

April 29, 2023

## Q4FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	280		260	
NII (Rs.)	70,701	80,532	68,597	78,589
% Chng.	3.1	2.5		
PPoP (Rs.)	43,125	47,107	41,020	45,164
% Chng.	5.1	4.3		
EPS (Rs.)	16.7	18.5	15.4	17.3
% Chng.	8.3	6.8		

### Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Int.Inc. (Rs m)	57,378	63,521	70,701	80,532
Growth (%)	1.3	10.7	11.3	13.9
Op. Profit (Rs m)	37,252	37,518	43,125	47,107
PAT (Rs m)	9,888	19,843	20,593	22,756
EPS (Rs.)	8.0	12.7	16.7	18.5
Gr. (%)	121.1	57.7	32.0	10.5
DPS (Rs.)	0.3	0.8	1.2	1.6
Yield (%)	0.1	0.3	0.5	0.6
Margin (%)	8.5	7.7	7.6	7.5
RoAE (%)	6.5	12.0	12.5	12.6
RoAA (%)	1.3	1.9	2.3	2.4
PE (x)	32.3	20.5	15.5	14.0
P/BV (x)	2.0	1.9	1.8	1.7
P/ABV (x)	2.7	2.1	1.9	1.8

### Key Data

MMFS.BO | MMFS IN

52-W High / Low	Rs.272 / Rs.161
Sensex / Nifty	61,112 / 18,065
Market Cap	Rs.320bn / \$ 3,910m
Shares Outstanding	1,236m
3M Avg. Daily Value	Rs.909.38m

### Shareholding Pattern (%)

Promoter's	52.16
Foreign	14.85
Domestic Institution	25.18
Public & Others	7.82
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	17.0	25.9	42.2
Relative	10.3	23.5	33.9

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## Strong AUM growth, asset quality improves

### Quick Pointers:

- Asset quality sees marked improved with GS3 at 4.5% v/s 5.9% in Q3'23.
- Negligible provisions of Rs 4mn taken in this quarter.

**We maintain 'HOLD' rating and increase TP to Rs280 (1.9x on Sep'24E PABV) from Rs260 (earlier:1.9x Sep'24E PABV) as we increase our FY24/25 NII estimates by 3.1%/2.5%, given increase in FY24/25E AUM growth to 20.0%/20.0% (from 15%/15.0% earlier). Mahindra & Mahindra Financial Services (MMFS) reported healthy AUM growth at Rs827bn (+27.4%YoY/7.0%QoQ) in Q4 with stable margins of 7.4% amid rising interest cost environment. Write-offs of Rs6.0bn were taken compared to Rs4.9bn taken in Q3FY23. Primary focus of the management is to better asset quality and customer experience and choose right customers to mitigate credit risk. Maintain 'HOLD' rating on the stock. Re-rating can happen if MMFS continues to show strong AUM growth and write-offs start reducing on a QoQ basis. Maintain 'HOLD'.**

