

Manappuram Finance

BUY

NIMs improved QoQ; gold loan growth guidance maintained

Summary

Manappuram Finance's Gold loan portfolio grew by 11.5% YoY (vs 8% YoY Q2FY24) due to base effect. Overall AUM growth remains strong at 27% YoY. Management maintained the gold loan growth guidance; overall AUM growth guidance maintained above 20% YoY. We estimate 17% AUM CAGR (FY23-26) backed by non-gold portfolio. MFI reported strong profitability QoQ led by improvement in NIMs. MFI asset quality improved slightly with GNPA at 2.8% vs 3.0% QoQ. Cons. NII grew by 7% QoQ led by improvement in NIMs; PPop grew by 8% QoQ led by lower operating expenses (up 4% QoQ). PAT grew marginally by 2% QoQ led by higher provisions (up 25% QoQ). We have revised the estimates upwards for FY25E/FY26E (up 3%/5% ABV respectively) and maintain 'BUY' rating with a TP of Rs225 (earlier Rs205), valuing it at 1.2x P/ABV FY26E.

Key Highlights and Investment Rationale

- Gold loan growth rebounds:** AUM grew by 27% YoY (27% YoY Q2FY24) led by strong growth in non-gold portfolio; grew by 48% YoY (up 8% QoQ). Gold loan grew by 12% YoY (flat QoQ) led by higher gold prices. Gold holdings declined by 2% QoQ (down 3% YoY) to 58 tonne.
- Net Yields improved QoQ:** Net yields on Gold Loans stood at 22.3% during Q3FY24 vs 21.9% QoQ as 90% of gold book has more than 22% yields. Thus, NIMs improved QoQ although cost of funds increased due to risk weights.
- Asset quality deteriorated:** Asset quality deteriorated with GNPA (standalone) at 2.0% vs 1.6% QoQ. However, MFI portfolio reported improvement in asset quality as GNPA stood at 2.8% vs 3.0%.
- Outlook:** Competition intensity impacted AUM growth as well as margins. However, 9MFY24 reflected improvement in margins. We believe that the company has potential to report RoA above 4%.

TP **Rs 225**

CMP **Rs 190**

Potential upside/downside **18%**

Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	8.2	35.5	62.7
Rel to Sensex	8.0	24.4	43.0

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	26.4	31.0	35.1
Consensus	25.3	27.6	31.1
% difference	4.3	12.3	12.7

Key Stock Data

Bloomberg/Reuters	MGFL IN /MNFL.BO
Sector	Finance
Shares o/s (mn)	846
Market cap. (Rs mn)	160,992
3-m daily avg Trd value (Rs mn)	121.9
52-week high / low	Rs192 / 101
Sensex / Nifty	72,152 / 21,931

Shareholding Pattern (%)

Promoters	35.2
FII	29.0
DII	10.9
Public	24.9

Financial snapshot

(Rs mn)

Year	FY2022	FY2023	FY2024E	FY2025E	FY2026E
NII	38,284	42,526	56,031	64,110	74,043
Change (yoy, %)	-4%	11%	32%	14%	15%
Net Profit	13,287	15,002	22,337	26,253	29,726
Change (yoy, %)	-23%	13%	49%	18%	13%
EPS (Rs)	15.7	17.7	26.4	31.0	35.1
Change (yoy, %)	-23%	13%	49%	18%	13%
ABV (Rs)	92.3	110.2	132.7	158.2	187.6
PER (x)	12.1	10.7	7.2	6.1	5.4
P/ABV (x)	2.1	1.7	1.4	1.2	1.0
ROE (%)	17.0	16.7	21.0	20.6	19.6
ROA (%)	4.1	4.1	5.1	5.2	5.1
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	31.7	32.8	33.8

Source: IDBI Capital Research

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Conference Call Highlights

Operational Performance:

- Overall growth stood at ~19% CAGR over the past 5 years. The pace of NBFC in the credit space is outpacing banks as the financial market provides headroom for growth and co-existence of multiple NBFCs.
- PAT growth in Q3FY24 was driven primarily by profitability in Gold loan and MFI business. ROA stood at 5.2% for Q3FY24, which is significantly higher than the industry average while the ROE stood at 21.3%. The leverage stood at 2.9 times.
- GL AUM stood at Rs.207.58bn up 11.5% YoY and stable QoQ. The company added 4.03L new customers with average LTV at 61% and share of online GL book stood at 56%.
- GL auction stood at Rs.1.24bn and auction surplus balance reduced to Rs.0.24bn at the end of Q3FY24 while GL disbursements stood at Rs.261.90bn in Q3FY24 vs Rs.257.93bn QoQ.
- New customers added to the gold loan business stood in the range of ~5000-5500 customers per day.
- For on-lending business, AUM stood at Rs.28.57bn and the disbursements stood at Rs.4.60bn for Q3FY24. The CE stood at 102% while GNPA stood at 1.5% (excluding digital personal loan). ROA stood at 5% for Q3FY24.
- The management commented that Fee based business from insurance broking business was growing well and PAT stood at Rs.0.28bn for Q3FY24 vs Rs.0.17bn for Q2FY24.

NIMs:

- Standalone borrowing cost up by 19 bps as a result of the RBI circular on increase in risk weights for lending to NBFCs.
- The company has been able to pass on the increase in borrowing costs to its gold loan customers and the same trend will continue in case of increase in cost of funds. Hence, the management does not expect the NIMs to dampened significantly going forward.

Asset Quality:

- The company chose to honour the request from its customers to delay auctions considering the prices of gold were supportive. This led to the increase in NPA.
- The company has written of ~Rs.1bn in Q3FY24 vs Rs.0.60bn in Q2FY24 for the MFI business.
- In the MFI business, the company is shifting on a weekly collection model for some problematic states like UP and Bihar considering the upcoming elections.

