

Manappuram Finance

02 December 2020

Reuters: MNFL.BO; Bloomberg: MGFL IN

Gold strong, non-gold a drag

We recently interacted with the management of Manappuram Finance. During 2QFY21, the company reported strong growth in gold AUM, at 30.1% YoY, driven by higher gold prices and strong demand. We remain optimistic about the gold loan growth in FY21E while the non-gold segment could pose some challenge to overall/consolidated growth. With a slow pick-up in non-gold disbursements due to the management's cautious stance, the share of non-gold business is expected to decline in the near term. However, the management in the past has reiterated its aspiration to reduce the share of gold loan business considerably over the next 3-5 years. Banks' push towards gold loans is unlikely to adversely impact gold lenders like Manappuram due to the inherent difference in customer profiles, longer operational timings of NBFCs and better TATs. The MFI piece would remain a key monitorable to gauge near term consolidated profitability. Though MFI collections have been improving MoM, they are still on the lower side (at 82%, current billing) when compared to peers. Management commentary seems to suggest that MFI provisioning is expected to remain elevated in 2HFY21. Despite delayed payments in the housing portfolio, asset quality impact should be relatively lower given that the loans have been primarily given against individual residential properties. Liquidity position remains comfortable. The company has been able to rollover CPs at lower rates. We retain BUY on the stock with a target price (TP) of Rs210, based on 1.8x 1HFY23E ABV. Please see our 2QFY21 result update [here](#).

Key takeaways from the recent interaction:

Asset Quality

- Management has fully provided for Rs40mn towards an NBFC account, which was declared as a fraud. This was company's third loan to the NBFC, which had been regular in repayments up to Sept'20 and did not exercise the moratorium.
- Non-payment in MFI loans is being mitigated by repeatedly meeting customers and informing them about the impact on credit track due to non-payment.

Business and Loan Growth

- Vehicle Finance disbursements were restarted, but not much could be done due to restricted movement and conscious decision to limit exposure.
- Moneylenders constitute ~75% of the gold lending market while the rest is with the organised sector. With banks pursuing gold loans and the RBI changing LTV norms for banks, overall the gold loan industry has grown but NBFCs have not been affected. Only few banks are offering gold loans at increased LTV.
- Loans below Rs0.1mn constitute 50% of the portfolio.
- Gold lenders compete with banks on the basis of better TAT, convenience to customer and longer operational timings.
- Impact of gold loan balance transfer has been small.
- Currently, 1-2% of MFI customers have availed gold loans.
- Live customer base stands at 2.6mn and total customer base stands at >12.5mn. ~6,000 customers are being added daily (~2-2.5mn per year).

Operating Expenses

- Business per branch has improved from Rs30mn to Rs60mn and can be further increased to Rs100mn. Despite no increase in employee count, business has witnessed growth over the last 2 years and there is further room for improvement in operational efficiency.

Segment wise portfolio update:

- Lending to NBFCs:** Apart from 2 clients, others were paying on time without utilising moratorium. Provisions have been made for 2 clients with collection issues.
- MFI:**
 - Disbursals are expected to improve in 3QFY21 and pre-covid level would be achieved by 4QFY21.
 - Collections are being monitored closely. Challenges in collections are due to lockdowns, festivals and customers' cashflow challenges.
 - To improve collection efficiency, case load per employee has been reduced.
 - Clarity regarding credit cost is expected by 3QFY21.
 - Customer intention to pay is intact and customer's cash flows are expected to improve.
- HF:**
 - Disbursements have started in the HF portfolio.
 - While there may be delay in servicing instalments, asset quality is not expected to be affected since loans are primarily to individuals for residential properties.

BUY

Sector: NBFC

CMP: Rs174

Target Price: Rs210

Upside: 21%

Raghav Garg, CFA

Research Analyst

raghav.garg@nirmalbang.com

+91-22-6273 8192

Arjun Bagga

Research Associate

arjun.bagga@nirmalbang.com

+91-22-6273 8111

Key Data

Current Shares O/S (mn)	846.1
Mkt Cap (Rsbn/US\$bn)	146.8/2.0
52 Wk H / L (Rs)	195/74
Daily Vol. (3M NSE Avg.)	7,777,431

Price Performance (%)

	1 M	6 M	1 Yr
Manappuram Finance	11.7	32.0	12.4
Nifty Index	12.6	36.8	8.7

Source: Bloomberg

Exhibit 1: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 2: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	40,461	52,171	63,002	73,219	84,273
Interest Expense	13,449	18,322	23,780	27,546	30,404
Net Interest Income	27,012	33,848	39,221	45,673	53,868
Non Interest Income	1,959	3,341	1,381	1,608	1,875
Net Revenue	28,971	37,190	40,602	47,281	55,743
Operating expenses	13,858	14,740	14,014	15,290	16,818
-Employee expenses	7,201	8,301	8,218	9,205	10,125
-Other expenses	6,656	6,439	5,795	6,085	6,694
Pre-Provisioning Operating Profit	15,113	22,449	26,589	31,991	38,925
Provisions	547	2,376	5,589	4,483	3,482
PBT	14,566	20,073	21,000	27,509	35,442
Tax	5,080	5,270	5,292	6,932	8,931
PAT	9,486	14,803	15,708	20,576	26,511

