

# Manappuram Finance (MGFL IN)

Rating: ACCUMULATE | CMP: Rs179 | TP: Rs197

July 29, 2020

## Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	197		182	
NII (Rs.)	40,800	49,494	42,532	50,920
% Chng.	(4.1)	(2.8)		
PPoP (Rs.)	24,758	31,812	26,474	33,221
% Chng.	(6.5)	(4.2)		
EPS (Rs.)	18.7	25.1	21.3	26.9
% Chng.	(12.1)	(6.9)		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Int.Inc. (Rs m)	36,142	35,663	40,800	49,494
Growth (%)	28.4	(1.3)	14.4	21.3
Op. Profit (Rs m)	22,449	21,175	24,758	31,812
PAT (Rs m)	14,803	12,138	16,238	21,132
EPS (Rs.)	17.4	14.1	18.7	25.1
Gr. (%)	55.9	(18.9)	32.7	33.8
DPS (Rs.)	2.9	4.0	4.8	4.8
Yield (%)	1.6	2.2	2.7	2.7
Margin (%)	16.2	13.3	13.3	13.6
RoAE (%)	28.5	20.2	23.8	26.1
RoAA (%)	5.9	3.7	4.2	4.6
PE (x)	10.3	12.7	9.6	7.1
P/BV (x)	2.6	2.5	2.1	1.7
P/ABV (x)	2.7	2.6	2.1	1.7

### Key Data

MNFL.BO | MGFL IN

52-W High / Low	Rs.195 / Rs.74
Sensex / Nifty	38,071 / 11,203
Market Cap	Rs.151bn / \$ 2,023m
Shares Outstanding	845m
3M Avg. Daily Value	Rs.3335.3m

### Shareholding Pattern (%)

Promoter's	35.04
Foreign	38.37
Domestic Institution	9.85
Public & Others	16.74
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	17.2	(4.2)	59.2
Relative	7.6	3.6	57.6

Shweta Daptardar

shwetadaptardar@plindia.com | 91-22-66322245

## Gold glitters; non-gold withers

### Quick Pointers:

- MFI Morat 1: 85%, VF NPA spike 320bps QoQ to ~10%

**As expected, gold price traction drove gold business buoyancy aiding PAT growth of 38%YoY but 8%QoQ decline led by 19%QoQ increase in provisions (Rs1.3bn COVID led provisioning for MFI). Disappointment came largely on asset impairments in non-gold businesses despite morat dispensation; namely, (a) 320bps QoQ spike in VF NPA to 9.9% (b) 5%+ HF NPA with no improvement QoQ (c) 54bps QoQ spike with MFI NPAs exceeding 2% mark. Morat phase 1 trends also do not provide comfort given the smaller book size particularly for VF (Rs12.7bn) and HF (Rs6.3bn) business where morat values stood at 37% and 32% respectively. MFI (Rs50.4bn) saw 85% morat AUMs as at May-end and stands vulnerable with rural outlook seemingly hazy. With COVID uncertainty looming large, provisioning buffers are expected to rise supported by liquidity buffers on BS (Rs60bn). Against this backdrop, we prune down growth and tweak provisioning estimates higher. EPS estimates, therefore, stand trimmed by only 4% for FY21 as operating leverage plays out but FY22-23 estimates stand down by 7-12%. We, therefore, reiterate Accumulate rating, and rollover our target multiple to 2.1x as per Sep'22 PBV estimates implying price target of Rs197.**

