

April 25, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	527		519	
NII (Rs.)	59,252	70,948	55,066	64,553
% Chng.	7.6	9.9		
PPoP (Rs.)	39,991	49,932	38,243	46,249
% Chng.	4.6	8.0		
EPS (Rs.)	30.0	34.6	26.3	31.4
% Chng.	13.8	10.2		

Key Financials

	FY18	FY19	FY20E	FY21E
Net Int.Inc. (Rs m)	35,519	47,783	59,252	70,948
Growth (%)	11.1	34.5	24.0	19.7
Op. Profit (Rs m)	21,700	30,177	39,991	49,932
PAT (Rs m)	10,111	15,571	18,413	21,268
EPS (Rs.)	18.0	25.3	30.0	34.6
Gr. (%)	154.6	40.4	18.3	15.5
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
Margin (%)	7.5	8.7	8.6	8.5
RoAE (%)	13.2	15.2	16.5	17.5
RoAA (%)	2.2	2.6	2.4	2.3
PE (x)	24.1	17.2	14.5	12.6
P/BV (x)	2.7	2.5	2.3	2.1
P/ABV (x)	3.4	3.5	2.9	2.5

Key Data

MMFS.BO | MMFS IN

52-W High / Low	Rs.538 / Rs.343
Sensex / Nifty	39,055 / 11,726
Market Cap	Rs.269bn/ \$ 3,852m
Shares Outstanding	618m
3M Avg. Daily Value	Rs.1359.1m

Shareholding Pattern (%)

Promoter's	51.19
Foreign	26.77
Domestic Institution	13.46
Public & Others	8.58
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.7	8.6	(14.6)
Relative	2.3	(5.4)	(24.3)

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Stellar quarter

Quick Pointers:

- Shift to multi-product strategy, market share sustenance, lower ECL provisioning and steep NPA decline boost FY19 RoAs

Best in 5 years reported asset quality (Stage 3 GNPA decline 310 bps to 5.9%; provisions reduce 200%+ YoY) and industry best AUM growth at 26% YoY at Rs 613bn led to PAT beat at Rs 5.93bn (PLe: Rs 4.10bn) in a seasonally strong Q4. While disbursements at Rs 1172.6bn stood down 11.8% QoQ largely due to paring down on MSME (NBFC lending) book and market headwinds, Management expects healthy rural pick-up with post-election and monsoon scenario stabilizing by H2FY20. We envisage RoAs stabilizing at 2.4% and RoEs climbing to 17.5% over FY20-21E led by (a) strengthening market positioning across key products and sustained rural uptick that can put up 22% AUM growth (FY21E) (b) focus on higher yielding product mix and maintaining pricing power leading to 8.5% NIMs (c) improving asset quality with GNPA's declining to 5% and credit costs restricting to <2% by FY21E. Improved EPS CAGR translates into slight uptick in target price to Rs 527 (earlier Rs 519) valuing MMFS at 2.7x FY21 ABV inclusive of subsidiaries' value of Rs 59, however, we reiterate ACCUMULATE rating as the stock remains susceptible to cyclical and event based headwinds on the rural side.

