

Rating: BUY | CMP: Rs117 | TP: Rs144

November 14, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	144		126	
NII (Rs.)	48,664	51,667	48,272	50,633
% Chng.	0.8	2.0		
PPoP (Rs.)	28,635	28,241	27,743	27,757
% Chng.	3.2	1.7		
EPS (Rs.)	22.7	22.7	21.5	22.6
% Chng.	5.3	0.5		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	39,687	46,234	48,664	51,667
Growth (%)	(2.2)	16.5	5.3	6.2
Op. Profit (Rs m)	22,697	26,885	28,635	28,241
PAT (Rs m)	13,287	17,130	19,101	19,111
EPS (Rs.)	15.8	19.6	22.7	22.7
Gr. (%)	(23.0)	24.4	15.6	0.1
DPS (Rs.)	3.3	3.5	3.5	3.5
Yield (%)	2.8	3.0	3.0	3.0
Margin (%)	13.8	14.9	14.3	14.2
RoAE (%)	16.9	17.0	17.2	17.4
RoAA (%)	4.1	4.3	4.4	4.5
PE (x)	7.4	6.0	5.2	5.2
P/BV (x)	1.2	1.1	0.9	0.8
P/ABV (x)	1.2	1.1	1.0	0.8

Key Data

MNFL.BO | MGFL IN

52-W High / Low	Rs.210 / Rs.82
Sensex / Nifty	61,624 / 18,329
Market Cap	Rs.99bn/ \$ 1,217m
Shares Outstanding	846m
3M Avg. Daily Value	Rs.624.77m

Shareholding Pattern (%)

Promoter's	35.18
Foreign	28.36
Domestic Institution	12.18
Public & Others	24.27
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	15.2	17.9	(46.5)
Relative	8.3	1.0	(47.3)

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Yield Sees Sharp Uptick, Gold Loan AUM Sluggish

Quick Pointers:

- Gold Loan yield in Q2FY23 rises to 21.9% v/s 19.4% in Q1FY23.

MGFL reported good set of numbers with profitability beating our estimates at Rs4.0bn (Ple:Rs3.2bn) on better than expected NII which came in at Rs10.7bn (PLe: Rs10.2bn) up 12.8% QoQ and 9.4% YoY (because yield on gold loans improved sharply to 21.9% in Q2FY23 v/s 19.4% in Q1FY23). Gold AUM de-grew 6.3% QoQ to Rs191bn. Gold AUM growth was impacted due to rationalization of low yielding segments(<12% yield). Asset quality for standalone business deteriorated as GNPA/NNPA rose to 2.0%/1.8% from 1.4%/1.3% in Q1FY23. Asirvad Microfinance performance was very strong as microfinance AUM grew 8.7% QoQ to Rs71.1bn. The parent, Manappuram, infused Rs2.5bn capital in Sep'22 in Asirvad. Management has guided for further reduction in credit costs and return to pre-COVID provisioning levels over coming quarters in Asirvad.

Going forward, Co. expects yields to not fall below 21-22% helped by robust rural demand and phasing out of low yield products. But it is becoming clear that at least this year it is going to be tough to achieve yield improvement and gold AUM together. We reduce our AUM CAGR to 10% from 15% for FY22-24. We also increase the gold loan yield to 21%/22% from 19%/20% for FY23/24 leading to FY23/24 EPS estimates being raised by 3%/5% respectively. Meaningful gold AUM growth at these yields could start coming in from Q4FY23. Reiterate 'BUY' rating as valuation continues to be attractive at 1.0x FY24 P/ABV with price target raised to Rs 144 from Rs126, valuing the consolidated book at 1.1x PABV Sep'24E.

