

CMP: INR 112

Rating: BUY

Target Price: INR 157

Stock Info

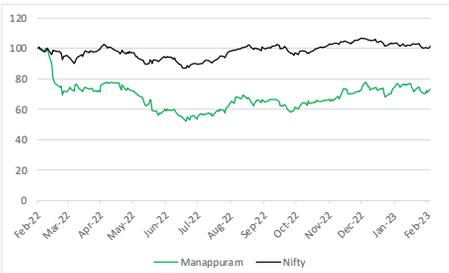
BSE	531213
NSE	MANAPPURAM
Bloomberg	MGFL
Reuters	MNFL.BO
Sector	NBFC
Face Value (INR)	2
Equity Capital (INR mn)	1692
Mkt Cap (INR mn)	95,134
52w H/L (INR)	161/ 81
Avg Yearly Vol (in 000')	420

Shareholding Pattern %

(As on Dec, 2022)

Promoters	35.2
Public & Others	64.8

Stock Performance (%)	1m	3m	12m
MANAPPURAM	-4.8	8.2	-28.2
Nifty	-0.03	1.9	3.7



Manappuram posted not so great Q3FY23 numbers – Consol PAT came in at INR 3.9 bn, up by 50.7% yoy and down by 4% qoq. Key highlights for quarter was – 1) gold loans continue to de-grow both yoy and qoq basis 2) non-gold loans are growing at faster speed 3) it is anticipating total AUMs to grow by 20% in FY24 while growth is returning back in the gold loans in moderated way, as per management

Non-gold loans AUMs drive the asset growth – Total AUMs reported tepid growth of 4.9% yoy and 4% qoq to INR 318.8 bn which was largely led by non-gold loans (up by 33% yoy and 15.6% qoq to INR 1332.7 bn). However, gold loans continued to decline by 9% yoy and 3% qoq to INR 186.1 bn (58% of the total AUMs). Going forward, management expects blended AUMs to grow by 20% in FY24e. While on gold loans, it is witnessing demand is picking up i.e. 20-21% of the target audience is coming back. In our view, unless & until, gold loans pick up meaningfully, overall loan growth will continue to post moderated growth.

Performance of gold loans business - During the quarter, the NBFC added 2.4 lacs gold loan customers vs. similar addition seen in last quarter. In line with gold loan AUMs, gold tonnage too witnessed negative growth of 4.5% qoq and 14.5% yoy to 60 tonnes in Q3. On the branch expansion side, it added 53 branches gold loan branches taking total count to 3950. Standalone net profit was down by 9% qoq to INR 3.2 bn (vs. fall of 23% seen in FY22) which brought down return ratios ROE/ROA to 14.8%/4.4% (vs. 16.8%/4.9% qoq). On the asset quality side, GNPA/NNPA which had shot up to 3%/3% in FY22 is slowly coming down to 2%/1% in Q3FY23.

Valuations – It is trading at 0.9x/0.8x FY23e/FY24e ABV on ROE/ROA of 16.2%/4.1% (FY24e). Valuations are soft for the reason of muted growth on gold loan AUMs. Management highlighted that demand for gold loans is coming back but in a moderated way (will see better growth in Q4 than in Q3). Gold loans currently form 58% of consol AUMs. Other business segments which are relatively new reflect weak profitability. Here, higher growth should not come at the cost of asset quality; however, incremental NPLs are improving across segments. Given reasonable valuations and better outlook for gold loans ahead, we give a BUY rating with TP of INR 157, upside of 35% from current levels

Exhibit 1: Financial Performance

(Rs.cr)	FY22	FY23e	FY24e
NII (Rs)	4050	3906	4451
PAT (Rs)	1,329	1,525	1,779
EPS (Rs)	15.8	17.5	20.4
ABV (Rs)	95.8	113.0	130.8
P/E (x)	7.4	5.8	5.0
P/ABV (x)	1.2	0.9	0.8
RoE (%)	26.4%	16.9%	16.2%
RoA (%)	5.7%	4.0%	4.1%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

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Other Result Highlights

Performance of MFI business – Asirvad Microfinance AUMs grew by 22% yoy and 12% qoq to INR 86.5 bn (forming 27% of total AUMs). PAT stood at INR 0.7 bn, up by 24.5% qoq. Although, growth is coming but asset quality is also diluting at faster pace. Gross stage 3 assets which stood at 1.7% in FY22 rose to 6.7% in Q3FY23. Business which is hardly new for Manappuram, has higher NPLs – GNPA/NNPA at 6.7%/1.7% vs. 8.8%/1.7% qoq. Resultant, this is bringing down the overall profitability and return matrix – ROE/ROA to 1.3% 0.2% vs. 25.5%/4.6% seen in FY20.

