

# M&M Financial | BUY



Positive surprise on credit cost; sustainability key to rerating

M&M Financial Services (MMFS) reported PAT of INR 5.5bn (-0.3% YoY, +23% QoQ) significantly higher than our estimates primarily driven by meaningfully lower credit cost (1.2% vs 2.4% QoQ) and improvement in NIM (6.64%, +20bps QoQ). Lower credit cost was on account of ECL model revision, better collection efficiency and lower write offs, which was a favourable outcome. Management indicated its prudent shift towards better quality customers is expected to keep credit costs in check. NII of INR 16.9bn (+10% YoY, +7% QoQ, +7% JMFe) was supported by yield expansion (+37bps QoQ) as it outpaced the increase in CoF (+18bps, QoQ). Although the opex remained elevated (opex-to-asset ratio 2.6%), meaningfully lower provisions (-48% QoQ) led to PAT beat. We believe the margins have bottomed out. Healthy Business Asset growth (+26% YoY, +4% QoQ) was led by strong growth in disbursements of INR 154bn (+6% YoY, +16% QoQ). Asset quality improved sequentially with GS3/NS3 at 3.97%/1.54% (-32bps/-20bps QoQ) and PCR at 63% (+154bps QoQ). Finally the efforts of stringent risk management are starting to pay off and although opex has remained elevated, its impact on ROA will be offset by gradual improvement in credit costs and normalization of margins. We believe sustainable delivery of asset quality metrics should drive the rerating going ahead. We value MMFS (parent) at 1.6x FY26E BV implying SoTP value of INR 345 per share with value of subs at INR 30 (MRHF INR 16 per share and MIBL at INR 13 per share).

- Healthy AUM growth continues:** In 3QFY24, total Business Assets grew to INR 970bn (+26% YoY, +4% QoQ) on the back of strong disbursements of INR 154bn (+6% YoY, +16% QoQ). The steady uptick in Business Assets was led by growth in Pre-owned vehicle (+36% YoY, +12% QoQ) and Auto/UV (+33% YoY, +10% QoQ) business. Mgmt. continues to exude confidence on growth aided by strong demand in Auto/UV segment (due premiumization and increasing ticket size), continued momentum in CVs and pre-owned vehicle segment. We estimate AUM CAGR of 27% over FY24-26E aided by acceleration in vehicles sales and scaling up of new initiatives on vehicle leasing.
- Robust NII and controlled credit costs boost PAT:** NII grew to INR 16.9bn (+10% YoY, +7% QoQ) on account of improvement in NIM (6.64%, +20bps QoQ) as yield expansion (+37bps QoQ) outpaced the increase in CoF (+18bps, QoQ). Although the opex remained elevated, due to branch expansion and tech spends (opex-to-asset ratio 2.6%, flat QoQ), meaningfully lower provisions at INR 3.3bn (-48% QoQ) led to a PAT of INR 5.5bn (-0.3% YoY, +23% QoQ), significantly higher than our estimates. We expect the margins to inch-up from here on as the as the CoF stabilises and the impact of lending rate hike takes effect. We build in a PAT CAGR of 28% over FY24-26E.
- Asset Quality improves due to lower write-offs and ECL revision:** Asset quality improved sequentially with GS3/NS3 at 3.97%/1.54% (-32bps/-20bps QoQ). PCR remains healthy at 63% (+154bps QoQ). Credit cost (at 1.2% vs 2.4% QoQ) improved sequentially, partially on account of ECL model revision (positive impact of INR 861mn) and due to lower write offs (-11% QoQ). Management indicated its prudent shift towards better quality customers is expected to keep credit costs in check.

