

Manappuram Finance | BUY | TP: 255

Emerging strong



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We retain BUY on Manappuram Finance (MGFL) with SOTP based target price (TP) of Rs255. Superior risk management and credit underwriting have enabled MGFL avert severe shocks, *as also seen in the FY21 results*. This should also help overcome near-term challenges posed by the second wave of COVID (in addition to the healthy provisioning buffer and respectable CE trends) and emerge stronger as normalcy is restored. MGFL offers a blend of a diversified balance sheet, healthy revenue/earnings growth, and superior return ratios. At 1.2x FY23E ABV, it remains grossly under-valued for a franchise that can potentially generate 23-24% RoE over FY22-23E.

- Gold AUM – Arrests the decline:** Q4FY21 saw MGFL arrest the decline in its gold loan AUM to a mere 5.6% QoQ (vs. 12% decline in gold prices in Q4) led by a) auctioning c.Rs4bn of loans of defaulting customers (*well within industry standards and at 0.16% of disbursements*) and b) a temporary shift in its LTV to 71% (*long-term average ~63-64%*). The largely 3-month loan tenor for MGFL (vs. industry practice of 6-12m), while resulting in a QoQ drop in the portfolio, *has traditionally served well to contain NPAs through timely auctions*. With a recovery in gold prices, new client additions, repeat customers (80% of customers roll over their loans), and transition of customers across various loan segments, we see gold AUM witness 14.4% CAGR over FY21-23E.
- MFI: Gaining ground:** Asirvad MFI AUM grew 11.7% QoQ (*highest in past 5 quarters*) led by healthy disbursements and client addition. CE trends remained healthy in Q4FY21 and while April saw a marginal drop (7-8% from Mar levels), May witnessed contraction (on back of stricter lockdowns). Management has guided for greater focus on asset quality over AUM growth (in the near term). PAR 90+ at 2.5% *remains comfortable when compared to its peers* and guarded well with provisioning at Rs3.41bn (5.7% of AUM). Reduction in borrowing cost, healthy CAR (23%+), and credit to existing customers augur well for earnings/ROE. We are factoring in 22% CAGR in AUM and see RoE inch towards 19.5% by FY23E. *Our sensitivity analysis suggests 34-210bps impact on ROE due to lower growth/higher than expected provisions.*
- Vehicle financing, Housing finance – Back on track:** After a prolonged period of portfolio consolidation, the VF segment grew 6.5% QoQ (*highest in last 5 quarters*). CE has been on a rise; GNPA declined to 5% (vs. 8% in Dec'20). Restructuring in VF was a low 8%. Manappuram Finance has created Rs640mn of provisions (6.1% of AUM). HF AUM grew 5.8% YoY. CE stood at 95% (vs. 97% in Dec'20).
- Earnings, Valuation, view & Risks:** We have tweaked our estimates marginally on the AUM/earnings front. Retain BUY with sum-of-parts-based valuation methodology and TP of Rs255. This implies a valuation of ~2x consolidated FY23E BV (10% premium to its 5-year average 1-yr forward P/B). Sustainable RoE for MGFL could be well above the reported/near-term RoE as businesses gain scale/attain maturity, and valuations could scale up as a consequence. **Key risks:** Volatility in gold prices, and impact of any socio-political upheavals on business/ collections across various sectors.

Target Price	255	Key Data	
		Bloomberg Code	MGFL IN
CMP*	154	Curr Shares O/S (mn)	846.4
		Diluted Shares O/S(mn)	846.4
Upside	65.3%	Mkt Cap (Rs bn/USDmn)	130.5/1,789
Price Performance (%)		52 Wk H / L (Rs)	187.3/78.5
		5 Year H / L (Rs)	196/34.8
MGFL IN	4.7 (7.8) 28.3	3M Average Vol.	5,352,354
NIFTY	4.7 19.3 61.6		

Source: Bloomberg, ACE Equity, MNCL Research, *on 27th May 2021

Shareholding pattern (%)				
	Mar-21	Dec-20	Sept-20	June-20
Promoter	35.0	35.0	35.0	35.04
Institutions	39.8	39.5	39.0	38.4
DII	7.7	7.5	8.0	8.8
Others	17.5	18.0	18.0	17.8

Source: NSE, MNCL Research

What to read in the report?

- Gold loan – Trend in loans auctioned, growth potential.
- MFI loans – PAR portfolio and provisions across peer
- MFI segment - Dupont analysis; Sensitivity analysis.
- Q4FY21 earnings concall takeaways
- Sustainable RoE; SOTP based valuation.

MFI business – Sensitivity analysis

%	FY22E	FY23E
Current Estimates		
Credit cost	3.5	2.7
RoE	13.5	19.5
Scenario I (5% lower AUM growth and 10bps higher credit cost)		
Credit cost	3.6	2.8
RoE	13.1	18.4
Scenario II (Assuming 10% lower AUM growth and 20bps higher credit cost)		
Credit cost	3.7	2.9
RoE	12.8	17.3

Source: MNCL Research Estimates

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Y/E Mar (Rs mn)	NII	PPOP	PAT	% YoY growth	EPS	ABV	P/E (x)	P/ABV (x)	RoE (%)	RoA (%)
FY18	23,235	12,142	6,760	4.1	8.0	44.3	12.7	2.3	18.8	4.2
FY19	27,012	15,113	9,486	40.3	11.3	52.7	8.9	1.9	22.8	5.1
FY20	33,848	22,449	14,803	56.1	17.5	66.3	8.2	2.1	28.8	6.0
FY21P	39,706	27,561	17,250	16.5	20.4	84.0	7.6	1.8	26.4	5.7
FY22E	44,207	29,996	18,853	9.3	22.3	101.5	7.1	1.5	23.4	5.8
FY23E	53,161	37,334	23,827	26.4	28.2	124.9	5.6	1.2	24.2	6.6

Source: Company, MNCL Research estimates. Consolidated Financials. NII indicates Net interest income

