



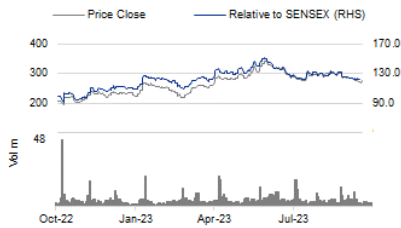
India

ADD (no change)

Consensus ratings*: Buy 22 Hold 13 Sell 5	
Current price:	Rs277
Target price:	Rs370
Previous target:	Rs430
Up/downside:	33.6%
InCred Research / Consensus:	13.4%
Reuters:	MMFS.BO
Bloomberg:	MMFS IN
Market cap:	US\$4,718m
	Rs342,612m
Average daily turnover:	US\$18.9m
	Rs1370.1m
Current shares o/s:	1,232.3m
Free float:	46.4%
*Source: Bloomberg	

Key changes in this note

➤ Despite the absence of specific negative surprises, elevated borrowings (+11.1% qoq) along with a higher provision coverage ratio (~61.2%) hit the overall profitability.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.0)	(11.1)	33.7
Relative (%)	(4.0)	(7.8)	25.7

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

Analyst(s)



Jignesh SHIAL
T (91) 22 4161 1547
E jignesh.shial@incredcapital.com
Mayank AGARWAL
T (91) 22 4161 0000
E mayank.agarwal@incredcapital.com

Mahindra & Mahindra Finance

Margins weak; franchise value improves

- M&M Finance posted a lower-than-expected 2Q PAT of Rs2.35bn (InCred estimate: Rs5.1bn) amid lower margins (~30bp qoq) & higher provisioning.
- We are building in a gradual improvement in margins (from 4QFY24F) backed by repricing of loans & a reshuffle in the portfolio towards better-yield assets.
- We trim our earnings estimates for FY24F-25F but continue to believe in the franchise value improving. Retain high conviction ADD rating with a Rs370 TP.

Healthy 2Q growth; fall in margins continues amid tight liquidity

Mahindra & Mahindra Financial Services or MMFS posted a healthy 2QFY24 loan disbursement growth at Rs133.5bn (+12.6% yoy), resulting in +27% assets under management or AUM growth to Rs937.2bn as of Sep 2023-end. MMFS saw a ~30bp qoq fall in margins to ~6.5% amid elevated liquidity on its balance sheet as well as some softening in yields as the company is sticking to a better-quality customer profile. We expect a gradual margin improvement backed by repricing of loans and a reshuffle in its portfolio towards better-yield assets, but elevated borrowing costs may continue to disappoint.

Granularity in asset quality visible; maintains prudent provisioning

MMFS' management has managed to maintain healthy asset quality even in 2QFY24 as well. Gross Stage-3 assets remained flat sequentially at ~4.3% whereas Stage-2 assets improved to ~5.7% vs. ~6.4% last quarter. Overall collection efficiency improved to ~96% vs. ~94% in Jun 2023. Provision coverage for Stage-3 assets rose further to ~61.5% against ~60% last quarter, as management prudently provided for a portfolio of vehicle loans.

Perception problem to stay; moving towards sustainable RoA of +2%

MMFS has a perception problem amid its long-term track record of delivering a disappointing performance, despite superior corporate parentage (M&M Group) as well as a pan-India presence and strong brand recognition. Although 2QFY24 profitability has been weaker than expected, we expect MMFS to post a sustainable RoA of +2% in the coming years backed by steady margins (~7.2%-7.3%), balanced operating leverage (cost-to-average assets at ~2.6-2.8%) and improved credit cost range of (~1.5-1.7%). With improved customer sourcing, a rising mix of low-risk products and an efficient collection mechanism, we believe profitability may see an improvement.

