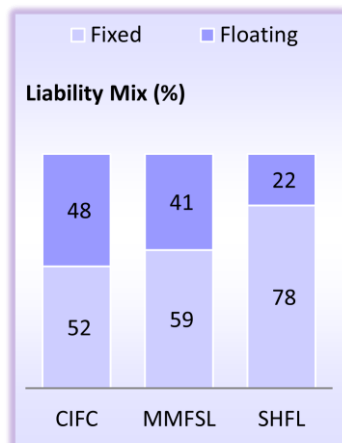
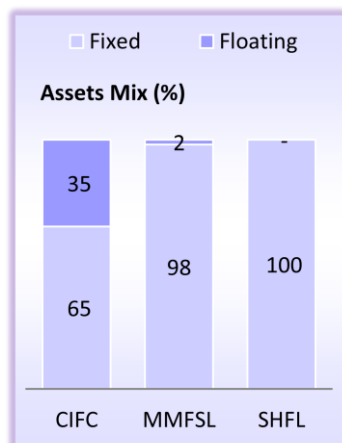


NBFC: Vehicle Finance

Liability Mix as of Dec'24 (%)



Asset mix as of Dec'24 (%)



Cautiously optimistic amid potential NIM expansion

Vulnerable to slowdown in loan growth and asset quality if the economy weakens

- Intuitively, vehicle financiers (VFs) emerge as beneficiaries in a declining interest rate environment, as their vehicle finance loan book has a fixed rate while the majority of their borrowings have floating rates, resulting in better NIMs and profitability. Among the NBFCs under our coverage, we prefer VFs for an anticipated NIM expansion; however, the investment thesis in the coming fiscal year will not be as simple as that. This is because we see risks of a further slowdown in loan growth and tightness in collections if the Indian economy continues to be in the slow lane.
- The RBI has consecutively reduced the repo rate by ~25bp each in the last two monetary policy meetings, bringing it down from 6.5% to 6%. Additionally, the central bank has shifted its monetary policy stance from Neutral to Accommodative, indicating a strong likelihood of maintaining low interest rates going forward. This is expected to create a favorable tailwind for VFs, potentially leading to an improvement in their NIMs. Amid the current global macroeconomic backdrop and the flip-flop on US Tariffs, an additional 2-3 rate cuts are anticipated in FY26, which will further ease the cost of borrowings (CoB) and contribute to a sustained NIM expansion for VFs.
- On the flipside, over the past year, there have been concerns about a slowdown across key auto segments, including PVs and CVs. While demand saw a temporary uptick in 2Ws after the festive season, the momentum has once again tapered off. Among all auto segments, tractors remain the only segment experiencing steady demand, led by expectations of a favorable monsoon and a subsequent robust Kharif and Rabi harvest.
- Demand for used vehicles has also remained sluggish, primarily due to the limited supply over the past few quarters. However, as availability improves, demand is expected to gradually strengthen, driven by their cost advantage over new vehicles, making them a preferred choice for businesses and fleet operators (in case the economy continues to be in the slow lane). Moreover, used vehicles offer greater financial viability, further enhancing their appeal. VFs, over the last two years, have exhibited more keenness to accelerate growth in used vehicle financing as it offers better yields and margins relative to new vehicles.
- Disbursements moderated for VFs in FY25. Supported by a revival in government spending, a rebound in rural demand amid expectations of a favorable monsoon, robust Kharif and Rabi harvests, and a recovery in infrastructure development and overall economic activity, we estimate FY26 disbursement growth for VFs to be better YoY, albeit some risks like sustained weak macros still persist.
- View:** Despite broader market headwinds and prevailing geopolitical challenges, VFs delivered a decent stock price performance in FY25, with stock prices of SHFL and CIFC rising by ~35% and 28%, respectively, as compared with a ~5% rise in the Nifty-50 and ~18% rise in the Nifty Financial Services Index. VFs are strategically positioned to leverage the benefits of a declining interest environment, driving improvement in NIMs and profitability.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

We have a BUY rating on all three VFs under our coverage: Mahindra and Mahindra Financial Services (MMFS | TP: INR340), Cholamandalam Investment and Finance Co. (CIFIC | TP: INR1,770) and Shriram Finance (SHFL | TP: INR800). SHFL is our top pick among VFs and other NBFCs under our coverage.

PV demand muted for a year and CV also not very buoyant; resumption of govt. capex can give a boost in FY26

- The CV segment was weak in FY25 due to multiple factors such as general elections, heatwaves, prolonged rainfall and broader macroeconomic weakness.
- Similarly, PV demand remained muted during the year due to a high base and stagnant urban demand. Entry-level car sales continued to underperform, though growth was entirely led by SUVs, reflecting a stable trend toward premiumization. Although high vehicle prices posed a challenge, the impact was largely offset by substantial discounts offered in the latter part of the year. The festive season in Oct'24 provided a temporary boost, supported by signs of rural recovery; however, enquiry levels tapered off as the fourth quarter approached.
- With the resumption of construction and infrastructure activities, along with steady rural demand and a revival in government capex, some recovery in CV growth is anticipated. However, this growth is unlikely to match the strong demand seen a few years ago. To mitigate the cyclical, VFs are expected to focus on expanding their portfolio of non-auto products to drive more stable and diversified growth.

Diversification to gain more focus; non-auto products to drive growth

- Given the cyclical nature of the auto segment, all core VFs have pivoted to non-auto segments such as MSME, consumer loans, LAP and unsecured personal loans where demand is less cyclical and more secular. SHFL/CIFIC/MMFS have a share of 19%/45%/10% in non-auto loans as of Dec'24, and we expect the focus on diversification to continue for the next two years, with the share of non-auto loans to expand further in FY26 and FY27. We expect the share of non-auto products to increase to ~24%/52%/15% for CIFIC/SHFL/MMFS by FY27E.
- We believe this strategic diversification will not only mitigate the impact of product-specific cyclical but also help to sustain long-term growth across credit cycles. Additionally, the diversification into non-auto products also enhances the overall blended yield for VFs, as few of these product segments typically offer higher yields than auto loans.

NIM expansion from rate cuts

- VFs will benefit in a declining interest rate environment due to the fixed-rate nature of their vehicle finance portfolio and a significant share of floating-rate liabilities. While the impact may not be immediate, it could take a few quarters for the MCLR-linked liabilities to get repriced and for VFs to begin seeing the benefits.
- MMFS/CIFIC/SHFL have a notable share of floating-rate borrowings in their overall liability mix, accounting for ~41%/48%/22%. These floating-rate liabilities position VFs well to benefit from a declining interest rate environment, as the cost of funds adjusts downward over time. Consequently, we expect an expansion in their NIMs. We expect NIMs for MMFS/CIFIC/SHFL to expand to ~6.9%/7.1%/9.9% over the next two years. This margin improvement will enhance profitability and the overall performance in the coming fiscal years.

Asset quality headwinds in the near term

- Over 9MFY25, VFs reported a deterioration in asset quality, and we also expect the strong seasonality (in 4Q) to be absent in the recently concluded quarter. It was because of a confluence of factors, including seasonal weakness, general elections, extreme weather conditions (e.g., heatwaves, floods and prolonged monsoons in 1H), subdued urban consumption, macroeconomic headwinds, and low utilization levels in 2H.
- Unlike previous years, no material improvement in asset quality is expected in 4QFY25, even though the fourth quarter typically benefits from the seasonal strength. This deviation from historical trends is likely to keep credit costs high, significantly above the levels seen in the fourth quarter of prior fiscal years.

Valuation and View

- FY25 was a particularly difficult year in terms of collection intensity, which VFs were required to put in. 1QFY25 will be an acid test for these lenders since collection outcomes in this quarter will set the base for the rest of the year. VFs will be looking to further strengthen their collection frameworks to keep asset quality under control in the upcoming quarter.
- We expect VFs to leverage operating efficiencies despite near-term headwinds on loan growth. For SHFL/CIFC/MMFS, we estimate an AUM CAGR of 17%/24%/16% and a PAT CAGR of 18%/29%/29% over FY24-27E. This will translate into RoA/RoE of 3.3%/17% for SHFL, 2.7%/21% for CIFC and 2.3%/17% for MMFS in FY27E.
- VFs are strategically positioned to leverage the benefits of a declining interest environment, driving improvement in NIMs and profitability. We have a BUY rating on all three VFs under our coverage: MMFS (TP: INR340), CIFC (TP: INR1,770) and SHFL (TP: 800). SHFL is our top pick among VFs and other NBFCs under coverage.

Exhibit 1: Valuation matrix of vehicle financiers under our coverage

Val summary	Rating	CMP (INR)	TP (INR)	MCap (INRb)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
					FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Cholamandalam	Buy	1,587	1,770	1,356	64.6	85.0	361	443	2.5	2.7	20.3	21.2	24.6	18.7	4.4	3.6
MMFS	Buy	275	340	337	24.6	30.6	170	191	2.1	2.3	15.2	17.0	11.2	9.0	1.6	1.4
Shriram Finance	Buy	692	800	1,270	52.5	62.7	345	394	3.2	3.3	16.3	17.0	13.2	11.0	2.0	1.8
Indostar	Buy	304	325	40	9.3	18.6	249	267	1.1	1.7	3.9	7.2	32.6	16.3	1.2	1.1

