



India

ADD (no change)

Consensus ratings*: Buy 17 Hold 12 Sell 8

Current price:	Rs260
Target price:	Rs370
Previous target:	Rs370
Up/downside:	42.3%
InCred Research / Consensus:	19.9%
Reuters:	MMFS.BO
Bloomberg:	MMFS IN
Market cap:	US\$3,846m
	Rs321,114m
Average daily turnover:	US\$13.1m
	Rs1092.4m
Current shares o/s:	1,232.3m
Free float:	46.4%

*Source: Bloomberg

Key changes in this note

- The recent fraud incident may negatively impact the credibility of the new management in the near term, despite its claims of robust systems in place.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(12.9)	(10.9)	(9.3)
Relative (%)	(12.5)	(13.0)	(25.0)

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

Mahindra & Mahindra Finance

Performance improves but perception stays

- MMFS reported 4Q PAT of Rs6.2bn aided by sequentially improving margins but elevated provisioning (Rs1.36bn for fraud incident) remained a dampener.
- The recent fraud incident may negatively impact the credibility of the new management in the near term, despite its claims of robust systems in place.
- We appreciate the consistent improvement in asset quality, diversified AUM and attractive risk-reward ratio. Retain ADD rating with a target price of Rs370.

Healthy growth; improvement in margins despite tight liquidity

Mahindra & Mahindra Financial Services or MMFS posted healthy 4QFY24 loan disbursement growth at Rs152.9bn (+11% yoy), resulting in +24% AUM growth to Rs1,026bn as of Mar 2024-end. MMFS witnessed a sequential improvement in margins to ~7%, despite a consistent surge in the cost of funds, as rate hikes undertaken last quarter along with a favorable asset mix supported the yields. MMFS intends to open ~150-180 new branches during FY25F, which may aid the momentum further. We are building in ~16% CAGR in disbursements, leading to ~18% CAGR in AUM over FY25F-27F.

Granularity in asset quality visible; maintains prudent provisioning

MMFS management has managed to maintain healthy asset quality even in 4QFY24. Gross stage-3 assets improved to ~3.4% against ~4% last quarter. Overall collection efficiency stayed healthy at ~96% whereas the provision coverage for stage-3 assets rose further to ~63.2% against ~62.7% last quarter. MMFS has recognized and provided for a recent fraud of Rs1.36bn as a one-off provision. Overall credit costs improved to ~1.7% in FY24 (~1.6% adjusted for fraud).

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

MMFS has a perception issue amid its long-term track record of delivering disappointing performance, despite superior corporate parentage (M&M Group) as well as strong brand recognition. The recent fraud incident may negatively impact the credibility of the new management in the near term, despite its claims of robust systems in place. However, we appreciate the consistent improvement in asset quality across several quarters, diversified AUM providing more legs to growth and an attractive risk-reward ratio. We remain confident of sustainable RoA of +2% in the coming years backed by steady margin (~7.6%), balanced operating leverage and improved credit costs in the range of ~1.5-1.7%.

Outlook & valuation

MMFS is one of our high-conviction stocks due to its attractive risk-reward ratio & improving return ratios. We retain our high conviction ADD rating on it and target price of Rs370 as we valued the standalone MMFS at ~2x FY26F BV and added Rs20/share for its subsidiaries. Downside risks: Slowing growth and deterioration in asset quality.

