

Stock Update Manappuram Finance Ltd.

Nov 28, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI - NBFC	Rs 148	Buy in Rs 146-150 band & add on dips in Rs 131-135 band	Rs 168	Rs 184	2-3 quarters

HDFC Scrip Code	MAGFIN
BSE Code	531213
NSE Code	MANAPPURAM
Bloomberg	MGFL IN
CMP Nov 24, 2023	148.2
Equity Capital (Rs cr)	169.3
Face Value (Rs)	2
Equity Share O/S (cr)	84.6
Market Cap (Rs cr)	12510
Book Value (Rs)	124.9
Avg. 52 Wk Volumes	1,16,37,000
52 Week High (Rs)	162.3
52 Week Low (Rs)	101.2

Share Holding Pattern % (Sep, 2023)	
Promoters	35.2
Institutions	39.3
Non Institutions	25.5
Total	100.0



**HDFCsec Retail research
stock rating meter**

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Manappuram Finance (MFL) has prioritized profitability over loan book growth and maintaining pricing discipline of 22%+ yields in the gold loan business. Disbursement have improved across segments resulting in strong AUM growth. The gold loan book is fully secured (gold being a fairly liquid asset) with LTV of 66% as on Q2FY24.

The non-gold loan book which accounts for ~47% of the AUM has seen significant improvement in asset quality over the past 3-4 quarters. We expect credit costs to remain stable as incremental stress formation is likely to remain low. With stable yields and cost of funds, the recent AUM growth should drive higher profitability in the coming quarters.

MFL has sufficient liquidity, it is well capitalized (~30% Tier 1 ratio), with strong ALM and access to diversified sources of funds. The management has guided for 8-10% gold loan AUM growth and overall 20% growth in consolidated AUM.

We had issued Stock Update report ([Link](#)) on Manappuram Finance on Nov 1, 2022, and recommended to Buy in Rs 111-114 band & add on dips in Rs 100-103 band for base case target of Rs 126 and bull case target of Rs 132 over 2-3 quarters. The targets were achieved within the given timeframe.

Valuation & Recommendation:

Despite the slowdown and high inflation, demand for gold loans is picking up steadily and the industry is poised to grow over the long run. There is enough unsatisfied demand for gold loans in India which will ensure that all players can co-exist without major erosion of profitability. We expect the consolidated loan book of the company to grow at a CAGR of ~16% over FY23-FY26. Adj. PAT is expected to grow at ~24% CAGR as provisioning requirement could moderate going forward. We believe MFL is available at an attractive valuation (compared to a lot of other NBFCs/Banks having major gold loans AUM) as it has demonstrated its ability to grow in a profitable manner and can be re-rating candidate. We feel investors can buy the stock in Rs 146-150 band and add on dips in Rs 131-135 band (0.8x Sep'25E ABV) for base case fair value of Rs 168 (1x Sep'25E ABV) and bull case fair value of Rs 184 (1.1x Sep'25E ABV) over next 2-3 quarters.



Financial Summary

Particulars (Rs cr)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	1354	1079	25.5	1288	5.2	4253	5322	6135	7150
PPoP	866	642	35.0	802	8.0	2348	3204	3721	4456
PAT	561	418	34.0	498	12.6	1500	2013	2367	2888
EPS (Rs)	6.6	4.9	33.9	5.9	12.6	17.7	23.8	27.9	34.1
P/E (x)						8.4	6.2	5.3	4.3
P/ABV (x)						1.4	1.1	1.0	0.8
RoAA (%)						4.1	4.7	4.8	5.1

(Source: Company, HDFC sec)

Q2FY24 result update

MFL reported strong set of numbers for Q2FY24 with consolidated PAT at Rs 561cr (+34/13% YoY/QoQ) aided by higher other income and better than expected NII which came in at Rs 1354cr up 26%/5% YoY/QoQ. Gold loan yields in Q2FY24 improved by 50bp to ~22.1% (vs. 21.6% in Q1FY24). Average gold loan ticket size increased to Rs 57,600 as compared to Rs 54,700 in Q2FY24. Gold holding declined by ~5% to 59.4 tonnes. LTV increased 200bps sequentially to 66%. Asset quality for standalone business deteriorated as the company provided more time to borrowers to repay their loans. GNPA/NNPA increased to 1.6%/1.4% from 1.4%/1.2% in Q1FY24. Auctions in the quarter were to the tune of Rs 15cr.