- PAT in line, better than expected AUM and lower provisions:** PAT for Q4FY23 came in at Rs6.8bn in-line with our estimates [vs. PLe of Rs6.9bn] mainly due to sharp fall in provisions and better other income. NII came marginally below our estimates and rose by 10.2%/2.4% YoY/QoQ to Rs16.6bn [vs. PLe of Rs17.2bn] due to marginally higher cost of fund at 6.7% vs 6.6% in Q3FY23. PPOP rose 5.1%YoY and fell by 5.4%QoQ to Rs9.4bn below our estimates [vs. PLe of Rs10.8bn], due to higher opex up 19.5% QoQ and higher interest expense.
- Loan growth momentum strong with a 7.0% QoQ growth:** AUMs witnessed good growth of 27.4% YoY and 7.0% QoQ at Rs827bn [vs. PLe of Rs823bn]. NIM was stable and came in at 7.4% vs 7.54% in Q3FY23. Used Vehicles, CV/CE and auto/utility vehicles saw a QoQ growth of 12.1%,7.0% and 7.0%. Tractors disappointed and showed de-growth of 0.1% QoQ. Company recorded strong disbursement of Rs 138.0bn for the quarter growing by 50% YoY but declined by 5% on a QoQ basis.
- AQ improves by 140bps, write-offs remain elevated at Rs. 6.0bn:** GNPA at 4.5% stood lower than our estimates [vs. PLe of 4.6%] as against 5.9% in Q3FY23. Provisions at Rs 4mn were negligible vs Rs1.5bn recorded in Q3'23 [vs. PLe of Rs 1.5bn]. Credit charge include Rs 650mn Stage 1 provisions, write back of Rs1,690mn stage 2 provisions, write back of Rs4970mn stage3 provisions and write-off of Rs6,010mn. Write-offs continue to remain elevated and higher on a QoQ basis with write-offs in Q3'23 that had come in at Rs 4,980mn. Stage 2 also reduced by 240bps during the quarter to 6%. Stage 3 provision cover remained stable at 59.5% QoQ. Credit cost was negligible during the quarter, as asset quality improvement and resumption of repossession activity led to provision reversal in Stage 2 and Stage 3 assets.

PAT came in at Rs6.8bn in line with our estimates [vs. PLe of Rs6.9bn] mainly due to sharp fall in provisions and better other income.

NII came marginally below our estimates and rose by 10.2%/2.4% YoY/QoQ to Rs16.6bn below our estimates [vs. PLe of Rs17.2bn] due to higher interest expense. Hence NIM marginally moderated to 7.4% vs 7.54% in Q3'23. PPop fell 6.0% YoY and rose 15.6.7%QoQ to Rs9.9bn above our estimates [vs. PLe of Rs9.0bn] due to lower opex down 3.8% QoQ and better than expected NII growth.

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GNPA at 4.5% stood better than our estimates [vs. PLe of 4.6%] vs 5.9% in Q3FY23. NNPA also saw a decrease on a QoQ basis and came in at 1.9% vs 2.5% in Q3'23

AUM witnessed a strong growth of 7.0% QoQ and 27.4% YoY at Rs827bn [vs. PLe of Rs823.0bn], Used Vehicles/others, CV/CE and auto/utility vehicles saw a strong QoQ growth of 12.1%,7.0% and 7.0% respectively. Tractors segment disappointed and showed de-growth of .1% QoQ

