

Mahindra Financial Services

BSE SENSEX	S&P CNX
29,943	9,370
Bloomberg	MMFS
Equity Shares (m)	565.0
M.Cap.(INRb)/(USDb)	192.1 / 3.0
52-Week Range (INR)	405 / 244
1, 6, 12 Rel. Per (%)	4/-14/-2
Avg Val, INRm	-
Free float (%)	-

CMP: INR340
TP: INR400 (+18%)
Buy

Strong beat on operating profit driven by asset quality improvement

- 4QFY17 net profit of INR2.34b missed estimate by 16%, belying its strong operating performance. PPop increased 7% YoY to INR7.25b (23% beat). Miss on PAT is largely driven by provisions of INR1.1b, which were written back (over and above RBI requirement, and managements expected loss given default) in 1QFY17 based on expectation of losses on NPA portfolio.
- Reported AUM increased 14% YoY (+2% QoQ) to INR468b, driven by a 23% YoY rise in value of assets financed. This is the third consecutive quarter of 14% AUM growth, up from +10-11% over the prior 4-6 quarters. Management is confident of revival in growth in most geographies due to improved infra and farm sentiment.
- Cost of funds declined sharply by 70bp QoQ to 8.39%. Overall, margins expanded 325bp QoQ (seasonal phenomenon), but shrunk 25bp YoY to 10.48%. This is because of the strong recoveries witnessed in 4QFY16, which gave a boost to NIMs.
- GNPLs declined 17% QoQ to INR42b (4Q is seasonally strong). GNPL ratio stood at 9%, as against 11.1% in 3QFY17 and 8% in 4QFY16.
- PAT for FY17 declined 40% YoY to INR4b, with RoA/RoE declining from 2%/11.4% in FY16 to 1%/6.4% in FY17.
- **Valuation and view:** The business environment for MMFS seems to be getting better. While 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. MMFS remains highly levered to growth and asset quality. Both factors have shown a positive trend in the quarter, and management also remains upbeat on the same in the ensuing quarters. We increase FY18/19 estimates by 18%/17% to factor in better margins and AUMs. The stock trades at 2.8/2.6x FY18E/19E P/B. We use SOTP to arrive at a TP of INR400.

Financials & Valuations (INR b)

Y/E March	2017	2018E	2019E
NII	33.2	37.7	43.6
PPP	19.3	21.6	25.3
PAT	4.0	7.3	9.3
EPS (INR)	7.1	12.9	16.4
BV/Sh.(INR)	114.6	122.3	132.0
ABV/Sh (INR)	94.8	98.8	107.1
RoA on AUM (%)	1.0	1.6	1.7
RoE (%)	6.4	10.9	12.9
Payout (%)	39.8	41.0	41.0
Valuations			
P/E (x)	48.0	26.3	20.7
P/BV (x)	3.0	2.8	2.6
P/ABV (x)	3.6	3.4	3.2
Div. Yield (%)	0.7	1.3	1.7

Quarterly Performance

Y/E March	(INR Million)								FY16	FY17
	FY16				FY17					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Operating Income	13,608	14,200	14,002	16,721	13,664	14,916	14,904	18,255	58,532	61,739
Other Income	76	183	85	176	93	241	130	173	519	636
Total Income	13,684	14,383	14,087	16,897	13,757	15,157	15,035	18,427	59,051	62,375
YoY Growth (%)	6.7	5.1	0.9	9.9	0.5	5.4	6.7	9.1	5.7	5.6
Interest Expenses	6,445	6,542	6,696	6,711	6,910	7,086	7,441	7,137	26,393	28,574
Net Income	7,239	7,841	7,391	10,186	6,847	8,071	7,593	11,290	32,658	33,801
Operating Expenses	2,635	2,808	2,946	3,391	3,260	3,567	3,645	4,037	11,781	14,509
Operating Profit	4,604	5,033	4,445	6,795	3,587	4,504	3,949	7,252	20,877	19,292
YoY Growth (%)	-0.2	0.7	-6.8	5.7	-22.1	-10.5	-11.2	6.7	0.3	-7.6
Provisions	3,228	2,772	3,406	1,089	2,245	3,042	4,190	3,614	10,495	13,091
Profit before Tax	1,376	2,261	1,039	5,706	1,341	1,462	-241	3,638	10,383	6,202
Tax Provisions	486	799	367	2,003	472	514	-85	1,298	3,656	2,198
Net Profit	890	1,462	672	3,703	870	948	-156	2,341	6,727	4,003
YoY Growth (%)	-42.6	-29.4	-50.8	11.1	-2.2	-35.1	-123.3	-36.8	-19.1	-40.5
Cost to Income Ratio (%)	36.4	35.8	39.9	33.3	47.6	44.2	48.0	35.8	36.1	42.9
Provisions/Operating Profits (%)	70.1	55.1	76.6	16.0	62.6	67.5	106.1	49.8	50.3	67.9
Tax Rate (%)	35.3	35.3	35.3	35.1	35.2	35.2	35.2	35.7	35.2	35.4

