

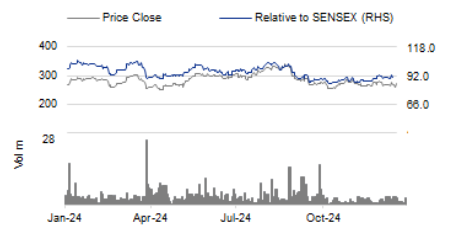
India

ADD (no change)

Consensus ratings*: Buy 15 Hold 14 Sell 8	
Current price:	Rs272
Target price:	Rs330
Previous target:	Rs330
Up/downside:	21.3%
InCred Research / Consensus:	11.6%
Reuters:	MMFS.BO
Bloomberg:	MMFS IN
Market cap:	US\$3,884m Rs336,064m
Average daily turnover:	US\$9.5m Rs820.6m
Current shares o/s:	1,232.3m
Free float:	47.8%
*Source: Bloomberg	

Key changes in this note

- Vehicle sales in India is witnessing a cyclicality, which, in turn, is impacting growth momentum for MMFS in the absence of implementation of successful product diversity like its peers.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.9	(2.5)	(2.4)
Relative (%)	5.6	3.3	(7.5)

Major shareholders	% held
Mahindra & Mahindra	52.2
LIC	10.2
HDFC MF	5.6

Research Analyst(s)



Jignesh SHIAL
T (91) 22 4161 1547
E jignesh.shial@incredresearch.com

Rishabh JOGANI
T (91) 22 4161 1569
E rishabh.jogani@incredresearch.com

Meghna LUTHRA
T (91) 22 4161 1553
E meghna.luthra@incredresearch.com

Mahindra & Mahindra Finance

Seasonal growth; solitary provision

- MMFS posted a better-than-expected 3Q PAT of Rs9bn amid lower-than-expected provisioning as the company changed its assumptions under ECL.
- Disbursements witnessed seasonal sporadicity, with tractors & cars outshining CVs & used vehicles; however, customer quality remains under focus.
- Management is committed to achieve its stated goals; however, business cyclicality & perception issues weigh over valuation.

Disbursements witness seasonality; growth cyclicality intact

Mahindra & Mahindra Financial Services or MMFS reported a sequential spurt (+25.1% qoq) in disbursements to Rs16.5bn in 3QFY25 amid improved rural sentiment, backed by a decent monsoon season, which aided the demand for tractors as well as cars. However, the momentum in commercial vehicles (CVs), used vehicles, and even SME loans remained weak. Management is firm on diversifying the loan book; however, growth cyclicality due to elevated share of auto financing continues to stay intact. Vehicle sales in India is witnessing a cyclicality, which, in turn, is impacting the growth momentum for MMFS in the absence of implementation of successful product diversity like Cholamandalam Investment and Finance Corporation & Shriram Finance. We have cut our disbursement & AUM growth estimates for FY25/26 as a recovery in vehicle demand may take some time. We are building ~10% CAGR in disbursements, leading to ~16% CAGR in AUM over FY25F-27F.

Change in LGDs led to lower provisions despite elevated write-offs

MMFS reported ~10bp qoq rise in gross Stage-3 assets to ~3.93%. However, net Stage-3 assets rose by ~41bp qoq to ~2%, with a drop in provision coverage to ~50.1% vs. ~59.5% last quarter. This was primarily due to a reversal in the provision of Rs4.34bn done by management due to a change in the loss given default (LGD) assumptions under the expected credit loss (ECL) method. Under ECL, MMFS has included slippage during 4QFY21, which had healthy recoveries (post Covid-19 pandemic). Interestingly, MMFS did a write-off of Rs4.3bn during the quarter, which got adjusted against the reduction in LGD assumptions, which, in turn, boosted profits for the quarter. Going ahead, management is confident of managing credit costs in the range of ~1.3%-1.5% over FY25F-27F.