Gold finance: AUM to witness 14.4% CAGR over FY21-23E

The 12% decline in gold prices for Q4FY21 and over 21% decline (from its peak in Q2FY21) attributed to a sequential decline in gold loan AUM by 5.6% for Q4FY21 and a lower (than expected) growth in AUM at 12.4% YoY for FY21. *The sharp drop in AUM follows a 3-month low duration for MGFL (vis-à-vis industry standard of 6/12 months) and hence the need to either resort to auctioning of loans / higher gold holdings from customers that have availed loan facility or alter the LTVs.* The quarter saw MGFL auction loans of defaulting customers to the tune of Rs4.04bn (~1MT of holdings) and temporary adjust LTV to 71% (vs. its long-term average at 63-64%). **On the flip side, the strong reach saw MGFL add 0.3mn clientele with gold holdings to the tune of ~4MT tonnes.**

We interacted with investors to understand their concerns around the gold loan segment especially in the context of auctioning, AUM growth, and related aspects:

Q. FY21 saw MGFL auction gold loans to the tune of Rs4.12bn (principal amount).

A: Investors pointed to Rs4.12bn of auctions during FY21, with over Rs4.04bn being auctioned in Q4FY21 itself (vs. Rs1.3bn in FY20). *Our interaction with industry experts points to auction (ie. delinquencies) at 0.5-0.7% of disbursements on an ongoing basis.* MGFL FY21 auction at Rs4.12bn (0.16% of disbursements) is thus well within the industry permissible range. These auctions follow a sharp drop in gold prices and especially for loans that came up for renewal originally disbursed in Q2FY21 (gold prices were at a peak then). The short-tenure nature of loan exposure enabled avert credit loss following an event of default / sharp drop in gold prices and thus the inability to recover the dues. Also, while the quantum of gold loans auctioned (principal O/s.) during FY20 was lower at Rs1.16bn (*due to supportive gold prices*), FY19 saw Manappuram auction gold loan to the tune of Rs4.2bn and a higher at Rs9bn in FY17 and FY18 each.

Trend in loan auctioned and customers therein:

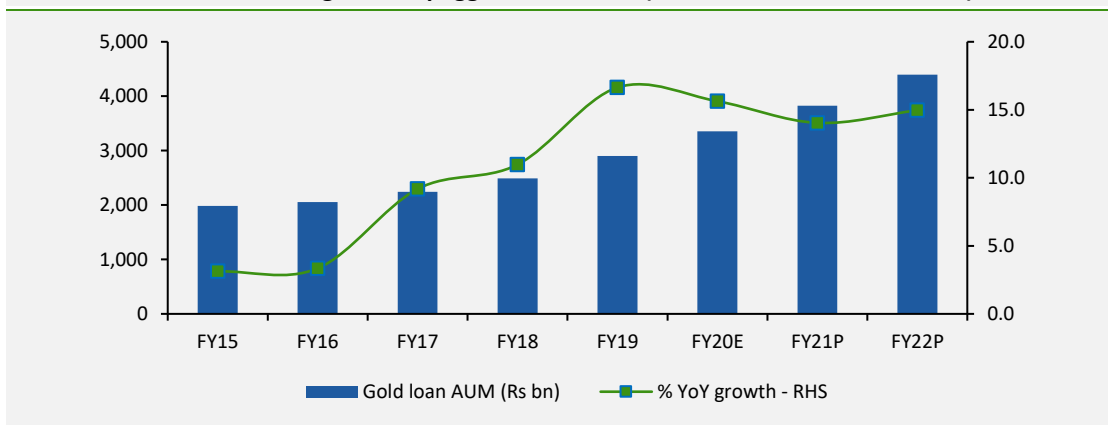
(Rs mn)	FY17	FY18	FY19	FY20	FY21
Loans auctioned (principal)	9,290	9,045	4,194	1,162	4,120
No of clients (no)	305,439	332,767	181,555	48,026	75,000
% of disbursements	1.77%	1.46%	0.47%	0.07%	0.16%

Source: Company, MNCL Research

Q: The 5.6% QoQ decline in gold AUM resulted in a mere 12.4% growth in AUM for FY21

A: MGFL gold AUM witnessed 13% CAGR over FY15-20 and hence the 12.4% YoY growth in AUM for FY21 is well within the past range. Further, but for the sharp fall in gold prices and auctioning of gold loans, growth could have been higher (as seen through during the Q1FY21-Q3FY21 period). Experts have pointed at growth opportunity in gold loans given the increased customer awareness, shift in preference from unorganised to organised/formalised gold loan market, removal of regulatory arbitrage (RBI had permitted LTV of 90% for banks up to 31st March 2021), and availability of credit through online gold loan / door-step facility by various lenders. According to KPMG, the gold loan industry is expected to witness 14-15% CAGR over FY20-22E.

Exhibit 1: Gold loan financing market pegged at Rs4.4tn+ (14-15% CAGR over FY20-22E)



Source: KPMG Report, CRISIL Report on NBFC 2020, MNCL Research

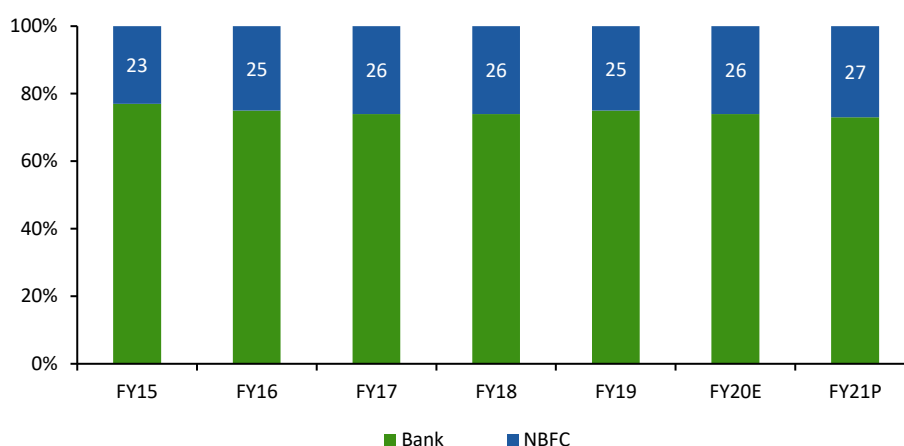
Industry experts pointed to auctioning at 0.5-0.7% of disbursements on an ongoing basis

FY19 saw MGFL auction gold loans to the tune of Rs4.2bn and higher at Rs9bn+ in FY17 and FY18 each.

