

Mahindra & Mahindra Financial

 Estimate change 

 TP change 

 Rating change 

Bloomberg	MMFS IN
Equity Shares (m)	615
M.Cap.(INRb)/(USDb)	104 / 1.4
52-Week Range (INR)	439 / 128
1, 6, 12 Rel. Per (%)	6/-25/-39
12M Avg Val (INR M)	898

Financials & valuations (INR b)

Y/E March	2020	2021E	2022E
NII	51.1	46.1	49.3
PPP	34.0	31.3	33.1
PAT	9.1	4.9	8.8
EPS (INR)	14.7	8.0	14.3
EPS Gr. (%)	-41.8	-46.0	80.0
BV/Sh.(INR)	185	193	204

Ratios

NIM (%)	8.3	7.4	8.2
C/I ratio (%)	37.3	36.6	37.5
RoA (%)	1.3	0.7	1.2
RoE (%)	8.3	4.2	7.2
Payout (%)	0.0	23.4	23.4

Valuations

P/E (x)	11.4	21.1	11.7
P/BV (x)	0.9	0.9	0.8
Div. Yield (%)	0.0	0.0	1.7

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.2	51.2	51.2
DII	15.6	15.4	13.6
FII	24.3	25.3	27.2
Others	8.9	8.2	7.9
FII Includes depository receipts			

CMP: INR168
TP: INR 200 (+19%)
Buy

Provisioning cost partly offset by controlled opex

- MMFS 4QFY20 PAT of INR2.2b (down 62% YoY), a 40% miss. The miss in PAT was led by a contingency provision of INR5.7b (we factored in ~INR2.2b) related to COVID-19. Of INR5.7b, INR4.7b was used to increase PCR (800bps QoQ to 31%) for GNPA. Pre-provisioning profits grew 24% YoY (beat of 14%) to INR9.7b as opex (27% beat) declined 24% YoY to INR4.2b.
- Net income missed our estimate by 3% as loans stood largely flat QoQ (+6% YoY) at INR650b v/s the expectation of ~2% QoQ growth (on March-end COVID-19 restrictions). NIMs/GS3% came in flat QoQ at 7.7%/8.4%.
- Restrictions imposed on the movement of goods and people due to COVID-19 would have a significant impact on growth and asset quality. We have cut estimates by 22%/4% for FY21/FY22. ROEs are likely to be less than 10% over FY20–22. While a valuation at 0.8x FY22 BV is comfortable, considerable relaxation in lockdown restriction remains a key catalyst.

Loan growth moderates and asset quality stands stable QoQ

- The value of assets financed declined 28% YoY to INR93b. While decline was witnessed across products, the CV and CE segments (40%+ sequential declines) led the laggards. The AUM mix was largely stable (Exhibit 3).
- Gross Stage 3 asset were flat QoQ at ~INR57b. Weighed by challenging macros, MMFS increased PCR levels to 31% (+800bp QoQ) on GNPA.
- ECL% has increased to 4.4% v/s 3.6% in 3QFY20 and 2.9% in 4QFY19.

Comfortable on liquidity; Gradual resumption of operations

- MMFS has already commenced operations at 500 of its 1320+ branches; 200+ branches would resume shop shortly. However, operations in North (29% of AUM)/West (15%) have resumed only in 28%/34% locations.
- MMFS is comfortable on the ALM front, with liability repayments of INR21b/INR34b in May/June 2020 and 2QFY20, against a cash balance of INR45b, in addition to undrawn sanctions.

Highlights from management commentary

- 75%+ customers availed moratorium. Those who chose not to avail it belong largely to the farming community. Collection efficiency stood at 15–16% in April.
- 8–9 areas were identified where opex could be reduced by ~50bp in FY21.
- Customers are not expected to surrender their assets. A delay, but not a default, is likely.

Valuation and view

- We have baked in a 40% drop in disbursements in FY21 as 1H is likely to see a plunge (60–70%); we expect healthy, but gradual recovery from 2HFY21. With a higher share (75%) of moratorium availed and collections issues, repayment rates are likely to be lower and thus support AUM.
- Forecasting asset quality and credit cost is challenging as they are likely to be guided by the easing of restrictions on COVID-19. The Red zone contributes ~30% to AUM. We have baked in ~3.9% credit cost v/s 2.35% in FY20 (ex-contingency provisions).
- We have baked in a sharp drop of ~100bp in NIMs in FY21 due to challenging asset quality. A valuation of 0.8x PBV largely factors in near-term issues. Recovery/upgrades are likely to be the quickest as restrictions ease, as the underlying customer base's cashflows, especially in the Farming segment, are healthy. **Buy**.

