

Manappuram Finance

BUY

NIMs improved QoQ; gold loan growth revised down

Summary

Manappuram Finance's Gold loan portfolio grew by 1% QoQ (up 8% YoY) led by higher LTV. Overall AUM growth improved to 27% YoY vs 21% YoY (Q1FY24). Management revised down the gold loan growth to 8% vs 10% earlier; however overall AUM growth guidance maintained above 20% YoY. MFI reported improvement in profitability QoQ led by lower provisions. MFI asset quality deteriorated slightly with GNPA at 3.0% vs 2.9% QoQ. Cons. NII grew by 5% QoQ led by improvement in NIMs; PPOP grew by 8% QoQ led by lower operating expenses (up 2% QoQ). PAT grew by 13% QoQ led by lower provisions (down 1% QoQ). We have largely maintained the estimates for FY25E and maintain 'BUY' rating with a TP of Rs. 175, valuing it at 1.2x P/ABV FY25E as competition intensity eases.

Key Highlights and Investment Rationale

- **Gold loan growth rebounds:** AUM grew by 27% YoY (21% YoY Q1FY24) led by strong growth in non-gold portfolio; grew by 58% YoY (up 10% QoQ). Gold loan grew by 8% YoY (up 1% QoQ) led by higher gold prices and increase in LTV. Gold holdings remain flat QoQ (down 5% YoY) to 59 tonne.
- **Net Yields improved QoQ:** Net yields on Gold Loans stood at 21.9% during Q2FY24 vs 21.4% QoQ as 90% of gold book has more than 12% yields. Thus, NIMs improved QoQ although cost of funds remains stable.
- **Asset quality deteriorated:** Asset quality deteriorated slightly with GNPA (standalone) at 1.6% vs 1.4% QoQ. MFI portfolio continues to report rise in GNPA at 3.0% vs 2.9%.
- **Outlook:** Competition intensity impacted AUM growth as well as margins. However, H1FY24 reflected improvement in margins. We believe that the company has potential to report RoA above 3.5%.

TP **Rs 175**

CMP Rs 141

Potential upside/downside **24%**

Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.4)	(4.9)	29.3
Rel to Sensex	(1.3)	(4.3)	24.2

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	23.1	27.4
Consensus	23.1	25.3
% difference	0.2	8.1

Key Stock Data

Bloomberg/Reuters	MGFL IN /MNFL.BO
Sector	Finance
Shares o/s (mn)	846
Market cap. (Rs mn)	119,009
3-m daily avg Trd value (Rs mn)	331.2
52-week high / low	Rs157 / 101
Sensex / Nifty	64,934 / 19,444

Shareholding Pattern (%)

Promoters	35.2
FII	27.1
DII	11.1
Public	26.6

Financial snapshot

Year	FY2021	FY2022	FY2023	FY2024E	FY2025E
NII	39,707	38,284	42,526	54,173	63,233
Change (yoy, %)	17%	-4%	11%	27%	17%
Net Profit	17,250	13,287	15,002	19,576	23,173
Change (yoy, %)	17%	-23%	13%	30%	18%
EPS (Rs)	20.4	15.7	17.7	23.1	27.4
Change (yoy, %)	16%	-23%	13%	30%	18%
ABV (Rs)	83.0	92.3	110.2	128.6	151.7
PER (x)	6.9	9.0	7.9	6.1	5.1
P/ABV (x)	1.7	1.5	1.3	1.1	0.9
ROE (%)	26.4	17.0	16.7	18.7	18.8
ROA (%)	5.7	4.1	4.1	4.5	4.5
GNPA (%)	2.3	3.4	1.8	2.0	2.0
NNPA (%)	1.1	1.8	0.9	1.0	1.0
CAR (%)	29.0	31.4	32.1	32.2	32.9

Source: IDBI Capital Research

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Conference Call Highlights

Operational Performance:

- PAT of Rs.561Cr, up 37% YoY driven by profitability in gold loan and micro finance business.
- Gold loan AUM at Rs.20,809Cr, up 8.4% YoY. Vehicle finance (VF) business grew by 66.6% YoY with an AUM of Rs.3,143Cr followed by Home loan (HL) with AUM of Rs.1,305Cr, up 41.6% YoY.
- The ROA for VF business stood at 1.5% and collection efficiency stood at 100% while GNPA stood at 2.5%. VF business penetration has increased in rural and semi-urban regions via use of automated approval and digital lending.
- For HL segment, AUM stood at Rs.1,305Cr, up 41% YoY, ROA at 1.4%, collection efficiency stood at 96% and GNPA stood at 1.75% at the end of Q2FY24.
- For MSME business, AUM stood at Rs. 2,639Cr, ROA at 2.2%, CE at 96% while GNPA stood at 1.9%.
- For lending to NBFC business, AUM stood at Rs. 920Cr and ROA at 5% for Q2FY24.
- Share of non-gold segment stood at 47% of the overall portfolio at the end of Q2FY24. This is in line with the management goal of diversifying sources of income and achieving a balance of 50-50 in its gold and non-gold loan portfolio.
- Consolidated ROE stood at 21.6% while ROA stood at 5.3%
- Leverage stood at 3 times at the end of Q2FY24.
- CAR stood at 30.7% for the standalone entity while BV stood at Rs. 124.90.

Advances:

- For Asirvad micro finance, AUM stood at Rs.10,950Cr, up 43% YoY and 8% QoQ. PAT at Rs. 118Cr
- Standalone cost of borrowing up by 21bps at the end of Q2FY24.
- Gold loan AUM stood at Rs. 20,809Cr, up by 1% QoQ and 8.4% YoY and the No. of live customers stood at 24.63 lakhs.
- The company added 4.03L new customers in Q2FY24.
- Online book accounts for 56% of the total transactions in the gold loan business.

- Auction surplus stood at ~30Cr and reduced from ~Rs.36Cr in Q1FY24.
- For secured personal loans, the company offers a loan up to 50% of the value of the collateral.
- The AUM break-up based on ticket size is as follows; Up to 1L at 44%, 1-5L at 41% and balance at 15%.

Asset Quality:

- For the standalone business, NNPA stood at 1.56%.
- The company assigned approximately Rs.700Cr from the MSME and vehicle finance book in order to maintain relationships with banks and help them meet their PSL requirements.
- The company auctioned ~Rs.15Cr of assets in Q2FY24.
- LTV tonnage in rupee terms stood at Rs.3512 for gold loans.

