

# M&M Financial Services (MMFS) BUY

NIMs improved QoQ; RoA guidance lowered to 2.2% FY25

## Summary

MMFS AUM growth remains strong at 24% YoY vs 25.5% (Q3FY24); we expect 17% CAGR (FY24-26) AUM growth. Further, reported improvement in NIMs led by increase in yields. Management maintained the guidance of NIMs at 7% for FY25. Asset quality improved with GS3 at 3.4% vs 4.0% QoQ backed by higher write offs. NII grew by 8% QoQ led by improvement in NIMs. PPoP grew by 10% QoQ led by lower opex (up 6%QoQ). However, PAT declined by 10% YoY led by one-time hit of Rs.1.35bn for fraud related provision. Management revised guidance to 2.2% vs ~2.5% return on assets for FY25 (achieved 1.7% FY24). We have revised estimates slightly downwards for FY25E (- 4.5% EPS). We maintain 'BUY' on MMFS with target price of Rs.325 (earlier Rs.345), valuing it at 1.9X (vs earlier 2x P/ABV) FY26E ABV as NIM improvement need to be seen.

## Key Highlights and Investment Rationale

- **AUM growth remains strong:** AUM growth remains strong at 24% YoY as against 25.5% YoY (Q3FY24) led by 13% YoY growth in FY24 disbursements. Disbursement growth led by growth across segments (except tractors and SME). Management guided for 18-20% AUM growth FY25 vs 24% FY24.
- **NIMs improved by 30bps QoQ:** Gross spread improved by 30bps QoQ to 7.1% led by 20bps increase in yields. Management guided for improvement in NIMs with focus on higher yielding assets and decline in cost of funds (H2FY25).
- **Asset quality improved:** Asset quality improved with GS3 at 3.4% vs 4.0% QoQ led by higher write offs. Further, during Q4FY24 stage 2 assets declined to 5.0% vs 6.0% QoQ.
- **Outlook:** Asset quality volatility historically has been the concern for the company; however management has taken steps to bring the stability over the period. Management revised guidance for 2025 to 2.2% vs ~2.5% return on assets backed by improvement in NIMs.

**TP** **Rs 325**  
**CMP** **Rs260**

Potential upside/downside 22%  
Previous Rating BUY

## Price Performance (%)

	-1m	-3m	-12m
Absolute	(12.9)	(10.9)	(9.4)
Rel to Sensex	(12.4)	(13.3)	(30.4)

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	19.3	24.3
Consensus	25.4	29.1
% difference	(24.0)	(16.5)

## Key Stock Data

Bloomberg / Reuters	MMFS IN/MMFS.BO
Sector	NBFC
Shares o/s (mn)	1,236
Market cap. (Rs mn)	321,052
3-m daily avg Trd value (Rs mn)	53.7
52-week high / low	Rs346 / 244
Sensex / Nifty	71,140 / 21,522

## Shareholding Pattern (%)

Promoters	52.2
FII	12.0
DII	28.5
Public	7.3

## Financial snapshot

Year	FY2022	FY2023	FY2024	FY2025E	FY2026E
NII	55,554	61,059	69,772	86,269	98,358
Change (yoy, %)	0%	10%	14%	24%	14%
Net Profit	9,887	19,843	17,596	23,805	29,975
Change (yoy, %)	195%	101%	-11%	35%	26%
EPS (Rs)	8.0	16.1	14.3	19.3	24.3
Change (yoy, %)	195%	101%	-11%	35%	26%
ABV (Rs)	119	131	142	154	173
PER (x)	32	16	18	13	11
P/ABV (x)	2.2	2.0	1.8	1.7	1.5
ROE (%)	6.5	12.1	10.0	12.5	14.1
ROA (%)	1.3	2.3	1.7	1.9	2.1
GNPA (%)	7.7	4.5	3.4	3.5	3.5
NNPA (%)	3.5	1.9	1.3	1.3	1.3
CAR (%)	27.8	22.5	19.0	17.9	17.3

Source: IDBI Capital Research

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## Conference Call Highlights

### Operational Performance:

- The provision of Rs.1.36bn has been made by the management keeping in mind the worst case scenario related to the fraud.
- The management iterated that the fraud which occurred at Aizwal branch was a one-off incident after undertaking an exhaustive check of its entire systems, processes and loan accounts.
- The increase in opex has been driven by an increase in the employee headcount. The headcount growth has been maintained by the management at ~2% levels in FY24.

### Advances:

- The company witnessed a de-growth in the tractor segment in line with the industry trend. However, the market share of the company across the quarters in FY24 has remained stable.
- Pertaining to the SME de-growth, company has vacated the medium enterprises segment owing to intense competitive intensity from banks and thus, the segment did not fit the company's pricing strategies.

### Asset Quality:

- GS3 improved in FY24 by 110bps as compared to FY23 levels. AT a combined level, there was a ~200bps reduction in GS2 and GS3 assets in FY24.
- The Credit cost on an average basis (FY19-24) has been 30bps while the write-offs have been at 2.6%.
- The credit cost for Q4FY24 stood at 1.7% including the provision made for Mizoram fraud.
- The write off component in credit cost has declined 100 bps to 1.6% from earlier 2.6% levels in FY24 with increased focus on enhancing collections

### Future Guidance

- The management is now in the process of improving its customer on-boarding performance and digitizing and centralizing its disbursement process.
- The management has recast the NIM target at ~7% for FY25 and the levers for the same are improved product mix

- The overall AUM is expected to reach ~1.20Lcr by the end of FY25.
- The management expects to continue its tech spends specially for the areas of fraud control and strengthening of internal processes
- The SME and leasing business are being outpaced by the growth in vehicle business. The management expects the SME business to reach a growth of 15% albeit at a slower pace in the medium term.
- The management has revised down its ROA target to 2.2% for FY25 from its earlier guidance of 2.5%.
- The management intends to focus on skimming further opportunities to grow its non-interest income in order to reduce reliance on its interest income.
- The management expects the write-offs to moderate going forward.
- The management expects the incremental cost of borrowings to remain at ~8% levels and there are no signs of the same easing off in the near-term.
- The company is changing its methodology for improving its collection efficiency by shifting to data analytics techniques. Further, the overall headcount of collection staff has declined by 5% on a YoY basis.
- The management expects to open 150 new branches with openings being skewed towards H2FY25 once the new branch structure has been established by the company.
- The NIMs are expected to remain stable at Q4FY24 levels going forward for FY25.
- The management expects Q1FY25 to be muted in terms of loan growth owing to on-going elections.

