

FY25 guidance lowered as disbursement weak

Mahindra Finance reported earnings for 2QFY25 marginally below our estimates driven by higher provisions. On margins front company faced challenges with - yield compression due to change in AUM mix and rising CoB. Higher credit costs was due to rise in provisions led by stress in tractor segment. AUM growth came in at 19%/6% YoY/QoQ. However, disbursements for the first half of FY25 were relatively muted with growth of mere 2% YoY due to slow down in macro environment. We expect slowdown to continue as the FY25 disbursement growth is expected to be muted and lower than earlier guidance of low teens. Opex may continue to remain range bound. As per the management, they are hopeful of pick up in business in second half however given high base effect we bake in marginal YoY decline (3%) in disbursement for FY25. On loan loss provisions, 2H is expected to be better in line with historical trend coupled with lower ECL cover which may reflect in lower credit costs. Management has lowered their earlier guidance for FY25 - ROA to 1.8-2.0% from of 2.2%. We bake in AUM/PPOP/PAT CAGR at 14%/21%/29% over FY24-26E and expect RoA/RoE at 2.1%/14.2% for FY26E. We roll over to 1HFY27 and value MMFS (standalone) at 1.5x P/ABV and its subsidiaries at Rs19 to arrive at our revised Target Price of Rs254. We maintain our Sell rating on the stock as we expect the business momentum to remain subdued and best in terms of asset quality is behind.

NIMs impacted by lower yield and increase in CoB

Increased competitive intensity and change in product mix led to 39bps/13bps YoY/QoQ decline in interest yield (on BS loans) to 14.2%. CoF (calc) stood at 7.8% increasing by 14bps/flat YoY/QoQ. Reported spreads were down 54bps YoY and 13 bps QoQ to 6.4% as company moved up in terms of customer selection and muted growth in wheels business. NIMs are expected to be lower at 6.5-6.7% vs. earlier guidance of 7.5%. We believe that competitive pressures may constrain the company's ability to increase lending yields within its target customer segment.

Lower earnings as provisions come in higher than expected

Loan loss provisions for 2QFY25 stood at Rs 7.0bn, up 57% QoQ as there was a strain on asset quality with higher slippages for the quarter. ECL coverage maintained for the quarter – but for the 2H the figure would be lower in line with lower LGD and PD leading to lower credit cost. As per the management, exit credit cost for FY25 to be ~1.3-1.5%. This would be on the back better collections in 2H and lower ECL cover. GS2/GS3 was at 6.5%/3.8% in 2QFY25 vs 6.1%/3.6% in 1QFY25 and 5.7%/4.3% in 2QFY24. PAT at Rs3.7bn, was up 57% YoY. Reported RoA for 2QFY25 stood at 1.5%.

AUM growth remains healthy, disbursement de-growth YoY

Disbursements de-grew by 1.1% YoY after registering 5% -145% YoY growth in last 9 quarters. AUM at Rs1,125bn was up 19% YoY and 6% QoQ. Disbursements YoY growth in Pre-owned vehicle, SME and Others segment was 13%, 2% and 28%, respectively while Tractors, PV and CV/CE registered a decline by 13, 3% and 10% respectively in 2QFY25 as Company has been making interim corrections in specific locations (read east) due to stress visible on a cross-cycle basis.

Financial and valuation summary

YE Mar (Rs mn)	2QFY25A	2QFY24A	YoY (%)	1QFY25A	QoQ (%)	FY25E	FY26E	FY27E
NII	18,106	15,870	14.1	17,836	1.5	80,312	95,272	1,09,648
PPoP	11,961	9,428	26.9	11,345	5.4	50,592	61,307	70,872
Provisions	7,035	6,266	12.3	4,482	57.0	18,539	21,635	24,931
PAT	3,694	2,352	57.1	5,130	(28.0)	23,720	29,358	33,997
AUM growth (%)	20.1	27.0		22.6		14.5	14.0	15.9
NIM (%)	6.9	7.3		7.1		7.3	7.6	7.6
C / I (%)	39.9	43.7		41.3		41.0	39.8	39.7
GNPA (%)	3.8	4.3		3.6		3.2	3.2	3.2
RoA (%)	1.2	0.9		1.8		1.9	2.1	2.1
RoE (%)	8.0	5.5		11.1		12.5	14.2	15.0
P/BV (x)						1.8	1.6	1.5

