

May 15, 2020

## Q4FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	142		130	
NII (Rs.)	35,596	40,319	38,771	44,747
% Chng.	(8.2)	(9.9)		
PPoP (Rs.)	20,093	24,249	23,230	28,514
% Chng.	(13.5)	(15.0)		
EPS (Rs.)	14.0	19.4	16.1	22.6
% Chng.	(13.4)	(13.9)		

### Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Int.Inc. (Rs m)	28,145	36,142	35,596	40,319
Growth (%)	18.1	28.4	(1.5)	13.3
Op. Profit (Rs m)	15,113	22,449	20,093	24,249
PAT (Rs m)	9,485	14,803	11,975	16,829
EPS (Rs.)	11.2	17.4	14.0	19.4
Gr. (%)	39.3	55.9	(19.8)	39.0
DPS (Rs.)	2.2	2.9	4.0	4.8
Yield (%)	1.8	2.4	3.3	3.9
Margin (%)	16.0	16.2	13.3	13.2
RoAE (%)	22.4	28.5	20.0	24.6
RoAA (%)	4.6	5.9	3.7	4.4
PE (x)	11.0	7.1	8.8	6.3
P/BV (x)	2.3	1.8	1.7	1.4
P/ABV (x)	2.3	1.8	1.8	1.5

### Key Data

MNFL.BO | MGFL IN

52-W High / Low	Rs.195 / Rs.74
Sensex / Nifty	31,123 / 9,143
Market Cap	Rs.104bn/ \$ 1,376m
Shares Outstanding	845m
3M Avg. Daily Value	Rs.2651m

### Shareholding Pattern (%)

Promoter's	35.05
Foreign	39.42
Domestic Institution	7.06
Public & Others	18.47
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	15.9	(24.5)	1.8
Relative	14.3	(2.3)	22.1

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## Non-gold undergoes litmus test

### Quick Pointers:

- Gold loan holdings dip; customer addition zilch past 3 quarters
- Credit costs jump 115bps QoQ; 77.5% of non-gold book under morat

**Q4FY20 reported sequential earnings dip (Rs3.9bn down 1% QoQ although in-line at Rs4.0bn) led by COVID related Rs 150mn standalone and Rs550mn microfinance provisioning. Buoyed by digital gold (48% of gold AUM as at Q4FY20, 50%+ Apr'20) and 27% YoY non-gold AUM growth, overall AUMs at Rs252bn (in-line) grew healthy 29.8%YoY/4.7%QoQ. Liquidity sufficiency (Standalone cash/undrawn bank lines of Rs23bn, Rs30bn Asirvad) and cost rationalization (opex growth mere 2% QoQ, C/I down to 36% from 48% a year ago & 39% quarter ago) aided robust operating profit at Rs6.6bn (PL: Rs5.7bn) growing 10.7% QOQ/55% YoY. GNPA deteriorates 40bps QoQ to 0.8%. However, pandemic situation puts non-gold business to litmus test as 100% MFI book, ~50% of Vehicle finance (VF) and 40% of housing finance (HF) fall under moratorium. With COVID uncertainty looming large & Mngt citing caution, non-gold segments are expected to witness stress on growth & asset quality. Against this backdrop, we prune down EPS estimates by 13-14% over FY21-22E. While non-gold mix face challenging business cycles, gold business traction stands supported by gold price uptick. We, therefore, reiterate Accumulate rating, but tweak our PBV multiple to 1.7x (earlier 1.5x) arriving at price target of Rs 142 (earlier Rs 130) FY22E.**

