

Mahindra & Mahindra Financial

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	MMFS IN
Equity Shares (m)	615
M.Cap.(INRb)/(USD\$)	243.6 / 3.1
52-Week Range (INR)	213 / 128
1, 6, 12 Rel. Per (%)	2/22/29
12M Avg Val (INR M)	985

Financials & valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	55.4	59.0	65.3
PPP	37.3	37.1	41.8
PAT	9.9	14.5	16.1
EPS (INR)	8.0	11.8	13.1
EPS Gr. (%)	195	47	11
BV/Sh.(INR)	123	131	139

Ratios

NIM (%)	8.6	8.5	8.3
C/I ratio (%)	35.6	40.0	39.0
RoA (%)	1.3	1.8	1.8
RoE (%)	6.6	9.3	9.7
Payout (%)	44.9	34.0	35.0

Valuations

P/E (x)	24.4	16.6	15.0
P/BV (x)	1.6	1.5	1.4
Div. Yield (%)	1.8	2.0	2.3

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	52.2	52.2	52.2
DII	18.0	16.2	16.5
FII	17.8	18.1	18.2
Others	12.1	13.6	13.1

FII Includes depository receipts

CMP: INR196
TP: INR235 (+20%)
Buy

Operationally healthy but yet another quarter of credit cost volatility

- MMFS reported a PAT of INR2.23b in 1QFY23 (40% miss), led by elevated operating expenses (cost-income ratio of ~40%) and higher credit costs of INR6.5b (including write-offs of INR5.7b)
- Business assets at ~INR677b grew 4% QoQ/ 7% YoY. Disbursements rose 3% QoQ/145% YoY to ~INR94.7b. Management expects healthy disbursement growth supported by improving inventory levels, overall price increase of OEMs and strong demand.
- We believe that MMFS will benefit from its parent Mahindra & Mahindra (M&M)'s strong recovery in auto volumes. We model an AUM/ PAT CAGR of 14%/28% over FY22-FY24E for an RoA/RoE of 1.8%/10%, respectively. **Maintain BUY with a TP of INR235 (based on 1.7x FY24E BVPS).**

Volatility in credit costs still inherent; expect credit costs to taper off

- There was seasonal deterioration in asset quality with GS3/NS3 increasing ~40bp/20bp QoQ to ~8%/3.5%, respectively. Stressed pool – GS2 and GS3 – contracted to ~20%.
- MMFS maintained stable PCR of ~58% on S3 loans. Restructured pool stood at INR35.9b (5.3% of the business assets v/s 6.2% in 4QFY22).

Margin stable, but operating expenses elevated

- MMFS reported a ~25bp QoQ decline in the cost of borrowings. Despite this, the spreads contracted ~10bp QoQ while margin improved ~5bp. We expect margin to remain stable over FY23 and contract ~20bp in FY24.
- Driven by investments in technology, data analytics and human capital for setting up newer businesses, the cost-income ratio was elevated at ~40%.

Key takeaways from the management commentary

- Even after adopting the RBI NPA circular in Oct'22, the company plans to maintain the current S3 PCR of ~58% and therefore does not expect provisions to increase significantly in the remainder of this fiscal year
- MMFS reiterated its guidance to double the AUM over the next three years
- Management expects credit costs to moderate over the next three quarters of FY23 driven by lower repossessions and need for write-offs.

Poised for growth; a strategic transformation on the cards – retain BUY

- The company has maintained its leadership position in the Tractor and Mahindra UV financing segments, which has always been its strength.
- While understandably, MMFS has exhibited volatile operating performance and weak asset quality in the past, we believe that the various strategic initiatives undertaken by the management, if executed correctly, have the potential to script a credible transformation.
- Strong liability franchise and deep moats in rural/semi-urban customer segment position MMFS well to reap rewards of the hard work that is going into evolving this franchise.

Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	1QFY23E	v/s est
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23				
Operating Income	21,760	25,079	25,317	24,424	24,863	25,583	26,376	27,607	96,580	1,04,430	25,387	-2
Other Income	111	145	114	239	122	175	200	233	609	731	150	-18
Total income	21,871	25,224	25,430	24,664	24,986	25,758	26,576	27,840	97,189	1,05,160	25,537	-2
YoY Growth (%)	-17.6	-4.8	-1.2	-6.5	14.2	2.1	4.5	12.9	-7.6	8.2	16.8	
Interest Expenses	10,179	10,151	9,514	9,514	9,320	10,065	10,971	13,051	39,359	43,406	9,704	-4
Net Income	11,691	15,073	15,916	15,150	15,666	15,693	15,605	14,790	57,830	61,754	15,833	-1
YoY Growth (%)	-15.9	5.6	12.4	-2.2	34.0	4.1	-2.0	-2.4	-0.1	6.8	35.4	
Operating Expenses	4,203	4,910	5,294	6,170	6,208	6,138	6,352	5,991	20,577	24,689	5,296	17
Operating Profit	7,488	10,163	10,623	8,979	9,458	9,555	9,253	8,799	37,253	37,065	10,536	-10
YoY Growth (%)	-28.3	-1.4	6.4	-15.1	26.3	-6.0	-12.9	-2.0	-10.4	-0.5	40.7	
Provisions	28,186	-3,668	-1,474	639	6,453	4,500	3,500	2,944	23,683	17,397	5,445	19
Profit before Tax	-20,698	13,831	12,096	8,341	3,005	5,055	5,753	5,855	13,570	19,668	5,091	-41
Tax Provisions	-5,411	3,602	3,158	2,333	776	1,314	1,496	1,567	3,682	5,153	1,324	-41
Net Profit	-15,288	10,229	8,939	6,008	2,229	3,741	4,257	4,288	9,888	14,515	3,768	-41
YoY Growth (%)	-1,121.3	237.0	-426.1	300.6	-114.6	-63.4	-52.4	-28.6	195.0	46.8	-124.6	
Key Operating Parameters (%)												
Yield on loans (Cal)	14.7	17.3	17.2	16.1	15.8							
Cost of funds (Cal)	7.1	7.3	6.7	6.7	6.5							
Spreads (Cal)	7.6	10.0	10.5	9.4	9.3							
Credit Cost (Cal)	17.6	-2.3	-0.9	0.4	3.9							
Cost to Income Ratio	36.0	32.6	33.3	40.7	39.6							
Tax Rate	26.1	26.0	26.1	28.0	25.8							
Balance Sheet Parameters												
Loans (INR B)	564	572	583	604	631							
Change YoY (%)	-11.6	-11.2	-6.2	0.8	11.9							
Borrowings (INR B)	556	559	571	558	591							
Change YoY (%)	-12.3	-7.4	-3.6	-4.7	6.3							
Loans/Borrowings (%)	101.5	102.3	102.1	108.3	106.8							
Debt/Equity (x)	4.2	3.9	3.8	3.6	3.8							
Asset Quality Parameters (%)												
GS 3 (INR B)	98.3	80.7	72.2	49.8	54.4							
Gross Stage 3 (% on Assets)	15.5	12.7	11.3	7.7	8.0							
NS 3 (INR B)	45.5	37.9	33.8	20.9	22.8							
Net Stage 3 (% on Assets)	7.8	6.4	0.8	3.4	3.5							
PCR (%)	53.7	53.0	53.2	58.1	58.1							
ECL (%)	11.3	10.1	8.9	6.9	6.8							
Return Ratios (%)												
ROAA	-8.2	5.6	4.8	3.2	1.2							
ROAE	-43.8	29.9	24.5	15.7	5.7							

E: MOFSL estimates



Highlights from the management commentary

Business operations

- Disbursements were healthy driven by expansion of demand in rural and the company estimates upcoming festival season to be buoyant.
- Improving inventory levels, expected price increase from OEMs and strong demand would support disbursements

Asset quality

- Even after adopting the RBI NPA circular in Oct'22, the company plans to maintain the current S3 PCR of ~58% and therefore does not expect provisions to increase significantly in the remainder of this fiscal year.

- MMFS now maintains 100% provisions on those loan contracts which have an ageing above 18+ months. However, company continues to make efforts for recovery on those exposures.

Margins

- Already passed on 30-40bp through increase in lending rates. Does not anticipate any significant pressure on NIM because of increasing borrowing costs. However, margins could be impacted because it plans to also start catering to affluent rural customer (relatively lower yields). Lower yields could be partly offset by lower operating costs for this set of customers.

Growth outlook

- Does not see any reason to re-look at the disbursement target. It does not foresee any volume decline and there will also be a price increase from the OEMs which will support disbursements.

Guidance

- Maintained its guidance to double the AUM over the next 3 years
- Expect credit costs to reduce by ~1% by the end of FY23 driven by lower repossessions and write-offs
- Estimate ~50-60bp increase in weighted average CoF assuming further ~50-75bp repo rate hike in FY23
- Guided for opex/AUM ratio of ~3%
- Expect recovery of ~3-3.5b from the written off pool in FY23.

