

Sustainable Model

CMP: Rs.202
Target Price: Rs.243
Recommendation: ACCUMULATE

Stock Info

BSE Group	A
BSE Code	532720
NSE Symbol	M&MFIN
Bloomberg	MMFS IN
Reuters	MMFS.BO
BSE Sensex	19040.9
NSE Nifty	5748.1

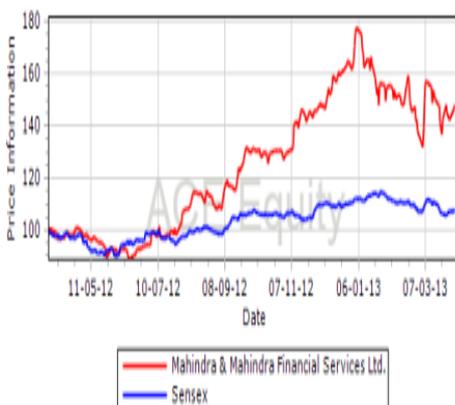
Market Info

Market Capital	11841 cr
Equity Capital	103 cr
Avg. Trading Vol. (NSE Qtly) ('000)	631
52 Wk High/ Low	245/121
Face Value	2

Shareholding Pattern (%) (31st Dec 2012)

Promoters	52.3
Mutual Funds & DII	6.6
Foreign Institutions	36.4
Public & Others	4.7
Govt. Holdings	-

Financials	FY13E	FY14E	FY15E
PAT (Rs in Cr)	791	1040	1378
EPS (in Rs)	15.4	20.3	26.9
PE (x)	13.1	10.0	7.5
PABV (x)	2.9	2.4	1.9



One of the rural non-banking finance company, Mahindra and Mahindra Financial Services Limited (MMFSL) with a strong parentage, aims to become one of the top rural finance brands. The company has moved at a faster pace in past few years and its AUM has increased to Rs 25645 cr at the end of Q3FY13. Vehicle financing forms more than 95% of its business, MMFSL has gradually diversified its product profile and now offers varied financial services such as housing finance, personal Loans, fixed deposits, distribution of third party products insurance, mutual funds etc. The changing demographics of rural India with improving profile of rural income and consumption provide ample growth opportunities, despite competition. The improved cash flows and alternate use of farm vehicles in construction activity favors MMFSL.

Rural lending business per se being risky enables MMFSL to enjoy higher spreads (~9%) and margins (>10%). That said, going forward with more thrust on MHCV segment and increased competition the margins are likely to stabilize at current levels and yet prove to be healthy with RoAs expected to remain above 5% in FY14-15E. While, monsoon failures and bad crop would definitely prove as downside risks for the company particularly in terms of collections and recoveries, we concede adequate capital & provisioning will augur well for the company.

Banking on the unbanked: MMFSL major strength lies in its widespread and penetrated branch network (639 offices) spread across rural and semi-urban markets (across 24 states) that prove as a potential customer base that the company continues to bank on. The company is the preferred choice for auto manufacturers particularly in unbanked areas.

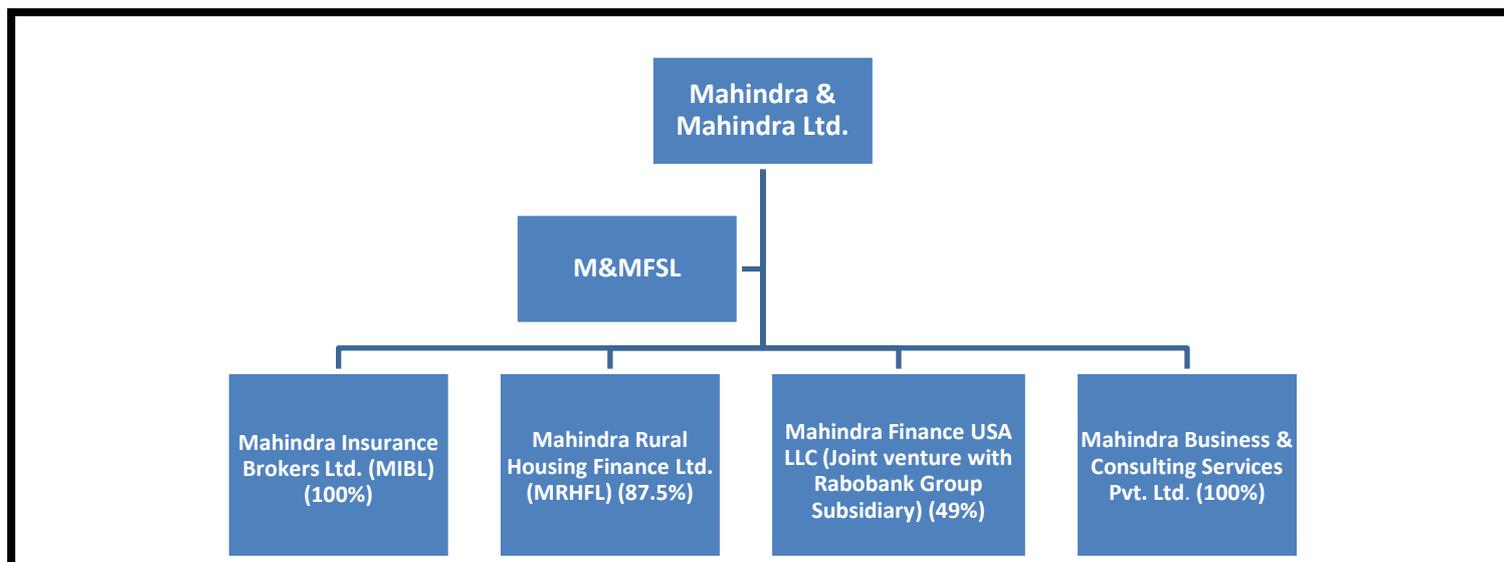
Earnings visibility: Shift in the loan mix towards higher yielding segments and capital raise is likely to aid NIMs over the coming quarters. Earnings' momentum maintained, loan growth stands stable driven by strong growth in the CV and car segments; despite cautious outlook on CV portfolio. We expect the company to clock 30% CAGR for the period FY13-15E.

