



Manappuram Finance Ltd. Q3 FY16 Quarterly Update

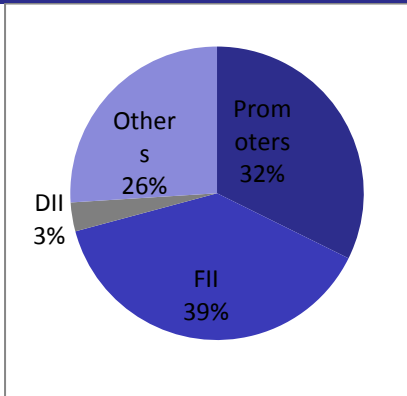
MARKET DATA

NSE TICKER	MANAPPURAM
Networth (FY16E) (Rs. crs)	2,725
P/BV Ratio (FY16E) (x)	0.9
EPS (FY16E) (Rs.)	3.8
Market Price (Rs.)	30
P/E Ratio (FY16E) (x)	7.9
52 Week High (4/5/2015)(Rs)	38
52 Week Low (19/9/2015)(Rs)	20
Market Capitalisation (Rs. In cr)	2,578

AVERAGE MONTHLY VOLUME ('000)

BSE	602
NSE	3,062

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Manappuram	21%	38%	-12%
Sensex	-11%	-10%	-19%

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Better AUM growth; Non-gold loan book to grow faster

Consolidated AUM grew by 4% q-o-q (20% y-o-y) to Rs. 10,579crs led by 34% q-o-q growth in non-gold loan portfolio. Gold loan portfolio grew by 4% q-o-q (10% y-o-y) mainly due to increase in volumes as gold holdings increased by 2% q-o-q (17% y-o-y) to 58.5 tonnes and increase in disbursement by 13% q-o-q to Rs.9045crs. Average ticket size increased by 1.2% q-o-q (4% y-o-y) to Rs. 31,129crs. Manappuram's growth in gold holdings was better than Muthoot Finance which grew by 0.7% q-o-q, driving AUM growth of 0.5%. Non-gold loan portfolio grew by 34% q-o-q which majorly comprises of MFI book (77%) and others (23%) of CV, LAP, home loan and other loans. The Company is focusing on non-gold loan book to increase share from 9% to 20-25% over the next 3 years.

Spreads improved as yields improved & COF declined

Yields have improved by 200bps q-o-q (40bps y-o-y) to 23.8% due to benefit from lower tenure products; whereas cost of funds (COF) declined by 50bps q-o-q (160bps y-o-y) to 10.6% due to base rate cut by banks. Overall, spreads improved by 240bps q-o-q (142bps y-o-y) to 14.8%. Opex to loan book increased by 19bps q-o-q (74bps y-o-y) to 8.3%

Stable Asset Quality

In Q3 FY16, GNPA increased to 1.1% (10bps q-o-q & y-o-y) while in absolute terms, it increased by 9% q-o-q (24% y-o-y) to Rs. 108crs. NNPA increased to 0.9% (10bps q-o-q & y-o-y). This marginal increase is due to recognition of GNPA at 150 days (earlier 180days) to meet RBI norms over period of 2 years by March 2017. Most of the GNPA's are from regular customers who have serviced over half of interest due. NPAs on account of theft, spurious collateral etc. are only 0.09% of AUM.

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 Rs. 112 cr. MFI reported PAT of Rs. 10.4 crs in FY15 (up 121% y-o-y) with loan book of Rs. 340crs (up 74% y-o-y). In Q3 FY16, loan book grew by 30% q-o-q to Rs. 698crs. Asirvad is entering new states into Madhya Pradesh, Punjab & Haryana. Management is further planning to enter Uttar Pradesh, Bihar & Jharkhand.

Valuation

At CMP, Manappuram Finance is trading at P/B multiple of 0.92x its FY16E BV of Rs. 32 and 0.87x its FY17E BV of Rs. 34. We recommend a BUY rating with a target of Rs. 37 by March 2017. Our target price is based on SOTP method. With dividend expectation of Rs.1.8 per share in FY16, dividend yield is ~6% on CMP.