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I NBFC

22 October, 2024

SELL

Price: Rs281.7

Target Price: Rs254.0

Forecast return: -10%

Institutional Research

Market Data

Bloomberg:	MMFS IN
52 week H/L:	343/237
Market cap:	Rs348.0bn
Shares Outstanding:	1235.5mn
Free float:	36.1%
Avg. daily vol. 3mth:	36,16,473

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Changed from Rs250 to Rs254
ABV:	FY25E;150.0 FY26E;163.0

Source: Centrum Broking

Shareholding pattern

	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	52.2	52.2	52.2	52.2
FII	10.2	10.1	12.0	12.7
DII	31.6	30.7	28.6	27.0
Public/other	6.1	7.1	7.3	8.2

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY25	Actual Q2FY25	Variance (%)
NII	19,242	18,106	(5.9)
PPOP	11,968	11,961	(0.1)
PAT	3,817	3,694	(3.2)

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
NII	80,312	83,054	-3.3	95,272	98,583	-3.4
PPoP	50,592	54,550	-7.3	61,307	66,180	-7.4
PAT	23,720	26,648	-11.0	29,358	32,887	-10.7

Source: Centrum Broking

MMFS versus NIFTY Midcap 100

	1m	6m	1 year
MMFS IN	(12.2)	1.0	1.4
NIFTY Midcap 100	(7.5)	13.2	44.7

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY25E	FY26E
Disbursement growth	-3.0%	18.0%
AUM growth	14.9%	14.2%
NIMs	7.3%	7.6%
C/I ratio	41.0%	39.8%
Credit costs	1.7%	1.8%

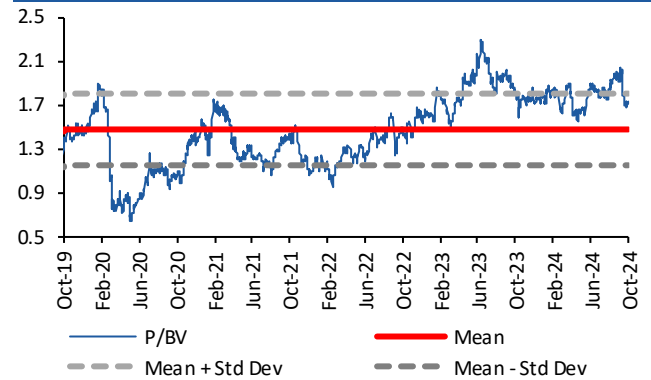
Source: Centrum Broking

Valuations

We bake in AUM/PPOP/PAT CAGR at 14%/21%/29% over FY24-26E and expect RoA/RoE at 2.1%/14.2% for FY26E. We roll over to 1HFY27 and value MMFS (standalone) at 1.5x P/ABV and its subsidiaries at Rs19 to arrive at our revised Target Price of Rs254. We maintain our Sell rating on the stock as we expect the business momentum to remain subdued and best in terms of asset quality is behind.

Valuations	Network	Multiple	Value(Bn)	Value/Sh	% of Total
Core business	1,93,203	1.5	290	235	92.6
Mahindra Rural housing	17,436	1.0	17	14	5.6
Mahindra Insurance brokers			11	9	3.6
Total Value of Subsidiaries			29	23	9.2
Less: 20% holding discount			6	5	1.8
Value of Key Subsidiaries			23	19	7.3
Target Value Post 20% holding co Disc			313	254	100.0
CMP			347	282	-
Upside - %			-10.0	-10.0	-

P/BV mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Market cap		P/B (x)				P/ABV(x)				RoE (%)			
	Rs bn	US \$bn	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
Shriram Fin	1223	14.5	2.9	2.6	2.3	2.3	3.4	2.9	2.5	2.1	14.8	15.7	17.0	16.8
Cholamandalam	1185	14.1	8.1	6.1	5.1	4.2	9.2	6.7	5.8	4.9	20.5	20.2	17.5	19.1
Sundaram Fin	550	6.5	7.1	5.8	5.0	4.4	7.8	6.1	5.3	4.6	14.9	15.3	17.5	17.4
Mahindra Fin	349	4.2	2.0	1.9	1.8	1.6	2.2	2.0	1.9	1.7	12.5	10.0	14.2	15.0

