




Mahindra & Mahindra Financial

Estimate change 
TP change 
Rating change 

CMP: INR296

TP: INR350 (+18%)

Buy

Operationally weak; earnings in line due to low credit costs

NIM contracts ~45bp QoQ as yields decline

- Mahindra & Mahindra Financial's (MMFS) 1QFY25 PAT grew ~45% YoY to ~INR5.1b (in line). NII stood at INR17.8b (5% miss), up ~13% YoY. Other income rose ~63% YoY to ~INR1.5b, driven by healthy fee income.
- NIM (calc.) declined ~45bp QoQ to ~6.6%. Credit costs stood at ~INR4.5b, translating into annualized credit costs of ~1.7% (vs. ~2.5% in 1QFY24).
- Business momentum in 1Q was muted due to heatwaves in the north region, general elections in May'24, and floods in the northeastern region in Jun'24. The management exuded confidence that the disbursement momentum will improve going ahead. We estimate a ~16% CAGR in AUM over FY24-FY26.
- Improvements in collection, reduction in repossession and settlement losses would result in a moderation in the loss given default (LGD), which will further help to reduce the required provision cover (PCR). This will translate into a reduction in ECL provisions and corresponding credit costs. We estimate a ~40% PAT CAGR over FY24-FY26, with FY26E RoA/RoE of 2.4%/15.5%. **Retain BUY with a TP of INR350 (based on 1.8x FY26E BVPS).**
- **Key risks:** a) Muted yields because of higher competitive intensity and higher proportion of prime customers, b) Asset quality volatility because of floods in certain parts of the country

Yields under pressure from competition; incremental CoF to moderate

- Intense competition in PVs, especially from PSU banks, has not allowed vehicle financiers to take the requisite price hikes. As a result, the yield (calc.) declined ~45bp QoQ to 14.3%, leading to a ~45bp fall in spreads.
- Borrowing costs (CoB) stood at ~7.8% in 1QFY25. The management shared that it expects CoB to remain stable at the current level and will benefit from any cut in interest rates. We do not see NIM improvement levers with MMFS and estimate NIM to decline in FY25 and then expand to 7.3% in FY26 (vs. 7.2% in FY24).

Key takeaways from the management commentary

- MMFS has increased the lending rates in the last two quarters, which the company expects will boost yields over the rest of FY25.
- The management has guided business asset growth of around 17%-20%.
- The company expects credit costs of ~1.4% in FY25, which may decline to ~1.2-1.3% in FY26 and beyond.

Valuation and View

- MMFS would hopefully now start demonstrating more predictability in its earnings performance. A strong liability franchise and deep moats in rural/semi-urban customer segments position MMFS well to reap the rewards of the hard work that is going into evolving this franchise.
- MMFS currently trades at 1.6x FY26E P/BV. Risk-reward is favorable for a PAT CAGR of ~40% over FY24-FY26E and FY26 RoA/RoE of 2.4%/15.5%. Maintain BUY with a TP of INR350 (based on 1.8x FY26E BVPS).

Bloomberg	MMFS IN
Equity Shares (m)	1236
M.Cap.(INRb)/(USD\$)	365.5 / 4.4
52-Week Range (INR)	327 / 237
1, 6, 12 Rel. Per (%)	-7/-6/-29
12M Avg Val (INR M)	1173

Financials & valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	71.4	85.8	102.2
PPP	41.8	52.9	65.5
PAT	17.6	27.9	34.7
EPS (INR)	14.3	22.6	28.1
EPS Gr. (%)	-11	58	24
BV/Sh.(INR)	155	171	191

Ratios

NIM (%)	7.2	7.1	7.3
C/I ratio (%)	41.4	38.3	35.9
RoA (%)	1.7	2.2	2.4
RoE (%)	9.9	13.9	15.5
Payout (%)	44.2	31.1	28.5

Valuations

P/E (x)	20.8	13.1	10.6
P/BV (x)	1.9	1.7	1.6
Div. Yield (%)	2.1	2.4	2.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	52.2	52.2	52.2
DII	30.7	28.6	27.0
FII	10.2	12.1	14.1
Others	7.0	7.2	6.8

FII Includes depository receipts

Quarterly Performance

(INR Mn)

