M&M Financial Services (MAHFIN)

ICICI direct Research

CMP: ₹ 170 | Target: ₹ 160 (-6%) | Target Period: 12 months | REDUCE

April 26, 2021

Result Update

Near term outlook warrants caution...

Mahindra & Mahindra Financial Services (MMFS) reported a mixed set of Q4FY21 numbers wherein topline growth improved on account of better margins but lower disbursements led to slower AUM growth.

NII increased 12.2% YoY, 9.2% QoQ to ₹ 1511 crore on the back of improvement in NIMs (calculated) that were up 63 bps QoQ, 35 bps YoY to 7.4% owing to slightly better asset quality and liquidity management. Employee cost increased 32% YoY to ₹ 282 crore, mainly on account of lower base effect due to reversal of provisions on incentives YoY. Credit cost declined sequentially but remained elevated at ~108 bps of AUM as the management created overlay provisions of ₹ 1320 during the quarter. The management wrote off loans worth ₹ 690 crore using the same. Thus, MMFS posted PAT of ₹ 150 crore vs. loss of ₹ 274 crore QoQ.

AUM growth at 5.9% YoY at ₹ 81689 crore was slower than previous quarter growth of 7.8% YoY, on account of a fall in disbursements to ₹ 5970 crore from ₹ 6270 QoQ. Disbursements were lower due to supply side issues from OEMs and also due to less participation in Mahindra's urban centric products like Thar. Demand from large fleet operators was decent but sub 5-10 vehicle operators are yet to show pickup in demand. The company lost market share in the tractor segment but is confident of regaining the same.

Asset quality improved sequentially as gross stage 3 assets declined 103 bps QoQ to 8.96% while net stage 3 assets fell 260 bps QoQ to 3.97% as **the management created additional overlay provisions of ₹ 1320 crore and wrote off NPAs worth ₹ 690 crore, as a result net NPA stood below 4%.** As per commentary net stage 3 assets will be kept below 4%, going ahead.

Revival in H2 remains crucial

The management indicated that with second wave of pandemic penetrating rural areas the feedback from ground level staff is mixed and warrants a cautious approach. Hence, the management would take a cautious approach in next two quarters. Thus, we believe a pickup in H2FY22 remains key. Agri segment is expected to be better with normal monsoon prediction while new digital business will be in focus, wherein it provides personal loans, consumer durable loans, etc, to existing customers. MMFS currently serves ~2.5 million customers of which initially ~5,000 would be targeted and then business can be scaled up to 50,000 customers in mid-term.

Valuation & Outlook

MMFS' business depends on how rural economy shapes up and second wave of Covid-19 has brought new challenges to it. The management has indicated a cautious approach in the next two quarters. Hence, we believe recovery could be slower and meaningful improvement in return ratios could be delayed. RoE expected to reach modest levels of ~7% by FY23E. Thus, we downgrade our rating on the stock from HOLD to **REDUCE** with a revised target price of ₹ 160/share (earlier ₹ 140). We roll over to FY23E and value core business at ~1.1x FY23E ABV and ~₹ 16 as value for subsidiaries.

Mahindra FINANCE

Particulars

Particulars	Amount
Market Capitalisation	₹ 22097 crore
GNPA (Q4FY21)	5786
NNPA (Q4FY21)	2434
52 week H/L	224/76
Face Value	₹ 2
Net worth	1,47,115
DII Holding (%)	15.55
FII Holding (%)	23.94

Key Highlights

- Net stage 3 assets declined 260 bps QoQ due to higher overlay provisions
- Disbursements fell QoQ due to supply side issue from OEMs
- Management to keep cautious approach for next two quarters in wake of second wave of Covid-19
- Downgrade from HOLD to REDUCE with revised target price of ₹ 160

Key risk

- If asset quality picture turns better than expected, then profitability could get a boost
- Faster pick up-in loans in H2FY22 may improve business outlook

