

Manappuram Finance

BUY

Gold loan growth target maintained

Summary

The management has maintained that it expects the gold loan growth to be in the range of 8%-10% YoY on a conservative basis while sustaining gold loan yields at existing levels. Further the overall AUM growth guidance has been maintained above 20% YoY. The management is of the opinion that the new risk weight norms announced by RBI will not have any significant impact on the business of the company. However, it expects the cost of borrowings to increase by 15-25bps going forward on both, the incremental as well as the existing borrowings. The company is confident of its ability to pass on the same. We have moved to FY26E estimates and maintain 'BUY' rating with a TP of Rs. 205, valuing it at 1.15x P/ABV FY26E as competition intensity eases.

Key Highlights and Investment Rationale

- Gold loan growth:** The management expects the overall gold loan portfolio to grow by 8%-10% on a YoY basis along with sustaining the gold loan yield at current levels of ~22%. Further, it expects the ATS to remain within the current range of ~Rs50,000-60,000.
- Stable growth across business verticals:** The company is experiencing steady growth across all its business verticals including vehicle finance hence diversifying its revenue avenues while reducing its dependence on gold loan portfolio (in line with its target of achieving a 50-50 balance between gold and non-gold portfolio)
- Outlook:** Competition intensity impacted AUM growth as well as margins. However, H1FY24 reflected improvement in margins and the management opined that competitive intensity seemed to have peaked. We believe that the company has potential to report RoA above 3.5%.

TP **Rs 205**

CMP **Rs 152**

Potential upside/downside **35%**

Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	13.5	8.7	33.9
Rel to Sensex	9.8	6.7	27.7

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	25.3	27.6	30.3
Consensus	23.0	26.4	29.7
% difference	9.8	4.7	2.1

Key Stock Data

Bloomberg/Reuters	MGFL IN /MNFL.BO
Sector	Finance
Shares o/s (mn)	846
Market cap. (Rs mn)	128,277
3-m daily avg Trd value (Rs mn)	329.9
52-week high / low	Rs162 / 101
Sensex / Nifty	66,174 / 19,890

Shareholding Pattern (%)

Promoters	35.2
FII	27.1
DII	11.1
Public	26.6

Financial snapshot

(Rs mn)

Year	FY2022	FY2023	FY2024E	FY2025E	FY2026E
NII	38,284	42,526	54,627	63,399	72,117
Net Profit	13,287	15,002	21,418	23,340	25,607
EPS (Rs)	15.7	17.7	25.3	27.6	30.3
ABV (Rs)	92.3	110.2	130.7	153.0	177.8
PER (x)	9.6	8.5	5.9	5.4	5.0
P/ABV (x)	1.6	1.4	1.1	1.0	0.8
ROE (%)	17.0	16.7	20.3	18.7	17.7
ROA (%)	4.1	4.1	4.9	4.5	4.3
GNPA (%)	3.4	1.8	2.0	2.0	2.0
NNPA (%)	1.8	0.9	1.0	1.0	1.0
CAR (%)	31.3	31.7	31.2	31.7	32.1

Source: IDBI Capital Research

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Analyst meet highlights:

- The management is of the opinion that the new risk weights announced by RBI will not have too much of an impact on the company. Further, it expects the cost of borrowing to go up by 15-25bps while availability does not seem to be a challenge.
- The impact of the same might be seen on the existing as well as incremental borrowings, however the management is yet to receive full clarity on the scenario and the same will depend on negotiations with the banks.
- Gold loan yield: The management expects ~3-4% growth in Q4 for gold loan portfolio whereas the management is expecting Q3 to be moderate in terms of growth. Hence on a conservative basis, the management expects a YOY growth of 8-10% for FY24 in gold loan portfolio.
- The management intends to diversify the sources of funds and is currently in the process of exploring the same.
- The banks are focused on loans with an average ticket size (ATS) of Rs 2 lakh and above hence, the management does not expect any more increase in the competitive intensity from this front.
- The management has iterated that it will pass on any incremental cost of borrowings to its customers.
- Peak auction surplus fund lying with the company was ~Rs. 53cr which has now been reduced to ~Rs. 30cr and the company is working towards paying off the same.
- Out of the Rs. 30cr outstanding, Rs. 22cr pertains to customer loans before 2017 when KYC regulations were not applicable. Hence the management is facing some degree of difficulty in tracing the customers. The amount of Rs. 30 cr outstanding is payable to ~2.15 lakhs customers.
- The management expects to maintain a balance of 50-50 between its gold and non gold loan business portfolio.
- The company is experiencing stable growth in other business portfolio apart from gold loan even though the ROA on the same is slightly lower as compared to gold loan business. However, these businesses have seen a steady growth in profitability, hence diversifying sources of income for the company.

- Further, management expects the other business verticals to show improved ROE levels going forward in the medium term.
- The monthly disbursal run rate for Vehicle Finance (VF) stood at ~ Rs 300cr and ~Rs 150-160cr for MSME business.
- Credit cost: In the standalone gold loan entity, the management does not expect the credit cost to go beyond 1%. However, for its subsidiary (Asirvad), the credit cost shot up during covid period and the on the back of the same, management expects the credit cost to remain in the range of 2.5%.
- The credit cost for the consolidated entity is expected to remain at ~40 bps.
- The focus of the management for its MSME book is on monitoring cheque bounce cases. Majority of the manpower has been directed towards customer relationship building as a result of which the collection efficiency before the due date stands at 94% currently.
- Under VF business, there are 4 major segments: Commercial vehicles (CV) (ATS ~ Rs.7.5-8L), 2 wheelers, Farm equipment and Auto loans. The company has separate underwriting policies for all the 4 segments which is reviewed and approved on an annual basis by the BOD
- Current growth for VF business stands at 50-60% YOY however, the current base is on the lower side hence the numbers seem to be high. Further, the management intends to remain focused on increasing this business at a faster rate.
- Current ROA for VF business stands at approximately 2% and the management expects the AUM to cross Rs. 4,300cr by the end of FY24. Current NPA stands at ~2.5% including the NPA during covid era. Further, the credit cost is expected to remain in the range of 1-1.5%