- Gold price uptick aid gold AUMs; non-gold begins to struggle:** While gold AUM buoyancy at 31% YoY growth stands maintained, the traction can be attributed to underlying gold price uptick. As gold holdings decline (down to 72 tonnes from 74 QoQ) and customer addition remains zilch for 3 consecutive quarters (at 2.6mn), gold business traction stands unsustainable ahead. With shift of focus from growth to collection, non-gold segments lose steam. Microfinance business at 43% YoY and VF and HF at 21% YoY each put up 8-quarter low growth during Q4FY20. With COVID led longer lockdowns causing disruption, non-gold business is up for a haul. Hence, we trim our overall AUM growth estimates to 12%-16% YoY (earlier 18-22%) over FY21-22E.
- Asset quality deteriorates; non-gold vulnerable:** Q4FY20 witnessed 40bps deterioration in overall NPA and credit costs jump to 2% from 0.8% a quarter ago and 0.3% a year ago. Moreover, as pandemic situation puts non-gold business to litmus test, 100% MFI book, ~50% of Vehicle finance (VF) and 40% of housing finance (HF) fall under moratorium. While credit costs for microfinance business has spiked to 1% as the Co. proactively provides to the tune of Rs550mn, business vulnerability might call for incremental provisioning ahead. Moreover, the 7-8% VF+HF business share although smaller in size carry 3-5% NPAs. Longer lockdown and subdued incremental demand would imply persistent credit quality stress for FY21; we incorporate the same into 2% NPAs and 1.6% credit costs for FY21. Consequently, FY21 RoEs are expected to dip to 20% before they bounce back to 24% in FY22.

*PAT at Rs 3.9bn stood in line with our (PLe: Rs4bn) and consensus estimates grew 43.6% YoY.*

*Sequential PAT declines by 1% led by hefty provisioning of Rs1.2bn (PLe: Rs3bn) largely led by COVID related provisions (Rs550mn for microfinance book); looks like there's been frontloading.*

*NII at Rs 8.9bn broadly in line with PLe at Rs 9.2bn grew 26% YoY but sequential decline of 2%.*

*Opex at Rs 3.8bn also stood broadly in-line with PLe: Rs 4.1bn, increased 4.7% YoY/1.7% QoQ*

*Operating profit stood healthy at Rs 6.5bn exceeding PLe of Rs5.7bn growing 55% YoY/10.7%QoQ.*

*GNPA at 0.9% stood marginally higher than PLe at 0.8% and up 40bps QoQ.*

*Liquidity stood intact with Cash 33.46bn for Mar'20 and Rs 25.25bn end Apr'20 besides bank undrawn bank lines.*

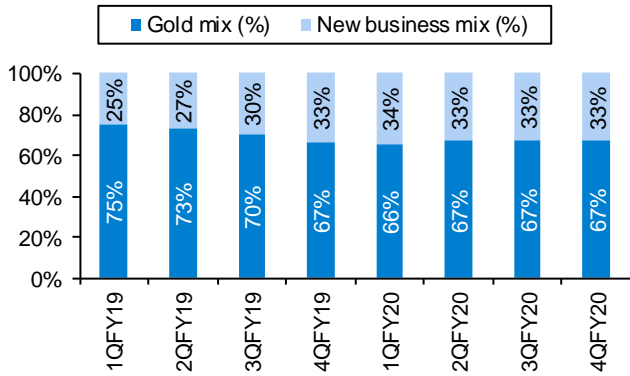
*AUM at Rs 252.25 bn grew 29.8% YoY / 4.7% QoQ, in line with PLe: Rs250.2bn; gold loan AUM grew healthy 30.9%YoY/4.5%QoQ.*

