



# M&M Financial Services Ltd

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
408	500	22.5%	527 / 343	252048

## Key Highlights:

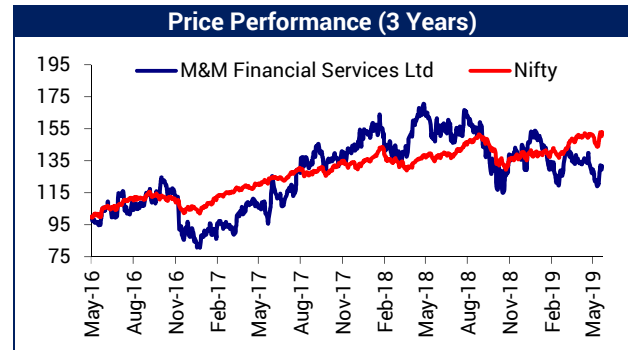
- A slowdown in auto volumes on the back of a slowing macro will likely affect its business momentum in the near-term. In this backdrop, trends in monsoon and the next government's stance in rural spending assumes importance. We are hence downgrading our volumes forecasts to build in 15-18% loan growth during FY2019-22E, down from 23-24% earlier
- We expect MMFS's growth will remain strong at 18% yoy in FY2020E, it will moderate thereafter. Our auto analyst expects M&M's UV sales to grow at 13% yoy in FY2020E and moderate thereafter.
- We are building in marginal NIM expansion over the medium-term driven by improvement in yields on the back of (1) increase in share of high yielding products like pre-owned vehicles in overall AUM mix, (2) impact of increase in lending rates across product classes in 2HFY19, (3) higher pricing power as smaller NBFCs and select banks have reduced growth (4) rise in interest recognition led by improvement in asset quality.
- MMFS's gross stage- 3 loans reduced 180 bps qoq to 5.9% of loans as strong collections sustained in 4QFY19. Collection efficiency in 4QFY19 was strong at ~100% (~107% in March 2019) compared to overall collection of ~96% for FY2019
- We do not envisage any deterioration in asset quality though intensity of monsoon in CY2019 will be a key monitorable. We forecast ~6.5% GNPL over FY2020-22E as strong rural cash flows will drive improvement in collections
- We expect cost to average AUM ratio to remain high at ~3% in FY2020E and moderate to 2.9% by FY2022E as operating leverage gradually kicks in and investment in business moderates
- We rollover our fair value to Rs500 to March 2021E; at our FV, the lending business will trade at 2X book; we also include Rs30/share as the value of the insurance distribution business (25X trailing EPS)

Financials (Rs mn)*	FY19	FY20E	FY21E
Net Interest Income	47,784	59,240	68,952
Non interest income	869	1,050	1,208
Total Income	48,653	60,290	70,160
Growth (%)	32.6%	23.9%	16.4%
PBT	23,825	29,297	33,352
Net profit	15,571	19,336	22,012
EPS (Rs.)	25	31	36
Book value (Rs.)	177	199	224
P/B (x)	2.3	2.1	1.8
NIM (%)	7.4	7.5	7.5
Gross NPL (%)	5.9	6.5	6.5
RoE (%)	15.2	16.7	16.9
RoA (%)	2.4	2.4	2.4

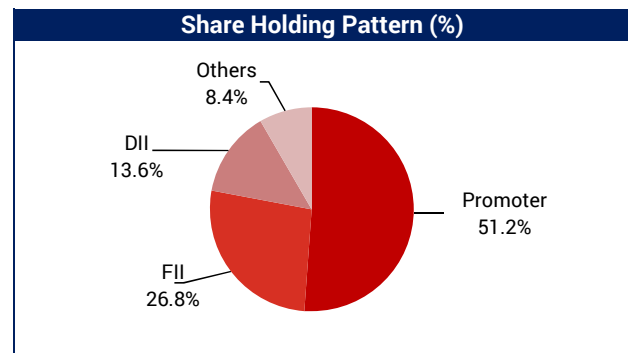
Source: Kotak Institutional Equities \*Consolidated

Financials (Rs mn)*	Q4-FY18	Q4-FY19	% Chg
Net interest income	10,189	13,109	29%
Pretax Income	5,128	8,947	74%
Net Profit	3,144	5,879	87%
NIM (%)	8.1	8.1	0 bps
GNPL/Stage 3 (%)	9.0%	5.9%	-310 bps
NNPL/Stage 3 (%)	6.2%	4.8%	-140 bps

Source: Kotak Institutional Equities \*Standalone



Source: Bloomberg



Source: Bloomberg

This one pager on the company is extracted from last KIE update dated April 25, 2019 and it does not contain events beyond that date. We take no obligation to update the KIE recommendations. While source of all other information is taken from Kotak Institutional Equities, the price performance and shareholding pattern chart is inputted by Kotak PCG research team (with source as Bloomberg). It is advisable to read the full KIE report before taking any investment decision on the above company recommendation.

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- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
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- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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