

CMP: Rs 116

Rating: BUY

Target Price: Rs 151

(NR-Not Rated)

Stock Info

INDEX	
BSE	531213
NSE	MANAPPURAM
Bloomberg	MGFL IN
Reuters	MINFL.BO
Sector	BFSI
Face Value (Rs)	2
Equity Capital (Rs cr.)	169
Mkt Cap (Rs cr.)	9,807
52w H/L (Rs)	145/66
Monthly Avg Vol (BSE+NSE)	7,807,360

Shareholding Pattern %

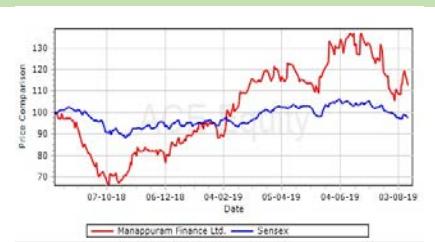
(As on June, 2019)	
Promoters	35.1
DII	4.7
FII	44.7
Public & Others	15.5

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Manappuram Finance	3.1	10.2	10.6
SENSEX	-0.4	2.6	-1.8

Source: ACE Equity, Arihant Research

Manappuram v/s SENSEX



Source: ACE Equity, Arihant Research

Manappuram Finance (MFL) reported good set of numbers during Q1FY20 with the consolidated AUM growth of 22%YoY/4% QoQ to Rs 20,186 cr. Strong growth in advances, led to healthy NII growth of 24% YoY to Rs 794 cr vs. our estimate of Rs 790 cr. Decent operating income growth and moderating OPEX resulted into PPOp growth of 39% YoY. Cost/Income ratio fell to 44% vs. 48.5% QoQ. PAT for the quarter stood at Rs 272 cr (our est: Rs 270 cr). NIM (Calculated) for the quarter stood at 16% vs. flat QoQ. Non-gold business of the company, mainly MFI continued to show strength. Share of non-gold business in total AUM rose by 83bps QoQ to 34.2%. We maintain our Buy rating on the stock and have a target price of Rs 151 (unchanged).

Gold loan growth was stable whereas overall AUM growth was stronger

Gold loan AUM during the quarter grew by 7% YoY/3% QoQ while non gold loan book growth was robust. Vehicle finance continued its stellar performance, with AUM growing 71% YoY. Overall, AUM during the quarter grew by 22% YoY/ 4% QoQ. Non-Gold loan book grew by 66% YoY/6% QOQ.

Stellar performance by MFI subsidiary Asirvad finance

Asirvad microfinance delivered robust advances growth of 72% YoY/9% QoQ. Its contribution in total advances stood at 21%, which was 20% in Q4FY19. Asirvad MFI business continued to be RoE accretive for consolidated business. Its profit for quarter came in at Rs 49 cr vs Rs 29 cr YoY.

Key Concall takeaways:

- Average LTV on gold loan was 62%. Auctions during the quarter were Rs 47 cr.
- Exposure towards flood affected areas does not exceed 2-3% of the overall portfolio. As per the past experience, the payments will come with a lag of around a month.
- The gold loan AUM growth was as per management's earlier guidance. The growth was on account of increase in gold holding and higher prices. The company expects gold loans business to pick up from Q2 onwards. Overall gold loan AUM is expected to grow by 12-15% in FY20.
- Online gold loans (OGL) are availed by a higher class of customers due to which ticket size under OGL is comparatively higher. OGL forms ~37% of the total gold loan.
- As per the company, the average life of a gold loan is ~72 days.
- The company is not facing any liquidity issue. The company has received funding from all major routes. It has recently raised \$75mn from IFC and has Rs 1070 cr in undrawn bank lines.
- Average yield in microfinance is ~21% whereas in gold loans it is ~24-26%.
- Growth in Asirvad MFI was driven by customer addition. Average ticket size in MFI was close to ~Rs 21,000. The company evaluating a capital raise of \$85-100mn for growth. The deal is expected to be concluded shortly.

