

May 26, 2021

## Q4FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	187		193	
NII (Rs.)	44,045	50,611	43,502	51,288
% Chng.	1.2	(1.3)		
PPoP (Rs.)	29,791	34,156	29,290	34,858
% Chng.	1.7	(2.0)		
EPS (Rs.)	22.5	27.0	22.8	28.1
% Chng.	(1.1)	(4.1)		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Int.Inc. (Rs m)	36,142	40,600	44,045	50,611
Growth (%)	28.4	12.3	8.5	14.9
Op. Profit (Rs m)	22,449	27,561	29,791	34,156
PAT (Rs m)	14,803	17,250	19,157	22,736
EPS (Rs.)	17.4	20.5	22.5	27.0
Gr. (%)	55.9	17.5	10.1	19.8
DPS (Rs.)	2.9	2.0	3.3	3.5
Yield (%)	1.8	1.2	2.1	2.2
Margin (%)	16.2	15.5	15.1	14.8
RoAE (%)	28.5	26.4	24.2	24.3
RoAA (%)	5.9	5.7	5.5	5.5
PE (x)	9.2	7.9	7.1	6.0
P/BV (x)	2.4	1.9	1.6	1.3
P/ABV (x)	2.4	1.9	1.7	1.4

### Key Data

MNFL.BO | MGFL IN

52-W High / Low	Rs.187 / Rs.112
Sensex / Nifty	51,018 / 15,301
Market Cap	Rs.136bn / \$ 1,869m
Shares Outstanding	846m
3M Avg. Daily Value	Rs.1558.68m

### Shareholding Pattern (%)

Promoter's	34.99
Foreign	38.58
Domestic Institution	8.88
Public & Others	17.55
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	9.5	(6.9)	40.7
Relative	3.9	(19.3)	(15.6)

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## Business performance and quality takes a hit

### Quick Pointers:

- Collection efficiency for MFI business dips 7-8% in Apr-May; gold auctions surge

**Q4FY21 proved to be a mixed performance. While MGFL gold AUMs 12% YoY growth stood in-line with guidance, auctions surge (Rs4040Mn vs Rs80mn: 9MFY21) and tonnage decline (-4.3%QoQ) stood stark for Q4FY21. Short tenure loan policy (3-month) implied upfront loss recognition on account of gold price correction that reflected in tonnage shrinkage. However, gold loan borrowers comprising of small business entrepreneurs have been facing the brunt of the second wave. MFI NPAs stood steady QoQ at 2.5%, however, Apr-May'21 weak collections (7-8% dip from 101%: Mar'21) led by second wave should dampen the asset quality prospects for the current fiscal. Vehicle finance business (5% NPA) should continue to face near term stress too.**

**Against this backdrop, we prune down our growth estimates to 15%/19% (earlier 19%/22%) and tweak GNPA estimates higher to 1.9%/1.7% (earlier 1.5%/1.4%) for FY22/23. Subsequently, our EPS stands marginally down by 1%/4% for FY22/23. As Co.'s high yielding book continues to promise high return ratios, we maintain Accumulate rating on the stock with a price target of Rs 187 (earlier Rs193) valuing the consolidated book at 1.6x PABV FY23E.**

- Sequential decline in Gold business; non-gold traction decent:** Gold Loan AUM Gold AUM declined by 5.6% QoQ on account of: (a) meaningful gold price correction (12% decline QoQ) (b) higher auctions in 4QFY21 Rs4040Mn vs Rs80mn: 9MFY21) (c) higher loan redemptions leading to tonnage decline (4.3%QoQ). Q4FY21 observed non-gold AUM traction post the 9MFY21 subdued performance. Non-gold AUMs grew 9.6% QoQ led by microfinance AUMs growing at 11.7%QoQ followed by vehicle finance and housing each growing at 6.5%/5.2%QoQ during Q4FY21. However, near term prospects remain challenged and we are modelling cautious stance of Management on microfinance and vehicle finance businesses and impact of second wave on gold loan borrowers into our growth estimates. We, therefore, prune down our growth estimates to 15%/19%(earlier 19%/22%) over FY22/23.
- Asset quality performance stood mixed:** NPA at 1.9% for standalone business (gold + VEF) stood higher than our expectations of 1.7% with 60bps QoQ spike during Q4FY21. Said that, MFI business reported marginal improvement in NPA to 2.5% from 2.6% in Q3FY21. Housing NPAs at 6% witnessed status quo whereas vehicle finance NPAs at 5% observed 330bps decline QoQ as business traction remained tepid. Our caution on non-gold businesses stands rightly reflected in the elevated 16% 0+dpd PAR of MFI business and 19% legacy book NPAs in housing business. While short tenure loan policy has enabled MGFL to recognize upfront loss in gold business, near term prospects of gold loan borrowers remain uncertain. Moreover, as collection efficiencies for Apr-May'21 take a beating across non-gold businesses dampened by logistics issues led by second wave, we tweak GNPA estimates higher to 1.9%/1.7% (earlier 1.5%/1.4%) for FY22/23.

