



India

ADD (previously)

Consensus ratings*: Buy 23 Hold 12 Sell 4

Current price:	Rs300
Target price:	Rs430
Previous target:	Rs430
Up/downside:	43.3%
InCred Research / Consensus:	36.8%
Reuters:	MMFS.BO
Bloomberg:	MMFS IN
Market cap:	US\$5,098m
	Rs370,165m
Average daily turnover:	US\$17.2m
	Rs1246.0m
Current shares o/s:	1,232.3m
Free float:	46.4%

*Source: Bloomberg

Key changes in this note

- Our ground check with various dealers, DSAs & customers indicate the rising focus of MMFS on better quality customers and increased use of technology.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.2)	15.7	60.5
Relative (%)	(10.2)	6.9	39.6

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

Brokers Poll 2023

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InCred Research

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Mahindra & Mahindra Finance

Moving from seasonality to granularity

- MMFS posted a lower-than-estimated 1Q PAT of Rs3.5bn amid margin decline & high provisioning, but we are confident of the trend improving going ahead.
- 1Q seasonally remains volatile, but MMFS reported a sequential improvement in Stage-3 assets along with healthy collection efficiency.
- Our ground check affirms the consistent focus of MMFS on better quality growth, which commands a premium. Retain ADD rating with a TP of Rs430.

Healthy growth, but a decline in margins compensated by lower opex

Mahindra & Mahindra Financial Services or MMFS posted a healthy 1QFY24 loan disbursement growth at Rs121.7bn (+28.4% yoy), despite 1Q being a seasonally weak quarter. MMFS continues to improve the traction in auto financing business, including used vehicles, while gaining market share in specific segments. MMFS witnessed a ~60bp sequential decline in margins to ~6.8% led by higher interest costs amid elevated liquidity as well as some softening in yields. We remain confident of a gradual margin improvement backed by repricing of loans and a reshuffle in the portfolio towards better-yield assets. The company witnessed an improvement in operating expenses (opex) as the overall cost-to-average assets ratio improved to ~2.8% against ~3% in the previous quarter with MMFS continuing to optimize resources and reducing costs through improvement in efficiency.

Granularity in asset quality visible – we expect a further improvement

1Q seasonally witnesses volatile asset quality for MMFS but it reported a sequential improvement in Stage-3 assets to ~4.3%, against ~4.5% earlier, with healthy collection efficiency of ~94%. Management attributed this change to the focus on quality sourcing by the company as well as a rising vigour among the current workforce to perform better. Our ground check indicates an improving momentum for MMFS on the growth and asset quality fronts, with a rising focus on better quality customers, aggression through improved incentive-linked pay structure and increased use of technology. We continue to remain confident of the company's growth and asset quality profile in the coming quarters.

Outlook & valuation

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 stock ideas due to its attractive risk-reward ratio and 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. We maintain our earnings estimates for FY25F/26F. We also retain our ADD rating on MMFS with an unchanged target price of Rs430, corresponding to ~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	75,760	95,822	113,733
Total Non-Interest Income (Rsm)	191	941	998	1,123	1,237
Operating Revenue (Rsm)	57,986	64,794	76,758	96,945	114,970
Total Provision Charges (Rsm)	(23,683)	(9,992)	(15,691)	(18,021)	(22,336)
Net Profit (Rsm)	9,888	19,848	22,602	32,252	38,351
Core EPS (Rs)	8.02	16.07	18.30	26.12	31.05
Core EPS Growth	195%	100%	14%	43%	19%
FD Core P/E (x)	37.36	18.64	16.37	11.47	9.65
DPS (Rs)	3.60	6.00	6.00	10.00	12.00
Dividend Yield	1.20%	2.00%	2.00%	3.34%	4.01%
BVPS (Rs)	126.7	138.4	150.7	166.8	185.8
P/BV (x)	2.36	2.17	1.99	1.80	1.61
ROE	6.5%	12.1%	12.7%	16.5%	17.6%

% 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	% yoy	% qoq
Operating Income	24,863	25,860	28,625	29,942	30,846	24.1%	3.0%
Interest Expenses	9,320	10,690	12,419	13,340	14,505	55.6%	8.7%
Net Operating Income	15,543	15,170	16,206	16,602	16,341	5.1%	-1.6%
Other Income	122	230	291	625	409	233.7%	-34.7%
Total Income	15,666	15,400	16,496	17,227	16,750	6.9%	-2.8%
Operating Expenses	6,208	6,770	6,513	7,786	6,750	8.7%	-13.3%
Operating Profit	9,458	8,630	9,983	9,441	10,000	5.7%	5.9%
Provisions	6,453	1,980	1,551	4	5,264	-18.4%	NA
CoR%	3.9%	1.1%	0.8%	0.0%	2.5%	-36.2%	NA
PBT	3,005	6,650	8,431	9,437	4,735	57.6%	-49.8%
Tax	776	1,620	2,142	2,596	1,209	55.8%	-53.4%
Tax rate (%)	25.8%	24.4%	25.4%	27.5%	25.5%	-1.1%	-7.2%
Reported PAT	2,229	4,480	6,290	6,841	3,527	58.2%	-48.5%
AUM	676,930	738,170	773,440	827,700	867,320	28.1%	4.8%
Disbursements						28.4%	-11.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

