

M&M Financial Services (MMFS) BUY

NIMs improved QoQ; Asset quality stable

Summary

MMFS reported improvement in NIMs led by increase in yield on assets. Management guided for NIMs to remain around 6.5 -6.7% range for FY25 while improve to 7% in longer term. Asset quality remain stable with GS3 at 3.9% vs 3.8% QoQ led by higher write offs. Q4 generally is strong quarter with respect to collections. AUM growth slowed down to 19% YoY (20% YoY Q2FY25) led by lower disbursements; we expect 16% CAGR (FY25-27E). NII grew by 18% YoY led by decline in NIMs. PPOP grew by 15% YoY led by lower other income (down 96% YoY). However, PAT increased by 63% YoY led by lower provisions (down 97% YoY). Thus, RoA improved to 2% (9MFY25) vs 1.5% (9M FY24) in line with guidance of 1.8-2.0% FY25. We have rolled over to FY27 estimates. We upgrade to BUY with new target price of Rs.325 (earlier Rs.315) valuing it at 1.8X FY27E ABV.

Key Highlights and Investment Rationale

- **Slower disbursements growth:** AUM growth slowed down to 19% YoY as against 20% YoY (Q2FY25) led by lower disbursements growth (up 7% YoY). Disbursement growth subdued due to lower vehicle sales. Management guided for 18-20% AUM growth FY25.
- **NIMs improved:** Gross spread improved by 10bps QoQ to 6.6% led by increase in yield on assets. Management guided for NIMs improvement led by improving income based line items since the cost of funds are expected to remain stable.
- **Asset quality stable:** GS3 at 3.9% vs 3.8% QoQ led by higher write offs. Further, during Q3FY25 stage 2 assets declined to 6.3% vs 6.4% QoQ due to better collection efficiency.
- **Outlook:** Asset quality volatility historically has been the concern for the company; However, management has taken steps to bring the stability over the period. Rural economy growth is expected to improve with better rainfall and steps by the government which should support MMFS financials.

TP **Rs 325**
CMP **Rs272**

Potential upside/downside 20%
Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	0.4	(1.8)	(0.9)
Rel to Sensex	3.6	2.9	(8.6)

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	20.0	21.4	25.8
Consensus	18.1	22.8	26.7
% difference	10.3	(6.3)	(3.5)

Key Stock Data

Bloomberg / Reuters	MMFS IN/MMFS.BO
Sector	NBFC
Shares o/s (mn)	1,236
Market cap. (Rs mn)	330,998
3-m daily avg Trd value (Rs mn)	34.3
52-week high / low	Rs343 / 246
Sensex / Nifty	75,901 / 22,957

Shareholding Pattern (%)

Promoters	52.2
FII	10.5
DII	31.2
Public	6.1

Financial snapshot

Year	FY2023	FY2024	FY2025E	FY2026E	FY2027E
NII	61,059	66,818	81,281	94,995	1,10,002
Change (yoy, %)	10%	9%	22%	17%	16%
Net Profit	19,843	17,596	24,626	26,385	31,847
Change (yoy, %)	101%	-11%	40%	7%	21%
EPS (Rs)	16.1	14.3	20.0	21.4	25.8
Change (yoy, %)	101%	-11%	40%	7%	21%
ABV (Rs)	131	141	152	166	185
PER (x)	17	19	14	13	11
P/ABV (x)	2.1	1.9	1.8	1.6	1.5
ROE (%)	12.1	10.0	12.9	12.6	13.7
ROA (%)	2.3	1.7	2.0	1.8	1.9
GNPA (%)	4.5	3.4	3.5	3.5	3.5
NNPA (%)	1.9	1.3	1.6	1.6	1.6
CAR (%)	22.5	18.9	17.2	16.5	16.0

Source: IDBI Capital Research

Bunty Chawla

Bunty.chawla@idbicapital.com
+91-22-4069 1843

Shreejit Nair

Shreejit.nair@idbicapital.com
+91-22-4069 1819

Conference Call Highlights

Operational Performance

- NIMs for the quarter increased by 10 bps QoQ. There has been a sequential improvement of 20 bps in the loan and fee income.
- There was provision reduction of Rs.4.3bn during the quarter.
- The company has moved 40% of the loans applications to the cloud now.
- The company has on-boarded the Salesforce toolkits for LOS systems for SME business.
- The company added 25 branches during the quarter taking the total number to 34 branches on a YTD basis.
- The company follows the complete ECL model-based methodology. It follows LGD using cash flow for a 42-month period. For the first time in Q3FY25, the June'21 stock has got included in this 42-month pool.
- The Jun'21 stock had an addition of Rs.40bn to the pool, and the cash flow of this pool demonstrated a very high collection which has led to the LGD coming down in one quarter itself. This resulted in PCR fall to ~50% from 59.5% in Q4FY21.
- The entire LGD benefit has been baked in during Q3FY25.
- While cost of funds have inched up 10 bps QoQ, the company is trying to get the incremental funding at a lower rate.
- The company wants to clean up the book of Mahindra Rural Housing and improve the asset quality parameters before growing the business.
- Mahindra Rural Housing's opex is expected to come down. Further, the company is adequately capitalised.

Fee Income

- The company secured an exclusive lending partnership with M&M for new EV which is slated for bookings from Feb 14.

- The company inked a partnership with RBL Bank to issue co-branded credit card. The company also tied up with IDFC First Bank for Fastag Issuance.
- The company has also signed up 9 insurance providers for the distribution of life, non-life and health insurance products. These initiatives will boost the fee income in the coming quarters.
- The company received an in-principle approval from NPCI for TPAP license, which is expected to improve digital presence going ahead.

Advances

- This quarter has seen comeback of growth, led largely by the farm business, which is the tractor business and passenger vehicle segment. Tractor specifically saw 24% growth and passenger vehicle at 8% on a YoY basis.
- SME segment has grown at 60% YoY albeit on a low base. The growth is driven by LAP business, which constitutes majority of the business.
- The company has decided to actively finance the EV passenger vehicle momentum.
- A large part of growth is coming from Passenger Vehicle segment who are typically price conscious customers.
- Pre-owned vehicles have seen a decline in disbursements due to muted underlying replacement demand and risk control measures taken by the company.
- The company targets the incremental sourcing of used PV, CV and tractors is 20% of the incremental disbursements.
- The efficiency levels of the existing wheels business will start to improve going ahead.
- Since the prices of new commercial vehicles have been increasing, there will be a certain impact on the used vehicles.
- In terms of PVs, the company has seen a big onslaught of price reductions at the middle level and some models, due to large discounts leading to on-road prices going down.

