

CMP: Rs 160

Rating: Buy

Target Price: Rs 197

Stock Info

BSE	531213
NSE	MANAPPURAM
Bloomberg	MGFL IN
Reuters	MNFL.BO
Sector	BFSI
Face Value (Rs)	2
Equity Capital (Rs Cr)	169
Mkt Cap (Rs Cr)	13,571
52w H/L (Rs)	187 / 112
Avg Yearly Vol (in 000')	9,151

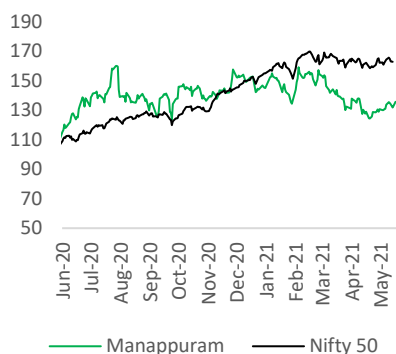
Shareholding Pattern %

(As on March, 2021)

Promoters	35.00
FII	38.58
DII	8.88
Public & Others	17.54

Stock Performance (%)	3m	6m	12m
Manappuram Finance	-8.9	-7.1	40.4
Nifty 50	5.3	17.8	69.5

Manappuram Vs Nifty



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Manappuram Finance's (MFL) Q4FY21 result was ahead of our estimates with reported PAT at Rs 468 cr vs. our estimate of Rs 417 cr led by healthy operating performance. Core portfolio of the company slowed down sequentially but remained healthy. NII for the quarter grew by 7% YoY/1% QoQ to Rs 1,098 cr vs our estimate of Rs 1,037 cr, led by 8% YoY growth in the consolidated AUM and stable margins. Operating profit for the quarter grew by 11% YoY to Rs 729 cr vs our estimate of Rs 719 cr, driven by healthy NII growth and controlled OPEX. Provision for the quarter stood at Rs 107 cr (+33% QoQ). GNPA ratio in the standalone entity increased to 1.9% from 1.3% in Q3FY21 while GNPA in microfinance entity stood stable at 2.5%. Collection efficiency (CE) in microfinance segment stood at 101% for the month of Mar'21 (Apr'21 CE was lower by 7-8%).

Gold loan growth slowed down further

Consolidated AUM growth for the quarter moderated to 8% YoY from 15% YoY in the previous quarter largely due to decline in gold loan. Gold Loan AUM for the quarter grew by 12% YoY/-6% QoQ (+24% YoY in Q3FY21) led by higher auctions in 4QFY21 (Rs 404 cr as compared to Rs 8 crs during the 9MFY21) and tendency of borrowers to foreclose loans ahead of impending auctions. Gold holdings has declined by 4% QoQ to 65.3 tonnes. MFI/housing portfolio grew by 9%/6% YoY respectively while CV segment declined by 22% YoY. Share of non-gold business to the total AUM stood at 29.9% vs. 26.9% QoQ.

Asirvad Microfinance Q4FY21 Performance

Asirvad microfinance has reported good sequential growth in AUM at 12% QoQ at Rs 5,985 cr. CE in MFI book has returned back to pre covid levels at 101% in Mar'21. However, given the second wave of covid impact, CE in Apr'21 dipped by 7-8%. NII increased by 18% QoQ to Rs 173 cr while PPOP grew by 45% QoQ to Rs 95 cr. Asirvad microfinance has reported 82% decline in its net profit at Rs 3.3 cr due to higher provision of Rs 95 cr vs 48 cr in the previous quarter. MFI GNPA stood stable at 2.5% vs 2.6% QoQ while NNPA was nil. PAR +30 & +60 portfolio of the bank increased from 9.9%/5.4% to 10.1%/6.5% QoQ.