Outlook & valuation

MMFS is one of our high-conviction stock ideas due to its attractive risk-reward & improving return ratios. We are moderating our margin estimates for FY24F-25F amid tight system liquidity & elevated borrowing rates. Accordingly, we have cut our earnings estimates by 4.8%/11% for FY24F/25F, respectively. Also, we have cut the target price to Rs370 (Rs430 earlier) as we valued the standalone MMFS at ~2.1x FY25F BV and added Rs20/share for subsidiaries. We retain our high conviction ADD rating on MMFS amid its improving franchise value. Downside risks: Slowing growth and a deterioration in asset quality..

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	57,795	63,853	73,411	89,373	105,215
Total Non-Interest Income (Rsm)	191	941	1,259	1,393	1,524
Operating Revenue (Rsm)	57,986	64,794	74,670	90,766	106,739
Total Provision Charges (Rsm)	(23,683)	(9,992)	(15,529)	(17,520)	(19,512)
Net Profit (Rsm)	9,888	19,848	21,509	28,715	35,420
Core EPS (Rs)	8.02	16.07	17.42	23.25	28.68
Core EPS Growth	195%	100%	8%	34%	23%
FD Core P/E (x)	34.58	17.25	15.92	11.93	9.67
DPS (Rs)	3.60	6.00	6.00	9.00	11.00
Dividend Yield	1.30%	2.16%	2.16%	3.25%	3.97%
BVPS (Rs)	126.7	138.4	149.8	164.0	181.7
P/BV (x)	2.19	2.00	1.85	1.69	1.53
ROE	6.5%	12.1%	12.1%	14.8%	16.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	% yoy	% qoq
Operating Income	24,863	25,860	28,625	29,942	30,846	32,119	24.2%	4.1%
Interest Expenses	9,320	10,690	12,419	13,340	14,505	15,665	46.5%	8.0%
Net Operating Income	15,543	15,170	16,206	16,602	16,341	16,455	8.5%	0.7%
Other Income	122	230	291	625	409	286	24.1%	-30.1%
Total Income	15,666	15,400	16,496	17,227	16,750	16,740	8.7%	-0.1%
Operating Expenses	6,208	6,770	6,513	7,786	6,750	7,312	8.0%	8.3%
Operating Profit	9,458	8,630	9,983	9,441	10,000	9,428	9.3%	-5.7%
Provisions	6,453	1,980	1,551	4	5,264	6,266	216.4%	19.0%
CoR%	3.9%	1.1%	0.8%	0.0%	2.5%	2.8%	148.1%	11.8%
PBT	3,005	6,650	8,431	9,437	4,735	3,163	-52.4%	-33.2%
Tax	776	1,620	2,142	2,596	1,209	811	-49.9%	-32.9%
Tax Rate (%)	25.8%	24.4%	25.4%	27.5%	25.5%	25.6%	5.3%	0.5%
Reported PAT	2,229	4,480	6,290	6,841	3,527	2,352	-47.5%	-33.3%
AUM	676,930	738,170	773,440	827,700	867,320	937,230	27.0%	8.1%
Disbursements	94,720	118,240	144,670	137,780	121,650	133,150	12.6%	9.5%