**Other key highlights:**

- The fraud was detected during a management review. The company set up internal and external investigative teams.
- The company found out extreme collusion between the company's own employees, the employees of dealerships as well as bank staffs to open fake accounts.
- The management has undertaken an exhaustive review of its entire portfolio in order to eliminate the possibility of similar frauds at other locations.
- 50% of the branches have shifted from fully decentralized to centralized second hand documents check.

**Exhibit 1: Quarterly Snapshot (Rs mn)**

Year-end: March	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Interest Income	36,540	29,942	34,536	22.0	5.8
Interest Expenses	17,351	13,340	16,750	30.1	3.6
<b>Net Interest Income</b>	<b>19,190</b>	<b>16,602</b>	<b>17,787</b>	<b>15.6</b>	<b>7.9</b>
<b>NIM (%)</b>	<b>7.1</b>	<b>7.4</b>	<b>6.8</b>	<b>-30 bps</b>	<b>30 bps</b>
Non-Interest Income	521	625	368	-16.7	41.6
<b>Operating Income</b>	<b>19,710</b>	<b>17,227</b>	<b>18,155</b>	<b>14.4</b>	<b>8.6</b>
Staff Cost	4,243	4,552	4,342	-6.8	-2.3
Other Op Exp	3,737	3,233	3,188	15.6	17.2
Total Operating Expenses	7,980	7,786	7,530	2.5	6.0
<i>Cost to Income (%)</i>	<i>40.5</i>	<i>45.2</i>	<i>41.5</i>	<i>-471 bps</i>	<i>-99 bps</i>
<i>Cost to AUM (%)</i>	<i>3.1</i>	<i>3.8</i>	<i>3.1</i>	<i>-65 bps</i>	<i>1 bps</i>
<b>Operating Profit</b>	<b>11,730</b>	<b>9,441</b>	<b>10,625</b>	<b>24.2</b>	<b>10.4</b>
Provisions	3,415	4	3,284	89,760.5	4.0
<i>Credit Cost (%)</i>	<i>1.3</i>	<i>0.0</i>	<i>1.4</i>	<i>133 bps</i>	<i>-2 bps</i>
<b>PBT</b>	<b>8,315</b>	<b>9,437</b>	<b>7,341</b>	<b>-11.9</b>	<b>13.3</b>
Tax	2,126	2,596	1,813	-18.1	17.2
<i>-effective tax rate</i>	<i>25.6</i>	<i>27.5</i>	<i>24.7</i>	<i>-195 bps</i>	<i>86 bps</i>
<b>PAT</b>	<b>6,190</b>	<b>6,841</b>	<b>5,528</b>	<b>-9.5</b>	<b>12.0</b>
EPS (Rs)	5.0	5.5	4.5	-9.6	12.0
BV (Rs)	147.1	138.5	141.9	6.2	3.7
AUM	10,25,970	8,27,700	9,70,480	24.0	5.7
Disbursement	1,52,920	1,37,780	1,54,360	11.0	-0.9

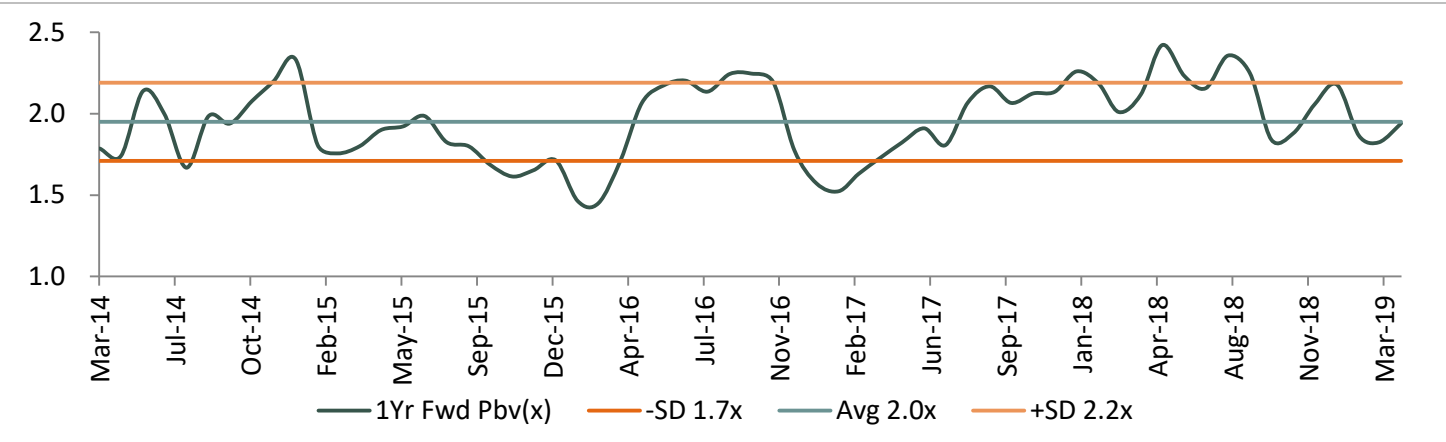
Source: Company; IDBI Capital Research

**Exhibit 2: ROE Decomposition**

(%)	FY22	FY23	FY24	FY25E	FY26E
<b>NII</b>	<b>7.3</b>	<b>7.1</b>	<b>6.6</b>	<b>6.9</b>	<b>6.8</b>
Fees	0.2	0.3	0.1	0.1	0.1
Other Income	0.1	0.1	0.1	0.1	0.1
Net Revenue	7.6	7.6	6.8	7.1	6.9
Op. Exp	2.7	3.2	2.8	2.8	2.7
<b>Op. Profit</b>	<b>4.9</b>	<b>4.4</b>	<b>4.0</b>	<b>4.3</b>	<b>4.2</b>
Provisions	3.1	1.2	1.7	1.7	1.5
PBT	1.8	3.2	2.2	2.5	2.8
Tax	0.5	0.8	0.6	0.6	0.7
<b>PAT</b>	<b>1.3</b>	<b>2.4</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>
Leverage (x)	5.0	5.2	6.0	6.5	6.9
<b>ROE</b>	<b>6.5</b>	<b>12.5</b>	<b>10.0</b>	<b>12.5</b>	<b>14.1</b>

