

**Strong operating performance; Collection efficiency has improved across the segment**

**CMP: Rs 164**

**Rating: BUY**

**Target Price: Rs 199**

**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)	13,937
52w H/L (Rs)	192/ 74
Avg Yearly Vol (in 000')	9,151

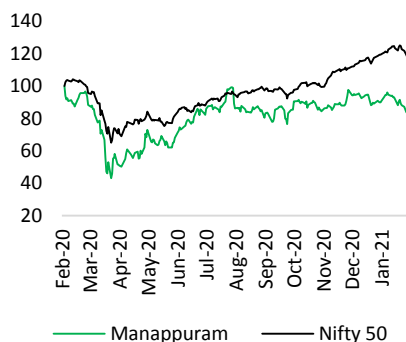
**Shareholding Pattern %**

(As on December, 2020)

Promoters	35.00
FII	39.53
DII	9.15
Public & Others	16.32

Stock Performance (%)	3m	6m	12m
Manappuram Finance	5.6	3.5	-10.9
Nifty 50	22.7	29.0	22.5

**Manappuram Vs Nifty**



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Manappuram Finance's (MFL) Q3FY21 result was ahead of our estimates with reported PAT at Rs 482 cr vs. our estimate of Rs 379 cr led by strong operating performance coupled with margin expansion. Core portfolio of the company slowed down sequentially but remained healthy. NII for the quarter grew by 14% YoY/9% QoQ to Rs 1,087 cr, led by 15% YoY growth in consolidated AUM and sharp margin expansion of 71bps qoq to 15.9%. Operating profit for the quarter grew by 24% YoY/13% QoQ to Rs 738 cr, driven strong NII growth and controlled OPEX. Provision for the quarter stood at Rs 80 cr (+63% YoY/-26% QoQ). GNPA ratio in the standalone entity increased marginally to 1.3% from 1.1% in Q2FY21 and GNPA in micro finance also saw marginal increase to 2.6% from 2.5% QoQ. Collection efficiency has improved across the segments (non-gold portfolio) from 90%/93%/95% in Sep'20 to 99%/112%/97% in Dec'20 in MFI, Vehicle finance and housing loans respectively.

**Gold loan growth slowed down**

Consolidated AUM during the quarter grew by 15% YoY/3% QoQ to Rs 27,642 cr as compared to 19% growth in the previous quarter led by decline in gold loan. Gold Loan AUM saw a growth of 24% YoY (+30% YoY in Q2FY21) led by decline in gold holdings and stable ticket size. Gold holdings has declined by 1% QoQ to 68.2 tonnes. The company has acquired 67k new customers in 3QFY21, taking the total at 2.6mn with stable average ticket size at 46.3K. MFI/housing grew by 7%/5% YoY respectively while CV segment declined by 29% YoY. Share of non-gold business to the total AUM stood at 26.9% vs. 26.6% QoQ.

**Asirvad Microfinance portfolio turned profitable**

Following the two quarter of decline in AUM, Asirvad microfinance has reported 8% QoQ growth in AUM at Rs 5,358 cr. While the collection efficiency in MFI book was at 91%/93% in Oct/Nov'20, it has jumped to 99% in Dec'20. NII increased by 7% QoQ to Rs 146 cr while PPOP grew by 8% QoQ to Rs 66 cr. Asirvad microfinance has reported profit of Rs 18 cr as against loss of Rs 2.4 cr in the previous quarter. MFI GNPA stood at 2.63% (up 10bps QoQ) while NNPA was nil.

**Key takeaways from conference call:**

1. Gold loan average ticket size stands at Rs 46.3K and average duration stands at 75 days. Average LTV stands at 63% (Rs 2,963 loan per gm).
2. Company has applied with RBI to open 300 branches and expect permission will come soon.
3. Management has stated that Banks have gained market share over NBFC recently, largely due to temporary LTV advantage given to the Banks (90% cap for banks v/s 75% for NBFCs).
4. Company aims to achieve 15% YoY loan growth in FY22.
5. Company has made additional covid provision of Rs 48 cr in Q3FY21 taking the total provision at Rs 322 cr towards microfinance portfolio.
6. In MFI business, 0+DPD accounts was at Rs 1,044 cr in Sep'20 and in Dec'20 it was at Rs 935 cr which has come down further in January.
7. Company has raised Rs 600 cr from LIC for a tenure of 7 years. In Q3FY21, it has raised Rs 1,925 cr through term loans, WC/DL and NCD.
8. Cash & cash equivalent stands at Rs 2,640 cr and have undrawn bank line of Rs 2,502 cr and carrying surplus liquidity across all business.

