

Retail Equity Research (South India Focus)

Manappuram Finance Ltd

NBFC

BSE CODE : 531213

NSE CODE: MANAPPURAM

BLOOMBERG CODE: MGFL:IN

SENSEX : 40,284

Accumulate

12M Investment Period

Rating as per Mid Cap

CMP Rs.163

TARGET Rs.185

RETURN 13% ↑

(Closing: 18-11-19)

KEY CHANGES:
TARGET ↑

RATING ↓

EARNINGS ↑

Performance on track, valuation bit expensive

Manappuram Finance (MGFL) is one of the leading gold loan NBFCs in India and is well diversified into other business segments like housing loan, vehicle loan and microfinance, with a branch network size of around 4,490 spread across the country.

- The total assets under management (AUM) grew at 32% YoY and at 12% sequentially, backed by gold loans (↑ 21% YoY, ↑ 14% QoQ), microfinance (↑ 73% YoY, ↑ 13% QoQ), home loans (↑ 27% YoY, ↑ 5% QoQ) & vehicle loans (↑ 61% YoY, ↑ 7% QoQ).
- The total new business (non-gold) AUM stands at 33.1% compared to that of 26.7% a year ago.
- The Gross/Net Non Performing Assets (NPA) improved to 0.6%/0.3% in Q2FY20, compared to that of 0.7%/0.4% in Q1FY20.
- We expect the superior performance to continue in coming quarters, however, the stock is currently trading at ~40% higher valuation compared to last 5 year average P/B (1 year fwd), we value the stock at 2.15x FY21E Adj.BVPS and recommend Accumulate rating with an upward target price of Rs185.

In line operating performance with 21.6% YoY growth in NII

The net interest income (NII), interest income less interest expense has grown at 21.6% on a YoY basis and by 7.3% sequentially. Along with non interest income of Rs90cr, the total operating income has marked 28% YoY growth. The profit before tax (PBT) has registered a growth of 47% YoY and 24.1% on a sequential basis. Aided by the benefit from reduced tax expenses, the profit after tax (PAT) has registered a growth of 82% on a YoY basis and by 49.7% sequentially.

Robust growth in AUM witnessed in all business verticals

In Q2FY20, the consolidated assets under management (AUM) of MGFL has grown at 12.3% on a sequential basis and by 31.9% on a YoY basis. The robust AUM growth is backed by Gold loans (↑ 20.5% YoY), which constitute around 66.9% of the total assets under management, ~100 bps up on a sequential basis and from 73.3% a year ago. The gold holding currently stands at 72.0 tonnes and the average gold loan AUM per branch improved to Rs4.4cr compared to Rs3.8cr a year ago. The microfinance AUM has reached Rs47,24cr, marking a growth of 73.1% on a YoY basis and at 12.5% sequentially. The microfinance business is spread across 1,027 branches and serves over 1.99 million spread across the country predominantly in southern region at ~39%. The housing finance business is spread across 6 states through 46 branches, and a loan book size of 567cr (↑ 26.9% YoY) with an average ticket size of ~1 million. The vehicle and equipment finance segment is spread across 22 states with 229 branches, with an AUM of ~Rs1,320cr and an average ticket size of ~Rs7.4 lakhs. The share of new business (non-gold business) in the total assets under management currently stands at 33.1% (-80 bps QoQ, +640 bps YoY).

Commendable asset quality, capital adequacy and return ratios

MGFL's standalone GNPA stands at 0.6% in the current quarter (0.71% in Q1FY20, 0.7% in Q2FY19), which is one of the lowest in the NBFC space. Also, the GNPA levels of Microfinance, Housing Finance and Vehicle Finance stands at 0.86%, 4.8% and 2.8% respectively. The company has a capital adequacy ratio (CAR) of 22.6%, which is much above the regulatory requirement of 15%. The company also have healthy return ratios, with ROE at 28% and ROA at 5.9% in the Q2FY20.

Valuations

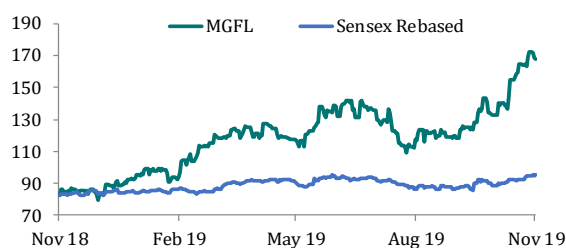
Currently the stock is trading at an Adj.P/B of 2.5x on FY20E BVPS and 2.0x on FY21E Adj.BVPS. The lower interest rate scenario, aided by elevated gold prices to act positively for the company. The other non-gold business is also expected to do well in the coming quarters. However, since the stock is currently trading at a higher valuation of ~40% upside compared to last 5-year average P/B (1 yr fwd), we value the stock at 2.15x Adj. BV of FY21E (previous 2.0x) and recommend Accumulate rating with an upward target price of Rs185.

