



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Net Interest Income for the quarter was Rs. 1,531 crore, down 4% from the previous quarter and 1% year over year. Profit after Tax (PAT) increased by 300 percent to Rs. 601 crore for the quarter from Rs. 150 crore for Q4 FY21.
- The company has a healthy 27.8 percent capital adequacy. Provision coverage on Stage 3 loans has improved, moving from 53.2 percent at the end of the previous quarter to 58.1 percent.

2. MANAGEMENT COMMENTARY:

- An improvement in segment-wide collections. By year's end, all provisions made in Q1FY22 were reversed (GS 3 reduction of 7.8 percent from Jun 21).
- To declare the signing of a co-lending agreement with the biggest bank in India and the intention to form new agreements with FinTech's and aggregators.
- Plans to maintain GS3<6%, while new service additions will bring the AUM mix up to 15%. NIM should remain at 7.5 percent, while ROA should remain at 2.5 percent.

3. BUSINESS OVERVIEW:

- Mahindra Early in the 1990s, Mahindra Finance was founded as a captive lender for Mahindra Utility Vehicles. The firm has expanded into a financial services provider with a full suite of financial solutions designed for the underserved client in under-penetrated rural areas, including Mahindra UVs, tractors, and non-Mahindra items. The product portfolio consists of two categories: pre-owned vehicles and SME finance, which includes project financing, equipment financing, working capital financing, and bill discounting services for SMEs. Vehicle financing includes financing for passenger vehicles, utility vehicles, tractors, commercial vehicles, and construction equipment.

4. MANAGEMENT GUIDANCE

- Seen Disbursements have grown significantly. The market for used cars is booming and will undoubtedly be a growth driver. Due to supply-side difficulties, 2W, new car sales are also slowing.
- The company believes in the markets in which it operates and will make significant investments in new ventures, SME, LAP, leasing, and Digit FinCo (increasing contribution of new products to 15 percent)
- Greater collection efforts and quicker repossessions, settlements, and write-offs have improved Gross Stage 3 even more, dropping from 11.3 percent in Q4FY21 to 7.7 percent in Q4FY22.
- Cross-selling efforts are being pushed. Enhancing technological, digital, and human capital capabilities.

5. BANKING INDUSTRY

- The NBFC sector has been vital to the Indian financial services industry over the past ten years. Serving the neglected sectors of the Indian economy, including as MSME, microfinance, and other retail segments, has been the primary goal of NBFCs. NBFCs have significantly changed over the past several years, and they now play a crucial role in India's financial sector. Technology is being used by NBFCs to reimagine conventional business models and provide loans to India's underbanked population in a quicker, more comfortable manner.

6. VALUATION AND OUTLOOK:

- The company announced a significant profits beat, driven by a significant increase in asset quality that reduced credit costs. The management established aspirational targets for AUM growth, asset quality, NIM, cost ratios, and RoA in its Vision 2025 document. Throughout the last 3 quarters, the company demonstrated its capacity to improve GS3 levels.
- We value the company at 15.8x FY23 EPS to arrive at the target of 193.

RECOMMENDATION - ACCUMULATE

CMP - 178

TARGET - 193 (8%)

Industry	Finance - NBFC
NSE CODE	M&MFIN
BSE CODE	532720
Market Cap (₹ Cr)	22060
Shares Outstanding (in Cr)	123.55
52 wk High/Low (₹)	206.35 / 128
P/E	19.59
P/BV	1.32
Face Value (₹)	2.00
Book Value (₹)	136.76
EPS (FY22) (₹)	8
Dividend Yield (%)	2.03

SHAREHOLDING PATTERN

	Mar'22	Dec'21	Sep'21
Promoters	52.16	52.16	52.16
Mutual Funds	10.02	9.24	9.48
FII/FPI	17.90	19.24	18.99
Retail & Others	13.79	13.23	13.05
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022A	2023E
Core			
Interest Earned	10,267	9,475	10,590
InterestExpense	4,733	3,936	4,748
NII	5,533	5,539	5,842
Net Income	5,790	5,783	6,102
PBT	422.4	1,357.0	2,009
PAT	335.2	988.8	1,507
EPS	2.7	8.0	12.2
Ratios			
ROE (%)	2.6	6.6	9.8
ROA (%)	0.4	1.3	1.1
NIM (%)	9.1	9.5	9.5
Valuation			
P/E (x)	73.1	22.7	14.5
P/BV (x)	1.7	1.5	1.3

