

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	✓	↔	✓

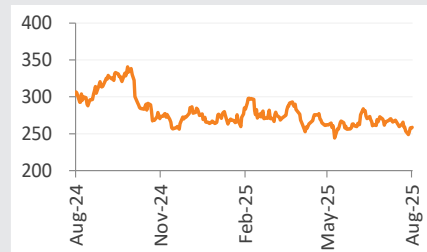
Company details

Market cap:	Rs. 36,000 cr
52-week high/low:	Rs. 334/235
NSE volume: (No of shares)	26.0 lakh
BSE code:	532720
NSE code:	M&MFIN
Free float: (No of shares)	66.41 cr

Shareholding (%)

Promoters	52.49
FII	9.33
DII	32.33
Others	5.84

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-3.0	-1.1	-8.5	-15.4
Relative to Sensex	0.7	-1.3	-12.5	-13.8

Source: Mirae Asset Sharekhan Research, Bloomberg

Mahindra & Mahindra Financial Services Ltd

Operationally weak Q1; Valuation reasonable

NBFC	Sharekhan code: M&MFIN	
Reco/View: Buy	↔	CMP: Rs. 259 Price Target: Rs. 300 ↔

Summary

- Net earnings met estimates, driven by robust growth in other income, partially offset by above higher credit costs. NIMs beat estimates as yield on AUM rose.
- GS-3 assets surged 29/16 bps (y-o-y/q-o-q) caused by stress in the CV segment and seasonality, leading for significantly rise in the credit costs.
- AUM growth was healthy, however, disbursements dropped 17.5% q-o-q on weak demand in the auto segment and non-seasonality factors. Tractor disbursements grew robustly.
- At CMP, the stock trades at 1.4x /1.3x its FY2026E/FY2027E BV, respectively. We continue to maintain buy ratings with unchanged PT of Rs. 300 on healthy growth in net earnings driven by expansion in NIMs, lower Opex/AUM, growth in other income, and reasonable valuation.

Net earnings were in line with expectations at Rs. 529 crore, increasing 3.2% (y-o-y) but declining 6.0% (q-o-q). This was driven by strong PPOP growth, though higher credit costs offset it. NII beat estimates by 1.2% to Rs. 2,102 crore, up 12.8% y-o-y and 4.4% q-o-q, supported by healthy AUM growth and expansion in NIM. NIMs were strong at 6.6% (7 basis points above estimates), expanding due to higher yields on AUM relative to borrowing costs. Other income surged by 84.6% y-o-y and 19.7% q-o-q to Rs. 273 crore, largely due to a Rs. 46 crore dividend from MIBL. This boosted PPOP, which exceeded estimates by 3.1% (up 19.2% y-o-y and 11.5% q-o-q). Credit costs rose to 2.16% of AUM (21 bps above estimates) due to deteriorating asset quality, preventing net earnings for above estimates growth. RoA dropped by 20 bps to 1.6% y-o-y. AUM grew by 14.7% y-o-y and 2.0% q-o-q to Rs. 1,22,008 crore, in line with estimates. However, disbursements dropped 17.5% q-o-q to Rs. 12,808 crore, primarily due to weak automobile demand and seasonal factors, except for the tractor segment, which surged 21% y-o-y and 37% q-o-q to Rs. 1,711 crore. Asset quality deteriorated on higher stress in CV segment, with GS-3 increased by 29/16 bps (y-o-y/q-o-q) and NNPA rose 44/7 bps y-o-y/q-o-q. A recent Rs. 3,000 crore rights issue significantly improved the debt-to-equity ratio.

Key positives

- Other income rose by 84.6%/19.7% (y-o-y/q-o-q) primarily driven by dividend income of Rs. 46 crore from MIBL (100% subsidiary), helped achieving above estimates PPOP growth.
- Tractor loan disbursement grew robustly by 21% y-o-y and 37% q-o-q to Rs. 1,711 crore. It has also gained market share.
- NIMs above estimates by 7 bps at 6.6% (as percentage of AUM), up by 15 bps q-o-q due to improvement in yield on AUMs.

Key negatives

- Disbursements of Rs. 12,808 crore down 17.5% q-o-q, reflecting weak auto demand and seasonality across most segments.
- Credit cost (as a percentage of AUM) beat estimates by 21 bps to 2.16% (up by 48 bps y-o-y/64 bps q-o-q) due to deterioration of asset quality.
- RoA (as a percentage of AUM) dropped by 19/15 bps (y-o-y/q-o-q).

Management Commentary

- Credit cost is expected at 1.3-1.7% for FY26.
- The company aims to protect margins through risk-based pricing and leveraging their PSL assets. Management believes NIMs have bottomed out at 6.5% and sees potential for improvement.
- Management aims for mid-teen AUM growth in the medium term, though they declined to provide specific near-term guidance given current market conditions.
- Non wheels AUM is expected to contribute to 25% to total AUM by FY30.

