

Manappuram Finance

BUY

Guided gold loan growth to improve; MFI GNPA inched up

Summary

Manappuram Finance's Gold loan portfolio grew by 9% YoY during FY24 in line with the guidance (8-10%). Overall AUM growth stood at 19% YoY (vs 27% YoY Q3FY24) due to higher base. Management guided for gold loan growth improvement and overall AUM growth at ~20% in FY25. We estimate 15% AUM CAGR (FY24-26) backed by non-gold portfolio. MFI asset quality deteriorated with GNPA at 3.7% vs 2.8% QoQ led by issues in Punjab and Rajasthan portfolio. Thus, provisions increased resulted decline in profitability on QoQ. Cons. NII grew by 3% QoQ led by stable NIMs; PPop remain flat QoQ led by lower fee income. PAT declined by 2% QoQ led by higher provisions (up 26% QoQ). We have largely maintained the estimates and maintain 'BUY' rating with a TP of Rs225, valuing it at 1.2x P/ABV FY26E.

Key Highlights and Investment Rationale

- **Gold loan growth to improve:** AUM grew by 19% YoY (27% YoY Q3FY24) led by strong growth in non-gold portfolio; grew by 31% YoY (up 5% QoQ). Gold loan grew by 9% YoY (up 4% QoQ) led by higher gold prices. Gold holdings increased by 1% QoQ (down 2% YoY) to 59 tonnes.
- **Net Yields declined QoQ:** Net yields on Gold Loans stood at 21.7% during Q4FY24 vs 22.3% QoQ. Further, NIMs declined QoQ as cost of funds increased due to diversification of borrowings.
- **MFI Asset quality deteriorated:** Asset quality improved with GNPA (standalone) at 1.9% vs 2.0% QoQ. While, MFI portfolio reported deterioration in asset quality led by issues in collections of north east region.
- **Outlook:** Competitive intensity impacted AUM growth as well as margins. However, FY24 reflected improvement in margins and AUM growth. We believe that the company has potential to report RoA above 4%.

TP **Rs 225**

CMP **Rs 180**

Potential upside/downside **25%**

Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	(7.1)	(1.6)	63.9
Rel to Sensex	(8.6)	(4.7)	42.0

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	30.5	35.4
Consensus	29.6	34.4
% difference	3.0	3.0

Key Stock Data

Bloomberg/Reuters	MGFL IN /MNFL.BO
Sector	Finance
Shares o/s (mn)	846
Market cap. (Rs mn)	152,697
3-m daily avg Trd value (Rs mn)	102.0
52-week high / low	Rs207 / 109
Sensex / Nifty	75,410 / 22,957

Shareholding Pattern (%)

Promoters	35.2
FII	32.0
DII	8.5
Public	24.3

Financial snapshot

Year	FY2022	FY2023	FY2024	FY2025E	FY2026E
NII	38,284	42,526	55,889	62,694	71,854
Change (yoy, %)	-4%	11%	31%	12%	15%
Net Profit	13,287	15,002	21,975	25,781	29,993
Change (yoy, %)	-23%	13%	46%	17%	16%
EPS (Rs)	15.7	17.7	26.0	30.5	35.4
Change (yoy, %)	-23%	13%	46%	17%	16%
ABV (Rs)	92.3	110.2	130.1	155.4	184.9
PER (x)	11.5	10.2	6.9	5.9	5.1
P/ABV (x)	2.0	1.6	1.4	1.2	1.0
ROE (%)	17.0	16.7	20.7	20.4	20.0
ROA (%)	4.1	4.1	5.1	5.1	5.2
GNPA (%)	3.4	1.8	2.4	2.4	2.4
NNPA (%)	1.8	0.9	1.3	1.1	1.1
CAR (%)	31.3	31.7	31.7	32.8	34.0

Source: IDBI Capital Research

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Conference Call Highlights

Operational Performance:

- The management opined that the company achieved decent growth in AUM during the quarter.
- The yearly increase in PAT was driven by increase in profitability in gold loan and MFI business segments.
- The company is pursuing a strategy of diversifying its funding mix by reducing its dependence on banks while shifting towards dollar bonds.
- The management opined that vehicle finance business is continuing to grow at a robust pace.
- The company is keeping a close eye over the demand in affordable housing finance sector as the management perceives a good growth opportunity from the same.
- Leverage at the end of Q4FY24 stood at 2.9 times.
- The employee cost is mainly being driven by increase in employee base across non gold loan business.
- There has been a certain degree of rationalization in employees in gold loan business due to increase in online gold loan disbursements due to which the headcount in gold loans has come down.
- The capital allocation planning is skewed towards the secured loans businesses. The capital allocation towards unsecured business is limited to 10% of the total available capital.

Advances:

- Share of non gold business at 49% of the total AUM which is in line with the management's diversification strategy.
- The online book accounts for ~57% of the total gold loan portfolio.
- The company is fully compliant with the RBI circular pertaining to disbursements of loans above Rs.20,000 via banking channels. Further, this gives the banks data on potential customers, the company does not expect any significant customer poaching by the banks.
- The break of the total portfolio according to the ticket size is as follows:

- Ticket size upto Rs.1L-44%
- From 1L upto Rs.3L- 33%
- above Rs.3L-23%.
- The average life cycle of the gold loan remains at ~100 days.
- The company is witnessing issues in terms of collections in specific states like Punjab and Rajasthan. However, the company has strengthened the collection machinery as a result of which, the management expects the collections to improve going forward.
- The unsecured digital personal loans disbursals have been brought down by the company by tightening the underwriting measures due to higher delinquencies.

