

Manappuram Finance

 Estimate change 

 TP change 

 Rating change 

Bloomberg	MGFL IN
Equity Shares (m)	845
M.Cap.(INRb)/(USDb)	135.7 / 1.9
52-Week Range (INR)	187 / 112
1, 6, 12 Rel. Per (%)	4/-22/-26
12M Avg Val (INR M)	1241

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
NII	39.7	45.7	53.7
PPP	27.6	31.8	37.5
PAT	17.2	20.7	24.4
EPS (INR)	20.4	24.4	28.8
EPS Gr. (%)	16.3	19.9	18.0
BV/Sh.(INR)	86.3	107.1	131.6

Ratios

NIM (%)	15.6	15.9	15.9
C/I ratio (%)	33.7	34.0	33.6
RoA (%)	5.7	6.1	6.2
RoE (%)	26.4	25.3	24.2
Payout (%)	10.3	15.0	15.0

Valuations

P/E (x)	7.9	6.5	5.5
P/BV (x)	1.9	1.5	1.2
Div. Yld. (%)	1.3	2.3	2.7

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	35.0	35.0	35.1
DII	8.9	9.2	8.4
FII	38.6	39.5	39.5
Others	17.6	16.3	17.0

FII Includes depository receipts

CMP: INR160
TP: INR205 (+28%)
Buy

Gold loan book moderates; MFI performance healthy

- **Consolidated PAT grew 18% YoY to INR4.7b (5% miss) in 4QFY21.** While operating profit was largely in line, higher provisions (from the MFI segment) led to the PAT miss.
- Compared to our expectation of 3% QoQ decline, the gold loan book declined 6% QoQ. All the other segments delivered sequential loan book growth – the most prominent being the MFI segment with 11% growth.

Lower prices and tonnage lead to a lower Gold loan book

- **Gold prices in 4QFY21 were down 12% QoQ. Two other factors led to the decline in the loan book: a) auction of INR4b worth of Gold loans, and b) 4% decline in tonnage to 65MT. However, these were offset by an increase in LTV to 71% from 63%.**
- The total number of customers was stable at 2.6m, while the average ticket size declined 4% sequentially to INR45k. The share of online Gold loans has come off a bit to 54% v/s 59% in 3QFY21.
- The GNPL ratio increased 60bp QoQ to 1.9%. However, we do not foresee any eventual credit losses from this book.

MFI segment – Growth picks up; collection efficiency north of 100%

- **Over the past two quarters, the MFI book has grown 20% to INR59b. The management's confidence in loan growth comes from its healthy collections – collection efficiency stood at 103-105% in each month of the quarter. Even excluding prepayments, collection efficiency was 99-100%.**
- The 0dpd+ ratio in the MFI segment has declined to 16% in FY21 from a peak of 21% in 1HFY21. The GNPL ratio stands at 2.5%.
- In other key segments (Housing loans and Vehicle Finance), the loan book grew 5-7% QoQ. While the GNPL ratio in the HFC segment increased 100bp QoQ to 6%, it improved 330bp to 5% in the Vehicle Finance segment.

Spreads stable; maintaining healthy liquidity on the Balance Sheet

- Consolidated spreads (calculated) moderated 30bp QoQ to 14.5%, in line with its long-term average. Over the past year, consolidated cost of funds is down 70bp to 9.1%.
- **The share of NCDs in the total borrowing mix continues to inch up (doubled to 36% from 18% YoY).** The share of CPs stands at a modest 5%. Total liquidity on the Balance Sheet stood at 13% of borrowings.

Valuation and view

The slowdown in the Gold Finance segment is a one-time blip due to a sharp correction in gold prices. The short loan tenure (three months v/s the industry average of 6-12 months) is resulting in a quicker downward re-pricing. Over the medium term, we expect MGFL to deliver 10-15% steady-state gold loan growth. In the other segments, there is a clear turnaround in terms of growth and collections. While the cost of funds is elevated, we expect some moderation in FY22E. Our EPS estimates are largely unchanged. We maintain our Buy rating with a TP of INR205/share (1.6x FY23E BVPS).

