



TM

Manappuram Finance Limited

22 March 2023

Microfinance is now the prime engine of growth

COMPANY UPDATE

Sector: NBFCs Rating: BUY

CMP: Rs 119 Target Price: Rs 160

Stock Info

Sensex/Nifty	58,215/17,150
Bloomberg	MGFL IN
Equity shares	846mn
52-wk High/Low	126/82
Face value	Rs 2
M-Cap	Rs 101 bn/ USD 1.2 bn
3-m Avg volume	USD 11.9 mn

Financial Snapshot (Rs mn)

Y/E March	FY23E	FY24E	FY25E
NII	43,002	49,502	57,131
PPP	24,447	29,196	34,298
PAT	15,648	18,756	22,453
EPS (Rs)	18.5	22.2	26.5
EPS Gr. (%)	17.8	19.9	19.7
BV/Sh (Rs)	114	131	153

Ratios

NIM (%)	13.1	13.1	13.0
C/I ratio (%)	47.4	45.9	45.1
RoA (%)	4.2	4.4	4.5
RoE (%)	17.4	18.1	18.7
Payout (%)	16.1	14.9	14.2

Valuations

P/E (x)	6.5	5.4	4.5
P/BV (x)	1.1	0.9	0.8
Div. Yield (%)	2.5	2.8	3.1

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)



We attended MGFLs analyst meet hosted by its senior management team (Mr. VP Nandakumar- MD & CEO, Ms. Sumitha Nandan- Executive director, Ms. Bindhu, CFO and Mr. Raju Narayanan – Gold Business head). We came back positive from the meeting. The management sounded confident of achieving its guidance of 20% cagr in consolidate AUM over the next few years (largely aided by higher growth in Non gold business) with a sustainable RoE of 20%. As part of the diversification strategy, non gold AUM share in overall portfolio has further improved in Q4FY23 (45-46%) from ~42% in Q3, and with relatively higher growth in that portfolio, its share will reach 50% in FY24. We have increased our FY24/25 earnings estimates by 5%/6% respectively to factor in higher growth in non-gold segments. We estimate a 16% CAGR in MGFL's AUM to deliver a 20% CAGR in earnings over FY23-FY25E. We believe, 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 4.5%/19% by FY25E from 4.1%/16.9% in FY22, respectively. Hence Maintain our BUY rating on the stock with revised price target of Rs160 (Rs155 earlier).

Key takeaways

- Mr. Nandakumar could seek an extension from the RBI once his current tenure ends on 31st March 2024. Meanwhile, Dr. Sumitha Nandan (Mr. Nandkumar's daughter), will have sufficient time to prepare for succession.
- Demand for gold loan from the bottom the pyramid customers is picking up. Expect the gold loan to grow at 6-8% in FY24 and 10-12% in FY25.
- The gold loan book at less than 12% yields has completely run down. The lowest interest rate now on gold loans is 12% and forms ~5% of the portfolio
- MGFL's subsidiary, Asirvad MicroFinance AUM has crossed Rs100bn, implying strong ~25% QoQ growth. Large part of growth in the MFI book has come from new customer acquisitions as the company has not increased the ticket size for MFI loans.
- MSME/ CV/ housing to grow at a strong pace in FY24/25 while showing improvement in asset quality. We expect the combined share to increase to 22-24% by FY25 from ~16% currently.
- MGFL plans to infuse ~Rs2.5b into its MFI subsidiary in FY24. It is now searching for a strategic investor for the MFI business to raise equity growth capital of \$100-125m. The company is yet to decide on the separate listing of its MFI business.

Valuation & View

As we highlighted in our report "Diversification strategy to play out" dated 28 Nov 2022 [Click here](#), the traction in the non-gold business continue to pick up, making up for the moderate growth in gold loan vertical. We expect non gold share in profits to bounce back over FY23-25E and estimate it to contribute ~50% to its overall earnings in-line with the share in AUM. As the company has been a very small player in Housing/ MSME and CV segment, it has yet to demonstrate its execution capabilities, hence we will remain watchful of the asset quality in these segments. MGFL is trading at attractive valuation of 0.9x/ 0.8x FY24E/ FY25E BV. Maintain our BUY rating on the stock with revised price target of Rs160 (Rs155 earlier)

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Takeaways from the meet

Succession Plan

- Dr. Sumitha Nandan daughter of V.P. Nandakumar was recently appointed as an additional director and is actively involved in the business and is getting trained for succession.
- Mr. Nandakumar could seek an extension from the RBI once his current tenure ends on 31st March 2024. Meanwhile, Dr. Sumitha Nandan, will have sufficient time to prepare for succession.

