

Dec 20, 2023

COMPANY UPDATE | Sector: Financials

Manappuram Finance Limited

Sustenance of 18-20% RoE

In its Analyst/Investor Meet, Manappuram emphasized on 1) growth possibility of 8-10% pa in Gold Loans with yields of 21-22%, 2) further ramping-up AUM share of non-GL products while improving their profitability, 3) likelihood of sustaining 18-20% consol. portfolio growth and RoE, and 4) promoters remaining fully committed in running operations and retaining the ownership (refuted rumors of selling stake).

In our view, better customer acquisition/retention activity and some help from gold prices is required for envisaged growth in Gold Loans. Continuance of strong MFI cycle and completion of significant capital raise in Asirvad would be a key catalyst for the stock, besides sustained strong growth and profitability improvement in Non-GL and Non-MFI businesses. On consol basis, a reasonably brisk AUM growth and likely continuance of moderate credit cycle in Non-GL portfolios would underpin 18-19% RoE delivery over FY24-26. Notwithstanding the recent upmove, Manappuram still trades at an undemanding valuation of 5x P/E and 1x P/ABV on FY26 estimates. We retain BUY and raise 12m PT to Rs210.

Expects 8-10% growth in Gold Loans with maintenance of Portfolio Yield

Mr. Nandkumar expects Gold Loans portfolio to grow at 8-10% pa over the coming years without little or no help from gold prices and with portfolio yield being maintained at 21-22%. Key drivers of improved growth are likely to be 1) economic/business recovery led revival in gold loans demand from the core customer segment (small-ticket short-term loans which are more TAT/Flexibility sensitive), 2) stabilization of competition in higher-value longer-term gold loans segment (reasonable overlap with Banks within existing customers), 3) sustained traction in new customer acquisition and focus on improving ground-level culture/operations, 4) healthy growth expected in Gold Loans market driven by increasing formalization and sustained increase in gold stock (strong jewelry sale), 5) likely push to gold loans demand after RW changes by RBI on unsecured consumer credit and 6) expected approval from RBI to add branches (reduction in auction surplus underway). Management emphasized that Gold Loans would remain a major focus area even as consol. AUM continues to diversify.

Significant capital raise through IPO to ensure strong growth sustenance in Asirvad MFI

Asirvad MFI's growth trajectory is expected to remain strong with asset quality stabilized and raising of significant growth capital (Rs15bn) from upcoming IPO. The co. has been growing ahead of the industry while keeping exposure per borrower under check. From below Rs3.5bn AUM when acquired in 2015 by Manappuram, the co.'s AUM stood at Rs109.5bn as of Sept'23. While being the 3rd largest NBFC-MFI, Asirvad is amongst the most regionally diversified microfinance player with Top 3 States (TN, BH & WB) contributing <40% of the portfolio. Practicing monthly model, the co.'s growth is guided by tenets of a) no district to be >1% of AUM, b) no State to eventually contribute >10% of AUM and c) exposure in a State to not exceed 5% of the market. With collections normalizing, Gross/Net NPAs have stabilized around 2.8-3%/1.2-1.4% in the recent quarters. Besides moderation of credit cost, manifestation of higher pricing and higher productivity has underpinned RoA/RoE of 4.5%/27% in H1 FY24.

Profitability of Non-Gold and Non-MFI AUM improving

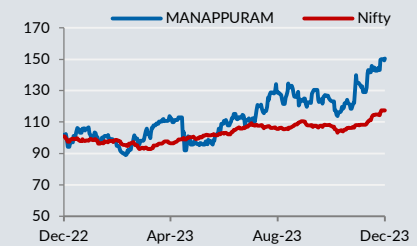
Non-Gold and Non-MFI AUM stands at Rs80.5bn as of Sept'23 (21% of Consol. AUM) and includes Vehicle & Equipment Financing (VEF), MSME & Others Financing, Housing Finance and NBFC on-lending businesses. The combined portfolio of these products has grown by >3x in past two years and profitability has improved with scale and decline in NPL/credit cost. In VEF, Manappuram's focus on financing used CVs/PVs and 2Ws (translating into strong growth and high portfolio yield of 18-19%) and improved underwriting/collection is underpinning reduction in delinquencies (11-12%) and improvement in RoA (1.5%). In MSME & Others (incl. Micro HL and Secured PL), the ATS across offerings is Rs0.4-0.6mn, blended yield is above 19%, bounce rate is low at 4-6% and 60-65% are gold loan customers, all of which manifest in 2.3% portfolio RoA. Affordable HL business is growing fast with loan ATS of Rs0.6mn, portfolio yield of 17.5% and RoA of 1.4% on current small scale of operations.

Reco	: BUY
CMP	: Rs 173
Target Price	: Rs 210
Potential Return	: 21.5%

Stock data (as on Dec 19, 2023)

Nifty	21,453
52 Week h/l (Rs)	177 / 101
Market cap (Rs/USD mn)	144994 / 1745
Outstanding Shares (mn)	846
6m Avg t/o (Rs mn)	1,638
Div. yield (%)	2.2
Bloomberg code:	MGFL IN
NSE code:	MANAPPURAM

Stock performance



	1M	3M	1Y
Absolute return	11.5%	20.3%	47.5%

Shareholding pattern

Promoter	35.2%
FII+DII	39.3%
Others	25.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	210	185

