

Industry
Bloomberg
BSE CODE

Financial
MGFL IN
531213

Growth Driven by Gold loan, Provisions Remained High

RATING	BUY
CMP	123
Price Target	155
Potential Upside	26%
Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	195/76
Mkt Capital (Rs Cr)	10,396
Free float (%)	65%
Avg. Vol 1M (,000)	12,152
No. of Shares (Cr)	84
Promoters Pledged %	1%

Fig in Rs Cr

FINANCIAL	FY18	FY19	FY20
NII	2326	2751	3530
PPP	1214	1511	2245
PAT	677	940	1467
NIM %	15.8	15.6	15.8
EPS (Rs)	8	11	17
EPS growth (%)	-11	39	56
ROE (%)	19	22	29
ROA (%)	4.2	5.0	5.9
BV	45	54	68
P/B (X)	2.4	3.3	1.8
P/E (x)	14	16	7

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4QFY20 Result update

- MANAPPURAM numbers have been above our expectations in 4QFY20 as it reported strong NII growth of 40%/15% driven by strong AUM growth in 4QFY20. Operating profit growth has been healthy at 55%/11% YoY/QoQ. PAT grew by 44%/-1% YoY/QoQ.
- Provisions remained high at Rs 123 Cr as against Rs 49 Cr last quarter on the account of excess provisioning of RS 55 Cr for Asirwad and Rs 15 Cr for standalone basis for COVID-19.
- AUM growth has been robust at 30%/5% YoY/QoQ driven by high growth in gold loan segment.
- Asset quality deteriorated as GNPA/NNPA both increased to 0.88%/0.5% in 4QFY20 as against 0.5%/0.2% QoQ in 4QFY20.

Robust AUM growth

MANAPPURAM reported healthy AUM growth of 30%/5% YoY/QoQ mainly driven by growth in gold loan segment. Gold loan grew by 31%/4% YoY/QoQ, the reason being growth in gold holdings and high gold prices in 4QFY20. The management guided gold loan growth to be inline with the market growth going ahead. Gold holdings declined to 72.4 tonnes as against 74 tonnes last quarter. The management expects Overall loan book growth of 10% for FY21. The growth to come from gold loan book. On gold loan book they may not grow as will be focusing on collections more.

Asset quality deteriorated

Asset quality deteriorated as GNPA/NNPA both increased to 0.88%/0.5% in 4QFY20 as against 0.5%/0.2% QoQ. GNPA in MFI segment increased by 22 bps QoQ to 1.56% QoQ. MFI are expected to remain under pressure in the near term after the moratorium ends. GNPA in housing segment also increased by 58 bps to 4.9% in 4QFY20 QoQ. As at April 2020 10% of the CV portfolio (Rs 130 Cr) have opted for moratorium. GNPA is expected to remain slightly high in next 1-2 quarters but reduce after that.

Strong Margin

NII had strong growth of 40%/15% YoY/QoQ backed by strong AUM growth of 30%/5% YoY/QoQ. NIM reported high growth of 154/8 bps YoY/QoQ leading to 18.50% on the account of high yield segment growth. Yield increased by 367/193 bps YoY/QoQ to 28.98% whereas cost of funds increased by 157/194 bps YoY/QoQ to 12.21% in 4QFY20. Incremental cost of borrowings from banks stood at 9.5%, the reason for it being high is ECB. Raised Incremental Borrowing of Rs 3,979 Cr in Q4FY20 through Domestic Bond Issuance, Overseas Bond and Bank Loan. Does not expect any funding challenge in the near term.

View and Valuation

Strong AUM growth in last few quarters on the account of favourable Gold prices has spiked the growth for the company. But going ahead management is conservative in terms of growth as guided the loan growth to be 10% for FY21. Focus area will be on collections in non-gold segment. Growth is not expected in this part. Credit cost may also remain high in the near term on the account of macroeconomic conditions. Asset quality is expected to remain little under pressure for 1-2 quarter but it will improve by the end of the year. Despite these few challenges, on the account of favourable gold prices and tonnage growth expectations and OPEX control measures going ahead we maintain our BUY rating with target price of Rs 155. The stock is currently trading at 1.8 BVFY20.

