Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Mahindra & Mahindra Financial Services Ltd

Weak Q2

NBFC	Sharekhan code: M&MFIN

Reco/View: Buy	↔	CMP: Rs. 274	Price Target: Rs. 325	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

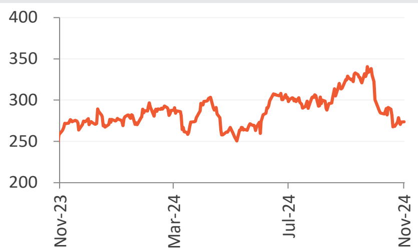
Company details

Market cap:	Rs. 33,500 cr
52-week high/low:	Rs. 346/244
NSE volume: (No of shares)	37.2 lakh
BSE code:	532720
NSE code:	M&MFIN
Free float: (No of shares)	59.3 cr

Shareholding (%)

Promoters	52.2
FII	10.1
DII	30.7
Others	7.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.2	6.2	0.4	-13.2
Relative to Sensex	-7.4	6.2	-6.2	-34.5

Sharekhan Research, Bloomberg

Summary

- Net earnings stood at Rs. 369 crore, below estimates by 27.4% on higher-than-expected credit cost and larger contraction in NIM (at 6.44%, below estimates 22 bps). The management revised NIM guidance between 6.5-6.7% for FY2025 from 7.5%.
- Credit cost stood at 2.5%, higher than estimates by 60 bps due to lower collections. Management guided credit costs to trend lower in H2FY2025, on better asset quality (higher recoveries and upgrades) and release of provisions from a lower PCR, driven by the ECL model.
- RoA came in at 1.5% for H1FY2025 which is expected to expand to 1.9% for the full year as credit cost normalises and asset quality improves in H2FY2025.
- In line with management guidance, we also expect H2FY2025 to be better than H1FY2025. Stock trades at 1.8x/ 1.6x /1.4x its FY2025E/FY2026E/FY2027E BV estimates, respectively, which appears us attractive. We maintain Buy with a revised PT of Rs. 325.

Net earnings significantly lagged estimates for Q2FY2025. NII grew by 14.1% y-o-y and 1.5% q-o-q to Rs. 1,811 crore (versus est. of Rs. 1,875 crore), below estimates 3.4% due to lower yields on portfolio. NIMs at 6.44% (as % of AUM) dropped by 33 bps q-o-q and 56 bps y-o-y and was below estimates 22 bps. According to the management, NIM is expected between 6.5-6.7% for FY2025. Opex came in at Rs. 795 crore, down 0.3% q-o-q, was below estimates by 7.8%, due to lower employee expenses. PPoP grew 26.8% y-o-y and 5.3% q-o-q to Rs. 1,195 crore driven by higher other income and lower opex. Other income was in line with expectation at Rs. 180 crore, growing at a robust pace of 106% y-o-y and 21.4% q-o-q driven by higher fee income. Provisions much above estimates (31.8%) to Rs. 703 crore (up by 12.3% y-o-y and 57% q-o-q) due to lower collection efficiencies attributed to delay in payments as monsoons were delayed in many states. Annualized credit cost (calculated as % of AUM) at 2.5%, up by 82 bps on a sequential basis, moreover it was above estimates by 61 bps. PAT declined by 28.1% q-o-q at Rs. 369 crore below estimates by 27.4% mainly due to higher credit cost. Loan book at Rs. 112,600 crore as of September 30, 2024, up by 20.1% y-o-y and 6% q-o-q driven by SME, tractor, three wheelers and Pre-owned vehicles. Disbursement declined by 1% y-o-y to Rs. 13,162 crore attributed to negative growth in PV, CV, CE and three wheelers. Asset quality deteriorated, GS-3 was higher at 3.83% as of September 30, 2024, from 3.56% as of June 30, 2024 due to delay in payments driven by late monsoon. Tractor segment contributed 40% for increase in GS-3. Overall, performance was significantly below than estimates, however the management expects better H2FY2025 in terms of AUM growth (15% CAGR over the next three years), better recoveries due to sufficient rainfall, normalisation of credit costs and improvement in asset quality.

Key positives

- AUM growth at 20.1% y-o-y and 6% q-o-q driven by SME Finance and pre-owned vehicle loans.
- Other income jumped 106% y-o-y to Rs. 180 crore driven by growth in fee income.
- Opex growth below estimates 7.8% due to lower employee expenses.

Key negatives

- NIMs at 6.44% (as % of AUM) is below our estimates 22 bps due to lower yield on portfolio.
- Higher than expected credit cost at 2.5% (Est. 1.9%) dragged overall profitability for the quarter
- GS-3 was higher by 27 bps at 3.83% as of September 30, 2024. Tractor finance segment contributed 40% in the total increase in GS-3.
- Disbursement at Rs. 13,162 crores, down by 1% y-o-y due to de-growth in PV, CV segments.

Management Commentary

- Annualised credit cost at 2.5% (up by 82 bps q-o-q) in Q2FY2025, significantly above estimates by 90 bps. Management expects normalization between 1.3-1.5% for FY2025 and H2FY2025 would better due to higher recoveries on account of sufficient rainfall and better water level.
- Contribution of pre-owned vehicle segment to the total disbursement stood at 18% in Q2FY2025 which is expected to increase to 20% over the next couple of quarters. As it is high yield products, hence would help to expand NIM.
- NIMs stood at 6.45%, and are expected to be 6.5-6.7% for FY2025 driven by AUM growth.
- AUM growth is expected ~15% for FY2025. PV segment is expected to be weak and disbursement growth muted.

Our Call

Valuation – We maintain Buy rating with revised PT of Rs. 325 from Rs. 345: Numbers were significantly below estimates in Q2FY2025. Overall, H1FY2025 was challenging period for the company. However, we expect a better H2FY2025 as compared to H1FY2025 as management focuses on improving the product mix (Pre-owned vehicle contribution is expected to go up to 20% in Q4FY25 from 18% in Q2FY25), increase in other income driven by higher fee income, normalisation of credit cost to 1.3-1.5% for FY2025 from 2.5% in Q2FY2025, and better & stable recoveries. AUM CAGR is expected to be 15% over the next three years, but disbursement growth would be muted caused by PV and CV segments. Besides, it has also received license for a corporate agency from IRDAI in Q1FY2025, which is also expected to drive fee income growth. At CMP, M&M Finance trades at 1.8x/ 1.6x /1.4x its FY2025E/FY2026E/FY2027E BV, respectively, the valuation appears us attractive, hence we maintain by call with revised PT of Rs. 325.

Key Risks

Slower loan growth and higher credit cost.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
NII	6,106	6,682	7,514	8,999	10,593
PAT	1,984	1,760	2,384	3,057	3,589
EPS (Rs.)	16.1	14.2	19.3	24.8	29.1
ROA (%)	2.3	1.7	1.9	2.2	2.2
ROE (%)	12.1	10.0	12.7	14.8	15.3
P/E (x)	17.4	19.5	14.4	11.3	9.6
P/BV (x)	2.0	1.9	1.8	1.6	1.4

Source: Company; Sharekhan estimates