Asset Quality

- The company will continue to originate a decent amount of Prime Plus customers in the origination mix, continue on the underwriting practices, and the entire use of collection toolkits which will keep GS3 range bound.
- The company continues to prioritise collections by constantly engaging with the end customer. The change in customer mix more towards prime segment is auguring well in terms of asset quality.
- The end losses have been on a declining trend, which means credit costs will be in a guided range.
- The company will not shy away from making investments on the collections vertical.
- The company will keep an option open to create management overlay over and above the ECL provisions.

Future Guidance

- The stated goal is keep credit costs in the range of 1.3-1.5% in the near term.
- The company plans to add another 15-20 branches in the March quarter.
- The company aims to grow the AUM in the range of 15-18% in the medium term, and mid to high teens in FY26.
- NIMs are expected to be ~6.5-6.7%, while ROA is seen at 1.8-2.0% in FY25.
- Opex is expected to be in the range of 2.5-2.7% in FY25.
- The company plans to raise Tier-I funds in the near term to augment the capital position.
- Provision coverage ratio is seen in the range of ~50-54% in the near term.

Exhibit 1: Quarterly Snapshot (Rs mn)

Year-end: March	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Interest Income	41,430	34,536	38,975	20.0	6.3
Interest Expenses	20,459	16,750	19,343	22.1	5.8
Net Interest Income	20,971	17,787	19,632	17.9	6.8
NIM (%)	6.6	6.8	6.5	-20 bps	10 bps
Non-Interest Income	14	368	276	-96.2	-95.0
Operating Income	20,985	18,155	19,908	15.6	5.4
Staff Cost	4,892	4,342	4,460	12.7	9.7
Other Op Exp	3,876	3,188	3,487	21.6	11.2
Total Operating Expenses	8,768	7,530	7,947	16.4	10.3
<i>Cost to Income (%)</i>	41.8	41.5	39.9	31 bps	186 bps
<i>Cost to AUM (%)</i>	3.0	3.1	2.8	-6 bps	22 bps
Operating Profit	12,217	10,625	11,961	15.0	2.1
Provisions	91	3,284	7,035	-97.2	-98.7
<i>Credit Cost (%)</i>	0.0	1.4	2.5	-132 bps	-247 bps
PBT	12,126	7,341	4,927	65.2	146.1
Tax	3,131	1,813	1,232	72.7	154.2
<i>-effective tax rate</i>	25.8	24.7	25.0	112 bps	82 bps
PAT	8,995	5,528	3,695	62.7	143.4
EPS (Rs)	7.3	4.5	3.0	62.7	143.4
BV (Rs)	155.6	141.9	148.1	9.7	5.1
AUM	11,51,260	9,70,480	11,24,540	18.6	2.4
Disbursement	1,64,670	1,54,360	1,31,620	6.7	25.1

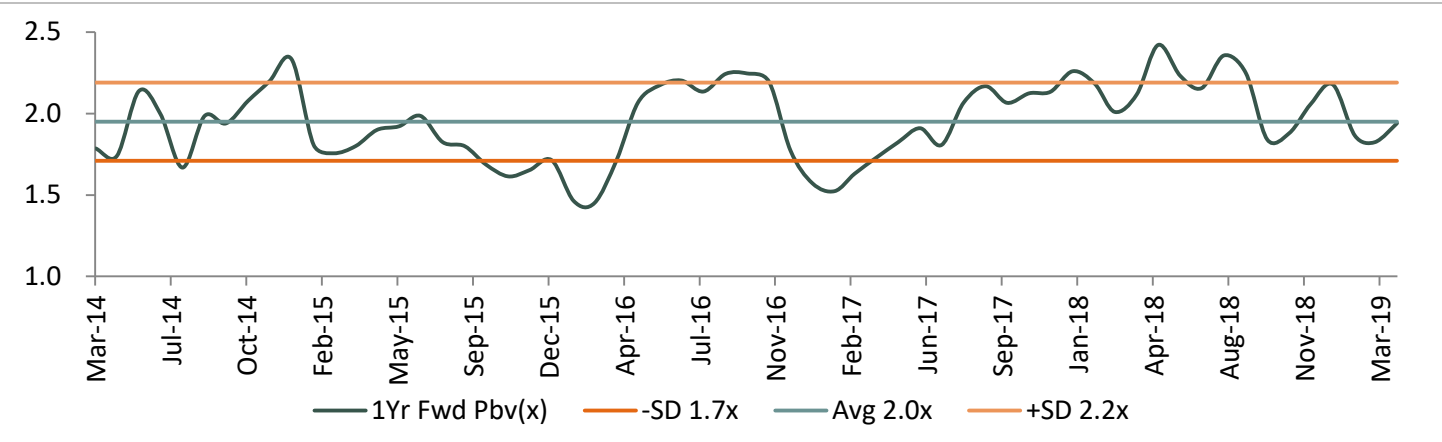
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY23	FY24	FY25E	FY26E	FY27E
NII	7.1	6.3	6.5	6.5	6.5
Fees	0.3	0.3	0.1	0.1	0.1
Other Income	0.1	0.1	0.0	0.0	0.0
Net Revenue	7.6	6.8	6.6	6.6	6.6
Op. Exp	3.2	2.8	2.6	2.7	2.6
Op. Profit	4.4	4.0	3.9	3.9	4.0
Provisions	1.2	1.7	1.3	1.5	1.5
PBT	3.2	2.2	2.6	2.4	2.5
Tax	0.8	0.6	0.7	0.6	0.6
PAT	2.4	1.7	2.0	1.8	1.9
Leverage (x)	5.2	6.0	6.6	7.0	7.2
ROE	12.5	10.0	12.9	12.6	13.7