Future Guidance

- The management expects an increase in cost of borrowings in Q4FY24 on the same levels as seen in Q3FY24.
- The management believes that despite a flattish quarter, the gold loan business will grow in the range of 8-10% for FY24. The management is confident of achieving the stated growth based on the company's ability to offer superior services to the customers and its network.
- The management expects an improvement in NPA for home loan business since the company is in the process of recovering the money through sale of properties under SARFAESI Act.
- The management does not expect the share of Gold loan business to go below 50% of the total portfolio in its standalone books. However, on a consolidated basis, the management expects the share of other business to cross the 50% in the near term.
- The management is taking term loans in order to maintain the liability tenure which is leading to elevated cost of funds.
- The NIMs are being supported by the increase in gold loan yields and the management expects the same to continue in the near term.
- The company is sourcing funds from NHB for its home loan business and the management expects the amount of borrowings from NHB to increase going forward. Hence, the cost of funds is expected to remain stable for housing finance business.
- The company has applied to the regulator for opening of 300 new branches since it has successfully managed to bring down its gold loan surplus to the required levels.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Interest Income	22,011	16,574	20,438	32.8	7.7
Interest Expenses	7,487	5,657	6,894	32.3	8.6
Net Interest Income	14,524	10,917	13,543	33.0	7.2
NIM (%)	15.3	14.7	15.0	64 bps	34 bps
Non-Interest Income	1,256	772	1,303	62.7	-3.6
Operating Income	15,780	11,688	14,846	35.0	6.3
Staff Cost	4,130	3,857	3,746	7.1	10.2
Other Op Exp	2,290	1,913	2,436	19.7	-6.0
Total Operating Expenses	6,419	5,769	6,182	11.3	3.8
<i>Cost to Income (%)</i>	<i>40.7</i>	<i>49.4</i>	<i>41.6</i>	<i>-868 bps</i>	<i>-96 bps</i>
<i>Cost to AUM (%)</i>	<i>6.0</i>	<i>7.0</i>	<i>6.0</i>	<i>-100 bps</i>	<i>0 bps</i>
Operating Profit	9,361	5,919	8,664	58.1	8.0
Provisions	1,496	509	1,197	193.7	25.0
<i>Credit Cost (%)</i>	<i>1.6</i>	<i>0.7</i>	<i>1.3</i>	<i>89 bps</i>	<i>25 bps</i>
PBT	7,864	5,410	7,467	45.4	5.3
Tax	2,111	1,475	1,861	43.2	13.5
<i>-effective tax rate</i>	<i>26.8</i>	<i>27.3</i>	<i>24.9</i>	<i>-42 bps</i>	<i>193 bps</i>
PAT	5,753	3,935	5,606	46.2	2.6
EPS (Rs)	6.8	4.6	6.6	46.2	2.6
BV (Rs)	130.7	109.6	124.9	19.2	4.6
AUM	4,03,851	3,18,834	3,89,507	26.7	3.7

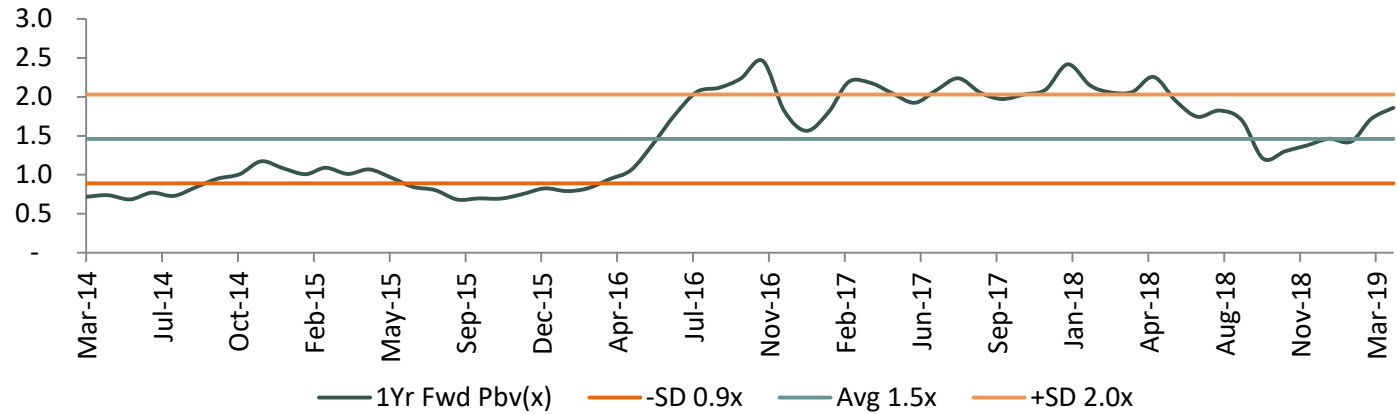
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24E	FY25E	FY26E
NII	11.8	11.6	12.9	12.6	12.8
Non-Int Inc	0.9	0.8	1.2	1.1	1.1
Net Revenue	12.6	12.4	14.1	13.8	13.9
Op.Exp	5.7	6.0	5.9	5.9	6.1
Op.Profit	7.0	6.4	8.2	7.9	7.8
Provisions	1.5	0.8	1.3	1.0	1.0
-Standard	(0.1)	0.1	0.1	0.0	0.0
-Loan loss	1.6	0.7	1.2	0.9	0.9
PBT	5.5	5.6	6.9	6.9	6.8
Tax	1.4	1.5	1.8	1.7	1.7
ROA	4.1	4.1	5.1	5.2	5.1
Leverage (x)	4.2	4.1	4.1	4.0	3.8
ROE	17.0	16.7	21.0	20.6	19.6