**Exhibit 1: Higher funding costs, elevated provisions mar earnings**

Rs mn	Q4FY20	Q4FY19	YoY gr.	Q3FY20	QoQ gr.
Income from Operations	14,719	10,858	35.6%	13,567	8.5%
Interest Expenses	5,808	3,793	53.1%	4,465	30.1%
<b>Net Interest Income</b>	<b>8,911</b>	<b>7,065</b>	<b>26.1%</b>	<b>9,102</b>	<b>-2.1%</b>
Other Income	1,462	807	81.2%	576	154.1%
Total Income	<b>10,374</b>	<b>7,872</b>	<b>31.8%</b>	<b>9,677</b>	<b>7.2%</b>
Total Operating Expenses	3,807	3,635	4.7%	3,742	1.7%
<b>Operating Profit (PPP)</b>	<b>6,567</b>	<b>4,237</b>	<b>55.0%</b>	<b>5,935</b>	<b>10.7%</b>
Provisions & Write Offs	1,226	143	756.3%	491	149.6%
<b>PBT</b>	<b>5,341</b>	<b>4,094</b>	<b>30.5%</b>	<b>5,444</b>	<b>-1.9%</b>
Tax	1,359	1,320	2.9%	1,421	-4.4%
<b>Reported Profit</b>	<b>3,982</b>	<b>2,774</b>	<b>43.6%</b>	<b>4,022</b>	<b>-1.0%</b>
<b>Balance sheet Details</b>					
Borrowings	1,75,061	1,27,426	37.4%	1,64,823	6.2%
AUM	2,52,252	1,94,384	29.8%	2,40,999	4.7%
<b>Asset Quality</b>					
Gross NPAs	2,220	972	128.4%	1,205	84.2%
Net NPAs	1,205	583	106.6%	482	150.0%
Gross NPA (%)	0.9%	0.5%	0.4%	0.5%	0.4%
Net NPA (%)	0.5%	0.3%	0.2%	0.2%	0.3%
Coverage (%)	54.3%	60.0%	-5.7%	40.0%	14.3%
<b>NIM - calc</b>	<b>14.5%</b>	<b>15.2%</b>	<b>-0.7%</b>	<b>15.6%</b>	<b>-1.1%</b>
<b>AUM (Rs mn)</b>					
Gold Loan	1,69,672	1,29,615	30.9%	1,62,430	4.5%
Micro finance	55,026	38,408	43.3%	50,221	9.6%
Commercial Vehicle	13,444	11,146	20.6%	13,974	-3.8%
Home Loan	6,296	5,188	21.4%	6,012	4.7%
Other Loan (Hypo, Against NCD)	7,814	10,028	-22.1%	8,362	-6.6%
<b>AUM Mix (%)</b>					
Gold Loan	67.3%	66.7%	0.6%	67.4%	-0.1%
Micro finance	21.8%	19.8%	2.1%	20.8%	1.0%
Commercial Vehicle	5.3%	5.7%	-0.4%	5.8%	-0.5%
Home Loan	2.5%	2.7%	-0.2%	2.5%	0.0%
Other Loan (Hypo, Against NCD)	3.1%	5.2%	-2.1%	3.5%	-0.4%