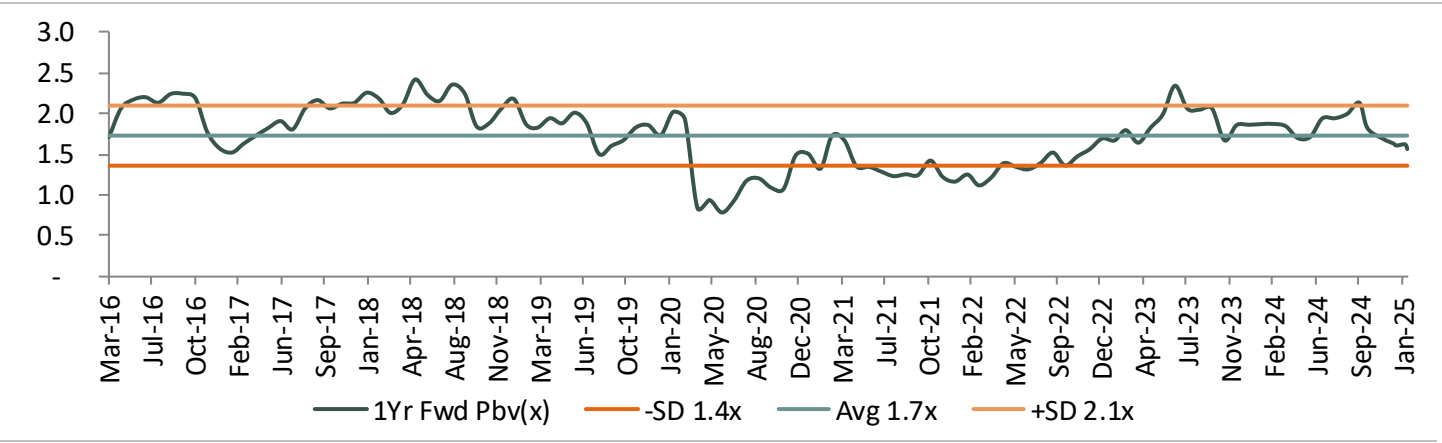
Source: Company; IDBI Capital Research

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

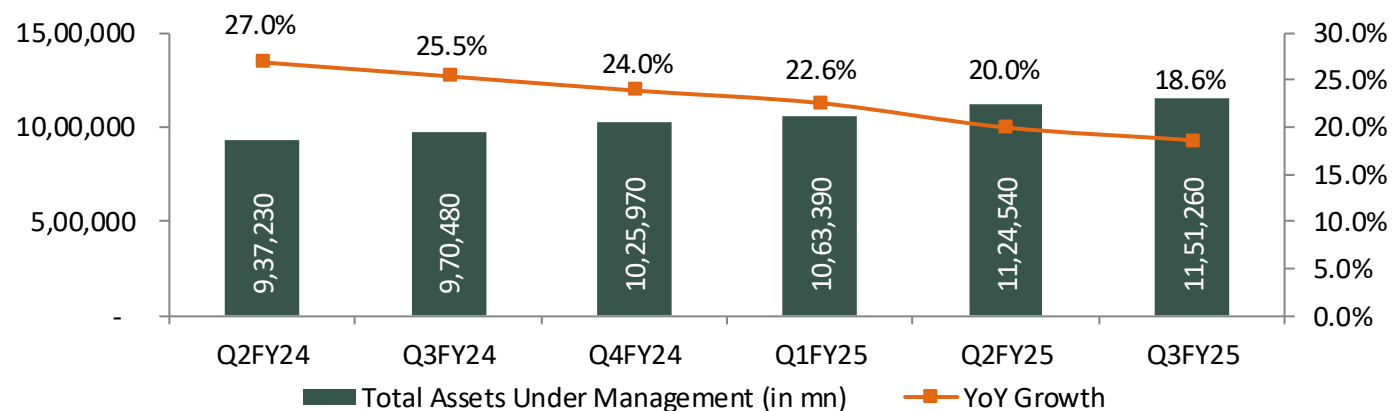


Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/BV (FY15-25)



Source: Company; IDBI Capital Research

Exhibit 5: YoY AUM Growth remained stable on a sequential basis

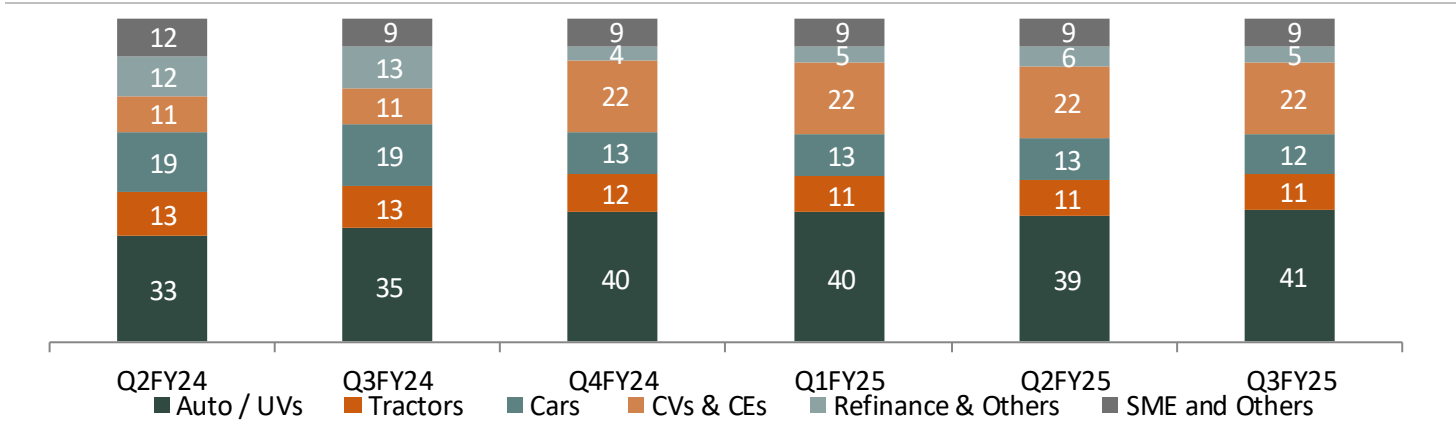
Source: Company; IDBI Capital Research

Exhibit 6: AUM Composition (In Mn)

Product Wise Advances (In Mn)	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Auto / UVs	4,72,017	3,39,668	4,38,571	39.0	7.6
Tractors	1,26,639	1,26,162	1,23,699	0.4	2.4
Cars	1,38,151	1,84,391	1,46,190	(25.1)	(5.5)
CVs & CEs	2,53,277	1,06,753	2,47,399	137.3	2.4
Refinance & Others	57,563	1,26,162	67,472	(54.4)	(14.7)
SME and Others	1,03,613	87,343	1,01,209	18.6	2.4
Total AUM	11,51,260	9,70,480	11,24,540	18.6	2.4