Source: Company, Centrum Broking

Key conference call takeaways and metrics

Centrum Quarterly Monitor	Q1FY25	Q2FY25	Our Comments
Margins and Profitability	<ul style="list-style-type: none"> Yield increase is expected as hike in rates have been transmitted since last year. Profitability is expected to be lower than earlier guided (RoA guidance lowered to 2.2% from 2.5%). 	<ul style="list-style-type: none"> Margins has been lower as the AUM mix changed and due to higher CoF. Profitability is expected to be lower than earlier guided (RoA guidance lowered to 1.8%-2% from 2.2%). 	<ul style="list-style-type: none"> We have factored in lower profitability than management guidance given the slowdown in business momentum
Exhibit 1: Asset quality	<ul style="list-style-type: none"> 1Q saw some challenges in asset quality in certain geographies. Expectations that remaining 3Q performance would be better. Lower ECL cover which reflected lower LGD and PD resulted in lower loan loss provisions. Management expects further reduction in ECL cover in times to come 	<ul style="list-style-type: none"> Stress in tractor led to higher GS3. 2H is historically better in terms of asset quality and improvement is expected ECL coverage maintained for the quarter – but for the 2H the figure would be lower in line with lower LGD and PD leading to lower credit cost. 	<ul style="list-style-type: none"> We have factored in improvement in asset quality in second half in line with management guidance with decrease in ECL cover
Outlook and guidance	<ul style="list-style-type: none"> Loan book target Rs1.2trn for the year with disbursement growth of low teens. NIM expansion ~25bps guidance maintained with multiple levers at disposal. RoA guidance maintained at 2.2%. 	<ul style="list-style-type: none"> NIMs are expected to be lower at 6.5-6.7% vs. earlier guidance of 7.5%. New business contribution ~6% vs. 15% target. Exit credit cost for FY25 to be ~1.3-1.5%. RoA for FY25 expectations are lowered to 1.8-2.0% from earlier guidance of 2.2% and 2.5% 	<ul style="list-style-type: none"> Previously, we had factored in lower disbursements, AUM, and RoAs compared to the management's guidance, and we continue to maintain that outlook.

Source: Centrum Broking

Key Concall takeaways

Opening Remarks

- As of Q2FY25, Business Assets stand at Rs1,12,454cr, reflecting a 20%/6% YoY/QoQ growth.
- Growth in various Wheels segments viz. passenger vehicles, commercial vehicles etc. slowed down, hence the disbursements for the first half of FY25 were relatively muted with growth of 2% YoY. Disbursements for Q2FY25 were Rs13,162cr.
- Opex continues to measured
- New business (SME and Leasing businesses) has performed below expectations.
- Margins has been lower as the AUM mix changed and due to higher CoF.

Guidance

- NIMs are expected to be lower at 6.5-6.7% vs. earlier guidance of 7.5%.
- New business contribution ~6% vs. 15% target.
- GS3<4% vs. <6.0%.
- *Exit credit cost for FY25 to be ~1.3-1.5%.* This would be on the back better collections in 2H and lower ECL cover for 2H.
- *RoA for FY25 expectations are lowered to 1.8-2.0% from earlier guidance of 2.2% and 2.5%*

Advances and deposits

- FY25 Disbursement growth is expected to be muted and lower than earlier guidance of low teens.
- The company is also gaining momentum in the pre-owned vehicle business as part of its strategy to diversify its asset mix within the Wheels business. The share of this segment in overall disbursements during Q2 FY25 stood at 18%.
- AUM growth for FY25 +18% at current run rate.

Asset quality and margins

- Stress in tractor (with half yearly payments) have been leading to higher GS3.
- Tractors has seen de-growth in 1HFY25 and overall rains have been good so expect 2H should see better patch.
- GNPA as per IRACP norm is Rs6,001cr v/s stage 3 assets as per IND-AS norm of Rs4,309 cr.
- *ECL coverage maintained for the quarter – but for the 2H the figure would be lower in line with lower LGD and PD leading to lower credit cost.*
- Wheels segment is going to see a muted year in terms of growth.

