

Decent core performance; upgrade to Buy

CMP: INR 102

Rating: Buy

Target Price: INR 131

Stock Info

BSE	531213
NSE	MANAPPURAM
Bloomberg	MGFL IN
Reuters	MNFL.BO
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR Cr)	169
Mkt Cap (INR Cr)	8,590
52w H/L (INR)	224 / 82
Avg Yearly Vol (in 000')	5,816

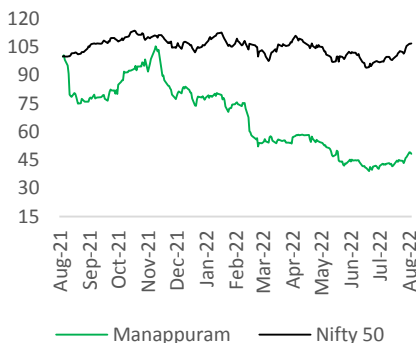
Shareholding Pattern %

(As on June, 2022)

Promoters	35.1
FII	28.9
DII	13.5
Public & Others	22.5

Stock Performance (%)	1m	3m	12m
Manappuram Finance	11.4	-8.9	-52.0
Nifty	9.4	3.9	6.6

Manappuram Vs Nifty



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Manappuram Finance (MFL) reported mix performance during Q1FY23 with profit de-growth of 35% YoY and increase of 8% QoQ at INR 282 cr, was lower than our estimate of INR 324 cr, impacted due to subdued performance in MFI portfolio. AUM on consolidated basis increased by 24% YoY/2% QoQ to INR 30,760 cr. Gold loan AUM witnessed increase of 24% YoY/1.5% QoQ with yield expansion of 60bps QoQ at 19.4%. Monthly yield on gold loan portfolio increased further from 20.7% in Jun'22 to 21.7% in Jul'22. Asset quality of the company improved in the standalone entity as GNPA decreased from 3% to 1.4% QoQ and NNPA decreased from 2.7% to 1.3% QoQ. Microfinance book asset quality deteriorated sharply as GNPA in this book increased from 3.5% to 7.7% and NNPA increased from 0.2% to 1.9% QoQ due to flow from earlier stressed pool.

Key Highlights:

- NII decreased by 7% YoY while it grew by 1% QoQ to INR 997 cr. Sequential increase in NII was due to increase in yields on the gold loan entity. NIM during the quarter increased marginally by 7bps QoQ at 13.1%. Going forward, company intends to prune the low yielding, high ticket teaser loans, which is nearly 10% of book currently will mature in Dec'22.
- Operating profit declined by 28% YoY/+0.7% QoQ to INR 509 cr, was lower than our estimate of INR 526 cr. Provisions increased by 5% YoY/-15% QoQ to INR 128 cr.
- Total AUM growth of 24% YoY/2% QoQ, was driven by growth in gold loan, housing, Vehicle book and MSME & others. Management has guided for >10% growth in gold book and >20% growth in non-gold segment.
- **Gold loan portfolio stabilizing gradually:** Gold loan performance of the company started stabilizing gradually as book has recorded growth of 24% YoY/1.5% QoQ. Yield on the gold loan portfolio increased from 18.8% to 19.4% QoQ. Management expecting yield to stabilize at 20-21.5%. Gold holding declined by 2% QoQ. LTV increased from 62% to 65% QoQ, while average ticket size (ATS) was at INR 56.3K (vs. INR 56.6K in Q4FY22). Management targets to grow the gold loan portfolio by 10% in FY23E.
- **Asirvad MFI performance remained subdued:** Asirvad MFI loan increased by 8% YoY and decreased by 2% QoQ to INR 6,546 cr. NII increased by 24.5% YoY and declined by 6% QoQ to INR 221 cr. Operating profit growth for the quarter was +11.5% YoY/-5.8% QoQ at INR 107 cr. Asirvad MFI has reported loss of INR 8 cr (vs. INR 7 cr loss in Q4FY22) due to elevated provisioning. Management has stated that going ahead credit cost will be lower with improved yields. Even though collection efficiency improved further from 99% to 102% (including overdue collections), asset quality performance remained weak.

