

Jan 29, 2025

**RESULT REPORT Q3 FY25** | Sector: Financials

# M&M Financial Services

## Awaiting a consistent performance

### Higher NPL addition continues; PAT beat on ECL model revision

MMFS's PPOP was in line with our estimate, but the PAT stood much higher at Rs9bn owing to the annual revision of ECL model that lowered LGD from 59.5% to 50.1%. This reduction of LGD caused significant provision release of Rs4.34bn (Rs3bn/Rs1bn on Stage-3/Stage-2 assets) in the quarter, underpinning negligible credit cost despite higher write-offs (Rs4.44bn v/s Rs2.96bn in Q2 FY25). Actually, the net NPL addition (adj. for write-offs) remained elevated at ~Rs6.6bn (~Rs8.2bn/~Rs6.2bn in Q2/Q1 FY25). While slippages in Tractors were sequentially lower, it remained significant in LCV financing. Owing to the revision of LGD, the ECL coverage on Stage-2 assets declined to 9.1% from 10.6% in Q2 FY25.

Overall disbursements grew 25% qoq/7% yoy aided by improved traction in PV (up 33% qoq/8% yoy), CV/CE (up 27% qoq) and Tractors (up 59% qoq/24% yoy). Business Assets grew by 2.4% qoq and 18% yoy with the sequential growth impacted by repayment of trade advances from dealers. Disbursement growth in a key segment of Used Vehicle financing was weak (lower 1% qoq/3% yoy) for the third consecutive quarter. Some improvement in Portfolio Yield and fee income drove 10 bps qoq expansion in NIM (from 6.5% to 6.6%), even as funding cost increased marginally.

### Management continues to aspire for 15-20% growth, <1.5% credit cost and >2% RoA for coming years

MMFS continues to harbor expectations of delivering higher teens AUM growth aided by 1) targeting of better location/dealer coverage and prime customers in PV financing, 2) improved growth execution in Used Vehicle financing, 3) sustaining traction in Tractor loans and 4) further scaling-up of SME book. NIM is expected to be in corridor of 6.5-6.7% in the near term with peaking of funding cost and some improvement in yield on the back of product mix shift and remaining benefits from the rate actions taken. With further benefit from ECL coverage reduction unlikely, the credit cost would be driven by the trends in net NPL addition and write-offs. Management commented that PDs are likely to rise in the current environment, quantum of write-offs would moderate, and disposal losses would be controlled. Opex/Avg. Assets is aspired to be maintained in the narrow band of 2.5-2.7%.

### Improved disbursement and asset quality performance remains key

MMFS trades at 10x P/E and 1.5x P/BV on our FY27 estimates. Valuation re-rating would be a function of better control over asset quality, meaningful visibility of mid-teen growth and turning of the rate cycle. Hence, the key triggers for stock price rally would be improvement in collection efficiency, NPL resolutions and disbursement growth rate. Maintain Neutral rating on MMFS till then.

#### Exhibit 1: Result table

(Rs mn)	Q3 FY25	Q2 FY25	% qoq	Q3 FY24	% yoy
Total Operating Income	41,430	38,975	6.3	34,536	20.0
Interest expended	(20,459)	(19,343)	5.8	(16,750)	22.1
<b>Net Interest Income</b>	<b>20,971</b>	<b>19,632</b>	<b>6.8</b>	<b>17,787</b>	<b>17.9</b>
Other Income	14	276	(95.0)	368	(96.2)
Total Income	20,985	19,908	5.4	18,155	15.6
Operating expenses	(8,768)	(7,947)	10.3	(7,530)	16.4
<b>PPOP</b>	<b>12,217</b>	<b>11,961</b>	<b>2.1</b>	<b>10,625</b>	<b>15.0</b>
Provisions	(91)	(7,035)	(98.7)	(3,284)	(97.2)
PBT	12,126	4,927	146.1	7,341	65.2
Tax	(3,131)	(1,232)	154.2	(1,813)	72.7
<b>PAT</b>	<b>8,995</b>	<b>3,695</b>	<b>143.4</b>	<b>5,528</b>	<b>62.7</b>

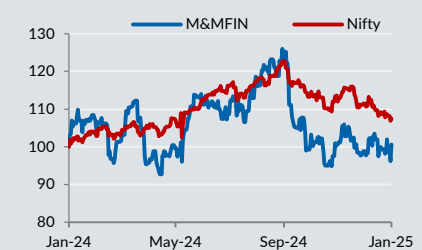
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 272
Target Price	: Rs 280
Potential Return	: +3.1%

