

# Mahindra Financial Services

BSE SENSEX

37,848

S&amp;P CNX

11,271

**CMP: INR304**
**TP: INR400 (+31%)**
**Buy**

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Bloomberg	MMFS IN
Equity Shares (m)	614
M.Cap.(INRb)/(USD\$)	188 / 2.7
52-Week Range (INR)	524 / 289
1, 6, 12 Rel. Per (%)	-19/-32/-40
12M Avg Val (INR M)	843
Free float (%)	48.8

## Financials & Valuations (INR b)

Y/E March	2019	2020E	2021E
NII	47.8	53.8	61.1
PPP	30.2	32.4	36.7
PAT	15.6	15.6	17.1
EPS (INR)	25.3	25.3	27.9
BV/Sh.(INR)	170	190	212
RoA on AUM (%)	2.6	2.2	2.2
RoE (%)	15.8	14.1	13.9
Payout (%)	35.9	21.1	21.1
<b>Valuations</b>			
P/E (x)	12.0	12.0	10.9
P/BV (x)	1.8	1.6	1.4
Div. Yield (%)	2.1	1.5	1.7

## Higher Opex / credit costs drive a big PAT miss; cut estimates by 15-18%

- MMFS reported PAT of INR0.7b, significantly below our estimate of INR3.2b, due to higher-than-expected operating expenses and a sharp jump in provisions.
- **Asset quality:** As 1Q is a seasonally weak quarter, the **GNPL ratio increased 150bp QoQ to 7.4%. At the same time, MMFS increased its PCR on stage 3 assets by ~600bp to 25%.** These two factors resulted in an unexpectedly high credit cost of INR6.2b for the quarter.
- **AUM growth remained strong at 6% QoQ/22% YoY.** On a sequential basis, AUM mix was unchanged, with car/UV and tractor financing comprising 47%/17% of total AUM.
- **Opex increased 45% YoY to INR5.6b owing to one-time employee gratuity and other expenses of INR300m.**
- With the margins largely stable at 7.9% YoY, NII grew by a healthy 18% YoY to INR12.8b (3% beat). **The share of securitized assets increased from 1% of total borrowings in the year-ago period to 9% in 1QFY20.**
- **Valuation view:** Despite a slowdown in OEM volumes, MMFS has been able to deliver strong AUM growth, driven by its diversification into new product segments (such as pre-owned vehicles and CV/CE) and increasing share in different OEMs. While the company is likely to gain market share, we expect AUM growth to moderate to 14% YoY by year-end. Asset quality performance has been in line with expectations; however, up-fronting of provisions on stage 3 assets and movement within stages 1-3 of loans (based on macros) are likely to keep credit costs volatile. We cut our estimates for PPop by 5-7% and PAT by 15-18% to factor in higher credit costs. Maintain **Buy** with a target price of INR400 (SOTP-based).

## Quarterly Performance

(INR Million)

Y/E March	FY19				FY20				FY19	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Total income</b>	<b>19,397</b>	<b>21,445</b>	<b>22,461</b>	<b>24,795</b>	<b>24,125</b>	<b>25,068</b>	<b>26,098</b>	<b>29,083</b>	<b>88,098</b>	<b>104,374</b>
YoY Growth (%)	28.6	39.3	22.7	37.2	24.4	16.9	16.2	17.3	31.8	18.5
Interest Expenses	8,488	9,310	10,205	11,443	11,282	11,790	12,497	14,001	39,446	49,570
<b>Net Income</b>	<b>10,909</b>	<b>12,136</b>	<b>12,256</b>	<b>13,352</b>	<b>12,843</b>	<b>13,278</b>	<b>13,600</b>	<b>15,082</b>	<b>48,653</b>	<b>54,804</b>
YoY Growth (%)	44.8	50.7	20.7	29.7	17.7	9.4	11.0	13.0	35.0	12.6
Operating Expenses	3,849	4,266	4,812	5,549	5,600	5,400	5,560	5,870	18,476	22,430
<b>Operating Profit</b>	<b>7,060</b>	<b>7,869</b>	<b>7,444</b>	<b>7,803</b>	<b>7,243</b>	<b>7,878</b>	<b>8,040</b>	<b>9,212</b>	<b>30,177</b>	<b>32,374</b>
YoY Growth (%)	65.8	65.9	12.4	28.4	2.6	0.1	8.0	18.1	39.1	7.3
Provisions	2,938	2,311	2,247	-1,145	6,196	2,500	1,500	-1,423	6,352	8,773
<b>Profit before Tax</b>	<b>4,122</b>	<b>5,558</b>	<b>5,197</b>	<b>8,947</b>	<b>1,047</b>	<b>5,378</b>	<b>6,540</b>	<b>10,635</b>	<b>23,824</b>	<b>23,601</b>
Tax Provisions	1,432	1,744	2,010	3,068	363	1,829	2,224	3,609	8,254	8,024
<b>Net Profit</b>	<b>2,691</b>	<b>3,814</b>	<b>3,187</b>	<b>5,880</b>	<b>684</b>	<b>3,550</b>	<b>4,317</b>	<b>7,026</b>	<b>15,571</b>	<b>15,577</b>
YoY Growth (%)	33.6	132.5	-3.8	87.0	-74.6	-6.9	35.5	19.5	54.0	0.0
Loan growth (%)					20.9	15.8	13.7	13.5	26.2	13.5
Cost to Income Ratio (%)	35.3	35.2	39.3	41.6	43.6	40.7	40.9	38.9	38.0	40.9
Tax Rate (%)	34.7	31.4	38.7	34.3	34.6	34.0	34.0	33.9	34.6	34.0

