Manappuram Finance Ltd.

Industry	Financial
Bloomberg	MGFL IN
BSE CODE	531213

Profitability Remains Strong Amid NBFC Crisis

RATING	BUY
CMP	97
Price Target	122
Potential Upside	26%

Rating Change	↑
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	130/66
Mkt Capital (Rs Cr)	8142
Free float (%)	65%
Avg. Vol 1M (,000)	2423
No. of Shares (Cr)	84.281
Promoters Pledged %	5%

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3QFY19 Result Update

- MANAPPURAM has reported good numbers beating our expectation in NII and PAT with healthy growth in AUM by 21% YOY. NII grew by 19% YoY strong AUM growth of 21% YOY & almost steady margins. PAT growth has been robust 43% YoY
- NIM has remained almost stable at 17.27% from 17.37% QoQ on the back of rising cost of funds .Yield on overall loans increased by 100/41 bps YoY/QoQ to 25.68% in 3QFY19 while cost of fund has increased by 130/80 bps YoY/QoQ.
- OPEX grew by 10% YoY while total income grew by 20% YoY which led to a Cost/Income ratio of 47% in 3QFY19. Other Income reported growth of 105% YoY to Rs 20 Cr. Provision has declined by 77% YoY.
- AUM grew by 21% YoY registering high growth of 51% YoY in microfinance business. The home loan subsidiary Manappuram Home Finance Limited, the company reported an AUM growth of nearly 40% to Rs 478 crore, put together all non-gold business contributed nearly 30% of consolidated AUM. In last one year the non gold loan portfolio has grown 50% on an average basis.
- Asset quality improved as GNPA declined to 58 bps in 3QFY19 as against 70 bps in 2QFY19. NNPA increased by 10 bps to 0.30% in 3QFY19. GNPA in MFI, Housing & Vehicle finance stood at 79 bps, 2.40 bps & 4.90 bps.

View and Valuation

Manappuram's has been driving its growth from non gold loan portfolio. The Non Gold segment has been growing at more than 50% range since last few quarters. Strong ALM & short term product portfolio is helping to ride over recent NBFC crisis. Gold loan portfolio has steadily declined to 70% of the total portfolio, management plans to decline it to 50%. Margins remain steady as management was able to pass on the hike in interest rate. Management plans to invest in its microfinance & Housing finance subsidiary, which will be growth driver of the company. Asset quality has shown improvement across portfolio. We expect asset quality to remain healthy & credit cost to remain in the lower range due to excess provision in the balance sheet than regulatory norms. The stock is currently 1.4x BVPS FY20e.We upgrade the stock to BUY and increase our target price from Rs 103 to Rs 122.

Key Risks to our rating and target

- Rise in delinquency will affect the credit cost..
- Loan growth may get hurt if the liquidity crisis persist.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	1402	2219	2396	2834	3513
PPP	591	1275	1227	1504	1778
PAT	353	756	671	939	1099
NIM %	13.3	17.7	16.3	16.3	16.9
EPS (Rs)	4	9	8	11	13
EPS growth (%)	30	114	-11	40	17
ROE (%)	13.1	24.7	18.6	22.5	21.1
ROA (%)	2.9	5.4	4.1	5.0	4.8
BV	33	40	46	54	70
P/B (X)	1.1	2.5	2.4	1.8	1.4
P/E (x)	8.3	10.9	13.7	8.6	7.4

3Q FY 19 Results
Better than Expectation

Strong Growth

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	872	890	936	1,014	1,081	24.0%	6.6%	3,388	3,423	1.1%
Interest Exp.	260	268	294	317	354	36.2%	11.6%	1,169	1,028	-12.1%
NII	612	622	642	697	727	18.8%	4.3%	2,219	2,396	8.0%
Other Income	10	11	11	13	20	105.4%	50.0%	21	53	150.7%
Total Income	622	633	653	710	747	20.1%	5.2%	2,240	2,449	9.3%
Ope Exp.	319	314	328	344	350	9.8%	1.8%	965	1,222	26.5%
PPP	303	319	325	366	397	31.1%	8.3%	1,275	1,227	-3.7%
Provisions	37	43	15	16	9	-76.5%	-46.1%	109	210	92.8%
PBT	265	276	309	350	388	46.2%	10.8%	1,166	1,017	-12.8%
Tax	94	93	109	126	141	49%	11.7%	407	349	-14.4%
Extra Items	-	-	-	-	-					
Net Profit	171	183	200	222	245	43.3%	10.3%	756	671	-11%

