

Aug 05, 2022

**RESULT REPORT Q1 FY23** | Sector: Financials

# Manappuram Finance Limited

## Better-than-expected performance

Manappuram delivered a 2%/3%/4% NII/PPOP/PAT beat on our estimates, with outperformance driven by both better-than-expected AUM growth and portfolio yield. The company's performance was characterized by a) 1% qoq growth in stand-alone GL AUM (seasonally weak quarter + stoppage of low-rate/teaser schemes), b) only 1.5% decline in Asirvad's MFI AUM, notwithstanding the process changes for aligning with new RBI guidelines, c) continuance of growth momentum in VF and HL portfolios, d) material improvement in net GL yield though the quarter (July yields are 200 bps higher than Q1 FY23), e) reduction in GL NPLs (with much lower auctions at Rs1.5bn) and VF NPLs (primarily by collections) and f) substantial increase in Asirvad's NPLs due to flow from restructured pool (though combined Stage 2 & 3 % was stable).

### Gold loan growth outlook remains hazy; Non-GL portfolio on better growth footing

Moderately recovering demand in the core/low-ticket segment, focus on lifting portfolio yield (prioritizing profitability over growth), unwavering competition from banks, lack of distribution expansion (request for branch openings still pending with RBI) and largely unchanged sales/customer acquisition model imply that structural growth outlook for gold loans segment has not changed. Management is targeting 10% growth in this portfolio, which in our view is optimistic as competition may further increase. In Asirvad, growth should improve over coming quarters as monthly disbursements have normalized (alignment with new regulations over in May), there is significant spare capacity to drive growth (AUM/Branch at Rs45mn), and provisioning cycle should subside in next couple of quarters. In VF and HL businesses, besides a favourable operating environment, the stabilization of asset quality and strong capitalization would support continuity of brisk growth.

### Negative earnings surprises are likely behind; some valuation recovery plausible

We have raised FY23/24 earnings estimates by 5-10% by penciling slightly better consol growth, raising GL portfolio yield and moderating credit cost of FY24. We upgrade the stock to BUY (12m TP unchanged at Rs135) basis not just its low valuation (0.8x FY24 P/ABV), but on faster-than-anticipated recovery in GL portfolio yield and improving business environment for cyclical businesses of Microfinance and Vehicle Finance. Further, clarity is emerging on floor/trough profitability (3% RoA/12% RoE), and that the return ratios are now in an improvement mode (estimate 4%/15%+ RoA/RoE for FY23/24). Growth trends in gold loans and external capital raising in Asirvad would be key monitorables.

#### Exhibit 1: Result table

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Total Operating Income	15,020	14,814	1.4	15,633	(3.9)
Interest expended	(5,046)	(4,948)	2.0	(4,931)	2.3
Net Interest Income	9,974	9,865	1.1	10,702	(6.8)
Total Income	9,981	9,965	0.2	10,806	(7.6)
Operating expenses	(4,890)	(4,912)	(0.4)	(3,720)	31.5
PPOP	5,091	5,053	0.7	7,086	(28.2)
Provisions	(1,283)	(1,514)	(15.2)	(1,223)	4.9
PBT	3,808	3,539	7.6	5,864	(35.1)
Tax	(989)	(930)	6.3	(1,495)	(33.9)
PAT	2,819	2,610	8.0	4,369	(35.5)

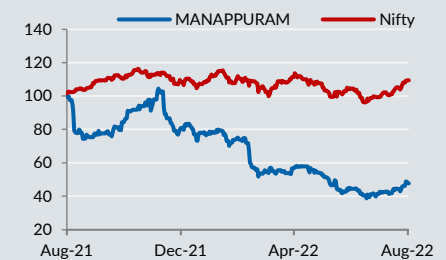
Source: Company, YES Sec

Reco	: <b>BUY</b>
CMP	: Rs 102
Target Price	: Rs 135
Potential Return	: 32.6%

#### Stock data (as on Aug 04, 2022)

Nifty	17,382
52 Week h/l (Rs)	225 / 82
Market cap (Rs/USD mn)	86036 / 1083
Outstanding Shares (mn)	846
6m Avg t/o (Rs mn):	675
Div yield (%):	3.0
Bloomberg code:	MGFL IN
NSE code:	MANAPPURAM

#### Stock performance



	1M	3M	1Y
Absolute return	11.6%	-7.9%	-50.7%

#### Shareholding pattern

Promoter	35.2%
FII+DII	42.4%
Others	22.4%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	135	135

#### Δ in earnings estimates

	FY22	FY23e	FY24e
EPS (New)	15.7	18.0	21.5
EPS (Old)	15.7	17.0	19.4
% Change	-	6.0%	10.6%

#### Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Op. income	60,610	66,875	75,309
PPOP	22,697	24,530	27,827
Net profit	13,287	15,249	18,163
Growth (%)	(23.0)	14.8	19.1
EPS (Rs)	15.7	18.0	21.5
ABVPS (Rs)	89.8	110.6	127.6
P/E (x)	6.5	5.7	4.8
P/ABV (x)	1.1	0.9	0.8
ROE (%)	16.9	16.9	17.6
ROA (%)	4.1	4.4	4.7

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## KEY CON-CALL HIGHLIGHTS

### Gold Loans Business

- Portfolio Yield improved to 19.7% in Q1 and further to 21.7% in July (v/s 18.8% in Q4 FY22).
- 10% of book still at lower/teaser rate which will mature by Dec 2022.
- Portfolio yield should settle around 22%, without considering much funding rate increase.
- Decided to approach the business more prudently from rate perspective since March.
- While competition has increased, the co. is not unduly worried due substantial untapped potential.
- Co. as well as peers will give more importance to yield going ahead, and thus re-introduction of low-rate schemes is unlikely
- The demand for gold loans from small-ticket segment has not fully normalized to pre-Covid level – this has been impacting growth for GLCs.
- Management expects GL growth to be around 10%.
- Still awaiting RBI's approval for branch openings - RBI conducted some inspection.
- Lending spread is expected to improve as CoF increase will be gradual.
- Added 4.2 new customers in Q1 FY23.
- Portfolio ATS at 56272 - Average loan duration 84 days - Weighted avg LTV at 65% on June-end price.
- GNPLs at 1.4% v/s 3% as of March.

### Microfinance

- AUM was flat qoq due to process changes from transition to RBI MFI guidelines.
- Since May, the net monthly growth in AUM has been Rs1.5bn.
- CE was 102% in Q1 v/s 99% in Q4 FY21 and 96% in Q3 FY22.
- Post-Covid portfolio at ~88% of AUM which has CE of 99%.
- Assam collections witnessed less disruption (due to presence in lesser impacted districts) and is now back in line with other states.
- Have raised lending rate to 24% yield (21% till March) - Incremental NIM at 14-15% v/s 10% earlier.
- The share of non-MFI loans will further increase - GL book in Asirvad at around Rs4.2bn.
- Can open more GL branches in Asirvad without any prior approval from RBI - currently 320 dedicated Gold Loan Branches.
- Stage-3 assets has increased from 1.7% to 7.7% due to flow from restructured book – co. not expecting further significant addition.
- ECL provisions at Rs4.6bn.
- Expect substantial reduction in credit cost from Q3 FY23 – FY23 provision could be half of FY22 (Rs4bn).
- Asirvad is expected to deliver 1-1.5% RoA in FY23 due to high credit cost, but can potentially make 4% RoA in new regime.
- Open to raise capital from the market.

## Exhibit 2: Business Data

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
AUM	307,595	302,608	1.6	247,560	24.3
Gold Loan	204,708	201,679	1.5	165,395	23.8
MFI	65,461	66,530	(1.6)	60,526	8.2
Mortgage	8,748	8,453	3.5	6,682	30.9
CV	17,550	16,432	6.8	10,448	68.0
Others	11,128	9,515	17.0	4,509	146.8

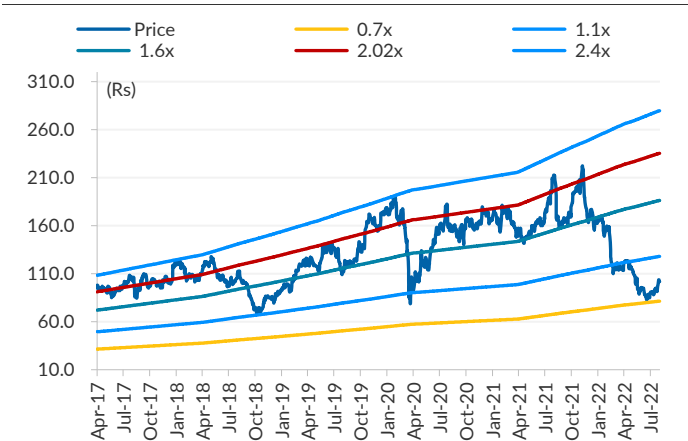
Source: Company, YES Sec

## Exhibit 3: Key Ratios - Consolidated

(%)	Q1 FY23	Q4 FY22	chg qoq	Q1 FY22	chg yoy
Op Income as % of AAUM	19.2	18.4	0.8	23.4	(4.3)
Int. Expense to AAUM	6.6	6.5	0.1	7.6	(1.0)
NII as % of AAUM	13.1	13.0	0.1	16.5	(3.4)
Cost to Income (%)	49.0	49.3	(0.3)	34.4	14.6
Provisions as % of AAUM	1.7	2.0	(0.3)	1.9	(0.2)
RoE (%)	13.3	12.6	0.7	23.3	(10.0)
RoA (%)	3.3	3.1	0.2	5.8	(2.5)
Gross NPA (%) - SA*	1.4	3.0	(1.6)	2.0	(0.6)
Net NPA (%) - SA*	1.3	2.7	(1.5)	1.6	(0.4)

