

Manappuram Finance

Estimate change

TP change

Rating change



Bloomberg	MGFL IN
Equity Shares (m)	846
M.Cap.(INRb)/(USD)	88.5 / 1.1
52-Week Range (INR)	224 / 98
1, 6, 12 Rel. Per (%)	-10/-34/-43
12M Avg Val (INR M)	1085

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	38.3	39.9	43.2
PPP	22.7	22.2	23.7
PAT	13.3	13.8	14.8
EPS (INR)	15.7	16.3	17.5
EPS Gr. (%)	-23.0	3.7	7.5
BV/Sh.(INR)	99	112	126

Ratios

NIM (%)	13.8	12.9	12.3
C/I ratio (%)	44.8	48.6	49.4
RoA (%)	4.1	3.8	3.7
RoE (%)	17.0	15.5	14.7
Payout (%)	19.1	21.0	19.5

Valuations

P/E (x)	6.7	6.5	6.0
P/BV (x)	1.1	0.9	0.8
Div. Yld. (%)	2.9	3.3	3.2

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	35.1	35.1	35.0
DII	15.8	14.3	8.9
FII	29.8	34.8	38.6
Others	19.3	15.8	17.6

FII Includes depository receipts

CMP: INR105

TP: INR130 (+24%)

Buy

Gold loan demand muted while MFI continues to disappoint

Over the last three quarters, MGFL traded off margin and spreads for Gold loan growth. This naturally dented profitability, with FY22 PAT declining by 23% YoY. The management said it would prioritize profitability over the relentless pursuit of loan growth in FY23. We would like to highlight: a) Gold loan demand remains muted, particularly in the low-ticket size segments, leaving little alternative for Gold loan NBFCs but to compete in the higher-ticket size segments; b) In the current demand environment, loan growth will be a casualty, if priority shifts to spreads and margins; c) We see some rationality returning in lending/teaser interest rates, but the Gold loan NBFC business is never again going to be ~16% NIM business model. These are cyclical lows and the muted Gold loan growth and potential margin compressions are already reflected in the current valuations of 0.8x FY24E P/BV. We maintain our Buy rating with a TP of INR130/share (based on 1x FY24E P/BV).

Gold and MFI AUM fell sequentially; credit costs elevated in MFI

- Gold AUM fell ~1% QoQ to INR202b and Gold tonnage declined by 2% to 68t. LTV declined by 300bp QoQ to 62%, while the average ticket size of Gold loans increased to ~INR57k (v/s ~INR45k YoY and ~INR53k QoQ).
- MFI AUM declined by 3% QoQ to INR67b. The company seems to have taken higher write-offs in 4QFY22, which led to credit costs of 7.2% (v/s 4.7% in 3QFY22). MFI GNPA's rose 70bp QoQ to 3.5%, including the RBI NPA circular.

Compression in spreads and margin driven by higher ticket sizes and aggressive competition

- NII fell 2% QoQ, driven by sequential moderation of ~150bp in Gold loan yields to 18.8%. Consolidated NIM fell 50bp QoQ to 12.2%.
- MGFL has exhausted both the levers of higher advertising and promotion expenses and spread compression to turbocharge its Gold loan growth. We expect Gold loan growth of ~9% in FY23 and 14%/10% CAGR in consolidated/Gold loan AUM over FY22-24.

Highlights from the management commentary

- The management expects Gold loan growth to pick up from Jun'22. It expects Gold loan growth of 10% and consolidated AUM growth of 15% in FY23.
- It will look to maintain its blended Gold Finance disbursement yield of ~21%.

Valuation and view

- We have cut our FY23/FY24 EPS estimate by 20%/30% to factor in a further compression in spreads and lower loan growth.
- The demand environment in Gold loans is not very buoyant. The management said it did not wish to pursue growth at the cost of a further compression in spreads. We model in consolidated AUM/PAT CAGR of ~10%/~6% over FY22-24E.
- The risk-reward ratio for MGFL is still favorable at 0.8x FY24E P/BV for a consolidated RoA/RoE of 3.8%/16%. We maintain our **Buy** rating with a TP of INR130 per share (based on 1x FY24E consolidated BVPS).

