

**BUY**

TP: Rs 225 | ▲ 19%

**MANAPPURAM  
FINANCE**

| NBFC

| 29 January 2020

## Steady growth in gold and microfinance businesses

Manappuram Finance's (MGFL) gold AUM surged 30% YoY to Rs 162bn in Q3FY20. Despite buoyant gold prices, MGFL prudently maintained LTV at 61% on the gold book. Higher spreads and range-bound opex fuelled 41% YoY growth in operating profit to Rs 4.7bn. PAT increased 58% YoY to Rs 3.3bn aided by low credit cost of 10bps. Asirvad MFI also continued its momentum. We raise FY20-FY22 earnings estimates by 2-5% and increase our Mar'21 TP to Rs 225 (vs. Rs 195).

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**Better productivity fuels AUM growth:** At Rs 162bn, MGFL's gold loan AUM increased 30% YoY in Q3FY20, continuing its growth streak for the eighth consecutive quarter. This was largely aided by 11% YoY volume growth to ~74tonnes and 23% YoY growth in AUM per branch to Rs 46mn. MGFL prudently maintained 61% LTV on its gold portfolio.

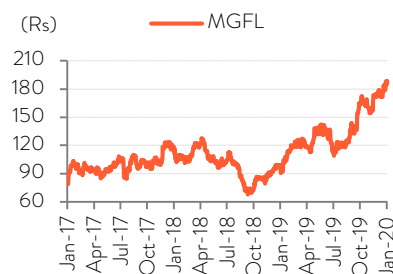
Ticker/Price	MGFL IN/Rs 189
Market cap	US\$ 2.2bn
Shares o/s	843mn
3M ADV	US\$ 7.9mn
52wk high/low	Rs 191/Rs 108
Promoter/FPI/DII	35%/44%/6%

Source: NSE

**Stronger spreads and cost control bolster operating profit:** Spreads (calc.) on gold finance increased 80bps YoY to 19.9%, driven by a better cost of funds (-60bps YoY, calc.). Range-bound opex of Rs 2.9bn-3.0bn in the last 6-7 quarters resulted in a lower expense ratio of 7.8% (-160bps YoY). Thus, operating profit grew 41% YoY to Rs 4.7bn.

## STOCK PERFORMANCE

**Credit costs benign; MFI performance healthy:** Credit costs were contained at 10bps of AUM, resulting in 58% YoY growth in PAT to Rs 3.3bn. Asirvad MFI AUM grew 57% YoY to Rs 50bn largely driven by new customers. Though management has guided for 2% credit cost in FY21, the MFI business remains well capitalised at 25% to absorb any increased provisioning from event risks.



## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	20,943	23,525	27,315	31,543	33,866
NII growth (%)	5.0	12.3	16.1	15.5	7.4
Adj. net profit (Rs mn)	6,889	7,884	11,147	12,974	13,721
EPS (Rs)	8.2	9.4	13.2	15.4	16.3
P/E (x)	23.0	20.1	14.3	12.2	11.6
P/BV (x)	4.2	3.6	3.1	2.6	2.3
ROA (%)	5.0	4.9	5.6	5.6	5.4
ROE (%)	19.4	19.3	23.3	23.1	20.9