Quarterly Performance:

Particulars ₹ Cr	Q3 FY16	Q3 FY15	y-o-y	Q2 FY16	q-o-q	FY15	FY14	y-o-y
Interest Income	613	511	20%	548	12%	1,968	2,076	-5%
Interest Expenses	235	226	4%	242	-3%	877	1,027	-15%
Net Interest Income	378	285	33%	306	24%	1,090	1,049	4%
Other Income	3	6	-43%	4	-29%	21	36	-42%
Total Income	382	290	32%	310	23%	1,111	1,085	2%
Operating Expenses	219	166	32%	207	6%	674	695	-3%
PPOP*	163	124	31%	104	57%	437	390	12%
Total Provisions	10	1	847%	8	28%	28	47	-40%
PBT	157	123	28%	100	57%	409	343	19%
Taxes	56	42	34%	36	55%	142	117	21%
PAT	101	81	25%	64	59%	267	226	18%
EPS	1.2	1.0	25%	0.8	59%	3.2	2.7	18%

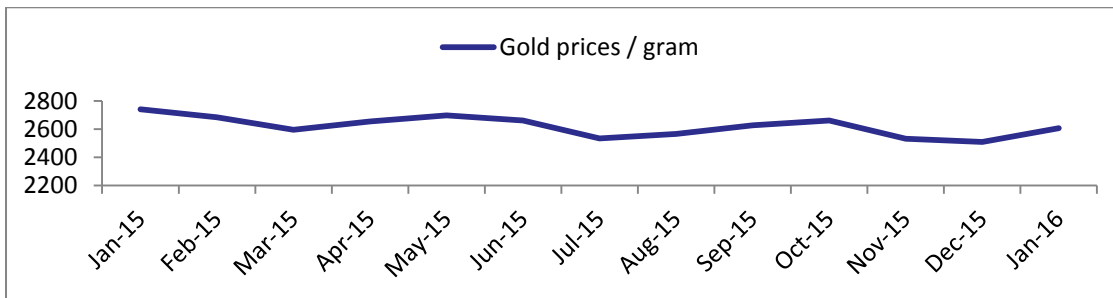
*PPOP – Pre-Provisioning Operating profits



Q3 FY16 Conference Call Highlights

- Entire gold loan book is made up of new products. Company has made a shift from long term tenure products to short term tenure products (3-9 months) which has helped to reduce auctions and improve profitability.
- Management is confident of gaining market share as many of the banks are exiting gold loan business and management is revamping their gold loan portfolio.
- For Q3 FY16, auctions were Rs. 390crs (Rs. 800crs for Q2 FY16).
- Average gold loan tenure is 3-4 months
- Company has seen 20% customer addition in last 1 year.
- Gold NPA is 2.5% on 90 days basis.
- Company will migrate to 120 days past due (dpd) by March 17 and 90dpd by March 18 as per RBI stated timelines.
- Management is confident that asset quality for all the business segments will be maintained with sufficient collateral and high LTVs.
- Commenced insurance broking business from January 2016; this should add fee income going forward.
- Going forward, micro finance business plans to add 500 branches per year and 100 branches per year for gold loan business in under penetrated areas.