The non-gold portfolio increased 58% to Rs 18,142cr. Non-gold AUM accounts for 47% of the book. The growth was largely driven by the microfinance book which increased 42% YoY to Rs 10,089cr. GNPA/NNPA increased by 10bps to 3.0%/1.4%. Home/CV book saw sharp improvement in GNPA to 1.8%/2.5% against 2.8%/2.9% in Q1FY24.

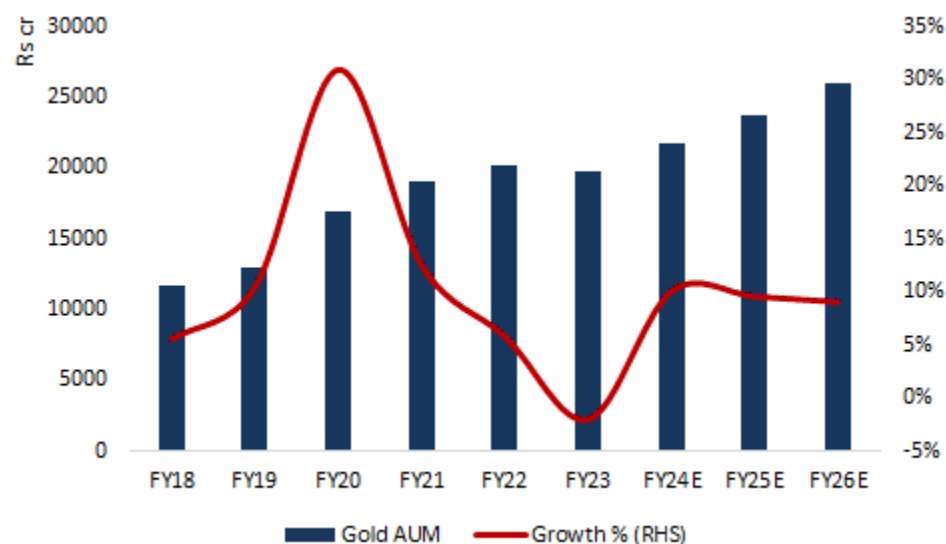


Key Triggers

Gold loan demand returning

Gold loans AUM witnessed strong uptick in Q2FY24 after de-growth in H2FY23 with small businesses and individuals monetising their holdings to raise funds amid a general credit crunch. MFL reported an AUM growth of 8.4% YoY to Rs 20,809cr in Q2FY24. The management has guided for loan growth of 8-10% while maintaining pricing discipline. LTV has remained steady at 66%. The Gold Loan business constitutes 53% of the consolidated AUM

Gold Loans growth



(Source: Company, HDFC sec)

Pricing discipline to drive NIM expansion

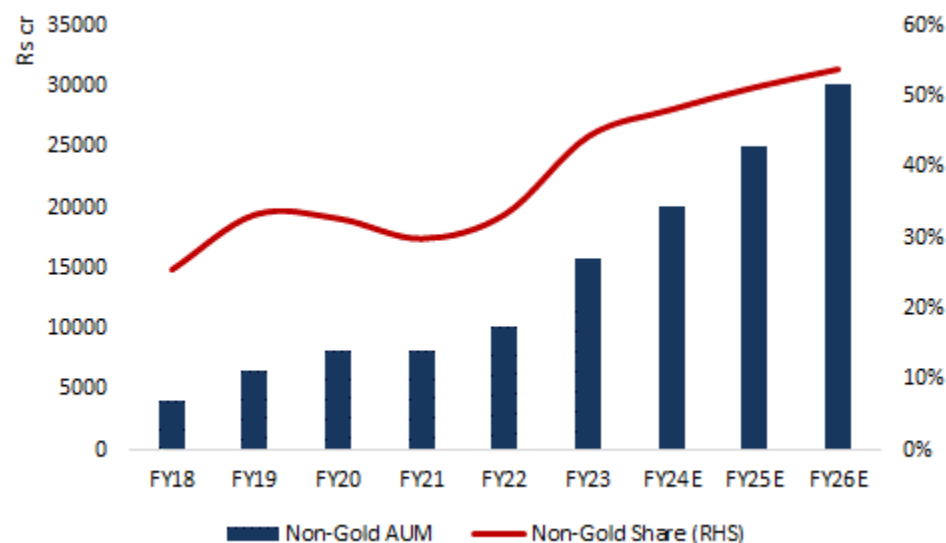
The management is looking for growth in a profitable manner and is maintaining pricing discipline of 22%+ yields. The competition from banks have also reduced with credit growth in other industries. The management does not expect any significant increase in cost of funds going forward.