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## Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	345
Upside/(Downside)	23.4%
Previous Price Target	330
Change	4.5%

## Key Data – MMFS IN

Current Market Price	INR280
Market cap (bn)	INR345.4/US\$4.2
Free Float	39%
Shares in issue (mn)	1,233.6
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,222.8/US\$14.7
52-week range	347/216
Sensex/Nifty	71,140/21,522
INR/US\$	83.1

## Price Performance

%	1M	6M	12M
Absolute	1.0	-6.7	23.9
Relative*	2.6	-13.2	3.7

\* To the BSE Sensex

Financial Summary		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Profit	9,887	19,843	18,226	28,488	41,274	
Net Profit (YoY) (%)	195.0%	100.7%	-8.1%	56.3%	44.9%	
Assets (YoY) (%)	-2.3%	27.8%	30.2%	21.9%	26.7%	
ROA (%)	1.3%	2.3%	1.6%	2.0%	2.4%	
ROE (%)	6.5%	12.1%	10.2%	14.5%	18.4%	
EPS	8.0	16.1	14.8	23.1	33.5	
EPS (YoY) (%)	194.8%	100.6%	-8.1%	56.3%	44.9%	
<b>PE (x)</b>	<b>34.9</b>	<b>17.4</b>	<b>19.0</b>	<b>12.1</b>	<b>8.4</b>	
BV	127	139	150	169	196	
BV (YoY) (%)	6.1%	9.3%	8.5%	12.3%	15.9%	
<b>P/BV (x)</b>	<b>2.21</b>	<b>2.02</b>	<b>1.86</b>	<b>1.66</b>	<b>1.43</b>	

Source: Company data, JM Financial. Note: Valuations as of 30/Jan/2024

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.

- **Valuation and View:** While opex has remained high, we expect its impact on ROA will be offset by gradual improvement in credit costs and normalization of margins. We believe strong growth momentum and sustainable delivery of asset quality metrics should drive the re-rating going ahead. We expect the company to deliver avg RoA/ RoE of 2%/14% over FY24-26E and thus value MMFS (parent) at 1.6x FY26E BV implying SoTP value of INR 345 per share with value of subs at INR 30 (MRHF INR 16 per share and MIBL at INR 14 per share).
- **Performance of Subsidiaries:**
  - a) **Mahindra Rural Housing Finance (MRHF) - Recovery in progress:** The subsidiary reported profit of INR 130mn (vs INR 120mn). Disbursements were at INR 5.54bn (+25% YoY, +15% QoQ). Loan book stood at INR 66.9bn (-2.1% YoY, +1% QoQ). Gross stage 3 ratio improved to 11.55% (-49bps QoQ).
  - b) **Mahindra Insurance Brokers (MIBL):** PAT stood at INR 430mn (+231% YoY, +48 QoQ) as gross premium grew to INR 11.9bn (+17% YoY).

#### Exhibit 1. MMFS - SOTP

MMFS SOTP	Holding	Valuation Methodology	Value Per Share	Contribution to TP (%)
MMFS - Standalone	100.0%	1.6x FY26E BV	315	91%
Mahindra Rural Housing	98.4%	1.3x FY26E BV	16	5%
Mahindra Insurance Brokers Limited	100.0%	15x FY26E earnings	14	4%
<b>Total</b>			<b>345</b>	<b>100%</b>

