



Manappuram Gen Fin

 Relative to sector: **Outperformer**
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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 417 mn
Market cap	: Rs 45 bn
52 week high/low	: Rs 190/ Rs 62
Avg. daily vol. (6mth)	: 1.3mn shares
Bloomberg code	: MGFL IB
Reuters code	: MGFL.BO

Shareholding (%)

	Dec-10	QoQ chg
Promoters	: 36.4	(6.1)
FIs	: 30.3	9.6
MFs / UTI	: 2.3	0.7
Banks / FIs	: 0.0	0.0
Others	: 31.0	(4.3)

Financial summary

Y/E Mar	PAT (Rs mn)	FDEPS (Rs)	EPS Change YoY (%)	P/E (x)	BV (Rs.)	Adj.BV (Rs)	P/ BV (x)	P/ Adj.BV (Rs)	RoE (%)	RoA (%)	Net NPA (%)
2009	303	1.8	(11)	61	9	9	11.6	12.7	21.0	2.7	1.1
2010	1,197	3.5	100	31	18	17	6.0	6.2	31.0	5.3	0.6
2011E	2,732	6.6	86	16	46	45	2.4	2.4	21.7	4.6	0.4
2012E	5,346	12.8	96	8	58	57	1.9	1.9	24.8	4.8	0.3

Source: Company, ENAM estimates

CHANGE IN GOLD LOAN CLASSIFICATION FOR NBFCs

RBI recently changed the regulation regarding classification of loans against gold jewellery. According to RBI notification:

- Loans sanctioned to NBFCs for lending to individuals or other entities against gold jewellery, cannot be classified as Agri. loans
- Similarly, investments by banks in securitized assets originated by NBFCs, where the underlying assets are loans against gold jewellery, and purchase/assignment of gold loan portfolio from NBFCs are also not eligible for classification under the agriculture sector.

Our view

- We expect cost of funds to increase by ~100 bps which will lead to ~40 bps moderation in the margins of Manappuram (MGFL) from ~15% currently. Due to the rise in cost of funds, we have revised our EPS and ABV estimates by 6% and 1% downwards respectively.
- Management maintains its guidance of Rs 140 bn loan book by FY12 and Rs 240 bn loan book by FY13. MGFL will require capital by FY12-end to fund its high business growth. As per its management, the company will originate all the new loans on its own books and would stop further assignment transactions.

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Valuations

We have revised our earnings estimate downwards by 6% in FY12 to factor in the higher cost of funds and consequently revised our book value multiple downwards to 2.8x (earlier 3x) to factor in the regulatory pressures. However, MGFL has corrected by 43% from its recent high in November 2010 and looks attractive at current levels. Moreover, we do not see any significant impact of the recent regulation on MGFL's operating performance. Therefore, we maintain our **BUY rating** on the stock with a revised TP of Rs 160 (2.8x FY12E ABV and 12x FY12E EPS) – upside of 49% from CMP.

- According to the management of various banks, the changed norms are applicable for assignment transactions of NBFCs with banks and not to the gold loans originated by banks on their own books. Going forward, the assignment route will be less attractive for NBFCs like MGFL which will spur its cost of funds.

Conference call takeaways

- There is 100 bps difference in costs between Priority sector loans (PSL) vs. Non-PSL.

- **Breakup of PSL**

Nature of Loans	Amount (Rs bn)
Assignment	12
Short-term Loans	20
Total	32

Source: Company

- MGFL will raise its resources via: (a) Commercial Paper; (b) NCDs issued to Retail investors; and (c) Non PSL loans from banks.
- In absence of assignment, MGFL will carry all the advances on its books.
- Management confirms our estimates, as they see overall impact will be an increase in cost of funds by ~100 bps on the PSL loans which will translate into ~40 bps impact on total portfolio yield.
- Management clarified that loans to weaker sections will continue to be qualified under PSL.
- Total credit lines of MGFL are at Rs 80 bn via the banking channel and Rs 20 bn via CP limits.
- Management has guided loans to grow to Rs 140 bn by FY12 & Rs 240 bn by FY13 with a target RoE of 30%.
- Client profile of MGFL is shifting more towards the urban centres. PSL currently constitute 17% of total clients which will reduce to 15% in FY12E.
- The co. has been spending heavily on Advertisement for Pan-India branding which has resulted in customer acquisition increasing four-fold from 1,000 customers to 4,000 customers per day.

Key Risk

- Regulatory concerns regarding the sector, post the MFI Act capping margins for the sector.

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