

Satisfactory performance; reiterate REDUCE on profitability challenges

BFSI - NBFCs ▶ Result Update ▶ July 24, 2024

TARGET PRICE (Rs): 270

MMFS reported a satisfactory set of numbers in Q1FY25, with PAT at Rs5.1bn coming below our estimate of Rs5.4bn and marginally above consensus estimate of ~Rs5bn. The recent focus on acquiring prime customers has caused pressure on yields, but the ECL method parameter (LGD/PD) changes led to credit cost for the quarter coming lower by Rs1.1bn and, hence, driving up profit. The management maintained its aspiration of 2.2% RoA for FY25, with 20% asset growth—which we see as a daunting task, given that improving each input factor driving the RoA is not only difficult but also contingent on many externalities. Given the relatively inferior RoA of ~2%, we see the valuation of MMFS shares being capped. We reiterate our REDUCE rating on the stock, with our unchanged Jun-25E TP of Rs270/share (implying FY26E P/B of 1.5x).

Mahindra Finance: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profits	19,843	17,596	23,480	29,083	35,587
AUM growths (%)	27.4	24.0	19.1	17.5	16.7
NII growths (%)	9.9	9.4	23.5	18.3	17.6
NIMs (%)	7.6	6.8	7.0	7.1	7.2
PPOP growth (%)	0.7	11.4	24.1	20.6	18.8
Adj. EPS (Rs)	16.1	14.2	19.0	23.5	28.7
Adj. EPS growth (%)	100.6	(11.4)	33.3	23.8	22.3
Adj. BV (INR)	138.3	146.8	160.0	177.5	200.4
Adj. BVPS growth (%)	9.3	6.2	9.0	10.9	12.9
RoA (%)	2.3	1.7	1.9	2.0	2.1
RoE (%)	12.1	10.0	12.4	13.9	15.2
P/E (x)	18.4	20.8	15.6	12.6	10.3
P/ABV (x)	2.1	2.0	1.8	1.7	1.5

Source: Company, Emkay Research

ECL methodology parametric changes-led lower credit cost aids earnings

MMFS reported a satisfactory performance in Q1, with PAT coming at Rs5.1bn – a growth of 45% YoY. Business assets continue to grow at ~4% (Rs1.06trn), while disbursement was impacted by the elections, heat wave, and floods in some States. Overall margins contracted on account of soft business and continued focus on the prime customer segment; the management indicated on its call that it has reached the threshold of its prime customers and expects fee income to improve led by improved cross sell. Opex moderated sequentially owing to various projects being implemented; the management expects the trend to continue. Credit cost for the quarter stood at ~1.5% (1.7% on BU assets), better than our estimate of ~1.74% on back of improved collection efficiency and Rs1.08bn benefit arising on account of the change in ECL model assumptions. Overall asset quality remains stable, with GS3/NS at 3.6%/1.5% (vs 3.4%/1.28% QoQ and 4.35%/1.71% YoY).

MMFS maintains aspiration of RoA of 2.2% and asset growth of ~20% in FY25

The management maintained its aspiration of 2.2% RoA for FY25 which we believe is a tough ask, considering the Q1 RoA of 1.8%. To achieve such a target requires RoA of the next 3 quarters to be ~2.4%. The management sees yield moderation (due to increasing share of prime customers) largely done now; hereon, the yield expansion, increasing fee income, some improvement in CoF and Opex, along with stable credit cost, should drive the RoA expansion story. However, we believe improvement in yield and Opex looks ambitious for now, and the credit cost and CoF would remain dependent on the external environment. The management believes increasing disbursement share of pre-owned vehicles to 20% from 17% now should aid yields. On the AUM front, the management is hopeful of achieving ~20% growth, backed by strong disbursement growth. With its Tier 1 ratio at ~16% and CRAR at 18.3%, the management thinks the current growth path will require any capital raise in FY26.

Lower profitability puts ceiling on valuation; reiterate REDUCE

With Q1 results and management commentary largely on expected lines, we keep our FY25-27 estimates broadly unchanged. Overall, we are still not fully convinced about the 2.2% RoA aspiration for FY25, and see the full-FY25 RoA missing the 2% mark. The relatively inferior RoA at ~2% caps the valuation multiple, and we reiterate our REDUCE rating on the stock, with unchanged Jun-25E TP of Rs270/share (implying FY26E P/B of 1.5x).

