



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 Dec 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. 36,077 cr
52-week high/low:	Rs. 346 / 176
NSE volume: (No of shares)	43.8 lakh
BSE code:	532720
NSE code:	M&MFIN
Free float: (No of shares)	59.3 cr

Shareholding (%)

Promoters	52.2
FII	13.9
DII	27.0
Others	7.0

Price chart



Price performance

()	1m	3m	6m	12m
Absolute	0.7	-2.0	15.0	39.7
Relative to Sensex	1.8	-7.3	4.9	27.9

Sharekhan Research, Bloomberg

Mahindra & Mahindra Financial Services Ltd

Healthy business momentum and stable collections despite uneven monsoon

NBFC

Sharekhan code: M&MFIN

Reco/View: Buy



CMP: Rs. 292

Price Target: Rs. 345



Upgrade



Maintain



Downgrade

Summary

- M&M Financial Services Limited (M&M Fin) reported healthy disbursement growth of 15% y-o-y at Rs. 4,400 crore in August, exhibiting better credit demand in rural and semi-urban areas.
- Disbursements growth has moderated on expected lines due to a higher base in the trailing 12 months. Loan book grew by 27% y-o-y.
- Collection efficiency remained broadly stable y-o-y as well as m-o-m at 96% despite uneven monsoon. Gross stage-2 assets and gross stage-3 assets remained range bound vs. Q1FY2024.
- At the CMP, the stock trades at 2.0x/1.6x its FY2024E/FY2025E ABV. We reiterate Buy with an unchanged PT of Rs. 345.

Business momentum continues to remain healthy. Moderation in disbursement growth is on expected lines due to a higher base in the trailing 12 months. Incremental growth is coming from new geographies, incremental volumes from new product offerings (SME, LAP, and Digital), increasing share of pre-owned vehicles, and market share gains in the auto/UV segment, among others. Overall, the asset-quality outlook remains stable to positive. However, we remain watchful of the impact of uneven monsoon on rural cashflows, which could lead to an uptick in early bucket delinquencies.

- Growth outlook:** Management is confident of delivering healthy business growth augmented by increased market share in the auto/UV segment, higher share of pre-owned vehicles (which would also support yields), and is gradually diversifying into semi-urban and rural-affluent customers. Disbursement growth was strong in the car, UV, pre-owned vehicle, tractor, and CV segments in Q1FY2024 despite a seasonally weak quarter. Thus, the growth outlook remains strong for 9MFY2024.
- Asset-quality outlook:** Overall, the asset-quality outlook continues to remain stable to positive. However, we remain watchful on the lag impact of uneven monsoon on the rural cashflow, which could lead to an uptick in early bucket delinquencies. Collection efficiency remained broadly stable y-o-y as well as m-o-m at 96% in August, which was a key positive.
- Margins outlook:** NIM outlook remains negative in the near term due to repricing of liabilities at a higher cost, which would be partly offset by gradual passing of the rates and changing mix towards pre-owned vehicles, which is a higher yield segment.

Our Call

Valuation - We maintain Buy on M&M Fin with an unchanged PT of Rs. 345:

M&M Fin continued to report a healthy business momentum as it is benefiting from strong sectoral tailwinds and its parent M&M's strong recovery in auto volumes. We expect this momentum to be sustained in FY2024. Additionally, the company is diversifying its growth engines and increasing its non-vehicle financing share in SME, LAP, and digital segments. Asset-quality metrics are stable on account of strong collection efficiency. At the CMP, the stock trades at 2.0x and 1.6x its FY2024E and FY2025E ABV, respectively.

