

Earnings beat due to decrease in PCR

Mahindra Finance (MMFS) reported earnings ahead of our estimates driven by controlled opex and lower provisions which resulted in decline in PCR. On NIMs front, MMFS faced twin challenges - yield compression (upgrade to better customer segment and lower yields on leading segments) and rising CoF. Resultantly, NII growth lagged AUM growth and print was at mere 12%. However, opex to Assets was controlled and remained 10bps lower YoY to 2.7% leading to higher PPOP growth (14%). However, credit cost was lower resulting in higher PAT of Rs5,130mn as compared to our estimates (Q1FY25E: 4,068mn). Pertinently, lower provision led to fall in PCR by ~300bps. Disbursements for 1QFY25 was muted at Rs127.4bn, up 5% YoY and down 17% QoQ. Business AUM was up 23% YoY primarily due to high base of 4QFY24. RoA guidance for FY25 was maintained at 2.2%. We continue to build in AUM/PPOP/PAT CAGR at 17%/26%/37% over FY24-26E and expect RoA/RoE at 2.2%/15.7% for FY26E. Seasonally weak quarter and elections continued the deceleration of disbursement growth and we expect slowdown to continue as co. remains focused on strengthening its internal processes. We value MMFS (standalone) at 1.5x FY26E P/ABV and subsidiaries at Rs19 to arrive at our Target Price of Rs250. Maintain Sell.

NIMs impacted by lower yield and increase in CoF

Increased competitive intensity, change in product mix, seasonally weak quarter and elections led to 61bps/42bps YoY/QoQ decline in interest yield (on BS loans) to 14.3%. CoF (calc) stood at 7.8% increasing by 26bps/3bps YoY/QoQ. Reported spreads were down 50bps YoY and 20 bps QoQ to 6.6% as company moved up in terms of customer selection impacting yields. CoB continue to be high across companies and is expected to be kept around same 7.8-8%. In our view, competitive intensity may limit company's ability to raise lending yields in its target customer segment. Opex witnessed improvement (YoY and QoQ) due to efficiency – 10bps lower YoY on average assets.

Earnings beat as provisions come in lower than expected

Loan loss provisions for 1QFY25 stood at Rs 4.5bn, down 31% QoQ as the PCR has decreased to 59.8% from 63.2% in the last quarter (Q4FY24). This improvement is due to a positive trend in LGD over the past 42 months. Management expects the PCR to potentially decrease further. GS2/GS3 was at 6.1%/3.6% in 1QFY25 vs 5.0%/3.4% in 4QFY24 and 6.4%/4.3% in 1QFY24. GS3 is trending well below the guidance of 4.5%. PAT at Rs5.1bn, was up 45% YoY. Reported RoA for 1QFY25 stood at 1.8%.

AUM growth remains healthy, disbursement growth decelerates to mere 5% YoY

Disbursements growth decelerated to 5% YoY after registering 10%-145% YoY growth in last 8 quarters. AUM at Rs1,063bn was up 23% YoY and 4% QoQ. Disbursements YoY growth in PV, Pre-owned vehicle, CV/CE, SME was 3%,2%,11%,68%, respectively while Tractors and Others segment registered a decline by 7% and 10% respectively in 1QFY25 as Company has been making interim corrections in specific locations due to stress visible on a cross-cycle basis.

Financial and valuation summary

YE Mar (Rs mn)	1QFY25A	1QFY24A	YoY (%)	4QFY24A	QoQ (%)	FY24A	FY25E	FY26E
NII	17,836	15,844	12.6	18,121	(1.6)	66,818	83,054	98,583
PPOP	11,345	10,000	13.5	11,730	(3.3)	41,783	54,550	66,180
Provisions	4,482	5,264	(14.9)	3,415	31.2	18,228	18,539	21,738
PAT	5,130	3,527	45.5	6,190	(17.1)	17,596	26,648	32,887
AUM growth (%)	23.0	28.1		24.0		24.0	18.9	15.6
NIM (%)	7.1	7.8		7.5		7.2	7.4	7.5
C / I (%)	41.3	40.3		40.5		41.4	38.1	36.5
GNPA (%)	3.6	4.3		3.4		3.4	3.1	3.0
RoA (%)	1.8	1.4		2.2		1.7	2.1	2.2
RoE (%)	11.1	8.2		13.9		10.0	14.0	15.7
P/BV (x)						2.0	1.8	1.7