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com); +91 22 6129 1526

Piran Engineer (Piran.Engineer@MotilalOswal.com); +91 22 3980 4393

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 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

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

Y/E March	4QFY17A	4QFY17E	Var (%)	Comments
Income from ops	18,255	16,960	8	
Interest Expense	7,137	7,451	-4	
Other Income	173	211	-18	
Net Income	11,290	9,721	16	Margins better than expected
% Change (Y-o-Y)	11	-5		
Operating Expenses	4,037	3,837	5	Slightly higher opex
Operating Profit	7,252	5,884	23	PPoP beat due to better margins
% Change (Y-o-Y)	7	-13		
Other Provisions	3,614	1,571	130	Higher credit costs due to higher PCR
Profit before Tax	3,638	4,313	-16	
Tax Provisions	1,298	1,519	-15	
Net Profit	2,341	2,794	-16	Miss due to higher credit costs
% Change (Y-o-Y)	-37	-25		

Source: MOSL, Company

23% YoY increase in value
of asset financed

AUM growth remains stable at 14% YoY

- Reported AUM increased 14% YoY (+2% QoQ) to INR468b, driven by a 23% YoY rise in value of assets financed. This is the third consecutive quarter of 14% AUM growth, up from the 10-11% AUM growth over the prior 4-6 quarters.
- Management is confident of revival in growth in most geographies due to improved infra and farm sentiment.
- The CV/CE segment continued to register strong growth (23% YoY). Interestingly, the pre-owned vehicles segment turned around and registered 2.5% YoY growth in the quarter, as compared to the declining trend witnessed in the past 4 quarters. Note that, in the prior quarter's earnings concall, management commented on its plan to increase share of pre-owned vehicle financing from 7-8% to 12-15% over the medium term.

Asset quality improves

- GNPLs declined 17% sequentially to INR42b (4Q is a seasonally strong quarter). GNPL ratio stood at 9% compared to 11.1% in 3QFY17 and 8% in 4QFY16.
- MMFS also incurred an additional provision of INR1.07b against the fair value of collateral held against NPAs in the quarter.
- Around 138,000 accounts are NPLs (50% Mahindra / 50% non-Mahindra vehicles). Of these, ~40,000 accounts are paying dues

Cost of funds declined 70bp
QoQ to 8.39%

Sharp reduction in cost of funds, Opex growth remains high

- The quarter witnessed a sharp decline in cost of funds (70bp QoQ to 8.39%). Overall, margins were up 325bp QoQ (seasonal phenomenon) but declined 25bp YoY to 10.48%. This is because of the strong recoveries witnessed in 4QFY16, which gave a boost to NIMs.
- Total operating expenses increased 19% YoY in the quarter. C/I ratio increased 250bp YoY to 35.8%.

Subsidiaries' performance

- **Mahindra Rural Housing Finance (MRHFL):** In 4QFY17, disbursements increased 50% YoY to INR7.95b driven by 53% YoY growth in number of contracts. PAT for the quarter was INR389m, up 30% YoY. O/s loan book stood at INR48b (up % 48% YoY).
- **Mahindra Insurance Broker (MIBL):** MIBL's total income grew 17% YoY to INR536m, driven by 27% YoY growth in number of policies. Net premium grew 30% YoY to INR4.8b and PAT was at INR193m, up 21% YoY.

Valuations and view

- MMFS has underperformed peers over the last 2 years due to asset quality pressures. While it's reported NPLs are likely to 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.
- However, earnings are expected to stay subdued over FY18 due to the impact of migration to 90dpd NPA recognition. We expect a rebound in FY19 as stabilization of the rural economy and improvement in asset quality plays out.
- We increase FY18/19 estimates by 18%/17% to factor in better margins. The stock trades at 2.8/2.6x FY18E/19E P/B. We use SOTP to arrive at a TP of INR401 (3.0x FY19E P/B).

