



## Manappuram Finance Ltd. Q2 FY16 Quarterly Update

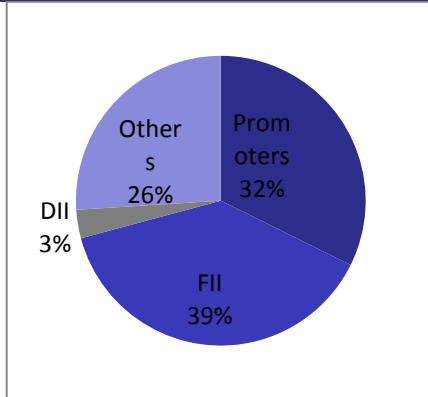
### MARKET DATA

NSE TICKER	MANAPPURAM
Networth (₹ Cr)	2,671
P/BV Ratio (FY16E) (x)	0.7
EPS (FY16E) (₹)	3.15
Market Price (₹)	23
P/E Ratio (FY16E) (x)	7.3
52 Week High (21/11/2014) (₹)	39
52 Week Low (19/08/2014) (₹)	20
Market Capitalisation (₹ Cr)	1926

### AVERAGE MONTHLY VOLUME ('000)

BSE	1013.9
NSE	1752.4

### SHARE HOLDING PATTERN



### RETURN

	3M	6M	12M
Manappuram	-15%	-35%	-31%
Sensex	-7%	-2%	-6%

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

Consolidated AUM grew by 1.1% QoQ (20% YoY) to ₹10,203 cr led by 37% QoQ growth in non-gold loan portfolio. Gold loan portfolio de-grew by 0.7% QoQ (up 12% YoY) while gold stock pledged increased by 2.23%. Average ticket size decreased by 1% QoQ to ₹30,763 from ₹31,040. For other leading player like Muthoot Finance, gold stock under possession grew 4% QoQ, driving AUM growth of 2%. Non-gold loan portfolio grew by ~40% QoQ which majorly comprises of MFI book (77%) and others (23%) of CV, Other loan, 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 expects it to be 20-25% of the total portfolio in next 3-4 years (currently ~7%). Management guided for AUM growth of 10-15% in FY16.

#### Spreads declined; due to yields have declined more than cost of funds

Yields have dropped from 22.3% to 21.8% from the previous quarter whereas cost of funds declined by 48bps due to lower borrowing costs from banks and better liability mix. Overall, spreads declined by 20bps QoQ (160bpsYoY).

#### Asset quality improves; credit cost remain under control

In Q2 FY16, GNPA declined to 1% (down XX QoQ; 50bps YoY) while in absolute terms it declined 14%QoQ (42%YoY) in absolute terms. This reduction in GNPA is despite the shift to recognition at 150 days as per RBI guidelines. Stable prices and high auction has resulted in improving reported NPA numbers though it impacted the growth numbers.

#### Asirvad Microfinance – the growth Enhancer

Asirvad microfinance, subsidiary company with 85% holding was acquired in Feb 2015. As of FY15, Investments in MFI subsidiary 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 Q2 FY16, loan book grew by 30% QoQ to ₹538 cr. with expansion into other states (earlier only in Tamil Nadu) leveraging company' network, MFI can grow at healthy pace.

#### Valuation

At CMP, Manappuram Finance is trading at P/B multiple of 0.72x its FY16E BV of ₹32 and 0.69x its FY17E BV of ₹33. We maintain BUY rating with a target of ₹30 by Mar'16 and an upside potential of 34%. Our target price is based on SOTP method. Also, with dividend expectation of ₹1.8 in FY16, dividend yield at ~7.9% is also attractive.

