

Mahindra & Mahindra Financial

BSE SENSEX 65,076
S&P CNX 19,343

Mahindra FINANCE

Stock Info

Bloomberg	MMFS IN
Equity Shares (m)	1236
M.Cap.(INRb)/(USDb)	361.7 / 4.4
52-Week Range (INR)	346 / 176
1, 6, 12 Rel. Per (%)	-1/5/35
12M Avg Val (INR M)	1191
Free float (%)	47.8

Financials Snapshot (INR b)

Y/E March	FY23	FY24E	FY25E
NII	64.8	74.8	91.0
PPP	37.5	43.4	56.8
PAT	19.8	21.7	28.7
EPS (INR)	16.1	17.6	23.3
EPS Gr. (%)	101	10	32
BV/Sh.(INR)	133	144	159

Ratios

NIM (%)	8.3	7.7	7.8
C/I ratio (%)	42.1	41.9	37.6
RoA (%)	2.3	2.1	2.3
RoE (%)	12.6	12.8	15.4
Payout (%)	37.3	37.5	35.0

Valuations

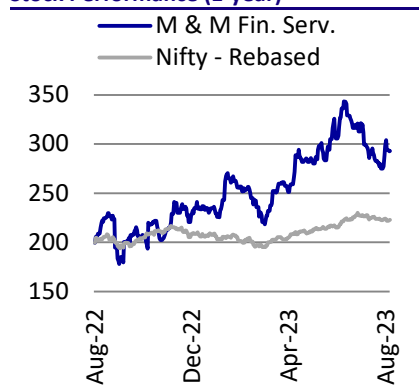
P/E (x)	18.2	16.6	12.5
P/BV (x)	2.2	2.0	1.8
Div. Yield (%)	2.1	2.3	2.8

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	52.2	52.2	52.2
DII	27.0	25.2	18.0
FII	14.1	15.0	17.8
Others	6.8	7.7	12.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR293

TP: INR350 (+20%)

Buy

Earnest attempt at a credible transformation!

- MMFS has exhibited volatile operating performance and weak asset quality in the past. However, the management has undertaken various strategic initiatives, which we believe, if executed properly, could script a credible transformation of the company.
- MMFS has translated the KPIs introduced under Mission 2025 into strategic priorities, such as expanding its presence, leveraging technology to drive operational efficiency, developing new products and making process enhancements. The management is committed to investing in new capabilities and advanced technological solutions to reduce volatility in the company's operating performance.
- In the last fiscal year, MMFS strengthened its leadership position in the tractor, Mahindra Auto and non-Mahindra financing segments with improvement in market shares. The improved rural cash-flows should support demand sentiment in FY24. The company is also increasing its penetration in the used vehicle segment.
- We believe that this transformation is only half-complete. Given the change in product/ customer mix, blended NIM will find a new normal within the next few quarters, but the tech transformation that the company is embarking on should help MMFS improve its operating efficiency and credit costs.
- Strong moats in the rural/semi-urban customer segments position MMFS well to reap the rewards of the hard work that is going into evolving this franchise. We model a CAGR of 19%/20% in AUM/PAT over FY23-FY25E, with RoA/RoE of 2.3%/15.4% in FY25E. We have a BUY rating on the stock with a TP of INR350 (premised on 2.2x FY25E P/BV).

Transformation at play: Aims to deliver sustained and stable outcomes

We hosted Mr. Raul Rebello, ED and MD & CEO designate, MMFS, as a part of the CEO Track at AGIC CY23.

- MMFS has set three goals for sustainable growth and three goals for protected profitability. The company's business assets were stuck at ~INR650b for three years and its guidance of doubling the AUM was driven by the belief that sectoral tailwinds and strong execution should help it deliver a 24-25% AUM CAGR.
- MMFS is cognizant of the horizontal and vertical risks and has improved its origination quality. MMFS now has guardrails to know how many new-to-credit, prime and sub-prime customers it adds every month.
- MMFS will keep its core strong and will make sure that it does not lose the heft in vehicle lending. ~10-15% of the incremental sourcing every month comes from prime customers. Non-cash collections have improved to ~70% (vs. 30% earlier), which will help to lower the collection costs and eventually opex.

Global investors were excited to hear Mr. Raul Rebello's views on the future plans of the company and the next leg of value creation for its stakeholders.

