

## Manappuram Finance Ltd. Q1 FY16 Quarterly Update

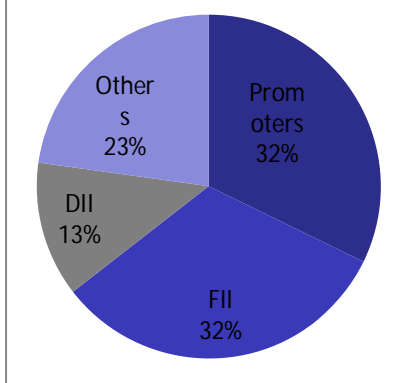
### MARKET DATA

NSE TICKER	MANAPPURAM
Networth (₹ Cr)	2,719
P/BV Ratio (FY16E) (x)	0.8
EPS (FY16E) (₹)	3.8
Market Price (₹)	25
P/E Ratio (FY16E) (x)	6.6
52 Week High (21/11/2014) (₹)	39
52 Week Low (19/08/2014) (₹)	22
Market Capitalisation (₹ Cr)	2,100

### AVERAGE MONTHLY VOLUME ('000)

BSE	217.4
NSE	1333.3

### SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Manappuram	-27%	-30%	13%
Sensex	1%	-5%	5%

**Vishal Rampuria**  
(Director, Research)

[vishal.rampuria@dimensional.in](mailto:vishal.rampuria@dimensional.in)  
+91-22-66545256

**Bunty Chawla (Research Analyst)**

[bunty.chawla@dimensional.in](mailto:bunty.chawla@dimensional.in)  
+91-22-66545231

In Q1 FY16, Net interest income grew by 8% QoQ (26% YoY) led by 5% QoQ (23% YoY) growth in loan book and improvement in spreads. However, PAT de-grew by 15% QoQ (up 35% YoY) due to increase in provisions and employee expenses.

#### ■ Strong AUM growth; Non-gold loan book to grow faster

AUM grew by 5% QoQ (23% YoY) to ₹10,105 cr led by 38% QoQ growth in non-gold loan portfolio. Also, gold loan portfolio grew by 4% QoQ (23% YoY) with increase in customer base to 18.1 lakh from 17.5 lakh QoQ and also increase in average ticket size by 2% QoQ to ₹31,040. Non-gold loan portfolio majorly comprises of MFI book (82%) and others (18%) of CV, LAP and home loan. The Company's focus is to grow non-gold loan book faster than gold loan book to de-risk business from gold prices fluctuations and targets 25% of the total portfolio in next 3-4 years (currently 5%). The Management expects AUM growth of 10-15% in FY16.

#### ■ Spreads improved; led by decline in cost of funds

Spreads improved by 10bps (60bps YoY) as a result of decline in cost of funds by 35 bps QoQ (100bps YoY) due to higher borrowings through low cost CPs thus resulted increase in CP share to 6% as against 1% in Q4 FY15. Spreads could come under pressure with fluctuations in gold prices however, decline in cost of borrowings due to decline in market rates could support spreads going forward.

#### ■ Asset quality remains stable

In Q1 FY16, GNPA % remains stable at 1.2% QoQ (down 40bps YoY) although in absolute terms increased by 7% QoQ (down 15% YoY). Also, company has shifted NPA recognition to 150 days as per RBI guidelines. With decline in Gold prices by ~6% in the month of July 2015, Management expects few delinquencies to impact interest income due to interest reversal in Q2 FY16. However, with LTV of 65-75% there will be no impact on principal amount and also gold prices rebounded in August month to earlier levels. AUM growth remains a key monitorable as gold price fluctuations could impact negatively.

#### ■ Asirvad Microfinance – the growth Enhancer

Asirvad microfinance, subsidiary company with 85% holding was acquired in Feb 2015. As of FY15, Investments in MFI stood at ₹112 cr. MFI reported PAT of ₹10.4 cr in FY15 (up 121% YoY) with loan book of ₹340 cr (up 74% YoY). Also, in Q1 FY16, loan book grew by 30% QoQ to ₹418 cr with RoA above 4%. With expansion into other states (earlier only in Tamil Nadu) leveraging company's network, MFI can grow at healthy pace.

#### ■ Valuation

At CMP Manappuram Finance is trading at P/B multiple of 0.8x its FY16E BV of ₹32 and 0.7x its FY17E BV of ₹3. We recommend a BUY rating with a target of ₹32 by March 2016 and an upside potential of 27%. Our target price is based on SOTP method. Also, with dividend expectation of 1.8 in FY16, dividend yield is ~7.2% on CMP.

