BUY (Maintain)

CMP: **INR 350** Target Price: **INR 415 (INR 355)** ▲ 19%

ICICI Securities

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22 July 2026

India | Equity Research | Results Update

Mahindra & Mahindra Financial Services

Vehicle Finance

Strong quarter despite geopolitical uncertainty and typical Q1 seasonality

Mahindra & Mahindra Financial Services' (MMFS) Q1FY27 financial performance, with RoE sustaining above 14% and RoA at 2.4%, is a reflection of the company benefitting from the structural changes made to its business model. A key highlight for Q1FY27 was that, despite geopolitical uncertainty and typical Q1 seasonality, there were no visible signs of divergence in its performance on a sequential basis, thereby aiding it in delivering a 3% QoQ PAT uptick. Earlier, MMFS reported a PAT decline of 6% QoQ in Q1FY26 and 17% QoQ in Q1FY25. Taking cognisance of the steadily improving earnings trajectory and visible RoA expansion levers, we maintain **BUY** with a revised TP of INR 415 (vs. INR 355), valuing MMFS at 2.0x Sep'26E BV (vs. 1.8x FY27E BV earlier).

Asset quality improves despite seasonality and geopolitical uncertainty

Despite a seasonally weak quarter and P&L volatility in Q1, this year's Q1 appears to be one of the best in terms of credit cost, which is down 4bps QoQ to 1.5% vs. a 50bps QoQ rise to 1.9% in Q1FY26 and a 30bps QoQ rise to 1.5% in Q1FY25. Similarly, the GS3+ GS2 ratio was at close to 8-year low, negating Q1 seasonality and reflecting the strong underwriting health of the portfolio. MMFS continues to guide for credit cost in the range of 130-170bps over the medium term. However, a strong Q1 makes us believe that credit cost is likely to settle near the lower end of this guidance for FY27. Similar to credit cost, the magnitude of the GS2+GS3 rise was lower in Q1FY27, rising 35bps QoQ to 8.53% vs. a 57bps rise in Q1FY26 and a 123bps rise in Q1FY25.

Aiming for mid-to-high-teens growth in medium term, driven by non-vehicle portfolio outperformance

MMFS outlined its goal of 5x AUM growth for the decade at its Group Investor Day in Nov'25, which implies 16-18% AUM CAGR. Of this, management guided for the wheels portfolio to grow at ~12% CAGR, while the non-wheels segment to grow at ~30% CAGR. Overall, MMFS aims to deliver mid-teens growth over the medium term, driven by its tractor and used vehicle businesses, along with diversification into SME and mortgage segments. It remains confident that investments in branch network and digital initiatives will help deliver this stated AUM growth guidance in the coming years.

Financial Summary

Y/E March (INR mn)	FY25A	FY26A	FY27E	FY28E
Net Interest Income (NII)	74,331	88,196	97,616	1,09,603
PAT (INR mn)	23,450	27,822	33,068	37,295
EPS (INR)	19.0	20.0	23.8	26.8
% Chg YoY	33.3	5.4	18.9	12.8
P/E (x)	18.4	17.5	14.7	13.0
P/BV (x)	2.2	2.0	1.8	1.6
Gross Stage - 3 (%)	3.7	3.4	3.4	3.3
RoA (%)	1.9	2.0	2.1	2.1
RoE (%)	12.4	12.5	12.7	12.9

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Market Data

Market Cap (INR)	486bn
Market Cap (USD)	5,053mn
Bloomberg Code	MMFS IN
Reuters Code	MMFS.BO
52-week Range (INR)	412 /246
Free Float (%)	47.0
ADTV-3M (mn) (USD)	13.2

Price Performance (%)	3m	6m	12m
Absolute	14.2	0.1	33.1
Relative to Sensex	16.5	5.5	38.9

ESG Score	2024	2025	Change
ESG score	**76.2**	**79.6**	**3.4**
Environment	75.7	76.9	1.2
Social	75.2	78.6	3.4
Governance	77.3	81.3	4.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY27E	FY28E
PAT	5	-

Previous Reports

07-07-2026: NBFC Q1FY27 Preview
26-04-2026: Q4FY26 results review

AUM up 13% YoY, likely to accelerate in coming quarters

AUM was up 3% QoQ and 13% YoY to INR 1.38trn, while disbursements were up 22% YoY, though down 9% QoQ on a high base. In terms of market share, it has gained an incremental market share in all categories of wheels business, except CV. In the CV/CE business, it has gained market shares in LCV and SCV, while it has lost market shares in fleet operations, HCV and CE business. It has maintained its market leadership in tractor business and MMFS and is further strengthening its network with dealers, thereby increasing its channel relevance. In the CV segment, it has made some shifts, wherein it is now moving to high-yielding LCV and SCV segments. As of Q1FY27, the non-vehicle portfolio share in overall mix inched up to 17%.