Non-gold loans to grow at a faster rate

The non-gold loan portfolio has witnessed a strong growth over the last few quarters increasing its share to 47%, in line with the company's guidance of having a 50-50 portfolio. The non-gold portfolio was driven largely by microfinance segment (+42% YoY AUM growth) which crossed the Rs 10,000cr mark and accounts for 26% of the consolidated AUM. The vehicle finance AUM increased 67% YoY to Rs 3,143cr while home loans increased 42% YoY to Rs 1,305cr.

Non-Gold Loans growth



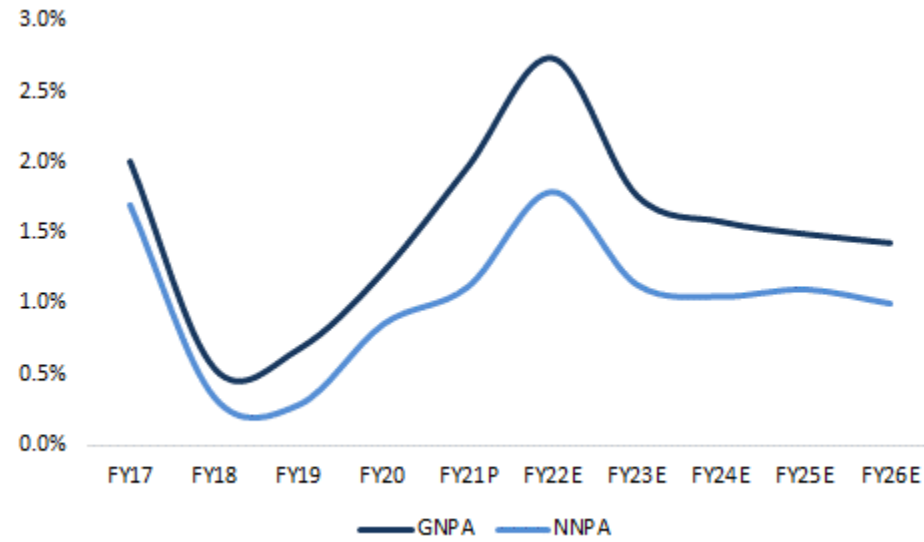
(Source: Company, HDFC sec)

Credit costs to remain at current levels

Standalone asset quality of the company weakened sequentially as it offered more time to customers to repay their loans. GNPA/NNPA increased by ~20 bps QoQ to 1.6%/1.4%, respectively. MFI business also witnessed a 10bps increase to 3.0%/1.4%, respectively. MSME and PL saw GNPA's inching up from 1.8% to 1.9%. Housing Finance and Vehicle Finance business witnessed an improvement in the GNPA's from 2.8%/2.9% to 1.8%/2.5%, respectively. Credit costs during the quarter stood higher at 1.3% as the company increased standard asset provisioning for Asirvad business and also incurred some provisioning related to ARC. Credit costs are expected to remain at current levels for FY24.



Asset quality trend



(Source: Company, HDFC sec)

Risks & Concerns

- Fluctuation in gold prices – A fall in these could lead to higher LTV and lower margin of safety.
- Regulatory changes by Centre/State governments/RBI.
- Increase in delinquency in non-gold business leading to higher NPA – MFI, Housing Finance and Vehicle finance typically have higher slippages in difficult economic conditions.
- Emerging competition from other NBFCs and Banks who are entering Gold loan space – Gold loans seems to be the safest and most profitable businesses to most lenders and hence more and more of them keep entering it from time to time.

