

Manappuram Finance

BUY

Gold AUM declines; MFI portfolio performance improves

Summary

Manappuram Finance's Gold loan portfolio de-grew by 3% QoQ (down 9% YoY) led by higher competitive intensity. Overall AUM growth grew by 5% YoY vs 8%YoY (Q2FY23). MFI reported PAT of Rs.705mn vs Rs.566mn QoQ led by lower provisions and better disbursements. We need to watch out for recovery in MFI portfolio (Q4FY23). NII grew by 19% YoY led by improvement in NIMs; PPOP grew by 31% YoY led by lower opex (up 10% YoY). PAT grew by 51% YoY led by lower provisions (down 51% YoY). Management guided for low yielding segment to decline from 25% to 15% which could have some impact on gold loan growth. We have moved to FY25Estimates and maintain 'BUY' rating with a TP of Rs.148 (Rs.140), valuing it at 1.0x P/ABV FY25E as competition intensity from NBFCs impacts growth prospectus (need to watch for gold loan growth).

Key Highlights and Investment Rationale

- AUM growth further slowdown:** AUM grew by 5% YoY (8% YoY Q2FY23) led by reduction in gold portfolio; declined by 9% YoY (down 3% QoQ). While non-gold portfolio grew by 16% QoQ (up 33% YoY). Gold AUM growth was impacted due to higher competitive intensity. Gold holdings declined by 5% QoQ (down 14% YoY) to 60 tonne. Management guided for flat gold loan portfolio for quarter or so; however non-gold portfolio to grow above 20%. We need to watch for competition from NBFCs.
- NIMs remain stable:** NIMs remain stable due to rise in yields on loan book led by rationalization of low-yielding schemes. Management guided for stabilization of yields going forward.
- Outlook:** Competition intensity impacted AUM growth as well as margins. However, Q3FY23 reflected sustainability of margins. We believe that the company has potential to report RoA above 3.5%.

TP **Rs 148**

CMP **Rs 116**

Potential upside/downside 27%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.4)	11.5	(26.1)
Rel to Sensex	(4.7)	11.7	(29.8)

V/s Consensus

EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	17.3	18.7	22.7
Consensus	17.4	20.6	23.8
% difference	(0.6)	(9.1)	(4.6)

Key Stock Data

Bloomberg/Reuters	MGFL IN /MNFL.BO
Sector	Finance
Shares o/s (mn)	846
Market cap. (Rs mn)	98,266
3-m daily avg Trd value (Rs mn)	63.8
52-week high / low	Rs161 / 82
Sensex / Nifty	60,842 / 17,854

Shareholding Pattern (%)

Promoters	35.2
FII	30.1
DII	10.9
Public	23.8

Financial snapshot

(Rs mn)

Year	FY2021	FY2022	FY2023E	FY2024E	FY2025E
NII	39,707	38,284	42,700	47,005	53,622
Change (yoy, %)	17%	-4%	12%	10%	14%
Net Profit	17,250	13,287	14,655	15,812	19,173
Change (yoy, %)	17%	-23%	10%	8%	21%
EPS (Rs)	20.4	15.7	17.3	18.7	22.7
Change (yoy, %)	16%	-23%	10%	8%	21%
BV (Rs)	86.3	98.9	113.0	128.4	147.8
PER (x)	5.7	7.4	6.7	6.2	5.1
P/BV (x)	1.3	1.2	1.0	0.9	0.8
ROE (%)	26.4	17.0	16.3	15.5	16.4
ROA (%)	5.7	4.1	4.1	3.9	4.1
GNPA (%)	2.3	3.4	2.9	3.0	3.0
NNPA (%)	1.1	1.8	0.9	0.9	0.8
CAR (%)	29.0	27.1	28.2	28.2	28.4

Source: IDBI Capital Research

Conference Call Highlights

- Consolidated PAT stood at 393Cr in Q3FY23 (up by 50.8% YoY) led by improved profitability in gold loan and turnaround in micro finance business.
- Cost of borrowings increased by around 59bps (due to increase in repo rate by 225bps).
- Redeemed US loan of around 300Mn which was due in Jan-23.
- Yield on Gold Loan stood at around 22.4% (vs. 21.9% in Q2FY23).
- Expecting Yields to be around 20-21%. The same is supporting growth and do not expect any dilution in the yields going forward.
- Gold loan upto 1 lakh is around 44%, 1-2 lakhs around 23%, 2-3 lakhs around 10%, 3 to 5 lakhs around 8% and above 5 lakhs is 15%.
- Expecting below 1 lakh ATS customers to increase going forward.
- Around 17% of the overall gold loan portfolio has a yield of below 12%.
- RoA on gold loan is around 6% (earlier it was around 8%).
- Lending to various segments under NBFC with an average yield of around 13.3%. ATS of the NBFC is around 12Cr (maximum amount lent is 30Cr).
- Targeting consolidated AUM to grow by around 20% and RoE of 20%.
- Over next two years, expecting gold loan to non-gold loan books mix to be around 50:50.
- In case of home loans, decided to enter into niche areas like health care professional loans as well as small hospitals with good potential.
- 4.8 lakhs new customers were added in Q3FY23 in gold loan portfolio.
- Gold Loan auction during Q3FY23 stood at around 353Cr.
- GNPA stood at around 1.61% (vs. 1.95% QoQ).
- Provisions and write offs in standalone entity stood at around 9.8Cr.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY23	Q3FY22	Q2FY23	YoY (%)	QoQ (%)
Interest Income	16,574	14,461	16,078	14.6	3.1
Interest Expenses	5,657	5,311	5,284	6.5	7.1
Net Interest Income	10,917	9,151	10,795	19.3	1.1
NIM (%)	14.7	12.7	14.7	196 bps	-5 bps
Non-Interest Income	772	607	1,063	27.1	-27.4
Operating Income	11,688	9,758	11,858	19.8	-1.4
Staff Cost	3,857	3,057	3,642	26.2	5.9
Other Op Exp	1,913	2,171	1,883	-11.9	1.6
Total Operating Expenses	5,769	5,228	5,525	10.3	4.4
<i>Cost to Income (%)</i>	<i>49.4</i>	<i>53.6</i>	<i>46.6</i>	<i>-422 bps</i>	<i>276 bps</i>
<i>Cost to AUM (%)</i>	<i>7.0</i>	<i>7.0</i>	<i>7.0</i>	<i>0 bps</i>	<i>0 bps</i>
Operating Profit	5,919	4,530	6,333	30.7	-6.5
Provisions	509	1,048	805	-51.4	-36.7
<i>Credit Cost (%)</i>	<i>0.7</i>	<i>1.5</i>	<i>1.1</i>	<i>-77 bps</i>	<i>-41 bps</i>
PBT	5,410	3,482	5,527	55.4	-2.1
Tax	1,475	872	1,433	69.2	3.0
<i>-effective tax rate</i>	<i>27.3</i>	<i>25.0</i>	<i>25.9</i>	<i>223 bps</i>	<i>135 bps</i>
PAT	3,935	2,610	4,095	50.8	-3.9
EPS (Rs)	4.6	3.1	4.8	50.7	-3.9
BV (Rs)	109.6	96.4	105.8	13.7	3.6
AUM	3,18,833	3,04,072	3,06,649	4.9	4.0

