



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Oct 08, 2022

19.57

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 29,776 cr
52-week high/low:	Rs. 244 / 128
NSE volume: (No of shares)	50.4 lakh
BSE code:	532720
NSE code:	M&MFIN
Free float: (No of shares)	58.1 cr

Shareholding (%)

Promoters	52.2
FII	19.7
DII	22.1
Others	6.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.6	12.1	29.6	50.6
Relative to Sensex	7.9	5.3	16.3	41.9

Sharekhan Research, Bloomberg

Mahindra & Mahindra Financial Services

Disbursements healthy; Strong asset quality outlook

NBFC

Sharekhan code: M&MFIN

Reco/View: Buy



Upgrade



CMP: Rs. 241

Price Target: Rs. 275



Downgrade

Summary

- M&M Finance reported a healthy disbursement number for November 2022, up 75% y-o-y at Rs. 4,500 crore, driven by strong sectoral tailwinds. However, disbursements were lower 14% m-o-m, as October 2022 was a festive season month.
- YTD disbursement growth remained strong at 99% y-o-y. Gross business assets grew by 3.4% over September 2022 and 17.5% YTD reported at Rs. 76,300 crore.
- Collection efficiency improved to 96% in November 2022 vs. 91% m-o-m and 94% y-o-y. Stage-2 assets saw a sequential reduction compared to October 2022 and is estimated below 9% vs. 9.7% in Q2FY2023. Stage-3 assets remained stable at lower than 7%, as of November-end vs. 7% in Q2FY2023.
- We expect MMFSL to deliver RoA/RoE of 2.3%/12.7% by FY2024E recovering from 1.3%/6.5% in FY2022. At the CMP, the stock trades at 1.8x and 1.7x its FY2023E and FY2024E, respectively, ABV. We reiterate Buy with an unchanged PT of Rs. 275.

Business momentum continues to remain robust, as reflected in strong disbursements (up 99% y-o-y YTD). Branch expansion, incremental volumes from new product offerings (SME, LAP, and Digital), and market share gains in the auto/UV segment would help to sustain healthy momentum over the medium term. We believe given the strong underlying demand trends, its positioning in the rural/semi-urban customer segment along with improvement in credit filters after pandemic-induced stress strong business growth is here to sustain. The company expects further improvement in Stage-2 and Stage-3 assets going forward. Earnings trajectory is expected to be healthy, driven by better AUM growth offsetting margin compression and lower credit cost in H2FY2023.

- Healthy business growth likely to sustain:** Strong disbursement growth is likely to sustain over the medium term, driven by branch expansion, incremental volumes from new product lines (SME, LAP, and Digital Finance), and market share gains in the car/UV segment, which would likely support AUM growth. The company has maintained its leadership position in the Tractor and UV financing segments, which has always been its strength. Strong liability franchise and deep moats in rural/semi-urban customer segment position MMFSL well.
- Collection efficiency improved:** Earlier during Q2FY2023 results, the company had guided that it had on-boarded 6,000 off-roll employees (who were predominantly in collections) on its own payroll to mitigate the impact of the Reserve Bank of India's (RBI) ban on third-party collections and repossession activities. The said efforts are reflected in improved collection efficiency. Collection efficiency improved to 96% in November vs. 91% m-o-m and 94% y-o-y. Stage-2 assets saw sequential reduction compared to October 2022 and are estimated below 9% vs. 9.7% in Q2FY2023. Stage-3 assets remained stable at lower than 7% as of November-end vs. 7% in Q2FY2023. Thus, asset-quality trends are expected to remain stable going forward.

Our Call

Valuation: We maintain Buy on MMFSL with an unchanged PT of Rs. 275: MMFSL continued to report healthy disbursement numbers, exhibiting strong underlying demand and market share gains. Asset-quality metrics are expected to improve further on account of strong collection efficiency. Additionally, the company plans to diversify its growth engines and increase its non-vehicle financing share in SME, LAP, and digital segments. We believe the earnings trajectory is going to positively surprise going forward, led by strong business growth and moderation in credit cost. At the CMP, MMFSL trades at 1.8x and 1.7x its FY2023E and FY2024E, respectively, ABV.