Future Guidance:

- The management is fairly positive that the company will be able to sustain its gold loan growth momentum.
- The management expects the share of gold loan business to improve in the overall AUM.
- The company is witnessing an increase in the cost of borrowings despite diversifying its source of funding.
- The management expects the gold loan portfolio to deliver a yield of ~22%. However, due to increase in the cost of funds, the overall margin are expected to marginally decline in FY25.
- The management expects a robust growth in gold loan and expects to maintain an ROE at 20% on the gold loan business in FY25.
- The management expects the credit costs to decline in FY25 as a result of strengthened collection machinery

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Interest Income	22,734	17,141	22,011	32.6	3.3
Interest Expenses	7,792	5,891	7,487	32.3	4.1
Net Interest Income	14,943	11,250	14,524	32.8	2.9
NIM (%)	15.0	13.9	15.3	106 bps	-33 bps
Non-Interest Income	888	845	1,256	5.1	-29.3
Operating Income	15,831	12,095	15,780	30.9	0.3
Staff Cost	4,159	4,058	4,130	2.5	0.7
Other Op Exp	2,339	1,897	2,290	23.3	2.1
Total Operating Expenses	6,497	5,955	6,419	9.1	1.2
<i>Cost to Income (%)</i>	<i>41.0</i>	<i>49.2</i>	<i>40.7</i>	<i>-820 bps</i>	<i>36 bps</i>
<i>Cost to AUM (%)</i>	<i>6.4</i>	<i>7.0</i>	<i>6.4</i>	<i>-60 bps</i>	<i>0 bps</i>
Operating Profit	9,333	6,139	9,361	52.0	-0.3
Provisions	1,878	474	1,496	296.4	25.5
<i>Credit Cost (%)</i>	<i>1.9</i>	<i>0.6</i>	<i>1.6</i>	<i>130 bps</i>	<i>31 bps</i>
PBT	7,455	5,666	7,864	31.6	-5.2
Tax	1,820	1,513	2,111	20.3	-13.8
<i>-effective tax rate</i>	<i>24.4</i>	<i>26.7</i>	<i>26.8</i>	<i>-228 bps</i>	<i>-243 bps</i>
PAT	5,635	4,153	5,753	35.7	-2.1
EPS (Rs)	6.7	4.9	6.8	35.7	-2.0
BV (Rs)	136.4	114.0	130.7	19.7	4.4
AUM	4,20,696	3,54,523	4,03,851	18.7	4.2

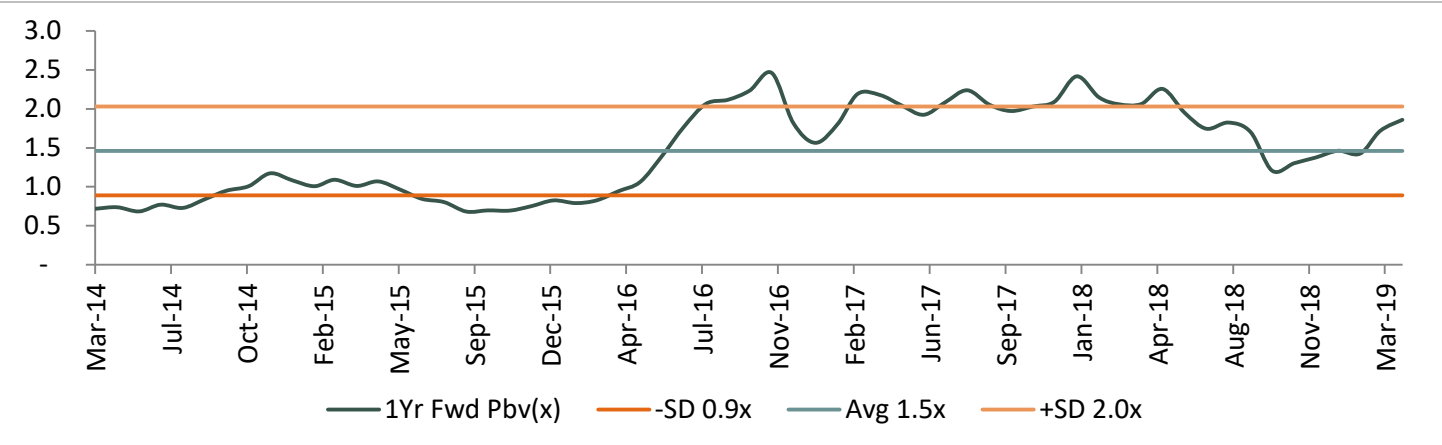
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24	FY25E	FY26E
NII	11.8	11.6	13.0	12.5	12.5
Non-Int Inc	0.9	0.8	1.1	1.1	1.1
Net Revenue	12.6	12.4	14.0	13.6	13.6
Op.Exp	5.7	6.0	5.8	5.6	5.6
Op.Profit	7.0	6.4	8.2	8.0	8.0
Provisions	1.5	0.8	1.3	1.1	1.0
-Standard	(0.1)	0.1	0.1	0.0	0.0
-Loan loss	1.6	0.7	1.3	1.1	0.9
PBT	5.5	5.6	6.9	6.9	7.0
Tax	1.4	1.5	1.8	1.7	1.8
ROA	4.1	4.1	5.1	5.1	5.2
Leverage (x)	4.2	4.1	4.1	4.0	3.8
ROE	17.0	16.7	20.7	20.4	20.0

