

Gold Loan

Growth prospects have improved; valuations turn attractive for both Muthoot/Manappuram

Stable yields and AUM growth have incrementally put the gold loan business on a much better footing. This will potentially bolster support from higher gold prices and weaker growth in unsecured loan segment. Non-gold businesses have also performed well for gold NBFCs, which essentially opens up structural growth opportunities beyond gold for these players. We recommend **BUY** (unchanged) on Manappuram with a revised target price of INR 220 (prior: INR 190), and **BUY** (upgrade from Add) on Muthoot with an unchanged target price of INR 1,605. We see possible resurfacing of competitive intensity pressuring growth or NIMs as a key risk in gold while worsening asset quality is the risk in non-gold segment.

In this report, we also lay out the detailed commentaries from lenders on gold loans, and the historical correlation between gold AUM and price for Muthoot/Manappuram.

Broadly stable yields could be expected to continue in near term

Broad-based stability is evident in gold loan yields for leading players (refer Exhibit 2) along with commentary/channel checks. Muthoot/Manappuram/IIFL Finance sported average gold loan yields of 17.8%/21.5%/~18.3% in 9MFY24.

Growth recovered over last three quarters; rising gold prices add to tailwinds

This can be seen from positive gold loan AUM growth QoQ for Muthoot, Manappuram, as well as IIFL Finance over the last three quarters, apart from the fact that Muthoot/Manappuram maintained their FY24 guidance of 15%/10% gold AUM growth. Additionally, apart from stable competitive and pricing environment, the recent ascent in gold prices (5%/1% in FY24TD/Q4FY24TD) bodes well for Muthoot/Manappuram's AUM. Both enjoy a strong correlation between gold loan price and AUM; which should help attain higher AUM growth (refer Exhibit 1). Gold loan demand may also find further support amid some pressure observed in unsecured lending.

Gold tonnage and active client base remain largely flat

Gold tonnage for Muthoot/Manappuram remained flattish at ~184te/58te during Q3FY24 and it has remained in similar range for the last four quarters. Customer base for Muthoot/Manappuram was at 2.3mn/ 5.6mn, muted QoQ.

Muthoot/Manappuram non-gold portfolio aiding growth

PAT growth for subsidiary (consolidated-standalone) businesses has been 8.7x/2.2x YoY for Manappuram and 1.5x/2.3x YoY for Muthoot in FY23/9MFY24. Non-gold AUM growth was 56%/29% YoY in FY23 and 25%/40% in 9MFY24 (from Apr'23) for Manappuram/Muthoot.

We recommend **BUY** (upgrade from Add) for Muthoot with an unchanged target price of INR 1,605, implies valuation multiple of 1.8x FY26E P/B on a consolidated-basis. This is lower than historical average of 2x P/B.

We recommend **BUY** (unchanged) for Manappuram with a revised target price of INR 220, valuing implied multiple of 1.2x FY26E P/B on a consolidated-basis, lower than historical average of 1.5x P/B.

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Impact of gold prices on gold NBFCs: AUMs typically enjoy strong correlation with gold prices

Given the recent surge in gold prices (~5% increase on average monthly gold prices in FY24TD), we analyse the correlation of gold price's movement with Muthoot and Manappuram's gold AUM over the last 12 years (specific years preferred).

Key findings –

Both Muthoot (0.98) and Manappuram's (0.95) AUMs demonstrate strong correlation with gold prices.

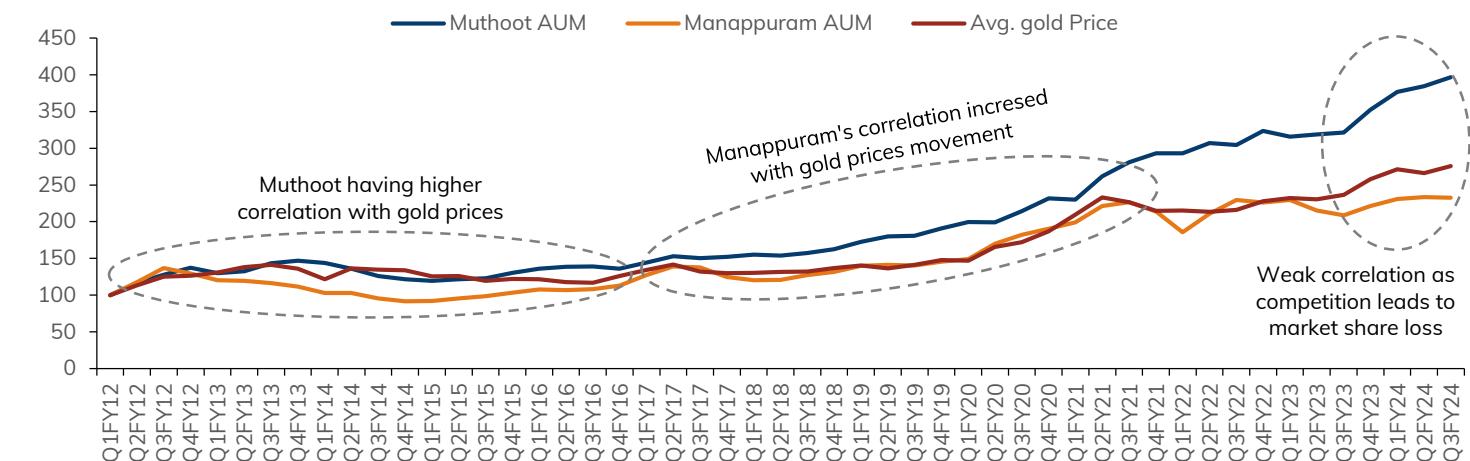
- Muthoot exhibited higher correlation till FY16, whereas Manappuram's correlation was better during FY17 to FY21.
- Correlation in the recent past has slipped a bit. This could be attributed to stiff competition in the gold loan segment and diversification efforts by these companies away from gold.

Trend of indexed (Q1FY12) gold prices and Muthoot and Manappuram's gold AUM

Method: We have indexed average monthly gold prices, Muthoot and Manappuram's gold AUM with Q1FY12 as base. After indexing, we note the relationship in movement, as per growth, to better gauge the correlation.

Correlation has been calculated on indexed data.

Exhibit 1: Indexed gold prices and indexed Muthoot and Manappuram gold AUM movement



Source: Company data, I-Sec research

Exhibit 2: Key operating parameters for Muthoot, Manappuram and IIFL Finance

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Gold AUM (INR bn)											
Muthoot	521	547	542	575	562	565	568	619	660	675	692
Manappuram	166	188	205	202	205	192	186	197	206	208	208
IIFL	133	136	146	162	171	178	183	207	221	237	247
Gold AUM growth											
Muthoot	0%	5%	-1%	6%	-2%	1%	1%	9%	7%	2%	3%
Manappuram	-13%	13%	9%	-1%	1%	-6%	-3%	6%	5%	1%	0%
IIFL	1%	2%	7%	11%	6%	4%	3%	13%	7%	7%	4%
Gold tonnage (tons)											
Muthoot	171	178	178	187	178	177	175	180	182	183	184
Manappuram	58	65	70	68	67	63	60	60	59	59	58.2
No. of active customers (mn)											
Muthoot	5.2	5.4	5.3	5.3	5.2	5.2	5.2	5.3	5.4	5.5	5.55
Manappuram	2.4	2.5	2.5	2.4	2.5	2.4	2.4	2.4	2.4	2.5	2.5
Yield to AUM											
Muthoot	20.4%	20.7%	20.7%	18.7%	17.3%	17.4%	18.2%	18.5%	18.1%	17.7%	17.8%
Manappuram	25.6%	24.0%	20.3%	18.8%	19.4%	22.0%	22.2%	20.1%	21.1%	21.5%	22.0%
IIFL	17.9%	17.3%	17.4%	16.3%	17.2%	17.5%	17.8%	17.5%	17.5%	18.5%	19.0%
Funding cost											
Muthoot	8.4%	8.1%	8.0%	7.6%	7.9%	7.8%	8.0%	8.0%	8.4%	8.7%	8.6%
Manappuram	9.0%	8.3%	7.8%	7.5%	7.8%	7.6%	8.0%	7.9%	8.5%	8.5%	8.7%
NIMs to AUM											
Muthoot	12.9%	13.5%	13.7%	12.2%	10.7%	11.0%	11.9%	12.3%	11.6%	10.9%	10.9%
Manappuram	18.0%	17.0%	13.8%	12.8%	13.2%	15.5%	15.1%	13.6%	14.4%	14.7%	14.8%
Opex to AUM											
Muthoot	3.0%	3.3%	3.3%	3.8%	3.8%	3.2%	3.4%	4.2%	3.4%	3.4%	3.3%
Manappuram	5.8%	7.2%	7.3%	6.1%	6.4%	7.0%	7.4%	7.1%	6.5%	6.4%	6.4%
Credit cost to AUM											
Muthoot	0.3%	0.6%	0.6%	-0.5%	-0.4%	-0.1%	0.4%	0.5%	0.5%	0.1%	0.1%
Manappuram	0.6%	0.2%	0.3%	0.4%	0.2%	0.4%	0.2%	0.7%	0.3%	0.5%	0.4%
RoA											
Muthoot	6.0%	6.0%	6.1%	5.6%	4.7%	5.2%	5.4%	5.2%	5.3%	5.2%	5.1%
Manappuram	7.2%	5.9%	3.9%	4.0%	4.4%	4.9%	4.4%	4.5%	5.1%	5.3%	5.1%
RoE											
Muthoot	25.4%	25.0%	24.4%	21.5%	17.5%	18.5%	18.3%	17.5%	18.5%	18.3%	18.1%
Manappuram	24.0%	19.2%	13.6%	13.5%	14.4%	16.8%	14.8%	14.0%	16.7%	17.7%	17.5%

Source: I-Sec research, Company data

Exhibit 3: Gold portfolio details for select banks/NBFCs

	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Gold portfolio (incl. agri) (INR bn)								
South Indian Bank	108	120	129	131	138	145	150	154
Federal Bank	173	185	193	195	198	209	226	239
KVB	141	149	150	153	161	170	177	181
CUB	90	95	100	107	110	108	109	106
Gold portfolio (incl. agri) (QoQ growth)								
South Indian Bank	9%	11%	8%	2%	5%	5%	3%	2%
Federal Bank	6%	7%	4%	1%	2%	6%	8%	6%
KVB	3%	6%	1%	2%	5%	6%	4%	2%
CUB	10%	6%	5%	7%	3%	-2%	1%	-3%
Gold portfolio (excl. agri) (INR bn)								
South Indian Bank	26	29	31	29	31	32	32	34
Federal Bank	46	52	53	48	44	53	45	45
KVB	19	19	22	22	22	24	25	25
CUB	32	35	38	38	41	43	48	49
CSB	66	71	80	88	97	101	106	108
DCB	15	15	15	14	13	13	13	12
HDFC	84	88	94	100	108	117	120	122
SBI	231	246	265	272	287	294	303	309
Gold portfolio (excl. agri) (QoQ growth)								
South Indian Bank	-4%	12%	7%	-6%	7%	3%	-1%	7%
Federal Bank	4%	14%	2%	-9%	-8%	21%	-15%	0%
KVB	10%	0%	16%	0%	0%	9%	3%	-1%
CUB	4%	9%	9%	0%	8%	5%	12%	2%
CSB	13%	8%	13%	10%	10%	4%	6%	2%
DCB	-12%	0%	0%	-7%	-7%	0%	-3%	-5%
HDFC	2%	5%	7%	6%	8%	8%	3%	2%
SBI	5%	6%	8%	3%	6%	2%	3%	2%

Source: I-Sec research, Company data

Exhibit 4: FY24 commentaries of lenders on Gold loan

Bank	Q2FY24	Q3FY24
	<p>Gold loan portfolio registered growth of 32% YoY. Overall, business yield declined slightly, primarily because of gold loans. In the last quarter, gold prices have started slipping. To manage the risks, company took certain measures such as product alignment, LTV management, exit strategy of some customers with higher LTVs etc. Also, because of the Israel conflict and such matters, gold prices have gone up again. This acted as comfort and, now adding more business.</p>	<p>Gold portfolio registered a growth of 23% YoY on a net-basis. Portfolio build-up has happened across all sectors. Gold, other retail advances and SME did well in the quarter with YoY growth of 23%, 44% and 28%, respectively.</p> <p>Company has a low proportion of risk weighted assets compared to the industry, partially because of the higher share of gold loan portfolio.</p> <p>Management expects that wholesale, SME, gold and retail, all of that will be the future cylinders of growth of the bank in coming years.</p>
	<p>Yield on gold loan has receded by ~20-30bps. It was 11.78% last quarter and around 11% this quarter. In H1FY24, it was at 11.40%. This will again rise this quarter.</p>	<p>On gold loan also, in last quarter, ran off some of this book. Company have started rebooking some of these businesses now because LTV has now come down to a level where they wanted it to. So given that perspective, bank could start booking gold loan at a higher yield again, because LTV is at a comfortable level.</p>
CSB	<p>The company is operating at 60%- 65% of LTV. It is a function of the share of agri and non-agri portfolio in book. As per regulation, non-agri portfolio has to be below 75%, (below 75% out there). On agri, the company has kept a limit of 85%. While it has risen to 81% of LTV, it used to be 78% one-two month ago. Currently, LTV is much lower because gold prices have gone up.</p>	<p>In terms of disbursement, bank had a relatively muted quarter on the gold side. (1) Management wanted to balance the portfolio a little more between gold and non-gold because with this growth also gold is touching 48% of portfolio. Company needs a more balanced portfolio. (2) Gold LTV: Management remained focused on gold portfolio with a 74% LTV and does not want to get into higher risk because though global gold price has come down slightly, it is still at an elevated level, being cautious on that side. (3) Thirdly, a lot of improvements in the gold loan process from a system implementation perspective resulted in slowed down in certain products on the gold loan side, which bank would like to continue to do.</p>
	<p>The mix has broadly remained stable, gold loan has remained ~47%, the mix has ebbed slightly on the wholesale side, but has risen slightly on the retail side; SME has almost remained the same.</p>	
	<p>Management highlighted that gold loan will continue to sustain, but cannot be a scalable business like wholesale, SME and retail. These three segments will scale and gold will continue to sustain along the way and do its own contribution.</p>	
DCB	<ul style="list-style-type: none"> - Gold loans is at INR 420mn. - Gold loan slippages are sometimes seasonal. - Currently, also focusing on gold co-lending and other co-lending. And diverting some of branch resources to getting deposits. When the company does gold loan co-lending with different entities, it does not incur operating costs and the margin is also very healthy. So, part of its capacity has been diverted towards getting more deposits. And gold loan is something that the company will continue to push. 	<ul style="list-style-type: none"> - Most of the co-lending is skewed towards gold loan which is coming at a slightly lower rate. - Gold loan is a growth area for company. - Gold loan and some co-lending slippages, which is predominantly gold, does not bother much because they are all absolutely secured. Most gold loans get paid off before the auction. - NPA stock of gold has reduced from INR 420mn to INR 320mn.
HDFC	<p>Gold loan processing is now offered in 4,544 branches, an increase of 53% over Sep'22.</p>	
South Indian Bank (SIB)	<p>Bank's gold loan business continues to grow. Disbursements YTD were INR 56.8bn with an average ticket size of roughly INR 0.16mn. The gold book has grown a significant 16% YoY</p>	<p>Continued to grow gold loan business.</p>
CUB	<p>Bank had taken its foot off the growth pedal way back in FY20 and continued growth with gold loan. But because of certain regulatory observations, it had to stop the agri gold loan KCC product, which became a sort of headwind to growth.</p>	<p>Post-covid, concentration remained on gold loans, and grew by 34% in the gold loan segment in the same period.</p>

Source: Company data, I-Sec research

05 March 2024

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Muthoot Finance

Gold Loan

Better growth prospect, attractive valuation outweighs near-term NIM challenge; upgrade to BUY

Muthoot Finance's (Muthoot) standalone business has been largely steady in terms of AUM-yield balance, illustrated by the +23.3%/30bps YoY change in standalone AUM/yields in 9MFY24. Key business drivers ahead include: 1) Managing NIMs against rising Cost of Funds (CoF) and growing tonnage/new clients (stagnant in Q3FY24). 2) Driving full benefit of branch expansions – opened 122/35 gold branches in FY23/9MFY24 in standalone and 487 new branches in 9MFY24 at group level. It also received permission from the regulator to open 140 new branches in Jul'23, which should be complete by FY24. 3) Growth in non-gold loan business (40% growth in 9MFY24 and implied CAGR of 20% required over next 3-4 years to reach 15% of overall mix, as stated in Q3FY23). 4) Managing asset quality in non-gold, especially MFI business.