E: MOSL Estimates

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**Exhibit 1: Quarterly performance v/s expectations and reasons for deviations**

Particulars	1QFY20E	1QFY20A	V/S our Est	Comments
<b>Net Income</b>	<b>12,508</b>	<b>12,843</b>	<b>3</b>	<b>In-line</b>
Operating Expenses	4,465	5,600	25	INR300m one-off employee related expenses
<b>Operating Profit</b>	<b>8,043</b>	<b>7,243</b>	<b>-10</b>	
Provisions and Cont.	3,200	6,196	94	Increased PCR from 19% to 25% QoQ
<b>Profit before Tax</b>	<b>4,843</b>	<b>1,047</b>	<b>-78</b>	
Tax Provisions	1,647	363	-78	
<b>Net Profit</b>	<b>3,196</b>	<b>684</b>	<b>-79</b>	
Int Exp/ Operating Inc (%)	48.5	47.1	-2.9	
Cost to Inc Ratio (%)	35.7	43.6	22.2	
Tax Rate (%)	34.0	34.6	1.9	

Source: MOFSL, Company

AUM growth robust at 6%  
QoQ/22% YoY

**AUM growth healthy**

- **Total value of assets financed increased 3% YoY to INR106b, driven by strong growth in M&M auto/UVs and pre-owned vehicles. On the other hand, tractors and non-M&M cars witnessed a decline of 8% and 2% YoY, respectively.**
- Overall AUM grew 6% QoQ/22% YoY to INR714b. On a sequential basis, AUM mix was unchanged, with car/UV and tractor financing comprising 47%/17% of total AUM.
- Note that 43% of AUM comes from M&M assets.

C/I ratio increased 200bp to  
44%

**Margins stable YoY; higher overheads – a negative surprise**

- NIM (calc.) remained largely stable YoY at 8%. Over the past two quarters, the share of securitized assets has been increasing. It increased from 1% of total borrowings in 1QFY19 to 9% in 1QFY20. On the other hand, the share of CPs declined from 16% to 7% over the same time period.
- The opex to assets ratio increased 20bp QoQ to 3.30%, partly driven by a one-time gratuity expense of INR300m. The number of employees also increased 14% YoY to 22,000+. Regrouping of assets, as per IND-AS116, has also led to higher opex of ~INR25m.

Gross stage 3/net stage 3  
loans increased from  
5.9%/4.8% to 7.4%/5.7%  
sequentially

**GNPL ratio up due to seasonality**

- On account of seasonality, gross Stage 3 loans increased 150bp QoQ to 7.4%. This was also reflected in volume terms, with the number of NPL contracts up ~40% QoQ.
- At the same time, MMFS increased PCR on its Stage 3 loans from 19% to 25% QoQ. Management has guided for no further provisioning for the rest of the 9MFY20, in respect to these contracts unless the estimates change per se.

**Subsidiaries' performance**

- **Mahindra Rural Housing Finance (MRHFL):** MRHFL had a tough quarter with 2% QoQ/11% YoY loan growth and PAT declining 7% YoY to INR288m.
- GNPL/NNPL increased by 320/250bp QoQ to 16.2%/13.3% due to specific exposures in Maharashtra.
- **Mahindra Insurance Broker (MIBL):** MIBL's net premium distributed increased 16% YoY, but PAT halved to INR62m. Absolute numbers of policies declined 76% QoQ to 538b.

### Valuations and view

- In FY17, the company undertook a major restructuring exercise, migrating from a branch-based approach to a product-based approach. Consequently, growth has surprised positively over the past few quarters despite moderation in underlying OEM sales growth.
- Asset quality has been the positive surprise so far. We expect asset quality to stabilize at the current level unless monsoons disappoint. Up-fronting of credit cost on stage 3 assets and movement within stages 1-3 of loans (based on macros) are likely to keep credit costs volatile.
- We cut our PPOP estimates by 5-7% and PAT by 15-18% to factor in higher credit costs. Buy with a TP of INR400 (SOTP based).

