

Manappuram Finance Ltd

Industry	Financial
Bloomberg	MGFL IN
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Healthy AUM Growth Despite Liquidity Pressure

4QFY19 Result Update

- MANAPPURAM reported strong growth in NII of 18% YoY due to strong AUM growth of 23% YOY. PAT growth has been robust at 43% YoY.
- NIM declined by 117/115 bps YoY/QoQ due to lower yield reported in 4QFY19. Yield on overall loans increased by 83/176 bps YoY/QoQ to 23.93% in 4QFY19 while cost of fund has increased by 64 bps YoY while it declined by 7 bps QoQ in 4QFY19.
- OPEX grew by 14% YoY while total income grew by 18% YoY which led to a Cost/Income ratio of 49% in 4QFY19. C/I ratio is expected to decline by 1-1.5% in FY20. Other Income reported growth of 62% YoY to Rs 18 Cr. Provision has declined by 86% YoY.
- AUM grew by 23% YoY registering high growth of 58% YoY in microfinance business. Gold loan segment grew by 10% YoY whereas commercial vehicle segment grew by 78% YoY in 4QFY19. Commercial vehicle finance book is expected to grow by 60-70% in FY20. The company reduced its gold loan composition in total loan to 67% from 70% a quarter back. Non gold loan business composition stands at 33% in 4QFY19, it is expected to form 50% of the total AUM going ahead in next 3-5 years. The management expects gold loan to grow by 10% in terms of tonnage in FY20.
- The Asset quality improved as GNPA declined to 50 bps in 4QFY19 as against 58 bps in 3QFY19 whereas NNPA remained stable at 30 bps in 4QFY19. GNPA for vehicle finance and housing segment stood at 190 bps and 390 bps in 4QFY19. NPAs in vehicle finance segment are expected to be at the same level.

View and Valuation

MANAPPURAM growth has been driven by non-gold loan segment as this segment has been growing at more than 50% growth since last few quarters as per the diversification strategy of the management to reduce the concentration risk whereas the gold loan business growth has moderated to average run rate of 10% in last few quarters. Management has plans to increase the share of non-gold loan segment to 50% of the total loan book in next 3-5 years. Despite the liquidity pressure, growth is unlikely to hamper in near term due to its short-term asset's maturity profile. Due to diversification of the book, yields are likely to impact. However, on the cost front RBI latest notification on credit rating-based lending will also have positive impact on cost of fund. Assets quality has continuously improved for MANAPPURAM. We largely maintain our earning estimates for FY20 and recommend BUY with the target price of Rs 140 at 2x BV FY20e.

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	FY17	FY18	FY19	FY20E	FY21E
NII	2219	2390	2797	3423	4193
PPP	1275	1214	1473	1748	2126
PAT	756	677	922	1100	1290
NIM %	17.7	16.2	15.9	15.9	15.9
EPS (Rs)	9	8	11	13	15
EPS growth (%)	114	-10	36	19	17
ROE (%)	24.7	18.9	22.1	21.2	19.4
ROA (%)	5.4	4.2	4.9	4.9	4.6
BV	40	45	54	70	88
P/B (X)	2.5	2.4	2.3	1.7	1.4
P/E (x)	10.9	13.6	11.1	9.3	8.0

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4QFY19 Results Inline with expectation

Strong Growth

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	887	936	1,014	1,081	1,085	22.3%	0.3%	3,421	4,116	20.3%
Interest Exp.	268	294	317	354	354	32.1%	-0.1%	1,030	1,319	28.0%
NII	619	642	697	727	731	18.1%	0.5%	2,390	2,797	17.0%
Other Income	14	11	13	20	18	27.8%	-5.9%	58	63	
Total Income	633	653	710	747	750	18.3%	0.4%	2,449	2,859	16.8%
Ope Exp.	318	328	344	350	364	14.4%	3.9%	1,235	1,386	12.3%
PPP	315	325	366	397	386	22.3%	-2.7%	1,214	1,473	21.3%
Provisions	40	15	16	9	6	-85.7%	-35.0%	177	46	-74.0%
PBT	276	309	350	388	380	37.9%	-2.0%	1,037	1,427	37.6%
Tax	95	109	126	141	122	28%	-13.4%	360	498	38.1%
Extra Items	-	-	-	-	-			-	-	
Net Profit	179	200	222	245	257	43.2%	4.8%	677	922	36%