NIM has mostly remain unhindered

NIM declined by 9 bps QoQ to 17.27% due to higher cost of funds. Yield on overall loans increased by 100/41 bps YoY/QoQ to 25.68% in 3QFY19.Cost of funds also increased by 143/80 bps YoY/QoQ to 12.87% in 3QFY19. The average cost of borrowings increased by 48 bps to 9.37% in 3QFY19 which was successfully passed on to the customers. Funding cost is expected to be at same level in 4QFY19.The marginal cost of borrowings for CP stands at around 8% currently.

Strong AUM growth

AUM grew by 21% YoY registering high growth of 51% YoY in microfinance business. Disbursement grew by 30% YoY. The share of gold loan declined to 70% in 3QFY19 from 73% in 2QFY19.The share of microfinance increased to 18% in 3QFY19 from 16% in the last quarter. The share of commercial vehicle segment also grew to 5.5% in 3QFY19 as against 4.8% in 2QFY19 .The higher exposure of bank had been in gold loan but it is now diversifying in other segments. Management plans to equally divide the share of gold & non gold portfolio. Majority of gold portfolio is at 3 months, LTV of the online gold loan portfolio was lower than regulatory 65%. 80% of the gold loan is to repeat customer..

Asset Quality improved

Asset quality improved as GNPA declined to 0.58% in 3QFY19 as against 0.70% in 2QFY19.NNPA increased by 10 bps to 0.30% in 3QFY19.GNPA and NNPA both in vehicle finance declined to 240/70 bps in 3QFY19 as against 260/80 bps in 2QFY19, whereas for housing finance both GNPA and NNPA increased QoQ to 4.90/3.80% in 3QFY19 as against 4.70/3/70% in 2QFY19.

Other Details

- The home loan subsidiary Manappuram Home Finance is now carried out of 35 branches across 6 states.
- Strong traction in vehicle finance business is now carried out of 157 branches across 21 states versus 93 branches across 19 states one year ago.
- Auction stood at Rs 187 Cr.
- Gold loan LTV is at 65%.
- MANAPPURAM has got permission to open 50 additional branches.
- In Oct 2018 the company launched secured NCD. The company has planned to raise Rs 1000 Cr in four tranches. And has raised Rs 250 Cr from this issue in first tranche in 3QFY19. Manappuram will be able to mobilize around Rs 150 Cr from this in 4QFY19 in second tranche launched.