Historical & Industrial Val Ratios

Historical P/E	19.59
Industry P/E	29.34
Historical P/B	1.32
Industry P/B	3.10



Break down of Business Assets (%)	Q4FY22	Q3FY22	Q2FY22	Q1FY22	Q4FY21	Q3FY21	Q2FY21
Auto/ Utility vehicles	32	32	31	29	30	30	28
Tractors	16	17	17	17	17	17	17
Cars	22	22	22	21	22	22	21
Commercial vehicles and Construction equipment	12	13	14	14	16	17	18
Pre-owned vehicles	11	10	9	12	9	9	9
SME and Others	7	6	7	7	6	5	6

QUARTERLY PERFORMANCE (STANDALONE)

Y/E March	FY21				FY22				FY23E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Revenue from operations	2,640.50	2,612.90	2,541.80	2,600.00	2,176.00	2,507.90	2,531.70	2,442.40	10,785
Other Income	14.40	36.60	33.10	37.50	11.10	14.50	11.40	23.90	65
Total Income	2,654.90	2,649.50	2,574.90	2,637.50	2,187.10	2,522.40	2,543.00	2,466.40	10,850
YoY change (%)	10%	4.3%	-1.6%	-1.4%	-17.6%	-4.8%	-1.2%	-6.5%	11.6%
Operating Expense	345.70	396.80	418.50	491.50	420.30	491.00	529.40	617.00	2,120
Interest Expense	1,264.60	1,221.60	1,158.30	1,088.70	1,017.90	1,015.10	951.40	951.40	4,748
Operating Profit	1,044.70	1,031.10	998.00	1,057.30	748.80	1,016.30	1,062.30	897.90	3,982
Provision	842.70	619.40	1,366.70	886.00	2,818.60	-366.80	-147.40	63.90	1,973
Profit before Tax	202.00	411.70	-368.70	171.30	-2,069.80	1,383.10	1,209.60	834.10	2,009
Tax	25%	26%	26%	12%	26%	26%	26%	28%	25%
Net Profit After Tax	149.70	303.50	-274.10	150.00	-1,528.80	1,022.90	893.90	600.80	1,507
YoY change (%)	118.7%	20.6%	-175%	-32.1%	-1,121.3%	237%	-426.1%	300.6%	52%

Source: Company, Hem Securities Research.

EWS*Insights into the assumptions:

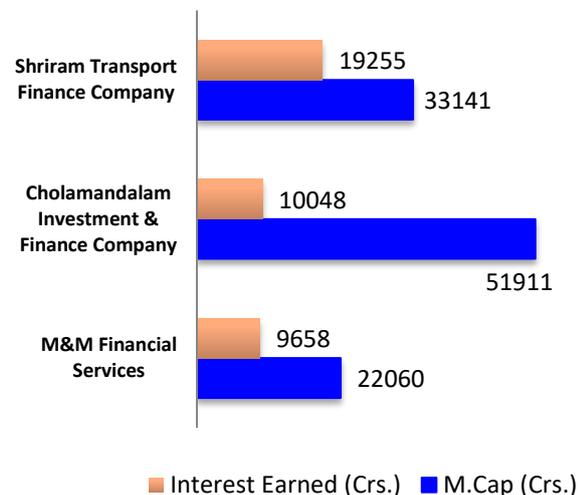
- 1> Healthy disbursements trajectory, which will only improve if the supply-side challenges and long waiting periods ease out.
- 2> Company planning to double AUM in next 3 years.
- 3> Improving asset quality and declining NPA should lay the foundation for further growth.
- 4> Collection Efficiency at 100% for the quarter.
- 5> Expects a good monsoon to drive growth in the rural market.
- 6> Planning for cross-selling across customer base.
- 7> Demand for used vehicles is very strong.