Valuations turn attractive; upgrade to BUY

Our target price is based on 1.9x FY26E P/B for the standalone business, 1.2x FY26E P/B for Belstar (MFI subsidiary) and 1x for others. This turns to 1.8x FY26E P/B on a consolidated basis versus the historical average of ~2x. This, against the backdrop of better growth (high gold prices, stress in unsecured lending, traction in non-gold business that reported PAT growth of 1.6x/2.3x YoY and AUM growth of 29%/58% YoY in FY23/9MFY24), make us constructive on the name.

FY23-FY26E – gold loan AUM CAGR of 14%, consolidated RoE of ~18%

We factor in 14%/14%/13% gold AUM growth in FY24E/FY25E/FY26E with yields of ~18%. We model NIM/opex/credit cost to AUM at 11%/3.3%/0.15% for FY25E and 11%/3.3%/0.12% for FY26E for the standalone segment, which will likely lead to standalone RoE of 17.3%/17.2% in FY25E/26E. For Belstar, we factor in 20%/18% FY25E/26E AUM growth and NIM/opex/credit cost to AUM estimates at 10%/6.3%/3.7% in FY25E and 9.6%/6.3%/3.7% in FY26E, which should lead to RoE of 21.8%/19.1% in FY25E/26E.

Yields stabilise, but remain lower than peers

Average 9MFY24 gold loan yields have been 17.8%, 21.5% and 18.3% for Muthoot, Manappuram and IIFL Finance, respectively.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Interest Income (NII)	70,702	84,897	96,491	1,09,585
PAT (INR mn)	36,698	44,091	49,904	56,971
EPS (INR)	89.9	107.6	121.8	139.1
% Chg YoY	(9.0)	20.1	13.2	14.2
P/E (x)	14.6	12.2	10.8	9.4
P/BV (x)	2.5	2.2	1.9	1.6
Gross Stage - 3 (%)	3.8	4.0	3.5	2.9
Dividend Yield (%)	1.5	2.2	1.7	1.9
RoA (%)	4.7	5.1	5.1	5.0
RoE (%)	17.8	18.5	18.6	18.3

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Market Data

Market Cap (INR)	537bn
Market Cap (USD)	6,478mn
Bloomberg Code	MUTH IN
Reuters Code	MUTT.BO
52-week Range (INR)	1,537 /911
Free Float (%)	27.0
ADTV-3M (mn) (USD)	7.4

Price Performance (%)	3m	6m	12m
Absolute	(8.7)	4.7	40.8
Relative to Sensex	(15.9)	(7.9)	17.3

Previous Reports

10-12-2023: [Sector Update](#)

08-02-2023: [Q3FY23 results review](#)

Q3FY24 business highlights

- **Consolidated AUM increased 4.1% QoQ to INR 828bn as of Dec'23 driven by subsidiaries (Belstar/Muthoot Money) AUM growth, while gold AUM reported 3.2% QoQ growth.** Gold/Home Finance/Belstar/Muthoot money/others contributed 86.0%/2.2%/10.7%/1%/0.2% in Q3FY24 vs. 90%/2.3%/6.8%/0.3%/0.6% in FY22 and 88.4%/2%/8.7%/0.5%/0.4% in FY23 (share of Belstar is increasing in the mix). Gold holdings grew 5% YoY (0.5% QoQ) to 184te in Q3FY24, mainly due to gold price increase. Consolidated credit cost remained in control at INR1.1bn (0.5% of average AUM) in Q3FY24 vs. INR 0.8bn (0.4% of average AUM) in Q2FY24 and INR 1.2bn (0.7% of average AUM) in Q3FY23. Consolidated PAT increased by 4.6% QoQ to INR 11.5bn registering an RoA/RoE of 5.1%/19.1% in Q3FY24 vs. 5.1%/18.1% in Q3FY23 driven by the overall business.
- **Gold business largely steady QoQ on key parameters.** In Q3FY24, gold AUM increased by 21.8%/2.5% YoY/QoQ to INR692bn in Dec'23 led by increase in average ticket-size to INR80.7k in Q3FY24 from INR75.9k in Q4FY23 (vs. INR70.1k in Q3FY23). Average LTV was up at 65% from 70% QoQ, as gold prices remain high as on Dec'23. The number of loan accounts was up 1.1% QoQ to 8.6mn and number of customers saw similar growth rate of 0.9% QoQ at 5.6mn. Share of fresh loans either to new/inactive customers, or existing customers with fresh collateral, decreased in value terms to 18.4% in Q3FY24 from 19.5% in Q2FY24, also in terms of volume, it declined at 25.9% in Q3FY24 from 27.8% in Sep'23.
- **Gold loan AUM growth guidance maintained for 15% for the full year.** Management highlighted that competitive intensity from banks will be there. Implied 9MFY24 growth would be ~1.6% from Jan'24 to Mar'24 if AUM growth for FY24 were to be 14.5%.
- **Q3FY24 standalone PAT up 3.7% QoQ driven by lower costs, although NII was flattish.** Standalone yield improved slightly to 17.8% in Q3FY24 from 17.7% in Q2FY24 though it remained lower than the 18.2% in Q3FY23. During the quarter, **cost of funding was at 8.55% and management expects it to move towards 9%** in next 3 to 4 months, unless some decline happens in general interest rate scenario. NIMs was stable at 10.9% in Q3FY24. Interest spread was at 9.24% in Q3FY24 and management has maintained the guidance of 9% to 10%. 'Opex to AUM' ratio improved to 3.3% (vs 3.4% in Q2FY24). Consequently, RoA/RoE was 5.1%/18.1% in Q3FY24 vs. 5.1%/18.3% in Q2FY24. RoE was marginally down due to decreased leverage.
- **Key growth trends in non-gold loan business include:** 1) Strong growth in MFI and Muthoot money segments' profit. 2) Continued QoQ decline in insurance broking. 3) QoQ, slight decline in home finance business profit. Contribution of PAT from subsidiaries increased to 8.9% in 9MFY24 from 3.4% in 9MFY23.
 - Belstar (MFI subsidiary of the group) AUM growth remained strong at 65% YoY/12.2% QoQ. Its AUM stood at INR 88bn, as of Dec'23, and loan disbursement was at INR 68bn, growth of 85% YoY. Belstar's PAT increased 21% QoQ mainly due to higher growth in income compared to expenses and lower taxes. Consequently, its RoE was 35.1% in Q3FY24 vs. 28.1%/5.5% in Q2FY24/Q3FY23.
 - Muthoot Money's (vehicle finance subsidiary) AUM growth continued with 30% QoQ growth (1.1x growth between Mar'23 and Dec'23). After two quarters of negative PAT, Muthoot Money reported a profit of INR 32mn in Q3FY24. Its capital adequacy ratio declined to 58%, as on Dec'23, from 74% in Sep'23.

- Muthoot Homefin's (housing finance subsidiary) AUM increased by 10.4% QoQ to INR 18bn as of Dec'23. Revenue grew by 11% QoQ, yield on AUM improved by 19bps QoQ to 13.5% in Q3FY24, cost of funds was slightly higher by 4bps, at 8.8%, resulting in 15bps NIM expansion QoQ. Muthoot Home's PAT declined 2% QoQ, due to higher expenses, 12% QoQ growth. Consequently, its RoA/RoE was 1.3%/3.7% in Dec'23 vs. 1.5%/1.9% in Sep'23.
- Muthoot Insurance Brokers reported a decline of 4% QoQ, while remained strong at 8.5x YoY growth in premium, number of policies was up by 11%/3% QoQ/YoY. However, PAT declined at INR 68mn in Q3FY24 vs. INR 152mn in Q2FY24/Q3FY23, decline of 55% QoQ/YoY.
- **Overall asset quality improved during the quarter including for gold business and subsidiaries.**
- Standalone GS-3 decreased QoQ to 3.6% in Dec'23 vs. 4.1% in Sep'23. However, it remained higher compared to 2.6% in Q3FY23. Credit cost increased QoQ to INR137mn in Q3FY24. ECL provisioning remained flattish on sequential basis to 1.2% in Dec'23.
- Belstar's GS-3 (as percentage of AUM) continued to improve from 6.2% in Q3FY23 to 1.6% in Q3FY24 (vs. 1.2% in Q2FY24). Total ECL provisions were increased sequentially and stand at 1.4% of AUM as of Dec'23 (vs. 4.6% in Dec'22).
- Muthoot Home's GS-3 decreased QoQ at 2.9% in Dec'23, from 3.2% in Sep'23. It remained lower YoY. Total ECL provisions were at 1.7% as on Dec'23. Muthoot Money's GS-3 decreased to 1.7% in Dec'23 vs. 1.8% in Sep'23.
- **Key data points of Q3FY24**
 - Gold holdings marginally increased at 0.5% QoQ to 184te in Q3FY24.
 - LTV decreased to 65% from 70% QoQ.
 - AUM mix by ticket size: above INR 0.3mn- 27%, below INR 0.1mn to INR 0.3mn- 38% and below INR 0.1mn-35%.
 - Average ticket-size increased to INR 80,700 from INR 79,500 (QoQ).
 - Number of loan accounts/customers was 8.6mn/5.6mn vs. 8.5mn/5.5mn (QoQ).
 - Gold loan branches increased by 29 new branches QoQ to 4,774. RBI had given permission to open 144 branches, that will be completed by Mar'24-Apr'24. The company has also approached RBI for another set of branches. Standalone employee count increased by 682 QoQ to 28,779.
 - In order to reduce NPA to manageable levels, company sells portfolio to ARC, also able to retain the customers who have requested not to auction. In last quarter, ARC sale were of INR 7bn. ARC sale in invested in security receipt.
 - Belstar employee count increased by 678 QoQ to 10,169.
 - Muthoot Money's employee count increased by 708 to 1,748 QoQ.
 - Average monthly gold loan disbursements were up to INR 120bn in Q3FY24 from INR 104bn in Q2FY24 (INR 103bn in Q3FY23). However, remained lower from peak of INR 179bn in Q1FY24.
 - Online gold loans increased to 39.9% from 39.2% (QoQ) of AUM.

Exhibit 1: Standalone dupont (%)

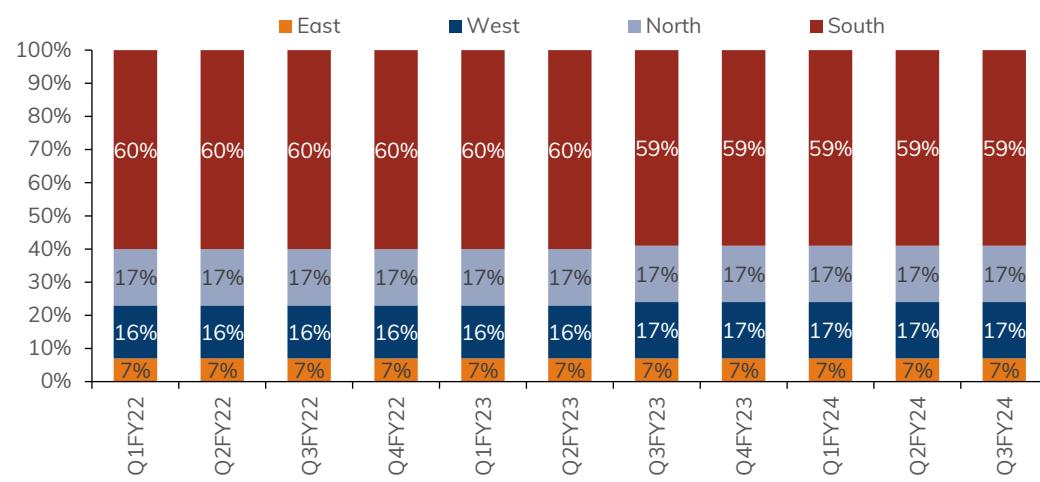
Dupont (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Interest Income	16.9	15.4	14.6	14.8	15.6	16.1	16.1	15.7	15.3
Interest Expense	5.7	5.4	5.5	5.4	5.5	5.4	5.8	6.0	6.0
Net Interest Income	11.2	10.0	9.0	9.4	10.2	10.7	10.3	9.7	9.4
Other Income	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.3	0.3
Total Net Income	11.4	10.2	9.2	9.6	10.5	11.1	10.7	10.0	9.7
Operating Expenses	2.7	3.1	3.2	2.7	2.9	3.6	3.1	3.0	2.8
Pre Provision Operating Profit	8.7	7.1	6.0	6.9	7.5	7.5	7.6	7.0	6.9
Provisions	0.5	-0.4	-0.3	-0.1	0.3	0.4	0.5	0.1	0.1
PBT	8.2	7.5	6.3	6.9	7.2	7.0	7.2	6.9	6.8
Tax	2.1	1.9	1.6	1.8	1.8	1.8	1.8	1.8	1.7
Reported PAT	6.1	5.6	4.7	5.2	5.4	5.2	5.3	5.2	5.1
Leverage (avg. assets/avg. equity) (x)	4.0	3.8	3.7	3.6	3.4	3.4	3.5	3.5	3.6
RoE	24.4	21.5	17.5	18.5	18.3	17.5	18.5	18.3	18.1

