



Powered by the Sharekhan 3R Research Philosophy

### 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

<b>ESG RISK RATING</b>	<b>19.57</b>			
Updated Dec 08, 2022				
<b>Low Risk</b>				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

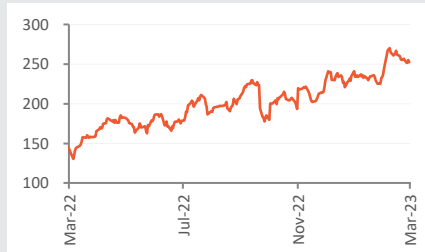
### Company details

Market cap:	Rs. 31,494 cr
52-week high/low:	Rs. 272 / 128
NSE volume: (No of shares)	45.6 lakh
BSE code:	532720
NSE code:	M&MFIN
Free float: (No of shares)	59.3 cr

### Shareholding (%)

Promoters	52.2
FII	16.1
DII	23.8
Others	8.0

### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	7.1	11.4	22.0	79.6
Relative to Sensex	6.3	15.6	20.3	73.2

Sharekhan Research, Bloomberg

## Mahindra & Mahindra Financial Services

### Business momentum healthy; Strong asset quality outlook

<b>NBFC</b>	<b>Sharekhan code: M&amp;MFIN</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 255</b>	<b>Price Target: Rs. 290</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

### Summary

- M&M Financial Services Limited (MMFSL) reported healthy disbursement numbers for February 2023, up 53% y-o-y/5% m-o-m at Rs. 4,185 crore, driven by strong credit demand trends.
- Disbursements growth is expected to moderate going forward due to a higher base in the trailing 12 months; however, there are no demand concerns. Loan book grew by 1.5% m-o-m.
- Collection efficiency remained broadly stable y-o-y as well as m-o-m at 97%. Gross stage-2 assets saw a sequential improvement m-o-m, while gross stage-3 assets remained stable m-o-m.
- At the CMP, the stock trades at 1.7x/1.4x its FY2024E/FY2025E ABV, respectively. We reiterate Buy with an unchanged PT of Rs. 290.

**Business momentum continues to remain healthy; however, we acknowledge that due to a higher base in the trailing 12 months, moderation in disbursement/loan growth is expected going ahead. Incremental growth is expected to come from branch expansion, incremental volumes from new product offerings (SME, LAP, and Digital), and market share gains in the auto/UV segment, all of which should help to sustain healthy growth in the near to medium term despite growth moderation. Overall, asset-quality outlook remains stable to positive. We expect sustained improvement in stage-2 assets, and stage-3 assets are expected to reduce by another 100 bps in the near to medium term as guided by the company. Earnings trajectory is expected to be healthy, driven by lower credit cost.**

- Strong growth but cooling off due to high base:** The company reported 5% q-o-q loan growth in Q3FY2023 compared to 9% q-o-q in Q2FY2023. The company also reported 1% m-o-m loan growth in January 2023 and 1.5% m-o-m loan growth in February 2023. Thus, moderation is seen in loan growth. Overall, growth for FY2023 is still expected to remain healthy. M&M vehicles and cars are the key growth drivers. Dealer financing is strong but seasonal. We expect the momentum across business lines to continue, augmented by M&M's new product and MMFSL's plans to diversify into the rural affluent and MSME segments along with branch expansion.
- Strong asset-quality outlook:** The company fared well on asset-quality performance in Q3FY2023. We believe Q4FY2023 will likely have better recoveries due to a seasonally strong quarter. Overall, the asset-quality outlook continues to remain stable to positive. Collection efficiency remained broadly stable y-o-y as well as m-o-m at 97% in February. Gross stage-2 assets witnessed a sequential improvement from Q3FY2023 and gross stage-3 assets were stable compared to Q3FY2023.

### Our Call

**Valuation: We maintain Buy on MMFSL with an unchanged PT of Rs. 290:** MMFSL continued to report healthy business momentum, exhibiting strong underlying demand. Asset-quality metrics are expected to improve further on account of strong collection efficiency. Additionally, the company is diversifying its growth engines and increasing 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 healthy business growth and benign credit cost. At the CMP, MMFSL trades at 1.7x and 1.4x its FY2024E and FY2025E ABV, respectively.

