

- ❑ Mahindra & Mahindra Financial Services Limited (MMFS) has reported an income growth of 17.9% in its Q2-FY20 standalone results at ₹24,864 million as against ₹21,097 million in Q2-FY19. The company's standalone loan book growth stood 14.9% to ₹637.9 billion in Q2-FY20 as against ₹554.8 billion in Q2-FY19. The value of asset financed decreased 12% to ₹116.8 billion in the quarter.
- ❑ The company's standalone operating margins stood at 51.6% at ₹12,842 million in Q2-FY20, a decline of around 422 basis points over Q2-FY19 while its PAT margins stood 10.1% at ₹2,518 million as against ₹3,814 million in same quarter previous year. In terms of net spreads before tax, the company has reported a decrease of 180 basis points at 1.6% in Q2-FY20 against a net spread of 3.4% in Q2-FY19.
- ❑ In its subsidiary companies, Mahindra Rural Housing Finance has reported a 10.6% growth in income at ₹3,704 million in Q2-FY20 and its PAT margins stood at 7.7% at ₹287 million against 17.9% in Q2-FY19; the company's loan book grew 10.6% to ₹80.1 billion. During the quarter, the company's rural business continued to witness headwinds owing to slowdown and extended monsoon. Also, the exposure to state of Maharashtra continues to add to stressed assets.
- ❑ The rural housing business's NPA levels are higher largely due to geographies like Maharashtra which stands at 18% as against 8% for other geographies.
- ❑ The insurance broking subsidiary (MIBL) has reported a growth of 4% in income at ₹782 million in Q2-FY20 as against ₹752 million in Q2-FY19. The PAT margins for the subsidiary stood at 13.6% at ₹107 million in Q2-FY20 as against 15.7% at ₹118 million in Q2-FY19. The company continues to invest in its digital business and looking forward for a growth of mid teens in medium term.
- ❑ In terms of guidance, the management expects moderate growth of early double digits in disbursements while higher double digit growth in assets.
- ❑ We have updated our numbers factoring in latest quarterly numbers. We maintain our **BUY** rating on **MMFS** with a target price of **₹481 per share**.

Q2-FY20 results

(In ₹ Million)	Standalone		
	Q2-FY20	Q2-FY19	Chg.
Revenue from operations	24,864	21,097	17.9%
Less: Finance cost	12,022	9,310	29.1%
Net Interest Income	12,842	11,787	9.0%
Other Income	545	358	-
Total Income	13,387	12,145	10.2%
Employee benefits expense	2,940	2,410	-
Provisions and write Offs	3,607	2,311	-
Other expenses	1,897	1,721	-
Depreciation and amortization	359	145	-
Total Expenses	8,803	6,587	33.6%
PBT (before Exceptional)	4,584	5,558	-17.5%
Exceptional Items	-	-	-
PBT	4,584	5,558	-17.5%
Tax	2,066	1,744	-
PAT	2,518	3,814	-34.0%

Margins	Q2-FY20	Q2-FY19	ChgBPS
Operating Margin %	51.6%	55.9%	-422
Net Margin %	10.1%	18.1%	-795

Financials (Consolidated):

(In ₹ mn)	FY-18	FY-19	FY-20E	FY-21E
Total Revenues	78,839	1,03,717	1,16,652	1,40,417
Less: finance Cost	34,362	44,323	50,072	57,044
Net Interest Income	44,477	59,394	66,580	83,373
Other Income	4,024	11,448	5,833	7,021
Total Income	48,501	70,843	72,413	90,394
Operating Expenses	29,208	42,149	47,244	58,273
Depreciation	552	755	878	1,057
Misc. Items	-	-	-	-
PBT	18,741	27,938	24,290	31,063
Tax	6,885	9,735	6,680	7,766
Minority Interest	(4)	69	-	-
PAT	11,852	18,273	17,610	23,298

