

Industry
Bloomberg
BSE CODE

Financial
MGFL IN
531213

RATING	NEUTRAL
CMP	182
Price Target	184
Potential Upside	1%
Rating Change	↓
Estimate Change	↔
Target Change	↑

STOCK INFO	
52wk Range H/L	195/76
Mkt Capital (Rs Cr)	15,378
Free float (%)	65%
Avg. Vol 1M (,000)	12,152
No. of Shares (Cr)	84
Promoters Pledged %	1%

Fig in Rs Cr

FINANCIAL	FY19	FY20	FY21E
NII	2751	3530	4102
PPP	1511	2245	2744
PAT	940	1467	1638
NIM %	15.6	15.8	15.1
EPS (Rs)	11	17	19
EPS growth (%)	39	56	12
ROE (%)	22	29	26
ROA (%)	5.0	5.9	5.6
BV	54	68	84
P/B (X)	3.3	2.7	2.2
P/E (x)	16	10	9

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Gold Loan drove AUM growth, Contraction in Margins as well as High Provisions dragged Profitability.

1QFY21 Result update

- MANAPPURAM numbers have been below our expectations in 1QFY21 as it reported NII growth of 29%/-6% in 1QFY21 on the account of contraction in the margins in the quarter. Operating profit growth has been at 41%/-3% YoY/QoQ. PAT grew by 36%/-7% YoY/QoQ.
- OPEX has been low in 1QFY21 and is likely to go down further going ahead. Security cost declined to Rs 4 Cr from Rs 8 Cr last quarter. Most of expenses were down due to most of the growth coming from online gold loan.
- Provisions remained high at Rs 145 Cr as against Rs 132 Cr last quarter on the account of provisioning of Rs 75 Cr by its subsidiary Asirwad Microfinance for COVID-19 and have provided Rs 130 Cr provision cumulatively so far.
- AUM growth has been robust at 26% mainly driven by high growth in gold loan segment. Online gold loan now accounts for 63% of the total gold loan book.
- Asset quality deteriorated as GNPA/NNPA both increased to 1.3%/0.7% in 1QFY21 as against 0.88%/0.5% QoQ in 4QFY20.

AUM growth derived by Gold loan

MANAPPURAM reported better AUM growth of 26%/0.5% YoY/QoQ mainly driven by growth in gold loan segment. Gold loan grew by 33%/5% YoY/QoQ, the reason being growth in gold prices in 1QFY21. Yields on gold loans were stable in 1QFY21. All other segments reported degrowth in 1QFY21. The management guided gold loan growth to be in line with the market growth going ahead. Gold loan to AUM mix is likely to reach to 75-80% by the end of FY21. The company has consciously moderated growth in other segments given slow macro Gold holdings declined to 69 tonnes as against 72 tonnes last quarter. The company raised fresh borrowing of Rs 1,900 Cr in Q1FY21 on Standalone basis through NCDs, CPs and Bank Loan.

Asset quality deteriorated

Asset quality deteriorated as GNPA/NNPA both increased to 1.3%/0.7% QoQ in 1QFY21 as against 0.88%/0.5% in 4QFY20. GNPA in MFI segment increased by 54 bps QoQ to 2.1% QoQ. MFI are expected to remain under pressure in the near term after the moratorium ends. GNPA in CV segment also reported hike of 320 bps reaching at 9.9% QoQ in 1QFY21.

Contraction in Margins

NII had growth of 29%/-6% YoY/QoQ backed by AUM growth of 26%/0.5% YoY/QoQ. NIM reported de-growth of 13 bps/203 bps YoY/QoQ leading to 16.47% on the account of decline in yield QoQ. Yield declined by 264 bps QoQ to 26.34% in 1QFY21 whereas cost of funds decreased by 138 bps QoQ to 10.73% in 1QFY21.

View and Valuation

AUM growth continued to be better driven by spike in gold prices driving the gold loan growth however other segments growth is still an area of concern. Collections will continue to be focus area. Asset quality is deteriorating and is likely to deteriorate further on the account stress expected in some of the segments. Operating Expenses remained under control and are likely to add to the growth going ahead. The company has capability to grow from gold business through online gold loan platform as it is now at 63% of the gold loan book and better OPEX control. But other segments still needs to be watched. So we have NEUTRAL rating with target price of Rs 184 at 2.2x BVFY21E. NEUTRAL.