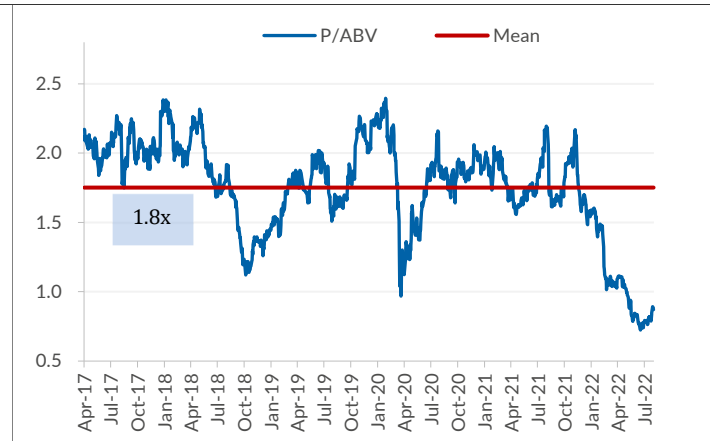
Source: Company, YES Sec; \* Represents standalone figures; AAUM is Average AUM

## Exhibit 4: 1-yr rolling P/ABV band



Source: Company, YES Sec

## Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

## FINANCIALS

### Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity Capital	1,690	1,693	1,693	1,693	1,693
Reserves	56,354	71,854	82,152	94,442	109,155
<b>Shareholder's funds</b>	<b>58,044</b>	<b>73,546</b>	<b>83,845</b>	<b>96,135</b>	<b>110,847</b>
Provisions	643	719	728	550	550
Other non-financial liabilities	3,419	958	1,150	1,150	1,150
<b>Total Non-Financial liabilities</b>	<b>4,063</b>	<b>1,677</b>	<b>1,878</b>	<b>1,700</b>	<b>1,700</b>
Derivative financial instruments	0	360	301	10	10
Trade Payables	1,743	1,242	1,416	1,558	1,714
Debt Securities	79,391	112,824	93,218	97,879	107,667
Borrowings	137,564	112,142	144,768	152,006	167,207
Deposits	0	1	1	1	1
Subordinated Liabilities	1,213	2,196	3,198	3,422	3,730
Other Financial liabilities	7,494	9,390	9,481	10,144	11,057
<b>Total Financial liabilities</b>	<b>227,404</b>	<b>238,155</b>	<b>252,383</b>	<b>265,020</b>	<b>291,386</b>
<b>Total Equities and Liabilities</b>	<b>289,510</b>	<b>313,378</b>	<b>338,106</b>	<b>362,855</b>	<b>403,933</b>
<b>Assets</b>					
Cash and Bank Balances	36,459	29,124	26,973	24,050	25,418
Derivative financial instruments	1,370	0	27	27	27
Loans	231,892	265,076	289,711	316,693	355,633
Investments	901	3,380	4,207	4,207	4,207
Other Financial Assets	8,044	3,656	3,302	3,632	3,995
<b>Total Financial assets</b>	<b>278,666</b>	<b>301,236</b>	<b>324,220</b>	<b>348,610</b>	<b>389,280</b>
Current tax assets (net)	962	204	923	1,108	1,329
Deferred tax assets (net)	1,014	1,855	1,740	1,740	1,740
Investment Property	1	1	1	0	0
Property, plant and equipment	3,272	2,867	3,532	3,708	3,894
Other Intangible assets	207	278	261	261	261
Other non-financial assets	5,388	6,939	7,429	7,429	7,429
<b>Total Non-Financial assets</b>	<b>10,844</b>	<b>12,142</b>	<b>13,886</b>	<b>14,246</b>	<b>14,653</b>
<b>Total Assets</b>	<b>289,510</b>	<b>313,378</b>	<b>338,106</b>	<b>362,855</b>	<b>403,933</b>