- Loan Book flat, better yields and lower provisions aid PAT:** AUMs at Rs306bn reported growth of 7.9%YoY and de-growth of 0.3%QoQ as gold loans de-grew 6.3% QoQ. Gold holdings declined by 6.7% QoQ (down 3.5% YoY) to 63 tonne. 75% of gold AUM that is >12% yield saw a QoQ AUM growth of 7.5% which is a strong positive. 25% of gold AUM that is <12% yield saw a de-growth of 33% on a QoQ basis. Management guided for low yielding segment to decline from 25% to 15%. Other segments performed very well, MFI AUMs grew 8.7% on a QoQ basis after it de-grew 1.6% QoQ in Q1FY23, VF AUMs grew 7.4% and HLs grew by 5.3%QoQ and other loans including MSME saw a strong 39.2% QoQ growth. PAT beat our estimates as yields improved and provisions came down by 37% QoQ. Opex rose by 13% on a QoQ basis and remains elevated. NIM improved to 14.1% from 12.5% in Q1FY23 due to better yields.
- Asset quality sees deterioration in gold loan business, credit cost improves for Asirvad:** GNPA at 2.0% for standalone business (gold) up from 1.4% in Q1FY23. MFI business also saw a rise in GNPA to 8.8% vs 7.7% in Q1'23, however, credit cost declined 52% QoQ. For housing, GNPA improved to 5.83% vs 5.9% (Q1FY23) and vehicle finance GNPA reduced to 3.6% vs 4% last quarter. Asset quality should improve and we maintain GNPA forecasts at 2.0-2.5% over FY23 to FY24. Management believes that they are the end of COVID-related provisioning cycle in Asirvad and expect material reduction in credit costs, going forward.

PAT at Rs 4.0bn [vs PLe: Rs3.2bn] reporting growth of 45.2% QoQ and growth of 10.7% on YoY basis on account of better NII and lower provisions..

NII at Rs 10.7bn beat our estimates [PLe: Rs 10.2bn] registering growth of 12.8% QoQ and growing 9.4% YoY as yield on gold loans improved sharply to 21.9% in Q2'23 from the lows of 19.4% in Q1'23. Higher yields as teaser rates have been re-priced and led to strong improvement in margins as NIM improved to 14.1% in Q2'23 from 12.5% in Q1'23 and 13.4% in Q2'22.

AUM at Rs 307 bn reported growth of 8% YoY but de-growth of .3% QoQ (lower than PLe: Rs 314 bn) . Gold AUM saw a sharp fall of 6.3% on a QoQ basis as teaser rates were repriced, company expects this trend to stabilize but 75% of gold AUM that is >12% yield saw a QoQ AUM growth of 7.5% which is a positive.

Opex at Rs 5.5bn stood above [PLe: Rs5.0bn] registered a growth of 13.0% QoQ and growth of 20.3% YoY.

PPoP at Rs 6.3bn was above our estimates [PLe: Rs5.6bn] on account of better NII and other income.

Provisions at Rs .8bn stood below our estimates [PLe: Rs 1.3bn] decreasing by 37.2% on a QoQ basis and de-growing by 25.3% on a YoY basis.

Gold loan or standalone NPAs rose to 2.0% vs 1.4% in Q1FY23 Asirvad MFI GNPA's increased to 8.8% vs 7.7% in Q1FY23