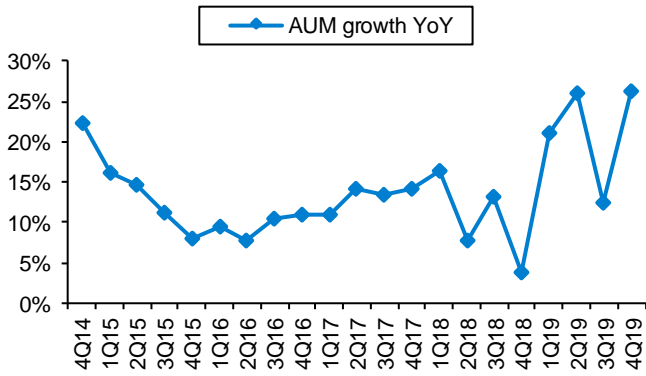
- Rural buoyancy aids growth traction:** Defying current market turmoil, MMFS reports strong AUM growth at 26% YoY largely driven by used and CE segment. While disbursements traction took a toll in Q4FY19, Management stands confident of these picking up in H2FY20 with OEMs renewed rural strategy on the CV side gaining strength. Rural recovery has augured well as cash flows of smaller operators remain intact coupled with MMFS' market position strengthening in CV, CE business led by deeper penetration into hinterlands prompt us to tweak growth estimate higher to 18-22% as against earlier 18-19% for FY19. Continued branch expansion and increased proximity to customer strategy has been auguring well for MMFS.
- Robust loan mix:** MMFS has made conscious attempts to pare down the perceived risky SME (NBFC lending) business with SME as percentage of overall mix down to 5% from 8% at beginning of FY19. On the other hand, increased focus on higher yielding mix with used CV witnessing increased share in overall mix to 14% from 9% in a mere span of 1 quarter has aided robust business (26% YoY) and margin expansion (8.7%) for FY19. Robust business traction due to change in product mix (tilting more towards CE, used) that began in Q2FY19, absorption of funding pressures given the pricing power and deeper penetration across products and geographies should maintain higher order NIMs of 8.5-8.6% over FY20-21E.
- Sharp improvement in asset quality:** MMFS reported sharp improvement in asset quality with Stage 3 assets reporting steep decline of 260 bps to 5.9% and provisions contracting hugely by 222% YoY. While provision requirement under ECL methodology of INDAS continues to trend lower, we foresee credit costs to hover at 1.7-1.8% (earlier 1.7-1.9%) levels over FY20-21E. MMFS continues to maintain diligent collection efficiency improvement and hence Q4FY19 reported elevated recoveries aiding FY19 RoAs climbing to 2.6% - the best in past 5 years.

Exhibit 1: MMFS Q4FY19: Decline in provisions and robust top-line drove earnings

(Rs m)	Q4FY19	Q4FY18	YoY gr.	Q3FY19	QoQ gr.
Interest Income	24,552	17,968	36.6%	22,304	10.1%
Interest Expenses	11,443	7,779	47.1%	10,205	12.1%
Net Interest Income	13,109	10,189	28.7%	12,099	8.3%
Other Income	243	109	124.3%	157	55.2%
Total Income	13,352	10,297	29.7%	12,256	8.9%
Total Operating Expenses	5,549	4,222	31.4%	4,812	15.3%
Operating Profit (PPP)	7,803	6,076	28.4%	7,444	4.8%
Provisions & Write Offs	-1,145	948	-220.7%	2,247	-150.9%
PBT	8,947	5,128	74.5%	5,197	72.2%
Exceptionals		-110			
Reported Profit	5,925	3,033	95.3%	3,158	87.6%
Assets Under Management	612,500	485,470	26.2%	582,397	5.2%
Off-Balance Sheet AUM	0	0	-100.0%	0	
NIM	8.78%	8.12%	0.7%	8.22%	0.55%
AUM (Rs mn)	612,496	485,470	26.2%	582,397	5.2%
Auto/ Utility vehicles	153,124	131,077	16.8%	151,423	1.1%
Tractors	110,249	82,530	33.6%	99,007	11.4%
Cars	122,499	106,803	14.7%	122,303	0.2%
CV/CE	116,374	67,966	71.2%	99,007	17.5%
Used vehicles & Others	110,249	97,094	13.5%	110,655	-0.4%
Asset Quality					
Gross NPAs	40,602	46,987	-13.59%	50,645	-19.8%
Net NPAs	32,803	19,706	66.46%	37,034	-11.4%
Gross NPA (%)	5.90%	8.50%	-2.60%	7.70%	-1.8%
Net NPA (%)	4.80%	3.84%	0.96%	6.36%	-1.6%
Coverage (%)	19.21%	58.06%	-38.85%	68.67%	-49.5%
Credit costs - On Loans	-0.75%	0.78%	-1.53%	1.54%	-2.3%
Balance sheet Details					
Total Borrowed Funds	528,469	403,130	31.1%	515,983	2.4%
Loans & Advances & others	612,496	485,470	26.2%	582,397	5.2%
Total Assets	613,992	519,105	18.3%	630,730	-2.7%

