

Industry  
Bloomberg  
BSE CODE

Financial  
MGFL IN  
531213

RATING	BUY
CMP	189
Price Target	213
Potential Upside	13%
Rating Change	↑
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	191/90
Mkt Capital (Rs Cr)	15,936
Free float (%)	65%
Avg. Vol 1M (,000)	5,092
No. of Shares (Crs)	84
Promoters Pledged %	1%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	2698	3701	4420
PPP	1473	2296	2666
PAT	922	1587	1857
NIM %	15.3	16.6	15.9
EPS (Rs)	11	19	22
EPS growth (%)	36	72	17
ROE (%)	22	31	28
ROA (%)	4.9	7.0	6.8
BV	54	70	89
P/B (X)	3.3	2.7	2.1
P/E (x)	16	10	9

## RESEARCH ANALYST

### DEEPAK KUMAR

Deepak.kumar@narnolia.com  
+91-22-62701205

### AYUSHI GOYAL

aayushi.goyal@narnolia.com

## Gold Loan Segment Continues to Drive the Profitability

### 3QFY20 Result Update

- MANAPPURAM reported strong NII growth of 31%/11% above our expectations driven by strong AUM growth in 3QFY20. Operating profit growth has been healthy at 50%/9% YoY/QoQ. PAT grew by 63%/-1% YoY/QoQ.
- Provisions remained high at Rs 49 Cr as against Rs 29 Cr last quarter.
- AUM growth has been robust at 36%/6% YoY/QoQ driven by high growth in gold loan segment.
- Asset quality improved as GNPA/NNPA both declined by 10 bps QoQ to 0.5%/0.2% in 3QFY20. GNPA in MFI segment increased by 48 bps QoQ to 1.34%. GNPA in housing segment has shown signs of improvement as it declined to 4.32% from 4.80% last quarter.

### Robust AUM growth

MANAPPURAM reported healthy AUM growth of 36%/6% YoY/QoQ mainly driven by growth in gold loan segment. Gold loan grew by 29%/6% YoY/QoQ, the reason being growth in gold holdings and high gold prices in 3QFY20. The management guided gold tonnage growth of 3-4% for 4QFY20 and 10-15% for FY21. Gold holdings increased to 73.5 tonnes as against 72 tonnes last quarter. Other segments also had good growth of around 6% on sequential basis. Disbursement has been high at Rs 40304 Cr in 3QFY20.

### Asset quality improved

Asset quality improved as GNPA/NNPA both declined by 10 bps QoQ to 0.5%/0.2% in 3QFY20. GNPA in MFI segment increased by 48 bps QoQ to 1.34%. GNPA in housing segment has shown signs of improvement as it declined to 4.32% from 4.80% last quarter. GNPA in CV segment increased from 2.80% to 2.87% on sequential basis.

### Strong Margin

NII had strong growth of 31%/11% YoY/QoQ backed by strong AUM growth of 36%/6% YoY/QoQ. NIM reported high growth of 115/182 bps YoY/QoQ leading to 18.42% on the account of high yield and low cost of funds. Yield increased by 137/227 bps YoY/QoQ to 27.06% whereas cost of funds declined by 15/34 bps YoY/QoQ to 10.27% in 3QFY20. Incremental cost of borrowings from banks stood at 9.4%, the reason for it being high is long term borrowings being there. The company raised \$300 Mn through first tranche of US Dollar Medium Term Note in 3QFY20 in order to diversify their liability mix and do not expect any funding challenges going ahead.

### View and Valuation

Robust AUM growth in last few quarters on the account of favorable Gold prices has spiked the growth for the company. Asset quality has been better. Operating expenses have been under control. Although there are some challenges in MFI segment on the asset quality front however management is focused enough to deal with them. Credit cost in MFI segment is expected to remain high at 2% in near term. Despite these few challenges, on the account of favorable gold prices and tonnage growth expectations we increase our PAT estimates for FY21 by 8% and value the stock at 2.4x BVFY21 and increase target price to Rs 213 and Change our rating to BUY.