The strong disbursements run-rate in Q1FY27 makes us believe that MMFS could deliver ~14% AUM growth in FY27E and then rise to ~16% for FY28E. In terms of segments, wheels business could grow close to market trends, while delta in growth could come from relatively new segments, namely SME and mortgage, which are comparatively smaller in size for MMFS currently.

Aspires to reach >15% RoE in near term, aided by RoA expansion and rising leverage

A structural shift in business fundamentals at MMFS has driven a sharp expansion in return ratios, with RoE improving by >400bps and RoA by ~50bps over FY24–Q1FY27. While management targets a near-term RoE of 15%, it remains committed to executing a roadmap that ensures a steady progression toward a sustainable, long-term RoE trajectory of 18%. Moving forward, the strategic focus shifts toward accelerating AUM growth to 16–18% (13% in Q1FY27) over the next five years, with a clear objective of optimising leverage, from 5x to 6x, to further amplify return ratios.

MMFS is currently in investment mode and, hence, opex would continue to be elevated. It is making a lot of investments in tech and digital, which could aid future growth. Management stated that business transformation through digital and AI is now business as usual. However, given its steady investments towards AI initiatives, we can expect some improvement in productivity, and thereby operating efficiency.

We, therefore, believe that going ahead, opex moderation could be one of the drivers for rise in RoA. Also, credit cost currently at 1.5% is at the middle of its guidance of 1.3-1.7%. Hence, any further moderation in credit cost could aid in an uptick in RoA. Lastly, fee income has seen some structural improvement and this is likely to sustain. Hence, a rise in RoA, coupled with rise in D/E to 6:1, could help MMFS deliver an RoE of ~15% over the medium term on a sustainable basis.

Key risks: 1) Cyclical nature of vehicle finance impacting AUM growth; and 2) spreads sustaining at lower-than-guided levels.

Exhibit 1: Q1FY27 result review (standalone)

	Q1FY27	Q1FY26	% Chg YoY	Q4FY26	% Chg QoQ
Income statement (INR mn)					
Net interest Income	24,128	20,122	19.9%	23,913	0.9%
Add: Other Income	3,531	2,732	29.3%	3,480	1.5%
Total Net income	**27,658**	**22,853**	**21.0%**	**27,393**	**1.0%**
Less: Operating expenses	10,099	9,323	8.3%	10,177	-0.8%
-Employee benefit expense	5,597	5,232	7.0%	5,198	7.7%
-Depreciation & amortization	894	749	19.4%	991	-9.7%
-Other expense	3,608	3,343	7.9%	3,989	-9.5%
Pre-provisioning profit	**17,559**	**13,530**	**29.8%**	**17,216**	**2.0%**
Less: Provisions & write-offs	5,697	6,597	-13.6%	5,603	1.7%
PBT	**11,862**	**6,933**	**71.1%**	**11,613**	**2.1%**
Less: Taxes	2,876	1,638	75.5%	2,884	-0.3%
PAT (after extra-ordinary items)	**8,987**	**5,295**	**69.7%**	**8,730**	**2.9%**
Balance sheet key items (INR mn)					
AUM	13,74,490	12,20,080	12.7%	13,40,960	2.5%
Loan assets on balance sheet	13,34,190	11,83,080	12.8%	13,01,600	2.5%
Networth	2,56,750	2,33,460	10.0%	2,47,590	3.7%
Borrowings	12,83,050	11,08,700	15.7%	12,03,350	6.6%
Asset Quality					
Gross stage 3 (INR mn)	47,430	46,970	1.0%	45,780	3.6%
Gross stage 3	3.5%	3.9%	-40 bps	3.4%	4 bps
Net stage 3 (INR mn)	19,890	22,810	-12.8%	18,980	4.8%
Net stage 3	1.5%	1.9%	-43 bps	1.4%	4 bps
Credit cost (annualised)	1.7%	2.2%	-51 bps	1.7%	-3 bps
Key ratios (annualised)					
Yield on AUM	13.6%	13.8%	-18 bps	13.6%	4 bps
Cost of funds	7.1%	7.7%	-60 bps	7.0%	9 bps
NIMs on AUM	7.2%	6.7%	53 bps	7.3%	-9 bps
Other income on AUM	1.2%	1.2%	-3 bps	1.3%	-15 bps
Cost to income	36.5%	40.8%	-429 bps	37.2%	-64 bps
Opex to AUM	3.0%	3.1%	-8 bps	3.1%	-9 bps
RoA	**2.4%**	**1.6%**	**80 bps**	**2.4%**	**-5 bps**
RoE	**14.3%**	**9.8%**	**443 bps**	**14.4%**	**-12 bps**
Debt to Equity (times)	5.0	4.7	5.2%	4.9	2.8%
Tier 1	16.5%	17.9%	-140 bps	16.7%	-20 bps
CAR	18.5%	20.6%	-206 bps	18.8%	-27 bps