Source: Company, JM Financial

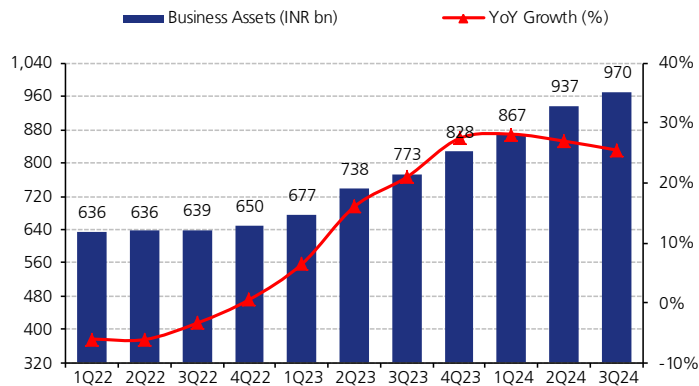
## MMFS – 3QFY24 Performance Highlights

### Exhibit 2. 3QFY24 Key Highlights

Earnings Table (INR mn)	3Q'23	2Q'24	3Q'24	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>15,528</b>	<b>15,870</b>	<b>16,983</b>	<b>9.4%</b>	<b>7.0%</b>
Total Income	16,496	16,740	18,155	10.1%	8.4%
Total Operating Expenses	6,513	7,312	7,530	15.6%	3.0%
<b>Operating Profit (PPP)</b>	<b>9,983</b>	<b>9,428</b>	<b>10,625</b>	<b>6.4%</b>	<b>12.7%</b>
Provisions & Write Offs	1,551	6,266	3,284	111.7%	-47.6%
<b>PBT</b>	<b>8,431</b>	<b>3,163</b>	<b>7,341</b>	<b>-12.9%</b>	<b>132.1%</b>
Tax	2,142	811	1,813	-15.3%	123.6%
<b>PAT (Pre-Extraordinaries)</b>	<b>6,290</b>	<b>2,352</b>	<b>5,528</b>	<b>-12.1%</b>	<b>135.0%</b>
<b>Reported Profit</b>	<b>6,290</b>	<b>2,352</b>	<b>5,528</b>	<b>-12.1%</b>	<b>135.0%</b>
<b>Loans (INR bn)</b>					
Business Assets	773	937	970	25.5%	3.5%
Disbursements	150	133	154	3.0%	15.9%
<b>Ratios Analysis (%)</b>					
Cost to Income (%)	39.5%	43.7%	41.5%	1.99%	-2.20%
Effective Tax Rate (%)	25.4%	25.6%	24.7%	-0.70%	-0.94%
<b>Asset Quality</b>					
Gross Stage 3 (INR Mn)	45,890	40,240	38,520	-16.1%	-4.3%
Net Stage 3 (INR Mn)	18,820	15,620	14,360	-23.7%	-8.1%
Gross Stage 3 (%)	5.9%	4.3%	4.0%	-2.0%	-0.3%
Net Stage 3 (%)	2.6%	1.7%	1.5%	-1.0%	-0.2%
Coverage Ratio (%)	59.0%	61.2%	62.7%	3.7%	1.5%
<b>Capital Adequacy (%)</b>					
Tier I (%)	20.5%	16.7%	16.5%	-4.0%	-0.2%
CAR (%)	23.4%	18.7%	18.3%	-5.1%	-0.4%
<b>Du-pont Analysis (%)</b>					
NII / Avg. Assets (%)	7.0%	6.2%	6.4%	-0.6%	0.2%
Non-Interest Inc. / Assets (%)	0.1%	0.1%	0.1%	0.0%	0.0%
Op. Cost / Assets (%)	2.9%	2.8%	2.8%	-0.1%	0.0%
PPP / Assets (%)	4.5%	3.7%	4.0%	-0.5%	0.3%
Provisions / Assets (%)	0.7%	2.4%	1.2%	0.5%	-1.2%
ROA (%)	2.8%	0.9%	2.1%	-0.8%	1.2%

