

# Manappuram Finance Limited

BUY

CMP Rs162

Target Rs225

Upside 38.8%

## Fortified by Gold Loans; retain BUY with 12m PT of Rs225

MGFL delivered stronger-than-expected earnings performance in Q2 FY21 driven by sustained strong growth momentum in gold loans (flat tonnage qoq was a better show than the larger peer), funding cost decline and portfolio mix shift led margin expansion and lower-than-expected provisions (management's expectation of sustained improvement in collection efficiency in non-gold businesses). However, we see the billing collection trends (w/o arrears and foreclosures) in MFI and CV portfolio as being weaker than peer companies in these segments. Thus, we retain our conservative loan loss outcomes in microfinance (7.5%), vehicle finance (6%) and housing finance (4%) businesses. Notwithstanding this, we estimate MGFL to deliver 5% RoA in the current year on the back of solid profitability in gold loans. As credit cost would be much lower in non-gold segments during FY22, the consol. RoA could climb above 5.5%. RoE delivery would be sturdy at 24-25% in FY21/22 with improving capitalization levels (AUM growth substantially lower than RoE). In this context, stock's valuation is attractive at 1.6x P/ABV and 7x P/E on our FY22 estimates. Re-iterate BUY with an unchanged 12m TP of Rs225.

## Key Result Highlights

- ✓ Earnings beat of 13% on our estimate, underpinned by PPOP beat of 8% and 14% lower-than-estimated provisions. Provisioning was largely made on MFI and CV portfolios.
- ✓ Management considers provisioning done so far for potential Covid impact across businesses to be adequate.
- ✓ Gold Loan portfolio witnessed growth robust (11% qoq and 30% yoy). Internals were strong too i.e. flat tonnage (not a decline like Muthoot), 3-4% increase in customer base and 9% jump in ATS
- ✓ Share of Gold AUM rose to 73.4% from 70% in preceding quarter. Vehicle Finance AUM contracted 16% qoq, while MFI and Mortgage AUM had a mild de-growth. NBFC and SME lending book declined 24% qoq.
- ✓ Strong 7% qoq NII growth reflected NIM expansion, with a decline in funding cost (fell 30bps qoq to 9.1%) despite broad-basing of borrowing mix (NCD share rose to 29% and Bank's share declined to 51%). AUM mix movement also aided margin expansion through expansion of yield.

## Exhibit 1: Financial Summary

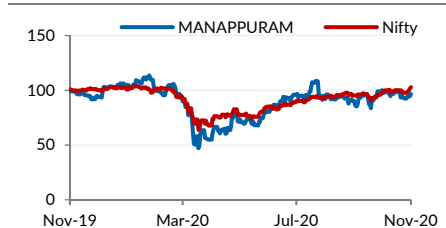
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	41,795	54,653	63,047	70,076
PPOP	15,113	22,449	26,526	30,547
Net profit	9,486	14,803	16,213	20,463
yoy growth (%)	40.5	56.1	9.5	26.2
EPS (Rs)	11.3	17.5	19.2	24.2
Adj.BVPS (Rs)	53.9	67.3	81.4	102.7
P/E (x)	14.4	9.2	8.4	6.7
P/adj.BV (x)	3.0	2.4	2.0	1.6
ROE (%)	19.2	22.9	25.0	25.4
ROA (%)	4.9	5.9	5.2	5.9
CAR (%)	24.0	23.4	25.8	28.7

Source: Company, YES Sec - Research

## Stock data (as on November 06, 2020)

Nifty	12,264
52 Week h/l (Rs)	195 / 74
Market cap (Rs/USD mn)	137414 / 1852
Outstanding Shares (mn)	846
6m Avg t/o (Rs mn)	1,451
Div yield (%)	1.4
Bloomberg code:	MGFL IN
NSE code:	MANAPPURAM

## Stock performance



	1M	3M	1Y
Absolute return	-3.5%	4.9%	-2.1%

## Shareholding pattern

Promoter	35.0%
FII+DII	48.2%
Others	16.7%

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## MANAGEMENT COMMENTARY

### AUM Growth

- ✓ Online gold loan now accounts for 61% of Gold AUM.
- ✓ Co has extended doorstep gold loans to all branches across India.
- ✓ Gold portfolio LTV at 61% on current gold prices – average loan per gram at Rs2,869.
- ✓ Gold loan growth not affected by bank competition due to different customer territory – in H2 traction in portfolio should continue.
- ✓ Stagnation in gold tonnage due to increase in price – should see the reverse when gold price comes down.
- ✓ CV AUM declined sharply as focus was on recovery/collection and consolidation.