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Interest Income	20,438	16,078	19,363	27.1	5.6
Interest Expenses	6,894	5,284	6,484	30.5	6.3
Net Interest Income	13,543	10,795	12,879	25.5	5.2
NIM (%)	15.0	14.7	14.8	24 bps	16 bps
Non-Interest Income	1,303	1,063	1,209	22.5	7.8
Operating Income	14,846	11,858	14,088	25.2	5.4
Staff Cost	3,746	3,642	3,940	2.9	-4.9
Other Op Exp	2,436	1,883	2,128	29.4	14.5
Total Operating Expenses	6,182	5,525	6,068	11.9	1.9
<i>Cost to Income (%)</i>	<i>41.6</i>	<i>46.6</i>	<i>43.1</i>	<i>-496 bps</i>	<i>-143 bps</i>
<i>Cost to AUM (%)</i>	<i>6.0</i>	<i>7.0</i>	<i>7.0</i>	<i>-100 bps</i>	<i>-100 bps</i>
Operating Profit	8,664	6,333	8,020	36.8	8.0
Provisions	1,197	805	1,212	48.7	-1.2
<i>Credit Cost (%)</i>	<i>1.3</i>	<i>1.1</i>	<i>1.4</i>	<i>22 bps</i>	<i>-7 bps</i>
PBT	7,467	5,527	6,808	35.1	9.7
Tax	1,861	1,433	1,828	29.9	1.8
<i>-effective tax rate</i>	<i>24.9</i>	<i>25.9</i>	<i>26.9</i>	<i>-100 bps</i>	<i>-194 bps</i>
PAT	5,606	4,095	4,980	36.9	12.6
EPS (Rs)	6.6	4.8	5.9	36.9	12.6
BV (Rs)	124.9	105.8	119.1	18.0	4.9
AUM	3,89,507	3,06,649	3,70,605	27.0	5.1

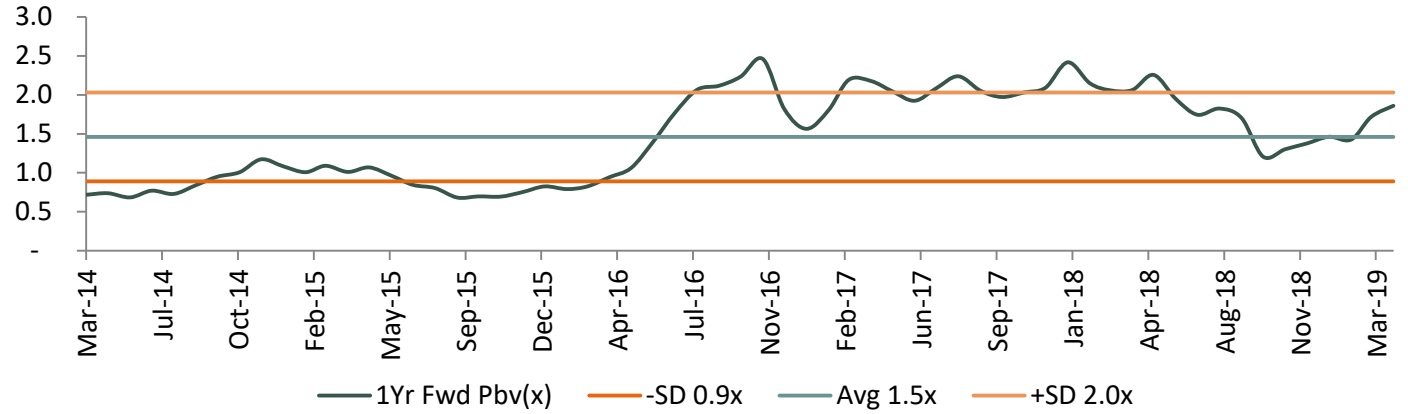
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24	FY25E	FY26E
NII	11.8	11.6	12.5	12.3	12.2
Non-Int Inc	0.9	0.8	1.1	0.8	0.8
Net Revenue	12.6	12.4	13.5	13.1	13.0
Op.Exp	5.7	6.0	5.9	6.1	6.3
Op.Profit	7.0	6.4	7.6	7.0	6.7
Provisions	1.5	0.8	1.1	0.9	0.9
-Standard	(0.1)	0.1	0.1	0.0	0.0
-Loan loss	1.6	0.7	1.0	0.9	0.9
PBT	5.5	5.6	6.5	6.0	5.8
Tax	1.4	1.5	1.6	1.5	1.5
ROA	4.1	4.1	4.9	4.5	4.3
Leverage (x)	4.2	4.1	4.1	4.1	4.1
ROE	17.0	16.7	20.3	18.7	17.7

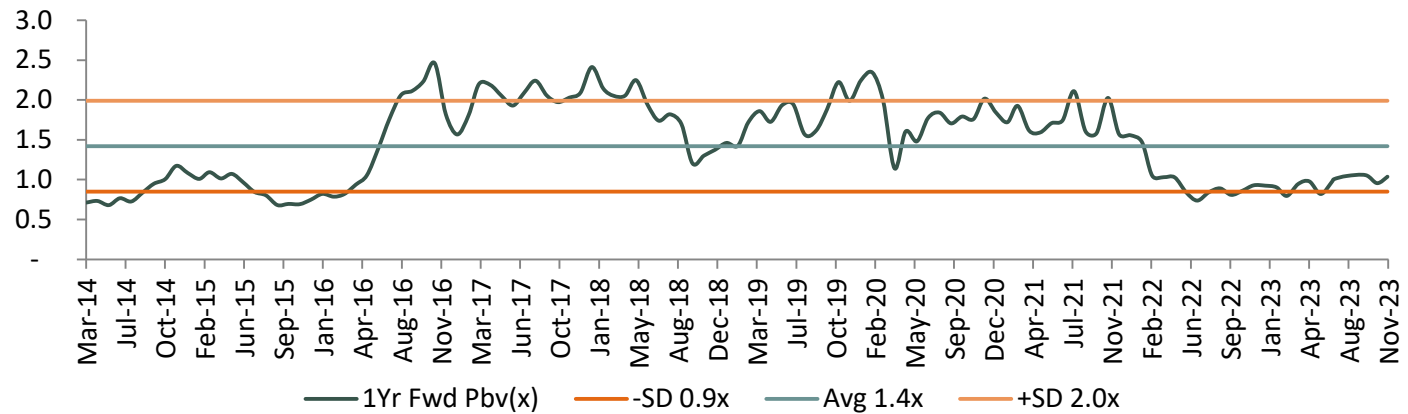
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-19)



