

July 20, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	179		191	
NII (Rs.)	57,690	64,773	52,174	61,108
% Chng.	10.6	6.0		
PPoP (Rs.)	36,412	37,280	29,027	37,895
% Chng.	25.4	(1.6)		
EPS (Rs.)	9.2	12.6	18.2	25.1
% Chng.	(49.5)	(50.0)		

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	39,566	36,412	37,280
PAT (Rs m)	9,064	2,965	11,350	15,497
EPS (Rs.)	14.7	3.2	9.2	12.6
Gr. (%)	(41.8)	(78.2)	187.0	36.5
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
Margin (%)	7.5	6.9	6.5	6.4
RoAE (%)	8.2	2.2	7.4	9.7
RoAA (%)	1.3	0.4	1.3	1.5
PE (x)	14.1	64.8	22.6	16.5
P/BV (x)	1.1	1.7	1.7	1.6
P/ABV (x)	1.7	2.1	1.9	1.9

Key Data

MMFS.BO | MMFS IN

52-W High / Low	Rs.403 / Rs.125
Sensex / Nifty	37,020 / 10,902
Market Cap	Rs.128bn / \$ 1,712m
Shares Outstanding	618m
3M Avg. Daily Value	Rs.5118.97m

Shareholding Pattern (%)

Promoter's	51.58
Foreign	23.94
Domestic Institution	15.55
Public & Others	8.93
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	24.8	(42.3)	(45.9)
Relative	13.0	(34.6)	(42.6)

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Staring at abysmally low returns

Quick Pointers:

- 40% of customers paid in Jun'21 out of 75% customers in moratorium

Seasonally weak Q1FY21 quarter saw severe asset quality deterioration (~100bps YoY/75bpsQoQ spike), elevated provisioning (up 36%YoY/25%QoQ) and upcoming deep discounted rights issue (76% discount, 33% BV dilution). Said that, PAT was cushioned by partial stake sale gains from AMC business (Rs 61mn), operating leverage (38%YoY/18%QoQ decline) driven by one-offs and marginally better than expected NII (up 9%YoY/2%QoQ) buoyed partially by pent-up demand. While Mngt cites confidence in tractor, pre-owned and small vehicles financing, certain critical products (9% aggregator portfolio of overall car segment), critical rural housing business (16% NPA) and customer segments (59% under moratorium) should further weigh down on asset quality and earnings over FY21-22. Consequently, GNPA & credit costs estimates stand tweaked to 9.3% for FY21 (earlier 7%). While our estimates (EPS up by 6% for FY21 and 1-2% FY22-23E) sufficiently incorporate rural-led tractor and pre-owned recovery translating into better NII and anticipated higher other income, the same should stand offset by continued elevated provisioning (CC at 530bps FY21, 300bps FY22). Moreover, capital raising coming at a huge dilution is translating into low order RoEs (7-10%: FY22-23E) at current expensive valuations (2xPABV FY23E). With structurally low return profile offering no respite, we reiterate REDUCE rating with SoTP target of Rs 179 (earlier Rs191) valuing core business at Rs 1.5x PABV as we rollover to Sep'22 estimates.

- Anemic business growth; weakness to prolong:** Loans at Rs 638bn stood higher than PLe of Rs 600bn declined 2% QoQ but was up by mere 2% YoY with incremental focus on pre-owned and SME financing. During the quarter, while overall asset financing was down 67% YoY, tractor mix to assets financed doubled, SME/others share was up 10x QoQ. Also, with shift of focus from growth to cost and quality rationalization, we build-in weak growth cycle to 5-10% over FY21-23E.
- Asset quality woes to further exasperate:** NPA at 9.19% stood higher than PLe of 8.45% and vs 8.17% a year ago. Management cited caution on repayment capabilities of customers even post lockdown. Overall provisioning at Rs8.4bn (PLe: Rs7.4bn) jumped 36%YoY/25% QoQ led by higher provisioning for weaker customer segments that would be impacted by COVID outbreak and repossession possibilities. While Mngt cites confidence in tractor and pre-owned business, certain critical products (80k aggregators portfolio of 2mn customer segment) and customer segments (59% under moratorium end Jun-21) should further weigh down on asset quality and earnings over FY21-22. Consequently, GNPA (9.3%) & credit costs (530bps) estimates stand tweaked for FY21. FY22 -23 trends also look cautious as we maintain 7.5-8.4% NPA with credit costs ranged between 220-300bps Consequently, return profile is expected to shrink to 7-10% levels over FY22-23E offering weak upside potential in medium term.

