Manappuram Finance Ltd

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
BFSI	Rs. 93	Buy at CMP and add on dips	Rs. 82-85	Rs. 105 & Rs. 113	2-3 quarters

HDFC Scrip Code	MANGENEQNR
BSE Code	531213
NSE Code	MANAPPURAM
Bloomberg	MGFL IN
CMP as on 16 Jun 17	92.55
Eq. Capital (Rs crs)	168.32
Face Value (Rs)	2
Equity Sh. Outs (Cr)	84.16
Market Cap (Rs crs)	7792
Book Value (Rs)	34.69
Avg. 52 Week Vol	60,00,000
52 Week High	106.75
52 Week Low	57.35

Shareholding Pattern-% (Mar-2017)	
Promoters	34.45
Institutions	40.17
Non Institutions	25.38
Total	100.0

Research Analyst: Atul Karwa
atul.karwa@hdfcsec.com

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 Manapurram 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 over the last two years, 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. with AUM a little short of Rs 300 cr which has grown 6-fold to ~Rs 1800 cr by the end of FY17 after the subsidiary expanded operations to new geographies like Madhya Pradesh, Chhattisgarh, Punjab, Haryana, Chandigarh, and UP. Besides microfinance, the company has also diversified into commercial vehicle loans, housing finance and SME loans with promising results.

Investment Rationale

- Re-engineered business model to de-risk gold loan business
- Huge untapped potential in gold loans
- Competitive advantage over Banks and Moneylenders in gold loans
- Favorable and stable regulatory environment leading to higher profitability
- Strong growth in new businesses

Concerns

- Changes in gold loan regulations
- Gold price fluctuations
- Overdependence on Gold loans
- Delay in scaling up non-gold business segments
- Increase in non-gold NPA

Financial Summary

Rs in Cr	Q4FY17	Q4FY16	YoY (%)	Q3FY16	QoQ (%)	FY16	FY17	FY18E	FY19E
NII	608	417	*46.0*	583	*4.3*	1413	2219	2507	2860
PPP	347	212	*63.7*	349	*-0.7*	593	1275	1428	1650
PAT	200	131	*53.2*	204	*-1.8*	355	758	892	1029
EPS (Rs)	2.4	1.6	*51.4*	2.4	*-1.0*	4.2	9.0	10.6	12.2
P/E (x)						22.0	10.3	8.8	7.6
P/ABV (x)						2.9	2.5	2.1	1.7
RoAA (%)						2.9	5.4	5.3	5.2

(Source: Company, HDFC sec)

View and Recommendation

Manappuram Finance revised its business model in June 2014 by introducing short-term products with 3, 6, and 9 months' tenure and increasing focus on monthly interest collection and getting new clients, thereby reducing its risks on interest reversals due to delinquent clients. Furthermore, regulatory changes in the gold loan segment between fiscal 2012 and 2014 (such as withdrawal of priority sector benefit for gold loans, capping loan-to-value (LTV) ratio at 75%, restricting privately placed debentures, and stipulating stringent norms for conducting gold auctions) have brought in the much needed stability, while enhancing confidence of lenders and other stakeholders.

Diversification into other segments by MFL will enable faster utilisation of excess capital on its balance sheet and avoid any undesirable treatment from the regulator for being a single-product company. MFL has a capital adequacy ratio in excess of 25% eliminating the need of equity dilution in the near future. With a favorable regulatory environment, stable gold prices and diversification to other segments, MFL's financial profile is on the way to further improvement and its return ratios are likely to improve. A large RoAA (5.4% for FY17) and a large RoAE (24.8% for FY17) leads us to believe that MFL deserves to trade at a higher valuation. However given the difference in size, Manappuram would typically quote at a discount to Muthoot Finance.

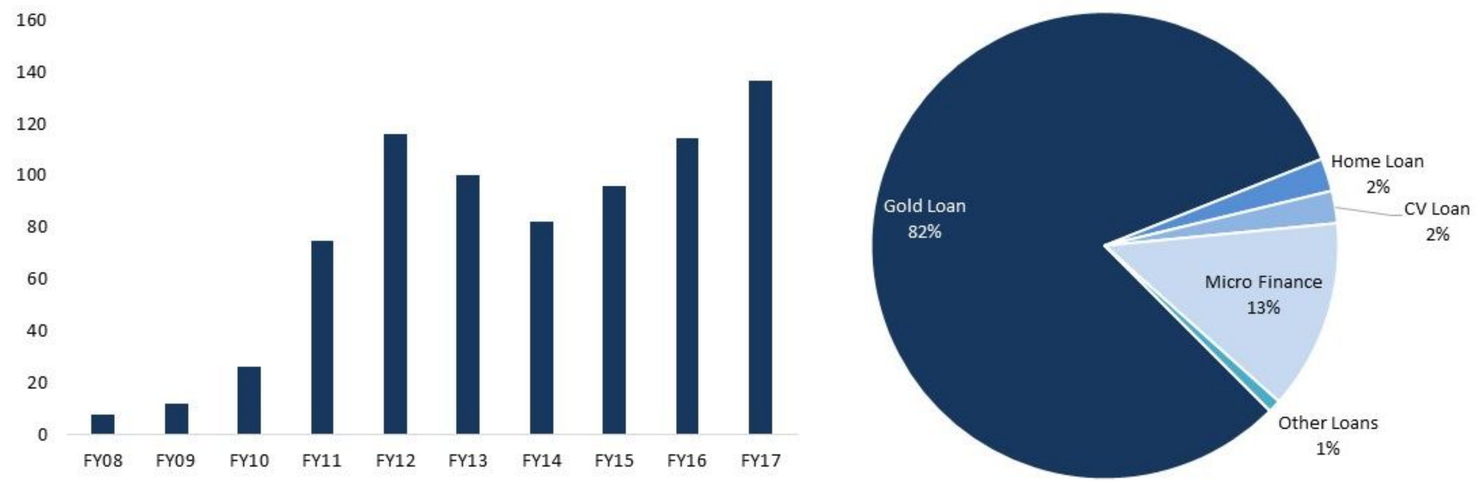
We feel investors could buy the stock at the CMP and add on declines to Rs. 82-85 band (~1.55x FY19E ABV and 6.8x FY19E EPS) for sequential targets of Rs. 105 (1.95x FY19E ABV and 8.6x FY19E EPS) and Rs. 113 (2.1x FY19E ABV and 9.2x FY19E EPS) in 2-3 quarters.