Source: Company data, I-Sec research

Q1FY27 earnings conference call takeaways

Guidance

- **FY26-FY31 CAGR growth guidance intact at 16-18%.** This was communicated in Investor Day and the company continues with this guidance.
  - 12% traditional business (largely wheels)
  - 30% new business (largely non-wheels)
- Looking at ~30% consolidated AUM for non-wheels business by FY31

Market share

- **It has gained an incremental market share in all categories in wheels business except CV.**
- PV segment has seen a huge premiumisation play over the past 4-6 quarters. **From H2FY26, it had started gaining market share in PV.**
- **In the CV/CE business, it has gained market share in LCV and SCV, while it has lost market share in fleet operations, HCV and CE business.**

AUM

- **Confident that investments made will aid MMFS hit its accelerated growth target.**
- **Market leadership in tractor business is widening further and strengthening its network with dealers. This is possible due to increasing channel relevance, faster TAT etc.**
- As compared to other financiers, it is looked up as a mobility financier, which has very well deepened itself into dealer ecosystem and improved its relevance among dealers as well as customers.
- **Actively reducing fleet operator segment as it has shifted more to banks due to lower yield offers by them. Hence, it has recalibrated growth towards SCV in order to meet its cross-cycle RoA objectives.**
- H1FY26 was flat growth and H2FY26 saw strong growth due to GST and other benefits.
- SME, mortgage and PL businesses are non-wheels, with strong 70% disbursements growth in Q1.
- Witnessed tailwinds for tractor purchase in Q1.

Margins

- **Margins should be in the range of 710-720bps in the medium term (7.3% in Q1).**
- For margins, it is actively looking at product mix, pricing and fee-based income to augment margins.
- It does not see any steep hike in cost of funds.
- Liquidity drag is not quite severe on margins, but it is more of a denominator impact, which has impacted margins.

Liquidity

- **It has created an additional liquidity buffer in the context of geopolitical events.**
- **Continues to carry an additional liquidity of INR 55bn.**
- **Liquidity buffer at INR 146.5bn vs. INR 91.5bn QoQ.**

- It will review liquidity buffer on a dynamic basis.

Opex

- **On operations, it is seeing an opex decline as it has increased its in-house AI agent.**
- **Its investments in Udaan stack, frontline staff etc. have played out in terms of productivity improvement, which has aided opex moderation.**
- It is not keen to reduce opex, which could impact credit cost numbers.
- **It is aiming that growth in revenue will outpace growth in opex.**

Asset quality

- **Credit cost guidance intact at 130-170bps over the medium term (1.5% in Q1).**
- **On the asset quality front, it was able to manage seasonality better and overcome an extreme divergence from Q4.**
- Tractor segment is largely dependent on rural cashflows and agri cashflows, which could be impacted by the El Nino. It has gained enough experience in tractor underwriting over the past 3 decades.
- **GS2+GS3 at 8-year low, largely due to lower flow forwards and higher back forwards.**

Digital

- **It needs to monitor the trade-off between token cost and human cost for using AI.**

Insurance

- 1,300 branches are selling retail products.
- All insurance products of MMFS are doing extremely well for customers.
- Corporate agency does largely Mahindra Finance ecosystem business and MIBL does open market business as well as MMFS ecosystem business.
- Headroom for MIBL in motor insurance is quite significant.

Miscellaneous

- **Not looking to raise capital at least for the next 6-8 quarters.**
- **Merger proposal is in discussion with the board; there should be an update in the next quarter.**
- **Encouraged to see its subsidiaries adding a meaningful contribution to PAT.**
- RoA at 2.4%.
- PAT up 70% YoY.

Q4FY26 earnings conference call takeaways

Asset quality

- Management overlay created as a prudent measure and not due to any visible stress. It does not want to be reactive, but proactive; hence, created overlay.
- It has not seen any material shift in CE in Apr'26 so far and things are progressing quite well.
- Basis current geopolitical situation, it has taken certain macroeconomic variables, which could have a probable impact on portfolio. It is not specific to any segments, but it is a macro-overlay on the overall portfolio.
- Overlay number is not a random number, but it has been very well thought through.
- FY26 credit cost guidance was 130-170bps and it is at the upper band. Excluding overlay, credit cost would have been 1.6%.

