

Profitability impacted due to lower yield and high OPEX

CMP: INR 128

Rating: Buy

Target Price: INR 160

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)	10,665
52w H/L (Rs)	224 / 122
Avg Yearly Vol (in 000')	5,648

Shareholding Pattern %

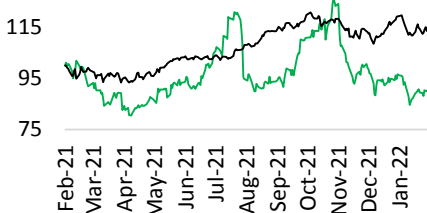
(As on December, 2021)

Promoters	35.1
FII	34.8
DII	13.2
Public & Others	17.0

Stock Performance (%) 1m 3m 12m

Manappuram Finance	(15.4)	(34.6)	(18.8)
Nifty	(7.7)	(6.7)	11.1

Manappuram Vs Nifty



— Manappuram Finance — Nifty 50

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Manappuram Finance (MFL) reported weak set of numbers during Q3FY22 with profit of INR 261 cr was 35% lower than our estimate of INR 412 cr, impacted due to shift from high yield to lower yielding gold loans coupled with increased cost on account of aggressive marketing efforts/ad-spend. To gain lost share of high ticket customer base and to compete with peers, company has changed its strategy and reduced the yield which has impacted the margin/spreads. Yield on advances of the company declined from 26% in Q1FY22 to 20.3% as on Q3FY22. Also, company has started promotional activities with advertising and incentives for employees translating in higher operating expense. Due to this change in business model, gold loan AUM of the company increased by 9% QoQ but it is coming at a lower rate which has impacted the spread and profitability. At current juncture, company is trying to maintain its market share and expect yield to maintain at ~21%.

Key Highlights:

- NII of the company decreased by 12% YoY/8% QoQ to INR 953 cr as compared to our estimate of INR 1,013 cr. Decline in NII was mainly due to compression in margins. NIM during the quarter declined by 267 bps QoQ at 12.97%.
- Operating profit for the quarter declined by 39% YoY/25% QoQ to INR 453 cr due to sharp increase in OPEX. Total OPEX increased by 47.1% YoY and 14% QoQ. Staff cost has increased by 40.7% YoY while other OPEX was up 62% YoY. During the quarter, the company spent INR 51 cr on advertisement, up 300% YoY and 126% QoQ. Company is focusing on OPEX reduction which has increased since last two quarters on the back of increasing incentives and higher ad-spend. Cost to income ratio of the company increased from 43.2% to 53.6% on a QoQ basis.
- Provision during the quarter remained elevated at INR 105 cr as compared to INR 108 cr in the previous quarter.
- Total AUM of the company rose by 10% YoY/7% QoQ to INR 30,407 cr, led by rise in gold portfolio by 8.8% QoQ (up 1% YoY) while non-gold portfolio grew by 3.5% QoQ.
- **Healthy sequential growth seen in Gold loans but at lower cost:** Gold AUM rose by 1% YoY/9% QoQ to INR 20,452 cr. Gold tonnage grew 8% QoQ to 70t. Within Gold loans, LTV declined by 200 bps QoQ to 65%, while average ticket size (ATS) rose to INR53K (v/s INR46K YoY and INR48K QoQ), driven by the healthy acquisition of higher ticket Gold loan customers. While the company have delivered strong outcome on asset growth, we see this growth coming in at the expense of lower yields (down 500bps QoQ).
- **Asset quality deteriorated marginally in MFI business:** MFI loans increased by 32.3% YoY, but declined by 1% QoQ. Asirvad microfinance has reported lower profit of INR 6 mn as compared to INR 12 cr QoQ. NII for the quarter increased by 24% YoY and decreased by 5% QoQ to INR 181 cr. Even though collection efficiency continues to improve, the management has taken a cautious stance on growth in this segment. Asset quality deteriorated in MFI segment with GNPA increasing from 2.6% in Q2FY22 to 2.8% in Q3FY22. MFI collection efficiency improved to 96% in Q3FY22 from 93% in Q2FY22.

Outlook and Valuation:

We have cut our FY22E/FY23E/FY24E EPS estimate by 24%/16% and 15% respectively to factor in compression in margins and lower loan growth. In the last two quarters, company has compensated on margins front for Gold loan growth which has led to lower profitability and lower return ratios. Currently, demand environment in gold loan is soft and management has stated that it does not wish to pursue growth with further compression in spreads. Asset quality in MFI business will continue to remain under watch. Current valuation at 1x FY24E P/ABV seems to be favorable considering RoA/RoE of 4.4%/18% by FY24E. We reduce our target multiple on the stock and upgrade our rating on the stock to Buy with a revised TP of INR 160 (INR 219 earlier), based on 1.2x FY24E ABVPS.

Exhibit 1: Q3FY22 result Snapshot

Particulars (in Crore)	Q3FY22	Q3FY21	Q2FY22	YoY	QoQ
Net interest income	953.4	1086.6	1039.6	-12.3%	-8.3%
Other Income	22.4	6.2	22.5	261.9%	-0.4%
Net Operating income	975.8	1092.8	1062.1	-10.7%	-8.1%
Operating expenses	522.8	355.3	459.3	47.1%	13.8%
cost-Income ratio (%)	53.6	32.5	43.2		
Operating Profit	453.0	737.5	602.8	-38.6%	-24.9%
Provisions	104.8	80.2	107.8	30.7%	-2.8%
PBT	348.2	657.3	495.0	-47.0%	-29.7%
Tax	87.2	174.1	125.2	-49.9%	-30.3%
Effective tax rate (%)	25%	26%	25%		
PAT (After MI)	261.0	482.2	369.8	-45.9%	-29.4%
Asset Quality					
GNPA (%)	1.4	1.3	1.6	10bps	-20bps
NNPA (%)	1.0	0.8	1.3	20bps	-30bps
Return Ratios					
ROA (%)	3.1	6.1	4.7	-300bps	-160bps
ROE (%)	12.9	29.0	18.9	-1610bps	-600bps
AUM					
AUM	30407	27642	28422	10.0%	7.0%
-Gold loans	20452	20212	18804	1.2%	8.8%
-Microfinance	6859	5326	7030	28.8%	-2.4%
-Housing loans	817	633	732	28.9%	11.5%
-Vehicle loans	1510	988	1267	52.8%	19.1%
-Other loans	770	483	589	59.4%	30.8%

