

Strong performance in a seasonally weak quarter

CMP: INR 146

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')	8,685

Shareholding Pattern %

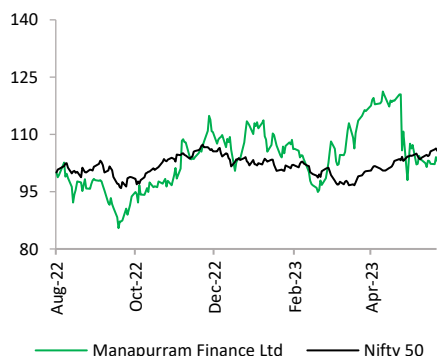
(As on June, 2023)

Promoters	35.2
Public & Others	64.8

Stock Performance (%)

	1m	6m	12m
Manappuram Finance	11.4	30.6	36.6
Nifty	0.5	9.9	10.7

Manappuram Vs Nifty



Abhishek Jain

abhishek.jain@arihantcapital.com

Harshit Jain

harshit.jain@arihantcapital.com

Manappuram Finance (MFL) reported strong performance during Q1FY24 with profit growth of 76% YoY and increase of 20% QoQ at INR 498 cr. AUM on consolidated basis increased by 21% YoY/5% QoQ to INR 37,086 cr. Gold loan AUM witnessed increase of 0.6% YoY/4.3% QoQ with yield expansion of 60bps QoQ at 21.6%. Asset quality of the company remained stable in the standalone entity with GNPA/NNPA at 1.4%/1.2%. Microfinance book asset quality deteriorated marginally as GNPA in this book increased from 2.8% to 2.9% and NNPA increased from 1.1% to 1.3% QoQ.

Key Highlights:

- NII increased by 38% YoY and 16.5% QoQ to INR 1377 cr. Sequential increase in NII was due to increase in yields on the gold loan entity. NIM during the quarter increased by 115bps QoQ at 15.2%. Consolidated cost of borrowings has gone up by 62bps sequentially at 8.9%. It is expected to increase further, which will put the NIMs under pressure, going forward.
- Operating profit increased by 57.5% YoY/+30% QoQ to INR 802 cr, was higher than our estimate of INR 798 cr. Provisions declined by 6% YoY and increased by 155% QoQ to INR 121 cr.
- Total AUM growth of 20% YoY/4.6% QoQ, was driven by growth in gold loan, housing, Vehicle book and MSME & others.
- **Gold loan portfolio increased marginally:** Gold loan performance of the company has started to increase as book has recorded growth of 0.6% YoY/4.3% QoQ. Yield on the gold loan portfolio increased from 21% to 21.6% QoQ. Management expecting yield to stabilize at 21-22%. Gold holding declined marginally from 60.1% to 59.3% QoQ. LTV increased from 60% to 64% QoQ, while average ticket size (ATS) was at INR 58.8K (vs. INR 57.5K in Q4FY23). Management targets to grow the gold loan portfolio by 10%-12% for FY24.
- **Asirvad MFI performance improved:** Asirvad MFI loan book AUM increased by 44% YoY and 1% QoQ to INR 10,140 cr. NII increased by 90% YoY and 28% QoQ to INR 419 cr. Operating profit growth for the quarter was +126% YoY/ 30% QoQ at INR 242 cr. Asirvad MFI has reported profit of INR 111.2 cr (vs. INR 99.3 cr loss in Q4FY23) Management has stated that going ahead credit cost will be lower with improved yields.

Outlook and Valuation;

Manappuram Finance Limited has shown strong performance in the Q1FY24, which has resulted in the stock price reaching its 52-week high. We expect the company to grow its Gold AUM in the range of 10-12%, mainly driven by an increase in ticket size. The write-offs in this quarter were high, but we expect them to normalize in the coming quarters. 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. While maintaining our estimates, we downgrade our rating on the stock to Accumulate from Buy with a revised target price of INR 164 (INR 131 earlier), based on 1x FY26E ABVPS.

