

Manappuram Finance

15 November, 2022

Reuters: MNFL.BO; Bloomberg: MGFL IN

Incremental trends on non-gold segments positive

Manappuram Finance (Manappuram) witnessed traction in non-gold loan segments and registered healthy growth across with vehicle finance, home loans, MFI and MSME segments increasing at 49% / 26% / 7% / 167% YoY respectively. Moreover, gold loan growth continues to remain under pressure and increased by 2.5% YoY while customer acquisition and gold holdings registered sequential decline. We believe, the competitive pressure from other market players is likely to persist going forward. Moreover, the management indicated that the endeavor is to increase the standalone AUM at 20% CAGR with RoE of 20% going forward. Asirvad (MFI) reported a PAT of Rs 566mn vs net loss of Rs80mn on back of margin improvement and lower provisioning. Net yields on gold loans also improved as teaser rate portfolio declined supporting margins and is expected to stabilize at 20-21%. In Asirvad, the management has guided that the credit cost is likely to be lower and normalize to pre-covid levels on the back of improving collections and stabilizing asset quality. Overall, asset quality in gold loan and MFI segments deteriorated on sequential basis while housing finance, vehicle finance and MSME segments reported improvement in asset quality. The management's growth outlook on gold loans and MFI is positive, backed by favorable demand trends. We have cut our earnings estimates mainly on account of lower growth expectations from the gold loan business. We maintain BUY with a target price (TP) of Rs154, valuing it at 1.2x 1HFY25E consolidated ABVPS.

Run-down of teaser loan rates leading to improvement in Gold loan yield: NII on a standalone basis was largely in-line with our expectations and increased by 6.5%YoY, 16.5% QoQ to Rs 8,715mn. Overall improvement in NIM in gold loans was led by the rollback of teaser rate loans. Currently no incremental loans are below 12% rate. NIM (calc.) improved by 219bps QoQ to 15.2% while spreads on sequential basis increased to 14% vs 11.3% in 1QFY23 but down 170bps YoY. With the run-down of teaser rate portfolio and increase in yields at a higher pace, the management is confident of maintaining yields at current level of around 21%. In 2QFY23, opex remained elevated as to retain employees, the company paid higher salaries and also added manpower to expand non-gold loan segment. Moreover, the management expects opex to remain at current levels and overall cost rationalization is to be driven by higher revenue. Overall, standalone PAT was largely flat on YoY basis while increased by 20% QoQ to Rs 3,488mn.

Non-gold AUM witnessing healthy traction: Total AUM increased by 7.9% YoY while was largely flat on sequential basis to Rs 307bn. Total gold loan AUM increased by 2.5% YoY while declined by 6.3% QoQ to Rs 191bn. The gold holding (tonnage) declined to 62.7 tonnes vs 64.7 tonnes in 2QFY22, 66.9 tonnes in 1QFY23. Total gold customer base declined by 4.3% YoY, 1.6% QoQ to 2.4mn further impacting gold loan AUM growth. On account of stiff competition from other market participants, we believe it would be challenging for the company to acquire new customers at higher rate. The average gold loan ticket size was up 13.7% YoY but declined 3.4% QoQ to Rs54,700. Asirvad microfinance registered healthy growth at 7% YoY and 9.2% QoQ to Rs 76bn. Housing loans reported growth of 26% YoY, 6% QoQ to Rs 9.2bn. Vehicle finance AUM grew by 49% YoY, 7% QoQ to Rs 18.8bn. MSME AUM grew ~167% YoY and 18.6% QoQ to Rs 12.5bn. The management endeavors to grow standalone book at 20% CAGR with ROE of 20%.

