

M&M Financial Services Limited

BUY

CMP Rs179

Target Rs225

Upside 25.0%

Sustained growth challenges; asset quality in-line

Mahindra Finance's Q4 FY21 disappointed on further growth deceleration and higher provisioning. The loan assets contracted by 3% qoq, and stood 5% lower yoy. Q4 FY21 disbursements were down 5% qoq and 15% yoy, reflecting sustained growth challenges for the company (unlikely to be the case with Chola or SHTF) on the back of constrained vehicle supply from OEMs (particularly M&M's Auto/UV). The growth trajectory is unlikely to improve in the near term, with the widespread second pandemic wave impacting demand and operations.

Asset quality improvement was largely in-line with our expectation and seasonality. There was a correction of 12-15% in both Stage 2 and Stage 3 assets during Q4 FY21, with the collection efficiency materially improving through the quarter. Credit cost/provisioning was much higher than anticipated, even as Stage 1 & 2 provisions were brought down on ECL refresh, with MMFS choosing to bring down Net Stage-3/NPL below 4% (in-line with RBI's expectation) by making an additional (one-time) provision of Rs.13.2bn.

Considering undemanding valuation at 1.3x FY23 P/ABV and inherent procyclicality of the franchise, we retain BUY on MMFS with a 12-month PT of Rs225. However, given growth challenges of recent quarters and a track-record of inconsistent execution, one would prefer Chola and SHTF over MMFS.

Conference call highlights

- ✓ Disbursement impacted by OEM issue, especially in UV segment (lower M&M volumes in focused products) - there has been some increase in competition from new players.
- ✓ Co. has taken an aggressive stance in customer engagement and repossession - also chose to make a provision in certain NPL buckets and then pursue collections - also made additional provisions.
- ✓ Wanted to increase Stage-3 provisions as pandemic return has been widespread and in rural parts - now provisioning reflects the worst scenario from resolution perspective - Stage-3 assets coverage at near 60% v/s ECL model output of 33-35%.
- ✓ Drop in Stage 1 & 2 provisions to 2% of business assets due to refresh of ECL model and reduction in Stage-2 assets qoq.

Exhibit 1: Financial Summary

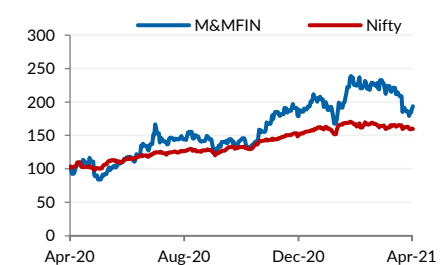
Y/e 31 Mar (Rs mn)	FY21E	FY22E	FY23E	FY24E
Operating income	57,836	59,022	70,682	84,172
PPOP	41,512	39,106	47,778	57,833
Net profit	3,352	17,951	25,523	30,571
yoy growth (%)	(63.0)	435.6	42.2	19.8
EPS (Rs)	2.7	14.6	20.7	24.8
Adj. BVPS (Rs)	99.7	111.9	127.5	148.8
P/E (x)	65.8	12.3	8.6	7.2
P/adj.BV (x)	1.8	1.6	1.4	1.2
ROE (%)	2.6	11.5	14.5	15.1
ROA (%)	0.4	2.3	3.1	3.2
CAR (%)	19.6	21.2	21.0	20.3

Source: Company, YES Sec - Research

Stock data (as on Apr 23, 2021)

Sensex:	14,341
52 Week h/l (Rs)	224 / 76
Market cap (Rs/USD mn)	221036 / 2946
Outstanding Shares	1,236
6m Avg t/o (Rs mn):	1,853
Div yield (%):	-
Bloomberg code:	MMFS IN
NSE code:	M&MFIN

Stock performance



	1M	3M	1Y
Absolute return	-14.9%	2.9%	88.5%

Shareholding pattern

Promoter	52.2%
FII+DII	56.9%
Others	10.6%

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- ✓ Q1 FY22 will be a subdued quarter and business activity even in and H1 will be low - festival season will be strong.
- ✓ AQ improvement will happen in H2 FY22 - MMFS will maintain Net NLTs at <4% - collection efforts and provisioning policy will be drive by this.
- ✓ Liquidity position comfortable to handle a 3-month exigency.
- ✓ Buoyancy in MHCV segment driven by fleet operators adding capacity, and not in smaller operators which is MMFS operating segment.
- ✓ Set-up of digital fin co. to meet small ticket finance needs (for personal and business reasons) of existing customers with strong credit track-record - offering loans at right time and only when the existing loan has run down, thus not increasing overall exposure - product will have low cost of operation and collection and will be headed by its COO - this portfolio can reach disbursements of Rs150-200bn annually - demand and number of customers not a dearth.

