

MANAPPURAM FINANCE

Strong show; super normal growth a concern

India Equity Research | Banking and Financial Services



Manappuram Finance (MGFL), benefitting from gold price tailwinds, reported better-than-expected performance in Q2FY20 with: a) accelerated revenue momentum; b) sustained scale up of non-gold businesses; and c) benefit of tax and interest on IT refund. Key highlights: a) gold loan AUM spiked (up >14% QoQ/20% YoY) supported by high gold prices, steady customer acquisition & improved tonnage growth; and b) non-gold AUM rose 9% QoQ/63% YoY. We revise up FY20/21E EPS 8%/15% factoring in robust traction in H1FY20. However, sustainability of the same is key. Also, growth in non-gold businesses is much ahead than we would prefer and in too short a timeframe. This keeps us guarded as cyclical headwinds could dent profitability. Recent price outperformance (40% over three months) and rising probability of risk in non-gold book limit upside potential at 2.1x FY21E P/BV (consol). Hence, we downgrade to 'HOLD' with revised TP of INR163 (earlier INR139, assigning 2x FY21 P/BV).

Gold loan growth strong; non-gold businesses scale up significantly

Gold loan growth came in much ahead of estimates, clocking >14% QoQ growth with volume (gold holding up 5% QoQ) and value (AUM/gram up 8.4% QoQ). MGFL expects to sustain growth and aims to post 10-12% growth in gold holdings, which looks feasible. That said, liquidity tightness warrants monitoring as ~25% of company's borrowing is from commercial paper. Also, while scale up of non-gold businesses has been impressive, we believe it's too fast and too quick (aims to take proportion to 50% from 33% now). Hence, we will keep an eye on the portfolio's behaviour as there are risks of cyclical headwinds (on MFI and CV segments).

Asset quality steady; trend in high growth non-gold businesses key

Asset quality for gold loan was steady (GNPL at 0.6% versus 0.7% in Q1FY20). However, performance of other businesses was volatile. GNPL in vehicle finance rose from 1.9% in FY19 to 2.8% in Q2FY20 and in housing finance from 3.9% in FY19 to 4.8% in Q2FY20. Though the MFI book is holding up currently, emerging risks warrant cautious outlook. MGFL is scaling up well, but sustained asset quality is a key monitorable.

Outlook and valuation: Positives priced in; downgrade to 'HOLD'

MGFL has reported strong H1FY20 and we believe its business model can sustain superior RoA/RoE of >5% /25%. That said, emerging concerns on non-gold (MFI and CV) given strong growth in too short time raises probability of risk. This, juxtaposed with 2.1x FY21 P/BV (consol), limits upside. Hence, we downgrade to 'HOLD/SU' from 'BUY/SP'.

Financials (Standalone)

(INR mn)

Year to March	Q2FY20	Q2FY19	Growth (%)	Q1FY20	Growth (%)	FY19	FY20E	FY21E
Net revenue	9,092	7,102	28.0	8,047	13.0	23,724	27,278	32,219
Net profit	4,077	2,240	82.0	2,722	49.7	7,877	9,996	12,639
Dil. EPS (INR)	4.8	2.7	80.0	8.0	(40.3)	9.4	11.9	15.0
Adj. BV (INR)						51.9	58.4	72.8
Price/ Adj book (x)						3.2	2.9	2.3
Price/ Earnings (x)						17.9	14.1	11.2

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

MARKET DATA (R: MNFL.BO, B: MGFL IN)

CMP	: INR 168
Target Price	: INR 163
52-week range (INR)	: 174 / 78
Share in issue (mn)	: 845.0
M cap (INR bn/USD mn)	: 142 / 1,995
Avg. Daily Vol.BSE/NSE('000)	: 4,407.8

SHARE HOLDING PATTERN (%)