Key Risks

Economic slowdown due to which slower AUM growth, higher-than-expected margin compression, and higher-than-anticipated credit cost.

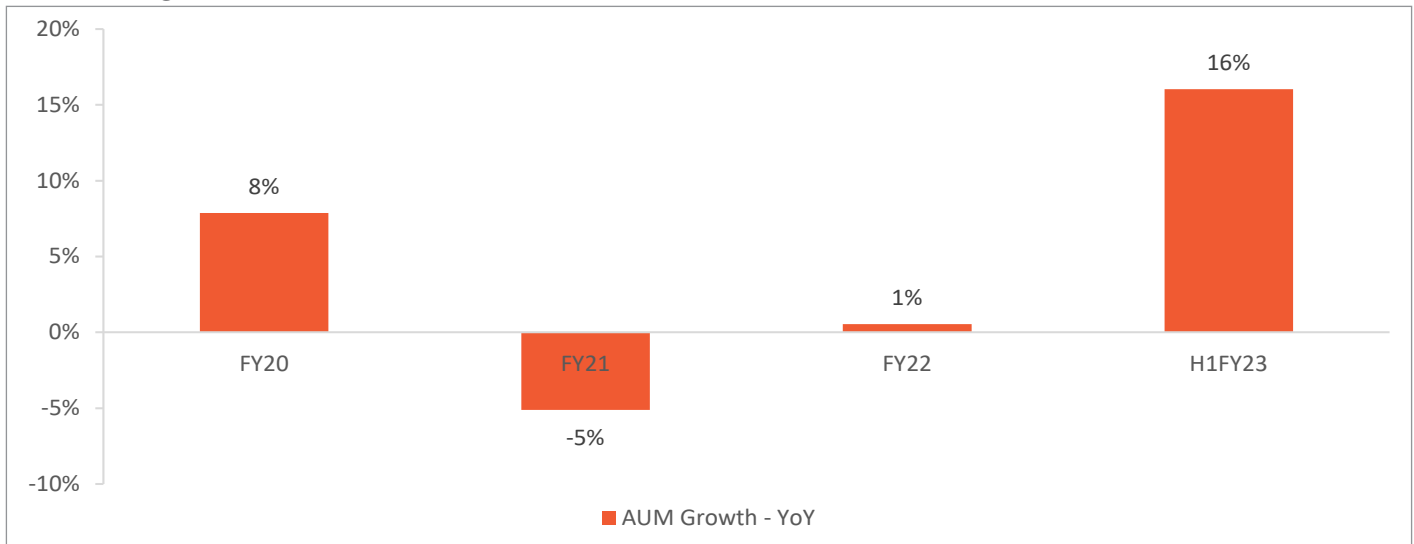
Valuation

Particulars	FY21	FY22	FY23E	FY24E
NII	5,534	5,555	6,314	7,047
PAT	329	989	1,680	1,973
EPS (Rs.)	2.7	8.0	13.6	16.0
RoA (%)	0.4	1.3	2.1	2.3
RoE (%)	2.6	6.5	11.2	12.7
P/E (x)	88.2	27.5	16.2	13.8
P/BV (x)	2.0	1.9	1.8	1.7

