

July 24, 2024

RESULT REPORT Q1 FY25 | Sector: Financials

M&M Financial Services

Await acceleration in disbursement growth

Originations growth was low in key products; PPOP performance was below expectations

MMFS delivered a PAT of Rs5.1bn in Q1 FY25 which was 16% higher than our estimate. The beat came solely from much lower-than-expected credit cost, whereas PPOP/NII were 9%/5% below our expectations. Controlled credit cost, despite deterioration in asset quality (seasonality + election/heatwave impact) and sustained write-offs (though moderated), was driven by ECL coverage decline across loans stages with PD and LGD refresh. In absolute terms, the Stage-2/Stage-3 loan assets increased by 26%/18% on sequential basis after adding back the write-offs.

NIM declined by 30-40 bps qoq on calculated basis on account of increase in funding cost and material reduction in portfolio yield. The latter was more representative of presence of significant interest write-back in Q4 FY24 and material increase in Stage 2 & 3 pool during the current quarter (impacting interest recognition). Business Assets grew 3.6% qoq/22.6% yoy in Q1 FY25, even as disbursement growth was moderate at 5% yoy. Originations were weak in key products of PV, Used Vehicle and Tractor financing.

Management continues to harbor aspirations of high-teens growth and 2.2% RoA for FY25

MMFS expects full-year disbursements growth to be much better than Q1 FY25. Share of pre-owned vehicle financing within overall disbursements is expected to increase and sustain near 20% aided by investments in teams and partnerships. The co. also plans to increase dealership coverage and branches (significant addition in H2 FY25). Growth in tractor financing is likely to revive on improved demand prospects, and growth in low-ticket SME loans is going strong on a benign base. Critical for MMFS would be improvement in demand trajectory of PVs over the coming quarters.

For margins to be a material contributor in the aspired RoA improvement, the funding cost pressure needs to stabilize, and portfolio yield needs to show a pick-up on the back of 1) product mix shift towards pre-owned vehicles financing and tractor financing, 2) manifestation of rate hikes taken over the past couple of quarters and 3) ceiling reached for affluent customer contribution within PV portfolio. Management expects credit cost in the range of 1.2-1.5% for the year, underpinned by 1) Stage 2 & 3 assets remaining stable at <10% combined, 2) write-offs remaining range-bound, and 3) further calibration of ECL coverage on gradual reduction in LGD from rolling fwd. of the ECL model.

Await improved and consistent disbursement performance

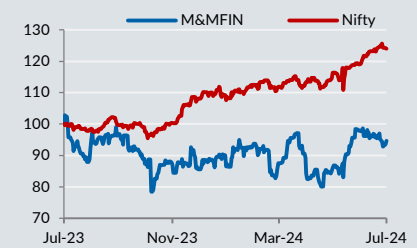
We trim estimates for FY25/26 on marginally lowering AUM growth and curtailing the NIM estimate. We now expect a CAGR of 16.5% in AUM, 21% in PPOP and 30% in PAT over FY24-26, and average RoA/RoE delivery of 2.1%/14%. No capital raise has been factored by us, even as management estimates a capital raise in H1 FY26. The stock trades at 11.5x P/E and 1.7x P/ABV on FY26 estimates (adjusted for MRHFL valuation). We continue to believe that a significant re-rating of MMFS would only happen on consistent delivery of double-digit disbursement growth.

Reco	: NEUTRAL
CMP	: Rs 296
Target Price	: Rs 300
Potential Return	: +1.4%

Stock data (as on July 23, 2024)

Nifty	24,479
52 Week h/l (Rs)	325 / 237
Market cap (Rs/USD mn)	360944 / 4314
Outstanding Shares (mn)	1,234
6m Avg t/o (Rs mn):	1,071
Div. yield (%):	2.1
Bloomberg code:	MMFS IN
NSE code:	M&MFIN

