



### 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive    = Neutral    - Negative

### What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

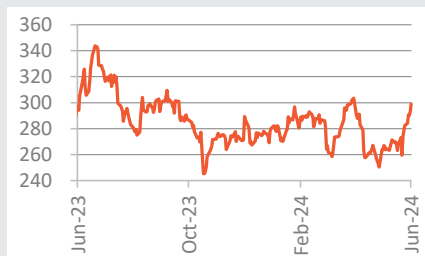
### Company details

Market cap:	Rs. 36,936 cr
52-week high/low:	Rs. 346/ 244
NSE volume: (No of shares)	39.1 lakh
BSE code:	532720
NSE code:	M&MFIN
Free float: (No of shares)	59.3 cr

### Shareholding (%)

Promoters	52.2
FII	12.0
DII	28.6
Others	7.3

### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	13.3	12.0	3.5	1.4
Relative to Sensex	7.5	6.2	-7.2	-20.6

Sharekhan Research, Bloomberg

## Mahindra & Mahindra Financial Services Ltd

### Embarking on turnaround path

NBFC	Sharekhan code: M&MFIN	
Reco/View: Buy	↔	CMP: Rs. 299    Price Target: Rs. 345
↑ Upgrade	↔ Maintain	↓ Downgrade

### Summary

- Company showcased its technology capabilities, which would gradually help to deliver sustainable and predictable performance going ahead unlike in the past, where business clocked volatile performance.
- Company remains confident of the asset quality in the downturn cycle as well, led by calibrated efforts undertaken after COVID-19.
- The company is guiding for sustainably delivering RoE of ~15% in the near term while 18% RoE remains an aspirational target over the medium to long term.
- Stock trades at 1.8x/ 1.6x its FY2025E/FY2026E BV estimates, respectively. We maintain Buy with an unchanged PT of Rs. 345.

We attended the Mahindra Group's Analyst Day meet, where the company discussed its current positioning, and how it will capture mega growth trends evolving with the help of technology ecosystem. The management also addressed the factors which it was lacking earlier versus peers – a) Adequately diversify asset mix, which is concentrated towards wheels; b) They were late adopters of technology; c) Volatility in the asset quality. Considering all these factors, the company has undertaken calibrated steps to expand & diversify its portfolio, improve customer accessibility (through branch expansion, building partnership and the Super app), offering right products in timely manner through seamless digital journey by adopting technology. Underwriting and collection function have been strengthened and focus has been to acquire prime affluent customer as asset quality is of paramount focus. This would result in credit costs gradually falling in the medium term. The company is focusing on improving realisation through fee and distribution income to offset lower yields in case of a prime customer. The company gave confidence that it is gradually embarking the turnaround path to deliver sustainable and predictable performance going ahead unlike in the past, where business reported volatile performance.

**Identifying mega trends:** The company discussed the mega trends identified which are shaping the Indian financial service sector – Rising mass affluence, digital adoption, increasing formalisation and financial inclusion. The company intends to cater to rising middle income group segment with diverse product pools with focus on strong execution with the help of technology so that it can grow faster in a sustainable manner and simultaneously keeping asset quality in check. It displayed the demo of its Super app how customer acquisition, sanctioning and collection function have improved, and customer experience/ journey have become seamless.

**Growth outlook:** The company guided for a 10-12% disbursement growth, translating into 15-18% loan growth in FY2025. However, disbursements trends have been muted in April & May due to elections but there is no slowdown in demand. Growth is expected to pick up in the wheels segment in H2FY25. Tractor, used vehicles, CV are doing well but PV segment is muted. The company guided that SME & Mortgage business's scale would improve gradually and unsecured loans would be offered only to the existing customer who have stellar record.

**Focus on improving profitability:** The company is targeting RoA improvement FY25E led by change in product mix, improving fee income and lowering credit cost. The company is guiding for delivering an RoE at of ~15% sustainably in the near term, while an 18% RoE remains an aspirational target over the medium to long term.

### Our Call

**Valuation – We maintain a Buy with an unchanged PT of Rs. 345:** Currently, the company continues to enjoy the tailwinds of strong asset quality performance similar to its peers resulting in a strong performance. The company is confident of the asset quality in the downturn cycle also unlike in the past where business reported a volatile earnings performance. We believe that sustained earnings progression and execution would be monitored closely to build confidence. In the near term, the company is focusing on improving the product mix (increasing the share of used CVs) resulting in better yields, higher fee income and a lower credit cost to support earnings. However, growth moderation, higher cost of funds may pose risk to earnings in FY2025E. At CMP, M&M Finance trades at 1.8x/ 1.6x its FY2025E and FY2026E ABV, respectively.

