

# Manappuram Finance Ltd.: Q2FY18 Result Update

CMP INR 99

Target INR 118

Rating: BUY

Upside: 19%

Date: 7<sup>th</sup> November 2017

## MFI pain bottoms, Gold AUM decline arrested

Manappuram Finance (MFL) reported Q2FY18 results with the broad takeaway being that this is the last quarter of significant provisions on MFI book and Asirvad MFI is, now, poised to deliver a materially better (and profitable) H2FY18 compared with a loss-making H1FY18. Flattish Gold Loan AUM growth of 0.3% qoq is a near-term concern but still an improvement over the -13% absolute fall that took place over Q3FY17-Q1FY17. Management is confident of c.15% Gold Loan AUM growth over the long term. For Q2FY18, Nil grew 2% qoq, Provisions (other than Tax) de-grew -43% qoq while PAT grew 3% qoq to INR 160 cr. MFL remains a stock with one of the greatest disconnect between FY19E P/B of 1.6x and prospective FY18E-20E RoE of 21-24% and we strongly re-iterate our BUY Rating on the stock.

### Provisions on MFI book narrow from INR 72 cr to INR 38 cr qoq. Residual provisions of INR 15-20 cr remain, portending profitable H2FY18 for Asirvad

Provisions for Asirvad Microfinance narrowed from INR 72 cr in Q1FY18 to INR 38 cr in Q2FY18 with management confident of returning to profitability in H2FY18. Asirvad continues to follow a conservative provisioning policy of 100% provisions for loans 120 dpd and 50% for loans between 90-120 dpd. RBI requires 50% provisions for loans 90 dpd but requires 100% provisioning only if loans are 180 dpd (loss assets) and Asirvad has provided INR 27 cr in excess of this RBI requirement in Q2FY18. Management expects INR 15-20 cr residual provisions on legacy stressed book.

### Gold Loan AUM has inched up 0.3% qoq as compared to a -13% decline over Q3FY17-Q1FY18. Management reiterates c.15% growth outlook for Gold Loans

After declining -13% over Q3FY17 to Q1FY18, Gold Loan AUM inched up 0.3% qoq in Q2FY18. Gold Loan business, like Microfinance, is a significantly bottom-of-the-pyramid business that was laid low by the disruption of the unorganised sector due to Demonetisation, GST, general rural distress and drought in parts of south India. This is the first sign of recovery, albeit modest but augurs well for the future. Management reiterated c.15% growth outlook for Gold Loan AUM.

### Cost of Borrowings continues to fall with changes in Liability Mix. Upgrade in Credit Rating an incremental fillip in this regard

Cost of Borrowings fell from 10.1% in Q2FY17 to 8.8% in Q2FY18 on the back of significant changes in Liability mix. Bank Finance now comprises 41% of Funding mix compared with 62% in Q2FY17. On the other hand, funding from Debt Capital Markets (NCD, CP) rose from 37% in Q2FY17 to 59% in Q2FY18. Incremental Cost of Borrowings stood at 8.3%, pointing to further fall in CoB. Credit Rating upgrade to AA from CARE also augers well in this regard.

### Traction in Non-Gold Loan AUM significant, which underlines Manappuram has several arrows in its quiver

Overall AUM growth was 2.6% qoq, driven by 22% growth qoq in Vehicle Finance (3.1% of Group AUM), 7.5% in Microfinance (14% of Group AUM) and 2.1% growth qoq in Housing Finance (2.4% of Group AUM). Notably, Vehicle Finance is carried out from existing Gold Loan branches and has a current average yield of 17.7%. The Housing Finance business has an average yield of 15.2%. Overall, Non-Gold Loan AUM now forms 22% of Group AUM.

### Valuation and Rating: Maintain 'BUY' with Price Target of INR 118

At the current price of INR 99.1, MFL trades at a P/B of 1.6x FY19E book for an FY18E-20E RoE of 21-24%. We strongly reiterate 'BUY' Rating with PT of INR 118.