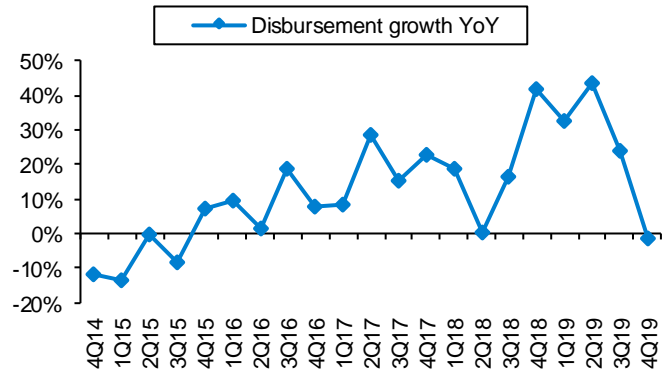
Source: Company, PL

Exhibit 2: AUM growth of 26% YoY on improved mix



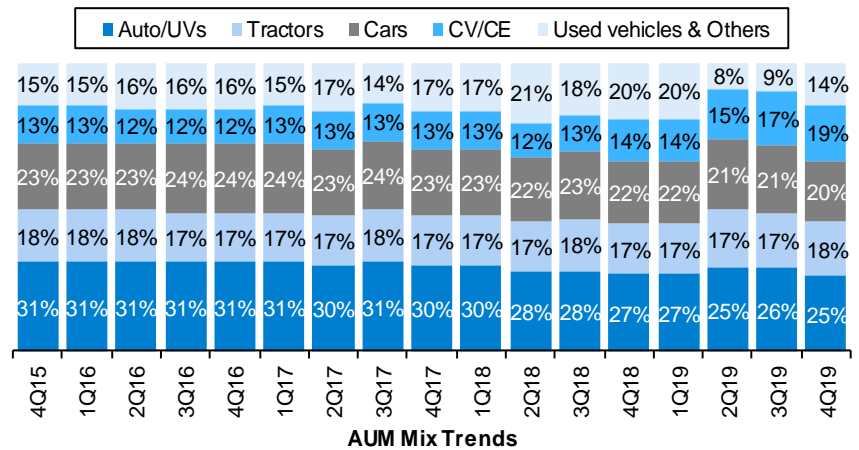
Source: Company, PL

Exhibit 3: Disbursements stood tepid due to flattish movement across major products



