




# Manappuram Finance Ltd

<b>Industry</b>	<b>Financial</b>
<b>Bloomberg</b>	<b>MGFL IN</b>
<b>BSE CODE</b>	<b>531213</b>

## Profitability to Remain Robust Driven by Gold and MFI Segment

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>168</b>
<b>Price Target</b>	<b>196</b>
<b>Potential Upside</b>	<b>17%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	174/76
Mkt Capital (Rs Cr)	14,175
Free float (%)	65%
Avg. Vol 1M (,000)	5,092
No. of Shares (Cr)	84
Promoters Pledged %	1%

Fig. In RS Cr

FINANCIAL	FY19	FY20E	FY21E
NII	2698	3476	4178
PPP	1473	2083	2478
PAT	922	1445	1721
NIM %	15.3	15.9	15.6
EPS (Rs)	11	17	20
EPS growth	36	57	19
ROE (%)	22	28	27
ROA (%)	4.9	6.6	6.5
BV	54	68	85
P/B (X)	3.1	2.5	2.0
P/E (x)	15	10	8

### Research Analyst

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### 2QFY20 Result Update

- MANAPPURAM reported healthy NII growth of 24%/9%YoY/QoQ backed by strong AUM growth. PAT grew robustly by 82%/50% YoY/QoQ above our expectation.
- AUM growth has been robust at 32%/12% YoY/QoQ mainly driven by high growth in gold loan segment and microfinance. Gold loan disbursement increased by 91% QoQ. The company expects good growth in gold loan in 2HFY20 driven largely by growth in tonnage. Sustainable growth is 10-12% in tonnage.
- Asset quality improved as GNPA/NNPA both declined by 10 bps QoQ to 0.6%/0.3% in 2QFY20. However GNPA's in housing segment and CV segment have been high at 4.8% and 2.8%.

### Margins remained stable QoQ

NII grew by 32%/12% YoY/QoQ backed by strong AUM growth. NIM remained almost stable QoQ and declined YoY by 77 bps to 16.60% due high cost of funds YoY. Yield declined by 49 bps YoY whereas it increased by 24 bps QoQ. Weighted average cost of borrowing increased by 42 bps YoY to 9.30% in 2QFY20.

### Gold loan driving the growth

AUM grew by 32%/12% YoY/QoQ mainly driven by gold loan segment and microfinance segment. Gold loan grew by 21% YoY highest in last 11 quarters, whereas MFI grew by 73% YoY. CV segment also reported high growth of 61% YoY. The portfolio composition moved towards gold loan in 2QFY20 due to growth in the segment. Gold loan composition to total portfolio increased to 67% from 66% last quarter. Home loans also grew by 27% YoY. Gold loan disbursement increased by 91% QoQ. Gold loan grew by 21% YoY/14% YoY/QoQ due to growth in gold holdings to 72 Tonnes from 68.4 Tonnes QoQ and 7% YoY and high gold prices. Major growth came from rest of India other than south. The company expects good growth in gold loan in 2HFY20 driven largely by growth in tonnage. Sustainable growth is 10-12% in tonnage.

### Asset quality improved

Asset quality improved as GNPA/NNPA both declined by 10 bps QoQ to 0.6%/0.3% in 2QFY20. However GNPA's in housing segment and CV segment have been high at 4.8% and 2.8%. GNPA is expected to be maintained at 2.8% for Vehicle Finance segment going ahead.

### View and Valuation

MANAPPURAM growth has been driven by non-gold loan segment earlier but this quarter being an exceptional quarter with high growth registered in gold loan segment on the account of high gold prices. MFI business also has been major growth driver for the company. Asset quality is intact as NPAs are improving. 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 and upgradation in credit rating on the account of strong financials. Factoring favourable gold prices and other segments performing well we increase our PAT estimates for FY20 by 12% and upgrade the stock to BUY from HOLD with the target price of Rs 196 at Rs 2.3X BV FY21.