INDUSTRY OVERVIEW

- Commercial banks, insurance firms, non-banking financial institutions, home finance businesses, co-operatives, pension funds, mutual funds, and other smaller financial organizations make up India's varied financial services industry. The RBI's campaign for financial inclusion has broadened the target market to include semi-urban and rural locations. NBFCs, particularly those that serve the urban and rural poor, such as NBFC-MFIs and Asset Finance Companies, play a complementary role in the nation's ambition for financial inclusion. On the strength of rising wages, increased government attention, and the accelerating pace of digital adoption, the financial services sector is positioned to expand.
- With the aid of elements like a favorable monsoon, high reservoir levels, increased crop planting, etc., the rural economy and the agriculture sector are projected to have a substantial growth pick-up. Additionally, it is anticipated that greater government investment on infrastructure, road building, etc., which is likely to support growth, will benefit the non-farm sector.
- NBFCs have been steadily growing their share of the overall loan market, particularly Housing Finance Companies (HFCs). Long-term liquidity circumstances are anticipated to improve, which will allow NBFCs to expand more quickly and meet the nation's financial demands. High-rated and high-quality NBFCs continue to have bright long-term prospects, and once things are back to normal, this sector will continue to fuel India's economic expansion.

KEY PLAYERS



PEER PERFORMANCE

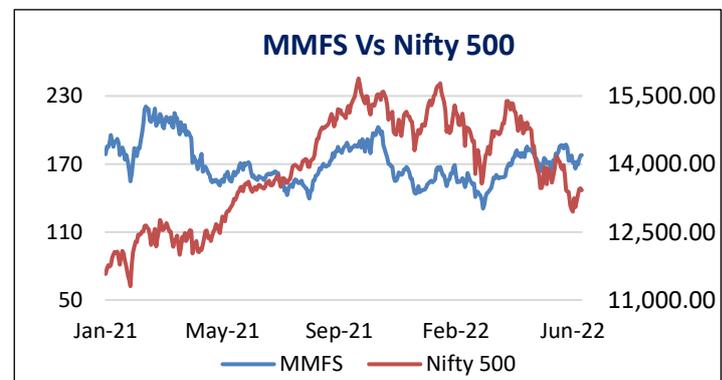
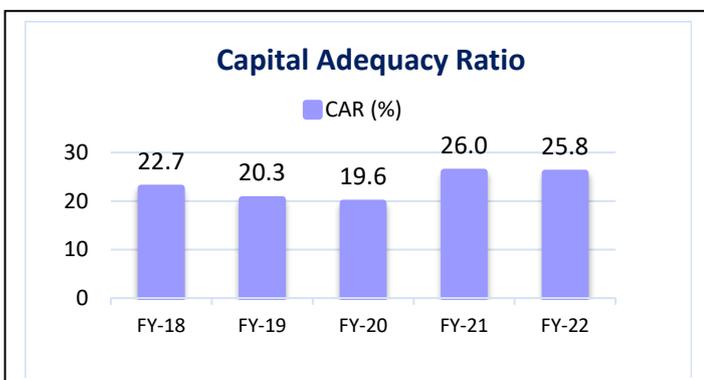
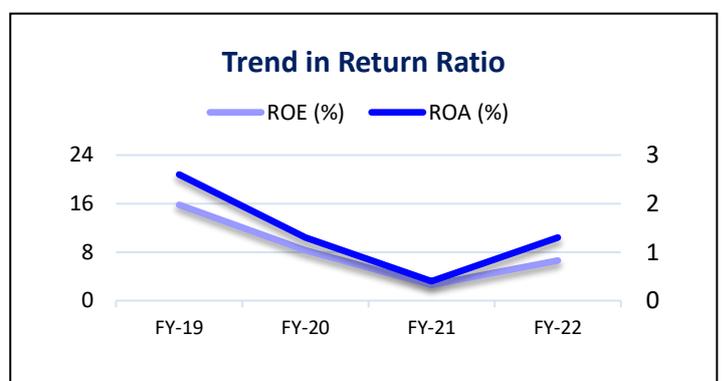
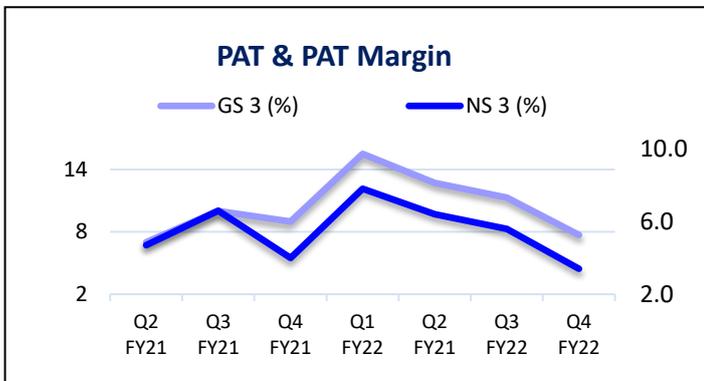
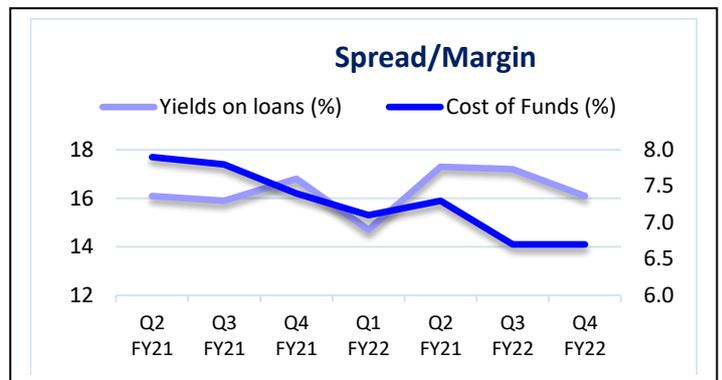
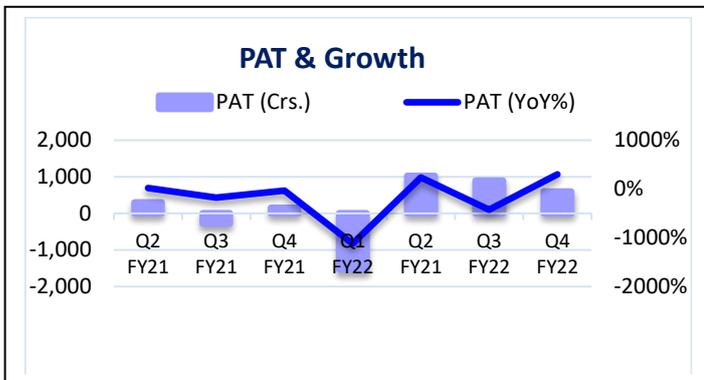
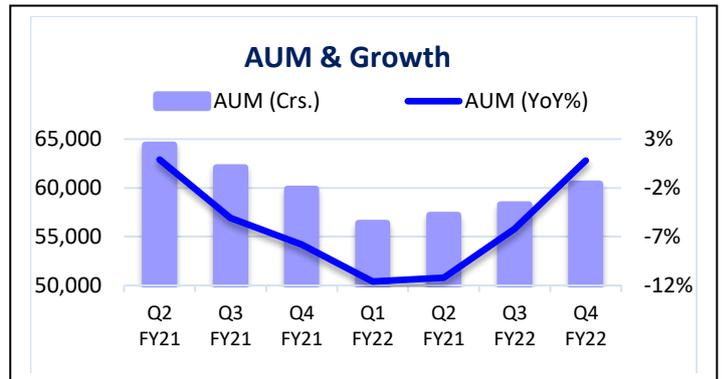
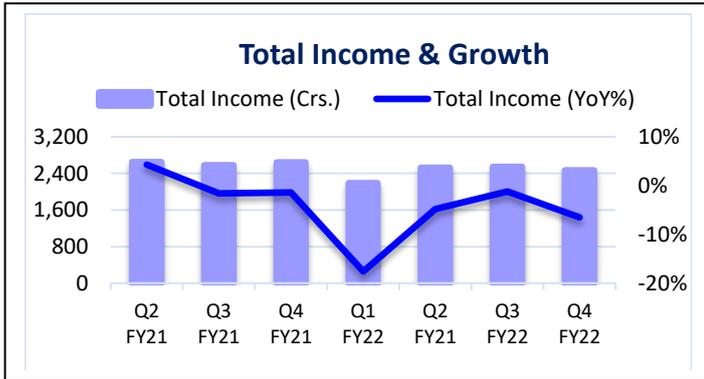
(₹ Cr)