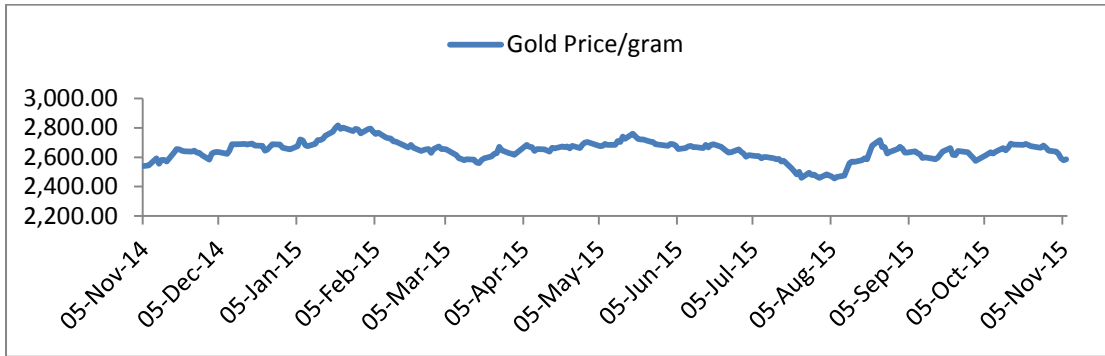
### Quarterly Performance:

Particulars ₹ Cr	Q2 FY16	Q2 FY15	% YoY	Q1 FY16	%QoQ	FY15	FY14	% YoY
Interest Income	548	500	10%	538	2%	1,968	2,076	-5%
Interest Expenses	242	214	13%	236	3%	877	1,027	-15%
Net Interest Income	306	286	7%	302	1%	1,090	1,049	4%
Other Income	4	4	0%	1	214%	21	36	-42%
Total Income	310	291	7%	303	2%	1,111	1,085	2%
Operating Expenses	207	163	27%	201	3%	674	695	-3%
PPOP*	104	128	-19%	102	1%	437	390	12%
Total Provisions	8	12	-36%	12	-39%	28	47	-40%
PBT	100	116	-14%	92	9%	409	343	19%
Taxes	36	40	-8%	32	13%	142	117	21%
PAT	64	76	-17%	60	6%	267	226	18%
EPS	0.8	0.9	-17%	0.7	7%	3.2	2.7	18%

\*PPOP - Pre-Provisioning Operating profits

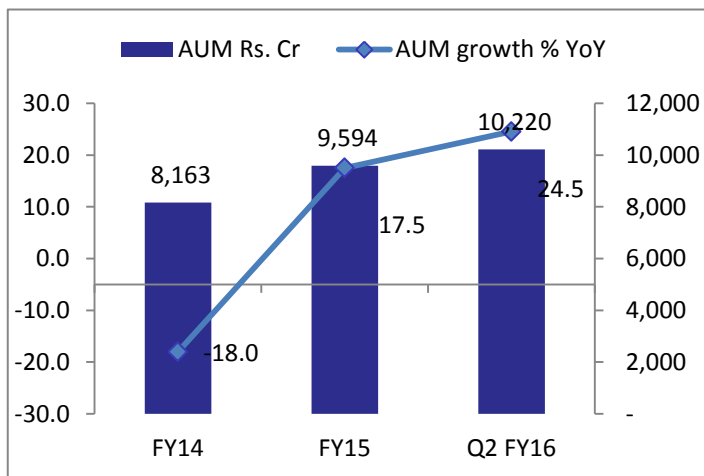


## Graphs for important parameters

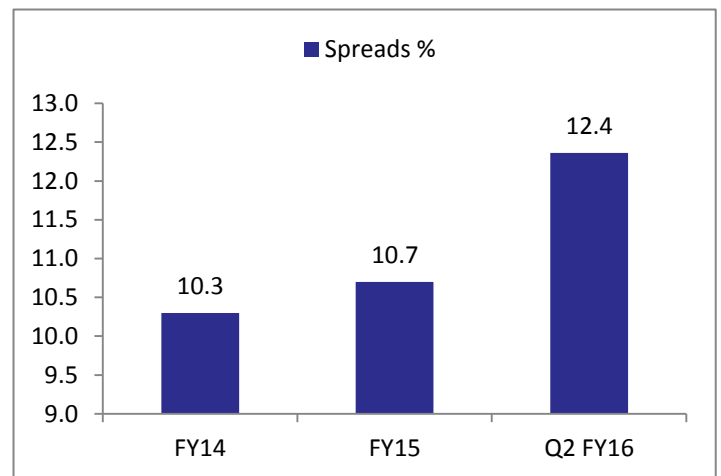


Low volatility in gold prices along with LTV Of 65-70% has helped in managing credit cost.

