

Manappuram Finance

HOLD

MFI pain to continue; gold loan growth remains strong

Summary

Manappuram Finance's Gold loan portfolio grew by 18% YoY (vs 17% YoY Q2FY25) backed by higher gold prices. However, MFI portfolio declined by 15% YoY (down 17% QoQ) due to RBI ban on Asirvad MFI. Thus, overall AUM growth stood at 10% YoY vs 17% YoY (Q2FY25). We revise estimates downward to 11% vs 12% AUM CAGR (FY24-26) earlier due to non-gold portfolio. MFI arm reported loss due to increase in provisions. MFI asset quality deteriorated further with GNPA at 5.8% vs 4.3% QoQ led by higher slippages. Cons. NII grew by 10% YoY led by lower NIMs; PPop declined by 1% YoY led by lower other income (down 63% YoY). PAT declined by 52% YoY led by higher provisions (up 2.7x YoY). We have revised estimates downwards and rolled over to FY27 estimates. We maintain 'HOLD' rating with a TP of Rs200 (earlier Rs.176), valuing it at 1.0x P/BV FY27E.

Key Highlights and Investment Rationale

- Overall AUM growth slows down:** Gold loan grew by 18% YoY (up 1% QoQ) led by higher gold prices. Overall AUM grew by 10% YoY (v/s 17%) led by slowdown in MFI portfolio. We need to watch out for disbursements in MFI portfolio.
- Net Yields stable QoQ:** Net yields on gold loans stood at 22.2% during Q3FY25 vs 22% QoQ. However, NIMs declined QoQ as cost of funds increased due to diversification of borrowings.
- MFI pain persists:** Asset quality deteriorated with GNPA (standalone) at 2.5% vs 2.4% QoQ. MFI portfolio reported increase in credit cost as NPA increased further as collections impacted due to RBI ban.
- Outlook:** MFI portfolio has been impacted with respect to asset quality and loan growth due to RBI ban. However, RBI ban has been lifted which should support loan growth but collection efficiency remains a key concern with respect to asset quality issues for MFI portfolio.

TP	Rs 200
CMP	Rs 194
Potential upside/downside	3%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	13.3	23.1	9.3
Rel to Sensex	13.6	25.1	2.8

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	21.3	25.7	29.8
Consensus	23.9	26.5	29.2
% difference	(10.9)	(3.2)	2.0

Key Stock Data

Bloomberg/Reuters	MGFL IN /MNFL.BO
Sector	Finance
Shares o/s (mn)	846
Market cap. (Rs mn)	164,420
3-m daily avg Trd value (Rs mn)	92.9
52-week high / low	Rs230 / 138
Sensex / Nifty	76,139 / 23,031

Shareholding Pattern (%)

Promoters	35.3
FII	27.0
DII	7.3
Public	30.4

Financial snapshot

Year	FY2023	FY2024	FY2025E	FY2026E	FY2027E
NII	42,526	55,889	63,476	65,926	76,010
Change (yoy, %)	11%	31%	14%	4%	15%
Net Profit	15,002	21,975	18,060	21,795	25,235
Change (yoy, %)	13%	46%	-18%	21%	16%
EPS (Rs)	17.7	26.0	21.3	25.7	29.8
Change (yoy, %)	13%	46%	-18%	21%	16%
BV (Rs)	114.0	136.4	153.1	174.3	199.7
PER (x)	10.9	7.5	9.1	7.5	6.5
P/BV (x)	1.7	1.4	1.3	1.1	1.0
ROE (%)	16.7	20.7	14.7	15.7	15.9
ROA (%)	4.1	5.1	3.7	4.0	4.1
GNPA (%)	1.8	2.4	3.5	3.5	3.5
NNPA (%)	0.9	1.3	1.5	1.5	1.5
CAR (%)	31.7	30.6	31.3	31.8	32.5

Source: IDBI Capital Research

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Conference Call Highlights

Operational Aspects

- Net profit, excluding the Asirvad Microfinance, stood at Rs.4.67bn in Q3FY25.
- AUM, excluding Asirvad, has registered a growth of 18.7% YoY and 1.9% on a QoQ basis.
- Opex increased due to the employee cost and IT costs where the company paid for automation process.
- Decline in customer base in Q3 can be attributed to the release of pledges. The customer base can see some impact in Q4 due to the implementation of new processes for gold loans.
- Auctions during the quarter were Rs.1.2bn.
- Interest accrued on the books stood at Rs.10.94bn.
- The company is sending SMS letters at a specific LTV followed by accelerated auctions. In addition, the company also introduced rollovers with partial servicing of interest during the tenor of gold loan.
- Further, the company implemented re-pledge of security beyond the maturity with full repayment of interest.

Advances and Borrowings

- The company has turned its focus towards secured lending segments.
- The vehicle finance AUM comprises 48% of CV, 31% of PV, 15% of 2W, and the rest would be farm equipment segment.
- The company is ensuring that LTV is maintained at 75% at the time of disbursements. The company will act if the LTV sees a movement of more than 5% post disbursals.
- In the gold loan book, around ~42% has ticket size of up to Rs.1lakh, ~22% have ticket size of Rs.1-2lakhs, ~11.5% have ticket size of Rs.2-3lakhs, and the rest above Rs.3lakhs.
- The pricing difference of the products between other players and the company is narrowing down, which will benefit Manappuram Finance going forward.

- Standalone borrowing cost has gone up by 6 bps during the quarter due to revision in MCLR by banks. The company raised fresh term loans during the quarter and the liquidity position remains comfortable.
- The ECB loans are completely hedged.

Asset Quality

- Stage 3 provision coverage is at 59% vs 55% QoQ, while Stage 2 and 1 were 14% and 1.2%, respectively, which is similar to last quarter.
- Write off was Rs.4bn in Q3FY25, as compared to Rs.400mn in Q2FY25. There were no write offs in the corresponding quarter of previous year.
- GNPA in vehicle and housing finance segments increased as the company caters to the bottom-of-the-pyramid customers. However, there is an improvement in collection efficiency in January.
- The company saw higher delinquencies in the two-wheeler and the farm equipment segments.
- There was a default by a corporate account which also led to rise in credit costs. If not the default, credit costs would have been 0.5-0.6% in the non-gold loan book.

