

## MANAPPURAM FINANCE

NBFC

### Q2FY17: Strong AUM growth & lower opex expenses boosted profitability

Manappuram Finance (MGFL) reported PAT growth of 205% YoY at Rs 192 cr which was led by healthy NII growth backed by strong advance growth and improvement in NIMs. MGFL, AUM growth for Q2FY17 was at 42% at Rs 14,500 cr, management maintained its guidance to take non gold portfolio to 25% (currently 15%) of AUM by FY18. MGFL's NII during the quarter was up by 78% at Rs 543 cr led by 42% YoY AUM growth and improvement in margins by 380bps YoY to 15.8%. With 16% YoY increase in operating expenses as against 78% YoY increase in NII resulted in decrease in opex to AUM to 6.9% from 8.2% YoY (7.3% QoQ). MGFL's cost of funds declined by 100bps YoY to 10.1% due to lower cost of funds from banks as well as mutual funds which resulted in increase in margins. Asset quality improved with auctions came down to Rs.23 cr in Q2 FY17 as against Rs.37 cr in Q1 FY17.

### Valuations

MGFL believes that the de-monetization scheme will lead Unorganized gold loans to shift towards the organized segment. Also, 2/3rd of customers have already moved to online gold product facility making the demonetization impact negligible. The impact of demonetization is expected to be visible in Q3 FY17 for atleast for 10-12 days which should impact both disbursements (although 50% are disbursed through NEFT/online) as well as collections. *We thus expect 3Q to be a soft quarter, however long term prospects remains intact.* We value MGFL at FY18E P/BV multiple of 2.5x to arrive at target price of Rs.102 and continue to have **BUY** rating.

### Key Highlights

- **Strong AUM growth led by non gold portfolio:** AUM grew strongly by 42% YoY (11% QoQ) to Rs.14,500 cr led by non gold portfolio which resulted a increase in proportion of non gold portfolio to 15% of AUM as against 7% YoY. Within non gold portfolio, microfinance segment grew by 27% QoQ to Rs.1570 cr. Management targets non gold portfolio proportion of AUM to reach 25% by FY18.
- **Higher yields boost margins:** Yields improved to 24.5% in Q2FY17 as against 21.8% YoY which in turn boosted the margins to 15.8% (12% in Q2FY16). Moreover, the benefits accruing from falling interest rate scenario with 74% of borrowings from banking as well increase in proportion from market instruments also supported the margins momentum with cost of funds declining to 10.1% in Q2FY17 from 11.1% in Q2FY16 (and 10.4% in Q1FY17).

### 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 (%)
2014	1,049	226	2.7	8	29.7	8.0	0.7	9.2	1.9	1.0
2015	1,091	271	3.2	20	31.3	10.2	1.0	10.6	2.4	0.9
2016	1,402	353	4.2	31	32.8	8.3	1.1	11.2	2.9	0.9
2017E	1,800	513	6.1	45	36.1	12.8	2.2	16.2	3.4	0.9
2018E	2,307	724	8.6	41	40.9	9.1	1.9	18.8	3.6	0.8

Source: Company and Axis Securities

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**BUY**

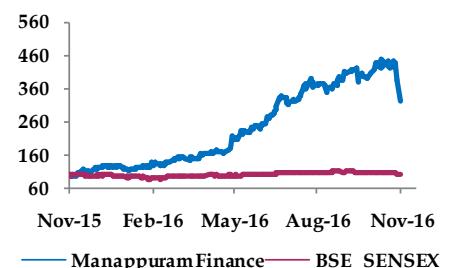
Target Price: Rs 102

 CMP : Rs 78  
 Potential Upside : 31%

#### MARKET DATA

No. of Shares	: 84.12 cr
FV (Rs)	: 2
Market Cap	: Rs 6,540 cr
52-week High / Low	: Rs 107 / Rs 22
Avg. Daily vol. (6mth)	: 33,47,843 shares
Bloomberg Code	: MGFL IN
Reuters Code	: MNFL.BO
BSE Code	: 531213
NSE Code	: MANAPPURAM

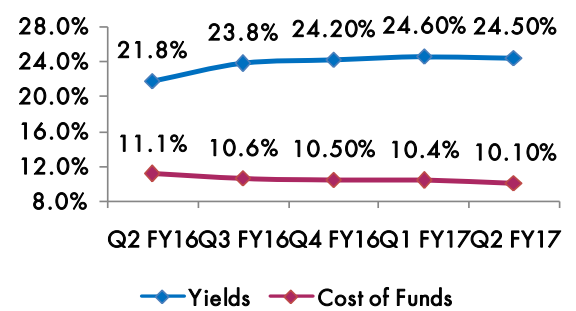
### PRICE PERFORMANCE



## Key Highlights

- Asset quality stable; Healthy CAR for future growth:** GNPA % remains stable to 0.9% in Q2 FY17 although company moved to reporting of NPA on 90dpd basis. Also, NPAs are predominantly technical in nature. With stressed legacy gold portfolio of higher tenure along with higher LTV stands cleansed, the gold auctions have come down to Rs.23 cr in Q2FY17 as against Rs.37 cr in Q1 FY17. Thus we expect asset quality to remain stable going forward. CAR at 22% as against regulatory requirement of 15% should augment its AUM growth plans going ahead.