Further, MGFL's foray into the non-gold loan segment in FY15 follows the need for higher AUM growth and the ability to cross-sell given the core underlying segment of operations. Over FY15-20, MGFL overall AUM witnessed 21.3% CAGR (vs. 13% CAGR in gold AUM). We thus are factoring in 14.4% CAGR in gold loan AUM over FY21-23E and a higher 16.2% CAGR in overall AUM over FY21-23E.

Historically, Banks have had a higher share of credit in gold loans (vis-à-vis NBFC's) given a) the PSL nature of loan classification in case of certain gold loans b) low-risk, high yield portfolio c) wider reach vis-à-vis NBFC and d) the regulatory arbitrage (between July'20 and Mar'21) that attributed to higher growth in the recent past. Industry experts however point to market share gains for NBFCs (albeit in a gradual manner) in ensuing quarters led by a) deeper-product understanding and ability to assess the value of asset b) employee-intensive nature of the business that tends to eat upon the operating cost for banks, c) use of technology including ramping of online / door-step facility.

Exhibit 2: Gold loan financing - NBFCs have gained market share over Banks.



Source: CRISIL NBFC Report 2020, MNCL Research

In case of Manappuram finance - 54% of its gold loans is through an online channel

In addition to the traditional approach towards gold loan financing via the NBFC/Bank route, the recent past has seen the emergence of "online gold loan facilities" through these players including the facility of gold loans at the doorstep. In the case of Manappuram, 54% of gold loan AUM is garnered through an online channel. For Muthoot Finance, 20.3% of gold loan AUM is through this route. With the increasing use of technology, the gold loan industry has also seen online fintech entities (that tie up with bank/NBFC for storage of underlying assets), entering the gold loan market. *With the unique proposition of lower interest rates, top-up facility, and credit availability at ease, the online fintech platforms are gaining huge attention from the youth/urban population.*

Within limited regulatory arbitrage on loan-to-value ratio (capped at 75%) and repayment structure, the key differentiation amongst the various gold loan financiers is majorly around the aspects of interest rates, loan duration, flexibility, and turn-around-time (if any).

Exhibit 3: Key differentiations - Bank vs. NBFC (including GLC), unorganised segment and Online fintech platforms.

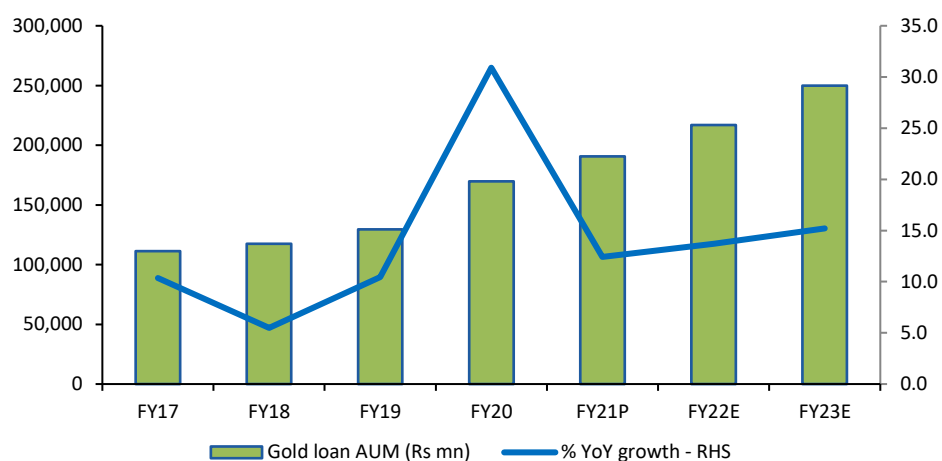
	NBFC / GLC	Bank	Moneylenders / Pawn brokers (Unorganized players)	Online Gold lending fintech platform
Loan Tenure	3 months – 1 year	6 months and above	No defined tenure	Renewal every 6 months
Interest rates (per month)	1% - 2.14%	0.79% - 1.2%	36%-100%	0.79% - 1.3%
Processing fees	NIL or marginal fess	Nominal processing fees	NIL	Nominal processing fees
Mode of disbursal	Cash for loans up to Rs0.2mn; above Rs0.2mn – amount is credited to beneficiary bank account	Into the bank account of the customer, irrespective of loan amount	Cash transactions; Repayment of interest is either daily / monthly	Into the bank account of the customer, irrespective of loan amount
Gold / Jewellery located	Placed in safe vaults of the borrowing branch	Placed in safe vaults of the borrowing branch / nearest location	Gold is kept in the safe custody by the moneylender / pawn broker	Placed with Banking / NBFC partner

Source: Companies, MNCL Research

Manappuram gold loan AUM to witness 14.4% CAGR over FY21-23E

With a gradual recovery in the gold prices, increased customer awareness, fair-play (no regulatory arbitrage), firming up of new client additions (added 0.3mn clients in Q4 | ~1.4mn clients in FY21), repeat customers (80% of customers roll-over their loans), online loan facility and door-step facility including the transition of non-gold loan customers into gold loans, we see gold AUM witness 14.4% CAGR over FY21-23E. FY21 GNPA came in at 1.9% (vs. 1.26% in Q3FY21 and 0.9% in FY20) and in line with CRISIL estimates at 1.9-2% for FY21E. We however draw comfort in the risk management and credit underwriting capabilities and the provisioning at Rs1.04bn (0.5% of AUM).

Exhibit 4: Gold loan AUM to witness 14.4% CAGR over FY21-23E



Source: Company, MNCL Research Estimates

Portfolio diversification has enabled cross-sell loan products - testimony to its core-ethos:

- 20% of MGFL vehicle financing and home financing customers have also availed of gold loan from Manappuram Finance.
- FY21 saw MGFL add 1.4mn gold loan clients.
 - 100+ MFI loan customers (ie. Asirvad Microfinance) have started to avail gold loan facilities on daily basis.
 - Door-step facility (initiative restarted in Q3FY21) has seen more than 300+ inquiries.
 - Online gold loan facility has seen continued traction.
- Q4FY15 saw Asirvad MFI clock Rs17.5bn of disbursements (vs. Rs13.1bn in Q3FY21). Albeit at the nascent stage, MGFL has been witnessing the transition of MFI clients to gold loans.

