

Mahindra & Mahindra Financial

BSE SENSEX

76,993

S&P CNX

23,466

Mahindra
FINANCE

Stock Info

Bloomberg	MMFS IN
Equity Shares (m)	1236
M.Cap.(INRb)/(USDb)	369.4 / 4.4
52-Week Range (INR)	347 / 237
1, 6, 12 Rel. Per (%)	8/-7/-24
12M Avg Val (INR M)	1213
Free float (%)	47.8

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
NII	71.4	87.1	102.2
PPP	41.8	53.6	64.7
PAT	17.6	27.8	34.4
EPS (INR)	14.3	22.5	27.9
EPS Gr. (%)	-11	58	24
BV/Sh.(INR)	141	156	176

Ratios

NIM (%)	7.2	7.3	7.4
C/I ratio (%)	41.4	38.5	36.7
RoA (%)	1.7	2.2	2.4
RoE (%)	10.4	15.2	16.8
Payout (%)	44.2	31.1	28.5

Valuations

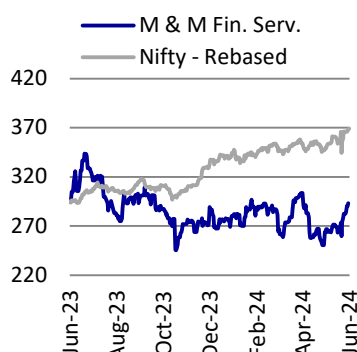
P/E (x)	21.0	13.3	10.7
P/BV (x)	2.1	1.9	1.7
Div. Yield (%)	2.1	2.3	2.7

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	52.2	52.2	52.2
DII	28.6	27.0	25.2
FII	12.1	12.8	15.0
Others	7.2	8.1	7.7

FII Includes depository receipts

Stock performance (one-year)


CMP: INR299
TP: INR355 (+19%)
Buy

Confident about better execution going ahead

Striving to minimize negative surprises and bring predictability

- We attended Mahindra Group's investor day wherein Mahindra Finance (MMFS) exuded confidence that all its efforts put into improving sourcing and underwriting over the last two years will bring higher predictability in earnings and minimize negative surprises, going ahead.
- Key highlights: 1) Efforts made by the management to maintain its market share in wheels and improve its revenue from non-wheels; 2) expects an improvement in fee income through an increase in processing fees and insurance cross-sell; 3) efficiencies in pricing and opex have started to kick-in, which will allow MMFS to move toward its RoA target of ~2.5% (over the medium term) and RoE of ~18% (over the medium to longer term).
- Admittedly, Apr'24 disbursements were slightly weaker than company expectations because of election-led disruptions and a higher number of holidays. However, the company shared that, looking at the demand, it remains confident of delivering 10-12% disbursement growth in FY25.
- We estimate a CAGR of 16%/40% in AUM/PAT over FY24-26, with RoA/RoE improving to ~2.4%/17% in FY26. We retain our BUY rating on the stock with a TP of INR355 (premised on 2.0x FY26E P/BV). Key risks to our call: Negative surprises continuing on the asset quality from and unfavorable monsoons despite expectations of an above-normal monsoon season.

Asset quality expected to be better even during downturn

MMFS earlier exhibited inter-year volatility in asset quality and unusual deterioration during external stress events. However, for the last two years, there has been a high bar on what has come through the door. The sales team knows the levels of prime, near-prime and new-to-credit customers that the company can acquire. There is a calibrated effort to acquire only what is beneficial to the P&L outcomes.

MMFS has worked on sourcing, underwriting and collections to avoid unpleasant surprises on asset quality and credit costs, going ahead.

- **Sourcing:** MMFS has cut the tail risk by culling customers who used to exhibit volatility during extreme economic events. Employees know that there is a narrow band in which it can originate customers. The company has been consistently monitoring the originations done over the last two years, and the quality of the newly originated book gives it the confidence that asset quality will hold up well.
- **Underwriting:** Improvements in underwriting processes and rule engines for the last two years have helped the company enhance its origination.
- **Collections:** Collection war rooms set up during Covid have now moved to normalized collections operations. But legal toolkits strengthened during Covid improved collections, customer settlements and repossessions.