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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1QFY21 Results

PAT below expectation

Fig in Rs Cr

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Interest Inc.	1,174	1,287	1,399	1,605	1,513	28.8%	-5.8%	4,096	5,362	30.9%
Interest Exp.	380	425	447	581	567	49.2%	-2.4%	1,345	1,832	36.2%
NII	794	862	952	1,025	946	19.1%	-7.7%	2,751	3,530	28.3%
Other Income	11	47	15	13	4	-62.5%	-69.3%	84	104	23.6%
Total Income	805	909	968	1,037	950	18.0%	-8.5%	2,897	3,719	28.4%
Ope Exp.	354	365	374	381	312	-11.8%	-18.0%	1,386	1,474	6.4%
PPP	451	544	593	657	638	41.4%	-2.9%	1,511	2,245	48.5%
Provisions	37	29	49	123	145	297.8%	18.5%	55	238	334.1%
PBT	414	514	544	534	492	18.8%	-7.8%	1,457	2,007	37.8%
Tax	142	107	142	136	124	-12.6%	-8.5%	508	527	3.7%
Net Profit	270	404	399	395	368	36.5%	-6.8%	940	1,467	56.0%

Concall Highlights

- On gold loan sector competition front, the management does not see any aggression here from competitors as well. Same is the case for MFI sector as well. In MFI sector total disbursement in the June stood at Rs 100 Cr.
- OPEX has been low in 1QFY21 and is likely to go down further going ahead. Security cost declined to Rs 4 Cr from Rs 8 Cr last quarter. Most of expenses were down due to most of the growth coming from online gold loan.
- The net gain on fair value changes stood at Rs 23 Cr as against Rs 126 Cr last quarter on the account of MTM valuation on dollar bonds which are fully hedged as per the company.
- On the growth front in the near term growth is likely to come from Gold loan. Management guided gold loan growth of 10-12% for FY21 and gold loan to AUM mix is likely to reach to 75-80% by the end of FY21. The company has consciously moderated growth in other segments given slow macro. Collections efficiency is improving every month and the Company has re-doubled efforts on collections.
- On the MFI book, the company did not disburse in MFI in 1QFY21 and has disbursed Rs 70-75 Cr of loans in July till now. The company has incremental focus on gold loans due to short tenor, liquid collateral and minimal credit risk. In the medium to long term the management looks to grow at a CAGR of 20%.
- The gold in tonnage term decreased to 69 tonnes as against 72 tonnes last quarter on the account of high gold prices.
- Auctions during the quarter stood at Rs 1.04 Cr only.
- Average LTV stood at Rs 2571 per gram i.e. 57% in 1QFY21.
- Online gold loan now accounts for 63% of gold loan book as against 48% last quarter.
- Asirvad proactively provided Rs.75 Cr provision during Q1FY21 due to COVID-19 and have provided Rs 130 Cr provision cumulatively so far.
- The company has excess cash and undrawn bank lines of INR 6,025 Cr as of June 2020.
- The moratorium book in Phase-I for MFI book was 100% in April, 85% in May, 45% in June and is expecting it to go down to 25-30% in July end.
- In gold loan NIL customers are under moratorium.
- 1.6% on lending to NBFCs is under moratorium phase-I. The company has chosen to reduce on lending to NBFCs in near term taking cautious stance.
- IN CV, 37% book was under moratorium in phase-I and now no one is. In CV segment collection efficiency has been 42% in April, 58% in May, and 75% in June and is likely to be at 85% for July. The company is expecting the collections to reach to normalcy level by the end of 4QFY21.

