

# Retail Equity Research

## M&M Financial Services Ltd.

NBFC

BSE CODE: 532720

NSE CODE: M&amp;MFIN

Bloomberg CODE: MMFS:IN

SENSEX: 40,165

**BUY**

12M Investment period

Rating as per Mid cap

 CMP Rs 357 TARGET Rs 412 RETURN 15%   
 (Closing: 01-11-19)

**KEY CHANGES:**
**TARGET** 
**RATING** 
**EARNINGS** 

### Bottom-line declines owing to higher provisions and operating expenses

M&MFS is a non-banking financial company (NBFC) that provides asset finance and other financial products and services to buyers in rural and semi-urban markets.

- Value of assets financed declined 10.2% YoY to Rs. 10,856cr
- Net Interest income grew 9.0%/1.5% YoY/QoQ in Q2FY20.
- Higher operating expenses and provisioning were the main reasons behind adj. PAT declining 6.7% YoY to Rs. 356cr in Q2FY20.
- Asset quality improved as GNPA/NNPA ratio improved to 7.2%/5.8% in Q2FY20 (vs 9.0%/6.0% in Q2FY19).
- We value the company at a target price of Rs. 412 based on SOTP, and retain our BUY rating on the stock.

### Value of assets financed continue downward trend

The estimated value of assets financed registered de-growth of 10.2% YoY in Q2FY20. All the segments except for autos (+5.4% YoY) and Pre-owned vehicles (+15.4% YoY) registered declines. The poor showing was mainly in the tractors (-20.2% YoY), Commercial vehicles (-15.2% YoY) and cars (-14.7%) divisions. The AUM mix remained fairly stable with M&M assets constituting nearly 42.0% of AUM. The management expects the pre-owned vehicle segment to be the major growth driver in the next few years.

### Increased provisions and operating expenses weigh on margins

Net interest income rose 9.0% YoY in Q2FY20, but registered a muted 1.5% growth on a sequential basis. Non-interest income registered 52.2% YoY growth, fuelled by a rise in investment and dividend income. Adjusted net profit declined by 6.7% YoY on account of 21.5% YoY increase in operating expenses, combined with increased provisioning for stage 3 assets. The management believes that improvements in margins would be fuelled by the growth in pre-owned vehicle segment.

### Asset quality improves

In Q2FY20 gross NPA ratio improved 180bps YoY to 7.2%, and net NPA ratio improved 20bps YoY to 5.7%. The company maintained a provision coverage ratio of 19.5% for its Stage 3 assets. Despite the liquidity crunch in the NBFC sector as a whole, the company maintained positive liquidity gaps in all the buckets.

### Key concall highlights

- Management reported collection efficiency of 95.0%, same as in H1FY19.
- Management expects AUM growth to be in the range of 15%-20% in FY20.
- Nearly Rs. 384cr non-performing loans were written off in the quarter, up sharply from Rs. 90cr written off in Q1FY20.

### Outlook & Valuation

We believe that an extensive branch network, diversified product portfolio, coupled with strong business tie-ups with OEM's and a strong parentage will help MMFS. Hence we maintain our BUY recommendation on the stock but revise our target price downwards to Rs. 412 (based on SOTP) factoring in the weak macroeconomic conditions. We value the standalone business at Rs 369 (1.7x FY21E BVPS) and subsidiaries at Rs. 43.

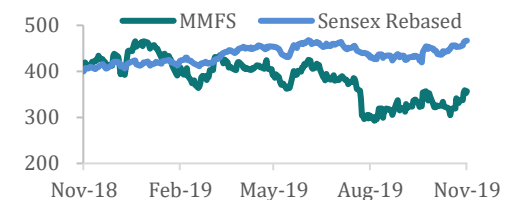
#### Company Data

Market Cap (cr)	Rs. 21,980
Outstanding Shares (cr)	61.6
Free Float	49.0%
Dividend Yield	1.8%
52 week high	Rs. 484
52 week low	Rs. 285
6m average volume (cr)	0.1
Beta	1.7
Face value	Rs. 2

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	51.2	51.2	51.2
FIIIs	26.8	25.9	25.1
MFs/Insti	14.1	15.0	15.7
Public	3.3	3.4	3.4
Others	4.7	4.6	4.5
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	19.5%	-9.1%	-13.0%
Absolute Sensex	8.5%	2.9%	16.7%
Relative Return*	11.0%	-12.0%	-29.6%

