

Manappuram Finance Ltd

BUY
CMP ₹40

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.

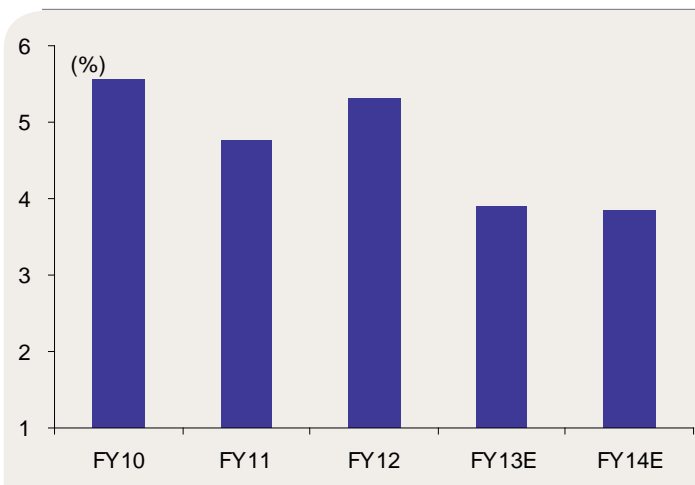
Manappuram unlikely to deliver a significant decline in FY13 earnings

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

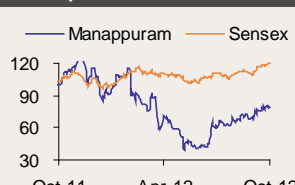
Manappuram's valuation has witnessed wild gyrations in the recent past driven by a mix of internal and external factors. While corporate governance has been strengthened, the evolving

ROA trend



Source: Company, India Infoline Research

Sector: Financials		Shareholding pattern	
BSE code:	531213	June'12	(%)
NSE code:	MANAPPURAM	Promoters	31.6
52 Week h/l (₹):	66 / 18	Institutions	36.4
Market cap (₹cr):	3,268	Non promoter corp	1.9
FV (₹):	2	Public & others	30.2

Performance rel. to sensex				Share price chart	
(%)	1m	3m	1yr		
Manappuram	5.6	22.4	(40.3)		
Muthoot	28.8	24.5	(4.7)		
Shriram Transport Fin	(6.6)	6.0	(12.0)		
M&M Fin	11.0	23.4	24.3		

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 (₹ 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
Pre-provs. Op. Profit	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 (₹)	3.4	7.0	6.4	7.0
Adj. BVPS (₹)	23.0	28.1	33.1	38.6
P/E (x)	11.8	5.7	6.3	5.8
P/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

Source: Company, India Infoline Research

India Infoline Weekly Wrap

Market Outlook

The Government's reforms drive has been powering the rally in Indian shares for the past few sessions. The same story was repeated this week as well, with the BSE Sensex crossing 19,000 and the NSE Nifty surpassing 5,800.

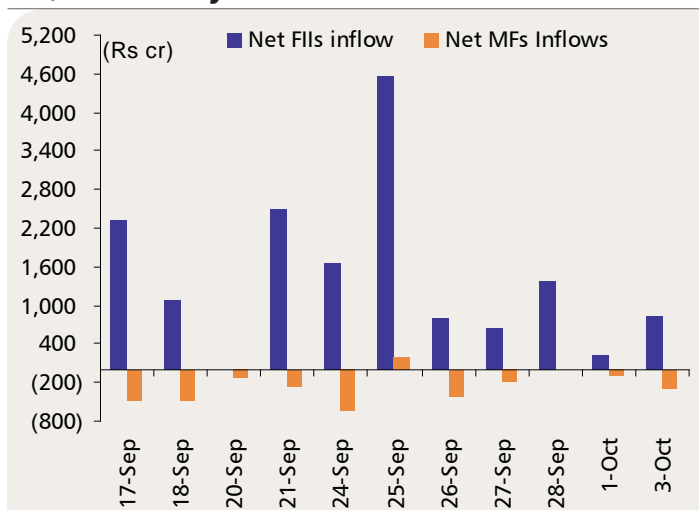
More policy measures cannot be ruled out in the coming days, as the Government tries to shore up investor confidence as part of efforts to boost growth.

Corporate earnings and management commentary will be keenly analysed for clues on meaningful improvement in business sentiment. In terms of data points, watch out for the latest IIP and inflation numbers apart from the Government's policy action(s).

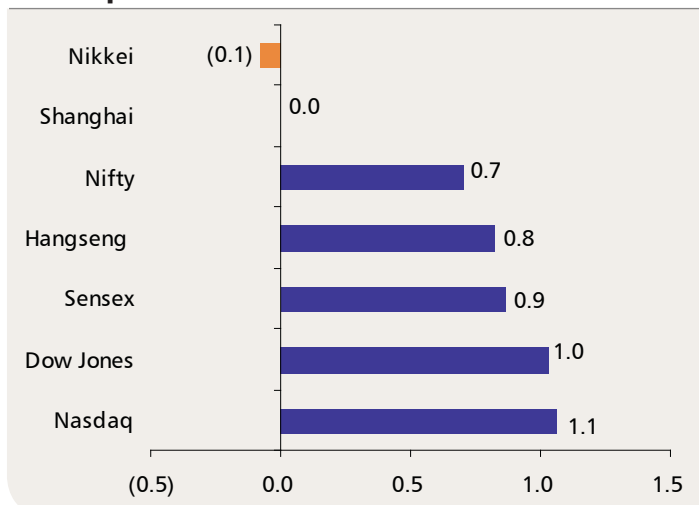
Globally, markets are in a consolidation mode following the monetary stimulus driven 'risk-on' rally. US jobs data on Friday could have a bearing on the global mood as will developments out of Europe and China.

