

Mahindra Financial Services

BSE SENSEX	S&P CNX
34,034	10,225
Bloomberg	MMFS IN
Equity Shares (m)	614
M.Cap.(INRb)/(USDb)	246 / 3.8
52-Week Range (INR)	538 / 351
1, 6, 12 Rel. Per (%)	5/-20/-9
12M Avg Val (INR M)	864
Free float (%)	48.8

Financials & Valuations (INR b)

Y/E March	2018	2019E	2020E
NII	35.3	47.6	56.9
PPP	21.7	31.0	36.9
PAT	10.1	14.0	16.2
EPS (INR)	17.4	22.8	26.4
BV/Sh.(INR)	156.6	172.8	191.5
ABV/Sh (INR)	134.1	140.3	157.4
RoA on AUM (%)	2.3	2.5	2.4
RoE (%)	12.5	13.9	14.5
Payout (%)	32.1	29.3	29.3

Valuations

P/E (x)	23.0	17.6	15.2
P/BV (x)	2.6	2.3	2.1
P/ABV (x)	3.0	2.9	2.5
Div. Yield (%)	1.0	1.4	1.6

CMP: INR401
TP: INR525 (+31%)
Buy

Strong performance across parameters; asset quality impressive

- MMFS reported PAT of INR3.8b (up ~1.5x YoY) under Ind-AS. The quarter was marked by robust disbursement and AUM growth, and an improvement in margins.
- **Continuing the trend of the prior quarter, value of assets financed grew 44% YoY to INR109b.** Consequently, reported AUM grew 6% QoQ (+27% YoY) to INR595b. Over the past year, the share of Auto/UV declined from 28% to 25%, the impact of which was offset by an increase in the share of SME financing (12% to 14%).
- Calculated NIM on AUM expanded 130bp YoY to 8.4%, driven largely by a higher yield on loans (driven by product mix and general yield hikes), despite an increase in cost of funds.
- **Gross stage 3/net stage 3 loans declined YoY from 13.1%/8.8% to 9.0%/6.0%.** Total provisions as a percentage of loans stood at 3.0% v/s 3.1% a quarter ago and 4.3% a year ago. PCR including standard assets provisions was largely stable QoQ at ~59%.
- **Liquidity situation:** Management commented that it is presently borrowing from every possible source. However, it is keeping a close watch on the evolving liquidity situation. Given strong collections, management is comfortable about the liquidity position for the next six months.
- **Valuation view:** The business environment for MMFS is getting better, with multiple tailwinds in each product class. Asset quality has improved consistently over the past few quarters. Improvement in credit costs and growth will drive an increase in RoE to ~15%+ in FY20. MMFS' long-term prospects remain strong. We raise our EPS estimates by ~20% for FY19/20 on the back of the robust operating and asset quality performance. Our SOTP-based target price is INR525 (Sept-2020 based). Maintain **Buy**.

Quarterly Performance

Y/E March	(INR M)									
	FY18				FY19				FY18	FY19E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Operating Income	14,980	15,174	18,340	20,600	19,258	21,033	22,084	23,303	66,295	85,679
Other Income	107	221	124	138	138	451	150	161	592	900
Total income	15,087	15,395	18,464	20,738	19,397	21,484	22,234	23,464	66,887	86,579
YoY Growth (%)	9.7	1.6	22.8	12.5	28.6	39.5	20.4	13.1	7.2	29.4
Interest Expenses	7,553	7,344	7,629	7,550	8,488	9,367	9,835	10,360	30,995	38,049
Net Income	7,534	8,051	10,835	13,188	10,909	12,117	12,399	13,104	35,892	48,530
YoY Growth (%)	10.0	-0.3	42.7	16.8	44.8	50.5	14.4	-0.6	6.2	35.2
Operating Expenses	3,274	3,309	4,282	4,927	3,849	4,248	4,503	4,965	14,233	17,565
Operating Profit	4,260	4,742	6,553	8,261	7,060	7,869	7,897	8,139	21,659	30,965
YoY Growth (%)	18.8	5.3	65.9	13.9	65.8	65.9	20.5	-1.5	12.3	43.0
Provisions	1,269	2,237	1,989	1,572	2,938	2,311	2,400	2,539	5,681	10,188
Profit before Tax	2,991	2,506	4,563	6,688	4,122	5,558	5,497	5,600	15,979	20,778
Tax Provisions	977	866	1,793	2,443	1,432	1,744	1,786	1,791	5,907	6,752
Net Profit	2,014	1,640	2,770	4,245	2,691	3,814	3,710	3,810	10,072	14,025
YoY Growth (%)	131.5	73.0	-1,871.5	81.4	33.6	132.5	33.9	-10.3	151.6	39.2
AUM growth (%)	13.9	13.8	13.3	19.5	26.1	27.1	26.2	23.0	19.6	22.7
Borrowings growth (%)	17.8	16.1	8.8	14.1	19.9	22.9	28.1	22.4	8.0	9.7
Cost to Income Ratio (%)	43.5	41.1	39.5	37.4	35.3	35.1	36.3	37.9	39.7	36.2
Tax Rate (%)	32.7	34.5	39.3	36.5	34.7	31.4	32.5	32.0	37.0	32.5