NIM under pressure

NIM declined by 117/115 bps YoY/QoQ due to lower yield and high cost of funds in 4QFY19. Yield declined by 83/176 bps YoY/QoQ to 23.93% in 4QFY19. The cost of fund has increased by 64 bps YoY while it declined by 7 bps QoQ in 4QFY19. The average cost of borrowings stood at 9.27% as against 9.37% QoQ. Margins are likely to decline going ahead on the account of diversification to low yield earning portfolio.

Strong AUM growth

AUM grew by 23% YoY registering high growth of 58% YoY in microfinance business. Gold loan segment grew by 10% YoY whereas commercial vehicle segment grew by 78% YoY in 4QFY19. The company reduced its gold loan composition in total loan to 67% from 70% a quarter back. The company reduced its gold loan composition in total loan to 67% from 70% a quarter back. Non gold loan business composition stands at 33% in 4QFY19, it is expected to form 50% of the total AUM going ahead in next 3-5 years. Microfinance now contributes 20% of the total loan as against 18% QoQ. Commercial vehicle segment stood at 5.7% of the total loan in 4QFY19. Vehicle finance book is expected to grow by 60-70% in FY20.

Asset Quality improved

The Asset quality improved as GNPA declined to 50 bps in 4QFY19 as against 58 bps in 3QFY19 whereas NNPA remained stable at 30 bps in 4QFY19. GNPA for vehicle finance declined by 50 bps QoQ to 190 bps in 4QFY19 whereas GNPA for housing segment declined by 100 bps QoQ to 390 bps in 4QFY19. GNPA for housing finance declined in 4QFY19 from 490 bps to 390 bps as overall delinquencies in the book has come down to 17% in FY19 from 26% in FY18. NPAs in vehicle finance segment are expected to be at the same level.

Other Details

- ❑ Total gold loan branches increased to 3372 in 4QFY19 from 3349 in QoQ.
- ❑ The gold holdings increased to 67.5 tonnes from 66.3 tonnes in 3QFY19.
- ❑ Gold loan LTV is at 65%.
- ❑ The company has plans to open 150 branches in FY20.
- ❑ Auctions stood at Rs 67 Cr in 4QFY19 as against Rs 187 Cr QoQ.
- ❑ 6 branches in Odisha got hit by cyclone, but the business had limited impact from the Odisha cyclone.
- ❑ The board approved to acquire 100% equity shares of Manappuram Asset Finance Limited subject to regulatory approvals. The loan book stands at 200 Cr and Net worth stands at Rs 23 Cr of this company.

