

CMP: Rs 160

Rating: Accumulate

Target Price: Rs 183

Stock Info

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)	13,517
52w H/L (Rs)	195/ 74
Avg Yearly Vol (in 000')	8,441

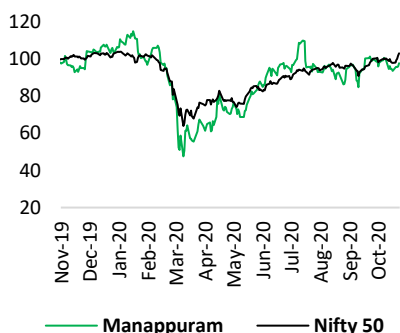
Shareholding Pattern %

(As on September, 2020)

Promoters	35.00
FII	39.01
DII	8.76
Public & Others	17.23

Stock Performance (%)	3m	6m	12m
Manappuram Finance	4.9	31.7	-3.1
Nifty 50	9.5	32.3	2.5

Manappuram Vs Nifty



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Manappuram Finance's (MFL) Q2FY21 result was ahead of our estimates with reported PAT at Rs 405 cr vs. our estimate of Rs 391 cr. Core business of the company continued to be strong while non-gold business performance was down. NII for the quarter grew by 15% YoY/5% QoQ to Rs 995 cr, led by 19% YoY growth in consolidated AUM. Operating profit for the quarter grew by 20% YoY/2% QoQ to Rs 652 cr. Provision continued to remain higher at Rs 108 cr as against Rs 145 cr in Q1FY21, on account of provisioning of Rs 66 cr by Asirvad Microfinance for Covid and has provided total Rs 196 cr so far for Covid impact. GNPA ratio in gold loan business declined to 1.1% from 1.3% QoQ while asset quality in non-gold business deteriorated further. Collection efficiency has improved across segments (non-gold portfolio) from low of 55%/75%/76% in June to 90%/106%/92% in Oct'20 for MFI, Vehicle finance and housing loans.

Loan growth driven by Gold loan business

Consolidated AUM during the quarter grew by 19% YoY/6% QoQ to Rs 26,903 cr, driven by gold business. Gold Loan AUM growth remained strong at 30% YoY/11% QoQ, supported by increase in gold prices despite a decline in tonnage. Gold holdings declined marginally by 0.3% QoQ to 68.8 tonnes. Average ticket size in gold loan grew by 9% QoQ to Rs 46,500 with average LTV at 61%. Microfinance/Housing loan portfolio has declined by 1% each while CV loans de-grew by 16% QoQ. Share of non-gold business to the total AUM declined further to 27% vs. 30% QoQ. The management has guided gold loan growth to be in line with the market growth going ahead.

Asirvad Microfinance reported weak performance

Company's MFI subsidiary Asirvad microfinance has reported lower AUM growth of +5% YoY/-1.3% QoQ to Rs 4,971 cr. NII decreased by 22% YoY/2% QoQ to Rs 137 cr while PPOP de-grew by 48%YoY/27% QoQ to Rs 61 cr. Asirvad microfinance has reported second consecutive quarter of loss of Rs 2.4 cr (Rs 5 cr in H1FY21), largely due to higher provision. MFI GNPA stood at 2.53% (up 43bps QoQ) while NNPA was nil. Collection efficiency across states has been improving and the trend is expected to improve going forward as well. 87% customers have made complete payment while 9% have not paid any installment. Collection efficiency in its MFI business stood at 90% as of Oct'20.

Key takeaways from conference call:

1. Doorstep gold loan facility launched last year and it was extended to all branches post covid. Gold loan demand is expected to be good in H2FY21.
2. Online gold loan book share stood at 61% vs 48% pre-covid.
3. During the quarter, gold loan disbursements stood at Rs 93368 cr as compared to Rs 68,390 cr in 1QFY21.
4. Gold loan average ticket size stands at Rs 46,499 and average duration stands at 47 days. Average LTV stands 61% (Rs 2,869 loan per gm).
5. During the quarter company has raised fresh borrowing of Rs 2,904 cr through term loan, WC and NCD. Undrawn bank lines stands at Rs 1,140 cr.
6. Liquidity position remains comfortable and the company has been able to roll over CPs at lower rates.
7. No significant restructuring of loans (0.15% of Standalone AUM).