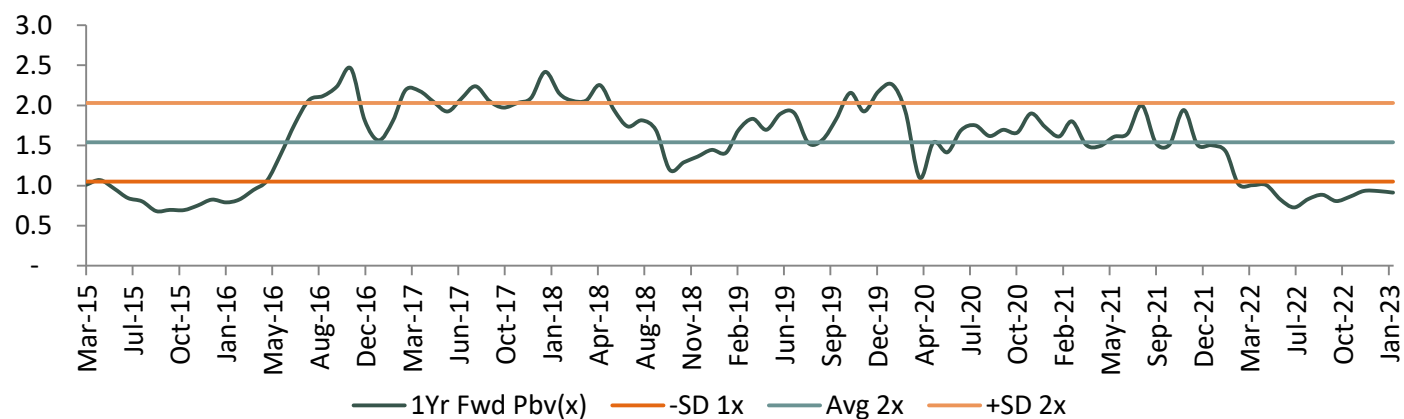
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY21	FY22	FY23E	FY24E	FY25E
NII	13.0	11.8	11.8	11.5	11.6
Non-Int Inc	0.6	0.9	0.8	0.8	0.8
Net Revenue	13.7	12.6	12.6	12.3	12.4
Op.Exp	4.6	5.7	6.2	6.2	5.9
Op.Profit	9.1	7.0	6.4	6.1	6.5
Provisions	1.4	1.5	0.9	1.0	1.0
-Standard	0.2	(0.1)	0.1	0.0	0.0
-Loan loss	1.2	1.6	0.8	0.9	0.9
PBT	7.6	5.5	5.5	5.2	5.5
Tax	1.9	1.4	1.4	1.3	1.4
ROA	5.7	4.1	4.1	3.9	4.1
Leverage (x)	4.7	4.2	4.0	4.0	4.0
ROE	26.4	17.0	16.3	15.5	16.4

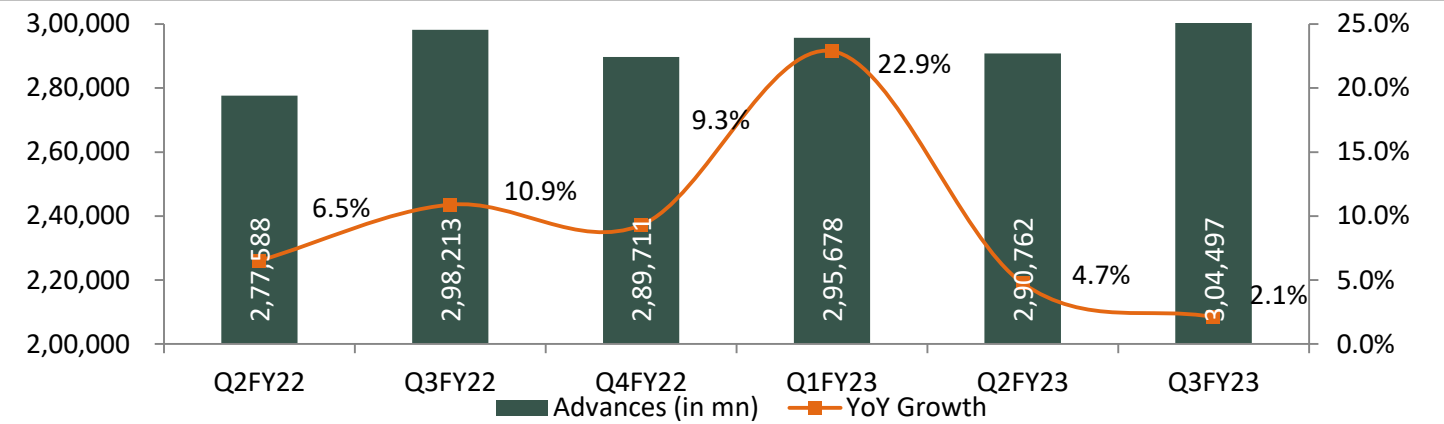
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/BV