Key Risks to our rating and target

- AUM growth.
- Rise in delinquency in MFI and CV segment will affect the credit cost

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Strong Performance

4QFY20 Results

Above expectation

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Interest Inc.	1,148	1,174	1,287	1,399	1,605	39.8%	14.7%	4,096	5,362	30.9%
Interest Exp.	379	380	425	447	581	53.1%	30.1%	1,345	1,832	36.2%
NII	769	794	862	952	1,025	33.3%	7.6%	2,751	3,530	28.3%
Other Income	18	11	47	15	13	-30.5%	-15.8%	84	104	23.6%
Total Income	787	805	909	968	1,037	31.8%	7.2%	2,897	3,719	28.4%
Ope Exp.	364	354	365	374	381	4.7%	1.7%	1,386	1,474	6.4%
PPP	424	451	544	593	657	55.0%	10.7%	1,511	2,245	48.5%
Provisions	14	37	29	49	123	756.3%	149.6%	55	238	334.1%
PBT	409	414	514	544	534	30.5%	-1.9%	1,457	2,007	37.8%
Tax	132	142	107	142	136	2.9%	-4.4%	508	527	3.7%
Net Profit	275	270	404	399	395	43.7%	-1.0%	940	1,467	56.0%

Concall Highlights

- The package announced by the government of Rs 75 K Cr for NBFCs and MFIs will help the NBFCs to heal in the near term.
- OPEX has been lower in 4QFY20 i.e. increased by 2% QoQ only on the account of savings in cost from security cost front. OPEX is expected to further reduce by Rs 20-30 Cr in FY21 due to the cost control measures i.e. technology boost and consolidation of back office work.
- 1% OPEX decline in Gold loan is expected in next 1 year due to increase in online gold loan as well as lesser people addition for gold loan branches.
- The gold loan AUM grew by 30% YoY in 4QFY20 due to the growth in gold holdings and gold prices. The management expects Overall loan book growth of 10% for FY21. The growth to come from gold loan book. On gold loan book they may not grow as will be focusing on collections more.
- The company chose to reduce NBFC lending by 13% in 4QFY20.
- The company had access to liquidity from all the sources (all CPs rolled over, banks, NCDs, overseas borrowings).
- Raised Incremental Borrowing of Rs 3,979 Cr in Q4FY20 through Domestic Bond Issuance, Overseas Bond and Bank Loan. Does not expect any funding challenge in the near term.
- Received additional CP of INR 600 Cr in April 2020 and rollover of Rs 775 cr in May, 2020.
- Raised INR 100 Cr through TLTRO scheme; additional bank lines worth INR 200 Cr sanctioned since 31 Mar'20
- Excess cash and undrawn bank lines of INR 2,300 Cr as of Mar'20 (standalone)
- Asirvad MFI is now among the lowest cost providers of microfinance loans in India. Asirvad proactively provided Rs. 55 Cr provision during Q4FY20 due to COVID-19. On standalone basis additional provisioning of Rs 15 Cr done in 4QFY20 for COVID-19. MFI are expected to remain under pressure in the near term after the moratorium ends.
- Asirvad has undrawn bank lines of INR 1,760 Cr and INR 1,190 Cr cash balance as of Q4FY20; 100% of loans qualify for PSL.
- The average LTV stands at 59% (Rs 2345/Gram).
- Online gold book is now at 48% of the total gold book. The management expects 1% increase per month in gold to come from online gold.
- CPs have reduced to 11% of the borrowing mix in 4QFY20. Rs 1800 Cr of CPs have maturity in next 2 months.
- GNPA is expected to remain slightly high in next 1-2 quarters but reduce after that.
- As at April 2020 10% of the CV portfolio (Rs 130 Cr) have opted for moratorium.
- On the customer profile of the CV customers out of around Rs 1344 Cr portfolio of CV Rs 300 Cr are 2W loans. Collections were 45% during lockdown in CV book.
- The bounce rates after lockdown increased by 18-20% to 45% on the overall portfolio.
- Most of the branches i.e. around 90% of the branches of the company are functional now but footfall to the branches is lower.