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	24.2	28.2	31.9
EPS (Old)	24.2	28.2	31.9
% Change	-	-	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	83,927	93,960	1,04,816
PPOP	32,171	36,444	41,215
Net profit	20,462	23,853	26,963
Growth (%)	36.4	16.6	13.0
EPS (Rs)	24.2	28.2	31.9
ABVPS (Rs)	129.9	152.4	178.4
P/E (x)	7.2	6.1	5.4
P/ABV (x)	1.3	1.1	1.0
ROE (%)	19.5	19.4	18.7
ROA (%)	4.8	5.0	5.0

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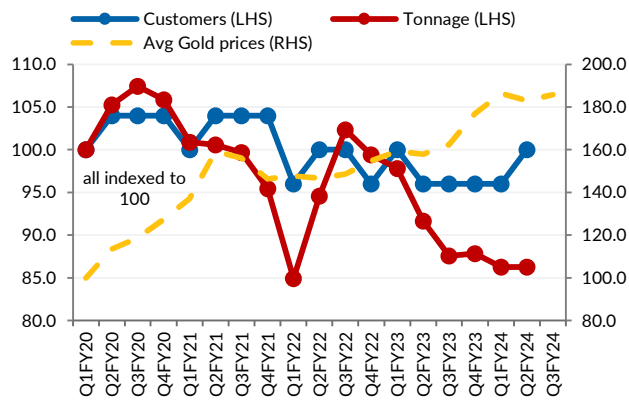
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MANUJ OBEROI, Associate

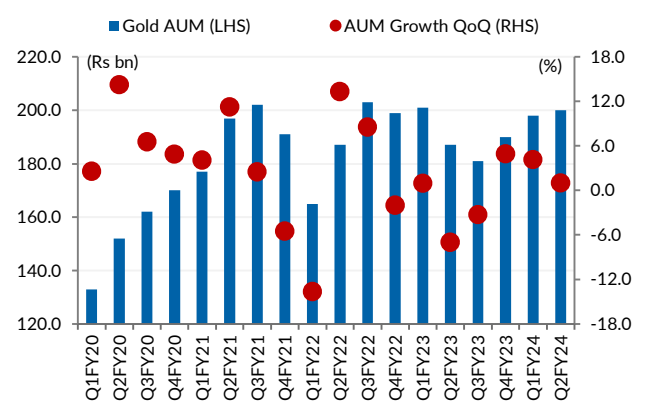
STANDALONE CHARTS (GOLD LOANS & VEF)

