

July 21, 2010

BUY

Price Rs 76	Target Price Rs 90
Sensex	17,878

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	1	13	177
Rel. to Sensex	2	(2)	10	135

Source: Bloomberg

Stock Details

Sector	Financial Services
Reuters	MGFL.BO
Bloomberg	MGFL@IN
Equity Capital (Rs mn)	3404
Face Value(Rs)	10
No of shares o/s (mn)	325
52 Week H/L	85/27
Market Cap (Rs bn/USD mn)	26/549
Daily Avg Volume (No of sh)	808,104
Daily Avg Turnover (US\$m)	1.3

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	41.0	30.4	30.7
FII/NRI	42.1	40.7	40.1
Institutions	1.8	0.6	0.7
Private Corp	0.4	0.8	0.5
Public	14.8	27.6	28.0

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- **MAGFIL reported robust numbers on expected lines for Q1FY11 with NII at Rs1.4bn and PAT at Rs462mn, up 27% and 13% qoq**
- **The AUMs has grown by 30% yoy with NIMs of 18.8%. However, sharp increase in ad expenses only partially offset strong revenue performance**
- **Gross NPAs (gold) have come down by a third while net NPAs have remained stable despite sharp growth in AUMs**
- **Valuations at 2.3x FY12E ABV still attractive with RoEs of 30-36%. We maintain BUY rating with price target of Rs90**

Robust NII growth

MAGFIL's Q1FY11 NII was marginally ahead of estimates, as the same grew by 27.6% qoq to Rs1.4bn driven by 30%qoq growth in AUMs and stable NIMs

Yield Analysis

%	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (bps)	QoQ (bps)
Yield on assets*	27.0	20.8	26.1	25.4	24.9	-212	-47
Cost of funds*	7.9	8.1	7.2	7.8	6.3	-160	-147
NIM*	19.1	12.7	18.9	17.6	18.6	-52	100

Source: Company, Emkay Research

Calculated based on average quarterly balances

Business growth robust

The company's AUMs grew by a robust 30% qoq to Rs33.7bn in Q1FY11 led by 42% qoq growth in gold loans. The AUMs for FY10 also include assignment portfolio of Rs7.4n.

Advances growth @ 15.0%qoq

(%)	Q4FY10	Q4FY09	Q3FY10	yoy chg	qoq chg
Advances	26,507	8324.7	18,694	218.4	41.8
Assignments	7,258	7055.3	7,290		
AUMs	33,765	15380	25,984	119.5	29.9

Source: Company, Emkay Research

Valuation table

Y/E March 31	Net Rev	APAT	EPS	ABV	RoA	RoE	PE	P/ABV
	Rs mn	Rs mn	(Rs)	(Rs)	(%)	(%)	(x)	(x)
FY09	1,272	301	3.5	14.5	3.6	29.1	21.5	5.2
FY10	3,409	1,195	3.5	36.7	6.0	30.3	21.6	2.1
FY11E	6,446	2,106	6.2	23.4	5.2	29.5	12.3	3.2
FY12E	10,708	3,455	10.2	32.9	5.2	35.8	7.5	2.3

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Net Interest Income	502	547	950	1,115	1,422	183.5	27.6
Other Income	2	6	2	2	7	235.9	337.8
Net Income	504	552	952	1,117	1,429	183.7	28.0
Total Operating Expenses	238	242	379	432	683	186.6	58.0
As % Of Net Income	47.3	43.9	39.8	38.7	47.8		
Employee Expenses	86	92	129	190	231	168.4	21.8
As % Of Net Income	17.1	16.6	13.5	17.0	16.2		
Other Expenses	55	46	79	47	155	179.6	226.6
As % Of Net Income	11.0	8.3	8.3	4.2	10.8		
Operating Profit	256	299	558	666	723	181.9	8.5
As % Of Net Income	50.9	54.0	58.6	59.7	50.6		
Provisions	40	18	30	43	31	-21.9	-28.4
PBT	217	281	527	623	692	219.3	11.0
Total Tax	74	96	177	215	230	209.3	7.0
Adjusted PAT	142	185	350	408	462	224.6	13.1
Extra Ordinary Items	0	0	0	0	0		
Reported PAT	142	185	350	408	462	224.6	13.1
Reported EPS	8.2	10.7	20.3	12.0	6.8		

Source: Company, Emkay Research

Note: yoy numbers are not comparable due to merger of Manappuram Tamil Nadu Finance into MAGFIL wef Q3FY10.