Y/E Mar (Rsmn)	Q2FY23	Q2FY22	Q1FY23	YoY (%)	QoQ (%)
Interest Income	12,380	11,582	10,991	6.9	12.6
Interest Expenses	3,666	3,396	3,510	7.9	4.4
Net Interest Income	8,715	8,186	7,481	6.5	16.5
Calculated NIM (%)	15.2	17.0	13.0	-180 bps	219 bps
Non-interest income	143	122	113	17.5	26.4
Total Income	8,858	8,308	7,595	6.6	16.6
Staff Cost	2,438	2,110	2,241	15.6	8.8
Other Op Exp	1,468	1,351	1,370	8.6	7.1
Total Operating Expenses	3,906	3,461	3,611	12.8	8.2
Cost to Income (%)	44.1	41.7	47.5	243 bps	-345 bps
Pre-Provisioning Operating Profit	4,952	4,846	3,984	2.2	24.3
Provisions	221	104	88	113.1	150.2
Credit Cost (%)	0.4	0.2	0.2	17 bps	23 bps
PBT	4,731	4,743	3,896	-0.2	21.4
Tax expense	1,243	1,193	994	4.3	25.0
-effective tax rate	26.3	25.1	25.5	114 bps	76 bps
PAT	3,488	3,550	2,901	-1.8	20.2
Gold loan AUM (Rs bn)	191.9	187.2	204.7	2.5	-6.3

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: NBFC

CMP: Rs117

Target Price: Rs154

Upside: 32%

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Key Data

Current Shares O/S (mn)	846.4
Mkt Cap (Rsbn/US\$bn)	98.7/1.2
52 Wk H / L (Rs)	210/82
Daily Vol. (3M NSE Avg.)	6,448,425

Price Performance (%)

	1 M	6 M	1 Yr
Manappuram Finance	15.1	17.8	(40.8)
Nifty Index	6.7	16.1	1.2

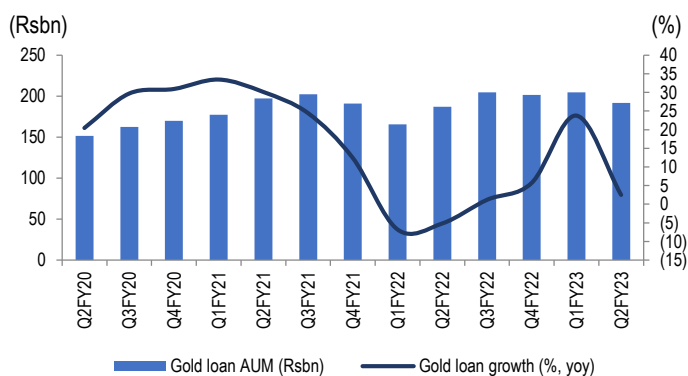
Source: Bloomberg

Asset quality in gold finance and MFI segments witnessed pressure: On a standalone basis GNPA / NNPA in gold loan segment deteriorated to 2.0%/1.8% vs 1.4%/1.3% QoQ. Asirvad MFI GNPA inched up at 8.8% vs 7.7% however NNPA was down to 1.7% being adequately covered while the collection efficiency trend continues to be healthy and increased by 100bps to 103%. Vehicle finance and Housing segment witnessed improvement in GNPA to 3.6%/5.5% vs 4%/5.9% in 1QFY23. MSME segment asset quality was healthy with GNPA at 1.4% having collection efficiency of 107%.

MFI growth on revival path: MFI segment has been showcasing signs of improvement driven by growth and margin improvement. MFI AUM registered growth of 7% YoY and 9.2% QoQ to Rs 76.6bn. Management indicated that the company is witnessing a revival in demand of microloans from tier 2 and 3 cities. Asirvad MFI reported PAT of 566mn vs loss of Rs 83mn in 2QFY22 driven by AUM growth, margin expansion and lower provisions. Calculated NIM increased to 14.1% vs 11.5% YoY, while credit cost declined to 0.8% vs 1.5% YoY supporting profitability.