### Key Risks to our rating and target

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

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## Strong Performance

### 3QFY20 Results

#### Above expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,081	1,085	1,174	1,287	1,399	29.4%	8.7%	3,356	4,017	19.7%
Interest Exp.	354	354	380	425	447	26.1%	5.1%	1,030	1,319	28.0%
NII	727	731	794	862	952	31.0%	10.5%	2,326	2,698	16.0%
Other Income	20	18	11	47	15	-22.4%	-67.8%	64	99	54.3%
Total Income	747	750	805	909	968	29.6%	6.4%	2,449	2,859	16.8%
Ope Exp.	350	364	354	365	374	6.9%	2.4%	1,235	1,386	12.3%
PPP	397	386	451	544	593	49.6%	9.1%	1,214	1,473	21.3%
Provisions	9	6	37	29	49	462.2%	67.4%	177	46	-74.0%
PBT	388	380	414	514	544	40.4%	5.8%	1,037	1,427	37.6%
Tax	141	122	142	107	142	1.0%	33.1%	361	498	37.9%
Net Profit	245	257	270	404	399	62.8%	-1.2%	677	922	36.3%

### Concall Highlights

- Incremental cost of borrowings from banks stood at 9.4%, the reason for it being high is long term borrowings being there.
- OPEX growth has been low at 2% QoQ the reason being Rs 45 Cr per quarter of security cost was there earlier which has now reduced on the account of digital security systems be there and rest is on the account of operational efficiency. OPEX to AUM ratio is expected to decline by 100 bps YoY going ahead.
- Gold loan AUM grew by 29% YoY, the reason being growth in gold holdings and high gold prices in 3QFY20. The management guided gold tonnage growth of 3-4% for 4QFY20 and 10-15% for FY21.
- MFI business AUM grew by 57% YoY major growth driven by new customers.
- The company raised \$300 Mn through first tranche of US Dollar Medium Term Note in 3QFY20 in order to diversify their liability mix and do not expect any funding challenges going ahead.
- The auction number during the quarter stood at Rs 14 Cr.
- MFI portfolio exposure in Assam stands at Rs 43 Cr. The Company did not get affected from the issues in Assam as it is in the other region of the place where the issue was not there.
- Geographic composition of Asirwad exposure to North increased to 21% from 12% last quarter the reason being reclassification of Bihar as northern one from eastern one earlier.
- Asirwad proactively provided Rs. 16 Cr during the quarter given some early warning sign in a couple of districts (Managalore) in Karnataka. The company had exposure of Rs 36 Cr in these areas.
- The branches for vehicle finance declined to 214 from 229 last quarter on the account of consolidation of some of the branches.
- The company has only 5% exposure to Kerala and do not see any extraordinary growth on the account of issue faced by peer, the growth seen is on the account of genuine demand and total AUM is 970 Cr in Kerala out of which Rs 500 Cr is gold loan.
- 1-1.5% is the normal GNPA number for MFI segment going ahead as per the management. Credit cost for the same is expected to be at 2% including standard asset provisioning.
- On lending portfolio has come down to Rs 667 Cr from Rs 960 Cr in March 2019.
- There was rent reversal of Rs 29.5 Cr due to IND AS 116 whereas Finance cost and depreciation went up by 7.5 Cr and Rs 20.2 Cr in 3QFY20.