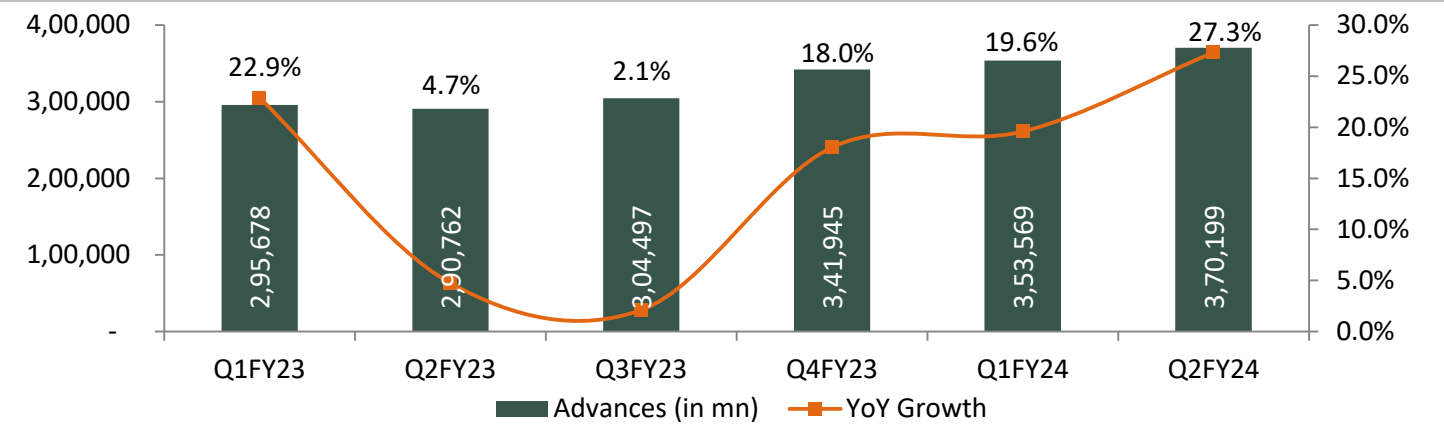
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY14-24)



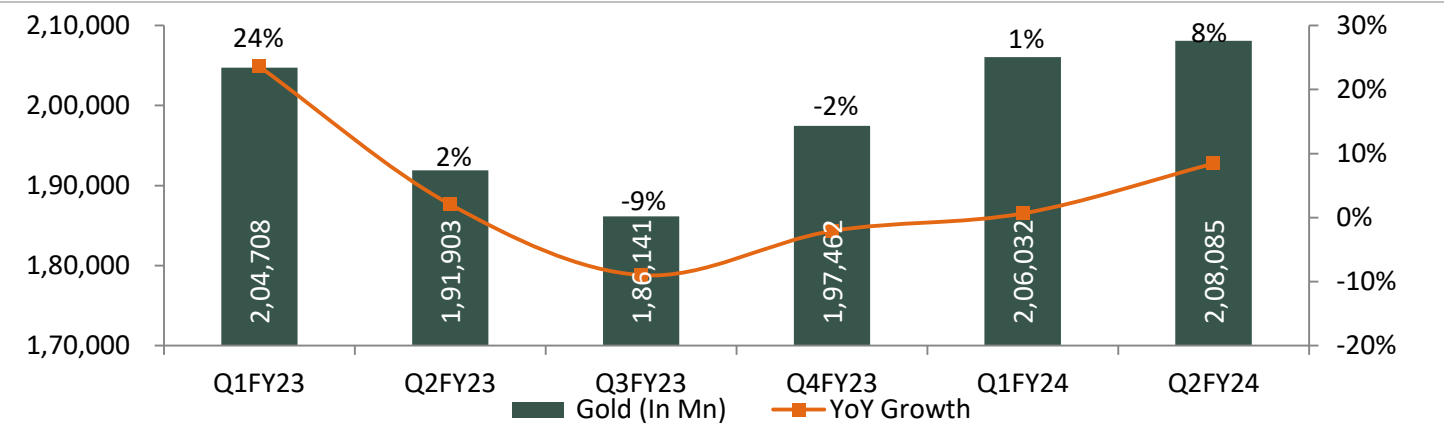
Source: Company; IDBI Capital Research

Exhibit 5: Advances growth witnessed strong growth traction during the qtr.



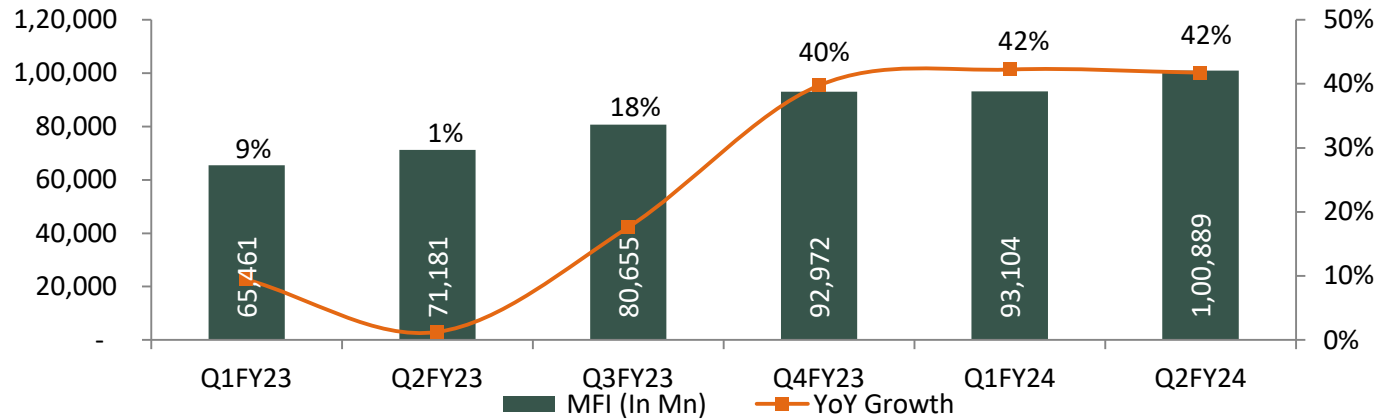
Source: Company; IDBI Capital Research

Exhibit 6: Gold Loan AUM growth witnessed significant improvement during the qtr.



