

# Manappuram Finance (MGFL)

NBFC | NBIE Investor Conference Update

**BUY**

**CMP: Rs187 | Target Price (TP): Rs223 | Upside: 20%**

**February 18, 2024**

## Maintaining profitability in core business; Expansion in Other Complimentary Businesses to add value

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### Key Points

- We hosted the management of Manappuram Finance Ltd (MGFL), represented by Ms. Bindu AL, CFO; Mr. Raju Narayanan, Group Business Head and Mr. Susil Kumar Mishra, Head – Investor Relations & Treasury, in order to gain an insight into MGFL's business outlook.
- Following are the key takeaways of the session based on queries by institutional investors: (1) The company is focusing on maintaining Gold Loan IRR at current levels of ~22% in order to maintain its margins. (2) With firm gold prices, MGFL is confident of asset quality improvement in Gold Loans. In other segments, the NPAs are much below historical peaks and LGDs are comfortable ~20-65%. (3) Key factors that differentiate Asirvad Microfinance from other MFI peers include well-funded parent MGFL with CAR of 31%, strong execution, geographical diversification and strong underwriting models. With respect to IPO, Asirvad Micro Finance has submitted answers to SEBI's queries and expects to get approval for listing soon. (4) Expansion into MSME and allied segments is happening through gold loan branches with focus on grocery segment, small traders and SSI units. (5) Increase in dividend pay-outs, if any, will be decided after carefully evaluating organic/inorganic growth opportunities.
- We maintain a BUY rating on MGFL with a TP of Rs223 (valued at 1.2x Dec. 2025E ABV plus subsidiary value of Rs59.9 per share). As mentioned in our [gold finance thematic](#) dated January 16, 2024, which was based on channel checks in Kerala and interactions with managements/industry laterals, we have been positive about MGFL's prospects as a diversified lender, but successful execution of its growth plans is key. In our view, following will be the triggers for the stock's re-rating: (1) Permission from the RBI in future for addition of new gold loan branches will lead to better growth in the core business (2) Timely listing of sizeable MFI subsidiary and its growth ahead will add value to the parent in the long run.

**Focus on maintaining Gold Loan IRRs at current levels of ~22%:** In 3QFY24, Gold Loan growth was flattish at -0.2% QoQ as festive season prompts customers to repay their loans and take their ornaments back. Post the festive season, they deposit the gold again with MGFL branches and take new loans. Gold Loan yields improved from 21.9% to 22.3% on a QoQ basis as the contribution of higher yielding small ticket loans increased.

With respect to the competitive scenario, the management was of the view that despite competition from banks and other lenders, the overall organized gold loan pie is growing and customer addition is happening for the sector as well as Manappuram Finance. However, compared to COVID times, when banks were lending aggressively in the segment and ~25% of MGFL's portfolio was at interest rates <12%, the competitive intensity from banks has now abated.

Est Change	No change
TP Change	No change
Rating	No change

### Company Data and Valuation Summary

Reuters	MNFL.BO
Bloomberg	MGFL IN Equity
Market Cap (Rsbn / US\$bn)	157.8 / 1.9
52 Wk H / L (Rs)	193 / 101
ADTV-3M (mn) (Rs / US\$)	1,912.8 / 23.0
Stock performance (%) 1M/6M/1yr	6.7 / 25.3 / 67.3
Nifty 50 performance (%) 1M/6M/1yr	(0.3) / 11.9 / 22.8

Shareholding	1QFY24	2QFY24	3QFY24
Promoters	35.2	35.2	35.2
DII's	10.7	12.2	12.2
FII's	30.7	27.1	29.0
Others	23.4	25.5	23.7
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
NII	32,425	39,036	44,574	51,258
% growth	3.0	20.4	14.2	15.0
NIM %	13.7	14.6	14.1	13.9
C/I Ratio %	47.4	42.2	41.7	41.7
Operating Profit	17,514	23,617	27,249	31,360
% growth	-4.3	34.8	15.4	15.1
Adjusted PAT	12,663	16,692	19,192	21,511
% growth	-2.9	31.8	15.0	12.1
ABVPS (INR /share)	102.9	117.5	134.9	154.9
P/ABV	1.8	1.6	1.4	1.2
RoA (%)	4.5	5.3	5.2	5.1
Leverage (x)	3.3	3.3	3.3	3.3
RoE (%)	15.0	17.2	17.1	16.7

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

[Key Links- 3QFY24 Investors Presentation](#)

[3QFY24 Result Update](#)

Please refer to the disclaimer towards the end of the document.