Others

- Aspirational target - Three year CAGR of 15-20% for the loan book and disbursement CAGR in mid-teens.
- Overall credit cost for the company in medium term should be ~1.2-1.5%.

Quarterly performance

Y/E March (Rs mn)	Q2FY25	Q2FY24	Q1FY25	YoY (%)	QoQ (%)
Interest Income	37,448	31,535	36,122	18.8	3.7
Interest Expense	19,343	15,665	18,286	23.5	5.8
Net Interest Income	18,106	15,870	17,836	14.1	1.5
NIM (%)	6.9	7.3	7.1	-48bps	-21bps
Non Interest income	1,802	870	1,480	107.2	21.8
Total Income	19,908	16,740	19,316	18.9	3.1
Staff cost	4,460	4,368	4,703	2.1	(5.2)
Other Op Exp	3,487	2,944	3,267	18.4	6.7
Total Op Exp	7,947	7,312	7,970	8.7	(0.3)
Cost to Income (%)	39.9	43.7	41.3	-376bps	-134bps
Pre-provision op profit	11,961	9,428	11,345	26.9	5.4
Provisions	7,035	6,266	4,482	12.3	57
PBT	4,926	3,163	6,864	55.8	(28.2)
Tax	1,232	811	1,734	51.9	(29.0)
-effective tax rate	25.0	25.6	25.3	-64bps	-26bps
PAT	3,694	2,352	5,130	57	(28.0)
Reported PAT	3,694	2,352	5,130	57.1	(28.0)
Borrowings	10,32,168	8,48,700	9,53,400	21.6	8.3
Gross Advances	11,25,450	9,37,230	10,63,390	20.1	5.8

Source: NBFC, Centrum Broking

Detailed Quarterly Financials

Y/E March (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Interest Income	24,577	24,867	23,917	24,372	25,163	27,947	29,344	30,349	31,535	33,733	35,471	36,122	37,448
Interest Expense	10,151	9,514	9,357	9,320	10,688	12,419	13,340	14,505	15,665	16,750	17,351	18,286	19,343
Net Interest Income	14,426	15,353	14,560	15,052	14,475	15,528	16,004	15,844	15,870	16,983	18,121	17,836	18,106
NIM (%)	10.2	10.6	9.8	9.7	8.7	8.7	8.4	7.8	7.3	7.4	7.5	7.1	6.9
Non-Interest income	647	563	747	613	930	968	1,223	905	870	1,172	1,590	1,480	1,802
Total Income	15,073	15,916	15,306	15,666	15,405	16,496	17,227	16,750	16,740	18,155	19,710	19,316	19,908
Employee cost	2,788	3,027	3,200	3,532	3,762	3,997	4,552	4,174	4,368	4,342	4,243	4,703	4,460
Other Op Exp	2,122	2,266	3,127	2,676	3,011	2,518	3,233	2,577	2,944	3,188	3,737	3,267	3,487
Total Op Exp	4,910	5,294	6,327	6,208	6,773	6,515	7,786	6,750	7,312	7,530	7,980	7,970	7,947
Cost to Income (%)	32.6	33.3	41.3	39.6	44.0	39.5	45.2	40.3	43.7	41.5	40.5	41.3	39.9
Pre-provision op profit	10,163	10,622	8,979	9,458	8,632	9,981	9,441	10,000	9,428	10,625	11,730	11,345	11,961
Provisions	-3,668	-1,474	639	6,453	1,980	1,550	4	5,264	6,266	3,284	3,415	4,482	7,035
PBT	13,831	12,096	8,341	3,005	6,652	8,431	9,437	4,735	3,163	7,341	8,315	6,864	4,926
Tax	3,602	3,158	2,333	776	1,620	2,140	2,596	1,209	811	1,813	2,126	1,734	1,232
-effective tax rate (%)	26.0	26.1	28.0	25.8	24.4	25.4	27.5	25.5	25.6	24.7	25.6	25.3	25.0
PAT	10,229	8,938	6,008	2,229	5,032	6,291	6,841	3,527	2,352	5,528	6,190	5,130	3,694
Extraordinary items	-	-	-	-	550	-	-	-	-	-	-	-	-
Reported PAT	10,229	8,938	6,008	2,229	4,482	6,291	6,841	3,527	2,352	5,528	6,190	5,130	3,694
Gross Loans	6,36,180	6,39,440	6,49,610	6,76,930	7,38,170	7,73,440	8,27,700	8,67,320	9,37,230	9,70,480	10,25,970	10,67,009	11,25,450
Growth (%)	(6.1)	(3.9)	0.6	6.5	16.0	21.0	27.4	28.1	27.0	25.5	24.0	23.0	20.1
Disbursements	64,750	80,320	92,020	94,720	1,18,240	1,49,110	1,37,500	1,21,650	1,33,150	1,54,360	1,52,920	1,27,688	1,31,630
Growth (%)	61	28	54	145	83	86	49	28	13	7	11	5	-1
Gross Stage 2 (%)	19.7	17.8	14.3	11.7	9.7	8.4	6.0	6.4	5.7	6.0	5.0	6.1	6.4
Stage 2 PCR (%)	13.6	12.7	12.7	11.5	11.0	10.7	10.6	10.9	11.3	11.3	11.4	10.5	10.6
Gross Stage 3 (%)	12.7	11.3	7.7	8.0	6.7	5.9	4.5	4.3	4.3	4.0	3.4	3.6	3.83
Stage 3 PCR (%)	53.0	53.2	58.1	58.1	58.2	59.0	59.5	60.1	61.2	61.2	63.2	59.8	59.5
Tier 1 Capital (%)	22.3	23.3	24.3	22.8	20.5	20.5	19.9	18.9	16.7	16.5	16.4	16.4	14.8
CAR (%)	26.1	26.8	27.8	25.9	23.8	23.4	22.5	21.2	18.7	18.3	18.9	18.5	16.7