Perception issue to stay amid inability to manage sustainable RoA

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. With an elevated rural presence & monoline product line (vehicle financing), MMFS is unable to address volatility in the asset cycle, despite improvement in underwriting processes. We believe the inability of the company to achieve sustainable RoA of ~2% will weigh over its valuation. We retain our ADD rating on MMFS amid favourable valuation with a target price of Rs330, as we value standalone MMFS at ~1.9x FY26F BV and add Rs20/share for its arms. Downside risks: Slowing growth, and deterioration in asset quality.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	63,521	69,772	79,624	93,891	108,865
Total Non-Interest Income (Rsm)	1,268	1,583	1,817	2,008	2,156
Operating Revenue (Rsm)	64,789	71,355	81,441	95,899	111,021
Total Provision Charges (Rsm)	(9,988)	(18,228)	(15,661)	(23,450)	(26,922)
Net Profit (Rsm)	19,845	17,596	23,932	25,700	30,271
Core EPS (Rs)	16.07	14.25	19.39	20.82	24.52
Core EPS Growth	100%	(11%)	36%	7%	18%
FD Core P/E (x)	16.93	19.08	14.03	13.06	11.09
DPS (Rs)	6.00	6.30	10.00	10.00	12.00
Dividend Yield	2.21%	2.32%	3.68%	3.68%	4.41%
BVPS (Rs)	138.4	147.1	156.5	167.3	179.8
P/BV (x)	1.97	1.85	1.74	1.63	1.51
ROE	12.1%	10.0%	12.8%	12.9%	14.1%
% 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	% yoy	% qoq
Operating Income	30,846	32,119	34,536	36,540	37,222	38,975	41,430	20.0%	6.3%
Interest Expenses	14,505	15,665	16,750	17,351	18,286	19,343	20,459	22.1%	5.8%
Net Operating Income	16,341	16,455	17,787	19,190	18,936	19,632	20,971	17.9%	6.8%
Other Income	409	286	368	521	379	276	14	-96.2%	-95.0%
Total Income	16,750	16,740	18,155	19,710	19,316	19,908	20,985	15.6%	5.4%
Operating Expenses	6,750	7,312	7,530	7,980	7,970	7,947	8,768	16.4%	10.3%
Operating Profit	10,000	9,428	10,625	11,730	11,345	11,961	12,217	15.0%	2.1%
Provisions	5,264	6,266	3,284	3,415	4,482	7,035	91	-97.2%	-98.7%
CoR%	2.5%	2.8%	1.4%	1.4%	1.7%	2.6%	0.0%	-97.7%	-98.8%
PBT	4,735	3,163	7,341	8,315	6,864	4,927	12,126	65.2%	146.1%
Tax	1,209	811	1,813	2,126	1,734	1,232	3,131	72.7%	154.2%
Tax Rate (%)	25.5%	25.6%	24.7%	25.6%	25.3%	25.0%	25.8%	4.5%	3.3%
Reported PAT	3,527	2,352	5,528	6,190	5,130	3,695	8,995	62.7%	143.4%
AUM	8,67,320	9,37,230	9,70,480	10,25,970	10,63,390	11,24,540	11,51,260	18.6%	2.4%
Disbursements	1,21,650	1,33,150	1,54,360	1,52,940	1,27,410	1,31,620	1,64,670	6.7%	25.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

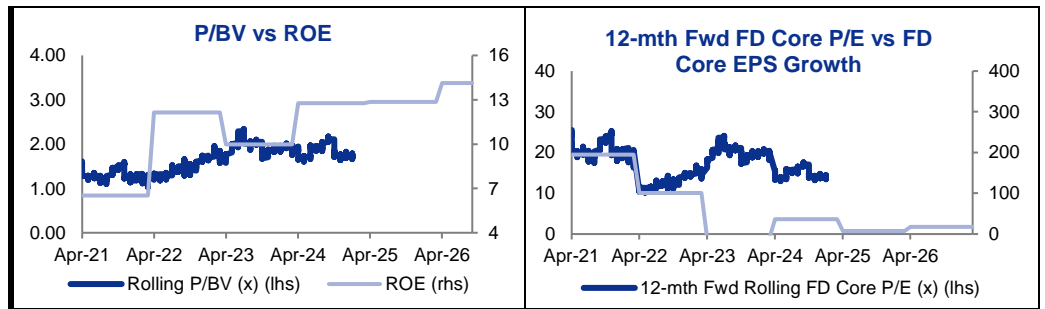
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	79,688	79,624	-0.1%	93,525	93,891	0.4%	1,06,757	1,08,865	2.0%
PPOP	48,388	47,785	-1.2%	58,564	57,947	-1.1%	67,348	67,554	0.3%
PAT	19,507	23,932	22.7%	24,647	25,700	4.3%	30,871	30,271	-1.9%
EPS (Rs)	15.8	19.4	22.7%	20.0	20.8	4.3%	25	24.5	-1.9%
AUM (Rs)	11,94,524	12,11,387	1.4%	13,53,551	13,94,133	3.0%	15,25,388	15,97,204	4.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Earning call highlights

