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**MANAPPURAM
FINANCE**

| NBFC

| 15 May 2020

Gold finance on steady wicket, MFI to face Covid-19 overhang

Manappuram Finance's (MGFL) gold AUM surged 31% YoY to Rs 170bn in Q4FY20. Despite buoyant gold prices, MGFL prudently maintained LTV at 59% on the gold book. Strong spreads and range-bound opex fuelled 57% YoY growth in operating profit to Rs 5bn. PAT increased 59% YoY to Rs 3.4bn aided by low credit cost of 20bps. We raise FY21-FY22 earnings estimates by 4-6% but cut our Mar'21 TP to Rs 150 (vs. Rs 225) as we see incremental asset quality pressure in MFI and vehicle financing businesses.

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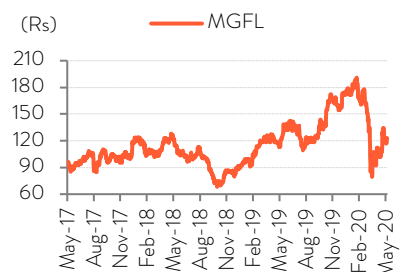
Better productivity fuels AUM growth: At Rs 170bn, MGFL's gold loan AUM increased 31% YoY in Q4FY20, continuing its growth streak for the ninth consecutive quarter. This was largely aided by 7% YoY volume growth to ~73tonnes and 25% YoY growth in AUM per branch to Rs 47mn. MGFL prudently maintained 59% LTV on its gold portfolio.

Ticker/Price	MGFL IN/Rs 123
Market cap	US\$ 1.4bn
Shares o/s	845mn
3M ADV	US\$ 17.5mn
52wk high/low	Rs 195/Rs 74
Promoter/FPI/DII	35%/39%/9%

Source: NSE

Strong spreads and cost control bolster operating profit: Spreads (calc.) on gold finance increased 40bps YoY to 19.4%, driven by better yields at 28.6% (+60bp YoY). Range-bound opex of Rs 2.9bn-3.0bn in the last 7-8 quarters resulted in a lower expense ratio of 7.3% (-220bps YoY). Thus, operating profit grew 57% YoY to Rs 5bn.

STOCK PERFORMANCE



Source: NSE

Credit costs to spike; MFI performance faces Covid-19 overhang: Credit costs were contained at 22bps of AUM in Q4, resulting in 59% YoY growth in PAT to Rs 3.4bn. Asirvad MFI AUM grew 43% YoY to Rs 55bn largely fuelled by new customers. We believe the MFI business will see a spike in delinquencies post-lockdown as the company voluntarily extended the moratorium to all MFI customers. Collections will take 4-6 months to scale up and hence management has taken Rs 550mn of Covid-19 provisions. The MFI business remains well capitalised at ~25% to absorb any increased provisioning from event risks.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	20,943	23,525	28,340	31,086	33,428
NII growth (%)	5.0	12.3	20.5	9.7	7.5
Adj. net profit (Rs mn)	6,889	7,884	12,242	13,506	14,513
EPS (Rs)	8.2	9.4	14.6	16.0	17.2
P/E (x)	15.0	13.1	8.5	7.7	7.2
P/BV (x)	2.7	2.4	1.9	1.7	1.4
ROA (%)	5.0	4.9	5.9	5.4	5.4
ROE (%)	19.4	19.3	25.2	23.2	21.3

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.