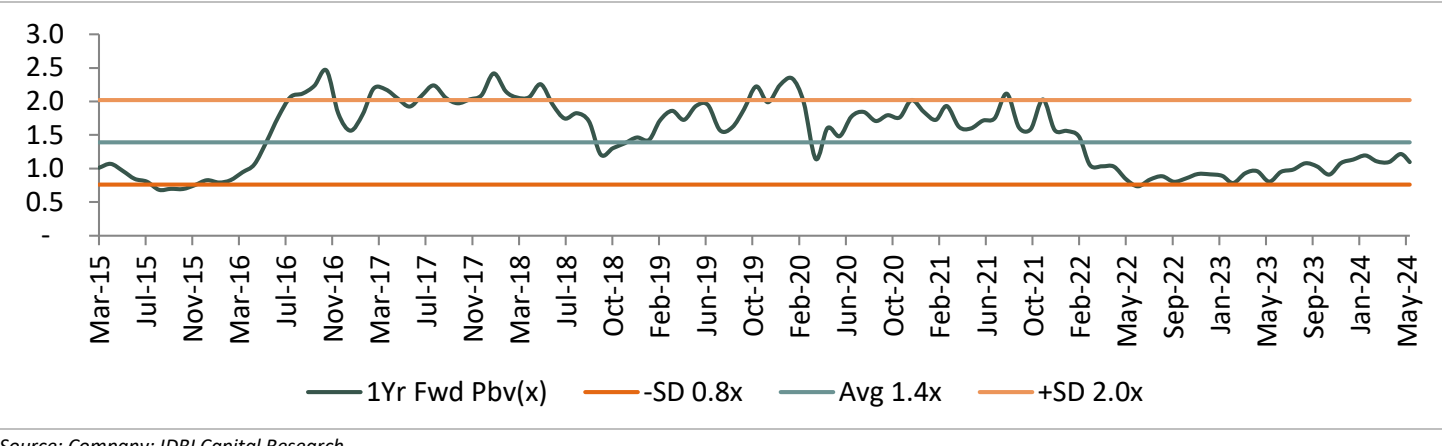
Source: Company; IDBI Capital Research

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



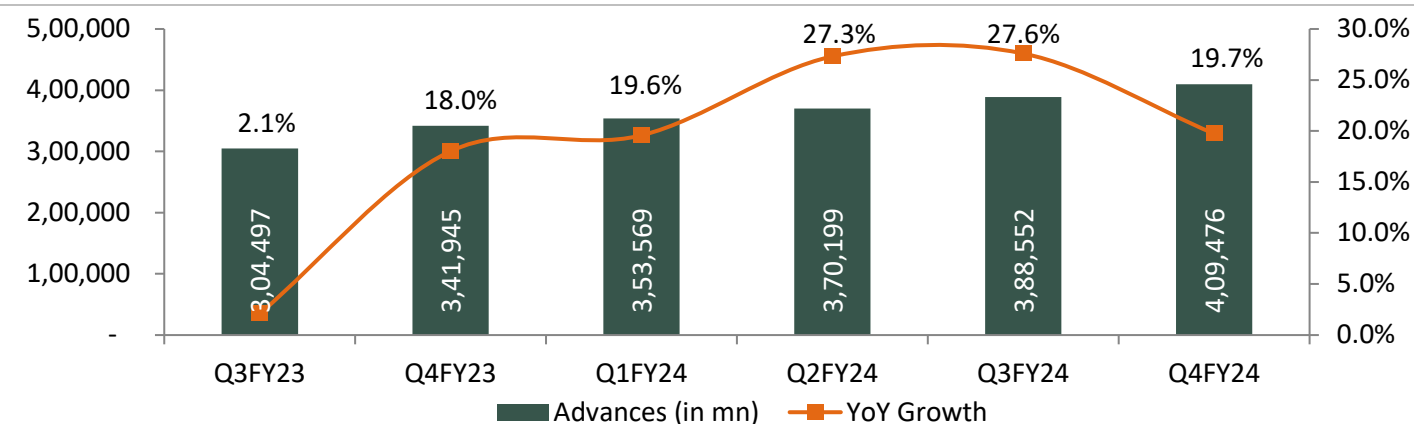
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY15-24)



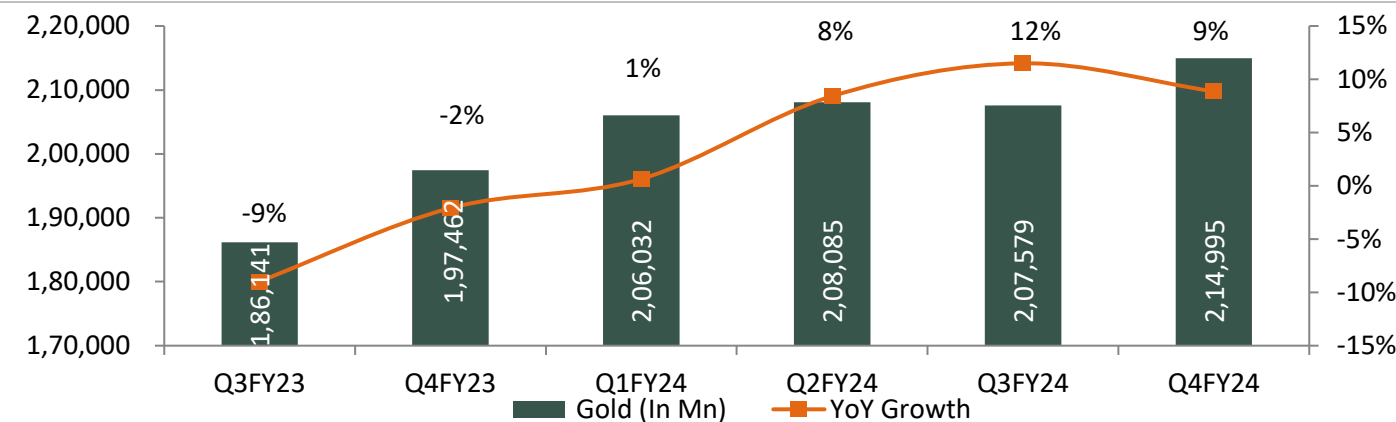
Source: Company; IDBI Capital Research

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



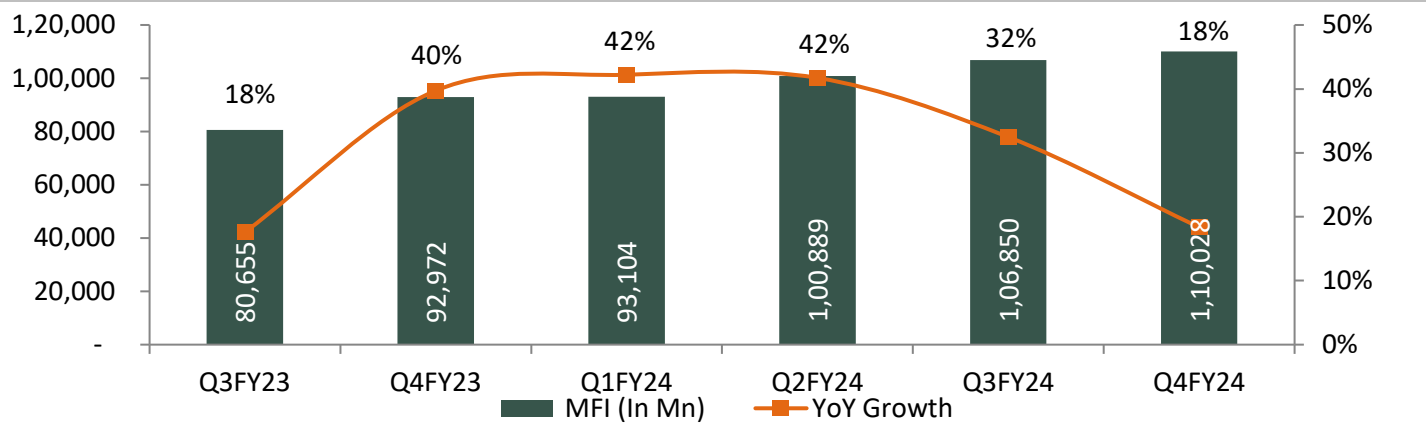
Source: Company; IDBI Capital Research

Exhibit 6: Gold Loan AUM growth picked up during the qtr.