Exhibit 2: Upgrade FY18/19 EPS estimates to factor in better margins

INR B	Old Est		New Est		Change (%)	
	FY18	FY19	FY18	FY19	FY18	FY19
NII (incl. Sec. Inc)	36.0	40.8	37.7	43.6	4.8	6.9
Other Income	0.9	1.1	0.8	1.1		
Total Income	36.8	42.0	38.5	44.7	4.5	6.5
Operating Expenses	16.6	18.9	16.9	19.4	1.9	2.5
Operating Profits	20.3	23.0	21.6	25.3	6.7	9.9
Provisions	10.7	10.8	10.3	11.0	-3.8	2.2
PBT	9.5	12.3	11.3	14.3	18.4	16.7
Tax	3.4	4.3	4.0	5.0	18.4	16.7
PAT	6.2	7.9	7.3	9.3	18.4	16.7
AUM	529	607	534	624	0.9	2.7
Margins	7.7	7.6	7.9	7.9	0.2	0.3
Credit Cost	2.30	2.00	2.20	2.00	-0.1	0.0
RoA on AUM	1.3	1.5	1.6	1.7	0.2	0.2
RoE	9.6	11.6	10.9	12.9	1.3	1.3

Source: MOSL

Exhibit 3: SOTP analysis

SOTP FY19E Based (INR)	Value (INR b)	Value (USD b)	Value/ (INR) Sh.	% of total	Rationale
Core business	194	2.9	343	85.6	2.6x FY19 BV
Key Ventures					
Mahindra Rural Housing Finance	25	0.4	44	11.0	30x TTM PAT
Mahindra Insurance Brokers	16	0.2	28	7.0	30x TTM PAT
Total Value of Ventures	41	0.6	72	18.0	
Less: 20% holding discount	8	0.1	14	3.6	
Value of Key Ventures	33	0.5	58	14.4	
Target Value Post 20% Holding Co Disc	227	3.3	401	100.0	
CMP	192	2.8	340		
Upside - %	17.9	17.9	17.9		

Source: Company, MOSL

Key conference call highlights**Business Updates**

- In 4Q, demand for repossessed vehicles returned to normalcy.
- Management believes that they could get significant benefits from operating leverage if volumes pick up in FY18. Would not need to add further resources to achieve 25% growth going forward.
- Growth has come from cars and tractors (some market share gains too). Focus on pre-owned vehicles has also resulted in strong growth.

Asset Quality

- Slippages have clearly declined, according to management.
- Around 138,000 accounts are NPLs (50% Mahindra / 50% non-Mahindra vehicles). Of these, ~40,000 accounts are paying dues.
- Of the 138,000 accounts, 40,000 are carry-forward from FY16, while the rest were added during the year.
- Barring TN and Karnataka, all states that had asset quality issues have shown improvement in terms of asset quality due to better infra cash flows and farm cash flows.
- Accounts under RBI dispensation last quarter – out of 32,000 contracts, 24,000 are completely resolved and 4,000 are partially resolved.
- 103% collection efficiency in 4Q, 117% in March (significantly higher YoY).
- Including the value of repossessed vehicles, GNPL ratio would be 8.1% and NNPL ratio would be 3.2%.

Others

- Targeting RoE of 15-16% for FY18
- Pre-owned vehicles – 16-21% interest rate. LTV capped at 60-70%. Loan tenure will not be more than expected residual life of the vehicle.
- Their customer segment does not get impacted by farm loan waivers.