**Outlook and Valuation:** We continue to see good traction in its core gold loan portfolio with healthy AUM growth and controlled OPEX. Cost of funds has declined by 18bps QoQ in Q3FY21 which has resulted margins improvement. Also, Non-gold business of the company started showing improvement thus aiding into the profitability. We believe company has the potential to deliver RoA/RoE of 6%/24% by FY23E driven by high spread business and operating leverage. We rollover our estimates to FY23E and value the stock at 1.5x P/ABV to its FY23E ABV of Rs 133 to arrive at a fair value of Rs 199 per share. We upgrade our rating to Buy from Accumulate earlier.

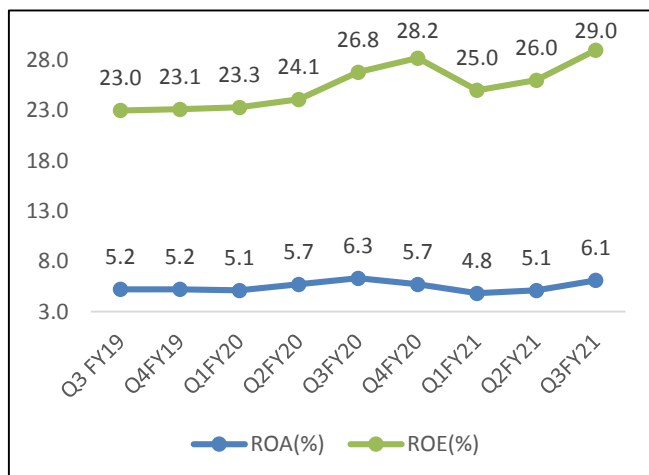
**Q2FY21 result Snapshot**

Particulars (in Crore)	Q3FY21	Q3FY20	Q2FY21	YoY	QoQ
<b>Net interest income</b>	<b>1086.6</b>	<b>952.5</b>	<b>994.6</b>	<b>14.1%</b>	<b>9.2%</b>
Other Income	6.2	15.2	12.3	-59.4%	-49.8%
<b>Net Operating income</b>	<b>1092.8</b>	<b>967.7</b>	<b>1007.0</b>	<b>12.9%</b>	<b>8.5%</b>
Operating expenses	355.3	374.2	354.5	-5.1%	0.2%
cost-Income ratio (%)	32.5	38.67	35.2		
<b>Operating Profit</b>	<b>737.5</b>	<b>593.5</b>	<b>652.4</b>	<b>24.3%</b>	<b>13.0%</b>
Provisions	80.2	49.1	108.0	63.3%	-25.8%
<b>PBT</b>	<b>657.3</b>	<b>544.4</b>	<b>544.4</b>	<b>20.7%</b>	<b>20.7%</b>
Tax	174.1	142.1	139.0	22.5%	25.3%
Effective tax rate (%)	26%	26%	26%		
<b>PAT (After MI)</b>	<b>482.2</b>	<b>399.1</b>	<b>405.6</b>	<b>20.8%</b>	<b>18.9%</b>
<b>Asset Quality</b>					
GNPA (%)	1.3	0.5	1.1	80bps	20bps
NNPA (%)	0.8	0.2	0.7	60bps	10bps
<b>Return Ratios</b>					
ROA (%)	6.1	6.3	5.1	-20bps	100bps
ROE (%)	29.0	26.8	26.0	220bps	300bps
<b>AUM</b>					
<b>AUM</b>	<b>27642</b>	<b>24100</b>	<b>26903</b>	<b>14.7%</b>	<b>2.7%</b>
-Gold loans	20212	16243	19736	24.4%	2.4%
-Microfinance	5358	5022	4971	6.7%	7.8%
-Housing loans	633	601	621	5.4%	2.1%
-Vehicle loans	988	1397	1062	-29.3%	-7.0%
-Other loans	452	836	513	-46.0%	-11.9%

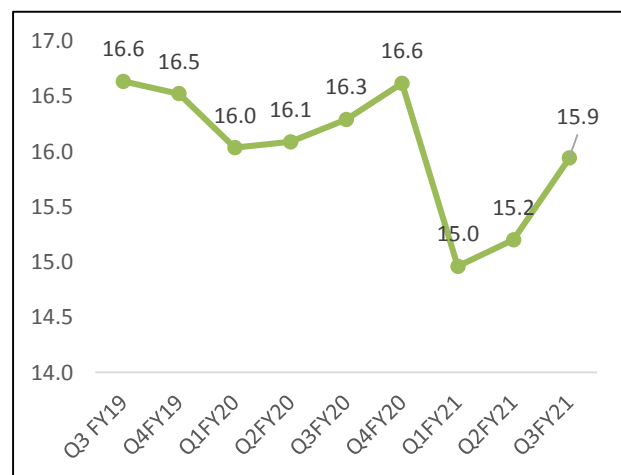
**Collection Efficiency Trend (Jun'20 - Dec'20)**

in %	June	July	Aug	Sep	Oct	Nov	Dec
MFI	55%	69%	75%	90%	90%	93%	99%
Vehicle Finance	75%	86%	89%	93%	106%	110%	112%
Housing Finance	76%	85%	91%	95%	92%	94%	97%