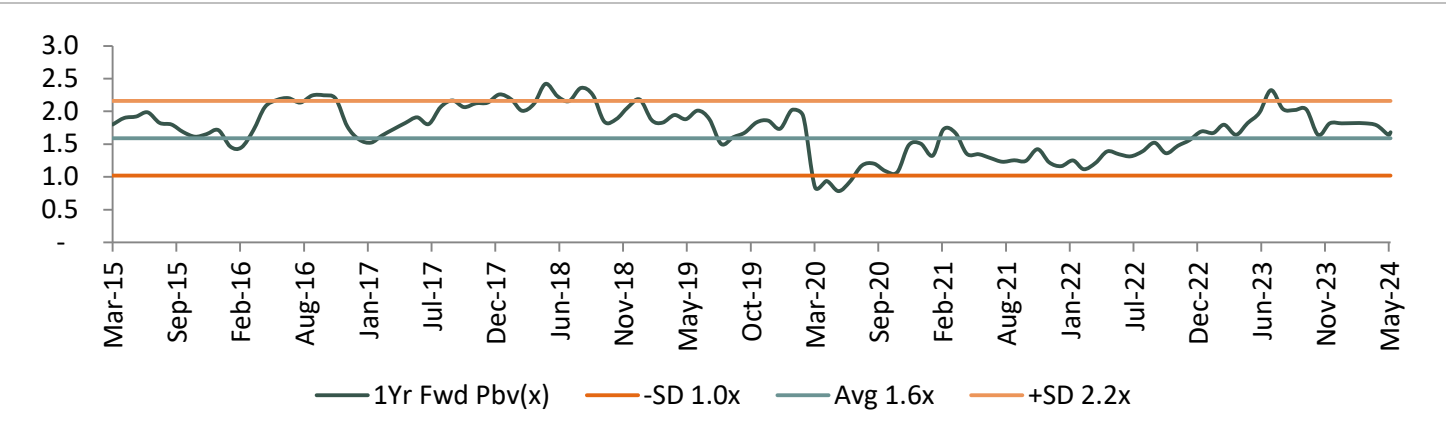
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/BV (FY14-19)

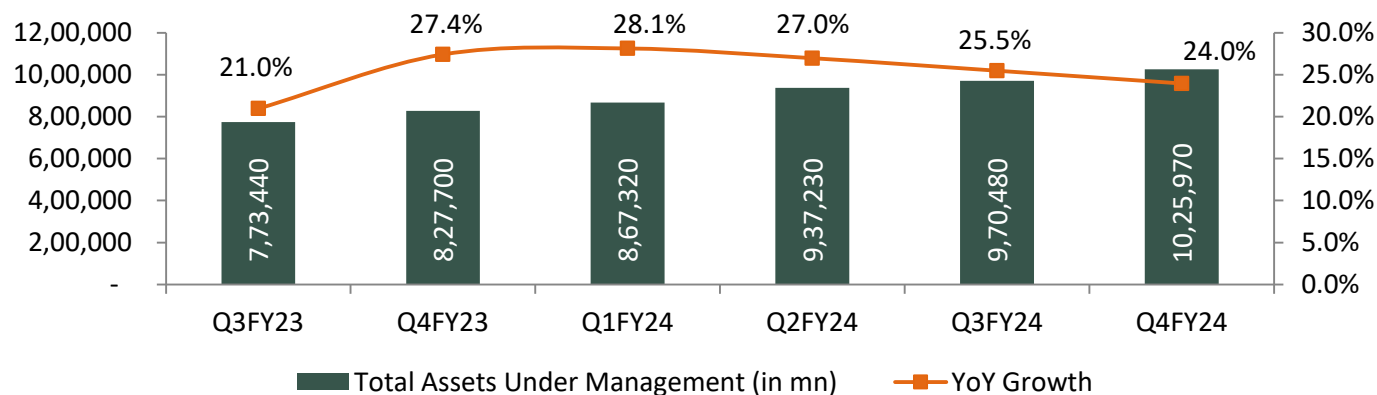


Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/BV (FY15-24)



Source: Company; IDBI Capital Research

**Exhibit 5: AUM Growth continued to remain strong QoQ**

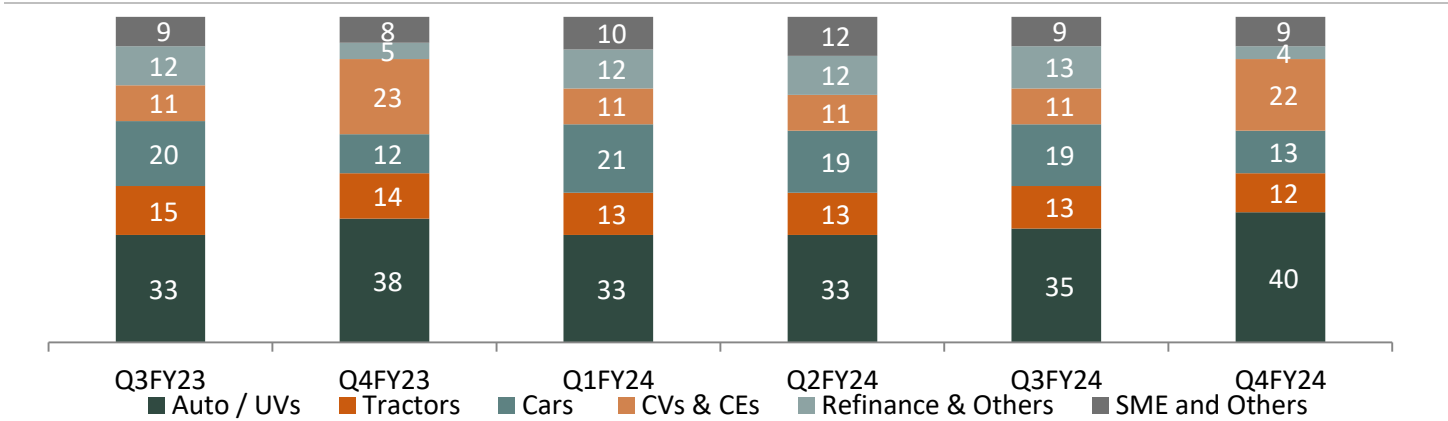
Source: Company; IDBI Capital Research

**Exhibit 6: AUM Composition (In Mn)**

Product Wise Advances (In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Auto / UVs	4,10,388	3,14,526	3,39,668	30.5	20.8
Tractors	1,23,116	1,15,878	1,26,162	6.2	(2.4)
Cars	1,33,376	99,324	1,84,391	34.3	(27.7)
CVs & CEs	2,25,713	1,90,371	1,06,753	18.6	111.4
Refinance & Others	41,039	41,385	1,26,162	(0.8)	(67.5)
SME and Others	92,337	66,216	87,343	39.4	5.7
<b>Total AUM</b>	<b>10,25,970</b>	<b>8,27,700</b>	<b>9,70,480</b>	<b>24.0</b>	<b>5.7</b>

