

AUM Growth Momentum to Remain Robust; Maintain BUY!

We attended an Analyst meet hosted by the management team of Manappuram Finance. Following are the key takeaways from the meet.

- Gold Loan Business** – FY24 is expected to play out better for the gold loan business. As the RBI revised its GDP growth estimates upwards from 6.5% to 7% for FY24, it will lead to higher disposable income, thereby resulting in an increase in discretionary spending. Further, geopolitics, lower interest rates, and continued buying by central banks would act as tailwinds for the gold loan sector. The management is confident to grow its gold loan AUM by 8-10% for FY24 as well as maintaining gold loan yield in the range of 21-22%. Furthermore, management commentary that the recent increase in RWA by RBI through a circular won't impact the company much as the company's healthy financials was satisfactory. The non-gold loan book share currently stands at 47%, whereas the gold loan book share stands at 53%. The focus remains to scale up the non-gold loan book. The diversification strategy to achieve a mix of 50:50 in Gold and non-gold loan books is in place.
- MFI Business** – Despite multiple headwinds, the MFI business in India has been resilient. The entire MFI industry is about Rs 3.5 Tn at present. Asirvad Microfinance, Manappuram's MFI arm which has been built to take advantage of a large addressable market, has submitted DRHP to the regulator. Post its IPO launch, it would have adequate growth capital for expansion. The management expects Asirvad to go public by mid-February next year. Relaxation by the RBI in the Microfinance industry has been a big boost to the industry as well as Ashirvad. In India, Asirvad Microfinance is the largest MFI in terms of geographical diversification and is 3rd largest MFI in terms of AUM, wherein it commands a 7.7% market share. In recent quarters, Asirvad has reported a complete turnaround in both AUM growth as well as improvement in asset quality which has led to a healthy ROA of 4.49% and ROE of 25.39%. AUM has recorded growth of more than 30% CAGR in the last 2 years. GNPA has reduced to 3% as of Q2FY24. The capital position is comfortable at 23%. Additionally, it has received the fastest AA- rating amongst its peers.
- Vehicle finance** – The company has ventured into e-vehicle financing. Particularly, the company's interest in used vehicle space has huge opportunities. Vehicle finance book has reported healthy growth of 17% CAGR in the past 4 years. Asset quality has improved wherein GNPA has reduced to 2.7% in FY23 and further reduced to 2.5% in Q2FY24. The average yield of vehicle finance books is about 18%. The major share in the Vehicle finance book is of CV which constitutes 54% of vehicle finance portfolio. Average yield in vehicle finance is 18.48%. The company has tied up with JCB which is entering into used vehicles business.
- Home loan** – Affordable home loan is offered through 66 branches located in the southern and western part of India. The loan size ranges from 1 Lc to 25 Lc and average ticket size is Rs 6 Lc. Amongst the customers, about 77% are self-employed and 20% are salaried. The management remains confident in growing this book healthy as lower interest rates in the coming years would fuel the demand in the affordable housing segment. Focus remains on Tier 3 and 4 regions.
- MSME** – MSME grew by 14% YoY during Q2FY23-Q2FY24 as against 2% CAGR of Banking during the same period. The average yield in this segment is 18-19%. Average loan tenure is of 5-6 years and average ticket size is of Rs 5.9 Lc.

Valuation & Recommendation

Gold loan AUM grew by 11% in the last five years. With AUM growth expected to maintain its healthy momentum and gold loan yields to remain between 21-22%, growth in NII is expected to remain healthy. The management remains confident to clock in AUM growth of 20% and ROE of 20% for FY24. Furthermore, one of the key competitive advantages Manappuram has over banks is its shorter turn-around time. Asset quality is expected to remain stable. With growth prospects remaining strong and key levers being intact, we have baked in the AUM growth rate at ~20% over FY23-26E. Manappuram is currently trading at 1.0x Sep'25E ABV. However, we believe, the stock is trading at attractive valuations, given the growth prospects it possesses. Thus, we maintain our **BUY** rating on the stock with the revised target price of **Rs 205/share** (1.2x Sep'25E ABV), implying an upside of 25% from the CMP.

