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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Manappuram Finance Limited

04 February 2023

Microfinance offsets weaker performance in Gold loan

RESULT UPDATE

Sector: NBFCs Rating: BUY

CMP: Rs 115 Target Price: Rs 155

Stock Info

Sensex/Nifty	60,842/17,854
Bloomberg	MGFL IN
Equity shares	846mn
52-wk High/Low	161/82
Face value	Rs 2
M-Cap	Rs 972 bn/ USD 11.9 bn
3-m Avg volume	USD 11.9 mn

Financial Snapshot (Rs mn)

Y/E March	FY23E	FY24E	FY25E
NII	41,773	46,550	52,924
PPP	23,605	27,178	31,470
PAT	15,353	17,900	21,247
EPS (Rs)	18.1	21.1	25.1
EPS Gr. (%)	15.6	16.6	18.7
BV/Sh (Rs)	114	131	153

Ratios

NIM (%)	13.1	13.1	13.0
C/I ratio (%)	47.6	46.2	45.5
RoA (%)	4.3	4.5	4.6
RoE (%)	17.1	17.3	17.7
Payout (%)	16.5	15.6	14.8

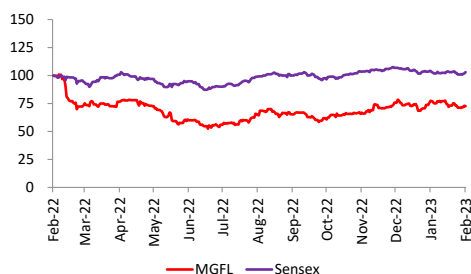
Valuations

P/E (x)	6.3	5.4	4.5
P/BV (x)	1.0	0.9	0.7
Div. Yield (%)	2.6	2.9	3.3

Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22
Promoter	35.2	35.2	35.2
-Pledged			
FII	30.1	28.4	28.9
DII	11.6	12.2	13.5
Others	23.2	24.3	22.4

Stock Performance (1-year)



MGFL's Q3FY23 operating performance was in line with expectation, with NI/OP at Rs 3.9bn/5.9bn. Though there was a decline in the gold loan portfolio (-9% YoY, -3% QoQ), it was compensated by a stronger growth in the non-gold loan portfolio (+33% YoY, +16% QoQ), driving 4%QoQ growth in Consolidated AUM. MFI business (25% of the AUM) contributed meaningfully with AUM growth at +18% YoY (+13% QoQ), improved asset quality (6.7% vs. 8.8% in 2QFY23) and improved profitability (Rs. 706 mn vs.566mn in 2QFY23). Asset quality in gold loan continued to improve with gross / net stage 3 at 1.6%/1.4% from 2.0%/1.8% and credit cost also reduced by 30bps to 0.7%. We estimate a 13% CAGR in MGFL's AUM to deliver a 17% CAGR in earnings over FY22-FY25E. With optimal product mix along with improving asset quality and expansion in the MFI business, MGFL should be able to improve their RoA/RoE to 4.6%/17.7% by FY25E from 4.1%/16.9% in FY22, respectively. Hence Maintain our BUY rating on the stock with price target of Rs155.

