

Manappuram Finance

Estimate change

TP change

Rating change



Bloomberg	MGFL IN
Equity Shares (m)	846
M.Cap.(INRb)/(USDb)	121 / 1.6
52-Week Range (INR)	224 / 139
1, 6, 12 Rel. Per (%)	-7/-15/-28
12M Avg Val (INR M)	1056

Financials & Valuations (INR b)

Y/E March	FY22E	FY23E	FY24E
NII	38.8	46.6	54.4
PPP	22.6	28.1	33.3
PAT	13.6	17.7	21.4
EPS (INR)	16.1	21.0	25.2
EPS Gr. (%)	-20.9	30.0	20.4
BV/Sh.(INR)	99	117	137
Ratios			
NIM (%)	13.5	14.0	14.2
C/I ratio (%)	45.2	43.0	42.1
RoA (%)	4.1	4.8	5.1
RoE (%)	17.4	19.4	19.9
Payout (%)	18.6	18.0	18.0
Valuations			
P/E (x)	8.9	6.8	5.7
P/BV (x)	1.4	1.2	1.0
Div. Yld. (%)	2.1	2.6	3.2

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	35.1	35.1	35.0
DII	14.3	13.4	9.2
FII	34.8	34.9	39.5
Others	15.8	16.6	16.3

FII Includes depository receipts

CMP: INR143
TP: INR170 (+19%)
Buy

Below estimates led by higher opex and lower spreads

In the last two quarters, MGFL traded off margin/spreads for Gold loan growth. This new business strategy helped it cover a lot of lost ground in terms of market share, with a cumulative Gold loan growth of ~24% over 2Q and 3QFY22. This new strategy also meant: a) elevated advertising/promotion costs and incentives for employees translating in higher operating expenses, and b) compression in spreads to ~11.5% v/s 14.5-15% under its earlier high yielding business model. At this juncture, MGFL can neither afford such high operating expenses, nor can it cut yields further to match the competition. The natural outcome of this will be a near-term moderation in Gold loan growth for MGFL.

- MGFL reported a consolidated PAT (24% miss) of INR2.6b, down 46% YoY and 29% QoQ. NII fell 7% QoQ to INR9.15b (in line), driven by a sharp compression in spreads.
- Credit costs remained elevated in its MFI subsidiary due to the residual impact of the second COVID wave. We expect credit costs to now moderate from 4QFY22 onwards.
- There has been a structural compression in spread/margin in the last two quarters, but MGFL seems to be betting on an improvement in cost ratios and leverage, led by a strong growth in AUM.
- MGFL has exhausted both the levers of higher advertising/promotion expenses and spread compression to turbocharge its Gold loan growth. We now expect a Gold loan growth of ~10% for MGFL in FY22E and 15%/12% CAGR in consolidated /Gold loan AUM over FY22-24E.
- We have cut our FY23E/FY24E EPS estimate by 18%/19% to factor in a compression in spreads and lower loan growth. We believe the risk-reward for MGFL is still favorable at 1x FY24 P/BV for a consolidated RoA/RoE of 5.1%/20%. We maintain our **Buy** rating with a TP of INR170/share (based on 1.2x FY24E consolidated BVPS).

Healthy sequential growth in Gold loans, but MFI AUM declines QoQ

- Gold AUM rose 9% QoQ to INR204.5b. Gold tonnage grew 7% QoQ to 69.4t.
- Within Gold loans, LTV declined by 200bp QoQ to 65%, while average ticket size (ATS) rose to INR53k (v/s INR46k YoY and INR48k QoQ), driven by the healthy acquisition of higher ticket Gold loan customers.
- MFI AUM declined by 4% QoQ, led by caution in disbursements in 3QFY22, even as collection efficiencies have been improving in this segment.

Sharp compression in spreads/margin

- Consolidated spreads (calculated) fell 330bp YoY and 260bp QoQ, led by a sharp decline in consolidated yields to 20.1% (down 270bp QoQ). Consolidated CoB was broadly stable at 8.7% (down 10bp QoQ). Consolidated NIM fell 250bp QoQ to 12.7%.