Apart from this, as against banks which focus on higher ticket sizes of Rs 0.2-0.5mn with the intention of cross selling deposits and other products to these customers, MGFL is catering to the Rs50,000-100,000 ticket size segment with higher yields.

The proportion of <12% interest rate loans stands stable at 8-9%. MGFL plans to maintain Gold Loan IRRs at present levels of ~22% by maintaining pricing discipline in order to protect its margins. In 3QFY24, the cost of funds (CoF) of standalone entity increased by 19bps QoQ due to banks increasing their rates for NBFCs post the RBI's risk weight increase and the full impact of this will be felt in 4QFY24. However, at present, the company does not feel the need to pass on rate increase to customers.

MGFL has applied for 300 new branches and it is hopeful of getting permission for the same by the regulator. The auction surplus, which was at a peak of Rs530mn earlier, has declined to Rs230mn and the company expects this to fall further by Rs10-20mn soon.

**Confident of asset quality improvement ahead:** MGFL's standalone asset quality continued to remain under pressure in 3QFY24, with GNPA/NNPA at 2.0%/1.8% vs. 1.6%/1.4% in 2QFY24. This was largely on account of delay in auctioning the collateral as the company considered customers' request to renew loans so that they can get more time for repayment. Even after these loans getting renewed, they had to be classified as NPAs. But, considering the secured nature of gold collateral, this business has negligible credit cost. Given the increase in gold prices, the management remains confident of reducing GNPA before 31st March'24.

In case of other businesses (including Housing Finance, Vehicle Finance and MSME), its books are seeing stability in terms of growth and collections. GNPA of these businesses are much below historical highs and in Vehicle Finance, 10bps is not a material increase. Due to the nature of the Vehicle Finance business, GNPA have been ~2.5-3%; the LGDs here are low at 20-35% and the company is carrying adequate provision on the same. In Housing Finance, GNPA stood at over 5% when there was a management change but now it is at 2.7%. Collection efficiency in home loans in 3QFY24 stood at 96%; PCR in home loans was 20% and LTV was 55-60%. The HFC has put ~200 properties for sale (taken through invocation of SARFAESI) and is putting in the required efforts to sell the same, which would reduce NPA in 4QFY24. In case of MSME and Personal Loans, the GNPA (excluding PL) was 1.5% (incl. PL it was 2.3%). Due to asset quality issues in digital personal loans, MGFL has tightened underwriting standards. The LGD in case of unsecured personal loans is 65%. In case of secured assets within the MSME vertical, the LGD is only 10%, so it is not a cause for concern for credit costs.

**MFI business to add value to parent over long term:** In the MFI segment, credit demand was good but in terms of collections, there were some temporary hiccups in Tamil Nadu (14% exposure of Asirvad Microfinance to the state) due to floods during 3QFY24. Besides this, there were some problems in Punjab, Rajasthan and Haryana, but the exposure of MGFL to these places is not that high. The underwriting is being done considering the leverage levels of borrowers and pricing of loans. Key factors which differentiate Asirvad Microfinance from other MFIs include: (1) Execution capabilities of parent MGFL in gold loan business, has helped the MFI to expand loan book size from Rs 3bn at the time of acquisition in 2015 to Rs 106.9bn in 3QFY24. (2) Geographical diversification – no state will have >10% concentration in AUM (3) Strong data analytics and score cards etc. have been developed for underwriting and (4) Well funded parent MGFL with CAR of 31%. As against MGFL's Gold Loan customers that are slightly above the 'bottom of the pyramid', Asirvad's MFI customers are at the 'bottom of the pyramid'. MGFL has gradually seen MFI customers getting upgraded to gold loan customers over various cycles. As this upgradation keeps happening, it will add value to the parent in long term. With respect to its IPO, which has been put on hold by SEBI, Asirvad Microfinance has submitted answers to the regulator's queries and expects to get a positive response soon.

