

29th December 2023

Manappuram Finance Ltd – BUY

CMP : Rs. 171.0
Target Price : Rs. 208.0
Upside : 22%
Stop Loss : Rs. 149.0

Investment Thesis

- In Manappuram Finance (MANA) gold advance percentage has been steadily dropping, and it is presently about 53%. This was a strategy aimed at diversification and is beginning to take shape. It helps reduce concentration risk and aids in growth by diversifying the business mix and reducing reliance on any one area. A 50:50 split between gold and non-gold books is the management's goal. This shift will even boost the margins and net profitability.
- It appears that the level of competition in gold loans, which affected growth and profitability, has peaked. Gold loan growth is anticipated to be 8–10% Aum growth in FY24, driven mostly by customer accretion. In FY24–25E, quicker growth in the non-gold loan portfolio is anticipated which includes MFI, Vehicle, MSME, and Housing loans.
- Broad branch network of 5,261 branches and quick response times are still two of the company's advantages against other NBFCs. Adoption of digital transformation is thought to improve ability to compete by redefining customer experience, optimizing procedures.
- Steady yields and the capacity to transfer increased CoF (Cost of funds) to support RoA is effective in Manappuram Finance (MANA). yields are predicted to be robust at their present level of ~21-22% ahead, with interest rates projected to be close to peak and stabilizing competition. The impact on margins is anticipated to be modest despite the recent rise in risk weight by the RBI, which is predicted to raise the total cost of financing by 15–25 basis points. Diversification of the portfolio and healthy growth are seen to help NIMs.
- MANA's asset quality is improved from FY22. In Q2FY24 GNPA/NNPA is improved by 170bps and 130bps which was at 1.3%/1.1% while in Asirvad GNPA/NNPA were at 2.8%/1.1% that was 3.5%/0.2% in FY22. They have maintained CAR of 30.71, LCR of 256% and collection efficiency of 100% which shows the robust asset quality of MANA.

Financials

- In Q2FY24 Increased focused toward high yield loans supported revenue growth and robust margins. MANA reported net interest income of Rs. 1467.3Cr with QoQ / YoY growth of 6.5%/25.6% whereas PAT was Rs. 560.7 Cr. grew by 12.6% and 36.7% QoQ/YoY basis. MANA also reported 70bps YoY basis improved ROA at 5.1%.

Particulars	FY21	FY22	FY23	FY24E	FY25E
NII* (Rs in Crs)	3,970	3,828	4,252	5,250	6,300
PPOP*(Rs in Crs)	2,756	2,269	2,348	3,274	3,765
PAT * (Rs in Crs)	1,725	1,328	1,500	2,100	2,476
ROA (Rs.) *	5.5	4.1	4.1	4.9	4.9
BVPS (x)	86.3	98.9	113.9	135.02	160
P/BV (%)	1.9	1.6	1.4	1.3	1.3

Stock Data

Market Cap (Rs. Crs)	14,652
Market Cap (\$ Mn)	1,762.27
Shares O/S (in Mn)	846
Avg. Volume (3 month)	1,08,57,450
52-Week Range (Rs.)	178/101

Shareholding Pattern

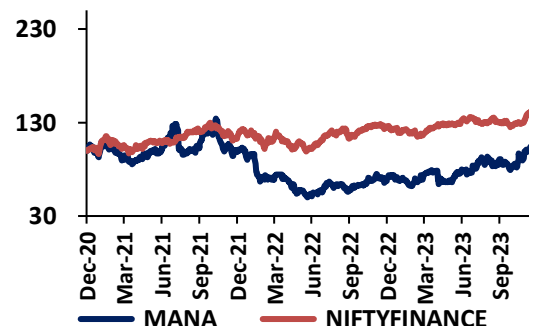
Promoters	35.20
FII's	27.08
Institutions	12.25
Others (incl. body corporate)	25.47

Key Ratios

Div Yield	1.72%
TTM PE	7.86
ROE	16.6%
TTM EPS (Rs.)	22.0

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	13.9	33.5	54.8
NIFTYFINANCE	4.6	25.2	42.0



- The company reported robust growth in AUM of Rs. 38951 Cr. grown by 27/5% YoY/ QoQ, mainly driven by healthy growth in MFI (Up 42% YoY, 9% QoQ), vehicles (Up 67/13% YoY/QoQ) and housing (Up 42/9% YoY/QoQ).
- Rs. 20800 Cr. Gold AUM has grown by 1% QoQ and 8% YoY, Gold Loan LTV is at 66% as on Q2FY24. Expecting growth of 8% YoY in gold loans in FY24

Key Business Highlights

- Manappuram Finance is a Non-Banking Finance Company (NBFC), which provides a wide range of fund based and fee based services. Currently MANA has 53% of gold loan, 25% of MFI, 3% of HFC, 8% of VFC, On-lending 2%, MSME 7% contribution in total advances.
- The cost of borrowing in Q2FY24 was 8.85%, due to an improved credit rating and a better combination of borrowing mix, although market rates are at an all-time high, these factors allow them to maintain their cost of borrowing. We can anticipate a decline in costs as rate cuts are anticipated in FY25. The company has submitted a DHRP (draft red herring prospectus) for its subsidiary Asirvad Finance, intending to raise Rs. 1,500cr through a new offering that may potentially lower borrowing costs down.
- In the standalone gold loan entity, the management does not expect the credit cost to go beyond 1%. Asirvad's credit cost shot up during covid period, but now management doesn't expect any further growth in credit cost and maintained at 2.5%.
- MANA has a very robust physical and digital network consisting of 4,044 gold branches located in 17% of the North, 10% of the East, 63% of the South, and 10% of the West. MANA has 1,242 branches that are not gold as well. Digital networks are providing a significant increase in personal loans, and digitalization has also increased Mana's overall operational efficiency. By using their data on gold loans, they are using digital channels to market other products.

