

# MANAPPURAM FINANCE

NBFC

## Q4FY19: Performance led by non-gold business and lower provisions

Manappuram Finance (MGFL) Q4FY19 performance was primarily led by robust growth in the non-gold business and lower provisions. Overall AUM growth of 23% YoY was led by ~60% growth from non-gold business. Share of non-gold loans in total AUM rose 380 bps QoQ to 1/3<sup>rd</sup> of portfolio and 1/4<sup>th</sup> of capital employed. NIMs have dropped by 56bps sequentially to 15.7%, resulting in limited NII growth of 18%. PAT on a lower base has grown by 41%. GNPA has eased by 20bps sequentially to 0.5% with improvement seen across segments.

Pick-up in AUMs, stable asset quality, benign gold price and favorable regulatory environment will be positive for the company. Focus on shorter tenor of product has helped MGFL in containing asset quality pressures. With the management targeting a diversified portfolio mix of 50/50 Gold/Non-Gold portfolio, we expect stability in AUM to improve. We maintain a buy with a target price of Rs 156 (2x FY21E BVPS).

10 JUN 2019

Quarterly Update

**BUY**

Target Price: Rs 156

CMP : Rs 137  
Potential Upside : 14%

### MARKET DATA

No. of Shares : 84.3 cr  
FV (Rs) : 2  
Market Cap : Rs11,546cr  
52-week High / Low : Rs 142 / Rs 66  
Avg. Daily vol. (6mth) : 11,52,160 shares  
Bloomberg Code : MGFL IN  
Reuters Code : MNFL.BO  
BSE Code : 531213  
NSE Code : MANAPPURAM

## Key Highlights

- AUM marginal uptick:** AUM has grown by 23% led largely by ~60% growth in non gold segments while gold loan business growth was moderate (~11%). Loan growth in MFI/Housing/CV was robust at 58%/39%/78% respectively. Gold holdings have grown by 5% YoY to 68 tonne and loan per gram is steady at Rs1,920. About one-third of the portfolio is non gold which the management plans to increase to half of overall AUM. In the backdrop of liquidity concerns in NBFC segment, impact on company has been minimal since their assets are short-tenure in nature and there is an ALM surplus. Even though this led to slowdown in gold lending in the third quarter, it has since eased in Q4FY19. Collateral auctions have come down to Rs 67cr in Q4 from Rs 187cr QoQ. We expect AUM CAGR over FY19-21E to be ~16%.
- Gold loan business:** MGFL is planning to open 100-150 branches in next year in unbanked region, which along with good momentum will help gold tonnage growth of 10% in FY20. Security cost has been controlled and now stand at only Rs17cr for the quarter.

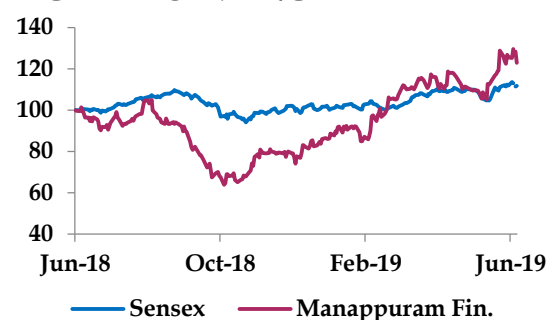
## FINANCIAL SUMMARY

Y/E	NII (Rs.cr)	PAT (Rs.cr)	EPS (Rs.cr)	Change (%)	BV (Rs)	PE (X)	P / BV (X)	RoE (%)	RoA (%)	Net NPA (%)
2018	2396	671	8.0	-11	40.0	11.7	2.3	24.9	5.4	1.0
2019P	2797	929	11.0	39	53.7	9.4	1.9	24.9	5.4	0.3
2020E	3272	1055	12.5	13	63.7	10.9	2.1	22.8	5.2	0.3
2021E	3748	1202	14.3	14	78.0	9.5	1.7	21.3	5.0	0.3