**Focused approach on growing MSME and Allied Book:** The sub-segments in this vertical include MSME, Micro Home Loans (home improvement and home development, ATS – Rs 0.65mn), Professional Loans to salaried class (ATS- Rs 0.4-0.5mn). In terms of geographies, 60-65% presence is in South India and its expanding into other states after having an understanding of those markets. In the MSME segment, it initially started offering loans to customers in the grocery segment, most of whom may not have access to bank funding. Then it decided to specialize in the MSME space by offering schemes to micro traders and various SSI units. The ATS here is Rs 0.5mn. While security and collateral is there with low LTVs of 35-40%, underwriting is majorly done based on cash flows, where weightage is given to current cash flows over future cash flows. The end use of these loans is tracked in order to ensure repayments are on time. The company also has dedicated staff who interact with MSME customers over the life of the loan as a financial advisor, co-ordinator, family/friend etc. The technology is developed in-house. 70-75% of collections are done digitally and remaining customers (mostly nearby shop owners) come to branches (gold loan branches of standalone entity) for repayments.

**Shift from other segments to Gold Loans / HNI segment opening up:** With lenders tightening underwriting standards for unsecured loans, though the company is expecting some shift to happen from unsecured loans to gold loans, on an immediate basis, a major shift is not visible; it will happen over a period of time. While the major focus of MGFL is towards small ticket gold loans of Rs50,000-60,000 ticket size, it also caters to the HNI segment of over Rs 1mn ticket size. For the HNI segment, it follows a cluster-based approach with focus on some Tier-1/Tier-II locations. While banks which also offer deposits and other products to the HNI segment are quite active here, MGFL has some edge because of the following reasons: (1) Convenience factor with TAT of 5-10 minutes for existing customers and 15-20min for new customers. (2) Reduced opportunity cost for employed customers as MGFL branches are open for longer hours compared to banks. (3) For banks in the segment, gold loans is not a single focus and while their base interest rates are lower at 8-9%, after addition of operational and other processing charges, interest rates work out to >12-13% over the tenure of the loan. (4) Under MGFL's online gold loans, the customers keep the gold in lockers with MGFL and it provides borrowing facility to these customers for shorter periods which can be few days.

**Dividend pay-outs:** Post listing of Asirvad, the MFI will be able to take care of major part of its capital requirements. As a result, unless there is a major strategic shift in its (MGFL) business plans, parent MGFL, which is having surplus capital with a CAR of 31%, will see relatively lesser amount of investments in subsidiaries as against what was required in the fast growing MFI business. MGFL will take a call on increasing dividend payouts in future after evaluating its branch expansion plans and other organic/inorganic growth opportunities.

**Strong operational controls in place:** In light of operational lapses at a bank reported in the media, with respect to gold loans, where in order to meet their targets the bank's employees disbursed fake gold loans without gold collateral, an investor posed a query to MGFL management if such practices are prevalent at other gold lenders and what are the operational controls lenders (including MGFL) have in place to counter such malpractices. According to MGFL management, first step here is that during the time gold is pledged, it is ensured that correct details of the customers are taken and the photograph of the ornament is uploaded. At branch level, it follows a three-layered process; if the gold collateral is up to 20gm, two people have to appraise and receive the gold. If it is more than 20gm, three people will appraise and receive it. Then, this collateral is handed over to the custodial branch where there is operational oversight on a daily basis. Besides this, periodic audit and vigilance measures are also there, for which the company has a strong team of auditors and vigilance experts. The packets are counted and weights are tallied.

**Outlook and valuation:** We are positive about the company's prospects as a diversified lender, but successful execution will be key. Besides this, timely listing of sizeable subsidiary Asirvad Microfinance will be key to re-rating of the parent. With double-digit growth expected to return in the core Gold Loan business, yields stabilizing at 21-22% (>90% Gold Loan yields being in excess of 12%), strong growth in higher yielding Non-gold businesses, lower opex (led by improved productivity levels) and control on asset quality, we expect standalone RoA to be at 5.2% over FY23-FY26E vs 4.5% in FY23.

