

Mahindra Finance

Refer to important disclosures at the end of this report

Another quarterly loss driven by elevated NPAs

- MMFS reported a net loss of Rs1.53bn in Q1FY22 (Emkay estimate: Rs2.4bn profit) due to weak growth momentum and a surge in provisions. MMFS increased provisions by 234.5% yoy/218.1% qoq to Rs28.2bn amid deteriorating asset quality. Management made an additional overlay of Rs3.9bn, resulting in a total management overlay of Rs27.1bn.
- Disbursements remained weak at Rs38.7bn (+42% yoy, -35% qoq). AUM declined ~3.3% qoq (-3% yoy) to Rs789.6bn. Demand remains weak across segments, but management is optimistic about growth in H2FY22 with the normalization in activities. However, any signs of the third Covid wave could weigh on growth.
- GNPA increased to ~15.5%, mainly contributed by cab aggregators, buses, and MHCV portfolios. The trend in recoveries has been improving since Jun'21 and management remains confident of recoveries and provision reversals by Q4FY21. However, considering past experiences and current restructured book (~2.8% of AUM), we remain cautious.
- We trim FY23E/24E earnings by ~3%/3.8% and roll forward to Sep'22 to arrive at a TP of Rs150 (Rs158 earlier), corresponding to ~1.1x Sep'23E Book. Maintain Hold and EW in EAP. We see a limited downside hereon, considering favorable risk-reward. However, we expect MMFS to continue to underperform other vehicle financiers.

Demand trends uncertain; normalization expected in H2FY22: MMFS saw weak demand across portfolios due to the second wave of Covid-19 and country-wide lockdowns in Q1FY22. Management remains optimistic about growth in H2FY22 with the normalization in activities. However, any signs of the third Covid wave could weigh on growth. Management is also positive about a revival in tractor demand due to a healthy agri season and relatively better performing rural geographies.

Liability franchise remains stable; asset quality is a concern: MMFS is well placed to raise money from banks and capital markets. However, concerns remain over its asset quality profile. Margins (Calculated) in the quarter stood at ~577bps (vs. ~740bps in Q4FY21) due to the reversal of Rs2bn in interest income during the quarter.

Outlook and valuation: We remain cautious, considering the third wave of Covid could further hamper overall credit demand and affect the collection mechanism of the company even in the current financial year. We reduce FY23E/24E earnings by ~3%/3.8% and roll forward to Sep'22 to arrive at a TP of Rs150 (Rs158 earlier), corresponding to ~1.1x Sep'23E Book. Maintain Hold and EW in EAP. We see a limited downside hereon, considering favorable risk-reward. However, underperformance to other vehicle financiers will continue.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	54,164	57,836	59,852	63,111	70,180
Net profit	9,064	3,291	3,456	18,633	23,940
EPS (Rs)	14.7	3.0	2.8	15.1	19.4
ABV (Rs)	139.3	117.4	96.7	115.7	135.9
RoA (%)	1.3	0.4	0.5	2.4	2.8
RoE (%)	8.1	2.6	2.3	11.8	13.7
PE (x)	9.9	48.4	52.3	9.7	7.5
P/ABV	1.1	1.2	1.5	1.3	1.1

Source: Company, Emkay Research

CMP	Target Price
Rs 146 as of (July 27, 2021)	Rs 150 (▼) 12 months
Rating	Upside
HOLD (■)	2.5 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(76.5)/(3)
Target Price change (%)	(5.1)
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	2.8	15.1
Consensus	12.3	16.3
Mean Consensus TP (12M)	Rs 187	

Stock Details

Bloomberg Code	MMFS IN
Face Value (Rs)	2
Shares outstanding (mn)	1,236
52 Week H/L	224 / 113
M Cap (Rs bn/USD bn)	181 / 2.43
Daily Avg Volume (nos.)	9,622,482
Daily Avg Turnover (US\$ mn)	20.9