Transformation initiatives to revolutionize its business practices

- In order to realize its Vision 2025, MMFS has implemented various strategies and set specific objectives viz.: 1) scaling up new growth engines, 2) shifting the composition of customer segments, 3) diversifying product mix, 4) establishing dedicated collection rooms and legal toolkits, and 5) equipping employees with cutting-edge technology to enhance efficiency and drive process optimization.
- MMFS is also implementing Udaan – an end-to-end transformation backed by technology and digital capabilities. As part of this initiative, it is strengthening its technology infrastructure to make the organization future-ready for fast-paced growth. This will include various programs aimed at improving the lending journey of customers, as well as sourcing, underwriting, cross-selling and collections for the company.
- This transformation is poised to yield several benefits, such as an enhanced experience for customers, a faster turnaround time, and strong digital capabilities.

Demand momentum to sustain; building capabilities in non-vehicle as well

- Historically, we have seen stronger AUM growth for vehicle financiers in the fiscal year prior to the general elections. India's Lok Sabha elections will be held in 2024 and we expect vehicle demand momentum to sustain due to the government's thrust for higher spending on infrastructure, mining and real estate. We model AUM growth of ~19% over FY23-FY25E.
- MMFS is progressing well in its target of increasing the share of the non-vehicle portfolio by growing the SME Lending, Leasing and Digital Finco segments. These complementary segments provide counter-cyclical benefits and help MMFS deliver consistent growth. The company has guided for new business contribution of ~15% by FY25 (~6% as of Jun'23).

Margins likely to see a transitory impact but should exhibit recovery from 2HFY24

- Industry-wide NIM in vehicle finance has been under pressure because of competitive intensity and a higher proportion of new vehicles in the disbursement mix (over the last 12 months). MMFS is also seeing an increase in the proportion of PrimeX customers (mass-affluent customers in semi-urban and rural areas) in the customer mix, which will have some impact on the margins.
- We expect this transient impact on NIM to continue for one more quarter post which a more sustainable NIM would emerge. We model NIM of 7.7%/7.8% in FY24/FY25E.

Lower cost ratios will eventually offset NIM compression

- Opex will remain elevated in FY24 with the cost-income ratio at ~42% (same as FY23), driven by the company's technological transformation and investments in data/analytics.
- This tech transformation, when complete, will enable better productivity and efficiency through quicker turnaround and higher throughput in sanctions/disbursements. We expect the cost-income ratio to moderate to ~38% and cost-to-average assets ratio to improve to 2.8% in FY25E (3.2% in FY23/2.0% in FY24).

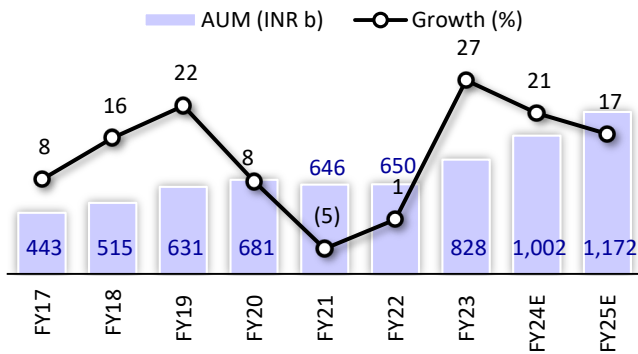
Healthy asset quality and benign credit costs – structural or just cyclical tailwinds?

- Given better customer selection by culling out the most vulnerable segment, the implementation of initiatives to monitor early warning signals and equipping the field collection team with data insights, we expect volatility in asset quality to subside significantly.
- Cyclical tailwinds supported healthy loan growth, and the utilization of ECL provisions created in early FY23 for effecting customer settlements and write-offs did help MMFS deliver very benign credit cost of ~1.35% in FY23. However, given a) the declining share of vulnerable customers in the mix, b) rigor in collections, better legal toolkits, availability of digital payment methods, and c) alignment of employee incentives with collections and asset quality, we believe that asset quality will remain healthy and the credit cost will remain low at ~1.6%/1.7% in FY24/FY25E.

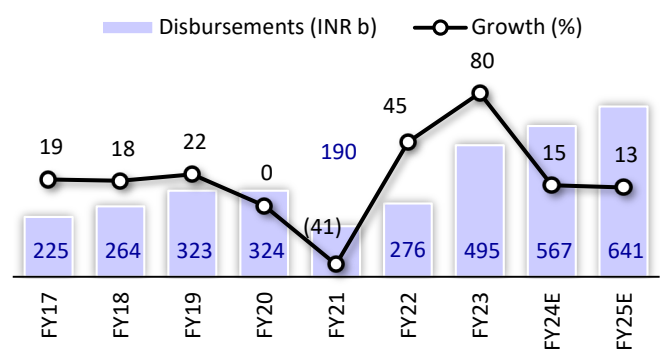
Execution still key to further rerating; reiterate BUY

- MMFS has rapidly regained its lost ground, and its strong liability franchise and deep moats in the rural/semi-urban customer segments position MMFS well to reap the rewards of the ongoing transformation.
- Reducing volatility in operating performance will remain important for a further rerating for the franchise. For RoA/RoE of 2.3%/15.4% in FY25E, we maintain BUY with a TP of INR350 (premised on 2.2x FY25E P/BV).