Asset quality: Management remains confident on maintaining asset quality with drop in loan-loss provisions and strong recoveries; we expect the company to demonstrate asset quality improvement particularly in FY14-15E.

Valuation Outlook: Despite macros headwinds and regulatory challenges, diversified product mix, niche business model and strong lineage holds well for MMFSL. MMFS has registered strong asset growth, delivering an AUM CAGR of 33% over the past ten years (mostly uniform, except for the slowdown in FY08-09). Given the intense competition from other financiers and banks and the already high market share, may in all likelihood impact the growth rates; that said; multi-product strategy, healthy AUM growth, stability in margins and improving asset quality reinforces our confidence in the company.

We, therefore, advise to ACCUMULATE on dips for a price target at Rs 243 on a 1-year horizon valuing the stock at 2.3X FY15E (average multiple derived from DDM and P/ABV).

Chart 1:- M&MFSL Group Structure



Source: - Company, Arian Research

Note: The above charted subsidiaries are part of MMFSL

Chart 2:- Diversified Product Mix

Vehicle Financing	Loans for auto and utility vehicles, tractors, cars, commercial vehicles and construction Vehicle Financing equipments
Pre-Owned Vehicles	Loans for pre-owned cars, multi-utility vehicles, tractors and commercial vehicles
SME Financing	Loans for varied purposes like project finance, equipment finance and working capital finance
Personal Loans	Offers personal loans typically for weddings, children's education, medical treatment and working capital
Mutual fund Distribution	Advises clients on investing money through AMFI certified professionals under the brand "MAHINDRA FINANCE FINSMART"
Insurance Broking	Insurance solutions to retail customers as well as corporations through our subsidiary MIBL
Housing Finance	Loans for buying, renovating, extending and improving homes in rural and semi-urban India through our subsidiary MRHFL

Source: - Company, Arian Research

Chart 3: Value of Assets financed

Break down of estimated value of Assets Financed	FY10	FY11	Q1FY12	Q211	Q212	9M12
Auto/ UV (M&M)	35%	31%	27%	30%	27%	27%
Tractors (M&M)	21%	23%	22%	21%	20%	20%
Non M&M vehicles	29%	31%	32%	33%	32%	32%
CV and CE	7%	9%	10%	7%	11%	11%
Used and others	8%	6%	9%	9%	10%	10%

Source: - Company, Arihant Research

Chart 4: AUM break-up

Segments	FY11	3MFY12	6MFY12	9MFY12	FY12	3MFY13	9MFY13
Auto / Utility Vehicles (M&M)	31%	30%	32%	30%	30%	28%	29%
Tractors (M&M)	23%	23%	20%	20%	20%	20%	19%
Cars and Non M&M UV's & SCV's	31%	31%	31%	31%	31%	32%	32%
Commercial vehicles and Construction equipments	9%	10%	11%	12%	12%	13%	13%
Pre-owned vehicles and others	6%	6%	6%	7%	7%	7%	7%
Total	100%						