Source: Company; Sharekhan estimates

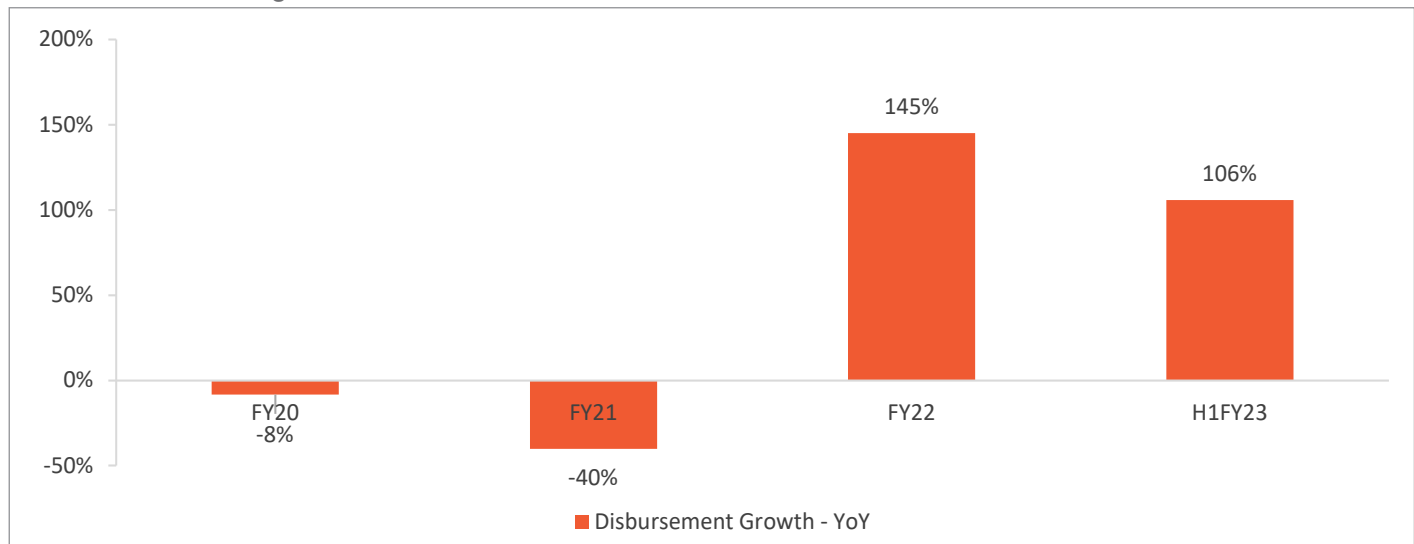
Disbursements are growing at a healthy pace, driven by cars/auto/UV. SME financing (recently launched) is also shaping up well and started contributing to overall disbursements. It comprises short-term loans for agri processing/engineering/auto products, bill discounting, LAP, and lending to small well-rated NBFCs. Strong disbursements should support healthy AUM growth going forward. The company believes overall sentiments are positive and cash flow is improving, which should propel disbursement and AUM growth in H2FY23.