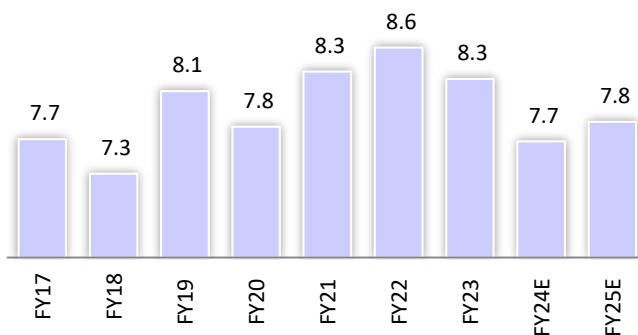
Story in charts

Exhibit 1: Cyclical tailwinds will support strong AUM growth


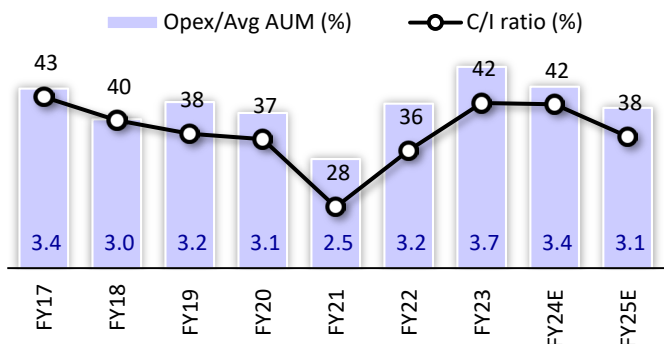
Source: MOFSL, Company

Exhibit 2: Expect disbursement CAGR of ~14% over FY23-25


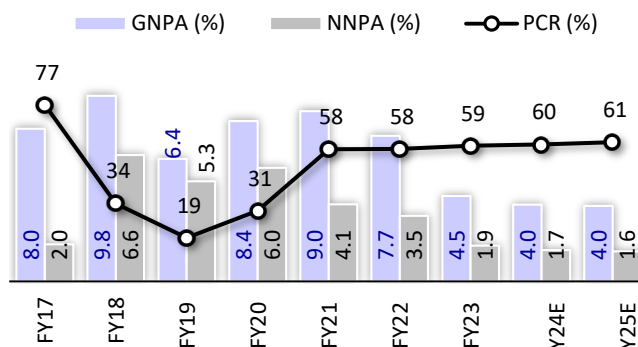
Source: MOFSL, Company

Exhibit 3: NIMs would expand from 2HFY24 onwards


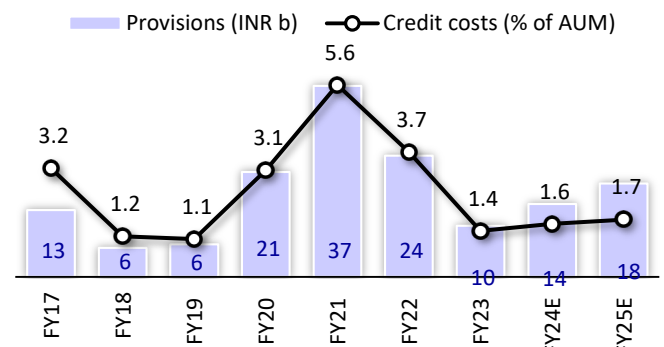
Source: MOFSL, Company

Exhibit 4: Opex-to- AUM to moderate to 3.1% by FY25E


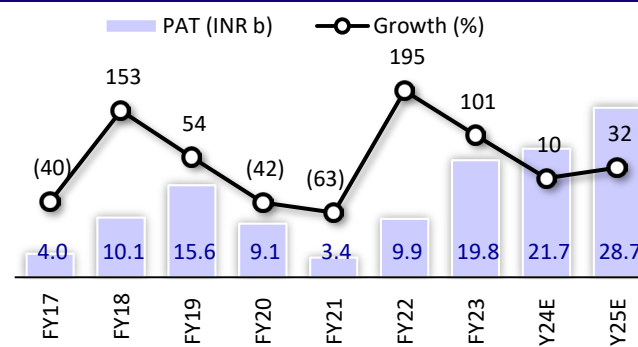
Source: MOFSL, Company

Exhibit 5: Asset quality improvement to sustain


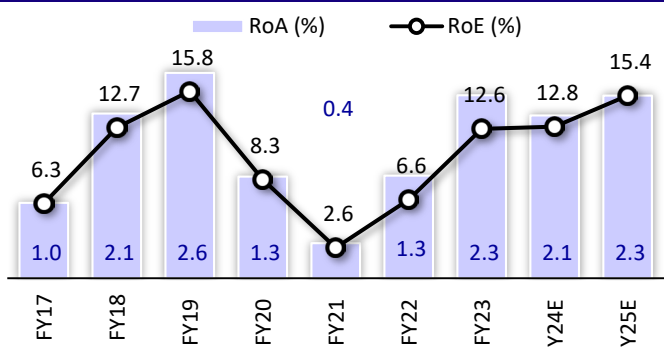
Source: MOFSL, Company

Exhibit 6: Credit costs to stay below 2% in FY24/FY25E


Source: MOFSL, Company

Exhibit 7: Estimate PAT CAGR of ~20% over FY23-25E...


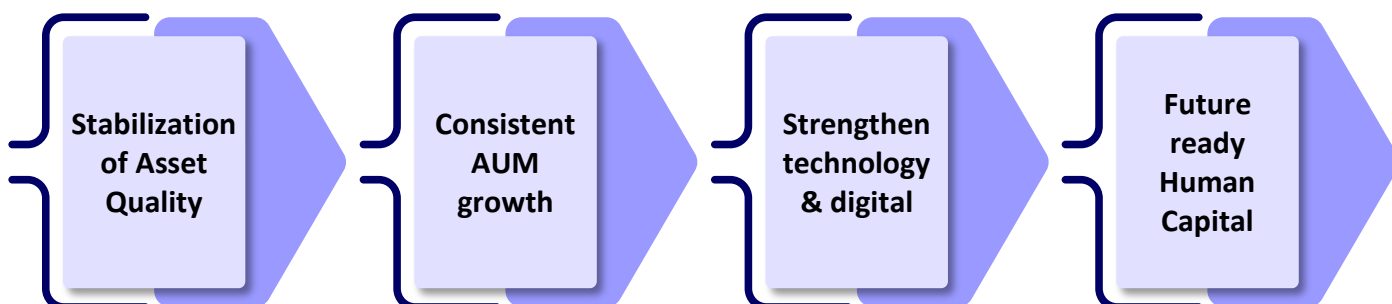
Source: MOFSL, Company

Exhibit 8: ...leading to RoA/RoE of 2%/~15% by FY25E


Source: MOFSL, Company

Key strategic priorities to drive transformation

Exhibit 9: Purpose-led strategy for future growth

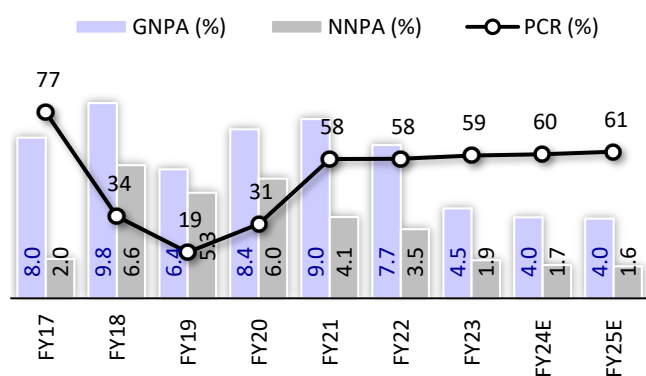


Source: MOSFL

Stabilization of Asset Quality