PAT at Rs 4.68bn stood in line with our estimates (PLe: Rs4.65bn) and de-grew 3.1%QoQ but up 17.6% YoY.

Sequential PAT decline is led by hefty provisioning of Rs1.1bn (PLe: Rs0.9bn) that spiked 32.9%QoQ largely led by microfinance book related provisions, we reckon. Co. stated that loan loss provisions for Asirvad in FY21 stood at 5.7% of AUM.

NII at Rs 10.5bn broadly in line with PLe at Rs 10.0bn and grew 1.5%QoQ/17.9% YoY led by lower interest costs (down 6%QoQ/-9.8%YoY)

Opex at Rs 3.78bn also stood broadly in-line with PLe: Rs 3.87bn; increased 6.3% QoQ but flat YoY

Operating profit stood healthy at Rs 7.3bn marginally exceeding PLe of Rs6.9bn due to lower interest costs and rose 11%YoY, but marginally declined by 1%QoQ

GNPA inched higher to 1.9% stood higher than PLe at 1.7% and up 60bps QoQ. Asirvad NPA at 2.5% stood marginally lower than 2.6% in Q3FY21.

AUM at Rs 272bn grew 7.8% YoY but de-grew 1.6% QoQ, lower than PLe: Rs291bn as gold loan AUM de-grew 5.6% QoQ (led by gold tonnage decline of 4.3%QoQ) whereas non-gold AUMs reported 9.6% QoQ growth