Quarterly Performance

(INR M)

Y/E March	FY19				FY20				FY19	FY20	4QFY20E	v/s est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Operating Income	19,285	21,097	22,304	24,552	23,940	24,864	25,806	26,369	87,229	100,979	26,526	-1
Other Income	111	357	157	243	185	545	354	389	869	1,473	350	
Total income	19,397	21,455	22,461	24,795	24,125	25,409	26,160	26,758	88,098	102,451	26,876	0
YoY Growth (%)	28.6	39.4	22.7	37.2	24.4	18.4	16.5	7.9	31.8	16.3	8.4	
Interest Expenses	8,488	9,310	10,205	11,443	11,282	12,022	12,089	12,895	39,446	48,287	12,612	2
Net Income	10,909	12,145	12,256	13,352	12,843	13,387	14,072	13,863	48,653	54,164	14,264	-3
YoY Growth (%)	44.8	50.8	20.7	29.7	17.7	10.2	14.8	3.8	35.0	11.3	6.8	
Operating Expenses	3,849	4,276	4,812	5,549	5,600	5,196	5,189	4,197	18,476	20,182	5,774	-27
Operating Profit	7,060	7,869	7,444	7,803	7,243	8,190	8,883	9,666	30,177	33,982	8,490	14
YoY Growth (%)	65.8	65.9	12.4	28.4	2.6	4.1	19.3	23.9	39.1	12.6	8.8	
Provisions	2,938	2,311	2,247	-1,145	6,196	3,606	4,001	6,741	6,352	20,545	3,946	71
Profit before Tax	4,122	5,558	5,197	8,947	1,047	4,584	4,882	2,925	23,824	13,438	4,544	-36
Tax Provisions	1,432	1,744	2,010	3,068	363	2,066	1,229	716	8,254	4,374	859	-17
Net Profit	2,691	3,814	3,187	5,880	684	2,518	3,653	2,209	15,571	9,064	3,685	-40
YoY Growth (%)	33.6	132.5	-3.8	87.0	-74.6	-34.0	14.6	-62.4	54.0	-41.8	-37.3	
Key Operating Parameters (%)												
Yield on loans (Cal)	15.3	15.6	15.5	16.1	15.3	15.5	15.7	15.9				
Cost of funds (Cal)	8.2	8.2	8.4	8.9	8.4	8.6	8.4	8.7				
Spreads (Cal)	7.1	7.4	7.2	7.2	6.9	6.8	7.3	7.2				
Rep Spreads (Cum)	7.6	8.2	8.1	8.1	7.6	7.6	7.7	7.7				
Credit Cost (Cal)	2.3	1.7	1.6	-0.8	4.0	2.3	2.5	4.1				
Cost to Income Ratio	35.3	35.2	39.3	41.6	43.6	38.8	36.9	30.3	38.0	37.3		
Tax Rate	34.7	31.4	38.7	34.3	34.6	45.1	25.2	24.5	34.6	32.5		
Balance Sheet Parameters												
Loans (INR B)	516	555	583	612	624	638	655	650	612	650		
Change YoY (%)	17.8	20.6	21.9	26.2	20.9	15.0	12.4	6.1	26.2	6.1		
Value of Asset Fin (INR B)	103	109	133	117	106	97	128	93	462	424		
Change YoY (%)	35.3	43.5	24.1	-1.1	2.5	-10.2	-3.8	-21.0	22.3	-8.3		
Borrowings (INR B)	427	479	498	528	548	565	587	595	528	595		
Change YoY (%)	21.0	28.2	37.0	31.8	28.4	18.0	17.9	12.5	31.8	12.5		
Loans/Borrowings (%)	120.9	115.9	117.0	115.9	113.9	112.9	111.5	109.3	115.9	109.3		
Debt/Equity (x)	4.3	4.8	4.8	4.8	5.0	5.3	5.3	5.2	5.1	5.2		
Asset Quality Parameters (%)												
GS 3 (INR B)	55.3	56.4	50.6	40.7	53.0	52.0	57.7	57.5				
Gross Stage 3 (% on Assets)	9.4	9.0	8.3	6.5	8.2	7.9	8.5	8.4				
NS 3 (INR B)	35.9	36.7	37.0	7.8	39.8	41.9	44.5	39.7				
Net Stage 3 (% on Assets)	6.3	6.0	6.2	5.3	6.3	6.4	6.7	6.0				
PCR (%)	35.1	34.9	26.9	80.8	24.9	19.5	22.9	31.0				
ECL (%)	5.3	5.1	3.9	2.9	3.6	3.4	3.6	4.4				
Return Ratios (%)												
ROAA	2.0	2.7	2.1	3.6	0.4	1.4	2.0	1.2	2.6	1.3		
ROAE	11.0	15.4	12.6	22.2	2.5	9.3	13.4	7.9	15.8	8.3		