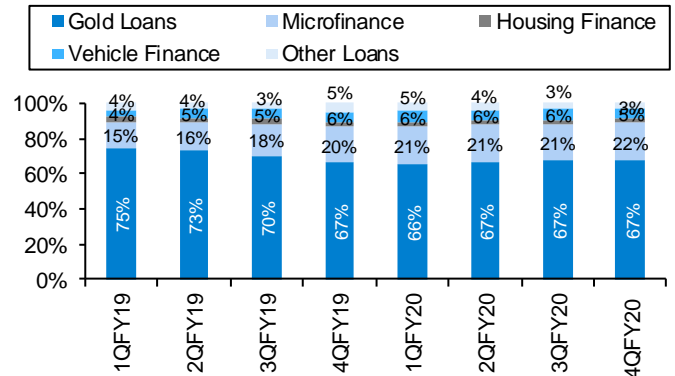
Source: Company, PL

**Exhibit 2: New business mix steady**



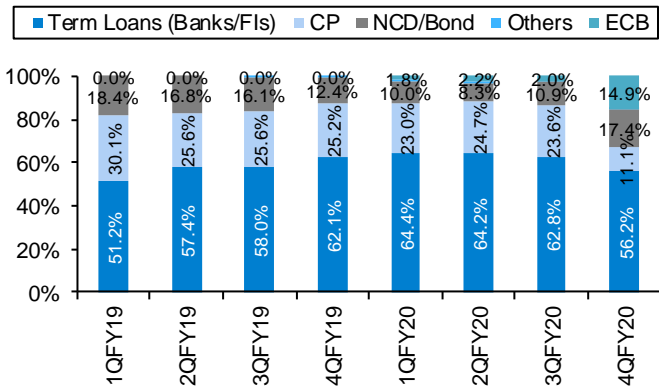
Source: Company, PL

**Exhibit 3: Overall AUM mix stands steady**



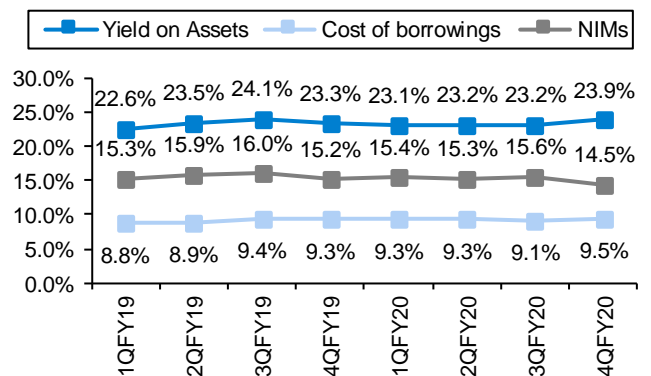
Source: Company, PL

**Exhibit 4: ECBs and debentures on the rise**



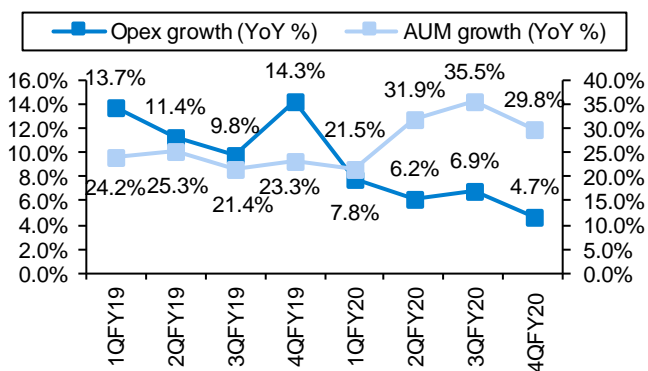
Source: Company, PL

**Exhibit 5: Elevated funding costs dent margins**



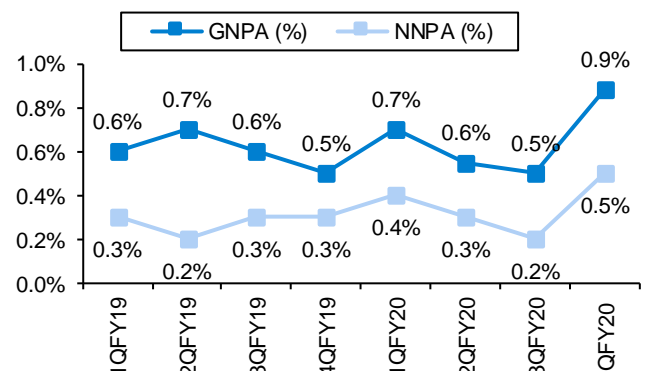
Source: Company, PL

**Exhibit 6: Cost rationalization aids opex decline**

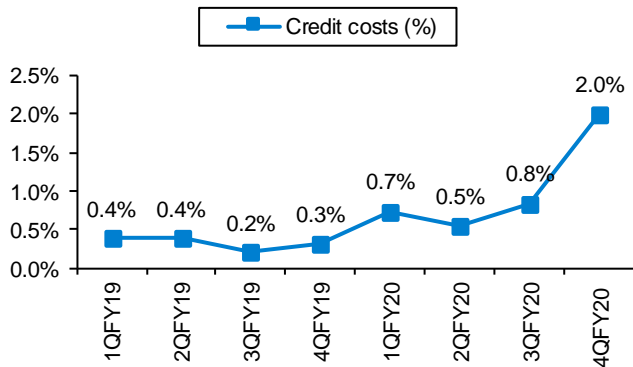


Source: Company, PL

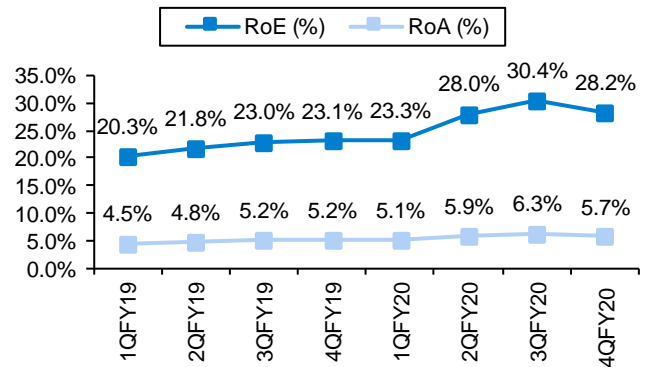
**Exhibit 7: Asset quality deteriorates**