Trend in AUM growth



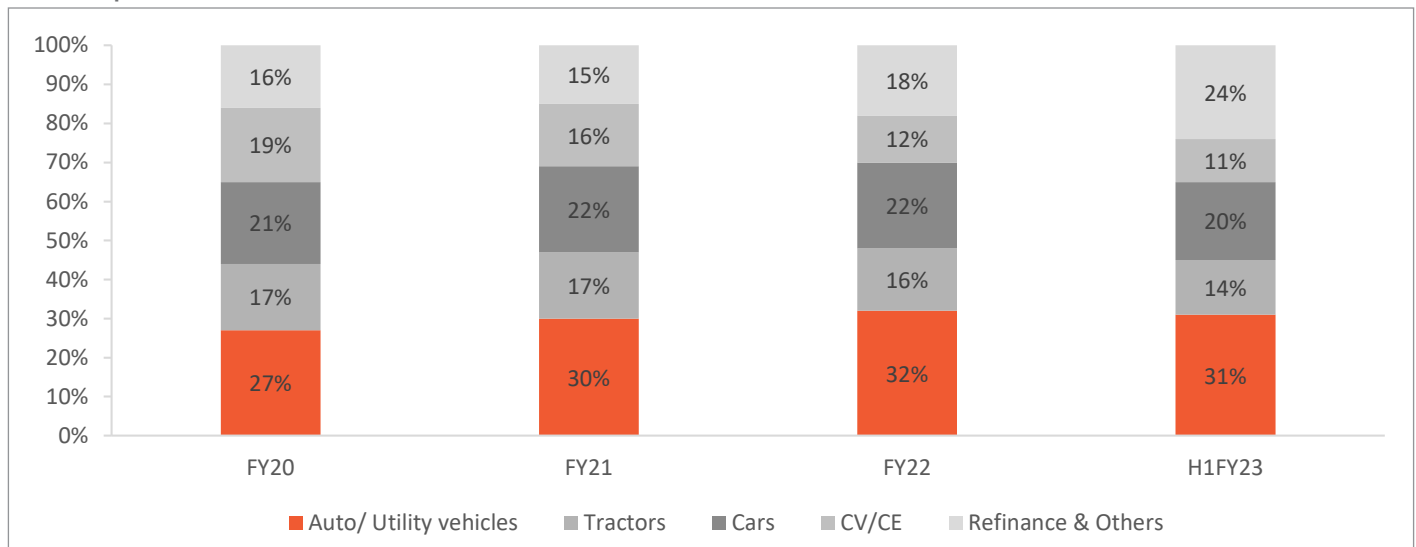
Source: Company; Sharekhan Research

Trend in Disbursements growth



Source: Company; Sharekhan Research

AUM composition mix

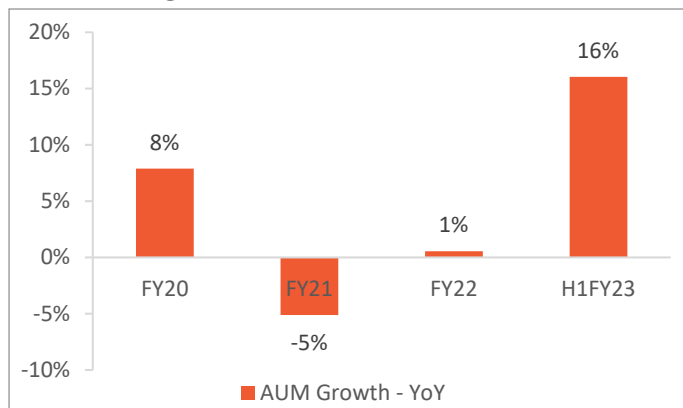


Source: Company; Sharekhan Research

Given the strong underlying demand trend and strategic transformation undertaken, the company has been targeting 'Vision 2025' with the following deliverables: a) gross stage-3 at sub-6%; b) AUM expected to double by FY2025, supported by new product segments (contributing 15%); c) maintaining NIM of ~7.5%; and d) RoA at ~ 2.5%. We believe consistent execution is critical here to improve the business metrics, although structural drivers are in place.