AUM

- **MMFS continues to be far ahead of peers in tractors disbursements with 63% YoY growth and AUM growth of 28% YoY**
- Mortgage business has also started picking up momentum with 21% growth
- SME business in core NBFC was up 32% YoY
- PV business has grown quite strongly at 15% YoY and AUM growth has also been 14% YoY
- It is among top 3 in PV segment and expects used CV segment to also pick-up
- In CV segment, it has made some shifts wherein it is now moving to LCV and SCV segment.
- SME and mortgage business are also doing quite well. Plan to continue to grow in 30-40% range in SME segment. MSME category is second-largest category in lending business after mortgage. **Given the base is quite low for SME, it does not expect much challenges to sustain current growth run-rate in FY27**
- **All this should aid MMFS deliver mid-teens growth over the medium term**
- **Looking at 16-18% AUM CAGR until 2030, as per the plan announced in Investor Day for Mahindra group**
- Wheels business will likely grow close to market trends, while bigger growth would come from relatively new segments namely SME and mortgage

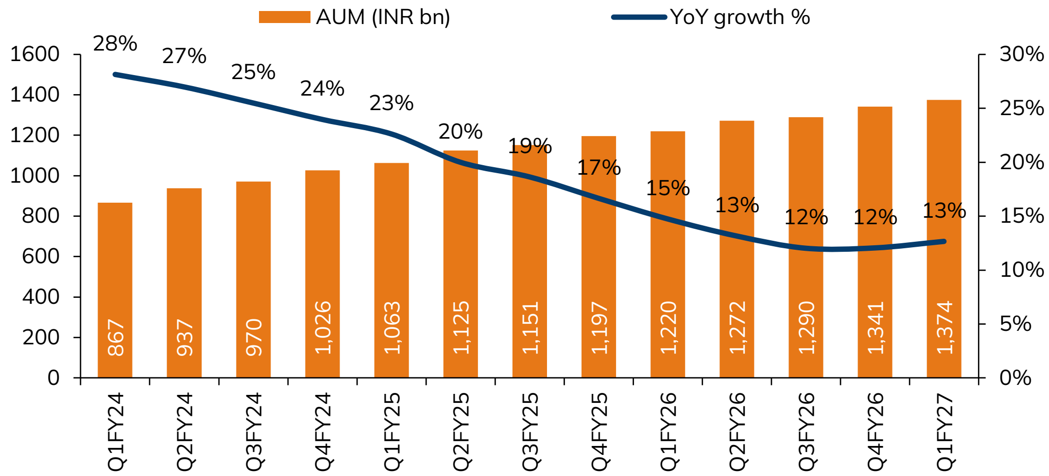
Margins

- **Margins should hold ~7.1%, which was for FY26**
- Fee income has inched up 140bps in FY26 vs. 110bps in FY25 and this is not one-time, but structural in nature
- It has seen some benefit in interest cost due to rights issue, but interest cost is likely to increase as leverage steps up
- **Q4FY26 interest rates were already elevated in January and February. Moreover, in March, due to year end and align with Gulf crisis, rates were further elevated**

Miscellaneous

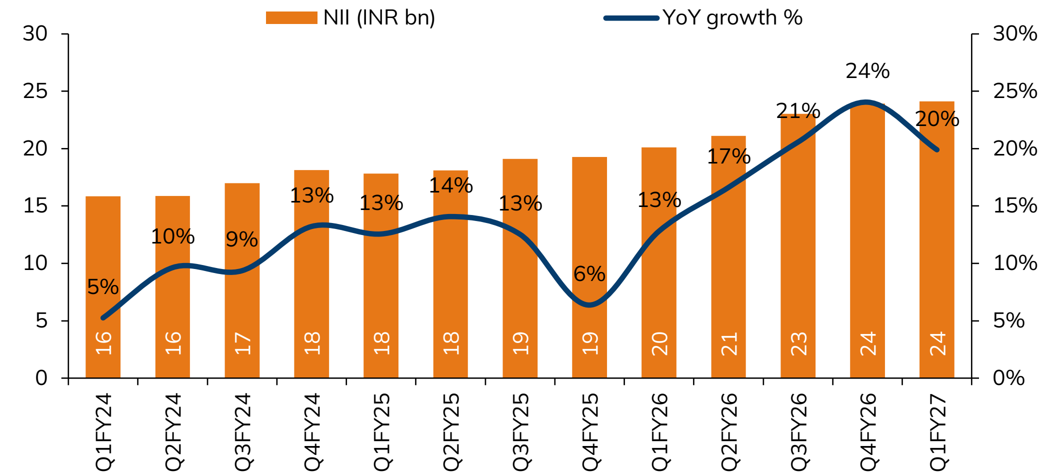
- All of them have stepped up significantly in PAT for FY26 vs. FY25
- Opex moderation due to productivity and credit cost moderation could be RoA levers going ahead
- AI-related opex likely to continue in the near term
- **Rise in leverage should result in uptick in RoE**