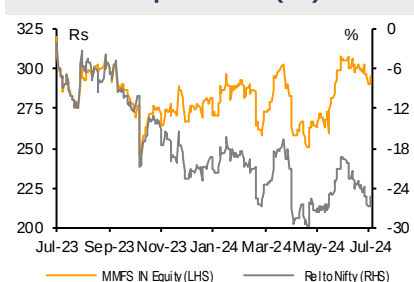
Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(8.7)
CMP (23-Jul-24) (Rs)	295.9

Stock Data	Ticker
52-week High (Rs)	327
52-week Low (Rs)	237
Shares outstanding (mn)	1,235.5
Market-cap (Rs bn)	366
Market-cap (US\$ mn)	4,367
Net-debt, FY25E (Rs mn)	16,126
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	1,240.9
ADTV-3M (US\$ mn)	14.8
Free float (%)	-
Nifty-50	24,479
INR/US\$	83.7
Shareholding, Jun-24	
Promoters (%)	52.2
FPIs/MFs (%)	10.1/30.7

Price Performance

(%)	1M	3M	12M
Absolute	(3.3)	12.3	(5.3)
Rel. to Nifty	(7.2)	2.6	(23.6)

1-Year share price trend (Rs)



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Exhibit 1: Actual vs estimates

MMFS - Earnings Snapshot								Emkay estimates	
Q1FY25 (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Chg QoQ	Chg YoY	Q1FY25	Variation
	Actual	Actual	Actual	Actual	Actual			Estimate	vs Estimate
Business Assets	867,320	937,230	970,480	1,025,970	1,063,390	3.6%	22.6%	1,062,000	0.1%
Disbursement	121,650	133,150	154,360	152,920	127,410	-16.7%	4.7%	127,300	0.1%
NII	15,844	15,865	16,983	18,121	17,836	-1.6%	12.6%	18,905	-5.7%
Total Income	16,750	16,740	18,155	19,710	19,316	-2.0%	15.3%	20,503	-5.8%
PPoP	10,000	9,428	10,625	11,730	11,345	-3.3%	13.5%	12,477	-9.1%
Provisions	5,264	6,266	3,283	3,415	4,482	31.2%	-14.9%	5,277	-15.1%
PBT	4,735	3,163	7,341	8,315	6,864	-17.5%	44.9%	7,199	-4.7%
PAT	3,527	2,352	5,528	6,190	5,130	-17.1%	45.5%	5,380	-4.7%
Credit cost	2.48%	2.78%	1.38%	1.37%	1.72%	35bps	-77bps	2.02%	-31bps
GS3	4.35%	4.29%	3.97%	3.40%	3.60%	20bps	-75bps	3.60%	0bps
NS3	1.78%	1.71%	1.52%	1.28%	1.50%	22bps	-28bps	1.42%	8bps

Source: Company, Emkay Research

Exhibit 2: Valuation matrix

	CMP/TP (Rs/sh)	Upside	Mkt Cap (Rs bn)	P/BV (x)			P/E (x)			RoA (%)			RoE (%)			Book Value (Rs/sh)			EPS (Rs)		
				FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
At current market price	296	-9%	365.5	1.8	1.7	1.5	15.6	12.6	10.3	1.9	2.0	2.1	12.4	13.9	15.2	160	178	200	19.0	23.5	28.7
At target price	270		365.5	1.7	1.5	1.3	14.2	11.5	9.4	1.9	2.0	2.1	12.4	13.9	15.2	160	178	200	19.0	23.5	28.7

Source: Company, Emkay Research

Exhibit 3: Quarterly Earnings Summary

(Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY chg	QoQ chg
Interest Income	30,349	31,530	33,733	35,471	36,122	19.0%	1.8%
Interest Expenses	14,505	15,665	16,750	17,351	18,286	26.1%	5.4%
Net Interest Income	15,844	15,865	16,983	18,121	17,836	12.6%	-1.6%
Other Income	905	875	1,172	1,590	1,480	63.5%	-6.9%
Total Income	16,750	16,740	18,155	19,710	19,316	15.3%	-2.0%
Operating Expenses	6,750	7,312	7,530	7,980	7,970	18.1%	-0.1%
Operating Profit	10,000	9,428	10,625	11,730	11,345	13.5%	-3.3%
Provisions	5,264	6,266	3,283	3,415	4,482	-14.9%	31%
Credit cost (on avg. Business Assets)	2.5%	2.8%	1.4%	1.4%	1.7%	-77bps	35bps
PBT	4,735	3,163	7,341	8,315	6,864	44.9%	-17.5%
Tax	1,209	811	1,813	2,126	1,734	43.5%	-18.4%
Tax rate	25.5%	25.6%	24.7%	25.6%	25.3%		1bps
Reported PAT	3,527	2,352	5,528	6,190	5,130	45.5%	-17.1%
Networth	174,600	169,560	175,230	181,575	186,860	7.0%	2.9%
Business assets	867,320	937,230	970,480	1,025,970	1,063,390	22.6%	3.6%
Disbursements	121,650	133,150	154,360	152,920	127,410	4.7%	-16.7%
GS3 (%)	4.35	4.29	3.97	3.40	3.60	-75bps	20bps
NS3 (%)	1.78	1.71	1.52	1.28	1.50	-28bps	22bps
PCR (%)	60.13	61.18	62.72	63.16	59.79	-34bps	-337bps
ROA - calculated (%)	1.44	0.92	2.07	2.22	1.76	32bps	-46bps
ROE - calculated (%)	8.17	5.47	12.83	13.88	11.14	297bps	-274bps