We have valued the standalone Gold Loan business at 1.2x Dec. 2025E ABV, which leads to standalone value per share of Rs163. Adding subsidiary value per share of Rs59.9 (net of holding company discount of 20%), we maintain our target price at Rs 223 and a 'BUY' rating on MGFL.

### Exhibit 1: Calculation of Adj. Book Value

Particulars	Amount (Rs mn)
December 2025E Network	132670.6
December 2025E NNPA	6312.5
Cost of Investment in Key Subsidiaries	11386.1
<b>December 2025E Adj. Network</b>	<b>114972.0</b>

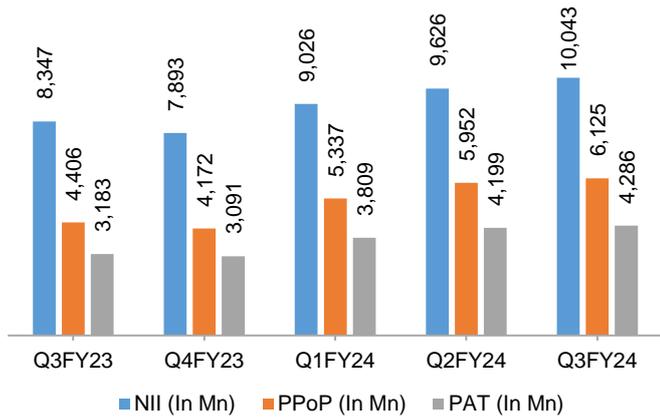
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: Sum of the parts (SOTP) valuation

Particulars	Stake (%)	Parameter	Amount (Rs mn)	Multiple	Holding co. discount (%)	Value per Share (Rs)
Standalone	Holding co.	December 2025E Adj. Network	114972.0	1.2	-	163.0
Asirvad Microfinance	97.6	FY25E Adj. Network	35657.8	1.8	20.0	57.6
Manappuram Home Finance	100.0	FY25E Adj. Network	2443.0	1.0	20.0	2.3
<b>SOTP based Target Price (Rs)</b>						<b>222.9</b>

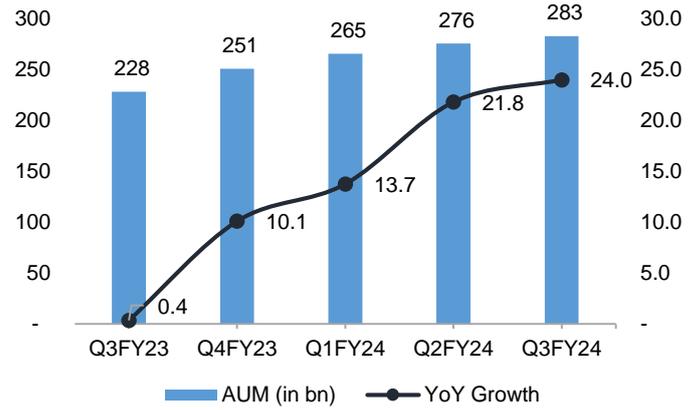
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Operating performance continued to remain strong**



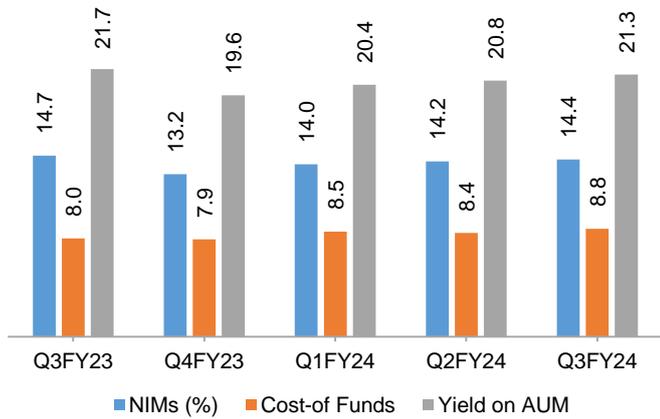
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: AUM (Rsbn) and AUM growth (YoY, %)- Gold/VF/On-lending/Others**