Asirvad MFI: Gaining ground

Factoring in 22% CAGR in AUM over FY21-23E

Asirvad MFI AUM grew 11.7% QoQ (*highest in past 5-quarters*) and 8.8% YoY led by healthy disbursements at Rs17.5bn during the quarter (vs Rs13.1bn in Q3FY21) and client addition. Collection efficiency (CE) trends remained healthy through the Jan-Mar'21 quarter and while April saw a marginal drop (7-8% from Mar levels), May witnessed contraction (on back of stricter lockdowns). Management has guided for improved CE trends and greater focus on asset quality over AUM growth (in the near term).

Trends in Asirvad CE:

- CE stood at 99% in Jan | 100% in Feb and at 101% in Mar
- West Bengal and Odisha have reported improved CE (vis-à-vis the first phase of COVID-19)
- While Kerala, Karnataka and Rajasthan have witnessed marginal drop in CE in the current wave (vis-à-vis first phase), management is confident of normalcy in these markets.
- CE trends in TN (largest state) remain normal.
- MGFL has created Rs300mn of second wave related provisions and has cumulative provisions to the tune of ~Rs3.41bn (5.7% of AUM)
- While MFI business PAR 30+ and PAR 60+ are a tad on the higher side to its peers, PAR 90+ at 2.5% is lowest *amongst its peers*.
- Provisioning at Rs3.41bn or 5.7% of AUM *is also on the higher side when compared to its peers*.

Exhibit 5: Trend in PAR and provisioning across MFI lenders

(%) FY21	Asirvad	CRED	MMFSL	Spandana	Bandhan	Equitas SFB
PAR 0+	15.8	5.2	14.0	10.3	16.2	
PAR 30+	10.1	4.1	9.7	6.7	12.9	6.5
PAR 60+	6.5	3.5	6.7	4.7	10.1	4.8
PAR 90+	2.5	2.9	4.7	3.1	7.6	3.4
AUM (Rs mn)	59,846	113,410	22,460	81,570	530,500	32,360
Provisions (Rs mn)	3,410	5,170	1,078	4,120	25,710	
% of AUM	5.7	4.6	4.8	5.1	4.8	

Source: Companies, MNCL Research

We believe that the reduction in borrowing cost (-20bps QoQ), an outcome of superior credit rating (Asirvad has the highest rating in the MFI industry), and diversified borrowing profile, healthy CAR (23%+), and thrust at credit to existing customers (80% of incremental credit to existing customers) will augur well from earnings/ROE point of view. We are factoring in 22% CAGR in AUM and 340bps of credit cost over FY22-23E. We see RoE inch towards 19-20% levels by FY23E.

Exhibit 6: Asirvad MFI – Dupont analysis

(% of average assets)	FY18	FY19	FY20	FY21P	FY22E	FY23E
Net Interest income	11.7	17.3	20.5	13.8	14.2	14.1
Other Income	1.5	1.6	1.0	0.4	0.5	0.5
Total Income	12.2	13.4	14.2	11.0	13.0	13.5
Operating Expenses	7.0	5.6	4.8	5.2	5.8	5.7
Pre-provision profit	5.2	7.9	9.4	5.9	7.2	7.8
Provisions	5.9	0.9	3.0	5.3	3.9	3.0
Profit before Tax	-0.7	7.0	6.4	0.5	3.3	4.8
Taxes	-0.2	2.4	1.5	0.2	0.8	1.1
Profit after Tax	-0.4	4.6	4.8	0.3	2.5	3.6
RoE (%)	-3.4	28.0	25.5	1.6	13.5	19.5

Source: Company, MNCL Research Estimates

States of WB, Odisha have reported improvement in CE...

... CE trends remain healthy for the state of TN

PAR 90+ for Asirvad at 2.5% are lowest when compared to peers...

... provisioning buffers remain healthy at 5.7% of AUM

MFI business: Sensitivity analysis

The rural/semi-urban nature of presence and lockdowns following the second wave of COVID has had a bearing on business activities ie. acting as a deterrent towards collections and AUM growth. Management hinted at CE in April a tad lower to March levels albeit mentioned for a further decline in May (due to stricter lockdown norms). They also guided a greater focus on asset quality over AUM growth in the near term, till normalcy is restored.

We have thus conservatively built in a gradual recovery in AUM growth over FY22-23E and continue to built-in aggressive loan-loss provisions (ie credit cost). Our estimates currently factor in AUM growth at 22% CAGR (vs. 8.8% YoY growth in AUM for FY21) and 340bps of credit cost (vs.520bps in FY21) over FY21-23E

However, in an event of the prolonged period of lockdowns/restrictions on movement thus impacting AUM growth/CE could derail the revenue/earnings and thus the likely valuations.

Our sensitivity analysis assuming AUM growth/credit cost across various scenario suggest ROE impact to the tune of 34bps – 210bps over FY22-23E.

Exhibit 7: Sensitivity analysis – Studies suggest 35-210bps impact on RoE

Rs mn	Current Estimates		Assuming a 5% lower growth and 10bps increase in credit cost over FY22-23E		Assuming a 10% lower growth and 20bps increase in credit cost over FY22-23E	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
AUM	72,414	89,069	69,421	81,917	66,429	75,065
% YoY growth	21.0	23.0	16.0	18.0	11.0	13.0
Income from Operations	12,747	15,853	12,453	14,851	12,160	13,879
Provisions	2,315	2,180	2,327	2,119	2,336	2,052
% of AUM	3.5	2.7	3.6	2.8	3.7	2.9
Profit after Tax	1,523	2,602	1,480.5	2,434.4	1,440.5	2,274.1
RoE (%)	13.5	19.5	13.1	18.4	12.8	17.3
RoE impact (bps)			34.9	108.3	68.1	213.6

Source: MNCL Research Estimates

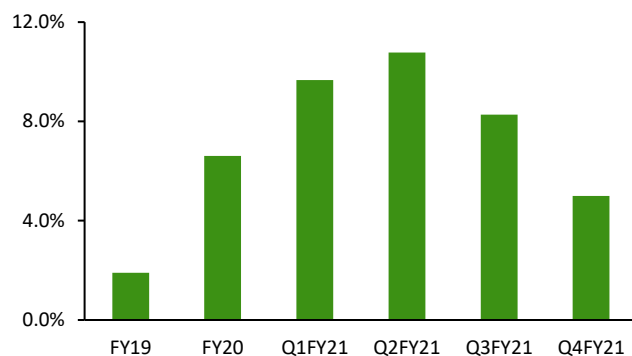
Slower than expected recovery in earnings/revenue and thus the ROEs could impact valuations / limit valuation multiple expansion for the MFI business that currently account for 10-12% of SOTP.