Exhibit 1: Stabilization of Customer & Tonnage



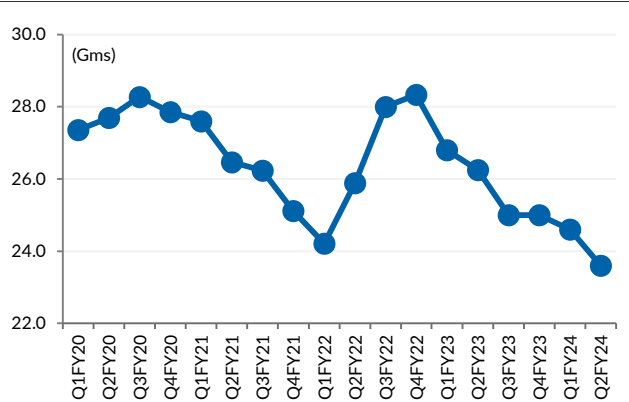
Source: Company, YES Sec

Exhibit 2: Gold Prices also aiding portfolio growth



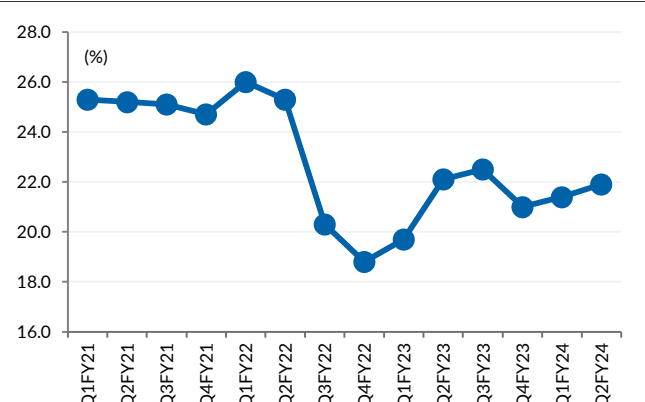
Source: Company, YES Sec

Exhibit 3: Avg Pledge per Customer (Mix) has stabilized



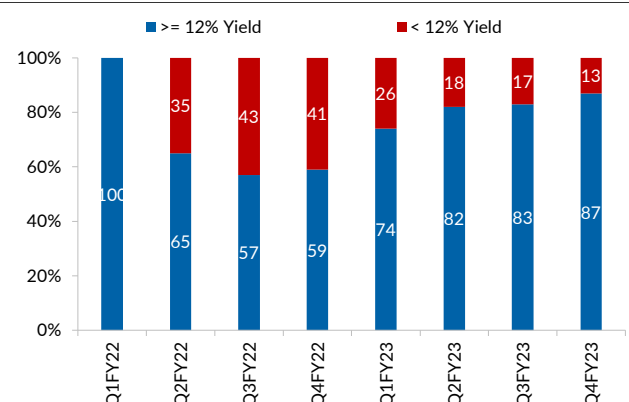
Source: Company, YES Sec

Exhibit 4: Net Portfolio Yield has recovered from the lows



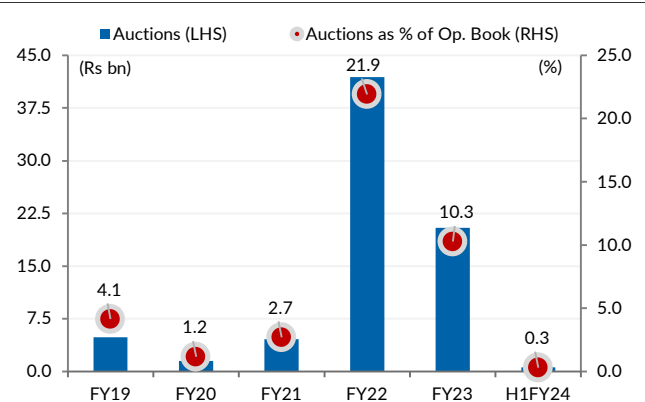
Source: Company, YES Sec

Exhibit 5: Lower-yielding higher-value portfolio has been right sized



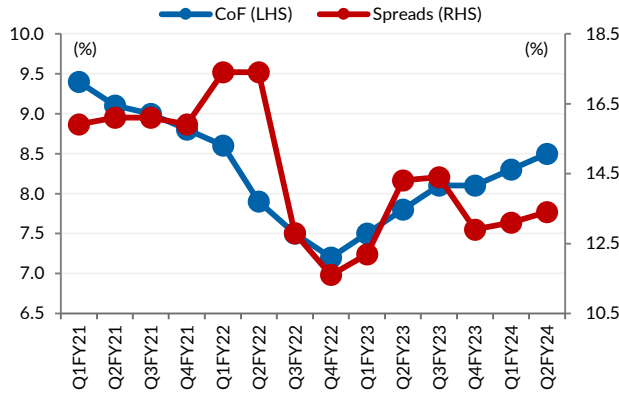
Source: Company, YES Sec

Exhibit 6: Auctions on decline... partly driven by higher gold price



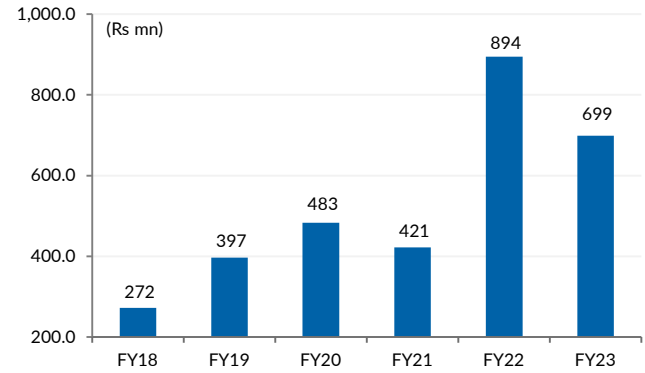
Source: Company, YES Sec

Exhibit 7: Spreads bottomed-out despite increase in CoF



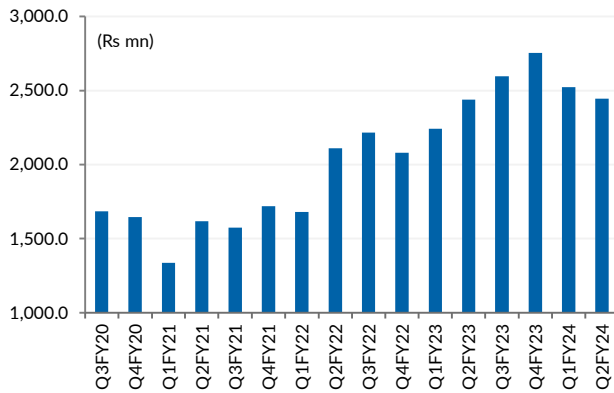
Source: Company, YES Sec

Exhibit 8: Emphasis back on Advt. & Business Promotion



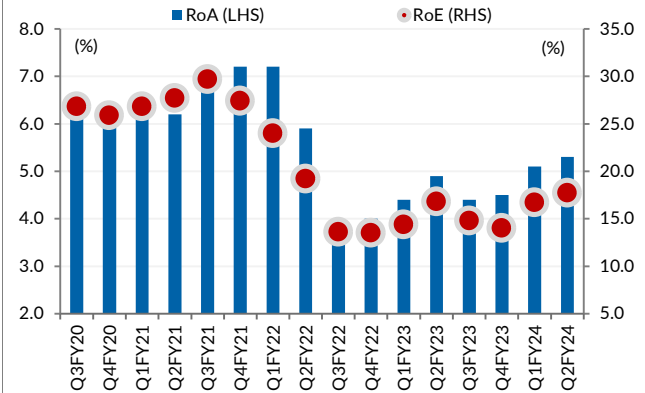
Source: Company, YES Sec

Exhibit 9: Emphasis on Staff incentivization



