

CMP: Rs 121

Rating: Buy

Target Price: Rs 151

(NR-Not Rated)

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.)	10,156
52w H/L (Rs)	130/66
Monthly Avg Vol (BSE+NSE)	1,929,350

Shareholding Pattern %

(As on March, 2019)	
Promoters	35.1
DII	3.9
FII	44.1
Public & Others	16.9

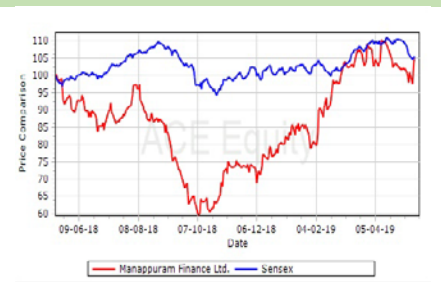
Source: NSE, Arihant Research

Stock Performance (%)

	3m	6m	12m
Manappuram Finance	16.0	38.6	4.4
SENSEX	3.6	5.3	4.4

Source: ACE Equity, Arihant Research

Manappuram v/s SENSEX



Source: ACE Equity, Arihant Research

Manappuram Finance (MFL) delivered strong topline and bottomline performance during Q4FY19. Consolidated AUM for the quarter grew by 23%YoY/9% QoQ, supported by non-gold book. Strong growth in advances, led to healthy NII growth of 18% YoY. PPOp grew by 21% YoY to Rs 386 cr, led by strong operating income growth and moderating OPEX. PAT for the quarter surged by 41%YoY to Rs 257 cr largely due to lower provisions (-87% YoY). NIM fell by 90bps QoQ, largely attributable to high growth in lesser yielding segment. Non-gold business of the company, mainly MFI business continued to show strong traction. Share of non-core business in total AUM rose by 380bps QoQ to 33.3%. We retain our Buy rating on the stock with a revised target price of Rs 151.

Gold loan growth is sustainable while non-gold book is growing rapidly

During Q3FY19, company has faced some slowdown in gold book, which is back to growth in Q4FY19. Gold loan AUM grew by 10.5% YoY/ 3.5% QoQ. Gold auctions dragged from Rs 187 cr to Rs 67 cr.

Robust performance by MFI subsidiary Asirvad finance

Asirvad microfinance delivered strong portfolio growth of 58% YoY/20% QoQ. Its contribution in total advances stood at 20%, which was 18% in Q3FY19. Asirvad's profit for quarter came in at Rs 41 cr vs Rs 17 cr YoY. Asirvad MFI asset quality witnessed an improvement of 31bps QoQ with GNPA at 0.48%.

Key Concall takeaways:

- Average LTV during the quarter was 65% of the current gold price. Auctions during the quarter were Rs 67 cr.
- The company expects gold loan to grow by 10% in terms of tonnage.
- The company expects 60-70% growth in the vehicle finance business in FY20 with maintaining asset quality.
- The company is aiming for a 50% share of the non-gold loan business in next 2 years.
- Indian financial services industry is facing liquidity crunch from the last 2 quarters. However, the company stated that it hasn't faced any significant issues.
- The company expects reduction in cost of funds on account of benefit from RWA linkage to credit ratings and reduction in policy rate.
- OGL (online gold loans) form ~39% of the total gold loan.
- Security cost during the quarter was Rs 17 cr compared to Rs 22 cr in Q3FY19.
- Total number of employees were 25,610 as of March 2019.
- C/I ratio is expected to decline by 1-1.5% in FY20.
- The company is acquiring Manappuram asset finance which has a loan book of Rs 200 cr and net worth of Rs 23 cr. Manappuram Asset Finance does mostly MSME loans against collateral, pledged vehicle loans (mostly LCVs).