Gold Business

- Demand for gold loan from the bottom the pyramid customers is picking up. Expect the gold loan to grow at 6-8% in FY24 and 10-12% in FY25.
- Small ticket customers (Less than Rs100,000 ticket size) continue to prefer NBFCs over banks for their faster turn around time and streamlined processes.
- The gold loan book at less than 12% yields has completely run down. The lowest interest rate now on gold loans is 12% and forms ~5% of the portfolio.
- Blended gold loan yields for the company stood at 21%. Incremental borrowing cost of bank terms loans is 8.5-8.75%.
- Around 47% gold AUM has Avg. ticket size (ATS) of less than Rs100,000 and 28% of gold AUM has ATS of greater than Rs300,000.

Microfinance

- MGFL's subsidiary, Asirvad MicroFinance AUM has crossed Rs100bn, implying strong ~25% QoQ growth. Large part of growth in the MFI book has come from new customer acquisitions as the company has not increased the ticket size for MFI loans, with the maximum ticket size of Rs70,000 and ATS of Rs30,000. The MFI loan book is expected to see a ~25-30% CAGR and RoE of 25% for medium term.
- The recent spread deregulation allowing for risk-based pricing, and the recent Court order in Andhra Pradesh quashing the jurisdiction of state governments to govern the RBI-regulated MFIs augurs well for the business.
- Strong AUM growth in MFI is on account of increased utilization/productivity of branches that were opened before Covid and were largely dormant during the pandemic.
- MGFL plans to infuse ~Rs2.5b into its MFI subsidiary in FY24. It is now searching for a strategic investor for the MFI business to raise equity growth capital of \$100-125m. The company is yet to decide on the separate listing of its MFI business.

MSME/ Personal Loan/ CV/ Affordable housing

- MSME: Crossed Rs20bn during this year with very good asset quality and yield of ~18%. The average ticket size is Rs600,000 and a large part of it is against collateral, either residential or commercial. The bounce rates in the MSME segment is low at ~5%. The GNPA ratio for the MSME segment is 0.5% and this segment is likely to grow by 75% next year.
- Commercial vehicle: CV AUM to grow to ~Rs23b by Mar 23 and expects this segment to grow by 70-80% in FY24. CV GNPA is ~3% and it is in line with the industry even as the asset quality is improving. Current RoA is 1.5% and is expected to improve to 2.5%/3.5% by FY24/FY25, driven by improvements in operating efficiency and growth in the size of the loan book.
- Affordable housing: AUM of the affordable housing finance segment has already crossed ~Rs10b. Guided for a 20% AUM CAGR in this segment. Difficulty in selling acquired property led to higher NPAs (5%+). The asset quality to improving as it is able to liquidate repossessed properties. The company expects the GNPA level in affordable housing to decline to 2% from 5% currently.

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

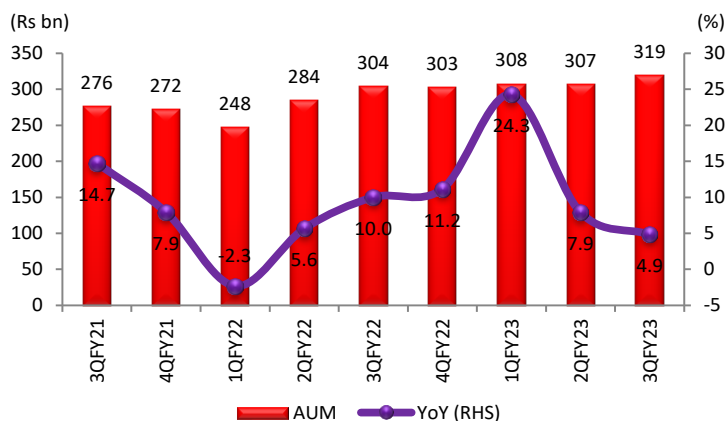
Source: Company, Systematix Institutional Research

