

Healthy growth in AuM; Sequential improvement in margins

Q3FY24 Result Update | Sector: NBFC | January 31, 2024

BUY

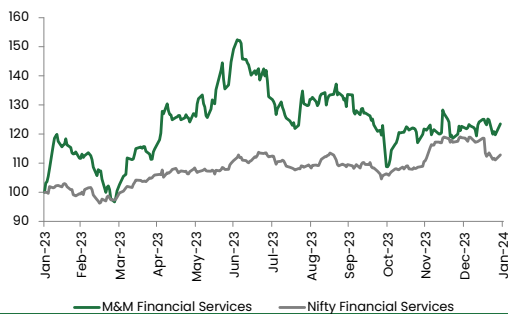
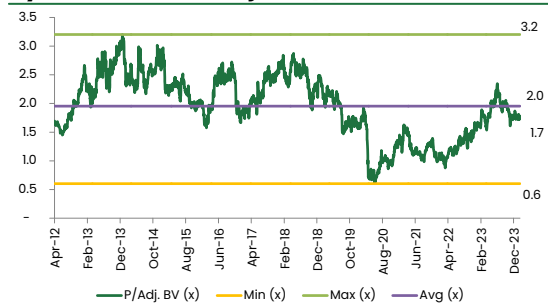
CMP (Rs)	280
Target Price (Rs)	336
Potential Upside	20.0%
Sensex	71,942
Nifty	21,738

Key Stock data

BSE Code	532720
NSE Code	M&MFIN
Bloomberg	MMFS:IN
Shares o/s, Cr (FV 2)	123.6
Market Cap (Rs Cr)	34,539
3M Avg Volume	4,244,103
52 week H/L	347/216

Shareholding Pattern

(%)	Jun-23	Sep-23	Dec-23
Promoter	52.2	52.2	52.2
FII	13.9	14.1	12.7
DII	27.0	25.8	27.0
Public	6.8	7.8	8.1
Others	0.1	0.1	0.1

1 year relative price performance

1 year forward P/Adj. BV (x)

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Healthy top-line growth, improved operating efficiency: Mahindra and Mahindra Financial Services announced that during Q3FY24 its net interest income increased by 8.1% QoQ/18% YoY to Rs 2,302 Cr. The growth in top-line was mainly led by healthy growth in interest income (7% QoQ/23.4% YoY), however, it was partially offset by rise in interest cost by 5.5% QoQ/30.9 YoY. Pre-provision operating profit growth remained healthy at 14.3% QoQ/9.7% YoY which was mainly due to decline in provisions and various steps taken by the company to control costs.

Growth in AuM led by auto/UV finance: The company saw an uptick in the AuM during the quarter by 3.5% QoQ/25.5% YoY to Rs 97,048 Cr. The growth in AuM was primarily led by auto/UV finance and commercial vehicles. The company aims to grow its used vehicles finance segment which increased by 31.5% YoY, however, declined by 5.1% QoQ.

Uptick in disbursement growth: Disbursement during the quarter increased by 15.9% QoQ/6.7% YoY to Rs 15,436 Cr which was led by auto/UV finance by 17.4% QoQ/20.8% YoY. Disbursements in tractor finance declined by 17.6% YoY due to industry headwinds, however, the company saw increase in disbursement on sequential basis by 31% QoQ due to its core expertise and penetration in tier 2/3 cities. Going ahead, the company expects disbursements to continue in Q4FY24 in the auto/UV finance and commercial finance segments.

Margins improved sequentially: Net interest margin during the quarter was 6.8% improving sequentially by 30bps, however, declined on YoY basis by 60bps. The sequential improvement of NIMs was mainly due to stabilizing cost of borrowings on QoQ basis by 20bps while yields on advances increased by 30bps QoQ as the company managed to pass on the incremental increase in cost of borrowings to its customers. Net spread after tax increased by 120bps QoQ to 2.1%. Going ahead, the management expects net interest margin to remain at current level as the cost of borrowings are expected to stabilize while the company looks to pass on the incremental costs to its customers.

Improvement in asset quality: The company reported improvement in its asset quality as gross and net stage 3 assets declined by 190bps/100bps YoY. Collection efficiency remained stable 95%, however, declined by 100bps QoQ. The company declined its provisions and write-offs by 46.3% QoQ. Provisions coverage ratio increased by 150bps QoQ/370bps YoY to 62.7% as the company has been updating its ECL model to accommodate significant macro-economic prospects.

