

India

**ADD** (no change)

Consensus ratings\*: Buy 15 Hold 15 Sell 6

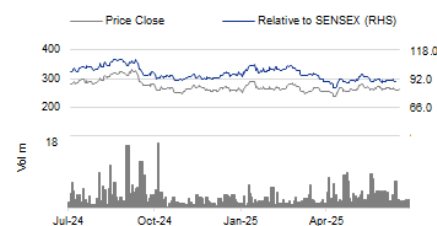
Current price: Rs266  
 Target price: ▼ Rs340  
 Previous target: Rs370  
 Up/downside: 27.8%  
 InCred Research / Consensus: 18.4%

Reuters: MMFS.BO  
 Bloomberg: MMFS IN  
 Market cap: US\$4,274m  
 Rs369,107m  
 Average daily turnover: US\$7.9m  
 Rs685.7m  
 Current shares o/s: 1,232.3m  
 Free float: 47.5%

\*Source: Bloomberg

**Key changes in this note**

- We incorporate the high-yield loan book and marginally lower credit costs going ahead.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.1	(1.5)	(6.7)
Relative (%)	0.8	(4.0)	(8.7)

Major shareholders	% held
Mahindra & Mahindra	52.5
LIC	10.2
HDFC MF	5.7

**Research Analyst(s)****Meghna LUTHRA**

T (91) 22 4161 1553

E meghna.luthra@incresresearch.com

# Mahindra & Mahindra Finance

## Juggling seasonality and pricing

- MMFS posted a healthy PPOP growth of 12% qoq in 1QFY26 led by incremental more focus on high-yield segments (refinance and used VF).
- Seasonality led to an inching up of asset quality stress, with PCR shored up by ~20bp on GS-3 assets, leading to higher credit costs at 2.2% vs. 1.6% qoq.
- We appreciate the cautious approach with a focus on stated goals, but volatility continues to weigh on valuation. Retain ADD rating with a lower TP of Rs340.

**Healthy PPOP, elevated credit costs and sluggish PAT**

Mahindra & Mahindra Finance (MMFS) reported a healthy pre-provision operating profit (PPOP) growth of 19% yoy and 12% in 1QFY26, led by margin expansion as assets under management or AUM growth slowed sequentially on the back of sluggish disbursement growth. This was offset by higher credit costs as MMFS shored up the provision coverage ratio (PCR), leading to a sluggish PAT growth of 3% yoy and a dip of 6% qoq to Rs5.3bn.

**Slow AUM growth; recalibration toward high-yield assets**

The AUM growth slowed to ~15% yoy/~2% qoq to Rs1.2tr in 1QFY26 from ~17% yoy/~4% qoq in the previous quarter, as disbursements grew by 0.5% yoy and declined by 17.5% qoq on account of a slowdown in the passenger vehicle (PV) segment, especially small cars. MMFS has identified segments within vehicle finance comprising refinance and used vehicle finance and outside of vehicle finance comprising MSME, cross-selling of personal loans, and affordable housing which are expected to boost disbursement growth. Calculated net interest margin or NIM expanded by ~17bp qoq to 7.5% on the back of yield expansion as MMFS is incrementally focusing on high-yield segments while the cost of funds remained stable.

**Seasonality lifts asset quality stress; credit costs remain high**

Asset quality stress inched up largely due to seasonal factors. Gross stage-3 or GS-3 assets moved up by 16bp qoq to 3.85% of total loans and gross stage-2 assets moved up by 41bp qoq to 5.85%. PCR improved by ~20bp qoq to 51.4% on GS-3 assets and by ~40 bp qoq on gross stage-1 & 2 assets. Consequently, credit costs moved up by ~60bp qoq to 2.2%. However, management has reiterated that credit costs will ease in the coming quarters and gave guidance of 1.3-1.7% for FY26F.