Housing Finance business - Here, the AUMs showed growth of 23% yoy and 9% qoq to INR 10 bn (forming 3% of consol AUMs). Home loans consists of 66% of AUMs and balance 34% are LAP loans. This segment again has higher NPLs at 5.4% vs. 5.5% seen in Q2FY23 and 12.3% in Q3FY22 – higher write-offs would have brought down the NPLs, in our view.

Vehicle & Equipment Finance Business - This segment showed growth of 40% yoy and 12% qoq to INR 21 bn (6.6% share of consol AUMs). CVs form 66% of AUMs, two-wheeler 18% and passenger vehicles 20%. This business is carried out from existing gold loan branches (275 branches). Focus is on used commercial vehicles in semi-urban & rural locations. This segment had also faced higher NPLs which has been improving now – GNPL stood at 3.1% in Q3FY23 vs. 6.7% seen in Q4FY22.

MSME & personal loans business - This segment is growing at very fast pace – AUMs stood at INR 20.9 bn, up by 171% yoy and 35% qoq. The operations are a part of Manappuram Finance Ltd and are carried out from existing gold loan branches (currently c.45+ branches for MSME, Housing Loans, Personal Loans; which is likely to scaled up further). AUM mix – MSME form 39% share, micro-housing 35%, secured PL 17% and unsecured PL 9%. Across all business, GNPA in this segment is relatively better at 1.2% (vs. 1.4% seen in Q2FY23).

Other Concall Highlights

- The company visions to become one of the diversified NBFC in the longer run
- Management expects consol AUMs to grow by 20% in FY24
- Demand for gold loans- It is witnessing demand picking up on gold loans i.e. 20-21% of the target audience is coming back. Here, the target customers are short term borrowers with average ticket in the range of INR 50000-60000. In our view, unless & until, gold loans picks up meaningfully, overall loan growth will continue to post moderated growth.
- Succession plans – Daughter of the CEO has been appointed as full-time director and she manages non-gold loan products.
- The company declared interim dividend of 75 paisa during the quarter
- Over the next 2 years time, share of gold and non-gold loans will be 50:50
- It expects the share of MFI business to go up in the coming months
- It redeemed \$300 mn of high cost borrowings which was due in Jan 2023, which is likely to be beneficial from margins point of view in coming quarters
- During the quarter, the NBFC added 2.4 lacs gold loan customers vs. similar addition seen in last quarter
- In Ashirvad MFI, further reduction in the credit cost is expected and it is likely to touch pre-covid levels. Total ECL provisions are INR 4.4 bn, NPA of 1.7% and CAR of 21.6%
- During the quarter, gold auctions were to the amount of INR 3.5 bn

Exhibit 2: Q3FY23 - Quarterly Performance (Consol)

Particulars (in Crore)	Q3FY23	Q3FY22	YoY	Q2FY23	QoQ	9MFY23	9MFY22	YoY
Interest Income	1657.4	1446.1	14.6	1607.8	3.1	4726.3	4446.4	6.3
Interest Expenses	565.7	531.1	6.5	528.4	7.1	1598.7	1516.5	5.4
Net interest income	1091.7	915.1	19.3	1079.5	1.1	3127.7	2929.9	6.8
Other Income	77.2	60.7	27.1	106.3	-27.4	225.0	188.6	19.3
-Dividend Income	0.0	5.9	-	0.0	-	0.0	10.4	-
-Fees & Comm Income	2.4	5.2	-54.3	9.9	-75.8	13.3	13.7	-3.2
-Net gain on fair value changes	30.3	7.4	309.5	54.1	-44.0	94.9	53.5	77.4
-Others	24.1	19.8	21.6	24.5	-1.7	77.9	55.7	40.0
-Other Income	20.4	22.4	-8.9	17.9	14.2	39.0	55.3	-29.5
Net Operating income	1168.8	975.8	19.8	1185.8	-1.4	3352.7	3118.5	7.5
Operating expenses	576.9	522.8	10.4	552.5	4.4	1618.5	1354.1	19.5
-Employee Expenses	385.7	305.7	26.2	364.2	5.9	1063.7	823.9	29.1
-Other Expenses	185.4	209.4	-11.5	179.6	3.3	534.6	508.4	5.1
-Fees & Comm Expenses	5.9	7.7	-24.3	8.8	-33.3	20.2	21.8	-7.2
<i>Cost-Income ratio (%)</i>	<i>49.4</i>	<i>53.6</i>	<i>-7.9</i>	<i>46.6</i>	<i>5.9</i>	<i>48.3</i>	<i>43.4</i>	<i>11.2</i>
Operating Profit	591.9	453.0	30.7	633.3	-6.5	1734.2	1764.4	-1.7
Provisions	50.9	104.8	-51.4	80.5	-36.7	259.8	334.8	-22.4
PBT	540.9	348.2	55.4	552.7	-2.1	1474.5	1429.6	3.1
Tax	147.5	87.2	69.2	143.3	3.0	389.6	361.8	7.7
Effective tax rate (%)	27.3	25.0	8.9	25.9	5.2	26.4	25.3	4.4
PAT	393.5	261.0	50.7	409.5	-3.9	1084.9	1067.7	1.6
PAT (after NCI)	386.4	255.2	51.4	442.2	-12.6	1,097.8	1,049.3	4.6
Paid Up - Equity Capital	169.2	169.2		169.2		169.2	169.2	
ROA (%)	4.2	3.1	110bps	4.6	-40bps	4.2	3.1	110bps
ROE (%)	17.2	12.9	430bps	18.6	-140bps	17.2	12.9	430bps
AUM	31883	30407	4.9	30665	4.0	31883	30407	-4.9
-Gold loans	18614	20452	-9.0	19190	-3.0	18614	20452	9.0
-Microfinance	8066	6859	17.6	7118	13.3	8066	6859	-17.6
-Housing loans	1005	817	23.0	922	9.0	1005	817	-23.0
-Vehicle loans	2112	1510	39.9	1886	12.0	2112	1510	-39.9
-MSME & Other loans	2087	770	171.0	1549	34.7	2087	770	-171.0
Non-gold AUMs	13269	9956	33.3	11475	15.6	13269	9956	-33.3
Other Details								
-Gold Tonnage	60.0	70.0	-14.3	63.0	-4.8	60.0	70.0	14.3
-Gold Branches	3950	3773	4.7	3897	1.4	3950	3773	-4.7
-Non-gold customers	1253	1178	6.4	1245	0.6	1253	1178	-6.4
-Gold Customers	2.4	2.5	-4.0	2.4	0.0	2.4	2.5	4.0