Valuation and Outlook: We remain positive on M&M Financial Services as the company has seen healthy growth in AuM which is led by increasing demand for auto/UV finance and commercial vehicles. The company has been diversifying its vehicle finance book by investing in used vehicle finance and engaging into strategic partnership with online players. Margin improved marginally on sequential basis which is expected to improve going forward as the cost of borrowings stabilizes. We expect revenue/NII/PAT to increase by 21.6%/12.8%/10.3% CAGR over FY23-26E. We maintain **Buy** on the company while maintaining our target price to **Rs 336**, valuing the company at 1.6x of its FY26E Adj. BV.

Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Interest Income	12,030	14,031	17,240	21,334
Revenue from Operations	12,700	14,969	18,447	22,828
Total Income	12,832	15,131	18,633	23,058
Net interest income	7,605	7,497	9,093	10,909
Profit before Tax	2,817	2,697	3,111	3,694
Profit after Tax	2,071	2,044	2,336	2,777
EPS (Rs)	16.8	16.6	18.9	22.5
P/Adj. BV (x)	1.8	1.7	1.5	1.3
RoE (%)	12.1	10.4	10.7	11.3

Source : RBL Research

Concall Heilights: 1) The company continues to maintain leadership position in tractors, pre owned vehicles and 3W segments. 2) The company anticipates credit costs to remain in the range of 1.5-1.7% for FY24. 3) On digital transformation, the company went live on various end to end digital journeys on personal loans to existing customers, fixed deposits. 4) In order to diversify it's vehicle finance composition, the company is increasing its proportion of used vehicle segment every month. 5) The company has partnered with banks like SBI, Bank of Baroda and recently added Lending Kart for expansion of SME business. 6) Going forward, the company will continue to calibrate its growth to match with the margin requirements. 7) The management expects NIM to remain at 7% as compared to earlier guidance to 7.5% in the medium term. 8) Opex to total assets is expected to remain at 2.5% going forward from 2.8% currently. The company will continue to incur expenses in technological front but will continue to operate in an efficient manner. Positive to keep RoA in the range of 2.5%. 9) Provision coverage is higher as compared to peers due to the ECL model, the provision are expected to moderate by Q3FY25. 10) Funding costs have remained elevated. The company expects incremental cost of funds in Q4FY24 to remain at the same level as in Q3FY24. 11) Passenger vehicle is expected to grow by 10% going forward. Growth in this segment will be driven by premiumization. The company see opportunity of growth due to under penetration and formalization. Tractor finance is facing some challenges on the demand side after two years of growth. The challenges of agri sector will rub off in the tractor segment. 3Ws have seen a 30% growth which is driven by EV vehicles. 12) Disbursement growth in FY25 is expected to remain slightly subdued.

Quarterly performance - consolidated

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y %	Q2FY24	Q-o-Q %
Interest Income	4,100	3,324	23.4	3,833	7.0
Finance Cost	1,798	1,373	30.9	1,703	5.5
Net interest income (NII)	2,302	1,951	18.0	2,130	8.1
Other Income	37	29	27.1	30	22.2
Total Income	2,339	1,980	18.2	2,160	8.3
Fees and Commission Expenses	257	75	241.5	237	8.3
Employees Cost	567	534	6.1	576	(1.6)
Other Operating Expense	702	494	42.1	978	(28.2)
Operating Expenses	1,526	1,104	38.2	1,791	(14.8)
Pre-Provisioning Operating Profit	1,160	1,058	9.7	1,016	14.3
Provisions and Write-offs	347	182	90.5	646	(46.3)
Profit before Taxes	826	884	(6.5)	383	115.6
Tax Expense	203	219	(7.2)	96	111.8
Net Profit after Taxes	623	664	(6.2)	287	116.9
EPS (Rs)	5.1	5.4	(5.8)	2.3	121.5

Source : RBL Research

Net interest income increased by 8.1% QoQ/18% YoY in Q3FY24

Provisions and writeoffs declined by 46.3% QoQ

PAT increased by 116.9% QoQ, however, declined by 6.2% YoY as provisions increased