Highlights from management commentary

Business updates

- 500 branches are now operational; the company is seeing some walk-ins.
- 8–9 areas have been identified where opex could be reduced by 40–50bp over the year. For example, the company is attempting to reduce branch rent by 20–25%.
- It would be another quarter or so before normalcy has returned. Many people are staying back in their hometowns.
- **Customers are not expected to surrender their assets. A delay, but not a default, is likely.**
- MMFS is considering changing the mix of employee remuneration between fixed and variable payouts.
- **28–30% of customers/branches are in the Red zone.**
- Collection efficiency in April was 15–16%.
- Of INR5.74b, INR4.74 worth of the COVID-19 provision is for Stage 3 assets.
- Tractor demand is already picking up.
- According to the management, moratorium of 90 days is insufficient for several products, such as CVs. Rescheduling is a better option for longer duration products.
- Mahindra HFC would focus on recoveries and make disbursements gradually.

Moratorium

- 75%+ customers availed moratorium. Those who chose not to avail it belong largely to the farming community. Decent collections were witnessed in April. Collections in the 15 days of May were equal to April collections.

Liquidity/Funding

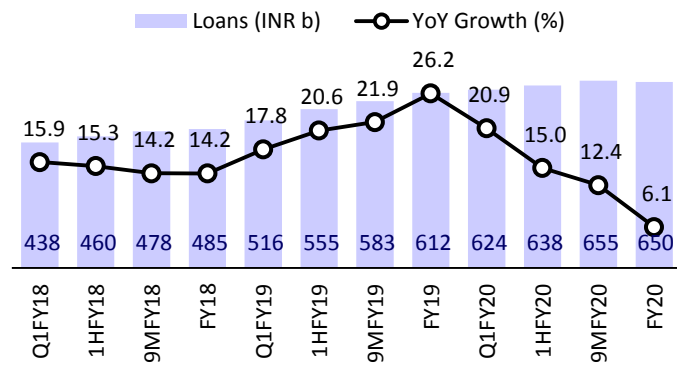
- The company has enough liquidity to meet all obligations even if the current situation lasts another six months.
- Liquidity on the balance sheet is INR45b; INR30b+ has been raised in the past few months.
- Broadly, debt maturity stands at INR10b per month.
- It has thus far raised INR6.75b via TLTRO at 7.5–7.65%.

Others

- 15–20 business days were lost in March.
- INR5.7b has been put toward COVID-19 provisions; East India has contributed a bit lesser than other geographies.
- The LCV segment is expected to bounce back before M&HCV; taxi operators would take a while to recover.
- The quarter saw some benefit of the restatement of gratuity cost.
- Due to COVID-19, MMFS has lost out on a potentially 150bp improvement in the GNPL ratio from loan settlements and recoveries.
- The company has a mix of customer profiles: taxi operators comprise 10%, farmers 25%, and the self-employed (including traders) 15–18%, among others (including contractors and fleet operators).
- 4% of the portfolio is for FTUs (CVs).
- 170–200k customer loans mature every year.

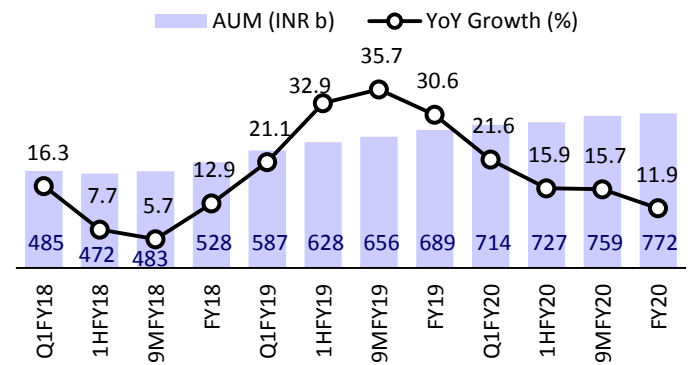
Key Exhibits

Exhibit 1: Loan growth continues to decline (%)



