


Near-Term Underperformance to Continue, Maintain HOLD!
Est. Vs. Actual for Q2FY25: NII – **BEAT**; PPOP – **INLINE**; PAT – **INLINE**
Changes in Estimates post Q2FY25
FY25E/FY26E/FY27E (in %): NII: -1.1/-2.3/-1.0; PPOP: -3.5/-4.7/-2.5; PAT: -6.5/-9.0/-3.9

Recommendation Rationale

- Corrective actions taken in MFI subsidiary:** Post the imposition of restrictions on the microfinance subsidiary, the company has intensified its collection efforts and implemented advanced tracking systems to improve recoveries. Asirvad has added ~5,000 loan officers mainly for collections, especially in geographies that continue to exhibit stress. To ensure compliance with the deficiencies found by the regulator, the company has also reduced its interest rates from ~24% to the best in the industry levels. While currently disbursements have been put on hold amidst regulatory restrictions, the rate cut will keep NIMs on the MFI book under pressure as and when disbursements/AUM growth resumes. Near-term credit costs will continue to remain elevated. However, intensified collection efforts along with industry guardrails enabling streamlining of collections should aid credit costs normalisation. The management has indicated that Asirvad continues to remain well-placed on liquidity to make timely repayments of its obligations. Post the relaxation of restrictions (as and when it happens), the company will look to maintain MFI AUM growth between 15-20% with the primary focus being on credit quality and credit discipline.
- Confident in delivering healthy gold loan growth:** Pursuant to the RBI circular, Manappuram has reviewed its policies, identified gaps, and is in the process of implementing corrective measures to fortify the core gold business. Manappuram is strengthening the gold loan LTV, monitoring the renewal of gold loans after due dates and also monitoring the use of gold loans. The management indicated that these guidelines would create a level playing field across all lenders. The management continues to remain optimistic about delivering a healthy gold loan growth of 12-15% in FY25. Hereon, Manappuram will continue to focus on core gold loan business along with secured non-gold businesses.

Sector Outlook: Positive

Company Outlook: We believe near-term headwinds on growth and overall profitability will continue given the restrictions on Asirvad MFI's disbursements. However, the company will look to continue its growth journey in the core gold and secured non-gold portfolios. The management indicated that repayments from the Vehicle/MSME/Housing portfolio are expected to improve from Q4FY25 onwards, with green shoots visible in early Q3FY25. We expect Manappuram's RoA to be capped at 4.3% over FY25-26E factoring in higher credit costs, lower NIMs and increased Opex given aggressive collection efforts, before improving to ~4.6% by FY27 as conditions normalise.

Current Valuation: 0.9x Sep'26E ABV Earlier Valuation: 1.0x FY26E ABV

Current TP: Rs 170/share Earlier TP: Rs 175/share

Recommendation: We maintain our **HOLD** recommendation on the stock.

Financial Performance

- Operational Performance:** AUM growth was healthy at 17/2% YoY/QoQ but below our expectations (by ~1.7%). AUM growth was led by slower Gold loans (+17/3% YoY/QoQ), while non-gold loan AUM growth was driven by Vehicle finance (+54/7% YoY/QoQ) and Housing Loans (+30/7% YoY/QoQ). MFI portfolio de-grew by 2% QoQ, while MSME portfolio growth was flattish QoQ.
- Financial Performance:** NII grew by 21/6% YoY/QoQ, with NIMs (Calc.) being largely maintained QoQ at ~13%. Gold loan yields improved marginally by ~20bps QoQ while CoF was stable QoQ. Non-interest income growth was weak and de-grew by 26/12% YoY/QoQ. Opex growth was modest at 13/2% YoY/QoQ. C-I Ratio stood at 40.3% vs 41.6/41.4% YoY/QoQ. PPOP grew by 19/7% YoY/QoQ. Credit costs stood at 230bps (Calc.) vs 126/210bps YoY/QoQ (higher credit costs mainly from the MFI segment). PAT growth was subdued at 2/6% YoY/QoQ.
- Asset Quality** deteriorated across segments. Gold/MFI/Housing/Vehicle/MSME GNPA stood at 2.4/4.3/3.3/4.2/3.8% vs 2.0/3.0/2.9/3.6/2.7% QoQ. Consolidated GNPA/NNPA stood at 2.4/2.1% vs 2.0/1.7% QoQ.