#### Stock data (as on Jan 28, 2025)

Nifty	22,957
52 Week h/l (Rs)	343 / 246
Market cap (Rs/USD mn)	320747 / 3707
Outstanding Shares (mn)	1,235
6m Avg t/o (Rs mn):	873
Div. yield (%):	2.4
Bloomberg code:	MMFS IN
NSE code:	M&MFIN

#### Stock performance



	1M	3M	1Y
Absolute return	1.9%	-0.4%	0.7%

#### Shareholding pattern

Promoter	52.2%
FII+DII	41.8%
Others	6.0%

#### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	280	270

#### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Op. income	82,050	96,145	1,11,679
PPOP	48,337	58,219	68,443
Net profit	24,260	28,859	34,370
Growth (%)	37.9	19.0	19.1
EPS (Rs)	19.7	23.4	27.8
ABVPS (Rs)	145.5	160.2	179.4
P/E (x)	13.8	11.6	9.8
P/ABV (x)	1.9	1.7	1.5
ROE (%)	12.8	14.0	15.0
ROA (%)	2.0	2.0	2.1

#### RAJIV MEHTA

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MANUJ OBEROI, Associate

## Exhibit 2: Business Data

(Rs mn)	Q3 FY25	Q2 FY25	% qoq	Q3 FY24	% yoy
<b>AUM</b>	<b>11,51,260</b>	<b>11,24,540</b>	<b>2.4</b>	<b>9,70,480</b>	<b>18.6</b>
Passenger Vehicles	4,72,017	4,38,571	7.6	3,78,487	24.7
Tractors	1,26,639	1,23,699	2.4	1,16,458	8.7
SME & 3Ws	1,03,613	1,01,209	2.4	87,343	18.6
CV & CE	2,53,277	2,47,399	2.4	2,23,210	13.5
Pre-owned veh. & Others	1,95,714	2,24,908	(13.0)	1,64,982	18.6
<b>Value of assets financed</b>	<b>1,64,670</b>	<b>1,31,620</b>	<b>25.1</b>	<b>1,54,360</b>	<b>6.7</b>
Passenger Vehicles	70,808	52,648	34.5	64,831	9.2
Tractors	19,760	13,162	50.1	15,436	28.0
SME & 3Ws	13,174	13,162	0.1	12,349	6.7
CV & CE	32,934	26,324	25.1	33,959	(3.0)
Pre-owned veh. & Others	26,347	26,324	0.1	27,785	(5.2)

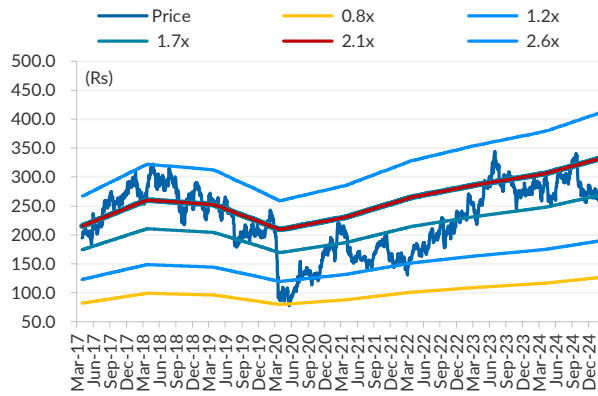
Source: Company, YES Sec

## Exhibit 3: Key Ratios

(%)	Q3 FY25	Q2 FY25	chg qoq	Q3 FY24	chg yoy
Income Yield (%)	13.1	12.9	0.2	13.4	(0.3)
Cost of Funds (%)	6.4	6.3	0.1	6.3	0.1
Gross Spread (%)	6.6	6.5	0.1	6.8	(0.2)
Net Spread (%)	3.8	1.6	2.2	2.7	1.1
Cost to Income (%) *	41.8	39.9	1.9	41.5	0.3
Gross NPA (%)	3.9	3.8	0.1	4.0	(0.1)
Net NPA (%)	2.0	1.6	0.4	1.5	0.5
CAR (%)	17.8	16.7	1.1	18.3	(0.5)

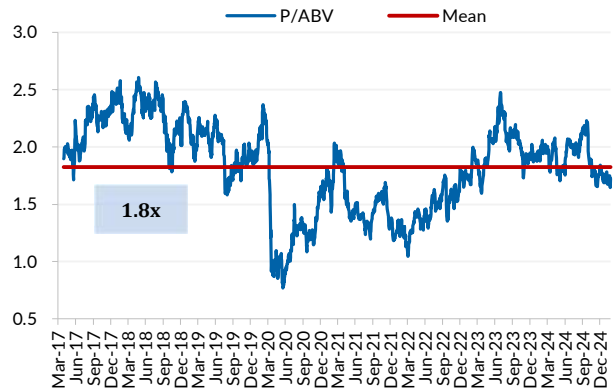
Source: Company, YES Sec; \*Calculated.