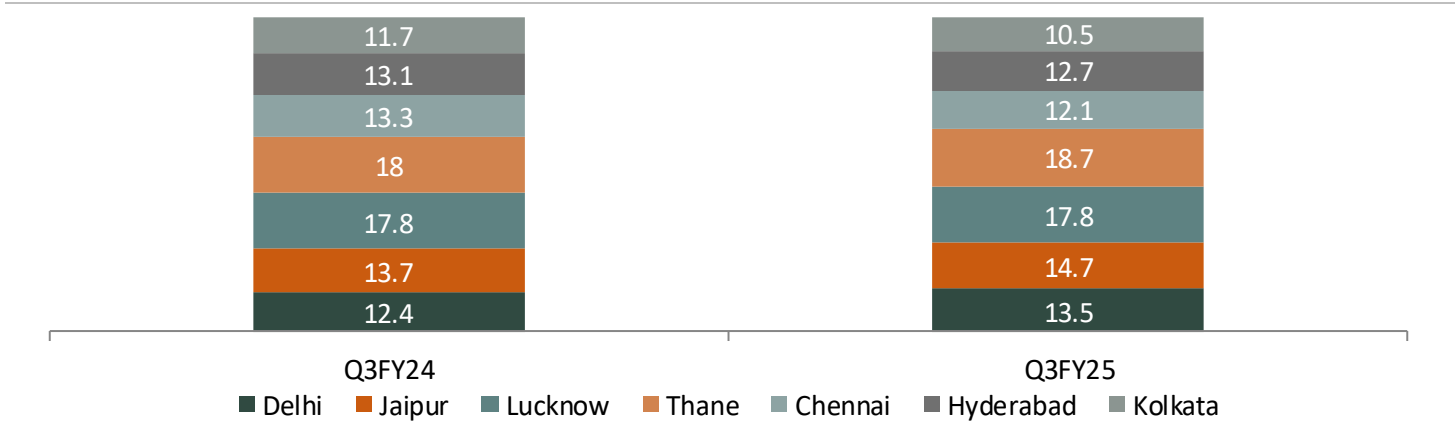
Source: Company; IDBI Capital Research

Exhibit 7: AUM Mix-Product Category Wise

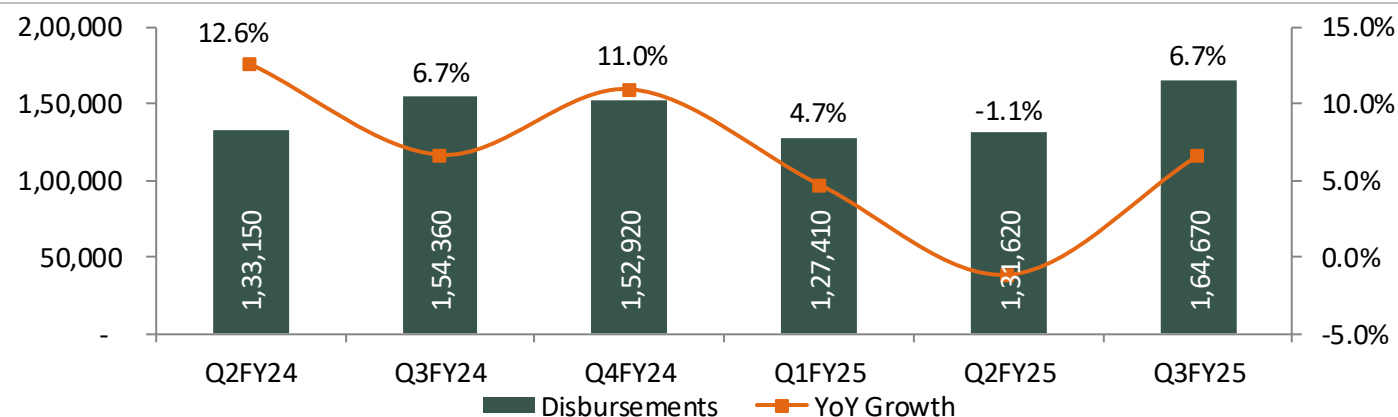


Source: Company; IDBI Capital Research

Exhibit 8: AUM Mix-Geographical Mix Wise (new classification)



Source: Company; IDBI Capital Research

Exhibit 9: Disbursement Growth improved on a quarterly basis

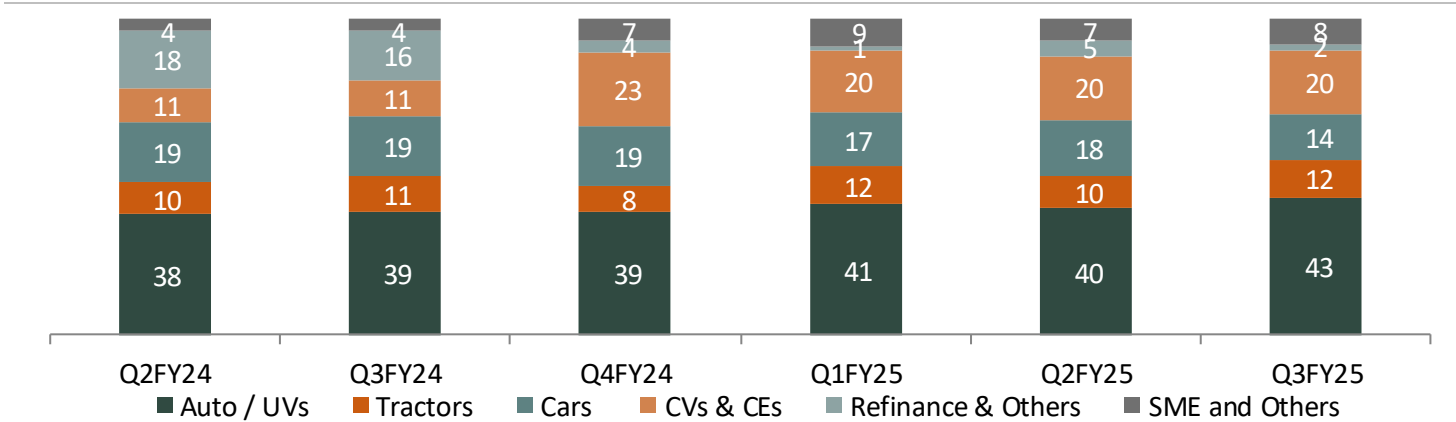
Source: Company; IDBI Capital Research

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

Product Wise Disbursement (In Mn)	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Auto / UVs	70,808	60,200	52,648	17.6	34.5
Tractors	19,760	16,980	13,162	16.4	50.1
Cars	23,054	29,328	23,692	(21.4)	(2.7)
CVs & CEs	33,346	16,980	26,324	96.4	26.7
Refinance & Others	3,293	24,698	6,581	(86.7)	(50.0)
SME and Others	13,174	6,174	9,213	113.4	43.0
Total AUM	1,63,435	1,54,360	1,31,620	5.9	24.2

