

Jan 31, 2024

RESULT REPORT Q3 FY24 | Sector: Financials

M&M Financial Services

An unexciting quarter

Broadly in-line show

MMFS' NII and PPOP in Q3 FY24 were largely in-line with our estimates, and so was PAT after adjusting for provision benefit (Rs0.86bn) due to revision of ECL model. While the headline growth and asset quality trends were known, a larger-than-expected margin expansion was a mild positive and continuance of elevated write-off (in the context of opening GNPLs) was a negative. Net flows into GS2 and GS3 were meaningful (after adding back the write-off), which was reflected in marginally lower collection efficiency for the quarter. Though overall disbursements growth moderated to 7% yoy, the origination activity was strong in Auto/UV, Cars, CE, and Used Vehicle financing. The material improvement in Portfolio Yield during Q3 FY24 reflected 1) conversion of interest-free trade advances into retail vehicle loans, 2) benefits from improving fee-based income and 3) marginal rate hikes taken thus far. Opex/Avg. Assets ratio remained elevated at 2.8% with sustained higher growth in non-employee cost.

AUM growth to decelerate; extent of margin recovery and credit cost reduction would be key

MMFS' AUM growth has been coming-off as disbursement growth has been declining on an increasing base. Management expects disbursement growth to be slightly lower in FY25, which is likely to decelerate AUM growth much below the 20% mark. The lower disbursement growth is likely to be caused by lower volume growth expected for Auto/UVs/Cars, a prolonged slowness in Tractor sales, granularization of SME portfolio and calibrated disbursements of personal and consumer loans.

While incremental funding cost seems to be peaking, further margin recovery would be a function of remaining manifestation of already taken rate hikes, further rate actions and incremental growth mix from product and customer profile standpoint. The share of NTC and sub-prime customers has been coming down in originations. Given largely fixed-rate loan book and 46% of borrowings being floating, MMFS's margin would benefit when rates soften.

With the benefit of ECL model revision which marginally lowered ECL requirement for Stage-1, MMFS would be able to achieve its credit cost guidance of 1.5-1.7% for the year. For the co. to achieve a lower credit in FY25, the pace of write-offs needs to come-off and net flow rates needs to improve. The better underwriting/behaviour of loans over the past 18-20 months and the ongoing shift in product and customer mix needs to manifest in improved collection trends. The ECL coverage requirement on Stage-3 may decline on downward revision of LGD in the annual ECL model review of next year.

Earnings have been cut further; maintain Neutral rating

We cut earnings estimates for FY24/25/26 by 2%/3%/4% mainly on lowering of growth assumptions. The achievement of 2.5% RoA is likely to remain elusive and we see 15% RoE being achieved only in FY26. Valuation at 11x PE and 1.7x P/ABV on FY26 estimates seems fair for the envisaged AUM growth/RoE delivery. Hence, we maintain Neutral rating on the stock. Key monitorables would be trends in disbursement growth and write-offs.

Reco	: NEUTRAL
CMP	: Rs 280
Target Price	: Rs 300
Potential Return	: 7.2%

Stock data (as on Jan 30, 2024)

Nifty	21,522
52 Week h/l (Rs)	347 / 216
Market cap (Rs/USD mn)	343874 / 4138
Outstanding Shares (mn)	1,234
6m Avg t/o (Rs mn):	1,183
Div. yield (%):	2.1
Bloomberg code:	MMFS IN
NSE code:	M&MFIN

Stock performance



	1M	3M	1Y
Absolute return	1.0%	13.9%	23.9%

Shareholding pattern

Promoter	52.2%
FII+DII	39.9%
Others	7.8%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	300	300

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	14.3	20.7	25.9
EPS (Old)	14.7	21.3	27.0
% Change	-2.4%	-2.9%	-4.0%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	70,718	87,363	1,04,161
PPOP	41,315	53,255	65,278
Net profit	17,695	25,506	31,975
Growth (%)	(10.8)	44.1	25.4
EPS (Rs)	14.3	20.7	25.9
ABVPS (Rs)	131.3	143.9	161.6
P/E (x)	19.5	13.5	10.8
P/ABV (x)	2.1	1.9	1.7
ROE (%)	10.1	13.5	15.3
ROA (%)	1.7	2.1	2.3