**Exhibit 1: Strong QoQ reduction in provisions lead to PAT beat**

(Rs m)	Q4FY23	Q4FY22	YoY gr.	Q3FY23	QoQ gr.
Interest Income	29,942	24,424	22.6%	28,625	4.6%
Interest Expenses	13,340	9,357	42.6%	12,419	7.4%
<b>Net Interest Income</b>	<b>16,602</b>	<b>15,067</b>	<b>10.2%</b>	<b>16,206</b>	<b>2.4%</b>
Other Income	625	239	161.4%	291	115.2%
<b>Total Income</b>	<b>17,227</b>	<b>15,306</b>	<b>12.5%</b>	<b>16,496</b>	<b>4.4%</b>
Total Operating Expenses	7,786	6,327	23.1%	6,513	19.5%
<b>Operating Profit (PPP)</b>	<b>9,441</b>	<b>8,979</b>	<b>5.1%</b>	<b>9,983</b>	<b>-5.4%</b>
Provisions & Write Offs	4	639	-99.4%	1,551	-99.8%
<b>PBT</b>	<b>9,437</b>	<b>8,341</b>	<b>13.1%</b>	<b>8,431</b>	<b>11.9%</b>
<b>Exceptionals</b>	<b>0</b>	<b>0</b>		<b>0</b>	
<b>Reported Profit</b>	<b>6,841</b>	<b>6,008</b>	<b>13.9%</b>	<b>6,290</b>	<b>8.8%</b>
<b>Assets Under Management</b>	<b>8,27,700</b>	<b>6,49,610</b>	<b>27.4%</b>	<b>7,73,440</b>	<b>7.0%</b>
Off-Balance Sheet AUM					
<b>NIM</b>	<b>7.4%</b>	<b>8.25%</b>	<b>-90</b>	<b>7.54%</b>	<b>-18</b>
<b>AUM (Rs mn)</b>	<b>8,27,700</b>	<b>6,49,610</b>	<b>27.4%</b>	<b>7,73,440</b>	<b>7.0%</b>
Auto/ Utility vehicles	2,73,141	2,07,875	31.4%	2,55,235	7.0%
Tractors	1,15,878	1,03,938	11.5%	1,16,016	-0.1%
Cars	1,65,540	1,42,914	15.8%	1,54,688	7.0%
CV/CE	91,047	77,953	16.8%	85,078	7.0%
Used vehicles & Others	1,82,094	1,16,930	55.7%	1,62,422	12.1%
<b>Asset Quality</b>					
Gross NPAs	37,247	49,760	-25.1%	45,865	-18.8%
Net NPAs	15,726	21,827	-27.9%	19,491	-19.3%
Gross NPA (%)	4.5%	7.7%	-316	5.9%	-143
Net NPA (%)	1.9%	3.4%	-1.5%	2.5%	-0.6%
Coverage (%)	59.5%	58.1%	1.4%	59.0%	0.5%
<b>Credit costs - On Loans</b>	<b>0.00%</b>	<b>0.42%</b>	<b>-0.4%</b>	<b>0.85%</b>	<b>-0.8%</b>
<b>Balance sheet Details</b>					
Total Borrowed Funds	7,53,640	5,59,620	34.7%	7,10,680	6.0%
Loans & Advances & others	7,94,550	6,04,450	31.5%	7,34,160	8.2%
Insurance Brokers PAT	130	210	-38.1%	130	0.0%
Rural Housing PAT	-260	-10	2500.0%	130	-300.0%