#### Exhibit 2: SOTP (FY21E based)

SOTP FY21E Based (INR)	Value (INR b)	Value (USD b)	Value/Sh. (INR)	% of total	Rationale
<b>Core business</b>	<b>221</b>	<b>1.2</b>	<b>360</b>	<b>90.0</b>	<b>1.7x BV</b>
<b>Key Ventures</b>					
Mahindra Rural Housing Finance	19	0.1	32	7.9	1.3x BV
Mahindra Insurance Brokers	11	0.1	18	4.6	1.5x Based on last stake sale value
<b>Total Value of Ventures</b>	<b>31</b>	<b>0.2</b>	<b>50</b>	<b>12.5</b>	
Less: 20% holding discount	6	0.0	10	2.5	
<b>Value of Key Ventures</b>	<b>25</b>	<b>0.1</b>	<b>40</b>	<b>10.0</b>	
<b>Target Value Post 20% Holding Co Disc</b>	<b>246</b>	<b>1.3</b>	<b>400</b>	<b>100.0</b>	
CMP	187	1.0	304		
<b>Upside - %</b>	<b>31.5</b>	<b>31.5</b>	<b>31.5</b>		

Source: Company, MOFSL



### Key conference call highlights

#### Asset quality

- **NPA incurred in 1Q has been fully provided (required provision made upfront). Unless final LGD is much higher than what they estimate, MMFS should be able to write off without further provisions.**
- No pressure on cash flow collections in rural. Customers have enough money to repay loans but not borrow more or buy assets. The company is not witnessing new signals of stress in 2Q so far.
- INR900m of write-offs in the quarter.
- The company reset the rates of PD/LGD - PD has gone down by 2%, LGD has increased 2%.
- Housing finance NPA would be 6-7% excl. Maharashtra. Once Maharashtra corrects, this will come down to 7-8%. MMFS HFC NPA provision during the quarter was INR570m.

#### P&L

- Gross spread level should remain at present levels if asset mix remains same.
- **There were some one-offs in 1QFY20 opex - INR25m from lease rentals from AS-116, INR140m from increased gratuity due to salary hikes (5% hike in basic) and INR160m from leave encashments.**
- Cost of acquiring and growing a business, cost of collection (have added people) and investment for the future have led to higher costs. These benefits should be visible in higher collection efficiency toward the later part of the year.

**Business updates:**

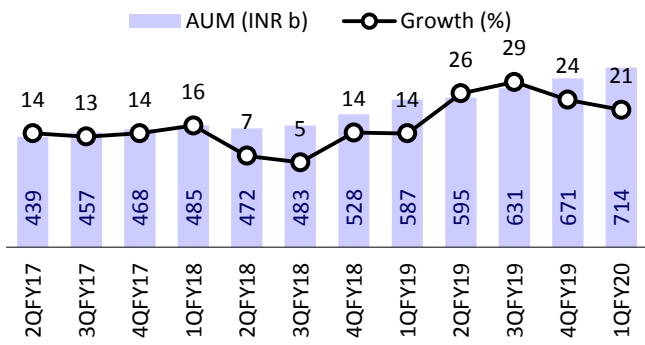
- Guided for 10%/15% disbursement/AUM growth for FY20. Could be more if sales pick up.
- No need to infuse any more capital in AMC business for the next few years.
- They haven't faced challenges in raising funds from banks (PSUs) but the cost of borrowing has remained sticky. Spreads have declined from 3QFY19 levels but not as much as expected.