Stock performance



	1M	3M	1Y
Absolute return	-3.3%	12.3%	-5.3%

Shareholding pattern

Promoter	52.2%
FII+DII	40.6%
Others	7.2%

Δ in stance

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

Δ in earnings estimates

	FY24	FY25e	FY26e
EPS (New)	14.3	20.4	24.4
EPS (Old)	14.3	20.9	25.2
% Change	-	-2.3%	-3.3%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Op. income	71,355	85,224	1,02,005
PPOP	41,783	50,920	62,212
Net profit	17,596	25,209	30,076
Growth (%)	(11.3)	43.3	19.3
EPS (Rs)	14.3	20.4	24.4
ABVPS (Rs)	136.7	146.3	162.0
P/E (x)	20.8	14.5	12.1
P/ABV (x)	2.2	2.0	1.8
ROE (%)	10.0	13.3	14.5
ROA (%)	1.7	2.0	2.1

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Exhibit 1: Result table

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Operating Income	37,222	36,540	1.9	30,846	20.7
Interest expended	(18,286)	(17,351)	5.4	(14,505)	26.1
Net Interest Income	18,936	19,190	(1.3)	16,341	15.9
Other Income	379	521	(27.2)	409	(7.1)
Total Income	19,316	19,710	(2.0)	16,750	15.3
Operating expenses	(7,970)	(7,980)	(0.1)	(6,750)	18.1
PPOP	11,345	11,730	(3.3)	10,000	13.5
Provisions	(4,482)	(3,415)	31.2	(5,264)	-
PBT	6,864	8,315	(17.5)	4,735	44.9
Tax	(1,734)	(2,126)	(18.4)	(1,209)	43.5
PAT	5,130	6,190	(17.1)	3,527	45.5

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
AUM	10,63,390	10,25,970	3.6	8,67,320	22.6
Passenger Vehicles	4,25,356	4,10,388	3.6	2,86,216	48.6
Tractors	1,16,973	1,23,116	(5.0)	1,12,752	3.7
SME & 3Ws	95,705	92,337	3.6	1,82,137	(47.5)
CV & CE	2,33,946	2,25,713	3.6	95,405	145.2
Pre-owned veh. & Others	1,91,410	1,74,415	9.7	1,90,810	0.3
Value of assets financed	1,27,410	1,52,920	(16.7)	1,21,650	4.7
Passenger Vehicles	52,238	64,226	(18.7)	51,093	2.2
Tractors	15,289	15,292	(0.0)	15,815	(3.3)
SME & 3Ws	11,467	12,234	(6.3)	8,516	34.7
CV & CE	25,482	33,642	(24.3)	23,114	10.2
Pre-owned veh. & Others	22,934	27,526	(16.7)	23,114	(0.8)

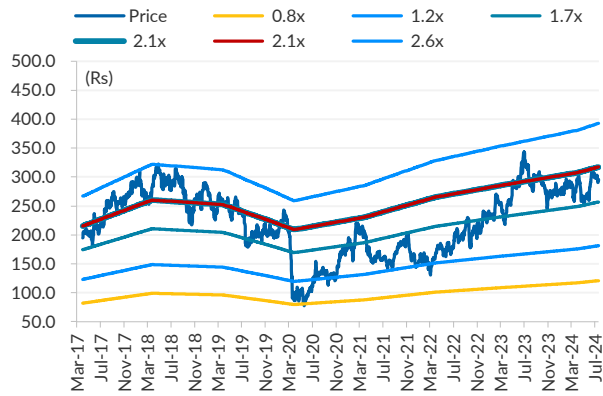
Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
Income Yield (%)	13.1	13.4	(0.3)	13.3	(0.2)
Cost of Funds (%)	6.3	6.2	0.1	5.9	0.4
Gross Spread (%)	6.6	7.1	(0.5)	6.8	(0.2)
Net Spread (%)	2.4	3.0	(0.6)	1.9	0.5
Cost to Income (%) *	41.3	40.5	0.8	40.3	1.0
Gross NPA (%)	3.6	3.4	0.2	4.3	(0.7)
Net NPA (%)	1.5	1.3	0.2	1.8	(0.3)
CAR (%)	18.5	18.9	(0.4)	21.2	(2.7)