Company Overview

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 Manapurram 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 over the last two years, 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. with AUM a little short of Rs 300 cr which has more than tripled to over Rs 1000 cr by the end of FY16 after the subsidiary expanded operations to new geographies like Madhya Pradesh, Chhattisgarh, Punjab, Haryana, Chandigarh, and UP. 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 1353 cr of non-gold loans. Overall, non-gold businesses contributed 18 percent of the total business as of FY17 as compared to being negligible in Dec-14.

Currently, MFL's gold loan business operates through ~3,300 branches across India. MFL's view is that this gives it adequate reach into its target markets and, therefore, MFL is not contemplating further expansion of its branch network. Going forward, its larger focus will be to ensure that per-branch business levels pick up and to turn around the marginal branches.
Financial Statements

AUM growth and breakup (Rs Bn)



(Source: Company, HDFC sec)

The AUM fell post FY12 due to adverse regulatory measures initiated by the RBI like i) cap on LTV to 60%, ii) removal of Priority Sector Lending status, iii) cap on maximum borrowing limit to 25 lakhs; declining gold prices; slowdown in the economy; rural stress and higher auctions denting profitability and return ratios . After falling for two years the AUM has again started to grow from FY15 once there was stability in the regulatory environment.

Products

Gold Loans

MFL's flagship business makes it India's first listed gold loan company. It focuses on giving loans to people against their deposit of gold based jewelry and coins. It has unlocked value of this vast asset base for thousands of people across India.

Microfinance

Asirvad Microfinance Limited, a subsidiary of MFL, focuses on organized groups of women and providing them innovative financial services in a sustainable manner with a view to alleviate poverty through viable income generation activities.

Housing Finance

Manappuram Home Finance Pvt. Ltd. (MAHOFIN), is the Company's dedicated subsidiary to cater to the affordable housing space, mainly in tier-2, tier-3 and outskirts of metropolitian cities with focus on the self-employed segment

CV Finance

Dedicated strategic business unit focusing on financing commercial vehicles to the underserved category of customers largely from the unorganised sector and lacking access to the formal banking system.

Subsidiaries:

Manappuram Home Finance

Manappuram entered the housing finance space with the acquisition of Milestone Home Finance Co. Pvt. Ltd. in FY14. It started commercial operations in Jan 2015 with 4 branches (Mumbai, Pune, Chennai and Madurai) with the objective to provide affordable home finance in the Rs 15-20 lakh bracket in Tier II and Tier III cities. At the end of FY17 its network had grown to 35 branches in 6 states with an outstanding loan book of Rs 310 cr.

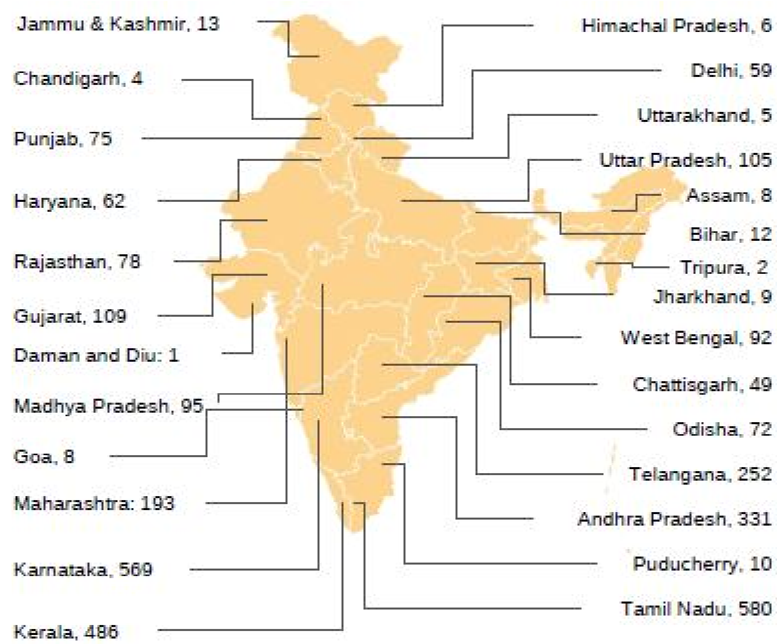
Asirvad Microfinance

The company forayed into the microfinance business by acquiring a major stake (85%) in Asirvad Microfinance Pvt. Ltd., a leading microfinance institution in Tamil Nadu with operations in Tamil Nadu, Kerala and Karnataka. With the backing of Manappuram group Asirvad has moved up 8 places in the MFIN Rankings and is currently ranked as 14th largest microfinance organization in India as per MFIN rankings. It had an outstanding loan portfolio of Rs 1796 cr at the end of FY17. MFL increased its stake in the company to 90.38% in FY16.