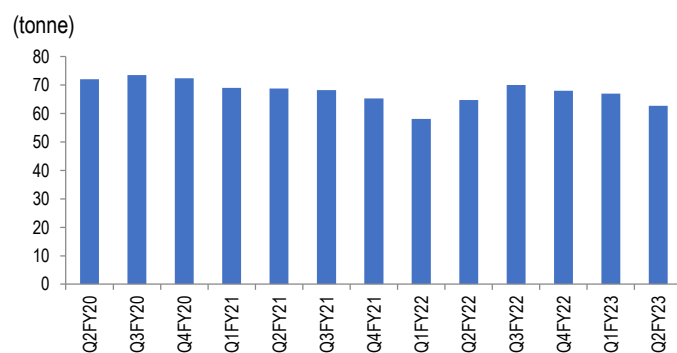
Cost of funds stable: Consolidated cost of funds (CoF) was largely stable at 8.1% in 2QFY23, however, declined by 40bps on YoY basis. On a standalone basis, the CoF (calc.) stood at 7.6% in 2QFY23 vs 7.8% in 1QFY23. Moreover, the company is currently carrying excess liquidity to the tune of Rs 20bn in form of FD towards the ECBs which are due for redemption in January which may have impacted margin. We believe, the normalization in gold loans yields is expected to maintain the margins at current levels. Also, the change of regulations in the MFI segment has been positive in inching up yields and further support margins.

Exhibit 1: Gold loan AUM (Rsbn) and gold loan AUM growth (YoY, %)



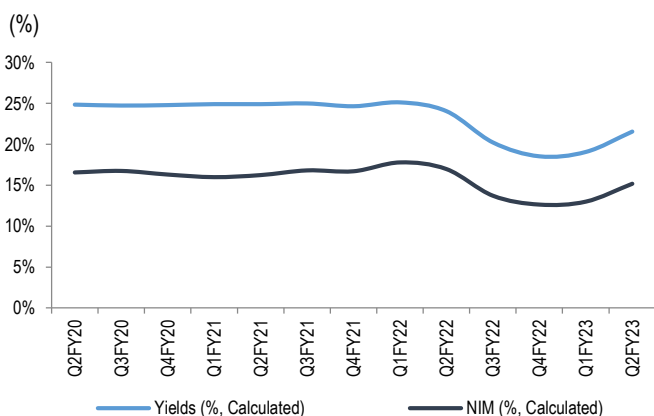
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Gold holdings (tonnage)



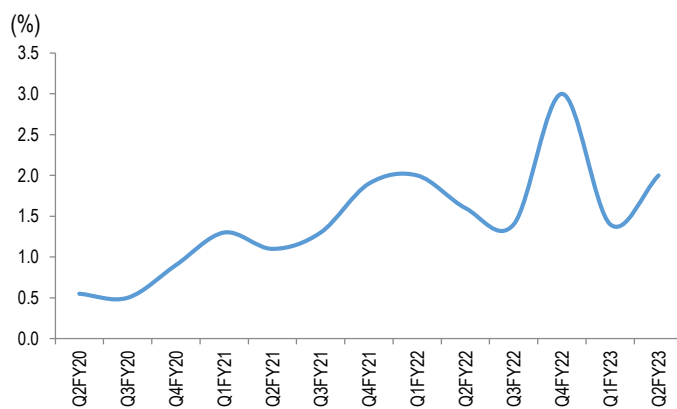
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Key financial metrics (%)



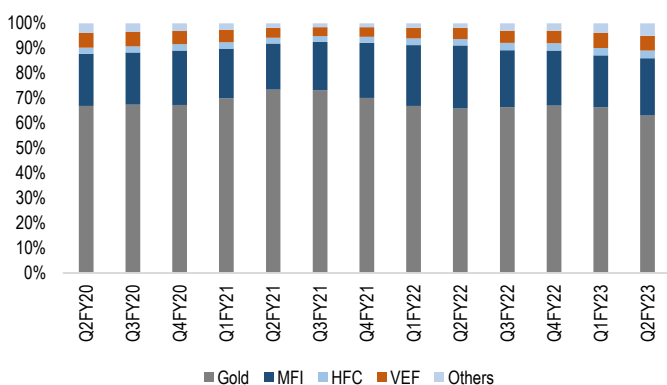
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: GNPA (%)