	Current	Q1FY20	Q4FY19
Promoters *	35.1	35.1	35.1
MF's, FI's & BK's	6.0	4.7	4.0
FII's	43.2	44.7	44.1
Others	15.7	15.5	16.8
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	21.7	1.2	(0.3)
3 months	42.5	2.9	1.5
12 months	125.7	14.3	20.1

Kunal Shah

+91 22 4040 7579
kunal.shah@edelweissfin.com

Prakhar Agarwal

+91 22 6620 3076
prakhar.agarwal@edelweissfin.com

Prashant Ghuge

+91 22 4063 5517
prashant.ghuge@edelweissfin.com

November 6, 2019

New businesses scaling up fast; future performance holds key

Growth in new businesses sustained momentum with ex-gold AUM growing at >63% YoY and 9% QoQ to ~INR75bn (~33% of overall AUM). Management remains focused on diversifying the book by driving growth in new business segments. While scale up of non-gold businesses has been impressive, we believe it's a little too fast. Hence, we will keep an eye on the portfolio's behaviour (which has been volatile) if challenges persist.

- **Microfinance (Asirvad Micro Finance):** MFI AUM came at ~INR47bn (up >73% YoY, >12% QoQ). The MFI book now constitutes >20% of overall portfolio. While the company has been able to scale this book up significantly, the portfolio's behaviour in ensuing quarters needs to be monitored, especially in eastern geographies given signs of over-leveraging, consequent to which the company has decided to go slow.
- **Housing:** Housing finance AUM came at ~INR5.7bn (up >26% YoY, >4% QoQ). The segment is making good progress with focus on affordable housing for mid- to low-income groups. Given the huge opportunity landscape, expanding presence (focus on South and West India) and a new management team in place, growth is likely to gather further momentum. That said, asset quality continues to be volatile—GNPL back at 4.8% (3.9% in FY19), a key monitorable.
- **Commercial vehicles:** AUM came at ~INR13.2bn, up >61% YoY and >7% QoQ with most of the growth coming from used CVs. The business has a network of 229 branches (operations are carried out from existing gold loan branches) spread across 22 states, with focus on South and West markets. While growth has been impressive, the slowdown in underlying demand could impact growth going forward. Also, the asset quality volatility is bit concerning for us especially when there are concerns on underlying customer base.

Table 1: Key takeaways from Q2FY20 earnings

(INR mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
Interest income	12,868	10,144	26.8	11,742	9.6	
Interest expense	4,249	3,173	33.9	3,800	11.8	
Net interest income	8,619	6,971	23.6	7,942	8.5	
Non-interest income	473	131	261.6	105	350.2	
Net revenues	9,092	7,102	28.0	8,047	13.0	Revenue momentum was better than expected following spike in gold loan AUM, sustained yields and interest on IT refund
Operating expenses	3,654	3,440	6.2	3,538	3.3	
-Staff expense	2,034	1,773	14.7	1,971	3.2	
-Depreciation	399	188	111.6	396	0.8	
-Other opex	1,221	1,479	(17.4)	1,171	4.3	Rationalisation of security cost contained cost
Operating profit	5,438	3,662	48.5	4,510	20.6	
Provisions	293	162	80.9	365	(19.7)	Asset quality in gold loans was steady; however we will closely monitor behaviour of non-gold product segments where NPLs have been volatile
Profit before tax	5,144	3,499	47.0	4,144	24.1	
Tax expense	1,068	1,259	(15.2)	1,422	(24.9)	Benefited from cut in corporate tax rate
Profit after tax	4,077	2,240	82.0	2,722	49.7	
EPS (INR)	4.8	2.7	80.0	3.2	48.1	
Key Metrics						
Consolidated AUM	226,769	171,907	31.9	201,859	12.3	Spike in gold loans (up >14% QoQ) along with robust growth in non-gold AUM supported >31% YoY consolidated AUM
Gold loans	151,683	125,928	20.5	132,924	14.1	Growth in gold loans supported by high gold prices, steady customer acquisition & improved tonnage growth
Microfinance	47,243	27,289	73.1	41,983	12.5	
Housing finance	5,679	4,478	26.8	5,417	4.8	
Vehicle finance	13,178	8,172	61.2	12,271	7.4	
Other loans	8,987	6,040	48.8	9,265	(3.0)	
Gold loans - GNPA (%)	0.6	0.7		0.7		Asset quality in gold book steady
Gold loans - NNPA (%)	0.3	0.2		0.4		
MFI book - GNPA (%)	0.9	1.6		0.7		