US presidential election, leadership change in China and Gujarat election are the other important events to keep on one's radar in the coming weeks and months.

FII/MFs activity



Global performance



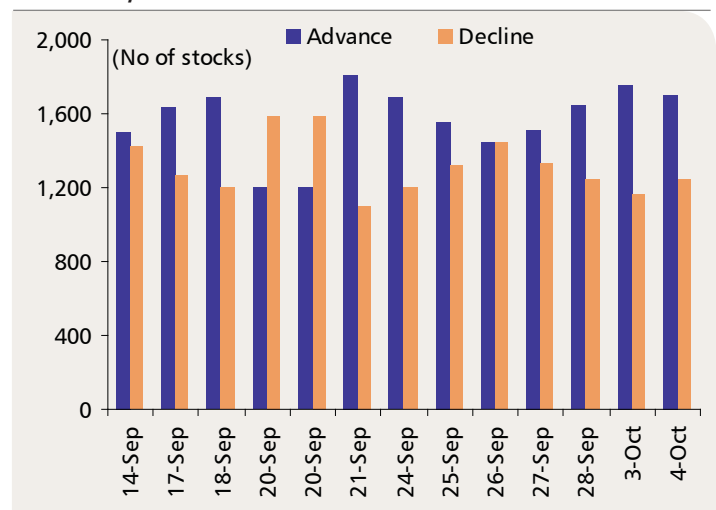
Technical View

Broader markets inched higher by 0.6% (wow) basis. This upswing was primarily backed by buying in banks, insurance and realty companies as government announced some key reforms for financial sector. However, market witnessed profit booking on Friday as 1) all major reform announcements were out and 2) market did rally 500 points on anticipation of such news. Technically, momentum oscillators are indicating that current up thrust is depleting. We expect nifty to touch 5,600 in the coming week before making a fresh attempt towards 6,000.

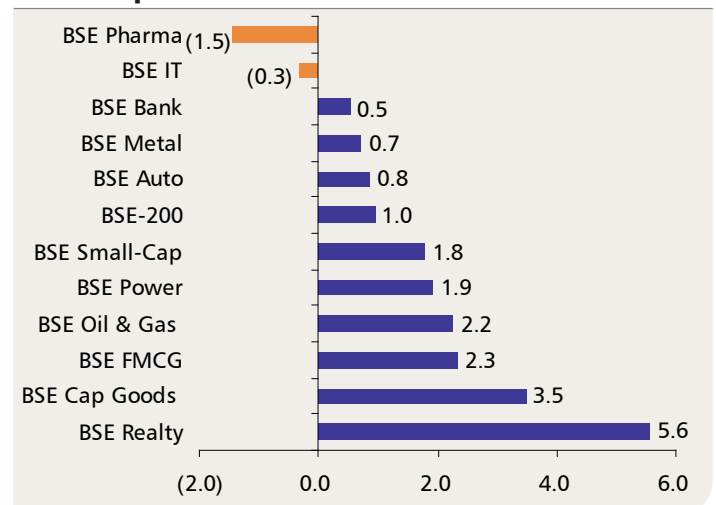
F&O View

FII remained net buyers in both Cash and Index Future. Nifty and Bank Nifty both are seeing long build-up in last few trading session. Highest open interest in Nifty options stood at 6000 Strike call and 5600 Strike put. Put writing was seen at 5700 strike which we feel may act as support for next week, while call writing was visible at 5900 strike. Range for nifty for the next week might be 5620-5880.

Advance/Decline



Sectoral performance



India Infoline Weekly Wrap

Technical Check

Nifty 50 & CNX 500 top 10 gainers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
JP Associate	89	7.7	Inox Leisure	78	25.2
Ambuja Cem	216	7.0	West Paper	82	24.8
BHEL	264	6.9	DB Realty	87	21.9
Reliance Cap	455	6.7	Blue Star	218	20.9
Reliance Power	103	4.9	Sonata	25	20.5
Tata Motors	281	4.9	IB Sec.	10	19.6
Siemens	744	4.9	FSL	11	18.9
SBI	2,339	4.4	Adani Ent	235	16.8
Hindalco Ind	125	3.9	Aftek	9	15.9
DLF	242	3.9	Jindal Poly	209	14.9

Nifty 50 & CNX 500 top 10 Losers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
RCOM	62	(4.9)	DCHL	9	(11.7)
Cipla	364	(4.4)	Gujarat Gas	306	(10.5)
Bajaj Auto	1,755	(4.1)	Unichem Lab	178	(9.1)
Hero Moto	1,809	(3.8)	Auto Axles	377	(8.5)
HDFC	749	(3.3)	Cadila Health	820	(6.1)
Tata Power	104	(2.8)	RCF	57	(5.0)
PNB	818	(2.6)	KEC Intl	70	(4.9)
JSPL	416	(2.6)	RCOM	62	(4.9)
Wipro	372	(2.3)	Hexaware	116	(4.7)
Sun Pharma	681	(2.1)	GTL	30	(4.6)