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ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
NII	4778	5269	5662	6031	6713	6%
PPP	3018	3398	4157	4249	4729	4%
PAT	1556	906	335	898	1326	58%
ABV (₹)	124.1	120.2	90.4	109.4	128.4	
P/E	7.1	12.2	65.8	24.9	17.2	
P/ABV	1.4	1.5	2.0	1.6	1.4	
RoA	2.6	1.3	0.4	1.2	1.6	
RoE	15.2	8.1	2.6	5.7	7.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
NII	1,511	1,347	12.2	1,383	9.2	Healthy sequential rise due to NIM expansion
NIM Calc. (%)	7.4	7.0	35 bps	6.8	63 bps	Nim improved on better liquidity management and asset quality
Net Total Income	1,549	1,386	11.7	1,417	9.3	
Staff cost	282	213	32.1	247	14.0	YoY rise due to provision reversal in last year
Other Expenses	210	206	1.9	151	38.6	
PPP	1,057.3	967.2	9.3	1,018.0	3.9	
Provision	886.0	674.1	31.4	1,386.7	-36.1	Elevated credit cost due to ₹1320 overaly
PBT	171.3	293.1	-41.5	-368.7	-146.5	
Tax	21.4	122.9	-82.6	-94.6	-122.6	
PAT	150.0	170.2	-11.9	-274.1	-154.7	
Key Metrics						
GNPA	5,786.0	5,746.7	0.7	6,642.6	-12.9	
NNPA	2,434.0	3,966.5	-38.6	4,211.3	-42.2	Sequential decline due to additional provisions and write-offs on gross stage 3
Advances	59,947	64,993	-7.8	62,124	-3.5	Subdued growth due to fall in disbursement on account of supply side issue from OEM
Borrowings	44,262	50,732	-12.8	47,051	-5.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E
(₹ Crore)	Old	New	% Change	Introduced
Net Interest Income	5,996.1	6,031.4	0.6	6,713.1
Pre Provision Profit	4,188.9	4,249.4	1.4	4,729.0
NIM calculated (%)	8.5	9.5	101 bps	9.6
PAT	1,369.6	898.5	-34.4	1,325.9
ABV (₹)	118.5	109.4	-7.7	128.4

Source: Company, ICICI Direct Research

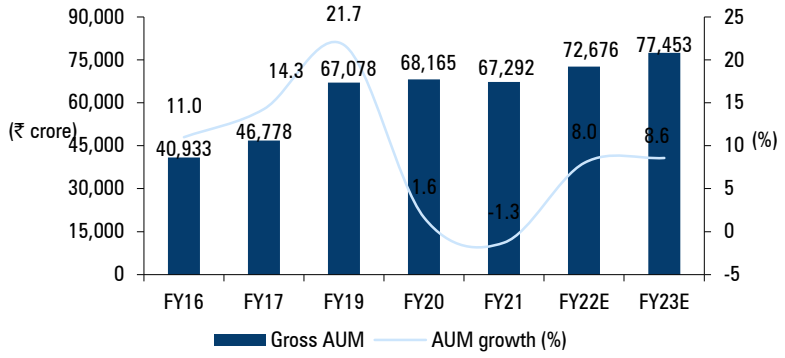
Exhibit 3: Assumption

	Current				Earlier
	FY20	FY21	FY22E	FY23E	FY22E
Credit growth (%)	6.1	-7.8	11.5	10.0	10.0
Borrowing Growth (%)	4.0	8.4	-2.7	10.0	8.6
NIM Calculated (%)	8.3	9.1	9.5	9.6	8.5
Cost to income ratio (%)	37.3	28.1	31.0	31.0	32.0
GNPA (₹ crore)	5,747	5,495	5,751	5,646	5,812.4
NNPA (₹ crore)	3,967	3,572	3,163	3,105	3,196.8