Exhibit 2: AUM was up 3% QoQ/13% YoY



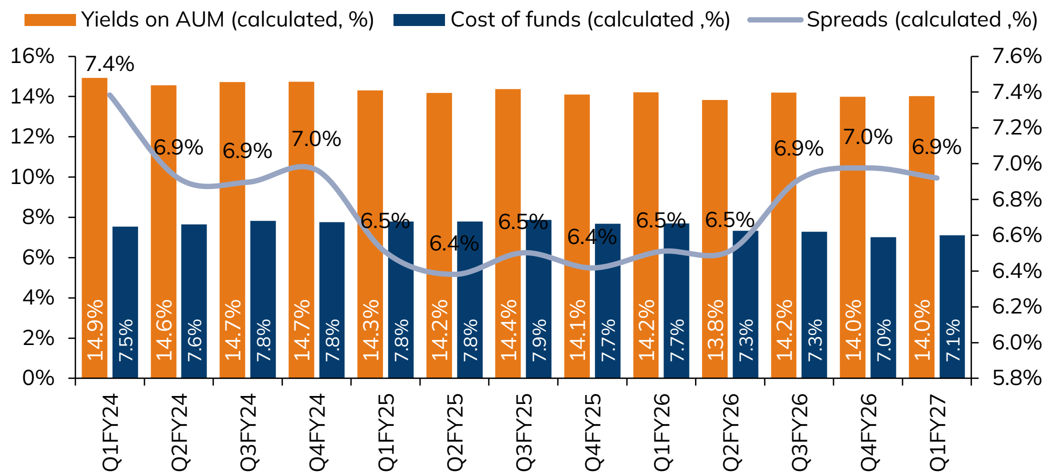
Source: Company data, I-Sec research

Exhibit 3: NII growth above 20% since the past 3 quarters



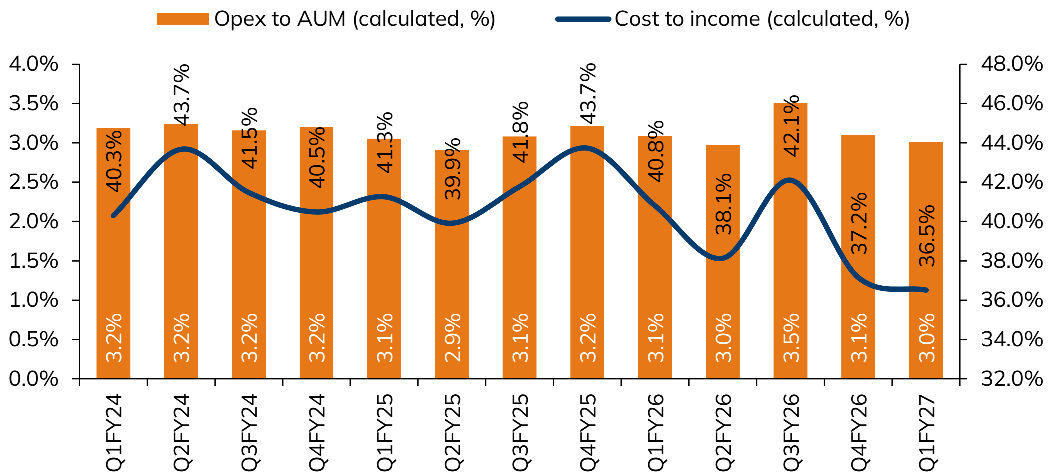
Source: Company data, I-Sec research

Exhibit 4: Calculated spreads moderated 10bps QoQ to 7.0% as cost of funds inched up, while yields were flat QoQ



