

BUY

TP: Rs 195 | ▲ 16%

**MANAPPURAM
FINANCE**

| NBFC

| 07 November 2019

Healthy growth in gold and microfinance businesses

Manappuram Finance's (MGFL) gold AUM surged 20% YoY to Rs 152bn in Q2FY20, clocking the highest growth rate in the past 11 quarters. Despite buoyant gold prices, MGFL prudently maintained LTV at 60% on the gold book. Higher spreads and range-bound opex fuelled 30% YoY growth in adj. operating profit to Rs 4.1bn. Adj. PAT grew 45% YoY to Rs 2.8bn aided by low credit cost of 10bps. Asirvad MFI also continued its momentum. We raise FY20-FY22 earnings by 6-9% and roll to a new Mar'21 TP of Rs 195 (vs. Rs 165).

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Buoyant gold prices fuel AUM growth: At Rs 152bn, MGFL's gold loan AUM grew 20% YoY in Q2FY20, the fastest in the past 11 quarters. This was largely driven by 7% YoY volume growth to 72tonnes. Despite buoyant gold prices, the company has been prudent in maintaining LTV on the gold portfolio at ~60%.

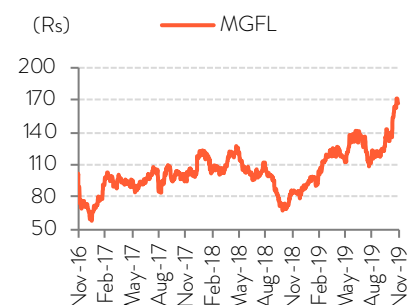
Stronger spreads and cost control bolster operating profit: Spreads (calc.) on gold finance increased 80bps YoY to 19.2%, driven by better yields (+200bps YoY; calc.) and prudent treasury management. Range-bound opex of Rs 29bn-30bn in the last 5 quarters resulted in a lower expense ratio of 8.4% (-100bps YoY). Excluding a Rs 300mn tax write-back, operating profit grew 30% YoY to Rs 4.1bn.

Credit costs benign; MFI performance healthy: Credit costs were contained at 10bps of AUM, resulting in 45% YoY growth in adj. PAT to Rs 2.8bn. Asirvad MFI AUM grew 73% YoY to Rs 47bn largely driven by new customers. The MFI business remains well capitalised at 26%.

Ticker/Price	MGFL IN/Rs 168
Market cap	US\$ 2.0bn
Shares o/s	843mn
3M ADV	US\$ 9.6mn
52wk high/low	Rs 174/Rs 108
Promoter/FPI/DII	35%/43%/5%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	20,943	23,525	26,723	30,660	33,468
NII growth (%)	5.0	12.3	13.6	14.7	9.2
Adj. net profit (Rs mn)	6,889	7,884	10,715	12,329	13,430
EPS (Rs)	8.2	9.4	12.7	14.6	15.9
P/E (x)	20.5	17.9	13.2	11.5	10.5
P/BV (x)	3.7	3.2	2.7	2.4	2.0
ROA (%)	5.0	4.9	5.5	5.5	5.4
ROE (%)	19.4	19.3	22.5	22.1	20.7