## Profitability Matrix

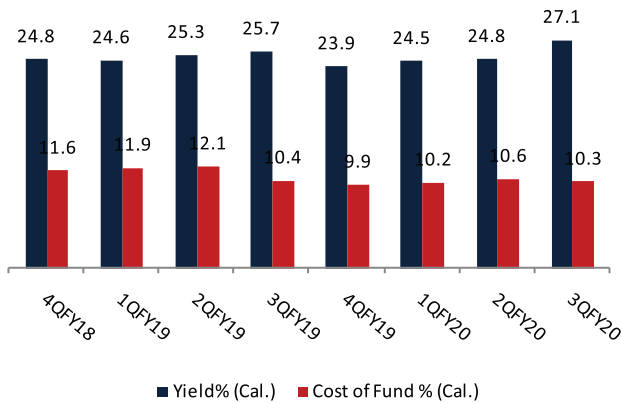
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	50.2	48.4	46.9	48.5	44.0	40.2	38.7	-8.22	-1.52
Empl. Cost/ Tot. Exp. %	26.0	25.0	24.1	25.8	24.5	22.4	21.9	-2.16	-0.44
Other Exp/Tot. Exp.%	21.4	20.3	19.6	19.4	13.9	12.8	11.9	-7.72	-0.92
Provision/PPP %	17.7	4.4	2.2	1.5	8.1	5.4	8.3	6.07	2.88
Tax Rate %	35.1	36.0	36.3	32.0	34.3	20.8	26.1	-10.16	5.35
Int Exp./Int Inc. (%)	31.5	31.3	32.7	32.6	32.4	33.0	31.9	-0.82	-1.10
Other Inc./NII %	(54.4)	37.5	105.4	27.8	(7.6)	261.6	(22.4)	-127.78	-283.96
PPP/ Net Income %	49.8	51.6	53.1	51.5	56.0	59.8	61.3	8.22	1.52
PAT/ Net Income %	30.6	31.3	32.8	34.3	33.5	44.4	41.2	8.42	-3.21
NII Growth % (YoY)	11.9	19.0	18.8	18.1	23.8	23.6	31.0	12.17	7.35
PPP Growth YoY %	4.8	27.9	31.1	22.3	38.8	48.5	49.6	18.57	1.14
PAT Growth %	20.9	39.0	43.3	43	36.0	81.9	62.8	19.51	-19.07

## Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	24.6	25.3	25.7	23.9	24.5	24.8	27.1	1.37	2.27
Cost Of Funds	11.9	12.1	12.9	12.0	10.5	10.6	10.3	-0.15	-0.34
Spreads	12.7	13.2	12.8	12.0	14.0	14.2	16.8	1.53	2.61
NIM	16.9	17.4	17.3	16.1	16.6	16.6	18.4	1.15	1.82