Source: Company, PL

**Exhibit 8: Microfinance credit cost stood higher**


Source: Company, PL

**Exhibit 9: Return ratios dip as COVID pressures build-in**


Source: Company, PL

**Exhibit 10: Robust earnings led primarily by gold AUMs leading to earnings uptick**

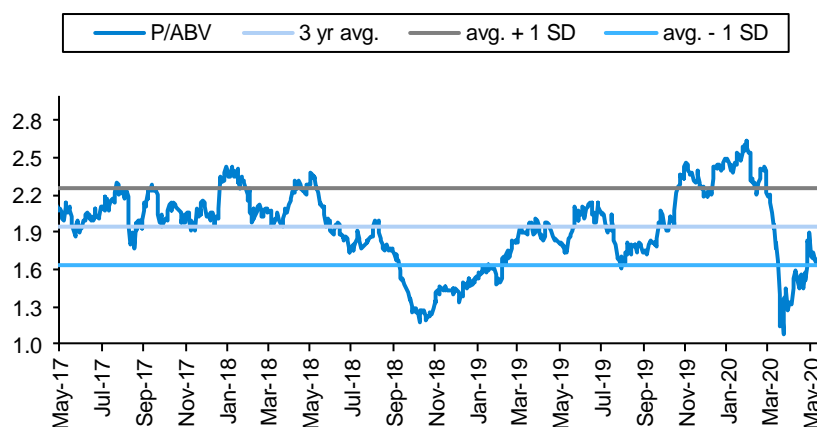
(Rs mn)	Old Estimates			New Estimates			% Change		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Net Interest Income	34,169	38,771	44,747	36,142	35,596	40,319	6%	-8%	-10%
Operating Profit	21,611	23,230	28,514	22,449	20,093	24,249	4%	-14%	-15%
Net Profit	14,641	13,606	19,018	14,678	11,777	16,365	0%	-13%	-14%
EPS (Rs)	17.4	16.1	22.6	17.4	14.0	19.4	0%	-13%	-14%
<b>Price Target (Rs)</b>	<b>130</b>			<b>142</b>			<b>9.0%</b>		
<b>Reco</b>	<b>ACCUMULATE</b>			<b>ACCUMULATE</b>					

Source: Company, PL

**Exhibit 11: Target multiple uptick on robust earnings**

PT calculation and upside	
Fair price - EVA	111
Fair price - P/ABV	173
<b>Average of the two</b>	<b>142</b>
<b>Target P/ABV</b>	<b>1.7</b>
<b>Target P/E</b>	<b>8.8</b>
Current price, Rs	123
<b>Upside (%)</b>	<b>15%</b>
Dividend yield (%)	200.0%
<b>Total return (%)</b>	<b>215%</b>

Source: PL

**Exhibit 12: MGFL catching up on valuations to its closest peer**


Source: Company, Bloomberg, PL

### Key Concall Highlights

- Additional provision worth Rs. 252mn for Manappuram standalone business and Rs. 550 mn for Asirvaad on account of COVID-19.
- Moratorium: Only 100 gold loan customers and 10% of Vehicle Finance customers have applied for moratorium as of Mar'20.
- Cash and cash equivalent as of April is Rs. 25250 mn and Rs. 15180 mn worth of undrawn lines of credit.
- Company has CP maturing in next two months' worth Rs. 18000 mn. Already completed borrowing worth Rs. 13000 mn and completed first transaction of TLTRO of Rs. 1000 mn.
- Opex has come down to 6.8% from 7.6% in Q3FY20 on the back of lower security cost. Company expects to moderate it further.
- MGFL expects 10% loan growth for FY21.
- Online Gold Loan as of FY20 is 48% which has increased in April to 61%. MGFL expects it to increase to 70% by FY21.
- Total O/S to MSMEs as of FY20 is Rs. 2274 mn (1% of total AUM).
- Out of Rs.13444 mn VF portfolio, Rs. 3000mn is 2W portfolio. VF portfolio consists customers with 1 or 2 vehicles, more of a retail portfolio. 70% collection is done online.
- MFI: Has not disburse any loans in past two months. Expects normal disbursements by Q2FY21. 0.5%-0.7% exposure cap for particular district is anticipated. 100% disbursements take place online.
- Auction worth Rs. 152 mn took place in Q4FY20.