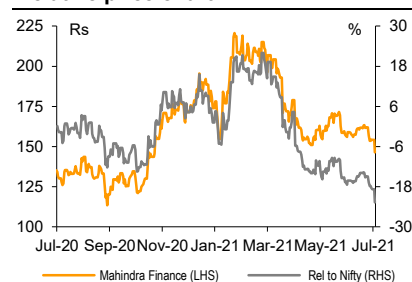
Shareholding Pattern Jun '21

Promoters	52.2%
FIIIs	17.9%
DIIIs	16.5%
Public and Others	13.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	(10)	(18)	3
Rel. to Nifty	(8)	(18)	(26)	(27)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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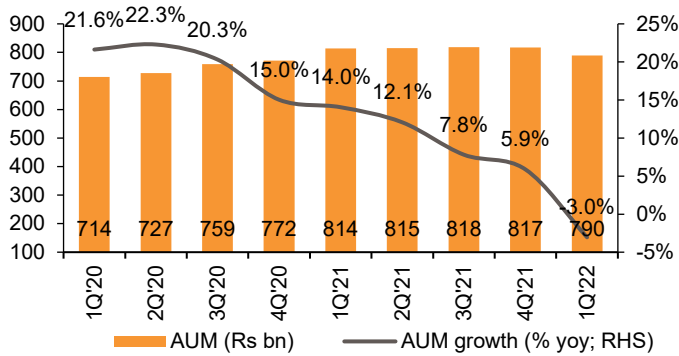
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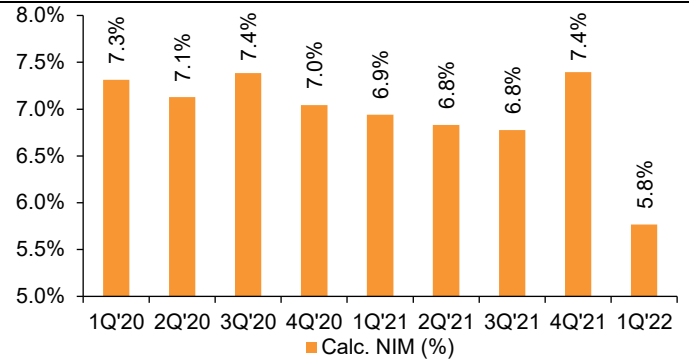
Story in Charts