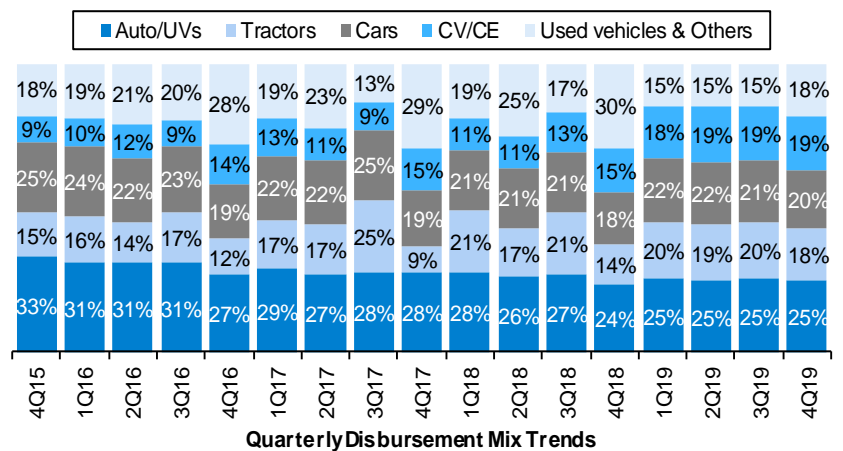
Source: Company, PL

Exhibit 4: AUM mix - mix tilted towards CV/CE & used segments



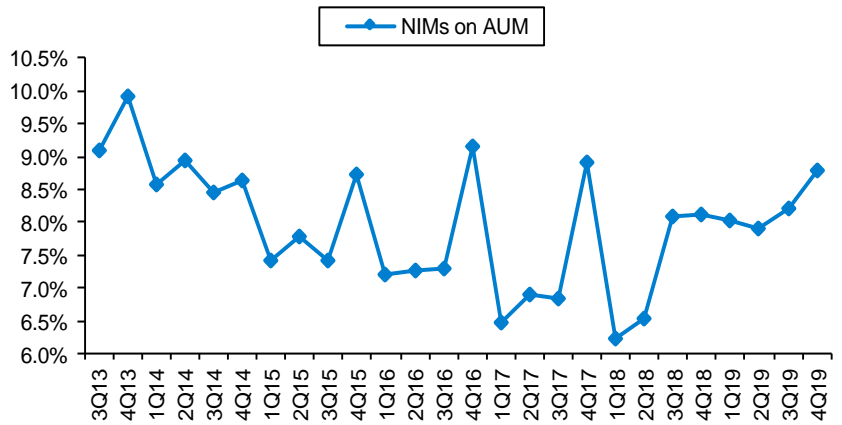
Source: Company, PL

Exhibit 5: Disbursements mix tilting towards higher yielding businesses



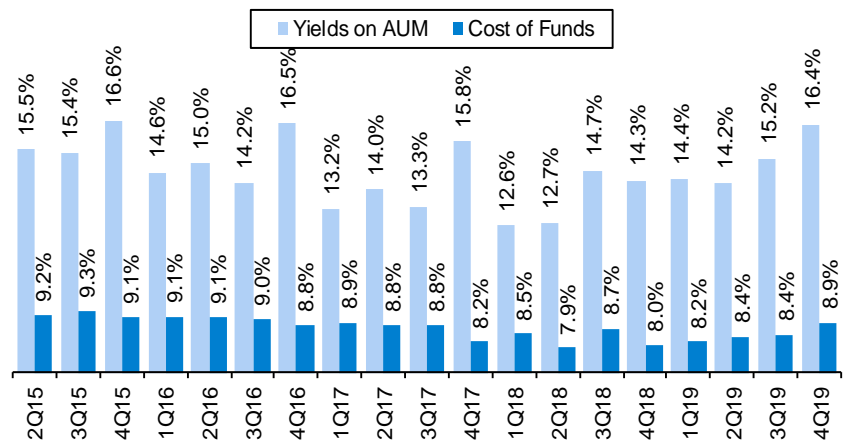
Source: Company, PL

Exhibit 6: Margins saw uptick on robust loan mix and healthy growth



Source: Company, PL

Exhibit 7: Yields have improved on high yielding products and cost of funds remain elevated



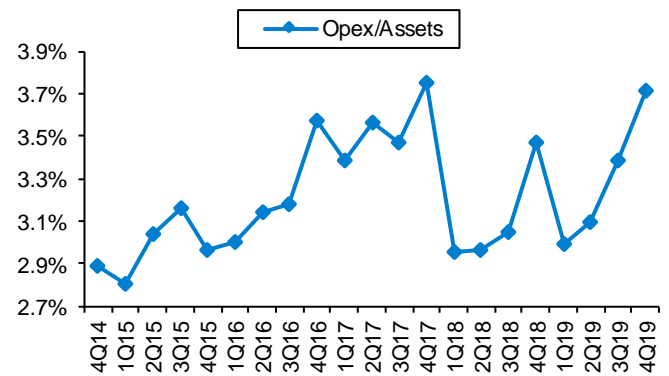
Source: Company, PL

Exhibit 8: C/I ratio remained on higher side on elevated opex

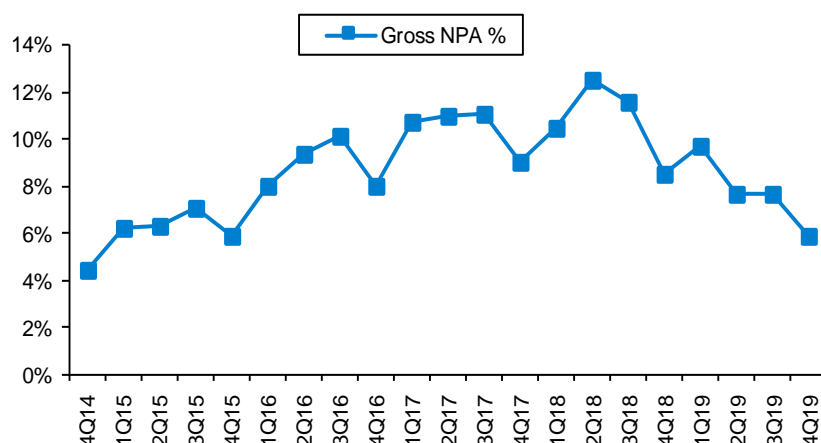


Source: Company, PL

Exhibit 9: C/I ratio remained on higher side on elevated opex



Source: Company, PL

Exhibit 10: Asset quality improved on 90dpd on strong collections


Source: Company, PL

Exhibit 11: We maintain ACCUMULATE with TP of Rs527 (from Rs519) based on 2.7x P/ABV FY21 estimates

