

October 27, 2020

Q2FY21 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	124		124	
NII (Rs.)	57,690	64,773	57,690	64,773
% Chng.	-	-	-	-
PPoP (Rs.)	38,124	39,334	36,412	37,280
% Chng.	4.7	5.5	-	-
EPS (Rs.)	9.6	13.8	9.2	12.6
% Chng.	4.7	9.9	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Int.Inc. (Rs m)	52,691	54,380	57,690	64,773
Growth (%)	10.3	3.2	6.1	12.3
Op. Profit (Rs m)	33,982	40,892	38,124	39,334
PAT (Rs m)	9,064	4,705	11,882	17,034
EPS (Rs.)	14.7	5.1	9.6	13.8
Gr. (%)	(41.8)	(65.4)	89.3	43.4
DPS (Rs.)	1.9	0.7	0.4	0.9
Yield (%)	1.4	0.5	0.3	0.7
Margin (%)	7.5	6.9	6.4	6.4
RoAE (%)	8.1	3.5	7.7	10.5
RoAA (%)	1.3	0.6	1.3	1.6
PE (x)	8.9	25.7	13.6	9.5
P/BV (x)	0.7	1.1	1.0	1.0
P/ABV (x)	1.1	1.3	1.2	1.2

Key Data

MMFS.BO | MMFS IN

52-W High / Low	Rs.246 / Rs.76
Sensex / Nifty	40,146 / 11,768
Market Cap	Rs.162bn / \$ 2,191m
Shares Outstanding	1,236m
3M Avg. Daily Value	Rs.2853.43m

Shareholding Pattern (%)

Promoter's	52.49
Foreign	21.41
Domestic Institution	12.45
Public & Others	13.65
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.9	52.9	(36.3)
Relative	1.4	19.3	(38.0)

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Disappointment both on asset quality & growth

Quick Pointers:

- Moratorium book at 15% of loans; 17% of customers did not pay any instalment
- 8% of assets (taxi, bus, MHCV, tourism centred vehicles) stand critical

Reported provisions continue to lag our conservative forecasts prompting us to tweak FY21 earnings estimates higher by 58%. Subsequently, our FY22-23 estimates stand slightly higher by 5-10%. While Q2FY21 NPA at 7.5% stood optically better, higher write-offs and couple of granular asset details continue to throw negative surprises, viz, (a)8% (Rs50bn) critical assets (b)17% of overall customer base not paying even a single installment, o/w 6% could be restructured (c)Rs60bn book potential restructured book; Rs40bn benefiting asset classification could potentially slip or fall into above restructured category, part payments though in place. Q2FY21 also disappointed on sharp 45%YoY decline in tractor financing disbursements despite perceivably improving rural dynamics. This coupled with critical product segments the recovery of which stands prolonged, we maintain conservative loan growth forecast of 5%YoY for FY21 Our GNPA & credit costs estimates (9.3% and 2.4%+) stand maintained for FY21. With structurally low return profile (11%RoE, 1.6%RoA over FY22-23) offering no respite, we reiterate REDUCE rating with SoTP target of Rs 124 valuing core business at Rs 1.0x PABV at Sep'22 estimates.

- **Critical business segments to weigh upon overall growth prospects:** Loans at Rs 644bn stood marginally lower than PLe of Rs 651bn and stood flattish both QoQ/YoY as focus on collections and cost rationalization takes precedence. Q2FY21 disappointed w.r.t 45%YoY drop in tractor financing disbursements despite perceivably improving rural dynamics indicating loss of market share to other players. Besides, 8% of overall loans stand vulnerable to asset quality shocks. While Management cites steady momentum led by incremental focus on pre-owned, tractor and SME financing, we maintain conservative growth estimates at 5%YoY for FY21. With normalization expected in H2FY22-23, loan growth should climb to 10-15%YoY.
- **Asset quality vulnerability stands pronounced:** While GNPA as at Sep'22-end stood at 7.5%, inclusive of SMA category accounts, total assets under moratorium stands higher at 11% of AUMs/15% of loans. While collection efficiency for Sep'20 stood at 82%, 8% of overall loans ie Rs50 bn assets stand critical (taxi aggregators, school bus, HCV, tourism centred vehicles) and may see prolong recovery. These could either potentially slip or get restructured. Besides, 17% of overall customer base did not pay a single installment; 6% can come for restructuring. In absolute terms, Rs60bn book can fall into restructured category. Moreover, Rs40bn stock where asset classification benefits were extended could either potentially slip or get restructured, but part payments stand in place. Q2FY21 NPA improvement stands as a result of higher write-offs although Management did cite sufficient provisions against Stage 2 assets. We maintain GNPA (9.3%) for FY21.

