

Manappuram Finance

BSE SENSEX

61,054

S&P CNX

18,069

CMP: INR106

TP: INR150 (+42%)

Buy



Stock Info

Bloomberg	MGFL IN
Equity Shares (m)	846
M.Cap.(INRb)/(USDb)	89.4 / 1.1
52-Week Range (INR)	134 / 82
1, 6, 12 Rel. Per (%)	-18/2/-14
12M Avg Val (INR M)	781
Free float (%)	64.8

Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
NII	42.8	49.4	58.2
PPP	23.7	27.1	32.6
PAT	15.1	17.7	20.9
EPS (INR)	17.8	20.9	24.7
EPS Gr. (%)	13.5	17.4	18.0
BV/Sh.(INR)	113	130	150

Ratios

NIM (%)	13.9	13.7	13.6
C/I ratio (%)	48.5	48.8	47.5
RoA (%)	4.0	4.0	4.0
RoE (%)	16.8	17.2	17.7
Payout (%)	20.0	20.0	20.0

Valuations

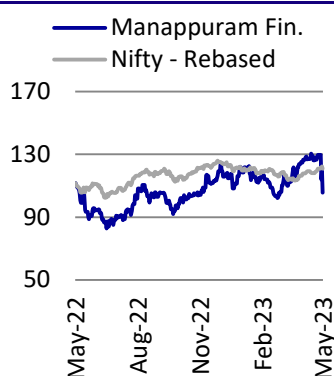
P/E (x)	5.9	5.0	4.3
P/BV (x)	0.9	0.8	0.7
Div. Yld. (%)	3.4	4.0	4.7

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	35.2	35.2	35.1
DII	13.5	11.6	15.8
FII	30.2	30.1	29.8
Others	21.1	23.2	19.3

FII Includes depository receipts

Stock performance (one-year)



Clarifications appear plausible; stock trades attractive

We attended the conference call hosted by Manappuram Finance to share an update on the recent developments and provide clarity to investors/analysts on the sequence of events, any impact on MGFL and the expected outcomes.

We highlight the key takeaways from the conference call below and delve deeper into the specific nuances later in this report:

- Mr. Nandakumar, MD and CEO, Manappuram Finance, clarified that the recent Enforcement Directorate (ED) investigation was in connection with a decade-old case related to Manappuram Argo Farms (MAGRO), which was a proprietorship of Mr. Nandakumar. The ED has not made any observations in its order with regards to MGFL and there are no related-party transactions or any inter-corporate borrowings between the group companies.
- The 2012 case pertaining to MAGRO was settled by Mr. Nandakumar by returning the money to depositors through an escrow account and the latest inspection report from the RBI suggests that only ~INR924K was outstanding in the escrow account pending receipt of claims.
- Management stated that these developments should not impact the lending operations of MGFL and its subsidiaries. Further, the company has proactively communicated the developments to its lenders and does not foresee any impact on its ability to raise liabilities. It has sufficient liquidity of ~INR10b and undrawn lines of ~INR33b for liability repayments and supporting growth.
- Separately, Mr. Nandakumar has hired a legal counsel and shared that his legal counsel is confident of obtaining a stay on the ongoing ED investigations and getting a release of the assets that have been frozen.
- We have not made any changes to our estimates in light of these recent developments and we will closely monitor any further developments in this case. MGFL currently trades at 0.8x FY24E P/BV. **While the stock could see some volatility in the near term, we continue to believe that MGFL has a strong franchise in gold lending and had guided for a strong AUM / Profitability growth over the next few years.**
- As an aside, higher gold prices have aided gold loan growth across the sector, and with the gradual return of the lower-ticket size gold loan borrowers, we expect MGFL to have benefitted over the last few months.
- We model a consolidated AUM CAGR of 18% over FY23-FY25E. This translates into a consol. PAT CAGR of 18% over the same period and RoA/RoE of 4.0%/18% in FY25. Maintain our BUY rating with a TP of INR150 (based on 1.0x FY25E consolidated BVPS).

What are the recent developments?

- The ED visited the registered office of MGFL on 3rd and 4th May'23 in connection with a ten-year old matter of MAGRO, which is no longer in existence. Mr. Nandakumar was the sole proprietor of MAGRO, which was engaged in the business of agriculture (including eco-farming) in Thrissur.
- The ED has frozen Mr. Nandakumar's personal assets on May 4 under the Prevention of Money Laundering Act (PML), 2002. This included ~193m equity shares held by him in MGFL.