Key Risks

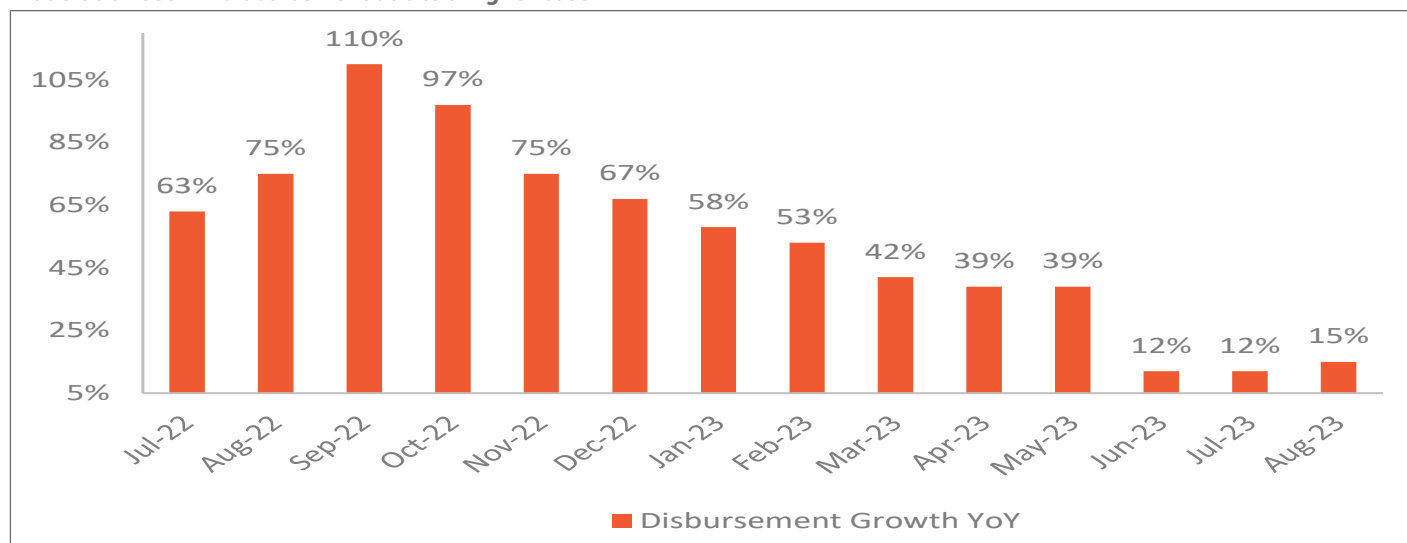
Economic slowdown leading to slower AUM growth, higher-than-expected margin compression, and higher-than-anticipated credit cost.

Valuation

Particulars	FY22	FY23	FY24E	FY25E
NII	5,555	6,106	7,661	8,427
PAT	989	1,984	2,570	2,827
EPS (Rs.)	8.0	16.1	20.8	22.9
ROA (%)	1.3	2.3	2.3	2.3
ROE (%)	6.5	12.1	12.7	12.7
P/E (x)	31.0	17.7	12.2	10.9
P/BV (x)	2.2	2.1	2.0	1.6