### Key Risks

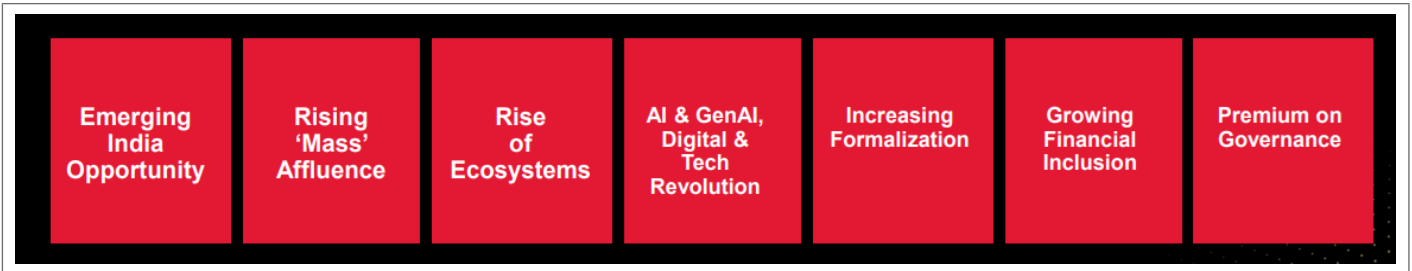
Slower loan growth, lower margins and higher credit cost.

### Valuation (Standalone)

Particulars	FY22	FY23	FY24	FY25E	FY26E
NII	5,555	6,106	6,682	8,482	10,390
PAT	989	1,984	1,760	2,639	3,365
EPS (Rs.)	8.0	16.1	14.3	21.3	27.2
ROA	1.3	2.3	1.7	2.0	2.0
ROE	6.5	12.1	10.0	14.1	15.9
P/E (x)	37.3	18.6	20.9	14.0	11.0
P/BV (x)	2.3	2.2	2.1	1.8	1.6