Abhijit Tibrewal - Research Analyst (Abhijit.Tibrewal@MotilalOswal.com)

Research Analyst: Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | Parth Desai (Parth.Desai@MotilalOswal.com)

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What transpired ten years ago?

- MAGRO used to accept deposits from people residing in Valapad and its neighboring areas. Funds raised from these deposits were used in its primary business of agriculture. However, in 2012, it stopped accepting, renewing and soliciting deposits based on instructions from the RBI.
- Back then, MAGRO also issued public notices informing the public that it had stopped accepting and renewing deposits and that all depositors could withdraw their deposits without losing any interest at contracted rates.
- Mr. Nandakumar sold his shares in MGFL worth ~INR1.6b and used the proceeds to repay the depositors. Between Feb'12 and Mar'12, some of the depositors who had come forward to claim their money were repaid through cash/cheques. The remaining unclaimed balance of deposits, along with the accrued interest amounting to ~INR1.2b, was deposited in an escrow account with PNB Bank.
- All subsequent repayments to the depositors were made from this escrow account, and the RBI was kept updated about the developments. As of Sep'22, there was an outstanding amount of around ~INR930K in the escrow accounts as some depositors had failed to claim their deposits.
- Out of ~INR1.59b that was repaid to depositors, ~INR500m deposit repayments were made in cash. Cash repayments were all below INR20K ticket size and were compliant with guidelines. All other repayments, which were above INR20k, were made through cheque.
- MAGRO has full details of the repayments - for both cash and cheque repayments. There might not be full KYC compliance of the depositors, but all details like the full names, addresses and contact details of the customers, including all the vouchers/receipts, are available with MAGRO.

How were the funds raised from depositors used by Mr. Nandakumar?

- A majority of the deposits were used to purchase land and property for agricultural purposes. All land holdings are still there and nothing has been sold.
- MAGRO has been wound down and that proprietary firm no longer exists. A new company was subsequently founded and most of the land and properties are in the name of the new company.

Why had RBI asked MAGRO to stop accepting deposits?

- The RBI (around a decade back) had raised issue that why the promoter firm MAGRO was using Manappuram branches for raising deposits.
- The RBI had this view that any promoter owned entity accepting public deposit may not be looked upon as good governance. The RBI then instructed that even the proprietary firm MAGRO should stop accepting any public deposits and transfer all the unpaid deposits to an escrow account.

What prompted the recent ED investigation?

- The case regarding MAGRO's deposit acceptance and subsequent repayments is more than a decade old and was widely known. Back then, regulatory authorities like the RBI, SEBI, and the Registrar of Companies had already conducted their respective investigations.

- However, after a decade, an individual lodged an FIR with the Valappad police station regarding the acceptance of deposits and the ED visit was prompted by this FIR. Mr. Nandakumar shared that this individual (who has a long-standing grouse against him and his family) is the same person who had lodged the FIR in this case even a decade ago.

Impact of the recent developments on MGFL

- MGFL clarified that there are no governance issues in the company. There are no related-party transactions between MGFL and MAGRO. Also, the ED has not mentioned any irregularities related to MGFL in the order.
- MGFL's customers come from rural backgrounds who value the quick turnaround in loan delivery and how the lender can support them. Its customers are unlikely to be affected by these events and their perception of MGFL is unlikely to change. Management shared that these developments should not impact the lending operations of MGFL.
- Further, the company has proactively communicated the developments with lenders and does not expect any challenges with regards to its ability to raise liabilities. It maintains sufficient liquidity of around INR10b and undrawn lines of around INR30b for repayments and supporting growth.

Steps being taken by Mr. Nandakumar

- Mr. Nandakumar has petitioned the Kerala High Court for quashing the FIR. The case is expected to come up for hearing in the court on May 9, Tuesday.
- Mr. Nandakumar shared that his legal counsel is confident of obtaining a stay on the ongoing ED investigation and getting the release of all assets that have been frozen.
- He also promised that updates on the legal proceedings will be communicated through the public media periodically.

Valuation and View

- MGFL trades at 0.8x FY24E P/BV. While there could be near-term volatility in the stock price, we would monitor the legal proceedings in the case very closely. Any clarifications from the regulators or other authorities will be keenly watched. We model a consolidated AUM CAGR of ~18% over FY23-25E with consolidated RoA/RoE of ~4.0%/18% over FY25E. **Maintain BUY with a TP of INR150 (premised on 1.0x FY25E P/BV).**
- **Key downside risks:** 1) Any new adverse developments in this ED investigation and 2) Any significant market share loss in the gold lending business.

