

We recently met Raul Rebello (MD & CEO) and Vivek Karve (CFO) of MMFS for an update on the company's strategy and recent developments in the sector and the company. Key takeaways: i) Gradual expansion to Mortgages and MSME lending to compliment the vehicle finance business and enable tapping of a large portion of the retail lending opportunity; ii) Prioritizing risk management in underwriting and collections has delivered sharp asset quality improvement, leading to lesser volatility and better predictability of the earnings trajectory; iii) The RoA improvement (first to 2.2% and then to 2.5%) remains a gradual work in progress with improvement in the fee yield (loan-related fees and cross-selling fees); active treasury management should further optimize cost of funds and lower credit cost to drive RoA improvement. Overall, the management has a well-thought strategy and the resources to deliver profitable growth with lower volatility and higher predictability. MMFS is poised to benefit against the backdrop of well-spread, good monsoons driving the rural and agri recovery. We shall review our estimates, rating (REDUCE), and TP (Rs270/share for Jun-25E) in due course.

#### Mahindra Finance: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profits	19,843	17,596	23,480	29,083	35,587
AUM growths (%)	27.4	24.0	19.1	17.5	16.7
NII growths (%)	9.9	9.4	23.5	18.3	17.6
NIMs (%)	7.6	6.8	7.0	7.1	7.2
PPOP growth (%)	0.7	11.4	24.1	20.6	18.8
Adj. EPS (Rs)	16.1	14.3	19.0	23.6	28.8
Adj. EPS growth (%)	100.6	(11.4)	33.4	23.9	22.4
Adj. BV (Rs)	138.5	147.1	160.4	178.1	201.1
Adj. BVPS growth (%)	9.3	6.2	9.1	11.0	13.0
RoA (%)	2.3	1.7	1.9	2.0	2.1
RoE (%)	12.1	10.0	12.4	13.9	15.2
P/E (x)	20.6	23.2	17.4	14.0	11.5
P/ABV (x)	2.4	2.2	2.1	1.9	1.6

Source: Company, Emkay Research

#### Expansion into Mortgages and MSME allows for wider coverage of the lending opportunity

Over the past several years, MMFS has increasingly shed its captive financier tag with the captive M&M share now ~42%. However, concentration in the vehicle finance segment has remained one of the reasons behind cyclicality. In order to diversify and de-risk, and also to leverage strength of the M&M ecosystem, its large customer base, AAA credit rating, and strong parentage, MMFS is diversifying into Mortgages and increasing MSME exposure. It recently announced expansion into the Mortgage segment with plans to offer HL (prime and affordable), LAP, and LRD loans; it already offers SME loans (with focus on micro enterprises). Its new foray in Housing is more on the lines of universal coverage than its subsidiary which is focused on micro rural home loans.

#### Higher fee income, active treasury management, and lower credit cost to drive RoA improvement

To achieve its ambitious medium-term target of 2.5% ROA (once 2.2% RoA is achieved in the near term), the company has intensified its focus on key operational metrics such as NIM, fee-based income, operating expenses, and credit costs. The RoA improvement will be driven by: i) Higher fee yields (loan-related fees and cross-selling fees); ii) Active treasury management to optimize the cost of borrowing based on duration and source diversification; iii) While the operating expenses will remain sticky in the near term on account of investments in capabilities including branch and manpower to support growth, the operating leverage will kick in the medium term; and iv) With improved customer profile and product mix the credit cost should hover lower.

#### Credible plan in place; execution and delivery key for stock re-rating

The management's plan to build a diversified lending franchise to deliver predictable and profitable growth looks credible. The right ingredients in terms of human resources, parentage, and liability franchise is there to execute and deliver on the plans. However, the execution of the plan will not be without hurdles and the RoA improvement will be a gradual process as sticky opex and moderate RoA profile (led by expansion to mortgage business) will make the overall RoA improvement journey slower. Overall, we came out impressed with management's vision and see the current strategy as the right choice. However, the re-rating of MMFS' shares should remain contingent on delivery of the strategic targets. Currently, we have a REDUCE rating on the stock with Jun-25E TP of Rs270/share as we see the current profitability of MMFS to be subpar. We shall review our estimates and rating in due course.

Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(18.4)
CMP (01-Oct-24) (Rs)	330.7

Stock Data	Ticker
52-week High (Rs)	343
52-week Low (Rs)	237
Shares outstanding (mn)	1,235.5
Market-cap (Rs bn)	409
Market-cap (USD mn)	4,875
Net-debt, FY25E (Rs mn)	16,126
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	1,048.3
ADTV-3M (USD mn)	12.5
Free float (%)	-
Nifty-50	25,797
INR/USD	83.8
<b>Shareholding, Jun-24</b>	
Promoters (%)	52.2
FPIs/MFs (%)	10.1/30.7

#### Price Performance

(%)	1M	3M	12M
Absolute	5.2	7.9	9.7
Rel. to Nifty	2.9	0.9	(16.5)

#### 1-Year share price trend (Rs)



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**Exhibit 1: Valuation matrix**

	CMP/TP (Rs/sh)	Upside	Mkt Cap (Rs bn)	P/BV (x)			P/E (x)			RoA (%)			RoE (%)			Book Value (Rs/sh)			EPS (Rs)		
				FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
At current market price	331	-18%	408.6	2.1	1.9	1.6	17.4	14.0	11.5	1.9	2.0	2.1	12.4	13.9	15.2	160	178	201	19.0	23.6	28.8
AT target price	270		408.6	1.7	1.5	1.3	14.2	11.5	9.4	1.9	2.0	2.1	12.4	13.9	15.2	160	178	201	19.0	23.6	28.8

Source: Company, Emkay Research

**Exhibit 2: Business asset growth led by strong disbursement**

	1QFY23	2QFY23	3QFY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Business Assets (Rs bn)	677	738	770	828	867	937	970	1,026	1,063
Growth (QoQ)	4.2%	9.0%	4.3%	7.5%	4.8%	8.1%	3.5%	5.7%	3.6%

Source: Company, Emkay Research

**Exhibit 3: Business asset mix**

Product segment	Q1FY24	Q4FY24	Q1FY25
Passenger vehicles	38%	40%	40%
CV & CE	22%	22%	22%
Pre-owned vehicles	12%	13%	13%
Tractors	14%	12%	11%
SME	5%	5%	5%
3 Wheelers	4%	4%	4%
Others	5%	4%	5%

Source: Company, Emkay Research

**Exhibit 4: Disbursement in Q1FY25 impacted on account of seasonality**

	1QFY23	2QFY23	3QFY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Disbursement (Rs bn)	95	118	145	138	122	133	154	153	127
Growth (QoQ)	2.9%	24.8%	22.4%	-4.8%	-11.7%	9.5%	15.9%	-0.9%	-16.7%

Source: Company, Emkay Research

**Exhibit 5: Disbursement mix**

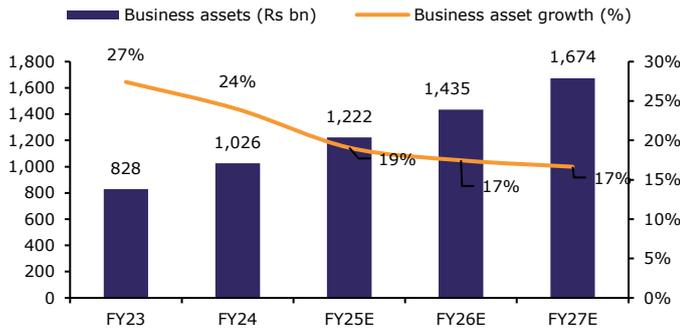
Product segment	Q1FY24	Q4FY24	Q1FY25
Passenger vehicles	42%	39%	41%
CV & CE	19%	23%	20%
Pre-owned vehicles	17%	19%	17%
Tractors	13%	8%	12%
SME	3%	5%	5%
3 Wheelers	4%	4%	4%
Others	2%	2%	1%

