

## Manappuram Ltd

Analyst Recommendation: Buy

BSE Code: 531213      NSE: MANAPPURAM      Reuters Code: LAUL.NS      Bloomberg Code: LAURUS:Natl

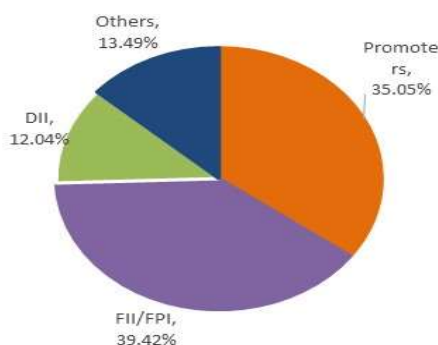
**CMP:** Rs 212  
**3 Year Target:** Rs 250

Face Value	2.0
Market Cap (Rs cr)	18,010
52 week high/low	218/139.1
Beta	1.12
Shares O/S (Cr)	84.63
Book Value per Share (Rs)	84
Sensex	52,950.6
Nifty	15,885

### 1 yr. Price Chart of Stock and Nifty



### Shareholding pattern as on 31st Dec 2020.



### Investor's Rationale

#### ➤ 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

#### ➤ 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).

#### ➤ Valuation

We have tweaked our estimates marginally on the AUM/earnings front. We initiate a buy on stock with Target Price of Rs 250 (2x ABV for FY23E).

	FY20	FY21	FY22E	FY23E
Revenue (Rs.Cr)	3,384.8	3,970.6	4,420.7	5,316.1
EBITDA (Rs. cr)	2,244.9	2,756.1	2,999.6	3,733.4
Adj. profit (Rs.Cr)	1,480.3	1,724.9	1,885.2	2,382.7
Adj. EPS (Rs.)	4.8	17.9	21.1	24.4
P/E (x)	8.2	7.6	7.1	5.6
ABV	66.3	84.0	101.5	124.9
NIM	14.0%	13.6%	15.0%	15.1%
ROE (%)	28.8%	26.4%	23.4%	24.2%
ROIC (%)	6.0%	5.7%	5.8%	6.6%