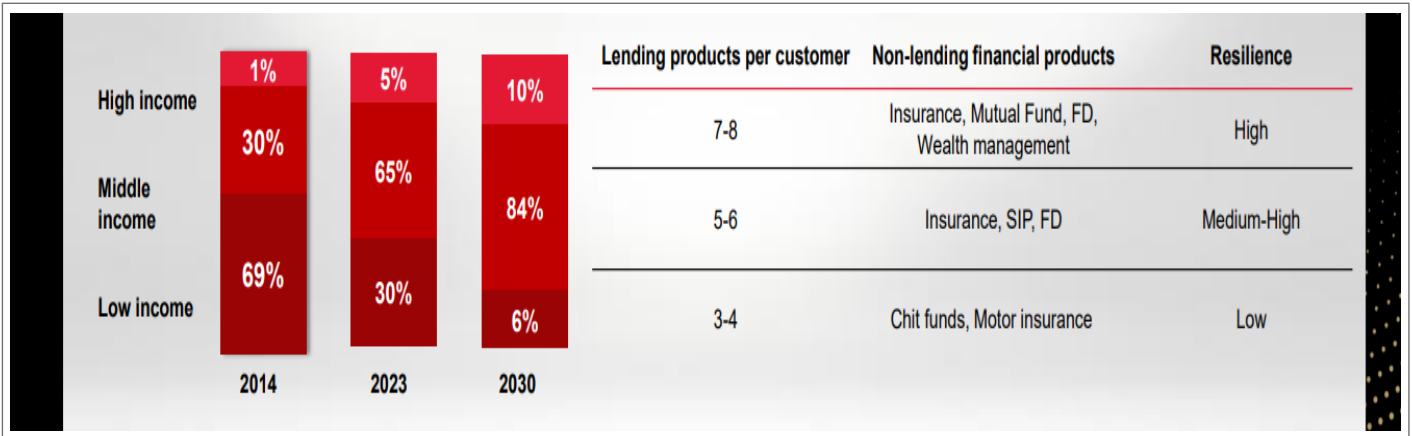
Source: Company; Sharekhan estimates

**Key mega trends shaping India Financial Services sector**



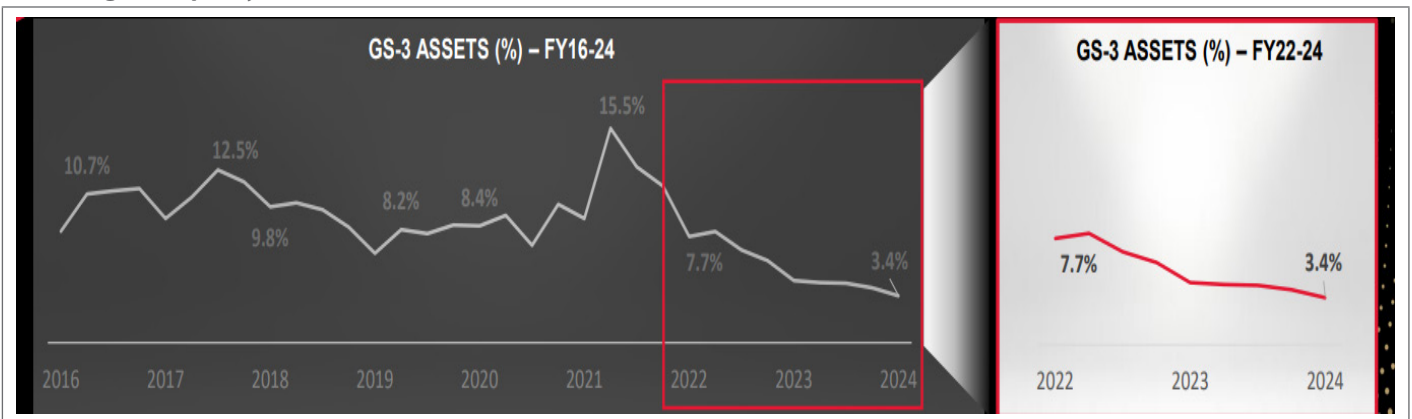
Source: Company Presentation, Sharekhan Research

**Intend is to cater the needs of rising middle income group with focus on cross sell to sustain healthy growth**



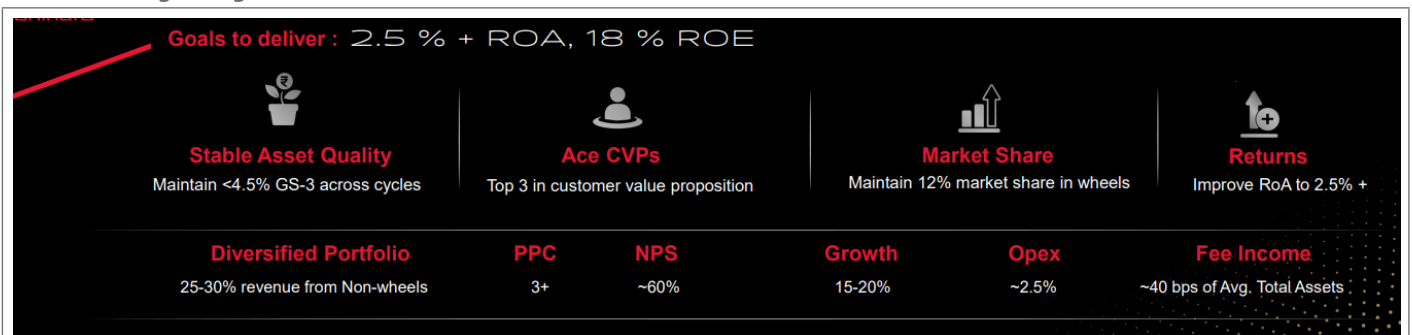
Source: Company Presentation, Sharekhan Research

Asset quality performance has been strong in the last two years similar to its peers led by tailwinds but sustaining this performance and strong asset quality in the downturn would be monitorable.