Source: Company, MOFSL

Auto industry growth: Overall and product specific

Exhibit 2: 2W growth continued to moderate

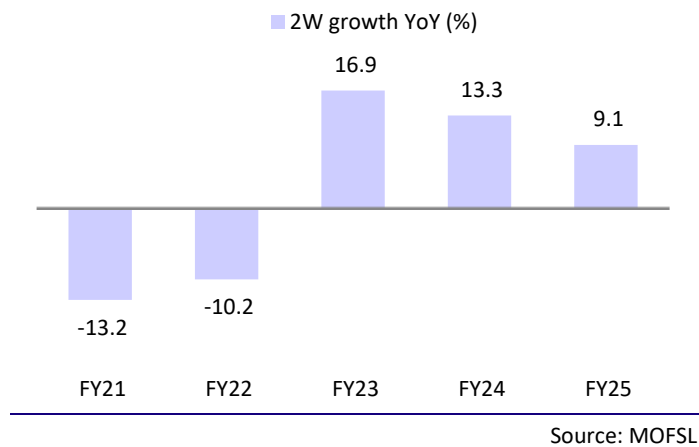


Exhibit 3: 3W growth moderated to ~7% YoY in FY25

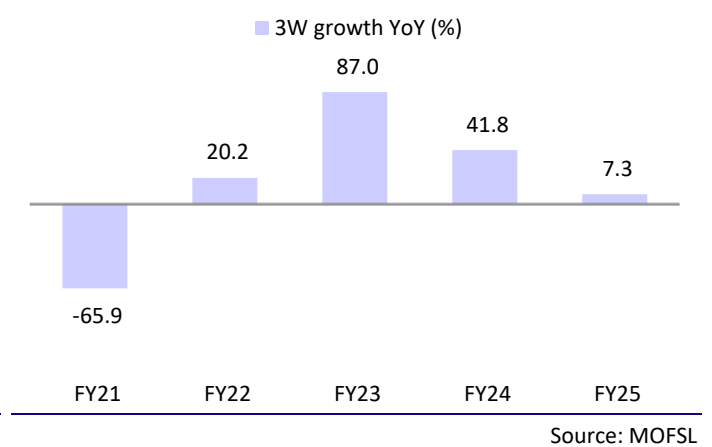


Exhibit 4: PV volumes declined ~12% YoY in FY25

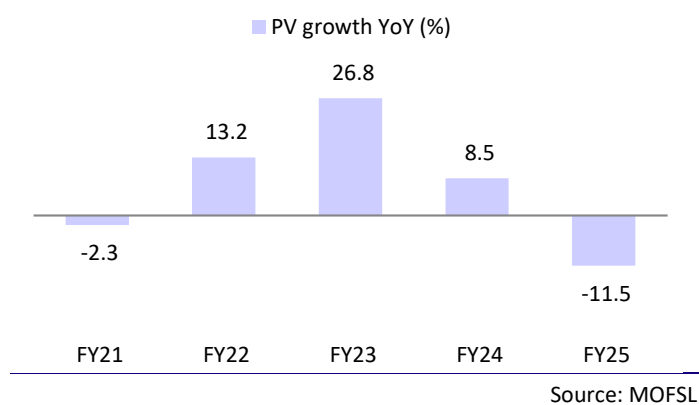


Exhibit 5: LCV volumes continued to decline

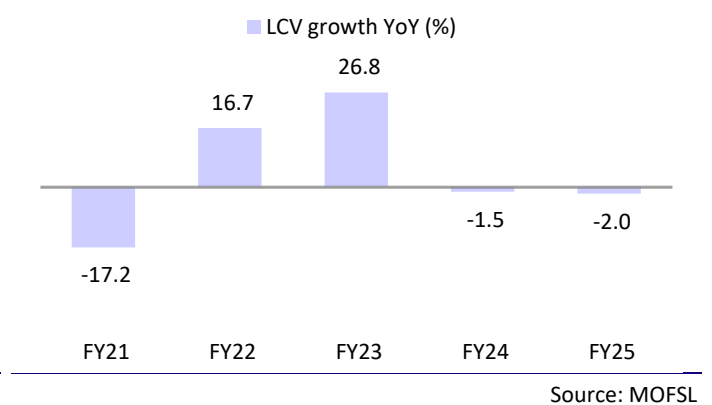


Exhibit 6: MHCV was largely flat in FY25

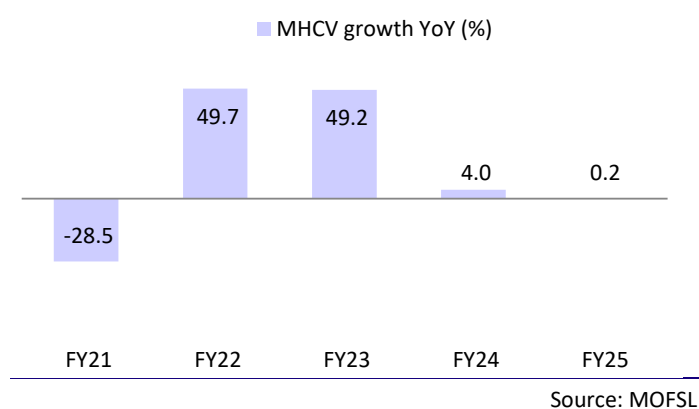
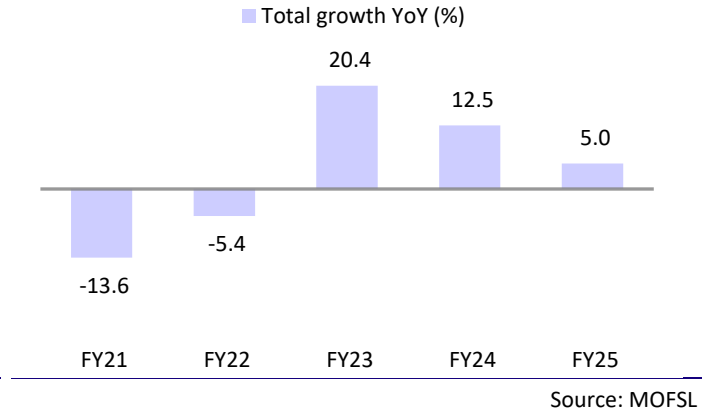
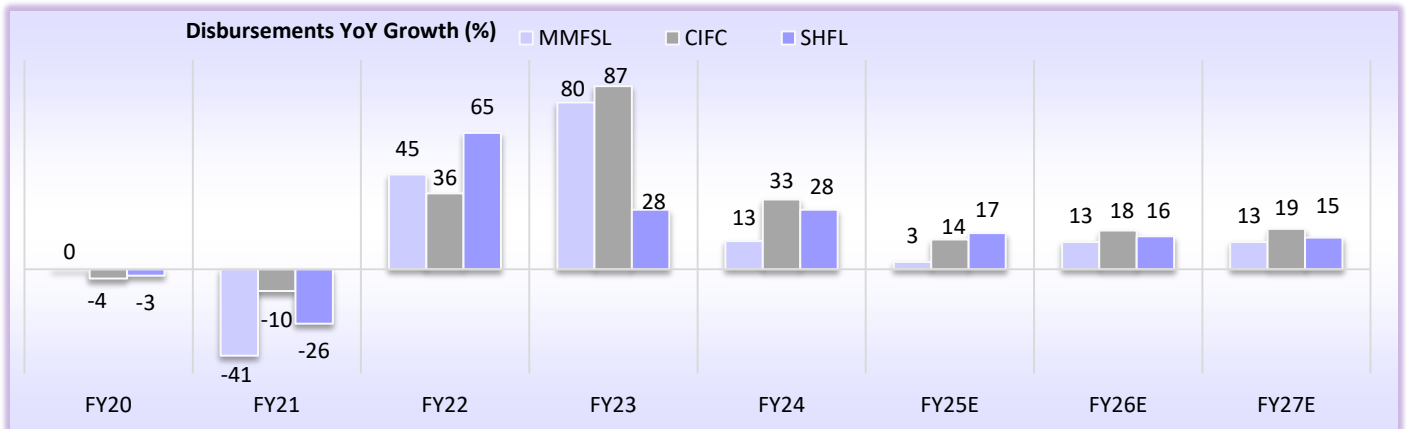


Exhibit 7: Total auto demand was muted in FY25

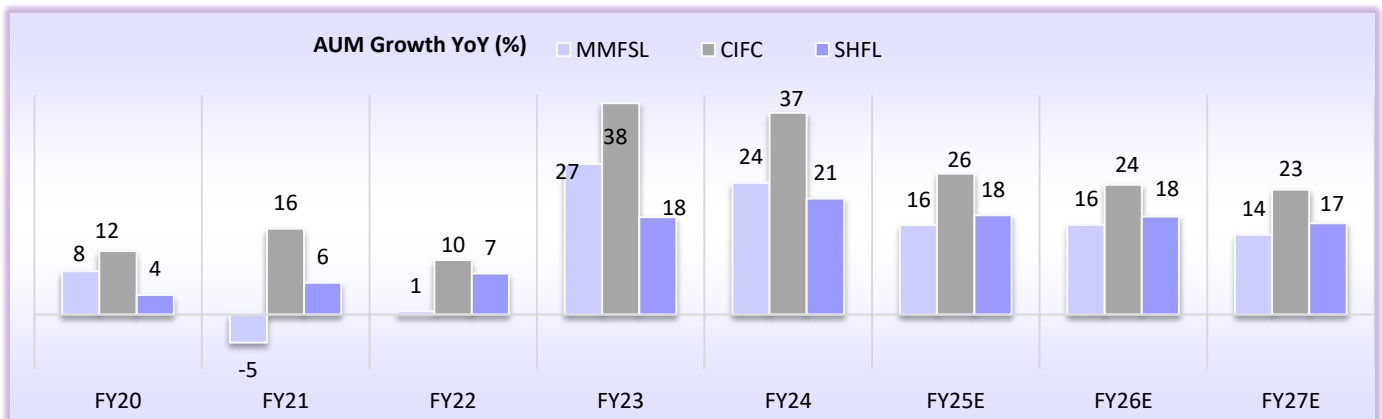


Vehicle Financiers – Operating metrics

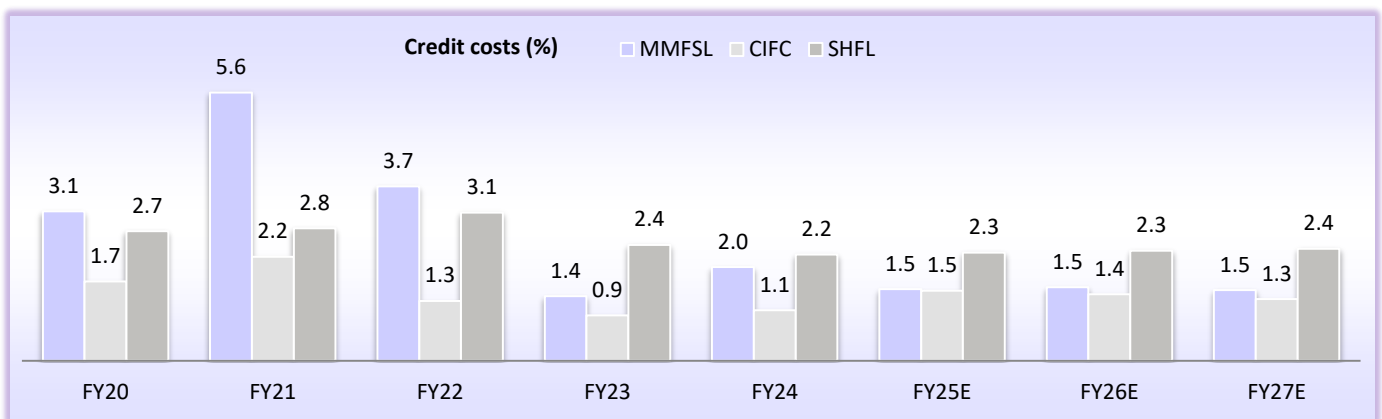
Disbursement growth to pick up slightly in FY26 for VFs after moderating in FY25



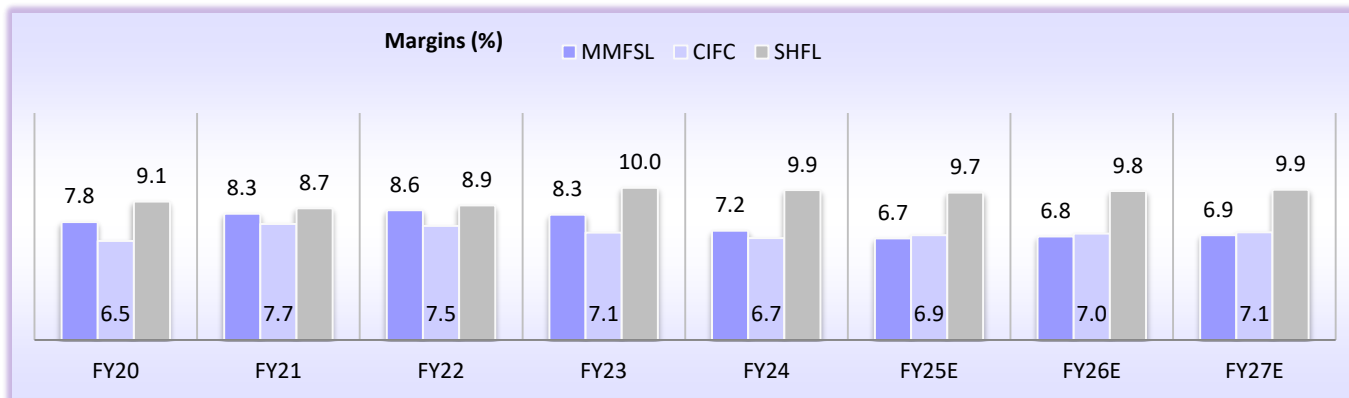
AUM growth to stabilize in FY26 and FY27



Credit costs to remain largely range-bound in FY26 and FY27

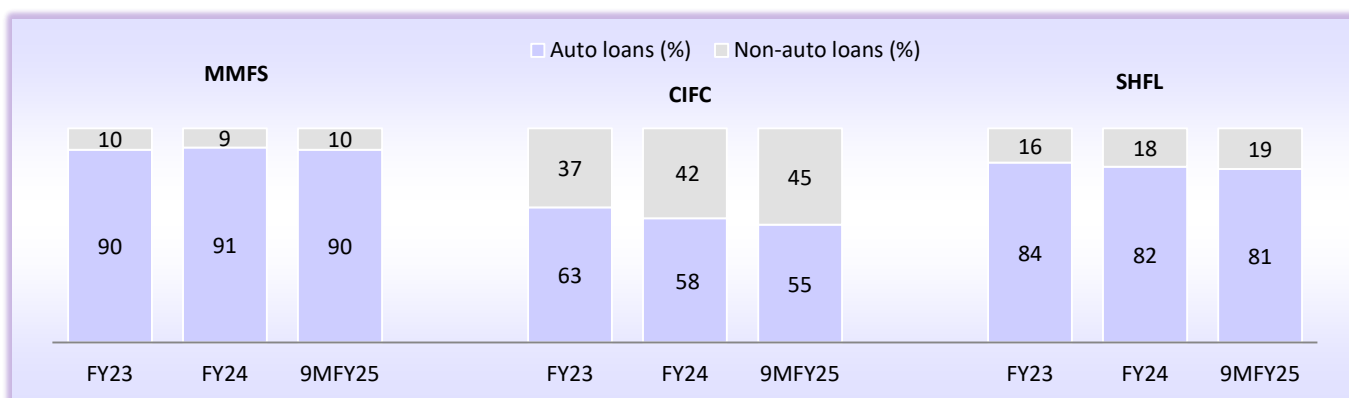


We expect margin expansion for all VFs, aided by repo rate cuts and consequent decline in the CoB



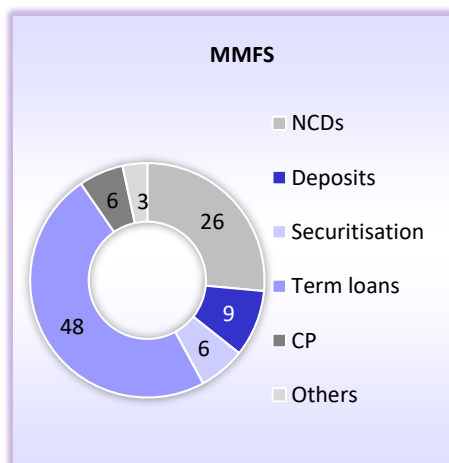
Source: MOFSL, Company

Share of auto and non-auto loans

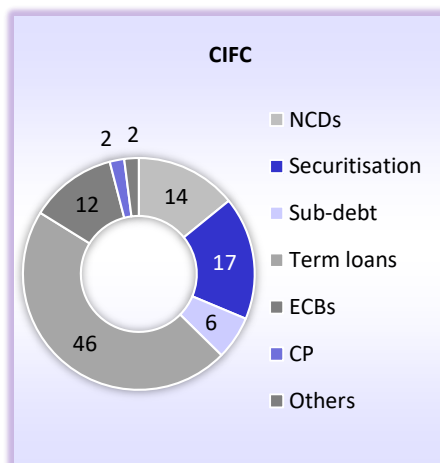


Source: MOFSL, Company

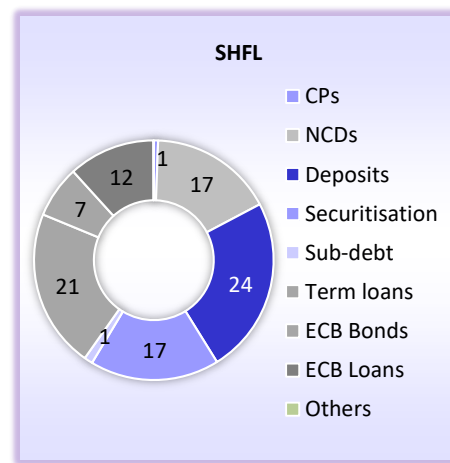
Borrowing mix as of Dec'24 (%)



