

28 Jan 2026 14:10:24 ET | 16 pages

Mahindra And Mahindra Financial Services (MMFS.BO)

NIMs/Fees Expand, Credit Cost Subsides

CITI'S TAKE

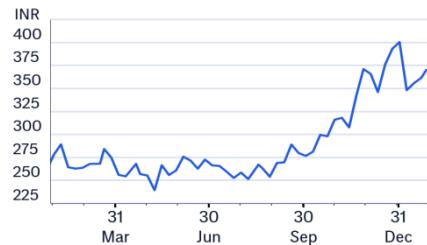
40bps NIM expansion to 7.5%, 10bps increase in fee /assets to 1.5%, and credit cost at 1.5% (vs 2.5% qoq), partially mitigated by Rs1.17bn new labour code impact, propelled RoAs to 2.3% (surpassing CitiE). GS3/GS2 pool contracted >50bps to 3.8%/5.4% (vs 3.94%/5.78% qoq). Release of provisioning during ECL refresh was judiciously allocated towards creating overlay buffer (Rs6.4bn vs Rs4.9bn qoq) and accelerated write-offs (of Rs6.3bn). Mgmt retained 1.5-1.7% credit cost (to assets) guidance. Tractors/PV and scale-up of newer segments drove 30% qoq disbursements growth. Mgmt is confident of mid-teens to high-teens AUM growth in the medium term. Company is evaluating potential merger of rural housing subsidiary with the parent entity assessing the associated benefits/challenges. Factoring enhanced NIM/fee profile, we revise earnings upwards by 6%/4%/4% for FY26E/FY27E/FY28E. Improved medium-term RoE/growth trajectory, prompts us to raise TP to Rs425 (from Rs345), assigning 2.2x Mar'27 book (vs Rs345 at 1.8x). Reiterate Buy.

Buy

Price (28 Jan 26 15:30)	Rs370.05
Target price	Rs425.00↑
from Rs345.00	
Expected share price return	14.8%
Expected dividend yield	1.3%
Expected total return	16.2%
Market Cap	Rs514,145M
	US\$5,621M

Price Performance

(RIC: MMFS.BO, BB: MMFS IN)



GS3/2 contracts; write-offs elevated— Stress pool was effectively managed, with 38bps/14bps contraction in GS2/GS3 to 5.78%/3.94%. While the coverage on GS3 was maintained at 53%, that on GS2 fell by 140bps qoq to 8.0%. The annual ECL refresh in 3Q resulted in lower requirement; however, the benefit from ECL refresh was used to create mgmt. overlay, now standing at Rs6.4bn. CE was broadly stable at 95%. Write-offs were elevated at Rs6.3bn. Reported credit cost, thereby, stood at 1.3% in 3Q and 1.8% for 9M. Mgmt. holds guidance of 1.5-1.7% for FY26. We build credit cost of 1.8%/1.7%/1.6% for FY26E/27E/28E.

NIMs expand 50bps qoq to 7.5%; Fee income robust — Normalization of interest drag on trade advances, coupled with higher standard asset pool (interest generating assets), led to a sharp 40bps qoq increase in yields to 12.0%. Cost of funds was stable at 6.0% qoq. Consequently, NIMs surged 50bps qoq to 7.5% in 3Q. Non-interest income provided an additional tailwind, rising 10bps as a percentage of assets, supported by dividend income from the insurance broking arm. Going forward, growth led by tractors and pre-owned vehicles, combined with continued funding cost benefits, should sustain NIMs upwards of 7% over FY26E-28E.