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Exhibit 1: Result table

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Total Operating Income	34,536	32,119	7.5	28,625	20.7
Interest expended	(16,750)	(15,665)	6.9	(12,419)	34.9
Net Interest Income	17,787	16,455	8.1	16,206	9.8
Other Income	368	286	28.9	291	26.6
Total Income	18,155	16,740	8.4	16,496	10.1
Operating expenses	(7,530)	(7,312)	3.0	(6,513)	15.6
PPOP	10,625	9,428	12.7	9,983	6.4
Provisions	(3,284)	(6,266)	-	(1,551)	111.7
PBT	7,341	3,163	132.1	8,431	(12.9)
Tax	(1,813)	(811)	123.6	(2,142)	(15.3)
PAT	5,528	2,352	135.0	6,290	(12.1)

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
AUM	9,70,480	9,37,230	3.5	7,73,440	25.5
Auto/UV	3,39,668	3,09,286	9.8	2,55,235	33.1
Tractors	1,26,162	1,21,840	3.5	1,16,016	8.7
Cars	1,84,391	1,78,074	3.5	1,54,688	19.2
CV & CE	1,06,753	1,03,095	3.5	85,078	25.5
Pre-owned veh. & Others	2,13,506	2,24,935	(5.1)	1,62,422	31.5
Value of assets financed	1,54,360	1,33,150	15.9	1,44,670	6.7
Auto/UV	60,200	50,597	19.0	49,188	22.4
Tractors	16,980	13,315	27.5	17,360	(2.2)
Cars	29,328	25,299	15.9	24,594	19.3
CV & CE	16,980	14,647	15.9	15,914	6.7
Pre-owned veh. & Others	30,872	29,293	5.4	36,168	(14.6)

Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
Income Yield (%)	13.4	13.1	0.3	13.7	(0.3)
Cost of Funds (%)	6.3	6.1	0.2	5.6	0.7
Gross Spread (%)	6.8	6.5	0.3	7.4	(0.6)
Net Spread (%)	2.7	1.2	1.5	3.8	(1.1)
Cost to Income (%) *	41.5	43.7	(2.2)	39.5	2.0
Gross NPA (%)	4.0	4.3	(0.3)	5.9	(2.0)
Net NPA (%)	1.5	1.7	(0.2)	2.5	(1.0)
CAR (%)	18.3	18.7	(0.4)	23.4	(5.1)

Source: Company, YES Sec; *Calculated.

KEY CON-CALL HIGHLIGHTS

Disbursements & Growth

- Disbursement growth would be lesser in FY25.
- Inventory at PV dealerships has come back to near 2 months – MMFS expects <10% volume growth in FY25 - but with premiumization happening, the higher ATS would drive better disbursement growth.
- Used vehicle witnessing strong momentum with increasing formalization, significant under penetration and MMFS being one of the leading financiers.
- Within CV finance, Bus financing is doing quite well.
- Tractor witnessing weak growth is after two years of very strong growth - management sees prolonged slowness in demand – co. not losing market share in Tractor financing.
- In 3W financing, MMFS is one of the large financiers and the co. is witnessing 30%+ yoy growth aided by much higher shift towards EV.
- SME disbursement impacted by shift towards granular loans and LAP.

NIM, CoF & Opex

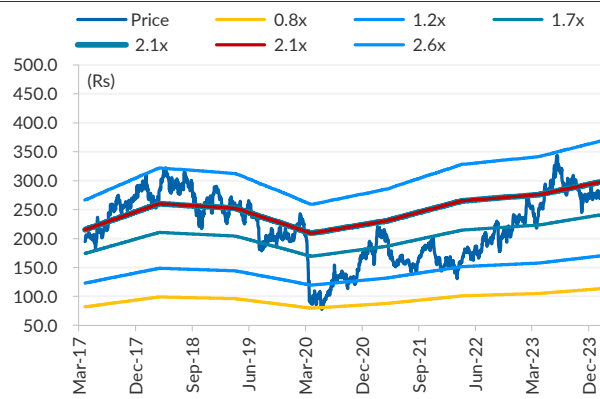
- Steady-state NIM aspiration was adjusted lower in preceding quarter to 7% in the wake of funding environment.
- Company is willing to calibrate growth for required NIMs.
- Improvement in Portfolio Yield during Q3 FY24 reflects 1) conversion of interest-free trade advances into interest-earning retail loans, 2) benefits from improving fee-based income and 3) marginal rate hikes taken thus far.
- Incremental CoF was around 8% in Q3 and is expected to remain similar in Q4.
- 46% of total borrowings floating (EBLR + MCLR).
- Attempting to maintain opex/assets around the current level while making necessary franchise investments.
- No headcount was added in Collections in past two years.
- Branches addition would be done gradually.
- Company is still aspiring for 2.5% RoA in FY25 – augmentation of non-interest/fee income and bringing down credit cost further (1-1.5%) will be key levers.