Key result highlights

- MGFL operating performance was in-line with expectation with Net Income/ Operating profit at Rs. 3.9/ 5.9bn. Net income grew 20% YoY led by 5% YoY (4% QoQ) growth in AUM, even as NIMs contracted by 10bps QoQ. PAT was marginally ahead of estimates at Rs3.9bn (vs. estimate of Rs3.8bn) led by lower than expected provisions.
- Consolidated AUM growth was moderate at 5% YoY (4% QoQ) as 33%yoy growth in non-gold portfolio (42% of AUM) was offset by 9%yoy (-3%qoq) decline in gold loan portfolio. Non Gold portfolio share further increased to 42% in Q3 vs. 33% in Q3FY22. Growth in the non-gold portfolio was aided by growth across all product segments viz. Micro-finance (+18% YoY, +13% QoQ), MSME and others (+35% QoQ), and Home loan (+23% YoY, +9% QoQ).
- NIMs (Calculated) declined marginally by 10bps qoq as cost of funds increased by 35bps qoq, even as yields increased by 26bps qoq.
- Asset quality improved further with gross / net stage 3 coming down to 1.6%/1.4%from 2.0%/1.8% in 2QFY23. Credit cost also improved to 0.7% (vs.2QFY23: 1.0%).
- Operating expenses increased by 10% YoY (4% QoQ) led by 26% increase in employee expenses offset by a reduction of 14% in other expenses. Opex/ Income ratio also increased marginally by 30bps QoQ to 49.4%.
- Microfinance subsidiary (25% of the AUM) reported strong performance with AUM growth of 18% YoY (13% QoQ) at Rs 81 bn; Resultantly, PAT increased by a strong 25% QoQ to Rs. 706mn (vs. 2QFY23: Rs. 566mn); Asset quality improved with GNPA/NNPA at 6.7%/1.7% vs. 8.8%/1.7% in 2QFY23.

Valuation & recommendation

MGFL reported results on expected lines, aided by growth in the non-gold loan business, largely stable NIMs and lower provisions due to improving asset quality. The management remains focused on achieving diversification through increase of its MFI business along with other product categories like HL, CV, MSME. Though, the gold loan business witnessed a decline in 3Q, the management remains positive about the recovery in the coming quarters. Maintain our BUY rating on the stock with price target of Rs 155.

Pradeep Agrawal

pradeepagrawal@systematixgroup.in
+91 22 6704 8024

Hena Vora

henavora@systematixgroup.in
+91 22 6704 8045

Investors are advised to refer disclosures made at the end of the research report.

Management commentary

Succession Plan:

- Dr. Sumitha Jayasankar- daughter of V.P. Nandakumar was appointed as an additional director and is actively involved in the business and is getting trained for succession. However, the final call for the leadership position will be taken by the board.

Business:

- The management is currently undergoing the process of changing the APP interface and the website. And the change will be live soon.
- The gold loan business saw a decline in the current quarter; however, they remain positive about recovery in the coming quarters. 20-21% of the target customers is coming back. They don't view bank as a competition as banks were offering gold loans at 12% even earlier. Their customers are generally from lower middle-class group, who want quick money and quick redemption so they will chose NBFC over banks.
- NBFC lending: Yield- 13.3%; the team assess the quality of the promoter, credit rating, etc; Ticket size- Rs. 120mn-300mn.
- SME lending: Ticket size- Rs. 0.6mn; run rate of disbursement- Rs1bn/month. Generally secured with mortgages.
- Ticket size: upto 1 lakh – 44%; 1-2 lakh- 23% ; 2-3 lakh- 10% ; 3-5 lakh – 8% and above 5 lakh- 15%.
- RoA: Gold loan- 6.0%; Overall book- 4.2%; Standalone entity- 5.2%.
- Auction during the quarter were Rs3,530 mn.

NIMs/ Borrowings:

- NIM will remain in the present range only.
- They repriced the high cost \$300mn bonds and hence don't expect any increase in their cost in 4QFY23. However, if there is any pressure of rising interest rate environment, they will pass it to their customers.
- Less than 12% yield portfolio remain largely stable at 17% of AUM vs 18% in Q2.

Outlook:

- Modest growth in the gold loan business from 4QFY23, without dilution in any metrics (yields, margins).
- Target- CAGR of 20% and ROE of 20%.

