

# M&M Financial | BUY

## Mixed Bag

M&M Financial Services (MMFS) reported PAT of INR 6.2bn (-9.5% YoY, +12% QoQ) missed our estimates due to higher provisions (credit costs at 1.2% of total AUM) on account of INR 1.35bn fraud in one of its branches pertaining to forging of KYC documents. NII was up +13% YoY, +6.7% QoQ at INR 18.1bn on the back of increase in cal.NIMs (6.3%, +15bps QoQ) driven by +11bps expansion in yields and largely stable CoFs. Lower employee costs led to an in line PPOp of INR 11.7bn (+24% YoY, +10.4% QoQ, +1% JMFe). Business Asset growth was healthy at INR 1,026bn (+24% YoY, +5.7% QoQ) led by steady disbursements of INR 153bn (+11% YoY, -1% QoQ). Asset quality improved sequentially with GS3/NS3 at 3.4%/1.28% (-57bps/-26bps QoQ) and PCR at 62% (-37bps QoQ). Mgmt revised its vision 2025 guidance from RoAs of 2.5% to 2.2% due to higher than anticipated CoFs. We believe that the fraud incident was a one-off event which was tackled with only a minor dent on P&L as it accounted for ~0.1% of total AUM. Also, the situation has now prompted the company to undertake centralized operations which should further strengthen its underwriting processes going ahead. Also with the revised guidance, we believe that the stock is currently available at an inexpensive valuation of 1.1x FY26E BV (parent) in return for 2%+ RoAs given its strong parentage and well-diversified geographical presence. We value MMFS (parent) at 1.6x FY26E BV implying SoTP value of INR 340 per share with subs valued at INR 42 (MRHF INR 16 and MIBL at INR 26 per share). Maintain BUY.

- Healthy AUM growth continues:** In 4QFY24, total Business Assets grew to INR 1,026bn (+24% YoY, +5.7% QoQ) on the back of steady disbursements of INR 153bn (+11% YoY, -1% QoQ). The steady uptick in Business Assets was led by growth in Pre-owned vehicle (+34% YoY, +5.7% QoQ) and Passenger Vehicles (+31% YoY). 3W segment grew sharply by +65% YoY, CV&CE grew +19% YoY and SME grew +24% YoY. The growth in tractors segment was subdued at +6.2% YoY due to industry wide demand slowdown, however, MMFS continues to maintain its market leader position in the segment. While the new segment is targeted to contribute 15% of total AUM in medium term, VF growth continues to outpace new business segments. Mgmt guided for 14-15% disbursements growth to result in 18-20% growth for FY25E. We estimate AUM CAGR of 23% over FY24-26E aided by acceleration in vehicles sales and scaling up of new initiatives on vehicle leasing.
- Inline operating performance:** NII grew to INR 18.1bn (+13% YoY, +6.7% QoQ) on account of improvement in cal.NIM (6.3%, +15bps QoQ) driven by +11bps expansion in yields and largely stable CoFs. Lower employee costs led to an in line PPOp of INR 11.7bn (+24% YoY, +10.4% QoQ, +1% JMFe). Steady credit costs (1.2% of total AUM) due to one-time provisioning of INR 1.36bn led to a PAT of INR 6.2bn (-9.5% YoY, +12% QoQ). We expect the margins to inch-up from here on as the CoF have largely stabilized and shift towards high yielding pre-owned vehicles and fresh disbursements at higher rate would aid in yields to move up. Mgmt revised the RoA guidance for FY25 from earlier 2.5% to 2.2% (from 1.7% in FY24) which prompted to slightly cut our PAT estimates by ~3-4% for FY25E/FY26E.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	340
Upside/(Downside)	30.8%
Previous Price Target	345
Change	-1.4%

### Key Data – MMFS IN

Current Market Price	INR260
Market cap (bn)	INR321.1/US\$3.8
Free Float	36%
Shares in issue (mn)	1,234.4
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,009.5/US\$12.1
52-week range	347/237
Sensex/Nifty	73,896/22,443
INR/US\$	83.5