Manappuram Insurance Brokers

Manappuram acts as a broker for distribution of General and Life insurance policies through its subsidiary Manappuram Insurance Brokers. It earned revenues of ~Rs 2 cr in FY16 and PAT of Rs 13 lakhs as compared to a loss of Rs 7 lakhs in FY15.

Pan India presence & Distribution network (FY17)



(Source: Company, HDFC sec)

Key Management Personnel

Name	Brief Profile
Mr. V.P.Nandakumar Managing Director & CEO	Mr. Nandakumar is a post graduate in science with additional qualifications in Banking & Foreign Trade. He took over the family business post the demise of his father in 1986 and promoted MFL in 1992. He is also a Managing Committee member of trade associations such as ASSOCHAM and FICCI.
Mr. B.N. Raveendra Babu Executive Director	Mr. Raveendra Babu, is a Post Graduate in Commerce with additional qualification in Management Accounting from the U.K. Prior to joining Manappuram Group, Mr. Raveendra Babu occupied senior positions in Finance and Accounts in various organizations in the Middle East. He has been a Director since 1992.
Mr. Kapil Krishan CFO	Mr. Krishan is a Chartered Accountant and has been the CFO of MFL since 1993. Prior to joining MFL he has served as the CFO of India Infoline Ltd. He also served as a Director of India Infoline Housing Finance Ltd.

Investment Rationale

Re-engineered business model to de-risk gold loan business

MFL has its re-aligned its gold loan portfolio and added shorter tenure loans of 3-6-9 months as compared to a single product offering of 12 months loan. It has also linked the product LTVs to the tenure of the loan thereby reducing its risk. Earlier for a typical 12 month loan and LTV of 75% the total principal and interest at the end of the year was 93%. In case of default the company used to lose interest for 2 months during the auction period bringing the total cost to ~96%. Thus there was just 4% margin of safety and in case of falling prices of gold it resulted in losses for the company. The introduction of shorter duration of loans and linking the LTV to the tenure has resulted in margin of safety for a 12 month loan increasing to 23% from 4% earlier.

	Earlier scenario	Current revised scenario			
	Single product	**3-month**	**6-month**	**9-month**	**12-month**
Gold value	100	100	100	100	100
LTV	75%	75%	70%	65%	60%
Gold loan	75	75	70	65	60
Interest Rate	24%	24%	24%	24%	24%
Interest Cost	21	7.5	11.2	14.3	16.8
Total Principal + Interest	96	82.5	81.2	79.3	76.8
Margin of safety (%)	**4**	**17.5**	**18.8**	**20.7**	**23.2**
	If the customer does not pay or close the Loan, then there is likely loss of interest for 2 months during auction	If the customer does not pay or close the Loan, there is ample margin of safety to recover principal as well as interest. Also linkage to gold prices is negligible			

(Source: Company, HDFC sec)

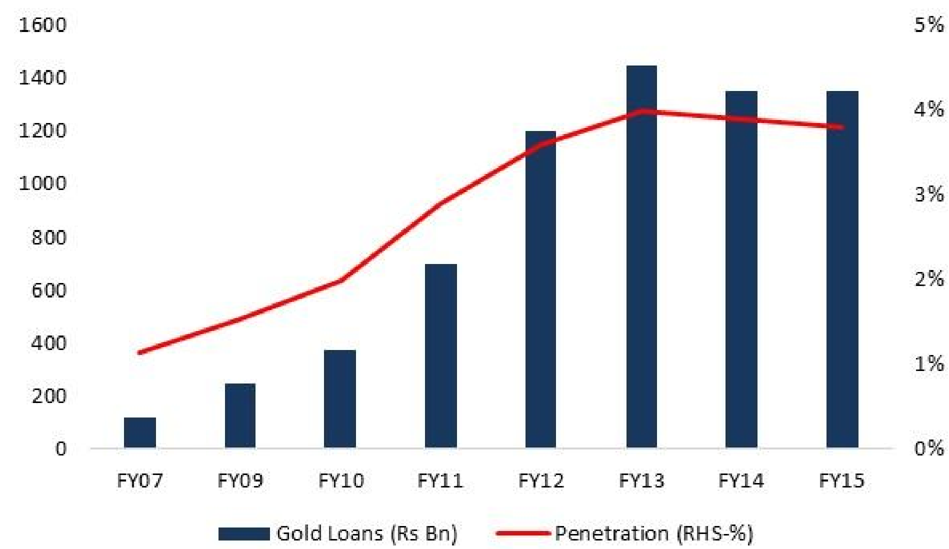
Huge untapped potential in gold loans

The Gold Loan Market in India is the biggest market in the world probably due to large demand of gold by Indians. Every year India imports around 800-900 tonnes of gold for consumption and it has the largest gold stock of 22000 tonnes which is privately held by domestic households and temples. The low income groups in India are the major customers of gold loan. However, due to the lack of documentation most people rely on local moneylenders and borrowings against security of gold has been continuing in India in an unorganized manner.

The low income groups in India are the major customers of gold loan. The centuries-old practice of lending money against security of gold has been continuing in India in an unorganized manner. Farmers and peasants buy gold during the months of prosperity and stock it in the form of jewelleries and ornaments and then pledge it to the local money lender or pawn brokers during tough times to meet their financial requirements. This peculiar phenomenon in India has given rise to the gold loan market.