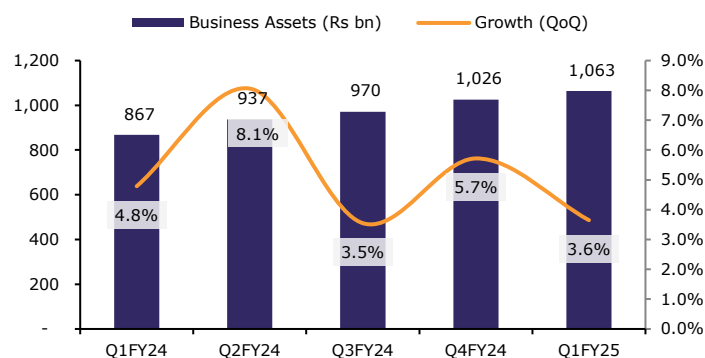
Source: Company, Emkay Research

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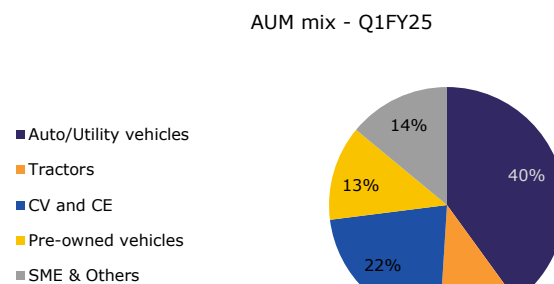
Result in charts

Exhibit 4: Moderated growth on account of weak Q1



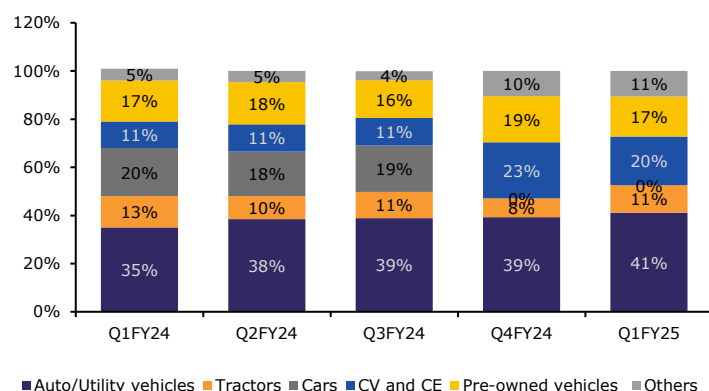
Source: Company, Emkay Research

Exhibit 5: Business asset mix



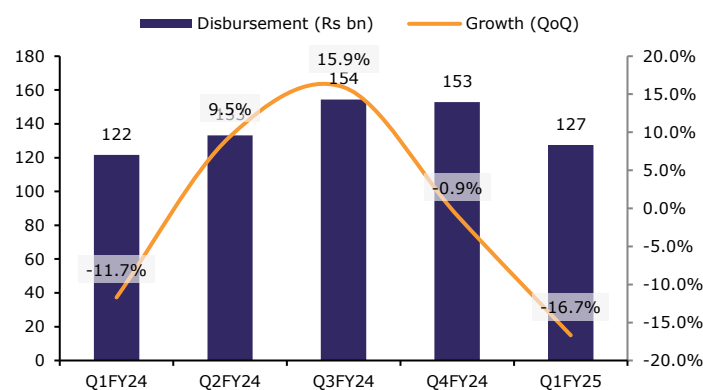
Source: Company, Emkay Research

Exhibit 6: Management aspires to increase the disbursement share of pre-owned vehicles to 20%



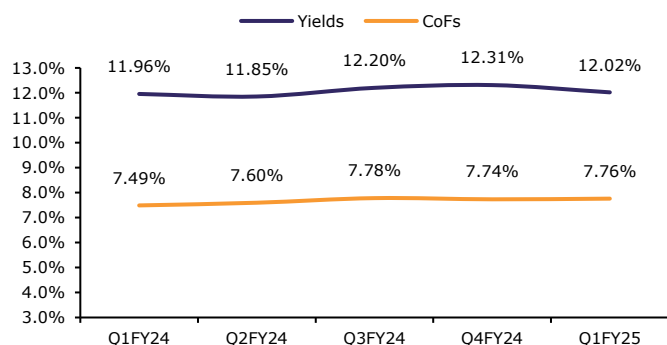
Source: Company, Emkay Research

Exhibit 7: Disbursement impacted by the elections, heat wave, and floods in some States