Source: Company, PL

## Conference Call Highlights

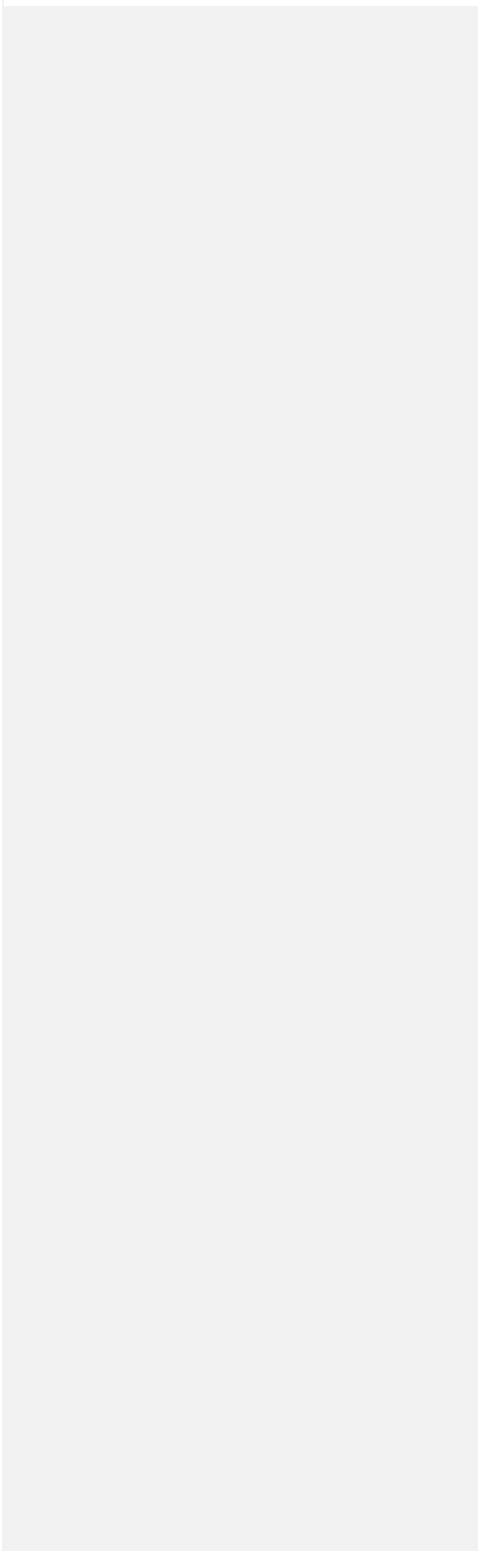
- MMFSL, with a change in its vision, aims to become a leading **and responsible financial solutions partner of choice for Emerging India** rather than captive financial services player in rural and semi urban India.
- **AUM grew by 7% QoQ /27% YoY** as rural demand continues to be buoyant. Rural cash flows will further improve as normal monsoon is expected and infrastructure spends are rising. The company believes rural cash flow will continue to do well in next 3 years. Also, company has gained market share in each of its product offerings and demand remains strong across geographies.
- **NIMs were largely steady at 7.4%** amid rising cost of fund environment and company said that it can absorb upto 25bps increase in interest rate hike, if any.
- **GS-3 assets declined sequentially to 4.5% vs 5.9% in Q3FY23** as collection activity remains robust aided by healthy rural cash flows. The company has taken conscious decision to isolate vulnerable customers who gave more stress historically. Post IRAC norms implementation, it has successfully brought down GNPA's as per IRAC norms under 6%.
- **Pre-owned vehicles book (12% of AUM)** is a key focus area of growth as it is an aggressive growing market with rising collateral value and robust demand. Going forward, company expects to gain more market share in this segment as it is a high yielding product with lower credit cost and stable asset quality.
- **New business book, which contributes to 6% of AUM**, is a key focus area for next couple of years. New age products like micro LAP, leasing business and digital personal loans are attractive. The company has relationships with 200-250 clients in leasing business with an average yield of 12%. Separate team for micro LAP business has been carved out in semi urban and rural areas to tap large headroom.
- As regards to customer profile, company is acquiring more rural and semi urban affluent customers. Although they are marginally low yielding customers, their cost of acquisition is lower and also have better credit quality.
- **Opex continue to remain elevated at 3.2% of Assets** due to investments in future projects and technology. Company is taking conscious efforts to relook into some of the physical processes and transform into digital savvy operations which will result in operating efficiencies and lower opex costs.
- **Targets to add 200 branches** into deep rural areas which will strengthen its customer franchise and aid growth aspirations.
- **RoE stands at 12.1%** and liquidity chest is at 3months liability. Management said that it is comfortable with a 15% RoE on a steady stage basis.



Exhibit 2: FY24/25 NII estimates increased by 3.1%/2.5%, target price increased to Rs 280, maintain HOLD rating

(Rs mn)	Old Estimates		Revised Estimates		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income	68,597	78,589	70,701	80,532	3.1%	2.5%
Operating Profit	41,020	45,164	43,125	47,107	5.1%	4.3%
Net Profit	19,018	21,302	20,593	22,756	8.3%	6.8%
EPS (Rs)	15.4	17.3	16.7	18.5	8.3%	6.8%
Price Target (Rs)	<b>260</b>		<b>280</b>		<b>7.7%</b>	
Reco	<b>HOLD</b>		<b>HOLD</b>			