Future Guidance

- The company expects gold loan AUM to grow 15-20% going forward.
- The company plans to contain the unsecured growth and gradually increase secured lending business in the overall consolidated book.
- The company would like to bring down the share of unsecured portfolio to 15% of the consolidated AUM. Unsecured book largely comprises of MFI portfolio.

Asirvad Microfinance

- Asirvad's profitability has been affected by the collection challenges in the MFI sector.
- Asirvad has underwritten comprehensive remedial undertaken comprehensive remedial measures to rationalise the cost and disbursement with strict underwriting.

- The company has tightened the underwriting process and capped the maximum number of lenders per borrower.
- The growth in Asirvad Microfinance is expected to come down to 10-12% annually in the next 2-3 years.
- Collection efficiency is expected to increase to 99% going forward.
- The company is in discussion with the banks regarding breach of covenants. However, it does not expect any higher borrowing costs from banks for the MFI business.
- Par 0 book of the company is ~17%.

Other Highlights

- The management discussed the restrictions placed on opening new gold loan branches by gold loan companies with the RBI officials in a meeting held on Feb 13.
- The company will resubmit the application for opening new branches, and it expects to get approvals without further delay.
- The RBI officials will hold meetings periodically at the national level as well as regional level and sectoral level.
- The NBFCs discussed the issues in customer service due to the increased regulations, resulting in growth of unorganised players.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Interest Income	25,163	22,011	25,411	14.3	-1.0
Interest Expenses	9,253	7,487	9,057	23.6	2.2
Net Interest Income	15,909	14,524	16,354	9.5	-2.7
NIM (%)	14.4	15.3	14.8	-90 bps	-34 bps
Non-Interest Income	464	1,256	961	-63.1	-51.7
Operating Income	16,373	15,780	17,314	3.8	-5.4
Staff Cost	4,478	4,130	4,476	8.4	0.1
Other Op Exp	2,588	2,290	2,508	13.0	3.2
Total Operating Expenses	7,066	6,419	6,984	10.1	1.2
<i>Cost to Income (%)</i>	<i>43.2</i>	<i>40.7</i>	<i>40.3</i>	<i>248 bps</i>	<i>282 bps</i>
<i>Cost to AUM (%)</i>	<i>6.0</i>	<i>6.4</i>	<i>5.9</i>	<i>-40 bps</i>	<i>10 bps</i>
Operating Profit	9,307	9,361	10,331	-0.6	-9.9
Provisions	5,546	1,496	2,604	270.7	113.0
<i>Credit Cost (%)</i>	<i>5.0</i>	<i>1.6</i>	<i>2.3</i>	<i>345 bps</i>	<i>268 bps</i>
PBT	3,761	7,864	7,727	-52.2	-51.3
Tax	976	2,111	2,006	-53.8	-51.3
<i>-effective tax rate</i>	<i>26.0</i>	<i>26.8</i>	<i>26.0</i>	<i>-89 bps</i>	<i>-1 bps</i>
PAT	2,785	5,753	5,721	-51.6	-51.3
EPS (Rs)	3.3	6.8	6.8	-51.6	-51.3
BV (Rs)	150.9	130.7	148.0	15.5	2.0
AUM	4,42,174	4,03,851	4,57,163	9.5	-3.3

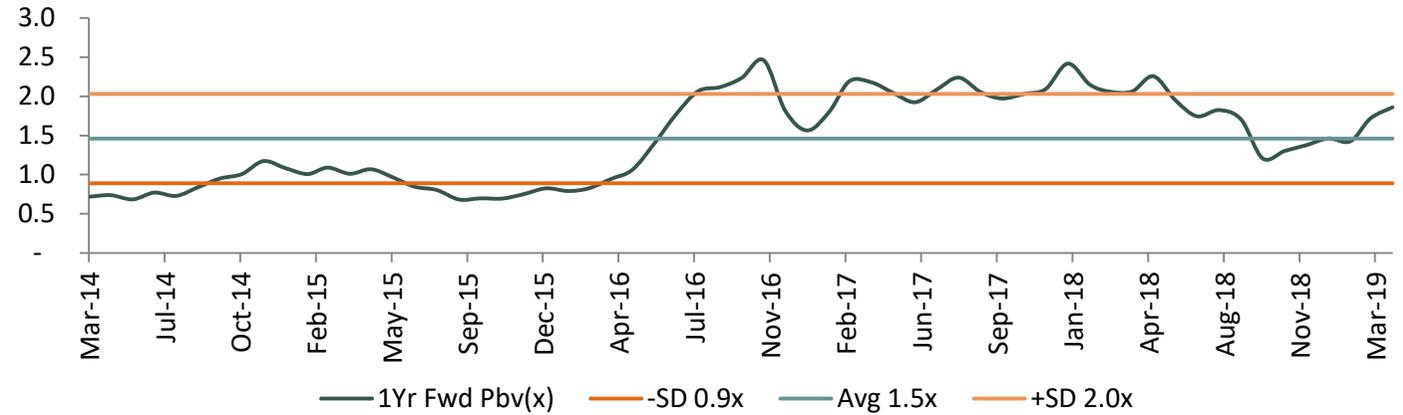
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY23	FY24	FY25E	FY26E	FY27E
NII	11.6	13.0	12.8	12.0	12.4
Non-Int Inc	0.8	1.1	0.6	0.6	0.6
Net Revenue	12.4	14.0	13.5	12.6	13.1
Op.Exp	6.0	5.8	5.6	5.8	5.9
Op.Profit	6.4	8.2	7.8	6.9	7.2
Provisions	0.8	1.3	2.9	1.6	1.7
-Standard	0.1	0.0	0.2	(0.0)	0.0
-Loan loss	0.7	1.3	2.8	1.6	1.6
PBT	5.6	6.9	4.9	5.3	5.5
Tax	1.5	1.8	1.2	1.3	1.4
ROA	4.1	5.1	3.7	4.0	4.1
Leverage (x)	4.1	4.1	4.0	4.0	3.9
ROE	16.7	20.7	14.7	15.7	15.9

