

November 4, 2011

Reco	Previous Reco
Hold	Buy
CMP	Target Price
Rs61	Rs65

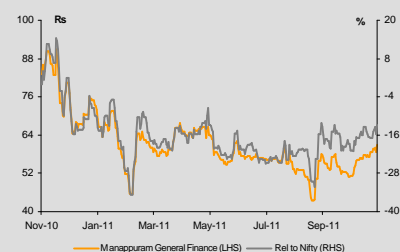
EPS change FY12E/13E (%)	3.5/2.3
Target Price change (%)	8%
Nifty	5,284
Sensex	17,563

Price Performance

(%)	1M	3M	6M	12M
Absolute	20	10	(5)	(27)
Rel. to Nifty	7	11	0	(14)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Financial Services
Bloomberg	MGFL@IN
Equity Capital (Rs mn)	1667
Face Value(Rs)	2
No of shares o/s (mn)	834
52 Week H/L	95/42
Market Cap (Rs bn/USD mn)	51/1,036
Daily Avg Volume (No of sh)	1598045
Daily Avg Turnover (US\$mn)	1.7

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	36.6	36.5	36.5
FII/NRI	45.9	45.5	45.3
Institutions	1.2	1.5	1.9
Private Corp	1.1	0.9	0.9
Public	15.1	15.7	15.4

Source: Capitaline

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- **MAGFIL results ahead of expectation with NII at Rs3.7bn and Net profit at Rs1.4bn. Asset quality stable with GNPA at 0.44% and NNPA at 0.25%.**
- **The company's AUMs grew by a robust 17.4% qoq to Rs106bn in Q2FY12 aided by 12%qoq increase in customer base and ~10%qoq increase in branch network**
- **The company's Cost/ Income ratio improved by 207bps to 46% despite the company adding 223 branches during the quarter**
- **Rising competition and possibility of NPA recognition on 90dpd as mentioned in the draft discussion paper could hurt growth and margins. Downgrade to HOLD with TP of Rs65**

NII grows ahead of expectation

MAGFIL's Q2FY12 results beat estimates with NII at Rs3.7bn, growth of 18.1%qoq and net profit at Rs1.4bn, growth of 25.5%yoy. The strong growth in NII was led by 17.4%qoq growth in AUM's and stable NIM's at 13.1%. With controlled cost operating profit grew by even higher 24.4% to Rs2.0bn.

Yield Analysis

%	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (bps)	QoQ (bps)
Yield on assets*	19.9	20.1	20.7	20.5	21.8	198	138
Cost of funds*	5.2	5.9	6.3	7.4	8.8	353	135
NIM*	14.6	14.2	14.4	13.1	13.1	-156	3

Source: Company, Emkay Research

Calculated based on average quarterly balances

AUM continue to grow at healthy pace

The company's AUMs grew by a robust 17.4% qoq to Rs106bn in Q2FY12 aided by 12%qoq increase in customer base and ~10%qoq increase in branch network during the quarter. The growth was also aided by 13%qoq increase in average gold prices during the quarter. Gold stock during the quarter increased by 8.5% to 65.2MT. The AUM for Q2FY12 include assignment portfolio of Rs14bn, constituting 13.3% of the AUM's as against 11.9% in the previous quarter.

AUM growth @ 17.4%qoq

Rsbm	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Advances	38	51	64	80	92	144.1	15.5
Assignments	12	14	11	11	14	18.3	31.2
AUMs	49.6	65.2	75.5	90.3	106.0	113.9	17.4
Gold loan o/s	49	64	75	90	105	114.6	16.9
Gold stock (MT)	37.2	46.6	53.0	60.1	65.2	75.3	8.5
Average gold prices	1,227	1,369	1,388	1,509	1,705	38.9	13.0

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)
FY10	3,409	1,195	2.9	35.7	5.8	30.3	21.2	1.7
FY11	8,496	2,842	6.8	45.3	5.2	22.3	8.9	1.3
FY12E	15,633	5,091	6.1	28.3	4.8	23.7	9.9	2.1
FY13E	20,432	6,795	8.2	36.6	4.3	25.0	7.5	1.7

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	1,792	2,334	2,920	3,145	3,713	107.2	18.1	6,857	3,214	113.4
Other Income	6	8	6	6	56	817.4	850.5	62	13	357.7
Net Income	1,798	2,342	2,926	3,151	3,768	109.6	19.6	6,919	3,227	114.4
Total Operating Expenses	820	1,057	1,248	1,441	1,582	92.9	9.8	3,022	1,503	101.1
<i>As % Of Net Income</i>	<i>45.6</i>	<i>45.1</i>	<i>42.6</i>	<i>45.7</i>	<i>42.0</i>			<i>43.7</i>	<i>46.6</i>	
Employee Expenses	346	442	585	657	769	122.0	16.9	1,426	577	147.0
<i>As % Of Net Income</i>	<i>19.3</i>	<i>18.9</i>	<i>20.0</i>	<i>20.9</i>	<i>20.4</i>			<i>20.6</i>	<i>17.9</i>	
Other Expenses	201	359	449	575	611	203.3	6.2	1,186	356	232.8
<i>As % Of Net Income</i>	<i>11.2</i>	<i>15.3</i>	<i>15.3</i>	<i>18.3</i>	<i>16.2</i>			<i>17.1</i>	<i>11.0</i>	
Operating Profit	947	1,240	1,565	1,635	2,034	114.7	24.4	3,669	1,670	119.7
<i>As % Of Net Income</i>	<i>52.7</i>	<i>53.0</i>	<i>53.5</i>	<i>51.9</i>	<i>54.0</i>			<i>53.0</i>	<i>51.7</i>	
Provisions	47	125	33	39	31	-34.4	-20.9	70	78	-10.5
PBT	900	1,115	1,532	1,596	2,003	122.5	25.5	3,599	1,592	126.1
Total Tax	299	370	514	518	650	117.7	25.5	1,168	529	120.9
Adjusted PAT	602	745	1,018	1,078	1,353	124.8	25.5	2,431	1,063	128.7
Reported PAT	602	745	1,018	1,078	1,353	124.8	25.5	2,431	1,063	128.7
Reported EPS	-2.0	-1.0	0.0	1.0	2.0	-196.1	104.2	3	-4	-171.6