Source: Company, Centrum Broking

Result Update

India I NBFC

23 July, 2024

SELL

Price: Rs296

Target Price: Rs250

Forecast return: -16%

Institutional Research

Market Data

Bloomberg:	MMFS IN
52 week H/L:	327/237
Market cap:	Rs365.5bn
Shares Outstanding:	1235.5mn
Free float:	36.4%
Avg. daily vol. 3mth:	44,63,067

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Rs250
EPS:	FY24E;21.6 FY25E;26.6

Source: Centrum Broking

Shareholding pattern

	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	52.2	52.2	52.2	52.2
FII's	10.1	12.0	12.7	14.1
DII's	30.7	28.6	27.0	25.8
Public/other	7.1	7.3	8.2	7.9

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY25	Actual Q1FY25	Variance (%)
NII	18,718	17,836	(4.7%)
PPOP	11,848	11,345	(4.2%)
PAT	4,068	5,130	26.1%

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
NII	83,054	83,054	-	98,583	98,583	-
PPoP	54,550	54,550	-	66,180	66,180	-
PAT	26,648	26,648	-	32,887	32,887	-

Source: Centrum Broking

MMFS versus NIFTY Midcap 100

	1m	6m	1 year
MMFS IN	(3.3)	9.4	(5.3)
NIFTY Midcap 100	1.3	18.7	53.2

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY25E	FY26E
Disbursement growth	14.0%	13.0%
AUM growth	18.9%	15.6%
NIMs	7.4%	7.5%
C/I ratio	38.1%	36.5%
Credit costs	1.7%	1.7%

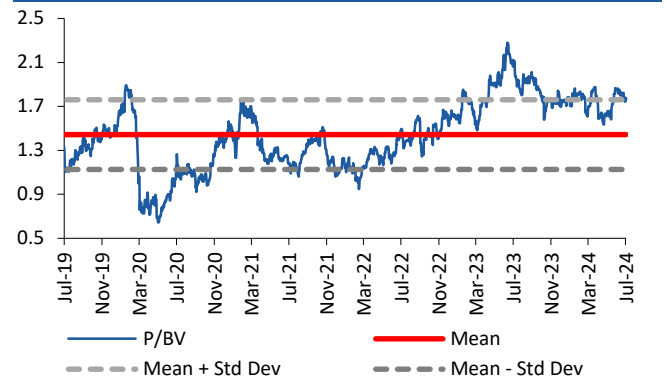
Source: Centrum Broking

Valuations

Seasonally weak quarter and elections continued the deceleration of Disbursement growth and we expect slowdown to continue as co. remains focused on strengthening its internal processes. We value MMFS (standalone) at 1.5x FY26E P/ABV and subsidiaries at Rs 19 to arrive at our Target Price of Rs 250. Maintain Sell.