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Quarterly performance												(INR m)
Y/E March	FY20				FY21				FY20	FY21	4QFY21E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	11,613	12,795	13,589	14,719	14,758	15,473	15,919	15,746	52,171	61,896	15,804	0
Interest Expenses	4,058	4,480	4,687	5,808	5,668	5,710	5,573	5,239	18,322	22,190	5,383	-3
Net Interest Income	7,555	8,316	8,902	8,911	9,089	9,763	10,347	10,507	33,848	39,706	10,421	1
YoY Growth (%)	22.0	23.4	26.9	26.1	20.3	17.4	16.2	17.9	25.3	17.3	16.9	
Other income	395	1,108	923	1,462	407	307	581	557	3,341	1,851	596	-7
Total Income	7,950	9,424	9,826	10,374	9,496	10,070	10,928	11,063	37,190	41,557	11,017	0
Operating Expenses	3,537	3,647	3,741	3,807	3,121	3,545	3,553	3,777	14,741	13,996	3,604	5
Operating Profit	4,413	5,777	6,085	6,567	6,376	6,524	7,375	7,287	22,449	27,561	7,413	-2
YoY Growth (%)	35.8	57.8	53.4	55.0	44.5	12.9	21.2	11.0	48.5	22.8	12.9	
Provisions	341	292	480	1,226	1,453	1,080	802	1,066	2,376	4,401	795	34
Profit before Tax	4,071	5,485	5,604	5,341	4,923	5,444	6,573	6,221	20,073	23,160	6,618	-6
Tax Provisions	1,404	1,068	1,421	1,359	1,249	1,390	1,741	1,537	5,270	5,911	1,694	-9
Net Profit	2,668	4,417	4,183	3,982	3,674	4,054	4,832	4,684	14,803	17,250	4,924	-5
YoY Growth (%)	33.4	97.2	69.3	43.6	37.7	-8.2	15.5	17.6	56.1	16.5	23.6	
Key Ratios (%)												
Yield on loans	22.3	22.7	24.9	25.9	25.0	24.7	24.0	23.6	25.4	24.9		
Cost of funds (Cal.)	8.6	8.8	9.8	11.2	9.9	9.4	9.3	9.1	9.9	10.0		
Spreads (Cal.)	13.7	13.9	15.2	14.8	15.1	15.4	14.8	14.5	15.6	14.9		
NIMs (Cal.)	14.5	14.7	16.3	15.7	15.4	15.6	15.6	15.7	16.5	16.0		
C/I ratio	44.5	38.7	38.1	36.7	32.9	35.2	32.5	34.1	39.6	33.7		
Credit Cost	0.7	0.5	0.8	2.0	2.3	1.7	1.2	1.6	1.2	1.8		
Tax Rate	34.5	19.5	25.4	25.4	25.4	25.5	26.5	24.7	26.3	25.5		
Balance Sheet Parameters												
Consolidated AUM (INR b)	202	227	241	252	253	269	276	272				
Change YoY (%)	21.5	31.9	35.5	29.8	25.6	18.6	14.7	7.9				
Gold loans (INR b)	133	152	162	170	177	197	202	191				
Change YoY (%)	6.6	20.5	29.7	30.9	33.4	30.1	24.4	12.4				
Gold stock (tonne)	68	72	74	72	69	69	68	65				
Gold loans/branch (INR m)	39	44	46	48	50	56	57	54				
Consol. Borrowings (INR b)	224	185	198	218	240	247	234	227				
Change YoY (%)	66.7	32.0	38.7	42.6	7.0	33.6	18.2	4.1				
Borrowings Mix (%)												
Debentures	14.0	11.0	13.0	18.0	21.0	28.0	31.0	36.0				
CPs	19.0	21.0	20.0	9.0	7.0	6.0	7.0	5.0				
WC/CC	45.0	42.0	39.0	29.0	29.0	26.0	24.0	19.0				
TL	20.0	24.0	26.0	32.0	32.0	29.0	27.0	29.0				
ECB	1.0	2.0	2.0	12.0	11.0	11.0	12.0	12.0				
Others	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Debt/Equity (x)	3.9	3.7	3.7	3.8	4.0	3.8	3.4	3.1				
Asset Quality Parameters (%)												
GNPL ratio (Standalone)	0.7	0.6	0.5	0.9	1.3	1.1	1.3	1.9				
NNPL ratio (Standalone)	0.4	0.3	0.2	0.5	0.7	0.7	0.8	1.5				
Return Ratios (%)												
RoA (Rep.)	5.1	5.9	6.3	5.7	4.8	5.1	6.1	6.0				
RoE (Rep.)	23.3	28.0	30.4	28.2	25.0	26.0	29.0	26.4				