PAT grew by 128% YoY (low base effect due to elevated provisioning in Q1FY20) and decline by 30%QoQ to Rs1.56bn [PLe: Loss of Rs0.7bn] on account of elevated provisioning. Provs at Rs 8.42bn up 36%YoY/25% QoQ exceeding our estimates [PLe: Rs 7.4bn]. Co. has provided ~Rs4.8bn as part of COVID provs.

PAT beat came on account of stake sale gains of Rs 61mn in L&T Mahindra Asset Management Company Ltd, marginally better than expected NII and operating leverage.

NII grew 9% YoY/2%QoQ to Rs13.7bn stood higher than our estimates [PLe: Rs 10.3bn] led by marginally better AUM traction.

AUM grew by 2.3% YoY and de grew by 1.8% QoQ at Rs. 638bn as against our estimate of [PLe of Rs 599bn] driven by strong traction in tractors and SME financing during Q1FY21

PPoP grew by 44%YoY/8%QoQ to Rs10.4bn higher than our estimates [PLe of Rs6 5bn] as NII stood better than our expectations and lower operating expenses. (decline of 38% YoY and 18% QoQ) .

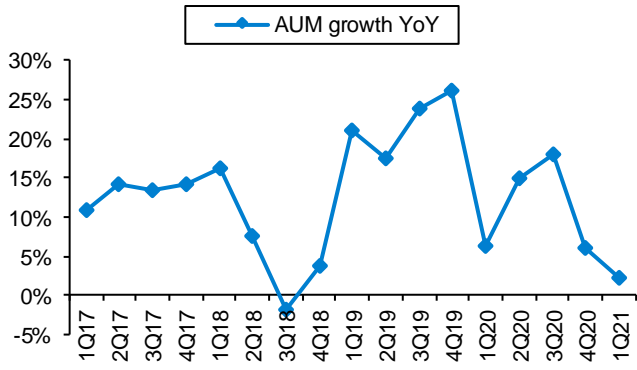
Increase in Stage 3 assets from 8.17% to 9.19% YoY as against our estimate of 8.45

Exhibit 1: MMFS Q1FY21: Asset quality worsens, other income, opex aid PAT

(Rs m)	Q1FY21	Q1FY20	YoY gr.	Q4FY20	QoQ gr.
Interest Income	26,405	23,940	10.3%	26,369	0.1%
Interest Expenses	12,646	11,282	12.1%	12,895	-1.9%
Net Interest Income	13,759	12,658	8.7%	13,474	2.1%
Other Income	144	185	-21.9%	389	-62.9%
Total Income	13,903	12,843	8.3%	13,863	0.3%
Total Operating Expenses	3,457	5,600	-38.3%	4,197	-17.6%
Operating Profit (PPP)	10,447	7,243	44.2%	9,666	8.1%
Provisions & Write Offs	8,427	6,196	36.0%	6,741	25.0%
PBT	2,020	1,047	92.9%	2,925	-30.9%
Exceptionals	61				
Reported Profit	1,558	684	127.7%	2,209	-29.5%
Assets Under Management	6,38,400	6,23,960	2.3%	6,49,930	-1.8%
Off-Balance Sheet AUM					
NIM	8.54%	8.19%	0.4%	8.26%	0.28%
AUM (Rs mn)	6,38,400	6,23,960	2.3%	6,49,930	-1.8%
Asset Quality					
Gross NPAs	58,669	50,978	15.09%	54,854	7.0%
Net NPAs	36,516	39,122	-6.66%	38,866	-6.0%
Gross NPA (%)	9.19%	8.17%	1.02%	8.44%	0.75%
Net NPA (%)	5.72%	6.27%	-0.55%	5.98%	-0.3%
Coverage (%)	40.10%	24.86%	15.24%	29.15%	11.0%
Credit costs - On Loans	0.00%	3.97%	-3.97%	4.15%	-4.1%
Balance sheet Details					
Total Borrowed Funds	6,33,517	5,47,722	15.7%	5,94,623	6.5%
Loans & Advances & others	6,38,395	6,23,965	2.3%	6,49,935	-1.8%
Total Assets	7,76,115	6,89,809	12.5%	7,40,712	4.8%
Insurance Brokers PAT	20	62	-67.7%	204	-90.2%
Rural Housing PAT	477	288	65.6%	5	9440.0%

