

Manappuram Finance Ltd

RoA to settle at respectable level post the full impact of new regulations

Over the past seven months, gold loan companies have been hit by a spate of game changing regulations - LTV cap of 60%, stringent bilateral assignments guidelines and higher Tier-1 capital requirement of 12% (to be reached by end-FY14). In the initial phase of the adjustment process, AUM growth has been severely impacted while contraction in NIM and RoA has been limited. Though RoA would most certainly deteriorate through the year, it is likely to settle at healthy levels of 3.5-4% in the longer term supported by reasonable pricing discipline, cyclical decline in funding cost and realization of operating efficiencies. Given the systemic importance of gold loan companies, incremental regulations are likely to be less stringent – a cap on cash disbursements can dilute financial inclusion.

Manappuram unlikely to deliver a significant decline in FY13 earnings

As per our estimate, Manappuram's PAT could decline by 9% in FY13; in contrast to a significant decline feared a quarter before. Structural reasons behind our improved expectations now are 1) better earnings performance in Q1 FY13 2) lower compression in portfolio yield (to settle near 23% v/s 21% expected earlier) and 3) strong operational response from the company (stringent cost containment measures undertaken). Though profit would continue to decline in coming three quarters, Manappuram would still deliver RoA of 3.8-4% for the year on a flattish AUM. Except for additional adverse regulations, we see minimal risk to similar RoA performance in FY14.

Valuation to start discounting emerging business clarity

Manappuram's valuation has witnessed wild gyrations in the recent past driven by a mix of internal and external factors. While corporate governance has been strengthened, the evolving business dynamics have been reassuring. With major regulations behind, the key valuation driver for the stock would be emerging business clarity. Lower LTVs, reducing assignments and a high capital base (Tier-1 at 20%) are credit positives for Manappuram. With undemanding valuation of 1x FY14 P/adj.BV, we retain BUY recommendation.

Financial summary

Y/e 31 Mar (Rs m)	FY11	FY12	FY13E	FY14E
Total operating income	8,424	15,667	15,491	17,364
Yoy growth (%)	146.8	86.0	(1.1)	12.1
Operating profit (pre-provisions)	4,622	9,155	8,552	9,419
Net profit	2,827	5,915	5,364	5,846
yoy growth (%)	136.1	109.3	(9.3)	9.0
EPS (Rs)	3.4	7.0	6.4	7.0
Adj. BVPS (Rs)	23.0	27.9	32.8	38.2
P/E (x)	11.4	5.5	6.1	5.6
P/Adj.BV (x)	1.7	1.4	1.2	1.0
ROE (%)	22.3	27.5	20.7	19.3
ROA (%)	4.8	5.3	3.9	3.8
Tier-1 (%)	26.7	20.7	20.4	19.6
Dividend yield (%)	1.6	3.9	3.1	3.1

Source: Company, India Infoline Research

Rating: BUY

Target: Rs45

CMP: Rs39

Upside: 16.7%

Sector: Financials

Sector view: Neutral

Sensex: 18,580

52 Week h/l (Rs): 66 / 18

Market cap (Rscr) : 3,268

6m Avg vol ('000Nos): 5,872

Bloomberg code: MGFL IB

BSE code: 531213

NSE code: MANAPPURAM

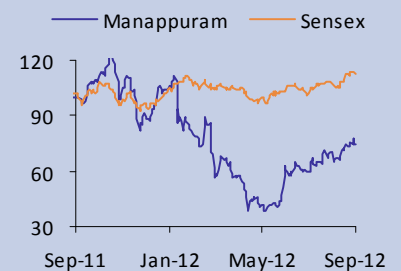
FV (Rs): 2

Price as on Sep 27, 2012

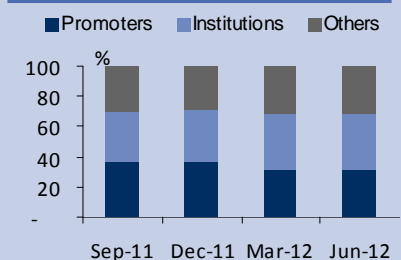
Company rating grid

	Low → High				
	1	2	3	4	5
Earnings Growth	■				
RoA Progression		■			
B/S Strength			■		
Valuation appeal				■	
Risk		■			

Share price trend



Share holding pattern



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In the year 2011 itself, we have received two reputed awards for being the Best Broker in India.

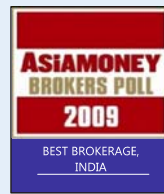
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IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

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Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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