BUY

Edelweiss

Coverage Stock: Manappuram Finance Ltd

The second coming

CMP: INR 92 **Target Price: INR 118**

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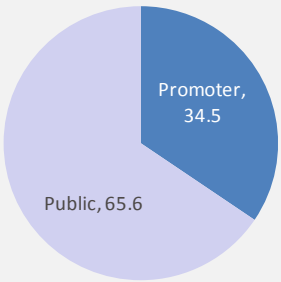
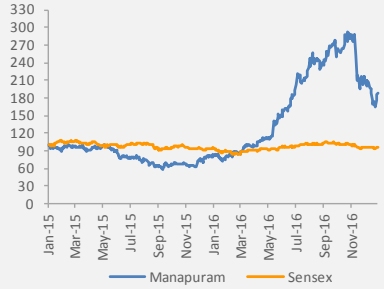
Bloomberg:	MGFL:IN
52-week range (INR):	107 / 26
Share in issue (Crs):	84
M cap (INR crs):	6,737
Avg. Daily Vol. BSE/NSE :('000):	6213

SHARE HOLDING PATTERN (%)





Date: 6th February, 2017

Manappuram Finance Ltd is India's second largest listed specialized Gold Loan NBFC with a Gold Loan AUM of INR 12383 cr and a network of 3,293 branches. The company witnessed a perfect storm in FY12-14, when gold prices fell sharply and the regulatory environment worsened, leading to a -16% CAGR in its AUM. Since FY14, gold prices have stabilized and the regulatory environment has improved. Importantly, the company possesses some unique advantages that are allowing it to grow AUM and win market share in the gold loan market, a trend we expect to sustain going forward. Therefore, we recommend a BUY rating on the stock.

Superior NPA and auction math due to Manappuram's focus on products of shorter tenures

We conducted a statistical analysis of daily MCX gold prices from October 2005 till date to understand the numerical reduction in risks linked to gold prices. From our analysis, we learned that the theoretical risk of default was 42% for a 12-month loan which fell to a negligible 0.03% for a 3-month LTV loan.

Manappuram's underlying gold holdings trend shows a robust operational backbone

We looked at the gold holdings trend for Manappuram and noted its ability to grow gold holdings in the face of falling gold prices. In FY14-16, Manappuram's gold holdings grew at a CAGR of 15% even as gold prices de-grew at a CAGR of 4.7%.

Manappuram has significant upside in operating leverage vs Muthoot Finance

Manappuram has made significant investments to grow its branch network to 3,293 branches by FY13. Its AUM per branch of INR 3.9 cr compares well with Rs 6.3 cr for Muthoot Finance, indicating significant scope for upside for the company from an operating leverage perspective.

Manappuram's Non-Gold Loan portfolio highly synergistic

Manappuram's strategy of focusing on Microfinance, small-ticket Housing Finance for the self-employed category and Used CV Finance is highly synergistic in terms of branch network and target clientele. We also note that the AUM per branch for Ashirvad Microfinance stands at INR 2.7 cr compared to INR 6.1-13.8 cr for key listed peers, leaving considerable upside from an operating leverage perspective.

Manappuram continues to win market share amid decreasing competitive intensity

Since FY14, Manappuram has been gaining market share even as certain non-specialized entities seem reluctant to keep gold loan risk on their balance sheets. Manappuram has grown its market share from 6% in FY14 to 7.2% in FY16 amid diminishing competitive intensity in the Gold Loan segment.

Manappuram's branch presence gives it a distinct advantage

Manappuram has 1,778 branches in Rural and Semi-Urban centres compared to 304-851 for key competitors. It has 2,239 branches in South India compared to 389-874 for key competitors. It possesses the optimal branch network to exploit the generic Gold Loan opportunity.

Manappuram a beneficiary of NBFC vs Banks competition, shift from informal to formal and benign gold price outlook

Specialised NBFCs continue to maintain various operational advantages over banks, and as a consequence they continue to win market share. The shift from the unorganised sector to formal lending will accelerate due to Aadhaar and Jan Dhan coverage as well as demonetisation. Furthermore, long-term outlook for gold prices remain bright given the start of a new global price cycle, which is further supported by INR depreciation vis-à-vis USD.

Valuation and rating: Initiate with BUY, PT of INR 118

We use the Residual Income Model to arrive at a Price Target of INR 118 for Manappuram, reflecting a multiple of 2.2x its FY18E book value. We initiate coverage on Manappuram with a BUY rating and our PT provides 29% upside from the current level. The stock currently trades at 1.8x FY18E book value and we envisage 23-25% RoE over FY17E-19E.

(INR Cr)	FY15	FY16	FY17E	FY18E	FY19E
Net Interest Income	1103	1329	1959	2382	2807
Total Income	1108	1334	1964	2387	2812
Profit After Tax	271	337	697	985	1204
Basic EPS	3.2	4.0	8.3	11.7	14.3
P/E	28.5	22.9	11.1	7.8	6.4
Book value per share	31	33	40	52	66
P/B	2.9	2.8	2.3	1.8	1.4
Return on Average Equity	11%	13%	23%	25%	24%
Credit Costs	0.3%	0.3%	0.5%	0.4%	0.4%

I. Manappuram's product modifications have transformed NPA and auction math

Product modifications have dramatically reduced risk linked to gold price volatility

A sustained bull market in global gold prices from c.1999 to c.2012 with minimal downside volatility did not require Manappuram to reconsider its single product structure of 12-month tenure. However, the start of a bear market in gold post 2012 eventually prompted the company to introduce shorter-tenure loan products of 3-month, 6-month and 9-month duration in June 2014. This has significantly reduced the risk linked to gold price volatility.

Illustration of product modifications and its impact

Phase	Before Product Modification	After Product Modification			
Product (Loan tenure)	**12 Months**	**3 Months**	**6 Months**	**9 Months**	**12 Months**
Value of gold borrowed against (INR)	100	100	100	100	100
Loan to Value Ratio	75%	75%	70%	65%	60%
Loan disbursed (INR)	75	75	70	65	60
Annualised Interest Rate	24%	24%	24%	24%	24%
Tenure in months	12	3	6	9	12
Simple interest (INR)	18.0	4.5	8.4	11.7	14.4
Total repayment at end of tenure (INR)	93.0	79.5	78.4	76.7	74.4
Gold drawdown that would put borrower out of money	7.0%	20.5%	21.6%	23.3%	25.6%
Time taken to auction in months	2	2	2	2	2
Simple interest over auction period (INR)	3	3	2.8	2.6	2.4
Target recoverable at auction (INR)	96.0	82.5	81.2	79.3	76.8
Auction discount (% loss on recovery)	10%	10%	10%	10%	10%
Gold drawdown that would result in loss to lender	-6.7%	8.3%	9.8%	11.9%	14.7%

Source: Company data, Edel Invest Research

Probability of default as well auction dramatically reduced

We studied an extended sample of daily MCX gold prices from October 2005 till date to examine altered probability scenarios for Manappuram. We note that for the 12-month loan product, a 7% drawdown would put the borrower out of money and increase the chance of a default (see illustration above). From our sample of MCX gold prices we also find that the borrower has been out of money 42% of the time, considering the instances of over 7% drawdowns within a 12-month period. When the period is shortened to 3-month but the drawdown threshold is retained at 7%, the borrower falls out of money a still significant 24% of the time. However, for 3-month loans with a drawdown threshold of 20.5% (applicable to the new 3-month loan products), the borrower is out of the money only 0.03% of the time.

Furthermore, with the earlier 12-month loan product, following an instance of loan default and the subsequent auction process, economic losses to Manappuram were a near certainty. A 6.7% appreciation in gold prices was imperative over the loan tenure to prevent economic losses. However, with the new 3-month loan product, a cushion of 8.3% would be available before the lender starts to incur economic losses during the auction process.

Manappuram sales strategy focusing on shorter-tenure products but not Muthoot

Movement in advances maturity profile shows divergence between Muthoot and Manappuram

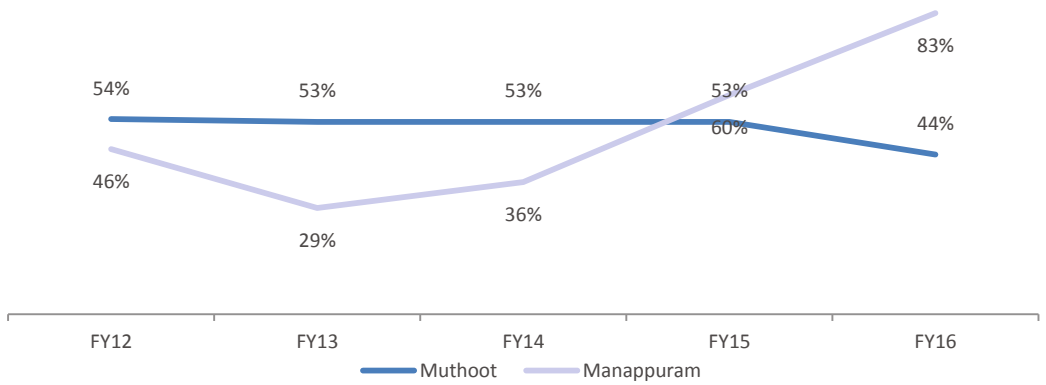
We looked at the maturity profile for the advances for Muthoot and Manappuram and note a distinct divergence between the two specialised gold loan NBFCs.