Particulars	M&M Financial Services	Cholamandalam Investment & Finance Company	Shriram Transport Finance Company
Market Cap	22060	51911	33141
Revenue from Operation	9658	10048	19255
PBT	1357	2890	3549
PAT	989	2147	2708
EPS(Rs)	8.02	26.16	101.74
AUM	60445	76907	127041
Disbursement	27581	35490	60073
Net Interest Income	5738	5268	9316
NIM	7.6	7.9	6.6
Gross NPA (%)	7.7	6.8	7.1
Net NPA (%)	3.3	4.7	3.7
Provision Coverage Ratio	58.1	40	50
Capital Adequacy Ratio	27.8	19.6	23

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- The management is hopeful that increased collection effectiveness and legal actions would assist lower Gross NPA (IRAC) by September 2022, reducing the impact on provisioning and lowering Net NPA below 6 percent. Positive business and collection trends persisted in April, with disbursements and efficiency of collections improving above pre-Covid averages.
- A vast distribution network, particularly in rural and small towns, a varied product selection, and reliable collecting mechanisms.
- It will add new business that will make up 15% of the AUM mix. A rise in the percentage of non-vehicles thanks to SME, LAP, leasing, and digital finco.
- Pre-owned Vehicles are going to be a strong growth engine as customers desire a vehicle, but are not willing to invest in a new one.
- Travel has increased. Religious travel has started. The infrastructure sector is doing well, and financial flows from agriculture are strong.
- The company's goal is to create a loan book with lower GNPA's than it has in the past amid stressful and unstable macroeconomic times.
- Management stated that its goals for Vision 2025 include increasing AUM by 2x, keeping GS3 at 6 percent, NIM at 7.5 percent, and cost ratio at 2.5 percent, which will result in a RoA of 2.5 percent.
- NBFCs have been steadily growing their share of the overall loan industry, especially Vehicle Finance Companies (VFCs). Long-term liquidity circumstances are anticipated to improve, which will allow NBFCs to expand more quickly and meet the nation's financial demands.

RISK FACTORS:

- Regulatory restrictions – continuously evolving government regulations may impact operations.
- High cost of funds can be a negative for the company.
- The OPEX ratio was 2.7 percent, and according to the management, it would likely stay there till the Balance Sheet reaches a specific level.
- Competition from other NBFCs and banks.
- Uncertain economic and political environment.

COMPANY RECAP

- Mahindra & Mahindra Financial Services (Mahindra Finance) began as a captive financier of Mahindra Utility Vehicles in the early 90s. From Mahindra UVs to tractors to non-Mahindra products, the company has diversified into a financial services provider with a whole suite of financial solutions tailored to the under-served customer in under-penetrated rural markets. The equity shares of the Company are listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) in India. The Company is a subsidiary of Mahindra & Mahindra.
- Its product portfolio consists of vehicle finance, which includes financing of passenger vehicles, utility vehicles, tractors, commercial vehicles, construction equipment; and pre-owned vehicles and SME finance, which includes project finance, equipment finance, working capital finance and bill discounting services to SMEs. The company also undertakes mutual fund distribution, fixed deposits and personal loans tailor-made to suit its unique customer set.
- Through its subsidiary, Mahindra Insurance Brokers Limited (MIBL), it provides life and non-life insurance products through tie-ups with various leading insurance companies. Another one of its subsidiaries Mahindra Rural Housing Finance, provides loans for home construction, extension, purchase and improvement to customers in rural and semi-urban India. Mahindra Asset Management Company, offers a variety of mutual fund schemes, with a special focus in rural and semi urban areas. Interestingly, its Mutual Fund schemes have been launched with Hindi names, so that investors in rural areas understand the objectives of the schemes better.
- With over 24,000 employees, Mahindra Finance has a presence in every state in India and a footprint in 85% of its districts. It has a network of over network 1340 offices, serving customers in more than 3, 80,000 villages– that's one in every two villages in the country. And has assets under management (AUM) of over Rs. 60,000 crores.



