

Mahindra & Mahindra Financial Services | ADD

Strong quarter; sustainability is key

MMFS reported a healthy quarter, with PAT rising 42% QoQ (+8% JMFe), driven by a sharp expansion in NIMs and a decline in credit costs. NII grew 26%/10% YoY/QoQ, supported by a 54bps QoQ improvement in calc. NIMs, led by a ~50bps QoQ increase in calc. yields. Mgmt. attributed this to the roll-off impact of trade advances undertaken in 2Q and stronger write-backs during the quarter, while guiding for NIMs to moderate to ~7.1% in a steady-state scenario (similar to 9M26). Credit costs declined sharply to 1.5% (vs. 2.4% in 2Q), aided by ECL release, post ECL refresh, resulting in an 8% PAT beat. Disbursements grew strongly at 7%/30% YoY/QoQ, led by the tractor segment (+86% QoQ), though AUM growth remained muted at 12%/1% YoY/QoQ. AUM growth has moderated from 28% in 1QFY24 to 12% YoY in 3QFY26 and may take some time to recover. However, mgmt. targets mid-to-high teen AUM growth over the medium term, driven by gradual expansion in the MSME/mortgage segments, with proposals to merge MRHFL (Mahindra Rural Housing Finance Ltd.) into the company to be evaluated. Improved confidence on credit costs, stronger non-interest income-led cash flows, and a higher share of fixed-rate loans are expected to support earnings and NIMs. We maintain ADD with a revised TP of INR 405 (vs. INR 395 earlier), valuing the company at 1.9x FY28E P/B, implying RoA/RoE of ~2.0%/12% for FY27E/FY28E.

- AUM growth moderates; disbursements pick up:** Disbursements rebounded after a weak few quarters, growing 7%/30% YoY/QoQ, led by the tractor segment (+86% QoQ). PV/CV volumes also saw healthy volume growth, though value growth remained muted due to declining ticket sizes. AUM growth continued to moderate and stood at 12%/1% YoY/QoQ. Mgmt. attributed the muted AUM growth despite strong disbursements to trade advances undertaken in 2Q. Mgmt. targets mid-to-high teens book growth over the medium term, supported by gradual expansion in the MSME and mortgage segments, with non-wheels expected to form ~30% of the book by FY30. **We build average AUM growth of ~13% over FY26-28E.**
- Beat on operating performance:** MMFS reported an 8% PAT beat, with PAT rising 42% QoQ. NII grew a strong 26%/10% YoY/QoQ, driven by a 54bps QoQ expansion in calc. NIMs, led by a ~50bps QoQ increase in calc. yields. Mgmt. attributed this to the impact of trade advances undertaken in 2Q and stronger write-backs during the quarter. Opex increased 14%/9% YoY/QoQ (+5% JMFe), resulting in PPoP growth of 36%/11% YoY/QoQ. Additionally, credit costs declined sharply to 1.5% (vs. 2.4% in 2Q), aided by ECL release, primarily from Stage-2 post ECL refresh, leading to the PAT beat. **We build in EPS CAGR of 8% over FY26-28E.**
- Asset quality improves:** GS3 declined sequentially to 3.8% (-14bps QoQ), while NS3 declined by 7bps QoQ. Stage-3 PCR remained steady at 53% despite the ECL refresh, as mgmt. created additional overlays which currently stand at ~INR 6.4bn. Coverage on Stage-2 moderated to 8% (vs. 9.4% in 2Q) which primarily led to the lower credit costs for the quarter. Overall GS-2 + GS-3 assets declined to 9.2% (-51bps QoQ), remaining well within mgmt. guidance of sub-10%. **We build in an average credit cost (as % of AUM) of ~1.7% for FY26-28E.**
- Valuation and View:** We believe the moderation in AUM growth from 28% in 1QFY24 to 13% YoY in 2QFY26 is likely to take some time to recover. However, mgmt. continues to target mid-to-high teens book growth over the medium term, driven by gradual expansion in the MSME and mortgage segments. Improved confidence on credit costs, stronger non-interest income-led cash flows, and higher share of fixed-rate loans are expected to provide earnings and NIM tailwinds. We maintain ADD with a revised TP of INR 405 (vs. 395 earlier), valuing the company at 1.9x FY28E P/B, implying RoA/RoE of ~2.0%/12% for FY27E/FY28E.