Exhibit 1: Quarterly performance (Consolidated)

(Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Net Interest Income	9,151	8,985	9,566	10,795	10,917	19.3	1.1
Other Income	607	980	416	1,063	772	27.1	-27.4
Net Income	9,758	9,965	9,981	11,858	11,688	19.8	-1.4
Total Operating Expenses	5,228	4,912	4,890	5,525	5,769	10.3	4.4
<i>As % Of Net Income</i>	<i>53.6</i>	<i>49.3</i>	<i>49.0</i>	<i>46.6</i>	<i>49.4</i>	<i>-7.9</i>	<i>5.9</i>
Employee Expenses	3,057	3,011	3,138	3,642	3,857	26.2	5.9
<i>As % Of Net Income</i>	<i>31.3</i>	<i>30.2</i>	<i>31.4</i>	<i>30.7</i>	<i>33.0</i>	<i>5.3</i>	<i>7.4</i>
Other Expenses	1,615	1,320	1,261	1,425	1,385	-14.2	-2.8
<i>As % Of Net Income</i>	<i>16.5</i>	<i>13.2</i>	<i>12.6</i>	<i>12.0</i>	<i>11.9</i>	<i>-28.4</i>	<i>-1.4</i>
Operating Profit	4,530	5,053	5,091	6,333	5,919	30.7	-6.5
<i>As % Of Net Income</i>	<i>46.4</i>	<i>50.7</i>	<i>51.0</i>	<i>53.4</i>	<i>50.6</i>	<i>9.1</i>	<i>-5.2</i>
Provisions	1,048	1,514	1,283	805	509	-51.4	-36.7
PBT	3,482	3,539	3,808	5,527	5,410	55.4	-2.1
Total Tax	872	930	989	1,433	1,475	69.2	3.0
Reported PAT	2,610	2,610	2,819	4,095	3,935	50.8	-3.9
Adjusted PAT	2,610	2,610	2,819	4,095	3,935	50.8	-3.9
Adjusted EPS	3.1	3.1	3.3	4.8	4.6		
Yield Analysis (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	(bps) YoY	bps QoQ
Yield on AUM	19.7	18.4	19.2	20.9	21.2	153	26
Cost of funds	7.2	6.5	6.6	6.9	7.2	1	35
Cost of borrowing	8.7	8.2	8.4	8.3	8.4	-24	8
NIMs on AUM	12.4	11.8	12.5	14.1	14.0	152	-10
Asset quality (Consolidated) (Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Gross NPAs	5,853	8,899	8,782	11,086	10,574	80.7	-4.6
Gross NPAs (%)	2.2	3.3	3.1	3.8	3.3	50.6	-14
AUM (Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Gold Loan	2,04,517	2,01,679.0	2,04,708.0	1,91,903.0	1,86,141	-9.0	-3.0
Micro Finance	68,591	66,530.0	65,461.0	71,181.0	80,655	17.6	13.3
Home Loan	8,167	8,453.0	8,748.0	9,216.0	10,048	23.0	9.0
Commercial Vehicle	15,097	16,432.0	17,550.0	18,855.0	21,121	39.9	12.0
Others	7,700	9,515.0	11,128.0	15,494.0	20,868	171.0	34.7
Conso AUM	3,04,072	3,02,609	3,07,595	3,06,650	3,18,833	4.9	4.0
Key data	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Gold stock (tonnes)	69	68	67	63	60	-13.7	-4.9
Avg gold price	4,778	4,967	5,128	5,073	5,207	9.0	2.6
LTV (Calculated)	67	65	65	66	63	-6.1	-3.5
Borrowing (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Debentures	32	28	28	25	25	-21.0	-2.0
WCDL/CC	30	31	31	23	20	-33.8	-14.3
Term loan	21	27	27	39	44	111.5	14.8
CP	6	3	3	3	0	-96.8	-92.0
ECB	11	12	12	10	11	-7.0	1.9

