

Steady Momentum in AUM Growth with Stable Margins; Maintain Buy
Est. Vs. Actual for Q2FY24: NII – **INLINE**; PPOP – **BEAT**; PAT – **BEAT**
Changes in Estimates post Q2FY24
FY24E/FY25E: NII: 0.1%/0.4%; PPOP: 0.3%/0.8%; PAT: -4.4%/-2.4%

Recommendation Rationale

- **AUM growth to continue**—Gold loan growth is expected to be maintained at 8% YoY in the upcoming quarters. Non-gold loan portfolio is expected to continue its outperformance in growth as compared to the growth in gold loan book. The management maintains its AUM growth guidance of 20% for FY24E. Furthermore, the management indicated that the MSME segment is under focus with the company increasing the number of branches in the same. Also, the diversification strategy is gaining pace wherein, 47% of the portfolio consist of non-gold loan at present and is pegged to achieve a 50% portfolio mix moving forward.
- **Margin to remain stable**—The management highlighted that the yield on gold loans is expected to remain around current levels (i.e. at ~22%). Furthermore, the company's cost of funds in its standalone book increased by 20bps in Q2FY24. However, we believe there won't be any further major rise in the cost of funds and thus margins are expected to remain stable.

Sector Outlook: Positive
Company Outlook & Guidance: We like Manappuram as it redirects its focus on growing its AUM with a sustainable diversified mix, maintaining its stable asset quality.

Current Valuation: 1.1x FY25E ABV (Earlier Valuation: 1.1x FY25E ABV)

Current TP: Rs 160/share (Earlier TP: Rs 165/share)

Recommendation: We maintain our BUY recommendation on the stock.

Financial Performance

- The company reported robust growth in AUM growth of 27/5% YoY/QoQ, mainly driven by healthy growth in MFI (Up 42% YoY, 9% QoQ), vehicles (Up 67/12% YoY/QoQ) and housing (Up 42/9% YoY/QoQ). Moreover, gold loan growth revived, up 8/5% YoY/QoQ.
- Despite a spike in the cost of funds by 20bps QoQ on the standalone book, net yields reported an uptick of 50bps QoQ to 21.9%. Thus, aided by robust AUM growth and yield expansion, NII reported healthy growth of 26/5% YoY/QoQ.
- Opex grew by 29%/14% YoY/QoQ, majorly driven by the increase in other Opex by 29% YoY. The provision reported at Rs 120 Cr, washier than expected. However, robust growth in AUM and healthy growth in NII supported PAT growth of 37/13% YoY/QoQ.

Outlook: AUM growth is expected to remain robust in FY24, mainly due to strong growth in MFI books. Supported by the robust growth of AUM, NII growth is expected to remain healthy. Opex growth as a percentage of AUM is expected to gradually decline. Furthermore, with low incremental stress formation, asset quality is expected to remain stable. Delinquency in the gold loan book has increased and thus would be a key monitorable going forward. The management has maintained the credit cost guidance. Thus, given the continued growth momentum of AUM, continued healthy NII growth, stable asset quality, and adequate liquidity, we believe MFL is well-positioned to continue its growth momentum and deliver a sustainable ROA/ROE of +4/18% over FY24-25E.

Valuation & Recommendation: Considering the uptick in delinquencies, we have revised our provision estimates upwards, which led to a decline in PAT estimates by ~4% for FY24E. However, with the growth prospects remaining intact, we maintain our **BUY** rating on the stock with the revised target price of **Rs 160/share** (1.1x FY25E ABV), implying an upside of 14% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q2FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	1,354	5.2%	25.5%	1,351	0.22%
Other Income	130	7.7%	22.5%	81	60.49%
PPOP	866	8.0%	36.8%	780	11.03%
Provision	120	-1.2%	48.7%	103	16.50%
Net Profit	561	12.6%	36.9%	500	12.20%

Source: Company, Axis Research

(CMP as of 13 Nov, 2023)	
CMP (Rs)	140
Upside /Downside (%)	14%
High/Low (Rs)	157/101
Market cap (Cr)	11,880
Avg. daily vol. (6m) Shrs.	129,89,596
No. of shares (Cr)	84.6

Shareholding (%)

	Mar-23	Jun-23	Sep-23
Promoter	35.2	35.2	35.2
FIs	30.2	30.7	27.1
MFs / UTI	10.6	9.2	10
Others	24	24.9	26.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
NII	4,253	4,909	5,850
PPOP	2,348	2,806	3,561
Net Profit	1,500	1,721	2,181
EPS (Rs)	18	20	26
ABV (Rs)	111	126	145
P/ABV (x)	1.3	1.1	1.0
RoA (%)	4.1	4.0	4.3
NNPA (%)	0.7	0.7	0.8

Change in Estimates (%)