Source: I-Sec research, Company data

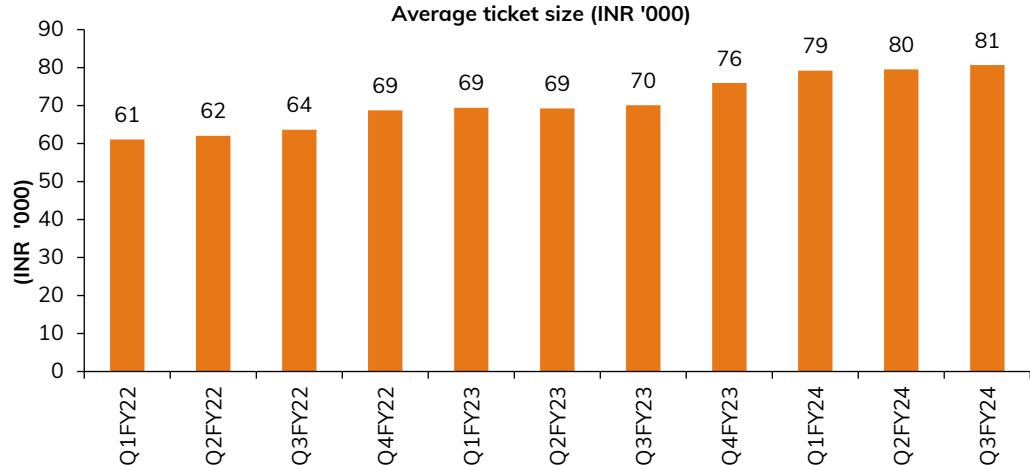
Exhibit 2: Consolidated dupont (%)

Dupont (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Interest Income	17.0	15.7	14.8	15.2	16.0	16.4	16.6	16.5	16.3
Interest Expense	5.9	5.6	5.7	5.6	5.7	5.7	6.1	6.3	6.2
Net Interest Income	11.2	10.1	9.1	9.6	10.3	10.7	10.6	10.2	10.0
Other Income	0.4	0.7	0.4	0.5	0.5	0.9	0.6	0.6	0.7
Total Net Income	11.6	10.8	9.5	10.0	10.8	11.6	11.2	10.8	10.7
Operating Expenses	3.0	3.5	3.5	3.4	3.4	4.0	3.5	3.5	3.5
Pre Provision Operating Profit	8.6	7.4	6.0	6.6	7.5	7.6	7.7	7.3	7.2
Provisions	0.9	0.1	-0.1	-0.0	0.7	0.5	0.8	0.4	0.5
PBT	7.7	7.3	6.0	6.6	6.8	7.1	6.9	6.9	6.8
Tax	2.0	1.9	1.6	1.7	1.7	1.6	1.8	1.8	1.7
Reported PAT	5.8	5.4	4.5	5.0	5.1	5.5	5.1	5.1	5.1
Leverage (avg. assets/avg. equity) (x)	4.2	4.1	3.9	3.8	3.6	3.6	3.7	3.8	3.9
RoE	24.2	22.0	17.6	18.7	18.5	19.8	19.2	19.6	19.5

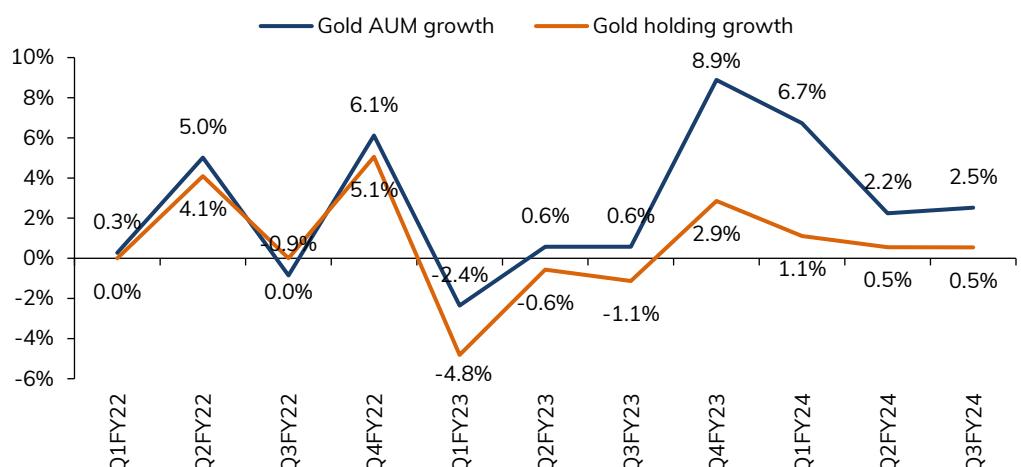
Source: I-Sec research, Company data

Exhibit 3: South continues to be dominant in terms of branch presence


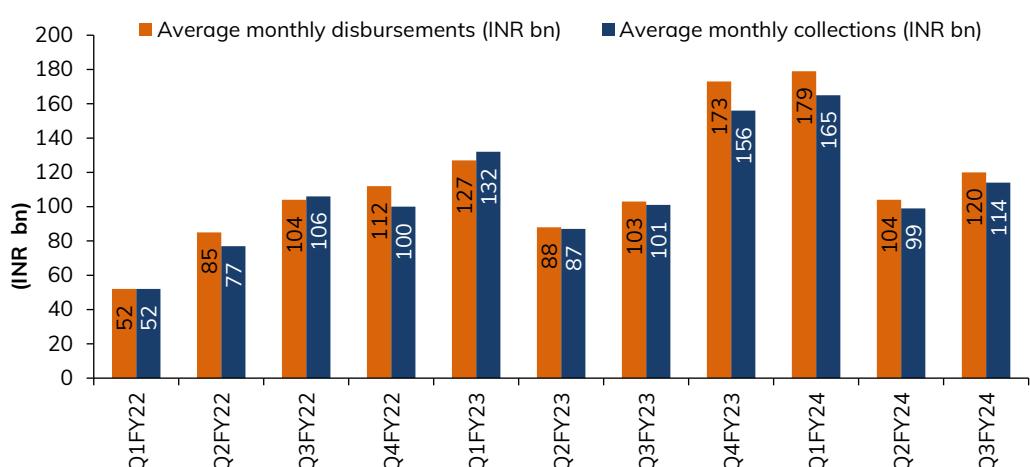
Source: I-Sec research, Company data

Exhibit 4: Stable average ticket-size of gold loans with slight increase


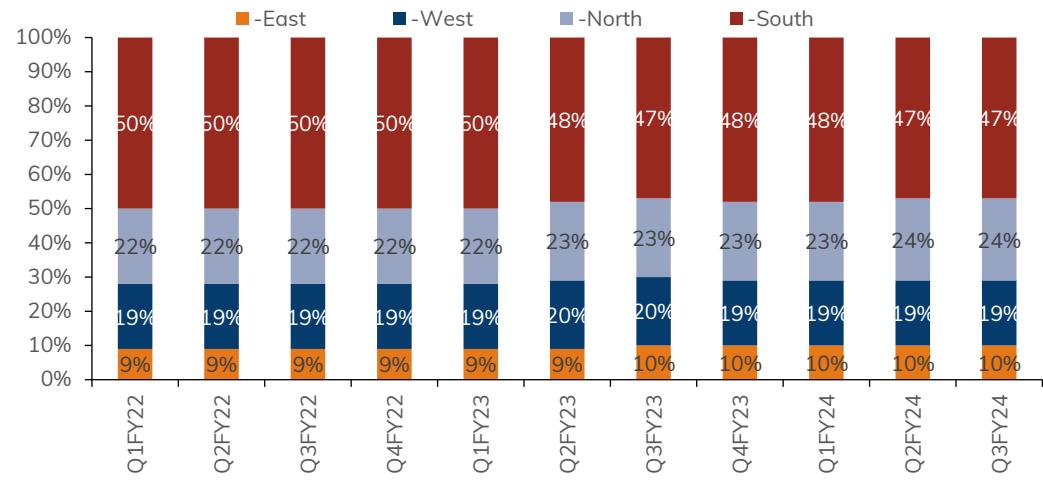
Source: I-Sec research, Company data

Exhibit 5: AUM growth remains slow


Source: I-Sec research, Company data

Exhibit 6: Disbursements and collections slowed down QoQ


Source: I-Sec research, Company data

Exhibit 7: South continues to dominate gold AUM due to high presence and demand


Source: I-Sec research, Company data

LTV movement from buyer and lender's perspective
Exhibit 8: LTV movement from buyer and lender's perspective

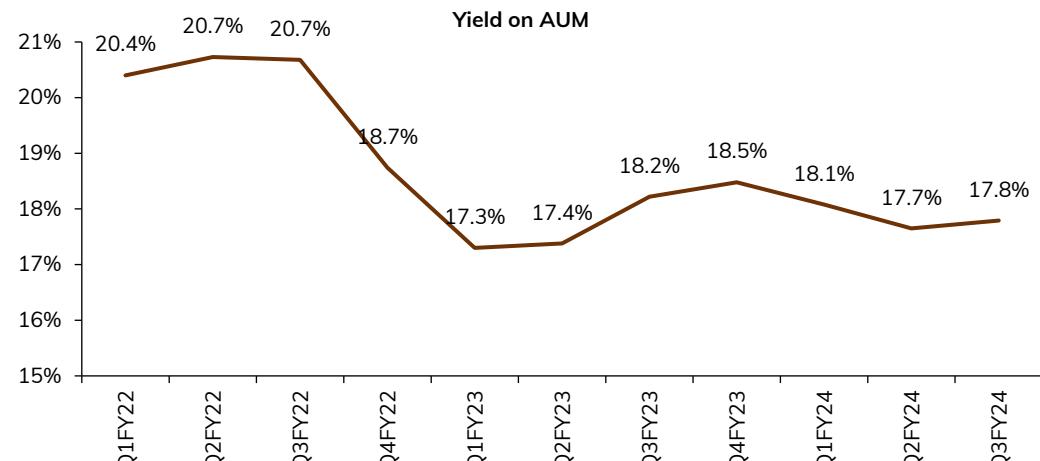
	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Mkt Price of Gold holding (Borrowers' Perspective) with 20% additional making charges (INR bn)	878	898	941	1,058	995	979	1,056	1,182	1,160	1,160	1,279
LTV calculation through Mkt price from Borrower's perspective	59.3%	60.9%	57.6%	54.4%	56.5%	57.7%	53.8%	52.3%	56.9%	58.2%	54.1%
Equity of Borrower in the Gold Ornaments net of loans availed	40.7%	39.1%	42.4%	45.6%	43.5%	42.3%	46.2%	47.7%	43.1%	41.8%	45.9%
Mkt Price of Gold holding (lenders' Perspective) (INR bn)	732	748	784	882	829	816	880	985	967	967	1,066
LTV calculation through Mkt price from Lenders' perspective	71.1%	73.1%	69.2%	65.2%	67.8%	69.2%	64.6%	62.8%	68.3%	69.8%	64.9%
Margin of safety on loans for lender	28.9%	26.9%	30.8%	34.8%	32.2%	30.8%	35.4%	37.2%	31.7%	30.2%	35.1%

Source: I-Sec research, Company data

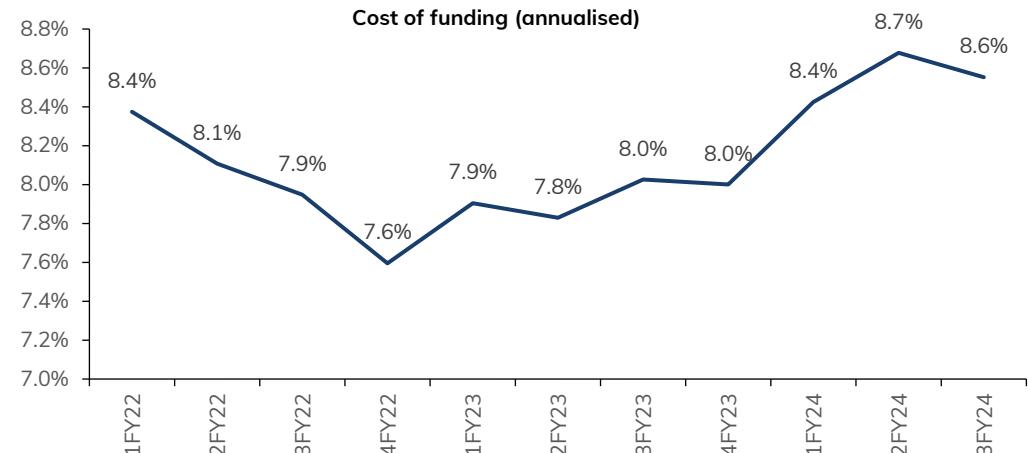
Exhibit 9: Quarterly operating details

Outstanding loan amount (INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Fresh loans to inactive customers	27,646	29,020	28,643	35,814	35,383	35,511	36,617
Fresh loans to new customers	26,162	26,029	26,502	34,506	36,699	34,969	33,868
Fresh loans with new collateral to existing customers	61,505	49,057	45,549	56,499	66,668	60,972	57,036
Old book	4,46,453	4,60,908	4,67,551	4,91,931	5,21,638	5,43,719	5,64,693
Fresh loans as a %age of total gold AUM							
Fresh loans to inactive customers	4.9%	5.1%	5.0%	5.8%	5.4%	5.3%	5.3%
Fresh loans to new customers	4.7%	4.6%	4.7%	5.6%	5.6%	5.2%	4.9%
Fresh loans with new collateral to existing customers	10.9%	8.7%	8.0%	9.1%	10.1%	9.0%	8.2%
Old book	79.5%	81.6%	82.3%	79.5%	79.0%	80.5%	81.6%
Customers (mn)							
Fresh loans to inactive customers	0.39	0.40	0.38	0.40	0.41	0.43	0.41
Fresh loans to new customers	0.31	0.32	0.31	0.33	0.36	0.36	0.33
Fresh loans with new collateral to existing customers	0.74	0.68	0.65	0.66	0.74	0.74	0.69
Old book	3.73	3.81	3.90	3.93	3.90	3.97	4.11
Fresh loans to Customers as %age of total active customers							
Fresh loans to inactive customers	7.6%	7.7%	7.3%	7.5%	7.6%	7.8%	7.4%
Fresh loans to new customers	6.1%	6.2%	5.9%	6.3%	6.6%	6.6%	6.0%
Fresh loans with new collateral to existing customers	14.2%	13.1%	12.4%	12.4%	13.8%	13.4%	12.5%
Old book	72.1%	73.0%	74.4%	73.8%	72.0%	72.2%	74.1%
Approx. avg. ticket size (INR) (Loans/customers)							
Fresh loans to inactive customers	70,343	72,078	75,044	89,170	85,838	82,948	89,581
Fresh loans to new customers	83,278	80,705	85,923	1,03,340	1,03,157	96,969	1,01,138
Fresh loans with new collateral to existing customers	83,470	71,766	70,364	85,543	89,511	82,491	82,195
Old book	1,19,720	1,21,043	1,19,992	1,25,258	1,33,848	1,36,884	1,37,313