Source: NBFC, Centrum Broking

P&L					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Interest income	1,06,826	1,31,088	1,58,820	1,83,127	2,10,760
Interest expense	45,767	64,269	78,508	87,855	1,01,112
NII	61,059	66,818	80,312	95,272	1,09,648
Other income	3,735	4,537	5,433	6,531	7,876
Total income	64,794	71,355	85,745	1,01,802	1,17,524
Operating expenses	27,276	29,572	35,153	40,495	46,652
Employee	15,843	17,126	20,209	23,240	26,726
Others	11,433	12,446	14,944	17,255	19,925
PPOP	37,518	41,783	50,592	61,307	70,872
Provisions	9,992	18,228	18,539	21,635	24,931
PBT	27,526	23,555	32,054	39,672	45,941
Tax	7,138	5,959	8,334	10,315	11,945
PAT	20,388	17,596	23,720	29,358	33,997

Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Growth (%)					
AUM	27.4	24.0	14.5	14.0	15.9
Borrowings	34.3	23.1	15.5	14.2	15.9
NII	9.9	9.4	20.2	18.6	15.1
Other income	53.6	21.5	19.8	20.2	20.6
Opex	31.5	8.4	18.9	15.2	15.2
PPoP	0.7	11.4	21.1	21.2	15.6
Provisions	(57.8)	82.4	1.7	16.7	15.2
PAT	106.2	(13.7)	34.8	23.8	15.8
Profitability (%)					
Yield on advances	15.3	14.7	14.9	15.0	15.0
Cost of funds	7.0	7.7	7.9	7.7	7.7
NIM (on AuM)	8.3	7.2	7.3	7.6	7.6
Other Income/ Total Income	2.0	2.2	2.0	1.9	1.8
Other Income / Total Assets	0.1	0.1	0.1	0.1	0.1
Cost/Income	42.1	41.4	41.0	39.8	39.7
Employee	24.5	24.0	23.6	22.8	22.7
Others	17.6	17.4	17.4	16.9	17.0
Opex/ Avg AuM	3.7	3.2	3.2	3.2	3.2
Provisions	1.4	2.0	1.7	1.7	1.7
Tax Rate	25.9	25.3	26.0	26.0	26.0
RoA	2.4	1.7	1.9	2.1	2.1
RoE	12.5	10.0	12.5	14.2	15.0