### Key Risks to our rating and target

- Gold loan Growth.
- Rise in delinquency will affect the credit cost

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## 2QFY20 Results Above expectation

## Strong Performance

Fig. In Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,014	1,081	1,085	1,174	1,287	<b>26.8%</b>	<b>9.6%</b>	3,356	4,017	<b>19.7%</b>
Interest Exp.	317	354	354	380	425	<b>33.9%</b>	<b>11.8%</b>	1,030	1,319	<b>28.0%</b>
NII	697	727	731	794	862	<b>23.6%</b>	<b>8.5%</b>	2,326	2,698	<b>16.0%</b>
Other Income	13	20	18	11	47	<b>261.6%</b>	<b>350.5%</b>	64	99	<b>54.3%</b>
Total Income	710	747	750	805	909	<b>28.0%</b>	<b>13.0%</b>	2,449	2,859	<b>16.8%</b>
Opex Exp.	344	350	364	354	365	<b>6.2%</b>	<b>3.3%</b>	1,235	1,386	<b>12.3%</b>
PPP	366	397	386	451	544	<b>48.5%</b>	<b>20.6%</b>	1,214	1,473	<b>21.3%</b>
Provisions	16	9	6	37	29		<b>-19.7%</b>	177	46	<b>-74.0%</b>
PBT	350	388	380	414	514	<b>47.0%</b>	<b>24.1%</b>	1,037	1,427	<b>37.6%</b>
Tax	126	141	122	142	107	<b>-15%</b>	<b>-24.9%</b>	361	498	<b>37.9%</b>
Net Profit	222	245	257	270	404	<b>81.9%</b>	<b>49.9%</b>	677	922	<b>36%</b>

### Concall Highlights

- PAT grew by 82%/50% YoY/QoQ which includes one impact of Rs 60 Cr on the account of recent corporate tax rate cut and some other income.
- Security cost came down to Rs 12.4 Cr from Rs 15.1 Cr in last quarter.
- Gold loan grew by 21% YoY/14% YoY/QoQ due to growth in gold holdings to 72 Tonnes from 68.4 Tonnes QoQ and 7% YoY and high gold prices. Major growth came from rest of India other than south. The company expects good growth in gold loan in 2HFY20 driven largely by growth in tonnage. Sustainable growth is 10-12% in tonnage.
- AUM of Asirwad Finance grew by 73%/12% YoY/QoQ driven by new customer as average ticket size remains the same.
- CV segment is expected to be third major driver for the company after gold and MFI.
- NON gold segment constitutes 33% of the total portfolio which is expected to reach to 50% over period of time along with focus on gold loan segment.
- The company raised Rs 200 Cr through NCDs in 2QFY20. The Company is in the process of raising funds through foreign currency bonds. No funding challenge is there.
- The company takes a cautious stance in West Bengal region.
- The company approved the establishment of a medium term note programme to raise up to USD 750 Mn. First tranche of \$ 300 Mn is expected in last week of November itself.
- LTV for gold loan for 2QFY20 stood at 60%. 22% of the book has LTV less than 60%, 60-70% is 43% and 35% of the book has 70-75% LTV.
- GNPA is expected to be maintained at 2.8% for Vehicle Finance segment going ahead.
- The company has brought down the ticket size in home loan business looking at delinquencies in high ticket size loans.

## Profitability Matrix

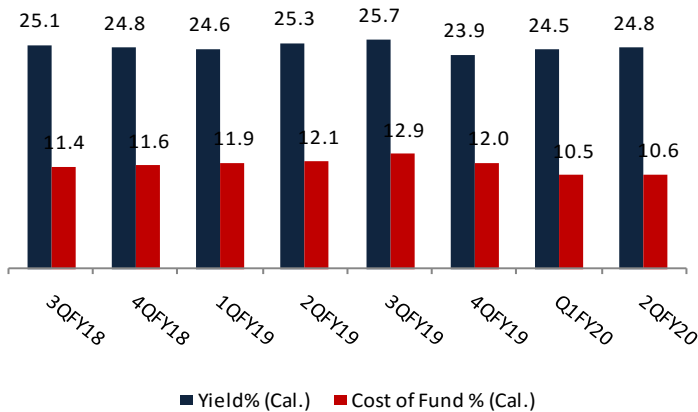
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	50.2	50.2	48.4	46.9	48.5	44.0	40.2	-8.25	-3.77
Empl. Cost/ Tot. Exp. %	25.9	26.0	25.0	24.1	25.8	24.5	22.4	-2.59	-2.12
Other Exp/Tot. Exp.%	20.9	21.4	20.3	19.6	19.4	13.9	12.8	-7.51	-1.10
Provision/PPP %	12.6	17.7	4.4	2.2	1.5	8.1	5.4	0.97	-2.70
Tax Rate %	34.5	35.1	36.0	36.3	32.0	34.3	20.8	-15.23	-13.55
Int Exp./Int Inc. (%)	30.2	31.5	31.3	32.7	32.6	32.4	33.0	1.74	0.66
Other Inc./NII %	50.0	(54.4)	37.5	58.2	27.8	(7.6)	261.6	224.11	269.19
PPP/ Net Income %	49.8	49.8	51.6	53.1	51.5	56.0	59.8	8.25	3.77
PAT/ Net Income %	28.3	30.6	31.3	32.8	34.3	33.5	44.4	13.16	10.94
NII Growth % (YoY)	2.2	11.9	19.0	19.0	18.1	23.8	23.6	4.64	-0.17
PPP Growth YoY %	(9.0)	4.8	27.9	40.5	22.3	38.8	48.5	20.66	9.68
PAT Growth %	(10.6)	20.9	39.0	43	43.2	36.0	81.9	42.84	45.86

## Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	24.8	24.6	25.3	25.7	23.9	24.5	24.8	-0.49	0.24
Cost Of Funds	11.6	11.9	12.1	12.9	12.0	10.5	10.6	-1.47	0.11
Spreads	13.2	12.7	13.2	12.8	12.0	14.0	14.2	0.98	0.14
NIM	17.3	16.9	17.4	17.3	16.1	16.6	16.6	-0.77	0.00

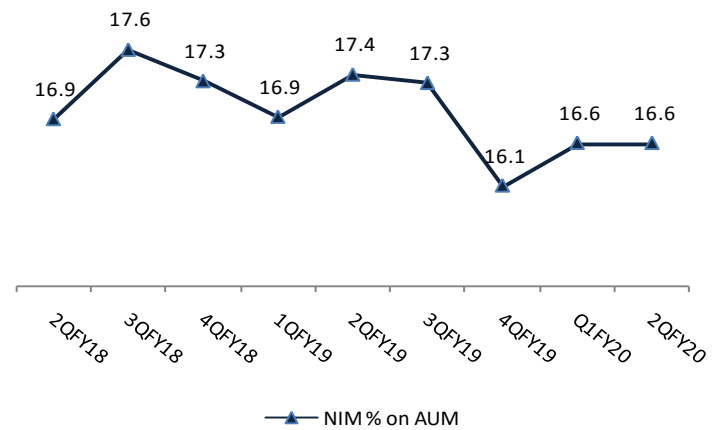
### Exhibit: Yield and Cost

Yield increased & cost of funds increased



### Exhibit: Net Interest Margin

NIM stable QoQ



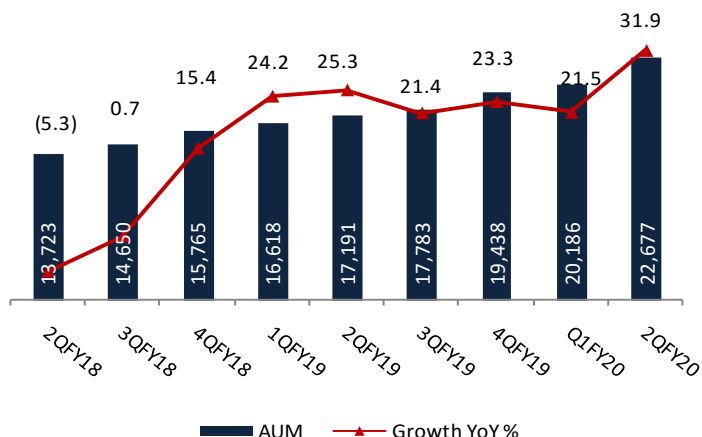
## Asset & Borrowings Growth Trend

Fig. In Rs Cr

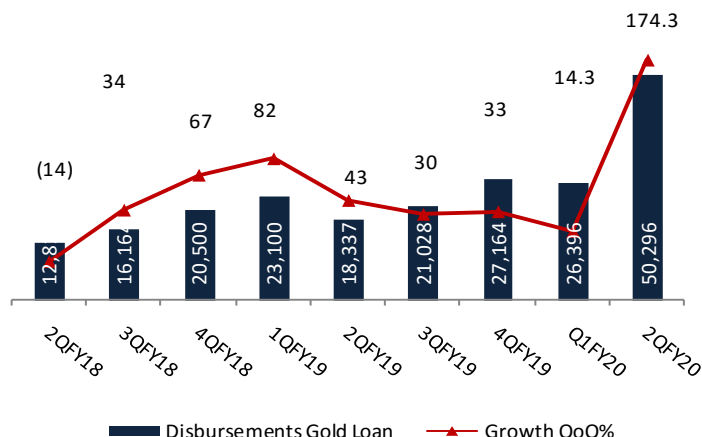
	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements Gold Loan	12816	16164	20500	23100	18337	21028	27164	26396	50296
Growth YoY %	-14	34	67	82	43	30	33	14	174
AUM	13723	14650	15765	16618	17191	17783	19438	20186	22677
Growth YoY %	-5	1	15	24	25	21	23	21	32
Borrowing(std.)	8753	9429	10240	11027	11354	11390	12743	11312	15400
Growth YoY %	-28	-23	12	27	30	21	24	10	36