Kunal Shah^{AC}

Dipanjan Ghosh

Yash Gujarathi

Earnings Summary

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	17,596	13.86	-15.9	26.7	2.6	10.1	1.6
2025A	23,450	18.47	33.3	20.0	2.4	12.5	1.8
2026E	30,395	22.85	23.8	16.2	2.1	13.6	1.9
2027E	37,464	26.95	17.9	13.7	1.9	14.2	2.2
2028E	43,403	31.22	15.9	11.9	1.7	14.8	2.5

Source: Powered by dataCentral

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

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Mgmt reiterated its constructive outlook on growth — 3Q disbursements rose by a sharp 30% qoq (7% yoy) on a softer base of 2Q, propelled by qoq growth of 86% in tractors, 33% in PV and 29% in CV/CE. In contrast, growth in SME/3-W was muted (flat/6% QoQ respectively). However, AUM growth was slower at 12% yoy/1% QoQ. Mgmt. reiterated its constructive outlook on growth, citing extending leadership in tractor segment, diversification through mortgages and MSME portfolio and adequate capitalization at CAR of ~20%. Consequently, we build 12%/15%/16% for FY26E/FY27E/FY28E.

Operating expenses, ex-of labor code impact, increased qoq; C/I improved -

Operating expenses increased 14% yoy/9% qoq, on softer base of 2Q, to Rs10bn, led by 11% qoq increase in overheads. It accrued impact of Rs1.2bn from new labor code as an exceptional item. However, with sharper rise in NIM + Fee, C/I ratio improved 40bps qoq to 37.7% whereas, cost to assets increased by 17bps QoQ to 2.8%. While management remains committed to strategic investments in distribution, technology, and collections to navigate the challenging macro environment, it anticipates realizing benefits from enhanced efficiency and productivity. We project opex/assets to remain elevated at 2.7% over FY27-28E.

3QFY26 Earnings Call Takeaways

Opening Remarks

- Completed project Udaan – business transformation and has started yielding results – 95% channels adopted new stack, sunset all old LOS/LMS systems.
- Further stabilization in asset quality now visible, GS3 <4% for last 8 quarters consistently. GS3+GS2 at 9.2%. GS3 reduced qoq by 14bps in 3Q.
- Wrote off from earlier fully provided book from Aizwal of 10bps so net benefit of 4bps reduction qoq.
- Right time to pivot to growth – disbursements were highest ever for a 3Q led by tractor, up 65%. MRHFL showing improvement in asset quality from past two quarters. Will evaluate the merger option and take it to board. Has prolific plans for SME business growth. Remains well capitalized for growth
- NIMs expanded qoq by 50bps to 7.5% led by tailwinds from trade advances from 2Q
- Reported credit cost at 1.3% for 3Q, YTD at 1.8%. Business model suggests credit cost should be contained at <1.7% - not changing the guidance.
- ECL refresh in 3Q – Kept overlay of Rs6.4bn. Didn't take any benefit on the PCR resulting from ECL refresh.
- Disbursements growth – Extends leadership in tractor. Cautious on growth in used vehicles. CV has seen unit growth. 3-W moving towards EV business and conservative on combustion engine 3-W.
- ROA Tree – YoY decline in loan income of 20bps was mitigated by 30bps increase in fee-based income. With CoF reduction, NIM expanded 50bps.
- Turnaround in MRHFL is now complete and will now look to grow.

- Largely looking at 2% ROA / 15% ROE and post that will look to increase beyond.

On growth

- Demand is reasonably holding in 3Q from GST 2.0. However, there has been some waning of demand post festive.
- Strong tractor growth – invested considerably in tractor division, distribution, etc. overtime
- CV/CE – seeing structural changes from borrower side and have been limiting itself to few segments
- Focus is to diversify the loan book, and it would be largely led by growth in mortgages and SME. Within mortgage, focus on growing affordable housing
- Expects CAGR growth of mid-to-high-teens. By FY30, expects wheels to go down to ~70% (from 88% of current MMFS+MHRFL)

On asset quality

- Credit cost is expected to sustain 1.5-1.7% for FY26 vs 9M at 1.8%
- ECL model refresh – went much more granular and LGD and PD are more reflective of the business now. Major change is moved away from 42 months rolling calc to large periods
- ECL model reflected provision release, however, rather than accounting for it, it created overlay of Rs6.4bn
- With GS3/2 range bound, it doesn't expect wide variations in provisions.