Exhibit 1: AUM declined 3% yoy



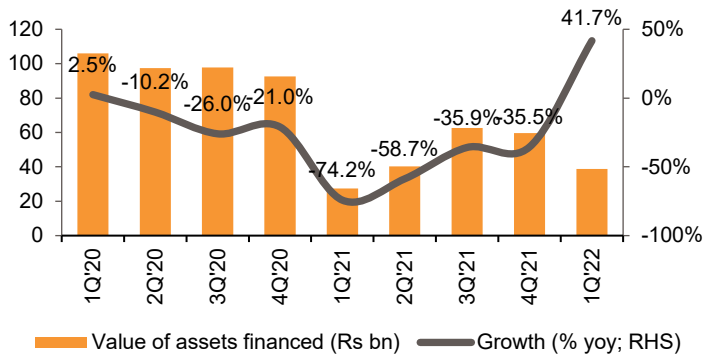
Source: Company, Emkay Research

Exhibit 2: Margins contracted due to interest reversal



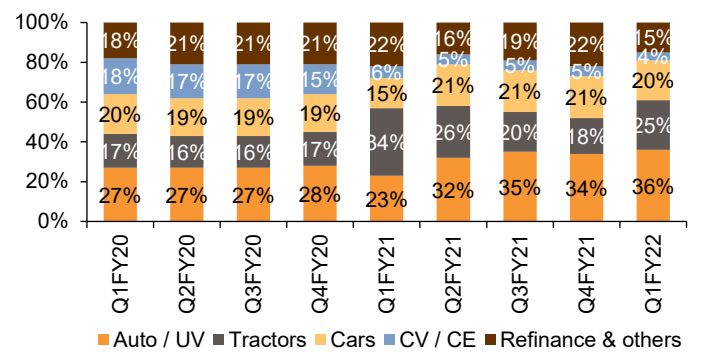
Source: Company, Emkay Research

Exhibit 3: Disbursements were down 35% qoq



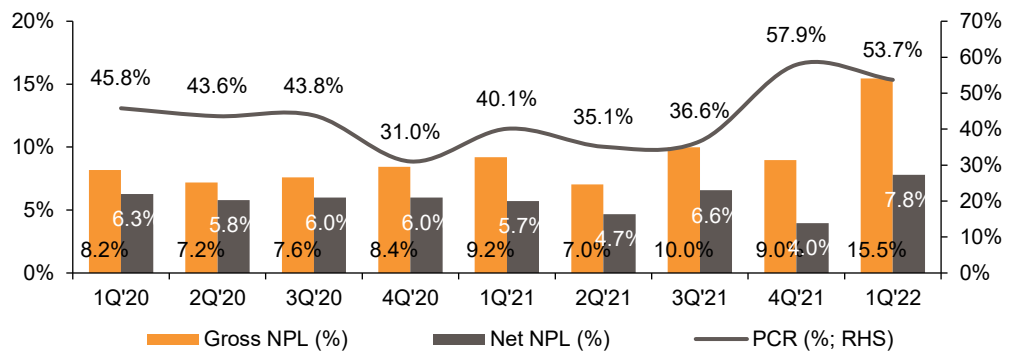
Source: Company, Emkay Research

Exhibit 4: Tractor financing aided Q1 but SME and CV/CE declined



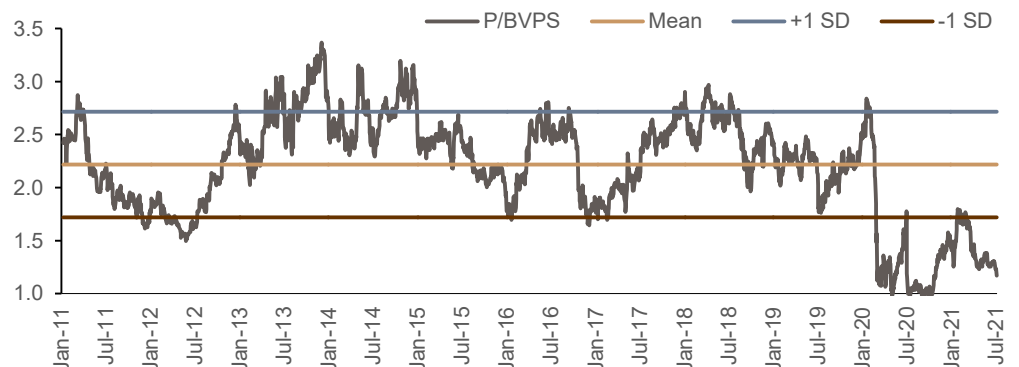
Source: Company, Emkay Research

Exhibit 5: Elevated GNPLs and NNPLs



Source: Company, Emkay Research

Exhibit 6: The stock currently trades at ~1.2x 1-year forward P/B



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q1FY22)

Rs mn	Actual	Emkay Estimates	Consensus	% variation		Comments
				Emkay	Consensus	
Net Income	11,580	14,155	15,718	-18.2%	-26.3%	Weak AUM growth
PPOP	7,488	10,032	11,994	-25.4%	-37.6%	Lower NII
PAT	-15,288	2,437	1,896	nm	nm	Elevated provisions and weak growth lead to low PAT

Source: Company, Bloomberg, Emkay Research

Exhibit 8: Quarterly financials

Rs mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	% yoy	% qoq	FY21	FY22E	% yoy
Operating Income	26,405	26,129	25,418	26,000	21,760	-17.6%	-16.3%	103,952	99,026	-4.7%
Interest Expenses	12,646	12,216	11,583	10,887	10,179	-19.5%	-6.5%	47,332	40,573	-14.3%
Net Operating Income	13,759	13,913	13,835	15,114	11,580	-15.8%	-23.4%	56,620	58,454	3.2%
Other Income	144	366	331	375	111	-23.3%	-70.4%	1,216	1,398	15.0%
Total Income	13,903	14,279	14,165	15,488	11,691	-15.9%	-24.5%	57,836	59,852	3.5%
Operating Expenses	3,456	3,968	3,985	4,915	4,203	21.6%	-14.5%	16,325	18,580	13.8%
Operating Profit	10,447	10,311	10,180	10,573	7,488	-28.3%	-29.2%	41,512	41,272	-0.6%
Provisions	8,427	6,194	13,867	8,860	28,186	234.5%	218.1%	37,348	36,620	-1.9%
CoR%	4.3%	3.0%	6.8%	4.3%	14.0%			4.7%	4.5%	
PBT	2,020	4,117	-3,687	1,713	-20,698	nm	nm	4,163	4,652	11.7%
Tax	523	1,082	-946	214	-5,411	nm	nm	873	1,196	37.0%
Tax rate (%)	25.9%	26.3%	25.6%	12.5%	26.1%			21.0%	25.7%	
Reported PAT	1,558	3,035	-2,741	1,500	-15,288	nm	nm	3,352	3,456	3.1%
AUM	814,360	815,000	818,090	816,890	789,550	-3.0%	-3.3%	816,890	810,667	-0.8%
Disbursements	27,330	40,280	62,700	59,700	38,720	41.7%	-35.1%	190,010	247,013	30.0%
Gross NPA (%)	9.2	7.0	10.0	9.0	15.5					
Net NPA (%)	5.7	4.7	6.6	4.0	7.8					