E: MOFSL estimates



Highlights from the management commentary

Business updates

- **Half of the Gold loan branches have not been working consistently due to the ensuing lockdown caused by the second COVID phase.**
- Provisions of INR2b in the standalone entity are equally split between Gold and non-Gold segments (Vehicle Finance: INR630m).
- About 62% of loans by value are of over INR100k ticket size (20% of customers).
- **MGFL's Gold loan book declined faster than the industry as it has a three-month product compared to 12-months for the industry. Hence, the impact of the decline in gold prices was quicker for MGFL.**
- Restructuring: MFI – 4% of loans; Vehicle Finance – 8% of loans.

MFI

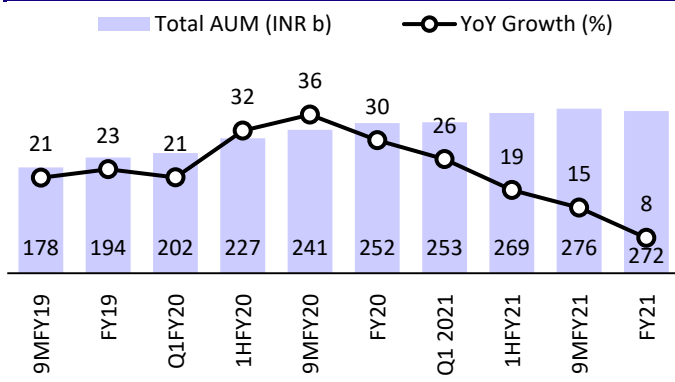
- The management expects some short-term pain in this segment.
- Disbursements in 4QFY21 stood at INR17.67b.
- **Collection efficiency dipped 7-8% MoM in Apr'21 and further in May'21.**
- Total outstanding provisions stood at INR3.4b on the Balance Sheet. Write-offs in FY21 stood at INR1.25b.
- ECB transaction stood at 9.7% of cost.
- The company's policy is to disburse to existing customers first. Around 55% of disbursements are to existing customers, target is to raise this to 80%.
- Collections in states like West Bengal and Odisha, which were laggards in the first phase are now doing fine.
- It expects to add INR400-500k customers in FY22 (out of a base of INR2.5m).

Others

- Vehicle Finance: 106%/103%/111% collection efficiency in JFM, ~90% in Apr'21.
- HFC: 95%/101% collection efficiency in Feb'21/Mar'21
- Typically, 80% of customers roll over their loans after the tenure ends.
- About 75% of the Gold loan industry is still dominated by the informal segment.
- All branches in Maharashtra were open in 4QFY21.
- Interest accrual in FY21 stood at INR7.16b.

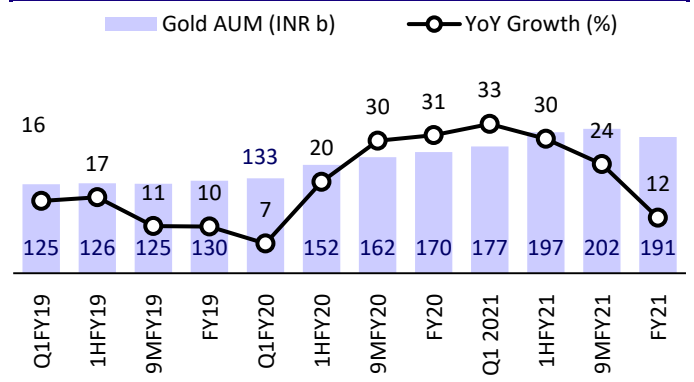
Key exhibits

Exhibit 1: Consolidated AUM growth declines...