Abhijit Tibrewal - Research Analyst (Abhijit.Tibrewal@MotilalOswal.com)

Nitin Aggarwal - Research Analyst (Nitin.Aggarwal@MotilalOswal.com)

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Highlights from the management commentary

- While demand was buoyant in Oct-Nov'21, there was a marked slowdown in Dec'21. Demand had not improved even in Jan'21.
- Gold loan growth may moderate to 1.5-2% per month in the near term since MGFL doesn't want to compete at yields of ~17% offered by the competition.
- The management expects yields to improve to 21% since it has tweaked interest rates offered across different ticket sizes.

Valuation and view

- MGFL has traded off spreads/margin to demonstrate a higher sequential growth in Gold loans in 2Q/3QFY22. It has transformed its business model and at the end of this glide path, we expect a sustainable medium-term RoA/RoE profile to emerge.
- The demand environment in Gold loans is not very buoyant, and the management has clearly articulated that it does not wish to pursue growth at the cost of a further compression in spreads. We model consolidated AUM/PAT CAGR of ~15%/~25% over FY22-24E.
- We believe the risk-reward for MGFL is still favorable at 1x FY24 P/BV for a consolidated RoA/RoE of 5.1%/20%. We maintain our **Buy** rating with a TP of INR170/share (based on 1.2x FY24E consolidated BVPS).

Quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E 3QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Interest Income	14,758	15,473	15,919	15,746	15,216	14,787	14,461	14,925	61,896	59,389	14,713	-2
Interest Expenses	5,668	5,710	5,573	5,239	4,931	4,924	5,311	5,440	22,190	20,605	5,268	1
Net Interest Income	9,089	9,763	10,347	10,507	10,285	9,863	9,151	9,485	39,706	38,784	9,444	-3
YoY Growth (%)	20.3	17.4	16.2	17.9	13.2	1.0	-11.6	-9.7	15.1	-2.3	-8.7	
Other income	407	307	581	557	521	758	607	584	1,851	2,470	758	-20
Total Income	9,496	10,070	10,928	11,063	10,806	10,621	9,758	10,069	41,557	41,253	10,202	-4
Operating Expenses	3,121	3,545	3,553	3,777	3,720	4,593	5,228	5,093	13,996	18,633	4,547	15
Operating Profit	6,376	6,524	7,375	7,287	7,086	6,028	4,530	4,976	27,561	22,620	5,655	-20
YoY Growth (%)	44.5	12.9	21.2	11.0	11.1	-7.6	-38.6	-31.7	22.8	-17.9	-23.3	
Provisions	1,453	1,080	802	1,066	1,223	1,078	1,048	1,013	4,401	4,361	1,050	0
Profit before Tax	4,923	5,444	6,573	6,221	5,864	4,950	3,482	3,963	23,160	18,259	4,605	-24
Tax Provisions	1,243	1,390	1,741	1,537	1,495	1,252	872	992	5,911	4,610	1,174	-26
Net Profit	3,680	4,054	4,832	4,684	4,369	3,699	2,610	2,971	17,250	13,649	3,431	-24
YoY Growth (%)	37.9	-8.2	15.5	17.6	18.7	-8.8	-46.0	-36.6	16.5	-20.9	-29.0	
Key Ratios (%)												
Yield on loans	24.4	24.7	24.0	23.6	24.1	22.8	20.1	19.7	24.4	20.7		
Cost of funds (Cal.)	9.7	9.4	9.3	9.1	9.3	8.8	8.7	8.9	9.8	8.6		
Spreads (Cal.)	14.7	15.4	14.8	14.5	14.8	14.0	11.4	10.8	14.6	12.1		
NIM (Cal.)	15.1	15.6	15.6	15.7	16.3	15.2	12.7	12.5	15.6	13.5		
C/I ratio	32.9	35.2	32.5	34.1	34.4	43.2	53.6	50.6	33.7	45.2		
Credit Cost	2.3	1.7	1.2	1.6	1.9	1.6	1.4	1.3	1.7	1.5		
Tax Rate	25.3	25.5	26.5	24.7	25.5	25.3	25.0	25.0	25.5	25.3		
Balance Sheet parameters												
Consol. AUM (INR b)	253	269	276	272	248	284	304	317				
Change YoY (%)	25.6	18.6	14.7	7.9	-2.3	5.6	10.0	16.3				
Gold loans (INR b)	177	197	202	191	165	187	205	209				
Change YoY (%)	33.4	30.1	24.4	12.4	-6.8	-5.2	1.2	9.6				
Gold stock (t)	69	69	68	65	58	65	69					
Gold loans/branch (INR m)	50	56	57	54	47	53	58					
Consol. Borrowings (INR b)	240	247	234	227	197	250	241					
Change YoY (%)	7.0	33.6	18.2	0.6	-17.7	1.2	3.0					
Borrowings Mix (%)												
Debentures	21.0	28.0	31.0	36.0	41.0	33.9	31.5					
CPs	7.0	6.0	7.0	5.0	5.0	5.6	6.2					
WC/CC	29.0	26.0	24.0	19.0	14.0	25.4	29.9					
TL	32.0	29.0	27.0	29.0	26.0	24.2	20.9					
ECB	11.0	11.0	11.0	11.0	14.0	10.9	11.4					
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Debt/Equity ratio (x)	4.0	3.8	3.4	3.1	2.6	3.1	3.0					
Asset Quality parameters (%)												
GNPL ratio (Standalone)	1.3	1.1	1.3	1.9	2.0	1.6	1.4					
NNPL ratio (Standalone)	0.7	0.7	0.8	1.5	1.6	1.3	1.0					
Return Ratios (%)												
RoA (Rep.)	4.8	5.1	6.1	6.0	5.8	4.7	3.1					
RoE (Rep.)	25.0	26.0	29.0	26.4	23.3	18.9	12.9					

