9 August 2016

1QFY17 Result Update | Sector: NBFC

Manappuram Finance

BSE SENSEX	S&P CNX
28085	8678
Equity Shares (cr)	84.0
52-Week Range (Rs)	92/20
1,6,12 Abs.Perf.(%)	17/215/245
M.Cap. (Rs cr)	7,308
M.Cap. (US$ b)	109

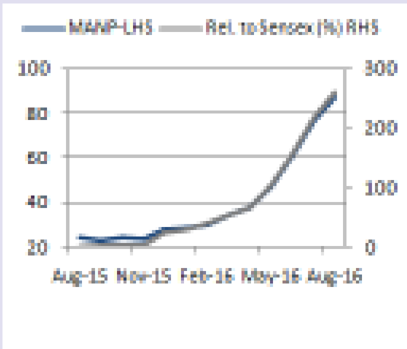
CMP: INR87 TP: INR114 (+31%) BUY

YEAR END	NET INC (INRCr)	PAT (INRCr)	EPS (INRCr)	EPS Gr.(%)	PE (X)	ABV (INR)	P/ABV (X)	ROAA (%)	ROAE (%)
FY16	1426	353	4.2	30	20.7	32.0	2.6	3.0	12.8
FY17E	2071	681	8.1	93	10.7	37.2	2.3	4.9	22.4
FY18E	2427	862	10.3	27	8.5	43.9	1.9	5.0	24.1

Result Highlights: Strong beat on all counts; Loan growth accelerates to 29%; PAT grows 170%

- Manappuram's Net Income at INR 486cr grew by 59% YoY on the back of 29% growth in AUM. NIMs expanded 370bp YoY / 40bp QoQ as (i) the company suffered severe auction losses in 1QFY16, (ii) company shifted its entire incremental advances towards the three month product which commands a higher yield. Further, lower OPEX growth of 8% aided Pre Provisioning Profits to come in at INR 266cr, an increase of 156% YoY. Provisioning increased from INR 12cr to INR 16cr on YoY basis. Consequently profits grew by a robust 170% to INR 160cr, much above our estimate of INR 128cr.
- During the quarter, Manappuram's GNPAs fell to 0.8% of AUM v/s 1.0% QoQ (multi year lows) despite shifting to 90 days recognition, well in advance of RBI norms which require 120 days for the current fiscal year.
- Manappuram received a credit rating upgrade in 1QFY17, which, combined with a shift in funding mix towards NCDs/CPs should lower cost of funds. The share of NCDs and CPs stood at 25% as on 1QFY17 against 17% in 1QFY16.

INRCr	1QFY16	4QFY16	1QFY17	YoY	QoQ	FY16	FY17	YoY
Interest Income	538	650	743	38	14	2,349	3,139	34
Interest Expense	236	236	265	12	12	947	1,099	16
Net Interest Income	302	415	478	59	15	1,402	2,040	46
Net Income	305	420	486	59	16	1,426	2,071	45
Operating Expenses	201	206	220	9	7	836	958	15
Operating Profit	104	214	266	156	24	591	1,113	88
Provisions	12	13	16	29	25	42	70	66
Profit Before Tax	92	202	250	173	24	548	1,042	90
Tax Provisions	32	68	89	178	30	193	354	83
Net Profit	60	133	161	170	21	355	688	94
Loan Growth (%)	23	19	29			20	27	
NIMs (%)	12.2	15.5	15.9			13.2	15.6	
C/I Ratio (%)	66	49	45			59	46	
Gross NPAs (%)	1.0	1.0	0.8			1.0	0.9	
ROE (%)	9.0	19.0	22.0			12.8	22.4	
ROA (%)	2.0	4.2	4.7			3.0	4.9	



Valuation and view

- Manappuram is today geared up to tap financing opportunities across the spectrum and has realigned its business model to derisk it from volatility in gold prices as well as to sustainably grow its AUM at over 20% in coming years. This shall be achieved by: (i) Focusing more on shorter term products (3 months) which eliminates the risk of any steep fall gold prices impacting the company; (ii) Adopted push approach instead of pull earlier by reaching out to customers through enhanced marketing and branch activation efforts and linked employee incentives to sourcing business, timely recovery and default rates; (iii) Foray into synergistic non-gold businesses - Microfinance, Home Loans and CV Loans (to form 25% of AUm by FY18 from 12% in FY16. Company aspires to reduce its good AUM to less than 50% of the total AUM by focusing on growing its Microfinance AUM to 20% of total and Home Loans AUM to 30% of total in the long run.
- Improvement in NIMs and a fall in cost/income ratio should result in strong expansion of ROA/ROE from 3%/12.8% in FY16 to 4.9%/22.4% in FY17E. We expect Manappuram to deliver PAT growth of 93%/27% in FY17E/18E. We value the standalone business at 2.5x FY18 ABV (lower than our average target P/B of 3x for asset financiers like MMFS, CHOLA and SHTF having inferior return ratios and asset quality); the microfinance business at 3.6x FY18E ABV (20% discount to our target multiple for SKSM) and housing finance business at 2.5x FY18 ABV (at 25% discount to industry). Consequently, our SOTP value for the company is at INR 114 (earlier INR 75).

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