

Manappuram Finance Ltd

BUY

CMP Rs123

Target Rs165

Upside 34.2%

HIGHLIGHTS	<ul style="list-style-type: none"> On expected lines, Manappuram delivered strong results for Q4 FY20 with buoyancy in gold prices. AUM grew 5% qoq/30% yoy, while PPOP grew much faster at 11% qoq/55% yoy aided by operating leverage. Portfolio accretion in the mainstay Gold Loans (67% of consol. AUM) remained strong (grew 4.5% qoq/31% yoy), and was largely driven by higher gold prices (gold holdings declined 1.5% qoq and grew by modest 7% yoy). Growth in customer base remains anemic. Weighted average LTV of GL portfolio stood at <60%, based on past 30-day avg. price. Share of online portfolio increased to 48% due to restricted movement/lockdown in March. It has further increased to 61% currently. Very few GL customers opted for moratorium and uncollected interest levels remain largely unchanged (~1.5 months) with collection through online channel. Asirvad MFI portfolio (22% of consol. AUM) grew 10% qoq/43% yoy, with bulk of growth driven by customer addition (in turn driven by rapid branch expansion in recent period). AUM of CV financing and smaller NBFC/MFI funding shrunk qoq due to segmental headwinds and purposeful calibration. Consol Opex/AUM ratio came-off further to 6.2%, and was solely driven by significant operating leverage coming through in GL business from a value-led AUM growth, reduction in security cost and rising share of online portfolio. Gross NPL levels increased in Gold Loans, MFI and CV finance. Additional Covid related provisioning taken of Rs700mn (Rs550mn in MFI alone) lead to higher credit cost of ann. 2%. Key management expectations for FY21 – a) AUM growth of ~10% largely driven by GL, b) further increase in share of online portfolio, c) incremental operating leverage from cost optimization and d) MFI write-off to be lower than demonetization. 	
	<ul style="list-style-type: none"> Cut FY21/22 earnings by 21%/11% (revision from Q3 estimates) due to adverse adjustments in loan growth and credit cost. Retain BUY rating with a 12m TP of Rs165. Robust profitability in GL business (RoA of 6.5%+) to mitigate Covid impact on other loan segments. Overall RoA/RoE delivery to be resilient in FY21/22. 	
	<ul style="list-style-type: none"> Manappuram trades at 1.3x/6x FY22 ABV/EPS. Valuation is most sensitive to the trend in gold price. 	
	<ul style="list-style-type: none"> A sharp unexpected correction in gold price 	
	Our View	
	Valuation	
Risk to our call		

Exhibit 1: Financial Summary

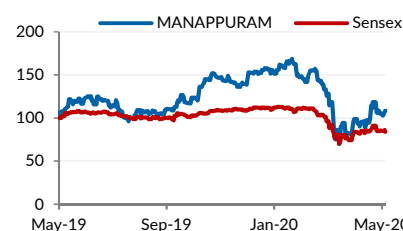
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	41,795	54,653	63,338	69,143
PPOP	15,113	22,449	25,219	27,850
Net profit	9,486	14,803	14,071	18,006
yoy growth (%)	40.5	56.1	(4.9)	28.0
EPS (Rs)	11.3	17.5	16.7	21.3
Adj.BVPS (Rs)	53.9	67.3	80.0	98.3
P/E (x)	10.9	7.0	7.4	5.8
P/adj.BV (x)	2.3	1.8	1.5	1.3
ROE (%)	19.2	22.9	22.0	23.2
ROA (%)	4.9	5.9	4.6	5.4
CAR (%)	24.0	23.4	25.9	27.9

Source: Company, YES Sec – Research

Stock data (as on May 14, 2020)

Sensex:	31,123
52 Week h/l (Rs)	195 / 74
Market cap (Rs/USD mn)	103,999 / 1376
Outstanding Shares	845
6m Avg t/o (Rs mn):	1,109
Div yield (%):	1.8
Bloomberg code:	MGFL IN
NSE code:	MANAPPURAM

Stock performance



	1M	3M	1Y
Absolute return	15.9 %	(23.1)%	3.8%

Shareholding pattern (As of Mar'20 end)