Source: Company, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions)

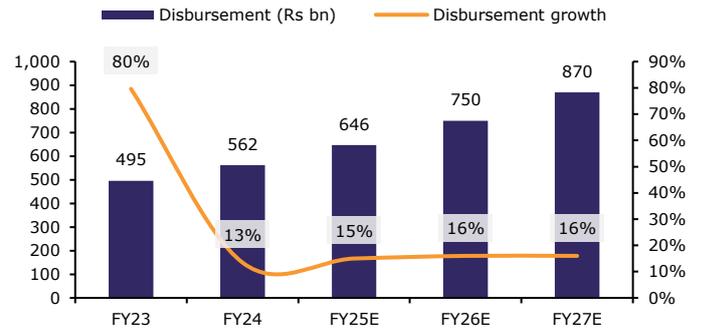
## Story in charts

**Exhibit 6: Business assets are expected to grow above 15%**



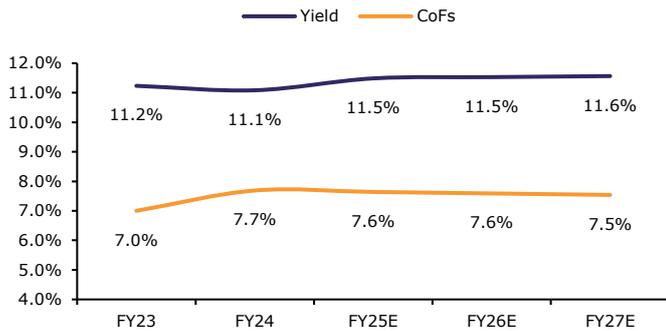
Source: Company, Emkay Research

**Exhibit 7: Strong disbursement across the business segment**



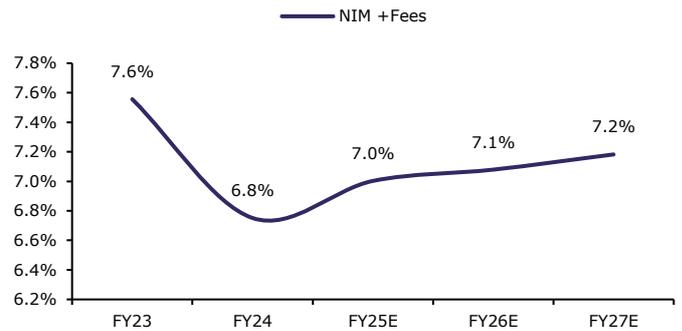
Source: Company, Emkay Research

**Exhibit 8: Yields and CoFs to remain stable**



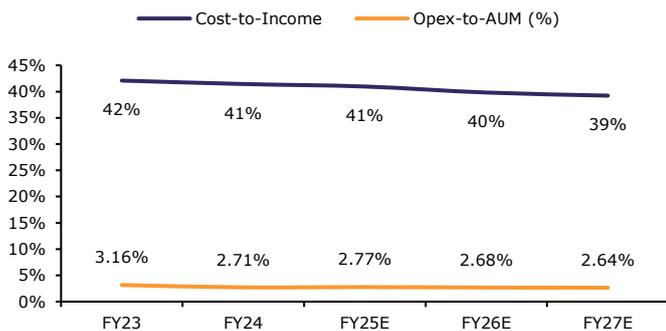
Source: Company, Emkay Research

**Exhibit 9: Margin improvement supported by improved cross-sell**



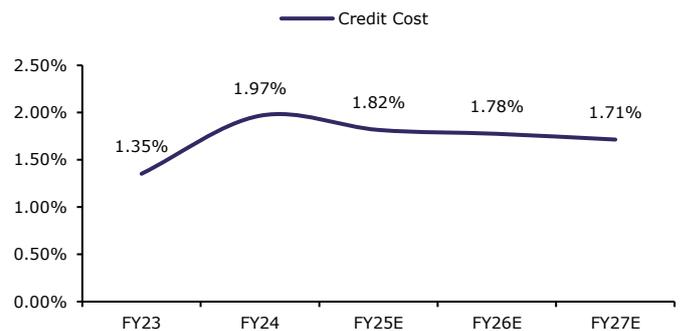
Source: Company, Emkay Research

**Exhibit 10: Opex to remain sticky in the near term**



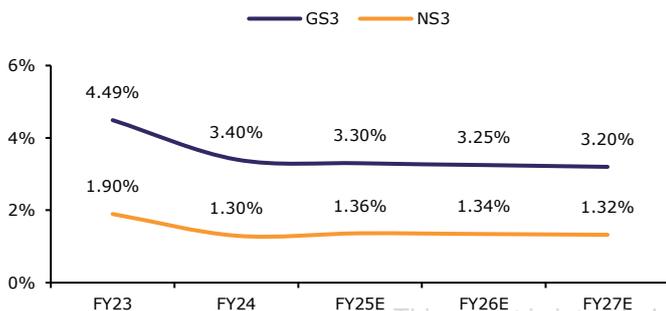
Source: Company, Emkay Research

**Exhibit 11: Credit cost moderation on account of better underwriting and improved collection efficiency**



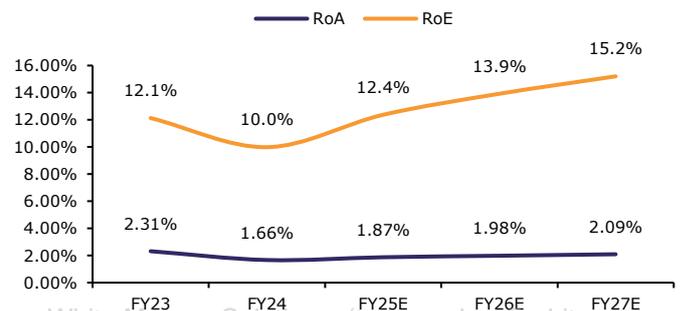
Source: Company, Emkay Research

**Exhibit 12: We expect the overall asset quality to improve over our forecast period**



Source: Company, Emkay Research

**Exhibit 13: Margin expansion led by improved margins and credit cost**



Source: Company, Emkay Research

**Note:** The above charts are based on old estimates and we shall review our estimates and rating in due course

## Mahindra Finance: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	106,826	131,088	160,071	189,205	221,423
Interest Expense	45,767	64,269	77,573	91,611	106,614
