

Manappuram Finance

3 April 2020

Reuters: MNFL.BO; Bloomberg: MGFL IN

Diversification can hurt too

Since the onset of the nationwide lockdown due to covid-19 outbreak and the consequent economic disruption it has caused, our concern is mostly with regards to how the asset quality would play out in the non-gold portfolio, which now forms 32.6% of the consolidated AUM. While tapping other streams is good from a diversification perspective as it reduces concentration risks, the same can also hurt in times such as now; more so, when the book is unseasoned. One could also argue that the non-gold book was put to test at the time of demonetization, but at that the time the non-gold contribution was 19% (FY17) on a much smaller base (57% of latest AUM). Since then, stakes have increased. As opposed to this, in the current environment, we think Muthoot Finance will be able to hold the fort better as its share of non-gold business is much smaller at 11% (3QFY20). For Manappuram, online gold loans now make up 47% of the total gold book, which is a positive as collections/repayments would be insulated from the complete branch-shutdown to a large extent. Extending the same facility to offline gold loan customers should also augur well from an asset quality standpoint. Though the company has offered moratorium to its clients, it has not received any request for the same. In the MFI portfolio (housed under Asirvad), the collections have been halted up to 31st May 2020. However, the company is exploring the online payment solution in case a customer wants to exercise the option of paying. We think the asset quality in the MFI portfolio could deteriorate materially in the near-to-medium term. In 4QFY17 (post demonetization), MFI NPA had jumped to 4.66%. In the other segments – housing, CV finance (86-87% used CV) – repayments and collections have stopped since the last 10 days. The management has reiterated that it wants to bring down the share of gold AUM to 50%. From a liquidity standpoint, the balance sheet position is comfortable as of now. Quantum of undrawn bank lines stands at nearly Rs10bn. Besides this, the company has raised resources from various avenues, including offshore markets, NCDs, banks and financial institutions. Share of CPs stands at 15% with no maturities due in Apr-20. The stock has corrected 52% from its 52-week high and currently trades at 0.9x FY22E ABV. We think the valuation is attractive for potential ROE of nearly 25% over FY21-22E. We retain BUY with a target price of Rs149, based on 1.4x FY22E ABV. One of the key risks to our profit and BV estimates would be higher credit costs/write-offs.

Other key conference call highlights:

- CV book NPA is currently below 3%. The company is pushing for online repayments/collections. The situation is similar in case of 2-wheeler loans.
- In HF, NPA level was below 4% prior to lockdown. Collections have been impacted in last 10 days.
- Under the on-lending book, 7 (out of 51) have requested for a moratorium.
- Lockdown is likely to only delay payments and not increase NPA. Credit losses would be <5%.
- Delay in gold auctioning is not a concern even if the gold price corrects by 5-10%.
- Daily transactions under online gold loan facility stand at Rs500mn.
- Calculation of LTV excludes any stones/gems in the jewellery and considers only gold. The actual LTV is less than 50%.
- Increased demand for gold loans post the lockdown would be negated by redemptions due to upcoming festive season and weddings to some extent.
- 10% of customers, excluding OGL, have made payments through the online mode.
- Average interest collections per day for the company stood at Rs115-120mn prior to the lockdown. Yesterday, collections were Rs55mn from 48,000 customers; expected to reach Rs70-80mn in a few days.
- As per company, its liquidity position is comfortable. It has raised USD 300mn in January from the Singapore market for 3 years, NCDs worth Rs125bn last month, reduced CP from 25% to 15% and Asirvad securitized in March. Further, the company may utilize CPs and avail RBI's NCDs, if it is attractive.
- The company has not requested for moratorium from the banks.
- Internationally raised funds are fully hedged. Average cost of funds for 4QFY20 is 9.5-10% (+30bps vs 3QFY20). This is mainly because of reduction in CPs.
- The company has undrawn bank lines of ~Rs10bn.
- In MFI/Asirvad, collections have been stopped till 31st May 2020. The company is discussing the use of virtual meetings and in a few days would enable digital collection in MFI portfolio as well.
- In order to contain risk in MFI portfolio, the company is slowly moving to 0.5% limit per district as a diversification measure.
- MFI collections prior to lockdown stood at 99%. The company expects to be able to resume collections as lockdown ends.

