



Manappuram Finance Ltd. Q4 FY16 Quarterly Update

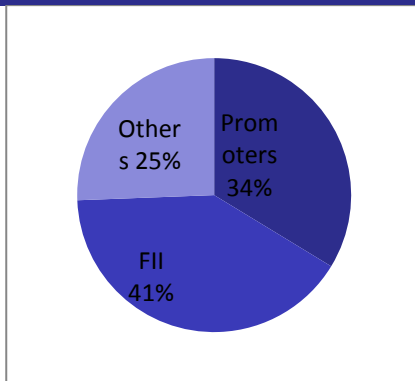
MARKET DATA

NSE TICKER	MANAPPURAM
Networth (FY17E) (Rs. crs)	2,930
P/BV Ratio (FY17E) (x)	1.5
EPS (FY17E) (Rs.)	4.5
Market Price (Rs.)	54
P/E Ratio (FY17E) (x)	11.9
52 Week High (24/5/2016)(Rs)	56
52 Week Low (10/9/2015)(Rs)	20
Market Capitalisation (Rs. In cr)	4,517

AVERAGE MONTHLY VOLUME ('000)

BSE	865
NSE	5,245

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Manappuram	78%	102%	70%
Sensex	16%	2%	-4%

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

Consolidated AUM grew by 8% q-o-q (19% y-o-y) to Rs. 11,433crs led by 43% sequential growth in non-gold loan portfolio. Gold loan portfolio grew by 5% q-o-q (9% y-o-y) mainly due to increase in volumes as gold holdings increased by 2% q-o-q (12% y-o-y) to 59.3 tonnes and increase in disbursement by 20% q-o-q to Rs.10,869crs. Average ticket size increased by 4.3% q-o-q (7% y-o-y) to Rs. 32,463. Non-gold loan portfolio grew by 43% q-o-q which majorly comprises of MFI book (79%) and others (21%) of CV, LAP, home loan and other loans. We expect gold loan book to grow by 12% CAGR and non-gold loan book to increase its share from 12% to ~18% till FY18E.

Higher spreads as yields improved & COF declined

Yields improved by 40bps q-o-q (190bps y-o-y) to 24.2% largely due to lower tenure products which resulted in lower auctions. Cost of funds (COF) declined by 10bps q-o-q (150bps y-o-y) to 10.5% due to rating upgrade earlier this year. As a result, NIMs improved by 100bps sequentially to 15.5%. Opex to loan book declined by 101bps q-o-q (5bps y-o-y) to 7.3%.

Stable asset quality despite shift to 120dpd

GNPA & NNPA declined by 10bps & 20bps sequentially to 1.0% & 0.7% respectively despite shift to 120 dpd. This is largely due to a fundamental shift in the gold loan book from longer tenure to shorter tenure products which will largely reduce the delinquencies and will help in lowering the credit cost going forward. Most of the GNPA are from regular customers who have serviced over half of the interest due. NPAs on account of theft, spurious collateral etc. are only 0.12% of AUM.

Non-gold Loan Portfolio – the growth Enhancer

Asirvad microfinance, subsidiary company with 85% holding was acquired in Feb 2015. It has reached an AUM of Rs. ~1000crs which is ~3x increase from Rs. 322crs in FY15. AUM of housing finance have reached ~ Rs.130crs from a small base of Rs. 15crs respectively.

The increase in AUM of MFI Business is largely due to higher distribution network. The MFI has expanded its presence to 13 states from earlier 4 states when it was acquired. MP, Chattisgarh, Punjab & Haryana are the recently added states. Manappuram has infused Rs. 100crs of capital in the MFI business, taking its stake to 90% from 85% earlier. Cost of funds declined by 350bps to 14.3% from FY15 largely due to rating upgrade (3 notches higher to A-) after its acquisition to Manappuram. MFI business has also reported an ROA of 3.9% for this quarter.