Graphs for important parameters

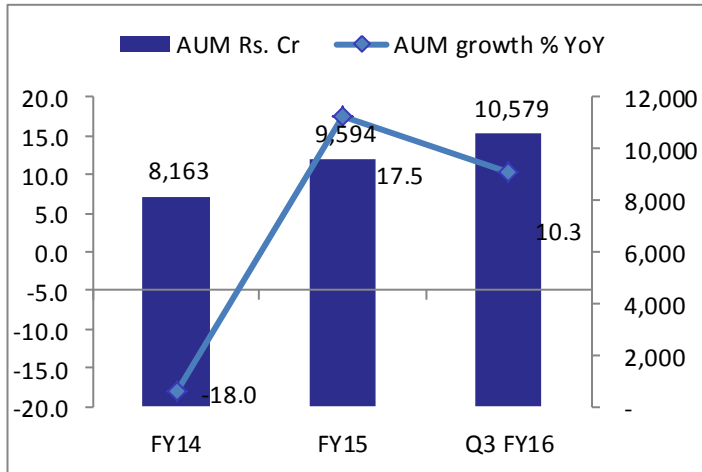


Low volatility in gold prices along with LTV Of 65-70% has helped in managing credit cost. Import duty has been maintained in the Budget 2016 & hence price risk is not there.

