



India

ADD (no change)

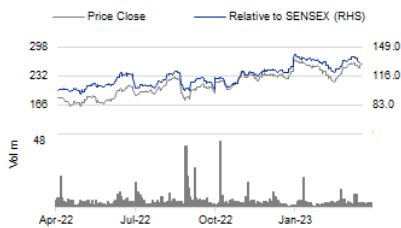
Consensus ratings\*: Buy 22 Hold 10 Sell 3

Current price:	Rs259
Target price:	Rs350
Previous target:	Rs350
Up/downside:	35.1%
InCred Research / Consensus:	26.5%
Reuters:	MMFS.BO
Bloomberg:	MMFS IN
Market cap:	US\$3,910m Rs320,002m
Average daily turnover:	US\$11.5m Rs944.5m
Current shares o/s:	1,232.3m
Free float:	46.4%

\*Source: Bloomberg

Key changes in this note

➤ MMFS is focused on transforming itself from being a captive financier to a preferred financier for affluent customers in semi-urban and rural India.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	14.2	14.9	41.4
Relative (%)	10.3	12.2	32.0

Major shareholders	% held
Mahindra & Mahindra	52.0
LIC	6.3
HDFC Life	2.6

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# Mahindra & Mahindra Finance

## Better execution-led turnaround story

- MMFS posted a better-than-estimated 4QFY23 PAT of Rs6.8bn (our est: Rs6.3bn) backed by a healthy operating performance and lower credit cost.
- MMFS management is focused on becoming a preferred financier for affluent customers of semi-urban and rural India with diversity in its asset book.
- MMFS is our high-conviction bet due to attractive risk-reward and improving return ratios. Retain ADD rating with a TP of Rs350, or ~2.1x FY25F BV.

### Robust growth, stable margins, zero credit cost during 4QFY23

Mahindra & Mahindra Financial Services or MMFS posted robust 4QFY23 loan disbursement growth at Rs137.8bn (+50% yoy) with contribution across segments. The company managed to retain sequential margin at ~7.4% amid improving yields. MMFS reported zero credit cost amid improvement in its asset quality backed by steady collection efficiency at ~95%. Gross stage-3 assets of MMFS improved to ~4.5% (~5.9% in 3QFY23) while gross stage-2 assets improved to ~6% (~8.4% in 3QFY23) with a coverage of ~59% providing greater comfort. Lastly, the gap between stage-3 assets and IRACP norms narrowed further to Rs10.9bn (Rs12.8bn last quarter), reassuring greater transparency.

### Shift from lucrative to affluent customers via diversified offerings

MMFS is focusing on the affluent customer base from semi-urban and rural India with diversified offerings and maintaining superior underwriting standards. It is intentionally avoiding certain lucrative, yet vulnerable, customers to manage a steady trend in asset quality. The company is equally focusing on diversity by introducing differentiated products including micro enterprise loan, loan against property, lease financing and unsecured personal and consumer loans across rural and semi-urban pockets in India. MMFS is also investing in various tech-enabled platforms for seamless execution.

### Superior customers come at a low yield but at lower acquisition cost

MMFS is aware about yield compromise in case of superior customer acquisition which, in turn, may exert pressure on margins in the coming years but acquisition cost for such a customer is relatively low and it attracts lower credit cost, which should compensate for margin loss and improve overall profitability. Management is also focusing on accelerating better-yield products such as used vehicle finance to compensate for a probable yield decline and fine-priced securitization to keep the cost of funds under check.

### Outlook & valuation

MMFS has a track record of volatile asset quality trend in the past. However, with improved customer sourcing, a rising mix of low-risk products and efficient & timely collection mechanism, profitability can see a meaningful improvement. MMFS remains one of our high-conviction ideas due to attractive risk-reward & improving return ratios (RoE at 16.1% by FY26F). We retain ADD rating on it with a target price of Rs350 or ~2.1x FY25F BV. Downside risks: Slowing growth, and deterioration in asset quality.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	57,795	63,853	77,653	95,454	113,645
Total Non-Interest Income (Rsm)	191	941	988	1,097	1,202
Operating Revenue (Rsm)	57,986	64,794	78,641	96,551	114,847
Total Provision Charges (Rsm)	(23,683)	(9,992)	(14,688)	(19,926)	(23,727)
Net Profit (Rsm)	9,888	19,848	23,657	28,615	34,475
Core EPS (Rs)	8.02	16.10	19.19	23.21	27.96
Core EPS Growth	195%	101%	19%	21%	20%
FD Core P/E (x)	32.30	16.09	13.50	11.16	9.26
DPS (Rs)	3.60	6.00	7.00	9.00	11.00
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
BVPS (Rs)	126.7	138.6	150.8	165.0	181.9
P/BV (x)	2.04	1.87	1.72	1.57	1.42
ROE	6.5%	12.1%	13.3%	14.7%	16.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly results summary**