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Quarterly performance												(INR m)
Y/E March	FY21				FY22				FY21	FY22	FY22E 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	14,758	15,473	15,919	15,746	15,216	14,787	14,461	13,933	61,896	58,397	14,542	-4
Interest Expenses	5,668	5,710	5,573	5,239	4,931	4,924	5,311	4,948	22,190	20,114	5,337	-7
Net Interest Income	9,089	9,763	10,347	10,507	10,285	9,863	9,151	8,985	39,706	38,283	9,205	-2
YoY Growth (%)	20.3	17.4	16.2	17.9	13.2	1.0	-11.6	-14.5	15.1	-3.6	-12.4	
Other income	407	307	581	557	521	758	607	980	1,851	2,866	555	76
Total Income	9,496	10,070	10,928	11,063	10,806	10,621	9,758	9,965	41,557	41,149	9,760	2
Operating Expenses	3,121	3,545	3,553	3,777	3,720	4,593	5,228	4,912	13,996	18,453	4,935	0
Operating Profit	6,376	6,524	7,375	7,287	7,086	6,028	4,530	5,053	27,561	22,696	4,825	5
YoY Growth (%)	44.5	12.9	21.2	11.0	11.1	-7.6	-38.6	-30.7	22.8	-17.7	-33.8	
Provisions	1,453	1,080	802	1,066	1,223	1,078	1,048	1,514	4,401	4,862	1,050	44
Profit before Tax	4,923	5,444	6,573	6,221	5,864	4,950	3,482	3,539	23,160	17,835	3,775	-6
Tax Provisions	1,243	1,390	1,741	1,537	1,495	1,252	872	930	5,911	4,548	944	-2
Net Profit	3,680	4,054	4,832	4,684	4,369	3,699	2,610	2,610	17,250	13,286	2,830	-8
YoY Growth (%)	37.9	-8.2	15.5	17.6	18.7	-8.8	-46.0	-44.3	16.5	-23.0	-39.6	
Key Ratios (%)												
Yield on loans	24.4	24.7	24.0	23.6	24.1	22.8	20.1	19.0	24.4	21.1		
Cost of funds (Cal.)	9.7	9.4	9.3	9.1	9.3	8.8	8.7	8.2	9.8	8.6		
Spreads (Cal.)	14.7	15.4	14.8	14.5	14.8	14.0	11.4	10.7	14.6	12.5		
NIM (Cal.)	15.1	15.6	15.6	15.7	16.3	15.2	12.7	12.2	15.6	13.8		
C/I ratio	32.9	35.2	32.5	34.1	34.4	43.2	53.6	49.3	33.7	44.8		
Credit Cost	2.3	1.7	1.2	1.6	1.9	1.6	1.4	2.0	1.7	1.8		
Tax Rate	25.3	25.5	26.5	24.7	25.5	25.3	25.0	26.3	25.5	25.5		
Balance Sheet parameters												
Consol. AUM (INR b)	253	269	276	272	248	284	304	303				
Change YoY (%)	25.6	18.6	14.7	7.9	-2.3	5.6	10.0	11.2				
Gold loans (INR b)	177	197	202	191	165	187	205	202				
Change YoY (%)	33.4	30.1	24.4	12.4	-6.8	-5.2	1.2	5.7				
Gold stock (t)	69	69	68	65	58	65	69	68				
Gold loans/branch (INR m)	50	56	57	54	47	53	58	57				
Consol. Borrowings (INR b)	240	247	234	227	197	250	241	241				
Change YoY (%)	7.0	33.6	18.2	0.6	-17.7	1.2	3.0	6.2				
Borrowings Mix (%)												
Debentures	21.0	28.0	31.0	36.0	41.0	33.9	31.5	27.6				
CPs	7.0	6.0	7.0	5.0	5.0	5.6	6.2	2.9				
WC/CC	29.0	26.0	24.0	19.0	14.0	25.4	29.9	31.1				
TL	32.0	29.0	27.0	29.0	26.0	24.2	20.9	27.0				
ECB	11.0	11.0	11.0	11.0	14.0	10.9	11.4	11.5				
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Debt/Equity ratio (x)	4.0	3.8	3.4	3.1	1.3	1.6	1.5	2.9				
Asset Quality Parameters (%)												
GNPL ratio (Standalone)	1.3	1.1	1.3	1.9	2.0	1.6	1.4	1.3				
NNPL ratio (Standalone)	0.7	0.7	0.8	1.5	1.6	1.3	1.0	1.0				
Return Ratios (%)												
RoA (Rep.)	4.8	5.1	6.1	6.0	5.8	4.7	3.1	3.1				
RoE (Rep.)	25.0	26.0	29.0	26.4	23.3	18.9	12.9	12.6				

