

## Manappuram Finance Limited

13 May 2023

## RESULT UPDATE

Sector: NBFCs	Rating: BUY
CMP: Rs 110	Target Price: Rs 160

## Stock Info

Sensex/Nifty	62,208/18,315
Bloomberg	MGFL IN
Equity shares	846mn
52-wk High/Low	Rs 133/82
Face value	Rs 2
M-Cap	Rs 93bn/ USD 1.1bn
3-m Avg volume	USD 11.9 mn

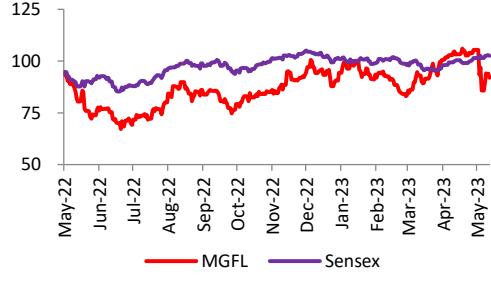
## Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
NII	42,526	51,944	62,872
PPP	23,482	29,962	36,393
PAT	15,002	19,069	23,583
EPS (Rs)	17.7	22.5	27.9
EPS Gr. (%)	12.9	27.1	23.7
BV/Sh (Rs)	114	133	156
<b>Ratios</b>			
NIM (%)	12.9	13.1	13.0
C/I ratio (%)	48.5	46.4	46.4
RoA (%)	4.1	4.3	4.3
RoE (%)	16.6	18.3	19.3
Payout (%)	16.9	15.3	14.5
<b>Valuations</b>			
P/E (x)	6.2	4.9	3.9
P/BV (x)	1.0	0.8	0.7
Div. Yield (%)	2.7	3.1	3.7

## Shareholding pattern (%)

	Mar-23	Dec-22	Sep-22
Promoter	35.2	35.2	35.2
-Pledged			
FII	30.2	30.1	28.4
DII	13.5	11.6	12.2
Others	21.1	23.2	24.3

## Stock Performance (1-year)



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## Key result highlights

- MGFL (Consolidated) operating performance was below expectations with NII/ Operating profit at Rs. 11.3bn/ 6.1bn vs. estimate of Rs11.7bn/7.1bn, due to lower than expected NIMs. NIMs contracted by 60bps qoq to 13.4% due to 83bps qoq contraction in loan yields to 20.4%. Net yield on Gold loan portfolio declined 140bps qoq to 21%, due to lower penal interest income, as Gold loan tenure increased from 3 months to 6 months.
- Consolidated AUM grew at a healthy 17% YoY (11% QoQ) led by 55%yoY (18%qoq) growth in Non-Gold portfolio, even as Gold AUM declined 2%yoY (+6%qoq). As a result, Non-Gold portfolio share further increased to 44% in Q4 from 42% in Q3. Growth in Gold AUM was aided by 9%qoq increase in Avg Gold price, even as LTV declined 3.6%qoq to 61% and Gold tonnage remained flat qoq at 60 tonnes.
- Growth in the Non-Gold portfolio was aided by growth across all product segments viz. Micro-finance (+40% YoY, +15% QoQ), MSME & Others (+210%YoY, +83% QoQ), CV (50% YoY, 16% QoQ) and Home loan (+30% YoY, +9% QoQ).
- Operating expenses increased by 21% YoY (3% QoQ) led by 35% increase in employee expenses even as other expenses remained flat yoy. Opex/AUM ratio also reduced by 30bps QoQ to 7.1%.
- Microfinance subsidiary (26% of the AUM) reported strong performance with AUM growth of 40% YoY (15% QoQ) at Rs 93 bn; Resultantly, PAT increased by a strong 41% QoQ to Rs. 993mn (vs. 3QFY23: Rs. 706mn); Asset quality continues to improve with Gross and Net stage 3 at 2.7%/1.2% vs. 6.7%/1.7% in 3Q.