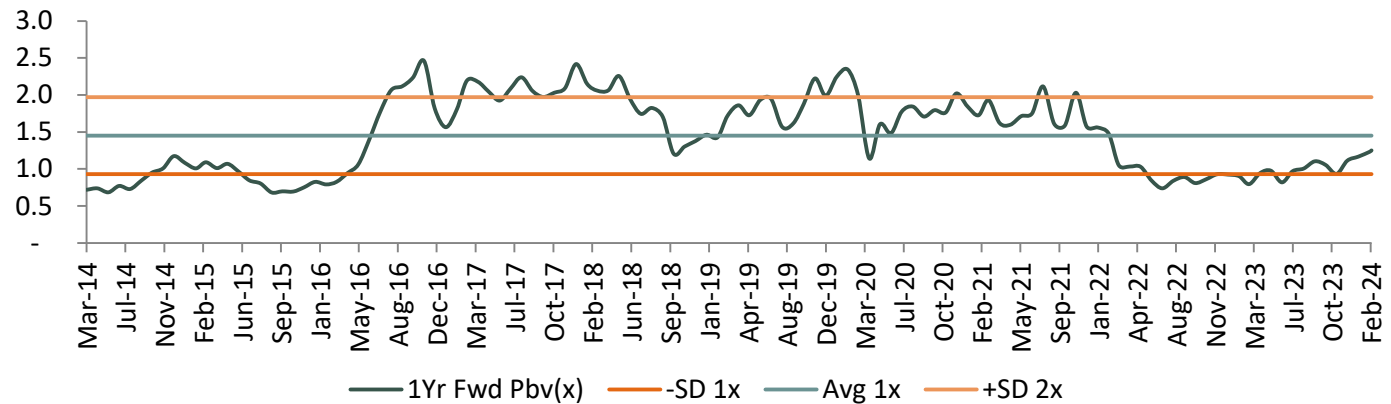
Source: Company; IDBI Capital Research

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



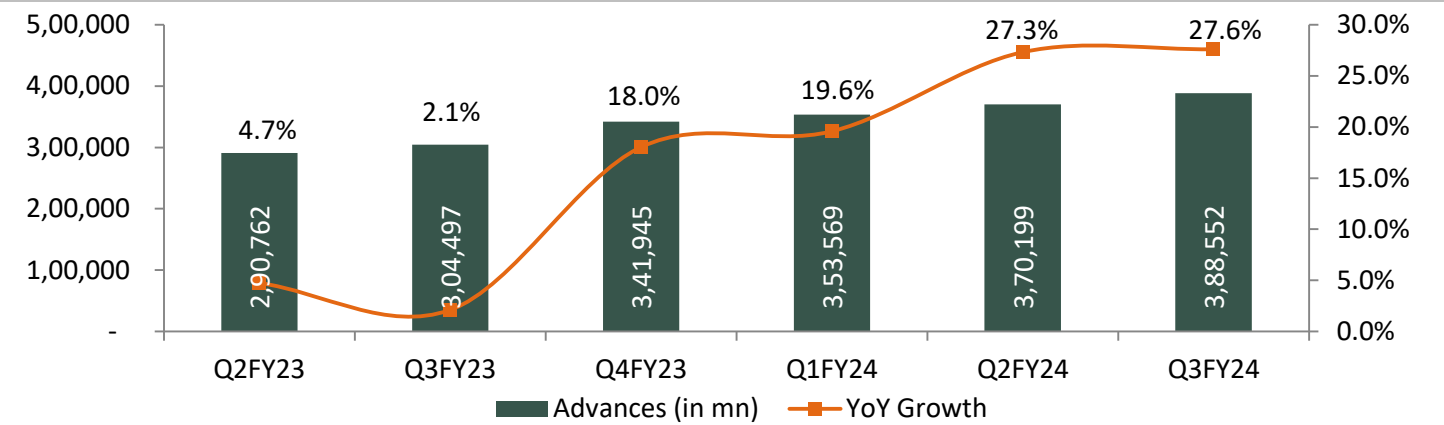
Source: Company; IDBI Capital Research

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



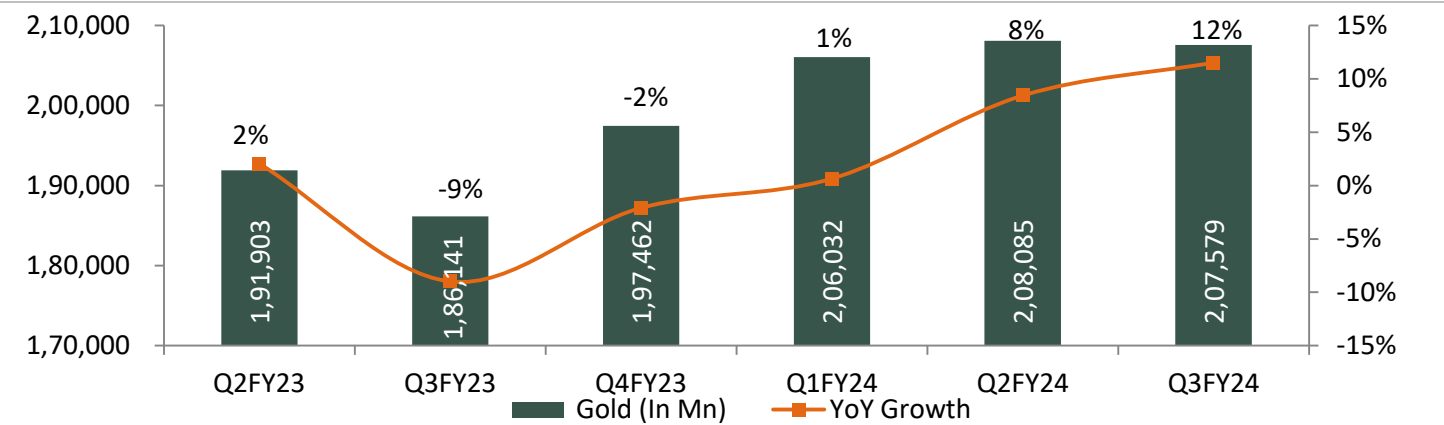
Source: Company; IDBI Capital Research

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



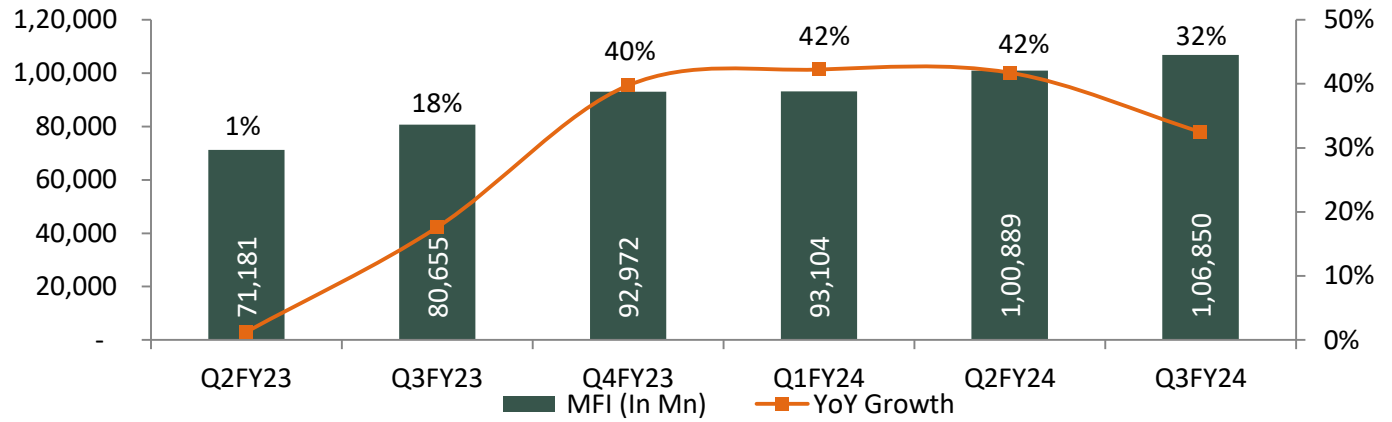
Source: Company; IDBI Capital Research

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



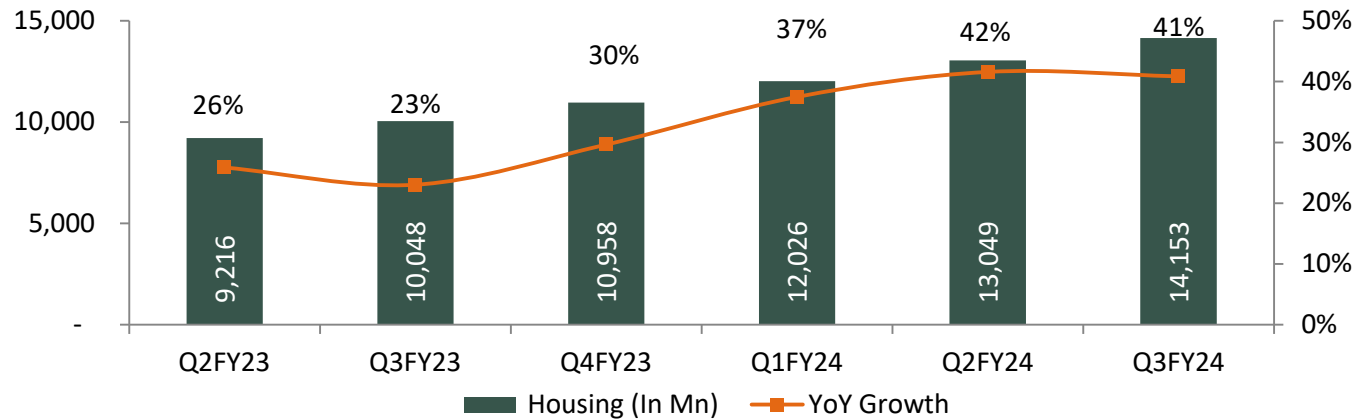
