

Stock Update

Manappuram Finance Ltd.

12-July-2021

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI – NBFC	Rs 177.6	Buy at LTP and add on dips to Rs 157-159 band	Rs 198	Rs 211	2 quarters

HDFC Scrip Code	MAGFIN
BSE Code	531213
NSE Code	MANAPPURAM
Bloomberg	MGFL IN
CMP Jul 9, 2021	177.6
Equity Capital (cr)	169.3
Face Value (Rs)	2
Eq- Share O/S(cr)	84.6
Market Cap (Rs cr)	15031
Adj. Book Value (Rs)	82.5
Avg.52 Wk Volume	71,71,000
52 Week High	187.3
52 Week Low	139.1

Share holding Pattern % (Jun, 2021)	
Promoters	34.99
Institutions	46.84
Non-Institutions	18.17
Total	100.0

Fundamental Research Analyst

Atul Karwa

atul.karwa@hdfcsec.com

Our take

Post the Covid pandemic and the resultant stress especially in its micro finance business, Manappuram Finance (MFL) has been trading cautiously in disbursements. It has prioritised collections over disbursements to maintain its asset quality. Although the gold loan book is fully secured with LTV of 71% (v/s 63% in Q3FY21) and fairly liquid asset, the non-gold loan book which accounts for ~30% of the AUM has been a cause of concern. However, the recent collection efficiency trends indicate that it's a short term phenomena and asset quality would improve once lockdowns are lifted. Further, with the arbitrage available for the banks of 90% LTV is gone, the gold loan AUM is likely to witness strong growth. Monsoon are expected to be normal which should help in reviving the lending activity in H2FY22. MFL has sufficient liquidity, it is well capitalized (29% Tier 1 ratio), with strong ALM and access to diversified sources of funds. It has the 2nd largest branch network and 2nd largest employee force amongst NBFCs in India (comparable to top 4 PSU banks and top 3 private banks in terms of branch network) with strategic customer base of 5mn under-banked customers.

The company had laid out a roadmap for FY25 whereby they have guided - 10-15% AUM growth for Gold loans with 25% cross cycle ROE and a focus on new channels including door-step, DSA and online channels (this is likely to improve segment RoA by 100-150bps);- MFI loans AUM growth of 20% p.a. Standalone RoA of 2% over time for vehicle finance, housing finance and MSME and overall the target is to achieve 20-25% tier-1 ratio.

On October 12, 2020, we had initiated coverage on the stock with a recommendation to 'Buy at LTP and add on dips to Rs 141-143 band' for base case fair value of Rs 183 and bull case fair value of Rs 193 ([Link](#)). The stock had achieved our base target on February 3, 2021. However, cautious approach by the company due to asset quality concerns in subsidiaries led to some correction in the stock.

Valuation and recommendation

We expect the consolidated loan book of the company to grow at a CAGR of ~15% over FY21-FY23. PAT is expected to grow at 21% CAGR as provisioning requirement would moderate going forward. MFL generates return ratios in excess of 20% consistently – much ahead of other category NBFCs. High sustained RoEs (>22%), negligible credit costs, resumption of steady state AUM growth once lockdowns are lifted, possibility of spinoff/listing of Asirvad Finance are some other triggers that are likely to play out over the next few quarters. We feel investors could look at buying the stock at the LTP and add on dips to Rs 157-159 band (1.2x FY23E ABV) for base case fair value of Rs 198 (1.5x FY23E ABV) and bull case fair value of Rs 211 (1.6x FY23E ABV) over 2 quarters.

Financial Summary

Particulars (Rs cr)	Q4FY21	Q4FY20	YoY-%	Q3FY21	QoQ-%	FY20	FY21P	FY22E	FY23E
NII	1051	891	17.9	1035	1.5	3385	3971	4539	5224
PPP	729	657	11.0	737	-1.2	2245	2756	3164	3749
PAT	468	398	17.6	483	-3.1	1480	1725	2061	2513
EPS (Rs)	5.5	4.7	18.4	5.7	-2.9	17.4	20.4	24.4	29.8
P/E (x)						10.2	8.7	7.3	6.0
P/ABV (x)						2.7	2.2	1.7	1.3
RoAA (%)						6.0	5.7	6.2	6.7

(Source: Company, HDFC sec)

Recent triggers

Q4FY21 Financials

Net interest income increased by 17.9% yoy to Rs 1,051cr in Q4FY21 driven by 12.4% yoy growth on gold loans. Micro finance and mortgage AUMs grew by a modest 9% and 6% yoy respectively while vehicle and other loans declined by 22% and 43%. Overall AUM grew by 7.9% yoy to Rs 27,224cr. Over the past year, borrowing cost has moderated by 40bps to 9.1% in Q4FY21. NIMs increased by 80bps yoy and 10bps qoq to 15.3% while calculated spreads contracted by ~30bps sequentially to 13.9%.