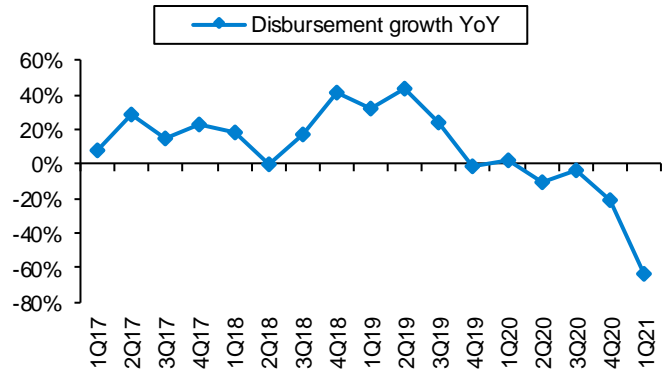
Source: Company, PL

Exhibit 2: Steep weakness in AUM growth at 2% YoY



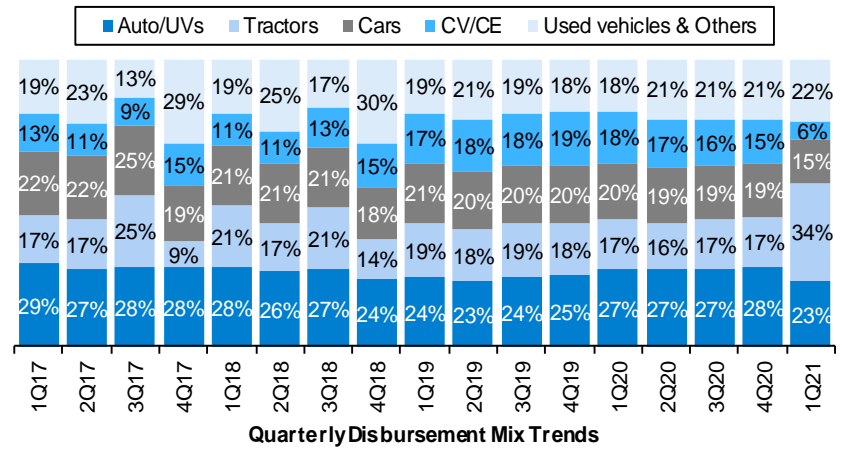
Source: Company, PL

Exhibit 3: Disbursements continue to decline



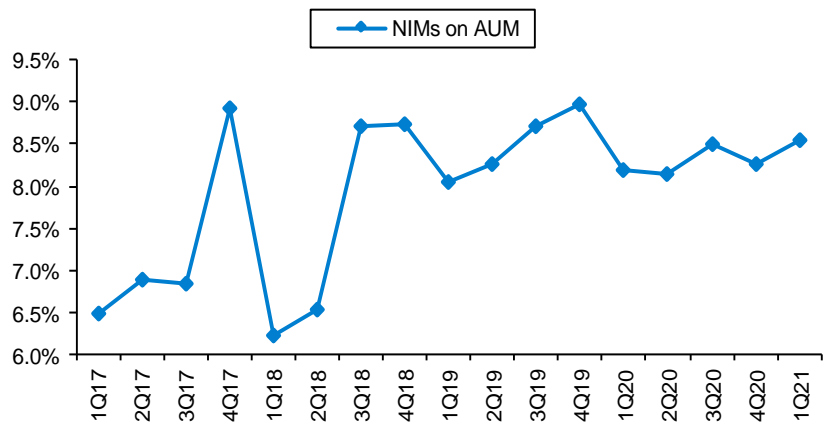
Source: Company, PL

Exhibit 4: Disbursements mix tilting towards higher yielding businesses



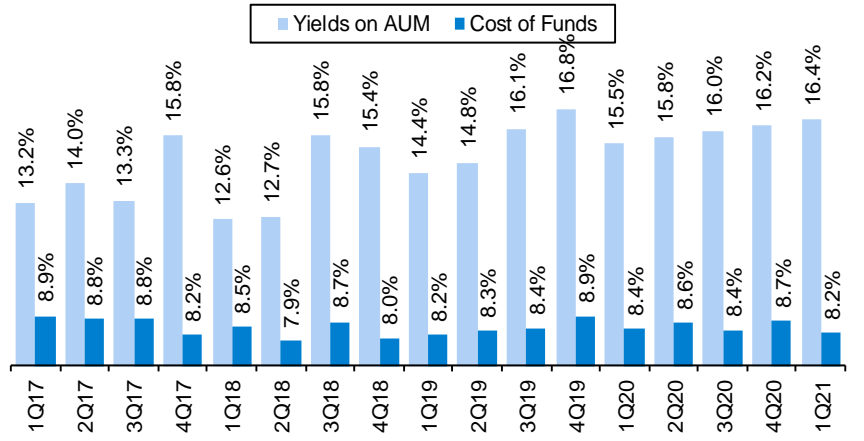
Source: Company, PL

Exhibit 5: Margins marginally up



Source: Company, PL

Exhibit 6: Yields and cost of funds stay benign



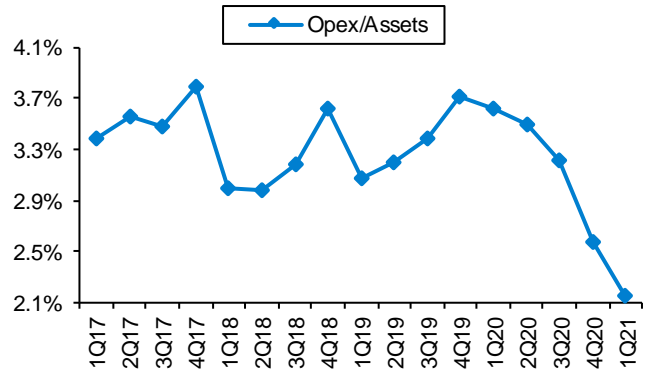
Source: Company, PL

Exhibit 7: C/I ratio improved on concerted efforts



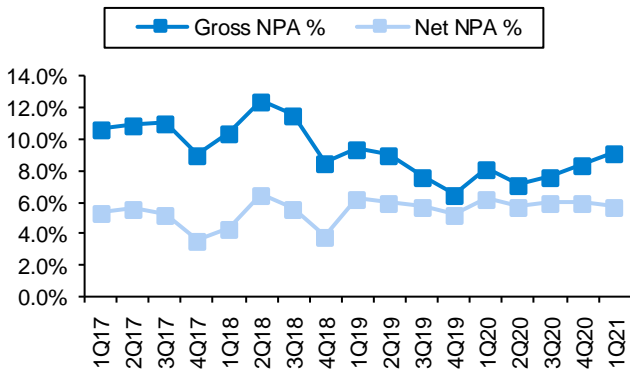
Source: Company, PL

