

CMP: Rs 168

Rating: Hold

Target Price: Rs 177

Stock Info

INDEX	
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.)	14,157
52w H/L (Rs)	174/78
Monthly Avg Vol (BSE+NSE)	4,451,980

Shareholding Pattern

Shareholding Pattern	%
(As on September, 2019)	
Promoters	35.1
DII	6.0
FII	43.2
Public & Others	15.7

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Manappuram Finance	43.1	42.8	103
SENSEX	9.7	4.3	15.2

Source: ACE Equity, Arihant Research

Manappuram v/s SENSEX



Source: ACE Equity, Arihant Research

Manappuram Finance (MFL), yet again delivered good set of numbers in Q2FY20 beating our estimates mostly on all fronts. The bank has reported sharp jump in net profit at Rs 408 cr, largely due to one-time tax benefit of Rs 60 cr and higher other income growth. AUM growth was strong at 32% YoY/12% QoQ at Rs 22,677 cr, driven by gold as well as microfinance portfolio. On the back of strong loan growth, NII for the quarter grew by 24% YoY to Rs 862 cr vs. our estimate of Rs 812 cr. Superior operating income growth and moderation in cost-income ratio resulted into PPOp growth of 49% YoY to Rs 544 cr vs. our estimate of Rs 454 cr. NIM for the quarter stood at 16% vs. flat QoQ. Asset quality of the company has witnessed a marginal improvement with GNPA at 0.6% vs. 0.7% QoQ. Sharp improvement was seen in cost-income ratio at 28.5% vs. 30.8% QoQ, largely due to rationalization of security costs. We change our rating to Hold from Buy with a revised target price of Rs 177 (Rs 151 earlier).

Gold loan growth was strong, Non-gold business ramped up significantly

Gold loan AUM growth was multi quarter high at 20% YoY/14% QoQ, on account of increase in gold prices and high growth in gold holding (gold holding up 5% QoQ). Non-gold businesses loan growth scaled up rapidly with a 63% YoY/9% QoQ growth. Share of non-gold loans in the total AUM stood at 33.1% vs. 34.2% QoQ.

Asirvad Microfinance continued with its outperformance

Asirvad microfinance has delivered robust advances growth of 73% YoY/13% QoQ. Its contribution in the total advances stood flat at 21% QoQ. The Profit growth was substantially higher at Rs 66 cr vs. Rs 29 cr. NII for the quarter grew by 65% YoY to Rs 137 cr. GNPA in MFI book stood at at 0.86% vs. 0.68% QOQ.

Key Concall takeaways:

- The company's performance was good especially in gold loan segment despite the challenging environment. Management expects the growth momentum to continue.
- Gold loan business growth was better than earlier guidance which is driven by increase in gold holding and prices. The average LTV of ~60% is lower than Q1FY20 at 62%. Management expects good growth in H2FY20 as well, driven by growth in tonnage (10-12% sustainable growth rate). ~43% of the gold book is in the range of 60%-70% LTV and ~35% in 70%-75%.

(Detailed concall highlights in page 2)

Outlook and Valuation

MFL continued to outperform and reported strong H1FY20 and we believe that it will sustain its performance for rest of the year. MFL's diversification in non-gold areas is also meaningfully contributing to the bottom-line performance of the company. Given by its strong operating efficiency, adequately capitalized and high yielding business, we expect MFL is well poised to achieve 5%/24% ROA/ROE by FY21E. Factoring strong Q2FY20 results, we have raised our loan growth estimates to 23% CAGR from 22% CAGR for the period of FY19-21E. We expect company to witness PAT CAGR of ~28% over FY19-FY21E. We acknowledge that recent run up in the stock price (43% over three months) offers limited room for upside. Hence, we change our rating to 'Hold' from 'Buy' with revised target price of Rs 177 (earlier Rs 151), assigning 2.2x FY21E P/ABV. We are positive on the stock from longer term perspective.