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	FY18				FY19				FY20		Variation (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	QoQ	YoY
Profit and Loss												
Interest Income	7,103	7,072	7,325	7,382	7,701	8,377	8,858	8,767	9,356	10,188	9	22
Interest expenses	2,031	1,879	1,964	2,063	2,277	2,458	2,719	2,724	3,039	3,389	12	38
Net Interest Income (NII)	5,073	5,193	5,360	5,319	5,424	5,919	6,140	6,043	6,317	6,799	8	15
Fee and commission income	79	82	88	125	107	103	114	135	134	241	80	133
Other Income	202	26	23	26	20	28	38	24	15	344	2,184	1,115
Total Net Income	5,353	5,301	5,471	5,470	5,551	6,051	6,291	6,202	6,466	7,384	14	22
Opex	2,467	2,630	2,763	2,690	2,786	2,902	2,938	3,036	2,927	2,969	1	2
Employees	1,175	1,252	1,330	1,352	1,369	1,425	1,430	1,573	1,564	1,600	2	12
Establishment expenses	1,292	1,379	1,433	1,338	1,417	1,478	1,507	1,463	1,363	1,369	0	(7)
Operating profits	2,886	2,670	2,708	2,780	2,765	3,149	3,353	3,166	3,539	4,415	25	40
Provisions and write offs	71	75	98	248	109	110	14	22	186	139	(25)	27
Profit before tax	2,816	2,595	2,611	2,532	2,657	3,039	3,339	3,143	3,353	4,276	28	41
Taxes	986	888	920	864	945	1,101	1,220	1,008	1,150	914	(21)	(17)
Profit after tax	1,830	1,707	1,690	1,669	1,712	1,938	2,119	2,136	2,203	3,362	53	73
Asset quality (Overall)												
GNPA	1,236	1,291	793	821	748	844	726	713	944	834	(12)	(1)
NNPA	1,011	968	453	352	374	239	401	415	598	470	(21)	97
Provisions	225	323	340	469	374	604	326	298	346	364	5	(40)
GNPA (%)	1.1	1.2	0.7	0.7	0.6	0.7	0.6	0.6	0.7	0.6	(16bps)	(12bps)
NNPA (%)	0.9	0.9	0.4	0.3	0.3	0.2	0.3	0.3	0.5	0.3	(14bps)	12bps
Ratios (Calc, %)												
Yields	25.7	26.0	26.9	26.0	25.8	27.1	28.6	28.0	28.9	29.3	39bps	222bps
Cost of funds	8.3	7.1	7.8	8.4	8.6	8.8	9.6	9.0	10.1	10.1	4bps	136bps
NIMs	18.2	18.9	19.4	18.5	17.9	18.9	19.6	19.0	19.2	19.1	(14bps)	21bps
Spreads	17.4	18.9	19.1	17.6	17.3	18.3	19.0	18.9	18.8	19.2	35bps	86bps
Cost income ratio	46.1	49.6	50.5	49.2	50.2	48.0	46.7	49.0	45.3	40.2	(506bps)	(775bps)
Cost to average AUM	8.8	9.6	10.0	9.3	9.2	9.3	9.4	9.5	8.9	8.3	(57bps)	(92bps)
AUM related												
Gold Stock Holding (tonnes)	59.4	59.8	62.3	64.0	66.0	67.4	66.3	67.5	68.4	72.0	5	7
Avg gold loans per branch	32.6	32.6	34.1	35.3	37.4	37.8	37.4	38.4	39.3	43.8	11	16
Overall AUM	112,330	107,610	113,271	117,350	124,650	125,928	125,249	129,620	132,920	151,683	14	20
Others												
CAR	28.2	28.8	27.9	27.0	25.5	25.6	26.4	24.0	23.4	22.7	(78bps)	(291bps)
Reported ROA (%)	6.0	5.4	5.2	4.4	4.5	4.8	5.2	5.1	4.9	5.7	80bps	90bps
Reported ROE (%)	22.2	19.4	19.0	19.3	20.3	21.8	20.3	19.7	19.7	24.1	440bps	230bps
Calc. Leverage (x)	3.7	3.6	3.7	4.4	4.5	4.5	3.9	3.9	4.0	4.2	-	-

Source: Company, BOBCAPS Research

Earnings call highlights

Business

- Gold finance business to be driven by gold loan tonnage
- Gold loans per branch increased in Q2FY20 due to AUM growth and slower branch expansion
- Non-south branches aiding growth in gold portfolio
- 150 branches opened in H1FY20
- Rent reversal of Rs 280mn during the quarter bolstered operating profits
- In vehicle finance, 75% of portfolio comprises CVs (88% used and 12% new) and 25% two-wheelers. Used CV split: HCV/LCV/SCV at 75%/20%/5%. 2W business focuses entirely on new vehicles
- Not much slackening in demand for used CV business
- Common customers in gold, vehicle and home finance at sub-10% of total client base
- 200 engineers on roll, so technology spend is low

Liquidity

- Raised over Rs 2bn through NCDs in Q2FY20
- No constraints in terms of funding resources
- Banks issued lines of over Rs 40bn in last one year
- In the process of raising funds up to US\$ 750mn through ECB

Asset quality

- Continues to go slow on its on-lending portfolio
- Asirvad MFI has district-wise asset quality monitoring
- Sales team handles collections in MFI; new team formed for collections in sensitive areas. Collections for all buckets completely in-house
- 11.2% of Asirvad portfolio lies in West Bengal
- Early delinquencies in vehicle finance increased in H1FY20 due to macro environment

- Probability of default (PD) 100% in 90+dpd and loss given default (LGD) in vehicle finance at 42.5%
- Credit cost at ~1-1.5% in housing finance

Subsidiaries

- All disbursements in Asirvad MFI cashless
- MFI overheated in certain geographies in India at an industry level. Management alluded to high competition from banks
- No plan by Asirvad to raise capital in near term
- Average ticket size consciously reduced in both home loan and LAP to bring down credit cost

Outlook

- Sustainable gold tonnage growth at 10-12% per annum
- Plans to open 50 more branches in FY20

Valuation methodology

MGFL is trading at 2.7x/2.4x FY20E/FY21E BV for ROE of 22.5%/22.1%. The company has retained its market share in gold finance during FY15-FY19, and we expect the business to yield a steady-state ROA of ~5% and remain low-levered at ~4x over FY20-FY22.