E: MOFSL estimates



Highlights from the management commentary

Business updates

- While demand was buoyant in Oct-Nov'21, there was a marked slowdown in Dec'21, given the surge in the Omicron COVID variant. Despite this impact, it has achieved good growth in business volumes.
- Demand had not improved even in Jan'21. However, the management expects the demand environment to improve as schools have now reopened and economic activity has resumed.

- MGFL has remained aggressive in advertising/publicity and offering incentives to attract high-value customers.

Gold loans

- Gold loan growth may moderate to 1.5-2% per month in the near term since MGFL doesn't want to compete at yields of ~17% offered by the competition.
- The management still has fair visibility on 15-20% Gold loan growth from FY23 onwards.
- It will maintain yields ~21% and growth will moderate over the next one-to-two quarters. The management views the rate war among NBFCs as a temporary phenomenon and expects things to improve going forward.

Operating expenses

- The majority of the increase in operating expenses is attributable to advertising and promotion expenses and is **unlikely to continue from 4QFY22 onwards**.
- There was an Impact of INR100m due to higher depreciation costs and **advertising/promotion expenses, which stood at INR510m in 3QFY22**
- The incentive structure of employees has been moderated, and the business will see reasonable growth.

MFI business

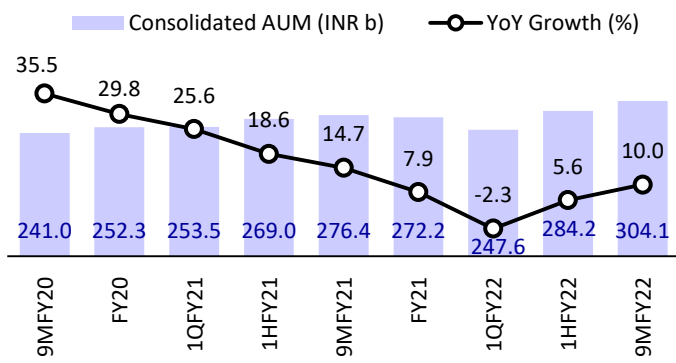
- AUM in Asirvad MFI stood at INR62.6b. The management consciously went slow in the MFI business since it wanted to focus on rural lending.