Our Call

Valuation – Maintain a Buy rating with unchanged PT of Rs. 300: Q1 was operationally weak. The company expects continued improvement in NIMs for FY26 and FY27 due to reduction of borrowings costs. Tractor and pre-owned vehicle segments look promising, however weakness in the CV and PV segments. We expect AUM/PAT CAGR at 13.1%/21.1% for FY25-27 and RoA/ROE at 2.1%/12.9% for FY27. The stock price has fallen ~15% in the last four months, further we expect limited downside. We continue to maintain Buy ratings with unchanged PT of Rs. 300 on healthy PAT growth driven by growth in NIM and other income, and lower Opex/AUM. At CMP, the stock trades on reasonable valuation at 1.4x /1.3x its FY2026E/FY2027E BV, respectively.

Key Risks

Further weakening macros can impact vehicle AUM growth, deterioration of asset quality can increase credit cost, competitive intensity from banks may put pressure on NIMs.

Valuation (Standalone)

Particulars	FY23	FY24	FY25	FY26E	FY27E
NII	6,106	6,682	7,433	8,653	9,913
PAT	1,984	1,760	2,345	2,655	3,440
EPS (Rs.)	16.1	14.2	19.0	19.1	24.7
ROA (%)	2.3	1.7	1.9	1.8	2.1
ROE (%)	12.1	10.0	12.4	11.8	12.9
P/E (x)	16.4	18.4	13.9	11.2	9.0
P/B (x)	1.9	1.7	1.6	1.4	1.3

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

- ♦ **NII and NIM:** NII exceeded estimates by 1.2% to Rs. 2,102 crore, up 12.8% y-o-y and 4.4% q-o-q, supported by healthy AUM growth and expansion in NIM. NIMs were strong at 6.6% (7 bps above estimates), expanding due to higher yields on AUM relative to borrowing costs. Other income grew significantly which helped to grow PPOP above estimates.
- ♦ **Opex/AUM:** On an annualised basis, opex/AUM grew by 9 bps q-o-q to 3.06%, however, it was flat on yearly basis.
- ♦ **AUM growth:** AUM grew by 14.7% y-o-y and 2.0% q-o-q to Rs. 1,22,008 crore, in line with estimates. However, disbursements dropped 17.5% q-o-q to Rs. 12,808 crore, primarily due to weak auto demand and seasonal factors, except for the tractor segment, which surged 21% y-o-y and 37% q-o-q to Rs. 1,711 crore.
- ♦ **Asset Quality and Credit costs:** Asset quality deteriorated due to rise in stress in the CV segment, with Gross Stage 3 (GS-3) increased by 29/16 bps (y-o-y/q-o-q) and NNPA rose 44/7 bps y-o-y and q-o-q. Credit costs rose to 2.16% of AUM (21 bps above estimates) due to deteriorating asset quality.

Actual Vs Estimates

Particulars	Rs cr		
	Q1FY26E	Q1FY26A	Var (%)
NII	1,988	2,012	1.20%
PPOP	1,312	1,353	3.09%
PAT	536	529	-1.24%

Source: Company; Mirae Asset Sharekhan Research

Results (standalone)

Particulars	Rs cr				
	Q1FY25	Q4FY25	Q1FY26	Y-o-Y %	Q-o-Q %
Interest Earned	3,612	4,017	4,165	15.3%	3.7%
Interest Expended	1,829	2,090	2,152	17.7%	3.0%
NII	1,784	1,928	2,012	12.8%	4.4%
Other Income	148	228	273	84.6%	19.7%
Total Income	1,932	2,156	2,285	18.3%	6.0%
Operating Expenditures	797	943	932	17.0%	-1.1%
Pre- Prov Operating Profit	1,135	1,213	1,353	19.2%	11.5%
P&C	448	457	660	47.2%	44.3%
PBT	687	756	693	1.0%	-8.3%
Tax	173	193	164	-5.5%	-14.9%
Net Profit	513	563	529	3.2%	-6.0%
AUM	1,06,339	1,19,673	1,22,008	14.7%	2.0%
Disbursements	12,741	15,530	12,808	0.5%	-17.5%

Source: Company; Mirae Asset Sharekhan Research

Key Ratios

Particulars	Q1FY25	Q4FY25	Q1FY26	Y-o-Y (bps)	Q-o-Q (bps)
NII as % of AUM	6.71	6.44	6.60	-11.2	15.4
Fee income % of AUM	0.56	0.76	0.90	33.9	13.3
Opex as % of AUM	3.0	3.15	3.06	6.0	-9.4
Prov as % of AUM	1.69	1.53	2.16	47.7	63.5
Tax Rate	0.65	0.64	0.54	-11.5	-10.6