Source: Company, Edelweiss research

Table 2: Gold loan AUM gathers pace benefitting from gold price tailwinds

(INR mn)	Consolidated loan book				Growth (%)				
	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	CAGR FY18-21E
Gold loan	1,17,350	1,29,615	1,61,112	1,89,628	5.5	10.5	24.3	17.7	17.3
Non-Gold AUM	40,298	64,769	90,805	1,09,036	57.6	60.7	40.2	20.1	39.3
- Microfinance	24,372	38,408	57,612	69,134	35.7	57.6	50.0	20.0	41.6
- CVs	6,254	11,146	15,047	18,057	104.5	78.2	35.0	20.0	42.4
- Home loans	3,747	5,188	7,003	9,454	20.7	38.5	35.0	35.0	36.1
- LAP	747	1,120	1,345	1,613	30.0	50.0	20.0	20.0	29.3
- Other loans	5,179	8,907	9,798	10,778	497.3	72.0	10.0	10.0	27.7
Consolidated AUMs	1,57,648	1,94,384	2,51,916	2,98,665	15.2	23.3	29.6	18.6	23.7

Source: Company, Edelweiss research

Table 3: On consolidated basis, stock trades at 2.1x FY21E P/BV for RoEs of 25% plus

	Standalone				Consolidated			
	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Net profit (INR mn)	7,002	7,877	9,996	12,639	6,709	9,295	12,406	15,591
Networth (INR mn)	36,246	43,890	49,540	61,813	38,364	45,246	53,307	68,532
RoA (%)	6.1	6.4	6.9	7.2	4.6	5.3	5.6	5.7
RoE (%)	20.8	19.7	21.4	22.7	18.6	22.2	25.2	25.6
EPS (INR)	8.3	9.4	11.9	15.0	8.0	11.0	14.7	18.5
Book value (INR)	43.1	52.2	58.9	73.5	45.6	53.8	63.4	81.5
Diluted P/E	20.1	17.9	14.1	11.2	21.0	15.2	11.4	9.0
P/BV	3.9	3.2	2.8	2.3	3.7	3.1	2.6	2.1