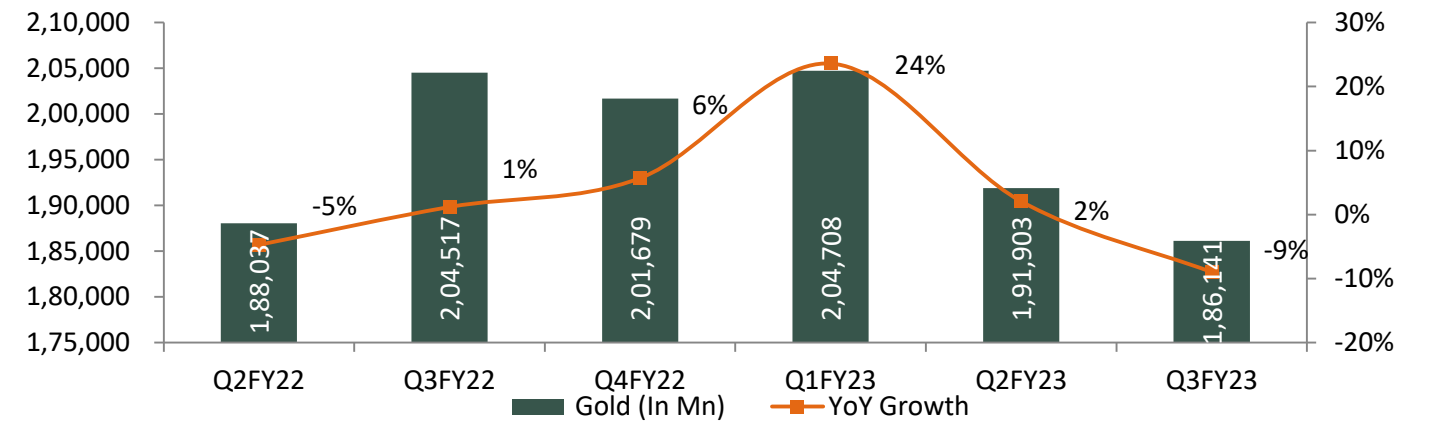
Source: Company; IDBI Capital Research

Exhibit 4: Advances growth continued to slow down on a sequential basis



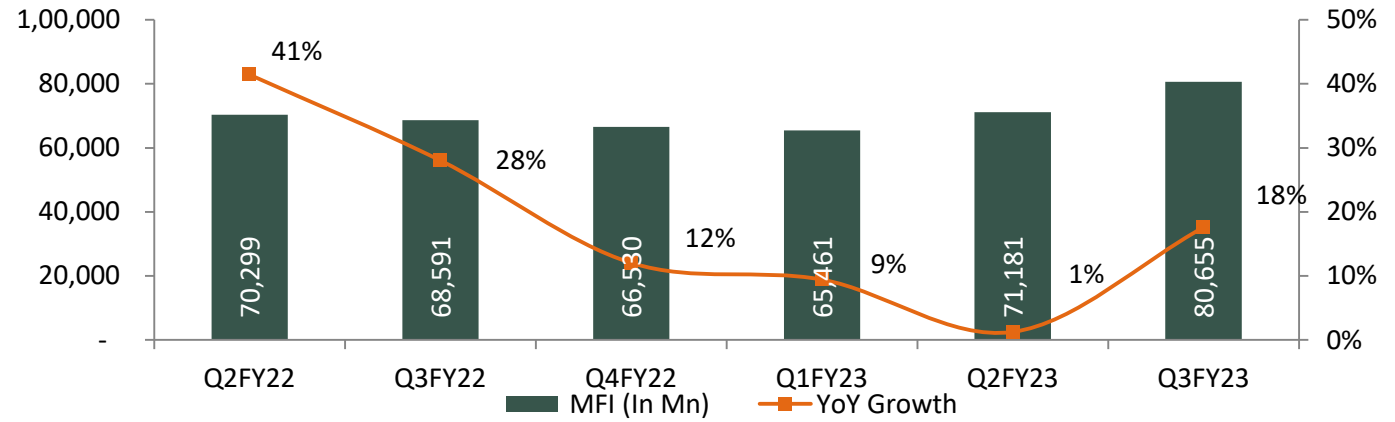
Source: Company; IDBI Capital Research

Exhibit 5: Gold Loan AUM growth witnessed downtick led by rationalization of low yield gold loans



