

**Strong performance in Non-Gold Loans helps achieve good bottom-line**

**CMP: INR 144**

**Rating: ACCUMULATE**

**Target Price: INR 164**

**Stock Info**

BSE	531213
NSE	MANAPPURAM
Bloomberg	MGFL IN
Reuters	MNFL.BO
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR Cr)	169
Mkt Cap (INR Cr)	12,370
52w H/L (INR)	148/ 91
Avg Yearly Vol (in 000')	10,069

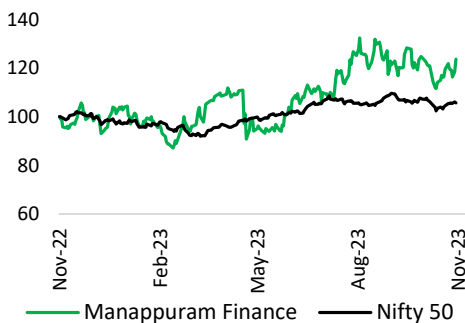
**Shareholding Pattern %**

(As on Sept, 2023)

Promoters	35.2
Public & Others	64.8

Stock Performance (%)	1m	6m	12m
Manappuram Finance	-2.5	27.2	19.9
Nifty	-1.5	5.7	5.7

**Manappuram Vs Nifty**



Abhishek Jain  
[abhishek.jain@arihantcapital.com](mailto:abhishek.jain@arihantcapital.com)  
Anmol Das  
[anmol.das@arihantcapital.com](mailto:anmol.das@arihantcapital.com)  
Harshit Jain  
[harshit.jain@arihantcapital.com](mailto:harshit.jain@arihantcapital.com)

Manappuram Finance (MFL) reported strong performance during Q2FY24 with profit growth of 36.7% YoY and increase of 12.4% QoQ at INR 5.6 bn. AUM on consolidated basis increased by 27% YoY/5.1% QoQ to INR 390 bn. Gold loan AUM witnessed increase of 8.3% YoY/1% QoQ with yield expansion of 50bps QoQ at 22.1%. Asset quality of the company deteriorated marginally for the entity with GNPA/NNPA at 1.6%/1.4%. Microfinance book asset quality deteriorated marginally as GNPA in this book increased from 2.9% to 3.0% and NNPA increased from 1.3% to 1.4% QoQ.

**Key Highlights:**

- NII increased by 25.6% YoY and 6.5% QoQ to INR 14.67 bn. Sequential increase in NII was due to increase in yields on the gold loan entity. Consolidated cost of borrowings was stable at 8.85% against previous quarter's 8.86%. We believe it has stabilized at current levels for the medium term as increased costs have been passed on.
- Operating profit increased by 36.8% YoY/ up 8% QoQ to INR 8.66 bn, was higher than our estimate of INR 7.28 bn. Provisions declined by 48.7% YoY and flat sequentially down 1.2% QoQ to INR 1.19 bn.
- Total AUM grew by of 27% YoY/5.1% QoQ, driven by growth in Vehicle Finance, Housing, MFI and MSME & others.
- **Gold loan portfolio increased marginally:** Gold loan performance of the company was muted with growth of 8.4% YoY/1% QoQ comprising 53% of the overall mix of the Portfolio. Net Yield on the gold loan portfolio increased from 21.6% in Q1FY24 to 22.1% QoQ. Management expects the yield to stabilize at 21-22%. Gold holding increased marginally from 59.3 to 59.4 tonnage. LTV increased from 64% to 66% QoQ, while average ticket size (ATS) was at INR 57.6K (vs. INR 58.8K in Q1FY24). Management targets to grow the gold loan portfolio by 10%-12% for FY24.
- **Asirvad MFI performance improved:** Asirvad MFI loan book AUM increased by 41.7% YoY and 8.4% QoQ to INR 101 bn. NII increased by 53.1% YoY and went down by 5.4% QoQ to INR 3.97 bn. Operating profit growth for the quarter was 93.2% YoY/ down 4.2% QoQ at INR 2.32 bn. Asirvad MFI has reported profit of INR 1.18 bn (vs. INR 1.11 bn in Q1FY24). Management has stated that going ahead they will be bringing the Portfolio mix of Gold & Non-Gold Loans to 50:50 levels.