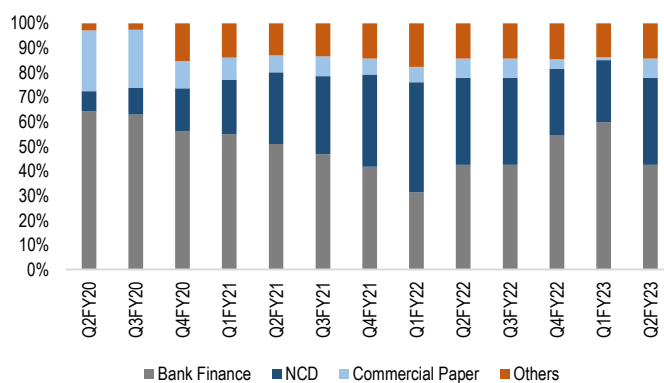
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Advances mix (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Borrowings mix (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Financial summary

Y/E March (Rsbn)	FY21	FY22	FY23E	FY24E	FY25E
NII	39.7	39.3	43.1	51.1	59.0
PPOP	27.3	22.5	25.2	31.3	36.2
PAT	17.1	13.2	14.5	20.7	24.9
Loans	258.5	286.7	318.1	361.6	413.8
RoA (%)	5.8	4.1	4.2	5.3	5.5
RoE (%)	27.1	17.3	16.7	20.6	20.8
P/ABV	1.4	1.3	1.1	0.9	0.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Actual performance versus our estimates

(Rsmn)	Q2FY23	Q2FY22	Q1FY23	YoY (%)	QoQ (%)	Q2FY23E	Devi. (%)
Net interest income	8,715	8,186	7,481	6.5	16.5	8,774	(0.7)
Pre-provisioning operating profit	4,952	4,846	3,984	2.2	24.3	5,019	(1.3)
PAT	3,488	3,550	2,901	(1.8)	20.2	3,536	(1.4)

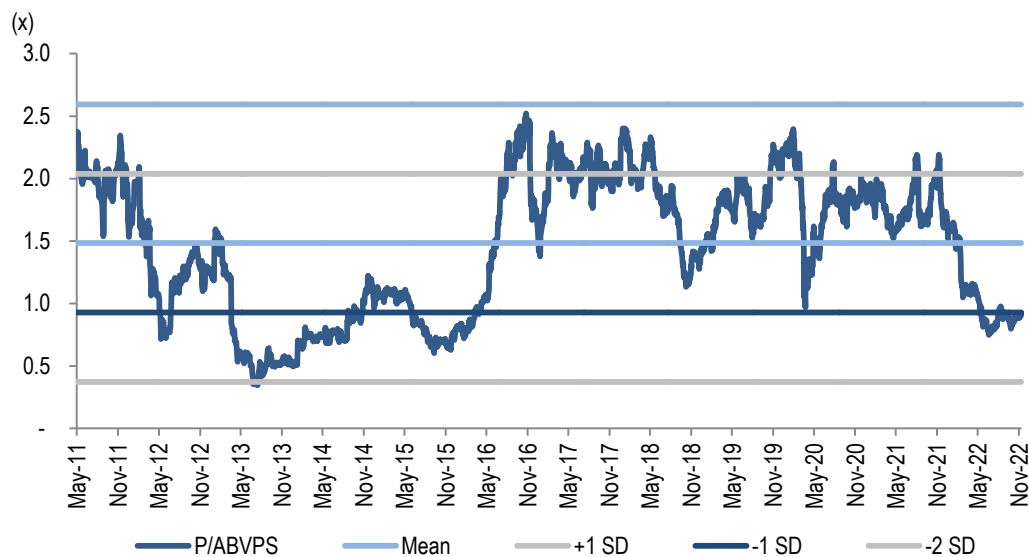
Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 9: Change in our estimates

