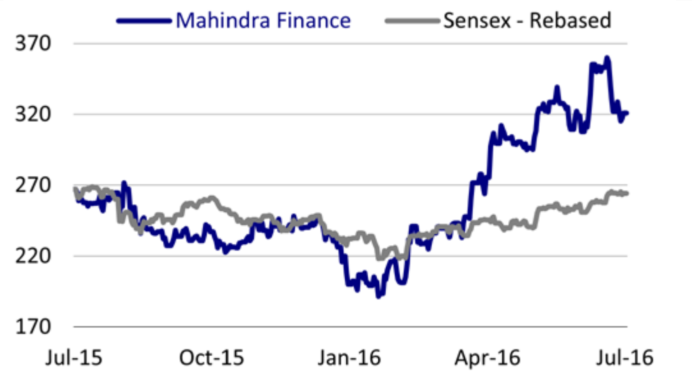


Exhibit 12: Shareholding pattern (%)

	Jun-16	Mar-16	Jun-15
Promoter	51.9	51.9	52.0
DII	9.7	9.6	5.2
FII	33.6	33.7	38.1
Others	4.8	4.9	4.7

Note: FII Includes depository receipts

Exhibit 13: Top holders

Holder Name	% Holding
Uti - Top 100 Fund	2.9
Amansa Holdings Private Limited	2.6
Aranda Investments (Mauritius) Pte Ltd	2.5
Franklin Templeton Investment Funds	2.3
Icici Prudential Balanced Advantage Fund	1.5

Exhibit 14: Top management

Name	Designation
Dhananjay Mungale	Chairman
Ramesh Iyer	Vice Chairman & M.D.
Ravi Venkatraman	Executive Director & CFO
Arnavaz M Pardiwala	Company Secretary

Exhibit 15: Board of director

Name	Name
Dhananjay Mungale	C B Bhave
Ramesh Iyer	Manohar G Bhide
Anish Shah	Piyush Mankad
V S Parthasarathy	Rama Bijapurkar
Ravi Venkatraman	

*Independent

Exhibit 17: Auditors

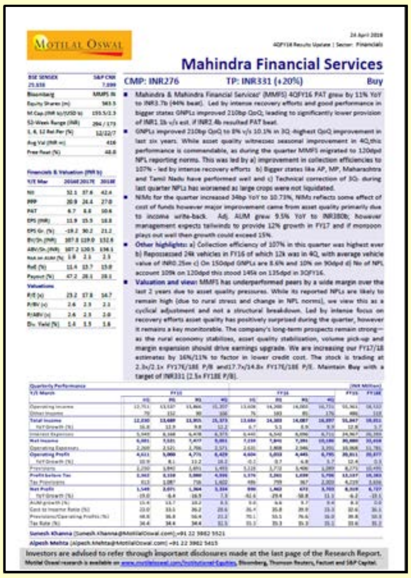
Name	Type
B K Khare & Co	Statutory
KSR & Co	Secretarial Audit

Exhibit 18: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	13.9	15.5	-10.5
FY18	18.1	20.2	-10.5

PRODUCT GALLERY

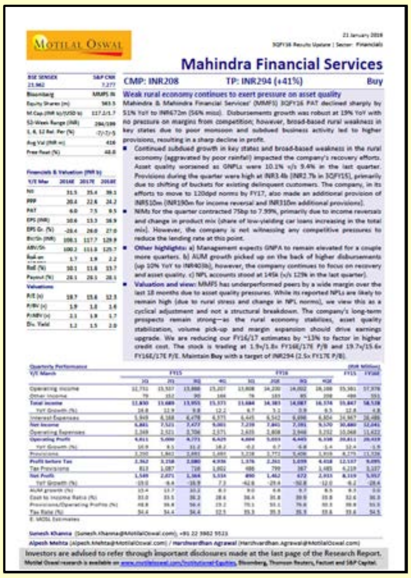
Our recent reports on Mahindra Finance



Motilal Oswal

Mahindra Financial Services

CMP: INR276 TP: INR331 (+20%) Buy

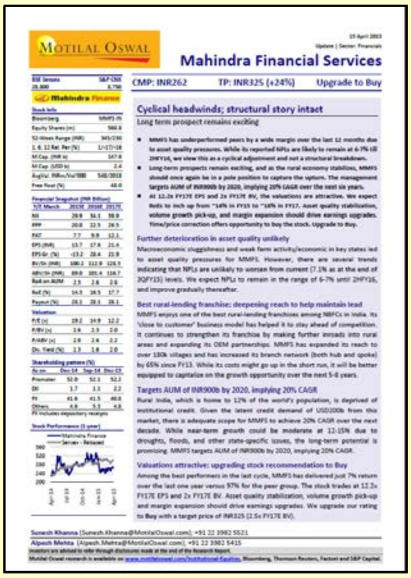


Motilal Oswal

Mahindra Financial Services

CMP: INR208 TP: INR294 (+41%) Buy

Weak rural economy continues to exert pressure on asset quality



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Mahindra Financial Services

CMP: INR262 TP: INR325 (+24%) Upgrade to Buy

Cyclical headwinds; structural story intact

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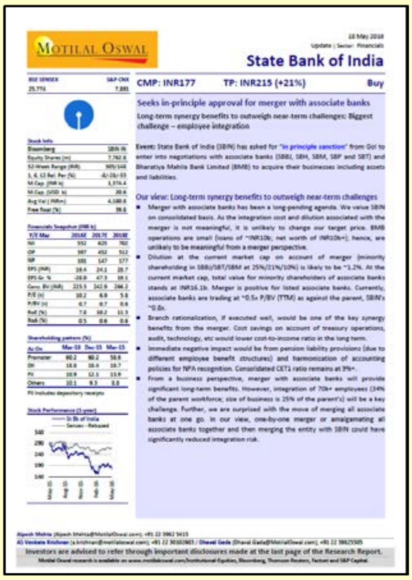
Max Financial Services

CMP: INR473 TP: INR545 (+15%) Buy

Mega merger on the anvil



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State Bank of India

CMP: INR177 TP: INR215 (+21%) Buy

Seeks in-principle approval for merger with associate banks

Motilal Oswal

Yes Bank

Earnings compounder

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