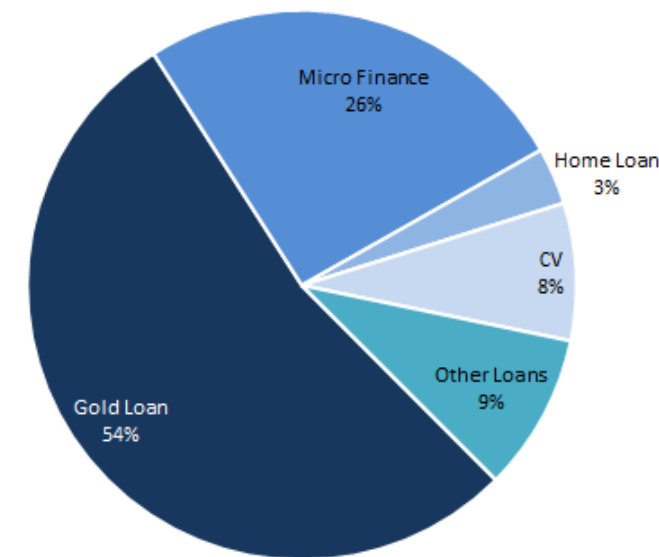
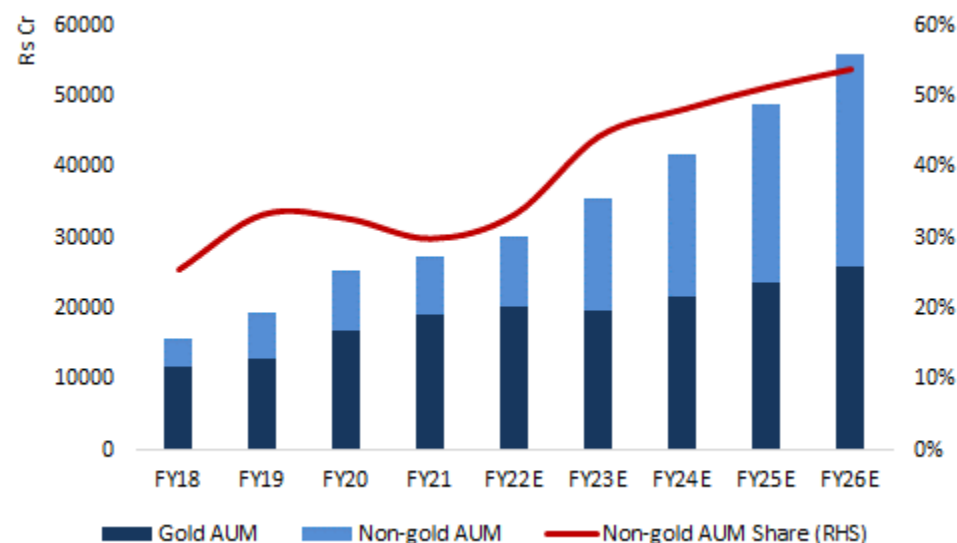
Company Background:

Promoted by Shri. V.P. Nandakumar, Manappuram Finance Ltd (MFL) was incorporated in 1992 and today is the second largest gold loan company in India. The Manappuram Group was started in 1949 by Late Mr. V. C. Padmanabhan, with focus primarily on money lending activities. To reduce its concentration risk in gold loans, MFL since FY16, has diversified into new business areas like microfinance, vehicle and housing finance, and SME lending. In February 2015, the company acquired Asirvad Microfinance Pvt. Ltd., which is one of the lowest cost microfinance lenders in India.



MFL is the second largest Gold loan company in organized gold loan market. Organised Gold loan market is 35% of the total gold loan market. There is a scope for shift of the market gradually from unorganised to organised going forward. Rise in gold prices allows higher lending on the same quantity of gold keeping the LTV intact.

AUM growth and breakup

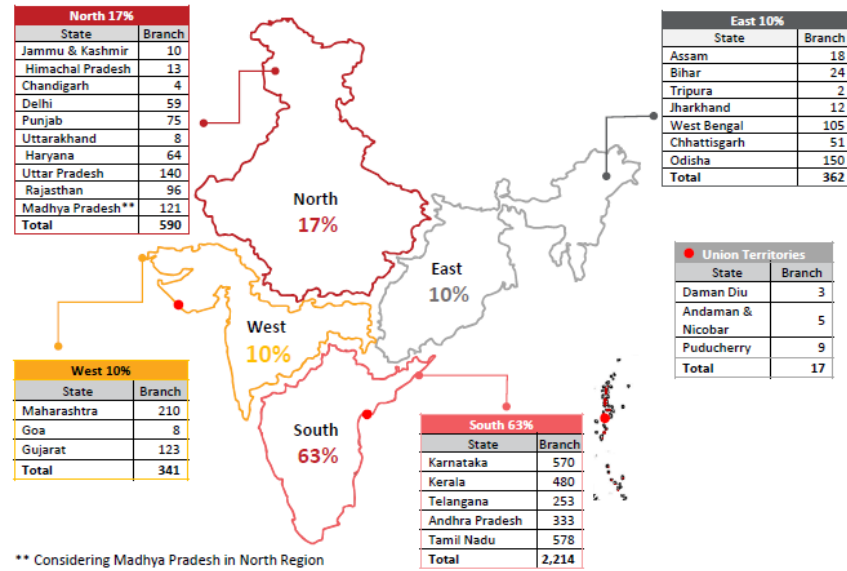


(Source: Company, HDFC sec)

