

Retail Equity Research

Manappuram Finance Ltd

NBFC

BSE CODE : 531213

NSE CODE: MANAPPURAM

BLOOMBERG CODE: MGFL:IN

SENSEX : 59,333

Accumulate

12Month Investment Period

Rating as per Small Cap

CMP Rs. 107 TARGET Rs. 127 RETURN 19%

(Closing: 11-08-22)

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↑

Attractive valuation despite competition pressure

Manappuram Finance (MGFL) is one of the leading gold loan NBFCs in India. MGFL has also diversified into other business segments like housing loan, vehicle loan and microfinance, with a branch network size of around 5,000 spread across the country

- Total AUM grew by 24.3% YoY while it showcased only a marginal growth of 1.6% sequentially due to intense competition from Banks and NBFCs.
- Gold AUM grew by 1.5% and non gold AUM by 1.9% on a QoQ basis.
- With the new RBI guideline removing cap on MFI spread, the segment is expected to expand its NIM to 15%.
- Standalone GNPA moderated from 3.0% in Q4FY22 to 1.4% while that of Ashirvad MF increased from 3.5% to 7.7% due to increased stress from restructured book. However, much of it is provided for and the NNPA of Ashirvad stands at 1.9%.
- With the attractive valuation we maintain our Accumulate rating with a target price of Rs. 127 based on 1.0x Adj BVPS of FY24E.

Intense competition limits growth

During Q1FY23, total AUM grew 24.3% YoY while on a sequential basis, the grow was muted at 1.6%. This was due to high competition from NBFCs and Banks which has resulted in a flattish trend in gold AUM. Management has decided to maintain the yield of gold loan at 21% without cutting it down further to beat the competition. For the quarter, gold AUM grew by 1.5% QoQ and 23.0% on a YoY basis, while non-gold portfolio grew by 1.9% QoQ and 25.6% on a YoY basis. Micro-Finance segment which constitutes 24% of the total AUM has shown a sequential decline of 1.6%, while on a YoY basis it grew by 9.4%. Post the new RBI guideline removing cap on MFI spread, the segment is expected to have NIM of 15% on incremental MFI business. Vehicle finance segment which contributes 4% of the consolidated AUM registered a growth of 6.8% QoQ/68.0% YoY and housing finance segment which adds up 3% of total AUM grew at 3.5% QoQ/22.6% YoY. Management expects gold loan book to grow slower due to competition pressure and focus on maintaining the yield. However, non-gold segment is expected to grow at 20% YoY. Net yield of the gold business improved sequentially to 19.7% from 18.8%. Average ticket size of gold loan declined to Rs.56,300 in comparison with Rs.56,600 last quarter while LTV as on June stood at 65% compared to 62% during Q4FY22.

YoY growth hit by yield contraction in gold AUM

Net Interest Income for the quarter declined 7.0% YoY due to contraction in yield compared to Q1FY22. While, due to sequential expansion of yield, the NII grew by 1.1% compared to last quarter. Interest income grew 4.9% QoQ while de-grew by 4.0% YoY and interest expense grew by 2.0% QoQ and 2.3% YoY. Opex to AUM ratio stood at 6% during Q1FY23. The pre-provision profit of the company grew 0.7% QoQ while declined 28.2% YoY to Rs.509.1cr. Provision for the quarter stood at Rs.128.3cr compared to 151.3cr during previous quarter. PAT grew by 8.0% sequentially to Rs.281.9cr while it declined 44.3% on YoY. ROA for the quarter stood to 3.3% while ROE at 13.3%.

Asset quality impacted by the new RBI policy

Standalone GNPA increased from 3.0% in Q4FY22 to 1.4% in current quarter while that of Ashirvad Micro Finance increased from 3.5% to 7.7% as stress was brought from restructured books. However, much of the NPA accounts are provided with NNPA of 1.9%. Credit cost is coming down as guided by the management.

Outlook and valuation

Management is focusing on profitability over growth and decided to maintain gold loan yield at 21% irrespective of competitive pricing pressure. This will impact the growth of gold business in the near term. Gold loan is expected to grow at 10% and non-gold segments at 20%. Considering the current low valuation, we maintain our Accumulate rating and value the stock at 1.0x FY24E Adj BVPS with a revised target price of Rs. 127.