On NIMs

- Loan income – trade advance given in 2Q falls to half in 3Q and is interest bearing and had some interest income writeback with improving stock of GS2/3
- Yields at 12.0% vs 11.6% qoq. Interest exp to assets at 6.0% (vs 6.0%). Spreads improved 50bps qoq to 7.5% from 7.0% in 2Q.
- NIM at 7.5% is not sustainable. However, target is to secure 2% ROA and climbing up from there.
- Fee income growth led by insurance business and supported by dividend income and other avenues. Expects fee income of 1.4% for 9M as sustainable
- OPEX – new businesses require investments and not constrained on overmanaging opex.

Figure 1. Results Summary

(Rs mn)	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	YoY	QoQ
PROFIT AND LOSS STATEMENT							
Net interest income	19,113	19,276	20,122	21,116	23,045	21%	9%
Interest income (est.)	39,572	40,172	41,646	41,779	44,071	11%	5%
Interest expense	20,459	20,896	21,524	20,663	21,026	3%	2%
Non-interest income (including fees) (est.)	1,872	2,279	2,732	3,113	3,561	90%	14%
Total Operating income	20,985	21,555	22,853	24,230	26,606	27%	10%
Total Operating expenses	8,768	9,427	9,323	9,240	10,030	14%	9%
Employee expense	4,892	4,976	5,232	4,909	5,203	6%	6%
Other operating expense	3,876	4,452	4,092	4,331	4,826	25%	11%
Pre-provision operating profit (PPOP)	12,217	12,128	13,530	14,989	16,577	36%	11%
Loan losses and provisions	91	4,571	6,597	7,514	4,699	5041%	-37%
Profit before tax & exceptional items	12,126	7,557	6,933	7,475	11,878	-2%	59%
Exceptional items	0	0	0	0	(1,173)	NM	NM
Profit before tax	12,126	7,557	6,933	7,475	10,704	-12%	43%
Tax	3,131	1,925	1,638	1,782	2,600	-17%	46%
PROFIT AFTER TAX (PAT)	8,995	5,631	5,295	5,693	8,105	-10%	42%
BALANCE SHEET							
Shareholders' Funds	192,190	198,122	233,460	230,156	238,279	24%	3.5%
Share capital	2,470	2,470	2,780	2,779	2,779	13%	0.0%
Reserves and surplus	189,720	195,653	230,680	227,377	235,500	24%	3.6%
Borrowings	1,048,710	1,110,870	1,091,850	1,095,740	1,135,650	8%	3.6%
Other liabilities & Provisions	43,530	46,490	41,030	75,396	51,451	18%	-31.8%
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	1,284,430	1,355,482	1,366,340	1,401,292	1,425,380	11%	1.7%
Fixed Assets	10,650	11,149	11,430	11,472	11,700	10%	2.0%
Investments	86,820	104,005	85,960	74,296	64,820	-25%	-12.8%
Loans and advances	1,116,300	1,162,140	1,183,080	1,232,111	1,250,880	12%	1.5%
Cash and bank balances	48,360	55,359	64,600	61,162	75,660	56%	23.7%
Other current assets & Deferred tax assets	22,300	22,829	21,270	22,250	22,320	0%	0.3%
TOTAL ASSETS	1,284,430	1,355,482	1,366,340	1,401,292	1,425,380	11%	1.7%
Key ratios							
ROA	2.8%	1.7%	1.6%	1.6%	2.3%	-0.5%	0.6%
ROE	19.2%	11.5%	9.8%	9.8%	13.8%	-5.3%	4.0%
Yield on AUM	14.4%	14.1%	14.2%	13.8%	14.2%	-0.2%	0.3%
Cost of borrowings	7.9%	7.7%	7.8%	7.6%	7.5%	-0.3%	0.0%
Spreads on AUM	6.5%	6.4%	6.4%	6.3%	6.6%	0.1%	0.4%
NIM on AUM (calc)	6.9%	6.8%	6.9%	7.0%	7.4%	0.5%	0.4%
Cost / income	41.8%	43.7%	40.8%	38.1%	37.7%	-4.1%	-0.4%
Cost / average assets	2.8%	2.9%	2.7%	2.7%	2.8%	0.1%	0.2%
Credit cost / average AUM	0.0%	1.6%	2.3%	2.5%	1.5%	1.5%	-1.0%
CAR	17.8%	18.3%	20.6%	19.5%	19.8%	2.0%	0.3%
Tier 1	15.1%	15.2%	17.9%	16.9%	17.4%	2.3%	0.5%