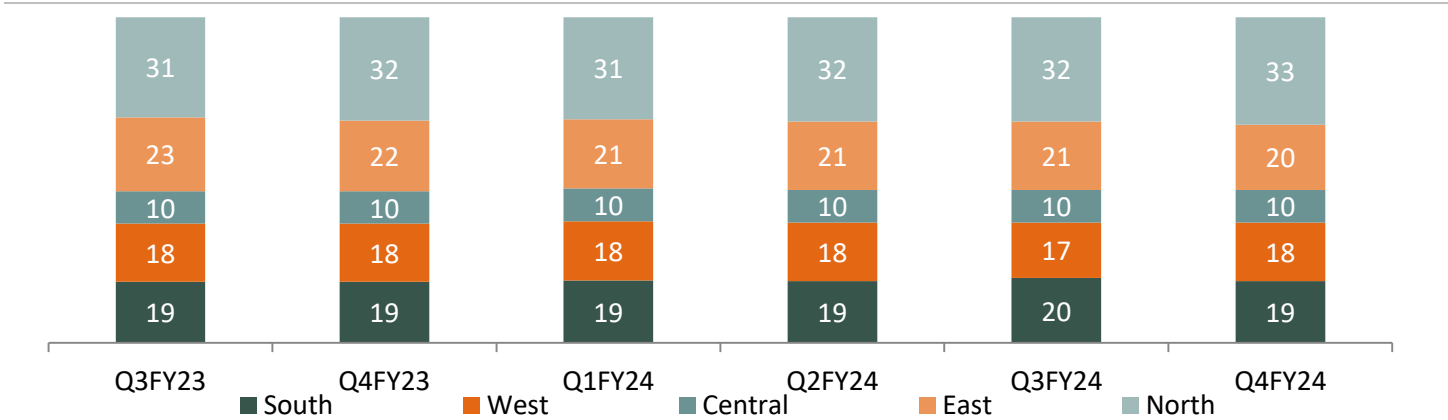
Source: Company; IDBI Capital Research

Exhibit 7: AUM Mix-Product Category Wise



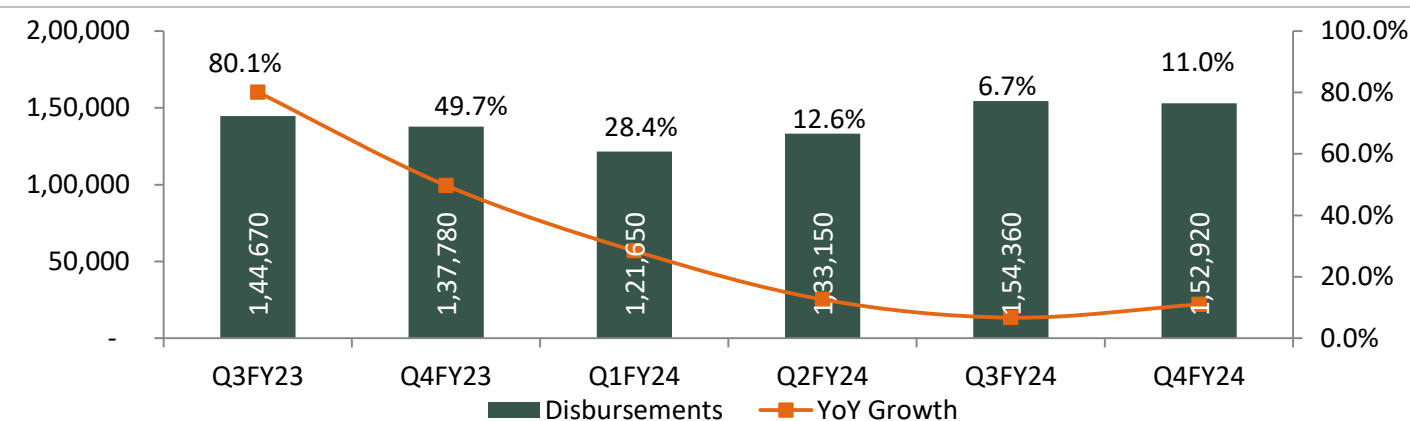
Source: Company; IDBI Capital Research

Exhibit 8: AUM Mix-Geographical Mix Wise



Source: Company; IDBI Capital Research



**Exhibit 9: Disbursement Growth moderated on a quarterly basis**

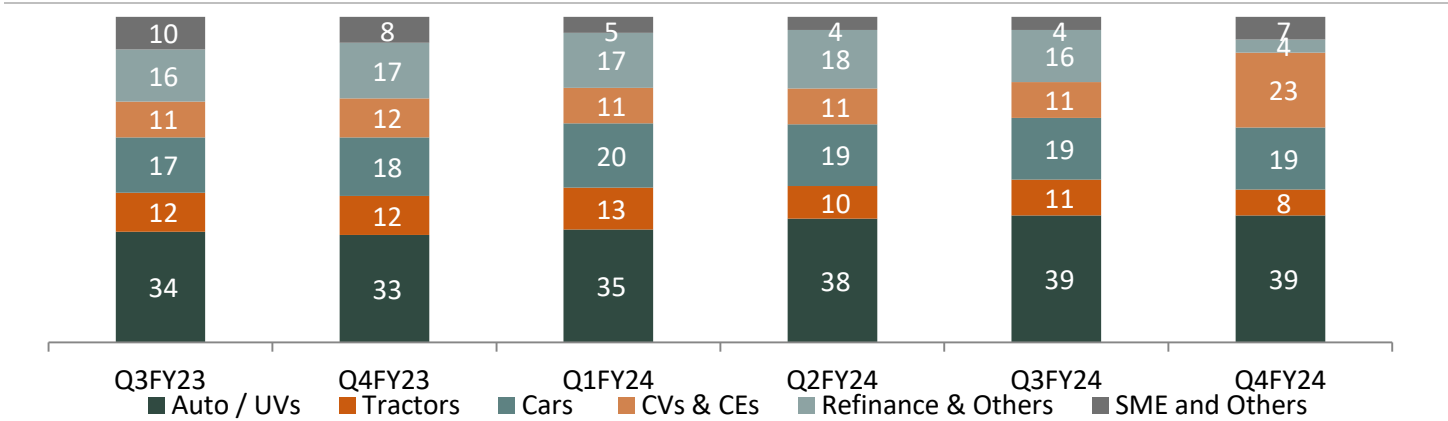
Source: Company; IDBI Capital Research

**Exhibit 10: Disbursement Mix- Product Wise Composition (In Mn)**

Product Wise Disbursement (In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Auto / UVs	59,639	45,467	60,200	31.2	(0.9)
Tractors	12,234	16,534	16,980	(26.0)	(28.0)
Cars	29,055	24,800	29,328	17.2	(0.9)
CVs & CEs	35,172	16,534	16,980	112.7	107.1
Refinance & Others	6,117	23,423	24,698	(73.9)	(75.2)
SME and Others	10,704	11,022	6,174	(2.9)	73.4
<b>Total AUM</b>	<b>1,52,920</b>	<b>1,37,780</b>	<b>1,54,360</b>	<b>11.0</b>	<b>(0.9)</b>