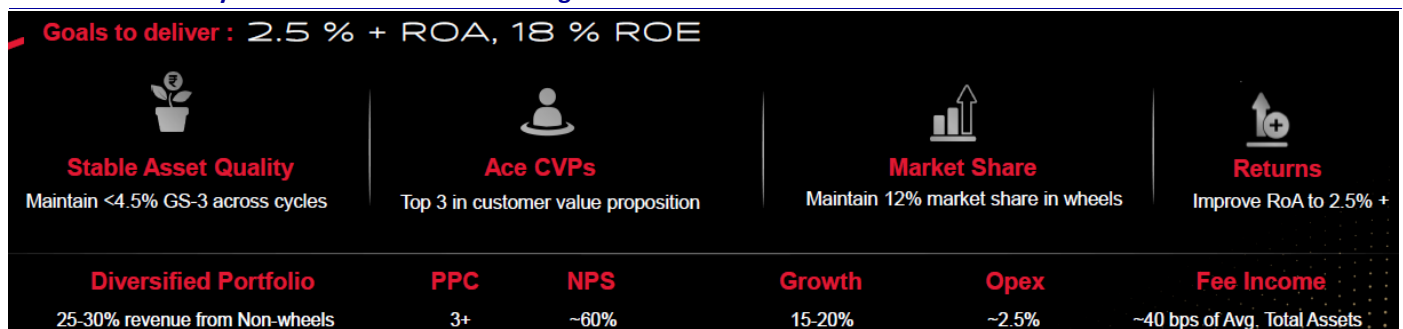
Sets ambitious long-term RoE target of ~18%

- MMFS has articulated a few goals that it aims to achieve over the medium to long term. **It will look to maintain a ~12% market share in Wheels.** Protecting the market share in wheels is a big part of its focus on execution.
- **It will focus on building a diversified portfolio**, with ~25-30% revenue from non-wheels. It targets fee income of ~40bp of avg. total assets, including, a) higher processing fees, late payment fees and document charges (which are currently lower than industry peers'), and b) augmenting fee-based income from increased insurance cross-selling.
- **It has guided for 15-20% growth in business assets** over the medium term. The focus will continue on cross-selling and increasing products per customer (PPC) to 3+ (compared to 2.2, currently).
- **MMFS targets an opex to average assets of ~2.5% in the medium term.** The company has assumed flat (vs. FY24) opex to average assets in FY25 despite its guidance to add 150 branches. It is getting cost savings from its erstwhile collection machinery/framework. Within the last two years, ~70% of the collection cost related to door-to-door collections has now declined to ~30%. Over the last 18 months, it has made significant progress in providing solutions to frontline staff, which will make them more efficient, and the corresponding productivity enhancements are already showing up.
- **It aims to maintain GS3 below 4.5% across cycles.** With the investments that it has made, the asset quality even in a downturn will be much lower than in the past.
- MMFS is moving swiftly to increase its RoA to ~2.5% (in the medium term) and RoE to ~18% (in the medium to long term). The RoE guidance is more aspirational in nature and it will be happy with ~15-16% RoE in the near-to-medium term.

Execution without any significant volatility will be critical; Maintain BUY

- We believe that MMFS is a much stronger franchise today with far better control over asset quality and earnings than it had around two years back. MMFS might not have been the best adopter of technology and there have been deficiencies in the asset quality in the past. However, it is fast addressing the deficiencies in technology and volatility in asset quality. It has covered decent ground in terms of digital maturity, which has resulted in a much lower TAT than earlier.
- Reducing volatility in operating performance is vital for a further rerating for the franchise. For RoA/RoE of 2.4%/17% in FY26E, we maintain BUY with a TP of INR355 (premised on 2.0x FY26E P/BV).