Future Guidance

- The management believes that the credit needs in Gold loan as well as micro finance business is large, hence there is sufficient headroom for growth in these segments despite the competition from banks and NBFCs.
- Management intends to grow its MSME business portfolio. The management intends to keep the cost of funds at reasonable levels in order maintain enough liquidity.
- The management has iterated that it intends to maintain price discipline as far as gold loan business is concerned. The cost of funds continues to stay elevated and the trend is not expected to reverse anytime soon.
- The management believes that as the credit deposit ratio of the banks goes up, its preference for small ticket loans will come down.
- The management expects the gold loan growth to sustain at the current 8% levels in the subsequent quarters with the yields also sustaining at current levels of ~22%.
- The management expects the auction surplus to come down by Rs.2-3Cr every quarter subsequently as per the plan shared by the company with RBI verbally.
- The credit cost for gold loan business has remained low for the quarter as the company has auctioned gold worth Rs.15Cr only in the quarter.
- The management expects fee income to sustain at slightly lower levels than those witnessed in Q2FY24.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Interest Income	20,438	16,078	19,363	27.1	5.6
Interest Expenses	6,894	5,284	6,484	30.5	6.3
Net Interest Income	13,543	10,795	12,879	25.5	5.2
NIM (%)	15.0	14.7	14.8	24 bps	16 bps
Non-Interest Income	1,303	1,063	1,209	22.5	7.8
Operating Income	14,846	11,858	14,088	25.2	5.4
Staff Cost	3,746	3,642	3,940	2.9	-4.9
Other Op Exp	2,436	1,883	2,128	29.4	14.5
Total Operating Expenses	6,182	5,525	6,068	11.9	1.9
Cost to Income (%)	41.6	46.6	43.1	-496 bps	-143 bps
Cost to AUM (%)	6.0	7.0	7.0	-100 bps	-100 bps
Operating Profit	8,664	6,333	8,020	36.8	8.0
Provisions	1,197	805	1,212	48.7	-1.2
Credit Cost (%)	1.3	1.1	1.4	22 bps	-7 bps
PBT	7,467	5,527	6,808	35.1	9.7
Tax	1,861	1,433	1,828	29.9	1.8
-effective tax rate	24.9	25.9	26.9	-100 bps	-194 bps
PAT	5,606	4,095	4,980	36.9	12.6
EPS (Rs)	6.6	4.8	5.9	36.9	12.6
BV (Rs)	124.9	105.8	119.1	18.0	4.9
AUM	3,89,507	3,06,649	3,70,605	27.0	5.1

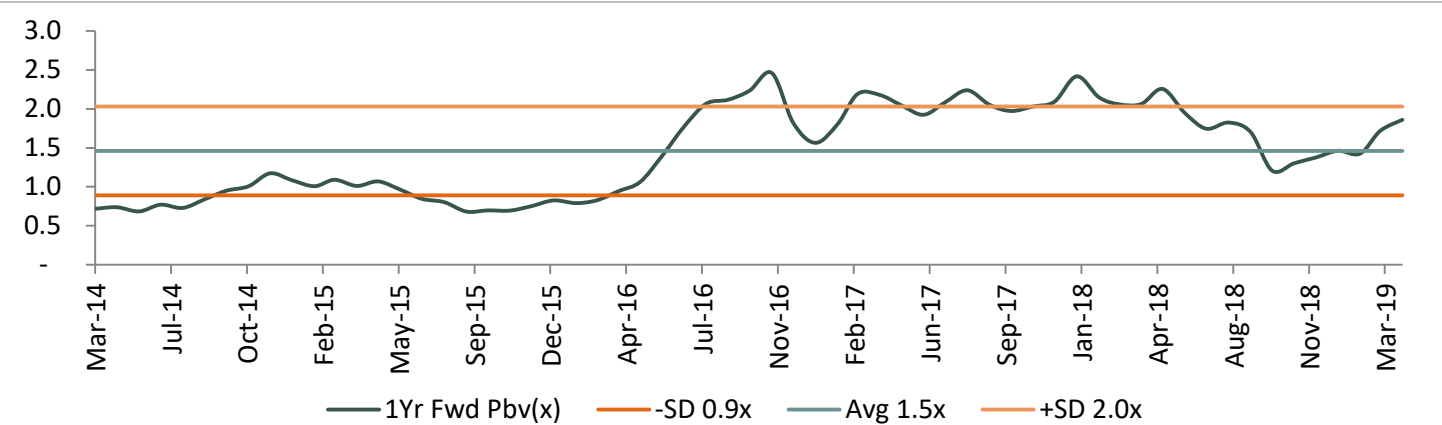
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY21	FY22	FY23	FY24E	FY25E
NII	13.5	13.0	11.8	11.6	12.4
Non-Int Inc	1.3	0.6	0.9	0.8	0.9
Net Revenue	14.9	13.7	12.6	12.4	13.3
Op.Exp	5.9	4.6	5.7	6.0	6.2
Op.Profit	9.0	9.1	7.0	6.4	7.1
Provisions	1.0	1.4	1.5	0.8	1.2
-Standard	0.0	0.2	(0.1)	0.0	0.1
-Loan loss	0.9	1.2	1.6	0.8	1.0
PBT	8.0	7.6	5.5	5.6	6.0
Tax	2.1	1.9	1.4	1.5	1.5
ROA	5.9	5.7	4.1	4.1	4.5
Leverage (x)	4.9	4.7	4.2	4.1	4.2
ROE	28.8	26.4	17.0	16.7	18.7