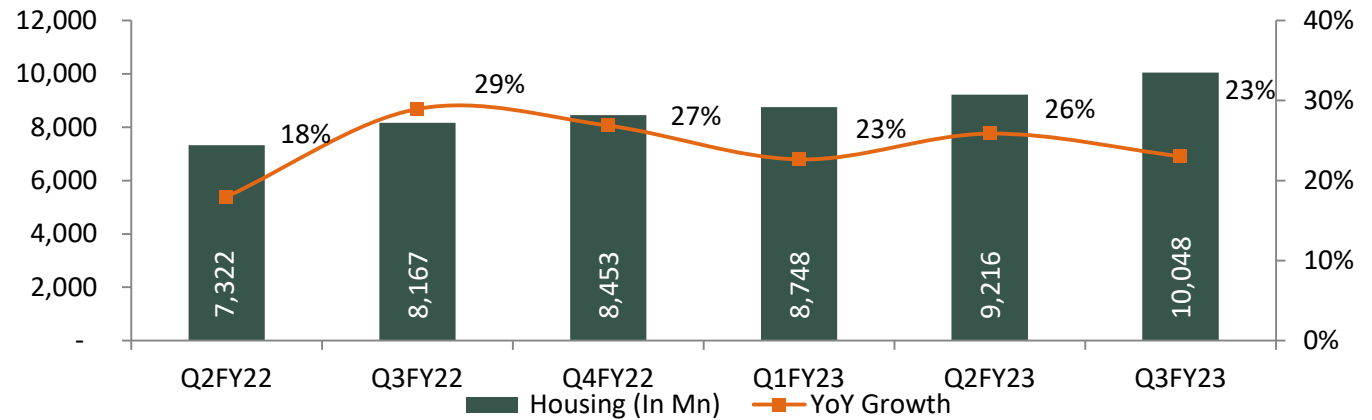
Source: Company; IDBI Capital Research

Exhibit 6: MFI AUM growth inched up sequentially



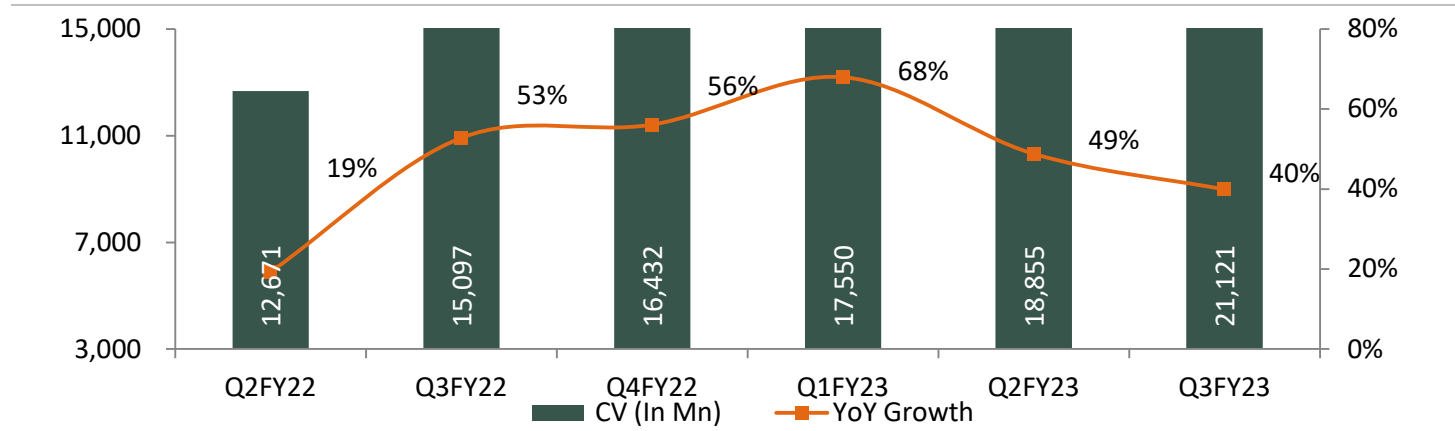
Source: Company; IDBI Capital Research

Exhibit 7: Housing AUM growth witnessed downtick QoQ



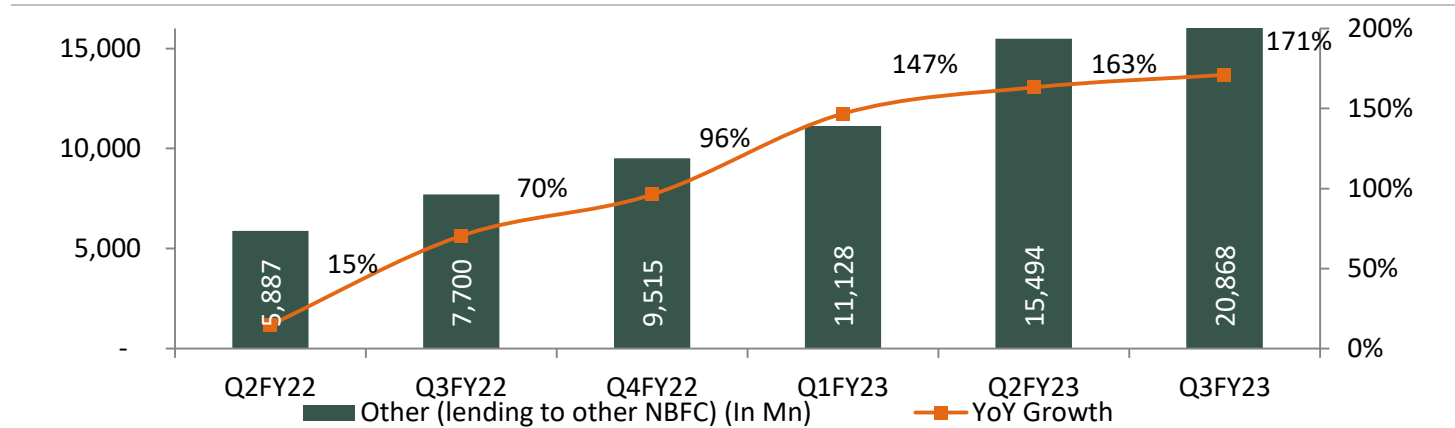
Source: Company; IDBI Capital Research

Exhibit 8: CV Segment AUM growth slowed down during Q3FY23



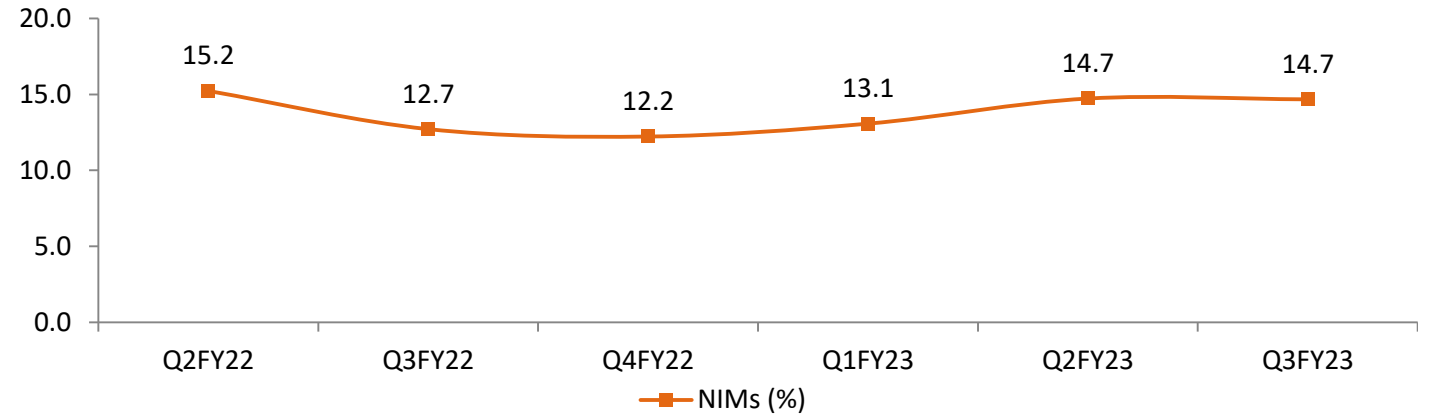
Source: Company; IDBI Capital Research

