

PAT miss on higher credit cost. PPOP inline as lower opex offsets sharp NIM compression.

- MMFS reported PAT of Rs3.5bn (down 48% QoQ; +58% YoY) and 35% below our estimate. The miss is attributable to higher credit cost of 2.5% (est. 1.2%) on account of write-off amounting to Rs3bn (down 48% QoQ and 45% YoY). GS3 ratio improved 14bps QoQ while 50bps adjusted for write-offs.
- PPOP came inline at Rs10bn sustaining a PPOP ROA of 4.7%. This was aided by lower opex to assets (down 70bps QoQ) offsetting a sharp decline (70bps QoQ) in NIM on account of higher cost of funds (+20bps QoQ) and rising share of lower yielding prime book. Management expects an improving trajectory for margin hereon.
- We view the risk reward is turning favorable with growth returning (FY23 / 1QFY24 disbursements up 80% / 28% YoY respectively) and AQ fears abating. However, we will look for consistency in delivery on the new strategy (profitability of growth & stable AQ) for turning constructive on the company outlook. Maintain reduce with a revised TP to Rs325 (+3%) on higher business growth.

Growth riding strong

MMFS registered a disbursement growth of 28% YoY aiding business assets growing at 28% YoY and 5% QoQ. Share of tractors, autos and cars in the overall disbursement mix increased by 1-2ppt QoQ while share of preowned vehicles was stable at 17%. Share of high yielding SME book in the overall mix declined 4ppt QoQ and YoY to 3%.

Valuation and key risks

Our SOTP based Mar '24 TP of Rs325 implies a 1yr forward P/B of 1.7x (consol). This compares with the stock trading at 1.4x / 1.6x / 2.3x on 3yr / 5yr / 10yr basis respectively. The standalone entity (ex- subsidiaries and associates) accounts for 92% of our SOTP and is valued using a blended approach – average of three stage DDM and historical multiple (1yr forward P/B). Key assumptions for our three stage DDM are – 1) COE of 12.7%, 2) second stage growth of 15%, 3) normalized ROE of 16%, 4) long term growth rate of 5% and 5) 25% dividend payout. **Key risks to our rating and TP** is weakness in rural / agri economy driving lower than anticipated AUM growth and AQ blips.

Q1FY24 Result (Rs Mn)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net interest income	16,341	15,544	5.1	16,602	(1.6)
Other income	409	122	233.7	625	(34.7)
Total Net Income	16,750	15,666	6.9	17,227	(2.8)
Operating expenses	6,750	6,208	8.7	7,789	(13.3)
Pre-provision profit	10,000	9,458	5.7	9,438	6.0
Provisions	5,264	6,453	(18.4)	4	138428.9
Tax expense	1,209	776	55.8	2,596	(53.4)
Reported Net Profit	3,527	2,229	58.2	6,838	(48.4)
			bps		bps
Aum Growth YoY%	28.1	6.2	2160	27.4	70
NIM (%)	7.7	9.4	(166)	8.3	(58)
RoA (%)	1.7	1.3	32	3.4	(175)
RoE (%)	8.2	5.7	248	16.3	(817)
Gross Stage 3 (%)	4.4	8.0	(368)	4.5	(14)

CMP	Rs 300
Target / Upside	Rs 325 / 8%
NIFTY	19,646

Scrip Details

Equity / FV	Rs 2,467mn / Rs 2
Market Cap	Rs 370bn
	USD 4.5bn
52-week High/Low	Rs 347/ 176
Avg. Volume (no)	5,008,670
Bloom Code	MMFS IN

Price Performance	1M	3M	12M
Absolute (%)	(8)	16	52
Rel to NIFTY (%)	(13)	7	35

Shareholding Pattern

	Dec'22	Mar'23	Jun'23
Promoters	52.2	52.2	52.2
MF/Banks/FIs	23.8	25.2	27.0
FIs	16.1	14.9	13.9
Public / Others	7.8	7.8	7.0

Valuation (x)

	FY24E	FY25E	FY26E
P/E	15.6	12.2	10.4
P/ABV	2.2	2.0	1.8
ROAA	1.9	2.0	2.0
ROAE	13.2	15.1	15.8

Estimates (Rs bn)

	FY24E	FY25E	FY26E
NII	76.4	93.9	109.7
PPOP	45.5	59.7	71.9
PAT	23.7	30.2	35.6
Adj BV (Rs)	135.3	146.7	163.1

VP - Research: Rahul Jain, CFA

Tel: +9122 40969795

E-mail: jrahul@dolatcapital.com

Associate: Jay Shah

Tel: +91 22 4096 9722

E-mail: jays@dolatcapital.com

Associate: Taran Gupta

Tel: +9122 40969623

E-mail: tarang@dolatcapital.com

Exhibit 1: MMFS- Actual V/s DART estimates (Rs mn)