### Quarterly Performance:

Particulars (₹ Cr)	Q1 FY16	Q1 FY15	% YoY	Q4 FY15	%QoQ	FY15	FY14	% YoY
Interest Income	538	453	19%	504	7%	1,968	2,076	-5%
Interest Expenses	236	213	11%	224	5%	877	1,027	-15%
Net Interest Income	302	240	26%	280	8%	1,090	1,049	4%
Other Income	1	3	-57%	7	-80%	21	36	-42%
Total Income	303	243	25%	287	6%	1,111	1,085	2%
Operating Expenses	201	171	17%	173	16%	674	695	-3%
PPOP*	102	72	43%	114	-10%	437	390	12%
Total Provisions	12	7	79%	8	47%	28	47	-40%
PBT	92	67	37%	108	-15%	409	343	19%
Taxes	32	23	40%	38	-15%	142	117	21%
PAT	60	44	35%	70	-15%	267	226	18%
EPS	0.7	0.5	35%	0.8	-15%	3.2	2.7	18%

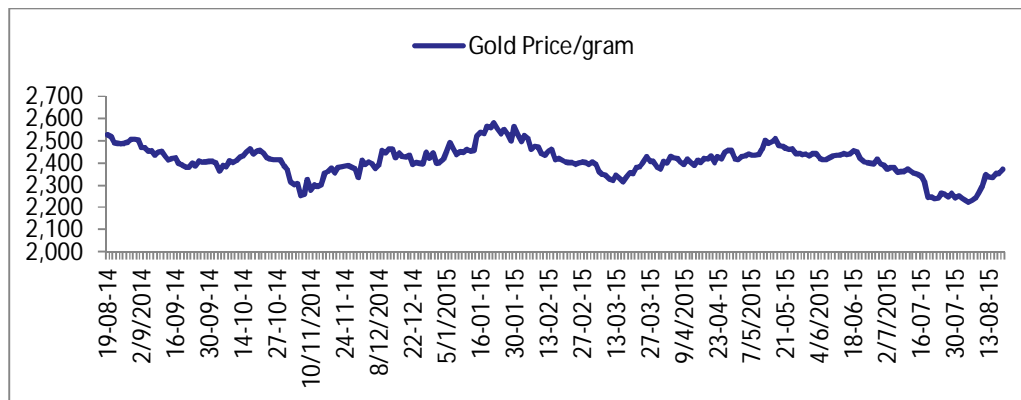
\*PPOP - Pre-Provisioning Operating profits



## Q1 FY16 CONFERENCE CALL HIGHLIGHTS : -

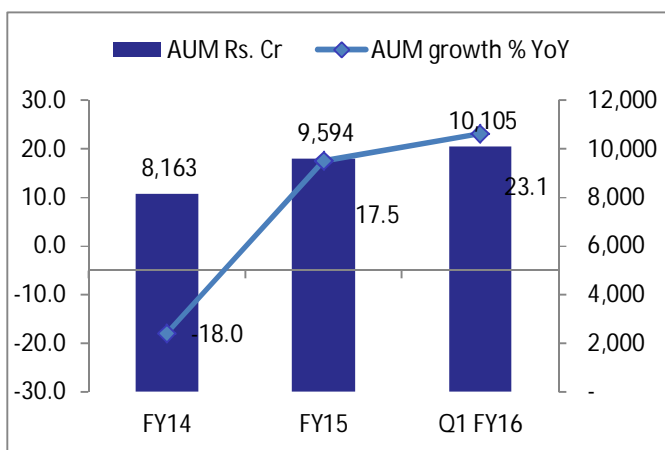
- Gold loan book consists of 2 products – a) 12 month tenure with 65% LTV and b) 3 month tenure with 75% LTV
- Product mix yields – 80% of the book have yields in the range of 18-24%
- Loan book growth guidance in FY16 – 10-15%
- Non-gold loan portfolio to be 25% of total portfolio in next 3-4 years
- RoA to be maintained in range of 3 – 3.5% on consolidated basis