Concall Highlights

- The average cost of borrowings increased by 48 bps to 9.37% in 3QFY19 which was successfully passed on to the customers. Funding cost is expected to be at same level in 4QFY19.The marginal cost of borrowings for CP stands at around 8% currently. Balance transfer has declined by 3-3.5%.
- Security cost has reduced from Rs 44 Cr per quarter in 3QFY18 to Rs 22 Cr during 3QFY19.Rs 4-5 Cr of reduction is possible every quarter as per the management.
- OPEX is expected to come down by 1% in FY20.
- Gold loan growth for the Company in Q3 FY19 was impacted by seasonal lumpiness in gold loans market, Gaja cyclone and changes in certain operational processes .The management expects the gold loan growth to be at around 8-10% in FY19 and 10-15% in FY20. Entire portfolio of gold loan is of 3 Months duration loan. The non gold loan portfolio may be around 30% of the total AUM in the next 1-2 years and may be 50% in the long run.
- The management gives guidance of AUM Rs 1000 Cr for Housing finance business in FY20. The incremental yield on mortgages stands at 15% in 3QFY19. >>The management is considering raising equity in the near future of 200 mn dollars & diluting its stake in Ashirvad MFI by 15-16%. The non gold business contributed 30% of the total consolidated AUM of the company in 3QFY19.
- In Oct 2018 the company launched secured NCD. The company has planned to raise Rs 1000 Cr in four tranches. and has raised Rs 250 Cr from this issue. Manappuram will be able to mobilize around Rs 150 Cr from this in 4QFY19.
- Asirvad Microfinance is the lowest in terms of OPEX to AUM at around 6% in 3QFY19 and the management targets to bring it down to below 6% in FY20.
- ISFC acquisition is expected to be done in 4QFY19.
- The proportion of CP reduced to 21.6% from 24% YoY.
- The board declared an interim dividend of Rs 0.55 for the quarter 3QFY19.
- Auction stood at Rs 187 Cr.
- 80% of the gold loan is to repeat customer.
- Gold loan LTV is at 6%.
- Gold disbursement of Rs 21028 Cr.
- MANAPPURAM has permission to open 50 additional branches.

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-
C/I Ratio %	48.2	51.9	51.3	49.6	50.2	48.4	46.9	**-4.43**	**-1.55**
Empl. Cost/ Tot. Exp. %	24.2	26.1	26.1	25.6	26.0	25.0	24.1	**-1.96**	**-0.87**
Other Exp/Tot. Exp.%	21.4	22.3	22.0	21.0	21.4	20.3	19.6	**-2.42**	**-0.71**
Provision/PPP %	17.7	15.8	12.3	13.5	17.7	4.4	2.2	**-10.09**	**-2.23**
Tax Rate %	35.1	33.9	35.5	33.6	35.1	36.0	36.3	**0.80**	**0.29**
Int Exp./Int Inc. (%)	31.0	29.5	29.8	30.1	31.5	31.3	32.7	**2.93**	**1.46**
Other Inc./NII %	234.6	(1.5)	27.9	18.4	(54.4)	37.5	105.4	**77.54**	**67.93**
PPP/ Net Income %	51.8	48.1	48.7	50.4	49.8	51.6	53.1	**4.43**	**1.55**
PAT/ Net Income %	27.6	26.7	27.5	28.9	30.6	31.3	32.8	**5.30**	**1.54**
NII Growth % (YoY)	19.9	7.8	5.5	2.7	11.9	19.0	18.8	**13.34**	**-0.18**
PPP Growth YoY %	16.3	(8.4)	(13.4)	(7.9)	4.8	27.9	31.1	**44.45**	**3.23**
PAT Growth %	3.2	(17.2)	(15.5)	-9	20.9	39.0	43.3	**58.85**	**4.27**

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-
Yield on Advances	23.6	24.0	25.1	24.8	24.6	25.3	25.7	**0.60**	**0.41**
Cost Of Funds	9.7	10.1	11.4	11.6	11.9	12.1	12.9	**1.43**	**0.80**
Spreads	13.9	13.8	13.6	13.2	12.7	13.2	12.8	**-0.82**	**-0.39**
NIM	16.3	16.9	17.6	17.3	16.9	17.4	17.3	**-0.37**	**-0.09**