Source: Company, ICICI Direct Research

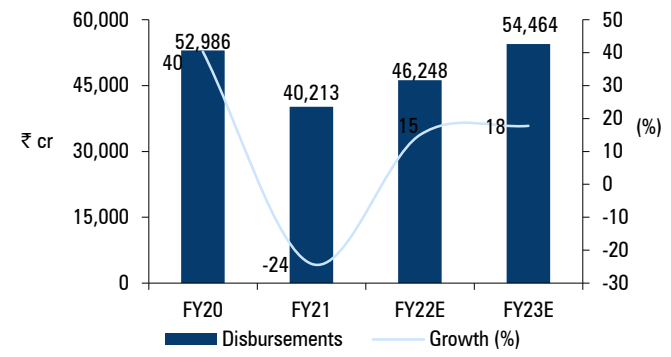
Story in Charts

Exhibit 4: Gradual pick-up in AUM growth



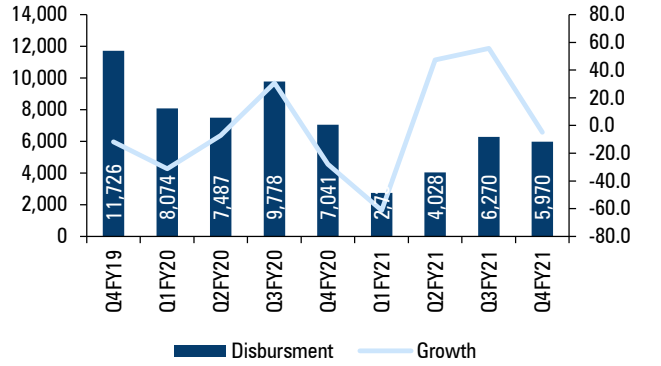
Source: Company, ICICI Direct Research

Exhibit 5: Disbursement trajectory



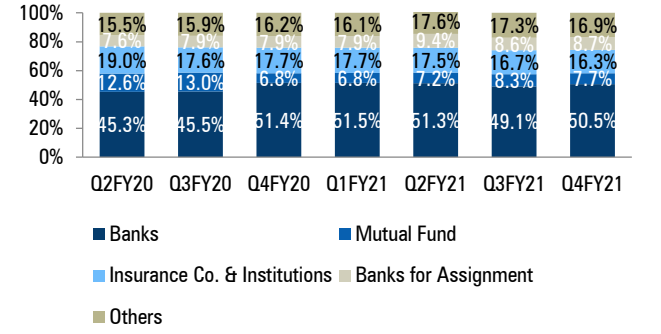
Source: Company, ICICI Direct Research

Exhibit 6: Sequential fall in disbursement



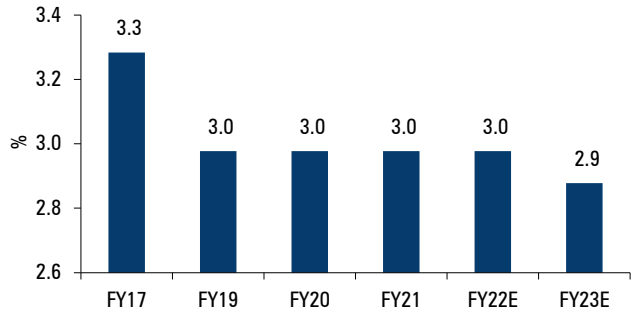
Source: Company, ICICI Direct Research

Exhibit 7: Borrowing mix



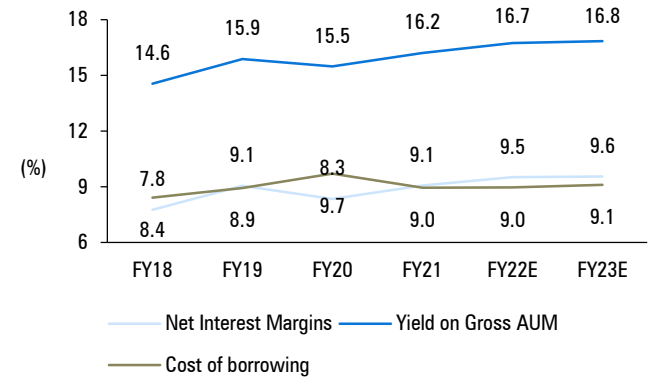
Source: Company, ICICI Direct Research

Exhibit 8: Opex to AUM to remain at ~3%



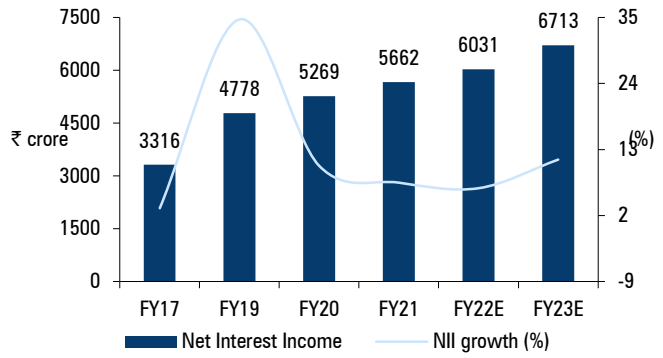
Source: Company, ICICI Direct Research

Exhibit 9: Margins to be range-bound