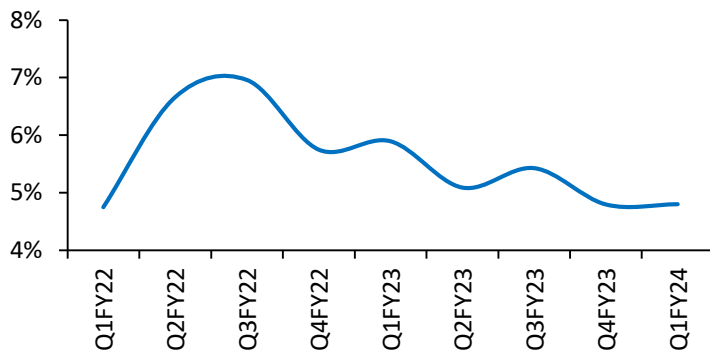
Particulars (Rs mn)	Actual	Estimate	%/ bps variance	Comments
Net Interest Income	16,750	17,672	(5.2)	Higher credit cost driving the miss
PPOP	10,000	9,720	2.9	
PAT	3,527	5,449	(35.3)	

Source: Company, DART

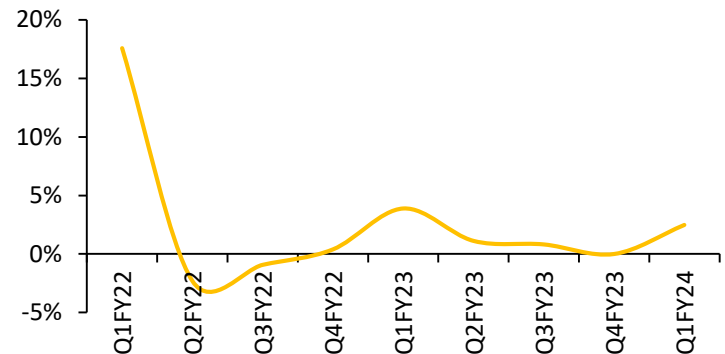
Exhibit 2: MMFS- Change in Estimates

Particulars (Rs mn)	FY24E			FY25E		
	Old	New	Chg (%)	Old	New	Chg (%)
Net Interest Income	75,849	76,405	0.7	92,399	93,889	1.6
PPOP	44,932	45,500	1.3	58,227	59,739	2.6
PAT	23,308	23,652	1.5	29,311	30,198	3.0

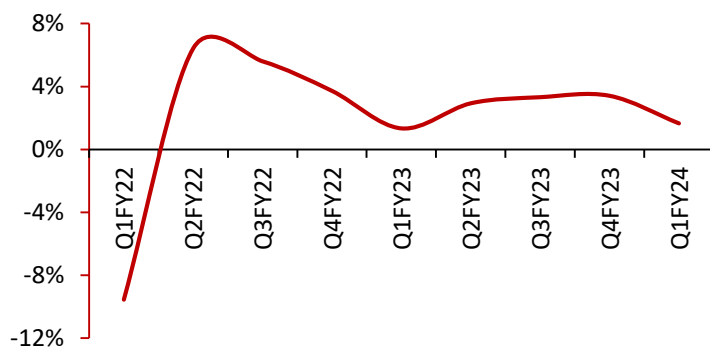
Source: Company, DART

Exhibit 3: MMFS - PPOP ROA


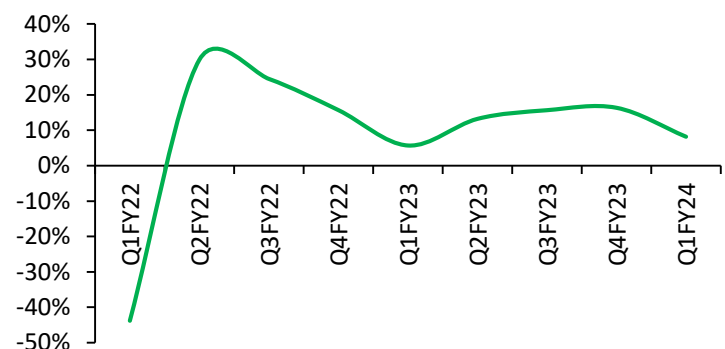
Source: Company, DART

Exhibit 4: MMFS - Credit cost


Source: Company, DART

Exhibit 5: MMFS - ROA


Source: Company, DART

Exhibit 6: MMFS - ROE


Source: Company, DART

Exhibit 7: MMFS – Dupont analysis (ROE tree)

