

Mahindra & Mahindra Financial

Estimate change



TP change



Rating change



Bloomberg	MMFS IN
Equity Shares (m)	615
M.Cap.(INRb)/(USDb)	155.2 / 2.2
52-Week Range (INR)	246 / 76
1, 6, 12 Rel. Per (%)	-4/16/-42
12M Avg Val (INR M)	1663

Financials & valuations (INR b)

Y/E March	2020	2021E	2022E
NII	51.1	57.4	61.8
PPP	34.0	42.7	45.0
PAT	9.1	9.8	11.2
EPS (INR)	14.7	8.0	9.1
EPS Gr. (%)	-41.8	-46.0	13.9
BV/Sh.(INR)	185	125	132
Ratios			
NIM (%)	8.3	8.9	9.2
C/I ratio (%)	37.3	29.3	30.8
RoA (%)	1.3	1.3	1.4
RoE (%)	8.3	7.3	7.0
Payout (%)	0.0	23.4	23.4
Valuations			
P/E (x)	8.6	15.8	13.9
P/BV (x)	0.7	1.0	1.0
Div. Yield (%)	0.0	0.0	1.4

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	52.2	51.2	51.2
DII	12.5	13.1	15.3
FII	21.7	23.9	25.6
Others	13.7	11.9	8.0
FII Includes depository receipts			

CMP: INR126

TP: INR165 (+31%)

Buy

Lower provisioning leads to big PAT beat; Book largely flat

- Mahindra Finance (MMFS)'s 2QFY21 PAT was up 21% YoY to INR3b (a 64% beat and v/s INR1.5b QoQ). While PPoP was largely in line with est., lower provisions of INR6.2b (v/s est. INR8b) led to the PAT beat.
- **PPoP grew 26% YoY to INR10.3b as opex declined 24% YoY to INR3.9b.** Decline in opex was largely driven by 46% YoY decline in other expenses.

Auto / Utility Vehicle disbursements better v/s other segments

- Value of Assets (VOA) financed stood at INR54b (down 45% YoY). **In the Auto/UV and Tractor segments, VOA was down just 22–23% YoY, and in other segments, it was down 65–85% YoY. While we acknowledge the slowdown in the CV segment, disbursements in PV/Tractor were lower than expected.**
- The loan book grew 1% QoQ/YoY to INR644b. With the uptick seen in 2HFY21, management is confident of 8–10% YoY growth in AUM for FY21.

GS3 ratio improves sequentially to 7.03%, but ECL declines

- The Gross Stage 3 ratio improved ~215bp QoQ to 7.03%. The company reduced its PCR to 35% from 40% in 1QFY21. Adjusted for the impact of the SC order on NPL classification, GS3/NS3 would have been 7.53%/4.97%.
- MMFS wrote off INR10.6b during the quarter v/s INR5.2b YoY. Also, given the reduction in PCR (as mentioned above), total ECL decreased to 4.9% v/s 5.5% in 1QFY21 (3.3% in 2QFY20).

Other highlights

- Calc. yield on loans improved 65bp YoY to 16.1%, while cost of funds declined 75bp YoY to 7.9%.
- **Mahindra Rural Housing Finance:** Disbursements remained muted at INR1.1b. PBT/PAT increased 36%/100% YoY to INR827m/INR574m.

Highlights from management commentary

- Collection efficiency (CE) for Sep came in at 82% (normally 87–88%). 250–275k customers who availed moratorium did not pay in September. Do not expect more than 100–150k customers (of 2m totally) to request restructuring (~INR60b).
- During the quarter, the company made COVID-related provisions of INR4.34b. Taxi, School Bus, HCV, and tourism-related vehicle segments remain pressured. These comprise 7–8% of the portfolio.

Valuation and view

Disbursements at 55% of YoY levels improved from the prior quarter, yet came in below expectations, given the strong trends in OEMs. While we expect an uptick in 2H, overall loan growth should be in the mid-single digits. While asset quality numbers are encouraging, we believe the true impact of the lockdown would reflect only in 2HFY21. We increase our FY21 EPS estimate by 8% given lower credit cost. Our FY22 EPS estimate is largely unchanged. While RoE is currently subdued at 7%, it should reach 10% in FY23E. Maintain Buy, with TP of INR165 (1.2x Sep'22E BVPS).