MGFL is focusing on lower ticket sizes and on reshaping customer attitudes towards gold finance in non-south geographies. Diversification into allied businesses is also likely to meaningfully contribute to the bottomline in the near term. MFI arm Asirvad Microfinance is among the top-5 MFIs in the country and has leading productivity metrics compared to peers. MGFL will incrementally allocate capital towards growing new businesses.

Following the outperformance in Q2FY20, we raise FY20/FY21/FY22 earnings estimates by 8%/9%/6% and roll over to a new Mar'21 TP of Rs 195 (vs. Rs 165). For our SOTP model, we value (a) the standalone book, which includes gold finance, vehicle finance, SME finance and on-lending, at Rs 172/sh based on 2.1x FY22E BV, and (b) Asirvad MFI at Rs 29/sh based on 2.2x (from last stake sale) FY22E BV after a holding company discount of 20%. Maintain BUY.

FIG 2 – ESTIMATES REVISED DUE TO TONNAGE INCREASE

(Rs bn)	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
NII	25.8	28.8	31.9	26.7	30.7	33.5	3.4	6.5	5.0
Other Income	0.6	0.7	0.8	1.0	0.8	0.8	64.1	7.5	1.2
Net Income	26.5	29.5	32.7	27.7	31.4	34.3	4.8	6.5	4.9
Operating Expenses	12.7	13.8	15.0	12.8	14.3	15.6	1.1	3.5	4.0
Operating Profits	13.8	15.7	17.7	14.9	17.2	18.7	8.2	9.2	5.6
Provisions	0.6	0.6	0.7	0.6	0.7	0.7	6.9	6.9	5.2
PBT	13.2	15.1	17.0	14.3	16.5	18.0	8.3	9.3	5.6
Tax	3.3	3.8	4.3	3.6	4.2	4.5	8.7	9.8	6.0
PAT	9.9	11.3	12.7	10.7	12.3	13.4	8.2	9.2	5.5
Loans	171	189	210	184	202	218	7.5	6.4	4.1
Borrowings	148	163	181	157	171	185	5.6	4.6	2.3
Spreads (%)	13.4	13.5	13.6	13.2	13.3	13.4	(20)	(20)	(20)
RoAA (%)	5.2	5.2	5.2	5.5	5.5	5.4	30	25	12
RoAE (%)	20.9	20.6	20.1	22.5	22.1	20.7	157	152	60

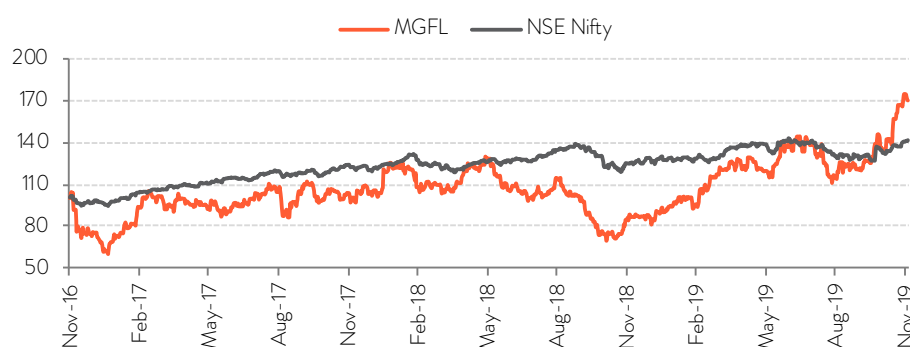
Source: BOBCAPS Research

FIG 3 – SOTP VALUATION SUMMARY

SOTP FY22E Based (INR)	Value (Rs bn)	Value (US\$ bn)	Value/sh (Rs)	% of total	Rationale
Core business	145	2.1	172	88.1	2.1x BV
Key Ventures					
Asirvad Microfinance	25	0.4	29	14.9	2.2x BV based on last stake sale value
Total Value of Ventures	25	0.4	29	14.9	
Less: 20% holding discount	5	0.1	6	3.0	
Value of Key Ventures	20	0.3	23	11.9	
Target Value Post 20% Holding Co Disc	165	2.4	195	100.0	
CMP	141	2.0	168		
Upside (%)	16.7	16.7	16.7		