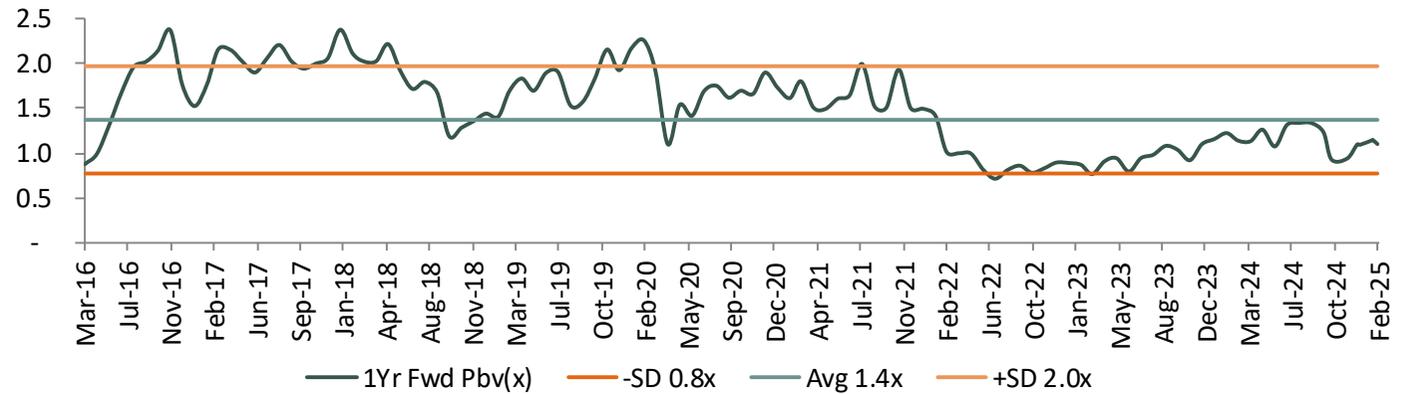
Source: Company; IDBI Capital Research

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



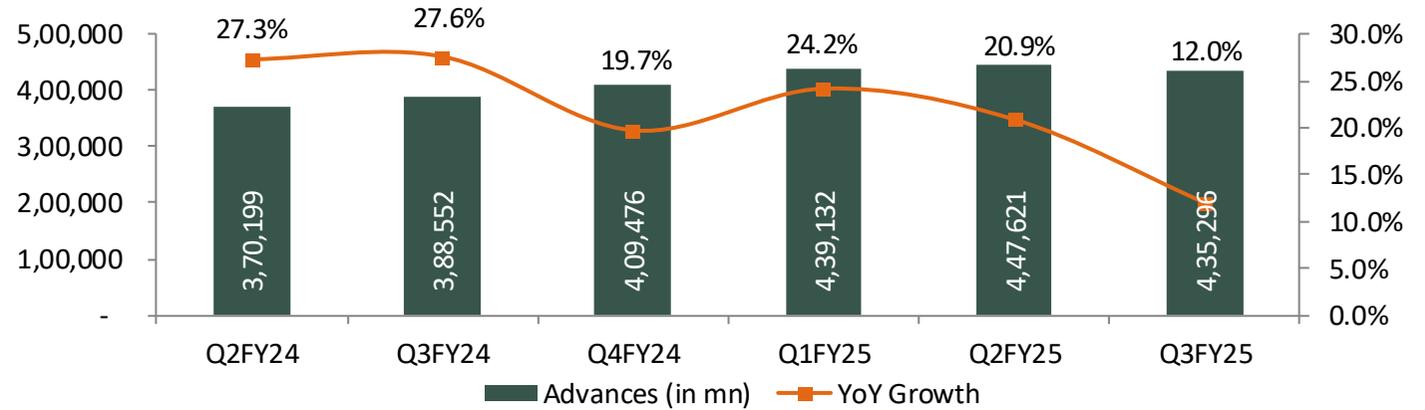
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/BV (FY15-25)