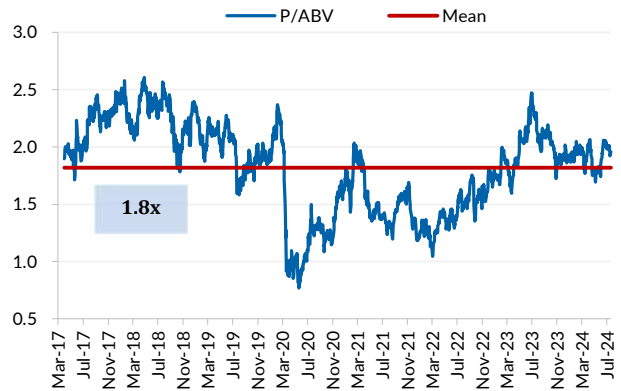
Source: Company, YES Sec; *Calculated.

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	FY24	FY25E	FY26E
Equity and Liabilities					
Equity Share Capital	2,466	2,467	2,469	2,469	2,469
Other Equity	1,53,815	1,68,422	1,79,106	1,94,952	2,15,664
Shareholders' fund	1,56,281	1,70,889	1,81,575	1,97,420	2,18,133
Non-Financial Liabilities					
Current Tax Liabilities (Net)	139	657	1,193	1,193	1,193
Provisions	2,214	2,607	2,051	2,051	2,051
Other Non-Financial Liabilities	1,078	1,241	1,507	1,657	1,823
Total Current Liabilities	5,93,176	7,86,772	9,65,267	11,26,962	13,12,080
Derivative financial instruments	1,822	1,807	3,353	3,353	3,353
Trade & Other Payables	10,053	11,663	15,249	16,011	16,812
Debt Securities	1,82,527	2,47,451	2,67,259	3,12,693	3,65,851
Borrowings (Excl. debt sec.)	2,60,052	4,12,341	5,43,188	6,35,530	7,40,393
Deposits	84,262	55,246	71,747	83,944	97,795
Subordinated Liabilities	31,299	34,421	40,057	46,866	54,599
Other financial liabilities	23,162	23,843	24,413	28,564	33,277
Total Liabilities & Equity	7,52,887	9,62,166	11,51,592	13,29,284	15,35,280
Assets					
Financial Assets					
Cash and cash equivalents	3,279	2,498	3,111	36,181	34,804
Bank balance	38,228	25,823	23,780	-	-
Derivative financial instruments	266	-	-	-	-
Trade receivables	91	218	247	247	247
Loans	6,04,446	7,94,547	9,91,952	11,50,664	13,46,277
Investments	84,403	99,886	96,508	1,06,159	1,16,775
Other Financial Assets	2,231	15,893	8,068	8,471	8,895
Non-Financial Assets	19,943	23,300	27,926	27,561	28,281
Current tax assets (Net)	5,629	5,044	6,098	6,098	6,098
Deferred tax Assets (Net)	8,364	6,372	6,911	6,911	6,911
Property, Plant and equipment	3,831	6,812	8,111	8,517	8,942
Other Intangible assets	98	144	146	146	146
Other non-financial assets	2,021	4,929	5,609	5,889	6,184
Total Assets	7,52,887	9,62,166	11,51,592	13,29,284	15,35,280

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Income from Operations	96,580	1,09,288	1,34,041	1,61,332	1,86,922
Interest expense	(39,202)	(45,767)	(64,269)	(77,691)	(86,658)
Net interest income	57,378	63,521	69,772	83,641	1,00,264
Non-interest income	608	1,273	1,583	1,583	1,741
Total op income	57,986	64,794	71,355	85,224	1,02,005
Total op expenses	(20,734)	(27,276)	(29,572)	(34,304)	(39,792)
PPoP	37,252	37,518	41,783	50,920	62,212
Provisions	(23,683)	(9,992)	(18,228)	(17,175)	(21,952)
Exceptional	-	(545)	-	-	-
Profit before tax	13,569	26,981	23,555	33,745	40,261
Taxes	(3,682)	(7,138)	(5,959)	(8,536)	(10,184)
Net profit	9,888	19,843	17,596	25,209	30,076