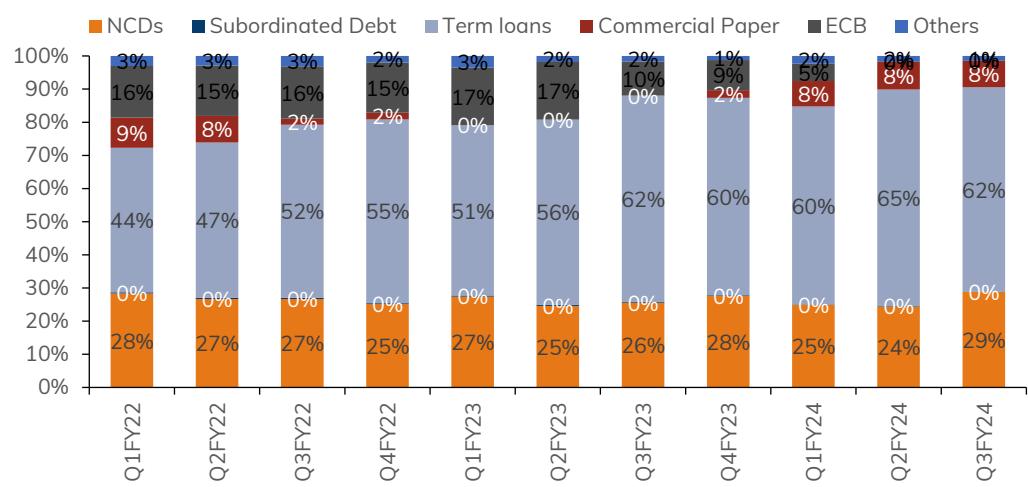
Source: I-Sec research, Company data

Exhibit 10: Slight improvement in standalone yields


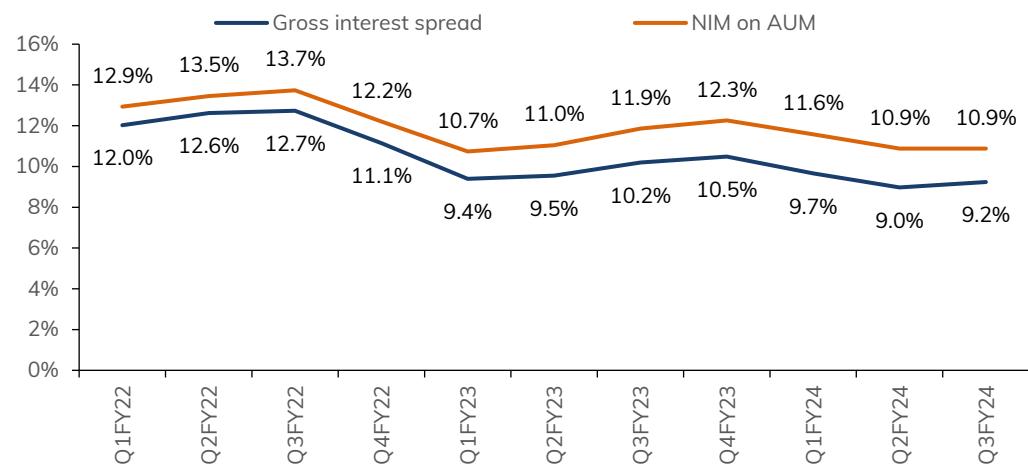
Source: I-Sec research, Company data

Exhibit 11: Funding cost declined QoQ


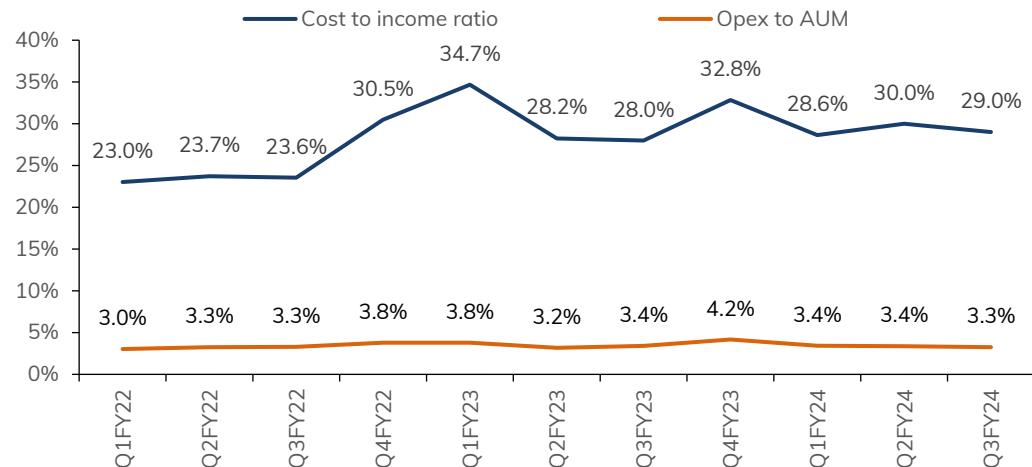
Source: I-Sec research, Company data

Exhibit 12: Share of term loans increased in borrowing mix


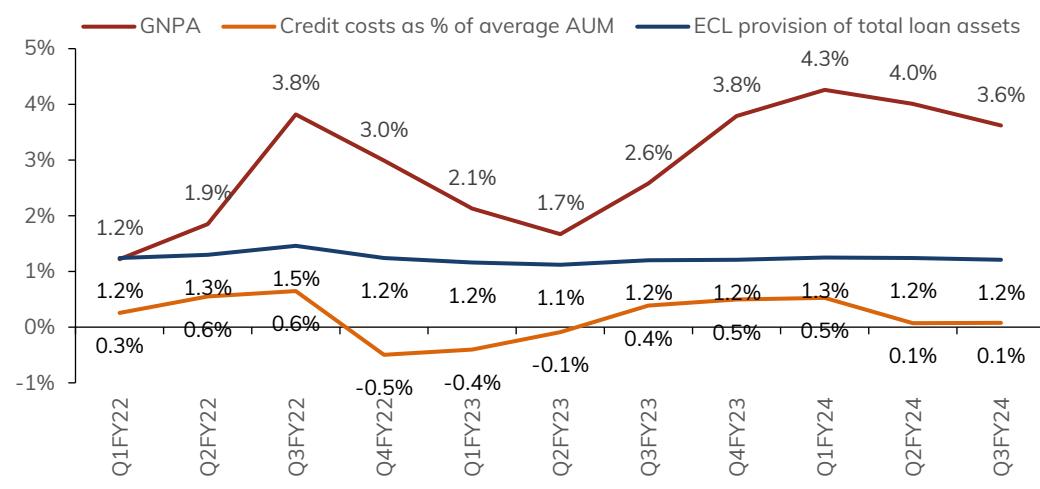
Source: I-Sec research, Company data

Exhibit 13: Gross interest spread and NIMs mirrored trend in yield and cost of funding (calculated based on avg. AUM)


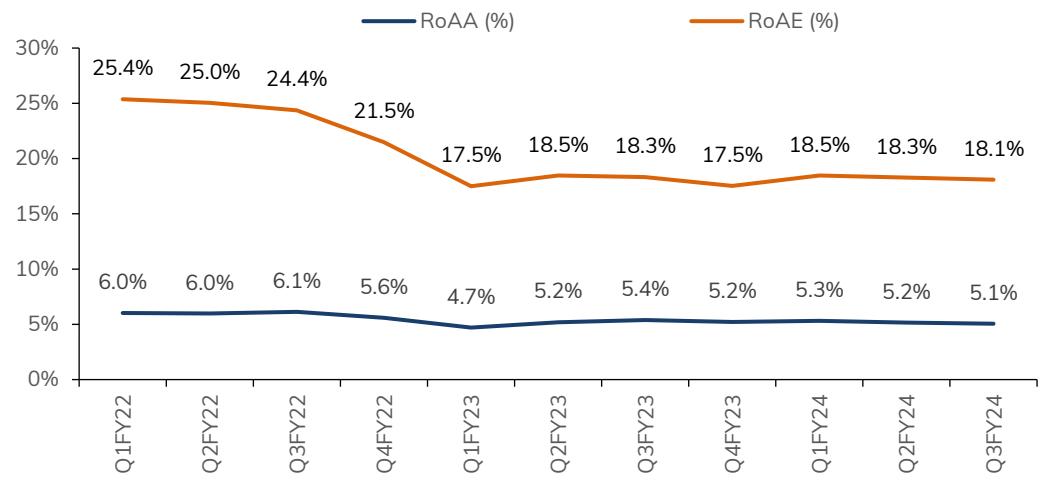
Source: I-Sec research, Company data

Exhibit 14: Opex decreased QoQ


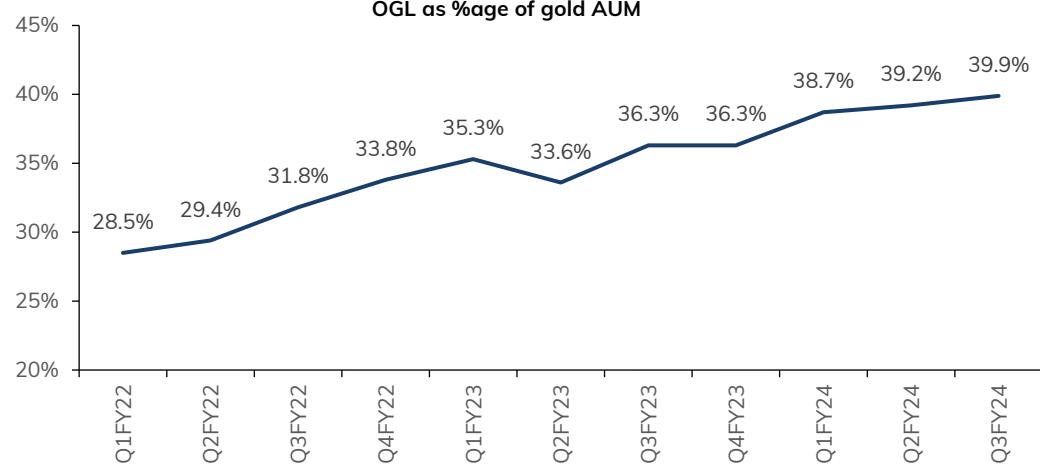
Source: I-Sec research, Company data

Exhibit 15: Credit cost decreased with GNPA decrease


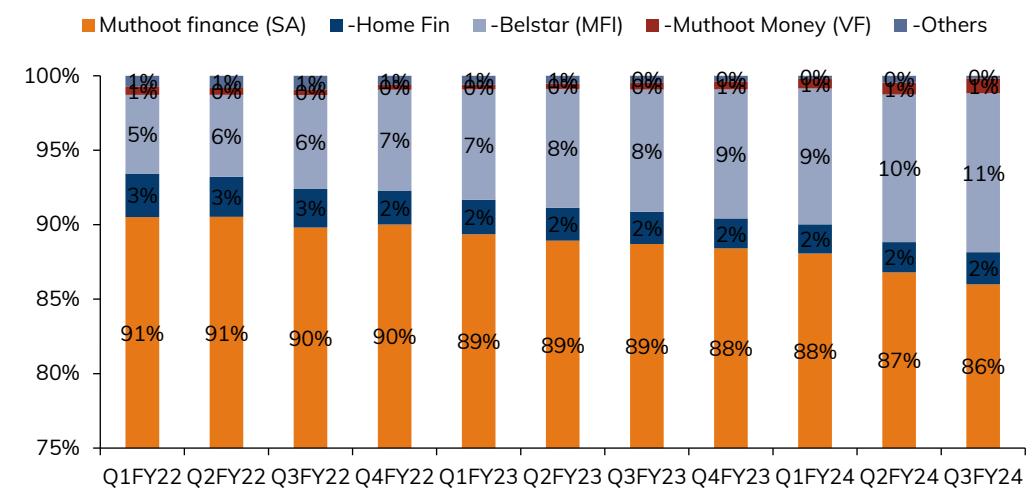
Source: I-Sec research, Company data

Exhibit 16: RoA and RoE decreased sequentially


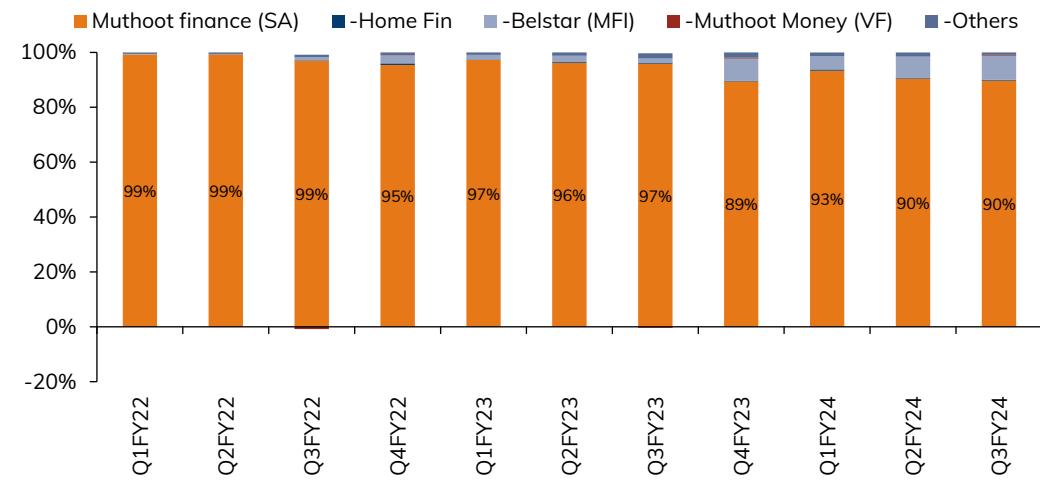
Source: I-Sec research, Company data

Exhibit 17: Online gold loan as percentage of AUM increased QoQ


Source: I-Sec research, Company data

Exhibit 18: Belstar AUM's share increased on the back of higher growth than other businesses


Source: I-Sec research, Company data

Exhibit 19: Belstar's share of PAT also increased in the mix


Source: I-Sec research, Company data

Exhibit 20: Key highlights for Belstar

	Q3FY24	Q3FY23	% Change YoY	Q2FY24	% Change QoQ
Branches (nos.)	1,009	821	22.9%	946	6.7%
Employees (nos.)	10,169	7,649	32.9%	9,491	7.1%
Revenue (INR mn)	5,040	2,518	100.2%	4,309	17.0%
Expenses	3,741	2,345	59.5%	3,213	16.4%
PBT	1,299	173	650.9%	1,096	18.5%
Taxes	296	36	722.2%	265	11.7%
PAT	1,003	137	632.1%	831	20.7%
Balance sheet key items (INR mn)					
AUM	88,346	53,409	65.4%	78,741	12.2%
Gross Loan Assets	73,877	44,538	65.9%	64,654	14.3%
Networth	13,237	10,110	30.9%	12,237	8.2%
Outside liabilities	67,732	41,968	61.4%	57,891	17.0%
Assets	80,969	52,078	55.5%	70,128	15.5%
Total ECL Provision	2,583	2,583	0.0%	2,583	0.0%
Stage III ECL Provision	1,280	2,437	-47.5%	870	47.1%
GNPA (INR mn)	1,403	3,296	-57.4%	957	46.6%
GNPA %	1.6%	6.2%	-459 bps	1.2%	37 bps
NNPA %	0.1%	1.7%	-155 bps	0.1%	2 bps
CAR	19.0%	23.0%	-400 bps	21.0%	-200 bps
RoE	0.3%	0.1%	26 bps	0.3%	3 bps