<b>Net interest income</b>	<b>61,059</b>	<b>66,818</b>	<b>82,498</b>	<b>97,594</b>	<b>114,809</b>
NII growth (%)	9.9	9.4	23.5	18.3	17.6
Non-interest income	3,735	4,537	5,331	6,288	7,440
<b>Total income</b>	<b>64,794</b>	<b>71,355</b>	<b>87,829</b>	<b>103,882</b>	<b>122,249</b>
Operating expenses	27,276	29,572	35,983	41,367	47,955
<b>PPOP</b>	<b>37,518</b>	<b>41,783</b>	<b>51,846</b>	<b>62,515</b>	<b>74,294</b>
PPOP growth (%)	0.7	11.4	24.1	20.6	18.8
Provisions & contingencies	9,992	18,228	20,415	23,584	26,656
<b>PBT</b>	<b>27,526</b>	<b>23,555</b>	<b>31,431</b>	<b>38,931</b>	<b>47,638</b>
Extraordinary items	(545)	0	0	0	0
Tax expense	7,138	5,959	7,951	9,848	12,051
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>19,843</b>	<b>17,596</b>	<b>23,480</b>	<b>29,083</b>	<b>35,587</b>
PAT growth (%)	100.7	(11.3)	33.4	23.9	22.4
<b>Adjusted PAT</b>	<b>20,388</b>	<b>17,596</b>	<b>23,480</b>	<b>29,083</b>	<b>35,587</b>
<b>Diluted EPS (Rs)</b>	<b>16.1</b>	<b>14.3</b>	<b>19.0</b>	<b>23.6</b>	<b>28.8</b>
Diluted EPS growth (%)	100.6	(11.4)	33.4	23.9	22.4
<b>DPS (Rs)</b>	<b>6.0</b>	<b>6.3</b>	<b>5.7</b>	<b>5.9</b>	<b>5.8</b>
<b>Dividend payout (%)</b>	<b>37.3</b>	<b>44.2</b>	<b>30.0</b>	<b>25.0</b>	<b>20.0</b>
Effective tax rate (%)	25.9	25.3	25.3	25.3	25.3
Net interest margins (%)	7.6	6.8	7.0	7.1	7.2
Cost-income ratio (%)	42.1	41.4	41.0	39.8	39.2
PAT/PPOP (%)	52.9	42.1	45.3	46.5	47.9
Shares outstanding (mn)	1,233.6	1,234.4	1,234.4	1,234.4	1,234.4