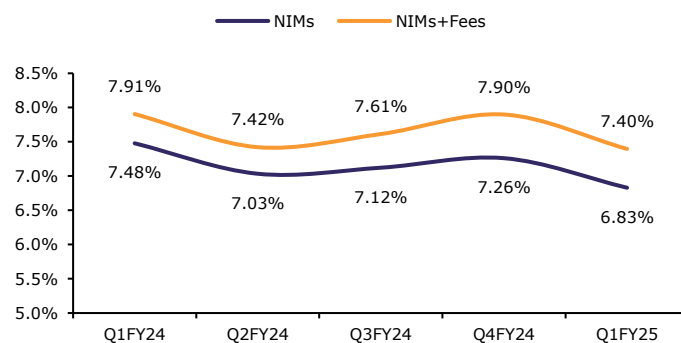
Source: Company, Emkay Research

Exhibit 8: CoFs remain broadly stable

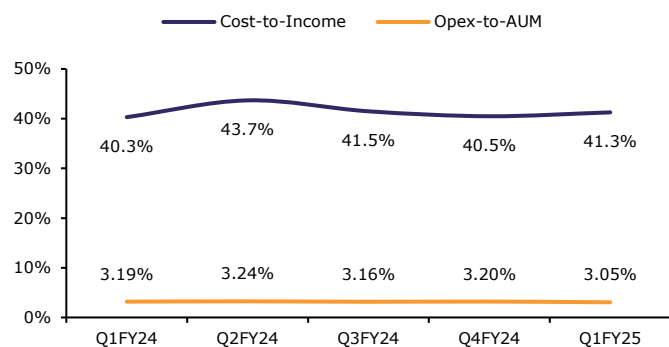


Source: Company, Emkay Research

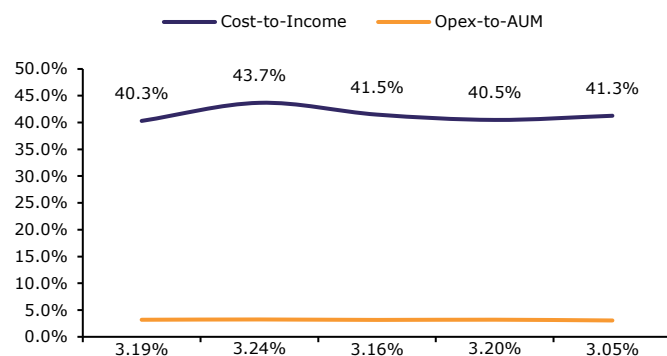
Exhibit 9: Margins impacted on account of change in customer mix