Technically strong

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
ONGC	287	283	3.4	3.0
India Cem	93	92	3.0	2.3
BOB	793	779	1.0	0.9
JP Power	35	35	3.8	2.9
Exide Ind	152	149	3.0	1.7

Technically weak

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Glenmark	401	418	0.6	0.4
IFCI	30	31	43.5	40.8
Hero Moto	1811	1887	0.6	0.3
Bajaj Auto	1751	1799	0.4	0.2
HDFC	750	770	251.2	1.8

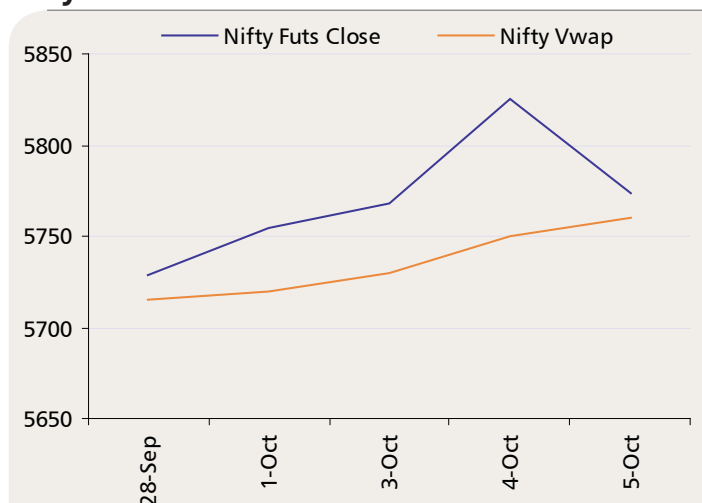
Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price (₹)
4-Oct	Credit Suisse	HDIL	B	24.0	104.0
4-Oct	Reliance Capital	Ibulls Real Estate	B	28.4	60.0
4-Oct	Macquarie Bank	Ibulls Real Estate	S	54.4	60.0
4-Oct	Macquarie Bank	IVRCL Limite	S	33.4	51.0

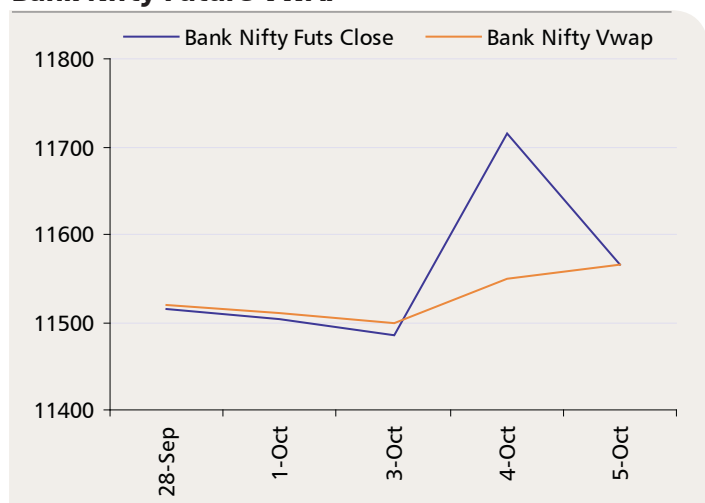
Book closure and record date

Company	Date	Purpose
Gujarat Gas	08 Oct 2012	Interim Dividend
Shree Cement	08 Oct 2012	Final Dividend
Gati	11 Oct 2012	Final Dividend

Nifty Future VWAP



Bank Nifty Future VWAP



India Infoline Weekly Wrap

Commodity Corner

Base metals

LME base metals traded on a lackluster note, as persistent slowdown concerns across the globe dissuaded bulls from venturing into aggressive positions. There was absence of impetus from the physical markets as China remained closed for the entire week. On macroeconomic front, HSBC PMI revealed that activity in Chinese manufacturing sector contracted for an 11th straight month in September. In U.S, factory orders for August witnessed a steepest fall in more than three years. Deteriorating business confidence and slowing exports has suppressed the expansion in the U.S manufacturing sector. On growth forecasts, Asian Development Bank has stated that economic growth in Asia (ex-Japan) will come in at 6.1% during 2012, the lowest reading since 2009. Slowdown in China and India has effectuated a downward revision in the growth forecasts for the region.

For further price direction, market focus will remain accentuated on the political developments in China, wherein the incumbent ruling party will appoint new battery of central leaders during November. The handover of state posts which will be formalized in March next year could imply policy changes as far as investments in infrastructure and fixed assets are concerned. As base metals demand is sensitive to change in government infrastructure policies, markets will pay considerable amount of heed to this event.

