

## Stay Order on ED's Investigation; Growth Momentum to Continue

Est. Vs. Actual for Q4FY23: NII – **Marginal MISS** ; PPOP – **MISS** ; PAT – **MISS**

### Changes in Estimates post Q4FY23

FY23E/FY24E: NII: -2.5%/ -5.8%; PPOP: -4.2%/ -7.6%; PAT: -7.3%/-12.9%

### Recommendation Rationale

- **High court of Kerala issued an interim stay order on ED's investigation:** The 12-year old case reemerged with the complaint filed by the same person again. The RBI had overseen the case in the past and all the requirements were fulfilled by VP Nandakumar. After analysing the case, the RBI had also issued a due diligence report in the past, stating that it is largely satisfied with the action. On 12<sup>th</sup> May, the High Court of Kerala issued a stay order on the ED's investigation for a period of 2 weeks.
- **Strategy of diversifying into the non-gold space is gaining pace:** Share of the Non-gold vertical reached 44% of the total AUM, which is in line with the company's objective of achieving a 50:50 portfolio mix between gold: and non-gold portfolio. Going forward, the management is confident to achieve robust consolidated AUM growth of 20% with the non-gold loan portfolio outpacing the growth in the gold loan portfolio. The management highlighted that the gold loan portfolio is expected to grow by **10% in FY24** and **MFI portfolio to grow by 35-40%**.
- **Yield in gold loan portfolio expected to expand to 22.5% by the end of FY24:** During the quarter, there was a change in product structure wherein the tenure of the gold loan was changed from 3 to 6 months. Due to this change, overdue charges are now due only beyond 6 months as compared to 3 months earlier and longer tenure led to demanding slightly lower yield. This resulted in a decline in yield by 140bps QoQ in the gold loan. However, yield is now recording an improving trend monthly in gold loans and thus management is confident that yield will expand by 22% in Q1FY24 and **22.5% by the end of FY24**.

### Sector Outlook: Positive

**Company Outlook & Guidance:** We like Manappuram as the company is focusing on diversification of its AUM mix with robust AUM growth along with improving asset quality.

**Current Valuation:** 1.1x SEP 24E ABV (Earlier Valuation: 1.3x FY24E ABV)

**Current TP:** Rs 150/share (Earlier TP: 165 Rs /share)

**Recommendation:** We maintain our BUY recommendation on the stock.

### Financial Performance

MFL reported steady growth in AUM of 17.2/11.2% YoY/QoQ, majorly driven by healthy growth in MFI (Up 40/15% YoY/QoQ), Vehicle (Up 49/16% YoY/QoQ) and other loans (Up 200/37% YoY/QoQ). However, gold loans remained under pressure as it declined by 2% YoY but reported sequential growth of 6% QoQ. Although net yields declined by 150 bps QoQ to 21% due to a change in gold loan tenure, aided by robust AUM growth, NII reported healthy growth of 25/3% YoY/QoQ. Opex grew by 21%/3% YoY/QoQ, majorly driven by the increase in staff expenses by 35/5% YoY. With robust growth in AUM, healthy growth in NII and lower-than-expected provisions, PAT reported a growth of 59% YoY.

### Outlook

In housing finance, the focus is on low-ticketing housing loans. Management has decided to tender niche areas such as finance and healthcare professionals and small hospitals. In the vehicle finance business management is focused to increase penetration in rural and semi-urban locations. Capital infusion of about Rs 500 Cr from parent and subordinate debt of equal amount or either ipo or from private equity in the MFI business is expected in the near term. The collection is expected to improve in MFI going forward. Asset quality improvement is expected to continue with benign credit costs. Thus with AUM growth momentum to continue, yields expected to expand in gold loans, NII growth to remain healthy, benign credit cost, and adequate liquidity, we believe, MFL has its key growth lever intact to deliver sustainable **ROA/ROE of +4.4/18%**.

### Valuation & Recommendation:

We maintain our BUY rating on the stock with the revised target price of **Rs 150/share** (1.1x SEP 24E ABV), implying an upside of **36%** from the CMP.