Exhibit 1: MMFS Q2FY21: Lower provisions support bottom-line

PAT grew by 20.6% YoY/94.8% QoQ to Rs3.04bn with a slight beat on our estimates [PLe of Rs1.97bn] on account of lower provisions to the tune of Rs 6.1bn (PLe: 7.3bn) for the quarter.

MMFS provided additional Rs4.3bn as COVID related provisioning with total cumulative COVID provisioning standing at Rs 14.8bn as at Sep'20-end. Moreover, the Co. also provided for standstill accounts to the tune of Rs1.1bn.

NII for the quarter grew 8% YoY/1%QoQ to Rs13.9bn and stood in-line [PLe of Rs13.1bn] led by strong AUM traction of 12%YoY/27%QoQ to Rs 817bn exceeding our estimates (PLe: Rs651bn).

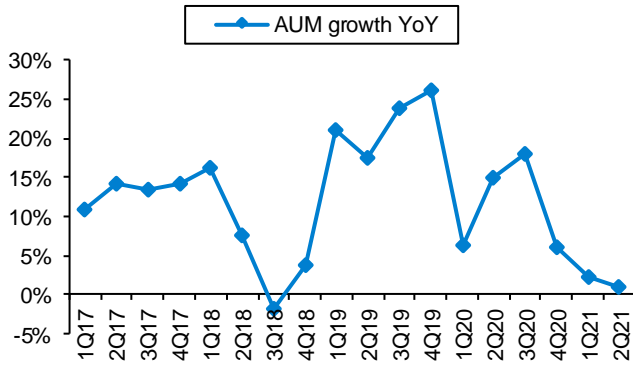
PPoP grew 25.9% YoY/ de-grew at 1.3% QoQ to Rs10.3bn but stood in-line [PLe of Rs10.bn]

Operating expenses declined 24% YoY/ increased 14.8% QoQ to Rs4.bn and stood broadly in-line [vs. PLe of Rs3.3bn].

(Rs m)	Q2FY21	Q2FY20	YoY gr.	Q1FY21	QoQ gr.
Interest Income	26,129	24,864	5.1%	26,405	-1.0%
Interest Expenses	12,216	12,022	1.6%	12,646	-3.4%
Net Interest Income	13,913	12,842	8.3%	13,759	1.1%
Other Income	366	545	-32.8%	144	153.6%
Total Income	14,279	13,387	6.7%	13,903	2.7%
Total Operating Expenses	3,968	5,196	-23.6%	3,457	14.8%
Operating Profit (PPP)	10,311	8,190	25.9%	10,447	-1.3%
Provisions & Write Offs	6,194	3,606	71.8%	8,427	-26.5%
PBT	4,117	4,584	-10.2%	2,020	103.8%
Exceptionals				61	
Reported Profit	3,035	2,518	20.6%	1,558	94.8%
Assets Under Management	6,43,890	6,37,930	0.9%	6,38,400	0.9%
Off-Balance Sheet AUM					
NIM	8.68%	8.14%	0.5%	8.54%	0.14%
AUM (Rs mn)					
Auto/ Utility vehicles	6,43,890	6,37,930	0.9%	6,38,400	0.9%
Tractors	1,80,289	1,65,862	8.7%	-	-
Cars	1,09,461	1,08,448	0.9%	-	-
CV/CE	1,35,217	1,27,586	6.0%	-	-
Used vehicles & Others	1,15,900	1,21,207	-4.4%	-	-
Asset Quality					
Gross NPAs	45,265	50,396	-10.2%	58,669	-22.8%
Net NPAs	30,134	40,828	-26.2%	36,516	-17.5%
Gross NPA (%)	7.03%	7.90%	-0.9%	9.19%	-2.16%
Net NPA (%)	4.68%	6.40%	-1.7%	5.72%	-1.0%
Coverage (%)	35.10%	19.55%	15.6%	40.10%	-5.0%
Credit costs - On Loans	3.85%	2.26%	1.6%	5.28%	-1.4%
Balance sheet Details					
Total Borrowed Funds	6,04,450	5,67,060	6.6%	6,33,517	-4.6%
Loans & Advances & others	6,43,890	6,37,925	0.9%	6,38,395	0.9%
Total Assets	7,83,046	7,04,654	11.1%	7,76,115	0.9%
Insurance Brokers PAT	36	107	-66.4%	20	80.0%
Rural Housing PAT	574	287	100.0%	477	20.3%

