

Manappuram Finance

BSE SENSEX

58,075

S&P CNX

17,108



Stock Info

Bloomberg	MGFL IN
Equity Shares (m)	846
M.Cap.(INRb)/(USDb)	98.7 / 1.2
52-Week Range (INR)	126 / 82
1, 6, 12 Rel. Per (%)	15/21/0
12M Avg Val (INR M)	718
Free float (%)	64.8

Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
NII	42.7	50.1	58.4
PPP	23.7	27.9	32.9
PAT	15.0	18.2	21.0
EPS (INR)	17.8	21.5	24.8
EPS Gr. (%)	13.2	21.1	15.4
BV/Sh.(INR)	113	130	150

Ratios

NIM (%)	13.6	13.6	13.4
C/I ratio (%)	48.5	48.1	47.2
RoA (%)	4.0	4.0	4.0
RoE (%)	16.8	17.7	17.7
Payout (%)	20.0	20.0	20.0

Valuations

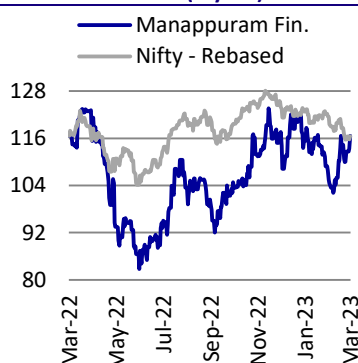
P/E (x)	6.6	5.4	4.7
P/BV (x)	1.0	0.9	0.8
Div. Yld. (%)	3.0	3.7	4.2

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	35.2	35.2	35.1
DII	11.6	12.2	14.3
FII	30.1	28.4	34.8
Others	23.2	24.3	15.8

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR117
TP: INR150 (+29%)
Buy

Non-gold businesses on strong growth trajectory

We attended MGFL's analyst meet hosted by its senior management team, including MD and CEO Mr. VP Nandakumar and Executive Director Dr. Sumitha Jayasankar.

Key takeaways from the meet:

- The management said that it is making rapid progress in transforming MGFL into a diversified NBFC, with gold loans contributing over 50% of consolidated AUM. It has guided for a 20% CAGR in consolidated AUM and a consolidated RoE of 20% in the medium term.
- The company expects to return to gold AUM growth from 4QFY23. We estimate MGFL's gold AUM to grow by ~3.5% QoQ in 4QFY23, driven by improving demand from small-ticket size borrowers.
- MGFL's subsidiary, Asirvad MicroFinance, has witnessed a strong traction in loan disbursements. AUM of its MFI business has crossed ~INR100b, implying strong ~25% QoQ growth.
- For micro financiers, regulatory tailwinds include: 1) the spread deregulation allowing for risk-based pricing (in the range of 24%), and 2) the recent Supreme Court order in Andhra Pradesh quashing the jurisdiction of state governments to govern the RBI-regulated MFIs.
- Other non-gold segments, such as MSME/personal loans, CV loans and housing finance businesses, have witnessed strong growth on a low base. We expect the non-gold businesses (including MFI) to contribute ~45% to the AUM mix by Mar'23 and ~50% by Mar'24.
- Mr. Nandakumar's current tenure ends on 31st Mar'24. The company shared that Mr. Nandakumar will not retire at the end of his current tenure and could seek an extension from the RBI. Meanwhile, Mr. Nandakumar's daughter, Dr. Sumitha Jayasankar (appointed as executive director), will have sufficient time to prepare for succession.
- In light of strong growth in the non-gold businesses (particularly MFI), we have increased our FY24 estimates by ~5%. We now estimate a CAGR of 7% in gold loan AUM and 18% in consolidated AUM over FY23-FY25. This translates into a consol. PAT CAGR of 18% over the same period and RoA/RoE of 4.0%/18% in FY24 and FY25.
- We believe MGFL should tread carefully in the non-gold segments as it is yet to exhibit any clear 'right to win' in these segments. Good execution over the next few quarters will help MGFL build confidence in its ability to scale up non-gold products without associated risks on asset quality.
- Muted gold loan growth expectations are already reflected in the valuations at 0.9x FY24E P/BV. **Reiterate our BUY rating with a TP of INR150 (based on 1.0x FY25E consolidated BVPS).**