**Outlook and Valuation:**

Manappuram Finance Limited has shown strong performance in the Q2FY24 resulting from strong bottom-line posted for the quarter. We expect the company to grow its Gold AUM in the range of 10-12%, mainly driven by an increase in ticket size. The Company assigned INR 7 bn of Gold and Vehicle Finance loans to maintain PSL requirements of banks. The company plans to increase its non-gold AUM to 50% of its total AUM, aiming for a 50:50 split between gold and non-gold AUM. **Going ahead, we maintain our rating on the stock at Accumulate at a target price of INR 164, based on 1x FY26E ABVPS of INR 164.**

**Financial Summary**

Y/E Mar (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
NII	4050	4496	5254	6056	6911
PAT	1329	1500	1728	1957	2214
Networth	8368	9645	11110	12759	14613
Adj BVPS (Rs)	96	108	125	143	164
EPS (Rs)	16	18	20	23	26
P/E (x)	9	8	7	6	6
P/Adj BV (x)	1.5	1.3	1.2	1.0	0.9

## Q2FY24 - Quarterly Performance (Consolidated)

Particulars (INR in Mn)	Q2FY24	Q1FY24	Q2FY23	QoQ	YoY
<b>Net interest income</b>	14,673	13,779	11,679	<b>6.5%</b>	<b>25.6%</b>
Other Income	173	309	179	-44.0%	-3.0%
<b>Net Operating income</b>	<b>14,846</b>	<b>14,088</b>	<b>11,858</b>	<b>5.4%</b>	<b>25.2%</b>
Operating expenses	6,182	6,068	5,525	1.9%	11.9%
<i>cost-Income ratio (%)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>-143bps</i>	<i>-496bps</i>
<b>Operating Profit</b>	<b>8,664</b>	<b>8,020</b>	<b>6,333</b>	<b>8.0%</b>	<b>36.8%</b>
Provisions	1,197	1,212	805	-1.2%	48.7%
<b>PBT</b>	<b>7,467</b>	<b>6,808</b>	<b>5,527</b>	<b>9.7%</b>	<b>35.1%</b>
Tax	1,868	1,828	1,433	2.2%	30.4%
Effective tax rate (%)	25%	27%	26%		
<b>PAT</b>	<b>5,599</b>	<b>4,980</b>	<b>4,095</b>	<b>12.4%</b>	<b>36.7%</b>
<b>Asset Quality</b>					
GNPA (%)	1.60%	1.40%	2.00%	20bps	-40bps
NNPA (%)	1.40%	1.20%	1.80%	20bps	-40bps
<b>Return Ratios</b>					
ROA (%)	5.30%	5.00%	4.60%	30bps	70bps
ROE (%)	21.60%	20.10%	18.60%	150bps	300bps
<b>AUM (INR Bn)</b>	390	371	307	<b>5.1%</b>	<b>27.0%</b>
-Gold loans	208	206	192	1.0%	8.4%
-Microfinance	101	93	71	8.4%	41.7%
-Housing loans	13	12	9	8.5%	41.6%
-Vehicle loans	31	28	19	13.1%	66.7%
-Other loans	36	32	15	13.9%	132.7%

## Exhibit 2: Key Conference call highlights

## Management Guidance:

- Management maintained growth guidance as earlier at 10-12% for the consolidated AUM, with the Asirvad MFI growth beyond 25% (as stated earlier quarter). Also, going ahead, the Management had given guidance of Credit Cost of 2-2.5% going ahead (as stated earlier quarter).

## Key Highlights:

- For the Aashirwad Microfinance business, the Company has filed DRHP on 5th Oct 2023.
- The Management intends to maintain tight discipline for the growth part. The Management expects the coming quarters to be as usual for the Gold Loans segment, while expecting the small ticket loans growth to moderate going ahead.
- During the quarter, the Company auctioned only INR 0.15 bn of NPA for the gold loan segment.

**Exhibit 2: Key Conference call highlights (Continued)**

## Key Highlights:

- In the MFI business, the management is seeing improvement in Collection efficiency over last quarter. The Aashirwad MFI AUm stood at INR 109.5 bn, which includes Gold loans of INR 8.15 bn, up 8% QoQ/43% YoY. PAT stood at INR 1.18 bn for Q2FY24.
- For the vehicle finance business, the Company has increased registration in rural and semi urban areas, apart from using digital lending platforms and automated approval processes.
- The Company is also focusing on MSME and Personal Loan segments and intends to increase their grants in that segments, and are making steady progress.
- As per the earlier guidance, the Company intends to increase the share of Non-Gold loans in their Portfolio, which stands at 47% currently, and they intend to have a 50:50 mix of Gold and Non-Gold Loans mix in their Portfolio.
- During the quarter, the Company added around 403,000 new customers. The Average LTV stood at 66% and the Online booked accounts stood at 56% of the Gold Loan Book.
- The Vehicle Finance Book stood at INR 31.4 bn, up 13% QoQ / up 66% YoY.
- The Company did an assignment of Gold and vehicle Finance Loan put together of around INR 7 bn to meet the PSL requirements to maintain relationship with banks, which was smaller in earlier quarters, and the Management clarified that they do that every quarter.
- The Company saw an increase in Yields by 50 bps whilst other NBFCs are seeing a drop in yields, for which the management reiterated that due to the increased cost of Funding, they are tightening their credit disbursement discipline. The management expects similar moves being made by other Peers in order to maintain better asset quality and delinquencies.
- For the LTV at 66%, the ticket size range by disbursements mix stood as: Up to INR 1 lakh at 44%, INR 1-5 lakh at 41% and beyond INR 5 lakh at around 15%.
- The Management insured that they have enough liquidity in hand with INR 48.7 bn as Cash & Cash Equivalents at the end of Q2FY24, and that the apprehension that they were facing previous quarter is now completely resolved.
- Regarding the secured PL provided by its subsidiaries, the management clarified that the Parent and Subsidiary aren't doing the same business, as Home Loans have certain restrictions. Hence, the secured PL is like a gold loan of longer duration of up to 10 years, and is different from Home Loans or LAP.