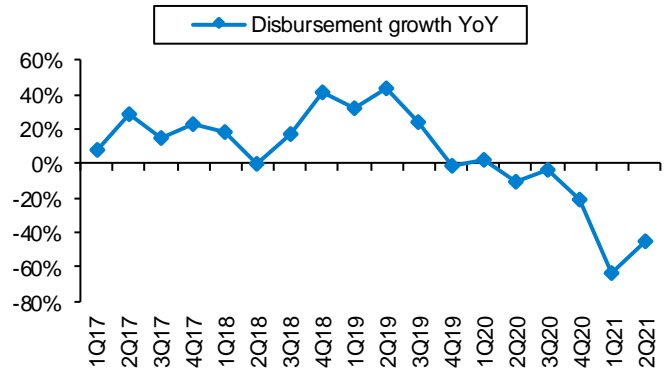
Source: Company, PL

Exhibit 2: AUMs grow, loans flattish



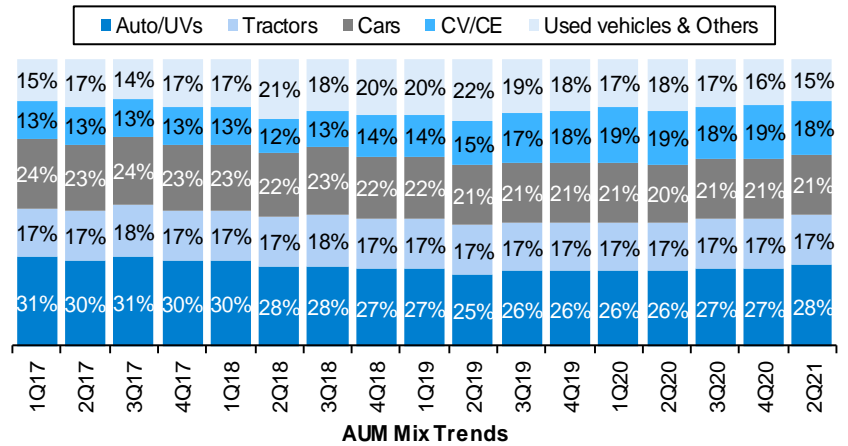
Source: Company, PL

Exhibit 3: Disbursements continue to decline



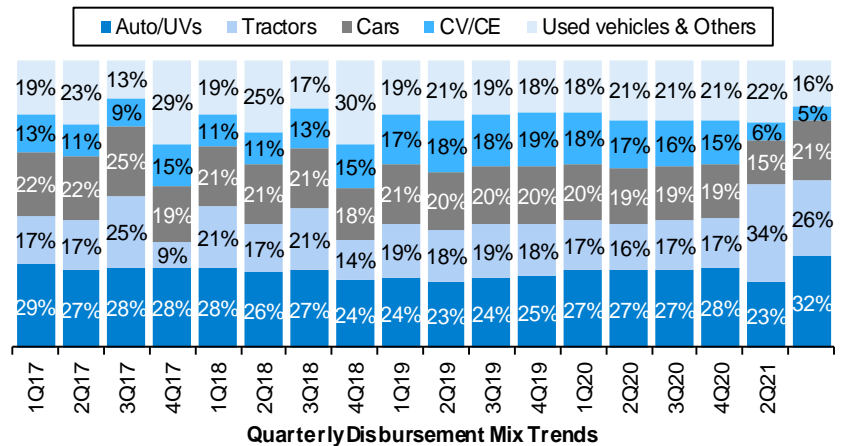
Source: Company, PL

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



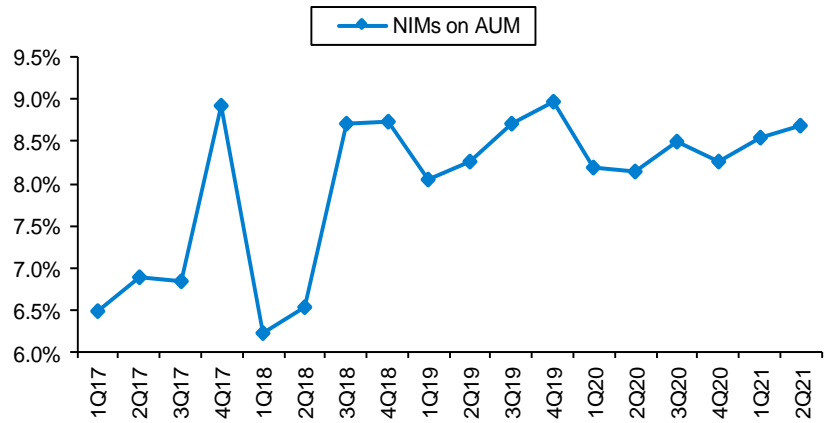
Source: Company, PL

Exhibit 5: Disbursements mix tilting towards higher yielding businesses



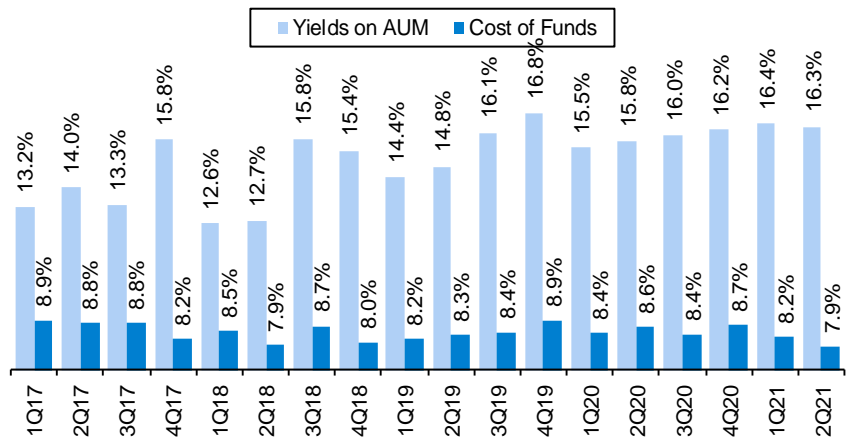
Source: Company, PL

Exhibit 6: Margins decline on account of excess liquidity on BS



Source: Company, PL