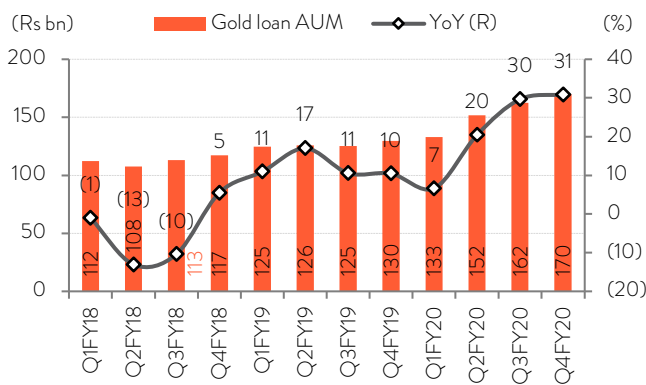


FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Interest Income	11,631	8,767	32.7	11,077	5.0	42,252	33,703	25.4
Interest expenses	3,918	2,724	43.8	3,567	9.8	13,912	10,178	36.7
Net Interest Income	7,713	6,043	27.6	7,511	2.7	28,340	23,525	20.5
Other Operating Income	280	159	76.0	256	9.4	1,208	548	120.3
Total Income	7,993	6,202	28.9	7,767	2.9	29,548	24,074	22.7
Operating Expenses	3,016	3,036	(0.6)	3,048	(1.0)	11,961	11,657	2.6
Operating Profit	4,977	3,166	57.2	4,718	5.5	17,587	12,417	41.6
Provisions and Cont.	370	22	1,545.5	154	140.2	849	260	226.5
Profit before Tax	4,607	3,143	46.6	4,564	0.9	16,739	12,157	37.7
Tax Provisions	1,210	1,008	20.1	1,224	(1.1)	4,497	4,273	5.2
Net Profit	3,397	2,136	59.1	3,341	1.7	12,242	7,884	55.3

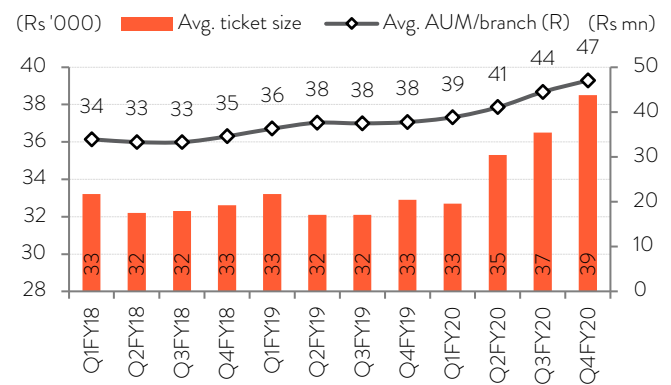
Source: Company, BOBCAPS Research

FIG 2 – GOLD LOAN AUM GREW 31% YOY...