## Exhibit: AUM Growth %

AUM growth strong



## Exhibit: Disbursement Growth %



## Asset Mix

	2QFY18	3QFY18	4QFY18	1QY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Gold Loan	78	77	74	75	73	70	67	66	67
Microfinance	14	14	15	15	16	18	20	21	21
CV	3	3	4	4	5	5	6	6	6
Others	4	5	6	6	6	6	8	7	6

## Asset Quality

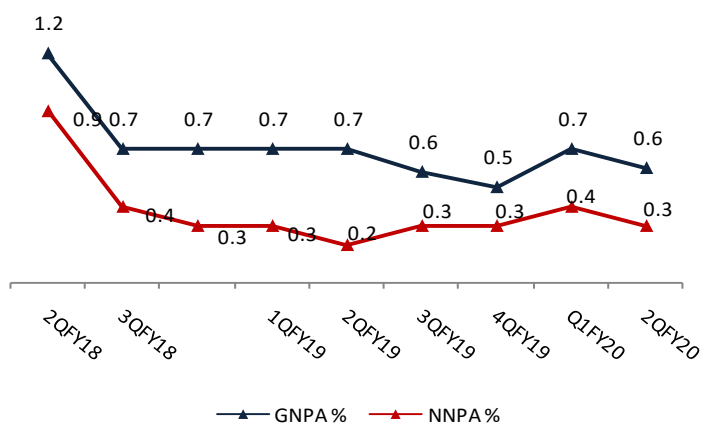
	4QFY18	1QY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA	110	116	120	103	97	141	136	15.7	(5)
GNPA %	0.7	0.7	0.7	0.6	0.5	0.7	0.6	(0.1)	(0.1)
NNPA	47	50	34	53	58	81	68	33.6	(13)
NNPA %	0.3	0.3	0.2	0.3	0.3	0.4	0.3	0.1	(0.1)
Total Specific PCR %	63	57	71	48	39	61	68	(3.4)	7

## Others

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	1QFY20
GOLD AUM PER BRANCH	3.3	3.4	3.5	3.7	3.8	3.7	3.8	3.9	4.4
GOLD HOLDING (TONNES)	60	62	64	66	67	66	68	68	72