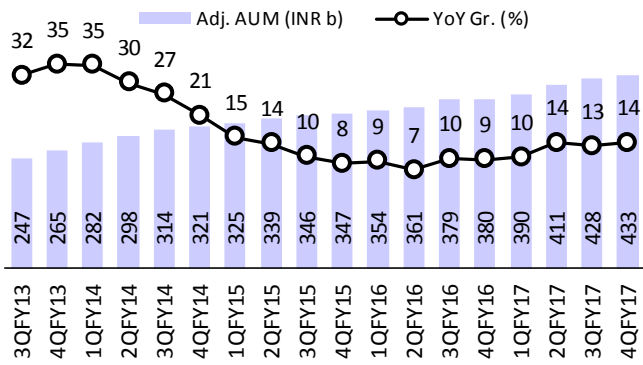
Exhibit 4: Quarterly Snapshot

	FY15				FY16				FY17				Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	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	8,071	7,593	11,290	49	11
Operating Expenses	2,269	2,521	2,706	2,571	2,635	2,808	2,946	3,391	3,260	3,567	3,645	4,037	11	19
Employee	1,084	1,174	1,183	1,149	1,294	1,384	1,354	1,556	1,675	1,710	1,627	1,797	10	15
Others	1,185	1,347	1,523	1,422	1,341	1,425	1,592	1,836	1,585	1,856	2,018	2,241	11	22
Operating Profits	4,611	5,000	4,771	6,429	4,604	5,033	4,445	6,795	3,587	4,504	3,949	7,252	84	7
Provisions	2,250	1,842	2,691	1,493	3,228	2,772	3,406	1,089	2,245	3,042	4,190	3,614	(14)	232
PBT	2,362	3,158	2,080	4,936	1,376	2,261	1,039	5,706	1,341	1,462	-241	3,638	(1,608)	(36)
Taxes	813	1,087	716	1,602	486	799	367	2,003	472	514	-85	1,298	(1,628)	(35)
PAT (before EO)	1,549	2,071	1,364	3,334	890	1,462	672	3,703	870	948	-156	2,341	(1,597)	(37)
Asset Quality														
GNPA (INRm)	20,278	21,314	24,991	20,997	29,411	35,283	39,851	32,242	44,147	47,481	50,589	41,827	(17)	30
NNPA (INR m)	10,954	10,126	11,426	8,182.0	12,767	16,453	17,016	12,351	21,060	22,862	22,074	15,997	(28)	30
%GNPAs to total assets (%)	6.2	6.3	7.1	5.9	8.0	9.4	10.1	8.0	10.7	11.0	11.1	9.0		
%NNPAs to total assets (%)	3.0	3.1	3.4	2.4	3.6	4.6	4.6	3.2	5.4	5.6	5.2	3.6		
PCR (Calc., %)	46.0	52.5	54.3	61	56.6	53.4	57.3	61.7	52.3	51.9	56.4	61.8		
Ratios (%)														
Cost to Income	33.0	33.5	36.2	28.6	36.4	35.8	39.9	33.3	47.6	44.2	48.0	35.8		
Tax Rate	34.4	34.4	34.4	32.5	35.3	35.3	35.3	35.1	35.2	35.2	35.2	35.7		
CAR	18.1	17.9	18.1	18.3	18.1	18.2	17.8	17.3	19.5	18.1	17.9	17.6		
<i>Tier I</i>	15.6	15.5	15.6	15.5	15.3	15.5	15.0	14.6	14.3	13.2	13.3	13.2		
RoA - calculated	1.9	2.5	1.6	3.8	1.0	1.6	0.7	3.8	0.9	0.9	-0.1	2.1		
RoE - calculated	12.0	15.5	9.9	24	6.2	10.0	4.5	24.5	5.7	6.1	-1.0	14.7		
Key Details (INR b)														
AUM (Reported)	343	357	365	369	376	384	403	409	417	439	457	468	2	14
AUM (Adjusted)	325	339	346	347	354	361	379	380	390	411	428	433	1	14
On book Loans	305	319	329	329	341	347	366	367	378	399	419	425	2	16
Off book Loans	20	20	17	18	13	14	14	14	12	12	10	8	(17)	(42)
Borrowings	262	276	280	280	284	291	303	308	312	334	345	355	3	15
On book Borrowings	240	255	262	263	269	276	288	294	299	322	334	347	4	18
Off book (Securitisation)	22	21	18	18	14	15	15	14	13	12	10	8	(21)	(42)
AUM Mix (%)														
Auto/Utility vehicles	30	29	30	31	31	31	31	31	31	30	31	30		
Tractors	19	18	19	18	18	18	17	17	17	17	18	17		
Cars	23	23	23	23	23	23	24	24	24	23	24	23		
Commercial Vehicles	14	14	13	13	13	12	12	12	13	13	13	13		
Refinance & others	14	16	15	15.0	15	16	16	10	9	10	9	9		
Value of assets fin mix. (%)														
Auto/Utility vehicles	33	32	33	33	31	31	31	30	29	28	28	28		
Tractors	20	18	19	18	16	15	16	15	17	17	20	17		
Cars	22	22	21	22	24	23	23	22	22	22	23	22		
Commercial Vehicles	9	10	9	9	10	11	10	11	13	12	11	12		
Refinance & others	16	18	18	18.0	19	20	20	16	14	15	12	14		
Total Borrowing Mix (%)														
Bank Term loans	50	49	46	43	40	35	33	35	33	30	26	27		
Bonds/NCDs	21	19	21	22	28	32	34	35	39	43	45	43		
Securitization	8	8	7	6	5	5	5	5	4	4	3	2		
Fixed deposits	15	16	16	17	17	17	16	16	15	14	13	12		
Commercial Papers	6	9	9	12	11	10	12	10	8	9	13	12		
Other Details														
Branches (Nos.)	998	1,055	1,088	1,108	1,124	1,158	1,179	1,167	1,172	1,180	1,181	1,182		
Employees (Nos.)	12,741	13,648	13,899	14,197	14,250	14,889	15,580	15,821	15,610	16,549	17,433	17,856		