### Price Performance

%	1M	6M	12M
Absolute	-12.9	-1.1	-9.3
Relative*	-12.5	-13.1	-25.0

\* To the BSE Sensex

### Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Profit	9,887	19,843	17,596	27,350	39,972
Net Profit (YoY) (%)	195.0%	100.7%	-11.3%	55.4%	46.1%
Assets (YoY) (%)	-2.3%	27.8%	19.7%	24.8%	20.2%
ROA (%)	1.3%	2.3%	1.7%	2.1%	2.5%
ROE (%)	6.5%	12.1%	10.0%	14.2%	18.2%
EPS	8.0	16.1	14.3	22.2	32.4
EPS (YoY) (%)	194.8%	100.6%	-11.4%	55.4%	46.1%
<b>PE (x)</b>	<b>32.4</b>	<b>16.2</b>	<b>18.2</b>	<b>11.7</b>	<b>8.0</b>
BV	127	139	147	165	191
BV (YoY) (%)	6.1%	9.3%	6.2%	12.1%	15.7%
<b>P/BV (x)</b>	<b>2.05</b>	<b>1.88</b>	<b>1.77</b>	<b>1.58</b>	<b>1.36</b>

Source: Company data, JM Financial. Note: Valuations as of 06/May/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Asset Quality improves; write-off pool continues to remain high:** Asset quality improved sequentially with GS3/NS3 at 3.4%/1.28% (-57bps/-26bps QoQ). PCR remains healthy at 62.3% (-37bps QoQ). Credit cost (at 1.2%, flat QoQ) was largely due to INR 1.35bn fraud in Aizawl branch (Mizoram) pertaining to forging of KYC documents. Write-offs remained elevated at INR 6bn (1.2% of total assets). Post the incident, company has tightened its due-diligence for customer on-boarding and more than 50% of the branches are under centralized check which is aimed to be 100% in next 2 months. Mgmt guided for the collection efficiencies to continue its similar quarterly trend despite slight hiccup in Apr'24 due to elections and less working days. We build in avg. credit costs of 1.4% over FY25-26E (vs 1.7% in FY24) as PCR remains at comfortable levels now.
- **Valuation and View:** We believe that the fraud incident was a one-off event which was tackled with only a minor dent on P&L as it accounted for ~0.1% of total AUM. Also, the situation has now prompted the company to undertake centralized operations which should further strengthen its underwriting processes going ahead. Also with the revised guidance, we believe that the stock is currently available at an inexpensive valuation of 1.1x FY26E BV (parent) in return for 2%+ RoAs given its strong parentage and well-diversified geographical presence. We value MMFS (parent) at 1.6x FY26E BV implying SoTP value of INR 340 per share with subs valued at INR 42 (MRHF INR 16 and MIBL at INR 26 per share). Maintain BUY.
- **Performance of Subsidiaries:**
  - a) **Mahindra Rural Housing Finance (MRHF):** The subsidiary reported profit of INR 11mn (vs loss of INR 260mn YoY). Disbursements were at INR 7.5bn (+0.8% YoY, +34.7% QoQ). Loan book stood at INR 69.3bn (+3.6% YoY, +1.3% QoQ). Gross stage 3 ratio improved to 9% (-255bps QoQ).
  - b) **Mahindra Insurance Brokers (MIBL):** PAT stood at INR 342mn (+163% YoY, -20.5% QoQ) as gross premium grew to INR 13.9bn (+13% YoY, +17% QoQ).

#### Exhibit 1. MMFS - SOTP

MMFS SOTP	Holding	Valuation Methodology	Value Per Share	Contribution to TP (%)
MMFS - Standalone	100.0%	1.6x FY26E BV	298	88%
Mahindra Rural Housing	98.4%	1.3x FY26E BV	16	5%
Mahindra Insurance Brokers Limited	100.0%	12x FY26E earnings	26	8%
<b>Total</b>			<b>340</b>	<b>100%</b>