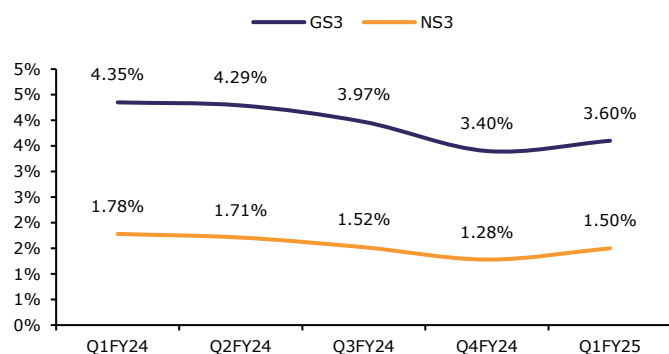
Source: Company, Emkay Research

Exhibit 10: Opex remains broadly stable on account of improved efficiency

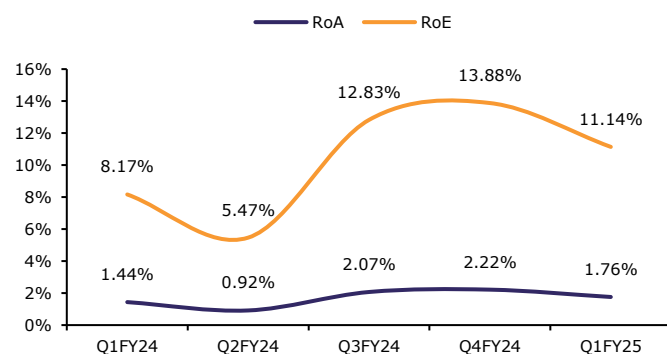
Source: Company, Emkay Research

Exhibit 11: Credit cost improvement led by change in the ECL model

Source: Company, Emkay Research

Exhibit 12: Overall asset quality remains stable

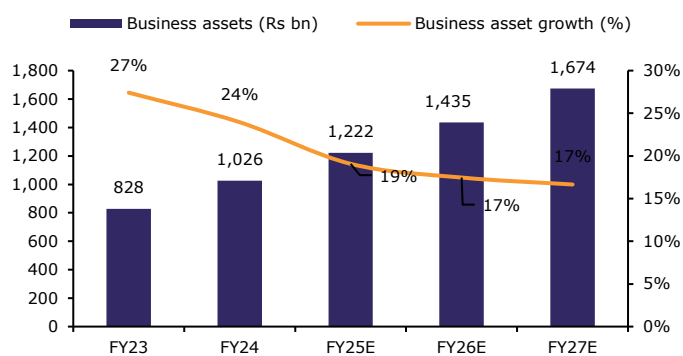
Source: Company, Emkay Research

Exhibit 13: Management aspires to achieve RoA of 2.2% in FY25

Source: Company, Emkay Research

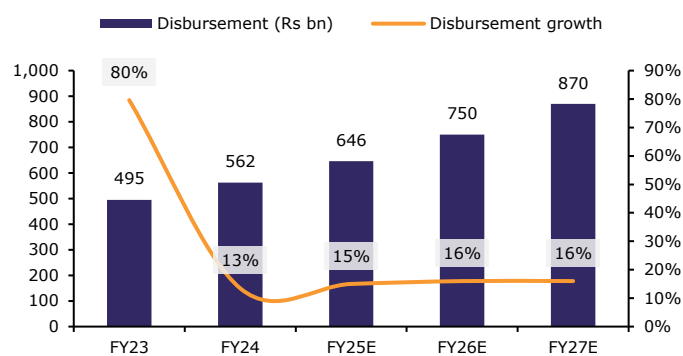
Result in charts

Exhibit 14: We expect business assets to grow ~20%, in line with the management guidance