Source: MOFSL, Company

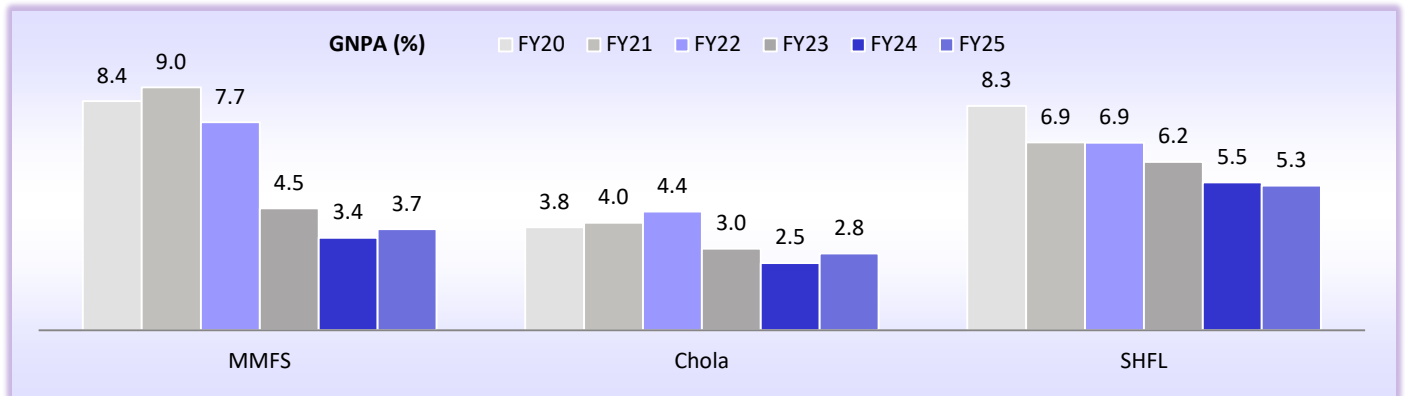


Source: MOFSL, Company



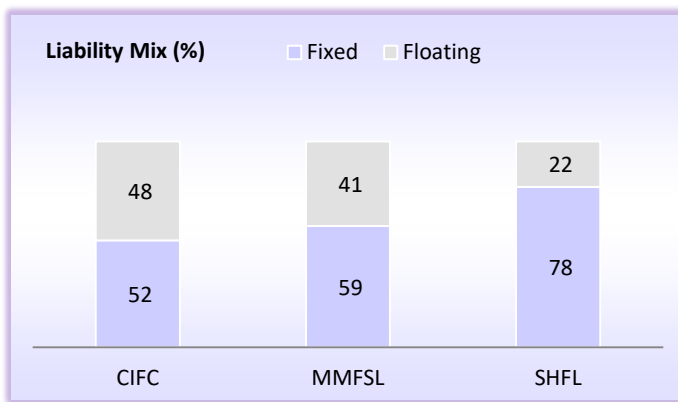
Source: MOFSL, Company

GNPA might rise for Chola and MMFS following a two-year decline, while SHFL could see a minor improvement

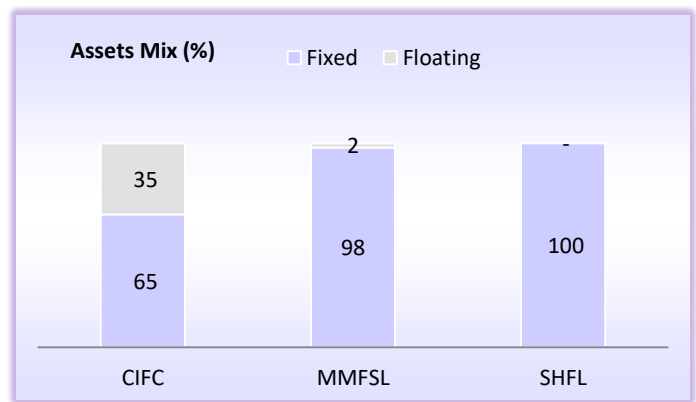


Source: MOFSL, Company

Liability Mix as of Dec'24 (%)



Asset mix as of Dec'24 (%)



Source: MOFSL, Company

Note: We have considered bank borrowings and CPs to calculate the share of floating rate liabilities, while fixed rate liabilities include NCDs, securitization, subordinated debt, deposits, and ECBs.

Cholamandalam Inv & Fin

BSE SENSEX

78,553

S&P CNX

23,852

CMP: INR1,587

TP: INR1,770 (+12%)

Buy



Stock info

Bloomberg	CIFC IN
Equity Shares (m)	841
M.Cap.(INRb)/(USDb)	1334.8 / 15.6
52-Week Range (INR)	1652 / 1099
1, 6, 12 Rel. Per (%)	3/13/33
12M Avg Val (INR M)	2311
Free float (%)	50.1

Financials snapshot (INR b)

Y/E March	FY25E	FY26E	FY27E
Total Income	135.6	171.3	213.3
PPP	80.8	103.0	130.8
PAT	42.2	55.4	72.9
EPS (INR)	50.2	64.6	85.0
EPS Gr. (%)	23	29	32
BV (INR)	281	361	443

Valuations

NIM (%)	6.9	7.0	7.1
C/I ratio (%)	40.4	39.9	38.7
RoAA (%)	2.4	2.5	2.7
RoE (%)	19.5	20.3	21.2
Payout (%)	4.0	3.9	3.5

Valuations

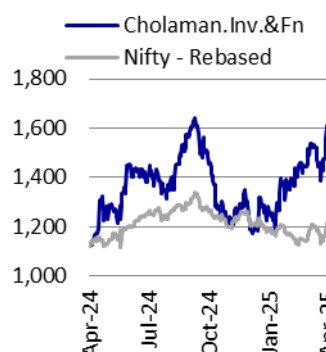
P/E (x)	31.6	24.6	18.7
P/BV (x)	5.6	4.4	3.6
Div. Yield (%)	0.1	0.2	0.2

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	49.9	50.2	50.4
DII	16.1	16.6	18.4
FII	27.4	27.2	24.7
Others	6.5	6.0	6.5

FII Includes depository receipts

Stock performance (one-year)



Strong franchise but not without loan growth risk

NIM expansion from rate cuts; diversification into non-auto products in focus

Cholamandalam Finance (CIFC) is a strong franchise that has diversified into non-auto segments, viz., personal and professional loans, micro-LAP, SME loans and supply chain financing over the last three years. It has also strengthened its home loans and LAP businesses, which are now being offered across India. CIFC has successfully set up three new businesses, CSEL, SBPL and SME, though it has scaled down its CSEL business, which is sourced through partnerships. Despite broader weakness in the auto industry, CIFC has managed to deliver healthy loan growth in its vehicle finance segment by strategically choosing to grow in auto sub-segments and minor market share gains.

While CIFC's NIM has been flat for the last three quarters, we now expect NIM to improve in the subsequent quarters, aided by a decline in CoB. Like the rest of the industry, CIFC also exhibited minor asset quality weakness in FY25 YTD, primarily in the vehicle finance segment, and some seasoning was seen in its three new businesses. Collections were particularly challenging last year due to a weak macroeconomic environment and stress in the unsecured retail segment. CIFC's strong collection framework will help to improve its asset quality performance and result in relatively benign credit costs compared to its peers.

To mitigate the cyclicity of vehicle finance business, the company has strategically diversified its product portfolio, leading to a notable increase in non-auto loans from ~31% of total loans in FY22 to ~45% as of Dec'24. We estimate a CAGR of 17%/24%/29% in disbursements/AUM/PAT over FY24-27. Maintain BUY with a TP of INR1,770 (4.0x FY27E P/BV). **Key risk:** Subdued vehicle sales due to weakness in the macro-economy could result in a moderation in loan growth in FY26.

Scaling down CSEL (Partnerships), piloting new products

Rising delinquencies in the company's CSEL business, which is sourced through partnerships, have prompted the company to scale down its partnerships from 10 to three, with plans to completely exit the partnerships-led CSEL segment over the next year. Going forward, the company will be focusing on organic originations of personal, professional and business loans through its own branches and app (which is currently in the pilot phase). This shift is expected to help mitigate delinquencies and strengthen the portfolio quality in its CSEL segment. In addition, CIFC is also working on pilots of new products like consumer durable loans and gold loans. If the pilots are successful, CIFC could launch a few new products, which would help it sustain healthy AUM growth over the next three years.

Best placed among VFs to benefit from interest rate cuts

CIFC's liability mix has ~46% in the form of bank borrowings. Within its bank borrowings, ~50% of borrowings are linked to EBLR/repo, which will get re-priced quickly. The remaining ~40% of bank borrowings are linked to MCLR, which will also be gradually re-priced lower as banks have now started cutting their MCLR rates. Among VFs under our coverage, CIFC's liability mix positions it well to benefit from NIM expansion in a declining interest rate environment. We estimate NIM expansion of ~10bp each in FY26/FY27.

Valuation and View

CIFC has a strong franchise with a diversified product suite, which it would look to leverage even if there is a further slowdown in the auto industry due to a weak macro. In addition to its existing products, the company is also piloting few new products, which are expected to be introduced over the next 6-12 months and will support healthy AUM growth. We estimate an AUM CAGR of ~24% over FY24-27E.

CIFC trades at 3.6x FY27E P/BV. We believe this premium valuation multiple would be sustained since the company has been making concerted efforts to navigate the cyclicity in vehicle demand to deliver healthy AUM growth and asset quality through its diversified product mix. CIFC can deliver a PAT CAGR of 29% over FY24-27E and RoA/RoE of 2.7%/21% in FY27E. Maintain BUY with a TP of INR1,770 (premised on 4.0x Mar'27E BVPS).