Promoter	35.1%
FII+DII	47.9%
Others	17.0%

Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	17.5	16.7	21.3
EPS (Old)	17.3	21.1	24.0
% change	1.3	(21.1)	(11.2)

RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in

+91 22 3347 9635



AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in | +91 22 3347 7430

CON-CALL HIGHLIGHTS

Gold Loans

- ✓ Manappuram converted offline customers to online customers during the lockdown period - % of online AUM increased from 48% as of March 31st to 61% as of now. Possible that 70% of portfolio would be online by year end.
- ✓ In the lockdown period, the company has been disbursing gold loans worth Rs7-8bn daily through the online channel.
- ✓ Hardly any customers have taken moratorium. Interest collections not impacted as the level of interest accrued pre and post Covid remains similar.
- ✓ Weighted average LTV stands at 59% (based on the past 30 days trailing IGLA published price). Rs2345 is the absolute LTV.
- ✓ In Q1 and Q2 of FY21, there could be some reduction in portfolio due to redemption. Thereafter, the demand for gold loans is expected to rise as other sources of liquidity remain dry.
- ✓ Over the next 2 months, company may not conduct any auctions. However, it does not see a significant spike in NPLs

MFI Business (Asirvad)

- ✓ Have touch based will all customers on phone; center meetings not happening anywhere.
- ✓ Company could collect 80-85% of March collections. Currently, it is treated as advances as March installments fall under the moratorium period.
- ✓ From mid-April, Asirvad has been encouraging customers who are willing to pay their installments to deposit cash in the company's bank account. The borrowers can now pay electronically using the newly developed mobile application.
- ✓ If the collection rate keeps improving post the moratorium period, then disbursement rate will also increase. Management expects disbursement to fully normalize in H2 FY20
- ✓ Liquidity position is comfortable. Undrawn bank lines of Rs17.6bn and Rs12bn cash balance as of Q4 FY20. Received moratorium from 21 banks accounting for 48% of total borrowing. Asirvad's credit rating is AA-, the highest amongst MFIs in India, enabling it to be a beneficiary of liquidity boosting measures taken by RBI and Government. No liquidity or equity support required from the Parent.
- ✓ As moratorium has been systematically explained to borrowers, management expects level of losses to be lower as compared to post demonetization.
- ✓ Asirvad is holding standard provisions of Rs500mn and additional Covid related Rs550mn
- ✓ Have always kept Net NPLs at zero, by following prudent policy of providing 100% on PAR 90 portfolio
- ✓ Inculcating digital collections to customers will be important going forward
- ✓ Jump in employee cost during Q4 FY20 was on account of significant branch addition in recent period

CV Finance

- ✓ Customer profile is retail in nature i.e. 1 or 2 vehicle owners. Don't have customers going for long haul or running contracts with big industries/cos.
- ✓ In April and May, about 50% of customer have paid.
- ✓ More recently, 50-60% of CV customers have started plying vehicles.
- ✓ 60-70% collections are through online modes

Liquidity

- ✓ In the stand-alone entity, C&E as of April stood at Rs25bn and there were undrawn bank lines of Rs15bn
- ✓ CP proportion has come down to 11%, and thus duration of liabilities has increased. During April and May, Manappuram could rollover and issue new CPs worth ~Rs14bn. CP maturities of Rs18bn coming up over next two months. It has CP commitments of Rs13bn, so liquidity position will largely remain unaffected going ahead.
- ✓ Manappuram also raised Rs1bn through TLTRO scheme and additional bank lines worth Rs2bn got sanctioned since 31st March. It expects bank sanctions to open-up in the coming months.
- ✓ Incremental funding cost stands at 9.4%.

Other important takeaways

- ✓ Overall AUM growth could be 10% in FY21. In non-gold segment, focus will be more on collection and thus these businesses may not grow materially this year.
- ✓ Loan to NBFCs reduced during Q4, as company did not disburse any loan. Purposely reducing the on-lending portfolio due to increased risks.
- ✓ No corporate guarantee given by Manappuram Finance (the parent company) for any of its subsidiaries. The latter have been borrowing solely on their own strength and credit standing.
- ✓ Opex savings will continue. Already brought down security cost due to technology enabled storage systems. Targeting absolute reduction in opex of Rs250-300mn in FY21.