Key Financials (Consolidated)

Rs Cr	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	1,635	+6.3	+20.8	1,590	+2.8
PPOP	1,033	+7.1	+19.2	1,023	+1.0
Net Profit	572	+6.0	+2.0	575	-0.5
NNPA (%)	2.2	+45 bps	+75 bps	1.8	+32 bps
RoA (%)	4.4	-10 bps	-90 bps	4.3	-5 bps

Source: Company, Axis Securities Research

 (CMP as of 05th November, 2024)

CMP (Rs)	159
Upside /Downside (%)	7%
High/Low (Rs)	230/134
Market cap (Cr)	13,446
Avg. daily vol. (6m) Shrs.	99,58,038
No. of shares (Cr)	84.6

Shareholding (%)

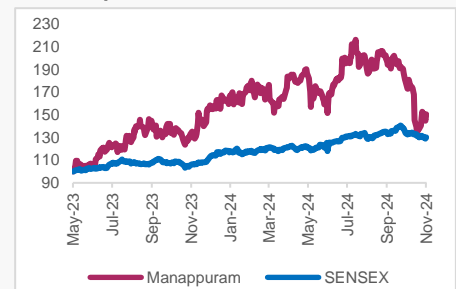
	Mar-24	Jun-24	Sep-24
Promoter	35.2	35.2	35.3
FII's	32.0	33.0	30.4
MFs / UTI	7.5	7.6	9.5
Others	25.3	24.2	24.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	6,286	7,031	8,240
PPOP	3,896	4,315	5,120
Net Profit	2,111	2,458	3,011
EPS (Rs)	24.9	29.0	35.6
ABV (Rs)	149.9	172.5	200.2
P/ABV (x)	1.1	0.9	0.8
RoA (%)	4.2	4.3	4.6
NNPA (%)	2.0	1.8	1.6

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
NII	-1.1	-2.3	-1.0
PPOP	-3.5	-4.7	-2.5
PAT	-6.5	-9.0	-3.9

Relative performance


Source: Ace Equity, Axis Securities Research

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Outlook

- Given near-term headwinds, we expect Manappuram's AUM growth to remain subdued in FY25E before resuming its growth trajectory from FY26 onwards, assuming the lifting of restrictions on MFI disbursements (taking cue from previous instances of restrictions being lifted in 6-9 months). We factor in an AUM growth of 15% CAGR over FY24-27E. However, given the impact of the rate cut in the MFI portfolio, higher Opex towards beefing up of collections and elevated credit costs, we trim our earnings estimates by 4-9% over FY25-27E.

Valuation & Recommendation

- We maintain our HOLD recommendation on the stock.** Manappuram currently trades at 0.85x Sep'26E ABV and we value the company at 0.9x Sep'26E ABV to arrive at a target price of Rs 170/share, implying an upside of 7% from CMP.

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit growth which could potentially derail our earnings estimates.
- The scalability of new products and any asset quality concerns remains a key monitorable.

Change in Estimates

Rs Cr	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	6,286	7,031	8,240	6,358	7,198	8,322	-1.1	-2.3	-1.0
PBP	3,896	4,315	5,120	4,036	4,527	5,251	-3.5	-4.7	-2.5
Provisions	1,031	980	1,035	997	889	1,033	3.5	10.2	0.2
PAT	2,111	2,458	3,011	2,257	2,701	3,132	-6.5	-9.0	-3.9

Source: Axis Securities Research

Results Review (Consolidated)