STORY IN CHARTS

Exhibit 8: Expect ~24% AUM CAGR over FY24-27E

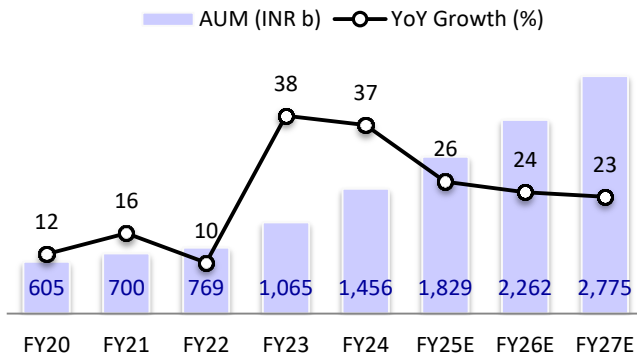


Exhibit 9: Disbursements to post ~17% CAGR over FY24-27E

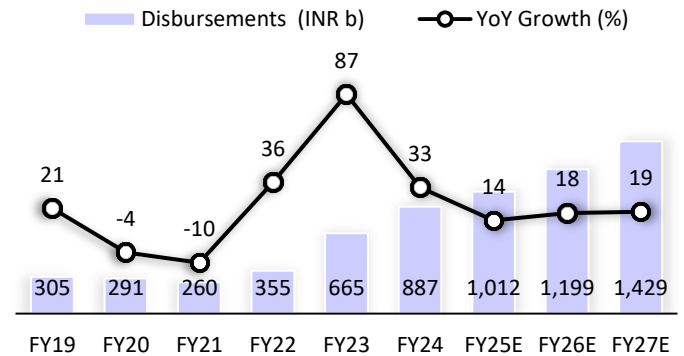


Exhibit 10: Spreads expected to expand by ~10bp in FY26E

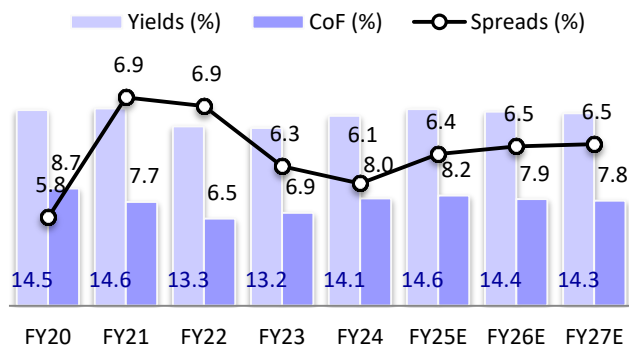


Exhibit 11: Expect NIMs to expand to 7.1% by FY27E

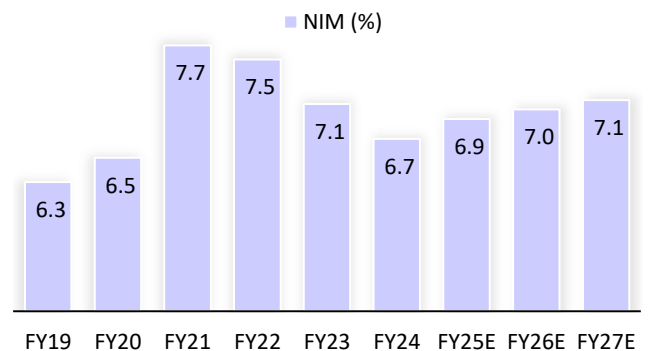


Exhibit 12: Expect opex ratios to remain largely stable

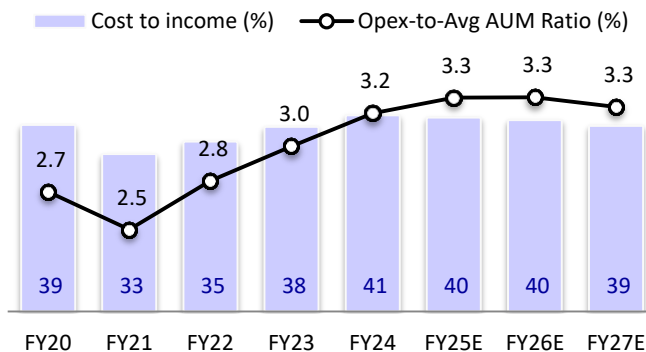


Exhibit 13: Expect normalized credit costs of ~1.3% in FY27E

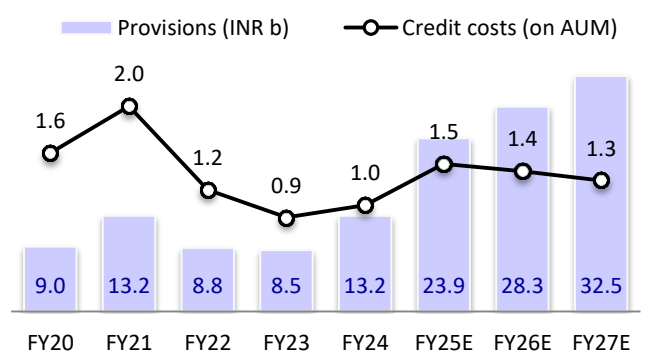


Exhibit 14: Expect improvement in asset quality in FY26E

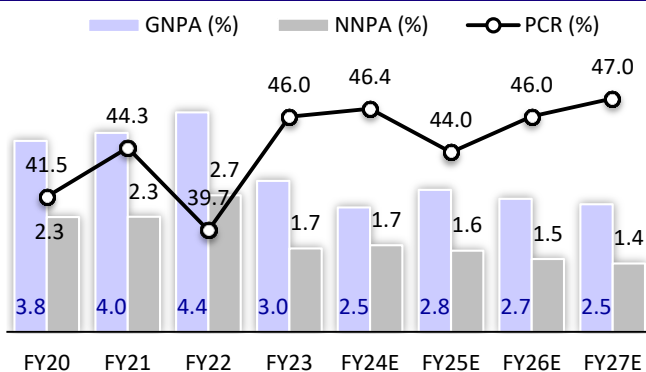
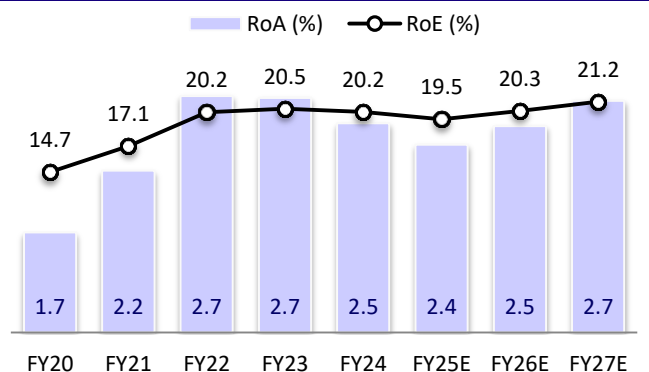


Exhibit 15: Expect healthy ~21% ROE in FY27E



Source: MOFSL, Company

Source: MOFSL, Company

Exhibit 16: DuPont analysis

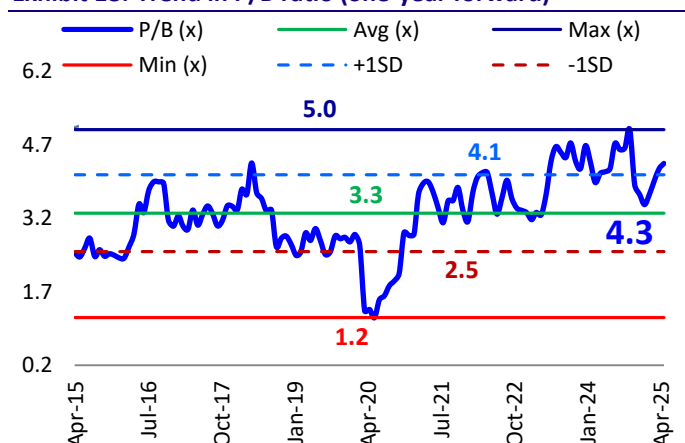
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	12.9	12.8	11.9	12.1	13.0	13.4	13.3	13.3
Interest Expended	7.6	6.6	5.5	5.9	6.8	7.1	6.8	6.7
Net Interest Income	5.4	6.2	6.4	6.2	6.2	6.3	6.5	6.6
Other Operating Income	1.3	1.0	1.0	1.2	1.2	1.3	1.3	1.3
Other Income	0.0	0.1	0.1	0.2	0.3	0.2	0.2	0.2
Net Income	6.7	7.2	7.4	7.4	7.4	7.6	7.8	7.9
Operating Expenses	2.6	2.4	2.6	2.8	3.0	3.1	3.1	3.1
Operating Income	4.1	4.9	4.8	4.5	4.4	4.6	4.7	4.8
Provisions/write offs	1.5	1.9	1.1	0.9	1.0	1.3	1.3	1.2
PBT	2.6	2.9	3.7	3.7	3.4	3.2	3.4	3.6
Tax	0.9	0.8	0.9	1.0	0.9	0.8	0.9	0.9
Reported PAT	1.7	2.2	2.7	2.7	2.5	2.4	2.5	2.7
Leverage	8.5	7.8	7.4	7.5	8.0	8.2	8.1	7.8
RoE	14.7	17.1	20.2	20.5	20.2	19.5	20.3	21.2

Source: MOFSL, Company

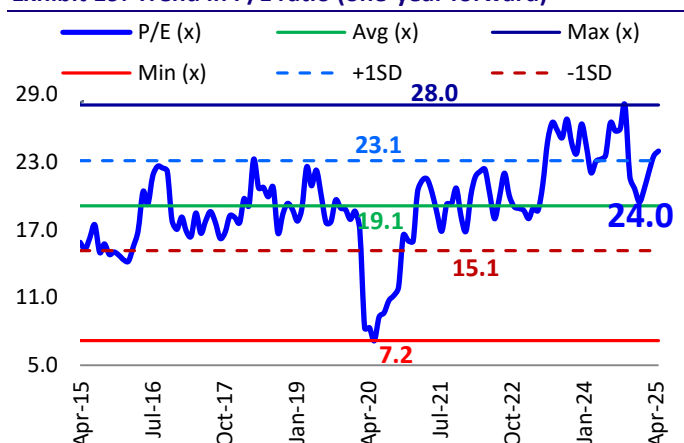
Exhibit 17: We cut our FY26/FY27 EPS estimates by ~3% each to factor in higher provisions and lower loan growth

INR B	Old Est.			New Est.			% Change		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
NII (incl. assignments)	112.1	143.0	179.0	112.2	142.2	178.1	0.1	-0.6	-0.5
Other Income	23.3	29.0	35.2	23.3	29.1	35.3	0.1	0.1	0.1
Total Income	135.4	172.1	214.3	135.6	171.3	213.3	0.1	-0.5	-0.4
Operating Expenses	54.8	67.3	80.1	54.8	68.3	82.6	0.0	1.5	3.1
Operating Profits	80.6	104.8	134.1	80.8	103.0	130.8	0.2	-1.7	-2.5
Provisions	23.8	27.6	32.5	23.9	28.3	32.5	0.7	2.4	0.2
PBT	56.8	77.2	101.7	56.9	74.7	98.2	0.0	-3.2	-3.4
Tax	14.7	19.9	26.2	14.7	19.3	25.3	0.0	-3.2	-3.4
PAT	42.2	57.2	75.4	42.2	55.4	72.9	0.0	-3.2	-3.4
AUM	1,828	2,259	2,772	1,829	2,262	2,775	0.1	0.1	0.1
Loans	1,810	2,250	2,764	1,811	2,252	2,767	0.1	0.1	0.1
Borrowings	1,716	2,079	2,553	1,718	2,081	2,556	0.1	0.1	0.1
NIM	6.9	7.1	7.2	6.9	7.0	7.1			
Credit Cost	1.4	1.4	1.3	1.5	1.4	1.3			
RoA on AUM	2.4	2.6	2.8	2.4	2.5	2.7			
RoE	19.5	20.9	21.7	19.5	20.3	21.2			

Note: Above estimate changes were made during 4QFY25 preview report published on 4th April 2025; Source: MOFSL, Company

Exhibit 18: Trend in P/B ratio (one-year forward)


Source: MOFSL, Company

Exhibit 19: Trend in P/E ratio (one-year forward)


Source: MOFSL, Company

Financials and valuations

Income Statement

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	64,962	78,417	88,772	93,251	1,18,084	1,75,637	2,37,501	2,92,600	3,58,883
Interest Expenses	35,887	45,922	45,759	42,988	57,488	92,306	1,25,256	1,50,415	1,80,825
Net Interest Income	29,075	32,495	43,013	50,263	60,596	83,331	1,12,245	1,42,185	1,78,057
Change (%)	15.1	11.8	32.4	16.9	20.6	37.5	34.7	26.7	25.2
Income from assignments	867	2,473	0	0	0	0	0	0	0
Other Operating Income	4,090	5,637	6,388	7,232	9,487	12,815	19,996	25,227	31,048
Other Income	7	3	596	905	2,209	3,711	3,340	3,840	4,225
Total Income	34,039	40,607	49,997	58,400	72,292	99,857	1,35,581	1,71,253	2,13,330
Change (%)	20.7	19.3	23.1	16.8	23.8	38.1	35.8	26.3	24.6
Total Operating Expenses	12,696	15,776	16,394	20,687	27,799	40,818	54,798	68,267	82,577
Change (%)	13.8	24.3	3.9	26.2	34.4	46.8	34.2	24.6	21.0
Employee Expenses	5,906	6,550	7,494	8,945	12,657	23,306	32,907	42,121	51,809
Business Origination Expenses	1,525	2,398	2,242	2,259	2,744	0	0	0	0
Other Operating Expenses	5,265	6,828	6,659	9,483	12,398	17,512	21,890	26,146	30,768
Operating Profit	21,344	24,831	33,603	37,712	44,494	59,039	80,783	1,02,986	1,30,753
Change (%)	25.2	16.3	35.3	12.2	18.0	32.7	36.8	27.5	27.0
Total Provisions	3,112	8,973	13,218	8,803	8,497	13,218	23,929	28,306	32,535
% of Operating Profit	14.6	36.1	39.3	23.3	19.1	22.4	29.6	27.5	24.9
PBT	18,232	15,857	20,384	28,909	35,997	45,821	56,854	74,680	98,218
Tax Provisions	6,370	5,334	5,235	7,442	9,335	11,593	14,668	19,267	25,340
Tax Rate (%)	34.9	33.6	25.7	25.7	25.9	25.3	25.8	25.8	25.8
Extraordinary Items	0	0	0	0	0	0	0	0	0
PAT	11,862	10,524	15,149	21,467	26,662	34,228	42,186	55,412	72,878
Change (%)	29.2	-11.3	44.0	41.7	24.2	28.4	23.3	31.4	31.5
Proposed Dividend	1,016	1,662	1,640	1,641	1,645	1,681	1,681	2,143	2,572

Balance Sheet

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	1,564	1,640	1,640	1,643	1,645	1,681	1,681	1,714	1,714
Equity Share Capital	1,564	1,640	1,640	1,643	1,645	1,681	1,681	1,714	1,714
Preference Share Capital	0	0	0	0	0	0	0	0	0
Reserves & Surplus	59,880	80,079	93,962	1,15,434	1,41,316	1,93,885	2,34,390	3,07,625	3,77,931
Net Worth for Equity Shareholders	61,445	81,718	95,602	1,17,077	1,42,961	1,95,565	2,36,070	3,09,340	3,79,646
Borrowings	5,05,667	5,50,054	6,37,300	6,91,735	9,73,561	13,44,736	17,17,762	20,80,594	25,55,956
Change (%)	31.9	8.8	15.9	8.5	40.7	38.1	27.7	21.1	22.8
Total Liabilities	5,74,263	6,39,930	7,45,484	8,23,634	11,35,155	15,64,508	19,82,880	24,23,339	29,74,018
Investments	729	729	16,188	20,762	36,280	41,002	60,122	62,418	76,679
Change (%)	0.0	0.0	2,120.0	28.3	74.7	13.0	46.6	3.8	22.8
Loans	5,26,223	5,54,027	6,58,393	7,41,492	10,47,483	14,44,243	18,11,425	22,52,469	27,66,871
Change (%)	24.5	5.3	18.8	12.6	41.3	37.9	25.4	24.3	22.8
Net Fixed Assets	1,759	2,839	2,294	2,685	4,233	16,067	19,280	23,136	27,763
Total Assets	5,74,263	6,39,930	7,45,484	8,23,634	11,35,155	15,64,508	19,82,880	24,23,339	29,74,018