Source: MOFSL, Company

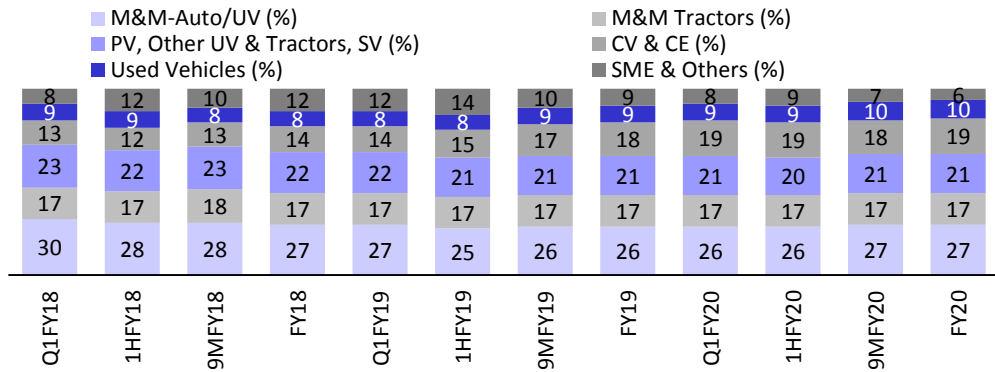
Exhibit 2: AUM growth down ~400bp sequentially (%)



Source: MOFSL, Company

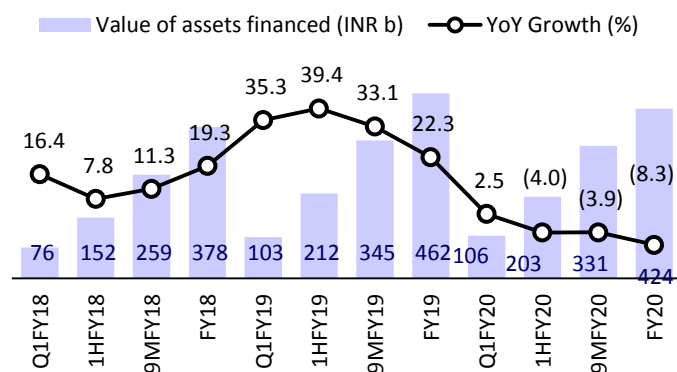
Share of CVs up 100bp QoQ to 19% in the total AUM mix (%)

Exhibit 3: AUM mix largely stable (%)



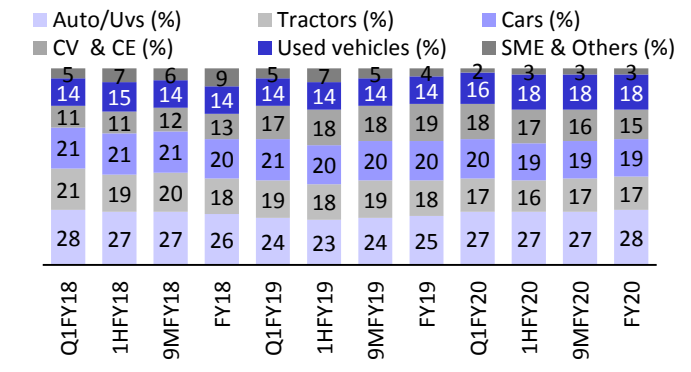
Source: MOFSL, Company, UV: Used vehicles, PV: Private Vehicles

Exhibit 4: Cumulative value of assets financed down 800bp YoY



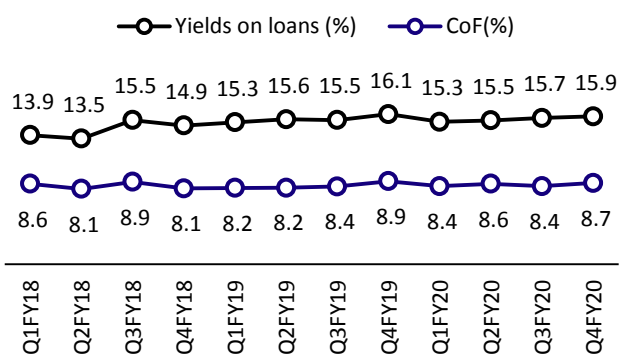
Source: MOFSL, Company

Exhibit 5: Mix of value of assets financed stable (%)