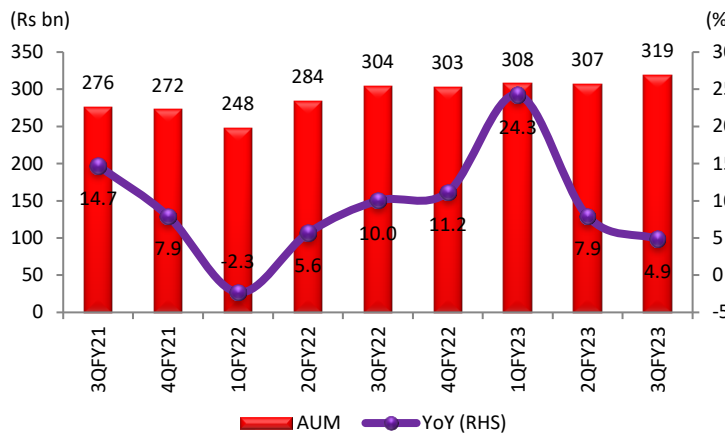
Source: Company, Systematix Institutional Research

Exhibit 2: Change in estimates

(Rs bn)	Old Estimates		New Estimates		Change (%)	
	FY24	FY25	FY24	FY25	FY24	FY25
NII	45.6	51.6	46.5	52.9	2.0	2.6
Operating Profit	27.5	31.5	27.2	31.5	-1.0	0.0
PAT	18.1	21.2	17.9	21.2	-1.2	0.0
EPS	21.4	25.1	21.1	25.1	-1.2	0.0

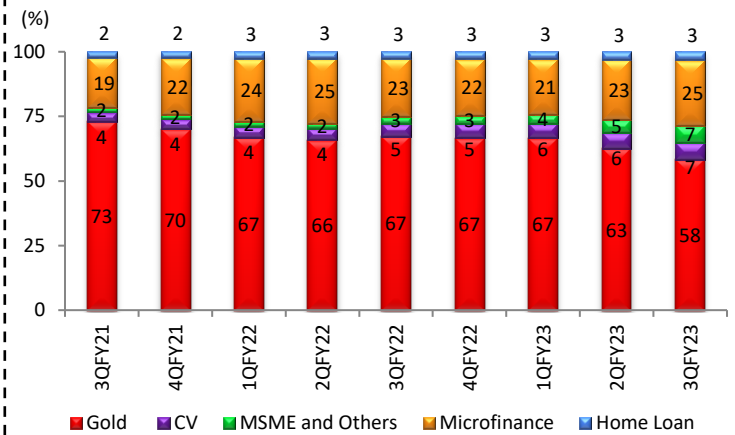
Source: Company, Systematix Institutional Research

Exhibit 3: AUM growth remain moderate



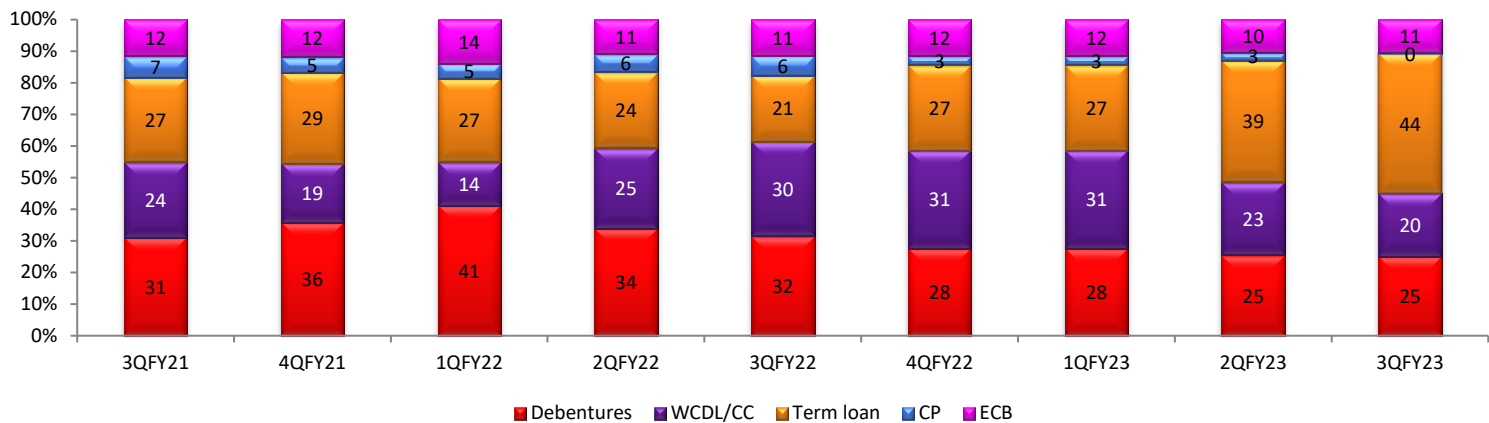
Source: Company, Systematix Institutional Research