With the increase in prices of gold the gold loans market flourished in India and the organized market penetration has increased from ~1% in FY07 to ~4% in FY15. The vast holdings of gold in private hands offers ample opportunities for growth in gold loan business.

Organized gold loan market and penetration



(Source: Company, HDFC sec)

The Gold Loan business went through a rough patch between FY2012 and FY2014 due to adverse regulatory changes by RBI; declining gold prices; slowdown in the economy; rural stress and higher auctions denting profitability and return ratios. FY2015 onwards, however, market conditions started improving. RBI increased the LTV Ratio for Gold Loans by NBFCs to 75% from 60% and gold loan players started reaching out to customers, with the help of advertising and branch activations. As per ICRA estimates, the Gold Loan market is expected to regain some of its lost momentum and grow at an annual rate of 13-15% over FY15-FY18, to reach a market size of about Rs 1,900-2,100 billion in FY18. Specialised Gold Loan NBFCs are expected to grow faster than the industry growth rate as competitive intensity remains subdued and many players further strengthen their presence in Non-South geographies, where competition from the organised sector is negligible.

Competitive advantage over Banks and Moneylenders in gold loans

Specialized gold loan companies enjoy competitive advantage particularly in terms of their last mile connectivity, availability vis-à-vis the other organized lenders in the market. The benefits that these niche financiers enjoy primarily due to focused nature of their business, outnumber the other financiers in the organized lending market. They are expected to gain market share from banks as a result of restored regulatory parity between NBFCs and Banks.

Gold Loan NBFCs have a distinct advantage over Banks and Moneylenders

Parameter	Gold Loan NBFCs	Banks	Moneylenders
LTV	Up to 75%	Lower LTVs than NBFCs	Higher than 75%
Processing fees	No / Minimal Processing Fees	Processing charges are much higher compared to NBFC's	No Processing Fees
Interest charges	~18% to 24% p.a	~12% to 15% p.a	Usually in the range of 36% to 60% p.a.
Penetration	Highly Penetrated	Not highly penetrated. Selective Branches	Highly Penetrated
Mode of disbursal	Cash/Cheque (Disbursals more than Rs.20,000 in Cheque)	Cheque	Cash
Working hours	Open Beyond Banking Hours	Typical Banking Hours	Open Beyond Banking Hours
Regulation	Regulated by RBI	Regulated by RBI	Not Regulated
Office place	Proper Branch with dedicated staff for gold loans	Proper Branch	No fixed place for conducting business
Customer service	High –Gold Loan is a Core Focus	Non Core	Core Focus
Documentation	Minimal Documentation, ID Proof. PAN card required for loans above Rs.5,00,000.	Entire KYC Compliance with references from existing account holders. PAN card required for transaction	Minimal Documentation

		above Rs.50,000	
Repayment structure	Flexible Re-Payment Options. Borrowers can pay both the Interest and Principal at the closure. No Pre-Payment Charges.	EMI compulsorily consists of interest and principal. Pre-Payment Penalty is Charged.	-
Turnaround time	10 minutes	1-2 hours	10 minutes

(Source: Company, HDFC sec)

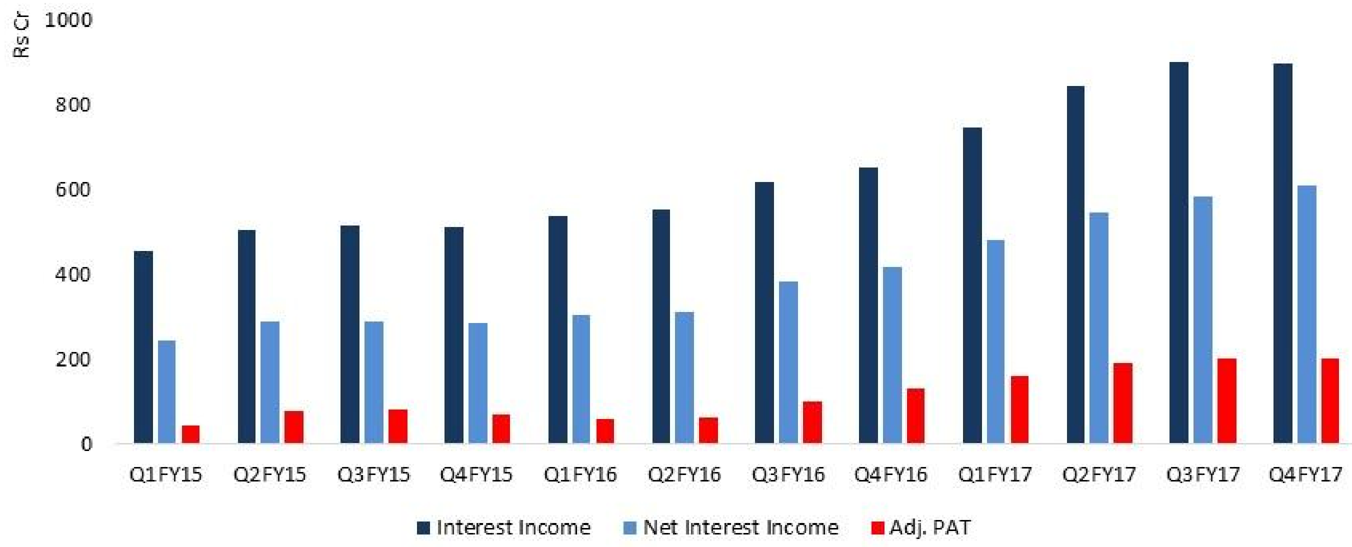
Favorable regulatory environment leading to higher profitability

From a peak of around $1900 per troy ounce in September 2011, gold prices had come down to $ 1,084 per troy ounce by November 2015. Further, the uncertain regulatory environment that prevailed between 2012 – 2014 had a negative impact on the specialised gold loan NBFCs who lost ground to banks and the unorganised market. The market share of specialised gold loan NBFCs came down to 31 percent in FY13 from a high of 36.5 percent in FY12, which declined further to 27.6 percent in FY14. These setbacks compelled NBFCs to reconsider their strategies and rework business plans.