Valuations	Networth	Multiple	Value(Bn)	Value/Sh	% of Total
Core business	1,90,162	1.5	285	232	92.2
Mahindra Rural housing	18,005	1.0	17	14	5.8
Mahindra Insurance brokers			11	9	3.0
Total Value of Subsidiaries			29	23	9.3
Less: 20% holding discount			6	5	1.9
Value of Key Subsidiaries			23	19	7.4
Target Value Post 20% holding co Disc			308	250	100.0
CMP			365	296	-
Upside - %			-15.5	-15.5	-

P/BV mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Market cap		P/B (x)				P/ABV(x)				RoE (%)			
	Rs bn	US \$bn	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
Shriram Fin	1,029	12.4	2.5	2.3	1.9	1.7	2.9	2.5	2.1	1.8	14.8	15.7	16.1	16.5
Cholamandalam	1,182	14.2	6.9	5.1	4.2	3.4	7.8	5.7	4.6	3.7	20.5	20.2	21.0	22.1
Sundaram Fin	509	6.1	6.4	5.2	4.6	4.0	7.0	5.5	4.8	4.2	14.9	15.3	17.2	17.4
Mahindra Fin	365	4.4	1.9	2.0	1.8	1.7	2.2	2.1	2.0	1.8	12.5	10.0	14.0	15.7

Source: Company, Centrum Broking

Key Concall takeaways

Opening Remarks

- Seasonally weak quarter + election during the quarter hence 1Q disbursement was modest at Rs12,741 crores v/s Rs12,165 crores a YoY 5% growth. PVs seen a slowdown in 1QFY25 – mere 3% YoY growth.
- GS3 number stand at 3.6% vs. 3.4% in 4QFY24. However, GS2 has seen bump in to 6.1% from 5% in 4QFY24.
- **Opex witnessed improvement (YoY and QoQ) due to efficiency – 10bps lower YoY on average assets.**
- Credit cost seen an improvement during the quarter – primarily as write off was lower at 1.1% vs. 1.3% in 1QFY24.
- CE remains stable in line with 1Q historical performance.
- CRAR at 18.5%.
- **PCR was lower at 59.8% vs. 63.2% in 4QFY24 – LGD improvement (Past 42 months period calculation) has led to lower provisions.** Going ahead, as the company proceeds and comes out of past Covid impact – PCR could come down further. However, prudent provisions would be maintained.

Guidance

- Loan book target Rs1.2trn for the year.
- NIM expansion ~25bps guidance maintained with multiple levers at disposal.
- RoA guidance maintained at 2.2%.

Advances and deposits

- Pre-owned vehicle business is expected to grow with multiple tie ups/partnerships and is expected to boost yields.

Asset quality and margins

- Provision cost is guided by model which is linked to past behaviour of the book (LGD) and increased collection efforts (including effect of PD).
- For 1QFY25 - RoA – 1.8%.
- NIMs are under pressure due to CoF.

Others

- Competition has been witnessed from PSU Banks in CV space.
- On borrowing mix, company has reduced dependence on CP and increased off shore borrowings.
- CE – includes due and overdue collection – hence in spite of increase in GS3+GS2 in 1QFY25 vs. GS3+GS2 in 1QFY24 the company was able to manage 94% levels.
- Incremental cost of borrowing remains ~7.7-7.8% and is expected to be in similar range.

Exhibit 1: Quarterly performance

Y/E March (Rs mn)	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Interest Income	36,122	30,349	35,471	19.0	1.8
Interest Expense	18,286	14,505	17,351	26.1	5.4
Net Interest Income	17,836	15,844	18,121	12.6	(1.6)
NIM (%)	7.1	7.8	7.5	(73bps)	(46bps)
Non Interest income	1,480	905	1,590	63.5	(6.9)
Total Income	19,316	16,750	19,710	15.3	(2.0)
Staff cost	4,703	4,174	4,243	12.7	10.8
Other Op Exp	3,267	2,577	3,737	26.8	(12.6)
Total Op Exp	7,970	6,750	7,980	18.1	(0.1)
Cost to Income (%)	41.3	40.3	40.5	96bps	78bps
Pre-provision op profit	11,345	10,000	11,730	13.5	(3.3)
Provisions	4,482	5,264	3,415	(14.9)	31
PBT	6,864	4,735	8,315	44.9	(17.5)
Tax	1,734	1,209	2,126	43.5	(18.4)
-effective tax rate	25.3	25.5	25.6	(26bps)	(30bps)
PAT	5,130	3,527	6,190	45	(17.1)
Reported PAT	5,130	3,527	6,190	45.5	(17.1)
Borrowings	9,53,400	7,89,740	9,22,252	20.7	3.4
Gross Advances	10,67,009	8,67,320	10,25,970	23.0	4.0

