

Manappuram Finance

BUY

Bain Capital set to become joint promoter

Summary

Manappuram Finance announced that Bain Capital will acquire joint control in the company through its affiliates i.e. BC Asia Investments XXV Ltd and BC Asia Investments XIV Ltd. Bain Capital will invest Rs.43.85bn to acquire 18% stake on a fully diluted basis via preferential allotment of equity & warrants at a price of Rs.236/share. This would trigger an open offer to purchase additional 18% stake on an expanded capital basis (excluding warrants). Based on the open offer subscription, Bain Capital's stake in Manappuram will be between 18.0-41.7%, while existing promoters will hold 28.9% stake post investment. Manappuram has been facing challenges, including market share loss to a major competitor in the gold loan segment and stress in its microfinance (MFI) portfolio. With Bain Capital joining as a joint promoter, the company is well-positioned to revamp its business strategy and regain lost ground in the gold loan industry. However, challenges in the MFI portfolio are expected to persist, in line with broader industry trends. We upgrade to 'BUY' rating with a new TP of Rs. 252 (earlier Rs.200), valuing it at 1.2x P/BV FY27E based on new BV (up 5% FY26 & FY27) post share allotment.

Key Highlights and Investment Rationale

- **With Bain Capital, promoter overhang subsides:** With PE firm coming in, the company's corporate governance is set to improve. Bain Capital will nominate a new CEO to spearhead the company with new strategies.
- **MFI pain persists:** Asirvad Microfinance is grappling with asset quality issues and higher credit costs due to deterioration in MFI portfolio. We need to watch out for commentary on strategy for Asirvad going ahead.
- **Outlook:** We expect the Manappuram's gold loan portfolio to grow at 15% CAGR (FY25-27), while MFI portfolio will see a moderation till H1FY26. The new promoter's strategies to tap the gold loan market will boost AUM going ahead.

TP Rs 252
CMP Rs 218

Potential upside/downside 16%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	6.0	20.0	30.6
Rel to Sensex	5.2	22.2	24.7

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	21.3	23.3	25.0
Consensus	21.9	26.5	29.9
% difference	(2.7)	(12.2)	(16.5)

Key Stock Data

Bloomberg/Reuters	MGFL IN /MNFL.BO
Sector	Finance
Shares o/s (mn)	846
Market cap. (Rs mn)	184,100
3-m daily avg Trd value (Rs mn)	92.9
52-week high / low	Rs230 / 138
Sensex / Nifty	76,348 / 23,191

Shareholding Pattern (%)

Promoters	35.3
FII	27.0
DII	7.3
Public	30.4

Financial snapshot

(Rs mn)

Year	FY2023	FY2024	FY2025E	FY2026E	FY2027E
NII	42,526	55,889	63,476	65,995	76,757
Change (yoy, %)	11%	31%	14%	4%	16%
Net Profit	15,002	21,975	18,060	21,847	25,795
Change (yoy, %)	13%	46%	-18%	21%	18%
EPS (Rs)	17.7	26.0	21.3	23.3	25.0
Change (yoy, %)	13%	46%	-18%	9%	7%
BV (Rs)	114.0	136.4	153.1	182.3	209.7
PER (x)	12.3	8.4	10.2	9.4	8.7
P/BV (x)	1.9	1.6	1.4	1.2	1.0
ROE (%)	16.7	20.7	14.7	14.5	13.3
ROA (%)	4.1	5.1	3.7	4.0	4.2
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	36.9	41.6

Source: IDBI Capital Research

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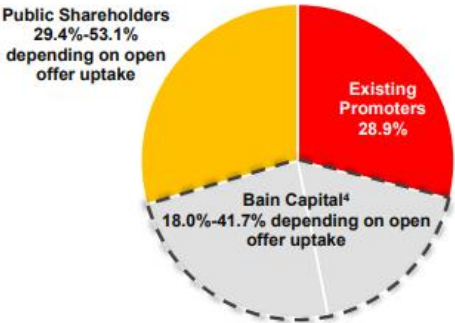
Exhibit 1: Pro-forma Shareholding Pattern

Particulars	No of Shares	Price per share	Amount (INR Cr)	% Stake ¹
Preferential Issue – Equity Shares	9,29,01,373	236.0	2,192	9.0%
Open Offer – 26% stake ²	24,42,27,387	236.0	5,764	23.7%
Preferential Issue – Warrants	9,29,01,373	236.0	2,192	9.0%