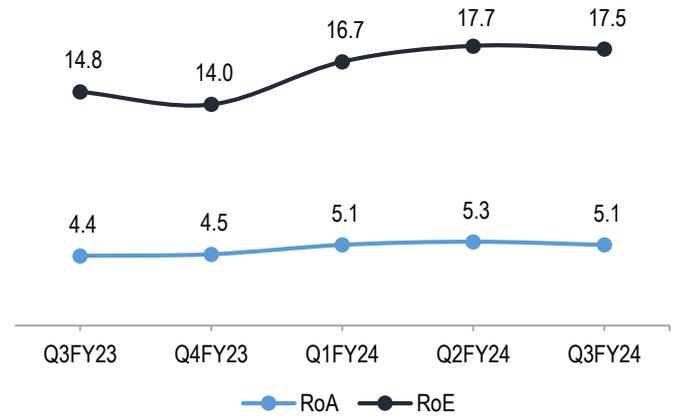
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Operating Profit Metrics (In %)**



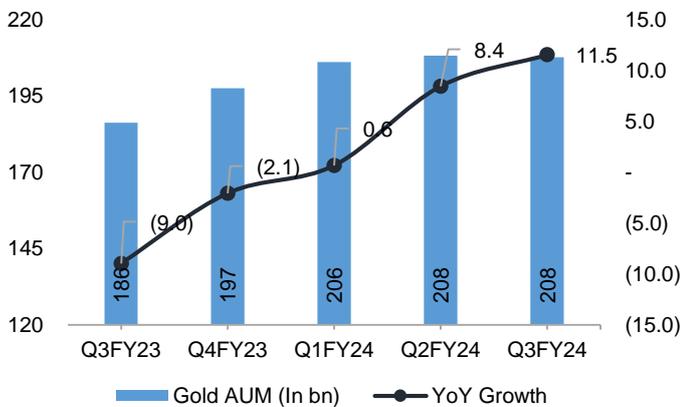
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: RoA and RoE witnessed downtick on a sequential basis**



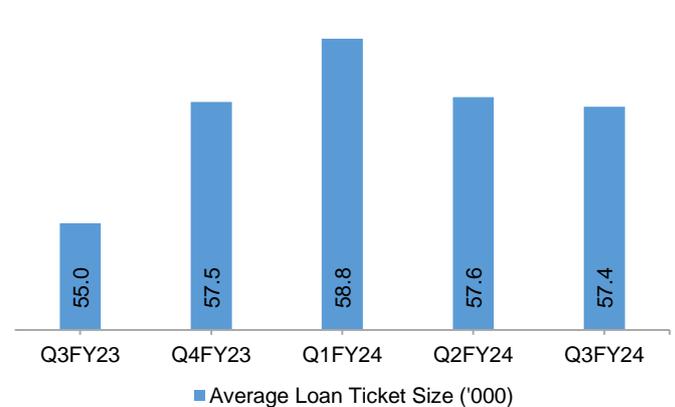
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Gold AUM (In bn) and growth (YoY, %)**



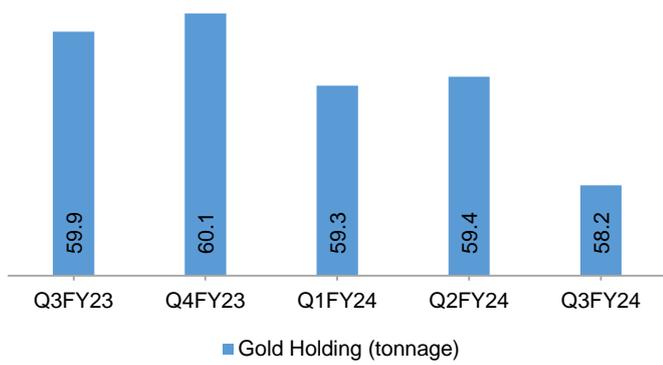
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Average Ticket Size of Gold Loan ('000)**