Source: Company and Axis Securities

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## PRICE PERFORMANCE



### Key Highlights (Cont'd)

- **NIM reduced:** NIMs have dropped by ~56bps sequentially to 15.7%. Drop in NIMs is largely attributable to strong growth in lower yielding loan growth businesses. We expect NIMs to moderate over FY20-21E to 16-16.2% as share of non gold businesses increase.
- **Asset quality stable:** Overall GNPA has eased to 0.5%. GNPA in gold/MFI/housing/CV has eased by 10bps/30bps/100bps/50bps sequentially to 0.5%/0.5%/3.9%/1.9% respectively.
- **Non Gold Business picks up:** The non-gold business constitutes ~33% of the total consolidated AUM. During the quarter, Asirvad MFI posted a 58% YoY growth in its AUM to ~Rs3840cr, CV division increased its AUM by 78% to Rs1100cr and Home-finance subsidiary reported AUM growth of 38% to Rs520cr. MGFL management intends to divide the book equally between Gold and Non-Gold AUM. It is evaluating a foray into insurance manufacturing business with focus on servicing captive customers. It has taken board approval to takeover Manappuram Asset finance Ltd. with a loan book of Rs200cr and net worth of Rs23cr. The aim behind such a move is to improve corporate governance within the group. Manappuram Asset Finance does mostly MSME loans against collateral, pledged vehicle loans (mostly LCVs) and to some extent, gold loans. The company stated it would take 6 months to complete the takeover process.

## Results Update

Fig in Rs.Cr	Quarterly					Yearly			
	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	FY19P	FY20E	FY21E	2 Yr CAGR (%)
Interest earned	1085	890	22	1081	0	4116	4816	5539	16.0
Interest expenses	354	268	32	354	0	1319	1544	1791	16.5
<b>NII</b>	731	622	18	727	1	2797	3272	3748	15.8
Other Income	18	11	62	20	-6	63	69	76	10.0
<b>Total Income</b>	750	633	18	747	0	2859	3341	3823	15.6
Operating expenses	364	314	16	350	4	1386	1540	1767	12.9
- Staff expenses	193	162	19	180	7	720	843	1011	18.5
- Other expenses	152	133	14	151	0	591	697	756	13.1
<b>PPoP</b>	386	319	21	397	-3	1473	1802	2056	18.1
Provisioning & Cont.	6	43	-87	9	-35	46	203	235	126.0
<b>PBT</b>	380	276	38	388	-2	1427	1599	1821	13.0
Tax	122	93	31	141	-13	498	544	619	11.5
<b>PAT</b>	258	183	41	247	5	929	1055	1202	13.7
EPS (Rs)	3.1	2.2	41	2.9	122	11.0	13.0	14.3	13.7
BVPS (Rs)	53.7	45.5	18	51.5	3	53.7	64.0	78.0	20.5
NIMs (%)	15.7	16.0		16.3		16.3	16.2	16.0	
CAR (%)	24.0	27.0		26.4		24.0	23.5	23.4	
Total AUM (Rs. Cr)	19438	15765	23	17783	3	19438	22549	26156	16.0
Gold Portfolio (Rs. Cr)	11125	10081	10	12267	-9	12962	14773	16815	13.9
Non-Gold Portfolio (Rs. Cr)	8314	5684	46	5516	134	6477	7775	9342	20.1
Borrowings (Rs. Cr)	10753	12226	-12	10367	4	15295	19425	24670	27.0
Opex/AUM %	9.3	6.9		8.7		7.1	6.8	6.8	
<b>RoA %</b>	5.1	4.8		5.2		5.4	5.2	5.0	
<b>RoE %</b>	19.7	18.1		20.3		24.9	22.8	21.3	
GNPA %	0.5	0.7		0.6		0.5	0.6	0.6	
NNPA %	0.3	0.3		0.3		0.3	0.3	0.3	

Source: Company and Axis Securities

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