Vehicle financing (VF), home finance (HF), and Other segment:

Vehicle Finance – Financing the small-fleet operators/first-time users.

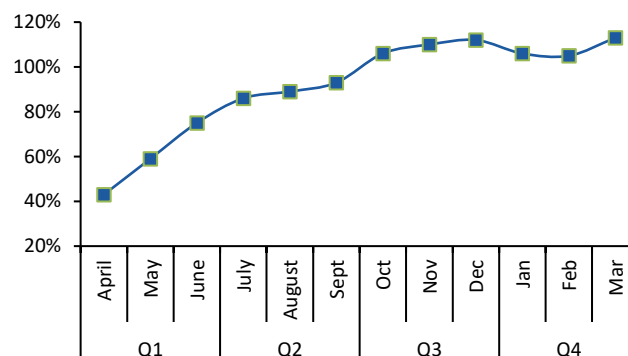
After a prolonged period of portfolio consolidation, Q4FY21 saw vehicle finance business portfolio report growth. Vehicle Financing AUM at Rs10.5bn (3.9% of overall AUM) grew 6.5% QoQ, albeit a decline of 21.7% YoY. GNPA came in at 5% (vs. 8.3% in Q3FY21 and 6.7% in Q4FY20). On collection efficiency side, the business reported CE at 106% in Jan, 105% in Feb and 113% in March'21.

Exhibit 8: VF business – Trend in GNPA



Source: Company, MNCL Research

Exhibit 9: VF collection efficiency remains healthy



Source: Company, MNCL Research

Home Finance – Going the granular way.

Housing finance portfolio at Rs6.3bn grew 5.8% YoY. CE saw a marginal decline to 95% (vs, 97% in Dec'20), GNPA came in at 6% vs. 5% as at Dec'20.

Others – On-lending to SME/NBFCs

Others (in nature of exposure to SME/smaller NBFCs) AUM stood at Rs4.4bn as at FY21. This portfolio has halved from its peak of ~Rs10bn in FY19 following uncertainties therein. Management has hinted at calibrated growth and we have factored it into our estimates.

Q4FY21 Concall takeaways:

Gold loan segment:

- Q4FY21 Gold AUM declined 5.6% QoQ (+12.4% YoY) as against 12% QoQ decline in gold prices during the quarter and over a 21% fall from its peak.
- The quarter saw MGFL resort to auctioning of gold loans of the defaulting customers to the tune of Rs4bn (~1MT tonnage of gold auctioned). The same was however offset by an increase in LTV to 71% (vs. 63% QoQ).
- The quarter saw Gold loan segment add 0.3mn clientele; and ~4MT tonnage of gold holdings.
- Provisions on gold loan portfolio stood at Rs1.04bn (0.5% of loans)
- MGFL continues to operate with 3-months gold loan product strategy. 80% of customers roll-over their loan exposure; 60% of customers (by value) have loans above Rs0.1mn;
- Management has hinted at 10-15% growth in gold AUM in FY22E, led by 10%+ growth in customer addition
- LTV arbitrage (banks were permitted LTV of up to 90%) has been removed w.e.f. 31st March'21. MGFL, thus hinted at strong growth opportunity in the gold loan segment.
- Strong risk management, shorter tenure loan product strategy and effective credit monitoring including timely auctions bode well for MGFL.

MFI loans:

- Asirvad MFI AUM at Rs59.8bn grew 11.7% QoQ (strongest in the past 5-quarters) and 8.8% YoY.
- Disbursements came in at Rs1.7bn (vs. Rs1.3bn in Q3FY21)
- Management hinted at greater focus at asset quality over AUM growth and hinted at thrust towards credit to existing customers towards AUM growth in near-term.
- CE stood at 99% in Jan | 100% in Feb and at 101% in Mar
- CE for April was a dip of mere 7-8% over Mar'21; CE for May was a tad lower. Management however hinted at regular interactions with clients and CE improving back in ensuing period.
- Cumulative provisions stood at Rs3.41bn (created Rs300mn of provisions) during the quarter. Loan loss provisioning was at 1.7% of AUM.
- Capital position remains strong at 23%
- While MFI loans constitute 20%+ of overall AUM, management hinted at curtailing overall exposure to sub-15% in the next 3-5 years. It however remains confident of the growth potential and the return ratios that the model generates.
- Restructuring stood at 4% of AUM

Other segments:

- Vehicle finance segment grew 6.5% QoQ;
- CE stood at 106% in Jan, 105% in Feb and Mar at 113%
- GNPA has declined to 5% (vs. 8% in Dec'20) | Restructuring stood at 8% of loans.
- MGFL has created Rs640mn of provisions (6.1% of AUM)
- Housing Finance AUM grew 5.8% YoY. CE stood at 95% (vs. 97% in Dec'20)

Consolidated basis:

- Liquidity position remains comfortable with Cash and Bank balance at Rs25.5bn (11.3% of borrowings) and undrawn bank lines at Rs73.6bn

Earnings, Sustainable RoE:

We have lowered our FY22E estimates marginally on the AUM growth front given a) the lower base of FY21 and a b) temporary disruption in business following the second wave of COVID. We are now factoring in 16.2% CAGR in overall AUM led by 14.4% CAGR in gold loans, 22% CAGR in MFI portfolio, and 14.8% CAGR in others. We are building in 15.7% / 17.5% CAGR in revenue/earnings over FY21-23E and see ROE inch towards 23-24% levels as each of the business segments gain critical scale, mass, or turn profitable.

