



India

ADD (previously)

Consensus ratings*: Buy 26 Hold 10 Sell 3

| | |
|------------------------------|--------------------------|
| Current price: | Rs317 |
| Target price: ▲ | Rs430 |
| Previous target: | Rs350 |
| Up/downside: | 35.6% |
| InCred Research / Consensus: | 45.7% |
| Reuters: | MMFS.BO |
| Bloomberg: | MMFS IN |
| Market cap: | US\$5,400m Rs392,095m |
| Average daily turnover: | US\$14.8m Rs1072.0m |
| Current shares o/s: | 1,232.3m |
| Free float: | 46.4% |

*Source: Bloomberg

Key changes in this note

- Our channel check on MMFS indicates its rising focus on customer quality, improved incentive-linked pay structure and increased use of technology.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|------|
| Absolute (%) | 13.3 | 43.3 | 76.1 |
| Relative (%) | 11.7 | 30.2 | 47.6 |

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



Analyst(s)



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Mahindra & Mahindra Finance

Execution-led turnaround visible on ground

- Our ground check with various dealers, DSAs & customers indicate MMFS's rising focus on better quality customers and increased use of technology.
- The visible efforts towards improved sourcing & credit quality will drive granularity in credit costs & reduced earnings volatility in future.
- We expect the valuation gap to CIFIC to narrow for MMFS as it achieves earnings consistency. Retain ADD rating. TP at Rs430 or 2.5x FY25F BV.

Our channel check indicates MMFS' focus on quality growth

Our ground check with various dealers, direct sales agents or DSAs and customers across different geographies indicate an improving momentum for Mahindra & Mahindra Finance or MMFS on growth as well as asset quality fronts. The rising focus on better quality customers, growth aggression through improved incentive-linked pay structure and increased use of technology and data analytics are some of the observations that we made during our discussions with industry players.

Shift to affluent customer base via diversified offerings

MMFS is focusing on the affluent customer base from semi-urban and rural India through diversified product offerings and maintaining superior underwriting standards. The company is also focusing on diversity by introducing differentiated products including micro enterprise loans, loans against property, lease financing and unsecured personal and consumer loans across rural and semi-urban pockets in India. Management is also investing in various tech-enabled platforms for seamless execution.

Superior customers come at low yield and lower acquisition cost

MMFS is aware of yield compromise in case of superior customer acquisition which, in turn, may exert pressure on its margins in the coming years. However, the acquisition cost for such a customer is relatively low and also attracts lower credit cost which, we feel, should compensate for margin loss and improve overall profitability.

Retain its high conviction bet status; discount versus CIFIC to narrow

MMFS has a track record of volatile asset quality. However, with improved customer sourcing, a rising mix of low-risk products and an efficient & timely collection mechanism, profitability may see a meaningful improvement. MMFS is one of our high-conviction ideas due to its attractive risk-reward & improving return ratios. We feel the discounting gap between Cholamandalam Investment and Finance Corporation & MMFS will narrow gradually, with asset quality improvement leading to more credit cost granularity for MMFS.

Outlook & valuation

We increase our earnings estimates for FY25F/26F, mainly led by moderation in long-term credit cost to ~150-160bp vs. ~180bp earlier. We retain ADD rating on MMFS with a higher target price of Rs430 (Rs350 earlier) or ~2.5x 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 | 78,252 | 97,880 | 116,740 |
| Total Non-Interest Income (Rsm) | 191 | 941 | 998 | 1,123 | 1,237 |
| Operating Revenue (Rsm) | 57,986 | 64,794 | 79,250 | 99,003 | 117,978 |
| Total Provision Charges (Rsm) | (23,683) | (9,992) | (14,768) | (18,021) | (22,336) |
| Net Profit (Rsm) | 9,888 | 19,848 | 24,049 | 31,858 | 37,827 |
| Core EPS (Rs) | 8.02 | 16.10 | 19.50 | 25.84 | 30.68 |
| Core EPS Growth | 195% | 101% | 21% | 32% | 19% |
| FD Core P/E (x) | 39.57 | 19.71 | 16.27 | 12.28 | 10.34 |
| DPS (Rs) | 3.60 | 6.00 | 7.00 | 10.00 | 12.00 |
| Dividend Yield | 1.13% | 1.89% | 2.21% | 3.15% | 3.78% |
| BVPS (Rs) | 126.7 | 138.6 | 151.1 | 166.9 | 185.6 |
| P/BV (x) | 2.50 | 2.29 | 2.10 | 1.90 | 1.71 |
| ROE | 6.5% | 12.1% | 13.5% | 16.3% | 17.4% |

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

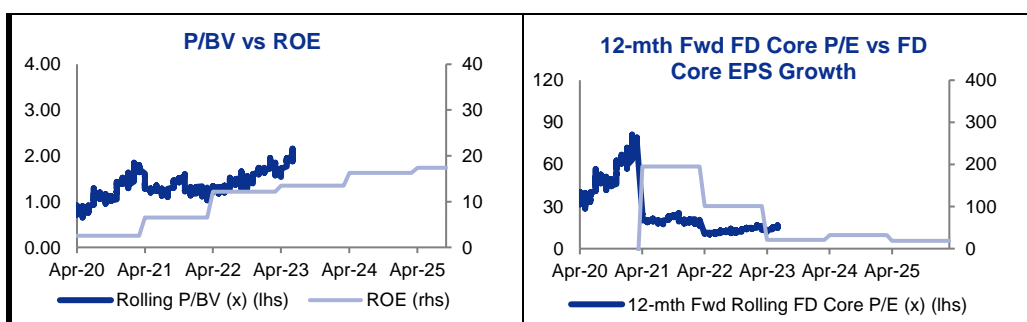
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Revision in our earnings estimates for MMFS