Outlook and Valuation; Upgrade to Buy:

MFL's performance on the its core business i.e. on gold loan side started stabilizing gradually with improving yield. Since, last three quarter the key negative was declining yield on gold loan portfolio which has stabilized during the quarter with discontinuation of teaser loan. However, growth is still lower on gold loan side which is expected to improve going ahead. Asirvad MFI performance remained subdued with elevated provisioning which will moderate in the coming quarter as large part of provisioning has been done. Management expect AUM growth to pick up in FY23E with gold loan yield stabilizing at 20-21%. While maintaining our estimates, we upgrade our rating on the stock to Buy from Accumulate with a revised target price of INR 131 (INR 118 earlier), based on 1x FY24E ABVPS. Currently, stock is trading at 0.8x P/ABV to its FY24E.

Exhibit 1: Q1FY23 result Snapshot

Particulars (in Crore)	Q1FY23	Q1FY22	Q4FY22	YoY	QoQ
Net interest income	997.4	1070.2	986.6	-6.8%	1.1%
Other Income	0.8	10.4	10.0	-92.8%	-92.5%
Net Operating income	998.1	1080.6	996.6	-7.6%	0.2%
Operating expenses	489.0	372.0	491.2	31.5%	-0.4%
<i>cost-Income ratio (%)</i>	<i>49.0</i>	<i>34.4</i>	<i>49.3</i>		
Operating Profit	509.1	708.6	505.4	-28.2%	0.7%
Provisions	128.3	122.3	151.4	4.9%	-15.3%
PBT	380.8	586.4	354.0	-35.1%	7.6%
Tax	98.9	149.5	93.0	-33.9%	6.3%
Effective tax rate (%)	26%	25%	26%		
PAT (After MI)	282.1	436.5	260.9	-35.4%	8.1%
Asset Quality					
GNPA (%) (in standalone entity)	1.4	2.0	3.0	-60bps	-160bps
NNPA (%) (in standalone entity)	1.3	1.6	2.7	-30bps	-140bps
Return Ratios					
ROA (%)	3.3	5.8	3.1	-250bps	20bps
ROE (%)	13.3	23.3	12.6	-1000bps	70bps
AUM					
AUM	30760	24756	30261	24.3%	1.6%
-Gold loans	20471	16540	20168	23.8%	1.5%
-Microfinance	6546	6053	6653	8.2%	-1.6%
-Housing loans	875	668	845	30.9%	3.5%
-Vehicle loans	1755	1045	1643	68.0%	6.8%
-Other loans	1113	451	952	146.8%	17.0%

Exhibit 2: Key Conference call highlights

- The central bank had hiked the customs duty of gold from 7.5% to 12.5% to create more fiscal headroom. Company do not foresee any negative impact on gold prices or the gold loan business from this.
- Company is carrying surplus liquidity across all businesses. Cash and cash equivalents on hand on a consolidated basis was at INR 2,150 cr and undrawn bank line was at INR 3,195 cr.
- Standalone borrowing cost has gone up to 7.47% as compared to 7.15% in Q4FY22 due to the repo rate hike of 90basis points. Company expect further increase of 20-25bps in the borrowing cost.
- Company has added 4.2 lakh new customer during the quarter.
- Gold loan average ticket size and average duration was at INR 56,272 and 84 days respectively. Weighted average LTV stands at INR 3,051 per gram.
- GNPA of new MFI book (disbursals post May'21) is less than 1%.
- Asirvad's AUM has been increasing at a monthly rate of INR 150 cr for the last three months (May-July 22) with an improved yield of 24% as compared to 20.3% upto Mar'22.
- Auction for the quarter was lower at INR 150 cr vs. INR 920 cr in the previous quarter.
- The gold loan AUM as on Jun'22 in Asirvad stands at INR 421 cr. Cumulative ECL provision in Asirvad stood at INR 463 cr.
- Currently, ~10% of the gold book is into the teaser loan rate which is expected to mature by Dec'22.
- Net yields on gold Loans improved from 18.8% in Mar'22 to 19.4% in Jun'22. As at the end of July, yields have further increased to 21.7%. Yield improvement was largely driven by rationalization of low-yielding schemes.
- Stage – III assets in MFI pool increased from 1.7% to 7.7% on a sequential basis. This increase was on account of flow from early to later buckets. Since Jun'22, flows across buckets have stabilized and the company is of the view that the provisioning cycle is largely complete.