**Exhibit 3: Quarterly Snapshot**

	FY18				FY19				FY20	Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	QoQ	YoY
<b>Profit and Loss (INR m)</b>											
Net Income	7,534	8,051	10,153	10,297	10,909	12,117	12,256	13,352	12,843	(4)	18
Operating Expenses	3,274	3,309	3,531	4,222	3,849	4,248	4,812	5,549	5,600	1	45
Employee	1,959	1,868	2,044	2,454	2,634	2,410	2,716	3,141	3,521	12	34
Others	1,316	1,441	1,486	1,768	1,214	1,838	2,096	2,408	2,079	(14)	71
Operating Profits	4,260	4,742	6,622	6,076	7,060	7,869	7,444	7,803	7,243	(7)	3
Provisions	1,269	2,237	1,228	948	2,938	2,311	2,247	-1,145	6,196	(641)	111
PBT	2,991	2,506	5,394	5,128	4,122	5,558	5,197	8,947	1,047	(88)	(75)
Taxes	977	866	2,081	1,984	1,432	1,744	2,010	3,068	363	(88)	(75)
PAT (before EO)	2,014	1,640	3,314	3,144	2,691	3,814	3,187	5,880	684	(88)	(75)
<b>Asset Quality</b>											
Gross Stage 3 (INR b)	70.5	66.3	63.5	50.4	55.3	56.4	50.6	40.6	53.0	30	(4)
Net Stage 3 (INR b)	42.5	42.5	40.6	33.3	35.9	36.7	37.0	32.8	39.8	21	11
Gross Stage 3 (%)	14.5	13.1	12.3	9.0	9.4	9.0	7.7	5.9	7.4	25	(21)
Net Stage 3 (%)	9.3	8.8	8.2	6.2	6.3	6.0	5.8	4.8	5.7	19	(10)
PCR (Calc., %)	39.7	35.8	36.1	34.0	35.1	34.9	26.9	19.2	24.9	29	(29)
<b>Ratios (%)</b>											
Cost to Income	43.5	41.1	34.8	41.0	35.3	35.1	39.3	41.6	43.6	5	24
Tax Rate	32.7	34.5	38.6	38.7	34.7	31.4	38.7	34.3	34.6	1	(0)
CAR	17.5	19.3	23.5	22.7	21.9	19.7	19.4	20.3	19.4	(4)	(11)
Tier I	13.2	12.4	17.0	17.0	16.6	14.5	14.7	15.5	14.9	(4)	(10)
RoA - calculated	1.7	1.4	3.2	2.4	2.0	2.6	2.1	3.8	0.4	(88)	(78)
RoE - calculated	12.4	10.1	20.7	13.8	11.4	15.6	12.6	22.2	2.5	(89)	(78)
<b>Key Details (INR b)</b>											
AUM	485	472	483	528	587	595	631	671	714	6	22
Borrowings	359	382	370	403	429	467	501	531	550	4	28
<b>AUM Mix (%)</b>											
Auto/Utility vehicles	30	28	28	27	27	25	26	26	26	0	(4)
Tractors	17	17	18	17	17	17	17	17	17	0	0
Cars	23	22	23	22	22	21	21	21	21	0	(5)
Commercial vehicles	13	12	13	14	14	15	17	18	19	6	36
Refinance & others	17	21	18	20	20	22	19	18	17	(6)	(15)
<b>Value of assets fin mix. (%)</b>											
Auto/Utility vehicles	28	27	27	26	24	23	24	25	27	8	13
Tractors	21	19	20	18	19	18	19	18	17	(6)	(11)
Cars	21	21	21	20	21	20	20	20	20	0	(5)
Commercial vehicles	11	11	12	13	17	18	18	19	18	(5)	6
Refinance & others	19	22	20	23	19	21	19	18	18	0	(5)
<b>Total Borrowing Mix (%)</b>											
Bank Term loans	24	24	25	30	30	31	28	28	28	2	(7)
Bonds/NCDs	49	52	53	48	44	42	44	44	41	(7)	(7)
Securitization	2	2	2	2	1	2	6	8	9	12	528
Deposits	11	9	9	8	8	11	12	13	15	11	88
Commercial Papers	13	12	11	12	16	14	10	7	7	(2)	(59)
<b>Other Details</b>											
Branches (Nos.)	1,183	1,178	1,178	1,284	1,291	1,296	1,313	1,321	1,334		
Employees (Nos.)	17,659	18,350	18,486	18,733	19,346	20,201	21,082	21,789	22,005		

