

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	✓	↔	✓

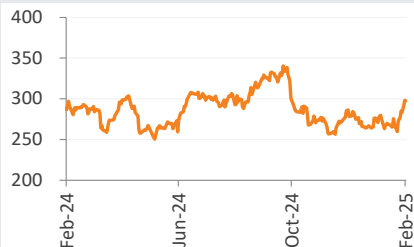
Company details

Market cap:	Rs. 36,824 cr
52-week high/low:	Rs. 343/246
NSE volume: (No of shares)	26.0 lakh
BSE code:	532720
NSE code:	M&MFIN
Free float: (No of shares)	59.3 cr

Shareholding (%)

Promoters	52.16
FII	10.49
DII	31.17
Others	6.18

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.0	7.6	1.7	3.8
Relative to Sensex	9.6	9.1	2.1	-4.6

Source: Mirae Asset Sharekhan Research, Bloomberg

Mahindra & Mahindra Financial Services Ltd

Mixed bag Q3

NBFC	Sharekhan code: M&MFIN		
Reco/View: Buy	↔	CMP: Rs. 298	Price Target: Rs. 340
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- PAT stood at Rs. 899 was higher, mainly led by negligible credit costs that fell owing to a reversal of ECL provisions of Rs. 430 crore due to lower LGDs. Consequently, stage-3 coverage reduced to 50% versus 59.5% q-o-q.
- Asset quality has shown slight deterioration. With cautious outlook on asset quality given a tough macro environment and PCR guided at 51-54%, credit cost could be slightly higher than guided at ~1.3-1.5% on average assets in FY26E.
- On the positive side, the company reported improved disbursement momentum y-o-y led by PVs, tractors offsetting slow down in CVs and guided for mid-to-high teens loan growth going ahead. NIMs showed an uptick q-o-q and outlook on NIMs remains positive given a lower interest rate environment.
- At CMP, the stock trades at 1.9x/ 1.7x /1.5x its FY2025E/FY2026E/FY2027E BV, respectively. We maintain buy with upward revised PT of Rs. 340. Risk-reward appears favorable given recent underperformance and AUM growth is likely to be at 17% CAGR over the next 2 years along with RoE at ~15%.

Net earnings significantly beat estimates due to negligible credit costs driven by reversal of provisions. NII beat estimates, rising 3.2% to Rs. 1,911 crore, growing by 12.5%/5.6% (y-o-y/q-o-q) driven by AUM growth and higher than expected yield on portfolio. NIM higher than estimates by 20 bps to 6.64% (as a percentage of AUM), up by 20 bps q-o-q due to higher yield on loans. Other income up by 59.8% y-o-y and 4.3% q-o-q to Rs. 187 crore due to jump in fee income. Opex above estimates by 7.1% to Rs. 877 crore (up by 16.4%/10.3% (y-o-y/q-o-q)) due to higher employee costs. grew by 15.0%/2.2% (y-o-y/q-o-q) to Rs. 1,222 crore, is below estimates by 1.1% due to higher opex. Credit cost was negligible at Rs. 9.1 crore as against estimates of Rs. 325 crore due to reversal of provisions to the tune Rs. 430 crore due to lower LGD as a part of the ECL model refresh which largely offset write-offs to the tune of Rs. 444 crore in the quarter. The company added Rs. 4000 crore to the GS3 reference pool between March 2021 and June 2021. The new pool demonstrated much better recovery, which lead to a sharp fall in LGD and credit costs. With a reversal of provisions, PCR significantly reduced to 50.1% in Q3FY25 from 59.5% in Q2FY25. Lower credit costs drove robust earnings growth by 62.8%/144% (y-o-y/q-o-q) to Rs. 899 crore. With robust profitability, RoA rose by 84/181 bps (y-o-y/q-o-q) to 3.1% (% of AUM). AUM grew by 18.6%/2.4% (y-o-y /q-o-q) to Rs. 115,126 crore. Post muted performance in Q1 and Q2, disbursements grew 6.7%/25.1% (y-o-y/q-o-q) to Rs. 16,467 crore. GS-3 and NS-3 increased by 10/41 bps to 3.93% and 2.0%.

Key positives

- Lower credit cost at 3 bps (as a percentage of AUM) dropped by 132/247 bps (y-o-y/q-o-q) to Rs. 9 crore, significantly below than estimates.
- Tractor and SME disbursement growth was robust at 24.2%/59.7% (y-o-y) and 59.1%/10.0% q-o-q. Besides, PVs also performed well, growing by 8.3%/32.6% (y-o-y/q-o-q).