E: MOSL Estimates

Research Analyst: Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com); +91 22 3982 5415 | **Piran Engineer** (Piran.Engineer@MotilalOswal.com); +91 22 3980 4393

Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com); +91 22 3982 5540 | **Shubhanshu Mishra** (Shubhanshu.Mishra@MotilalOswal.com); +91 22 3982 5558

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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: Strong beat vs. our estimates on lower credit cost

Particulars	2QFY19E	2QFY19A	V/S our Est	Comments
Operating Income	20,029	21,033	5	
Other Income	148	451	205	
Total income	20,177	21,484	6	
Interest expenses	9,082	9,367	3	
Net Income	11,095	12,117	9	NIM expansion
Operating Expenses	4,003	4,248	6	
Operating Profit	7,093	7,869	11	Op. leverage
Provisions and Cont.	2,900	2,311	-20	
Profit before Tax	4,193	5,558	33	
Tax Provisions	1,446	1,744	21	
Net Profit	2,746	3,814	39	PAT beat due to lower credit cost

Source: MOSL, Company

Reported AUM growth
picked up sharply to 27%
YoY

AUM growth on a robust trajectory

- Continuing the trend of the prior quarter, value of assets financed grew 44% YoY to INR108b.
- Reported AUM grew 6% QoQ/27% YoY to INR595b. Growth was driven by tractors, CV and SME segments.
- Over the past year, the share of Auto/UV declined from 28% to 25%, which was offset by SME financing (12% to 14%).

NIM expanded 130bp YoY
to 8.4%

NIM expands 130bp YoY

- Calculated NIM on AUM expanded 130bp YoY to 8.4%, driven by higher yield on loans (better asset quality performance) despite increase in cost of funds.
- MMFS raised inter-corporate deposits from its group Mahindra companies as well as the parent.
- Opex grew slower than AUM at 28% YoY, resulting in some operating leverage. C/I ratio for the quarter stood at 35.1%

Gross stage 3/net stage 3
loans declined from
13.1%/8.8% to 9.0%/6.0%

Asset quality improves sequentially; further improvement expected in FY19

- Gross stage 3/net stage 3 loans declined YoY from 13.1%/8.8% to 9.0%/6.0%.
- Total provisions as a percentage of loans stood at 3.0% v/s 3.1% a quarter ago and 4.3% a year ago.
- PCR including standard assets provisions was largely stable QoQ at ~59%.

Subsidiaries' performance

- **Mahindra Rural Housing Finance (MRHFL):** Loan book continued its robust growth trajectory (+33% YoY) to INR72b. GNPL ratio (under IGAAP) increased 400bp YoY to 17.4%. PAT nearly increased ~10x YoY off a low base to INR600m.
- **Mahindra Insurance Broker (MIBL):** MIBL's total income grew 69% YoY to INR752m. However, PAT grew only 39% YoY to INR118m.

Valuations and view

- MMFS had underperformed peers over FY15-17 due to asset quality pressures on account of several externalities. However, FY18 was a turnaround year for the company. While growth picked up smartly, asset quality improved sharply too.
- With an improving macro environment, there is clear visibility of an improving RoA/RoE trajectory.
- We increase our EPS estimates by ~20% for FY19/20E on the back of robust operating and asset quality performance. However, there could be near-term volatility to EPS due to transition to Ind-AS as well as rural demand.
- We use SOTP to arrive at a TP of INR525 (INR500 earlier, Sept-2020 based).