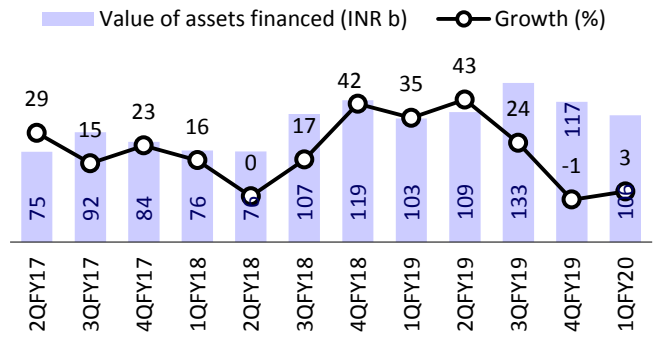
## Story in charts

**Exhibit 4: AUM growth remains healthy**



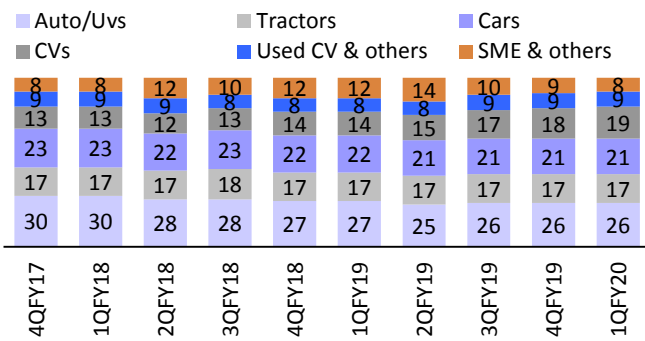
Source: Company, MOFSL

**Exhibit 5: 3% YoY growth in value of assets financed**



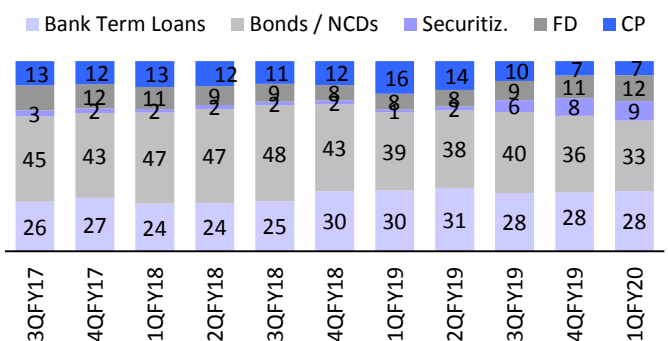
Source: Company, MOFSL

**Exhibit 6: AUM mix largely stable sequentially (%)**



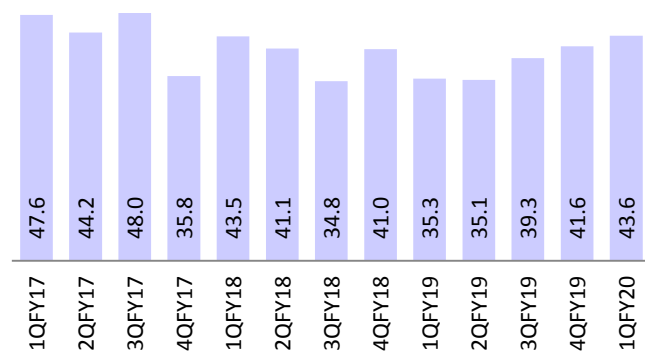
Source: Company, MOFSL

**Exhibit 7: Borrowings from NCDs reduced**



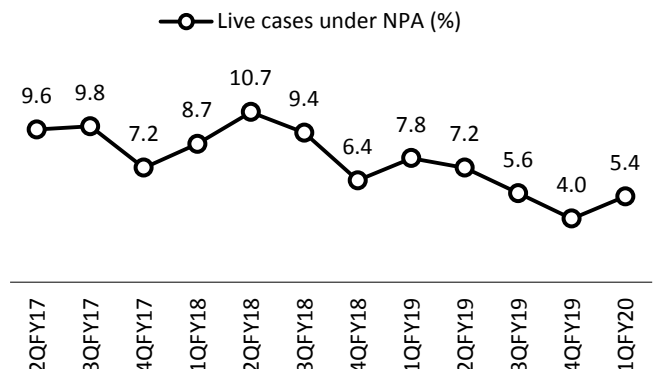
Source: Company, MOFSL

**Cost-to-income ratio increased 200bp QoQ (%)**



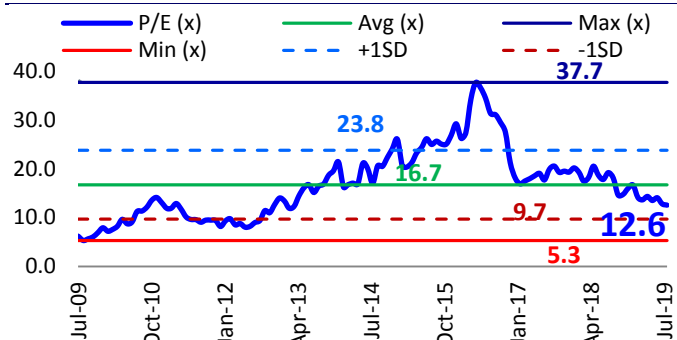
Source: Company, MOFSL

**Exhibit 8: Increase in live cases under NPA**



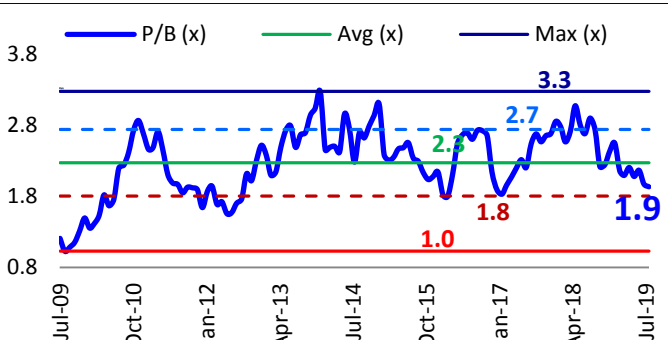
Source: Company, MOFSL

**Exhibit 9: PE Band**



Source: Company, MOFSL

**Exhibit 10: PB Band**



Source: Company, MOFSL

## Exhibit 11: Valuation matrix

	Rating	CMP (INR)	Mcap (USDb)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
ICICIBC*	Buy	409	38.5	14.2	10.6	1.7	1.5	1.3	1.5	12.3	14.9
HDFCB	Buy	2,280	89.7	24.6	20.3	3.7	3.2	1.9	1.9	15.9	16.9
AXSB	Buy	711	27.1	20.0	13.8	2.4	2.1	1.1	1.3	12.8	16.1
KMB*	Neutral	1,498	41.3	33.9	27.8	4.3	3.8	1.8	1.8	13.2	14.3
IIB	Buy	1,361	12.3	14.8	11.3	2.5	2.1	1.9	2.1	18.6	20.1
FB	Buy	93	2.7	11.6	9.1	1.3	1.2	0.9	1.0	11.5	13.3
