

# Manappuram Finance Ltd.

**SELL**

Sector: NBFC

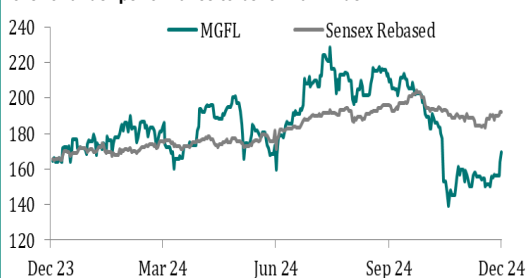
06<sup>th</sup> December 2024

Key Changes		Target	Rating	Earnings			Target	Rs.152
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame	<b>CMP</b>	<b>Rs.168</b>	
Small Cap	MGFL:IN	81,709	MANAPPURAM	531213	12 Months	<b>Return</b>	<b>-10%</b>	

Data as of: 06-12-2024

Company Data			
Market Cap (Rs. cr)	14,355		
52 Week High — Low (Rs.)	230— 138		
Enterprise Value (Rs. cr)	30,984		
Outstanding Shares (cr)	85		
Free Float (%)	64.8		
Dividend Yield (%)	2.3		
6m average volume (cr)	1.05		
Beta	1.22		
Face value (Rs. )	2		
Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	35.2	35.2	35.3
FII's	31.9	33.0	30.4
MFs/Institutions	9.5	9.4	10.9
Public	23.4	22.4	23.4
Total	100.0	100.0	100.0
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-19%	-5%	3%
Absolute Sensex	-2%	6%	17%
Relative Return	-18%	-11%	-14%

\*over or under performance to benchmark index



Y.E March (cr)	FY24A	FY25E	FY26E
NII	5,599	6,031	6,351
Growth (%)	31.7	7.7	5.3
NIM(%)	14.9	14.2	13.7
Provisions	578	970	684
PAT Adjusted	2197	2017	2286
Growth (%)	46.5	-8.2	13.3
Adjusted EPS	26.0	23.8	27.0
Growth (%)	46.5	-8.4	13.3
BVPS	137	157	181
Adj BVPS	131	146	173
P/E	4.3	4.7	4.2
P/B	0.8	0.7	0.6
Adj. P/B	0.9	0.8	0.7
ROE(%)	20.7	16.2	16.0

## Ongoing Weak Performance to Persist

**Manappuram Finance Ltd. (MGFL) is one of the leading gold loan NBFCs in India. MGFL has also diversified into other business segments like housing loan, vehicle loan and microfinance, with a branch network size of around 5,000 spread across the country.**

- MGFL's total AUM grew 17% YoY to Rs. 45,716cr, with gold loan AUM rising to Rs. 24,365cr (+17% YoY) in Q2 FY25.
- Asirvad, MGFL's microfinance subsidiary, shows 11% YoY AUM increase to Rs. 12,149cr (including Rs.1,179cr Gold AUM), making up ~25% of the consolidated AUM.
- As of October 21, 2024, the RBI has halted Asirvad's operations, allowing only servicing of existing customers and collections.
- In addition to microfinance, Asirvad operates 500 plus gold loan branches, which will be affected by this ban.
- MGFL reported a Net Interest Income (NII) of Rs. 1,635cr, reflecting a 20% YoY growth. However, the PAT growth was muted at Rs. 572cr (+2% YoY), primarily due to a 117% increase in credit costs.

## Outlook & Valuation

The RBI's regulation on Asirvad, MGFL's largest subsidiary, which accounts for ~25% of the consolidated AUM, will impact the company's growth. We expect muted consolidated AUM growth, with single-digit increases and with a significant ~20% decline in the MFI segment. Growing asset quality concerns and higher credit costs, due to the company's increased focus on non-gold AUM, are also worrisome. Given these medium-term pressures and the ongoing ban on Asirvad, **we are downgrading our rating to 'SELL' with a target price of Rs.152, based on a 0.9x adjusted BVPS of**

## Quarterly Financials Consol.

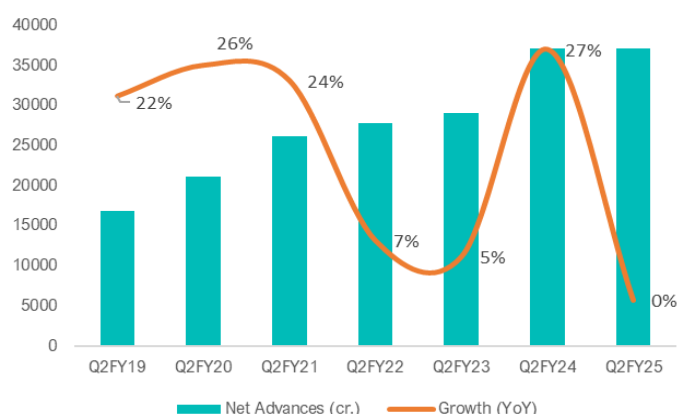
Rs.cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Net Interest Income( NII)	1,635	1,365	19.8	1,538	6.3	3,173	2,653	19.6
Total Income	1,731	1,485	16.6	1,664	4.1	3,395	2,893	17.3
Expenditure	698	618	13.0	682	2.4	1,381	1,225	12.7
Pre-Provision Profit	1,033	866	19.2	981	5.3	2,014	1,668	20.7
Provision	260	120	117.5	229	13.9	489	241	103.0
PBT	773	747	3.5	753	2.6	1,525	1,428	6.9
Reported PAT	572	561	2.0	557	2.8	1,129	1,059	6.6
Adjusted PAT	572	561	2.0	557	2.8	1,129	1,059	6.6
Diluted EPS(Rs)	6.8	6.6	2.0	6.6	2.8	13.3	12.5	6.5



