

M&M Financial Services steps on the pedal

Management optimistic of acceleration in loan growth

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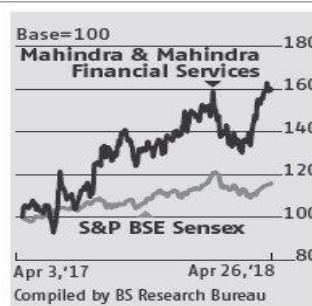
Mahindra and Mahindra Financial Services (M&M Financial) reported a sturdy set of numbers for the January-March quarter (Q4). Also, the management is optimistic about the future, with a normal monsoon expected and improving rural income. M&M Financial's stock recorded a new 52-week high at ₹532 (intra-day) on Thursday.

During the quarter, M&M Financial's loans grew around 40 per cent over a year before, as compared to about 19 per cent growth for all of 2017-18. Thus, its standalone net interest income (NII) grew 17.4 per cent this quarter. An improvement in vehicle and tractor sales helped, observed from the quarterly sales of Mahindra and Mahindra, its parent company. The subsidiary finances one-third of M&M's vehicle sales.

Direct marketing efforts and bringing villages under coverage supported assets under management (AUM), which as on March-end was up 18 per cent from a year before. The management now expects AUM to grow 20-22 per cent in 2018-19. While sceptical of growth in Tamil Nadu due to political instability, it is doing well in Rajasthan, Madhya Pradesh and Uttar Pradesh.

On margins, an increase in lending rates in some products should offset the marginal rise in cost of funds. However, any spike in rates could hurt all non-banking lenders.

M&M Financial's asset quality surprised with better recoveries, led by improving cash flow among customers. An improve-



ment in rural sentiment due to a good monsoon in the past two years and higher minimum support prices for crops has augured well. As on March-end, gross non-performing assets (NPAs) fell 130 basis points to 7.7 per cent (on a four-month basis of recognising NPAs) and net NPA was down 50 basis points to 3.1 per cent. Even after a shift to a three-month basis, gross NPAs were 8.5 per cent of the total, lower than nine per cent (four-month basis) at March-end 2017.

The management is optimistic of achieving its seven per cent gross NPA target. Upgradation of 40 per cent of NPAs is also expected in the near future.

Key subsidiaries Mahindra Rural Housing Finance and Mahindra Insurance Brokers performed well, boosting M&M Financial's consolidated NII by 23 per cent over a year this quarter. Net profit surged 79.4 per cent.

While most analysts are positive on the company, a lot of the expectations are also priced into the stock. The price has gained 55 per cent in the past year. So, any miss in performance might not be taken kindly by the markets.

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