

February 5, 2023

Q3FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	144		144	
NII (Rs.)	48,664	53,304	48,664	51,667
% Chng.	-	3.2		
PPoP (Rs.)	28,635	29,879	28,635	28,241
% Chng.	-	5.8		
EPS (Rs.)	22.7	24.1	22.7	22.7
% Chng.	-	6.4		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	39,687	46,234	48,664	53,304
Growth (%)	(2.2)	16.5	5.3	9.5
Op. Profit (Rs m)	22,697	26,885	28,635	29,879
PAT (Rs m)	13,287	17,130	19,101	20,337
EPS (Rs.)	15.8	19.6	22.7	24.1
Gr. (%)	(23.0)	24.4	15.6	6.5
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	5.9	5.1	4.8
P/BV (x)	1.2	1.1	0.9	0.7
P/ABV (x)	1.2	1.1	0.9	0.8

Key Data

MNFL.BO | MGFL IN

52-W High / Low	Rs.161 / Rs.82
Sensex / Nifty	60,842 / 17,854
Market Cap	Rs.98bn / \$ 1,201m
Shares Outstanding	846m
3M Avg. Daily Value	Rs.1008.59m

Shareholding Pattern (%)

Promoter's	35.20
Foreign	30.07
Domestic Institution	11.57
Public & Others	23.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.9)	13.9	(26.3)
Relative	(4.2)	9.3	(28.8)

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Margins hold up, gold loan AUM sluggish

Quick Pointers:

- Gold Loan yield in Q3FY23 rises to 22.4% v/s 21.9% in Q2FY23.
- Consolidated AUM for Q3FY23 grew by +4.0%QoQ/4.9%YoY to Rs318bn.

We maintain our 'BUY' rating at TP of Rs 144 (unchanged) on 1.1x Sep'24E P/ABV, as we increase our FY25 NII estimates by 3% given decrease in cost of funds from 8.9% to 8.7%. Our FY23 and FY24 estimates remain unchanged. Manappuram Finance (MGFL) reported 3% QoQ decline in gold loan AUM, whereas yields were up by 50bps to 22.4% as against 21.9% in Q2FY23. The going seems to be tough for gold financiers to achieve gold AUM growth, amid intense competition and pricing pressure. We believe company is on the right track in ensuring margins are protected. Conversely microfinance, commercial vehicles, home loan, msme/personal loans are performing strongly thereby compensating for the slowdown in the gold loan business. Maintain 'BUY' rating on the stock. Re-rating can happen once gold loan AUM starts seeing growth again.

- Loan book grows 4%QoQ, PAT below our estimates by Rs. 0.4bn:** AUMs at Rs319bn reported growth of 4.9%YoY and 4.0%QoQ, led by growth in non-gold AUM (+15.6%QoQ/33.3%YoY) whereas gold loan AUM declined 9%YoY and 3%QoQ. Gold holdings declined by 4.5% QoQ (down 14.5% YoY) to 60 tonne. Teaser rates were repriced and competition intensity from banks remained elevated. Other segments performed very well, MFI AUMs grew 13.3% on a QoQ basis, VF AUMs grew 12.0% and HLs grew by 9.0%QoQ and other loans including MSME continued strong momentum with 34.7% QoQ growth. PAT declined 3.9% QoQ, due to lower NII and lower other income. Company is holding excess liquidity of Rs. 20bn to meet redemption of 3y senior secured fixed rate notes, due in Jan-23; negative carrying cost of which also had an impact on profitability. Opex rose by 4.4% on QoQ basis and remains elevated. NIMs remained stable at 14.0% vs 14.1 in Q2FY23 and 12.4% in Q3FY22.
- Overall asset quality improves, MFI credit costs declined by 34% QoQ:** GNPA reduced to 1.6% for standalone business (gold) from 2.0% in Q2FY23. MFI business saw sharp improvement in GNPA to 6.7% vs 8.8% in Q2'23, and credit cost declined 34% QoQ. For housing, GNPA's were largely stable at 5.4% vs 5.5% (Q2FY23) and vehicle finance GNPA's reduced to 3.1% vs 3.6% last quarter. Asset quality should improve further, going forward, and management has guided for further reduction in credit cost in microfinance business.
- Asirvad's performance improves with 13.3% AUM growth QoQ:** PAT increased to INR 705 mn in Q3 FY23 vs PAT of INR 566 mn in Q2 FY23. Company expects further reduction in credit costs and return to pre-COVID provisioning levels over coming quarters. After equity infusion of Rs 2,500 mn by parent through a rights issue; Asirvad's CRAR currently stands at 21.6%. Collection efficiency for the quarter was at 104% vs. 103% and 99% in Q2FY23 and Q4FY22 respectively.