Gold loan demand recovers, but guidance on gold loan growth still muted

- MGFL has seen signs of gold loan growth in the last 2-3 months and it has guided for gold loan growth of 6-8% in FY24 and 10-12% in FY25.
- Despite high lending rates charged by NBFCs, customers (especially ones for small-ticket loans of <INR100k) prefer gold loan NBFCs for their stream-lined processes and faster TAT.
- The gold loan business has primarily three risks viz. price risk, custodial risk and appraisal risk. Over the years of doing this business, MGFL has developed strong controls to manage all these risks, offering it an edge over competitors. In MGFL's history, it has not lost even 1% in gold loans because of its systems and processes, which extensively leverage technology.
- The lowest interest rate on gold loans is 12% and it forms ~5% of the portfolio, while the gold loan book at <12% yields has completely run down. Blended gold loan yields for the company stood at 21%, while its incremental borrowing cost of bank terms loans is between 8.5-8.75%.
- About 47% gold AUM has ATS of <INR100k and ~28% of gold AUM has ATS of > INR300k.

Strong growth in MFI business; looking to raise equity capital in FY24

- The MFI loan book is expected to see a ~25-30% CAGR and RoE of 25%.
- A large part of growth in the MFI book comes from new customer acquisitions. The company has not increased the ticket size for MFI loans, with the maximum ticket size of INR70k and ATS of INR30k.
- Strong AUM growth in MFI is largely because of better utilization/productivity of branches that were opened before Covid and were largely dormant during the pandemic. These branches are witnessing significant improvements in efficiency, with an increase in borrowers per branch and AUM per branch.
- MGFL plans to infuse ~INR2.5b into its MFI subsidiary next year. It is now searching for a strategic investor (mostly a private equity) for the MFI business to raise equity growth capital of USD100-125m (within next 6-9 months) and is yet to decide on the listing/IPO of its MFI business.

MSME/personal loans scaling up well with good asset quality

- MGFL expects MSME loans to reach ~INR20b by FY23. This segment has exhibited healthy asset quality with average yields of 18%. The average ticket size is INR600k and a large part of it is against collateral, either residential or commercial.
- The bounce rates in the MSME segment is low at ~5%, suggesting that ~95% of the dues are collected by simply presenting the NACH mandate and then another 2% after the representation.
- The GNPA ratio for the MSME segment is 0.5% and this segment is estimated to grow by 60-70% next year (on a low base).

CV finance and affordable housing finance

- MGFL expects CV AUM to grow to ~INR23b by Mar'23 and expects this segment to grow by 70-80% in FY24 (again on a low base).
- CV GNPA is ~3% and it is in line with the industry even as the asset quality is improving. RoA is 1.5% and is expected to grow to 2.5%/3.5% by FY24/FY25,

driven by improvements in operating efficiency and growth in the size of the loan book.

- AUM of the affordable housing finance segment has already crossed ~INR10b. MGFL has guided for a 20% AUM CAGR in this segment.
- The asset quality is improving in affordable housing as well since it is now able to liquidate repossessed properties. The company expects the GNPA level in affordable housing to decline to 2% from ~5% currently.

On-lending to NBFCs: Strong traction in this segment as well

- On-lending loans to NBFCs stand at INR7b, with ATS of ~INR150m and yields of 13%.
- It was sourced through various debt syndication teams (like Northern Arc Capital) and it has its own internal teams for sourcing these loans to NBFCs.

Valuation and view

- MGFL's non-gold businesses are headed by its home-grown leadership team with excellent stability. MGFL trades at 0.9x FY24E P/BV and we believe that there is still scope for a re-rating in valuation multiples for a franchise that can deliver RoE of 17%-18%. While we expect MGFL to deliver gold loan growth of ~7%/8% in FY24/FY25, we estimate consolidated AUM growth of ~19% and consolidated RoA/RoE of ~4.0%/18% in FY24. **Maintain BUY with a TP of INR150 (premised on 1.0x FY25E P/BV).**
- **Key downside risks:** 1) Significant market share loss in the gold lending business; 2) while non-gold products provide product mix diversification and reduce the deep cyclicalities inherent in gold lending, it should be done with caution since MGFL has not demonstrated any clear 'right to win' in non-gold products in the past.

