

Reduced yields and increased provisions hurt earnings

- **MGFL reported robust GL growth at 9% QoQ accompanied by 80 bps sequential decline in yields and rise in share of >5L loans (to 22% of gold book). Standalone book grew by 8% QoQ, with growth in consol AUM at 3% QoQ. Asset quality in most non-gold portfolios continued to deteriorate. New customer additions remained muted at 3.1 lakh.**
- **While higher growth, improving CoF, and operating leverage will compensate for some loss in yields, we see overall profitability settling below historical levels. Moreover, while reduced pricing may aid interim growth, its sustainability remains uncertain. NBFC's share of >2L loans at 45% is comparable now to Muthoot. Share of gold in consolidated AUM mix is expected to further strengthen to 75% (from 69% in Q2), a positive structural shift.**
- **We factor lower standalone yields and improved loan growth, with a downward revision in FY26/27E earnings of 6%/11%. However, with rising GL mix, we value the standalone business at 1.5x. Maintain 'Reduce' rating with TP of Rs260, valuing standalone book at 1.5x Sep-27E and adding subsidiary value.**

Delinquencies continue to rise across portfolios

Sequential NPA deterioration continued across secured non-gold portfolios (including HL/vehicle/MSME) and remains an area of concern. MFI NPA ratio increased QoQ to 4.8% (+40 bps). Credit costs were elevated in both standalone (130 bps) and consolidated (325 bps) portfolios. We expect stress recognition and PCR improvement to keep credit costs elevated for Manappuram in the interim, though a gradual reduction in non-GL book will lead to a decline in normalized credit costs over the medium term. The NBFC also resorted to ARC sale and DA transaction to reduce stressed & non-GL loans.

Outlook and Valuations

With Bain's joint control, the NBFC stands to benefit from professional management and increase agility in the GL business (lost market share to NBFCs in recent years). Near-term pain from higher provisions, both led by improvement in PCR (much lower vs peers) and possible stress recognition, could continue. While increased focus on GL book is positive, sharp moderation in yields will be detrimental to profitability over time, with RoAs settling ~160 bps lower vs earlier (sub 4%). We maintain a 'Reduce' rating.

Key Data	
Nifty	25,878
Equity / FV	Rs 1,693mn / Rs 2
Market Cap	Rs 233bn
	USD 2.6bn
52-Week High/Low	Rs 298/ 148
Avg. Volume (no)	3,494,020
Bloom Code	MGFL IN

	Current	Previous
Rating	Reduce	Reduce
Target Price	260	240

Change in Estimates

(Rs.bn)	Current		Chg (%) /bps	
	FY26E	FY27E	FY26E	FY27E
NII	45.4	53.6	(1.3)	(4.6)
PPOP	24.8	29.9	(3.2)	(10.0)
PAT	16.2	20.5	(5.5)	(11.0)
ABV (Rs)	145.6	163.1	(0.6)	(1.8)

Valuation (x)

	FY26E	FY27E	FY28E
P/E	14.4	11.4	9.3
P/ABV	2.1	1.9	1.7
ROAA	3.6	3.7	3.8
ROAE	13.0	14.7	15.9
ABV (Rs)	145.6	163.1	184.2
EPS (Rs)	19.1	24.2	29.6

Q2FY26 Result (Rs Mn)

Particulars	Q2FY26	YoY (%)	QoQ (%)
NII	11,410	0.5	3.3
Other income	(57)	(128.1)	20.9
Total Income	11,353	(1.8)	3.2
Operating Exp.	5,100	10.3	1.5
PPoP	6,253	(9.8)	4.7
Provisions	1,201	125.7	67.5
Tax Exp	1,294	(21.6)	(3.1)
Rep. Net Profit	3,759	(20.9)	(4.1)
Advances (bn)	379	17.7	8.1
		(bps)	(bps)
NIM (%)	11.0	(147)	(26)
RoA (%)	3.4	(150)	(40)
RoE (%)	12.2	(520)	(90)
Gross Stage 3	3.0	56	(4)