Standalone (INR cr)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	1103	1329	2004	2241	2541	2940
Profit After Tax	271	337	726	905	1044	1239
Basic EPS	3.22	4.01	8.63	10.75	12.40	13.08
P/E	30.8	24.7	11.5	9.2	8.0	7.6
Book value per share	31.2	32.5	39.3	50.1	62.5	62.2
P/B	3.2	3.0	2.5	2.0	1.6	1.6
Return on Average Equity	10.6%	12.6%	24.0%	24.1%	22.0%	21.0%

Bloomberg:	MGFL:IN
52-week range (INR):	112.50 / 57.80
Share in issue (cr):	84.2
M cap (INR cr):	8,571
Avg. Daily Vol. BSE/NSE :( <sup>'000</sup> ):	3557
Promoters (%)	34.45

**Q2FY18 Result Highlights**

Quarterly P&L (INR cr)	Q2FY18	Q2FY17	YoY%	Q1FY18	QoQ%
Net Interest Income	586	546	7%	575	2%
Other Income	8	7	21%	24	-66%
Total Income	594	553	7%	598	-1%
Operating Expenses	306	240	27%	284	8%
Pre Provisioning Operating Profit	288	313	-8%	315	-9%
Provisions (other than Tax)	46	18	162%	81	-43%
Profit before Tax	242	295	-18%	234	3%
Tax	82	102	-19%	81	1%
PAT before Minority Interest	159	194	-18%	153	4%
Minority Interest	-1	1	-177%	-3	-66%
PAT	160	192	-17%	155	3%

### Key Con Call Highlights (containing key information incremental to first page)

- The LTV (Loan to Value) Ratio for Gold Loans has been kept conservative at 65%.
- Online Gold Loans continues to see traction with proportion rising to 17% of Gold Holdings.
- Collection Efficiency of 'new book' in MFI business (created in the new year) is c.99%.
- Size of the 'new book' in MFI business is INR 1640 cr of the total MFI book of INR 1980 cr.
- Un-provisioned Portfolio at Risk is INR 126 cr but, of this, residual provisions of INR 15-20 cr is expected in H2FY18.
- Major write-offs on MFI book came from Karnataka. Some from Haryana and UP.
- GNPA Ratio in the Housing Loan book is c.3%. This is expected to fall to c.2% soon.
- Growth in the Housing Loan book was affected due to the departure of the respective CEO but this has been addressed.
- Pace of rise in Opex will reduce going forward for overall business.
- Auctions in the Gold Loan business were to the tune of INR 200 cr. This is expected to fall going forward.
- Rough breakdown of Gold Loan purpose is one-third each for Agri, Small business and Consumption.
- Daughter of promoter (with education in Medicine) and two sons of promoter (both educated Business Administration) inclined to run Manappuram Finance and all are currently working to help run the company.

## Financials

### Income statement (INR cr) - Standalone

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Interest income	2,213	3,007	3,256	3,758	4,340
Interest charges	884	1,003	1,015	1,218	1,400
Net interest income	1,329	2,004	2,241	2,541	2,940
Other income	4	1	1	2	2
Net revenues	1,334	2,006	2,243	2,542	2,942
Operating expense	782	835	894	993	1,105
- Employee exp	399	421	463	509	560
- Depreciation / amortisation	53	58	54	59	65
- Other opex	330	357	378	425	480
Preprovision op. profit	551	1,170	1,349	1,549	1,837
Provisions	32	56	56	58	67
PBT	519	1,115	1,293	1,491	1,770
Taxes	182	389	388	447	531
PAT	337	726	905	1,044	1,239
Extraordinaries	0	0	0	0	1
Reported PAT	337	726	905	1,044	1,238
Basic number of shares (cr.)	84.1	84.1	84.2	84.2	94.7
Basic EPS (INR)	4.01	8.63	10.75	12.40	13.08
Diluted number of shares (cr.)	84.1	84.1	84.2	84.2	94.7
Diluted EPS (INR)	4.01	8.63	10.75	12.40	13.08

### Balance sheet (INR cr) - Standalone

As on 31st March	FY16	FY17	FY18E	FY19E	FY20E
Share capital	168	168	168	168	210
Reserves and surplus	2,569	3,142	4,047	5,091	6,330
<b>Shareholders' funds</b>	<b>2,737</b>	<b>3,311</b>	<b>4,216</b>	<b>5,260</b>	<b>6,540</b>
Long-term borrowings	1,115	1,953	2,246	2,583	2,970
Other long term liabilities	124	113	119	125	131
<b>Non-current liabilities</b>	<b>1,239</b>	<b>2,066</b>	<b>2,365</b>	<b>2,708</b>	<b>3,101</b>
Short-term borrowings	6,767	6,256	7,194	8,273	9,515
Trade Payables	23	69	72	76	79
Other current liabilities	1,078	1,344	1,209	1,046	729
Short-term provisions	67	101	106	112	117
<b>Current liabilities</b>	<b>7,935</b>	<b>7,769</b>	<b>8,582</b>	<b>9,506</b>	<b>10,440</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>11,911</b>	<b>13,146</b>	<b>15,163</b>	<b>17,474</b>	<b>20,082</b>
Fixed assets	190	179	197	217	238
Non-current investments	324	324	421	548	712
Deferred tax assets (net)	39	56	72	94	122
Long-term loans and advances	210	272	313	360	414
Other non current assets	98	78	82	86	91
<b>Non-current assets</b>	<b>861</b>	<b>910</b>	<b>1,086</b>	<b>1,305</b>	<b>1,578</b>
Current investments	0	0	0	0	0
Cash and bank balances	492	412	432	454	477
Short-term loans and advance	10,179	11,496	13,221	15,204	17,484
Other current assets	379	329	423	511	543
<b>Current assets</b>	<b>11,050</b>	<b>12,237</b>	<b>14,076</b>	<b>16,168</b>	<b>18,504</b>
<b>TOTAL ASSETS</b>	<b>11,911</b>	<b>13,146</b>	<b>15,163</b>	<b>17,474</b>	<b>20,082</b>