Shareholding Pattern – Pre Transaction³



Shareholding Pattern – Post Transaction on a fully diluted basis¹



1. On a fully diluted basis post the investment (including shares to be issued pursuant to exercise of warrants) 2: 26% of the expanded capital (excluding warrants); 3. As on 31st December, 2024; 4. Via its affiliates BC Asia Investments XXV Ltd and BC Asia Investments XIV Ltd

Source: Company

Exhibit 2: Transaction Highlights (1/2)

Bain Capital¹ will invest ~INR 4,385 cr to acquire 18.0% stake on a fully diluted basis² via preferential allotment of equity & warrants at a price of INR 236 per share; ~30% premium to 6 month average trading price

The transaction will trigger a mandatory open offer for purchase of additional 26.0% of the company³ at a price of INR 236 per share

Based on the open offer subscription, Bain Capital¹ stake in the company will vary between 18.0% and 41.7% on fully diluted basis²

Transaction is subject to customary closing conditions and receipt of necessary approvals from relevant authorities

Transaction is expected to close by Q2-Q3 of next fiscal subject to receipt of necessary approvals

Source: Company

Exhibit 3: Transaction Highlights (2/2)

Bain Capital¹ will be classified as Promoter of company post investment and will jointly control company with Existing Promoters

Bain Capital¹ will have the right to nominate for appointment certain members of the Executive Management like CEO & other key managerial personnel for Manappuram Finance and group companies

Bain will have the right to materially influence the strategic decision making at Manappuram post the transaction

Transaction doesn't involve sale of any shares by Existing Promoters- will hold 28.9% stake on a fully diluted basis²

Board will be reconstituted and will include 2 nominee directors of Bain Capital¹

Source: Company

Exhibit 4: 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

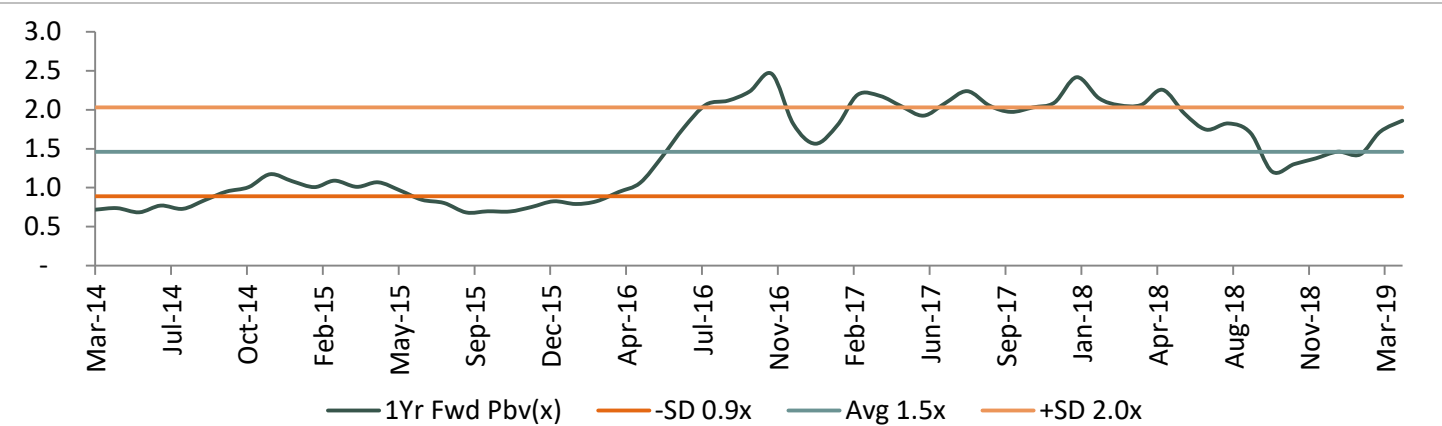
Source: Company; IDBI Capital Research

Exhibit 5: ROE Decomposition

(%)	FY23	FY24	FY25E	FY26E	FY27E
NII	11.6	13.0	12.8	11.9	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	13.0
Op.Exp	6.0	5.8	5.6	5.7	5.8
Op.Profit	6.4	8.2	7.8	6.8	7.2
Provisions	0.8	1.3	2.9	1.6	1.6
-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	4.2
Leverage (x)	4.1	4.1	4.0	3.7	3.2
ROE	16.7	20.7	14.7	14.5	13.3