Healthy growth of 9.8% QoQ/33.1% YoY in auto/utility vehicles

AuM reported growth of 3.5% QoQ/25.5% YoY in Q3FY24

Disbursements increased by 15.9% QoQ/6.7% YoY led by auto/UV finance

RoA/RoE declined by 60bps/210bps YoY, however, increased by 30bps/190bps QoQ

Decline in gross stage-3 and net stage-3 assets by 190bps/100bps YoY to 4%/1.5%

NIMs improved by 30bps QoQ, however, declined by 60bps YoY

Business parameters - consolidated

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
AuM Breakdown					
Auto/Utility Vehicles	33,967	25,524	33.1	30,929	9.8
Tractors	12,616	11,602	8.7	12,184	3.5
Cars	18,439	15,469	19.2	17,807	3.5
Commercial Vehicles	10,675	8,508	25.5	10,310	3.5
Used Vehicles and Others	21,351	16,242	31.5	22,494	(5.1)
Total AuM	97,048	77,344	25.5	93,723	3.5
Disbursements Breakdown					
Auto/Utility Vehicles	6,007	4,973	20.8	5,117	17.4
Tractors	1,677	2,035	(17.6)	1,280	31.0
Cars	2,974	2,585	15.0	2,455	21.1
Commercial Vehicles	1,761	1,596	10.3	1,511	16.5
Used Vehicles and Others	3,017	3,277	(7.9)	2,952	2.2
Total Disbursements	15,436	14,467	6.7	13,315	15.9
Borrowed Funds	86,780	71,068	22.1	85,378	1.6
Loans and Advances	93,392	73,416	27.2	89,948	3.8

Source : RBL Research

Ratios (%)

Particulars	Q3FY24	Q3FY23	Y-o-Y (bps)	Q2FY24	Q-o-Q (bps)
RoA	1.5	2.1	-60bps	1.2	30bps
RoE	8.8	10.9	-210bps	6.9	190bps
Cost to Income Ratio	41.8	41.0	80bps	42.0	-20bps
Collection Efficiency	95.0	95.0	0bps	96.0	-100bps
Gross Stage - 3	4.0	5.9	-190bps	4.5	-50bps
Net Stage - 3	1.5	2.5	-100bps	1.7	-21bps
Coverage Ratio	62.7	59.0	370bps	61.2	150bps

Source : RBL Research

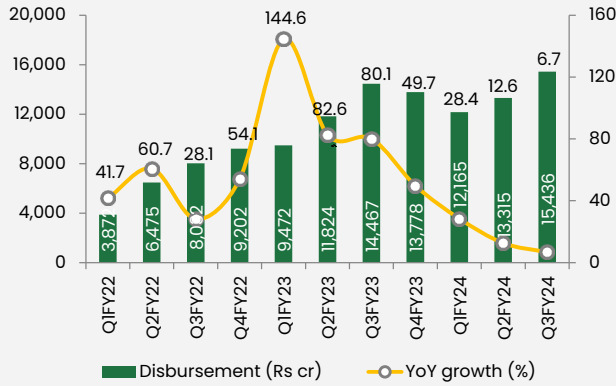
Spread Analysis (%) - consolidated

Particulars	Q3FY24	Q3FY23	Y-o-Y (bps)	Q2FY24	Q-o-Q (bps)
Yield on Advances	13.4	13.7	-30bps	13.1	30bps
Total Income/Average Assets	13.1	13.0	10bps	12.6	50bps
Cost of Borrowings	6.3	5.6	70bps	6.1	20bps
Gross Spread on Advances	6.8	7.4	-60bps	6.5	30bps
Net Spread before Tax	2.7	3.8	-110bps	1.2	150bps
Net Spread after Tax	2.1	2.8	-70bps	0.9	120bps