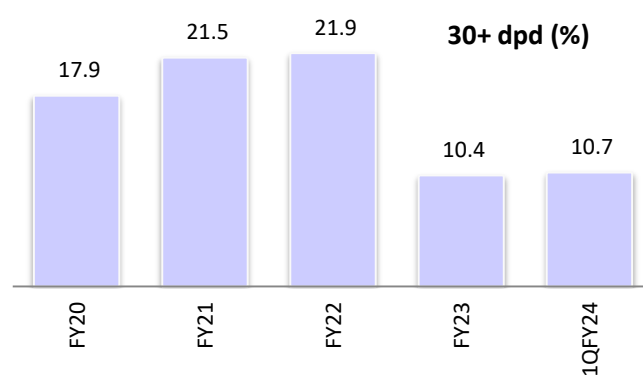
- Better customer selection (by culling out the highly vulnerable and volatile cash flow customer segment) can significantly reduce the tail risk for the company.
- Initiatives to bolster asset quality encompass deploying data and analytics for underwriting, enhancing review processes via automated dashboards, and reinforcing collections through data-enabled decision support and legal toolkits.
- MMFS is targeting the flourishing 'RURBAN' and affluent RUSU clientele.
- The collaboration with credit bureaus has been intensified, resulting in the organization-wide implementation of application scorecards. Further, the company has implemented digital lending processes like VKC, e-sign and e-NACH to mitigate risk.
- MMFS has established dedicated collection centers for curated treatment for NPA customer segments and disciplined vehicle repossessions. Stringent arbitration is applied for bad debts and loan pools. Notably, the company is using analytics to proactively detect early warning signals, preventing potential slippages into NPAs by employing pre-emptive collection measures.