Profitability Matrix

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	YoY (+/-)
C/I Ratio %	48.4	46.9	46.2	44.0	40.2	38.7	36.7	-9.48	-1.98
Empl. Cost/ Tot. Exp. %	25.0	24.1	24.5	24.5	22.4	21.9	21.0	-3.57	-0.99
Other Exp/Tot. Exp.%	20.3	19.6	18.4	13.9	12.8	11.9	10.9	-7.51	-0.94
Provision/PPP %	4.4	2.2	3.4	8.1	5.4	8.3	18.7	15.29	10.40
Tax Rate %	36.0	36.3	32.3	34.3	20.8	26.1	25.4	-6.81	-0.67
Int Exp./Int Inc. (%)	31.3	32.7	33.0	32.4	33.0	31.9	36.2	3.14	4.26
Other Inc./NII %	37.5	105.4	27.8	(7.6)	261.6	(22.4)	(30.5)	-58.34	-8.15
PPP/ Net Income %	51.6	53.1	53.8	56.0	59.8	61.3	63.3	9.48	1.98
PAT/ Net Income %	31.3	32.8	34.9	33.5	44.4	41.2	38.1	3.16	-3.16
NII Growth % (YoY)	19.0	18.8	24.2	23.8	23.6	31.0	33.3	9.10	2.30
PPP Growth YoY %	27.9	31.1	34.3	38.8	48.5	49.6	55.0	20.67	5.35
PAT Growth %	39.0	43.3	53.2	36	81.9	62.8	43.7	-9.53	-19.09

Margin Performance

Margin %	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	YoY (+/-)
Yield on Advances	25.3	25.7	25.3	24.5	24.8	27.1	29.0	3.67	1.93
Cost Of Funds	12.1	10.4	10.6	10.2	10.6	10.3	12.2	1.57	1.94
Spreads	13.2	15.3	14.7	14.4	14.2	16.8	16.8	2.09	-0.02
NIM	17.4	17.3	17.0	16.6	16.6	18.4	18.5	1.54	0.08

Exhibit: Yield and Cost

Yield increased & cost of funds Increased

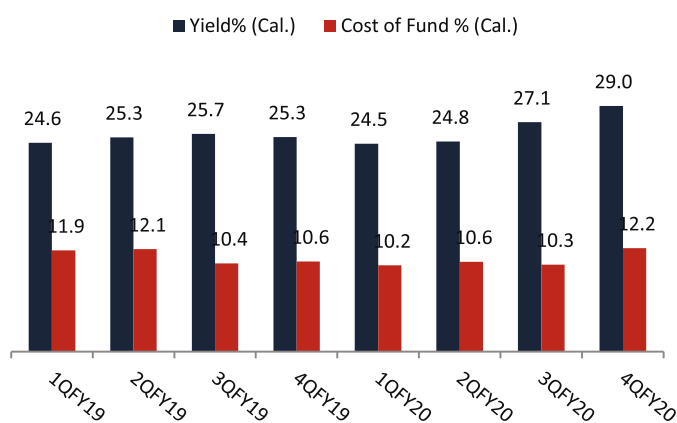
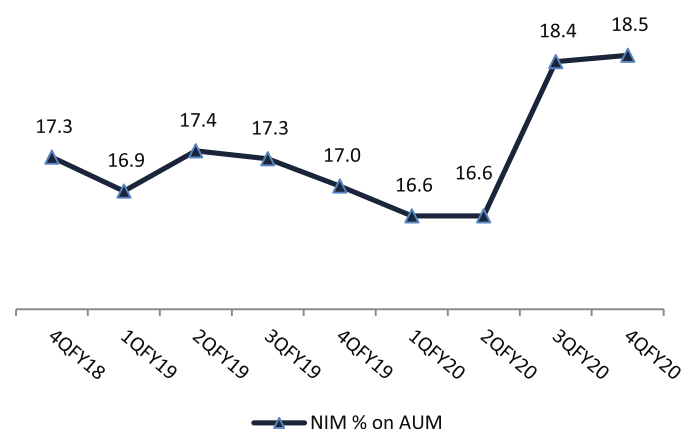


Exhibit: Net Interest Margin

NIM improved



Asset & Borrowings Growth Trend

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
AUM	15765	16618	17191	17783	19438	20186	22677	24100	25225
Growth YoY %	15	24	25	21	23	21	32	36	30
Borrowing(std.)	10240	11027	11354	11390	12743	11312	15400	16482	17506
Growth YoY %	12	27	30	21	24	10	36	45	37