Y/E March	FY24				FY25E				FY24	FY25E	1QFY25E	v/s est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Interest income	30,349	31,535	33,733	35,471	36,122	38,289	40,778	42,904	1,31,088	1,58,093	37,280	-3
Interest Expenses	14,505	15,665	16,750	17,351	18,286	19,328	20,391	21,170	64,269	79,175	18,426	-1
NII	15,844	15,870	16,983	18,121	17,836	18,961	20,387	21,734	66,818	78,917	18,854	-5
YoY Growth (%)	5.3	9.6	9.4	13.2	12.6	19.5	20.0	19.9	9.4	18.1	19.0	
Other income	905	870	1,172	1,590	1,480	1,497	1,693	2,212	4,537	6,882	1,041	42
Net Total Income	16,750	16,740	18,155	19,710	19,316	20,458	22,080	23,946	71,355	85,799	19,895	-3
YoY Growth (%)	6.9	8.7	10.1	14.4	15.3	22.2	21.6	21.5	10.1	20.2	18.8	
Operating Expenses	6,750	7,312	7,530	7,980	7,970	8,116	8,283	8,500	29,572	32,869	7,290	9
Operating Profit	10,000	9,428	10,625	11,730	11,345	12,342	13,797	15,446	41,783	52,930	12,605	-10
YoY Growth (%)	5.7	9.2	6.4	24.2	13.5	30.9	29.9	31.7	11.4	26.7	26.1	
Provisions	5,264	6,266	3,284	3,415	4,482	4,382	3,719	2,918	18,228	15,500	5,519	-19
Profit before Tax	4,735	3,163	7,341	8,315	6,864	7,960	10,078	12,528	23,555	37,430	7,086	-3
Tax Provisions	1,209	811	1,813	2,126	1,734	2,030	2,570	3,211	5,959	9,545	1,807	-4
Net Profit	3,527	2,352	5,528	6,190	5,130	5,930	7,508	9,317	17,596	27,885	5,279	-3
YoY Growth (%)	58.2	-47.5	-12.1	-9.5	45.5	152.2	35.8	50.5	-11.3	58.5	49.7	
Key Operating Parameters (%)												
Yield on loans (Cal)	14.9	14.6	14.7	14.7	14.3				14.7	14.6		
Cost of funds (Cal)	7.5	7.6	7.8	7.8	7.8				8.0	8.0		
Spreads (Cal)	7.4	6.9	6.9	7.0	6.5				6.7	6.6		
Credit Cost (Cal)	~	2.8	1.4	1.4	1.7				2.0	1.4		
Cost to Income Ratio	40.3	43.7	41.48	40.49	41.3				41.4	38.3		
Tax Rate	25.5	25.6	24.7	25.6	25.3				25.3	25.5		
Balance Sheet Parameters												
Loans (INR B)	832	899	934	992	1028				992	1172		
Change YoY (%)	42.6	29.3	27.2	24.8	31.0				24.8	18.2		
Borrowings (INR B)	790	849	864	922	953				919	1085		
Change YoY (%)	43.6	26.0	21.9	23.1	28.9				22.6	18.1		
Loans/Borrowings (%)	105.4	106.0	108.0	107.6	107.8				108	108		
Debt/Equity (x)	4.5	5.0	4.9	5.1	5.1				4.8	5.1		
Asset Quality Parameters (%)												
GS 3 (INR B)	37.7	40.2	38.5	34.9	37.9				34.9	38.7		
Gross Stage 3 (% on Assets)	4.3	4.3	4.0	3.4	3.6				3.4	3.2		
NS 3 (INR B)	15.0	15.6	14.4	12.9	15.2				12.9	17.4		
Net Stage 3 (% on Assets)	1.8	1.7	1.5	1.3	1.5				1.3	1.5		
PCR (%)	66.9	61.2	62.7	63.2	-40.2				63.2	55.0		
ECL (%)	4.0	4.0	3.8	3.3	3.3				3.8	3.3		
Return Ratios (%)												
ROAA	1.4	0.9	2.1	2.2	1.8				1.7	2.2		
ROAE	8.2	5.5	12.8	13.9	11.1				9.9	13.9		

E: MOFSL estimates

Disbursement weak but expected to improve; AUM grew 23% YoY

- Business assets at ~INR1.06t grew ~23% YoY. Business momentum was weak because of external factors like heatwave, general elections, and floods.
- The company aims to increase pre-owned vehicle financing to 20% of incremental sourcing to improve margins.
- Despite a moderate 5% YoY growth in overall disbursements in 1QFY25, specific segments look promising. The management has guided for stronger business momentum in the subsequent quarters. We estimate a CAGR of ~16% in AUM over FY24-26.