Goals articulated by MMFS for the medium to long-term



Source: Mahindra Group Investor Day Presentation

Story in charts

Exhibit 1: AUM CAGR of ~16% over FY24-26E

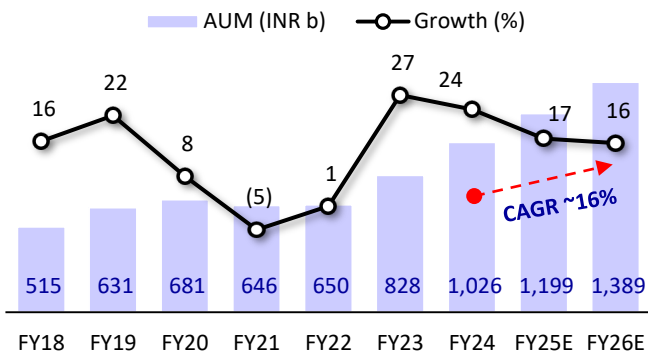


Exhibit 2: Disbursement CAGR of ~13% over FY24-26E

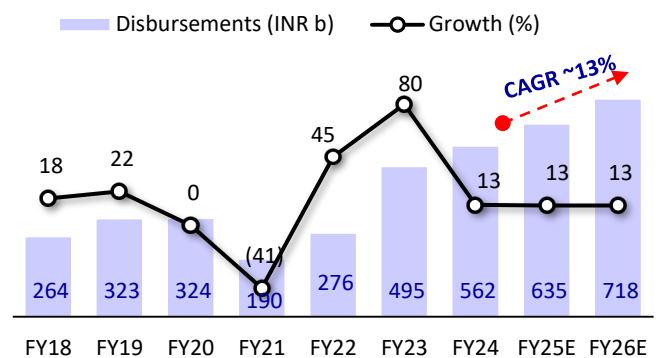


Exhibit 3: NIMs to expand ~10bp each in FY25/FY26

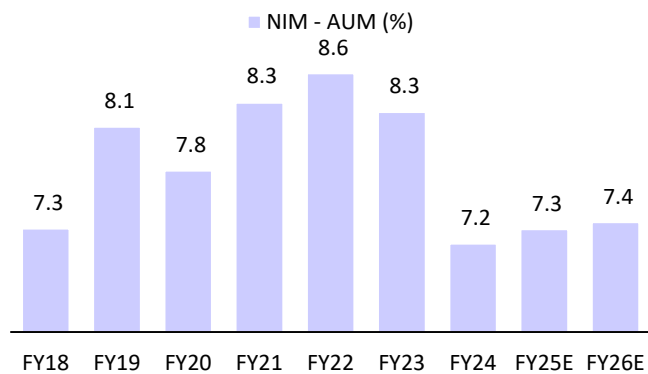


Exhibit 4: Opex-to-Avg AUM to moderate to 3.0% by FY26