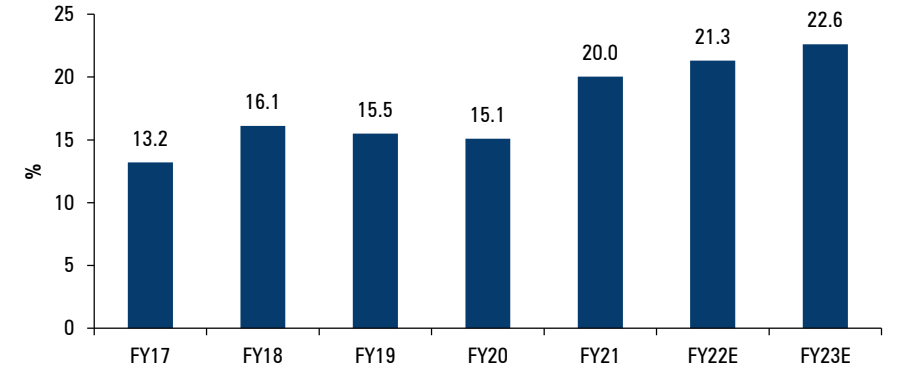
Source: Company, ICICI Direct Research

Exhibit 10: NII trajectory



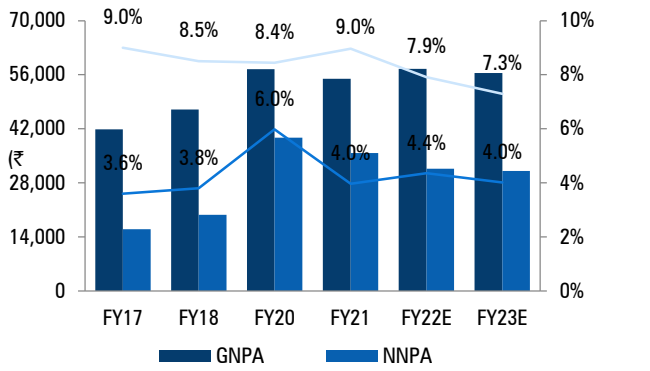
Source: Company, ICICI Direct Research

Exhibit 11: Capital adequacy remains comfortable



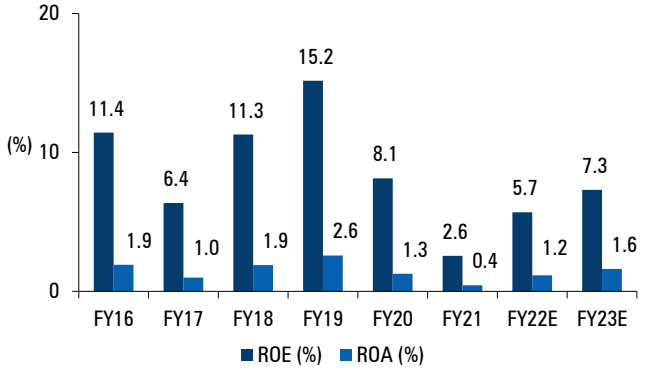
Source: Company, ICICI Direct Research

Exhibit 12: Asset quality trend



Source: Company, ICICI Direct Research

Exhibit 13: RoA to reach ~1.6% by FY23E



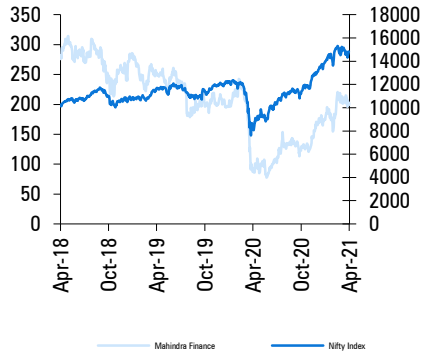
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding pattern

(in %)	Mar 20	June 20	Sep 20	Dec 20	Mar 21
Promoter	51.2	51.2	52.2	52.2	52.2
FII	23.9	23.5	21.4	21.2	20.2
DII	15.6	13.1	12.5	15.5	16.8
Others	9.3	12.2	14.0	11.1	10.9

