

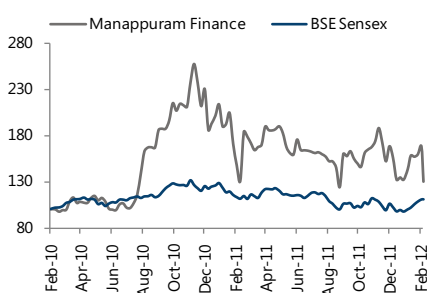
## Event Update

### Buy

Reco	Maintained
CMP	₹ 45
Target Price	₹ 76
Upside Potential	69%

### Price Performance

52 wk Hi/Lo	73/42
All time Hi/Lo	95/35
6 mnth Average Vol	1259459
Stock Beta	0.82



### Valuation

	FY11	FY12P	FY13P
P/E (x)	13.3	6.5	4.5
P/BV (x)	2.0	1.5	1.2
ROA (%)	5.5	5.1	4.9
RONW (%)	22.3	26.3	29.7

### Peer Valuation (FY12)

	MUTH	NBFC Avg.
PE	7.1	8.5
P/BV (x)	2.1	2.0

### Equity Data

Market Cap. (₹ bln)	38
Face value (₹)	2
No of shares o/s (mln)	841

	Dec'10	Dec'11	Δ%
Promoters	36.40	36.30	-0.27
DFI's	2.31	1.32	-42.86
FII's	30.25	33.01	9.12
Public	31.04	29.37	-5.38

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## Manappuram Finance Ltd.

### RBI Circular on PD - Governance Issues emerge!

RBI in its circular on 06 February 2012 has advised MGFL to not accept/renew deposits from the public, stating it is amounting to contravention of the terms and conditions of the certificate of registration currently held by it.

Concerns raised by RBI

1. MGFL has been accepting deposits from the public in its branches
2. Offices have been issuing deposit receipts in the name of MAGRO
3. Some cases, instead of repaying the matured deposit, FD's are been issued in the name of MAGRO (Manappuram Agro Farms)

**We believe the financial implication of the circular is nil. Reasons being:**

1. Prior to Mar'11, MGFL was a Deposit taking NBFC. Post which it voluntarily opted out and registered as a Non Deposit -NBFC. At this time, MGFL was having ₹ 12.2mln worth of unclaimed deposits lying in the escrow account of PNB
2. Accordingly it has run-down the deposits as and when matured. As on Dec'11, the liability stands at ₹ 9mln which still remains in the escrow account.
3. MGFL since then has not been accepting deposits from public
4. NCD issue does not qualify as a public deposit and hence the circular in no practicable scenarios hints of a threat to fund raising through this route.

The issue remains is the renewal of the matured deposits in the name of MAGRO (a sole proprietary firm of the promoter), through the premises of MGFL. Management states that the matured deposits of ₹ 3.2mln (Out of ₹ 12.2mln) when came up for redemption were been renewed towards MAGRO over the time period from Mar'11 till date. This happened in ~30 odd branches in and around Thrissur.

Provided that

- ✓ MAGRO is a sole owned firm (unincorporated) of the promoter of MGFL and hence is not eligible to raise funds through public route
- ✓ The fund raising was done from the premises of MGFL

**Our Take:**

This incident has no financial or operational impact on MGFL. Having said that, the incident definitely raises a question on the corporate governance and it seems there has been a lapse in terms of correct functioning of the branches. We currently maintain our target price, however would be closely monitoring the outcome of the board meeting on the Feb 10th, which we believe would be incidental to ensure a better levels of corporate governance and hence would decide our further course of action.

### Summary Financials

₹ in Mn	FY10	FY11	FY12P	FY13P
Net Interest Income	3,306	8,314	15,897	21,994
Other Income	103	172	272	354
Pre-Provisioning Profit	1,957	4,613	9,365	13,398
Net Profit	1,197	2,827	5,781	8,420
EPS	7.0	3.4	6.9	10.1
Networth	6,106	19,240	24,684	31,933
Borrowings	18,357	56,540	118,420	158,028
Advances	18,907	64,142	122,610	162,838

## Financial Summary

## Profit &amp; Loss

Particulars (₹ in mln)	2010	2011	2012P	2013P	2014P
Interest Income	4,675	11,634	27,923	40,069	48,792
Interest Expense	1,369	3,320	12,025	18,075	22,331
<b>Net Interest Income (NII)</b>	<b>3,306</b>	<b>8,314</b>	<b>15,897</b>	<b>21,994</b>	<b>26,460</b>
Other Income	103	172	272	354	433
Total Net Income	3,409	8,487	16,169	22,348	26,894
Operating Expenses	1,453	3,874	6,804	8,951	10,228
Pre-Provisioning Profit (PPP)	1,957	4,613	9,365	13,398	16,665
Provisions & Contingencies	138	374	736	831	1,003
<b>PBT</b>	<b>1,818</b>	<b>4,239</b>	<b>8,628</b>	<b>12,567</b>	<b>15,663</b>
Tax	621	1,412	2,847	4,147	5,169
<b>PAT</b>	<b>1197</b>	<b>2827</b>	<b>5781</b>	<b>8420</b>	<b>10494</b>
NIM (Calculated)	20.6%	16.1%	14.1%	12.8%	12.1%
EPS	7.03	3.39	6.93	10.10	12.59
NII Growth (%)	176%	152%	91%	38%	20%
PAT Growth (%)	286%	136%	105%	46%	25%