New segments

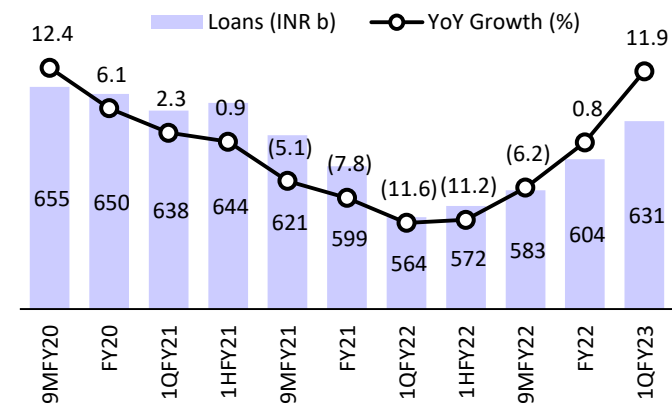
- The company foresees healthy demand in the leasing space and plans to even venture into retail leasing business going ahead
- Putting in a team in place for the LAP business and expects to start disbursements by end-FY23. Digital FinCo will also start contributing meaningfully from FY24.
- Observed significant traction on the auto front in the SME segment and expects SME disbursements of ~INR20-30b in FY23

Others

- CE was healthy in 1QFY23 and expect to maintain the same traction in collections in the coming quarters
- Large part of the investments in technology and newer businesses would be completed in FY23.