Key Negatives

- PCR on GS-3 assets fell to 50.1% as of December 2024 from 59.5% in September 2024 with slight deterioration in GS-3 assets.
- Cost-to-income ratio at 41.8% up by 31/185 bps (y-o-y/q-o-q)
- CV segment reported weak disbursement growth (down 5% y-o-y).

Management Commentary

- AUM likely to grow in mid to high teens in FY26E.
- Replacement demand in LCV/HCV business is weak. The company endeavor to execute better on pre-owned vehicles to offset volume pressure.
- NIMs showed uptick q-o-q and outlook on NIMs remains positive given lower interest rate environment. NIMs could scale up to ~7%.
- Management guided for 1.3-1.5% credit cost for FY26E and guided for PCR for stage 3 at 51-54%. ECL benefit has been crystallized during the quarter.
- The company has strengthened its senior talent pipeline, including the hiring of a new CFO, Pradeep Agarwal, and a senior leader, Anuraj, as the Head of Marketing and Corporate Communications.

Our Call

Valuation – We maintain Buy rating with upward revised PT of Rs. 340 (revised from Rs. 325): Risk-reward appears favourable, given recent underperformance. AUM growth is likely to be at 17% CAGR over the next 2 years along with RoE at ~15%. The management remains confident to achieve mid to high teen AUM growth. Also outlook on NIMs is positive. Although outlook on asset quality is cautious, the company is taking accelerated steps to improve collections. A gradual improvement in macro environment is expected led by rate cuts and consumption boost in rural/urban driven by personal income tax cuts. At CMP, M&M Finance trades at 1.9x/ 1.7x /1.5x its FY2025E/FY2026E/FY2027E BV, respectively.

Key Risks

Further weakening macros can impact vehicle AUM growth, deterioration of asset quality can increase credit cost which may impact overall profitability, volatile credit cost.

Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
NII	6,106	6,682	7,464	9,148	10,636
PAT	1,984	1,760	2,448	3,019	3,632
EPS (Rs.)	16.1	14.2	19.8	24.4	29.4
ROA (%)	2.3	1.7	2.0	2.1	2.2
ROE (%)	12.1	10.0	13.0	14.6	15.4
P/E (x)	18.5	20.8	15.0	12.2	10.1
P/BV (x)	2.1	2.0	1.9	1.7	1.5

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

- ♦ **Net Interest income:** NII above estimates by 3.2% to Rs. 1,911 crore, growing by 12.5%/5.6% (y-o-y/q-o-q) driven due to AUM growth and higher than expected yield on portfolio. NIM higher than estimates by 20 bps to 6.64% (as a percentage of AUM), also up by 20 bps q-o-q due to higher yield on loans. NIMs are expected at 6.5-6.7% in FY25 and likely to increase to 7.0% in medium term
- ♦ **Cost-to-income ratio outlook:** Opex above estimates by 7.1% to Rs. 877 crore (up by 16.4%/10.3% (y-o-y/q-o-q) due to higher employee cost. Cost to income ratio at 41.8% up by 31/185 bps (y-o-y/q-o-q). The company has been investing in digitalisation & technology, which would benefit to reduce the operating costs in the long run. The management expects to reduce cost to income ratio, as they find it one of levers to drive RoA.
- ♦ **Loan growth:** AUMs grew by 18.6%/2.4% (y-o-y /q-o-q) to Rs. 115,126 crore driven by festive demand. PV and three wheelers' AUMs grew by 7.6%/28.0% q-o-q. Disbursements were up 6.7%/25.1% y-o-y/q-o-q to Rs. 16,467 crore, after a muted performance in Q1 and Q2. PV, tractor finance and commercial vehicle and SME performed well on a sequential basis. According to the management, AUM growth is expected between mid to high teens.
- ♦ **Asset quality and credit cost:** Credit cost (as % of AUM) down by 132/247 bps (y-o-y/q-o-q) to 3 bps, it was also below estimates driven by reversal of provisions of Rs. 430 crore in Q3FY25. Credit cost is expected at 1.3-1.5% for FY25 and likely to stay elevated in coming years. Asset quality deteriorated, GS-3 increased by 10 bps to 3.93%, while NS-3 rose by 41 bps to 2.0%. PCR significantly reduced to 50.1% in Q3FY25 from 59.5% in Q2FY25 due to reversal or provisions.