Source: Edelweiss research

Note: RoA and RoE have been calculated on average AUM

Chart 1: Gold loan growth spike sharply

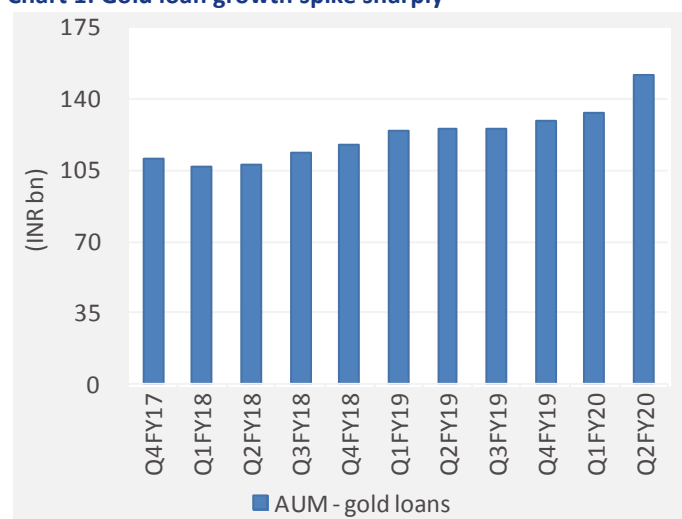


Chart 2: Borrowings composition tilted in favor of banks

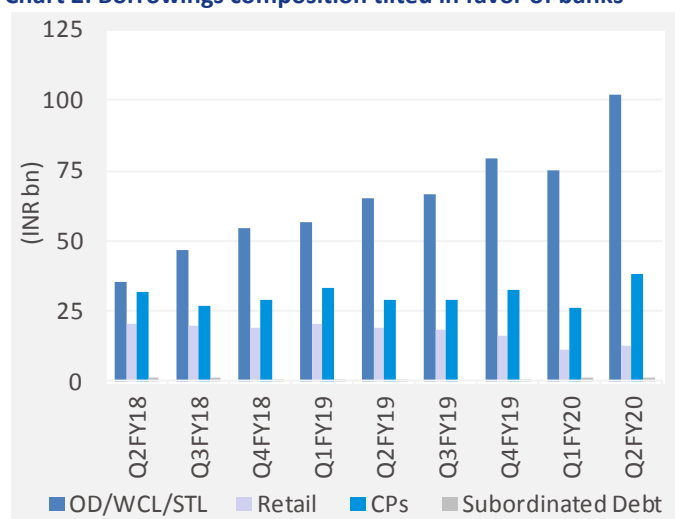
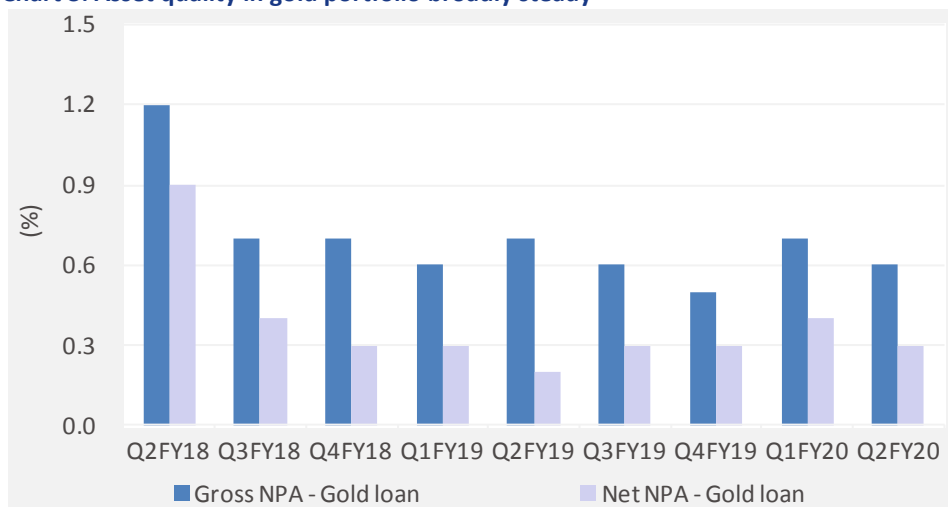
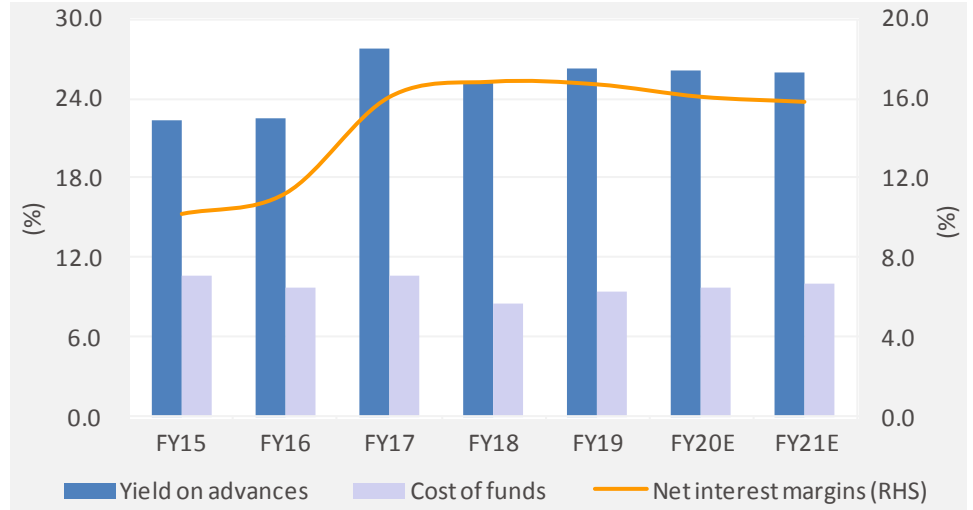