(In %)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NIM + Fees	7.2	9.4	9.9	9.4	9.4	8.6	8.6	8.3	7.7
Other Income	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.2
NIM + Non Interest Income	7.3	9.5	10.0	9.5	9.4	8.7	8.7	8.6	7.9
Opex	2.6	3.1	3.3	3.9	3.7	3.7	3.4	3.9	3.2
Cost / Income	36.0	32.6	33.3	41.3	39.6	42.8	39.5	45.2	40.3
PPOP	4.7	6.4	6.7	5.6	5.7	5.0	5.3	4.7	4.7
Core PPOP	4.6	6.3	6.6	5.4	5.6	4.8	5.1	4.4	4.5
Credit cost	17.6	(2.3)	(0.9)	0.4	3.9	1.1	0.8	0.0	2.5
Tax rate %	26.1	26.0	26.1	28.0	25.8	23.8	25.4	27.5	25.5
ROA	(9.5)	6.4	5.6	3.7	1.3	2.9	3.3	3.4	1.7
Leverage	4.6	4.7	4.4	4.2	4.2	4.5	4.7	4.8	4.9
ROE	(43.8)	29.9	24.5	15.7	5.7	13.2	15.7	16.3	8.2

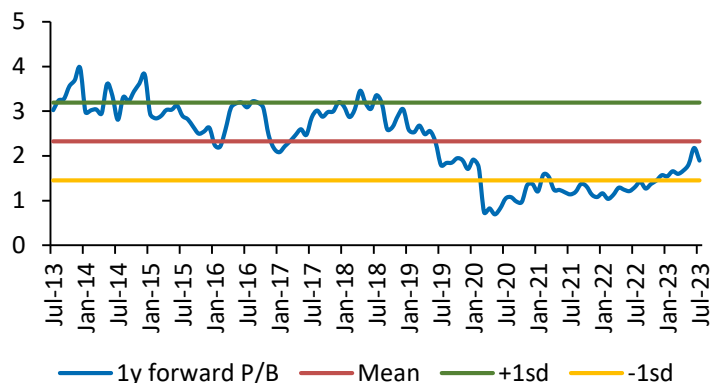
Source: Company, DART

Exhibit 8: MMFS – SOTP summary

SOTP - Mar'24	(Rs /share)	Valuation methodology	Holding %	Share in SOTP %
Blended target value per share	299	Average of three stage DDM and 1yr forward P/B basis trading history (average of 3yr, 5yr, 10yr)	100%	92%
Mahindra rural Housing Finance Limited	8	1x book adjusted for Net Npa	98%	2%
Mahindra Insurance Brokers Limited	7	20x FY25E P/E	80%	2%
Mahindra Manulife Investment Management	7	at 8.5% OF AUM	51%	2%
Others	4	Mahindra Finance USA LLC , Mahindra Ideal Finance Ltd ("MIFL"), Sri Lanka & Mahindra Manulife Investment Management Private Ltd	NA	
SOTP	325			
Implied 1yr forward P/B	1.7			
Mar '24 TP	325			