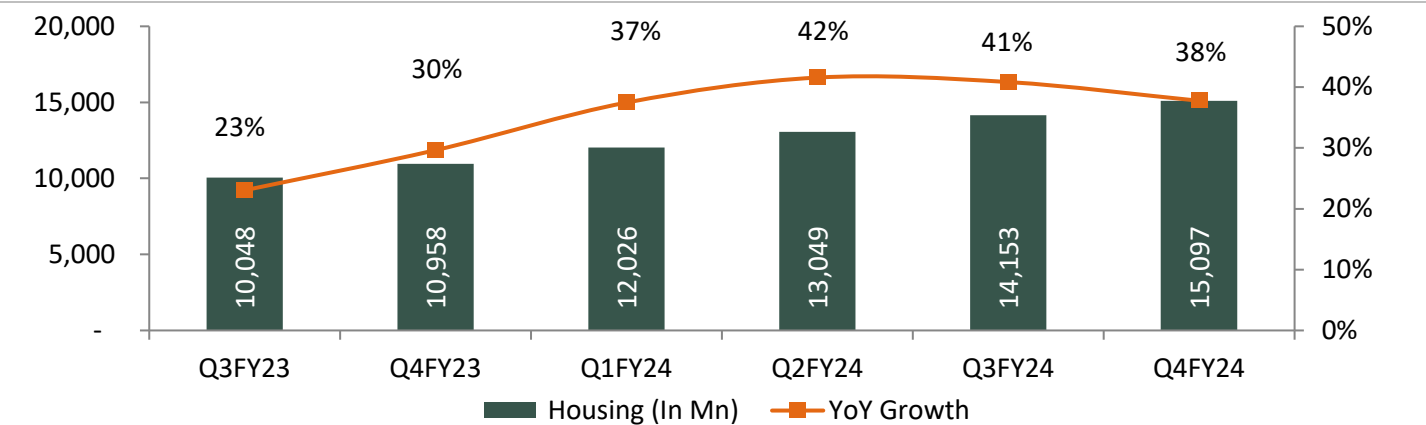
Source: Company; IDBI Capital Research

Exhibit 7: Micro Finance AUM growth continued to remain strong



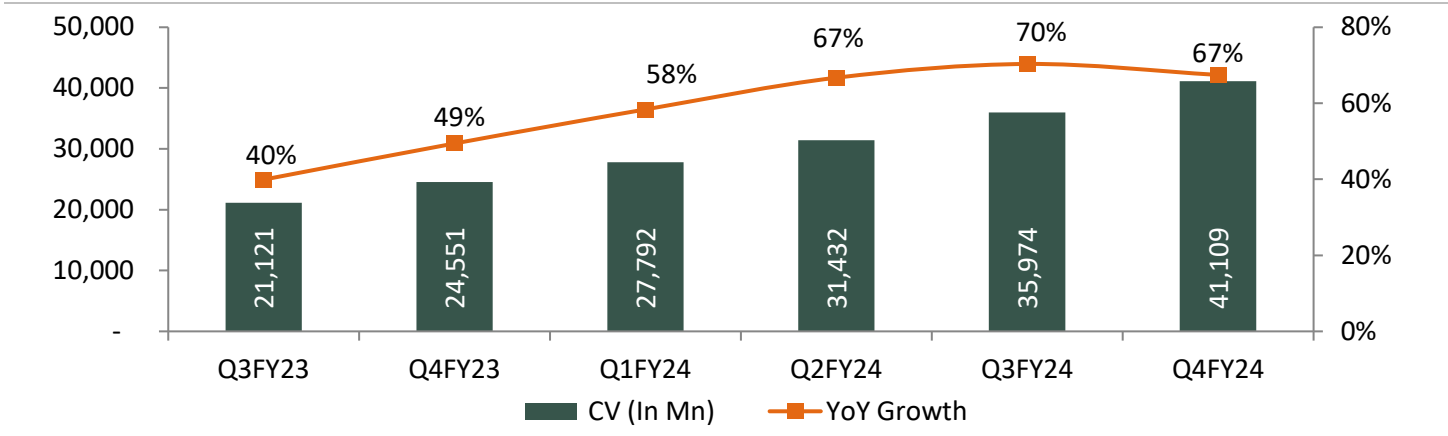
Source: Company; IDBI Capital Research

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