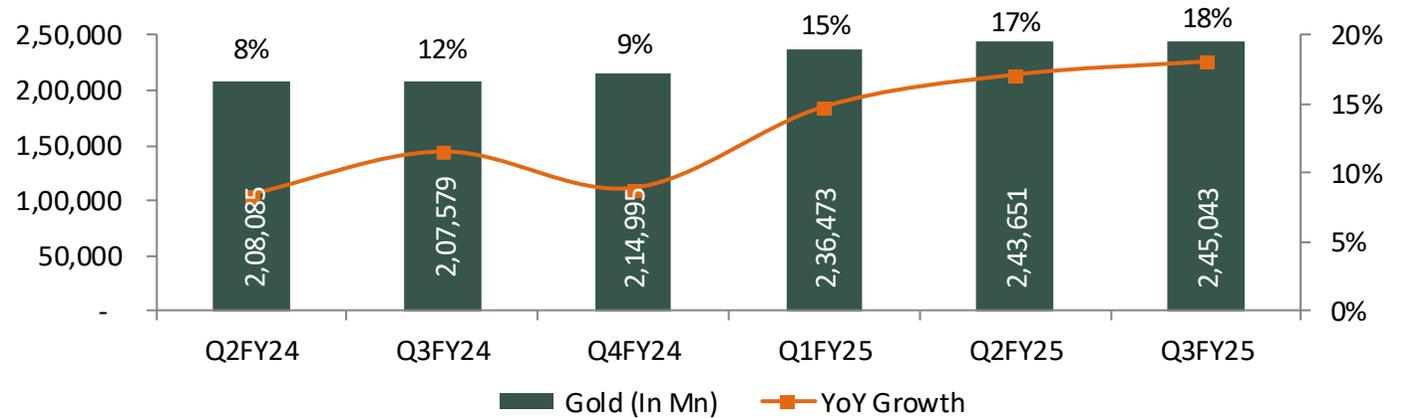
Source: Company; IDBI Capital Research

Exhibit 5: Advances growth slowed down during the qtr due to MFI portfolio



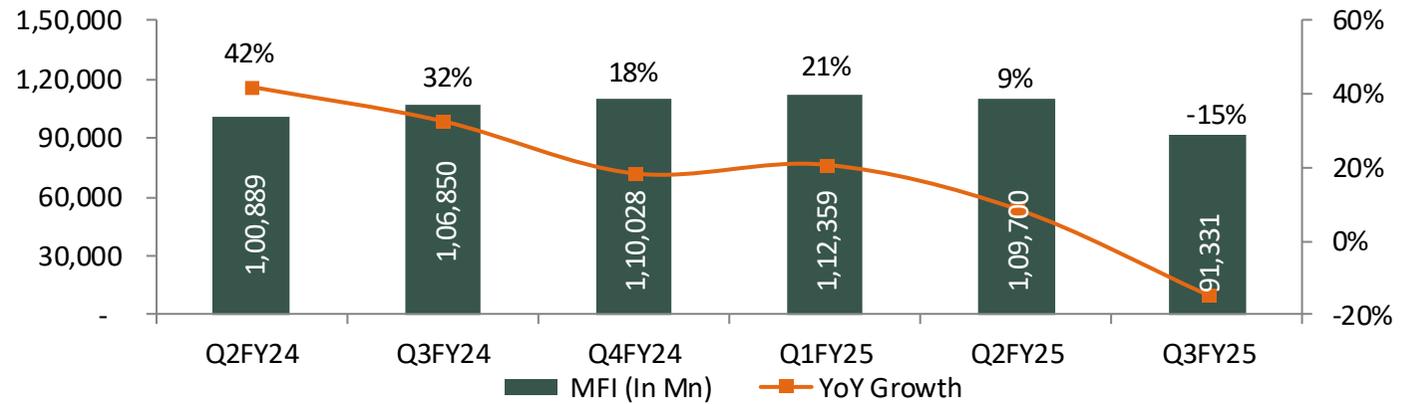
Source: Company; IDBI Capital Research

Exhibit 6: Gold Loan AUM growth witnessed improvement sequentially



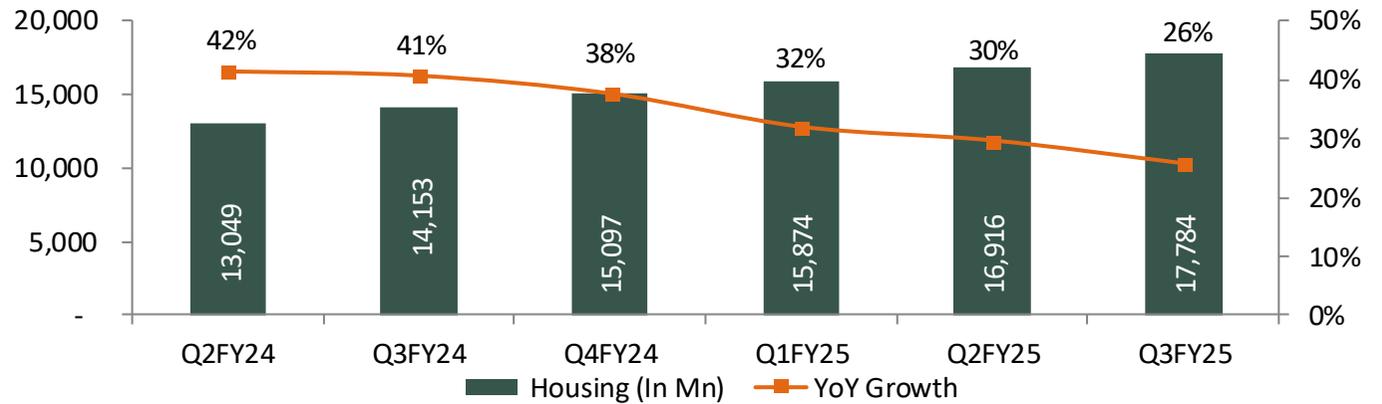
Source: Company; IDBI Capital Research

Exhibit 7: Micro Finance AUM saw YoY de-growth during the quarter



