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Weak monsoon could rain on Mahindra Fin's parade this year

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Mahindra & Mahindra Financial Services Ltd's (Mahindra Finance) shares hit a new 52-week high of ₹278 on the NSE on Tuesday. The non-bank lender showed impressive performance in the March quarter (Q4FY23) with a healthy 14% year-on-year (y-o-y) rise in standalone net profit to ₹684 crore, beating consensus estimates, mainly aided by lower provisions.

What's more, asset quality continued to improve. In Q4, gross stage-3 and net stage-3 assets fell to multi-quarter lows of 4.5% and 1.9%, respectively. Stage-3 assets are loans that are overdue for more than 90 days. Under its Vision 2025 plan, the management aims to maintain gross stage-3 assets at less than 6%. For that, the company's focus is tilting towards affluent customers in rural and semi-urban markets.

In Q4, assets under management (AUM) grew by 27% y-o-y led by continued momentum in disbursements across the product portfolio. The management has maintained its target of doubling AUM by FY25.

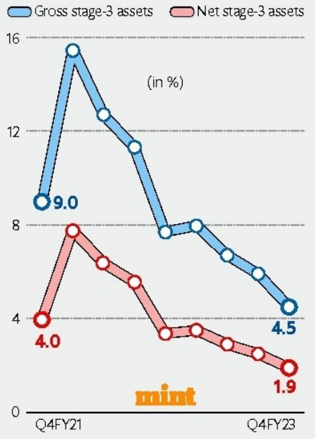
Investors have noted the company's ongoing efforts to propel growth and maintain asset quality. In the last one year, the stock has risen by 46%. "Mahindra Finance stock price has been rewarded with the management's reinvigorated focus on key profitability and asset quality parameters and incremental returns will be driven by predictability of earnings and continued delivery of its stated objectives," said analysts at JM Financial Institutional Securities. Using the sum-of-the-parts method, the brokerage has valued Mahindra Finance's standalone entity at 1.6x March 2025 estimated book value, implying a value of ₹310 per share. Currently, the stock is trading at ₹266 apiece. In the near-term, there is a risk. Since Mahindra Finance would target rural and semi-urban customers, the progress of monsoon is crucial given that there is a possibility of 2023 being an El Niño year. Against this backdrop, potential headwinds from a weaker monsoon impacting agricultural output and lower rural incomes could hamper the company's disbursements and AUM growth.

The co is working towards changing its customer mix with focus tilting towards rural and semi-urban customers

"Key risk to business performance/valuation would be a significant impact of El Niño on the monsoon, as historically the company's growth and asset quality has been choppy in years when rainfall has been significantly deficient," Yes Securities said in a report. That apart, with rising cost of funds, the trajectory in net interest margin (NIM) is crucial. In Q4, NIM was largely stable at 7.4%. The management foresees NIM compression mainly due to changes in the product mix. However, the decline in operational costs and credit cost in lower-yielding products could help in offsetting NIM pressure.

In repair mode

Mahindra Finance's asset quality parameters have seen consistent improvement in recent quarters.



Source: Company data

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