**Income Statement (Rs. m)**

Y/e Mar	FY19	FY20	FY21E	FY22E
Int. Inc. / Opt. Inc.	41,594	54,465	58,815	67,400
Interest Expenses	13,449	18,322	23,219	27,081
<b>Net interest income</b>	<b>28,145</b>	<b>36,142</b>	<b>35,596</b>	<b>40,319</b>
Growth(%)	18.1	28.4	(1.5)	13.3
Non-interest income	826	1,047	2,481	2,832
Growth(%)	26.5	26.8	137.0	14.1
Net operating income	28,971	37,190	38,078	43,151
<b>Expenditures</b>				
Employees	7,201	8,301	9,744	10,906
Other Expenses	5,904	4,797	7,434	7,096
Depreciation	752	1,642	807	900
Operating Expenses	13,106	13,099	17,178	18,002
<b>PPP</b>	<b>15,113</b>	<b>22,449</b>	<b>20,093</b>	<b>24,249</b>
Growth(%)	24.5	48.5	(10.5)	20.7
Provisions	547	2,376	4,100	1,775
<b>Profit Before Tax</b>	<b>14,566</b>	<b>20,073</b>	<b>15,993</b>	<b>22,474</b>
Tax	5,080	5,270	4,017	5,645
Effective Tax rate(%)	34.9	26.3	25.1	25.1
<b>PAT</b>	<b>9,485</b>	<b>14,803</b>	<b>11,975</b>	<b>16,829</b>
Growth(%)	40.3	56.1	(19.1)	40.5

**Balance Sheet (Rs. m)**

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Source of funds</b>				
Equity	1,686	1,690	1,686	1,686
Reserves and Surplus	43,781	55,771	58,705	71,034
Networth	45,466	57,461	60,391	72,720
Growth (%)	18.3	26.4	5.1	20.4
Loan funds	1,52,972	2,18,167	2,67,729	3,12,785
Growth (%)	(3.1)	42.6	22.7	16.8
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	2,281	5,162	4,457	9,647
Other Liabilities	3,278	8,137	6,444	13,722
<b>Total Liabilities</b>	<b>2,04,457</b>	<b>2,89,510</b>	<b>3,39,802</b>	<b>4,10,118</b>
<b>Application of funds</b>				
Net fixed assets	3,675	390	1,551	607
Advances	1,78,654	2,31,892	2,81,726	3,27,858
Growth (%)	(3.3)	29.8	21.5	16.4
Investments	1,738	901	1,790	1,825
Current Assets	14,869	40,637	45,882	69,136
<b>Net current assets</b>	<b>12,588</b>	<b>35,475</b>	<b>41,425</b>	<b>59,489</b>
Other Assets	5,522	8,019	8,852	10,693
<b>Total Assets</b>	<b>2,04,457</b>	<b>2,89,510</b>	<b>3,39,802</b>	<b>4,10,118</b>
Growth (%)	1.5	41.6	17.4	20.7
<b>Business Mix</b>				
AUM	1,94,384	2,52,252	2,81,425	3,27,555
Growth (%)	23.3	29.8	11.6	16.4
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

**Profitability & Capital (%)**

Y/e Mar	FY19	FY20	FY21E	FY22E
NIM	16.0	16.2	13.3	13.2
ROAA	4.6	5.9	3.7	4.4
ROAE	22.4	28.5	20.0	24.6

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Int. Inc. / Operating Inc.	11,440	12,445	13,567	14,719
Income from securitization	-	-	-	-
Interest Expenses	3,800	4,249	4,465	5,808
<b>Net Interest Income</b>	<b>7,640</b>	<b>8,196</b>	<b>9,102</b>	<b>8,911</b>
Growth (%)	23.3	21.6	29.8	26.1
Non-Interest Income	407	896	576	1,462
<b>Net Operating Income</b>	<b>8,047</b>	<b>9,092</b>	<b>9,677</b>	<b>10,374</b>
Growth (%)	23.3	28.0	29.6	31.8
Operating expenditure	3,538	3,654	3,742	3,807
<b>PPP</b>	<b>4,510</b>	<b>5,438</b>	<b>5,935</b>	<b>6,567</b>
Growth (%)	-	-	-	-
Provision	365	293	491	1,226
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	4,144	5,144	5,444	5,341
Tax	1,422	1,068	1,421	1,359
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	34.3	20.8	26.1	25.4
<b>PAT</b>	<b>2,722</b>	<b>4,077</b>	<b>4,022</b>	<b>3,982</b>
Growth	36	82	63	44
AUM	2,01,859	2,26,769	2,40,999	2,52,252
YoY growth (%)	21.5	31.9	35.5	29.8
Borrowing	1,61,662	1,83,462	1,97,813	2,18,167
YoY growth (%)	20.3	30.8	38.7	42.6

