

CMP: ₹ 286

Target: ₹ 330 (15%)

Target Period: 12 months

BUY

May 5, 2023

Mixed performance; focus on FY25 roadmap...

About the stock: Mahindra & Mahindra Financial Services (MMFS) is primarily into a vehicle financing business (e.g. new pre owned auto, utility vehicles, tractors, passenger cars and commercial vehicles). As of June 2022, MMFS has a network of 1384 branches spread across in India.

- The main focus of MMFS is in rural and semi urban areas
- MMFS also present in housing, insurance and AMC via its subsidiaries

Q4FY23 Results: M&M Financial Services reported a mixed performance.

- Loan book was up 27% YoY, 7% QoQ led by 80% YoY growth in disbursements
- NII up 10.2% YoY, NIMs declined 36 bps QoQ at 8%, C/I inched up at ~45%
- Significant decline in provision resulted in PAT growth of 14% YoY at ₹ 684 crore. Stage-3 assets improved 140 bps QoQ to 4.5%. Collection efficiency was at 99%

What should investors do? M&M Financial Services share price was under pressure in the past two to three years due to cautious approach of management on growth, weak asset quality. However, with roadmap for FY25 in place, encouraging guidance on growth and asset quality, we believe RoA of 2.5% is achievable.

- With asset quality cycle turning, we upgrade our rating from REDUCE to BUY

Target Price and Valuation: With RoE expected to reach 14%+ by FY25, we value M&M Finance at ~1.9x FY25E ABV and revise our target price to ₹ 330 per share from ₹185 earlier.

Key triggers for future price performance:

- Strategic initiatives under new leadership is expected to lead to improvement in RoA and asset quality, thereby acting a catalyst for re-rating of the stock
- The management has articulated its FY25 roadmap, which includes focusing on new geographies, change in asset mix (focus on SME, leasing, etc) and customer diversification (towards affluent customers) with AUM growth target of ~20% YoY augurs well for earnings growth

Alternate Stock Idea: Apart from MMFS, in our coverage we also like CanFin Homes.

- Housing loans comprise ~90% of book of which ~73% is salaried
- BUY with a target price of ₹ 730



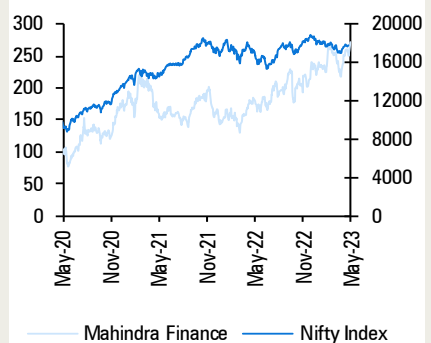
Particulars

Particulars	Amount
Market Capitalisation	₹ 35435 crore
Net worth	₹ 17089
52 week H/L	288/160
Face Value	₹ 2

Shareholding Pattern

(in %)	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Promoter	52.2	52.2	52.2	52.2	52.2
FII	16.2	18.0	16.9	16.1	14.9
DII	18.1	17.8	22.1	23.8	25.2
Others	13.5	12.0	8.8	8.0	7.8

Price performance



Key Highlights

- Disbursements grew 80% YoY. Stage-3 assets improved by 140 bps QoQ to 4.5%
- **Key Risk:** 1) Extended pressure on NIMs may dent PPP; 2) Slower than expected growth in key segments

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Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	5269	5723	5738	6352	6%	7259	8856	18%
PPP	3398	4157	3725	3752	3%	4286	5583	22%
PAT	906	335	989	1984	30%	2244	2931	22%
ABV (₹)	120.2	99.7	109.8	126.3		142.8	165.3	
P/E	19.4	105.1	35.7	17.8		15.7	12.0	
P/ABV	2.4	2.9	2.6	2.3		2.0	1.7	
RoA	1.3	0.4	1.3	2.3		2.2	2.5	
RoE	8.1	2.6	6.5	12.1		12.3	14.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Mixed set of numbers; earnings growth aided by lower provisions

- Despite healthy business growth, NII growth was moderate at 2.4% QoQ, 10.2% YoY mainly due to a decline in NIMs (calc). NIMs (calc) during the quarter declined 36 bps QoQ to 8% as CoF (calc) increased substantially by 67 bps to 7.3% vs. 6.6% in Q4FY23
- Operating expenses were higher (23% YoY, 20% QoQ) due to spends in tech, employees, automation, etc, resulting in CI ratio of ~45% vs. 41% in Q4FY22
- Provisions during the quarter were negligible (at ₹ 0.4 crore vs. ₹ 155 crore in Q3FY23) mainly led by significant improvement in asset quality. On a QoQ basis, stage 2 & 3 assets (in absolute terms) declined 22% at ₹ 8645 crore (stage 2 & 3 assets). Resultantly, PAT at ₹ 684 crore reported growth of 14% YoY, 9% QoQ
- Asset quality improved on a QoQ basis as gross stage 3 assets were at 4.5% vs. 5.9% in Q3FY23. Stage 3 includes restructured assets of ₹ 695 crore as of Q4FY23
- Loan book grew 27% YoY, 7% QoQ to ₹ 82770 crore led by disbursement growth of 80% YoY (₹ 13778 crore). Auto segment grew 31% YoY, 7% QoQ. Cars segment grew 17% YoY, 7% QoQ, while tractor segment grew 16% YoY, 7% QoQ