Story in charts

Exhibit 1: Estimate consolidated AUM CAGR of ~18% over FY23-25

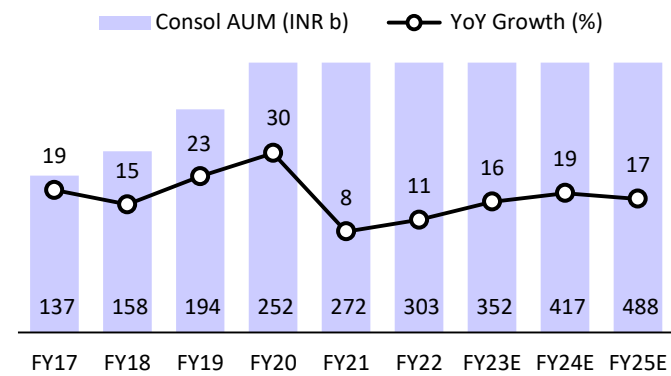


Exhibit 2: Share of non-Gold loans expected to decline to ~46% by FY25

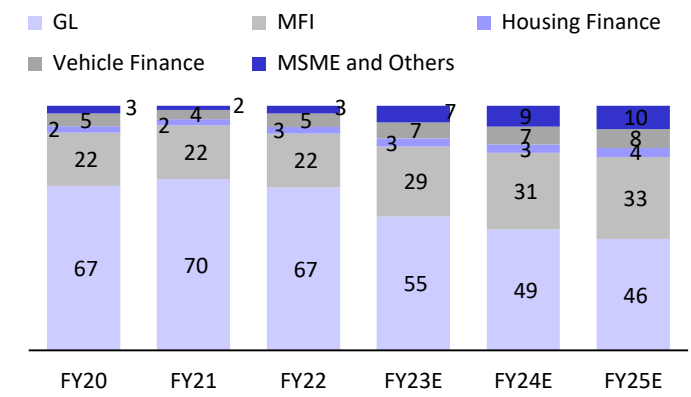


Exhibit 3: Spreads expected to normalize at ~12.6%

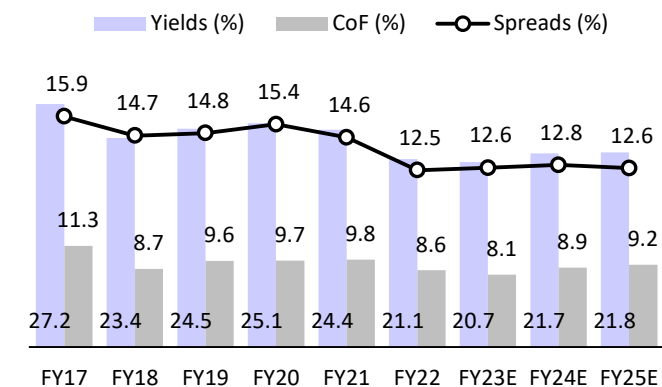


Exhibit 4: ...leading to NIM of ~13.4% in FY25E

