

Weak operating performance overshadowing robust asset growth.

- MMFS reported PAT of Rs2.4bn (down 33% QoQ; -55% YoY) missing both consensus (BBG) and our estimate by 51%. The miss is attributable to 1) contracting margin (NIM down 50bps QoQ) and 2) higher than anticipated credit cost of 2.8% (est: 1.8%).
- On NIM, the management had anticipated a decline of 20-30bps in cost of funds that did not play out. A higher credit cost was attributed to temporary slippages with majority in the tractor segment that are set to reverse in 2H. Guidance is for improving NIM trajectory and credit cost settling at 1.5-1.7% in FY24.
- We view the risk reward is turning favorable with growth returning (FY23 / 1HFY24 disbursements up 80% / 20% YoY respectively) and AQ fears abating (GS3% stable QoQ / GS2% improving 70bps QoQ). However, addressing the profitability gap will be key for achieving 2.5% ROA guidance and turning constructive on the company outlook. We cut our EPS estimates by 18-29% for FY24-FY25 on account of weak margin and higher credit cost. Our revised TP stands at Rs300 (Mar '25).

Robust asset growth intact

MMFS registered a disbursement growth of 13% YoY aiding business assets growth of 27% YoY and 8% QoQ. Share of autos, preowned vehicles and cars in the overall disbursement mix increased by 2-3ppt YoY while share of tractors was stable at 10%. Share of high yielding SME book in the overall mix declined 7ppt YoY and 1ppt QoQ to 3%.

Valuation and key risks

Our SOTP based Mar '25 TP of Rs300 with the standalone business implying a valuation of 1.5x 1yr forward P/B. 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 91% 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 12%, 3) normalized ROE of 15%, 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.

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Net interest income	16,455	15,170	8.5	16,341	0.7
Other income	286	234	22.0	409	(30.1)
Total Net Income	16,740	15,404	8.7	16,750	(0.1)
Operating expenses	7,312	6,596	10.8	6,750	8.3
Pre-provision profit	9,428	8,808	7.0	10,000	(5.7)
Provisions	6,266	1,985	215.7	5,264	19.0
Tax expense	811	1,624	(50.1)	1,209	(32.9)
Reported Net Profit	2,352	5,199	(54.8)	3,527	(33.3)
			bps		bps
AUM Growth YoY%	27.0	16.0	1100	28.1	(110)
NIM (%)	7.3	8.6	(128)	7.7	(42)
RoA (%)	1.0	2.9	(190)	1.7	(62)
RoE (%)	5.5	13.2	(774)	8.2	(270)
Gross Stage 3 (%)	4.3	6.7	(241)	4.4	(6)

CMP	Rs 277
Target / Upside	Rs 300 / 8%
NIFTY	19,047

Scrip Details

Equity / FV	Rs 2,467mn / Rs 2
Market Cap	Rs 342bn
	USD 4.2bn
52-week High/Low	Rs 347/ 191
Avg. Volume (no)	41,33,510
Bloom Code	MMFS IN

Price Performance	1M	3M	12M
Absolute (%)	(7)	(11)	34
Rel to NIFTY (%)	(7)	(11)	23

Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	52.2	52.2	52.2
MF/Banks/FIs	25.2	27.0	27.0
FIs	14.9	13.9	14.1
Public / Others	7.8	7.0	7.0

Valuation (x)

	FY24E	FY25E	FY26E
P/E	20.4	13.9	10.5
P/ABV	2.1	2.0	1.8
ROAA	1.4	1.7	1.9
ROAE	9.5	12.7	15.2

Estimates (Rs bn)

	FY24E	FY25E	FY26E
NII	68.8	85.2	100.9
PPOP	40.5	53.5	66.0
PAT	16.8	24.6	32.6
Adj BV (Rs)	131.5	139.9	154.7

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)

