

RBI Guidelines checking Cash disbursements above INR 20K; High Gold Prices and dip in Collections in 2 states drag down Profits

CMP: INR 180

Rating: BUY

Target Price: INR 242

Stock Info

BSE	531213
NSE	MANAPPURAM
Bloomberg	MGFL IN
Reuters	MNFL.BO
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR Mn)	1,693
Mkt Cap (INR Mn)	152,700
52w H/L (INR)	207/ 110
Avg Yearly Vol (in 000')	10,271

Shareholding Pattern %

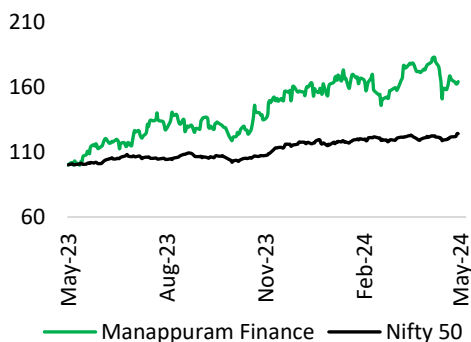
(As on March, 2024)

Promoters	35.2
Public & Others	64.8

Stock Performance (%)

	1m	6m	12m
Manappuram Finance	-7.9	19.6	64.8
Nifty	1.4	15.4	24.1

Manappuram Vs Nifty



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Manappuram Finance (MFL) reported muted performance during Q4FY24 with profit growth of 35.7% YoY and marginal decrease of 2.1% QoQ at INR 5.63 bn. AUM on consolidated basis increased by 18.7% YoY/4.2% QoQ to INR 420.70 bn. Gold loan AUM witnessed increase of 18.7% YoY/4.2% QoQ with yield expansion of 20bps QoQ at 22.5%. Asset quality of the company improved in the standalone entity with GNPA/NNPA at 1.9%/1.7%. Microfinance book asset quality degraded as GNPA in this book increased from 2.8% to 3.7% and NNPA from 1.3% to 1.7% QoQ.

Key Highlights:

- The consolidated net interest income increased by 33.7% YoY/ 1.5% QoQ. Sequential increase in NII was due to increase in yields on the gold loan entity. Consolidated cost of funds has gone up by 20 bps sequentially to 9.3%, owing to change in risk weights by the regulator. Borrowing cost increased as expected in the previous quarter by 20 bps in Q4FY24, putting the NIMs under pressure.
- Operating profit increased by 52% YoY/down 0.3% QoQ to INR 9.33 bn. Provisions increased by 296.4% YoY and by 25.5% QoQ to INR 1.88 bn.
- Total Consolidated AUM grew by 18.7% YoY/4.2% QoQ to INR 420.70 bn, driven by growth in Vehicle book, Housing and MSME & others.
- **Gold loan portfolio witnessed a marginal growth:** Gold loan performance of the company has recorded a marginal growth of 8.9% YoY/3.6% QoQ due to the rising gold prices while LTV stood at 58%. Yield on the gold loan portfolio increased from 22.3% to 22.5% QoQ. Management targets to grow the gold loan portfolio by 8%-10% for FY25.
- **Asirvad MFI performance deteriorated due to problems in Punjab & Rajasthan:** Asirvad MFI loan book AUM increased by 18.3% YoY and 3.0% QoQ to INR 110.03 bn. NII increased by 41.9% YoY and 3.2% QoQ to INR 4,658 mn. Operating profit growth for the quarter was +53.6% YoY/ 4.2% QoQ at INR 2,864 mn. Asirvad MFI has reported profit of INR 1,018 mn (vs. INR 1,270 mn in Q3FY24 & INR 1,006 mn in Q4FY23). The NBFC is tightening their Collection Efficiency after problems were observed in the states of Rajasthan and Punjab.

Outlook and Valuation;

Manappuram Finance Limited exhibited muted performance during Q4FY24, due to all time high prices of gold and some collection issues in couple of states. Although, there was marked growth seen in the Vehicle Finance, Housing and MSME & Other Loans. The Company is also eyeing good potential in the Affordable Housing segment. While the RBI guideline to stop disbursing Cash loans for ticket sizes above INR 20,000 has not impacted yet, we believe it may impact gradually in both customer retention as well as acquisition. Asirvad Microfinance listing will yield good gains for the Group later down the year. We maintain our positive stance on the NBFC with Buy rating and a revised target price of INR 242, based on 1.2x FY27E ABVPS.