Opex up driven by ad expenses

The operating profit grew by slightly slower pace of 8.5% qoq as MAGFIL has started huge advertising campaign in CY10 because of which the other opex was up by 27% qoq.

Provisions decline despite balance sheet growth

As the gross NPAs came down by approximately a third over preceding quarter, the provisions were down by 28% qoq and 22% yoy.

NPAs profile

Rs mn	Q4FY10	Q4FY09	yoy chg
Gross NPLs	64	26	101
Net NPLs	57	25	44
Gross NPLs (%)	0.2	0.2	0.4
Net NPLs (%)	0.2	0.2	0.2

Source: Company, Emkay Research

Capital adequacy robust

The company is comfortably placed in terms of capital requirement, as the CAR stood a healthy 22.11% as on June 30, 2010.

Valuation and view

We continue to remain confident about MAGIL's growth driven by ability of the management to open new branches, their upscaling and also ability to contain NPAs. We expect a 70% CAGR in earnings over FY10-12E. At the current market price, the stock is quoting at 3.2x FY11E ABV and 2.3x FY12E ABV with likely RoEs of 30-36% over FY10-12E. We continue with our positive stance on the stock with BUY recommendation and price target of Rs90.

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	1,241	3,372	6,415	10,676
Other income	31	37	31	31
Net Income	1,272	3,409	6,446	10,708
Operating expenses	601	1,395	2,833	4,794
Depreciation	34	57	67	70
Pre-provision profit	638	1,957	3,547	5,843
Provisions	178	142	331	569
Profit before tax	463	1,818	3,215	5,274
Tax	160	621	1,109	1,820
Tax rate	35	35	35	35
Adjusted Profit after tax	301	1,195	2,106	3,455

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Equity share capital	213	340	680	680
Reserves And Surplus	1,436	5,886	7,373	10,589
Net worth	1,649	6,226	8,053	11,269
Borrowings	4,891	18,357	32,395	53,311
Deferred tax liability	-14	0	0	0
Current liabilities	381	1,015	1,018	1,018
Total Liabilities	6,938	25,598	41,466	65,597
Net block	280	535	525	521
Investments	29	1,407	29	29
Loans	4,500	18,956	37,714	60,947
Current assets	1,777	4,510	5,173	6,246
Total assets	6,588	25,408	43,441	67,744

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Yield on assets	19.4	23.8	22.0	22.0
Spreads	9.2	14.3	13.7	13.4
NIM	14.8	16.9	16.0	16.0
Other income	0.4	0.2	0.1	0.0
Net Income	15.1	17.1	16.0	16.0
Operating expenses	7.2	7.0	7.0	7.2
Preprovision profit	7.6	9.8	8.8	8.7
Provisions	2.1	0.7	0.8	0.9
Profit before tax	5.5	9.1	8.0	7.9
RoAA	3.6	6.0	5.2	5.2

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Adjusted Profit after tax (Rs mn)	301	1,195	2,106	3,455
No of shares (mn)	106.3	170.0	340.0	340.0
FDEPS (Rs)	3.5	3.5	6.2	10.2
PER (x)	21.5	21.6	12.3	7.5
Book value (Rs)	15.5	36.6	23.7	33.1
P/BV (Rs)	4.9	2.1	3.2	2.3
Adjusted book value (Rs)	14.5	36.7	23.4	32.9
P/ABV (Rs)	5.2	2.1	3.2	2.3
P/PPP (x)	12.7	6.6	7.3	4.4
RoE (%)	29.1	30.3	29.5	35.8
Dividend yield (%)	2.8	3.9	3.9	3.9

Recommendation History: MAGFIL – MGFL IN

Date	Reports	Reco	CMP	Target
13.05.2010	MAGFIL Q4FY10 Result Update	Buy	78	90
17.02.2010	MAGFIL Initiating Coverage	Buy	699	900

Recent Research Reports

Date	Reports	Reco	CMP	Target
20.07.2010	HDFC Bank Q1FY11 Result Update	Hold	2,050	1,950
15.07.2010	Axis Bank Q1FY11 Result Update	Reduce	1,314	1,100
15.07.2010	LIC Housing Finance Q1FY11 Result Update	Accumulate	1,001	11,00
15.07.2010	South Indian Bank Q1FY11 Result Update	Buy	186	230

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