## Valuation &amp; recommendation

While MGFL Q4FY23 operating results were optically below expectation, the miss was largely led by lower penal interest income (one off), adjusted for which the performance was better than expected. Management expects the yields to bounce back to 22% from Q1 itself and expect to close the year with 22.5% yields. The management remain focused on achieving diversification through increase of its MFI business along with other product categories like HL, CV, MSME. Maintain our BUY rating on the stock with price target of Rs 160.

Investors are advised to refer disclosures made at the end of the research report.

## Management commentary

### Update on the ED Raid:

- Mr Nandkumar used to be the sole proprietor of Manappuram Agro farms. It used to accept deposits and pay interest on the deposits. The business was done in good faith. They had borrowings only from the shareholders (Nandakumar) and had no public borrowings apart from that. There were no related party transactions with other companies as well.
- The company had collected ~ Rs 143C in terms of deposits. However, based on the directive from RBI, the Company stopped taking deposits and returned all the money along with interest except Rs 9 lakh (untraceable customers). The promoter had to sell his stake to repay the deposits, since the money collected was already used to buy agricultural land and farm equipment's.
- All the repayments were done through an escrow account with Punjab national bank except cash repayments of Rs 50Cr (principal + interest). The cash repayments were for deposits of less than Rs. 20,000 on individual basis.
- The complainant was the same person who had filed a complaint 10 years back.
- They have obtained a stay order and the assets will be released soon. Their lawyers are confident that they will be successful in this case.

### Business:

- Gold business: Monthly yield for gold loan is steadily improving. The company transitioned from offering 3 months gold loan scheme to 6 months, which led to slight contraction of yields in 4QFY23. However, that is expected to rationalise in the coming quarter. Gold loans for ticket size above 2 lakh is 35% (vs. FY22: 45%). Maximum gold loan is for 1Cr (but for very few customers). A penal interest rate is charged at 3% p.a.
- MFI business: There is demand in MFI lending. The asset quality is also improving. They expanded their network multi-fold in FY23 and expect to now achieve benefits in terms of AUM growth. They are restricted to 10% of AUM in a particular state and 1% in a particular district.

### NIM/COF:

- There is contraction of yield in the gold loan business on account of change in tenure of loan from 3 months to 6 months.
- COF benefitted from dollar repayment bonds. Further, as there is growth in MFI/HFC they are able to get better pricing for their borrowings.

### Guidance:

- AUM growth - Gold - 10%, MFI - 35-40%, HFC – 35-40% , VF/MSME – 50%
- Gold loan yield- 22%
- Non gold business – The objective is to reach 50:50 for Gold: Non gold business. So, in the next 1-2 years, they will reach the goal of 50% in the non gold loan business.
- Cost of borrowing – There might be an increase in the cost of borrowing based on the repo rate hike.