Story in charts

Exhibit 1: Consolidated AUM CAGR of ~18% over FY23-25E

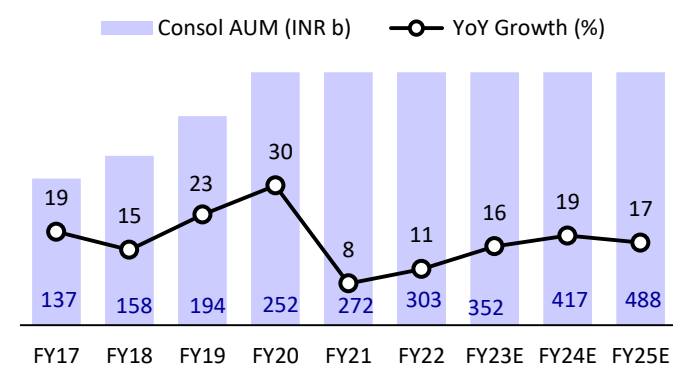


Exhibit 2: Share of non-Gold loans expected to decline to ~46% by FY25

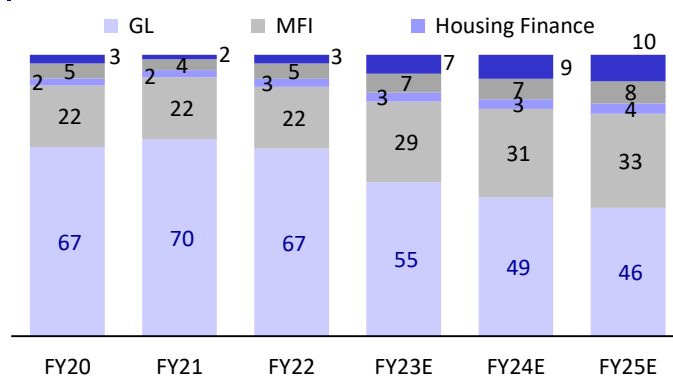


Exhibit 3: Spreads expected to normalize at ~12.8%...