Exhibit 1: SOTP analysis

SOTP September 2020 Based (INR)	Value (INR b)	Value (USD b)	Value/Sh. (INR)	% of total	Rationale
Core business	305	4.8	497	94.4	2.5x BV
Key Ventures					
Mahindra Rural Housing Finance	11	0.2	19	3.6	1x BV
Mahindra Insurance Brokers	11	0.2	18	3.5	1.5x Based on last stake sale value
Total Value of Ventures	23	0.4	37	7.1	
Less: 20% holding discount	5	0.1	7	1.4	
Value of Key Ventures	18	0.3	30	5.6	
Target Value Post 20% Holding Co Disc	323	5.1	527	100.0	
CMP	246	3.9	401		
Upside - %	31.3	31.3	31.3		

Source: Company, MOSL

Exhibit 2: Increase FY19/FY20 estimates as 2HFY19 expected to be strong

INR B	Old Est		New Est		% Change	
	FY19	FY20	FY19	FY20	FY19	FY20
NII (incl. Sec. Inc)	44.8	52.5	47.6	56.9	6.2	8.2
Other Income	0.7	0.8	0.9	1.0	32.2	32.2
Total Income	45.5	53.3	48.5	57.9	6.6	8.6
Operating Expenses	16.4	19.2	17.6	21.0	7.3	9.4
Operating Profits	29.1	34.1	31.0	36.9	6.3	8.1
Provisions	11.6	13.1	10.2	12.9	-12.1	-1.9
PBT	17.6	21.0	20.8	24.0	18.4	14.4
Tax	6.1	7.2	6.8	7.8	11.5	7.7
PAT	11.5	13.8	14.0	16.2	22.0	17.9
AUM	651	766	669	805	2.8	5.1
Margins	7.9	7.8	8.2	8.1	0.4	0.3
Credit Cost	2.00	1.90	1.75	1.80	-0.3	-0.1
RoA on AUM	2.1	2.1	2.5	2.4	0.4	0.3
RoE	11.5	12.6	13.9	14.5	2.4	1.9
EPS	19	22	23	26	22.0	17.9
ABV	154	170	140	157	-8.9	-7.7
BV	170	186	173	191	1.7	3.1

Source: MOSL, Company



Key conference call highlights

Business Updates

- In 2Q, despite sluggish primary car and tractor sales, MMFS registered strong disbursement growth. This was due to market share gains across OEMs and the stronger OEM performance in rural areas. In addition, the company is doing more tractor refinance.
- In order to mitigate CoF increase, the company will pass on 25bp to customers and some to the dealer too.
- Management continues guiding for 3% RoA target by end-FY19.
- MRHFL – bulk of NPL is from Maharashtra. Management is hopeful for reduction in NPL as crop outcome in Maharashtra is good.
- Management mentioned that the base for growth in 2H is high – so 20% growth for full-year FY19 is doable.
- Navratri season has not been as exciting as expected.
- Expect improvement in credit costs in 2HFY19.
- Maharashtra is slightly slow on the growth front; UP, BH, AP are good. Others are average.
- Expect expense ratio to remain largely stable at current levels of 2.9%.

Asset quality

- Write-offs during the quarter – INR1.41b v/s INR690m in 1QFY19/
- Number of delinquent customers has remained the same as that of 4QFY18. However, it is likely to improve in the next few quarters, according to management.

Liquidity updates

- Banks continue lending to the company. Liquidity is available, but at higher rates.
- Incremental CoF pre-crisis was 8.3-8.4%; post crisis at 9%.
- MMFS raised inter-corporate deposits from group companies and the parent at an arms' length basis.

Others

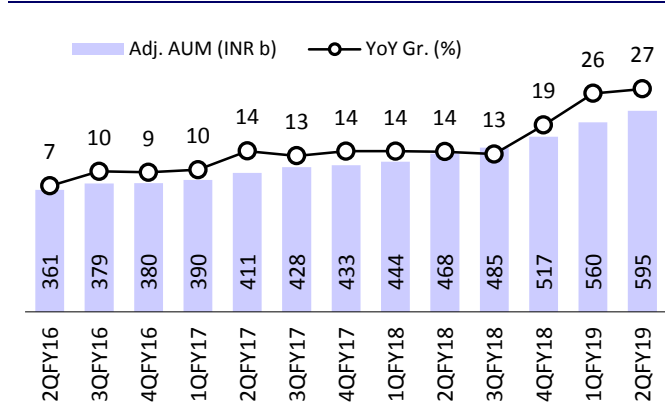
- Financed 400,000 vehicles in the past six months.
- INR200m of dividend received from subsidiaries in the quarter – this led to spike in other income during the quarter.
- 90-95% of public deposits is retail.