### Graphs for important parameters

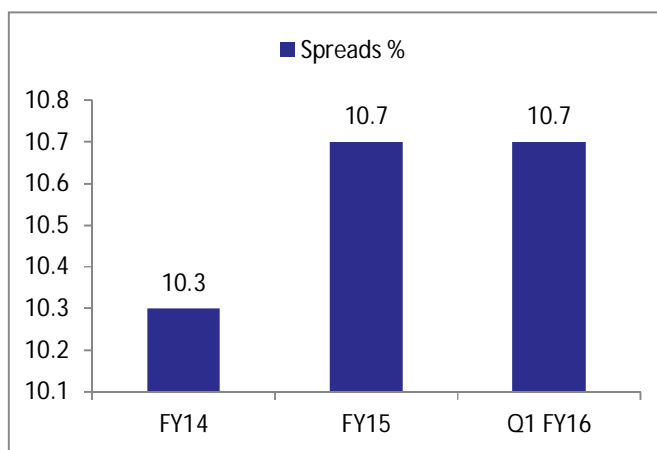


With fluctuations in gold prices in last 1 year as shown in the chart, asset quality has not deteriorated for the company due to LTV of 65-75% and low tenure product (3 month).

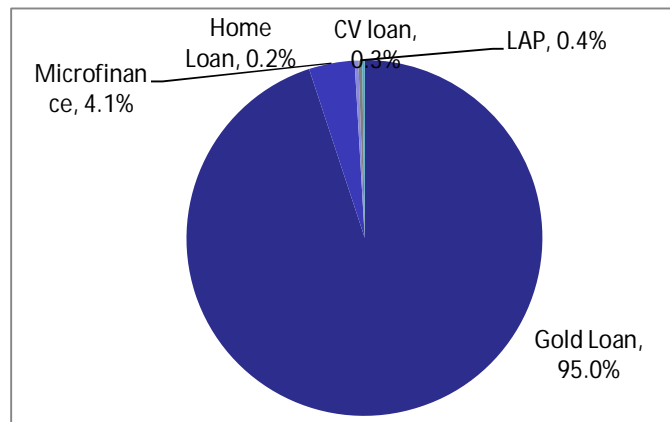
Source: Company



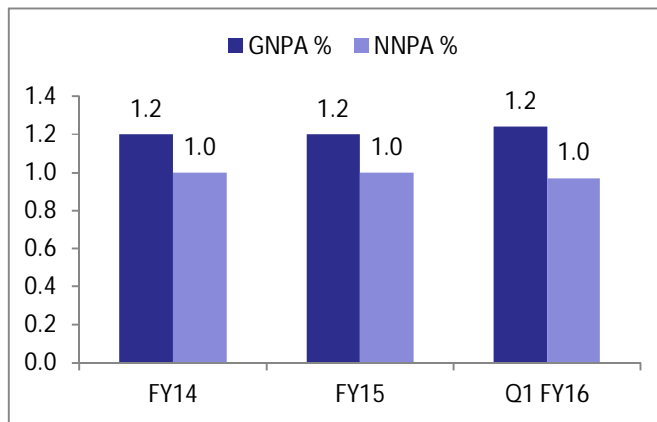
Source: Company



Source: Company



Source: Company



Source: Company



## QUARTERLY PERFORMANCE:

Particulars \ Cr	Jun-15	Jun-14	% YoY	Mar-15	%QoQ	FY15	FY14	% YoY
Interest Income	538	453	19%	504	7%	1,968	2,076	-5%
Interest Expenses	236	213	11%	224	5%	877	1,027	-15%
Net Interest Income	302	240	26%	280	8%	1,090	1,049	4%
Other Income	1	3	-57%	7	-80%	21	36	-42%
Total Income	303	243	25%	287	6%	1,111	1,085	2%
Operating Expenses	201	171	17%	173	16%	674	695	-3%
Employee	102	80	28%	83	23%	315	324	-3%
Others	99	92	8%	90	9%	360	372	-3%
Operating Profits before provisions	102	72	43%	114	-10%	437	390	12%
Total Provisions	12	7	79%	8	47%	28	47	-40%
PBT	92	67	37%	108	-15%	409	343	19%
Taxes	32	23	40%	38	-15%	142	117	21%
PAT	60	44	35%	70	-15%	267	226	18%
EPS	0.7	0.5	35%	0.8	-15%	3.2	2.7	18%
<b>Asset Quality</b>								
GNPA Rs. Cr	115	135	-15%	107	7%	107	100	7%
NNPA Rs. Cr	97	114	-15%	89	9%	89	82	8%
GNPA %	1.2%	1.6%	-40	1.2%	0	1.2%	1.2%	0
NNPA %	1.0%	1.4%	-40	1.0%	0	1.0%	1.0%	0
Credit Cost %	0.49	0.34	15	0.35	14	0.29	0.57	-28
<b>Ratios %</b>								
Cost to Income ratio	66.23	70.47	-424	60.39	584	60.68	64.07	-339
Tax Rate	34.90	34.11	79	34.83	8	34.78	34.12	66
RoA %	2.0%	1.8%	17	2.4%	-40	2.6%	1.9%	72
RoE % *	9.0%	7.0%	199	10.3%	-130	10.5%	9.2%	127
CAR (Basel III) %	25.0%	27.5%	-251	25.6%	-63	25.6%	27.7%	-208
Opex to Loan book	7.94	8.35	-41	7.23	72	7.03	8.52	-149
<b>Margins %</b>								
Yield on Advances *	22.3%	22.2%	14.0	22.3%	0.0	23.0%	21.6%	141.0
Cost of Deposits *	11.6%	12.6%	-100.0	12.0%	-40.0	12.3%	12.7%	-40.3
Quarterly Spread	12.6%	12.0%	62.0	12.5%	10.0	13.0%	11.1%	185.5