### Key Financials (Consolidated)

(Rs Cr)	Q4FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	1125	3.0%	25.2%	1,138	-1.1%
Other Income	85	9.5%	-13.5%	103	-17.5%
PPOP	614	3.7%	21.6%	627	-2.1%
Provision	47	-7.0%	-68.7%	54	-13.0%
Net Profit	415	5.5%	59.3%	422	-1.7%

Source: Company, Axis Research

(CMP as of 12 May, 2023)

CMP (Rs)	110
Upside /Downside (%)	36%
High/Low (Rs)	134/81
Market cap (Cr)	9,306
Avg. daily vol. (6m)Shrs.	712878
No. of shares (Cr)	84.6

### Shareholding (%)

	Mar-23	Dec-22	Sep-22
Promoter	35.2	35.2	35.2
FIs	30.2	30	28.4
MFs / UTI	10.6	10.8	11.4
Others	24	24	25

### Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
NII	4,253	4,938	5,765
PPOP	2,348	2,803	3,398
Net Profit	1,500	1,804	2,174
EPS (Rs)	18	21	26
ABV (Rs)	112	128	148
P/ABV (x)	1.0	0.9	0.7
RoA (%)	4.1	4.3	4.3
NNPA (%)	1.1	0.9	0.9

### Change in Estimates (%)

Y/E Mar	FY24E	FY25E
NII	-2.5	-5.8
PPOP	-4.2	-7.6
PAT	-7.3	-12.9

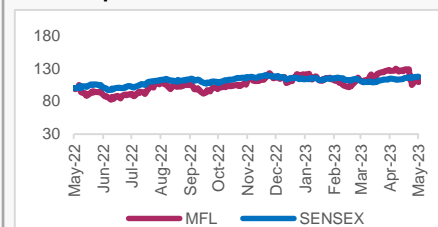
### ESG disclosure Score\*\*

Environmental Disclosure	0.4
Social Disclosure Score	15.4
Governance Disclosure	78.9
Total ESG Disclosure Score	31.5

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 2020 disclosures

### Relative performance



Source: Capitaline, Axis Securities

### Prathamesh Sawant, CFA

Research Analyst  
 Email: prathamesh.sawant@axissecurities.in

### CA Bhavya Shah

Research Associate  
 Email: bhavya1.shah@axissecurities.in

### Dnyanada Vaidya

Research Analyst  
 Email: dnyanada.vaidya@axissecurities.in

## 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	4,938	5,765	5,064	6,122	-2.5	-5.8
PBP	2,803	3,398	2,927	3,677	-4.2	-7.6
Provisions	348	440	332	348	5.0	26.4
PAT	1,804	2,174	1,946	2,497	-7.3	-12.9

Source: Company, Axis Securities

**Results Review (Consolidated)**
**(Rs Cr)**

Y/E March	Q4FY23	Q4FY22	% YoY	Q3FY23	% QoQ
Net Interest Income	1,125	898	25.2	1,092	3.0
Non Interest Income	85	98	-13.5	77	9.5
Operating expenses	596	491	21.2	577	3.2
<i>Staff Cost</i>	406	301	34.8	386	5.2
Pre provision profits	614	505	21.6	592	3.7
Provisions and contingencies	47	151	-68.7	51	-7.0
<b>PBT</b>	<b>567</b>	<b>354</b>	<b>60.2</b>	<b>541</b>	<b>4.7</b>
Provision for Tax	151	93	62.7	147	2.6
<b>PAT</b>	<b>415</b>	<b>261</b>	<b>59.3</b>	<b>393</b>	<b>5.5</b>
<b>Business Performance</b>					
<b>AUM</b>	<b>35,452</b>	<b>30,261</b>	<b>17.2</b>	<b>31,883</b>	<b>11.2</b>
-- <i>Gold Loans</i>	19,746	20,168	-2.1	18,614	6.1
-- <i>Microfinance Loans</i>	9,297	6,653	39.7	8,066	15.3
-- <i>Housing Loans</i>	1,096	845	29.6	1,005	9.1
-- <i>Vehicle Loans</i>	2,455	1,643	49.4	2,112	16.2
-- <i>Other Loans</i>	2,858	952	200.4	2,087	37.0
Blended Yields	18.7	17.4	124bps	18.7	-5bps
Cost of Funds (%)	8.5	8.2	28bps	8.4	8bps
NIMs (%) - Calc.	12.2	11.2	101bps	12.3	-8bps
Cost-Income ratio (%)	49.2	49.3	-7bps	49.4	-12bps
<b>Asset Quality</b>					
Gross NPA (%)	1.3	3.0	-165bps	1.6	-31bps
Net NPA (%)	1.1	2.7	-162bps	1.4	-32bps
PCR (%)	15.4	7.8	758.8bps	11.8	358bps