Exhibit 2: Change in estimates

(Rs bn)	Old Estimates		New Estimates		Change (%)	
	FY24	FY25	FY24	FY25	FY24	FY25
NII	46.5	52.9	49.5	57.1	6.3	7.9
Operating Profit	27.2	31.5	29.2	34.3	7.4	9.0
PAT	17.9	21.2	18.8	22.5	4.8	5.7
BV	131.4	152.8	131.4	152.8	0.0	0.0
EPS	21.1	25.1	22.2	26.5	4.8	5.7

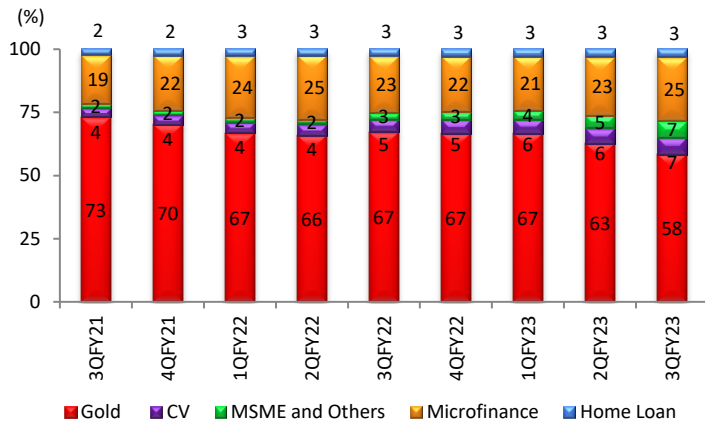
Source: Company, Systematix Institutional Research

Exhibit 3: AUM growth trend



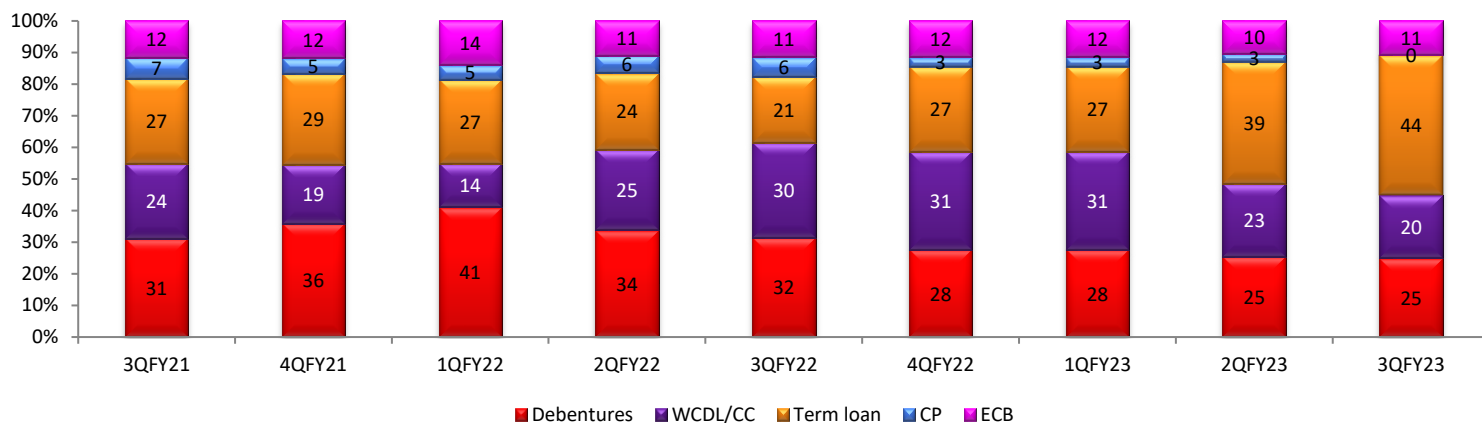
Source: Company, Systematix Institutional Research