Note: This market commentary is written at 12:30 PM IST

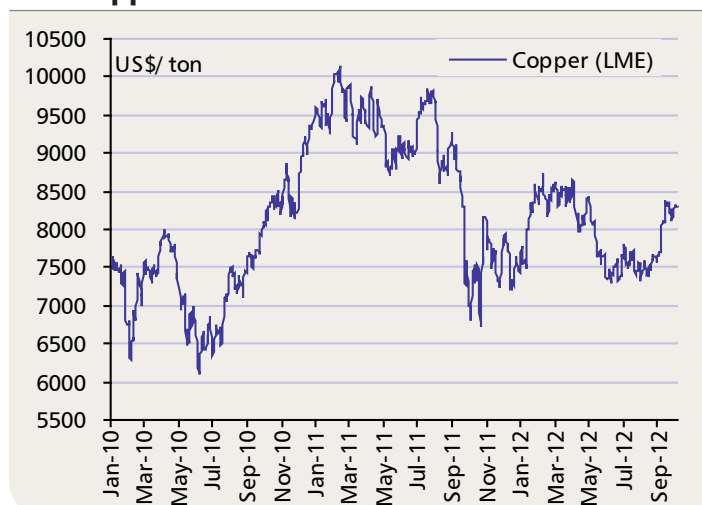
LME prices

Base Metals (US\$/ton)	High	Low	LTP*	Chg(%)
Copper	8,380	8,155	8,296	1.1
Nickel	18,920	18,050	18,626	0.8
Zinc	2,134	2,052	2,065	(1.5)
Aluminium	2,212	2,079	2,113	0.0
Lead	2,329	2,229	2,269	(0.5)

Precious Metals (US\$/ounce)	High	Low	LTP*	Chg(%)
Spot Gold	1,796	1,764	1,790	1.0
Spot Silver	35	34	35	1.1

* Last Traded Price

LME Copper



Precious metals

Precious metals moved higher this week, as optimism emanating from Europe augmented the buying in the precious metals complex. In this regard, Mario Draghi announced that the ECB is open to buy more sovereign bonds, provided that the member nations have to make formal request for the same. The apex body's reiterated stand reinvigorated the euro, which has also provided considerable amount of support to gold prices. Gold prices registered new 2012 highs and also witnessed handsome returns during Q3'12, the best quarter since past two years. Conversely, domestic prices have moved lower on account of steep appreciation in Indian rupee. At this juncture, gold prices still faces some headwinds as far as uncertainty over Spanish debt situation is concerned. Pressure is mounting on Spanish PM to resort for bailout due to deteriorating economic conditions.

Looking forward, we infer that Spain would eventually request European central bank to buy its sovereign bonds, in spite of the domestic political implications the incumbent regime could face. Prevalent standoff could lead to an uptick in Spanish sovereign bond yields and ultimately compel the nation to resort for a bailout from the ECB. In such an event, Euro could strengthen further and effectuate a broad based rally in the precious metals complex. However on the domestic front, therein lies a caveat as appreciating Indian rupee could offset the gains in the overseas markets.

Weekly inventory update

	Tons	Abs Chg.	Chg (%)
Copper (LME)	222,675	3,275	1.5
Nickel (LME)	124,860	2,280	1.9
Zinc (LME)	994,275	10,975	1.1
Aluminium (LME)	5,033,000	(22,850)	(0.5)
Lead (LME)	254,575	(13,125)	(4.9)
Tin (LME)	12,175	(80)	(0.7)
Shanghai Copper	162,547	(4,282)	(2.6)
Shanghai Zinc	301,686	(639)	(0.2)
Shanghai Aluminium	402,005	5,530	1.4

COMEX Gold



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Mutual Fund Round-up

India Infoline picks

Mutual Funds	Assets (₹ Cr)	NAV (₹)	Absolute return (%) as on Oct 05, 2012							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200(G)	10,692	218.6	3.2	12.3	8.3	7.5	20.8	(4.3)	27.2	52.4
ICICI Pru Dynamic(G)	4,130	112.5	1.9	7.1	5.1	5.7	21.9	2.1	34.2	41.5
IDFC Sterling Equity(G)	1,061	20.5	1.7	7.5	10.1	9.6	19.4	2.0	50.3	-
Fidelity Tax Advt(G)	1,203	22.8	2.2	7.4	9.0	7.5	15.8	(4.4)	33.3	38.9
HDFC Prudence(G)	6,356	231.8	2.5	10.6	6.9	7.0	17.4	4.6	44.0	69.0
Reliance Equity Oppor-Ret(G)	3,193	42.5	3.7	12.1	12.5	14.6	30.7	7.5	63.3	65.2
IDFC Premier Equity-A(G)	2,345	36.9	2.2	9.2	9.3	10.4	17.4	4.5	55.8	85.5

Funds this week: HDFC Top 200 Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Prashant Jain	Equity	99.2
Latest NAV	₹218.6	Debt	0.0
NAV 52 high/low	₹218.6/168.1	Cash/call	0.8
Latest AUM (cr)	₹11,190	Top 5 holdings (%)	
Type	Open-ended	State Bank of India	8.2
Class	Equity - Diversified	ICICI Bank Ltd.	6.7
Options	Growth & dividend	ITC Ltd.	6.2
Min investment	₹5,000	Infosys	5.2
Benchmark	BSE 200	Larsen & Toubro	4.0
No. of stocks	66	Top 3 sectors (%)	
No. of sectors	30	Banks	26.7
Expense ratio	1.8%	Energy	13.9
Exit load	1% before 1 year	FMCG	8.5

