



## BUY

## Poised for growth, attractive valuations

BSE Code	521213
NSE Code	Manappuram
Bloomberg Code	MGFL:IN
Current Price	34
Target Price	48.2
Mcap ₹ mn	28599
Mcap US mn	461
52 wk H/L	35/20
Face Value	2
2 wk avg vol (000)	3562

Manappuram posted numbers in line with expectation during the quarter. The most heartening part of the results was the increase in disbursements sequentially as well as the reduced NPA's. The NII was up by a mere 0.2% while the profits were up by 5.5% over the previous quarter. The gold loan business still has a very large potential as there is still a very large population that uses the unorganized sector for gold loan funding, this will gradually shift which will help them grow. In addition now with a small start during the quarter the vehicle finance business and the home loan business too would help diversify and give a fillip to loan disbursements. Although these division would be a drag to the profitability in the near term as they build their book they would add to the overall profits of the consolidated entity. Interest costs have seen a good decline over the past couple months and the expectations of rate cuts would bode well for overall profitability going forward. The biggest concern to growth and profitability is the increased competition in the space. Manappuram is still charging interest rates higher than the other players as they cater to smaller ticket size loans, however this space too would begin to attract more attention which could lead to some shrinkage in margins over the longer term.

## Financial Snapshot

₹ mn	FY14	FY15E	FY16E
NII	10,264	10,905	12,513
% ch	0.2	6.3	14.7
PBDT	4,538	5,031	5,802
%ch	1.0	10.9	15.3
PAT	2,260	2,702	3,168
%ch	8.4	19.6	17.2
BV	29.6	30.7	32.2
EPS	2.7	3.2	3.8
P/BV	1.1	1.1	1.1
P/E	12.7	10.6	9.0
RoE	9.1	10.5	11.7

**Fresh disbursements increase:** Manappuram disbursements for the quarter stood at ₹59.6bn which was higher by 2.2% on a sequential basis and 19.1% over the previous year. Although the numbers don't see a big uptick the momentum seems to have shifted from declining disbursements to increasing. The management has guided for continued growth in disbursements going forward in the gold loan space. During the quarter it also approved and disbursed a vehicle loan and a housing finance loan. Although that is nothing at the moment it is the beginning and this could enable them to grow its loan book at a quicker pace along with diversifying its book.

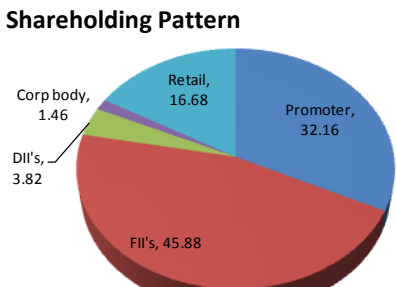
**Yield & spreads to decline with diversification:** During the quarter we saw a small dip in yields which was down by 64bps sequentially, this while the interest costs declined by 19bps which caused a small decline in spreads as well. Although we believe cost of funds will decline faster than the yields going forward there will be some compression in spreads as they diversified loan book increases as housing loans and vehicle loans command a much lower premium than the gold loans do.

**CAR at high levels will allow for loan growth without dilution:** Manappuram has finished the quarter with a CAR of 26.9%. The management has guided they would be making some investments in the housing finance business and the micro finance which would lead to some reduction in CAR. However given the current levels and probable investment guidance we don't see a requirement of equity dilution in the next 12 months even with expected growth rates.

**Asset quality concerns ease:** Manappuram saw a big improvement in asset quality with the gross and net NPA's both declining by 51% and 48.2% over the previous quarter. Lower NPA's were due to sale of gold undertaken during the quarter with limited additions during the current quarter. As per the management most of the NPA's are from customers who have paid regularly in the past and expect this number to be lower going forward. The lower NPA's allows them for lower provisioning which has helped them increase profitability which could be the same during the next quarter as well.