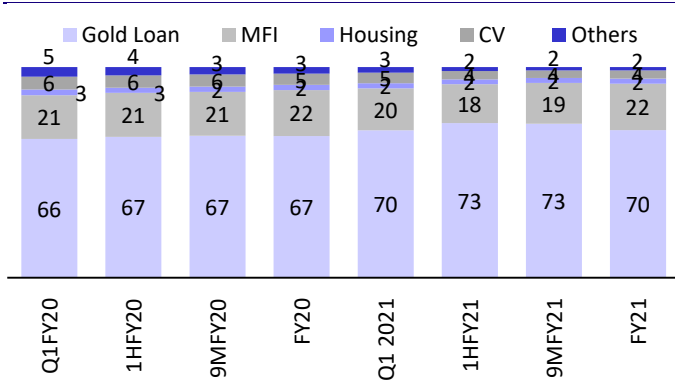
Source: MOFSL, Company

Exhibit 2: ...driven by muted gold loan growth



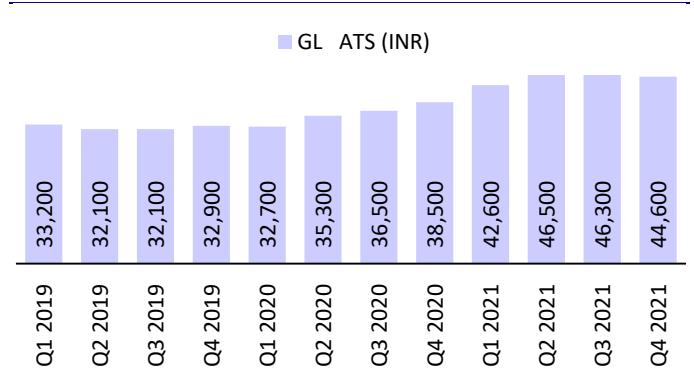
Source: MOFSL, Company

Exhibit 3: Share of gold loans down 300bp QoQ (%)



