

May 07, 2024

**RESULT REPORT Q4 FY24** | Sector: Financials

# M&M Financial Services

## Needs to deliver incremental RoA improvement

### In-line performance excluding fraud provisioning

MMFS delivered 2-3% beat on NII/PPOP on the back of a larger 30 bps qoq NIM expansion. PAT was 8% lower than our estimate due to Rs1.36bn fraud provisions, without which the credit cost would have been 80 bps versus the expectation 100 bps. The healthy AUM growth of 5.7% qoq/24% yoy in the quarter was driven by moderate 11% yoy growth in disbursements. The growth continues to be driven by the product segments of PV/UV, Used Vehicles, low-ticket SME and LAP. This product mix shift, full-quarter benefit of much lower interest-free trade advances and stable incremental funding cost drove the sequential margin expansion. Ex-fraud the credit cost was lower due to absolute 4-5% reduction in Stage 2&3 combined gross of the write-off of Rs6bn (continues to be elevated). Collection Efficiency was at 98% v/s 95% in Q3 FY24. ECL coverage level was maintained across loan buckets. For the full-year, MMFS delivered credit cost of 1.6% (excluding fraud) which was within guided range of 1.5-1.7%.

### Mizoram branch fraud likely an isolated incident

Management emphasized that Aizawl branch fraud was an extreme case of collusion involving 20+ employees, 5 vehicle dealerships and even the bank employees. About 2887 loan accounts have been identified as potentially fraudulent in nature and the company has made 100% provisions on their loan outstanding of Rs1.36bn. Checks conducted in all the other branches across India did not detect similar fraud. With the law enforcement agencies having initiated actions, some recoveries could accrue over time.

The company is now focused on further strengthening controls and full proofing its systems/processes. Second-level centralized pre-disbursements checks have been implemented for 50% of branches, with the remaining 50% to be covered in coming months. MMFS will be implementing digital due diligence tools for customer onboarding. The co. has also decided to bring back the Branch Head led structure. In the recent quarters, MMFS has been investing in augmenting teams involved in Technology, Underwriting, Risk & Compliance Management and Fraud Control.

### Aspiring for 18-20% AUM growth and 2.2% RoA in FY25

Even as the disbursement growth in April has been low (at 4% yoy) and that Q1 is likely to be muted due to elections, Management is hopeful to deliver 14-15% disbursements growth and 18-20% loan growth in FY25. The growth drivers are likely to be better dealership coverage, branch addition (150-180 mainly in H2) and stronger growth in used vehicle finance, low-ticket SME, LAP and other non-VF products. The co. would be striving to deliver a 2.2% RoA in the current year, which will be a 50bps improvement over FY24. Management expects RoA expansion to come from NIM improvement (20 bps), stronger fees (insurance distribution), some optimization of Opex ratio (5-10 bps) and reduction in credit cost (20-25 bps). The NIM expansion is likely to come from improvement in portfolio yield due to product mix shift and stabilization (some moderation in H2) of funding cost.

### Valuation undemanding, but maintain Neutral rating

Disbursement growth, collection efficiency and write-offs would be key monitorables in the upcoming monthly updates. In April, originations growth and collection efficiency were lower. In our view, delivering the aspired 18-20% AUM growth and 2.2% RoA could be a challenging ask for MMFS considering 1) disbursement momentum in recent quarters, 2) diminishing tailwinds in Auto sector (moderation in demand and pricing growth), 3) investments planned in areas of Tech/Digital, Underwriting, Risk Control, etc. (could sustain pressure on Opex/Asset ratio), and 4) extant trends in write-offs. Valuation is reasonable at 10x PE and 1.6x PABV on FY26 estimates but rating only possible when the road to 15% RoE become clear and certain.