Others

- **The management expects yields to improve to 21% since it has tweaked interest rates offered across different ticket sizes. This is feeding into the moderation in expected Gold loan growth of 1.5-2% per month.**
- CP stood at 8% of the total standalone borrowing mix. Standalone cost of borrowings declined to 7.47%.
- The company added 281k new Gold loan customers.
- ATS/tenure of a Gold loan stood at INR53,997/111 days.
- Interest accrued stood at INR7.38b (3.6% of AUM).
- About 50% of its loan book have a tenure of three-months and the balance have a tenure greater than three-months.
- MGFL delivered a tonnage growth of 6.3% in 9MFY22 (v/s 4.1% for MUTH).
- Proportion of Gold loans with a ticket size of over INR100k has increased by 3-4% (to 54%) in 3QFY22.
- Demand has fallen in lower ticket size Gold loans, and the management has to tap the higher ticket size Gold loan customers to grow.

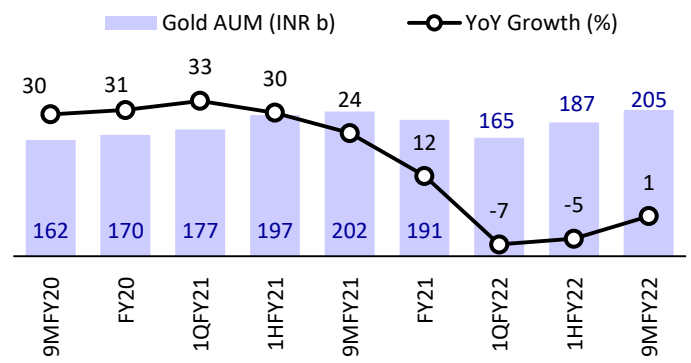
Key exhibits

Exhibit 1: Consolidated AUM rose ~7% QoQ...



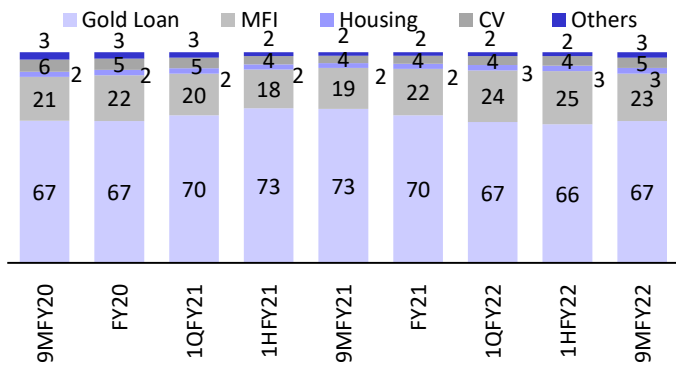
Source: MOFSL, Company

Exhibit 2: ...while Gold AUM grew 9% QoQ



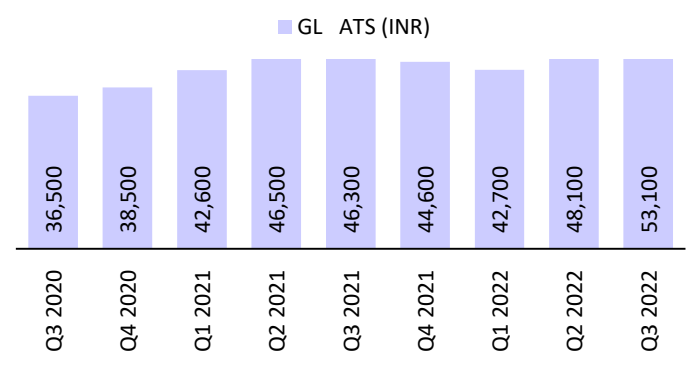
Source: MOFSL, Company

Exhibit 3: Share of non-Gold loans fall by ~140bp QoQ (%)