Exhibit 7: Yields and cost of funds stay benign



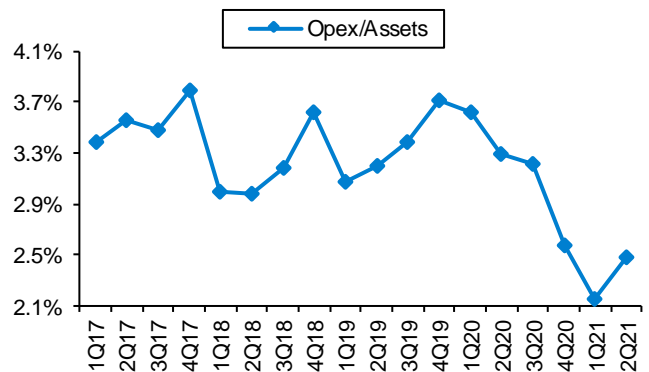
Source: Company, PL

Exhibit 8: C/I ratio improved on concerted efforts



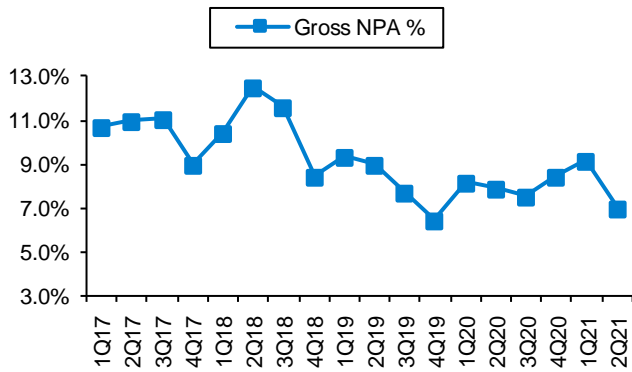
Source: Company, PL

Exhibit 9: Declining trend in Opex/assets



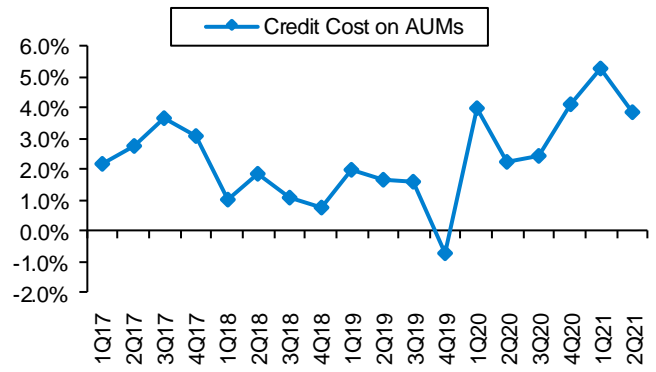
Source: Company, PL

Exhibit 10: Asset quality improves



Source: Company, PL

Exhibit 11: Credit costs stood steady



Source: Company, PL

Exhibit 12: Earnings tweaked higher on lowering provision estimates

(Rs mn)	Old Estimates			Revised Estimates			% Change		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Net Interest Income	54,380	57,690	64,773	54,380	57,690	64,773	0.0%	0.0%	0.0%