Chart 3: Asset quality in gold portfolio broadly steady



Source: Company, Edelweiss research

Chart 4: NIMs steady, sustenance key



Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q2FY20	Q2FY19	% change	Q1FY20	% change	YTD20	FY20E	FY21E
Operating income	12,868	10,144	26.8	11,742	9.6	24,610	38,157	45,677
Interest expanded	4,249	3,173	33.9	3,800	11.8	8,049	11,674	14,324
Net revenues	9,092	7,102	28.0	8,047	13.0	17,139	27,278	32,219
Operating expenses	3,255	3,252	0.1	3,142	3.6	6,397	11,961	13,536
Pre-provision profit	5,837	3,850	51.6	4,905	19.0	10,742	15,317	18,682
Provisions & write-offs	293	162	80.9	365	(19.7)	659	1,040	1,224
Operating profit	5,543	3,688	50.3	4,540	22.1	10,083	14,277	17,458
Depreciation	399	188	111.6	396	0.8	795	636	606
Profit before tax	5,144	3,499	47.0	4,144	24.1	9,289	13,641	16,852
Tax	1,068	1,259	(15.2)	1,422	(24.9)	2,490	3,645	4,213
PAT	4,077	2,240	82.0	2,722	49.7	6,799	9,996	12,639
Diluted EPS (INR)	4.8	2.7	80.0	3.2	48.1	8.0	11.9	15.0
Gross NPA - Gold loan (%)	0.6	0.7		0.7		0.6	0.7	0.9
Net NPA - Gold loan (%)	0.3	0.2		0.4		0.3	0.4	0.5
Tax rate (%)	20.8	36.0		34.3		26.8	26.7	25.0
Valuation metrics								
B/V per share (INR)							58.9	73.5
Adj book value / share							58.4	72.8
Price/ Book (x)							2.8	2.3
Price/ Adj. book (x)							2.9	2.3
Price/ Earnings (x)							14.1	11.2

Change in Estimates

	New	FY20E Old	% change	New	FY21E Old	% change	Comments
NII	26,327	25,231	4.3	31,166	28,911	7.8	Factoring in accelerated growth momentum and steady spreads
PPOP	14,681	13,571	8.2	18,076	15,792	14.5	
Provisions	1,040	910	14.4	1,224	1,144	7.1	Building in higher credit cost remaining wary of super normal growth
PAT	9,996	9,261	7.9	12,639	10,986	15.0	

