

India

ADD (no change)

Consensus ratings*: Buy 16 Hold 14 Sell 6

Current price:	Rs277
Target price:	Rs370
Previous target:	Rs330
Up/downside:	33.6%
InCred Research / Consensus:	26.5%
Reuters:	MMFS.BO
Bloomberg:	MMFS IN
Market cap:	US\$4,019m
	Rs342,427m
Average daily turnover:	US\$6.3m
	Rs540.3m
Current shares o/s:	1,232.3m
Free float:	47.8%

*Source: Bloomberg

Key changes in this note

- Slow and selective disbursement growth, and higher focus on streamlining asset quality trend with elevated credit costs. NIM pressure persists, though it's bottoming out.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.9)	4.3	(0.6)
Relative (%)	(8.1)	0.2	(7.9)

Major shareholders	% held
Mahindra & Mahindra	52.2
LIC	10.2
HDFC MF	5.7

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Mahindra & Mahindra Finance

Moving on a cautious footing

- MMFS posted lower-than-expected 4Q PAT, -9% yoy/-37% qoq, on account of slow movement in disbursements, NIM pressure and high credit costs.
- Demand remained selective in the case of tractors, sports utility vehicles or SUVs, and SMEs, while it remained sluggish for small cars.
- We appreciate the cautious approach with a focus on stated goals, but volatility continues to weigh on valuations. Retain ADD rating with a new TP of Rs370.

Selective disbursements; cyclicity weighs in

Mahindra & Mahindra Financial Services or MMFS reported softer disbursements (+1.5% yoy and -5.7% qoq) in 4QFY25 led by growth in selective segments. Demand was healthy in the case of tractors, buses, SUVs, heavy commercial vehicles (HCVs) and SMEs although its remained slow for small cars and other CV segments. Assets under management or AUM grew 17% yoy and 4% qoq led by slower repayments. Management is firm on diversifying the loan book; however, growth cyclicity due to an elevated share of auto financing continues to stay intact. Vehicle sales in India are witnessing cyclicity, which, in turn, is impacting the growth momentum for MMFS in the absence of implementation of successful product diversity like in the case of Cholamandalam Investment and Finance Corporation, & Shriram Finance.

Focus on maintaining asset quality

Credit costs were high at 1.4%, vs. 1.2% yoy or nil qoq, on the back of continued write-offs and inching up of the provision coverage ratio (PCR). The previous quarter witnessed nil credit costs on account of revision in expected credit loss (ECL) norms. However, repossessions remained high in 3Q and 4Q due to a seasonally higher probability of resolution of stressed assets. We expect credit costs to remain elevated in 1HFY26F and ease in the medium term, beginning from 2HFY26F. NIM was lower by ~60bp yoy and ~10bp qoq due to persistent yield pressure and no easing in the cost of funds. However, we believe that NIM has bottomed out and expect it to improve from here on as the rate-cut transmission seeps in.

Outlook and valuation

MMFS has a perception issue amid its long-term track record of delivering a volatile performance, despite superior corporate parentage as well as strong brand recognition. However, we believe the company is in the midst of recalibrating its strategy with a focus on streamlining the asset quality trend while moving through a cyclical slowdown. The medium- to long-term outlook on diversifying its AUM is promising for future vehicle demand cycles. We retain our ADD rating on MMFS amid its favourable valuation with a higher target price of Rs370 (Rs330 earlier), as we value the standalone MMFS at ~2x FY27F BV and add Rs20/share for its arms. Downside risks: Slowing growth, and deterioration in asset quality.