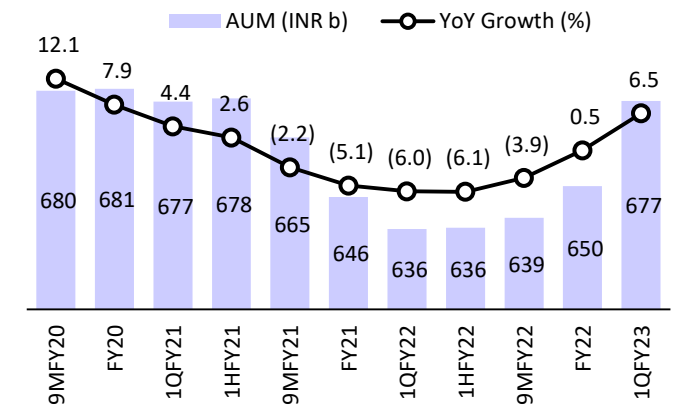
Key exhibits

Exhibit 1: On-book loans grew by ~12% YoY



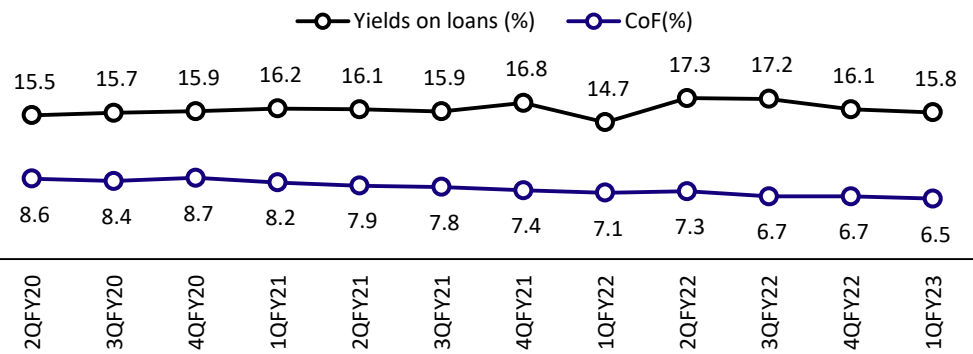
Source: MOFSL, Company

Exhibit 2: Business assets grew by ~4% sequentially



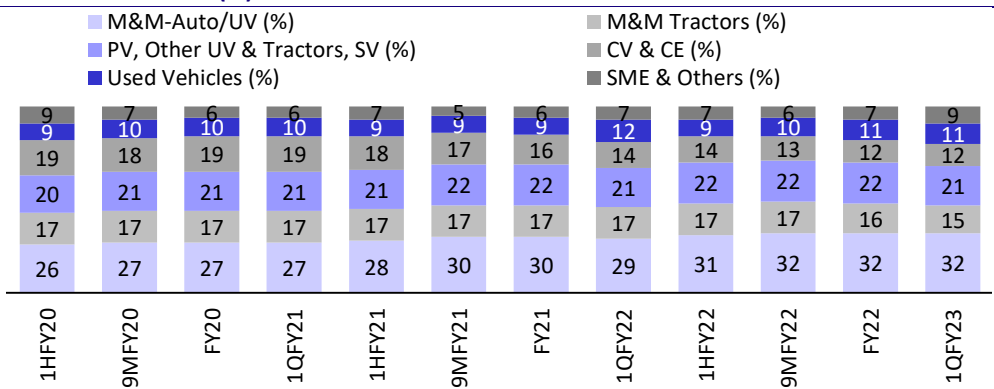
Source: MOFSL, Company

Exhibit 3: Spreads were broadly stable sequentially

Yields declined by ~30bp
QoQ

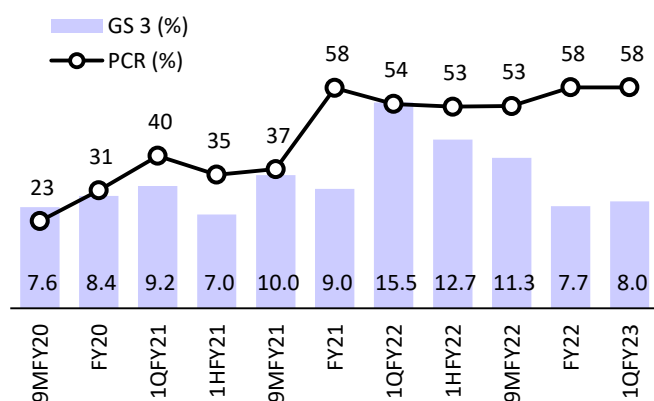
Source: MOFSL, Company

Exhibit 4: AUM mix (%)

Share of SME up 200bp
QoQ to 9%

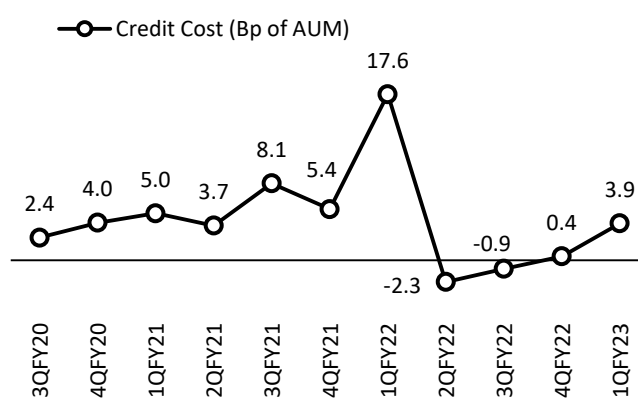
Source: MOFSL, Company

Exhibit 5: GS3 increased to 8%, PCR stable at ~58%



Source: MOFSL, Company, GS 3% on total assets

Exhibit 6: Credit costs were high because of elevated write-offs from repossessions (%)



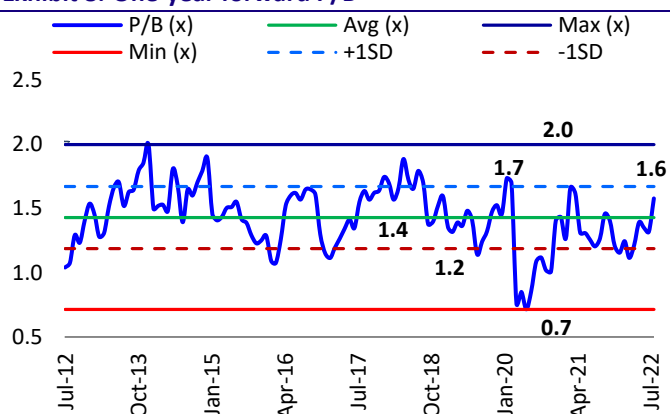
Source: MOFSL, Company

Exhibit 7: Our FY23/24E EPS estimates are unchanged

INR B	Old Est		New Est		% Change	
	FY23	FY24	FY23	FY24	FY23	FY24
NII (incl. Sec. Inc)	59.2	65.4	61.0	67.6	3.1	3.2
Other Income	0.7	0.9	0.7	0.9	0.0	0.0
Total Income	59.9	66.3	61.8	68.4	3.0	3.2
Operating Expenses	22.6	24.7	24.7	26.7	9.2	8.0
Operating Profits	37.3	41.6	37.1	41.8	-0.7	0.3
Provisions	17.7	19.9	17.4	19.9	-1.8	0.3
PBT	19.6	21.8	19.7	21.8	0.3	0.3
Tax	5.1	5.7	5.2	5.7	0.3	0.3
PAT	14.5	16.1	14.5	16.1	0.3	0.3
Loans	685	781	690	791	0.9	1.2
Borrowings	631	720	639	732	1.3	1.7
Margins	8.3	8.1	8.5	8.3		
Credit Cost	2.6	2.6	2.5	2.5		
RoA on AUM	1.8	1.8	1.8	1.8		
RoE	9.2	9.6	9.3	9.7		