## Exhibit 1: Quarterly performance ( Consolidated)

(Rs mn)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>8,985</b>	<b>9,566</b>	<b>10,795</b>	<b>10,917</b>	<b>11,250</b>	<b>25.2</b>	<b>3.0</b>
Other Income	980	416	1,063	772	845	-13.7	9.6
<b>Net Income</b>	<b>9,965</b>	<b>9,981</b>	<b>11,858</b>	<b>11,688</b>	<b>12,095</b>	<b>21.4</b>	<b>3.5</b>
<b>Total Operating Expenses</b>	<b>4,912</b>	<b>4,890</b>	<b>5,525</b>	<b>5,769</b>	<b>5,955</b>	<b>21.2</b>	<b>3.2</b>
<i>As % Of Net Income</i>	<i>49.3</i>	<i>49.0</i>	<i>46.6</i>	<i>49.4</i>	<i>49.2</i>	<i>-0.1</i>	<i>-0.2</i>
Employee Expenses	3,011	3,138	3,642	3,857	4,058	34.8	5.2
<i>As % Of Net Income</i>	<i>30.2</i>	<i>31.4</i>	<i>30.7</i>	<i>33.0</i>	<i>33.6</i>	<i>11.1</i>	<i>1.7</i>
Other Expenses	1,320	1,261	1,425	1,385	1,336	1.2	-3.6
<i>As % Of Net Income</i>	<i>13.2</i>	<i>12.6</i>	<i>12.0</i>	<i>11.9</i>	<i>11.0</i>	<i>-16.6</i>	<i>-6.8</i>
<b>Operating Profit</b>	<b>5,053</b>	<b>5,091</b>	<b>6,333</b>	<b>5,919</b>	<b>6,139</b>	<b>21.5</b>	<b>3.7</b>
<i>As % Of Net Income</i>	<i>50.7</i>	<i>51.0</i>	<i>53.4</i>	<i>50.6</i>	<i>50.8</i>	<i>0.1</i>	<i>0.2</i>
Provisions	1,514	1,283	805	509	474	-68.7	-7.0
PBT	3,539	3,808	5,527	5,410	5,666	60.1	4.7
Total Tax	930	989	1,433	1,475	1,513	62.7	2.6
<b>Reported PAT</b>	<b>2,610</b>	<b>2,819</b>	<b>4,095</b>	<b>3,935</b>	<b>4,153</b>	<b>59.1</b>	<b>5.5</b>
Adjusted PAT							
Adjusted EPS	2,610	2,819	4,095	3,935	4,153	59.1	5.5
<b>Yield Analysis (%)</b>							
<b>Yield on AUM</b>	<b>18.4</b>	<b>19.2</b>	<b>20.9</b>	<b>21.2</b>	<b>20.4</b>	<b>199</b>	<b>-83</b>
Cost of funds	6.5	6.6	6.9	7.2	7.0	47	-24
Cost of borrowing	8.2	8.4	8.3	8.4	8.5	28	8
NIMs on AUM	11.8	12.5	14.1	14.0	13.4	152	-60
<b>Asset quality</b>							
Gross NPAs (%) - Gold loan	3.0	1.4	2.0	1.6	1.3	-170bps	-30bps
Gross NPAs (%) - Asirvad	3.5	7.7	8.8	6.7	2.7	-80bps	-400bps
<b>AUM (Rs mn)</b>							
Gold Loan	201,679	204,708	191,903	186,141	197,462	-2.1	6.1
Micro Finance	66,530	65,461	71,181	80,655	92,972	39.7	15.3
Home Loan	8,453	8,748	9,216	10,048	10,958	29.6	9.1
Commercial Vehicle	16,432	17,550	18,855	21,121	24,551	49.4	16.2
Others	9,515	11,128	15,494	20,868	28,579	200.4	37.0
<b>Conso AUM</b>	<b>302,609</b>	<b>307,595</b>	<b>306,650</b>	<b>318,833</b>	<b>354,522</b>	<b>17.2</b>	<b>11.2</b>
<b>Key data</b>							
Gold stock (tonnes)	68	67	63	60	60	-11.8	0.2
Avg gold price	4,967	5,128	5,073	5,207	5,684	14.5	9.2
LTV (Calculated)	65	65	66	63	61	-6.5	-3.6
<b>Borrowing (%)</b>							
Debentures	27.6	27.6	25.4	24.9	23.4	-15.2	-6.0
WCDL/CC	31.1	31.1	23.1	19.8	22.9	-26.4	15.7
Term loan	27.0	27.0	38.5	44.2	52.6	94.8	19.0
CP	2.9	2.9	2.5	0.2	0.0	N.A	N.A
ECB	11.5	11.5	10.4	10.6	1.1	-90.4	-89.6