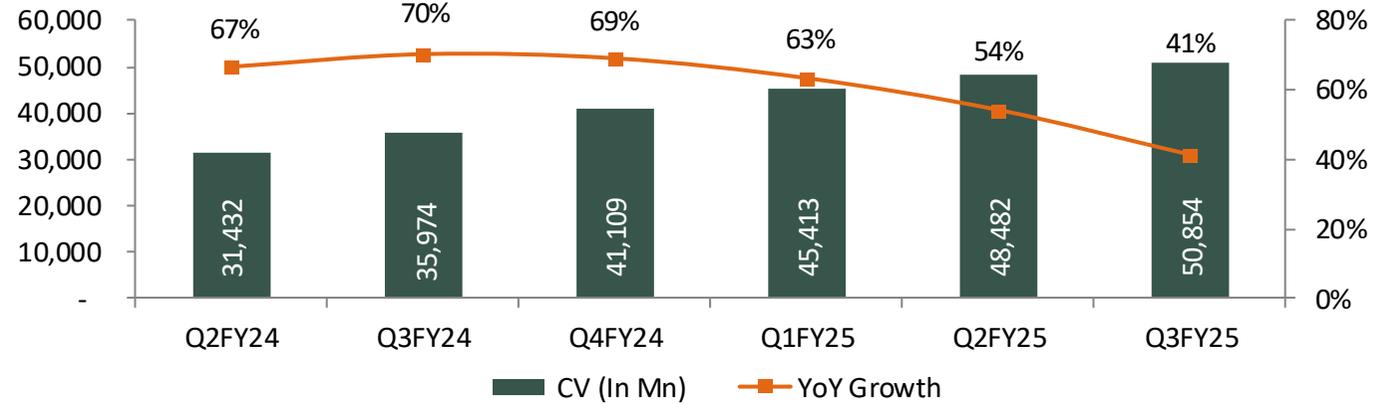
Source: Company; IDBI Capital Research

Exhibit 8: Housing AUM growth slowed during the qtr



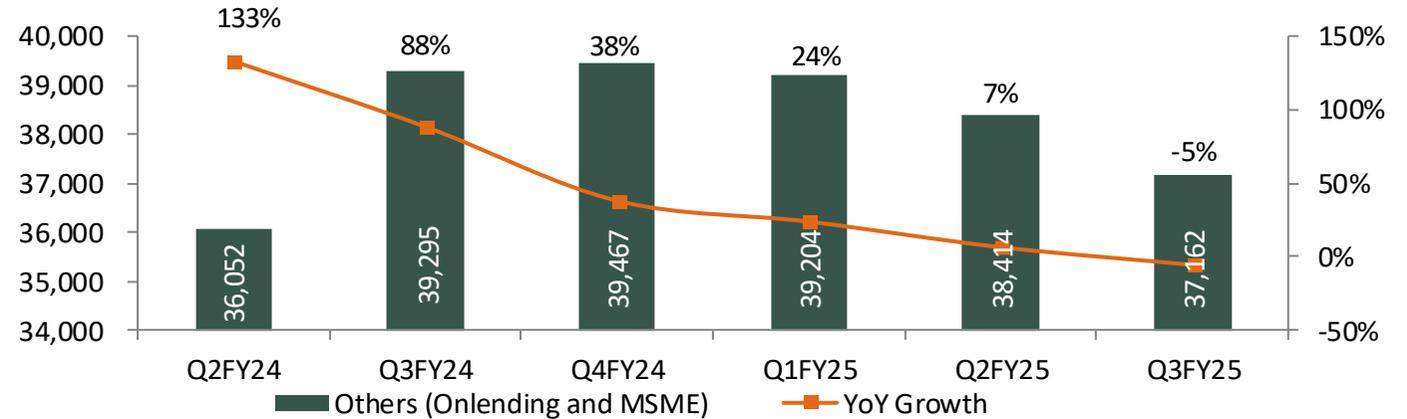
Source: Company; IDBI Capital Research

Exhibit 9: CV Segment AUM growth slowed down during the qtr



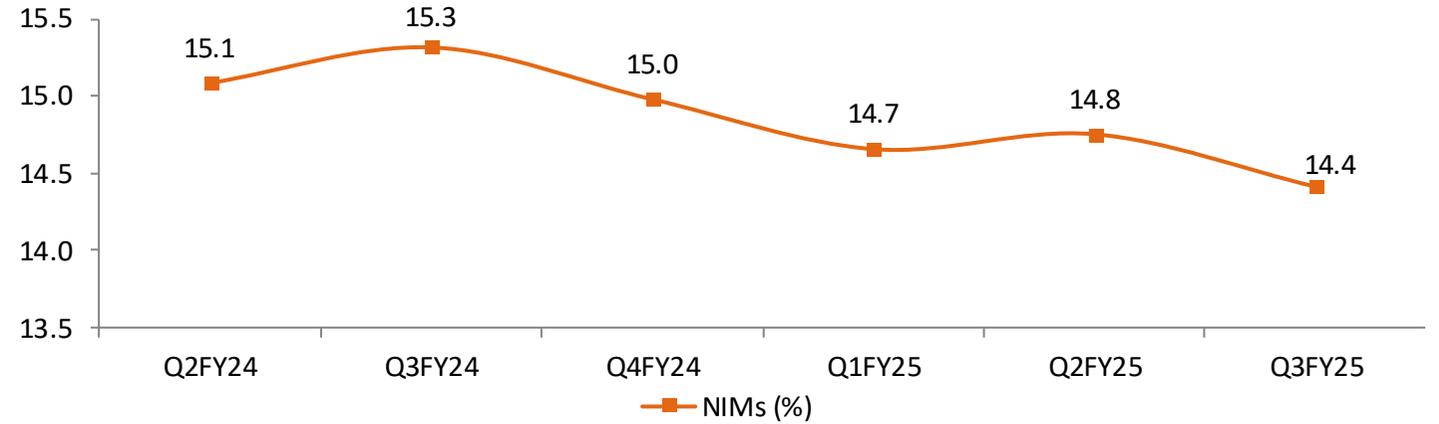
Source: Company; IDBI Capital Research

Exhibit 10: Others (On-lending and MSME) AUM growth momentum declined sequentially