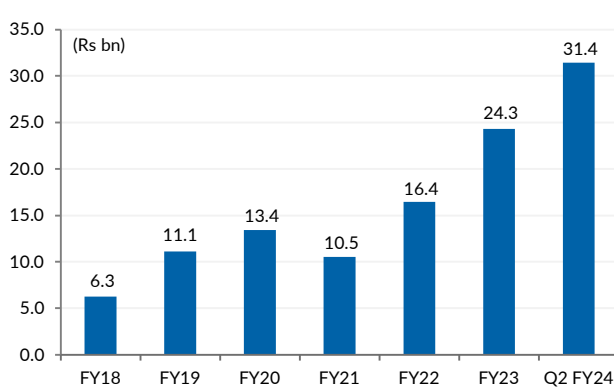
Source: Company, YES Sec

Exhibit 10: RoA/RoE have troughed



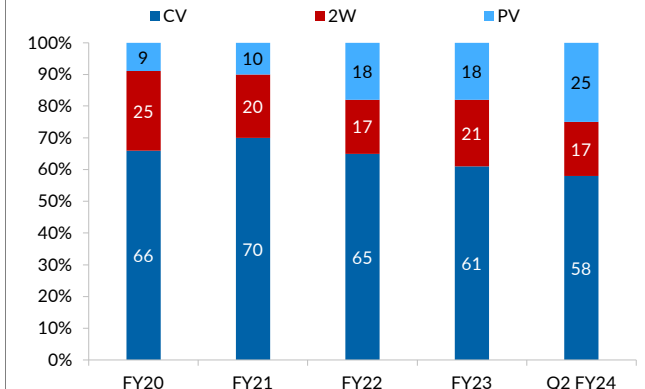
Source: Company, YES Sec

Exhibit 11: VEF AUM growth has been strong



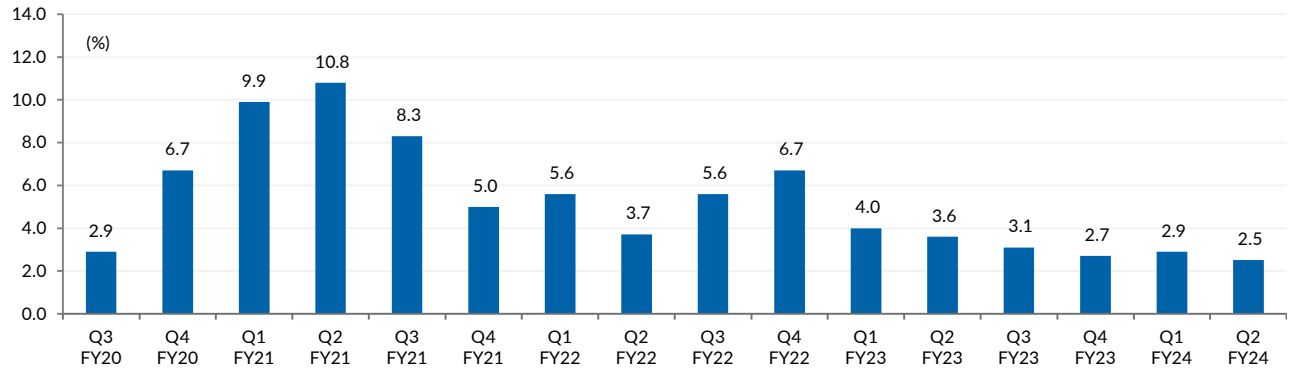
Source: Company, YES Sec

Exhibit 12: Share of used PV financing has increased



Source: Company, YES Sec

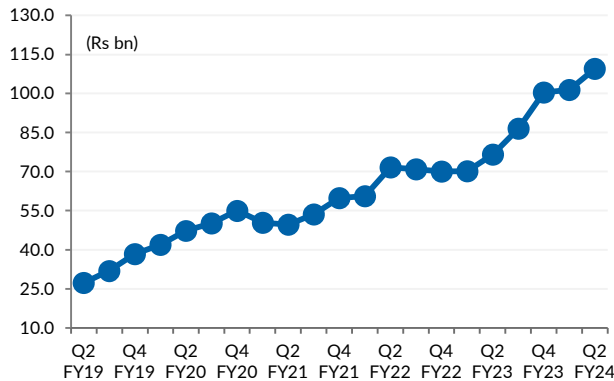
Exhibit 13: GNPA at pre-pandemic level



Source: Company, YES Sec

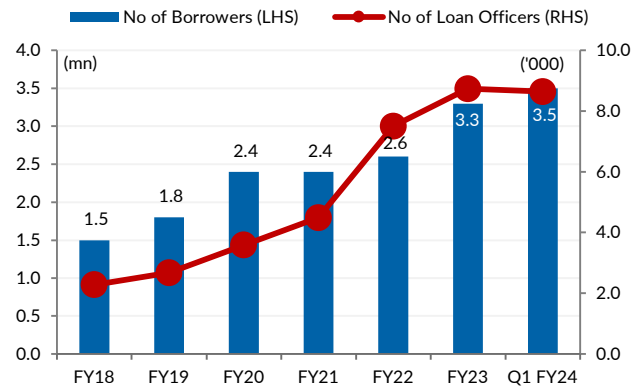
KEY CHARTS & TABLES - ASIRVAD MFI

Exhibit 14: Asirvad AUM growing strongly



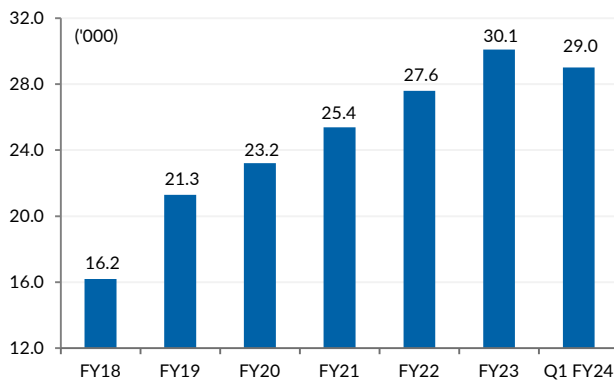
Source: Company, YES Sec

Exhibit 15: Increase in LOs to drive borrower growth



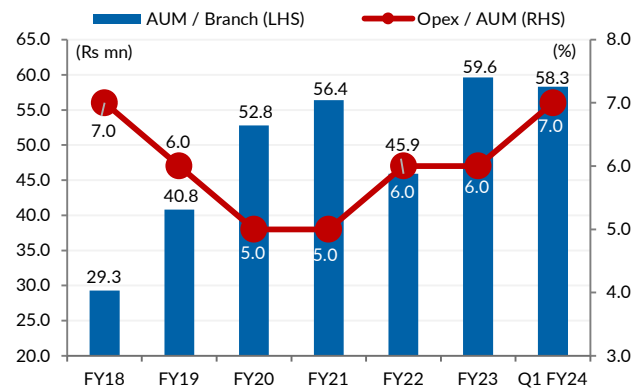
Source: Company, YES Sec

Exhibit 16: No significant increase in AUM/Borrower like peers



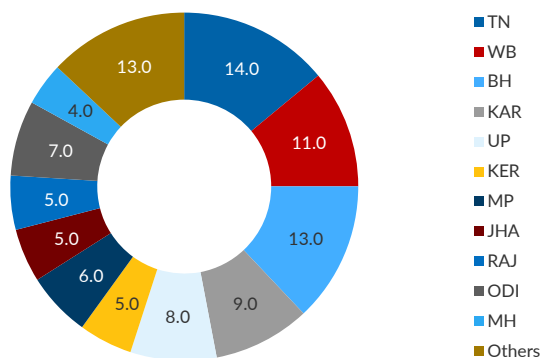
Source: Company, YES Sec

Exhibit 17: Increase in AUM/Branch can have a soothing effect on Opex/AUM



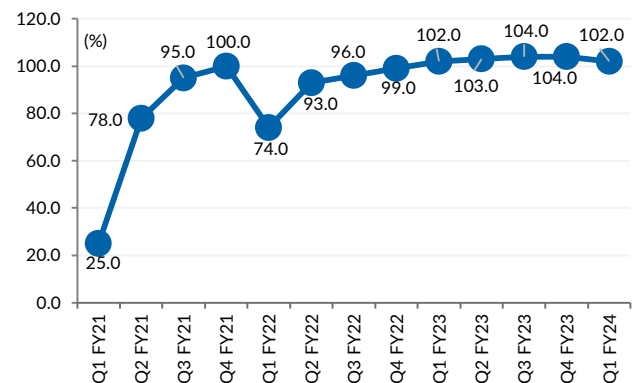
Source: Company, YES Sec

Exhibit 18: Well-diversified regional AUM mix