### Liquidity, Funding Cost & NIM

- ✓ Raised fresh borrowing of Rs25bn in Q2 FY21 on standalone basis through NCDs and Bank Loan.
- ✓ Borrowing costs declined sequentially by 26 bps, despite significant extension in average duration of borrowings.
- ✓ Excess cash and undrawn bank lines at Rs54bn on consolidated basis.
- ✓ CP rollovers happening at record low rates – share in borrowings at 7% v/s 25% a year ago.

### Asset Quality and Credit Cost

- ✓ 90% collections efficiency in Asirvad MFI in September and October, including the previous dues and foreclosures – 87% of borrowers paying complete installments while 9% of borrowers have not yet started repayments.
- ✓ MFI collection efficiency in WB relatively lower due to uneven lockdowns, but it should improve going ahead. KTK collection rate dip in October (94% v/s 99% in Sept.) is transient in nature.
- ✓ MFI collection efficiency w/o arrears and foreclosures for July-to-Oct months at 68%, 71%, 82% and 82%.
- ✓ Asirvad provided Rs660mn provision during Q2 FY21 for COVID-19 and has made Rs2bn provisions cumulatively so far (3.9% of AUM).
- ✓ Major provisioning for the MFI portfolio behind – even taking into account some more provision in H2 FY21, capital raise in Asirvad would not be required.
- ✓ Vehicle finance collection efficiency w/o arrears for July-to-Oct months at 59%, 74%, 77% and 81% - pre-Covid the trend was 92-94% - cumulative provision on this portfolio stands at Rs780mn.
- ✓ Restructuring in vehicle finance at only 3% of portfolio.
- ✓ Housing Finance collection efficiency w/o arrears at 86-87% in Sept-Oct.

## Exhibit 2: Result Table - Consolidated

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Total Operating Income	15,656	15,125	3.5	13,430	16.6
Interest expended	(5,710)	(5,668)	0.7	(4,480)	27.5
Net Interest Income	9,946	9,457	5.2	8,951	11.1
Other income	123	39	212.9	471	(73.8)
Total Income	10,070	9,496	6.0	9,422	6.9
Operating expenses	(3,545)	(3,121)	13.6	(3,647)	(2.8)
PPOP	6,524	6,376	2.3	5,775	13.0
Provisions	(1,080)	(1,453)	(25.6)	(292)	270.1
PBT	5,444	4,923	10.6	5,483	(0.7)
Tax	(1,390)	(1,243)	11.8	(1,153)	20.5
PAT	4,054	3,680	10.2	4,330	(6.4)

Source: Company, YES Sec – Research

## Exhibit 3: Business Data

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
AUM	269,027	253,458	6.1	226,769	18.6
Gold Loan	197,360	177,368	11.3	151,683	30.1
MFI	49,710	50,383	(1.3)	47,243	5.2
Mortgage	6,206	6,273	(1.1)	5,679	9.3
CV	10,623	12,703	(16.4)	13,178	(19.4)
Others	5,128	6,731	(23.8)	8,987	(42.9)