**Key Ratios**

Y/e Mar	FY19	FY20	FY21E	FY22E
CMP (Rs)	123	123	123	123
EPS (Rs)	11.2	17.4	14.0	19.4
Book value (Rs)	53.9	68.2	71.7	86.3
Adj. BV(Rs)	54.1	67.3	70.0	84.7
P/E(x)	11.0	7.1	8.8	6.3
P/BV(x)	2.3	1.8	1.7	1.4
P/ABV(x)	2.3	1.8	1.8	1.5
DPS (Rs)	2.2	2.9	4.0	4.8
Dividend Payout Ratio(%)	-	-	-	-
Dividend Yield(%)	1.8	2.4	3.3	3.9

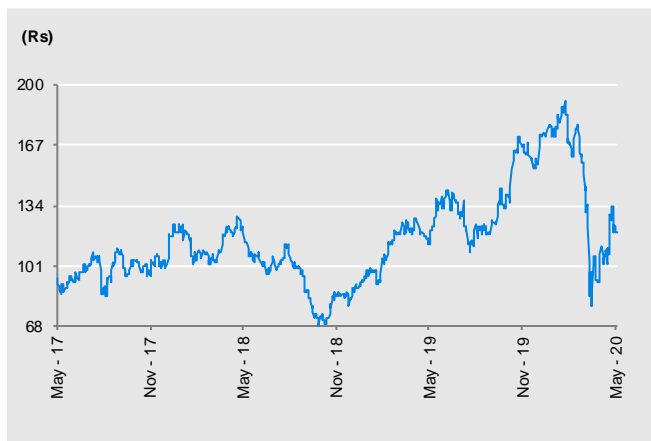
**Asset Quality**

Y/e Mar	FY19	FY20	FY21E	FY22E
Gross NPAs(Rs m)	1,227	2,006	5,131	5,224
Net NPA(Rs m)	(170)	709	1,388	1,354
Gross NPAs to Gross Adv.(%)	0.6	0.9	1.8	1.6
Net NPAs to net Adv.(%)	(0.1)	0.3	0.5	0.4
NPA coverage(%)	113.8	64.6	72.9	74.1

**Du-Pont as a % of AUM**

Y/e Mar	FY19	FY20	FY21E	FY22E
NII	14.5	14.3	12.6	12.3
NII INCL. Securitization	14.5	14.3	12.7	12.3
Total income	14.9	14.7	13.5	13.2
Operating Expenses	6.7	5.2	6.1	5.5
PPOP	8.2	9.6	7.4	7.7
Total Provisions	0.3	0.9	1.5	0.5
RoAA	5.3	6.5	4.6	5.4
Avg. Assets/Avg. net worth	4.8	4.8	5.3	5.6
RoAE	22.4	28.5	20.0	24.6

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	17-Apr-20	Accumulate	130	108
2	29-Jan-20	Accumulate	202	189
3	03-Jan-20	Accumulate	195	177
4	30-Dec-19	Accumulate	195	176

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,582	2,308
2	Cholamandalam Investment and Finance Company	BUY	229	177
3	HDFC	Accumulate	2,201	1,681
4	L&T Finance Holdings	Sell	64	66
5	LIC Housing Finance	Reduce	282	278
6	Mahindra & Mahindra Financial Services	Reduce	229	180
7	Manappuram Finance	Accumulate	130	108
8	SBI Cards and Payment Services	BUY	643	562
9	Shriram Transport Finance	BUY	940	802

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly





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### (Indian Clients)

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