Exhibit 9: Others (Lending to other NBFC) AUM showed strong Y-o-Y growth rate



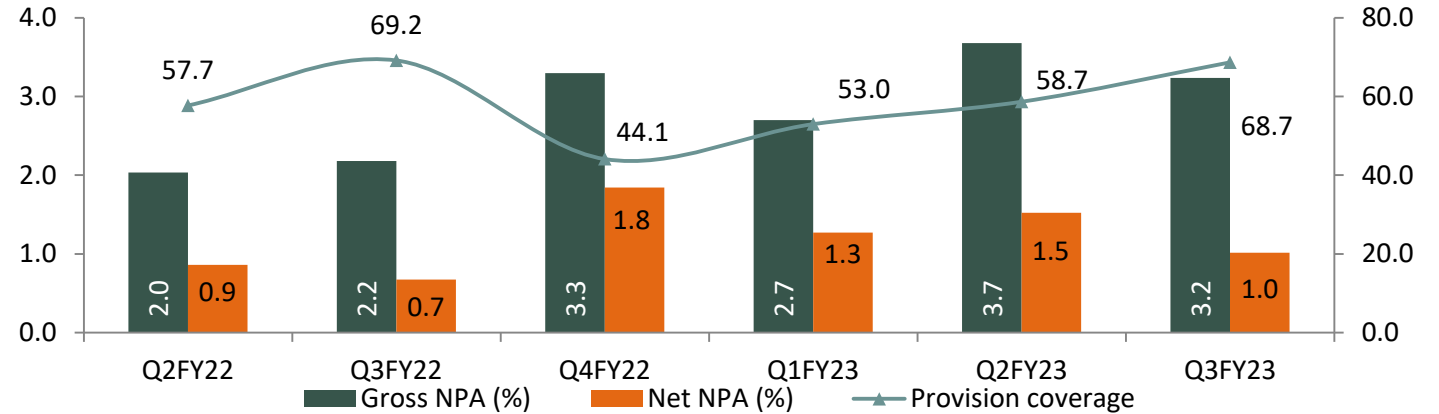
Source: Company; IDBI Capital Research

Exhibit 10: Net Interest margins remained stable sequentially



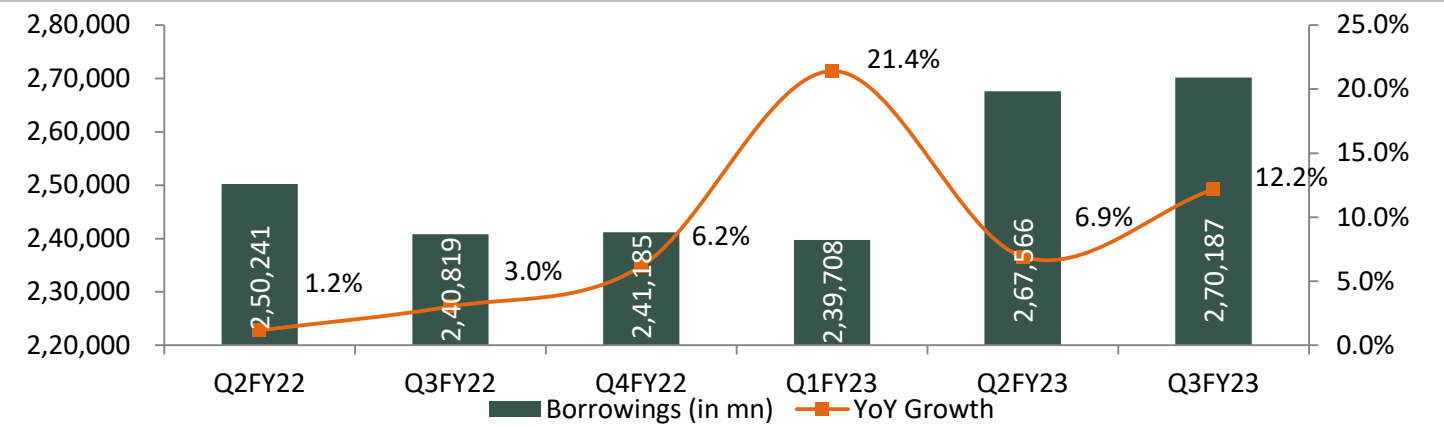
Source: Company; IDBI Capital Research

Exhibit 11: Asset quality improved sequentially



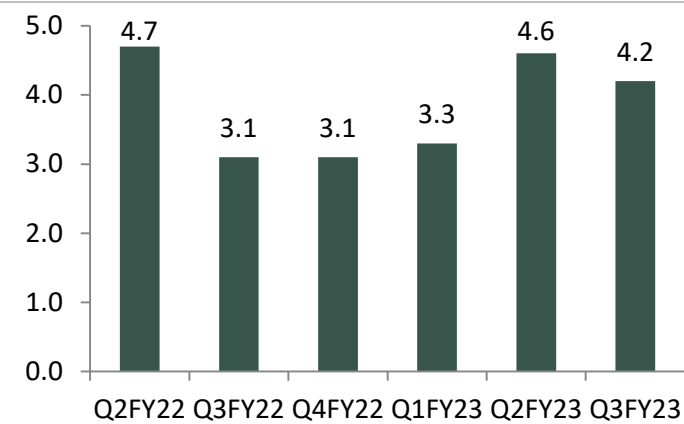
Source: Company; IDBI Capital Research