Source: Company; Mirae Asset Sharekhan Research

Asset quality

Particulars	Q1FY25	Q4FY25	Q1FY26	y-o-y (bps)	Q-o-Q (bps)
GS-3	3.56	3.69	3.85	28.6	16.1
NS-3	1.46	1.84	1.91	44.4	7.1

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Muted demand for CVs and PVs financing, tractor demand and pre-owned vehicles to drive the growth

Passenger vehicle sales are expected to grow in single digits in FY25. Currently, demand for commercial vehicles is expected to be weak and it will be back when government focuses on infrastructure financing and uptick in economic activities. There has been an increase in penetration in used CVs. NBFCs are still facing some challenges like, higher credit costs, overleveraging in the MFI industry, and stress in unsecured loans. However, FY2026 (specially H2) is expected to be better for the industry as FY2025 had impact of MFI overleveraging issue, election, heatwaves, heavy rainfall and regulatory headwinds. RBI has taken supportive steps in the last 6-8 months with reduction in CRR rate, which has increased the liquidity, reduction in the repo rate and improving system liquidity. These supports will drive NIM for the fixed lenders and AUM growth.

■ Company Outlook – Asset quality improvement is key, declining interest rates bode well

MMFSL expects to focus on improvement in asset quality with lower credit cost and along with growth. Collection trends and business momentum improved however remain monitorable. Asset quality deteriorated due to pain the CV segment and PV segment. The management is working for other income growth and planning to diversify into other assets like SME, LAP and home loans to reduce dependency on vehicle business wheel segment. As NBFCs faced challenges in FY25, with this the RBI has taken steps like reduction in the CRR & repo rate. Further reduction in the rate will benefit to the fixed lenders. Further, a reduction in the repo rate would be one of key drivers for NIM expansion. The company's loan portfolio has a higher proportion of fixed loans, hence the NIM is expected to expand which would improve return ratios.

■ Valuation – Maintain Buy rating with unchanged PT of Rs. 300

Q1 was operationally weak. The company expects continued improvement in NIMs for FY26 and FY27 due to reduction of borrowings costs. Tractor and pre-owned vehicle segments look promising, however weakness in the CV and PV segments. We expect AUM/PAT CAGR at 13.1%/21.1% for FY25-27 and RoA/ROE at 2.1%/12.9% for FY27. The stock price has fallen ~15% in the last four months, further we expect limited downside. We continue to maintain Buy ratings with unchanged PT of Rs. 300 on healthy PAT growth driven by growth in NIM and other income, and lower Opex/AUM. At CMP, the stock trades on reasonable valuation at 1.4x /1.3x its FY2026E/FY2027E BV, respectively.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
M&M Finance	259	36,000	13.5	10.4	1.4	1.3	11.8	12.9	1.8	2.1
Cholamandalam	1,446	1,29,000	22.6	17.5	4.0	3.1	20.5	21.6	2.4	2.6

Source: Company; Mirae Asset Sharekhan Research

About company

Mahindra Finance is a subsidiary of Mahindra and Mahindra Limited. The company is one of India's leading non-banking finance companies focusing on rural and semi-urban areas. The company finances the purchase of new and pre-owned auto and utility vehicles, tractors, cars, commercial vehicles, construction equipment, and SME Financing.

Investment theme

Mahindra Finance is well diversified NBFCs and has strong presence in rural and semi urban area. The company's earnings are expected to stabilize in FY27 as it has strengthened. Fiscal 2025 was tough for the company due to heatwaves, election year, extended rainfall, and MFI overleveraging issue. Also, a weak Q1 due to non-seasonality and weak macro. Though, RBI has taken step for the improvement in the financial system as reduced CRR, increased liquidity into the banking system, reduction in the repo rate which will help to expand the NIMs in FY26 and FY27. Further reduction in the repo rate will further help to increase NIM for the fixed lenders. Also, lower interest rate will help to improve the vehicle volume. Besides, the management has been working on other income growth as it has received license from IRDAI. Further, they are diversifying into other assets such as LAP and homes to reduce the dependency on vehicle finance. The company sees reduction in cost to income ratio which would be one of the key triggers for growth in return ratio.

Key Risks

Continued weakness in the macros can impact vehicle AUM growth, deterioration of asset quality can increase credit cost, volatile credit cost, yield compression due to higher competitive intensity and a change in the product mix.

Additional Data

Key management personnel

Name	Designation
Mr. Raul Rebello	MD & CEO
Pradeep Kumar Agrawal	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mahindra & Mahindra Ltd	52.49
2	Life Insurance Corp of India	10.24
3	HDFC Asset Management Co Ltd	5.73
4	SBI Funds Management Ltd	5.05
5	HDFC Life Insurance Co Ltd	2.59
6	Vanguard Group Inc/The	1.86
7	FundRock Management Co SA	1.6
8	Sundaram Asset Management Co Ltd	1.31
9	Tata Asset Management Pvt Ltd	1.08
10	Dhawan Ashish	1.05

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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