Exhibit: AUM Growth %

AUM growth strong

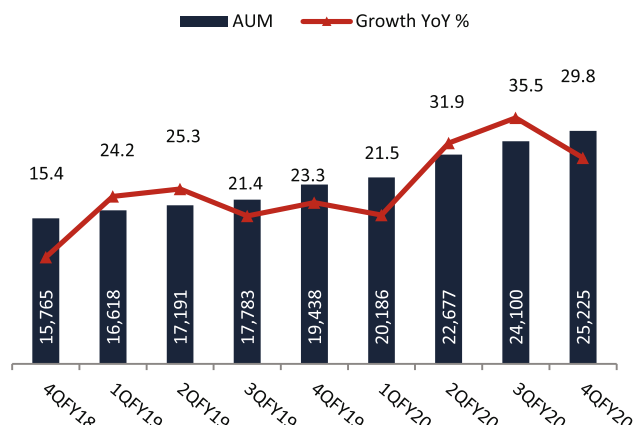
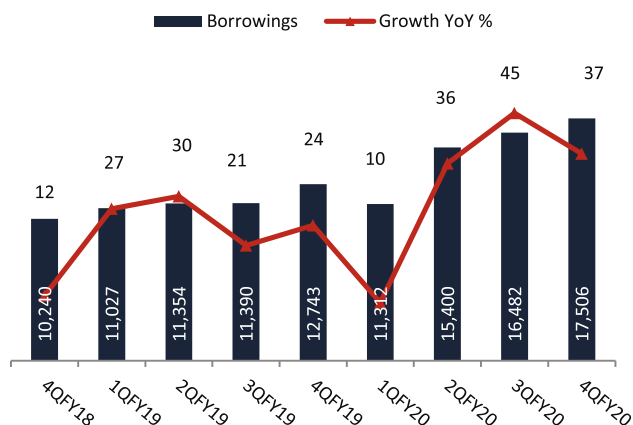


Exhibit: Borrowings Growth %

Borrowings increased QoQ



Asset Mix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Gold Loan	74	75	73	70	67	66	67	67	67
Microfinance	15	15	16	18	20	21	21	21	22
CV	4	4	5	5	6	6	6	6	5
Others	6	6	6	6	8	7	6	6	6

Asset Quality

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	QoQ (+/-)
GNPA	120	103	97	141	136	120	222	124.8	101
GNPA %	0.7	0.6	0.5	0.7	0.6	0.5	0.9	0.4	0
NNPA	34	53	58	81	68	48	126	67.8	78
NNPA %	0.2	0.3	0.3	0.4	0.3	0.2	0.5	0.2	0
Total Specific PCR %	71	50	39	61	68	72	96	57.0	24

Others

	2QFY19	3QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
GOLD AUM PER BRANCH	3.5	3.7	3.8	3.7	3.8	3.9	4.4	4.6	4.8
GOLD HOLDING (TONNES)	64	66	67	66	68	68	72	74	72

Exhibit: Asset Quality

Asset Quality Deteriorated

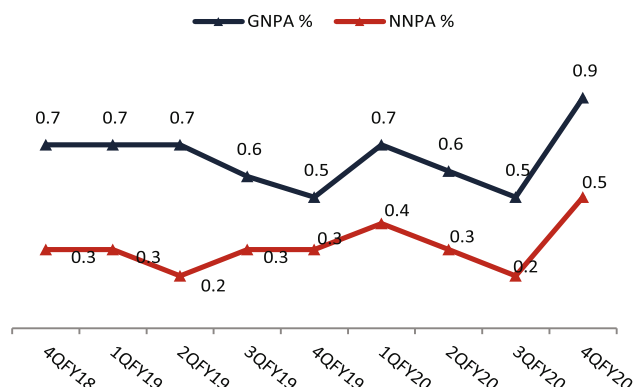
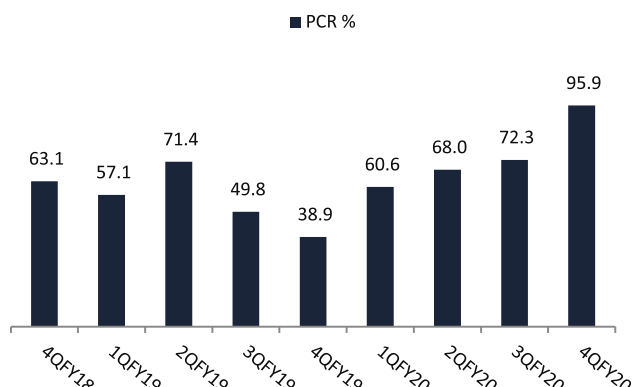