Evolution of Maturity Profile of Advances for over FY12-16 – Manappuram vs Muthoot

	Manappuram		Muthoot	
	FY12	FY16	FY12	FY16
1 to 30/31 days (one month)	1959	3,009	2819	4,631
Over one month to 2 months	1368	2,543	5637	3,901
Over 2 months to 3 months	1059	2,999	3020	2,199
Over 3 months to 6 months	1731	685	4457	5,119
Over 6 months to 1 year	3516	867	4172	6,583
Over 1 year to 3 years	5	102	1234	1,947
Over 3 to 5 years	0	81	0	0
Over 5 years	0	19	0	0
Total	**9639**	**10,306**	**21338**	**24,379**

Source: Company data

Proportion of Advances with <=3 months Maturity – Muthoot vs Manappuram



Source: Company data

Manappuram branch personnel have actively pushed shorter-tenure products and, as of now, all incremental gold loan products from Manappuram come with a 3-month limit for loan renewal or closure. This means that Muthoot is keeping more gold price risk on its balance sheet than Manappuram. This is reflected, to an extent, in the divergent GNPA Ratios of 2.2% for Muthoot and 0.9% for Manappuram as of H1FY17.

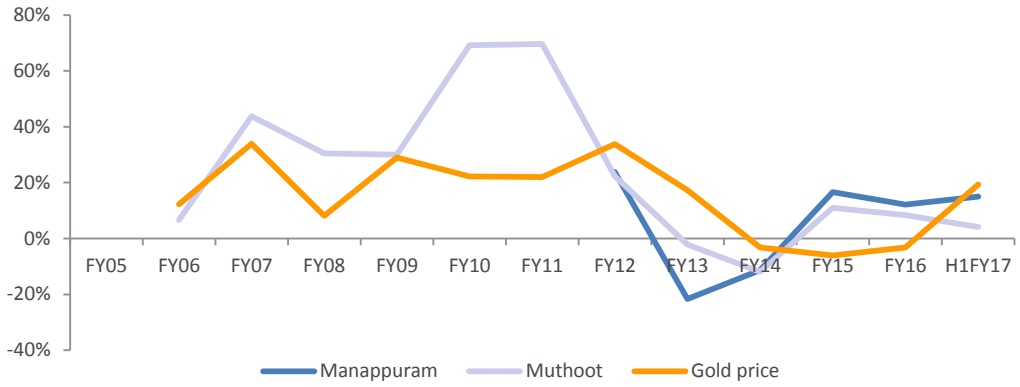
This difference in approach could be on account of Muthoot deciding to offer greater flexibility to their customers whereas Manappuram personnel have been communicating a 3-month loan tenure limit to their clientele. This does not seem to have impacted Manappuram's growth in comparison to Muthoot and, in fact, Manappuram has outpaced Muthoot, growing gold loan AUM at a CAGR of 11% over FY14-16 compared with 6% for Muthoot. In H1FY17, this differential has further diverged with Manappuram growing 30% yoy compared with 10% for Muthoot.

We feel that, given lower operating leverage, Muthoot will have to incrementally (compared with Manappuram) incentivize customers to deliver AUM growth and the differentiation above is a manifestation of the same. Furthermore, while the credit costs for Muthoot seem manageable currently, the company remains exposed to significantly higher credit costs in the event of high gold price volatility.

II. Manappuram's underlying Gold Holdings growth: Significant positive takeaways

The relationship between the performance of a Gold Loan business with gold prices is two-fold: (1) *Ceteris Paribus*, loan growth is directly linked to gold prices since loans are disbursed as a percentage of gold prices (the LTV is capped at 75%) and (2) The borrowers are more inclined to use their gold holdings as a collateral in a scenario of rising gold prices. However, the latter relationship can be overcome by building in unique competitive advantages in the Gold Loan business and, in this regard, Manappuram scores over Muthoot Finance.

YOY Growth of Gold Holdings of key Gold Loan NBFCs vis-à-vis YOY Growth of Gold Prices



Source: Company data, RBI; Period averages of Gold prices used

Underlying Gold Holdings for Manappuram less dependant on gold prices

The correlation between the Gold Holdings of Manappuram and gold prices over FY12-H1FY17 (7 data points) is 0.06, which signifies a weak relationship. The correlation between the Gold Holdings of Muthoot and gold prices over FY12-H1FY17 is 0.61, a significantly positive relationship when compared to Manappuram.

Underlying Gold Holdings growth stronger for Manappuram since FY14, despite gold price trend

Importantly, it is interesting to note that over FY14-16, gold prices de-grew at a CAGR of 4.7%, and yet Manappuram and Muthoot Gold Holdings grew at a CAGR of 15% and 10%, respectively. This means that Gold Loan NBFCs can still grow their Gold Holdings in a scenario of falling gold prices as long as the decline is not rapid and is relatively orderly in nature. Between Manappuram and Muthoot, the higher CAGR for the former indicates superior ability to deliver underlying growth in the face of weak gold prices.

It may be noted thatthough gold prices continued to trend lower post FY14, they have been less volatile. Secondly, regulatory overhang eased on Gold Loan NBFCs, with the LTV cap moving from 60% to 75%. Manappuram has displayed a better ability than Muthoot to take advantage of this improved regulatory environment. The trend of stronger Gold Holdings growth for Manappuram continued into H1FY17, with a growth of 15% YOY compared to 4% for Muthoot.

III. Manappuram compares well with key rival Muthoot on operating leverage

We are comparing Manappuram with the nearest competitor Muthoot in the Gold Loan space, as this is the only fair comparison available. Most importantly, we note that the AUM per branch for Manappuram stands at INR 3.9 cr compared with INR 6.3 cr for Muthoot, indicating that significant upside potential prevails for Manappuram from an operating leverage perspective.

Comparison of Manappuram with Muthoot– Q2FY17

	Manappuram Finance	Muthoot Finance
Loan book:		
Loans book size (Rs cr)	14,486	28,308
Gold Loans as a % Total Loans	85.5%	96.8%
Funding mix:		
Bank Finance	62%	42%
DCM	37%	44%
Other	1.4%	14%
Other key metrics:		
AUM / branch (INR cr)	3.9	6.3
Opex to AUM	6.9%	4.8%
GNPA Ratio	0.9%	2.2%
NNPA Ratio	0.7%	1.8%
Gold Holding (T)	66	150
RoA	5.1%	4.5%
RoE	24%	20%
CAR	22%	24%

Source: Company data

It may be noted that Manappuram has already made significant investments to grow its branch network to 3,293 branches by FY13. Snce then, there has been no need to expand the branch count. We do not expect any requirement for Manappuram to expand the branch count in the near to medium term, leaving significant upside from operating leverage perspective.

Manappuram has already transitioned to 90-dpd recognition for NPA and its GNPA ratio still stands at a highly respectable 0.9% at the end of Q2FY17.

IV. Manappuram's strategy of synergistic non-Gold Loan products well thought out

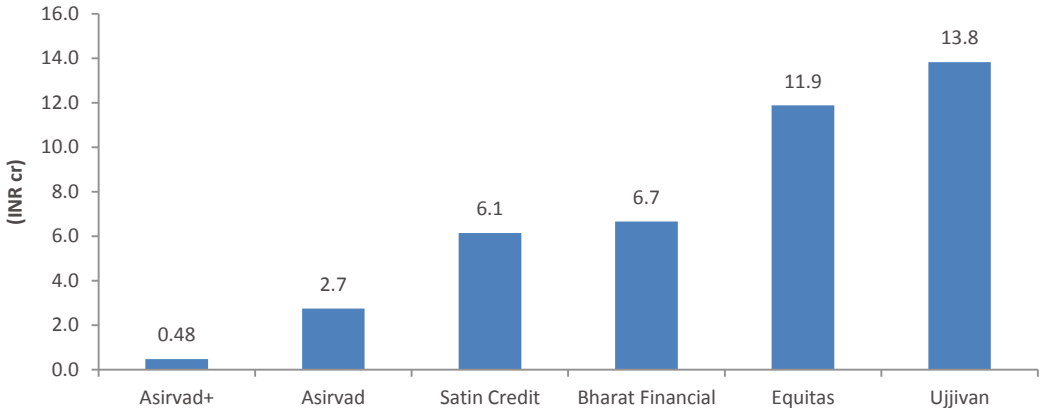
Manappuram's strategy of growing synergistic non-Gold Loan products like Microfinance, Housing Finance and CV Finance is well thought out, as such products can be sold to clients that are similar (from a location and profile perspective) to the Gold Loan clients. This is particularly helpful since significant incremental branch expansion will not be required to disburse these synergistic loan products.

The existing branch network of Manappuram has deep rural reach and therefore can cater to potential clients of the alternate lending areas mentioned above. Microfinance falls into this category, as rural regions remain an under-penetrated and natural target. The urban branches of Manappuram are also capable of driving synergy given the fact that lower-income groups in urban areas are also target customers for micro finance. While the final micro finance disbursement may ultimately be delivered at the doorstep, but proximity to branch and personnel will make a key difference.