Reliance equity opportunity fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Shailesh Raj Bhan	Equity	97.4
Latest NAV	₹41.0	Debt	0.0
NAV 52 high/low	₹41.0/29.3	Cash/call	2.6
Latest AUM (cr)	₹3,473	Top 5 holdings (%)	
Type	Open-ended	Divi's Labs	7.8
Class	Equity - Diversified	HDFC	6.8
Options	Growth, Dividend & Bonus	SBI	4.9
Min investment	₹5,000	ICICI Bank	4.6
Benchmark	BSE 100	Infosys	3.9
No. of stocks	34	Top 3 sectors (%)	
No. of sectors	21	Healthcare	14.7
Expense ratio	1.85%	IT	11.8
Exit load	1% before 1 year	Banks - Private	7.3

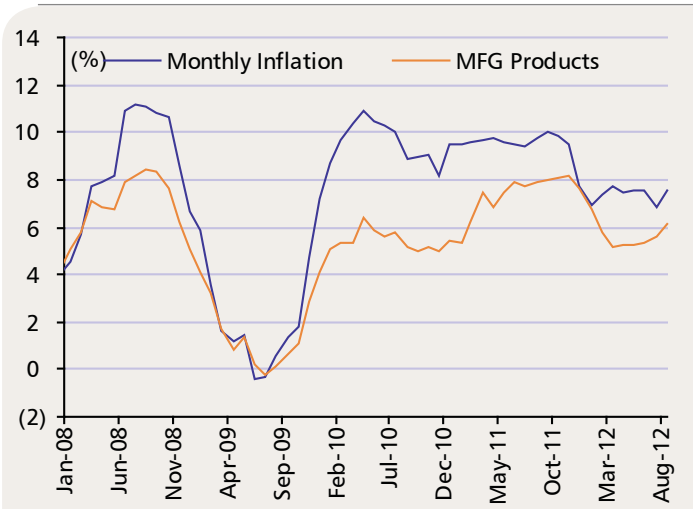
NFO update

Fund Name	Close	Type	Class
Birla SL FTP Sr - FZ (1093D)	08-Oct	CE	Debt
Religare FMP Sr-16 B (24M)	08-Oct	CE	Debt
IDFC Fixed Term Plan Sr-4	10-Oct	CE	Debt

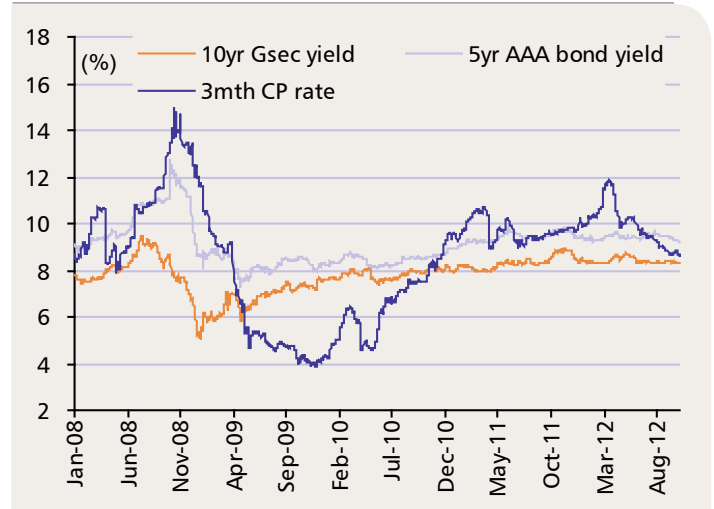
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Chartbook