DuPont (% avg assets)					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Interest income	12.5	12.4	12.9	13.0	13.1
Interest expense	5.3	6.1	6.4	6.2	6.3
NII	7.1	6.3	6.5	6.8	6.8
Other income	0.4	0.4	0.4	0.5	0.5
Total income	7.6	6.8	6.9	7.2	7.3
Operating expenses	3.2	2.8	2.8	2.9	2.9
Employee	1.8	1.6	1.6	1.7	1.7
Others	1.3	1.2	1.2	1.2	1.2
PPOP	4.4	4.0	4.1	4.4	4.4
Provisions	1.2	1.7	1.5	1.5	1.6
PBT	3.2	2.2	2.6	2.8	2.9
Tax	0.8	0.6	0.7	0.7	0.7
PAT	2.4	1.7	1.9	2.1	2.1

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Financial assets	9,22,754	11,15,351	12,76,941	14,51,153	16,70,665
Cash	28,321	26,891	30,923	32,539	33,915
Loans	7,94,547	9,91,952	11,39,858	13,01,840	15,08,297
Investment	99,886	96,508	1,06,159	1,16,775	1,28,452
Non-financial assets	39,411	36,241	40,271	44,764	49,777
Deferred tax assets	0	0	0	0	0
Fixed Assets	6,812	8,111	9,328	10,727	12,336
Other Non-fin. assets	32,599	28,130	30,943	34,037	37,441
Total Assets	9,62,166	11,51,592	13,17,211	14,95,918	17,20,442
Financial liabilities	7,49,459	9,22,252	10,65,288	12,16,673	14,09,624
Borrowings	7,49,459	9,22,252	10,65,288	12,16,673	14,09,624
Non-financial liabilities	41,818	47,766	54,930	63,170	72,645
Other Non-fin liabilities	41,818	47,766	54,930	63,170	72,645
Total equity	1,70,889	1,81,575	1,96,993	2,16,075	2,38,173
Share capital	2,469	2,469	2,469	2,469	2,469
Other equity	1,68,422	1,79,106	1,94,524	2,13,606	2,35,704
Total Liabilities	9,62,166	11,51,592	13,17,211	14,95,918	17,20,442
Balance Sheet ratios (%)					
Debt / Equity	4.4	5.1	5.4	5.6	5.9
Assets / Equity	5.6	6.3	6.7	6.9	7.2
Cash / Borrowings	3.8	2.9	2.9	2.7	2.4
Details on loans					
AUM	8,27,700	10,25,970	11,74,407	13,39,023	15,51,412
Disbursements	4,95,410	5,62,080	5,45,218	6,43,357	7,59,161
Capital Adequacy (%)					
CRAR	22.5	18.9	17.9	17.1	16.2
Tier-1	19.9	16.4	15.5	15.0	14.4
Tier-2	2.7	2.5	2.4	2.1	1.8
Asset quality (%)					
GNPA (Rs mn)	37,170	34,910	37,373	42,463	49,857
Growth (%)	(25.3)	(6.1)	7.1	13.6	17.4
NNPA (Rs mn)	15,070	12,860	16,818	21,231	24,929
Growth (%)	(27.8)	(14.7)	30.8	26.2	17.4
GNPA	4.5	3.4	3.2	3.2	3.2
NNPA	1.8	1.3	1.4	1.6	1.6
PCR	59.5	63.2	55.0	50.0	50.0
NNPA / Equity	8.8	7.1	8.5	9.8	10.5
Per share (Rs)					
EPS	16.5	14.3	19.2	23.8	27.5
BVPS	138.5	147.1	159.6	175.0	192.9
ABVPS	129.6	139.8	150.0	163.0	178.8
DPS	6.0	6.3	6.7	8.3	9.6
Valuation (x)					
P/E	17.1	19.8	14.7	11.9	10.2
P/BV	2.0	1.9	1.8	1.6	1.5
P/ABV	2.2	2.0	1.9	1.7	1.6
Dividend yield	2.1	2.2	2.4	3.0	3.4

Source: Company, Centrum Broking

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