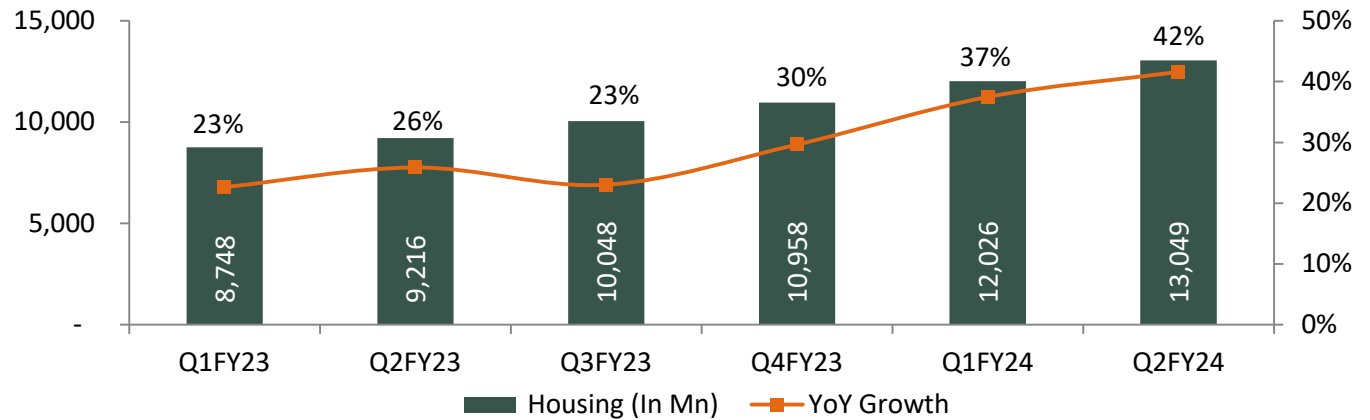
Source: Company; IDBI Capital Research

Exhibit 7: Micro Finance AUM growth continued to remain strong



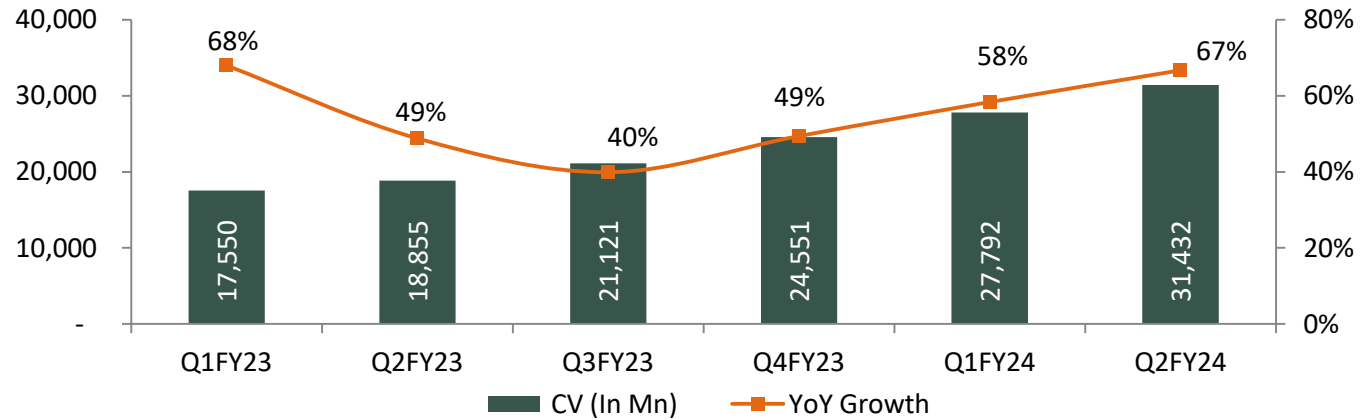
Source: Company; IDBI Capital Research

Exhibit 8: Housing AUM growth continued the strong growth momentum during the qtr



