

FIRST LIGHT

RESEARCH

Mahindra & Mahindra Fin Svcs | Target: Rs 280 | +22% | BUY

Buoyant rural activity, fund raising brighten outlook – raise to BUY

BOB Economics Research | Weekly Wrap

RBI to focus on growth as inflation surprises negatively

SUMMARY

Mahindra & Mahindra Fin Svcs

Mahindra & Mahindra Financial Services (MMFS) reported strong 120% YoY growth in Q1FY21 PAT to Rs 1.5bn due to robust opex control and spread expansion. Buoyant farm incomes have been salutary both in terms of lowering moratorium loans and increasing collections. Strong liquidity buffers and fund raising (Rs 35bn in July) lend comfort as incremental credit costs can be well catered to. We raise FY21/FY22 earnings estimates by 135%/28% and upgrade the stock to BUY (from ADD) with a revised Jun'21 TP of Rs 280 (from Rs 170).

[Click here for the full report.](#)

India Economics: Weekly Wrap

China continues to lead global recovery with GDP growth rebounding to 3.2% in Q2CY20 from a decline of 6.8% in Q1. However, Chinese equity markets and yields fell. Equity markets elsewhere were buoyant as economic activity picks up and more stimulus may be on the way. India's CPI surprised negatively implying limited room for monetary easing. Economic activity picked up further as seen in rising electricity demand. Hence, India's 10Y yield rose. INR rose by 0.2% as India recorded a rare trade surplus in Jun'20.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	690

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.63	1bps	(13bps)	(143bps)
India 10Y yield (%)	5.81	(1bps)	(4bps)	(56bps)
USD/INR	75.02	0.2	1.6	(9.0)
Brent Crude (US\$/bbl)	43.14	(0.5)	5.3	(30.9)
Dow	26,672	(0.2)	1.5	(1.8)
Shanghai	3,214	0.1	9.6	9.9
Sensex	37,020	1.5	10.2	(3.4)
India FII (US\$ mn)	16 Jul	MTD	CYTD	FYTD
FII-D	(81.5)	28.5	(14,253.5)	(4,494.0)
FII-E	(159.8)	(544.4)	(2,985.8)	3,617.1

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 280 | ▲ 22%

**MAHINDRA &
MAHINDRA FIN SVCS**

| NBFC

| 20 July 2020

Buoyant rural activity, fund raising brighten outlook – raise to BUY

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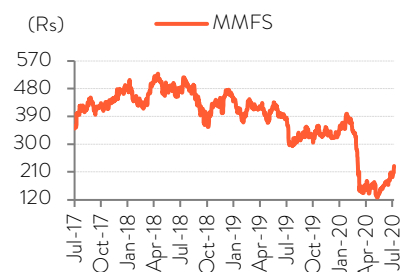
Spread expansion, opex control aid operating profit: MMFS reported 14% YoY AUM growth to Rs 814bn, largely driven by low repayment as a large part of the book was under moratorium. We note spread expansion of 100bps YoY to ~8%, led by lower cost of funds and stable pricing power. The company has shown strong cost control in the form of lower discretionary opex in Q1, aiding 44% YoY growth in operating profit.

Lower moratorium share, better collections: The company reported ~40% of its book under moratorium as of June vs. 75% as of April. Management alluded to a strong rural pick-up due to better farm incomes. Also, mining activities and rural projects have picked up pace in pockets. Collections improved to Rs 22bn in June. Management expects collections to gather pace in coming quarters.

Fund raising, strong liquidity buffers to absorb incremental credit cost: Management plans to raise funds of Rs 35bn in Jul'20. This will add to the present liquidity of Rs 85bn. MMFS also has Rs 20bn of working capital lines from several banks and has positive ALM in the less-than-one-year bucket. We expect incremental credit costs to be catered to by strong capital buffers post-fund raising.

Ticker/Price	MMFS IN/Rs 230
Market cap	US\$ 1.9bn
Shares o/s	618mn
3M ADV	US\$ 39.0mn
52wk high/low	Rs 313/Rs 125
Promoter/FPI/DII	51%/24%/13%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	46,700	51,130	52,360	55,286	57,112
NII growth (%)	33.3	9.5	2.4	5.6	3.3
Adj. net profit (Rs mn)	15,571	9,064	2,425	11,571	17,863
EPS (Rs)	25.3	14.7	3.9	18.8	29.0
P/E (x)	9.1	15.6	58.3	12.2	7.9
P/BV (x)	1.4	1.2	1.2	1.1	1.0
ROA (%)	2.6	1.3	0.3	1.4	2.1
ROE (%)	15.8	8.3	2.1	9.6	13.5

Source: Company, BOBCAPS Research



WEEKLY WRAP

20 July 2020

RBI to focus on growth as inflation surprises negatively

China continues to lead global recovery with GDP growth rebounding to 3.2% in Q2CY20 from a decline of 6.8% in Q1. However, Chinese equity markets and yields fell. Equity markets elsewhere were buoyant as economic activity picks up and more stimulus may be on the way. India's CPI surprised negatively implying limited room for monetary easing. Economic activity picked up further as seen in rising electricity demand. Hence, India's 10Y yield rose. INR rose by 0.2% as India recorded a rare trade surplus in Jun'20.

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Markets

- **Bonds:** Global 10Y yields closed mixed over rising COVID-19 cases in US, Spain, and Brazil. US 10Y yield dipped by 2bps as jobless claims fell less than expected. Oil prices also fell by 0.2% as OPEC+ members eased supply curbs. India's 10Y yield rose by 5bps (5.81%) with CPI inflation limiting room for monetary easing. System liquidity surplus was at Rs 3.4tn as on 17 Jul 2020 versus Rs 3.9tn in the previous week.
- **Currency:** Except JPY and GBP, other global currencies closed higher against the dollar. DXY fell by 0.7% to its lowest since Mar'20 as COVID-19 cases in the US surged. EUR rose by 1.1% as investors expect EU leaders to break the deadlock on the € 750bn recovery fund. INR rose by 0.2% as India reported its first trade surplus in 18-years. FII outflows were US\$ 367mn.
- **Equity:** Barring Shanghai Comp, other global indices ended the week higher. Shanghai Comp fell by 5% even as China's GDP growth bounced back in Q2CY20. Dow rose by 2.3% on hopes of COVID-19 vaccine. Sensex (1.2%) ended in green for the 5th straight week, led by global cues and disinvestment push of the government.
- **Upcoming key events:** In current week, flash manufacturing and services PMI data of major economies will be released. US new home sales and jobless claims report are also awaited. Progress of COVID-19 vaccine will remain a market mover. On the domestic front, markets await fresh OMO purchase announcement from RBI. Markets will also monitor indicators of domestic demand as seen in improving electricity demand (decline of 8.6% in Jul'20 as against 13.6% in Jun'20).



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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