Concall Highlights

- As per the management, as the financial sector has been going through very bad phase but except increased borrowing cost, no other issues have been reported for the company. The cost of borrowing is expected to come down going ahead.
- C/I ratio is expected to decline by 1-1.5% in FY20.
- The management expects gold loan to grow by 10% in terms of tonnage in FY20.
- Vehicle finance book is expected to grow by 60-70% in FY20. NPAs in this segment are expected to be at the same level.
- Raised \$75m of long term borrowings from IFC with 3 year tenor.
- Non gold loan business is expected to form 50% of the total AUM going ahead in next 3-5 years.
- Asirvad Microfinance closed the year with an AUM of Rs 3800 Cr growing by 15%. New business contributed 1/3 of the total AUM. The net worth of the company increased to Rs 782 Cr from Rs 477 Cr a quarter back due to Manappuram's investments only. The current holding of Manappuram in Asirvad stands at 94%. Manappuram infused Rs 264 Cr in Asirvad finance recently.
- The company has got an approval to raise Rs 1000 Cr of NCDs.
- Company is evaluating a foray into insurance manufacturing business with focus on servicing captive customers. Manappuram's insurance broking subsidiary reported strong growth with premium collection of Rs 43 Cr in FY18 to 115 Cr in FY19. It is likely to cross Rs 200 Cr mark in FY20 with strong growth in life insurance business. The focus will be on credit life insurance.
- The board approved to acquire 100% equity shares of Manappuram Asset Finance Limited subject to regulatory approvals. The loan book stands at 200 Cr and Net worth stands at Rs 23 Cr of this company.
- 39% of the gold loan is through online gold loan. Auctions stood at Rs 67 Cr in 4QFY19 as against Rs 187 Cr QoQ.
- 6 branches in Odisha got hit by cyclone, but the business had limited impact from the Odisha cyclone.
- Auctions stood at Rs 67 Cr in 4QFY19 as against Rs 187 Cr QoQ.
- Gold disbursement of Rs 27164 Cr in 4QFY19.

Profitability Matrix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	51.9	51.3	50.2	50.2	48.4	46.9	48.5	-1.68	1.63
Empl. Cost/ Tot. Exp. %	26.1	26.1	25.9	26.0	25.0	24.1	25.8	-0.09	1.66
Other Exp/Tot. Exp.%	22.3	22.0	20.9	21.4	20.3	19.6	19.4	-1.54	-0.21
Provision/PPP %	15.8	12.3	12.6	17.7	4.4	2.2	1.5	-11.16	-0.73
Tax Rate %	33.9	35.5	34.5	35.1	36.0	36.3	32.0	-2.42	-4.23
Int Exp./Int Inc. (%)	29.5	29.8	30.2	31.5	31.3	32.7	32.6	2.42	-0.13
Other Inc./NII %	(1.5)	27.9	50.0	(54.4)	37.5	58.2	27.8	-22.15	-30.34
PPP/ Net Income %	48.1	48.7	49.8	49.8	51.6	53.1	51.5	1.68	-1.63
PAT/ Net Income %	26.7	27.5	28.3	30.6	31.3	32.8	34.3	5.96	1.45
NII Growth % (YoY)	7.8	5.5	2.2	11.9	19.0	19.0	18.1	15.86	-0.90
PPP Growth YoY %	(8.4)	(13.4)	(9.0)	4.8	27.9	40.5	22.3	31.35	-18.22
PAT Growth %	(17.2)	(15.5)	(10.6)	21	39.0	42.9	43.2	53.82	0.35

Margin Performance

Margin %	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	24.0	25.1	24.8	24.6	25.3	25.7	23.9	-0.83	-1.76
Cost Of Funds	10.1	11.4	11.6	11.9	12.1	12.9	12.0	0.39	-0.91
Spreads	13.8	13.6	13.2	12.7	13.2	12.8	12.0	-1.22	-0.85
NIM	16.9	17.6	17.3	16.9	17.4	17.3	16.1	-1.17	-1.15