Exhibit: Yield and Cost

Yield improved & cost of funds increased

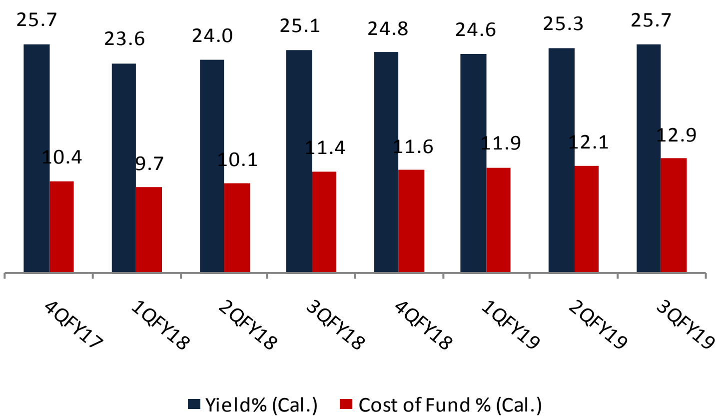
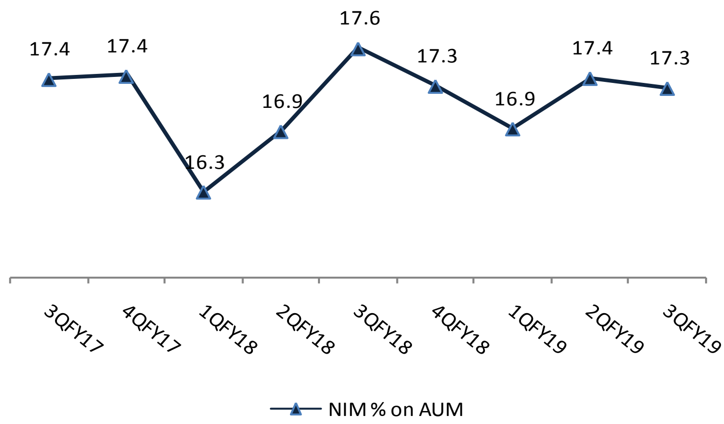


Exhibit: Net Interest Margin

NIM steady range



Asset & Borrowings Growth Trend

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Disbursements Gold Loan	12059	12300	12687	12816	16164	20500	23100	18337	21028
Growth YoY %	33	13	-4	-14	34	67	82	43	30
AUM	14554	13657	13380	13723	14650	15765	16618	17191	17783
Growth YoY %	38	19	3	-5	1	15	24	25	21
Borrowings	12211	9163	8651	8753	9429	10240	11027	11354	11390
Growth YoY %	37	-5	-22	-28	-23	12	27	30	21

Exhibit: AUM Growth %

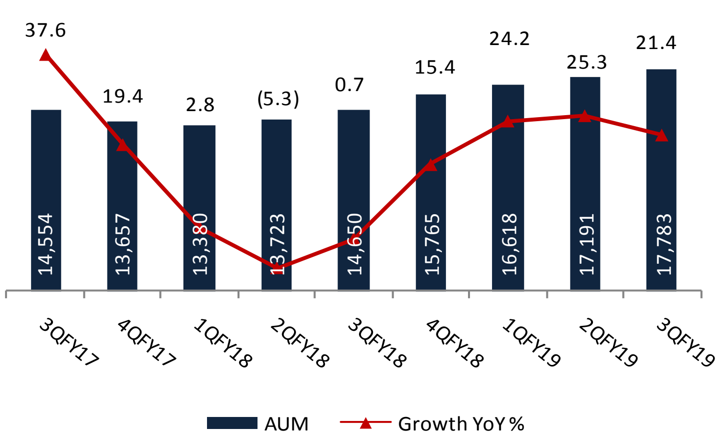
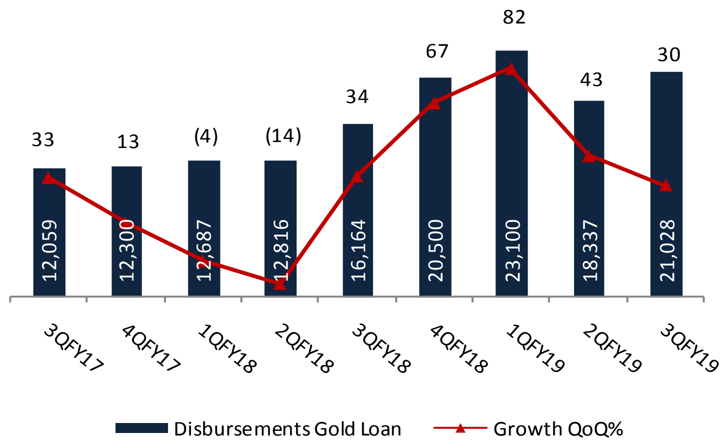


