

Manappuram Finance

BUY

All verticals contribute to a stable set of numbers

Summary

Manappuram Finance delivered a positive momentum of 32% on its overall AUM book. Within Non-Gold, Asirvad MFI and vehicle finance segment clocked a 73/61% YoY growth respectively, along with its core Gold loan book growing at 20.4% YoY. NII/PAT growth came in strong at 17/82% YoY. Strong growth in PAT came on the back of reduction in the corporate tax rate. We retain our BUY rating on the stock with a TP of Rs195, valuing it at 2.3x P/ABV FY21.

Key Highlights and Investment Rationale

- Healthy AUM growth:** AUM growth of 32% was led across the gold as well as non-gold portfolio. MFI/CV continues to grow by a significant rate at 73%/66% respectively and Gold/Housing have grown at a decent pace of 20/27% YoY respectively. Improvement in Gold AUM growth has come due to increase in gold holding and higher gold prices. Gold holdings have grown by 7% YoY to 72 tonne and loan per gram has increased to Rs2107. Non-gold currently forms 33% of the book and management targets it to be 50% of the overall AUM. Management expects increase in its core book in H2FY20 on the back of further increase in tonnage.
- NIMs under pressure:** NIMs have declined by ~30bps sequentially to 16.4% due to a similar increase in its cost of funds to 9.3%. However, management is facing no issues on the liquidity front with undrawn bank in its kitty. It also has approval for raising USD75mn of which USD 300mn should come in first tranche before December.
- Stable asset quality:** GNPA has been maintained sequentially at 0.9% on back of higher slippages in its housing and vehicle segment being offset by reduction in the gold loan book. GNPA in Gold book has decreased by 10bps whereas in MFI/Housing/CV, it has increased by 18bps/20bps/30bps sequentially to 0.8%/ 4.8% and 2.8% respectively.
- Outlook:** Pick-up in gold-loan in the coming quarters, higher gold prices and favorable regulatory environment will act as a positive catalyst. Non-Gold segment will continue to deliver a robust growth with MFI and vehicle finance being on the forefront. We believe that the company has the potential to deliver 20%+ ROE driven by ROA of 4%+. Spreads and operating leverage are also expected to augur growth in P&L going ahead.

TP	Rs195
CMP	Rs168
Potential upside / downside	16%
Previous Rating	BUY

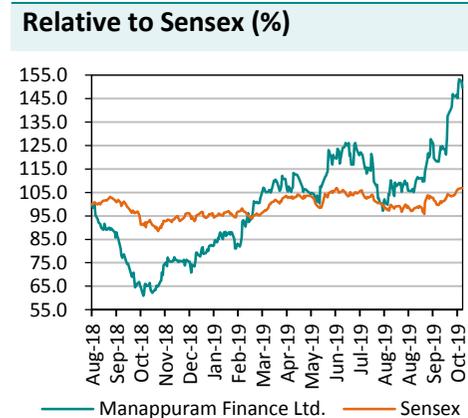
V/s Consensus		
EPS (Rs)	FY19E	FY20E
IDBI Capital	15.3	21.2
Consensus	13.6	16.1
% difference	12.7	31.8

Shareholding Pattern (%)	
Promoters	35.1
FII	43.2
DII	5.1
Public	16.6

Price Performance (%)			
	-1m	-3m	-12m
Absolute	26.2	49.5	98.3
Rel to Sensex	18.7	39.2	82.5

Q2FY20 Result Review

Key Stock Data	
Bloomberg / Reuters	MGFL IN /MNFL.BO
Sector	Finance
Shares o/s (mn)	843
Market cap. (Rs mn)	141,574
Market cap. (US\$ mn)	2,044
3-m daily avg Trd value (Rs mn)	338.2
52-week high / low	Rs174/78
Sensex / Nifty	40,470 / 11,966