Source: Company, YES Sec

Exhibit 19: Collection Efficiency has fully recovered



Source: Company, YES Sec

Exhibit 20: Snapshot of Long-term Performance

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	H1FY24
AUM	24,372	38,408	55,026	59,846	70,022	1,00,409	1,09,500
YoY growth (%)	35.7	57.6	43.3	8.8	17.0	43.4	42.9
Int. Income	4,385	6,869	10,551	10,530	13,557	17,152	12,614
% of AAUM	20.7	21.9	22.6	18.3	20.9	20.1	27.1
PPoP	787	2,056	4,113	3,063	3,717	5,403	4,741
Provisions	1,243	198	1,474	2,999	3,971	2,737	1,879
% of AAUM	5.9	0.6	3.2	5.2	6.1	3.2	4.0
PAT	(93)	1,516	2,353	168	134	2,181	2,295
YoY growth (%)	-	-	55.2	(92.9)	(20.2)	1,527.6	375.2
RoA (%)	(0.4)	4.8	4.6	0.3	0.2	2.6	-
RoE (%)	(3.5)	25.0	25.5	1.6	1.3	16.7	-

Source: Company, YES Sec

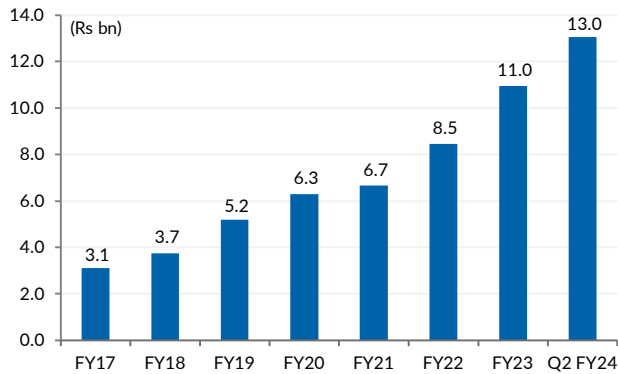
Exhibit 21: Trends in Asset Quality

Particulars	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Stage-1	86.8	87.3	90.3	95.4	96.3
Stage-2	5.5	3.9	3.0	1.9	0.8
Stage-3	7.7	8.8	6.7	2.7	2.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Company, YES Sec