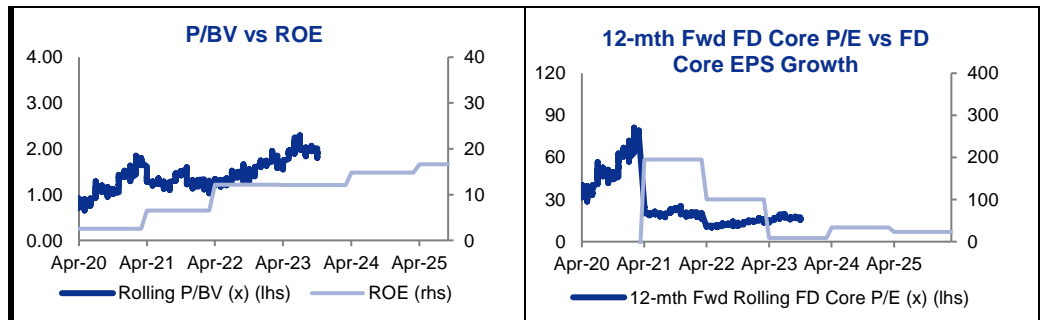
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest income	75,760	73,411	-3.1%	95,822	89,373	-6.7%	113,733	105,215	-7.5%
PPOP	46,029	44,400	-3.5%	61,313	56,063	-8.6%	73,814	67,055	-9.2%
PAT	22,602	21,509	-4.8%	32,252	28,715	-11.0%	38,351	35,420	-7.6%
EPS (Rs)	18.3	17.4	-4.8%	26.1	23.3	-11.0%	31.1	28.7	-7.6%
AUM (Rs)	1,018,250	999,280	(0)	1,234,405	1,190,673	(0)	1,473,033	1,410,870	(0)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	57,795	63,853	73,411	89,373	105,215
Total Non-Interest Income	191	941	1,259	1,393	1,524
Operating Revenue	57,986	64,794	74,670	90,766	106,739
Total Non-Interest Expenses	(19,466)	(25,402)	(28,059)	(32,138)	(36,709)
Pre-provision Operating Profit	37,252	37,519	44,400	56,063	67,055
Total Provision Charges	(23,683)	(9,992)	(15,529)	(17,520)	(19,512)
Operating Profit After Provisions	13,569	27,526	28,871	38,544	47,543
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	13,569	27,526	28,871	38,544	47,543
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	20,872	36,285	38,067	48,476	58,468
Exceptional Items					
Pre-tax Profit	13,569	27,526	28,871	38,544	47,543
Taxation	(3,682)	(7,134)	(7,362)	(9,829)	(12,123)
Consolidation Adjustments & Others					
Exceptional Income - post-tax		(545)			
Profit After Tax	9,888	19,848	21,509	28,715	35,420
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	9,888	19,848	21,509	28,715	35,420
Recurring Net Profit					

Balance Sheet Employment

(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%	86.7%	88.4%	89.4%
Avg Liquid Assets/Avg IEAs	106.1%	105.0%	102.7%	102.4%	103.2%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	609,055	794,550	980,878	1,174,278	1,411,394
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	609,055	794,550	980,878	1,174,278	1,411,394
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	609,055	794,550	980,878	1,174,278	1,411,394
Intangible Assets					
Other Non-Interest Earning Assets	5,727	26,230	28,853	31,467	34,329
Total Non-Interest Earning Assets	17,925	39,410	44,711	48,074	51,760
Cash And Marketable Securities	41,507	28,320	20,407	31,244	50,483
Long-term Investments	84,403	99,890	94,896	102,487	112,736
Total Assets	752,890	962,170	1,140,892	1,356,084	1,626,373
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	558,138	715,040	842,326	984,070	1,148,939
Total Interest-Bearing Liabilities	558,138	715,040	842,326	984,070	1,148,939
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	38,471	76,240	113,577	169,426	253,011
Total Liabilities	596,609	791,280	955,903	1,153,496	1,401,950
Shareholders Equity	156,281	170,890	184,989	202,589	224,423
Minority Interests					
Total Equity	156,281	170,890	184,989	202,589	224,423

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	0.1%	10.5%	15.0%	21.7%	17.7%
Operating Profit Growth	(9.9%)	2.3%	18.3%	25.8%	19.4%
Pretax Profit Growth	226%	103%	5%	34%	23%
Net Interest To Total Income	99.7%	98.5%	98.3%	98.5%	98.6%
Cost Of Funds	6.85%	7.19%	7.70%	7.00%	6.60%
Return On Interest Earning Assets	16.0%	15.6%	15.0%	14.2%	13.6%
Net Interest Spread	9.12%	8.43%	7.32%	7.23%	6.98%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	64%	27%	35%	31%	29%
Interest Return On Average Assets	7.59%	7.45%	6.98%	7.16%	7.06%
Effective Tax Rate	27.1%	25.9%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	1.30%	2.31%	2.05%	2.30%	2.38%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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