

Mahindra Finance

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Tractor sales save the quarter

CMP: Rs 208

as of (July 17, 2020)

TP: Rs 188 (■)

12 months

Rating: HOLD (■)

Upside: (9.5) %



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- MMFS reported a PAT of Rs1.6bn (127% yoy, -30% qoq) in Q1FY21 amid a sharp surge in credit costs but supported by relatively strong demand from the tractor segment and gains arising from stake sale in the AMC business.
- Disbursements during the quarter declined ~67% yoy due to the lockdown across the country, yet tractor disbursements (-34% yoy) supported overall sales.
- AUM growth was ~14% yoy and ~6% qoq; however, this was mainly supported by lower repayments/prepayments amid ~70% of the customers adopting moratorium.
- MMFS has reported an exceptional gain of Rs61mn on the sale of the AMC business.
- ~70% of customers still remain under moratorium; however; the company reported that ~40% of customers opting for moratorium has started with repaying since June 2020.
- Gross Stage 3 level NPAs eased sequentially to 9.2% from 8.4% last quarter, whereas Net Stage 3 level improved to 5.7% for the quarter vs. 6.0% as of March 2020. Stage 3 provisioning coverage ratio improved sequentially to 40% (including Stage 1, 2 provisions) vs. ~31% last quarter.
- MMFS has announced the right issue ratio as 1:1 at a price of Rs50. The issue price is at a discount of 76% to the market price. The dilution would result in a drop in our RoE estimate to 6.5%/9% for FY22E/23 vs. 8%/11% previously. The issue at a steep discount to the current price makes the stock extremely expensive (post dilution) to 2.4x P/Adjusted FY22E book against 1.3x P/Adjusted FY22E book earlier. Hence, we expect a strong negative reaction in the stock price in the near term. The issue opens on 28 July 2020 and closes on 11 August 2020.
- The post-results conference call is scheduled on 20 July 2020. We currently have a Hold rating on the stock with a target price of Rs188.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs](#)



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Exhibit 1: Result summary

Rs mn	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	% yoy	% qoq	FY19	FY20	% yoy
Operating Income	23,940	24,864	25,806	26,369	26,405	10.3%	0.1%	87,238	1,00,979	15.8%
Interest Expenses	11,282	12,022	12,089	12,895	12,646	12.1%	-1.9%	39,446	48,287	22.4%
Net Operating Income	12,658	12,842	13,717	13,474	13,759	8.7%	2.1%	47,793	52,691	10.2%
Other Income	185	545	354	389	144	-21.9%	-62.9%	869	1,473	69.5%
Total Income	12,843	13,387	14,072	13,863	13,903	8.3%	0.3%	48,662	54,164	11.3%
Operating Expenses	5,600	5,196	5,189	4,197	3,456	-38.3%	-17.6%	18,476	20,182	9.2%
Operating Profit	7,243	8,190	8,883	9,666	10,447	44.2%	8.1%	30,186	33,982	12.6%
Provisions	6,196	3,606	4,001	6,741	8,427	36.0%	68.5%	6,361	20,545	223.0%
% of operating profit	85.5%	44.0%	45.0%	69.7%	80.7%			21.1%	60.5%	
PBT	1,047	4,584	4,882	2,925	2,020	93.0%	-30.9%	23,824	13,438	-43.6%
Tax	363	2,066	1,229	716	523	44.2%	-26.9%	8,254	4,374	-47.0%
Tax rate (%)	34.6%	45.1%	25.2%	24.5%	25.9%			34.6%	32.5%	
Reported PAT	684	2,518	3,653	2,209	1,558	127.7%	-29.5%	15,571	9,064	-41.8%
AUM	7,14,060	7,27,275	7,58,840	7,71,600	8,14,360	14.0%	5.5%	6,70,780	7,71,600	15.0%
Gross NPA (%)	8.2	7.2	7.6	8.4	9.2	102bps	75bps			
Net NPA (%)	6.3	5.8	6.0	6.0	5.7	-55bps	-26bps			

Source: Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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