Exhibit 12: Borrowings growth rate witnessed up tick sequentially



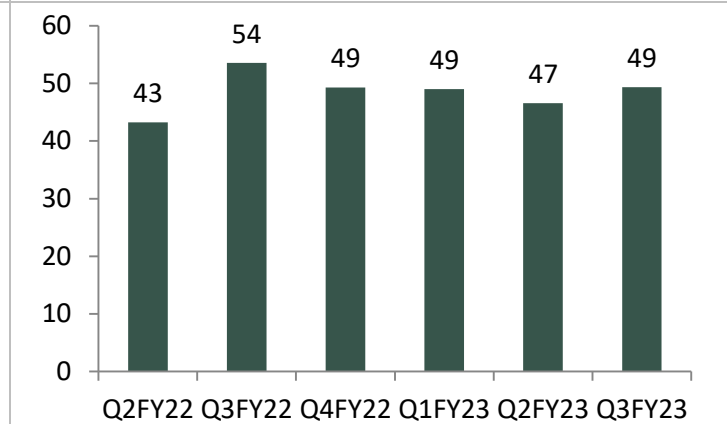
Source: Company; IDBI Capital Research

Exhibit 13: Return on Assets moderated QoQ



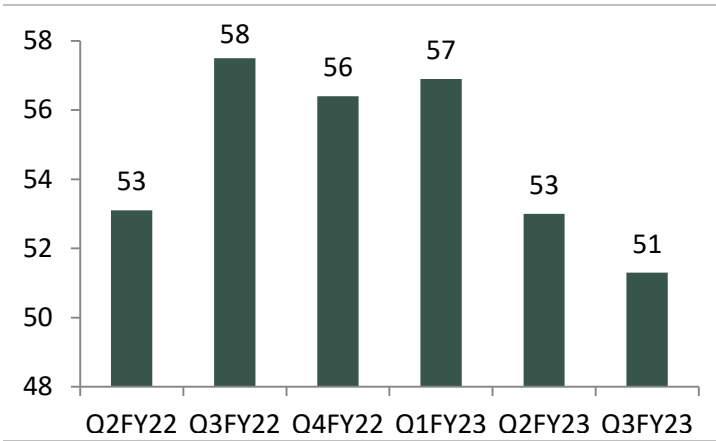
Source: Company; IDBI Capital Research

Exhibit 14: Cost to Income Ratio inched up QoQ



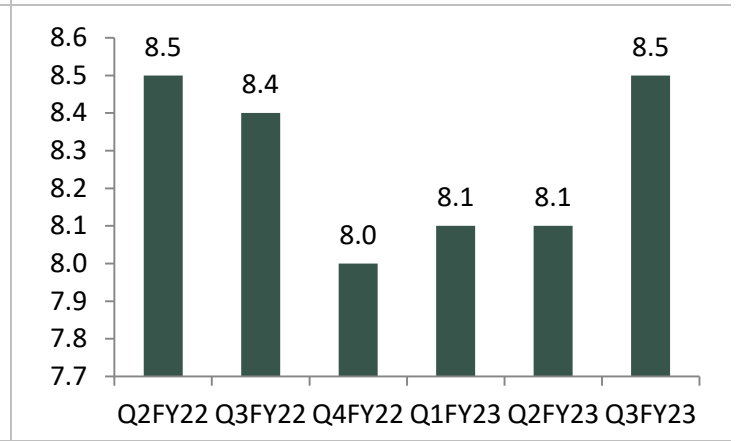
Source: Company; IDBI Capital Research

Exhibit 15: Average AUM per Branch declined sequentially



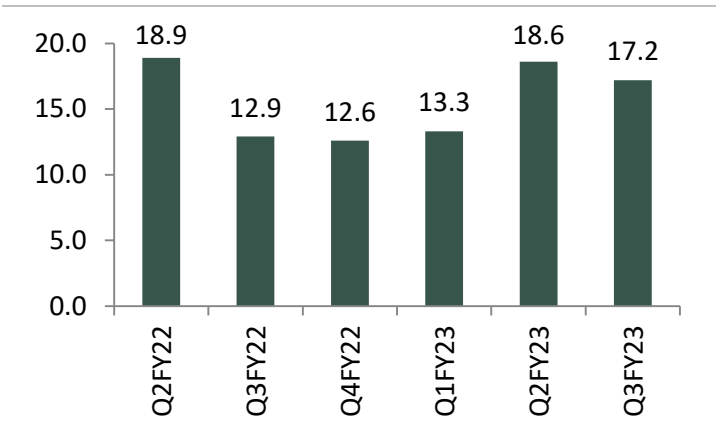