Financial snapshot

Year	FY2017	FY2018	FY2019	FY2020E	FY2021E
NII	22,075	23,815	26,926	33,715	42,864
Net Profit	7,584	6,683	9,295	12,884	17,905
EPS (Rs)	9.0	7.9	11.0	15.3	21.2
ABV (Rs)	37.3	44.8	52.9	65.1	82.7
PER (x)	18.7	21.2	15.2	11.0	7.9
P/ABV (x)	4.5	3.7	3.2	2.6	2.0
ROE (%)	24.8	18.6	22.2	25.5	28.3
ROA (%)	5.4	4.1	4.9	5.7	6.5
GNPA (%)	2.3	0.9	0.7	0.9	1.0
NNPA (%)	1.6	0.4	0.4	0.4	0.4
CAR (%)	26.1	27.0	23.7	28.4	29.0

Source: Company; IDBI Capital Research

Conference Call Highlights

- The non-gold business constitutes 33% of the total consolidated AUM. During the quarter, Asirvad MFI posted a 73% YoY growth in its AUM to Rs47.2bn, CV division increased its AUM by 61% to Rs13.1bn and Home-finance subsidiary reported AUM growth of 26% to Rs5.7bn.
- Asirvad continues to be an industry outperformer and growth was mainly driven by new customers. The average ticket size continues to be ~ Rs 23000.
- Management expects vehicle finance to be the third major driver of growth. GNPA's are expected to remain below 3% on steady state basis as the book matures.
- During the quarter, company consciously chose to reduce its on-lending portfolio.
- Management witnessed a pick-up in demand initially when gold prices increased but then it tapered off once the high prices became the new normal.
- Though MFI is overheated, but Asirvad because of its robust diversification is not facing any such effects. 11-12% of the book is in West Bengal.
- Management is cautious and has put stringent credit checks in the east in order to not lend to an over leveraged customer. Company has 5600 people in collection in MFI segment.
- Within Vehicle Finance, 75% book is commercial vehicle and 25% is two wheelers. Within CV, 88% is used category and rest is new vehicles. On the used portfolio, 75% is HCV, 20% is LCV and rest is Small CV.
- Going ahead, company intends to divide the book equally between Gold and Non-Gold AUM without losing focus on core gold product.
- Company continues to get funds from Banks and AMC's partners. It issued Rs 2bn NCDs during the quarter and even has new sanctioned lines of Rs 40bn.
- Company is further looking to diversify its liabilities and is in the process of raising through Foreign currency bonds and Retail NCDs.
- CAR stands at 22.6%.
- Gold Holding grew at 7% YoY to 72 tonne. Management expects a sustainable growth of 10-12% in tonnage per annum.

- Auctions during the quarter amounted to Rs.40bn.
- Weighted average LTV amounted to 2107/ gm.
- Board has an enabling resolution to raise \$750mn and it expects \$300mn of it in the first tranche by December.
- Gold loan branch count stands at 3463 branches. Management has targeted to add another 150-200 branches in FY20.
- Company has declared an interim dividend of Rs.0.55 during the quarter.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q2FY20	Q2FY19	Q1FY20	YoY (%)	QoQ (%)
Interest Income	12,445	10,144	11,440	22.7	8.8
Interest Expenses	4,249	3,173	3,800	33.9	11.8
Net Interest Income	8,196	6,971	7,640	17.6	7.3
NIM (%)	16.4	16.7	16.7	(28) bps	(23) bps
Non-Interest Income	896	131	407	584.0	120.2
Operating Income	9,092	7,102	8,047	28.0	13.0
Staff Cost	2,034	1,773	1,971	14.7	3.2
Other Op Exp	1,619	1,668	1,567	(2.9)	3.4
Total Operating Expenses	3,653	3,441	3,538	6.2	3.3
Cost to Income (%)	40.2	48.5	44.0	(827) bps	(378) bps
Cost to AUM (%)	8.0	8.3	8.5	(30) bps	(50) bps
Operating Profit	5,438	3,661	4,510	48.5	20.6
Provisions	293	162	365	81.1	(19.7)
Credit Cost (%)	0.6	0.4	0.8	20 bps	(21) bps
PBT	5,145	3,499	4,144	47.0	24.1
Tax/Minority Int.	1,122	1,285	1,455	(12.7)	(22.9)
<i>-effective tax rate</i>	<i>21.8</i>	<i>36.7</i>	<i>35.1</i>	<i>(1493) bps</i>	<i>(1332) bps</i>
PAT	4,024	2,214	2,689	81.7	49.6
EPS (Rs)	4.8	2.7	3.2	82.0	49.8
BV (Rs)	60.0	49.2	55.9	22.0	7.3
Loans	2,26,769	1,71,907	2,01,859	31.9	12.3

Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY17	FY18	FY19E	FY20E	FY21E
NII	15.8	14.7	14.3	14.9	15.6
Non-Int Inc	0.2	0.4	0.9	0.3	0.3
Net Revenue	16.0	15.1	15.2	15.2	15.9
Op.Exp	6.9	7.5	7.4	7.1	6.8
Op.Profit	9.1	7.6	7.8	8.1	9.1
Provisions	0.8	1.3	0.2	0.5	0.4
-Standard	0.0	0.2	0.0	0.1	0.1
-Loan loss	0.8	1.1	0.2	0.4	0.3
PBT	8.3	6.3	7.6	7.6	8.7
Tax	2.9	2.2	2.6	1.9	2.2
PAT	5.4	4.1	4.9	5.7	6.5
Leverage (x)	4.6	4.5	4.5	4.5	4.4
ROE	24.8	18.6	22.2	25.5	28.3

Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net interest income	23,815	26,926	33,715	42,864
Non-Interest Income	673	1,667	652	809
Operating Income	24,488	28,593	34,367	43,672
Operating expenses	(12,218)	(13,860)	(15,998)	(18,688)
Employee expenses	(6,167)	(7,201)	(8,341)	(9,882)
Other expenses	(6,051)	(6,659)	(7,657)	(8,806)
Pre-Provision Profit	12,270	14,733	18,368	24,985
Provision	(2,101)	(461)	(1,151)	(1,057)
Loan loss Provisions	(2,101)	(461)	(1,151)	(1,057)
Other Provisions	-	-	-	-
PBT	10,169	14,273	17,217	23,928
Taxes	(3,486)	(4,978)	(4,334)	(6,023)
Net profit	6,683	9,295	12,884	17,905

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Capital	1,685	1,686	1,686	1,686
Reserves	36,677	43,561	53,982	69,091
Networth	38,362	45,247	55,667	70,777
Borrowings	125,962	151,757	183,977	229,766
Total Liab. & Equity	172,325	204,540	246,563	304,420
Cash	6,986	11,642	10,860	13,481
Investments	51	1,738	1,738	1,738
Advances	156,634	178,119	217,195	269,621
Other Assets	5,909	9,368	12,546	14,722
Total assets	172,325	204,540	246,563	304,420

Financial Ratios

(%)

Year-end: March	FY18	FY19	FY20E	FY21E
Growth				
Loans	13.2	13.7	21.9	24.1
Advances	13.2	13.7	21.9	24.1
NII	7.9	13.1	25.2	27.1
Pre-Provision Profit	(3.8)	20.1	24.7	36.0
Net Profit	(11.9)	39.1	38.6	39.0
Spreads				
Yield on Assets	22.6	22.9	23.9	24.7
Cost of Funds	8.7	9.5	9.4	9.2
NIM	15.8	15.4	16.3	17.1
Operating Efficiency				
Cost-to-Income	49.9	48.5	46.6	42.8
Cost-to-Assets	7.5	7.4	7.1	6.8
Asset Quality				
GNPA	0.9	0.7	0.9	1.0
NNPA	0.4	0.4	0.4	0.4
Provision Coverage	56.9	49.2	58.2	59.9
Credit Cost	1.4	0.3	0.6	0.4
Capital Adequacy				
CAR	27.0	23.7	28.4	29.0
Tier I	26.6	23.3	27.7	28.4
Valuation				
EPS	7.9	11.0	15.3	21.2
ABV	44.8	52.9	65.1	82.7
P/E	21.2	15.2	11.0	7.9
P/ABV	3.7	3.2	2.6	2.0
ROE	18.6	22.2	25.5	28.3
ROA	4.1	4.9	5.7	6.5

Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cufee Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

Disclaimer

This report has been published by IDBI Capital Markets & Securities Ltd. (hereinafter referred to as “IDBI Capital”) for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

We, Bunty Chawla and Neelam Bhatia, hereby certify that the views expressed in this report accurately reflect our personal views about the subject companies and / or securities. We also certify that no part of our compensation were, are or would be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, we will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd. (hereinafter referred to as "IDBI Capital") was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% or more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.