Financial Summary

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	69,772	81,052	91,652	106,250	123,729
Total Non-Interest Income (Rsm)	1,583	712	1,976	2,127	2,445
Operating Revenue (Rsm)	71,355	81,764	93,628	108,377	126,173
Total Provision Charges (Rsm)	(18,228)	(16,179)	(19,910)	(22,111)	(24,552)
Net Profit (Rsm)	17,596	23,450	25,732	31,066	38,217
Core EPS (Rs)	14.25	19.00	20.85	25.17	30.96
Core EPS Growth	(11%)	33%	10%	21%	23%
FD Core P/E (x)	19.44	14.59	13.30	11.01	8.95
DPS (Rs)	6.30	6.50	10.00	13.00	15.00
Dividend Yield	2.27%	2.35%	3.61%	4.69%	5.41%
BVPS (Rs)	147.1	160.5	171.3	183.5	199.5
P/BV (x)	1.88	1.73	1.62	1.51	1.39
ROE	10.0%	12.4%	12.6%	14.2%	16.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	% yoy	% qoq
Operating Income	30,846	32,119	34,536	36,540	37,222	38,975	41,430	42,408	16.1%	2.4%
Interest Expenses	14,505	15,665	16,750	17,351	18,286	19,343	20,459	20,896	20.4%	2.1%
Net Operating Income	16,341	16,455	17,787	19,190	18,936	19,632	20,971	21,512	12.1%	2.6%
Other Income	409	286	368	521	379	276	14	43	-91.8%	208.6%
Total Income	16,750	16,740	18,155	19,710	19,316	19,908	20,985	21,555	9.4%	2.7%
Operating Expenses	6,750	7,312	7,530	7,980	7,970	7,947	8,768	9,427	18.1%	7.5%
Operating Profit	10,000	9,428	10,625	11,730	11,345	11,961	12,217	12,128	3.4%	-0.7%
Provisions	5,264	6,266	3,284	3,415	4,482	7,035	91	4,571	33.9%	4901.1%
CoR%	2.5%	2.8%	1.4%	1.4%	1.7%	2.6%	0.0%	1.6%	13.8%	4747.3%
PBT	4,735	3,163	7,341	8,315	6,864	4,927	12,126	7,557	-9.1%	-37.7%
Tax	1,209	811	1,813	2,126	1,734	1,232	3,131	1,925	-9.4%	-38.5%
Tax rate (%)	25.5%	25.6%	24.7%	25.6%	25.3%	25.0%	25.8%	25.5%	-0.3%	-1.3%
Reported PAT	3,527	2,352	5,528	6,190	5,130	3,695	8,995	5,631	-9.0%	-37.4%
AUM	8,67,320	9,37,230	9,70,480	10,25,970	10,63,390	11,24,540	11,51,260	11,96,730	16.6%	3.9%
Disbursements	1,21,650	1,33,150	1,54,360	1,52,940	1,27,410	1,31,620	1,64,670	1,55,300	1.5%	-5.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

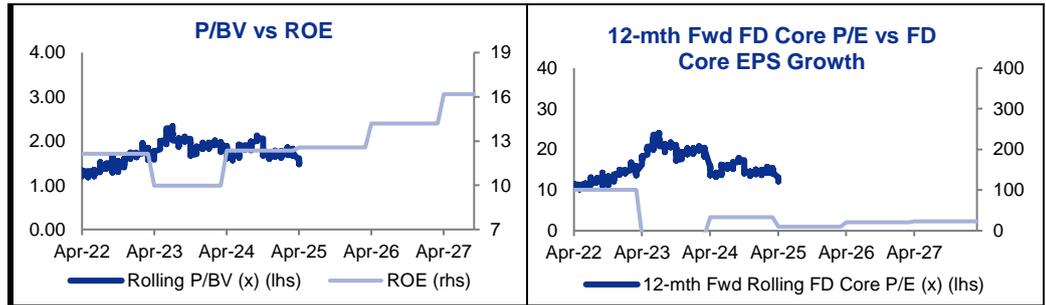
Y/e Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	93,891	91,652	-2.4%	108,865	106,250	-2.4%	-	123,729	-
PPOP	57,947	54,449	-6.0%	67,554	63,810	-5.5%	-	75,851	-
PAT	25,700	25,732	0.1%	30,271	31,066	2.6%	-	38,217	-
EPS (Rs)	20.8	20.8	0.2%	24.5	25.2	2.7%	-	30.9	-
AUM (Rs)	1,394,133	1,372,308	-1.6%	1,597,204	1,575,795	-1.3%	-	1,810,749	-