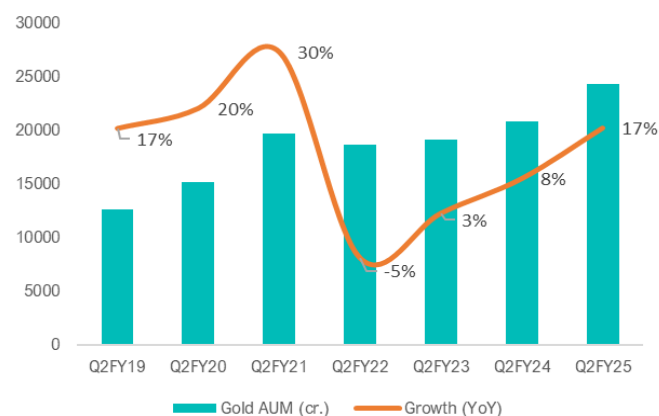
## Key concall highlights

- Asirvad submitted a compliance plan to the RBI on October 29, 2024, and management is optimistic about lifting the disbursement ban soon.
- The profitability of the MFI segment has been impacted by reduced collections in certain areas due to regional stress and natural disasters, leading to higher credit costs.
- To address RBI's identified deficiencies, Asirvad has reduced its interest rates to industry-leading levels, currently around 24%.
- Management plans to refocus on the core gold loan business and other secured lending activities, mainly due to the pressure from higher credit costs.
- Following the RBI's circular on September 30, 2024, regarding gold loan lending practices, the company is reviewing its policies, identifying gaps, and implementing corrective measures to strengthen its core gold business. Compliance with all parameters will be ensured before the deadline.

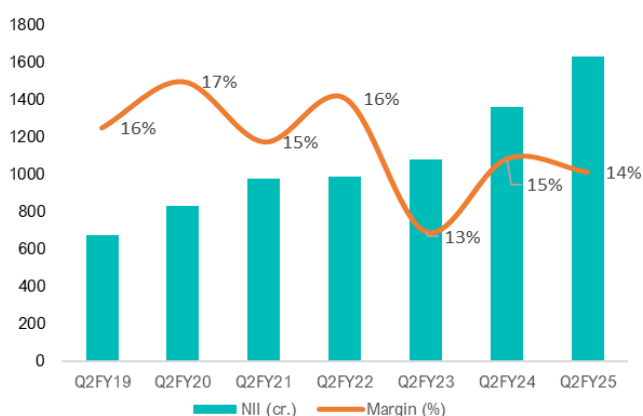
### Net Advances



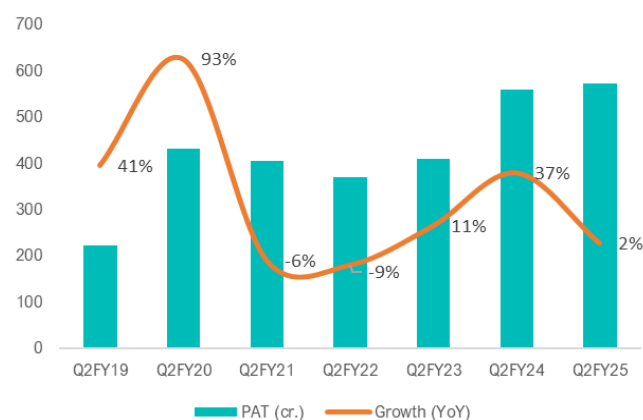
### Gold AUM



### Net Interest Income



### PAT



## Change in Estimates

Year / Rs cr.	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (NII)	6,575	7,570	6,031	6,351	-8.3%	-16.1%
Net Interest Margin (%)	15.3	15.1	14.2	13.7	-112bps	-143bps
Pre-Provision Profit	4,092	4,645	3,696	3,752	-9.7%	-19.2%
Adj. PAT	2,615	3,021	2,017	2,286	-22.9%	-24.3%
Diluted EPS (Rs)	30.9	35.7	23.8	27.0	-22.9%	-24.4%