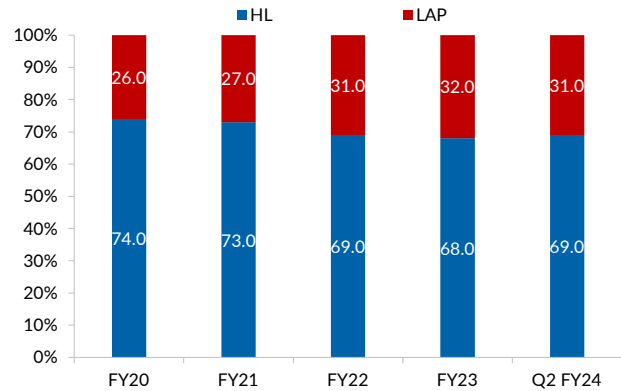
KEY CHARTS - HOUSING FINANCE

Exhibit 22: AUM growth has picked-up



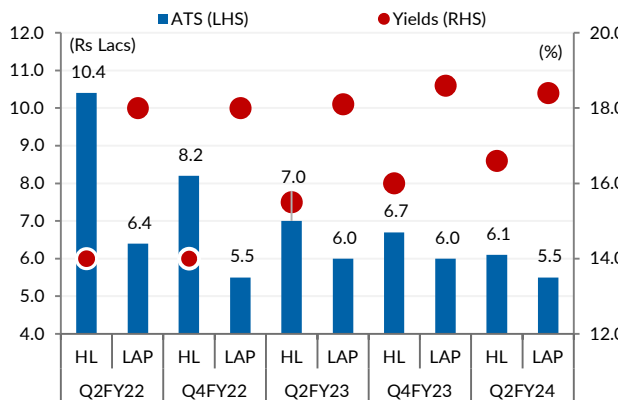
Source: Company, YES Sec

Exhibit 23: Share of LAP has increased in AUM



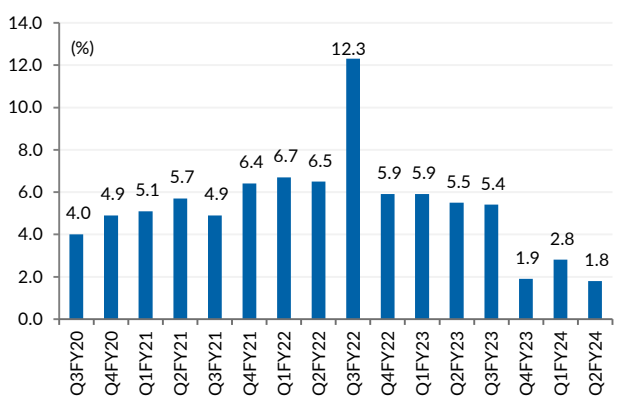
Source: Company, YES Sec

Exhibit 24: Product-level trend in Yield & ATS



Source: Company, YES Sec

Exhibit 25: GNPLs have come down



Source: Company, YES Sec

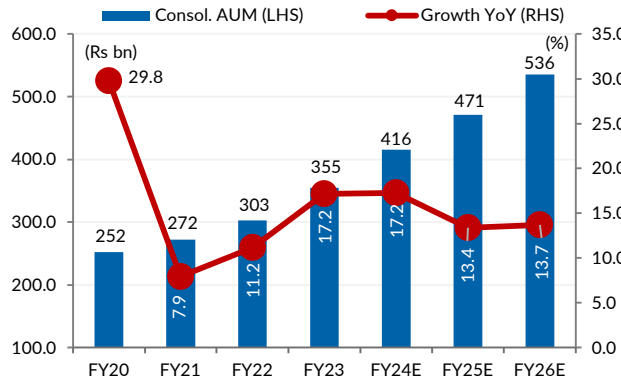
Exhibit 26: Snapshot of Long-term Annual Performance

INR mn	FY19	FY20	FY21	FY22	FY23	H1FY24
AUM	5,188	6,296	6,663	8,453	10,958	13,049
YoY growth (%)	38.5	21.4	5.8	26.9	29.6	41.6
Interest Income	646	837	959	1,199	1,618	1,065
% of AAUM	14.5	14.6	14.8	15.9	16.7	19.1
PPoP	38	153	219	218	143	109
Provisions	5	54	82	119	(116)	10
% of AAUM	0.1	0.9	1.3	1.6	(1.2)	0.2
PAT	30	106	103	72	195	77
YoY growth (%)	(167.8)	249.6	(2.6)	(29.9)	170.0	(18.8)
RoA (%)	0.7	1.8	1.6	0.9	1.9	1.3
RoE (%)	2.2	5.4	5.0	3.4	8.6	6.5