Exhibit 10: Asset quality improvement to sustain



Source: MOFSL, Company

Exhibit 11: 30+dpd exhibiting gradual improvement (%)

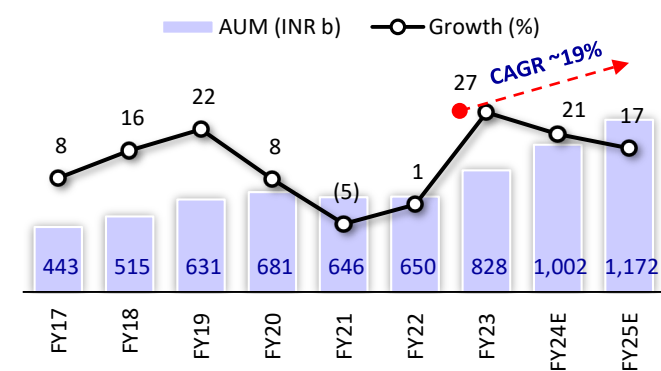


Source: MOFSL, Company

Consistent AUM growth

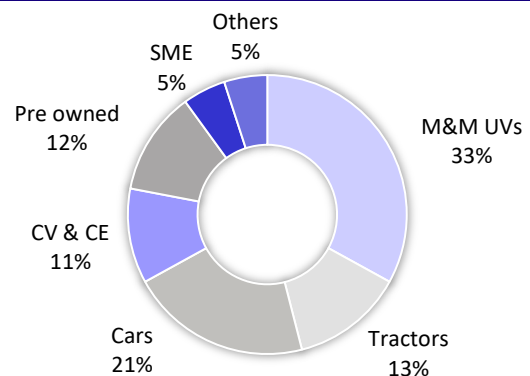
- MMFS targets to achieve 2x AUM growth (vs. FY22) through a combination of core vehicle finance growth and diversification into new businesses.
- The company has taken strides in its endeavor to enhance the share of non-vehicle portfolio by nurturing SME lending. The next leg of its growth strategy includes propelling new engines of growth such as SME lending, LAP, Leasing, and Digital FinCo. It is capitalizing on cross-selling opportunities by leveraging its extensive customer base of over 9m (with 2m active customers), particularly targeting affluent RUSU clients.
- Vehicle offerings are also gaining traction among mass-affluent clients across the rural, semi-urban and urban areas. In the realm of vehicle lending, MMFS has solidified its leadership by expanding the rural network, scaling up the pre-owned vehicle finance segment and augmenting its presence in the M&M Tractor and Auto segments.
- The company's partnerships with dealers and OEMs continue to be instrumental, enhancing its market presence and reach.

Exhibit 12: Cyclical tailwinds will support strong AUM growth



Source: MOFSL, Company

Exhibit 13: AUM mix as of Jun'23 (%)



Source: MOFSL, Company

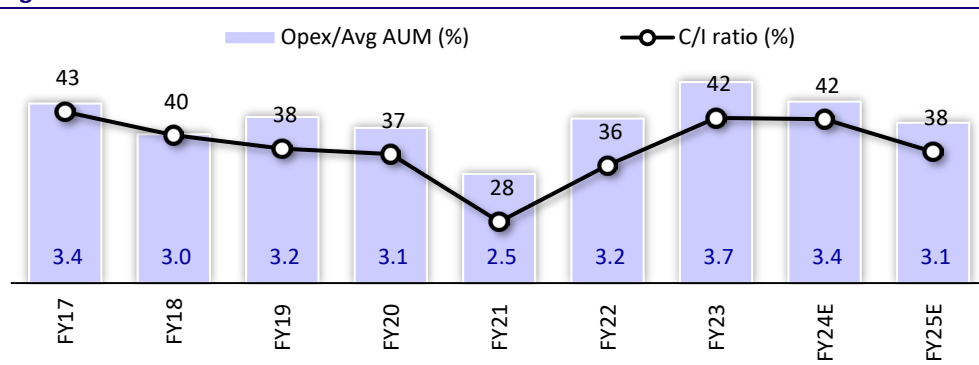
Note: Others include Trade Advances, Personal and Consumer Loans, Finance Lease Receivables