Source: - Company, Arihant Research

Chart 5: Fund Mix on the basis of Investor profile

Particulars (Rs. cr)	FY12		Q1FY13		Q2FY13		Q3FY13	
	Amount	% of Total						
Insurance Co. & Institutions	1538	9%	1482	9%	1515	8%	1820	11%
Banks for Assignment	2326	14%	2011.5	12%	1726	9%	1459	7%
Banks	9228	57%	8433	50%	9748	51%	10288	52%
Mutual Fund	1796	11%	3396	20%	4175	23%	4007	20%
Others	1399	9%	1629	10%	1811	10%	2083	11%
Total	16287	100%	16951	100%	18975	100%	19656	100%

Source: - Company, Arihant Research

Chart 6: Fund Mix on the basis of Instrument

Particulars (Rs. cr)	FY12		Q1FY13		Q2FY13		Q3FY13	
	Amount	% of Total						
Assignment	2326	14%	2012	12%	1726	9%	1459	7%
Bank Term Loan	8998	55%	8053	48%	8568	45%	9308	47%
NCD's	3534	22%	3803	22%	4770	25%	5182	26%
FD	1375	8%	1605	9%	1790	9%	2060	10%
CP,ICD	54	0%	1479	9%	2121	11%	1648	8%
Total	16287	100%	16951	100%	18975	100%	19656	100%

Source: - Company, Arihant Research

Chart 7: Summary Earnings

Particulars (Rs. cr)	FY11	3MFY12	6MFY12	9MFY12	FY12	3MFY13
Total Income	1,978	564	1,229	1,976	2,795	839
Profit before tax	702	151	353	583	925	240
Profit after tax	463	102	238	392	620	161
Net Worth	2,488	2,591	2,726	2,881	2,944	3,106
EPS (Basic)	47.85	9.97	23.19	38.28	60.46	15.68
Market Capitalisation	8,073	6,521	6,854	6,347	6,972	6,710
Value of Assets Financed	14,420	3,834	8,286	14,172	19,504	4,844
No. of Branches	547	559	570	592	607	615
New Contracts During the period (Nos)	3,67,774	93,171	2,04,565	3,46,337	4,66,416	1,07,115
No. of employees (on rolls)	4,303	4,254	4,281	4,275	4,258	4,255

Source: - Company, Arian Research

Chart 8: Ratio Analysis

Particulars	FY11	3MFY12	6MFY12	9MFY12	FY12	3MFY13
PBT/Total Income	36%	27%	32%	30%	33%	29%
PBT/Total Assets	5%	4%	5%	4%	5%	4%
RONW (Avg. Net Worth)	22%	16%	19%	19%	23%	20%
Overheads/Total Assets	4%	4%	4%	3%	3%	3%
Debt / Equity	3.88:1	3.98:1	4.28:1	4.69:1	4.74:1	4.81:1
Capital Adequacy	20%	19%	17%	18%	18%	17%
Tier I	17%	16%	15%	15%	15%	15%
Tier II	3%	3%	2%	3%	3%	3%
Book Value (Rs.)	242.8	252.7	200	280.9	286.7	302.3

Source: - Company, Arian Research

Chart 9: Spread Matrix

Particulars	FY11	3MFY12	6MFY12	9MFY12	FY12	3MFY13
Total Income / Average Assets	17.7%	16.2%	16.5%	16.9%	17.7%	16.8%
Interest / Average Assets	5.8%	6.2%	6.3%	6.7%	7.0%	7.3%
Gross Spread	11.9%	10.0%	10.2%	10.2%	10.7%	9.5%
Overheads / Average Assets	4.4%	4.0%	3.9%	3.8%	3.8%	3.5%
Write offs & NPA provisions / Average Assets	0.9%	1.6%	1.4%	1.2%	0.9%	1.7%
Net Spread	6.3%	4.4%	4.9%	5.1%	5.9%	4.2%

Source: - Company, Arian Research

Chart 10: Key ratios

Particulars	FY11	3MFY12	6MFY12	9MFY12	FY12	3MFY13
RoA (Average Assets)	4.1%	2.9%	3.2%	3.3%	3.9%	2.8%
RoE (Average Net worth)	22.0%	15.7%	18.0%	19.2%	22.8%	19.6%
GNPA	4.0%	4.6%	4.0%	4.1%	3.0%	3.8%
NNPA	0.6%	1.0%	1.0%	1.1%	0.7%	1.2%
Leverage Ratio	3.90	4.00	4.60	4.70	4.70	4.80

Source: - Company, Arihant Research

Chart 11: Branch expansion network

Particulars	FY11	Q1FY12	Q2FY12	Q3FY12	FY12	Q1FY13	Q2FY13	Q3FY13
No. of Branches	547	559	570	592	607	615	628	639
<i>Addition</i>	<i>10</i>	<i>12</i>	<i>11</i>	<i>22</i>	<i>15</i>	<i>8</i>	<i>13</i>	<i>11</i>