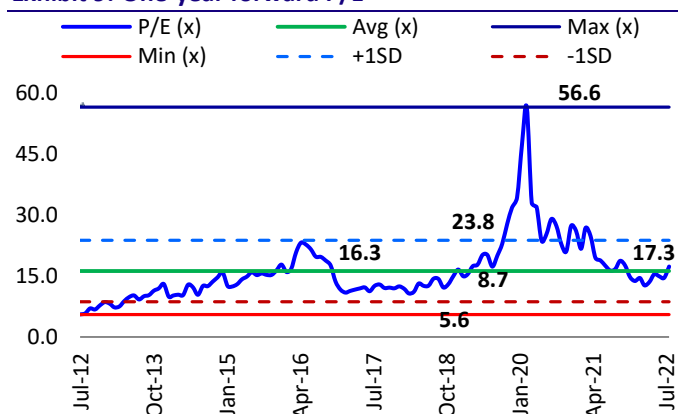
Source: MOFSL, Company

Exhibit 8: One-year forward P/B



Source: MOFSL, Company

Exhibit 9: One-year forward P/E



Source: MOFSL, Company

Financials and valuations

Income Statement								INR m	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	56,163	60,127	65,842	86,146	99,417	1,02,670	94,756	1,02,424	1,18,484
Interest Expended	26,393	28,574	30,816	39,446	48,287	47,332	39,359	43,406	53,139
Net Interest Income	29,770	31,553	35,025	46,700	51,130	55,338	55,398	59,018	65,344
Change (%)	7.8	6.0	11.0	33.3	9.5	8.2	0.1	6.5	10.7
Other Operating Income	2,368	1,612	493	1,084	1,561	1,283	1,824	2,006	2,207
Other Income	519	636	517	869	1,473	1,277	609	731	877
Net Income	32,658	33,801	36,036	48,653	54,164	57,897	57,830	61,754	68,428
Change (%)	5.8	3.5	6.6	35.0	11.3	6.9	-0.1	6.8	10.8
Operating Expenses	11,781	14,509	14,336	18,476	20,182	16,325	20,577	24,689	26,669
Operating Profits	20,877	19,292	21,700	30,177	33,982	41,573	37,253	37,065	41,759
Change (%)	0.3	-7.6	12.5	39.1	12.6	22.3	-10.4	-0.5	12.7
Provisions	10,495	13,091	5,681	6,352	20,545	37,348	23,683	17,397	19,931
PBT	10,382	6,201	16,019	23,824	13,438	4,224	13,570	19,668	21,828
Tax	3,656	2,198	5,907	8,254	4,374	873	3,682	5,153	5,719
Tax Rate (%)	35.2	35.5	36.9	34.6	32.5	20.7	27.1	26.2	26.2
PAT	6,726	4,002	10,111	15,571	9,064	3,352	9,888	14,515	16,109
Change (%)	-19.1	-40.5	152.6	54.0	-41.8	-63.0	195.0	46.8	11.0
Proposed Dividend (Incl Tax)	2,713	1,610	2,938	4,779	0	986	4,439	4,935	5,638