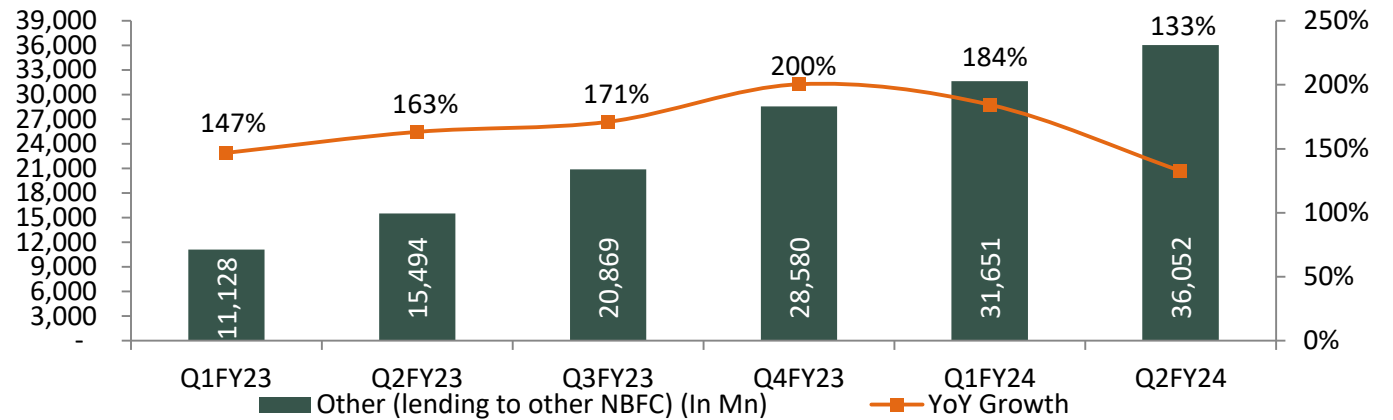
Source: Company; IDBI Capital Research

Exhibit 9: CV Segment AUM growth continued to improve during the qtr



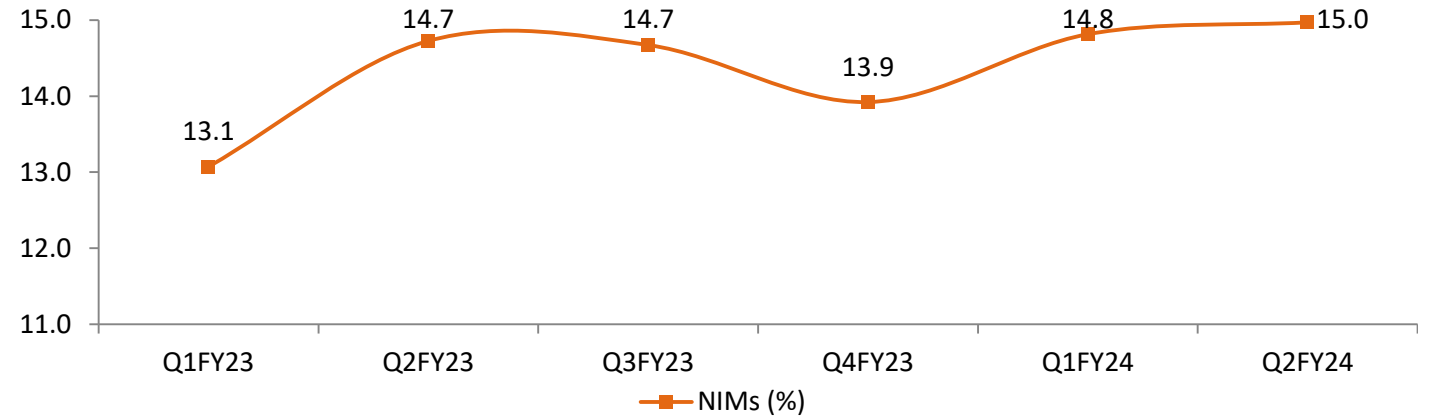
Source: Company; IDBI Capital Research

Exhibit 10: Others (Lending to other NBFC) AUM showed strong Y-o-Y growth rate



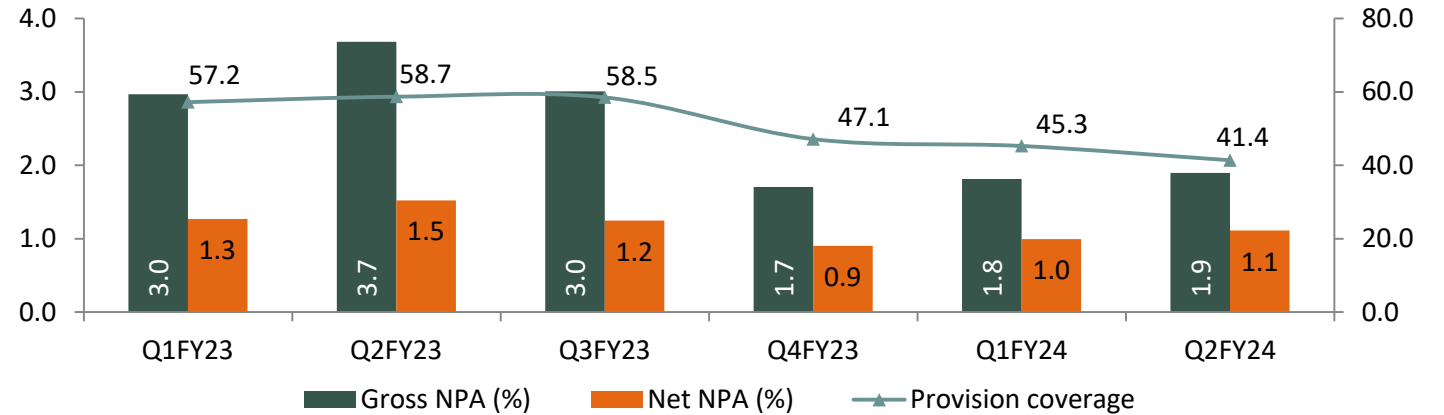
Source: Company; IDBI Capital Research

Exhibit 11: Net Interest margins inched up sequentially



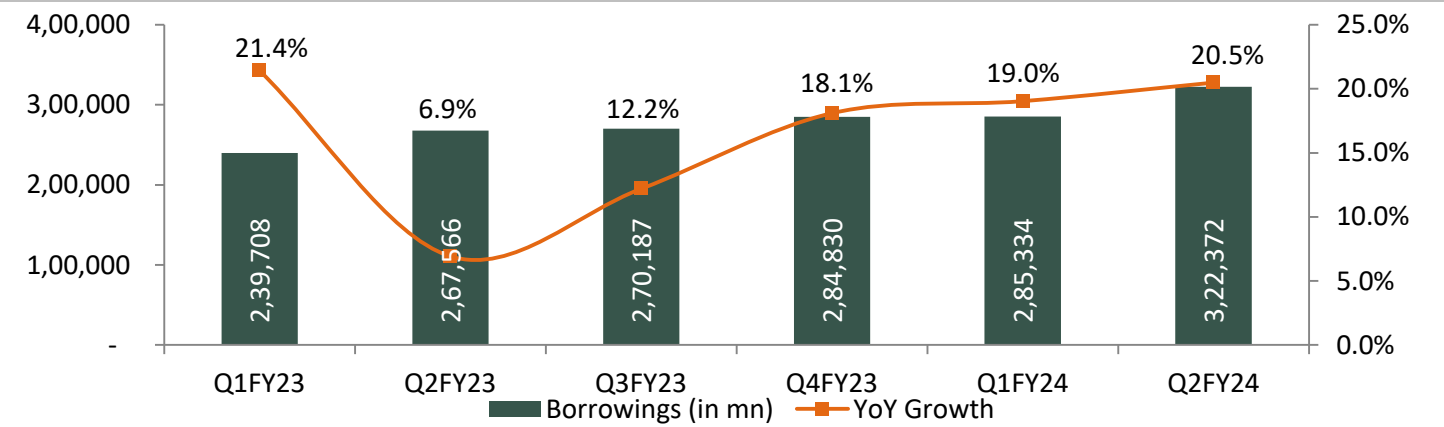
Source: Company; IDBI Capital Research

Exhibit 12: Asset quality declined marginally QoQ



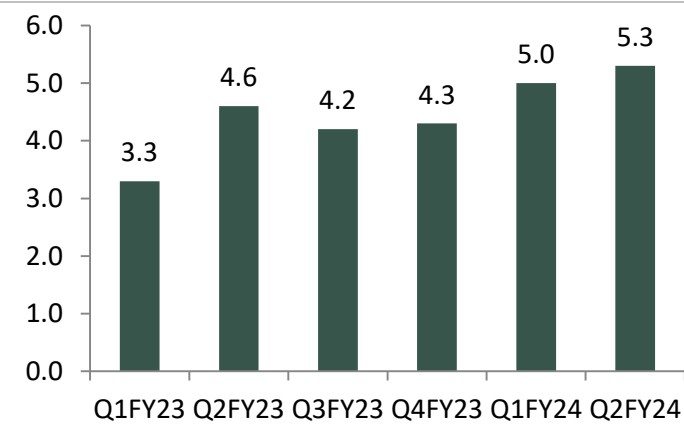
Source: Company; IDBI Capital Research

Exhibit 13: Borrowings growth rate witnessed up tick YoY



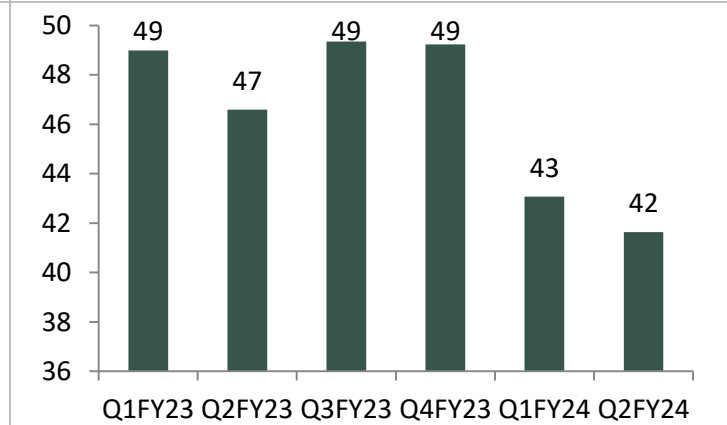
Source: Company; IDBI Capital Research

Exhibit 14: Return on Assets inched up QoQ