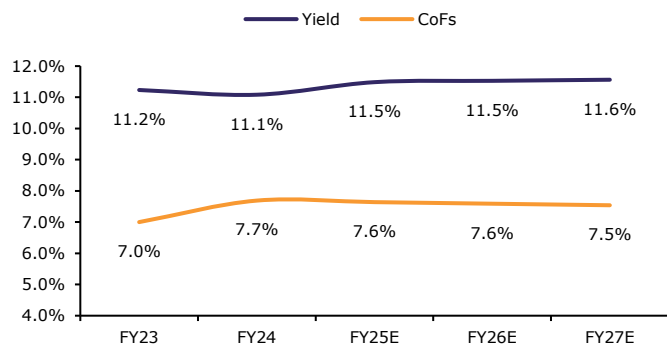
Source: Company, Emkay Research

Exhibit 15: Disbursement to remain robust



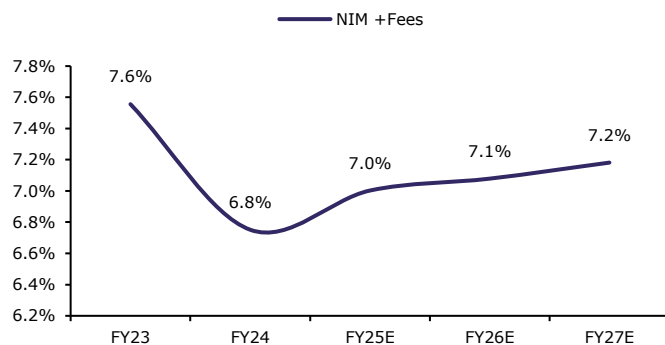
Source: Company, Emkay Research

Exhibit 16: We expect Yield and CoFs to be broadly stable



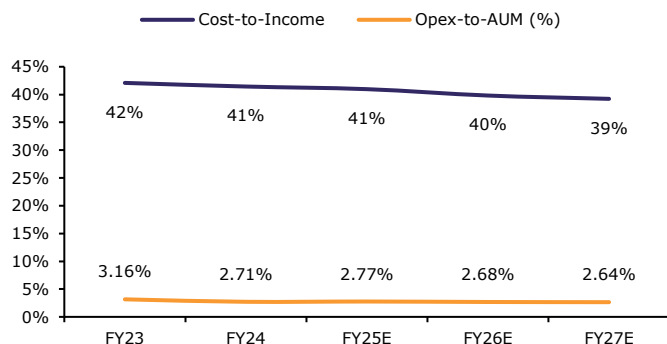
Source: Company, Emkay Research

Exhibit 17: Margin improvement supported by improving fee income



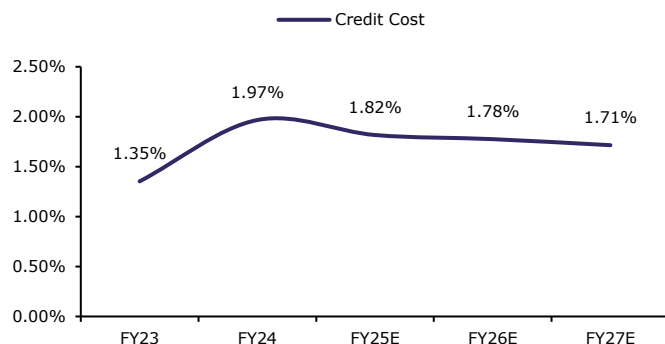
Source: Company, Emkay Research

Exhibit 18: Opex to see some moderation on account of improved efficiency

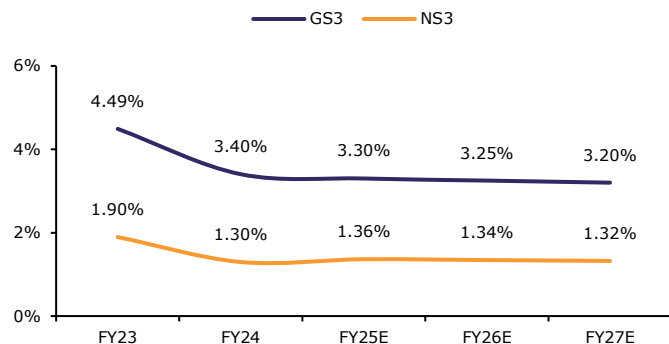


Source: Company, Emkay Research

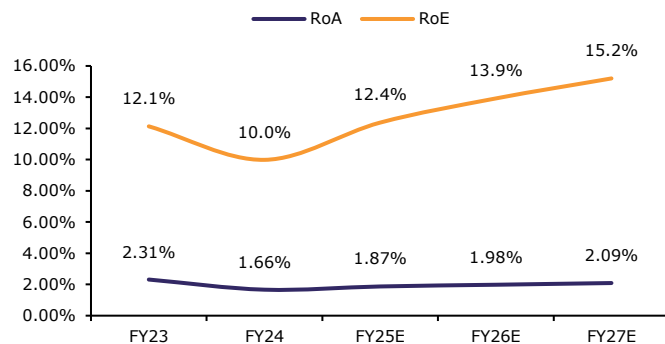
Exhibit 19: Credit cost to be largely stable at 1.7-1.8%



Source: Company, Emkay Research

Exhibit 20: We expect overall asset quality to improve over our forecast period

Source: Company, Emkay Research

Exhibit 21: ROA to remain under pressure in the near term

Source: Company, Emkay Research

Management call highlights

- MMFS registered strong PAT growth in Q1FY25 (45% YoY), on account of lower credit cost and continuous AUM growth of 23% YoY.
- Disbursement for the quarter saw moderate growth of 5% YoY. MMFS has witnessed disruption related to the elections, heat wave in northern states, and floods in North-eastern states in June; these impacted the overall business in Q1FY25. This was further pressured by commentaries by OMEs with regard to growth moderation in Q1.
- The management has a bullish outlook for coming quarters in FY25, and expects amplified growth.
- GS3 numbers remain range-bound and MMFS is focusing on reducing the inter-quarter volatility. The management highlighted that historically, Q1 has always witnessed spike vs Q4. The bump up in GS2+GS3 in Q1 compared with Q4FY24 is on account of delayed payment in the company's tractor loan portfolio in some geographies. The management stressed that these are delays, not a payment default.
- MMFS has received corporate agency license, which would be a great enabler for its fee-based income. Also, MMFS has tied-up with 6 companies – two GI players, two Health insurers, and two general insurers.
- The company has been making a conscious effort to improve its pricing, but expects some contraction in yield due to change in customer mix (more focus on prime customers) and CoFs remaining high (though the management has been putting effort to moderate CoFs); this has resulted in NIM compression sequentially.
- In terms of Opex, the company is moving in the right direction and has been able to reduce its opex ratio QoQ/YoY on account of various projects being exercised, and expects the trend to continue going forward.
- Credit cost has witnessed strong improvement on all the 3 components—Write-offs, Provisions, Settlements. The improvement is led by structural change (write-off now 1.1%) and the management expects this to improve further. The management also expects its LGD and PD assumptions to improve on account of improved collection efficiency.
- The management expects PCR to reduce (come lower than 60%) on account of strong collection efficiency in the past 8 quarters and strong focus on containing its early bucket collection.
- PV accounts for 41% of the overall Business assets, and growth in the segment has been muted (3%); this has been higher in the past. In CE, MMFS is not a very significant player. In the Pre-owned segment, the management expects to revert to high growth, going forward. In the tractor segment, demand cooled down in the last 2 years, but has seen good growth in Q1FY25. In three-wheelers, MMFS is the #2 and has seen good business in Q1. MSME is a new segment, on which the company has been investing; it expects growth to be multifold.
- In terms of collection, the management highlighted it is not seeing any deviation in Q1 collection, relative to the trend of the last 2 financial years.
- Management does not see any need to raise capital in the current FY.
- The management aspires for ROA of 2.2% in FY25 on the back of opex moderating and improving credit cost. The ROA trend is expected to be steeper going forward.
- ECL improvement in stage 1 is on account of improved PD, thus requiring lower provisioning.
- The company aspires for Opex-to-AUM for FY25 at ~2.65% on a full year basis; it expects PPOP margin to maintain current levels, and fee income to improve going forward.
- The management expects the AUM to grow ~20%.
- The management does not see much change in the AUM mix; it stated that it targets taking the incremental disbursement share of pre-owned segment to 20% from the current 17% which would offer higher margins, thus supporting overall yield. On the prime customer segment, the management indicated it has reached its threshold, similar to the PV segment; hence, it does not see any drag on NIMs going forward.
- With regard to Fraud in the last quarter, the management highlighted it has fully provided for that incident and does not need any further provisioning.
- The management takes a balanced view with regard to borrowing, and does not intend to resort to shorter-term borrowings. In terms of ECB, the management indicated that it comes at a higher cost but provides stability on account of the 3-year door-to-door maturity.