Valuation

At CMP, Manappuram Finance is trading at P/B multiple of 1.6x its FY17E BV of Rs. 35 and 1.5x its FY18E BV of Rs. 37. We have revised our rating from BUY to HOLD with a target of Rs. 60 by March 2017. Our target price is based on SOTP method. With dividend expectation of Rs.2.0 per share in FY17, dividend yield is ~4% on CMP.

Quarterly Performance:

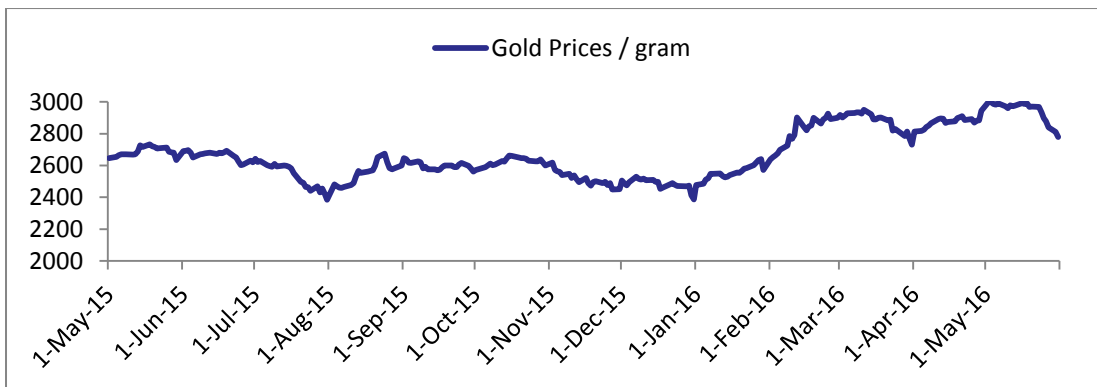
Particulars ₹ Cr	Q4 FY16	Q4 FY15	y-o-y	Q3 FY16	q-o-q	FY16	FY15	y-o-y
Interest Income	650	504	29%	613	6%	2,349	1,968	19%
Interest Expenses	236	224	5%	235	1%	948	877	8%
Net Interest Income	415	280	48%	378	10%	1,401	1,090	28%
Other Income	2	7	-70%	3	-33%	11	21	-45%
Total Income	417	287	45%	382	9%	1,412	1,111	27%
Operating Expenses	208	173	20%	219	-5%	835	674	24%
PPOP	209	114	84%	163	28%	577	437	32%
Total Provisions	13	8	52%	10	32%	42	28	51%
PBT	199	108	85%	157	26%	548	409	34%
Taxes	68	38	82%	56	21%	193	142	36%
PAT	131	70	86%	101	29%	355	267	33%
EPS	1.2	1.0	25%	0.8	59%	3.2	2.7	18%



Q4 FY16 Conference Call Highlights

- Management expects Non-gold loan book to be 25% of the overall loan book by end of FY18. Gold loan book will grow by 20% by FY18. The growth in non-gold book will largely come from MFI book.
- Company has made a strategic shift to low tenure gold loans which have helped reduce auctions and improve profitability. For Manappuram, 3 months and 6 months gold loan book constitute ~90% of the book.
- LTV is ~60% for the 1 year loan and for 3 month product have 75% LTV.
- For MFIs, new states contribute ~22% of AUM.
- Higher provisions was on account of change in standard asset provisioning norm (35bps versus 30bps earlier)
- Average ticket size of MFI business – Rs. 20,000.

