

Subdued performance

CMP: INR 105

Rating: Accumulate

Target Price: INR 118

Stock Info

BSE	531213
NSE	MANAPPURAM
Bloomberg	MGFL IN
Reuters	MNFL.BO
Sector	BFSI
Face Value (Rs)	2
Equity Capital (Rs Cr)	169
Mkt Cap (Rs Cr)	8,849
52w H/L (Rs)	224 / 98
Avg Yearly Vol (in 000')	6,286

Shareholding Pattern %

(As on March, 2022)

Promoters	35.1
FII	29.8
DII	15.8
Public & Others	19.3

Stock Performance (%)	1m	3m	12m
Manappuram Finance	-15.1	-14.0	-34.8
Nifty	-5.4	-6.0	7.5

Manappuram Vs Nifty



Manappuram Finance (MFL) reported subdued performance during Q4FY22 with profit de-growth of 44% YoY to INR 261 cr was lower than our estimate of INR 302 cr, impacted due to 45% QoQ rise in provisions. AUM of the company grew by 11% YoY while it declined marginally by 0.5% QoQ to INR 30,261 cr. Gold loan AUM witnessed further 1.4% QoQ reduction due to decline in tonnage growth and further compression in yield. Yield on advances of the company declined further from 20.3% in Q3FY22 to 18.8% as on Q4FY22. Operating performance of the company was impacted due to lower NII growth and decline in margins. Asset quality of the company deteriorated as GNPA (in standalone entity) increased sharply from 1.4% to 3% on a sequential basis due to impact of RBI's circular on NPA.

Key Highlights:

- NII decreased by 10% YoY while it grew by 3.5% QoQ to INR 987 cr. Decline in NII was mainly due to compression in margins. NIM during the quarter declined by 301 bps YoY and it was largely stable QoQ at 13%.
- Operating profit came in higher than our estimate due to QoQ moderation in OPEX. Operating profit de-grew by 30% YoY and increased by 12% QoQ to INR 505 cr as compared to our estimate of INR 493 cr. Cost to income ratio moderated from 53.6% to 49.3% on QoQ basis.
- Provision remained elevated at INR 151 cr, +42% YoY/+45% QoQ.
- Total AUM of the company rose by 11% YoY/-0.5% QoQ to INR 30,261 cr, largely led by strong growth in Housing and VF loans.
- **Gold loan growth remained lower:** Despite lowering the yield profile, AUM growth remained weak in gold loan segment at +5.7% YoY/-1.4% QoQ to INR 20,168 cr, due to 3% decline in tonnage and lower yield. LTV declined further from 65% in Q3FY22 to 62% as on Q4FY22, while average ticket size (ATS) rose to INR 56.6K (v/s INR 44.6K YoY and INR 53.4K QoQ), driven by the healthy acquisition of higher ticket Gold loan customers. Management targets to grow the gold loan portfolio by 10% in FY23E.
- **MFI portfolio declined sequentially; NII growth was better:** MFI loan increased by 17% YoY/-1.2% QoQ to INR 7,002 cr. MFI book saw decline but NII growth was strong at 30% YoY/37% QoQ to INR 236 cr due to sharp increase in yield and stable CoF. Operating profit increased by 58% YoY/19% QoQ to INR 114 cr. Asirvad microfinance has reported lower profit of INR 4 mn as compared to loss of INR 6 mn, due to sharp 50% QoQ increase in provisions. Even though collection efficiency improved further, asset quality performance remained weak. GNPA in its MFI portfolio increased from 2.8% to 3.5% QoQ. PAR 0+ portfolio increased from 17.1% to 19% QoQ. MFI collection efficiency improved to 99% in Q4FY22 from 96% in Q3FY22.