Strengthen technology and digital capabilities

- MMFS has introduced 'Used Car Digi Loan' in collaboration with Car & Bike (by Mahindra First Choice Wheels) and Rupy (by Car Dekho). The platform provides customers with a specialized end-to-end digital journey and offers them personalized loan offers from Mahindra Finance, empowering them to make faster purchasing decisions. Partners involved in the process have real-time visibility into the application status and sanctioned loan offers, enabling them to provide swift vehicle delivery.
- The rollout of 'QuickCheck', an offer generation platform for premium customers that book Mahindra vehicles like Scorpio N, XUV 300/400/700 at dealership, helps dealers and sales teams of the automotive vertical to pitch right offers from MMFS to the premium base of customers on the fly at showroom itself. Also, it assists dealers and sales teams in the automotive vertical in quickly and effectively presenting the best offers to the premium client base in-store.

- 'OneApp', an application to boost experience of field employees, has changed the digital posture of the company. It is also strengthening its core through new partnerships for payment gateways, generating digital leads, managing collections, cloud base omni-channel customer experience, etc.
- MMFS has enhanced the usage of ML/AI in business intelligence dashboards to facilitate a seamless implementation of strategic initiatives.
- The company has Incorporated APIs into the core system to enable a seamless partner integration. The company has integrated AI/ML-based models throughout the customer lifecycle to enhance customer experience.
- The company is undertaking a tech transformation through collaborations with aggregators and co-lending platforms.

Exhibit 14: Opex will remain elevated in FY24 because of investments in technology and digital

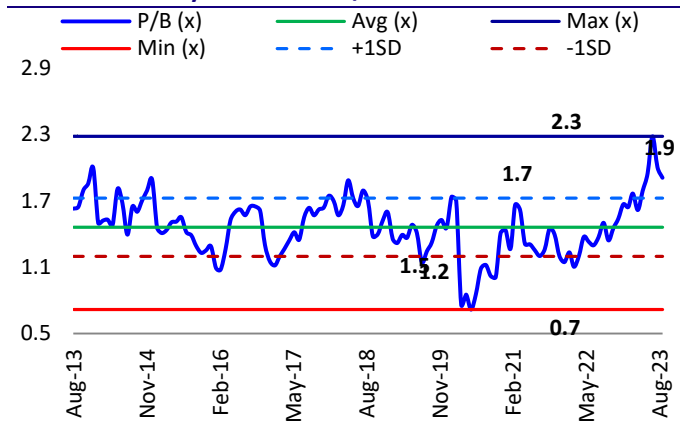


Source:

Future-ready human capital

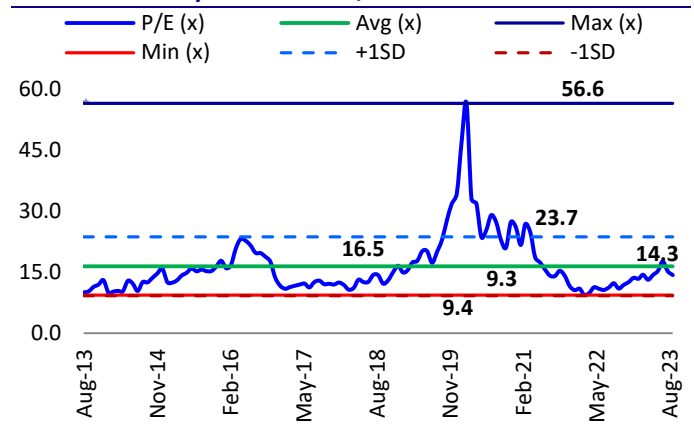
- MMFS has realigned the organization, and the localization will play a major role. It is empowering employees with the latest technology to drive productivity.
- Unlike in the past, the company is now fostering a culture of digital-first and data-first. This will help improve productivity through process optimization.
- The company boasts an extensive nationwide distribution network of 1,386 offices across 27 states and 7 Union Territories as of Mar'23. This broad network reduces dependence on any particular region and mitigates risks posed by regional, climatic, and cyclical factors, such as heavy monsoons or droughts.
- The decentralized authorization system, facilitated by this expansive office network, empowers each office to independently cultivate its business and leverage client relationships, offering diverse financial products including vehicle financing, pre-owned car loans, housing finance, SME financing, insurance broking, mutual fund distribution, and fixed deposits. Central guidelines are in place to maintain asset quality standards.