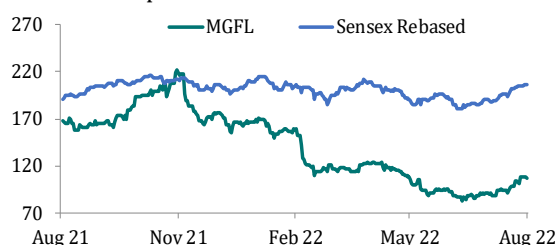
Company Data

Market Cap (Rs cr)	9,001.4
Outstanding Shares (cr)	84.6
Free Float (%)	64.8
Dividend Yield (%)	1.4
52 week high (Rs)	224.4
52 week low (Rs)	81.5
6m average volume (cr)	0.7
Beta	1.0
Face value (Rs)	2.0

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23
Promoters	35.1	35.1	35.2
FPI's	34.8	29.8	28.9
MFs/Institutions	14.3	15.0	13.5
Public	15.8	20.1	22.4
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 month	6 month	1 year
Absolute Return	5.6%	-30.4%	-44.5%
Absolute Sensex	11.1%	1.1%	7.8%
Relative Return*	-5.5%	-31.5%	-52.3%

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY22A	FY23E	FY24E
NII	3,828	3,820	4,143
Growth(%)	-3.6	-0.2	8.4
NIM(%)	13.8	12.6	12.3
Provisions	486	367	390
Adj. PAT	1329	1349	1447
Growth(%)	-23.0	1.6	7.2
Adj. EPS	15.7	16.0	17.1
Growth(%)	-23.10	1.56	7.25
P/E	5.9	5.8	5.4
BVPS	99.0	112.4	127.0
Growth(%)	14.3	13.5	12.9
Adj.BVPS	94.6	108.1	122.4
Growth(%)	13.4	14.3	13.2
P/B	0.9	0.8	0.7
Adj. P/B	1.0	0.9	0.8
ROE (%)	17.0	15.1	14.3

Quarterly Financials (Consolidated)

(Rs cr)	Q1FY23	Q4FY22	QoQ Growth (%)	Q1FY22	YoY Growth (%)
Interest Income	1,461	1,393	5%	1,522	-4%
Interest Expense	505	495	2%	493	2%
Net Interest Income (NII)	957	898	6%	1,029	-7%
Fee and Other Income	42	98	-58%	52	-20%
Total Income	998	996	0%	1,081	-8%
Expenditure	489	491	0%	372	31%
Pre-Provision Profit	509	505	1%	709	-28%
Provision	128	151	-15%	122	5%
PBT	381	354	8%	586	-35%
Tax	99	93	6%	150	-34%
Reported PAT	282	261	8%	437	-35%
Adjustment	0	0	-	0	-
Adj. PAT	282	261	8%	437	-35%
Diluted EPS (Rs)	3.3	3.1	8%	5.2	-36%

Change in Estimates

Year / Rs Cr	Old estimates		New estimates		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Interest Income (NII)	3,820	4,143	4,159	4,689	9%	13%
Net Interest Margin (%)	12.6	12.3	13.6	13.6	97bps	134bps
Pre-Provision Profit	2,190	2,346	2,337	2,632	7%	12%
Adj. PAT	1,349	1,447	1,454	1,705	8%	18%
Diluted EPS (Rs)	16	17.1	17.2	20.2	8%	18%

PROFIT & LOSS

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Interest Income	5,280	6,190	5,840	6,427	7,273
Interest Expense	1,832	2,219	2,011	2,268	2,584
Net Int. Income	3,448	3,971	3,828	4,159	4,689
<i>Change</i>	<i>28.1%</i>	<i>15.1%</i>	<i>-3.6%</i>	<i>8.6%</i>	<i>12.8%</i>
Non Int. Income	271	185	287	289	327
Total Income	3,719	4,156	4,115	4,448	5,016
<i>Change</i>	<i>30.1%</i>	<i>11.7%</i>	<i>-1.0%</i>	<i>8.1%</i>	<i>12.8%</i>
Operating Exp.	1,474	1,400	1,845	2,111	2,384
Pre Prov. Profit	2,245	2,756	2,270	2,337	2,632
Prov. & Conting.	238	440	486	372	328
PBT	2007	2316	1784	1965	2304
<i>Change</i>	<i>40.6%</i>	<i>15.4%</i>	<i>-23.0%</i>	<i>10.2%</i>	<i>17.3%</i>
Tax	527	591	455	511	599
Tax Rate (%)	26%	26%	26%	26%	26%
Reported PAT	1,480	1,725	1,329	1,454	1,705
Adj*	0	0	0	0	0
Adj. PAT	1,480	1,725	1,329	1,454	1,705
<i>Change</i>	<i>59.3%</i>	<i>16.5%</i>	<i>-23.0%</i>	<i>9.4%</i>	<i>17.3%</i>
No. of shares (Cr)	84	84	84	84	84
EPS (Rs)	17.6	20.5	15.7	17.2	20.2
<i>Change</i>	<i>59.2%</i>	<i>16.5%</i>	<i>-23.1%</i>	<i>9.4%</i>	<i>17.3%</i>