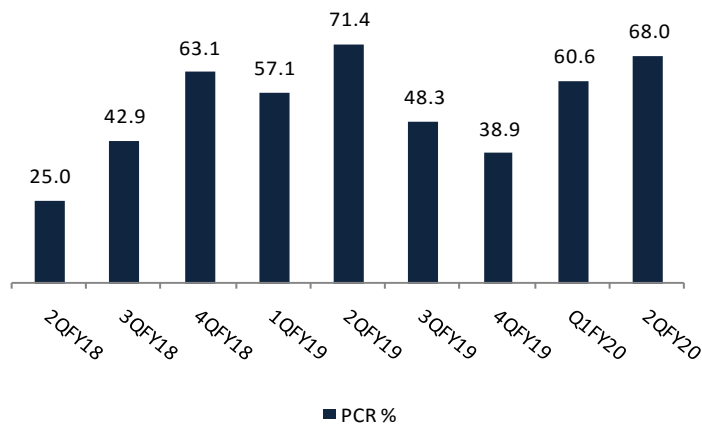
## Exhibit: Asset Quality

Asset Quality Improved



## Exhibit: Provisions

PCR increased



## Financial Details

### Balance Sheet

Fig. In Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>168</b>	<b>168</b>	<b>168</b>	<b>168</b>	<b>169</b>	<b>169</b>	<b>169</b>	<b>169</b>
>> 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	5,549	7,017
<b>Networth</b>	<b>2,492</b>	<b>2,633</b>	<b>2,758</b>	<b>3,362</b>	<b>3,813</b>	<b>4,525</b>	<b>5,717</b>	<b>7,185</b>
Change (%)	2	6	5	22	13	19	26	26
Total Borrowings	7,795	8,392	9,638	9,403	12,607	15,295	19,595	23,514
Change (%)				(2)	34	21	28	20
Provisions	100	51	78	166	45	55	60	72
Other Liabilities	452	541	365	2,221	564	579	637	701
<b>Total Liabilities</b>	<b>10,838</b>	<b>11,616</b>	<b>12,839</b>	<b>15,152</b>	<b>17,030</b>	<b>20,454</b>	<b>26,010</b>	<b>31,473</b>
Investments	796	217	49	5	5	174	200	230
Loans	8,378	9,770	11,515	13,969	15,244	17,812	22,265	26,718
Change (%)	(18)	17	18	21	9	17	25	20
Fixed Assets	202	174	195	187	275	332	398	478
Other Assets	618	663	476	468	782	972	1,167	1,400
Cash Balances	844	793	604	523	724	1,164	1,980	2,647
<b>Total Assets</b>	<b>10,838</b>	<b>11,616</b>	<b>12,839</b>	<b>15,152</b>	<b>17,030</b>	<b>20,454</b>	<b>26,010</b>	<b>31,473</b>

### Income Statement

Fig. In Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	2,076	1,968	2,349	3,388	3,356	4,017	5,203	6,237
Interest expended	1,027	877	947	1,169	1,030	1,319	1,727	2,059
<b>Net Interest Income</b>	<b>1,049</b>	<b>1,091</b>	<b>1,402</b>	<b>2,219</b>	<b>2,326</b>	<b>2,698</b>	<b>3,476</b>	<b>4,178</b>
Change (%)	(1)	4	28	58	5	16	29	20
Other Income	36	25	25	21	123	162	96	87
Change (%)	76	(30)	(1)	(15)	478	32	(41)	(9)
<b>Total Net Income</b>	<b>1,085</b>	<b>1,116</b>	<b>1,426</b>	<b>2,240</b>	<b>2,449</b>	<b>2,859</b>	<b>3,572</b>	<b>4,264</b>
Change (%)	1	3	28	57	9	17	25	19
Operating Expenses	695	674	836	965	1,235	1,386	1,488	1,787
Change (%)	1	(3)	24	16	28	12	7	20
>> Employee Expenses	324	315	433	503	626	720	846	1,023
Change (%)	(5)	(3)	38	16	25	15	18	21
>> Other Expenses	372	360	403	400	528	571	488	597
<b>Pre-provisioning Profit</b>	<b>390</b>	<b>442</b>	<b>591</b>	<b>1,275</b>	<b>1,214</b>	<b>1,473</b>	<b>2,083</b>	<b>2,478</b>
Change (%)	0	13	34	116	(5)	21	41	19
Provisions	47	28	42	109	177	46	139	185
Change (%)	(43)	(40)	51	157	63	(74)	201	34
PBT	343	414	548	1,166	1,037	1,427	1,945	2,292
Tax	117	142	193	407	361	498	499	571
<b>Profit After Tax</b>	<b>226</b>	<b>271</b>	<b>355</b>	<b>758</b>	<b>676</b>	<b>929</b>	<b>1,445</b>	<b>1,721</b>
Change (%)	8	20	31	114	(11)	38	56	19
<b>Adjusted Profit After Tax</b>	<b>226</b>	<b>271</b>	<b>353</b>	<b>756</b>	<b>677</b>	<b>922</b>	<b>1,445</b>	<b>1,721</b>
Change (%)	8	20	30	114	(10)	36	57	19

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
AUM	8,163	9,593	11,434	13,657	15,765	19,438	24,298	29,158
>> Off-Book AUM	(215)	(177)	(81)	(312)	521	1,627	2,033	2,440
AUM Growth (%)	(18.0)	17.5	19.2	19.4	15.4	23.3	25.0	20.0
Borrowing Growth (%)	-	-	-	(2.4)	34.1	21.3	28.1	20.0
Loan/Borrowing (%)	1.1	1.2	1.2	1.5	1.2	1.2	1.1	1.1
<b>Disbursement (Rs Cr)</b>								
<b>Disbursement Growth (%)</b>								
CRAR (%)	28	26	24	26	27	27	26	27
>> Tier 1 (%)								
>> Tier 2 (%)								
Debt/Equity(x)	3.1	3.2	3.5	2.8	3.3	3.4	3.4	3.3
<b>Assets Quality Metrics</b>								
Gross NPA (Rs)	100	107	98	273	110	97	146	175
Gross NPA (%)	1.2	1.2	1.0	2.0	0.7	0.5	0.6	0.6
Net NPA (Rs)	82	89	76	232	47	58	73	87
Net NPA (%)	1.0	1.0	0.7	1.7	0.3	0.3	0.3	0.3
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	0.6	0.7