Exhibit 4: Non gold book share on the rise

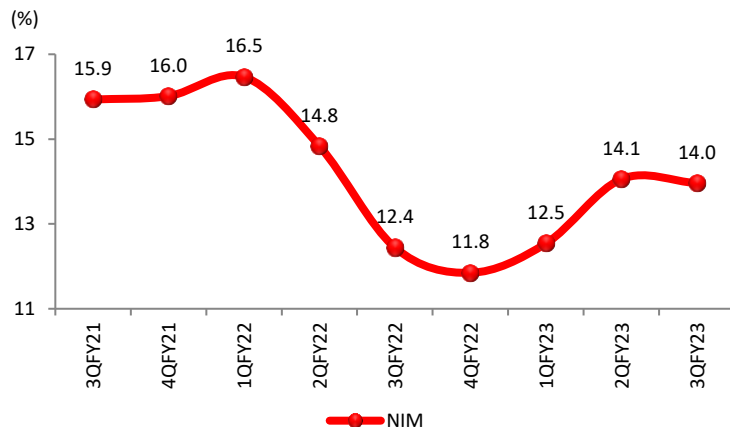


Source: Company, Systematix Institutional Research

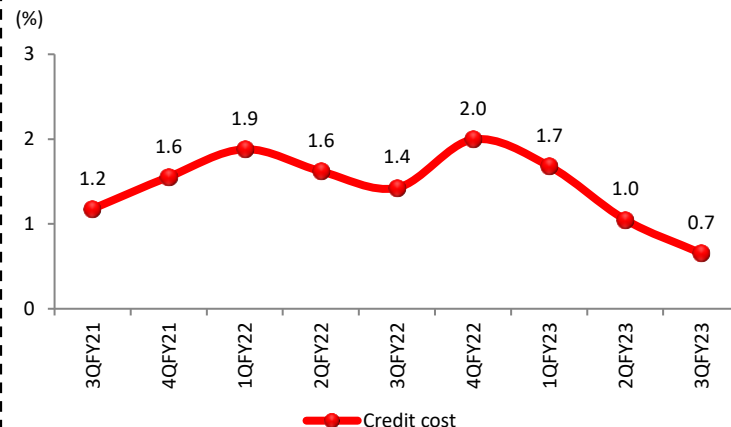
Exhibit 5: Diversified borrowing mix



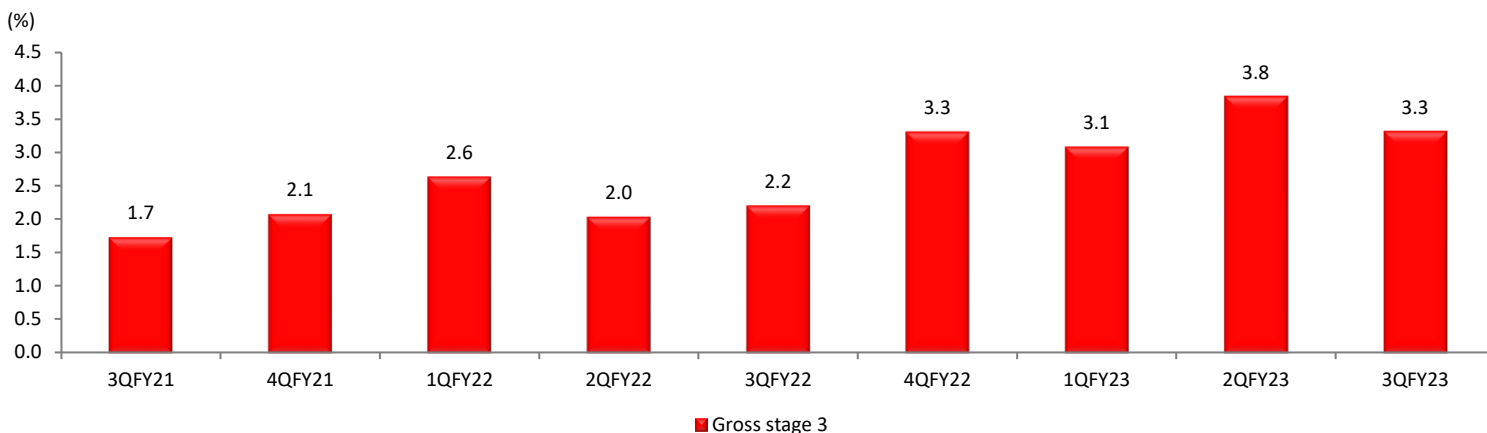
Source: Company, Systematix Institutional Research

Exhibit 6: NIM has been stabilizing post-COVID.