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	FY18				FY19				FY20			Variation (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	QoQ	YoY
<b>Profit and Loss</b>													
Interest Income	7,103	7,072	7,325	7,382	7,701	8,377	8,858	8,767	9,356	10,188	11,077	9	25
Interest expenses	2,031	1,879	1,964	2,063	2,277	2,458	2,719	2,724	3,039	3,389	3,567	5	31
<b>Net Interest Income (NII)</b>	<b>5,073</b>	<b>5,193</b>	<b>5,360</b>	<b>5,319</b>	<b>5,424</b>	<b>5,919</b>	<b>6,140</b>	<b>6,043</b>	<b>6,317</b>	<b>6,799</b>	<b>7,511</b>	<b>10</b>	<b>22</b>
Fee and commission income	79	82	88	125	107	103	114	135	134	241	232	(4)	104
Other Income	202	26	23	26	20	28	38	24	15	344	24	(93)	(35)
<b>Total Net Income</b>	<b>5,353</b>	<b>5,301</b>	<b>5,471</b>	<b>5,470</b>	<b>5,551</b>	<b>6,051</b>	<b>6,291</b>	<b>6,202</b>	<b>6,466</b>	<b>7,384</b>	<b>7,767</b>	<b>5</b>	<b>23</b>
<b>Opex</b>	<b>2,467</b>	<b>2,630</b>	<b>2,763</b>	<b>2,690</b>	<b>2,786</b>	<b>2,902</b>	<b>2,938</b>	<b>3,036</b>	<b>2,927</b>	<b>2,969</b>	<b>3,048</b>	<b>3</b>	<b>4</b>
Employees	1,175	1,252	1,330	1,352	1,369	1,425	1,430	1,573	1,564	1,600	1,682	5	18
Establishment expenses	1,292	1,379	1,433	1,338	1,417	1,478	1,507	1,463	1,363	1,369	1,366	(0)	(9)
<b>Operating profits</b>	<b>2,886</b>	<b>2,670</b>	<b>2,708</b>	<b>2,780</b>	<b>2,765</b>	<b>3,149</b>	<b>3,353</b>	<b>3,166</b>	<b>3,539</b>	<b>4,415</b>	<b>4,718</b>	<b>7</b>	<b>41</b>
Provisions and write offs	71	75	98	248	109	110	14	22	186	139	154	11	998
<b>Profit before tax</b>	<b>2,816</b>	<b>2,595</b>	<b>2,611</b>	<b>2,532</b>	<b>2,657</b>	<b>3,039</b>	<b>3,339</b>	<b>3,143</b>	<b>3,353</b>	<b>4,276</b>	<b>4,564</b>	<b>7</b>	<b>37</b>
Taxes	986	888	920	864	945	1,101	1,220	1,008	1,150	914	1,224	34	0
<b>Profit after tax</b>	<b>1,830</b>	<b>1,707</b>	<b>1,690</b>	<b>1,669</b>	<b>1,712</b>	<b>1,938</b>	<b>2,119</b>	<b>2,136</b>	<b>2,203</b>	<b>3,362</b>	<b>3,341</b>	<b>(1)</b>	<b>58</b>
<b>Asset quality (Overall)</b>													
GNPA	1,236	1,291	793	821	748	844	726	713	944	834	812	(3)	12
NNPA	1,011	968	453	352	374	239	401	415	598	470	357	(24)	(11)
Provisions	225	323	340	469	374	604	326	298	346	364	455	25	40
GNPA (%)	1.1	1.2	0.7	0.7	0.6	0.7	0.6	0.6	0.7	0.6	0.5	(5bps)	(8bps)
NNPA (%)	0.9	0.9	0.4	0.3	0.3	0.2	0.3	0.3	0.5	0.3	0.2	(9bps)	(10bps)
<b>Ratios (Calc, %)</b>													
Yields	25.7	26.0	26.9	26.0	25.8	27.1	28.6	28.0	28.9	29.3	28.8	(51bps)	22bps
Cost of funds	8.3	7.1	7.8	8.4	8.6	8.8	9.6	9.0	10.1	10.1	8.9	(120bps)	(61bps)
NIMs	18.2	18.9	19.4	18.5	17.9	18.9	19.6	19.0	19.2	19.1	19.1	2bps	(43bps)
Spreads	17.4	18.9	19.1	17.6	17.3	18.3	19.0	18.9	18.8	19.2	19.9	69bps	83bps
Cost income ratio	46.1	49.6	50.5	49.2	50.2	48.0	46.7	49.0	45.3	40.2	39.2	(96bp)	(745bps)
Cost to average AUM	8.8	9.6	10.0	9.3	9.2	9.3	9.4	9.5	8.9	8.3	7.8	(58bps)	(159bps)
<b>AUM related</b>													
Gold Stock Holding (tonnes)	59.4	59.8	62.3	64.0	66.0	67.4	66.3	67.5	68.4	72.0	73.5	2	11
Avg gold loans per branch (Rs mn)	32.6	32.6	34.1	35.3	37.4	37.8	37.4	38.4	39.3	43.8	46.0	5	23
<b>Overall AUM</b>	<b>112,330</b>	<b>107,610</b>	<b>113,271</b>	<b>117,350</b>	<b>124,650</b>	<b>125,928</b>	<b>125,249</b>	<b>129,620</b>	<b>132,920</b>	<b>151,683</b>	<b>162,430</b>	<b>7</b>	<b>30</b>
<b>Other details</b>													
CAR (%)	28.2	28.8	27.9	27.0	25.5	25.6	26.4	24.0	23.4	22.7	23.4	74bps	(300bps)
Reported ROA (%)	6.0	5.4	5.2	4.4	4.5	4.8	5.2	5.1	4.9	5.7	6.3	60bps	110bps
Reported ROE (%)	22.2	19.4	19.0	19.3	20.3	21.8	20.3	19.7	19.7	24.1	26.8	270bps	650bps
Calc. Leverage (x)	3.7	3.6	3.7	4.4	4.5	4.5	3.9	3.9	4.0	4.2	4.3	-	-