Source: Company; IDBI Capital Research

Exhibit 7: Micro Finance AUM growth continued to remain strong



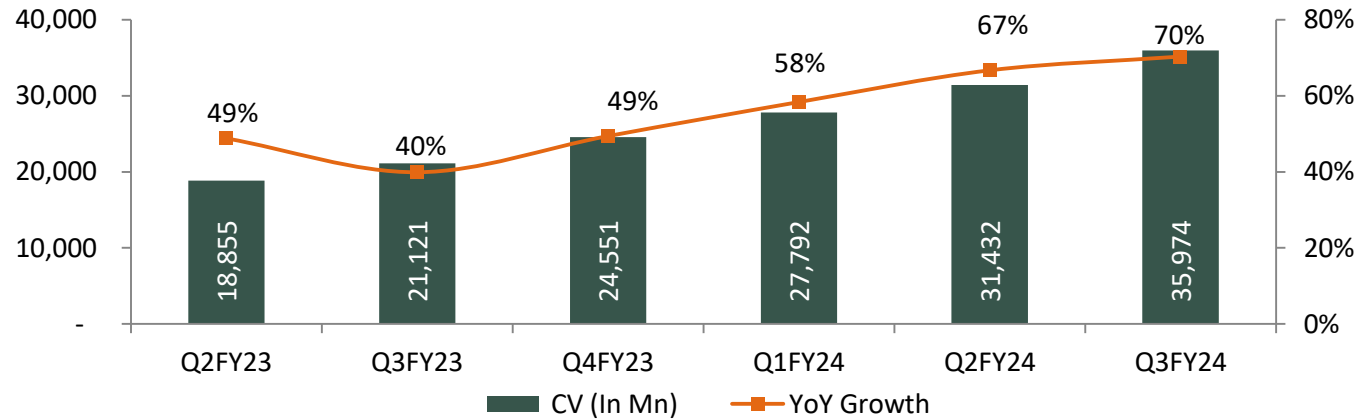
Source: Company; IDBI Capital Research

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



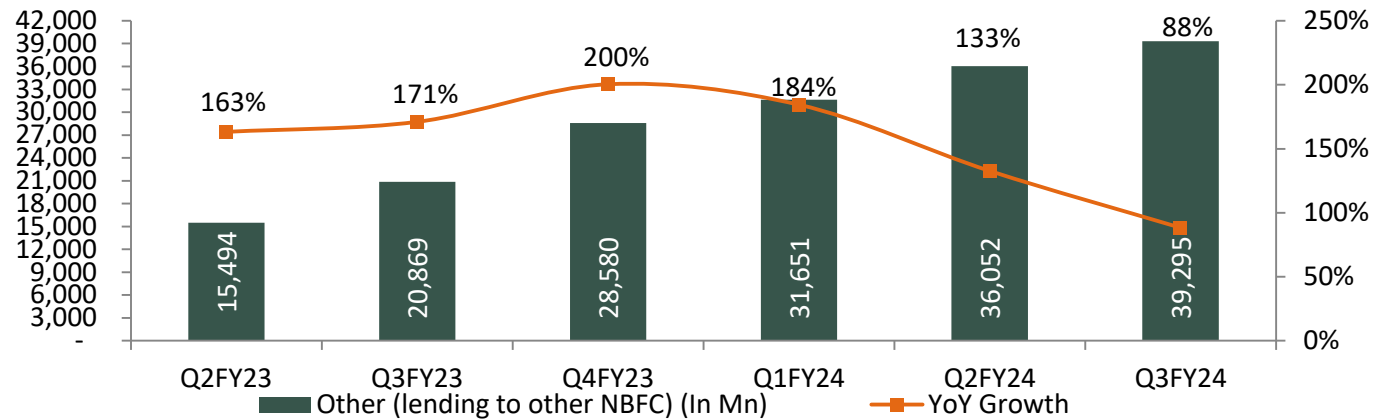
Source: Company; IDBI Capital Research

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



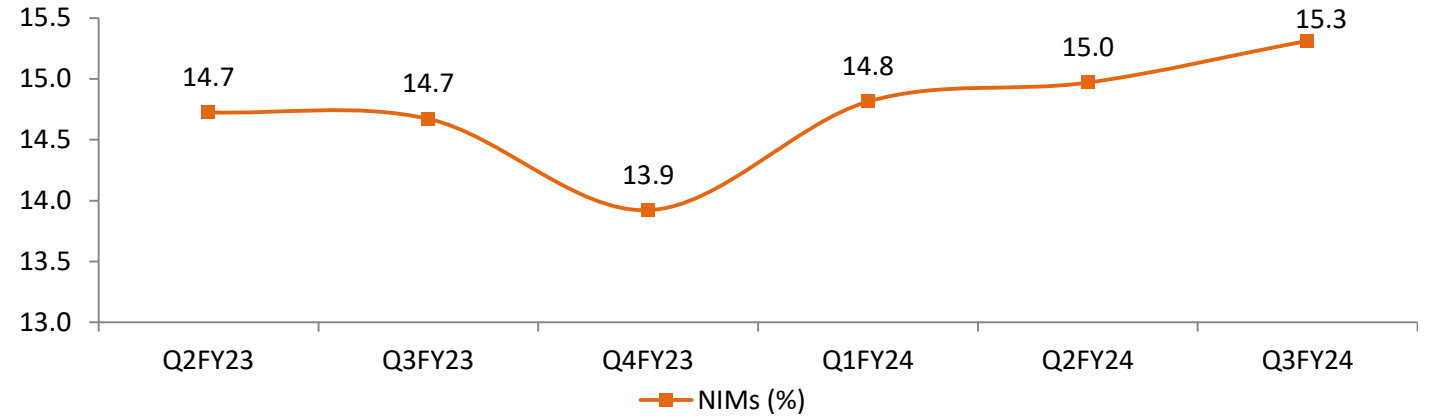
Source: Company; IDBI Capital Research

Exhibit 10: Others (Lending to other NBFC) AUM showed strong growth sequentially



