

## M &amp; M FIN. SERV.

## RESULT UPDATE

## KEY DATA

<b>Rating</b>	<b>HOLD</b>
Sector relative	Neutral
Price (INR)	300
12 month price target (INR)	288
52 Week High/Low	306/232
Market cap (INR bn/USD bn)	417/4.7
Free float (%)	47.5
Avg. daily value traded (INR mn)	587.5

## SHAREHOLDING PATTERN

	Sep-25	Jun-25	Mar-25
Promoter	52.5%	52.5%	52.2%
FII	9.6%	9.3%	10.7%
DII	32.3%	32.3%	31.3%
Pledge	0.0%	0.0%	0.0%

## FINANCIALS

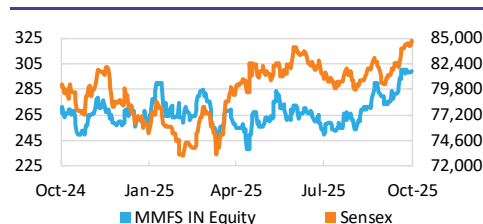
(INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	69801	81207	97287	109828
PPoP	41783	47651	58855	66096
Adjusted profit	17596	23450	25634	29681
Diluted EPS (INR)	14.2	19.0	18.4	21.4
EPS growth (%)	(11.3)	33.3	(2.8)	15.8
RoAE (%)	10.0	12.4	11.6	11.6
P/E (x)	21.1	15.8	16.3	14.0
P/ABV (x)	2.0	1.9	1.7	1.6

## CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	98,017	1,10,675	0.5%	0.5%
PPoP	58,855	66,096	1.0%	1.0%
Adjusted profit	25,634	29,681	-4.8%	-4.9%
Diluted EPS (INR)	18.4	21.4	-4.8%	-4.9%

## PRICE PERFORMANCE



## Higher credit cost; strong outlook

MMFS reported a beat on PPOP driven by a beat on fees, but a miss on credit cost. The credit cost miss (despite improving asset quality) was from a sharp jump in credit cost for GS3 due to the quarterly LGD reset, which also led to a higher PCR. Fee growth was strong at 16% QoQ. PPOP expanded at a strong 11% QoQ, beating consensus by 5%.

Maintain 'HOLD' with a new TP of INR288/1.6x BV versus INR280 earlier. Management is optimistic about a demand recovery post-GST in H2FY26 with green shoots already seen in October. Management is also confident of better recoveries and lower provisions in H2FY26. The full year credit cost guidance remains unchanged at 1.7%, lower than credit cost of 2.2% in Q2FY26E.

## Strong growth and high fees; NII in-line

Disbursals rose 6% QoQ/3% YoY led by tractors, pre-owned vehicles and SME. Business assets grew 4% QoQ/13% YoY. Excluding dealer finance, business assets grew 2% QoQ. NII was in line, up 5% QoQ/16% YoY and could have been higher, but for the dealer advances that put pressure on yield. Core fee expanded 16% QoQ. Gross spread improved 30bp QoQ to 7%. Opex grew 5% QoQ while cost/asset ratio remained stable at 2.7%. PPOP grew strongly by 25% YoY/11% QoQ, 5% higher than consensus, driven by a beat on fees. The rural housing subsidiary posted a substantial reduction in GS3 from 9.14% to 2.86% QoQ, driven by sale of stress loans to an ARC.

## Asset quality improves, but credit cost rises sharply

GS3 rose 7% QoQ, but the negative seasonal impact was less pronounced this Q2. The GS3 ratio grew to 3.9% from 3.8% QoQ. GS2 also rose only 3% QoQ while the GS2 ratio declined to 5.8% from 5.9%. The seasonal increase in GS3 and GS2 is much lower than normalised rates. MMFS posted a sharp rise in credit cost, which rose from 1.9% to 2.2% QoQ. The sharp increase was driven by the quarterly LGD reset. MMFS resets LGD quarterly while the whole ECL reset happens in Q3. The static pool for the LGD reset was as of Mar-22. In Q3FY26 when the ECL reset happens the static pool will be as on Jun-22. The ECL cover for GS3 rose to 53% from 51.4% QoQ. ECL for GS2 improved to 9.4% from 9.1%. Write-offs remained flat QoQ. As a proportion to business assets write-offs were 1.3%, higher than the normalised level of 1.1%.

## Guidance – Tailwinds for growth and credit cost

Management pointed to a demand pickup in October. Management is optimistic that 4% sequential growth can be achieved in Q3/Q4. Management guides to credit cost of 1.7% for full year FY26E and is confident of a strong recovery in Q4FY26E.

## Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	24,230	19,908	21.7%	22,853	6.0%
Pre-provisioning Profits	14,989	11,961	25.3%	13,530	10.8%
Reported Profits	5,693	3,695	54.1%	5,295	7.5%
EPS	4.1	3.0	37.6%	4.1	0.7%

## Financial Statements

### Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest income	69,801	81,207	97,287	1,09,828
Non interest income	1,554	557	730	847
Net revenues	71,355	81,764	98,017	1,10,675
Operating expense	29,572	34,113	39,162	44,579
Employee exp.	17,126	19,031	20,934	23,447
Other opex	12,446	15,081	18,228	21,132
Preprovision profit	41,783	47,651	58,855	66,096
Provisions	18,228	16,179	24,401	26,203
PBT	23,555	31,473	34,454	39,893
Taxes	5,959	8,022	8,821	10,213
PAT	17,596	23,450	25,634	29,681
Extraordinaries	0	0	0	0
Reported PAT	17,596	23,450	25,634	29,681
Diluted EPS (INR)	14.2	19.0	18.4	21.4

### Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest margins	7.0	6.8	7.2	7.1
Cost-income	41.4	41.7	40.0	40.3
Tax rate	25.3	25.5	25.6	25.6

### Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted PE (x)	21.1	15.8	16.3	14.0
Price/BV (x)	2.0	1.9	1.7	1.6

Source: Company and Nuvama estimates

### Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Equity capital	2,469	2,470	2,780	2,780
Reserves	1,79,106	1,95,653	2,42,472	2,61,756
Net worth	1,81,575	1,98,122	2,45,252	2,64,536
Borrowings	9,65,267	11,52,830	12,68,113	14,58,330
Total	11,51,592	13,55,482	15,18,347	17,28,347
Assets				
Loans	9,91,952	11,62,140	13,34,137	15,34,257
Investments	96,508	1,04,005	87,019	88,280
Fixed assets	8,111	8,764	9,202	9,662
Total	11,51,592	13,55,482	15,18,347	17,28,347
BV/share (INR)	147.0	160.4	176.4	190.3

### Balance Sheet Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Credit growth	24.8	17.2	14.8	15.0
Gross NPA ratio	3.4	3.7	3.5	3.4

### ROA Decomposition (%)

Year to March	FY24A	FY25A	FY26E	FY27E
NII/Assets	6.6	6.5	6.8	6.8
Net revenues/assets	6.8	6.5	6.8	6.8
Opex/Assets	(2.8)	(2.7)	(2.7)	(2.7)
Provisions/Assets	(1.7)	(1.3)	(1.7)	(1.6)
Taxes/Assets	(0.6)	(0.6)	(0.6)	(0.6)
Total costs/Assets	(5.1)	(4.7)	(5.0)	(5.0)
RoA	1.7	1.9	1.8	1.8
Equity/Assets	16.7	15.1	15.4	15.7
RoAE	10.0	12.4	11.6	11.6

### Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	(11.3)	33.3	(2.8)	15.8
RoAE	10.0	12.4	11.6	11.6

## Q2FY26 earnings call: Key takeaways

### Management guidance

- Management expects demand in H2FY26 to be stronger than H1FY26 as festive season volumes, which started late in September, flow through. PV and tractors are likely to lead while improvement in CV demand remains more modest.
- Management stated aspiration to deliver a minimum disbursement growth CAGR of 15% in the medium term.
- Full year FY26 credit cost guidance of 1.7% remains unchanged based on current trends, supported by early warning mechanisms and disciplined underwriting.
- The focus continues to be on maintaining GS2+GS3 below 10% each quarter while reducing inter quarter volatility through stronger on boarding quality and improved collection efficiency.
- The annual ECL model refresh will take place in Q3 (December) to ensure assumptions reflect updated LGDs and underlying portfolio characteristics.

### Loans and disbursements

- Festive demand recovery that began late in September is likely to drive stronger volumes in H2FY26 with passenger vehicles and tractors benefiting the most.
- Higher volume growth is likely to offset partly value deflation from GST-related price cuts in new vehicles, alongside continued premiumisation in passenger vehicles.
- Tractor disbursements likely to grow faster in H2 with potential full-year growth of about 15% at industry level.
- Used vehicle financing now forms ~18% of incremental disbursements versus ~16–17% earlier and is being sourced through both the large existing customer franchise and open market channels including Mahindra First Choice.

### Trade advances

- Dealer funding (trade advances) outstanding was ~INR68bn versus INR40bn in Q2FY25 as dealers stocked up inventory for the festive season.
- This exposure sits within the “Others” segment rather than the passenger vehicle book.
- The seasonal stocking pattern exerted a modest drag on reported yields and asset performance ratios as trade advances temporarily elevated receivables.
- The rise in trade advances also explains why the repayment ratio for passenger vehicles appeared lower this quarter although there were no changes in classification.

