

Gold business performed well; Non-gold business pulled down the performance

CMP: Rs 164

Rating: Accumulate

Target Price: Rs 184

Stock Info

BSE	531213
NSE	MANAPPURAM
Bloomberg	MGFL IN
Reuters	MNFL.BO
Sector	BFSI
Face Value (Rs)	2
Equity Capital (Rs Cr)	169
Mkt Cap (Rs Cr)	13,878
52w H/L (Rs)	195/ 74
Avg Yearly Vol (in 000')	6,241

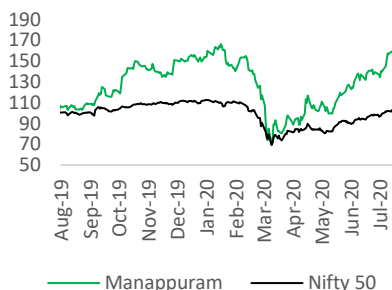
Shareholding Pattern %

(As on June, 2020)

Promoters	35.04
FII	38.37
DII	9.85
Public & Others	16.74

Stock Performance (%)	3m	6m	12m
Manappuram Finance	35.9	-10.8	50.6
Nifty 50	19.5	-5.2	0.2

Manappuram Vs Nifty



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Manappuram Finance (MFL) reported weak performance in terms of asset quality and growth front, led by its non-gold business. However, operating performance of the Company remained healthy. Gold loan business of the Company continued to remain strong. NII for the quarter grew by 19% YoY to Rs 946 cr, led by 26% YoY growth in consolidated AUM. Healthy NII growth and cost optimization bolstered operating profit growth at 41% YoY to Rs 638 cr. Cost to Income ratio came down by 384 bps QoQ to 32.9%. Profit during the quarter increased by 35% YoY to Rs 368 cr, but it has declined by 8% QoQ, due to 19% QoQ increase in provisions at Rs 145 cr. GNPA ratio increased to 1.3% from 0.9% in Q4FY20.

Higher gold prices uplift gold loan AUM, Non-gold business declined sequentially
Consolidated AUM during the quarter grew by 26% YoY/0.5% QoQ. Gold Loan AUM growth remained strong at 33% YoY/5% QoQ and it was driven by uptick in gold prices. But decline in gold holdings continues as tonnage growth declined by 5% QoQ, followed by decline in customers base. Non-gold business of the Company was impacted due to extended lockdown. MFI AUM declined by 8% QoQ followed by 6% QoQ decline in Vehicle finance portfolio. Share of non-gold business to the total AUM declined to 30% vs. 32.7% QoQ. Management has guided that near term focus will be more on gold loan segment (70-80% of overall AUM) in FY21.

Microfinance business was most impacted due to Covid
Microfinance business of the Company was most impacted on all parameters like AUM, profitability and asset quality. AUM during the quarter de-grew by 8% QoQ to Rs 5,038 cr, as there were no disbursement made during the quarter. NII increased by 4% YoY/-35% QoQ to Rs 135 cr while PPOP grew merely by 1% YoY to Rs 84 cr. Asirvad microfinance has reported Rs 2.6 cr loss against a profit of Rs 49 cr YoY, largely due to higher provision. Company has made Covid related provision of Rs 75 cr during the quarter, in addition to Rs 55 cr provided in Q4FY20, taking the total at Rs 130 cr i.e 2.6% of total MFI book.

Key takeaways from conference call:

1. Moratorium Update

- a) **Gold:** Nil
 - b) **Microfinance:** Moratorium at 100%, 85%, 45%, and 25% in April, May, June and July respectively. Collection efficiency for MFI improved to 55% in June and it is expected to improve further to 70% in July.
 - c) **Vehicle Finance:** 37% customers under moratorium in Phase 1 and there is no customers under moratorium in Phase 2. Collection efficiency stood at 55%, 75% in May and June. Vehicle utilization level is at 60-70%.
 - d) **Housing Finance:** 25% book is under moratorium during the Phase 1 and it has increased to 32.8% in Phase 2. Collection efficiency stood at 49%, 60%, 76% and 85% in April, May, June, and July.
2. Gold loan average LTV stood at 57% and average gold loan tenure stood at 51 days during Q1FY21.
 3. Online gold loan book share in gold AUM increased substantially to 63% from 48% in Q4FY20.
 3. Management has guided for 10-12% growth in gold loan AUM for FY21.
 4. Company is not facing any liquidity challenge.