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Interest Income	5,840	6,440	7,701	9,087
Interest Expenses	2,011	2,188	2,763	3,322
<b>Net Interest Income</b>	<b>3,828</b>	<b>4,253</b>	<b>4,938</b>	<b>5,765</b>
Non Interest Income	287	310	374	453
<b>Net Income</b>	<b>4,115</b>	<b>4,562</b>	<b>5,312</b>	<b>6,218</b>
Operating Expenses	1,845	2,214	2,509	2,821
<b>Pre Provision Profits</b>	<b>2,270</b>	<b>2,348</b>	<b>2,803</b>	<b>3,398</b>
Provisions	486	307	348	440
<b>PBT</b>	<b>1,784</b>	<b>2,041</b>	<b>2,454</b>	<b>2,957</b>
Tax	455	541	650	784
<b>Profit After Tax</b>	<b>1,329</b>	<b>1,500</b>	<b>1,804</b>	<b>2,174</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
<b>SOURCES OF FUNDS</b>				
Share Capital	169	169	169	169
Reserves	8,215	9,679	11,084	12,777
<b>Shareholder's Funds</b>	<b>8,384</b>	<b>9,848</b>	<b>11,253</b>	<b>12,946</b>
Borrowings	24,816	28,483	32,447	40,648
Other Liabilities & Provisions	610	1,173	1,338	1,641
<b>Total Liabilities</b>	<b>33,811</b>	<b>39,504</b>	<b>45,038</b>	<b>55,234</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank balances	2,697	3,035	1,118	1,924
Investments	421	534	586	719
Loans	28,971	34,195	41,349	50,158
Fixed Assets & Others	1,721	1,741	1,984	2,434
<b>Total Assets</b>	<b>33,811</b>	<b>39,504</b>	<b>45,038</b>	<b>55,234</b>