Mahindra Finance: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	106,826	131,088	160,071	189,205	221,423
Interest Expense	45,767	64,269	77,573	91,611	106,614
Net interest income	61,059	66,818	82,498	97,594	114,809
NII growth (%)	9.9	9.4	23.5	18.3	17.6
Non interest income	3,735	4,537	5,331	6,288	7,440
Total income	64,794	71,355	87,829	103,882	122,249
Operating expenses	27,276	29,572	35,983	41,367	47,955
PPOP	37,518	41,783	51,846	62,515	74,294
PPOP growth (%)	0.7	11.4	24.1	20.6	18.8
Provisions & contingencies	9,992	18,228	20,415	23,584	26,656
PBT	27,526	23,555	31,431	38,931	47,638
Extraordinary items	(545)	0	0	0	0
Tax expense	7,138	5,959	7,951	9,848	12,051
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	19,843	17,596	23,480	29,083	35,587
PAT growth (%)	100.7	(11.3)	33.4	23.9	22.4
Adjusted PAT	20,388	17,596	23,480	29,083	35,587
Diluted EPS (Rs)	16.1	14.2	19.0	23.5	28.7
Diluted EPS growth (%)	100.6	(11.4)	33.3	23.8	22.3
DPS (Rs)	6.0	6.3	5.7	5.9	5.7
Dividend payout (%)	37.3	44.2	30.0	25.0	20.0
Effective tax rate (%)	25.9	25.3	25.3	25.3	25.3
Net interest margins (%)	7.6	6.8	7.0	7.1	7.2
Cost-income ratio (%)	42.1	41.4	41.0	39.8	39.2
PAT/PPOP (%)	52.9	42.1	45.3	46.5	47.9
Shares outstanding (mn)	1,233.6	1,234.4	1,234.4	1,234.4	1,234.4