Margins	FY-18	FY-19	FY-20E	FY-21E
Sales Growth %	10.3%	31.6%	12.5%	20.4%
Net Margin %	15.0%	17.6%	15.1%	16.6%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-18	FY-19	FY-20E	FY-21E
Liabilities				
Equity Share Capital	1,452	1,596	1,596	1,596
Reserves & Surplus	97,098	1,11,094	1,28,705	1,52,002
Total Shareholder's Funds	98,550	1,12,690	1,30,300	1,53,598
Minority Interest	1,451	785	785	785
Long-Term Liabilities	1,92,864	3,00,377	3,45,377	3,75,377
Other Long-term Liabilities	3,129	3,606	3,606	3,606
Deferred Tax Liability	(7,185)	(4,497)	(4,497)	(4,497)
Short-term Liabilities	2,91,307	3,28,302	3,69,247	4,44,472
Total	5,80,116	7,41,263	8,44,817	9,73,341
Assets				
Net Fixed Assets	1,471	2,022	2,004	2,198
Long-Term L&A	5,33,379	6,73,988	6,73,988	6,73,988
Non Current Investments	19,663	25,167	25,167	25,167
Other Non-Current Assets	413	527	527	527
Current Asset	25,190	39,559	1,43,131	2,71,461
Total	5,80,116	7,41,263	8,44,817	9,73,341

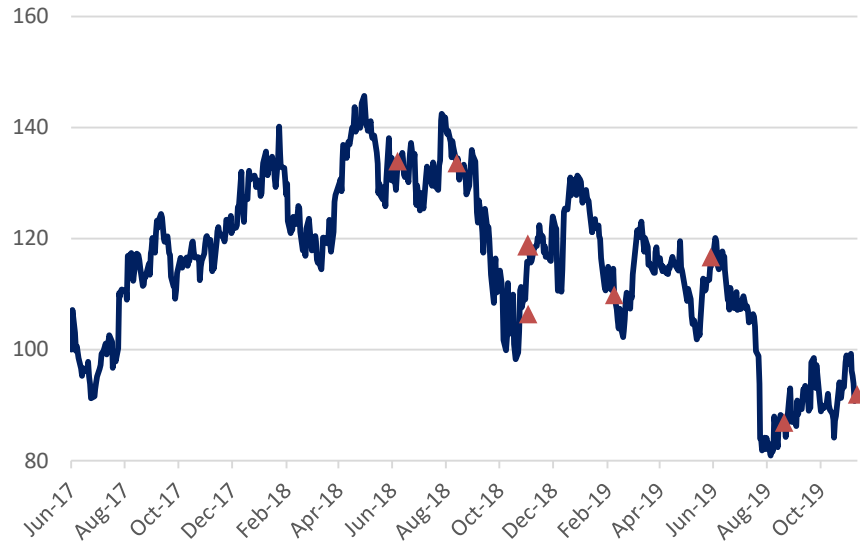
(Key Ratios)	FY-18	FY-19	FY-20E	FY-21E
EPS (₹)	19.2	29.6	28.5	37.7
P/E (x)	20.9	13.6	14.1	10.6
P/B (x)	2.5	2.2	1.9	1.6
ROE	12.0%	16.2%	13.5%	15.2%
RoA	2.1%	2.8%	2.2%	2.6%

Key Risks:

- ❑ The company's primary business is correlated to macro economic factors like policy rates, inflation, and government spending. Any substantial negative shift may pose risk to our projections.
- ❑ Also, company's business is more exposed to Auto and Housing sector growth, any negative growth in these could lower company's growth prospects.

Rating and Target Price history:

MMFS rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 12 November 2019 close.

MMFS rating details

Date	Rating	Target Price (₹)	Share Price (₹)
07-Jun-18	BUY	609	485
13-Aug-18	BUY	609	484
03-Nov-18	BUY	609	431
08-Jan-19	BUY	609	395
29-May-19	BUY	609	416
20-Aug-19	BUY	481	314
12-Nov-19	BUY	481	333

Source: Bloomberg, Anand Rathi Research

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Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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