- **Gold price boost gold AUMs; non-gold business decline:** Continued gold price uptick boosts gold business buoyancy as AUM growth 33%YoY/5%QoQ stands maintained. But gold holdings decline continues as tonnage growth declines 4%QoQ followed by decrease in outstanding customers QoQ largely led by shift of focus from growth to collection. Non-gold segments suffered due to extended lockdown with microfinance business declining 8%QoQ followed by 7%QoQ decline in vehicle finance business and stagnant housing finance business. With COVID led longer lockdowns causing disruption, non-gold business vulnerability stands acute. Mngt too has guided near term focus on gold segment (70% of overall AUMs) to drive overall business. Hence, we trim our overall AUM growth estimates by 300bps to 12% for FY21 and foresee 19% CAGR over FY21-23E.
- **Asset quality deteriorates as non-gold impairments rise:** Q1FY21 NPA jumped to 1.3% from 0.9% a quarter i.e. up 40 bps QoQ and 60 bps YoY. Asirvad MFI NPA spiked to 2.1% from 1.6% a quarter ago. VF book saw steep spike to 9.9% NPA from 6.7% a quarter ago (320bps spike), Housing finance NPA stood at elevated levels of 5.1%. While credit costs for microfinance business has spiked to 2% (1% in Q4FY20), business vulnerability might call for incremental provisioning ahead. VF business saw ~6% credit costs and HF carry only 1% provisions. Extended lockdown hampering collection activity and non-gold business traction taking a backset, we incorporate asset quality deterioration foreseeing doubling of VF NPAs to 8%, MFI business witnessing 5% NPA and HF NPA at 5% for FY21. Subsequently, FY21 return profile takes a toll as RoAs slide down to 3.7%, but should revive to 4.5% levels over FY22-23 led by gold business traction.

PAT at Rs 3.7bn stood tad lower than (PLe: Rs3.9bn) and grew 38% YoY/-7%QoQ (QoQ trends in-line)

Sequential PAT declines was led by hefty provisioning of Rs1.5bn (PLe: Rs0.7bn) largely led by COVID related provisions (Asirvad provided Rs750mn during Q1FY21 due to COVID-19, Rs1300mn provision cumulatively).

NII at Rs 8.9bn grew 18% YoY but flattish QoQ but stood lower than PLe at Rs 9.6bn due to higher interest expenses.

Opex at Rs 3.1bn stood below our estimates (PLe: Rs 4.1bn), declining 12% YoY/18% QoQ

Operating profit stood healthy at Rs 6.4bn stood broadly in-line (PLe of Rs6.0bn) growing 45% YoY, but down 3%QoQ.

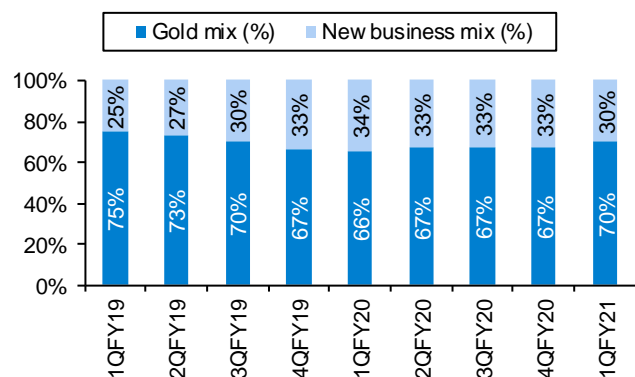
AUM at Rs 253 bn grew 26% YoY / flat% QoQ, in line with PLe: Rs257bn;

Gold Loan AUM up 33.4% YoY, 4.5% QoQ

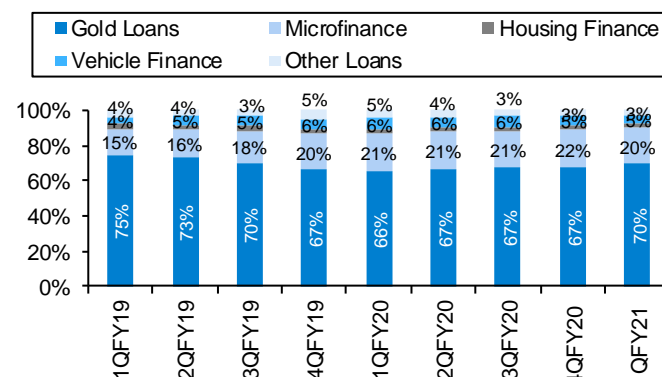
#### Exhibit 1: Higher provisions mar earnings, operating leverage aids