Exhibit: Provisions

PCR increased



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	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	3,645	4,378	5,577
Networth	2,443	2,492	2,633	2,758	3,362	3,813	4,547	5,746
Change (%)	3	2	6	5	22	13	19	26
Total Borrowings	9,862	7,795	8,392	9,638	9,403	12,607	15,295	21,817
Change (%)	-	-	-	-	(2)	34	21	43
Provisions	76	100	51	78	166	45	55	64
Other Liabilities	347	452	541	365	2,221	564	549	1,324
Total Liabilities	12,728	10,838	11,616	12,839	15,152	17,030	20,446	28,951
Investments	698	796	217	49	5	5	174	90
Loans	10,194	8,378	9,770	11,515	13,969	15,244	17,810	23,189
Change (%)	5	(18)	17	18	21	9	17	30
Fixed Assets	241	202	174	195	187	275	332	771
Other Assets	711	618	663	476	468	782	966	1,255
Cash Balances	884	844	793	604	523	724	1,164	3,646
Total Assets	12,728	10,838	11,616	12,839	15,152	17,030	20,446	28,951

Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Interest income	2,247	2,076	1,968	2,349	3,388	3,356	4,096	5,362
Interest expended	1,189	1,027	877	947	1,169	1,030	1,345	1,832
Net Interest Income	1,057	1,049	1,091	1,402	2,219	2,326	2,751	3,530
Change (%)	(32)	(1)	4	28	58	5	18	28
Other Income	20	36	25	25	21	123	146	189
Change (%)	(21)	76	(30)	(1)	(15)	478	19	29
Total Net Income	1,077	1,085	1,116	1,426	2,240	2,449	2,897	3,719
Change (%)	(32)	1	3	28	57	9	18	28
Operating Expenses	688	695	674	836	965	1,235	1,386	1,474
Change (%)	3	1	(3)	24	16	28	12	6
>> Employee Expenses	342	324	315	433	503	626	720	830
Change (%)	11	(5)	(3)	38	16	25	15	15
>> Other Expenses	346	372	360	403	400	528	571	456
Pre-provisioning Profit	389	390	442	591	1,275	1,214	1,511	2,245
Change (%)	(57)	0	13	34	116	(5)	24	49
Provisions	83	47	28	42	109	177	55	238
Change (%)	148	(43)	(40)	51	157	63	(69)	334
PBT	307	343	414	548	1,166	1,037	1,457	2,007
Tax	98	117	142	193	407	361	508	527
Profit After Tax	208	226	271	355	758	676	949	1,480
Change (%)	(65)	8	20	31	114	(11)	40	56
Adjusted Profit After Tax	208	226	271	353	756	677	940	1,467
Change (%)	(65)	8	20	30	114	(10)	39	56