Source: Company, Dimensional Securities

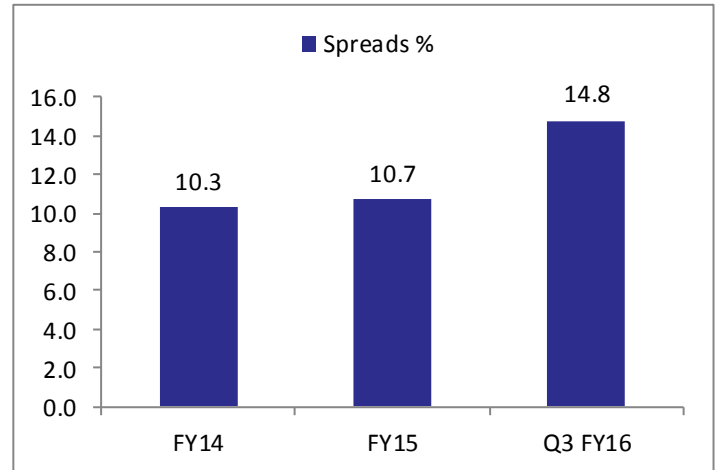


Steady AUM Growth



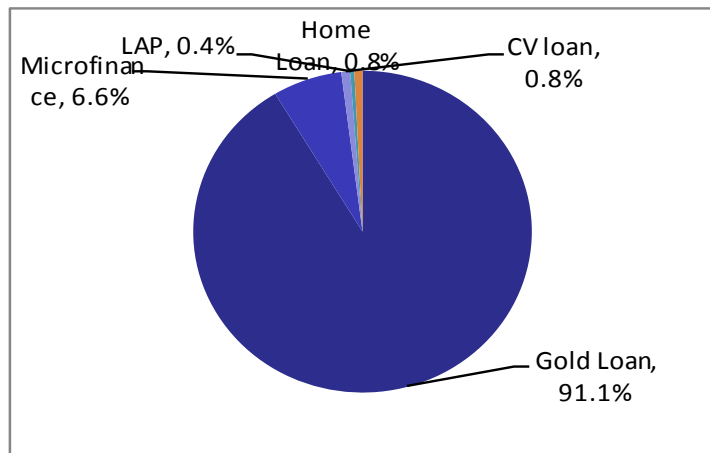
Source: Company, Dimensional Securities

Spreads Improved on lower slippages



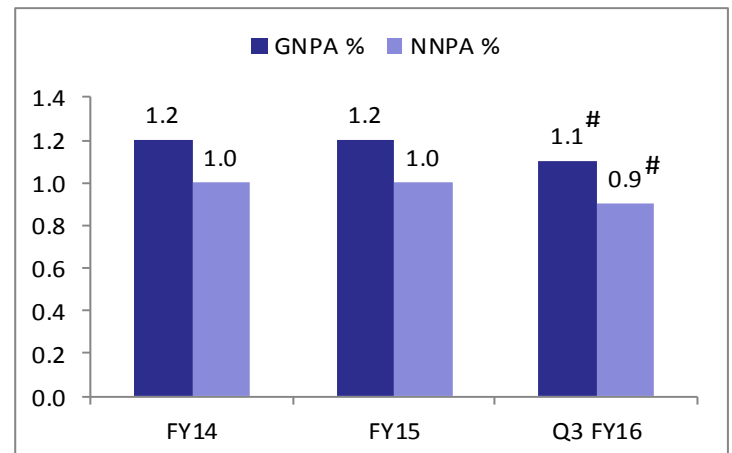
Source: Company, Dimensional Securities

Loan book Mix



Source: Company, Dimensional Securities

Stable Asset Quality



Source: Company, Dimensional Securities

[#] 150 days past due



CONSOLIDATED QUARTERLY PERFORMANCE:

Particulars Rs. in crs	Dec-15	Dec-14	y-o-y	Sep-15	q-o-q	FY15	FY14	y-o-y
Interest Income	613	511	20%	548	12%	1,968	2,076	-5%
Interest Expenses	235	226	4%	242	-3%	877	1,027	-15%
Net Interest Income	378	285	33%	306	24%	1,090	1,049	4%
Other Income	3	6	-43%	4	-29%	21	36	-42%
Total Income	382	290	32%	310	23%	1,111	1,085	2%
Operating Expenses	219	166	32%	207	6%	674	695	-3%
Employee	114	79	45%	105	8%	315	324	-3%
Others	105	88	20%	101	4%	360	372	-3%
Operating Profits before provisions	163	124	31%	104	57%	437	390	12%
Total Provisions	10	1	847%	8	28%	28	47	-40%
PBT	157	123	28%	100	57%	409	343	19%
Taxes	56	42	34%	36	55%	142	117	21%
PAT	101	81	25%	64	59%	267	226	18%
EPS	1.2	1.0	25%	0.8	59%	3.2	2.7	18%
Asset Quality								
GNPA Rs. Cr	108	87	24%	99	9%	107	100	7%
NNPA Rs. Cr	88	70	25%	81	8%	89	82	8%
GNPA %	1.1%	1.0%	10	1.0%	10	1.2%	1.2%	0
NNPA %	0.9%	0.8%	10	0.8%	10	1.0%	1.0%	0
Credit Cost %	0.37	0.05	32	0.30	7	0.29	0.57	-28
Ratios %								
Cost to Income ratio	57	57	5	67	-923	60.68	64.07	-339
Tax Rate	36	34	153	36	-55	34.78	34.12	66
RoA %	3.4%	3.1%	26	2.1%	128	2.6%	1.9%	72
RoE %	14.8%	12.5%	227	9.5%	530	10.5%	9.2%	127
CAR (Basel III) %	25.4%	27.1%	-170	25.3%	10	25.6%	27.7%	-208
Opex to Loan book	8.28	7.54	74	8.10	19	7.03	8.52	-149
Margins %								
Yield on Advances	23.8%	23.4%	37.0	21.8%	200.0	23.0%	21.6%	141.0
Cost of Deposits	10.6%	12.2%	-160.0	11.1%	-50.0	12.3%	12.7%	-40.3
Quarterly Spread	14.8%	13.4%	142.0	12.4%	240.0	13.0%	11.1%	185.5
Balance sheet								
BV-Calculated	32	31	6%	32	2%	31	30	6%
Adj. Net worth*	2,635	2,498	6%	2,588	2%	2,549	2,410	6%
Adj. BV*	31	30	6%	31	2%	30	29	6%
Capital	168	168	0%	168	0%	168	168	0%
Net Worth	2,724	2,568	6%	2,669	2%	2,638	2,492	6%
FV	2	2	-	2		2	2	-
Loan Disbursement	9,410	5,966	58%	8,257	14%	24,726	20,293	22%
Consolidated AUM	10,579	8,824	20%	10,220	4%	9,594	8,163	18%