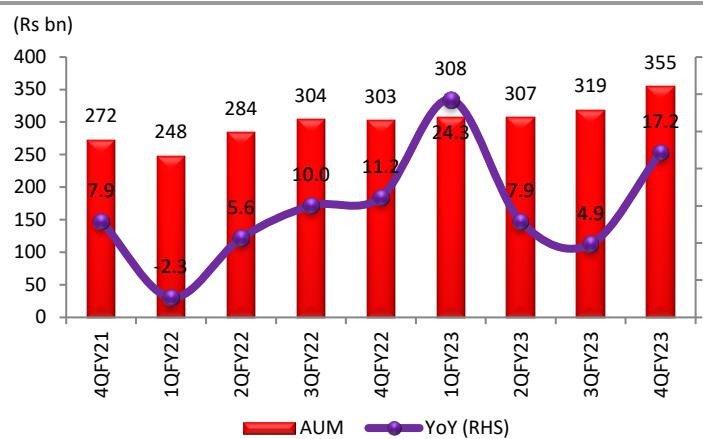
Source: Company, Systematix Institutional Research

## Exhibit 2: Change in estimates

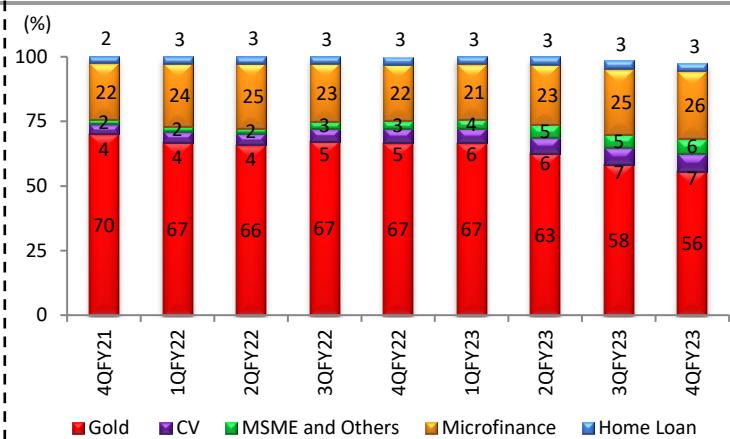
(Rs bn)	Old Estimates		New Estimates		Change (%)	
	FY24	FY25	FY24	FY25	FY24	FY25
NII	49.5	57.1	51.9	62.9	4.9	10.0
Operating Profit	29.2	34.3	30.0	36.4	2.6	6.1
PAT	18.8	22.5	19.1	23.6	1.7	5.0
EPS	22.2	26.5	22.5	27.9	1.7	5.0

Source: Company, Systematix Institutional Research

## Exhibit 3: AUM growth increased at a healthy pace.....



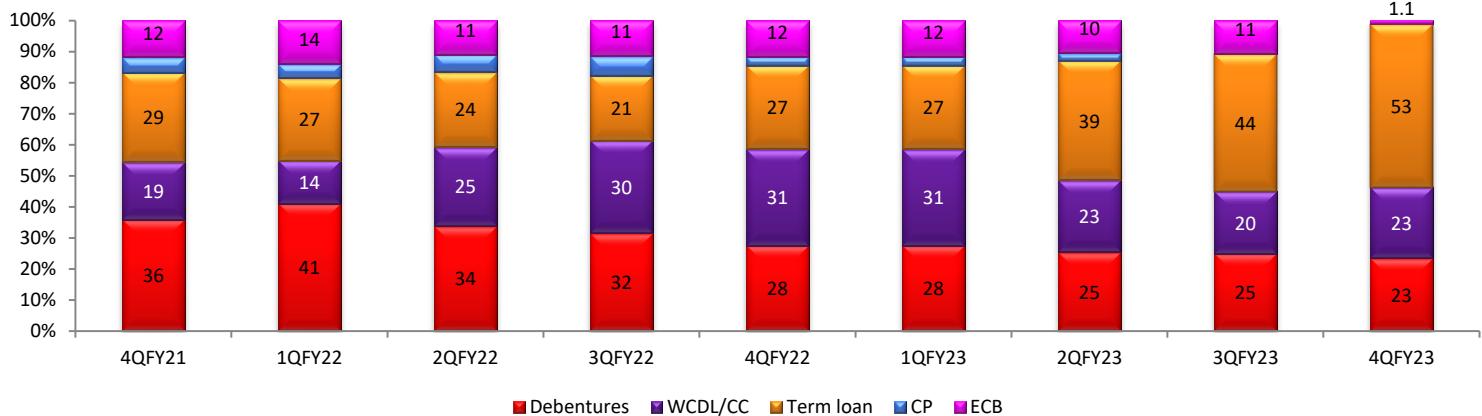
## Exhibit 4: ....led by higher growth in non-gold book