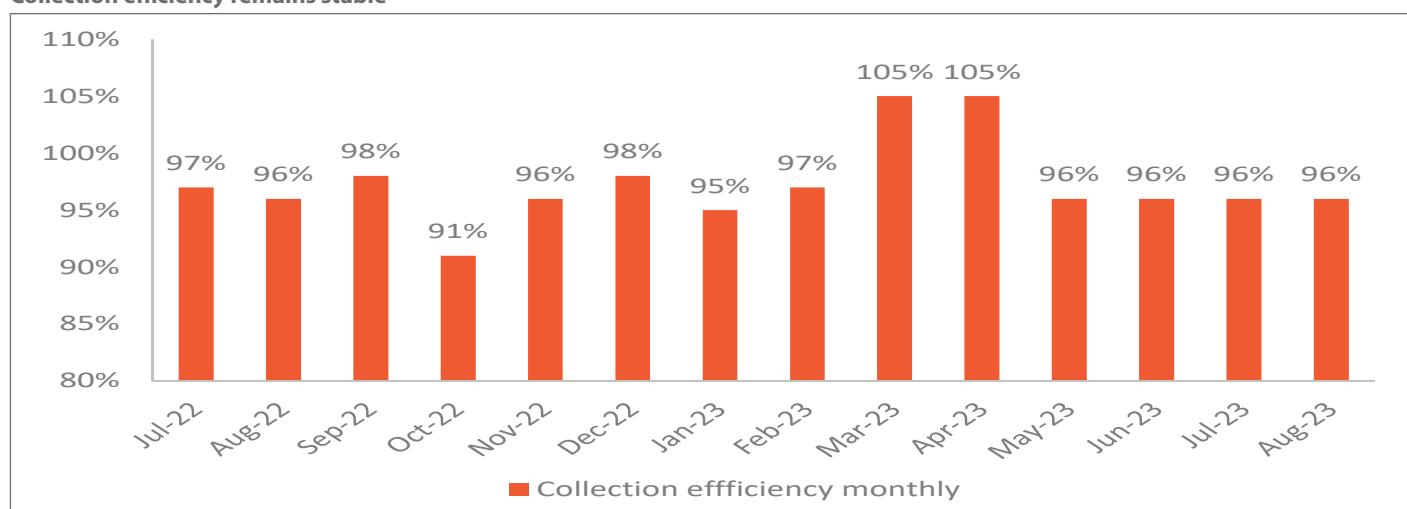
Source: Company; Sharekhan estimates

Moderation seen in disbursement due to a higher base



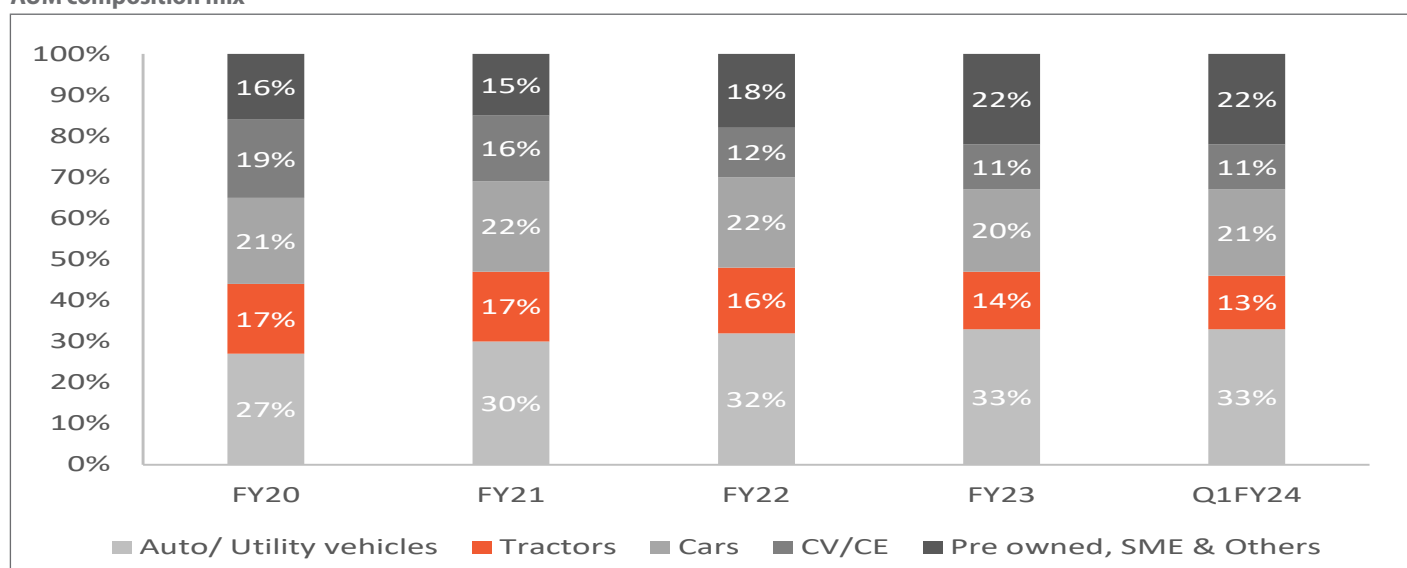
Source: Company data

Collection efficiency remains stable



Source: Company data

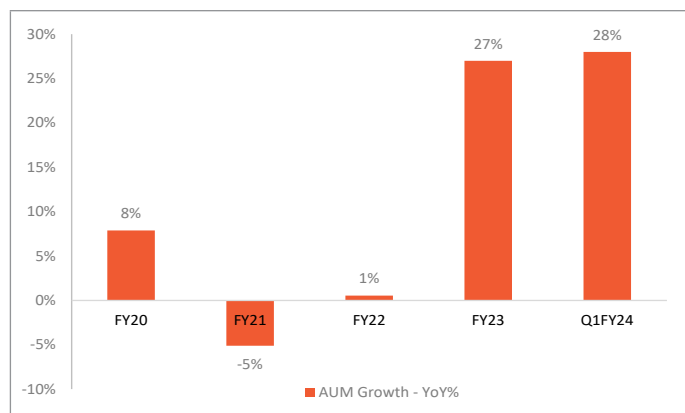
AUM composition mix



Source: Company data

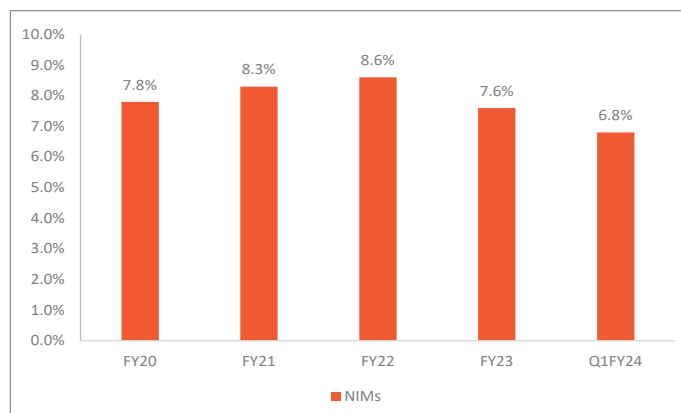
Financials in charts

Trend in AUM growth



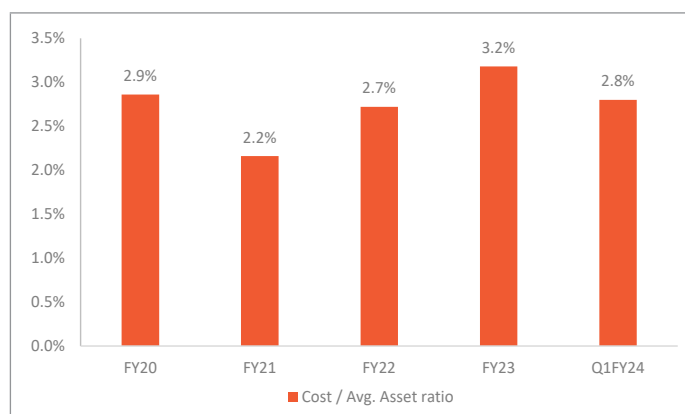
Source: Company, Sharekhan Research

Trend in Margins



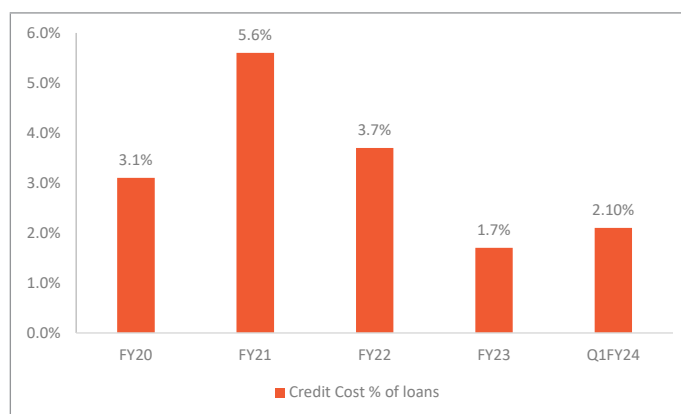
Source: Company, Sharekhan Research

Trend in Cost to Assets



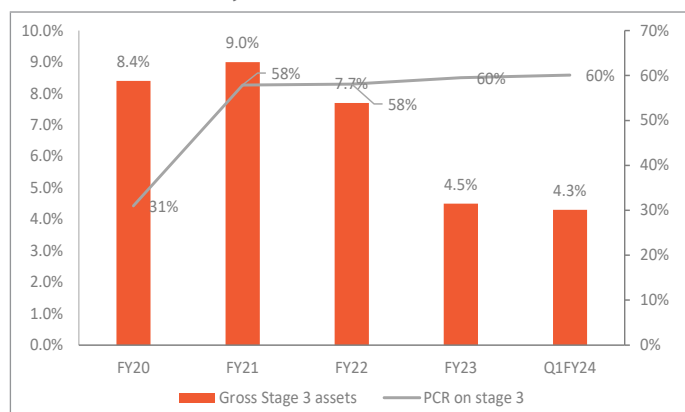
Source: Company, Sharekhan Research

Trend in Credit Cost



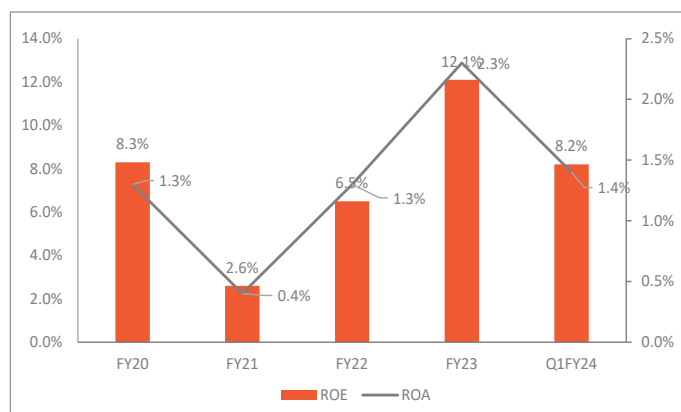
Source: Company, Sharekhan Research

Trend in Asset Quality



Source: Company, Sharekhan Research

Trend in Return Ratio



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector Outlook – Growth outlook encouraging:** Retail credit demand remains robust. Volumes continue to see an uptick. Urban demand has been robust and recovered fully from pandemic-induced disruptions. There are some green shoots related to improvement in rural demand. Asset-quality trends are encouraging. NBFCs with a diverse product offering strategy, strong asset-liability management, robust liquidity buffers, strong risk management framework, and healthy liability franchise have ample growth opportunities and are well placed.