Key takeaways from conference call:

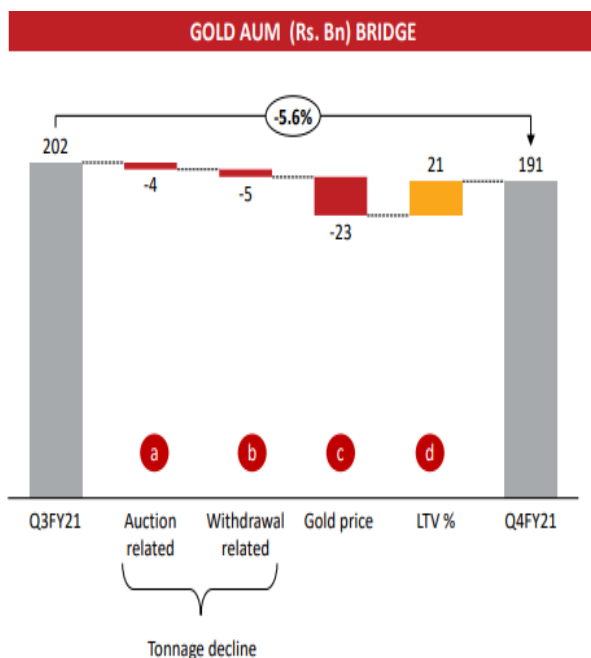
1. Gold loan AUM declined by 6% QoQ as against 12% QoQ decline in gold prices and 21% decline from its peak price level. Company has auctioned gold loan worth Rs 404 cr due to customers defaulting on gold loan. However, it was partially offset by an increase in LTV to 71% (vs. 63% in Q3FY21).
2. Management has guided for 10-15% growth in gold loan (assuming stable gold prices).
3. LTV advantage (banks were permitted LTV of upto 90%) was only upto the Mar'21 and it has been removed. Thus, Manappuram expect strong growth opportunity in the gold loan segment.
4. In MFI portfolio, management's focus is more on the asset quality over AUM growth.
5. Microfinance restructuring stood at 4% of AUM.
6. MFI portfolio share in the total portfolio stood at > 20% which is expected to be capped at 15% in the next 3-5 years. It however remains confident of the growth potential and the return ratios that the model generates.

Outlook and Valuation: Given the decline in its AUM, we have reduced our FY22/23E earnings estimates by 3%/7% respectively. Gold prices have declined by 12% in Q4FY21 and higher auction led to lower growth in its gold loan AUM during the quarter. However, given the recent increase in gold prices, we expect gold loan AUM growth to bounce back. Near term pressure on microfinance front will remain. We believe company has the potential to deliver RoA/RoE of 6%/23% by FY23E driven by high spread business and operating leverage. We maintain our Buy rating on the stock with a revised target price of Rs 197 (Rs 199 earlier), based on 1.5x FY23E P/ABV.

Exhibit 1: Q4FY21 result Snapshot

Particulars (in Crore)	Q4FY21	Q4FY20	Q3FY21	YoY	QoQ
Net interest income	1098.4	1024.5	1086.6	7.2%	1.1%
Other Income	7.9	12.8	6.2	-38.2%	28.1%
Net Operating income	1106.3	1037.4	1092.8	6.6%	1.2%
Operating expenses	377.7	380.7	355.3	-0.8%	6.3%
<i>cost-Income ratio (%)</i>	<i>34.1</i>	<i>36.70</i>	<i>32.5</i>		
Operating Profit	728.7	656.7	737.5	11.0%	-1.2%
Provisions	106.6	122.6	80.2	-13.1%	32.9%
PBT	622.1	534.1	657.3	16.5%	-5.4%
Tax	153.7	135.9	174.1	13.1%	-11.7%
Effective tax rate (%)	25%	25%	26%		
PAT (After MI)	468.3	395.0	482.2	18.6%	-2.9%
Asset Quality					
GNPA (%)	1.9	0.9	1.3	102bps	60bps
NNPA (%)	1.5	0.5	0.8	100bps	70bps
Return Ratios					
ROA (%)	6.0	5.7	6.1	30bps	-10bps
ROE (%)	26.4	28.2	29.0	-180bps	-260bps
AUM					
-Gold loans	19077	16967	20212	12.4%	-5.6%
-Microfinance	5985	5503	5358	8.8%	11.7%
-Housing loans	666	630	633	5.8%	5.2%
-Vehicle loans	1053	1344	988	-21.7%	6.5%
-Other loans	444	781	452	-43.2%	-1.8%

Exhibit 2: Movement of Gold loan AUM



AUM declined by 5.6% v/s gold price decline by 12% during the quarter

- (a) Manappuram auctioned gold collateral of defaulting customers
- (b) Some borrowers withdrew gold collateral given decline in gold prices
- (c) Price decline was partly offset by increase in LTV from 63% to 71%

Exhibit 3: NIM trend (%)