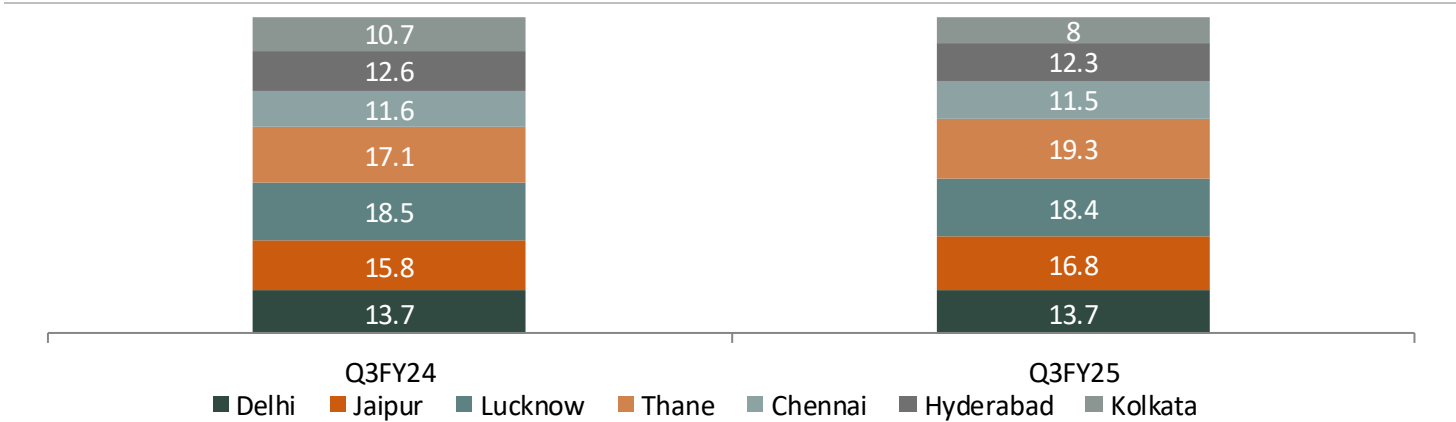
Source: Company; IDBI Capital Research

Exhibit 11: Disbursement Mix-Product Category Wise

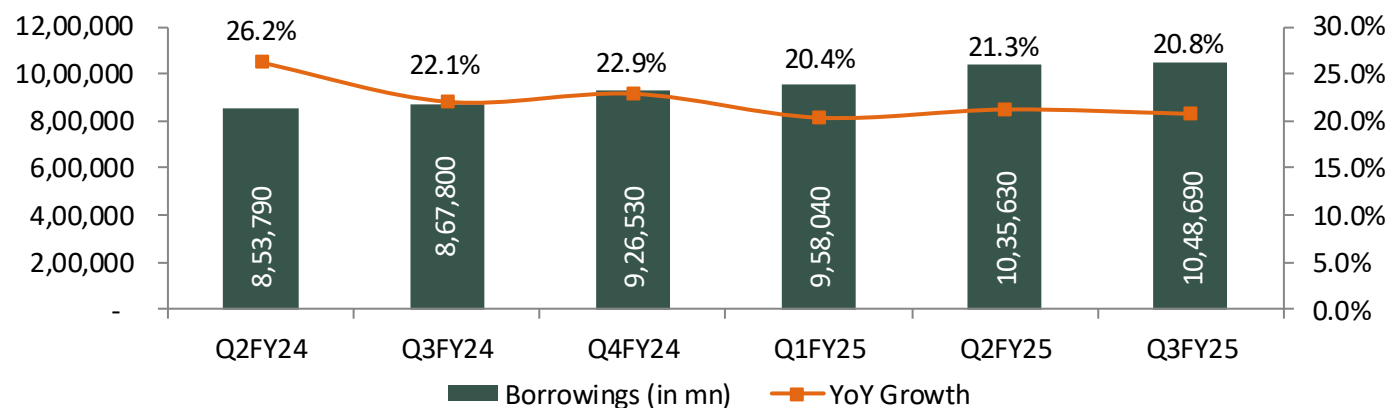


Source: Company; IDBI Capital Research

Exhibit 12: Disbursement Mix-Geographical Mix Wise (new classification)