Profitability Matrix

	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (+/-)	YoY (+/-)
C/I Ratio %	46.9	46.2	44.0	40.2	38.7	36.7	32.9	-11.10	-3.83
Empl. Cost/ Tot. Exp. %	24.1	24.5	24.5	22.4	21.9	21.0	18.5	-6.03	-2.49
Other Exp/Tot. Exp.%	19.6	18.4	13.9	12.8	11.9	10.9	9.3	-4.55	-1.59
Provision/PPP %	2.2	3.4	8.1	5.4	8.3	18.7	22.8	14.69	4.11
Tax Rate %	36.3	32.3	34.3	20.8	26.1	25.4	25.3	-9.06	-0.19
Int Exp./Int Inc. (%)	32.7	33.0	32.4	33.0	31.9	36.2	37.5	5.12	1.30
Other Inc./NII %	2.6	2.3	1.3	5.2	1.6	1.2	0.4	-0.89	-0.82
PPP/ Net Income %	53.1	53.8	56.0	59.8	61.3	63.3	67.1	11.10	3.83
PAT/ Net Income %	32.8	34.9	33.5	44.4	41.2	38.1	38.7	5.24	0.67
NII Growth % (YoY)	18.8	24.2	23.8	23.6	31.0	33.3	19.1	-4.73	-14.21
PPP Growth YoY %	31.1	34.3	38.8	48.5	49.6	55.0	41.4	2.55	-13.63
PAT Growth %	43.3	53.2	36.0	82	62.8	43.7	36.5	0.47	-7.23

Margin Performance

Margin %	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (+/-)	YoY (+/-)
Yield on Advances	25.7	25.3	24.5	24.8	27.1	29.0	26.3	1.80	-2.64
Cost Of Funds	10.4	10.6	10.2	10.6	10.3	12.1	10.7	0.56	-1.38
Spreads	15.3	14.7	14.4	14.2	16.8	16.9	15.6	1.24	-1.25
NIM	17.3	17.0	16.6	16.6	18.4	18.5	16.5	-0.13	-2.03

Exhibit: Yield and Cost

Yield decreased. Cost decreased

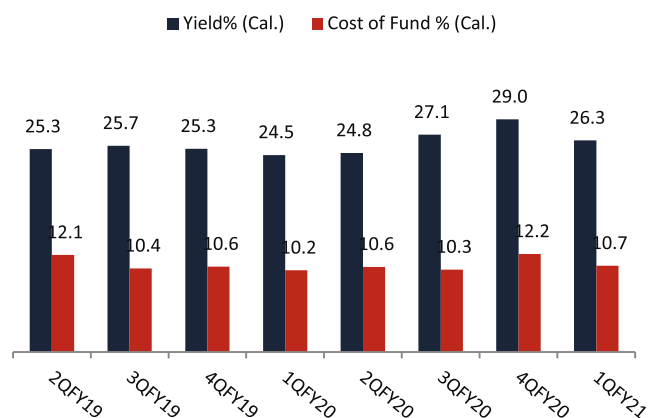
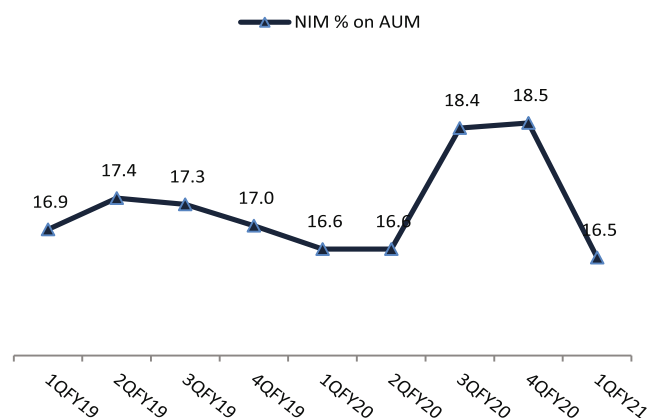


Exhibit: Net Interest Margin

NIM improved



Asset & Borrowings Growth Trend

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
AUM	16618	17191	17783	19438	20186	22677	24100	25225	25346
Growth YoY %	24	25	21	23	21	32	36	30	26
Borrowing(std.)	11027	11354	11390	12743	11312	15400	16482	17506	18600
Growth YoY %	27	30	21	24	10	36	45	37	64