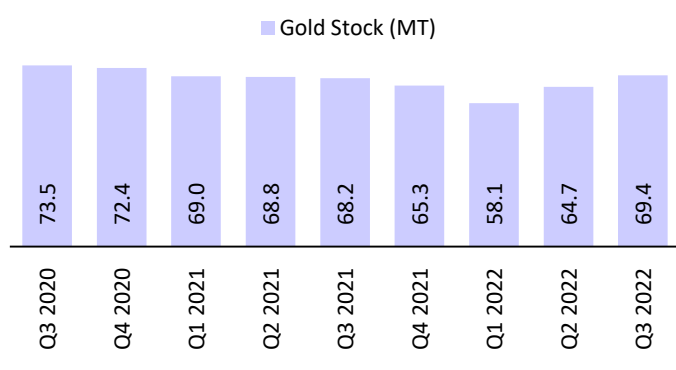
Source: MOFSL, Company

Exhibit 4: Average ticket size in Gold loans increases



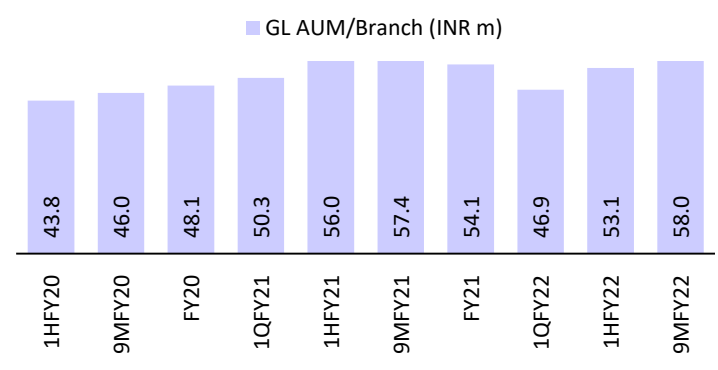
Source: MOFSL, Company

Exhibit 5: Gold tonnage up 7% QoQ



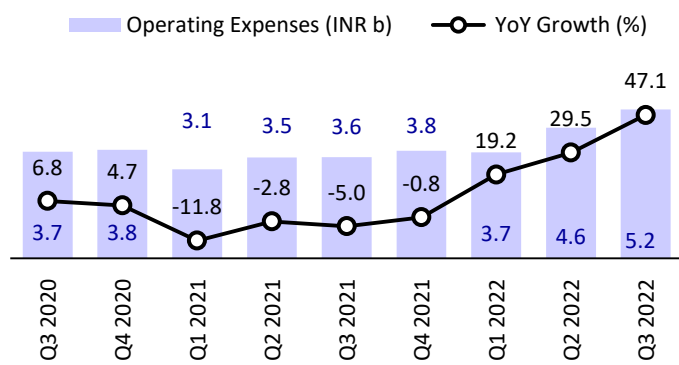
Source: MOFSL, Company

Exhibit 6: Healthy improvement in branch productivity driven by strong growth in Gold loans



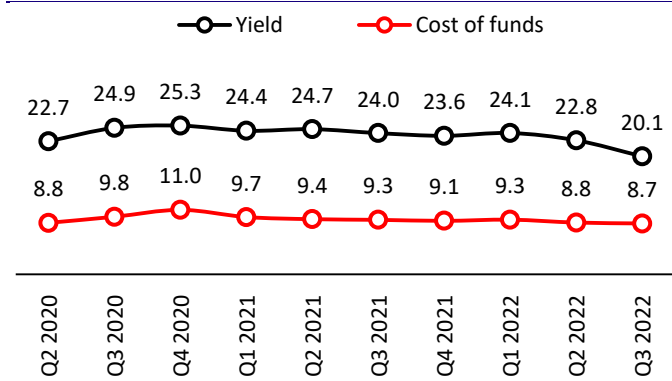
Source: MOFSL, Company

Exhibit 7: Opex up ~47% YoY, led by incentives for employees and elevated advertising/publicity spends