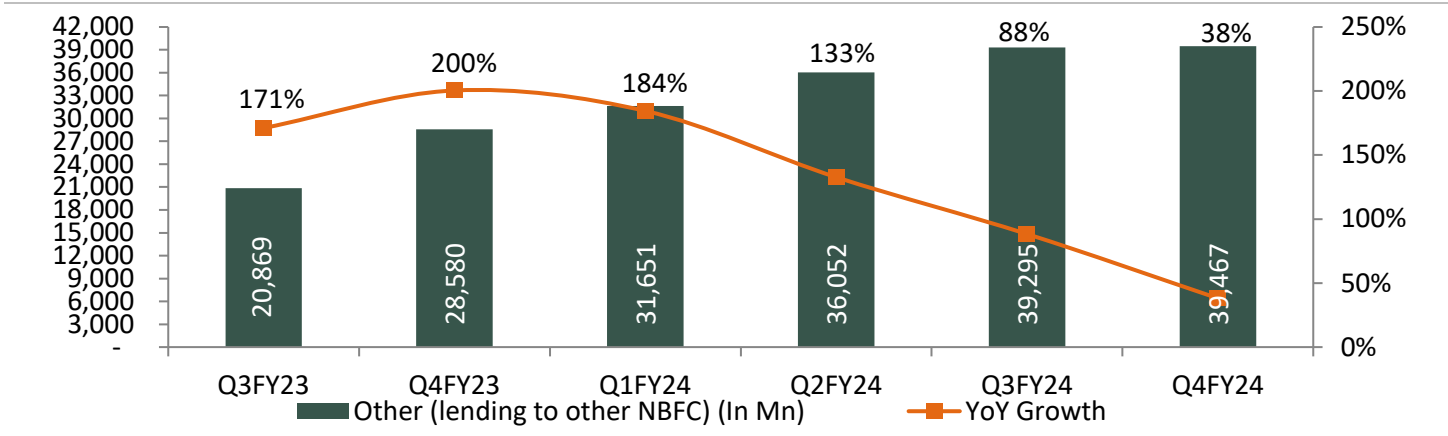
Source: Company; IDBI Capital Research

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



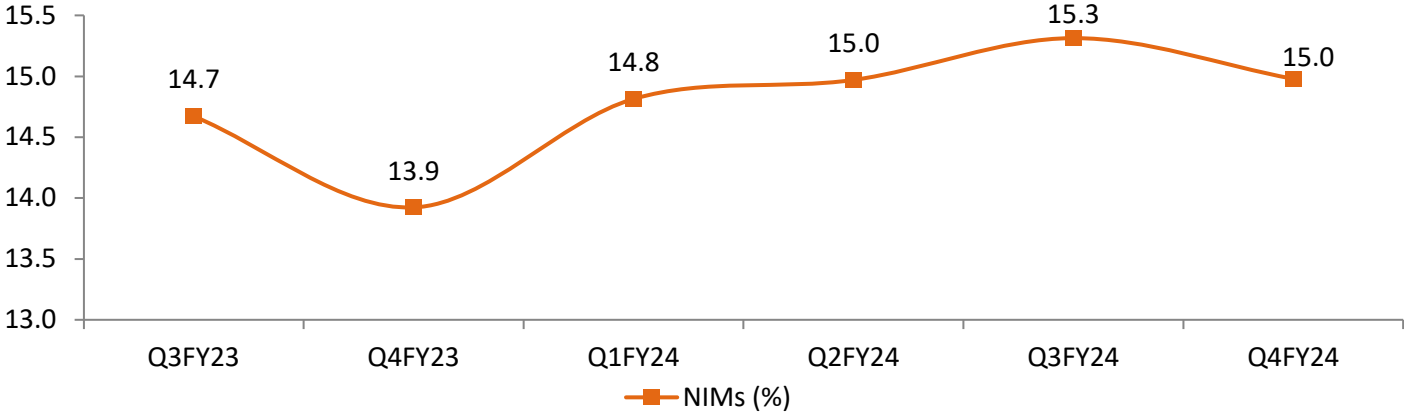
Source: Company; IDBI Capital Research

Exhibit 10: Others (Lending to other NBFC) AUM growth momentum moderated sequentially



