

Retail Equity Research

M & M Financial Services Limited

NBFC

BSE CODE: 532720

NSE CODE: M&MFIN

Bloomberg CODE: MMFS:IN

SENSEX: 78,593

ACCUMULATE

12 Months Investment Period Rating as per Mid Cap
CMP Rs. 293 TARGET Rs. 330 RETURN 13% ↑
(Closing: 06-08-24)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↓

Performance thrives, outlook brightens

M&M Financial Services is a non-banking financial company providing asset finance and other financial products and services in rural and semi-urban markets.

- Net interest income recorded a 15.9% YoY growth to Rs. 1,894cr in Q1FY25, led by increased interest income.
- Gross non-performing assets (NPA) and net NPA ratios stood at 3.6% and 1.5% respectively, reflecting seasonal deterioration in asset quality. The provision coverage ratio was 59.8%.
- M&M Financial Services delivered decent numbers in Q1FY25. The company will focus on improving asset quality and disbursements. Increased financing of select asset classes, enhanced collections, insurance tie-ups, and cost optimisation are expected to improve yields, boost margin and improve returns. Therefore, we upgrade our rating on the stock to ACCUMULATE with a revised target price of Rs. 330 based on SOTP valuation.

Lower credit costs drive the bottomline

Interest income rose 20.7% YoY to Rs. 3,722cr in Q1FY25, while interest expenses increased 26.1% YoY to Rs. 1,829cr. As a result, net interest income grew 15.9% YoY, reaching Rs. 1,894cr. However, net interest margin contracted 20bps YoY to 6.8% due to growth in interest earnings assets. Operating expenses expanded 18.1% YoY to Rs. 797cr, driven by higher employee costs and other operating expenditure. That said, provisions declined 14.9% YoY. Thus, net profit grew 45.5% YoY to Rs. 513cr on the back of lower provisions along with sustained growth in assets under management (AUM) and reduced credit costs.

Disbursements growth slows down

Disbursements clocked a relatively moderate growth of 4.7% YoY, reaching Rs. 12,741cr. But this was weighed down by disruptions caused by elections, heat waves in the north and floods in the northeast. That said, the commercial vehicles segment showed a significant improvement of 11% YoY. Other asset classes also recorded growth, with passenger vehicles increasing 3% YoY, pre-owned vehicles 2%, three-wheelers 3% and SME 68%. However, tractors and other asset classes declined 7% and 10% YoY, respectively. On the asset quality front, GNPA ratio edged up to 3.6% compared with 3.4% in Q4FY24 and NNPA to 1.5% from 1.3% in Q4FY24. In addition, the capital adequacy ratio touched 18.5% and the Tier 1 capital ratio stood at 16.4%, indicating strong capitalisation.

Key concall highlights

- The company aims for low double-digit growth in disbursements in the coming quarters.
- The company expects credit cost to be 1.4% in FY25 and ~1.2-1.3% in FY26 and the fiscals to follow.
- It expects net interest margin to remain around 7% in the near to medium term.

Valuation

The company's focus on improving asset quality and disbursement growth will put it in a favourable position. It plans to increase financing of certain asset classes to enhance margin and aims to reduce credit costs and the provision coverage ratio by improving collections and settling losses. In addition, a corporate agency licence and insurance tie-ups are expected to boost its fee income. Cost optimisation efforts are anticipated to aid return on assets and net interest margin in the coming quarters. We remain confident about the company's prospects and, therefore, upgrade our rating on the stock to ACCUMULATE with a revised target price of Rs. 330 based on SOTP valuation.