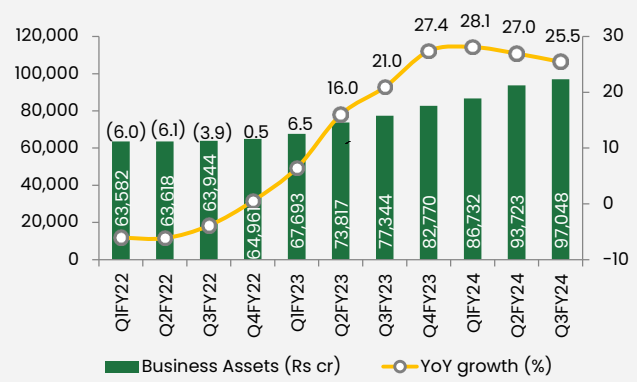
Source : RBL Research

Story in charts

Disbursement increased by 6.7% YoY

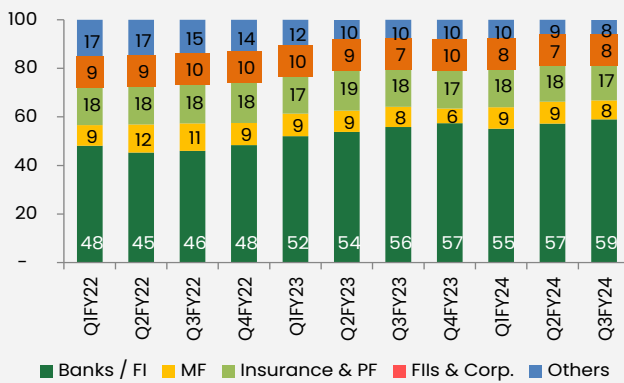


Business assets reported growth of 25.5% YoY

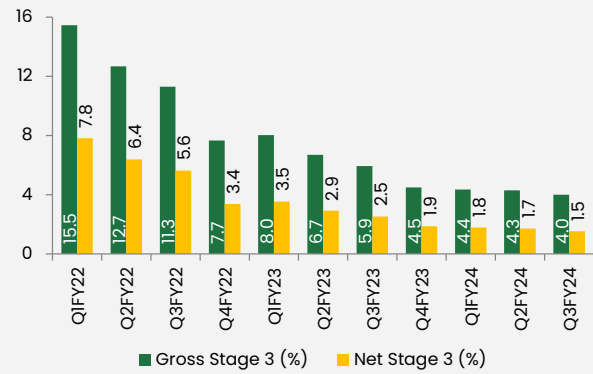


Source : RBL Research

Increasing share of Banks/FI in liability mix

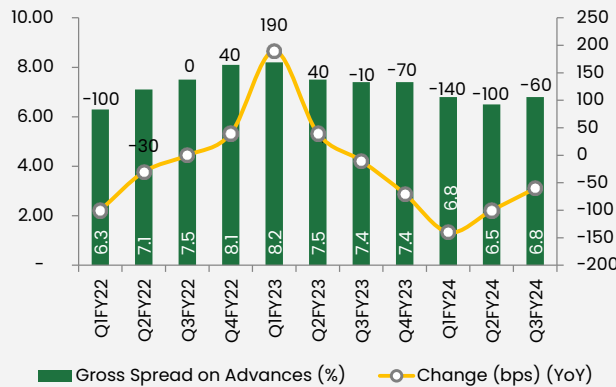


Decline in gross stage-3 and net stage-3 assets

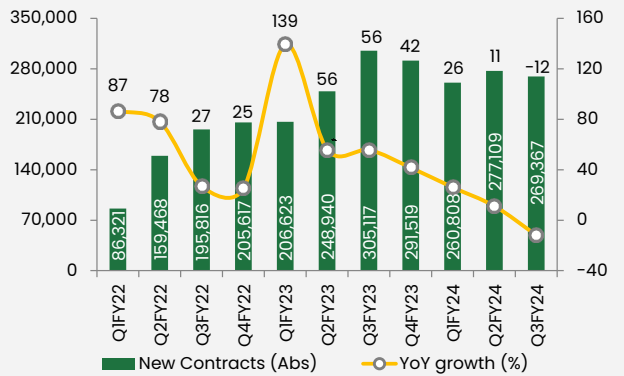


Source : RBL Research

Net interest margin declined by 60bps YoY to 6.8%

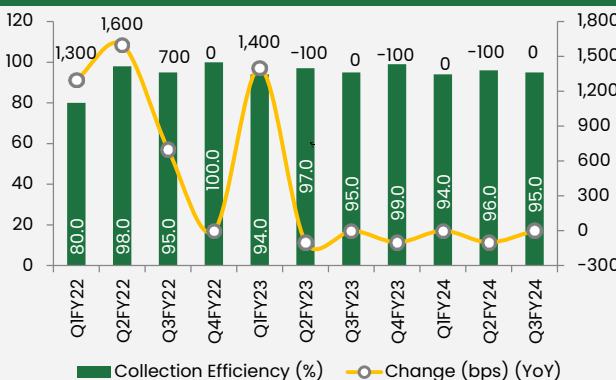


Net contracts declined by 12% YoY to 2.7 Lakhs

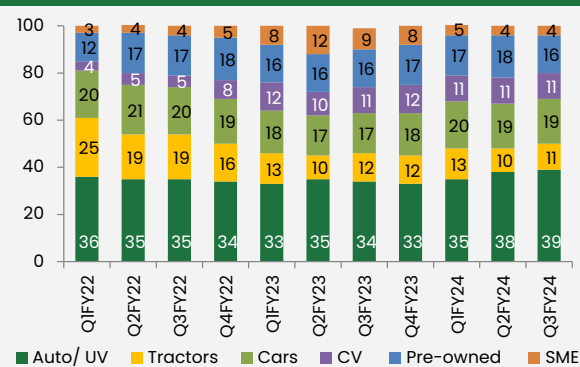


Source : RBL Research

Collection efficiency during the quarter was 95%



Increasing share of auto/UV in AuM mix



Source : RBL Research

Income Statement – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Interest Income	12,030	14,031	17,240	21,334
Other Operating Income	670	939	1,207	1,493
Revenue from Operations	12,700	14,969	18,447	22,828
Other Income	133	161	186	230
Total Income	12,832	15,131	18,633	23,058
Finance Cost	5,094	6,534	8,147	10,426
Net interest income (NII)	7,605	7,497	9,093	10,909
Fees and Commission Expenses	285	333	432	553
Impairment on Financial Instruments	1,183	1,423	1,906	2,237
Employees Cost	2,115	2,547	2,996	3,559
Depreciation	226	312	358	384
Misc Expenses	1,112	1,285	1,684	2,206
Total Expenditure	10,016	12,434	15,523	19,364
Profit before tax	2,817	2,697	3,111	3,694
Share of (loss)/profit in Associates and JV	43	57	80	99
Profit before Tax	2,804	2,755	3,191	3,793
Tax	733	711	855	1,017
Profit after Tax	2,071	2,044	2,336	2,777
Basic EPS (Rs)	16.8	16.6	18.9	22.5
Diluted EPS (Rs)	16.8	16.6	18.9	22.5

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Cash and bank balance	4,067	4,155	3,958	3,623
Trade Receivables	98	108	119	131
Loans	86,456	97,166	115,682	131,154
Investments	10,063	11,487	12,849	14,372
Other Financial Assets	1,664	1,919	2,156	2,422
Total Financial Assets	102,348	114,835	134,764	151,702
Current and Deferred Tax Assets	1,314	1,273	1,226	1,181
Property, Plant and Equipment	855	973	1,165	1,367
Other Intangible Assets	18	18	18	18