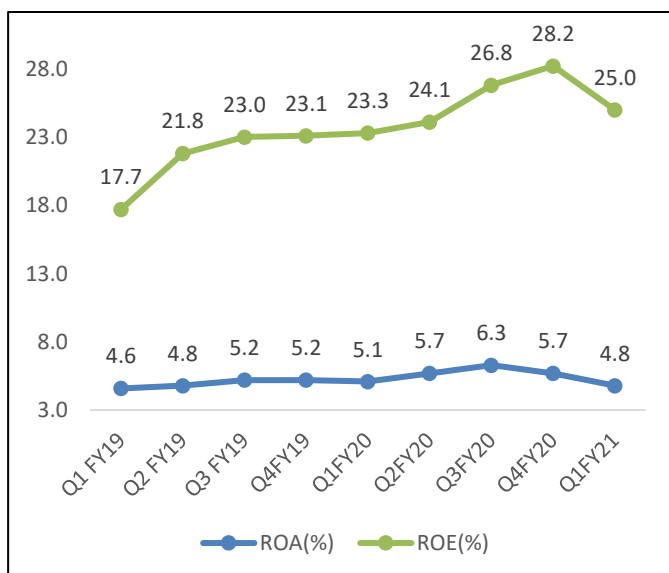
Outlook and Valuation

We continue to see good traction in its core gold loan portfolio, but the growth was entirely driven by higher gold prices. Moreover, Non-gold business of the company reported weak performance as loan portfolio contracted along with deterioration in asset quality. Going forward, we could see some pain in its non gold portfolio and growth is expected to come down. On the back of lower growth expectation, We prune down our EPS estimates by 6%/5% and loan growth estimates by 1%/2% respectively for FY21/22E. Due to its high yielding business, Company is comfortably placed to deliver RoA/RoE of 5.5%/23% for FY22E. We value the stock at 1.8x P/ABV to its FY22E ABV of Rs 102 and arrive at a fair value of Rs 184 per share. We downgrade our rating to Accumulate from Buy.