Source: PL





**Income Statement (Rs. m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
Int. Inc. / Opt. Inc.	96,580	1,11,750	1,22,795	1,34,970
Interest Expenses	39,202	45,767	51,465	53,851
<b>Net interest income</b>	<b>57,378</b>	<b>63,521</b>	<b>70,701</b>	<b>80,532</b>
Growth(%)	1.3	10.7	11.3	13.9
Non-interest income	608	1,273	839	1,007
Growth(%)	(50.0)	109.3	(34.1)	20.0
Net operating income	57,986	64,794	71,541	81,539
<b>Expenditures</b>				
Employees	11,714	15,843	16,165	19,398
Other Expenses	7,752	9,561	10,853	13,566
Depreciation	1,268	1,872	1,398	1,468
Operating Expenses	19,466	25,403	27,018	32,964
<b>PPP</b>	<b>37,252</b>	<b>37,518</b>	<b>43,125</b>	<b>47,107</b>
Growth(%)	(10.3)	0.7	14.9	9.2
Provisions	23,683	9,992	15,605	16,697
<b>Profit Before Tax</b>	<b>13,569</b>	<b>26,981</b>	<b>27,520</b>	<b>30,410</b>
Tax	3,682	7,138	6,927	7,654
Effective Tax rate(%)	27.1	26.5	25.2	25.2
<b>PAT</b>	<b>9,888</b>	<b>19,843</b>	<b>20,593</b>	<b>22,756</b>
Growth(%)	200.5	100.7	3.8	10.5

**Balance Sheet (Rs. m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Source of funds</b>				
Equity	2,466	2,466	2,466	2,466
Reserves and Surplus	1,53,815	1,62,937	1,76,279	1,93,311
Networth	1,56,281	1,65,403	1,78,745	1,95,777
Growth (%)	6.2	5.8	8.1	9.5
Loan funds	5,58,139	6,13,486	6,73,140	8,69,387
Growth (%)	(4.7)	9.9	9.7	29.2
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	38,467	89,435	1,49,876	1,54,868
<b>Total Liabilities</b>	<b>7,52,887</b>	<b>8,68,324</b>	<b>10,01,761</b>	<b>12,20,033</b>
<b>Application of funds</b>				
Net fixed assets	3,929	3,780	4,044	4,044
Advances	6,04,537	6,52,802	7,18,082	7,89,891
Growth (%)	0.8	8.0	10.0	10.0
Investments	84,403	76,052	64,393	65,968
Current Assets	44,004	1,29,345	2,06,926	3,47,656
<b>Net current assets</b>	<b>44,004</b>	<b>1,29,345</b>	<b>2,06,926</b>	<b>3,47,656</b>
Other Assets	16,014	6,346	8,316	12,474
<b>Total Assets</b>	<b>7,52,887</b>	<b>8,68,324</b>	<b>10,01,760</b>	<b>12,20,033</b>
Growth (%)	(2.3)	15.3	15.4	21.8
<b>Business Mix</b>				
AUM	6,49,610	8,27,700	9,93,240	11,91,888
Growth (%)	8.4	27.4	20.0	20.0
On Balance Sheet	6,45,812	8,22,911	9,89,045	11,91,888
% of AUM	99.42	99.42	99.58	100.00
Off Balance Sheet	3,798	4,789	4,195	-
% of AUM	0.58	0.58	0.42	-

**Profitability & Capital (%)**

Y/e Mar	FY22	FY23	FY24E	FY25E
NIM	8.5	7.7	7.6	7.5
ROAA	1.3	1.9	2.3	2.4
ROAE	6.5	9.7	12.0	12.2

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Int. Inc. / Operating Inc.	24,863	25,858	28,625	29,942
Income from securitization	-	-	-	-
Interest Expenses	9,320	10,688	12,419	13,340
<b>Net Interest Income</b>	<b>15,544</b>	<b>15,170</b>	<b>16,206</b>	<b>16,602</b>
Growth (%)	34.2	1.6	2.6	10.2
Non-Interest Income	122	235	291	625
<b>Net Operating Income</b>	<b>15,666</b>	<b>15,405</b>	<b>16,496</b>	<b>17,227</b>
Growth (%)	34.0	2.2	3.6	12.5
Operating expenditure	6,208	6,768	6,513	7,786
<b>PPP</b>	<b>9,458</b>	<b>8,637</b>	<b>9,983</b>	<b>9,441</b>
Growth (%)	-	-	-	-
Provision	6,453	1,985	1,551	4
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	3,005	6,107	8,431	9,437
Tax	776	1,624	2,142	2,596
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.8	26.6	25.4	27.5
<b>PAT</b>	<b>2,229</b>	<b>4,483</b>	<b>6,290</b>	<b>6,841</b>
Growth	(115)	(56)	(30)	14
AUM	6,76,930	7,38,170	7,73,440	8,27,700
YoY growth (%)	20.0	29.1	21.0	27.4
Borrowing	-	-	-	-
YoY growth (%)	-	-	-	-