Outlook and Valuation

We continue to see good traction in its core gold loan portfolio which we believe will continue. However, Non-gold business of the company reported weak performance and asset quality in its non-gold business will be key monitorable. Going forward, we could see some pain in its non gold portfolio and growth will remain moderate. Due to its high yielding gold business which is major part of its AUM (73.4%), company has the potential to deliver RoA/RoE of 5.6%/23% by FY22E. We continue to value the stock at 1.8x P/ABV to its FY22E ABV of Rs 102 and arrive at a fair value of Rs 183 per share. We maintain our Accumulate rating on the stock.

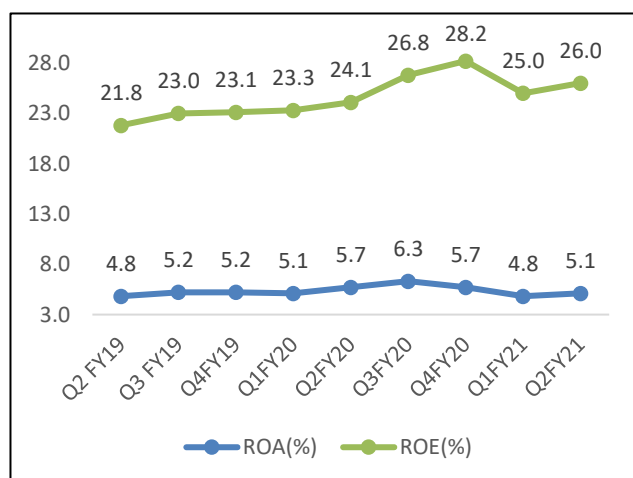
Q2FY21 result Snapshot

Particulars (in Crore)	Q2FY21	Q2FY20	Q1FY21	YoY	QoQ
Net interest income	994.6	861.9	945.7	15.4%	5.2%
Other Income	12.3	47.3	3.9	-73.9%	212.9%
Net Operating income	1007.0	909.2	949.6	10.8%	6.0%
Operating expenses	354.5	365.4	312.1	-3.0%	13.6%
cost-Income ratio (%)	35.2	40.2	32.9		
Operating Profit	652.4	543.8	637.6	20.0%	2.3%
Provisions	108.0	29.3	145.3	268.2%	-25.6%
PBT	544.4	514.4	492.3	5.8%	10.6%
Tax	139.0	106.8	124.3	30.1%	11.8%
Effective tax rate (%)	26%	21%	25%		
PAT (Before MI)	405.4	407.6	368.0	-0.5%	10.2%
Asset Quality					
GNPA (%)	1.1	0.6	1.3	50bps	-15bps
NNPA (%)	0.7	0.3	0.7	40bps	0bps
Return Ratios					
ROA (%)	5.1	5.7	4.8	-60bps	30bps
ROE (%)	26.0	24.1	25.0	190bps	100bps
Total AUM					
Total AUM	26903	22677	25346	18.6%	6.1%
-Gold loans	19736	15168	17737	30.1%	11.3%
-Microfinance	4971	4724	5038	5.2%	-1.3%
-Housing loans	621	568	627	9.3%	-1.1%
-Vehicle loans	1062	1318	1270	-19.4%	-16.4%
-Other loans	513	899	673	-42.9%	-23.8%