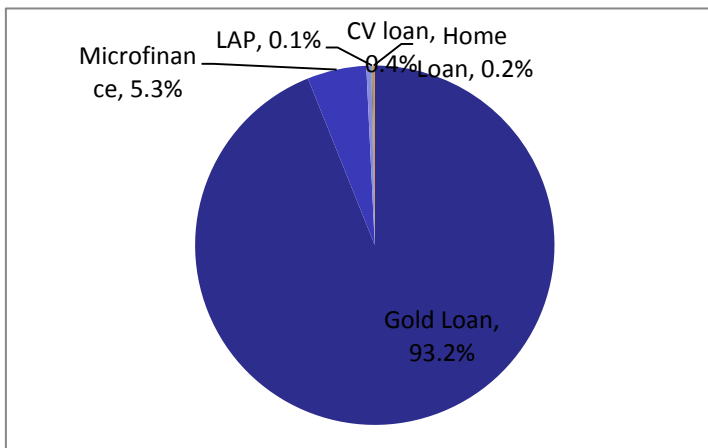
Source: Company



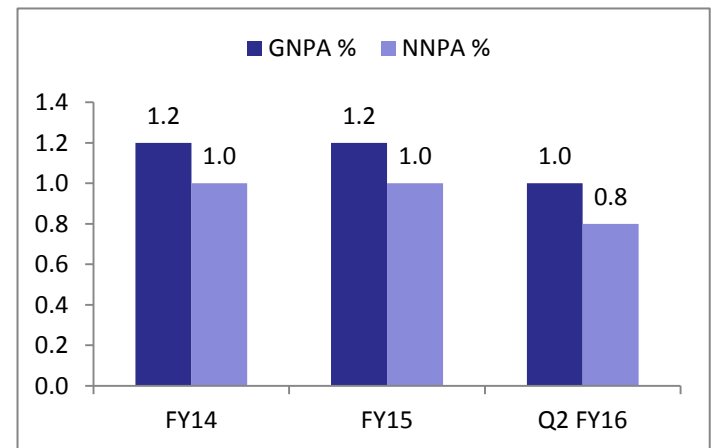
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Source: Company