Rs mn	Q1FY21	Q1FY20	YoY gr.	Q4FY20	QoQ gr.
Income from Operations	14,588	11,613	25.6%	14,719	-0.9%
Interest Expenses	5,668	4,058	39.7%	5,808	-2.4%
<b>Net Interest Income</b>	<b>8,920</b>	<b>7,555</b>	<b>18.1%</b>	<b>8,911</b>	<b>0.1%</b>
Other Income	577	395	46.0%	1,462	-60.6%
Total Income	<b>9,496</b>	<b>7,950</b>	<b>19.5%</b>	<b>10,374</b>	<b>-8.5%</b>
Total Operating Expenses	3,121	3,537	-11.8%	3,807	-18.0%
<b>Operating Profit (PPP)</b>	<b>6,376</b>	<b>4,413</b>	<b>44.5%</b>	<b>6,567</b>	<b>-2.9%</b>
Provisions & Write Offs	1,453	341	325.6%	1,226	18.5%
<b>PBT</b>	<b>4,923</b>	<b>4,071</b>	<b>20.9%</b>	<b>5,341</b>	<b>-7.8%</b>
Tax	1,243	1,404	-11.4%	1,359	-8.5%
<b>Reported Profit</b>	<b>3,680</b>	<b>2,668</b>	<b>37.9%</b>	<b>3,982</b>	<b>-7.6%</b>
<b>Balance sheet Details</b>					
Borrowings	1,86,001	1,33,117	39.7%	1,75,061	6.2%
AUM	2,53,458	2,01,859	25.6%	2,52,252	0.5%
<b>Asset Quality</b>					
Gross NPAs	3,168	1,413	124.2%	2,220	42.7%
Net NPAs	1,687	807	108.9%	1,205	40.0%
Gross NPA (%)	1.3%	0.7%	0.6%	0.9%	0.4%
Net NPA (%)	0.7%	0.4%	0.3%	0.5%	0.2%
Coverage (%)	53.2%	57.1%	-3.9%	54.3%	-1.0%
<b>NIM - calc</b>	<b>14.1%</b>	<b>15.3%</b>	<b>-1.1%</b>	<b>14.5%</b>	<b>-0.3%</b>
<b>AUM (Rs mn)</b>					
Gold Loan	1,77,368	1,32,924	33.4%	1,69,672	4.5%
Micro finance	50,383	41,983	20.0%	55,026	-8.4%
Commercial Vehicle	12,703	12,271	3.5%	13,444	-5.5%
Home Loan	6,273	5,417	15.8%	6,296	-0.4%
Other Loan (Hypo, Against NCD)	6,731	9,265	-27.3%	7,814	-13.9%
<b>AUM Mix (%)</b>					
Gold Loan	70.0%	65.8%	4.1%	67.3%	2.7%
Micro finance	19.9%	20.8%	-0.9%	21.8%	-1.9%
Commercial Vehicle	5.0%	6.1%	-1.1%	5.3%	-0.3%
Home Loan	2.5%	2.7%	-0.2%	2.5%	0.0%
Other Loan (Hypo, Against NCD)	2.7%	4.6%	-1.9%	3.1%	-0.4%