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Recommendation and Price Target

Current Reco.	ADD
Previous Reco.	ADD
Current Price Target (12M)	405
Upside/(Downside)	9.4%
Previous Price Target	395
Change	2.5%

Key Data – MMFS IN

Current Market Price	INR370
Market cap (bn)	INR514.5/US\$5.6
Free Float	36%
Shares in issue (mn)	1,235.5
Diluted share (mn)	1,235.5
3-mon avg daily val (mn)	INR1,550.3/US\$16.9
52-week range	412/232
Sensex/Nifty	82,345/25,343
INR/US\$	91.8

Price Performance

%	1M	6M	12M
Absolute	-6.1	48.6	39.9
Relative*	-3.0	46.0	28.9

* To the BSE Sensex

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary						(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E	
Net Profit	17,596	23,450	28,144	33,164	33,012	
Net Profit (YoY) (%)	-13.7%	33.3%	20.0%	17.8%	-0.5%	
Assets (YoY) (%)	19.7%	17.7%	10.6%	9.2%	12.5%	
ROA (%)	1.7%	1.9%	2.0%	2.1%	1.9%	
ROE (%)	10.0%	12.4%	12.7%	12.9%	11.8%	
EPS	14.2	19.0	20.2	23.9	23.8	
EPS (YoY) (%)	-13.7%	33.3%	6.7%	17.8%	-0.5%	
PE (x)	26.0	19.5	18.3	15.5	15.6	
BV	147	160	177	193	208	
BV (YoY) (%)	6.3%	9.1%	10.5%	8.7%	8.0%	
P/BV (x)	2.52	2.31	2.09	1.92	1.78	

Source: Company data, JM Financial. Note: Valuations as of 28/Jan/2026

MMFS – 3QFY26 Performance Highlights

Exhibit 1. Mahindra & Mahindra Financial Services – Results Snapshot							
Earnings (INR Bn)	3QFY25	2QFY26	3QFY26	YoY (%)	QoQ (%)	3QFY26E	A/F (%)
Interest Income	41.4	44.7	47.5	15%	6%	46.2	3%
Interest exp	20.5	20.7	21.0	3%	2%	21.1	0%
NII	21.0	24.1	26.5	26%	10%	25.2	5%
Non-Interest income	0.0	0.2	0.1	593%	-42%	0.2	-43%
Net operating income	21.0	24.2	26.6	27%	10%	25.3	5%
Total Operating Expenses	(8.8)	(9.2)	(10.0)	14%	9%	(9.5)	5%
Operating Profit	12.2	15.0	16.6	36%	11%	15.8	5%
Provisions	0.1	7.5	4.7	5041%	-37%	5.6	-17%
PBT	12.1	7.5	10.7	-12%	43%	10.2	5%
Tax	3.1	1.8	2.6	-17%	46%	2.6	-2%
Reported Profit	9.0	5.7	8.1	-10%	42%	7.5	8%
Balance sheet (INR Bn)							
Net-worth	192	230	238	24%	4%	235	1%
Borrowings	1,049	1,128	1,136	8%	1%	1,151	-1%
AUM	1,151	1,272	1,290	12%	1%	1,296	0%
Disbursements	165	135	176	7%	30%	176	0%
Key Ratios							
Margins							
Yield on loans (%)	15.1%	14.8%	15.3%	26 bps	50 bps	14.9%	45 bps
Cost of borrowings (%)	8.4%	8.2%	8.3%	(9) bps	2 bps	8.2%	7 bps
Spread (%)	6.7%	6.6%	7.0%	35 bps	48 bps	6.7%	38 bps
NIM (%)	6.6%	6.9%	7.5%	89 bps	54 bps	7.1%	42 bps
Efficiency metrics							
Opex/AUM (%)	3.1%	3.0%	3.1%	5 bps	17 bps	3.0%	17 bps
Opex/income (%)	42%	38%	38%	(408) bps	(44) bps	38%	16 bps
Asset Quality							
Gross NPAs (INR bn)	45.3	50.1	49.1	8%	-2%	50.5	-3%
Net NPAs (INR bn)	22.6	23.5	23.1	2%	-2%	23.7	-3%
Gross NPA (%)	3.9%	3.9%	3.8%	(13) bps	(14) bps	3.9%	(10) bps
Net NPA (%)	2.0%	1.9%	1.8%	(18) bps	(7) bps	1.9%	(7) bps
Credit cost (%)	0.0%	2.4%	1.5%	144 bps	(94) bps	1.8%	(29) bps
PCR - Stage 3 (%)	50.1%	53.0%	53.0%	291 bps	0 bps	53%	0 bps
ECL/EAD (%)	3.0%	3.2%	3.0%	(3) bps	(17) bps	3.1%	(12) bps