Fair price – EVA	529
Fair price - P/ABV	408
Average of the two	468
Subsidiary Value	59
Target Price	527
Target P/ABV	2.7
Target P/E	15.6
Current price, Rs	436
Upside (%)	21%
Dividend yield (%)	1%
Total return (%)	22%

Source: Company, PL

Exhibit 12: Tweaking of growth estimates are a result of high growth and provisions' levers

Rs mn	Old Estimates		Revised Estimates		% Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income	55,066	64,553	59,252	70,948	7.6	9.9
Operating Profit	38,243	46,249	39,991	49,932	4.6	8.0
Net Profit	16,170	19,305	18,413	21,268	13.9	10.2
EPS (Rs)	26.0	32.0	30.0	34.6	15.2	8.2
Price Target (Rs)	519		527		1.5	
Reco	ACCUMULATE		ACCUMULATE			

Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Int. Inc. / Opt. Inc.	66,335	87,229	110,172	134,777
Interest Expenses	30,816	39,446	51,724	63,218
Net interest income	35,519	47,783	59,252	70,948
Growth(%)	7.1	34.5	24.0	19.7
Non-interest income	517	869	1,260	1,575
Growth(%)	(18.7)	68.0	45.0	25.0
Net operating income	36,036	48,653	60,512	72,523
Expenditures				
Employees	8,325	10,901	12,427	13,794
Other Expenses	5,569	6,973	7,461	8,132
Depreciation	442	602	632	664
Operating Expenses	13,894	17,874	19,888	21,926
PPP	21,700	30,177	39,991	49,932
Growth(%)	12.5	39.1	32.5	24.9
Provisions	5,681	6,352	12,093	16,959
Profit Before Tax	16,019	23,824	27,898	32,973
Tax	5,907	8,254	9,485	11,706
Effective Tax rate(%)	36.9	34.6	34.0	35.5
PAT	10,111	15,571	18,413	21,268
Growth(%)	152.6	54.0	18.3	15.5

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Source of funds				
Equity	1,229	1,230	1,229	1,229
Reserves and Surplus	94,990	107,850	113,373	127,485
Networth	96,219	109,080	114,602	128,714
Growth (%)	48.5	13.4	5.1	12.3
Loan funds	400,932	528,469	660,587	792,704
Growth (%)	15.9	31.8	25.0	20.0
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	30,777	33,230	66,889	71,453
Total Liabilities	527,927	670,780	842,078	992,871
Application of funds				
Net fixed assets	1,197	1,631	1,245	1,270
Advances	485,507	612,548	747,309	881,824
Growth (%)	14.2	26.2	22.0	18.0
Investments	27,341	37,917	22,665	24,932
Current Assets	5,060	11,375	66,484	81,288
Net current assets	5,060	11,375	66,484	81,288
Other Assets	8,822	7,309	9,567	10,168
Total Assets	527,927	670,780	847,270	999,483
Growth (%)	14.8	27.1	26.3	18.0
Business Mix				
AUM	485,470	612,496	763,305	906,929
Growth (%)	3.8	26.2	24.6	18.8
On Balance Sheet	443,050	600,626	748,512	889,353
% of AUM	91.26	98.06	98.06	98.06
Off Balance Sheet	(42,457)	(11,922)	1,203	7,528
% of AUM	(8.75)	(1.95)	0.16	0.83

Profitability & Capital (%)