**Return Ratios trend (%)**



**NIM trend (%)**



## Key Financials

## Income Statement

Year/Ended March (Rs.Cr)	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	4116	5465	6005	6884	7783
Interest Expenses	1319	1832	1991	2359	2706
<b>Net Interest Income</b>	<b>2797</b>	<b>3633</b>	<b>4015</b>	<b>4525</b>	<b>5077</b>
Other Income	63	86	104	118	132
Net Operating Income	2859	3719	4119	4643	5209
<b>Operating Expenses</b>	<b>1386</b>	<b>1474</b>	<b>1489</b>	<b>1567</b>	<b>1733</b>
- Staff Cost	720	830	912	1035	1174
- Other Operating Exp.	666	644	577	533	560
<b>Pre-provisioning profits</b>	<b>1473</b>	<b>2245</b>	<b>2630</b>	<b>3076</b>	<b>3475</b>
Provisions	46	238	424	243	141
<b>Profit Before Taxes</b>	<b>1427</b>	<b>2007</b>	<b>2207</b>	<b>2833</b>	<b>3334</b>
Taxes	498	527	553	710	836
<b>Profit After Taxes</b>	<b>929</b>	<b>1480</b>	<b>1654</b>	<b>2122</b>	<b>2497</b>
% Growth	37%	59%	12%	28%	18%

## Balance Sheet

Year/Ended March (Rs.Cr)	FY19	FY20	FY21E	FY22E	FY23E
<b>LIABILITIES</b>					
Share Capital	169	169	169	169	169
Reserves & Surplus	4356	5577	7141	9035	11340
Shareholders Fund	4525	5746	7309	9204	11509
Minority interest	46	58	76	111	111
Borrowings	15296	21817	24909	27661	31820
Other liabilities & provisions	588	1330	1179	1381	1520
<b>Total Liabilities</b>	<b>20455</b>	<b>28951</b>	<b>33473</b>	<b>38356</b>	<b>44959</b>
<b>ASSETS</b>					
Fixed Assets	367	331	380	437	503
Investments	174	90	175	175	175
Advances	17813	23189	27709	31357	35737
Cash and Bank Balances	1164	3646	3823	4897	6995
Other assets	937	1695	1386	1490	1549
<b>Total Assets</b>	<b>20455</b>	<b>28951</b>	<b>33473</b>	<b>38356</b>	<b>44959</b>

## Ratio Analysis

Year/Ended March	FY19	FY20	FY21E	FY22E	FY23E
<b>Growth Ratios (%)</b>					
Net Interest Income	17.0%	29.9%	10.5%	12.7%	12.2%
Net Operating Income	16.8%	30.1%	10.8%	12.7%	12.2%
Pre-provisioning Profit	21.3%	52.4%	17.2%	16.9%	13.0%
PAT	37.4%	59.3%	11.7%	28.3%	17.7%
Advances	16.9%	30.2%	19.5%	13.2%	14.0%
Borrowings	21.3%	42.6%	14.2%	11.0%	15.0%
<b>Spreads (%)</b>					
Yield on Advances	23.2%	23.3%	23.3%	23.2%	23.1%
Borrowing Cost	9.3%	9.5%	9.1%	9.1%	9.1%
Spreads	13.7%	13.7%	14.1%	14.1%	14.0%
NIMs	15.7%	16.7%	15.5%	15.2%	15.0%
<b>Asset Quality</b>					
Gross NPAs	0.5%	0.9%	2.2%	2.1%	1.9%
Net NPAs	0.3%	0.5%	1.0%	0.9%	0.9%
Provision Coverage Ratio	35.6%	40.8%	55.0%	54.8%	53.7%
<b>Return Ratios</b>					
RoE	22.1%	28.6%	24.9%	25.1%	24.0%
RoA	5.0%	6.0%	5.3%	5.9%	6.0%
<b>Per Share Data</b>					
EPS (Rs.)	10.9	17.4	19.3	24.6	29.5
Book Value	53.7	68.2	86.8	109.2	136.6
Adjusted Book Value	52.7	66.8	83.5	105.7	132.8
<b>Valuations</b>					
P/E (X)	15.0	9.4	8.5	6.7	5.6
P/BV (X)	3.1	2.4	1.9	1.5	1.2
P/ABV (X)	3.1	2.5	2.0	1.6	1.2

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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% to -12%
SELL	<-12%

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