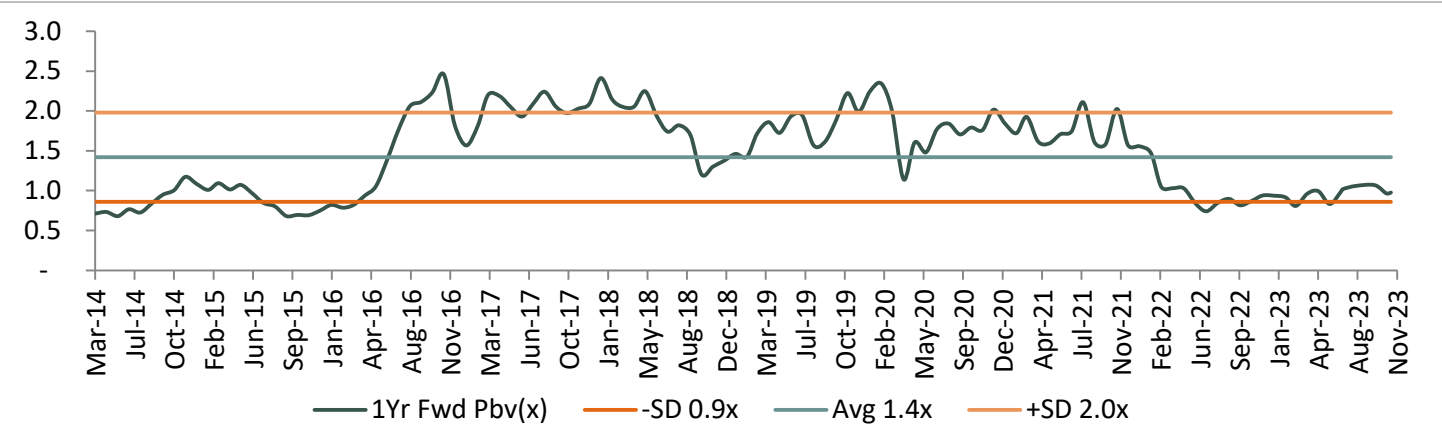
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-19)

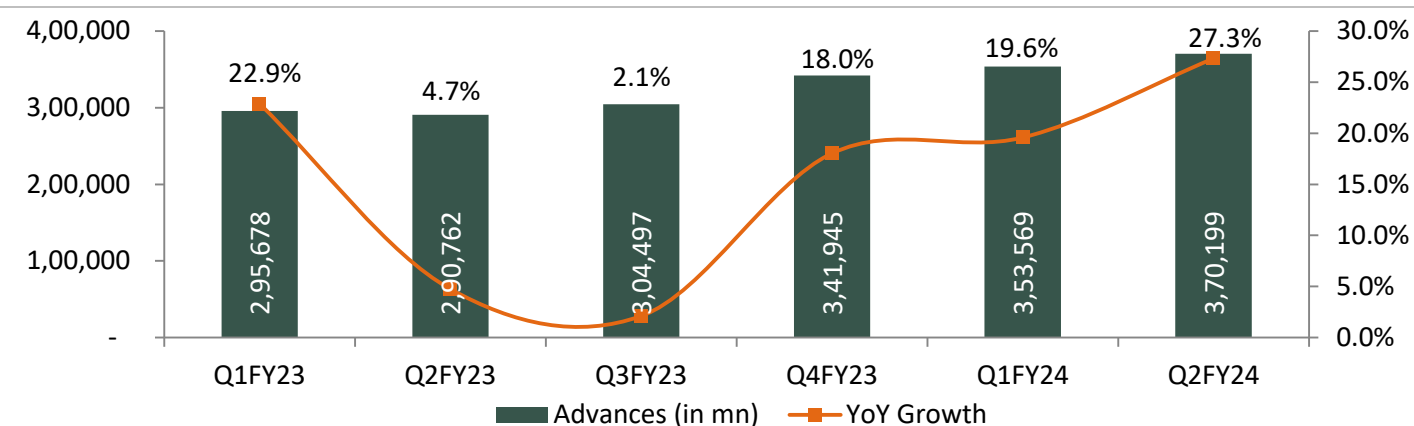


Source: Company; IDBI Capital Research

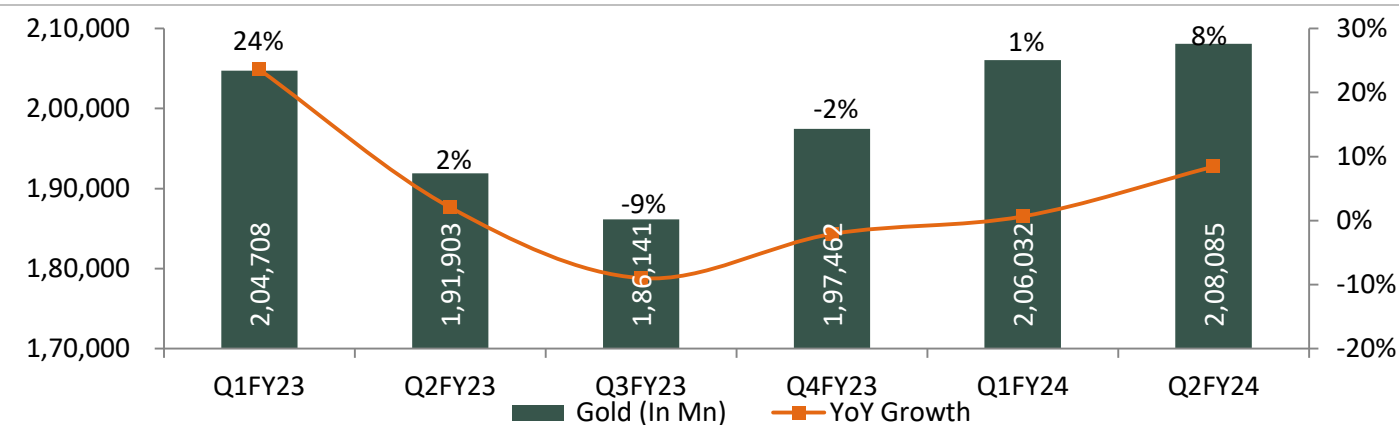
Exhibit 4: One-year forward P/ABV (FY14-24)



Source: Company; IDBI Capital Research

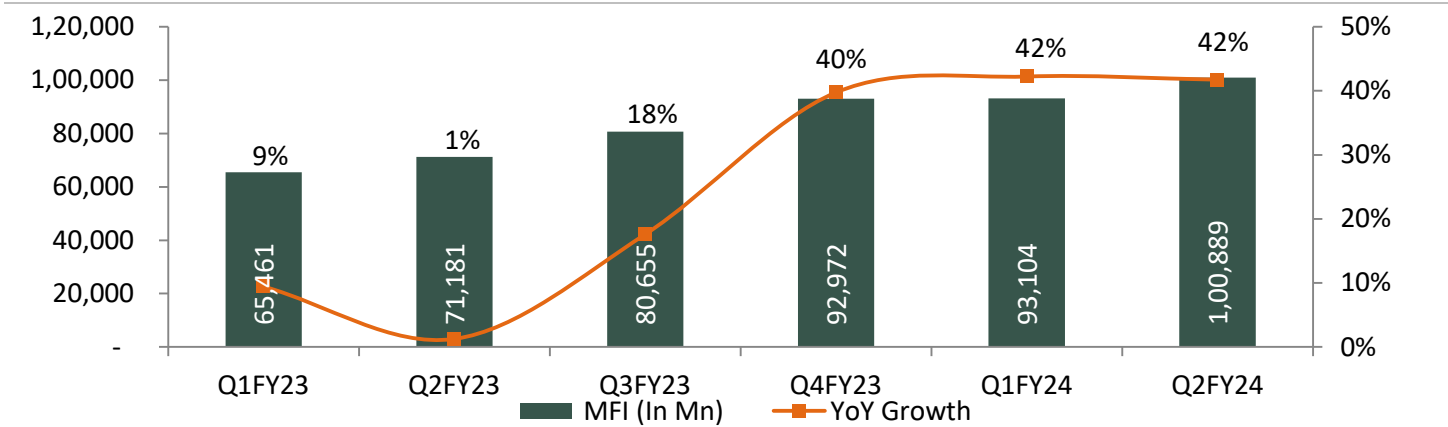
Exhibit 5: Advances growth witnessed strong growth traction during the qtr.