### Key Risks

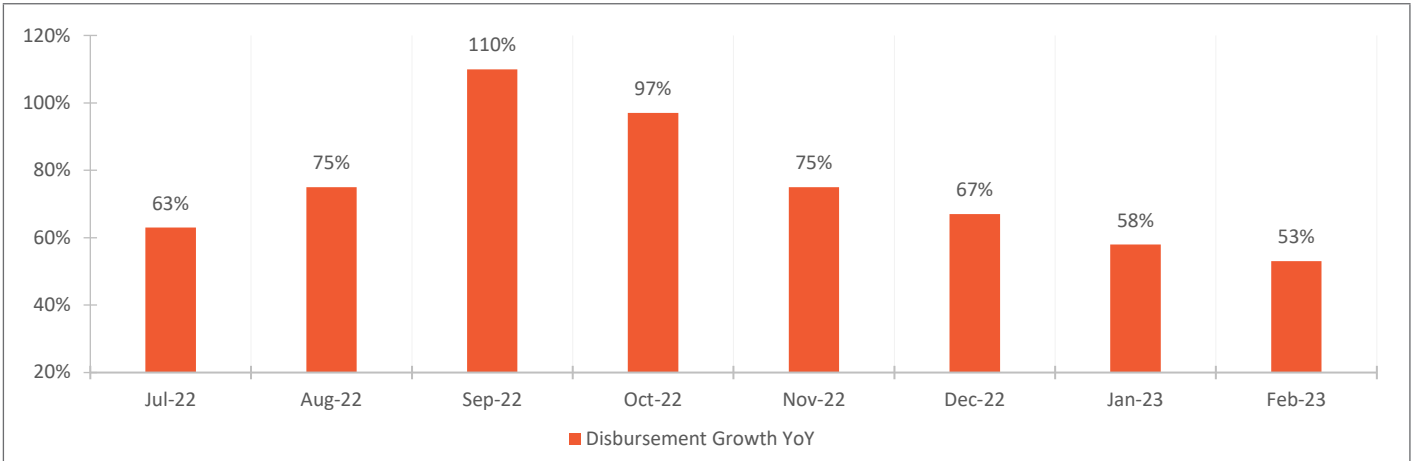
Economic slowdown leading to slower AUM growth, higher-than-expected margin compression, and higher-than-anticipated credit cost.

### Valuation

Particulars	FY22	FY23E	FY24E	FY25E
Nil	5,555	6,479	7,661	8,427
PAT	989	1,843	2,570	2,827
EPS (Rs.)	8.0	14.9	20.8	22.9
ROA (%)	1.3	2.1	2.3	2.3
ROE (%)	6.5	11.2	12.7	12.7
P/E (x)	27.5	14.7	10.6	9.5
P/BV (x)	2.0	1.9	1.7	1.4