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- slower-than-expected productivity increase,
- significant increase in credit costs for the vehicle finance and on-lending businesses, and
- event risk in the microfinance business.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	20,943	23,525	26,723	30,660	33,468
NII growth (%)	5.0	12.3	13.6	14.7	9.2
Non-interest income	639	548	1,023	763	821
Total income	21,582	24,074	27,746	31,423	34,289
Operating expenses	10,551	11,657	12,821	14,266	15,600
Operating profit	11,031	12,417	14,925	17,157	18,689
Operating profit growth (%)	(5.8)	12.6	20.2	15.0	8.9
Provisions	484	260	600	674	735
PBT	10,547	12,157	14,324	16,483	17,954
Tax	3,658	4,273	3,610	4,154	4,524
Reported net profit	6,889	7,884	10,715	12,329	13,430
Adjustments	0	0	0	0	0
Adjusted net profit	6,889	7,884	10,715	12,329	13,430

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Equity capital	1,685	1,686	1,686	1,686	1,686
Reserves & surplus	36,441	42,236	49,736	58,367	67,767
Net worth	38,126	43,922	51,422	60,052	69,453
Deposits	0	0	0	0	0
Borrowings	102,378	127,426	156,855	170,771	185,135
Other liabilities & provisions	5,427	5,112	5,879	6,760	7,775
Total liabilities and equities	145,931	176,460	214,156	237,584	262,362
Cash & bank balance	4,425	4,508	5,366	7,141	10,678
Investments	3,782	10,108	11,119	11,953	12,850
Advances	128,407	150,052	183,521	201,510	218,459
Fixed & Other assets	13,742	16,299	19,516	24,121	31,054
Total assets	145,931	176,460	214,156	237,584	262,362
Deposit growth (%)	NA	NA	NA	NA	NA
Advances growth (%)	11.9	16.9	22.3	9.8	8.4

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	8.2	9.4	12.7	14.6	15.9
Dividend per share	2.0	2.3	3.2	3.7	4.0
Book value per share	45.3	52.1	61.0	71.3	82.4

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	20.5	17.9	13.2	11.5	10.5
P/BV	3.7	3.2	2.7	2.4	2.0
Dividend yield (%)	1.2	1.4	1.9	2.2	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	15.1	14.6	13.7	13.6	13.4
Non-interest income	0.5	0.3	0.5	0.3	0.3
Operating expenses	7.6	7.2	6.6	6.3	6.2
Pre-provisioning profit	8.0	7.7	7.6	7.6	7.5
Provisions	0.4	0.2	0.3	0.3	0.3
PBT	7.6	7.6	7.3	7.3	7.2
Tax	2.6	2.7	1.8	1.8	1.8
ROA	5.0	4.9	5.5	5.5	5.4
Leverage (x)	3.9	3.9	4.1	4.1	3.9
ROE	19.4	19.3	22.5	22.1	20.7

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Net interest income	5.0	12.3	13.6	14.7	9.2
Pre-provisioning profit	(5.8)	12.6	20.2	15.0	8.9
EPS	(5.1)	14.6	35.6	15.1	8.9
Profitability & Return ratios (%)					
Net interest margin	17.2	16.9	16.0	15.9	15.9
Fees / Avg. assets	0.3	0.3	0.3	0.3	0.3
Cost-Income	48.9	48.4	46.2	45.4	45.5
ROE	19.4	19.3	22.5	22.1	20.7
ROA	5.0	4.9	5.5	5.5	5.4
Asset quality (%)					
GNPA	0.7	0.6	0.5	0.6	0.6
NNPA	0.3	0.3	0.3	0.3	0.4
Provision coverage	40.9	41.7	41.1	40.6	40.2
Ratios (%)					
Credit-Deposit	0.0	0.0	0.0	0.0	0.0
Investment-Deposit	0.0	0.0	0.0	0.0	0.0
CAR	27.0	23.7	24.3	25.6	26.7
Tier-1	26.6	23.3	24.0	25.3	26.5

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: MANAPPURAM FINANCE (MGFL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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