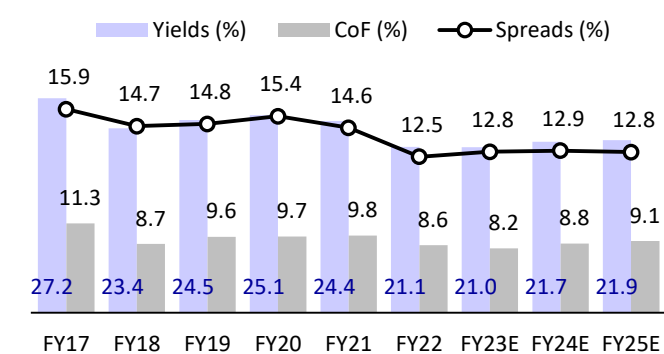


Exhibit 4: ...leading to NIM of ~13.6% in FY25E

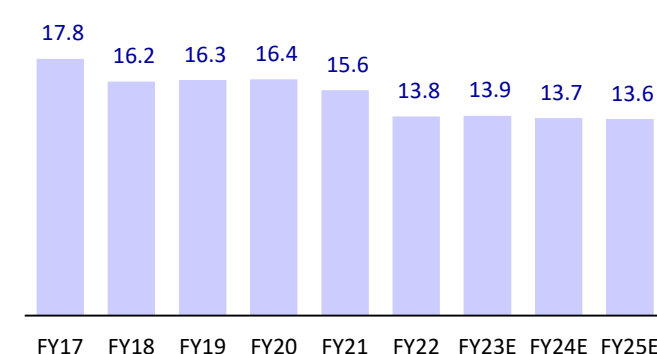


Exhibit 5: CIR to remain at 48-49% in FY24/FY25E

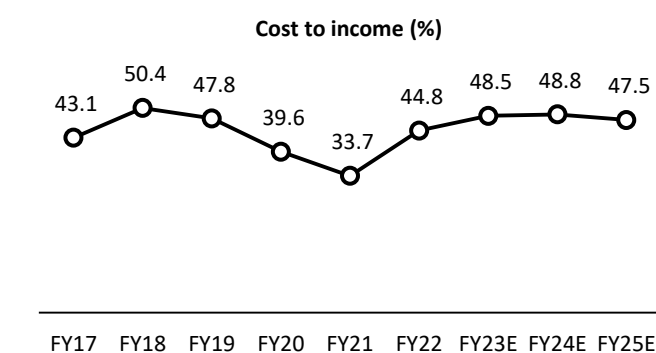


Exhibit 6: Consol. credit costs to decline to ~1% in FY24/FY25E

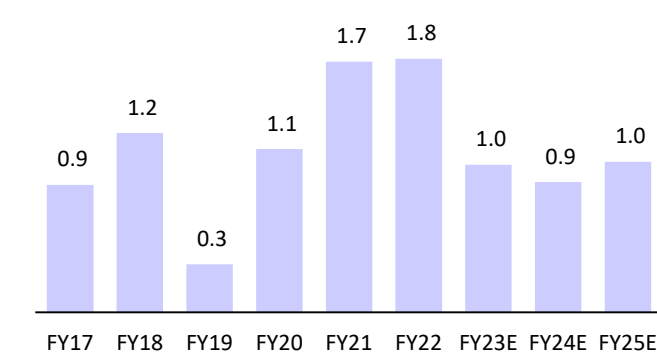
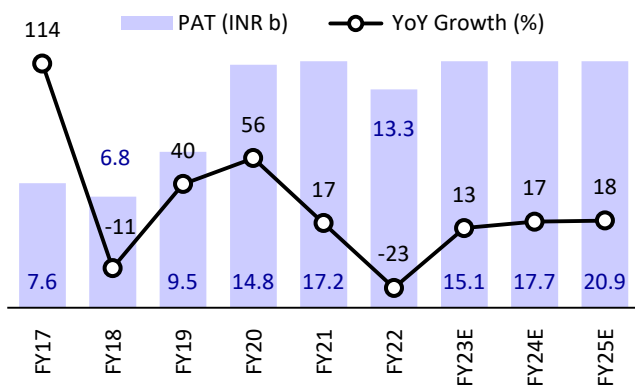
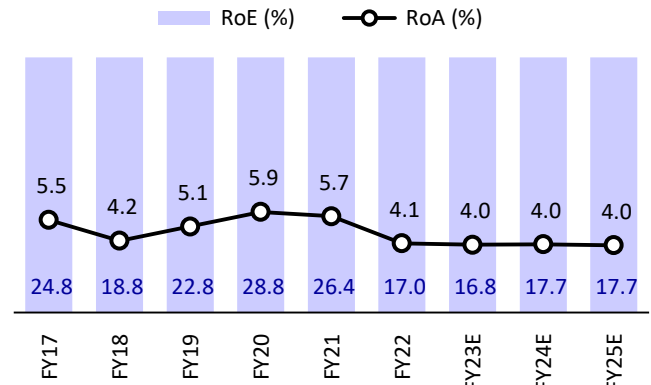


Exhibit 7: Profitability expected to improve gradually...