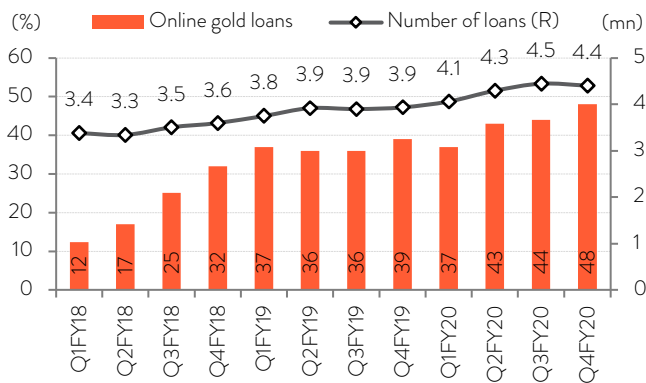
Source: Company, BOBCAPS Research

FIG 3 – ...DUE TO INCREASING BRANCH PRODUCTIVITY AND TICKET SIZE



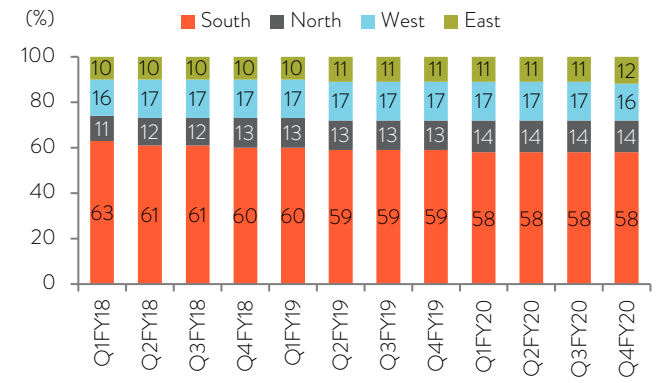
Source: Company, BOBCAPS Research

FIG 4 – ONLINE GOLD LOANS (OGL) NOW CONTRIBUTE HALF OF GOLD LOAN AUM



Source: Company, BOBCAPS Research

FIG 5 – GOLD LOAN AUM MIX REMAINS LARGELY UNCHANGED



Source: Company, BOBCAPS Research

FIG 6 – DETAILED QUARTERLY PERFORMANCE

	FY18				FY19				FY20				Change (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	QoQ	YoY
Profit and Loss (Rs mn)														
Interest Income	7,103	7,072	7,325	7,382	7,701	8,377	8,858	8,767	9,356	10,188	11,077	11,631	5.0	32.7
Interest expenses	2,031	1,879	1,964	2,063	2,277	2,458	2,719	2,724	3,039	3,389	3,567	3,918	9.8	43.8
Net Interest Income (NII)	5,073	5,193	5,360	5,319	5,424	5,919	6,140	6,043	6,317	6,799	7,511	7,713	2.7	27.6
Fee and commission income	79	82	88	125	107	103	114	135	134	241	232	193	(16.6)	43.2
Other Income	202	26	23	26	20	28	38	24	15	344	24	87	256.6	257.6
Total Net Income	5,353	5,301	5,471	5,470	5,551	6,051	6,291	6,202	6,466	7,384	7,767	7,993	2.9	28.9
Opex	2,467	2,630	2,763	2,690	2,786	2,902	2,938	3,036	2,927	2,969	3,048	3,016	(1.0)	(0.6)
Employees	1,175	1,252	1,330	1,352	1,369	1,425	1,430	1,573	1,564	1,600	1,682	1,645	(2.2)	4.5
Establishment expenses	1,292	1,379	1,433	1,338	1,417	1,478	1,507	1,463	1,363	1,369	1,366	1,372	0.4	(6.2)
Operating profits	2,886	2,670	2,708	2,780	2,765	3,149	3,353	3,166	3,539	4,415	4,718	4,977	5.5	57.2
Provisions and write offs	71	75	98	248	109	110	14	22	186	139	154	370	140.2	1,545.5
Profit before tax	2,816	2,595	2,611	2,532	2,657	3,039	3,339	3,143	3,353	4,276	4,564	4,607	0.9	46.6
Taxes	986	888	920	864	945	1,101	1,220	1,008	1,150	914	1,224	1,210	(1.1)	20.1
Profit after tax	1,830	1,707	1,690	1,669	1,712	1,938	2,119	2,136	2,203	3,362	3,341	3,397	1.7	59.1
Asset quality (Overall)														
GNPA (Rs mn)	1,236	1,291	793	821	748	844	726	713	944	834	812	1,493	84	109
NNPA (Rs mn)	1,011	968	453	352	374	239	401	415	598	470	357	797	123	92
Provisions (Rs mn)	225	323	340	469	374	604	326	298	346	364	455	696	53	133
GNPA (%)	1.1	1.2	0.7	0.7	0.6	0.7	0.6	0.6	0.7	0.6	0.5	0.9	38bps	33bps
NNPA (%)	0.9	0.9	0.4	0.3	0.3	0.2	0.3	0.3	0.5	0.3	0.2	0.5	25bps	15bps
Ratios (Calc, %)														
Yields	25.7	26.0	26.9	26.0	25.8	27.1	28.6	28.0	28.9	29.3	28.8	28.6	(19bps)	65bps
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	9.2	27bps	19bp
NIMs	18.2	18.9	19.4	18.5	17.9	18.9	19.6	19.0	19.2	19.1	19.1	18.6	(55bps)	(39bps)
Spreads	17.4	18.9	19.1	17.6	17.3	18.3	19.0	18.9	18.8	19.2	19.9	19.4	(46bps)	46bps
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	37.7	(151bps)	(1122bps)
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	7.3	(50bps)	(226bps)
AUM related														
Gold Stock Holding (In tonnes)	59.4	59.8	62.3	64.0	66.0	67.4	66.3	67.5	68.4	72.0	73.5	72.4	(1)	7
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	48.1	5	25
Overall AUM	112,330	107,610	113,271	117,350	124,650	125,928	125,249	129,620	132,920	151,683	162,430	169,672	4	31
Other details														
CAR	28.2	28.8	27.9	27.0	25.5	25.6	26.4	24.0	23.4	22.7	23.4	23.4	0bps	(60bps)
Reported RoA (%)	6.0	5.4	5.2	4.4	4.5	4.8	5.2	5.1	4.9	5.7	6.3	6.4	10bps	130bps
Reported RoE (%)	22.2	19.4	19.0	19.3	20.3	21.8	20.3	19.7	19.7	24.1	26.8	25.9	(90bps)	620bps
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	4.0	-	-