Asset Quality & Credit Cost

- ECL model revision/refresh led to overall ECL release of Rs0.86bn in Q3 FY24 - Stage-2 ECL was constant, Stage-3 ECL was slightly increased and Stage-1 ECL was lowered.
- Write-offs are lower by Rs5bn in 9m FY24 on yoy basis – the trend of reduction in write-off % is reflective of better quality of growth/assets.
- On firm track to meet the Credit Cost guidance for the year of 1.5-1.7% - FY25 credit cost expected to be below FY24.
- Share of NTC and sub-prime customers has come down in originations.
- Company has lowered settlement and disposal losses.

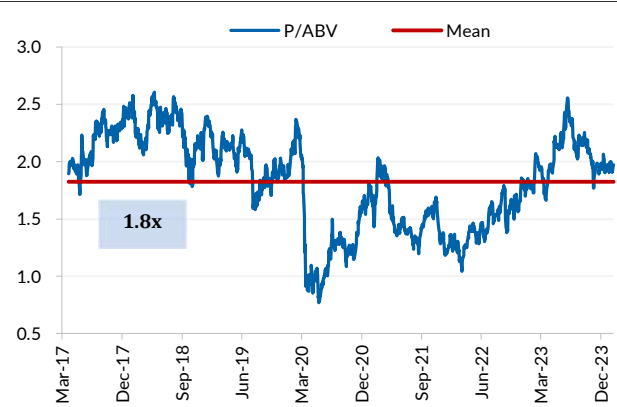
- Stage-3 coverage which is currently high at 60%+ would normalize by end of FY25 - higher write-offs in earlier years impacting current LGD estimate from the 42-month ECL model.
- ECL model would be revised/refreshed annually.
- GNPL as per RBI norms at 5.5%.

Exhibit 4: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity and Liabilities					
Equity Share Capital	2,466	2,467	2,467	2,467	2,467
Other Equity	1,53,815	1,68,422	1,77,479	1,94,347	2,17,685
Shareholders' fund	1,56,281	1,70,889	1,79,946	1,96,814	2,20,152
Non-Financial Liabilities					
Current Tax Liabilities (Net)	139	657	657	657	657
Provisions	2,214	2,607	2,607	2,607	2,607
Other Non-Financial Liabilities	1,078	1,241	1,365	1,501	1,652
Total Current Liabilities	5,93,176	7,86,772	9,42,634	11,13,936	12,97,637
Derivative financial instruments	1,822	1,807	1,807	1,807	1,807
Trade & Other Payables	10,053	11,663	12,246	12,859	13,501
Debt Securities	1,82,527	2,47,451	2,87,043	3,35,840	3,92,933
Borrowings (Excl. debt sec.)	2,60,052	4,12,341	5,03,056	5,98,636	6,97,411
Deposits	84,262	55,246	67,400	80,206	93,440
Subordinated Liabilities	31,299	34,421	41,994	49,973	58,218
Other financial liabilities	23,162	23,843	29,088	34,615	40,326
Total Liabilities & Equity	7,52,887	9,62,166	11,27,209	13,15,515	15,22,705
Assets					
Financial Assets					
Cash and cash equivalents	3,279	2,498	3,221	3,891	2,223
Bank balance	38,228	25,823	0	0	0
Derivative financial instruments	266	0	0	0	0
Trade receivables	91	218	218	218	218
Loans	6,04,446	7,94,547	9,73,320	11,48,518	13,43,766
Investments	84,403	99,886	1,09,875	1,20,862	1,32,949
Other Financial Assets	2,231	15,893	16,687	17,522	18,398
Non-Financial Assets	19,943	23,300	23,887	24,504	25,151
Current tax assets (Net)	5,629	5,044	5,044	5,044	5,044
Deferred tax Assets (Net)	8,364	6,372	6,372	6,372	6,372
Property, Plant and equipment	3,831	6,812	7,153	7,510	7,886
Other Intangible assets	98	144	144	144	144
Other non-financial assets	2,021	4,929	5,175	5,434	5,706
Total Assets	7,52,887	9,62,166	11,27,209	13,15,515	15,22,705