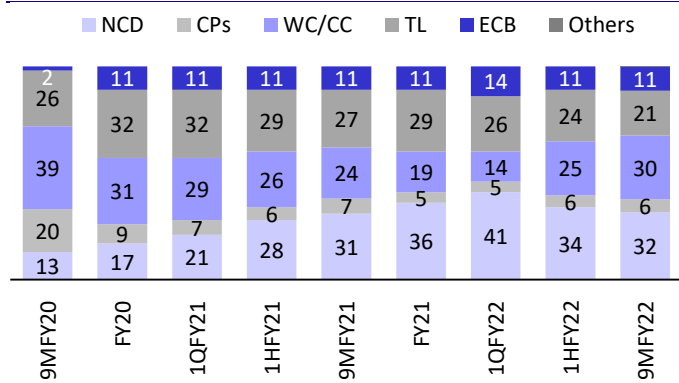
Source: MOFSL, Company

Exhibit 8: Consolidated spreads deteriorate by ~260bp QoQ (%)



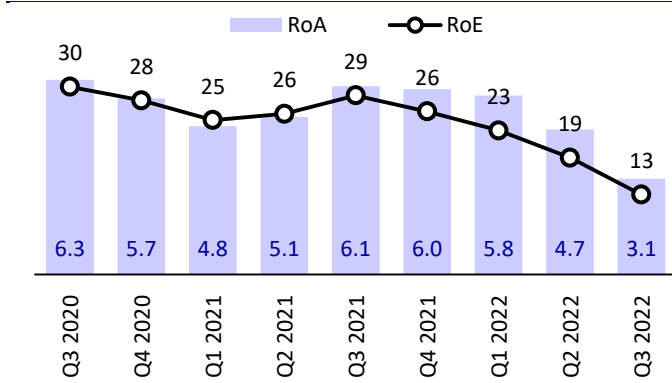
Source: MOFSL, Company

Exhibit 9: Consolidated borrowing mix (%)



Source: MOFSL, Company

Exhibit 10: Return ratios face the brunt of a decline in NII and higher operating expenses (%)



Source: MOFSL, Company

Valuation and view

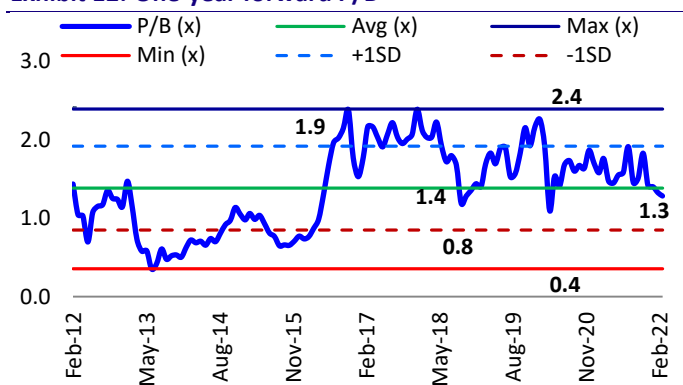
- MGFL has traded off spreads/margin to demonstrate a higher sequential growth in Gold loans in 2Q/3QFY22. It has transformed its business model and at the end of this glide path, we expect a sustainable medium-term RoA/RoE profile to emerge.
- The demand environment in Gold loans is not very buoyant, and the management has clearly articulated that it does not wish to pursue growth at the cost of a further compression in spreads. We model consolidated AUM/PAT CAGR of ~15%/~25% over FY22-24E.
- We believe the risk-reward for MGFL is still favorable at 1x FY24 P/BV for a consolidated RoA/RoE of 5.1%/20%. We maintain our **Buy** rating with a TP of INR170/share (based on 1.2x FY24E consolidated BVPS).

Exhibit 11: Cut our FY23E/FY24E EPS estimate by 18%/19% to factor in a compression in spreads and lower loan growth

INR b	Old estimate			New estimate			Change (%)		
	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
NII	39.9	50.1	58.9	38.8	46.6	54.4	-3	-7	-8
Other Income	2.7	3.1	3.5	2.5	2.8	3.0			
Net Income	42.5	53.2	62.4	41.3	49.3	57.4	-3	-7	-8
Operating Expenses	17.6	19.6	22.2	18.6	21.2	24.2	6	8	9
Operating Profit	24.9	33.5	40.2	22.6	28.1	33.3	-9	-16	-17
Provisions	4.4	4.5	4.9	4.4	4.3	4.6	0	-4	-6
PBT	20.5	29.0	35.3	18.3	23.8	28.7	-11	-18	-19
Tax	5.2	7.4	9.0	4.6	6.1	7.3	-12	-18	-19
PAT	15.3	21.6	26.3	13.6	17.7	21.4	-11	-18	-19
Loans	317	374	436	309	355	410	-3	-5	-6
Borrowings	249	288	335	252	273	315			
RoA (%)	4.6	5.7	5.9	4.1	4.8	5.1			
RoE (%)	19.3	22.8	22.9	17.4	19.4	19.9			