	Revised Estimate			Earlier Estimate			% Revision		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Interest Income (Rs mn)	43,059	51,138	58,989	44,428	53,905	61,865	-3.1	-5.1	-4.6
Operating Profit (Rs mn)	25,238	31,331	36,171	26,358	32,858	37,755	-4.2	-4.6	-4.2
Profit after tax (Rs mn)	14,532	20,690	24,891	15,320	22,161	26,276	-5.1	-6.6	-5.3
Loan Book (Rs bn)	318	362	414	325	368	419	-2.2	-1.9	-1.2
RoE (%)	16.7	20.6	20.8	17.6	21.8	21.6	-86 bps	-125 bps	-82 bps
ABVPS (Rs)	106.1	126.3	151.4	107.6	128.6	154.2	-1.4	-1.8	-1.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 11: Income statement

Y/E March (Rs Mn)	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	60,954	58,952	65,694	77,665	88,589
Interest Expense	21,300	19,632	22,634	26,527	29,600
Net Interest Income	39,654	39,320	43,059	51,138	58,989
Non-Interest Income	1,551	917	2,057	2,350	2,600
Net Revenue	41,206	40,237	45,116	53,488	61,589
Operating expenses	13,906	17,774	19,878	22,156	25,418
Operating profit	27,300	22,463	25,238	31,331	36,171
Provisions	4,297	4,778	5,553	3,424	2,581
PBT	23,002	17,685	19,685	27,907	33,590
Tax	5,854	4,504	5,153	7,217	8,699
PAT	17,148	13,180	14,532	20,690	24,891

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Balance sheet

Y/E March (Rs Mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	1,693	1,693	1,690	1,690	1,690
Reserves & surplus	69,339	79,917	90,429	107,492	128,099
Shareholders' funds	71,031	81,609	92,119	109,182	129,789
Borrowings	222,675	234,848	283,154	313,329	347,009
Other liability & provisions	12,549	15,878	-9,076	-1,706	2,503
Total liabilities	306,256	332,335	366,197	420,804	479,301
Loans	258,545	286,715	318,053	361,637	413,844
Investments	3,462	3,615	3,615	3,615	3,615
Cash & Bank Balance	29,014	27,035	27,838	36,926	41,133
Fixed & other assets	15,234	14,970	16,691	18,626	20,709
Total assets	306,256	332,335	366,197	420,804	479,301