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Source: Citi Research, Company Reports

Figure 2. Robust disbursements growth led by tractors/PV; normalization of trade advances drags AUM growth

Segment wise loans (Rs mn)	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	YoY	QoQ
Business Assets	1,151,260	1,196,730	1,220,080	1,272,460	1,289,650	12.0%	1.4%
Loans mix							
PV	41%	40%	40%	41%	41%		
CV & CE	22%	22%	22%	21%	21%		
Pre-owned vehicles	12%	13%	13%	12%	12%		
Tractor	11%	11%	11%	11%	12%		
SME	5%	5%	5%	5%	6%		
3 Wheelers	4%	4%	4%	3%	3%		
Others	5%	5%	5%	7%	5%		
Disbursements	164,660	155,290	128,090	135,140	176,120	7.0%	30.3%
PV	70,500	60,210	52,540	53,480	71,020	0.7%	32.8%
CV & CE	33,350	36,520	23,540	22,930	29,660	-11.1%	29.4%
Pre-owned vehicles	23,540	26,120	21,760	24,730	24,580	4.4%	-0.6%
Tractor	19,680	12,480	17,110	17,460	32,420	64.7%	85.7%
SME	7,060	10,010	5,240	7,360	7,320	3.7%	-0.5%
3 Wheelers	6,880	5,940	4,960	5,030	5,320	-22.7%	5.8%
Others	3,650	4,010	2,940	4,150	5,800	58.9%	39.8%

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Source: Citi Research, Company Reports

Figure 3. GS3+GS2 improved; W/offs elevated

Asset quality (Rs mn)	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	YoY	QoQ
GS3	45,250	44,140	46,970	50,070	49,050	8.4%	-2.0%
GS3 %	3.93%	3.69%	3.85%	3.93%	3.80%	-0.1%	-0.13%
NS3 %	2.0%	1.9%	1.9%	1.9%	1.8%	-0.2%	-0.1%
GS3 coverage	50.1%	51.2%	51.4%	53.0%	53.0%	2.9%	0.0%
GS2	72,340	65,120	71,390	73,560	69,660	-3.7%	-5.3%
GS2 %	6.3%	5.4%	5.9%	5.8%	5.4%	-0.9%	-0.38%
NS2 %	5.9%	5.1%	5.5%	5.4%	5.1%	-0.8%	-0.3%
GS2 coverage	9.1%	9.2%	9.1%	9.4%	8.0%	-1.1%	-1.4%
Comparison of IRACP & IND-AS Provisioning requirement							
IRACP (A)	20,400	19,580	20,800	23,020	22,440	10%	-3%
Stage 1 and Stage 2	4,520	4,520	4,600	4,780	4,860	8%	2%
Stage 3	15,880	15,060	16,200	18,240	17,580	11%	-4%
IND-AS (B)	34,960	34,590	37,000	40,340	38,760	11%	-4%
Stage 1 and Stage 2	12,290	12,010	12,840	13,800	12,760	4%	-8%
Stage 3	22,670	22,580	24,160	26,540	26,000	15%	-2%
Difference (B-A)	14,560	15,010	16,200	17,320	16,320	12%	-6%
Stage 1 and Stage 2	7,770	7,490	8,240	9,020	7,900	2%	-12%
Stage 3	6,790	7,520	7,960	8,300	8,420	24%	1%
Credit Charge (Rs mn)	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	YoY	QoQ
Stage-1 Provisions	(310)	230	370	570	270		
Stage-2 Provisions	(1,070)	(560)	490	410	(1,320)		
Stage-3 Provisions	(2,960)	(90)	1,570	2,380	(540)		
Write-Offs	4,440	4,980	4,170	4,150	6,280	41%	51%
Total	100	4,560	6,600	7,510	4,690	4590%	-38%

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Source: Citi Research, Company Reports