Q2FY20 earnings call takeaways

With respect to growth & strategy

- The performance of the company was good (especially in gold loans) despite the challenging environment and was able to keep up the momentum as per stated growth targets.
- With the aim of diversifying the book, non-gold loan businesses now contribute ~33%. It would be taken up to 50% over time without losing focus on gold loans.
- While expecting the growth momentum to continue, the company is somewhat aggressive in branch opening now – will open 200 branches in current year.
- **Gold loans** – The growth has been better than prior guidance driven by increase in gold holdings and higher gold prices (~43% is via online).
 - The average LTV of ~60% is lower than Q1FY20 (62%) – the growth is due to increase in tonnage (7% YoY in H1FY20) and not due to rise LTV %.
 - The company expects good growth in H2FY20 as well driven by growth in tonnage (10-12% sustainable growth rate).
 - The growth is primarily coming from non-south geographies.
 - ~43% of the book is in the range of 60%-70% LTV and ~35% in 70%-75% range.
- **Vehicle Finance** – The performance has been quite good (even in CV segment) as AUM grew by 60% YoY and the company expects it to become third growth driver following gold loans and MFI.
 - Portfolio mix – 75% is CV while 25% is 2W. Within CV, 88% is used while 12% is new. And 2W all new segment. Within CV segment 75% is HCV (which is the focus now) while LCV and SCV form 20% and 5% respectively.
 - The new vehicle segment has been slow (HCV and LCV) with some slowdown in used segment also (although not so significant).
- **Micro-finance** – The segment has done well and remains an outperformer in the industry with 73% AUM growth YoY and 12% QoQ.
 - The growth is driven by new customers as average ticket size remains at ~INR23,000 levels (historical levels) with all the disbursements in non-cash manner.
 - The MFI industry is certainly overheated in some geographies as banks have started being aggressive in the segment. However, the company is one of the most diversified (present in 23 geographies) and thus, has not been affected by overleveraging.
 - The company has ~11% portfolio in West Bengal; however, it has decided to go slow given overheating of the segment. It has also made credit standards stringent to avoid lending to overleveraged customers.
 - Currently, the net-worth is ~INR8bn and CAR is 26% - with this capital AUM of INR65bn-70bn can be achieved at 18% CAR. Hence, will consider raising capital at right time and right price.
 - The collection and disbursements are done by same teams (no outsourcing in collections) with a dedicated team formed for collections in stressed/ natural calamities affected areas.

- There are ~5,600 employees which are all on roll of the company.
- **Cross sell** – It remains an USP for the company as it enjoys a strong customer base of ~10mn.
 - While <10% of the customers would be under cross-sell, 30%-40% customers come from referrals.
 - There is some incentive for gold loan manager to cross-sell although major incentive flow to respective product managers in the branch.
 - Technology spends – The company has not been aggressive on the technology spends and make use of in-house teams (~200 engineers). The spending has been relatively higher in Vehicle Finance and Housing Finance.

With respect to liquidity/borrowings/margins

- The liquidity position of the company has been quite comfortable till now with ALM remaining comfortable.
- Raised over INR2bn via NCDs in Q2FY20 with new credit lines of INR40bn.
- Retail issuance of NCDs would continue going ahead.
- Recent credit rating upgrade by CRISIL to AA reflects the resilient fundamentals of the business. Also, in process of getting rated by global agencies.
- Cost of funds has gone up by 4bps QoQ to ~9.3% as the company has cautiously increased the tenor of borrowings.
- In order to diversify the borrowing sources, the company has undertaken medium term note (MTN) program of USD750mn (to be done in tranches). The first tranche would be ~USD300mn to be launched by November end/December first week.
 - The costs will be evaluated (external rating process going on) but would be ~200bps higher than domestic rates.
 - Access to liquidity is the major focus now (have held up till now) and aim is to bring down the CPs (even though it's getting rolled over).
- Gross yields - ~25% in gold loans and ~21.2% in MFI.

With respect to asset quality

- **Vehicle Finance** – The asset quality in has been steady (GNPA of 2.8%). The company would aim to keep it below 2.8%-3% levels.
 - There has been rise in stress in Q2FY20 (due to macro conditions); however, some early green-shoots are visible in last 15-20 days (especially in rural markets)
 - In last 6 months, have started a scorecard based system (using data analysis) to have better insights on customer and make on-boarding much smoother – will develop this further in next 6 months.
- **Housing Finance** – The GNPA is 4.8%.
 - Overall credit costs and NPAs were higher in larger ticket size loans and hence, have been working on bringing down the same (~INR0.9mn now).

Other highlights

- ~INR600mn impact due to tax rate change.
- Security cost has come down to INR124mn (compared to INR156mn Q1FY20) as highlighted earlier.
- Auctions during the quarter were INR390mn.
- Disbursements during the quarter – INR500bn.