Exhibit 2: Quarterly Snapshot

	FY18				FY19		Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	QoQ	YoY
Profit and Loss (INR m)								
Net Income	7,534	8,051	10,835	13,188	10,909	12,117	11	51
Operating Expenses	3,274	3,309	4,282	4,927	3,849	4,248	10	28
Employee	1,959	1,868	2,052	2,624	2,634	2,410	(9)	29
Others	1,316	1,441	2,231	2,303	1,214	1,838	51	28
Operating Profits	4,260	4,742	6,553	8,261	7,060	7,869	11	66
Provisions	1,269	2,237	1,989	1,572	2,938	2,311	(21)	3
PBT	2,991	2,506	4,563	6,688	4,122	5,558	35	122
Taxes	977	866	1,793	2,443	1,432	1,744	22	101
PAT (before EO)	2,014	1,640	2,770	4,245	2,691	3,814	42	133
Asset Quality								
GNPA (INR b)	50.1	62.2	60.2	47.0	55.3	56.4	2	(9)
NNPA (INR b)	19.8	30.4	27.0	19.7	35.9	36.7	2	21
%GNPAs to total assets (%)	10.5	12.5	11.6	8.5	9.4	9.0		
%NNPAs to total assets (%)	4.4	6.5	5.6	3.8	6.3	6.0		
PCR (Calc., %)	60.5	51.1	55.2	58.1	35.1	34.9		
Ratios (%)								
Cost to Income	43.5	41.1	39.5	37.4	35.3	35.1		
Tax Rate	32.7	34.5	39.3	36.5	34.7	31.4		
CAR	17.5	19.3	23.5	22.7	21.9	19.7		
<i>Tier I</i>	13.2	12.4	17.0	17.0	16.6	14.5		
RoA - calculated	1.7	1.4	2.7	3.2	2.0	2.6		
RoE - calculated	12.4	10.1	17.9	18.7	11.4	15.6		
Key Details (INR b)								
AUM (Adjusted)	444	468	485	517	560	595	6	27
On book Loans	438	460	478	510	540	555	3	21
Off book Loans	6	8	7	7	20	40	100	408
Borrowings	359	382	370	403	429	467	9	22
On book Borrowings	353	373	363	396	423	459	9	23
Off book (Securitization)	6	8	7	8	6	8	32	2
AUM Mix (%)								
Auto/Utility vehicles	30	28	28	27	27	25		
Tractors	17	17	18	17	17	17		
Cars	23	22	23	22	22	21		
Commercial Vehicles	13	12	13	14	14	15		
Refinance & others	9	9	8	8	8	8		
Value of assets fin mix. (%)								
Auto/Utility vehicles	28	27	27	26	24	23		
Tractors	21	19	20	18	19	18		
Cars	21	21	21	20	21	20		
Commercial Vehicles	11	11	12	13	17	18		
Refinance & others	14	15	14	14	14	14		
Total Borrowing Mix (%)								
Bank Term loans	24	24	25	30	30	31		
Bonds/NCDs	47	47	48	43	39	38		
Securitization	2	2	2	2	1	2		
Fixed deposits	11	9	9	8	8	8		
Commercial Papers	13	12	11	12	16	14		
Other Details								
Branches (Nos.)	1,183	1,178	1,178	1,284	1,291	1,296		
Employees (Nos.)	17,659	18,350	18,486	18,733	19,346	20,201		