Source: Company, JM Financial

MMFS – Key takeaways from concall

Growth/AUM mix

- 3QFY26 has seen the highest third quarter disbursements, linked primarily to the tractor segment. Investments done in terms of distribution etc. over the past 12 months in this segment are bearing fruit currently as per mgmt. In the CV/PV segment, there was good volume growth, but there was pricing changes (ticket size changes were done taking LTV into consideration), and so does not reflect fully in the value growth.
- In 3W space, company is focusing more on electric 3Ws. MSME business touched INR 80bn in line with diversification plans highlighted by the mgmt.
- 4Q may not see the same levels of growth seen in 3Q as in 3Q there was good traction led by GST rationalization, rural demand etc.
- Loan growth during the quarter does not track disbursement growth because there was a good level of trade finance done in 2Q, which gets recorded in the book and not in disbursements. These numbers would come in the 3Q disbursements. Adjusted for this, the book growth would have been ~5% QoQ.

Margins

- Q3 NIM expansion of ~50 bps QoQ at 7.5%, 9MF26 NIM at 7.1% vs. 6.6% 9MF25.
- Q3 Fee expansion 10 bps QoQ at 1.5%, 9MF26 Fee at 1.4% vs. 1.1% 9MF25 (Fee includes Investment, Insurance and Other Income).
- NIM at 7.5% during the quarter is more of a one-time level led by loan income from delta primarily from trade finance and write backs during the quarter. ~7.1% level NIMs (in-line with 9MFY26 NIM) would be a more steady state NIMs expected specifically for 4Q.

Asset Quality

- ECL refresh done during the quarter, there were LGD resets and there was possibility of reducing PCR. But the mgmt. kept PCR steady and about INR 6350mn mgmt. overlays created. Additional layer of provisioning as of Q2F26 on Wheels stage 3, with ageing >18 Months of ~ INR 4930mn has been subsumed in this overlay.
- GS2+GS3 at 9.2%, down 52 bps QoQ and 101 bps YoY well within mgmt. guidance of less than 10%.
- Credit cost at 1.3% for Q3, 1.8% for 9MF26 vs. 2.2% for 9MF25 (PCR adjusted).
- ECL model has been transitioned from a 42-month LGD calculation for each product earlier to a much more exhaustive and granular in-terms of products, in-line with the industry where also a broader period is also considered.
- Write off from the early fully provided book (related to the Aizwal incident) contributed to ~10bps reduction in GS-3. Net of this there has been a 4bps reduction in GS-3 QoQ.

Guidance

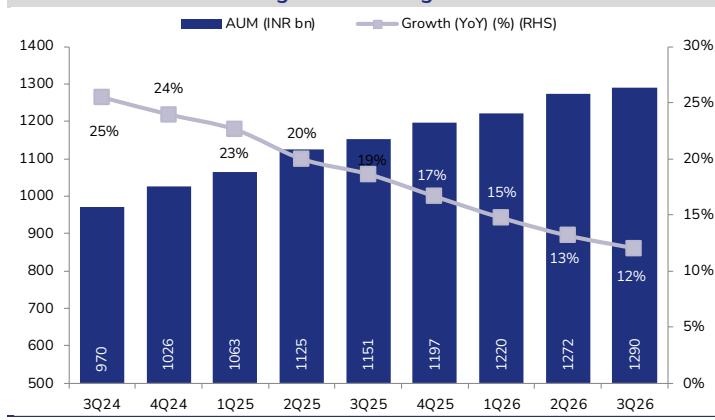
- ~1.5%-1.7% range for credit cost guidance maintained for FY26E.
- RoA target would be to initially have steady state of 2% and then climb up gradually.
- Loan growth target in a medium term perspective would be for mid-teens to high-teens supported by gradual diversification to mortgage and SME businesses.
- By FY30, in terms of the loan mix, wheels currently at 88%, and the target is to moderate it to ~70%, with SME + mortgage growing to ~30%.
- The 1.4% level for fee, investment & other income (as a % of assets) for 9MFY25 is a sustainable level and there is room to even improve from here.