Q1FY20 earnings call takeaways

With respect to growth & strategy:

- Despite the challenging environment, the company is quite satisfied of its recent performance and having achieved some milestones (INR20bn consol. AUM and INR4bn MFI AUM).
- The company expects gold loans to pick up in H2FY20 (driven by tonnage growth of 10% for FY20) and aims to achieve 10-12% AUM growth in FY20, however, the stance will not be aggressive.
 - The consolidated AUM growth target is 20% CAGR for medium-term.
 - The growth will be driven by gold loans followed by MFI and CV financing.
- Capital allocation would be – 50% for gold loans, 20% for micro-mortgages (affordable housing and SME), 15% for vehicle finance (CVs, used, cars, 2W), and 10% for MFI
- Housing Finance: The Company has reduced ticket size (from ~INR1.4mn to ~INR0.82mn now) as it wants to focus on micro-loans (affordable) and de-risk the business. Rajasthan and Madhya Pradesh have been identified to open new branches (hub and spoke model).
- Vehicle Finance: While there has been a slowdown in auto sector, the business is doing good with stable delinquencies. The business break up is 70% CVs (85% of this is Used CV), 25% 2W, 5% used cars and tractors. South contributes ~40% with ~5% exposure to Kerala. The business is doing good with pan-India presence.
- MFI: The business would be allow to grow and take advantage of opportunities. ~INR100mn of fresh capital would be raised (started process) for next growth phase.
- Lending to NBFCs: The lending was slowed in Q1FY20 cautiously. The ticket size is ~INR100mn towards NBFCs of ~INR3bn size (majority are MFI followed by vehicle financiers and HFCs). The company has exposure of ~INR8.5bn to ~56 companies. The customers are chosen very selectively and are monitored closely – don't see any risk here.
- Insurance: The company would foray into insurance business (credit life) – it's preparing for the application and in process of identifying people.
- The company has exposure of less than 3% to the flooded areas – past experience shows that there is a lag on 2-3 months post which customers do repay the loans.

With respect to liquidity/borrowings/margins:

- The company is not facing any liquidity issues – banks are lending and CPs are getting rolled-over.
- The average cost of borrowings has gone up ~7 bps QoQ at 9.25% which has been passed on to the customers leading to improvement in yields.
- USD75mn has been raised from IFC and undrawn bank lines of INR1.7bn are maintained.
- The company plans to diversify borrowings towards retail NCDs and off-shore.

With respect to asset quality:

- The asset quality in housing finance has been volatile and the company plans to bring GNPA below 3% (from current 4.6%).
 - The legacy assets are in the process of being sold off and incremental LTV and ticket size have been brought down (mini home loans).
 - The advances in last 2 years have been good with GNPA below 1%.
- The company aims to maintain overall credit costs at current levels.
- The provisions and write-offs in Q1FY20 were INR185mn with INR800mn of excess provisions maintained on balance sheet.
- Auctions in Q1FY20 were to the tune of INR475mn.

With respect to operational highlights:

- Cost/assets has been declining for quite some time now and the company expects to further bring it down.
- The company sees scope for achieving operating leverage across all business primarily driven by operational efficiencies.

Company Description

The Manappuram Group was started in 1949 by Late Mr. V. C. Padmanabhan with focus primarily on money lending activities. The group has come a long way in 60 years operating five companies under its fold, a strong distribution network of 4,490 branches spread across 27 states and a huge customer base as of September 30, 2019. MGFL, Manappuram Group's flagship company, is the leading gold loan providing NBFC based in Kerala with ~INR227bn assets under management. It is present in the (collateralised) micro-finance space with the main line of business being 'lending against household jewellery'. It does not incrementally provide loans to jewellers, banks or against bullion as per regulatory requirements. The company has transitioned from a hire-purchase company to a gold loan company in view of the market fallout.