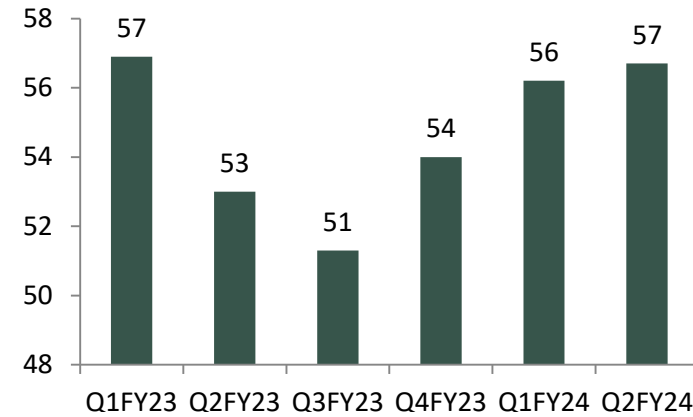
Source: Company; IDBI Capital Research

Exhibit 15: Cost to Income Ratio witnessed down tick sequentially



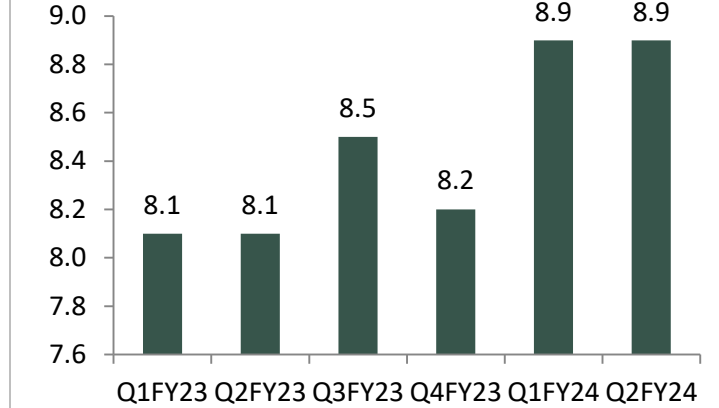
Source: Company; IDBI Capital Research

Exhibit 16: Average AUM per Branch inched up sequentially



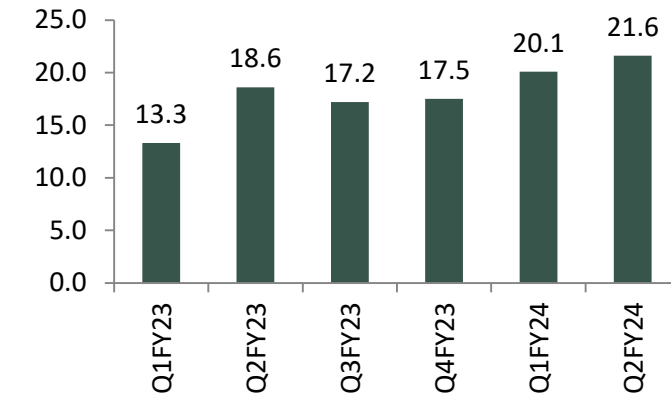
Source: Company; IDBI Capital Research

Exhibit 17: Cost of Funds remained stable QoQ



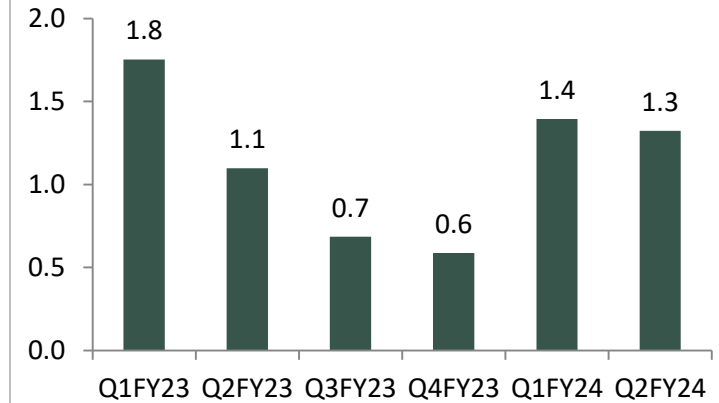
Source: Company; IDBI Capital Research

Exhibit 18: Return on Equity inched up in line with RoA



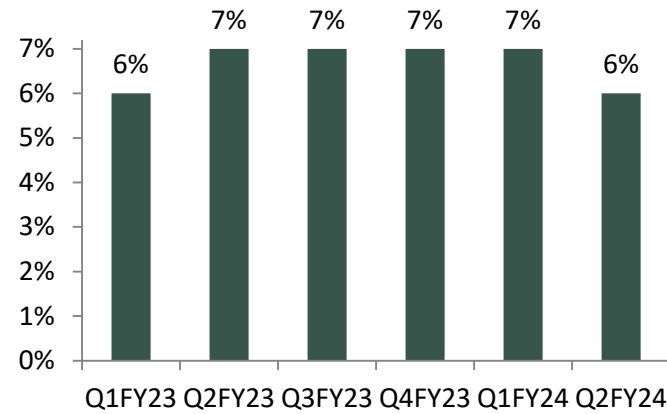
Source: Company; IDBI Capital Research

Exhibit 19: Credit Cost moderated sequentially



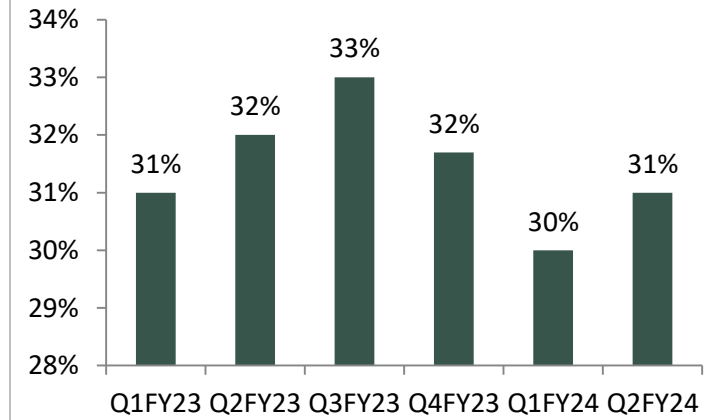
Source: Company; IDBI Capital Research

Exhibit 20: Opex to AUM(%)



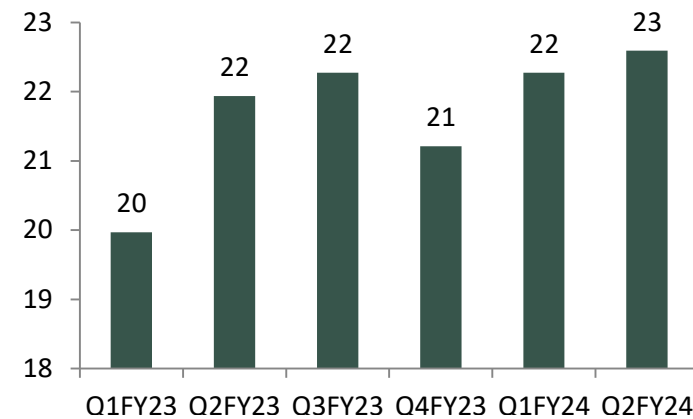