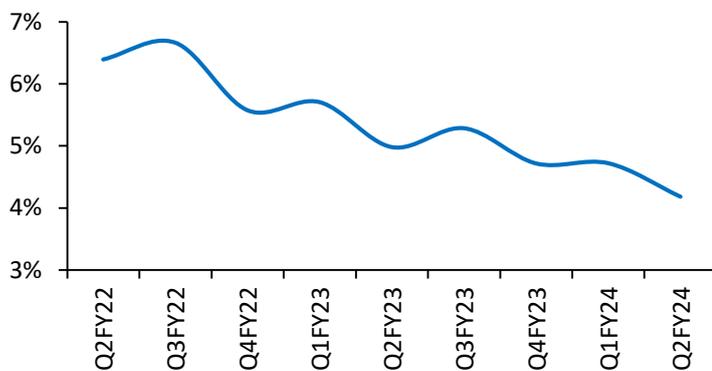
Particulars (Rs mn)	Actual	Estimate	%/ bps variance	Comments
Net Interest Income	16,740	17,914	(6.6)	Weak margin and higher credit cost driving the miss
PPOP	9,428	10,390	(9.3)	
PAT	2,352	4,822	(51.2)	

Source: Company, DART

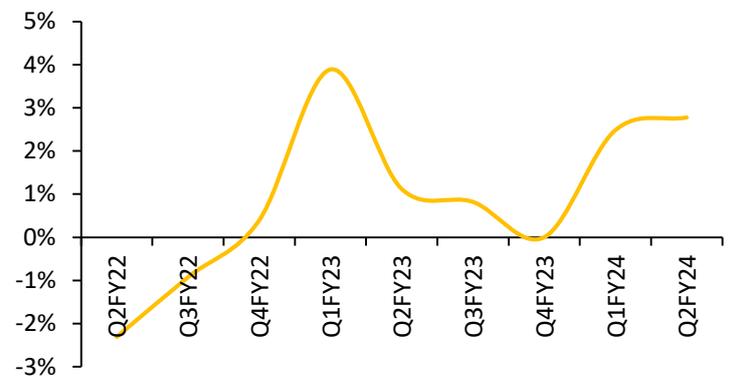
Exhibit 2: MMFS- Change in Estimates

Particulars (Rs mn)	FY24E			FY25E		
	Old	New	Chg (%)	Old	New	Chg (%)
Net Interest Income	76,405	68,811	(9.9)	93,889	85,204	(9.3)
PPOP	45,500	40,467	(11.1)	59,739	53,538	(10.4)
PAT	23,652	16,766	(29.1)	30,198	24,564	(18.7)