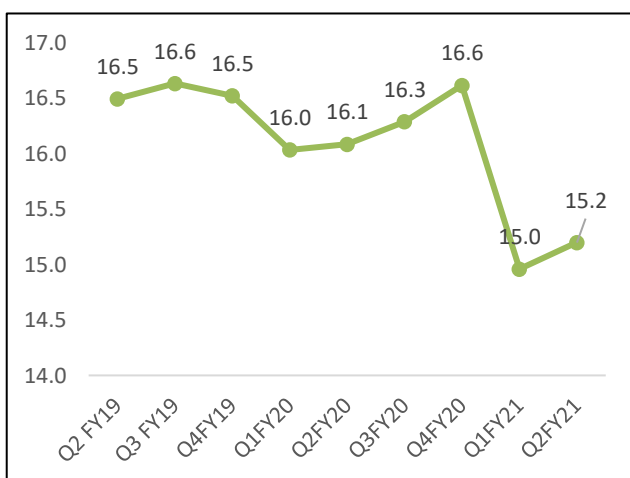
Collection Efficiency Trend (Apr'20 - Sep'20)

in %	April	May	June	July	Aug	Sep	Oct
MFI	2%	17%	55%	69%	75%	90%	90%
Vehicle Finance	43%	59%	75%	86%	89%	93%	106%
Housing Finance	49%	60%	76%	85%	91%	95%	92%

Return Ratios trend (%)



NIM trend (%)



Key Financials

Income Statement

Year/Ended March (Rs.Cr)	FY19	FY20	FY21E	FY22E
Interest Income	4116	5465	5787	6387
Interest Expenses	1319	1832	1920	2193
Net Interest Income	2797	3633	3867	4194
Other Income	63	86	101	110
Net Operating Income	2859	3719	3968	4304
Operating Expenses	1386	1474	1590	1670
- Staff Cost	720	830	991	1124
- Other Operating Exp.	666	644	599	546
Pre-provisioning profits	1473	2245	2378	2634
Provisions	46	238	332	121
Profit Before Taxes	1427	2007	2046	2513
Taxes	498	527	515	632
Profit After Taxes	929	1480	1531	1880
% Growth	37%	59%	3%	23%

Balance Sheet

Year/Ended March (Rs.Cr)	FY19	FY20	FY21E	FY22E
LIABILITIES				
Share Capital	169	169	169	169
Reserves & Surplus	4356	5577	7023	8684
Shareholders Fund	4525	5746	7192	8853
Minority interest	46	58	81	119
Borrowings	15296	21817	23319	25565
Other liabilities & provisions	588	1330	1067	1156
Total Liabilities	20455	28951	31659	35692
ASSETS				
Fixed Assets	367	331	380	437
Investments	174	90	175	175
Advances	17813	23189	26132	29201
Cash and Bank Balances	1164	3646	3623	4506
Other assets	937	1695	1349	1372
Total Assets	20455	28951	31659	35692

Ratio Analysis

Year/Ended March	FY19	FY20	FY21E	FY22E
Growth Ratios (%)				
Net Interest Income	17.0%	29.9%	6.4%	8.5%
Net Operating Income	16.8%	30.1%	6.7%	8.5%
Pre-provisioning Profit	21.3%	52.4%	5.9%	10.8%
PAT	37.4%	59.3%	3.4%	22.8%
Advances	16.9%	30.2%	12.7%	11.7%
Borrowings	21.3%	42.6%	6.9%	9.6%
Spreads (%)				
Yield on Advances	23.2%	23.3%	23.2%	23.0%
Borrowing Cost	9.3%	9.5%	9.1%	9.1%
Spreads	13.7%	13.7%	14.0%	13.9%
NIMs	15.7%	16.7%	15.4%	15.1%
Asset Quality				
Gross NPAs	0.5%	0.9%	2.4%	2.2%
Net NPAs	0.3%	0.5%	1.1%	0.9%
Provision Coverage Ratio	35.6%	40.8%	53.7%	57.4%
Return Ratios				
RoE	22.1%	28.6%	23.3%	23.0%
RoA	5.0%	6.0%	5.1%	5.6%
Per Share Data				
EPS (Rs.)	10.9	17.4	17.9	21.9
Book Value	53.7	68.2	85.4	105.1
Adjusted Book Value	52.7	66.8	81.9	101.8
Valuations				
P/E (X)	14.6	9.2	8.9	7.3
P/BV (X)	3.0	2.3	1.9	1.5
P/ABV (X)	3.0	2.4	2.0	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% to -12%
SELL	<-12%

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