### Yields and margins

- NIMs were 7% in Q2FY26 versus 6.7% in Q1FY26 with improvement supported by lower cost of funds, stronger fee income and higher contribution from subsidiaries through dividend income.
- Management does not expect a further material benefit on cost of funds from recent capital raising, as the leverage impact is already captured.

- Floating rate borrowings make up 44% of the funding mix and have now fully absorbed repo-linked rate benefits.
- Borrowing avenues such as CP/CDs and securitisation shall continue to be leveraged for cost efficiency and funding diversification.

## Credit cost and asset quality

- GS3 movement between Q1FY26 and Q2FY26 increased only 9bp this year compared with a 27bp rise in the same period last year indicating greater stability in the book.
- Stage 2 performance improved meaningfully with a 7bp reduction this year versus a 32bp sequential rise in the prior year.
- GS2+GS3 moderated to 9.72% versus 10.26% in Q2FY25 reflecting better underlying asset quality.
- PCR increased from 51.4% In Q1FY26 to 53% in Q2FY26, which contributed to higher provisions this quarter and management expects PCR to stay below 54–55% while balancing coverage and profitability.
- Continued vigilance on collections remains a priority given semi urban and rural cash flows are sensitive to monsoons and regional weather disruptions.

## Mahindra Rural Housing and other subsidiaries

- A fully provided legacy mortgage pool of the rural housing subsidiary was sold to an ARC with no adverse impact on GS3 or net NPA trends based on disclosures.
- Mortgage and housing finance has become a ready growth lever with GS3 below 3% and stronger execution capabilities and management plans to scale up this business in a calibrated manner.
- The international subsidiary in Sri Lanka now operates with a balanced mix of gold and vehicle lending at roughly 50:50 and the performance is reported to be on an improving trajectory.

### Exhibit 1: Change in estimates

	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
	Old		New		% change	
NII, INR M	96,897	1,09,414	97,287	1,09,828	0.4%	0.4%
PAT, INR M	26,919	31,207	25,634	29,681	-4.8%	-4.9%
EPS, INR	19	22	18	21	-4.8%	-4.9%
BVPS, INR	177	192	176	190	-0.4%	-0.7%
<b>Target price, INR</b>		<b>280</b>		<b>288</b>		<b>2.9%</b>
CMP				300		
% Change to CMP				-4.0%		
<b>Rating</b>		<b>HOLD</b>		<b>HOLD</b>		

Source: Company, Nuvama Research

## Exhibit 2: Stressed loans and coverage

INR mn	Q2FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Stage 1 Assets	10,09,210	11,01,720	11,48,820	13.8%	4.3%
Stage 2 Assets	72,250	71,390	73,560	1.8%	3.0%
Stage 3 Assets	43,090	46,970	50,070	16.2%	6.6%
<b>Business Assets (including provisions)</b>	<b>11,24,540</b>	<b>12,20,080</b>	<b>12,72,460</b>	<b>13.2%</b>	<b>4.3%</b>
<b>Gross Stage 3</b>	<b>43,090</b>	<b>46,970</b>	<b>50,070</b>	<b>16.2%</b>	<b>6.6%</b>
Less: Stage 3 ECL Provisions	25,630	24,160	26,540	3.6%	9.9%
<b>Net Stage 3</b>	<b>17,460</b>	<b>22,810</b>	<b>23,530</b>	<b>34.8%</b>	<b>3.2%</b>
Gross Stage 3 (% of Business Assets)	3.8%	3.8%	3.9%		
Calc. Net Stage 3 (% of Business Assets)	1.6%	1.9%	1.8%		
<b>Reported - Net Stage 3 (% of Business Assets)</b>	<b>1.6%</b>	<b>1.9%</b>	<b>1.9%</b>		
<b>Coverage Ratio (%) – based on Stage 3 ECL</b>	<b>59.5%</b>	<b>51.4%</b>	<b>53.0%</b>		
Stage 1 & 2 provision to Business Assets (%)	1.2%	1.1%	1.1%		
Coverage Ratio (%) – including Stage 1 & 2 provision	91.3%	78.8%	80.6%		