Source: Company; IDBI Capital Research

Exhibit 6: Gold Loan AUM growth witnessed significant improvement during the qtr.

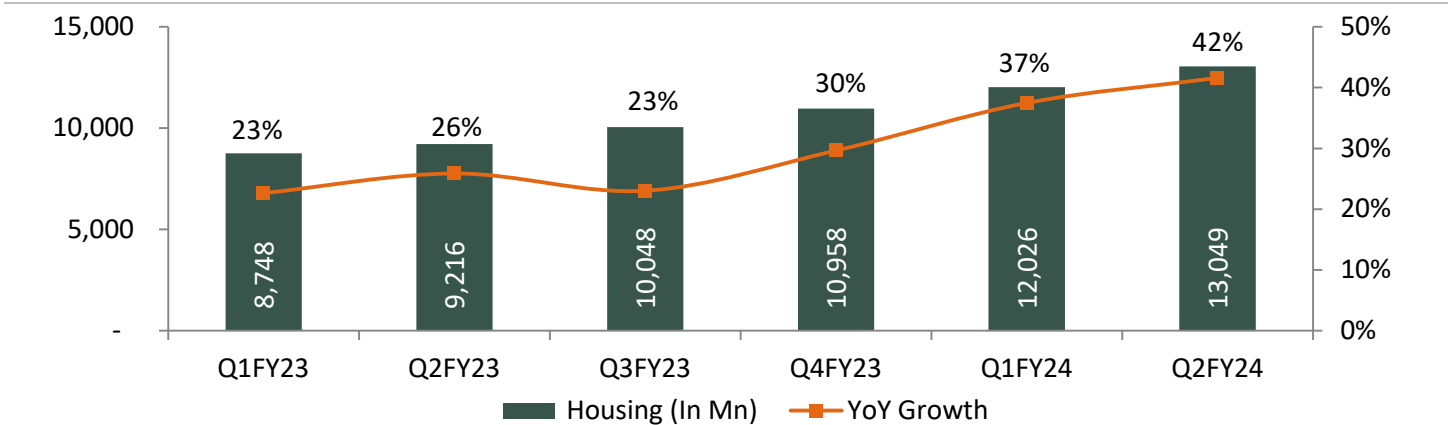
Source: Company; IDBI Capital Research

Exhibit 7: Micro Finance AUM growth continued to remain strong

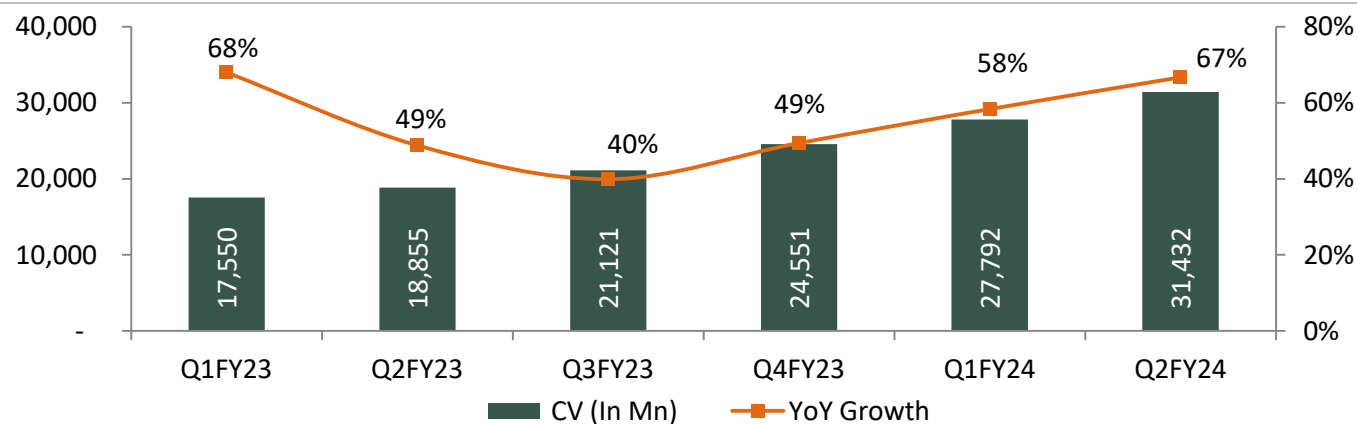


Source: Company; IDBI Capital Research

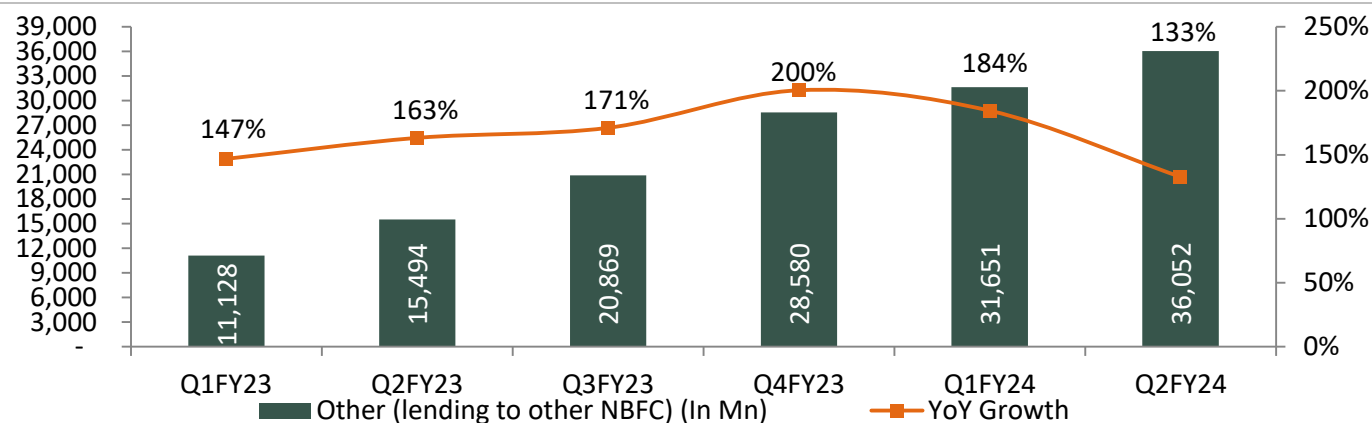
Exhibit 8: Housing AUM growth continued the strong growth momentum during the qtr