## Key Financials

## Income Statement

Year/Ended March (INR.Cr)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	6061	6684	8045	9450	10870
Interest Expenses	2011	2188	2792	3394	3960
<b>Net Interest Income</b>	<b>4050</b>	<b>4496</b>	<b>5254</b>	<b>6056</b>	<b>6911</b>
Other Income	65	66	79	93	107
Net Operating Income	4115	4562	5333	6149	7018
<b>Operating Expenses</b>	<b>2331</b>	<b>2521</b>	<b>3024</b>	<b>3534</b>	<b>4059</b>
- Staff Cost	1125	1469	1709	1975	2261
- Other Operating Exp.	1008	848	1071	1259	1425
- Depreciation	198	204	244	301	374
<b>Pre-provisioning profits</b>	<b>1784</b>	<b>2041</b>	<b>2309</b>	<b>2615</b>	<b>2959</b>
Provisions	0	0	0	0	0
<b>Profit Before Taxes</b>	<b>1784</b>	<b>2041</b>	<b>2309</b>	<b>2615</b>	<b>2959</b>
Taxes	455	541	581	658	745
<b>Profit After Taxes</b>	<b>1329</b>	<b>1500</b>	<b>1728</b>	<b>1957</b>	<b>2214</b>
% Growth	-23%	13%	15%	13%	13%

## Balance Sheet

Year/Ended March (INR.Cr)	FY22	FY23	FY24E	FY25E	FY26E
<b>LIABILITIES</b>					
Share Capital	169	169	169	169	169
Reserves & Surplus	8199	9476	10941	12589	14444
Shareholders Fund	8368	9645	11110	12759	14613
Minority interest	16	20	25	31	37
Borrowings	24118	28483	34967	41307	46688
Other liabilities & provisions	1308	1356	1417	1500	1586
<b>Total Liabilities</b>	<b>33811</b>	<b>39504</b>	<b>47520</b>	<b>55596</b>	<b>62924</b>
<b>ASSETS</b>					
Fixed Assets	1065	1110	1345	1642	2018
Investments	421	534	694	902	1173
Advances	28971	34195	40994	47810	54470
Cash and Bank Balances	2695	3033	3712	4346	4220
Other assets	659	632	775	896	1043
<b>Total Assets</b>	<b>33811</b>	<b>39504</b>	<b>47520</b>	<b>55596</b>	<b>62924</b>

## Key Financials

## Ratio Analysis

Year/Ended March	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth Ratios (%)</b>					
Net Interest Income	-1.5%	11.0%	16.8%	15.3%	14.1%
Net Operating Income	-1.0%	10.9%	16.9%	15.3%	14.1%
Pre-provisioning Profit	-23.0%	14.4%	13.1%	13.2%	13.2%
PAT	-23.0%	12.9%	15.2%	13.2%	13.2%
Advances	9.3%	18.0%	19.9%	16.6%	13.9%
Borrowings	6.2%	18.1%	22.8%	18.1%	13.0%
<b>Spreads (%)</b>					
Yield on Advances	20.1%	19.5%	20.0%	20.0%	20.0%
Borrowing Cost	9.1%	8.3%	8.8%	8.9%	9.0%
Spreads	11.0%	11.3%	11.3%	11.2%	11.0%
NIMs	13.2%	12.9%	12.9%	12.6%	12.5%
<b>Asset Quality</b>					
Gross NPAs	3.0%	2.2%	2.1%	2.0%	1.9%
Net NPAs	2.7%	1.5%	1.4%	1.4%	1.3%
Provison Coverage Ratio	56.8%	32.7%	33.1%	32.2%	30.6%
<b>Return Ratios</b>					
RoE	16.9%	16.6%	16.6%	16.3%	16.1%
RoA	4.1%	4.1%	4.0%	3.8%	3.7%
<b>Per Share Data</b>					
EPS (Rs.)	15.8	17.8	20.5	23.2	26.2
Book Value	99.3	114.5	131.9	151.4	173.4
Adjusted Book Value	95.8	108.3	124.8	143.4	164.6
<b>Valuations</b>					
P/E (X)	9.3	8.2	7.1	6.3	5.6
P/BV (X)	1.5	1.3	1.1	1.0	0.8
P/ABV (X)	1.5	1.3	1.2	1.0	0.9

**Arihant Research Desk**Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House 6, Lad Colony, Y.N Road Indore - 452001, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:instresearch@arihantcapital.com">instresearch@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880