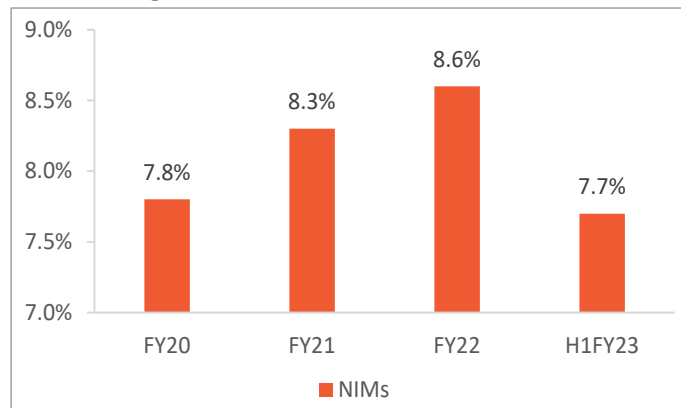
Financials in charts

Trend in AUM growth



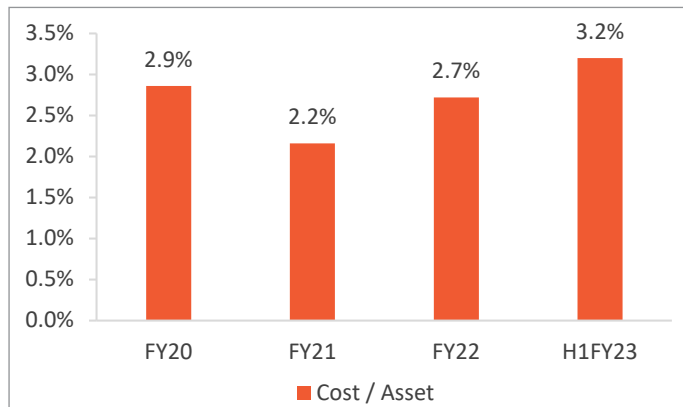
Source: Company, Sharekhan Research

Trend in Margins



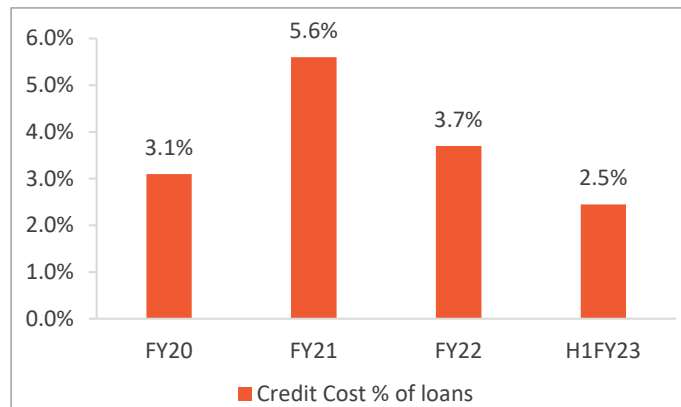
Source: Company, Sharekhan Research

Trend in Cost to Assets



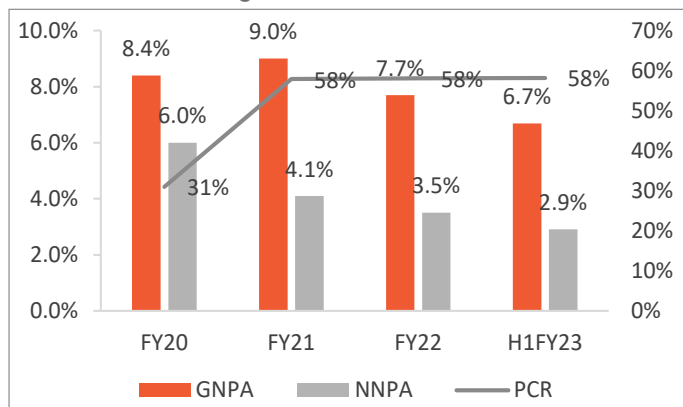
Source: Company, Sharekhan Research

Trend in Credit Cost



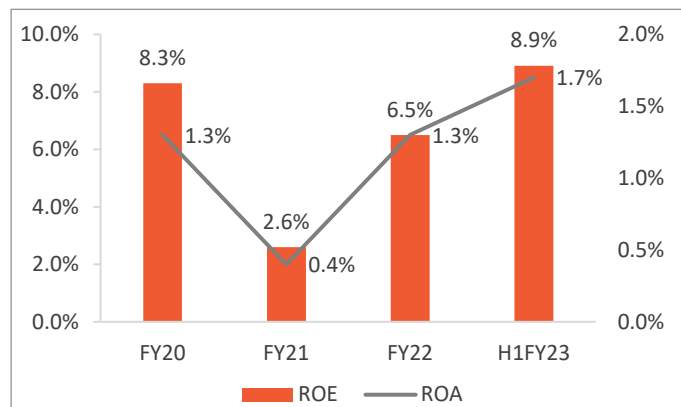
Source: Company, Sharekhan Research

Trend in Asset Quality



Source: Company, Sharekhan Research

Trend in Return Ratio



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Economic recovery is encouraging

The Indian economy has been witnessing sharp revival, which is expected to benefit the primary sectors, including automobiles and infrastructure sectors. Recovery in the auto sector in H1FY2023 has been encouraging. On the back of that auto financing is also picking up and asset-quality trends are improving. NBFCs with a diverse product offering strategy, strong ALM management, robust liquidity buffers, strong risk management framework, and healthy liability franchise have ample growth opportunities and are well placed.