Source: Company, Emkay Research

Exhibit 9: Revision in earnings estimates

Y/e Mar (Rs mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Net operating income	59,968	59,852	-0.2%	66,474	63,111	-5.1%	75,484	70,180	-7.0%
PPOP	40,939	41,272	0.8%	44,553	41,867	-6.0%	50,568	45,911	-9.2%
PAT	14,697	3,456	-76.5%	19,217	18,633	-3.0%	24,916	23,940	-3.9%
EPS (Rs)	11.9	2.8	-76.5%	15.6	15.1	-3.0%	20.2	19.4	-3.8%
BV (Rs)	129	121	-5.6%	141	133	-5.4%	157	149	-5.2%
ABV (Rs)	118	97	-17.7%	132	116	-12.4%	151	136	-9.8%

Source: Company, Emkay Research

Exhibit 10: Key assumptions

(in %)	FY21	FY22E	FY23E	FY24E
AUM growth	5.9%	-0.8%	7.1%	10.3%
Borrowings growth	-1.5%	-2.1%	5.3%	10.0%
Yield on average loans	14.3%	13.5%	13.2%	13.0%
Cost of average int. liabilities	8.0%	7.0%	6.7%	6.4%
GNPA (Stage 3)	9.0%	13.8%	11.9%	10.3%

Source: Emkay Research

Con-Call highlights

- **Collection Efficiency:** April 72%, May 67% and June 90%. Expecting better collection efficiency July onward.
- Stage 3 asset is around 15% and Stage 2 is around 19-20% as of Q1FY22. Management believes that Stage 1 and 2 will come down to total 25% (Stage 3: ~8%) from the current level of 35%. NNPA will come down to 4% from the current level of 8% by FY22-end.
- The company has engaged a consulting firm to conduct a deep-dive analysis into the reasons behind elevated NPAs and changes in asset quality. MMFS aims to bring down NNPA to 4% by the year end.
- Management believes the market condition is improving and most of the stressed accounts and NPAs should reverse by the year end.
- Around 300,000 accounts were moved from stage 1 to 2 in Q1FY22. Out of these accounts, 250,000 accounts have made part payments during the quarter.
- MMFS was concentrating on the Commercial tractor segment for the last few years as payments in that sector are generally better than the Agri tractor payment terms, and the agri tractor financing market is more competitive. But in the last few years, construction and mining activities were slow so the company was losing market share in the tractor market. Management believes that they will again gain traction as infra actives are picking up.
- **AUM Growth:** Repayments will pick up from Sep'21 and disbursements will also pick up from Q3. Management expects nominal AUM growth in FY22.
- Management sees an opportunity for growth in H2FY22 due to a seasonal momentum in the rural economy. With the onset of the festive season, demand is picking up, OEMs have started confirming a pick-up in supply chain operations, demand for tractor is going up, and the monsoon season is looking good.
- Tractors, pre-owned vehicles, car segments (except school bus, tourism, etc) should drive growth in coming quarters.
- OTR 2.0: 59,000 accounts of total Rs21.7bn were added in OTR 2.0 in Q1FY22. MMFS expects around 30,000 more accounts to apply for OTR 2.0 in the next few months (majorly from HCV and Taxi segment).
- Margins will remain at a similar level in coming quarters.
- Interest reversal of Rs2bn in Q1FY22.
- The company added ~50 branches in Q1FY22 (compared to ~300 branches added in FY21) and already added 1000+ people in collection teams in FY21.
- **Write off:** Around Rs3bn in Q1FY22