Key Financials

Income Statement

Year/Ended March (Rs.Cr)	FY21	FY22	FY23E	FY24E
Interest Income	6331	6061	6460	7348
Interest Expenses	2219	2011	2554	2898
Net Interest Income	4112	4050	3906	4451
Other Income	44	65	111	125
Net Operating Income	4156	4115	4017	4576
Operating Expenses	1400	1845	1678	1818
- Staff Cost	843	1125	1174	1331
- Other Operating Exp.	557	720	505	487
- Depreciation	171	198	0	0
Pre-provisioning profits	2756	2270	2339	2758
Provisions	440	486	304	384
Profit Before Taxes	2316	1784	2035	2373
Taxes	591	455	509	595
Profit After Taxes	1725	1329	1525	1779
% Growth	17%	-23%	15%	17%

Balance Sheet

Year/Ended March (Rs.Cr)	FY21	FY22	FY23E	FY24E
LIABILITIES				
Share Capital	169	169	169	169
Reserves & Surplus	7138	8199	9677	11217
Shareholders Fund	7308	8368	9846	11385
Minority interest	47	16	58	104
Borrowings	22716	24119	29016	33622
Other liabilities & provisions	1268	1308	1758	2075
Total Liabilities	31339	33811	40678	47186
ASSETS				
Fixed Assets	294	366	421	484
Investments	338	421	175	175
Advances	26508	28971	33414	38321
Cash and Bank Balances	2913	2697	4774	6279
Other assets	1286	1355	1893	1926
Total Assets	31339	33811	40678	47186

Ratio Analysis

Year/Ended March	FY21	FY22	FY23E	FY24E
Growth Ratios (%)				
Net Interest Income	13.2%	-1.5%	-3.6%	14.0%
Net Operating Income	11.7%	-1.0%	-2.4%	13.9%
Pre-provisioning Profit	22.8%	-17.6%	3.0%	17.9%
PAT	16.5%	-23.0%	14.8%	16.6%
Advances	14.3%	9.3%	15.3%	14.7%
Borrowings	4.1%	6.2%	20.3%	15.9%
Spreads (%)				
Yield on Advances	24.9%	20.7%	20.2%	20.4%
Borrowing Cost	9.1%	9.1%	9.1%	9.1%
Spreads	15.8%	11.6%	11.1%	11.3%
NIMs	16.0%	14.0%	12.2%	12.3%
Asset Quality				
Gross NPAs	1.9%	3.0%	2.2%	2.1%
Net NPAs	1.5%	2.7%	1.0%	1.0%
Provison Coverage Ratio	46.7%	56.9%	55.6%	54.1%
Return Ratios				
RoE	26.4%	16.9%	16.2%	16.2%
RoA	5.7%	4.0%	4.1%	4.1%
Per Share Data				
EPS (Rs.)	20.5	15.8	17.5	20.4
Book Value	86.7	99.3	116.9	135.1
Adjusted Book Value	83.0	95.8	113.0	130.8
Valuations				
P/E (X)	5.0	6.5	5.8	5.0
P/BV (X)	1.2	1.0	0.9	0.8
P/ABV (X)	1.2	1.1	0.9	0.8

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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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