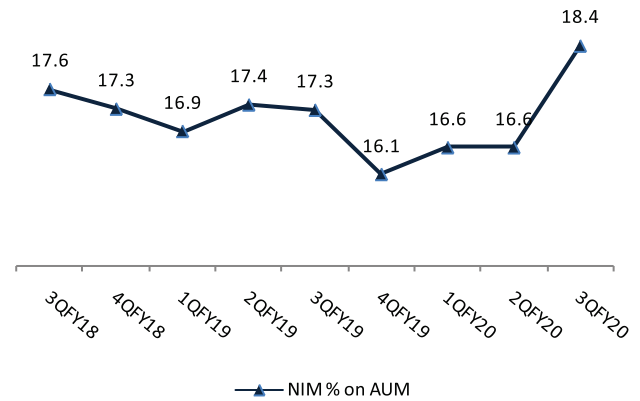
### Exhibit: Yield and Cost

Yield increased & cost of funds decreased



### Exhibit: Net Interest Margin

NIM improved drastically



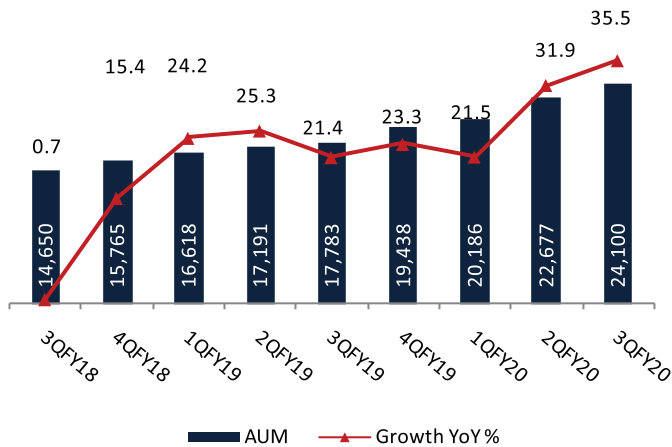
## Asset & Borrowings Growth Trend

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Disbursements Gold Loan	16164	20500	23100	18337	21028	27164	26396	50296	40304
Growth YoY %	34	67	82	43	30	33	14	174	92
AUM	14650	15765	16618	17191	17783	19438	20186	22677	24100
Growth YoY %	1	15	24	25	21	23	21	32	36
Borrowing(std.)	9429	10240	11027	11354	11390	12743	11312	15400	16482
Growth YoY %	-23	12	27	30	21	24	10	36	45

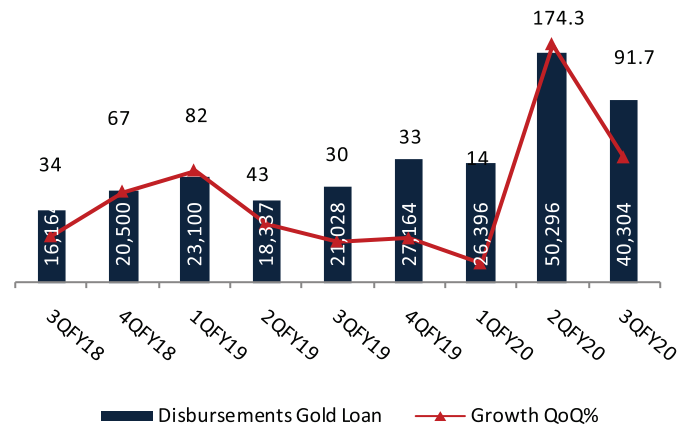
## Exhibit: AUM Growth %

AUM growth strong



## Exhibit: Disbursement Growth %

Disbursement increased YoY



## Asset Mix

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

## Asset Quality

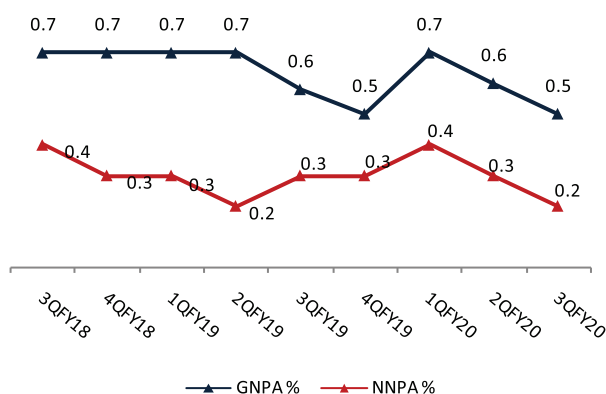
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA	116	120	103	97	141	136	120	17.4	(16)
GNPA %	0.7	0.7	0.6	0.5	0.7	0.6	0.5	(0.1)	(0)
NNPA	50	34	53	58	81	68	48	(5.1)	(20)
NNPA %	0.3	0.2	0.3	0.3	0.4	0.3	0.2	(0.1)	(0)
Total Specific PCR %	57	71	48	39	61	68	72	22.5	4

## Others

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
GOLD AUM PER BRANCH	3.4	3.5	3.7	3.8	3.7	3.8	3.9	4.4	4.6
GOLD HOLDING (TONNES)	62	64	66	67	66	68	68	72	74