Source: Company Presentation, Sharekhan Research

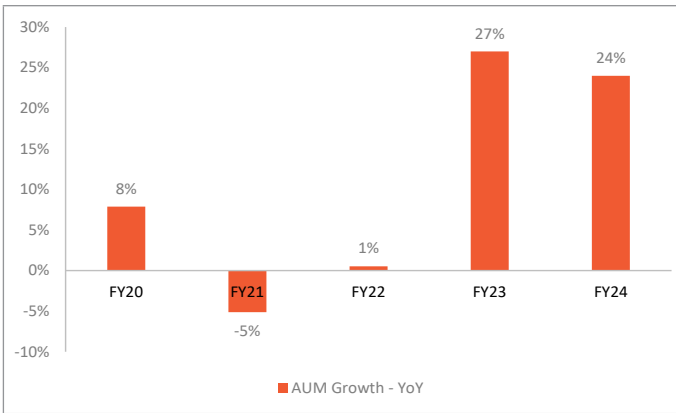
**Medium to long term goals**



Source: Company Presentation, Sharekhan Research

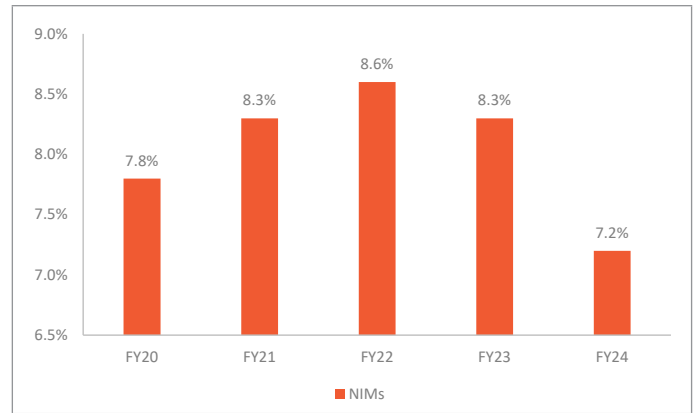
Financials in charts

Trend in AUM growth



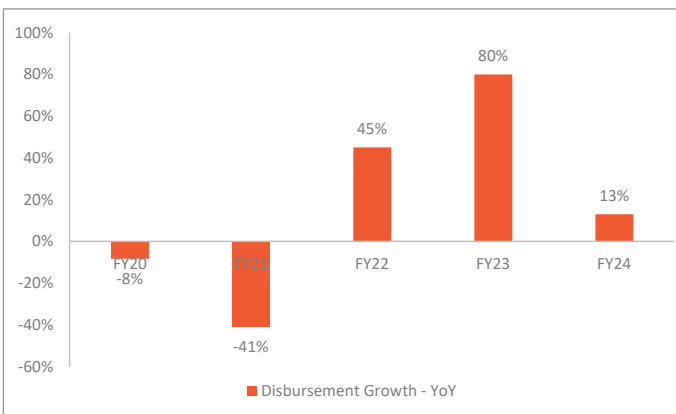
Source: Company, Sharekhan Research

Trend in Margins



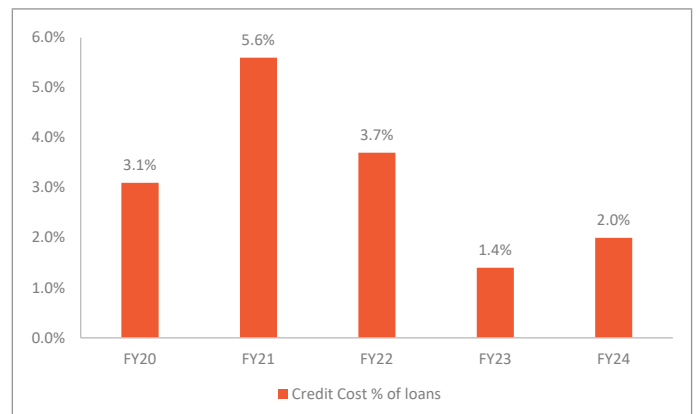
Source: Company, Sharekhan Research

Trend in Disbursement growth



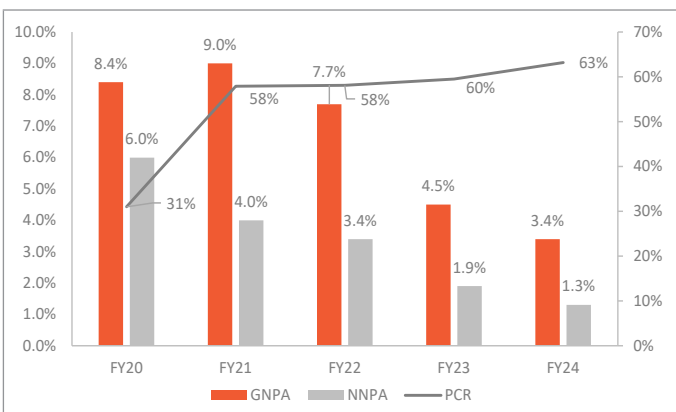
Source: Company, Sharekhan Research

Trend in Credit Cost



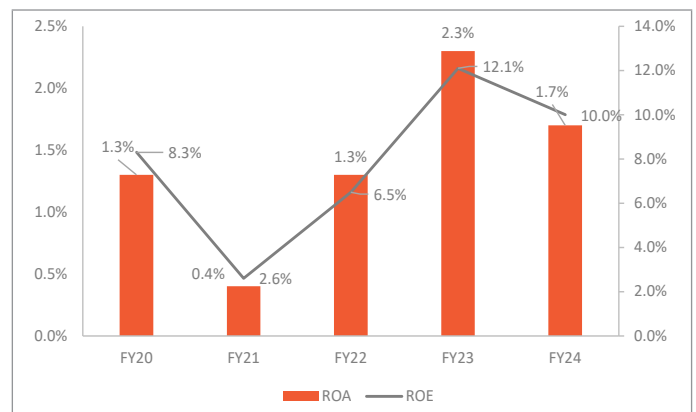
Source: Company, Sharekhan Research

Trend in Asset Quality



Source: Company, Sharekhan Research

Trend in Return Ratio



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Moderate volume growth expectations:

Passenger vehicles sales are expected to grow in single digits in FY25 and CV volumes are expected to see gradual recovery after flat volume growth seen in FY24 as investments resume in the infrastructure and construction/ real estate sectors after the general elections. There has been an increase in penetration in used CV. There are also some green shoots in the rural economy which is giving hope for better demand. Asset-quality trends are stable for the sector.

### ■ Company Outlook – Sustaining improved asset quality is key :

Asset quality has improved but trends have remained volatile in the past. Key monitorable remains collection trends and tightening of internal system & processes. The company expects to offset moderation in business growth with improvement in yields and fee income.

### ■ Valuation – We maintain buy with an unchanged PT of Rs. 345:

Currently, the company continues to enjoy tailwinds of strong asset quality performance similar to its peers resulting in strong performance. The company is confident of the asset quality in the downturn cycle also unlike in the past where business reported volatile earnings performance. We believe sustained earnings progression and execution would be monitored closely to build confidence. In the near term, the company is focusing on improving the product mix (increasing the share of used CV) resulting in yield improvement, increasing fee income, along with lower credit cost to support earnings however growth moderation, higher cost of funds may pose risk to earnings in FY2025E. At the CMP, M&M Finance trades at 1.8x/ 1.6x its FY2025E and FY2026E ABV, respectively.