Other Highlights

- In-house insurance corporate agencies (received the corporate agency license) have helped in directly receiving fee income. Also MIBL is now a 100% subsidiary currently, and it is one of the top 5 insurance broking companies in the country, and generates good revenue, providing regular dividends which will continue going forward in the fee income line item.
- Business transformation (Udaan) completed with 95% onboarding and 100% collections done through these platforms.
- Inprinciple approval received for evaluating the proposal for consolidation including Scheme of merger by absorption of Mahindra Rural Housing Finance Limited ("MRHFL"), a 98.43% owned subsidiary of the Company with the Company and authorized the mgmt. to appoint various consultants, advisors and intermediaries for the purpose.

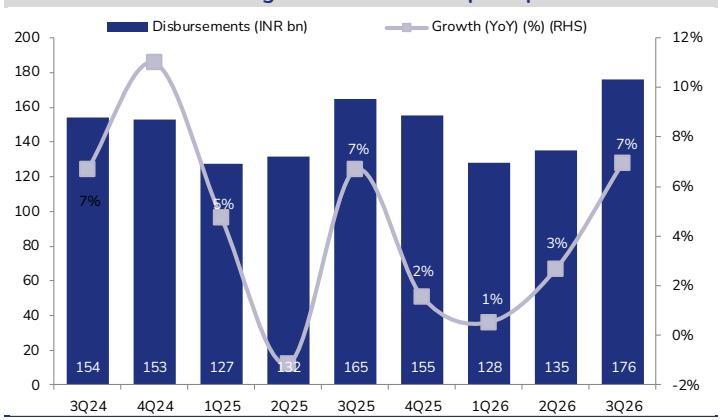
Quarterly Trends

Exhibit 2. Business Assets growth slowing down



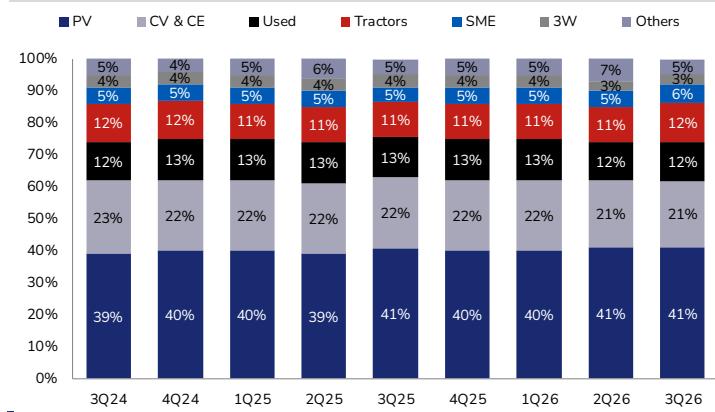
Source: Company, JM Financial

Exhibit 3. Disbursements growth continues to pick up



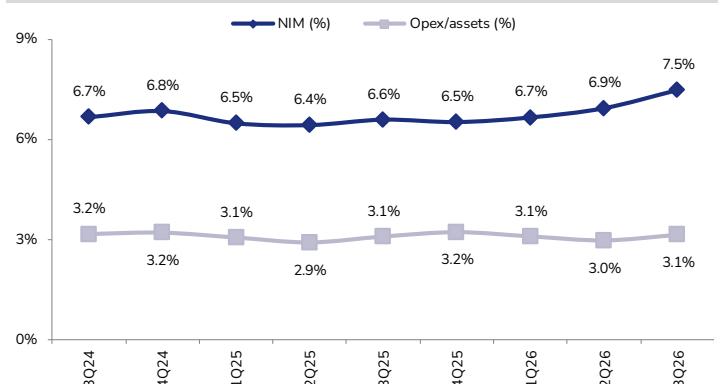
Source: Company, JM Financial

Exhibit 4. AUM Mix trajectory



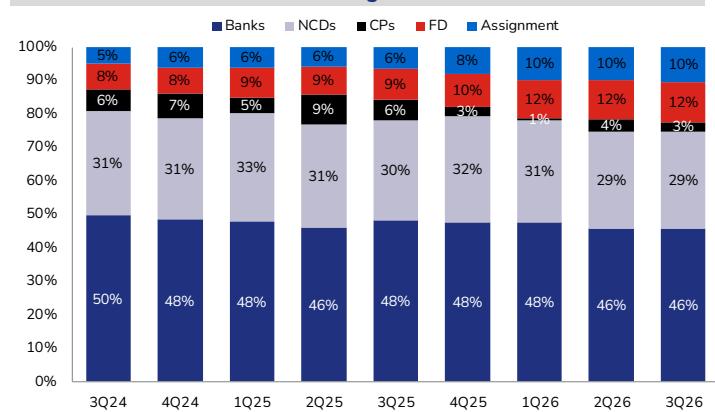
Source: Company, JM Financial

Exhibit 5. NIMs improved sequentially due to trade advances from 2Q and larger quantum of write-backs