Source: I-Sec research, Company data

Exhibit 21: Key highlights of Muthoot Money

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Branches	124	139	139	149	185	276	340
Employees	553	712	818	920	1,154	1,040	1,748
AUM (INR mn)	1,976	2,337	2,933	3,870	4,961	6,302	8,176
Networth (INR mn)	1,036	1,038	1,007	1,038	1,038	5,036	5,068
Assets (INR mn)	2,239	2,762	3,306	4,342	5,575	7,044	9,081
Revenue (INR mn)	113	124	155	172	205	267	345
Expenses (INR mn)	112	121	196	132	206	269	302
PBT (INR mn)	1	3	-41	40	-1	-2	43
Taxes (INR mn)	-	1	-10	9	-	-	11
PAT (INR mn)	1	2	-31	31	-1	-2	32
Key Ratios:							
GNPA/Gross stage 3 Q4 FY19 %	7.8%	5.6%	7.5%	7.5%	2.5%	1.8%	1.7%
NNPA/Net stage 3 Q4 FY19 %	4.6%	3.2%	4.3%	2.3%	1.5%	1.1%	1.1%
CAR	47.0%	40.0%	31.0%	24.0%	19.0%	74.0%	58.0%
RoAA	0.2%	0.3%	-4.1%	3.2%	-0.1%	-0.1%	1.6%
RoE	0.4%	0.8%	-12.1%	12.1%	-0.4%	-0.3%	2.5%

Source: I-Sec research, Company data

Exhibit 22: Key highlights of Muthoot Homefin

	Q3FY24	Q3FY23	% Change YoY	Q2FY24	% Change QoQ
Branches	122	108	13.0%	122	0.0%
Employees	569	318	78.9%	512	11.1%
Customers	23,312	20,957	11.2%	22,255	4.7%
Income statement (INR mn)					
Revenue	543	406	33.7%	490	10.8%
Expenses	483	353	36.8%	430	12.3%
PBT	60	53	13.2%	60	0.0%
Taxes	17	14	21.4%	16	6.3%
PAT	43	39	10.3%	44	-2.3%
Balance sheet key items (INR mn)					
AUM	17,834	14,099	26.5%	16,157	10.4%
Gross Loan Assets	14,733	10,421	41.4%	12,934	13.9%
Networth	4,709	4,549	3.5%	4,666	0.9%
Borrowings	10,222	6,694	52.7%	9,467	8.0%
Assets	16,557	11,884	39.3%	15,464	7.1%
Ratios (annualised)					
Yield on AUM	13.5%	13.3%	23 bps	13.3%	19 bps
Cost of funding	8.8%	8.1%	68 bps	8.8%	3 bps
NIMs to AUM	7.2%	7.6%	-38 bps	7.1%	15 bps
Total ECL Provision	358	346	3.5%	371	-3.5%
Stage III ECL Provision	301	279	7.9%	321	-6.2%
GNPA (INR mn)	522	455	14.7%	510	2.4%
GNPA %	2.9%	3.2%	-31 bps	3.2%	-23 bps
NNPA %	1.3%	1.3%	-2 bps	1.2%	6 bps
CAR	43.0%	63.0%	-2000 bps	50.0%	-700 bps
RoA	1.3%	1.0%	30 bps	1.5%	-15 bps
RoE	3.7%	3.4%	23 bps	1.9%	178 bps

Source: I-Sec research, Company data

Exhibit 23: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	73.4	73.4	73.4
Institutional investors	22.4	22.8	22.7
MFs and others	12.5	13.7	13.9
FIs/Banks	0.0	0.0	0.0
Insurance	0.6	0.3	0.4
FII	9.3	8.8	8.4
Others	4.2	3.8	3.9

Source: Bloomberg

Exhibit 24: Price chart


Source: Bloomberg

Financial Summary

Exhibit 25: Profit & Loss (consolidated)

(Rs mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Interest Income	1,12,794	1,37,926	1,57,701	1,79,666
Net gain on fair value changes	-	-	-	-
Interest Expenses	(42,092)	(53,029)	(61,211)	(70,081)
Net Interest Income (NII)	70,702	84,897	96,491	1,09,585
Other Income	773	742	855	972
Total Income (net of interest expenses)	35,566	40,580	45,818	51,826
Employee benefit expenses	(14,883)	(16,292)	(18,526)	(20,980)
Depreciation and amortization	(782)	(818)	(1,006)	(1,064)
Fee and commission expenses	-	-	-	-
Other operating expenses	(10,346)	(11,842)	(13,651)	(15,725)
Total Operating Expense	(26,010)	(28,952)	(33,184)	(37,769)
Pre Provisioning Profits (PPoP)	51,648	63,877	72,949	83,108
Provisions and write offs	(2,420)	(4,435)	(5,655)	(6,278)
Profit before tax (PBT)	49,228	59,443	67,294	76,830
Total tax expenses	12,530	15,351	17,390	19,858
Profit after tax (PAT)	36,698	44,091	49,904	56,971

Source Company data, I-Sec research

Exhibit 26: Balance sheet (consolidated)

(Rs mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Share capital	4,013	4,014	4,014	4,014
Reserves & surplus	2,12,643	2,44,845	2,84,837	3,30,484
Shareholders' funds	2,16,657	2,48,860	2,88,852	3,34,498
Borrowings	5,57,882	6,29,538	7,27,631	8,28,034
Provisions & Other Liabilities	21,928	28,628	32,021	33,763
Deferred tax liabilities (net)	-	-	-	-
Current Liabilities and short-term provisions	-	-	-	-
Total Liabilities and Stakeholder's Equity	8,01,336	9,12,802	10,55,282	12,04,218
Cash and balance with RBI	80,357	70,869	87,107	1,04,331
Fixed assets	4,088	4,405	4,975	5,327
Loans	7,05,544	8,26,173	9,49,862	10,79,629
Investments	5,457	4,629	5,425	6,045
Deferred tax assets (net)	488	971	1,157	1,310
Current Assets including cash and bank	-	-	-	-
Other Assets	5,103	5,454	6,456	7,275
Total Assets	8,01,336	9,12,802	10,55,282	12,04,218

Source Company data, I-Sec research

Exhibit 27: Key Ratios (consolidated)

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Valuations				
EPS	90	108	122	139
BVPS	540	620	720	833
Yields, Interest income & spreads(%)				
Yield on AUM	17	18	17	17
Cost of funding	8.1	9	9	9
NIM on AUM	10	11	11	11
Other income on AUM	1.0	1.1	1.2	1.2
Operating efficiency				
Cost to income	33.5	31.8	31.8	31.8
Opex to AUM	3.8	3.8	3.8	3.7
AUM per branch (INR Mn)	133.4	146.1	160.7	175.1
Asset Quality				
GNPA	3.7	3.9	3.4	2.8
NNPA	3.3	3.5	3.0	2.5
Credit cost on AUM (Consolidated)	0.4	0.6	0.6	0.6
Profitability				
ROAA	4.7	5.1	5.1	5.0
ROE	17.8	18.5	18.6	18.3
Capital (%)				
Tier 1	31.0	32.0	32.1	32.4
Tier 2	0.8	-	-	-
RWA/ Total Assets	92.8	96.0	96.0	96.0

Source Company data, I-Sec research

Exhibit 28: Key Metrics (consolidated)

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
DuPont Analysis				
Gross AUM (INR Mn)	7,15,027	8,43,295	9,72,518	11,06,750
Interest Income (%)	14.4	16.1	16.0	15.9
Interest Expense (%)	5.4	6.2	6.2	6.2
Net Interest Income (%)	9.0	9.9	9.8	9.7
Other Income (%)	0.9	1.0	1.1	1.1
Total Net Income (%)	9.9	10.9	10.9	10.8
Operating Expenses (%)	3.3	3.5	3.5	3.4
Pre Provision Operating Profit (%)	6.6	7.5	7.4	7.4
Provisions (%)	0.3	0.5	0.6	0.6
PBT (%)	6.3	6.9	6.8	6.8
Tax (%)	1.6	1.8	1.8	1.8
Reported PAT (%)	4.7	5.1	5.1	5.0
Leverage (average assets/average equity)	3.8	3.6	3.7	3.6
RoE (%)	17.8	18.5	18.6	18.3

Source Company data, I-Sec research

05 March 2024

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Manappuram Finance

Gold Loan

Gold AUM growth-yield balance stable, non-gold growing well; valuations attractive

Stabilisation in gold loan yield, turnaround in the MFI business and traction in other segments such as housing/MSME are noteworthy developments in Manappuram Finance (Manappuram) over last 12 months. Gold loan's growth vs. yield balance appears stable and better-than-peers while consolidated growth and RoE are close to 20%. Manappuram is also relatively less impacted by elevated capital risk weights. Strategically, it is progressing well on diversification (aims to take gold loan mix down to 50%), digital transformation and employee investment. Valuation remains attractive, trading at 1.2x FY26E consolidated P/B. Retain **BUY**. Key risks: Incrementally weaker AUM yield balance in gold; and asset quality issues with growth in non-gold (Q3 saw decline in asset quality across segments).

Maintain BUY

We roll-over to FY26E and our SoTP-based target price for Manappuram now stands at INR 220 based on 1.3/1.2/1.2/1x P/B for gold/MFI/home finance/other businesses on FY26E BV. We factor in AUM growth of ~8%/10%/9% in gold on a standalone basis, ~33%/20%/18% in MFI and ~50%/30%/20% for Home Finance business in FY24E/FY25E/FY26E. Overall, we factor in AUM growth of ~20%/15%/13% on a consolidated basis for FY24E/FY25E/FY26E. We model standalone 'NIMs/opex/credit cost' to AUM estimates at 14.3%/6.6%/0.3% for FY25E and 14.4%/6.5%/0.3% for FY26E. This leads to a standalone RoE of ~15.8%/16% in FY25E/FY26E. For Asirvad, we factor in RoE of 23.5%/21.3% for FY25E/FY26E. Consolidated RoE stands at 18.9%/18.5% for FY25E/FY26E.

Valuation attractive

While the current low multiples reflect business stresses from the past, arising out of a sharp yield decline in the gold business and Covid impact in the MFI segment, the current outlook is notably better. On balance, current valuations are attractive at ~1.2x FY26E consolidated P/B (our target multiple is 1.2x P/B and historic average is 1.5x P/B). Manappuram's strategic focus on business diversification will likely fortify the business and offer stronger value proposition.

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Market Data

Market Cap (INR)	156bn
Market Cap (USD)	1,878mn
Bloomberg Code	MGFL IN
Reuters Code	MNFL.BO
52-week Range (INR)	193 /102
Free Float (%)	64.0
ADTV-3M (mn) (USD)	20.2

Price Performance (%)	3m	6m	12m
Absolute	9.9	20.4	73.4
Relative to Sensex	2.6	7.8	49.9

Financial Summary

Y/E (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Interest Income (NII)	38,775	54,346	62,089	70,111
PAT (INR mn)	15,002	21,237	23,534	26,831
EPS (INR)	17.7	25.1	27.8	31.7
% Chg YoY	12.9	41.6	10.8	14.0
P/E (x)	10.4	7.3	6.6	5.8
P/BV (x)	1.6	1.4	1.2	1.0
Gross Stage - 3 (%) (SA)	1.3	1.6	1.5	1.4
Dividend Yield (%)	1.7	2.1	2.8	3.2
RoA (%)	4.1	4.9	4.4	4.5
RoE (%)	16.7	20.1	18.9	18.5

Earnings Revisions (%)	FY24E
PAT (SA)	6.7%
PAT (Cons)	12.7%

Previous Reports

10-12-2023: [Sector Update](#)
30-08-2023: [Company Update](#)

Q3FY24 business highlights

- **Consolidated AUM grew 3.7%/26.7% QoQ/YoY to INR 404bn as of Dec'23.** Gold/MFI/HFC/vehicle/others contributed 51.4%/26.5%/3.5%/8.9%/9.7% in Q3FY24 vs. 66.6%/22%/2.8%/5.4%/3.1% in FY22 and 55.7%/26.2%/3.1%/6.9%/8.1% in FY23 (increase in non-gold mix is notable). Gold loan AUM remains muted, gold holdings decreased YoY as well QoQ to 58te in Q3FY24 from 60te in Q2FY23, mainly due to gold price increase. **Management guides for FY24E gold loan growth of 8-10%, implying ~3% to 5% QoQ growth in Q4FY24E.** The company aims to grow the gold business by growing its number of customers while maintaining pricing discipline. Consolidated PAT increased 2.6% QoQ to INR 5.8bn, translating to 5.2%/21.2% (annualised) RoA/RoE in Q3FY24 vs 5.3%/21.6% in Q2FY24.
- **Standalone PAT remained flattish QoQ to INR 4.2bn** due to a muted quarter for gold AUM, and higher interest expenses compared to income. As per management, cost of borrowing may rise further based on RBI's new regulations. NII was up 4.3% QoQ in Q3FY24 with net yield improving sequentially to 22.3% in Q3FY24 from 21.9% in Q2FY24 and 21% in FY23. However, cost of funding remained elevated at 8.7%. 'Opex to AUM' improved to 6.4% in Q3FY24 from 7.1% in Q4FY23. PPOP increased 2.9% QoQ to INR 6.1bn, mainly because of higher NIM and lower opex. Credit cost decreased to 0.4% in Q3FY24 vs. 0.5% in Q2FY24. Annualised RoA/RoE was 5.1%/17.5% in Q3FY24 vs. 5.3%/17.7% in Q2FY24.
- **Asirvad's PAT grew 7.4% QoQ to INR 1.3bn driven by improvement in opex.** Asirvad's total AUM grew 6%/34% QoQ/YoY in Q3FY24. Core MFI AUM grew 6.3%/39.2% QoQ/YoY in Q3FY24. Asirvad is currently in the process of raising capital – it has responded to all of SEBI's queries and is awaiting response (SEBI has kept IPO in abeyance since Jan'24; [link](#)). Management highlighted that capital will be used for future growth. NII increased 14% QoQ due to higher yields (25% in Q3FY24 vs. 24% in Q2FY24) offset by higher funding cost. We model 'NIM to AUM' of 12.3%/12.5%/12.1% for FY24E/FY25E/FY26E. 'Opex to AUM' remains stable on a QoQ-basis at 6.3% with further expectation of moderation ahead. PPOP increased 18.3% QoQ to INR 2.7bn, mainly due to higher NII.
- **Manappuram Home's AUM increased 8.5% QoQ to INR14bn.** The business operates from 65 branches and reported PAT of INR 51mn. Vehicle/MSME and 'others' AUM in the standalone company grew 14.5%/~9% QoQ. The business is carried out from existing gold loan branches (280 branches). The company is increasing penetration in rural and semi-urban locations apart from using digital lending platforms and automated approval processes, with focus on used commercial vehicles. Collection efficiency is 96% and GNPA has increased to 2.7%.
- **Asset quality declined sequentially for standalone, vehicle and home finance business, while MFI witnessed slight improvement in Q3FY24.**
 - Standalone Gross Stage-3 (GS-3) increased to 2%, as of Dec'23, from 1.6% in Sep'23 (1.3% in FY23), as the company is receiving requests from a few customers to delay the auction. Credit cost decreased in Q3FY24 to 0.4% (annualised) of average AUM from 0.5% in Q2FY24.
 - Vehicle finance's GS-3 increased to 2.6% from 2.5% QoQ.
 - Asirvad's GS-3 slightly improved to 2.8% in Dec'23, from 3%, as of Sep'23. 'Credit cost to AUM' for Asirvad increased to 4.2% (annualised) in Q3FY24 from 3.5% in Q2FY24. In MFI, the company is seeing stress in some states, leading to delay in collection. Company has done sale to ARC of INR 2bn, out of INR 1bn have been write-off.

