

Mahindra Finance Limited – Post QIP Outlook Stable

CMP: Rs.708
Target Price: Rs.744
Recommendation: ACCUMULATE

M&M Finance board approved QIP on 29th November 2010 when the share price was Rs 775 and got the shareholders approval on 3rd January 2011 when the share price was Rs 750. Accordingly Co expected that it would raise around Rs 570 cr at a price of Rs 750 per share. But as the price fell further, the plans were kept on watch. Finally amid this volatility the Co closed the placement but at a lower price of Rs 695 and for a lower amount of Rs 426 cr. The issue was oversubscribed four times as per Co.

The new capital will improve liquidity, allow better ratings, lower the cost of funds but at the same time will dilute the earnings. **Our price target for the stock remains the same at Rs 744 (2.55x FY12E P/BV) after considering this infusion, impact of standard asset provisioning and a little mellowing of FY12 Advance growth.**

- **Capital Adequacy Ratio to Improve to ~20%** - The QIP will improve the capital adequacy of the Co. from around 16%+ at present to ~20%. The present minimum for the Co is 12% which as per revised norms will be 15% from end of FY12. The higher CAR % helps the Co to get better ratings and hence better cost bargains.
- **Capital to be Used for Growth of Business** - The new money will be used for its prime lending business in standalone books. The Co has seen extremely robust growth this year and expects the momentum to continue further given the liquidity scenario in rural markets. We mellow our FY12 advance growth to 29% from 32% expected earlier due to apprehensions in economy.
- **Parent Holding Falls to ~57%** - The issue will lower the shareholding of M&M from present 60.8% to 57.2% Mahindra and Mahindra has no plans to increase its stake as yet.
- **Present Dilution** - The new capital will dilute the earnings and the RoE would see a pressure of at least 450-500bps in FY12 as per our estimation. Co expects the same to recover in around one year.
- **Further Dilution** - The increased capital will help the Co further its growth plan (33-35% growth in disbursements in FY12) for at least a year. However if its housing business grows faster than expected, then the Co might require capital in the next year itself. The Co has a good scope to increase the CAR from Tier II sources also which at present stands at ~3.5%. The internal accruals of the Co are also strong and after dividend payout add around Rs 350cr.
- **Margins Maintained** – The new capital will ease some pressure on the cost. However margins may face some strain going forward if rates rise further. With rising rates, average cost has increased from levels of 8.35% to 8.6% while lending rates have increased by 100 bps. Any further increase in lending rates from here can put pressure on demand as well as recovery.

Stock Info	
BSE Group	A
BSE Code	532720
NSE Symbol	M&MFIN
Bloomberg	MMFS IN
Reuters	MMFS.BO
BSE Sensex	18178
NSE Nifty	5437

Market Info	
Market Capital	₹ 6930 cr
Equity Capital	₹ 102.1 cr
Avg. Trading Vol. (NSE Qtly)	127091
52 Wk High/ Low	913/320
Face Value	10

Shareholding Pattern (%)	(31 st Dec. 2010)
Promoters	60.8
Domestic Institutions	6.9
Foreign Institutions	27.1
Non Promoters Corp.	1.2
Public & Others	4.0
Govt. Holdings	-



February 23, 2011

Rs in Cr	FY09	FY10	FY11E	FY12E
Net Interest Income	855	1029	1332	1733
Operating profits	608	742	896	1135
Net Profit	215	344	455	577
NIM (%) (calculated)	12.4	13.2	13.3	13.1
Gross NPAs (%)	10.3	8.2	8.4	8.1
Net NPAs (%)	2.9	1.1	1.4	1.5
EPS	22	36	45	57
Book Value	153	180	246	292
RoA (%)	3.0	4.1	4.2	4.0
RoAE (%)	15.4	21.5	21.5	21.0
PE (x)	31.6	19.8	15.9	12.5
PBV (x)	4.6	3.9	2.9	2.4



Profit & Loss Statement				
Y/E March (Rs Cr)	FY09	FY10	FY11E	FY12E
Interest Income	1,365	1,531	2,016	2,682
Interest Expenses	510	502	684	949
Net Interest Income	855	1,029	1,332	1,733
- growth %	14	20	29	30
Other Income	20	38	39	39
Operating Income	875	1,067	1,371	1,772
- growth %	13	22	29	29
Operating Expenses	267	325	476	637
- Staff Cost	117	128	141	166
- Other Expenses	149	197	335	471
Gross Profits	608	742	896	1,135
- growth %	17	22	21	27
Provisions	282	222	206	260
Profit Before Taxes	326	521	690	875
Taxes	111	176	235	297
Profit After Taxes	215	344	455	577
- growth %	21	61	32	27

Balance sheet				
Y/E March (Rs Cr)	FY09	FY10	FY11E	FY12E
Capital	97	97	104	104
Reserves & Surplus	1,372	1,631	2,411	2,881
Net worth	1,469	1,729	2,515	2,985
Borrowings	5,213	6,458	8,741	11,450
- growth %	3	24	35	31
Other liabilities	762	909	1,251	1,622
Total Liabilities	7,444	9,095	12,507	16,056
ASSETS				
Cash	276	242	363	450
Advances	6799	8379	11250	14567
- growth %	3	23	37	29
Investments	110	216	313	344
Fixed assets	37	48	67	83
Other assets	222	211	513	611
Total Assets	7,444	9,095	12,507	16,056

Ratio Analysis				
	FY09	FY10	FY11E	FY12E
Basic Ratio (Rs.)				
EPS	22	36	45	57
Book Value per share	153	180	246	292
Dividend per share	5.5	7.5	8.0	9.0
Dividend Yield	1.3	1.8	1.1	1.3
Asset Quality (%)				
% of Advances-				
Gross NPAs	10.3	8.1	8.4	8.1
Net NPAs	2.9	1.1	1.4	1.5
% of total assets-				
Gross NPAs	8.7	6.4	6.2	6.1
Net NPAs	2.4	0.9	1.1	1.2
NPA Coverage	71.9	86.4	82.8	80.5
Business Performance (%)				
Operating profit margin (%)	44.6	48.5	44.4	42.3
Net profit margin (%)	15.7	22.4	22.6	21.5
Net Int. Inc/Total Income	61.7	65.6	64.8	63.7
Other Income/Expense	7.4	11.7	8.2	6.1
NII/ Average Total Assets	11.8	12.4	12.3	12.1
Operating profit/Avg Total Assets	8.4	9.0	8.3	7.9
Net Profit/Avg Total Assets	3.0	4.1	4.2	4.0
Asset Growth	6.0	22.2	37.5	28.4

Ratio Analysis				
	FY09	FY10	FY11E	FY12E
Spread analysis (%)				
Average Yield on Advances	18.8	18.5	18.9	19.1
Average cost of Funds	9.9	8.6	9.0	9.4
Interest Spread	8.9	9.9	9.9	9.7
Net Interest Margin	12.4	13.0	13.3	13.1
Efficiency Indicator (%)				
Cost to Income	30.5	30.5	34.7	36.0
Asset per Employee (Rs Cr)	1.6	1.9	2.8	3.6
Profit per Employee (Rs lacs)	4.5	7.3	10.3	12.8
Return Ratios				
Return on Avg. Net Worth	15.4	21.5	21.5	21.0
Return on Average Assets	3.0	4.1	4.2	4.0
Valuation ratios (x)				
P/E	31.6	19.8	15.9	12.5
P/BV	4.62	3.93	2.88	2.42



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Stock Rating Scale**Absolute Return**

BUY	:	>20
ACCUMULATE	:	12-20
HOLD	:	5-12
REDUCE	:	< 5

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