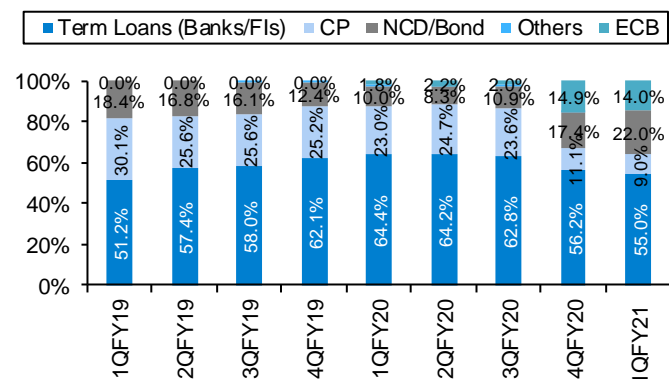
Source: Company, PL

**Exhibit 2: New business mix declines QoQ**


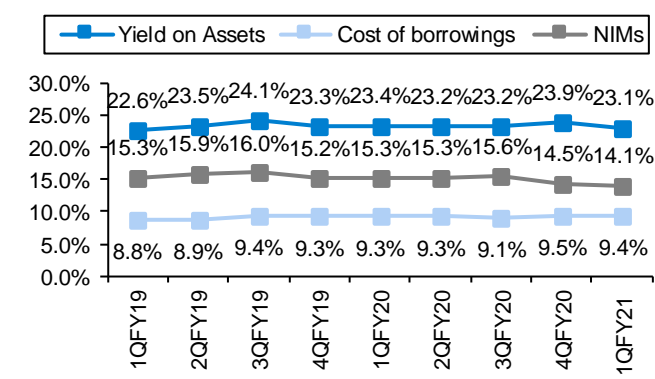
Source: Company, PL

**Exhibit 3: Overall AUM mix tilting towards gold**


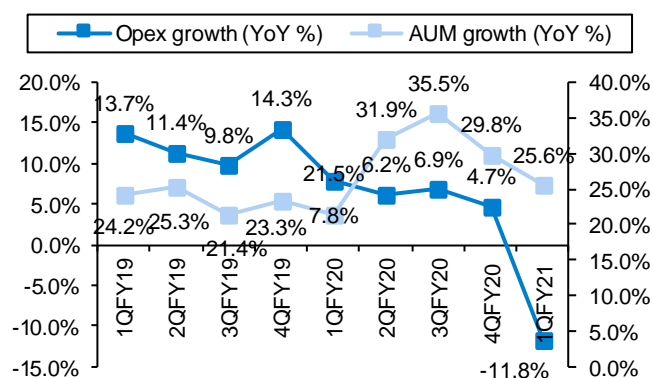
Source: Company, PL

**Exhibit 4: ECBs and debentures on the rise**


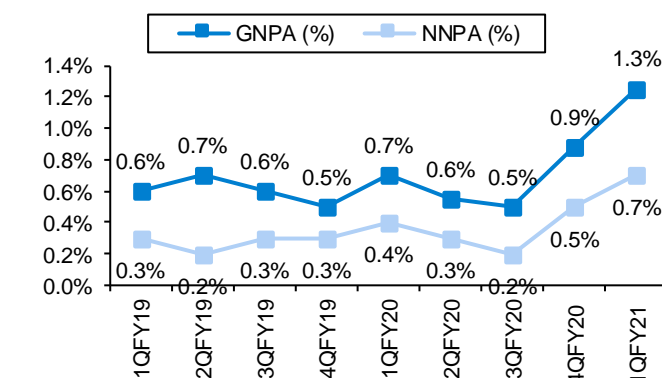
Source: Company, PL

**Exhibit 5: Elevated funding costs dent margins**


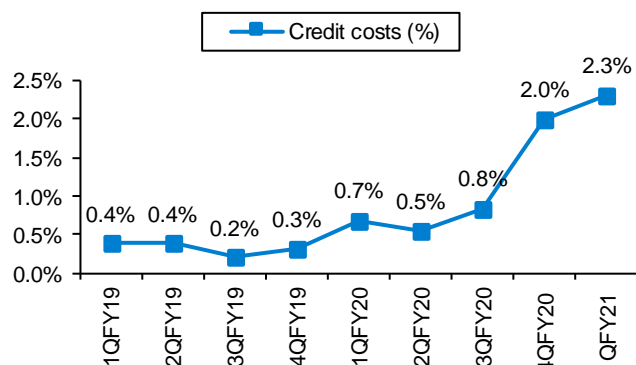
Source: Company, PL

**Exhibit 6: Cost rationalization aids opex decline**


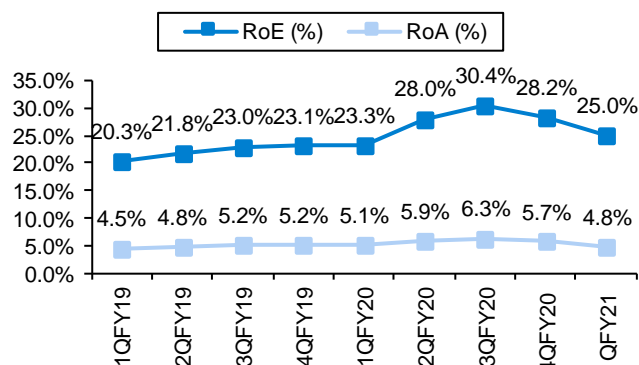
Source: Company, PL

**Exhibit 7: Asset quality deteriorates**


Source: Company, PL

**Exhibit 8: Microfinance/ VF credit cost stood higher**


Source: Company, PL

**Exhibit 9: Return ratios dip as COVID pressures build-in**


Source: Company, PL

**Exhibit 10: Higher provisioning led by NPA spike imply earnings pressure ahead**

(Rs mn)	Old Estimates			New Estimates			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Interest Income	36,456	42,532	50,920	35,663	40,800	49,494	-2%	-4%	-3%
Operating Profit	20,961	26,474	33,221	21,175	24,758	31,812	1%	-6%	-4%
Net Profit	12,405	17,971	22,702	11,903	15,792	21,132	-4%	-12%	-7%
EPS (Rs)	14.7	21.3	26.9	14.1	18.7	25.1	-4%	-12%	-7%
Price Target (Rs)	182			197			8.0%		
Reco	ACCUMULATE			ACCUMULATE					

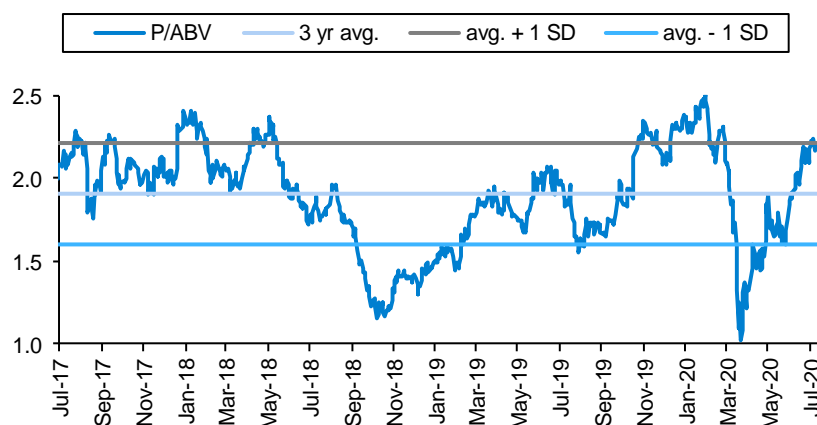