BALANCE SHEET

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	3,293	2,548	2,371	3,003	3,739
Loans & Advances	23,189	26,508	28,971	32,659	36,789
Investments	90	338	421	337	379
Gross Fixed Assets	557	680	811	942	1,073
Net Fixed Assets	327	287	353	324	294
CWIP	3	8	13	2	2
Intangible Assets	21	28	26	30	10
Def. Tax (Net)	101	185	174	102	120
Other Assets	1,926	1,437	1,482	1,633	1,839
Total Assets	28,951	31,338	33,811	38,089	43,173
Deposits	0	0	0	2	2
Debt Funds	21,817	22,716	24,118	26,935	30,342
Other Liabilities	1,324	1,242	1,251	1,450	1,628
Provisions	64	72	73	98	110
Equity Capital	169	169	169	169	169
Reserves & Surplus	5,577	7,138	8,199	9,435	10,922
Shareholder's Funds	5,746	7,307	8,368	9,604	11,091
Total Liabilities	28,951	31,338	33,811	38,089	43,173
BVPS (Rs)	68.1	86.6	99.0	113.7	131.3
<i>Change</i>	<i>26.9%</i>	<i>27.1%</i>	<i>14.3%</i>	<i>14.8%</i>	<i>15.5%</i>
Adj. BVPS (Rs)	65.7	83.4	94.9	109.3	127.4
<i>Change</i>	<i>23.7%</i>	<i>27.0%</i>	<i>13.8%</i>	<i>15.1%</i>	<i>16.6%</i>

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
Interest yield (%)	25.4	24.6	21.1	21.0	21.2
Cost of funds (%)	9.9	10.0	8.6	8.9	9.0
Spread.(%)	15.5	14.7	12.5	12.1	12.1
NIM (%)	16.6	15.8	13.8	13.6	13.6
ROE (%)	28.8	26.4	17.0	16.2	16.5
ROA(%)	6.0	5.7	4.1	4.0	4.2
Business Growth (yoy)					
Gold Loan AUM (%)	30.9	12.4	5.7	10.0	12.0
Microfinance AUM (%)	43.3	8.8	11.2	12.0	12.0
Total AUM (%)	29.8	7.9	11.2	11.3	12.6
Operating Ratios					
Cost to Income (%)	39.6	33.7	44.8	47.5	47.5
Cost to AUM (%)	5.8	5.1	6.1	6.3	6.3
Asset Quality					
GNPA (%)	1.1	2.1	3.1	1.5	1.5
NNPA (%)	0.3	1.1	1.9	0.8	0.8
Capital Adequacy					
CAR (%)	23.4	23.4	31.3	30.7	31.5
Valuation ratios					
P/E (x)	5.3	4.6	6.8	6.3	5.3
P/B (x)	1.4	1.1	1.1	0.9	0.8
Adj. P/B (x)	1.4	1.1	1.1	1.0	0.8

Recommendation Summary (last 3 years)



Dates	Rating	Target
15 July 19	Buy	154
19 November 19	Accumulate	185
03 February 20	Accumulate	208
08 April 20	Buy	133
21 May 20	Buy	141
31 July 20	Accumulate	183
12 November 20	Buy	192
04 February 21	Buy	208
16 August 21	Buy	196
29 November 21	Buy	209
02 March 22	Buy	148
24 May 22	Accumulate	108
11 August 22	Accumulate	127

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Sheen G, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.



JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership of 1% or more in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership of 1% or more in the subject company covered.

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that, I, Sheen G, Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange board of India.

Geojit Financial Services Ltd, Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