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY25 earnings-call highlights ►

- Management indicated that AUM will grow in mid- to high-teens in a three-year time horizon, although it refrained from giving specific guidance for FY26F.
- In the long run, it gave guidance that vehicle AUM mix will decline to 75% from ~93% currently.
- Gave guidance that margin will improve on the back of the falling cost of funds.
- The upper band of its credit cost guidance has been raised to 1.3-1.7%, from 1.3-1.5% previously, on account of further cyclicality in the CV industry.
- There are green shoots visible in HCV and SUV segments.
- Around 40-45% of the AUM comprises fixed-rate loans.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	69,772	81,052	91,652	106,250	123,729
Total Non-Interest Income	1,583	712	1,976	2,127	2,445
Operating Revenue	71,355	81,764	93,628	108,377	126,173
Total Non-Interest Expenses	(27,285)	(31,378)	(36,007)	(40,920)	(46,128)
Pre-provision Operating Profit	41,783	47,651	54,449	63,810	75,851
Total Provision Charges	(18,228)	(16,179)	(19,910)	(22,111)	(24,552)
Operating Profit After Provisions	23,555	31,473	34,539	41,699	51,298
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	23,555	31,473	34,539	41,699	51,298
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	32,615	42,841	47,500	56,344	67,701
Exceptional Items					
Pre-tax Profit	23,555	31,473	34,539	41,699	51,298
Taxation	(5,959)	(8,022)	(8,808)	(10,633)	(13,081)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	17,596	23,450	25,732	31,066	38,217
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	17,596	23,450	25,732	31,066	38,217
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	88.3%	89.8%	90.6%	90.9%	91.0%
Avg Liquid Assets/Avg IEAs	103.0%	103.8%	105.4%	104.7%	102.5%
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-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	1,000,020	1,170,208	1,312,987	1,506,846	1,730,638
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,000,020	1,170,208	1,312,987	1,506,846	1,730,638
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,000,020	1,170,208	1,312,987	1,506,846	1,730,638
Intangible Assets					
Other Non-Interest Earning Assets	11,954	8,357	9,193	10,112	11,123
Total Non-Interest Earning Assets	28,173	25,910	27,860	30,005	32,365
Cash And Marketable Securities	26,891	55,359	78,780	53,272	27,714
Long-term Investments	96,508	104,005	112,325	125,804	140,901
Total Assets	1,151,592	1,355,482	1,531,952	1,715,927	1,931,618
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	939,786	1,128,735	1,287,171	1,449,995	1,638,599
Total Interest-Bearing Liabilities	939,786	1,128,735	1,287,171	1,449,995	1,638,599
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	30,231	28,626	33,279	39,420	46,814
Total Liabilities	970,017	1,157,361	1,320,450	1,489,414	1,685,413
Shareholders Equity	181,575	198,121	211,503	226,513	246,204
Minority Interests					
Total Equity	181,575	198,121	211,503	226,513	246,204

Key Ratios					
	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	9.8%	16.2%	13.1%	15.9%	16.5%
Operating Profit Growth	11.9%	14.3%	14.4%	17.1%	18.7%
Pretax Profit Growth	(14%)	34%	10%	21%	23%
Net Interest To Total Income	97.8%	99.1%	97.9%	98.0%	98.1%
Cost Of Funds	7.77%	7.64%	7.30%	7.10%	6.90%
Return On Interest Earning Assets	14.8%	14.7%	14.5%	14.4%	14.2%
Net Interest Spread	7.04%	7.11%	7.18%	7.33%	7.33%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	44%	34%	37%	35%	32%
Interest Return On Average Assets	6.60%	6.47%	6.35%	6.54%	6.78%
Effective Tax Rate	25.3%	25.5%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	1.66%	1.87%	1.78%	1.91%	2.10%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.