**Valuation and outlook**

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 while moving through a cyclical slowdown. We maintain our ADD rating on MMFS amid its favourable valuation with a lower target price of Rs340 (Rs370 earlier), as we value the standalone MMFS at ~1.6x FY27F BV and add Rs20/share for its subsidiaries. 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	95,721	111,142	130,116
Total Non-Interest Income (Rsm)	1,583	712	822	980	1,157
Operating Revenue (Rsm)	71,355	81,764	96,544	112,122	131,274
Total Provision Charges (Rsm)	(18,228)	(16,179)	(20,923)	(22,897)	(25,577)
Net Profit (Rsm)	17,596	23,450	28,173	34,917	43,481
Core EPS (Rs)	14.25	19.00	20.28	25.14	31.31
Core EPS Growth	(11%)	33%	7%	24%	25%
FD Core P/E (x)	18.63	13.98	13.09	10.56	8.48
DPS (Rs)	6.30	6.50	8.00	10.00	14.00
Dividend Yield	2.37%	2.45%	3.01%	3.77%	5.27%
BVPS (Rs)	147.1	160.5	177.5	202.6	233.9
P/BV (x)	1.81	1.65	1.50	1.31	1.14
ROE	10.0%	12.4%	12.7%	13.2%	14.3%
% 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	1QFY26	% yoy	% qoq
Operating Income	30,846	32,119	34,536	36,540	37,222	38,975	41,430	42,408	44,194	18.7%	4.2%
Interest Expenses	14,505	15,665	16,750	17,351	18,286	19,343	20,459	20,896	21,524	17.7%	3.0%
<b>Net Operating Income</b>	<b>16,341</b>	<b>16,455</b>	<b>17,787</b>	<b>19,190</b>	<b>18,936</b>	<b>19,632</b>	<b>20,971</b>	<b>21,512</b>	<b>22,670</b>	<b>19.7%</b>	<b>5.4%</b>
Other Income	409	286	368	521	379	276	14	43	184	-51.6%	328.4%
<b>Total Income</b>	<b>16,750</b>	<b>16,740</b>	<b>18,155</b>	<b>19,710</b>	<b>19,316</b>	<b>19,908</b>	<b>20,985</b>	<b>21,555</b>	<b>22,853</b>	<b>18.3%</b>	<b>6.0%</b>
Operating Expenses	6,750	7,312	7,530	7,980	7,970	7,947	8,768	9,427	9,323	17.0%	-1.1%
<b>Operating Profit</b>	<b>10,000</b>	<b>9,428</b>	<b>10,625</b>	<b>11,730</b>	<b>11,345</b>	<b>11,961</b>	<b>12,217</b>	<b>12,128</b>	<b>13,530</b>	<b>19.3%</b>	<b>11.6%</b>
Provisions	5,264	6,266	3,284	3,415	4,482	7,035	91	4,571	6,597	47.2%	44.3%
CoR%	2.5%	2.8%	1.4%	1.4%	1.7%	2.6%	0.0%	1.6%	2.2%	27.3%	40.2%
<b>PBT</b>	<b>4,735</b>	<b>3,163</b>	<b>7,341</b>	<b>8,315</b>	<b>6,864</b>	<b>4,927</b>	<b>12,126</b>	<b>7,557</b>	<b>6,933</b>	<b>1.0%</b>	<b>-8.2%</b>
Tax	1,209	811	1,813	2,126	1,734	1,232	3,131	1,925	1,638	-5.5%	-14.9%
Tax rate (%)	25.5%	25.6%	24.7%	25.6%	25.3%	25.0%	25.8%	25.5%	23.6%	-6.5%	-7.3%
<b>Reported PAT</b>	<b>3,527</b>	<b>2,352</b>	<b>5,528</b>	<b>6,190</b>	<b>5,130</b>	<b>3,695</b>	<b>8,995</b>	<b>5,631</b>	<b>5,295</b>	<b>3.2%</b>	<b>-6.0%</b>
<b>AUM</b>	<b>8,67,320</b>	<b>9,37,230</b>	<b>9,70,480</b>	<b>10,25,970</b>	<b>10,63,390</b>	<b>11,24,540</b>	<b>11,51,260</b>	<b>11,96,730</b>	<b>12,20,080</b>	<b>14.7%</b>	<b>2.0%</b>
<b>Disbursements</b>	<b>1,21,650</b>	<b>1,33,150</b>	<b>1,54,360</b>	<b>1,52,940</b>	<b>1,27,410</b>	<b>1,31,620</b>	<b>1,64,670</b>	<b>1,55,300</b>	<b>1,28,080</b>	<b>0.5%</b>	<b>-17.5%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

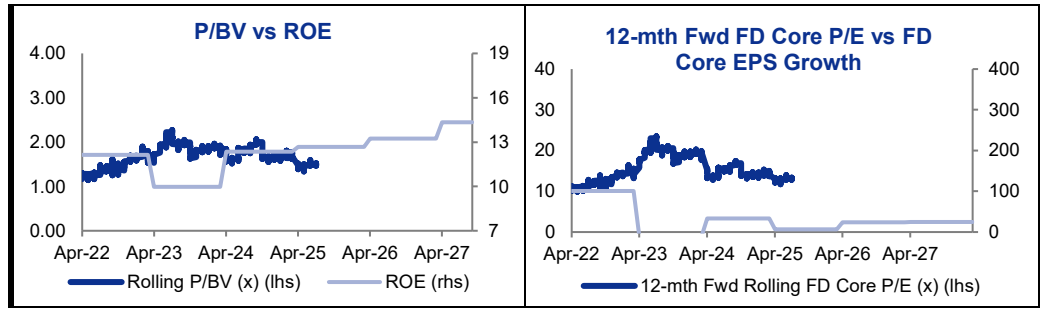
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	94,272	95,721	1.5%	1,06,463	1,11,142	4.4%	1,23,567	1,30,116	5.3%
PPOP	57,095	57,813	1.3%	64,078	68,617	7.1%	75,757	82,512	8.9%
PAT	27,207	28,173	3.5%	30,699	34,917	13.7%	37,530	43,481	15.9%
EPS (Rs)	22.0	22.8	3.5%	24.9	28.3	13.7%	30	35.2	15.9%
AUM (Rs)	13,75,223	13,76,266	0.1%	15,75,966	16,22,387	2.9%	18,08,207	19,28,825	6.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 1QFY26 earnings call summary ➤