Source: Company, Nuvama Research

## Exhibit 3: Credit charge and overlay

INR mn	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Stage 1 Provisions	250	-310	250	370	570
Stage 2 Provisions	860	-1,070	-560	490	410
Stage 3 Provisions	2,970	-2,960	-90	1,570	2,380
<b>Sub-total</b>	<b>4,080</b>	<b>-4,340</b>	<b>-400</b>	<b>2,430</b>	<b>3,360</b>
Write Offs	2,960	4,440	4,980	4,170	4,150
<b>Total</b>	<b>7,040</b>	<b>100</b>	<b>4,570</b>	<b>6,600</b>	<b>7,510</b>
% of business assets	2.50%	0.03%	1.53%	2.16%	2.36%

Source: Company, Nuvama Research

## Exhibit 4: AUM and disbursement mix

%	AUM					Disbursements				
	Q2FY25		Q2FY26		YoY (%)	Q2FY25		Q2FY26		YoY (%)
	% of total	INR bn	% of total	INR bn		% of total	INR bn	% of total	INR bn	
Passenger vehicles	39.0%	438.6	41%	521.7	19.0%	40.0%	52.6	40%	54.1	2.7%
CVs and Construction Equipment's	22.0%	247.4	21%	267.2	8.0%	20.0%	26.3	17%	23.0	-12.7%
Pre-owned Vehicles	13.0%	146.2	12%	152.7	4.4%	18.0%	23.7	18%	24.3	2.7%
Tractors	11.0%	123.7	11%	140.0	13.2%	10.0%	13.2	13%	17.6	33.5%
SME	5.0%	56.2	5%	63.6	13.2%	5.0%	6.6	4%	5.4	-17.9%
3-Wheelers	4.0%	45.0	3%	38.2	-15.1%	5.0%	6.6	5%	6.8	2.7%
Others	7.0%	78.7	7%	89.1	13.2%	2.0%	2.6	3%	4.1	54.0%
<b>Total</b>	<b>101.0%</b>	<b>1,135.8</b>	<b>100%</b>	<b>1,272.5</b>	<b>12.0%</b>	<b>100.0%</b>	<b>131.6</b>	<b>100%</b>	<b>135.1</b>	<b>2.7%</b>

Source: Company, Nuvama Research

## Exhibit 5: Income statement summary

INR mn	Q2FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Income from operations	38,975	44,194	44,727	14.8	1.2
Other Income	276	184	166	-39.9	-9.8
<b>Total Income</b>	<b>39,251</b>	<b>44,378</b>	<b>44,892</b>	<b>14.4</b>	<b>1.2</b>
Financial expenses	19,343	21,524	20,663	6.8	-4.0
<b>Net revenue</b>	<b>19,908</b>	<b>22,853</b>	<b>24,230</b>	<b>21.7</b>	<b>6.0</b>
<b>NII</b>	<b>18,106</b>	<b>20,122</b>	<b>21,116</b>	<b>16.6</b>	<b>4.9</b>
Other income	2,078	2,915	3,279	57.8	12.5
Staff Cost	4,460	5,232	4,909	10.1	-6.2
Other expenses	2,819	3,343	3,500	24.1	4.7
Depreciation & Amortization	667	749	832	24.7	11.1
<b>Total expenditure</b>	<b>7,947</b>	<b>9,323</b>	<b>9,240</b>	<b>16.3</b>	<b>-0.9</b>
<b>Operating profit</b>	<b>11,961</b>	<b>13,530</b>	<b>14,989</b>	<b>25.3</b>	<b>10.8</b>
Provisions & write-offs	7,035	6,597	7,514	6.8	13.9
<b>PBT</b>	<b>4,927</b>	<b>6,933</b>	<b>7,475</b>	<b>51.7</b>	<b>7.8</b>
Taxes	1,232	1,638	1,782	44.7	8.8
<b>PAT</b>	<b>3,695</b>	<b>5,295</b>	<b>5,693</b>	<b>54.1</b>	<b>7.5</b>
Business Assets	11,24,540	12,20,080	12,72,460	13.2	4.3
Disbursement	1,31,620	1,28,080	1,35,140	2.7	5.5
<b>Ratios (%)</b>					
Cost/Income	39.92%	40.80%	38.14%		
Provision/PPOP	58.81%	48.76%	50.13%		
Tax rate	25.00%	23.63%	23.84%		
GS3	3.83%	3.85%	3.94%		
NS3	1.59%	1.91%	1.90%		

Source: Company, Nuvama Research

## Company Description

MMFS, a subsidiary of M&M with 52% promoter ownership, is a leading NBFC offering a range of financial services in rural and semi-urban areas. The company finances purchase of utility vehicles, tractors, cars, commercial vehicles, used vehicles as well as construction equipment. Collection executives also use GPRS-enabled handheld devices, which help the company locate payments. In the backdrop of strong customer relationships, the company is also engaged in other businesses as follows:

- Providing loans for buying and renovating homes in rural India through Mahindra Rural Housing Finance. The business started operations in 2008.
- Offering insurance solutions to retail customers as well as corporations through Mahindra Insurance Brokers.
- It has been in operation since 1993, initially financing M&M dealers for tractor purchases and then into retail tractor financing. In 2002, it started financing non-M&M vehicles as well.