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Quarterly Performance												(INR m)
Y/E March	FY20				FY21				FY20	FY21E	2QFY21E	v/s est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Operating Income	23,940	24,864	25,806	26,369	26,405	26,129	27,226	28,378	1,00,979	1,08,138	26,581	-2
Other Income	185	545	354	389	144	366	375	366	1,473	1,252	250	
Total income	24,125	25,409	26,160	26,758	26,549	26,495	27,601	28,745	1,02,451	1,09,390	26,831	-1
YoY Growth (%)	24.4	18.4	16.5	7.9	10.0	4.3	5.5	7.4	16.3	6.8	5.6	
Interest Expenses	11,282	12,022	12,089	12,895	12,646	12,216	12,094	12,060	48,287	49,016	12,267	0
Net Income	12,843	13,387	14,072	13,863	13,903	14,279	15,507	16,684	54,164	60,374	14,565	-2
YoY Growth (%)	17.7	10.2	14.8	3.8	8.3	6.7	10.2	20.4	11.3	11.5	8.8	
Operating Expenses	5,600	5,196	5,189	4,197	3,457	3,968	4,882	5,408	20,182	17,715	4,071	-3
Operating Profit	7,243	8,190	8,883	9,666	10,447	10,311	10,625	11,276	33,982	42,659	10,494	-2
YoY Growth (%)	2.6	4.1	19.3	23.9	44.2	25.9	19.6	16.7	12.6	25.5	28.1	
Provisions	6,196	3,606	4,001	6,741	8,427	6,194	7,250	7,503	20,545	29,374	8,000	-23
Profit before Tax	1,047	4,584	4,882	2,925	2,020	4,117	3,375	3,773	13,438	13,285	2,494	65
Tax Provisions	363	2,066	1,229	716	523	1,082	888	988	4,374	3,481	648	67
Net Profit	684	2,518	3,653	2,209	1,497	3,035	2,487	2,785	9,064	9,804	1,846	64
YoY Growth (%)	-74.6	-34.0	14.6	-62.4	118.7	20.6	-31.9	26.1	-41.8	8.2	-26.7	
Key Operating Parameters (%)												
Yield on loans (Cal)	15.3	15.5	15.7	15.9	16.2	16.1	16.5	16.7	15.8	16.0		
Cost of funds (Cal)	8.4	8.6	8.4	8.7	8.2	7.9	8.1	8.2	8.6	8.3		
Spreads (Cal)	6.9	6.8	7.3	7.2	8.0	8.2	8.4	8.5	7.2	7.7		
Credit Cost (Cal)	4.0	2.3	2.5	4.1	5.2	3.9	4.5	4.5	3.3	4.4		
Cost to Income Ratio	43.6	38.8	36.9	30.3	24.9	27.8	31.5	32.4	37.3	29.3		
Tax Rate	34.6	45.1	25.2	24.5	25.9	26.3	26.3	26.2	32.5	26.2		
Balance Sheet Parameters												
Loans (INR B)	624	638	655	650	638	644	654	680	650	680		
Change YoY (%)	20.9	15.0	12.4	6.1	2.3	0.9	-0.2	4.7	6.1	4.7		
Value of Asset Fin (INR B)	106	97	128	93	35	54	100	90	424	276		
Change YoY (%)	2.5	-10.2	-3.8	-21.0	-67.1	-44.6	-21.8	-2.8	-8.3	-35.0		
Borrowings (INR B)	548	565	587	595	634	604	594	586	595	586		
Change YoY (%)	28.4	18.0	17.9	12.5	15.7	6.9	1.1	-1.4	12.5	-1.4		
Loans/Borrowings (%)	113.9	112.9	111.5	109.3	100.8	106.7	110.0	116.0	109.3	116.0		
Debt/Equity (x)	5.0	5.3	5.3	5.2	5.5	4.1	3.9	3.8	5.2	3.8		
Asset Quality Parameters (%)												
GS 3 (INR B)	53.0	52.0	57.7	57.5	62.2	47.7			57.5	61.5		
Gross Stage 3 (% on Assets)	8.2	7.9	8.5	8.4	9.2	7.0			9.0	8.0		
NS 3 (INR B)	39.8	41.9	44.5	39.7	37.3	30.9			39.7	40.0		
Net Stage 3 (% on Assets)	6.3	6.4	6.7	6.0	5.7	4.7			6.4	6.1		
PCR (%)	24.9	19.5	22.9	31.0	40.1	35.1			31.0	35.0		
ECL (%)	3.6	3.3	3.6	4.4	5.5	4.9			4.9	5.3		
Return Ratios (%)												
ROAA	0.4	1.4	2.0	1.2	0.8	1.6			1.3	1.3		
ROAE	2.5	9.3	13.4	7.9	5.4	9.2			8.3	7.3		