Balance Sheet								INR m	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	1,129	1,130	1,229	1,230	1,231	2,464	2,466	2,466	2,466
Reserves & Surplus (Ex OCI)	59,752	64,994	92,052	1,03,072	1,12,408	1,43,666	1,49,376	1,58,956	1,69,427
Net Worth	60,881	66,124	93,281	1,04,221	1,13,558	1,46,049	1,51,761	1,61,422	1,71,893
Other Comprehensive Income		0	0	81	81	81	81	81	81
Net Worth	60,881	66,124	93,281	1,04,302	1,13,639	1,46,130	1,51,842	1,61,503	1,71,973
Change (%)	7.4	8.6	41.1	11.8	9.0	28.6	3.9	6.4	6.5
Borrowings	2,94,523	3,52,656	4,00,932	5,28,469	5,94,623	5,85,767	5,58,139	6,39,276	7,32,063
Change (%)	12.1	19.7	13.7	31.8	12.5	-1.5	-4.7	14.5	14.5
Other liabilities	40,391	24,404	33,715	38,009	32,451	38,469	42,906	47,197	51,916
Total Liabilities	3,95,795	4,43,185	5,27,927	6,70,780	7,40,712	7,70,365	7,52,887	8,47,895	9,55,872
Investments	15,351	19,843	27,341	37,917	59,110	1,16,073	84,403	92,843	1,02,127
Change (%)	41.4	29.3	37.8	38.7	55.9	96.4	-27.3	10.0	10.0
Loans and Advances	3,62,189	4,06,000	4,85,470	6,12,496	6,49,935	5,99,474	6,04,446	6,90,419	7,90,628
Change (%)	11.7	12.1	19.6	26.2	6.1	-7.8	0.8	14.2	14.5
Other assets	18,255	17,342	15,116	20,367	31,668	54,818	64,038	64,633	63,117
Total Assets	3,95,795	4,43,185	5,27,927	6,70,780	7,40,712	7,70,365	7,52,887	8,47,895	9,55,872

E: MOSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	2016	2017	2018	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)									
Yield on Portfolio	16.4	15.7	14.8	15.7	15.8	16.4	15.7	15.8	16.0
Cost of Borrowings	9.5	8.8	8.2	8.5	8.6	8.0	6.9	7.3	8.0
Interest Spread	6.9	6.8	6.6	7.2	7.2	8.4	8.9	8.6	8.0
Net Interest Margin	8.3	7.7	7.3	8.1	7.8	8.3	8.6	8.5	8.3
Profitability Ratios (%)									
Cost/Income	36.1	42.9	39.8	38.0	37.3	28.2	35.6	40.0	39.0
Empl. Cost/Op. Exps.	47.4	46.9	58.1	59.0	56.9	62.2	56.9	54.6	55.6
RoE	11.4	6.3	12.7	15.8	8.3	2.6	6.6	9.3	9.7
RoA	1.8	1.0	2.1	2.6	1.3	0.4	1.3	1.8	1.8
Asset Quality (%)									
GNPA	32,242	35,341	50,270	40,706	57,467	57,857	49,760	49,413	51,605
NNPA	12,351	7,968	139	-63	6,695	24,339	20,860	22,730	24,770
GNPA %	8.4	8.0	9.8	6.4	8.4	9.0	7.7	6.7	6.2
NNPA %	3.4	2.0	0.0	0.0	1.0	4.1	3.5	3.2	3.1
PCR %	61.7	77.5	99.7	100.2	88.3	57.9	58.1	54.0	52.0
Capitalization (%)									
CAR	17.3	18.1	22.7	20.3	19.6	26.0	27.8	24.0	21.7
Tier I	14.6	13.6	17.0	15.5	15.4	22.2	24.3	21.4	19.7
Tier II	2.7	4.5	5.7	4.8	4.2	3.8	3.5	2.6	2.0
Average Leverage on Assets (x)	6.3	6.6	6.1	6.1	6.5	5.8	5.1	5.1	5.4
Valuation									
Book Value (INR)	108	117	152	169	185	119	123	131	139
BV Growth (%)	7.3	8.5	29.7	11.7	8.9	-35.8	3.8	6.4	6.5
Price-BV (x)						1.7	1.6	1.5	1.4
Adjusted BV (INR)	93	107	152	170	176	104	110	117	125
Price-ABV (x)						1.9	1.8	1.7	1.6
OPS (INR)	37.0	34.1	35.3	49.1	55.2	33.7	30.2	30.1	33.9
OPS Growth (%)	0.2	-7.7	3.4	39.0	12.5	-38.9	-10.5	-0.5	12.7
Price-OP (x)						5.8	6.5	6.5	5.8
EPS (INR)	11.9	7.1	16.5	25.3	14.7	2.7	8.0	11.8	13.1
EPS Growth (%)	-19.2	-40.5	132.3	53.9	-41.8	-81.5	194.8	46.8	11.0
Price-Earnings (x)						72.0	24.4	16.6	15.0
Dividend	4.0	2.4	4.0	6.5	0.0	0.8	3.6	4.0	4.6
Dividend Yield (%)						0.4	1.8	2.0	2.3

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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