**Acquisition of a micro finance company:** Manappuram is in the advanced stage of acquiring a micro finance company. Asirvad Microfinance already has a good base of

## Shareholding Pattern



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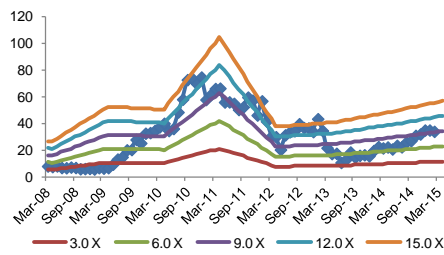


## NATVERLAL &amp; SONS

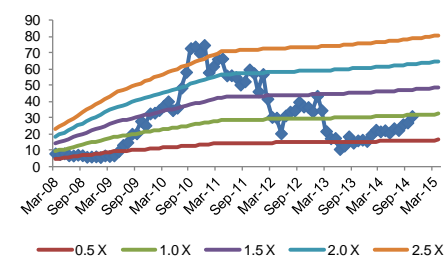
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**Forward P/E Ratio**



**Forward P/BV Ratio**



clients and this acquisition apart from getting them involved in micro finance will also open up avenues of gold loans to the existing clients of Asirvad. It would be important to see what price is paid for the same.

**Valuations:**

At the current price Manappuram is trading at P/E of 10.6x and 9.0x and a P/BV of 1.11x and 1.06x its FY15E and FY16E earnings respectively. If we look at the previous valuations it is trading at a large discount to those multiples. Although we don't expect it to trade at those valuations we believe it is trading at a discount to most finance companies at present. Given the single business gold loans in the past we could give a lower valuation multiple however given the rebound in growth and also the diversification of the book we believe the discount should reduce to most other players. Although the new business will take time to turn profitable we believe it would give a good growth to its loan book by leveraging on its reach and also its existing client base. In view of that we give it a target multiple of 1.5x its FY16E which we believe is reasonable. Based on this we arrive at a revised target price of ₹48.2 implying an upside of 42% from the current levels and hence maintain our BUY recommendation on the stock.

**Financials**

**Profit & Loss**

In Rs million	FY13	FY14*	FY15E*	FY16E*
Interest Income	22,142	20,530	19,867	21,545
YoY (%)	(15.2)	(7.3)	(3.2)	8.4
Interest Expenses	11,895	10,266	8,961	9,032
YoY (%)	9.2	(13.7)	(12.7)	0.8
NII	10,247	10,264	10,905	12,513
YoY (%)	(32.7)	0.2	6.3	14.7
Other Income	500	589	344	249
Total Income	10,746	10,852	11,249	12,762
Operating Expenses	6,252	6,314	6,218	6,959
Employee Expenses	3,409	3,235	3,218	3,555
Establishment Expenses	2,843	3,079	3,000	3,404
PBDIT	4,494	4,538	5,031	5,802
Depreciation	617	639	671	692
Provisions & contingencie	812	469	258	302
PBT	3,065	3,430	4,101	4,809
Tax Expenses	981	1,170	1,399	1,641
PAT	2,084	2,260	2,702	3,168
Exceptional Items	0	0	0	0
Net Profit	2,084	2,260	2,702	3,168
YoY (%)	(64.8)	8.4	19.6	17.2

**Balance Sheet**

In Rs million	FY13	FY14*	FY15E*	FY16E*
Equity capital	1,682	1,682	1,682	1,682
Reserves	22,747	23,235	24,165	25,365
Net worth	24,429	24,917	25,848	27,048
Total borrowings	98,122	77,954	72,460	79,057
Non Current Liabilities	524	2,726	2,998	3,298
Current Liabilities	4,203	2,787	3,912	4,424
<b>Total liabilities</b>	<b>127,278</b>	<b>108,385</b>	<b>105,218</b>	<b>113,827</b>
Net block	2,105	1,973	1,347	855
CWIP	307	45	200	200
Investments	6,976	7,956	5,956	3,456
Oustanding Loans	100,414	82,420	87,179	97,784
Deffered tax asset	468	289	303	319
Other Non current assets	1,530	1,412	1,685	2,012
Cash	8,836	8,445	2,119	2,128
Other current assets	6,642	5,844	6,429	7,072
<b>Total assets</b>	<b>127,278</b>	<b>108,385</b>	<b>105,218</b>	<b>113,827</b>

Key Ratios	FY13	FY14*	FY15E*	FY16E*
EPS (Rs)	2.5	2.7	3.2	3.8
CEPS (Rs)	2.9	3.7	4.0	4.6
Book value (Rs)	29.0	29.6	30.7	32.2
DPS (Rs)	1.5	1.8	1.8	2.0
CAR	22.7	28.1	27.6	25.7
ROE	8.5	9.1	10.5	11.7

Valuations	FY13	FY14*	FY15E*	FY16E*
PE (x)	13.7	12.7	10.6	9.0
Cash PE (x)	11.8	9.3	8.4	7.4
Price/book value (x)	1.17	1.15	1.11	1.06

\* consolidated results

**Disclaimer**

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