Exhibit: Yield and Cost

Yield declined & cost of funds also declined

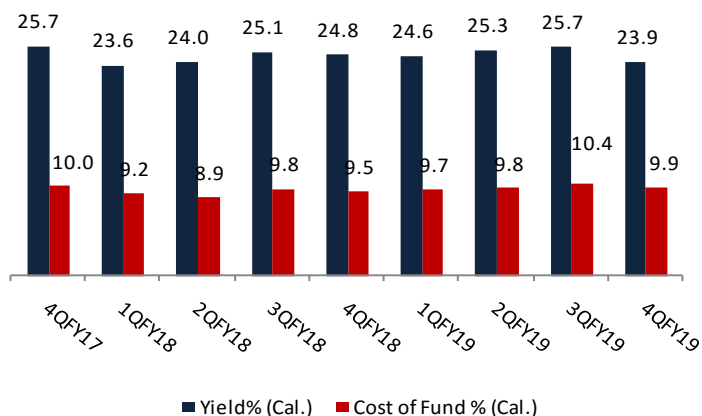
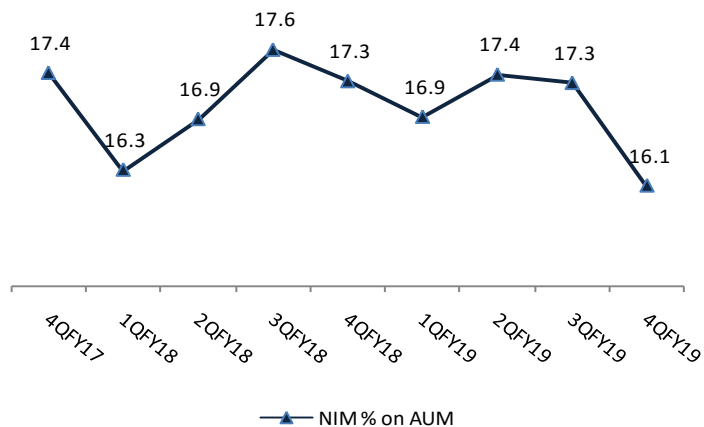


Exhibit: Net Interest Margin

NIM declined



Asset & Borrowings Growth Trend

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Disbursements Gold Loan	12300	12687	12816	16164	20500	23100	18337	21028	27164
Growth YoY %	13	-4	-14	34	67	82	43	30	0
AUM	13657	13380	13723	14650	15765	16618	17191	17783	19438
Growth YoY %	19	3	-5	1	15	24	25	21	23
Borrowing(std.)	9163	8651	8753	9429	10240	11027	11354	11390	12743
Growth YoY %	-5	-22	-28	-23	12	27	30	21	24

Exhibit: AUM Growth %

AUM growth strong

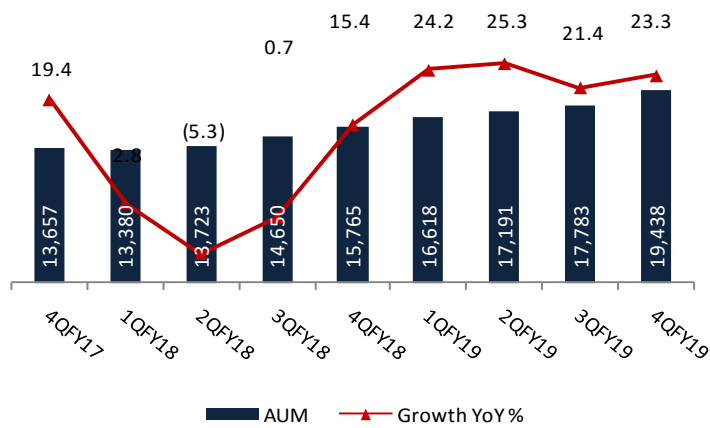
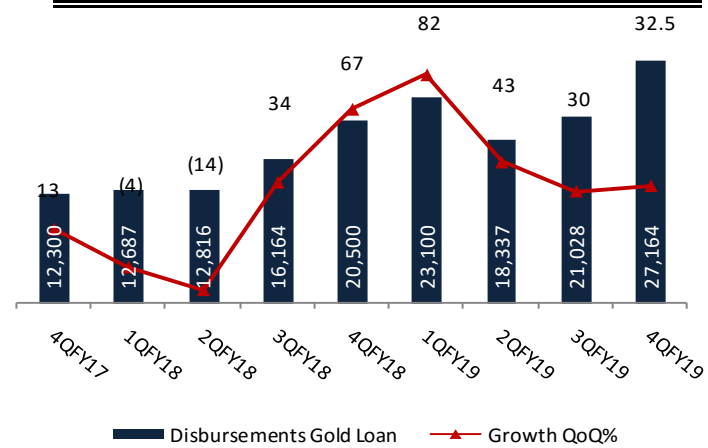