Source: MOSL, Company

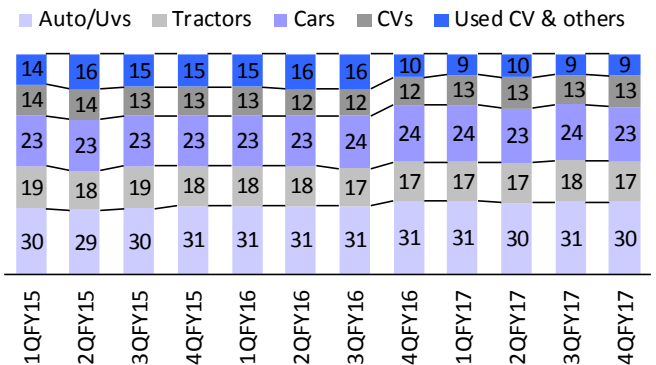
Story in charts

Exhibit 5: AUM growth stable



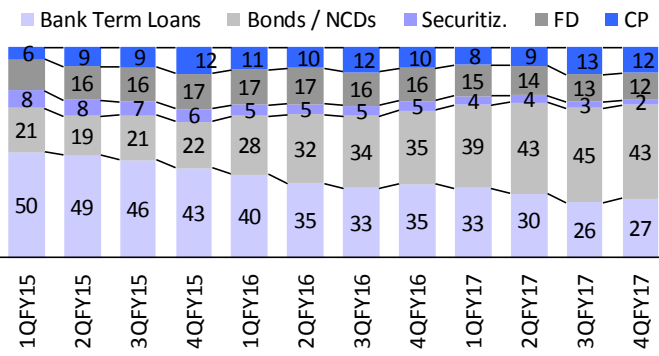
Source: Company, MOSL

Exhibit 6: AUM mix remains largely stable (%)



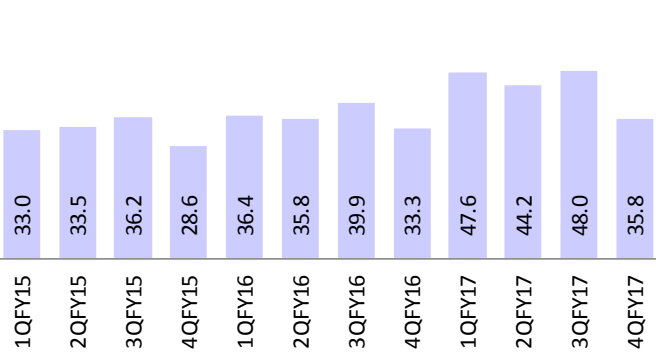
Source: Company, MOSL

Exhibit 7: Borrowing mix largely stable (%)



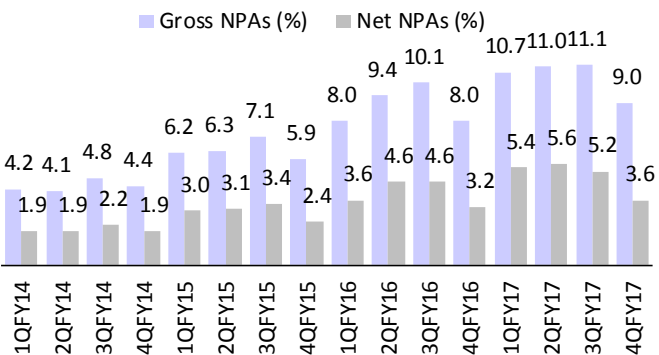
Source: Company, MOSL

Exhibit 8: Cost-to-income ratio increases YoY (%)