### Margin Metrics

Yield On Advances (%)	22.9	22.2	22.3	27.0	22.8	22.8	23.8	23.3
Cost Of Funds (%)	11.6	10.8	10.5	12.4	10.6	11.5	11.9	11.6
Spread (%)	11.3	11.3	11.8	14.6	12.2	11.3	11.9	11.8
NIM on AUM (%)	11.6	12.3	13.3	17.7	15.8	15.3	15.9	15.6

### Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	49.5	44.6	40.3	34.5	30.7	32.8	33.2	33.0
Other Income/NII (%)	3.4	2.3	1.8	1.0	5.3	6.0	2.8	2.1
Operating Profit/Net Income (%)	35.9	39.6	41.4	56.9	49.6	51.5	58.3	58.1
Net Profit/Net Income (%)	20.8	24.3	24.9	33.9	27.6	32.5	40.5	40.4
Cost to Income (%)	64.1	60.4	58.6	43.1	50.4	48.5	41.7	41.9
Employee Exp/Net Income (%)	29.8	28.2	30.3	22.4	25.6	25.2	23.7	24.0
Cost on Average Assets (%)	5.9	6.0	6.8	6.9	7.7	7.4	6.7	6.7
Provision/PPP (%)	12.0	6.4	7.2	8.6	14.6	3.1	6.7	7.5
Tax Rate (%)	34.1	34.4	35.2	34.9	34.8	34.9	25.7	24.9

### Valuation Ratio Metrics

EPS (Rs)	2.7	3.2	4.2	9.0	8.0	10.9	17.2	20.4
Change (%)	8.4	20.0	30.3	113.7	(10.5)	36	56.7	19.1
ROAE (%)	9.2	10.6	13.1	24.7	18.9	22.1	28.2	26.7
ROAA (%)	1.9	2.4	2.9	5.4	4.2	4.9	6.6	6.5
Dividend Payout (%)	60.3	67.0	64.3	26.7	7.5	27.4	17.5	14.7
Dividend yield (%)	7.9	6.2	8.0	2.6	0.5	1.5	1.5	1.5
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	67.8	85.3
Change (%)	2	6	5	22	13	19	26	26
P/B (X)	0.7	1.0	1.1	2.5	2.4	3.1	2.5	2.0
P/E (X)	8.0	10.0	8.3	10.9	13.6	15.3	9.8	8.2

## 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	20.9	21.4	22.4	21.7
<i>Interest expended</i>	8.7	7.8	7.7	8.4	6.4	7.0	7.4	7.2
<i>Net Interest Income</i>	8.9	9.7	11.5	15.9	14.5	14.4	15.0	14.5
<i>Non-Fund Based Income</i>	0.3	0.2	0.2	0.2	0.8	0.9	0.4	0.3
<i>Total Income</i>	9.2	9.9	11.7	16.0	15.2	15.3	15.4	14.8
<i>Total Operating Expenses</i>	5.9	6.0	6.8	6.9	7.6	7.3	6.4	6.2
<i>&gt;&gt; Employee Expenses</i>	2.7	2.8	3.5	3.6	3.9	3.8	3.6	3.6
<i>&gt;&gt; Other Expenses</i>	3.2	3.2	3.3	3.3	3.7	3.4	2.8	2.7
<i>Operating Profit</i>	3.3	3.9	4.8	9.1	7.6	8.0	9.0	8.6
<i>Provisions</i>	0.4	0.3	0.3	0.8	1.1	0.2	0.6	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	8.4	8.0
<i>Tax</i>	1.0	1.3	1.6	2.9	2.2	2.7	2.1	2.0
<b><i>PAT/RoAA</i></b>	<b>1.9</b>	<b>2.4</b>	<b>2.9</b>	<b>5.4</b>	<b>4.3</b>	<b>5.0</b>	<b>6.2</b>	<b>6.0</b>
<i>Equity Multiplier (x)</i>	4.8	4.4	4.5	4.6	4.5	4.5	4.5	4.5
<b><i>ROAE</i></b>	<b>9.2</b>	<b>10.6</b>	<b>13.1</b>	<b>24.7</b>	<b>19.2</b>	<b>22.6</b>	<b>28.2</b>	<b>26.7</b>

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