Company Data

Market Cap (Rs cr)	14,068
Outstanding Shares (cr)	84
Free Float	65%
Dividend Yield	1.32%
52 week high (Rs)	174
52 week low (Rs)	78
6m average volume (cr)	0.54
Beta	1.4
Face value (Rs)	2

Shareholding (%)	Q4FY19	Q1FY20	Q2FY20
Promoters	35	35	35
FPI's	44	45	43
MFs/Institutions	4	4	6
Public	17	16	16
Total	100	100	100
Promoter Pledge	4.9	3.4	3.4

Price Performance	3 month	6 month	1 year
Absolute Return	38.6%	43.9%	103.0%
Absolute Sensex	8.4%	8.0%	15.7%
Relative Return*	30.1%	35.9%	87.3%



Consolidated (cr)	FY19A	FY20E	FY21E
NII	2,693	3,367	4,216
Growth(%)	15.9	25.0	25.2
NIM(%)	15.3	15.4	15.8
Provisions	46	139	169
Adj. PAT	929	1476	1793
Growth(%)	37.4	58.8	21.5
Adj. EPS	11.0	17.5	21.3
Growth(%)	37.28	58.32	21.49
P/E	15.2	9.6	7.9
BVPS	53.8	68.2	86.6
Growth(%)	18.4	26.4	27.0
Adj.BVPS	53.2	67.3	85.8
Growth(%)	19.1	26.5	27.5
P/B	3.1	2.5	1.9
Adj. P/B	3.2	2.5	2.0
ROE (%)	22.1	28.7	27.5

 Abijith T Cherian
 Research Analyst

Quarterly Financials (Consolidated)

(Rs cr)	Q2FY20	Q1FY20	QoQ Growth (%)	Q2FY19	YoY Growth (%)	H1FY20	H1FY19	YoY Growth (%)
Interest Income	1,244	1,144	8.8	991	25.6	2,388	1,927	24.0
Interest Expense	425	380	11.8	317	33.9	805	612	31.6
Net Interest Income (NII)	820	764	7.3	674	21.6	1,584	1,315	20.4
Fee and Other Income	90	41	120.1	36	146.0	130	48	172.8
Total Income	909	805	13.0	710	28.0	1,714	1,363	25.7
Expenditure	365	354	3.3	344	6.2	719	672	7.0
Pre-Provision Profit	544	451	20.6	366	48.5	995	691	44.0
Provision	29	37	-19.7	16	80.9	66	32	107.9
PBT	514	414	24.1	350	47.0	929	659	40.9
Tax	107	142	-24.9	126	-15.2	249	235	5.8
Reported PAT	408	272	49.7	224	82.0	680	424	60.4
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	408	272	49.7	223.99	82.0	680	424	60.4
Diluted EPS (Rs)	19.08	12.88	48.1	5.30	260.0	15.98	10.04	59.2

Assets Under Management (AUM)

AUM (Rs Cr)	Q2FY20	Q1FY20	QoQ Growth(%)	Q2FY19	YoY Growth(%)
Gold Loan	15,168	13,292	14.1	12,593	20.5
Microfinance	4,724	4,198	12.5	2,729	73.1
Housing Finance	568	542	4.9	448	26.8
Vehicle Finance	1,318	1,227	7.4	817	61.2
Other Loans	899	926	-3.0	604	48.8
Total AUM	22,677	20,186	12.3	17,191	31.9

Change in Estimates

Year / Rs Cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	3,371	4,000	3,367	4,216	0%	5%
Net Interest Margin (%)	15.8	15.8	15.4	15.8	-36bps	3bps
Pre-Provision Profit	1,770	2,111	1,909	2,302	8%	9%
Adj. PAT	1144	1352	1476	1793	29%	33%
Diluted EPS (Rs)	13.6	16.1	17.5	21.3	29%	32%