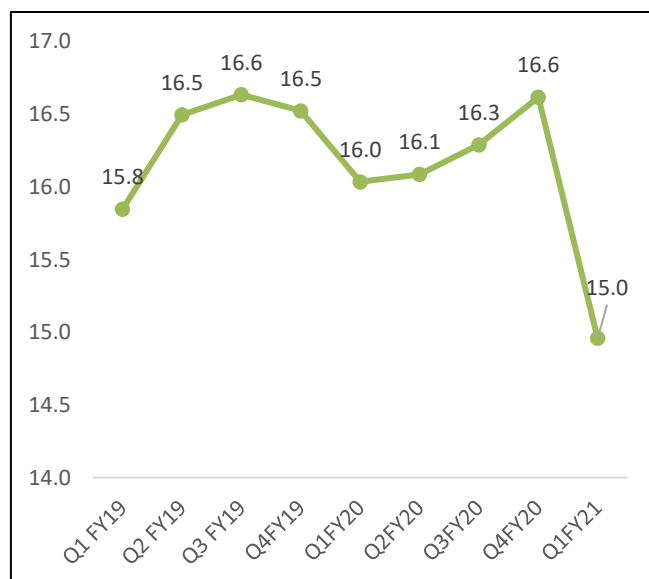
Q1FY21 result Snapshot

Particulars (in Crore)	Q1FY21	Q1FY20	Q4FY20	YoY	QoQ
Net interest income	945.7	794.2	1024.5	19.1%	-7.7%
Other Income	3.9	10.5	12.8	-62.5%	-69.3%
Net Operating income	949.6	804.7	1037.4	18.0%	-8.5%
Operating expenses	312.1	353.8	380.7	-11.8%	-18.0%
<i>cost-Income ratio (%)</i>	<i>32.86</i>	<i>43.96</i>	<i>36.70</i>		
Operating Profit	637.6	451.0	656.7	41.4%	-2.9%
Provisions	145.3	36.5	122.6	297.7%	18.5%
PBT	492.3	414.4	534.1	18.8%	-7.8%
Tax	124.3	142.2	135.9	-12.6%	-8.5%
Effective tax rate (%)	25%	34%	25%		
PAT (Before MI)	368.0	272.2	398.2	35.2%	-7.6%
PAT (After MI)	368.1	269.6	395.0	36.5%	-6.8%
Asset Quality					
GNPA (%)	1.3	0.7	0.9		
NNPA (%)	0.7	0.4	0.5		
Return Ratios					
ROA (%)	4.8	5.1	5.7		
ROE (%)	25.0	23.3	28.2		
AUM					
AUM	25346	20186	25225	25.6%	0.5%
AUM Break-up					
-Gold loans	17736.8	13292.4	16967.2	33.4%	4.5%
-Microfinance	5038.3	4198.3	5502.6	20.0%	-8.4%
-Housing loans	627.3	541.7	629.6	15.8%	-0.4%
-Vehicle loans	1270.3	1227.1	1344.4	3.5%	-5.5%
-Other loans	673.1	926.5	781.4	-27.3%	-13.9%

Return Ratios trend (%)



NIM trend (%)



Key Financials

Income Statement

Year/Ended March (Rs.Cr)	FY19	FY20	FY21E	FY22E
Interest Income	4116	5465	5787	6387
Interest Expenses	1319	1832	1920	2193
Net Interest Income	2797	3633	3867	4194
Other Income	63	86	101	110
Net Operating Income	2859	3719	3968	4304
Operating Expenses	1386	1474	1625	1706
- Staff Cost	720	830	991	1124
- Other Operating Exp.	666	644	635	582
Pre-provisioning profits	1473	2245	2342	2598
Provisions	46	238	284	125
Profit Before Taxes	1427	2007	2059	2472
Taxes	498	527	518	622
Profit After Taxes	929	1480	1540	1850
% Growth	37%	59%	4%	20%

Balance Sheet

Year/Ended March (Rs.Cr)	FY19	FY20	FY21E	FY22E
LIABILITIES				
Share Capital	169	169	169	169
Reserves & Surplus	4356	5577	7031	8662
Shareholders Fund	4525	5746	7199	8830
Minority interest	46	58	83	120
Borrowings	15296	21817	23319	25565
Other liabilities & provisions	588	1330	1019	1111
Total Liabilities	20455	28951	31620	35627
ASSETS				
Fixed Assets	367	331	380	437
Investments	174	90	175	175
Advances	17813	23189	26132	29201
Cash and Bank Balances	1164	3646	3584	4441
Other assets	937	1695	1349	1372
Total Assets	20455	28951	31620	35627

Ratio Analysis

Year/Ended March	FY19	FY20	FY21E	FY22E
Growth Ratios (%)				
Net Interest Income	17.0%	29.9%	6.4%	8.5%
Net Operating Income	16.8%	30.1%	6.7%	8.5%
Pre-provisioning Profit	21.3%	52.4%	4.3%	10.9%
PAT	37.4%	59.3%	4.1%	20.1%
Advances	16.9%	30.2%	12.7%	11.7%
Borrowings	21.3%	42.6%	6.9%	9.6%
Spreads (%)				
Yield on Advances	23.2%	23.3%	23.2%	23.0%
Borrowing Cost	9.3%	9.5%	9.1%	9.1%
Spreads	13.7%	13.7%	14.0%	13.9%
NIMs	15.7%	16.7%	15.4%	15.1%
Asset Quality				
Gross NPAs	0.5%	0.9%	2.0%	1.9%
Net NPAs	0.3%	0.5%	0.9%	0.8%
Provision Coverage Ratio	35.6%	40.8%	55.6%	58.6%
Return Ratios				
RoE	22.1%	28.6%	23.4%	22.6%
RoA	5.0%	6.0%	5.1%	5.5%
Per Share Data				
EPS (Rs.)	10.9	17.4	18.0	21.5
Book Value	53.7	68.2	85.4	104.8
Adjusted Book Value	52.7	66.8	82.7	102.1
Valuations				
P/E (X)	15.0	9.4	9.1	7.6
P/BV (X)	3.1	2.4	1.9	1.6
P/ABV (X)	3.1	2.5	2.0	1.6

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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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