<b>Balance sheet</b>								
BV-Calculated	32	30	5%	31	1%	31	30	6%
Adjusted Network	2,555	2,422	5%	2,549	0%	2,549	2,410	6%
Adj. BV	30	29	5%	30	0%	30	29	6%
Capital	168	168	0%	168	0%	168	168	0%
Net Worth	2,652	2,536	5%	2,638	1%	2,638	2,492	6%
FV	2	2		2		2	2	
Loan Disbursement	8,409	5,580	51%	7,345	14%	24,726	20,293	22%
AUM	10,105	8,206	23%	9,594	5%	9,594	8,163	18%

Source: Company, Dimensional Securities



## RoA Tree Analysis:

Particulars	Jun-15	Mar-15	Dec-14	Sep-14	Jun-14	FY15	FY14
Interest Income	19.6%	17.9%	19.0%	18.6%	16.0%	16.7%	18.5%
Interest Expenses	8.6%	8.0%	8.4%	8.0%	7.5%	7.4%	8.7%
Net Interest Income	11.0%	10.0%	10.6%	10.7%	8.4%	9.3%	8.9%
Other Income	0.1%	0.3%	0.2%	0.2%	0.1%	0.2%	0.3%
Total Income	11.1%	10.2%	10.8%	10.8%	8.6%	9.4%	9.2%
Operating Expenses	7.3%	6.2%	6.2%	6.1%	6.0%	5.7%	5.9%
Employee	3.7%	3.0%	2.9%	2.7%	2.8%	2.7%	2.7%
Others	3.6%	3.2%	3.3%	3.3%	3.2%	3.1%	3.2%
Operating Profits before provisions	3.7%	4.0%	4.6%	4.8%	2.5%	3.7%	3.3%
Total Provisions	0.5%	0.3%	0.0%	0.4%	0.2%	0.2%	0.4%
PBT	3.4%	3.8%	4.6%	4.3%	2.4%	3.5%	2.9%
Taxes	1.2%	1.3%	1.6%	1.5%	0.8%	1.2%	1.0%
PAT (RoA)	2.2%	2.5%	3.0%	2.8%	1.6%	2.3%	1.9%
Average Assets/ Average Equity	4.22	4.38	4.22	4.22	4.56	4.38	4.78
RoE	9.2%	10.9%	12.7%	12.0%	7.1%	9.9%	9.2%

Source: Company, Dimensional Securities



## OUTLOOK & VALUATION: -

Manappuram Finance reported overall strong performance with a) strong AUM growth led by non-gold loan portfolio, b) improvement in spreads (12.6%) and c) stable asset quality. With diversification from gold loan business, MFI and other non-gold loan portfolio could boost growth going forward.

At CMP Manappuram Finance is trading at P/B multiple of 0.8x its FY16E BV of ₹32 and 0.7x its FY17E BV of ₹34. We recommend a BUY rating with a target of ₹32 by March 2016 and an upside potential of 27%. Our target price is based on SOTP method as given below. Also, with dividend expectation of 1.8 in FY16, dividend yield is ~7.2% on CMP.