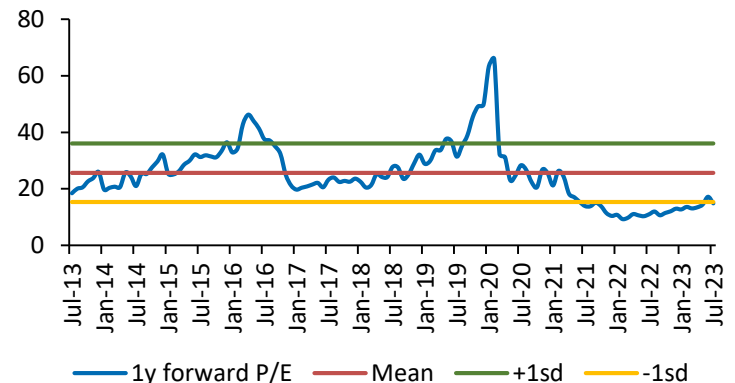
Source: DART

Exhibit 9: MMFS- 1 year forward P/B



Source: Bloomberg, DART, Note: As of COB 28TH June 2023

Exhibit 10: MMFS- 1 year forward P/E



Source: Bloomberg, DART, Note: As of COB 28TH June 2023

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY23A	FY24E	FY25E	FY26E
Interest Income	106,826	138,779	170,648	198,596
Interest expense	45,767	62,374	76,759	88,927
Net interest income	61,059	76,405	93,889	109,669
Other income	2,933	1,406	1,587	1,743
Total income	63,991	77,811	95,476	111,412
Total expenses	26,473	32,311	35,737	39,546
- Employee cost	15,843	20,617	23,163	26,024
- Other	10,631	11,694	12,574	13,522
Pre provisioning profit	37,518	45,500	59,739	71,866
Provisions	9,992	13,881	19,368	24,300
Profit before taxes	27,526	31,620	40,371	47,565
Tax provision	7,138	7,968	10,173	11,986
Profit after tax	20,388	23,652	30,198	35,579
Adjusted profit	19,843	23,652	30,198	35,579

Balance Sheet (Rs Mn)

Particulars	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	2,467	2,467	2,467	2,467
Reserves & Surplus	168,422	186,161	208,809	235,493
Net worth	170,889	188,628	211,276	237,960
Borrowings	749,459	964,091	1,147,119	1,299,998
Other liabilities & provisions	74,696	88,446	98,527	105,239
Total Liabilities	995,044	1,241,165	1,456,922	1,643,198
Application of Funds				
Cash and equivalents	28,321	25,489	22,940	20,646
Investments	99,886	102,901	106,067	109,392
Advances	827,426	1,072,660	1,287,027	1,471,422
Fixed assets	6,956	7,637	8,386	9,210
Other assets	32,456	32,478	32,502	32,528
Total Assets	995,044	1,241,165	1,456,922	1,643,198

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Yield on advances	13.5	14.0	14.0	14.0
Yield on interest earning assets	10.7	11.2	11.3	11.3
Cost of funds	7.0	7.3	7.3	7.3
Spread	6.6	6.8	6.8	6.8
NIM	6.2	6.2	6.2	6.2
(B) Asset quality and capital ratios (%)				
Gross stage 3	4.5	4.5	4.7	5.0
Net stage 3	1.9	2.0	2.4	2.5
CAR	22.5	19.1	17.6	17.2
Tier 1	19.9	16.8	15.6	15.3
RoA	2.0	1.9	2.0	2.0
RoE	12.5	13.2	15.1	15.8
(D) Measures of Investments				
EPS - adjusted	16.1	19.2	24.5	28.8
BV	138.5	152.9	171.3	192.9
DPS	6.0	4.8	6.1	7.2
Dividend payout ratio	0.4	0.3	0.3	0.3
(E) Growth Ratios (%)				
Net interest income	9.9	25.1	22.9	16.8
PPoP	0.7	21.3	31.3	20.3
Adj PAT	100.7	19.2	27.7	17.8
Advances	27.4	29.6	20.0	14.3
Total borrowings	34.3	28.6	19.0	13.3
Total assets	24.7	24.7	17.4	12.8
(F) Valuation Ratios				
Market Cap (Rs. mn)	370,006	370,006	370,006	370,006
CMP (Rs.)	300	300	300	300
P/E (x)	18.6	15.6	12.2	10.4
P/BV (x)	2.2	2.0	1.7	1.6
Div Yield (%)	2.0	1.6	2.0	2.4

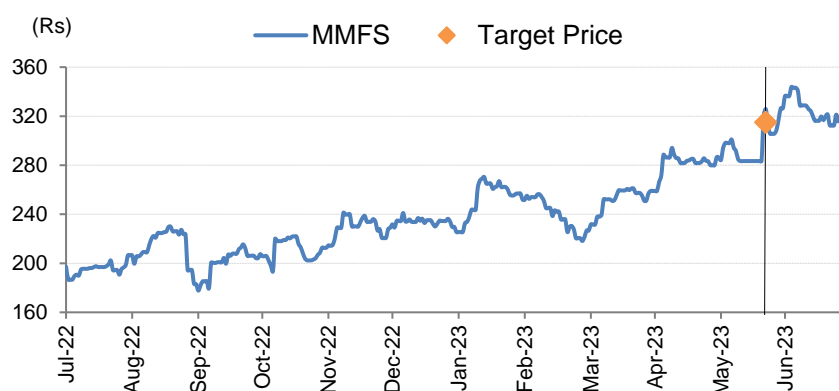
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jun-23	Reduce	315	326

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
-------------	-------------------	-------------------------	-----------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
-------------------	------------------	-----------------------	-----------------

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

**Dolat Capital Market Private Limited.**

Corporate Identity Number: U65990GJ993PTC116741

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com