Financial Summary

Y/E Mar (INR Cr)	FY23	FY24	FY25E	FY26E	FY27E
NII	4496	5982	6235	7227	8310
PAT	1500	2197	2060	2416	2783
Networth	9645	11548	13327	15383	17805
Adj BVPS (Rs)	108	130	150	174	201
EPS (Rs)	18	26	24	29	33
P/E (x)	10	7	7	6	5
P/Adj BV (x)	1.7	1.4	1.2	1.0	0.9

Exhibit 1: Q4FY24 Result Snapshot

Particulars (in Cr)	Q4FY24	Q3FY24	Q4FY23	YoY	QoQ
Net interest income	1580.6	1556.6	1182.6	33.7%	1.5%
Other Income	2.5	21.4	26.9	-90.9%	-88.6%
Net Operating income	1583.1	1578.0	1209.5	30.9%	0.3%
Operating expenses	649.7	641.9	595.5	9.1%	1.2%
<i>cost-Income ratio (%)</i>	<i>41.0</i>	<i>40.7</i>	<i>49.2</i>		
Operating Profit	933.3	936.1	614.0	52.0%	-0.3%
Provisions	187.8	149.6	47.4	296.4%	25.5%
PBT	745.5	786.4	566.6	31.6%	-5.2%
Tax	182.0	211.1	151.3	20.3%	-13.8%
PAT (Before MI)	563.5	575.3	415.3	35.7%	-2.1%
Asset Quality					
GNPA (%)	1.9	2.0	1.3	60bps	-10bps
NNPA (%)	1.7	1.8	1.1	60bps	-10bps
Return Ratios					
ROA (%)	4.9	5.2	4.3	60bps	-30bps
ROE (%)	19.9	21.2	17.5	240bps	-130bps
AUM					
-Gold loans	21500	20758	19746	8.9%	3.6%
-Microfinance	11003	10685	9297	18.3%	3.0%
-Housing loans	1510	1415	1096	37.8%	6.7%
-Vehicle loans	4111	3597	2455	67.4%	14.3%
-Other loans	3947	3930	2858	38.1%	0.4%

Exhibit 2: Key Conference call highlights

Guidance

- The Management expects to see the RoE to be around 20% for FY25 and beyond.
- The Management expects the margins to sustain at current levels although Net Interest Margins have dipped slightly as the Cost of Borrowing to go further up due to diversification towards dollar bonds. The Yields on Gold Loans to continue at above 22% rates.

Key Highlights

- The NBFC is following a strategy of diversifying their funding mix and reducing their dependence on bank borrowings, hence, opted for dollar bonds.
- The NBFC is adhering to the RBI guidelines for above Rs 20,000 ticket size gold loans, to be disbursed in Online mode only.
- The Company's subsidiary, Asirvad Microfinance has posted a profit of INR 4.58 bn increasing by 105% over previous year with an AUM of INR 118.81 bn, growing by 18% YoY. The Management stated that the share of Profits from the Microfinance is bound to increase over time for the NBFC.
- Home Loans AUM grew to INR 15.1 bn, up by 6.7% QoQ/37.8% YoY. The NBFC is keeping a close watch on the Affordable Housing segment where they see a lot of potential for growth.
- The Share of Non-Gold business stands at 49% of the total AUM.
- The NBFC's borrowing cost has increased by 16 bps in Q4FY24 to 9.3%.
- The Gold Loan AUM stood at INR 215.04 bn increasing by 3.6% QoQ/up 8.9% YoY. The average LTV stood at 58%.
- Vehicle Finance business reported an AUM of INR 41.11 bn, up by 14.3% QoQ/69.1% YoY.
- Loans to MSME and Allied activities stood at INR 29.08 bn with a disbursement of INR 3.10 bn in Q4FY24.
- Loans to NBFCs stood at INR 9.89 bn with a disbursement of INR 1.30 bn in Q4FY24.
- Standalone GNPA and NNPA stood at 1.9% & 1.7% respectively for Q4FY24.
- The Management informed that they did not see any impact after stopping the cash disbursements of INR 20,000 & above gold loans through online gold loan model. The Online Gold Loans now stands at 63%, and the NBFC has intimated their customers who already have bank accounts in other banks.
- AUM split as per ticket size of loans: Upto 1 lakh 44%, upto 3 lakh 33%, balance 22% above 3 lakh ticket size.
- With regard to the Gold prices going up, the Management says that customers have not been increasing their LTV simply due to higher Gold prices, but generally stick to their own requirements. The Management says the impact is very minimal with only around 5-6% of customers availing higher LTV due to rise in gold prices.
- The Management attributed the decrease in requirement of employees going to the bank for Cash requirements on a day to day basis due to the increase in Online Gold Loan business, causing some decrease in the employee headcounts in the Gold Loan business.
- The Management explained that the Online gold loan is very much like a Credit Card for the customers. Hence, they can use it whenever and wherever they want to use and will only be charged when they are utilizing the credit limit extended.
- Regarding the elevation seen in the GNPA's, the Management stated that they saw some problems in the states of Punjab and Rajasthan, and have strengthened their collection machinery there. The Management expects the collections to improve in those states in the future.
- The Management clarified that the Digital Personal Loan book AUM is very small, i.e. 1% of the standalone and 0.7% of the consolidated books. So, while they saw some delinquencies in that segment, so they have increased the underwriting norms for that segment, and expect the GNPA's for the same to improve after the elections.
- The Management informs that the NBFC has a plan of allocating 10% of their capital towards unsecured lending, i.e. MFI business, which they have been doing.
- On the question for the Promoters of Manappuram having shares in the Asirvad Microfinance, the Management clarified that those acquisitions are not from any Pre-IPO round, and instead were done during the time of Manappuram Finance acquisition of Asirvad Microfinance.