## QUARTERLY PERFORMANCE:

Particulars ₹ Cr	Sep-15	Sep-14	% YoY	Jun-15	%QoQ	FY15	FY14	% YoY
Interest Income	548	500	10%	538	2%	1,968	2,076	-5%
Interest Expenses	242	214	13%	236	3%	877	1,027	-15%
Net Interest Income	306	286	7%	302	1%	1,090	1,049	4%
Other Income	4	4	0%	1	214%	21	36	-42%
Total Income	310	291	7%	303	2%	1,111	1,085	2%
Operating Expenses	207	163	27%	201	3%	674	695	-3%
Employee	105	73	44%	102	3%	315	324	-3%
Others	101	90	13%	99	3%	360	372	-3%
Operating Profits before provisions	104	128	-19%	102	1%	437	390	12%
Total Provisions	8	12	-36%	12	-39%	28	47	-40%
PBT	100	116	-14%	92	9%	409	343	19%
Taxes	36	40	-8%	32	13%	142	117	21%
PAT	64	76	-17%	60	6%	267	226	18%
EPS	0.8	0.9	-17%	0.7	7%	3.2	2.7	18%
<b>Asset Quality</b>								
GNPA Rs. Cr	99	171	-42%	115	-14%	107	100	7%
NNPA Rs. Cr	81	146	-44%	97	-16%	89	82	8%
GNPA %	1.0%	2.0%	-100	1.2%	-20	1.2%	1.2%	0
NNPA %	0.8%	1.7%	-90	1.0%	-20	1.0%	1.0%	0
Credit Cost %	0.30	0.55	-26	0.49	-19	0.29	0.57	-28
<b>Ratios %</b>								
Cost to Income ratio	66.64	55.98	1066	66.23	41	60.68	64.07	-339
Tax Rate	36.36	34.19	217	34.90	145	34.78	34.12	66
RoA %	2.1%	3.1%	-98	2.0%	12	2.6%	1.9%	72
RoE % *	9.5%	12.0%	-253	9.0%	50	10.5%	9.2%	127
CAR (Basel III) %	25.3%	27.6%	-231	25.0%	33	25.6%	27.7%	-208
Opex to Loan book	8.10	7.63	46	7.94	15	7.03	8.52	-149
<b>Margins %</b>								
Yield on Advances *	21.8%	24.1%	-227.0	22.3%	-50.0	23.0%	21.6%	141.0
Cost of Deposits *	11.1%	12.4%	-129.0	11.6%	-50.0	12.3%	12.7%	-40.3
Quarterly Spread	12.4%	14.0%	-160.0	12.6%	-20.0	13.0%	11.1%	185.5
<b>Balance sheet</b>								
BV-Calculated	32	31	4%	32	1%	31	30	6%
Adjusted Networkth	2,588	2,422	7%	2,555	1%	2,549	2,410	6%
Adj. BV	31	29	7%	30	1%	30	29	6%
Capital	168	168	0%	168	0%	168	168	0%
Net Worth	2,669	2,568	4%	2,652	1%	2,638	2,492	6%
FV	2	2		2		2	2	
Loan Disbursement	8,257	5,835	42%	8,409	-2%	24,726	20,293	22%
Consolidated AUM	10,220	8,530	20%	10,105	1%	9,594	8,163	18%

Source: Company, Dimensional Securities

## Gold Loan growth of South India focused Banks and NBFC

₹ in bn	FY11	FY12	FY13	FY14	FY15	Q2FY16	CAGR
South Indian Bank	46	52	70	67	46	41	-0.05%
Federal Bank	11	24	43	60	65	N/A	56.06%
Karur Vyasa Bank	29	52	78	80	71	64	24.91%
Manappuram finance	75	115	99	82	92	95	5.35%
IIFL	1	28	39	39	39	28	149.90%
Muthoot Finance	157	244	260	216	233	248	10.37%

## Trend in Gold Stock pledged for the last 5 years

Gold Holding in Tonnes	FY11	FY12	FY13	FY14	FY15	Q2FY16	CAGR
Manappuram Finance	53	66	51	46	53	57	0.08%
Muthoot Finance	112	137	134	118	131	144	4.00%



## RoA Tree Analysis:

Particulars	Sep-15	Jun-15	Mar-15	Dec-14	Sep-14	FY15	FY14
Interest Income	19.8%	19.6%	17.9%	19.0%	18.6%	16.7%	18.5%
Interest Expenses	8.7%	8.6%	8.0%	8.4%	8.0%	7.4%	8.7%
Net Interest Income	11.1%	11.0%	10.0%	10.6%	10.7%	9.3%	8.9%
Other Income	0.2%	0.1%	0.3%	0.2%	0.2%	0.2%	0.3%
Total Income	11.2%	11.1%	10.2%	10.8%	10.8%	9.4%	9.2%
Operating Expenses	7.5%	7.3%	6.2%	6.2%	6.1%	5.7%	5.9%
Employee	3.8%	3.7%	3.0%	2.9%	2.7%	2.7%	2.7%
Others	3.7%	3.6%	3.2%	3.3%	3.3%	3.1%	3.2%
Operating Profits before provisions	3.7%	3.7%	4.0%	4.6%	4.8%	3.7%	3.3%
Total Provisions	0.3%	0.5%	0.3%	0.0%	0.4%	0.2%	0.4%
PBT	3.6%	3.4%	3.8%	4.6%	4.3%	3.5%	2.9%
Taxes	1.3%	1.2%	1.3%	1.6%	1.5%	1.2%	1.0%
PAT (RoA)	2.3%	2.2%	2.5%	3.0%	2.8%	2.3%	1.9%
Average Assets/ Average Equity	4.23	4.22	4.38	4.22	4.22	4.38	4.78
RoE	9.7%	9.2%	10.9%	12.7%	12.0%	9.9%	9.2%