Operating expenses were stable resulting in 11% yoy growth in pre provisioning profit to Rs 729cr. Provisioning stood at Rs 107cr as compared to 80cr in Q3 even as the company auctioned ~1 tonne of gold during the quarter. Consolidated PAT increased by 18.6% on lower provisioning requirement.

Asset quality deteriorated with standalone GNPA increasing by 60bps to 1.9% while it rose by 100bps in housing finance to 6%. Vehicle finance witnessed an improvement of 330bps to 5%. MFL holds a provision of ~Rs 200cr in the standalone entity equally split between gold and non-gold loans.

Gold prices have corrected by ~12% in Q4FY21 which led to ~5.6% qoq de-growth in AUM. Given the shorter tenure of 3 months for gold loans, the impact was higher for the company.

Strong collection efficiency in Q4

Collection efficiency (CE) was strong across business segments in the quarter. In the vehicle finance segment, it averaged 108% for the quarter, 101% in microfinance in Mar'21, 103/111% in Feb/Mar'21 for vehicle finance business and 95/101% for home finance. Overall, excluding pre-payment, collection efficiency stood at 100% while it increased to 104% including pre-payment. CE dipped to ~90/93% in vehicle/MFI business Apr'21 mainly on account of lockdowns due to the second wave. However, the management is confident of improvement in CE once lockdowns are lifted.

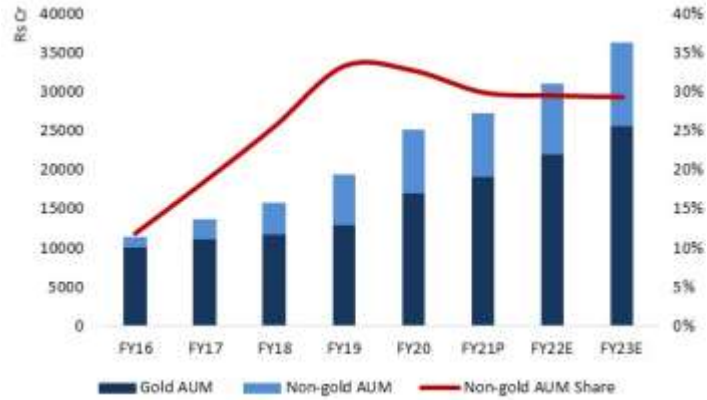
End of gold loan arbitrage to enhance growth

Banks were allowed by RBI to lend at 90% LTV for gold loans while it was still capped at 75% for NBFCs. This has proved beneficial for NBFCs as gold prices have corrected by ~12% from their peak in Aug'20 and banks who had lent at higher prices are facing the prospects of NPAs. Now, with the arbitrage over, gold loan NBFCs are likely to witness better growth prospects.

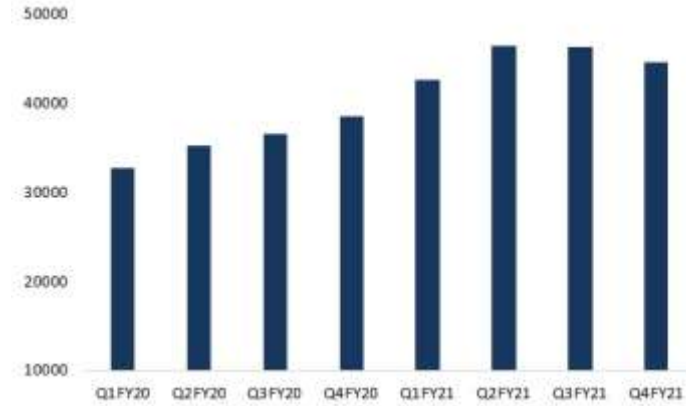
Short term stress expected in micro finance business