**Key Ratios**

Y/e Mar	FY22	FY23	FY24E	FY25E
CMP (Rs)	259	259	259	259
EPS (Rs)	8.0	12.7	16.7	18.5
Book value (Rs)	126.7	139.0	145.0	154.9
Adj. BV(Rs)	96.9	126.0	135.0	145.0
P/E(x)	32.3	20.5	15.5	14.0
P/BV(x)	2.0	1.9	1.8	1.7
P/ABV(x)	2.7	2.1	1.9	1.8
DPS (Rs)	0.3	0.8	1.2	1.6
Dividend Payout Ratio(%)	7.7	11.4	17.3	17.2
Dividend Yield(%)	0.1	0.3	0.5	0.6

**Asset Quality**

Y/e Mar	FY22	FY23	FY24E	FY25E
Gross NPAs(Rs m)	96,831	86,484	75,095	64,866
Net NPA(Rs m)	36,796	39,783	34,544	29,838
Gross NPAs to Gross Adv.(%)	7.7	4.5	4.2	-
Net NPAs to net Adv.(%)	3.5	1.9	1.7	1.5
NPA coverage(%)	62.0	54.0	54.0	54.0

**Du-Pont as a % of AUM**

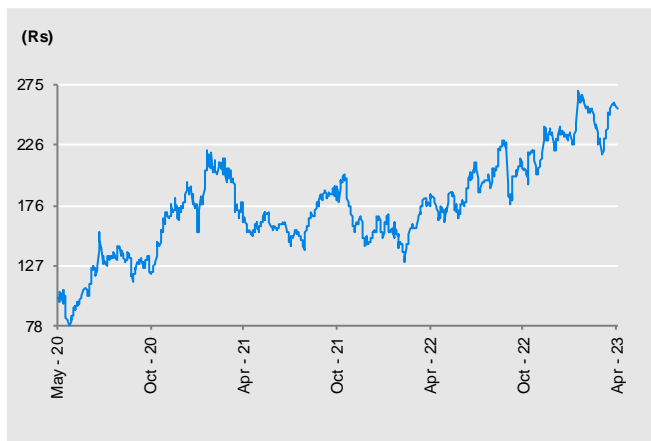
Y/e Mar	FY22	FY23	FY24E	FY25E
NII	9.5	9.4	10.3	10.7
NII INCL. Securitization	9.5	9.4	10.4	10.7
Total income	9.6	9.6	10.5	10.8
Operating Expenses	3.4	3.7	4.1	4.6
PPOP	6.2	5.8	6.4	6.2
Total Provisions	3.9	2.4	2.3	2.2
RoAA	1.3	2.4	2.3	2.4
Avg. Assets/Avg. net worth	5.0	5.0	5.5	5.3
RoAE	6.5	12.0	12.5	12.6

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Apr-23	Hold	260	251
2	05-Feb-23	Hold	260	244
3	06-Jan-23	Hold	230	234
4	03-Nov-22	Hold	230	220
5	06-Oct-22	Hold	200	201
6	29-Jul-22	Hold	200	187
7	07-Jul-22	Hold	200	189
8	04-May-22	Hold	200	182

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	7,835	6,056
2	Cholamandalam Investment and Finance Company	Hold	820	841
3	L&T Finance Holdings	BUY	109	87
4	Mahindra & Mahindra Financial Services	Hold	260	251
5	Manappuram Finance	BUY	144	129
6	Muthoot Finance	BUY	1,315	1,028
7	SBI Cards and Payment Services	Accumulate	935	738
8	Shriram Finance	Hold	1,486	1,405

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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