Source: Company; IDBI Capital Research

Exhibit 13: Borrowings Growth remained strong

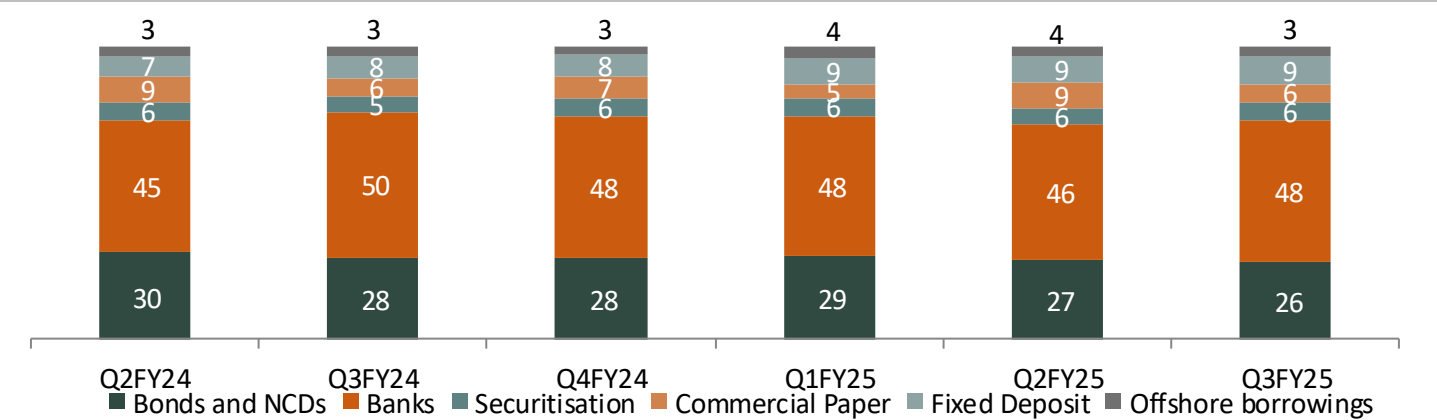
Source: Company; IDBI Capital Research

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

Borrowing Mix-Product Wise(In Mn)	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Bonds and NCDs	2,77,540	2,43,870	2,82,340	13.8	(1.7)
Banks	5,06,690	4,31,160	4,76,360	17.5	6.4
Securitisation	67,520	42,600	58,390	58.5	15.6
Commercial Paper	64,810	56,300	91,530	15.1	(29.2)
Fixed Deposit	96,500	66,740	89,020	44.6	8.4
Offshore borrowings	35,650	27,130	37,980	31.4	(6.1)
Total	10,48,710	8,67,800	10,35,620	20.8	1.3