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

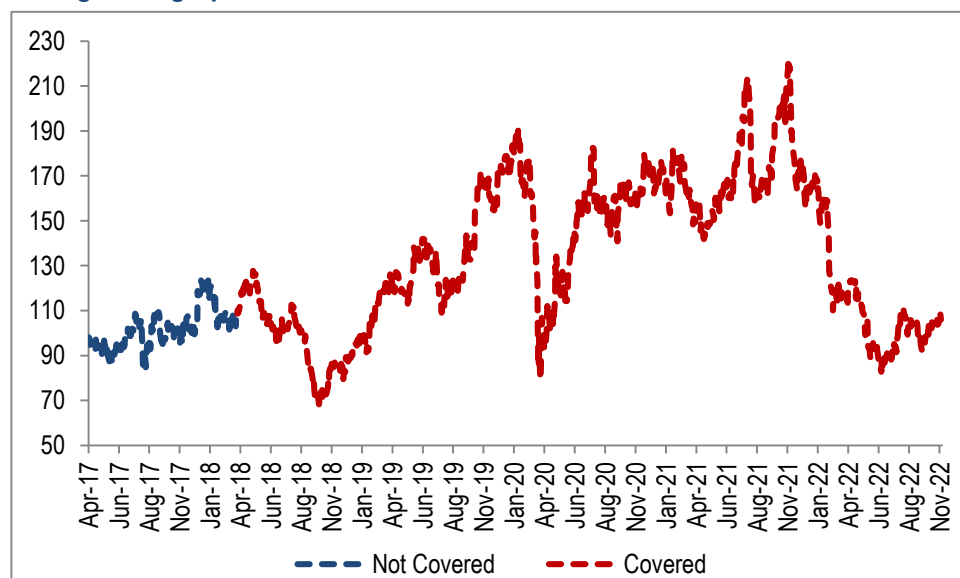
Y/E March - Ratios	FY21	FY22	FY23E	FY24E	FY25E
Growth (%)					
Net interest income	17.6	-0.8	9.5	18.8	15.4
Operating profit	22.8	-17.7	12.4	24.1	15.4
Profit after tax	17.0	-23.1	10.3	42.4	20.3
Gold loans	12.4	5.7	2.3	9.1	10.3
MFI loans	8.8	17.0	30.0	20.0	20.0
Consol loans	11.5	10.9	10.9	13.7	14.4
Spreads (%)					
Yield (gold loans)	26.2	21.2	20.9	21.7	21.5
Yield (MFI)	16.2	20.5	21.0	24.0	24.0
Cost of funds (consol)	9.6	8.6	8.7	8.9	9.0
Spread (gold loans)	16.7	13.4	12.9	13.4	13.2
NIM (standalone)	17.4	14.4	14.1	13.8	13.7
NIM (consol)	16.2	14.4	14.2	15.0	15.2
Operational efficiency (%)					
Cost-to-income	33.7	44.2	44.1	41.4	41.3
Cost to avg assets	4.7	5.6	5.7	5.6	5.6
CAR (standalone) (%)					
Tier I	28.7	30.7	31.2	31.4	0.0
Tier II	0.3	0.3	0.3	0.3	0.0
Total	29.0	31.0	31.5	31.7	0.0
Asset quality (%)					
GNPA (gold loans) (%)	1.7	2.0	1.5	1.5	1.5
GNPA (MFI) (%)	1.5	3.5	7.0	6.0	5.5
NNPA (gold loans) (%)	1.6	2.3	1.4	1.4	1.4
NNPA (MFI) (%)	0.0	0.0	1.1	0.6	0.3
Credit costs (consol) (%)	1.8	1.8	1.8	1.0	0.7
Profitability (%)					
ROE	27.1	17.3	16.7	20.6	20.8
ROA	5.8	4.1	4.2	5.3	5.5
Per share (Rs)					
EPS	20	16	17	25	30
BVPS	86	99	112	132	157
ABVPS	82	92	106	126	151
Valuation (x)					
P/E	5.7	7.4	6.7	4.7	3.9
P/BV	1.4	1.2	1.0	0.9	0.7
P/ABV	1.4	1.3	1.1	0.9	0.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	106	128
9 February 2018	Buy	114	133
10 August 2018	Buy	113	142
9 October 2018	Buy	68	103
9 November 2018	Buy	83	112
7 February 2019	Buy	97	127
8 April 2019	Buy	121	141
15 April 2019	Buy	127	154
16 May 2019	Buy	121	157
8 July 2019	Buy	136	170
14 August 2019	Buy	116	153
23 September 2019	Buy	127	174
7 October 2019	Buy	133	173
7 November 2019	Buy	168	193
8 January 2020	Buy	176	207
29 January 2020	Buy	189	218
27 March 2020	Buy	108	149
2 April 2020	Buy	92	149
9 April 2020	Buy	108	149
15 May 2020	Buy	123	142
9 July 2020	Buy	157	187
30 July 2020	Buy	179	209
23 September 2020	Buy	148	210
7 October 2020	Buy	168	208
9 November 2020	Buy	162	210
26 November 2020	Buy	167	210
08 January 2021	Buy	177	235
30 January 2021	Buy	156	235
21 February 2021	Buy	173	235
26 May 2021	Buy	160	233
10 August 2021	Buy	187	226
15 November 2021	Buy	198	240
26 November 2021	Buy	170	240
15 February 2022	Buy	142	184
13 May 2022	Buy	105	166
05 August 2022	Buy	102	164
19 September 2022	Buy	99	183
15 November 2022	Buy	117	154

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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