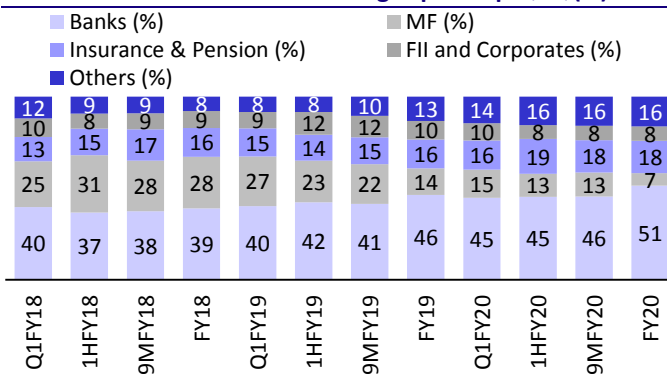
Source: MOFSL, Company

Exhibit 6: Spreads decline ~17bp sequentially (%)



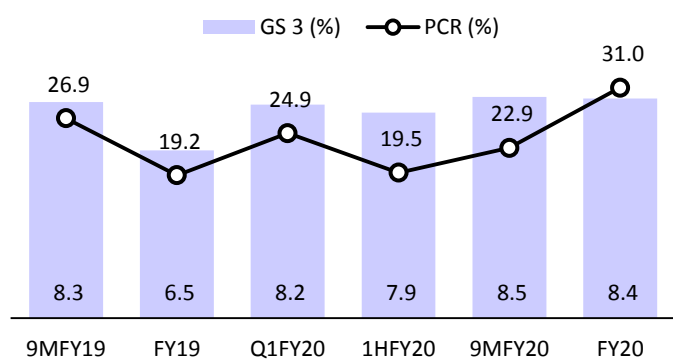
Source: MOFSL, Company

Exhibit 7: Share of bank borrowings up 500bp QoQ (%)



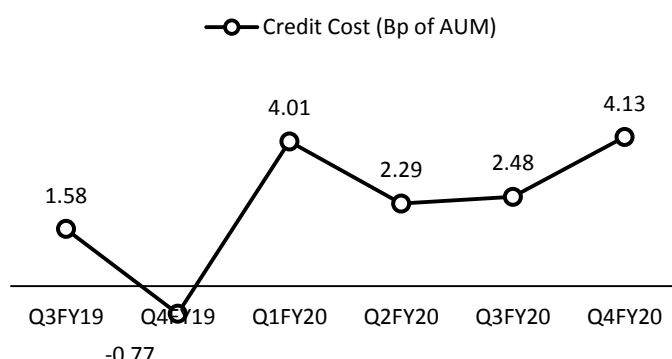
Source: MOFSL, Company

Exhibit 8: Higher provisions lead to improvement in PCR (%)



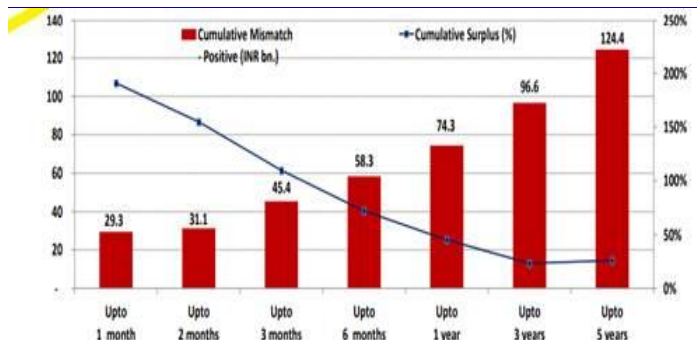
Source: MOFSL, Company, GS 3% on total assets