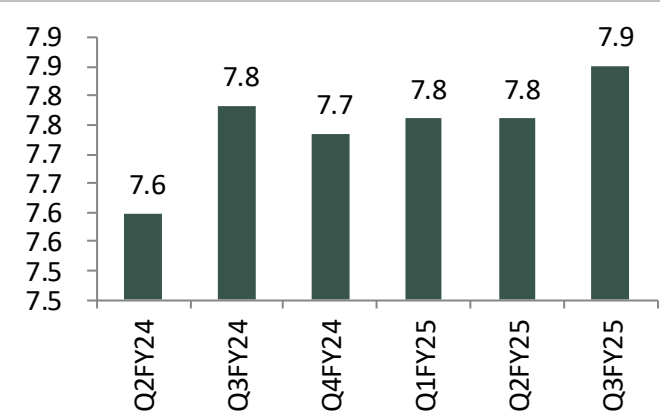
Source: Company; IDBI Capital Research

Exhibit 15: Borrowing Mix-Instrument Mix Wise



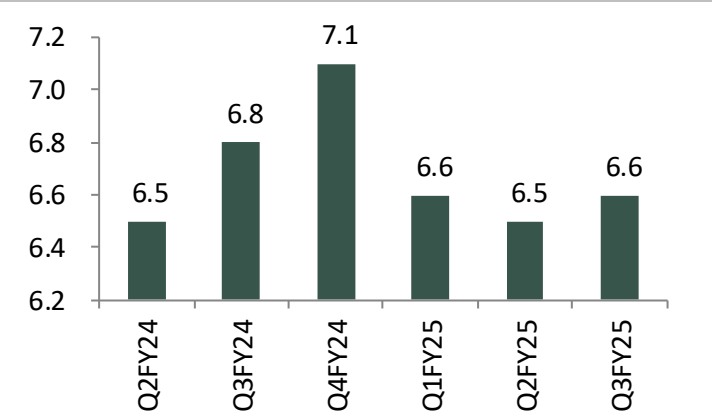
Source: Company; IDBI Capital Research

Exhibit 16: Cost of Borrowings increased sequentially



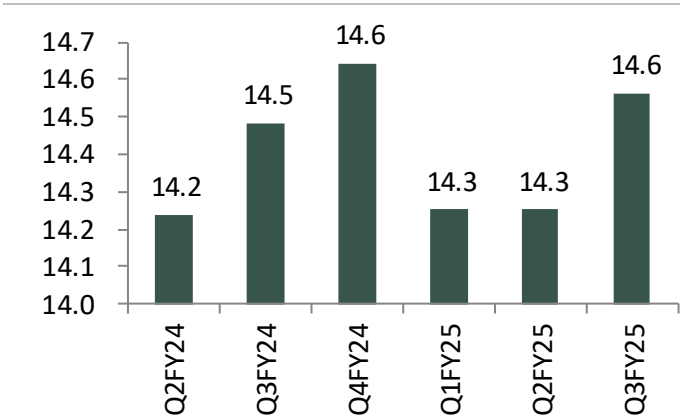
Source: Company; IDBI Capital Research

Exhibit 17: NIMs increased sequentially in Sep quarter led by higher yields



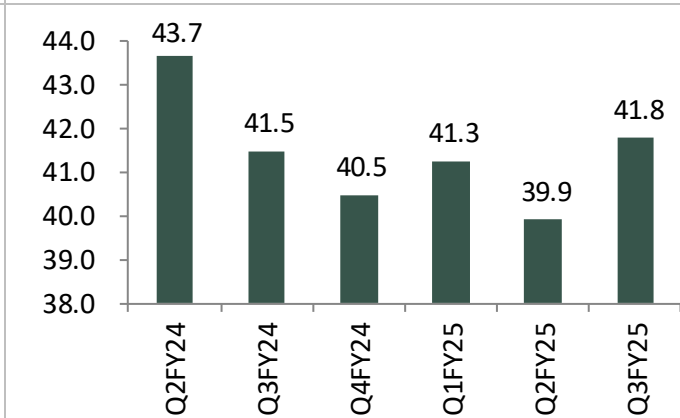
Source: Company; IDBI Capital Research

Exhibit 18: Yield on AAUM increased QoQ



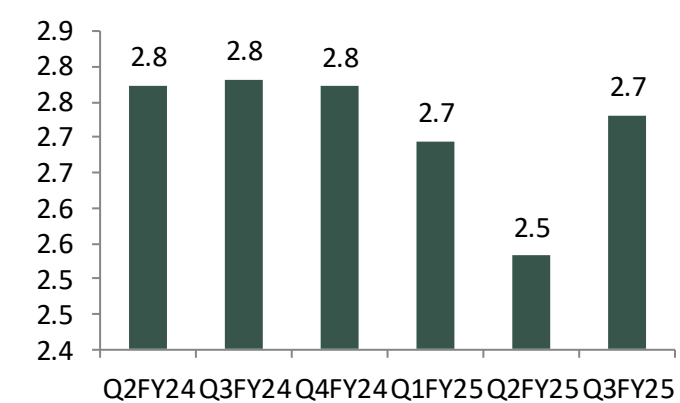
Source: Company; IDBI Capital Research

Exhibit 19: Cost to Income increased on a sequential basis



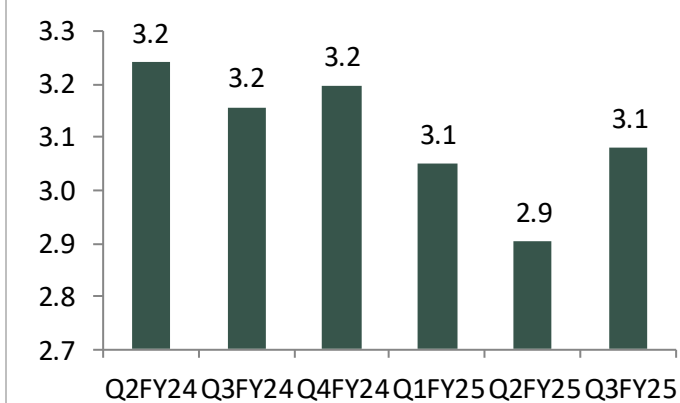
Source: Company; IDBI Capital Research

Exhibit 20: Cost to Assets increased sequentially

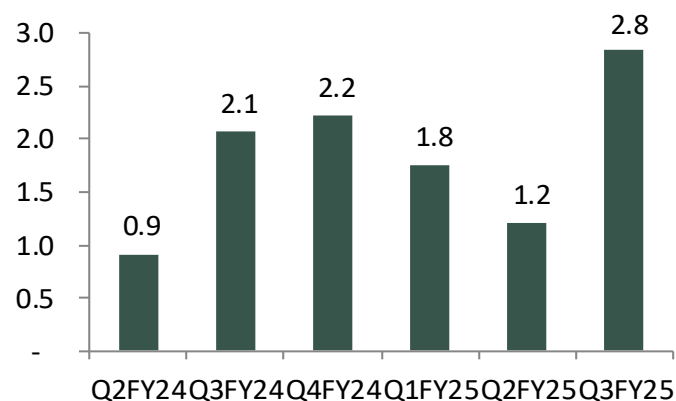


Source: Company; IDBI Capital Research

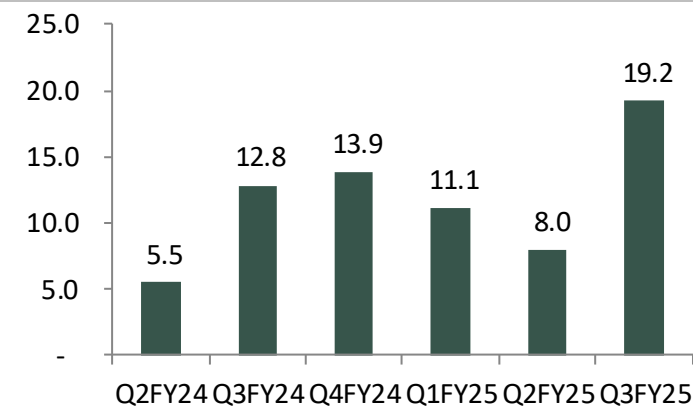
Exhibit 21: Cost to AAUM increased QoQ



Source: Company; IDBI Capital Research

Exhibit 22: RoA (calc.) increased sharply QoQ

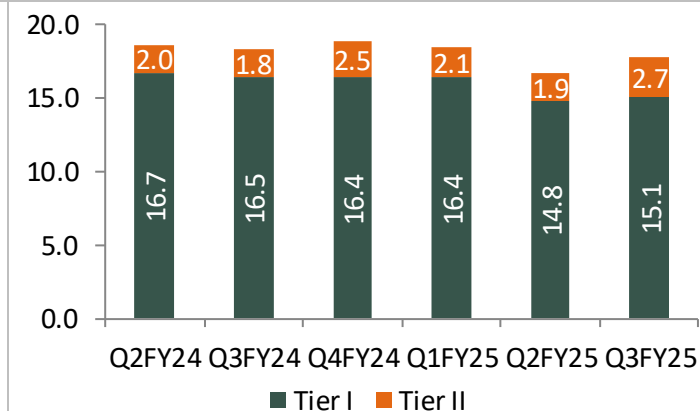
Source: Company; IDBI Capital Research

Exhibit 23: RoE (calc.) too increased in line with RoA

Source: Company; IDBI Capital Research

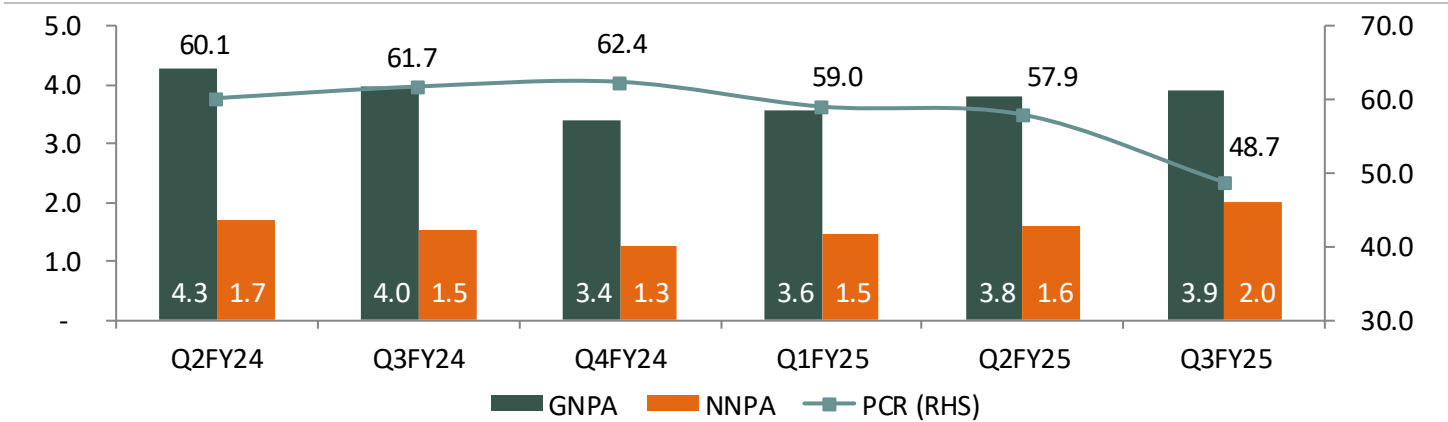
Exhibit 24: Annualised Credit Cost was 0.03% in Q3FY25