Seasonal deterioration in asset quality; credit costs aided by decline in provision cover

- MMFS reported a seasonal deterioration in asset quality, with GS3/NS3 increasing ~15bp/20bp QoQ to ~3.6%/1.5%. Stage 2 assets increased ~110bp QoQ to ~6.1%, which resulted in 30+dpd increasing to ~9.7% (4QFY24: 8.4%).
- MMFS reduced its provision coverage ratio for Stage 1, 2 and 3. Stage 3 PCR declined ~340bp QoQ to ~59.8%. Write-offs stood at ~INR3.2b (1.5% of TTM EAD).
- We estimate credit costs (as % of assets) of 1.2%/1.3% for FY25/26.

**Highlights from the management commentary****Guidance**

- Transmitted rates in the last two quarters, which will boost yields for the rest of the year.
- Guided for business asset growth in 17%-20%.
- Guided for credit costs of ~1.4% in FY25 and expects credit costs of 1.2-1.3% in FY26 and beyond.
- Business models are predicated to improve NIM to the guided levels of ~7%. However, it is a tough task.

Disbursements and loan growth

- Acknowledged that disbursement growth of ~5% YoY was weaker than expectations. However, MMFS aims to accelerate business growth for the rest of FY25.
- Disbursement growth and business asset growth were moderate in 1Q, but this is not reflective of the rest of the year.
- MMFS is moving to high-value vehicle loans as well, which will keep MMFS in good stead for delivering disbursement growth.

Commentary on vehicle product segments

- PVs comprise ~40% of the product mix. Macros in PVs have not been great.
- Tractor is a fine balance between growth, margins and profitability.
- MMFS is ranked third in 3Ws and the growth has been mute.

Yields

- The company has hit the ceiling on low NIM and affluent product threshold.

- 4Q is much stronger in yields because of interest write-backs from a sharp improvement in Stage 3 numbers. Penal charges are also higher in 4Q.

Fee income

- Corporate agency license will be a big enabler for improving the fee income. The company has already done six insurance tie-ups - two each in life, non-life and health. Fee income will strengthen going forward.
- Looking at sweating out fee-based income - Corporate agency license was obtained in 1QFY25.

Liabilities and CoB

- CoF remains elevated and it is taking steps to see that CoF moderation continues to happen going forward.
- Will aggressively look to add CPs over the next couple of quarters.
- Incremental CoB was around 7.8%-8.0% and it guided for the borrowing costs to remain in the same range for the rest of the year.

Asset quality

- Focused on reducing inter-quarter volatility in asset quality and has delivered on that front. Confident of ensuring that both GS3 and GS2 will remain range-bound in the year going forward.
- Expects to keep write-offs at similar levels or bring it down.
- Aims to keep Stage 2 + Stage 3 at Mar'24 levels or slightly lower.

Provision coverage

- LGD declined because of improvements in collections and it will continue to decline. Benefit on the ECL coverage was because of a decline in the LGDs, which is further a reflection of collection intensity over the last few quarters.
- LGD/PD are influenced by the collection throughput. MMFS has seen strong collections over the last eight quarters. Settlement losses have declined.
- Early bucket movements are contained and the management guided that the LGDs will only decline from hereon.
- LGD benefit, which is there in Stage 3, is also there in Stage 1. Focus on early bucket collections is helping to bring down the delinquencies and PD assumptions.
- Going ahead, MMFS expects an improvement in LGD assumptions (because some of the troubled portfolio, which was there during Covid, will move out of the 42-month ECL model). It expects further moderation in LGD and PCR.
- MMFS did an ECL model refresh - moved from one vehicle cohort to vehicle sub-segments based ECL provisioning and introduced other macro variables - this refresh will be done once a year, typically every 3Q of the fiscal year.

Competitive Landscape

- In PVs, MMFS is ranked No. 3 and faces competition from PSU banks.
- Fleet operators are moving to banks - NBFC share in CV has been coming down; used CV is still a segment where NBFCs are able to do well.