- The non-vehicle segment's share is guided to reach 25% by 2030F in the total loan book, from ~10% currently.
- The company stayed away from commercial vehicles or CVs on account of intense loan-pricing competition.
- Dealer touchpoints have gone up from ~300/400 to ~6,000.
- Collection efficiency has seen an improvement in 1QFY26 to 95% vs. 94% yoy.
- Employee count declined by 7% qoq and 12% yoy due to a shift from on-roll to off-roll.
- Management gave guidance that the combined asset quality stress (GS-3 + GS-2) will remain within the ~10% bracket.
- There is high focus on the MSME segment, of which loan against property or LAP constituted ~50%, followed by machinery and supply chain finance.
- Management indicated its aim to achieve 2.2-2.5% RoA and 15% RoE in the medium term.

## BY THE NUMBERS



### Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	69,772	81,052	95,721	111,142	130,116
<b>Total Non-Interest Income</b>	<b>1,583</b>	<b>712</b>	<b>822</b>	<b>980</b>	<b>1,157</b>
Operating Revenue	71,355	81,764	96,544	112,122	131,274
<b>Total Non-Interest Expenses</b>	<b>(27,285)</b>	<b>(31,378)</b>	<b>(35,712)</b>	<b>(40,425)</b>	<b>(45,621)</b>
Pre-provision Operating Profit	41,783	47,651	57,813	68,617	82,512
<b>Total Provision Charges</b>	<b>(18,228)</b>	<b>(16,179)</b>	<b>(20,923)</b>	<b>(22,897)</b>	<b>(25,577)</b>
Operating Profit After Provisions	23,555	31,473	36,890	45,720	56,934
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	23,555	31,473	36,890	45,720	56,934
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	32,615	42,841	49,868	60,639	72,860
<b>Exceptional Items</b>					
Pre-tax Profit	23,555	31,473	36,890	45,720	56,934
Taxation	(5,959)	(8,022)	(8,717)	(10,803)	(13,453)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	17,596	23,450	28,173	34,917	43,481
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	17,596	23,450	28,173	34,917	43,481
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%	91.1%	91.7%	91.5%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>103.0%</b>	<b>103.8%</b>	<b>103.8%</b>	<b>102.8%</b>	<b>102.3%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
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
<b>Total Gross Loans</b>	<b>1,000,020</b>	<b>1,170,208</b>	<b>1,352,518</b>	<b>1,594,833</b>	<b>1,895,165</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,000,020	1,170,208	1,352,518	1,594,833	1,895,165
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	1,000,020	1,170,208	1,352,518	1,594,833	1,895,165
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>11,954</b>	<b>8,357</b>	<b>2,530</b>	<b>2,530</b>	<b>2,530</b>
<b>Total Non-Interest Earning Assets</b>	<b>28,173</b>	<b>25,910</b>	<b>18,258</b>	<b>20,372</b>	<b>24,114</b>
Cash And Marketable Securities	26,891	55,359	39,938	42,061	38,958
<b>Long-term Investments</b>	<b>96,508</b>	<b>104,005</b>	<b>106,205</b>	<b>127,793</b>	<b>157,890</b>
Total Assets	1,151,592	1,355,482	1,516,920	1,785,059	2,116,126
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	939,786	1,128,735	1,235,948	1,464,842	1,747,133
Total Interest-Bearing Liabilities	939,786	1,128,735	1,235,948	1,464,842	1,747,133
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	30,231	28,626	34,514	38,842	44,138
Total Liabilities	970,017	1,157,361	1,270,462	1,503,684	1,791,271
Shareholders Equity	181,575	198,121	246,458	281,375	324,856
<b>Minority Interests</b>					
Total Equity	181,575	198,121	246,458	281,375	324,856

### Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	9.8%	16.2%	18.1%	16.1%	17.1%
Operating Profit Growth	11.9%	14.3%	20.7%	17.9%	19.5%
Pretax Profit Growth	(14%)	34%	17%	24%	25%
Net Interest To Total Income	97.8%	99.1%	99.1%	99.1%	99.1%
Cost Of Funds	7.77%	7.64%	7.35%	7.20%	7.30%
Return On Interest Earning Assets	14.8%	14.7%	14.5%	14.1%	14.2%
Net Interest Spread	7.04%	7.11%	7.13%	6.94%	6.88%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	44%	34%	36%	33%	31%
Interest Return On Average Assets	6.60%	6.47%	6.66%	6.73%	6.67%
Effective Tax Rate	25.3%	25.5%	23.6%	23.6%	23.6%
Net Dividend Payout Ratio					
Return On Average Assets	1.66%	1.87%	1.96%	2.11%	2.23%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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##### **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: 05<sup>th</sup> 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

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## Recommendation Framework

### Stock Ratings

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.