Source: Company; IDBI Capital Research

Exhibit 25: CAR slightly declined during the quarter

Source: Company; IDBI Capital Research

Exhibit 26: Asset Quality remained stable aided by higher write offs



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net interest income	55,554	61,059	66,818	81,281	94,995	1,10,002
<i>Change (yoy, %)</i>	<i>0%</i>	<i>10%</i>	<i>9%</i>	<i>22%</i>	<i>17%</i>	<i>16%</i>
Other Income	608	1,273	1,583	324	380	441
Net Revenue	57,986	64,794	71,355	82,470	96,389	1,11,620
Operating expenses	20,734	27,276	29,572	33,144	39,088	43,814
Employee expenses	11,714	15,843	17,126	18,932	22,069	23,431
Other expenses	9,020	11,433	12,446	14,212	17,019	20,382
Pre-Provision Profit	37,252	37,518	41,783	49,326	57,300	67,807
<i>Change (yoy, %)</i>	<i>-10%</i>	<i>1%</i>	<i>11%</i>	<i>18%</i>	<i>16%</i>	<i>18%</i>
Provision	23,683	9,992	18,228	16,403	22,026	25,230
PBT	13,569	26,981	23,555	32,923	35,274	42,577
Taxes	3,682	7,138	5,959	8,297	8,889	10,729
<i>Effective tax rate (%)</i>	<i>27.1%</i>	<i>26.5%</i>	<i>25.3%</i>	<i>25.2%</i>	<i>25.2%</i>	<i>25.2%</i>
Net profit	9,887	19,843	17,596	24,626	26,385	31,847
<i>Change (yoy, %)</i>	<i>195%</i>	<i>101%</i>	<i>-11%</i>	<i>40%</i>	<i>7%</i>	<i>21%</i>
EPS	8	16	14	20	21	26
Return on Equity (%)	6.5	12.1	10.0	12.9	12.6	13.7
Return on Assets (%)	1.3	2.3	1.7	2.0	1.8	1.9

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Capital	2,466	2,467	2,469	2,469	2,469	2,469
Reserves	1,53,815	1,68,422	1,79,105	1,97,284	2,17,129	2,42,540
Networth	1,56,281	1,70,889	1,81,574	1,99,752	2,19,598	2,45,009
Borrowings	5,26,841	7,13,537	8,80,695	10,40,876	12,25,941	14,19,586
Sub-ordinated debt	31,299	34,421	40,057	47,342	55,759	64,567
Other Liabilities	38,466	43,317	49,266	69,499	65,678	70,632
Total Liab. & Equity	7,52,886	9,62,165	11,51,591	13,57,470	15,66,977	17,99,794
Cash	41,507	28,321	26,891	38,088	44,860	51,945
Investments	84,403	99,886	96,508	1,01,334	1,06,400	1,11,720
Advances	6,04,446	7,94,547	9,91,952	11,70,127	13,63,511	15,78,886
Fixed Assets	3,928	6,955	9,307	11,034	13,082	15,513
Other Assets	18,603	32,456	26,933	36,887	39,124	41,729
Total assets	7,52,886	9,62,165	11,51,591	13,57,470	15,66,977	17,99,794

Financial Ratios

(%)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth						
Advances	0.8	31.5	24.8	18.0	16.5	15.8
NII	0.4	9.9	9.4	21.6	16.9	15.8
Pre-Provision Profit	(10.3)	0.7	11.4	18.1	16.2	18.3
Net Profit	195.0	100.7	(11.3)	40.0	7.1	20.7
Spreads						
Yield on AUM	15.7	15.3	14.7	14.8	14.9	14.9
Cost of Borrowing	6.9	7.0	7.7	7.9	7.9	7.9
NIM (on AUM)	9.2	8.7	7.5	7.5	7.5	7.5
Spread	5.9	5.8	5.0	5.3	5.4	5.5
Operating Efficiency						
Cost-to-Income	35.8	42.1	41.4	40.2	40.6	39.3
Cost-to-Assets	2.7	3.2	2.8	2.6	2.7	2.6
Asset Quality						
GNPA	7.7	4.5	3.4	3.5	3.5	3.5
NNPA	3.5	1.9	1.3	1.6	1.6	1.6
Provision Coverage	58.1	59.5	63.2	55.0	55.0	55.0
Credit Cost	3.9	1.4	2.0	1.5	1.7	1.7
Capital Adequacy						
CAR	27.8	22.5	18.9	17.2	16.5	16.0
Tier I	24.2	19.9	16.4	14.5	13.6	13.1
Valuation						
EPS	8.0	16.1	14.3	20.0	21.4	25.8
ABV	119.3	130.6	141.5	151.8	166.2	184.9
P/E	33.9	16.9	19.1	13.6	12.7	10.5
P/ABV	2.3	2.1	1.9	1.8	1.6	1.5
ROE	6.5	12.1	10.0	12.9	12.6	13.7
ROA	1.3	2.3	1.7	2.0	1.8	1.9

Source: Company; IDBI Capital Research

BUNTY GOPICHAND CHAWLA

Digitally signed by BUNTY GOPICHAND CHAWLA
DN: c=IN, postalCode=421001, st=MAHARASHTRA,
street=THANE, l=THANE, o=Personal,
serialNumber=12b9335f41e363b7e711f1a7f87380937
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pseudonym=df379b5e01d95ccc103590dae4ea628d,
2.5.4.20=15d9273fb66baa5983c722953f4162c4a0ebf3
a47e8ba8a0d65ced0b35429816,
email=BUNTY.CHAWLA@IDBICAPITAL.COM, cn=BUNTY
GOPICHAND CHAWLA
Date: 2025.01.29 08:28:16 +05'30'

SHREEJIT MOHANKUMAR NAIR

Digitally signed by SHREEJIT MOHANKUMAR NAIR
DN: c=IN, postalCode=400068, st=MAHARASHTRA,
street=MUMBAI, l=MUMBAI, o=Personal,
serialNumber=4607f6ddb1e78c4fa0bee9fd9dc230f780b5
012048e0f9d5345ccbc7c2032541,
pseudonym=24a811820b6ed6b72c43d364786f4a1f,
2.5.4.20=a57f0b0f411aee4293fda147f9d588dbec6f77187d
d2d3076582c5c95674bf21,
email=SHREEJIT.NAIR@IDBICAPITAL.COM, cn=SHREEJIT
MOHANKUMAR NAIR
Date: 2025.01.29 08:29:35 +05'30'

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

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IDBI Capital Markets & Securities Ltd.**Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 4069 1907

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