Exhibit 2: Key Conference call highlights

- Demand condition in Dec'21 was soft and it has not still improved in Jan'21. Management expects the demand environment to improve as schools have now reopened and economic activity has resumed.
- Company was losing the customers at a yield of 25%. Hence, it has bring down the yield around 20%. Gold loan growth expected to moderate marginally as management doesn't want to compete at lower yield of ~17% offered by competitors.
- Management has the visibility of 15-20% growth in gold loans from FY23 onwards.
- Other OPEX has increased sharply during the quarter due to increase in advertising and promotion cost.
- The company has added 281k new Gold loan customers.
- Average ticket size of gold loan stood at INR 53,397 with an average duration of 111 days.
- Interest Receivable on Gold Loan was INR 738 cr or 3.6% of AUM. Weighted Average LTV of gold loan stood at INR 2,924/gm or 65% of the gold price as on 31st Dec 2021.
- About 50% of the gold loan book have a tenure of three-months and the balance have a tenure greater than three-months.
- Online gold loan book contributed around 41%.
- Collection Efficiency from MFI Business during Q3FY22 was 96% vs. 93% in Q2FY22. Collection efficiency as on Jan'21 stood at 97%.
- AUM in Asirvad MFI stood at INR 7,090 cr (-1% QoQ). The management has been conscious on growing MFI business.
- Home Loan Business has a collection efficiency of 100% vs 95% for Q2FY22.
- PAR movement: 0+ dpd – 17.1% vs. 25.8% QoQ, 30+ dpd – 8.8% vs. 13.8% QoQ, 60+ dpd – 4.7% vs. 4.6% QoQ and 90+ dpd at 2.8% vs. 2.6% sequentially.

Key Financials

Income Statement

Year/Ended March (Rs.Cr)	FY21	FY22E	FY23E	FY24E
Interest Income	6331	5915	6664	7540
Interest Expenses	2219	2286	2541	2906
Net Interest Income	4112	3629	4123	4634
Other Income	44	103	115	128
Net Operating Income	4156	3732	4238	4762
Operating Expenses	1400	1671	1678	1818
- Staff Cost	843	1035	1174	1331
- Other Operating Exp.	557	637	505	487
- Depreciation	171	0	0	0
Pre-provisioning profits	2756	2061	2559	2944
Provisions	440	399	309	347
Profit Before Taxes	2316	1662	2250	2596
Taxes	591	416	564	651
Profit After Taxes	1725	1246	1687	1946
% Growth	17%	-28%	35%	15%

Balance Sheet

Year/Ended March (Rs.Cr)	FY21	FY22E	FY23E	FY24E
LIABILITIES				
Share Capital	169	169	169	169
Reserves & Surplus	7138	8264	9718	11425
Shareholders Fund	7308	8433	9886	11593
Minority interest	47	76	116	162
Borrowings	22716	25541	29274	33553
Other liabilities & provisions	1268	1498	1761	2055
Total Liabilities	31339	35548	41038	47364
ASSETS				
Fixed Assets	294	338	389	447
Investments	338	175	175	175
Advances	26508	29693	33651	38170
Cash and Bank Balances	2913	3889	5266	6952
Other assets	1286	1453	1557	1619
Total Assets	31339	35548	41038	47364

Ratio Analysis

Year/Ended March	FY21	FY22E	FY23E	FY24E
Growth Ratios (%)				
Net Interest Income	13.2%	-11.7%	13.6%	12.4%
Net Operating Income	11.7%	-10.2%	13.5%	12.4%
Pre-provisioning Profit	22.8%	-25.2%	24.2%	15.0%
PAT	16.5%	-27.7%	35.3%	15.4%
Advances	14.3%	12.0%	13.3%	13.4%
Borrowings	4.1%	12.4%	14.6%	14.6%
Spreads (%)				
Yield on Advances	24.6%	20.5%	20.9%	20.9%
Borrowing Cost	9.1%	9.1%	9.1%	9.1%
Spreads	15.5%	11.4%	11.8%	11.8%
NIMs	15.9%	12.5%	12.9%	12.8%
Asset Quality				
Gross NPAs	1.9%	2.2%	2.0%	1.9%
Net NPAs	1.5%	0.9%	0.9%	0.9%
Provision Coverage Ratio	47.3%	58.0%	56.2%	54.2%
Return Ratios				
RoE	26.4%	15.3%	17.9%	17.6%
RoA	5.7%	3.7%	4.4%	4.4%
Per Share Data				
EPS (Rs.)	20.5	14.3	19.4	22.4
Book Value	86.7	100.1	117.3	137.6
Adjusted Book Value	83.0	96.9	113.8	133.6
Valuations				
P/E (X)	6.3	8.9	6.6	5.7
P/BV (X)	1.5	1.3	1.1	0.9
P/ABV (X)	1.5	1.3	1.1	1.0

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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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