Opex

- Will not compromise on investments for reducing opex.
- Two biggest costs - branch costs and employee costs - are under control, which should help MMFS reduce opex.

Tractors and CV

- Tractors and CVs are cyclical businesses; MMFS is making interim corrections in specific locations, where it foresees stress on a cross-cycle basis.

Aspirational RoA of 2.2% in FY25

- Opex and credit costs are operationally moving down and there are levers on NIM for the next three quarters.

Capital Raise

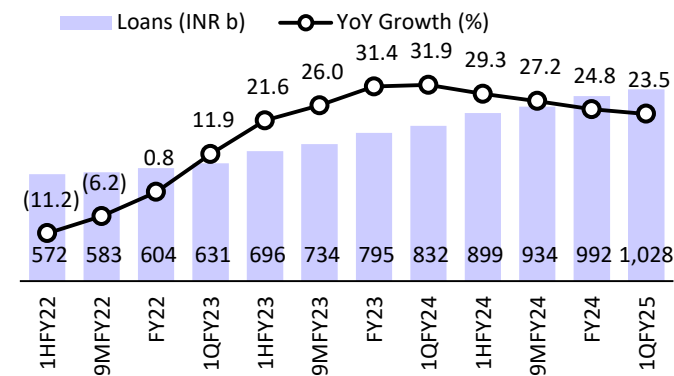
- Does not anticipate the need to raise equity capital in FY25; It could contemplate raising capital in 2Q/3Q of FY26.

Others

- Pre-owned vehicle segment, which is 17-18% of the incremental sourcing, has to be increased to ~20% of the disbursements.
- Prime vehicles and affluent customer segment: MMFS has already hit the upper threshold on the PV segment as well as the affluent customer segment. There will be no negative drag on NIM because of higher ticket size vehicles.
- The number of contracts was lower YoY in 1Q because the company has stopped doing CD and personal loans.
- SME business grew 68% YoY. SME contributed ~5% to the incremental disbursements.