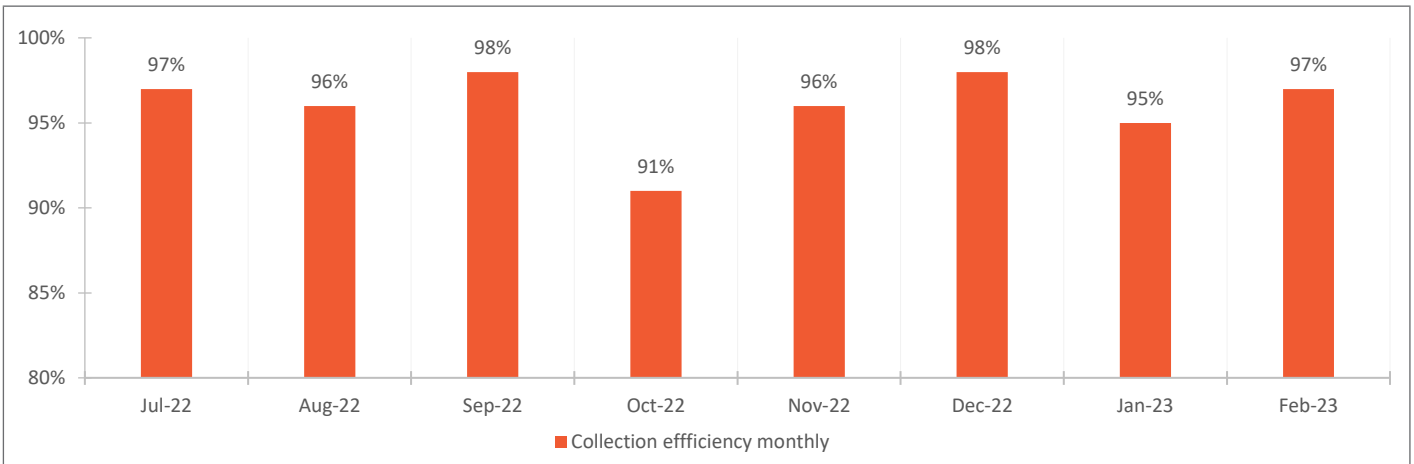
Source: Company; Sharekhan estimates

**Moderation seen in disbursement due to higher base**



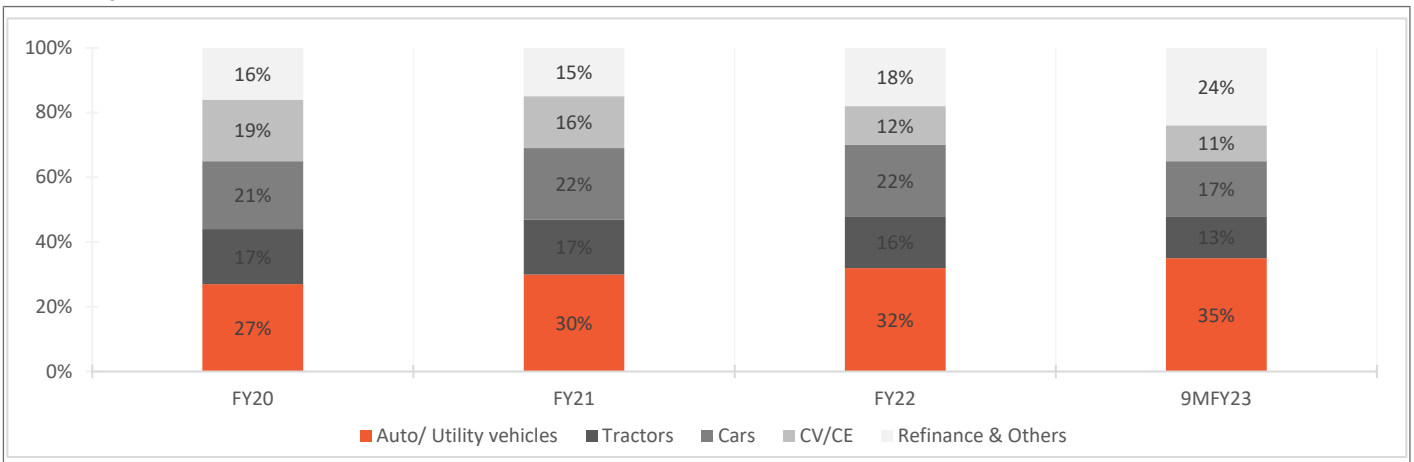
Source: Company data, Sharekhan Research