Exhibit 8: Declining trend in Opex/assets



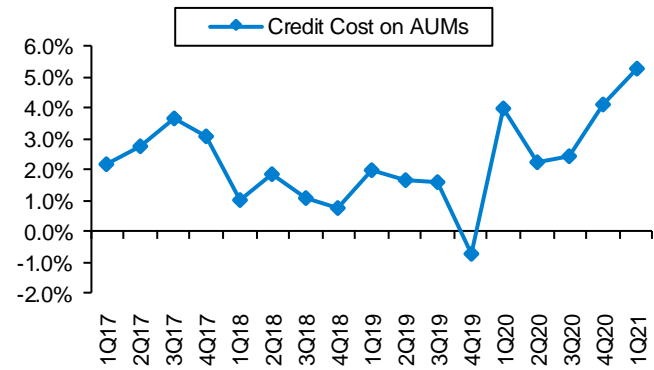
Source: Company, PL

Exhibit 9: Asset quality deteriorates sharply



Source: Company, PL

Exhibit 10: Credit cost inch higher



Source: Company, PL

Exhibit 11: Weak earnings profile over FY21E-FY22E; price target

(Rs mn)	Old Estimates			Revised Estimates			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Interest Income	46,623	52,174	61,108	54,380	57,690	64,773	16.6%	10.6%	6.0%
Operating Profit	25,888	29,027	37,895	39,566	36,412	37,280	52.8%	25.4%	-1.6%
Net Profit	2,810	11,209	15,456	2,965	11,350	15,497	5.5%	1.3%	0.3%
EPS (Rs)	4.6	18.2	25.1	3.2	9.2	12.6	-29.8%	-49.5%	-50.0%
Price Target (Rs)	191			179			-6.1%		
Reco	REDUCE			REDUCE					