Exhibit 9: Credit cost up by ~165bp QoQ



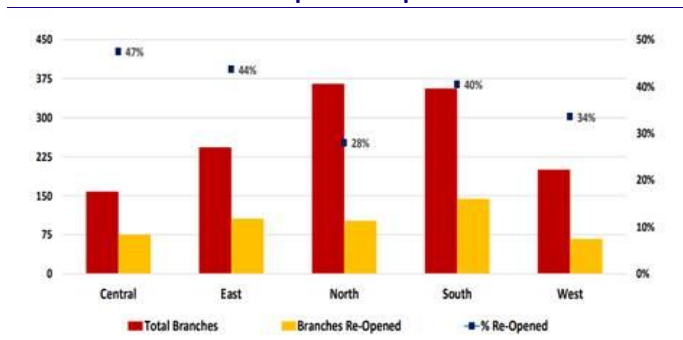
Source: MOFSL, Company

Exhibit 10: Comfortable on ALM front



Source: MOFSL, Company

Exhibit 11: Gradual resumption of operations



Source: MOFSL, Company

Valuation and view

- Restrictions imposed on the movement of goods and people due to COVID-19 would have a significant impact on growth and asset quality.
- We have baked in a 40% drop in disbursements in FY21 as 1H is likely to see a plunge (60–70%); we expect healthy, but gradual recovery from the festive season. With a higher share (75%) of moratorium availed and issues concerning collections, repayment rates are likely to be lower and thus support AUM.
- Forecasting asset quality and credit cost is challenging as they are likely to be guided by the easing of restrictions on COVID-19. The Red zone contributes ~30% to AUM. We have baked in ~3.9% credit cost v/s 2.35% in FY20 (ex-

contingency provisions). By upfronting credit cost in 4QFY20, MMFS has created a buffer of 90bp in credit cost for FY21.

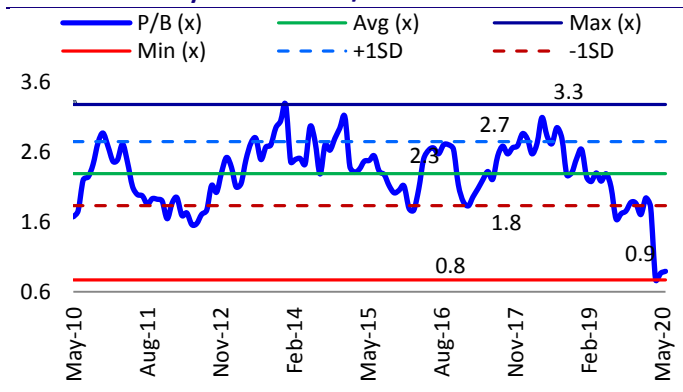
- We have baked in a sharp drop of ~100bp in NIMs in FY21 due to challenging asset quality. Overall, we have cut 22%/4% EPS for FY21/FY22. ROEs are likely to be in the mid-single digits over FY20–22.
- A valuation of 0.8x PBV largely factors in near-term issues. Recovery upgrades are likely to be the quickest as restrictions ease, as the underlying customer base’s cashflows, especially in the Farming segment, are healthy. **Buy**

Exhibit 12: We cut our EPS estimates by ~22% for FY21, factoring lower loan growth

INR b	Old Est		New Est		% Change	
	FY21	FY22	FY21	FY22	FY21	FY22
NII (incl. Sec. Inc)	53.6	55.1	47.8	51.2	-10.8	-7.1
Other Income	1.6	1.7	1.6	1.8	2.7	2.7
Total Income	55.2	56.8	49.4	53.0	-10.4	-6.8
Operating Expenses	19.9	21.0	18.1	19.9	-9.2	-5.3
Operating Profits	35.2	35.9	31.3	33.1	-11.1	-7.7
Provisions	26.8	23.6	24.8	21.3	-7.6	-9.6
PBT	8.4	12.3	6.5	11.8	-22.4	-4.0
Tax	2.1	3.1	1.6	2.9	-22.4	-4.0
PAT	6.3	9.2	4.9	8.8	-22.4	-4.0
Loans	657	680	633	616	-3.7	-9.4
Borrowings	578	592	582	567	0.7	-4.2
Margins	8.1	8.2	7.4	8.2		
Credit Cost	4.1	3.5	3.9	3.4		
RoE	5.5	7.6	4.2	7.2		
EPS	10.3	14.9	8.0	14.3	-22.4	-4.1
BVPS	191	203	193	204	0.7	0.5