**Collection Efficiency remains stable**



Source: Company data, Sharekhan Research

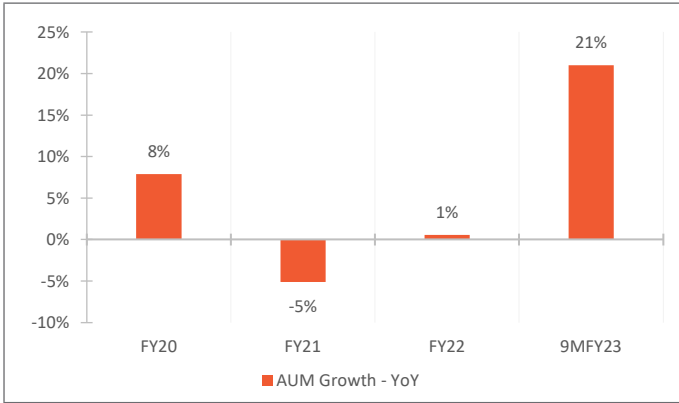
**AUM composition mix**



Source: Company data, Sharekhan Research

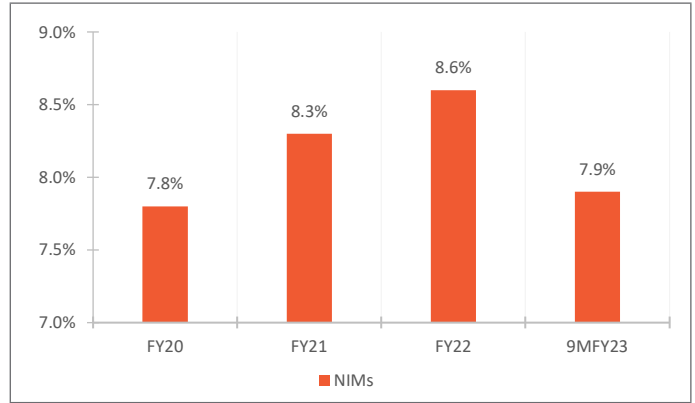
**Financials in charts**

**Trend in AUM growth**



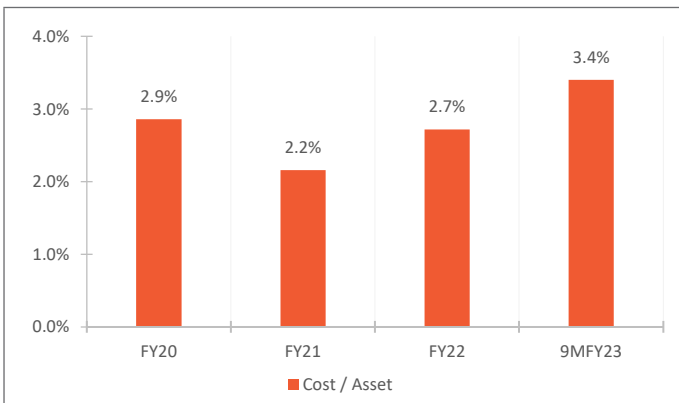
Source: Company, Sharekhan Research

**Trend in Margins**



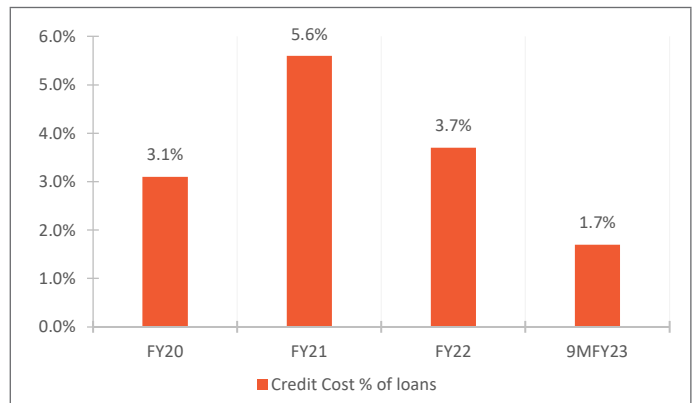
Source: Company, Sharekhan Research

**Trend in Cost to Assets**



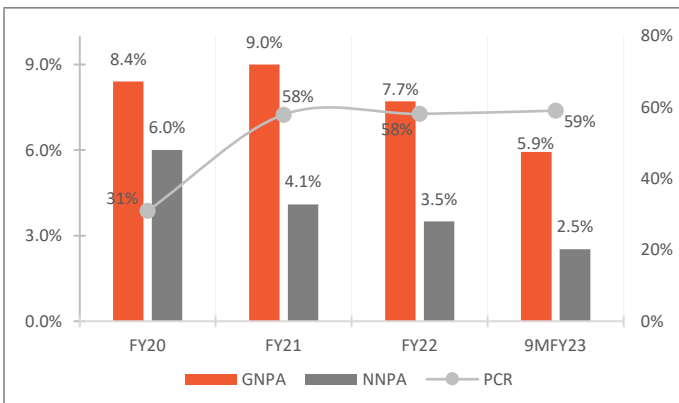
Source: Company, Sharekhan Research

**Trend in Credit Cost**



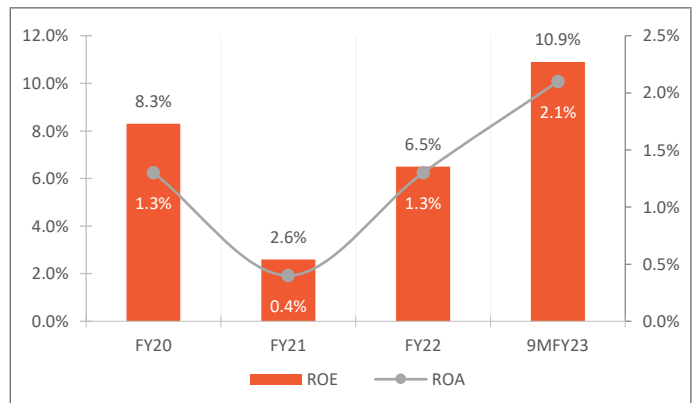
Source: Company, Sharekhan Research

**Trend in Asset Quality**



Source: Company, Sharekhan Research

**Trend in Return Ratio**



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Economic activity remains resilient; Rural demand expected to pick up

The Indian economy has been resilient despite strong global headwinds. Credit growth continues to remain healthy. Volume recovery in the auto sector over the past six months is also encouraging, but private capex is yet to pick up. Auto financing is picking up and overall asset-quality trends are improving. Urban demand continues to remain strong. Moreover, there are some green shoots in rural demand picking up. NBFCs with a diverse product offering strategy, strong asset liability management, robust liquidity buffers, strong risk management framework, and healthy liability franchise are well capitalised to have ample growth opportunities.

### ■ Company Outlook – Earnings outlook positive

Business momentum continues to remain strong. We believe business growth is expected to remain healthy, given the strong underlying demand trends, its positioning in the rural/semi-urban customer segment, and improved credit filters after pandemic-induced stress. However, we acknowledge that due to a higher base in the trailing 12 months, moderation in disbursement/loan growth is expected going ahead. Earnings trajectory is expected to be healthy as credit cost is likely to remain benign in the near to medium term. Margin trajectory remains a key monitorable.