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	96,580	1,09,288	1,33,666	1,62,483	1,90,775
Interest expense	(39,202)	(45,767)	(64,476)	(76,800)	(88,463)
Net interest income	57,378	63,521	69,191	85,683	1,02,313
Non-interest income	608	1,273	1,527	1,680	1,848
Total op income	57,986	64,794	70,718	87,363	1,04,161
Total op expenses	(20,734)	(27,276)	(29,403)	(34,108)	(38,883)
PPoP	37,252	37,518	41,315	53,255	65,278
Provisions	(23,683)	(9,992)	(17,403)	(18,788)	(22,068)
Exceptional	0	(545)	0	0	0
Profit before tax	13,569	26,981	23,912	34,467	43,210
Taxes	(3,682)	(7,138)	(6,217)	(8,961)	(11,235)
Net profit	9,888	19,843	17,695	25,506	31,975

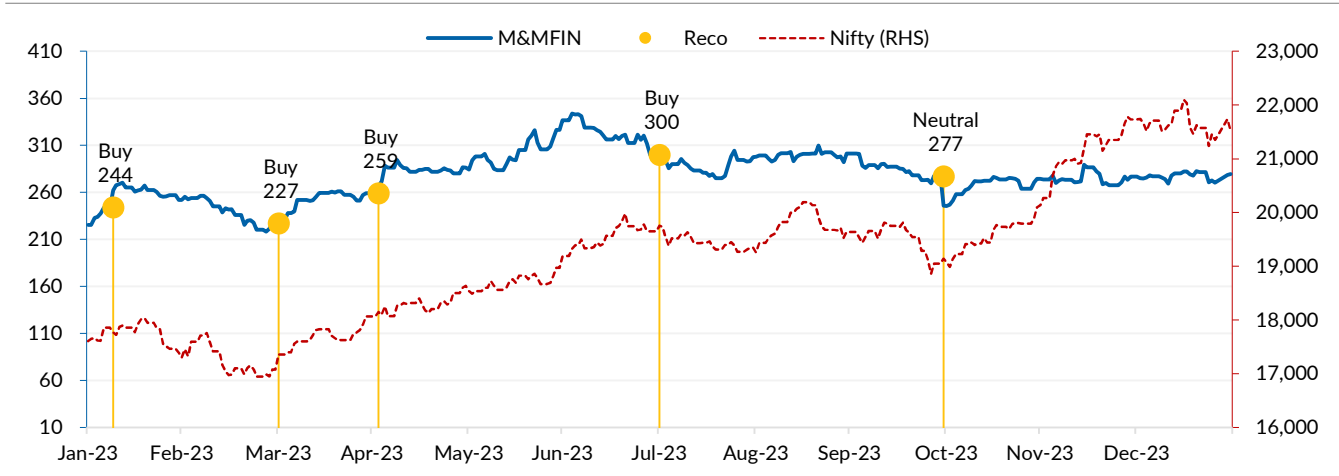
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	0.3	10.7	8.9	23.8	19.4
Total op income	0.3	11.7	9.1	23.5	19.2
Op profit (pre-provision)	(10.3)	0.7	10.1	28.9	22.6
Net profit	195.0	100.7	(10.8)	44.1	25.4
Advances	0.8	31.5	22.5	18.0	17.0
Total Borrowings	(4.7)	34.3	20.0	18.4	16.7
Total assets	(2.3)	27.8	17.2	16.7	15.7
Profitability Ratios (%)					
NIM	8.9	8.6	7.5	7.8	7.9
Non-interest income /Total income	1.0	2.0	2.2	1.9	1.8
Return on Avg. Equity	6.5	12.1	10.1	13.5	15.3
Return on Avg. Assets	1.3	2.3	1.7	2.1	2.3
Per share ratios (Rs)					
EPS	8.0	16.1	14.3	20.7	25.9
Adj. BVPS	109.8	126.3	131.3	143.9	161.6
DPS	3.6	6.0	6.0	6.0	6.0
Other key ratios (%)					
Loans/Borrowings					
Cost/Income	108.3	106.0	108.2	107.9	108.2
CAR	35.8	42.1	41.6	39.0	37.3
Tier-I capital	27.8	27.8	25.1	23.4	22.5
Gross NPLs)	24.3	24.3	21.8	20.5	19.8
Credit Cost	7.7	4.5	3.9	3.6	3.3
Net NPLs	3.7	1.4	1.9	1.7	1.7
Tax rate	3.4	1.9	1.8	1.6	1.5
Dividend yield	27.1	26.5	25.2	25.2	25.2

Source: Company, YES Sec

Recommendation Tracker



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