Highlights from management commentary

Business updates

- While demand in the festive season is picking up, sales should be largely flat YoY.
- Farm cash flows are expected to be strong. Infra activity is seeing an uptick, but not to levels expected by the management.
- **Taxi, School Bus, HCV, and tourism-related vehicle segments remain pressured. These comprise 7–8% of the portfolio.**
- Expect to maintain market share going forward. **Overall disbursements in 2HFY21 would be largely flattish YoY. AUM growth of 8–10% YoY is expected in FY21.**

- Demand in the Tractor segment has thus far been reported from farms rather than infra projects.
- Supply-side issues are observed in pre-owned vehicles.
- Yields are holding up well. But, higher liquidity has put ~50bp pressure on margins.

Asset quality

- **70% of customers who opted for moratorium serviced their loans.**
- Restructuring for customers has not commenced yet. **Do not expect more than 100–150k customers (of 2m totally) to request restructuring (~INR60b). Moreover, the company does not plan to offer any additional money in restructuring – it would only increase the loan tenure or tweak EMI payments.**
- Do not foresee an NPL spike from hereon.
- **Collection efficiency (CE) for Sep stood at 82% (87–88% normally). 250–275k customers who availed moratorium did not pay in September.**
- No NPL accounts were given moratorium.

Funding

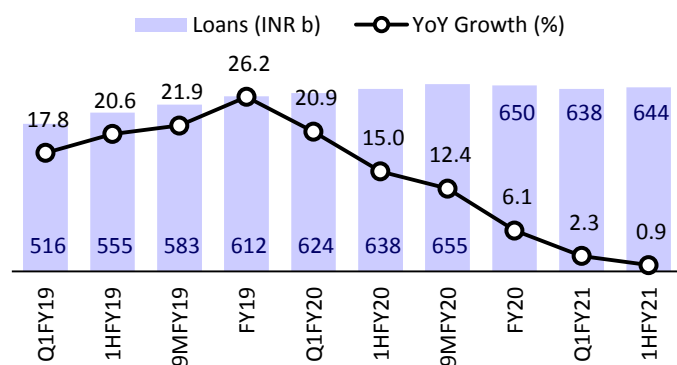
- Cost of funds should be largely stable hereafter.
- This would bring down the liquidity on the BS.

Others

- It has rationalized its regional offices, leading to decline in the branch count. The company has not let go of any of its employees.
- Competitors are crowding up in the non-Mahindra Tractor space.
- Banks such as SBI are adopting an aggressive approach in the Car Loans space by offering longer tenures and lower interest rates.
- Once growth picks up, the expense ratio would also pick up due to higher variable costs. However, due to COVID, the company has saved 50bp of expenses permanently.

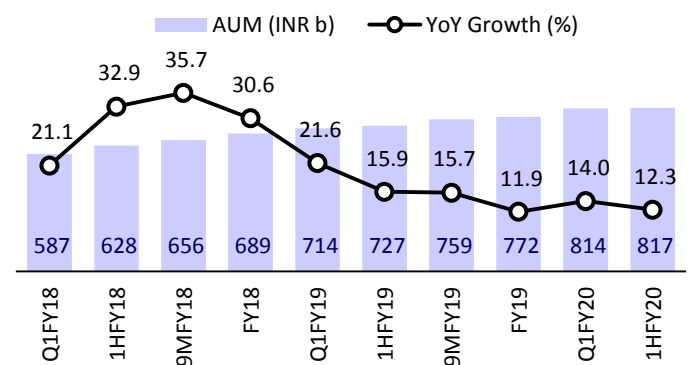
Key exhibits

Exhibit 1: Loan growth continues to decline (%)