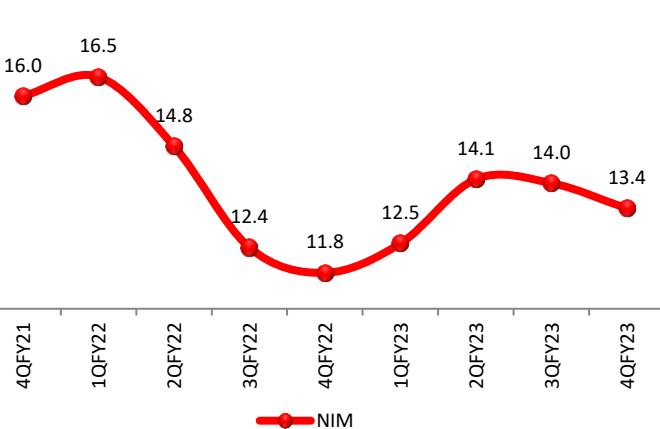
Source: Company, Systematix Institutional Research

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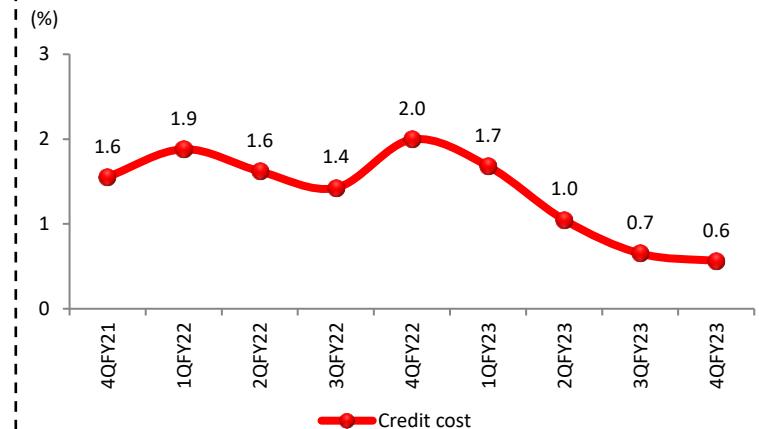
## Exhibit 5: Diversified borrowing mix



Source: Company, Systematix Institutional Research

**Exhibit 6: NIM contraction on account of change in tenure of loans.**

Source: Company, Systematix Institutional Research

**Exhibit 7: Credit cost improved by 10Bps to 0.6%.**

Source: Company, Systematix Institutional Research

## FINANCIALS (CONSOLIDATED)

### Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	39,706	38,284	42,526	51,944	62,872
Other income	828	1,351	1,857	3,868	4,908
Net Income	41,557	41,149	45,622	55,929	67,903
Operating expenses	13,996	18,453	22,140	25,967	31,510
Preprovision profit	27,561	22,697	23,482	29,962	36,393
Provisions	4,401	4,862	3,071	3,939	4,141
Profit before tax	23,160	17,835	20,410	26,022	32,251
Tax	5,911	4,548	5,409	6,953	8,669
Tax rate	25.5	25.5	26.5	26.7	26.9
Reported Profit after tax	17,250	13,287	15,002	19,069	23,583