Exhibit 2: Result Table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Total Interest Income	26,000	25,418	2.3	26,369	(1.4)
Interest expended	(10,887)	(11,583)	(6.0)	(12,895)	(15.6)
Net Interest Income	15,114	13,835	9.2	13,474	12.2
Other income	375	331	13.4	389	(3.6)
Total Income	15,488	14,165	9.3	13,863	11.7
Operating expenses	(4,915)	(3,985)	23.3	(4,197)	17.1
PPOP	10,573	10,180	3.9	9,666	9.4
Provisions	(8,860)	(13,867)	(36.1)	(6,741)	31.4
PBT	1,713	(3,687)	(146.5)	2,925	(41.4)
Tax	(214)	946	(122.6)	(716)	(70.2)
PAT	1,500	(2,741)	(154.7)	2,209	(32.1)

Source: Company, YES Sec - Research

Exhibit 3: Business Data

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
AUM	816,890	818,090	(0.1)	771,600	5.9
Auto/UV	245,067	245,427	(0.1)	208,332	17.6
Tractors	138,871	139,075	(0.1)	131,172	5.9
Cars	179,716	179,980	(0.1)	162,036	10.9
CV & CE	130,702	139,075	(6.0)	146,604	(10.8)
Pre-owned veh. & others	122,534	114,533	7.0	123,456	(0.7)
Value of assets financed	59,700	62,700	(4.8)	70,410	(15.2)
Auto/UV	20,298	21,945	(7.5)	19,715	3.0
Tractors	10,746	12,540	(14.3)	11,970	(10.2)
Cars	12,537	13,167	(4.8)	13,378	(6.3)
CV & CE	2,985	3,135	(4.8)	10,562	(71.7)
Pre-owned veh. & others	13,134	11,913	10.2	14,786	(11.2)

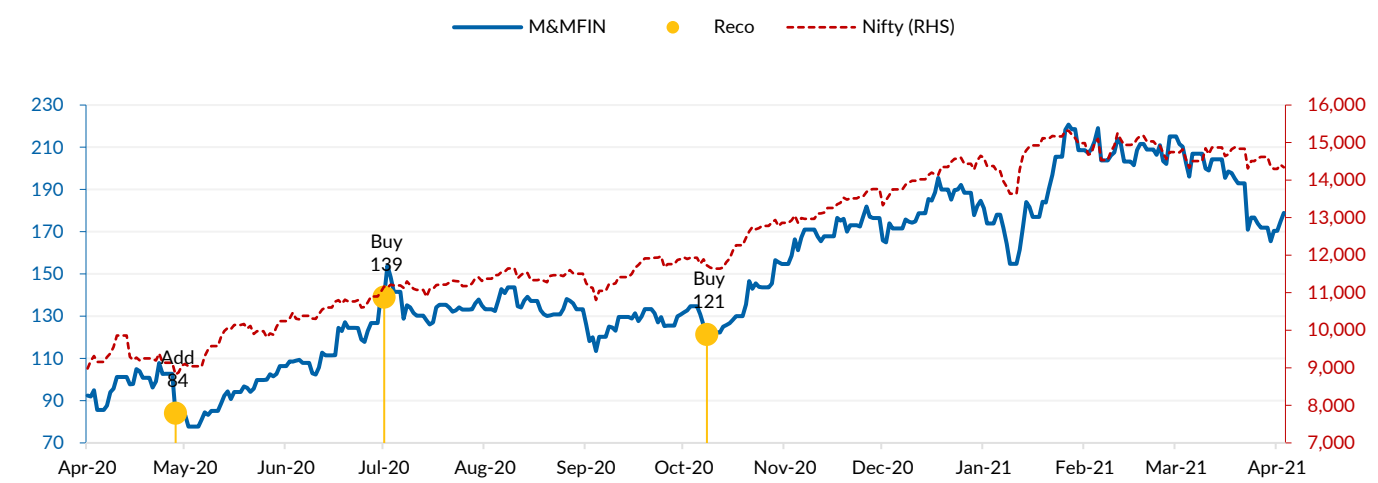
Source: Company, YES Sec - Research

Exhibit 4: Key Ratios

(%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
Income Yield (%)	14.8	13.9	0.9	14.9	(0.1)
Cost of Funds (%)	6.2	6.4	(0.2)	6.8	(0.6)
Gross Spread (%)	7.7	7.5	0.2	7.7	-
Net Spread (%)	0.6	0.4	0.2	1.9	(1.3)
Cost to Income (%) *	31.7	28.1	3.6	30.3	1.5
Provisions/Avg. Assets (%)	4.9	5.0	(0.1)	2.9	2.0
RoE (Cumulative) (%)	2.5	1.9	0.6	8.1	(5.6)
RoA (Cumulative) (%)	0.4	0.3	0.1	1.3	(0.9)
Gross NPA (%)	9.0	10.0	(1.0)	8.4	0.5
Net NPA (%)	4.0	6.6	(2.6)	6.0	(2.0)
CAR (%)	26.0	26.4	(0.4)	19.6	6.4

Source: Company, YES Sec - Research, *Calculated

Recommendation Tracker



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