Source: Arianth Research, Company Filings

Yearly Financials (Consol)

Income Statement

Year/Ended March (Rs.Cr)	FY21	FY22	FY23E	FY24E
Interest Income	6331	6061	6460	7348
Interest Expenses	2219	2011	2554	2898
Net Interest Income	4112	4050	3906	4451
Other Income	44	65	111	125
Net Operating Income	4156	4115	4017	4576
Operating Expenses	1400	1845	1678	1818
- Staff Cost	843	1125	1174	1331
- Other Operating Exp.	557	720	505	487
- Depreciation	171	198	0	0
Pre-provisioning profits	2756	2270	2339	2758
Provisions	440	486	304	384
Profit Before Taxes	2316	1784	2035	2373
Taxes	591	455	509	595
Profit After Taxes	1725	1329	1525	1779
% Growth	17%	-23%	15%	17%

Balance Sheet

Year/Ended March (Rs.Cr)	FY21	FY22	FY23E	FY24E
LIABILITIES				
Share Capital	169	169	169	169
Reserves & Surplus	7138	8199	9677	11217
Shareholders Fund	7308	8368	9846	11385
Minority interest	47	16	58	104
Borrowings	22716	24119	29016	33622
Other liabilities & provisions	1268	1308	1758	2075
Total Liabilities	31339	33811	40678	47186
ASSETS				
Fixed Assets	294	366	421	484
Investments	338	421	175	175
Advances	26508	28971	33414	38321
Cash and Bank Balances	2913	2697	4774	6279
Other assets	1286	1355	1893	1926
Total Assets	31339	33811	40678	47186

Ratio Analysis

Year/Ended March	FY21	FY22	FY23E	FY24E
Growth Ratios (%)				
Net Interest Income	13.2%	-1.5%	-3.6%	14.0%
Net Operating Income	11.7%	-1.0%	-2.4%	13.9%
Pre-provisioning Profit	22.8%	-17.6%	3.0%	17.9%
PAT	16.5%	-23.0%	14.8%	16.6%
Advances	14.3%	9.3%	15.3%	14.7%
Borrowings	4.1%	6.2%	20.3%	15.9%
Spreads (%)				
Yield on Advances	24.9%	20.7%	20.2%	20.4%
Borrowing Cost	9.1%	9.1%	9.1%	9.1%
Spreads	15.8%	11.6%	11.1%	11.3%
NIMs	16.0%	14.0%	12.2%	12.3%
Asset Quality				
Gross NPAs	1.9%	3.0%	2.2%	2.1%
Net NPAs	1.5%	2.7%	1.0%	1.0%
Provison Coverage Ratio	46.7%	56.9%	55.6%	54.1%
Return Ratios				
RoE	26.4%	16.9%	16.2%	16.2%
RoA	5.7%	4.0%	4.1%	4.1%
Per Share Data				
EPS (Rs.)	20.5	15.8	17.5	20.4
Book Value	86.7	99.3	116.9	135.1
Adjusted Book Value	83.0	95.8	113.0	130.8
Valuations				
P/E (X)	5.7	7.4	5.8	5.0
P/BV (X)	1.3	1.2	0.9	0.8
P/ABV (X)	1.4	1.2	0.9	0.8

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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