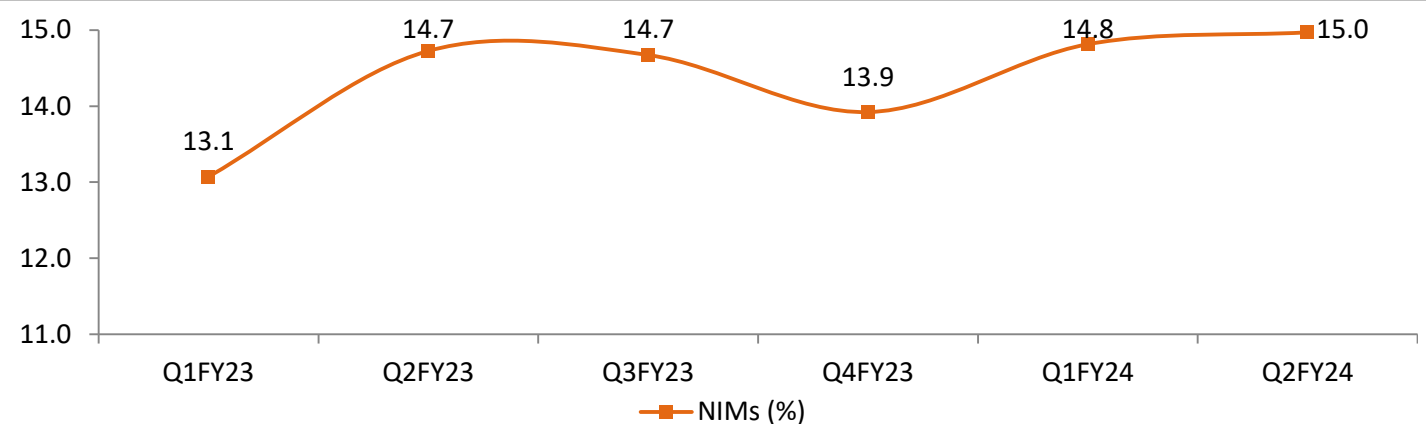
Source: Company; IDBI Capital Research

Exhibit 9: CV Segment AUM growth continued to improve during the qtr

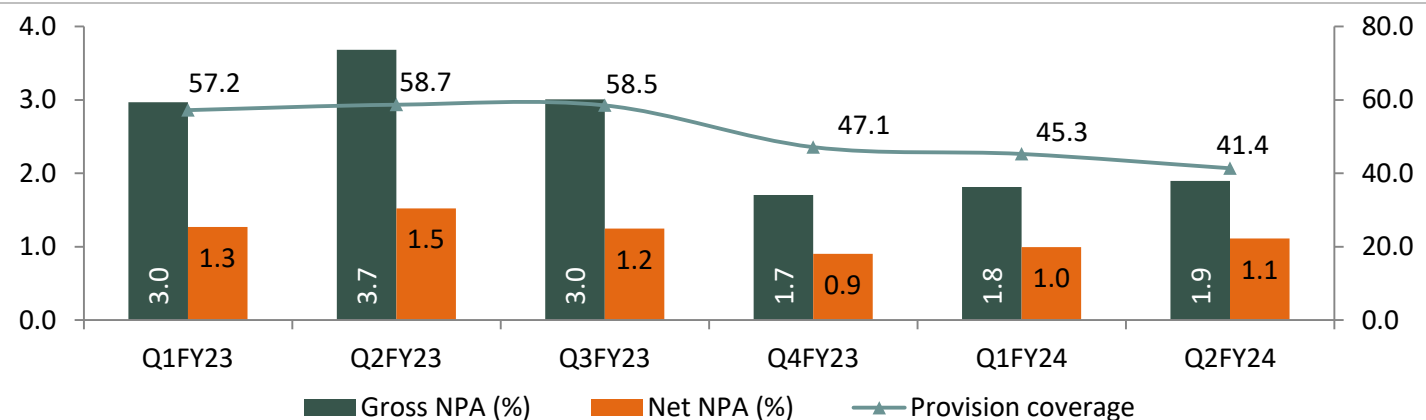
Source: Company; IDBI Capital Research

Exhibit 10: Others (Lending to other NBFC) AUM showed strong Y-o-Y growth rate

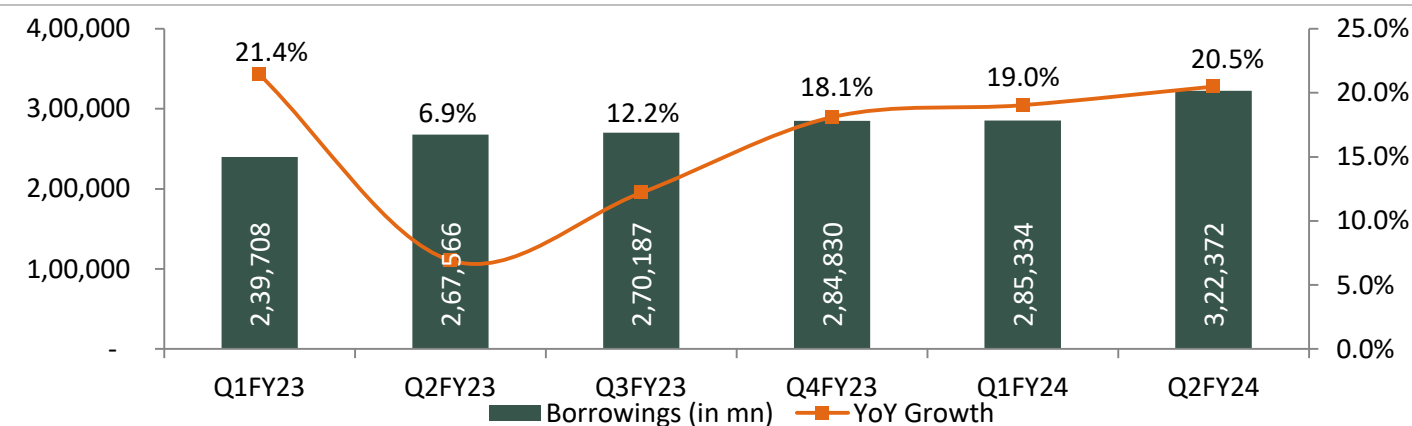
Source: Company; IDBI Capital Research

Exhibit 11: Net Interest margins inched up sequentially