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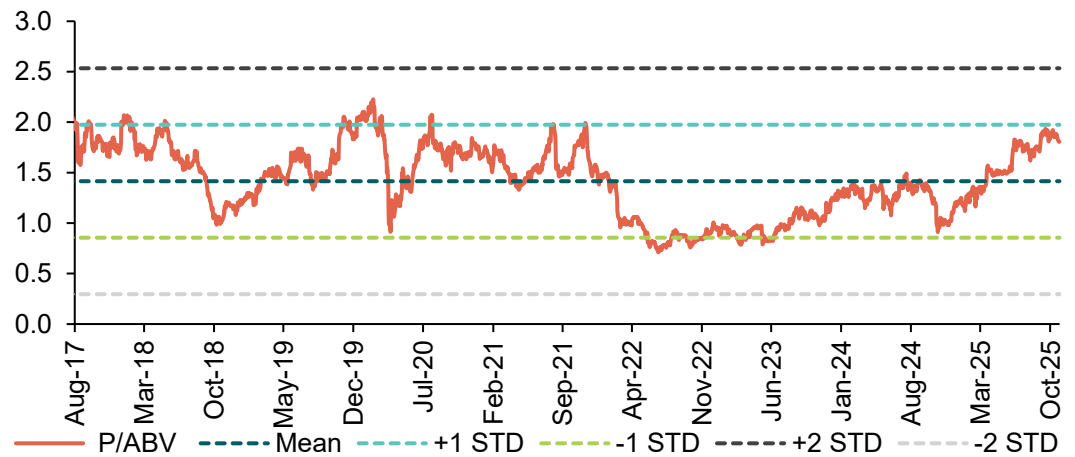
Exhibit 1: Actual vs Dolat estimates

Particulars (Rs mn)	Q2FY26	Q2FY26E	Variance (%)	Comment
Net Interest Income	11,410	10,961	4.1	Strong growth aids NII
Other Income	-57	150	(137.9)	ARC sale impacts non-interest income
Pre Provision Profits	6,253	5,968	4.8	Higher NII aids operating profits
PAT	3,759	3,967	-5.2	High provisions on vehicle book dents PAT

Source: Company, Dolat Capital

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY26E			FY27E		
	Old	New	Chg. (%)	Old	New	Chg. (%)
Net Operating Revenue	45,971	45,396	(1.3)	56,165	53,585	(4.6)
Pre Provision Profits	25,598	24,769	(3.2)	33,198	29,882	(10.0)
Reported Profits	17,088	16,152	(5.5)	22,991	20,469	(11.0)
ABV (Rs)	146	146	(0.6)	166	163	(1.8)

Exhibit 3: The stock currently trades at 1.8x 1-year forward P/ABV


Source: Company, Dolat Capital

Exhibit 4: SOTP Valuation

Particulars	Per Share Value (Rs)	Methodology
Standalone NBFC*	240	1.5x Sep-27E P/ABV
Asirvad Microfinance	20	0.7x P/ABV
Manappuram Home Finance	4	1x P/ABV
Value of Subs. & Investments	24	
Holdco. Discount	20%	
Value of Bank	260	