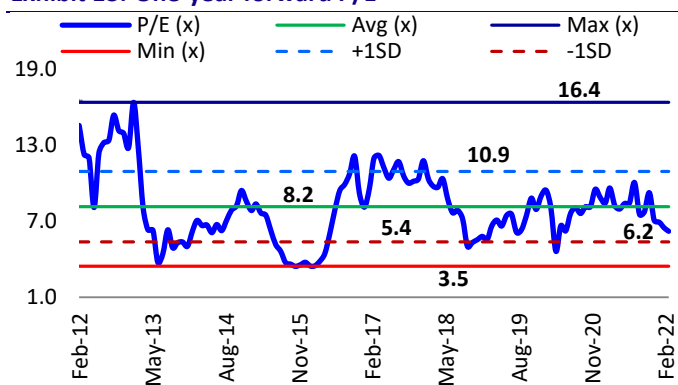
Source: MOFSL, Company

Exhibit 12: One-year forward P/B



Source: MOFSL, Company

Exhibit 13: One-year forward P/E



Source: MOFSL, Company

Financials and valuations

Income Statement										(INR m)
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	
Interest Income	23,489	33,762	33,540	40,461	52,805	61,896	59,389	69,701	80,300	
Interest Expense	9,474	11,687	10,304	13,449	18,322	22,190	20,605	23,107	25,884	
Net Interest Income	14,016	22,075	23,235	27,012	34,483	39,706	38,784	46,593	54,416	
Change (%)	28.5	57.5	5.3	16.3	27.7	15.1	-2.3	20.1	16.8	
Other operating income	113	92	668	1,334	1,848	1,410	1,720	1,892	2,081	
Total Income	14,128	22,167	23,903	28,346	36,331	41,116	40,504	48,486	56,497	
Change (%)	27.4	56.9	7.8	18.6	28.2	13.2	-1.5	19.7	16.5	
Other income	136	235	584	625	859	441	749	862	948	
Net Income	14,264	22,402	24,487	28,971	37,190	41,557	41,253	49,347	57,445	
Change (%)	27.8	57.0	9.3	18.3	28.4	11.7	-0.7	19.6	16.4	
Operating Expenses	8,357	9,653	12,345	13,858	14,741	13,996	18,633	21,225	24,187	
Pre Provision Profit	5,907	12,749	12,142	15,113	22,449	27,561	22,620	28,122	33,258	
Change (%)	33.7	115.8	-4.8	24.5	48.5	22.8	-17.9	24.3	18.3	
Provisions	423	1,092	1,773	547	2,376	4,401	4,361	4,315	4,589	
PBT	5,484	11,657	10,369	14,566	20,073	23,160	18,259	23,808	28,669	
Tax	1,932	4,072	3,609	5,080	5,270	5,911	4,610	6,071	7,311	
Tax Rate (%)	35.2	34.9	34.8	34.9	26.3	25.5	25.3	25.5	25.5	
PAT	3,552	7,585	6,760	9,486	14,803	17,250	13,649	17,737	21,359	
Change (%)	30.8	113.6	-10.9	40.3	56.1	16.5	-20.9	30.0	20.4	
Dividend (Excl. Tax)	1,893	1,263	1,684	1,812	2,372	1,777	2,539	3,193	3,845	