E: MOFSL estimates



Highlights from the management commentary

Business updates

- Recovery in the unorganized sector has been uneven since small businesses are not out of the woods as yet.
- Consolidated AUM grew 11% YoY to INR303b mainly because of poor performance in Gold and MFI loans
- Price competition between NBFCs prevailed almost all throughout FY22, and MGFL is now abstaining from the unhealthy competition, even if it means compromising on growth.

Asset quality

- The accounting change led to the sharp spike in the GNPA/NNPA but a large proportion of it is Gold loans, which are technical NPAs and would not translate into credit costs.
- Earlier, the company was technically permitted to upgrade accounts if the collections were done within one month of overdue. If there was no change in the accounting norms, the GNPA would have been 1.42% (v/s 1.36% in 3QFY22)

Gold Finance

- Gold loans above INR200K ticket size constitute 33% of the AUM
- Blended disbursement yield in Gold Finance is ~21%, and the company would look to maintain these yields. Few players have already increased the lending rates and the markets will gradually overcome this unreasonable price war.
- Demand from the bottom of the pyramid is still weak; Celebration of festivals has come down drastically; once the demand catches up from the bottom of the pyramid customer, the overall demand for gold loans will improve
- MGFL expects other NBFCs to also rationalize their pricing;
- Guided for targeted RoA of 5% and RoE of 20%
- Interest accrued stood at INR4.2b (2% of the gold loan AUM)
- The management expects Gold loan growth to pick up from Jun'22. It expects Gold loan growth of 10% and consolidated AUM growth of 15% in FY23.

Asirvad MicroFinance

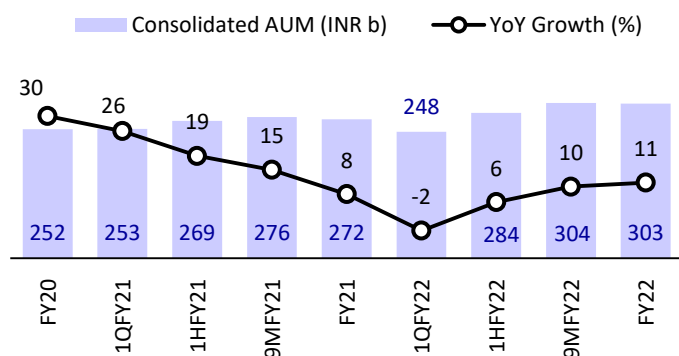
- The company implemented the RBI NPA circular in 4QFY22 which led to an additional INR200m of NPA.
- With the removal of the yield caps, the company has factored in 3% additional credit costs and the incremental yields have gone up by 4%
- Restructured pool stood at 12.5%
- It expects MFI disbursements of INR60b in FY23 at 24% yields
- The management guided for 20% AUM growth and 20% RoE in the MFI business in FY23; MGFL is keenly evaluating the opportunity to raise capital in the MFI business but in the interim if required, it will infuse capital.