Q4FY23 Earnings Conference Call highlights

- Guidance – AUM growth 20% YoY (to achieve 2x of AUM). NIMs at 7.5%, cost to assets at 2.5%, steady asset quality and RoA, RoE of 2.5%, 15%, respectively. Comfortable leverage of 5.5-6%. By the end of FY25, small businesses to contribute 15% of overall AUM
- Rural sentiments continue to remain strong and positive led by improved footfalls at dealership, collections at pre-Covid levels and two good monsoons in row
- With improved infra spending, farm cash flows expected to remain steady and demand augurs well for growth, going ahead
- New focus areas – SME business (auto, engineering, food processing), micro loans, LAP, consumer & personal loans. Yields on LAP – 12%+
- Total 15-20% business is self-generated. Earlier 80-90% collections were in cash, which has now come down to ~40% levels. Digital initiatives have reduced time and cost to onboard the customer. Hence, CI ratio to improve, going ahead
- Asset quality – In order to maintain steady asset quality, the company's focus will be on acquiring good rural and semi-urban affluent customers
- The market share is improving in every product. Expanding unsecured book cautiously and gradually coupled with controlled asset quality
- Credit cost was at 1.2% led by improvement in both GS3 and GS2 assets
- The management aim to shift some manual process to the technology platforms, use digital more sensibly and more correctly, embark on partnership journeys with various external partners
- Target to add 200 more branches in high potential rural locations
- Went live with Bank of Baroda and Indian Post Payments Bank partnerships
- Mahindra Housing Finance to show good performance. The management aims to come out with an IPO of this business in the next two to three years

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/ABV (x)			RoE (%)					
	(₹)	TP(₹)		Rating	(₹ bn)	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E
Can Fin Homes (CANHOM)	644	730	Buy	85	35.4	46.2	55.3	67.5	18.2	13.9	11.6	9.5	2.9	2.4	2.0	1.7	16.6	18.3	18.5	19.0
Bajaj Finance (BAJFI)	6,414	7,250	Buy	3,885	116.8	195.4	240.0	298.3	54.9	32.8	26.7	21.5	9.0	7.1	5.9	4.8	17.5	23.9	23.9	23.5
M & M Finance (MAHFIN)	286	330	Buy	354	8.0	16.1	18.2	23.8	35.7	17.8	15.7	12.0	2.6	2.3	2.0	1.7	6.5	12.1	12.3	14.1
Muthoot Finance (MUTFIN)	1,057	1,150	Hold	424	98.5	85.2	95.7	111.4	10.7	12.4	11.0	9.5	2.5	2.2	1.9	1.7	23.5	17.5	17.4	17.9

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	1,660	1,507	10.2	1,621	2.4	Moderate growth due to decline in margins
NIM Calc. (%)	8.0	9.3	-125 bps	8.4	-36 bps	Margins continued to decline due to higher CoF
Net Total Income	1,723	1,531	12.5	1,650	4.4	
Staff cost	455	320	42.2	400	13.9	
Other Expenses	323	313	3.4	252	28.5	CI ratio inched up to ~45% vs ~41% in Q4FY22
PPP	944.1	897.9	5.1	998.3	-5.4	
Provision	0.4	63.9	-99.4	155.1	-99.7	Significant improvement in credit cost led by decline in stage 2 & 3 assets
PBT	943.7	834.1	13.1	843.1	11.9	
Tax	259.6	233.3	11.3	214.2	21.2	
PAT	684.1	600.8	13.9	629.0	8.8	Aided by lower provisions during the quarter

Key Metrics

GNPA	3,717.0	4,976.0	-25.3	4,589.0	-19.0	GNPA ratio improved to 4.5% vs 5.9% QoQ
NNPA	1,507.0	2,086.0	-27.8	1,882.0	-19.9	
Advances	82,770	64,961	27.4	77,344	7.0	Led by 80% YoY growth in disbursements
Borrowings	65,577	45,278	44.8	61,588	6.5	