■ **Company Outlook – Outlook positive:** Business momentum remains healthy, as reflected in disbursement volumes. We believe business growth is expected to remain healthy given the robust underlying demand trends, the company's position in the rural/semi-urban customer segment, and an uptick in volumes at the parent company. The earnings trajectory is expected to be healthy, driven by strong business growth and lower credit cost partly offsetting margin pressure.

■ **Valuation – We maintain buy with an unchanged PT of Rs. 345:** M&M Fin continued to report a healthy business momentum as it is benefiting from strong sectoral tailwinds and its parent M&M's strong recovery in auto volumes. We expect this momentum to be sustained in FY2024. Additionally, the company is diversifying its growth engines and increasing its non-vehicle financing share in SME, LAP, and digital segments. Asset-quality metrics are stable on account of strong collection efficiency. At the CMP, the stock trades at 2.0x and 1.6x its FY2024E and FY2025E ABV, respectively.

Peer Comparison

Companies	CMP (Rs/Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
M&M Finance	292	36,077	12.2	10.9	2.0	1.6	12.7	12.7	2.3	2.3
Cholamandalam Finance	1,099	90,411	29.4	24.2	5.3	4.8	19.4	20.2	3.0	2.7

Source: Company, Sharekhan Research

About the company

M&M Fin is a subsidiary of Mahindra and Mahindra Limited. The company is one of India's leading non-banking finance companies focusing on rural and semi-urban areas. The company finances the purchase of new and pre-owned auto and utility vehicles, tractors, cars, commercial vehicles, construction equipment, and SME Financing. The company has a strong network of 1,367 branches, spread across 27 states and 7 Union Territories in India.

Investment theme

Business momentum remains healthy, as reflected in disbursement volumes. We believe business growth is expected to remain healthy, given the robust underlying demand trends, the company's position in the rural/semi-urban customer segment, and an uptick in volumes at the parent company. The earnings trajectory is expected to be healthy, driven by strong business growth and lower credit cost, partly offsetting margin pressure.

Key Risks

Economic slowdown can result in slower loan growth, lower-than-expected margins, and higher-than-anticipated credit cost.

Additional Data

Key management personnel

Mr. Ramesh Iyer	Vice Chairman and Management Director
Mr. Vivek Karve	Chief Financial Officer
Mr. Raul Rebello	Chief Operating Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mahindra & Mahindra Ltd.	52.2
2	Life Insurance Corp of India	7.3
3	HDFC LIFE INSURANCE CO. LTD.	2.5
4	HDFC ASSET MANAGEMENT CO. LTD.	2.4
5	ICICI Prudential AMC Ltd	2.0
6	SBI FUNDS MANAGEMENT LTD	1.9
7	VANGUARD GROUP INC.	1.8
8	Axis AMC LTD	1.5
9	KOTAK MAHINDRA ASSET MANAGEMENT CO LTD	1.5
10	Government Pension Fund - Global	1.4

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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