Source: Company, BOBCAPS Research

Earnings call highlights

Gold business

- Customer footfall low due to lockdown
- Overall opex down 20bps QoQ owing to reduction in security cost; working on further rationalisation of opex
- Moratorium offered as opt-in; 5% of customers opted for the same
- 90% of branches now operational
- Management expects reduction in collateral in next 1-2 quarters
- Expects online gold customers at 1% of AUM per month

Liquidity

- Comfortably placed with ALM
- Raised Rs 1bn under Targeted Long-Term Repo Operations (TLTRO)
- Maturities of Rs 18bn in May and June
- Reduced CP borrowings during Q4FY20
- Expecting new sanctions from banks in June

Covid-19 impact

- Reduced on-lending portfolio to smaller NBFCs
- Took Rs 150mn of additional provisions for Covid-19, primarily for vehicle finance

Asirvad MFI

- State-wise cap of 10% and district-wise cap of 1% on MFI lending; will reduce this to 0.5% exposure per district
- Lowest opex in MFI industry
- Management expects stress on asset quality post-lockdown
- Liquidity at Rs 10bn as of Apr'20; undrawn lines of Rs 12bn – Asirvad does not foresee any support from parent in near term
- Provisions of Rs 550mn for Covid-19 (1% of AUM)

- No corporate guarantee given by MFGL to Asirvad MFI
- Employee expenses increased due to branch expansion
- Collections have started through bank account and app, but centre meetings to begin after lockdown is lifted

Other subsidiaries

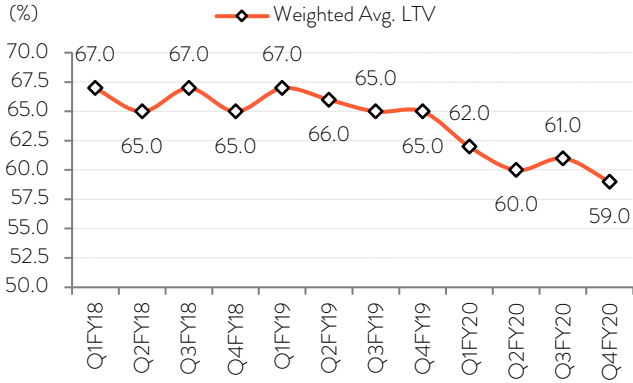
- Vehicle finance to see short-term pain. Portfolio under moratorium at Rs 1.3bn as of Apr'20
- ~30% of housing finance customers have opted for moratorium as of April
- Vehicle finance customers generally have 1-2 vehicles and run short-haul routes. Bounce rates at 44-45%