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	1,686	1,690	1,690	1,690	1,690
Reserves & surplus	43,780	55,771	68,556	86,210	1,09,791
Networth	45,466	57,461	70,246	87,900	1,11,481
Borrowings	1,52,972	2,18,167	2,57,437	2,93,479	3,14,609
Other liability & provisions	5,559	13,300	12,001	13,434	15,868
Total liabilities	2,04,457	2,89,511	3,40,267	3,95,395	4,42,541
Fixed Assets	3,674	8,060	9,269	10,660	12,258
Investments	1,738	901	901	946	993
Loans	1,78,100	2,31,893	2,76,185	3,21,522	3,74,946
Cash	11,642	36,459	43,423	50,551	41,244
Other assets	9,303	12,198	10,489	11,715	13,100
Total assets	2,04,457	2,89,511	3,40,267	3,95,395	4,42,541

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Key ratios

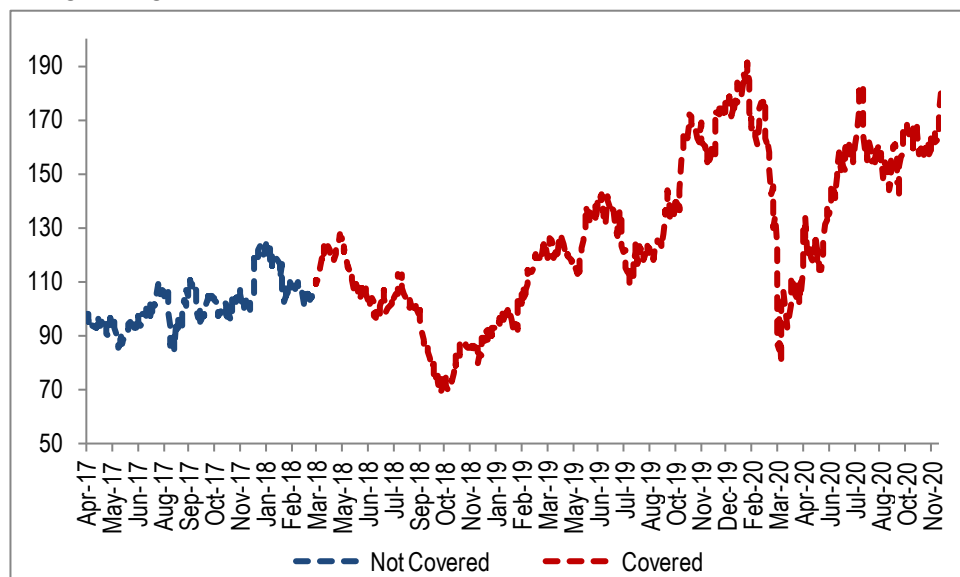
Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Growth (%)					
Net Interest Income	16.3	25.3	15.9	16.4	17.9
Operating Profit	24.5	48.5	18.4	20.3	21.7
Profit After Tax	40.3	56.1	6.1	31.0	28.8
Business (%)					
Advance Growth	16.8	30.2	19.1	16.4	16.6
Spreads (%)					
Yield on loans	24.5	25.4	24.8	24.5	24.2
Cost of Borrowings	9.6	9.9	10.0	10.0	10.0
Spread	14.8	15.6	14.8	14.5	14.2
NIMs	16.3	16.5	15.4	15.3	15.5
Operational Efficiency (%)					
Cost to Income	47.8	39.6	34.5	32.3	30.2
Cost to AUM	8.4	7.2	5.5	5.1	4.8
CRAR (%)					
Tier I	23.3	21.4	24.6	24.3	24.2
Tier II	0.4	0.3	0.4	0.3	0.3
Total	23.7	21.7	25.0	24.6	24.4
Asset Quality (%)					
Gross NPA	1.2	1.4	2.5	1.5	1.4
Net NPA	0.7	0.7	1.2	0.6	0.6
Provision Coverage	40.8	47.8	52.1	57.5	56.7
Credit Cost	0.3	1.2	2.2	1.5	1.0
Return Ratio (%)					
ROE	22.7	28.8	24.6	26.0	26.6
ROA	5.1	6.0	5.0	5.6	6.3
Per Share (%)					
EPS	11.3	17.5	18.6	24.4	31.4
BV	53.9	68.0	83.1	104.0	131.9
ABV	52.4	66.0	79.2	101.6	129.2
Valuation (x)					
P/E	15.6	10.0	9.5	7.2	5.6
P/BV	3.3	2.6	2.1	1.7	1.3
P/ABV	3.4	2.7	2.2	1.7	1.4

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	106	128
9 February 2018	Buy	114	133
10 August 2018	Buy	113	142
9 October 2018	Buy	68	103
9 November 2018	Buy	83	112
7 February 2019	Buy	97	127
8 April 2019	Buy	121	141
15 April 2019	Buy	127	154
16 May 2019	Buy	121	157
8 July 2019	Buy	136	170
14 August 2019	Buy	116	153
23 September 2019	Buy	127	174
7 October 2019	Buy	133	173
7 November 2019	Buy	168	193
8 January 2020	Buy	176	207
29 January 2020	Buy	189	218
27 March 2020	Buy	108	149
2 April 2020	Buy	92	149
9 April 2020	Buy	108	149
15 May 2020	Buy	123	142
9 July 2020	Buy	157	187
30 July 2020	Buy	179	209
23 September 2020	Buy	148	210
7 October 2020	Buy	168	208
9 November 2020	Buy	162	210
2 December 2020	Buy	174	210

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010