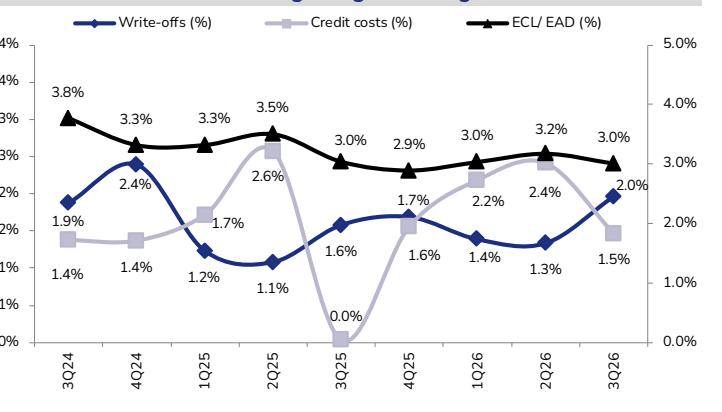
Source: Company, JM Financial

Exhibit 6. CP and securitization/assignment to contribute further



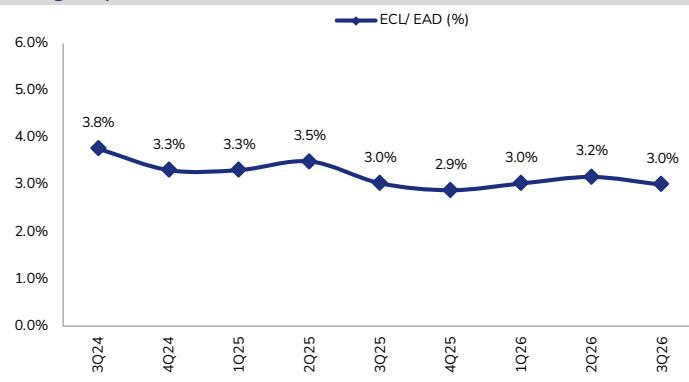
Source: Company, JM Financial

Exhibit 7. Credit cost within mgmt's guided range of ~1.5%-1.7%



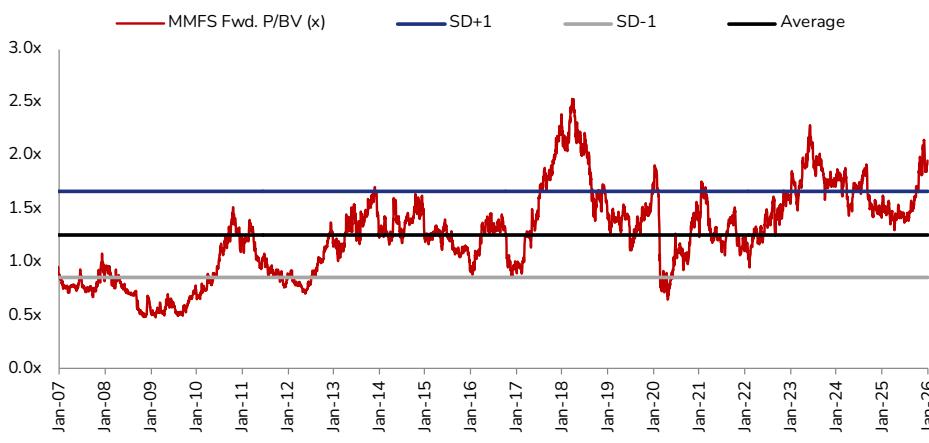
Source: Company, JM Financial

Exhibit 8. Total provision cover decline sequentially led by moderation in Stage-2 provisions



Source: Company, JM Financial

Exhibit 9. MMFS: 1-year forward P/B chart



Source: Bloomberg, JM Financial

Note: Priced as of 28th Jan'25.