Source: Company, Systematix Institutional Research

Exhibit 7: Credit cost showing improvement

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	43,002	49,502	57,131
Other income	828	1,351	3,312	4,305	5,230
Net Income	41,557	41,149	46,459	53,955	62,513
Operating expenses	13,996	18,453	22,011	24,759	28,215
Preprovision profit	27,561	22,697	24,447	29,196	34,298
Provisions	4,401	4,862	3,338	3,840	3,908
Profit before tax	23,160	17,835	21,110	25,356	30,390
Tax	5,911	4,548	5,462	6,600	7,937
Tax rate	25.5	25.5	25.9	26.0	26.1
Reported Profit after tax	17,250	13,287	15,648	18,756	22,453

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	2,80,422	3,16,920	3,67,598
Others	12,669	13,076	23,364	26,439	36,779
Total liabilities	3,13,378	3,38,106	3,99,901	4,54,588	5,33,699
Cash	29,124	26,974	42,190	45,672	53,632
Investments	3,380	4,207	5,375	7,049	9,524
Loans	2,65,076	2,89,710	3,33,384	3,81,056	4,47,163
Others	6,462	6,564	8,037	9,379	11,136
Total assets	3,13,378	3,38,106	4,00,206	4,55,739	5,36,024

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	18.2	18.2
Interest Expense	7.3	6.2	6.5	6.6	6.7
Net Interest Income	13.0	11.8	11.6	11.6	11.5
Other income total	0.6	0.9	0.9	1.0	1.1
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	0.9	0.9	0.8
Profit before tax and exce. items	7.6	5.5	5.7	5.9	6.1
Profit before tax	7.6	5.5	5.7	5.9	6.1
Tax total	1.9	1.4	1.5	1.5	1.6
Profit after tax	5.7	4.1	4.2	4.4	4.5

Source: Company, Systematix Institutional Research

Key Ratios

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
Yield on portfolio	24.4	21.1	21.5	21.7	21.8
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	47.4	45.9	45.1
Credit cost (%)	1.4	1.5	0.9	0.9	0.8
RoA(%)	5.7	4.1	4.2	4.4	4.5
RoE(%)	26.2	16.9	17.4	18.1	18.7
Leverage (x)	4.6	4.1	4.1	4.1	4.1
Tier I (%)	28.7	31.0	27.7	28.4	28.3
CAR (%)	29.0	31.3	28.6	29.2	29.0
Gross NPA (%)	2.0	2.8	2.0	1.9	1.9
Net NPA (%)	1.3	2.3	1.5	1.4	1.4
Provision coverage (%)	34.2	19.5	26.7	27.4	27.5

Source: Company, Systematix Institutional Research

Growth

YE: Mar (%)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	15.1	-3.6	12.3	15.1	15.4
Net Income total	11.7	-1.0	12.9	16.1	15.9
Preprovision profit	22.8	-17.6	7.7	19.4	17.5
Profit before tax	15.4	-23.0	18.4	20.1	19.9
Profit after tax	16.5	-23.0	17.8	19.9	19.7
Loan	9.1	9.3	15.1	14.3	17.3
AUM	7.9	11.2	16.4	14.4	17.3

Source: Company, Systematix Institutional Research

Valuation ratios

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
FDEPS (Rs)	20	16	18	22	27
PER (x)	6	8	6	5	5
Book value (Rs)	87	99	114	131	153
P/BV (Rs)	1.4	1.2	1.1	0.9	0.8
Adjusted book value (Rs)	83	91	108	125	145
P/ABV (Rs)	1.4	1.3	1.1	1.0	0.8
P/PPP (x)	3.7	4.5	4.2	3.5	3.0
Dividend yield (%)	1.0	2.5	2.5	2.8	3.1

Source: Company, Systematix Institutional Research

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