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2QFY17 Result Update | Sector: NBFC

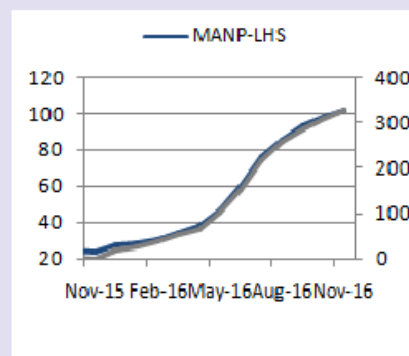
## Manappuram Finance

BSE SENSEX	S&P CNX	CMP: INR102		TP: INR114 (+12%)		BUY					
27518	8525										
Equity Shares (cr)	84.0	YEAR	NET INC	PAT	EPS	EPS	PE	BV	P/BV	ROAA	ROAE
52-Week Range (Rs)	107/22	END	(INRCr)	(INRCr)	(INRCr)	Gr.(%)	(X)	(INR)	(X)	(%)	(%)
1,6,12 Abs.Perf.(%)	12/147/353	FY16	1426	353	4.2	30	24.2	32.8	3.1	3.0	12.8
M.Cap. (Rs cr)	8,568	FY17E	2111	680	8.1	92	12.6	37.9	2.7	4.9	22.3
M.Cap. (US\$ b)	1.3	FY18E	2533	890	10.5	31	9.7	45.1	2.3	5.1	24.8

### Result Highlights: Above est; Loan growth accelerates to 42%; PAT grows 205%; Expect a soft Q3

- Manappuram's Net Income at INR 553cr grew by 76% YoY on the back of 42% growth in AUM. NIMs expanded 380bp YoY / -10bp QoQ as (i) the company suffered severe auction losses in 2QFY16, (ii) company shifted its entire incremental advances towards the three month product which commands a higher yield. Further, lower OPEX growth of 16% aided Pre Provisioning Profits which came in at INR 313cr, an increase of 190% YoY. Profits grew by a robust 205% to INR 192.4cr, 7% above our estimate of INR 179.5cr. GNPA's were stable at 1.0% (have ranged between 0.8-1.2% over last 8 quarters).
- The impact of demonetisation is expected to have an impact in 3Q atleast for 10-12 days which should impact both disbursements (although 50% are disbursed through NEFT/online) as well as collections. We thus expect 3Q to be a soft quarter wherein loan growth as well as asset quality would get impacted which we build in our model. However we expect stability to come back in 4Q as the company and customers get on with the money supply of new notes. We see the demonetisation drive a long term positive for the company which drives out loan sharks/moneylenders and brings the masses under the organised lending stream. The unorganised gold loan market is estimated to be 4x that of the organised.

INRCr	2QFY16	1QFY17	2QFY17	YoY	QoQ	FY16	FY17E	YoY
Interest Income	548	743	839	53	13	2,349	3,173	35
Interest Expense	242	265	296	22	12	947	1,097	16
Net Interest Income	306	478	543	78	14	1,402	2,077	48
Other Income	9	7	10			25	34	37
Net Income	315	486	553	76	14	1,426	2,111	48
Operating Expenses	207	220	240	16	10	836	981	17
Operating Profit	108	266	313	190	17	591	1,130	91
Provisions	8	16	18	132	10	42	81	92
Profit Before Tax	100	250	295	195	18	548	1,049	91
Tax Provisions	36	89	102	179	14	193	362	87
Adj. PAT	63	160	192	205	20	355	687	93
Loan Growth (%)	20	29	42			20	29	
NIMs (%)	12.0	15.9	15.8			13.2	15.7	
Gross NPAs (%)	0.8	0.8	1.0			1.0	1.5	
ROE (%)	9.5	22.0	23.5			12.8	22.3	
ROA (%)	2.1	4.7	5.1			3.0	4.9	



### Valuation and view

- Manappuram is today geared up to tap financing opportunities across the spectrum and has realigned its business model to derisk it from volatility in gold prices as well as to sustainably grow its AUM at over 20% in coming years. This shall be achieved by: (i) Focusing on shorter term gold loans (3 months) which eliminates the risk of any steep fall gold prices; and (ii) Foray into synergistic non-gold businesses viz. Microfinance, Home Loans and CV Loans (to form 27% of AUM by FY18E from 12% in FY16. Company aspires to reduce its gold AUM to less than 50% of the total AUM by focusing on growing its Microfinance AUM to 20% of total and Home Loans AUM to 30% of total in the long run.
- Robust loan growth, improvement in NIMs and a fall in cost/income ratio should result in strong expansion of ROA/ROE from 3%/12.8% in FY16 to 4.9%/22.3% in FY17E. We expect Manappuram to deliver PAT growth of 92%/31% in FY17E/18E. We maintain our estimates and value the standalone business at 2.5x FY18 BV (lower than our average target P/B of 3x for asset financiers like MMFS, CHOLA and SHTF having inferior return ratios and asset quality); the microfinance business at 3.2x FY18 BV (20% discount to our target multiple for BHAFIN) and housing finance business at 2.6x FY18 BV (at 25% discount to industry). We thus maintain our SOTP value for the company at INR 114.

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