Reco	: NEUTRAL
CMP	: Rs 260
Target Price	: Rs 300
Potential Return	: +15.4%

#### Stock data (as on May 06, 2024)

Nifty	22,443
52 Week h/l (Rs)	347 / 237
Market cap (Rs/USD mn)	329705 / 3950
Outstanding Shares (mn)	1,234
6m Avg t/o (Rs mn):	1,084
Div. yield (%):	2.2
Bloomberg code:	MMFS IN
NSE code:	M&MFIN

#### Stock performance



	1M	3M	1Y
Absolute return	-12.9%	-10.9%	-9.3%

#### 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	20.9	25.2
EPS (Old)	14.3	20.7	25.9
% Change	-0.3%	1.2%	-2.7%

#### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Op. income	71,355	87,785	1,03,803
PPOP	41,783	53,481	64,354
Net profit	17,596	25,848	31,121
Growth (%)	(11.3)	46.9	20.4
EPS (Rs)	14.3	20.9	25.2
ABVPS (Rs)	136.7	146.8	163.4
P/E (x)	18.2	12.4	10.3
P/ABV (x)	1.9	1.8	1.6
ROE (%)	10.0	13.6	14.9
ROA (%)	1.7	2.1	2.2

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## Exhibit 1: Result table

(Rs mn)	Q4 FY24	Q3 FY24	% qoq	Q4 FY23	% yoy
Total Operating Income	36,540	34,536	5.8	29,942	22.0
Interest expended	(17,351)	(16,750)	3.6	(13,340)	30.1
Net Interest Income	19,190	17,787	7.9	16,602	15.6
Other Income	521	368	41.6	625	(16.7)
Total Income	19,710	18,155	8.6	17,227	14.4
Operating expenses	(7,980)	(7,530)	6.0	(7,786)	2.5
PPOP	11,730	10,625	10.4	9,441	24.2
Provisions	(3,415)	(3,284)	4.0	(4)	-
PBT	8,315	7,341	13.3	9,437	(11.9)
Tax	(2,126)	(1,813)	17.2	(2,596)	(18.1)
PAT	6,190	5,528	12.0	6,841	(9.5)

Source: Company, YES Sec

## Exhibit 2: Business Data

(Rs mn)	Q4 FY24	Q3 FY24	% qoq	Q4 FY23	% yoy
AUM	10,25,970	9,70,480	5.7	8,27,700	24.0
Auto/UV	4,10,388	3,39,668	20.8	2,73,141	50.2
Tractors	1,23,116	1,26,162	(2.4)	1,15,878	6.2
Cars	92,337	1,84,391	(49.9)	1,65,540	(44.2)
CV & CE	2,25,713	1,06,753	111.4	91,047	147.9
Pre-owned veh. & Others	1,74,415	2,13,506	(18.3)	1,82,094	(4.2)
Value of assets financed	1,52,920	1,54,360	(0.9)	1,37,780	11.0
Auto/UV	59,639	60,200	(0.9)	45,467	31.2
Tractors	12,234	16,980	(28.0)	16,534	(26.0)
Cars	16,821	29,328	(42.6)	24,800	(32.2)
CV & CE	35,172	16,980	107.1	16,534	112.7
Pre-owned veh. & Others	29,055	30,872	(5.9)	34,445	(15.6)