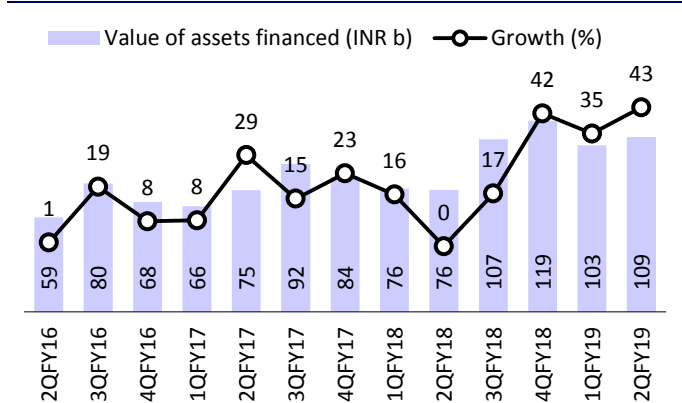
Story in charts

Exhibit 3: Sharp pick up in adj. AUM growth



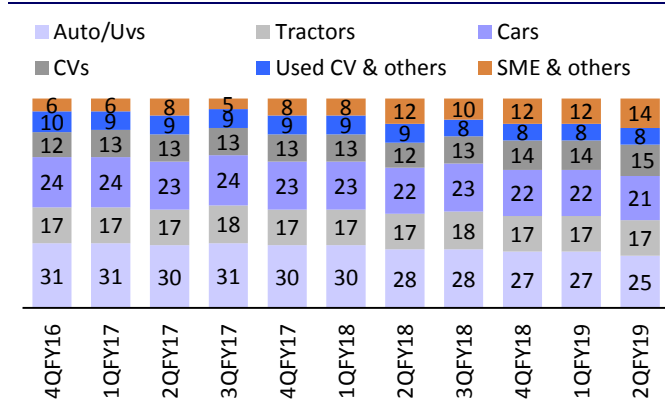
Source: Company, MOSL

Exhibit 4: Strong growth in value of assets financed



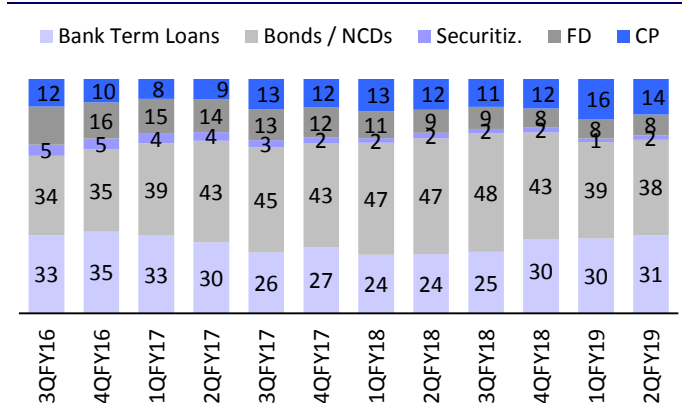
Source: Company, MOSL

Exhibit 5: AUM mix largely stable sequentially (%)



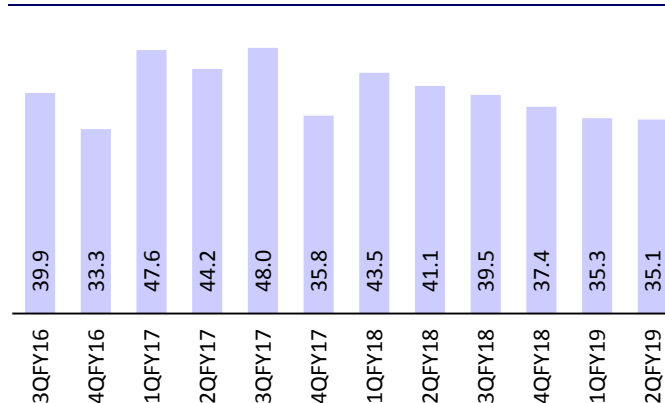
Source: Company, MOSL

Exhibit 6: Rising dependence on bank borrowings



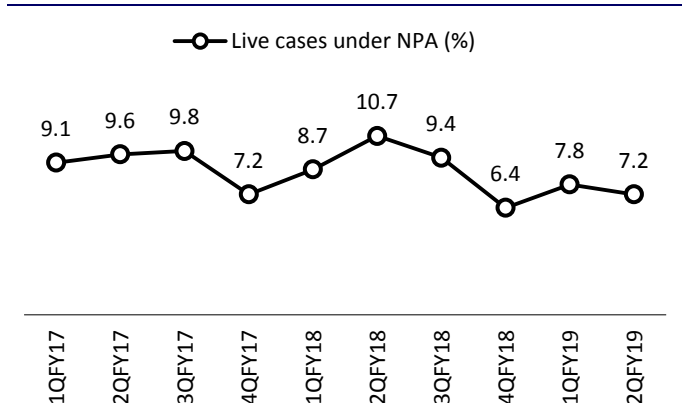
Source: Company, MOSL

Exhibit 7: Cost-to-income ratio decreases meaningfully (%)