Operating Profit	39,566	36,412	37,280	40,892	38,124	39,334	3.4%	4.7%	5.5%
Net Profit	2,965	11,350	15,497	4,705	11,882	17,034	58.7%	4.7%	9.9%
EPS (Rs)	3.2	9.2	12.6	5.1	9.6	13.8	58.7%	4.7%	9.9%
Price Target (Rs)	124			124			-		
Reco	REDUCE			REDUCE					

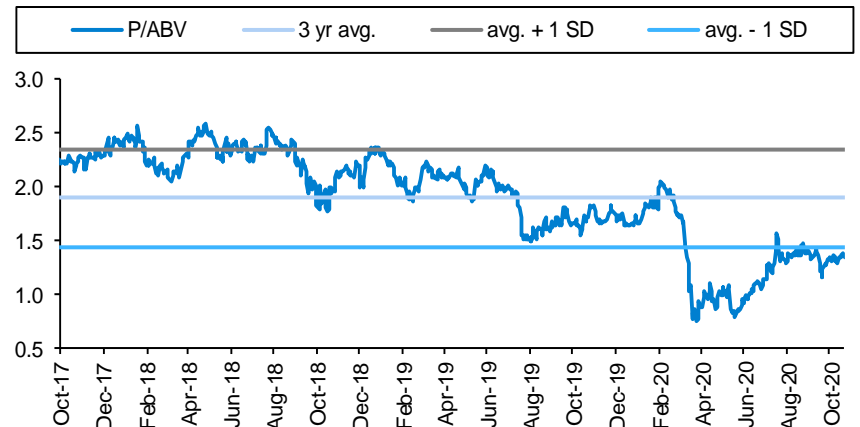
Source: P

Exhibit 13: Maintain REDUCE, price target at Rs 124

PT calculation and upside	
Fair price - EVA	124
Fair price - P/ABV	93
Average of the two	109
Subsidiary Value	16
Target Price	124
Target P/ABV	1.0
Target P/E	7.4
Current price, Rs	131
Upside (%)	-5%
Dividend yield (%)	3%
Total return (%)	-2%