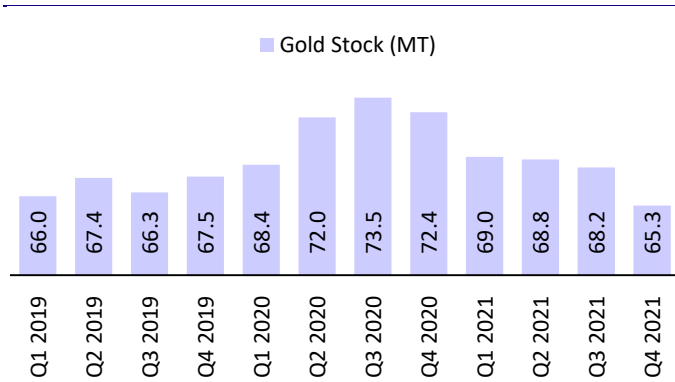
Source: MOFSL, Company

Exhibit 4: Average ticket size in gold loans



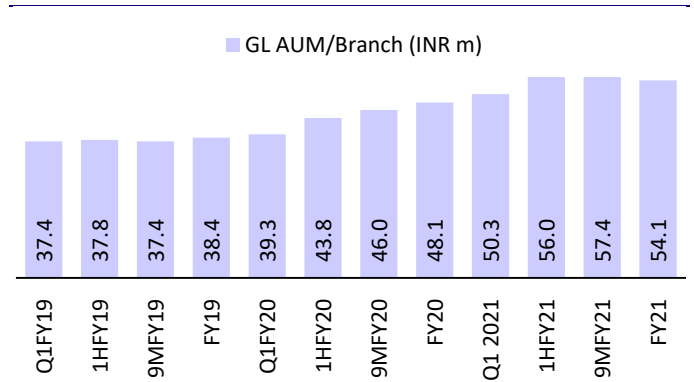
Source: MOFSL, Company

Exhibit 5: Tonnage down 4% QoQ



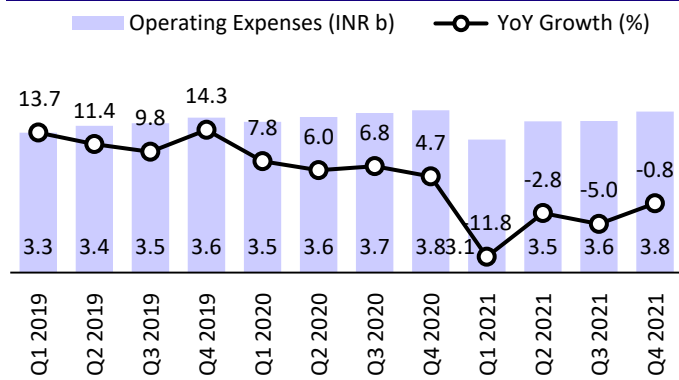
Source: MOFSL, Company

Exhibit 6: Loans per branch trend



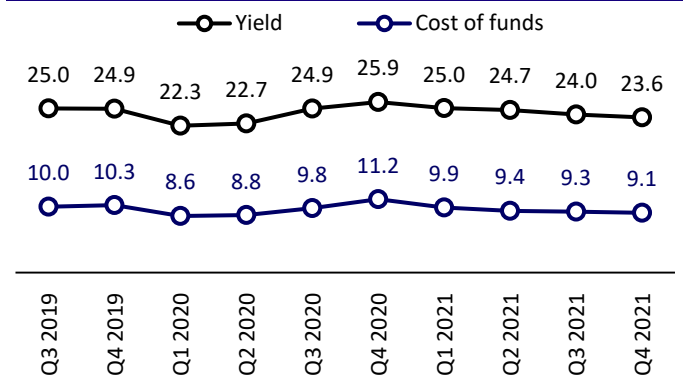
Source: MOFSL, Company

Exhibit 7: Opex up 6% QoQ



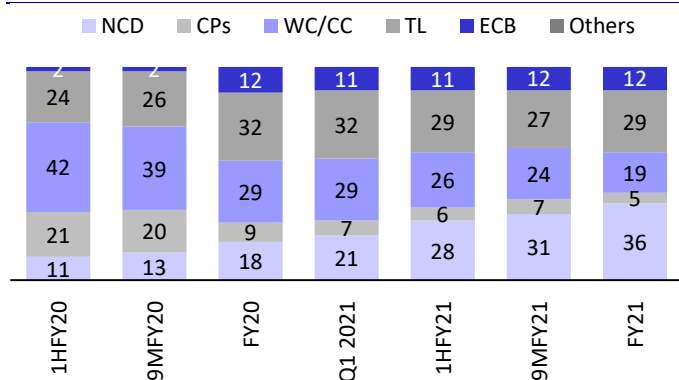
Source: MOFSL, Company

Exhibit 8: Spreads compress 30bp QoQ (%)



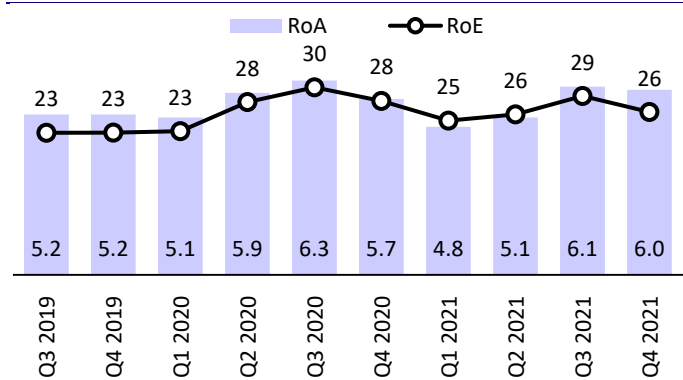
Source: MOFSL, Company

Exhibit 9: Consolidated borrowing mix (%)