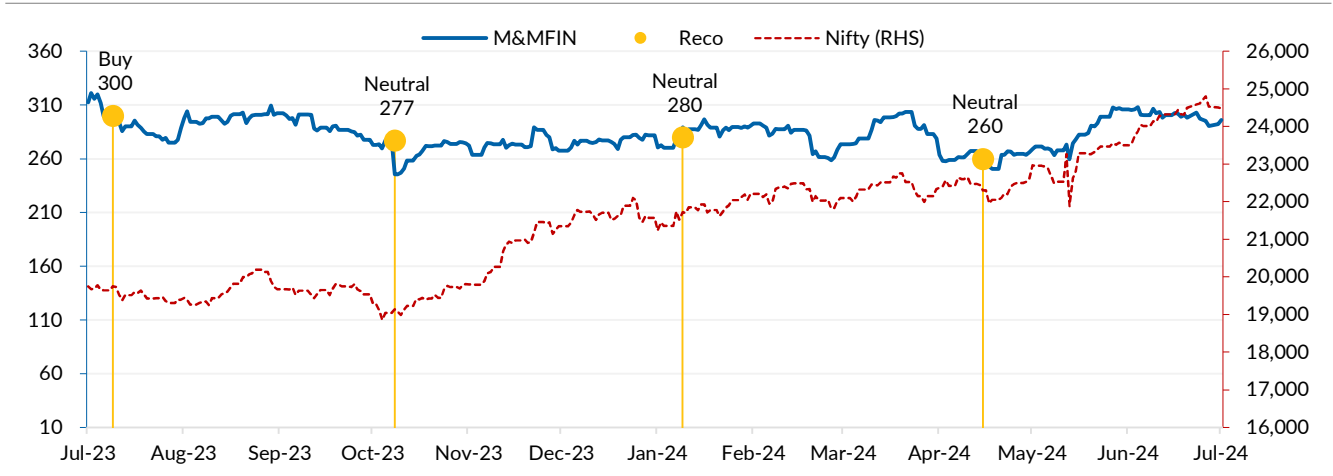
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	0.3	10.7	9.8	19.9	19.9
Total op income	0.3	11.7	10.1	19.4	19.7
Op profit (pre-provision)	(10.3)	0.7	11.4	21.9	22.2
Net profit	195.0	100.7	(11.3)	43.3	19.3
Advances	0.8	31.5	24.8	16.0	17.0
Total Borrowings	(4.7)	34.3	23.1	17.0	16.6
Total assets	(2.3)	27.8	19.7	15.4	15.5
Profitability Ratios (%)					
NIM	8.9	8.6	7.5	7.5	7.8
Non-interest income /Total income	1.0	2.0	2.2	1.9	1.7
Return on Avg. Equity	6.5	12.1	10.0	13.3	14.5
Return on Avg. Assets	1.3	2.3	1.7	2.0	2.1
Per share ratios (Rs)					
EPS	8.0	16.1	14.3	20.4	24.4
Adj. BVPS	109.8	126.3	136.7	146.3	162.0
DPS	3.6	6.0	6.5	6.5	6.5
Other key ratios (%)					
Loans/Borrowings	108.3	106.0	107.6	106.6	107.0
Cost/Income	35.8	42.1	41.4	40.3	39.0
CAR	27.8	22.5	18.9	17.8	16.9
Tier-I capital	24.3	19.9	16.4	15.4	14.8
Gross NPLs)	7.7	4.5	3.4	3.2	2.9
Credit Cost	3.7	1.4	2.0	1.6	1.7
Net NPLs	3.4	1.9	1.3	1.4	1.3
Tax rate	27.1	26.5	25.3	25.2	25.2
Dividend yield	1.2	2.0	2.2	2.2	2.2

Source: Company, YES Sec

Recommendation Tracker



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SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

Analyst signature

Analyst signature

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSIL") is a wholly owned subsidiary of YES BANK LIMITED. YSIL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSIL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSIL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSIL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSIL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSIL by SEBI/Stock Exchanges.