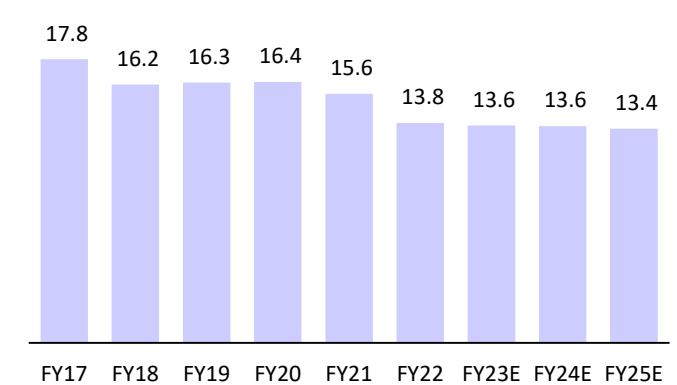


Exhibit 5: CIR to remain at 47-48% in FY24/FY25E

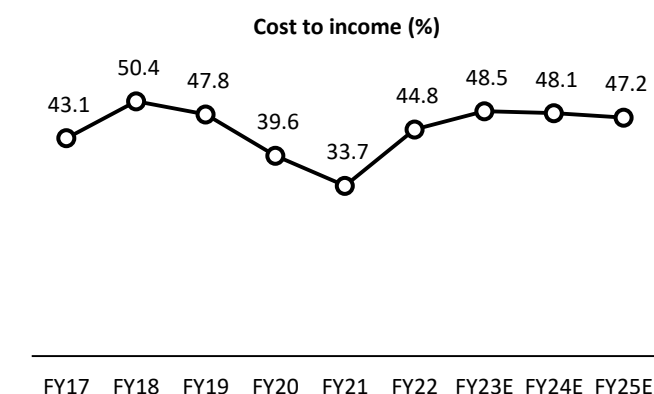


Exhibit 6: Consol. credit costs to decline to ~1% in FY24/FY25E

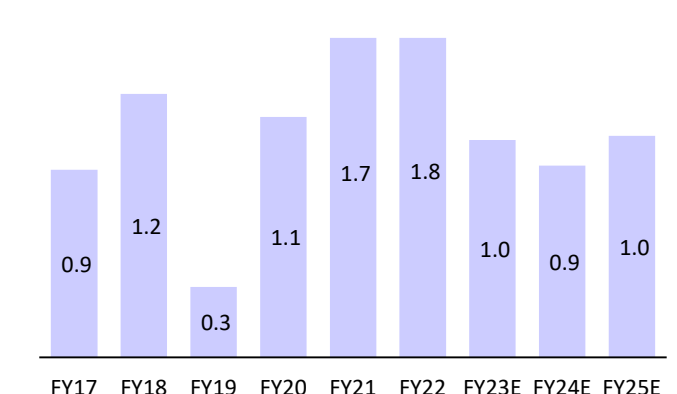
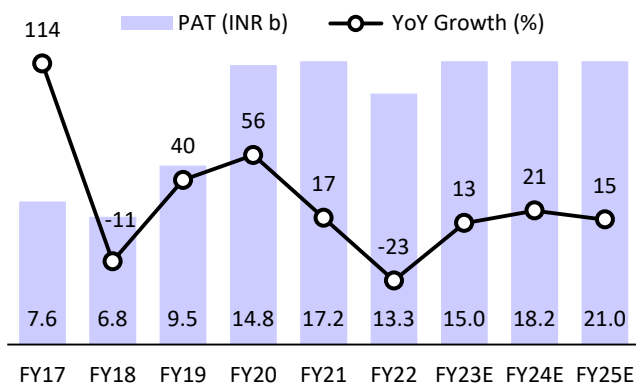
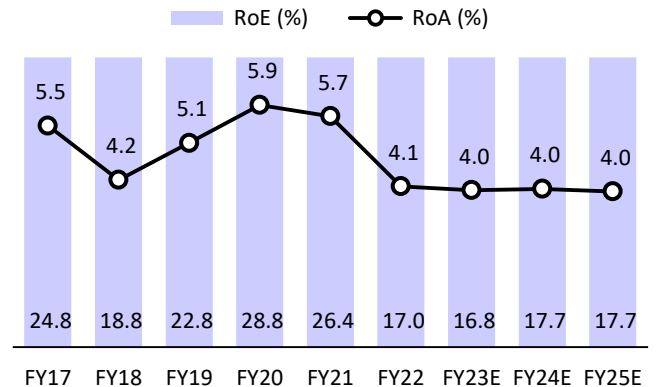
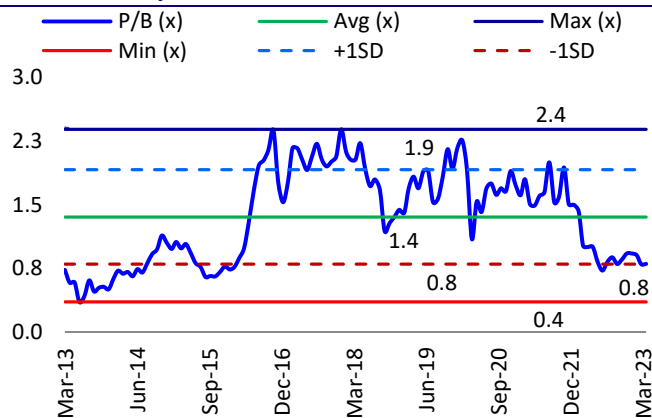