Source: Company, PL

Exhibit 14: MMFS PBV movement prone to cyclicity of business



Source: Company, Bloomberg, PL

Conference Call Highlights

- **Demand:** Sentiment continue to remain positive and due good monsoon, yields will remain high. Govt will also set MSP at a high price. Infrastructure is also opening up but not aggressively adding positivity to rural markets.
- **Moratorium:** 75% of customers were under morat, out of which 70% I have paid installments. No moratorium was given to NPA customers as on Feb end.
- **Stressed segments:** School bus, car aggregators, HCV, tourism vehicles are still facing stress (accounts for 7-8% of AUM) and have not been able to service their loan. These customers may opt for restructuring. Deterioration of asset quality might happen due to these segments.
- **Restructuring:** Company has not done any restructuring uptil now and expecting 1lac customers to restructure their loans. Company will not provide additional loans during restructuring. In absolute terms, Rs60bn book can fall into restructured category. Besides Rs40bn stock where asset classification benefits were extended could wither potentially slip or get restructured, but part payments are coming through.
- **Opex:** Cost rationalization continues. Contraction in branches is due to consolidation of regional offices and company is not adding employees but are deploying them internally.
- **Collections:** Collection efficiency at 82% in September (6% lower than usual collection in Sept). About 2.5 lac customers out of 16 lac customers (17% of the overall customer) have not paid any single installments.
- **Cost of Funds:** Doesn't expect increase in CoF for next 6 months.
- Company will monitor need of additional liquidity and will reduce it to reduce negative carry which will improve NIMs in coming quarters.
- **Growth:** Company will remain cautious in terms of disbursement and hence they will remain flattish in FY21. AUM to grow 8-9% during same period.



- **Competition:** Competition in non-Mahindra vehicle financing is crawling up specially on tractor side. Barring that not seeing any competition from NBFCs. But banks are getting aggressive on car segment.
- NPA improvement stands as a result of higher write-offs although Mngt did cite sufficient provisions against Stage 2 assets (7.7% as on Sept end).



Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Inc. / Opt. Inc.	1,01,097	1,07,510	1,18,503	1,35,143
Interest Expenses	48,287	52,519	60,021	69,576
Net interest income	52,691	54,380	57,690	64,773
Growth(%)	10.3	3.2	6.1	12.3
Non-interest income	1,473	3,903	2,537	888
Growth(%)	69.5	165.0	(35.0)	(65.0)
Net operating income	54,164	58,283	60,227	65,661
Expenditures				
Employees	11,484	9,762	12,495	14,994
Other Expenses	7,514	6,387	8,303	9,964
Depreciation	1,183	1,242	1,304	1,369
Operating Expenses	18,999	16,149	20,798	24,958
PPP	33,982	40,892	38,124	39,334
Growth(%)	12.6	20.3	(6.8)	3.2
Provisions	20,545	34,605	22,245	16,570
Profit Before Tax	13,438	6,287	15,879	22,764
Tax	4,374	1,582	3,997	5,730
Effective Tax rate(%)	32.5	25.2	25.2	25.2
PAT	9,064	4,705	11,882	17,034
Growth(%)	(41.8)	(48.1)	152.6	43.4

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Source of funds				
Equity	1,231	2,465	2,465	2,465
Reserves and Surplus	1,12,408	1,51,000	1,53,636	1,64,444
Networth	1,13,639	1,53,465	1,56,101	1,66,909
Growth (%)	4.2	35.0	1.7	6.9
Loan funds	5,94,623	6,70,893	7,66,731	8,70,357
Growth (%)	12.5	12.8	14.3	13.5
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	32,451	15,590	27,379	46,069
Total Liabilities	7,40,712	8,39,948	9,50,211	10,83,335
Application of funds				
Net fixed assets	3,635	3,817	4,084	4,370
Advances	6,50,021	6,82,431	7,50,675	8,63,276
Growth (%)	6.1	5.0	10.0	15.0
Investments	59,110	1,00,726	1,25,908	1,44,794
Current Assets	19,954	43,935	58,697	59,871
Net current assets	19,954	43,935	58,697	59,871
Other Assets	7,993	9,039	10,847	11,024
Total Assets	7,40,712	8,39,948	9,50,210	10,83,335
Growth (%)	10.4	13.4	13.1	14.0
Business Mix				
AUM	6,49,935	6,82,431	7,50,675	8,63,276
Growth (%)	6.1	5.0	10.0	15.0
On Balance Sheet	6,48,731	6,74,903	7,46,876	8,55,743
% of AUM	99.81	98.90	99.49	99.13
Off Balance Sheet	1,203	7,528	3,798	7,533
% of AUM	0.19	1.10	0.51	0.87

Profitability & Capital (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	7.5	6.9	6.4	6.4
ROAA	1.3	0.6	1.3	1.6
ROAE	8.1	3.5	7.7	10.5