Small-ticket Housing Loans (primarily to self employed category) and Used CV Finance are attractive sub-segments that can be expanded through the rural and semi-urban network of Manappuram whereas the urban network can be used to push other sub-categories.

As of Q2FY17, the company's Non-gold Loan businesses comprised 15% of group AUM, of which 11% is contributed to by Microfinance and 1.5% each by Housing Finance and CV Finance. A further 0.3% is LAP and the remaining 0.4% is other loans. Manappuram plans to take the contribution of the Non-gold Loan book to 25% of group AUM by FY18.

AUM per branch of Asirvad Microfinance vis-à-vis key listed MFIs as of Q2FY17-end



Source: Company data

Asirvad Microfinance a highly under-utilised play from operating leverage perspective

In February 2015, Manappuram Finance acquired a 85% stake in Asirvad Microfinance and subsequently increased this stake to 90.4%. As on date, Asirvad has 704 branches and given 343 branches as of FY16, we estimate 572 branches at the end of Q2FY17. Consequently, Asirvad's AUM per branch stands at INR 2.7 cr, far lower than the key listed peers. This is an indicator of the degree to which Asirvad remains under-utilised from an operating leverage perspective when compared to its peers.

Since Manappuram has a network of 3,293 branches, we calculate Asirvad's AUM per branch if it were to sweat all Manappuram branches for disbursing micro finance. We note that the AUM per branch in this case would be 0.48 (shown as Asirvad+ in the chart above), indicating that the under-utilisation is potentially huge following the amalgamation of Asirvad with Manappuram.

Asirvad a best-in-class Microfinace institution despite operating leverage issues

Comparision of Asirvad metrics with key listed NBFC-MFIs

	Bharat Financial	Satin Credit	Ujjivan	Equitas	Asirvad
Gross Loan Portfolio (Q2FY17) - INR cr	9046	4181	6486	7079	1571
Branches (Q2FY17)**	1359	681	469	596	572
Avg MFI Ticket Size* (INR)	21400	26000	22550	22166	20000
NIM (FY16)	11.3%	9.9%	12.3%	11.4%	9.5%
GNPA Ratio (Q2FY17)	0.10%	0.24%	0.17%	2.54%	0.17%
NNPA Ratio (Q2FY17)	0.04%	0.12%	0.04%	1.17%	0.07%
Cost to Income Ratio (FY16)	48%	59%	51%	53%	48%
RoA (FY16)	4.2%	2.2%	3.7%	3.1%	4.0%
RoE (FY16)	25%	22%	18%	13%	23%

Source: Company data, Edel Invest Research; *BHAF ticket size is for 1-year product; **Asirvad branches is an estimate

Asirvad Microfinance's FY16 C/I Ratio of 48% and RoA of 4% is comparable with that of market leader Bharat Financial Inclusion. Furthermore, like Bharat Financial and Satin Creditcare, it is not a recipient of any category of banking licence whereas 8 out of 10 Small Finance Bank licencees and 1 of 2 Universal Bank licencees (Bandhan Bank) were given to NBFC-MFIs. The bank licence recipients have scaled back growth targets given the significant costs involved in building the banking franchise, reducing the competitive intensity for the non-licensees to operate.

We note that cash availability (especially in the hinterland) will be a near-term impediment for the MFI industry, as the disbursements are typically made in cash. However, we consider this a postponement of economic activity that will return to normalcy once the withdrawal limits are removed and cash availability increases in all areas. Further, we think the manifestation of political risk in Maharashtra and Uttar Pradesh will not snowball into a systemic Andhra Pradesh-like crisis (circa 2010).

V. Manappuram's product strategy not yield-dilutive like Muthoot's

We compare the key features of the gold loan product of Manappuram Finance with that of Muthoot Finance and note that, while there are significant similarities between the two, Manappuram has not felt the need to offer customer incentives to the extent Muthoot has. This is positive for Manappuram since it has not adopted an yield-diutive approach in the manner Muthoot has

Comparison of product offerings – Muthoot vs Manappuram

	Muthoot Finance	Manappuram Finance
Minimum Interest Rate	14%	15%
Rebate on regular interest payment	2%	0.75%
Dedicated relationship manager	Yes	No
Security per branch	2 guards	2 guards
Maximum LTV	75%	75%
Part release allowed	Yes	Yes
Gold evaluation	In-house	In-house
Online payment	Yes	Yes
Insurance of Gold collateral	Yes	Yes
Service timings	9:30 am to 6 pm, 6 days a week	9:30 am to 6 pm, 6 days a week
Documentation	Photo ID proof, Address proof	Photo ID proof, Address proof
Loyalty program	Yes	No
Maximum loan period	12 months	3 months

Source: Company data

We note 5 key differences in the product offering of Manappuram Finance and Muthoot Finance. The two differences of lesser significance are (1) Manappuram has refrained from having a dedicated relationship manager like Muthoot (2) Manappuram has not felt the need to have a customer loyalty program like Muthoot. The three differences of greater significance were (1) Maximum loan period of 3 months from Manappuram compared with 12 months from Muthoot (2) Minimum interest rate from Manappuram Finance is 15% for a maximum loan amount of INR 50,000 whereas Muthoot Finance offers a minimum interest rate of 14% for a maximum loan amount of INR 1 lac. This is symtomatic of generally higher interest rates for loan products from the Manappuram Finance stable when an apple-to-apple comparison is made with Muthoot Finance loans. (3) Rebate of 0.75% of final annual interest charged (in the form of reimbursement at the end of loan period) from Manappuram compared with 0.75% from Muthoot.

We stress that the difference in product offerings between Manappuram and Muthoot are symptomatic of the latter's eagerness, as a lending entity, to incrementally incentivize potential customers over and above what competition (primarily Manappuram Finance) has to offer. Manappuram is currently not participating in this 'incentive battle' because it has superior operating leverage from an AUM per branch perspective.

The lack of these incentives on the part of Manappuram are essentially indicative of the company not requiring such an approach to deliver AUM growth, which the company would achieve without diluting yield.

VI. Brand strategy: Manappuram may narrow the gap with Muthoot's brand

Brand strategy is a key component of the overall business strategy for Gold Loan NBFCs. One aspect of branding and advertisiing has been to change the attitude of potential clients towards gold loans themselves such that they no longer regard it as taboo. Another aspect that goes hand in hand with this goal is to popularize the respective company brands. To achieve these goals, Gold Loan NBFCs have used strategic celebrity endorsements. We compare the celebrity endorsement strategies of Manappuram Finance with Muthoot Finance and glean the following key takeaways: (1) The Muthoot Finance brand is currently the more established brand but this gap may narrow going forward (2) Both Muthoot and Manappuram indulged in advertising blitzes in FY10-12 focused on their respective strategies and now, largely carry out 'maintenance advertising' (3) Manappuram's celebrity endorsers have a movie acting background and have pan-Indian appeal and stable brand value (4) Muthoot's celebrity endorsers are sportsmen that, starting out, appeal to a North Indian audience (this may have been deliberate) (5) While Muthoot Finance's celebrity endorsements and other branding efforts have created good brand recall, certain event risks have fructified contrary to what would be dersirable from their perspective.

Manappuram likely to narrow the gap with Muthoot's brand

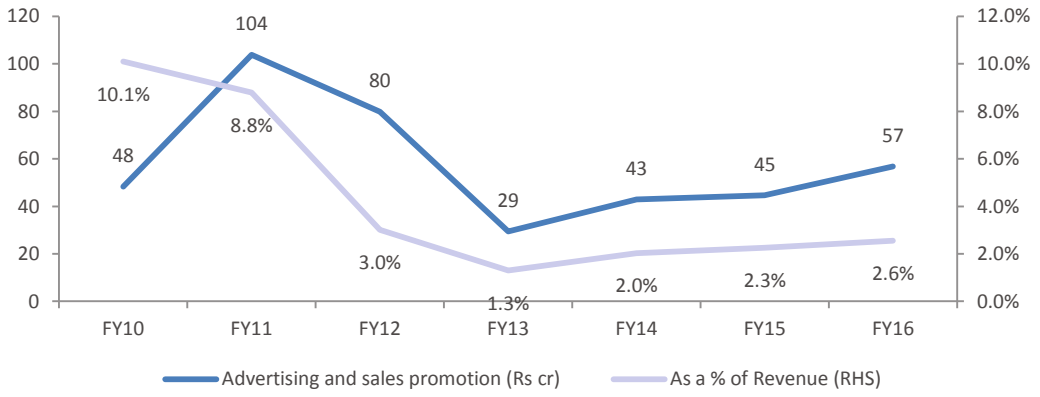
The customer count for Manappuram is at 19.32 lac as of FY16-end. As per Muthoot Finance's FY16 Annual Report, they service a higher 60 lac customers across their pan-Indian branch network. This difference earmarks Muthoot Finance, in a sense, as the more established gold loan brand currently.

As per 'The Brand Trust Report, India Study 2016' conducted by TRA Research, Muthoot Finance has been ranked India's Most Trusted Finance-Diversified Brand. However, we think that the gap between Manappuram and Muthoot will narrow as, among other reasons, Manappuram continues to execute its lower-risk branding strategy with pan-Indian appeal and Muthoot's branding strategy met with event risk and is currently bereft of any key branding association of equivalent impact.