Source: P

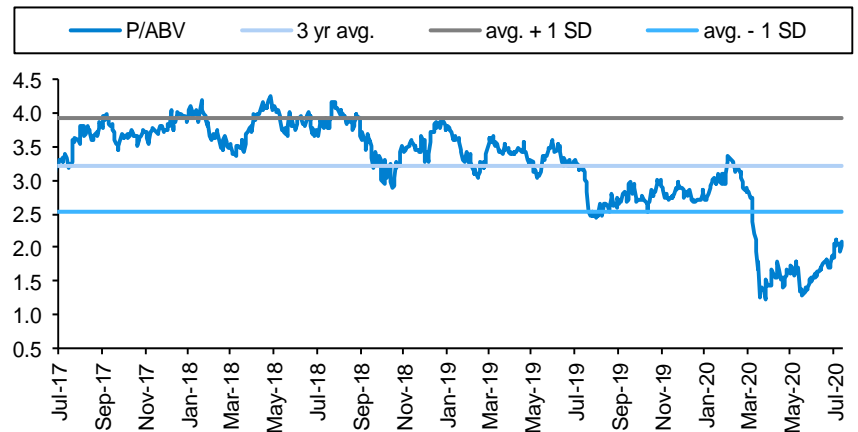
Exhibit 12: SoTP weakens; Maintain REDUCE, revised price target at Rs 179

PT calculation and upside

Fair price - EVA	124
Fair price - P/ABV	204
Average of the two	164
Subsidiary Value	16
Target Price	179
Target P/ABV	1.5
Target P/E	11.1
Current price, Rs	208
Upside (%)	-14%
Dividend yield (%)	2%
Fair price - EVA	124

Source: Company, PL

Exhibit 13: Post rights issue, MMFS PBV multiple stands expensive



Source: Company, Bloomberg, PL

Conference Call Highlights

- **Demand:** Rural turnaround story much better than urban as farm cash flows were really good this season and infra cash flows are picking up. Tractor reflected phenomenal buoyancy followed by SLCV, cars and pre owned vehicles. HCV and taxi aggregators (30-40% on road) to take longer time to recover.
- **Supply:** Subdued supply side due to production constraints for mfg and weak supply of used vehicles
- **Disbursement:** Financed 30k vehicles in June. Highest number of vehicles financed could be 50-60k but as OEMs are unsure about the volumes and supply has not return to normal level, co. expects to finance 40-50k vehicles.
- **Collection:** April was a disaster in terms of collection. Collected Rs. 5bn, Rs. 10 bn and Rs. 22 bn (out of Rs. 29bn) in April, May and June respectively. MP and Chhattisgarh performed really well in terms of Collections.
- **Operations:** All branches and dealership are operational and there is an increase in the number of footfalls.
- **Morat:** 40% of customers paid their installments out of 75% customers in morat. Overall 48% of customers under morat as of Jun'20. 30% of customers under morat in tractor segment.
- **Liquidity:** Comfortable liquidity position to meet next 3-4 months of obligations and expenses and positive traction from all lenders.
- **Opex:** 40% decline in opex is not permanent as 50% of the total decline is from variable cost. However, rest 50% decline is sustainable. Stopped recruitment until situation normalise and moved 5% of fixed cost to variable cost
- **Asset quality:** There will be no spike in NPA after morat. However, there will be delay in the repayments. Co to keep NNPA number at 4% levels. CV and taxi aggregator will take longer time for repayments after morat too. Post October regular repayments are expected however 50% of customers will not be able to pay dues of April to August.
- **Rights Issue:** Right issue price at Rs. 50 to compensate shareholders as it is 25th year for the company.



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	10,336	13,230	15,876
Other Expenses	7,514	7,138	9,280	11,136
Depreciation	1,183	1,242	1,304	1,369
Operating Expenses	18,999	17,474	22,510	27,012
PPP	33,982	39,566	36,412	37,280
Growth(%)	12.6	16.4	(8.0)	2.4
Provisions	20,545	35,604	21,245	16,570
Profit Before Tax	13,438	3,962	15,167	20,710
Tax	4,374	997	3,818	5,213
Effective Tax rate(%)	32.5	25.2	25.2	25.2
PAT	9,064	2,965	11,350	15,497
Growth(%)	(41.8)	(67.3)	282.8	36.5

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	1,51,896	1,62,569
Networth	1,13,639	1,53,465	1,54,361	1,65,034
Growth (%)	4.2	35.0	0.6	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	24,273	43,002
Total Liabilities	7,40,712	8,39,948	9,45,365	10,78,392
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	6,001	6,081
Total Assets	7,40,712	8,39,948	9,45,364	10,78,392
Growth (%)	10.4	13.4	12.6	14.1
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	6.5	6.4
ROAA	1.3	0.4	1.3	1.5
ROAE	8.1	2.2	7.4	9.7