Exhibit 7: Profitability expected to improve gradually...

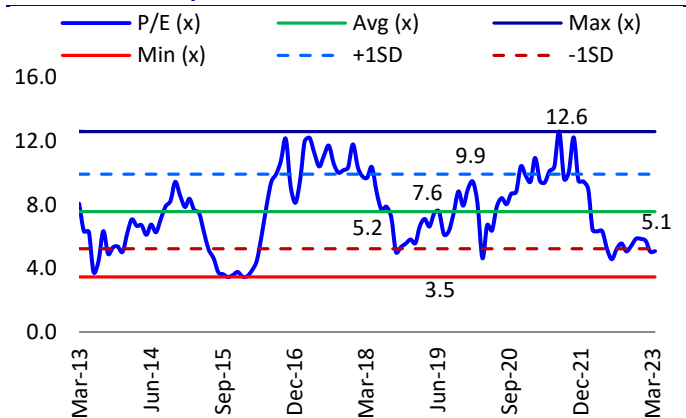
Source: MOFSL, Company

Exhibit 8: ...leading to RoA of ~4% in FY24/FY25

Source: MOFSL, Company

Exhibit 9: One-year forward P/B ratio

Source: MOFSL, Company

Exhibit 10: One-year forward P/E ratio

Source: MOFSL, Company

Manappuram Finance: Financials and valuations

INCOME STATEMENT								(INR m)
Y/E MARCH	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	33,540	40,461	52,805	61,896	58,397	64,809	79,882	94,715
Interest Expense	10,304	13,449	18,322	22,190	20,114	22,134	29,784	36,338
Net Interest Income	23,235	27,012	34,483	39,706	38,284	42,675	50,098	58,378
Change (%)	5.3	16.3	27.7	15.1	-3.6	11.5	17.4	16.5
Other operating income	668	1,334	1,848	1,410	2,213	2,655	2,868	3,097
Total Income	23,903	28,346	36,331	41,116	40,496	45,331	52,966	61,475
Change (%)	7.8	18.6	28.2	13.2	-1.5	11.9	16.8	16.1
Other income	584	625	859	441	653	620	682	751
Net Income	24,487	28,971	37,190	41,557	41,149	45,951	53,648	62,225
Change (%)	9.3	18.3	28.4	11.7	-1.0	11.7	16.8	16.0
Operating Expenses	12,345	13,858	14,741	13,996	18,453	22,266	25,787	29,369
Operating Profits	12,142	15,113	22,449	27,561	22,697	23,685	27,861	32,856
Change (%)	-4.8	24.5	48.5	22.8	-17.6	4.4	17.6	17.9
Provisions	1,773	547	2,376	4,401	4,862	3,190	3,313	4,519
PBT	10,369	14,566	20,073	23,160	17,835	20,495	24,548	28,338
Tax	3,609	5,080	5,270	5,911	4,548	5,452	6,333	7,311
Tax Rate (%)	34.8	34.9	26.3	25.5	25.5	26.6	25.8	25.8
PAT	6,760	9,486	14,803	17,250	13,287	15,043	18,215	21,027
Change (%)	-10.9	40.3	56.1	16.5	-23.0	13.2	21.1	15.4
Dividend (Excl Tax)	1,684	1,812	2,372	1,777	2,539	3,009	3,643	4,205