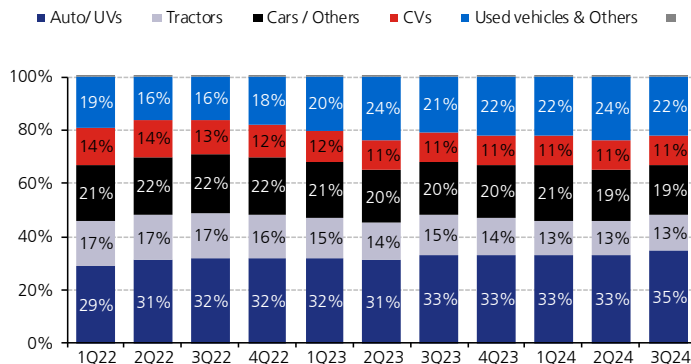
Source: Company, JM Financial

Exhibit 3. MMFS: Trend in Business Assets growth



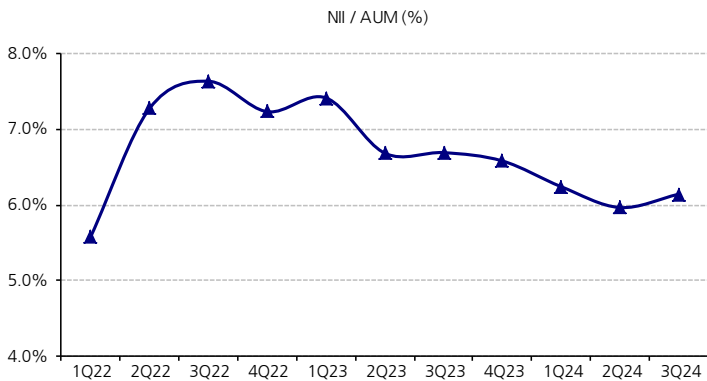
Source: Company, JM Financial

Exhibit 4. MMFS: Trend in Business Assets composition



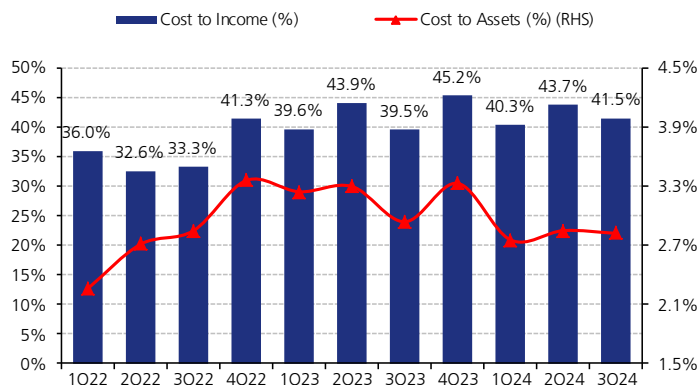
Source: Company, JM Financial

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



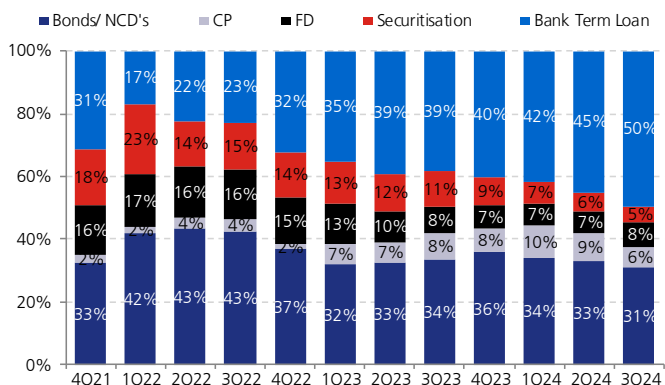
Source: Company, JM Financial

Exhibit 6. MMFS: Cost to Asset is below pre-Covid levels (3%)