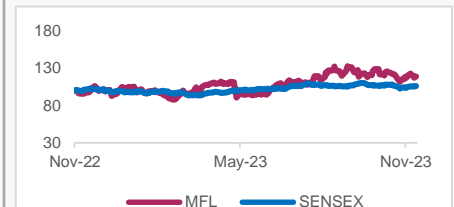
Y/E Mar	FY24E	FY25E
NII	0.1	0.4
PPOP	0.3	0.8
PAT	-4.4	-2.4

ESG disclosure Score**

Environmental Disclosure	0.4
Social Disclosure Score	15.4
Governance Disclosure	78.6
Total ESG Disclosure Score	31.5
Sector Average	37.5

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities

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Key Risks to our Estimates and TP

- The slowdown in gold loan AUM growth may impact the NII as the same is a high-yielding product.

Change in Estimates

(Rs Cr)

	Revised		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	4,909	5,850	4,903	5,828	0.1	0.4
PBP	2,806	3,561	2,799	3,533	0.3	0.8
Provisions	465	594	349	494	33.1	20.2
PAT	1,721	2,181	1,800	2,233	-4.4	-2.4

Source: Company, Axis Securities

Results Review (Consolidated)
(Rs Cr)

Y/E March	Q2FY24	Q2FY23	% YoY	Q1FY24	% QoQ
Net Interest Income	1,354	1,079	25.5	1,288	5.2
Non-Interest Income	130	106	22.5	121	7.7
Operating expenses	618	553	11.9	607	1.9
<i>Staff Cost</i>	375	364	2.8	394	-4.9
Pre provision profits	866	633	36.8	802	8.0
Provisions and contingencies	120	81	48.7	121	-1.2
PBT	747	553	35.1	681	9.7
Provision for Tax	186	143	29.9	183	1.8
PAT	561	409	36.9	498	12.6
Business Performance					
AUM	38,951	30,665	27.0	37,086	5.0
-- Gold Loans	20,809	19,190	8.4	20,603	1.0
-- Microfinance Loans	10,089	7,118	41.7	9,310	8.4
-- Housing Loans	1,305	922	41.6	1,203	8.5
-- Vehicle Loans	3,143	1,886	66.7	2,805	12.1
-- Other Loans	2,685	1,549	73.3	2,360	13.7
Blended Yields	20.2	19.1	111bps	20.3	-11bps
Cost of Funds (%)	9.1	8.3	74bps	9.1	-2bps
NIMs (%) - Calc.	13.4	12.8	57bps	13.5	-12bps
Cost-Income ratio (%)	41.6	46.6	-496bps	43.1	-143bps
Asset Quality					
Gross NPA (%)	1.6	2.0	-35bps	1.4	20bps
Net NPA (%)	1.4	1.8	-37bps	1.2	20bps
PCR (%)	12.5	9.2	326.92bps	14.3	-179bps

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Interest Income	5,840	6,440	7,615	9,105
Interest Expenses	2,011	2,188	2,706	3,255
Net Interest Income	3,828	4,253	4,909	5,850
Non Interest Income	287	310	376	462
Net Income	4,115	4,562	5,285	6,313
Operating Expenses	1,845	2,214	2,480	2,752
Pre Provision Profits	2,270	2,348	2,806	3,561
Provisions	486	307	465	594
PBT	1,784	2,041	2,341	2,967
Tax	455	541	620	786
Profit After Tax	1,329	1,500	1,721	2,181

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
SOURCES OF FUNDS				
Share Capital	169	169	169	169
Reserves	8,215	9,496	10,836	12,535
Shareholder's Funds	8,384	9,665	11,005	12,704
Borrowings	24,816	28,483	33,023	42,020
Other Liabilities & Provisions	610	1,356	1,565	1,945
Total Liabilities	33,811	39,504	45,593	56,669
APPLICATION OF FUNDS				
Cash & Bank balances	2,697	3,035	1,132	1,974
Investments	421	534	594	738
Loans	28,971	34,195	41,859	51,461
Fixed Assets & Others	1,721	1,741	2,009	2,497
Total Assets	33,811	39,504	45,593	56,669