Source: Company; IDBI Capital Research

Exhibit 16: Cost of Funds witnessed uptick sequentially



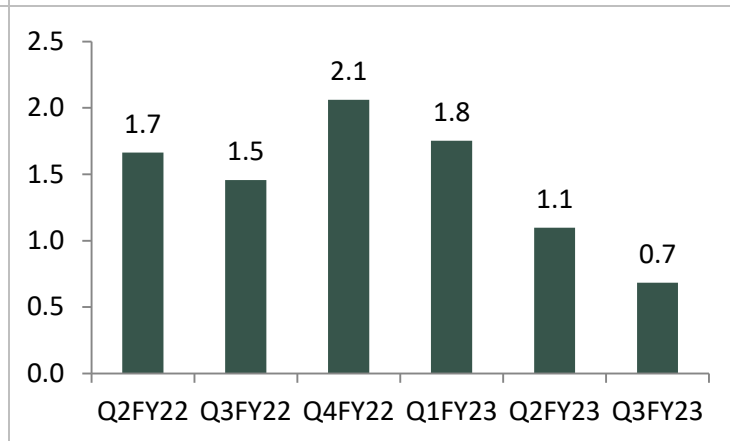
Source: Company; IDBI Capital Research

Exhibit 17: Return on Equity moderated sequentially



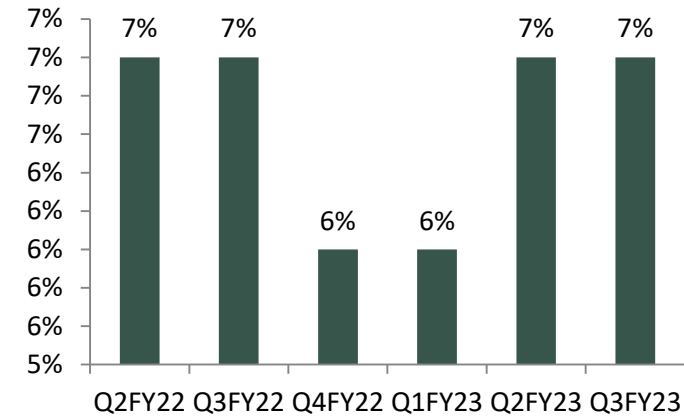
Source: Company; IDBI Capital Research

Exhibit 18: Credit Cost continued to decline sequentially



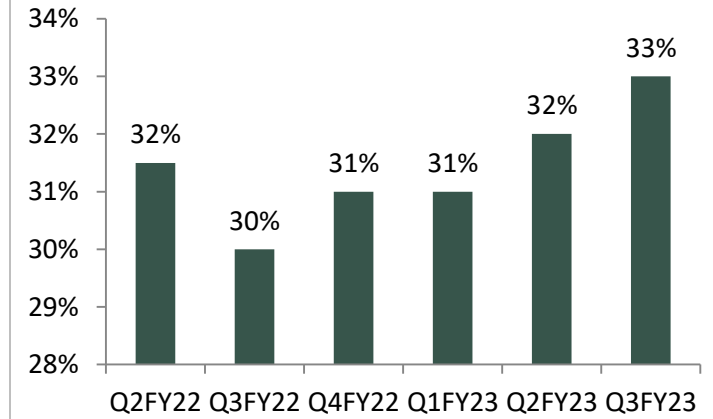
Source: Company; IDBI Capital Research

Exhibit 19: Opex to AUM(%)