Source: Company, PL

**Exhibit 11: Target multiple uptick on rollover to Sep'22 estimates**

PT calculation and upside	
Fair price - EVA	120
Fair price - P/ABV	274
Average of the two	197
Target P/ABV	2.1
Target P/E	12.7
Current price, Rs	179
Upside (%)	10%
Dividend yield (%)	200.0%
Total return (%)	210%

Source: PL

Exhibit 12: Gold price traction supporting valuation uptick



Source: Company, Bloomberg, PL

## Key Concall Highlights

### Gold loan:

- LTV at 57%
- Avg loan duration at 51 days
- Auctioned Rs. 10.4 mn worth of gold this qtr
- Loans pending for auction is Rs. 970 mn
- Growth coming from existing customers.
- Reduced tonnage due to lower LTV ratio.
- 1.2 times increase in digital payments from Online gold loan customers QoQ.

### Microfinance:

- Return to normalcy is expected in last qtr of FY21.
- Provisions: Adequate provisions provided for NPA. Rz. 750 mn additional provision this qtr on account of COVID-19
- Collection Efficiency: 55% in June and expecting above 70% in July
- Moratorium: 100%, 85%, 45% and 25% in April, May, June and July respectively.
- Disbursement: Didn't lend in Q1FY21. Started disbursement from July to customers who have completed 2-3 cycles. Expecting to lend Rs. 700 mn in Q2FY21. Total sector disbursement in month of June was Rs. 1000 mn
- Out of 24 lac customers, 6-7 lac customers haven't paid single installments.