### RoE Decomposition

Year to March	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Net Interest Income / Assets	9.7%	11.2%	15.2%	14.8%	14.5%	14.6%
Other Income / Assets	0.05%	0.04%	0.01%	0.01%	0.01%	0.01%
Net Revenues / Assets	9.8%	11.2%	15.3%	14.8%	14.5%	14.6%
Operating Expense / Assets	5.9%	6.6%	6.4%	5.9%	5.7%	5.5%
Provisions / Assets	0.2%	0.3%	0.4%	0.4%	0.3%	0.3%
Taxes / Assets	1.3%	1.5%	3.0%	2.6%	2.6%	2.6%
Total Costs / Assets	7.4%	8.4%	9.7%	8.8%	8.6%	8.5%
Return on Assets	2.4%	2.8%	5.5%	6.0%	6.0%	6.2%
Assets / Equity	4.4	4.0	3.6	3.3	3.1	2.9
Return on Equity	10.4%	11.2%	19.9%	19.8%	18.3%	17.9%

### Valuation Metrics

Year to March	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Basic EPS	3.2	4.0	8.6	10.8	12.4	13.1
EPS growth	20%	25%	115%	25%	15%	6%
Book value per share	31.2	32.5	39.3	50.1	62.5	62.2
Basic P/E	30.8	24.7	11.5	9.2	8.0	7.6
Price - to - Book	3.2	3.0	2.5	2.0	1.6	1.6

### Growth Ratios

Year to March	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Nil growth	3%	20%	51%	12%	13%	16%
Net Revenues growth	2%	20%	50%	12%	13%	16%
Opex growth	-4%	17%	7%	7%	11%	11%
PPOP growth	13%	25%	112%	15%	15%	19%
Provisions growth	-41%	18%	71%	0%	5%	15%
PAT growth	20%	25%	115%	25%	15%	19%

### Operating Ratios

Year to March	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Yield on IEA	22.2%	21.9%	26.4%	25.0%	25.0%	25.0%
Cost of Funds	12.9%	12.0%	12.5%	11.5%	12.0%	12.0%
Spread	9.3%	9.9%	13.9%	13.5%	13.0%	13.0%
Net Interest Margin	12.4%	13.1%	17.6%	17.2%	16.9%	16.9%
Cost to Income Ratio	60%	59%	42%	40%	39%	38%
Tax Rate	34%	35%	35%	30%	30%	30%

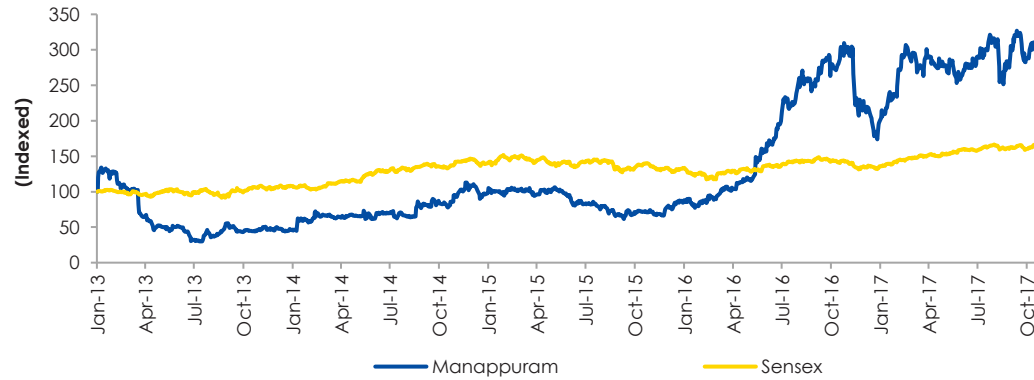
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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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