DCBB	Neutral	196	0.9	16.1	12.6	1.8	1.6	1.0	1.1	12.3	13.9
Equitas	Buy	114	0.6	11.3	8.5	1.4	1.2	1.8	1.8	13.0	15.3
RBL	Buy	456	2.9	18.7	14.6	2.3	1.8	1.1	1.2	13.0	14.3
<b>Private Aggregate</b>											
SBIN (cons)*	Buy	340	44.3	9.2	8.7	1.1	1.0	0.7	0.7	13.4	13.2
PNB	Neutral	68	4.6	19.3	8.4	0.7	0.7	0.2	0.4	3.6	7.8
BOI	Neutral	77	3.1	-96.2	9.5	0.5	0.5	0.0	0.3	-0.5	4.7
BOB	Buy	110	6.2	9.5	5.0	0.7	0.6	0.4	0.7	6.4	12.0
CBK	Neutral	249	2.8	8.6	8.1	0.5	0.5	0.3	0.3	5.9	6.0
<b>Public Aggregate</b>											
<b>Banks Aggregate</b>											
HDFC*	Buy	2,182	51.9	26.4	20.1	3.2	2.5	1.6	1.6	12.8	12.8
LICHF	Buy	520	3.8	9.3	8.1	1.4	1.2	1.3	1.3	16.3	16.3
IHFL	Under Review	612	4.0	7.6	7.2	1.4	1.3	2.9	2.9	19.9	19.3
PNBHF	Buy	702	1.7	9.1	8.2	1.4	1.2	1.4	1.3	16.4	15.7
REPCO	Buy	321	0.3	8.5	7.4	1.2	1.0	2.0	2.0	14.4	14.4
<b>Housing Finance</b>											
SHTF	Buy	926	3.2	8.0	7.3	1.2	1.0	2.4	2.4	15.6	15.1
MMFS	Buy	304	3.0	10.4	9.2	1.6	1.4	2.3	2.3	16.3	16.3
BAF	Neutral	3,172	27.3	36.1	29.7	7.6	6.2	3.5	3.4	23.1	23.0
CIFC	Under Review	238	2.8	13.6	12.1	2.5	2.1	2.2	2.1	20.2	19.0
SCUF	Buy	1,429	1.4	8.5	7.7	1.3	1.1	3.6	3.4	16.1	15.5
LTFH	Buy	103	3.1	8.1	6.9	1.3	1.1	2.3	2.4	17.1	17.2
MUTH	Neutral	592	3.5	10.6	9.3	2.2	1.9	5.5	5.4	22.4	21.8
INDOSTAR	Buy	323	0.4	9.1	6.4	0.9	0.8	2.2	2.4	10.3	12.9
MAS	Buy	566	0.5	17.6	14.7	3.0	2.6	4.4	4.3	19.3	19.8