ANNUAL PERFORMANCE

Financials & Valuations						
Income Statement	₹ Cr)					
	2018	2019	2020	2021	2022	2023E
Interest Income	6,584.2	8,614.6	9,941.7	10,267.0	9,475.6	10,590
Interest Expended	3,081.6	3,944.6	4,828.7	4,733.2	3,935.9	4,748
Net Interest Income	3,502.5	4,670.0	5,113.0	5,533.8	5,539.8	5,842
YoY Change (%)	11%	33%	9.7%	8%	0.1%	5.4%
Other Operating Income	49.3	108.4	156.1	128.3	182.4	195
Other Income	51.7	86.9	147.3	127.7	60.9	65
Net Income	3,603.6	4,865.3	5,416.4	5,789.7	5,783.0	6,102
Operating Expenses	1,433.6	1,847.6	2,018.2	1,632.5	2,057.7	2,120
Operating Profit	2,170.0	3,017.7	3,398.2	4,157.3	3,725.3	3,982
Provisions	568.1	635.2	2,054.5	3,734.8	2,368.3	1,973
PBT	1,601.9	2,382.4	1,343.8	422.4	1,357.0	2,009
Tax	37%	35%	32.0%	21%	27%	25%
PAT	1,011.1	1,557.1	906.4	335.2	988.8	1,507
YoY Change (%)	153%	54%	-42%	-63%	195%	52%
EPS	16.5	25.3	14.7	2.7	8.0	12.2
YoY Change (%)	132%	54%	-42%	-81%	195%	52%

Source: Company, Hem Securities Research.

Balance Sheet					
Y/E March	₹ Cr)				
	2018	2019	2020	2021	2022
Share Capital	123	123	123	246	247
Reserves	9,499	10,785	11,241	14,465	15,381
Borrowings	40,093	52,847	59,462	58,577	55,814
Other Liabilities	3,078	3,323	3,245	3,748	3,847
Total Liabilities & Equity	52,793	67,078	74,071	77,036	75,289
Fixed Assets	120	163	364	330	393
CWIP	0	0	0	10	0
Investments	2,734	3,792	5,911	11,607	8,440
Other Assets	49,939	63,123	67,797	65,089	66,456
Total Assets	52,793	67,078	74,071	77,036	75,289

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR))	2019	2020	2021	2022
Profit and Loss Account				
ROE (%)	15.8	8.3	2.6	6.6
ROA (%)	2.6	1.3	0.4	1.3
Cost/Income	38	37.3	28.2	35.6
Empl. Cost/Op. Exps.	59	56.9	62.2	56.9
Net Interest Income	4670	5113	5534	5540
Key Performance Indicator				
Yield on Portfolio	15.7	15.8	16.4	15.7
Cost of Borrowings	8.5	8.6	8	6.9
Interest Spread	7.2	7.2	8.4	8.9
Net Interest Margin	8.7	8.3	9.1	9.5
GNPA	4070	5746	5785	4976
NNPA	-6	669	-863	2086
GNPA (%)	6.4	8.4	9	7.7
NNPA (%)	0	1	-1.4	3.5
PCR (%)	100.2	88.3	114.9	58.1
CAR	20.3	19.6	26	25.8
Tier 1	15.5	15.4	22.2	22.5
Valuations Ratios				
P/E (x)	16.6	10	73.1	22.7
P/BV (x)	2.4	0.8	1.7	1.5
Dividend Yield (%)	1.5	0.00	0.4	2.03

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
29-June-2022	ACCUMULATE	193

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Name of the Research Analyst: Madhur Mandhana

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