E: MOFSL Estimates

Financials and valuation

Ratios	(%)								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Spreads Analysis (%)									
Avg. Yield on Loans	13.7	14.5	14.6	13.3	13.2	14.1	14.6	14.4	14.3
Avg Cost of Funds	8.1	8.7	7.7	6.5	6.9	8.0	8.2	7.9	7.8
Spread of loans	5.6	5.8	6.9	6.9	6.3	6.1	6.4	6.5	6.5
NIM (on loans)	6.3	6.5	7.7	7.5	7.1	6.7	6.9	7.0	7.1
Profitability Ratios (%)									
RoE	21.2	14.7	17.1	20.2	20.5	20.2	19.5	20.3	21.2
RoA	2.3	1.7	2.2	2.7	2.7	2.5	2.4	2.5	2.7
Int. Expended / Int.Earned	55.2	58.6	51.5	46.1	48.7	52.6	52.7	51.4	50.4
Other Inc. / Net Income	12.0	13.9	14.0	13.9	16.2	16.5	17.2	17.0	16.5
Efficiency Ratios (%)									
Op. Exps. / Net Income	37.3	38.9	32.8	35.4	38.5	40.9	40.4	39.9	38.7
Empl. Cost/Op. Exps.	46.5	41.5	45.7	43.2	45.5	57.1	60.1	61.7	62.7
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	104	101	103	107	108	107	105	108	108
Net NPAs to Net Adv.	1.6	2.3	2.3	2.7	1.7	1.7	1.6	1.5	1.4
Assets/Equity	9.3	7.8	7.8	7.0	7.9	8.0	8.4	7.8	7.8
Average leverage	9.1	8.5	7.8	7.4	7.5	8.0	8.2	8.1	7.8
Valuations									
Book Value (INR)	79	100	117	143	174	233	281	361	443
BV Growth (%)	21.2	26.9	17.0	22.2	22.0	33.9	20.7	28.4	22.7
Price-BV (x)	20.2	15.9	13.6	11.1	9.1	6.8	5.6	4.4	3.6
EPS (INR)	15	13	18	26	32	41	50	65	85
EPS Growth (%)	29.1	-15.4	44.0	41.4	24.0	25.6	23.3	28.8	31.5
Price-Earnings (x)	104.6	123.6	85.9	60.7	49.0	39.0	31.6	24.6	18.7
Dividend per share	1.3	1.7	2.0	2.0	2.0	2.0	2.0	2.5	3.0
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2

E: MOFSL Estimates

AUM Mix (%)									
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
AUM	5,42,790	6,05,490	6,99,960	7,69,070	10,64,980	14,55,720	18,29,352	22,61,515	27,75,196
Change (%)	26.5	11.6	15.6	9.9	38.5	36.7	25.7	23.6	22.7
On Books AUM	5,26,070	5,51,350	6,58,380	7,41,420	10,47,360	14,43,510	18,11,425	22,52,469	27,66,871
Change (%)	43.4	4.8	19.4	12.6	41.3	37.8	25.5	24.3	22.8
% of AUM	96.9	91.1	94.1	96.4	98.3	99.2	99.0	99.6	99.7
Off Books AUM	16,720	54,140	41,580	27,650	17,620	12,210	17,928	9,046	8,326
Change (%)	-73.2	223.8	-23.2	-33.5	-36.3	-30.7	46.8	-49.5	-8.0
% of AUM	3.1	8.9	5.9	3.6	1.7	0.8	1.0	0.4	0.3

E: MOFSL Estimates

Shriram Finance

BSE SENSEX

78,553

S&P CNX

23,852

CMP: INR692

TP: INR800 (+16%)

Buy



Stock Info

Bloomberg	SHFL IN
Equity Shares (m)	1880
M.Cap.(INRb)/(USDb)	1300.8 / 15.2
52-Week Range (INR)	730 / 439
1, 6, 12 Rel. Per (%)	5/10/36
12M Avg Val (INR M)	4262
Free float (%)	74.6

Financials Snapshot (INR b)

Y/E March	FY25E	FY26E	FY27E
Net Inc.	234	278	328
PPP	162	194	232
PAT	82.9	98.7	117.9
EPS (INR)	44	53	63
EPS Gr. (%)	15	19	19
BV/Sh (INR)	301	345	394

Ratios

NIM (%)	9.0	9.1	9.3
C/I ratio (%)	30.7	30.1	29.3
RoA (%)	3.2	3.2	3.3
RoE (%)	15.8	16.3	17.0
Payout (%)	23.6	23.0	22.3

Valuations

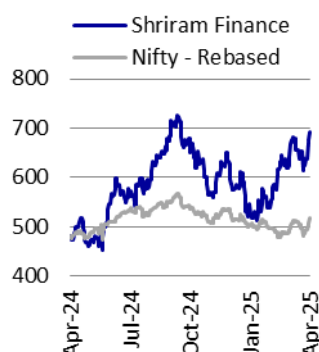
P/E (x)	15.7	13.2	11.0
P/BV (x)	2.3	2.0	1.8
Div. Yield (%)	1.5	1.7	2.0

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	25.4	25.4	25.4
DII	16.0	16.2	15.8
FII	53.1	53.3	54.0
Others	5.6	5.1	4.8

FII Includes depository receipts

Stock performance (one-year)



Driving finest execution among peers

Distribution expansion from the merger still accruing benefits of loan growth

Shriram Finance (SHFL) is effectively leveraging cross-selling opportunities across its diverse product portfolio while maintaining robust asset quality. While CV growth has seen a minor blip due to the macro-economic weakness and limited supply of used vehicles, SHFL anticipates a gradual recovery in the used CV market in the coming years from an improved supply of used vehicles. To that end, the company has effectively mitigated the cyclical nature of its CV business with stronger growth in its other segments, such as PVs and MSME. This shift has led to a gradual decline in the CV segment's contribution from ~53% in FY22 to ~46% as of Dec'24. Additionally, the gradual introduction of non-auto products (like MSME and gold loans) to a greater number of SHFL branches will keep AUM growth healthy in the foreseeable future. Given its predominant presence in used CV/PV financing, we see lower risks to loan growth in SHFL compared to the rest of its VF peers. Higher liquidity over the last two quarters has kept NIM under pressure for SHFL. This higher liquidity should normalize within the next few quarters and support NIM. The company has maintained a tight leash on its asset quality over the last three years but for the recent minor deterioration because of a weak macro. SHFL has maintained a healthy provision cover for its standard and NPA loans, which will keep it in good stead even in a weak credit cycle.

The current valuation of ~1.8x FY27E BVPS is attractive for a ~18% PAT CAGR over FY24-27E and RoA/RoE of ~3.3%/17% in FY27E. SHFL is our top pick in our NBFC coverage with a TP of INR800 (based on 2.0x FY27E BVPS).

Asset quality resilience has been better than peers; expect steady credit costs

SHFL's low exposure to unsecured products has enabled it to manage asset quality stress more effectively than its peers. Notably, its personal loan (PL) and MSME portfolios have demonstrated asset quality resilience over the past year even as the industry grappled with challenges in the unsecured segment due to customer overleveraging. We expect a gradual improvement in GS3 to ~5% by FY27E and model credit costs to remain largely range-bound around 2.3%-2.4% over FY26-27E.

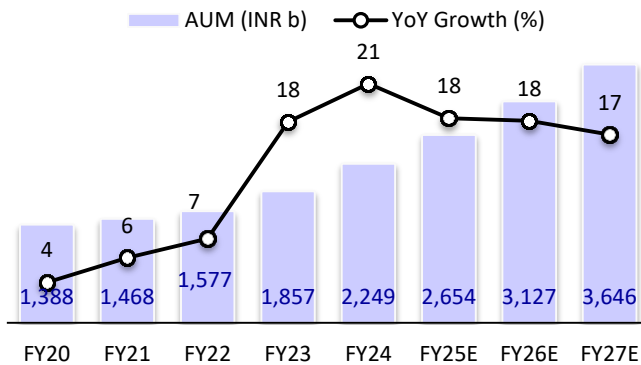
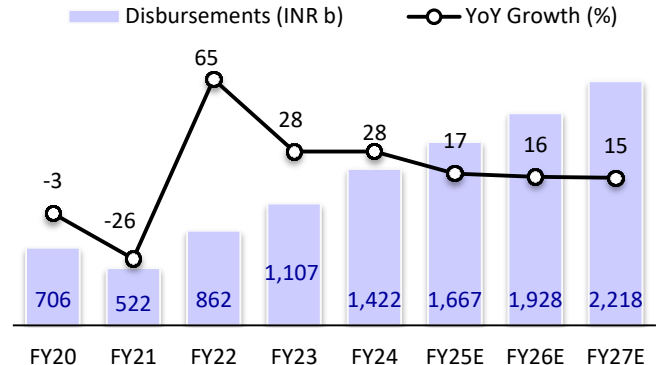
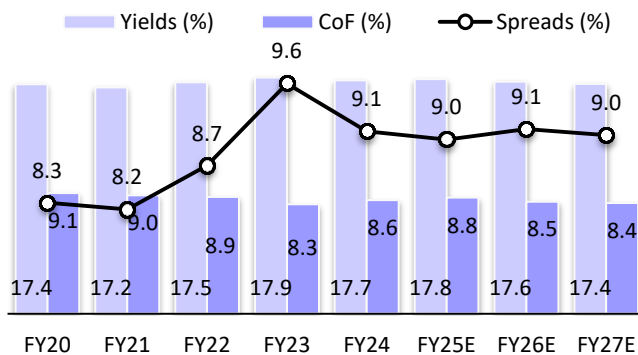
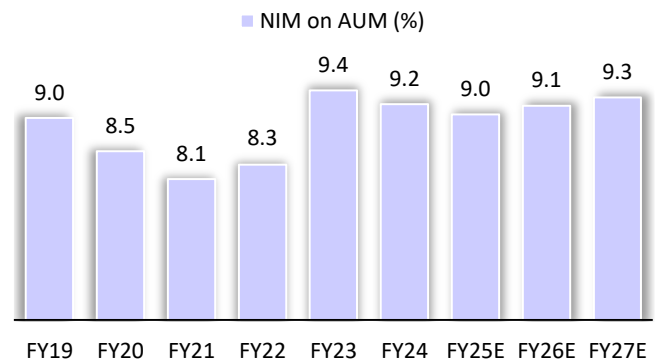
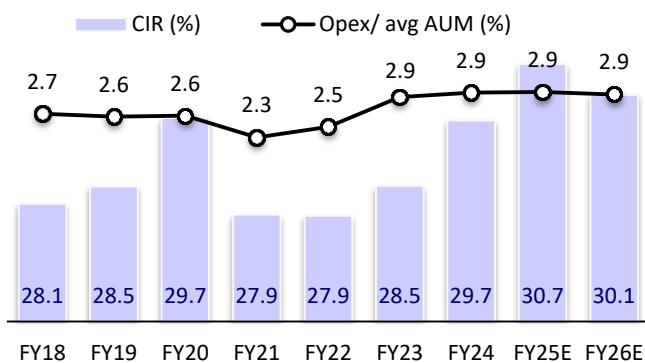
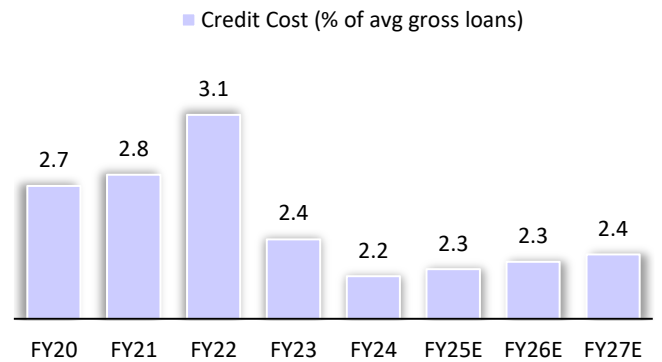
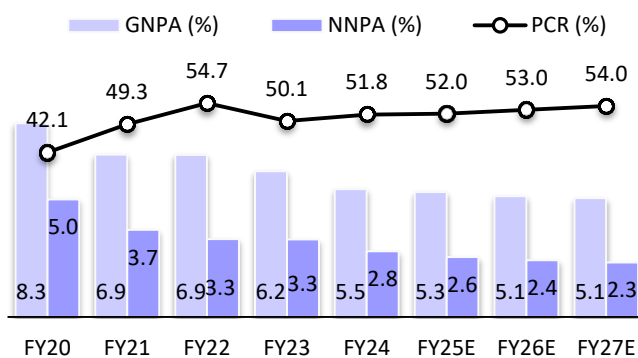
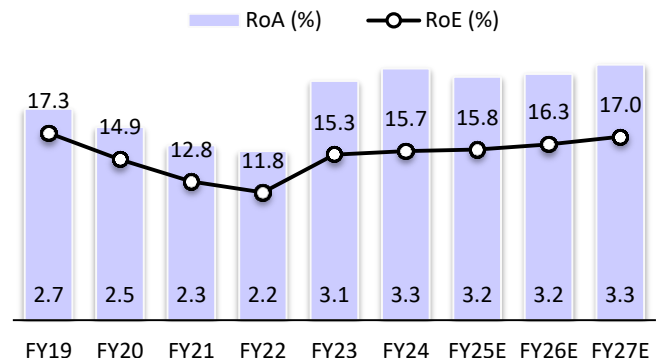
NIMs to benefit from better product mix and rate cuts

A gradual shift in the product mix toward higher-yielding non-CV segments will be marginally accretive to the blended yields. A large proportion of this improvement in yields is expected to be driven by a higher proportion of gold loans, MSME and PL in the AUM mix. Additionally, SHFL is well-positioned to benefit from a declining interest rate environment. The recent rate cuts are likely to further support NIM expansion and we model NIMs of 9.1%/9.3% in FY26/FY27 (FY25E: ~9%).