Source: MOFSL, Company

\*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	2015	2016	2017	2018	2019	2020E	2021E	2022E
Interest Income	52,596	56,163	60,127	65,842	86,146	101,976	117,386	133,956
Interest Expended	24,967	26,393	28,574	30,816	39,446	49,570	57,983	66,132
<b>Net Interest Income</b>	<b>27,629</b>	<b>29,770</b>	<b>31,553</b>	<b>35,025</b>	<b>46,700</b>	<b>52,406</b>	<b>59,403</b>	<b>67,824</b>
Change (%)	10.2	7.8	6.0	11.0	33.3	12.2	13.4	14.2
Other Operating Income	2,764	2,368	1,612	493	1,084	1,354	1,693	2,116
Other Income	486	519	636	517	869	1,043	1,199	1,379
<b>Net Income</b>	<b>30,880</b>	<b>32,658</b>	<b>33,801</b>	<b>36,036</b>	<b>48,653</b>	<b>54,804</b>	<b>62,296</b>	<b>71,319</b>
Change (%)	11.7	5.8	3.5	6.6	35.0	12.6	13.7	14.5
Operating Expenses	10,068	11,781	14,509	14,336	18,476	22,430	25,636	29,310
<b>Operating Income</b>	<b>20,811</b>	<b>20,877</b>	<b>19,292</b>	<b>21,700</b>	<b>30,177</b>	<b>32,374</b>	<b>36,659</b>	<b>42,009</b>
Change (%)	12.4	0.3	-7.6	12.5	39.1	7.3	13.2	14.6
Provisions	8,275	10,495	13,091	5,681	6,352	8,773	10,688	12,362
<b>PBT</b>	<b>12,536</b>	<b>10,382</b>	<b>6,201</b>	<b>16,019</b>	<b>23,824</b>	<b>23,601</b>	<b>25,971</b>	<b>29,647</b>
Tax	4,219	3,656	2,198	5,907	8,254	8,024	8,830	10,080
Tax Rate (%)	33.7	35.2	35.5	36.9	34.6	34.0	34.0	34.0
<b>PAT</b>	<b>8,318</b>	<b>6,726</b>	<b>4,002</b>	<b>10,111</b>	<b>15,571</b>	<b>15,577</b>	<b>17,141</b>	<b>19,567</b>
Change (%)	-6.2	-19.1	-40.5	152.6	54.0	0.0	10.0	14.2
Proposed Dividend (Incl Tax)	2,730	2,713	1,610	2,938	4,779	3,266	3,595	4,103

Balance Sheet		(INR Million)						
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Equity Share Capital	1,128	1,129	1,130	1,229	1,230	1,230	1,230	1,230
Reserves & Surplus	55,566	59,752	64,994	92,052	103,072	115,382	128,929	144,393
<b>Net Worth</b>	<b>56,694</b>	<b>60,881</b>	<b>66,124</b>	<b>93,281</b>	<b>104,302</b>	<b>116,612</b>	<b>130,158</b>	<b>145,622</b>
<b>Borrowings</b>	<b>262,633</b>	<b>294,523</b>	<b>352,656</b>	<b>400,932</b>	<b>528,469</b>	<b>604,557</b>	<b>683,957</b>	<b>785,649</b>
Change (%)	9.7	12.1	19.7	13.7	31.8	14.4	13.1	14.9
Other liabilities	31,414	40,391	24,404	33,715	38,009	43,710	50,267	57,807
<b>Total Liabilities</b>	<b>350,741</b>	<b>395,795</b>	<b>443,185</b>	<b>527,927</b>	<b>670,780</b>	<b>764,879</b>	<b>864,382</b>	<b>989,078</b>
Investments	10,857	15,351	19,843	27,341	37,917	45,500	54,601	65,521
Change (%)	8.0	41.4	29.3	37.8	38.7	20.0	20.0	20.0
<b>Loans and Advances</b>	<b>324,314</b>	<b>362,189</b>	<b>406,000</b>	<b>485,470</b>	<b>612,496</b>	<b>694,894</b>	<b>781,665</b>	<b>892,782</b>
Change (%)	11.1	11.7	12.1	19.6	26.2	13.5	12.5	14.2
Other assets	15,571	18,255	17,342	15,116	20,367	24,485	28,117	30,775
<b>Total Assets</b>	<b>350,741</b>	<b>395,795</b>	<b>443,185</b>	<b>527,927</b>	<b>670,780</b>	<b>764,879</b>	<b>864,382</b>	<b>989,078</b>