Exhibit: Disbursement Growth %



Asset Mix

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Gold Loan	81	80	78	77	74	75	73	70	67
Microfinance	13	14	14	14	15	15	16	18	20
CV	2	3	3	3	4	4	5	5	6
Others	3	4	4	5	6	6	6	6	8

Asset Quality

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (+/-)	QoQ (+/-)
GNPA	165	103	110	116	120	103	97	(13.2)	(6)
GNPA %	1.2	0.7	0.7	0.7	0.7	0.6	0.5	(0.2)	(0.1)
NNPA	124	59	47	50	34	53	58	11.0	5
NNPA %	0.9	0.4	0.3	0.3	0.2	0.3	0.3	-	-
Total Specific PCR %	25	43	63	57	71	48	39	(24.2)	(9)

Others

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
GOLD AUM PER BRANCH	3.4	3.3	3.3	3.4	3.5	3.7	3.8	3.7	3.8
GOLD HOLDING (TONNES)	61	59	60	62	64	66	67	66	68

Exhibit: Asset Quality

Improvement in asset quality

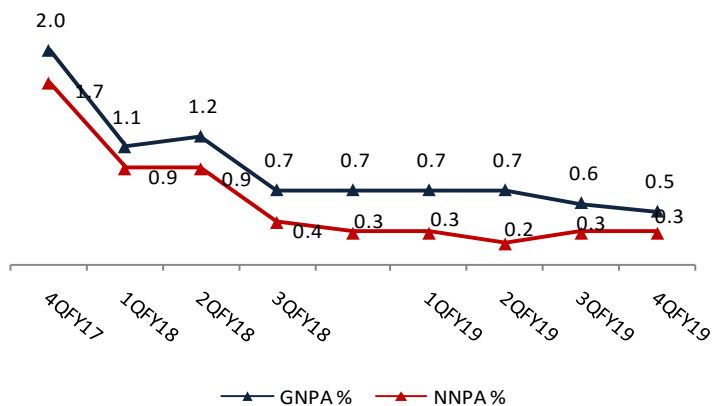
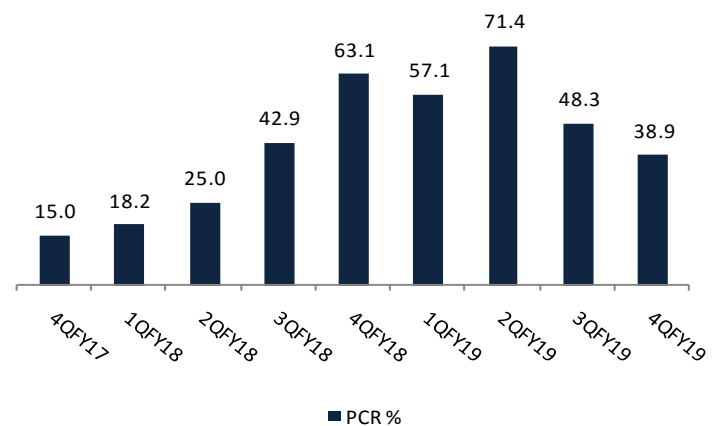


Exhibit: Provisions

PCR declined



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	168	168	168	168	169	169	169	169
>> Equity Capital	168	168	168	168	169	169	169	169
>> Preference Capital								
Reserves & Surplus	2,324	2,465	2,590	3,193	3,645	4,356	5,709	7,251
Networth	2,492	2,633	2,758	3,362	3,813	4,525	5,878	7,420
Change (%)	2	6	5	22	13	19	30	26
Total Borrowings	7,795	8,392	9,638	9,403	12,607	15,295	18,747	22,871
Change (%)				(2)	34	21	23	22
Provisions	100	51	78	166	45	55	66	82
Other Liabilities	452	541	365	2,221	564	579	75	522
Total Liabilities	10,838	11,616	12,839	15,152	17,030	20,454	24,766	30,896
Investments	796	217	49	5	5	174	7	9
Loans	8,378	9,770	11,515	13,969	15,244	17,812	22,931	27,976
Change (%)	(18)	17	18	21	9	17	29	22
Fixed Assets	202	174	195	187	275	332	356	434
Other Assets	618	663	476	468	782	972	201	237
Cash Balances	844	793	604	523	724	1,164	1,271	2,240
Total Assets	10,838	11,616	12,839	15,152	17,030	20,454	24,766	30,896