PAT at Rs 3.9bn [vs PLe: Rs4.3bn] reporting de-growth of 3.9% QoQ and growth of 50.8% on YoY basis on account of lower than expected NII and lower other income. Company is currently holding excess liquidity of INR 20bn in FDs, to meet redemptions of the 3y senior secured fixed rate notes issued in the global bond market, due in Jan 2023; negative carrying cost of excess liquidity has also had an impact on this quarter's profitability

NII at Rs 10.9bn came marginally below our estimates [PLe: Rs 11.2bn] registering growth of 1.1% QoQ and growing 19.3% YoY even as yield on gold loans improved to 22.4% in Q3'23 from the lows of 19.4% in Q1'23 and 21.9% in Q2'23. Higher yields helped in supporting margins even as CoB rose by 40bps sequentially as NIM remained stable at 14.0% in Q3'23 vs 14.1% in Q2'23 and 12.4% in Q3'22.

AUM at Rs 319 bn reported growth of 4.9% YoY and 4% QoQ (higher than PLe: Rs 310 bn) . Gold AUM saw a fall of 3% on a QoQ basis as teaser rates were repriced and competition from banks remained elevated. Other business segments especially Asirvad Microfinance saw strong QoQ AUM growth. Microfinance, CV, home loan and MSME/personal loan segment saw QoQ AUM growth of 13.3%, 12.0%, 9.0% and 34.7% respectively compensating for fall in gold loan AUM. Gold tonnage saw a 4.5% QoQ decline and 14.5% YoY decline to 60 tonnes from 63 tonnes in Q2'23 and 70 tonnes in Q3'22. 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 5.9bn was below our estimates [PLe: Rs6.6bn] on account of lower NII and lower other income.

Provisions at Rs .5bn stood below our estimates [PLe: Rs .8bn] decreasing by 36.7% on a QoQ basis and de-growing by 51.4% on a YoY basis..

Gold loan or standalone NPAs fell to 1.6% vs 2.0% in Q2FY23 Asirvad MFI GNPA's decreased to 6.7% vs 8.8% in Q2FY23

Exhibit 1: Q3FY23: Lower NII, Other Income leads to PAT miss by Rs0.4bn

Y/e March (Rs mn)	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.
Income from Operations	16,574	14,461	14.6%	16,078	3.1%
Interest Expenses	5,657	5,311	6.5%	5,284	7.1%
Net Interest Income	10,917	9,151	19.3%	10,795	1.1%
Other Income	772	607	27.1%	1,063	-27.4%
Total Income	11,688	9,758	19.8%	11,858	-1.4%
Total Operating Expenses	5,769	5,228	10.3%	5,525	4.4%
Operating Profit (PPP)	5,919	4,530	30.7%	6,333	-6.5%
Provisions & Write Offs	509	1,048	-51.4%	805	-36.7%
PBT	5,410	3,482	55.4%	5,527	-2.1%
Tax	1,475	872	69.2%	1,433	3.0%
Reported Profit	3,935	2,610	50.8%	4,095	-3.9%
Balance sheet Details					
Borrowings	1,94,768	1,81,363	7.4%	2,05,372	-5.2%
AUM	3,18,834	3,04,071	4.9%	3,06,650	4.0%
Asset Quality					
Gross NPAs	5,133	4,257	20.6%	6,133	-16.3%
Net NPAs	4,527	3,041	48.9%	5,520	-18.0%
Gross NPA (%)	1.6%	1.4%	0.2%	2.0%	-0.4%
Net NPA (%)	1.4%	1.0%	0.4%	1.8%	-0.4%
Coverage (%)	88.2%	71.4%	16.8%	90.0%	-1.8%
NIM – calc	14.0%	12.4%	1.5%	14.1%	-0.1%
AUM (Rs mn)					
Gold Loan	1,86,141	2,04,517	-9.0%	1,91,903	-3.0%
Micro finance	80,655	68,591	17.6%	71,181	13.3%
Commercial Vehicle	21,121	15,097	39.9%	18,855	12.0%
Home Loan	10,048	8,167	23.0%	9,216	9.0%
Other Loan (Hypo, Against NCD)	20,868	7,699	171.0%	15,494	34.7%
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:

- **AUM recorded a growth of 4.9%YoY/4%QoQ** mainly led by non-gold segments as management reiterated its strategy to become diversified NBFC.
- **Gold Loan AUM declined 3% QoQ** as demand from target segment was muted and competitive intensity remained elevated. Management expects gold loan AUM to recover and grow from next quarter.
- **Yields increased to 22.4% vs 21.9% in Q2FY23** and the company will continue to maintain 21-22% of yields in future, as teaser rates have been discontinued.
- **Cost of Funds increased by 40bps QoQ** to 8.5%. In Jan-23, the company redeemed bonds worth \$300mn and expects borrowing cost to remain range bound.
- **Company added 0.5mn new customers in Q3** and total customers stood at 2.4mn. Average ticket size for gold loan was Rs. 55,015 with average tenor of 73 days.
- **SME lending is gaining traction with Rs. 1.5-1.6bn monthly disbursement.** Also, the company has re-entered lending to NBFCs with an average yield of 13.3% and ATS of Rs. 120mn.
- **Around 100 gold loan branches are being added every quarter** and total gold loan branches have crossed 4,000.
- **Company has given guidance of 20% CAGR** in AUM growth and 20% Return on Equity.
- Auctions for the quarter were Rs. 3.5bn
- **As part of succession planning, MGFL inducted Dr. Sumitha Jayasankar,** daughter of Mr. V P Nandakumar, as Executive Director in the company. Currently she is looking after expansion of Vehicle Finance segment.

Exhibit 2: EPS estimates upgraded by 6% for FY25 on lower cost of funds, maintain BUY rating with target price at Rs 144

(Rs mn)	Old			Revised			Change in Estimates		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Net Interest Income	46,234	48,664	51,667	46,234	48,664	53,304	0.0%	0.0%	3.2%
Operating Profit	26,885	28,635	28,241	26,885	28,635	29,879	0.0%	0.0%	5.8%
Net Profit	17,130	19,101	19,111	17,130	19,101	20,337	0.0%	0.0%	6.4%
EPS (Rs)	19.6	22.7	22.7	19.6	22.7	24.1	0.0%	0.0%	6.4%
Price Target (Rs)		144			144			-	
Reco		BUY			BUY				

Source: PL

Exhibit 3: Target price unchanged at 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	5.1
Current price, Rs	116
Upside (%)	24%
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	35,491
Net interest income	39,687	46,234	48,664	53,304
<i>Growth(%)</i>	(2.2)	16.5	5.3	9.5
Non-interest income	1,463	1,970	2,161	2,387
<i>Growth(%)</i>	52.8	34.7	9.7	10.4
Net operating income	41,150	48,203	50,825	55,691
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	29,879
<i>Growth(%)</i>	(17.6)	18.5	6.5	4.3
Provisions	4,862	4,009	3,126	2,719
Profit Before Tax	17,835	22,876	25,509	27,159
Tax	4,548	5,746	6,408	6,822
<i>Effective Tax rate(%)</i>	25.5	25.1	25.1	25.1
PAT	13,287	17,130	19,101	20,337
<i>Growth(%)</i>	(23.0)	28.9	11.5	6.5

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	1,23,507
Networth	83,684	91,634	1,07,796	1,25,192
<i>Growth (%)</i>	14.5	9.5	17.6	16.1
Loan funds	2,41,185	2,71,564	3,07,777	3,44,994
<i>Growth (%)</i>	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	4,85,297
Application of funds				
Net fixed assets	727	727	727	727
Advances	2,89,713	3,19,682	3,63,301	4,12,983
<i>Growth (%)</i>	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	4,85,297
<i>Growth (%)</i>	7.9	11.3	14.2	12.9
Business Mix				
AUM	3,02,608	3,19,680	3,63,299	4,12,981
<i>Growth (%)</i>	11.2	5.6	13.6	13.7
On Balance Sheet	-	-	-	-
<i>% of AUM</i>	-	-	-	-
Off Balance Sheet	-	-	-	-
<i>% of AUM</i>	-	-	-	-