BALANCE SHEET								
Y/E MARCH	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	1,685	1,686	1,690	1,693	1,693	1,693	1,693	1,693
Reserves & Surplus	36,447	43,561	55,771	71,382	81,991	94,025	1,08,597	1,25,418
Networth (Post OCI)	38,132	45,247	57,461	73,074	83,683	95,718	1,10,289	1,27,111
Non-Controlling Interest	292	459	583	472	161	186	211	236
Borrowings	1,26,071	1,52,972	2,25,735	2,27,163	2,41,185	3,05,323	3,63,987	4,25,966
Change (%)	14.7	21.3	47.6	0.6	6.2	26.6	19.2	17.0
Other liabilities	5,802	5,862	11,572	12,669	13,076	14,384	15,822	17,404
Change (%)	-5.2	1.0	97.4	9.5	3.2	10.0	10.0	10.0
Total Liabilities	1,70,296	2,04,540	2,95,351	3,13,378	3,38,106	4,15,611	4,90,310	5,70,717
Loans	1,52,439	1,78,119	2,42,971	2,65,076	2,89,710	3,35,855	4,00,386	4,68,562
Change (%)	13.7	16.8	36.4	9.1	9.3	15.9	19.2	17.0
Investments	49	1,738	905	3,380	4,207	4,628	5,091	5,600
Change (%)	0.4	3,428.0	-47.9	273.6	24.5	10.0	10.0	10.0
Goodwill	356	356	356	356	356	356	356	356
Net Fixed Assets	2,746	3,319	7,705	8,980	10,295	11,324	12,457	13,702
Other assets	14,707	21,009	43,414	35,586	33,538	63,448	72,021	82,497
Total Assets	1,70,296	2,04,540	2,95,351	3,13,378	3,38,106	4,15,611	4,90,310	5,70,717

E: MOFSL Estimates

Manappuram Finance: Financials and valuations

RATIOS	(%)							
Y/E MARCH	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY24E
Spreads Analysis (%)								
Avg Yield on loans	23.4	24.5	25.1	24.4	21.1	20.7	21.7	21.8
Avg Cost of funds	8.7	9.6	9.7	9.8	8.6	8.1	8.9	9.2
Spreads	14.7	14.8	15.4	14.6	12.5	12.6	12.8	12.6
Net Interest Margins	16.2	16.3	16.4	15.6	13.8	13.6	13.6	13.4
Profitability Ratios (%)								
RoAE	18.8	22.8	28.8	26.4	17.0	16.8	17.7	17.7
RoAA	4.2	5.1	5.9	5.7	4.1	4.0	4.0	4.0
Cost to Income	50.4	47.8	39.6	33.7	44.8	48.5	48.1	47.2
Empl. Cost/Op. Exps.	50.7	52.0	56.3	60.2	61.0	66.2	67.4	68.7
Asset Quality								
GNPL (INR m)	695	826	1,677	3,951	6,623	4,702	5,605	6,560
GNPL ratio (%)	0.5	0.5	0.9	1.9	2.9	1.4	1.4	1.4
NNPL (INR m)	427	481	1,092	2,092	5,674	3,056	3,644	4,264
NNPL ratio (%)	0.3	0.3	0.6	0.8	2.0	0.9	0.9	0.9
PCR (%)	38.5	41.7	34.9	47.1	14.3	35.0	35.0	35.0
Valuations								
Book Value (INR)	45	54	68	86	99	113	130	150
Price-BV (x)			1.7	1.4	1.2	1.0	0.9	0.8
EPS (INR)	8.0	11.3	17.5	20.4	15.7	17.8	21.5	24.8
Change YoY (%)	-10.9	40.3	55.7	16.3	-23.0	13.2	21.1	15.4
Price-Earnings (x)			6.7	5.7	7.5	6.6	5.4	4.7
Dividend	2.0	2.1	2.8	2.1	3.0	3.6	4.3	5.0
Dividend Payout (%)	30.0	23.0	19.3	10.3	19.1	20.0	20.0	20.0
Dividend Yield (%)			2.4	1.8	2.6	3.0	3.7	4.2
E: MOFSL Estimates								

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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