Exhibit 4: as growth in non-gold book offset decline in gold book

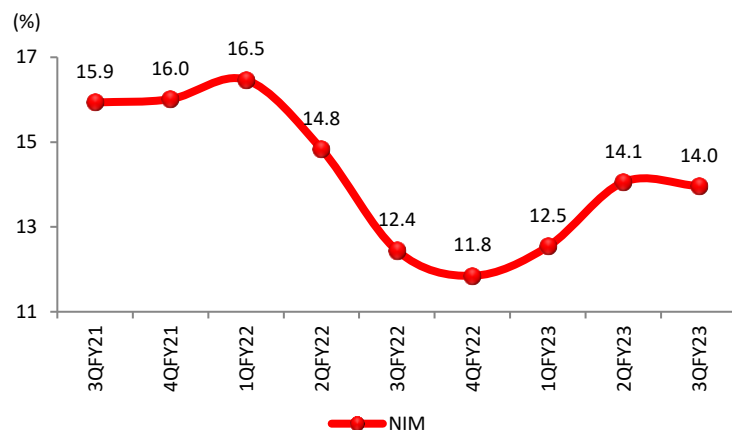


Source: Company, Systematix Institutional Research

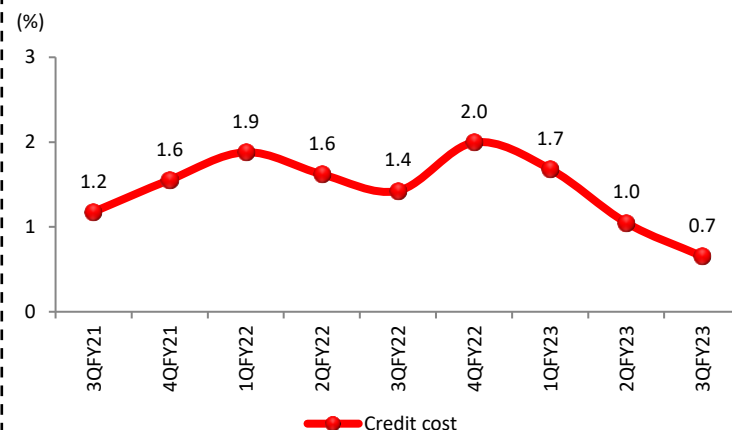
Exhibit 5: Diversified borrowing mix



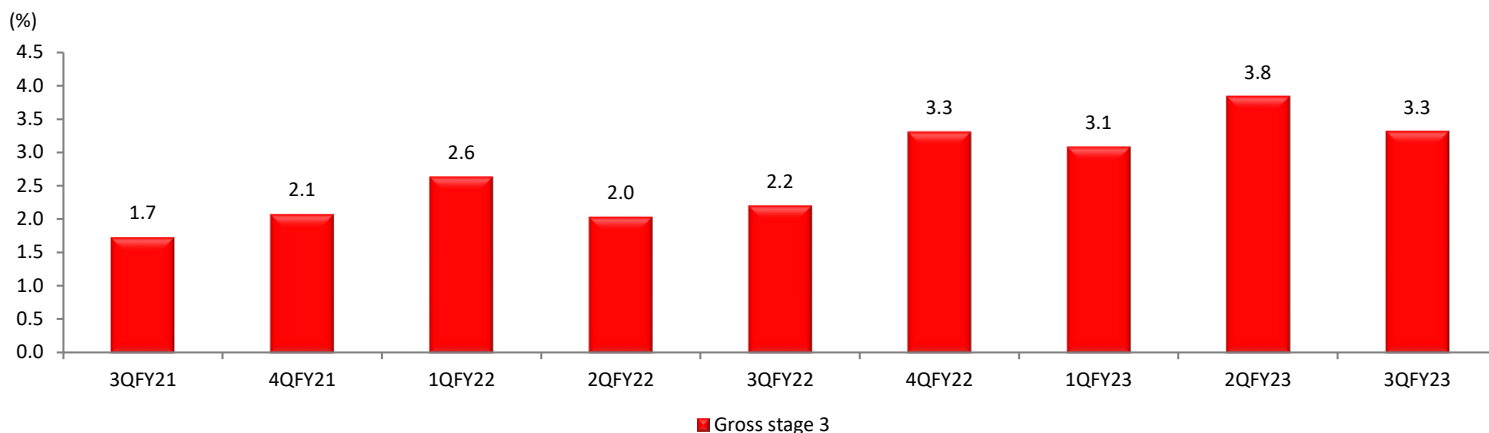
Source: Company, Systematix Institutional Research

Exhibit 6: NIM has been stabilizing post-COVID.

Source: Company, Systematix Institutional Research

Exhibit 7: Credit cost improved by 30Bps to 0.7%.

Source: Company, Systematix Institutional Research

Exhibit 8: Gross stage 3 (Consolidated) improved...

Source: Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	39,706	38,284	41,773	46,550	52,924
Other income	828	1,351	3,099	3,835	4,652
Net Income	41,557	41,149	45,018	50,532	57,726
Operating expenses	13,996	18,453	21,413	23,354	26,256
Preprovision profit	27,561	22,697	23,605	27,178	31,470
Provisions	4,401	4,862	2,905	3,007	2,743
Profit before tax	23,160	17,835	20,699	24,172	28,726
Tax	5,911	4,548	5,346	6,272	7,479
Tax rate	25.5	25.5	25.8	25.9	26.0
Reported Profit after tax	17,250	13,287	15,353	17,900	21,247