FY17E	Equity	P/BV	Total	Remarks
Gold Loan Business	2,710	0.8	2,233	Based on Justified P/BV valuation
Asirvad microfinance	153	3.0	391	Huge potential
Others	45	1.0	45	Investment face
Consolidated			2,669	
Target price			32	

### P/BV (Forward)



Source: Dimensional Securities



## PROFIT & LOSS STATEMENT :

Particulars ` Cr	FY14	FY15	FY16E	FY17E
Interest Income	2,076	1,958	2,117	2,309
Finance Exp.	1,027	873	881	930
Net Interest Income	1,049	1,085	1,236	1,379
Other operating Income	36	23	28	32
NII +OI	1,085	1,108	1,264	1,411
Total Exp.	695	668	754	844
Pre Provisioning Profits	390	440	510	567
Provisions	47	27	51	57
PBT	343	412	460	510
Tax	117	142	159	177
PAT	226	271	301	334
EPS Rs.	2.69	3.22	3.57	3.97

\*Pre-Provisioning Operating Profit

Source: Company, Dimensional Securities

## BALANCE SHEET:

Particulars ` Cr	FY14	FY15	FY16E	FY17E
<b>EQUITY AND LIABILITIES</b>				
Share Capital	168	168	168	168
Total Reserves	2,324	2,459	2,542	2,680
Shareholder's Funds	2,492	2,627	2,710	2,849
Long-Term Borrowings	1,455	1,550	1,661	1,841
Def. Tax Liabilities (net)	(29)	(30)	(30)	(30)
Long Term Provisions	273	109	59	59
Total Non-Current Liabilities	1,698	1,630	1,690	1,871
<b>Current Liabilities</b>				
Trade Payables	36	24	24	24
Other Current Liabilities	1,271	1,674	1,454	1,597
Short Term Borrowings	5,213	5,300	5,770	6,397
Short Term Provisions	100	48	98	155
Total Current Liabilities	6,619	7,045	7,347	8,172
Total Liabilities	10,809	11,303	11,747	12,891
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Fixed Assets	197	172	152	127
Non-current investments	21	168	168	168
Long term loans & advances	55	86	71	79
Other non-current assets	136	131	131	131
Total Non-Current Assets	415	557	522	505
<b>Current Assets</b>				
Currents Investments	791	212	112	112
Cash and Bank	833	683	386	263
Other Current Assets	588	582	694	774
Short Term Loans & Advances	8,183	9,269	10,033	11,237
Total Current Assets	10,395	10,746	11,225	12,386
Total Assets	10,809	11,303	11,747	12,891

Source: Company, Dimensional Securities

## RATIO ANALYSIS

Particulars	FY14	FY15	FY16E	FY17E
<b>Operational Ratios ( ` )</b>				
EPS	2.7	3.2	3.6	4.0
Book Value	29.6	31.2	32.2	33.9
DPS	1.8	1.8	1.8	2.0
<b>Spread Analysis</b>				
Yield on Loans	22.7%	22.3%	21.8%	21.6%
Cost of Borrowings	11.7%	10.8%	10.3%	10.1%
Interest Spread	11.1%	11.5%	11.5%	11.5%
<b>Profitability Ratios</b>				
RoE	9.2%	10.6%	11.3%	12.0%
RoA	1.9%	2.4%	2.6%	2.7%
AUM growth YoY	-17.9%	13.6%	10.0%	12.0%
<b>Productivity Ratios (x)</b>				
Loans per Branch	2.50	2.84	3.07	3.44
Loans per Employee	0.49	0.59	0.64	0.71
Debt / Equity	3.1	3.2	3.2	3.4
<b>Valuation Ratios</b>				
P/E (x)	8.00	10.07	6.98	6.29
P/B (x)	0.73	1.04	0.77	0.74
Dividend Yield	8.4%	5.6%	7.2%	8.0%

Source: Company, Dimensional Securities



## ANALYST CERTIFICATION

We (Vishal Rampuria/Bunty Chawla), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### Terms & conditions and other disclosures:

Dimensional Securities Private Limited (DSPL) is engaged in the business of stock broking and distribution of financial products.

The information and opinions in this report have been prepared by DSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of DSPL. While we would endeavour to update the information herein on a reasonable basis, DSPL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent DSPL from doing so.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. DSPL or its associates accept no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

DSPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. DSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither DSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that (Vishal Rampuria/Bunty Chawla), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. DSPL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of DSPL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that (Vishal Rampuria/Bunty Chawla), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

DSPL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

We submit that no material disciplinary action has been taken on DSPL by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject DSPL and associates to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DSPL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of DSPL to present the data. In no event shall DSPL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by DSPL through this report.