Exhibit 1: Q2FY23: Higher Yields, Lower Provisions leads to PAT beat

Y/e March (Rs mn)	Q2FY23	Q2FY22	YoY gr.	Q1FY23	QoQ gr.
Income from Operations	16,078	14,787	8.7%	14,612	10.0%
Interest Expenses	5,284	4,924	7.3%	5,046	4.7%
Net Interest Income	10,795	9,863	9.4%	9,566	12.8%
Other Income	1,063	758	40.3%	416	155.7%
Total Income	11,858	10,621	11.6%	9,981	18.8%
Total Operating Expenses	5,525	4,593	20.3%	4,890	13.0%
Operating Profit (PPP)	6,333	6,028	5.1%	5,091	24.4%
Provisions & Write Offs	805	1,078	-25.3%	1,283	-37.2%
PBT	5,527	4,950	11.7%	3,808	45.2%
Tax	1,433	1,252	14.5%	989	44.9%
Reported Profit	4,095	3,699	10.7%	2,819	45.2%
Balance sheet Details					
Borrowings	2,05,372	1,79,714	14.3%	1,81,227	13.3%
AUM	3,06,650	2,84,216	7.9%	3,07,595	-0.3%
Asset Quality					
Gross NPAs	6,133	4,547	34.9%	4,306	42.4%
Net NPAs	5,520	3,695	49.4%	3,999	38.0%
Gross NPA (%)	2.0%	1.6%	0.4%	1.4%	0.6%
Net NPA (%)	1.8%	1.3%	0.5%	1.3%	0.5%
Coverage (%)	90.0%	81.3%	8.8%	92.9%	-2.9%
NIM – calc	14.1%	13.4%	0.6%	12.5%	1.5%
AUM (Rs mn)					
Gold Loan	1,91,903	1,87,195	2.5%	2,04,708	-6.3%
Micro finance	71,181	71,625	-0.6%	65,461	8.7%
Commercial Vehicle	18,855	12,671	48.8%	17,550	7.4%
Home Loan	9,216	7,322	25.9%	8,748	5.3%
Other Loan (Hypo, Against NCD)	15,494	5,403	186.8%	11,128	39.2%
AUM Mix (%)					
Gold Loan	62.6%	65.9%	-3.3%	66.6%	-4.0%
Micro finance	23.2%	25.2%	-2.0%	21.3%	1.9%
Commercial Vehicle	6.1%	4.5%	1.7%	5.7%	0.4%
Home Loan	3.0%	2.6%	0.4%	2.8%	0.2%
Other Loan (Hypo, Against NCD)	5.1%	1.9%	3.2%	3.6%	1.4%

Source: Company, PL

Key Conference Call Highlights

Business update:

- All segments of the company have seen loan growth sequentially except gold loan book mainly due to rationalization of low yield products (<12%). Although primarily a gold loan NBFC, the company is now looking at a broad based portfolio mix with rise in non-gold AUM at 37%.
- Competition is seen from new players as well as fintech. However, existence of large underserved market has helped business thrive.

Gold Loan Business:

- Management expects flat growth in gold loan book in the upcoming quarter as run down of low yield products will continue. Company targets low yield portion to be around 15% vs 25% currently.
- Around 80% of customers have ticket size of below Rs.1L and around 80% of total gold loans have tenor which is 3months or below.
- Auctions for the quarter were appx. Rs.1.9bn

Yields:

- Gold Loan Yields have improved to 21.9% from 19.4% in previous quarter due to phasing out of low yield products. Share of low yield products has come down to 25% from 35% and disbursement of low yield products is completely stopped.
- Management expects yields to continue around the same levels helped by robust rural demand and reviving economic activities.
- Yields for Asirvad Microfinance improved on the back of favorable new regulation and slightly higher assignment activity in the quarter.

Other Business:

- Non Gold Business like Vehicle Finance, Housing Finance, MFI etc. saw significant growth which aided profitability growth.
- In housing finance, company sees potential growth in small ticket size loans whereas vehicle finance growth was aided by rural market penetration and use of digital lending platforms. Home loan business is operated from 74 branches.
- Non gold loan products except MFI are mainly targeted to existing customers with good track record which has helped bring down GNPA's and increased collection efficiency.
- Company is targeting disbursement of Rs.20bn per month from existing Rs.11bn per month in non-gold loan category.

Others:

- Cost of Funds is expected to be around the same levels as effect of increase in interest rate will get compensated by maturity of high interest overseas bonds and headroom for short term CP borrowings.

- Capital infusion of around Rs.250crs was made in Asirvad Microfinance by the parent company in Sept'22.
- Opex was elevated mainly on account of hike in salary of lower level employees and addition of employees in VF, HF and MSME segments.