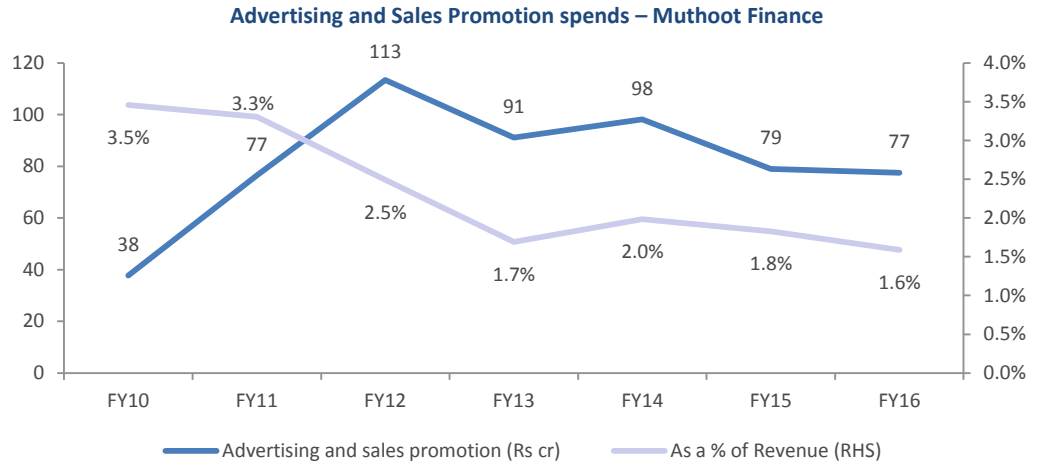
Manappuram and Muthoot made their major advertising bets in FY11-12

Manappuram Finance increased their advertising and sales promotions spend from INR 48 cr in FY10 to INR 104 cr / INR 80 cr in FY11 / FY12. Muthoot Finance's equivalent spend rose from INR 38 cr in FY10 to INR 77 / INR 113 cr in FY11 / FY12 whereas,. Manappuram Finance signed on Bollywood actor Akshay Kumar in FY11 whereas Muthoot Finance chose to be the main team sponsor for IPL team Delhi Daredevils also in FY11.

Advertising and Sales Promotion spends – Manappuram Finance



Source: Company data; Revenue is Interest Income + Other Income



Source: Company data; Revenue is Interest Income + Other Income

Manappuram's celebrity endorsement strategy – Greater consistency, Pan-Indian

We looked at the celebrity endorsers of Manappuram Finance and conclude that their choice set provides greater stability (free of team performance risk) and a pan-Indian reach.

List of celebrity endorsers – Manappuram Finance

Endorser	Facebook Likes
Akshay Kumar	22,242,004
Mohanlal	4,131,287
Venkatesh	1,623,814
Puneeth Rajkumar	181,673
Vikram	87,280
Sachin Khedekar	7,835
Total	28,273,893

Source: Company data, Facebook

Manappuram Finance has chosen a celebrity endorsement strategy in which they have picked established movie actors, the risk of whose respective brand values diminishing is minimal. Akshay Kumar is ranked No. 2 on the Times Celebex ranking with a November 2016 T-Score of 30. Kumar has previously been ranked No.1 in August 2016 with a T-Score of 24. Times Celebex is a ranking of Bollywood actors on the influence they exert on Indian audiences and is based on comprehensive data including social media presence e.g. Facebook Likes.

While Akshay Kumar's region of influence can be considered to be North India as such and Metro areas, Manappuram's other celebrity endorsers weild significan influence over specific regions in India. Mohanlal has been the pre-eminent actor of Malayali cinema and has been ranked as the most popular Keralite (across different walks of life) in a poll conducted by CNN-IBN in 2006. Venkatesh is the leading actor of Telugu cinema and has won 5 Nandi Awards for Best Actor Category, more than any other actor. Nandi Awards are the highest award for excellance in Telugu cinema granted by the governments of Telengana and Andhra Pradesh. Puneeth Rajkumar is a leading actor of Kannada cinema. Chiyan Vikram is a prominent actor of

Tamil cinema who has been decorated with a National Award and 7 Filmfare awards (South). Sachin Khedekar is a well-known actor in Marathi cinema.

On evidence of the array of endorsers lined up by Manappuram Finance, we note that their line-up is one that provides stability given that each is an established actor in his respective sphere of influence. Secondly, the line-up taken together addresses the key geographies of operation for gold loan NBFCs exerting an overall pan-Indian influence.

Muthoot's celebrity endorsement strategy – Delhi Daredevils does not pay off, ISL a work-in-progress

The thought process behind Muthoot Finance choosing the Delhi Daredevils as their primary endorsement vehicle could be their understanding that their next phase of incremental expansion would be in North India. By choosing Delhi Daredevils, not only did Muthoot Finance associate themselves with a leading North Indian sports team, they also availed a bouquet of Indian cricketers simultaneously. We note that the cricketers who appeared in the TV advertisement for Muthoot Finance were leading Indian cricketers Virendra Sehwag, Gautam Gambhir and Dinesh Karthik, two of whom were themselves having a North Indian background (Sehwag is a Delhi-based cricketer of Haryanvi heritage and Gambhir is a Delhi-based batsman of Punjabi origin).

It would be particularly complex to numerically assess the impact of the Delhi Daredevils' association on Muthoot Finance's brand recall as it would not straightforward to gauge the extent of impact of Daredevils' image as team juxtaposed with the impact of the individuals comprising the team. Nevertheless, we can get a numerical sense of the impact by looking the popularity levels of the various endorsers on Facebook, the world's and India's largest social network platform. There are 19.5 cr Facebook users in India, as of May 2016 as per statista.com and, according to Facebook, it has 6.9 cr DAU (Daily Active Users) as of March 2016, indicating significant penetration and thereby providiing a statistically significant means of juding the popularity of an individual / entity. Furthermore, we note that the on-field performance of the specific team itself, Delhi Daredevils, would be a key determinant of the success of the said endorsement.

List of celebrity endorsers – Muthoot Finance

Endorser	Facebook Likes
Virendra Sehwag	13,027,563
Gautam Gambhir	6,905,392
Dinesh Karthik	87,203
Bhaichung Bhutia	55,212
Total	20,075,370
Delhi Daredevils	3,683,616
Total+	23,758,986

Source: Company data, Facebook

We note that the Facebook Likes count that have been considered are current (as on 26th Jan 2016) whereas the endorsement deals were signed in FY11 but we use this data for comparison and find value in understanding the respective endorsers' brand value at an earlier date as well. It is evident from the Facebook Likes count for Muthoot Finance's celebrity endorsers that Muthoot's bet on Delhi Daredevils could have been potentially very positive. However, in this case, unforseen event risk fructified and Delhi Daredevils, as a team, started to underperform in the IPL, an aspect that is considered to impact the brand value of the team and, by extension, the individual players, at least as far as their impact on the company (Muthoot Finance) is concerned. After finishing 3rd among 9 team in 2012 edition of the IPL, Delhi Daredevils were 9th among 9 teams in 2013. Unsurprisingly, Muthoot Finance decided to discontinue their 3-year contract prior to the IPL 2014 season. The underperformance of Delhi Daredevils continued subsequently with the team coming in 8th among 8 teams in 2014, 7th among 8 teams in 2015 and 6th among 8 teams in 2016. This may have continued to impact Muthoot Finance's quality of brand recall for some time despite the official disassociation with Delhi Daredevils.

In June 2016, Duff and Phelps, a valuation consulting firm owned by the Carlyle Group, released a report in which it pointed out that Delhi Daredevils's brand value in 2016 stood at US$ 34 million, 5th among 6 teams evaluated. This value remained static compared with 2015 and was far lower than leading teams Mumbai Indians (US$ 78 million) and Kolkata Knight Riders (US$ 77 million). One key factor cited by the consultant that would encourage continued association of sponsors would be consistent successful on-field performances, something Delhi Daredevils failed to deliver.

In 2014, Muthoot Finance chose to become the official Fair Play Awards sponspor for the Indian Super League (ISL), a football-based property. By doing so, Muthoot Finance removed 'team risk' from their brand and bet on the sport itself. However, though football has potential for growth in India, it has a long way to go before being comparable with cricket in terms of popularity. The Indian Super League currently has 3,576,297 Likes on Facebook compared with 18,425,836 Likes for the IPL (Indian Premier League). Duff and Phelps have also stated, in their aforementioned report, that new leagues ISL and PKL (Pro Kabbadi League) significantly trail the IPL in terms of generating spectator interest.

VII. Manappuram a market share winner amid waning competitive intensity

The participants in the Gold Loan industry can be sub-divided into 5 categories. Since FY14, Specialised Gold Loan NBFCs, i.e. NBFCs whose primary business is Gold Loans are gaining market share at the expense of the other 4 categories. In FY15, the specialised Gold Loan NBFCs gained 190 bps market share compared to FY14.