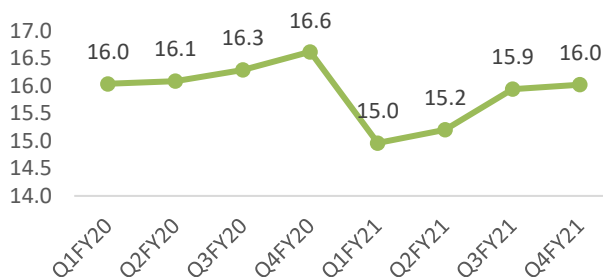
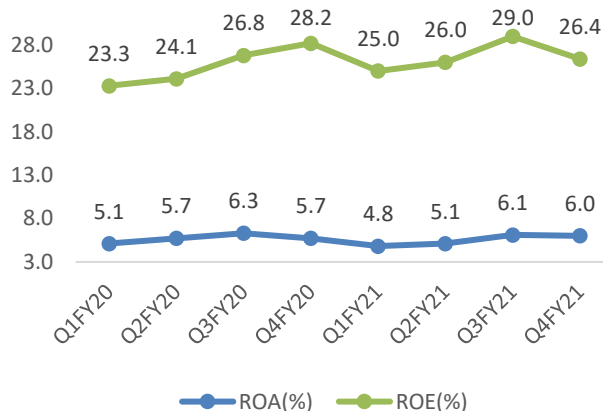


Exhibit 4: Return ratios (%)



Key Financials

Income Statement

Year/Ended March (Rs.Cr)	FY20	FY21	FY22E	FY23E
Interest Income	5465	6331	6791	7525
Interest Expenses	1832	2219	2318	2595
Net Interest Income	3633	4112	4473	4931
Other Income	86	44	117	128
Net Operating Income	3719	4156	4589	5059
Operating Expenses	1474	1400	1567	1733
- Staff Cost	830	843	1035	1174
- Other Operating Exp.	644	557	533	560
Pre-provisioning profits	2245	2756	3022	3325
Provisions	238	440	269	216
Profit Before Taxes	2007	2316	2753	3109
Taxes	527	591	690	780
Profit After Taxes	1480	1725	2063	2329
% Growth	59%	17%	20%	13%

Balance Sheet

Year/Ended March (Rs.Cr)	FY20	FY21	FY22E	FY23E
LIABILITIES				
Share Capital	169	169	169	169
Reserves & Surplus	5577	7138	9073	11209
Shareholders Fund	5746	7308	9241	11378
Minority interest	58	47	84	84
Borrowings	21817	22716	26251	29739
Other liabilities & provisions	1330	1268	1378	1544
Total Liabilities	28951	31339	36954	42745
ASSETS				
Fixed Assets	331	294	338	389
Investments	90	338	175	175
Advances	23189	26508	30420	34127
Cash and Bank Balances	3646	2913	4556	6544
Other assets	1695	1286	1465	1510
Total Assets	28951	31339	36954	42745

Ratio Analysis

Year/Ended March	FY20	FY21	FY22E	FY23E
Growth Ratios (%)				
Net Interest Income	29.9%	13.2%	8.8%	10.2%
Net Operating Income	30.1%	11.7%	10.4%	10.2%
Pre-provisioning Profit	52.4%	22.8%	9.6%	10.0%
PAT	59.3%	16.5%	19.6%	12.9%
Advances	30.2%	14.3%	14.8%	12.2%
Borrowings	42.6%	4.1%	15.6%	13.3%
Spreads (%)				
Yield on Advances	25.5%	24.6%	23.2%	23.2%
Borrowing Cost	9.5%	9.1%	9.1%	9.1%
Spreads	16.0%	15.5%	14.1%	14.1%
NIMs	16.7%	15.9%	15.3%	15.2%
Asset Quality				
Gross NPAs	0.9%	1.9%	1.9%	1.9%
Net NPAs	0.5%	1.5%	0.9%	0.9%
Provision Coverage Ratio	40.8%	47.3%	52.1%	52.7%
Return Ratios				
RoE	28.6%	26.4%	24.4%	22.5%
RoA	6.0%	5.7%	6.0%	5.9%
Per Share Data				
EPS (Rs.)	17.4	20.5	23.9	27.5
Book Value	68.2	86.7	109.7	135.0
Adjusted Book Value	66.8	83.0	106.4	131.3
Valuations				
P/E (X)	9.2	7.8	6.7	5.8
P/BV (X)	2.3	1.8	1.5	1.2
P/ABV (X)	2.4	1.9	1.5	1.2

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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