Exhibit 2: EPS estimates upgraded by 3%/5% for FY23/FY24 on better yields, we maintain BUY rating with target price raised to Rs144 from Rs126

(Rs mn)	Old			Revised			Change in Estimates		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Net Interest Income	44,650	48,272	50,633	46,234	48,664	51,667	3.5%	0.8%	2.0%
Operating Profit	26,302	27,743	27,757	26,885	28,635	28,241	2.2%	3.2%	1.7%
Net Profit	16,630	18,142	19,018	17,130	19,101	19,111	3.0%	5.3%	0.5%
EPS (Rs)	19.0	21.5	22.6	19.6	22.7	22.7	3.1%	5.3%	0.5%
Price Target (Rs)		126			144			14%	
Reco		BUY			BUY				

Source: PL

Exhibit 3: Target price raised to Rs144, Maintain BUY

PT calculation and upside	
Fair price – EVA	118
Fair price - P/ABV	169
Average of the two	144
Target P/ABV	1.1
Target P/E	5.2
Current price, Rs	117
Upside (%)	23%
Dividend yield (%)	1.7%
Total return (%)	25%

Source: PL



Income Statement (Rs. m)				
Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Inc. / Opt. Inc.	59,801	67,000	75,854	88,796
Interest Expenses	20,114	20,766	27,191	37,128
Net interest income	39,687	46,234	48,664	51,667
Growth(%)	(2.2)	16.5	5.3	6.2
Non-interest income	1,463	1,970	2,161	2,387
Growth(%)	52.8	34.7	9.7	10.4
Net operating income	41,150	48,203	50,825	54,054
Expenditures				
Employees	11,250	13,865	14,647	14,752
Other Expenses	5,223	5,530	5,525	8,937
Depreciation	1,980	1,922	2,018	2,123
Operating Expenses	16,473	19,396	20,172	23,689
PPP	22,697	26,885	28,635	28,241
Growth(%)	(17.6)	18.5	6.5	(1.4)
Provisions	4,862	4,009	3,126	2,719
Profit Before Tax	17,835	22,876	25,509	25,522
Tax	4,548	5,746	6,408	6,411
Effective Tax rate(%)	25.5	25.1	25.1	25.1
PAT	13,287	17,130	19,101	19,111
Growth(%)	(23.0)	28.9	11.5	0.1

Balance Sheet (Rs. m)				
Y/e Mar	FY22	FY23E	FY24E	FY25E
Source of funds				
Equity	1,693	1,686	1,686	1,686
Reserves and Surplus	81,991	89,949	1,06,110	1,22,281
Networth	83,684	91,634	1,07,796	1,23,967
Growth (%)	14.5	9.5	17.6	15.0
Loan funds	2,41,185	2,71,564	3,07,777	3,44,994
Growth (%)	6.2	12.6	13.3	12.1
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	2,868	2,868	2,868	2,868
Other Liabilities	10,209	10,209	11,415	12,082
Total Liabilities	3,38,106	3,76,436	4,30,016	4,84,071
Application of funds				
Net fixed assets	727	727	727	727
Advances	2,89,713	3,19,682	3,63,301	4,12,983
Growth (%)	9.3	10.3	13.6	13.7
Investments	4,207	2,371	2,735	3,138
Current Assets	30,235	40,441	50,262	58,254
Net current assets	27,367	37,573	47,394	55,386
Other Assets	3,302	2,983	2,441	1,519
Total Assets	3,38,106	3,76,436	4,30,016	4,87,499
Growth (%)	7.9	11.3	14.2	13.4
Business Mix				
AUM	3,02,608	3,19,680	3,63,299	4,12,981
Growth (%)	11.2	5.6	13.6	13.7
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)				
Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	13.8	14.9	14.3	14.2
ROAA	4.1	4.3	4.4	4.5
ROAE	16.9	17.0	17.2	17.4