Phase I: Strong growth supported by rising gold prices	Phase II: Regulatory overhang impact along with falling gold prices	Phase III: On a revival path; witnessing the growth back
- Higher LTV up to 85% - Lower CoF due to eligibility under PSL - Supported by buoyant economic growth - Long tenure products supported by rising gold prices **Strong competitive positioning:** - Better LTV, lower interest rates vis-à-vis money-lenders, prompt disbursement, convenience of place/time	**March 2012:** - Removal of PSL status led to higher borrowing cost - Cap on LTV of 60% weakened competitive positioning vis-à-vis banks & moneylenders - Higher LTV focused customers moved to money-lenders whereas interest rate sensitive customers moved to banks - Cap on maximum borrowing upto Rs 25 lakh **Fall in Gold Prices** - Peak LTV was 85% for FY12 & long tenure portfolio	**Sep 2013: Regulatory changes by RBI** - Increased the LTV ratio for gold loans to 75% resulting in level playing field vis-à-vis banks **Jan 2014: Reaching out to the customers t**hrough enhanced marketing & branch activation initiatives **Jun 2014: De-linking to gold prices:** - Shift from long to short tenure products (3-9 mths) - Recalibrated LTV ratio to link it to the loan tenure: - Maximum permissible LTV of 75% to be available on loans of shorter tenure rather than 1 year - Shifted 2/3rd of total gold loans PF to these shorter tenure products
Company witnessed AUM CAGR of ~95% over FY08-12 Branch network grew 7x Strong execution capabilities Well defined systems and processes	Negative operating leverage resulted into fall in profitability ratios and profitability	Positive operating leverage to kick in resulting in better profitability and return ratios

(Source: Company, HDFC Sec)

Growing Interest Income and PAT



(Source: Company, HDFC sec)

Strong growth in new businesses

The non-gold loan businesses of MFL continue to witness strong growth aiding in product diversification and reducing dependence on gold loans for business growth.

Microfinance

MFL acquired Asirvad Microfinance Pvt. Ltd. in Feb-15 with an AUM a little short of Rs.300 cr. In a span of two years the AUM grown more than 6-fold to over ~Rs 1800 cr. Prior to the takeover Asirvad was a struggling microfinance company which leveraged on MFL's creditworthiness and expanded to new geographies like Madhya Pradesh, Chhatisgarh, Punjab, Haryana, Chandigarh, Jharkhand, Bihar, West Bengal and UP. As per ICRA estimates, the potential size of the microfinance market is at Rs 2.8 -3.4 tn against the market size of around Rs 1.1 tn (as of September 30, 2015, covered by Self Help Group Bank Linkage Programme, Microfinance Institutions and Bandhan Bank). Thus, given the large growth potential, MFIs can grow at an annualised rate of 30-35% over the next three years.

Housing Finance

MFL entered the housing finance business in Jan-15 by acquiring Milestone Home Finance Co. Pvt. Ltd. which was later renamed to Mannapuram Home Finance Pvt. Ltd. with a focus on affordable housing for mid to low income groups. The AUM of housing finance has grown to Rs 310 cr at the end of FY17 and MFL is looking to set up more branches in urban and semi-urban locations of southern and western India. The affordable housing finance industry is expected to continue to record healthy growth over the next five years given the huge latent demand in affordable housing and the slew of measures taken by the Government and the Regulator to fulfil it. Small housing finance companies (AUM< Rs. 450 bn) operating in small ticket-size housing have been growing at a robust pace, driving the overall growth in the industry. NBFCs like MFL could leverage on their distribution reach and captive customer base to drive this business.

