

CMP: Rs 123

Rating: Buy

Target Price: Rs 167

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)	15,936
52w H/L (Rs)	74 / 195
Avg Yearly Vol (in 000')	6,241

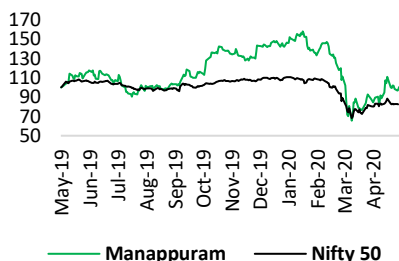
Shareholding Pattern %

(As on March, 2020)

Promoters	35.1
FII	39.4
DII	8.5
Public & Others	17.1

Stock Performance (%)	3m	6m	12m
Manappuram Finance	-20.9	-21.9	5.3
Nifty 50	-24.3	-23.3	-15.6

Manappuram Vs Nifty



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Manappuram Finance (MFL) delivered another strong performance (better than estimates) during Q4FY20. NII for the quarter grew by 33% YoY to Rs 1,025 cr, led by strong 30% YoY growth in AUM and 33 bps QoQ expansion in NIM. Strong NII growth and sharp improvement in Cost to Income ratio bolstered operating profit growth at 55% YoY/ 11% QoQ at Rs 657 cr (our estimate: Rs 531 cr). Cost to Income ratio improved by ~200 bps QoQ to 36.7%, largely due to rationalization of security cost. Profit during the quarter increased by 43% YoY to Rs 395 cr vs. our estimates of Rs 352 cr. GNPA ratio in gold book increased to 0.9% from 0.5% QoQ but it remained well under control. We maintain our Buy rating on the stock with a revised target price of Rs 167 (Rs 170 earlier).

Higher gold prices fuels strong growth in Gold loan AUM

Consolidated AUM during the quarter grew by 30% YoY/5% QoQ. Gold Loan AUM growth remained strong at 31% YoY/6% QoQ, and it was largely driven by higher gold prices (gold holdings declined by 1.5% QoQ). Share of non-gold business in the total AUM stood at 32.7% vs. 32.6% QoQ. Company has maintained 59% LTV on its gold portfolio. Share of Gold Loans in the total AUM stood at 67.3%.

Microfinance operation to face some disruption

Asirvad microfinance portfolio (22% of the total AUM) grew by 43% YoY/10% QoQ to Rs 5,503 cr, with bulk of growth driven by customer addition. NII increased by 60% YoY to Rs 213 cr while PPOP grew by 75% YoY to Rs 147 cr. Profit in its MFI business stood at Rs 60 cr, flat YoY. Asirvad has provided additional provision of Rs 55 cr for COVID -19 in Q4FY20. We believe, MFI business will face some challenges going forward as all MFI customers have been granted for moratorium and hence there will be some spike in delinquencies.

Key Concall takeaways:

- Incremental focus of the company shifted to gold loan due to its short tenure, highly liquid asset and minimal credit risk. Company has guided for 10-15% growth in Gold loan.
- MFL converted offline customers to online customers during the lockdown period. Online gold loan share increased to 48% from 44% QoQ.
- In Q1FY21, there could be some reduction in gold loan portfolio due to redemption.
- Hardly any customer have taken moratorium in gold loan. Interest collections not impacted as the level of interest accrued pre and post Covid remains similar.
- Company is not facing any liquidity challenge.
- Asirvad holds standard provisions of Rs50 cr and additional Covid related provision of Rs 55 cr.

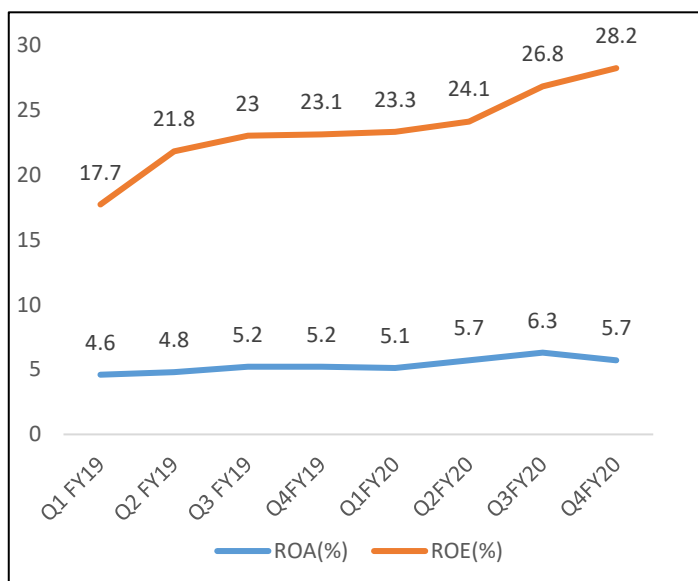
Outlook and Valuation

MFL's core gold loan portfolio saw gaining traction led by higher gold prices. Sharp rise in gold prices in the last 1 year has aided balance sheet/profitability growth which is expected to continue. Due to company's high yielding business, strong operating efficiency and adequately capitalized position, we believe MFL is well poised to deliver superior return ratio with RoA at +5%. At CMP of Rs 123, stock is trading at 1.2x P/ABV to its FY22E. We continue to value the business at 1.6x P/ABV to its FY22E Adj. BV of Rs 105 and arrive at a target price of Rs 167 per share. We maintain our 'Buy' rating on the stock. Any major fall in gold prices and asset quality risk in MFI portfolio will be the key risk to our call.