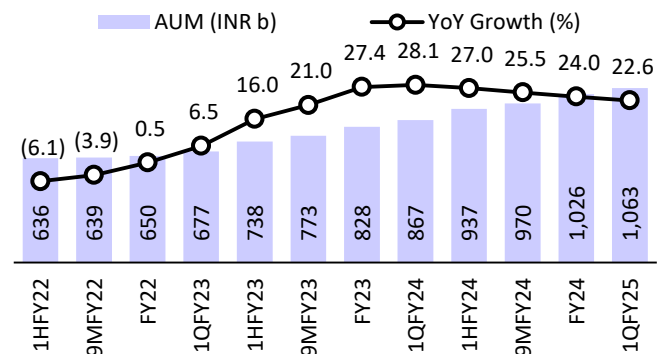
Key exhibits

Exhibit 1: On-book loans grew ~24% YoY



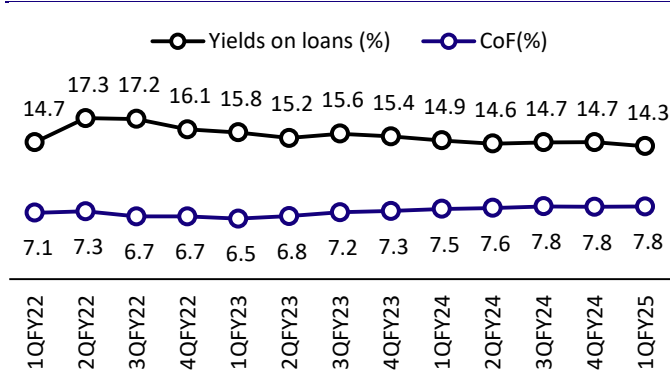
Source: MOFSL, Company

Exhibit 2: Business assets grew ~23% YoY



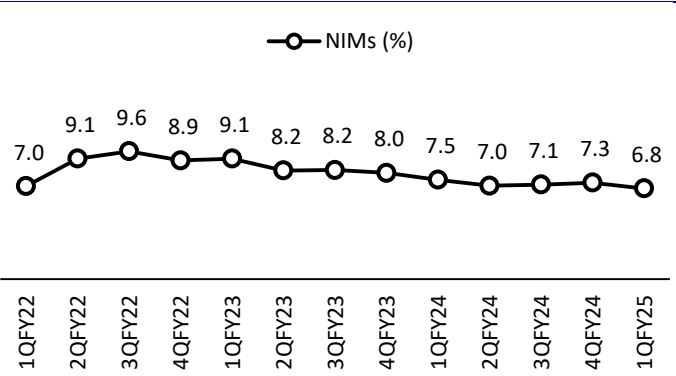
Source: MOFSL, Company

Exhibit 3: CoF (calc.) stable QoQ



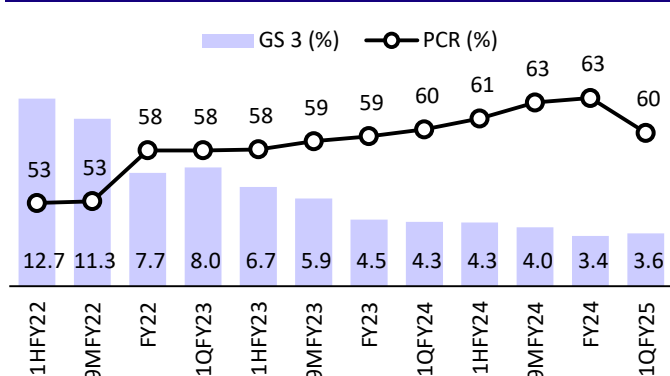
Source: MOFSL, Company

Exhibit 4: NIMs (calc.) declined ~45bp QoQ to 6.8%



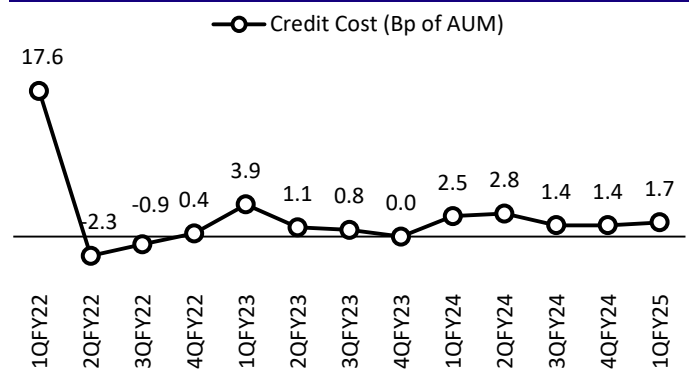
Source: MOFSL, Company

Exhibit 5: GS3 deteriorated ~20bp QoQ



Source: MOFSL, Company

Exhibit 6: Annualized credit costs in 1QFY25 stood at 1.7%

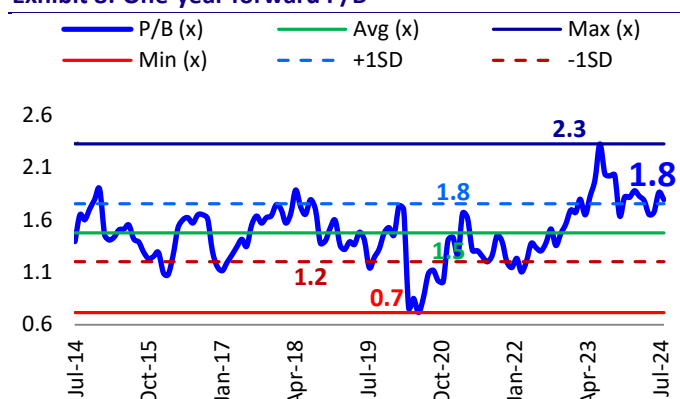


Source: MOFSL, Company

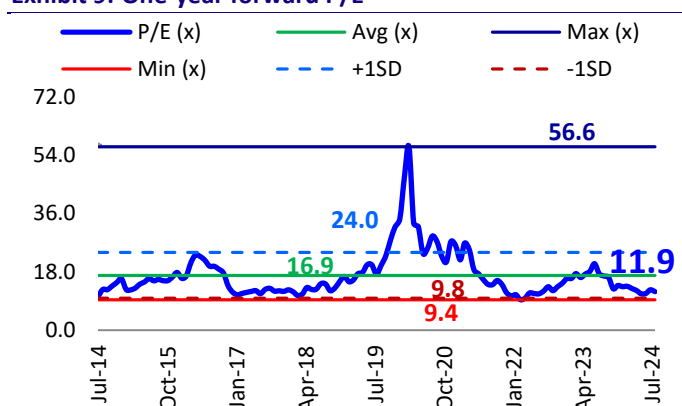
Exhibit 7: Our estimates are largely unchanged