Exhibit 15: One-year forward P/B ratio



Source: MOFSL, Company

Exhibit 16: One-year forward P/E ratio



Source: MOFSL, Company

Exhibit 17: DuPont analysis

Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	14.3	13.6	14.4	14.1	13.6	12.4	12.5	12.7	13.2
Interest Expended	6.8	6.3	6.6	6.8	6.3	5.1	5.3	6.0	6.3
Net Interest Income	7.5	7.2	7.8	7.2	7.3	7.3	7.1	6.6	6.9
Income from Securitisation	0.4	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Net operating income	7.9	7.3	8.0	7.5	7.5	7.5	7.4	6.9	7.1
Other Income	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.2
Net Income	8.1	7.4	8.1	7.7	7.7	7.6	7.6	7.1	7.3
Operating Expenses	3.5	3.0	3.1	2.9	2.2	2.7	3.2	3.0	2.8
Operating Income	4.6	4.5	5.0	4.8	5.5	4.9	4.4	4.1	4.6
Provisions/write offs	3.1	1.2	1.1	2.9	4.9	3.1	1.2	1.3	1.5
PBT	1.5	3.3	4.0	1.9	0.6	1.8	3.2	2.8	3.1
Tax	0.5	1.2	1.4	0.6	0.1	0.5	0.8	0.7	0.8
Reported PAT	1.0	2.1	2.6	1.3	0.4	1.3	2.4	2.1	2.3
Leverage	6.6	6.1	6.1	6.5	5.8	5.1	5.4	6.2	6.7
RoE	6.3	12.7	15.8	8.3	2.6	6.6	12.9	12.8	15.4

Financials and valuations

Income Statement									INR m
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	60,127	65,842	86,146	99,417	1,02,670	94,756	1,06,826	1,33,884	1,63,689
Interest Expended	28,574	30,816	39,446	48,287	47,332	39,202	45,767	63,896	78,447
Net Interest Income	31,553	35,025	46,700	51,130	55,338	55,554	61,059	69,988	85,242
Change (%)	6.0	11.0	33.3	9.5	8.2	0.4	9.9	14.6	21.8
Other Operating Income	1,612	493	1,084	1,561	1,283	1,824	2,462	2,709	3,115
Other Income	636	517	869	1,473	1,277	608	1,273	2,100	2,625
Net Income	33,801	36,036	48,653	54,164	57,897	57,986	64,794	74,797	90,982
Change (%)	3.5	6.6	35.0	11.3	6.9	0.2	11.7	15.4	21.6
Operating Expenses	14,509	14,336	18,476	20,182	16,325	20,734	27,276	31,356	34,196
Operating Profits	19,292	21,700	30,177	33,982	41,573	37,252	37,518	43,440	56,786
Change (%)	-7.6	12.5	39.1	12.6	22.3	-10.4	0.7	15.8	30.7
Provisions	13,091	5,681	6,352	20,545	37,348	23,683	9,992	14,247	18,253
PBT	6,201	16,019	23,824	13,438	4,224	13,569	27,526	29,193	38,533
Tax	2,198	5,907	8,254	4,374	873	3,682	7,138	7,444	9,826
Tax Rate (%)	35.5	36.9	34.6	32.5	20.7	27.1	25.9	25.5	25.5
PAT	4,002	10,111	15,571	9,064	3,352	9,888	19,843	21,749	28,707
Change (%)	-40.5	152.6	54.0	-41.8	-63.0	195.0	100.7	9.6	32.0
Proposed Dividend (Incl Tax)	1,610	2,938	4,779	0	986	4,439	7,402	8,156	10,048