- During the quarter there was a reduction in the provision coverage ratio as the 42-month cash flow pool was ex-1QFY22, resulting in lower loss given default.
- The lower loss given default has reduced the PCR requirement by ~77%. This reversal in provision is recorded in the P/L account, reducing the overall impact of write-offs made during the quarter.
- The commercial vehicle or CV segment witnessed a slowdown during the quarter whereas the passenger vehicle or PV segment, especially the high-end, saw healthy demand.
- The yields in the high-end PV space are not RoA-accretive, and so management is balancing the growth and returns profile.
- The focus is on tractor and used vehicle segments to maintain RoA and growth.
- During the quarter, the used vehicle segment witnessed a decline due to lag in execution.
- NIM to remain in a similar range. To achieve the RoA guidance, opex ratio and credit costs will be kept in a range.
- The company is looking for opportunities to raise Tier-1 capital.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	63,521	69,772	79,624	93,891	108,865
Total Non-Interest Income	1,268	1,583	1,817	2,008	2,156
Operating Revenue	64,789	71,355	81,441	95,899	111,021
Total Non-Interest Expenses	(25,404)	(27,285)	(30,957)	(34,821)	(39,898)
Pre-provision Operating Profit	37,511	41,783	47,785	57,947	67,554
Total Provision Charges	(9,988)	(18,228)	(15,661)	(23,450)	(26,922)
Operating Profit After Provisions	27,524	23,555	32,124	34,497	40,632
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	27,524	23,555	32,124	34,497	40,632
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	36,284	32,615	42,452	46,065	53,819
Exceptional Items					
Pre-tax Profit	27,524	23,555	32,124	34,497	40,632
Taxation	(7,134)	(5,959)	(8,192)	(8,797)	(10,361)
Consolidation Adjustments & Others					
Exceptional Income - post-tax	(545)				
Profit After Tax	19,845	17,596	23,932	25,700	30,271
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	19,845	17,596	23,932	25,700	30,271
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	84.9%	85.1%	86.7%	87.5%	88.0%
Avg Liquid Assets/Avg IEAs	104.9%	103.0%	102.2%	102.0%	101.8%
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	1,160,016	1,334,158	1,527,641
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	810,443	1,000,020	1,160,016	1,334,158	1,527,641
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	810,443	1,000,020	1,160,016	1,334,158	1,527,641
Intangible Assets					
Other Non-Interest Earning Assets	48,938	52,283	57,505	63,249	69,567
Total Non-Interest Earning Assets	62,120	68,502	74,655	81,423	88,867
Cash And Marketable Securities	28,321	26,891	21,694	28,315	24,327
Long-term Investments	99,886	96,508	99,403	107,356	120,238
Total Assets	1,000,770	1,191,921	1,355,768	1,551,252	1,761,074
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	753,640	926,530	1,066,632	1,231,938	1,404,212
Total Interest-Bearing Liabilities	753,640	926,530	1,066,632	1,231,938	1,404,212
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	76,240	83,816	95,979	112,807	134,905
Total Liabilities	829,880	1,010,346	1,162,611	1,344,745	1,539,117
Shareholders Equity	170,890	181,575	193,157	206,507	221,957
Minority Interests					
Total Equity	170,890	181,575	193,157	206,507	221,957

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	9.9%	9.8%	14.1%	17.9%	15.9%
Operating Profit Growth	2.2%	11.9%	14.6%	21.0%	16.4%
Pretax Profit Growth	103%	(14%)	36%	7%	18%
Net Interest To Total Income	98.0%	97.8%	97.8%	97.9%	98.1%
Cost Of Funds	6.98%	7.65%	7.95%	7.70%	7.40%
Return On Interest Earning Assets	15.4%	14.8%	14.7%	14.6%	14.4%
Net Interest Spread	8.42%	7.16%	6.76%	6.92%	7.02%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	27%	44%	33%	40%	40%
Interest Return On Average Assets	7.24%	6.36%	6.25%	6.46%	6.57%
Effective Tax Rate	25.9%	25.3%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	2.26%	1.60%	1.88%	1.77%	1.83%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

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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.

Sector Ratings

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.

Country Ratings

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.