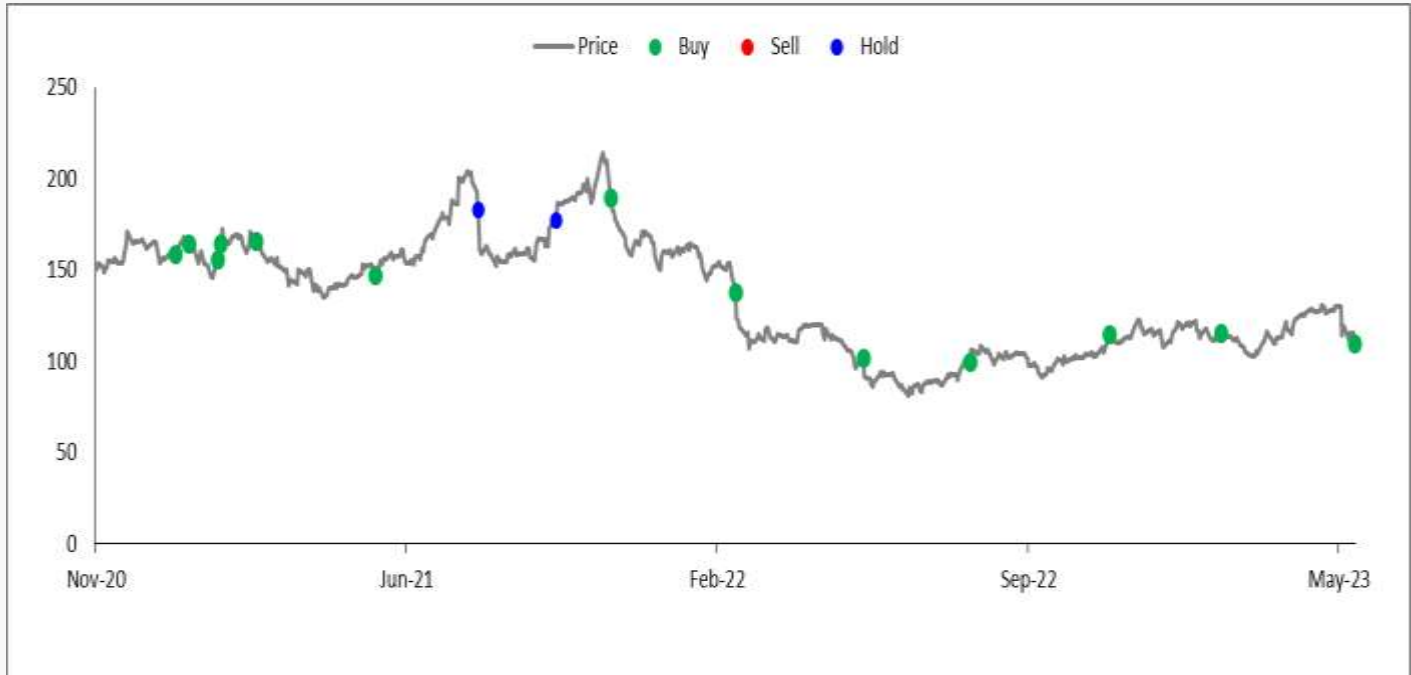
Source: Company, Axis Securities

**Ratio Analysis**
**(%)**

Y/E March	FY22	FY23	FY24E	FY25E
<b>VALUATION RATIOS</b>				
EPS	16	18	21	26
Earnings growth (%)	-22.98%	12.90%	20.25%	20.50%
BVPS	99	116	133	153
Adj. BVPS	92	112	128	148
ROAA (%)	4.1	4.1	4.3	4.3
ROAE (%)	16.9	16.5	17.1	18.0
P/E (x)	7	6	5	4
P/ABV (x)	1.2	1.0	0.9	0.7
<b>PROFITABILITY</b>				
Yield on Advances (%)	20.6	20.2	20.1	19.6
Cost of Funds (%)	8.6	8.5	9.3	9.4
NIM (%)	12.4	12.2	12.2	12.0
<b>OPERATING EFFICIENCY</b>				
Cost-Income Ratio	44.8	48.5	47.2	45.4
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	9.3%	18.0%	20.9%	21.3%
Total Capital Adequacy Ratio (CAR)	31.3	31.7	28.9	26.7
<b>ASSET QUALITY</b>				
Gross NPLs (%)	2.3	1.3	1.0	1.1
Net NPLs (%)	2.0	1.1	0.9	0.9
Credit Cost(%)	1.8%	1.0%	0.9%	1.0%

Source: Company, Axis Securities

## Manappuram Finance Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-21	BUY	207	Top Picks
11-Jan-21	BUY	195	Pick of the week
01-Feb-21	BUY	207	Result Update
03-Feb-21	BUY	207	Top Picks
01-Mar-21	BUY	207	Top Picks
27-May-21	BUY	190	Result Update
11-Aug-21	HOLD	185	Result Update
06-Oct-21	HOLD	185	Result Update
16-Nov-21	BUY	230	Result Update
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

Source: Axis Securities

**About the analyst**

**Analyst:** Prathamesh Sawant, CFA

**Contact Details:** [prathamesh.sawant@axissecurities.in](mailto:prathamesh.sawant@axissecurities.in)

**Sector:** BFSI

**Analyst Bio:** Prathamesh Sawant is MBA (Finance) and CFA Charter holder with over 7 years of experience in Equity Research & Valuation..

**About the analyst**

**Analyst:** CA Bhavya Shah

**Contact Details:** [bhavya1.shah@axissecurities.in](mailto:bhavya1.shah@axissecurities.in)

**Sector:** Banks/NBFCs

**Analyst Bio:** Bhavya Shah is Chartered Accountant and CFA level 2 cleared with over 6 months of research experience in the Banking/NBFC Industry.

**About the analyst**

**Analyst:** Dnyanada Vaidya

**Contact Details:** [dnyanada.vaidya@axissecurities.in](mailto:dnyanada.vaidya@axissecurities.in)

**Sector:** BFSI

**Analyst Bio:** Dnyanada Vaidya is M.M.S (Finance) with over 4 years of research experience in the Banking/NBFC sector.

**Disclosures:**

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on [www.axisbank.com](http://www.axisbank.com).

ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.

ASL has no material adverse disciplinary history as on the date of publication of this report.

I/We, Prathamesh Sawant, CFA, author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period. Any holding in stock – No

5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject

company.

In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or; Managed or co-managed public offering of the securities from the subject company of this research report and / or; Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report; ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

**Term & Conditions:**

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
<b>BUY</b>	More than 10%
<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%
<b>NOT RATED</b>	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
<b>UNDER REVIEW</b>	We will revisit our recommendation, valuation and estimates on the stock following recent events
<b>NO STANCE</b>	We do not have any forward looking estimates, valuation or recommendation for the stock

**Disclaimer:**

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

**Copyright in this document vests with Axis Securities Limited.**

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- 1st Floor, I-Rise Building, Q Parc, Loma Park, Thane, Ghansoli, Navi Mumbai-400701, Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706