Others

- The INR630m gain on fair value changes was because of the assignment transaction in the MFI business
- Tenure of the Gold loan portfolio: three months [65%], six months [30%], and one year [sub-5%]
- Advertisement and promotion expenses in 4QFY22 stood at INR122m [FY22: INR890m]

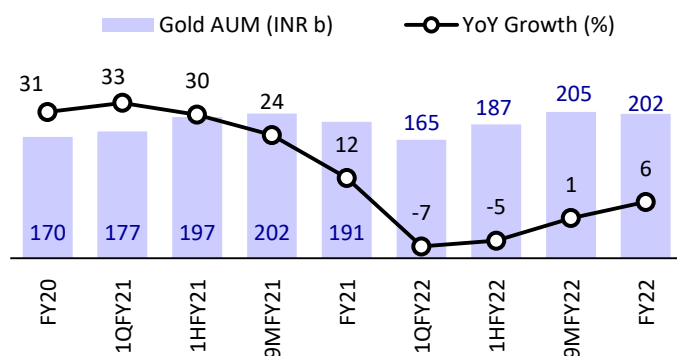
Key exhibits

Exhibit 1: Consolidated AUM declines by ~1% QoQ



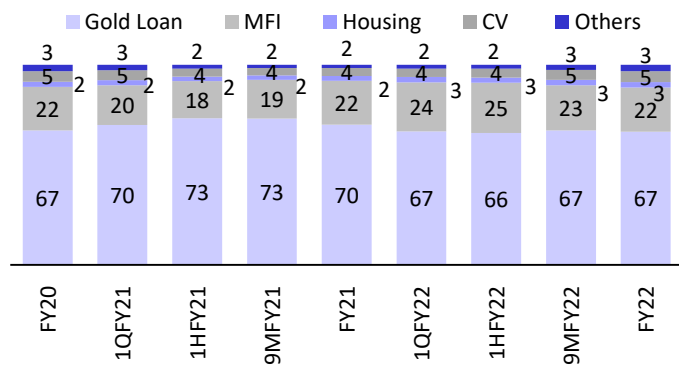
Source: MOFSL, Company

Exhibit 2: Gold AUM fell ~1% QoQ



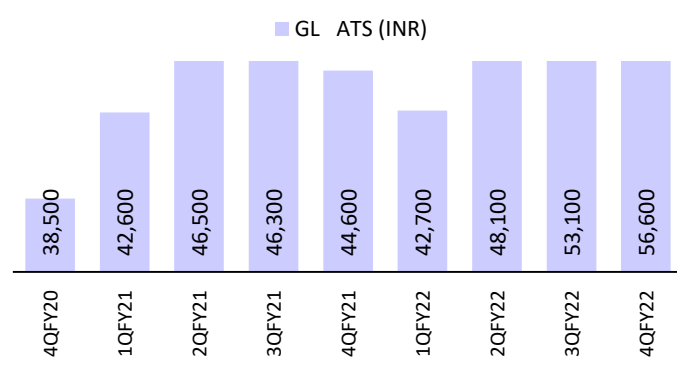
Source: MOFSL, Company

Exhibit 3: Share of non-Gold loans remain stable QoQ (%)