(Rs Cr)	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	H1FY25	H1FY24	% YoY
Net Interest Income	1,635	1,354	20.8	1,538	6.3	3,173	2,642	20.1
Non-Interest Income	96	130	-26.2	109	-11.7	205	251	-18.4
Operating expenses	698	618	13.0	682	2.4	1,381	1,225	12.7
Staff Cost	448	375	19.5	446	0.3	894	769	16.3
Pre provision profits	1,033	866	19.2	964	7.1	1,997	1,668	19.7
Provisions and contingencies	260	120	117.5	229	13.9	489	241	103.0
PBT	773	747	3.5	736	5.0	1,508	1,428	5.7
Provision for Tax	201	186	7.8	196	2.2	397	369	7.6
PAT	572	561	2.0	540	6.0	1,112	1,059	5.0
Business Performance								
AUM	45,716	38,951	17.4	44,932	1.7	45,716	38,951	17.4
-- Gold Loans	24,365	20,809	17.1	23,647	3.0	24,365	20,809	17.1
-- Microfinance Loans	10,970	10,089	8.7	11,236	-2.4	10,970	10,089	8.7
-- Housing Loans	1,692	1,305	29.6	1,587	6.6	1,692	1,305	29.6
-- Vehicle Loans	4,848	3,143	54.2	4,541	6.8	4,848	3,143	54.2
-- Other Loans	3,025	2,685	12.7	3,004	0.7	3,025	2,685	12.7
Blended Yields (%)	20.2	20.2	-4bps	20.1	10bps	20.1	20.3	-14bps
Cost of Funds (%)	9.4	9.1	34bps	9.4	1bps	9.4	9.1	33bps
NIMs (%) - Calc.	13.0	13.4	-41bps	13.0	5bps	13.0	13.5	-50bps
Cost-Income ratio (%)	40.3	41.6	-130bps	41.4	-110bps	40.9	42.4	-147bps
Asset Quality								
Gross NPA (%)	2.4	1.6	83bps	2.0	47bps	2.4	1.6	83bps
Net NPA (%)	2.2	1.4	75bps	1.7	45bps	2.2	1.4	75bps
PCR (%)	11.5	12.5	-97.74bps	13.3	-174bps	11.5	12.5	-98bps

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss					(Rs Cr)
Y/E March	FY24	FY25E	FY26E	FY27E	
Net Interest Income	5,589	6,286	7,031	8,240	
Non-Interest Income	465	460	513	560	
Total Income	6,054	6,746	7,544	8,800	
Operating Expenses	2,517	2,850	3,228	3,680	
Pre-Provision Profits	3,538	3,896	4,315	5,120	
Provisions	578	1,031	980	1,035	
PBT	2,960	2,864	3,335	4,085	
Tax	762	753	877	1,074	
Profit After Tax	2,197	2,111	2,458	3,011	

Source: Company, Axis Securities Research

Balance Sheet					(Rs Cr)
Y/E March	FY24	FY25E	FY26E	FY27E	
Equity Share Capital	169	169	169	169	
Reserves & Surplus	11,379	13,044	14,983	17,359	
Net Worth	11,548	13,214	15,153	17,528	
Borrowings	34,320	38,870	44,960	52,214	
Other Liabilities	880	929	1,073	1,245	
Total Liabilities	46,748	53,013	61,186	70,986	
Cash & Bank balances	3,181	4,774	4,889	5,004	
Investments	726	824	951	1,103	
Loans	40,948	45,375	53,163	62,543	
Fixed Assets & Others	1,893	2,040	2,183	2,336	
Total Assets	46,748	53,013	61,186	70,986	