Valuation/outlook: The stock has corrected 52% from its 52-week high and currently trades at 0.9x FY22E ABV. We think the valuation is attractive for potential ROE of nearly 25% over FY21-22E. We retain BUY with a target price of Rs149, based on 1.4x FY22E ABV.

BUY

Sector: NBFC

CMP: Rs94

Target Price: Rs149

Upside: 58%

Raghav Garg, CFA

 Research Analyst
 raghav.garg@nirmalbang.com
 +91-22-6273 8192

Arjun Bagga

 Research Associate
 arjun.bagga@nirmalbang.com
 +91-22-6273 8111

Key Data

Current Shares O/S (mn)	845.0
Mkt Cap (Rsbn/US\$bn)	78.9/1.0
52 Wk H / L (Rs)	195/74
Daily Vol. (3M NSE Avg.)	8,575,633

Price Performance (%)

	1 M	6 M	1 Yr
Manappuram Finance	(41.8)	(30.5)	(23.4)
Nifty Index	(25.9)	(27.3)	(29.5)

Source: Bloomberg

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net Interest Income	23,235	26,926	34,027	37,465	43,776
Pre-Provisioning Operating Profit	12,142	14,734	21,243	22,954	28,246
PAT	6,760	9,295	14,505	16,060	20,043
EPS (Rs)	8.0	11.0	17.2	19.1	23.8
BV (Rs)	47.4	52.2	67.4	82.2	105.6
P/E (x)	11.7	8.5	5.5	4.9	4.0
P/BV (x)	2.0	1.8	1.4	1.1	0.9
Gross NPA (%)	1.8	1.2	1.0	2.4	1.2
Net NPA (%)	1.1	0.7	0.5	1.2	0.5
ROA (%)	4.2	5.0	6.4	6.1	6.5
ROE (%)	18.7	22.3	28.1	24.7	24.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	Revised Estimate			Earlier Estimate			% Revision		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Interest Income (Rs mn)	34,027	37,465	43,776	34,027	37,465	43,776	-	-	-
Net Interest Margin (%)	17.1	15.8	15.8	17.1	15.8	15.8	0 bps	0 bps	0 bps
Operating Profit (Rs mn)	21,243	22,954	28,246	21,243	22,954	28,246	-	-	-
Profit after tax (Rs mn)	14,505	16,060	20,043	14,505	16,060	20,043	-	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

Financials
Exhibit 4: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Interest Income	33,540	40,121	50,854	56,877	65,882
Interest Expense	10,304	13,194	16,827	19,412	22,105
Net Interest Income	23,235	26,926	34,027	37,465	43,776
Non Interest Income	1,252	1,668	2,428	2,532	3,004
Net Revenue	24,487	28,594	36,455	39,998	46,780
Operating expenses	12,345	13,860	15,212	17,044	18,534
-Employee expenses	6,261	7,201	8,220	9,352	10,074
-Other expenses	6,085	6,659	6,992	7,691	8,460
Operating Profit	12,142	14,734	21,243	22,954	28,246
Provisions	1,773	461	1,536	1,540	1,522
PBT	10,369	14,273	19,708	21,414	26,723
Tax	3,609	4,978	5,203	5,353	6,681
PAT	6,760	9,295	14,505	16,060	20,043

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	1,685	1,686	1,686	1,686	1,686
Reserves & surplus	36,447	43,561	56,250	70,607	88,895
Shareholders' funds	38,132	45,247	57,936	72,293	90,581
Borrowings	126,071	152,972	183,567	204,677	237,425
Other liability & provisions	5,802	5,862	4,669	4,999	5,461
Total liabilities	170,296	204,540	246,631	282,429	333,927
Fixed Assets	3,101	3,674	4,225	4,859	5,588
Investments	49	1,738	1,738	1,738	1,738
Loans	152,439	178,119	220,732	253,245	300,382
Cash	7,241	11,642	8,388	9,623	11,414
Other assets	7,466	9,367	11,548	12,964	14,806
Total assets	170,296	204,540	246,631	282,429	333,927