Source: Company, MOSL

Exhibit 8: Decline in live cases under NPA



Source: Company, MOSL

Exhibit 9: Financials matrix

	Rating	CMP	Mcap	P/E (x)			P/BV (x)			RoA (%)			RoE (%)		
		(INR)	(USD\$)	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
ICICI* [*]	Buy	324	28.3	21.3	27.3	11.7	1.5	1.3	1.2	0.8	0.6	1.1	6.8	5.0	11.0
AXSB	Buy	563	19.8	507.0	34.9	15.7	2.3	2.1	1.9	0.0	0.6	1.0	0.5	6.3	12.9
KMB*	Neutral	1,177	30.7	36.2	31.7	25.8	4.4	3.9	3.4	1.7	1.6	1.7	12.5	11.8	13.2
YES	Buy	204	6.7	11.1	9.0	7.5	1.8	1.6	1.3	1.6	1.5	1.4	17.7	18.7	19.1
IIB	Buy	1,521	12.1	25.3	20.5	15.5	3.9	3.4	2.7	1.8	1.9	2.1	16.5	17.6	19.4
FB	Buy	82	2.2	17.1	14.1	9.5	1.3	1.2	1.1	0.7	0.8	0.9	8.3	9.0	12.2
DCBB	Neutral	158	0.7	19.9	16.6	13.2	1.8	1.7	1.5	0.9	0.9	0.9	10.9	10.9	12.3
SIB	Buy	14	0.3	7.5	9.7	5.0	0.5	0.5	0.4	0.4	0.3	0.5	6.6	4.9	9.1
Equitas	Buy	125	0.6	134.9	25.3	19.6	1.9	1.8	1.6	0.3	1.0	1.0	1.4	7.2	8.6
RBL	Buy	494	2.7	32.6	24.0	17.2	3.1	2.8	2.5	1.1	1.2	1.3	11.6	12.3	15.2
Private Aggregate															
SBIN (cons)*	Buy	256	31.2	-41.8	46.0	7.9	0.9	0.9	0.9	-0.2	0.1	0.6	-3.5	1.0	11.3
PNB	Neutral	66	2.4	-1.3	-10.6	6.2	0.5	0.6	0.6	-1.7	-0.2	0.4	-29.5	-4.9	9.3
BOI	Neutral	76	1.8	-1.8	14.9	9.2	0.4	0.4	0.4	-1.0	0.1	0.2	-17.8	2.5	4.0
BOB	Under Review	103	3.7	-10.5	8.8	5.2	0.7	0.6	0.6	-0.3	0.4	0.6	-5.8	6.9	10.7
CBK	Neutral	212	2.1	-3.3	11.0	4.8	0.5	0.5	0.4	-0.7	0.2	0.5	-12.2	3.9	8.5
UNBK	Neutral	63	1.0	-1.1	-14.7	17.9	0.3	0.3	0.3	-1.1	-0.1	0.1	-23.7	-2.1	1.6
INBK	Buy	218	1.4	8.3	8.8	5.1	0.6	0.6	0.5	0.5	0.4	0.7	8.3	7.3	11.6
Public Aggregate															
Banks Aggregate															
HDFC*	Buy	1,740	38.7	20.0	14.2	12.9	3.3	2.1	1.9	1.9	1.9	1.7	18.6	16.5	15.5
LICHF	Buy	412	2.9	11.0	8.4	7.4	1.6	1.4	1.2	1.3	1.5	1.5	15.7	17.7	17.5
IHFL	Buy	743	4.3	8.2	7.5	6.4	2.1	1.9	1.7	3.4	3.2	3.2	27.9	26.3	27.4
PNBHF	Buy	732	1.6	14.7	11.6	9.3	1.9	1.7	1.5	1.6	1.4	1.3	13.9	15.2	16.8
GRHF	Neutral	264	2.5	53.2	40.2	36.8	14.9	12.1	10.1	2.5	2.8	2.7	31.8	33.3	30.0
REPCO	Buy	349	0.3	10.6	9.0	8.0	1.7	1.4	1.2	2.2	2.3	2.3	16.9	17.2	16.5
Housing Finance															
SHTF	Buy	1,051	3.1	15.2	10.0	8.1	1.8	1.5	1.3	2.0	2.4	2.5	12.7	16.3	17.3
MMFS	Buy	401	3.1	23.0	21.4	17.9	2.6	2.4	2.2	2.3	2.1	2.1	12.5	11.5	12.6
BAF	Neutral	2,313	16.4	53.3	35.3	28.5	8.6	7.1	5.8	3.3	3.7	3.6	20.4	22.0	22.4
CIFC	Buy	1,183	2.4	19.0	16.5	14.0	3.7	3.0	2.5	2.7	2.4	2.3	20.9	20.2	19.9
SCUF	Buy	1,593	1.4	15.8	12.3	10.5	1.9	1.7	1.5	2.8	3.0	3.0	12.7	14.7	15.1
LTFH	Buy	127	3.3	18.7	11.0	9.4	2.3	1.9	1.6	1.7	2.3	2.2	14.2	18.9	18.6
MUTH	Neutral	397	2.2	9.2	7.9	7.1	2.0	1.7	1.5	5.5	6.0	5.9	24.1	23.8	22.4
MAS	Buy	406	0.3	21.2	17.3	14.1	3.1	2.7	2.4	4.1	3.9	3.8	20.7	16.5	17.9
CAFL	Buy	476	0.6	14.4	10.8	8.6	1.8	1.6	1.4	1.6	1.6	1.6	13.4	15.7	17.1
Asset Finance															
NBFC Aggregate															
Financials															