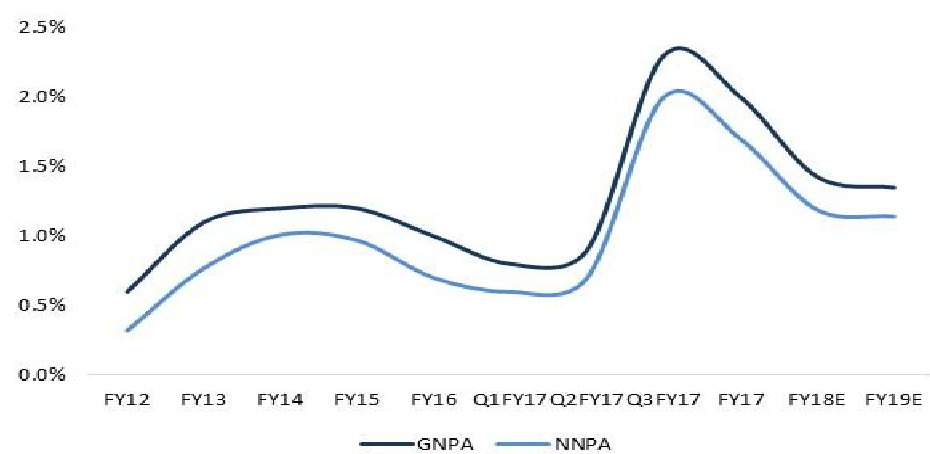
Commercial vehicle

MFL had launched loans for commercial vehicles selectively in southern and western India. Due to successive failed monsoons and economic slowdown, CV financing dipped sharply and NPA increased. However, the industry started showing signs of strong revival as domestic sales of CVs have increased and is expected to improve further on back of normal monsoons. The AUM of MFL stood at Rs 306 cr at the end of FY17. According to an Ernst & Young Report, the Indian automotive industry is expected to grow at a CAGR of 12% over the next 5 years with auto financiers including the CV financiers expected to grow at a faster pace than the estimated auto industry growth.

Asset quality to improve going forward

MFL observed higher gold loan defaults during the testing times of gold price fluctuations leading to higher auctions of pledged ornaments. Many times the recovery amount exceeded the value of gold pledged leaving the loan product out-of-money. However, MFL has cleansed its legacy gold loan portfolio by auctioning the gold. With the launch of shorter-tenure products and increased margin of safety, the slippages and auctions are likely to reduce going forward. The demonetization exercise of the government in Nov-16 led to a spike in NPA in the latter half of FY17 as MFL did not take advantage of the 60-day relaxation given by the RBI. Delays in gold auctions also added to the spike. GNPA increased to 2.3% in Q3FY17 from 0.9% in Q2FY17. The company has provided more time to the customers impacted by the demonetization for paying the dues. The auction of gold postponed in Q3FY17 were conducted in Q4FY17 resulting in GNPA improving to 2%.

NPA levels to improve



(Source: Company, HDFC sec)

Online gold loans launched leading to lower operating costs

Having invested in an extensive network of ~3,300 branches across India for delivering gold loans, MFL became the first player to launch Online Gold Loan (OGL) in September 2015 where customers with access to an internet enabled device can avail a gold loan anytime, from anywhere in the world. A customer has to come to MFL's branch only once to deposit his gold and execute necessary documents. After that, he can avail a loan up to eligibility anytime from anywhere using a smart phone and the loan amount gets transferred to his bank account instantaneously. The OGL business has picked up well in recent days and it now accounts for more than 10 per cent of total gold loans. Later, when the loan is repaid, the gold will continue to remain with the Manappuram branch for instant sanction of future loans whenever the need arises. The concept is now proposed to be extended further with launch of a co-branded debit card that would enable customers without access to bank accounts to withdraw the money from an ATM anywhere. OGL would enable the company to improve the loan repayment resulting in faster collections at a lower cost.

Shift to organized sector to benefit MFL

Out of the total market size, organized players like Muthoot Finance, Manappuram, other gold loan NBFCs and few banks cater to ~10% with the balance being catered by the unorganized players like jewelers who double up as moneylenders. Over the medium and long term, we expect players in the unorganised sector to concede ground to the organised sector which will benefit MFL. The push towards a cashless economy is likely to set off a long-term trend of shift in business away from the informal and unorganised players and towards the organised sector. This will certainly help banks and NBFCs. In fact, NBFCs may stand to gain more as they have greater last-mile reach and better connect with the low-income groups.

To combat competition from unorganised players and to capture market share from them, Manappuram has started experimenting with the business correspondent model. Unlike the bank's business correspondent model, Manappuram's model revolves around appointing 5 to 6 "marketing agents" per branch. The role of these marketing agents would be create awareness about gold loan products in their areas (dominated by money lenders) and motivate them to take loan from Manappuram.

Concerns

Changes in gold loan regulations

The company was hit by adverse regulation in gold loans by RBI during FY12-14. Although it got some relief in FY14 the regulations can be further tightened which would impact business growth. The recent stipulation of the RBI that loans above Rs. 20,000 have to be disbursed only by cheque is one such adverse regulation (for the near term).

Overdependence on Gold loans

Given the large AUM of Gold loans, the non-gold loan portfolio will take time to reach a decent proportion of the overall AUM. Even in FY18, MFL is targeting 25% of its AUM coming from non-gold loan segments.

Gold price fluctuations

This risk arises from the decline in the value of the gold collateral due to fluctuation in gold prices. However, this risk is in part mitigated by at least 25% margin retained on the value of jewellery for the purpose of calculation of the loan amount, i.e. the company lends maximum of only 75% of the value of jewellery (current Loan to value ratio is 67%). Further, risk is reduced because the price of gold jewellery is higher given that the production costs, design cost and the gemstones associated with making the item is not considered for arriving at the value of jewellery for the calculation of the loan amount. Having said that, gold prices do have an impact on the Gross NPA ratios of Mannapuram Finance.

Global and Domestic gold prices

(Source: Kitco, MCX, HDFC Sec)

Delays in scaling up non-gold business segments

Inability to scale-up its non-gold businesses, which are the key growth drivers would cap the expected expansion in RoE.