Balance Sheet									INR m
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,130	1,229	1,230	1,231	2,464	2,466	2,467	2,467	2,467
Reserves & Surplus (Ex OCI)	64,994	92,052	1,03,072	1,12,408	1,43,666	1,49,376	1,61,020	1,74,613	1,93,273
Net Worth	66,124	93,281	1,04,221	1,13,558	1,46,049	1,51,761	1,63,488	1,77,081	1,95,740
Other Comprehensive Income	0	0	81	81	81	81	81	81	81
Net Worth	66,124	93,281	1,04,302	1,13,639	1,46,130	1,51,842	1,63,568	1,77,161	1,95,821
Change (%)	8.6	41.1	11.8	9.0	28.6	3.9	7.7	8.3	10.5
Borrowings	3,52,656	4,00,932	5,28,469	5,94,623	5,85,767	5,58,139	7,49,459	9,21,038	10,77,603
Change (%)	19.7	13.7	31.8	12.5	-1.5	-4.7	34.3	22.9	17.0
Other liabilities	24,404	33,715	38,009	32,451	38,469	42,906	49,219	54,634	60,643
Total Liabilities	4,43,185	5,27,927	6,70,780	7,40,712	7,70,365	7,52,887	9,62,166	11,52,752	13,33,986
Investments	19,843	27,341	37,917	59,110	1,16,073	84,403	99,886	1,13,870	1,27,535
Change (%)	29.3	37.8	38.7	55.9	96.4	-27.3	18.3	14.0	12.0
Loans and Advances	4,06,000	4,85,470	6,12,496	6,49,935	5,99,474	6,04,446	7,94,547	9,67,090	11,31,483
Change (%)	12.1	19.6	26.2	6.1	-7.8	0.8	31.5	21.7	17.0
Other assets	17,342	15,116	20,367	31,668	54,818	64,038	67,732	71,792	74,969
Total Assets	4,43,185	5,27,927	6,70,780	7,40,712	7,70,365	7,52,887	9,62,165	11,52,752	13,33,986

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Spreads Analysis (%)									
Yield on Portfolio	15.7	14.8	15.7	15.8	16.4	15.7	15.3	15.2	15.6
Cost of Borrowings	8.8	8.2	8.5	8.6	8.0	6.9	7.0	8.0	8.0
Interest Spread	6.8	6.6	7.2	7.2	8.4	8.9	8.3	7.2	7.6
Net Interest Margin	7.7	7.3	8.1	7.8	8.3	8.6	8.3	7.7	7.8
Profitability Ratios (%)									
Cost/Income	42.9	39.8	38.0	37.3	28.2	35.8	42.1	41.9	37.6
Empl. Cost/Op. Exps.	46.9	58.1	59.0	56.9	62.2	56.5	58.1	57.6	59.2
RoE	6.3	12.7	15.8	8.3	2.6	6.6	12.6	12.8	15.4
RoA	1.0	2.1	2.6	1.3	0.4	1.3	2.3	2.1	2.3
Asset Quality (%)									
GNPA	35,341	50,270	40,706	57,467	57,857	49,760	37,168	40,469	46,676
NNPA	7,968	33,109	32,907	39,665	24,339	20,860	15,071	16,188	18,204
GNPA %	8.0	9.8	6.4	8.4	9.0	7.7	4.5	4.0	4.0
NNPA %	2.0	6.6	5.3	6.0	4.1	3.5	1.9	1.7	1.6
PCR %	77.5	34.1	19.2	31.0	57.9	58.1	59.5	60.0	61.0
Total Provisions/loans %	8.9	6.7	3.4	4.9	7.4	7.5	4.7	3.9	3.9
Capitalisation (%)									
CAR	18.1	22.7	20.3	19.6	26.0	27.8	22.5	18.9	17.7
Tier I	13.6	17.0	15.5	15.4	22.2	24.3	19.9	17.1	16.2
Tier II	4.5	5.7	4.8	4.2	3.8	3.5	2.7	1.9	1.4
Average Leverage on Assets (x)	6.6	6.1	6.1	6.5	5.8	5.1	5.4	6.2	6.7
Valuation									
Book Value (INR)	117	152	169	185	119	123	133	144	159
BV Growth (%)	8.5	29.7	11.7	8.9	-35.8	3.8	7.7	8.3	10.5
Price-BV (x)					2.5	2.4	2.2	2.0	1.8
Adjusted BV (INR)	107	114	132	136	104	110	123	134	148
Price-ABV (x)					2.8	2.6	2.4	2.2	2.0
OPS (INR)	34.1	35.3	49.1	55.2	33.7	30.2	30.4	35.2	46.0
OPS Growth (%)	-7.7	3.4	39.0	12.5	-38.9	-10.5	0.7	15.8	30.7
Price-OP (x)					8.7	9.7	9.6	8.3	6.3
EPS (INR)	7.1	16.5	25.3	14.7	2.7	8.0	16.1	17.6	23.3
EPS Growth (%)	-40.5	132.3	53.9	-41.8	-81.5	194.8	100.6	9.6	32.0
Price-Earnings (x)				19.8	107.3	36.4	18.2	16.6	12.5
Dividend	2.4	4.0	6.5	0.0	0.8	3.6	6.0	6.6	8.1
Dividend Yield (%)					0.3	1.2	2.1	2.3	2.8
E: MOFSL Estimates									

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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