Source: Company, JM Financial

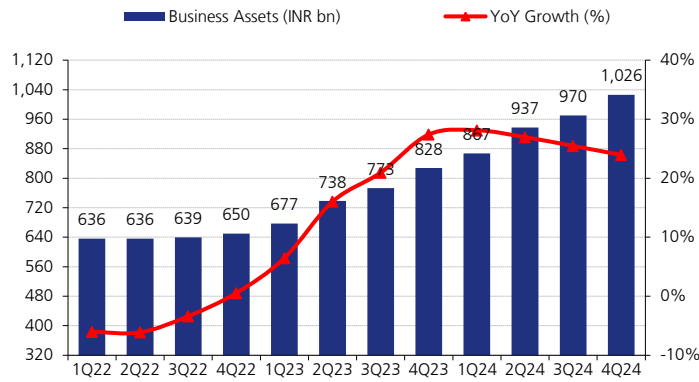
## MMFS – 4QFY24 Performance Highlights

## Exhibit 2. 4QFY24 Key Financial Highlights

Earnings Table (INR mn)	4Q'23	3Q'24	4Q'24	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>16,004</b>	<b>16,983</b>	<b>18,121</b>	<b>13.2%</b>	<b>6.7%</b>
Total Income	17,227	18,155	19,710	14.4%	8.6%
Total Operating Expenses	7,786	7,530	7,980	2.5%	6.0%
<b>Operating Profit (PPP)</b>	<b>9,441</b>	<b>10,625</b>	<b>11,730</b>	<b>24.2%</b>	<b>10.4%</b>
Provisions & Write Offs	4	3,284	3,415	89760.5%	4.0%
<b>PBT</b>	<b>9,437</b>	<b>7,341</b>	<b>8,315</b>	<b>-11.9%</b>	<b>13.3%</b>
Tax	2,596	1,813	2,126	-18.1%	17.2%
<b>Reported Profit</b>	<b>6,841</b>	<b>5,528</b>	<b>6,190</b>	<b>-9.5%</b>	<b>12.0%</b>
<b>Loans (INR bn)</b>					
Business Assets	828	970	1,026	24.0%	5.7%
Disbursements	138	154	153	11.0%	-0.9%
<b>Ratios Analysis (%)</b>					
Cost to Income (%)	45.2%	41.5%	40.5%	-4.71%	-0.99%
Effective Tax Rate (%)	27.5%	24.7%	25.6%	-1.95%	0.86%
<b>Asset Quality</b>					
Gross Stage 3 (INR Mn)	37,170	38,520	34,910	-6.1%	-9.4%
Net Stage 3 (INR Mn)	15,070	14,360	12,860	-14.7%	-10.4%
Gross Stage 3 (%)	4.5%	4.0%	3.4%	-1.1%	-0.6%
Net Stage 3 (%)	1.9%	1.5%	1.3%	-0.6%	-0.2%
Coverage Ratio (%)	59.5%	62.7%	63.2%	3.7%	0.4%
<b>Capital Adequacy (%)</b>					
Tier I (%)	19.9%	16.5%	16.4%	-3.5%	-0.1%
CAR (%)	22.5%	18.3%	18.9%	-3.6%	0.6%
<b>Du-pont Analysis (%)</b>					
NII / Avg. Assets (%)	6.8%	6.4%	6.5%	-0.3%	0.1%
Non-Interest Inc. / Assets (%)	0.3%	0.1%	0.2%	-0.1%	0.0%
Op. Cost / Assets (%)	3.3%	2.8%	2.9%	-0.5%	0.0%
PPP / Assets (%)	4.0%	4.0%	4.2%	0.2%	0.2%
Provisions / Assets (%)	0.0%	1.2%	1.2%	1.2%	0.0%
ROA (%)	2.9%	2.1%	2.2%	-0.7%	0.1%