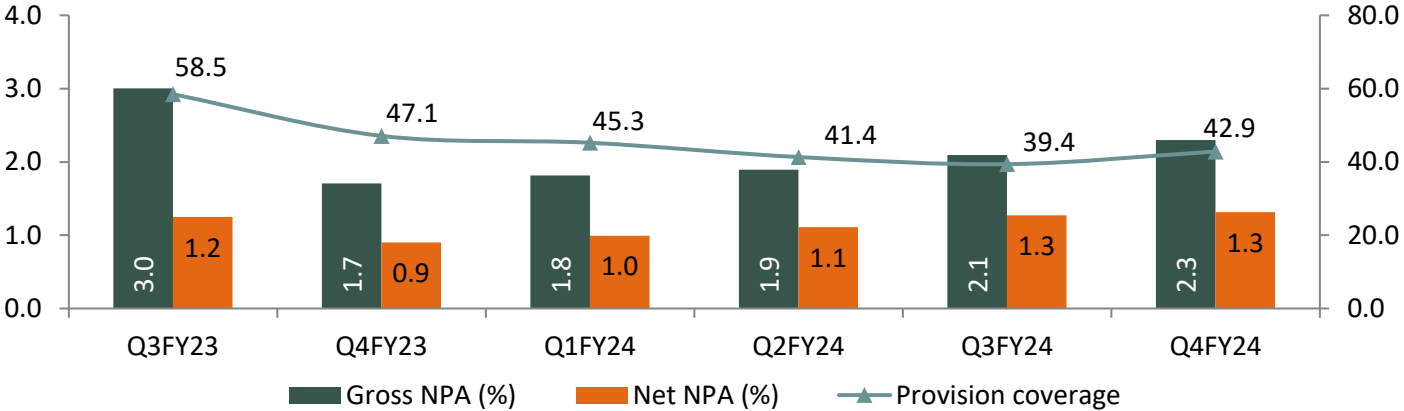
Source: Company; IDBI Capital Research

Exhibit 11: Net Interest margins declined sequentially

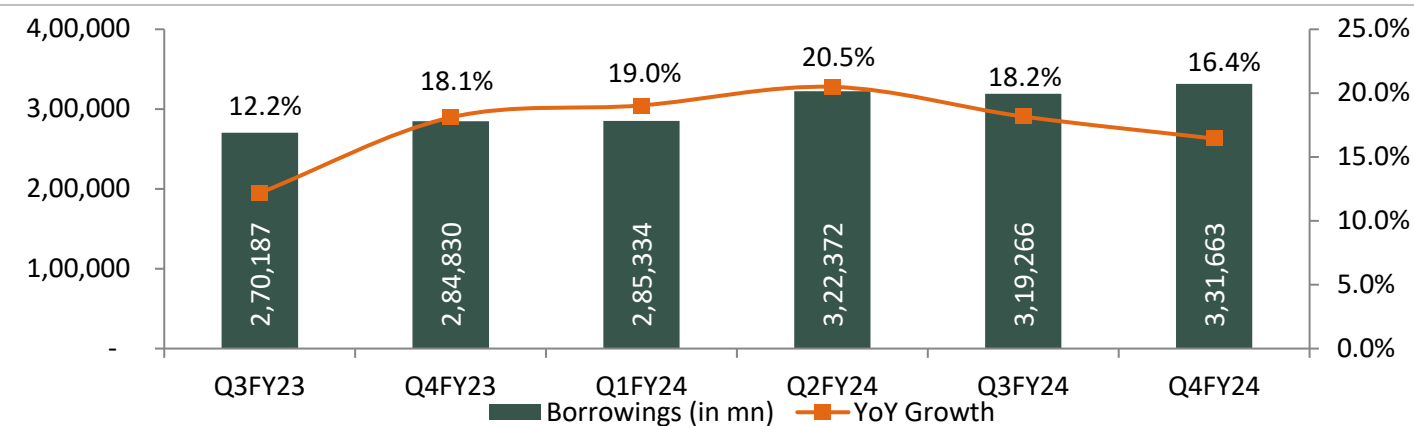


Source: Company; IDBI Capital Research

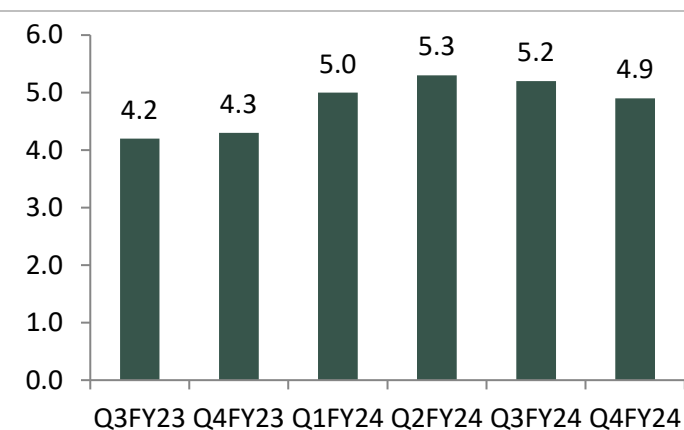
Exhibit 12: Asset quality declined marginally QoQ



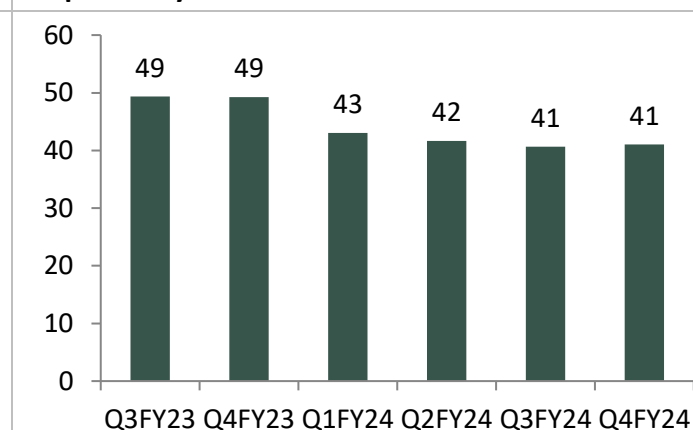
Source: Company; IDBI Capital Research

Exhibit 13: Borrowings growth rate increased sequentially


Source: Company; IDBI Capital Research

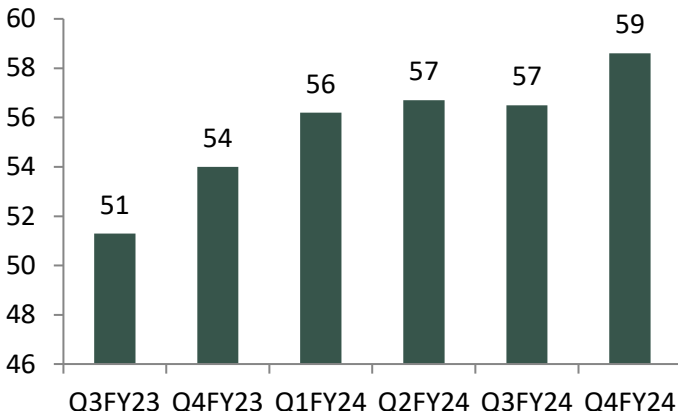
Exhibit 14: Return on Assets moderated QoQ