Source: NBFC, Centrum Broking

Exhibit 2: Estimate revision

Change in our estimates	Revised Estimates		Earlier Estimates		% Revision	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest income (Rs mn)	83,054	98,583	83,054	98,583	-	-
Operating Profit (Rs mn)	54,550	66,180	54,550	66,180	-	-
Profit after tax (Rs mn)	26,648	32,887	26,648	32,887	-	-
ABV (Rs)	152	166	152	166	-	-

Source: NBFC, Centrum Broking

Exhibit 3: Detailed Quarterly Financials

Y/E March (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Interest Income	24,577	24,867	23,917	24,372	25,163	27,947	29,344	30,349	31,535	33,733	35,471	36,122
Interest Expense	10,151	9,514	9,357	9,320	10,688	12,419	13,340	14,505	15,665	16,750	17,351	18,286
Net Interest Income	14,426	15,353	14,560	15,052	14,475	15,528	16,004	15,844	15,870	16,983	18,121	17,836
NIM (%)	10.2	10.6	9.8	9.7	8.7	8.7	8.4	7.8	7.3	7.4	7.5	7.1
Non-Interest income	647	563	747	613	930	968	1,223	905	870	1,172	1,590	1,480
Total Income	15,073	15,916	15,306	15,666	15,405	16,496	17,227	16,750	16,740	18,155	19,710	19,316
Employee cost	2,788	3,027	3,200	3,532	3,762	3,997	4,552	4,174	4,368	4,342	4,243	4,703
Other Op Exp	2,122	2,266	3,127	2,676	3,011	2,518	3,233	2,577	2,944	3,188	3,737	3,267
Total Op Exp	4,910	5,294	6,327	6,208	6,773	6,515	7,786	6,750	7,312	7,530	7,980	7,970
Cost to Income (%)	32.6	33.3	41.3	39.6	44.0	39.5	45.2	40.3	43.7	41.5	40.5	41.3
Pre-provision op profit	10,163	10,622	8,979	9,458	8,632	9,981	9,441	10,000	9,428	10,625	11,730	11,345
Provisions	-3,668	-1,474	639	6,453	1,980	1,550	4	5,264	6,266	3,284	3,415	4,482
PBT	13,831	12,096	8,341	3,005	6,652	8,431	9,437	4,735	3,163	7,341	8,315	6,864
Tax	3,602	3,158	2,333	776	1,620	2,140	2,596	1,209	811	1,813	2,126	1,734
-effective tax rate (%)	26.0	26.1	28.0	25.8	24.4	25.4	27.5	25.5	25.6	24.7	25.6	25.3
PAT	10,229	8,938	6,008	2,229	5,032	6,291	6,841	3,527	2,352	5,528	6,190	5,130
Extraordinary items	-	-	-	-	550	-	-	-	-	-	-	-
Reported PAT	10,229	8,938	6,008	2,229	4,482	6,291	6,841	3,527	2,352	5,528	6,190	5,130
Gross Loans	6,36,180	6,39,440	6,49,610	6,76,930	7,38,170	7,73,440	8,27,700	8,67,320	9,37,230	9,70,480	10,25,970	10,67,009
Growth (%)	(6.1)	(3.9)	0.6	6.5	16.0	21.0	27.4	28.1	27.0	25.5	24.0	23.0
Disbursements	64,750	80,320	92,020	94,720	1,18,240	1,49,110	1,37,500	1,21,650	1,33,150	1,54,360	1,52,920	1,27,688
Growth (%)	61	28	54	145	83	86	49	28	13	7	11	5
Gross Stage 2 (%)	19.7	17.8	14.3	11.7	9.7	8.4	6.0	6.4	5.7	6.0	5.0	6.1
Stage 2 PCR (%)	13.6	12.7	12.7	11.5	11.0	10.7	10.6	10.9	11.3	11.3	11.4	10.5
Gross Stage 3 (%)	12.7	11.3	7.7	8.0	6.7	5.9	4.5	4.3	4.3	4.0	3.4	3.6
Stage 3 PCR (%)	53.0	53.2	58.1	58.1	58.2	59.0	59.5	60.1	61.2	61.2	63.2	59.8
Tier 1 Capital (%)	22.3	23.3	24.3	22.8	20.5	20.5	19.9	18.9	16.7	16.5	16.4	16.4
CAR (%)	26.1	26.8	27.8	25.9	23.8	23.4	22.5	21.2	18.7	18.3	18.9	18.5