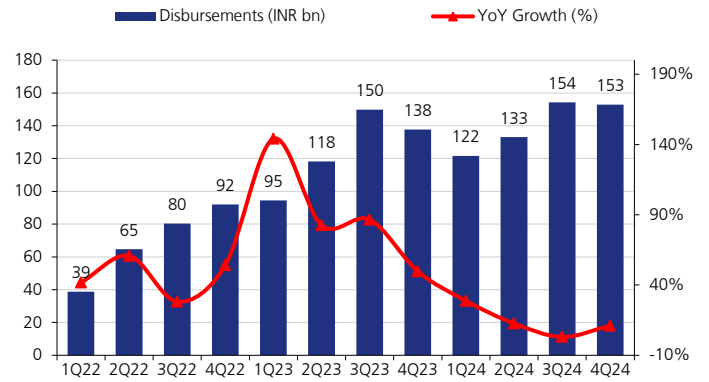
Source: Company, JM Financial

**Exhibit 3. MMFS: Trend in Business Assets growth**



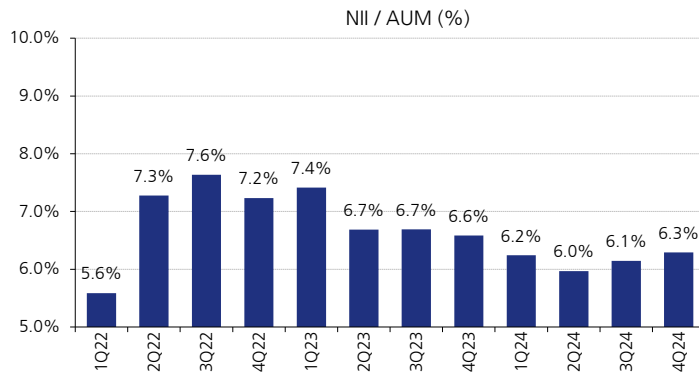
Source: Company, JM Financial

**Exhibit 4. MMFS: Trend in Disbursements**



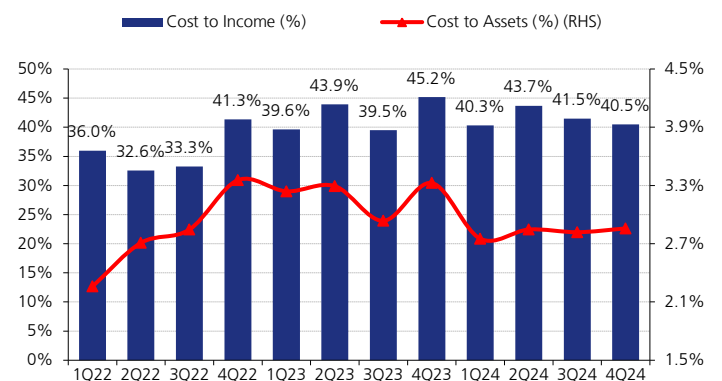
Source: Company, JM Financial

**Exhibit 5. MMFS: Trend in NII/AUM (%)**



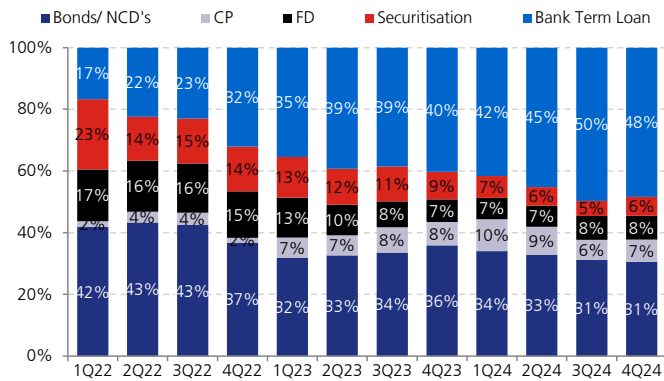
Source: Company, JM Financial

**Exhibit 6. MMFS: Cost to Asset trend**



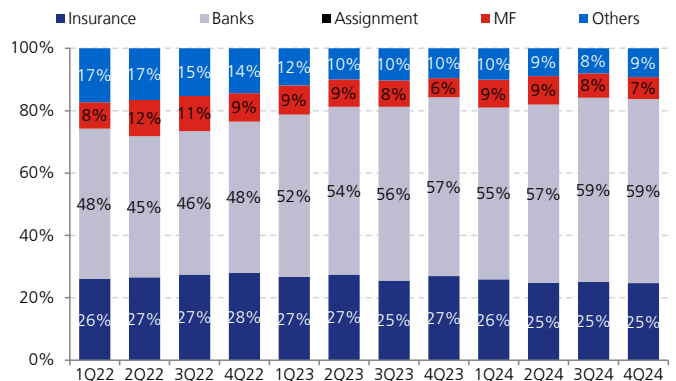
Source: Company, JM Financial

**Exhibit 7. MMFS: Trend in borrowing mix – Source-wise**



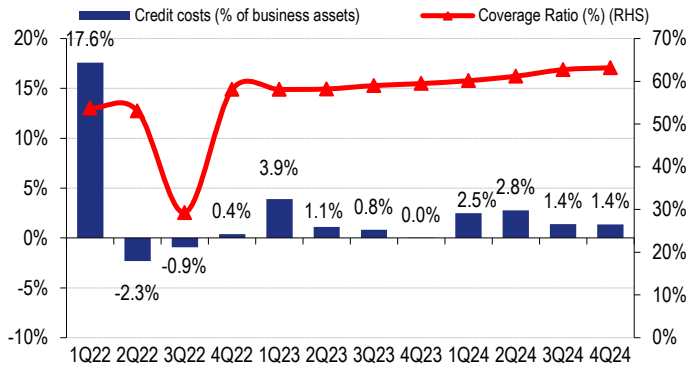
Source: Company, JM Financial