Figure 4. Summary Model

(Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Income statement					
Net interest income					
- Interest Income	131,088	153,314	173,519	196,627	225,467
- Interest expense	64,269	78,983	84,501	93,627	106,576
Non-interest income	4,537	7,433	13,330	15,161	16,574
- Fee income	1,747	5,106	8,676	9,902	10,947
- Other	2,790	2,327	4,654	5,259	5,627
Total operating income	71,355	81,764	102,348	118,161	135,465
Total operating expenses					
- Employee expense	17,126	19,031	21,886	23,302	26,797
- Other operating expense	12,446	15,081	18,399	20,901	24,246
Pre-provision operating profit (PPOP)	41,783	47,651	62,063	73,957	84,422
Total provisions	18,228	16,179	22,069	24,005	26,420
Profit before tax	23,555	31,473	39,994	49,953	58,002
Tax	5,959	8,022	9,599	12,488	14,599
Profit after tax	17,596	23,450	30,395	37,464	43,403
Core PPOP	38,993	45,324	57,409	68,699	78,795
Balance sheet					
Net worth	181,575	198,122	249,525	277,263	309,427
- Share capital	2,469	2,470	2,780	2,780	2,780
- Others	179,106	195,653	246,745	274,483	306,647
Deposits	71,970	109,260	133,297	159,957	191,948
Borrowings	854,560	1,001,610	1,103,072	1,259,760	1,455,267
Other liabilities & Provisions	43,487	46,490	51,742	59,415	68,935
Total liabilities and equity	1,151,592	1,355,482	1,537,636	1,756,394	2,025,577
Loans	991,952	1,162,140	1,316,705	1,512,462	1,755,183
Investments and cash	123,399	159,364	184,339	200,401	228,174
Other assets	36,241	33,978	36,593	43,531	42,221
Total assets	1,151,592	1,355,482	1,537,636	1,756,394	2,025,577
AUM	991,950	1,162,140	1,316,705	1,512,461	1,755,182
Disbursement	562,080	582,380	605,707	700,502	825,057
Key ratios					
BVPS, Rs	143.0	156.0	179.5	199.5	222.6
EPS, Rs	14.3	19.0	21.9	27.0	31.2
EPS growth	-11%	33%	15%	23%	16%
ROA	1.7%	1.9%	2.1%	2.3%	2.3%
ROE	10%	12%	14%	14%	15%
Gross NPA %	3.4%	3.7%	3.4%	3.3%	3.2%
Net NPA %	1.3%	1.9%	1.6%	1.5%	1.5%
Coverage %	63%	51%	54%	55%	55%
AUM growth	25%	17%	13%	15%	16%
Disbursement growth	13%	4%	4%	16%	18%
Assets / equity	6.3	6.8	6.2	6.3	6.5
Tier 1 CAR	16.4%	15.2%	16.9%	16.3%	15.7%
Total CAR	18.9%	18.3%	19.6%	18.7%	17.8%
Yield on AUM	14.7%	14.2%	14.0%	13.9%	13.8%
Cost of borrowing	7.7%	7.8%	7.2%	7.1%	7.0%
Spread	7.1%	6.5%	6.8%	6.9%	6.9%
NIM on AUM	7.5%	6.9%	7.2%	7.3%	7.3%
Fee / AUM	0.2%	0.5%	0.7%	0.7%	0.7%
Cost / income	41.4%	41.7%	39.4%	37.4%	37.7%
Cost / assets	2.8%	2.7%	2.8%	2.7%	2.7%
Credit cost / avg. AUM	2.0%	1.5%	1.8%	1.7%	1.6%