Gold Loan industry market share trends from FY07 to FY15

	FY2007	FY2012	FY2014	FY2015
Cooperative Banks	18%	6.0%	5.4%	5.3%
Private Sector Banks	16%	15%	16%	15%
Public Sector Banks	46%	36%	45%	44%
Other NBFCs	0.4%	7.0%	5.4%	5.1%
Specialised NBFCs	20%	36%	29%	31%

Source: Company data (Manappuram Finance)

Market share gains to continue in FY16 for specialised Gold Loan NBFCs

While similar data for FY16 and beyond is not available, we have reason to believe that the trend of Specialised Gold Loan NBFCs gaining market share continues. We examined a set of key Gold Loan players that accounted for 43% of the 2015 Gold Loan industry AUM and the trends witnessed are significant.

Movement of Gold Loan AUM (INR bn) of key players from FY15 to FY16

	FY15	FY16	YOY growth
Muthoot Finance	233	243	4.2%
Manappuram Finance	92	101	9.3%
Muthoot Fincorp	65	68	5.0%
Shriram City Union	30	33	11%
IIFL	38	29	-24%
HDFC Bank	41	45	12%
South Indian Bank	25	14	-45%
Federal Bank	34	23	-31%
City Union Bank	25	20	-18%

Source: Company data

It is clear from the above table that key south-based Private Sector Banks are retreating rapidly from the Gold Loan business at a time when the Specialised Gold Loan NBFCs are growing their AUM. The curtailed presence of Banks from the Gold Loan business is therefore structural in nature. This reduces the competitive intensity for the Specialised Gold Loan NBFCs. Among the Specialised Gold Loan NBFCs, Manappuram has gained market share at the fastest pace in FY16. This divergence accelerated in H1FY17, with Manappuram growing 30% YoY compared with 10% for Muthoot.

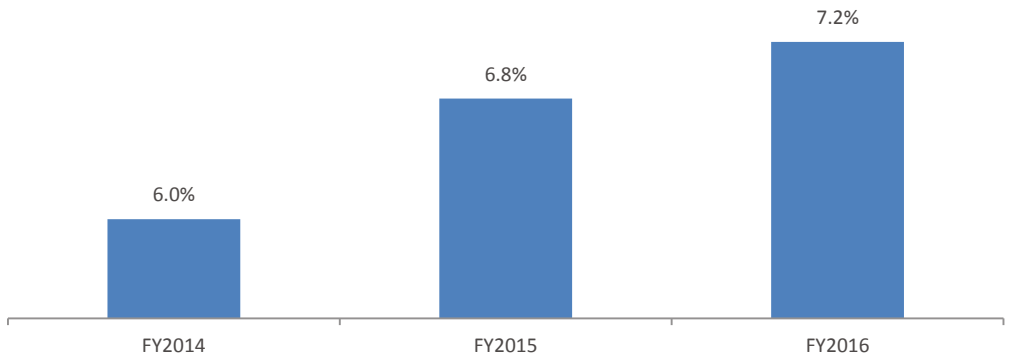
Apart from HDFC Bank, the Private Sector Banks in our list do not seem to possess the appetite for focusing and growing their Gold Loan business. The Banks are not inclined to keep the risk associated with the gold price cycle on their books.

While PSU Banks, especially as a group, do have an extensive rural network, they lost market share in FY15 even before the NPA mess started to surface. We do not think that the PSU Banks will pose any major threat from a market share perspective given the pending resolution of the NPA malaise and capital constraints.

Shriram City Union, one of the key non-specialised NBFCs, expanded its Gold Loan AUM in FY16. But, this was more of an aberration since the NBFC has strategically reduced focus on its Gold Loan business, scaling down its exposure to the business from 36% in FY12 to 14% in H1FY17. Its Gold Loan book de-grew by 13% in H1FY17. This is yet another example of an important non-specialised Gold Loan entity withdrawing from the segment, further reducing the competititve intensity for the imcumbents like Manappuram and Muthoot.

The Gold Loan AUM of IIFL Finance, another key non-specialised Gold Loan NBFC, de-grew by 24% in FY16.

Manappuram winning market share since FY14



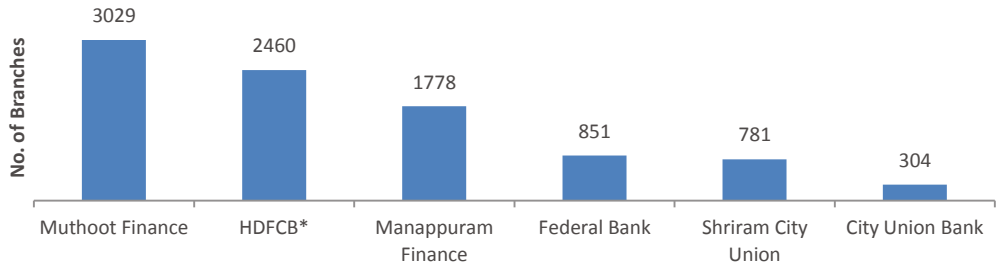
Source: Company data, Edel Invest Research

Manappuram has been gaining market share since FY14. To calculate the FY16 market share, we have conservatively assumed industry size to be INR 1400 bn (INR 1.4 lakh cr) given the significant de-growth for several key non-specialised players. FY14 and FY15 market shares are based on industry data provided in Manappuram's FY16 Annual Report.

Wide branch presence puts Manappuram at an distinct advantage

About 65% of India's Gold stock lies in rural India and consequently it is imperative for a Gold Loan company to have good branch penetration in rural and semi-urban areas. We looked at a set of key Gold Loan players to understand the difference in the level of penetration that each of them possess.

Rural and Semi-urban branch count of key players as of H1FY17

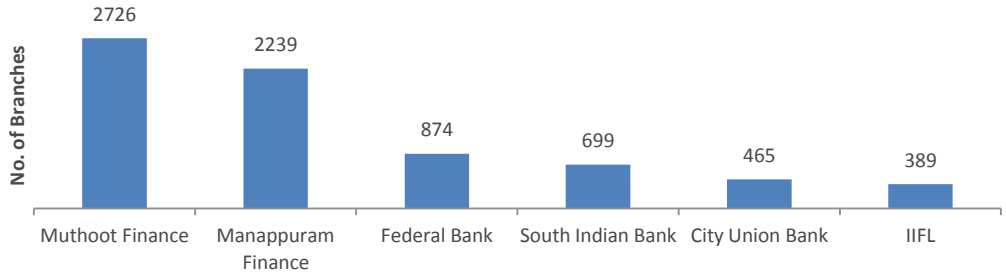


Source: Company data; *Data as of FY16 for HDFC Bank

We note that the penetration of specialised Gold Loan NBFCs is significantly higher than the other participants, barring HDFC Bank. Not surprisingly, HDFC Bank was the only bank that was able to grow its Gold Loan book in FY16 (see previous table of key Gold Loan players).

We understand that private sector banks are not incapable of increasing their branch presence in rural and semi-urban areas. However, to conclude that the private sector banks would determine their branch expansion strategy solely on the basis of their Gold Loan business would be inaccurate. In any case, a strategic decision to widen the branch presence in rural and semi-urban areas would require significant opex for the incumbents. If the opex does not sit well with the overall strategy of the entity, then the incumbents would be unlikely to implement such a strategy.

Branch count of key players in South India as of H1FY17



Source: Company data

Another key parameter from a branch penetration perspective is presence in South India. Around 40% of the Gold demand in India comes from South India and the latter's contribution to India's gold stock would be likely similar. Again, we looked at a set of key Gold Loan players and we note that branch presence is much higher for the specialised Gold Loan NBFCs compared to other market participants.

The difference in the penetration / reach of specialised Gold Loan NBFCs compared to other incumbents is greater than the branch figures above indicate, as the branches of the former are for the sole purpose of disbursing gold loans whereas, for others, not all branches are capable of doing so for a variety of reasons. The difference in penetration / reach is, ultimately, of critical importance since travel time is a key differentiating factor for the average gold loan borrower, who wishes to receive capital in the shortest possible time, given the interest accrual concerns.

Factors other than reach also favour NBFCs over Banks

A number of factors other than reach / penetration of specialised Gold Loan NBFCs favour them over Banks from a customer perspective. Some of these factors include the following:

(1) Repayment terms of NBFCs are far more flexible – single bullet repayment is possible, no EMI requirement (EMIs include principal repayment), no prepayment penalty, etc.

(2) Documentation requirements are more onerous for Banks as they stress on full KYC compliance whereas for NBFCs, simple submission of Identity and Address proof copies are sufficient.

(3) Banks tend to offer lower LTV than NBFCs.

(4) Processing charges are higher for Banks whereas they are minimal for NBFCs.

(5) Working hours for Banks are shorter compared with NBFCs.

(6) Turnaround time for NBFCs is in the range of 10-30 min whereas for Banks, it is 1-2 hours.

The aforementioned factors, along with significantly higher reach for specialised Gold Loan NBFCs, ensure that they remain the preferred source of gold loans for customers, despite lower interest rates from Banks (c.12-15% compared with c.18-24% for NBFCs). Notably, the typical Gold Loan customer is not interest-rate-sensitive given that he usually operates a small business of significantly higher RoE than the highest NBFC interest rate.