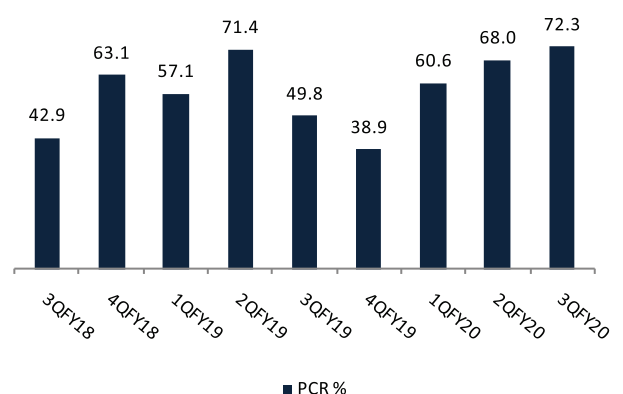
## Exhibit: Asset Quality

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	5,691	7,295
<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>5,859</b>	<b>7,463</b>
Change (%)	2	6	5	22	13	19	29	27
Total Borrowings	7,795	8,392	9,638	9,403	12,607	15,295	20,713	24,455
Change (%)				(2)	34	21	35	18
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>27,270</b>	<b>32,691</b>
Investments	796	217	49	5	5	174	200	230
Loans	8,378	9,770	11,515	13,969	15,244	17,812	23,155	27,787
Change (%)	(18)	17	18	21	9	17	30	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	2,350	2,797
<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>27,270</b>	<b>32,691</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	5,429	6,581
Interest expended	1,027	877	947	1,169	1,030	1,319	1,728	2,161
<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>3,701</b>	<b>4,420</b>
Change (%)	(1)	4	28	58	5	16	37	19
Other Income	36	25	25	21	123	162	93	90
Change (%)	76	(30)	(1)	(15)	478	32	(42)	(4)
<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>3,794</b>	<b>4,510</b>
Change (%)	1	3	28	57	9	17	33	19
Operating Expenses	695	674	836	965	1,235	1,386	1,499	1,845
Change (%)	1	(3)	24	16	28	12	8	23
Employee Expenses	324	315	433	503	626	720	858	1,082
Change (%)	(5)	(3)	38	16	25	15	19	26
Other Expenses	372	360	403	400	528	571	476	586
<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>2,296</b>	<b>2,666</b>
Change (%)	0	13	34	116	(5)	21	56	16
Provisions	47	28	42	109	177	46	155	192
Change (%)	(43)	(40)	51	157	63	(74)	236	24
PBT	343	414	548	1,166	1,037	1,427	2,141	2,473
Tax	117	142	193	407	361	498	553	616
<b>Profit After Tax</b>	<b>226</b>	<b>271</b>	<b>355</b>	<b>758</b>	<b>676</b>	<b>929</b>	<b>1,587</b>	<b>1,857</b>
Change (%)	8	20	31	114	(11)	38	71	17
<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>1,587</b>	<b>1,857</b>
Change (%)	8	20	30	114	(10)	36	72	17