UR=Under Review*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries; # Div Yield based on FY16 expected dividend; UR: Under Review

Financials and valuations

Income Statement								(INR M)
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Interest Income	47,079	52,798	56,468	60,545	64,875	84,382	106,252	134,345
Interest Expended	21,880	24,967	26,393	28,574	30,995	38,049	51,021	67,476
Net Interest Income	25,199	27,831	30,075	31,971	33,880	46,333	55,230	66,869
Change (%)	25.5	10.4	8.1	6.3	6.0	36.8	19.2	21.1
Income from Securitization	2,137	2,562	2,063	1,194	1,420	1,297	1,621	1,190
Other Income	314	486	519	636	592	900	1,035	1,190
Net Income	27,650	30,880	32,658	33,801	35,892	48,530	57,887	69,250
Change (%)	21.5	11.7	5.8	3.5	6.2	35.2	19.3	19.6
Operating Expenses	9,134	10,068	11,781	14,509	14,233	17,565	21,011	25,139
Operating Income	18,516	20,811	20,877	19,292	21,659	30,965	36,876	44,110
Change (%)	20.7	12.4	0.3	-7.6	12.3	43.0	19.1	19.6
Provisions and W/Offs	5,058	8,275	10,495	13,091	5,681	10,188	12,858	15,687
PBT	13,458	12,536	10,382	6,201	15,978	20,777	24,018	28,423
Tax	4,585	4,219	3,656	2,198	5,907	6,752	7,806	9,238
Tax Rate (%)	34.1	33.7	35.2	35.5	37.0	32.5	32.5	32.5
PAT	8,872	8,318	6,726	4,002	10,071	14,024	16,212	19,186
Change (%)	2.3	-6.2	-19.1	-40.5	151.6	39.3	15.6	18.3
Proposed Dividend (Incl Tax)	2,522	2,730	2,713	1,610	2,938	4,085	4,722	5,588

Balance Sheet								(INR M)
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Equity Share Capital	1,127	1,128	1,129	1,130	1,229	1,229	1,229	1,229
Reserves & Surplus	49,815	55,566	59,752	63,642	94,996	104,936	116,426	130,024
Net Worth	50,942	56,694	60,881	64,772	96,225	106,165	117,655	131,253
Borrowings	239,306	262,633	294,523	345,545	395,557	484,196	618,971	765,144
Change (%)	26.8	9.7	12.1	17.3	14.5	22.4	27.8	23.6
Total Liabilities	290,249	319,327	355,404	410,318	491,782	590,360	736,626	896,397
Investments	10,051	10,857	15,351	19,929	19,300	21,230	23,353	25,689
Change (%)	37.4	8.0	41.4	29.8	-3.2	10.0	10.0	10.0
Loans and Advances	291,943	324,314	362,189	421,218	510,043	609,051	754,843	916,341
Change (%)	23.5	11.1	11.7	16.3	21.1	19.4	23.9	21.4
Net Fixed Assets	1,195	1,101	1,135	1,120	1,197	1,122	990	795
Net Current Assets	-12,940	-16,944	-23,270	-31,949	-38,758	-41,043	-42,560	-46,427
Total Assets	290,249	319,327	355,404	410,318	491,782	590,360	736,626	896,397