**Exhibit 1: Elevated provisions dent bottom-line; interest costs support PPop**

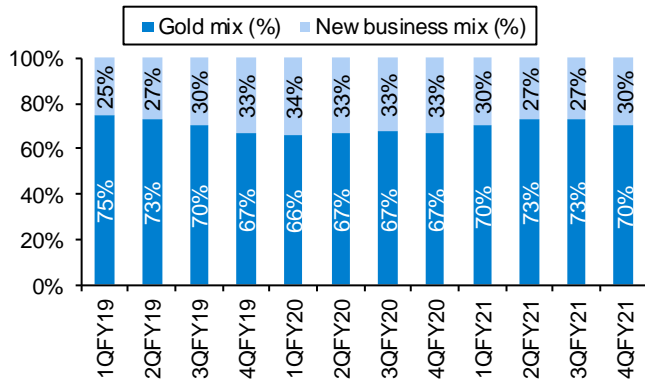
Rs mn	Q4FY21	Q4FY20	YoY gr.	Q3FY21	QoQ gr.
Income from Operations	15,746	14,719	7.0%	15,919	-1.1%
Interest Expenses	5,239	5,808	-9.8%	5,573	-6.0%
<b>Net Interest Income</b>	<b>10,507</b>	<b>8,911</b>	<b>17.9%</b>	<b>10,347</b>	<b>1.5%</b>
Other Income	557	1,462	-61.9%	581	-4.1%
<b>Total Income</b>	<b>11,063</b>	<b>10,374</b>	<b>6.6%</b>	<b>10,928</b>	<b>1.2%</b>
Total Operating Expenses	3,777	3,807	-0.8%	3,553	6.3%
<b>Operating Profit (PPP)</b>	<b>7,287</b>	<b>6,567</b>	<b>11.0%</b>	<b>7,375</b>	<b>-1.2%</b>
Provisions & Write Offs	1,066	1,226	-13.1%	802	32.9%
<b>PBT</b>	<b>6,221</b>	<b>5,341</b>	<b>16.5%</b>	<b>6,573</b>	<b>-5.4%</b>
Tax	1,537	1,359	13.1%	1,741	-11.7%
<b>Reported Profit</b>	<b>4,684</b>	<b>3,982</b>	<b>17.6%</b>	<b>4,832</b>	<b>-3.1%</b>
<b>Balance sheet Details</b>					
Borrowings	1,76,403	1,76,592	-0.1%	1,90,301	-7.3%
AUM	2,72,242	2,52,252	7.9%	2,76,425	-1.5%
<b>Asset Quality</b>					
Gross NPAs	5,173	2,220	133.0%	3,594	43.9%
Net NPAs	4,084	1,261	223.8%	2,211	84.7%
Gross NPA (%)	1.9%	0.9%	1.0%	1.3%	0.6%
Net NPA (%)	1.5%	0.5%	1.0%	0.8%	0.7%
Coverage (%)	78.9%	56.8%	22.1%	61.5%	17.4%
<b>NIM - calc</b>	<b>15.3%</b>	<b>14.5%</b>	<b>0.9%</b>	<b>15.2%</b>	<b>0.1%</b>
<b>AUM (Rs mn)</b>					
Gold Loan	1,90,770	1,69,672	12.4%	2,02,116	-5.6%
Micro finance	59,846	55,026	8.8%	53,577	11.7%
Commercial Vehicle	10,526	13,444	-21.7%	9,880	6.5%
Home Loan	6,663	6,296	5.8%	6,334	5.2%
Other Loan (Hypo, Against NCD)	4,437	7,814	-43.2%	4,517	-1.8%
<b>AUM Mix (%)</b>					
Gold Loan	70.1%	67.3%	2.8%	73.1%	-3.0%
Micro finance	22.0%	21.8%	0.2%	19.4%	2.6%
Commercial Vehicle	3.9%	5.3%	-1.5%	3.6%	0.3%
Home Loan	2.4%	2.5%	0.0%	2.3%	0.2%
Other Loan (Hypo, Against NCD)	1.6%	3.1%	-1.5%	1.6%	0.0%

Source: Company, PL

## Key Concall Highlights

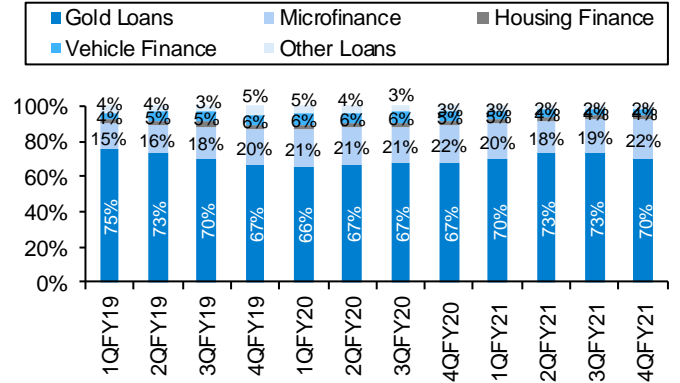
- **Gold Loan segment:** Sequential decline in AUM is due to fall in gold prices by 12% QoQ and short tenure book that saw disbursements at higher gold prices. This led to higher auctions, higher than normal redemptions. Gold loan disbursement in Q4FY21 was Rs 446.30 bn Vs 574.45 bn in Q3FY21. Co. added 31kh customers during the quarter
- **Gold loan Tickets size:** In terms of not outstanding >62% has ticket size of Rs 0.1mn & in terms of customers >20%.
- **Gold Loan Customer Profile:** Mainly constituent daily wage earners, farmers, small business owners who faced the brunt of second wave
- **MFI stress:** Short-term pain in this segment imminent; CE dipped 7-8% MoM in April and further in May; Collections in states like WB and Orissa stood weak, however improving
- **MFI business details:** Rs17.67bn disbursements in Q4FY21; Write-offs in FY21: Rs1.25bn; ECB transaction at 9.7% rate; Disbursement policy here is to focus on existing customers first. 55% of disbursements are to existing customers, aims to take this to 80%
- **Other businesses - CE:** VF CE stood at 106%/103%/ 111% CE across Jan/Feb/Mar'21 but declined to ~90% in Apr'21. HFC CE stood at 95%/101% CE in Feb/Mar '21
- **Borrowings:** currently at 8.8% and due to decline in portfolio opportunity for addl availments were less, & repaid ST maturities from surplus liquidity. Thus when addl limits will be utilized with current incremental CoF benefits will be much better.
- **Restructuring:** MFI at 4% of AUM.
- **Provision Mix:** Standalone Rs 2bn. Of which Rs 1 bn is for gold Loan, Rs 0.63 bn in VF & rest for other bizs