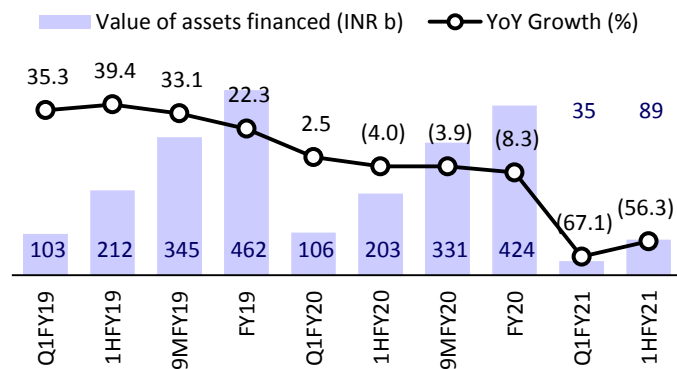


Source: MOFSL, Company

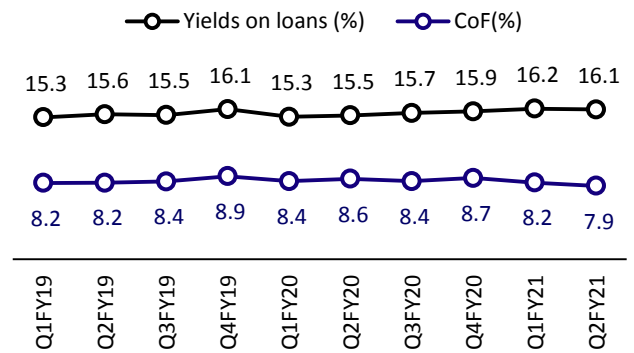
Exhibit 2: AUM growth down ~175bp sequentially (%)



Source: MOFSL, Company

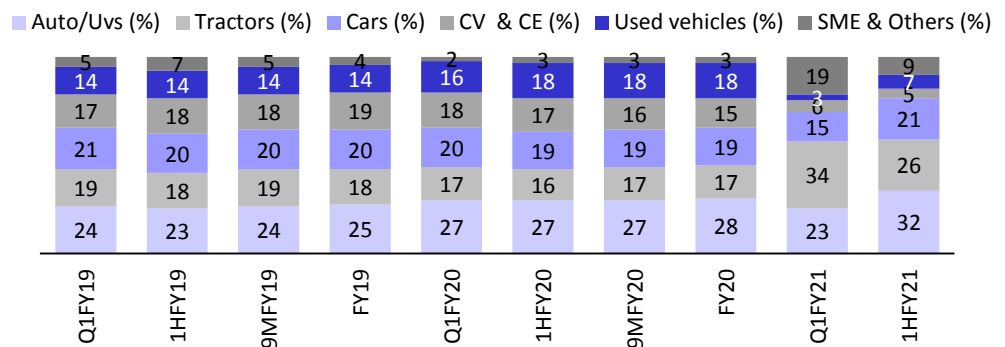
Exhibit 3: Cumulative VOA financed down 56% YoY

Source: MOFSL, Company

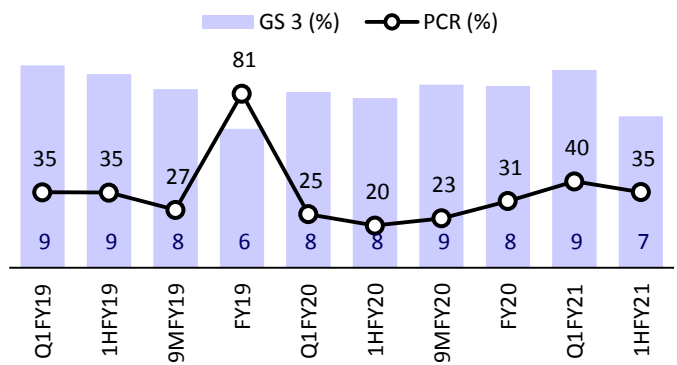
Exhibit 4: CoF declines 34bp sequentially (%)