Rs m	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	% yoy	% qoq
Operating Income	24,424	24,863	25,860	28,625	29,942	22.6%	4.6%
Interest Expenses	9,357	9,320	10,690	12,419	13,340	42.6%	7.4%
<b>Net Operating Income</b>	<b>15,067</b>	<b>15,543</b>	<b>15,170</b>	<b>16,206</b>	<b>16,602</b>	<b>10.2%</b>	<b>2.4%</b>
Other Income	239	122	230	291	625	161.4%	115.2%
<b>Total Income</b>	<b>15,306</b>	<b>15,666</b>	<b>15,400</b>	<b>16,496</b>	<b>17,227</b>	<b>12.6%</b>	<b>4.4%</b>
Operating Expenses	6,327	6,208	6,770	6,513	7,786	23.1%	19.5%
<b>Operating Profit</b>	<b>8,979</b>	<b>9,458</b>	<b>8,630</b>	<b>9,983</b>	<b>9,441</b>	<b>5.1%</b>	<b>-5.4%</b>
Provisions	639	6,453	1,980	1,551	4	-99.4%	-99.8%
CoR%	0.4%	3.9%	1.1%	0.8%	0.0%	-99.5%	-99.8%
<b>PBT</b>	<b>8,341</b>	<b>3,005</b>	<b>6,650</b>	<b>8,431</b>	<b>9,437</b>	<b>13.1%</b>	<b>11.9%</b>
Tax	2,333	776	1,620	2,142	2,596	11.3%	21.2%
Tax rate (%)	28.0%	25.8%	24.4%	25.4%	27.5%	-1.6%	8.3%
<b>Reported PAT</b>	<b>6,008</b>	<b>2,229</b>	<b>4,480</b>	<b>6,290</b>	<b>6,841</b>	<b>13.9%</b>	<b>8.8%</b>
<b>AUM</b>	<b>649,610</b>	<b>676,930</b>	<b>738,170</b>	<b>773,440</b>	<b>827,700</b>	<b>27.4%</b>	<b>7.0%</b>
<b>Disbursements</b>	<b>92,020</b>	<b>94,720</b>	<b>118,240</b>	<b>144,670</b>	<b>137,780</b>	<b>49.7%</b>	<b>-4.8%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Estimate revision**

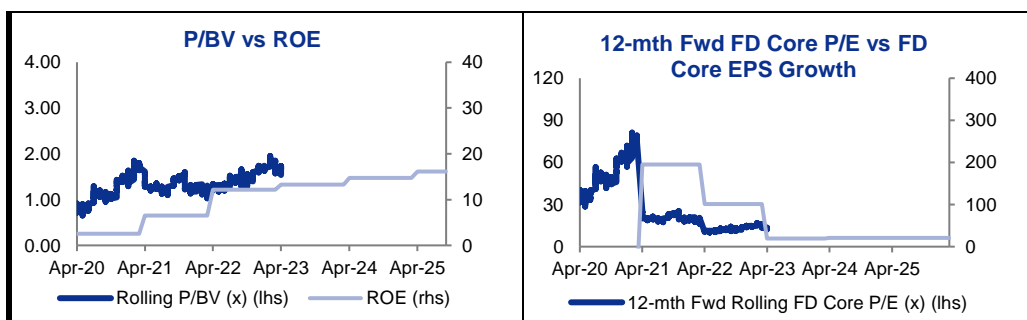
Y/e Mar (Rs m)	FY24F			FY25F			FY25F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduction
Net interest income	76,679	77,653	1.3%	94,026	95,454	1.5%	113,645
PPOP	46,300	46,232	-0.1%	57,665	58,080	0.7%	69,693
PAT	22,715	23,657	4.1%	28,656	28,615	-0.1%	34,475
EPS (Rs)	18.4	19.2	4.2%	23.2	23.2	-0.1%	27.9
AUM (Rs)	978,893	1,008,342	0	1,183,002	1,205,672	0	1,430,606

SOURCE: INCRED RESEARCH

## Conference-call highlights

- MMFS to set up 200 more branches at interior rural locations in the next two years.
- The company targets assets under management or AUM to double by 2025F from FY22 level.
- MMFS expects vehicle finance to grow at 10% level while loan against property or LAP business is growing strongly in semi-urban and rural areas.
- The company has increased the variable component of salaries to its employees to compensate for their performance.
- Management expects margins to remain protected even after a change in the product mix.
- Priority sector lending norms are an added advantage to the company, keeping its overall cost lower.
- MMFS expects 15% ROE to be sustainable.
- MMFS doesn't want to be tagged as a captive financier and focuses on better return ratios.
- Better collection efficiency will bring down collection cost & digitalization will bring down operational cost, thereby offsetting margin impact due to the shift towards better quality customers.
- The housing finance business has been re-engineered, factoring in past experience of the company, to turn profitable.