Valuation

Manappuram has posted good result supported by non-gold business. Growth of non-gold business remains the key to re-rating. Superior asset quality, diversified business, ALM surplus and high CAR ratio are key positives for the stock. Odisha cyclone has minimal impact on business. **We are positive on the stock from longer term prospective. At CMP of Rs. 121, stock is trading at 1.6x of its FY21E P/ABV. We have valued the stocks at 2x its FY21E ABV and arrived at target price of Rs 151 per share, which yields 25% upside. We have 'BUY' Rating on the stock.**

Q4FY19 Financial Snapshot:

Particulars (in Crore)	Q4FY19	Q4FY18	Q3FY19	YoY	QoQ
Net interest income	731.1	621.7	727.2	17.6%	0.5%
Other Income	18.5	11.4	19.6	61.9%	-5.9%
Net Operating income	749.5	633.1	746.8	18.4%	0.4%
Operating expenses	363.7	313.9	350.2	15.9%	3.9%
<i>cost-Income ratio (%)</i>	<i>48.5</i>	<i>49.6</i>	<i>46.9</i>	<i>-2.1%</i>	<i>3.5%</i>
Operating Profit	385.8	319.2	396.6	20.9%	-2.7%
Provisions	5.7	43.2	8.7	-86.9%	-35.0%
PBT	380.1	275.9	387.8	37.8%	-2.0%
Tax	121.8	92.8	140.7	31.3%	-13.4%
Effective tax rate (%)	32%	34%	36%		
PAT (Before MI)	258.3	183.2	247.1	41.0%	4.5%
Minority interest	1.5	1.0	2.1		
PAT (After MI)	256.9	182.2	245.1	41.0%	4.8%
Equity Capital	168.5	168.5	168.5		
EPS (Rs.)	3.1	2.2	2.9	41.0%	4.5%
Asset Quality					
GNPA (%)	0.5	0.7	0.6		
NNPA (%)	0.3	0.3	0.3		
ROA (%)	5.2	4.4	5.2		
ROE (%)	23.1	19.3	23.0		
AUM	19438	15765	17783	23.3%	9.3%
AUM Break-up (%)					
Gold loans	12961.5	11735.0	12524.9	10.5%	3.5%
Microfinance	3840.8	2437.2	3195.2	57.6%	20.2%
Housing loans	518.8	374.7	478.0	38.5%	8.5%
Vehicle loans	1114.6	625.4	975.5	78.2%	14.3%
Other loans	1002.8	592.5	609.5	69.2%	64.5%

Income Statement

Year/Ended March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	4116.3	4793.9	5545.9
Interest Expenses	1319.4	1634.1	1936.4
Net Interest Income	2796.9	3159.8	3609.4
Other Income	62.5	85.7	97.4
Net Operating Income	2859.4	3245.4	3706.8
Operating Expenses	1386.0	1473.0	1625.4
- Staff Cost	720.1	861.5	990.7
- Other Operating Exp.	665.9	530.0	557.1
- Depreciation	0.0	81.4	77.6
Pre-provisioning profits	1473.4	1772.5	2081.4
Provisions	46.1	109.4	114.2
Profit Before Taxes	1427.3	1663.1	1967.1
Taxes	497.8	582.1	688.5
Profit After Taxes	929.5	1081.0	1278.6
% Growth	37%	16%	18%

Balance Sheet

Year/Ended March (Rs.Cr)	FY19	FY20E	FY21E
LIABILITIES			
Share Capital	168.6	168.6	168.6
Reserves & Surplus	4356.1	5286.2	6351.5
Shareholders Fund	4524.7	5454.8	6520.1
Minority interest	45.9	69.9	101.5
Borrowings	15296.3	18678.5	22431.0
Other liabilities	588.1	735.2	822.5
Total Liabilities	20455.0	24938.4	29875.1
ASSETS			
Fixed Assets	367.5	422.6	486.0
Investments	173.8	175.0	175.0
Advances	17812.9	22524.0	26574.6
Cash and Bank Balances	1164.2	898.4	1671.6
Other assets	936.7	918.4	967.8
Total Assets	20455.0	24938.4	29875.1

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)	11.1	9.6	0.0
P/BV (X)	2.3	1.9	1.6
P/ABV (X)	2.3	1.9	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%

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