Other Non-Financial Assets	549	599	665	738
Total Non-Financial Assets	2,736	2,863	3,075	3,304
Total Assets	105,085	117,698	137,839	155,007
Derivative Financial Instruments	181	192	204	217
Trade and Other Payables	1,286	1,395	1,499	1,610
Debt Securities	27,913	29,685	34,538	40,184
Borrowings	44,154	52,367	64,621	72,634
Deposits	5,459	5,584	5,836	6,098
Other Financial Liabilities	6,868	7,190	7,496	7,815
Total Financial Liabilities	85,861	96,414	114,194	128,559
Current Tax Liabilities	74	77	82	87
Provisions	309	315	325	336
Other Non-Financial Liabilities	139	147	157	167
Total Non-Financial Liabilities	523	539	564	590
Total Liabilities	86,383	96,953	114,758	129,149
Share Capital	247	247	247	247
Other Equity	18,313	20,333	22,642	25,386
Equity Attributable to Owners	18,560	20,580	22,888	25,632
Non Controlling Interest	141	165	193	225
Total Equity	18,701	20,745	23,081	25,858
Total Equity and Liabilities	105,085	117,698	137,839	155,007

Source : RBL Research

Business Parameters – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Business Assets (AuM) (Rs Cr)	82,770	101,086	120,309	145,330
AuM per Branch (Rs Cr)	60	73	86	104
Borrowings (Rs Cr)	75,364	92,682	112,897	136,041
Total no of contracts	9,011,096	10,306,473	13,664,716	18,461,886
Loan/contract (Rs lakhs)	0.9	0.9	0.8	0.7
AuM/contract (Rs lakhs)	0.9	1.0	1.1	1.3
No. of Employees	26,329	31,463	36,497	42,762
AuM per Employee (Rs Cr)	3.1	3.2	3.3	3.4

Source : RBL Research

Key Ratios (%) – consolidated

Particulars	FY23	FY24E	FY25E	FY26E
Yield on Advances	13.5	13.9	14.3	14.7
Yield on Borrowings	12.9	13.3	13.7	14.1
Gross Spread	7.6	7.7	8.0	8.1
Net Interest Margin	8.3	6.9	7.3	7.6
RoA	2.3	1.9	1.9	1.9
RoE	12.1	10.4	10.7	11.3
Cost to Income Ratio	42.1	46.6	47.3	48.9

Source : RBL Research

Valuation (x) – consolidated

Particulars	FY23	FY24E	FY25E	FY26E
Book value per share (BVPS) (Rs.)	151.7	168.2	187.2	209.7
EPS (Rs.)	16.8	16.6	18.9	22.5
Adj. book value per share (Rs.)	151.7	168.2	187.2	209.7
P/E (x)	16.6	16.9	14.8	12.4
P/B (x)	1.8	1.7	1.5	1.3
P/Adj. BV (x)	1.8	1.7	1.5	1.3

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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