**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)	FY23	FY24	FY25E	FY26E	FY27E
<b>Equity and Liabilities</b>					
Equity Share Capital	2,467	2,469	2,469	2,469	2,469
Other Equity	1,68,422	1,79,106	1,94,002	2,13,498	2,38,505
<b>Shareholders' fund</b>	<b>1,70,889</b>	<b>1,81,575</b>	<b>1,96,471</b>	<b>2,15,967</b>	<b>2,40,974</b>
<b>Non-Financial Liabilities</b>					
Current Tax Liabilities (Net)	657	1,193	1,193	1,193	1,193
Provisions	2,607	2,051	2,051	2,051	2,051
Other Non-Financial Liabilities	1,241	1,507	1,657	1,823	2,005
<b>Total Current Liabilities</b>	<b>7,86,772</b>	<b>9,65,267</b>	<b>11,29,635</b>	<b>12,87,385</b>	<b>14,78,309</b>
Derivative financial instruments	1,807	3,353	3,353	3,353	3,353
Trade & Other Payables	11,663	15,249	16,011	16,812	17,653
Debt Securities	2,47,451	2,67,259	3,15,366	3,68,978	4,24,325
Borrowings (Excl. debt sec.)	4,12,341	5,43,188	6,35,530	7,18,149	8,25,872
Deposits	55,246	71,747	83,944	94,857	1,09,086
Subordinated Liabilities	34,421	40,057	46,866	52,959	60,903
Other financial liabilities	23,843	24,413	28,564	32,277	37,118
<b>Total Liabilities &amp; Equity</b>	<b>9,62,166</b>	<b>11,51,592</b>	<b>13,31,007</b>	<b>15,08,419</b>	<b>17,24,532</b>
<b>Assets</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	2,498	3,111	27,985	31,155	35,930
Bank balance	25,823	23,780	-	-	-
Derivative financial instruments	-	-	-	-	-
Trade receivables	218	247	247	247	247
Loans	7,94,547	9,91,952	11,60,584	13,23,065	15,21,525
Investments	99,886	96,508	1,06,159	1,16,775	1,28,452
Other Financial Assets	15,893	8,068	8,471	8,895	9,339
<b>Non-Financial Assets</b>	<b>23,300</b>	<b>27,926</b>	<b>27,561</b>	<b>28,281</b>	<b>29,037</b>
Current tax assets (Net)	5,044	6,098	6,098	6,098	6,098
Deferred tax Assets (Net)	6,372	6,911	6,911	6,911	6,911
Property, Plant and equipment	6,812	8,111	8,517	8,942	9,390
Other Intangible assets	144	146	146	146	146
Other non-financial assets	4,929	5,609	5,889	6,184	6,493
<b>Total Assets</b>	<b>9,62,166</b>	<b>11,51,592</b>	<b>13,31,007</b>	<b>15,08,419</b>	<b>17,24,532</b>

Source: Company, YES Sec

## Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
Income from Operations	1,09,288	1,34,041	1,60,305	1,81,983	2,01,425
Interest expense	(45,767)	(64,269)	(79,047)	(86,748)	(90,793)
<b>Net interest income</b>	<b>63,521</b>	<b>69,772</b>	<b>81,258</b>	<b>95,235</b>	<b>1,10,632</b>
Non-interest income	1,273	1,583	791	910	1,047
Total op income	64,794	71,355	82,050	96,145	1,11,679
Total op expenses	(27,276)	(29,572)	(33,712)	(37,926)	(43,236)
<b>PPoP</b>	<b>37,518</b>	<b>41,783</b>	<b>48,337</b>	<b>58,219</b>	<b>68,443</b>
Provisions	(9,992)	(18,228)	(15,863)	(19,587)	(22,434)
Exceptional	(545)	-	-	-	-
<b>Profit before tax</b>	<b>26,981</b>	<b>23,555</b>	<b>32,475</b>	<b>38,632</b>	<b>46,009</b>
Taxes	(7,138)	(5,959)	(8,215)	(9,772)	(11,639)
<b>Net profit</b>	<b>19,843</b>	<b>17,596</b>	<b>24,260</b>	<b>28,859</b>	<b>34,370</b>