Exhibit: AUM Growth %

Better AUM growth

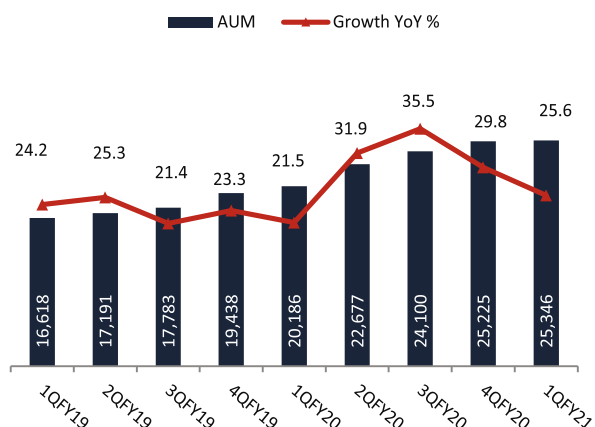
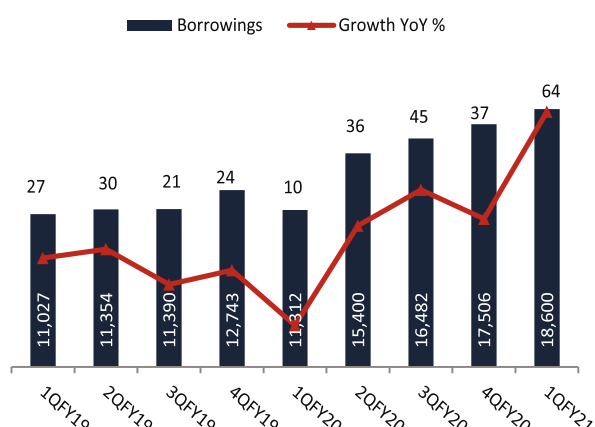


Exhibit: Borrowings Growth %

Borrowings increased QoQ



Asset Mix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Gold Loan	75	73	70	67	66	67	67	67	70
Microfinance	15	16	18	20	21	21	21	22	20
CV	4	5	5	6	6	6	6	5	5
Others	6	6	6	8	7	6	6	6	5

Asset Quality

	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (+/-)	QoQ (+/-)
GNPA	103	97	141	136	120	222	329	188	108
GNPA %	0.6	0.5	0.7	0.6	0.5	0.9	1.3	1	0
NNPA	53	58	81	68	48	126	177	97	51
NNPA %	0.3	0.3	0.4	0.3	0.2	0.5	0.7	0	0
Total Specific PCR %	48	40	43	50	60	43	46	3	3

Others

	4QFY18	1QFY19	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

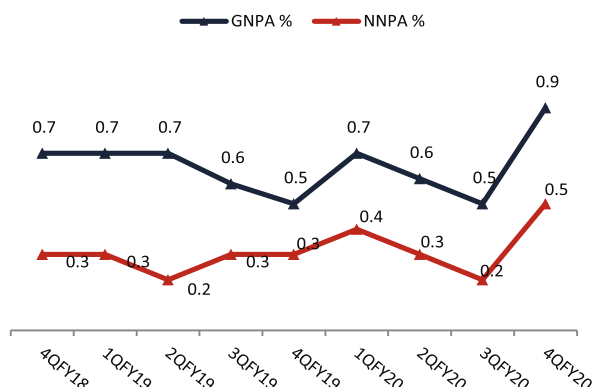
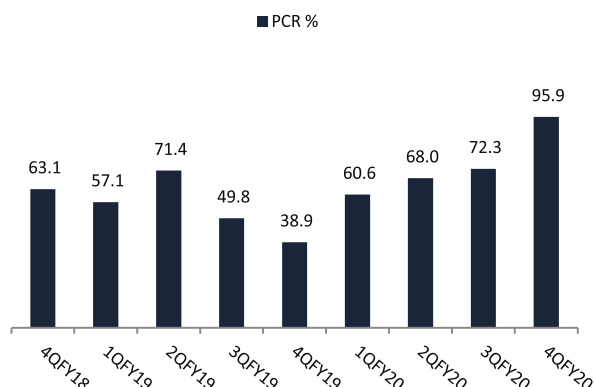


