

Aug 30, 2013

Mahindra & Mahindra Financial Services Ltd.

BSE Code: 532720 NSE Code: M&MFIN Reuters Code: MMFS.NS Bloomberg Code: MMFS.IN

Mahindra and Mahindra Financial Services (MMFS) is a subsidiary of Mahindra & Mahindra Ltd, is one of India's premier non-banking finance companies (NBFC) and the largest NBFC operating in rural India. MMFS's mission and vision is to be a leading provider of financial services in the rural and semi-urban areas of India. The company has 675 offices across India, with over 2.6 mn vehicle finance customer as on Q1FY'14. The Company continued to broad base its consortium of lenders by bringing in new Banks, Mutual Funds, Insurance Companies and Trusts.

Investor's Rationale

Robust topline growth of 32% YoY – MMFS, registered a healthy growth in Q1FY'14 with 32.0% YoY rise in its topline at ₹11,647 mn against ₹8,826mn on consolidation basis, maintaining its leadership position for vehicles and tractors in the rural and semi urban markets. This growth was despite of slowdown in auto industry growth and continuing high cost of borrowings through control of transaction costs and maintaining high collection efficiency levels.

Bottom-line grew 18.1% YoY assisted by robust topline – The company's net profit during the quarter grew by 18.1% YoY at ₹2,031 mn mainly on account of robust topline growth. Further, increase in other income by 96.6% YoY at ₹59.7 mn also assisted the net profit growth. However, the growth in net profit was restricted high interest expended (+37.9% at ₹4,947.6 mn), tax (26.7% YoY at ₹1,060 mn) and depreciation cost (20.6% YoY at ₹66.3 mn).

EBITDA margin declined 72bps YoY – The company's EBITDA margin contracted by 72bps YoY at 69.2% against 69.9% mainly due to increase in loan provision and writeoff (49.1% at ₹1,302 mn), employee cost (24.4% YoY at ₹1,129.3 mn) and other expenses (32.4% YoY at ₹1,156 mn).

Asset quality improved - GNPA jumped to 4.2% of total asset from 3.0% at end March 2013. Meanwhile, the NNPA also surged to 1.9% from 1.0% at end March 2013. With the increase in NNPA, the NPA coverage ratio declined to 56.2% at the end of June 2013 from 65.9% at the end of March 2013.

Additional Investment - During the quarter the company made investments of ₹111.9 mn in Mahindra Finance USA LLC, a Joint Vetur company formed jointly with De Landen financial services Inc. in US. A further investment of ₹219 mn was also made in its subsidiary viz; Mahindra Rural Housing Finance Ltd.

Market Data

Rating	BUY
CMP (₹)	253
Target Price	288
Stop Loss	232
Duration	Short-term
52-week High-Low (₹)	287.5/145
Rise from 52WL (%)	74.5
Correction from 52WH (%)	12.0
Beta	0.08
1 year Average Volume (mn)	1.1
	3M- (1.7)
Stock Return (%)	6M- 36.4
	1Y- (67.4)
Market Cap (₹bn)	143.7
Book Value (₹)	78.3

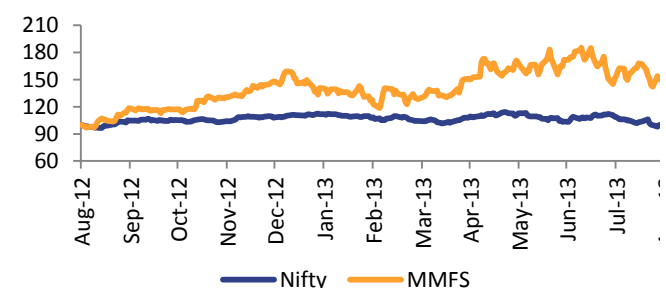
Shareholding Pattern

	Jun'13	Mar'13	Chg
Promoters (%)	52.20	52.21	(0.01)
FII (%)	38.16	37.97	0.19
DII (%)	4.35	4.76	(0.41)
Public & Others (%)	5.29	5.06	0.23

Quarterly Performance (Consolidated)

(₹Mn)	Q1 FY'14	Q1 FY'13	Q4 FY'13	YoY Change(%)	QoQ Change(%)
Sales	11,647	8,826	11,852	32.0	(1.7)
Op. exp	3,587	2,655	2,642	35.1	35.8
EBITDA	8,060	6,171	9,210	30.6	(12.5)
OPM (%)	69.2	69.9	77.7	(72bps)	(851bps)
Net profit	2,031	1,720	3,464	18.1	(41.4)
NPM (%)	17.3	19.4	29.1	(207bps)	(1,178bps)
EPS (₹)	3.6	3.3	6.2	7.9	(42.7)

One Year Price Chart





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