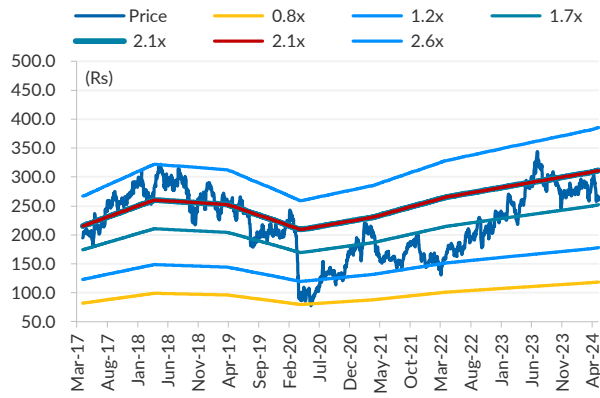
Source: Company, YES Sec

## Exhibit 3: Key Ratios

(%)	Q4 FY24	Q3 FY24	chg qoq	Q4 FY23	chg yoy
Income Yield (%)	13.4	13.4	-	13.6	(0.2)
Cost of Funds (%)	6.2	6.3	(0.1)	5.7	0.5
Gross Spread (%)	7.1	6.8	0.3	7.4	(0.3)
Net Spread (%)	3.0	2.7	0.3	4.0	(1.0)
Cost to Income (%) *	40.5	41.5	(1.0)	45.2	(4.7)
Gross NPA (%)	3.4	4.0	(0.6)	4.5	(1.1)
Net NPA (%)	1.3	1.5	(0.2)	1.9	(0.6)
CAR (%)	18.9	18.3	0.6	22.5	(3.6)

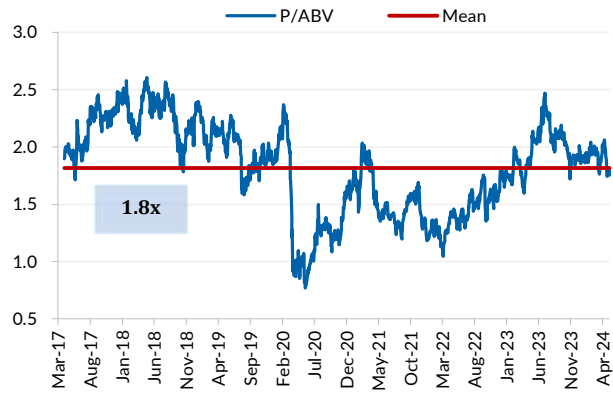
Source: Company, YES Sec; \*Calculated.

**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
<b>Equity and Liabilities</b>					
Equity Share Capital	2,466	2,467	2,469	2,469	2,469
Other Equity	1,53,815	1,68,422	1,79,106	1,95,591	2,17,348
<b>Shareholders' fund</b>	<b>1,56,281</b>	<b>1,70,889</b>	<b>1,81,575</b>	<b>1,98,059</b>	<b>2,19,817</b>
<b>Non-Financial Liabilities</b>					
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
<b>Total Current Liabilities</b>	<b>5,93,176</b>	<b>7,86,772</b>	<b>9,65,267</b>	<b>11,33,756</b>	<b>13,19,995</b>
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	6,40,962	7,46,721
Deposits	84,262	55,246	71,747	84,662	98,631
Subordinated Liabilities	31,299	34,421	40,057	47,267	55,066
Other financial liabilities	23,162	23,843	24,413	28,808	33,561
<b>Total Liabilities &amp; Equity</b>	<b>7,52,887</b>	<b>9,62,166</b>	<b>11,51,592</b>	<b>13,36,717</b>	<b>15,44,879</b>
<b>Assets</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	3,279	2,498	3,111	38,655	38,601
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	11,55,624	13,52,080
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
<b>Non-Financial Assets</b>	<b>19,943</b>	<b>23,300</b>	<b>27,926</b>	<b>27,561</b>	<b>28,281</b>
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
<b>Total Assets</b>	<b>7,52,887</b>	<b>9,62,166</b>	<b>11,51,592</b>	<b>13,36,717</b>	<b>15,44,879</b>

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	1,63,275	1,90,628
Interest expense	(39,202)	(45,767)	(64,269)	(77,192)	(88,654)
<b>Net interest income</b>	<b>57,378</b>	<b>63,521</b>	<b>69,772</b>	<b>86,084</b>	<b>1,01,974</b>
Non-interest income	608	1,273	1,583	1,702	1,829
Total op income	57,986	64,794	71,355	87,785	1,03,803
Total op expenses	(20,734)	(27,276)	(29,572)	(34,304)	(39,449)
<b>PPoP</b>	<b>37,252</b>	<b>37,518</b>	<b>41,783</b>	<b>53,481</b>	<b>64,354</b>
Provisions	(23,683)	(9,992)	(18,228)	(18,880)	(22,695)
Exceptional	-	(545)	-	-	-
<b>Profit before tax</b>	<b>13,569</b>	<b>26,981</b>	<b>23,555</b>	<b>34,601</b>	<b>41,659</b>
Taxes	(3,682)	(7,138)	(5,959)	(8,753)	(10,538)
<b>Net profit</b>	<b>9,888</b>	<b>19,843</b>	<b>17,596</b>	<b>25,848</b>	<b>31,121</b>