Valuation and View

SHFL is yet to fully tap its expanded distribution network (from the merger) to offer a much wider product bouquet to its customers. The company is effectively leveraging cross-selling opportunities to reach new customers and introduce new products, resulting in improved operating metrics and a solid foundation for sustainable growth. SHFL is our [top idea](#) in the NBFC sector for CY25, given that we find its valuations of 1.8x FY27E P/BV attractive for a strong franchise that can deliver a CAGR of ~17%/~18% in AUM/ PAT over FY24-27 and RoA/RoE of ~3.3%/~17% in FY27E. Reiterate BUY with a TP of INR800 (premised on 2x Mar'27E BVPS).

STORY IN CHARTS

Exhibit 20: Expect ~17% AUM CAGR over FY24-27E

Exhibit 21: Expect ~16% disbursement CAGR over FY24-27E

Exhibit 22: Expect spreads to expand ~10bp in FY26E

Exhibit 23: Expect NIMs to expand in FY26E/FY27E

Exhibit 24: Opex/avg AUM to remain largely stable

Exhibit 25: Expect credit costs of ~2.3% in FY26E

Exhibit 26: Expect further improvement in asset quality

Exhibit 27: Expect RoA/RoE of 3.3%/17% in FY27E


Source: MOFSL, Company

Source: MOFSL, Company

Exhibit 28: DuPont analysis

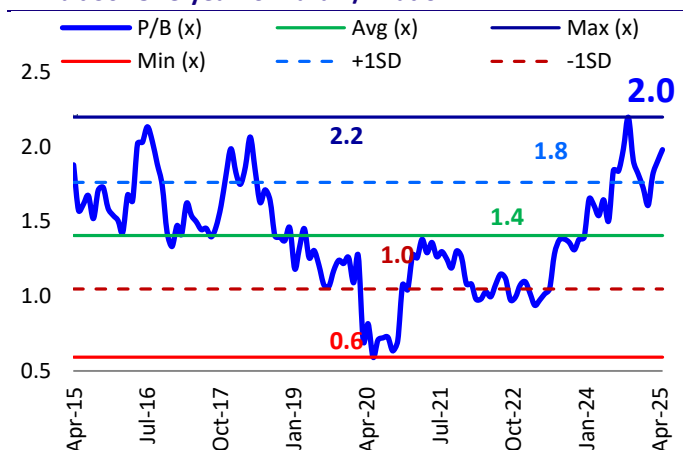
Y/E MARCH	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	15.7	14.7	14.4	14.8	15.2	15.3	15.3	15.5
Interest Expended	7.4	7.2	7.1	6.5	6.7	6.9	6.7	6.7
Net Interest Income	8.3	7.5	7.3	8.3	8.5	8.4	8.5	8.8
Non-interest income	0.4	0.3	0.5	0.6	0.6	0.5	0.4	0.4
Net Total Income	8.6	7.8	7.8	8.9	9.2	8.9	9.0	9.2
Operating Expenses	2.6	2.2	2.2	2.5	2.7	2.7	2.7	2.7
- Employee expenses	1.3	1.1	1.1	1.3	1.5	1.5	1.5	1.6
- Other expenses	1.2	1.1	1.0	1.2	1.3	1.2	1.2	1.1
PPoP	6.1	5.6	5.6	6.4	6.4	6.2	6.3	6.5
Provisions/write offs	2.6	2.6	2.7	2.2	2.0	2.0	2.0	2.1
PBT	3.4	3.0	2.9	4.2	4.4	4.2	4.3	4.4
Tax	0.9	0.8	0.7	1.1	1.1	1.1	1.1	1.1
RoA	2.5	2.3	2.2	3.1	3.3	3.2	3.2	3.3
Avg. Leverage	5.9	5.7	5.4	4.9	4.8	5.0	5.1	5.1
RoE	14.9	12.8	11.8	15.3	15.7	15.8	16.3	17.0

Source: MOFSL, Company

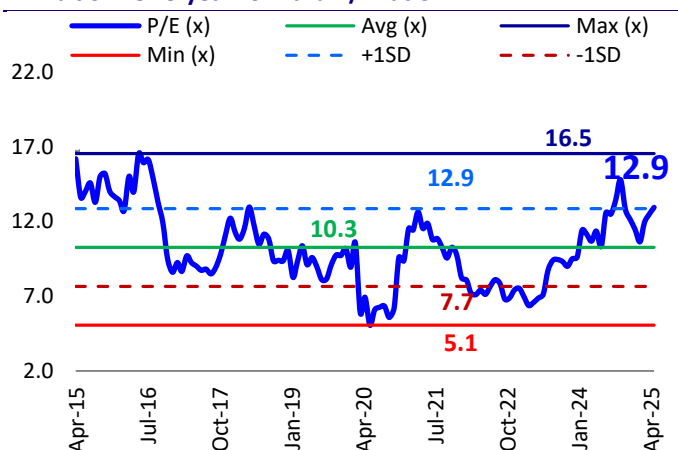
Exhibit 29: We keep our FY26/FY27 EPS estimates largely unchanged

INR B	Old Est.			New Est.			Change (%)		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
NII (incl. assignments)	219.7	264.6	316.1	220.7	264.0	313.3	0.5	-0.2	-0.9
Other Income	13.1	13.8	14.8	13.1	13.8	14.8	0.0	0.0	0.0
Total Income	232.8	278.5	330.9	233.8	277.8	328.1	0.4	-0.2	-0.8
Operating Expenses	71.7	83.7	96.0	71.7	83.7	96.0	0.0	0.0	0.0
Operating Profits	161.0	194.8	234.9	162.0	194.1	232.1	0.6	-0.3	-1.2
Provisions	51.1	62.1	74.4	51.5	62.0	74.3	0.7	-0.2	-0.1
PBT	109.9	132.6	160.5	110.6	132.1	157.8	0.6	-0.4	-1.7
Tax	28.0	33.8	40.9	27.6	33.4	39.9	-1.4	-1.2	-2.5
PAT	81.9	98.8	119.6	82.9	98.7	117.9	1.3	-0.1	-1.4
AUM	2,662	3,131	3,651	2,654	3,127	3,646	-0.3	-0.1	-0.1
Loans	2,463	2,917	3,412	2,456	2,913	3,408	-0.3	-0.1	-0.1
Borrowings	2,292	2,621	3,041	2,288	2,617	3,037	-0.2	-0.1	-0.1
NIM	8.9	9.1	9.3	9.0	9.1	9.3			
Credit Cost (%)	2.3	2.3	2.4	2.3	2.3	2.4			
RoA	3.1	3.2	3.4	3.2	3.2	3.3			
RoE	15.5	16.3	17.2	15.8	16.3	17.0			

Note: Above estimate changes were made during 4QFY25 preview, Source: MOFSL, Company

Exhibit 30: One-year forward P/B ratio


Source: MOFSL, Company

Exhibit 31: One-year forward P/E ratio


Source: MOFSL, Company

Financials and valuations

Income Statement

(InR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	2,10,407	2,19,646	2,26,997	2,48,605	2,86,074	3,35,997	4,02,955	4,72,195	5,50,542
Interest Expenses	94,975	1,04,105	1,11,881	1,22,668	1,25,458	1,48,061	1,82,233	2,08,237	2,37,222
Net Interest Income	1,15,432	1,15,541	1,15,116	1,25,936	1,60,616	1,87,935	2,20,722	2,63,959	3,13,319
Change (%)	12.7	0.1	-0.4	9.4	27.5	17.0	17.4	19.6	18.7
Other Operating Income	2,605	4,748	4,514	9,214	11,648	13,648	12,693	13,429	14,317
Other Income	258	235	237	227	307	332	365	413	462
Total Income	1,18,295	1,20,524	1,19,867	1,35,378	1,72,571	2,01,915	2,33,780	2,77,801	3,28,099
Change (%)	11.3	1.9	-0.5	12.9	27.5	17.0	15.8	18.8	18.1
Total Operating Expenses	33,666	35,803	33,500	37,805	49,131	59,895	71,739	83,694	96,012
Change (%)	12.6	6.3	-6.4	12.8	30.0	21.9	19.8	16.7	14.7
Employee Expenses	17,210	18,585	16,699	19,695	25,061	32,156	39,552	47,462	55,531
Depreciation	742	2,232	2,172	2,137	5,242	5,688	6,167	6,569	6,962
Other Operating Expenses	15,715	14,986	14,629	15,973	18,828	22,051	26,020	29,663	33,519
Operating Profit	84,629	84,721	86,367	97,573	1,23,441	1,42,020	1,62,041	1,94,107	2,32,087
Change (%)	10.8	0.1	1.9	13.0	26.5	15.1	14.1	19.8	19.6
Total Provisions	31,643	36,786	39,693	47,485	41,592	45,183	51,475	62,011	74,269
% Loan loss provisions to Avg loans ratio	2.5	2.7	2.8	3.1	2.4	2.2	2.3	2.3	2.4
PBT	52,986	47,935	46,674	50,088	81,849	96,836	1,10,566	1,32,096	1,57,818
Tax Provisions	17,457	12,913	11,692	12,164	22,056	24,932	27,642	33,420	39,928
Tax Rate (%)	32.9	26.9	25.1	24.3	26.9	25.7	25.0	25.3	25.3
PAT	35,529	35,022	34,982	37,925	59,793	71,905	82,925	98,676	1,17,890
Change (%)	12.0	-1.4	-0.1	8.4	57.7	20.3	15.3	19.0	19.5
PAT (including exceptional gains)	35,529	35,022	34,982	37,925	59,793	71,905	97,819	98,676	1,17,890

Balance Sheet

(InR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	2,929	2,929	3,191	3,371	3,744	3,758	3,758	3,758	3,758
Reserves & Surplus	2,17,432	2,47,288	2,91,764	3,43,760	4,29,322	4,81,926	5,61,143	6,43,819	7,37,134
Net Worth	2,20,361	2,50,217	2,94,954	3,47,132	4,33,066	4,85,684	5,64,901	6,47,576	7,40,892
Borrowings	11,04,851	11,75,376	13,17,617	14,51,285	15,79,063	18,58,411	22,87,970	26,17,483	30,37,398
Change (%)	6.7	6.4	12.1	10.1	8.8	17.7	23.1	14.4	16.0
Other liabilities	21,865	25,436	26,317	23,320	24,509	28,665	31,531	34,684	38,153
Total Liabilities	13,47,077	14,51,029	16,38,888	18,21,754	20,36,639	23,72,760	28,84,402	32,99,744	38,16,443
Cash and bank balances	52,657	1,03,773	2,16,562	2,29,679	1,58,174	1,08,126	2,39,494	1,94,999	2,08,648
Investments	48,653	35,326	42,152	86,455	85,651	1,06,566	1,04,435	1,01,302	99,276
Loans	12,37,406	12,88,442	13,57,232	14,76,890	17,19,846	20,79,294	24,55,939	29,12,967	34,07,833
Change (%)	6.2	4.1	5.3	8.8	16.5	20.9	18.1	18.6	17.0
Fixed Assets	2,283	7,181	6,599	6,467	6,997	8,458	8,881	9,325	9,791
Deferred tax Assets	1,241	694	6,964	9,109	17,439	28,840	25,956	20,765	16,612
Goodwill					14,067	14,067	14,067	14,067	14,067
Other Assets	4,838	15,613	9,379	13,137	34,465	27,408	35,630	46,319	60,215
Total Assets	13,47,077	14,51,029	16,38,888	18,21,737	20,36,639	23,72,760	28,84,402	32,99,744	38,16,443

E: MOFSL Estimates

Financials and valuations

AUM Mix (%)							(INR M)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
AUM	13,40,643	13,88,342	14,68,128	15,77,122	18,56,829	22,48,620	26,54,258	31,27,220	36,46,336
Change (%)	8	4	6	7	18	21	18	18	17
Disbursements	7,28,076	7,05,733	5,21,985	8,62,135	11,06,899	14,21,675	16,67,313	19,28,156	22,18,426
Change (%)	-5	-3	-26	65	28	28	17	16	15

Ratios							(INR m)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Spreads Analysis (%)									
Avg. Yield on Loans	17.5	17.4	17.2	17.5	17.9	17.7	17.8	17.6	17.4
Avg Cost of Funds	8.9	9.1	9.0	8.9	8.3	8.6	8.8	8.5	8.4
Spread of loans	8.6	8.3	8.2	8.7	9.6	9.1	9.0	9.1	9.0
NIM (on loans)	9.6	9.1	8.7	8.9	10.0	9.9	9.7	9.8	9.9
NIM (on AUM)	9.0	8.5	8.1	8.3	9.4	9.2	9.0	9.1	9.3
C/I ratio	28.5	29.7	27.9	27.9	28.5	29.7	30.7	30.1	29.3
Profitability Ratios (%)									
RoE	17.3	14.9	12.8	11.8	15.3	15.7	15.8	16.3	17.0
RoA	2.7	2.5	2.3	2.2	3.1	3.3	3.2	3.2	3.3
Int. Expended / Int.Earned	45.1	47.4	49.3	49.3	43.9	44.1	45.2	44.1	43.1
Other Inc. / Net Income	2.4	4.1	4.0	7.0	6.9	6.9	5.6	5.0	4.5
Efficiency Ratios (%)									
Op. Exps. / Net Income	28.5	29.7	27.9	27.9	28.5	29.7	30.7	30.1	29.3
Empl. Cost/Op. Exps.	51.1	51.9	49.8	52.1	51.0	53.7	55.1	56.7	57.8
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	1.1	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Assets/Equity	6.1	5.8	5.6	5.2	4.7	4.9	5.1	5.1	5.2