Exhibit: Provisions

PCR increased



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	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	4,378	5,577	6,875
Networth	2,492	2,633	2,758	3,362	3,813	4,547	5,746	7,044
Change (%)	2	6	5	22	13	19	26	23
Total Borrowings	7,795	8,392	9,638	9,403	12,607	15,295	22,408	25,901
Change (%)	-	-	-	(2)	34	21	46	16
Provisions	100	51	78	166	45	55	64	77
Other Liabilities	452	541	365	2,221	564	549	733	770
Total Liabilities	10,838	11,616	12,839	15,152	17,030	20,446	28,951	33,791
Investments	796	217	49	5	5	174	90	104
Loans	8,378	9,770	11,515	13,969	15,244	17,810	23,189	26,668
Change (%)	(18)	17	18	21	9	17	30	15
Fixed Assets	202	174	195	187	275	332	771	940
Other Assets	618	663	476	468	782	966	1,255	1,506
Cash Balances	844	793	604	523	724	1,164	3,646	4,574
Total Assets	10,838	11,616	12,839	15,152	17,030	20,446	28,951	33,791

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Interest income	2,076	1,968	2,349	3,388	3,356	4,096	5,362	6,556
Interest expended	1,027	877	947	1,169	1,030	1,345	1,832	2,454
Net Interest Income	1,049	1,091	1,402	2,219	2,326	2,751	3,530	4,102
Change (%)	(1)	4	28	58	5	18	28	16
Other Income	36	25	25	21	123	146	189	43
Change (%)	76	(30)	(1)	(15)	478	19	29	(77)
Total Net Income	1,085	1,116	1,426	2,240	2,449	2,897	3,719	4,145
Change (%)	1	3	28	57	9	18	28	11
Operating Expenses	695	674	836	965	1,235	1,386	1,474	1,401
Change (%)	1	(3)	24	16	28	12	6	(5)
Employee Expenses	324	315	433	503	626	720	830	814
Change (%)	(5)	(3)	38	16	25	15	15	(2)
Other Expenses	372	360	403	400	528	571	456	408
Pre-provisioning Profit	390	442	591	1,275	1,214	1,511	2,245	2,744
Change (%)	0	13	34	116	(5)	24	49	22
Provisions	47	28	42	109	177	55	238	561
Change (%)	(43)	(40)	51	157	63	(69)	334	136
PBT	343	414	548	1,166	1,037	1,457	2,007	2,183
Tax	117	142	193	407	361	508	527	544
Profit After Tax	226	271	355	758	676	949	1,480	1,638
Change (%)	8	20	31	114	(11)	40	56	11
Adjusted Profit After Tax	226	271	353	756	677	940	1,467	1,638
Change (%)	8	20	30	114	(10)	39	56	12