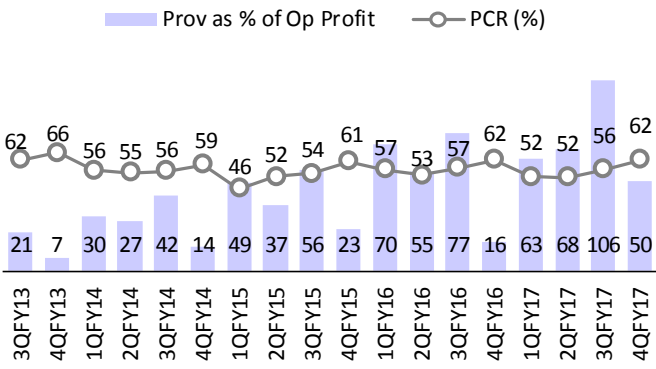
Source: Company, MOSL

Exhibit 9: GNPA declined 210bp QoQ



Source: Company, MOSL

Exhibit 10: Provisions to op. profit declined sequentially



Source: Company, MOSL

Exhibit 11: Financials: Valuation metrics

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ICICI* [*]	Buy	273	24.3	17.8	20.5	10.6	8.4	158.0	172.4	1.19	1.00	1.23	1.22	9.8	10.5
HDFCB	Buy	1,536	59.7	67.1	79.4	22.9	19.4	387	448	3.97	3.43	1.81	1.78	18.2	19.0
AXSB	Neutral	515	18.0	23.9	42.2	21.6	12.2	250	285	2.06	1.81	0.90	1.30	9.9	15.7
KMB*	Buy	898	25.1	32.3	41.6	27.8	21.6	238	278	3.77	3.23	1.78	1.95	14.5	16.0
YES	Buy	1,557	11.0	92.2	116.2	16.9	13.4	542	635	2.87	2.45	1.78	1.84	18.0	19.7
IIB	Buy	1,452	13.3	59.4	72.0	24.4	20.2	385	447	3.77	3.25	1.87	1.88	16.5	17.3
IDFC Bk	Neutral	59	3.1	3.8	4.8	15.5	12.5	45	49	1.31	1.21	1.03	1.06	8.7	10.1
FB	Buy	94	2.5	5.2	6.7	17.9	14.1	54	60	1.73	1.58	0.72	0.75	10.0	11.7
DCBB	Neutral	183	0.8	8.8	11.2	20.8	16.3	75	85	2.45	2.15	0.94	0.97	12.4	14.0
JKBK	Neutral	79	0.6	13.0	15.4	6.1	5.1	117	129	0.67	0.61	0.69	0.72	11.6	12.5
SIB	Neutral	25	0.5	3.1	3.8	8.1	6.6	32	35	0.78	0.71	0.54	0.59	10.0	11.3
Equitas	Buy	169	0.9	6.2	7.4	27.2	23.0	73	80	2.32	2.10	1.92	1.66	8.9	9.6
RBL	Under Review	568	3.2	18.5	24.3	30.7	23.4	130	149	4.38	3.81	1.24	1.27	15.2	17.4
Private Aggregate															
SBIN (cons)*	Buy	286	34.1	16.9	23.3	15.0	10.7	243	262	1.04	0.95	0.36	0.45	7.3	9.3
PNB	Buy	161	5.1	12.4	16.6	12.9	9.7	191	205	0.84	0.78	0.36	0.43	6.7	8.3
BOI	Neutral	159	2.5	14.5	23.7	11.0	6.7	249	267	0.64	0.60	0.23	0.33	6.0	9.2
BOB	Buy	182	6.3	19.0	26.1	9.6	7.0	167	187	1.09	0.97	0.60	0.75	11.9	14.8
CBK	Neutral	332	2.7	35.9	57.6	9.2	5.8	525	569	0.63	0.58	0.31	0.43	7.0	10.5
UNBK	Neutral	163	1.7	30.5	45.3	5.3	3.6	328	368	0.50	0.44	0.45	0.59	9.7	13.0
OBC	Neutral	156	0.8	21.0	26.0	7.4	6.0	413	433	0.38	0.36	0.28	0.31	5.2	6.1
INBK	Buy	311	1.9	30.1	35.9	10.3	8.6	324	352	0.96	0.88	0.64	0.68	9.6	10.6
Public Aggregate															
Banks Aggregate															
HDFC*	Buy	1,548	36.9	38.4	43.2	23.1	18.3	225	283	3.93	2.78	1.78	1.83	18.1	17.1
LICHF	Buy	673	5.1	46.9	55.3	14.4	12.2	249	294	2.70	2.29	1.60	1.63	20.3	20.3
IHFL	Buy	1,014	6.5	82.2	101.6	12.3	10.0	322	364	3.15	2.79	3.15	3.09	27.0	29.6
GRHF	Neutral	394	2.2	10.3	12.5	38.3	31.5	37	44	10.72	8.90	2.49	2.49	30.6	30.9
REPCO	Buy	766	0.7	34.0	40.2	22.5	19.0	210	247	3.65	3.11	2.14	2.09	17.5	17.6
DEWH	Buy	431	2.0	36.7	42.7	11.7	10.1	278	311	1.55	1.38	1.37	1.31	13.9	14.5
Housing Finance															
RECL	Neutral	207	6.3	35.0	40.4	5.9	5.1	196	227	1.05	0.91	3.10	3.12	19.1	19.1
POWF	Neutral	161	6.4	27.2	30.2	5.9	5.3	169	191	0.95	0.84	2.76	2.72	17.0	16.8
Infra Finance															
SHTF	Buy	1,089	3.7	81.9	100.5	13.3	10.8	558	637	1.95	1.71	2.74	3.00	15.5	16.7
MMFS	Buy	340	3.0	10.9	14.1	31.1	24.2	117	125	2.91	2.71	1.34	1.50	9.6	11.6
BAF	Buy	1,342	10.4	47.5	64.0	28.3	21.0	207	261	6.49	5.14	3.59	3.66	25.5	27.3
SCUF	Buy	2,291	2.4	134.5	164.6	17.0	13.9	870	1,008	2.63	2.27	3.73	3.85	16.5	17.5
MUTH	Buy	394	2.5	34.5	40.0	11.4	9.8	182	207	2.17	1.90	4.11	4.12	20.2	20.6
SKSM	Neutral	804	1.6	42.8	55.1	18.8	14.6	243	298	3.31	2.70	4.58	4.18	19.3	20.4
Asset Finance															
NBFC Aggregate															
Financials															