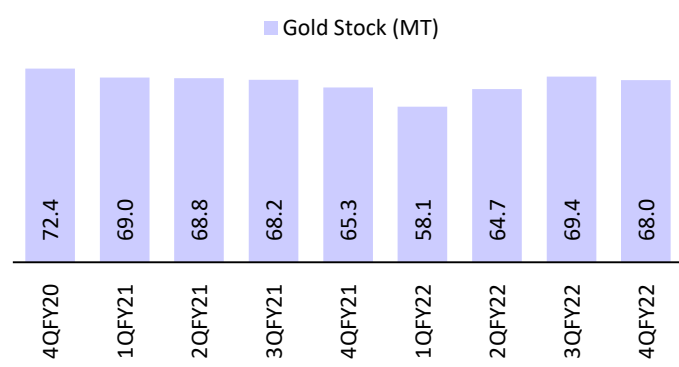
Source: MOFSL, Company

Exhibit 4: ATS in Gold loans increases to ~INR57k



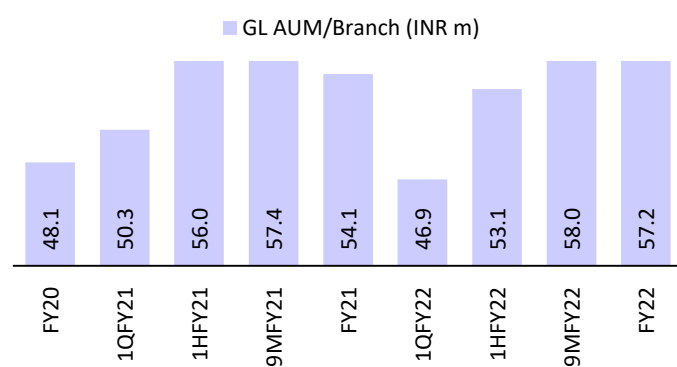
Source: MOFSL, Company

Exhibit 5: Gold tonnage declines by 2% QoQ



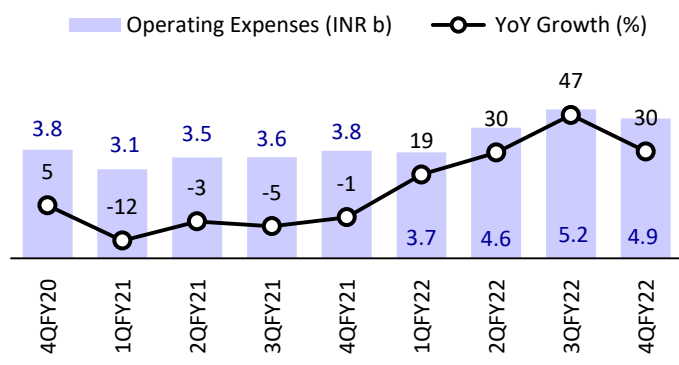
Source: MOFSL, Company

Exhibit 6: Branch productivity deteriorates due to recent openings of ~300 Gold loan branches under Asirvad MFI



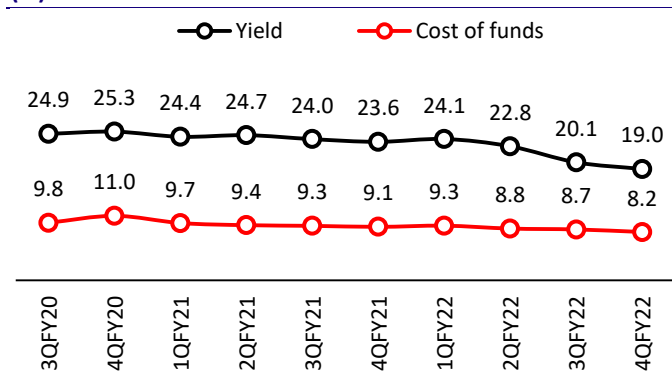
Source: MOFSL, Company

Exhibit 7: OPEX up ~30% YoY, led by employee incentives, despite a moderation in advertising expenses



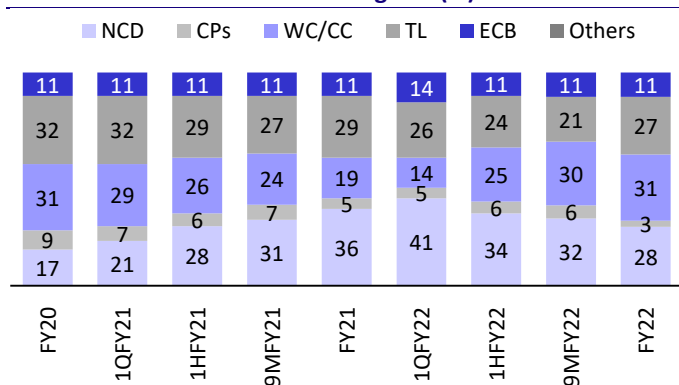
Source: MOFSL, Company

Exhibit 8: Consolidated spreads deteriorate by ~70bp QoQ (%)