■ Company outlook - Earnings outlook positive

Business momentum continues to remain strong as reflected in disbursement volumes. We believe given the strong underlying demand trends, its positioning in the rural/semi-urban customer segment along with improvement in credit filters after pandemic-induced stress strong business growth is here to sustain. Earnings trajectory is also expected to be healthy as credit costs are expected to moderate in H2FY2023. Majority of the cleanup has been done through accelerated write-offs in the past. Additionally, its subsidiaries add to the company's overall value.

■ Valuation - We maintain Buy on MMFSL with an unchanged PT of Rs. 275

MMFSL continued to report healthy disbursement numbers, exhibiting strong underlying demand and market share gains. Asset-quality metrics are expected to improve further on account of strong collection efficiency. Additionally, the company plans to diversify its growth engines and increase its non-vehicle financing share in SME, LAP, and digital segments. We believe the earnings trajectory is going to positively surprise going forward, led by strong business growth and moderation in credit cost. At the CMP, MMFSL trades at 1.8x and 1.7x its FY2023E and FY2024E, respectively, ABV.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs. cr)	P/E(x)		P/BV(x)		RoA (%)		RoE (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Mahindra & Mahindra Finance	241	29,776	16.2	13.8	1.8	1.7	2.1	2.3	11.2	12.7
Cholamandalam Investment and Finance Company	738	60,601	22.6	19.9	4.2	3.5	2.8	3.0	19.4	19.4

Source: Company; Sharekhan Research

About company

MMFSL is a subsidiary of Mahindra and Mahindra Limited. MMFSL is one of India's leading non-banking finance companies focused in the rural and semi-urban area. The company finances purchase of new and used auto and utility vehicles, tractors, cars, commercial vehicles, construction equipment, and SME Financing. The company has a strong network of 1,386 branches spread across 25 states and five Union Territories in India.

Investment theme

Business momentum continues to remain strong as reflected in disbursement volumes. We believe given the strong underlying demand trends, its positioning in the rural/semi-urban customer segment along with improvement in credit filters after pandemic-induced stress strong business growth is here to sustain. Earnings trajectory is also expected to be healthy as credit costs is expected to moderate in H2FY2023. Majority of the clean-up has been done through accelerated write-offs in the past. Additionally, its subsidiaries add to the company's overall value.

Key Risks

Economic slowdown led by slower AUM growth, higher-than-expected margin compression, and higher-than-anticipated credit cost.

Additional Data

Key management personnel

Mr. Ramesh Iyer	Vice Chairman & Management Director
Mr. Vivek Karve	Chief Financial Officer
Mr. Amit Rajee	Chief Operating Officer, Digital Business
Mr. Raul Rebello	Chief Operating Officer, Core Business

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	MAHINDRA & MAHINDRA LTD	52.16
2	LIFE INSURANCE CORP OF INDIA	6.16
3	WISHBONE FUND PVT STD	2.74
4	HDFC LIFE INSURANCE CO LTD	2.45
5	HDFC ASSET MANAGEMENT CO LTD	2.00
6	SBI FUNDS MANAGEMENT LTD	1.83
7	VANGUARD GROUP INC	1.76
8	ICIC PRUDENTIAL ASSET MANAGEMENT CO LTD	1.73
9	BLACKROCK INC	1.66
10	KOTAK MAHINDRA ASSET MANAGEMENT CO LTD	1.50

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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