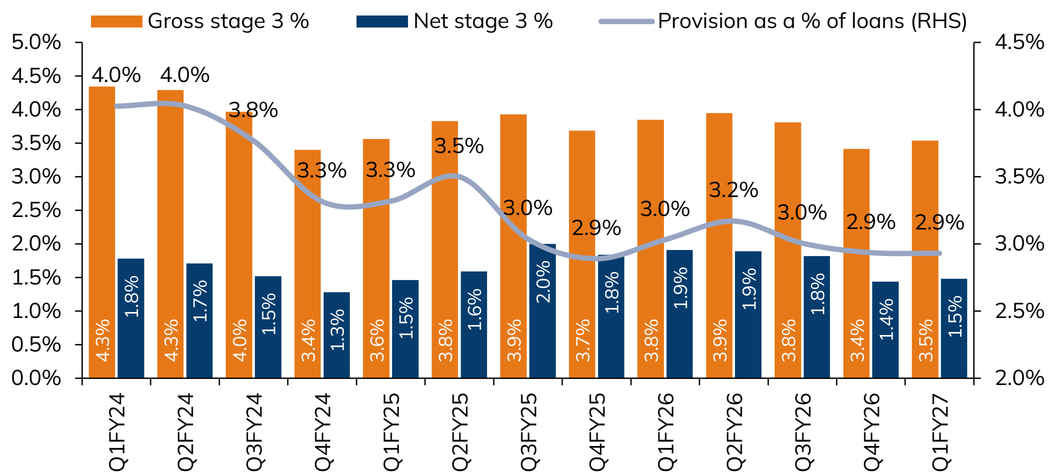
Source: Company data, I-Sec research

Exhibit 5: Opex/AUM (calculated) moderated to ~3.0%, aiding lowest cost to income in more than 12 quarters