**Exhibit 2: New business mix improves YoY**



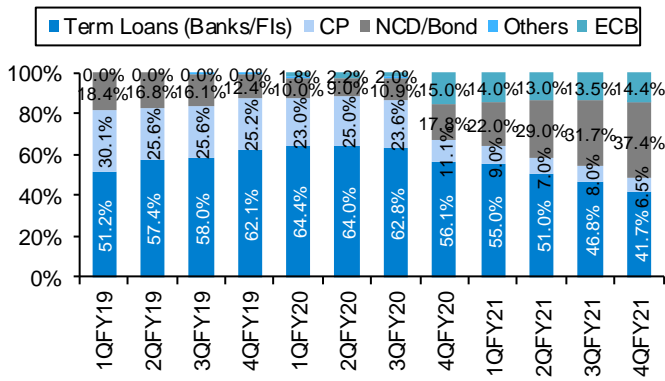
Source: Company, PL

**Exhibit 3: MFI Share increased as gold loan mix reduced**



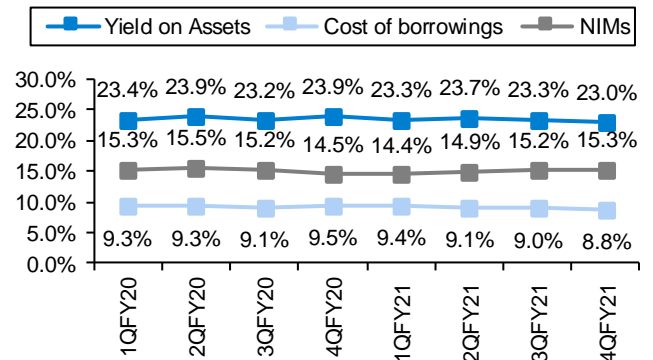
Source: Company, PL

**Exhibit 4: CP share reduced to 6.5%**



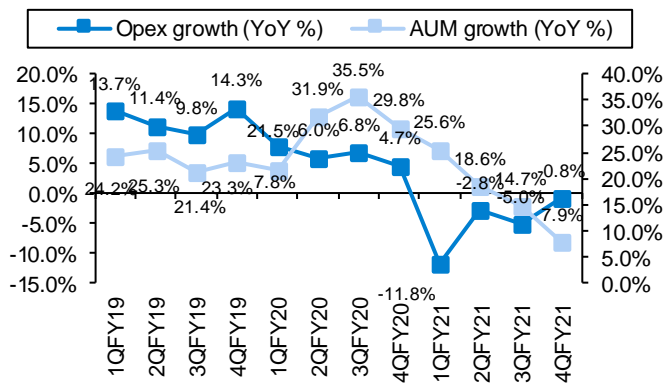
Source: Company, PL

**Exhibit 5: CoF multi quarter low; NIMs sequentially improved**



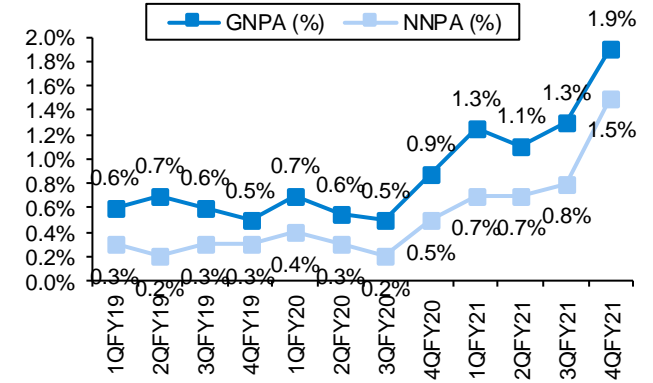
Source: Company, PL

**Exhibit 6: Cost rationalization aids opex**

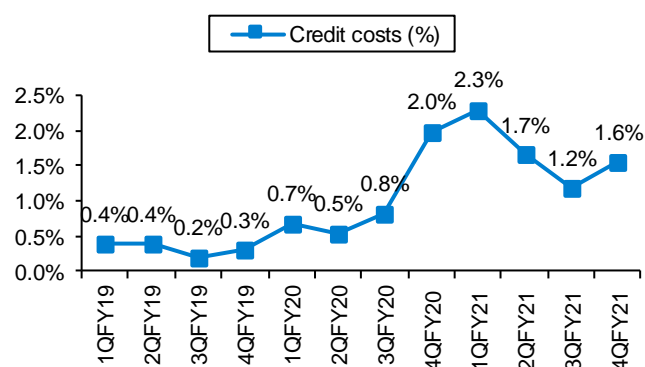


Source: Company, PL

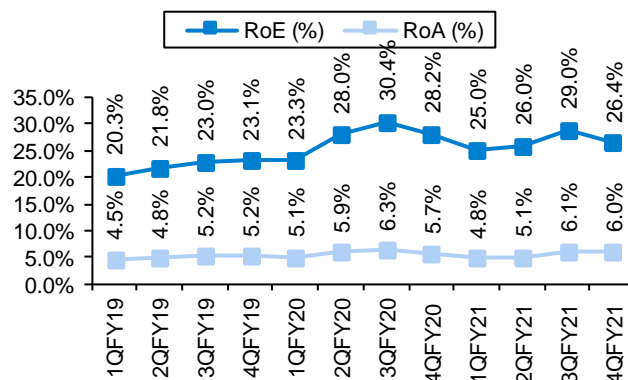
**Exhibit 7: Asset quality further deteriorates**



Source: Company, PL

**Exhibit 8: Due to 2<sup>nd</sup> Covid Wave, Credit costs increased**


Source: Company, PL

**Exhibit 9: Return ratios declining**


Source: Company, PL

**Exhibit 10: Collection for Q4FY21 improved significantly,**

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
MFI	2%	17%	55%	69%	75%	87%	91%	89%	105%	99%	100%	101%
Vehicle Loans	43%	59%	75%	86%	89%	93%	106%	110%	112%	101%	105%	115%

Source: Company, PL

**Exhibit 11: FY22/FY23 EPS estimates tweaked marginally lower as we model lower growth and higher NPAs**

(Rs mn)	Old Estimates			New Estimates			% Change		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Net Interest Income	39,246	43,502	51,288	40,600	44,045	50,611	3%	1%	-1%
Operating Profit	27,244	29,290	34,858	27,561	29,791	34,156	1%	2%	-2%
Net Profit	17,154	19,195	23,698	17,243	18,983	22,736	1%	-1%	-4%
EPS (Rs)	20.4	22.8	28.1	20.5	22.5	27.0	1%	-1%	-4%
<b>Price Target (Rs)</b>	<b>193</b>			<b>187</b>			<b>-3.1%</b>		
<b>Reco</b>	<b>ACCUMULATE</b>			<b>ACCUMULATE</b>					