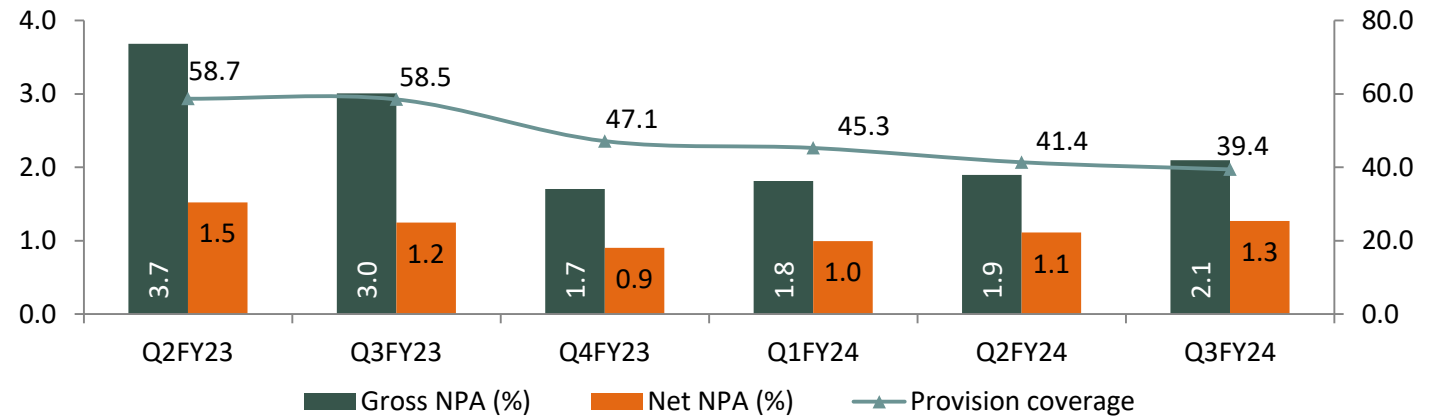
Source: Company; IDBI Capital Research

Exhibit 11: Net Interest margins inched up sequentially



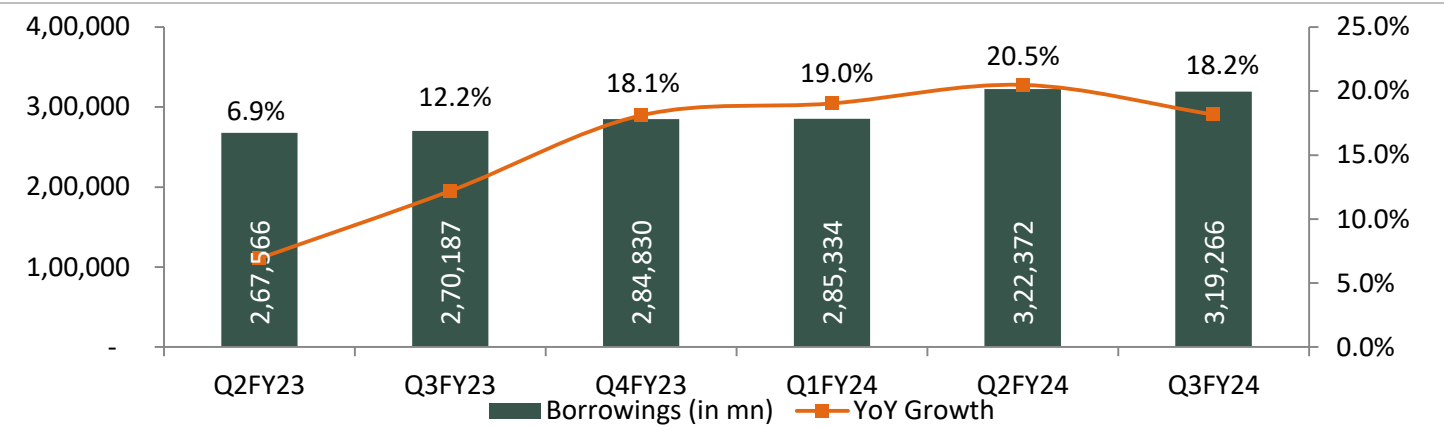
Source: Company; IDBI Capital Research

Exhibit 12: Asset quality declined marginally QoQ



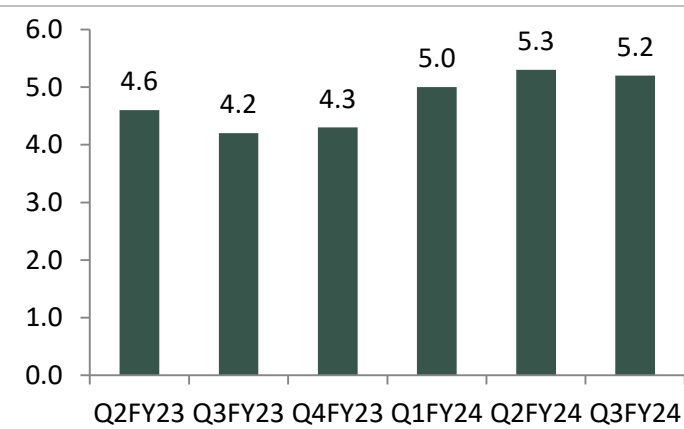
Source: Company; IDBI Capital Research

Exhibit 13: Borrowings growth rate witnessed moderation sequentially



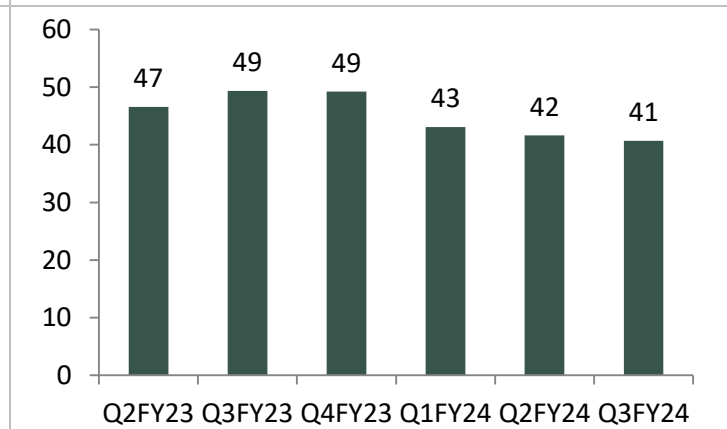
Source: Company; IDBI Capital Research

Exhibit 14: Return on Assets moderated QoQ



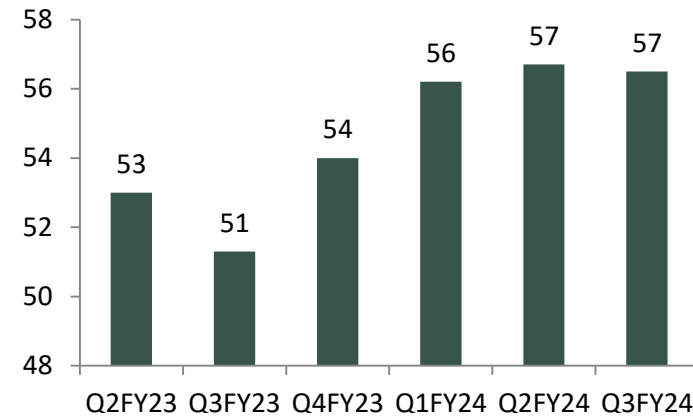