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	1,693	1,693	1,693	1,693	1,693
Reserves	71,382	81,991	94,423	1,09,536	1,27,630
Net worth	73,074	83,683	96,116	1,11,229	1,29,323
Borrowings	2,27,163	2,41,185	2,65,532	2,96,544	3,38,858
Others	12,669	13,076	16,750	17,819	24,681
Total liabilities	3,13,378	3,38,106	3,78,398	4,25,591	4,92,862
Cash	29,124	26,974	39,884	42,558	49,211
Investments	3,380	4,207	4,902	6,276	8,276
Loans	2,65,076	2,89,710	3,15,337	3,56,170	4,11,652
Others	6,462	6,564	7,467	8,648	10,164
Total assets	3,13,378	3,38,106	3,78,398	4,25,591	4,92,862

Source: Company, Systematix Institutional Research

Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	20.3	17.9	18.1	18.1	18.2
Interest Expense	7.3	6.2	6.4	6.6	6.6
Net Interest Income	13.0	11.8	11.7	11.6	11.5
Other income total	0.6	0.9	0.9	1.0	1.0
Net Income total	13.7	12.6	12.6	12.6	12.6
Operating expenses total	4.6	5.7	6.0	5.8	5.7
Preprovision profit	9.1	7.0	6.6	6.8	6.9
Provisions	1.4	1.5	0.8	0.7	0.6
Profit before tax and exce. items	7.6	5.5	5.8	6.0	6.3
Profit before tax	7.6	5.5	5.8	6.0	6.3
Tax total	1.9	1.4	1.5	1.6	1.6
Profit after tax	5.7	4.1	4.3	4.5	4.6