Exhibit 2: Result Table (Consolidated)

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Total Interest Income	16,053	13,990	14.7	11,480	39.8
Interest expended	(5,808)	(4,465)	30.1	(3,793)	53.1
Net Interest Income	10,245	9,525	7.6	7,688	33.3
Other income	128	152	(15.8)	185	(30.5)
Total Income	10,374	9,677	7.2	7,872	31.8
Operating expenses	(3,807)	(3,742)	1.7	(3,635)	4.7
PPOP	6,567	5,935	10.7	4,237	55.0
Provisions	(1,226)	(491)	149.6	(143)	756.3
PBT	5,341	5,444	(1.9)	4,094	30.5
Tax	(1,359)	(1,421)	(4.4)	(1,320)	2.9
PAT	3,982	4,022	(1.0)	2,774	43.6

Source: Company, YES Sec – Research

Exhibit 3: Business Data

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
AUM	252,252	240,999	4.7	194,384	29.8
Gold Loan	169,672	162,430	4.5	129,615	30.9
MFI	55,026	50,221	9.6	38,408	43.3
Mortgage	6,296	6,012	4.7	5,188	21.4
CV	13,444	13,974	(3.8)	11,146	20.6
Others	7,814	8,362	(6.6)	10,028	(22.1)

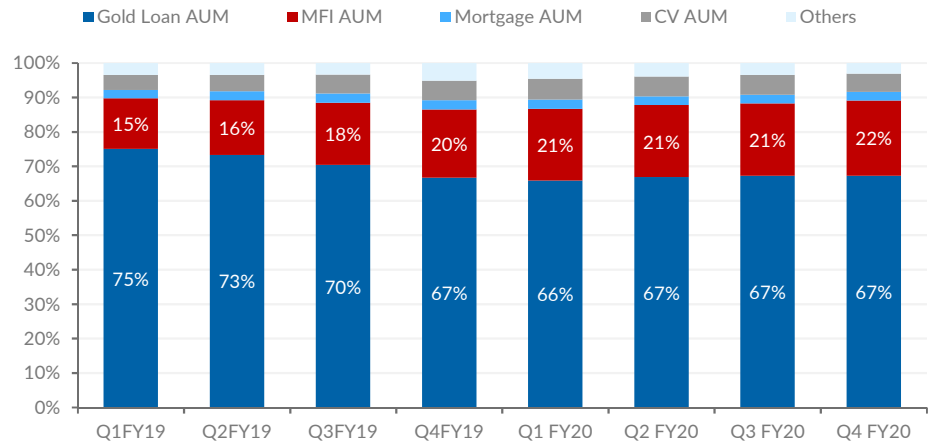
Source: Company, YES Sec – Research

Exhibit 4: Key Ratios (Consolidated)

(%)	Q4 FY20	Q3 FY20	chg qoq	Q4 FY19	chg yoy
Op Inc. as % of Avg AUM	26.0	23.9	2.1	24.7	1.4
Int Exp as % of Avg AUM	9.4	7.6	1.8	8.2	1.3
NII as % of Avg AUM	16.6	16.3	0.3	16.5	0.1
Cost to Income (%)	36.7	38.7	(2.0)	46.2	(9.5)
Prov as % of Avg AUM	2.0	0.8	1.1	0.3	1.7
RoE (%)	28.2	30.4	(2.2)	23.1	5.1
RoA (%)	5.7	6.3	(0.6)	5.2	0.5
Gross NPA (%)	0.9	0.5	0.4	0.5	0.4
Net NPA (%)	0.5	0.2	0.3	0.3	0.2