Guidance

- FY21 gold loan growth at 8-10%

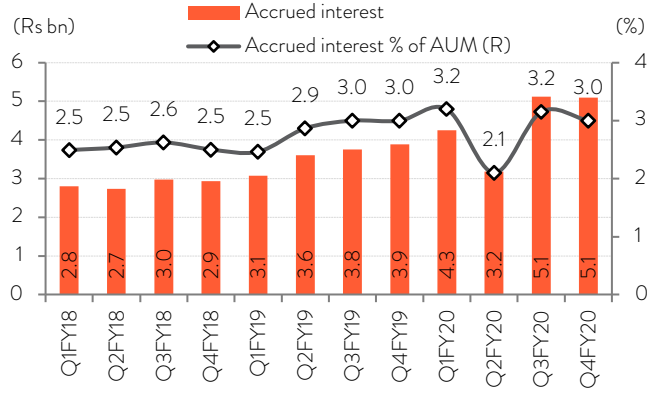
Story in charts

FIG 7 – MGFL HAS MANAGED AVERAGE LTV ON PORTFOLIO PRUDENTLY



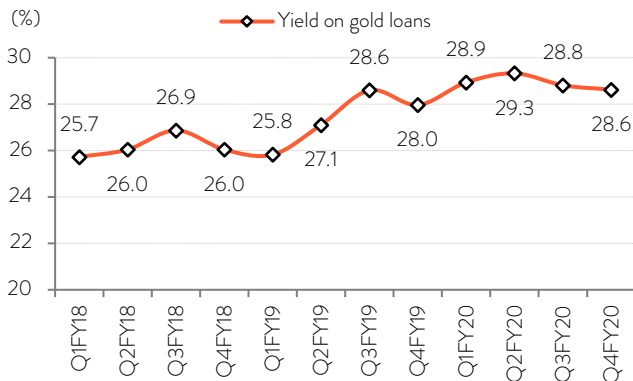
Source: Company, BOBCAPS Research

FIG 8 – DESPITE LOCKDOWN ACCRUED INTEREST REMAINS AT 3% OF GOLD AUM



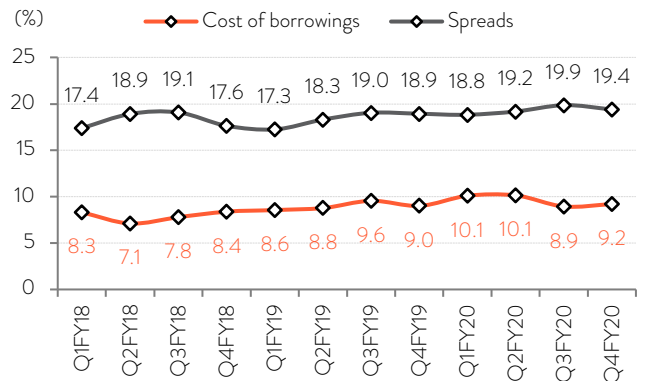
Source: Company, BOBCAPS Research

FIG 9 – PRICING POWER REMAINS UNDISTURBED FOR GOLD LOANS...



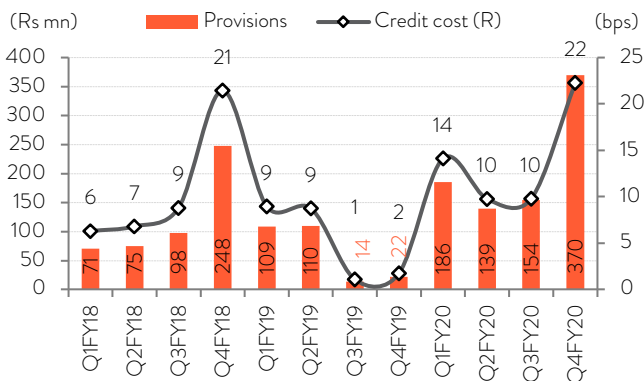
Source: Company, BOBCAPS Research

FIG 10 – ...AMPLE LIQUIDITY HAS KEPT GOLD LOAN SPREADS STABLE OVER LAST 5-6 QUARTERS



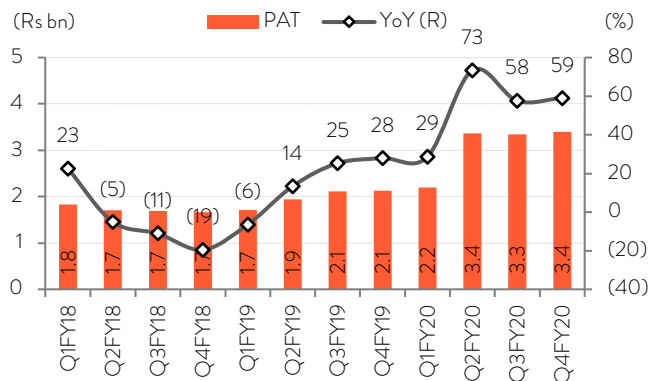
Source: Company, BOBCAPS Research

FIG 11 – SPIKE IN CREDIT COST DUE TO RS 150MN PROVISION TAKEN FOR COVID-19...