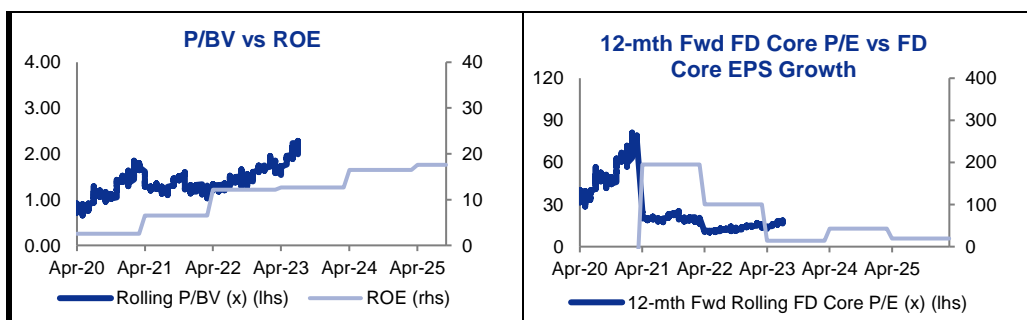
Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	78,252	75,760	-3.2%	97,880	95,822	-2.1%	116,740	113,733	-2.6%
PPOP	46,833	46,029	-1.7%	60,498	61,313	1.3%	72,772	73,814	1.4%
PAT	24,049	22,602	-6.0%	31,858	32,252	1.2%	37,827	38,351	1.4%
EPS (Rs)	19.5	18.3	-6.0%	25.8	26.1	1.2%	30.6	31.1	1.4%
AUM (Rs)	1,018,250	1,018,250	-	1,234,405	1,234,405	-	1,473,033	1,473,033	-

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- Price hikes have happened, and the market is expecting a further hike due to passing on the increased cost of funds to customers.
- The company has a strong market share of 35% in financing Maruti Suzuki vehicles.
- The increased share of financing pre-owned vehicles in the loan book along with better cost of funds going ahead to keep the margins stable.
- The company expects incremental borrowing to happen at a lower cost.
- Higher credit costs during the quarter were due to seasonality. The credit cost volatility due to seasonality will reduce next year as the company starts focusing on better quality customers.
- MMFS is focusing on better quality customers who come at a lower yield but opex and credit cost will also be lower for this set of customers, thereby keeping the profitability impact.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	57,795	63,853	75,760	95,822	113,733
Total Non-Interest Income	191	941	998	1,123	1,237
Operating Revenue	57,986	64,794	76,758	96,945	114,970
Total Non-Interest Expenses	(19,466)	(25,402)	(28,518)	(33,068)	(38,182)
Pre-provision Operating Profit	37,252	37,519	46,029	61,313	73,814
Total Provision Charges	(23,683)	(9,992)	(15,691)	(18,021)	(22,336)
Operating Profit After Provisions	13,569	27,526	30,339	43,291	51,478
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	13,569	27,526	30,339	43,291	51,478
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	20,872	36,285	39,973	54,082	63,779
Exceptional Items					
Pre-tax Profit	13,569	27,526	30,339	43,291	51,478
Taxation	(3,682)	(7,134)	(7,736)	(11,039)	(13,127)
Consolidation Adjustments & Others					
Exceptional Income - post-tax		(545)			
Profit After Tax	9,888	19,848	22,602	32,252	38,351
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	9,888	19,848	22,602	32,252	38,351
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%	88.7%
Avg Liquid Assets/Avg IEAs	106.1%	105.0%	101.7%	100.2%	100.5%
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-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	26,230	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	2,131	3,237	8,877
Long-term Investments	84,403	99,890	107,881	116,512	128,163
Total Assets	752,890	962,170	1,154,126	1,385,036	1,662,132
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	558,138	715,040	854,467	1,009,626	1,179,606
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	1,432,618
Shareholders Equity	156,281	170,890	186,082	205,984	229,515
Minority Interests					
Total Equity	156,281	170,890	186,082	205,984	229,515

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	0.1%	10.5%	18.6%	26.5%	18.7%
Operating Profit Growth	(9.9%)	2.3%	22.5%	32.4%	20.2%
Pretax Profit Growth	226%	103%	10%	43%	19%
Net Interest To Total Income	99.7%	98.5%	98.7%	98.8%	98.9%
Cost Of Funds	6.85%	7.19%	7.40%	7.00%	6.80%
Return On Interest Earning Assets	16.0%	15.6%	14.9%	14.5%	14.0%
Net Interest Spread	9.12%	8.43%	7.52%	7.53%	7.19%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	64%	27%	34%	29%	30%
Interest Return On Average Assets	7.59%	7.45%	7.16%	7.55%	7.46%
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%	2.14%	2.54%	2.52%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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