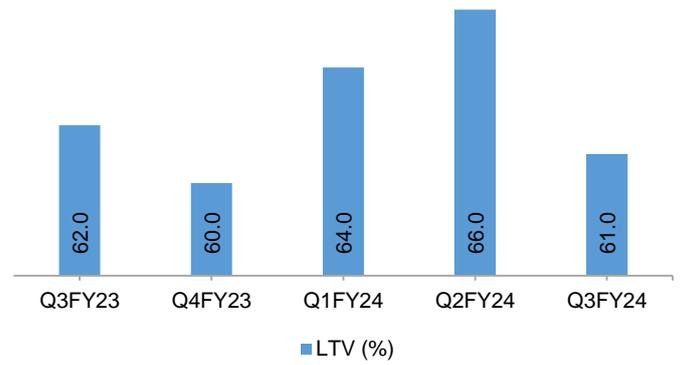
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Gold Loan Tonnage**



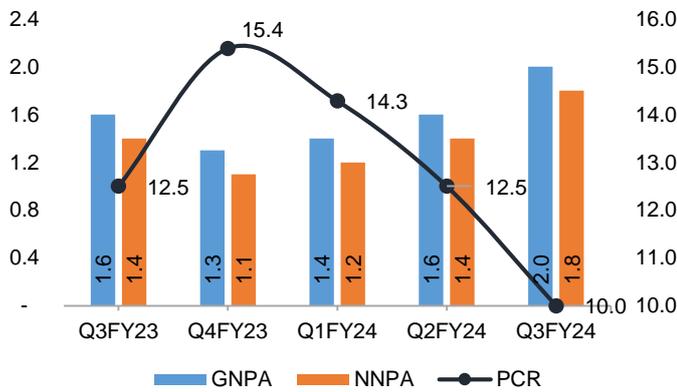
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: LTV (in %) moderated**



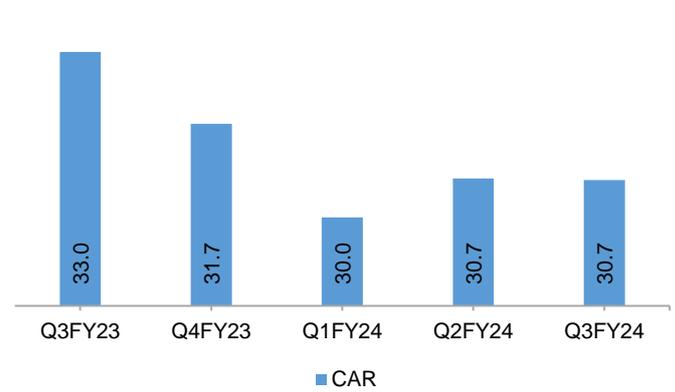
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Asset Quality Metrics remained under pressure**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: CRAR remained at comfortable levels**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: Financial summary**

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
NII	31,476	32,425	39,036	44,574	51,258
PPOP	18,305	17,514	23,617	27,249	31,360
PAT	13,045	12,663	16,692	19,192	21,511
AUM	2,27,625	2,50,593	2,98,498	3,51,710	4,06,020
RoA (%)	5.0	4.5	5.3	5.2	5.1
RoE (%)	17.6	15.0	17.2	17.1	16.7
P/ABV	2.2	1.8	1.6	1.4	1.2

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 14: One-year forward P/ABV**


Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 15: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	45,394	47,409	57,409	65,898	76,205
Interest Expense	13,918	14,984	18,373	21,324	24,948
<b>Net Interest Income</b>	<b>31,476</b>	<b>32,425</b>	<b>39,036</b>	<b>44,574</b>	<b>51,258</b>
Non-Interest Income	476	859	1,841	2,144	2,493
<b>Net Revenue</b>	<b>31,952</b>	<b>33,284</b>	<b>40,876</b>	<b>46,719</b>	<b>53,751</b>
Operating expenses	13,647	15,771	17,259	19,470	22,390
<b>Operating profit</b>	<b>18,305</b>	<b>17,514</b>	<b>23,617</b>	<b>27,249</b>	<b>31,360</b>
Provisions	807	451	1,127	1,602	2,614
<b>PBT</b>	<b>17,498</b>	<b>17,063</b>	<b>22,490</b>	<b>25,647</b>	<b>28,747</b>
Tax	4,452	4,401	5,798	6,455	7,236
<b>PAT</b>	<b>13,045</b>	<b>12,663</b>	<b>16,692</b>	<b>19,192</b>	<b>21,511</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 17: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,693	1,693	1,693	1,693	1,693
Reserves & surplus	77,736	88,106	1,02,573	1,18,095	1,35,530
<b>Networth</b>	<b>79,429</b>	<b>89,799</b>	<b>1,04,265</b>	<b>1,19,788</b>	<b>1,37,223</b>
Borrowings	1,79,260	1,92,293	2,28,379	2,69,090	3,10,643
Other liability & provisions	11,017	11,283	5,853	6,335	6,858
<b>Total liabilities</b>	<b>2,69,706</b>	<b>2,93,375</b>	<b>3,38,497</b>	<b>3,95,214</b>	<b>4,54,724</b>
Fixed Assets	8,839	8,716	8,623	8,973	9,337
Investments	12,155	14,542	17,924	18,821	19,762
Loans	2,27,197	2,45,584	2,89,764	3,41,419	3,94,140
Cash	17,585	20,795	17,680	21,125	26,205
Other assets	3,931	3,737	4,506	4,877	5,279
<b>Total assets</b>	<b>2,69,706</b>	<b>2,93,375</b>	<b>3,38,497</b>	<b>3,95,214</b>	<b>4,54,724</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 18: Balance sheet

Du-Point Analysis	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	17.3	16.8	18.2	18.0	17.9
Interest Expense	5.3	5.3	5.8	5.8	5.9
Net Interest Income	12.0	11.5	12.4	12.2	12.1
Non-Interest Income	0.2	0.3	0.6	0.6	0.6
Net Revenue	12.1	11.8	12.9	12.7	12.6
Operating expenses	5.2	5.6	5.5	5.3	5.3
Operating profit	7.0	6.2	7.5	7.4	7.4
Provisions	0.3	0.2	0.4	0.4	0.6
PBT	6.7	6.1	7.1	7.0	6.8
Tax	1.7	1.6	1.8	1.8	1.7
ROA	5.0	4.5	5.3	5.2	5.1
Leverage	3.5	3.3	3.3	3.3	3.3
ROE	17.6	15.0	17.2	17.1	16.7

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 16: Key ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth (%)</b>					
Net interest income	-7.9	3.0	20.4	14.2	15.0
Operating profit	-23.7	-4.3	34.8	15.4	15.1
Profit after tax	-23.2	-2.9	31.8	15.0	12.1
Consol.AUM	10.4	10.1	19.1	17.8	15.4
<b>Spreads (%)</b>					
Yield on loans	20.7	20.1	21.4	20.9	20.7
Cost of Borrowings	7.8	8.1	8.7	8.6	8.6
Spread	12.9	12.0	12.7	12.3	12.1
NIMs	14.4	13.7	14.6	14.1	13.9
<b>Operational efficiency (%)</b>					
Cost to Income	42.7	47.4	42.2	41.7	41.7
Cost to AUM	6.3	6.6	6.3	6.0	5.9
<b>CAR (standalone) (%)</b>					
Tier I	31.0	31.7	30.6	30.3	30.5
Tier II	0.3	0.0	0.0	0.0	0.0
Total	31.3	31.7	30.6	30.3	30.5
<b>Asset quality (%)</b>					
GNPA (%)	3.0	1.3	2.0	2.0	2.0
NNPA (%)	2.7	1.1	1.7	1.7	1.6
PCR (%)	10.0	15.4	15.0	17.5	20.0
Credit costs (%)	0.4	0.2	0.4	0.5	0.7
<b>Profitability (%)</b>					
ROE	17.6	15.0	17.2	17.1	16.7
ROA	5.0	4.5	5.3	5.2	5.1
<b>Per share (Rs)</b>					
EPS	15.4	15.0	19.7	22.7	25.4
BVPS	93.8	106.1	123.2	141.5	162.1
ABVPS	86.6	102.9	117.5	134.9	154.9
<b>Valuation (x)</b>					
P/E	12.1	12.5	9.5	8.2	7.3
P/BV	2.0	1.8	1.5	1.3	1.2
P/ABV	2.2	1.8	1.6	1.4	1.2