Exhibit 10. Change in estimates

Particulars	New estimates			Old estimates			Change in estimates		
	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Target price (INR)	405			395			3%		
Recommendation	ADD			ADD					
AUM (INR bn)	1,338	1,501	1,694	1,346	1,506	1,698	-0.5%	-0.4%	-0.2%
YoY assets growth	11.8%	12.1%	12.9%	12.4%	11.9%	12.7%	-60bps	17bps	20bps
Net interest margins (calculated)	7.5%	7.5%	7.3%	7.4%	7.5%	7.2%	15bps	4bps	8bps
Opex/assets	2.7%	2.8%	3.0%	2.7%	2.8%	2.9%	7bps	4bps	4bps
Credit cost	1.9%	1.7%	1.7%	1.9%	1.7%	1.7%	-2bps	-7bps	-1bps
Output									
Net revenues (INR mn)	100,024	111,673	121,793	98,519	111,814	121,041	1.5%	-0.1%	0.6%
Operating profit (INR mn)	60,986	67,384	70,042	60,452	68,020	69,857	0.9%	-0.9%	0.3%
PAT (INR mn)	28,144	33,164	33,012	26,963	32,408	32,247	4%	2%	2%
EPS (INR)	20.2	23.9	23.8	19.4	23.3	23.2	4%	2%	2%
BVPS (INR)	177	193	208	177	192	207	0%	0%	1%
RoA	2.0%	2.1%	1.9%	1.9%	2.1%	1.9%	9bps	6bps	5bps
RoE	12.7%	12.9%	11.8%	12.2%	12.7%	11.6%	51bps	24bps	21bps

Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss (INR bn)						Balance Sheet (INR bn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E	Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income	70	81	99	111	121	Equity Capital	2	2	3	3	3
Non-Interest Income	2	1	1	1	1	Reserves & Surplus	179	196	244	265	287
Total Income	71	82	100	112	122	Borrowings	940	1,129	1,208	1,341	1,515
Operating Expenses	30	34	39	44	52	Other Liabilities	30	29	46	29	37
Pre-provisioning Profits	42	48	61	67	70	Total Liabilities	1,152	1,355	1,500	1,637	1,841
Loan-Loss Provisions	18	16	24	24	27	Investments	97	104	91	101	114
Total Provisions	18	16	24	24	27	Net Advances	992	1,162	1,299	1,457	1,646
PBT	24	31	37	44	43	Cash & Equivalents	33	55	75	40	38
Tax	6	8	9	10	10	Other Assets	30	34	35	39	44
PAT (Pre-Extraordinaries)	18	23	28	33	33	Total Assets	1,152	1,355	1,500	1,637	1,841
Extra ordinaries (Net of Tax)	0	0	0	0	0	Source: Company, JM Financial					
Reported Profits	18	23	28	33	33						
Dividend paid	0	0	0	0	0						
Retained Profits	18	23	28	33	33						