## Balance Sheet

Particulars (₹ in mln)	2010	2011	2012P	2013P	2014P
<b>Liabilities</b>					
Equity	340	834	1,668	1,668	1,668
Reserves & Surplus	5,765	18,406	23,016	30,266	39,589
<b>Networth</b>	<b>6,106</b>	<b>19,240</b>	<b>24,684</b>	<b>31,933</b>	<b>41,257</b>
Deposits	-	-	-	-	-
Borrowings	18,357	56,540	118,420	158,028	193,309
Other Liabilities & Provisions	1,015	1,911	4,173	5,695	6,845
<b>Total Liabilities</b>	<b>25,477</b>	<b>77,691</b>	<b>147,277</b>	<b>195,656</b>	<b>241,410</b>
<b>Assets</b>					
Cash, Cash Eq. Investment in Liq MF	2,682	6,664	12,369	15,846	19,745
Other Current Assets	3,286	5,351	9,566	12,301	14,945
Advances	18,907	64,142	122,610	162,838	199,038
Fixed Assets	602	1,535	2,732	4,671	7,680
<b>Total Assets</b>	<b>25,477</b>	<b>77,691</b>	<b>147,277</b>	<b>195,656</b>	<b>241,410</b>
<b>Advances</b>	<b>18,907</b>	<b>64,142</b>	<b>122,610</b>	<b>162,838</b>	<b>199,038</b>
<b>Assignment</b>	<b>7,077</b>	<b>11,183</b>	<b>16,777</b>	<b>18,154</b>	<b>22,189</b>
<b>AUM</b>	<b>25,984</b>	<b>75,325</b>	<b>139,387</b>	<b>180,992</b>	<b>221,228</b>

**Ratios**

<b>Valuation Ratios</b>	<b>2010</b>	<b>2011</b>	<b>2012P</b>	<b>2013P</b>	<b>2014P</b>
P/E	6.4	13.3	6.5	4.5	3.6
P/BV	6.1	2.0	1.5	1.2	0.9
P/PPP	19.2	8.1	4.0	2.8	2.3
EPS	7.0	3.4	6.9	10.1	12.6
DPS	1.0	0.6	1.2	1.2	1.2
Book Value (BV)	7.3	23.1	29.6	38.3	49.5

<b>Profitability &amp; Other Ratios</b>	<b>2010</b>	<b>2011</b>	<b>2012P</b>	<b>2013P</b>	<b>2014P</b>
ROE	30.8%	22.3%	26.3%	29.7%	28.7%
ROA	7.5%	5.5%	5.1%	4.9%	4.8%
Avg. Assets/Avg. Equity (x)	4.1	4.1	5.1	6.1	6.0
Net Gearing (Net Debt/Equity)	2.6	2.6	4.3	4.5	4.2
Tier I	26.0%	26.4%	18.3%	16.9%	17.9%

<b>Spread Analysis</b>	<b>2010</b>	<b>2011</b>	<b>2012P</b>	<b>2013P</b>	<b>2014P</b>
Yield on Advances	25.3%	22.7%	25.9%	24.9%	24.2%
Cost of Funds	7.4%	6.8%	11.9%	11.6%	11.4%
Spread	17.9%	15.9%	14.1%	13.3%	12.8%
<b>Net Interest Margin (NIM)</b>	<b>20.6%</b>	<b>16.1%</b>	<b>14.1%</b>	<b>12.8%</b>	<b>12.1%</b>

<b>Asset Quality</b>	<b>2010</b>	<b>2011</b>	<b>2012P</b>	<b>2013P</b>	<b>2014P</b>
Gross NPLs (Calc)	1.73%	0.39%	0.45%	0.45%	0.45%
Net NPLs (Calc)	0.56%	0.11%	0.15%	0.15%	0.15%
Coverage Ratio (incl. floating & Std. Asset Prov.)	57.1%	67.2%	66.7%	66.7%	66.7%

<b>ROA Break-up</b>	<b>2010</b>	<b>2011</b>	<b>2012P</b>	<b>2013P</b>	<b>2014P</b>
Net Interest income/AUM	18.4%	16.4%	14.8%	13.7%	13.2%
Non Interest income/AUM	0.6%	0.3%	0.3%	0.2%	0.2%
Net revenues/AUM	19.0%	16.8%	15.1%	14.0%	13.4%
Operating expense/AUM	8.1%	7.6%	6.3%	5.6%	5.1%
Provisions/AUM	0.8%	0.7%	0.7%	0.5%	0.5%
Taxes/AUM	3.5%	2.8%	2.7%	2.6%	2.6%
ROA	7.5%	5.5%	5.1%	4.9%	4.8%
Equity/AUM	4.1	4.1	5.1	6.1	6.0
ROAE (%)	30.8%	22.3%	26.3%	29.7%	28.7%

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Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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