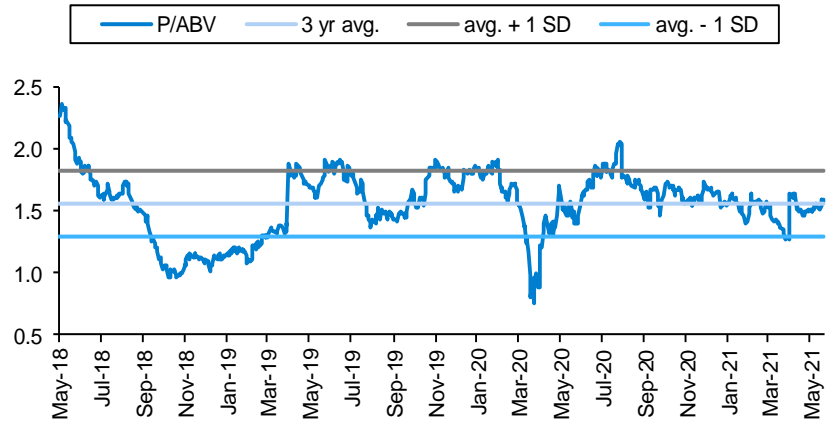
Source: Company, PL

**Exhibit 12: Target price reduced to Rs187 (earlier Rs193)**

PT calculation and upside	
Fair price - EVA	91
Fair price - P/ABV	283
<b>Average of the two</b>	<b>187</b>
<b>Target P/ABV</b>	<b>1.6</b>
<b>Target P/E</b>	<b>7.9</b>
Current price, Rs	161
<b>Upside (%)</b>	<b>16%</b>
Dividend yield (%)	1.2%
<b>Total return (%)</b>	<b>17%</b>

Source: PL

Exhibit 13: Upside potential stands capped; 1.6x remains the target multiple



Source: Company, Bloomberg, PL



Income Statement (Rs. m)				
Y/e Mar	FY20	FY21	FY22E	FY23E
Int. Inc. / Opt. Inc.	54,465	62,789	68,252	79,798
Interest Expenses	18,322	22,190	24,207	29,187
<b>Net interest income</b>	<b>36,142</b>	<b>40,600</b>	<b>44,045</b>	<b>50,611</b>
Growth(%)	28.4	12.3	8.5	14.9
Non-interest income	1,047	957	1,447	1,666
Growth(%)	26.8	(8.6)	51.2	15.1
Net operating income	37,190	41,557	45,492	52,277
<b>Expenditures</b>				
Employees	8,301	8,429	9,229	10,448
Other Expenses	4,797	3,857	4,637	5,751
Depreciation	1,642	1,710	1,836	1,922
Operating Expenses	13,099	12,286	13,866	16,199
<b>PPP</b>	<b>22,449</b>	<b>27,561</b>	<b>29,791</b>	<b>34,156</b>
Growth(%)	48.5	22.8	8.1	14.7
Provisions	2,376	4,401	4,207	3,793
<b>Profit Before Tax</b>	<b>20,073</b>	<b>23,160</b>	<b>25,584</b>	<b>30,363</b>
Tax	5,270	5,911	6,427	7,627
Effective Tax rate(%)	26.3	25.5	25.1	25.1
<b>PAT</b>	<b>14,803</b>	<b>17,250</b>	<b>19,157</b>	<b>22,736</b>
Growth(%)	56.1	16.5	11.1	18.7

Balance Sheet (Rs. m)				
Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Source of funds</b>				
Equity	1,690	1,693	1,686	1,686
Reserves and Surplus	55,771	71,382	82,068	101,864
Networth	57,461	73,074	83,753	103,549
Growth (%)	26.4	27.2	14.6	23.6
Loan funds	225,735	227,163	278,735	337,685
Growth (%)	47.6	0.6	22.7	21.1
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	4,430	2,560	4,525	8,132
Other Liabilities	7,142	10,109	7,869	8,346
<b>Total Liabilities</b>	<b>295,351</b>	<b>313,378</b>	<b>375,529</b>	<b>458,358</b>
<b>Application of funds</b>				
Net fixed assets	390	431	607	(695)
Advances	242,971	265,076	312,636	371,516
Growth (%)	36.0	9.1	17.9	18.8
Investments	905	3,380	2,068	2,371
Current Assets	40,784	31,956	44,698	63,748
<b>Net current assets</b>	<b>36,354</b>	<b>29,396</b>	<b>40,173</b>	<b>55,615</b>
Other Assets	2,630	3,630	6,610	10,934
<b>Total Assets</b>	<b>295,351</b>	<b>313,378</b>	<b>375,527</b>	<b>458,358</b>
Growth (%)	44.5	6.1	19.8	22.1
<b>Business Mix</b>				
AUM	252,252	272,242	312,319	371,183
Growth (%)	29.8	7.9	14.7	18.8
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)				
Y/e Mar	FY20	FY21	FY22E	FY23E
NIM	16.2	15.5	15.1	14.8
ROAA	5.9	5.7	5.5	5.5
ROAE	28.5	26.4	24.2	24.3