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Int. Inc. / Operating Inc.	24,864	25,806	26,369	26,405
Income from securitization	-	-	-	-
Interest Expenses	12,022	12,089	12,895	12,646
Net Interest Income	12,842	13,717	13,474	13,759
Growth (%)	8.9	13.4	2.8	8.7
Non-Interest Income	545	354	389	144
Net Operating Income	13,387	14,072	13,863	13,903
Growth (%)	10.2	14.8	3.8	8.3
Operating expenditure	5,196	5,189	4,197	3,457
PPP	8,190	8,883	9,666	10,447
Growth (%)	-	-	-	-
Provision	3,606	4,001	6,741	8,427
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	4,584	4,882	2,925	2,020
Tax	2,066	1,229	716	523
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	45.1	25.2	24.5	25.9
PAT	2,518	3,653	2,209	1,558
Growth	(34)	15	(62)	128
AUM	6,37,930	6,54,940	6,49,930	6,38,400
YoY growth (%)	15.0	18.0	6.1	2.3
Borrowing	5,64,961	5,87,445	5,94,622	6,33,517
YoY growth (%)	17.0	13.8	19.4	15.7

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	208	208	208	208
EPS (Rs)	14.7	3.2	9.2	12.6
Book value (Rs)	184.7	124.5	125.2	133.9
Adj. BV(Rs)	121.6	99.9	106.7	109.1
P/E(x)	14.1	64.8	22.6	16.5
P/BV(x)	1.1	1.7	1.7	1.6
P/ABV(x)	1.7	2.1	1.9	1.9
DPS (Rs)	-	-	-	-
Dividend Payout Ratio(%)	31.0	69.8	6.0	16.7
Dividend Yield(%)	-	-	-	-

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	30,325	22,866	30,543
Gross NPAs to Gross Adv.(%)	8.4	9.3	7.5	7.4
Net NPAs to net Adv.(%)	6.0	4.4	3.0	3.5
NPA coverage(%)	29.1	54.5	61.0	54.0

Du-Pont as a % of AUM

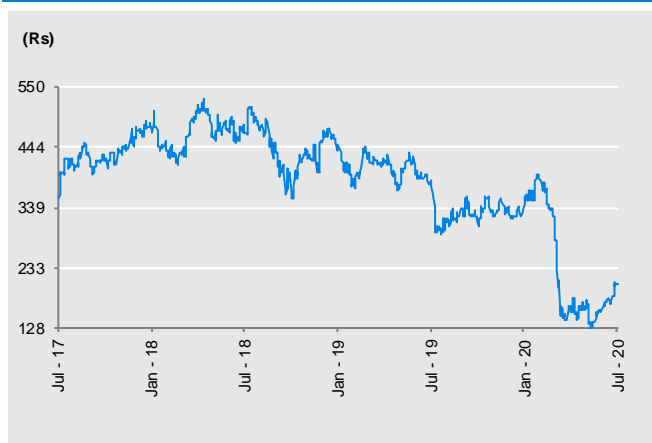
Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	8.3	8.2	8.1	8.0
NII INCL. Securitization	8.4	8.3	8.2	8.1
Total income	8.6	8.8	8.5	8.2
Operating Expenses	3.2	2.8	3.3	3.5
PPOP	5.4	6.0	5.2	4.7
Total Provisions	3.3	5.3	3.0	2.1
RoAA	1.3	0.4	1.3	1.5
Avg. Assets/Avg. net worth	6.4	5.9	5.9	6.5
RoAE	8.2	2.2	7.4	9.7

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Jul-20	Reduce	191	204
2	16-May-20	Reduce	171	168
3	17-Apr-20	Reduce	229	180
4	28-Jan-20	Reduce	373	351
5	03-Jan-20	Accumulate	362	335
6	24-Oct-19	Accumulate	362	334
7	03-Oct-19	Accumulate	372	326
8	17-Sep-19	Accumulate	396	331

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,806	3,314
2	Cholamandalam Investment and Finance Company	Accumulate	239	208
3	HDFC	Accumulate	2,177	1,886
4	L&T Finance Holdings	Sell	52	62
5	LIC Housing Finance	Reduce	260	276
6	Mahindra & Mahindra Financial Services	Reduce	191	204
7	Manappuram Finance	Accumulate	182	160
8	SBI Cards and Payment Services	BUY	782	703
9	Shriram Transport Finance	Accumulate	793	699

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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