

**CMP: INR 94**

**Rating: Buy**

**Target Price: INR 131**

**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)	8,113
52w H/L (INR)	224 / 82
Avg Yearly Vol (in 000')	5,816

**Shareholding Pattern %**

(As on June, 2022)

Promoters	35.1
FII	28.9
DII	13.5
Public & Others	22.5

Stock Performance (%)	1m	3m	12m
Manappuram Finance	-9.6	12.5	-43.5
Nifty	-5.3	6.6	-4.6

We believe concern over Manappuram Finance (MFL) performance in terms of yield decline, margins, elevated credit cost in microfinance segment has largely been over and the growth is expected to bounce back from H2FY23 onwards. Competition in the gold loan sector in terms of pricing is easing out as most of the lenders have discontinued teaser rate loans and lending incrementally at the increased yield in view of rising interest rates .

**Margins and Yield have largely bottomed out**

Higher competition in the gold loan industry had prompted MFL to launch teaser loans that put pressure on its NIM and profitability for 3-4 quarters. The company stopped the scheme and largely shifted towards higher-yielding loans. Thus, we believe yield and margin have largely bottomed out and will see expansion in the current quarter over previous quarter. Company' teaser loan book which was at 10% of the book as on Q1FY23 has come down significantly. Yield on the gold loan portfolio increased from 18.8% to 19.4% QoQ in Q1FY22. The incremental lending on the gold loan side is at around 20-22%. We believe the yield and margin concern will get addressed in the current quarter and will see expansion. However, growth expected to be a marginal and bounce back expected from H2FY23 onwards.

**No major additional credit cost expected in Asirvad MFI:** Profitability of the Asirvad MFI was impacted in the last 3-4 quarters due to higher credit cost and also growth has declined. GNPA of the company in MFI segment has gone up sharply from 2.6% in Q2FY22 to 7.7% in Q1FY23. However, GNPA of new MFI book (disbursals post May'21) is less than 1%. We believe, going ahead credit cost will be lower with improved yields in the MFI segment. Given the largely over of credit cost cycle and expectation of stability in asset quality, Asirvad's growth trajectory has resumed. Its AUM has been increasing at a monthly rate of INR 150 cr over May-July'22 with an improved yield of 24% as compared to 20.3% upto Mar'22.

**Outlook and Valuation; Maintain Buy:**

MFL' has underperformed the broad market indices significantly over the past 8-9 months due to pressures on margins which had impacted the profitability and loan growth was lower. However, we believe, MFL's performance on gold loan side stabilizing gradually with improving yield and there will be no major credit cost in the microfinance segment going forward. We need to keep watch on loan growth numbers which is expected to be a marginal in the current quarter and bounce back expected from Q3FY23 onwards. Current valuations at 0.8x FY24E P/ABV seems favorable considering RoA/RoE of 4.1%/16% by FY24E. We have a Buy rating on the stock with a target price of INR 131.

in cr.	FY21	FY22	FY23E	FY24E
NII	4112	4050	3906	4451
PPOP	2756	2270	2339	2758
PAT	1725	1329	1525	1779
NIM	16.0%	14.0%	12.2%	12.3%
RoA	5.7%	4.0%	4.1%	4.1%
RoE	26.4%	16.9%	16.2%	16.2%
P/ABV	1.1	1.0	0.9	0.8

Source: Company, Arihant Research

Raju Barnawal  
[Raju.b@arihantcapital.com](mailto:Raju.b@arihantcapital.com)  
022 67114870

## 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>

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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