Y/e Mar	FY18	FY19	FY20E	FY21E
NIM	7.5	8.7	8.6	8.5
ROAA	2.2	2.6	2.4	2.3
ROAE	13.2	15.2	16.5	17.5

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Int. Inc. / Operating Inc.	19,259	21,033	22,304	24,552
Income from securitization	-	-	-	-
Interest Expenses	8,488	9,367	10,205	11,443
Net Interest Income	10,771	11,666	12,099	13,109
Growth (%)	45.0	49.0	20.7	28.7
Non-Interest Income	138	451	157	243
Net Operating Income	10,909	12,117	12,256	13,352
Growth (%)	44.8	50.5	20.7	29.7
Operating expenditure	3,849	4,248	4,812	5,549
PPP	7,061	7,869	7,444	7,803
Growth (%)	-	-	-	-
Provision	2,938	2,311	2,247	(1,145)
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	4,122	5,558	5,197	8,947
Tax	1,432	1,744	2,010	3,068
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	34.7	31.4	38.7	34.3
PAT	2,691	3,814	3,187	5,880
Growth	34	133	(4)	87
AUM	587,107	594,730	582,397	612,500
YoY growth (%)	21.1	26.0	12.5	26.2
Borrowing	413,208	483,055	515,983	528,469
YoY growth (%)	15.1	26.6	39.4	31.1

Key Ratios

Y/e Mar	FY18	FY19	FY20E	FY21E
CMP (Rs)	436	436	436	436
EPS (Rs)	18.0	25.3	30.0	34.6
Book value (Rs)	163.1	177.5	186.4	209.5
Adj. BV(Rs)	129.9	124.1	151.4	176.4
P/E(x)	24.1	17.2	14.5	12.6
P/BV(x)	2.7	2.5	2.3	2.1
P/ABV(x)	3.4	3.5	2.9	2.5
DPS (Rs)	-	-	-	-
Dividend Payout Ratio(%)	16.1	19.3	23.4	23.9
Dividend Yield(%)	-	-	-	-

Asset Quality

Y/e Mar	FY18	FY19	FY20E	FY21E
Gross NPAs(Rs m)	50,419	40,602	42,184	43,208
Net NPA(Rs m)	20,428	32,803	21,514	20,308
Gross NPAs to Gross Adv.(%)	9.8	6.4	5.5	4.8
Net NPAs to net Adv.(%)	4.6	5.5	2.9	2.3
NPA coverage(%)	59.5	19.2	49.0	53.0

Du-Pont

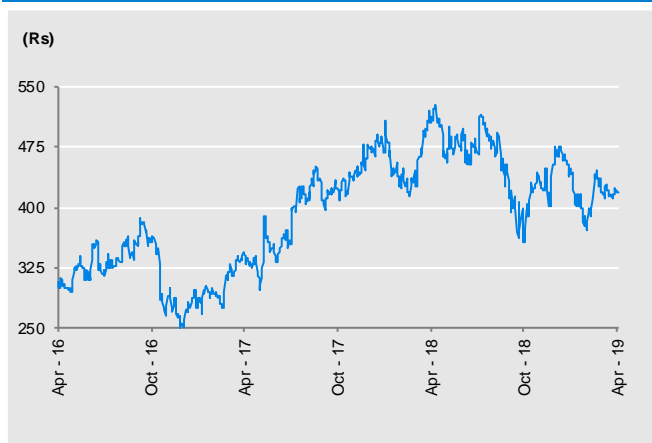
Y/e Mar	FY18	FY19	FY20E	FY21E
NII	7.5	8.7	8.6	8.5
NII INCL. Securitization	7.5	8.7	8.5	8.6
Total income	7.6	8.9	8.7	8.8
Operating Expenses	3.0	3.4	3.0	2.7
PPOP	4.4	5.3	5.7	6.1
Total Provisions	1.2	1.2	1.8	2.0
RoAA	2.1	2.8	2.6	2.6
Avg. Assets/Avg. net worth	5.9	5.3	6.2	6.9
RoAE	12.6	15.2	15.7	18.0

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	26-Apr-18	Accumulate	553	507
2	14-May-18	Accumulate	553	502
3	10-Jul-18	Accumulate	553	463
4	5-Oct-18	Accumulate	543	399
5	24-Oct-18	Accumulate	516	401
6	7-Jan-19	Accumulate	516	467
7	25-Jan-19	Accumulate	514	417
8	5-Apr-19	Accumulate	519	416

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Capital First	UR	-	495
2	Cholamandalam Investment and Finance Company	BUY	1,666	1,484
3	Edelweiss Capital	NR	-	276
4	HDFC	BUY	2,275	2,059
5	L&T Finance Holdings	Accumulate	177	145
6	LIC Housing Finance	Accumulate	597	550
7	Mahindra & Mahindra Financial Services	Accumulate	519	416
8	Shriram Transport Finance	BUY	1,568	1,213

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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