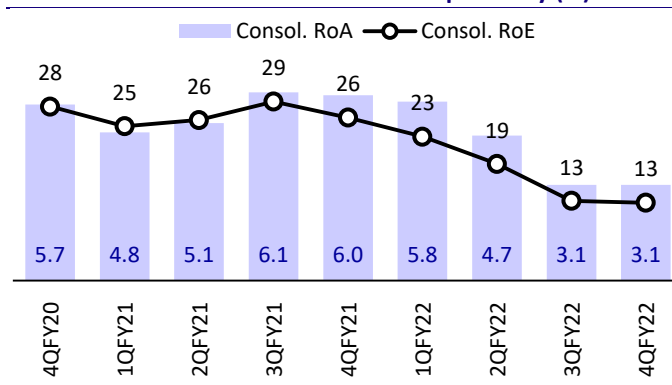
Source: MOFSL, Company

Exhibit 9: Consolidated borrowing mix (%)



Source: MOFSL, Company

Exhibit 10: Return ratios remain flat sequentially (%)



Source: MOFSL, Company

Valuation and view

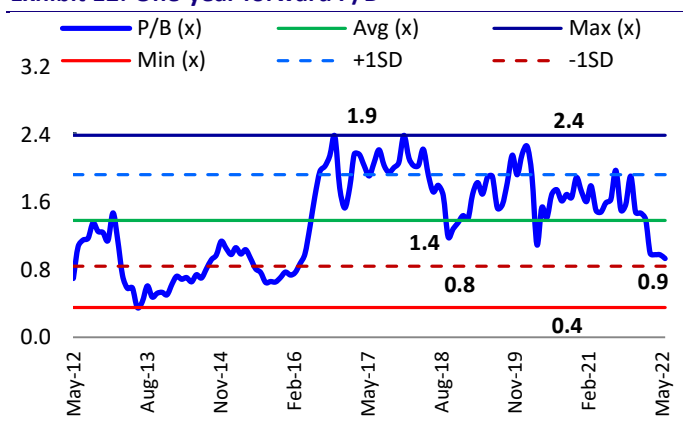
- We have cut our FY23/FY24 EPS estimate by 20%/30% to factor in a further compression in spreads and lower loan growth.
- The demand environment in Gold loans is not very buoyant, and the management has clearly articulated that it does not wish to pursue growth at the cost of a further compression in spreads. We model consolidated AUM/PAT CAGR of ~10%/~6% over FY22-24.
- We believe the risk-reward for MGFL is still favorable at 0.8x FY24 P/BV for a consolidated RoA/RoE of 3.8%/16%. We maintain our Buy rating with a TP of INR130 per share, based on 1x FY24E consolidated BVPS.

Exhibit 11: Cut our FY23/FY24 EPS estimate by ~20%/30% to factor in a compression in spreads and lower loan growth

INR b	Old estimate			New estimate			Change (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
NII	38.5	45.7	53.3	38.3	39.9	43.2	-1	-13	-19
Other Income	2.4	2.7	3.0	2.9	3.3	3.7			
Net Income	40.9	48.4	56.3	41.1	43.2	46.9	0	-11	-17
Operating Expenses	18.5	21.0	24.0	18.5	21.0	23.2	0	0	-3
Operating Profit	22.5	27.3	32.3	22.7	22.2	23.7	1	-19	-27
Provisions	4.4	4.2	4.5	4.9	3.7	3.9	11	-12	-14
PBT	18.1	23.1	27.8	17.8	18.5	19.9	-1	-20	-29
Tax	4.6	5.9	7.1	4.5	4.7	5.1	0	-20	-29
PAT	13.5	17.2	20.7	13.3	13.8	14.8	-2	-20	-29
Loans	302	348	402	290	328	375	-4	-6	-7
Borrowings	247	268	309	241	269	307			
RoA (%)	4.1	4.7	5.0	4.1	3.8	3.7			
RoE (%)	17.2	18.9	19.5	17.0	15.5	14.7			