## 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	25,270	30,324
Off-Book AUM	(215)	(177)	(81)	(312)	521	1,627	2,114	2,537
AUM Growth (%)	(18.0)	17.5	19.2	19.4	15.4	23.3	30.0	20.0
Borrowing Growth (%)	-	-	-	(2.4)	34.1	21.3	35.4	18.1
Loan/Borrowing (%)	1.1	1.2	1.2	1.5	1.2	1.2	1.1	1.1
Disbursement (Rs Cr)								
Disbursement Growth (%)								
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	3.5	3.3
<b>Assets Quality Metrics</b>								
Gross NPA (Rs)	100	107	98	273	110	97	126	182
Gross NPA (%)	1.2	1.2	1.0	2.0	0.7	0.5	0.5	0.6
Net NPA (Rs)	82	89	76	232	47	58	63	91
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	0.7	0.7
<b>Margin Metrics</b>								
Yield On Advances (%)	22.9	22.2	22.3	27.0	22.8	22.8	24.3	23.7
Cost Of Funds (%)	11.6	10.8	10.5	12.4	10.6	11.5	11.7	11.7
Spread (%)	11.3	11.3	11.8	14.6	12.2	11.3	12.6	12.0
NIM on AUM (%)	11.6	12.3	13.3	17.7	15.8	15.3	16.6	15.9
<b>Profitability &amp; Efficiency Metrics</b>								
Int. Expense/Int.Income (%)	49.5	44.6	40.3	34.5	30.7	32.8	31.8	32.8
Other Income/NII (%)	3.4	2.3	1.8	1.0	5.3	6.0	2.5	2.0
Operating Profit/Net Income (%)	35.9	39.6	41.4	56.9	49.6	51.5	60.5	59.1
Net Profit/Net Income (%)	20.8	24.3	24.9	33.9	27.6	32.5	41.8	41.2
Cost to Income (%)	64.1	60.4	58.6	43.1	50.4	48.5	39.5	40.9
Employee Exp/Net Income (%)	29.8	28.2	30.3	22.4	25.6	25.2	22.6	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	6.8	7.2
Tax Rate (%)	34.1	34.4	35.2	34.9	34.8	34.9	25.8	24.9
<b>Valuation Ratio Metrics</b>								
EPS (Rs)	2.7	3.2	4.2	9.0	8.0	10.9	18.8	22.0
Change (%)	8.4	20.0	30.3	113.7	(10.5)	36	72.1	17.0
ROAE (%)	9.2	10.6	13.1	24.7	18.9	22.1	30.6	27.9
ROAA (%)	1.9	2.4	2.9	5.4	4.2	4.9	7.0	6.8
Dividend Payout (%)	60.3	67.0	64.3	26.7	7.5	27.4	15.9	13.6
Dividend yield (%)	7.9	6.2	8.0	2.6	0.5	1.5	1.3	1.3
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	69.5	88.6
Change (%)	2	6	5	22	13	19	29	27
P/B (X)	0.7	1.0	1.1	2.5	2.4	3.1	2.7	2.1
P/E (X)	8.0	10.0	8.3	10.9	13.6	15.3	10.0	8.6

## Financial Details

### Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	17.6	17.5	19.2	24.2	20.9	21.4	22.8	22.0
Interest expended	8.7	7.8	7.7	8.4	6.4	7.0	7.2	7.2
<b>Net Interest Income</b>	<b>8.9</b>	<b>9.7</b>	<b>11.5</b>	<b>15.9</b>	<b>14.5</b>	<b>14.4</b>	<b>15.5</b>	<b>14.7</b>
Non-Fund Based Income	0.3	0.2	0.2	0.2	0.8	0.9	0.4	0.3
Total Income	9.2	9.9	11.7	16.0	15.2	15.3	15.9	15.0
Total Operating Expenses	5.9	6.0	6.8	6.9	7.6	7.3	6.3	6.2
Employee Expenses	2.7	2.8	3.5	3.6	3.9	3.8	3.6	3.6
Other Expenses	3.2	3.2	3.3	3.3	3.7	3.4	2.7	2.5
Operating Profit	3.3	3.9	4.8	9.1	7.6	8.0	9.6	8.9
Provisions	0.4	0.3	0.3	0.8	1.1	0.2	0.6	0.6
Others	-	(0.0)	(0.0)	(0.0)	0.0	(0.0)	-	-
PBT	2.9	3.7	4.5	8.3	6.5	7.7	9.0	8.3
Tax	1.0	1.3	1.6	2.9	2.2	2.7	2.3	2.1
PAT/RoAA	1.9	2.4	2.9	5.4	4.3	5.0	6.7	6.2
Equity Multiplier (x)	4.8	4.4	4.5	4.6	4.5	4.5	4.6	4.5
ROAE	9.2	10.6	13.1	24.7	19.2	22.6	30.6	27.9



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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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