Source: Company; IDBI Capital Research

Exhibit 15: Cost to Income Ratio improved sequentially



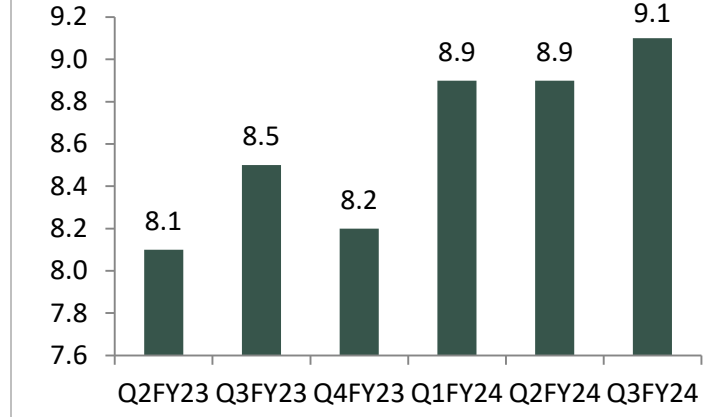
Source: Company; IDBI Capital Research

Exhibit 16: Average AUM per Branch remained stable sequentially



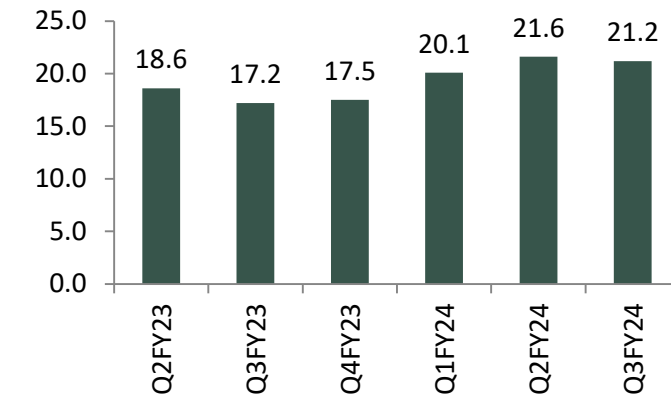
Source: Company; IDBI Capital Research

Exhibit 17: Cost of Funds inched up QoQ



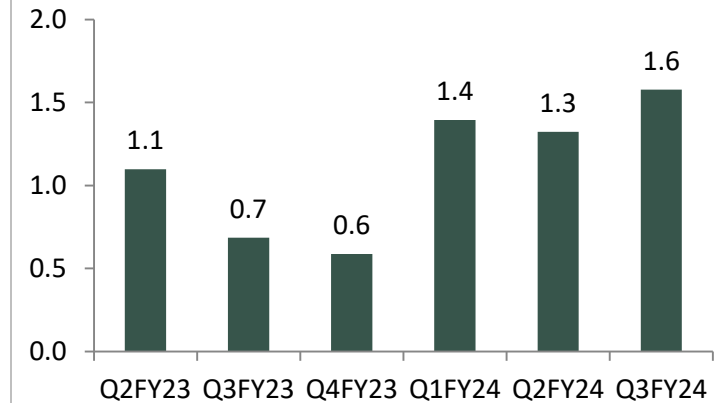
Source: Company; IDBI Capital Research

Exhibit 18: Return on Equity moderated in line with RoA



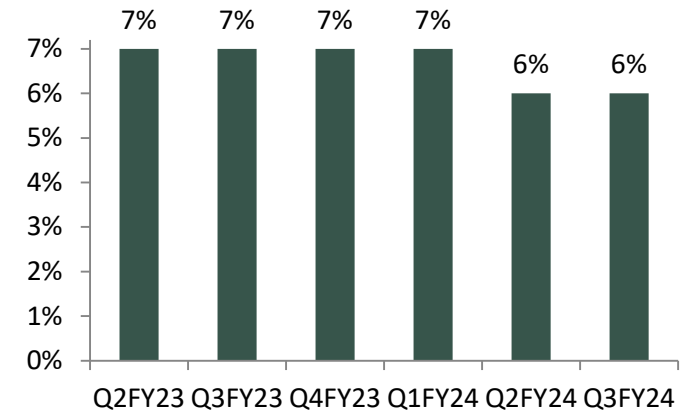
Source: Company; IDBI Capital Research

