

**CMP : Rs 97**

**Rating : BUY**

**Target : Rs 124**

**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.)	8,141
52w H/L (Rs)	130/66
Monthly Avg Vol (BSE+NSE)	2,564,340

**SHAREHOLDING PATTERN**

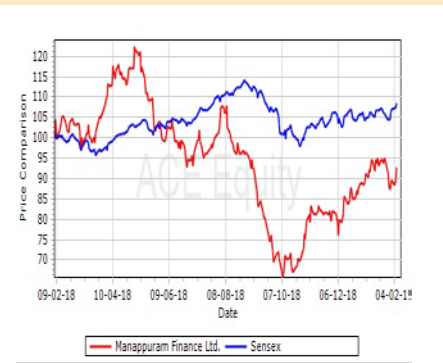
	<b>%</b>
<i>(as on December, 2018)</i>	
Promoters	35.1
FII	39.4
DII	5.8
Public & Other	19.7

Source: ACE Equity, Arihant Research

<b>STOCK PERFORMANCE(%)</b>	<b>3m</b>	<b>6m</b>	<b>12m</b>
Manappuram	17.0	-14.0	-5.5
SENSEX	5.7	-1.9	8.1

Source: ACE Equity, Arihant Research

**Manappuram v/s SENSEX**



Source: ACE Equity, Arihant Research

**Manappuram Finance (MFL) reported strong topline and bottomline performance in the Q3FY19. Consolidated AUM for the quarter grew by 21%YoY/3% QoQ at Rs. 17,783 cr leading to higher NII growth of 18% YoY at Rs. 727 cr despite pressure on costs. PAT for the quarter shoot up by 41% at Rs. 245 cr aided by lower provision. OPEX for the quarter increased by 10% YoY which is increasing steadily as company has taken several initiatives to reduce its cost mainly security cost. Security cost for the quarter fell by 50% YoY at Rs. 22 cr and the same is expected to fall further. Cost-Income ratio for the quarter stood at 47% vs 51% in Q3FY18. Borrowings cost for the quarter increased by 50bps at 9.4% offset by 50bps increase in net yields resulting into flat NIMat 16.6%. Non-gold business of the company mainly MFI business continued to show good traction with share of non-gold loans in total AUM at 29.6% rising from 26.7%. We have a 'BUY' rating on the stock.**

**Core Business loan growth lowered marginally QoQ due to higher auctions, while Non-Core business performed quite well:** Gold loan AUM growth for the quarter was muted on qoq basis despite a higher disbursement of 15% mainly due to higher auction of Rs. 187 cr in Q3FY19 against Rs. 104 cr while on YoY basis it has grown by 11% at Rs. 12525 cr. In its non-core business MFI subsidiary i.e. Asirvad Microfinance has performed well with 51% increase in AUM at Rs. 3195 cr YoY and 17% QoQ. Vehicle finance business has shown stellar performance, growing by 19% qoq with AUM of Rs 976 cr.

**Strong Turnaround period for Asirvad Microfinance with higher RoE:**

Asirvad Microfinance (MFI Subsidiary) remained strong growth contributor for the company. Its contribution in total business stood at 18% as of Q3FY19 which is higher by 14% in Q3FY18. Asirvad's profitability for the quarter stood at Rs. 33 cr against 3 cr in Q3FY18. Asirvad's AUM grew by 17%, leading to 52% jump in NII at Rs. 89 cr. Its asset quality has shown sharp improvement with GNPA at 0.79% vs 1.62% in previous quarter. RoE for the quarter stood at 29.4%.

**Stable Asset quality in Gold Book and comfortable liquidity position:**

MFL's assets are for short-term period (~90-180 days) and its liabilities are minimum for a 1 year so there is an ALM surplus and Manappuram is in sweet spot. GNPA for the quarter improved by 10bps at 0.6% and NNPA stood at 0.3%. As far as housing finance book is a concerned (~3% of its total business) GNPA ratio stood at 4.9%. Company has reported ROA of 5.2% and ROE of 23% during the quarter improving from 4.9% and 19.2% sequentially.

**Valuation:**

Manappuram has posted robust growth and beats on all counters with lower CI ratio, higher yielding segment, higher ROA and ROE. Superior asset quality, diversified business, high CAR ratio and healthy subsidiary performance are key positives for the stock. Any cyclical effect and fall in gold prices can be key risks. We are positive on the stock.

At CMP of Rs. 97, stock is trading at 1.6x of its FY20E P/ABV. We have valued the stocks at 2x its FY20E ABV and arrived at target price of Rs. 124 per share, which yields 28% upside. We have 'BUY' Rating on the stock.

**Q3FY19 Conference Call Highlights and Snapshot:**

- Management guided ~10-12% loan growth in its gold loan book for FY19.
- Weighted average LTV during the quarter was 65%.
- Online Gold Loan constitutes ~36% of the total gold loan AUM.
- Management expects borrowing cost to be at similar level as of Q3FY19 but will be able to pass on the rate hike to the customer.
- The average cost of borrowing during the quarter increased by 11 bps to 8.9% which is expected to increase further by 40-50 bps.
- The company is still awaiting RBI approval for acquisition of ISFC. It is expected to come in Q4.
- 80% of gold loans are given to the repeated customers.
- Gold loan disbursements were Rs. 21030 cr in Q3FY19 vs Rs. 18340 cr in Q2FY19.
- As per the company Asirvad remains strong. The company will raise funds from a private equity source in near term post which its holding will reduce by 15-16% which is 92% as on Q3FY19.

