24 July 2024

1QFY25 Results Update | Sector: Financials

Mahindra & Mahindra Financial

Estimate change	⟷
TP change	↓
Rating change	⟷

Bloomberg	MMFS IN
Equity Shares (m)	1236
M.Cap.(INRb)/(USDb)	365.5 / 4.4
52-Week Range (INR)	327 / 237
1, 6, 12 Rel. Per (%)	-7/-6/-29
12M Avg Val (INR M)	1173

Financials & valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	71.4	85.8	102.2
PPP	41.8	52.9	65.5
PAT	17.6	27.9	34.7
EPS (INR)	14.3	22.6	28.1
EPS Gr. (%)	-11	58	24
BV/Sh.(INR)	155	171	191
Ratios			
NIM (%)	7.2	7.1	7.3
C/I ratio (%)	41.4	38.3	35.9
RoA (%)	1.7	2.2	2.4
RoE (%)	9.9	13.9	15.5
Payout (%)	44.2	31.1	28.5
Valuations			
P/E (x)	20.8	13.1	10.6
P/BV (x)	1.9	1.7	1.6
Div. Yield (%)	2.1	2.4	2.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	52.2	52.2	52.2
DII	30.7	28.6	27.0
FII	10.2	12.1	14.1
Others	7.0	7.2	6.8

FII Includes depository receipts

CMP: INR296 TP: INR350 (+18%) Buy

Operationally weak; earnings in line due to low credit costs

NIM contracts ~45bp QoQ as yields decline

- Mahindra & Mahindra Financial's (MMFS) 1QFY25 PAT grew ~45% YoY to ~INR5.1b (in line). NII stood at INR17.8b (5% miss), up ~13% YoY. Other income rose ~63% YoY to ~INR1.5b, driven by healthy fee income.
- NIM (calc.) declined ~45bp QoQ to ~6.6%. Credit costs stood at ~INR4.5b, translating into annualized credit costs of ~1.7% (vs. ~2.5% in 1QFY24).
- Business momentum in 1Q was muted due to heatwaves in the north region, general elections in May'24, and floods in the northeastern region in Jun'24. The management exuded confidence that the disbursement momentum will improve going ahead. We estimate a ~16% CAGR in AUM over FY24-FY26.
- Improvements in collection, reduction in repossession and settlement losses would result in a moderation in the loss given default (LGD), which will further help to reduce the required provision cover (PCR). This will translate into a reduction in ECL provisions and corresponding credit costs. We estimate a ~40% PAT CAGR over FY24-FY26, with FY26E RoA/RoE of 2.4%/15.5%. **Retain BUY with a TP of INR350 (based on 1.8x FY26E BVPS).**
- **Key risks:** a) Muted yields because of higher competitive intensity and higher proportion of prime customers, b) Asset quality volatility because of floods in certain parts of the country

Yields under pressure from competition; incremental CoF to moderate

- Intense competition in PVs, especially from PSU banks, has not allowed vehicle financiers to take the requisite price hikes. As a result, the yield (calc.) declined ~45bp QoQ to 14.3%, leading to a ~45bp fall in spreads.
- Borrowing costs (CoB) stood at ~7.8% in 1QFY25. The management shared that it expects CoB to remain stable at the current level and will benefit from any cut in interest rates. We do not see NIM improvement levers with MMFS and estimate NIM to decline in FY25 and then expand to 7.3% in FY26 (vs. 7.2% in FY24).

Key takeaways from the management commentary

- MMFS has increased the lending rates in the last two quarters, which the company expects will boost yields over the rest of FY25.
- The management has guided business asset growth of around 17%-20%.
- The company expects credit costs of ~1.4% in FY25, which may decline to ~1.2-1.3% in FY26 and beyond.

Valuation and View

- MMFS would hopefully now start demonstrating more predictability in its earnings performance. A strong liability franchise and deep moats in rural/semi-urban customer segments position MMFS well to reap the rewards of the hard work that is going into evolving this franchise.
- MMFS currently trades at 1.6x FY26E P/BV. Risk-reward is favorable for a PAT CAGR of ~40% over FY24-FY26E and FY26 RoA/RoE of 2.4%/15.5%. Maintain BUY with a TP of INR350 (based on 1.8x FY26E BVPS).