Increase in non-gold NPA

Though MFL is comfortable with its NPA levels in gold loan business due to the high margin of safety and shorter duration of loans, the non-gold business could witness higher risks increasing the consolidated NPA levels. NPA in the microfinance business shot up to 4.7% in FY17 from 0.1% in FY16 while that of housing and vehicle finance stood at 1.5%

Q4FY17 Result Review

Net interest income increased by 46% yoy to Rs 608 cr in Q4FY17 driven by robust asset mix and strong margins. Yield on advances improved to 25.5% as compared to 23.8% in Q4FY16 while the cost of funds dipped to 9.7% from 10.5% in Q4FY16 resulting in NIMs expanding by 197 bps yoy and 101 bps qoq to 17.3% against 15.2% in Q4FY16 and 16.1% in Q3FY17. PAT jumped up more than 50% yoy to Rs 200 cr while it was flat qoq due to higher than regulatory requirement provisioning done by the company. AUM was up 19.4% yoy to Rs 13657 cr driven by 87.1% growth in non-gold lending. Consequently share of non-gold AUM increased from 11.8% in FY16 to 18.5% in FY17. AUM declined sequentially by 6.2% on account of higher gold auctions during the quarter. Management has guided for 20-25% AUM growth for FY18.

Gold loan portfolio GNPA% declined to 2% from 2.3% QoQ due to higher auctions. Company has not used the RBI dispensation on non-performing assets and voluntarily shifted to 90-day asset quality recognition during the earlier quarters. CAR at 25.9% as against regulatory requirement of 15% should augment its AUM growth plans going ahead.

(Rs Cr)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	FY17	FY16	YoY (%)
Interest Income	899	652	*37.8*	901	*-0.2*	3388	2360	*43.5*
Interest Expenses	290	236	*23.2*	317	*-8.5*	1169	948	*23.3*
Net Interest Income	608	417	*46.0*	583	*4.3*	2219	1412	*57.1*
Non-interest income	7	3	*117.8*	5	*43.2*	23	14	*67.4*
Total Income	615	420	*46.5*	588	*4.6*	2242	1426	*57.2*
Operating Expenses	268	208	*29.0*	239	*12.5*	967	835	*15.8*
Pre Prov. Profit	347	212	*63.7*	349	*-0.7*	1275	591	*115.8*
Prov. & Cont.	41	13	*218.6*	35	*15.5*	109	42	*158.0*
PBT	306	199	*53.8*	314	*-2.6*	1166	548	*112.6*
Tax	106	68	*55.1*	110	*-4.0*	407	193	*110.7*
PAT	200	131	*53.2*	204	*-1.8*	758	355	*113.6*
Adj. PAT	201	132	*51.5*	203	*-1.0*	756	353	*113.9*
EPS (Rs)	2.4	1.6	*51.4*	2.4	*-1.0*	9.0	4.2	*113.8*

(Source: Company, HDFC sec)

View and Recommendation

Manappuram Finance revised its business model in June 2014 by introducing short-term products with 3, 6, and 9 months' tenure and increasing focus on monthly interest collection and getting new clients, thereby reducing its risks on interest reversals due to delinquent clients. Furthermore, regulatory changes in the gold loan segment between fiscal 2012 and 2014 (such as withdrawal of priority sector benefit for gold loans, capping loan-to-value (LTV) ratio at 75%, restricting privately placed debentures, and stipulating stringent norms for conducting gold auctions) have brought in the much needed stability, while enhancing confidence of lenders and other stakeholders.

Diversification into other segments by MFL will enable faster utilisation of excess capital on its balance sheet and avoid any undesirable treatment from the regulator for being a single-product company. MFL has a capital adequacy ratio in excess of 25% eliminating the need of equity dilution in the near future. With a favorable regulatory environment, stable gold prices and diversification to other segments, MFL's financial profile is on the way to further improvement and its return ratios are likely to improve. A large RoAA (5.4% for FY17) and a large RoAE (24.8% for FY17) leads us to believe that MFL deserves to trade at a higher valuation. However given the difference in size, Mannapuram would typically quote at a discount to Muthoot Finance.

We feel investors could buy the stock at the CMP and add on declines to Rs. 82-85 band (~1.55x FY19E ABV and 6.8x FY19E EPS) for sequential targets of Rs. 105 (1.95x FY19E ABV and 8.6x FY19E EPS) and Rs. 113 (2.1x FY19E ABV and 9.2x FY19E EPS) in 2-3 quarters.

Peer comparison (Consolidated)

	CMP (Rs)	Mcap (Rs Cr)	AUM (Rs Cr)	NII (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	ABV (Rs)	P/E (x)	P/ABV (x)	RoNW (%)
Manappuram	92.6	7792	13657	2219.0	755.9	9.0	37.1	10.3	2.5	22.5
Muthoot	471.7	18846	28829	3542.0	1199.8	30.0	152.1	15.7	3.1	18.4

Income Statement

(Rs Cr)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	1986	2360	3388	3782	4347
Interest Expenses	877	947	1169	1275	1487
Net Interest Income	**1109**	**1413**	**2219**	**2507**	**2860**
Non interest income	7	14	21	19	26
Operating Income	**1116**	**1426**	**2240**	**2526**	**2885**
Operating Expenses	674	833	965	1097	1235
PPP	442	593	1275	1428	1650
Prov & Cont	28	42	109	76	91
Profit Before Tax	414	551	1166	1352	1559
Tax	142	193	407	460	530
PAT	**271**	**358**	**758**	**892**	**1029**

Balance Sheet

(Rs Cr)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	168	168	168	168	168
Reserves & Surplus	2465	2590	3193	3864	4640
Shareholder funds	**2633**	**2758**	**3362**	**4032**	**4809**
Minority Interest	15	21	24	27	30
Borrowings	8632	9638	10980	13542	15902