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2014	2015E	2016	2017	2018	2019E	2020E	2021E
Spreads Analysis (%)								
Yield on Portfolio	17.8	17.1	16.4	15.4	13.9	15.0	15.5	16.0
Cost of Borrowings	10.2	9.9	9.5	8.9	8.4	8.7	9.3	9.8
Interest Spread	7.5	7.1	6.9	6.4	5.5	6.4	6.3	6.3
Net Interest Margin (on AUMs)	9.3	9.1	8.8	8.1	7.4	8.2	8.1	8.0
Profitability Ratios (%)								
RoE	18.6	15.5	11.4	6.4	12.5	13.9	14.5	15.4
RoA (on balance sheet)	3.4	2.7	2.0	1.0	2.2	2.6	2.4	2.3
Average Leverage (x)	5.5	5.7	5.7	6.1	5.6	5.3	5.9	6.6
Average leverage on AUM (x)	6.1	6.2	6.1	6.3	5.7	5.5	6.1	6.7
Efficiency Ratios (%)								
Int. Expended/Int.Earned	46.5	47.3	46.7	47.2	47.8	45.1	48.0	50.2
Op. Exps./Net Income	33.0	32.6	36.1	42.9	39.7	36.2	36.3	36.3
Empl. Cost/Op. Exps.	32.6	45.6	47.4	46.9	58.5	58.8	59.0	59.1
Secur. Inc./Net Income	7.7	8.3	6.3	3.5	4.0	2.7	2.8	1.7
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	122.0	123.5	123.0	121.9	128.9	125.8	122.0	119.8
Net NPAs to Adv.	2.0	2.5	3.4	3.8	3.9	4.7	4.0	3.6
Valuation								
Book Value (INR)	90.4	100.5	107.8	114.6	156.6	172.8	191.5	213.6
BV Growth (%)	14.3	11.2	7.3	6.3	36.6	10.3	10.8	11.6
Price-BV (x)				3.5	2.6	2.3	2.1	1.9
Adjusted BV (INR)	83.2	90.3	92.5	94.8	134.1	140.3	157.4	176.1
Price-ABV (x)				4.2	3.0	2.9	2.5	2.3
OPS (INR)	32.9	36.9	37.0	34.1	35.2	50.4	60.0	71.8
OPS Growth (%)	20.6	12.3	0.2	-7.7	3.2	43.0	19.1	19.6
Price-OP (x)				11.7	11.4	8.0	6.7	5.6
EPS (INR)	15.7	14.7	11.9	7.1	17.4	22.8	26.4	31.2
EPS Growth (%)	0.4	-6.4	-19.2	-40.5	146.3	30.8	15.6	18.3
Price-Earnings (x)				56.6	23.0	17.6	15.2	12.8
Dividend	3.8	4.0	4.0	2.4	4.0	5.7	6.6	7.8
Dividend Yield (%)				0.6	1.0	1.4	1.6	1.9

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 1,284 branches, ~18,000 employees, 2m+ customers and asset under management of INR550b+ as of FY18. MMFS has two subsidiaries viz. Mahindra rural housing finance and Mahindra insurance brokers.

Exhibit 11: Sensex rebased

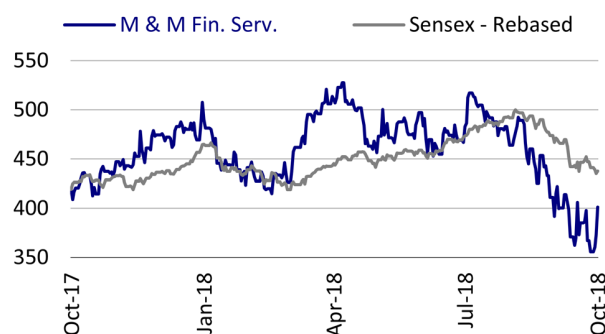


Exhibit 12: Shareholding pattern (%)

	Sep-18	Jun-18	Sep-17
Promoter	51.2	51.2	51.2
DII	12.5	12.4	10.2
FII	28.0	28.6	32.7
Others	8.3	7.8	5.9

Note: FII Includes depository receipts

Exhibit 14: Top management

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

Exhibit 13: Top holders

Holder Name	% Holding
SBI Mutual Fund	2.9
UTI Mutual Fund	2.8
HDFC Standard Life Insurance Company Limited	2.1
Blackrock Global Funds Asian Dragon Fund	1.6
Blackrock Global Funds - Asian Growth Leaders	1.6

Exhibit 15: Board of director

Name	Name
Anish Shah	C B Bhavé
V S Parthasarathy	Manohar G Bhidé
Rama Bijapurkar	Piyush Mankad

*Independent

Exhibit 17: Auditors

Name	Type
KSR & Co LLP	Secretarial Audit
B S R & Co LLP	Statutory

Exhibit 18: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	22.8	22.1	3.3
FY20	26.4	27.6	-4.3
FY21	31.2	33.5	-7.0

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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