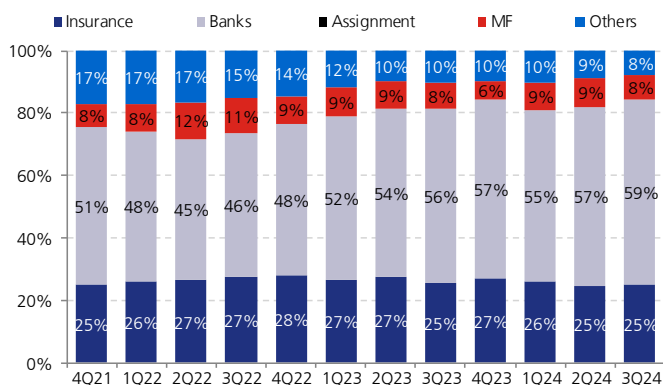
Source: Company, JM Financial

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



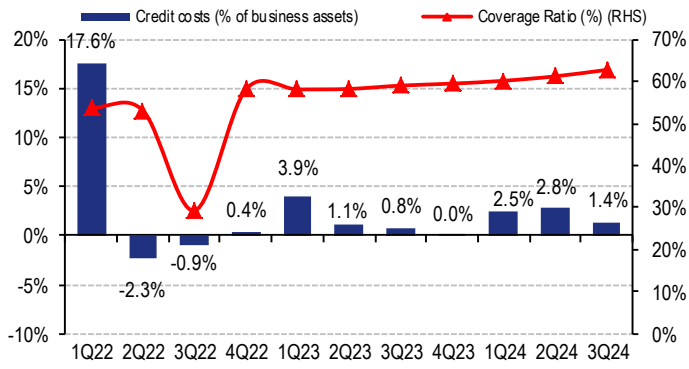
Source: Company, JM Financial

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



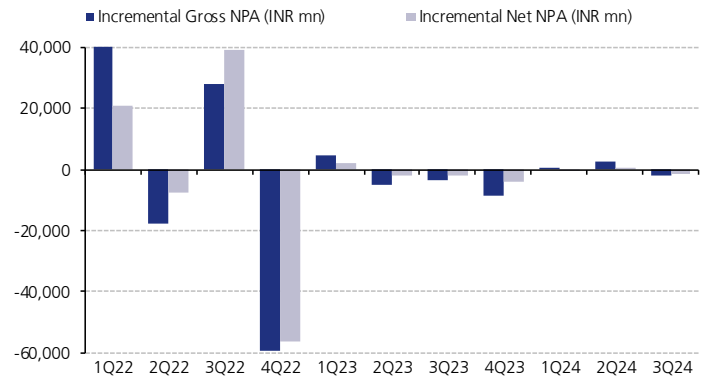
Source: Company, JM Financial

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

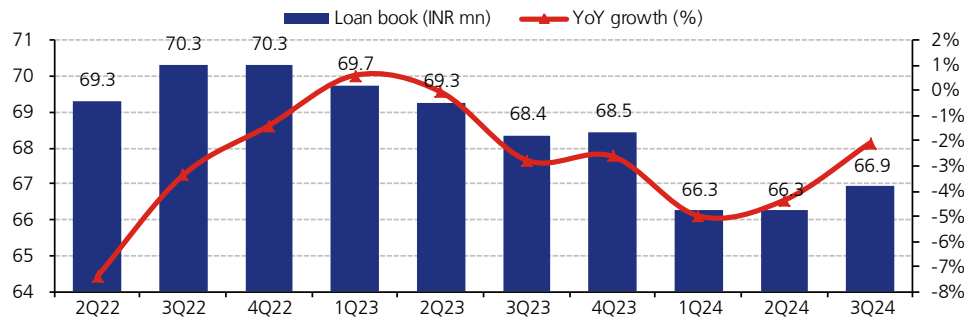
### MRHF – 3QFY24 quarterly performance

Exhibit 11. 3QFY24 key financials

Earnings Table (INR mn)	3Q'23	2Q'24	3Q'24	YoY (%)	QoQ (%)
Total Income	3,380	3,310	3,310	-2.1%	0.0%
PBT	140	150	190	35.7%	26.7%
PAT	140	120	130	-7.1%	8.3%
Loans	68,350	66,250	66,930	-2.1%	1.0%
Disbursements	4440	4820	5540	24.8%	14.9%

Source: Company, JM Financial

Exhibit 12. Trend in loan book growth



Source: Company, JM Financial

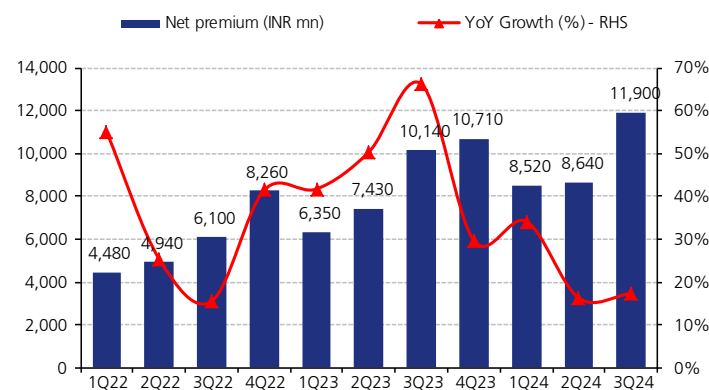
### MIBL – 3QFY24 quarterly performance

Exhibit 13. 3QFY24 key financials

Earnings Table (INR mn)	3Q'23	2Q'24	3Q'24	YoY (%)	QoQ (%)
Total income	1,230	2,890	3,310	169.1%	14.5%
Gross premium (started discl. in 3Q24)	10,140	-	11,900	17.4%	-
<b>PAT</b>	<b>130</b>	<b>290</b>	<b>430</b>	<b>230.8%</b>	<b>48.3%</b>
No. of employees (nos.)	777	701	707	-9.0%	0.9%