Valuation

Manapurram Finance Ltd. (MANA) is shifting its focus toward high yield loans from gold loans with maintained asset quality which is supporting its NIM's and net profitability.

We recommend MANA with a BUY rating which is currently trading at attractive PB of 1.41x and connoting a Target Price of Rs. 208 (1.3x P/BV multiple on FY25E BVPS) and a potential upside of 22%.

Risk & Concern

- Increasing interest rates can impact NIMs and overall profitability of MANA.
- MANA have exposure in risky loans which increase the risk of asset quality.

Graphs & Charts

Figure 1: AUM (Cr.) & Growth (YoY)

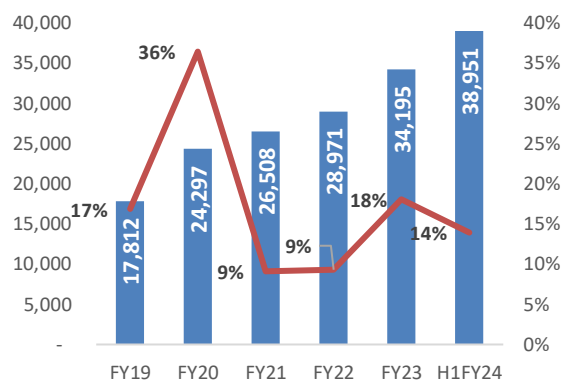


Figure 2: Diversification in advances

Advance Mix	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Gold	62.60%	58.40%	55.70%	55.60%	53.40%
MFI	23.20%	25.39%	26.29%	25.19%	25.90%
HFC	3.00%	3.29%	3.19%	3.29%	3.40%
VEF	6.10%	6.60%	6.90%	7.50%	8.10%
On-lending	0.90%	1.60%	2.59%	2.29%	2.49%
MSME & Allied	4.20%	4.99%	5.69%	6.49%	6.90%

Figure 3: NII and NIMs

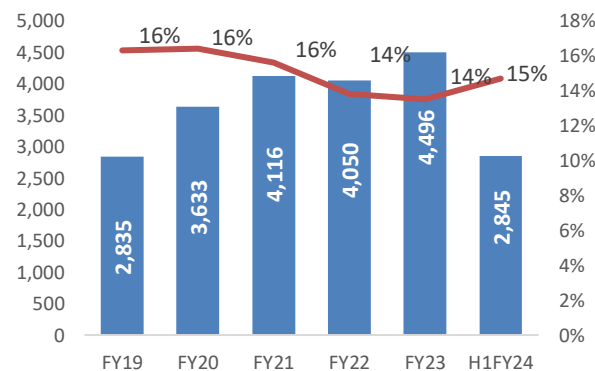
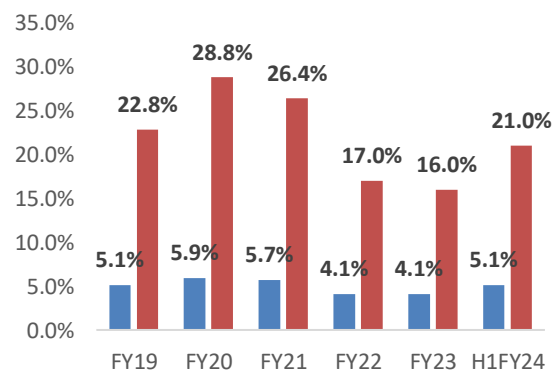


Figure 4: ROA & ROE



Name
Vaibhav Vidwani

Designation
Research Analyst

Disclosure: M/s. Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. M/s. Bonanza Portfolio Ltd has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. The Analysts engaged in preparation of this Report or his/her relative: - (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report. The Analysts engaged in preparation of this Report:- (a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

M/s. Bonanza Portfolio Ltd is a registered Research Analyst under the regulation of SEBI, the year 2014. The Regn No. INH100001666 and research analyst engaged in preparing reports is qualified as per the regulation's provision.

Disclaimer: This research report has been published by M/s. Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently sent or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of M/s. Bonanza portfolio Ltd shall be liable. Research report may differ between M/s. Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the Subject Company or third party in connection with the research report.

M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate, Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

BSE /NSE/MCX : | CASH | DERIVATIVE | CURRENCY DERIVATIVE | COMMODITY SEGMENT |

| CDSL: | 120 33500 | NSDL: | IN 301477 | | PMS: INP 000000985 | AMFI: ARN -0186