| Y/e Mar (Rs m) | FY24F | | | FY25F | | | FY26F | | |
|---------------------|-----------|-----------|----------|-----------|-----------|----------|-----------|-----------|----------|
| | Earlier | Revised | % change | Earlier | Revised | % change | Earlier | Revised | % change |
| Net interest income | 77,653 | 78,252 | 0.8% | 95,454 | 97,880 | 2.5% | 1,13,645 | 1,16,740 | 2.7% |
| PPOP | 46,232 | 46,833 | 1.3% | 58,080 | 60,498 | 4.2% | 69,693 | 72,772 | 4.4% |
| PAT | 23,657 | 24,049 | 1.7% | 28,615 | 31,858 | 11.3% | 34,475 | 37,827 | 9.7% |
| EPS (Rs) | 19.2 | 19.5 | 1.7% | 23.2 | 25.8 | 11.3% | 27.9 | 30.6 | 9.7% |
| AUM (Rs) | 10,08,342 | 10,18,250 | 0 | 12,05,672 | 12,34,405 | 0 | 14,30,606 | 14,73,033 | 0 |

SOURCE: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

| (Rsm) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net Interest Income | 57,795 | 63,853 | 78,252 | 97,880 | 116,740 |
| Total Non-Interest Income | 191 | 941 | 998 | 1,123 | 1,237 |
| Operating Revenue | 57,986 | 64,794 | 79,250 | 99,003 | 117,978 |
| Total Non-Interest Expenses | (19,466) | (25,402) | (30,169) | (35,852) | (42,076) |
| Pre-provision Operating Profit | 37,252 | 37,519 | 46,833 | 60,498 | 72,772 |
| Total Provision Charges | (23,683) | (9,992) | (14,768) | (18,021) | (22,336) |
| Operating Profit After Provisions | 13,569 | 27,526 | 32,066 | 42,477 | 50,435 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Operating EBIT (incl Associates) | 13,569 | 27,526 | 32,066 | 42,477 | 50,435 |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 20,872 | 36,285 | 42,400 | 54,569 | 64,462 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 13,569 | 27,526 | 32,066 | 42,477 | 50,435 |
| Taxation | (3,682) | (7,134) | (8,016) | (10,619) | (12,609) |
| Consolidation Adjustments & Others | | | | | |
| Exceptional Income - post-tax | | (545) | | | |
| Profit After Tax | 9,888 | 19,848 | 24,049 | 31,858 | 37,827 |
| Minority Interests | | | | | |
| Prof. & Special Div | | | | | |
| FX And Other Adj. | | | | | |
| Net Profit | 9,888 | 19,848 | 24,049 | 31,858 | 37,827 |
| 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% | 86.2% | 87.5% | 88.8% |
| Avg Liquid Assets/Avg IEAs | 106.1% | 105.0% | 101.7% | 100.2% | 101.0% |
| 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-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
| Total Gross Loans | 609,055 | 794,550 | 999,403 | 1,217,213 | 1,473,333 |
| Liquid Assets & Invst. (Current) | | | | | |
| Other Int. Earning Assets | | | | | |
| Total Gross Int. Earning Assets | 609,055 | 794,550 | 999,403 | 1,217,213 | 1,473,333 |
| Total Provisions/Loan Loss Reserve | | | | | |
| Total Net Interest Earning Assets | 609,055 | 794,550 | 999,403 | 1,217,213 | 1,473,333 |
| Intangible Assets | | | | | |
| Other Non-Interest Earning Assets | 5,727 | 26,226 | 28,849 | 31,462 | 34,324 |
| Total Non-Interest Earning Assets | 17,925 | 39,406 | 44,707 | 48,069 | 51,755 |
| Cash And Marketable Securities | 41,507 | 28,320 | 2,344 | 3,056 | 24,405 |
| Long-term Investments | 84,403 | 99,890 | 107,881 | 116,512 | 128,163 |
| Total Assets | 752,890 | 962,166 | 1,154,334 | 1,384,850 | 1,677,655 |
| Customer Interest-Bearing Liabilities | | | | | |
| Bank Deposits | | | | | |
| Interest Bearing Liabilities: Others | 558,138 | 715,040 | 854,467 | 1,009,626 | 1,195,840 |
| Total Interest-Bearing Liabilities | 558,138 | 715,040 | 854,467 | 1,009,626 | 1,195,840 |
| 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 | 968,044 | 1,179,052 | 1,448,851 |
| Shareholders Equity | 156,281 | 170,886 | 186,290 | 205,798 | 228,804 |
| Minority Interests | | | | | |
| Total Equity | 156,281 | 170,886 | 186,290 | 205,798 | 228,804 |

| Key Ratios | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
| Total Income Growth | 0.1% | 10.5% | 22.6% | 25.1% | 19.3% |
| Operating Profit Growth | (9.9%) | 2.3% | 24.6% | 28.7% | 20.2% |
| Pretax Profit Growth | 226% | 103% | 16% | 32% | 19% |
| 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% | 14.1% |
| Net Interest Spread | 9.12% | 8.43% | 7.82% | 7.73% | 7.49% |
| Net Interest Margin (Avg Deposits) | | | | | |
| Net Interest Margin (Avg RWA) | | | | | |
| Provisions to Pre Prov. Operating Profit | 64% | 27% | 32% | 30% | 31% |
| Interest Return On Average Assets | 7.59% | 7.45% | 7.39% | 7.71% | 7.62% |
| 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% | 2.27% | 2.51% | 2.47% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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