Source: MOFSL, Company

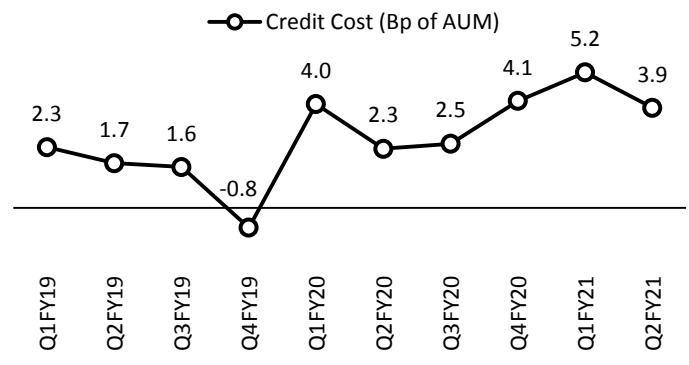
Share of Tractor down to 26% from 34% QoQ in VOA financed (%)

Exhibit 5: Share of Auto/UV in VOA financed up 900bp sequentially (%)

Source: MOFSL, Company

Exhibit 6: Lower provisions in quarter

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

Exhibit 7: Credit cost down ~137bp QoQ

Source: MOFSL, Company

Valuation and view

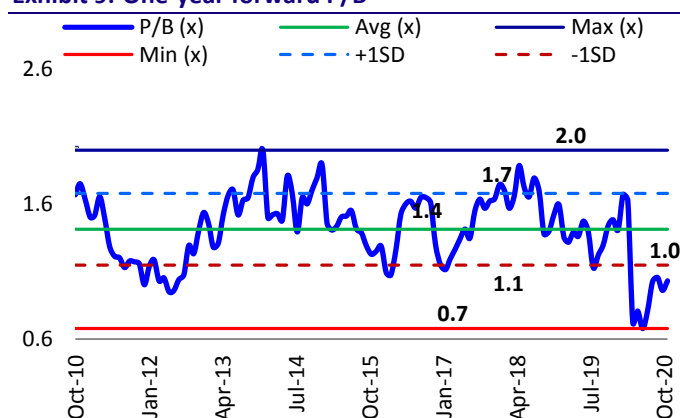
- Disbursements at 55% of YoY levels improved from the prior quarter, yet came in below expectations, given the strong trends in OEMs. While we expect an uptick in 2H, overall loan growth should be in the mid-single digits.
- Given its strong parentage, MMFS has been able to easily raise money from the banking system and capital markets. Its incremental cost of funds is ~7.25%, while its on-book cost of funds has come in below 8%. In addition to lower cost of funds, reduced balance sheet liquidity would aid margins.

- While asset quality numbers are encouraging, we believe the true impact of the lockdown would reflect only in 2HFY21. We forecast ~4.4% credit cost for FY21 and FY22.
- We increase our FY21 EPS estimate by 8% given lower credit cost. Our FY22 EPS estimate is largely unchanged. MMFS should deliver a normalized RoA of 2% and RoE of 10% in FY23E. Maintain Buy, with TP of INR165 (1.2x Sep'22E BVPS).

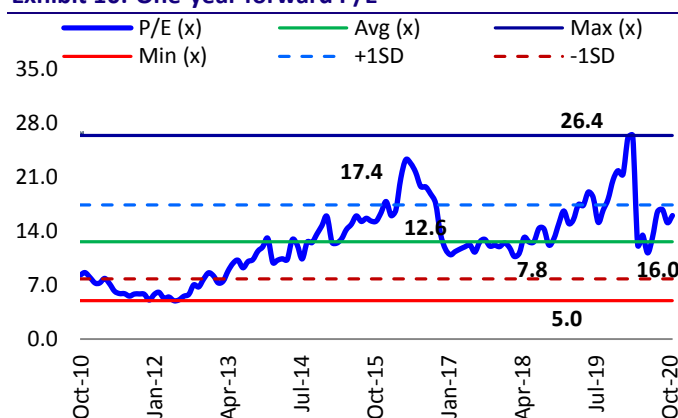
Exhibit 8: We upgrade our EPS estimate for FY21 by 8%, but leave FY22 estimates largely unchanged