Source: Company, Dimensional Securities

*Note – Adj. BV and Net worth are adjusted for NNPA

*Interim Dividend of Rs. 1.35 per share has been announced so far for FY16



Gold Loan growth of South India focused Banks and NBFC

Particulars (Rs. in bn)	FY11	FY12	FY13	FY14	FY15	Q3FY16	CAGR
South Indian Bank*	46	52	70	67	25	15	-21%
Federal Bank*	11	24	43	60	34	25	19%
Manappuram finance	75	115	99	82	92	96	5%
IIFL	1	28	39	39	39	28	102%
Muthoot Finance	157	244	260	216	233	250	10%

*Note – Till FY14, loan book includes both Gold & SME Loans

Trend in Gold Stock pledged for the last 5 years

Gold Holding in Tonnes	FY11	FY12	FY13	FY14	FY15	Q3FY16	CAGR
Manappuram Finance	53	66	51	46	53	59	2%
Muthoot Finance	112	137	134	118	131	145	6%

RoA Tree Analysis:

Particulars	Dec-15	Sep-15	Jun-15	Mar-15	Dec-14	FY15	FY14
Interest Income	21.9%	19.8%	19.6%	17.9%	19.0%	16.7%	18.5%
Interest Expenses	8.4%	8.7%	8.6%	8.0%	8.4%	7.4%	8.7%
Net Interest Income	13.5%	11.1%	11.0%	10.0%	10.6%	9.3%	8.9%
Other Income	0.1%	0.2%	0.1%	0.3%	0.2%	0.2%	0.3%
Total Income	13.6%	11.2%	11.1%	10.2%	10.8%	9.4%	9.2%
Operating Expenses	7.8%	7.5%	7.3%	6.2%	6.2%	5.7%	5.9%
Employee	4.1%	3.8%	3.7%	3.0%	2.9%	2.7%	2.7%
Others	3.8%	3.7%	3.6%	3.2%	3.3%	3.1%	3.2%
Operating Profits before provisions	5.8%	3.7%	3.7%	4.0%	4.6%	3.7%	3.3%
Total Provisions	0.3%	0.3%	0.5%	0.3%	0.0%	0.2%	0.4%
PBT	5.6%	3.6%	3.4%	3.8%	4.6%	3.5%	2.9%
Taxes	2.0%	1.3%	1.2%	1.3%	1.6%	1.2%	1.0%
PAT (RoA)	3.6%	2.3%	2.2%	2.5%	3.0%	2.3%	1.9%
Average Assets/ Average Equity	4.23	4.23	4.22	4.38	4.22	4.38	4.78
RoE	15.3%	9.7%	9.2%	10.9%	12.7%	9.9%	9.2%

Source: Company, Dimensional Securities



OUTLOOK & VALUATION: -

Overall, Manappuram Finance reported strong performance with a) NII growth at 24% q-o-q (33% y-o-y), b) strong growth in non-gold loan portfolio (contributes ~9% in Q3FY16 from ~7% in Q2 FY16) and c) marginal volume growth of ~1.9% q-o-q in tonnage gold. With diversification from gold loan business, MFI and other non-gold loan portfolio could boost growth going forward.

Competition in the gold loan business has reduced as some of the players like Capital First and Magma Fincorp have exited the business & some are reducing their gold loan portfolios. The company will gain market share as the management is revamping their gold loan portfolio (i.e. focusing on short tenure products from long tenure products). We expect consolidated loan growth to be 7% & 10% for FY16E and FY17E respectively.

At CMP, Manappuram Finance is trading at P/B multiple of 0.92x its FY16E BV of Rs. 32 and 0.87x its FY17E BV of Rs. 34. We recommend a BUY rating with a target of Rs. 37 by March 2017. Our target price is based on SOTP method as given below. Also, with dividend expectation of 1.8 in FY16, dividend yield is ~6% on CMP.