VIII. Shift from unorganised sector an ongoing trend: Manappuram well placed

High interest rates charged by unorganised sector exploitative and unsustainable

While the Moneylenders possess the same advantageous atttributes that the Gold Loan NBFCs possess vis-à-vis Banks, the only minor real advantage they offer over NBFCs is a slightly higher LTV. On the other hand, being out of the regulatory ambit, the Moneylenders charge interest rates that are very high even for a typical Gold Loan customer. Interest rates charged by the Moneylenders are in the range of 36-60% and remain a fundamental reason for the ongoing shift from the unorganised lenders to organised lending. The unorganised lenders are said to control c.80% of all outstanding loans against gold and hence the shift is particularly salutary for the specialised Gold Loan NBFCs.

High Aadhaar coverage to be driver of shift from informal lending

A key reason for the Moneylenders' significance has been no requirement for identity proof on their part to disburse a loan against gold. A major reason for this has been the lack of a universal identity proof for the Indian citizens, particularly in rural India. This has undergone a sea change with the advent of Aadhar, whose coverage of the Indian population has been particularly path breaking even in the hinterland.

As per the Press Information Bureau of the Government of India, the UIDAI generated the 100th crore Aadhaar on April 4, 2016. Importantly, the Aadhaar coverage is now 93% among the Indian adults as on April 4, 2016.

- More than 100 crore people have Aadhaar.
- 73.96 crore (93%) adults in India have Aadhaar.
- 22.25 crore (67%) Children of age 5-18 years have Aadhaar.
- 2.30 crore (20%) Children of Age 0 <5 years have Aadhaar.
- Every day more than 5-7 lakh people get enrolled for Aadhaar.
- Aadhaar is now the largest online digital identity platform in the world.

Demonetisation and shift to "less cash" economy to incrementally hasten shift to formal lending

The Union Government's step to demonetise high-value currency notes is an unprecedented decision. One of the key objectives in the long run is to move to a "less cash" economy. Since the unorganised sector disburses loans against gold exclusively in cash, this long-term objective will effectively eliminate the unorganised sector.

Firstly, the act of demonetisation itself provides a psychological boost to non-cash transactions and fosters a move away from cash. Secondly, the creation of an eco system to promote a "less cash" economy is well underway with the Central Government anncoucing a raft of measures to incentivize digital payments. A detailed description of these 11 measures is available at http://pib.nic.in/newsite/PrintRelease.aspx?relid=155137. Thirdly, as per the Union Law and IT Minister, measures for disincentivizing cash transactions are under consideration, but we think that the Government will be guarded in the implementation of the latter, given the concerns regarding disruption of economic activity.

Pradhan Mantri Jan Dhan Yojana another key driver of shift from unorganised to organised

As far as the customers of specialised Gold Loan NBFCs are concerned, both current and potential, active usage of the formal banking system and the growing acceptance of digital payments will be key. On this front, the Union Governemnt is ensuring that this shift from unorganised to formal will be managed effectively via the successful implementation of the Pradhan Mantri Jan Dhan Yojana (PMJDY) to benefit the organised lenders.

As per the official PMJDY website, as of January 25, 2017, a total of 27.31 cr Jan Dhan bank accounts have been opened. As per the wesbite, the salient features of the progress of PMJDY are as follows: -

- RURAL accounts opened: 16.54 cr.
- URBAN accounts opened: 10.77 cr.
- TOTAL accounts opened: 27.31 cr.
- Number of RUPAY Cards created: 21.38 cr.
- Number of accounts seeded with AADHAAR: 15.98 cr.
- Balance in accounts : INR 67,324.98 cr.
- % of Zero-Balance Accounts: 24.47%.

The advent of Rupay Cards can be particularly beneficial for the rural users in embracing digital payments given that their transaction costs are far lower than their private sector counterparts. The National Payments Corporation of India, a government organisation at the forefront of the digital payments revolution in India, states on its website that since transaction processing will happen domestically, it would lead to lower cost of clearing and settling each transaction. According to The Hindu, citing NPCI officials, the cost of Rupay cards is about a third of foreign payment systems.

Manappuram well placed to manage transition to a "less cash" economy

Manappuram already disburses 50% of loans through non-cash means (primarily cheque). Disbursals above INR 1 lakh are done through cheque as a policy. Even during the recent cash crunch phase following demonetisation, the potential to increase non-cash disbursements was significant since 70% of Manappuram's customers possess bank accounts, most of whom are likely to be active accounts, given their customer profile.

Further, Manappuram has been actively promoting the concept of online gold loans, which requires only a one-time visit to the branch for handing over of gold collateral. As of Q2FY17, online gold loans account for 5.4% of Manappuram's gold collateral.

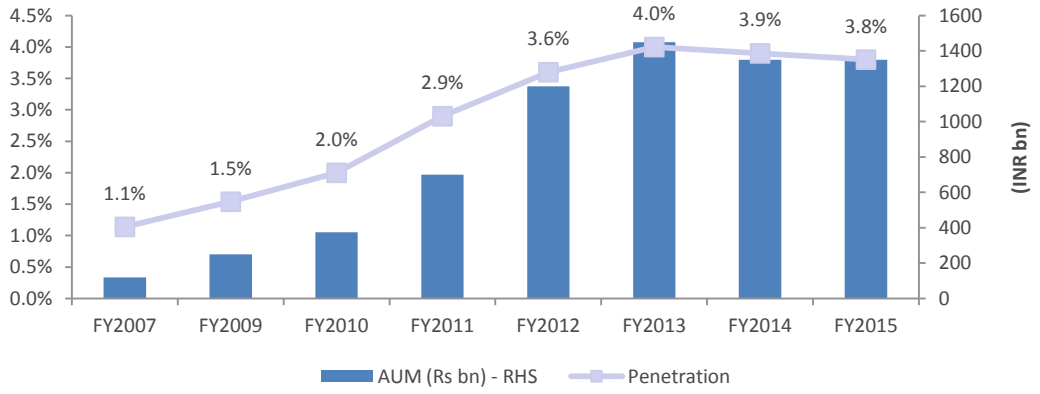
As the Indian economy gradually transforms into a "less cash" economy in a gradual non-disruptive manner, Manappuram stands ready to manage this transition, whereas the unorganised sector could go out of business if they do not embrace the change.

IX. Generic opportunity for Gold Loan segment is still very large

Penetration of organised gold loan market is still very low

As per the World Gold Council, the Indian households possess c.20,000 tonnes of gold. According to Manppuram, citing an empaneled independent consultant, the penetration of the organised Gold Loan industry is 3.8% as of FY15.

Organised Gold Loan market – Historical size and penetration trend



Source: Company data (Manappuram Finance)

Given the low penetration levels, the generic opportunity for the organised gold loan players is still very large.

Attitudinal change of Indian households towards family gold to be a key growth driver

In a FICCI study on gold commissioned by the World Gold Council in December 2014, gold was the second choice (after bank deposits) of most respondents as the asset they would most liekly liquidate during a major financial crisis. This is symbolic of the attitudinal change that Indian households are undergoing towards their family gold.

Earlier, borrowing against gold was widely considered as a taboo but this view is on the decline and is set to provide incremental supply for gold loans. Further, respondents in the FICCI study also stated that large items of gold jewellery would be liquidated first, as they are considered ancestral jewellery to be preserved as antique possession and are not used extensively.

It is worth mentioning that the reduction in the sentimental value of family gold also increases, *ceteris paribus* the probability of default by a gold loan borrower. However, the probability of default has dramatically reduced through product modification (discussed elsewhere in this report).

X. Global Gold prices: Positive long-term outlook

Recent 'risk-love' phase in the US not a long-term concern

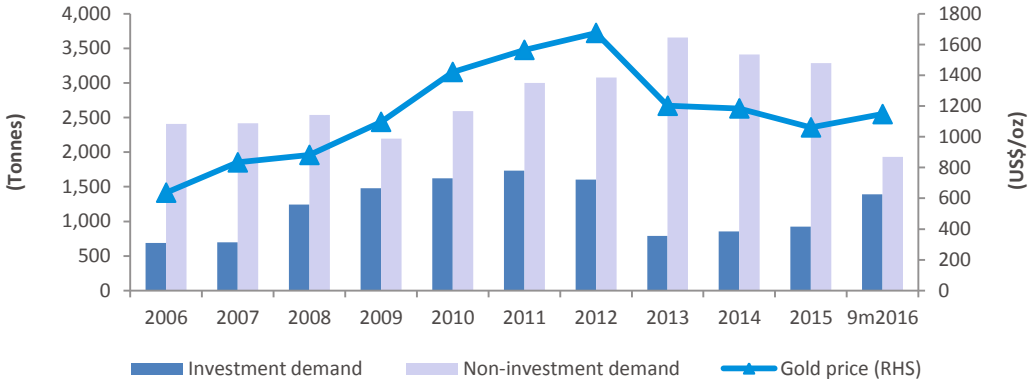
The Manappuram management's expectation of global gold price trend for FY17 is a range of 1200-1400 USD per troy ounce. This expectation has largely held good till recently, when Donald Trump swept to victory in the US Presidential election. Intriguingly, the generally held view prior to the US election result was that Democratic candidate Hillary Clinton was the 'status quo' candidate whereas Trump was a harbinger of uncertainty and hence a victory for the latter would be positive for gold. However, on the results day, Trump struck a soft and concilatory note in his victory speech, which shifted focus to his expansionary economic policies. This was perceived to be a positive for the US economy and consequentlypromoted a 'risk-on' sentiment, which was negative for gold prices.