Source: Company, Systematix Institutional Research

Key Ratios

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
Yield on portfolio	24.4	21.1	21.4	21.7	21.7
cost of borrowings	9.8	8.6	9.1	9.4	9.6
Spread	14.6	12.5	12.3	12.3	12.1
NIM (on AUM)	15.1	13.3	13.1	13.1	13.0
Cost/ Income (%)	33.7	44.8	47.6	46.2	45.5
Credit cost (%)	1.4	1.5	0.8	0.7	0.6
RoA(%)	5.7	4.1	4.3	4.5	4.6
RoE(%)	26.2	16.9	17.1	17.3	17.7
Leverage (x)	4.6	4.1	4.0	3.9	3.8
Tier I (%)	28.7	31.0	29.1	30.1	30.3
CAR (%)	29.0	31.3	30.1	31.0	31.1
Gross NPA (%)	2.0	2.8	2.0	2.0	1.9
Net NPA (%)	1.3	2.3	1.5	1.5	1.4
Provision coverage (%)	34.2	19.5	25.2	26.2	26.7

Source: Company, Systematix Institutional Research

Growth

YE: Mar (%)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	15.1	-3.6	9.1	11.4	13.7
Net Income total	11.7	-1.0	9.4	12.2	14.2
Preprovision profit	22.8	-17.6	4.0	15.1	15.8
Profit before tax	15.4	-23.0	16.1	16.8	18.8
Profit after tax	16.5	-23.0	15.6	16.6	18.7
Loan	9.1	9.3	8.8	12.9	15.6
AUM	7.9	11.2	10.2	13.1	15.6

Source: Company, Systematix Institutional Research

Valuation ratios

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
FDEPS (Rs)	20	16	18	21	25
PER (x)	6	7	6	5	5
Book value (Rs)	87	99	114	131	153
P/BV (Rs)	1.3	1.2	1.0	0.9	0.7
Adjusted book value (Rs)	83	91	108	125	146
P/ABV (Rs)	1.4	1.3	1.1	0.9	0.8
P/PPP (x)	3.5	4.3	4.1	3.6	3.1
Dividend yield (%)	1.1	2.6	2.6	2.9	3.3

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	Managing Director	+91-22-6704 8001	nikhil@systematixgroup.in
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Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Ashish Poddar	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Girija Ray	Cement	+91-22-6704 8098	girijaray@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Rahul Jain	Metals & Mining	+91-22-6704 8066	rahuljain@systematixgroup.in
Rakesh Kumar	Banking, Insurance	+91-22-6704 8041	rakeshkumar@systematixgroup.in
Sudeep Anand	Oil & Gas , Telecom, Logistics	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Aniket Shah	Banking, Insurance	+91-22-6704 8034	aniketshah@systematixgroup.in
Beza Deboo	Pharmaceuticals and Healthcare	+91-22-6704 8046	bezaddeboo@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Hena Vora	NBFCs & Diversified Financials	+91-22-6704 8045	henavora@systematixgroup.in
Poorvi Banka	Auto, Auto Ancillaries	+91-22-6704 8063	poorvibanka@systematixgroup.in
Pranay Shah	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8017	pranayshah@systematixgroup.in
Pratik Oza	Midcaps	+91-22-6704 8036	pratikoza@systematixgroup.in
Prathmesh Kamath	Oil & Gas , Telecom, Logistics	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Shraddha Kapadia	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8019	shraddhakapadia@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Varun Gajaria	Midcaps	+91-22-6704 8081	varungajaria@systematixgroup.in

Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Nirbhay Kumar Singh	Sales	+91-22-6704 8061	nirbhaysingh@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Shivang Agrawal	Sales	+91-22-6704 8068	shivangagrawal@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in

Corporate Access

Pearl Pillay	Sr. Associate	+91-22-6704 8088	pearlpillay@systematixgroup.in
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Production

Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Sushant Chavan	Manager	+91-22-6704 8056	sushantchavan@systematixgroup.in

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Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

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