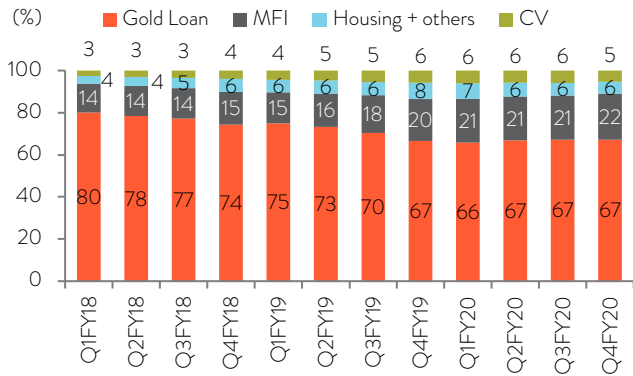
Source: Company, BOBCAPS Research

FIG 12 – ...BUT BOTTOMLINE MAINTAINS GROWTH STREAK



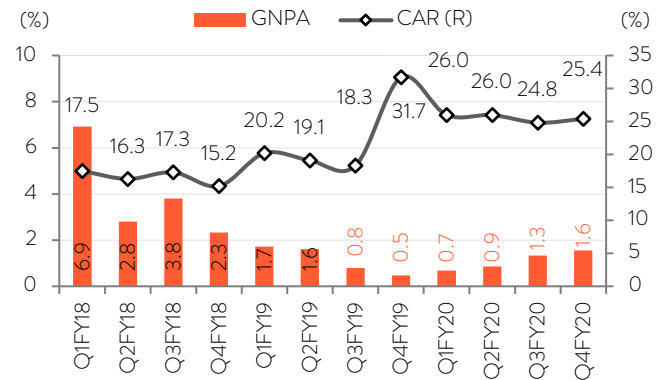
Source: Company, BOBCAPS Research

FIG 13 – ASIRVAD MFI HAS GAINED SHARE IN CONSOLIDATED AUM



Source: Company, BOBCAPS Research

FIG 14 – ASSET QUALITY LIKELY TO WEAKEN POST-LOCKDOWN, BUT ASIRVAD IS WELL CAPITALISED



Source: Company, BOBCAPS Research

Valuation methodology

MGFL is trading at 1.7x/1.5x FY21E/FY22E BV for ROE of 23.2%/21.3%. The company has retained its market share in gold finance during FY15-FY19, and we expect the business to yield steady-state ROA of ~5% and remain low-levered at ~4x over FY21-FY22.

MFGL 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 Q4FY20 performance, we raise FY21/FY22 earnings estimates by 4%/6% but cut our Mar'21 target price to Rs 150 (vs. Rs 225) as we expect asset quality stress in MFI and vehicle financing businesses. For our SOTP model, we value (a) the standalone book, which includes gold finance, vehicle finance, SME finance and on-lending, at Rs 138/sh based on 1.6x FY22E BV, and (b) Asirvad MFI at Rs 15/sh based on 1.2x FY22E BV after a holding company discount of 20%. Maintain BUY.