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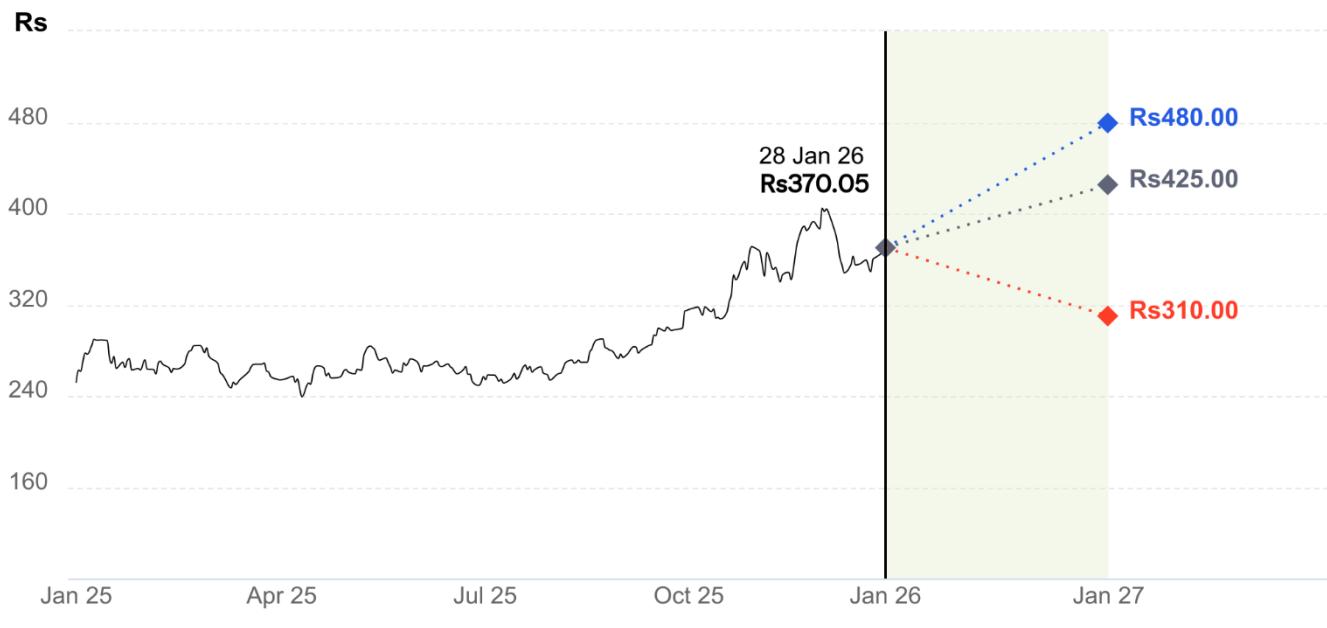
Source: Citi Research, Company Reports

Bull/Bear: Mahindra And Mahindra Financial Services (MMFS.BO)

Rs **480.00**
▲ 30% Upside

Rs **425.00**
▲ 15% Upside

Rs **310.00**
▼ 16% Downside



Spread 46pp
Current Price and expected returns (upside/downside) as of 28 Jan 2026

BULL Assumptions

- ▲ 5% higher loan growth than base case in FY26E
- ▲ 100bps lower credit cost than base case in FY26E
- Target multiple at 2.2x

BASE Assumptions

- Loan growth of 13% in FY26E
- Credit costs of 180bps in FY26E
- Target multiple at 2.2x

BEAR Assumptions

- 5% lower loan growth than base case in FY26E
- 100bps higher credit cost than base case in FY26E
- Target multiple at 1.8x

Mahindra And Mahindra Financial Services

Company description

Mahindra Finance is one of India's leading NBFCs, with a strong presence in vehicle financing, especially in rural areas. It is primarily engaged in lending for cars, tractors, and commercial vehicles. It also has a housing finance subsidiary, Mahindra Rural Housing Finance Ltd (MRHFL), and an insurance broking subsidiary, Mahindra Insurance Brokers Ltd (MIBL), for distribution of insurance products. Its key strength is a deep rural distribution network.

Investment strategy

We rate Mahindra Finance (MMFS) as Buy. Management has aligned medium-term objectives towards (asset quality) stability, diversification, digitization and (cost) rationalization. Vision to be Leading & Responsible Financial Solutions (not just vehicle financing) Partner of Choice (digital, customer experience for emerging India) is reinforced by structural strategy targeted towards 2x AUM growth, 15% new business contribution, 2.5% RoA, 2.5% opex/assets. Current valuations adequately factor near term growth moderation and asset quality concerns.