**Exhibit 8. MMFS: Trend in borrowing mix – Investor profile-wise**



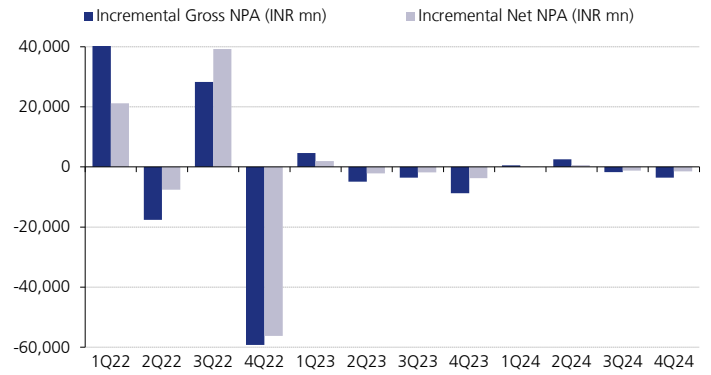
Source: Company, JM Financial

Exhibit 9. MMFS: Trend in asset quality



Source: Company, JM Financial

Exhibit 10. MMFS: Trend in incremental asset quality



Source: Company, JM Financial

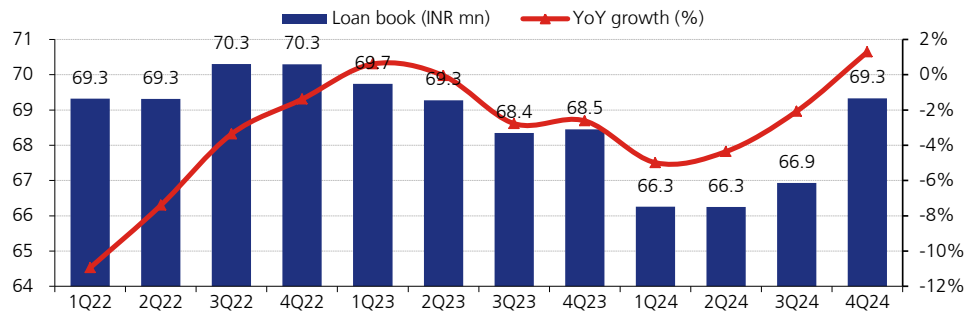
## Subsidiary performance

**Exhibit 11. MRHF - 4QFY24 Key Financials**

Earnings Table (INR mn)	4Q'23	3Q'24	4Q'24	YoY (%)	QoQ (%)
Total Income	3,550	3,110	3,103	-12.6%	-0.2%
PBT	-320	190	6	-101.9%	-96.8%
PAT	-260	130	11	-104.2%	-91.5%
Loans	68,450	66,930	69,330	1.3%	3.6%
Disbursements	7400	5540	7460	0.8%	34.7%