Source: Company, Dimensional Securities



## OUTLOOK & VALUATION: -

Overall, Manappuram Finance reported moderate performance with a) strong growth in non-gold loan portfolio (contributes ~7%), b) marginal volume growth ~2.2% QoQ increase in tonnage gold and c) improved asset quality. With diversification from gold loan business, MFI and other non-gold loan portfolio could boost growth going forward.

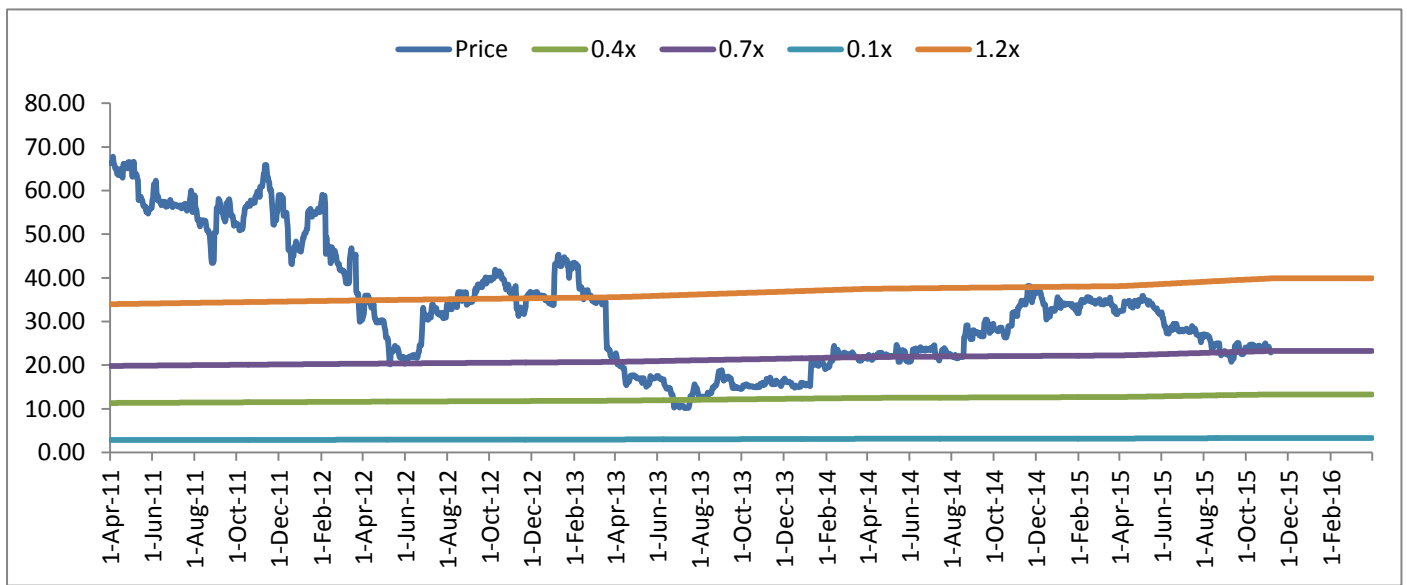
Few NBFCs like Magma Fincorp, Capital First have exited gold loan business. Competition has reduced and volume growth has been marginal. Given the under penetration and our view that gold prices to remain stable for the next 2 years, we believe AUM would grow in lower double digits. We have marginally reduced our loan growth assumption for FY16 and FY17 to 7% and 10% respectively. The Management expects AUM growth of 10-15% in FY16.