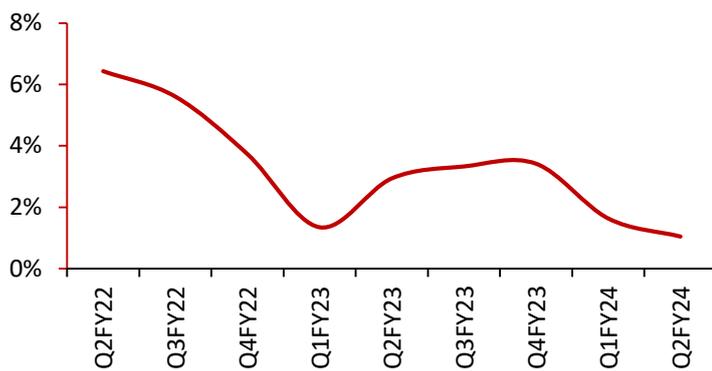
Source: Company, DART

Exhibit 3: MMFS - PPOP ROA


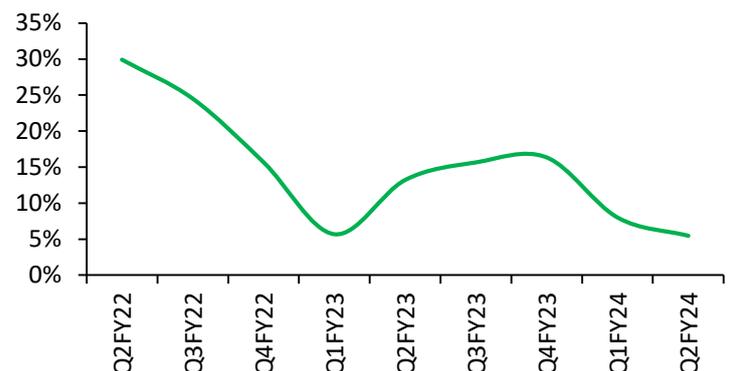
Source: Company, DART

Exhibit 4: MMFS - Credit cost


Source: Company, DART

Exhibit 5: MMFS - ROA


Source: Company, DART

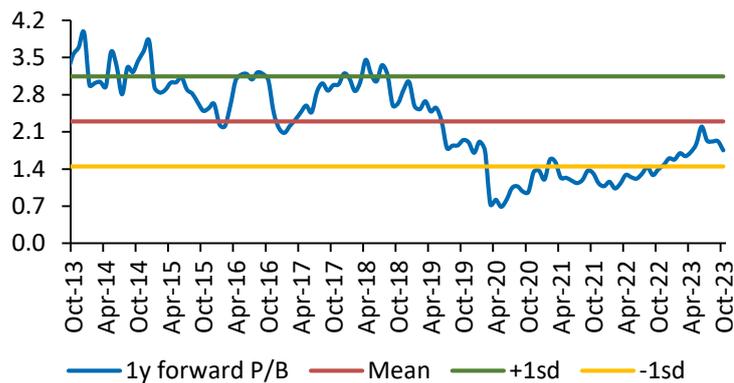
Exhibit 6: MMFS - ROE


Source: Company, DART

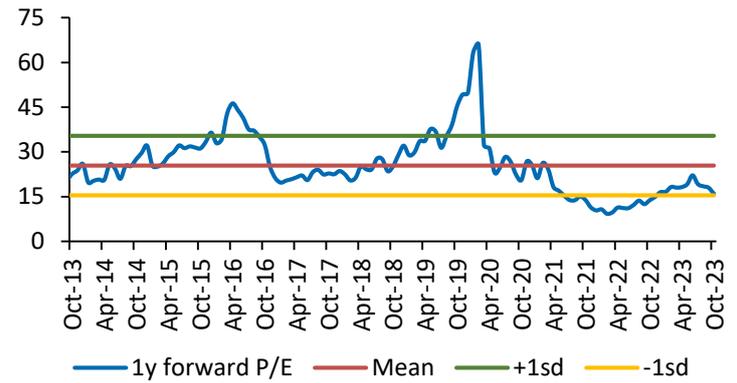
Exhibit 7: MMFS – SOTP summary

SOTP - Mar'25	(Rs /share)	Valuation methodology	Holding %	Share in SOTP %
Blended target value per share	280	Average of three stage DDM and 1yr forward P/B basis trading history (average of 3yr, 5yr, 10yr)	100%	91%
Mahindra rural Housing Finance Limited	8	1x book adjusted for Net Npa	98%	2%
Mahindra Insurance Brokers Limited	11	20x FY26E P/E	100%	3%
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	1%
SOTP	309			
Implied 1yr forward P/B	1.5			
Mar '25 TP	300			

Source: DART

Exhibit 8: MMFS- 1 year forward P/B


Source: Bloomberg, DART, Note: As of COB 27TH October 2023

Exhibit 9: MMFS- 1 year forward P/E


Source: Bloomberg, DART, Note: As of COB 27TH October 2023

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY23A	FY24E	FY25E	FY26E
Interest Income	1,06,826	1,33,295	1,63,725	1,91,335
Interest expense	45,767	64,484	78,521	90,395
Net interest income	61,059	68,811	85,204	1,00,940
Other income	2,933	2,085	1,852	1,998
Total income	63,991	70,896	87,056	1,02,938
Total expenses	26,473	30,429	33,518	36,921
- Employee cost	15,843	18,548	20,449	22,545
- Other	10,631	11,881	13,069	14,376
Pre provisioning profit	37,518	40,467	53,538	66,017
Provisions	9,992	18,053	20,699	22,441
Profit before taxes	27,526	22,414	32,839	43,576
Tax provision	7,138	5,648	8,275	10,981
Profit after tax	20,388	16,766	24,564	32,595
Adjusted profit	19,843	16,766	24,564	32,595