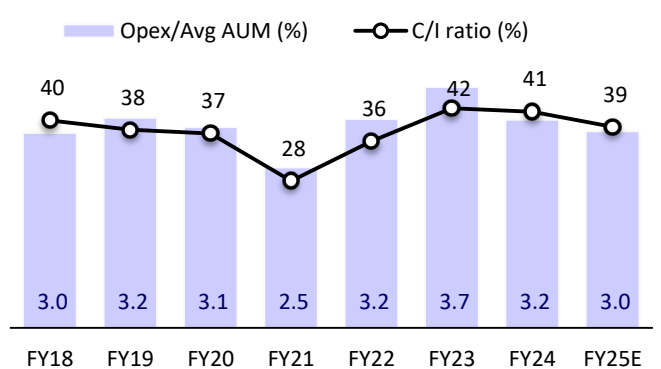


Exhibit 5: Expect to sustain asset quality improvement

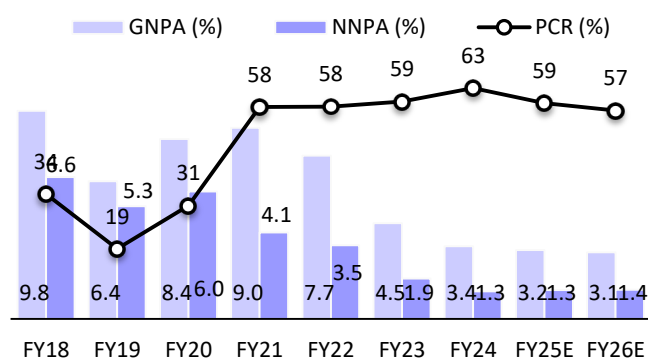


Exhibit 6: Credit costs to decline to ~1.5% in FY25

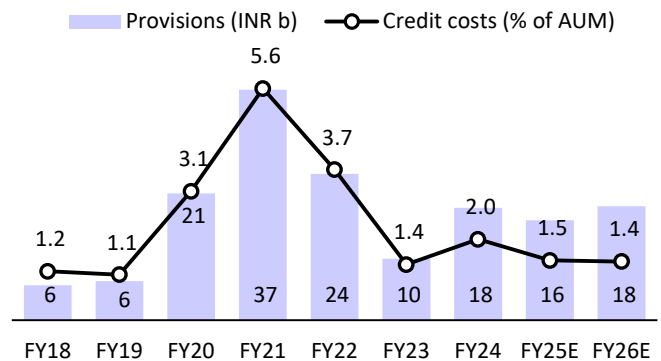


Exhibit 7: We model PAT CAGR of ~40% over FY24-26E...

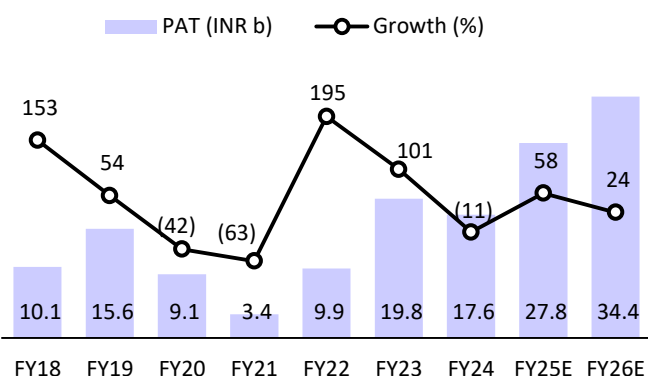
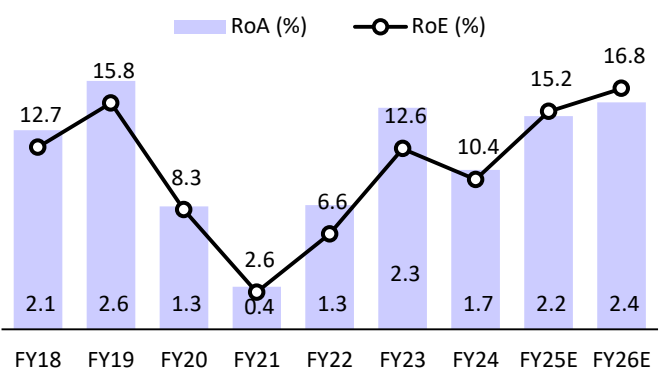


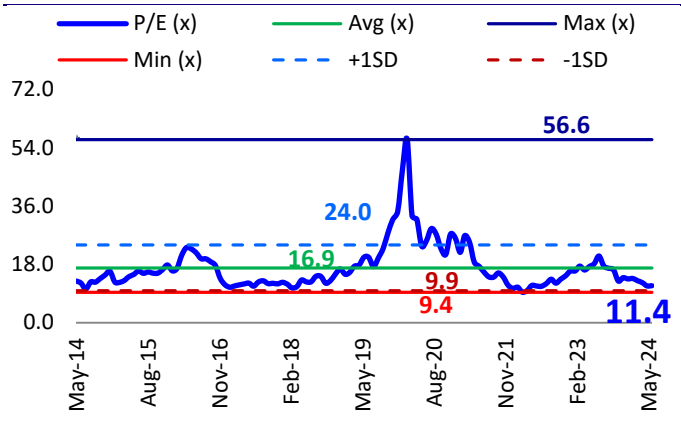
Exhibit 8: ...leading to an RoA/RoE of 2.4%/~17% by FY26