Asset quality (%)									
GNPA	1,11,930	1,14,400	1,01,688	1,09,762	1,13,822	1,20,812	1,39,653	1,59,321	1,82,541
NNPA	65,678	66,256	51,523	49,731	56,749	58,244	67,034	74,881	83,969
GNPA ratio	8.5	8.3	6.9	6.9	6.2	5.5	5.3	5.1	5.1
NNPA ratio	5.2	5.0	3.7	3.3	3.3	2.8	2.6	2.4	2.3
PCR	41.3	42.1	49.3	54.7	50.1	51.8	52.0	53.0	54.0
Credit Costs (% of loans)	2.5	2.7	2.8	3.1	2.4	2.2	2.3	2.3	2.4

Valuations	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (INR)	150	171	185	206	231	258	301	345	394
BV Growth (%)	16	14	8	11	12	12	16	15	14
P/BV	4.6	4.0	3.7	3.4	3.0	2.7	2.3	2.0	1.8
EPS (INR)	24	24	22	22	32	38	44	53	63
EPS Growth (%)	12.0	-1.4	-8.3	2.6	42.0	19.8	15.3	19.0	19.5
P/E	28.5	28.9	31.5	30.7	21.6	18.1	15.7	13.2	11.0
DPS	2.9	1.0	4.2	4.7	7.0	9.0	10	12	14
Dividend Yield (%)	0.4	0.2	0.6	0.7	1.0	1.3	1.5	1.7	2.0

E: MOFSL Estimates

Mahindra & Mahindra Financial

BSE SENSEX 78,553
S&P CNX 23,852

Mahindra FINANCE

Stock Info

Bloomberg	MMFS IN
Equity Shares (m)	1236
M.Cap.(INRb)/(USDb)	340.4 / 4
52-Week Range (INR)	343 / 238
1, 6, 12 Rel. Per (%)	-6/1/-12
12M Avg Val (INR M)	870
Free float (%)	47.8

Financials Snapshot (INR b)

Y/E March	FY25E	FY26E	FY27E
NII	82.3	98.6	115.5
PPP	48.3	60.7	72.9
PAT	23.5	30.4	37.8
EPS (INR)	19.1	24.6	30.6
EPS Gr. (%)	34	29	25
BV/Sh.(INR)	153	170	191

Ratios

NIM (%)	6.7	6.8	6.9
C/I ratio (%)	41.3	38.4	36.9
RoA (%)	1.9	2.1	2.3
RoE (%)	13.0	15.2	17.0
Payout (%)	35.2	32.7	29.3

Valuations

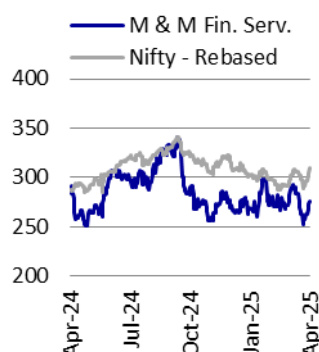
P/E (x)	14.4	11.2	9.0
P/BV (x)	1.8	1.6	1.4
Div. Yield (%)	2.4	2.9	3.3

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	52.2	52.2	52.2
DII	31.2	31.6	27.0
FII	10.5	10.3	12.8
Others	6.1	6.0	8.1

FII Includes depository receipts

Stock performance (one-year)



CMP: INR276

TP: INR340 (+23%)

Buy

Muted demand outlook; multiple levers for NIM expansion

MMFS reported a muted performance in FY25, with disbursements remaining tepid due to a slowdown in the PV segment, which accounts for ~41% of its total AUM. Further, the company's limited presence in non-auto product segments has weighed on its overall business momentum. Over the last two years, MMFS has exhibited a sustained improvement in its asset quality (GS3 at <4%) and improved its fee-income streams, which are sticky and drive profitability improvement. The company is working on a product diversification strategy, and we expect it to share its next three-year targets soon. MMFS has secured an exclusive partnership with its parent M&M for its EV financing, which will provide incremental support to its loan growth. We estimate a CAGR of 16%/29% in AUM/PAT over FY24-27, with RoA/RoE improving to ~2.3%/17% in FY27E.

NIM to benefit from rate cuts and improvement in fee income

MMFS has forged strategic partnerships with nine insurance providers to distribute life, non-life, and health insurance, while also securing co-branded collaborations with RBL Bank. Furthermore, the company has entered into co-lending arrangements with institutions like BOB and SBI to facilitate insurance cross-selling and cater to the prime customer segment. These initiatives are expected to enhance non-interest income, creating additional levers for NIM improvement. Additionally, the recent ~25bp repo rate cut and expectations of more repo rate cuts in the coming quarters will further support NIM expansion by reducing its CoB, as a significant portion (~41%) of MMFS' liabilities have a floating rate, while its vehicle financing portfolio has a fixed rate. We expect NIMs of ~6.8%/6.9% in FY26/FY27 (vs. ~6.7% in FY25E).

MMFS needs to curb volatility in credit costs

Credit costs for MMFS have been volatile despite consistent improvements in its asset quality. This is primarily because the write-offs (including repossession losses) for the company have been high at ~1.6% (as % of opening loans) in FY25E vs. ~2.1% in FY24. The one-time benefit from the ECL provision release, which the company took in 3QFY25, will now likely keep both the provision coverage ratio and the credit costs volatile in the near term. This results in lower earnings predictability and impedes any re-rating of the valuation multiples.

Valuation and View

MMFS might face near-term loan growth challenges due to a weakness in the PV segment. However, it is actively leveraging strategic partnerships and co-lending to strengthen its non-interest income. The management is also looking to diversify its product mix and develop new business lines that could serve as key growth drivers in the future. We currently estimate an AUM CAGR of ~16% over FY24-27E. While valuations remain reasonable, a sustained recovery in vehicle financing will be crucial for unlocking upside potential. MMFS currently trades at 1.4x FY27E P/BV. Risk-reward is favorable for a PAT CAGR of ~29% over FY24-FY27E and FY27E RoA/RoE of 2.3%/17%. Maintain BUY with a TP of INR340 (based on 1.8x Mar'27E BVPS).

STORY IN CHARTS

Exhibit 32: Expect ~16% AUM CAGR over FY24-27E

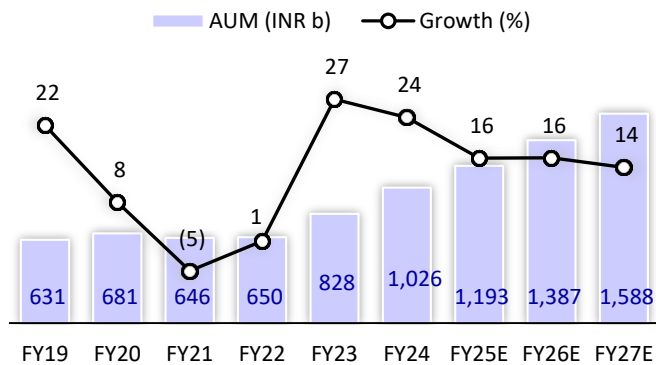


Exhibit 33: Disbursements CAGR of ~10% over FY24-FY27E

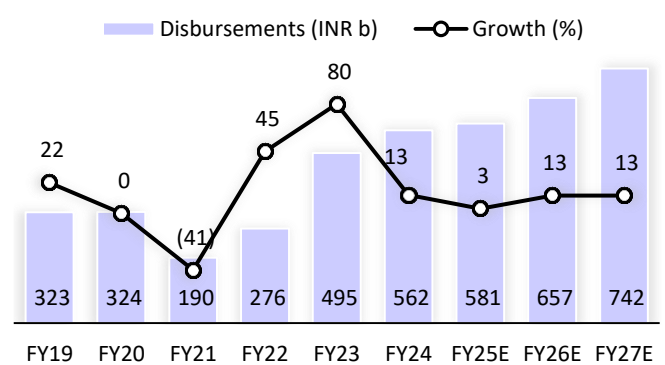


Exhibit 34: Expect spreads to remain largely stable in FY26E

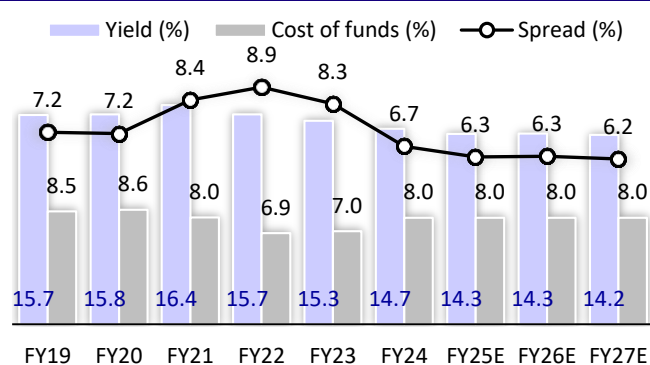


Exhibit 35: Expect NIMs to improve gradually in FY26/FY27E

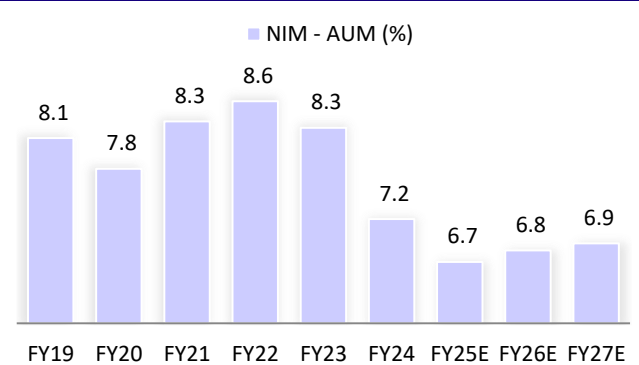


Exhibit 36: Expect C/I ratio to improve

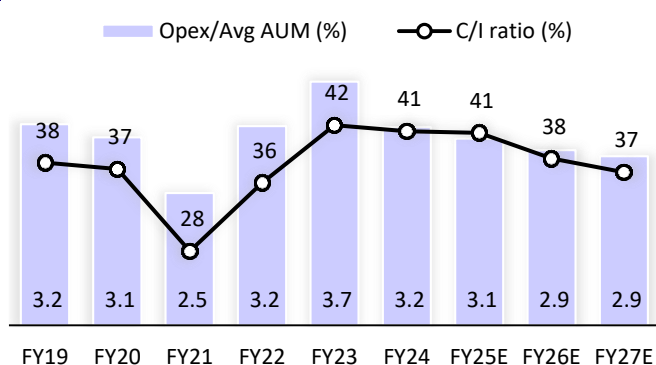


Exhibit 37: Credit costs to be at ~1.5% in FY26/FY27E

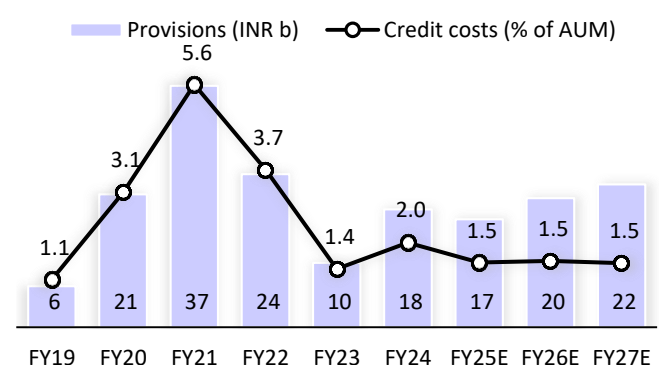


Exhibit 38: Asset quality to remain largely stable

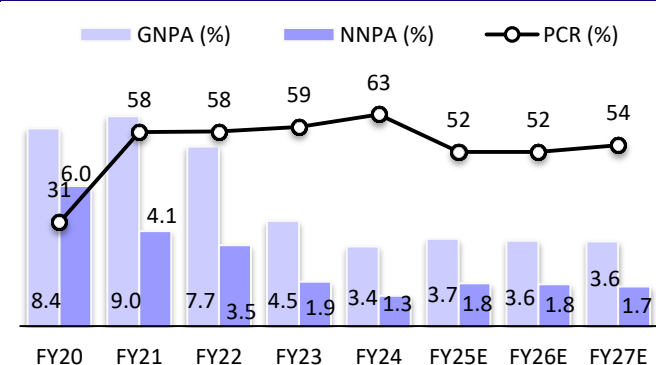


Exhibit 39: Expect RoA/RoE of 2.3%/17% in FY27E

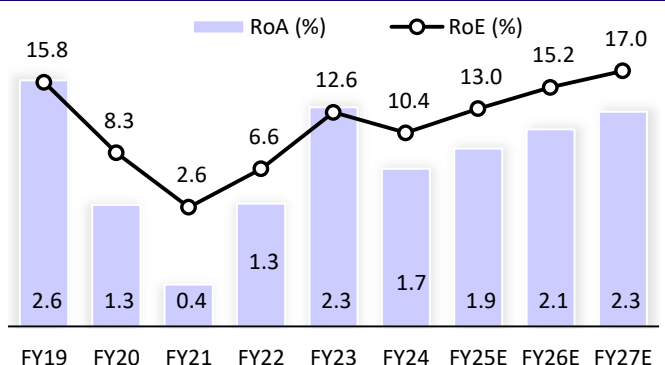


Exhibit 40: DuPont analysis

Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	14.4	14.1	13.6	12.4	12.5	12.4	12.3	12.3	12.3
Interest Expended	6.6	6.8	6.3	5.1	5.3	6.1	6.3	6.3	6.1
Net Interest Income	7.8	7.2	7.3	7.3	7.1	6.3	6.0	6.1	6.2
Income from Securitisation	0.2	0.2	0.2	0.2	0.3	0.3	0.5	0.6	0.7
Net operating income	8.0	7.5	7.5	7.5	7.4	6.6	6.5	6.7	6.8
Other Income	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Net Income	8.1	7.7	7.7	7.6	7.6	6.8	6.6	6.8	6.9
Operating Expenses	3.1	2.9	2.2	2.7	3.2	2.8	2.7	2.6	2.6
Operating Income	5.0	4.8	5.5	4.9	4.4	4.0	3.9	4.2	4.4
Provisions/write offs	1.1	2.9	4.9	3.1	1.2	1.7	1.3	1.4	1.3
PBT	4.0	1.9	0.6	1.8	3.2	2.2	2.5	2.8	3.0
Tax	1.4	0.6	0.1	0.5	0.8	0.6	0.6	0.7	0.8
Reported PAT	2.6	1.3	0.4	1.3	2.4	1.7	1.9	2.1	2.3
Leverage	6.1	6.5	5.8	5.1	5.4	6.3	6.9	7.3	7.5
RoE	15.8	8.3	2.6	6.6	12.9	10.4	13.0	15.2	17.0