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Int. Inc. / Operating Inc.	25,806	26,369	26,405	26,129
Income from securitization	-	-	-	-
Interest Expenses	12,089	12,895	12,646	12,216
Net Interest Income	13,717	13,474	13,759	13,913
Growth (%)	13.4	2.8	8.7	8.3
Non-Interest Income	354	389	144	366
Net Operating Income	14,072	13,863	13,903	14,279
Growth (%)	14.8	3.8	8.3	6.7
Operating expenditure	5,189	4,197	3,457	3,968
PPP	8,883	9,666	10,447	10,311
Growth (%)	-	-	-	-
Provision	4,001	6,741	8,427	6,194
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	4,882	2,925	2,020	4,117
Tax	1,229	716	523	1,082
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.2	24.5	25.9	26.3
PAT	3,653	2,209	1,558	3,035
Growth	15	(62)	128	21
AUM	6,54,940	6,49,930	6,38,400	6,43,890
YoY growth (%)	18.0	6.1	2.3	0.9
Borrowing	5,87,445	5,94,622	6,33,517	6,03,715
YoY growth (%)	13.8	19.4	15.7	6.9

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	131	131	131	131
EPS (Rs)	14.7	5.1	9.6	13.8
Book value (Rs)	184.7	124.5	126.7	135.4
Adj. BV(Rs)	121.5	99.1	108.1	110.6
P/E(x)	8.9	25.7	13.6	9.5
P/BV(x)	0.7	1.1	1.0	1.0
P/ABV(x)	1.1	1.3	1.2	1.2
DPS (Rs)	1.9	0.7	0.4	0.9
Dividend Payout Ratio(%)	31.0	44.0	9.0	15.9
Dividend Yield(%)	1.4	0.5	0.3	0.7

Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs(Rs m)	54,854	66,647	58,630	66,398
Net NPA(Rs m)	38,866	31,324	22,866	30,543
Gross NPAs to Gross Adv.(%)	8.4	9.3	7.5	7.4
Net NPAs to net Adv.(%)	6.0	4.5	3.0	3.5
NPA coverage(%)	29.1	53.0	61.0	54.0

Du-Pont as a % of AUM

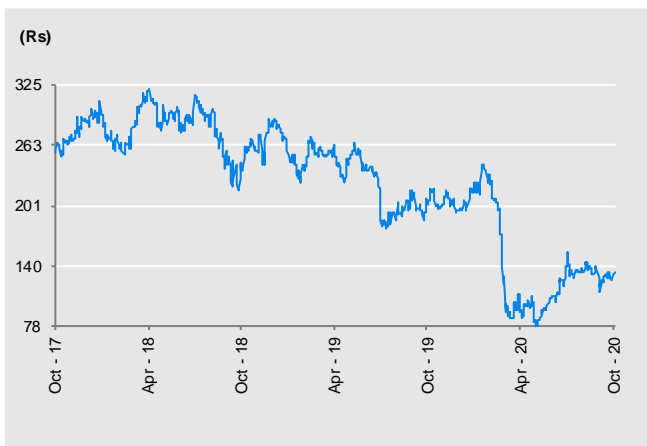
Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	8.3	8.2	8.1	8.0
NII INCL. Securitization	8.4	8.3	8.2	8.1
Total income	8.6	8.8	8.5	8.2
Operating Expenses	3.2	2.6	3.1	3.3
PPOP	5.4	6.2	5.4	5.0
Total Provisions	3.3	5.2	3.1	2.1
RoAA	1.3	0.6	1.3	1.6
Avg. Assets/Avg. net worth	6.3	5.9	5.9	6.5
RoAE	8.1	3.5	7.7	10.5

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Oct-20	Reduce	124	133
2	20-Jul-20	Reduce	179	208
3	13-Jul-20	Reduce	191	204
4	16-May-20	Reduce	171	168
5	17-Apr-20	Reduce	229	180
6	28-Jan-20	Reduce	373	351
7	03-Jan-20	Accumulate	362	335

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,805	3,233
2	Cholamandalam Investment and Finance Company	Accumulate	283	253
3	HDFC	Accumulate	2,098	1,957
4	L&T Finance Holdings	Sell	52	65
5	LIC Housing Finance	Reduce	282	306
6	Mahindra & Mahindra Financial Services	Reduce	124	133
7	Manappuram Finance	Accumulate	197	166
8	SBI Cards and Payment Services	Accumulate	895	852
9	Shriram Transport Finance	Accumulate	809	641

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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