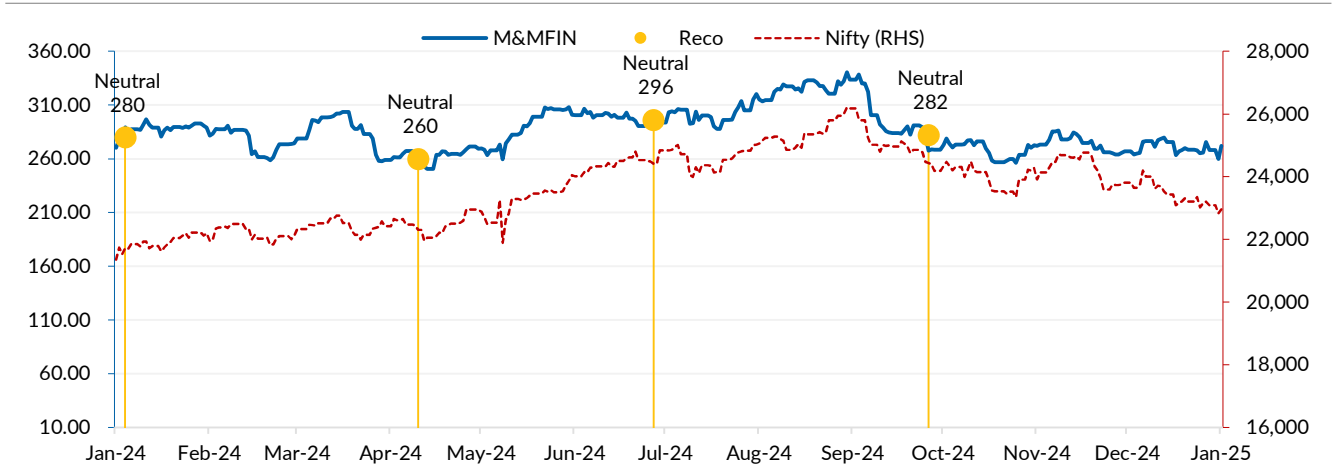
Source: Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Net interest income	10.7	9.8	16.5	17.2	16.2
Total op income	11.7	10.1	15.0	17.2	16.2
Op profit (pre-provision)	0.7	11.4	15.7	20.4	17.6
Net profit	100.7	(11.3)	37.9	19.0	19.1
Advances	31.5	24.8	17.0	14.0	15.0
Total Borrowings	34.3	23.1	17.3	14.2	15.0
Total assets	27.8	19.7	15.6	13.3	14.3
<b>Profitability Ratios (%)</b>					
NIM	8.6	7.5	7.3	7.4	7.5
Non-interest income /Total income	2.0	2.2	1.0	0.9	0.9
Return on Avg. Equity	12.1	10.0	12.8	14.0	15.0
Return on Avg. Assets	2.3	1.7	2.0	2.0	2.1
<b>Per share ratios (Rs)</b>					
EPS	16.1	14.3	19.7	23.4	27.8
Adj. BVPS	126.3	136.7	145.5	160.2	179.4
DPS	6.0	6.5	6.5	6.5	6.5
<b>Other key ratios (%)</b>					
Loans/Borrowings	106.0	107.6	107.3	107.1	107.1
Cost/Income	42.1	41.4	41.1	39.4	38.7
CAR	22.5	18.9	17.7	17.1	16.6
Tier-I capital	19.9	16.4	15.4	14.9	14.5
Gross NPLs)	4.5	3.4	3.1	2.9	2.8
Credit Cost	1.4	2.0	1.4	1.5	1.5
Net NPLs	1.9	1.3	1.4	1.3	1.2
Tax rate	26.5	25.3	25.2	25.2	25.2
Dividend yield	2.2	2.4	2.4	2.4	2.4

Source: Company, YES Sec

## Recommendation Tracker



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2	Research Analyst or his/her relative or YSIL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the research report	No
3	Research Analyst or his/her relative or YSIL has any other material conflict of interest at the time of publication of the research report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSIL has received any compensation from the subject company in the past twelve months	No
6	YSIL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSIL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSIL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSIL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSIL has been engaged in market making activity for the subject company(ies)	No

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## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

Analyst signature

Analyst signature

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