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	165
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

Exhibit 1: Q1FY24 result Snapshot

Particulars (INR in Crore)	Q1FY24	Q1FY23	Q4FY23	YoY	QoQ
Net interest income	1377.9	997.4	1182.6	38.1%	16.5%
Other Income	30.9	0.8	26.9	4021.3%	14.9%
Net Operating income	1408.8	998.1	1209.5	41.1%	16.5%
Operating expenses	606.8	489.0	595.5	24.1%	1.9%
<i>cost-Income ratio (%)</i>	<i>43.1</i>	<i>49.0</i>	<i>49.2</i>		
Operating Profit	802.0	509.1	613.9	57.5%	30.6%
Provisions	121.2	128.3	47.4	-5.6%	155.7%
PBT	680.8	380.8	566.6	78.8%	20.2%
Tax	182.8	98.9	151.3	84.9%	20.8%
Effective tax rate (%)	27%	26%	27%		
PAT	498.0	281.9	415.3	76.7%	19.9%
Asset Quality					
GNPA (%)	1.4	1.4	1.3	0bps	10bps
NNPA (%)	1.2	1.3	1.1	-10bps	10bps
Return Ratios					
ROA (%)	5.0	3.3	4.3	170bps	70bps
ROE (%)	20.1	13.3	17.5	680bps	260bps
AUM					
AUM	37086	30760	35452	20.6%	4.6%
-Gold loans	20603	20471	19746	0.6%	4.3%
-Microfinance	9310	6546	9297	42.2%	0.1%
-Housing loans	1203	875	1096	37.5%	9.7%
-Vehicle loans	2805	1755	2455	59.8%	14.2%
-Other loans	3165	1113	2858	184.4%	10.7%

Exhibit 2: Key Conference call highlights

- Company added 4.4 Lakh new customers during the quarter.
- They had seen a liquidity issues during the quarter, due to which their MFI disbursement growth was affected during the quarter. Going forward, they are not expecting such issues, which will help them improve their disbursements.
- The company's cost of funds has gone up by 70 bps sequentially and 80 bps on a YoY basis at 8.9%, whereas the standalone borrowing cost was up by 20bps sequentially at 8.3%. The standalone incremental borrowing cost is expected to be in the range of 8.7% to 8.75%.
- Stage – III assets in MFI pool increased marginally from 2.7% to 2.9% on a sequential basis.
- Gold loan AUM was up by 4.3% sequentially and yields on gold loan was up by 60bps QoQ at 21.6%.
- The non Gold AUM increased by 4.9% QoQ at INR 16,500 cr.
- Asirvad has shown a strong operational performance for the year with stable asset quality. PAT came at INR 111.18 cr during the quarter against INR 99.31 cr in Q4FY23.
- Asirvad Microfinance needs to raise money for growth. Mode of raising the capital is not yet decided.
- The share of micro finance in overall profitability is expected to improve in the coming quarters.

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
Net Interest Income	4050	4496	5254	6056	6911
Other Income	65	66	79	93	107
Net Operating Income	4115	4562	5333	6149	7018
Operating Expenses	2331	2521	3024	3534	4059
- Staff Cost	1125	1469	1709	1975	2261
- Other Operating Exp.	1008	848	1071	1259	1425
- Depreciation	198	204	244	301	374
Pre-provisioning profits	1784	2041	2309	2615	2959
Provisions	0	0	0	0	0
Profit Before Taxes	1784	2041	2309	2615	2959
Taxes	455	541	581	658	745
Profit After Taxes	1329	1500	1728	1957	2214
% Growth	-23%	13%	15%	13%	13%

Balance Sheet

Year/Ended March (INR. Cr)	FY22	FY23	FY24E	FY25E	FY26E
LIABILITIES					
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
Total Liabilities	33811	39504	47520	55596	62924
ASSETS					
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
Total Assets	33811	39504	47520	55596	62924

Ratio Analysis

Year/Ended March	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratios (%)					
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%
Spreads (%)					
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%
Asset Quality					
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%
Return Ratios					
RoE	16.9%	16.6%	16.6%	16.3%	16.1%
RoA	4.1%	4.1%	4.0%	3.8%	3.7%
Per Share Data					
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
Valuations					
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 DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
 Building No. 10, 1st Floor
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E)
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 6, Lad Colony, Y.N Road
 Indore - 452001, (M.P.)
 Tel: (91-731) 3016100
 Fax: (91-731) 3016199

Stock Rating Scale

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

www.arihantcapital.cominstresearch@arihantcapital.com

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