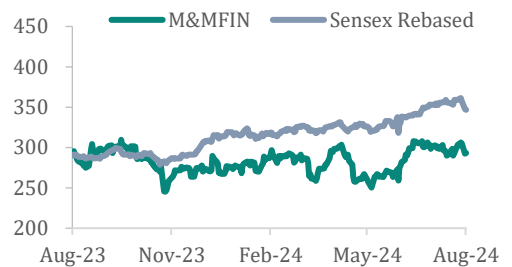
Company Data

Market Cap (cr)	Rs. 36,199
Outstanding Shares (cr)	123
Free Float	48.0%
Dividend Yield	2.2
52 week high	Rs. 316
52 week low	Rs. 244
6m average volume (lacs)	37.7
Beta	1.0
Face value	Rs. 2

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	52.2	52.2	52.2
FII's	12.7	12.0	10.1
MFs/Insti	27.1	28.7	30.8
Public	7.6	6.8	6.5
Others	0.5	0.4	0.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	12.8%	0.5%	1.1%
Absolute Sensex	6.4%	8.9%	19.6%
Relative Return*	6.5%	-8.4%	-18.5%

*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
Net Interest Income	6,977	8,613	10,243
Growth (%)	9.8	23.4	18.9
NIM (%)	6.4	6.7	6.9
Pre-Provision Profit	4,178	5,329	6,379
Net Profit	1,760	2,625	3,360
Growth (%)	(11.3)	49.2	28.0
Adj.EPS	14.3	21.3	27.2
Growth (%)	(13.7)	49.2	28.0
BVPS	147.0	162.0	182.5
P/E	19.6	13.8	10.8
P/B	1.9	1.8	1.6
RoE (%)	10.0	13.8	15.8
RoA (%)	1.7	2.1	2.3



Quarterly Financials (Standalone)

Profit & Loss Account

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Interest Income	3,722	3,085	20.7	3,654	1.9
Interest Expense	1,829	1,450	26.1	1,735	5.4
Net Interest Income (NII)	1,894	1,634	15.9	1,919	(1.3)
Non-Interest Income	38	41	(7.1)	52	(27.2)
Total Net Income	1,932	1,675	15.3	1,971	(2.0)
Total Income	3,760	3,125	20.3	3,706	1.5
Operating Expenses	797	675	18.1	798	(0.1)
Total Expenditure	2,626	2,125	23.5	2,533	3.7
Pre-Provision Profit	1,135	1,000	13.5	1,173	(3.3)
Provisions	448	526	(14.9)	341	31.2
Profit Before Tax	686	474	44.9	832	(17.5)
Tax	173	121	43.5	213	(18.4)
Minority Interests	-	-	-	-	-
Net Profit	513	353	45.5	619	(17.1)
Adj.	-	-	-	-	-
Adj. PAT	513	353	45.5	619	(17.1)
Adj. EPS (Rs.)	4.2	2.9	45.6	5.0	(17.5)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (NII)	8,550	9,814	8,613	10,243	0.7	4.4
Net Interest Margin (%)	6.8	6.9	6.7	6.9	(12bps)	6bps
Pre-Provision Profit	5,409	6,381	5,329	6,379	(1.5)	(0.0)
Net Profit	2,822	3,393	2,625	3,360	(7.0)	(1.0)
EPS (Rs)	22.9	27.5	21.3	27.2	(7.0)	(1.0)

Business performance

	Q1FY25	Q1FY24	YoY Growth %	Q4FY24	QoQ Growth %
Loans	102,811	83,241	23.5	99,195	3.6
Borrowings	82,832	70,165	18.1	81,045	2.2
Gross NPA	3,790	3,770	0.5	3,491	8.6
Net NPA	1,524	1,503	1.4	1,286	18.5

Sum of the parts (SOTP) Valuation

Particulars	Basis	Multiple	Year	Value (Rs. cr)	Value/share (Rs.)
MMFSL (standalone)	FY26E P/BV	1.6x	FY26E	36,961	299
Rural Housing Finance	FY26E P/BV	1.3x	FY26E	2,304	19
Others	FY26E P/BV	1.0x	FY26E	2,470	20
20% holding discount	20% holding discount to subsidiaries			(955)	(8)
Target Price	Target Price			40,749	330