However, we think that even if the 'risk-on sentiment were to persist, gold prices would not continue the downward trajectory. We stress that, over the longer term, gold has its own independent price cycle that is fundamentally linked only to liquidity. The 2003-2007 global equity bull market was a secular 'risk-on' phase, but gold prices rose in tandem with equities during this extended time period on the back of positive liqudity flows.

Investment demand is the underlying driver and is on the way up

We believe that total investment demand (ETFs and Similar + Bar and Coin Investments) is the underlying driver of gold prices, whereas the relationship of non-investment demand (Jewellery + Technology + Central Banks) with gold prices is weaker.

Investment and Non-Investment Demand (Tonnes) vs Gold prices (US$ / oz)



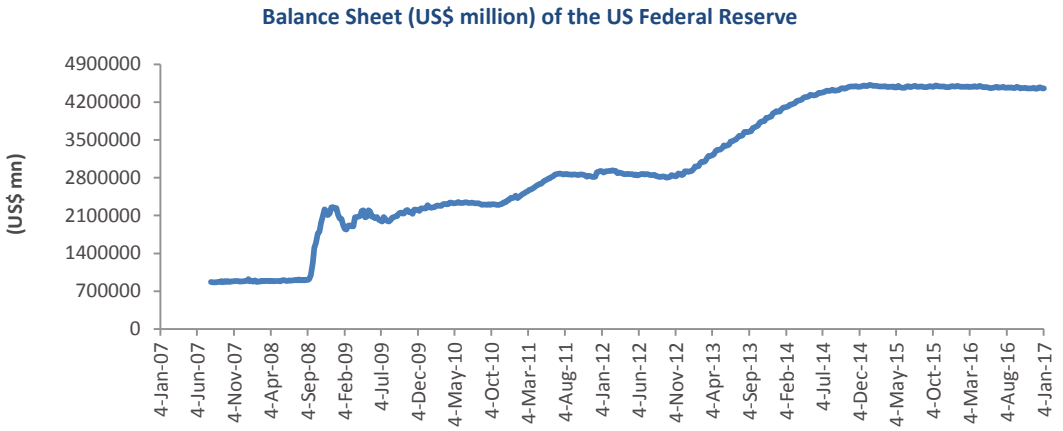
Source: World Gold Council, Bloomberg

The correlation of investment demand with gold prices since 2006 is significant at 0.74, whereas the correlation with non-investment demand is less at 0.36. We note that the investment demand for gold has started to rise again in 2016 for the first time since 2011. In the first 9 months of 2016, the investment demand for gold stands at 1389.2 tonnes, which is significantly higher than the 3-year 2013-15 annual average of 856.2. The negative feedback loop of lower prices and lower investment demand has given way to a virtuous cycle of higher investment demand and higher prices.

Long-term liqudity flows into gold will be robust

The US Federal Reserve has greatly expanded its balance sheet since 2008. While this incremental liquidity found its way into gold till 2011, the 2011-2015 phase saw a tapering of investment demand for gold, leading to lower prices, although non-investment demand was generally more robust in the 2011-2015 phase.

Investment demand for gold has returned in 2016, as a fresh price cycle on the back of positive feedback loop for gold has begun. The underlying availability of liquidity for gold remains strong, as the balance sheet of the Fed remains well expanded even at the current juncture.



Source: US Federal Reserve

Given the wide divergence of gold prices and the size of the Fed balance sheet, gold prices are historically cheap in relation to the size of the Fed balance sheet, and scope of price appreciation is particularly significant over the long term.

While the Fed has increased its balance sheet size to USD 4.45 trillion as of January 4, 2017, competitive currency debasement has led the Bank of Japan (BOJ) to raise its balance sheet size to 456.8 trillion Yen as of September 2016, as per official BOJ data. The same holds true for the European Central Bank (ECB), which has raised its balance sheet size to 2.78 trillion Euro as of December 2015, and their extensive bond buying program still continues. Hence, not only the US Fed but the BOJ and ECB have added enormous amounts of capital to the global liqudity reservoir.

Incremental investment demand for gold can also come from asset allocation change in favour of the yellow metal among the global asset management industry, whose AUM stood at USD 71.4 trillion at the end of 2015. Such asset allocation change can have a significant impact on gold prices, given that ETF and similar fund products would have to be backed by gold, whose supply is finite.

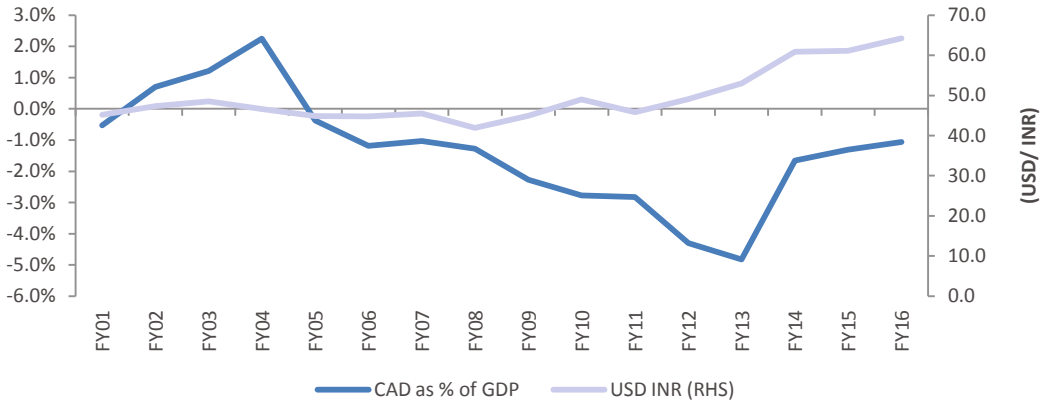
Indian Gold prices: INR depreciation vis-à-vis USD provides incremental backstop

India's structual Current Account Deficit a causative agent for INR depreciation

While Indian gold prices are largely related to global gold prices, there is an exchange rate overlay, as global gold is denominated in USD. Because of this, the structural depreciation of the INR against the USD provides positive support to Indian gold prices.

India's Current Account Deficit (CAD) is strutural in nature and has been a driver of the INR's depreciation against the USD over the years. While a wildly successful 'Make in India' initiative can drastically cut India's import dependance, this is not our base case since the western engineering industry will be cautious in their approach and technology transfer may only be piecemeal in nature.

India's Current Account Deficit (CAD) and USD/INR historical trend

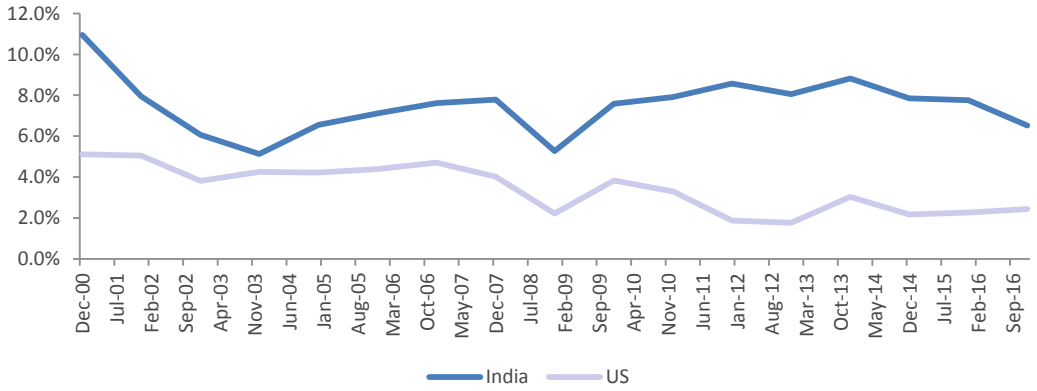


Source: RBI, Bloomberg

Covered interest rate parity also dictates depreciation of INR against the USD over the long term

As per the covered interest rate parity formula, the INR will depreciate against the USD as long as the 10-year bond yield in India remains higher compared to the US 10-year treasury bond yield. This is a manifestation of the No-Arbitrage Principle playing out in the global financial markets. If equity returns are also considered while calculating a blended yield for the INR as well the USD, then the predicted depreciation would, on balance, be faster.