Source: Company; IDBI Capital Research

Exhibit 21: CAR remains comfortable



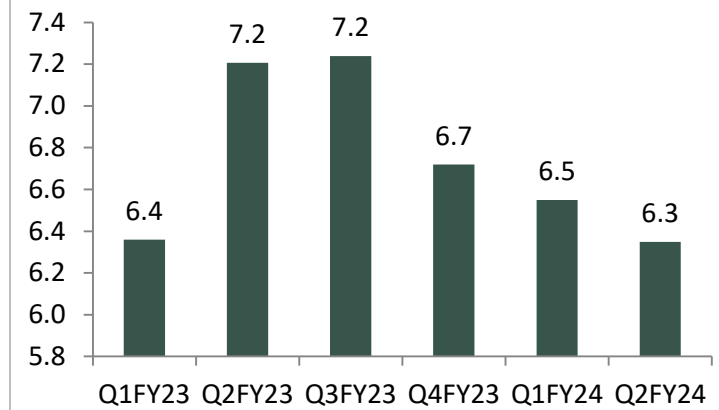
Source: Company; IDBI Capital Research

Exhibit 22: Yield on Loans improved QoQ



Source: Company; IDBI Capital Research

Exhibit 23: Costs to AUM witnessed downtick sequentially



Source: Company; IDBI Capital Research

Exhibit 24: AUM Mix (In Mn)

Consolidated AUM	Q2FY24	Q2FY23	Q1FY24	YoY	QoQ
Gold Loan	2,08,085	1,91,903	2,06,032	8.4	1.0
Micro Finance Loan	1,00,889	71,181	93,104	41.7	8.4
Housing Finance Loan	13,049	9,216	12,026	41.6	8.5
Vehicle Finance Loan	31,432	18,855	27,792	66.7	13.1
On-Lending	9,206	2,723	8,050	238.1	14.4
MSME & Other Loans	26,846	12,771	23,601	110.2	13.7
Total AUM	3,89,507	3,06,649	3,70,605	27.0	5.1

Source: Company; IDBI Capital Research

Exhibit 25: AUM Mix (In %)