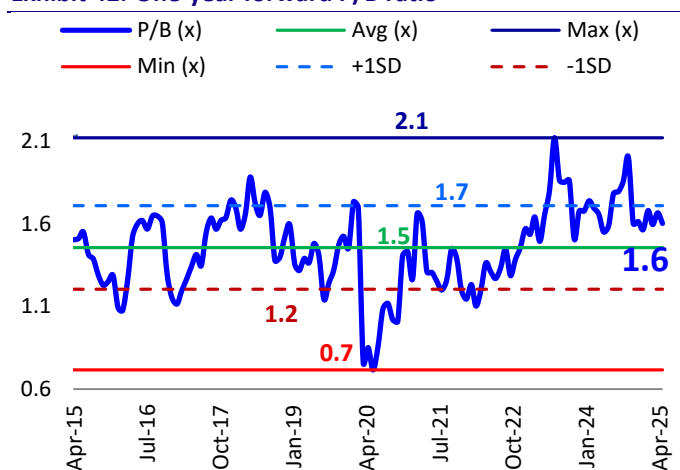
Source: MOFSL, Company

Exhibit 41: We keep our FY26/FY27 EPS estimates largely unchanged

INR B	Old Est			New Est			% Change		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
NII (incl. Sec. Inc)	81.4	99.0	115.6	81.3	97.3	114.0	-0.2	-1.7	-1.4
Other Income	1.1	1.3	1.6	1.0	1.2	1.5	-7.1	-7.1	-7.1
Total Income	82.5	100.4	117.2	82.3	98.6	115.5	-0.3	-1.8	-1.4
Operating Expenses	34.0	37.9	42.6	34.0	37.9	42.6	0.0	0.0	0.0
Operating Profits	48.6	62.5	74.5	48.3	60.7	72.9	-0.5	-2.9	-2.3
Provisions	15.7	21.9	23.5	16.7	20.0	22.1	6.4	-8.9	-5.8
PBT	32.9	40.6	51.1	31.6	40.7	50.7	-3.9	0.4	-0.6
Tax	8.4	10.4	13.0	8.1	10.4	12.9	-3.9	0.4	-0.6
PAT	24.5	30.2	38.0	23.5	30.4	37.8	-3.9	0.4	-0.6
Loans	1,170	1,347	1,542	1,167	1,348	1,541	-0.3	0.0	0.0
Borrowings	1,081	1,248	1,431	1,106	1,281	1,465	2.4	2.6	2.4
Margins	6.7	7.0	7.0	6.7	6.8	6.9	-0.1	-1.8	-1.4
Credit Cost	1.4	1.7	1.6	1.5	1.5	1.5	6.6	-8.8	-5.7
RoA on AUM	2.0	2.1	2.3	1.9	2.1	2.3	-4.8	-1.6	-2.6
RoE	13.5	15.1	17.0	13.0	15.2	17.0	-3.7	0.6	-0.3

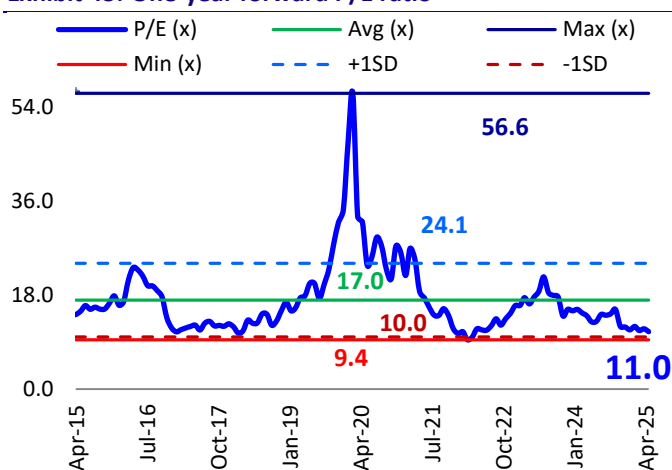
Note: Above estimate changes were made in our 4QFY25 preview report published on 4th April 2025; Source: MOFSL, Company

Exhibit 42: One-year forward P/B ratio



Source: MOFSL, Company

Exhibit 43: One-year forward P/E ratio



Source: MOFSL, Company

Financials and valuations

Income Statement

INR m

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	86,146	99,417	1,02,670	94,756	1,06,826	1,31,088	1,54,097	1,79,794	2,05,124
Interest Expended	39,446	48,287	47,332	39,202	45,767	64,269	79,312	91,189	1,02,024
Net Interest Income	46,700	51,130	55,338	55,554	61,059	66,818	74,785	88,605	1,03,100
Change (%)	33.3	9.5	8.2	0.4	9.9	9.4	11.9	18.5	16.4
Other Operating Income	1,084	1,561	1,283	1,824	2,462	2,954	6,469	8,733	10,916
Other Income	869	1,473	1,277	608	1,273	1,583	1,029	1,235	1,482
Net Income	48,653	54,164	57,897	57,986	64,794	71,355	82,283	98,572	1,15,498
Change (%)	35.0	11.3	6.9	0.2	11.7	10.1	15.3	19.8	17.2
Operating Expenses	18,476	20,182	16,325	20,734	27,276	29,572	33,953	37,868	42,643
Operating Profits	30,177	33,982	41,573	37,252	37,518	41,783	48,329	60,704	72,854
Change (%)	39.1	12.6	22.3	-10.4	0.7	11.4	15.7	25.6	20.0
Provisions	6,352	20,545	37,348	23,683	9,992	18,228	16,727	19,961	22,108
PBT	23,824	13,438	4,224	13,569	27,526	23,555	31,602	40,743	50,746
Tax	8,254	4,374	873	3,682	7,138	5,959	8,059	10,389	12,940
Tax Rate (%)	34.6	32.5	20.7	27.1	25.9	25.3	25.5	25.5	25.5
PAT	15,571	9,064	3,352	9,888	19,843	17,596	23,544	30,354	37,806
Change (%)	54.0	-41.8	-63.0	195.0	100.7	-11.3	33.8	28.9	24.6
Proposed Dividend (Incl Tax)	4,779	0	986	4,439	7,402	7,777	8,276	9,926	11,077

Balance Sheet

INR m

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	1,230	1,231	2,464	2,466	2,467	2,469	2,469	2,469	2,469
Reserves & Surplus (Ex OCI)	1,03,072	1,12,408	1,43,666	1,49,376	1,61,020	1,71,329	1,86,598	2,07,025	2,33,754
Net Worth	1,04,221	1,13,558	1,46,049	1,51,761	1,63,488	1,73,798	1,89,066	2,09,494	2,36,223
Other Comprehensive Income	81	81	81	81	81	81	81	81	81
Net Worth	1,04,302	1,13,639	1,46,130	1,51,842	1,63,568	1,73,879	1,89,147	2,09,575	2,36,304
Change (%)	11.8	9.0	28.6	3.9	7.7	6.3	8.8	10.8	12.8
Borrowings	5,28,469	5,94,623	5,85,767	5,58,139	7,49,459	9,22,252	11,06,184	12,80,963	14,65,300
Change (%)	31.8	12.5	-1.5	-4.7	34.3	23.1	19.9	15.8	14.4
Other liabilities	38,009	32,451	38,469	42,906	49,219	55,542	61,652	68,434	75,961
Total Liabilities	6,70,780	7,40,712	7,70,365	7,52,887	9,62,166	11,51,592	13,56,902	15,58,891	17,77,484
Investments	37,917	59,110	1,16,073	84,403	99,886	96,508	1,08,089	1,21,060	1,35,587
Change (%)	38.7	55.9	96.4	-27.3	18.3	-3.4	12.0	12.0	12.0
Loans and Advances	6,12,496	6,49,935	5,99,474	6,04,446	7,94,547	9,91,952	11,67,024	13,47,573	15,41,496
Change (%)	26.2	6.1	-7.8	0.8	31.5	24.8	17.6	15.5	14.4
Other assets	20,367	31,668	54,818	64,038	67,732	63,132	81,789	90,258	1,00,402
Total Assets	6,70,780	7,40,712	7,70,365	7,52,887	9,62,165	11,51,592	13,56,902	15,58,891	17,77,484

E: MOSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Spreads Analysis (%)									
Yield on Portfolio	15.7	15.8	16.4	15.7	15.3	14.7	14.3	14.3	14.2
Cost of Borrowings	8.5	8.6	8.0	6.9	7.0	8.0	8.0	8.0	8.0
Interest Spread	7.2	7.2	8.4	8.9	8.3	6.7	6.3	6.3	6.2
Net Interest Margin	8.1	7.8	8.3	8.6	8.3	7.2	6.7	6.8	6.9
Profitability Ratios (%)									
Cost/Income	38.0	37.3	28.2	35.8	42.1	41.4	41.3	38.4	36.9
Empl. Cost/Op. Exps.	59.0	56.9	62.2	56.5	58.1	57.9	56.5	56.7	56.9
RoE	15.8	8.3	2.6	6.6	12.6	10.4	13.0	15.2	17.0
RoA	2.6	1.3	0.4	1.3	2.3	1.7	1.9	2.1	2.3
Asset Quality (%)									
GNPA	40,706	57,467	57,857	49,760	37,168	34,910	44,765	50,513	57,533
NNPA	32,907	39,665	24,339	20,860	15,071	12,860	21,487	24,246	26,465
GNPA %	6.4	8.4	9.0	7.7	4.5	3.4	3.7	3.6	3.6
NNPA %	5.3	6.0	4.1	3.5	1.9	1.3	1.8	1.8	1.7
PCR %	19.2	31.0	57.9	58.1	59.5	63.2	52.0	52.0	54.0
Total Provisions/loans %	3.4	4.9	7.4	7.5	4.7	3.8	3.2	3.2	3.3
Capitalisation (%)									
CAR	20.3	19.6	26.0	27.8	22.5	18.9	17.0	16.1	15.6
Tier I	15.5	15.4	22.2	24.3	19.9	16.4	15.1	14.6	14.5
Tier II	4.8	4.2	3.8	3.5	2.7	2.5	1.9	1.5	1.2
Average Leverage on Assets (x)	6.1	6.5	5.8	5.1	5.4	6.3	6.9	7.3	7.5
Valuation									
Book Value (INR)	169	185	119	123	133	141	153	170	191
BV Growth (%)	11.7	8.9	-35.8	3.8	7.7	6.2	8.8	10.8	12.8
Price-BV (x)	1.6	1.5	2.3	2.2	2.1	2.0	1.8	1.6	1.4
Adjusted BV (INR)	132	136	104	110	123	134	141	156	176
Price-ABV (x)	2.1	2.0	2.7	2.5	2.2	2.1	2.0	1.8	1.6
OPS (INR)	49.1	55.2	33.7	30.2	30.4	33.8	39.2	49.2	59.0
OPS Growth (%)	39.0	12.5	-38.9	-10.5	0.7	11.3	15.7	25.6	20.0
Price-OP (x)	5.6	5.0	8.1	9.1	9.0	8.1	7.0	5.6	4.7
EPS (INR)	25.3	14.7	2.7	8.0	16.1	14.3	19.1	24.6	30.6
EPS Growth (%)	53.9	-41.8	-81.5	194.8	100.6	-11.4	33.8	28.9	24.6
Price-Earnings (x)	10.9	18.7	101.1	34.3	17.1	19.3	14.4	11.2	9.0
Dividend	6.5	0.0	0.8	3.6	6.0	6.3	6.7	8.0	9.0
Dividend Yield (%)	2.4	0.0	0.3	1.3	2.2	2.3	2.4	2.9	3.3
E: MOSL Estimates									

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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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