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	3,376	3,354	4,012	5,025	6,179
Interest Expense	1,169	1,030	1,319	1,658	1,963
Net Int. Income	2,208	2,324	2,693	3,367	4,216
<i>Change</i>	<i>57.5%</i>	<i>5.3%</i>	<i>15.9%</i>	<i>25.0%</i>	<i>25.2%</i>
Non Int. Income	33	125	167	244	227
Operating Income	2,240	2,449	2,859	3,611	4,443
<i>Change</i>	<i>57.3%</i>	<i>9.3%</i>	<i>16.8%</i>	<i>26.3%</i>	<i>23.1%</i>
Operating Exp.	965	1,235	1,386	1,538	2,012
Pre Prov. Profit	1,251	1,214	1,473	1,909	2,302
Prov. & Conting.	109	177	46	139	169
PBT	1166	1037	1427	1933	2262
<i>Change</i>	<i>112.6%</i>	<i>-11.1%</i>	<i>37.6%</i>	<i>35.4%</i>	<i>17.0%</i>
Tax	407	360	498	457	470
Tax Rate (%)	35%	35%	35%	24%	21%
Reported PAT	756	676	929	1476	1793
Adj*	0	0	0	0	0
Adj. PAT	756	676	929	1476	1793
<i>Change</i>	<i>113.6%</i>	<i>-10.5%</i>	<i>37.4%</i>	<i>58.8%</i>	<i>21.5%</i>
No. of shares (Cr)	84	84	84	84	84
EPS (Rs)	9.0	8.0	11.0	17.5	21.3
<i>Change</i>	<i>113.8%</i>	<i>-10.7%</i>	<i>37.3%</i>	<i>58.3%</i>	<i>21.5%</i>
DPS (Rs)	2.00	2.00	2.20	2.20	2.40

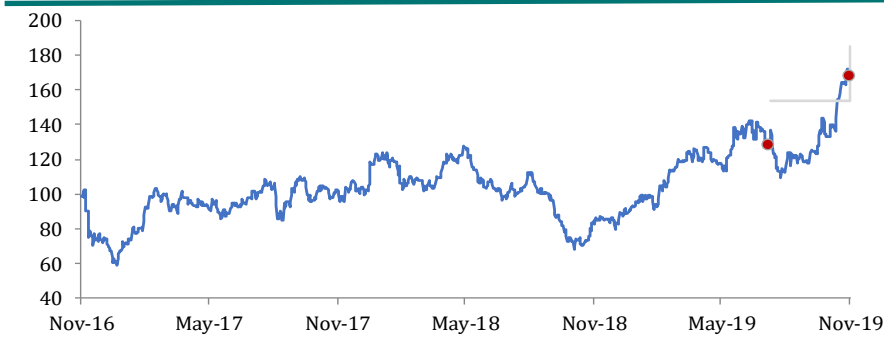
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	589	724	1,164	1,315	2,065
Loans & Advances	13,406	15,244	17,812	22,955	27,651
Investments	5	5	174	51	101
Gross Fixed Assets	494	639	693	747	796
Net Fixed Assets	183	269	312	216	169
CWIP	1	0	1	0	0
Intangible Assets	39	41	54	55	57
Def. Tax (Net)	96	110	89	107	110
Other Assets	665	637	848	734	790
Total Assets	14,983	17,030	20,454	25,433	30,942
Deposits	0	0	2	0	0
Debt Funds	10,781	12,487	15,176	18,798	22,841
Other Liabilities	813	684	697	874	1,048
Provisions	25	45	55	61	67
Equity Capital	168	169	169	169	169
Reserves & Surplus	3,195	3,645	4,356	5,571	7,121
Shareholder's Funds	3,363	3,813	4,525	5,740	7,289
Total Liabilities	14,983	17,030	20,454	25,433	30,942
BVPS (Rs)	40.0	45.3	53.8	68.2	86.6
<i>Change</i>	<i>21.8%</i>	<i>14.1%</i>	<i>18.4%</i>	<i>26.4%</i>	<i>27.0%</i>
Adj. BVPS (Rs)	37.4	44.7	53.2	67.3	85.8
<i>Change</i>	<i>17.0%</i>	<i>19.5%</i>	<i>19.1%</i>	<i>26.5%</i>	<i>27.5%</i>

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
Interest yield (%)	26.7	22.7	22.9	23.0	23.2
Cost of funds (%)	11.3	8.7	9.5	9.6	9.2
Spread.(%)	15.4	14.0	13.4	13.5	14.0
NIM (%)	17.5	15.7	15.3	15.4	15.8
ROE (%)	24.7	18.8	22.1	28.7	27.5
ROA(%)	5.4	4.2	4.8	6.2	6.1
Business Growth					
Gold Loan AUM (%)	10.4	5.5	10.5	15.0	12.0
Microfinance AUM (%)	79.8	35.7	57.6	46.0	31.0
Total AUM (%)	19.5	15.4	23.3	24.3	20.5
Operating Ratios					
Cost to Income (%)	43.1	50.4	48.5	42.6	45.3
Cost to Assets (%)	6.9	7.6	7.2	6.5	6.8
Asset Quality					
GNPA (%)	2.3	1.0	0.6	0.7	0.6
NNPA (%)	1.6	0.5	0.3	0.3	0.2
Capital Adequacy					
CAR (%)	26.1	27.0	23.8	22.9	22.5
Valuation ratios					
P/E (x)	18.6	20.8	15.2	9.6	7.9
P/B (x)	4.2	3.7	3.1	2.5	1.9
Adj. P/B (x)	4.5	3.8	3.2	2.5	2.0

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
15 July 19	Buy	154
19 November 19	Accumulate	185

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

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