Exhibit 10: Dupont analysis

(% of average assets)	FY18	FY19	FY20	FY21P	FY22E	FY23E
Net Interest income	15.5	15.4	14.7	14.1	14.5	15.5
Total Income	15.3	15.5	15.1	13.8	14.5	15.5
Operating Expenses	7.7	7.4	6.0	4.6	5.2	5.2
Pre-provision profit	7.6	8.1	9.1	9.1	9.3	10.3
Provisions	1.1	0.3	1.0	1.5	1.4	1.4
Profit before Tax	6.5	7.8	8.1	7.7	7.9	8.9
Taxes	2.3	2.7	2.1	2.0	2.1	2.3
Profit after Tax (ROA)	4.2	5.1	6.0	5.7	5.8	6.6
RoE (%)	18.8	22.8	28.8	26.4	23.4	24.2
RoAAUM (%)	4.6	5.4	6.6	6.6	6.4	7.0

Source: Company, MNCL Research Estimates

Sustainable RoE could well be higher to the near-term RoEs. The standalone near-term RoE for MGFL is expected at 25-26% levels. Sustainable RoE could well be higher once (a) gold loan portfolio gathers pace, and (b) VF business/Others segment adds to overall profitability. Similarly, while we see near-term RoE for Asirvad (MFI business) at 20% levels, with normalisation in credit cost and operational efficiency benefits, sustainable RoE for this business could well be at 22-24% levels.

Valuation, view and risk

We retain BUY on Manappuram Finance and our target price (TP) of Rs255 using the sum-of-the-parts-based valuation methodology. On a P/B (x) basis, it implies a valuation of 2x consolidated FY23E BV of Rs128 (ie. at 10% premium to its 5-year average 1-yr forward P/B).

Exhibit 11: SOTP based valuation.

Segment	Networth# (FY23E)	Valuation multiple (x)	Business Valuation (Rs mn)	Stake (%)	MGFL share in the business (Rs mn)	Per share (Rs)
Standalone (A)	89,112	2.10	187,135	100	187,135	221
Subsidiaries						
Asirvad MFI	14,679	2.50	36,698	93.33	34,250	40
Housing Finance	2,303	1.00	2,303	100	2,302	3
Value of subsidiaries						43
After 25% holding Co. discount (B)						32
Target price (A+B)						255

Source: Monarch Research Estimates. #adjusted for NNPA and investment in subsidiaries.

We have valued the standalone business at 2.1x FY23E adjusted network (adjusted for NNPA and investment in subsidiaries) for its ability to generate 23-24% RoE on a steady-state basis. While the gold loan segment remains the key AUM growth/profit driver, we expect the VF business and other segments to contribute to earnings/revenue, and thus, to ROE following the scale of economies and improved sector dynamics. Sustainable RoE for the standalone business could well be higher than the reported RoE/FY23E RoE of 25-26%. Valuation multiples, under such circumstances, could well trade at a higher band following improved growth/profitability.

Our estimates factor in a steady improvement in revenue/earnings for the subsidiaries, given their positioning and favorable sector dynamics, and thus, the impact on earnings/return ratios. This is even as we factor in elevated provisioning for Asirvad (i.e. MFI business) and a gradual scaling of the housing finance business.

We have valued MFI business at 2.5x FY23E network for 19-20% ROE. Our estimates factor in 22% CAGR in AUM and 25.6%/30.3% CAGR in NII/PPOP. We have built-in credit cost at 340bs over FY22-23E and see profit ratios improve over FY22-23E. Capital position remains healthy, concentration risk (exposure to the state of TN at 22%) albeit warrants attention, with better credit underwriting, stable CE trends, and eventual default is expected to remain lower. Sustainable RoE for the MFI business could well be at 22-24% levels (vs. FY23E RoE at 19-20% levels). Valuation multiples, under such circumstances, could well trade at the higher band as investors draw greater comfort in the consistency and quality of the earnings. We have valued the housing business at 1x FY23E network for its 5-6% RoE. Albeit at a nascent stage, we draw comfort in provision/positioning.

Key risks to our thesis

- **Volatility in gold prices and its impact on LTV / AUM growth:** While an increase in gold price does have a positive bearing on AUM growth, sudden fall therein or volatility can have a bearing on LTVs, and hence AUM growth. Lower realisation (i.e. sell value as against the principal + interest amount O/s), on the back of sharp-fall in gold prices, can also result in losses.
- **Socio-political risk:** The sectors of gold loan / MFI loans are highly vulnerable to socio-political risk, and hence any noise around waivers/dispensation has a direct bearing on growth / CE.
- **Concentration risk:** Even as MGFL has made efforts at expanding its gold loan offerings to non-South markets, a substantial part of business (60%+) is still from the Southern markets, thus exposing the entity to concentration risk. Even on the MFI business, top-3 states account for 44% of loans. Risk associated with any socio-political/natural factors can have a direct bearing on CE/growth.
- **Downgrading in credit rating:** While MGFL enjoys a respectable credit rating and is given its strong capital positioning, diversified borrowings, and adequate leverage any change therein can have a direct bearing on the cost of borrowing and hence margins.
- **Increased competition:** MGFL is exposed to competition from banks/NBFC-MFIs and FIs. Increased competition can have a direct bearing on AUM growth, and thus, the earnings.
- **Regulatory risk:** MGFL gold loan/MFI businesses are highly regulated, and hence, any change in regulation either in terms of pricing, margins, growth, provisioning norms can have a direct bearing on revenue/earnings growth, and hence, the return ratios.

Peer comparison and PB chart:

Exhibit 12: Rolling forward P/B chart



Source: Bloomberg, Company, MNCL Research Estimates

Exhibit 13: Peer comparison – Manappuram Finance and some of the entities in similar business segments

Co_Name	Price (Rs)	Market Cap (Rs mn)	P/E (x)			P/BV (x)			RoE (%)			RoA (%)		
			FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
Manappuram Finance#	154.2	130,509	7.6	6.9	5.5	1.8	1.5	1.2	26.4	23.4	24.2	5.7	5.8	6.6
Muthoot Finance	1,244.2	499,148	13.3	12.0	10.8	3.4	2.7	2.3	28.2	25.6	23.2	6.2	5.9	5.7
Diversified financials			35.0	19.9	15.6	3.3	2.8	2.4	9.0	12.7	14.2	1.9	2.8	3.2
SCUF	1,730.1	114,192	11.5	9.8	8.3	1.4	1.3	1.1	11.5	12.8	13.0	2.8	3.4	3.7
IndoStar Capital	310.4	38,406	30.3	18.2	12.4	1.1	1.0	0.9	4.2	5.6	8.7	0.8	1.5	2.5
LTFH	88.5	218,646	22.6	10.7	8.2	1.2	1.1	1.0	7.0	11.9	13.1	1.0	1.8	2.0
Bajaj Finance	5,682.2	3,429,744	75.6	40.8	33.6	9.5	7.8	6.5	13.5	20.7	22.1	2.9	4.5	4.7
Asset financiers			25.0	18.0	15.6	3.0	2.7	2.3	12.6	14.8	15.3	1.9	2.4	2.6
Sundaram Fin.	2,478.2	275,332	34.9	28.2	26.7	4.5	4.0	3.6	14.0	15.3	14.2	2.3	2.5	2.5
Chola.	537.8	441,028	26.2	20.8	16.9	4.6	3.9	3.3	18.7	20.0	20.5	2.4	2.6	2.8
Shriram Transport	154.5	190,889	24.3	11.7	9.1	1.3	1.2	1.1	5.3	10.4	12.3	0.9	2.0	2.3
Mahindra Finance	1,441.5	364,776	14.6	11.4	9.6	1.7	1.5	1.4	12.5	13.7	14.3	2.1	2.4	2.6
Microfinanciers			33.4	13.7	8.9	2.1	1.8	1.5	7.6	14.1	18.4	2.8	4.0	5.3
CreditAccess Grameen	655.1	101,923	51.8	18.2	12.1	2.7	2.4	2.0	6.2	14.1	18.0	1.5	3.5	4.4
Spandana Sphoorty	589.4	37,904	15.0	9.1	5.7	1.4	1.2	1.0	9.0	14.1	18.7	4.1	4.5	6.2