Source: Company, BOBCAPS Research

## Earnings call highlights

### Business update

- On-lending portfolio slowed down to Rs 6.6bn as of Q3FY20
- Kerala gold loan portfolio totals Rs 9.7bn with 500 branches
- Gold loan book above Rs 0.1mn at 50% of the total book
- Opex declined in Q3 as electronic surveillance reduced security costs
- 60% of customers are new to credit

### Liquidity

- Funds raised through multiple sources and without any glitches
- Liquidity at Rs 16bn as of 31 Dec 2019; management does not anticipate funding challenges

### Asset quality

- Counter-cyclical buffer not under consideration

### Asirvad MFI

- MFI lending cap of 10% per state revised to a district-wise cap of 1% of AUM
- AUM concentration at less than 0.5% in 80% of districts
- GNPA guided at ~1.5% in FY21 due to decline in credit discipline post-demonetisation and diversified AUM
- Assam portfolio at Rs 470mn and has remained flat in FY20; Asirvad present in the lower part of Assam, not in the troubled upper region
- Exposure to troubled Mangalore and Udipi districts at Rs 360mn, of which Rs 160mn provided for
- Portfolio of Rs 6bn in West Bengal where market size is Rs 180-200bn
- Financier cap set at three per customer; maximum ticket size: Rs 45,000

### Vehicle finance

- Branches in vehicle finance consolidated
- Vehicle finance portfolio
  - New 24%, Used 86%
  - Geographic concentration: South 35%, North 27%, East 11%, West 27%
- Two-wheeler loans: 6,000 loan application per month; 20% rejection rate
- CV loans: 1,500 loan application per month; 25% rejection rate

### Home Finance

- 20-25% of home loans customers are new to credit
- Home loans: 600 loan application per month; 40% rejection rate; sanction to disbursement ratio of 20%

### Management outlook

- Expense ratio to come down by 100bps YoY in FY21
- Tonnage growth of 10-15% in FY21
- 2% credit cost for Asirvad MFI in FY21

## Valuation methodology

MGFL is trading at 2.6x/2.3x FY20E/FY21E BV for ROE of 23.3%/20.9%. The company has retained its market share in gold finance during FY15-FY19, and we expect the business to yield a steady-state ROA of ~5% and remain low-levered at ~4x over FY20-FY22.

MGFL is focusing on lower ticket sizes and on reshaping customer attitudes towards gold finance in non-south geographies. Diversification into allied businesses is also likely to meaningfully contribute to the bottomline in the near term. MFI arm Asirvad Microfinance is among the top-5 MFIs in the country and has leading productivity metrics compared to peers. MGFL will incrementally allocate capital towards growing new businesses.

Following the steady Q3FY20 performance, we raise FY20/FY21/FY22 earnings estimates by 4%/5%/2% and increase our Mar'21 target price to Rs 225 (vs. Rs 195). For our SOTP model, we value (a) the standalone book, which includes gold finance, vehicle finance, SME finance and on-lending, at Rs 202/sh based on 2.4x FY22E BV, and (b) Asirvad MFI at Rs 29/sh based on 2.2x (from last stake sale) FY22E BV after a holding company discount of 20%. Maintain BUY.