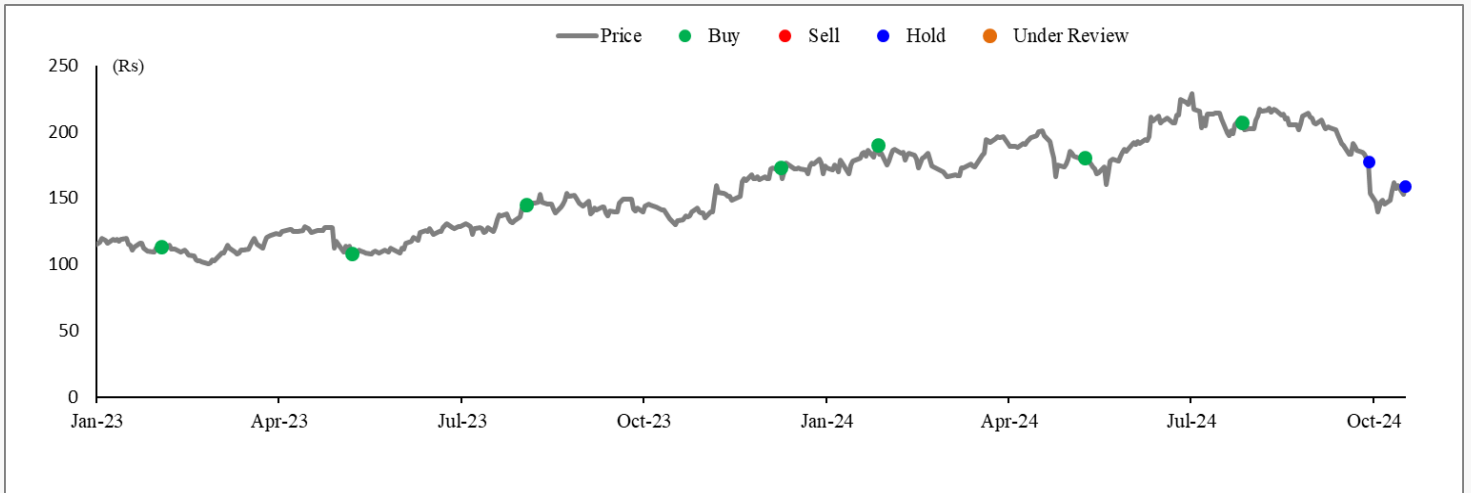
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	26.0	24.9	29.0	35.6
Earnings Growth (%)	46.5	-3.9	16.4	22.5
BVPS	136.4	156.1	179.0	207.1
Adj. BVPS	131.8	149.9	172.5	200.2
RoA (%)	5.1	4.2	4.3	4.6
ROAE (%)	20.7	17.1	17.3	18.4
P/E (x)	6.1	6.4	5.5	4.5
P/ABV (x)	1.2	1.1	0.9	0.8
PROFITABILITY & OPERATING EFFICIENCY				
NIM (%)	13.5	13.1	12.8	12.9
Cost/Avg. Asset Ratio (%)	5.8	5.7	5.7	5.6
Cost-Income Ratio (%)	41.6	42.3	42.8	41.8
BALANCE SHEET STRUCTURE RATIOS				
AUM Growth (%)	18.7	10.8	17.2	17.6
Borrowings Growth (%)	17.7	13.3	15.7	16.1
Equity/Assets (%)	24.7	24.9	24.8	24.7
Equity/Loans (%)	28.2	29.1	28.5	28.0
Total Capital Adequacy Ratio (CAR)	30.6	30.5	30.2	29.3
ASSET QUALITY				
Gross NPLs (%)	1.9	2.3	2.1	1.9
Net NPLs (%)	1.7	2.0	1.8	1.6
Coverage Ratio (%)	17.2	18.0	18.0	18.0
Provision/Avg. AUM (%)	1.5	2.4	2.0	1.8
ROAA TREE (on Total Assets)				
Net Interest Income	13.0	12.6	12.3	12.5
Non-Interest Income	1.1	0.9	0.9	0.8
Operating Cost	5.8	5.7	5.7	5.6
Provisions	1.3	2.1	1.7	1.6
Tax	1.8	1.5	1.5	1.6
ROAA	5.1	4.2	4.3	4.6
Leverage (x)	4.1	4.0	4.0	4.0
ROAE	20.7	17.1	17.3	18.4

Source: Company, Axis Securities Research

Manappuram Finance Price Chart and Recommendation History



Date	Reco	TP	Research
06-Feb-23	BUY	165	Result Update
15-May-23	BUY	150	Result Update
11-Aug-23	BUY	165	Result Update
15-Nov-23	BUY	160	Result Update
20-Dec-23	BUY	205	Company Update
08-Feb-24	BUY	230	Result Update
27-May-24	BUY	220	Result Update
14-Aug-24	BUY	250	Result Update
18-Oct-24	HOLD	175	Company Update
06-Nov-24	HOLD	170	Result Update

Source: Axis Securities Research

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