The management expects some short-term pain in this segment. Disbursement in the business was Rs 1,767cr and AUM increased by 8.8% sequentially to Rs 5,985cr. Outstanding provision stood at ~Rs 340cr including Covid related provision of Rs 30cr with write-offs amount to Rs 125cr for FY21. The company is looking to increase the proportion of existing to new customers from 55:45 currently to 80:20. States which were laggards in CE during the first wave are doing well. Management expects MFI portfolio to remain between 10-15% of the consolidated book. The company plans to add 4-5 lakh customers in FY22 with average ticket size crossing Rs 60,000 this year.

Share of non-gold AUM expected to stabilize

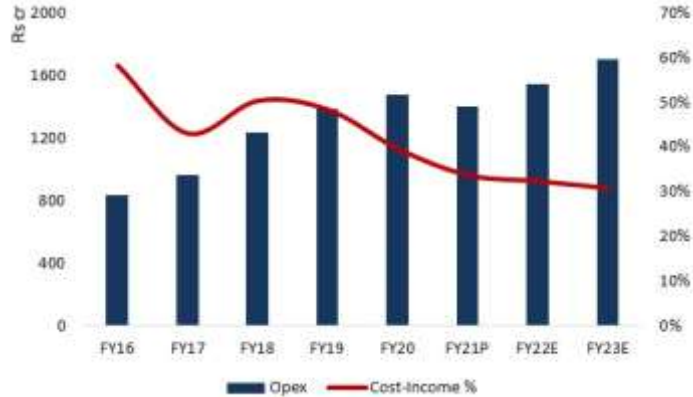


Average ticket size in gold loan

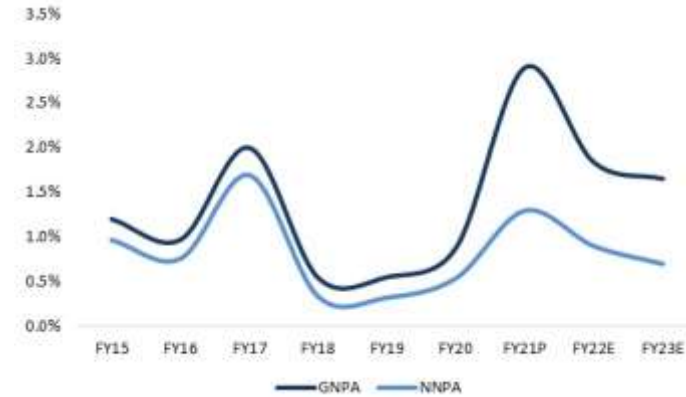


(Source: Company, HDFC sec)

Operating expenses under control



Asset quality to improve



(Source: Company, HDFC sec)

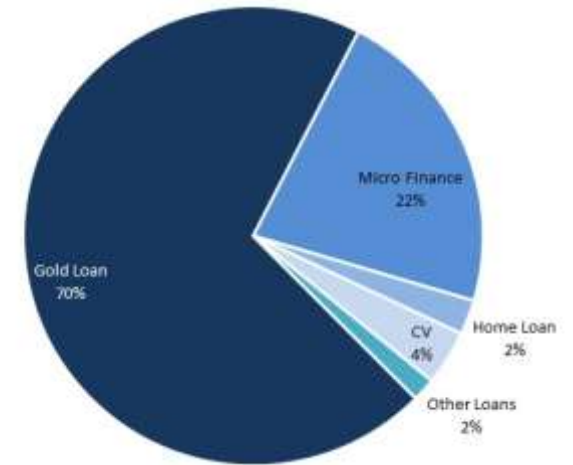
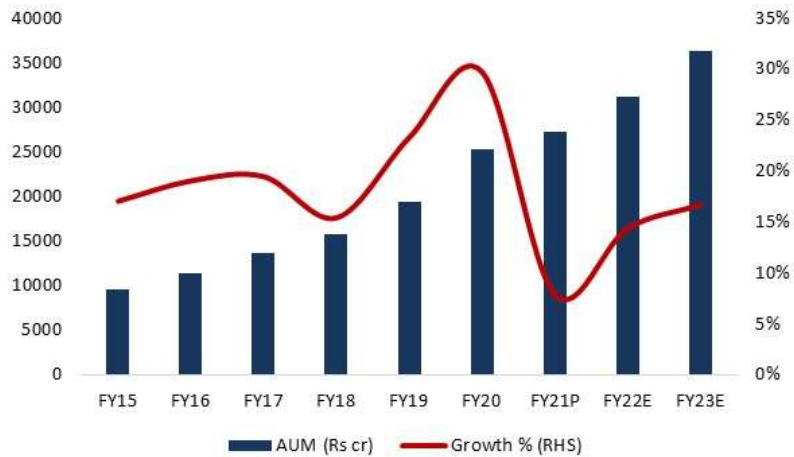
What could go wrong