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Growth (%)					
Net Interest Income	7.9	15.9	26.4	10.1	16.8
Operating Profit	10.3	21.3	44.2	8.1	23.1
Profit After Tax	-11.9	37.5	56.1	10.7	24.8
Business (%)					
Advance Growth	13.7	16.8	23.9	14.7	18.6
Spreads (%)					
Yield on loans	23.4	24.3	25.5	24.0	23.8
Cost of Borrowings	8.7	9.5	10.0	10.0	10.0
Spread	14.7	14.8	15.5	14.0	13.8
NIMs	16.2	16.3	17.1	15.8	15.8
Operational Efficiency (%)					
Cost to Income	50.4	48.5	41.7	42.6	39.6
Cost to AUM	8.6	8.4	7.6	7.2	6.7
CRAR (%)					
Tier I	26.6	23.3	21.9	21.1	20.8
Tier II	0.4	0.4	0.5	0.4	0.4
Total	27.0	23.7	22.4	21.6	21.2
Asset Quality (%)					
Gross NPA	1.8	1.2	1.0	2.4	1.2
Net NPA	1.1	0.7	0.5	1.2	0.5
Provision Coverage	38.0	40.8	45.9	51.1	55.2
Credit Cost (excluding std asset)	1.4	0.4	0.6	1.0	0.2
Credit Cost (including std asset)	1.7	0.3	0.8	0.7	0.6
Return Ratio (%)					
ROE	18.7	22.3	28.1	24.7	24.6
ROA	4.2	5.0	6.4	6.1	6.5
Per Share (%)					
EPS	8.0	11.0	17.2	19.1	23.8
BV	45.3	53.7	68.7	85.8	107.5
ABV	47.4	52.2	67.4	82.2	105.6
Valuation (x)					
P/E	11.7	8.5	5.5	4.9	4.0
P/BV	2.1	1.8	1.4	1.1	0.9
P/ABV	2.0	1.8	1.4	1.1	0.9

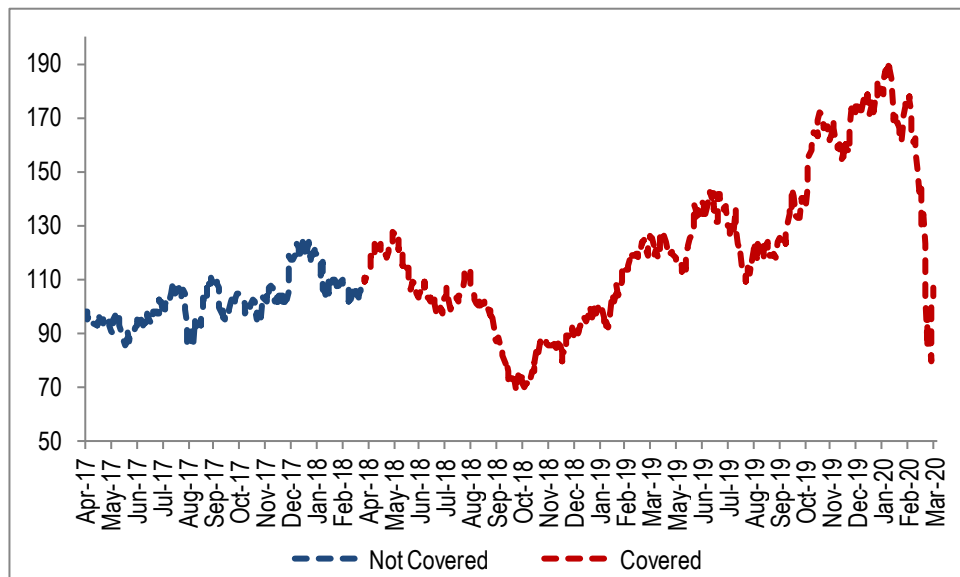
Source: Company, Nirmal Bang Institutional Equities Research

N.B. FY18 P&L growth figures are as per IGAAP. Other figures are as per IndAS.

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	106	128
9 February 2018	Buy	114	133
10 August 2018	Buy	113	142
9 October 2018	Buy	68	103
9 November 2018	Buy	83	112
7 February 2019	Buy	97	127
8 April 2019	Buy	121	141
15 April 2019	Buy	127	154
16 May 2019	Buy	121	157
8 July 2019	Buy	136	170
14 August 2019	Buy	116	153
23 September 2019	Buy	127	174
7 October 2019	Buy	133	173
7 November 2019	Buy	168	193
8 January 2020	Buy	176	207
29 January 2020	Buy	189	218
27 March 2020	Buy	108	149
3 April 2020	Buy	94	149

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010