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



CONSOLIDATED QUARTERLY PERFORMANCE:

Particulars Rs. in crs	Mar-16	Mar-15	y-o-y	Dec-15	q-o-q	FY16	FY15	y-o-y
Interest Income	650	504	29%	613	6%	2,349	1,968	19%
Interest Expenses	236	224	5%	235	1%	948	877	8%
Net Interest Income	415	280	48%	378	10%	1,401	1,090	28%
Other Income	2	7	-70%	3	-33%	11	21	-45%
Total Income	417	287	45%	382	9%	1,412	1,111	27%
Operating Expenses	208	173	20%	219	-5%	835	674	24%
Employee	112	83	34%	114	-2%	433	315	38%
Others	97	90	7%	105	-8%	402	360	12%
Operating Profits before provisions	209	114	84%	163	28%	577	437	32%
Total Provisions	13	8	52%	10	32%	42	28	51%
PBT	199	108	85%	157	26%	548	409	34%
Taxes	68	38	82%	56	21%	193	142	36%
PAT	131	70	86%	101	29%	355	267	33%
EPS	1.6	0.8	86%	1.2	29%	4.2	3.2	33%
Asset Quality								
GNPA Rs. Cr	98	107	-9%	108	-9%	98	107	-9%
NNPA Rs. Cr	76	89	-14%	88	-14%	76	89	-14%
GNPA %	1.0%	1.2%	-20	1.1%	-10	1.0%	1.2%	-20
NNPA %	0.7%	1.0%	-30	0.9%	-20	0.7%	1.0%	-30
Credit Cost %	0.45	0.35	10	0.37	8	0.37	0.29	8
Ratios %								
Cost to Income ratio	50	60	-1046	57	-748	59.12	60.68	-156
Tax Rate	34.38	34.83	-45	36	-143	35.24	34.78	46
RoA %	4.2%	2.4%	180	3.4%	80	3.0%	2.6%	38
RoE %	19.0%	10.3%	870	14.8%	420	12.8%	10.5%	233
CAR (Basel III) %	24.0%	25.6%	-160	25.4%	-140	0.0%	25.6%	-2560
Opex to Loan book	7.28	7.23	5	8.28	-101	7.30	7.03	27
Margins %								
Yield on Advances	24.2%	22.3%	190.0	23.8%	40.0	23.0%	23.0%	1.0
Cost of Deposits	10.5%	12.0%	-150.0	10.6%	-10.0	11.0%	12.3%	-129.8
Quarterly Spread	15.5%	12.5%	300.0	14.8%	70.0	13.8%	13.0%	86.0
Balance sheet								
BV-Calculated	33	31	5%	32	1%	33	31	5%
Adj. Net worth*	2,682	2,549	5%	2,635	2%	2,682	2,549	5%
Adj. BV*	32	30	5%	31	2%	32	30	5%
Capital	168	168	0%	168	0%	168	168	0%
Net Worth	2,758	2,638	5%	2,724	1%	2,758	2,638	5%
FV	2	2		2		2	2	
Loan Disbursement	11,510	7,345	57%	9,410	22%	37,586	24,726	52%
Consolidated AUM	11,433	9,594	19%	10,579	8%	11,433	9,594	19%