Source: Company Data, PL Research

Quarterly Financials (Rs. m)				
Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Int. Inc. / Operating Inc.	14,758	15,473	15,919	15,746
Income from securitization	-	-	-	-
Interest Expenses	5,668	5,710	5,573	5,239
<b>Net Interest Income</b>	<b>9,089</b>	<b>9,763</b>	<b>10,347</b>	<b>10,507</b>
Growth (%)	20.3	17.4	16.2	17.9
Non-Interest Income	407	307	581	557
<b>Net Operating Income</b>	<b>9,496</b>	<b>10,070</b>	<b>10,928</b>	<b>11,063</b>
Growth (%)	19.5	6.9	11.2	6.6
Operating expenditure	3,121	3,545	3,553	3,777
<b>PPP</b>	<b>6,376</b>	<b>6,524</b>	<b>7,375</b>	<b>7,287</b>
Growth (%)	-	-	-	-
Provision	1,453	1,080	802	1,066
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	4,923	5,444	6,573	6,221
Tax	1,243	1,390	1,741	1,537
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.3	25.5	26.5	24.7
<b>PAT</b>	<b>3,680</b>	<b>4,054</b>	<b>4,832</b>	<b>4,684</b>
Growth	38	(6)	17	18
AUM	253,458	269,027	276,425	272,242
YoY growth (%)	25.6	18.6	14.7	7.9
Borrowing	239,803	247,347	233,744	227,163
YoY growth (%)	48.3	34.8	18.2	0.6

Key Ratios				
Y/e Mar	FY20	FY21	FY22E	FY23E
CMP (Rs)	161	161	161	161
EPS (Rs)	17.4	20.5	22.5	27.0
Book value (Rs)	68.2	86.7	99.4	122.9
Adj. BV(Rs)	66.3	82.8	95.4	118.7
P/E(x)	9.2	7.9	7.1	6.0
P/BV(x)	2.4	1.9	1.6	1.3
P/ABV(x)	2.4	1.9	1.7	1.4
DPS (Rs)	2.9	2.0	3.3	3.5
Dividend Payout Ratio(%)	-	-	-	-
Dividend Yield(%)	1.8	1.2	2.1	2.2

Asset Quality				
Y/e Mar	FY20	FY21	FY22E	FY23E
Gross NPAs(Rs m)	3,109	5,492	5,990	6,225
Net NPA(Rs m)	1,625	3,299	3,348	3,515
Gross NPAs to Gross Adv.(%)	0.9	1.9	1.9	1.7
Net NPAs to net Adv.(%)	0.5	1.5	1.1	0.9
NPA coverage(%)	47.7	39.9	44.1	43.5

Du-Pont as a % of AUM				
Y/e Mar	FY20	FY21	FY22E	FY23E
NII	14.3	14.9	14.1	13.6
NII INCL. Securitization	14.3	14.9	14.1	13.6
Total income	14.7	15.3	14.6	14.1
Operating Expenses	5.2	4.5	4.4	4.4
PPOP	9.6	10.8	10.1	9.7
Total Provisions	0.9	1.6	1.3	1.0
RoAA	5.9	5.7	5.5	5.5
Avg. Assets/Avg. net worth	4.9	4.7	4.4	4.5
RoAE	28.5	26.4	24.2	24.3

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-21	Accumulate	193	155
2	30-Jan-21	Accumulate	193	156
3	11-Jan-21	Accumulate	196	174
4	06-Nov-20	Accumulate	196	162
5	12-Oct-20	Accumulate	197	166
6	29-Jul-20	Accumulate	197	179
7	13-Jul-20	Accumulate	182	160

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	Accumulate	5,315	4,865
2	Cholamandalam Investment and Finance Company	BUY	619	554
3	HDFC	BUY	3,094	2,497
4	L&T Finance Holdings	Reduce	88	87
5	LIC Housing Finance	Hold	420	418
6	Mahindra & Mahindra Financial Services	Sell	153	179
7	Manappuram Finance	Accumulate	193	155
8	Muthoot Finance	BUY	1,486	1,184
9	SBI Cards and Payment Services	Accumulate	1,018	919
10	Shriram Transport Finance	Accumulate	1,473	1,345

**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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