\*over- or underperformance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Net Interest Income	4,778	5,538	6,425
Growth (%)	34.5	15.9	16.0
NIM (%)	7.3	7.5	7.9
Pre-provision Profit	3,018	3,509	4,453
Adj. Net Profit	1,557	1,455	1,906
Growth (%)	54.0	(6.6)	31.0
Adj. EPS	25.3	23.6	30.9
Growth (%)	45.5	(6.6)	31.0
BVPS	176.6	192.4	216.9
P/E	16.7	15.1	11.5
P/B	2.4	1.9	1.6
P/ABV	2.4	2.7	2.4
ROE (%)	15.2	12.8	15.1
ROA (%)	2.6	2.0	2.4

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Interest Income	2,486	2,110	17.9	2,394	3.9	4,880	4,038	20.9
Interest Expense	1,202	931	29.1	1,128	6.6	2,330	1,780	30.9
<b>Net Interest Income (NII)</b>	<b>1,284</b>	<b>1,179</b>	<b>9.0</b>	<b>1,266</b>	<b>1.5</b>	<b>2,550</b>	<b>2,259</b>	<b>12.9</b>
Non-Interest Income	55	36	52.2	19	194.6	73	47	55.7
<b>Total Net Income</b>	<b>1,339</b>	<b>1,215</b>	<b>10.2</b>	<b>1,284</b>	<b>4.2</b>	<b>2,623</b>	<b>2,305</b>	<b>13.8</b>
<b>Total Income</b>	<b>2,541</b>	<b>2,146</b>	<b>18.4</b>	<b>2,413</b>	<b>5.3</b>	<b>4,953</b>	<b>4,085</b>	<b>21.3</b>
Operating Expenses	520	428	21.5	560	(7.2)	1,080	813	32.9
<b>Total Expenditure</b>	<b>1,722</b>	<b>1,359</b>	<b>26.7</b>	<b>1,688</b>	<b>2.0</b>	<b>3,410</b>	<b>2,592</b>	<b>31.5</b>
<b>Pre-Provision profit</b>	<b>819</b>	<b>787</b>	<b>4.1</b>	<b>724</b>	<b>13.1</b>	<b>1,543</b>	<b>1,493</b>	<b>3.4</b>
Provisions	361	231	56.1	620	(41.8)	980	525	86.8
<b>Profit Before Tax</b>	<b>458</b>	<b>556</b>	<b>(17.5)</b>	<b>105</b>	<b>337.8</b>	<b>563</b>	<b>968</b>	<b>(41.8)</b>
Tax	207	174	18.5	36	469.1	243	318	(23.5)
<b>Net Profit</b>	<b>252</b>	<b>381</b>	<b>(34.0)</b>	<b>68</b>	<b>268.1</b>	<b>320</b>	<b>651</b>	<b>(50.8)</b>
Adj.	104	0	n.m.	0	n.m.	104	0	n.m.
<b>Adj. PAT</b>	<b>356</b>	<b>381</b>	<b>(6.7)</b>	<b>68</b>	<b>420.2</b>	<b>424</b>	<b>651</b>	<b>(34.8)</b>
Adj. EPS - Diluted (Rs)	5.8	6.2	(6.9)	1.1	420.2	6.9	10.6	(34.9)

### Business Performance

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %
Loans	63,793	55,481	15.0	62,397	2.2
Borrowings	45,290	36,117	25.4	44,505	1.8
Gross NPA	5,204	5,639	(7.7)	5,295	(1.7)
Net NPA	4,187	3,672	14.0	3,979	5.2

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	5,786	6,870	5,538	6,425	(4.3)	(6.5)
Net Interest Margin (%)	8.2	8.2	7.5	7.9	(74bps)	(32bps)
Pre-Provision Profit	3,777	4,624	3,509	4,453	(7.1)	(3.7)
Net Profit	1,625	2,028	1,455	1,906	(10.5)	(6.0)
EPS (Rs)	26.4	33.0	23.6	30.9	(10.6)	(6.3)

### Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	Year	Value/share (Rs.)
MMFSL (standalone)	P/BV	1.8x	FY21E	369
Rural Housing Finance	P/BV	2.0x	FY21E	36
Others	P/BV	1.5x	FY21E	18
20% holding discount				(11)
<b>Target Price</b>				<b>412</b>

## PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	6,174	6,633	8,723	10,216	11,607
Interest Expense	2,857	3,082	3,945	4,678	5,182
<b>Net Int. Income</b>	<b>3,317</b>	<b>3,552</b>	<b>4,778</b>	<b>5,538</b>	<b>6,425</b>
% Change	3.2	7.1	34.5	15.9	16.0
Non-Int. Income	64	52	87	135	216
<b>Net Income</b>	<b>3,380</b>	<b>3,604</b>	<b>4,865</b>	<b>5,673</b>	<b>6,640</b>
<b>Total Income</b>	<b>6,238</b>	<b>6,685</b>	<b>8,810</b>	<b>10,350</b>	<b>11,823</b>
Operating Exp.	1,451	1,434	1,848	2,163	2,187
<b>Total Exp.</b>	<b>4,308</b>	<b>4,515</b>	<b>5,792</b>	<b>6,841</b>	<b>7,369</b>
<b>Pre-Prov. Profit</b>	<b>1,929</b>	<b>2,170</b>	<b>3,018</b>	<b>3,509</b>	<b>4,453</b>
Provisions	1,309	568	635	1,704	1,906
<b>PBT</b>	<b>620</b>	<b>1,602</b>	<b>2,383</b>	<b>1,805</b>	<b>2,547</b>
Tax	220	591	825	454	641
Tax Rate (%)	35.5	36.9	34.6	25.2	25.2
<b>Net Profit</b>	<b>400</b>	<b>1,011</b>	<b>1,557</b>	<b>1,351</b>	<b>1,906</b>
% Change	(40.5)	152.6	54.0	(13.2)	41.1
Adj.	0	0	0	104	0
<b>Adj. PAT</b>	<b>400</b>	<b>1,011</b>	<b>1,557</b>	<b>1,455</b>	<b>1,906</b>
No. of Shares (cr)	57	58	62	62	62
Adj. EPS (Rs)	7.0	17.4	25.3	23.6	30.9
% Change	(40.5)	146.8	45.5	(6.6)	31.0
DPS (Rs)	2.4	4.0	6.5	6.5	6.5

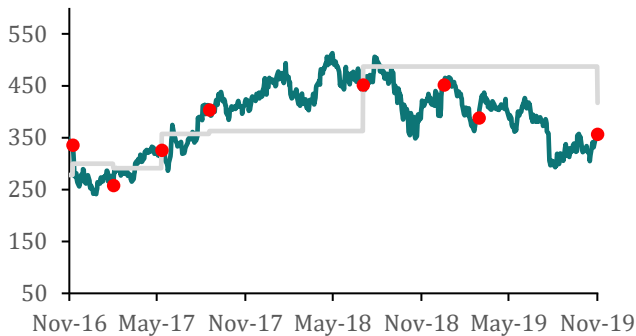
## BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	578	411	959	1,250	1,312
Investments	1,890	2,734	3,792	4,402	4,754
Advances	42,523	48,547	61,250	69,830	76,813
Fixed Assets	112	120	163	333	349
Other Assets	882	981	915	933	943
<b>Total Assets</b>	<b>45,985</b>	<b>52,793</b>	<b>67,078</b>	<b>76,748</b>	<b>84,171</b>
Capital	113	123	123	123	123
Reserves & Surplus	6,364	9,499	10,785	11,736	13,241
Borrowings	27,319	36,859	49,288	57,121	62,389
Other Liabilities	12,190	6,312	6,882	7,768	8,419
<b>Total Liabilities</b>	<b>45,985</b>	<b>52,793</b>	<b>67,078</b>	<b>76,748</b>	<b>84,171</b>
<b>BVPS (Rs)</b>	<b>113.9</b>	<b>155.8</b>	<b>176.6</b>	<b>192.4</b>	<b>216.9</b>
<b>Adj. BVPS(Rs)</b>	<b>85.8</b>	<b>108.2</b>	<b>123.8</b>	<b>133.4</b>	<b>146.6</b>
% Change	0.5	26.1	14.5	7.7	9.9

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Valuation</b>					
P/E (x)	44.7	26.6	16.7	15.1	11.5
P/BV (x)	2.8	3.0	2.4	1.9	1.6
Div. Yield (%)	0.8	0.9	1.5	1.8	1.8
<b>Profitab. &amp; Return (%)</b>					
Yield on Funds	14.5	14.6	15.9	15.6	15.8
Cost of Funds	10.5	9.6	9.2	8.8	8.7
Spread	4.1	5.0	6.7	6.8	7.2
NIM	7.5	6.9	7.3	7.5	7.9
ROE	6.4	13.3	15.2	12.8	15.1
ROA	1.0	2.2	2.6	2.0	2.4
<b>Asset Quality (%)</b>					
GNPA	9.0	9.0	5.9	6.7	7.1
NNPA	3.6	6.2	4.8	5.2	5.6
<b>Operating Ratios (%)</b>					
Cost/ Income	42.9	39.8	38.0	38.1	32.9

## Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
8-Nov-16	HOLD	300
31-Jan-17	HOLD	291
11-May-17	HOLD	357
18-Aug-17	HOLD	363
3-Jul-18	HOLD	487
18-Dec-18	BUY	487
28-Feb-19	BUY	487
04-Nov-19	BUY	412

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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neutral- The analyst has no investment opinion on the stock under review

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