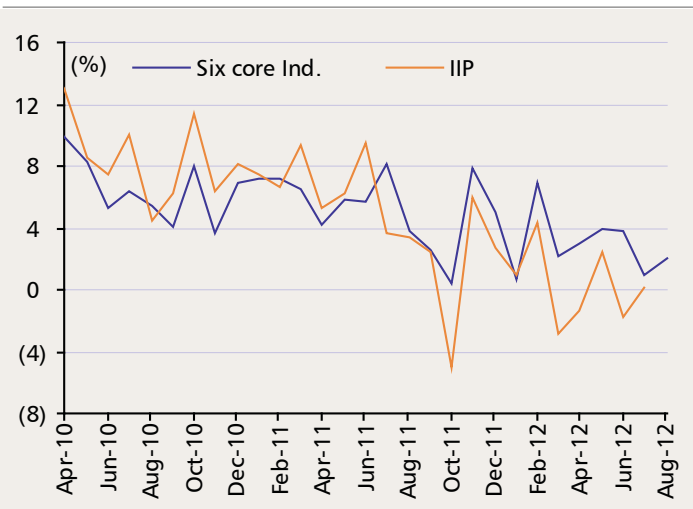
Inflation



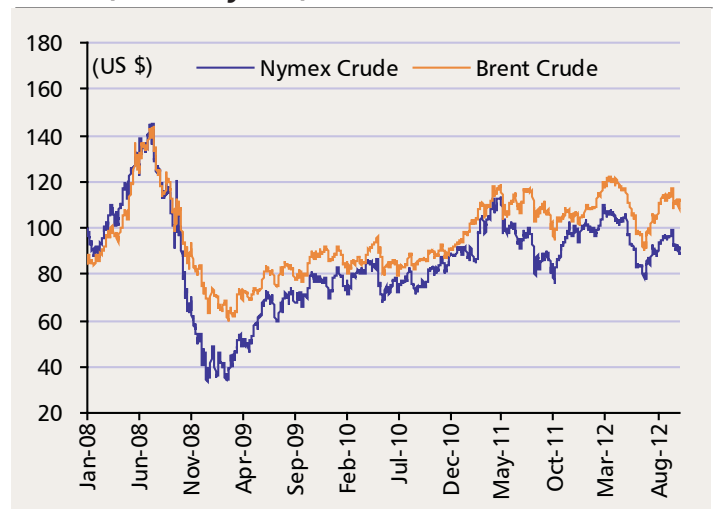
Interest Rate



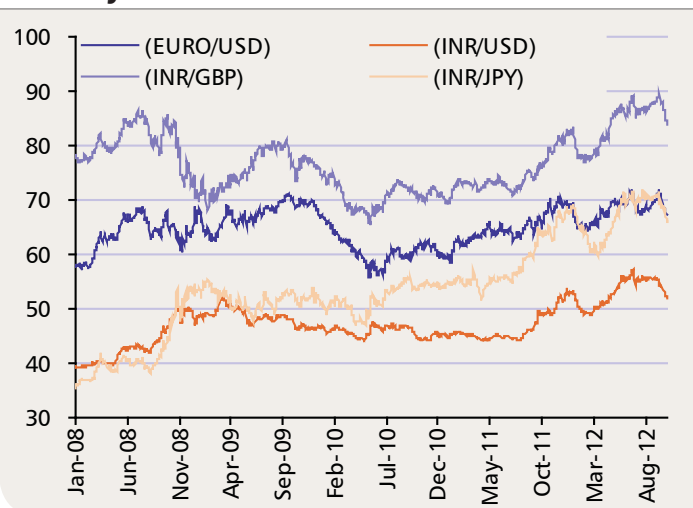
IIP and Six core Industries



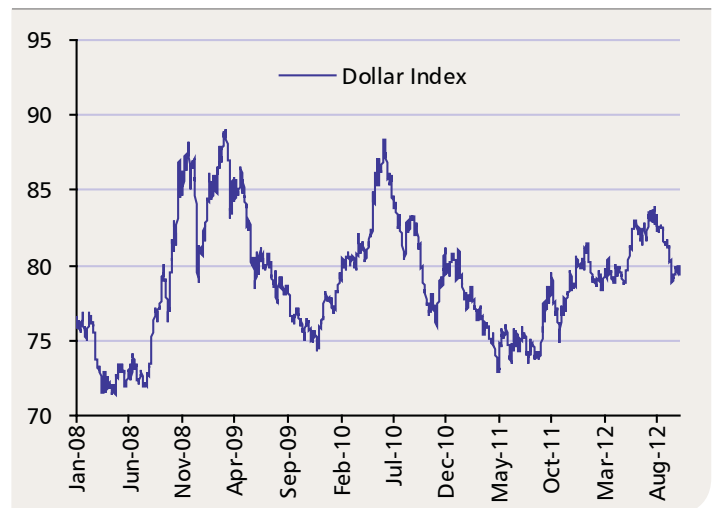
Crude (Brent/ Nymex)



Currency Movements



Dollar Index

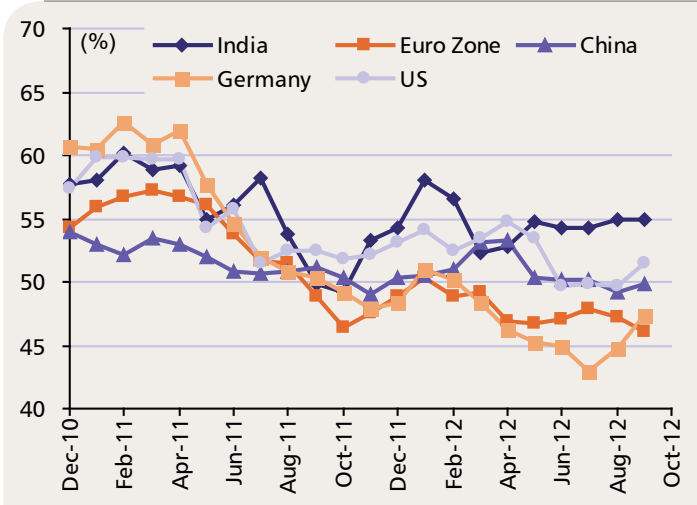


Source: Bloomberg

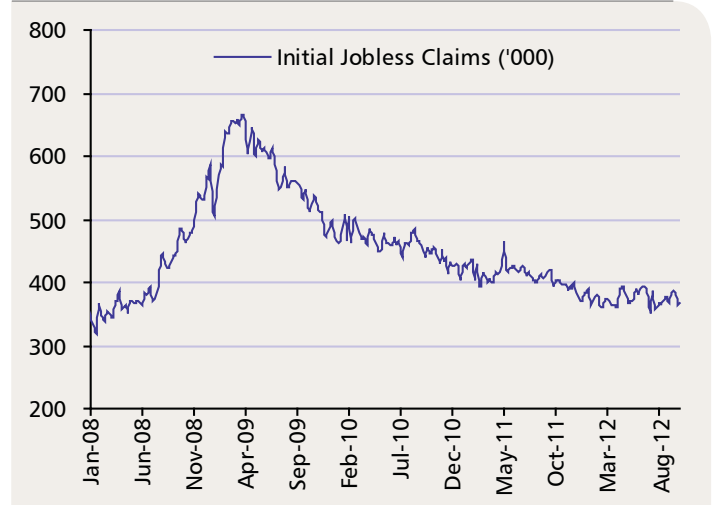
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Chartbook...