Source: Company Data, PL Research

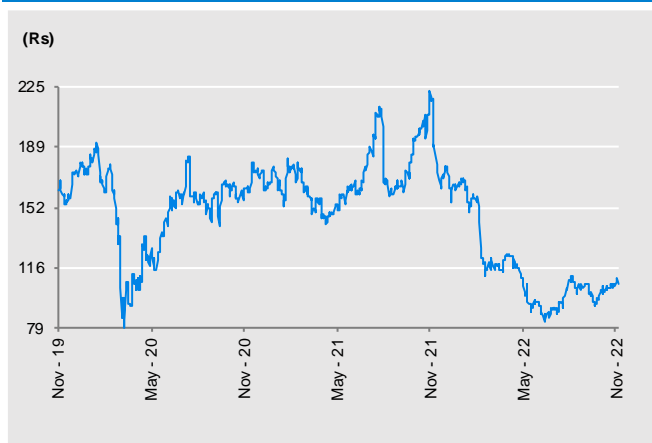
Quarterly Financials (Rs. m)				
Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Int. Inc. / Operating Inc.	14,461	13,933	14,612	16,078
Income from securitization	-	-	-	-
Interest Expenses	5,311	4,948	5,046	5,284
Net Interest Income	9,151	8,985	9,566	10,795
Growth (%)	(11.6)	(14.5)	(7.0)	9.4
Non-Interest Income	607	980	416	1,063
Net Operating Income	9,758	9,965	9,981	11,858
Growth (%)	(10.7)	(9.9)	(7.6)	11.6
Operating expenditure	5,228	4,912	4,890	5,525
PPP	4,530	5,053	5,091	6,333
Growth (%)	-	-	-	-
Provision	1,048	1,514	1,283	805
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	3,482	3,539	3,808	5,527
Tax	872	930	989	1,433
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.0	26.3	26.0	25.9
PAT	2,610	2,610	2,819	4,095
Growth	(46)	(44)	(35)	11
AUM	3,04,071	3,02,608	3,07,595	3,06,650
YoY growth (%)	10.0	11.2	-	-
Borrowing	-	-	-	-
YoY growth (%)	(100.0)	(100.0)	-	-

Key Ratios				
Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	117	117	117	117
EPS (Rs)	15.8	19.6	22.7	22.7
Book value (Rs)	99.3	108.7	127.9	154.9
Adj. BV(Rs)	93.7	103.3	122.4	140.8
P/E(x)	7.4	6.0	5.2	5.2
P/BV(x)	1.2	1.1	0.9	0.8
P/ABV(x)	1.2	1.1	1.0	0.8
DPS (Rs)	3.3	3.5	3.5	3.5
Dividend Payout Ratio(%)	-	-	-	-
Dividend Yield(%)	2.8	3.0	3.0	3.0

Asset Quality				
Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs(Rs m)	9,613	6,394	9,187	10,442
Net NPA(Rs m)	4,698	4,545	4,668	5,285
Gross NPAs to Gross Adv.(%)	3.2	2.0	2.5	-
Net NPAs to net Adv.(%)	1.6	1.4	1.3	1.3
NPA coverage(%)	51.1	28.9	49.2	49.4

Du-Pont as a % of AUM				
Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	13.1	14.5	13.4	12.5
NII INCL. Securitization	13.1	14.5	13.4	12.5
Total income	13.6	15.1	14.0	13.1
Operating Expenses	5.4	6.1	5.6	5.7
PPOP	8.2	9.0	8.4	7.4
Total Provisions	1.6	1.3	0.9	0.7
RoAA	4.1	4.3	4.4	4.5
Avg. Assets/Avg. net worth	4.2	4.1	4.0	4.0
RoAE	16.9	17.0	17.2	17.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	126	99
2	05-Aug-22	BUY	126	102
3	07-Jul-22	BUY	126	91
4	19-May-22	BUY	126	105
5	12-Apr-22	BUY	151	124
6	11-Jan-22	Hold	194	169
7	15-Nov-21	Hold	199	197

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	8,953	7,432
2	Cholamandalam Investment and Finance Company	BUY	792	745
3	L&T Finance Holdings	BUY	88	80
4	Mahindra & Mahindra Financial Services	Hold	230	220
5	Manappuram Finance	BUY	126	99
6	Muthoot Finance	BUY	1,431	1,105
7	SBI Cards and Payment Services	Accumulate	1,013	858
8	Shriram Transport Finance	BUY	1,521	1,198

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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