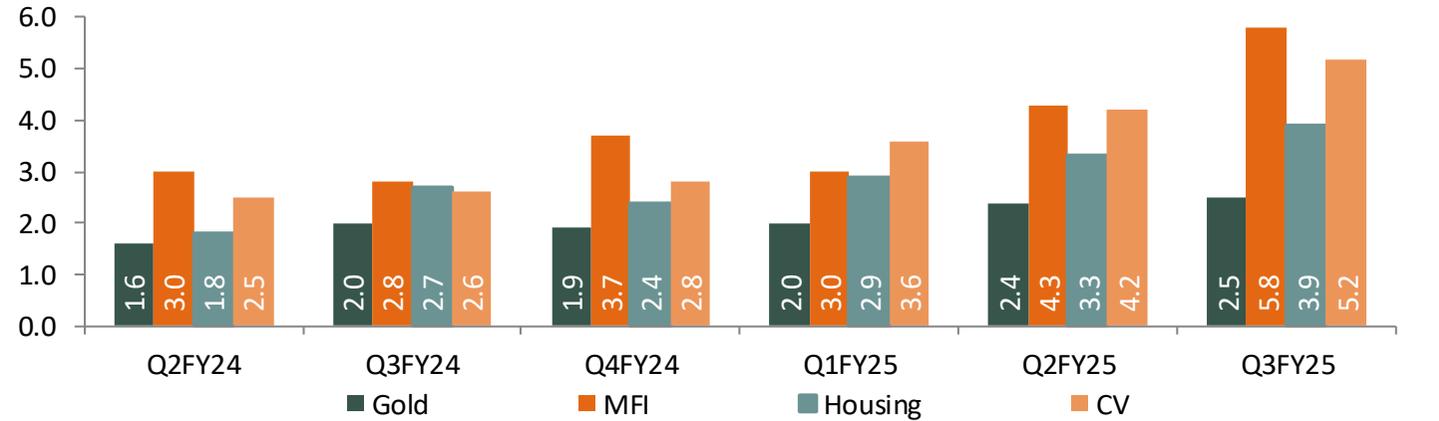
Source: Company; IDBI Capital Research

Exhibit 11: Net Interest margin decreased sequentially



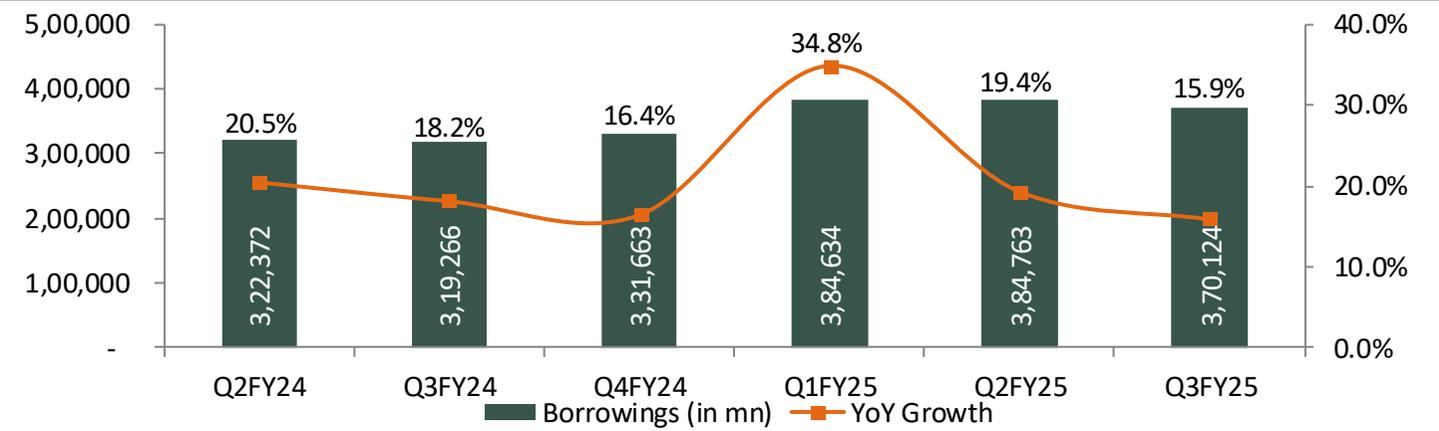
Source: Company; IDBI Capital Research

Exhibit 12: GNPA ratio increased across segments sequentially



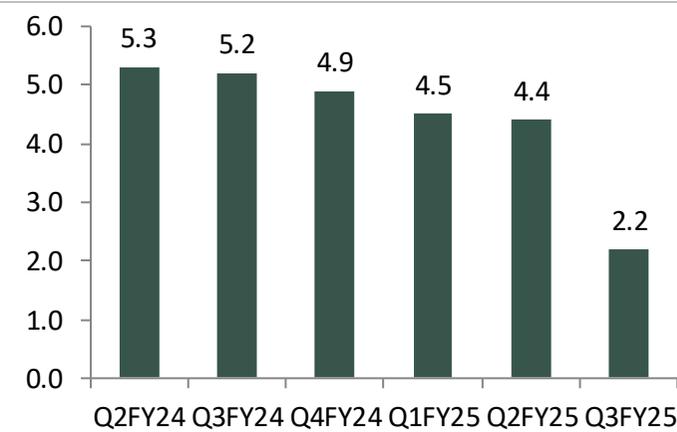
Source: Company; IDBI Capital Research

Exhibit 13: Borrowings' growth rate declined sequentially



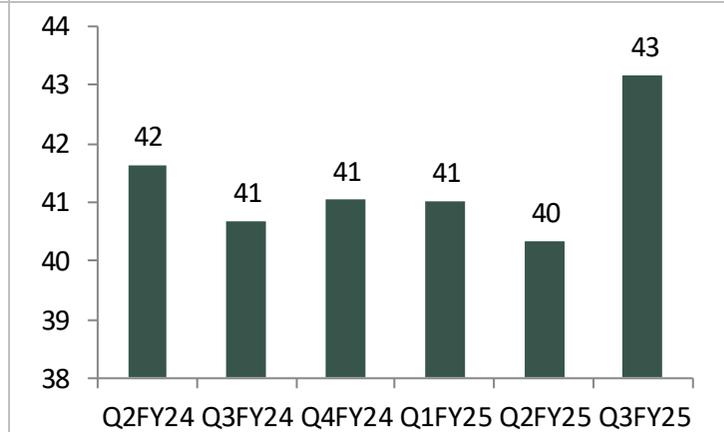
Source: Company; IDBI Capital Research

Exhibit 14: Return on Assets moderated QoQ



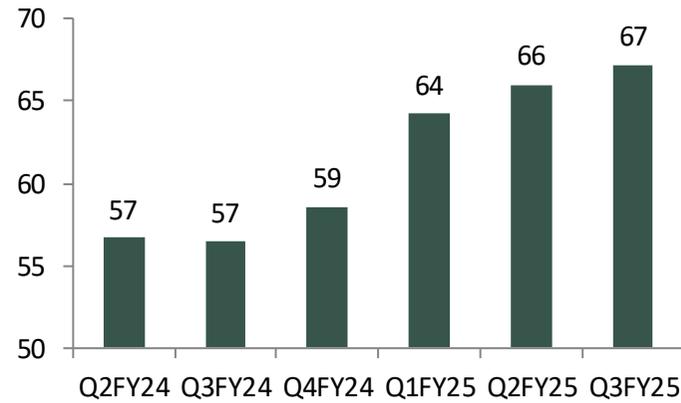
Source: Company; IDBI Capital Research

Exhibit 15: Cost to Income Ratio increased sequentially



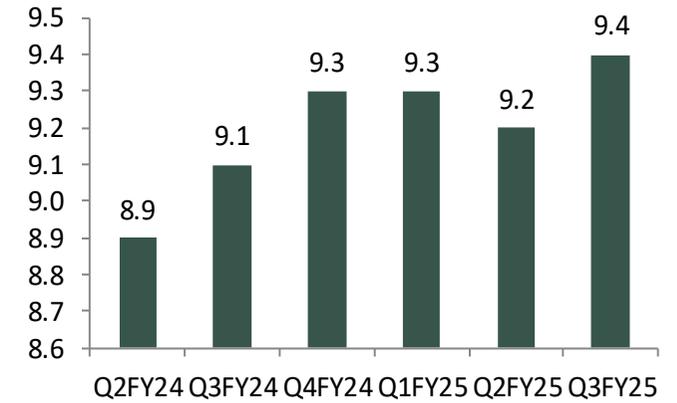
Source: Company; IDBI Capital Research

Exhibit 16: Average AUM per Branch improved sequentially



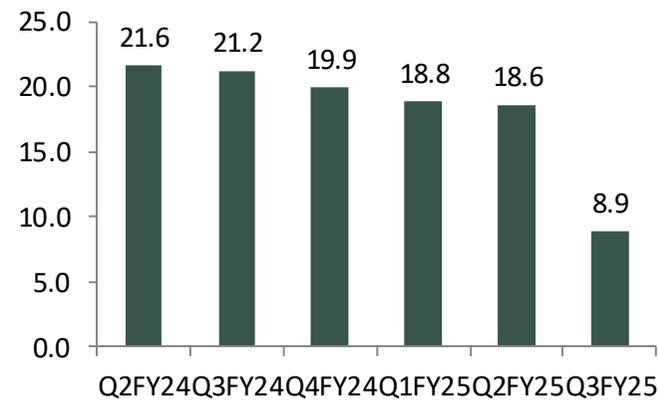
Source: Company; IDBI Capital Research

Exhibit 17: Cost of Funds increased during the quarter



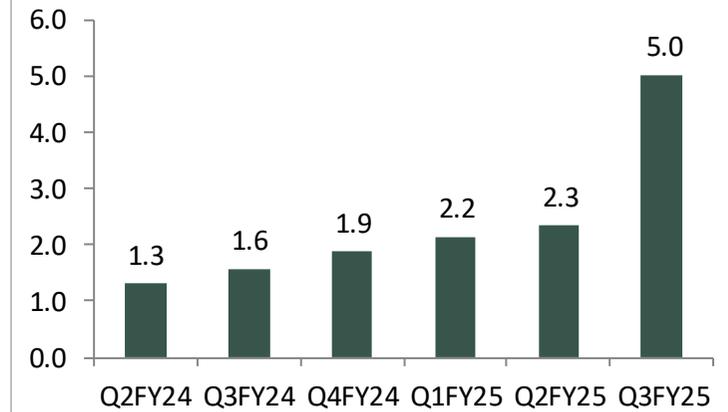
Source: Company; IDBI Capital Research

Exhibit 18: Return on Equity moderated in line with RoA