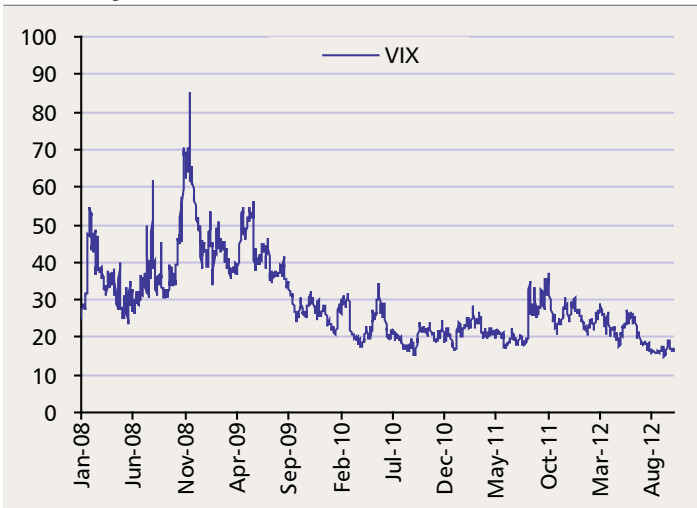
PMI



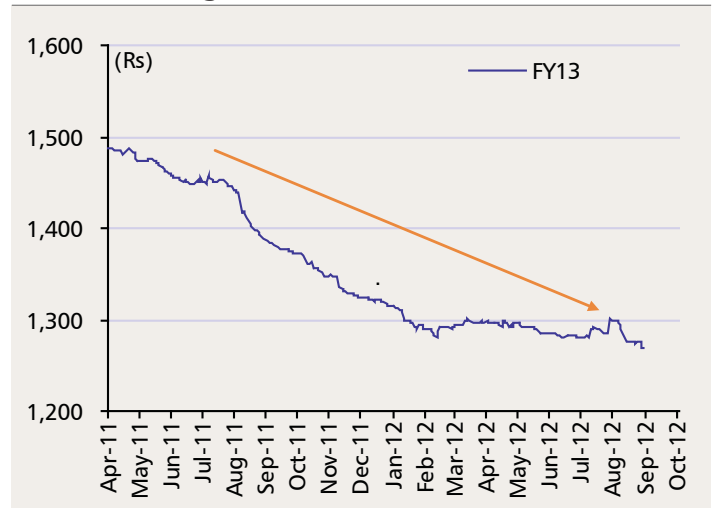
US Initial Jobless Claims



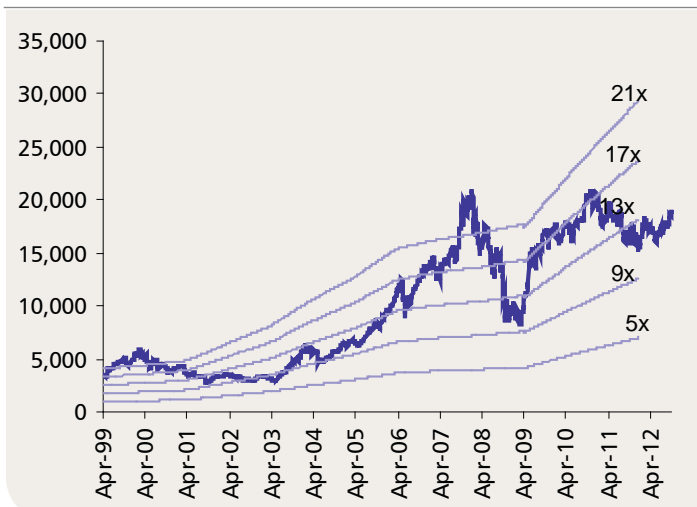
Volatility Index



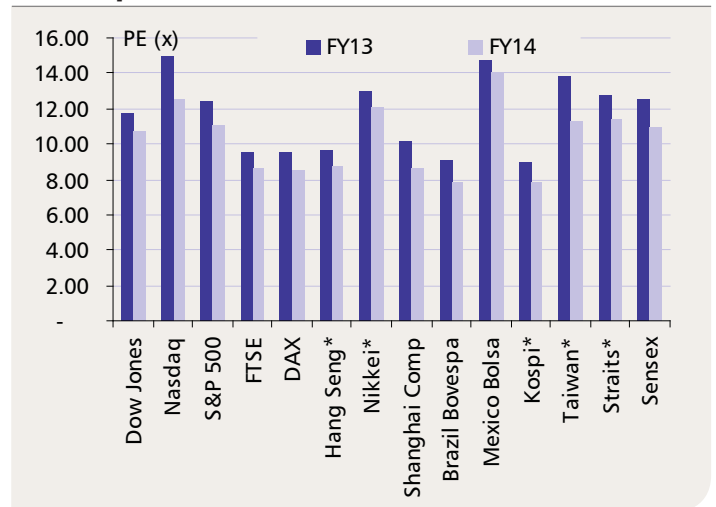
Sensex Earning Estimates



Sensex PE Band



PE Comparison



Source: Bloomberg

India Infoline Weekly Wrap

News Recap

The NSE witnessed Indian version of the 'flash crash' on Friday. The Nifty cash segment trading came to a halt for ~15 minutes due to a few erroneous trades at a local broker. The Nifty crashed by ~15% before recovering. **The Union Cabinet proposed a hike in FDI for the insurance sector to 49% from 26% at present. Cabinet also approved up to 49% FDI in the Pension sector.** Cabinet also cleared amendments to the Companies Bill and Competition Act besides also giving a green light to the draft 12th Five Year Plan. **The ADB cut India's FY12 GDP forecast to 5.6% from 7%.** The rupee flared up further vs. the US dollar and surpassed the 52 level before losing some ground by the end of the week. **The Govt may take a final call on GAAR within 20 days, Finance Minister P. Chidambaram said.**

Sonia Gandhi launched the Congress party's poll campaign in Gujarat, where election will be held in two phases - Dec. 13 and Dec. 17. The Govt may supply essential medicines free, said Gulam Nabi Azad. The Supreme Court asked Govt to inform the date of notification of Essential Drug Prices by Oct. 9. The current account deficit in the first quarter of FY13 is still outside the RBI's comfort zone, deputy governor Subir Gokarn said. **India's merchandise exports fell by ~10% in August to US\$22.3bn** while imports fell by ~5% to US\$38bn. The trade deficit for the month stood at US\$15.6bn. **India's services sector PMI hit a seven-month high while the manufacturing PMI stayed at a nine month low.** Govt announced a 12-point action plan for the life insurance sector. A government panel recommended a hike in power and railway tariffs besides proposing 100% FDI in Telecom.

RIL has signed crude supply agreement and MoU with Venezuela's