INR B	Old Est		New Est		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
NII (incl. Sec. Inc)	84.8	99.6	83.8	99.7	-1.1	0.1
Other Income	2.1	2.6	2.0	2.5	-3.8	-3.8
Total Income	86.8	102.2	85.8	102.2	-1.2	0.0
Operating Expenses	32.9	36.7	32.9	36.7	0.0	0.0
Operating Profits	54.0	65.5	52.9	65.5	-1.9	0.0
Provisions	16.2	18.6	15.5	18.9	-4.4	1.8
PBT	37.7	46.9	37.4	46.6	-0.8	-0.7
Tax	9.6	12.0	9.5	11.9	-0.8	-0.7
PAT	28.1	34.9	27.9	34.7	-0.8	-0.7
Loans	1,172	1,341	1,172	1,341	0.1	0.0
Borrowings	1,100	1,261	1,085	1,242	-1.3	-1.5
Margins	7.3	7.4	7.1	7.3	-2.8	-1.5
Credit Cost	1.5	1.4	1.4	1.5	-4.4	1.8
RoA on AUM	2.2	2.4	2.2	2.4	-0.3	0.5
RoE	14.0	15.6	13.9	15.5	-0.8	-0.6

Source: MOFSL, Company

Exhibit 8: One-year forward P/B

Source: MOFSL, Company

Exhibit 9: One-year forward P/E

Source: MOFSL, Company

Financials and valuations

Income Statement

Income Statement								INR m
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	86,146	99,417	1,02,670	94,756	1,06,826	1,31,088	1,58,093	1,86,001
Interest Expended	39,446	48,287	47,332	39,202	45,767	64,269	79,175	91,930
Net Interest Income	46,700	51,130	55,338	55,554	61,059	66,818	78,917	94,071
Change (%)	33.3	9.5	8.2	0.4	9.9	9.4	18.1	19.2
Other Operating Income	1,084	1,561	1,283	1,824	2,462	2,954	4,903	5,639
Other Income	869	1,473	1,277	608	1,273	1,583	1,979	2,473
Net Income	48,653	54,164	57,897	57,986	64,794	71,355	85,799	1,02,183
Change (%)	35.0	11.3	6.9	0.2	11.7	10.1	20.2	19.1
Operating Expenses	18,476	20,182	16,325	20,734	27,276	29,572	32,869	36,710
Operating Profits	30,177	33,982	41,573	37,252	37,518	41,783	52,930	65,473
Change (%)	39.1	12.6	22.3	-10.4	0.7	11.4	26.7	23.7
Provisions	6,352	20,545	37,348	23,683	9,992	18,228	15,500	18,906
PBT	23,824	13,438	4,224	13,569	27,526	23,555	37,430	46,567
Tax	8,254	4,374	873	3,682	7,138	5,959	9,545	11,875
Tax Rate (%)	34.6	32.5	20.7	27.1	25.9	25.3	25.5	25.5
PAT	15,571	9,064	3,352	9,888	19,843	17,596	27,885	34,692
Change (%)	54.0	-41.8	-63.0	195.0	100.7	-11.3	58.5	24.4
Proposed Dividend (Incl Tax)	4,779	0	986	4,439	7,402	7,777	8,658	9,887