Source: - Company, Arihant Research

Chart 12: Mahindra Rural Housing Finance Ltd. (Financials)

Particulars (Rs. cr)	FY11	3MFY12	6MFY12	9MFY12	FY12	3MFY13	9MFY13
Loans Disbursed	203	59	122	181	267	71	281
No of customer Contracts	21981	5759	12525	1976	3317	8480	3791
Outstanding Loan Book	315	367	418	464	535	590	756
Total Income	49	17	37	60	86	28	97
PBT	12	2	5	9	16	3	16
PAT	9	2	4	7	12	3	12

*Shareholding pattern: M&MFSL- 87.5%, NHB 2.5%

*Currently operating in 9 States

Source: - Company, Arihant Research

Chart 13: Mahindra Insurance Brokers Ltd. (Financials)

Particulars (Rs. cr)	FY11	3MFY12	6MFY12	9MFY12	FY12	3MFY13	9MFY13
Total Income	52	9	16	26	47	18	61
Net premium	289	100	182	279	414	121	373
PBT	33	3	4	7	20	10	35
PAT	22	2	3	5	14	7	24
No of Policies for the period	508877	146130	307656	502841	703730	158969	588745
No of Employees	379	391	408	428	451	430	451

Source: - Company, Arihant Research

Income Statement				
Year to 31st March (Rs.Cr)	FY12	FY13E	FY14E	FY15E
Income From operations	2768	3819	5120	6686
Interest Expenses	1120	1532	2008	2565
Net Interest Income	1647	2286	3113	4121
- growth %	26	39	36	32
Non-interest Income	27	31	34	41
Operating Income	1674	2317	3147	4161
- growth %	27	38	36	32
Operating Expenses	592	799	1098	1450
- Staff Cost	200	274	400	591
- Other Operating Exp.	392	526	698	858
Gross Profits	1082	1518	2049	2711
- growth %	29	40	35	32
Provisions	157	314	450	591
Profit Before Taxes	925	1204	1600	2120
Taxes	305	413	560	742
Profit After Taxes	620	791	1040	1378
- growth %	34	28	31	33

Balance sheet				
As on 31st March (Rs. Cr)	FY12	FY13E	FY14E	FY15E
LIABILITIES				
Capital	109	104	105	106
Reserves & Surplus	2841	3443	4255	5381
Networth	2951	3547	4360	5487
- growth %	18	20	23	26
Long-term borrowings	9291	11990	15511	19873
Other Long-term liabilities	49	53	68	77
Long-term provisions	402	434	478	548
TOTAL LIABILITIES	12693	16024	20418	25985
ASSETS				
Fixed Assets	99	125	148	178
Non-current investments	213	256	291	328
Deferred Tax assets	201	232	255	281
Long term loans and advances	9211	11974	15805	20231
- growth %	46	30	32	28
Net Current Assets	2969	3438	3919	4967
TOTAL ASSETS	12693	16024	20418	25985

Ratio Analysis				
	FY12	FY13E	FY14E	FY15E
Basic Ratio (Rs.)				
EPS	12.1	15.4	20.3	26.9
Book Value per share	57.5	69.2	85.1	107.1
Dividend per share	2.8	3.2	3.8	4.2
Dividend Yield	1.4	1.6	2.0	2.2
Asset Quality (%)				
Gross NPAs	3.8	3.4	2.8	2.7
Net NPAs	0.8	1.2	0.9	0.7
NPA Coverage	78.0	65.0	68.4	75.6
Profitability ratios (%)				
RoAE	22.8	24.4	26.3	28.0
RoAA	5.6	5.5	5.7	5.9
NIM	10.9	10.5	10.3	10.3
Operating Profit Margin	39.1	39.8	40.0	40.6
Net Profit Margin	22.4	20.7	20.3	20.6
Cost to Income	35.4	34.5	34.9	34.8

	FY12	FY13E	FY14E	FY15E
Spread analysis (%)				
Average Yield on advances	10.6	12.2	12.6	13.1
Average Cost of funds	14.2	14.4	14.6	14.5
Interest Spread	4.1	2.9	2.3	2.5
Asset growth				
Asset growth	34.1	26.2	27.4	27.3
Asset per Employee (Rs. In Cr)				
Asset per Employee (Rs. In Cr)	1.4	1.5	1.5	1.4
Profit per Employee (Rs. In lacs)				
Profit per Employee (Rs. In lacs)	6.7	7.2	7.5	7.7

	FY12	FY13E	FY14E	FY15E
Valuation ratios (x)				
P/E	16.7	13.1	10.0	7.5
P/BV	3.5	2.9	2.4	1.9

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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