Balance Sheet (Rs Mn)

Particulars	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	2,467	2,467	2,467	2,467
Reserves & Surplus	1,68,422	1,80,996	1,99,419	2,23,865
Net worth	1,70,889	1,83,463	2,01,886	2,26,332
Borrowings	7,49,459	9,51,812	11,21,932	12,66,453
Other liabilities & provisions	74,696	81,118	91,737	97,567
Total Liabilities	9,95,044	12,16,394	14,15,555	15,90,352
Application of Funds				
Cash and equivalents	28,321	25,489	22,940	20,646
Investments	99,886	1,02,901	1,06,067	1,09,392
Advances	8,27,426	10,47,890	12,45,660	14,18,576
Fixed assets	6,956	7,637	8,386	9,210
Other assets	32,456	32,478	32,502	32,528
Total Assets	9,95,044	12,16,394	14,15,555	15,90,352

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Yield on advances	13.5	13.6	13.8	14.0
Yield on interest earning assets	10.7	10.9	11.1	11.3
Cost of funds	7.0	7.6	7.6	7.6
Spread	6.6	6.1	6.3	6.5
NIM	6.2	5.6	5.8	5.9
(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	19.0	17.4	17.0
Tier 1	19.9	16.7	15.4	15.0
RoA	2.0	1.4	1.7	1.9
RoE	12.5	9.5	12.7	15.2
(D) Measures of Investments				
EPS - adjusted	16.1	13.6	19.9	26.4
BV	138.5	148.7	163.7	183.5
DPS	6.0	3.4	5.0	6.6
Dividend payout ratio	0.4	0.3	0.3	0.3
(E) Growth Ratios (%)				
Net interest income	9.9	12.7	23.8	18.5
PPoP	0.7	7.9	32.3	23.3
Adj PAT	100.7	(15.5)	46.5	32.7
Advances	27.4	26.6	18.9	13.9
Total borrowings	34.3	27.0	17.9	12.9
Total assets	24.7	22.2	16.4	12.3
(F) Valuation Ratios				
Market Cap (Rs. mn)	3,42,466	3,42,466	3,42,466	3,42,466
CMP (Rs.)	277	277	277	277
P/E (x)	17.2	20.4	13.9	10.5
P/BV (x)	2.0	1.9	1.7	1.5
Div Yield (%)	2.2	1.2	1.8	2.4

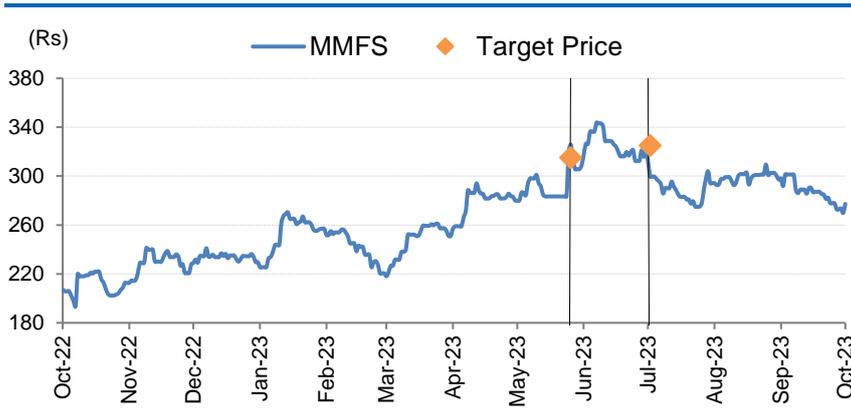
E – Estimates

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
Jul-23	Reduce	325	300

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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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

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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