At CMP, Manappuram Finance is trading at P/B multiple of 0.72x its FY16E BV of ₹32 and 0.69x its FY17E BV of ₹33. We recommend a BUY rating with a target of ₹30 by March 2016 and an upside potential of 34%. Our target price is based on SOTP method as given below. Also, with dividend expectation of 1.8 in FY16, dividend yield is ~7.9% on CMP.

### Valuation break up

FY17E	Networth	P/BV	Total	Remarks
Standalone Entity-Gold loan	2,671	0.8	2,137	Based on Justified P/BV valuation
Asirvad microfinance	153	3.0	391	Huge potential
Others	45	1.0	45	Investment face
Consolidated			2,573	
Target price			30	

### P/BV (Forward)



Source: Dimensional Securities



## STANDALONE PROFIT & LOSS STATEMENT:

Particulars ₹ Cr	FY14	FY15	FY16E	FY17E
Interest Income	2,076	1,958	2,058	2,193
Finance Exp.	1,027	873	867	892
Net Interest Income	1,049	1,085	1,190	1,301
Other operating Income	36	23	32	36
NII +OI	1,085	1,108	1,222	1,336
Total Exp.	695	668	768	824
Pre Provisioning Profits	390	440	454	513
Provisions	47	27	49	54
PBT	343	412	405	459
Tax	117	142	140	159
PAT	226	271	265	300
EPS Rs.	2.69	3.22	3.15	3.57

\*Pre-Provisioning Operating Profit

Source: Company, Dimensional Securities

## STANDALONE 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	2,502	2,627
Shareholder's Funds	2,492	2,627	2,671	2,795
Long-Term Borrowings	1,455	1,550	1,611	1,750
Def. Tax Liabilities (net)	(29)	(30)	(30)	(30)
Long Term Provisions	273	109	59	59
Total Non-Current Liabilities	1,698	1,630	1,640	1,779
<b>Current Liabilities</b>				
Trade Payables	36	24	24	24
Other Current Liabilities	1,271	1,674	1,414	1,524
Short Term Borrowings	5,213	5,300	5,596	6,078
Short Term Provisions	100	48	97	151
Total Current Liabilities	6,619	7,045	7,131	7,777
Total Liabilities	10,809	11,303	11,442	12,351
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Fixed Assets	197	172	159	141
Non-current investments	21	168	168	168
Long term loans & advances	55	86	69	76
Other non-current assets	136	131	131	131
Total Non-Current Assets	415	557	527	516
<b>Current Assets</b>				
Currents Investments	791	212	112	112
Cash and Bank	833	683	372	252
Other Current Assets	588	582	675	740
Short Term Loans & Advances	8,183	9,269	9,755	10,731
Total Current Assets	10,395	10,746	10,914	11,835
Total Assets	10,809	11,303	11,441	12,350

Source: Company, Dimensional Securities

## STANDALONE RATIO ANALYSIS

Particulars	FY14	FY15	FY16E	FY17E
<b>Operational Ratios (₹)</b>				
EPS	2.7	3.2	3.1	3.6
Book Value	29.6	31.2	31.7	33.2
DPS	1.8	1.8	1.8	1.8
<b>Spread Analysis</b>				
Yield on Loans	22.7%	22.3%	21.5%	21.3%
Cost of Borrowings	11.7%	10.8%	10.3%	10.1%
Interest Spread	11.1%	11.5%	11.2%	11.2%
<b>Profitability Ratios</b>				
RoE	9.2%	10.6%	10.0%	11.0%
RoA	1.9%	2.4%	2.3%	2.5%
AUM growth YoY	-17.9%	13.6%	10.0%	12.0%
<b>Productivity Ratios (x)</b>				
Loans per Branch	2.50	2.84	2.98	3.28
Loans per Employee	0.49	0.59	0.62	0.68
Debt / Equity	3.1	3.2	3.2	3.3
<b>Valuation Ratios</b>				
P/E (x)	8.00	10.07	7.92	7.00
P/B (x)	0.73	1.04	0.79	0.75
Dividend Yield	8.4%	5.6%	7.3%	7.1%

Source: Company, Dimensional Securities



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