(CMP as of 20 Dec, 2023)

CMP (Rs)	164
Upside /Downside (%)	25%
High/Low (Rs)	177/101
Market cap (Cr)	14,631
Avg. daily vol. (6m) Shrs.	1,26,15,989
No. of shares (Cr)	84.6

Shareholding (%)

	Mar-23	Jun-23	Sep-23
Promoter	35.2	35.2	35.2
FII's	30.2	30.7	27.1
MFs / UTI	10.6	9.2	10
Others	24	24.9	26.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
NII	5,565	6,570	7,746
PPOP	3,456	4,062	4,760
Net Profit	2,219	2,597	3,035
EPS (Rs)	26.2	30.7	35.9
ABV (Rs)	131.5	154.9	182.7
P/ABV (x)	1.3	1.1	0.9
RoA (%)	5.1	4.9	4.9
NNPA (%)	0.7	0.8	0.8

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
NII	13.5	12.7
PPOP	23.5	15.0
PAT	23.2	16.3

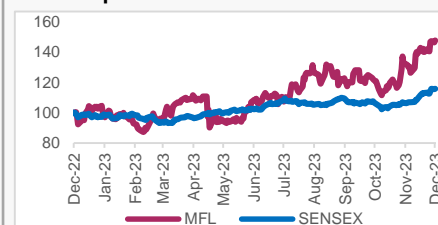
ESG disclosure Score**

Environmental Disclosure	0.4
Social Disclosure Score	15.4
Governance Disclosure Score	78.6
Total ESG Disclosure Score	31.5
Sector Average	37.5

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net Interest Income	4,253	5,565	6,570	7,746
Non Interest Income	310	438	466	495
Net Income	4,562	6,003	7,036	8,242
Operating Expenses	2,214	2,547	2,974	3,482
Pre Provision Profits	2,348	3,456	4,062	4,760
Provisions	307	464	561	668
PBT	2,041	2,991	3,501	4,092
Tax	541	773	905	1,057
Profit After Tax	1,500	2,219	2,597	3,035

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS				
Share Capital	169	169	169	169
Reserves	9,476	11,248	13,322	15,747
Shareholder's Funds	9,645	11,417	13,492	15,916
Borrowings	29,167	35,743	42,863	49,938
Other Liabilities & Provisions	693	842	1,006	1,175
Total Liabilities	39,504	48,002	57,360	67,029
APPLICATION OF FUNDS				
Cash & Bank balances	3,035	3,592	4,149	4,264
Investments	534	601	718	839
Loans	34,195	41,742	50,024	59,284
Fixed Assets & Others	1,741	2,067	2,470	2,643
Total Assets	39,504	48,002	57,360	67,029

Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY23	FY24E	FY25E	FY26E
VALUATION RATIOS				
EPS	17.7	26.2	30.7	35.9
Earnings growth (%)	12.9	47.9	17.0	16.9
BVPS	114.0	134.9	159.4	188.0
Adj. BVPS	110.9	131.5	154.9	182.7
ROAA (%)	4.1	5.1	4.9	4.9
ROAE (%)	16.6	21.1	20.8	20.6
P/E (x)	9.7	6.6	5.6	4.8
P/ABV (x)	1.6	1.3	1.1	0.9
PROFITABILITY				
Yield on Advances (%)	19.2	21.7	21.3	21.2
Cost of Funds (%)	8.3	9.0	9.0	8.9
NIM (%)	12.2	13.3	13.0	13.0
OPERATING EFFICIENCY				
Cost-Income Ratio	48.5	42.4	42.3	42.2
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	18.0	22.1	19.8	18.5
Total Capital Adequacy Ratio (CAR)	31.7	31.6	30.5	30.2
ASSET QUALITY				
Gross NPLs (%)	0.9	1.1	1.2	1.2
Net NPLs (%)	0.7	0.7	0.8	0.8
Credit Cost(%)	1.0	1.2	1.2	1.2

Source: Company, Axis Securities

Manappuram Finance Price Chart and Recommendation History



Date	Reco	TP	Research
15-Feb-22	BUY	190	Result Update
19-May-22	BUY	165	Result Update
05-Aug-22	BUY	165	Result Update
15-Nov-22	BUY	175	Result Update
06-Feb-23	BUY	165	Result Update
15-May-23	BUY	150	Result Update
11-Aug-23	BUY	165	Result Update
15-Nov-23	BUY	160	Result Update
20-Dec-23	BUY	205	Company Update

Source: Axis Securities

About the analyst



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HOLD	Between 10% and -10%
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