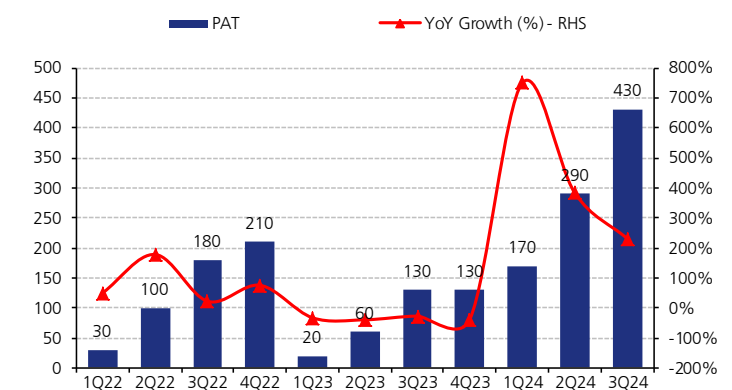
Source: Company, JM Financial

Exhibit 14. MIBL: Trends in net 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	FY24E	FY25E	FY26E	
Net Interest Income	55,554	61,059	71,106	93,311	1,18,085	
Profit on Investments	608	1,273	1,283	1,303	1,323	
Exchange Income	0	0	0	0	0	
Fee & Other Income	1,824	2,462	2,938	3,485	1,573	
<b>Non-Interest Income</b>	<b>2,432</b>	<b>3,735</b>	<b>4,220</b>	<b>4,788</b>	<b>2,896</b>	
<b>Total Income</b>	<b>57,986</b>	<b>64,794</b>	<b>75,327</b>	<b>98,099</b>	<b>1,20,981</b>	
Operating Expenses	20,734	27,276	32,728	39,256	47,141	
<b>Pre-provisioning Profits</b>	<b>37,252</b>	<b>37,518</b>	<b>42,599</b>	<b>58,842</b>	<b>73,840</b>	
Loan-Loss Provisions	23,683	9,992	18,232	20,757	18,661	
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>18,232</b>	<b>20,757</b>	<b>18,661</b>	
<b>PBT</b>	<b>13,569</b>	<b>27,526</b>	<b>24,367</b>	<b>38,085</b>	<b>55,179</b>	
Tax	3,682	7,138	6,140	9,597	13,905	
<b>PAT (Pre-Extraordinaries)</b>	<b>9,887</b>	<b>20,388</b>	<b>18,226</b>	<b>28,488</b>	<b>41,274</b>	
Extra ordinaries (Net of Tax)	0	-545	0	0	0	
<b>Reported Profits</b>	<b>9,887</b>	<b>19,843</b>	<b>18,226</b>	<b>28,488</b>	<b>41,274</b>	
Dividend paid	4,448	988	3,645	5,698	8,255	
<b>Retained Profits</b>	<b>5,440</b>	<b>18,855</b>	<b>14,581</b>	<b>22,790</b>	<b>33,019</b>	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (YoY) (%)</b>					
Deposits	0.0%	0.0%	0.0%	0.0%	0.0%
Advances	0.8%	31.5%	32.4%	27.6%	24.4%
Total Assets	-2.3%	27.8%	30.2%	21.9%	26.7%
Nil	0.4%	9.9%	16.5%	31.2%	26.5%
Non-interest Income	-2.7%	53.6%	13.0%	13.4%	-39.5%
Operating Expenses	27.0%	31.5%	20.0%	19.9%	20.1%
Operating Profits	-10.3%	0.7%	13.5%	38.1%	25.5%
Core Operating profit	321.8%	93.9%	-14.0%	56.3%	44.9%
Provisions	-36.6%	-57.8%	82.5%	13.9%	-10.1%
Reported PAT	195.0%	100.7%	-8.1%	56.3%	44.9%
<b>Yields / Margins (%)</b>					
Interest Spread	5.95%	5.92%	4.99%	5.05%	5.28%
NIM	7.51%	7.39%	6.63%	6.72%	6.77%
<b>Profitability (%)</b>					
Non-IR to Income	4.2%	5.8%	5.6%	4.9%	2.4%
Cost to Income	35.8%	42.1%	43.4%	40.0%	39.0%
ROA	1.30%	2.31%	1.65%	2.05%	2.38%
ROE	6.5%	12.1%	10.2%	14.5%	18.4%
<b>Assets Quality (%)</b>					
Slippages	4.71%	3.55%	2.70%	2.40%	3.00%
Gross NPA	7.86%	4.55%	4.35%	4.19%	5.01%
Net NPAs	3.45%	1.90%	1.70%	1.63%	2.57%
Provision Coverage	58.1%	59.5%	62.0%	62.0%	50.0%
Specific LLP	3.41%	2.19%	1.97%	1.73%	1.24%
Net NPAs / Networth	13.3%	8.8%	9.6%	10.5%	17.8%
<b>Capital Adequacy (%)</b>					
Tier I	24.24%	19.86%	13.94%	12.99%	12.03%
CAR	27.75%	22.52%	15.90%	14.83%	13.71%