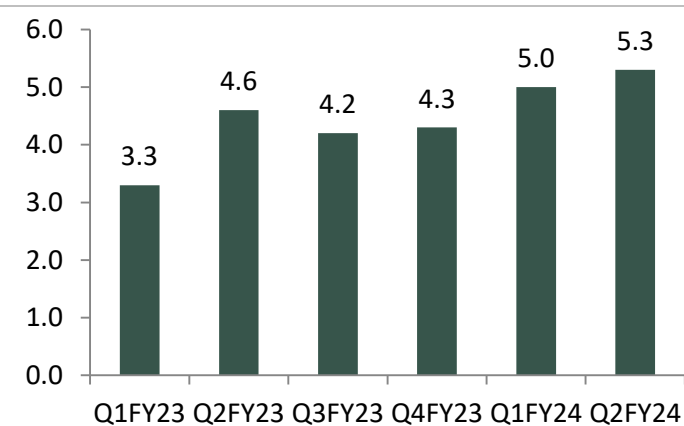
Source: Company; IDBI Capital Research

Exhibit 12: Asset quality declined marginally QoQ


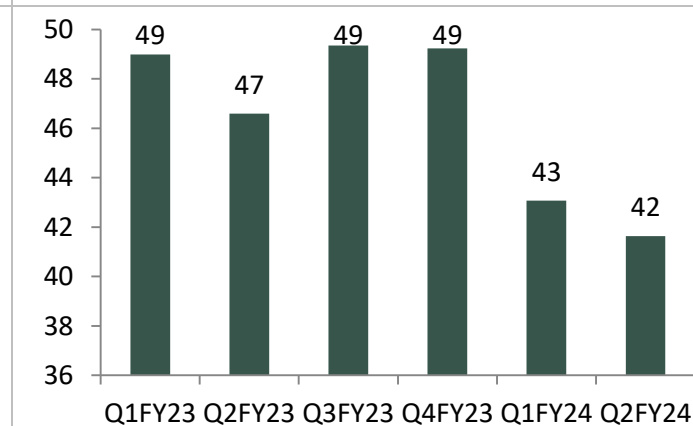
Source: Company; IDBI Capital Research

Exhibit 13: Borrowings growth rate witnessed up tick YoY


Source: Company; IDBI Capital Research

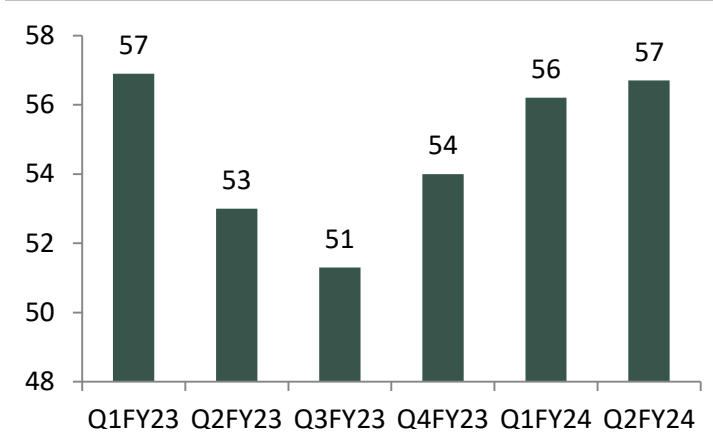
Exhibit 14: Return on Assets inched up QoQ