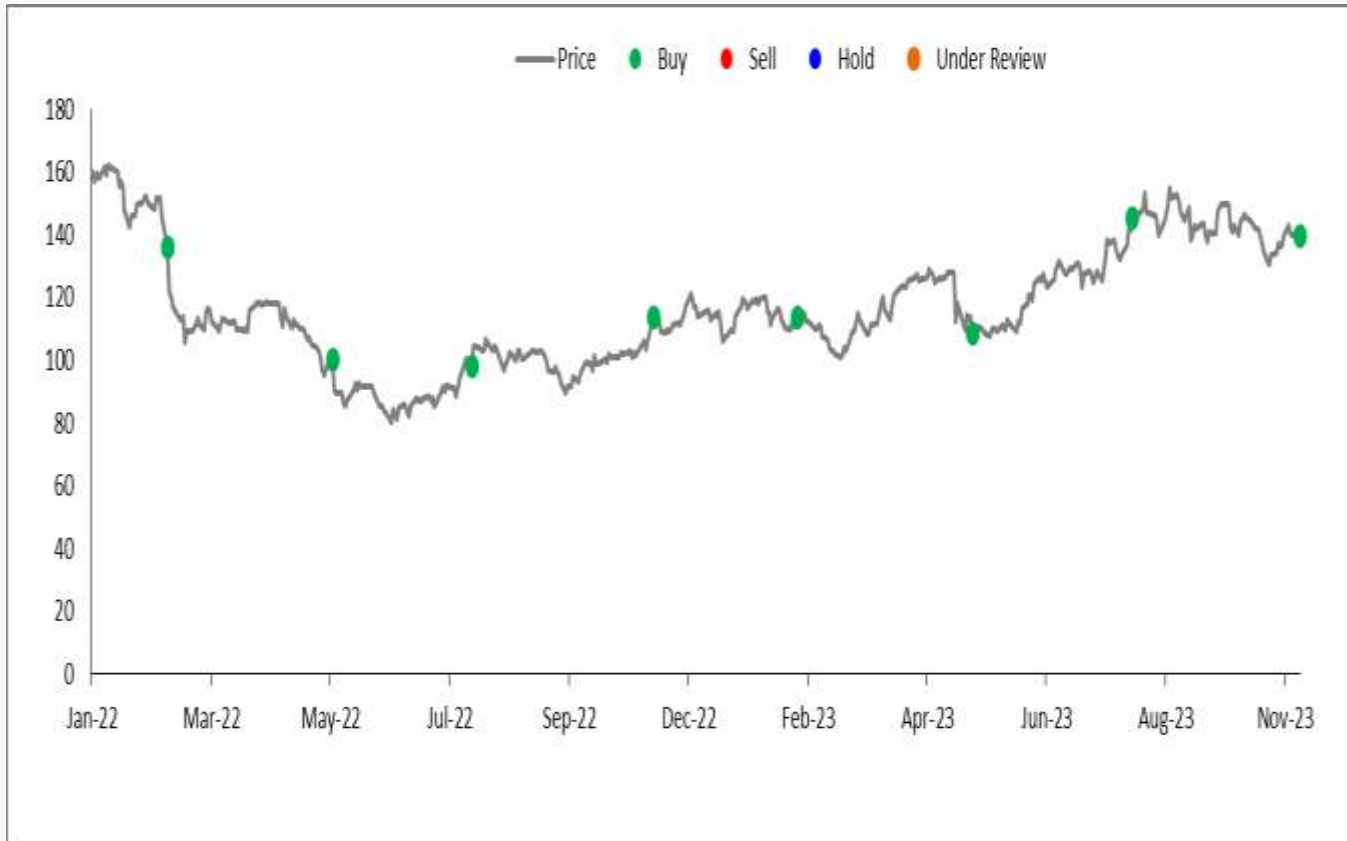
Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY22	FY23	FY24E	FY25E
VALUATION RATIOS				
EPS	16	18	20	26
Earnings growth (%)	-22.98%	12.89%	14.69%	26.73%
BVPS	99	114	130	150
Adj. BVPS	92	111	126	145
ROAA (%)	4.1	4.1	4.0	4.3
ROAE (%)	16.9	16.6	16.6	18.4
P/E (x)	9	8	7	5
P/ABV (x)	1.5	1.3	1.1	1.0
PROFITABILITY				
Yield on Advances (%)	18.9	18.4	18.7	18.6
Cost of Funds (%)	8.6	8.4	9.1	8.9
NIM (%)	12.4	12.2	12.1	12.0
OPERATING EFFICIENCY				
Cost-Income Ratio	44.8	48.5	46.9	43.6
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	9.3%	18.0%	22.4%	22.9%
Total Capital Adequacy Ratio (CAR)	31.3	31.7	30.9	28.0
ASSET QUALITY				
Gross NPLs (%)	2.3	0.9	0.9	1.2
Net NPLs (%)	2.0	0.7	0.7	0.8
Credit Cost(%)	1.8%	1.0%	1.2%	1.3%

Source: Company, Axis Securities

ManappuramFinance Price Chart and Recommendation History



Date	Reco	TP	Research
15-Feb-22	BUY	190	Result Update
19-May-22	BUY	165	Result Update
05-Aug-22	BUY	165	Result Update
15-Nov-22	BUY	175	Result Update
06-Feb-23	BUY	165	Result Update
15-May-23	BUY	150	Result Update
11-Aug-23	BUY	165	Result Update
15-Nov-23	BUY	160	Result Update

Source: Axis Securities

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