INR b	Old Est		New Est		% Change	
	FY21	FY22	FY21	FY22	FY21	FY22
NII (incl. Sec. Inc)	59.2	57.6	59.1	63.7	-0.2	10.7
Other Income	1.1	1.2	1.3	1.4	13.3	13.3
Total Income	60.3	58.8	60.4	65.1	0.1	10.7
Operating Expenses	17.5	19.6	17.7	20.1	1.0	2.2
Operating Profits	42.8	39.2	42.7	45.0	-0.3	15.0
Provisions	30.5	24.2	29.4	29.9	-3.7	23.4
PBT	12.3	14.9	13.3	15.1	8.1	1.5
Tax	3.2	3.9	3.5	4.0	8.9	2.3
PAT	9.1	11.0	9.8	11.2	7.8	1.2
Loans	633	616	680	712	7.5	15.5
Borrowings	541	527	586	608	8.4	15.5
Margins	9.2	9.2	8.9	9.2		
Credit Cost	4.8	3.9	4.4	4.3		
RoA on AUM	1.3	1.6	1.3	1.4		
RoE	7.6	8.5	7.3	7.0		

Source: MOFSL, Company

Exhibit 9: One-year forward P/B

Source: MOFSL, Company

Exhibit 10: One-year forward P/E

Source: MOFSL, Company

Financials and valuations

Income Statement								INR m	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Interest Income	52,596	56,163	60,127	65,842	86,146	99,417	1,06,420	1,09,621	1,15,573
Interest Expended	24,967	26,393	28,574	30,816	39,446	48,287	49,016	47,791	49,613
Net Interest Income	27,629	29,770	31,553	35,025	46,700	51,130	57,404	61,830	65,960
Change (%)	10.2	7.8	6.0	11.0	33.3	9.5	12.3	7.7	6.7
Other Operating Income	2,764	2,368	1,612	493	1,084	1,561	1,718	1,889	2,078
Other Income	486	519	636	517	869	1,473	1,252	1,377	1,515
Net Income	30,880	32,658	33,801	36,036	48,653	54,164	60,374	65,097	69,553
Change (%)	11.7	5.8	3.5	6.6	35.0	11.3	11.5	7.8	6.8
Operating Expenses	10,068	11,781	14,509	14,336	18,476	20,182	17,715	20,055	22,715
Operating Profits	20,811	20,877	19,292	21,700	30,177	33,982	42,659	45,041	46,838
Change (%)	12.4	0.3	-7.6	12.5	39.1	12.6	25.5	5.6	4.0
Provisions	8,275	10,495	13,091	5,681	6,352	20,545	29,374	29,907	23,718
PBT	12,536	10,382	6,201	16,019	23,824	13,438	13,285	15,134	23,120
Tax	4,219	3,656	2,198	5,907	8,254	4,374	3,481	3,965	6,057
Tax Rate (%)	33.7	35.2	35.5	36.9	34.6	32.5	26.2	26.2	26.2
PAT	8,318	6,726	4,002	10,111	15,571	9,064	9,804	11,169	17,062
Change (%)	-6.2	-19.1	-40.5	152.6	54.0	-41.8	8.2	13.9	52.8
Proposed Dividend (Incl Tax)	2,730	2,713	1,610	2,938	4,779	0	0	2,234	3,412

Balance Sheet								INR m	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Equity Share Capital	1,128	1,129	1,130	1,229	1,230	1,231	2,466	2,466	2,466
Reserves & Surplus (Ex OCI)	55,566	59,752	64,994	92,052	1,03,072	1,12,408	1,51,866	1,60,802	1,74,452
Net Worth	56,694	60,881	66,124	93,281	1,04,221	1,13,558	1,54,252	1,63,187	1,76,918
Other Comprehensive Income			0	0	81	81	81	81	81
Net Worth	56,694	60,881	66,124	93,281	1,04,302	1,13,639	1,54,333	1,63,268	1,76,999
Change (%)	11.3	7.4	8.6	41.1	11.8	9.0	35.8	5.8	8.4
Borrowings	2,62,633	2,94,523	3,52,656	4,00,932	5,28,469	5,94,623	5,86,480	6,08,283	6,72,046
Change (%)	9.7	12.1	19.7	13.7	31.8	12.5	-1.4	3.7	10.5
Other liabilities	31,414	40,391	24,404	33,715	38,009	32,451	37,318	42,916	49,353
Total Liabilities	3,50,741	3,95,795	4,43,185	5,27,927	6,70,780	7,40,712	7,78,131	8,14,466	8,98,317
Investments	10,857	15,351	19,843	27,341	37,917	59,110	70,932	70,932	81,571
Change (%)	8.0	41.4	29.3	37.8	38.7	55.9	20.0	0.0	15.0
Loans and Advances	3,24,314	3,62,189	4,06,000	4,85,470	6,12,496	6,49,935	6,80,317	7,11,691	7,79,573
Change (%)	11.1	11.7	12.1	19.6	26.2	6.1	4.7	4.6	9.5
Other assets	15,571	18,255	17,342	15,116	20,367	31,668	26,882	31,844	37,172
Total Assets	3,50,741	3,95,795	4,43,185	5,27,927	6,70,780	7,40,712	7,78,131	8,14,466	8,98,317

