

CMP: Rs 189

Rating: Hold

Target Price: Rs 198

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.)	15,936
52w H/L (Rs)	191/90
Monthly Avg Vol (BSE+NSE)	2,977,640

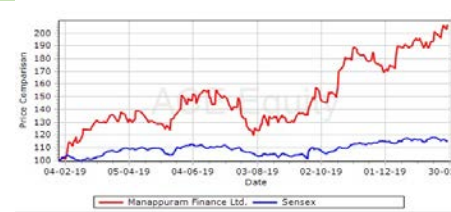
Shareholding Pattern	%
(As on September, 2019)	
Promoters	35.1
DII	5.7
FII	44.3
Public & Others	14.9

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Manappuram Finance	15.1	66.5	97.3
SENSEX	2.8	8.7	14.9

Source: ACE Equity, Arihant Research

Manappuram v/s SENSEX



Source: ACE Equity, Arihant Research

Manappuram Finance (MFL) reported another impressive quarter with better than expected profit growth of 63% YoY to Rs 402 cr. The higher profit growth was mainly driven by increase in gold prices which led to healthy rise in gold loan AUM. Overall, AUM growth was strong at 36% YoY/6% QoQ to Rs 24,100 cr. On the back of strong loan growth, NII for the quarter grew by 31% YoY to Rs 953 cr. Strong operating income growth and moderation in cost-income ratio resulted into operating profit growth of 50% YoY to Rs 594 cr. NIM remained largely stable at 16.3%, +2bps QoQ. Asset quality in the gold book remained steady while MFI subsidiary's GNPA increased to 1.34% from 0.86% QoQ, due to some disruption in Karnataka. Cost-income ratio further improved to 38.7% vs. 40.2% QoQ, due to rationalization of security costs and higher operating income growth. We maintain our Hold rating on the stock with a revised target price of Rs 198 (Rs 177 earlier).

Company has recorded highest ever loan growth

Consolidated AUM for the quarter grew sharply by 36% YoY/6% QoQ. Gold loan AUM growth was strong at 29% YoY/6% QoQ, driven by increase in gold holding which was up by 2% QoQ. Company expects to sustain current growth in coming quarter. Share of non-gold business in the total AUM stood at 32.6% vs. 33.1% QoQ.

Asirvad Microfinance reported strong operating performance

Asirvad microfinance has delivered robust advances growth of 57% YoY/6% QoQ. The MFI book now constitutes >20% of overall portfolio. Profit growth was at 79% YoY to Rs 59 cr while NII growth was at 76% YoY to Rs 157 cr. GNPA in MFI book has risen substantially to 1.34% vs. 0.86% QoQ. Besides, during the quarter, the company has made additional provisions of Rs 16 cr, recognising the risk in Karnataka.

Key Concall takeaways:

- Company is not facing any liquidity issue, as they are getting funds from all the sources. Company has raised \$300 mn through medium term notes programme in order to diversify borrowing profile and reduce dependency on short term borrowings.
- Gold loan business growth was better than guidance, which is driven by increase in gold holding and prices. The average LTV in gold loan is ~61% and average ticket size is Rs 36,500 (50% of this is high ticket and more than Rs 1 lac).

(Concall highlights continued on page 2)

Outlook and Valuation

MFL's 9MFY20 performance was robust. Company is continuously gaining advantage from rising gold prices as its core gold loan business is continuously accelerating. With all round strong performance from core as well as non-core portfolio, the company is well poised to deliver strong return ratios. With its strong operating efficiency, adequately capitalized and high yielding business, we believe MFL will sustain RoA/RoE of >5%/22%. Factoring strong 9MFY20 results, we have raised our loan growth estimates to 25% CAGR from 23% CAGR for the period of FY19-21E. At CMP of Rs 189, the stock trades at 2.2x P/ABV to its FY21E. We assign a P/ABV multiple of 2.3x on FY21E Adj. BV of Rs 86 and arrive at a target price of Rs 198 per share. We maintain our **'Hold'** rating on the stock. Any major fall in Gold price and asset quality risk in MFI portfolio is the key risk to company's business.