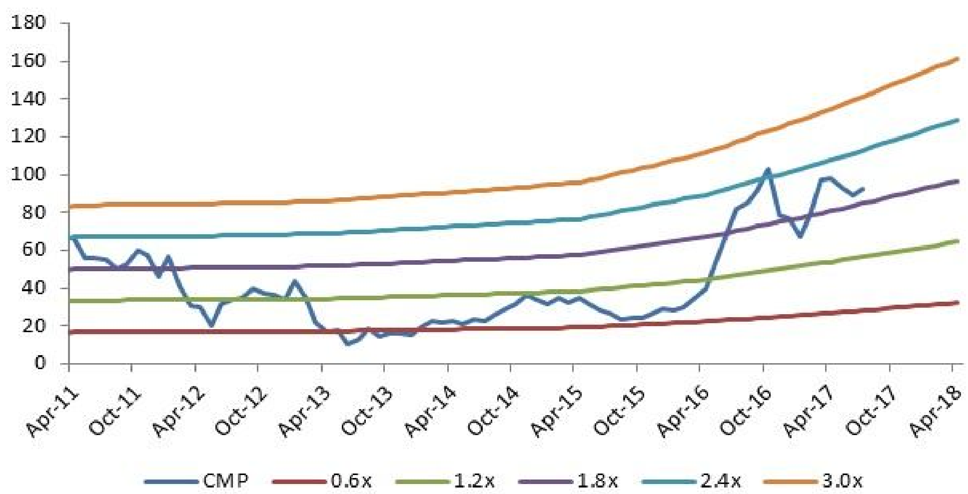
Ratio Analysis

Particulars	FY15	FY16	FY17	FY18E	FY19E
Return Ratios					
Calc. Yield on adv	22.3%	22.5%	26.9%	24.8%	23.9%
Calc. Cost of borr	10.7%	10.4%	11.3%	10.4%	10.1%
Calc. NIM	12.4%	13.5%	17.6%	16.4%	15.7%
RoAE	10.6%	13.2%	24.8%	24.1%	23.3%
RoAA	2.4%	2.9%	5.4%	5.3%	5.2%
Asset Quality Ratios					
GNPA	1.2%	1.0%	2.0%	1.8%	1.7%
NNPA	1.0%	0.7%	1.7%	1.6%	1.5%
Growth Ratios					
Advances	16.6%	18.5%	21.6%	20.3%	18.4%
Borrowings	10.7%	11.7%	13.9%	23.3%	17.4%
NII	3.3%	27.4%	57.1%	13.0%	14.1%
PPP	13.9%	34.3%	114.9%	12.0%	15.5%
PAT	20.1%	30.8%	113.6%	17.7%	15.3%
Valuation Ratios					
EPS	3.2	4.2	9.0	10.6	12.2
P/E	28.7	21.9	10.3	8.7	7.6
Adj. BVPS	30.2	31.9	37.2	44.9	53.7

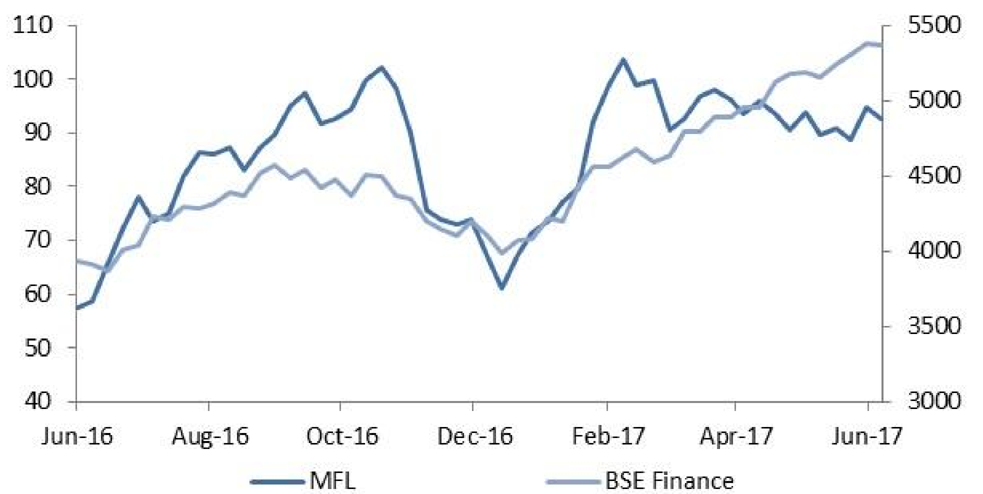
Other Liab & Prov.	336	422	783	638	641
SOURCES OF FUNDS	**11616**	**12839**	**15148**	**18239**	**21382**
Fixed Assets	174	195	187	181	171
CWIP	33	36	36	36	36
Investment	217	49	5	83	99
Cash & Bank Balance	792	604	523	666	710
Advances	9608	11385	13842	16658	19716
Other Assets	792	570	556	616	651
TOTAL ASSETS	**11616**	**12839**	**15148**	**18240**	**21382**

P/ABV	3.1	2.9	2.5	2.1	1.7
Dividend per share	1.8	1.8	2.0	2.2	2.5
Dividend Yield (%)	1.9	1.9	2.2	2.4	2.7
Other Ratios					
Cost-Income	60.4	58.4	43.1	43.4	42.8

One year Forward PABV



One year Price chart



Fundamental Research Analyst: Atul Karwa, atul.karwa@hdfcsec.com

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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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