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	54,164	57,836	59,852	63,111	70,180
Net income	54,164	57,836	59,852	63,111	70,180
Operating expenses	20,182	16,325	18,580	21,244	24,269
Pre provision profit	33,982	41,512	41,272	41,867	45,911
PPP excl treasury	33,982	41,512	41,272	41,867	45,911
Provisions	20,545	37,348	36,620	16,788	13,690
Profit before tax	13,438	4,163	4,652	25,079	32,221
Tax	4,374	873	1,196	6,445	8,281
Tax rate	33	21	26	26	26
Profit after tax	9,064	3,291	3,456	18,633	23,940

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	1,231	2,464	2,464	2,464	2,464
Reserves	112,408	144,651	147,418	162,332	181,495
Net worth	113,639	147,115	149,882	164,796	183,959
Borrowings	594,623	585,767	573,449	604,085	664,571
Total liabilities	740,712	770,365	762,703	810,616	893,217
Cash and bank	14,258	32,696	23,659	16,448	16,685
Investments	59,110	116,073	125,358	135,387	146,218
Loans	656,414	605,551	597,261	641,956	713,067
Others	7,551	12,826	13,046	13,277	13,521
Total assets	740,712	770,364	762,703	810,616	893,217

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	7.5	7.3	7.4	7.5	7.7
RoA	1.3	0.4	0.5	2.4	2.8
RoAE	8.1	2.6	2.3	11.8	13.7
GNPA (%)	7.8	7.5	11.5	10.1	8.8
NNPA (%)	5.4	3.2	5.7	3.9	2.6

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	14.7	3.0	2.8	15.1	19.4
BVPS	184.4	132.7	121.4	133.5	149.0
ABVPS	139.3	117.4	96.7	115.7	135.9
DPS	0.0	0.8	0.6	3.0	3.9

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	9.9	48.4	52.3	9.7	7.5
P/BV	1.1	1.2	1.5	1.3	1.1
P/ABV	1.1	1.2	1.5	1.3	1.1
Dividend Yield (%)	0.0	0.5	0.4	2.1	2.7

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	11.3	6.8	3.5	5.4	11.2
PPOP	12.6	22.2	(0.6)	1.4	9.7
PAT	(41.8)	(63.7)	5.0	439.1	28.5
Loans	6.7	(7.7)	(1.4)	7.5	11.1

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
NII	13,759	13,913	13,835	15,114	11,580
NIM (%)	6.9	6.8	6.8	7.4	5.8
PPOP	10,447	10,311	10,180	10,573	7,488
PAT	1,497	3,035	(2,741)	1,500	(15,288)
EPS (Rs)	2.53	2.46	(2.23)	1.22	(12.41)

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	51.2	52.2	52.2	52.2	52.2
FIIIs	23.5	21.4	21.2	20.2	17.9
DIIIs	13.1	12.5	15.5	16.8	16.5
Public and Others	12.2	14.0	11.1	10.9	13.4