Source: NBFC, Centrum Broking

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest income	94,756	1,06,826	1,31,088	1,62,244	1,90,671
Interest expense	39,202	45,767	64,269	79,189	92,089
NII	55,554	61,059	66,818	83,054	98,583
Other income	2,432	3,735	4,537	5,049	5,620
Total income	57,986	64,794	71,355	88,104	1,04,203
Operating expenses	20,734	27,276	29,572	33,554	38,024
Employee	11,714	15,843	17,126	19,524	22,257
Others	9,020	11,433	12,446	14,030	15,766
PPOP	37,252	37,518	41,783	54,550	66,180
Provisions	23,683	9,992	18,228	18,539	21,738
PBT	13,569	27,526	23,555	36,011	44,442
Tax	3,682	7,138	5,959	9,363	11,555
PAT	9,888	20,388	17,596	26,648	32,887

Ratios					
YE Mar	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (%)					
AUM	0.5	27.4	24.0	18.9	15.6
Borrowings	(4.7)	34.3	23.1	20.2	15.8
NII	0.4	9.9	9.4	24.3	18.7
Other income	(2.7)	53.6	21.5	11.3	11.3
Opex	27.0	31.5	8.4	13.5	13.3
PPoP	(10.3)	0.7	11.4	30.6	21.3
Provisions	(36.6)	(57.8)	82.4	1.7	17.3
PAT	200.5	106.2	(13.7)	51.4	23.4
Profitability (%)					
Yield on advances	15.7	15.3	14.7	14.9	14.9
Cost of funds	6.9	7.0	7.7	7.8	7.7
NIM (on AuM)	8.6	8.3	7.2	7.4	7.5
Other Income/ Total Income	1.0	2.0	2.2	2.0	1.8
Other Income / Total Assets	0.1	0.1	0.1	0.1	0.1
Cost/Income	35.8	42.1	41.4	38.1	36.5
Employee	20.2	24.5	24.0	22.2	21.4
Others	15.6	17.6	17.4	15.9	15.1
Opex/ Avg AuM	3.2	3.7	3.2	3.0	2.9
Provisions	3.7	1.4	2.0	1.7	1.7
Tax Rate	27.1	25.9	25.3	26.0	26.0
RoA	1.3	2.4	1.7	2.1	2.2
RoE	6.5	12.5	10.0	14.0	15.7