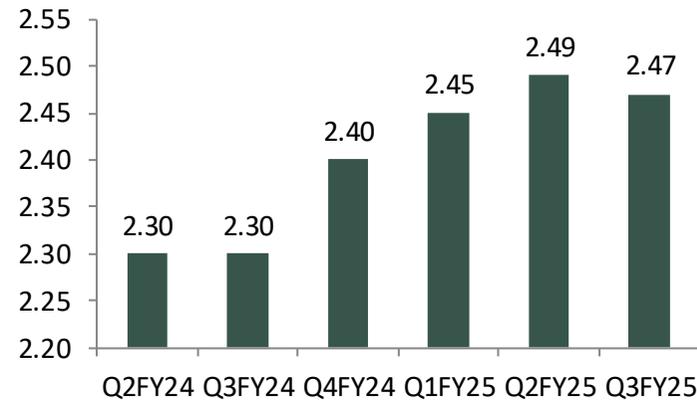
Source: Company; IDBI Capital Research

Exhibit 19: Credit Cost inched up sequentially



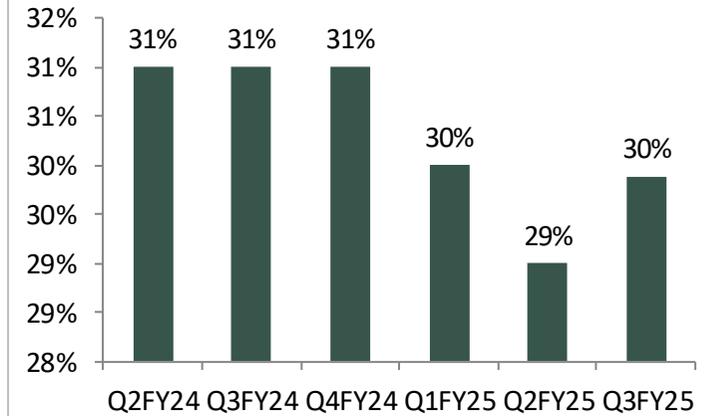
Source: Company; IDBI Capital Research

Exhibit 20: No. of Gold loan customers (Mn)



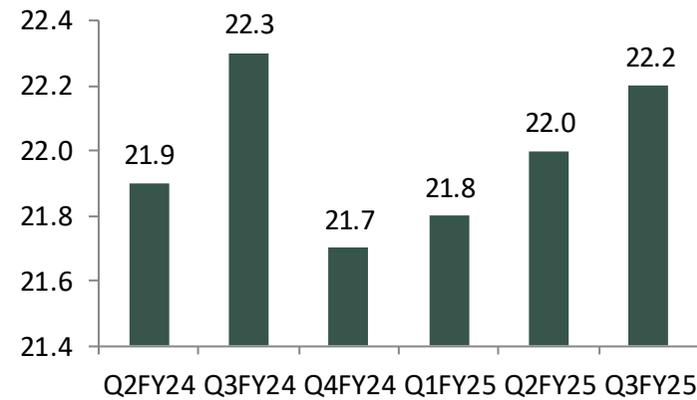
Source: Company; IDBI Capital Research

Exhibit 21: CAR remained stable



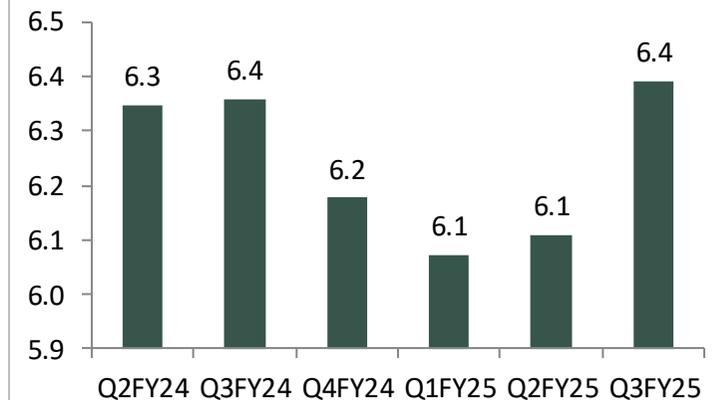
Source: Company; IDBI Capital Research

Exhibit 22: Yield on Loans improved QoQ



Source: Company; IDBI Capital Research

Exhibit 23: Opex to AUM % (Calc.) increased sequentially



Source: Company; IDBI Capital Research

Exhibit 24: AUM Mix (In Mn)

Consolidated AUM	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Gold Loan	2,45,043	2,07,578	2,43,651	18.0	0.6
Micro Finance Loan	91,331	1,06,850	1,09,700	(14.5)	(16.7)
Housing Finance Loan	17,784	14,153	16,916	25.7	5.1
Vehicle Finance Loan	50,854	35,974	48,482	41.4	4.9
On-Lending	6,535	10,222	8,166	(36.1)	(20.0)
MSME & Other Loans	30,627	29,075	30,249	5.3	1.3
Total AUM	4,42,174	4,03,852	4,57,163	9.5	(3.3)