Source: Company, Dolat Capital

Exhibit 5: Quarterly Financials

Profit and Loss (Rs mn, standalone)	Q2FY26	Q2FY25	Q1FY26	YoY (%)	QoQ (%)
Interest Income	18,293	17,295	17,492	5.8	4.6
Interest Expense	6,883	5,940	6,449	15.9	6.7
Net Interest Income	11,410	11,355	11,044	0.5	3.3
NIM (%)	11.0	12.5	11.3	-147 Bps	-26 Bps
Non-Interest Income	-57	202	-47	-128.1	20.9
Total Income	11,353	11,557	10,997	-1.8	3.2
Employee expenses	3,041	2,891	3,109	5.2	-2.2
Other expenses	2,059	1,734	1,914	18.8	7.6
Total Operating Expenses	5,100	4,624	5,023	10.3	1.5
Cost to Income (%)	44.9	40.0	45.7	491 Bps	-76 Bps
Pre-Provisioning Operating Profit	6,253	6,933	5,974	-9.8	4.7
Provisions	1,201	532	717	125.7	67.5
PBT	5,053	6,401	5,257	-21.1	-3.9
Tax expense	1,294	1,651	1,336	-21.6	-3.1
-effective tax rate	25.6	25.8	25.4	-19 Bps	20 Bps
PAT	3,759	4,749	3,921	-20.9	-4.1
EPS (Rs)	4.4	5.6	4.6	-20.9	-4.1
AUM	3,79,128	3,21,987	3,50,732	17.7	8.1
RoA	3.5	5.0	3.9	-152 Bps	-35 Bps
RoE	12.2	17.4	13.1	-520 Bps	-90 Bps
Consolidated data (Rs mn)					
AUM	4,57,890	4,58,000	4,43,000	0.0	3.4
RoA (%)	1.7	4.4	1.1	-270 Bps	60 Bps
RoE (%)	7	18.6	4.3	-1170 Bps	260 Bps
EPS (Rs)	10	27.0	6.3	-61.9	63.5
BV (Rs)	150	148	148	1.5	1.7

Source: Company, Dolat Capital

Asset Quality and BS

Analysis (Rs mn, standalone)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	QoQ % / bps	YoY% / bps
Gross stage 3 (%)	2.00	2.40	2.46	2.80	3.00	2.96	-4 Bps	56 Bps
Net Stage 3 (%)	1.70	2.10	2.23	2.50	2.60	2.56	-4 Bps	46 Bps
Borrowings	265,797	272,586	268,317	275,695	286,723	3,13,205	9.2	14.9
Advances	316,540	321,987	338,087	334,030	350,732	3,79,128	8.1	17.7
Loans to borrowings (%)	119	118	126	121	122	121	-128 Bps	292 Bps

Source: Company

Loan Book Analysis (Rs mn, Consolidated)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	QoQ % / bps	YoY % / bps	Loan mix %
Gold AUM	2,43,651	2,45,043	2,55,860	2,88,020	3,15,050	9.4	29.3	68.7
Microfinance AUM	1,09,700	91,331	72,070	55,420	48,480	(12.5)	(55.8)	10.6
Housing AUM	16,916	17,784	18,240	19,010	19,000	(0.1)	12.3	4.1
VEF	48,482	50,854	47,730	44,920	40,570	(9.7)	(16.3)	8.8
SME & Other	38,415	37,162	36,440	35,670	35,790	0.3	(6.8)	7.8
AUM	4,57,164	4,42,174	4,30,340	4,43,040	4,58,890	3.6	0.4	100.0