**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.

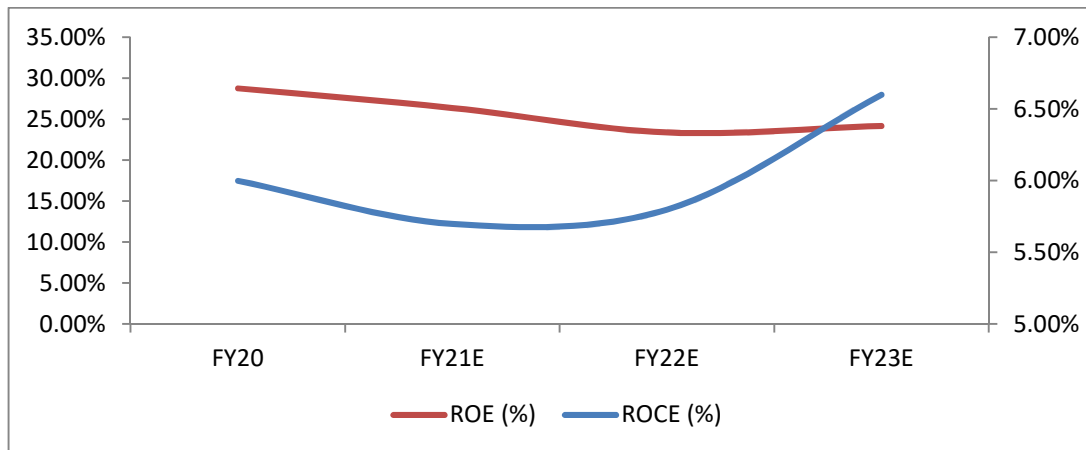
**MFI Loans:**

- 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

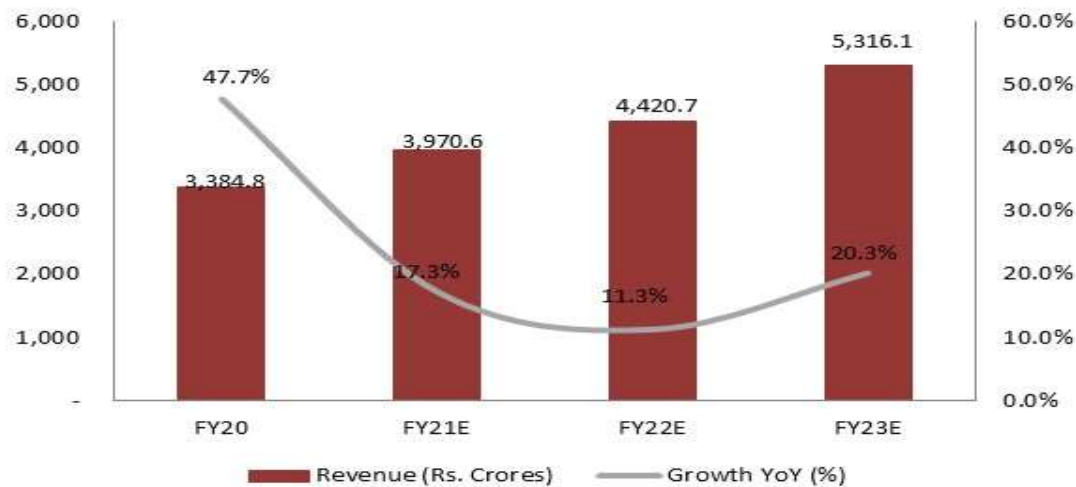
**Other Segments**

- 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)
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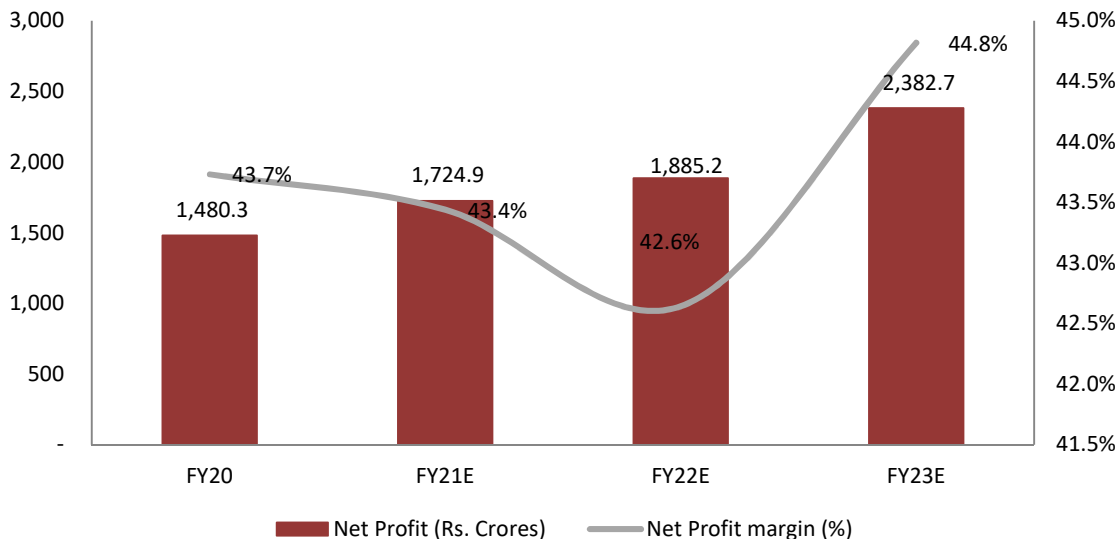
## Return ratios to show growth



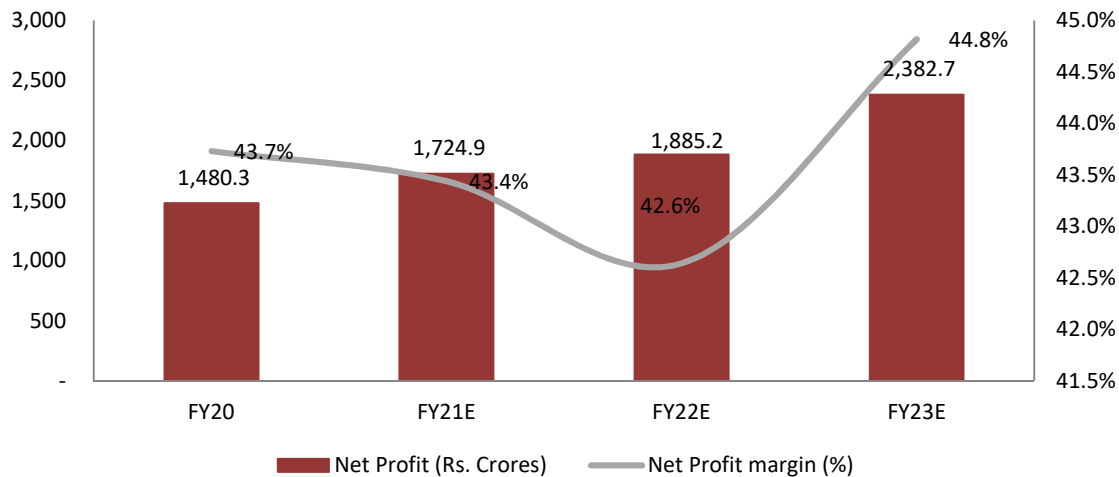
## Revenue will experience growth going Forward