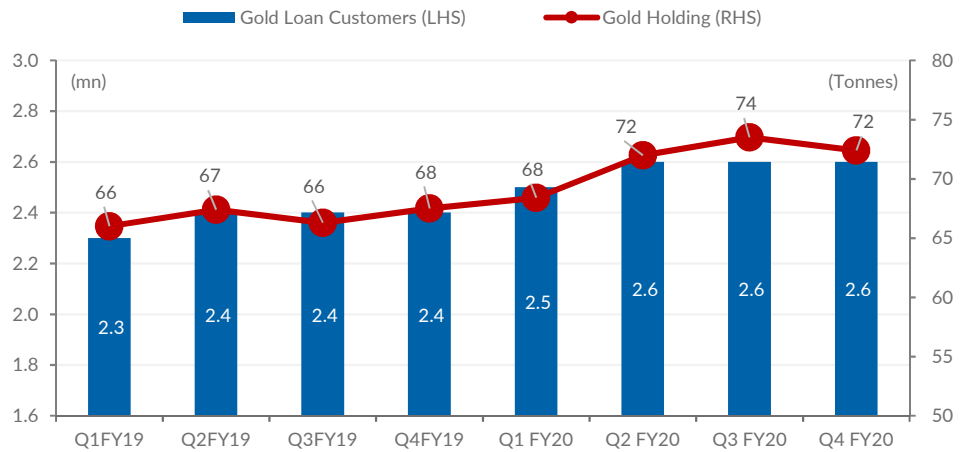
Source: Company, YES Sec – Research

Exhibit 5: Share of Non-Gold portfolio at a third of the total AUM



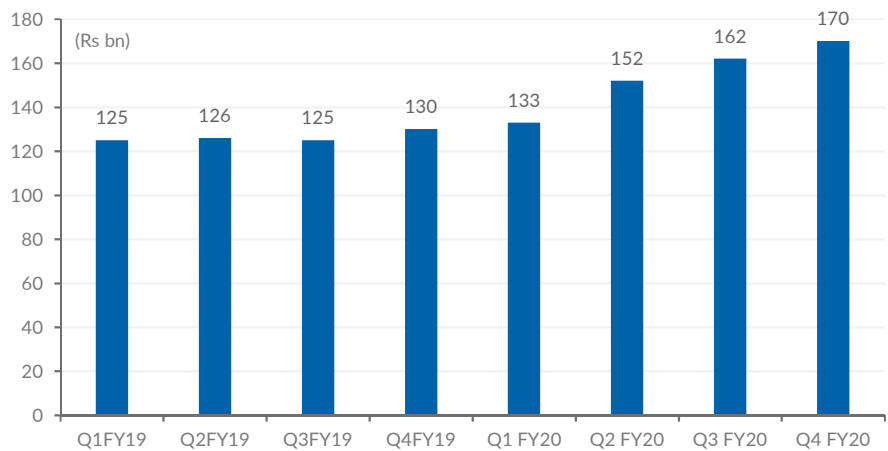
Source: Company, YES Sec – Research

Exhibit 6: Gold holding up more than 7% yoy



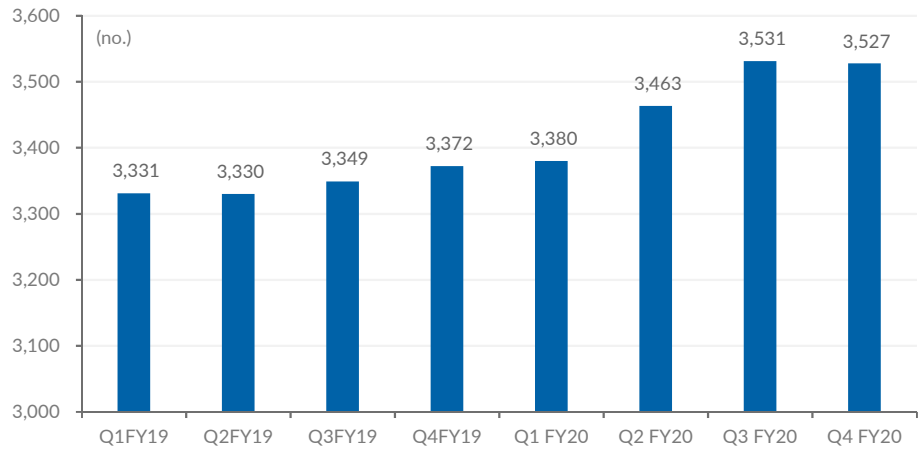