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	2,076	1,968	2,349	3,388	3,421	4,116	4,992	6,090
Interest expended	1,027	877	947	1,169	1,030	1,319	1,569	1,897
Net Interest Income	1,049	1,091	1,402	2,219	2,390	2,797	3,423	4,193
Change (%)	(1)	4	28	58	8	17	22	23
Other Income	36	25	25	21	58	63	69	85
Change (%)	76	(30)	(1)	(15)	175	7	11	22
Total Net Income	1,085	1,116	1,426	2,240	2,449	2,859	3,492	4,278
Change (%)	1	3	28	57	9	17	22	23
Operating Expenses	695	674	836	965	1,235	1,386	1,744	2,152
Change (%)	1	(3)	24	16	28	12	26	23
>> Employee Expenses	324	315	433	503	626	720	869	1,069
Change (%)	(5)	(3)	38	16	25	15	21	23
>> Other Expenses	372	360	403	400	528	571	778	962
Pre-provisioning Profit	390	442	591	1,275	1,214	1,473	1,748	2,126
Change (%)	0	13	34	116	(5)	21	19	22
Provisions	47	28	42	109	177	46	71	155
Change (%)	(43)	(40)	51	157	63	(74)	55	116
PBT	343	414	548	1,166	1,037	1,427	1,676	1,971
Tax	117	142	193	407	360	498	576	682
Profit After Tax	226	271	355	758	676	929	1,100	1,290
Change (%)	8	20	31	114	(11)	37	18	17
Adjusted Profit After Tax	226	271	353	756	677	922	1,100	1,290
Change (%)	8	20	30	114	(10)	36	19	17

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	8,163	9,593	11,434	13,657	15,765	19,438	23,715	28,932
>> Off-Book AUM	(215)	(177)	(81)	(312)	521	1,627	784	956
AUM Growth (%)	(18.0)	17.5	19.2	19.4	15.4	23.3	22.0	22.0
Borrowing Growth (%)	-	-	-	(2.4)	34.1	21.3	22.6	22.0
Loan/Borrowing (%)	1.1	1.2	1.2	1.5	1.2	1.2	1.2	1.2
Disbursement (Rs Cr)								
Disbursement Growth (%)								
CRAR (%)	28	26	24	26	27	27	28	29
>> Tier 1 (%)								
>> Tier 2 (%)								
Debt/Equity(x)	3.1	3.2	3.5	2.8	3.3	3.4	3.2	3.1
Assets Quality Metrics								
Gross NPA (Rs)	100	107	98	273	110	97	190	231
Gross NPA (%)	1.2	1.2	1.0	2.0	0.7	0.5	0.8	0.8
Net NPA (Rs)	82	89	76	232	47	58	95	116
Net NPA (%)	1.0	1.0	0.7	1.7	0.3	0.3	0.4	0.4
Specific Provision Coverage (%)	17	17	22	15	57	40	50	50
Provision/Average Advances (%)	0.5	0.3	0.4	0.9	1.2	0.3	0.3	0.6

Margin Metrics

Yield On Advances (%)	22.9	22.2	22.3	27.0	23.3	23.4	23.1	23.1
Cost Of Funds (%)	11.6	10.8	10.5	12.4	10.6	11.5	11.0	10.8
Spread (%)	11.3	11.3	11.8	14.6	12.6	11.9	12.1	12.3
NIM on AUM (%)	11.6	12.3	13.3	17.7	16.2	15.9	15.9	15.9