- For home finance, GS-3 has increased by 90bps QoQ to 2.7% in Q3FY24. Management highlighted that in home loans, ~200 properties are up for sale, which will bring down the NPA.
- For MSME and allied businesses, GS-3 was at 2.3%, excluding digital personal loan, it was at 1.5%. The company is witnessing some collection issues in digital personal loans and they are restricting the underwriting norms. Collection efficiency was at 102%.

Other highlights

- **Competitive environment with banks:** Management stated that they are serving different segment of the community where ticket size is relatively small (INR 20k) and duration is around three months. Competition is expected, as a large chunk of the business still remains with unincorporated bodies.
- **Cost of borrowing:** The recent RBI circular to raise risk weight on consumer credit exposure of the NBFC lending does not apply to gold loan, vehicle finance, and microfinance; hence, it has little impact on balance sheet. Bank lending to NBFCs raised their risk weight to the extent of 25%, which resulted in a sequential increase in the cost of borrowing by 19bps. Whenever there is cost increase in borrowing, it is passed on to gold loan customers.
- **Branch details:** The company has a branch network of 5,286 with an employee strength of 45,000-plus on a consolidated basis. Gold loan branches was at 4,044 in Q3FY24. During the quarter, the company was able to add 0.4mn new customers for gold loans and active customer-count stood at 2.5mn, as on Dec'23. Management stated that, on an average, 5,000 new customers are acquired every day. MFI customers grew 5.4% QoQ to 3.8mn. Gold loan AUM per branch decreased to INR 56.5mn as on Dec'23 (vs. INR 56.7mn/INR 54mn in Q2FY24/FY23). Average ticket size of gold loans was INR 57,400, while Online Gold Loan (OGL) ticket size was higher at INR 69,700, as of Dec'23 (~ 56% of overall gold loan AUM).
- **Strategy to maintain equitable balance between gold and non-gold portfolio:** Management aspires to maintain gold and non-gold portfolio in ratio of 50%:50%, with continued diversification in other businesses, while focus will remain on gold business. Management highlighted that other businesses are showing strong growth, on a lower base. Though other businesses have lower RoA, it will help in reducing the cyclical nature of the business, have better efficiency and RoE.
- **MSME segment:** Management started this segment to take care of its own customers. It has a diverse product portfolio covering both secured and unsecured loans for salaried and self-employed customers. While the company initially started with LTV of ~20-25%, it is now at 35-40% based on experience gained.

Exhibit 1: Standalone dupont

Dupont (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Interest Income	16.3	15.6	16.2	17.3	16.6	16.0	17.9	17.9	18.1
Interest Expense	5.3	5.0	5.2	5.1	5.4	5.2	5.6	5.6	5.9
Net Interest Income	11.1	10.6	11.0	12.1	11.2	10.8	12.2	12.3	12.2
Other Income	0.3	0.1	0.2	0.2	0.2	0.6	0.5	0.7	0.5
Total Net Income	11.3	10.8	11.2	12.3	11.5	11.4	12.8	12.9	12.8
Operating Expenses	5.9	5.1	5.3	5.4	5.5	5.7	5.5	5.3	5.3
Pre Provision Operating Profit	5.4	5.7	5.9	6.9	5.9	5.7	7.2	7.6	7.5
Provisions	0.3	0.4	0.1	0.3	0.1	0.1	0.3	0.4	0.3
PBT	5.2	5.3	5.7	6.6	5.8	5.6	6.9	7.2	7.1
Tax	1.3	1.4	1.5	1.7	1.5	1.4	1.8	1.8	1.9
Reported PAT	3.9	3.9	4.3	4.9	4.3	4.2	5.2	5.3	5.2
Leverage (avg. assets/avg. equity) (x)	3.5	3.4	3.4	3.5	3.4	3.3	3.2	3.3	3.3
RoE	13.6	13.5	14.4	16.8	14.8	14.0	16.7	17.7	17.5

Source: I-Sec research, Company data

Exhibit 2: Key standalone parameters

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Gold AUM (INR mn)*	1,65,647	1,88,037	2,04,517	2,01,679	2,04,708	1,91,903	1,86,141	1,97,462	2,06,032	2,08,085	2,07,579
Gold Holdings (Tonnage)	58.1	64.7	70.0	68.0	66.9	62.7	60.0	60.0	59.3	59.4	58.2
No of gold loan branches**	3,524	3,524	3,524	3,524	3,524	3,524	3,524	3,507	3,507	3,507	3,507
No of gold loan Customers (mn)	2.4	2.5	2.5	2.4	2.5	2.4	2.4	2.4	2.4	2.5	2.5

Source: I-Sec research, Company data

Exhibit 3: Consolidated dupont

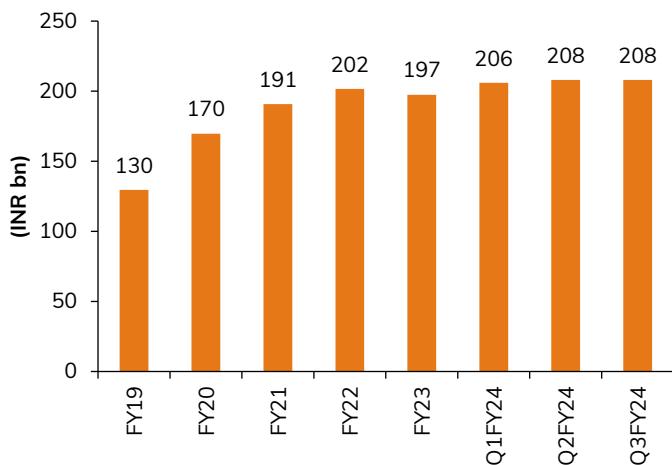
Dupont (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Interest Income	17.0	16.5	17.3	18.2	17.8	17.8	19.4	19.4	19.8
Interest Expense	6.3	5.9	6.0	6.0	6.1	6.1	6.5	6.5	6.7
Net Interest Income	10.8	10.7	11.3	12.2	11.7	11.7	12.9	12.8	13.1
Other Income	0.7	1.2	0.5	1.2	0.8	0.9	1.2	1.2	1.1
Total Net Income	11.5	11.8	11.8	13.4	12.5	12.5	14.1	14.1	14.2
Operating Expenses	6.2	5.8	5.8	6.2	6.2	6.2	6.1	5.9	5.8
Pre Provision Operating Profit	5.3	6.0	6.0	7.1	6.3	6.4	8.0	8.2	8.4
Provisions	1.2	1.8	1.5	0.9	0.5	0.5	1.2	1.1	1.3
PBT	4.1	4.2	4.5	6.2	5.8	5.9	6.8	7.1	7.1
Tax	1.0	1.1	1.2	1.6	1.6	1.6	1.8	1.8	1.9
Reported PAT	3.1	3.1	3.3	4.6	4.2	4.3	5.0	5.3	5.2
Leverage (avg. assets/avg. equity) (x)	4.2	4.1	4.0	4.0	4.1	4.1	4.0	4.1	4.1
RoE	12.9	12.6	13.3	18.7	17.3	17.6	20.2	21.7	21.3

Source: I-Sec research, Company data

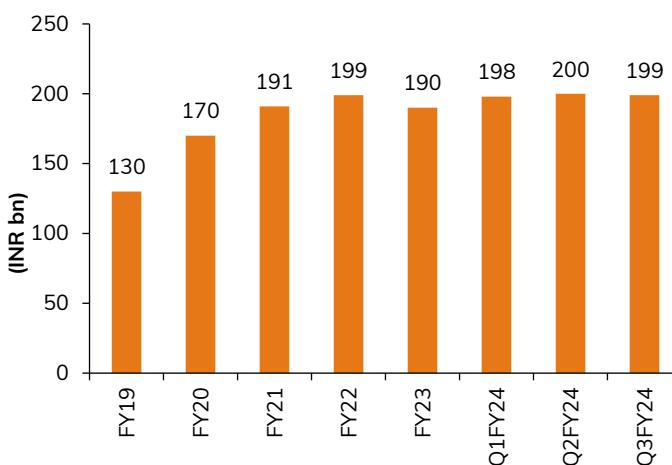
Exhibit 4: Consolidated AUM mix

Mix (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Consl AUM (INR mn)	3,07,595	3,06,650	3,18,834	3,54,523	3,70,606	3,89,507	4,03,852
Gold	66.6%	62.6%	58.4%	55.7%	55.6%	53.4%	51.4%
MFI	21.3%	23.2%	25.3%	26.2%	25.1%	25.9%	26.5%
HFC	2.8%	3.0%	3.2%	3.1%	3.2%	3.4%	3.5%
VEF	5.7%	6.1%	6.6%	6.9%	7.5%	8.1%	8.9%
On-lending	0.1%	0.9%	1.6%	2.5%	2.2%	2.4%	2.5%
MSME & Allied	3.5%	4.2%	4.9%	5.6%	6.4%	6.9%	7.2%
Manappuram Finance -SA	74.4%	72.0%	69.7%	68.6%	69.4%	68.5%	67.9%
Gold	65.2%	60.9%	56.7%	53.7%	53.4%	51.3%	49.3%
Non-gold	9.2%	11.1%	13.0%	14.9%	16.0%	17.2%	18.6%
- VEF	5.7%	6.1%	6.6%	6.9%	7.5%	8.1%	8.9%
- On-lending	0.1%	0.9%	1.6%	2.5%	2.2%	2.4%	2.5%
- MSME & Allied	3.5%	4.2%	4.9%	5.6%	6.4%	6.9%	7.2%
Asirvad AUM	22.8%	25.0%	27.1%	28.3%	27.4%	28.1%	28.6%
Gold	1.4%	1.6%	1.7%	2.0%	2.2%	2.1%	2.1%
Non-gold	21.4%	23.4%	25.4%	26.3%	25.2%	26.0%	26.5%
Manappuram Home AUM					2.4%	2.4%	2.4%
							2.5%