Source: MOFSL, Company

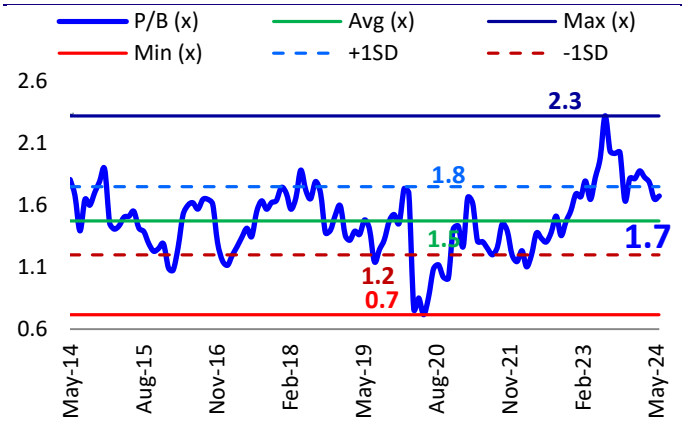
Source: MOFSL, Company

Exhibit 9: One-year forward P/E



Source: MOFSL, Company

Exhibit 10: One-year forward P/B



Source: MOFSL, Company

Financials and valuations

Income Statement

INR m

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	86,146	99,417	102,670	94,756	106,826	131,088	160,883	188,846
Interest Expended	39,446	48,287	47,332	39,202	45,767	64,269	79,370	93,296
Net Interest Income	46,700	51,130	55,338	55,554	61,059	66,818	81,513	95,550
Change (%)	33.3	9.5	8.2	0.4	9.9	9.4	22.0	17.2
Other Operating Income	1,084	1,561	1,283	1,824	2,462	2,954	3,545	4,076
Other Income	869	1,473	1,277	608	1,273	1,583	2,058	2,572
Net Income	48,653	54,164	57,897	57,986	64,794	71,355	87,115	102,198
Change (%)	35.0	11.3	6.9	0.2	11.7	10.1	22.1	17.3
Operating Expenses	18,476	20,182	16,325	20,734	27,276	29,572	33,562	37,482
Operating Profits	30,177	33,982	41,573	37,252	37,518	41,783	53,553	64,716
Change (%)	39.1	12.6	22.3	-10.4	0.7	11.4	28.2	20.8
Provisions	6,352	20,545	37,348	23,683	9,992	18,228	16,210	18,475
PBT	23,824	13,438	4,224	13,569	27,526	23,555	37,343	46,241
Tax	8,254	4,374	873	3,682	7,138	5,959	9,522	11,791
Tax Rate (%)	34.6	32.5	20.7	27.1	25.9	25.3	25.5	25.5
PAT	15,571	9,064	3,352	9,888	19,843	17,596	27,820	34,450
Change (%)	54.0	-41.8	-63.0	195.0	100.7	-11.3	58.1	23.8
Proposed Dividend (Incl Tax)	4,779	0	986	4,439	7,402	7,777	8,638	9,818

Balance Sheet

INR m

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	1,230	1,231	2,464	2,466	2,467	2,469	2,469	2,469
Reserves & Surplus (Ex OCI)	103,072	112,408	143,666	149,376	161,020	171,329	190,511	215,143
Net Worth	104,221	113,558	146,049	151,761	163,488	173,798	192,980	217,612
Other Comprehensive Income	81	81	81	81	81	81	81	81
Net Worth	104,302	113,639	146,130	151,842	163,568	173,879	193,061	217,693
Change (%)	11.8	9.0	28.6	3.9	7.7	6.3	11.0	12.8
Borrowings	528,469	594,623	585,767	558,139	749,459	922,252	1,092,219	1,269,715
Change (%)	31.8	12.5	-1.5	-4.7	34.3	23.1	18.4	16.3
Other liabilities	38,009	32,451	38,469	42,906	49,219	55,542	61,652	68,434
Total Liabilities	670,780	740,712	770,365	752,887	962,166	1,151,592	1,346,851	1,555,761
Investments	37,917	59,110	116,073	84,403	99,886	96,508	108,089	121,060
Change (%)	38.7	55.9	96.4	-27.3	18.3	-3.4	12.0	12.0
Loans and Advances	612,496	649,935	599,474	604,446	794,547	991,952	1,163,214	1,349,708
Change (%)	26.2	6.1	-7.8	0.8	31.5	24.8	17.3	16.0
Other assets	20,367	31,668	54,818	64,038	67,732	63,132	75,549	84,993
Total Assets	670,780	740,712	770,365	752,887	962,165	1,151,592	1,346,851	1,555,761