## Consolidated Financials

### Profit & Loss

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	5,840	6,440	8,465	9,271	9,812
Interest Expense	2,011	2,188	2,866	3,240	3,460
<b>Net Int. Income</b>	<b>3,828</b>	<b>4,253</b>	<b>5,599</b>	<b>6,031</b>	<b>6,351</b>
% Change	-3.6	11.1	31.7	7.7	5.3
Non Int. Income	287	310	455	482	510
Operating Income	4,115	4,562	6,054	6,513	6,862
% Change	-1.0	10.9	32.7	7.6	5.3
Operating Exp.	1,845	2,214	2,517	2,818	3,110
<b>Pre Prov. Profit</b>	<b>2,270</b>	<b>2,348</b>	<b>3,538</b>	<b>3,696</b>	<b>3,752</b>
Prov. & Conting.	486	307	578	970	684
<b>PBT</b>	<b>1,784</b>	<b>2,041</b>	<b>2,959</b>	<b>2,725</b>	<b>3,068</b>
% Change	-23.0	14.4	45.0	-7.9	12.6
Tax	455	541	762	709	782
Tax Rate	25.5	26.5	25.7	26.0	25.5
Reported PAT	1,329	1,500	2,197	2,017	2,286
Adj*	0	0	0	0	0
<b>Adj. PAT</b>	<b>1,329</b>	<b>1,500</b>	<b>2,197</b>	<b>2,017</b>	<b>2,286</b>
% Change	-23.0	12.9	46.5	-8.2	13.3
No. of shares (cr)	84	84	84	85	85
EPS (Rs)	15.7	17.8	26.0	23.8	27.0
% Change	-23.1	12.9	46.5	-8.4	13.3

### Balance Sheet

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	2,371	2,500	2,550	407	1,418
Loans & Advances	28,971	34,195	40,948	44,098	48,828
Investments	421	534	726	896	992
Gross Fixed Assets	664	794	925	1,064	1,212
Net Fixed Assets	353	432	440	573	638
Other Assets	1,695	1,843	2,084	2,369	2,617
<b>Total Assets</b>	<b>33,811</b>	<b>39,504</b>	<b>46,748</b>	<b>48,343</b>	<b>54,492</b>
Deposits	0	0	0	0	0
Borrowings	24,118	28,483	33,653	33,532	37,638
Other Liabilities	1,324	1,376	1,546	1,499	1,553
Equity Capital	169	169	169	169	169
Reserves & Surplus	8,199	9,476	11,379	13,142	15,131
Shareholder's Funds	8,368	9,645	11,548	13,311	15,301
<b>Total Liabilities</b>	<b>33,811</b>	<b>39,504</b>	<b>46,748</b>	<b>48,343</b>	<b>54,492</b>
<b>BVPS (Rs)</b>	<b>99.0</b>	<b>114.2</b>	<b>136.7</b>	<b>157.3</b>	<b>180.8</b>
% Change	14.3	15.3	19.7	15.1	14.9
Adj. BVPS (Rs)	95	110	131	146	173
% Change	13.8	16.2	18.6	11.4	18.4

### Ratios

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Profitability &amp; Return</b>					
Interest yield (%)	21.1	20.4	22.5	21.8	21.1
Cost of funds (%)	8.6	8.3	9.2	9.6	9.7
Spread(%)	12.5	12.1	13.3	12.2	11.4
NIM (%)	13.8	13.5	14.9	14.2	13.7
ROE (%)	17.0	16.7	20.7	16.2	16.0
ROA(%)	4.1	4.1	5.1	4.2	4.4
<b>Business Growth</b>					
Gold Loan AUM (%)	5.7	-2.1	8.9	17.0	11.0
Total AUM (%)	11.2	17.2	18.7	9.2	10.7
<b>Operating Ratios</b>					
Cost to Income (%)	44.8	48.5	41.6	43.3	45.3
Cost to AUM (%)	6.1	6.2	6.0	6.1	6.1
<b>Asset Quality</b>					
GNPA (%)	3.1	1.6	2.2	2.5	2.0
NNPA (%)	1.9	0.7	1.0	0.4	0.6
<b>Capital Adequacy</b>					
CAR (%)	31.3	31.7	30.6	29.1	30.7
<b>Valuation</b>					
P/E (x)	7.1	6.3	4.3	4.7	4.2
P/B (x)	1.1	1.0	0.8	0.7	0.6
Adj. P/B (x)	1.2	1.0	0.9	0.8	0.7



## Recommendation Summary (last 3 years)



Dates	Rating	Target
02.Mar.22	Buy	148
24.May.22	Accumulate	108
11.Aug.22	Accumulate	127
16.Nov.22	Accumulate	132
18.May.23	Buy	136
01.Mar.24	Buy	215
06.Dec.24	Sell	152

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

### Not rated/Neutral

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

#### Symbols definition:



Upgrade



No Change



Downgrade

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

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