

### Gold opens all locks, no lock will hold against the power of gold



**Manappuram Finance Limited is Non-Banking Financial Company (NBFC) offering a diversified product portfolio including gold loans, microfinance loans, vehicle and equipment finance, home loan finance, on-lending and insurance brokerage business. What we most like about Manappuram is 1) Strong overall AUM growth led by gold loan AUM(up 24.4% YoY and 2.4% QoQ) in Q3FY21, 2)Average LTV at 60% with 75% LTV cap on each loan ensuring margin of safety 3) Collections in Micro Finance segment has reached pre-covid levels with 99% collection efficiency recorded in December, 3) Reduction in cost to income ratio over the years, from 59% in 2016 to 33% in Q3'21 4)Steep valuation gap in comparison to Muthoot Finance Ltd which we feel can be bridged as performance parameters are similar.**

#### Takeaways from management interaction

- **Quick Turnaround Time (TAT)** - People prefer gold finance companies over banks because of their quick TAT (20 minutes), which they can achieve due to in house gold appraiser team.
- **Lower ticket size put minor burden of higher interest rate:** Average ticket size of the company's gold loan portfolio stood at Rs 46,300, which is substantially lower than gold loan ticket sizes offered by banks. Only 20% of customers fall in >Rs1 lakh and 1.7% customers in >Rs5 lakh ticket sizes.
- **Shorter tenor reduces the risk of fluctuation in gold prices** 62% of the loans are given in 3 months tenor, 36% in 6-9 months tenor, and 2% in 12 months tenor. Post delinquency, gold can be auctioned within 45 -60 days. Actual tenor even lower than 90 days.
- **Cost to income ratio on a downward trend can come down further** Operating expense in MFI business was higher on account of increase in manpower to step up the collection efforts which has shown results with collection efficiency reaching 99% in December, which is the highest amongst microfinance companies.
- **Eventual credit losses near zero** 75% LTV cap provides safety margin. Gold ornaments are highly liquid and the collateral has sentiment value.

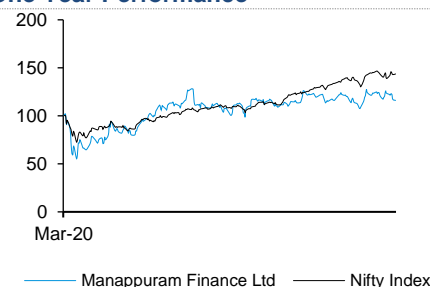
Rating TP (Rs) Up/Dn (%)  
**NOT RATED**

#### Market data

Current price	Rs	164
Market Cap (Rs.Bn)	(Rs Bn)	140
Market Cap (US \$ Mn)	(US \$ Mn)	1920
Face Value	Rs	2
52 Weeks High/Low	Rs	187/74
Average Daily Volume ('000)		8688
BSE Code		531213
Bloomberg		MGFL:IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	35.00	35.00
Public	65.00	65.00
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

#### Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	34	42	50	58
Adjusted net profit	15	20	23	30
Net worth	57	73	92	117
EPS (Rs)	18	22	26	29
Growth (%)	59	22	18	11
P/E (x)	9.1	7.4	6.3	5.6
P/Adj BV (x)	2.5	2.0	1.5	1.2
RoA (%)	6.0	5.5	6.0	6.3
RoE (%)	29.0	27.3	27.8	28.2

Source: Dalal & Broacha Research, Company

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- **Branch Additions** Company plans to add 300 branches subject to RBI approval over a year's time as compared to Muthoot which plans to add 200 branches over FY22. Opex to AUM from highs of 8.9% in FY18 has come down to 5.5% in Q3'21. Management believes opex to AUM ratio can be maintained even with the addition of new branches as openings will be phased on a QoQ basis and they will be able to achieve break even within one year.
- **Ramping up of Online Gold Loans and introduction of door step gold loan facility:** Manappuram was the First NBFC to launch Online Gold Loan (OGL) in September 2015. Facility enables customers to avail a gold loan anytime, from anywhere in the world against gold stored in Manappuram branch. OGL allows customers with access to internet requiring only one-time physical branch visit for pledging of gold. % share of OGL in overall gold AUM is up from 12% in FY17 to 59% in Q3'21. OGL and door step gold loans can help in speeding up customer acquisition for the company.
- **Future Growth** They are looking to grow their gold loan portfolio at 15% CAGR, while the overall portfolio at 20% CAGR over the medium to long-term.

## Valuation and outlook

In our opinion, Manappuram is well poised for strong growth which will be driven by gold loan segment. Collection in microfinance business has reached pre-covid levels and collection efficiency recorded in December was 99%. The microfinance business (19.4% of AUM) can help in diversification of risk that may arise in gold business. At CMP the stock trades at 1.5x its FY22E Adj BV and 1.2x its FY23E Adj BV compared to Muthoot that trades at 2.5x its FY22E Adj BV and 2.0x its FY23E Adj BV. **We value Manappuram at FY23E P/ Adj BV multiple of 1.5x and we are positive on the stock.**

## Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23
Interest income	53	64	74	87
Interest expense	18	22	24	29
<b>NII</b>	<b>35</b>	<b>42</b>	<b>50</b>	<b>58</b>
Non-interest income	3	4	5	6
<b>Net revenues</b>	<b>38</b>	<b>46</b>	<b>55</b>	<b>64</b>
Operating expenses	15	13	17	20
<b>PPOP</b>	<b>23</b>	<b>33</b>	<b>38</b>	<b>44</b>
Provisions	2	4	4	4
<b>PBT</b>	<b>21</b>	<b>29</b>	<b>34</b>	<b>40</b>
Tax	6	9	11	10
<b>PAT</b>	<b>15</b>	<b>20</b>	<b>23</b>	<b>30</b>

Balance sheet	FY20	FY21	FY22	FY23
Share capital	2.0	2.0	2.0	2.0
Reserves & surplus	55	71	90	115
<b>Net worth</b>	<b>57</b>	<b>73</b>	<b>92</b>	<b>117</b>
Debt Funds	218	251	289	332
Borrowings	1	1	1	1
Other liability	13	14	17	20
<b>Total liabilities</b>	<b>289</b>	<b>339</b>	<b>399</b>	<b>470</b>
Fixed assets	3	4	5	6
Investments	1	1	1	1
Loans	232	280	330	391
Cash	33	40	42	45
Other assets	20	14	21	27
<b>Total assets</b>	<b>289</b>	<b>339</b>	<b>399</b>	<b>470</b>

Ratios	FY20	FY21	FY22	FY23
<b>Growth (%)</b>				
NII	28	20	19	16
PPOP	49	43	15	16
PAT	56	33	15	30
Advances	30	33	50	8
<b>Spread (%)</b>				
Yield on Funds	25.4	24.3	24.0	24.0
Cost of Funds	9.5	9.6	9.4	9.5
Spread	15.9	14.7	14.6	14.5
NIM	15.2	15.6	15.7	15.8
<b>Asset quality (%)</b>				
Gross NPAs	1.1	2.4	1.5	1.5
Net NPAs	0.3	1.0	0.6	0.6
<b>Return ratios (%)</b>				
RoE	29.0	27.0	28.0	28.0
RoA	6.0	5.5	6.0	6.3
<b>Per share (Rs)</b>				
EPS	18	22	26	29
BV	68	90	114	142
ABV	66	86	108	137
<b>Valuation (x)</b>				
P/E	9.1	7.4	6.3	5.6
P/BV	2.4	1.8	1.4	1.1
P/ABV	2.5	2.0	1.5	1.2

Source: Dalal & Broacha Research, Company

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