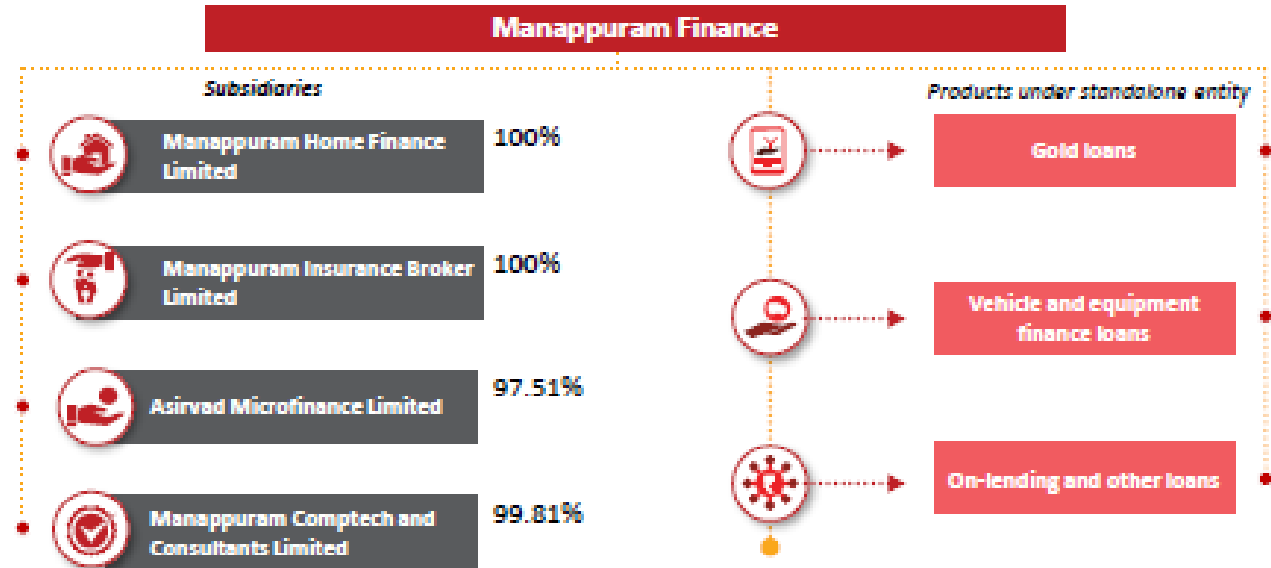
Besides microfinance, the company has also diversified into commercial vehicle loans, housing finance and SME loans with promising results. Put together, MFL had an AUM of Rs 17,222cr of non-gold loans. Overall, non-gold businesses contributed 47% of the total business as of Q2FY24.

As on Sep'23, MFL had 4,044 gold loan branches spread across India, with assets under management (AUM) of Rs 38,951cr. MFL has put in place adequate risk management systems. The branch employees have been trained to appraise gold jewellery provided as security against loans by prospective borrowers. The company has implemented systems for ensuring gold security and reducing custodial risks, including highly secured vaults with dual control and insurance of gold. All the branches are monitored by surveillance cameras. The core gold loan application software, which was developed in-house by the MAFIL team, is used by the branches and is linked to the financial software.