Source: Company, ICICI Direct Research

Exhibit 15: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement ₹ crore

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	8723	10098	10395	10891	11825
Interest Expended	3945	4829	4733	4859	5112
Net Interest Income	4778	5269	5662	6031	6713
Non Interest Income	87	147	122	127	140
Net Income	4865	5416	5784	6159	6854
Staff cost	1090	1148	1015	1147	1254
Other Operating expense	757	870	611	762	870
Operating profit	3018	3398	4157	4249	4729
Provisions	636	2054	3735	3043	2949
PBT	2382	1344	422	1206	1780
Taxes	825	437	87	308	454
Net Profit	1556	906	335	898	1326
EPS (₹)	25.33	14.73	2.72	7.18	10.42

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares (Crore)	61.5	61.5	123.2	125.2	127.2
EPS (₹)	25.3	14.7	2.7	7.2	10.4
BV (₹)	177.5	184.7	119.4	134.7	152.8
ABV (₹)	124.1	120.2	90.4	109.4	128.4
P/E	7.1	12.2	65.8	24.9	17.2
P/BV	1.0	1.0	1.5	1.3	1.2
P/ABV	1.4	1.5	2.0	1.6	1.4
Yields & Margins (%)					
Net Interest Margins	9.1	8.3	9.1	9.5	9.6
Yield on Gross AUM	15.9	15.5	16.2	16.7	16.8
Cost of borrowing	8.9	9.7	9.0	9.0	9.1
Quality and Efficiency (%)					
GNPA	5.9	8.4	9.0	7.9	7.3
NNPA	4.8	6.0	4.0	4.4	4.0
ROE (%)	15.2	8.1	2.6	5.7	7.3
Return on Gross AUM	2.6	1.3	0.4	1.2	1.6

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet ₹ crore

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	123	123	246	250	254
Reserves and Surplus	10785	11241	14465	16609	19179
Networth	10908	11364	14712	16859	19434
Borrowings	48765	50732	54977	53489	58864
Current liabilities & Provision	7405	11975	7348	7355	8094
Total	67078	74071	77036	77703	86392
Applications of Funds					
Fixed Assets	133	364	311	374	449
Investments	3792	5911	11607	5349	5886
Advances	61250	64993	59947	66861	73581
Other Assets	1403	1403	1901	1797	1703
Cash with RBI & call money	502	1426	3270	3322	4773
Total	67078	74097	77036	77703	86392

Source: Company, ICICI Direct Research

Exhibit 19: Growth ratios (%)

	FY18	FY19	FY20	FY21	FY22E	FY23E
Credit Growth (%)	14.2	26.2	6.1	-7.8	11.5	10.0
Borrowing growth (%)	17.5	23.3	4.0	8.4	-2.7	10.0
NIM calculated (%)	7.8	9.1	8.3	9.1	9.5	9.6
Cost to income ratio (%)	39.6	38.0	37.3	28.1	31.0	31.0
GNPA (₹ crore)	5042	4060	5747	5495	5751	5646
NNPA (₹ crore)	3326	3280	3967	3572	3163	3105

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ bn)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
LIC Housing Fin (LICHF)	391	475	Hold	198	58.9	65.3	76.0	6.6	6.0	5.1	1.2	1.0	0.9	1.2	1.2	1.2	15.4	15.1	15.9
HDFC (HDFC)	2,497	3,100	Buy	4,506	58.5	75.0	84.4	42.7	33.3	29.6	4.3	4.1	3.9	1.9	2.2	2.2	1.9	2.2	2.2
Bajaj Finserv (BAFINS)	9,919	10,500	Buy	1,578	253.3	305.6	405.3	39.2	32.5	24.5	4.4	3.8	3.3	1.4	1.4	1.6	11.8	12.6	14.6
Bajaj Finance (BAJFI)	4,665	5,900	Buy	2,811	68.7	96.9	124.5	67.9	48.1	37.5	8.2	7.3	5.6	1.8	2.2	2.4	12.1	15.1	15.9
M&M Finance	170	160	Reduce	221	2.7	7.2	10.4	62.5	23.7	16.3	1.9	1.6	1.3	0.4	1.2	1.6	2.6	5.7	7.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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