Exhibit 19: Credit Cost inched up sequentially



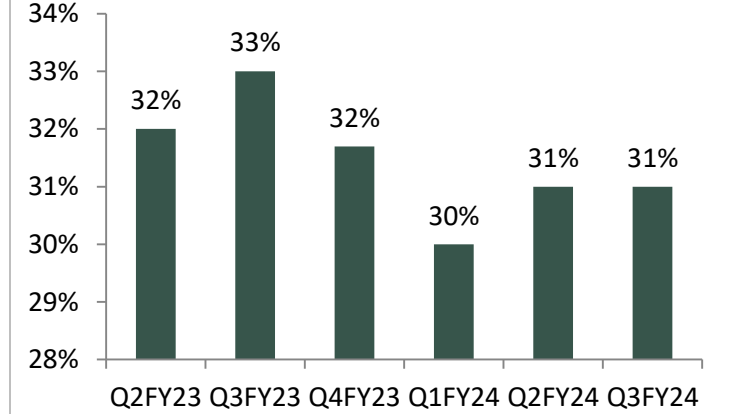
Source: Company; IDBI Capital Research

Exhibit 20: Opex to AUM(%)



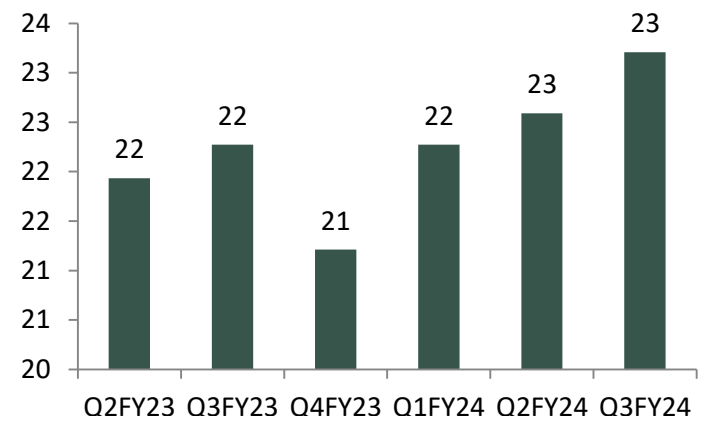
Source: Company; IDBI Capital Research

Exhibit 21: CAR remains comfortable



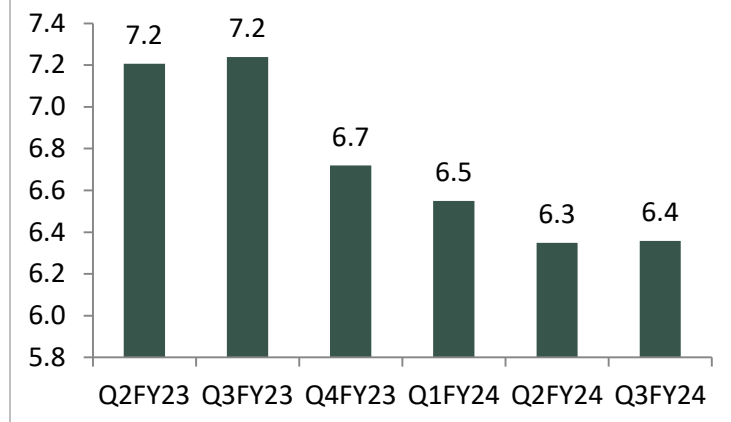
Source: Company; IDBI Capital Research

Exhibit 22: Yield on Loans improved QoQ



Source: Company; IDBI Capital Research

Exhibit 23: Costs to AUM increased sequentially



Source: Company; IDBI Capital Research

Exhibit 24: AUM Mix (In Mn)