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Asset quality</b>					
GNPL - Stage 3	37,170	34,910	40,315	46,639	53,569
NNPL - Stage 3	15,070	12,860	16,126	18,656	21,428
GNPL ratio - Stage 3 (%)	4.5	3.4	3.3	3.3	3.2
NNPL ratio - Stage 3 (%)	1.9	1.3	1.4	1.3	1.3
ECL coverage - Stage 3 (%)	59.5	63.2	60.0	60.0	60.0
ECL coverage - 1 & 2 (%)	1.4	1.2	1.3	1.3	1.4
Gross slippage - Stage 3	0	0	0	0	0
Gross slippage ratio (%)	0.0	0.0	0.0	0.0	0.0
Write-off ratio (%)	3.4	2.1	1.5	1.4	1.3
Total credit costs (%)	1.4	2.0	1.8	1.8	1.7
NNPA to networth (%)	8.8	7.1	8.1	8.5	8.6
<b>Capital adequacy</b>					
Total CAR (%)	22.5	18.9	18.4	17.8	17.6
Tier-1 (%)	19.9	16.4	16.0	15.4	15.2
<b>Miscellaneous</b>					
Total income growth (%)	11.7	10.1	23.1	18.3	17.7
Opex growth (%)	31.5	8.4	21.7	15.0	15.9
PPOP margin (%)	4.3	3.8	4.0	4.0	4.1
Credit costs-to-PPOP (%)	26.6	43.6	39.4	37.7	35.9
Loan-to-Assets (%)	82.6	86.1	87.2	88.0	88.7
Yield on loans (%)	14.5	14.1	14.2	14.2	14.2
Cost of funds (%)	7.0	7.7	7.6	7.6	7.5
Spread (%)	7.5	6.5	6.6	6.7	6.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	2,467	2,469	2,469	2,469	2,469
Reserves & surplus	168,422	179,106	195,542	217,354	245,824
<b>Net worth</b>	<b>170,889</b>	<b>181,575</b>	<b>198,011</b>	<b>219,823</b>	<b>248,293</b>
<b>Borrowings</b>	<b>749,459</b>	<b>922,252</b>	<b>1,108,704</b>	<b>1,305,596</b>	<b>1,522,712</b>
<b>Other liabilities &amp; prov.</b>	<b>41,818</b>	<b>47,765</b>	<b>50,154</b>	<b>52,661</b>	<b>55,295</b>
<b>Total liabilities &amp; equity</b>	<b>962,166</b>	<b>1,151,592</b>	<b>1,356,869</b>	<b>1,578,080</b>	<b>1,826,299</b>
Net loans	794,547	991,952	1,182,617	1,388,932	1,619,906
Investments	99,886	96,508	106,159	116,775	128,452
Cash, other balances	28,321	26,891	28,366	28,640	29,598
<b>Interest earning assets</b>	<b>922,754</b>	<b>1,115,351</b>	<b>1,317,143</b>	<b>1,534,347</b>	<b>1,777,957</b>
Fixed assets	6,956	8,111	9,328	10,727	12,336
Other assets	32,456	28,130	30,398	33,007	36,006
<b>Total assets</b>	<b>962,166</b>	<b>1,151,592</b>	<b>1,356,869</b>	<b>1,578,080</b>	<b>1,826,299</b>
BVPS (Rs)	138.5	147.1	160.4	178.1	201.1
Adj. BVPS (INR)	138.5	147.1	160.4	178.1	201.1
Gross loans	827,700	1,025,970	1,221,653	1,435,059	1,674,034
<b>Total AUM</b>	<b>995,650</b>	<b>1,185,602</b>	<b>1,417,033</b>	<b>1,670,886</b>	<b>1,955,861</b>
On balance sheet	827,700	1,025,970	1,221,653	1,435,059	1,674,034
Off balance sheet	167,950	159,632	195,380	235,827	281,827
Disbursements	495,410	562,080	646,392	749,815	869,785
Disbursements growth (%)	79.6	13.5	15.0	16.0	16.0
Loan growth (%)	31.5	24.8	19.2	17.4	16.6
AUM growth (%)	27.4	24.0	19.1	17.5	16.7
Borrowings growth (%)	34.3	23.1	20.2	17.8	16.6
Book value growth (%)	9.3	6.2	9.1	11.0	13.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	20.6	23.2	17.4	14.0	11.5
P/B (x)	2.4	2.2	2.1	1.9	1.6
P/ABV (x)	2.4	2.2	2.1	1.9	1.6
P/PPOP (x)	0.9	0.8	0.6	0.5	0.4
Dividend yield (%)	1.8	1.9	1.7	1.8	1.7
<b>DuPont-RoE split (%)</b>					
NII/avg AUM	7.1	6.1	6.3	6.3	6.3
Other income	0.4	0.4	0.4	0.4	0.4
Securitization income	0.0	0.0	0.0	0.0	0.0
Opex	1.3	1.1	1.2	1.1	1.1
Employee expense	1.8	1.6	1.6	1.6	1.6
<b>PPOP</b>	<b>4.3</b>	<b>3.8</b>	<b>4.0</b>	<b>4.0</b>	<b>4.1</b>
Provisions	1.2	1.7	1.6	1.5	1.5
Tax expense	0.8	0.5	0.6	0.6	0.7
<b>RoAUM (%)</b>	<b>2.4</b>	<b>1.6</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>
Leverage ratio (x)	5.3	6.2	6.9	7.4	7.7
<b>RoE (%)</b>	<b>12.1</b>	<b>10.0</b>	<b>12.4</b>	<b>13.9</b>	<b>15.2</b>