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Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	63,853	70,348	85,521	100,697	118,684
Total Non-Interest Income (Rsm)	941	1,007	1,098	1,166	1,227
Operating Revenue (Rsm)	64,794	71,355	86,619	101,863	119,912
Total Provision Charges (Rsm)	(9,992)	(18,228)	(17,971)	(19,945)	(22,004)
Net Profit (Rsm)	19,848	17,596	26,420	32,685	40,418
Core EPS (Rs)	16.07	14.25	21.40	26.48	32.74
Core EPS Growth	100%	(11%)	50%	24%	24%
FD Core P/E (x)	16.17	18.23	12.14	9.82	7.94
DPS (Rs)	6.00	6.30	9.00	11.00	13.00
Dividend Yield	2.31%	2.42%	3.46%	4.23%	5.00%
BVPS (Rs)	138.4	147.1	159.5	175.0	194.7
P/BV (x)	1.88	1.77	1.63	1.49	1.33
ROE	12.1%	10.0%	14.0%	15.8%	17.7%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	% yoy	% qoq
Operating Income	24,863	25,860	28,625	29,942	30,846	32,119	34,536	36,540	22.0%	5.8%
Interest Expenses	9,320	10,690	12,419	13,340	14,505	15,665	16,750	17,351	30.1%	3.6%
Net Operating Income	15,543	15,170	16,206	16,602	16,341	16,455	17,787	19,190	15.6%	7.9%
Other Income	122	230	291	625	409	286	368	521	-16.7%	41.6%
Total Income	15,666	15,400	16,496	17,227	16,750	16,740	18,155	19,710	14.4%	8.6%
Operating Expenses	6,208	6,770	6,513	7,786	6,750	7,312	7,530	7,980	2.5%	6.0%
Operating Profit	9,458	8,630	9,983	9,441	10,000	9,428	10,625	11,730	24.2%	10.4%
Provisions	6,453	1,980	1,551	4	5,264	6,266	3,284	3,415	89,760.5%	4.0%
CoR%	3.9%	1.1%	0.8%	0.0%	2.5%	2.8%	1.4%	1.4%	71,967.6%	-0.6%
PBT	3,005	6,650	8,431	9,437	4,735	3,163	7,341	8,315	-11.9%	13.3%
Tax	776	1,620	2,142	2,596	1,209	811	1,813	2,126	-18.1%	17.2%
Tax rate (%)	25.8%	24.4%	25.4%	27.5%	25.5%	25.6%	24.7%	25.6%	-7.1%	3.5%
Reported PAT	2,229	4,480	6,290	6,841	3,527	2,352	5,528	6,190	-9.5%	12.0%
AUM	6,76,930	7,38,170	7,73,440	8,27,700	8,67,320	9,37,230	9,70,480	10,25,970	24.0%	5.7%
Disbursements	94,720	1,18,240	1,44,670	1,37,780	1,21,650	1,33,150	1,54,360	1,52,940	11.0%	-0.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Revised Earning Estimates

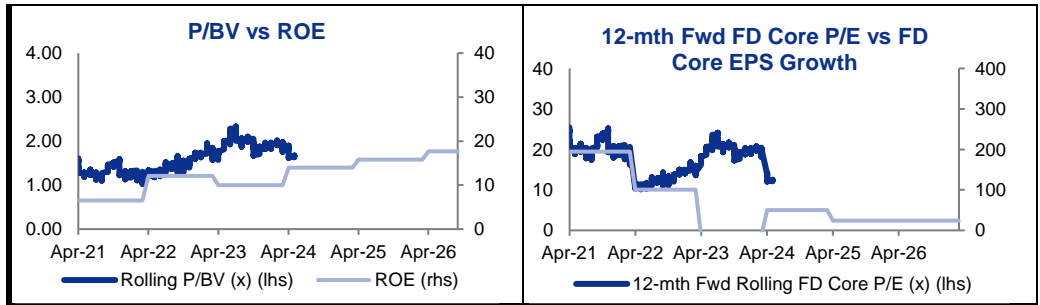
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	86,757	85,521	-1.4%	1,04,223	1,00,697	-3.4%	NA	1,18,684	NA
PPOP	54,372	53,434	-1.7%	67,179	63,818	-5.0%	NA	76,257	NA
PAT	27,999	26,420	-5.6%	34,889	32,685	-6.3%	NA	40,418	NA
EPS (Rs)	22.7	21.4	-5.8%	28.2	26.5	-6.2%	NA	32.7	NA
AUM (Rs)	12,25,330	12,20,444	-0.4%	14,87,672	14,38,948	-3.3%	NA	17,04,483	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 earnings conference call - key highlights