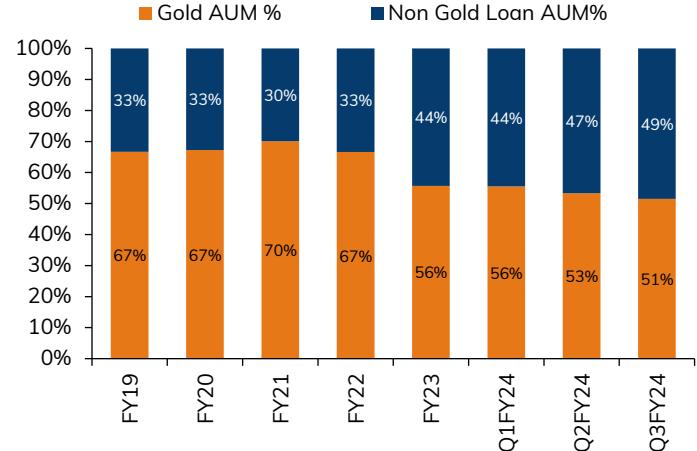
Source: I-Sec research, Company data

Exhibit 5: Manappuram's gold AUM


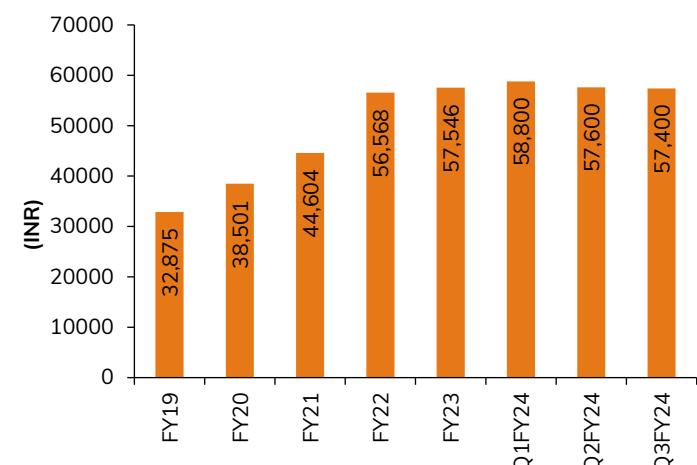
Source: Company data, I-Sec research

Exhibit 7: Manappuram's standalone gold loan AUM


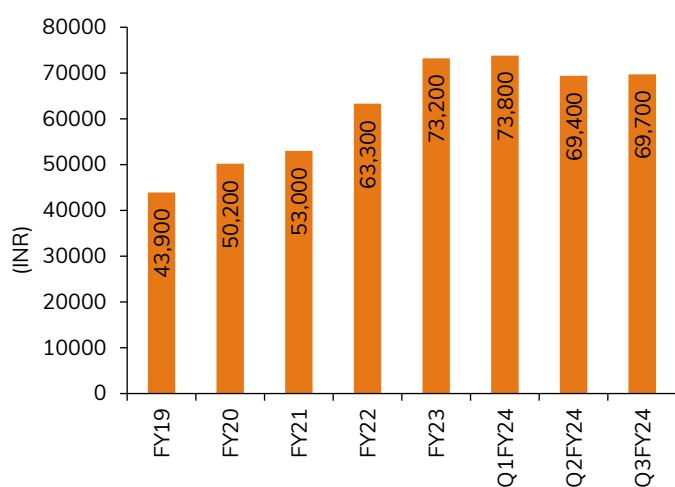
Source: Company data, I-Sec research

Exhibit 6: Gold AUM as a % of total AUM is declining


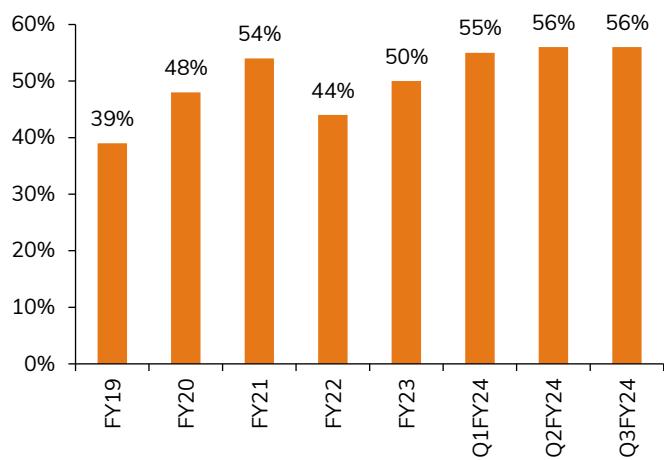
Source: Company data, I-Sec research

Exhibit 8: Average ticket-size of gold loans


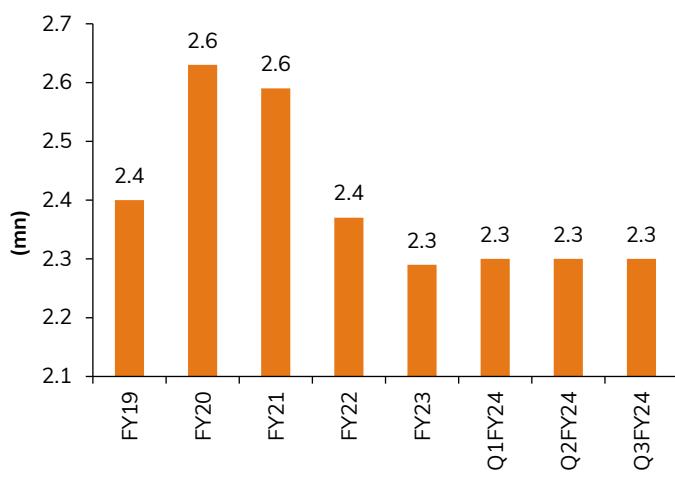
Source: Company data, I-Sec research

Exhibit 9: Average ticket-size for online gold loans


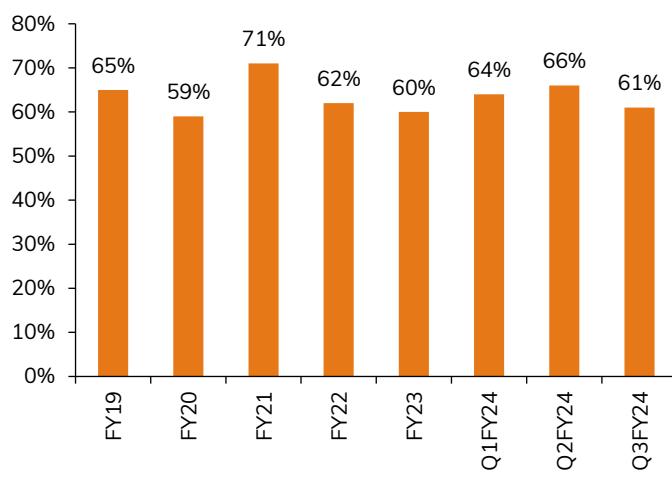
Source: Company data, I-Sec research

Exhibit 10: Share of online gold loans increasing in the overall gold AUM


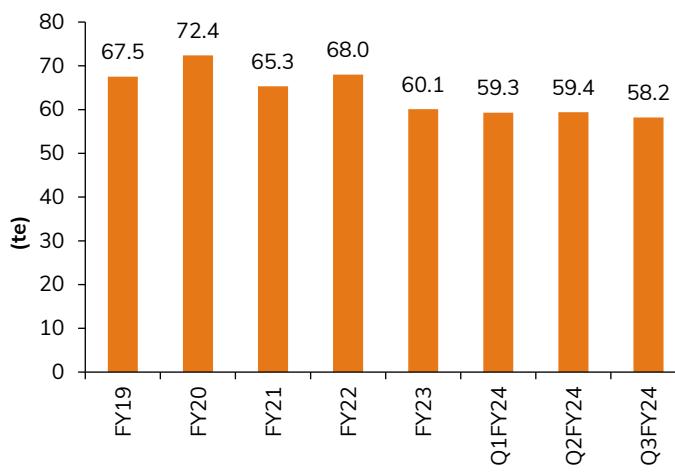
Source: Company data, I-Sec research

Exhibit 11: Customer base has declined for last 3 years and now stabilising...


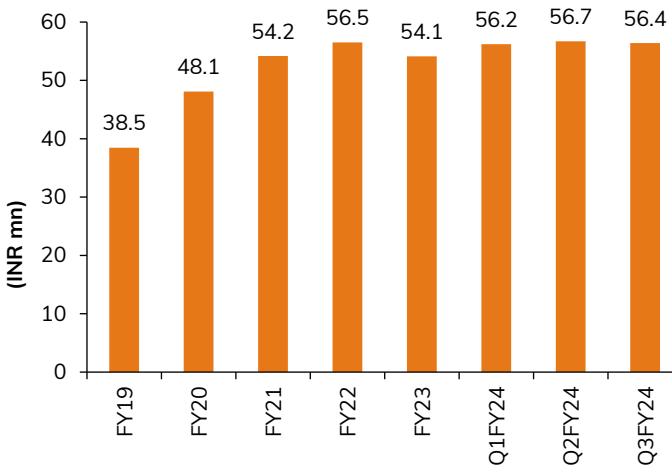
Source: Company data, I-Sec research

Exhibit 12: LTV for gold loans (%)


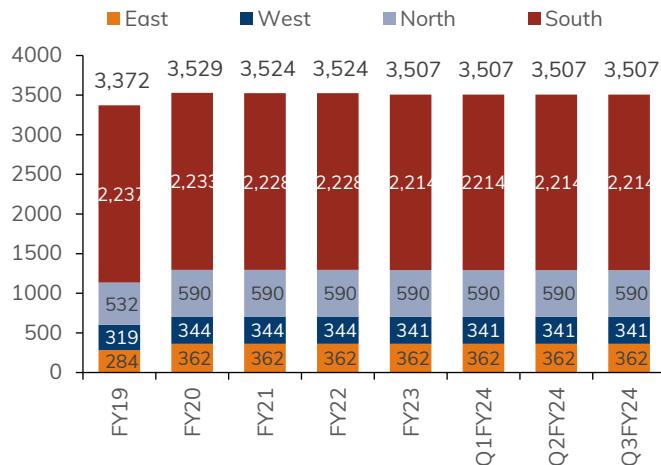
Source: Company data, I-Sec research

Exhibit 13: Gold holdings have declined in FY23 onwards


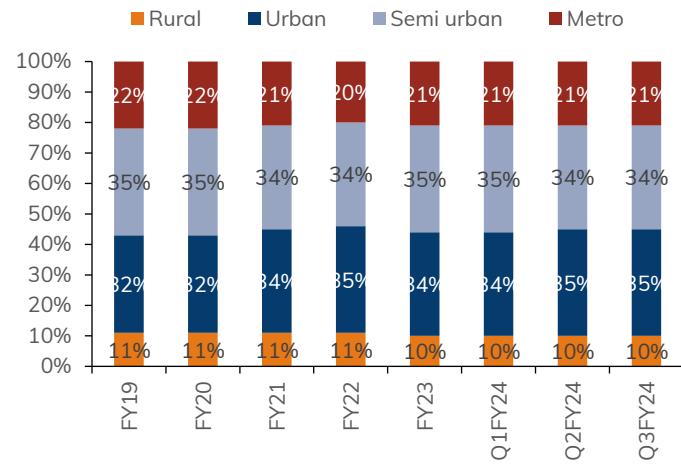
Source: Company data, I-Sec research

Exhibit 14: AUM per branch has decreased in FY23, but reached FY22 levels in 9MFY24


Source: Company data, I-Sec research

Exhibit 15: Branch distribution for gold loan business


Source: Company data, I-Sec research

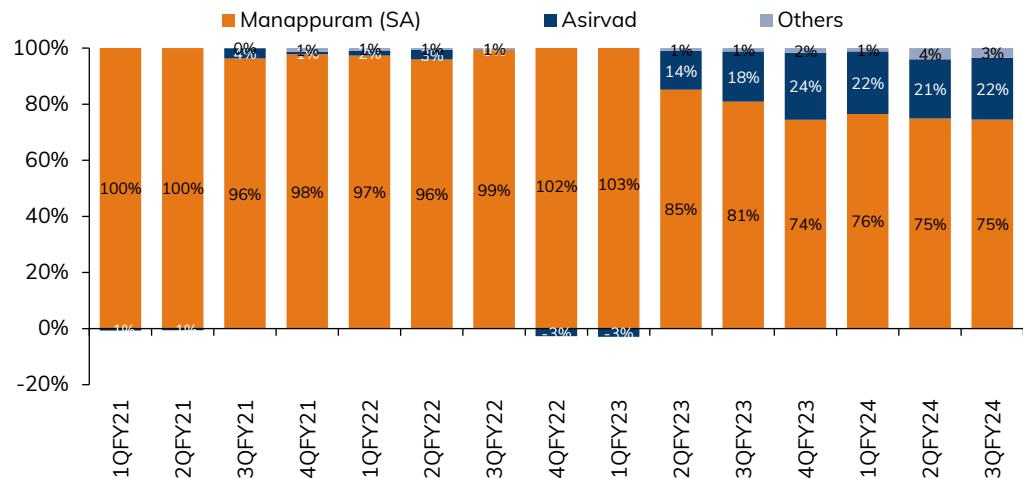
Exhibit 16: Rural-urban mix for gold loan branches (%)


Source: Company data, I-Sec research

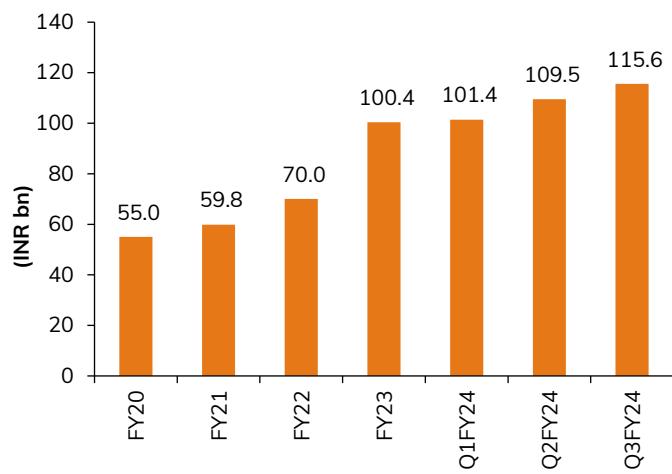
Exhibit 17: Q3FY24 result review (Asirvad)

INR mn	3QFY24	3QFY23	% Change YoY	2QFY24	% Change QoQ
Income from operations	6,942	4,308	61.1%	6,243	11.2%
Finance expense	2,430	1,543	57.5%	2,272	7.0%
Net operating income	4,512	2,765	63.2%	3,971	13.6%
Employee expense	1,239	1,072	15.6%	1,111	11.5%
Other operating expense	530	424	25.0%	540	-1.9%
Pre-provision profit	2,743	1,269	116.2%	2,319	18.3%
Provisions/Bad debts	1,176	379	210.3%	918	28.1%
Other income	137	150	-8.7%	125	9.6%
PBT	1,704	1,039	64.0%	1,526	11.7%
Tax	434	334	29.9%	343	26.5%
PAT	1,270	705	80.1%	1,183	7.4%
Key Ratios					
Yield on AUM	24.7%	21.1%	354 bps	23.7%	98 bps
Cost of funds	na	10.1%	na	11.4%	na
NIM to AUM	16.0%	13.6%	247 bps	15.1%	97 bps
Cost to income	39.2%	54.1%	-1490 bps	41.6%	-239 bps
Opex to AUM	6.3%	7.3%	-105 bps	6.3%	2 bps
GNPA	2.8%	6.7%	-390 bps	3.0%	-20 bps
NNPA	1.3%	1.7%	-40 bps	1.4%	-10 bps
Credit Cost	4.2%	1.9%	232 bps	3.5%	69 bps
RoAA (reported)	0.0%	3.6%	-359 bps	0.0%	0 bps
RoE (reported)	25.6%	20.0%	560 bps	25.4%	18 bps
CAR	23.2%	21.6%	160 bps	24.5%	-130 bps

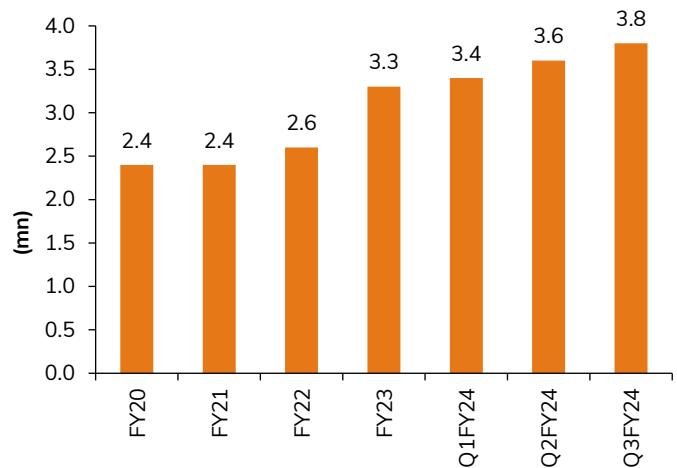
Source: I-Sec research, Company data

Exhibit 18: PAT contribution from Asirvad and other businesses increasing...


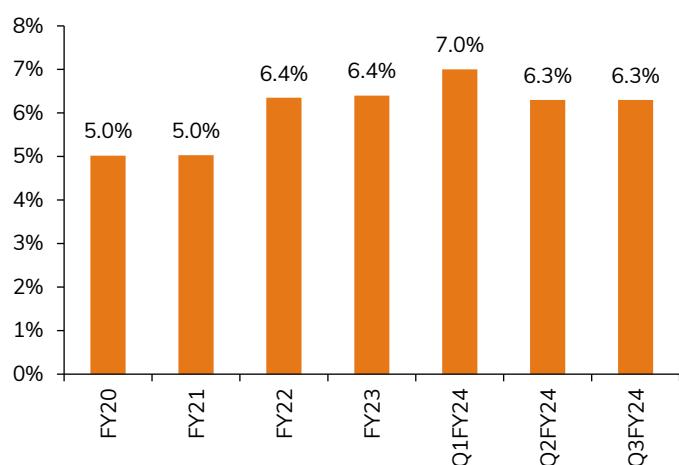
Source: Company data, I-Sec research

Exhibit 19: MFI AUM has increased


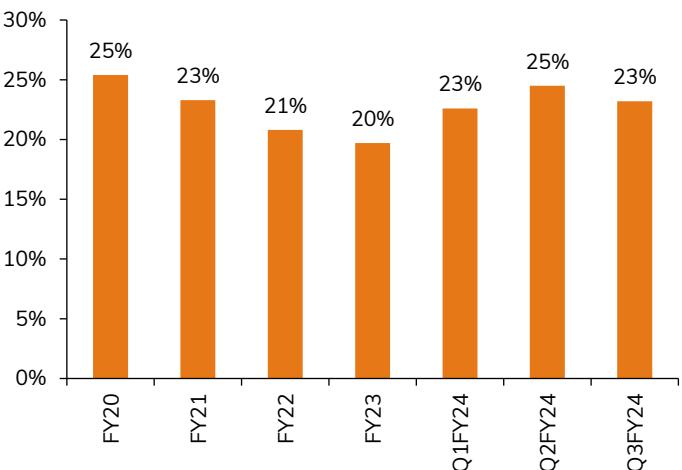
Source: Company data, I-Sec research

Exhibit 20: Number of borrowers has increased in Asirvad


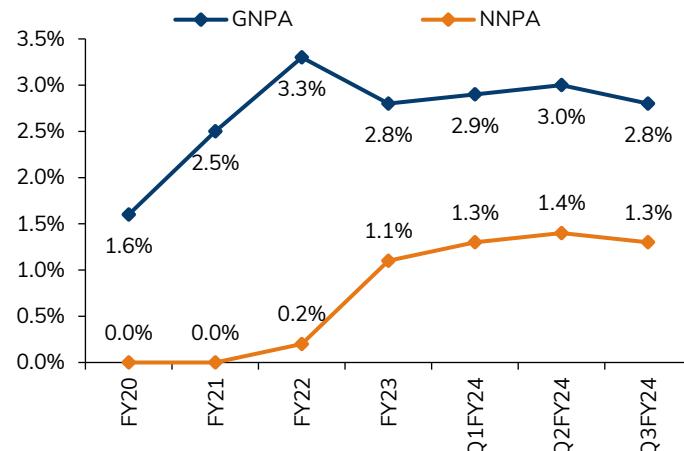
Source: Company data, I-Sec research

Exhibit 21: Opex by AUM for Asirvad MFI; moderation expected (%)


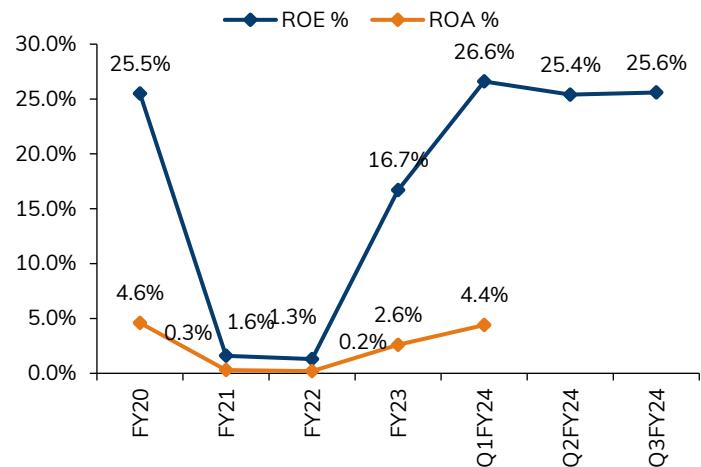
Source: Company data, I-Sec research

Exhibit 22: Capital adequacy ratio improved with capital infusion..