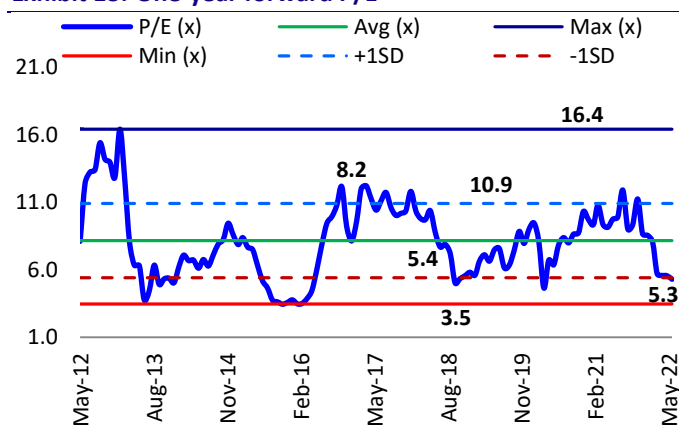
Source: MOFSL, Company

Exhibit 12: One-year forward P/B



Source: MOFSL, Company

Exhibit 13: One-year forward P/E



Source: MOFSL, Company

Financials and valuations

Income Statement									(INR m)
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	23,489	33,762	33,540	40,461	52,805	61,896	58,397	63,310	70,277
Interest Expense	9,474	11,687	10,304	13,449	18,322	22,190	20,114	23,460	27,074
Net Interest Income	14,016	22,075	23,235	27,012	34,483	39,706	38,283	39,850	43,203
Change (%)	28.5	57.5	5.3	16.3	27.7	15.1	-3.6	4.1	8.4
Other operating income	113	92	668	1,334	1,848	1,410	2,213	2,545	2,799
Total Income	14,128	22,167	23,903	28,346	36,331	41,116	40,496	42,395	46,002
Change (%)	27.4	56.9	7.8	18.6	28.2	13.2	-1.5	4.7	8.5
Other income	136	235	584	625	859	441	653	784	901
Net Income	14,264	22,402	24,487	28,971	37,190	41,557	41,149	43,178	46,903
Change (%)	27.8	57.0	9.3	18.3	28.4	11.7	-1.0	4.9	8.6
Operating Expenses	8,357	9,653	12,345	13,858	14,741	13,996	18,453	20,986	23,167
Pre-Provision Profit	5,907	12,749	12,142	15,113	22,449	27,561	22,696	22,193	23,736
Change (%)	33.7	115.8	-4.8	24.5	48.5	22.8	-17.7	-2.2	7.0
Provisions	423	1,092	1,773	547	2,376	4,401	4,862	3,706	3,865
PBT	5,484	11,657	10,369	14,566	20,073	23,160	17,835	18,487	19,871
Tax	1,932	4,072	3,609	5,080	5,270	5,911	4,548	4,714	5,067
Tax Rate (%)	35.2	34.9	34.8	34.9	26.3	25.5	25.5	25.5	25.5
PAT	3,552	7,585	6,760	9,486	14,803	17,250	13,286	13,773	14,804
Change (%)	30.8	113.6	-10.9	40.3	56.1	16.5	-23.0	3.7	7.5
Dividend (Excl. Tax)	1,893	1,263	1,684	1,812	2,372	1,777	2,540	2,892	2,887
Balance Sheet									
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	1,682	1,684	1,685	1,686	1,690	1,693	1,693	1,693	1,693
Reserves and Surplus	25,898	31,949	36,447	43,561	55,771	71,382	81,991	92,871	1,04,789
Net worth (Post OCI)	27,580	33,633	38,132	45,247	57,461	73,074	83,684	94,564	1,06,482
Non-Controlling Interest	212	212	292	459	583	472	161	186	211
Borrowings	96,379	1,09,867	1,26,071	1,52,972	2,25,735	2,27,163	2,41,185	2,68,810	3,07,232
Change (%)	11.7	14.0	14.7	21.3	47.6	0.6	6.2	11.5	14.3
Other liabilities	4,220	6,120	5,802	5,862	11,572	12,669	13,075	14,383	15,821
Change (%)	27.4	45.0	-5.2	1.0	97.4	9.5	3.2	10.0	10.0
Total Liabilities	1,28,392	1,49,832	1,70,296	2,04,540	2,95,351	3,13,378	3,38,105	3,77,943	4,29,745
Loans	1,13,853	1,34,057	1,52,439	1,78,119	2,42,971	2,65,076	2,89,710	3,27,948	3,74,823
Change (%)	18.5	17.7	13.7	16.8	36.4	9.1	9.3	13.2	14.3
Investments	491	49	49	1,738	905	3,380	4,207	4,628	5,090
Change (%)	-77.4	-90.0	0.4	3,428.0	-47.9	273.6	24.5	10.0	10.0
Goodwill	356	356	356	356	356	356	356	356	356
Net Fixed Assets	1,948	1,869	2,746	3,319	7,705	8,980	3,663	4,029	4,432
Other assets	11,745	13,501	14,707	21,009	43,414	35,586	40,169	40,982	45,044
Total Assets	1,28,392	1,49,832	1,70,296	2,04,540	2,95,351	3,13,378	3,38,105	3,77,943	4,29,745