Valuations break up

FY17E (Rs. in crs)	Networth	P/BV	Total	Remarks
Standalone Entity-Gold loan	2,888	0.9	2,697	Based on Justified P/BV valuation
Asirvad microfinance	153	3.0	390	Huge potential
Others	45	1.0	45	At Book Value
Consolidated			3,132	
Target price			37	

P/BV (Forward)



Source: Company, Dimensional Securities



STANDALONE PROFIT & LOSS STATEMENT:

Particulars Rs in crs	FY14	FY15	FY16E	FY17E	FY18E
Interest Income	2,076	1,958	2,171	2,329	2,536
Interest Expense	1,027	873	872	905	965
Net Interest Income	1,049	1,085	1,299	1,424	1,571
Other operating Income	36	23	32	36	40
NII +OI	1,085	1,108	1,331	1,460	1,612
Total Exp.	695	668	796	856	921
Pre Provisioning Profits	390	440	535	604	691
Provisions	47	27	50	55	60
PBT	343	412	485	549	630
Tax	117	142	168	190	218
PAT	226	271	317	359	412
EPS Rs.	2.7	3.2	3.8	4.3	4.9

Source: Company, Dimensional Securities

STANDALONE BALANCE SHEET:

Particulars Rs. in crs	FY14	FY15	FY16E	FY17E	FY18E
EQUITY AND LIABILITIES					
Share Capital	168	168	168	168	168
Total Reserves	2,324	2,459	2,557	2,719	2,915
Shareholder's Funds	2,492	2,627	2,725	2,888	3,083
Long-Term Borrowings	1,455	1,550	1,659	1,785	1,922
Def. Tax Liabilities (net)	-29	-30	-30	-30	-30
Long Term Provisions	273	109	59	59	59
Total Non-Current Liabilities	1,698	1,630	1,688	1,814	1,951
Current Liabilities					
Trade Payables	36	24	24	24	24
Other Current Liabilities	1,271	1,674	1,452	1,552	1,660
Short Term Borrowings	5,213	5,300	5,761	6,200	6,677
Short Term Provisions	100	48	98	152	213
Total Current Liabilities	6,619	7,045	7,335	7,929	8,573
Total Liabilities	10,809	11,303	11,748	12,630	13,608
ASSETS					
Non-Current Assets					
Fixed Assets	202	172	159	141	118
Non-current investments	21	168	168	168	168
Long term loans & advances	55	86	70	77	84
Other non-current assets	136	131	131	131	131
Total Non-Current Assets	415	557	528	517	501
Current Assets					
Currents Investments	791	212	112	112	112
Cash and Bank	833	683	519	372	220
Other Current Assets	588	582	685	750	822
Short Term Loans & Advances	8,183	9,269	9,904	10,880	11,953
Total Current Assets	10,395	10,746	11,220	12,114	13,106
Total Assets	10,809	11,303	11,748	12,630	13,608

Source: Company, Dimensional Securities



RATIOS:

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Operational Ratios (₹)					
EPS	2.7	3.2	3.8	4.3	4.9
Book Value	29.6	31.2	32.4	34.3	36.7
DPS	1.8	1.8	1.8	2.0	2.2
Spread Analysis					
Yield on Loans	22.7%	22.3%	22.5%	22.3%	22.1%
Cost of Borrowings	11.7%	10.8%	10.2%	10.0%	9.9%
Interest Spread	11.1%	11.5%	12.3%	12.3%	12.2%
Profitability Ratios					
RoE	9.2%	10.6%	11.9%	12.8%	13.8%
RoA	1.9%	2.4%	2.8%	2.9%	3.1%
Productivity Ratios (x)					
Loans per Branch	2.5	2.8	3.0	3.3	3.7
Loans per Employee	0.5	0.6	0.6	0.7	0.8
Debt / Equity	0.0	0.0	0.1	0.1	0.1
Valuation Ratios					
P/E (x)	8.0	10.1	7.9	7.0	6.1
P/B (x)	0.7	1.0	0.9	0.9	0.8
Dividend Yield	8.4%	5.6%	6.0%	6.7%	7.4%

Source: Company, Dimensional Securities



ANALYST CERTIFICATION

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