- Fluctuation in gold prices – A fall in these could lead to higher LTV and lower margin of safety.
- Overdependence on Gold loans – Despite its attempts to bring down dependence on Gold loans, Gold loan AUM is still 70% in March 2021 vs 67% in Mar 2020.
- 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.

About the company

Promoted by Shri. V.P. Nandakumar, Manappuram Finance Ltd (MFL) was incorporated in 1992 and today is the second largest gold loan company (core product) 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 and the 4th largest NBFC-MFI in India. It has branch network of 4,600 branches with employee strength of 30,000+ on consolidated basis. It is safekeeping of 65 MT of household gold jewellery on behalf of 2.6 mn active customers.

AUM growth and breakup

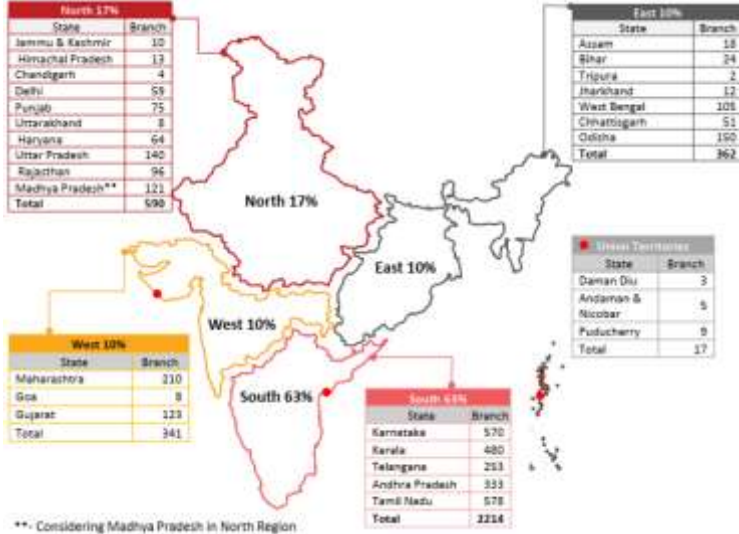


(Source: Company, HDFC sec)

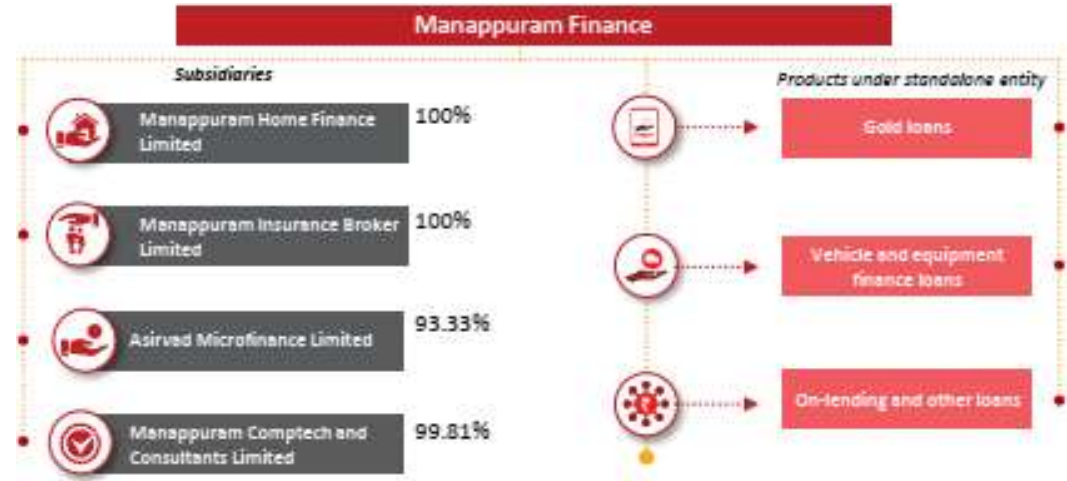
Manappuram Finance Ltd.