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
GNPL - Stage 3	37,170	34,910	40,315	46,639	53,569
NNPL - Stage 3	15,070	12,860	16,126	18,656	21,428
GNPL ratio - Stage 3 (%)	4.5	3.4	3.3	3.3	3.2
NNPL ratio - Stage 3 (%)	1.9	1.3	1.4	1.3	1.3
ECL coverage - Stage 3 (%)	59.5	63.2	60.0	60.0	60.0
ECL coverage - 1 & 2 (%)	1.4	1.2	1.3	1.3	1.4
Gross slippage - Stage 3	0	0	0	0	0
Gross slippage ratio (%)	0.0	0.0	0.0	0.0	0.0
Write-off ratio (%)	3.4	2.1	1.5	1.4	1.3
Total credit costs (%)	1.4	2.0	1.8	1.8	1.7
NNPA to networth (%)	8.8	7.1	8.1	8.5	8.6
Capital adequacy					
Total CAR (%)	22.5	18.9	18.4	17.8	17.6
Tier-1 (%)	19.9	16.4	16.0	15.4	15.2
Miscellaneous					
Total income growth (%)	11.7	10.1	23.1	18.3	17.7
Opex growth (%)	31.5	8.4	21.7	15.0	15.9
PPOP margin (%)	4.3	3.8	4.0	4.0	4.1
Credit costs-to-PPOP (%)	26.6	43.6	39.4	37.7	35.9
Loan-to-Assets (%)	82.6	86.1	87.2	88.0	88.7
Yield on loans (%)	14.5	14.1	14.2	14.2	14.2
Cost of funds (%)	7.0	7.7	7.6	7.6	7.5
Spread (%)	7.5	6.5	6.6	6.7	6.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	2,467	2,469	2,469	2,469	2,469
Reserves & surplus	168,422	179,106	195,560	217,397	245,896
Net worth	170,889	181,575	198,029	219,866	248,365
Borrowings	749,459	922,252	1,108,704	1,305,596	1,522,712
Other liabilities & prov.	41,818	47,765	50,154	52,661	55,295
Total liabilities & equity	962,166	1,151,592	1,356,887	1,578,123	1,826,371
Net loans	794,547	991,952	1,182,617	1,388,932	1,619,906
Investments	99,886	96,508	106,159	116,775	128,452
Cash, other balances	28,321	26,891	28,384	28,683	29,671
Interest earning assets	922,754	1,115,351	1,317,161	1,534,389	1,778,029
Fixed assets	6,956	8,111	9,328	10,727	12,336
Other assets	32,456	28,130	30,398	33,007	36,006
Total assets	962,166	1,151,592	1,356,887	1,578,123	1,826,371
BVPS (Rs)	138.3	146.8	160.0	177.5	200.4
Adj. BVPS (INR)	138.3	146.8	160.0	177.5	200.4
Gross loans	827,700	1,025,970	1,221,653	1,435,059	1,674,034
Total AUM	995,650	1,185,602	1,417,033	1,670,886	1,955,861
On balance sheet	827,700	1,025,970	1,221,653	1,435,059	1,674,034
Off balance sheet	167,950	159,632	195,380	235,827	281,827
Disbursements	495,410	562,080	646,392	749,815	869,785
Disbursements growth (%)	79.6	13.5	15.0	16.0	16.0
Loan growth (%)	31.5	24.8	19.2	17.4	16.6
AUM growth (%)	27.4	24.0	19.1	17.5	16.7
Borrowings growth (%)	34.3	23.1	20.2	17.8	16.6
Book value growth (%)	9.3	6.2	9.0	10.9	12.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	18.4	20.8	15.6	12.6	10.3
P/B (x)	2.1	2.0	1.8	1.7	1.5
P/ABV (x)	2.1	2.0	1.8	1.7	1.5
P/PPOP (x)	0.8	0.7	0.6	0.5	0.4
Dividend yield (%)	2.0	2.1	1.9	2.0	1.9
Dupont-RoE split (%)					
NII/avg AUM	7.1	6.1	6.3	6.3	6.3
Other income	0.4	0.4	0.4	0.4	0.4
Securitization income	0.0	0.0	0.0	0.0	0.0
Opex	1.3	1.1	1.2	1.1	1.1
Employee expense	1.8	1.6	1.6	1.6	1.6
PPOP	4.3	3.8	4.0	4.0	4.1
Provisions	1.2	1.7	1.6	1.5	1.5
Tax expense	0.8	0.5	0.6	0.6	0.7
RoAUM (%)	2.4	1.6	1.8	1.9	2.0
Leverage ratio (x)	5.3	6.2	6.9	7.4	7.7
RoE (%)	12.1	10.0	12.4	13.9	15.2
Quarterly data					
Rs mn, Y/E Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
NII	15,844	15,865	16,983	18,121	17,836
NIM(%)	6.8	6.5	6.8	7.1	6.6
PPOP	10,000	9,428	10,625	11,730	11,345
PAT	3,527	2,352	5,528	6,190	5,130
EPS (Rs)	2.86	1.90	4.48	5.01	4.15

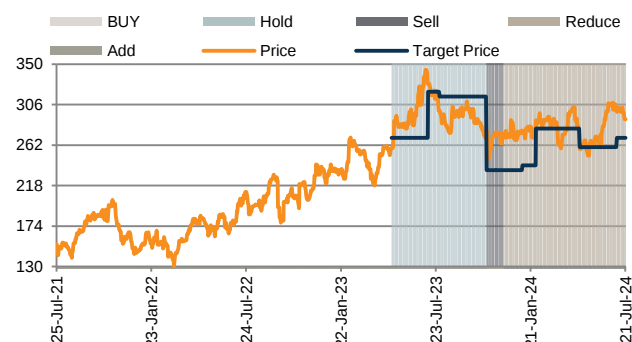
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
04-Jul-24	298	270	Reduce	Avinash Singh
05-Jun-24	274	260	Reduce	Avinash Singh
07-May-24	257	260	Reduce	Avinash Singh
24-Apr-24	258	260	Reduce	Avinash Singh
06-Apr-24	299	280	Reduce	Avinash Singh
31-Jan-24	289	280	Reduce	Avinash Singh
05-Jan-24	277	240	Reduce	Avinash Singh
30-Nov-23	274	235	Reduce	Avinash Singh
28-Oct-23	277	235	Sell	Avinash Singh
30-Jul-23	300	315	Hold	Avinash Singh
08-Jul-23	329	320	Hold	Avinash Singh
29-Apr-23	259	270	Hold	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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