Source: Company, JM Financial

**Exhibit 12. MRHF - Trend in loan book growth**



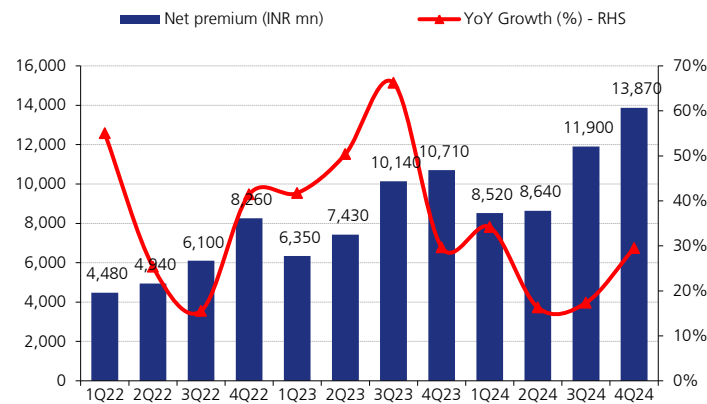
Source: Company, JM Financial

**Exhibit 13. MIBL – 4QFY24 Key Financials**

Earnings Table (INR mn)	4Q'23	3Q'24	4Q'24	YoY (%)	QoQ (%)
Total income	1,210	3,310	3,114	157.4%	-5.9%
Gross premium	12,260	11,900	13,870	13.1%	16.6%
<b>PAT</b>	<b>130</b>	<b>430</b>	<b>342</b>	<b>163.1%</b>	<b>-20.5%</b>
No. of employees (nos.)	765	707	725	-5.2%	2.5%

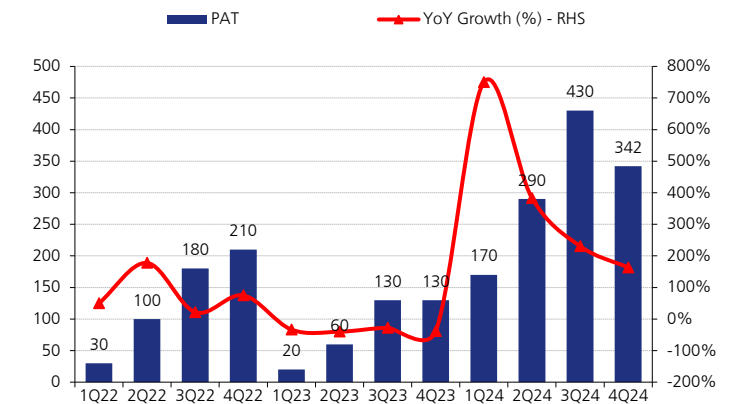
Source: Company, JM Financial

**Exhibit 14. MIBL: Trends in premium**



Source: Company, JM Financial

**Exhibit 15. MIBL: Trends in profitability**



Source: Company, JM Financial

## Financial Tables (Standalone)

Profit & Loss						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Interest Income	55,554	61,059	66,818	87,193	1,12,543	
Profit on Investments	608	1,273	53	73	93	
Exchange Income	0	0	0	0	0	
Fee & Other Income	1,824	2,462	4,484	3,730	2,659	
<b>Non-Interest Income</b>	<b>2,432</b>	<b>3,735</b>	<b>4,537</b>	<b>3,803</b>	<b>2,752</b>	
<b>Total Income</b>	<b>57,986</b>	<b>64,794</b>	<b>71,355</b>	<b>90,996</b>	<b>1,15,295</b>	
Operating Expenses	20,734	27,276	29,572	34,499	40,241	
<b>Pre-provisioning Profits</b>	<b>37,252</b>	<b>37,518</b>	<b>41,783</b>	<b>56,496</b>	<b>75,054</b>	
Loan-Loss Provisions	23,683	9,992	18,228	20,030	21,758	
Provisions on Investments	0	0	0	0	0	
Others Provisions	0	0	0	0	0	
<b>Total Provisions</b>	<b>23,683</b>	<b>9,992</b>	<b>18,228</b>	<b>20,030</b>	<b>21,758</b>	
<b>PBT</b>	<b>13,569</b>	<b>27,526</b>	<b>23,555</b>	<b>36,467</b>	<b>53,296</b>	
Tax	3,682	7,138	5,959	9,117	13,324	
<b>PAT (Pre-Extraordinaries)</b>	<b>9,887</b>	<b>20,388</b>	<b>17,596</b>	<b>27,350</b>	<b>39,972</b>	
Extra ordinaries (Net of Tax)	0	-545	0	0	0	
<b>Reported Profits</b>	<b>9,887</b>	<b>19,843</b>	<b>17,596</b>	<b>27,350</b>	<b>39,972</b>	
Dividend paid	4,448	988	7,777	5,470	7,994	
<b>Retained Profits</b>	<b>5,440</b>	<b>18,855</b>	<b>9,819</b>	<b>21,880</b>	<b>31,977</b>	