Exhibit: Disbursement Growth %



Asset Mix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Gold Loan	84	81	80	78	77	74	75	73	70
Microfinance	11	13	14	14	14	15	15	16	18
CV	2	2	3	3	3	4	4	5	5
Others	3	3	4	4	5	6	6	6	6

Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-
GNPA	147	165	103	110	116	120	103	0.6	(17)
GNPA %	1.1	1.2	0.7	0.7	0.7	0.7	0.6	(0.1)	(0.1)
NNPA	120	124	59	47	50	34	53	(5.3)	19
NNPA %	0.9	0.9	0.4	0.3	0.3	0.2	0.3	(0.1)	0.1
Total Specific PCR %	27	41	44	63	66	86	50	5.8	(36)

Others

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
GOLD AUM PER BRANCH	3.7	3.4	3.3	3.3	3.4	3.5	3.7	3.8	3.7
GOLD HOLDING (TONNES)	65	61	59	60	62	64	66	67	66

Exhibit: Asset Quality

Improvement in asset quality

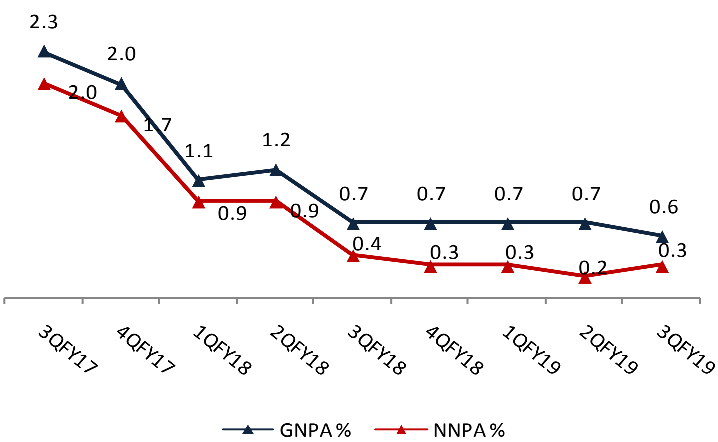
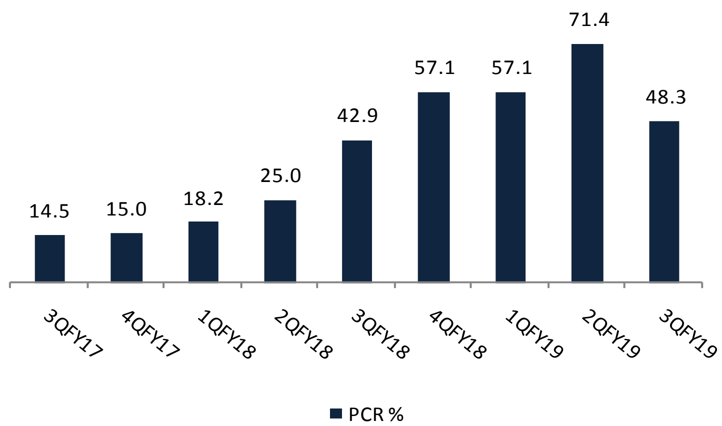


Exhibit: Provisions



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	**168**	**168**	**168**	**168**	**168**	**169**	**169**	**169**
>> Equity Capital	*168*	*168*	*168*	*168*	*168*	*169*	*169*	*169*
>> Preference Capital								
Reserves & Surplus	2,275	2,324	2,465	2,590	3,193	3,668	4,353	5,704
Networth	**2,443**	**2,492**	**2,633**	**2,758**	**3,362**	**3,836**	**4,521**	**5,873**
Change (%)	3	2	6	5	22	14	*18*	*30*
Total Borrowings	9,862	7,795	8,392	9,638	9,163	10,240	12,205	15,134
Change (%)					(5)	12	*19*	*24*
Provisions	76	100	51	78	166	196	223	276
Other Liabilities	347	452	541	365	2,461	4,037	5,415	6,829
Total Liabilities	**12,728**	**10,838**	**11,616**	**12,839**	**15,152**	**17,232**	**20,399**	**25,182**
Investments	698	796	217	49	5	5	6	7
Loans	10,194	8,378	9,770	11,515	13,969	15,729	18,875	22,650
Change (%)	5	(18)	17	18	21	13	20	20
Fixed Assets	241	202	174	195	187	275	284	341
Other Assets	711	618	663	476	468	525	691	822
Cash Balances	884	844	793	604	523	699	544	1,363
Total Assets	**12,728**	**10,838**	**11,616**	**12,839**	**15,152**	**17,232**	**20,399**	**25,182**