Consolidated AUM	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Gold Loan	2,07,579	1,86,141	2,08,085	11.5	(0.2)
Micro Finance Loan	1,06,850	80,655	1,00,889	32.5	5.9
Housing Finance Loan	14,153	10,048	13,049	40.9	8.5
Vehicle Finance Loan	35,974	21,121	31,432	70.3	14.5
On-Lending	10,222	5,212	9,206	96.1	11.0
MSME & Other Loans	29,073	15,656	26,846	85.7	8.3
Total AUM	4,03,851	3,18,833	3,89,507	26.7	3.7

Source: Company; IDBI Capital Research

Exhibit 25: AUM Mix (In %)

Consolidated AUM	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Gold Loan	51.4	58.4	53.4	-698 bps	-202 bps
Micro Finance Loan	26.5	25.3	25.9	116 bps	56 bps
Housing Finance Loan	3.5	3.2	3.4	35 bps	15 bps
Vehicle Finance Loan	8.9	6.6	8.1	228 bps	84 bps
On-Lending	2.5	1.6	2.4	90 bps	17 bps
MSME & Other Loans	7.2	4.9	6.9	229 bps	31 bps
Total AUM	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 26: Consolidated Borrowing Mix (In Mn)

Borrowing Mix	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
WCDL / CC	81,903	53,518	88,733	53.0	(7.7)
Term Loan	1,68,897	1,19,294	1,61,983	41.6	4.3
NCD/Bonds	58,933	67,201	58,735	(12.3)	0.3
External Commercial Borrowing	9,286	29,679	6,502	(68.7)	42.8
Commercial Paper	247	494	6,419	(50.0)	(96.2)
Others	1	1	1	-	-
Total Borrowings	3,19,267	2,70,187	3,22,373	18.2	(1.0)

Source: Company; IDBI Capital Research

Exhibit 27: Consolidated Borrowing Mix (In %)

Borrowing Mix	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
WCDL / CC	25.7	19.8	27.5	585 bps	-187 bps
Term Loan	52.9	44.2	50.2	875 bps	265 bps
NCD/Bonds	18.5	24.9	18.2	-641 bps	24 bps
External Commercial Borrowing	2.9	11.0	2.0	-808 bps	89 bps
Commercial Paper	0.1	0.2	2.0	-11 bps	-191 bps
Others	0.0	0.0	0.0	0 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	56,031	64,110	74,043
<i>Change (yoy, %)</i>	17%	-4%	11%	32%	14%	15%
Non-Interest Income	1,850	2,866	3,095	5,063	5,823	6,677
Net Revenue	41,557	41,149	45,622	61,093	69,934	80,721
Operating expenses	13,995	18,453	22,140	25,454	29,913	35,386
Employee expenses	8,429	11,250	14,695	16,180	19,248	23,121
Other expenses	5,566	7,202	7,445	9,274	10,665	12,265
Pre-Provision Profit	27,562	22,697	23,482	35,640	40,021	45,335
<i>Change (yoy, %)</i>	23%	-18%	3%	52%	12%	13%
Provision	4,401	4,862	3,071	5,487	4,937	5,610
PBT	23,161	17,835	20,411	30,153	35,084	39,725
Taxes	5,911	4,548	5,409	7,815	8,831	9,999
<i>Effective tax rate (%)</i>	26%	26%	26%	26%	25%	25%
Net profit	17,250	13,287	15,002	22,337	26,253	29,726
<i>Change (yoy, %)</i>	17%	-23%	13%	49%	18%	13%
EPS	20.4	15.7	17.7	26.4	31.0	35.1
Return on Equity (%)	26.4	17.0	16.7	21.0	20.6	19.6
Return on Asset (%)	5.7	4.1	4.1	5.1	5.2	5.1

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	1,14,770	1,36,918	1,62,452
Networth	73,074	83,683	96,449	1,16,463	1,38,611	1,64,145
Borrowings	2,27,162	2,41,185	2,84,829	3,45,208	3,94,056	4,48,418
Other liabilities	13,142	13,238	13,764	11,105	9,252	6,946
Total Liab. & Equity	3,13,378	3,38,107	3,95,042	4,72,777	5,41,918	6,19,509
Fixed Assets	2,942	3,639	4,478	4,792	5,271	5,798
Investments	3,380	4,207	5,340	7,209	7,209	7,209
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	32,663	37,571	43,081
Other assets	12,856	13,577	12,927	14,652	16,284	18,090
Total assets	3,13,378	3,38,107	3,95,042	4,72,777	5,41,918	6,19,509

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	31.8	14.4	15.5
Pre-Provision Profit	22.8	(17.7)	3.5	51.8	12.3	13.3
Net Profit	16.5	(23.0)	12.9	48.9	17.5	13.2
Spreads						
Yield on Assets	24.4	21.1	20.4	22.5	22.0	22.1
Cost of Funds	9.8	8.6	8.3	9.2	9.2	9.2
NIM	15.6	13.8	13.5	14.8	14.4	14.5
Spread	14.6	12.5	12.1	13.3	12.9	12.9
Operating Efficiency						
Cost-to-Income	33.7	44.8	48.5	41.7	42.8	43.8
Cost-to-AUM	5.5	6.7	7.0	6.7	6.7	6.9
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	1.5	1.1	1.1
Capital Adequacy						
CAR	29.0	31.3	31.7	31.7	32.8	33.8
Tier I	28.7	31.0	31.7	31.7	32.8	33.8
Valuation						
EPS	20.4	15.7	17.7	26.4	31.0	35.1
ABV	83.0	92.3	110.2	132.7	158.2	187.6
P/E	9.3	12.1	10.7	7.2	6.1	5.4
P/ABV	2.3	2.1	1.7	1.4	1.2	1.0
ROE	26.4	17.0	16.7	21.0	20.6	19.6
ROA	5.7	4.1	4.1	5.1	5.2	5.1

Source: Company; IDBI Capital Research



Notes

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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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