Source: Company, YES Sec

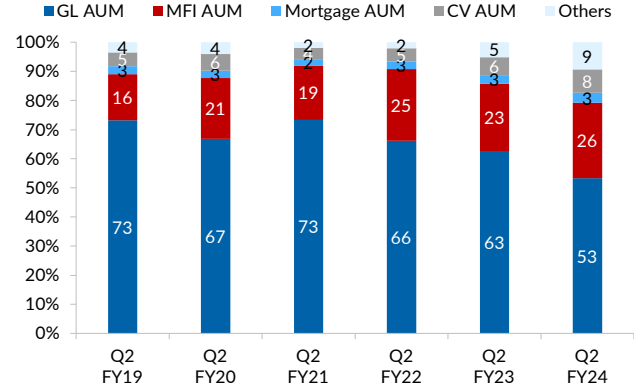
CONSOLIDATED CHARTS

Exhibit 27: Consol. AUM to grow at 13-14% pa



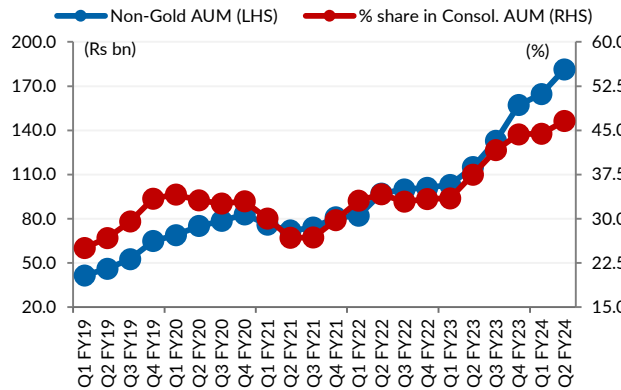
Source: Company, YES Sec

Exhibit 28: AUM mix shifting towards non-GL portfolios



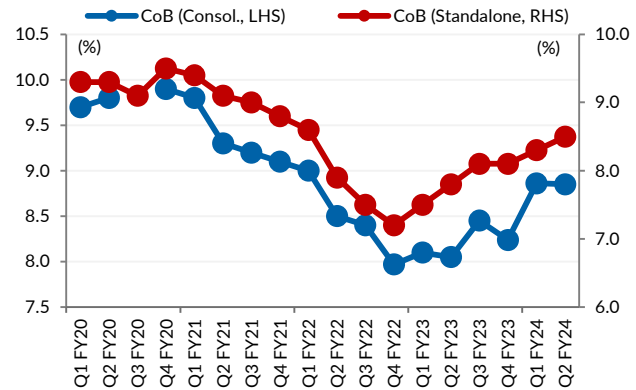
Source: Company, YES Sec

Exhibit 29: Non-Gold AUM share to increase from here



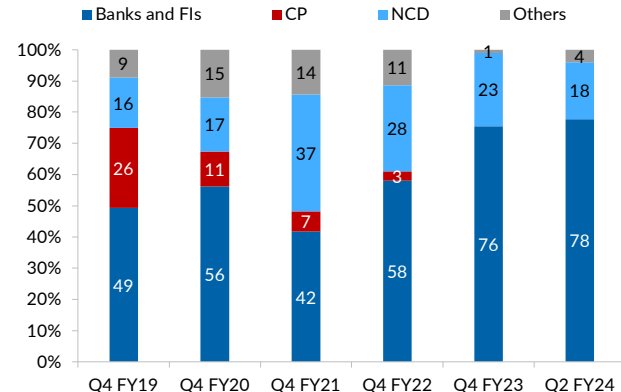
Source: Company, YES Sec

Exhibit 30: Cost of Borrowings to increase gradually



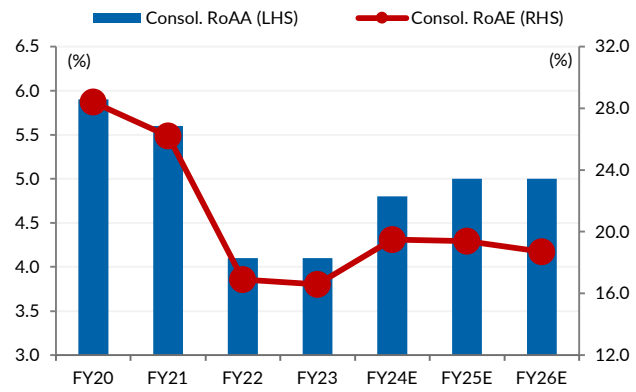
Source: Company, YES Sec

Exhibit 31: Bank Borrowings to re-price at slower pace



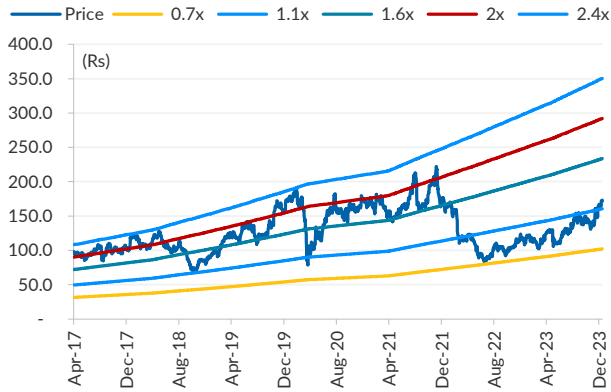
Source: Company, YES Sec

Exhibit 32: RoE to recover and sustain near 20%



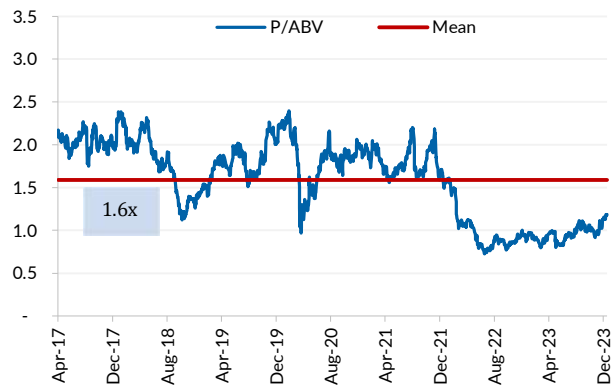
Source: Company, YES Sec

Exhibit 33: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 34: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 35: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	1,693	1,693	1,693	1,693	1,693
Reserves	82,152	94,960	1,11,477	1,30,892	1,53,418
Shareholder's funds	83,845	96,652	1,13,170	1,32,585	1,55,111
Provisions	728	732	550	550	550
Other non-financial liabilities	1,150	1,626	1,626	1,626	1,626
Total Non-Financial liabilities	1,878	2,358	2,176	2,176	2,176
Derivative financial instruments	301	0	10	10	10
Trade Payables	1,416	1,061	1,167	1,283	1,412
Debt Securities	93,218	62,642	71,725	79,615	89,168
Borrowings	1,44,768	2,18,247	2,49,892	2,77,381	3,10,666
Deposits	1	1	1	1	1
Subordinated Liabilities	3,198	3,940	4,295	4,681	5,103
Other Financial liabilities	9,481	10,141	11,053	12,048	13,132
Total Financial liabilities	2,52,383	2,96,031	3,38,143	3,75,019	4,19,493
Total Equities and Liabilities	3,38,106	3,95,041	4,53,489	5,09,780	5,76,779
Assets					
Cash and Bank Balances	26,973	30,351	29,217	31,237	35,262
Derivative financial instruments	27	244	244	244	244
Loans	2,89,711	3,41,945	4,00,913	4,54,513	5,16,750
Investments	4,207	5,340	5,340	5,340	5,340
Other Financial Assets	3,302	3,274	3,601	3,961	4,357
Total Financial assets	3,24,220	3,81,154	4,39,316	4,95,296	5,61,954
Current tax assets (net)	923	355	426	511	613
Deferred tax assets (net)	1,740	1,514	1,514	1,514	1,514
Investment Property	1	1	0	0	0
Property, plant and equipment	3,532	4,318	4,534	4,760	4,999
Other Intangible assets	261	297	297	297	297
Other non-financial assets	7,429	7,402	7,402	7,402	7,402
Total Non-Financial assets	13,886	13,887	14,173	14,485	14,825
Total Assets	3,38,106	3,95,041	4,53,489	5,09,780	5,76,779