Source: Company, JM Financial

## Key Ratios

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Growth (YoY) (%)</b>					
Deposits	0.0%	0.0%	0.0%	0.0%	0.0%
Advances	0.8%	31.5%	24.8%	25.7%	20.9%
Total Assets	-2.3%	27.8%	19.7%	24.8%	20.2%
NII	0.4%	9.9%	9.4%	30.5%	29.1%
Non-interest Income	-2.7%	53.6%	21.5%	-16.2%	-27.6%
Operating Expenses	27.0%	31.5%	8.4%	16.7%	16.6%
Operating Profits	-10.3%	0.7%	11.4%	35.2%	32.8%
Core Operating profit	321.8%	93.9%	-16.5%	53.0%	46.1%
Provisions	-36.6%	-57.8%	82.4%	9.9%	8.6%
Reported PAT	195.0%	100.7%	-11.3%	55.4%	46.1%
<b>Yields / Margins (%)</b>					
Interest Spread	5.95%	5.92%	5.17%	5.55%	5.96%
NIM	7.51%	7.39%	6.55%	6.94%	7.29%
<b>Profitability (%)</b>					
Non-IR to Income	4.2%	5.8%	6.4%	4.2%	2.4%
Cost to Income	35.8%	42.1%	41.4%	37.9%	34.9%
ROA	1.30%	2.31%	1.66%	2.11%	2.53%
ROE	6.5%	12.1%	10.0%	14.2%	18.2%
<b>Assets Quality (%)</b>					
Slippages	4.71%	3.55%	2.00%	2.00%	2.00%
Gross NPA	7.86%	4.55%	3.44%	2.65%	2.70%
Net NPAs	3.45%	1.90%	1.30%	1.00%	1.02%
Provision Coverage	58.1%	59.5%	63.2%	63.0%	63.0%
Specific LLP	3.41%	2.19%	2.08%	1.79%	1.58%
Net NPAs / Networth	13.3%	8.8%	7.1%	6.1%	6.5%
<b>Capital Adequacy (%)</b>					
Tier I	24.24%	19.86%	16.40%	14.73%	14.18%
CAR	27.75%	22.52%	18.90%	17.03%	16.38%

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Equity Capital	2,466	2,467	2,469	2,469	2,469	
Reserves & Surplus	1,53,815	1,68,422	1,79,106	2,00,986	2,32,963	
Borrowings	5,58,139	7,49,459	9,22,252	11,62,037	14,06,065	
Other Liabilities	38,154	41,585	47,766	71,868	86,395	
<b>Total Liabilities</b>	<b>7,52,887</b>	<b>9,62,166</b>	<b>11,51,592</b>	<b>14,37,360</b>	<b>17,27,892</b>	
Investments	84,403	99,886	96,508	1,24,672	1,50,736	
Net Advances	6,04,446	7,94,547	9,91,952	12,46,719	15,07,358	
Cash & Equivalents	41,507	28,321	26,891	24,934	30,147	
Fixed Assets	3,929	6,956	9,308	11,623	13,949	
<b>Total Assets</b>	<b>7,52,890</b>	<b>9,62,166</b>	<b>11,51,592</b>	<b>14,37,360</b>	<b>17,27,892</b>	