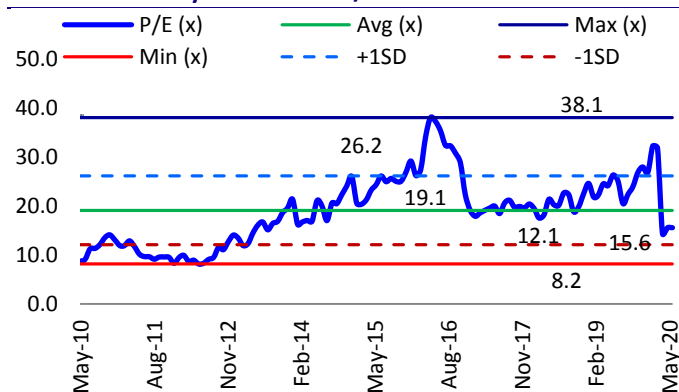
Source: MOFSL, Company

Exhibit 13: One-year forward P/B



Source: MOFSL, Company

Exhibit 14: One-year forward P/E



Source: MOFSL, Company

Exhibit 15: Valuation matrix

	Rating	CMP (INR)	Mcap (USD b)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HFCs											
HDFC*	Buy	1,636	37.2	12.7	8.8	1.6	1.1	1.7	1.7	13.1	13.2
LICHF	Buy	254	1.7	5.6	4.7	0.6	0.6	1.0	1.1	12.0	13.0
PNBHF	Neutral	179	0.4	3.5	2.7	0.3	0.3	1.1	1.4	9.6	11.5
REPCO	Buy	112	0.1	2.5	2.3	0.3	0.3	2.3	2.4	14.4	13.6
Vehicle fin.											
SHTF	Buy	642	1.9	8.6	5.5	0.7	0.7	1.6	2.4	9.0	12.7
MMFS	Buy	168	1.4	16.4	11.3	0.9	0.8	0.8	1.2	5.5	7.6
CIFC	Buy	149	1.6	9.6	8.0	1.3	1.1	2.0	2.2	14.1	14.9
Diversified											
BAF	Neutral	2,086	16.1	28.0	19.3	3.4	2.9	2.6	3.5	12.7	16.2
SCUF	Buy	703	0.6	5.2	4.6	0.6	0.5	3.0	3.4	11.4	11.8
LTFH	Buy	57	1.5	5.5	4.5	0.7	0.6	1.9	2.2	13.1	14.3
MUTH	Neutral	820	4.3	10.2	9.1	2.4	2.0	7.1	7.2	25.8	24.4
MAS	Buy	558	0.4	18.1	15.0	2.8	2.4	4.2	4.7	16.2	17.2
Wholesale											
ABCL	Buy	44	1.3	-4.8	-5.4	-0.5	-0.6	2.0	2.0	11.6	12.2
Others											
IIFL Wealth	Buy	861	1.0	20.1	15.8	2.4	2.3	22.3	24.8	11.9	14.8

Financials and valuations

Income statement

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Interest Income	52,596	56,163	60,127	65,842	86,146	99,417	94,615	95,264
Interest Expended	24,967	26,393	28,574	30,816	39,446	48,287	48,550	45,976
Net Interest Income	27,629	29,770	31,553	35,025	46,700	51,130	46,065	49,287
Change (%)	10.2	7.8	6.0	11.0	33.3	9.5	-9.9	7.0
Other Operating Income	2,764	2,368	1,612	493	1,084	1,561	1,718	1,889
Other Income	486	519	636	517	869	1,473	1,620	1,782
Net Income	30,880	32,658	33,801	36,036	48,653	54,164	49,403	52,959
Change (%)	11.7	5.8	3.5	6.6	35.0	11.3	-8.8	7.2
Operating Expenses	10,068	11,781	14,509	14,336	18,476	20,182	18,088	19,858
Operating Profits	20,811	20,877	19,292	21,700	30,177	33,982	31,315	33,100
Change (%)	12.4	0.3	-7.6	12.5	39.1	12.6	-7.8	5.7
Provisions	8,275	10,495	13,091	5,681	6,352	20,545	24,784	21,342
PBT	12,536	10,382	6,201	16,019	23,824	13,438	6,531	11,758
Tax	4,219	3,656	2,198	5,907	8,254	4,374	1,633	2,940
Tax Rate (%)	33.7	35.2	35.5	36.9	34.6	32.5	25.0	25.0
PAT	8,318	6,726	4,002	10,111	15,571	9,064	4,898	8,819
Change (%)	-6.2	-19.1	-40.5	152.6	54.0	-41.8	-46.0	80.0
Proposed Dividend (Incl Tax)	2,730	2,713	1,610	2,938	4,779	0	0	1,764