#### Peer valuation

Company	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
M&M Finance	299	36,936	14.0	11.0	1.8	1.6	14.1	15.9	2.0	2.0
Cholamandalam	1,446	1,21,455	25.3	20.4	4.8	3.9	22.4	22.6	2.9	2.9

Source: Company, Sharekhan Research

## About the company

M&M Financial is a subsidiary of Mahindra and Mahindra Limited. The company is one of India's leading non-banking finance companies focusing on rural and semi-urban areas. The company finances the purchase of new and pre-owned auto and utility vehicles, tractors, cars, commercial vehicles, construction equipment, and SME Financing. The company has a strong network of 1,402 branches, spread across 27 states and 7 Union Territories in India.

## Investment theme

Asset quality has seen improvement however trends have remained volatile in the past. Key monitorable remains collection trends and tightening of internal system & processes. The company expects to offset moderation in business growth with improvement in yields and fee income.

## Key Risks

Slower loan growth, lower margins, and higher credit cost.

## Additional Data

### Key management personnel

Mr. Raul Rebello	MD & CEO
Mr. Vivek Karve	Chief Financial Officer
Mr. Sandeep Mandrekar	Chief Business Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mahindra & Mahindra Ltd	52.16
2	Life Insurance Corp of India	9.89
3	HDFC Asset Management Co Ltd	3.58
4	HDFC Life Insurance Co Ltd	2.43
5	SBI Funds Management Ltd	2.22
6	Vanguard Group Inc/The	1.85
7	ICICI Prudential Asset Management	1.63
8	Kotak Mahindra Asset Management Co	1.59
9	Kotak Funds	1.53
10	Dhawan Ashish	1.18

Source: Bloomberg, data as at May 2024

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## Understanding the Sharekhan 3R Matrix

<b>Right Sector</b>	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
<b>Right Quality</b>	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
<b>Right Valuation</b>	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

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