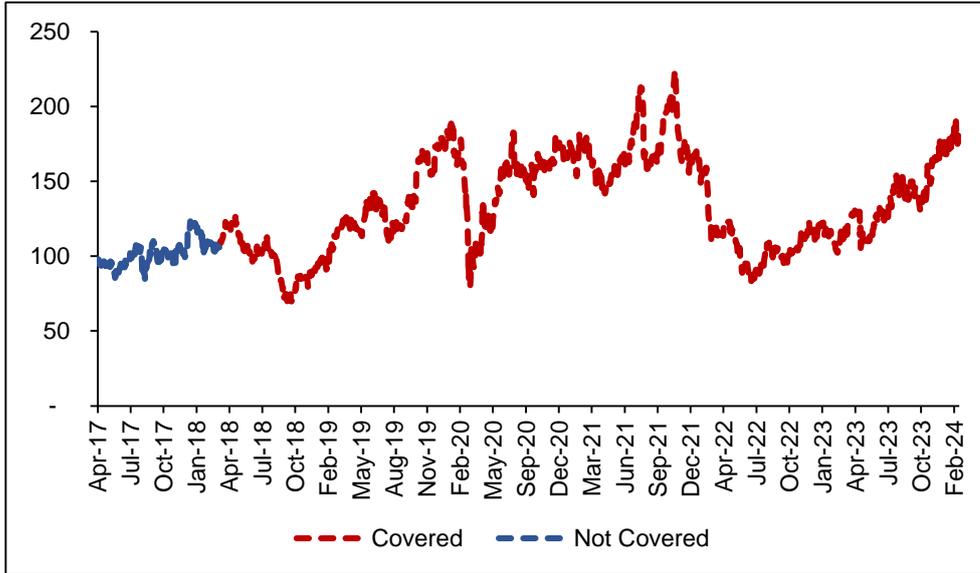
Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	106	128
9 February 2018	Buy	114	133
10 August 2018	Buy	113	142
9 October 2018	Buy	68	103
9 November 2018	Buy	83	112
7 February 2019	Buy	97	127
8 April 2019	Buy	121	141
15 April 2019	Buy	127	154
16 May 2019	Buy	121	157
8 July 2019	Buy	136	170
14 August 2019	Buy	116	153
23 September 2019	Buy	127	174
7 October 2019	Buy	133	173
7 November 2019	Buy	168	193
8 January 2020	Buy	176	207
29 January 2020	Buy	189	218
27 March 2020	Buy	108	149
2 April 2020	Buy	92	149
9 April 2020	Buy	108	149
15 May 2020	Buy	123	142
9 July 2020	Buy	157	187
30 July 2020	Buy	179	209
23 September 2020	Buy	148	210
7 October 2020	Buy	168	208
9 November 2020	Buy	162	210
26 November 2020	Buy	167	210
08 January 2021	Buy	177	235
30 January 2021	Buy	156	235
21 February 2021	Buy	173	235
26 May 2021	Buy	160	233
10 August 2021	Buy	187	226
15 November 2021	Buy	198	240
26 November 2021	Buy	170	240
15 February 2022	Buy	142	184
13 May 2022	Buy	105	166
05 August 2022	Buy	102	164
19 September 2022	Buy	99	183
15 Novemer 2022	Buy	117	154
05 February 2023	Buy	117	151
22 March 2023	Buy	120	150
14 May 2023	Buy	110	149
11 August 2023	Buy	146	172
15 November2023	Buy	141	177
29 November 2023	Buy	152	177
20 December 2023	Buy	173	200
16 January 2024	Buy	171	209
08 February 2024	Buy	190	223
18 February 2024	Buy	187	223

\*The coverage has been transferred to Rati J Pandit from July 30, 2023

**Rating track graph**



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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