Source: MOFSL, Company

Exhibit 10: Healthy return ratios (%)



Source: MOFSL, Company

Valuation and view

- Over the past two years, MGFL has scaled up its online Gold loan platform well; ~55% of disbursements now happen online. This would help the company in the current lockdown scenario, where all branches are not functioning at full capacity.
- Positive ALM (due to the short loan tenure of up to 12 months) and low leverage are key moats. Its spread of ~15% is best-in-class.
- The slowdown in the Gold Finance segment is a one-time blip due to a sharp correction in gold prices. In a steady-state scenario, MGFL should deliver 10-15% medium-term loan growth. This business should continue to deliver over 25% RoE.
- After a tough phase in 1HFY21, Asirvad MFI seems to be on the cusp of a turnaround. The company has achieved healthy collection efficiency, lowered its Odpd+ ratio, and growth has picked up.
- The Vehicle/Housing finance segments have bottomed out. We expect healthy growth going forward. However, their share in total AUM is likely to remain low.
- Our EPS estimates are largely unchanged. We maintain our Buy rating with a TP of INR205/share (1.6x FY23E BVPS).

Exhibit 11: Keep our estimates largely unchanged

INR b	Old estimate		New estimate		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NII	45.4	52.6	45.7	53.7	1	2
Other Income	2.2	2.5	2.4	2.7		
Net Income	47.6	55.1	48.1	56.4	1	2
Operating Expenses	15.9	18.4	16.4	18.9	3	3
Operating Profit	31.7	36.7	31.8	37.5	0	2
Provisions	4.1	4.4	4.0	4.7	-1	8
PBT	27.6	32.3	27.8	32.8	0	1
Tax	7.3	8.5	7.1	8.4	-3	-2
PAT	20.3	23.8	20.7	24.4	2	3
Loans	312	363	311	365	0	1
Borrowings	272	308	259	295		
RoA (%)	5.8	5.8	6.1	6.2		
RoE (%)	25.1	23.8	25.3	24.2		

Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	33,762	33,540	40,461	52,805	61,896	68,010	80,340	94,340
Interest Expense	11,687	10,304	13,449	18,322	22,190	22,260	26,591	30,770
Net Interest Income	22,075	23,235	27,012	34,483	39,706	45,750	53,749	63,570
Change (%)	57.5	5.3	16.3	27.7	15.1	15.2	17.5	18.3
Other operating income	92	668	1,334	1,848	1,410	2,045	2,249	2,474
Total Income	22,167	23,903	28,346	36,331	41,116	47,794	55,998	66,044
Change (%)	56.9	7.8	18.6	28.2	13.2	16.2	17.2	17.9
Other income	235	584	625	859	441	353	423	508
Net Income	22,402	24,487	28,971	37,190	41,557	48,147	56,422	66,552
Change (%)	57.0	9.3	18.3	28.4	11.7	15.9	17.2	18.0
Operating Expenses	9,653	12,345	13,858	14,741	13,996	16,360	18,933	21,936
Pre-Provision Profit	12,749	12,142	15,113	22,449	27,561	31,787	37,489	44,616
Change (%)	115.8	-4.8	24.5	48.5	22.8	15.3	17.9	19.0
Provisions	1,092	1,773	547	2,376	4,401	4,035	4,736	5,561
PBT	11,657	10,369	14,566	20,073	23,160	27,753	32,753	39,054
Tax	4,072	3,609	5,080	5,270	5,911	7,077	8,352	9,959
Tax Rate (%)	34.9	34.8	34.9	26.3	25.5	25.5	25.5	25.5
PAT	7,585	6,760	9,486	14,803	17,250	20,676	24,401	29,096
Change (%)	113.6	-10.9	40.3	56.1	16.5	19.9	18.0	19.2
Dividend (Excl. Tax)	1,263	1,684	1,812	2,372	1,777	3,101	3,660	4,364