**FIG 2 – ESTIMATES REVISED DUE TO BETTER PRODUCTIVITY**

(Rs bn)	Old			New			Change (%)		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
NII	26.7	30.7	33.5	27.3	31.5	33.9	2.2	2.9	1.2
Other Income	1.0	0.8	0.8	1.0	0.8	0.8	-	-	-
Net Income	27.7	31.4	34.3	28.3	32.3	34.7	2.1	2.8	1.2
Operating Expenses	12.8	14.3	15.6	12.8	14.3	15.6	-	-	-
Operating Profits	14.9	17.2	18.7	15.5	18.0	19.1	4.0	5.1	2.1
Provisions	0.6	0.7	0.7	0.6	0.7	0.7	2.4	3.1	1.3
PBT	14.3	16.5	18.0	14.9	17.3	18.3	4.0	5.2	2.2
Tax	3.6	4.2	4.5	3.8	4.4	4.6	4.0	5.2	2.2
PAT	10.7	12.3	13.4	11.1	13.0	13.7	4.0	5.2	2.2
Loans	184	202	218	192	205	220	4.4	1.9	0.7
Borrowings	157	171	185	164	174	186	4.4	1.9	0.7
Spreads (%)	13.2	13.3	13.4	13.2	13.3	13.4	0	(0)	0
RoAA (%)	5.5	5.5	5.4	5.6	5.6	5.4	12	14	5
RoAE (%)	22.5	22.1	20.7	23.3	23.1	20.9	83	94	17

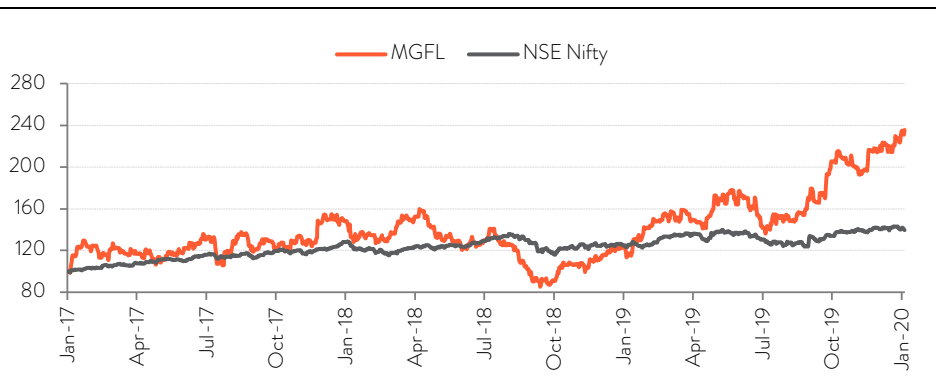
Source: BOBCAPS Research

**FIG 3 – SOTP VALUATION SUMMARY**

SOTP FY22E Based (Rs)	Value (Rs bn)	Value (US\$ bn)	Value/sh (Rs)	% of total	Rationale
<b>Core business</b>	<b>170</b>	<b>2.4</b>	<b>202</b>	<b>89.6</b>	<b>2.4x BV</b>
<b>Key Ventures</b>					
Asirvad Microfinance	25	0.4	29	13.0	2.2x BV Based on last stake sale value
Total Value of Ventures	25	0.4	29	13.0	
Less: 20% holding discount	5	0.1	6	2.6	
<b>Value of Key Ventures</b>	<b>20</b>	<b>0.3</b>	<b>23</b>	<b>10.4</b>	
<b>Target Value Post 20% Holding Co Disc</b>	<b>190</b>	<b>2.7</b>	<b>225</b>	<b>100.0</b>	
CMP	158	2.3	189		
<b>Upside (%)</b>	<b>19.2</b>	<b>19.2</b>	<b>19.2</b>		

Source: BOBCaps Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

### Key risks

Downside risks to our estimates include:

- slower-than-expected productivity increase,
- significant increase in credit costs for the vehicle finance and on-lending businesses, and
- event risk in the microfinance business.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net interest income</b>	<b>20,943</b>	<b>23,525</b>	<b>27,315</b>	<b>31,543</b>	<b>33,866</b>
NII growth (%)	5.0	12.3	16.1	15.5	7.4
Non-interest income	639	548	1,023	763	821
Total income	21,582	24,074	28,339	32,306	34,688
Operating expenses	10,551	11,657	12,821	14,266	15,600
Operating profit	11,031	12,417	15,517	18,040	19,088
Operating profit growth (%)	(5.8)	12.6	25.0	16.3	5.8
Provisions	484	260	615	695	744
PBT	10,547	12,157	14,902	17,345	18,343
Tax	3,658	4,273	3,755	4,371	4,623
<b>Reported net profit</b>	<b>6,889</b>	<b>7,884</b>	<b>11,147</b>	<b>12,974</b>	<b>13,721</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>6,889</b>	<b>7,884</b>	<b>11,147</b>	<b>12,974</b>	<b>13,721</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Equity capital	1,685	1,686	1,686	1,686	1,686
Reserves & surplus	36,441	42,236	50,039	59,121	68,725
Net worth	38,126	43,922	51,724	60,806	70,411
Deposits	0	0	0	0	0
Borrowings	102,378	127,426	163,816	174,080	186,395
Other liabilities & provisions	5,427	5,112	5,879	6,760	7,775
<b>Total liabilities and equities</b>	<b>145,931</b>	<b>176,460</b>	<b>221,419</b>	<b>241,646</b>	<b>264,581</b>
Cash & bank balance	4,425	4,508	4,485	7,299	11,408
Investments	3,782	10,108	11,119	11,953	12,850
Advances	128,407	150,052	191,665	205,414	219,946
Fixed & Other assets	13,742	16,299	18,635	24,279	31,784
<b>Total assets</b>	<b>145,931</b>	<b>176,460</b>	<b>221,419</b>	<b>241,646</b>	<b>264,581</b>
Deposit growth (%)	NA	NA	NA	NA	NA
Advances growth (%)	11.9	16.9	27.7	7.2	7.1

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	8.2	9.4	13.2	15.4	16.3
Dividend per share	2.0	2.3	3.3	3.8	4.1
Book value per share	45.3	52.1	61.4	72.1	83.5

Source: Company, BOBCAPS Research

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	23.0	20.1	14.3	12.2	11.6
P/BV	4.2	3.6	3.1	2.6	2.3
Dividend yield (%)	1.1	1.2	1.8	2.0	2.2

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	15.1	14.6	13.7	13.6	13.4
Non-interest income	0.5	0.3	0.5	0.3	0.3
Operating expenses	7.6	7.2	6.4	6.2	6.2
Pre-provisioning profit	8.0	7.7	7.8	7.8	7.5
Provisions	0.4	0.2	0.3	0.3	0.3
PBT	7.6	7.6	7.5	7.5	7.2
Tax	2.6	2.7	1.9	1.9	1.8
ROA	5.0	4.9	5.6	5.6	5.4
Leverage (x)	3.9	3.9	4.2	4.1	3.9
ROE	19.4	19.3	23.3	23.1	20.9

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Net interest income	5.0	12.3	16.1	15.5	7.4
Pre-provisioning profit	(5.8)	12.6	25.0	16.3	5.8
EPS	(5.1)	14.6	41.0	16.4	5.8
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	17.2	16.9	16.0	15.9	15.9
Fees / Avg. assets	0.3	0.3	0.3	0.3	0.3
Cost-Income	48.9	48.4	45.2	44.2	45.0
ROE	19.4	19.3	23.3	23.1	20.9
ROA	5.0	4.9	5.6	5.6	5.4
<b>Asset quality (%)</b>					
GNPA	0.7	0.6	0.5	0.6	0.6
NNPA	0.3	0.3	0.3	0.3	0.4
Provision coverage	40.9	41.7	41.1	40.5	40.1
<b>Ratios (%)</b>					
Credit-Deposit	0.0	0.0	0.0	0.0	0.0
Investment-Deposit	0.0	0.0	0.0	0.0	0.0
CAR	27.0	23.7	23.7	25.5	26.9
Tier-1	26.6	23.3	23.4	25.2	26.6

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: MANAPPURAM FINANCE (MGFL IN)



B – Buy, A – Add, R – Reduce, S – Sell

### Rating distribution

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