## Yields↑ ; Cost of funds↓



## Results Update

Fig in Rs.Cr	Quarterly					Yearly			
	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	FY16	FY17E	FY18E	2 Yr CAGR (%)
Interest earned	839	548	53	743	13	2349	2936	3670	25.0
Interest expenses	296	242	22	265	12	947	1136	1363	20.0
<b>NII</b>	<b>543</b>	<b>306</b>	<b>78</b>	<b>478</b>	<b>14</b>	<b>1402</b>	<b>1800</b>	<b>2307</b>	<b>28.3</b>
Other Operating Income	3	4	-35	3	5	11	7	8	-14.7
<b>Total Income</b>	<b>546</b>	<b>310</b>	<b>76</b>	<b>481</b>	<b>14</b>	<b>1413</b>	<b>1807</b>	<b>2315</b>	<b>28.0</b>
Operating expenses	240	207	16	220	10	834	984	1161	18.0
- Advertisement expenses	17	15	18	10	68	57	70	98	31.1
- Depreciation	16	13	16	15	1	56	62	65	7.7
- Staff expenses	132	105	25	121	9	433	534	654	22.9
- Other expenses	76	74	3	73	4	288	318	344	9.3
<b>Operating Profit (PPOP)</b>	<b>306</b>	<b>104</b>	<b>195</b>	<b>262</b>	<b>17</b>	<b>579</b>	<b>823</b>	<b>1154</b>	<b>41.2</b>
Provisioning & Cont.	18	8	132	16	10	42	54	65	24.4
Other Income	7	4	64	5	44	14	16	20	19.5
<b>PBT</b>	<b>295</b>	<b>100</b>	<b>195</b>	<b>250</b>	<b>18</b>	<b>551</b>	<b>785</b>	<b>1109</b>	<b>41.9</b>
Tax	102	36	179	89	14	196	267	377	38.7
<b>PAT</b>	<b>194</b>	<b>64</b>	<b>204</b>	<b>161</b>	<b>20</b>	<b>355</b>	<b>518</b>	<b>732</b>	<b>43.6</b>
<b>Minority Interest</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>16</b>	<b>2</b>	<b>5</b>	<b>8</b>	<b>100.0</b>
<b>Adj. PAT</b>	<b>192</b>	<b>63</b>	<b>205</b>	<b>160</b>	<b>20</b>	<b>353</b>	<b>513</b>	<b>724</b>	<b>43.2</b>
EPS (Rs)	2.3	0.8	204	1.9	20	4.2	6.1	8.6	43.1
BVPS (Rs)	36.4	31.7	15	34.7	5	32.8	36.1	40.9	11.7
NIMs (%)	15.8	12.4	-	15.9	-	12.7	12.5	12.5	-
CAR (%)	21.8	25.3	-	22.3	-				
Total AUM (Rs. Cr)	14500	10220	42	13014	11	11374	13565	16281	19.6
Gold Portfolio (Rs. Cr)	12383	9524	30	11345	9	10331	11571	12960	12.0
Non-Gold Portfolio (Rs. Cr)	2117	696	204	1669	27	1042	1993	3321	78.5
Borrowings (Rs. Cr)	12226	8767	39	11078	10	10054	12005	14510	20.1
Opex/AUM %	6.9	8.2	-	7.3	-	8.1	7.7	7.5	
<b>RoA %</b>	<b>5.1</b>	<b>2.1</b>	<b>-</b>	<b>4.7</b>	<b>-</b>	<b>2.9</b>	<b>3.4</b>	<b>3.6</b>	
<b>RoE %</b>	<b>23.5</b>	<b>9.5</b>	<b>-</b>	<b>22.0</b>	<b>-</b>	<b>11.2</b>	<b>16.2</b>	<b>18.8</b>	
GNPA %	0.9	1.0	-	0.8	-	1.1	1.1	1.1	
NNPA %	0.7	0.8	-	0.6	-	0.9	0.9	0.9	
Branches (No.)	3293	3293	-	3293	-				
<b>Gold (in tons)</b>	<b>65.9</b>	<b>57.3</b>	<b>15</b>	<b>63.3</b>	<b>4</b>				
Loan per gram Rs.	1879	1662	13	1792	5				
Gold loan per branch Rs. Cr	3.8	2.9	30	3.4	9				

Source: Company and Axis Securities

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<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%

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