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 8,147cr of non-gold loans. Overall, non-gold businesses contributed 30% of the total business as of FY21.

Pan India presence & Distribution network (Q4FY21)



Group Structure



(Source: Company)

Peer Comparison

	CMP (Rs)	Mcap (Rs cr)	Total AUM (Rs cr)	P/E (x)		P/ABV (x)		RoE (%)		RoA (%)	
				FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Manappuram	177.6	15031	27224	7.0	5.8	1.6	1.3	25.6	24.7	6.3	6.8
Muthoot	1534.6	61568	58280	14.1	12.3	3.6	2.9	26.7	24.8	6.9	7.1

Financials (Consolidated)

Income Statement

(Rs cr)	FY19	FY20	FY21P	FY22E	FY23E
Interest Income	4012	5217	6190	6933	7852
Interest Expenses	1319	1832	2219	2394	2627
Net Interest Income	2693	3385	3971	4539	5224
Non interest income	167	334	185	170	229
Operating Income	2859	3719	4156	4710	5453
Operating Expenses	1386	1474	1400	1545	1704
PPoP	1473	2245	2756	3164	3749
Prov & Cont	46	238	440	398	376
Profit Before Tax	1427	2007	2316	2766	3373
Tax	498	527	591	705	860
PAT	929	1480	1725	2061	2513
Adj. PAT	922	1468	1724	2064	2518

Balance Sheet

(Rs cr)	FY19	FY20	FY21P	FY22E	FY23E
Share Capital	169	169	169	169	169
Reserves & Surplus	4356	5577	7138	8996	11272
Shareholder funds	4525	5746	7308	9166	11442
Minority Interest	46	58	47	50	55
Borrowings	15295	20917	22716	25168	27911
Other Liab & Prov.	588	2230	1267	731	281
SOURCES OF FUNDS	20454	28951	31338	35115	39689
Fixed Assets	332	770	870	784	683
Goodwill on consolidation	36	36	36	36	36
Investment	174	90	338	334	351
Cash & Bank Balance	1164	3646	2912	2426	2106
Advances	17812	23189	26508	30323	35108
Other Assets	937	1220	674	1213	1404
TOTAL ASSETS	20454	28951	31338	35115	39689

Ratio Analysis

As at March (Rs cr)	FY19	FY20	FY21P	FY22E	FY23E
Return Ratios (%)					
Calc. Yield on adv	24.3	25.4	24.9	24.4	24.0
Calc. Cost of borr	9.5	10.1	10.2	10.0	9.9
Calc. NIM	16.3	16.5	16.0	16.0	16.0
RoAE	22.1	28.6	26.4	25.1	24.4
RoAA	5.0	6.0	5.7	6.2	6.7
Asset Quality Ratios (%)					
GNPA	0.6	0.9	2.9	1.8	1.7
NNPA	0.3	0.5	1.3	1.0	0.9
Growth Ratios (%)					
Advances	16.8	30.2	14.3	14.4	15.8
Borrowings	21.3	36.8	8.6	10.8	10.9
NII	15.9	25.7	17.3	14.3	15.1
PPP	21.3	52.4	22.8	14.8	18.5
PAT	37.5	59.3	16.5	19.5	21.9
Per Share Data (Rs)					
EPS	10.9	17.4	20.4	24.4	29.8
Adj. BVPS	53.1	66.7	82.5	104.9	131.9
Dividend per share	2.2	2.2	2.0	2.4	2.8
Valuation Ratios (x)					
P/E	16.2	10.2	8.7	7.3	6.0
P/ABV	3.3	2.7	2.2	1.7	1.3
Dividend Yield (%)	1.2	1.2	1.1	1.4	1.6
Other Ratios (%)					
Cost-Income	48.5	39.6	33.7	32.8	31.3
Advances-Networth (x)	3.9	4.0	3.6	3.3	3.1
Opex to AUM	7.1	5.8	5.1	5.0	4.8



Price chart



Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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