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	2,247	2,076	1,968	2,349	3,388	3,423	4,170	5,128
Interest expended	1,189	1,027	877	947	1,169	1,028	1,337	1,615
Net Interest Income	1,057	1,049	1,091	1,402	2,219	2,396	2,834	3,513
Change (%)	(32)	(1)	4	28	58	8	18	24
Other Income	20	36	25	25	21	53	61	68
Change (%)	(21)	76	(30)	(1)	(15)	151	15	11
Total Net Income	1,077	1,085	1,116	1,426	2,240	2,449	2,895	3,581
Change (%)	(32)	1	3	28	57	9	18	24
Operating Expenses	688	695	674	836	965	1,222	1,391	1,802
Change (%)	3	1	(3)	24	16	27	14	30
>> Employee Expenses	342	324	315	433	503	617	719	891
Change (%)	11	(5)	(3)	38	16	23	17	24
>> Other Expenses	346	372	360	403	400	537	595	811
Pre-provisioning Profit	389	390	442	591	1,275	1,227	1,504	1,778
Change (%)	(57)	0	13	34	116	(4)	23	18
Provisions	83	47	28	42	109	210	52	104
Change (%)	148	(43)	(40)	51	157	93	(75)	101
PBT	307	343	414	548	1,166	1,017	1,452	1,674
Tax	98	117	142	193	407	349	513	575
Profit After Tax	208	226	271	355	758	668	939	1,099
Change (%)	(65)	8	20	31	114	(12)	40	17
Adjusted Profit After Tax	208	226	271	353	756	671	939	1,099
Change (%)	(65)	8	20	30	114	(11)	40	17

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	9,956	8,163	9,593	11,434	13,657	15,765	18,918	22,701
>> Off-Book AUM	(238)	(215)	(177)	(81)	(312)	35	43	51
AUM Growth (%)	(13.8)	(18.0)	17.5	19.2	19.4	15.4	20.0	20.0
Borrowing Growth (%)	-	-	-	-	(4.9)	11.8	19.2	24.0
Loan/Borrowing (%)	1.0	1.1	1.2	1.2	1.5	1.5	1.5	1.5
Disbursement (Rs Cr)								
Disbursement Growth (%)								
CRAR (%)	23	28	26	24	26	27	27	28
>> Tier 1 (%)								
>> Tier 2 (%)								
Debt/Equity(x)	4.0	3.1	3.2	3.5	2.7	2.7	2.7	2.6
Assets Quality Metrics								
Gross NPA (Rs)	117	100	107	98	273	110	170	227
Gross NPA (%)	1.1	1.2	1.2	1.0	2.0	0.7	0.9	1.0
Net NPA (Rs)	74	82	89	76	232	47	73	114
Net NPA (%)	0.7	1.0	1.0	0.7	1.7	0.3	0.4	0.5
Specific Provision Coverage (%)	36	17	17	22	15	57	57	50
Provision/Average Advances (%)	0.8	0.5	0.3	0.4	0.9	1.4	0.3	0.5

Margin Metrics

Yield On Advances (%)	20.9	22.9	22.2	22.3	27.0	23.3	24.0	24.6
Cost Of Funds (%)	11.3	11.6	10.8	10.5	12.4	10.6	11.9	11.8
Spread (%)	9.6	11.3	11.3	11.8	14.6	12.7	12.1	12.8
NIM on AUM (%)	9.8	11.6	12.3	13.3	17.7	16.3	16.3	16.9