*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	2020E
Interest Income	36,268	47,079	52,798	56,468	60,225	67,922	77,868	92,185
Interest Expended	16,188	21,880	24,967	26,393	28,574	31,551	35,585	42,766
Net Interest Income	20,080	25,199	27,831	30,075	31,651	36,371	42,283	49,419
Change (%)	31.3	25.5	10.4	8.1	5.2	14.9	16.3	16.9
Income from Securitisation	2,145	2,137	2,562	2,063	1,514	1,302	1,342	1,540
Other Income	533	314	486	519	636	827	1,075	1,398
Net Income	22,759	27,650	30,880	32,658	33,801	38,500	44,700	52,357
Change (%)	35.9	21.5	11.7	5.8	3.5	13.9	16.1	17.1
Operating Expenses	7,420	9,134	10,068	11,781	14,509	16,890	19,369	22,234
Operating Income	15,339	18,516	20,811	20,877	19,292	21,610	25,331	30,123
Change (%)	41.7	20.7	12.4	0.3	-7.6	12.0	17.2	18.9
Provisions and W/Offs	2,833	5,058	8,275	10,495	13,091	10,331	11,027	13,085
PBT	12,506	13,458	12,536	10,382	6,201	11,279	14,304	17,039
Tax	3,833	4,585	4,219	3,656	2,198	3,970	5,035	5,998
Tax Rate (%)	30.7	34.1	33.7	35.2	35.5	35.2	35.2	35.2
PAT	8,673	8,872	8,318	6,726	4,002	7,309	9,269	11,041
Change (%)	39.9	2.3	-6.2	-19.1	-40.5	82.6	26.8	19.1
Proposed Dividend (Incl Tax)	2,389	2,522	2,730	2,713	1,585	2,980	3,779	4,502

Balance Sheet

(INR Million)

Y/E March	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Equity Share Capital	1,126	1,127	1,128	1,129	1,130	1,130	1,130	1,130
Reserves & Surplus	43,420	49,815	55,566	59,752	63,642	67,971	73,460	79,999
Net Worth	44,546	50,942	56,694	60,881	64,772	69,101	74,590	81,129
Borrowings	188,723	239,306	262,633	294,523	346,704	404,516	485,114	584,039
Change (%)	35.2	26.8	9.7	12.1	17.7	16.7	19.9	20.4
Total Liabilities	233,269	290,249	319,327	355,404	411,476	473,617	559,705	665,168
Investments	7,315	10,051	10,857	15,351	18,895	20,785	22,863	25,149
Change (%)	45.6	37.4	8.0	41.4	23.1	10.0	10.0	10.0
Loans and Advances	236,483	291,943	324,314	359,975	425,230	490,323	577,517	687,104
Change (%)	36.3	23.5	11.1	11.0	18.1	15.3	17.8	19.0
Net Fixed Assets	1,068	1,195	1,100	1,135	1,120	1,291	1,382	1,382
Net Current Assets	-11,597	-12,940	-16,944	-21,057	-33,769	-38,781	-42,058	-48,468
Total Assets	233,269	290,248	319,326	355,404	411,476	473,617	559,705	665,168