E: MOFSL estimates

Financials and valuations

Ratios	(%)								
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)									
Avg. Yield on loans	22.4	27.2	23.4	24.5	25.1	24.4	21.1	20.5	20.0
Avg. Cost of funds	10.4	11.3	8.7	9.6	9.7	9.8	8.6	9.2	9.4
Spreads	12.0	15.9	14.7	14.8	15.4	14.6	12.5	11.3	10.6
Net Interest Margin	13.4	17.8	16.2	16.3	16.4	15.6	13.8	12.9	12.3
Profitability Ratios (%)									
RoAE	13.2	24.8	18.8	22.8	28.8	26.4	17.0	15.5	14.7
RoAA	2.9	5.5	4.2	5.1	5.9	5.7	4.1	3.8	3.7
Cost-to-Income	58.6	43.1	50.4	47.8	39.6	33.7	44.8	48.6	49.4
Empl. Cost/Op. Exp.	51.8	52.1	50.7	52.0	56.3	60.2	61.0	61.6	61.4
Asset Quality									
GNPL (INR m)	996	2,338	695	826	1,677	5,900	4,346	4,591	5,248
GNPL ratio (%)	1.0	2.0	0.5	0.5	0.9	2.9	1.5	1.4	1.4
NNPL (INR m)	778	1,972	427	481	1,092	3,350	2,607	2,984	3,411
NNPL ratio (%)	0.8	1.7	0.3	0.3	0.6	1.3	0.9	0.9	0.9
PCR (%)	21.9	15.6	38.5	41.7	34.9	43.2	40.0	35.0	35.0
Valuations									
Book Value (INR)	32.8	39.9	45.3	53.7	68.0	86.3	98.9	111.7	125.8
Price-to-BV (x)					1.5	1.2	1.1	0.9	0.8
EPS (INR)	4.2	9.0	8.0	11.3	17.5	20.4	15.7	16.3	17.5
Change YoY (%)	30.8	113.4	-10.9	40.3	55.7	16.3	-23.0	3.7	7.5
Price-to-Earnings (x)					6.0	5.2	6.7	6.5	6.0
Dividend	2.3	1.5	2.0	2.1	2.8	2.1	3.0	3.4	3.4
Dividend Payout (%)	64.1	20.0	30.0	23.0	19.3	10.3	19.1	21.0	19.5
Dividend Yield (%)					2.7	2.0	2.9	3.3	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

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