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	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Int. Inc. / Operating Inc.	13,933	14,612	16,078	16,574
Income from securitization	-	-	-	-
Interest Expenses	4,948	5,046	5,284	5,657
Net Interest Income	8,985	9,566	10,795	10,917
<i>Growth (%)</i>	(14.5)	(7.0)	9.4	19.3
Non-Interest Income	980	416	1,063	772
Net Operating Income	9,965	9,981	11,858	11,688
<i>Growth (%)</i>	(9.9)	(7.6)	11.6	19.8
Operating expenditure	4,912	4,890	5,525	5,769
PPP	5,053	5,091	6,333	5,919
<i>Growth (%)</i>	-	-	-	-
Provision	1,514	1,283	805	509
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	3,539	3,808	5,527	5,410
Tax	930	989	1,433	1,475
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	26.3	26.0	25.9	27.3
PAT	2,610	2,819	4,095	3,935
<i>Growth</i>	(44)	(35)	11	51
AUM	3,02,608	3,07,595	3,06,650	3,18,834
YoY growth (%)	11.2	24.3	7.9	4.9
Borrowing	-	-	-	-
<i>YoY growth (%)</i>	(100.0)	-	-	-

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	116	116	116	116
EPS (Rs)	15.8	19.6	22.7	24.1
Book value (Rs)	99.3	108.7	127.9	154.9
Adj. BV(Rs)	93.7	103.3	122.4	148.6
P/E(x)	7.4	5.9	5.1	4.8
P/BV(x)	1.2	1.1	0.9	0.7
P/ABV(x)	1.2	1.1	0.9	0.8
DPS (Rs)	3.3	3.5	3.5	3.5
<i>Dividend Payout Ratio(%)</i>	-	-	-	-
<i>Dividend Yield(%)</i>	2.8	3.0	3.0	3.0

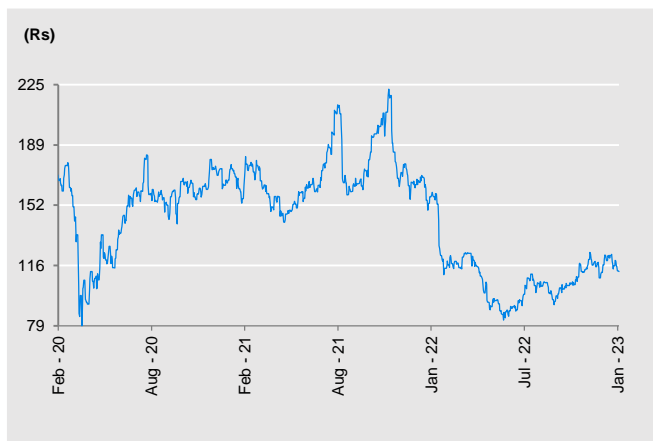
Asset Quality

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	12.9
NII INCL. Securitization	13.1	14.5	13.4	12.9
Total income	13.6	15.1	14.0	13.5
Operating Expenses	5.4	6.1	5.6	5.7
PPOP	8.2	9.0	8.4	7.8
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-Jan-23	BUY	144	119
2	14-Nov-22	BUY	144	117
3	06-Oct-22	BUY	126	99
4	05-Aug-22	BUY	126	102
5	07-Jul-22	BUY	126	91
6	19-May-22	BUY	126	105
7	12-Apr-22	BUY	151	124

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	7,835	5,761
2	Cholamandalam Investment and Finance Company	BUY	820	750
3	L&T Finance Holdings	BUY	109	95
4	Mahindra & Mahindra Financial Services	Hold	230	234
5	Manappuram Finance	BUY	144	119
6	Muthoot Finance	BUY	1,431	1,068
7	SBI Cards and Payment Services	Accumulate	935	745
8	Shriram Finance	BUY	1,486	1,270

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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