Pan India presence & Distribution network (Gold loan branches- Q2FY24)



Group Structure



(Source: Company)

Peer comparison

	CMP (Rs)	Mcap (Rs cr)	Total AUM (Rs cr)	P/E (x)			P/BV (x)			RoE (%)			RoA (%)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Manappuram	148.2	12540	38951	6.2	5.3	4.3	1.1	0.9	0.8	19.1	19.0	19.6	4.7	4.8	5.1
Muthoot	1323.5	53133	79493	12.8	10.9	9.8	2.2	1.9	1.7	17.8	18.3	17.9	5.1	5.2	5.3



Financials

Income Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	5840	6440	7994	9263	10664
Interest Expenses	2011	2188	2672	3128	3514
Net Interest Income	3828	4253	5322	6135	7150
Non interest income	221	244	376	391	438
Operating Income	4050	4496	5698	6527	7588
Operating Expenses	1845	2214	2562	2877	3206
PPoP	2204	2282	3136	3650	4381
Prov & Cont	486	307	483	522	553
Profit Before Tax	1718	1975	2653	3128	3828
Tax	455	541	707	832	1015
PAT	1263	1434	1945	2296	2813
Adj. PAT	1328	1496	2008	2362	2881

Balance Sheet

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	169	169	169	169	169
Reserves & Surplus	8199	9476	11206	13256	15785
Shareholder funds	8368	9645	11375	13426	15955
Minority Interest	16	20	25	31	38
Borrowings	24119	28483	32941	38147	43578
Other Liab & Prov.	1308	1356	1340	1388	1091
SOURCES OF FUNDS	33811	39504	45682	52991	60662
Fixed Assets	1029	1075	1055	1071	1070
Goodwill on Cons.	36	36	36	36	36
Investment	421	534	603	725	861
Cash & Bank Balance	2697	3035	3013	3370	3766
Advances	28971	34195	40172	46806	53800
Other Assets	657	630	803	983	1130
TOTAL ASSETS	33811	39504	45682	52991	60662

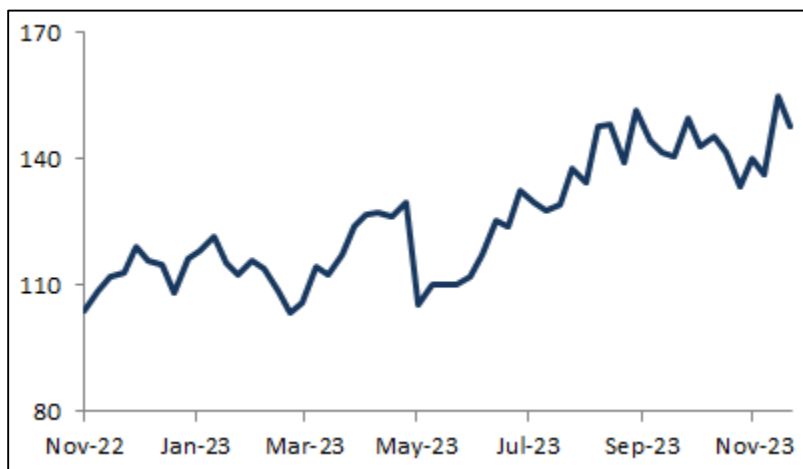
Ratio Analysis

As at March	FY22	FY23	FY24E	FY25E	FY26E
Return Ratios (%)					
Calc. Yield on adv	21.1	20.4	21.5	21.3	21.2
Calc. Cost of borr	8.6	8.3	8.7	8.8	8.6
Calc. NIM	13.8	13.5	14.3	14.1	14.2
RoAE	16.9	16.6	19.1	19.0	19.6
RoAA	4.1	4.1	4.7	4.8	5.1
Asset Quality Ratios (%)					
GNPA	2.7	1.8	1.6	1.5	1.4
NNPA	1.8	1.1	1.1	1.1	1.0
Growth (%)					
Advances	9.3	18.0	17.5	16.5	14.9
Borrowings	6.2	18.1	15.7	15.8	14.2
NII	-3.6	11.1	25.2	15.3	16.5
PPoP	-17.6	3.5	36.5	16.1	19.8
PAT	-23.0	12.9	34.2	17.6	22.0
Per Share (Rs)					
EPS	15.7	17.7	23.8	27.9	34.1
Adj. BVPS	91.8	108.7	129.6	152.8	182.4
Dividend	3.0	3.0	3.4	3.8	4.3
Valuation Ratios					
P/E (x)	9.4	8.4	6.2	5.3	4.3
P/ABV (x)	1.6	1.4	1.1	1.0	0.8
Dividend Yield (%)	2.0	2.0	2.3	2.5	2.9
Other Ratios					
Cost-Income (%)	44.8	48.5	44.4	43.6	41.8
Leverage (x)	3.5	3.5	3.5	3.5	3.4
Opex-AUM	6.1	6.2	6.1	5.9	5.7

(Source: Company, HDFC sec)



Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



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