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	9,658	10,929	13,404	16,228	19,056
Interest Exp.	3,920	4,577	6,427	7,615	8,813
Net Int. Income	5,738	6,352	6,977	8,613	10,243
% Change	0.3	10.7	9.8	23.4	18.9
Non-Int. Income	61	127	158	198	247
Net Income	5,799	6,479	7,135	8,811	10,491
Total Income	9,719	11,056	13,562	16,426	19,303
Operating Exp.	2,073	2,728	2,957	3,482	4,112
Total Exp.	5,994	7,304	9,384	11,097	12,924
Pre-Prov. Profit	3,725	3,752	4,178	5,329	6,379
Exceptional items	0	(55)	0	0	0
Provisions	2,368	999	1,823	1,829	1,899
PBT	1,357	2,698	2,355	3,500	4,480
Tax	368	714	596	875	1,120
Tax Rate (%)	27.1	26.5	25.3	25.0	25.0
Net Profit	989	1,984	1,760	2,625	3,360
% Change	195.0	100.7	(11.3)	49.2	28.0
Adj.	0	55	0	0	0
Adj. Net Profit	989	2,039	1,760	2,625	3,360
No. of Shares (cr)	123	123	123	123	123
Adj. EPS (Rs.)	8.0	16.5	14.3	21.3	27.2
% Change	199.9	106.3	(13.7)	49.2	28.0
DPS (Rs.)	3.6	6.0	6.3	6.7	7.3

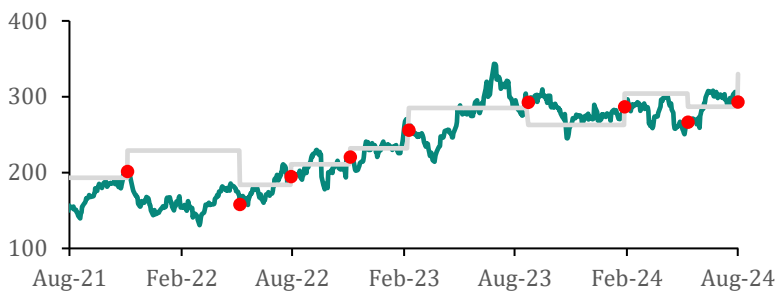
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash & Balances	4,151	2,832	2,689	2,958	3,254
Investments	8,440	9,989	9,651	10,809	12,106
Advances	60,445	79,455	99,195	117,249	136,008
Fixed Assets	393	696	931	1,070	1,231
Other Assets	1,860	3,246	2,693	2,828	2,969
Total Assets	75,289	96,217	115,159	134,914	155,569
Capital	247	247	247	247	247
Reserves & Surplus	15,381	16,842	17,911	19,757	22,290
Deposits	8,426	5,525	7,175	7,498	7,835
Borrowings	44,258	65,979	81,045	94,012	110,934
Other Liabilities	6,977	7,624	8,782	13,400	14,262
Total Liabilities	75,289	96,217	115,159	134,914	155,569
BVPS (Rs.)	126.6	138.5	147.0	162.0	182.5
Adj. BVPS (Rs.)	109.7	126.3	136.6	150.0	169.9
% Change	10.1	15.1	8.2	9.8	13.3

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Valuation					
P/E (x)	19.9	13.8	19.6	13.8	10.8
P/BV (x)	1.3	1.6	1.9	1.8	1.6
Div. Yield (%)	2.3	2.6	2.3	2.3	2.5
Profitability & Return (%)					
Yield on Advances	16.0	15.6	15.0	15.0	15.0
Cost of Deposits	7.3	7.4	8.0	8.0	8.0
Spread	8.8	8.3	7.0	7.0	7.0
NIM	8.3	7.1	6.4	6.7	6.9
ROE	6.5	12.1	10.0	13.8	15.8
ROA	1.3	2.3	1.7	2.1	2.3
Asset Quality (%)					
GNPA	7.7	4.5	3.4	3.1	2.7
NNPA	3.4	1.9	1.3	1.3	1.1
Operating Ratios (%)					
Cost/Income	35.8	42.1	41.4	39.5	39.2

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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