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Q3FY20 Financial Snapshot:

Particulars (in Crore)	Q3FY20	Q3FY19	Q2FY20	YoY	QoQ
Net interest income	952.5	727.2	861.9	31.0%	10.5%
Other Income	15.2	19.6	47.3	-22.3%	-67.8%
Net Operating income	967.7	746.8	909.2	29.6%	6.4%
Operating expenses	374.2	350.2	365.4	6.9%	2.4%
<i>Cost-Income ratio (%)</i>	<i>38.7</i>	<i>46.9</i>	<i>40.2</i>		
Operating Profit	593.5	396.6	543.8	49.7%	9.1%
Provisions	49.1	8.7	29.3	462.0%	67.4%
PBT	544.4	387.8	514.4	40.4%	5.8%
Tax	142.1	140.7	106.8	1.0%	33.1%
Effective tax rate (%)	26%	36%	21%		
PAT (Before MI)	402.2	247.1	407.6	62.8%	-1.3%
Asset Quality					
GNPA (%)	0.5	0.6	0.6		
NNPA (%)	0.2	0.3	0.3		
Return Ratios					
ROA (%)	6.3	5.2	5.7		
ROE (%)	26.8	23.0	24.1		
AUM	24100	17783	22677	35.5%	6.3%
AUM Break-up (%)					
-Gold loans	16143.0	12524.9	15168.3	28.9%	6.4%
-Microfinance	5022.1	3195.2	4724.3	57.2%	6.3%
-Housing loans	601.2	478.0	567.9	25.8%	5.9%
-Vehicle loans	1397.4	975.5	1317.8	43.2%	6.0%
-Other loans	836.2	609.5	898.7	37.2%	-6.9%

Concall Highlights:

- Asirvad microfinance continuously outperforming industry growth rate which is driven by customer additions as average ticket size is broadly similar at Rs 22,000. Earlier there was a State-wise cap of 10% of the total portfolio; now a District level cap has been set at 0.5% from 1%.
- MFI Portfolio in Assam is only Rs 47 cr as on Q3FY20; Hence, company is not affected by the problems over there.
- Operating leverage benefit should continue in subsequent quarters as operating expense growth has trailed AUM growth. Opex ratio is expected to decline further by 100 bps in FY21.
- Karnataka exposure is Rs 36 cr which may face problem due to local political issue and of this Rs 16 cr was already provided during the quarter.
- Cost of borrowing has reduced from 9.3% in Q2FY20 to 9.1% in Q3FY20.
- Company is well placed with respect to ALM.

Income Statement

Year/Ended March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	4116	5035	5984
Interest Expenses	1319	1604	1950
Net Interest Income	2797	3430	4034
Other Income	63	89	104
Net Operating Income	2859	3519	4138
Operating Expenses	1386	1473	1625
- Staff Cost	720	862	991
- Other Operating Exp.	666	611	635
Pre-provisioning profits	1473	2047	2512
Provisions	46	129	115
Profit Before Taxes	1427	1917	2397
Taxes	498	483	603
Profit After Taxes	929	1435	1794
% Growth	37%	54%	25%

Balance Sheet

Year/Ended March (Rs.Cr)	FY19	FY20E	FY21E
LIABILITIES			
Share Capital	169	169	169
Reserves & Surplus	4356	5636	7208
Shareholders Fund	4525	5804	7377
Minority interest	46	74	113
Borrowings	15296	19897	23730
Other liabilities	588	771	860
Current liabilities & provisions	459	647	737
Total Liabilities	20455	26546	32080
ASSETS			
Fixed Assets	367	423	486
Investments	174	175	175
Advances	17813	23723	27855
Cash and Bank Balances	1164	1279	2555
Other assets	937	946	1010
Total Assets	20455	26546	32080

Ratio Analysis

Year/Ended March	FY19	FY20E	FY21E
Growth Ratios (%)			
Net Interest Income	17.0%	22.6%	17.6%
Net Operating Income	16.8%	23.1%	17.6%
Pre-provisioning Profit	21.3%	38.9%	22.8%
PAT	37.4%	54.3%	25.0%
Advances	16.9%	33.2%	17.4%
Borrowings	21.3%	30.1%	19.3%
Spreads (%)			
Yield on Advances	23.2%	23.3%	23.2%
Borrowing Cost	9.3%	9.1%	9.1%
Spreads	13.7%	14.1%	14.0%
NIMs	15.7%	15.8%	15.5%
Asset Quality			
Gross NPAs	0.5%	0.8%	0.9%
Net NPAs	0.3%	0.5%	0.5%
Provision Coverage Ratio	35.6%	40.8%	42.7%
Return Ratios			
RoE	22.1%	27.2%	26.6%
RoA	5.0%	6.1%	6.1%
Per Share Data			
EPS (Rs.)	10.9	16.7	20.8
Book Value per share	53.7	68.9	87.6
Adjusted Book Value	52.7	67.5	85.9
Valuations			
P/E (X)	17.3	11.3	9.1
P/BV (X)	3.5	2.7	2.2
P/ABV (X)	3.6	2.8	2.2

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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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