Key Financials

Income Statement

Year/Ended March (INR.Cr)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	6684	8848	9450	10870	12371
Interest Expenses	2188	2866	3215	3643	4061
Net Interest Income	4496	5982	6235	7227	8310
Other Income	66	72	77	89	101
Net Operating Income	4562	6054	6312	7316	8411
Operating Expenses	2521	3095	3559	4087	4692
- Staff Cost	1469	1597	1975	2261	2588
- Other Operating Exp.	848	1251	1283	1452	1638
- Depreciation	204	246	301	374	466
Pre-provisioning profits	2041	2960	2753	3229	3719
Provisions	0.0	0.0	0.0	0.0	0.0
Profit Before Taxes	2041	2960	2753	3229	3719
Taxes	541	762	693	813	936
Profit After Taxes	1500	2197	2060	2416	2783
% Growth	13%	46%	-6%	17%	15%

Balance Sheet

Year/Ended March (INR.Cr)	FY23	FY24	FY25E	FY26E	FY27E
LIABILITIES					
Share Capital	169	169	169	169	169
Reserves & Surplus	9476	11379	13158	15214	17636
Shareholders Fund	9645	11548	13327	15383	17805
Minority interest	20	29	35	41	49
Borrowings	28483	33653	38597	42368	46874
Other liabilities & provisions	1356	1517	1446	1530	1619
Total Liabilities	39504	46748	53405	59322	66347
ASSETS					
Fixed Assets	1110	1117	1642	2018	2492
Investments	534	726	902	1173	1525
Advances	34195	40948	47810	54470	62135
Cash and Bank Balances	3033	3181	2155	618	-1030
Other assets	632	775	896	1043	1225
Total Assets	39504	46748	53405	59322	66347

Ratio Analysis

Year/Ended March	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Net Interest Income	11.0%	33.1%	4.2%	15.9%	15.0%
Net Operating Income	10.9%	32.7%	4.3%	15.9%	15.0%
Pre-provisioning Profit	14.4%	45.0%	-7.0%	17.3%	15.2%
PAT	12.9%	46.5%	-6.3%	17.3%	15.2%
Advances	18.0%	19.7%	16.8%	13.9%	14.1%
Borrowings	18.1%	18.2%	14.7%	9.8%	10.6%
Spreads (%)					
Yield on Advances	19.5%	21.8%	20.0%	20.0%	19.9%
Borrowing Cost	8.3%	9.2%	8.9%	9.0%	9.1%
Spreads	11.3%	12.6%	11.2%	11.0%	10.9%
NIMs	12.9%	14.4%	13.0%	13.1%	13.2%
Asset Quality					
Gross NPAs	2.2%	2.1%	2.0%	1.9%	1.8%
Net NPAs	1.5%	1.4%	1.4%	1.3%	1.3%
Provison Coverage Ratio	32.7%	33.1%	32.2%	30.6%	29.0%
Return Ratios					
RoE	16.6%	20.7%	16.5%	16.8%	16.7%
RoA	4.1%	5.1%	4.1%	4.3%	4.4%
Per Share Data					
EPS (Rs.)	17.8	26.0	24.4	28.6	32.9
Book Value	114.5	137.1	158.2	182.6	211.3
Adjusted Book Value	108.3	130.0	150.2	173.7	201.5
Valuations					
P/E (X)	10.1	6.9	7.4	6.3	5.5
P/BV (X)	1.6	1.3	1.1	1.0	0.9
P/ABV (X)	1.7	1.4	1.2	1.0	0.9

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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%

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