DuPont (% avg assets)					
YE Mar	FY22A	FY23A	FY24A	FY25E	FY26E
Interest income	12.4	12.5	12.4	12.9	13.0
Interest expense	5.1	5.3	6.1	6.3	6.3
NII	7.3	7.1	6.3	6.6	6.7
Other income	0.3	0.4	0.4	0.4	0.4
Total income	7.6	7.6	6.8	7.0	7.1
Operating expenses	2.7	3.2	2.8	2.7	2.6
Employee	1.5	1.8	1.6	1.6	1.5
Others	1.2	1.3	1.2	1.1	1.1
PPOP	4.9	4.4	4.0	4.3	4.5
Provisions	3.1	1.2	1.7	1.5	1.5
PBT	1.8	3.2	2.2	2.9	3.0
Tax	0.5	0.8	0.6	0.7	0.8
PAT	1.3	2.4	1.7	2.1	2.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Financial assets	7,30,353	9,22,754	11,15,351	13,21,794	15,22,353
Cash	41,504	28,321	26,891	29,820	32,047
Loans	6,04,446	7,94,547	9,91,952	11,85,814	13,73,532
Investment	84,403	99,886	96,508	1,06,159	1,16,775
Non-financial assets	22,534	39,411	36,241	40,271	44,764
Deferred tax assets	0	0	0	0	0
Fixed Assets	3,831	6,812	8,111	9,328	10,727
Other Non-fin. assets	18,703	32,599	28,130	30,943	34,037
Total Assets	7,52,887	9,62,166	11,51,592	13,62,064	15,67,117
Financial liabilities	5,58,139	7,49,459	9,22,252	11,08,238	12,83,675
Borrowings	5,58,139	7,49,459	9,22,252	11,08,238	12,83,675
Non-financial liabilities	38,467	41,818	47,766	54,930	63,170
Other Non-fin liabilities	38,467	41,818	47,766	54,930	63,170
Total equity	1,56,281	1,70,889	1,81,575	1,98,896	2,20,273
Share capital	2,466	2,467	2,469	2,469	2,469
Other equity	1,53,815	1,68,422	1,79,106	1,96,428	2,17,804
Total Liabilities	7,52,887	9,62,166	11,51,592	13,62,064	15,67,117
Balance Sheet ratios (%)					
Debt / Equity	3.6	4.4	5.1	5.6	5.8
Assets / Equity	4.8	5.6	6.3	6.8	7.1
Cash / Borrowings	7.4	3.8	2.9	2.7	2.5
Details on loans					
AUM	6,49,610	8,27,700	10,25,970	12,20,363	14,10,818
Disbursements	2,75,810	4,95,410	5,62,080	6,40,771	7,24,071
Capital Adequacy (%)					
CRAR	27.8	22.5	18.9	17.3	16.5
Tier-1	24.3	19.9	16.4	15.1	14.5
Tier-2	3.5	2.7	2.5	2.3	2.0
Asset quality (%)					
GNPA (Rs mn)	49,763	37,170	34,910	37,373	42,668
Growth (%)	(14.0)	(25.3)	(6.1)	7.1	14.2
NNPA (Rs mn)	20,860	15,070	12,860	16,818	21,334
Growth (%)	(14.3)	(27.8)	(14.7)	30.8	26.9
GNPA	7.7	4.5	3.4	3.1	3.0
NNPA	3.4	1.8	1.3	1.4	1.5
PCR	58.1	59.5	63.2	55.0	50.0
NNPA / Equity	13.3	8.8	7.1	8.5	9.7
Per share (Rs)					
EPS	8.0	16.5	14.3	21.6	26.6
BVPS	126.7	138.5	147.1	161.1	178.4
ABVPS	114.3	129.6	139.8	151.6	166.3
DPS	3.6	6.0	6.3	7.6	9.3
Valuation (x)					
P/E	36.9	17.9	20.8	13.7	11.1
P/BV	2.3	2.1	2.0	1.8	1.7
P/ABV	2.6	2.3	2.1	2.0	1.8
Dividend yield	1.2	2.0	2.1	2.6	3.2

Source: Company, Centrum Broking

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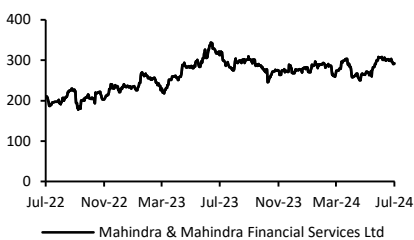
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M&M Financial Services



Source: Bloomberg

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