Source: Company, Dimensional Securities

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

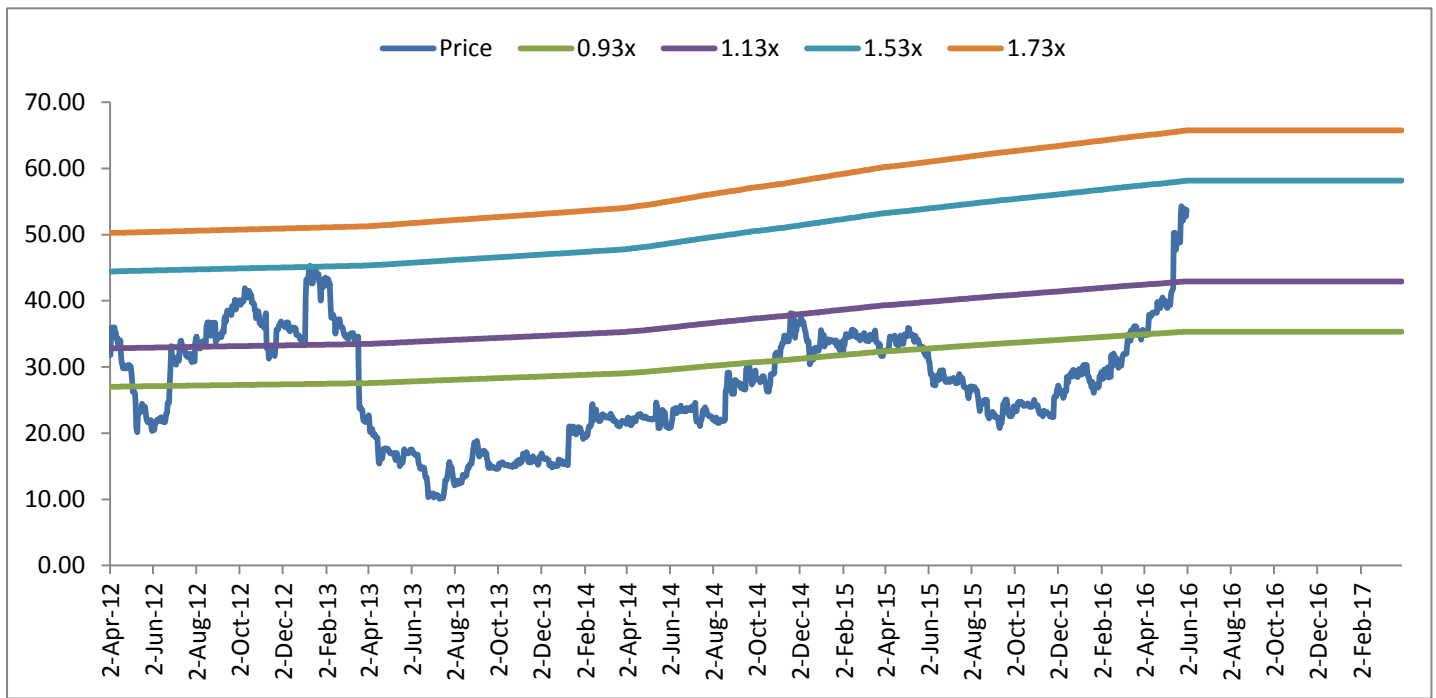


RoA Tree Analysis:

Particulars	Mar-16	Dec-15	Sep-15	Jun-15	Mar-15	FY16	FY15
Interest Income	21.3%	21.9%	19.8%	19.6%	17.9%	16.7%	16.7%
Interest Expenses	7.7%	8.4%	8.7%	8.6%	8.0%	7.4%	7.4%
Net Interest Income	13.6%	13.5%	11.1%	11.0%	10.0%	9.3%	9.3%
Other Income	0.1%	0.1%	0.2%	0.1%	0.3%	0.2%	0.2%
Total Income	13.6%	13.6%	11.2%	11.1%	10.2%	9.4%	9.4%
Operating Expenses	6.8%	7.8%	7.5%	7.3%	6.2%	5.7%	5.7%
Employee	3.6%	4.1%	3.8%	3.7%	3.0%	2.7%	2.7%
Others	3.2%	3.8%	3.7%	3.6%	3.2%	3.1%	3.1%
Operating Profits before provisions	6.8%	5.8%	3.7%	3.7%	4.0%	3.7%	3.7%
Total Provisions	0.4%	0.3%	0.3%	0.5%	0.3%	0.2%	0.2%
PBT	6.5%	5.6%	3.6%	3.4%	3.8%	3.5%	3.5%
Taxes	2.2%	2.0%	1.3%	1.2%	1.3%	1.2%	1.2%
PAT (RoA)	4.3%	3.6%	2.3%	2.2%	2.5%	2.3%	2.3%
Average Assets/ Average Equity	4.53	4.23	4.23	4.22	4.38	4.38	4.38
RoE	19.4%	15.3%	9.7%	9.2%	10.9%	9.9%	9.9%

Source: Company, Dimensional Securities

P/BV (Forward)



Source: Company, Dimensional Securities



OUTLOOK & VALUATION: -

Overall, Manappuram Finance reported strong performance with a) NII growth at 10% q-o-q (48% y-o-y), b) strong growth in non-gold loan portfolio (contributes ~12% in FY16 from ~9% in Q3 FY16) and c) volume growth of ~2% q-o-q in tonnage gold. With diversification from gold loan business, MFI and other non-gold loan portfolio could boost growth going forward.