Source: Company, JM Financial

## Dupont Analysis

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
NII / Assets	7.29%	7.12%	6.32%	6.74%	7.11%
Other Income / Assets	0.32%	0.44%	0.43%	0.29%	0.17%
Total Income / Assets	7.61%	7.56%	6.75%	7.03%	7.29%
Cost / Assets	2.72%	3.18%	2.80%	2.67%	2.54%
PBP / Assets	4.89%	4.38%	3.95%	4.36%	4.74%
Provisions / Assets	3.11%	1.17%	1.72%	1.55%	1.37%
PBT / Assets	1.78%	3.21%	2.23%	2.82%	3.37%
Tax rate	27.1%	25.9%	25.3%	25.0%	25.0%
ROA	1.30%	2.31%	1.66%	2.11%	2.53%
RoRWAs	1.74%	2.97%	1.88%	2.20%	2.63%
Leverage	4.8	5.6	6.3	7.1	7.3
ROE	6.5%	12.1%	10.0%	14.2%	18.2%

Source: Company, JM Financial

## Valuations

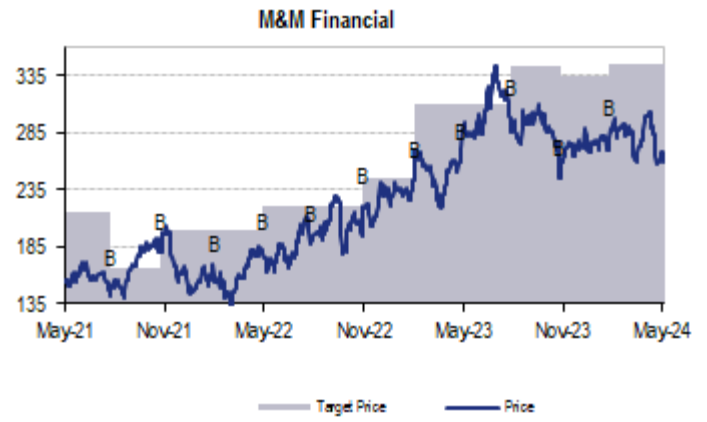
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shares in Issue	1,233.0	1,233.6	1,234.4	1,234.4	1,234.4
EPS (INR)	8.0	16.1	14.3	22.2	32.4
EPS (YoY) (%)	194.8%	100.6%	-11.4%	55.4%	46.1%
PER (x)	32.4	16.2	18.2	11.7	8.0
BV (INR)	127	139	147	165	191
BV (YoY) (%)	6.1%	9.3%	6.2%	12.1%	15.7%
ABV (INR)	127	139	147	165	191
ABV (YoY) (%)	6.1%	9.3%	6.2%	12.1%	15.7%
P/BV (x)	2.05	1.88	1.77	1.58	1.36
P/ABV (x)	2.05	1.88	1.77	1.58	1.36
DPS (INR)	3.6	0.8	6.3	4.4	6.5
Div. yield (%)	1.4%	0.3%	2.4%	1.7%	2.5%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
28-Jan-20	Buy	465	
7-Apr-20	Buy	225	-51.6
16-May-20	Buy	220	-2.2
19-Jul-20	Buy	200	-9.1
3-Sep-20	Buy	200	0.0
27-Oct-20	Buy	200	0.0
29-Jan-21	Buy	225	12.5
24-Apr-21	Buy	215	-4.4
27-Jul-21	Buy	167	-22.3
29-Oct-21	Buy	200	19.8
3-Feb-22	Buy	200	0.0
4-May-22	Buy	220	10.0
29-Jul-22	Buy	220	0.0
3-Nov-22	Buy	245	11.4
5-Feb-23	Buy	310	26.5
1-May-23	Buy	310	0.0
31-Jul-23	Buy	343	10.6
30-Oct-23	Buy	335	-2.3
30-Jan-24	Buy	345	3.0

Recommendation History





## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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\* REITs refers to Real Estate Investment Trusts.

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