Outlook and Valuation

We have cut our FY23E/FY24E EPS estimate by 10% and 9% respectively to factor in lower growth and compression in margins. MFL's performance was subdued since last three quarter in terms of profitability, asset quality, return ratios and growth led by decline in yield profile and higher competition in gold loan space with weaker demand. Despite strong revival seen in overall MFI space during Q4FY22, Asirvad MFI's performance remained weaker than the industry trend. Hence, Asset quality in MFI business will continue to remain under watch. Management expect AUM growth to pick up in FY23E with yield stabilizing at 20-21%. We lower our target multiple and downgrade our rating on the stock from Buy to Accumulate with a revised target price of INR 118 (INR 160 earlier), based on 0.9x FY24E ABVPS.

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Exhibit 1: Q4FY22 result Snapshot

Particulars (in Crore)	Q4FY22	Q4FY21	Q3FY22	YoY	QoQ
Net interest income	986.6	1098.4	953.4	-10.2%	3.5%
Other Income	10.0	7.9	22.4	26.1%	-55.4%
Net Operating income	996.6	1106.3	975.8	-9.9%	2.1%
Operating expenses	491.2	377.7	522.8	30.1%	-6.0%
<i>cost-Income ratio (%)</i>	<i>49.3</i>	<i>34.1</i>	<i>53.6</i>		
Operating Profit	505.4	728.7	453.0	-30.6%	11.6%
Provisions	151.4	106.6	104.8	42.0%	44.5%
PBT	354.0	622.1	348.2	-43.1%	1.7%
Tax	93.0	153.7	87.2	-39.5%	6.7%
Effective tax rate (%)	26%	25%	25%		
PAT (After MI)	260.9	468.3	261.0	-44.3%	0.0%
Asset Quality					
GNPA (%)	3.0	1.9	1.4	110bps	160bps
NNPA (%)	2.7	1.5	1.0	120bps	170bps
Return Ratios					
ROA (%)	3.1	6.0	3.1	-290bps	0bps
ROE (%)	12.6	26.4	12.9	-1380bps	-30bps
AUM					
AUM	30261	27224	30407	11.2%	-0.5%
-Gold loans	20168	19077	20452	5.7%	-1.4%
-Microfinance	6653	5985	6859	11.2%	-3.0%
-Housing loans	845	666	817	26.9%	3.5%
-Vehicle loans	1643	1053	1510	56.1%	8.8%
-Other loans	952	444	770	114.4%	23.6%

Exhibit 2: Key Conference call highlights

- Disbursements for the quarter was at INR 309 bn as compared to INR 249 bn in Q3FY22.
- Auction for the quarter was at INR 920 cr.
- Share of more than 2 Lakhs ticket size gold loan was at 33% vs. 29% as of Dec'21 and 19% pre-pandemic.
- AUM growth was flat in April and some slight growth seen in May. Gold loan business expected to revive in June.
- Management targets for 10% growth in gold loan portfolio, 20% growth in MFI portfolio and 15% growth in overall AUM.
- Company has applied with RBI for opening up of 300 branches in FY23.
- Asset quality of the bank was impacted due to RBI circular on NPA norms. Excluding this impact GNPA was at 1.42% vs 1.36% QoQ.
- Company is targeting to maintain disbursements yield at 20-21% in gold portfolio.
- Interest accrued for the quarter was at INR 420 cr or 2% of gold loan portfolio.
- Management guided for RoA of 5% in FY23E.
- Restructured portfolio in MFI business was at INR 790 cr or 12.5% of advances. Company has not offered any moratorium on these accounts.
- Yield in MFI business has increased by 4% due to removal of cap on lending rates and reached at 24%.
- Company expect to do INR 500 cr disbursements per month in MFI business. Loan book expected to increase by 20% in current fiscal year.
- Collection Efficiency in MFI Business during Q4FY22 was 99% (including arrears) vs. 96% in Q3FY22. Collection efficiency as on Apr'21 stood at 101%.
- PAR 0+ book in MFI increased from 17.1% to 19.0% QoQ.

Key Financials

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)	5.1	6.7	6.0	5.1
P/BV (X)	1.2	1.1	0.9	0.8
P/ABV (X)	1.3	1.1	0.9	0.8

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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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