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Equity Capital	2,466	2,467	2,467	2,467	2,467	
Reserves & Surplus	1,53,815	1,68,422	1,83,003	2,05,793	2,38,812	
Deposits	0	0	0	0	0	
Borrowings	5,58,139	7,49,459	9,66,802	12,42,340	15,96,407	
Other Liabilities	38,154	41,585	1,00,218	76,360	96,733	
<b>Total Liabilities</b>	<b>7,52,887</b>	<b>9,62,166</b>	<b>12,52,728</b>	<b>15,27,203</b>	<b>19,34,667</b>	
Investments	84,403	99,886	1,31,534	1,65,194	2,05,557	
Net Advances	6,04,446	7,94,547	10,52,271	13,43,044	16,71,197	
Cash & Equivalents	41,507	28,321	36,830	47,007	58,492	
Fixed Assets	3,929	6,956	9,034	10,994	13,883	
Other Assets	0	0	0	0	0	
<b>Total Assets</b>	<b>7,52,890</b>	<b>9,62,166</b>	<b>12,52,728</b>	<b>15,27,203</b>	<b>19,34,667</b>	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Nil / Assets	7.29%	7.12%	6.42%	6.71%	6.82%
Other Income / Assets	0.32%	0.44%	0.38%	0.34%	0.17%
Total Income / Assets	7.61%	7.56%	6.80%	7.06%	6.99%
Cost / Assets	2.72%	3.18%	2.96%	2.82%	2.72%
PBP / Assets	4.89%	4.38%	3.85%	4.23%	4.27%
Provisions / Assets	3.11%	1.17%	1.65%	1.49%	1.08%
PBT / Assets	1.78%	3.21%	2.20%	2.74%	3.19%
Tax rate	27.1%	25.9%	25.2%	25.2%	25.2%
ROA	1.30%	2.31%	1.65%	2.05%	2.38%
RoRWAs	1.74%	2.97%	1.85%	2.13%	2.48%
Leverage	4.8	5.6	6.8	7.3	8.0
ROE	6.5%	12.1%	10.2%	14.5%	18.4%

Source: Company, JM Financial

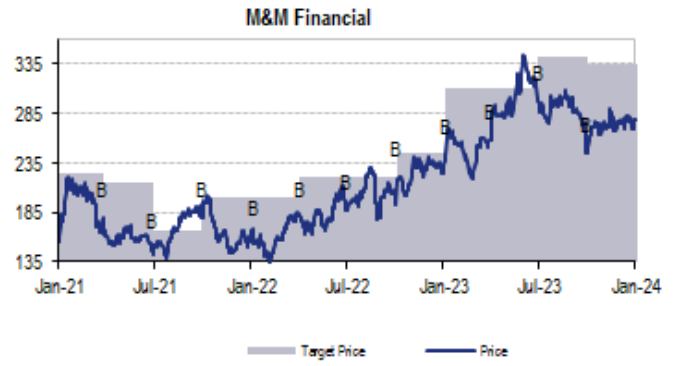
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	1,233.0	1,233.6	1,233.6	1,233.6	1,233.6
EPS (INR)	8.0	16.1	14.8	23.1	33.5
EPS (YoY) (%)	194.8%	100.6%	-8.1%	56.3%	44.9%
PER (x)	34.9	17.4	19.0	12.1	8.4
BV (INR)	127	139	150	169	196
BV (YoY) (%)	6.1%	9.3%	8.5%	12.3%	15.9%
ABV (INR)	127	139	150	169	196
ABV (YoY) (%)	6.1%	9.3%	8.5%	12.3%	15.9%
P/BV (x)	2.21	2.02	1.86	1.66	1.43
P/ABV (x)	2.21	2.02	1.86	1.66	1.43
DPS (INR)	3.6	0.8	3.0	4.6	6.7
Div. yield (%)	1.3%	0.3%	1.1%	1.6%	2.4%

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

Recommendation History





## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

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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.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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