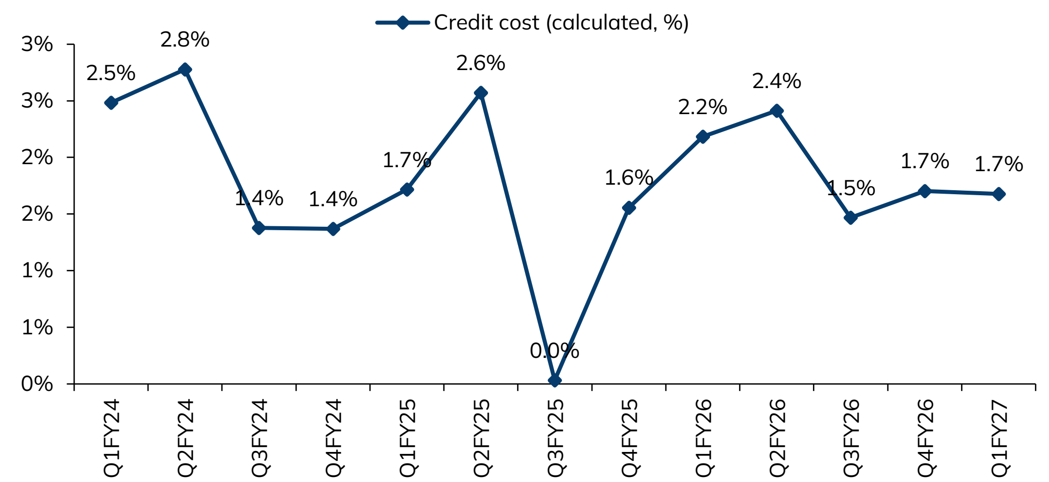
Source: Company data, I-Sec research

Exhibit 6: Gross as well as net Stage 3 inches up 4bps QoQ



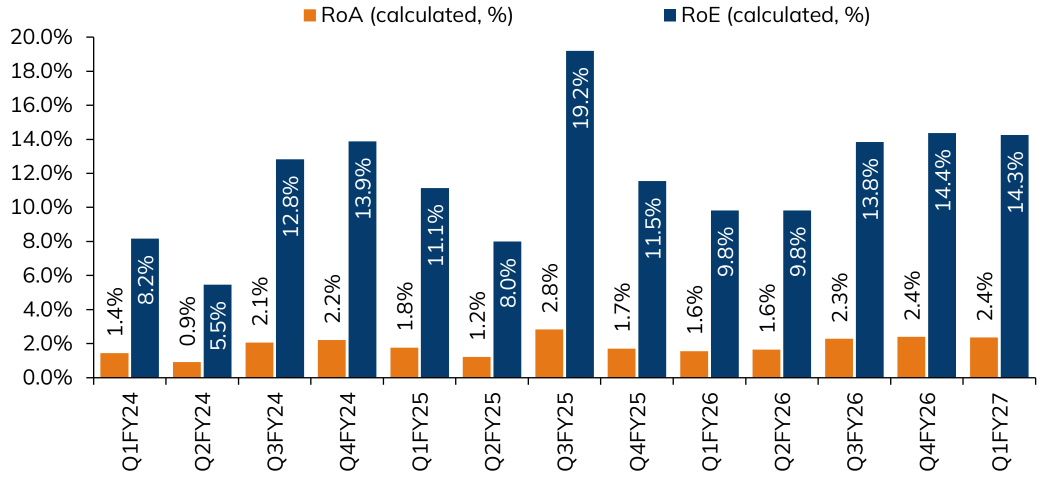
Source: Company data, I-Sec research

Exhibit 7: Credit cost stable QoQ, despite a seasonally weak quarter



Source: I-Sec research, Company data

Exhibit 8: RoA and RoE at 2.4% and 14.3%, respectively



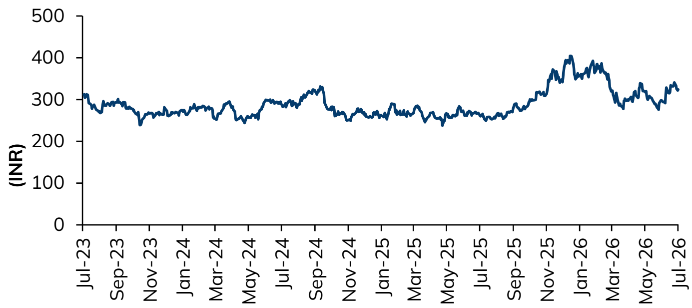
Source: Company data, I-Sec research

Exhibit 9: Shareholding pattern

%	Dec'25	Mar'26	Jun'26
Promoters	52.5	52.5	52.5
Institutional investors	41.4	41.6	41.0
MFs and others	17.4	17.3	16.7
FIs/Banks	0.0	0.1	0.4
Insurance	14.9	14.8	14.4
FIIs	9.1	9.4	9.5
Others	6.1	5.9	6.5

Source: Bloomberg, I-Sec research

Exhibit 10: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY25A	FY26A	FY27E	FY28E
Interest Income	1,53,314	1,72,117	1,91,396	2,16,408
Interest Expenses	(78,983)	(83,921)	(93,780)	(1,06,805)
Net Interest Income (NII)	74,331	88,196	97,616	1,09,603
Other Income	**7,433**	**12,886**	**16,791**	**19,273**
Total Income (net of interest expenses)	81,764	1,01,082	1,14,407	1,28,877
Employee benefit expenses	**(19,031)**	**(20,542)**	**(24,846)**	**(30,441)**
Depreciation and amortization	(2,734)	(3,427)	(3,294)	(3,288)
Other operating expenses	(12,347)	(14,802)	(16,578)	(17,905)
Total Operating Expense	(34,113)	(38,771)	(44,718)	(51,634)
Pre Provisioning Profits (PPoP)	47,651	62,312	69,689	77,243
Provisions and write offs	**(16,179)**	**(24,412)**	**(25,481)**	**(27,383)**
Profit before tax (PBT)	**31,473**	**36,726**	**44,208**	**49,860**
Total tax expenses	(8,022)	(8,904)	(11,140)	(12,565)
Profit after tax (PAT)	**23,450**	**27,822**	**33,068**	**37,295**

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY25A	FY26A	FY27E	FY28E
Share capital	2,469	2,780	2,780	2,780
Reserves & surplus	1,95,653	2,44,810	2,71,994	3,02,669
Shareholders' funds	**1,98,121**	**2,47,590**	**2,74,774**	**3,05,449**
Borrowings	11,28,735	12,03,350	13,84,738	16,04,051
Provisions & Other Liabilities	28,626	28,110	28,672	29,246
Total Liabilities and Stakeholder's Equity	13,55,482	14,79,050	16,88,184	19,38,745
Cash and balance with RBI	55,359	73,400	1,01,640	1,09,800
Fixed assets	**11,144**	**9,410**	**10,351**	**11,386**
Loans	11,62,140	13,01,600	14,76,673	17,09,423
Investments	1,04,005	68,200	70,966	73,870
Other Assets	**22,834**	**26,440**	**28,555**	**34,266**
Total Assets	13,55,482	14,79,050	16,88,184	19,38,745

Source Company data, I-Sec research

Exhibit 13: Key Ratios

(Year ending March)