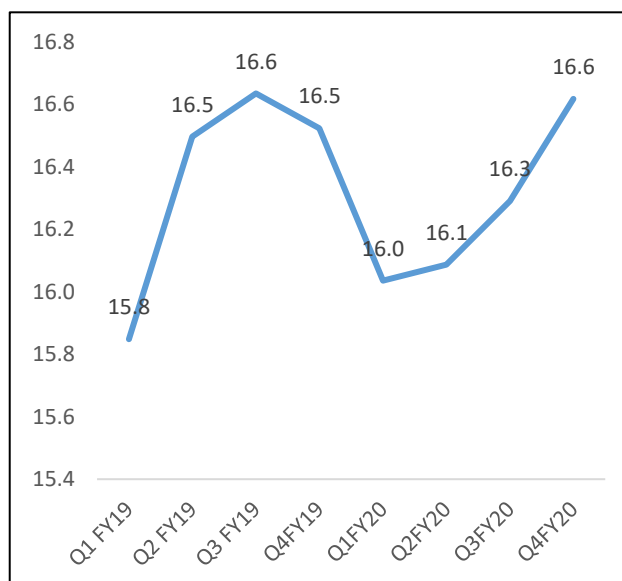
Q4FY20 result Snapshot

Particulars (in Crore)	Q4FY20	Q4FY19	Q3FY20	YoY	QoQ
Net interest income	1024.5	768.8	952.5	33.3%	7.6%
Other Income	12.8	18.5	15.2	-30.5%	-15.8%
Net Operating income	1037.4	787.2	967.7	31.8%	7.2%
Operating expenses	380.7	363.5	374.2	4.7%	1.7%
cost-Income ratio (%)	36.7	46.2	38.7		
Operating Profit	656.7	423.7	593.5	55.0%	10.7%
Provisions	122.6	14.3	49.1	756.3%	149.6%
PBT	534.1	409.4	544.4	30.4%	-1.9%
Tax	135.9	132.0	142.1	2.9%	-4.4%
Effective tax rate (%)	25%	32%	26%		
PAT (Before MI)	398.2	277.4	402.2	43.6%	-1.0%
PAT (After MI)	395.0	275.9	399.1	43.1%	-1.0%
Asset Quality					
GNPA (%)	0.9	0.5	0.5		
NNPA (%)	0.5	0.3	0.2		
Return Ratios					
ROA (%)	5.7	5.2	6.3		
ROE (%)	28.2	23.1	26.8		
AUM					
AUM	25225	19438	24100	29.8%	4.7%
AUM Break-up (%)					
-Gold loans	67.3	66.7	67.4		
-Microfinance	21.8	19.8	20.8		
-Housing loans	2.5	2.7	2.5		
-Vehicle loans	5.3	5.7	5.8		
-Other loans	3.1	5.2	3.5		

Return Ratios trend (%)



NIM trend (%)



Key Financials

Income Statement

Year/Ended March (Rs.Cr)	FY19	FY20	FY21E	FY22E
Interest Income	4116	5465	5830	6485
Interest Expenses	1319	1832	1897	2148
Net Interest Income	2797	3633	3933	4337
Other Income	63	86	102	112
Net Operating Income	2859	3719	4035	4449
Operating Expenses	1386	1474	1625	1706
- Staff Cost	720	830	991	1124
- Other Operating Exp.	666	644	635	582
Pre-provisioning profits	1473	2245	2409	2743
Provisions	46	238	220	140
Profit Before Taxes	1427	2007	2189	2603
Taxes	498	527	551	655
Profit After Taxes	929	1480	1638	1948
% Growth	37%	59%	11%	19%

Balance Sheet

Year/Ended March (Rs.Cr)	FY19	FY20	FY21E	FY22E
LIABILITIES				
Share Capital	169	169	169	169
Reserves & Surplus	4356	5577	7125	8854
Shareholders Fund	4525	5746	7293	9023
Minority interest	46	58	87	123
Borrowings	15296	21817	22137	25074
Other liabilities & provisions	588	1330	954	1062
Total Liabilities	20455	28951	30472	35282
ASSETS				
Fixed Assets	367	331	380	437
Investments	174	90	175	175
Advances	17813	23189	26528	29728
Cash and Bank Balances	1164	3646	2030	3555
Other assets	937	1695	1359	1386
Total Assets	20455	28951	30472	35282

Ratio Analysis

Year/Ended March	FY19	FY20	FY21E	FY22E
Growth Ratios (%)				
Net Interest Income	17.0%	29.9%	8.3%	10.3%
Net Operating Income	16.8%	30.1%	8.5%	10.3%
Pre-provisioning Profit	21.3%	52.4%	7.3%	13.8%
PAT	37.4%	59.3%	10.7%	18.9%
Advances	16.9%	30.2%	14.4%	12.1%
Borrowings	21.3%	42.6%	1.5%	13.3%
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%	13.8%
NIMs	15.7%	16.7%	15.6%	15.3%
Asset Quality				
Gross NPAs	0.5%	0.9%	1.5%	1.6%
Net NPAs	0.3%	0.5%	0.7%	0.7%
Provison Coverage Ratio	35.6%	40.8%	54.0%	56.6%
Return Ratios				
RoE	22.1%	28.6%	24.7%	23.4%
RoA	5.0%	6.0%	5.5%	6.0%
Per Share Data				
EPS (Rs.)	10.9	17.4	19.1	22.7
Book Value	53.7	68.2	86.6	107.1
Adjusted Book Value	52.7	66.8	84.3	104.6
Valuations				
P/E (X)	11.2	7.1	6.4	5.4
P/BV (X)	2.3	1.8	1.4	1.1
P/ABV (X)	2.3	1.8	1.5	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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