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). As per our channel checks, the tenure of the gold loans are not more than 6 months and current yield is ~24%

At CMP, Manappuram Finance is trading at P/B multiple of 1.6x its FY17E BV of Rs. 35 and 1.5x its FY18E BV of Rs. 37. We have revised our rating from BUY to HOLD with a target of Rs. 60 by March 2017. Our target price is based on SOTP method. We have valued gold loan business at Rs. 55 per share by Dividend Discount Method (DDM) and non-gold loan portfolio at Rs. 5 per share at 1.25x P/BV. Also, with dividend expectation of Rs. 2.0 in FY17, dividend yield is ~4% on CMP.



STANDALONE PROFIT & LOSS STATEMENT:

Particulars Rs in crs	FY14	FY15	FY16	FY17E	FY18E
Interest Income	2,076	1,958	2,203	2,370	2,588
Interest Expense	1,027	873	884	933	1,006
Net Interest Income	1,049	1,085	1,319	1,436	1,581
Other operating Income	36	23	15	21	24
NII +OI	1,085	1,108	1,334	1,457	1,605
Total Exp.	695	668	782	848	927
Pre Provisioning Profits	390	440	551	609	678
Provisions	47	27	32	34	38
PBT	343	412	519	575	640
Tax	117	142	182	193	214
PAT	226	271	337	383	426
EPS Rs.	2.7	3.2	4.01	4.55	5.06

Source: Company, Dimensional Securities

STANDALONE BALANCE SHEET:

Particulars Rs in Cr	FY14	FY15	FY16	FY17E	FY18E
Capital	168	168	168	168	168
Reserves and Surplus	2,324	2,459	2,569	2,763	2,962
Networth	2,492	2,627	2,737	2,931	3,130
Borrowed Funds	6,667	6,850	7,882	8,556	9,605
Deferred tax liabilities/assets	(29)	(30)	(39)	(39)	(39)
Current Liabilities and Provisions	1,679	1,855	1,292	1,506	1,564
Total Liabilities	10,809	11,303	11,872	12,955	14,261
Loans	8,238	9,355	10,389	11,189	12,756
Investments	812	379	324	331	345
Cash & Bank Balances	833	683	492	714	385
Other Current Assets	588	582	379	424	467
Fixed Assets	202	172	190	199	209
Other non-current assets	136	131	98	98	98
Total Assets	10,809	11,303	11,872	12,955	14,261

Source: Company, Dimensional Securities



RATIOS:

Particulars	FY14	FY15	FY16	FY17E	FY18E
Operational Ratios (₹)					
EPS	2.7	3.2	4.0	4.5	5.1
Book Value	29.6	31.2	32.5	34.8	37.2
DPS	1.8	1.8	1.8	2.0	2.3
Spread Analysis					
Yield on Loans	22.7%	22.3%	22.3%	22.0%	21.6%
Cost of Borrowings	11.7%	10.8%	10.2%	10.0%	9.8%
Interest Spread	11.1%	11.5%	12.1%	12.0%	11.8%
Profitability Ratios					
RoE	9.2%	10.6%	12.6%	13.5%	14.0%
RoA	1.9%	2.4%	2.9%	3.1%	3.1%
Productivity Ratios (x)					
Loans per Branch	2.5	2.8	3.2	3.4	3.9
Loans per Employee	0.5	0.6	0.6	0.7	0.7
Debt / Equity	0.0	0.0	0.0	3.3	3.4
Valuation Ratios					
P/E (x)	8.0	10.1	8.7	11.8	10.6
P/B (x)	0.7	1.0	1.1	1.5	1.4
Dividend Yield	8.4%	5.6%	5.2%	3.7%	4.3%

Source: Company, Dimensional Securities



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