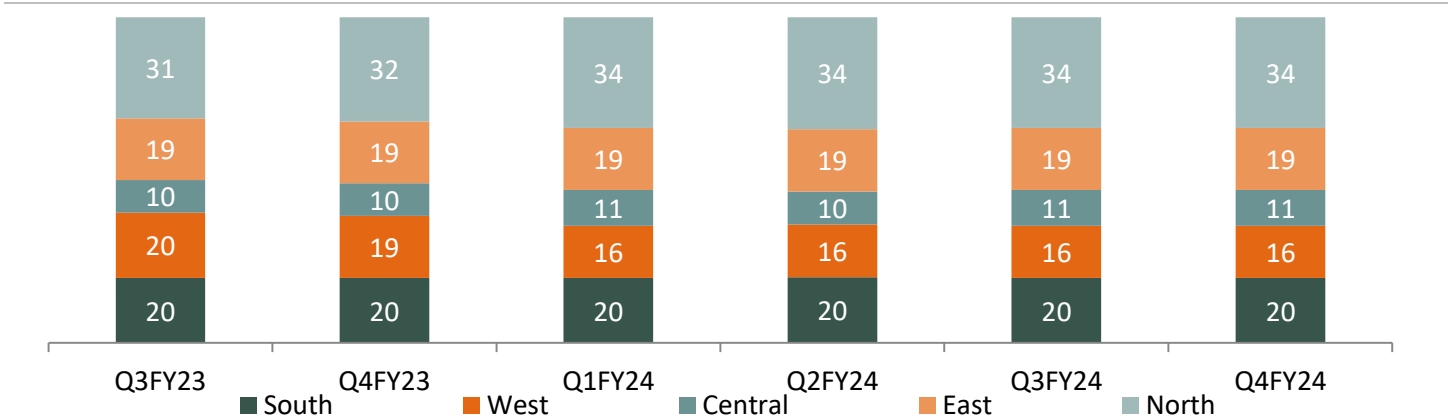
Source: Company; IDBI Capital Research

Exhibit 11: Disbursement Mix-Product Category Wise

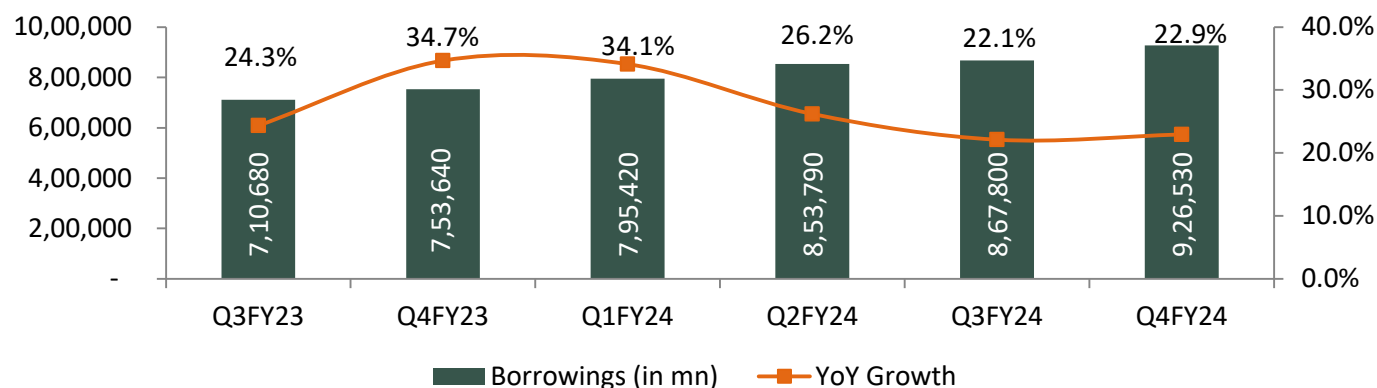


Source: Company; IDBI Capital Research

Exhibit 12: Disbursement Mix-Geographical Mix Wise



Source: Company; IDBI Capital Research

**Exhibit 13: Borrowings Growth remained strong**

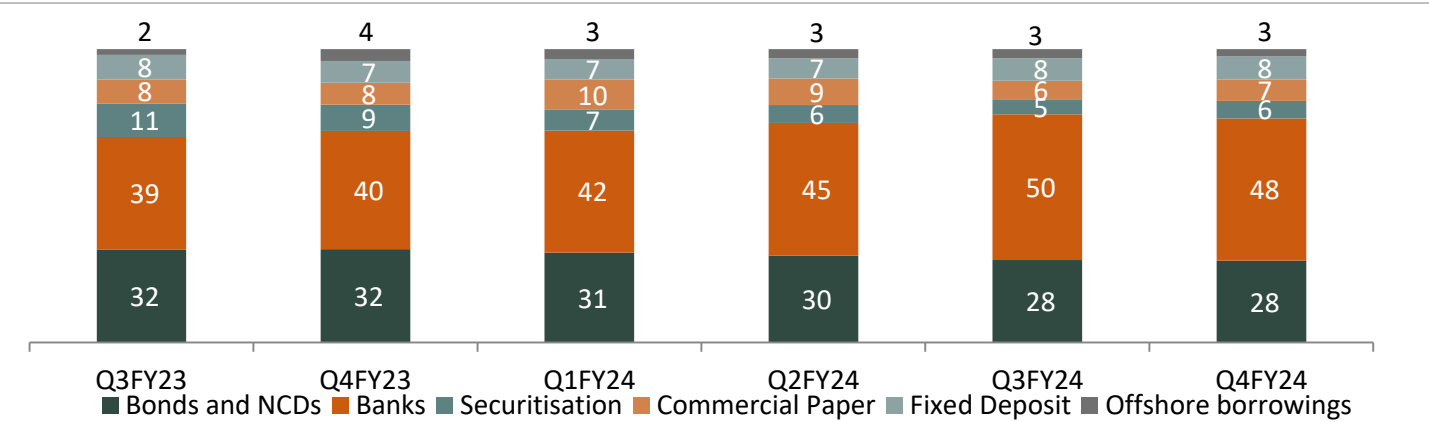
Source: Company; IDBI Capital Research

**Exhibit 14: Borrowing Mix-Product Wise Composition (In Mn)**

Borrowing Mix-Product Wise(In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Bonds and NCDs	2,59,030	2,39,950	2,43,870	8.0	6.2
Banks	4,48,580	3,03,520	4,31,160	47.8	4.0
Securitisation	55,920	67,190	42,600	(16.8)	31.3
Commercial Paper	67,400	56,880	56,300	18.5	19.7
Fixed Deposit	71,970	55,420	66,740	29.9	7.8
Offshore borrowings	23,630	30,680	27,130	(23.0)	(12.9)
<b>Total</b>	<b>9,26,530</b>	<b>7,53,640</b>	<b>8,67,800</b>	<b>22.9</b>	<b>6.8</b>