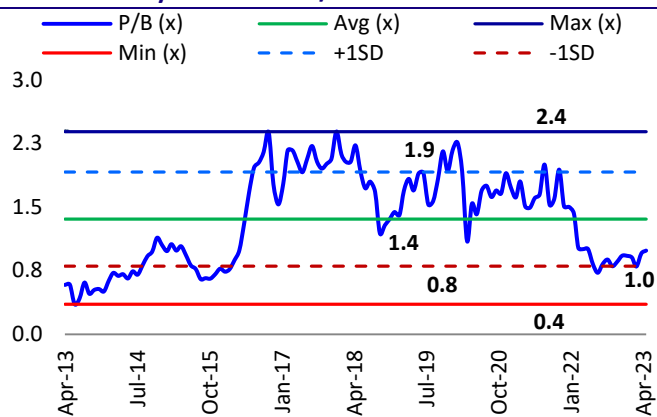
Source: MOFSL, Company

Exhibit 8: ...leading to RoA/RoE of ~4%/18% in FY24/FY25



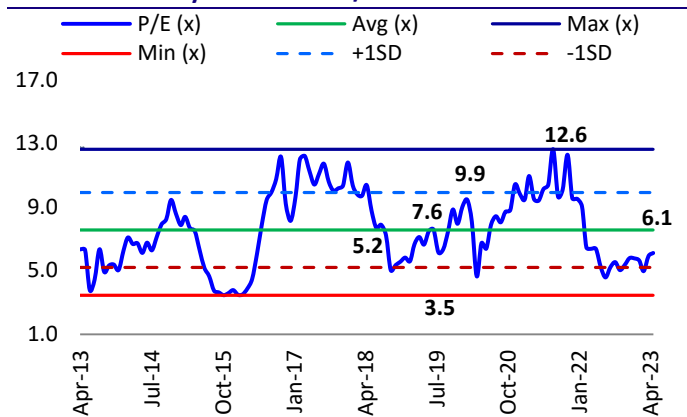
Source: MOFSL, Company

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	64,859	78,250	93,529
Interest Expense	10,304	13,449	18,322	22,190	20,114	22,092	28,848	35,331
Net Interest Income	23,235	27,012	34,483	39,706	38,284	42,767	49,402	58,198
Change (%)	5.3	16.3	27.7	15.1	-3.6	11.7	15.5	17.8
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	45,422	52,270	61,296
Change (%)	7.8	18.6	28.2	13.2	-1.5	12.2	15.1	17.3
Other income	584	625	859	441	653	620	682	751
Net Income	24,487	28,971	37,190	41,557	41,149	46,043	52,952	62,046
Change (%)	9.3	18.3	28.4	11.7	-1.0	11.9	15.0	17.2
Operating Expenses	12,345	13,858	14,741	13,996	18,453	22,322	25,854	29,446
Operating Profits	12,142	15,113	22,449	27,561	22,697	23,720	27,099	32,600
Change (%)	-4.8	24.5	48.5	22.8	-17.6	4.5	14.2	20.3
Provisions	1,773	547	2,376	4,401	4,862	3,178	3,245	4,442
PBT	10,369	14,566	20,073	23,160	17,835	20,542	23,853	28,159
Tax	3,609	5,080	5,270	5,911	4,548	5,464	6,154	7,265
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	15,078	17,699	20,894
Change (%)	-10.9	40.3	56.1	16.5	-23.0	13.5	17.4	18.0
Dividend (Excl Tax)	1,684	1,812	2,372	1,777	2,539	3,016	3,540	4,179
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	94,053	1,08,212	1,24,927
Networth (Post OCI)	38,132	45,247	57,461	73,074	83,683	95,746	1,09,905	1,26,620
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	2,97,639	3,57,993	4,18,504
Change (%)	14.7	21.3	47.6	0.6	6.2	23.4	20.3	16.9
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	4,07,955	4,83,931	5,62,765
Loans	1,52,439	1,78,119	2,42,971	2,65,076	2,89,710	3,27,403	3,93,792	4,60,355
Change (%)	13.7	16.8	36.4	9.1	9.3	13.0	20.3	16.9
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	64,244	72,236	82,753
Total Assets	1,70,296	2,04,540	2,95,351	3,13,378	3,38,106	4,07,955	4,83,931	5,62,765

E: MOFSL Estimates

Manappuram Finance: Financials and valuations

RATIOS	(%)							
Y/E MARCH	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Spreads Analysis (%)								
Avg Yield on loans	23.4	24.5	25.1	24.4	21.1	21.0	21.7	21.9
Avg Cost of funds	8.7	9.6	9.7	9.8	8.6	8.2	8.8	9.1
Spreads	14.7	14.8	15.4	14.6	12.5	12.8	12.9	12.8
Net Interest Margins	16.2	16.3	16.4	15.6	13.8	13.9	13.7	13.6
Profitability Ratios (%)								
RoAE	18.8	22.8	28.8	26.4	17.0	16.8	17.2	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	48.8	47.5
Empl. Cost/Op. Exps.	50.7	52.0	56.3	60.2	61.0	66.3	67.5	68.8
Asset Quality								
GNPL (INR m)	695	826	1,677	3,951	6,623	4,584	5,513	6,445
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	2,979	3,584	4,189
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)			1.6	1.2	1.1	0.9	0.8	0.7
EPS (INR)	8.0	11.3	17.5	20.4	15.7	17.8	20.9	24.7
Change YoY (%)	-10.9	40.3	55.7	16.3	-23.0	13.5	17.4	18.0
Price-Earnings (x)			6.0	5.2	6.7	5.9	5.0	4.3
Dividend	2.0	2.1	2.8	2.1	3.0	3.6	4.2	4.9
Dividend Payout (%)	30.0	23.0	19.3	10.3	19.1	20.0	20.0	20.0
Dividend Yield (%)			2.7	2.0	2.8	3.4	4.0	4.7

E: MOFSL Estimates

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NOTES

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BUY	>=15%
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NEUTRAL	< - 10 % to 15%
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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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