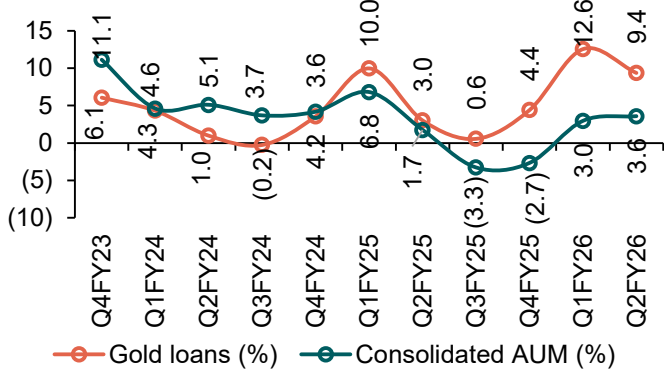
Source: Company, Dolat Capital

Earning call KTAs

- **Guidance:** Management remains confident of delivering ~20-25% CAGR in gold book via higher tickets & increased awareness, even if gold prices correct. A detailed roadmap under the new CEO, Deepak Reddy, will be shared by Q4FY26. The NBFC expects standalone ROE of ~12% post-yield cuts. GL yields will moderate to 18.5%, offset by lower CoF and improved costs/opex. Key focus areas include: 1) strengthening the gold business, 2) enhancing collection infra in non-gold segments, 3) improving organizational agility and effectiveness, and 4) bringing in talent wherever required. Focus will remain on gold, other secured non-gold products, and co-lending in gold, alongside strong plans for both MFI and HL business.
- **Vehicle:** Standalone book provisions were impacted by higher provisions against the vehicle book. 2-wheeler and farm equipment have seen higher delinquency within vehicle book. Vehicle repossession under SARFAESI has been slow. PCR in vehicle business increased to 24%.
- **Gold Loan:** There were +3.09L customers additions in Q2. The intention is to align rates closer to other key GL players. New customers are mainly from large ticket segments, resulting in slower growth in customer count. Int accrued stood at 2.8%. Gold loan TS: up to Rs 1 lac- 34%, Rs1-2 lacs-21%, 2-3 lacs 12%, Above Rs3 lacs is 34%. Share of >5L loans increased to 22% vs 19.1% in Q1 and 16% in Q4.
- **MFI:** Expect stress and credit costs to come down and expect profitability in Q4. Infused Rs5bn in MFI to improve liquidity. MFI also has gold loans, ensuring adequate borrowing capacity. Co-lending will also be undertaken to improve liquidity. Gold loan branches in MFI are at 520.
- **Bain transaction:** Completion of Bain transaction is in final stages. There will be limited participation in open-offer due to higher CMP. However, Bain will get ~18% stake (9% primary and 9% convertible warrants).
- **Liabilities:** Expect 12bps of reduction in cost of borrowings in each of the next two quarters.
- **Bain's stake in Manappuram:** Bain Capital's strategic investment is expected to bring operational excellence, governance strength, and deeper capital access across NBFC verticals.

