

October 18, 2010

Reco **HOLD** Changed from **BUY**
 CMP **Rs150** Target Price **Rs160**

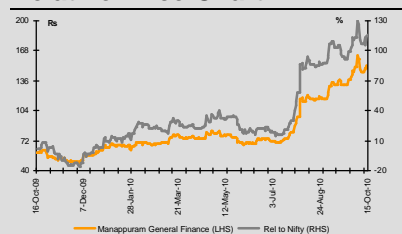
EPS change FY11E/12E (%) 21/40
 Target Price change (%) 77
 Nifty 6,063
 Sensex 20,125

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	106	100	151
Rel. to Sensex	8	83	75	114

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Financial Services
Bloomberg	MGFL@IN
Equity Capital (Rs mn)	681
Face Value(Rs)	2
No of shares o/s (mn)	340
52 Week H/L	166/45
Market Cap (Rs bn/USD mn)	51/1,157
Daily Avg Volume (No of sh)	1241149
Daily Avg Turnover (US\$m)	3.4

Shareholding Pattern (%)

	S'10	J'10	M'09
Promoters	40.7	41.0	30.4
FII/NRI	41.7	42.1	40.7
Institutions	1.8	1.8	0.6
Private Corp	0.4	0.4	0.8
Public	15.5	14.8	27.6

Source: Capitaline

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- **MAGFIL reported robust numbers on expected lines for Q2FY11 with NII at Rs1.8bn and PAT at Rs602mn, up 26% and 30.4% qoq driven by 47% qoq growth in AUMs**
- **Net NPAs (Gold) declined to 0.11% from 0.17% despite sharp growth in AUMs**
- **We remain wary of the strong growth in AUMs of MAGFIL. Successful execution to QIP (Rs10bn) and ability to contain NPAs key to justify the recent run up in the stock price**
- **Valuations at 2.4x FY12E ABV still attractive with RoEs of 25% (building in the QIP). We downgrade the stock to HOLD with price target of Rs160**

Robust NII growth

MAGFIL's Q2FY11 NII of Rs1.8bn was marginally ahead of estimates (Rs1.7bn), as the same grew by 26% qoq driven by 46.7%qoq growth in AUMs albeit NIMs (reported) declined by 250 bps qoq to 16.9% (reported).

Yield Analysis

%	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (bps)	QoQ (bps)
Yield on assets*	17.3	22.1	21.0	20.3	19.9	253	-41
Cost of funds*	6.4	6.2	5.8	4.8	5.2	-114	45
NIM*	11.0	15.9	15.2	15.5	14.6	367	-86
NIM-reported				19.4	16.9		-250

Source: Company, Emkay Research

Calculated based on average quarterly balances

Business growth robust

The company's AUMs grew by a robust 46.8% qoq to Rs49.6bn in Q2FY11 led by 48% qoq growth in gold loans. The assignments for Q2FY11 also include assignment portfolio of Rs11.9bn. In future, the assignments would remain at 25% of the total assets.

Advances growth @ 39.4%qoq

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Advances	11.2	17.5	18.9	27.0	37.7	235.8	39.4
Assignments	6.6	5.1	7.1	6.7	11.9	79.5	76.2
AUMs	17.8	22.6	26.0	33.8	49.6	177.8	46.8

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	42.3	10.4
FY10	3,409	1,195	3.2	35.7	6.0	30.3	46.9	4.2
FY11E	8,752	2,812	7.5	48.4	5.2	22.6	19.9	3.1
FY12E	16,886	5,325	14.3	61.5	5.0	25.1	10.5	2.4

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	547	950	1,115	1,422	1,792	227.8	26.0	3,214	1,048	206.6
Other Income	6	2	2	7	6	8.6	-17.7	13	8	72.7
Net Income	552	952	1,117	1,429	1,798	225.6	25.8	3,227	1,056	205.6
Total Operating Expenses	242	379	432	683	820	238.4	20.1	1,503	481	212.7
<i>As % Of Net Income</i>	<i>43.9</i>	<i>39.8</i>	<i>38.7</i>	<i>47.8</i>	<i>45.6</i>					
Employee Expenses	92	129	190	231	346	277.2	49.8	577	178	224.6
<i>As % Of Net Income</i>	<i>16.6</i>	<i>13.5</i>	<i>17.0</i>	<i>16.2</i>	<i>19.3</i>					
Other Expenses	46	79	47	155	201	337.8	30.0	356	101	251.4
<i>As % Of Net Income</i>	<i>8.3</i>	<i>8.3</i>	<i>4.2</i>	<i>10.8</i>	<i>11.2</i>					
Operating Profit	299	558	666	723	947	217.4	31.1	1,670	555	201.0
<i>As % Of Net Income</i>	<i>54.0</i>	<i>58.6</i>	<i>59.7</i>	<i>50.6</i>	<i>52.7</i>					
Provisions	18	30	43	31	47	164.0	51.6	78	58	35.7
PBT	281	527	623	692	900	220.7	30.2	1,592	497	220.1
Total Tax	96	177	215	230	299	210.7	29.7	529	171	210.1
Adjusted PAT	185	350	408	462	602	226.0	30.4	1,063	327	225.4
Extra Ordinary Items	0	0	0	0	0					
Reported PAT	185	350	408	462	602	226.0	30.4	1,063	327	225.4
Reported EPS	1.1	1.2	1.4	1.4	1.7	53.2	20.8	3.1	1.9	64.6