Balance sheet

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Equity Share Capital	1,128	1,129	1,130	1,229	1,230	1,231	1,231	1,231
Reserves & Surplus (Ex OCI)	55,566	59,752	64,994	92,052	1,03,072	1,12,408	1,17,306	1,24,361
Net Worth	56,694	60,881	66,124	93,281	1,04,221	1,13,558	1,18,456	1,25,511
Other Comprehensive Income			0	0	81	81	81	81
Net Worth	56,694	60,881	66,124	93,281	1,04,302	1,13,639	1,18,537	1,25,591
Change (%)	11.3	7.4	8.6	41.1	11.8	9.0	4.3	6.0
Borrowings	2,62,633	2,94,523	3,52,656	4,00,932	5,28,469	5,94,623	5,82,346	5,67,064
Change (%)	9.7	12.1	19.7	13.7	31.8	12.5	-2.1	-2.6
Other liabilities	31,414	40,391	24,404	33,715	38,009	32,451	37,318	42,916
Total Liabilities	3,50,741	3,95,795	4,43,185	5,27,927	6,70,780	7,40,712	7,38,201	7,35,571
Investments	10,857	15,351	19,843	27,341	37,917	59,110	70,932	85,118
Change (%)	8.0	41.4	29.3	37.8	38.7	55.9	20.0	20.0
Loans and Advances	3,24,314	3,62,189	4,06,000	4,85,470	6,12,496	6,49,935	6,32,985	6,16,374
Change (%)	11.1	11.7	12.1	19.6	26.2	6.1	-2.6	-2.6
Other assets	15,571	18,255	17,342	15,116	20,367	31,668	34,284	34,079
Total Assets	3,50,741	3,95,795	4,43,185	5,27,927	6,70,780	7,40,712	7,38,201	7,35,571

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Spreads Analysis (%)								
Yield on Portfolio	17.1	16.4	15.7	14.8	15.7	15.8	14.8	15.3
Cost of Borrowings	9.9	9.5	8.8	8.2	8.5	8.6	8.3	8.0
Interest Spread	7.1	6.9	6.8	6.6	7.2	7.2	6.5	7.3
Net Interest Margin	9.9	9.4	8.6	8.0	8.7	8.3	7.4	8.2
Profitability Ratios (%)								
Cost/Income	32.6	36.1	42.9	39.8	38.0	37.3	36.6	37.5
Empl. Cost/Op. Exps.	45.6	47.4	46.9	58.1	59.0	56.9	57.1	57.3
RoE	15.5	11.4	6.3	12.7	15.8	8.3	4.2	7.2
RoA	2.5	1.8	1.0	2.1	2.6	1.3	0.7	1.2
Asset Quality (%)								
GNPA	20,997	32,242	68,311	50,270	40,706	57,467	84,032	80,172
NNPA	8,182	12,351	40,938	33,109	32,907	39,665	58,822	56,121
GNPA %	6.5	8.9	15.5	9.8	6.4	8.8	13.3	13.0
NNPA %	2.6	3.6	10.1	6.8	5.4	6.3	9.7	9.5
PCR %	61.0	61.7	40.1	34.1	19.2	31.0	30.0	30.0
Capitalization (%)								
CAR	18.3	17.3	18.1	22.7	20.3	20.1	20.9	22.2
Tier I	15.5	14.6	13.6	17.0	15.5	16.0	17.2	18.7
Tier II	2.8	2.7	4.5	5.7	4.8	4.1	3.8	3.5
Average Leverage on Assets (x)	6.2	6.3	6.6	6.1	6.1	6.5	6.4	6.0
Valuation								
Book Value (INR)	100.5	107.8	117.0	151.8	169.5	184.5	192.5	204.0
BV Growth (%)	11.2	7.3	8.5	29.7	11.7	8.9	4.3	6.0
Price-BV (x)					1.0	0.9	0.9	0.8
Adjusted BV (INR)	90.3	92.5	66.3	114.1	132.0	136.2	120.8	135.6
Price-ABV (x)					1.3	1.2	1.4	1.2
OPS (INR)	36.9	37.0	34.1	35.3	49.1	55.2	50.9	53.8
OPS Growth (%)	12.3	0.2	-7.7	3.4	39.0	12.5	-7.8	5.7
Price-OP (x)					3.4	3.0	3.3	3.1
EPS (INR)	14.7	11.9	7.1	16.5	25.3	14.7	8.0	14.3
EPS Growth (%)	-6.4	-19.2	-40.5	132.3	53.9	-41.8	-46.0	80.0
Price-Earnings (x)					6.6	11.4	21.1	11.7
Dividend	4.0	4.0	2.4	4.0	6.5	0.0	0.0	2.9
Dividend Yield (%)				2.4	3.9	0.0	0.0	1.7

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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