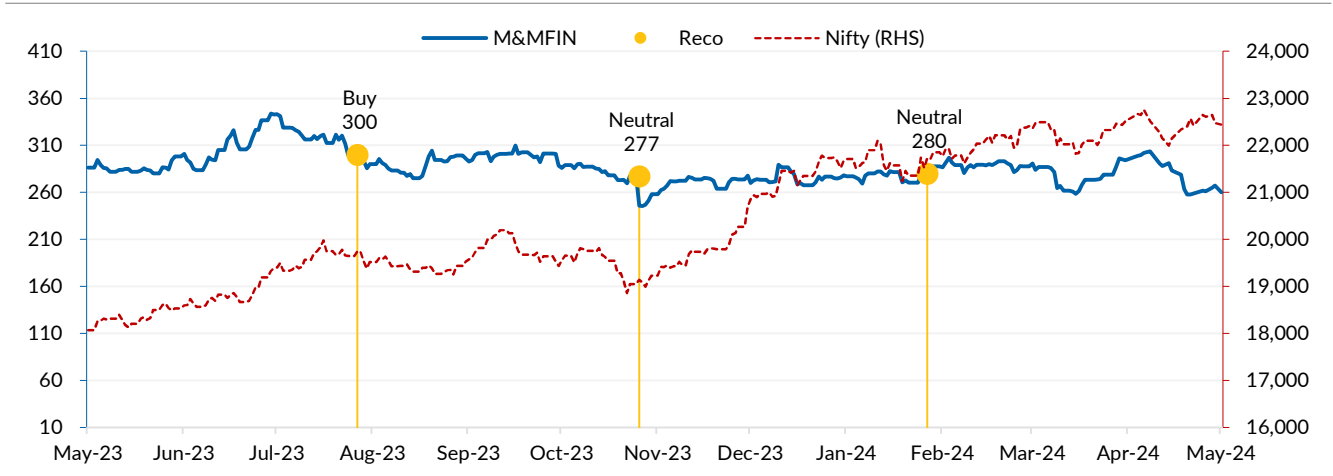
Source: Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	0.3	10.7	9.8	23.4	18.5
Total op income	0.3	11.7	10.1	23.0	18.2
Op profit (pre-provision)	(10.3)	0.7	11.4	28.0	20.3
Net profit	195.0	100.7	(11.3)	46.9	20.4
Advances	0.8	31.5	24.8	16.5	17.0
Total Borrowings	(4.7)	34.3	23.1	17.7	16.6
Total assets	(2.3)	27.8	19.7	16.1	15.6
<b>Profitability Ratios (%)</b>					
NIM	8.9	8.6	7.5	7.8	7.9
Non-interest income /Total income	1.0	2.0	2.2	1.9	1.8
Return on Avg. Equity	6.5	12.1	10.0	13.6	14.9
Return on Avg. Assets	1.3	2.3	1.7	2.1	2.2
<b>Per share ratios (Rs)</b>					
EPS	8.0	16.1	14.3	20.9	25.2
Adj. BVPS	109.8	126.3	136.7	146.8	163.4
DPS	3.6	6.0	6.5	6.5	6.5
<b>Other key ratios (%)</b>					
Loans/Borrowings	108.3	106.0	107.6	106.5	106.8
Cost/Income	35.8	42.1	41.4	39.1	38.0
CAR	27.8	22.5	18.9	17.7	16.9
Tier-I capital	24.3	19.9	16.4	15.4	14.8
Gross NPLs)	7.7	4.5	3.4	3.1	2.9
Credit Cost	3.7	1.4	2.0	1.7	1.8
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	1.4	2.3	2.5	2.5	2.5

Source: Company, YES Sec

## Recommendation Tracker



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Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

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

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