Q2FY20 Financial Snapshot:

Particulars (in Crore)	Q2FY20	Q2FY19	Q1FY20	YoY	QoQ
Net interest income	861.9	697.1	794.2	23.6%	8.5%
Other Income	47.3	13.1	10.5	261.6%	350.0%
Net Operating income	909.2	710.2	804.7	28.0%	13.0%
Operating expenses	365.4	344.0	353.8	6.2%	3.3%
<i>Cost-Income ratio (%)</i>	<i>40.2</i>	<i>48.4</i>	<i>44.0</i>		
Operating Profit	543.8	366.2	451.0	48.5%	20.6%
Provisions	29.3	16.2	36.5	80.9%	-19.7%
PBT	514.4	349.9	414.4	47.0%	24.1%
Tax	106.8	125.9	142.2	-15.2%	-24.9%
Effective tax rate (%)	21%	36%	34%		
PAT (Before MI)	407.6	224.0	272.2	82.0%	49.7%
Asset Quality					
GNPA (%)	0.6	0.7	0.7		
NNPA (%)	0.3	0.2	0.4		
Return Ratios					
ROA (%)	5.7	4.8	5.1		
ROE (%)	24.1	21.8	23.3		
AUM	22677	17191	20186	31.9%	12.3%
AUM Break-up (%)					
-Gold loans	66.9	73.3	65.8		
-Microfinance	20.8	15.9	20.8		
-Housing loans	2.5	2.6	2.7		
-Vehicle loans	5.8	4.8	6.1		
-Other loans	4.0	3.5	4.6		

Concall Highlights:

- The company is not facing any liquidity issue. The liquidity position of the company has been quite comfortable with positive ALM. It has raised over Rs 200 cr via NCDs in Q2FY20. CRISIL has upgraded the credit rating of the company to AA due to its strong fundamentals. Also, company is in process of getting rated by global agencies.
- Company is planning to diversify its borrowing profile and it has undertaken medium term note (MTN) program of \$750mn (to be done in various tranches). The first tranche would be \$300mn to be launched by last week of November.
- Gross yields in gold loan stood at ~25% and ~21.2% in MFI business.
- Auctions during the quarter were Rs 39 cr.
- Security cost has come down to Rs 12 cr vs. Rs 16 cr in Q1FY20.
- Asirvad MFI is well diversified across the geography. The MFI industry is overheated in some geographies as banks are aggressive in this segment. The company has ~11% portfolio in West Bengal and has taken a cautious stance on expanding into the same region.
- AUM growth of Asirvad microfinance was driven by addition of new customers while ticket size remained same at Rs 23000.

Income Statement

Year/Ended March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	4116	4854	5662
Interest Expenses	1319	1656	1978
Net Interest Income	2797	3198	3684
Other Income	63	87	99
Net Operating Income	2859	3285	3783
Operating Expenses	1386	1473	1625
- Staff Cost	720	862	991
- Other Operating Exp.	666	530	557
- Depreciation	0	81	78
Pre-provisioning profits	1473	1812	2157
Provisions	46	117	112
Profit Before Taxes	1427	1695	2045
Taxes	498	427	515
Profit After Taxes	929	1268	1530
% Growth	37%	36%	21%

Balance Sheet

Year/Ended March (Rs.Cr)	FY19	FY20E	FY21E
LIABILITIES			
Share Capital	169	169	169
Reserves & Surplus	4356	5472	6787
Shareholders Fund	4525	5641	6955
Minority interest	46	71	105
Borrowings	15296	19129	22852
Other liabilities	588	748	833
Total Liabilities	20455	25589	30746
ASSETS			
Fixed Assets	367	423	486
Investments	174	175	175
Advances	17813	23038	27047
Cash and Bank Balances	1164	1025	2055
Other assets	937	928	983
Total Assets	20455	25589	30746

Ratio Analysis

Year/Ended March	FY19	FY20E	FY21E
Growth Ratios (%)			
Net Interest Income	17.0%	14.3%	15.2%
Net Operating Income	16.8%	14.9%	15.2%
Pre-provisioning Profit	21.3%	23.0%	19.1%
PAT	37.4%	36.4%	20.7%
Advances	16.9%	29.3%	17.4%
Borrowings	21.3%	25.1%	19.5%
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%	38.1%	39.7%
Return Ratios			
RoE	22.1%	24.5%	23.8%
RoA	5.0%	5.5%	5.4%
Per Share Data			
EPS (Rs.)	10.9	14.8	17.8
Book Value per share	53.7	67.0	82.6
Adjusted Book Value	52.7	65.5	80.9
Valuations			
P/E (X)	15.3	11.4	9.5
P/BV (X)	3.1	2.5	2.0
P/ABV (X)	3.2	2.6	2.1

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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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