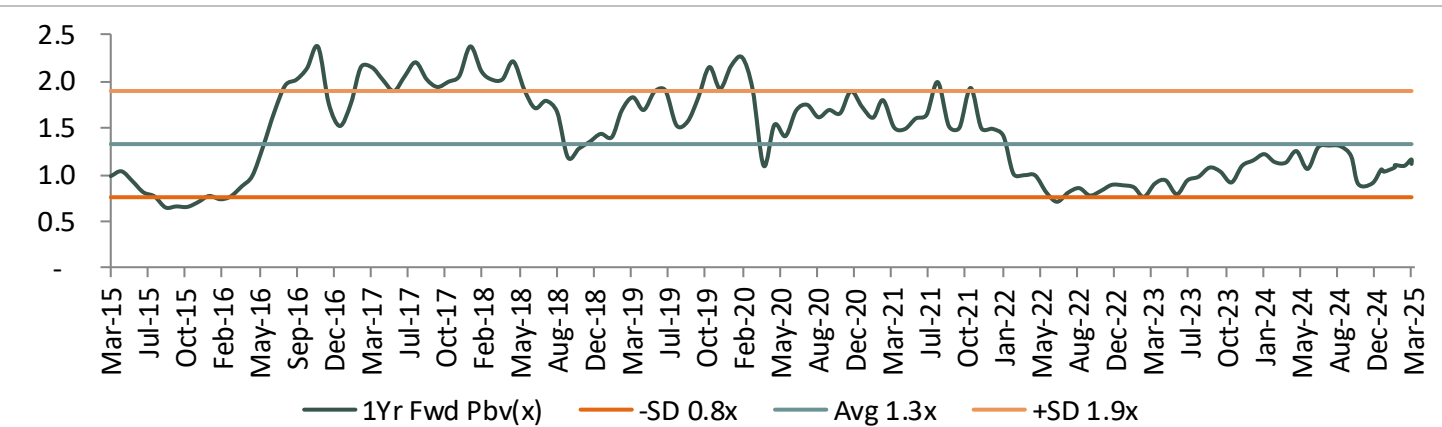
Source: Company; IDBI Capital Research

Exhibit 6: One-year forward P/BV (FY14-19)



Source: Company; IDBI Capital Research

Exhibit 7: One-year forward P/BV (FY15-25)



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	65,995	76,757
<i>Change (yoy, %)</i>	-4%	11%	31%	14%	4%	16%
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	69,513	80,705
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	37,823	44,719
<i>Change (yoy, %)</i>	-18%	3%	51%	9%	-2%	18%
Provision	4,862	3,071	5,783	14,581	8,628	10,248
PBT	17,835	20,411	29,595	24,134	29,195	34,471
Taxes	4,548	5,409	7,620	6,075	7,348	8,676
<i>Effective tax rate (%)</i>	26%	26%	26%	25%	25%	25%
Net profit	13,287	15,002	21,975	18,060	21,847	25,795
<i>Change (yoy, %)</i>	-23%	13%	46%	-18%	21%	18%
EPS	15.7	17.7	26.0	21.3	23.3	25.0
Return on Equity (%)	17.0	16.7	20.7	14.7	14.5	13.3
Return on Asset (%)	4.1	4.1	5.1	3.7	4.0	4.2

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Capital	1,693	1,693	1,693	1,693	1,879	2,064
Reserves	81,991	94,756	1,13,788	1,27,884	1,69,336	2,14,355
Networth	83,683	96,449	1,15,481	1,29,577	1,71,214	2,16,420
Borrowings	2,41,185	2,84,829	3,36,536	3,74,996	4,07,718	4,36,318
Other liabilities	13,238	13,764	15,463	17,234	5,326	5,641
Total Liab. & Equity	3,38,106	3,95,041	4,67,479	5,21,807	5,84,258	6,58,379
Fixed Assets	3,639	4,478	4,736	5,209	5,730	6,303
Investments	4,207	5,340	7,263	8,353	9,606	11,047
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	47,732	56,390
Other assets	13,576	12,927	14,192	16,966	18,751	20,739
Total assets	3,38,106	3,95,041	4,67,479	5,21,807	5,84,258	6,58,379

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	4.0	16.3
Pre-Provision Profit	(17.7)	3.5	50.7	9.4	(2.3)	18.2
Net Profit	(23.0)	12.9	46.5	(17.8)	21.0	18.1
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	14.4
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	44.6
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	36.9	41.6
Tier I	31.0	31.7	30.6	31.3	36.9	41.6
Valuation						
EPS	15.7	17.7	26.0	21.3	23.3	25.0
BV	98.9	114.0	136.4	153.1	182.3	209.7
P/E	13.9	12.3	8.4	10.2	9.4	8.7
P/BV	2.2	1.9	1.6	1.4	1.2	1.0
ROE	17.0	16.7	20.7	14.7	14.5	13.3
ROA	4.1	4.1	5.1	3.7	4.0	4.2

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

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

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