Source: Company; IDBI Capital Research

Exhibit 15: Cost to Income Ratio witnessed down tick sequentially


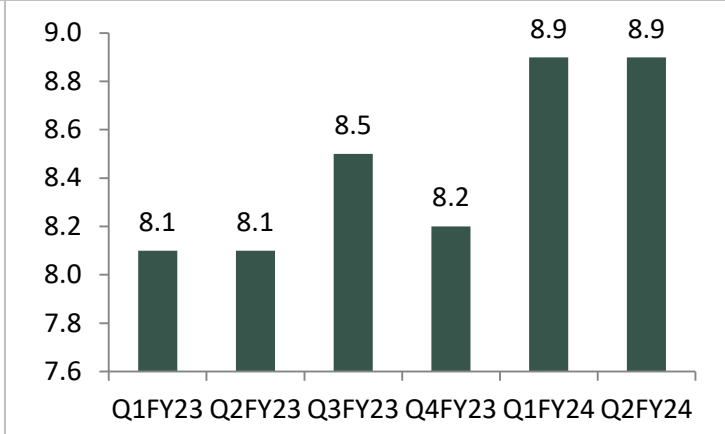
Source: Company; IDBI Capital Research

Exhibit 16: Average AUM per Branch inched up sequentially



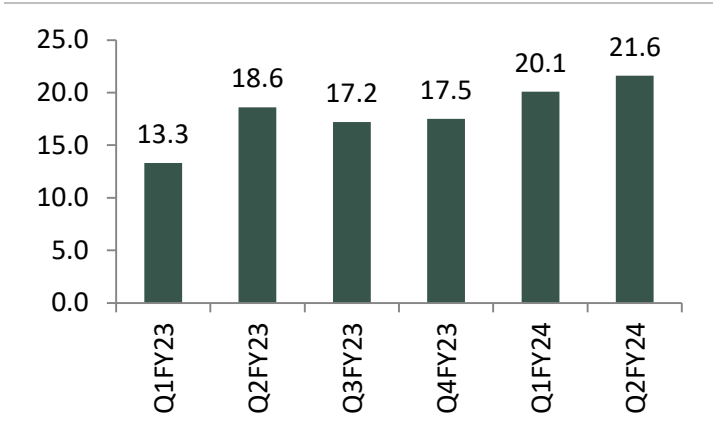
Source: Company; IDBI Capital Research

Exhibit 17: Cost of Funds remained stable QoQ



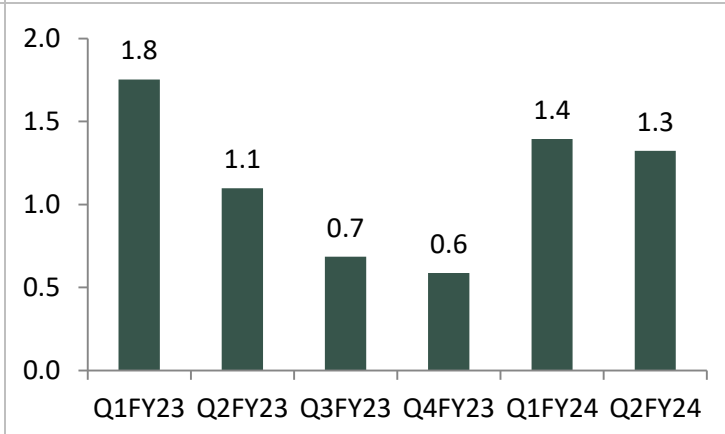
Source: Company; IDBI Capital Research

Exhibit 18: Return on Equity inched up in line with RoA



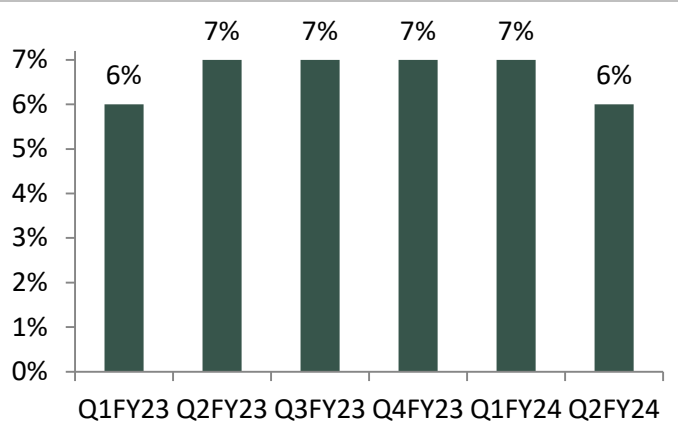
Source: Company; IDBI Capital Research

Exhibit 19: Credit Cost moderated sequentially



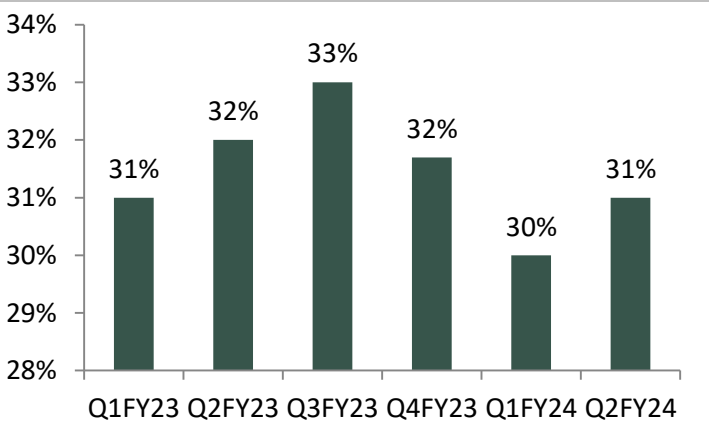
Source: Company; IDBI Capital Research

Exhibit 20: Opex to AUM(%)



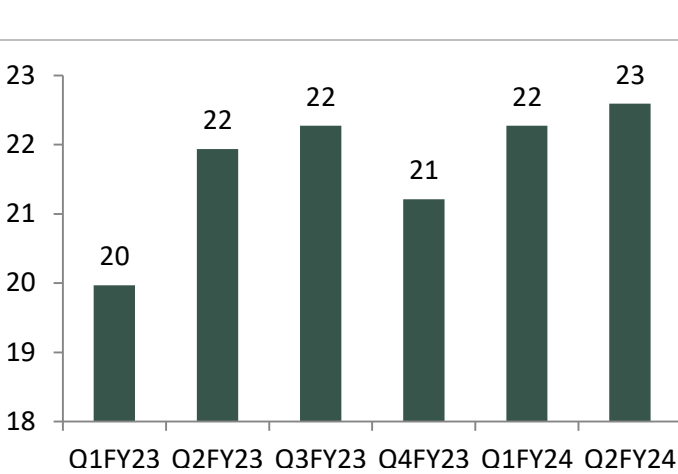
Source: Company; IDBI Capital Research

Exhibit 21: CAR remains comfortable



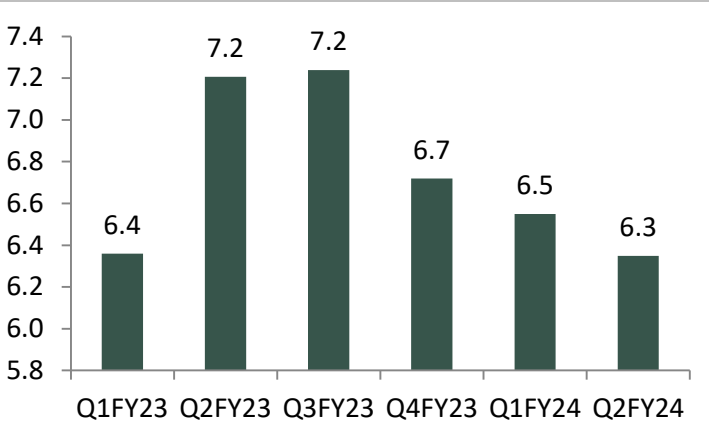
Source: Company; IDBI Capital Research

Exhibit 22: Yield on Loans improved QoQ



Source: Company; IDBI Capital Research

Exhibit 23: Costs to AUM witnessed downtick sequentially



Source: Company; IDBI Capital Research

Exhibit 24: AUM Mix (In Mn)

Consolidated AUM	Q2FY24	Q2FY23	Q1FY24	YoY	QoQ
Gold Loan	2,08,085	1,91,903	2,06,032	8.4	1.0
Micro Finance Loan	1,00,889	71,181	93,104	41.7	8.4
Housing Finance Loan	13,049	9,216	12,026	41.6	8.5
Vehicle Finance Loan	31,432	18,855	27,792	66.7	13.1
On-Lending	9,206	2,723	8,050	238.1	14.4
MSME & Other Loans	26,846	12,771	23,601	110.2	13.7
Total AUM	3,89,507	3,06,649	3,70,605	27.0	5.1