Source: Company data, I-Sec research

Exhibit 23: GNPA and NNPA trend (%)


Source: Company data, I-Sec research

Exhibit 24: RoE


Source: Company data, I-Sec research

Exhibit 25: Key highlights from Home Finance business

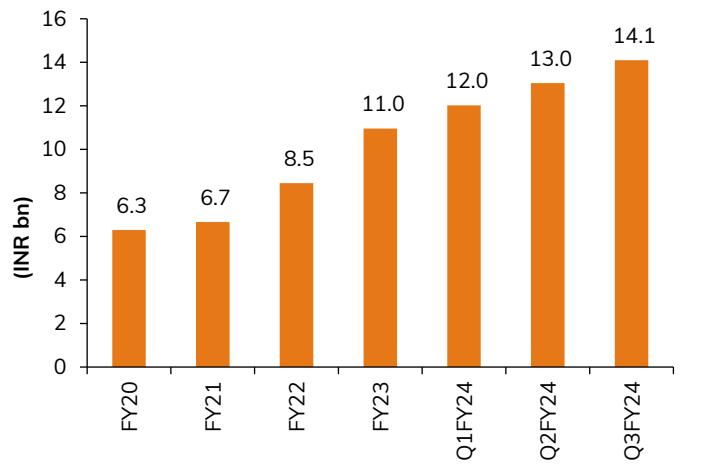
	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Branches	68	73	73	73	72	74	74	66	66	65	65
AUM Mix (INR mn)	6,682	7,322	8,167	8,453	8,748	9,216	10,048	10,958	12,026	13,049	14,153
Home Loan	35%	34%	32%	41%	40%	67%	66%	68%	66%	69%	70%
Home Construction	37%	38%	40%	29%	30%	-	-	-	-	-	-
LAP	28%	28%	28%	30%	30%	33%	34%	32%	34%	31%	30%
Average yield of Home Finance											
-Home Loan	14%	14%	14%	14%	14%	16%	3%	16%	16%	17%	17%
-Home Construction	16%	16%	16%	16%	16%	-	-	-	-	-	-
-LAP	18%	18%	18%	18%	18%	18%	19%	19%	18%	18%	19%
Average ticket size											
-Home Loan (INR mn)	1.1	1.0	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.6
-Home Construction (INR mn)	0.7	0.6	0.6	0.5	0.6	-	-	-	-	-	-
-LAP (INR mn)	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.4
Gross stage-3	7.0%	6.0%	6.4%	5.9%	5.9%	5.5%	5.4%	1.9%	2.8%	1.8%	2.7%

Source: I-Sec research, Company data

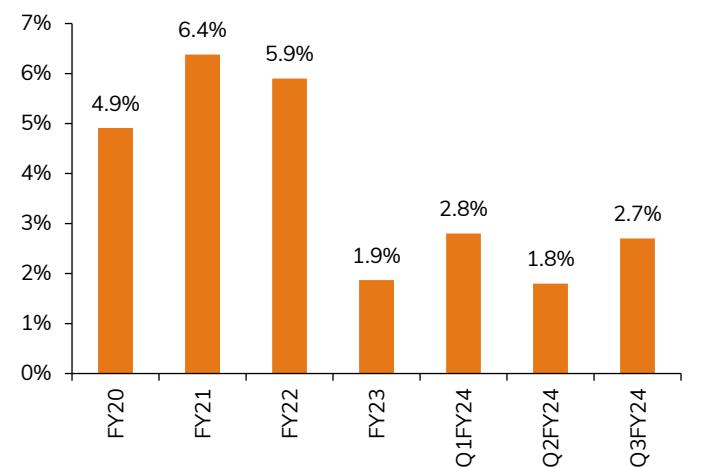
Exhibit 26: Key highlights of vehicle finance business

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Branches (co-located with gold-finance)	222	249	242	242	242	267	275	280	283	280	283
AUM Mix (INR Mn)	10,448	12,671	15,097	16,432	17,550	18,855	21,121	24,551	27,792	31,432	35,974
CV (commercial vehicle)	70%	68%	65%	65%	64%	63%	62%	61%	59%	58%	58%
TW (2 wheelers)	16%	15%	18%	17%	17%	17%	18%	18%	18%	17%	17%
PV (passenger vehicle)	14%	17%	17%	18%	19%	20%	20%	22%	24%	25%	25%
Average yield (%) of vehicle finance											
-CV (%)	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%
-TW (%)	24%	22%	22%	22%	20%	21%	20%	21%	21%	21%	21%
-PV (%)	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%
Average ticket size											
-CV (INR mn)	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
-TW (INR mn)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
-PV (INR mn)	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4

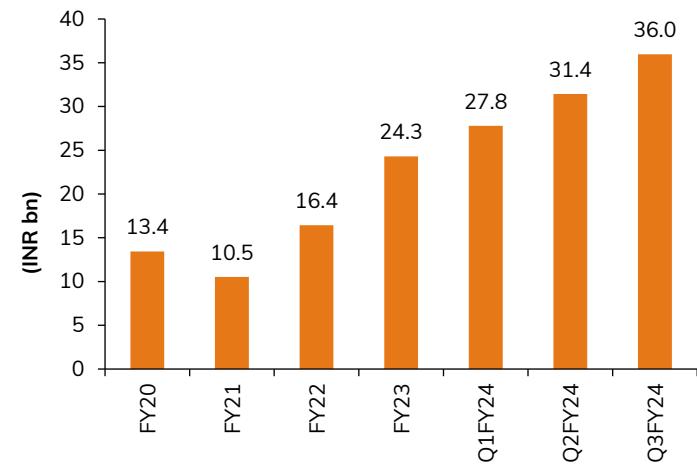
Source: I-Sec research, Company data

Exhibit 27: Housing finance AUM


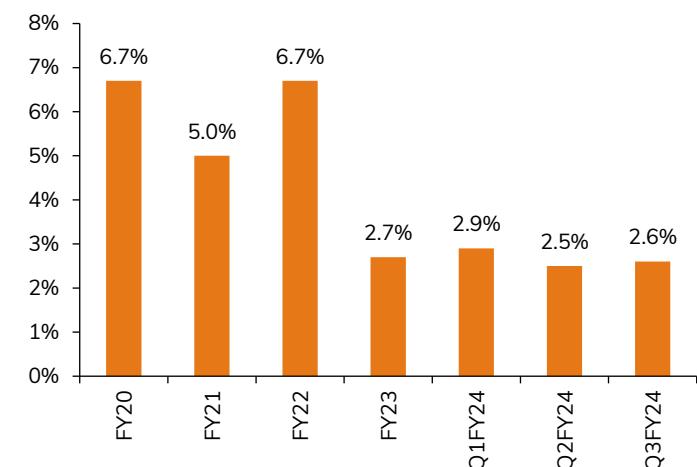
Source: Company data, I-Sec research

Exhibit 29: Housing finance GNPA (%)


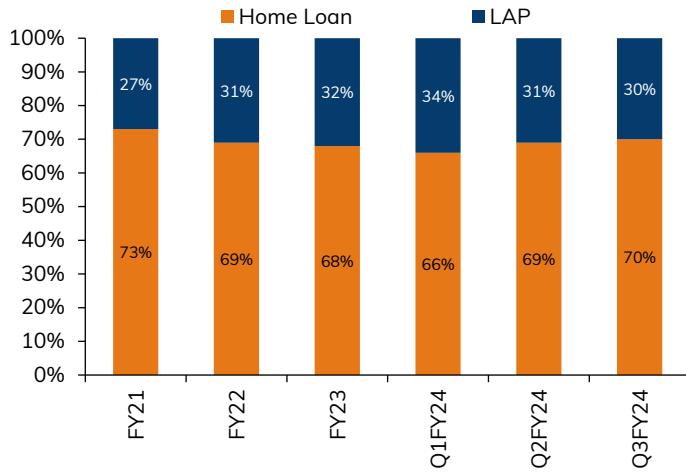
Source: Company data, I-Sec research

Exhibit 28: Vehicle finance AUM (INR bn)


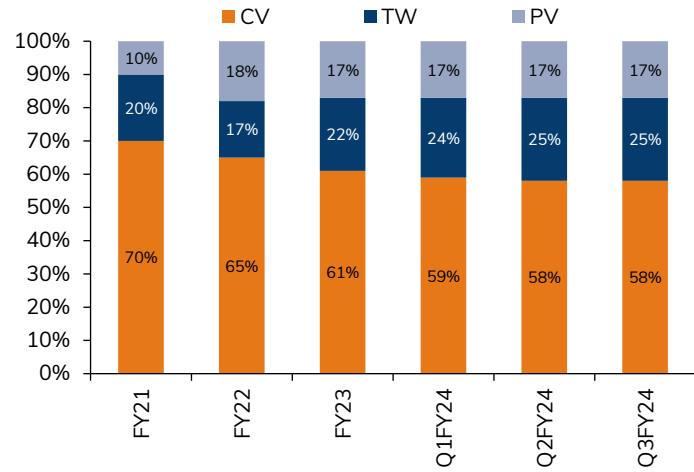
Source: Company data, I-Sec research

Exhibit 30: Vehicle finance GNPA (%)


Source: Company data, I-Sec research

Exhibit 31: AUM mix – housing finance (%)


Source: Company data, I-Sec research

Exhibit 32: AUM mix – vehicle finance (%)


Source: Company data, I-Sec research

Exhibit 33: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	35.2	35.2	35.2
Institutional investors	41.4	39.3	39.8
MFs and others	9.3	10.0	9.6
FIIs/Banks	0.0	0.0	0.0
Insurance	0.6	1.1	1.3
FIIs	31.6	28.2	28.9
Others	23.4	25.5	25.0

Source: Bloomberg

Exhibit 34: Price chart


Source: Bloomberg

Financial summary

Exhibit 35: Profit & Loss (consolidated)

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Interest Income	60,653	83,868	96,928	1,09,391
Net gain on fair value changes	-	-	-	-
Interest Expenses	(21,878)	(29,522)	(34,839)	(39,280)
Net Interest Income (NII)	38,775	54,346	62,089	70,111
Other Income	659	897	1,086	2,837
Total Income (net of interest expenses)	45,622	59,672	68,728	79,332
Employee benefit expenses	(14,695)	(17,034)	(20,258)	(23,114)
Depreciation and amortization	(2,038)	(2,246)	(2,582)	(3,101)
Fee and commission expenses	-	-	-	-
Other operating expenses	(5,407)	(6,616)	(7,484)	(8,247)
Total Operating Expense	(22,140)	(25,897)	(30,324)	(34,461)
Pre Provisioning Profits (PPoP)	23,482	33,775	38,404	44,870
Provisions and write offs	(3,071)	(5,171)	(6,708)	(8,734)
Profit before tax (PBT)	20,410	28,605	31,697	36,137
Total tax expenses	(5,409)	(7,368)	(8,162)	(9,306)
Profit after tax (PAT)	15,002	21,237	23,534	26,831

Source Company data, I-Sec research

Exhibit 36: Balance sheet (consolidated)

(Rs mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Share capital	1,693	1,693	1,693	1,693
Reserves & surplus	94,756	1,12,664	1,31,808	1,53,643
Shareholders' funds	96,449	1,14,357	1,33,501	1,55,336
Borrowings	2,84,830	3,40,196	3,78,224	4,26,680
Provisions & Other Liabilities	13,559	15,052	16,856	18,882
Deferred tax liabilities (net)	-	-	-	-
Current Liabilities and short-term provisions	-	-	-	-
Total Liabilities and Stakeholder's Equity	3,95,041	4,69,915	5,29,008	6,01,459
Cash and balance with RBI	30,351	36,405	30,616	36,317
Fixed assets	4,783	6,772	8,122	9,742
Loans	3,41,945	4,10,561	4,71,493	5,33,428
Investments	5,340	2,651	2,528	2,430
Deferred tax assets (net)	1,514	1,833	2,287	2,858
Current Assets including cash and bank	-	-	-	-
Other Assets	10,753	11,339	13,607	16,328
Total Assets	3,95,041	4,69,915	5,29,008	6,01,459

Source Company data, I-Sec research

Exhibit 37: Key ratios (consolidated)

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Valuations				
EPS	18	25	28	32
BVPS	114	135	158	184
Yields, Interest income & spreads (%)				
Yield on AUM	18	21	21	21
Cost of funding	8	9	10	10
NIM on AUM	12	14	14	13
Other income on AUM	2.1	1.4	-	-
Operating efficiency (%)				
Cost to income	48.5	43.4	44.1	43.4
Opex to AUM	6.7	6.6	6.6	6.6
AUM per branch (INR Mn)	69.3	78.3	87.0	95.7
Asset Quality (%)				
GNPA	1.3	1.6	1.5	1.4
NNPA	1.1	1.3	1.2	1.2
Credit cost on AUM	0.2	0.4	0.3	0.3
Profitability (%)				
ROAA	4.1	4.9	4.7	4.7
ROE	16.6	20.1	18.9	18.6
Capital (%)				
Tier 1	31.7	30.6	31.6	32.1
Tier 2	-	-	-	-
RWA/ Total Assets	90.4	96.0	96.0	96.0

Source Company data, I-Sec research

Exhibit 38: Key metrics (consolidated)

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
DuPont Analysis				
Gross AUM (INR Mn)	3,54,523	4,26,753	4,91,492	5,57,191
Interest Income (%)	16.5	19.4	19.4	19.4
Interest Expense (%)	6.0	6.8	7.0	6.9
Net Interest Income (%)	10.6	12.6	12.4	12.4
Other Income (%)	1.9	1.2	1.3	1.6
Total Net Income (%)	12.4	13.8	13.8	14.0
Operating Expenses (%)	6.0	6.0	6.1	6.1
Pre Provision Operating Profit (%)	6.4	7.8	7.7	7.9
Provisions (%)	0.8	1.2	1.3	1.5
PBT (%)	5.6	6.6	6.3	6.4
Tax (%)	1.5	1.7	1.6	1.6
Reported PAT (%)	4.1	4.9	4.7	4.7
Leverage (average assets/average equity)	4.1	4.1	4.0	3.9
RoE (%)	16.6	20.1	18.9	18.5

Source Company data, I-Sec research

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