Source: Company, YES Sec – Research

Exhibit 7: Growth in Gold AUM sustains



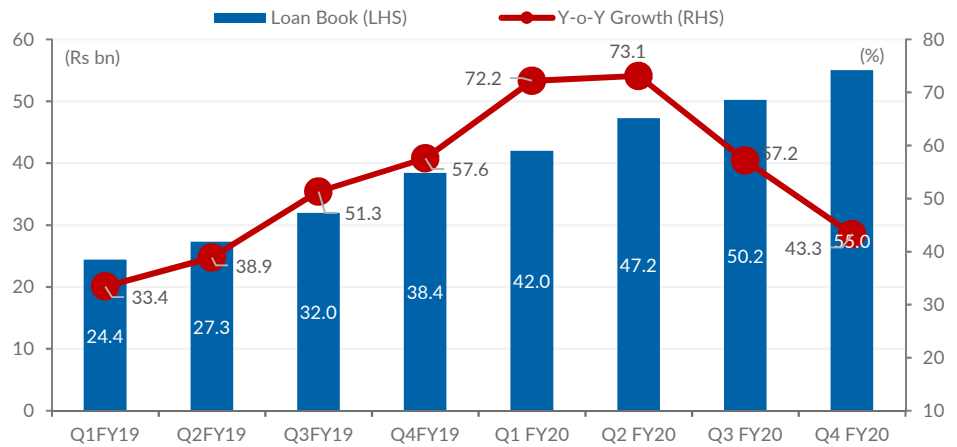
Source: Company, YES Sec – Research

Exhibit 8: Gold Loan branches see some reduction



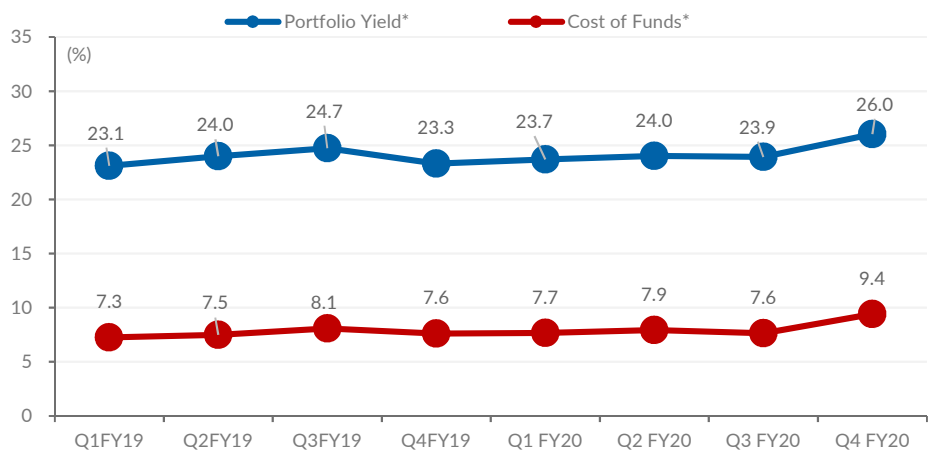
Source: Company, YES Sec - Research; * Computed