## EBITDA will experience strong growth



## Net profit will experience a growth trajectory



## Outlook and Valuation

The company is showing strong growth on all parameters and also the fastest in industry. However we feel stock is undervalued to its peers. Thereby we initiate a buy on stock with target price of Rs 250 implying an upside of 17.92

## Company Overview

Manappuram Finance Ltd. is one of India's leading gold loan NBFCs. Promoted by Shri. V.P. Nandakumar, the current MD & CEO, its origins go back to 1949 when it was founded in the coastal village of Valapad (Thrissur District) by his late father Mr. V.C. Padmanabhan. The firm was involved in pawn broking and money lending carried out on a modest scale. Shri Nandakumar took over the reins in 1986 after his father expired.

Since then, it has been a story of unparalleled growth with many milestones crossed. Incorporated in 1992, Manappuram Finance Ltd. has grown at a rapid pace. Today, it has 4637 (Includes branches of subsidiary companies) branches across 28 states/UTs with assets under management (AUM) of Rs. 272.24 billion and a workforce of more than 30,000.

## Key Risks

- 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.



## Balance sheet (Consolidated)

(Rs crore)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Paid up capital	169	169	169	169
Reserves and Surplus				
<b>Net worth</b>	<b>5746</b>	<b>7307</b>	<b>8835</b>	<b>10834</b>
Borrowings	21,817	22,567	23,170	26,748
Other Liabilities and Provision	1,330	1,464	1,470	1,500
<b>Total Liabilities</b>	<b>28893</b>	<b>31338</b>	<b>33475</b>	<b>39082</b>
<b>Assets</b>				
Fixed Asset and Goodwill				
Fixed Asset and Goodwill	806	926	955	994
Loans	23,189	26,508	28,894	33,918
Other Assets	1,118.3	711.6	742.1	809.9
Other Assets	133	280	285	290
Cash and Bank	3646	2912	2599	3070
<b>Total Assets</b>	<b>28893</b>	<b>31338</b>	<b>33475</b>	<b>39082</b>

## Equity Research

## Profit & Loss Account (Consolidated)

(Rs crore)	FY20	FY21	FY22E	FY23E
<b>Net Interest Income</b>				
Net Interest Income	3385	3971	4421	5316
Operating Expenses				
Operating Expenses	1140	1215	1421	1583
<b>Pre Provision Profit</b>	<b>2245</b>	<b>2756</b>	<b>3000</b>	<b>3733</b>
Provisions				
Provisions	238	440	443	503
Other Income & Extraordinary Items				
<b>Profit before tax</b>	<b>2007</b>	<b>2316</b>	<b>2556</b>	<b>3231</b>
Tax	527	591	671	848
<b>Profit after tax</b>	<b>1480</b>	<b>1725</b>	<b>1885</b>	<b>2383</b>
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Other	-	-	-	-
<b>Adjusted PAT</b>	<b>1480</b>	<b>1725</b>	<b>1885</b>	<b>2383</b>



# Equity Research

## DuPont Analysis

DuPont Analysis	FY20	FY21	FY22E	FY23E
<b>Net Interest Income</b>	14.7	14.1	14.5	15.5
Other Income	1.4	0.6	0.9	0.8
<b>Total Income</b>	15.1	13.8	14.5	15.5
<b>Operating Expense</b>	6.0	4.6	5.2	5.2
<b>Pre-Provision Profit</b>	9.1	9.1	9.3	10.3
Provisions	1.0	1.5	1.4	1.4
<b>Profit Before Tax</b>	8.1	7.7	7.9	8.9
Taxes	2.1	2.0	2.1	2.3
<b>Profit After Tax</b>	6.0	5.7	5.8	6.6
<b>ROE(%)</b>	28.8	26.4	23.4	24.2
<b>ROAAum(%)</b>	6.6	6.6	6.4	7.0

## Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY20	FY21	FY22E	FY23E
<b>Balance Sheet</b>				
Loan	30.2	14.3	9.0	17.4
AUM	29.8	7.9	15.4	17.0
<b>Ratios (%)</b>				
NIM	14.0%	13.6%	15.0%	15.1%
Spreads	15.6%	14.9%	14.1%	14.8%
<b>Return Ratios (%)</b>				
RoE	28.8%	26.4%	23.4%	24.2%
ROA	6.0%	5.7%	5.8%	6.6%
<b>Valuation(x)</b>				
P/E	8.2	7.6	7.1	5.6
<b>Per share data (Rs.)</b>				
ABV	66.3	84.0	101.5	124.9
EPS	4.8	17.9	21.1	24.4



# Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Between 10% & -5%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than -5%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

*\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



**Member: BSE, NSE, MCX, MCX-SX, CDSL**

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