Valuation

We value MMFS at Rs425 using a sum-of-parts methodology. The core business is valued using the two-stage Gordon Growth Model. Key assumptions are: cost of equity of 12.3%, normalized ROE of 14.5%, growth during stage one 16%, and steady state growth 4%. This gives us a target multiple of 2.2x, which we multiply by FY27 core BVPS (adjusted for investment in subsidiaries). We value the Rural Housing subsidiary based on 0.8x +2Y P/B and Insurance Broking based on 12x +2Y P/E.

Risks

Downside risks that could cause MMFS shares to trade below our target price include: 1) Underlying auto volume growth can tamper growth expectations; and 2) continues volatility in asset quality.

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Appendix A-1

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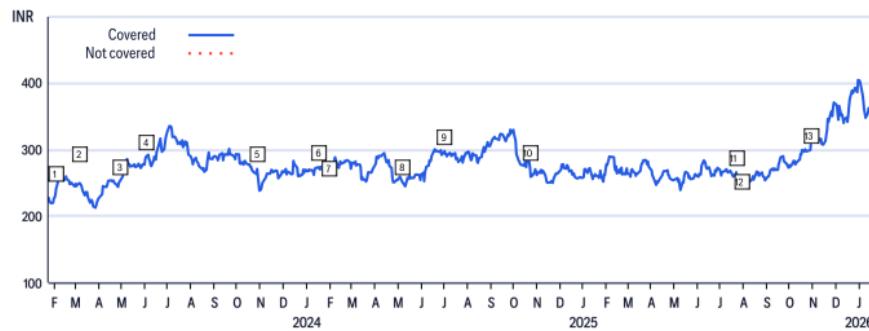
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IMPORTANT DISCLOSURES

Mahindra And Mahindra Financial Services (MMFS.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Kunal Shah



Date	Rating	Target Price	Closing Price
1 05-Feb-23 18:19:42	1	*277.29	241.25
2 06-Mar-23 06:45:24	1	*296.75	249.76
3 28-Apr-23 16:11:08	1	*301.62	251.95
4 02-Jun-23 12:19:41	1	*345.40	289.50
5 29-Oct-23 20:23:30	1	*340.54	270.97

Date	Rating	Target Price	Closing Price
6 16-Jan-24 02:45:50	*2	*301.62	273.79
7 30-Jan-24 12:42:09	2	*306.48	272.19
8 06-May-24 13:57:25	2	*282.16	251.70
9 01-Jul-24 05:37:48	2	*301.62	297.92
10 22-Oct-24 17:06:20	2	*291.89	274.18

Date	Rating	Target Price	Closing Price
11 22-Jul-25 12:16:10	2	*292.00	266.00
12 29-Jul-25 07:31:52	*1	292.00	252.10
13 28-Oct-25 12:36:39	1	*345.00	299.70

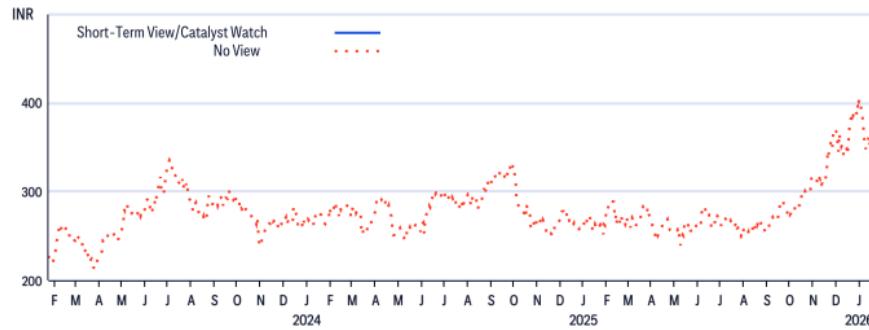
*Indicates Change

Rating/target price changes above reflect Eastern Time

Mahindra And Mahindra Financial Services (MMFS.BO)

Short-Term View/Catalyst Watch Research

Analyst: Kunal Shah



*Indicates Change

Rating/target price changes above reflect Eastern Time

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