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Spreads Analysis (%)									
Yield on Portfolio	17.1	16.4	15.7	14.8	15.7	15.8	16.0	15.8	15.5
Cost of Borrowings	9.9	9.5	8.8	8.2	8.5	8.6	8.3	8.0	7.8
Interest Spread	7.1	6.9	6.8	6.6	7.2	7.2	7.7	7.8	7.8
Net Interest Margin	9.9	9.4	8.6	8.0	8.7	8.3	8.9	9.2	9.1
Profitability Ratios (%)									
Cost/Income	32.6	36.1	42.9	39.8	38.0	37.3	29.3	30.8	32.7
Empl. Cost/Op. Exps.	45.6	47.4	46.9	58.1	59.0	56.9	61.6	62.6	63.5
RoE	15.5	11.4	6.3	12.7	15.8	8.3	7.3	7.0	10.0
RoA	2.5	1.8	1.0	2.1	2.6	1.3	1.3	1.4	2.0
Asset Quality (%)									
GNPA	20,997	32,242	68,311	50,270	40,706	57,467	61,489	57,289	49,299
NNPA	8,182	12,351	40,938	33,109	32,907	39,665	39,968	37,238	32,044
GNPA %	6.5	8.9	15.5	9.8	6.4	8.8	9.0	8.0	6.3
NNPA %	2.6	3.6	10.1	6.8	5.4	6.4	6.1	5.4	4.2
PCR %	61.0	61.7	40.1	34.1	19.2	31.0	35.0	35.0	35.0
Total Provisions/loans %	4.2	5.8	8.9	6.7	3.4	4.9	5.3	5.1	4.5
Capitalization (%)									
CAR	18.3	17.3	18.1	22.7	20.3	20.1	20.2	20.1	19.8
Tier I	15.5	14.6	13.6	17.0	15.5	16.0	16.7	17.1	17.3
Tier II	2.8	2.7	4.5	5.7	4.8	4.1	3.5	3.0	2.5
Average Leverage on Assets (x)	6.2	6.3	6.6	6.1	6.1	6.5	5.7	5.0	5.0
Valuation									
Book Value (INR)	100.5	107.8	117.0	151.8	169.5	184.5	125.1	132.3	143.5
BV Growth (%)	11.2	7.3	8.5	29.7	11.7	8.9	-32.2	5.8	8.4
Price-BV (x)					0.7	0.7	1.0	1.0	0.9
Adjusted BV (INR)	90.3	92.5	66.3	114.1	132.0	136.2	100.8	109.7	124.0
Price-ABV (x)					1.0	0.9	1.3	1.1	1.0
OPS (INR)	36.9	37.0	34.1	35.3	49.1	55.2	34.6	36.5	38.0
OPS Growth (%)	12.3	0.2	-7.7	3.4	39.0	12.5	-37.4	5.6	4.0
Price-OP (x)					2.6	2.3	3.6	3.4	3.3
EPS (INR)	14.7	11.9	7.1	16.5	25.3	14.7	8.0	9.1	13.8
EPS Growth (%)	-6.4	-19.2	-40.5	132.3	53.9	-41.8	-46.0	13.9	52.8
Price-Earnings (x)					5.0	8.6	15.8	13.9	9.1
Dividend	4.0	4.0	2.4	4.0	6.5	0.0	0.0	1.8	2.8
Dividend Yield (%)				3.2	5.2	0.0	0.0	1.4	2.2

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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