## Investment Theme

We maintain 'HOLD' with a new TP of INR 288/1.6x BV versus INR 280 earlier. Management is optimistic about demand recovery post GST in H2FY26 with green shoots already seen in October. Management is also confident of better recoveries and lower provisions in H2FY26. The full year credit cost guidance remains unchanged at 1.7% lower than credit cost of 2.2% in Q2FY26E.

## Key Risks

MMFSL's business model is directly linked to demand for underlying auto segments hence earnings will be subject to the seasonality and cyclicity of the same.

Adverse regulatory developments and slowdown in rural economy are other vectors to look out for.

## Additional Data

### Management

MD and CEO	Raul Rebello
Chairman	Anish Shah
VC and MD	Ramesh Iyer
CFO	Pradeep Agrawal
Auditor	M M Nissim & Co LLP

### Holdings – Top 10\*

	% Holding		% Holding
LIC	10.53	Bandhan MF	1.15
SBI MF	5.52	SBI Life	1.07
HDFC MF	5.51	Ashish Dhawan	1.05
HDFC Life	2.56		
Sundaram MF	1.37		

\*Latest public data

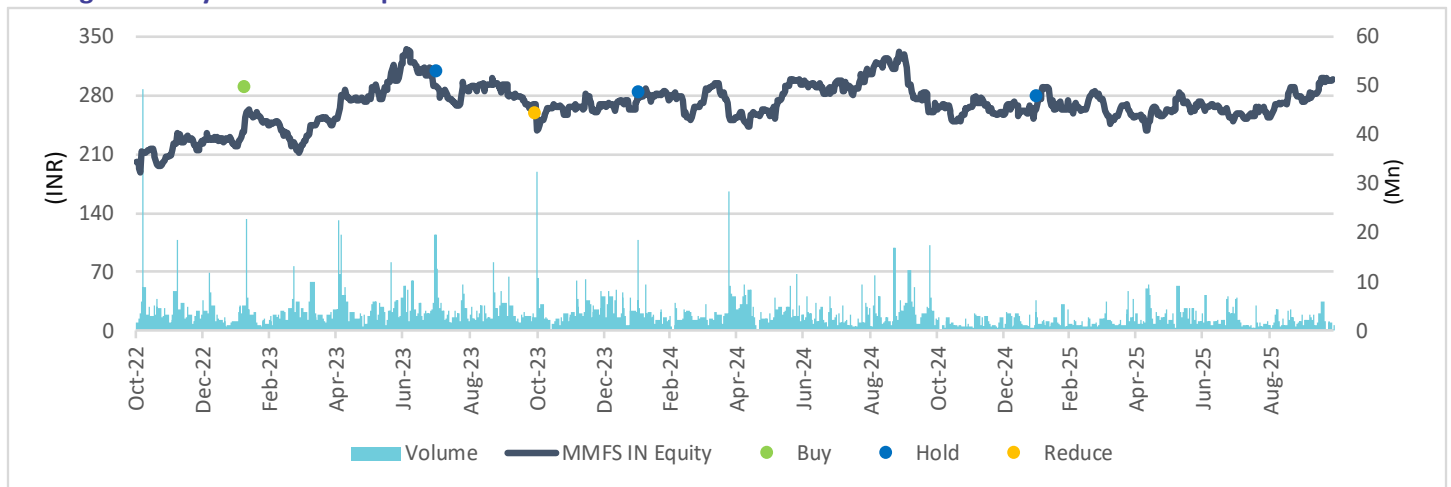
### Recent Company Research

Date	Title	Price	Reco
22-Jul-25	Higher NIM; PCR maintained; <i>Result Update</i>	266	Hold
22-Apr-25	Q4FY25 – Lower NIM; higher credit cost; <i>Result Update</i>	277	Hold
28-Jan-25	ECL refresh drives PAT beat; <i>Result Update</i>	268	Hold

### Recent Sector Research

Date	Name of Co./Sector	Title
16-Oct-25	L&T Finance	Q2FY26 – Strong results; <i>Result Update</i>
25-Sep-25	Capri Global Capital	Analyst day: Growth trajectory intact; <i>Company Update</i>
14-Aug-25	Spandana Sphoorty	Q1FY26 weaker than peers; <i>Result Update</i>

### Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

### Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	68
Reduce	<-5%	37



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