Source: Bloomberg, Company, #MNCL Research Estimates. Prices as on 27th May 2021.

Quarterly Financials & Key Operating Metrics

Exhibit 14: Quarterly Financials

Y/E March (Rs. mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Profit & Loss account								
Net Interest Income	7,555	8,316	8,902	8,911	9,089	9,763	10,347	10,507
Total Income	7,950	9,424	9,826	10,374	9,496	10,070	10,928	11,063
Operating Expenses	3,537	3,647	3,741	3,807	3,121	3,545	3,553	3,777
Pre-provision profits	4,413	5,777	6,085	6,567	6,376	6,524	7,375	7,287
Provisions	341	292	480	1,226	1,453	1,080	802	1,066
Net profit	2,668	4,417	4,183	3,982	3,674	4,054	4,832	4,684
% YoY growth								
NII	22.0	23.4	26.9	26.1	20.3	17.4	16.2	17.9
Operating profit	35.8	57.8	53.4	55.0	44.5	12.9	21.2	11.0
Net profit	33.4	97.2	69.3	43.6	37.7	-8.2	15.5	17.6
Balance sheet								
Share Capital	1,690	1,687	1,690	1,690	1,690	1,692	1,692	1,693
Networth	57,461	50,618	54,133	57,451	60,368	64,508	68,697	73,075
Borrowings	224,076	185,204	197,813	218,167	239,803	247,347	233,744	2,27,163
Loans	237,802	213,845	221,899	231,892	239,935	260,619	268,927	2,65,076
Total assets / liabilities	295,420	242,766	261,333	289,510	314,200	322,613	314,358	3,13,378
AUM	201,859	226,769	240,999	252,252	253,458	269,027	276,425	272,242
% YoY growth	21.5	31.9	35.5	29.8	25.6	18.6	14.7	7.9
Gold Loan	132,924	151,683	162,430	169,672	177,368	197,360	202,116	190,770
% YoY growth	6.6	20.5	29.7	30.9	33.4	30.1	24.4	12.4
MFI	41,983	47,243	50,221	55,026	50,383	49,710	53,577	59,846
% YoY growth	72.2	73.1	57.2	43.3	20.0	5.2	6.7	8.8
Housing	5,417	5,679	6,012	6,296	6,273	6,206	6,334	6,663
CV	12,271	13,178	13,974	13,444	12,703	10,623	9,880	10,526
Others	9,265	8,987	8,362	7,814	6,731	5,128	4,517	4,437
Borrowings	161,662	185,204	197,813	224,076	242,601	247,346	233,744	225,656
Debentures	22,633	20,372	25,716	40,334	50,946	69,257	72,461	39,073
CPs	30,716	38,893	39,563	20,167	16,982	14,841	16,362	19,736
WC/CC	72,748	77,786	77,147	64,982	70,354	64,310	56,099	69,133
TL	32,332	44,449	51,431	71,704	77,632	71,730	63,111	71,281
ECB	1,617	3,704	3,956	26,889	26,686	27,208	28,049	26,433

Source: Company, MNCL Research

Financials (Consolidated)

Exhibit 15: Income Statement

P&L - Y/E March (Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Net Interest Income	10,493	10,910	14,016	22,075	23,235	27,012	33,848	39,706	44,207	53,161
Net Income	10,852	11,162	14,264	22,402	24,487	28,971	37,190	41,557	46,973	56,116
Operating Expenses	7,421	7,025	8,781	10,745	12,345	13,858	14,740	13,996	16,977	18,782
- Salaries	3,235	3,145	4,327	5,026	6,261	7,201	8,301	8,429	10,495	11,537
- Other Expenses	4,186	3,880	4,454	5,719	5,958	6,461	6,203	5,567	6,481	7,245
Pre-provision profit	3,431	4,137	5,484	11,657	12,142	15,113	22,449	27,561	29,996	37,334
Provisions	469	282	423	1,092	1,773	547	2,376	4,401	4,432	5,025
Profit Before Tax	2,962	3,855	5,060	10,565	10,369	14,566	20,073	23,160	25,564	32,309
Taxes	1,170	1,422	1,932	4,072	3,609	5,080	5,270	5,911	6,712	8,482
Tax rate (%)	39.5	36.9	38.2	38.5	34.8	34.9	26.3	26.3	26.3	26.3
Profit after Taxes	1,791	2,433	3,128	6,493	6,760	9,486	14,803	17,250	18,853	23,827

Source: Company, MNCL Research Estimates

Exhibit 16: Balance Sheet

Y/E March (Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Cash and Bank Balance	8,518	8,278	6,474	5,893	7,241	11,642	36,459	29,124	25,994	30,699
Loans	82,420	96,084	113,853	134,057	152,439	178,119	231,893	265,076	288,937	339,181
% to AUM	101.0	100.2	99.6	98.2	96.7	91.6	91.9	97.4	92.0	92.3
Other assets	7,019	7,257	4,837	6,653	6,367	8,478	11,183	7,116	7,421	8,099
Fixed Assets & Goodwill	2,019	2,066	2,303	2,225	3,101	3,675	8,061	9,261	9,547	9,941
Total assets	108,384	116,163	128,392	149,832	170,296	204,540	289,511	313,378	334,747	390,819
Equity Share Capital	1,682	1,682	1,682	1,684	1,685	1,686	1,690	1,693	1,693	1,693
Networth	24,918	26,328	27,580	33,633	38,132	45,247	57,461	73,074	88,346	108,336
Borrowings	77,954	86,320	96,379	109,867	126,071	152,972	218,167	225,666	231,700	267,480
Other liabilities & Provisions	5,512	3,311	4,220	6,120	5,802	5,862	13,300	14,637	14,700	15,002
Total liabilities	108,384	116,163	128,392	149,832	170,296	204,540	289,511	313,378	334,747	390,819

Source: Company, MNCL Research Estimates. Financials are as per Ind-AS.