### Vehicle Finance

- Return to normalcy is expected in last qtr of FY21.
- Provisions: Adequate provisions provided for next qtr too
- Collection Efficiency: 55%, 75% in May and June respectively. Expecting 85% Collection efficiency in July.
- Moratorium: 37% customers under morat in phase 1 and 0% in phase 2 as convincing customers to pay their dues.
- Utilisation level at 60-70%
- NNPA at 4%

### Housing Finance:

- Collection Efficiency: 50%, more than 50%, 75% in April, May and June respectively. Expecting 85% in July
- Moratorium: 33% in phase 1 and extended to another 5% in phase 2
- 11% of customers not paid any installments in last 3 months as of June end.
- NNPA at 3.9%
- **Loans to NBFCs:** Cautiously reduced lending to NBFCs. Didn't disburse any loans this qtr. 2 borrowers (Rs 60 mn) out of 49 borrowers under morat.
- **Borrowing profile:** Rs. 19 bn borrowed during Q1FY21. Comfortable liquidity position with Rs 50060 mn as cash and cash equivalents and Rs. 10190 mn undrawn lines as of June end. Share of CP declined from 23% to 9% YoY. Duration of borrowings increased from 260 days in Q3FY20 to 452 days in Q1FY21.
- **Operating leverage:** Stringent cost control measures by the co. Opex to AUM to reduce to 6% by FY21. Set up a committee which will solely focus on reducing opex.
- **Growth outlook:** In medium to long term expecting 20% CAGR. Not expecting more than 10-12% growth in FY21. Unsecured MFIN portfolio to not grow more than 15%.

**Income Statement (Rs. m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Inc. / Opt. Inc.	54,465	59,107	68,370	81,979
Interest Expenses	18,322	23,445	27,571	32,485
<b>Net interest income</b>	<b>36,142</b>	<b>35,663</b>	<b>40,800</b>	<b>49,494</b>
Growth(%)	28.4	(1.3)	14.4	21.3
Non-interest income	1,047	2,481	2,832	3,246
Growth(%)	26.8	137.0	14.1	14.6
Net operating income	37,190	38,144	43,632	52,740
<b>Expenditures</b>				
Employees	8,301	9,728	10,878	11,891
Other Expenses	4,797	6,434	7,096	8,137
Depreciation	1,642	807	900	900
Operating Expenses	13,099	16,162	17,974	20,028
<b>PPP</b>	<b>22,449</b>	<b>21,175</b>	<b>24,758</b>	<b>31,812</b>
Growth(%)	48.5	(5.7)	16.9	28.5
Provisions	2,376	4,966	3,072	3,591
<b>Profit Before Tax</b>	<b>20,073</b>	<b>16,209</b>	<b>21,686</b>	<b>28,221</b>
Tax	5,270	4,072	5,447	7,089
Effective Tax rate(%)	26.3	25.1	25.1	25.1
<b>PAT</b>	<b>14,803</b>	<b>12,138</b>	<b>16,238</b>	<b>21,132</b>
Growth(%)	56.1	(18.0)	33.8	30.1

**Balance Sheet (Rs. m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Source of funds</b>				
Equity	1,690	1,686	1,686	1,686
Reserves and Surplus	55,771	58,831	70,587	87,684
Networth	57,461	60,517	72,273	89,369
Growth (%)	26.4	5.3	19.4	23.7
Loan funds	2,18,167	2,73,232	3,18,728	3,87,472
Growth (%)	42.6	25.2	16.7	21.6
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	5,162	4,711	8,878	13,718
Other Liabilities	8,137	6,444	8,832	9,358
<b>Total Liabilities</b>	<b>2,89,510</b>	<b>3,45,720</b>	<b>4,09,974</b>	<b>5,01,181</b>
<b>Application of funds</b>				
Net fixed assets	390	1,551	607	(695)
Advances	2,31,892	2,83,275	3,31,865	3,98,437
Growth (%)	29.8	22.2	17.2	20.1
Investments	901	1,790	2,068	2,371
Current Assets	40,637	43,666	52,994	67,064
<b>Net current assets</b>	<b>35,475</b>	<b>38,955</b>	<b>44,116</b>	<b>53,346</b>
Other Assets	8,019	8,852	14,753	24,778
<b>Total Assets</b>	<b>2,89,510</b>	<b>3,45,721</b>	<b>4,09,974</b>	<b>5,01,182</b>
Growth (%)	41.6	19.4	18.6	22.2
<b>Business Mix</b>				
AUM	2,52,252	2,82,973	3,31,548	3,98,104
Growth (%)	29.8	12.2	17.2	20.1
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