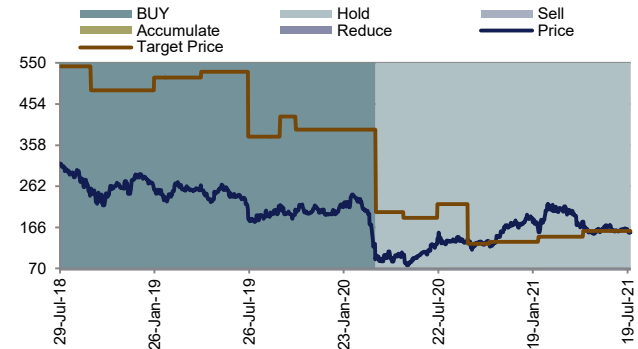
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
01-Jul-21	156	158	12m	Hold	Jignesh Shial
25-Apr-21	179	158	12m	Hold	Jignesh Shial
19-Feb-21	209	144	12m	Hold	Jignesh Shial
29-Jan-21	155	144	12m	Hold	Jignesh Shial
27-Oct-20	126	132	12m	Hold	Jignesh Shial
16-Sep-20	137	128	12m	Hold	Jignesh Shial
20-Jul-20	140	220	12m	Hold	Jignesh Shial
19-Jul-20	127	188	12m	Hold	Jignesh Shial
16-Jun-20	103	188	12m	Hold	Jignesh Shial
16-May-20	103	188	12m	Hold	Jignesh Shial
14-May-20	103	202	12m	Hold	Jignesh Shial
05-May-20	98	202	12m	Hold	Jignesh Shial
19-Apr-20	110	202	12m	Hold	Jignesh Shial
11-Apr-20	101	202	12m	Hold	Jignesh Shial
05-Apr-20	87	202	12m	Hold	Jignesh Shial
30-Mar-20	88	202	12m	Hold	Jignesh Shial
24-Mar-20	98	202	12m	Hold	Jignesh Shial
08-Mar-20	205	394	12m	Buy	Jignesh Shial
28-Jan-20	214	394	12m	Buy	Jignesh Shial
19-Nov-19	200	394	12m	Buy	Jignesh Shial
23-Oct-19	204	394	12m	Buy	Jignesh Shial
22-Oct-19	208	425	12m	Buy	Jignesh Shial
23-Sep-19	218	425	12m	Buy	Jignesh Shial
28-Aug-19	195	378	12m	Buy	Jignesh Shial
22-Aug-19	186	378	12m	Buy	Jignesh Shial
24-Jul-19	186	378	12m	Buy	Jignesh Shial
25-May-19	249	529	12m	Buy	Jignesh Shial
25-Apr-19	254	529	12m	Buy	Jignesh Shial
15-Feb-19	231	516	12m	Buy	Jignesh Shial
25-Jan-19	254	516	12m	Buy	Jignesh Shial
24-Oct-18	244	486	12m	Buy	Jignesh Shial
19-Oct-18	217	486	12m	Buy	Jignesh Shial
26-Sep-18	257	486	12m	Buy	Jignesh Shial
24-Sep-18	240	542	12m	Buy	Jignesh Shial
30-Jul-18	313	542	12m	Buy	Jignesh Shial

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 13 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	7.60	7.60	0%	0	100.00
Bajaj Finance	1.80	1.80	0%	0	23.68
Cholamandalam Investment	0.21	0.21	0%	0	2.81
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	4.89	4.94	1%	5	65.10
L&T Finance Holdings	0.08	0.08	0%	0	1.01
LIC Housing Finance	0.15	0.15	0%	0	1.94
Magma Fincorp	0.00	0.02	NA	2	0.32
Mahindra Finance	0.10	0.00	-100%	-10	0.00
Nippon Life	0.06	0.07	2%	0	0.87
Shriram City Union Finance	0.00	0.02	NA	2	0.28
Shriram Transport Finance	0.30	0.30	0%	0	3.99
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

High Conviction/Strong Over Weight High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	27-Jul-20	25-Jan-21	26-Apr-21	25-Jun-21	26-Jul-21
EAP - BFSI-NBFCs	100.0	93.2	133.5	132.4	141.1	139.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	87.8	125.4	124.4	132.4	130.8

*Performance measurement base date 1st April 2019

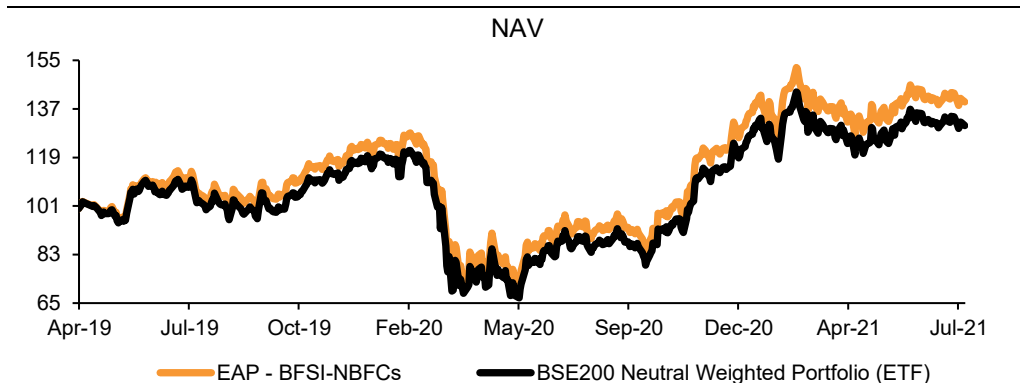
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	-1.1%	5.4%	4.6%	49.7%
BSE200 Neutral Weighted Portfolio (ETF)	-1.2%	5.2%	4.3%	49.0%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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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Dissemination Date: 27 Jul 2021 22:27:16 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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