Balance Sheet

Balance Sheet							INR m	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	1,230	1,231	2,464	2,466	2,467	2,469	2,469	2,469
Reserves & Surplus (Ex OCI)	1,03,072	1,12,408	1,43,666	1,49,376	1,61,020	1,89,087	2,08,314	2,33,119
Net Worth	1,04,221	1,13,558	1,46,049	1,51,761	1,63,488	1,91,556	2,10,783	2,35,588
Other Comprehensive Income	81	81	81	81	81	81	81	81
Net Worth	1,04,302	1,13,639	1,46,130	1,51,842	1,63,568	1,91,637	2,10,864	2,35,669
Change (%)	11.8	9.0	28.6	3.9	7.7	17.2	10.0	11.8
Borrowings	5,28,469	5,94,623	5,85,767	5,58,139	7,49,459	9,19,052	10,85,389	12,41,948
Change (%)	31.8	12.5	-1.5	-4.7	34.3	22.6	18.1	14.4
Other liabilities	38,009	32,451	38,469	42,906	49,219	55,542	61,652	68,434
Total Liabilities	6,70,780	7,40,712	7,70,365	7,52,887	9,62,166	11,66,150	13,57,823	15,45,969
Investments	37,917	59,110	1,16,073	84,403	99,886	96,508	1,08,089	1,21,060
Change (%)	38.7	55.9	96.4	-27.3	18.3	-3.4	12.0	12.0
Loans and Advances	6,12,496	6,49,935	5,99,474	6,04,446	7,94,547	9,91,952	11,72,220	13,41,304
Change (%)	26.2	6.1	-7.8	0.8	31.5	24.8	18.2	14.4
Other assets	20,367	31,668	54,818	64,038	67,732	64,491	77,514	83,606
Total Assets	6,70,780	7,40,712	7,70,365	7,52,887	9,62,165	11,52,951	13,57,823	15,45,969

E: MOFSL Estimates

Financials and valuations

Ratios	(%)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)								
Yield on Portfolio	15.7	15.8	16.4	15.7	15.3	14.7	14.6	14.8
Cost of Borrowings	8.5	8.6	8.0	6.9	7.0	8.0	8.0	8.0
Interest Spread	7.2	7.2	8.4	8.9	8.3	6.7	6.6	6.8
Net Interest Margin	8.1	7.8	8.3	8.6	8.3	7.2	7.1	7.3
Profitability Ratios (%)								
Cost/Income	38.0	37.3	28.2	35.8	42.1	41.4	38.3	35.9
Empl. Cost/Op. Exps.	59.0	56.9	62.2	56.5	58.1	57.9	58.4	58.5
RoE	15.8	8.3	2.6	6.6	12.6	9.9	13.9	15.5
RoA	2.6	1.3	0.4	1.3	2.3	1.7	2.2	2.4
Asset Quality (%)								
GNPA	40,706	57,467	57,857	49,760	37,168	34,910	38,687	43,489
NNPA	32,907	39,665	24,339	20,860	15,071	12,860	17,409	20,440
GNPA %	6.4	8.4	9.0	7.7	4.5	3.4	3.2	3.1
NNPA %	5.3	6.0	4.1	3.5	1.9	1.3	1.5	1.5
PCR %	19.2	31.0	57.9	58.1	59.5	63.2	55.0	53.0
Total Provisions/loans %	3.4	4.9	7.4	7.5	4.7	3.8	3.3	3.1
Capitalisation (%)								
CAR	20.3	19.6	26.0	27.8	22.5	18.9	17.3	16.8
Tier I	15.5	15.4	22.2	24.3	19.9	16.4	15.4	15.3
Tier II	4.8	4.2	3.8	3.5	2.7	2.5	1.9	1.5
Average Leverage on Assets (x)	6.1	6.5	5.8	5.1	5.4	6.0	6.2	6.5
Valuation								
Book Value (INR)	169	185	119	123	133	155	171	191
BV Growth (%)	11.7	8.9	-35.8	3.8	7.7	17.1	10.0	11.8
Price-BV (x)	1.8	1.6	2.5	2.4	2.2	1.9	1.7	1.6
Adjusted BV (INR)	132	136	104	110	123	148	161	179
Price-ABV (x)	2.2	2.2	2.9	2.7	2.4	2.0	1.8	1.7
OPS (INR)	49.1	55.2	33.7	30.2	30.4	33.8	42.9	53.0
OPS Growth (%)	39.0	12.5	-38.9	-10.5	0.7	11.3	26.7	23.7
Price-OP (x)	6.1	5.4	8.8	9.8	9.8	8.8	6.9	5.6
EPS (INR)	25.3	14.7	2.7	8.0	16.1	14.3	22.6	28.1
EPS Growth (%)	53.9	-41.8	-81.5	194.8	100.6	-11.4	58.5	24.4
Price-Earnings (x)	11.7	20.2	109.2	37.0	18.5	20.8	13.1	10.6
Dividend	6.5	0.0	0.8	3.6	6.0	6.3	7.0	8.0
Dividend Yield (%)	2.2	0.0	0.3	1.2	2.0	2.1	2.4	2.7

E: MOFSL Estimates

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NOTES

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UNDER REVIEW	Rating may undergo a change
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