Exhibit 9: Asirvad's AUM growing at a quick pace



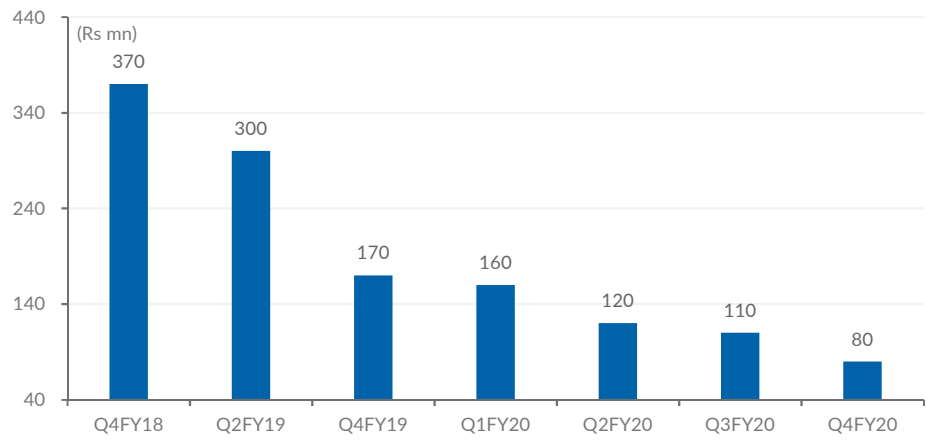
Source: Company, YES Sec - Research

Exhibit 10: Spreads remain stable



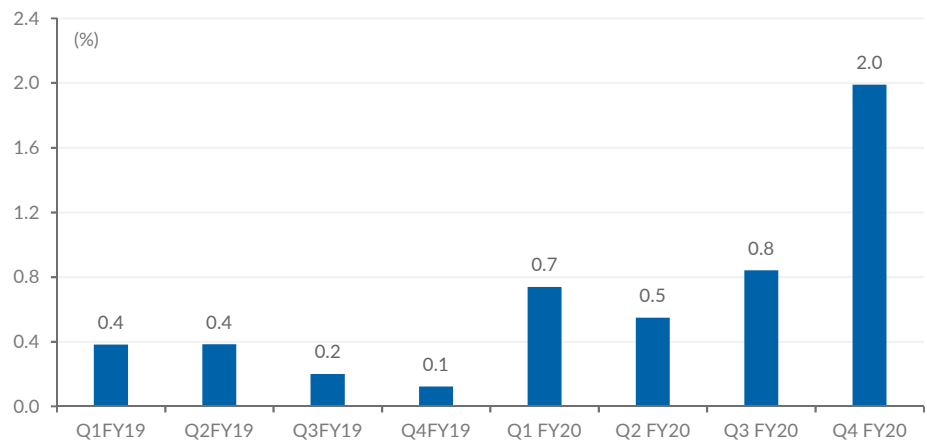
Source: Company, YES Sec - Research

Exhibit 11: Security charges continue to decline



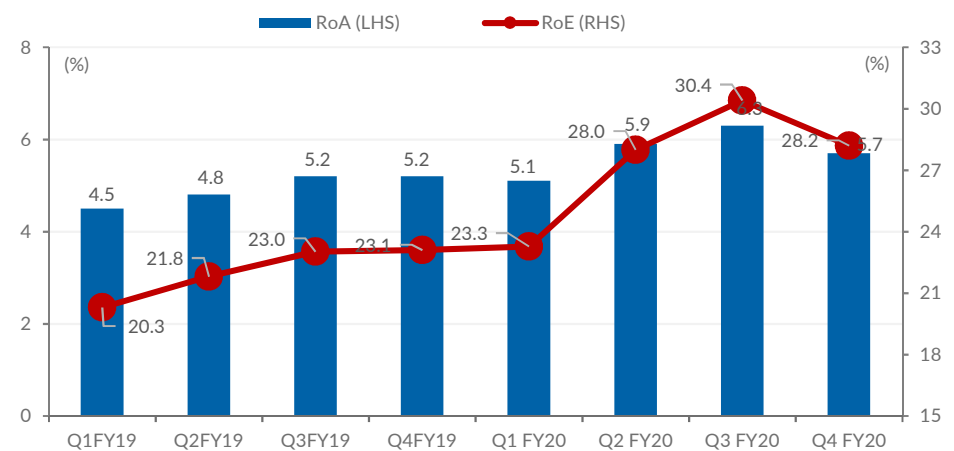
Source: Company, YES Sec – Research

Exhibit 12: Consol. Credit costs rise slightly due to additional provisions



Source: Company, YES Sec – Research

Exhibit 13: Consol. Profit metrics robust



Source: Company, YES Sec – Research

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YES Securities (India) Limited

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Tel: +91-22-71123123 | Email: research@ysil.in | Website: www.yesinvest.in

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Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No-+91-22-33479208

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