Source: Company; IDBI Capital Research

Exhibit 15: Cost to Income Ratio remained stable sequentially


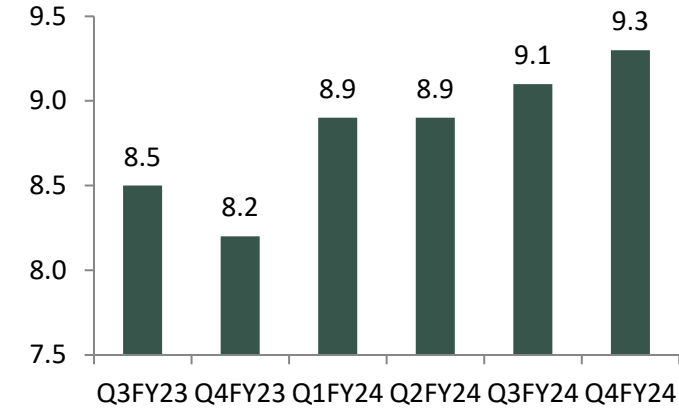
Source: Company; IDBI Capital Research

Exhibit 16: Average AUM per Branch improved sequentially



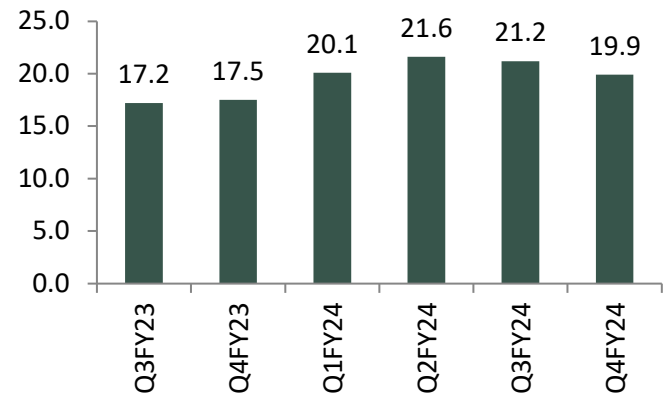
Source: Company; IDBI Capital Research

Exhibit 17: Cost of Funds inched up QoQ



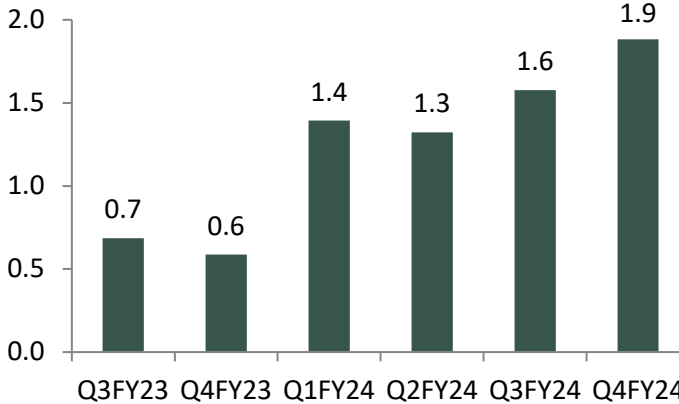
Source: Company; IDBI Capital Research

Exhibit 18: Return on Equity moderated in line with RoA



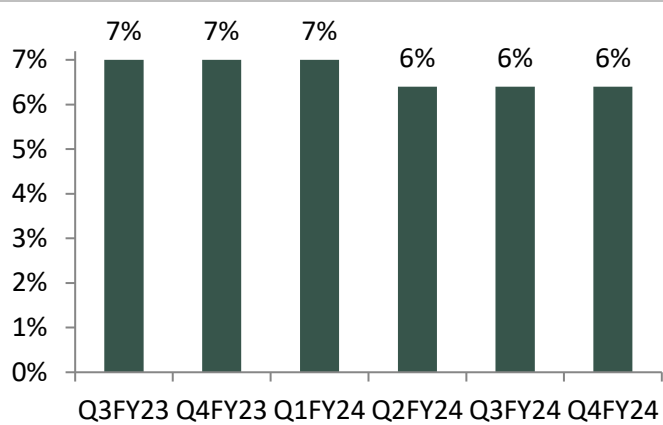
Source: Company; IDBI Capital Research

Exhibit 19: Credit Cost inched up sequentially



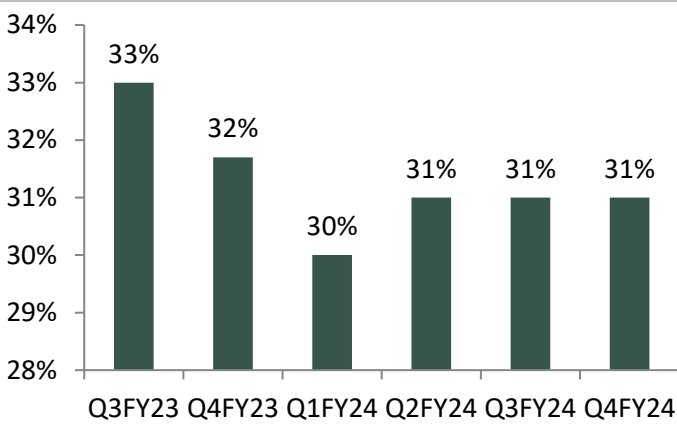
Source: Company; IDBI Capital Research

Exhibit 20: Opex to AUM(%)



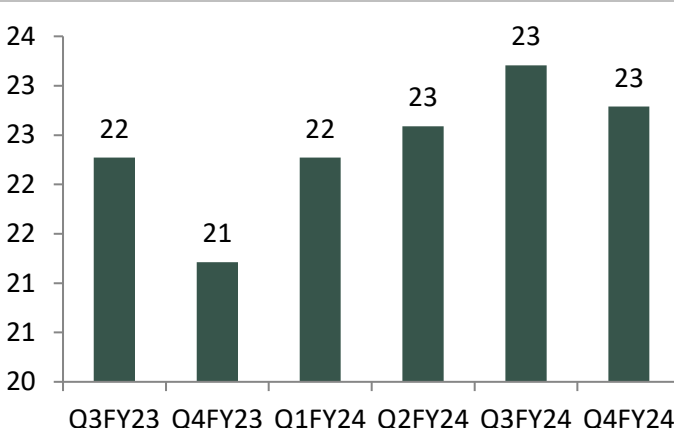
Source: Company; IDBI Capital Research

Exhibit 21: CAR remains comfortable



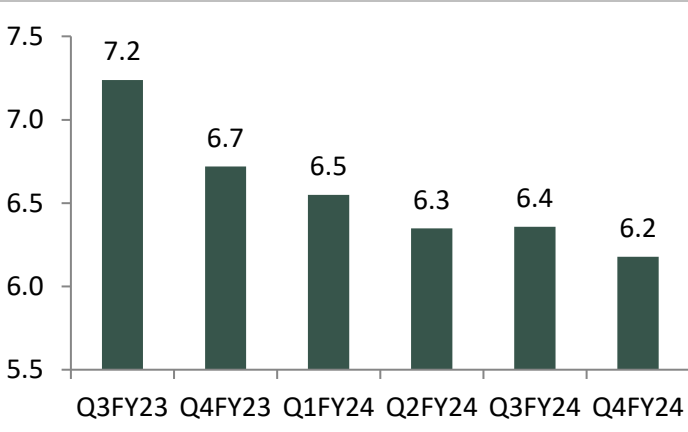
Source: Company; IDBI Capital Research

Exhibit 22: Yield on Loans declined marginally QoQ



Source: Company; IDBI Capital Research

Exhibit 23: Costs to AUM decreased sequentially



Source: Company; IDBI Capital Research

Exhibit 24: AUM Mix (In Mn)

Consolidated AUM	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Gold Loan	2,14,995	1,97,462	2,07,579	8.9	3.6
Micro Finance Loan	1,10,028	92,972	1,06,850	18.3	3.0
Housing Finance Loan	15,097	10,958	14,153	37.8	6.7
Vehicle Finance Loan	41,109	24,308	35,974	69.1	14.3
On-Lending	9,886	8,748	10,222	13.0	(3.3)
MSME & Other Loans	29,581	19,831	29,073	49.2	1.7
Total AUM	4,20,696	3,54,279	4,03,851	18.7	4.2

