

Mahindra Finance

BSE SENSEX	S&P CNX
56,789	16,887
Bloomberg	MMFS IN
Equity Shares (m)	615
M.Cap.(INRb)/(USDb)	222.1 / 2.7
52-Week Range (INR)	235 / 128
1, 6, 12 Rel. Per (%)	-11/13/0
12M Avg Val (INR M)	963
Free float (%)	47.8

Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
NII	55.4	59.0	65.3
PPP	37.3	37.1	41.8
PAT	9.9	14.5	16.1
EPS (INR)	8.0	11.8	13.1
EPS Gr. (%)	195	47	11
BV/Sh.(INR)	123	131	139

Ratios

NIM (%)	8.6	8.5	8.3
C/I ratio (%)	35.6	40.0	39.0
RoA (%)	1.3	1.8	1.8
RoE (%)	6.6	9.3	9.7
Payout (%)	44.9	34.0	35.0

Valuations

P/E (x)	22.4	15.3	13.7
P/BV (x)	1.5	1.4	1.3
Div. Yield (%)	2.0	2.2	2.5

CMP: INR180
Buy

Disbursements healthy, strong improvement in asset quality

Key takeaways from MMFS' pre-quarterly release:

- MMFS reported Sep'22 disbursements of INR40.8b up 110% YoY. Disbursements grew ~9% MoM and the company attributed the strong momentum to macro tailwinds.
- The same in 2QFY23 grew by ~82% YoY to INR117.5b. Demand and business volumes have been strong, which is feeding the healthy growth in disbursement for all Vehicle Financiers.
- As of 1HFY23, gross business assets stood ~INR739b, up ~9% QoQ and ~16% YoY. Repayments (including pre-payments and write-offs) stood at 33% (annualized) and was below the normalized run-rate due to lower repossession on account of the RBI ban on third-party repossessions in the last week of 2QFY23.
- Collection efficiency (CE) stood at 98% in Sep'22 v/s 96% in Aug'22.
- The improvement in asset quality was better than our expectations, especially in the context of the RBI ban on third-party repossessions in the last week of 2QFY23. Stage 2/3 assets have seen a sequential improvement of 170bp/100bp.
- The company maintained a comfortable liquidity position of over three months.
- We expect the company to deliver a RoE of ~11% over the medium term. We find its current valuations of 1.3x FY24E P/BV reasonable from a risk-reward perspective and maintain our Buy rating on the stock.

Trends in disbursements, collection efficiency, and asset quality

MMFS	2QFY22			3QFY22			4QFY22			1QFY23			2QFY23		
	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22	Mar'22	Apr'22	May'22	Jun'22	Jul'22	Aug'22	Sep'22
Disbursements (INR b)	24.0	21.5	19.0	26.5	25.0	27.5	23.2	27.3	38.3	27.5	29.7	37.5	39.1	37.4	40.8
YoY growth (%)		57%	60%	20%	17%	42%	31%	44%	67%	109%	272%	115%	63%	74%	115%
Monthly collection efficiency	95%	97%	100%	91%	94%	100%	96%	98%	109%	90%	95%	96%	97%	96%	98%
Quarterly collection efficiency	98%			95%			100%			94%		97%			
Stage 2			19.7%			17.8%			14.3%			11.7%			10.0%
Stage 3			12.7%			11.3%			7.7%			8.0%			7.0%
Stage 2 and 3 [30+dpd]			32.4%			29.1%			21.9%			19.7%			17.0%
Write-offs (INR b)		4.0			6.0			12.2			5.7				

Commentary on asset quality

Stage 2				Reduction	Reduction	Reduction	Visible improvement	Visible improvement	Meaningful improvement		Improvement over Mar'22	Sequential reduction	Sequential reduction	A QoQ decline of ~170bp to 10%
Stage 3/NPA contracts	Declining trend	Meaningful reduction	Further reduction	Range bound	Stable	Reduction	Stable	Visible improvement	Significant improvement	Expect lower volatility	Marginally higher than Mar'22	Stabilized	Stabilized	A QoQ decline of ~100bp to 7%

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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