	FY25A	FY26A	FY27E	FY28E
AUM and Disbursements (INR mn)				
AUM	11,96,730	13,40,960	15,23,212	17,64,456
On-book Loans	11,96,730	13,40,960	15,23,212	17,64,456
Disbursements	5,79,000	6,11,180	6,87,692	7,95,413
Repayments	4,08,240	4,66,950	5,05,441	5,54,168
Growth (%):				
Total AUM (%)	16.6	12.1	13.6	15.8
Disbursements (%)	**3.0**	**5.6**	**12.5**	**15.7**
Repayments (%)	12.2	14.4	8.2	9.6
Loan book (on balance sheet) (%)	16.6	12.1	13.6	15.8
Total Assets (%)	17.7	9.1	14.1	14.8
Net Interest Income (NII) (%)	11.8	18.7	10.7	12.3
Non-interest income (%)	52.9	73.4	30.3	14.8
Total Income (net of interest expenses) (%)	14.6	23.6	13.2	12.6
Operating Expenses (%)	15.4	13.7	15.3	15.5
Employee Cost (%)	11.1	7.9	21.0	22.5
Non-Employee Cost (%)	21.5	19.9	12.0	8.0
Pre provisioning operating profits (PPoP) (%)	14.0	30.8	11.8	10.8
Provisions (%)	(11.2)	50.9	4.4	7.5
PBT (%)	33.6	16.7	20.4	12.8
PAT (%)	33.3	18.6	18.9	12.8
EPS (%)	33.3	5.4	18.9	12.8
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	6.9	7.2	7.0	6.9
NIM on IEA (%)	6.4	6.6	6.4	6.3
NIM on AUM (%)	**6.7**	**7.0**	**6.8**	**6.7**
Yield on loan assets (%)	14.2	14.0	13.8	13.6
Yield on IEA (%)	13.3	12.9	12.6	12.4
Yield on AUM (%)	13.8	13.6	13.4	13.2
Cost of borrowings (%)	7.7	7.2	7.2	7.1
Interest Spreads (%)	6.5	6.8	6.5	6.4
Operating efficiencies				
Non interest income as % of total income	46.2	47.7	46.9	46.5
Cost to income ratio	41.7	38.4	39.1	40.1
Op.costs/avg assets (%)	**2.7**	**2.7**	**2.8**	**2.8**
Op.costs/avg AUM (%)	3.1	3.1	3.1	3.1
Salaries as % of non-interest costs (%)	55.8	53.0	55.6	59.0
Capital Structure				
Average gearing ratio (x)	5.7	4.9	5.0	5.3
Leverage (x)	6.8	6.0	6.1	6.3
CAR (%)	15.2	18.8	18.9	19.0
Tier 1 CAR (%)	13.4	16.7	16.8	16.9

Source Company data, I-Sec research

	FY25A	FY26A	FY27E	FY28E
Asset quality and provisioning				
GNPA (%)	3.7	3.4	3.4	3.3
NNPA (%)	1.8	1.4	1.4	1.3
GNPA (INR mn)	44,139	45,780	51,050	59,036
NNPA (INR mn)	21,560	18,980	21,441	23,614
Coverage ratio (%)	51.2	58.5	58.0	60.0
Credit Costs as a % of avg AUM (bps)	146	192	178	167
Credit Costs as a % of avg on book loans (bps)	146	192	178	167
Return ratios				
RoAA (%)	1.9	2.0	2.1	2.1
RoAE (%)	12.4	12.5	12.7	12.9
ROAAUM (%)	2.1	2.2	2.3	2.3
Valuation Ratios				
No of shares	**1,234**	**1,390**	**1,390**	**1,390**
EPS (INR)	19.0	20.0	23.8	26.8
EPS fully diluted (INR)	19.0	20.0	23.8	26.8
Price to Earnings (x)	18.4	17.5	14.7	13.0
Price to Earnings (fully diluted) (x)	18.4	17.5	14.7	13.0
Book Value (fully diluted)	161	178	198	220
Adjusted book value	147	168	186	207
Price to Book	2.2	2.0	1.8	1.6
Price to Adjusted Book	2.4	2.1	1.9	1.7

Source Company data, I-Sec research

Exhibit 14: Key Metrics

(Year ending March)

	FY25A	FY26A	FY27E	FY28E
DuPont Analysis				
Average Assets (INR mn)	12,53,537	14,17,266	15,83,617	18,13,465
Average Loans (INR mn)	10,77,046	12,31,870	13,89,136	15,93,048
Average Equity (INR mn)	1,89,848	2,22,856	2,61,182	2,90,111
Interest earned (%)	12.2	12.1	12.1	11.9
Interest expended (%)	6.3	5.9	5.9	5.9
Gross Interest Spread (%)	5.9	6.2	6.2	6.0
Credit cost (%)	**1.3**	**1.7**	**1.6**	**1.5**
Net Interest Spread (%)	4.6	4.5	4.6	4.5
Operating cost (%)	**2.7**	**2.7**	**2.8**	**2.8**
Lending spread (%)	1.9	1.8	1.7	1.7
Non interest income (%)	**0.6**	**0.9**	**1.1**	**1.1**
Operating Spread (%)	2.5	2.7	2.8	2.7
Tax rate (%)	**25.5**	**24.2**	**25.2**	**25.2**
ROAA (%)	1.9	2.0	2.1	2.1
Effective leverage (AA/ AE)	**6.6**	**6.4**	**6.1**	**6.3**
RoAE (%)	12.4	12.5	12.7	12.9

Source Company data, I-Sec research

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