Balance Sheet									
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	1,682	1,684	1,685	1,686	1,690	1,693	1,693	1,693	1,693
Reserves and Surplus	25,898	31,949	36,447	43,561	55,771	71,382	82,491	97,035	1,14,549
Net worth (Post OCI)	27,580	33,633	38,132	45,247	57,461	73,074	84,184	98,728	1,16,242
Non-Controlling Interest	212	212	292	459	583	472	497	522	547
Borrowings	96,379	1,09,867	1,26,071	1,52,972	2,25,735	2,27,163	2,52,023	2,73,145	3,15,134
Change (%)	11.7	14.0	14.7	21.3	47.6	0.6	10.9	8.4	15.4
Other liabilities	4,220	6,120	5,802	5,862	11,572	12,669	14,569	16,755	19,268
Change (%)	27.4	45.0	-5.2	1.0	97.4	9.5	15.0	15.0	15.0
Total Liabilities	1,28,392	1,49,832	1,70,296	2,04,540	2,95,351	3,13,378	3,51,273	3,89,150	4,51,191
Loans	1,13,853	1,34,057	1,52,439	1,78,119	2,42,971	2,65,076	3,08,729	3,55,089	4,09,675
Change (%)	18.5	17.7	13.7	16.8	36.4	9.1	16.5	15.0	15.4
Investments	491	49	49	1,738	905	3,380	3,718	4,090	4,499
Change (%)	-77.4	-90.0	0.4	3,428.0	-47.9	273.6	10.0	10.0	10.0
Goodwill	356	356	356	356	356	356	356	356	356
Net Fixed Assets	1,948	1,869	2,746	3,319	7,705	8,980	9,878	10,866	11,952
Other assets	11,745	13,501	14,707	21,009	43,414	35,586	28,593	18,749	24,709
Total Assets	1,28,392	1,49,832	1,70,296	2,04,540	2,95,351	3,13,378	3,51,273	3,89,150	4,51,191

E: MOFSL estimates

Financials and valuations

Ratios	(%)								
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Spreads Analysis (%)									
Avg. Yield on loans	22.4	27.2	23.4	24.5	25.1	24.4	20.7	21.0	21.0
Avg. Cost of funds	10.4	11.3	8.7	9.6	9.7	9.8	8.6	8.8	8.8
Spreads	12.0	15.9	14.7	14.8	15.4	14.6	12.1	12.2	12.2
Net Interest Margin	13.4	17.8	16.2	16.3	16.4	15.6	13.5	14.0	14.2
Profitability Ratios (%)									
RoAE	13.2	24.8	18.8	22.8	28.8	26.4	17.4	19.4	19.9
RoAA	2.9	5.5	4.2	5.1	5.9	5.7	4.1	4.8	5.1
Cost-to-Income	58.6	43.1	50.4	47.8	39.6	33.7	45.2	43.0	42.1
Empl. Cost/Op. Exps.	51.8	52.1	50.7	52.0	56.3	60.2	60.2	60.7	61.3
Asset Quality									
GNPL (INR m)	996	2,338	695	826	1,677	5,900	4,631	4,971	5,735
GNPL ratio (%)	1.0	2.0	0.5	0.5	0.9	2.9	1.5	1.4	1.4
NNPL (INR m)	778	1,972	427	481	1,092	3,350	2,779	3,231	3,728
NNPL ratio (%)	0.8	1.7	0.3	0.3	0.6	1.3	0.9	0.9	0.9
PCR (%)	21.9	15.6	38.5	41.7	34.9	43.2	40.0	35.0	35.0
Valuations									
Book Value (INR)	32.8	39.9	45.3	53.7	68.0	86.3	99.5	116.7	137.3
Price-to-BV (x)					2.1	1.7	1.4	1.2	1.0
EPS (INR)	4.2	9.0	8.0	11.3	17.5	20.4	16.1	21.0	25.2
Change YoY (%)	30.8	113.4	-10.9	40.3	55.7	16.3	-20.9	30.0	20.4
Price-to-Earnings (x)					8.2	7.0	8.9	6.8	5.7
Dividend	2.3	1.5	2.0	2.1	2.8	2.1	3.0	3.8	4.5
Dividend Payout (%)	64.1	20.0	30.0	23.0	19.3	10.3	18.6	18.0	18.0
Dividend Yield (%)					2.0	1.5	2.1	2.6	3.2

E: MOFSL estimates

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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