



## IDEA2ACT : Manappuram Finance Ltd

Reco Price	12-months Target Price
BUY @ ₹ 152-159	₹ 186

**Manappuram Finance is one of India's leading gold-loan NBFCs, with 4,622 branches. As of FY20, MGFL's consolidated AUM stood at Rs252bn, registering ~23% CAGR over FY17-20. Apart from gold loans (67% of AUM), it offers vehicle loans (5% of AUM) and SME & other financing (5% of AUM) through the standalone entity and microfinance (23% of AUM) and housing finance (3% of AUM) through its two subsidiary companies.**

**Rightly positioned in current times**

Manappuram Finance (MGFL) is well-positioned versus peers, given stronger capitalization, healthy internal capital generation, access to liquidity and a large gold loan portfolio with low LGDs and strong PPop RoA to absorb potentially-high credit costs from smaller businesses. This would drive quicker recovery in growth & profitability in the current scenario.

**A supportive macro for growth in gold loans:** Growth in GL is typically supported by growth in gold prices. Gold prices, in turn, are generally firm in times of macro-economic uncertainty and weak GDP growth outlook. In the current environment, these macro-factors are in place for lenders to look at gold loans as a strong alternative to unsecured loans like personal loans or microfinance. Even products like LAP would be less preferred, given the illiquid collateral and correction in market prices. This makes the competitive positioning of gold loans extremely strong in the current environment.

**Resilient business-wise profitability to drive EPS:** The gold loan (GL) and Microfinance (MFI) businesses have high through-the-cycle RoA of ~5% and 3.2% and comprise 90% of MGFL's AUM. The high proportion of fixed-rate, high-yielding businesses and consistent improvement in cost of funds will aid NIMs. Operating leverage is playing out across businesses, while the low credit costs in GLs will allow cross-subsidization of higher losses in other businesses. The strong RoA in GLs, and a relatively quick recovery in MFI, would aid overall profitability and drive 17% EPS Cagr over FY20-23ii.

**Earnings recovery to drive valuations:** We estimate MGFL's earnings recovery to be sharper than peers', due to i) growth in GLs and resurgence in MFI, ii) healthy NIM led by stable yields and declining funding costs, iii) strong PPop RoA of GL/MFI, and iv) little disruption from vehicle finance/housing finance due to their low shares in AUM. Given strong fundamentals, the stock is



trading at 1.5x FY22ii BVPS, (at 41% discount to MUTHOOT, which has a similar RoE). Given MGFL's RoA/RoE profile along with the above-mentioned factors, the stock can trade at 2x FY22ii BVPS.

**Technically**, the stock is currently trading at a higher end of a channel pattern and is on a verge of giving a possible double bottom breakout on the daily chart. The stock has already given a Golden crossover (89DEMA-200DEMA) and has entered into a positive territory on MACD Histogram. **We recommend a buy on Manappuram with a target price of Rs186.**

#### Previous Recommendations:

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	-10%	Open
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	5%	Open
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	2%	Open
14-Sep-20	Apollo Tyres	114.5	138	14%	Open

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