E: MOSL Estimates

Financials and valuations

Ratios	(%)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)								
Yield on Portfolio	15.7	15.8	16.4	15.7	15.3	14.7	14.9	15.0
Cost of Borrowings	8.5	8.6	8.0	6.9	7.0	8.0	8.0	8.0
Interest Spread	7.2	7.2	8.4	8.9	8.3	6.7	6.9	7.0
Net Interest Margin	8.1	7.8	8.3	8.6	8.3	7.2	7.3	7.4
Profitability Ratios (%)								
Cost/Income	38.0	37.3	28.2	35.8	42.1	41.4	38.5	36.7
Empl. Cost/Op. Exps.	59.0	56.9	62.2	56.5	58.1	57.9	58.2	58.3
RoE	15.8	8.3	2.6	6.6	12.6	10.4	15.2	16.8
RoA	2.6	1.3	0.4	1.3	2.3	1.7	2.2	2.4
Asset Quality (%)								
GNPA	40,706	57,467	57,857	49,760	37,168	34,910	38,687	43,321
NNPA	32,907	39,665	24,339	20,860	15,071	12,860	15,861	18,628
GNPA %	6.4	8.4	9.0	7.7	4.5	3.4	3.2	3.1
NNPA %	5.3	6.0	4.1	3.5	1.9	1.3	1.3	1.4
PCR %	19.2	31.0	57.9	58.1	59.5	63.2	59.0	57.0
Total Provisions/loans %	3.4	4.9	7.4	7.5	4.7	3.8	3.4	3.2
Capitalisation (%)								
CAR	20.3	19.6	26.0	27.8	22.5	18.1	16.9	16.3
Tier I	15.5	15.4	22.2	24.3	19.9	16.3	15.5	15.2
Tier II	4.8	4.2	3.8	3.5	2.7	1.8	1.4	1.1
Average Leverage on Assets (x)	6.1	6.5	5.8	5.1	5.4	6.3	6.8	7.1
Valuation								
Book Value (INR)	169	185	119	123	133	141	156	176
BV Growth (%)	11.7	8.9	-35.8	3.8	7.7	6.2	11.0	12.8
Price-BV (x)	1.8	1.6	2.5	2.4	2.3	2.1	1.9	1.7
Adjusted BV (INR)	132	136	104	110	123	134	147	166
Price-ABV (x)	2.3	2.2	2.9	2.7	2.4	2.2	2.0	1.8
OPS (INR)	49.1	55.2	33.7	30.2	30.4	33.8	43.4	52.4
OPS Growth (%)	39.0	12.5	-38.9	-10.5	0.7	11.3	28.2	20.8
Price-OP (x)	6.1	5.4	8.9	9.9	9.8	8.8	6.9	5.7
EPS (INR)	25.3	14.7	2.7	8.0	16.1	14.3	22.5	27.9
EPS Growth (%)	53.9	-41.8	-81.5	194.8	100.6	-11.4	58.1	23.8
Price-Earnings (x)	11.8	20.3	109.9	37.3	18.6	21.0	13.3	10.7
Dividend	6.5	0.0	0.8	3.6	6.0	6.3	7.0	8.0
Dividend Yield (%)	2.2	0.0	0.3	1.2	2.0	2.1	2.3	2.7
E: MOSL Estimates								

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