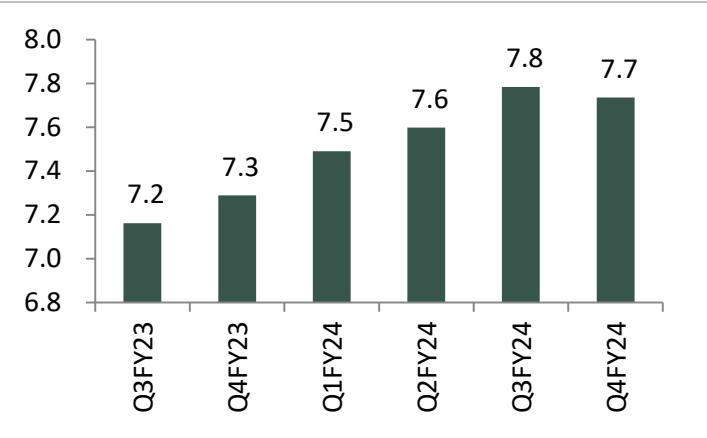
Source: Company; IDBI Capital Research

Exhibit 15: Borrowing Mix-Instrument Mix Wise



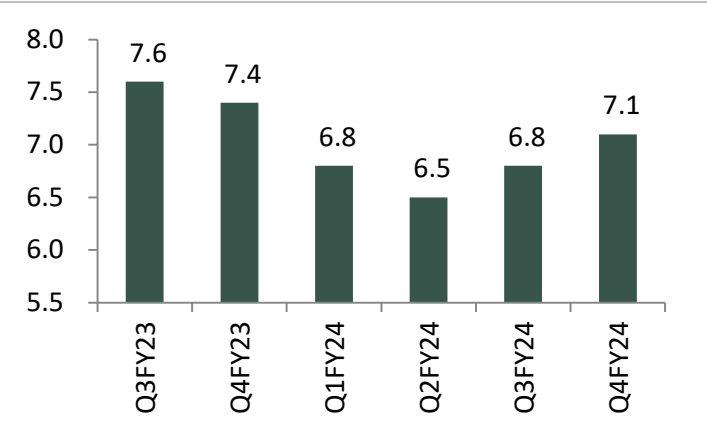
Source: Company; IDBI Capital Research

Exhibit 16: Cost of Borrowings moderated sequentially



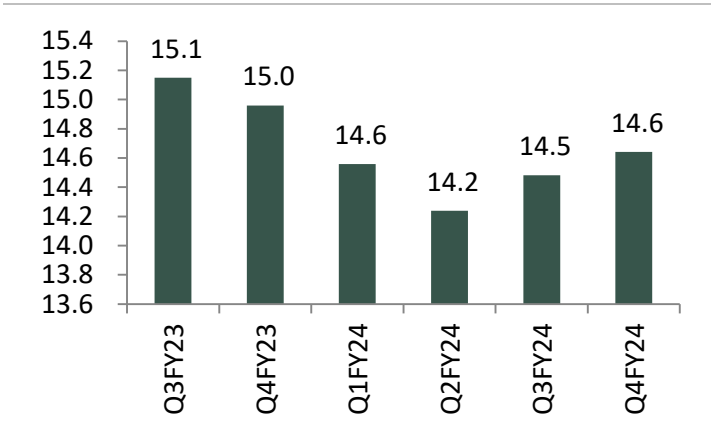
Source: Company; IDBI Capital Research

Exhibit 17: NIMs inched up sequentially



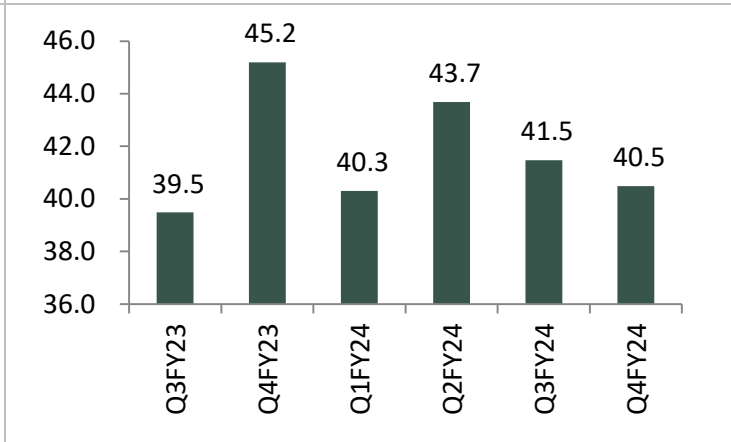
Source: Company; IDBI Capital Research

Exhibit 18: Yield on AAUM witnessed uptick QoQ



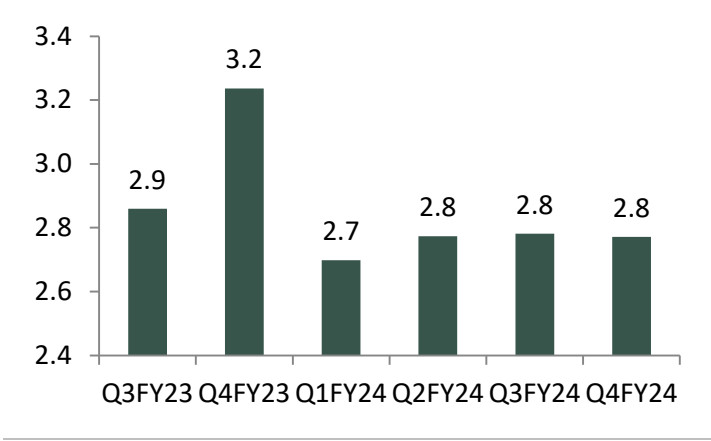
Source: Company; IDBI Capital Research

Exhibit 19: Cost to Income improved on a sequential basis



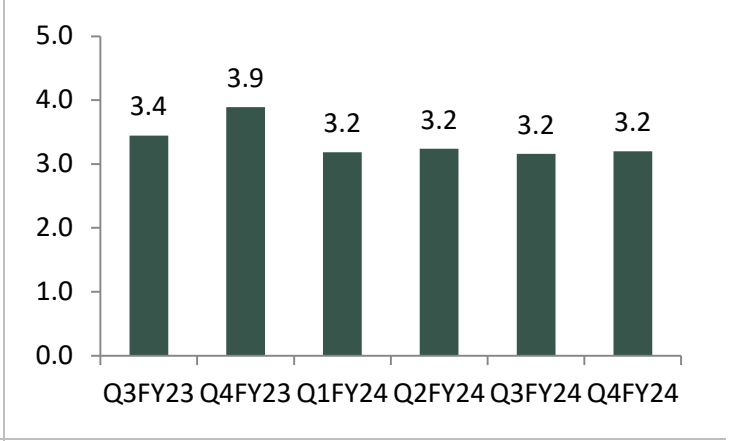
Source: Company; IDBI Capital Research

Exhibit 20: Cost to Assets remained stable



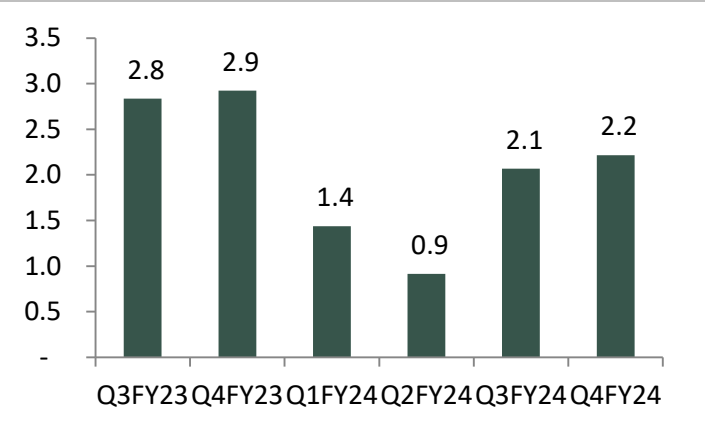
Source: Company; IDBI Capital Research

Exhibit 21: Cost to AAUM remained stable QoQ



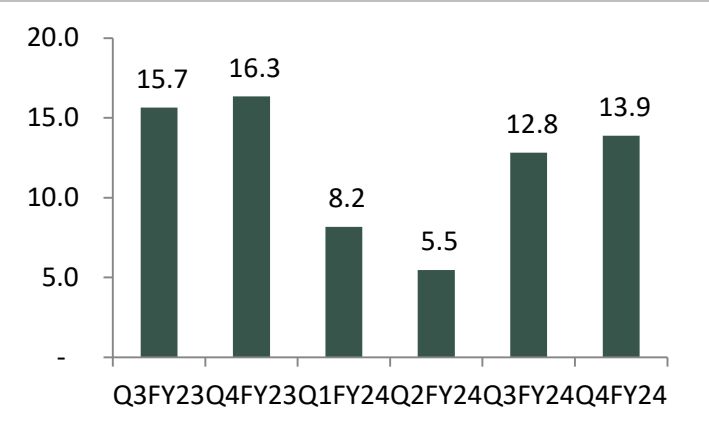
Source: Company; IDBI Capital Research

Exhibit 22: RoA witnessed uptick QoQ



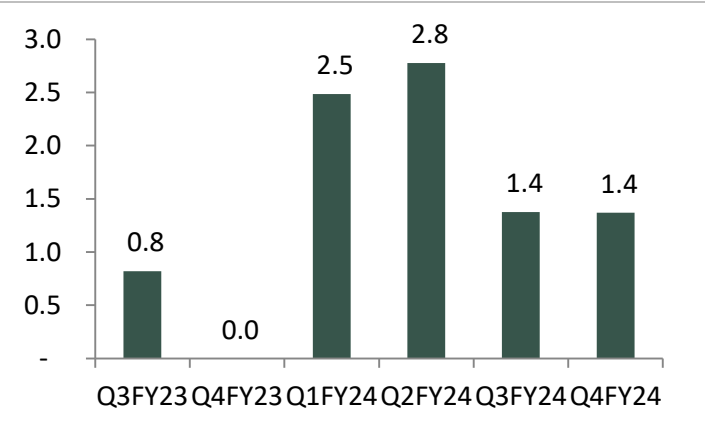
Source: Company; IDBI Capital Research

Exhibit 23: RoE too improved in line with RoA



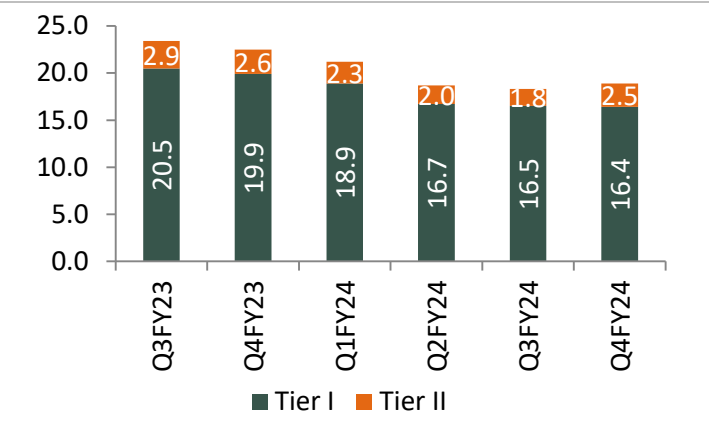
Source: Company; IDBI Capital Research

Exhibit 24: Credit Cost remained stable on a sequential basis



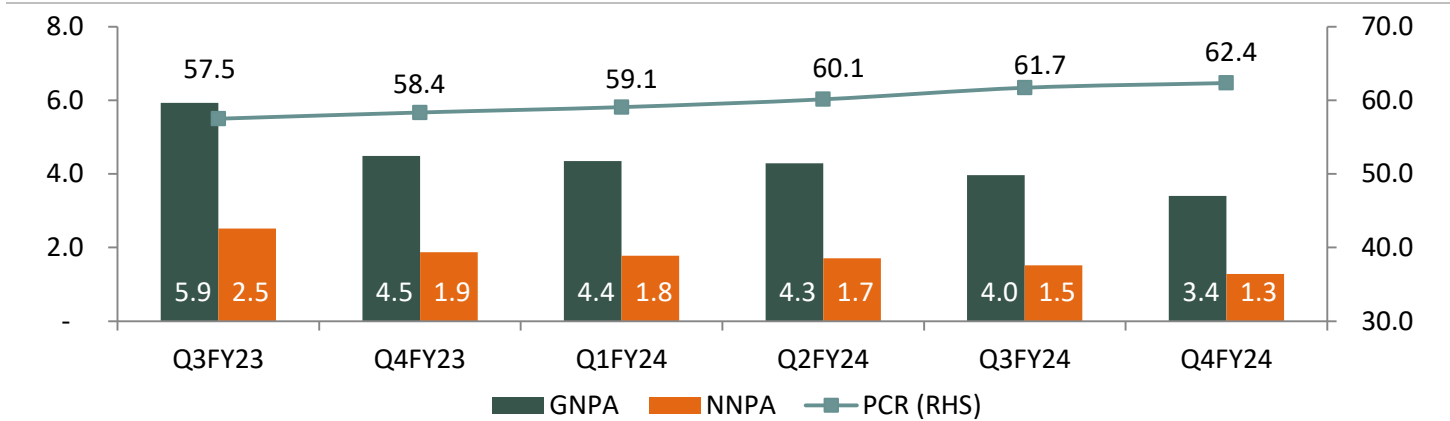
Source: Company; IDBI Capital Research

Exhibit 25: CAR continued to remain strong



Source: Company; IDBI Capital Research

Exhibit 26: Asset Quality improved sequentially



