

Shubh Nivesh



CMP: ₹ 163

Target: ₹ 200 (23%) Target Period: 6-12 months

BUY (HIGH CONVICTION IDEA)

Dec 4, 2023

Healthy & diversified franchise at attractive valuation...

About the stock: Incorporated in 1992, Manappuram Finance is an NBFC engaged in various financing activities. Started business with gold finance and later entered in MFI, auto and affordable housing finance through subsidiaries.

- Pan India presence with ~5200 branches across 28 states and UTs catering to large customer base with support from huge workforce
- As of September 2023, AUM stood at ₹38,951 crore, comprising of gold loans (~53.4%), MFI loans (~25.9%) and other categories (auto, home, MSME loans) as the remaining ~20%.

Investment Rationale:

- Strategy aiming diversification taking shape: Strategy to diversify business mix with lower dependence on any of the segment is gradually taking shape aiding growth as well as concentration risk. Management aiming at 50:50 mix between gold and non-gold book. Proportion of gold loan gradually declining and currently stands at ~53%.
- Unaltered focus on business growth: Competitive intensity in gold loans, which impacted growth & margins, seems to be peaked. Gold loans are expected to grow at 8-10%, primarily led by customer accretion, while faster growth in non-gold loan portfolio (MFI, auto, MSME & housing) is seen to keep traction in consolidated AUM healthy at 15-18% in FY24-25E.
- Core strength still prevails in small ticket loans: Extensive branch network, faster turnaround times continues to remain one of the strengths especially in smaller ticket loans which provide an edge to gold loan NBFCs. Adoption of digital transformation aiming to redefine customer experience, optimise processes & innovation is seen to enhance capability to face competition.
- Steady yields and ability to pass on higher CoF to aid RoA: with interest rates anticipated to be near peak and stabilizing competition, yields are expected to remain buoyant at current level of ~21-22% ahead. Recent hike in risk weight by RBI is expected to result in 15-25 bps increase in overall cost of funds, however, impact on margins is seen to remain marginal. Healthy growth & portfolio diversification is seen to aid NIMs.

Rating and Target Price

- Steady yield in gold loans and ability to pass on impact of recent increase in risk weight related cost is seen to aid margins. Diversification strategy aiming target of 50:50 mix between gold and non-gold book is expected to aid growth, margins as well RoA ahead.
- At CMP, the stock is trading ~1x FY25E ABV which seems relatively attractive. Thus, assigning a multiple of ~1.3x FY25E ABV, we ascribe target of ₹200 per share and a BUY rating

Key Financial Summary

₹crore	FY21	FY22	FY23	2 year CAGR (FY21-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	3970.7	3828.4	4252.6	96.6%	5250.3	6090.4	19.7%
PPP	2756.2	2269.7	2348.1	108.3%	3274.1	3725.9	26.0%
PAT	1725.0	1328.7	1500.1	107.2%	2099.1	2415.5	26.9%
BV	86.3	98.9	113.9		135.02	159.27	
P/E	16.0	20.8	18.4		13.1	11.4	
P/ABV	1.9	1.6	1.4		1.2	1.0	
RoA	5.5	4.1	4.1		4.9	4.9	
RoE	23.6	17.0	16.7		19.9	19.4	

Source: Company, ICICI Direct Research



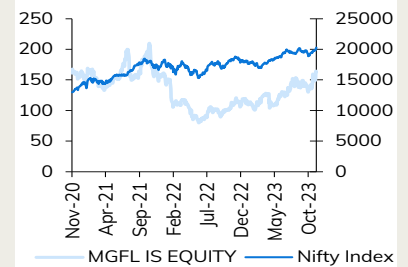
Particulars

Particulars	Amount
Market Capitalisation	13,772
52 week H/L	1 49/75
Net Worth	10,572
Face Value	2.00
DII Holding (%)	12.25
FII Holding (%)	27.08

Shareholding pattern

	Dec-22	Mar-23	Jun-23	Sep-23
Promoter	35.0	35.0	35.0	35.0
FII	30.1	30.2	30.7	27.1
DII	11.6	13.5	10.7	12.3
Others	23.3	21.3	23.6	25.7

Price Chart



Recent Event & Key risks

- AUM growth seen to pick up with share of gold and non-gold book targeted at 50:50
- Key Risk: (i) Impact of higher cost of funds on business growth; (ii) Asset quality volatility in non-gold portfolio

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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