E: MOSL Estimates



## Financials and valuations

### Ratios

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
<b>Spreads Analysis (%)</b>								
Yield on Portfolio	17.1	16.4	15.7	14.8	15.7	15.6	15.9	16.0
Cost of Borrowings	9.9	9.5	8.8	8.2	8.5	8.8	9.0	9.0
Interest Spread	7.1	6.9	6.8	6.6	7.2	6.9	6.9	7.0
Net Interest Margin	9.9	9.4	8.6	8.0	8.7	8.2	8.3	8.4
<b>Profitability Ratios (%)</b>								
Cost/Income	32.6	36.1	42.9	39.8	38.0	40.9	41.2	41.1
Empl. Cost/Op. Exps.	45.6	47.4	46.9	58.1	59.0	59.3	59.7	60.0
RoE	15.5	11.4	6.3	12.7	15.8	14.1	13.9	14.2
RoA	2.5	1.8	1.0	2.1	2.6	2.2	2.1	2.1
<b>Asset Quality (%)</b>								
GNPA	20,997	32,242	68,311	50,270	40,706	44,942	51,945	60,978
NNPA	8,182	12,351	40,938	33,109	32,907	35,953	41,556	48,782
GNPA %	6.5	8.9	15.5	9.8	6.4	6.5	6.6	6.8
NNPA %	2.6	3.6	10.1	6.8	5.4	5.2	5.4	5.5
PCR %	61.0	61.7	40.1	34.1	19.2	20.0	20.0	20.0
Total Provisions/loans %	4.2	5.8	8.9	6.7	3.4	3.2	3.3	3.3
<b>Capitalization (%)</b>								
CAR	18.3	17.3	18.1	22.7	20.3	19.2	18.4	17.5
Tier I	15.5	14.6	13.6	17.0	15.5	15.4	15.4	15.1
Tier II	2.8	2.7	4.5	5.7	4.8	3.8	3.0	2.4
Average Leverage on Assets (x)	6.2	6.3	6.6	6.1	6.1	6.5	6.6	6.7
<b>Valuation</b>								
Book Value (INR)	100.5	107.8	117.0	151.8	169.6	189.7	211.7	236.8
BV Growth (%)	11.2	7.3	8.5	29.7	11.7	11.8	11.6	11.9
<b>Price-BV (x)</b>					<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>1.3</b>
Adjusted BV (INR)	90.3	92.5	66.3	114.1	132.2	148.7	164.4	181.3
<b>Price-ABV (x)</b>					<b>2.3</b>	<b>2.0</b>	<b>1.8</b>	<b>1.7</b>
EPS (INR)	14.7	11.9	7.1	16.5	25.3	25.3	27.9	31.8
EPS Growth (%)	-6.4	-19.2	-40.5	132.3	53.9	0.0	10.0	14.2
<b>Price-Earnings (x)</b>					<b>12.0</b>	<b>12.0</b>	<b>10.9</b>	<b>9.6</b>
Dividend	4.0	4.0	2.4	4.0	6.5	4.6	5.0	5.7
<b>Dividend Yield (%)</b>					<b>2.1</b>	<b>1.5</b>	<b>1.7</b>	<b>1.9</b>

E: MOSL Estimates

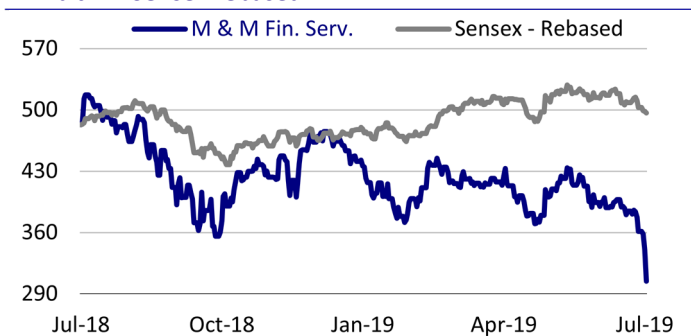


## Corporate profile

### 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 1,300+ branches, 2m+ customers and asset under management of INR670b+ as of FY19. MMFS has two subsidiaries viz. Mahindra Rural Housing Finance and Mahindra Insurance Brokers.

### Exhibit 11: Sensex rebased



### Exhibit 12: Shareholding pattern (%)

	Jun-19	Mar-19	Jun-18
Promoter	51.2	51.2	51.2
DII	14.6	13.6	12.4
FII	26.3	27.2	28.6
Others	7.9	7.9	7.8

Note: FII Includes depository receipts

### Exhibit 14: Top management

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

### Exhibit 13: Top holders

Holder Name	% Holding
LIC of India	2.9
HDFC Life Insurance Company Limited	2.6
UTI Mutual Fund	2.2
SBI Mutual Fund	1.6
Kotak Funds - India Midcap Fund	1.4

### Exhibit 15: Board of director

Name	Name
Anish Shah	C B Bhav*
V S Parthasarathy	Manohar G Bhide*
Rama Bijapurkar*	Piyush Mankad*

\*Independent

### Exhibit 17: Auditors

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

### Exhibit 18: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY19	25.3	25.3	-0.1
FY20	25.3	29.7	-14.9
FY21	27.9	34.7	-19.6

NOTES

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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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