### ■ Valuation – We maintain Buy on MMFSL with an unchanged PT of Rs. 290

MMFSL continued to report healthy business momentum, exhibiting strong underlying demand. Asset-quality metrics are expected to improve further on account of strong collection efficiency. Additionally, the company is diversifying its growth engines and increasing 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 healthy business growth and benign credit cost. At the CMP, MMFSL trades at 1.7x and 1.4x its FY2024E and FY2025E ABV, respectively.

#### Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs. cr)	P/E(x)		P/BV(x)		RoA (%)		RoE (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Mahindra & Mahindra Finance	255	31,494	10.6	9.5	1.7	1.4	2.3	2.3	12.7	12.7
Cholamandalam Investment and Finance Company	753	61,912	20.4	16.7	3.6	3.3	3.0	2.7	19.4	20.2

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 on the rural and semi-urban areas. 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. We believe business growth is expected to remain healthy, given the strong underlying demand trends, its positioning in the rural/semi-urban customer segment, and better credit filters after pandemic-induced stress. However, we acknowledge due to a higher base in the trailing 12 months, moderation in disbursement/loan growth is expected going ahead. Earnings trajectory is expected to be healthy as credit cost is expected to remain benign in the near to medium term. Margin trajectory remains a key monitorable.

## 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 Website

### 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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