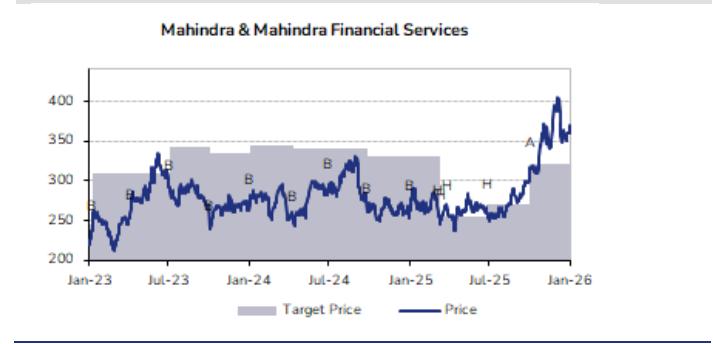
Key Ratios						Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E	Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)						NII / Assets	6.60%	6.47%	6.97%	7.08%	6.96%
Deposits	0.0%	0.0%	0.0%	0.0%	0.0%	Other Income / Assets	0.15%	0.05%	0.04%	0.04%	0.04%
Advances	24.8%	17.2%	11.8%	12.2%	12.9%	Total Income / Assets	6.75%	6.52%	7.01%	7.12%	7.00%
Total Assets	19.7%	17.7%	10.6%	9.2%	12.5%	Cost / Assets	2.80%	2.72%	2.73%	2.82%	2.98%
NII	9.9%	16.3%	22.6%	11.7%	9.1%	PBP / Assets	3.95%	3.80%	4.27%	4.30%	4.03%
Non-interest Income	20.9%	-60.3%	-8.9%	9.7%	10.9%	Provisions / Assets	1.72%	1.29%	1.69%	1.51%	1.53%
Operating Expenses	8.4%	15.4%	14.4%	13.4%	16.9%	PBT / Assets	2.23%	2.51%	2.58%	2.78%	2.50%
Operating Profits	11.4%	14.0%	28.0%	10.5%	3.9%	Tax rate	25.3%	25.5%	23.5%	24.0%	24.0%
Core Operating profit	0.0%	0.0%	0.0%	0.0%	0.0%	ROA	1.66%	1.87%	1.97%	2.11%	1.90%
Provisions	82.4%	-11.2%	49.6%	-1.9%	12.0%	RoRWAs	1.99%	2.17%	2.28%	2.45%	2.20%
Reported PAT	-13.7%	33.3%	20.0%	17.8%	-0.5%	Leverage	6.0	6.6	6.4	6.1	6.2
Yields / Margins (%)						ROE	10.0%	12.4%	12.7%	12.9%	11.8%
Interest Spread	5.22%	4.92%	5.69%	5.74%	5.70%	Source: Company, JM Financial					
NIM	7.21%	6.69%	7.54%	7.52%	7.29%						
Profitability (%)						Valuations					
Non-IR to Income	0.0%	0.0%	0.0%	0.0%	0.0%	Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Cost to Income	41.4%	41.7%	39.0%	39.7%	42.5%	Shares in Issue	1.2	1.2	1.4	1.4	1.4
ROA	1.66%	1.87%	1.97%	2.11%	1.90%	EPS (INR)	14.2	19.0	20.2	23.9	23.8
ROE	10.0%	12.4%	12.7%	12.9%	11.8%	EPS (YoY) (%)	-13.7%	33.3%	6.7%	17.8%	-0.5%
Assets Quality (%)						PER (x)	26.0	19.5	18.3	15.5	15.6
Slippages	0.00%	0.00%	0.00%	0.00%	0.00%	BV (INR)	147	160	177	193	208
Gross NPA	3.40%	3.69%	3.62%	3.55%	3.52%	BV (YoY) (%)	6.3%	9.1%	10.5%	8.7%	8.0%
Net NPAs	1.30%	1.86%	1.75%	1.72%	1.70%	ABV (INR)	147	160	177	193	208
Provision Coverage	63.2%	51.2%	53.0%	53.0%	53.0%	ABV (YoY) (%)	6.3%	9.1%	10.5%	8.7%	8.0%
Specific LLP	0.00%	0.00%	0.00%	0.00%	0.00%	P/BV (x)	2.52	2.31	2.09	1.92	1.78
Net NPAs / Networth	7.1%	10.9%	9.2%	9.3%	9.7%	P/ABV (x)	2.52	2.31	2.09	1.92	1.78
Capital Adequacy (%)						DPS (INR)	6.0	6.3	7.1	8.4	8.3
Tier I	16.38%	15.25%	17.14%	17.07%	16.39%	Div. yield (%)	1.6%	1.7%	1.9%	2.3%	2.2%
CAR	18.86%	18.33%	20.22%	20.15%	19.47%	Source: Company, JM Financial					

Source: Company, JM Financial

History of Recommendation and Target Price

Recommendation History

Date	Recommendation	Target Price	% Chg.
27-Jul-21	Buy	167	
29-Oct-21	Buy	200	19.8
3-Feb-22	Buy	200	0.0
4-May-22	Buy	220	10.0
29-Jul-22	Buy	220	0.0
3-Nov-22	Buy	245	11.4
5-Feb-23	Buy	310	26.5
1-May-23	Buy	310	0.0
31-Jul-23	Buy	343	10.6
30-Oct-23	Buy	335	-2.3
30-Jan-24	Buy	345	3.0
7-May-24	Buy	340	-1.4
24-Jul-24	Buy	340	0.0
23-Oct-24	Buy	330	-2.9
29-Jan-25	Buy	330	0.0
3-Apr-25	Hold	255	-22.7
8-Apr-25	Hold	255	0.0
23-Apr-25	Hold	255	0.0
22-Jul-25	Hold	270	5.9
29-Oct-25	Add	320	18.5



APPENDIX I

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

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Rating	Meaning
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