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net interest income</b>	<b>55,339</b>	<b>55,554</b>	<b>61,059</b>	<b>69,772</b>	<b>86,269</b>	<b>98,358</b>
<i>Change (yoy, %)</i>	8%	0%	10%	14%	24%	14%
Other Income	607	608	1,273	893	1,081	1,267
Net Revenue	57,837	57,986	64,794	71,355	88,207	1,00,630
Operating expenses	16,325	20,734	27,276	29,572	34,896	39,027
Employee expenses	10,152	11,714	15,843	17,126	20,558	21,896
Other expenses	6,172	9,020	11,433	12,446	14,338	17,131
<b>Pre-Provision Profit</b>	<b>41,512</b>	<b>37,252</b>	<b>37,518</b>	<b>41,783</b>	<b>53,311</b>	<b>61,602</b>
<i>Change (yoy, %)</i>	22%	-10%	1%	11%	28%	16%
Provision	37,348	23,683	9,992	18,228	21,486	21,529
PBT	4,225	13,569	26,981	23,555	31,825	40,073
Taxes	873	3,682	7,138	5,959	8,020	10,098
<i>Effective tax rate (%)</i>	20.7%	27.1%	26.5%	25.3%	25.2%	25.2%
<b>Net profit</b>	<b>3,352</b>	<b>9,887</b>	<b>19,843</b>	<b>17,596</b>	<b>23,805</b>	<b>29,975</b>
<i>Change (yoy, %)</i>	-63%	195%	101%	-11%	35%	26%
EPS	3	8	16	14	19	24
Return on Equity (%)	2.6	6.5	12.1	10.0	12.5	14.1
Return on Assets (%)	0.4	1.3	2.3	1.7	1.9	2.1



**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Capital	2,464	2,466	2,467	2,469	2,469	2,469
Reserves	1,44,651	1,53,815	1,68,422	1,79,595	1,97,479	2,21,579
<b>Networth</b>	<b>1,47,115</b>	<b>1,56,281</b>	<b>1,70,889</b>	<b>1,82,063</b>	<b>1,99,947</b>	<b>2,24,048</b>
Borrowings	5,54,274	5,26,841	7,13,537	8,79,809	10,49,302	12,22,717
Sub-ordinated debt	31,493	31,299	34,421	42,442	50,619	58,984
Other Liabilities	37,482	38,466	43,317	47,277	49,095	51,289
<b>Total Liab. &amp; Equity</b>	<b>7,70,365</b>	<b>7,52,886</b>	<b>9,62,165</b>	<b>11,51,592</b>	<b>13,48,963</b>	<b>15,57,038</b>