Source: Company, Emkay Research

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

Operating profit grew by 31.1% qoq

The operating profit grew by 31.1% qoq to Rs947mn as operating expenses grew by 20.1%qoq to Rs820mn. The growth in opex was driven by 50% qoq growth in employee expenses as the company added around 2800 employee during the quarter. Moreover other expenses grew by 30.0%qoq as the company added 258 branches during the quarter taking the total branch network to 1393 branches.

Provisions remain stable

As the gross NPAs increased 5-fold over preceding quarter, the provisions were up by 51.6% qoq and 164.0% yoy. Gross NPA in hypothecation segment was higher at 79.4% (although on a very small portfolio), while gross NPA in gold loans stood healthy at 0.24%.

NPAs profile

Rs mn	Q4FY10	Q1FY11	Q2FY11	QoQ (%)
Gross NPLs	101	64	340	429.9
Net NPLs	44	57	90	56.4
Gross NPLs (%)	0.4	0.2	0.7	
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 21.2% as on September 30, 2010.

Valuation and view

MAGFIL's growth trajectory has been steep recently and we remain confident about the growth prospects in the gold loan sector. However, the stock has seen very sharp run up recently which we believe is in anticipation of the QIP of Rs10bn (1x current net worth) which the board has been talking about. We believe that to bring the RoEs back to historical levels of 30%, the CAGR in assets would have to be more than 150% over FY10-12E. Ability to do a successful QIP, strong growth in assets and concurrent control over NPAs can justify the current valuations. We downgrade our rating to HOLD with price target of Rs160.

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	1,241	3,372	8,720	16,855
Other income	31	37	31	31
Net Income	1,272	3,409	8,752	16,886
Operating expenses	601	1,395	3,904	7,679
Depreciation	34	57	67	70
Pre-provision profit	638	1,957	4,781	9,136
Provisions	178	142	488	1,007
Profit before tax	463	1,818	4,293	8,129
Tax	160	621	1,481	2,805
Tax rate	35	35	35	35
Adjusted Profit after tax	301	1,195	2,812	5,325

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Equity share capital	213	340	747	747
Reserves And Surplus	1,436	5,886	17,922	22,985
Net worth	1,649	6,226	18,669	23,732
Borrowings	4,891	18,357	56,094	103,500
Deferred tax liability	-14	0	0	0
Current liabilities	381	1,015	1,041	1,041
Total Liabilities	6,938	25,598	75,804	128,273
Net block	280	535	525	521
Investments	29	1,407	29	29
Loans	4,500	18,956	71,014	122,822
Current assets	1,777	4,510	4,510	4,510
Total assets	6,588	25,408	76,078	127,883

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Yield on assets	19.4	23.8	22.5	22.0
Spreads	9.2	14.3	13.9	13.9
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	16.1	16.0
Operating expenses	7.2	7.0	7.2	7.3
Preprovision profit	7.6	9.8	8.8	8.6
Provisions	2.1	0.7	0.9	1.0
Profit before tax	5.5	9.1	7.9	7.7
RoAA	3.6	6.0	5.2	5.0

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Adjusted Profit after tax (Rs mn)	301	1,195	2,812	5,325
No of shares (mn)	106.3	170.0	373.3	373.3
FDEPS (Rs)	3.5	3.2	7.5	14.3
PER (x)	42.3	46.9	19.9	10.5
Book value (Rs)	15.5	36.6	50.0	63.6
P/BV (Rs)	9.7	4.1	3.0	2.4
Adjusted book value (Rs)	14.5	35.7	48.4	61.5
P/ABV (Rs)	10.4	4.2	3.1	2.4
P/PPP (x)	25.0	13.0	11.7	6.1
RoE (%)	29.1	30.3	22.6	25.1
Dividend yield (%)	1.4	2.0	2.0	2.0

Recommendation History: Manappuram General Finance – MGFL IN

Date	Reports	Reco	CMP	Target
21/07/2010	Manappuram Q1FY11 Result Update	Buy	76	90
13/05/2010	Manappuram Q4FY10 Result Update	Buy	78	90
17/02/2010	Manappuram Initiating Coverage	Buy	699	900

Recent Research Reports

Date	Reports	Reco	CMP	Target
14/10/2010	Axis Bank Q2FY11 Result Update	Reduce	1,563	1,200
14/10/2010	LIC Housing Finance Q2FY11 Result Update	Accumulate	1,458	1,490
23/09/2010	Crisil Company Update	NR	6,169	NR
18/08/2010	Banking Sector Update			

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