Source: Company; IDBI Capital Research

Exhibit 25: AUM Mix (In %)

Consolidated AUM	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Gold Loan	51.1	55.7	51.4	-463 bps	-30 bps
Micro Finance Loan	26.2	26.2	26.5	-9 bps	-30 bps
Housing Finance Loan	3.6	3.1	3.5	50 bps	8 bps
Vehicle Finance Loan	9.8	6.9	8.9	291 bps	86 bps
On-Lending	2.3	2.5	2.5	-12 bps	-18 bps
MSME & Other Loans	7.0	5.6	7.2	143 bps	-17 bps
Total AUM	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 26: Consolidated Borrowing Mix (In Mn)

Borrowing Mix	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
WCDL / CC	76,390	64,994	81,903	17.5	(6.7)
Term Loan	1,90,094	77,691	1,68,897	144.7	12.6
NCD/Bonds	48,308	49,608	58,933	(2.6)	(18.0)
External Commercial Borrowing	13,386	0	9,286	NA	44.2
Commercial Paper	8,357	0	247	NA	3,283.4
Others	1	0	1	NA	-
Total Borrowings	3,36,536	1,92,293	3,19,267	75.0	5.4

Source: Company; IDBI Capital Research

Exhibit 27: Consolidated Borrowing Mix (In %)

Borrowing Mix	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
WCDL / CC	22.7	33.8	25.7	-1110 bps	-295 bps
Term Loan	56.5	40.4	52.9	1608 bps	358 bps
NCD/Bonds	14.4	25.8	18.5	-1144 bps	-410 bps
External Commercial Borrowing	4.0	-	2.9	398 bps	107 bps
Commercial Paper	2.5	-	0.1	248 bps	241 bps
Others	0.0	-	0.0	0 bps	0 bps
Total Borrowings	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net interest income	39,707	38,284	42,526	55,889	62,694	71,854
<i>Change (yoy, %)</i>	17%	-4%	11%	31%	12%	15%
Non-Interest Income	1,850	2,866	3,095	4,655	5,348	6,119
Net Revenue	41,557	41,149	45,622	60,544	68,042	77,972
Operating expenses	13,995	18,453	22,140	25,166	27,947	32,176
Employee expenses	8,429	11,250	14,695	15,974	17,376	20,020
Other expenses	5,566	7,202	7,445	9,192	10,571	12,157
Pre-Provision Profit	27,562	22,697	23,482	35,378	40,095	45,796
<i>Change (yoy, %)</i>	23%	-18%	3%	51%	13%	14%
Provision	4,401	4,862	3,071	5,784	5,642	5,715
PBT	23,161	17,835	20,411	29,595	34,453	40,081
Taxes	5,911	4,548	5,409	7,620	8,672	10,088
<i>Effective tax rate (%)</i>	26%	26%	26%	26%	25%	25%
Net profit	17,250	13,287	15,002	21,975	25,781	29,993
<i>Change (yoy, %)</i>	17%	-23%	13%	46%	17%	16%
EPS	20.4	15.7	17.7	26.0	30.5	35.4
Return on Equity (%)	26.4	17.0	16.7	20.7	20.4	20.0
Return on Asset (%)	5.7	4.1	4.1	5.1	5.1	5.2

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Capital	1,693	1,693	1,693	1,693	1,693	1,693
Reserves	71,382	81,991	94,756	1,13,788	1,35,425	1,61,138
Networth	73,074	83,683	96,449	1,15,481	1,37,118	1,62,831
Borrowings	2,27,162	2,41,185	2,84,829	3,31,663	3,79,971	4,32,435
Other liabilities	13,142	13,238	13,764	20,329	18,758	15,988
Total Liab. & Equity	3,13,378	3,38,107	3,95,042	4,67,473	5,35,847	6,11,253
Fixed Assets	2,942	3,639	4,478	4,402	4,842	5,327
Investments	3,380	4,207	5,340	7,263	7,263	7,263
Loans	2,65,076	2,89,710	3,41,945	4,09,476	4,70,445	5,38,233
Cash	29,124	26,974	30,351	31,813	37,165	42,520
Other assets	12,856	13,576	12,927	14,519	16,131	17,910
Total assets	3,13,378	3,38,107	3,95,042	4,67,473	5,35,847	6,11,253

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Growth						
Advances	9.1	9.3	18.0	19.7	14.9	14.4
NII	17.3	(3.6)	11.1	31.4	12.2	14.6
Pre-Provision Profit	22.8	(17.7)	3.5	50.7	13.3	14.2
Net Profit	16.5	(23.0)	12.9	46.5	17.3	16.3
Spreads						
Yield on Assets	24.4	21.1	20.4	22.5	21.9	21.9
Cost of Funds	9.8	8.6	8.3	9.3	9.4	9.4
NIM	15.6	13.8	13.5	14.9	14.2	14.2
Spread	14.6	12.5	12.1	13.2	12.5	12.4
Operating Efficiency						
Cost-to-Income	33.7	44.8	48.5	41.6	41.1	41.3
Cost-to-AUM	5.5	6.7	7.0	6.7	6.4	6.4
Asset Quality						
GNPA	2.3	3.4	1.8	2.4	2.4	2.4
NNPA	1.1	1.8	0.9	1.3	1.1	1.1
Provision Coverage	52.8	44.1	47.1	44.3	50.4	51.1
Credit Cost	0.5	0.3	0.1	1.5	1.3	1.1
Capital Adequacy						
CAR	29.0	31.3	31.7	31.7	32.8	34.0
Tier I	28.7	31.0	31.7	31.7	32.8	34.0
Valuation						
EPS	20.4	15.7	17.7	26.0	30.5	35.4
ABV	83.0	92.3	110.2	130.1	155.4	184.9
P/E	8.8	11.5	10.2	6.9	5.9	5.1
P/ABV	2.2	2.0	1.6	1.4	1.2	1.0
ROE	26.4	17.0	16.7	20.7	20.4	20.0
ROA	5.7	4.1	4.1	5.1	5.1	5.2

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

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

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