FIG 15 – REVISED ESTIMATES

(Rs bn)	Old		New		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
NII	31.5	33.9	31.1	33.4	(1.4)	(1.3)
Other Income	0.8	0.8	1.3	1.4	71.5	72.6
Net Income	32.3	34.7	32.4	34.8	0.3	0.5
Operating Expenses	14.3	15.6	13.1	14.1	(8.3)	(9.7)
Operating Profits	18.0	19.1	19.3	20.8	7.1	8.8
Provisions	0.7	0.7	1.3	1.4	81.8	82.3
PBT	17.3	18.3	18.1	19.4	4.1	5.8
Tax	4.4	4.6	4.6	4.9	4.1	5.8
PAT	13.0	13.7	13.5	14.5	4.1	5.8
Loans	205	220	200	217	(2.5)	(1.2)
Borrowings	174	186	185	201	6.5	7.9
Spreads (%)	13.3	13.4	14.0	14.1	70	70
RoAA (%)	5.6	5.4	5.5	5.4	(14)	(2)
RoAE (%)	23.1	20.9	23.5	22.1	44	121

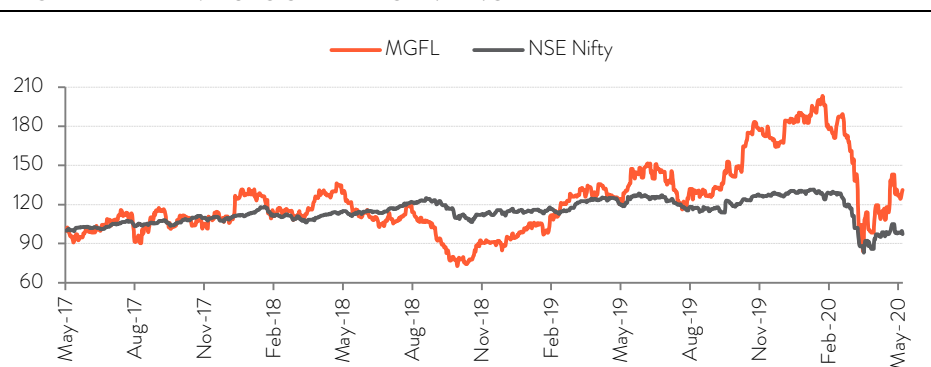
Source: Company, BOBCAPS Research

FIG 16 – SOTP VALUATION SUMMARY

SOTP FY22E Based (Rs)	Value (Rs bn)	Value (US\$ bn)	Value/ Sh. (Rs)	% of total	Rationale
Core business	116	1.7	138	92.2	1.6x BV
Key Ventures					
Asirvad Microfinance	12	0.2	15	9.7	1.2x BV
Total Value of Ventures	12	0.2	15	9.7	
Less: 20% holding discount	2	0.0	3	1.9	
Value of Key Ventures	10	0.1	12	7.8	
Target Value Post 20% Holding Co Disc	126	1.8	150	100.0	
CMP	104	1.5	123		
Upside (%)	21.5	21.5	21.5		

Source: BOBCAPS Research

FIG 17 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

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

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	20,943	23,525	28,340	31,086	33,428
NII growth (%)	5.0	12.3	20.5	9.7	7.5
Non-interest income	639	548	1,208	1,308	1,418
Total income	21,582	24,074	29,548	32,395	34,845
Operating expenses	10,551	11,657	11,961	13,075	14,086
Operating profit	11,031	12,417	17,587	19,319	20,759
Operating profit growth (%)	(5.8)	12.6	41.6	9.8	7.5
Provisions	484	260	849	1,263	1,357
PBT	10,547	12,157	16,739	18,056	19,402
Tax	3,658	4,273	4,497	4,550	4,889
Reported net profit	6,889	7,884	12,242	13,506	14,513
Adjustments	0	0	0	0	0
Adjusted net profit	6,889	7,884	12,242	13,506	14,513

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Equity capital	1,685	1,686	1,690	1,690	1,690
Reserves & surplus	36,441	42,236	51,869	61,323	71,482
Net worth	38,126	43,922	53,559	63,013	73,172
Deposits	0	0	0	0	0
Borrowings	102,378	127,426	175,061	185,480	201,158
Other liabilities & provisions	5,427	5,112	9,405	9,499	9,594
Total liabilities and equities	145,931	176,460	238,025	257,992	283,924
Cash & bank balance	4,425	4,508	22,450	23,730	24,243
Investments	3,782	10,108	9,311	11,639	14,548
Advances	128,407	150,052	188,420	200,318	217,251
Fixed & Other assets	13,742	16,299	40,294	46,035	52,125
Total assets	145,931	176,460	238,025	257,992	283,924
Deposit growth (%)	NA	NA	NA	NA	NA
Advances growth (%)	11.9	16.9	25.6	6.3	8.5