Quarterly data					
Rs mn, Y/E Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
NII	15,844	15,865	16,983	18,121	17,836
NIM (%)	6.8	6.5	6.8	7.1	6.6
PPOP	10,000	9,428	10,625	11,730	11,345
PAT	3,527	2,352	5,528	6,190	5,130
EPS (Rs)	2.86	1.90	4.48	5.01	4.15

Source: Company, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions)

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
02-Sep-24	322	270	Reduce	Avinash Singh
20-Aug-24	304	270	Reduce	Avinash Singh
24-Jul-24	299	270	Reduce	Avinash Singh
04-Jul-24	298	270	Reduce	Avinash Singh
05-Jun-24	274	260	Reduce	Avinash Singh
07-May-24	257	260	Reduce	Avinash Singh
24-Apr-24	258	260	Reduce	Avinash Singh
06-Apr-24	299	280	Reduce	Avinash Singh
31-Jan-24	289	280	Reduce	Avinash Singh
05-Jan-24	277	240	Reduce	Avinash Singh
30-Nov-23	274	235	Reduce	Avinash Singh
28-Oct-23	277	235	Sell	Avinash Singh
30-Jul-23	300	315	Hold	Avinash Singh
08-Jul-23	329	320	Hold	Avinash Singh
29-Apr-23	259	270	Hold	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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