Source: Company, Emkay Research

Efficiency ratios improves further

The bank continues to benefit from the operating leverage, as the AUM per branch further improved to 42.4mn in Q2FY12 from 39.6mn in Q1FY12. Resultantly, Cost/ Income ratio improved by 207bps to 46% despite the company adding 223 branches during the quarter. The efficiency ratios are expected to improve further as the newly commissioned branches get fully operational. The management expects its AUM/Branch to move further up to Rs60mn/ Branch over the next 12 months.

.....driving operating profit growth even higher

Driven by higher NII growth and controlled OPEX, the operating profit grew by a strong 24.4% qoq to Rs2.0bn. The operating expenses grew by 9.8%qoq to Rs1.6bn driven by 16.9% qoq growth in employee expenses as the company added around 1960 employees during the quarter. Moreover other expenses grew by just 6.2%qoq as the company added 223 branches during the quarter.

Expanding branch network as planned

MAGFIL has grown its branch network at an aggressive pace over the last few years. However, as guided by the management earlier, the pace of branch addition has slowed down in H1FY12. The company added 439 branches during H1FY12 as against 671 branched in H2FY11. The company plans to add another 150 branches in H2FY12 and 500 branches in FY13. In total for FY12/ FY13 the company plans to open a lesser ~500 branches as against 1000 branches opened in FY11.

Asset quality remain healthy

The asset quality remained healthy, with NNPA coming down further to 0.25% from 0.3% in the previous quarter. LTV during the quarter fell to 61% from 72% in the previous quarter, hence providing higher margin of safety in case of volatility in gold prices.

Valuation and view

Though MAGFIL continue to grow at a healthy pace, however with rising competition and possibility of NPA recognition on 90dpd as mentioned in the draft discussion paper could hurt growth and margins. At CMP the stock trades at 2.1x/ 1.7x FY12E/FY13E ABV. Downgrade to HOLD with TP of Rs65

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	3,372	8,468	15,557	20,362
Other income	37	28	75	70
Net Income	3,409	8,496	15,633	20,432
Operating expenses	1,395	3,807	6,481	9,157
Depreciation	57	213	352	352
Pre-provision profit	1,957	4,475	8,800	10,924
Provisions	142	237	1,028	549
Profit before tax	1,818	4,239	7,772	10,375
Tax	621	1,412	2,681	3,579
Tax rate	35	33	35	35
Adjusted Profit after tax	1,195	2,827	5,091	6,795

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Equity share capital	340	834	1,667	1,667
Reserves And Surplus	5,886	18,405	22,078	28,873
Net worth	6,226	19,238	23,745	30,540
Borrowings	18,357	67,795	111,990	157,305
Deferred tax liability	0	0	0	0
Current liabilities	1,015	1,072	1,364	779
Total Liabilities	25,598	88,603	137,100	188,625
Net block	535	525	240	240
Investments	1,407	403	29	29
Loans	18,956	75,492	131,868	181,894
Current assets	4,510	6,396	3,316	3,316
Total assets	25,598	88,603	137,100	188,625

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Spreads	13.3	13.0	12.2	11.3
NIM	16.3	14.8	14.7	13.0
Other income	0.2	0.1	0.1	0.0
Net Income	16.5	15.8	14.8	13.0
Operating expenses	6.8	6.9	6.1	5.8
Preprovision profit	9.5	8.8	8.3	7.0
Provisions	0.7	0.9	1.0	0.3
Profit before tax	8.8	7.9	7.4	6.6
RoAA	5.8	5.2	4.8	4.3
Net NPA (%)	0.8	0.1	0.1	0.2

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Adjusted Profit after tax (Rs mn)	1,195	2,842	5,091	6,795
No of shares (mn)	170.0	416.8	833.7	833.7
FDEPS (Rs)	2.9	6.8	6.1	8.2
FDPER (x)	21.2	8.9	9.9	7.5
Book value (Rs)	36.6	46.2	28.5	36.6
P/BV (Rs)	1.7	1.3	2.1	1.7
Adjusted book value (Rs)	35.7	45.3	28.3	36.6
P/ABV (Rs)	1.7	1.3	2.1	1.7
P/PPP (x)	5.3	5.2	5.8	4.6
RoE (%)	30.3	22.3	23.7	25.0

Recommendation History: Manappuram General Finance – MGFL IN

Date	Reports	Reco	CMP	Target
10/02/2011	Manappuram Company Update	Buy	91	120
18/10/2010	Mannapuram Q2FY11 Result Update	Hold	150	160
21/07/2010	Manappuram Q1FY11 Result Update	Buy	76	90
13/05/2010	Manappuram Q4FY10 Result Update	Buy	78	90

Recent Research Reports

Date	Reports	Reco	CMP	Target
02/11/2011	United Bank of India Q2FY12 Result Update	Hold	71	73
02/11/2011	Allahabad Bank Q2FY12 Result Update	Accumulate	161	200
02/11/2011	ICRA Q2FY12 Result Update	Reduce	990	900
01/11/2011	Punjab National Bank Q2FY12 Result Update	Accumulate	1,013	1,270

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