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity	1,693	1,693	1,693	1,693	1,693
Reserves	71,382	81,991	94,756	1,10,593	1,30,756
Net worth	73,074	83,683	96,449	1,12,286	1,32,449
Borrowings	2,27,163	2,41,185	2,84,830	3,69,209	4,55,849
Others	12,669	13,076	13,559	13,707	9,493
<b>Total liabilities</b>	<b>3,13,378</b>	<b>3,38,106</b>	<b>3,95,041</b>	<b>4,95,202</b>	<b>5,97,791</b>
Cash	29,124	26,974	30,351	38,934	46,829
Investments	3,380	4,207	5,340	8,936	12,816
Loans	2,65,076	2,89,710	3,41,945	4,26,444	5,13,084
Others	6,462	6,564	6,301	7,937	9,619
<b>Total assets</b>	<b>3,13,378</b>	<b>3,38,106</b>	<b>3,95,041</b>	<b>4,95,202</b>	<b>5,97,791</b>

Source: Company, Systematix Institutional Research

### Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Interest Income	20.3	17.9	17.6	18.1	18.2
Interest Expense	7.3	6.2	6.0	6.4	6.6
Net Interest Income	13.0	11.8	11.6	11.7	11.5
Other income total	0.6	0.9	0.8	0.9	0.9
Net Income total	13.7	12.6	12.4	12.6	12.4
Operating expenses total	4.6	5.7	6.0	5.8	5.8
Preprovision profit	9.1	7.0	6.4	6.7	6.7
Provisions	1.4	1.5	0.8	0.9	0.8
Profit before tax and exce. items	7.6	5.5	5.6	5.8	5.9
Profit before tax	7.6	5.5	5.6	5.8	5.9
Tax total	1.9	1.4	1.5	1.6	1.6
Profit after tax	5.7	4.1	4.1	4.3	4.3

Source: Company, Systematix Institutional Research

### Key Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yield on portfolio	24.4	21.1	20.4	20.9	21.1
cost of borrowings	9.8	8.6	8.3	8.7	8.8
Spread	14.6	12.5	12.1	12.2	12.3
NIM (on AUM)	15.1	13.3	12.9	13.1	13.0
Cost/ Income (%)	33.7	44.8	48.5	46.4	46.4
Credit cost (%)	1.4	1.5	0.8	0.9	0.8
RoA(%)	5.7	4.1	4.1	4.3	4.3
RoE(%)	26.2	16.9	16.6	18.3	19.3
Leverage (x)	4.6	4.1	4.1	4.3	4.5
Gross NPA (%)	2.0	2.8	1.7	1.7	1.7
Net NPA (%)	1.3	2.3	1.2	1.2	1.2
Provision coverage (%)	34.2	19.5	33.8	31.6	30.0

Source: Company, Systematix Institutional Research

### Growth

YE: Mar (%)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	15.1	-3.6	11.1	22.1	21.0
Net Income total	11.7	-1.0	10.9	22.6	21.4
Preprovision profit	22.8	-17.6	3.5	27.6	21.5
Profit before tax	15.4	-23.0	14.4	27.5	23.9
Profit after tax	16.5	-23.0	12.9	27.1	23.7
Loan	9.1	9.3	18.0	24.7	20.3
AUM	7.9	11.2	17.2	24.2	20.4

Source: Company, Systematix Institutional Research

### Valuation ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
FDEPS (Rs)	20	16	18	23	28
PER (x)	5	7	6	5	4
Book value (Rs)	87	99	114	133	156
P/BV (Rs)	1.3	1.1	1.0	0.8	0.7
Adjusted book value (Rs)	83	91	110	127	149
P/ABV (Rs)	1.3	1.2	1.0	0.9	0.7
P/PPP (x)	3.4	4.1	4.0	3.1	2.6
Dividend yield (%)	1.1	2.7	2.7	3.1	3.7

Source: Company, Systematix Institutional Research

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## DISCLOSURES/APPENDIX

## I. ANALYST CERTIFICATION

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