Source: Company; IDBI Capital Research

Exhibit 25: AUM Mix (In %)

Consolidated AUM	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Gold Loan	55.4	51.4	53.3	402 bps	212 bps
Micro Finance Loan	20.7	26.5	24.0	-580 bps	-334 bps
Housing Finance Loan	4.0	3.5	3.7	52 bps	32 bps
Vehicle Finance Loan	11.5	8.9	10.6	259 bps	90 bps
On-Lending	1.5	2.5	1.8	-105 bps	-31 bps
MSME & Other Loans	6.9	7.2	6.6	-27 bps	31 bps
Total AUM	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 26: Consolidated Borrowing Mix (In Mn)

Borrowing Mix	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
WCDL / CC	76,227	81,903	73,413	(6.9)	3.8
Term Loan	1,97,935	1,68,897	2,09,165	17.2	(5.4)
NCD/Bonds	41,977	58,933	46,434	(28.8)	(9.6)
External Commercial Borrowing	49,454	5,186	47,464	853.6	4.2
Commercial Paper	2,891	247	5,775	1,070.4	(49.9)
Securitisation	1,640	4,100	2,513	(60.0)	(34.7)
Others	1	1	1	-	-
Total Borrowings	3,70,124	3,19,267	3,84,764	15.9	(3.8)

Source: Company; IDBI Capital Research

Exhibit 27: Consolidated Borrowing Mix (In %)

Borrowing Mix	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
WCDL / CC	20.6	25.7	19.1	-506 bps	151 bps
Term Loan	53.5	52.9	54.4	58 bps	-88 bps
NCD/Bonds	11.3	18.5	12.1	-712 bps	-73 bps
External Commercial Borrowing	13.4	1.6	12.3	1174 bps	103 bps
Commercial Paper	0.8	0.1	1.5	70 bps	-72 bps
Securitisation	0.4	1.1	0.7	-66 bps	-24 bps
Others	0.0	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	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net interest income	38,284	42,526	55,889	63,476	65,926	76,010
<i>Change (yoy, %)</i>	-4%	11%	31%	14%	4%	15%
Non-Interest Income	2,866	3,095	4,655	3,141	3,517	3,947
Net Revenue	41,149	45,622	60,544	66,616	69,443	79,957
Operating expenses	18,453	22,140	25,165	27,901	31,689	35,985
Employee expenses	11,250	14,695	15,973	17,789	20,061	22,613
Other expenses	7,202	7,445	9,192	10,111	11,628	13,372
Pre-Provision Profit	22,697	23,482	35,379	38,716	37,754	43,972
<i>Change (yoy, %)</i>	-18%	3%	51%	9%	-2%	16%
Provision	4,862	3,071	5,783	14,581	8,628	10,248
PBT	17,835	20,411	29,595	24,134	29,126	33,724
Taxes	4,548	5,409	7,620	6,075	7,331	8,488
<i>Effective tax rate (%)</i>	26%	26%	26%	25%	25%	25%
Net profit	13,287	15,002	21,975	18,060	21,795	25,235
<i>Change (yoy, %)</i>	-23%	13%	46%	-18%	21%	16%
EPS	15.7	17.7	26.0	21.3	25.7	29.8
Return on Equity (%)	17.0	16.7	20.7	14.7	15.7	15.9
Return on Asset (%)	4.1	4.1	5.1	3.7	4.0	4.1

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Capital	1,693	1,693	1,693	1,693	1,693	1,693
Reserves	81,991	94,756	1,13,788	1,27,884	1,45,874	1,67,306
Networth	83,683	96,449	1,15,481	1,29,577	1,47,567	1,68,999
Borrowings	2,41,185	2,84,829	3,36,536	3,74,996	4,09,174	4,50,600
Other liabilities	13,238	13,764	15,463	17,234	21,240	24,244
Total Liab. & Equity	3,38,107	3,95,042	4,67,480	5,21,807	5,77,981	6,43,843
Fixed Assets	3,639	4,478	4,736	5,209	5,730	6,303
Investments	4,207	5,340	7,263	8,353	8,353	8,353
Loans	2,89,710	3,41,945	4,09,476	4,48,657	5,02,439	5,63,900
Cash	26,974	30,351	31,813	42,622	42,707	44,548
Other assets	13,576	12,927	14,192	16,966	18,751	20,739
Total assets	3,38,106	3,95,042	4,67,480	5,21,807	5,77,981	6,43,843

Financial Ratios

(%)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth						
Advances	9.3	18.0	19.7	9.6	12.0	12.2
NII	(3.6)	11.1	31.4	13.6	3.9	15.3
Pre-Provision Profit	(17.7)	3.5	50.7	9.4	(2.5)	16.5
Net Profit	(23.0)	12.9	46.5	(17.8)	20.7	15.8
Spreads						
Yield on Assets	21.1	20.4	22.5	23.2	21.7	21.9
Cost of Funds	8.6	8.3	9.2	10.1	9.5	9.5
NIM	13.8	13.5	14.9	14.8	13.9	14.3
Spread	12.5	12.1	13.3	13.1	12.2	12.4
Operating Efficiency						
Cost-to-Income	44.8	48.5	41.6	41.9	45.6	45.0
Cost-to-AUM	6.7	7.0	6.7	6.5	6.7	6.7
Asset Quality						
GNPA	3.4	1.8	2.4	3.5	3.5	3.5
NNPA	1.8	0.9	1.3	1.5	1.5	1.5
Provision Coverage	44.1	47.1	42.9	55.7	55.4	55.2
Credit Cost	0.3	0.1	0.3	3.4	1.8	1.9
Capital Adequacy						
CAR	31.3	31.7	30.6	31.3	31.8	32.5
Tier I	31.0	31.7	30.6	31.3	31.8	32.5
Valuation						
EPS	15.7	17.7	26.0	21.3	25.7	29.8
BV	98.9	114.0	136.4	153.1	174.3	199.7
P/E	12.4	10.9	7.5	9.1	7.5	6.5
P/BV	2.0	1.7	1.4	1.3	1.1	1.0
ROE	17.0	16.7	20.7	14.7	15.7	15.9
ROA	4.1	4.1	5.1	3.7	4.0	4.1

Source: Company; IDBI Capital Research

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