**BY THE NUMBERS**



**Profit & Loss**

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	57,795	63,853	77,653	95,454	113,645
<b>Total Non-Interest Income</b>	<b>191</b>	<b>941</b>	<b>988</b>	<b>1,097</b>	<b>1,202</b>
Operating Revenue	57,986	64,794	78,641	96,551	114,847
<b>Total Non-Interest Expenses</b>	<b>(19,466)</b>	<b>(25,402)</b>	<b>(30,161)</b>	<b>(35,818)</b>	<b>(42,024)</b>
Pre-provision Operating Profit	37,252	37,519	46,232	58,080	69,693
<b>Total Provision Charges</b>	<b>(23,683)</b>	<b>(9,992)</b>	<b>(14,688)</b>	<b>(19,926)</b>	<b>(23,727)</b>
Operating Profit After Provisions	13,569	27,526	31,543	38,154	45,967
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	13,569	27,526	31,543	38,154	45,967
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	20,872	36,285	41,878	50,245	59,993
<b>Exceptional Items</b>					
Pre-tax Profit	13,569	27,526	31,543	38,154	45,967
Taxation	(3,682)	(7,134)	(7,886)	(9,538)	(11,492)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>		<b>(545)</b>			
Profit After Tax	9,888	19,848	23,657	28,615	34,475
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	9,888	19,848	23,657	28,615	34,475
Recurring Net Profit					

**Balance Sheet**

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	84.6%	85.9%	86.1%	87.3%	88.5%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>106.1%</b>	<b>105.0%</b>	<b>101.6%</b>	<b>100.1%</b>	<b>100.8%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
<b>Total Gross Loans</b>	<b>609,055</b>	<b>794,550</b>	<b>989,727</b>	<b>1,189,003</b>	<b>1,417,611</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	609,055	794,550	989,727	1,189,003	1,417,611
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	609,055	794,550	989,727	1,189,003	1,417,611
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>5,727</b>	<b>26,226</b>	<b>28,849</b>	<b>31,462</b>	<b>34,324</b>
<b>Total Non-Interest Earning Assets</b>	<b>17,925</b>	<b>39,406</b>	<b>44,707</b>	<b>48,069</b>	<b>51,755</b>
Cash And Marketable Securities	41,507	28,320	822	629	21,146
<b>Long-term Investments</b>	<b>84,403</b>	<b>99,890</b>	<b>107,881</b>	<b>116,512</b>	<b>125,833</b>
Total Assets	752,890	962,166	1,143,137	1,354,214	1,616,344
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	558,138	715,040	851,025	1,002,742	1,185,505
Total Interest-Bearing Liabilities	558,138	715,040	851,025	1,002,742	1,185,505
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	38,471	76,240	106,214	148,073	206,551
Total Liabilities	596,609	791,280	957,239	1,150,815	1,392,056
Shareholders Equity	156,281	170,886	185,898	203,398	224,288
<b>Minority Interests</b>					
Total Equity	156,281	170,886	185,898	203,398	224,288

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Income Growth	0.1%	10.5%	21.6%	22.9%	19.1%
Operating Profit Growth	(9.9%)	2.3%	23.1%	25.3%	19.9%
Pretax Profit Growth	226%	103%	15%	21%	20%
Net Interest To Total Income	99.7%	98.5%	98.7%	98.9%	99.0%
Cost Of Funds	6.85%	7.19%	7.20%	6.90%	6.60%
Return On Interest Earning Assets	16.0%	15.6%	15.0%	14.6%	14.3%
Net Interest Spread	9.12%	8.43%	7.82%	7.73%	7.66%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	64%	27%	32%	34%	34%
Interest Return On Average Assets	7.59%	7.45%	7.38%	7.64%	7.65%
Effective Tax Rate	27.1%	25.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Return On Average Assets	1.30%	2.31%	2.25%	2.29%	2.32%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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