Results (Standalone)

					Rs cr
Particulars	Q3FY25	Q3FY24	Q2FY25	y-o-y %	q-o-q %
NII	1,911	1,698	1,811	12.5%	5.6%
Other Income	187	117	180	59.8%	4.3%
Total Income	2,099	1,815	1,990	15.6%	5.4%
Operating Expenditures	877	753	795	16.4%	10.3%
Pre- Prov Operating Profit	1,222	1,062	1,195	15.0%	2.2%
P&C	9	328	703	-97.2%	-98.7%
PBT	1,213	734	492	65.2%	146.4%
Tax	313	181	123	72.7%	154.2%
Net Profit	899	553	369	62.8%	144.0%
AUM	1,15,126	97,048	1,12,454	18.6%	2.4%
Disbursements	16,467	15,436	13,162	6.7%	25.1%

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Moderate volume growth expectations due to weakening macros

Passenger vehicle sales are expected to grow in single digits in FY25 and CV volumes are expected to see gradual recovery after flat volume growth seen in FY24. Currently, demand for the commercial vehicle is expected to be weak and it will be back when government focuses on infrastructure financing and uptick in economic activities. There has been an increase in penetration in used CVs. NBFCs are facing several challenges like higher cost of borrowings, higher credit costs, overleveraging in MFI industry, stress in unsecured loans and regulatory headwinds. However, Q4FY2025 is expected to be better for the industry as 9MFY2025 had impact of election, heatwaves, seasonality, heavy rainfall and regulatory headwinds. Recently, RBI has infused liquidity in to the banking system and increased liquidity with making reduction in the CRR. Further, infusion of liquidity in to the banking system and repo rate cut could be the potential trigger in the short term for the sector.

■ Company Outlook – Asset quality improvement is key, declining interest rate environment will benefit

The company expects to focus on improvement in asset quality with lower credit cost and along with growth. Collection trends and business momentum improved however remain monitorable. Asset quality deteriorated, stage-3 assets increased to 3.93% in Q3FY25 from 3.83% Q2FY25 due to weakening macros. The management is working for other income growth and planning to diversify into other assets like LAP and home loans to reduce dependency. Macros have weakened and impacting BFSI sector. Thus, the RBI has reduced CRR to increase the liquidity into the banking system and recently infused liquidity. Declining interest rate scenario would benefit to fixed rate lenders. The company's loan portfolio has a higher proportion of fixed loans, hence the NIM is expected to expand which would improve return ratios. .

■ Valuation – We maintain Buy rating with upward revised PT of Rs. 340 (revised from Rs. 325)

Risk-reward appears favourable, given recent underperformance. AUM growth is likely to be at 17% CAGR over the next 2 years along with RoE at ~15%. The management remains confident to achieve mid to high teen AUM growth. Also outlook on NIMs is positive. Although outlook on asset quality is cautious, the company is taking accelerated steps to improve collections. A gradual improvement in macro environment is expected led by rate cuts and consumption boost in rural/urban driven by personal income tax cuts. At CMP, M&M Finance trades at 1.9x/ 1.7x /1.5x its FY2025E/FY2026E/FY2027E BV, respectively.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
M&M Finance	298	36,824	15.0	12.5	1.9	1.7	13.0%	14.6%	2.0	2.1
Cholamandalam	1385	116,465	28.2	20.5	4.8	3.8	19.2	21.6	2.3	2.6

Source: Company; Mirae Asset Sharekhan Research

About the company

Mahindra Finance 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 1,402 branches, spread across 27 states and 7 Union Territories in India.

Investment theme

Mahindra Finance is well diversified NBFCs and has strong presence in rural and semi urban area. The company's earnings are expected to stabilize as it has strengthened its internal system post fraud detected in FY2024. The company's H1 were tough due to election year, heatwaves, extended monsoon, and among other. However, situation has slightly improved in Q3 and further likely to continue in Q4FY25. Collection efficiency is stable and likely to continue the trend. The management has been working on other income growth as it has received license from IRDAI. Further, they are diversifying into other assets such as LAP and homes to reduce the dependency on vehicle finance. The company sees reduction in cost to income ratio which would be one of the key triggers for growth in return ratio.

Key Risks

Further weakening macros can impact vehicle AUM growth, deterioration of asset quality can increase credit cost which may impact overall profitability, volatile credit cost.

Additional Data

Key management personnel

Mr. Raul Rebello	MD & CEO
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Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mahindra & Mahindra Ltd	52.16
2	Life Insurance Corp of India	10.24
3	HDFC Asset Management Co Ltd	5.66
4	SBI Funds Management Ltd	3.74
5	FundRock Management Co SA	3.59
6	HDFC Life Insurance Co Ltd	2.43
7	Vanguard Group Inc/The	1.87
8	Kotak Mahindra Asset Management Co	1.75
9	Dhawan Ashish	1.18
10	Tata Asset Management Pvt Ltd	1.14

Source: Bloomberg

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Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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