Exhibit 17: Dupont analysis

% of assets	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Net interest income	9.7	10.6	12.3	16.9	15.5	15.4	14.7	14.1	14.5	15.5
Other income	0.3	0.2	0.2	0.2	0.8	1.0	1.4	0.6	0.9	0.8
Total income	9.2	9.9	11.7	16.1	15.3	15.5	15.1	13.8	14.5	15.5
Operating Expenses	6.3	6.3	7.2	7.7	7.7	7.4	6.0	4.6	5.2	5.2
Pre-provision profit	2.9	3.7	4.5	8.4	7.6	8.1	9.1	9.1	9.3	10.3
Provisions	0.4	0.3	0.3	0.8	1.1	0.3	1.0	1.5	1.4	1.4
Profit before Taxes	2.5	3.4	4.1	7.6	6.5	7.8	8.1	7.7	7.9	8.9
Taxes	1.0	1.3	1.6	2.9	2.3	2.7	2.1	2.0	2.1	2.3
Profit after Taxes	1.5	2.2	2.6	4.7	4.2	5.1	6.0	5.7	5.8	6.6
RoE (%)	7.3	9.5	11.6	21.2	18.8	22.8	28.8	26.4	23.4	24.2
ROAAuM (%)	2.0	2.7	3.0	5.2	4.6	5.4	6.6	6.6	6.4	7.0

Source: Company, MNCL Research Estimates.

Exhibit 18: Key Ratios

Year-ended	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Growth Ratio (%)										
Profit & Loss										
- Net interest income	-0.7	4.0	28.5	57.5	5.3	16.3	25.3	17.3	11.3	20.3
- Net income	0.7	2.9	27.8	57.0	9.3	18.3	28.4	11.7	13.0	19.5
- Operating profit	11.9	20.6	32.6	112.6	4.2	24.5	48.5	22.8	8.8	24.5
- Reported PAT	42.6	35.8	28.6	107.6	4.1	40.3	56.1	16.5	9.3	26.4
Balance sheet										
- Loan	-17.9	16.6	18.5	17.7	13.7	16.8	30.2	14.3	9.0	17.4
- AUM	-18.0	17.5	19.2	19.5	15.4	23.3	29.8	7.9	15.4	17.0
- Borrowings	-20.6	10.7	11.7	14.0	14.7	21.3	42.6	3.5	2.7	15.4
Ratios (%)										
NIM	9.1	9.9	11.7	16.1	14.8	14.7	14.0	13.6	14.0	15.1
Spreads	11.0	11.4	12.0	15.9	14.7	14.8	15.6	14.9	14.1	14.8
Cost/Income ratio	68.4	62.9	61.6	48.0	50.4	47.8	39.6	33.7	36.1	33.5
Asset quality										
GNPA (%)	1.2	1.2	1.0	2.0	0.5	0.5	0.9	1.6	1.8	1.7
NNPA (%)	1.0	1.0	0.8	1.7	0.3	0.3	0.6	0.6	0.7	0.7
Return Ratios (%)										
ROE	7.3	9.5	11.6	21.2	18.8	22.8	28.8	26.4	23.4	24.2
ROA	1.5	2.2	2.6	4.7	4.2	5.1	6.0	5.7	5.8	6.6
RoAAUM	2.0	2.7	3.0	5.2	4.6	5.4	6.6	6.6	6.4	7.0
Per share ratio										
EPS	2.1	2.9	3.7	7.7	8.0	11.3	17.5	20.4	22.3	28.2
BVPS	29.6	31.3	32.8	39.9	45.3	53.7	68.0	86.3	104.4	128.0
ABV	28.6	29.8	31.4	37.2	44.3	52.7	66.3	84.0	101.5	124.9
DPS	0.9	0.7	1.1	0.7	1.0	1.1	2.8	0.8	3.5	3.8
Dividend payout %	98.9	55.5	72.8	23.4	30.0	23.0	19.3	4.5	19.0	16.1
Valuation ratios										
P/E	8.0	10.0	7.5	10.0	12.7	8.9	8.2	7.6	7.1	5.6
P/BV	0.6	0.9	0.9	1.9	2.3	1.9	2.1	1.8	1.5	1.2
P/ABV	0.6	1.0	0.9	2.1	2.3	1.9	2.2	1.8	1.5	1.3
Dividend yield %	5.3	2.3	4.0	1.0	1.0	1.1	2.0	0.5	2.2	2.4

Source: Company, MNCL Research Estimates. P/B (x) and P/E (x) is on average basis.

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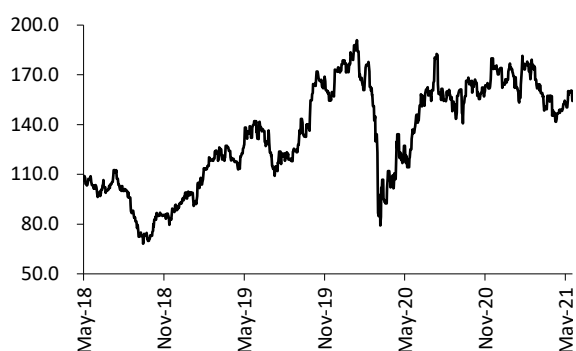
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Manappuram Finance.



Source: Bloomberg, MNCL Research

Analyst holding in stock: **NO**

Key to MNCL Investment Rankings

Buy: Upside by >15%, Accumulate: Upside by 5% to 15%, Hold: Downside/Upside by -5% to +5%, Reduce: Downside by 5% to 15%, Sell: Downside by >15%

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