Source: Company, YES Sec

Exhibit 36: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	60,610	66,840	83,927	93,960	1,04,816
Interest expense	(20,114)	(21,878)	(27,387)	(29,801)	(32,077)
Net interest income	40,497	44,963	56,540	64,158	72,739
Non-interest income	653	659	824	865	908
Total op income	41,150	45,622	57,364	65,023	73,648
Total op expenses	(18,453)	(22,140)	(25,192)	(28,580)	(32,432)
PPoP	22,697	23,482	32,171	36,444	41,215
Provisions	(4,862)	(3,071)	(4,332)	(3,991)	(4,531)
Profit before tax	17,835	20,410	27,839	32,453	36,684
Taxes	(4,548)	(5,409)	(7,377)	(8,600)	(9,721)
Net profit	13,287	15,002	20,462	23,853	26,963

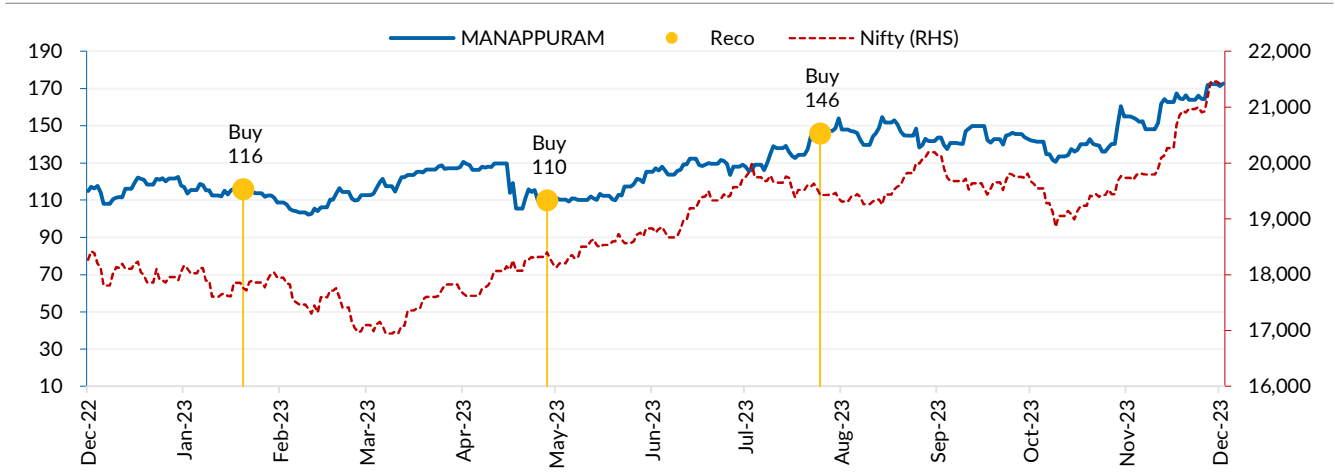
Source: Company, YES Sec

Exhibit 37: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	(1.5)	11.0	25.7	13.5	13.4
Total op income	(1.0)	10.9	25.7	13.4	13.3
Op profit (pre-provision)	(17.6)	3.5	37.0	13.3	13.1
Net profit	(23.0)	12.9	36.4	16.6	13.0
Loans	9.3	18.0	17.2	13.4	13.7
Borrowings	29.1	50.8	14.5	11.0	12.0
Total assets	7.9	16.8	14.8	12.4	13.1
Profitability Ratios (%)					
NIM	14.1	13.7	14.7	14.5	14.4
Non-interest income /Total income	1.6	1.4	1.4	1.3	1.2
Return on Average Equity	17.6	15.0	19.5	19.4	18.7
Return on Average Assets	5.0	4.5	4.8	5.0	5.0
Per share ratios (Rs)					
EPS	15.7	17.7	24.2	28.2	31.9
Adj. BVPS	89.8	109.7	129.9	152.4	178.4
DPS	3.0	0.8	4.0	4.5	4.5
Other key ratios (%)					
Cost/Income	44.8	48.5	43.9	44.0	44.0
CAR	31.0	32.0	32.0	33.0	34.0
Gross NPLs/Loans	3.0	1.3	1.6	1.6	1.6
Net NPLs/Net loans	2.7	1.1	0.8	0.8	0.8
Tax rate	25.5	26.5	26.5	26.5	26.5
Dividend yield	1.7	0.4	2.3	2.6	2.6

Source: Company, YES Sec

Recommendation Tracker



DISCLAIMER

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