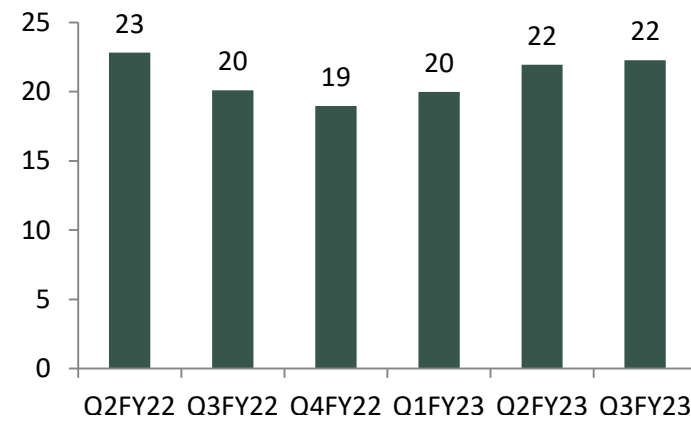
Source: Company; IDBI Capital Research

Exhibit 20: CAR remains comfortable



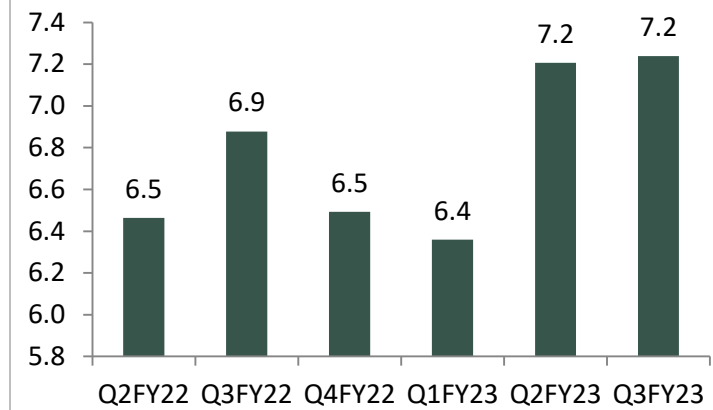
Source: Company; IDBI Capital Research

Exhibit 21: Yield on Loans remained stable QoQ



Source: Company; IDBI Capital Research

Exhibit 22: Costs to AUM remained stable sequentially



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	33,849	39,707	38,284	42,700	47,005	53,622
<i>Change (yoy, %)</i>	25%	17%	-4%	12%	10%	14%
Non-Interest Income	3,341	1,850	2,866	2,861	3,260	3,720
Net Revenue	37,190	41,557	41,149	45,561	50,264	57,342
Operating expenses	14,741	13,995	18,453	22,558	25,219	27,135
Employee expenses	8,301	8,429	11,250	14,635	16,504	17,548
Other expenses	6,440	5,566	7,202	7,923	8,715	9,586
Pre-Provision Profit	22,449	27,562	22,697	23,003	25,046	30,207
<i>Change (yoy, %)</i>	49%	23%	-18%	1%	9%	21%
Provision	2,376	4,401	4,862	3,200	3,915	4,585
PBT	20,073	23,161	17,835	19,803	21,131	25,622
Taxes	5,270	5,911	4,548	5,149	5,319	6,449
<i>Effective tax rate (%)</i>	26%	26%	26%	26%	25%	25%
Net profit	14,803	17,250	13,287	14,655	15,812	19,173
<i>Change (yoy, %)</i>	56%	17%	-23%	10%	8%	21%
EPS	17.5	20.4	15.7	17.3	18.7	22.7
Return on Equity (%)	28.8	26.4	17.0	16.3	15.5	16.4
Return on Asset (%)	5.9	5.7	4.1	4.1	3.9	4.1

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Capital	1,690	1,693	1,693	1,693	1,693	1,693
Reserves	55,771	71,382	81,991	93,973	1,07,017	1,23,362
Networth	57,461	73,074	83,683	95,666	1,08,710	1,25,055
Borrowings	2,25,735	2,27,162	2,41,184	2,78,794	3,11,214	3,52,682
Other liabilities	12,155	13,142	13,238	10,071	13,384	15,571
Total Liab. & Equity	2,95,351	3,13,378	3,38,106	3,84,531	4,33,308	4,93,308
Fixed Assets	3,308	2,942	3,639	4,112	4,523	4,975
Investments	905	3,380	4,207	4,207	4,207	4,207
Loans	2,42,971	2,65,076	2,89,710	3,17,897	3,62,168	4,13,362
Cash	36,668	29,124	26,974	41,327	43,460	49,603
Other assets	11,499	12,856	13,576	16,989	18,950	21,160
Total assets	2,95,351	3,13,378	3,38,106	3,84,531	4,33,308	4,93,308

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth						
Advances	36.4	9.1	9.3	9.7	13.9	14.1
NII	25.3	17.3	-3.6	11.5	10.1	14.1
Pre-Provision Profit	48.5	22.8	-17.7	1.3	8.9	20.6
Net Profit	56.1	16.5	-23.0	10.3	7.9	21.3
Spreads						
Yield on Assets	24.8	24.4	21.1	21.3	21.2	21.1
Cost of Funds	9.7	9.8	8.6	8.5	8.5	8.5
NIM	16.1	15.6	13.8	14.1	13.8	13.8
Spread	15.1	14.6	12.5	12.8	12.7	12.6
Operating Efficiency						
Cost-to-Income	39.6	33.7	44.8	49.5	50.2	47.3
Cost-to-AUM	7.0	5.5	6.7	7.4	7.4	7.0
Asset Quality						
GNPA	1.5	2.3	3.4	2.9	3.0	3.0
NNPA	0.3	1.1	1.8	0.9	0.9	0.8
Provision Coverage	76.4	52.6	44.1	67.3	68.9	70.5
Credit Cost	0.4	0.3	0.4	0.9	1.1	1.1
Capital Adequacy						
CAR	21.7	29.0	27.1	28.2	28.2	28.4
Tier I	21.4	29.0	26.7	27.8	27.7	28.0
Valuation						
EPS	17.5	20.4	15.7	17.3	18.7	22.7
BV	68.0	86.3	98.9	113.0	128.4	147.8
P/E	6.6	5.7	7.4	6.7	6.2	5.1
P/BV	1.7	1.3	1.2	1.0	0.9	0.8
ROE	28.8	26.4	17.0	16.3	15.5	16.4
ROA	5.9	5.7	4.1	4.1	3.9	4.1

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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