**Profitability & Capital (%)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	16.2	13.3	13.3	13.6
ROAA	5.9	3.7	4.2	4.6
ROAE	28.5	20.2	23.8	26.1

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Int. Inc. / Operating Inc.	12,445	13,567	14,719	14,588
Income from securitization	-	-	-	-
Interest Expenses	4,249	4,465	5,808	5,668
<b>Net Interest Income</b>	<b>8,196</b>	<b>9,102</b>	<b>8,911</b>	<b>8,920</b>
Growth (%)	21.6	29.8	26.1	18.1
Non-Interest Income	896	576	1,462	577
<b>Net Operating Income</b>	<b>9,092</b>	<b>9,677</b>	<b>10,374</b>	<b>9,496</b>
Growth (%)	28.0	29.6	31.8	19.5
Operating expenditure	3,654	3,742	3,807	3,121
<b>PPP</b>	<b>5,438</b>	<b>5,935</b>	<b>6,567</b>	<b>6,376</b>
Growth (%)	-	-	-	-
Provision	293	491	1,226	1,453
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	5,144	5,444	5,341	4,923
Tax	1,068	1,421	1,359	1,243
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	20.8	26.1	25.4	25.3
<b>PAT</b>	<b>4,077</b>	<b>4,022</b>	<b>3,982</b>	<b>3,680</b>
Growth	82	63	44	38
AUM	2,26,769	2,40,999	2,52,252	2,53,458
YoY growth (%)	31.9	35.5	29.8	25.6
Borrowing	1,83,462	1,97,813	2,24,076	2,39,803
YoY growth (%)	30.8	38.7	46.5	48.3

**Key Ratios**

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	179	179	179	179
EPS (Rs)	17.4	14.1	18.7	25.1
Book value (Rs)	68.2	71.8	85.8	106.0
Adj. BV(Rs)	66.3	69.6	83.9	104.0
P/E(x)	10.3	12.7	9.6	7.1
P/BV(x)	2.6	2.5	2.1	1.7
P/ABV(x)	2.7	2.6	2.1	1.7
DPS (Rs)	2.9	4.0	4.8	4.8
Dividend Payout Ratio(%)	-	-	-	-
Dividend Yield(%)	1.6	2.2	2.7	2.7

**Asset Quality**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs(Rs m)	3,618	5,706	5,485	6,438
Net NPA(Rs m)	1,625	1,870	1,572	1,733
Gross NPAs to Gross Adv.(%)	0.9	2.0	1.7	1.6
Net NPAs to net Adv.(%)	0.5	0.7	0.5	0.4
NPA coverage(%)	55.1	67.2	71.3	73.1

**Du-Pont as a % of AUM**

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	14.3	12.6	12.3	12.4
NII INCI. Securitization	14.3	12.6	12.3	12.4
Total income	14.7	13.5	13.2	13.3
Operating Expenses	5.2	5.7	5.4	5.0
PPOP	9.6	7.8	7.7	8.2
Total Provisions	0.9	1.8	0.9	0.9
RoAA	5.9	3.7	4.2	4.6
Avg. Assets/Avg. net worth	4.8	5.4	5.7	5.6
RoAE	28.5	20.2	23.8	26.1

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	20-Jul-20	BUY	1,279	994
2	13-Jul-20	Accumulate	182	160
3	15-May-20	Accumulate	142	123
4	17-Apr-20	Accumulate	130	108
5	29-Jan-20	Accumulate	202	189
6	03-Jan-20	Accumulate	195	177
7	30-Dec-19	Accumulate	195	176

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,815	3,292
2	Cholamandalam Investment and Finance Company	Accumulate	239	208
3	HDFC	Accumulate	2,177	1,886
4	L&T Finance Holdings	Sell	52	62
5	LIC Housing Finance	Reduce	260	276
6	Mahindra & Mahindra Financial Services	Reduce	179	208
7	Manappuram Finance	Accumulate	182	160
8	SBI Cards and Payment Services	BUY	974	766
9	Shriram Transport Finance	Accumulate	793	699

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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**Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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