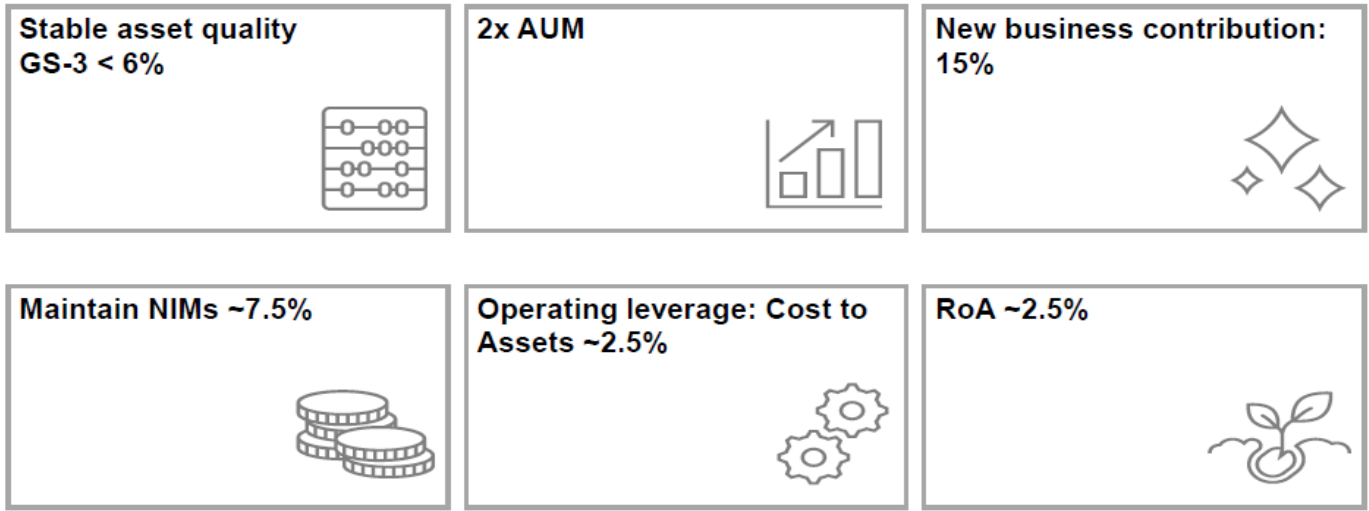
Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY24E			FY25E
	Old	New	% Change	Introduced
Net Interest Income	6,323.0	7,258.7	14.8	8,856.2
Pre Provision Profit	3,969.0	4,285.6	8.0	5,583.4
NIM calculated (%)	8.5	8.6	5 bps	8.9
PAT	1,430.0	2,244.2	56.9	2,931.3
ABV (₹)	128.9	142.8	10.8	165.3