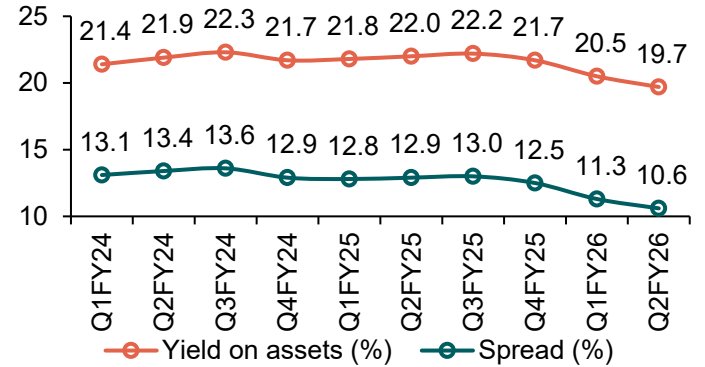
Story in Charts

Exhibit 6: Gold AUM growth driven by lower yields



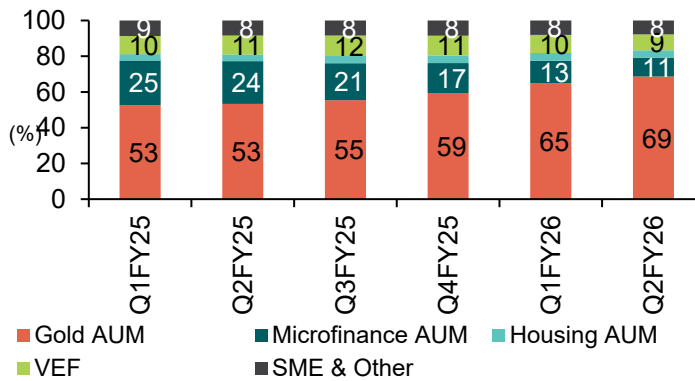
Source: Company, Dolat Capital

Exhibit 7: Sharp yield moderation impact spreads



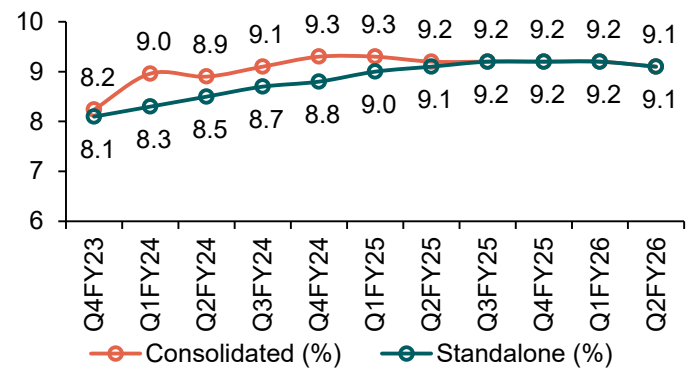
Source: Company, Dolat Capital

Exhibit 8: Gold share rises in consolidated AUM



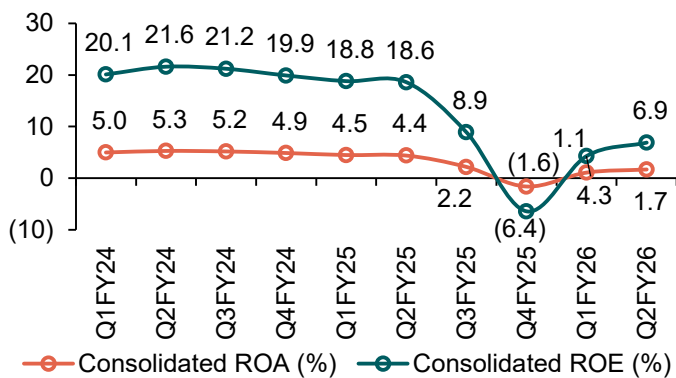
Source: Company, Dolat Capital

Exhibit 9: CoF improved by 10 bps



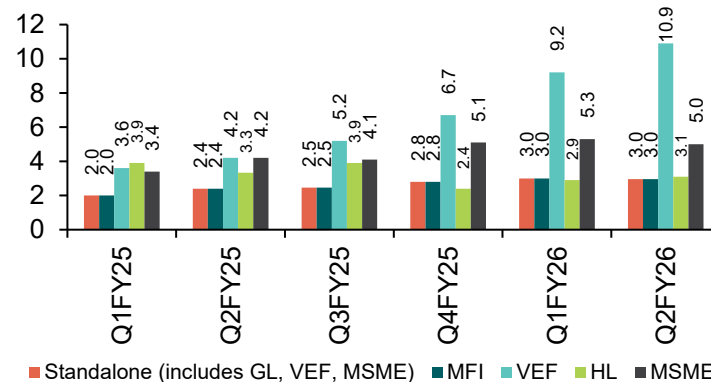
Source: Company, Dolat Capital

Exhibit 10: Consol profits impacted by MFI loss



Source: Company, Dolat Capital

Exhibit 11: NPAs inch up across non-GL segments



Source: Company, Dolat Capital

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY25A	FY26E	FY27E	FY28E
Interest Income	68,707	74,125	89,359	106,287
Interest expense	23,761	28,729	35,775	43,214
Net interest income	44,946	45,396	53,585	63,073
Other income	438	591	295	561
Total income	45,383	45,987	53,880	63,635
Total expenses	18,995	21,218	23,998	27,181
- Employee cost	11,708	13,816	16,026	18,591
- Other	7,286	7,402	7,972	8,590
Pre provisioning profit	26,389	24,769	29,882	36,454
Provisions	2,630	3,060	2,370	2,818
Profit before taxes	23,758	21,710	27,512	33,636
Tax provision	6,123	5,558	7,043	8,611
Profit after tax	17,635	16,152	20,469	25,025
Adjusted profit	17,635	16,152	20,469	25,025

Balance Sheet (Rs Mn)