E: MOSL Estimates

Financials and valuations

Ratios	(INR Million)							
Y/E March	2013	2014	2015E	2016	2017E	2018E	2019E	2020E
Spreads Analysis (%)								
Yield on Portfolio	17.7	17.8	17.1	16.4	15.3	14.8	14.5	14.5
Cost of Borrowings	9.9	10.2	9.9	9.5	8.9	8.4	8.0	8.0
Interest Spread	7.8	7.5	7.1	6.9	6.3	6.4	6.5	6.5
Net Interest Margin (on AUMs)	9.6	9.3	9.1	8.8	8.1	7.9	7.9	7.8
Profitability Ratios (%)								
RoE	23.4	18.6	15.5	11.4	6.4	10.9	12.9	14.2
RoA (on balance sheet)	4.3	3.4	2.7	2.0	1.0	1.7	1.8	1.8
RoA on AUM	3.9	3.1	2.5	1.9	1.0	1.6	1.7	1.7
Average Leverage (x)	5.4	5.5	5.7	5.7	6.1	6.6	7.2	7.9
Average Leverage on AUM (x)	6.1	6.1	6.2	6.1	6.4	6.9	7.5	8.1
Efficiency Ratios (%)								
Int. Expended/Int. Earned	44.6	46.5	47.3	46.7	47.4	46.5	45.7	46.4
Op. Exps./Net Income	32.6	33.0	32.6	36.1	42.9	43.9	43.3	42.5
Empl. Cost/Op. Exps.	30.1	32.6	45.6	47.4	46.9	47.6	48.9	50.3
Secur. Inc./Net Income	9.4	7.7	8.3	6.3	4.5	3.4	3.0	2.9
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	125.3	122.0	123.5	122.2	122.6	121.2	119.0	117.6
Net NPAs to Adv.	1.1	2.0	2.5	3.4	3.8	3.9	3.5	3.0
Valuation								
Book Value (INR)	79.1	90.4	100.5	107.8	114.6	122.3	132.0	143.6
BV Growth (%)	37.7	14.3	11.2	7.3	6.3	6.7	7.9	8.8
Price-BV (x)	4.3	3.8	3.4	3.2	3.0	2.8	2.6	2.4
Adjusted BV (INR)	75.9	83.2	90.4	92.5	94.8	98.8	107.1	118.0
Price-ABV (x)	4.5	4.1	3.8	3.7	3.6	3.4	3.2	2.9
OPS (INR)	27.2	32.9	36.9	37.0	34.1	38.2	44.8	53.3
OPS Growth (%)	29.3	20.6	12.3	0.2	-7.7	12.0	17.2	18.9
Price-OP (x)	12.5	10.3	9.2	9.2	10.0	8.9	7.6	6.4
EPS (INR)	15.7	15.7	14.7	11.9	7.1	12.9	16.4	19.5
EPS Growth (%)	29.8	0.4	-6.3	-19.2	-40.5	82.6	26.8	19.1
Price-Earnings (x)	21.7	21.6	23.1	28.5	48.0	26.3	20.7	17.4
Dividend	3.6	3.8	4.0	4.0	2.4	4.5	5.7	6.8
Dividend Yield (%)	1.1	1.1	1.2	1.2	0.7	1.3	1.7	2.0

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, ~17000 employees, 2m+ customers and asset under management of INR450b+. MMFS has two subsidiaries viz. Mahindra rural housing finance and Mahindra insurance brokers.

Exhibit 11: Sensex rebased

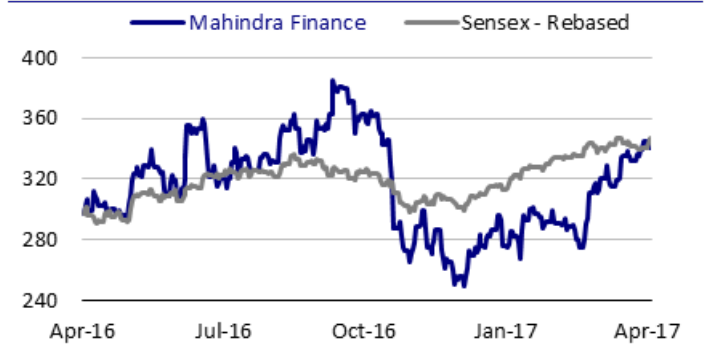


Exhibit 12: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	51.9	51.9	51.9
DII	11.8	11.0	9.6
FII	30.4	30.4	33.7
Others	5.9	6.7	4.9

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 Bhawe
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	7.1	9.8	-27.4
FY18	12.9	15.9	-19.1
FY19	16.4	20.6	-20.4

NOTES

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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Varun Kumar

Varun.kumar@motilaloswal.com

Contact : (+65) 68189232

Office Address: 21 (Suite 31), 16 Collyer Quay, Singapore 04931



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com