Profitability & Effeciency Metrics

Int. Expense/Int.Income (%)	52.9	49.5	44.6	40.3	34.5	30.0	32.0	31.5
Other Income/NII (%)	1.9	3.4	2.3	1.8	1.0	2.2	2.2	1.9
Operating Profit/Net Income (%)	36.1	35.9	39.6	41.4	56.9	50.1	51.9	49.7
Net Profit/Net Income (%)	19.3	20.8	24.3	24.9	33.9	27.3	32.4	30.7
Cost to Income (%)	63.9	64.1	60.4	58.6	43.1	49.9	48.1	50.3
Employee Exp/Net Income (%)	31.8	29.8	28.2	30.3	22.4	25.2	24.9	24.9
Cost on Average Assets (%)	5.5	5.9	6.0	6.8	6.9	7.5	7.4	7.9
Provision/PPP (%)	21.3	12.0	6.4	7.2	8.6	17.1	3.5	5.9
Tax Rate (%)	32.0	34.1	34.4	35.2	34.9	34.3	35.3	34.4

Valuation Ratio Metrics

EPS (Rs)	2.5	2.7	3.2	4.2	9.0	8.0	11.1	13.0
Change (%)	(64.8)	8.4	20.0	30.3	113.7	(11)	39.9	17.0
ROAE (%)	8.6	9.2	10.6	13.1	24.7	18.6	22.5	21.1
ROAA (%)	1.7	1.9	2.4	2.9	5.4	4.1	5.0	4.8
Dividend Payout (%)	121.1	60.3	67.0	64.3	26.7	7.5	26.9	23.0
Dividend yield (%)	7.4	7.9	6.2	8.0	2.6	0.5	2.6	2.6
DPS	2.5	1.4	1.8	2.3	2.0	0.5	2.5	2.5
Book Value(Rs)	29.0	29.6	31.3	32.8	39.9	45.5	53.7	69.7
Change (%)	3	2	6	5	22	14	18	30
P/B (X)	0.7	0.7	1.0	1.1	2.5	2.4	1.8	1.4
P/E (X)	8.8	8.0	10.0	8.3	10.9	13.7	8.6	7.4

Financial Details

Exhibit: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	18.1	17.6	17.5	19.2	24.2	21.1	22.2	22.5
Interest expended	9.6	8.7	7.8	7.7	8.4	6.3	7.1	7.1
Net Interest Income	**8.5**	**8.9**	**9.7**	**11.5**	**15.9**	**14.8**	**15.1**	**15.4**
Non-Fund Based Income	0.2	0.3	0.2	0.2	0.2	0.3	0.3	0.3
Total Income	8.7	9.2	9.9	11.7	16.0	15.1	15.4	15.7
Total Operating Expenses	5.5	5.9	6.0	6.8	6.9	7.5	7.4	7.9
>> Employee Expenses	2.8	2.7	2.8	3.5	3.6	3.8	3.8	3.9
>> Other Expenses	2.8	3.2	3.2	3.3	3.3	3.7	3.6	4.0
Operating Profit	3.1	3.3	3.9	4.8	9.1	7.6	8.0	7.8
Provisions	0.7	0.4	0.3	0.3	0.8	1.3	0.3	0.5
Others	-	-	(0.0)	(0.0)	(0.0)	0.0	-	-
PBT	2.5	2.9	3.7	4.5	8.3	6.3	7.7	7.3
Tax	0.8	1.0	1.3	1.6	2.9	2.2	2.7	2.5
PAT/RoAA	**1.7**	**1.9**	**2.4**	**2.9**	**5.4**	**4.1**	**5.0**	**4.8**
Equity Multiplier (x)	5.1	4.8	4.4	4.5	4.6	4.5	4.5	4.4
ROAE	**8.6**	**9.2**	**10.6**	**13.1**	**24.7**	**18.6**	**22.5**	**21.1**

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