Balance Sheet

Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	1,684	1,685	1,686	1,690	1,693	1,693	1,693	1,693
Reserves and Surplus	31,949	36,447	43,561	55,771	71,382	88,956	1,09,697	1,34,428
Net worth (Post OCI)	33,633	38,132	45,247	57,461	73,074	90,649	1,11,390	1,36,121
Non-Controlling Interest	212	292	459	583	472	497	522	547
Borrowings	1,09,867	1,26,071	1,52,972	2,25,735	2,27,163	2,59,401	2,94,570	3,36,607
Change (%)	14.0	14.7	21.3	47.6	0.6	14.2	13.6	14.3
Other liabilities	6,120	5,802	5,862	11,572	12,669	14,569	16,755	19,268
Change (%)	45.0	-5.2	1.0	97.4	9.5	15.0	15.0	15.0
Total Liabilities	1,49,832	1,70,296	2,04,540	2,95,351	3,13,378	3,65,116	4,23,237	4,92,543
Loans	1,34,057	1,52,439	1,78,119	2,42,971	2,65,076	3,11,281	3,65,267	4,29,174
Change (%)	17.7	13.7	16.8	36.4	9.1	17.4	17.3	17.5
Investments	49	49	1,738	905	3,380	3,718	4,090	4,499
Change (%)	-90.0	0.4	3,428.0	-47.9	273.6	10.0	10.0	10.0
Goodwill	356	356	356	356	356	356	356	356
Net Fixed Assets	1,869	2,746	3,319	7,705	8,980	9,878	10,866	11,952
Other assets	13,501	14,707	21,009	43,414	35,586	39,883	42,658	46,562
Total Assets	1,49,832	1,70,296	2,04,540	2,95,351	3,13,378	3,65,116	4,23,237	4,92,543

E: MOSL estimates

Financials and valuations

RATIOS	(%)							
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Spreads Analysis (%)								
Avg. Yield on loans	27.2	23.4	24.5	25.1	24.4	23.6	23.8	23.8
Avg. Cost of funds	11.3	8.7	9.6	9.7	9.8	9.2	9.6	9.8
Spreads	15.9	14.7	14.8	15.4	14.6	14.5	14.2	14.0
Net Interest Margin	17.8	16.2	16.3	16.4	15.6	15.9	15.9	16.0
Profitability Ratios (%)								
RoAE	24.8	18.8	22.8	28.8	26.4	25.3	24.2	23.5
RoAA	5.5	4.2	5.1	5.9	5.7	6.1	6.2	6.4
Cost-to-Income	43.1	50.4	47.8	39.6	33.7	34.0	33.6	33.0
Empl. Cost/Op. Exps.	52.1	50.7	52.0	56.3	60.2	60.8	62.0	63.1
Asset Quality								
GNPL (INR m)	2,338	695	826	1,677	5,900	6,226	6,575	7,725
GNPL ratio (%)	2.0	0.5	0.5	0.9	2.9	2.0	1.8	1.8
NNPL (INR m)	1,972	427	481	1,092	3,350	3,424	3,616	4,249
NNPL ratio (%)	1.7	0.3	0.3	0.6	1.3	1.1	1.0	1.0
PCR (%)	15.6	38.5	41.7	34.9	43.2	45.0	45.0	45.0
Valuations								
Book Value (INR)	39.9	45.3	53.7	68.0	86.3	107.1	131.6	160.8
Price-to-BV (x)				2.4	1.9	1.5	1.2	1.0
EPS (INR)	9.0	8.0	11.3	17.5	20.4	24.4	28.8	34.4
Change YoY (%)	113.4	-10.9	40.3	55.7	16.3	19.9	18.0	19.2
Price-to-Earnings (x)				9.1	7.9	6.5	5.5	4.7
Dividend	1.5	2.0	2.1	2.8	2.1	3.7	4.3	5.2
Dividend Payout (%)	20.0	30.0	23.0	19.3	10.3	15.0	15.0	15.0
Dividend Yield (%)				1.8	1.3	2.3	2.7	3.2

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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