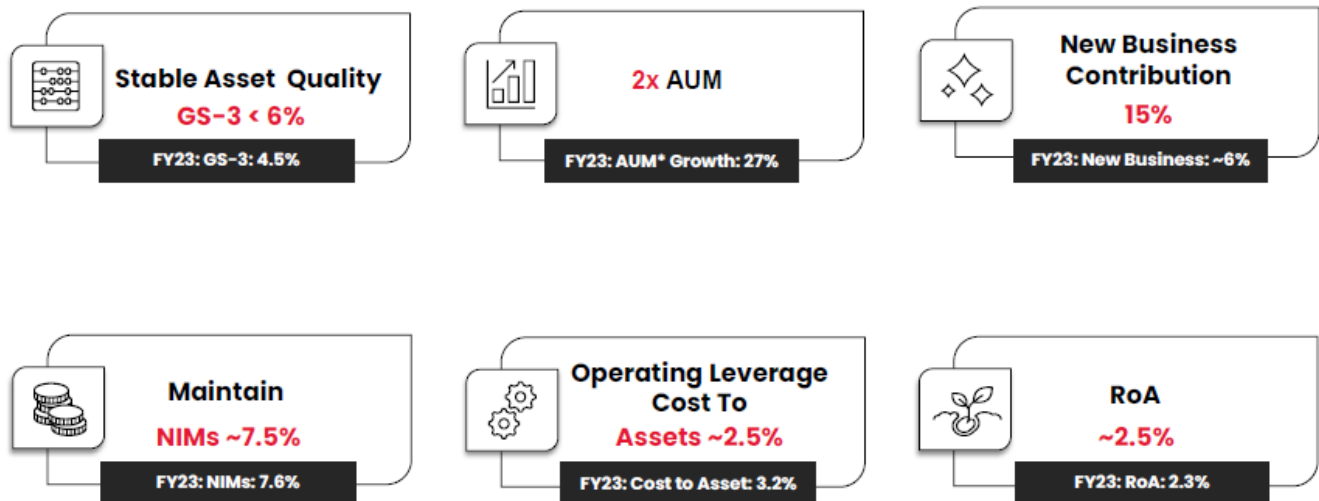
Source: Company, ICICI Direct Research

Exhibit 4: Sustainable profitable growth: Mission FY25E



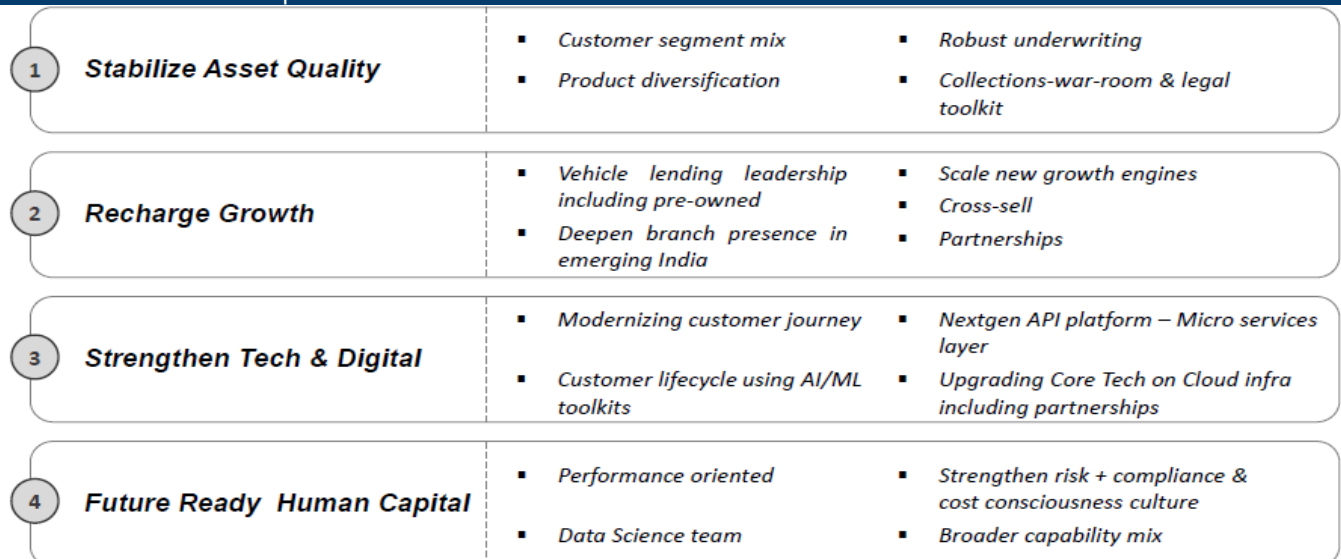
Source: Company, ICICI Direct Research

Exhibit 5: Target outcome for FY25E



Source: Company, ICICI Direct Research

Exhibit 6: Transformation priorities...



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Interest Earned	9658	10929	12810	15488
Interest Expended	3920	4577	5551	6632
Net Interest Income	5738	6352	7259	8856
Non Interest Income	61	127	130	149
Net Income	5799	6479	7389	9006
Staff cost	1171	1584	1734	1819
Other Operating expense	902	1143	1369	1603
Operating profit	3725	3752	4286	5583
Provisions	2368	999	1273	1649
PBT	1357	2698	3012	3935
Taxes	368	714	768	1003
Net Profit	989	1984	2244	2931
EPS (₹)	8.0	16.1	18.2	23.8

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Valuation				
No. of Equity Shares (Crore)	123.3	123.4	123.4	123.4
EPS (₹)	8.0	16.1	18.2	23.8
BV (₹)	126.7	138.5	156.7	180.5
ABV (₹)	109.8	126.3	142.8	165.3
P/E	35.7	17.8	15.7	12.0
P/BV	2.3	2.1	1.8	1.6
P/ABV	2.6	2.3	2.0	1.7
Yields & Margins (%)				
Net Interest Margins	9.5	9.1	8.6	8.9
Yield on Gross AUM	15.4	15.6	15.9	15.5
Cost of borrowing	8.8	8.3	7.9	7.9
Quality and Efficiency (%)				
GNPA	7.7	4.5	4.1	3.7
NNPA	3.4	1.9	1.8	1.6
ROE (%)	6.5	12.1	12.3	14.1
Return on Gross AUM	1.3	2.3	2.2	2.5

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	247	247	247	247
Reserves and Surplus	15381	16842	19086	22018
Networth	15628	17089	19333	22264
Borrowings	45278	65577	75859	93108
Current liabilities & Provision	14383	13551	12643	15335
Total	75289	96217	107835	130708
Applications of Funds				
Fixed Assets	383	681	817	981
Investments	8440	9989	11740	13145
Advances	60445	79455	90309	109539
Other Assets	1870	3260	2998	2762
Cash with RBI & call money	4151	2832	1972	4282
Total	75289	96217	107835	130708

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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