Cash	33,220	41,507	28,321	26,891	38,497	44,860
Investments	1,17,054	84,403	99,886	96,508	1,01,334	1,06,400
Advances	5,99,474	6,04,446	7,94,547	9,91,952	11,70,128	13,63,512
Fixed Assets	3,405	3,928	6,955	8,111	9,443	10,993
Other Assets	17,212	18,603	32,456	28,130	29,561	31,273
<b>Total assets</b>	<b>7,70,365</b>	<b>7,52,886</b>	<b>9,62,165</b>	<b>11,51,592</b>	<b>13,48,963</b>	<b>15,57,038</b>

## Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Growth</b>						
Advances	(7.8)	0.8	31.5	24.8	18.0	16.5
NII	8.2	0.4	9.9	14.3	23.6	14.0
Pre-Provision Profit	22.2	(10.3)	0.7	11.4	27.6	15.6
Net Profit	(63.0)	195.0	100.7	(11.3)	35.3	25.9
<b>Spreads</b>						
Yield on AUM	16.4	15.7	15.3	15.0	15.2	15.0
Cost of Borrowing	8.0	6.9	7.0	7.7	7.7	7.7
NIM (on AUM)	8.9	9.2	8.7	7.8	8.0	7.8
Spread	5.8	5.9	5.8	5.3	5.8	5.7
<b>Operating Efficiency</b>						
Cost-to-Income	28.2	35.8	42.1	41.4	39.6	38.8
Cost-to-Assets	2.2	2.7	3.2	2.8	2.8	2.7
<b>Asset Quality</b>						
GNPA	9.0	7.7	4.5	3.4	3.5	3.5
NNPA	4.1	3.5	1.9	1.3	1.3	1.3
Provision Coverage	57.9	58.1	59.5	63.2	62.0	62.0
Credit Cost	6.0	3.9	1.4	2.0	2.0	1.7
<b>Capital Adequacy</b>						
CAR	26.0	27.8	22.5	19.0	17.9	17.3
Tier I	22.2	24.2	19.9	16.1	15.0	14.4
<b>Valuation</b>						
EPS	2.7	8.0	16.1	14.3	19.3	24.3
ABV	106.8	119.3	130.6	141.8	154.3	172.6
P/E	95.6	32.4	16.2	18.2	13.5	10.7
P/ABV	2.4	2.2	2.0	1.8	1.7	1.5
ROE	2.6	6.5	12.1	10.0	12.5	14.1
ROA	0.4	1.3	2.3	1.7	1.9	2.1

Source: Company; IDBI Capital Research



# Notes

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