- The fraud incident included 20+ employees and external members like dealers and bankers. As vehicle loans are directly disbursed to the dealers, the fraud involved creating 2,887 fake bank accounts with the help of bankers and dealers. (The northeast region has less strict rules for PAN and Aadhaar-based KYC, which aided the fraud).
- After the detection of the fraud, MMFS conducted a series of stress tests at a pan-India level across branches and no stress was detected. The company is strengthening its underwriting practices as well as security staff by increased hiring.
- MMFS has reduced its RoA target from 2.5% to 2.2% due to a push for lower rates. The cost of funds guidance is ~8% for FY25F.
- The company is focusing on sourcing customers, strengthening underwriting and collections.
- Credit costs are set to decline by ~25bp yoy.
- Opex may gain ~10-15bp as the company plans to open 150-180 branches in FY25F, largely towards the second half of the year.
- The tractor-financing segment saw a decline, but the market share of the company remained stable.
- The used vehicle business is a focus area for the company as there is a healthy demand for vehicles and better yields.
- The slowdown in the medium enterprises segment is due to intense competition from banks.
- The proportion of write-offs in credit costs reduced from 2.6% to 1.6% in FY24.
- Collection efficiency fell to 89% in Apr 2024 vs. 92% in Apr 2023 because of more holidays in 2024.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	63,853	70,348	85,521	100,697	118,684
Total Non-Interest Income	941	1,007	1,098	1,166	1,227
Operating Revenue	64,794	71,355	86,619	101,863	119,912
Total Non-Interest Expenses	(25,402)	(27,285)	(30,532)	(34,994)	(40,177)
Pre-provision Operating Profit	37,519	41,783	53,434	63,818	76,257
Total Provision Charges	(9,992)	(18,228)	(17,971)	(19,945)	(22,004)
Operating Profit After Provisions	27,526	23,555	35,463	43,873	54,252
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	27,526	23,555	35,463	43,873	54,252
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	36,285	32,615	45,247	54,636	66,307
Exceptional Items					
Pre-tax Profit	27,526	23,555	35,463	43,873	54,252
Taxation	(7,134)	(5,959)	(9,043)	(11,188)	(13,834)
Consolidation Adjustments & Others					
Exceptional Income - post-tax	(545)				
Profit After Tax	19,848	17,596	26,420	32,685	40,418
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	19,848	17,596	26,420	32,685	40,418
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	86.8%	88.3%	89.9%	90.9%	91.7%
Avg Liquid Assets/Avg IEAs	104.9%	103.0%	105.7%	109.1%	110.6%
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					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	810,443	1,000,020	1,185,285	1,396,832	1,645,643
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	810,443	1,000,020	1,185,285	1,396,832	1,645,643
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	810,443	1,000,020	1,185,285	1,396,832	1,645,643
Intangible Assets					
Other Non-Interest Earning Assets	10,337	13,151	14,186	15,310	16,532
Total Non-Interest Earning Assets	23,517	28,173	31,475	33,492	35,695
Cash And Marketable Securities	28,320	26,891	97,984	135,876	187,682
Long-term Investments	99,890	96,508	104,229	113,609	123,834
Total Assets	962,170	1,151,592	1,418,973	1,679,809	1,992,854
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	715,040	886,201	1,096,985	1,276,906	1,473,013
Total Interest-Bearing Liabilities	715,040	886,201	1,096,985	1,276,906	1,473,013
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	76,240	83,816	125,109	186,925	279,502
Total Liabilities	791,280	970,017	1,222,094	1,463,832	1,752,515
Shareholders Equity	170,890	181,575	196,878	215,977	240,339
Minority Interests					
Total Equity	170,890	181,575	196,878	215,977	240,339

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	10.5%	10.2%	21.6%	17.7%	17.9%
Operating Profit Growth	2.3%	11.9%	27.3%	19.2%	19.2%
Pretax Profit Growth	103%	(14%)	51%	24%	24%
Net Interest To Total Income	98.5%	98.6%	98.7%	98.9%	99.0%
Cost Of Funds	7.19%	8.03%	7.80%	7.20%	6.80%
Return On Interest Earning Assets	15.4%	14.9%	14.9%	14.4%	13.9%
Net Interest Spread	8.26%	6.84%	7.11%	7.22%	7.15%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	27%	44%	34%	31%	29%
Interest Return On Average Assets	7.45%	6.66%	6.65%	6.50%	6.46%
Effective Tax Rate	25.9%	25.3%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	2.31%	1.66%	2.06%	2.11%	2.20%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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