Particulars	FY25A	FY26E	FY27E	FY28E
Sources of Funds				
Equity Capital	1,693	1,693	1,693	1,693
Reserves & Surplus	116,236	129,149	145,513	165,520
Net worth	117,928	130,841	147,206	167,212
Borrowings	268,045	356,500	438,495	521,809
Other liabilities & provisions	12,382	15,539	17,446	21,873
Total Liabilities	398,356	502,881	603,147	710,895
Application of Funds				
Cash and equivalents	30,146	30,597	37,919	45,089
Investments	18,219	23,699	28,439	33,558
Advances	334,030	430,899	517,079	610,153
Fixed assets	8,637	8,896	9,163	9,438
Other assets	7,324	8,789	10,547	12,656
Total Assets	398,356	502,881	603,147	710,895

E – Estimates

Important Ratios

Particulars	FY25A	FY26E	FY27E	FY28E
(A) Margins (%)				
Yield on advances	21.5	19.0	18.5	18.5
Yield on interest earning assets	19.4	17.1	16.7	16.7
Cost of funds	9.6	9.2	9.0	9.0
Spread	11.9	9.8	9.5	9.5
NIM	12.7	10.5	10.0	9.9
(B) Asset quality and capital ratios (%)				
Gross stage 3	1.9	2.5	2.7	2.9
Net stage 3	1.7	2.1	2.3	2.5
CAR	30.9	0.0	0.0	0.0
Tier 1	31.0	0.0	0.0	0.0
RoA	4.8	3.6	3.7	3.8
RoE	16.1	13.0	14.7	15.9
(D) Measures of Investments				
EPS - adjusted	21.1	19.1	24.2	29.6
BV	139.3	154.6	173.9	197.6
DPS	4.0	3.8	4.8	5.9
Dividend payout ratio	19.0	20.1	20.1	20.1
(E) Growth Ratios (%)				
Net interest income	15.5	1.0	18.0	17.7
PPoP	13.3	(6.1)	20.6	22.0
Adj PAT	6.4	(8.4)	26.7	22.3
Advances	14.6	29.0	20.0	18.0
Total borrowings	19.3	33.0	23.0	19.0
Total assets	17.3	26.2	19.9	17.9
(F) Valuation Ratios				
Market Cap (Rs. mn)	232,674	232,674	232,674	232,674
CMP (Rs.)	275	275	275	275
P/E (x)	13.0	14.4	11.4	9.3
P/BV (x)	2.0	1.8	1.6	1.4
Div Yield (%)	1.5	1.4	1.8	2.2

E – Estimates

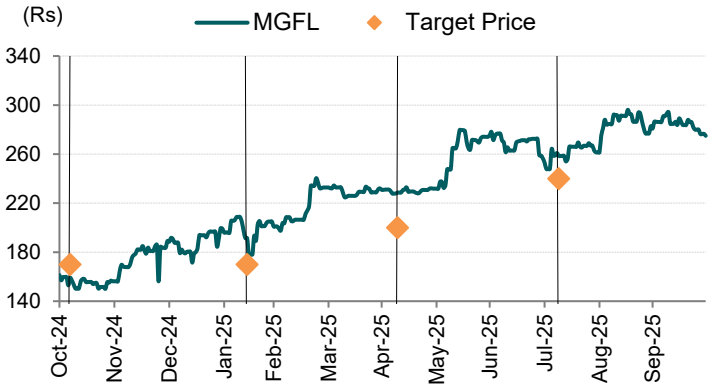
Stock Info and Rating History

Price Performance

Particulars	1M	3M	12M
Absolute (%)	(2)	7	70
Rel to NIFTY (%)	(7)	3	64

Shareholding Pattern

Particulars	Mar'25	Jun'25	Sep'25
Promoters	35.3	35.3	35.3
MF/Banks/FIs	8.0	8.6	9.2
FIIIs	28.4	29.7	30.2
Public / Others	28.3	26.4	25.4



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-24	REDUCE	170	159
Feb-25	REDUCE	170	191
May-25	REDUCE	200	229
Aug-25	Reduce	240	259

*Price as on recommendation date

Notes

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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