Valuation

MFL posted superior results supported by non-core business. With adequate capital, improving operating efficiency, superior return metrics and high margin business, the company is well poised to deliver strong growth going forward. We expect company to witness PAT CAGR of ~17% over FY19-FY21E. We have valued the stock at 2x P/ABV FY21E and arrived at a target price of Rs 151 giving an upside potential of 31%. **We have a 'BUY' Rating on the stock.**

Q1FY20 Financial Snapshot:

Particulars (in Crore)	Q1FY20	Q1FY19	Q4FY19	YoY	QoQ
Net interest income	794.2	641.5	731.1	23.8%	8.6%
Other Income	10.5	11.4	18.5	-7.5%	-43.1%
Net Operating income	804.7	652.9	749.5	23.3%	7.4%
Operating expenses	353.8	328.0	363.7	7.8%	-2.7%
<i>Cost-Income ratio (%)</i>	<i>44.0</i>	<i>50.2</i>	<i>48.5</i>		
Operating Profit	451.0	324.8	385.8	38.8%	16.9%
Provisions	36.5	15.5	5.7	136.3%	543.1%
PBT	414.4	309.4	380.1	34.0%	9.0%
Tax	142.2	109.4	121.8	30.0%	16.8%
Effective tax rate (%)	34%	35%	32%		
PAT (Before MI)	272.2	200.0	258.3	36.1%	5.4%
Asset Quality					
GNPA (%)	0.7	0.7	0.5		
NNPA (%)	0.4	0.3	0.3		
Return Ratios					
ROA (%)	5.1	4.6	5.2		
ROE (%)	23.3	17.7	23.1		
AUM	20186	16618	19438	21.5%	3.8%
AUM Break-up (%)					
-Gold loans	65.8	75.0	66.7		
-Microfinance	20.8	14.7	19.8		
-Housing loans	2.7	2.4	2.7		
-Vehicle loans	6.1	4.3	5.7		
-Other loans	4.6	3.6	5.2		

Peer-Group Comparison:

as on Q1FY20 (in cr)	Manappuram Finance	Muthoot Finance*
Consolidated AUM	20,186	40,228
Gold Loan AUM	13,292	35,171
RoE (%)	23.3	21.7
GNPA (%)	0.7	3.2
BV/Share (FY21E)	77	323
P/BV	1.6	1.9

* We have taken bloomberg estimates for Muthoot finance FY21E book value.

Income Statement

Year/Ended March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	4116	4794	5546
Interest Expenses	1319	1634	1936
Net Interest Income	2797	3160	3609
Other Income	63	86	97
Net Operating Income	2859	3245	3707
Operating Expenses	1386	1473	1625
- Staff Cost	720	862	991
- Other Operating Exp.	666	530	557
- Depreciation	0	81	78
Pre-provisioning profits	1473	1772	2081
Provisions	46	109	114
Profit Before Taxes	1427	1663	1967
Taxes	498	582	688
Profit After Taxes	929	1081	1279
% Growth	37%	16%	18%

17%

Balance Sheet

Year/Ended March (Rs.Cr)	FY19	FY20E	FY21E
LIABILITIES			
Share Capital	169	169	169
Reserves & Surplus	4356	5286	6352
Shareholders Fund	4525	5455	6520
Minority interest	46	70	102
Borrowings	15296	18679	22431
Other liabilities	588	735	822
Total Liabilities	20455	24938	29875
ASSETS			
Fixed Assets	367	423	486
Investments	174	175	175
Advances	17813	22524	26575
Cash and Bank Balances	1164	898	1672
Other assets	937	918	968
Total Assets	20455	24938	29875

Ratio Analysis

Year/Ended March	FY19	FY20E	FY21E
Growth Ratios (%)			
Net Interest Income	17.0%	13.0%	14.2%
Net Operating Income	16.8%	13.5%	14.2%
Pre-provisioning Profit	21.3%	20.3%	17.4%
PAT	37.4%	16.3%	18.3%
Advances	16.9%	26.4%	18.0%
Borrowings	21.3%	22.1%	20.1%
Spreads (%)			
Yield on Advances	23.1%	22.9%	22.7%
Borrowing Cost	9.3%	9.6%	9.6%
Spreads	13.6%	13.2%	13.0%
NIMs	15.7%	15.0%	14.7%
Asset Quality			
Gross NPAs	0.5%	0.8%	0.9%
Net NPAs	0.3%	0.5%	0.5%
Provision Coverage Ratio	35.6%	37.1%	39.3%
Return Ratios			
RoE	22.1%	21.2%	20.8%
RoA	5.0%	4.8%	4.7%
Per Share Data			
EPS (Rs.)	10.9	12.5	14.8
Book Value per share	53.7	64.7	77.4
Adjusted Book Value	52.7	63.3	75.7
Valuations			
P/E (X)	10.6	9.2	7.8
P/BV (X)	2.2	1.8	1.5
P/ABV (X)	2.2	1.8	1.5

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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%

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