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Balance Sheet Metrics								
AUM	9,956	8,163	9,593	11,434	13,657	15,765	19,438	25,225
Off-Book AUM	(238)	(215)	(177)	(81)	(312)	521	1,628	2,036
AUM Growth (%)	(13.8)	(18.0)	17.5	19.2	19.4	15.4	23.3	29.8
Borrowing Growth (%)	-	-	-	-	(2.4)	34.1	21.3	42.6
Loan/Borrowing (%)	1.0	1.1	1.2	1.2	1.5	1.2	1.2	1.1
Disbursement (Rs Cr)	-	-	-	-	-	-	-	-
Disbursement Growth (%)	-	-	-	-	-	-	-	-
CRAR (%)	23	28	26	24	26	27	24	23
Tier 1 (%)	-	-	-	-	-	-	-	-
Tier 2 (%)	-	-	-	-	-	-	-	-
Debt/Equity(x)	4.0	3.1	3.2	3.5	2.8	3.3	3.4	3.8
Assets Quality Metrics								
Gross NPA (Rs)	117	100	107	98	273	110	97	222
Gross NPA (%)	1.1	1.2	1.2	1.0	2.0	0.7	0.5	0.9
Net NPA (Rs)	74	82	89	76	232	47	58	126
Net NPA (%)	0.7	1.0	1.0	0.7	1.7	0.3	0.3	0.5
Specific Provision Coverage (%)	36	17	17	22	15	57	40	43
Provision/Average Advances (%)	0.8	0.5	0.3	0.4	0.9	1.2	0.3	1.1
Margin Metrics								
Yield On Advances (%)	20.9	22.9	22.2	22.3	27.0	22.8	23.3	24.0
Cost Of Funds (%)	11.3	11.6	10.8	10.5	12.4	10.6	11.7	12.1
Spread (%)	9.6	11.3	11.3	11.8	14.6	12.2	11.6	11.9
NIM on AUM (%)	9.8	11.6	12.3	13.3	17.7	15.8	15.6	15.8
Profitability & Efficiency Metrics								
Int. Expense/Int.Income (%)	52.9	49.5	44.6	40.3	34.5	30.7	32.8	34.2
Other Income/NII (%)	1.9	3.4	2.3	1.8	1.0	5.3	5.3	5.4
Operating Profit/Net Income (%)	36.1	35.9	39.6	41.4	56.9	49.6	52.2	60.4
Net Profit/Net Income (%)	19.3	20.8	24.3	24.9	33.9	27.6	32.7	39.8
Cost to Income (%)	63.9	64.1	60.4	58.6	43.1	50.4	47.8	39.6
Employee Exp/Net Income (%)	31.8	29.8	28.2	30.3	22.4	25.6	24.9	22.3
Cost on Average Assets (%)	5.5	5.9	6.0	6.8	6.9	7.7	7.4	6.0
Provision/PPP (%)	21.3	12.0	6.4	7.2	8.6	14.6	3.6	10.6
Tax Rate (%)	32.0	34.1	34.4	35.2	34.9	34.8	34.9	26.3
Valuation Ratio Metrics								
EPS (Rs)	2.5	2.7	3.2	4.2	9.0	8.0	11.2	17.4
Change (%)	(64.8)	8.4	20.0	30.3	113.7	(11)	38.9	56.0
ROAE (%)	8.6	9.2	10.6	13.1	24.7	18.9	22.5	28.5
ROAA (%)	1.7	1.9	2.4	2.9	5.4	4.2	5.0	5.9
Dividend Payout (%)	121.1	60.3	67.0	64.3	26.7	7.5	26.9	17.2
Dividend yield (%)	7.4	7.9	6.2	8.0	2.6	0.5	1.4	2.0
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	45.3	53.9	68.2
Change (%)	3	2	6	5	22	13	19	26
P/B (X)	0.7	0.7	1.0	1.1	2.5	2.4	3.3	1.8
P/E (X)	8.8	8.0	10.0	8.3	10.9	13.6	15.9	7.1

Financial Details

Exhibit: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Interest Income	18.1	17.6	17.5	19.2	24.2	20.9	21.9	21.7
Interest expended	9.6	8.7	7.8	7.7	8.4	6.4	7.2	7.4
Net Interest Income	8.5	8.9	9.7	11.5	15.9	14.5	14.7	14.3
Non-Fund Based Income	0.2	0.3	0.2	0.2	0.2	0.8	0.8	0.8
Total Income	8.7	9.2	9.9	11.7	16.0	15.2	15.5	15.1
Total Operating Expenses	5.5	5.9	6.0	6.8	6.9	7.6	7.3	5.9
Employee Expenses	2.8	2.7	2.8	3.5	3.6	3.9	3.8	3.4
Other Expenses	2.8	3.2	3.2	3.3	3.3	3.7	3.4	2.5
Operating Profit	3.1	3.3	3.9	4.8	9.1	7.6	8.2	9.2
Provisions	0.7	0.4	0.3	0.3	0.8	1.1	0.3	1.0
Others	-	-	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.1)
PBT	2.5	2.9	3.7	4.5	8.3	6.5	7.8	8.2
Tax	0.8	1.0	1.3	1.6	2.9	2.2	2.7	2.1
PAT/RoAA	1.7	1.9	2.4	2.9	5.4	4.3	5.1	6.0
Equity Multiplier (x)	5.1	4.8	4.4	4.5	4.6	4.5	4.5	4.8
ROAE	8.6	9.2	10.6	13.1	24.7	19.2	23.0	29.0

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