Source: Company; IDBI Capital Research

Exhibit 25: AUM Mix (In %)

Consolidated AUM	Q2FY24	Q2FY23	Q1FY24	YoY	QoQ
Gold Loan	53.4	62.6	55.6	-916 bps	-217 bps
Micro Finance Loan	25.9	23.2	25.1	269 bps	78 bps
Housing Finance Loan	3.4	3.0	3.2	34 bps	11 bps
Vehicle Finance Loan	8.1	6.1	7.5	192 bps	57 bps
On-Lending	2.4	0.9	2.2	148 bps	19 bps
MSME & Other Loans	6.9	4.2	6.4	273 bps	52 bps
Total AUM	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 26: Consolidated Borrowing Mix (In Mn)

Borrowing Mix	Q2FY24	Q2FY23	Q1FY24	YoY	QoQ
WCDL / CC	88,733	61,792	76,918	43.6	15.4
Term Loan	1,61,983	1,03,140	1,41,165	57.1	14.7
NCD/Bonds	58,735	67,980	57,849	(13.6)	1.5
External Commercial Borrowing	6,502	27,919	9,401	(76.7)	(30.8)
Commercial Paper	6,419	6,720	-	(4.5)	-
Others	1	16	1	(93.8)	-
Total Borrowings	3,22,373	2,67,567	2,85,334	20.5	13.0

Source: Company; IDBI Capital Research

Exhibit 27: Consolidated Borrowing Mix (In %)

Borrowing Mix	Q2FY24	Q2FY23	Q1FY24	YoY	QoQ
WCDL / CC	27.5	23.1	27.0	443 bps	57 bps
Term Loan	50.2	38.5	49.5	1170 bps	77 bps
NCD/Bonds	18.2	25.4	20.3	-719 bps	-205 bps
External Commercial Borrowing	2.0	10.4	3.3	-842 bps	-128 bps
Commercial Paper	2.0	2.5	-	-52 bps	199 bps
Others	0.0	0.0	0.0	-1 bps	0 bps
Total Borrowings	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net interest income	33,849	39,707	38,284	42,526	54,173	63,233
<i>Change (yoy, %)</i>	25%	17%	-4%	11%	27%	17%
Non-Interest Income	3,341	1,850	2,866	3,095	4,135	4,280
Net Revenue	37,190	41,557	41,149	45,622	58,308	67,513
Operating expenses	14,741	13,995	18,453	22,140	27,014	31,756
Employee expenses	8,301	8,429	11,250	14,695	18,825	22,747
Other expenses	6,440	5,566	7,202	7,445	8,189	9,008
Pre-Provision Profit	22,449	27,562	22,697	23,482	31,293	35,758
<i>Change (yoy, %)</i>	49%	23%	-18%	3%	33%	14%
Provision	2,376	4,401	4,862	3,071	5,132	4,790
PBT	20,073	23,161	17,835	20,411	26,161	30,968
Taxes	5,270	5,911	4,548	5,409	6,585	7,795
<i>Effective tax rate (%)</i>	26%	26%	26%	26%	25%	25%
Net profit	14,803	17,250	13,287	15,002	19,576	23,173
<i>Change (yoy, %)</i>	56%	17%	-23%	13%	30%	18%
EPS	17.5	20.4	15.7	17.7	23.1	27.4
Return on Equity (%)	28.8	26.4	17.0	16.7	18.7	18.8
Return on Asset (%)	5.9	5.7	4.1	4.1	4.5	4.5

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	1,690	1,693	1,693	1,693	1,693	1,693
Reserves	55,771	71,382	81,991	94,756	1,11,339	1,31,476
Networth	57,461	73,074	83,683	96,449	1,13,032	1,33,168
Borrowings	2,25,735	2,27,162	2,41,185	2,84,830	3,53,019	4,03,000
Other liabilities	12,155	13,142	13,210	13,763	14,695	15,202
Total Liab. & Equity	2,95,351	3,13,378	3,38,078	3,95,041	4,80,746	5,51,370
Fixed Assets	3,308	2,942	3,792	4,478	4,926	5,418
Investments	905	3,380	4,207	5,340	5,340	5,340
Loans	2,42,971	2,65,076	2,89,710	3,41,945	4,13,460	4,75,583
Cash	36,668	29,124	26,974	30,351	37,211	42,802
Other assets	11,499	12,856	13,395	12,927	19,809	22,226
Total assets	2,95,351	3,13,378	3,38,078	3,95,041	4,80,746	5,51,370

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth						
Advances	36.4	9.1	9.3	18.0	20.9	15.0
NII	25.3	17.3	(3.6)	11.1	27.4	16.7
Pre-Provision Profit	48.5	22.8	(17.7)	3.5	33.3	14.3
Net Profit	56.1	16.5	(23.0)	12.9	30.5	18.4
Spreads						
Yield on Assets	24.8	24.4	21.1	20.4	21.6	21.5
Cost of Funds	9.7	9.8	8.6	8.3	8.6	8.6
NIM	16.1	15.6	13.8	13.5	14.3	14.2
Spread	15.1	14.6	12.5	12.1	13.0	12.9
Operating Efficiency						
Cost-to-Income	39.6	33.7	44.8	48.5	46.3	47.0
Cost-to-AUM	7.0	5.5	6.7	7.0	7.2	7.1
Asset Quality						
GNPA	1.5	2.3	3.4	1.8	2.0	2.0
NNPA	0.3	1.1	1.8	0.9	1.0	1.0
Provision Coverage	76.4	52.8	44.1	47.1	49.0	50.1
Credit Cost	0.4	0.5	0.3	0.0	1.4	1.1
Capital Adequacy						
CAR	21.7	29.0	31.4	32.1	32.2	32.9
Tier I	21.4	28.7	31.0	31.7	31.7	32.5
Valuation						
EPS	17.5	20.4	15.7	17.7	23.1	27.4
ABV	67.0	83.0	92.3	110.2	128.6	151.7
P/E	8.0	6.9	9.0	7.9	6.1	5.1
P/ABV	2.1	1.7	1.5	1.3	1.1	0.9
ROE	28.8	26.4	17.0	16.7	18.7	18.8
ROA	5.9	5.7	4.1	4.1	4.5	4.5

Source: Company; IDBI Capital Research



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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