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	49.5	44.6	40.3	34.5	30.1	32.1	31.4	31.1
Other Income/NII (%)	3.4	2.3	1.8	1.0	2.4	2.2	2.0	2.0
Operating Profit/Net Income (%)	35.9	39.6	41.4	56.9	49.6	51.5	50.0	49.7
Net Profit/Net Income (%)	20.8	24.3	24.9	33.9	27.6	32.5	31.5	30.1
Cost to Income (%)	64.1	60.4	58.6	43.1	50.4	48.5	50.0	50.3
Employee Exp/Net Income (%)	29.8	28.2	30.3	22.4	25.6	25.2	24.9	25.0
Cost on Average Assets (%)	5.9	6.0	6.8	6.9	7.7	7.4	7.7	7.7
Provision/PPP (%)	12.0	6.4	7.2	8.6	14.6	3.1	4.1	7.3
Tax Rate (%)	34.1	34.4	35.2	34.9	34.8	34.9	34.4	34.6

Valuation Ratio Metrics

EPS (Rs)	2.7	3.2	4.2	9.0	8.0	10.9	13.1	15.3
Change (%)	8.4	20.0	30.3	113.7	(10.5)	36	19.3	17.2
ROAE (%)	9.2	10.6	13.1	24.7	18.9	22.1	21.2	19.4
ROAA (%)	1.9	2.4	2.9	5.4	4.2	4.9	4.9	4.6
Dividend Payout (%)	60.3	67.0	64.3	26.7	7.5	27.4	23.0	19.6
Dividend yield (%)	7.9	6.2	8.0	2.6	0.5	2.0	2.0	2.0
DPS	1.4	1.8	2.3	2.0	0.5	2.5	2.5	2.5
Book Value(Rs)	29.6	31.3	32.8	39.9	45.3	53.7	69.8	88.1
Change (%)	2	6	5	22	13	19	30	26
P/B (X)	0.7	1.0	1.1	2.5	2.4	2.3	1.7	1.4
P/E (X)	8.0	10.0	8.3	10.9	13.6	11.1	9.3	8.0

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	17.6	17.5	19.2	24.2	21.3	22.0	22.1	21.9
<i>Interest expended</i>	8.7	7.8	7.7	8.4	6.4	7.0	6.9	6.8
<i>Net Interest Income</i>	8.9	9.7	11.5	15.9	14.9	14.9	15.1	15.1
<i>Non-Fund Based Income</i>	0.3	0.2	0.2	0.2	0.4	0.3	0.3	0.3
<i>Total Income</i>	9.2	9.9	11.7	16.0	15.2	15.3	15.4	15.4
<i>Total Operating Expenses</i>	5.9	6.0	6.8	6.9	7.6	7.3	7.7	7.7
<i>>> Employee Expenses</i>	2.7	2.8	3.5	3.6	3.9	3.8	3.8	3.8
<i>>> Other Expenses</i>	3.2	3.2	3.3	3.3	3.7	3.4	3.9	3.9
<i>Operating Profit</i>	3.3	3.9	4.8	9.1	7.6	8.0	7.7	7.6
<i>Provisions</i>	0.4	0.3	0.3	0.8	1.1	0.2	0.3	0.6
<i>Others</i>	-	(0.0)	(0.0)	(0.0)	0.0	(0.0)	-	-
<i>PBT</i>	2.9	3.7	4.5	8.3	6.5	7.7	7.4	7.1
<i>Tax</i>	1.0	1.3	1.6	2.9	2.2	2.7	2.5	2.4
PAT/RoAA	1.9	2.4	2.9	5.4	4.3	5.0	4.9	4.6
<i>Equity Multiplier (x)</i>	4.8	4.4	4.5	4.6	4.5	4.5	4.3	4.2
ROAE	9.2	10.6	13.1	24.7	19.2	22.6	21.2	19.4

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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