Particulars (in Crore)	Q3FY19	Q3FY18	Q2FY19	YoY	QoQ
<b>Net interest income</b>	<b>727.2</b>	<b>615.3</b>	<b>697.1</b>	<b>18.2%</b>	<b>4.3%</b>
Other Income	19.6	8.3	13.1	135.7%	49.9%
<b>Net Operating income</b>	<b>746.8</b>	<b>623.7</b>	<b>710.2</b>	<b>19.7%</b>	<b>5.2%</b>
Operating expenses	350.2	318.0	344.0	10.1%	1.8%
<i>cost-income ratio (%)</i>	<i>46.9</i>	<i>51.0</i>	<i>48.4</i>	<i>-8.0%</i>	<i>-3.2%</i>
<b>Operating Profit</b>	<b>396.6</b>	<b>305.7</b>	<b>366.2</b>	<b>29.7%</b>	<b>8.3%</b>
Provisions	8.7	40.2	16.2	-78.2%	-46.1%
<b>PBT</b>	<b>387.8</b>	<b>265.5</b>	<b>349.9</b>	<b>46.1%</b>	<b>10.8%</b>
Tax	140.7	92.1	125.9	52.7%	11.7%
Effective tax rate (%)	36%	35%	36%		
<b>PAT (Before MI)</b>	<b>247.1</b>	<b>173.4</b>	<b>224.0</b>	<b>42.6%</b>	<b>10.3%</b>
Minority interest	2.1	0.0	1.8		
<b>PAT (After MI)</b>	<b>245.1</b>	<b>173.3</b>	<b>222.2</b>	<b>41.4%</b>	<b>10.3%</b>
Equity Capital	168.5	168.4	168.5		
<b>EPS (Rs.)</b>	<b>2.9</b>	<b>2.1</b>	<b>2.7</b>	<b>42.5%</b>	<b>10.3%</b>
<b>Asset Quality</b>					
GNPA (%)	0.6	0.7	0.7		
NNPA (%)	0.3	0.4	0.2		
ROA (%)	5.2	4.5	4.8		
ROE (%)	23.0	19.0	21.8		
<b>AUM</b>	<b>17783</b>	<b>14700</b>	<b>17191</b>	<b>21.0%</b>	<b>3.4%</b>
<b>AUM Break-up (%)</b>					
-Gold loans	70.4	77.3	73.3		
-Microfinance	18.0	14.4	15.9		
-Housing loans	2.7	2.3	2.6		
-Vehicle loans	5.5	3.4	4.8		
-Other loans	3.4	2.5	3.5		

## Financial Snapshot

### Income Statement

Year/Ended March (Rs.Cr)	FY18	FY19E	FY20E
Interest Income	3423.4	4030.6	4639.0
Interest Expenses	1027.7	1287.9	1584.7
<b>Net Interest Income</b>	<b>2395.7</b>	<b>2742.8</b>	<b>3054.3</b>
Other Income	53.2	73.8	83.3
Net Operating Income	2448.9	2816.6	3137.6
<b>Operating Expenses</b>	<b>1221.7</b>	<b>1328.4</b>	<b>1473.0</b>
- Staff Cost	616.7	742.8	861.5
- Other Operating Exp.	536.8	507.1	530.0
- Depreciation	68.3	78.5	81.4
<b>Pre-provisioning profits</b>	<b>1227.2</b>	<b>1488.2</b>	<b>1664.6</b>
Provisions	210.2	73.7	106.4
<b>Profit Before Taxes</b>	<b>1017.0</b>	<b>1414.4</b>	<b>1558.3</b>
Taxes	348.6	495.1	545.4
<b>Profit After Taxes</b>	<b>668.4</b>	<b>919.4</b>	<b>1012.9</b>
% Growth	-12%	38%	10%

### Balance Sheet

Year/Ended March (Rs.Cr)	FY18	FY19E	FY20E
<b>LIABILITIES</b>			
Share Capital	168.5	168.5	168.5
Reserves & Surplus	3667.7	4384.3	5193.6
Shareholders Fund	3836.2	4552.8	5362.1
Minority interest	26.7	44.1	65.9
Borrowings	12593.5	15103.6	17912.1
Non-current liabilities	75.6	123.8	123.8
Current liabilities & provisions	697.8	578.3	649.9
<b>Total Liabilities</b>	<b>17229.7</b>	<b>20402.5</b>	<b>24113.8</b>
<b>ASSETS</b>			
Fixed Assets	308.4	269.9	228.5
Investments	5.1	5.1	5.1
Advances	15557.5	18919.6	22086.8
Cash and Bank Balances	747.3	453.8	947.0
Other assets	611.5	754.1	846.4
<b>Total Assets</b>	<b>17229.7</b>	<b>20402.5</b>	<b>24113.8</b>

### Ratio Analysis

Year/Ended March	FY18	FY19E	FY20E
<b>Key Ratios</b>			
EPS (Rs.)	8.0	10.7	11.8
Book Value per share	45.5	54.0	63.6
Adjusted Book Value	44.5	52.8	61.9
RoE	18.6%	21.5%	20.0%
RoA	4.1%	4.9%	4.6%
<b>Asset Quality</b>			
Gross NPAs	0.7%	1.1%	1.2%
Net NPAs	0.3%	0.6%	0.7%
Provision Coverage Ratio	57.1%	47.5%	43.4%
NIM	16.0%	15.7%	14.9%
Cost of Funds	10.2%	9.3%	9.6%
<b>Valuations</b>			
P/E (X)	12.2	9.1	8.2
P/BV (X)	2.1	1.8	1.5
P/ABV (X)	2.2	1.8	1.6

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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