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Balance Sheet Metrics								
AUM	8,163	9,593	11,434	13,657	15,765	19,438	25,225	29,009
Off-Book AUM	(215)	(177)	(81)	(312)	521	1,628	2,036	2,341
AUM Growth (%)	(18.0)	17.5	19.2	19.4	15.4	23.3	29.8	15.0
Borrowing Growth (%)	-	-	-	(2.4)	34.1	21.3	46.5	15.6
Loan/Borrowing (%)	1.1	1.2	1.2	1.5	1.2	1.2	1.0	1.0
Disbursement (Rs Cr)	-	-	-	-	-	-	-	-
Disbursement Growth (%)	-	-	-	-	-	-	-	-
CRAR (%)	28	26	24	26	27	24	22	25
Tier 1 (%)	-	-	-	-	-	-	-	-
Tier 2 (%)	-	-	-	-	-	-	-	-
Debt/Equity(x)	3.1	3.2	3.5	2.8	3.3	3.4	3.9	3.7
Assets Quality Metrics								
Gross NPA (Rs)	100	107	98	273	110	97	222	267
Gross NPA (%)	1.2	1.2	1.0	2.0	0.7	0.5	0.9	0.9
Net NPA (Rs)	82	89	76	232	47	58	126	133
Net NPA (%)	1.0	1.0	0.7	1.7	0.3	0.3	0.5	0.5
Specific Provision Coverage (%)	17	17	22	15	57	40	43	50
Provision/Average Advances (%)	0.5	0.3	0.4	0.9	1.2	0.3	1.1	2.1
Margin Metrics								
Yield On Advances (%)	22.9	22.2	22.3	27.0	22.8	23.3	24.0	24.2
Cost Of Funds (%)	11.6	10.8	10.5	12.4	10.6	11.7	12.1	12.8
Spread (%)	11.3	11.3	11.8	14.6	12.2	11.6	11.9	11.3
NIM on AUM (%)	11.6	12.3	13.3	17.7	15.8	15.6	15.8	15.1
Profitability & Efficiency Metrics								
Int. Expense/Int.Income (%)	49.5	44.6	40.3	34.5	30.7	32.8	34.2	37.4
Other Income/NII (%)	3.4	2.3	1.8	1.0	5.3	5.3	5.4	1.0
Operating Profit/Net Income (%)	35.9	39.6	41.4	56.9	49.6	52.2	60.4	66.2
Net Profit/Net Income (%)	20.8	24.3	24.9	33.9	27.6	32.7	39.8	39.5
Cost to Income (%)	64.1	60.4	58.6	43.1	50.4	47.8	39.6	33.8
Employee Exp/Net Income (%)	29.8	28.2	30.3	22.4	25.6	24.9	22.3	19.6
Cost on Average Assets (%)	5.9	6.0	6.8	6.9	7.7	7.4	6.0	4.8
Provision/PPP (%)	12.0	6.4	7.2	8.6	14.6	3.6	10.6	20.4
Tax Rate (%)	34.1	34.4	35.2	34.9	34.8	34.9	26.3	24.9
Valuation Ratio Metrics								
EPS (Rs)	2.7	3.2	4.2	9.0	8.0	11.2	17.4	19.4
Change (%)	8.4	20.0	30.3	113.7	(10.5)	39	56.0	11.6
ROAE (%)	9.2	10.6	13.1	24.7	18.9	22.5	28.5	25.6
ROAA (%)	1.9	2.4	2.9	5.4	4.2	5.0	5.9	5.6
Dividend Payout (%)	60.3	67.0	64.3	26.7	7.5	26.9	17.2	15.4
Dividend yield (%)	7.9	6.2	8.0	2.6	0.5	1.4	1.4	1.4
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	53.9	68.2	83.6
Change (%)	2	6	5	22	13	19	26	23
P/B (X)	0.7	1.0	1.1	2.5	2.4	3.3	2.7	2.2
P/E (X)	8.0	10.0	8.3	10.9	13.6	15.9	10.5	9.4

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Interest Income	17.6	17.5	19.2	24.2	20.9	21.9	21.7	20.9
Interest expended	8.7	7.8	7.7	8.4	6.4	7.2	7.4	7.8
Net Interest Income	8.9	9.7	11.5	15.9	14.5	14.7	14.3	13.1
Non-Fund Based Income	0.3	0.2	0.2	0.2	0.8	0.8	0.8	0.1
Total Income	9.2	9.9	11.7	16.0	15.2	15.5	15.1	13.2
Total Operating Expenses	5.9	6.0	6.8	6.9	7.6	7.3	5.9	4.5
Employee Expenses	2.7	2.8	3.5	3.6	3.9	3.8	3.4	2.6
Other Expenses	3.2	3.2	3.3	3.3	3.7	3.4	2.5	1.9
Operating Profit	3.3	3.9	4.8	9.1	7.6	8.2	9.2	8.7
Provisions	0.4	0.3	0.3	0.8	1.1	0.3	1.0	1.8
Others	-	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.1)	-
PBT	2.9	3.7	4.5	8.3	6.5	7.8	8.2	7.0
Tax	1.0	1.3	1.6	2.9	2.2	2.7	2.1	1.7
PAT/RoAA	1.9	2.4	2.9	5.4	4.3	5.1	6.0	5.2
Equity Multiplier (x)	4.8	4.4	4.5	4.6	4.5	4.5	4.8	4.9
ROAE	9.2	10.6	13.1	24.7	19.2	23.0	29.0	25.6

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