PDVSA. **The crisis at Kingfisher Airlines continued as employees launched another stir against lack of salary payments.** The Vijay Mallya promoted airline announced a lockout. **HDFC shares declined after Carlyle sold a 3.7% stake at a discount.** Infosys fell after CLSA's sales team came out with a grim forecast. IVRCL shares too came under some pressure after the Essel Group offloaded its shares. GSPC said it would buy BG's 65% stake in Gujarat Gas and also announced a mandatory open offer. **Mahindra is expected to debut SsangYong Rexton SUV in India on Oct. 17.** Cipla's new Malaria combination treatment was approved by the WHO. Tata Motors sales were down 4% in September; Maruti Suzuki sales were up 10% in September; M&M September auto sales were up 10% YoY; **Hero MotoCorp sales were down 26% in September.** TVS Motor September sales were down 22% YoY. Ashok Leyland registered a 21% sales growth in September. GAIL India signed a 20-year agreement with Gazprom.

The IMF is likely to cut global growth forecast next week, according to reports. Chinese manufacturing PMI remained in the contraction mode in September while Eurozone's manufacturing PMI hit a six-month high. Eurozone's composite PMI stood at a four-month low. UK's manufacturing PMI fell to 48.4 in September. Japanese manufacturers turned more pessimistic, according to the Tankan survey. **The ECB, Bank of England the BOJ left their monetary policies unchanged.** IATA upwardly revised its global aviation outlook for 2012. Motorola Mobility dropped a patent complaint against Apple. The iPhone maker's US smartphone market share has increased at the expense of RIM. Apple CEO Tim Cook said sorry for the maps imbroglio in iPhone 5. Xstrata Board approved Glencore's revised offer.

Event Calendar

Period : 8th – 12th October

US

- Aug Wholesale Inventories (10 Oct)
- Aug Trade Balance (11 Oct)
- Sep PPI Ex Food & Energy YoY (12 Oct)

India

- **Aug Industrial Production YoY (12 Oct)**
- **Sep Monthly Wholesale Prices YoY% (12 Oct)**

China

- Q3 Business Climate Index (6-10 Oct)
- Sep Foreign Exchange Reserves (11-15 Oct)

Eurozone

- Aug Trade Balance (12 Oct)
- Aug Euro-Zone Ind. Prod. YoY (12 Oct)

Period : 15th – 19th October

US

- Oct Empire Manufacturing (15 Oct)
- Sep Consumer Price Index YoY (16 Oct)
- Sep Industrial Production (16 Oct)
- Sep Housing Starts MOM% (17 Oct)

India

- **Sep CPI YoY (18 Oct)**

China

- Sep Consumer Price Index YoY (15 Oct)
- Q3 Real GDP QoQ (18 Oct)

Eurozone

- Sep Euro-Zone CPI - Core YoY (16 Oct)
- Aug Euro-Zone Trade Balance (16 Oct)
- Aug ECB Euro-Zone Current Account (19 Oct)

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013

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