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
EPS	8.2	9.4	14.6	16.0	17.2
Dividend per share	2.0	2.3	2.8	4.0	4.3
Book value per share	45.3	52.1	63.4	74.6	86.6

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
P/E	15.0	13.1	8.5	7.7	7.2
P/BV	2.7	2.4	1.9	1.7	1.4
Dividend yield (%)	1.6	1.9	2.2	3.2	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	15.1	14.6	13.7	12.5	12.3
Non-interest income	0.5	0.3	0.6	0.5	0.5
Operating expenses	7.6	7.2	5.8	5.3	5.2
Pre-provisioning profit	8.0	7.7	8.5	7.8	7.7
Provisions	0.4	0.2	0.4	0.5	0.5
PBT	7.6	7.6	8.1	7.3	7.2
Tax	2.6	2.7	2.2	1.8	1.8
ROA	5.0	4.9	5.9	5.4	5.4
Leverage (x)	3.9	3.9	4.3	4.3	4.0
ROE	19.4	19.3	25.2	23.2	21.3

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Net interest income	5.0	12.3	20.5	9.7	7.5
Pre-provisioning profit	(5.8)	12.6	41.6	9.8	7.5
EPS	(5.1)	14.6	55.2	9.8	7.5
Profitability & Return ratios (%)					
Net interest margin	17.2	16.9	16.7	16.0	16.0
Fees / Avg. assets	0.3	0.3	0.4	0.4	0.4
Cost-Income	48.9	48.4	40.4	40.4	40.4
ROE	19.4	19.3	25.2	23.2	21.3
ROA	5.0	4.9	5.9	5.4	5.4
Asset quality (%)					
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	40.6	40.2
Ratios (%)					
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	22.8	24.7	26.0
Tier-1	26.6	23.3	22.5	24.4	25.8

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

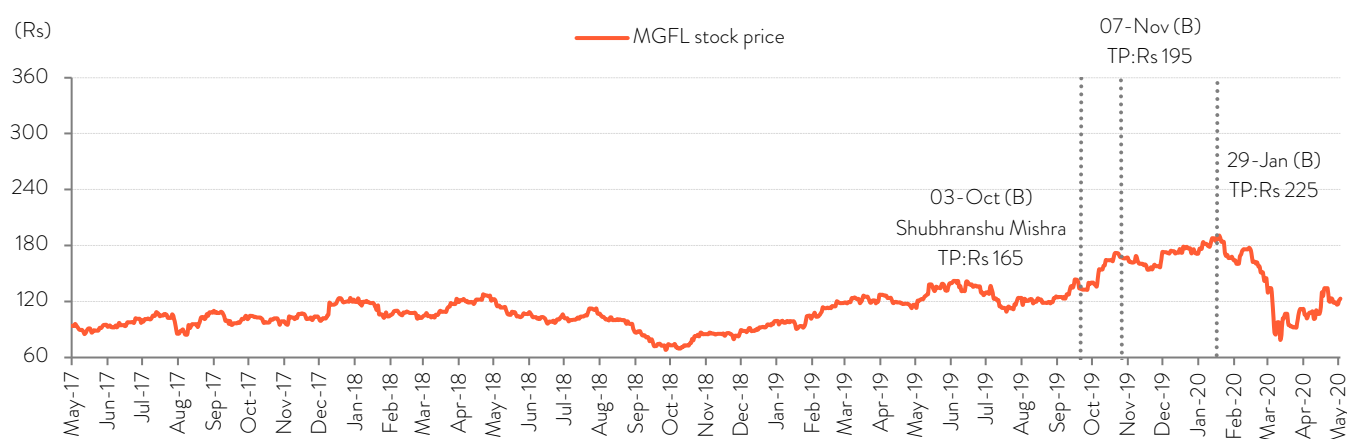
ADD – Expected return from >+5% to +15%

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

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