Source: Company, YES Sec – Research

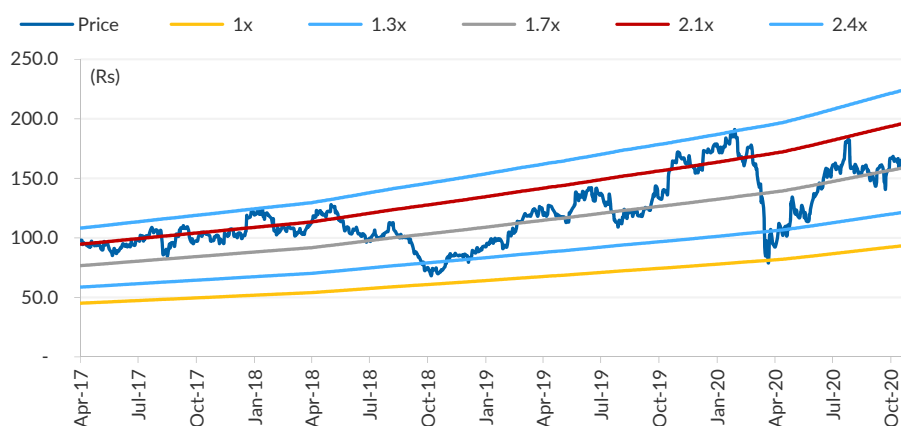
## Exhibit 4: Key Ratios - Consolidated

(%)	Q2 FY21	Q1 FY21	chg qoq	Q2 FY20	chg yoy
Op Income as % of AAUM	23.7	23.3	0.3	23.9	(0.2)
Int. Expense to AAUM	8.7	9.0	(0.2)	8.4	0.4
NII as % of AAUM	15.2	15.0	0.3	16.7	(1.5)
Cost to Income (%)	35.2	32.9	2.3	38.7	(3.5)
Provisions as % of AAUM	1.7	2.3	(0.6)	0.5	1.1
RoE (%)	26.0	25.0	1.0	28.0	(2.0)
RoA (%)	5.1	4.8	0.3	5.9	(0.8)
Gross NPA (%) – SA*	1.1	1.3	(0.2)	0.6	0.6
Net NPA (%) – SA*	0.7	0.7	-	0.3	0.4

Source: Company, YES Sec – Research; \* represents standalone figures; AAUM is Average AUM

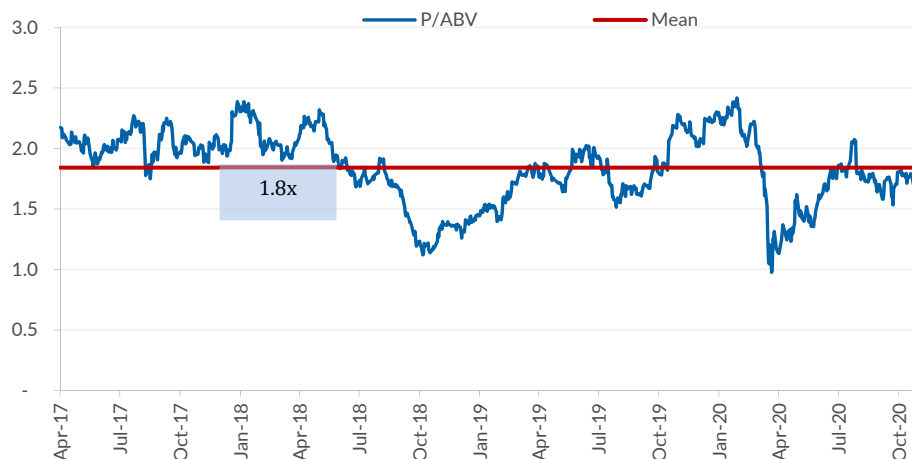
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**Exhibit 5: 1-year rolling P/ABV band**



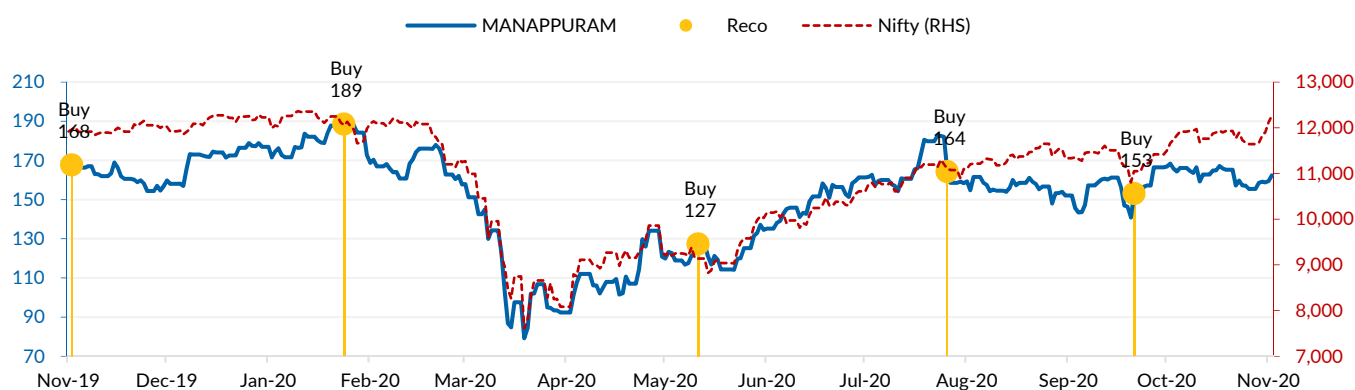
Source: Company, YES Sec – Research

**Exhibit 6: 1-yr rolling P/ABV vis-a-vis the mean**



Source: Company, YES Sec – Research

## Recommendation Tracker





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