Comparision of 10-year Bond Yields for India and US



Source: Bloomberg

Key financial indicators

	FY15	FY16	FY17E	FY18E	FY19E
Net Interest Income	1103	1329	1959	2382	2807
Other Income	5.2	4.4	4.7	4.9	5.2
Total Income	1108	1334	1964	2387	2812
Operating Expenses	669	782	834	924	1025
Pre-Provisioning Operating Profit	440	551	1130	1463	1787
Provisions	27	32	59	56	67
Profit Before Tax	412	519	1071	1407	1720
Profit After Tax	271	337	697	985	1204
Basic EPS	3.2	4.0	8.3	11.7	14.3
P/E	28.5	22.9	11.1	7.8	6.4
Book value per share	31	33	40	52	66
P/B	2.9	2.8	2.3	1.8	1.4
Credit Costs	0.3%	0.3%	0.5%	0.4%	0.4%
GNPA Ratio	1.2%	1.0%	1.2%	1.1%	1.0%
NNPA Ratio	1.0%	0.7%	0.9%	0.8%	0.7%
C/I Ratio	60.3%	58.7%	42.5%	38.7%	36.5%
Yield on Average IEA	22.2%	21.9%	24.9%	25.0%	25.0%
Cost of Average Borrowings	12.9%	12.0%	11.5%	11.5%	12.0%
Net Interest Margin	12.4%	13.1%	16.5%	16.5%	16.2%
Return on Average Assets	2.4%	2.9%	5.3%	6.3%	6.4%
Return on Average Equity	10.6%	12.6%	22.8%	25.4%	24.2%

Source: Company data, Edel Invest Research

Valuation

We have used a Residual Income Valuation Model to value Manappuram. We assume a long-term risk-free rate of 7% for India, a Beta of 1.3 for Manappuram and an India Equity Risk Premium of 6% to arrive at an overall Cost of Equity of 14.8%. We arrive at a Price Target of INR 118 for Manappuram at which the stock trades at 2.2x FY18E book value.

Valuation metrics

	FY15	FY16	FY17E	FY18E	FY19E
Basic EPS	3.2	4.0	8.3	11.7	14.3
EPS growth	20%	25%	107%	41%	22%
P/E	28.5	22.9	11.1	7.8	6.4
Book value per share	31	33	40	52	66
P/B	2.9	2.8	2.3	1.8	1.4
Return on Average Equity	10.6%	12.6%	22.8%	25.4%	24.2%

Source: Company data, Edel Invest Research

At CMP, Manappuram trades at a P/B of 1.8x FY18E book, which we think is cheap given the FY17E-19E RoE of 22.8%-25.4%. Consequently, we think the multiple of 2.2x implied by our Price Target of INR 118 is reasonable.

The stock trades at a P/E of 7.8x FY18E EPS for FY17E-19E EPS CAGR of 31%, and hence conclude that Manappuram to be cheap from a P/E basis too.

The stock's only listed peer Muthoot Finance currently trades at a P/B of 2.0x FY18E consensus book value for a FY17E-19E consensus RoE of 18.1%-20.4%. Muthoot trades at a P/E of 11.8x FY18E consensus EPS for FY17E-19E EPS CAGR of 20%. Therefore, we find that Manappuram is trading at a cheaper valuation compared with Muthoot.

Financials

Income statement (INR cr)

Year to March	FY15	FY16	FY17E	FY18E	FY19E
Interest income	1,976	2,213	2,965	3,598	4,330
Interest charges	872	884	1,006	1,216	1,523
Net interest income	1,103	1,329	1,959	2,382	2,807
Other income	5	4	5	5	5
Net revenues	1,108	1,334	1,964	2,387	2,812
Operating expense	669	782	834	924	1,025
- Employee exp	311	399	439	483	531
- Depreciation / amortisation	54	53	57	63	69
- Other opex	304	330	337	378	425
Preprovision op. profit	440	551	1,130	1,463	1,787
Provisions	27	32	59	56	67
PBT	412	519	1,071	1,407	1,720
Taxes	142	182	374	422	516
PAT	271	337	697	985	1,204
Extraordinaries	0	0	0	0	0
Reported PAT	271	337	697	985	1,204
Basic number of shares (cr.)	84	84	84	84	84
Basic EPS (INR)	3.22	4.01	8.28	11.71	14.31
Diluted number of shares (cr.)	84	84	84	84	84
Diluted EPS (INR)	3.22	4.01	8.28	11.71	14.31

Growth Ratios

Year to March	FY15	FY16	FY17E	FY18E	FY19E
NII growth	3%	20%	47%	22%	18%
Net Revenues growth	2%	20%	47%	22%	18%
Opex growth	-4%	17%	7%	11%	11%
PPOP growth	13%	25%	105%	29%	22%
Provisions growth	-41%	18%	80%	-5%	20%
PAT growth	20%	25%	107%	41%	22%

Operating Ratios

Year to March	FY15	FY16	FY17E	FY18E	FY19E
Yield on IEA	22.2%	21.9%	24.9%	25.0%	25.0%
Cost of Funds	12.9%	12.0%	11.5%	11.5%	12.0%
Spread	9.3%	9.9%	13.4%	13.5%	13.0%
Net Interest Margin	12.4%	13.1%	16.5%	16.5%	16.2%
Cost to Income Ratio	60%	59%	42%	39%	36%
Tax Rate	34%	35%	35%	30%	30%

Balance sheet (INR cr)

As on 31st March	FY15	FY16	FY17E	FY18E	FY19E
Share capital	168	168	168	168	168
Reserves and surplus	2,459	2,569	3,215	4,200	5,404
Shareholders' funds	**2,627**	**2,737**	**3,383**	**4,368**	**5,573**
Long-term borrowings	1,550	1,115	1,561	1,873	2,248
Other long term liabilities	109	124	124	130	136
Non-current liabilities	**1,660**	**1,239**	**1,685**	**2,003**	**2,385**
Short-term borrowings	5,300	6,767	8,053	9,664	11,596
Trade Payables	24	23	26	27	28
Other current liabilities	1,673	1,078	1,065	959	829
Short-term provisions	48	67	87	91	96
Current liabilities	**7,045**	**7,935**	**9,231**	**10,741**	**12,550**
TOTAL EQUITY AND LIABILITIES	**11,332**	**11,911**	**14,299**	**17,112**	**20,507**
Fixed assets	172	190	209	230	253
Non-current investments	168	324	436	567	737
Deferred tax assets (net)	30	39	59	76	99
Long-term loans and advances	86	210	378	454	544
Other non current assets	131	98	98	103	108
Non-current assets	**587**	**861**	**1,180**	**1,429**	**1,741**
Current investments	212	0	0	0	0
Cash and bank balances	682	492	492	517	542
Short-term loans and advances	9,255	10,179	12,249	14,699	17,638
Other current assets	596	379	379	468	585
Current assets	**10,746**	**11,050**	**13,120**	**15,683**	**18,766**
TOTAL ASSETS	**11,332**	**11,911**	**14,299**	**17,112**	**20,507**

RoE Decomposition

Year to March	FY15	FY16	FY17E	FY18E	FY19E
Net Interest Income / Assets	9.7%	11.2%	13.7%	13.9%	13.7%
Other Income / Assets	0.05%	0.04%	0.03%	0.03%	0.03%
Net Revenues / Assets	9.8%	11.2%	13.7%	13.9%	13.7%
Operating Expense / Assets	5.9%	6.6%	5.8%	5.4%	5.0%
Provisions / Assets	0.2%	0.3%	0.4%	0.3%	0.3%
Taxes / Assets	1.3%	1.5%	2.6%	2.5%	2.5%
Total Costs / Assets	7.4%	8.4%	8.9%	8.2%	7.8%
Return on Assets	2.4%	2.8%	4.9%	5.8%	5.9%
Assets / Equity	4.4	4.2	3.9	3.7	3.4
Return on Equity	10.4%	12.0%	19.1%	21.2%	20.2%

Valuation Metrics

Year to March	FY15	FY16	FY17E	FY18E	FY19E
Basic EPS	3.2	4.0	8.3	11.7	14.3
EPS growth	20%	25%	107%	41%	22%
Book value per share	31.2	32.5	40.2	51.9	66.2
Basic P/E	28.5	22.9	11.1	7.8	6.4
Price - to - Book	2.9	2.8	2.3	1.8	1.4

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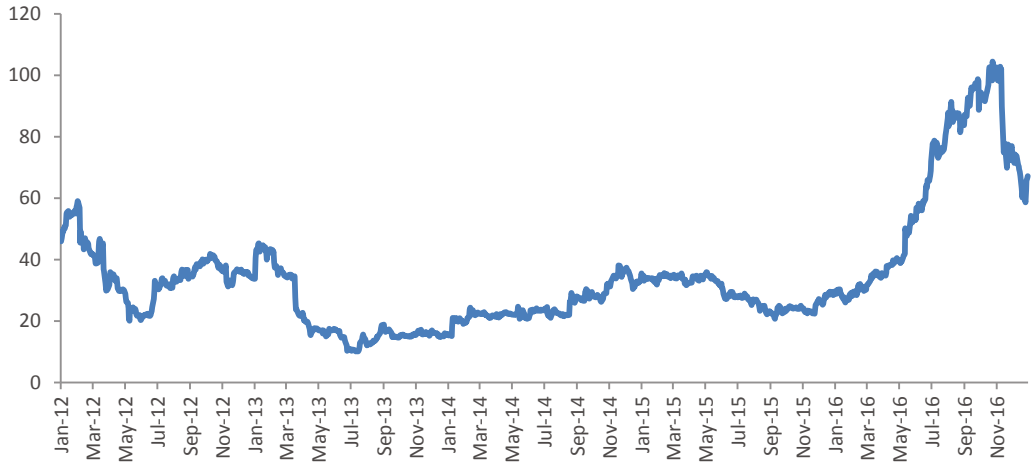
Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period

Manappuram 5 years price chart



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