Source: Company, YES Sec

## Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Interest Income	54,653	63,306	60,610	66,875	75,309
Interest expense	(18,322)	(22,190)	(20,114)	(21,484)	(24,439)
<b>Net interest income</b>	<b>36,331</b>	<b>41,116</b>	<b>40,497</b>	<b>45,391</b>	<b>50,870</b>
Non-interest income	859	441	653	400	440
Total op income	37,190	41,557	41,150	45,791	51,310
Total op expenses	(14,741)	(13,996)	(18,453)	(21,261)	(23,483)
<b>PPoP</b>	<b>22,449</b>	<b>27,561</b>	<b>22,697</b>	<b>24,530</b>	<b>27,827</b>
Provisions	(2,376)	(4,401)	(4,862)	(4,117)	(3,511)
Profit before tax	20,073	23,160	17,835	20,413	24,315
Taxes	(5,270)	(5,911)	(4,548)	(5,165)	(6,152)
<b>Net profit</b>	<b>14,803</b>	<b>17,250</b>	<b>13,287</b>	<b>15,249</b>	<b>18,163</b>

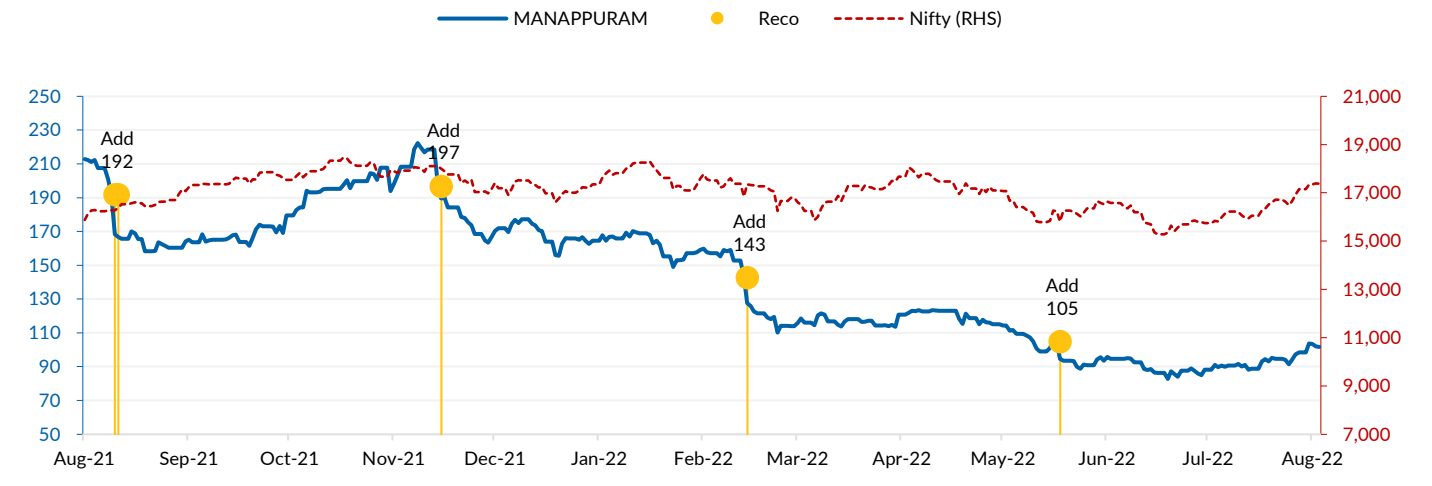
Source: Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
Net interest income	28.2	13.2	(1.5)	12.1	12.1
Total op income	28.4	11.7	(1.0)	11.3	12.1
Op profit (pre-provision)	48.5	22.8	(17.6)	8.1	13.4
Net profit	56.1	16.5	(23.0)	14.8	19.1
Loans	30.2	14.3	9.3	9.3	12.3
Borrowings	43.6	(18.5)	29.1	5.0	10.0
Total assets	41.6	8.2	7.9	7.3	11.3
<b>Profitability Ratios (%)</b>					
NIM	16.3	15.7	14.1	14.3	14.5
Non-interest income /Total income	2.3	1.1	1.6	0.9	0.9
Return on Average Equity	28.4	26.2	16.9	16.9	17.6
Return on Average Assets	5.9	5.6	4.1	4.4	4.7
<b>Per share ratios (Rs)</b>					
EPS	17.5	20.4	15.7	18.0	21.5
Adj. BVPS	67.3	82.2	89.8	110.6	127.6
DPS	2.2	2.0	3.0	3.0	3.5
<b>Other key ratios (%)</b>					
Cost/Income	39.6	33.7	44.8	46.4	45.8
CAR	22.0	29.0	31.0	32.5	33.4
Gross NPLs/Loans	0.9	1.9	3.0	1.2	1.0
Net NPLs/Net loans	0.5	1.5	2.7	0.8	0.8
Tax rate	26.3	25.5	25.5	25.3	25.3
Dividend yield	2.2	2.0	2.9	2.9	3.4

Source: Company, YES Sec

## Recommendation Tracker



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**ADD:** Upside between 10% to 20% over 12 months

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