Consolidated AUM	Q2FY24	Q2FY23	Q1FY24	YoY	QoQ
Gold Loan	53.4	62.6	55.6	-916 bps	-217 bps
Micro Finance Loan	25.9	23.2	25.1	269 bps	78 bps
Housing Finance Loan	3.4	3.0	3.2	34 bps	11 bps
Vehicle Finance Loan	8.1	6.1	7.5	192 bps	57 bps
On-Lending	2.4	0.9	2.2	148 bps	19 bps
MSME & Other Loans	6.9	4.2	6.4	273 bps	52 bps
Total AUM	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 26: Consolidated Borrowing Mix (In Mn)

Borrowing Mix	Q2FY24	Q2FY23	Q1FY24	YoY	QoQ
WCDL / CC	88,733	61,792	76,918	43.6	15.4
Term Loan	1,61,983	1,03,140	1,41,165	57.1	14.7
NCD/Bonds	58,735	67,980	57,849	(13.6)	1.5
External Commercial Borrowing	6,502	27,919	9,401	(76.7)	(30.8)
Commercial Paper	6,419	6,720	-	(4.5)	-
Others	1	16	1	(93.8)	-
Total Borrowings	3,22,373	2,67,567	2,85,334	20.5	13.0

Source: Company; IDBI Capital Research

Exhibit 27: Consolidated Borrowing Mix (In %)

Borrowing Mix	Q2FY24	Q2FY23	Q1FY24	YoY	QoQ
WCDL / CC	27.5	23.1	27.0	443 bps	57 bps
Term Loan	50.2	38.5	49.5	1170 bps	77 bps
NCD/Bonds	18.2	25.4	20.3	-719 bps	-205 bps
External Commercial Borrowing	2.0	10.4	3.3	-842 bps	-128 bps
Commercial Paper	2.0	2.5	-	-52 bps	199 bps
Others	0.0	0.0	0.0	-1 bps	0 bps
Total Borrowings	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	39,707	38,284	42,526	54,627	63,399	72,117
<i>Change (yoy, %)</i>	17%	-4%	11%	28%	16%	14%
Non-Interest Income	1,850	2,866	3,095	4,631	4,280	4,908
Net Revenue	41,557	41,149	45,622	59,258	67,680	77,025
Operating expenses	13,995	18,453	22,140	25,827	31,700	37,355
Employee expenses	8,429	11,250	14,695	16,521	20,998	25,048
Other expenses	5,566	7,202	7,445	9,306	10,702	12,307
Pre-Provision Profit	27,562	22,697	23,482	33,431	35,980	39,669
<i>Change (yoy, %)</i>	23%	-18%	3%	42%	8%	10%
Provision	4,401	4,862	3,071	4,809	4,790	5,449
PBT	23,161	17,835	20,411	28,622	31,191	34,221
Taxes	5,911	4,548	5,409	7,204	7,851	8,613
<i>Effective tax rate (%)</i>	26%	26%	26%	25%	25%	25%
Net profit	17,250	13,287	15,002	21,418	23,340	25,607
<i>Change (yoy, %)</i>	17%	-23%	13%	43%	9%	10%
EPS	20.4	15.7	17.7	25.3	27.6	30.3
Return on Equity (%)	26.4	17.0	16.7	20.3	18.7	17.7
Return on Asset (%)	5.7	4.1	4.1	4.9	4.5	4.3

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital	1,693	1,693	1,693	1,693	1,693	1,693
Reserves	71,382	81,991	94,756	1,13,104	1,32,551	1,54,222
Networth	73,074	83,683	96,449	1,14,797	1,34,243	1,55,915
Borrowings	2,27,162	2,41,185	2,84,829	3,53,233	4,03,227	4,58,857
Other liabilities	13,142	13,238	13,764	12,935	14,140	16,119
Total Liab. & Equity	3,13,378	3,38,107	3,95,041	4,80,965	5,51,611	6,30,890
Fixed Assets	2,942	3,639	4,478	4,926	5,418	5,960
Investments	3,380	4,207	5,340	5,340	5,340	5,340
Loans	2,65,076	2,89,710	3,41,945	4,13,460	4,75,583	5,45,331
Cash	29,124	26,974	30,351	37,211	42,802	49,080
Other assets	12,856	13,576	12,927	20,027	22,466	25,179
Total assets	3,13,378	3,38,107	3,95,041	4,80,965	5,51,611	6,30,890

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth						
Advances	9.1	9.3	18.0	20.9	15.0	14.7
NII	17.3	(3.6)	11.1	28.5	16.1	13.7
Pre-Provision Profit	22.8	(17.7)	3.5	42.4	7.6	10.3
Net Profit	16.5	(23.0)	12.9	42.8	9.0	9.7
Spreads						
Yield on Assets	24.4	21.1	20.4	21.9	21.9	21.9
Cost of Funds	9.8	8.6	8.3	8.9	9.0	9.2
NIM	15.6	13.8	13.5	14.5	14.3	14.1
Spread	14.6	12.5	12.1	13.1	12.9	12.7
Operating Efficiency						
Cost-to-Income	33.7	44.8	48.5	43.6	46.8	48.5
Cost-to-AUM	5.5	6.7	7.0	6.8	7.1	7.3
Asset Quality						
GNPA	2.3	3.4	1.8	2.0	2.0	2.0
NNPA	1.1	1.8	0.9	1.0	1.0	1.0
Provision Coverage	52.8	44.1	47.1	49.0	50.1	50.8
Credit Cost	0.5	0.3	0.1	1.3	1.1	1.1
Capital Adequacy						
CAR	29.0	31.3	31.7	31.2	31.7	32.1
Tier I	28.7	31.0	31.7	31.2	31.7	32.1
Valuation						
EPS	20.4	15.7	17.7	25.3	27.6	30.3
ABV	83.0	92.3	110.2	130.7	153.0	177.8
P/E	7.4	9.6	8.5	5.9	5.4	5.0
P/ABV	1.8	1.6	1.4	1.1	1.0	0.8
ROE	26.4	17.0	16.7	20.3	18.7	17.7
ROA	5.7	4.1	4.1	4.9	4.5	4.3

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578**Compliance Officer:** Ms. Sunita Rangankar; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907**Disclaimer**

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