Investment Theme

MGFL has reported strong H1FY20 and we believe its business model can sustain superior RoA/RoE of >5% /25%. That said, emerging concerns on non-gold (MFI and CV) given strong growth in too short time raises probability of risk. This, juxtaposed with 2.1x FY21 P/BV, limits upside. Hence, we downgrade to '**HOLD/SU**' from '**BUY/SP**'.

Key Risks

- We believe competition intensity in gold loan financing is bound to rise in the next few years, posing a risk to NIMs enjoyed by specialised gold loan financiers like Manappuram.
- Like any other financial asset, demand and asset quality of gold loans is susceptible to price fluctuations of underlying collateral (gold).

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.3	6.8
Inflation (Avg)	3.6	3.4	3.7	4.0
Repo rate (exit rate)	6.0	6.3	4.5	4.5
USD/INR (Avg)	64.5	70.0	71.0	71.0
Sector				
Credit growth	12.0	14.0	17.0	17.0
Deposit growth	12.0	13.0	14.0	14.0
Bank's base rate (%)	9.0	9.0	9.0	9.0
Wholesale borr. cost (%)	8.5	8.5	8.5	8.5
G-sec yield	6.5	7.0	7.1	7.1
Company				
Operating metric assumptions (%)				
Yield on advances	25.2	26.2	26.1	25.9
Cost of funds	8.5	9.5	9.8	10.0
Net interest margins	16.8	16.7	16.1	15.8
- employee cost	19.9	15.1	8.0	14.5
- rent	6.0	7.0	7.0	7.0
Tax rate (%)	34.4	33.5	26.7	25.0
Balance sheet assumption (%)				
Number of branches	3,330	3,372	3,447	3,522
Disbursement growth	18.5	16.7	15.9	17.0
Gold loan tenure	2.3	2.3	2.3	2.3
AUMs (in tonnes)/branch	35.2	38.4	46.7	53.8
Gross NPLs	0.7	0.5	0.7	0.9
Prov Cov	45.0	45.0	47.0	50.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Interest income	28,823	32,407	38,001	45,489
Interest expended	7,909	9,483	11,674	14,324
Net interest income	20,914	22,924	26,327	31,165
- Fee & forex income	676	800	952	1,053
Net revenues	21,589	23,724	27,278	32,219
Operating expense	10,341	11,572	12,597	14,142
- Employee exp	5,042	5,804	6,266	7,173
- Depn /amortisation	610	684	636	606
- Other opex	4,690	5,084	5,695	6,363
Preprovision profit	11,248	12,153	14,681	18,076
Provisions	583	307	1,040	1,224
Profit Before Tax	10,665	11,845	13,641	16,852
Less: Provision for Tax	3,664	3,968	3,645	4,213
Profit After Tax	7,002	7,877	9,996	12,639
Reported Profit	7,002	7,877	9,996	12,639
Shares o /s (mn)	841	841	841	841
Basic EPS (INR)	8.3	9.4	11.9	15.0
Diluted shares o/s (mn)	841	841	841	841
Adj. Diluted EPS (INR)	8.3	9.4	11.9	15.0

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	7.6	9.9	15.0	18.1
NII growth	7.7	9.6	14.8	18.4
Opex growth	23.8	11.9	8.9	12.3
PPP growth	(3.9)	8.0	20.8	23.1
Provisions growth	4.9	(47.2)	238.5	17.7
Adjusted Profit	(3.6)	12.5	26.9	26.4

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Yield on advances	25.2	26.2	26.1	25.9
Cost of funds	8.5	9.5	9.8	10.0
Net interest margins	16.8	16.7	16.1	15.8
Spread	16.7	16.8	16.4	16.0
Cost-income	47.9	48.8	46.2	43.9
Tax rate	34.4	33.5	26.7	25.0

Balance sheet				
(INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	1,685	1,685	1,685	1,685
Reserves & Surplus	34,561	42,205	47,855	60,128
Shareholders' funds	36,246	43,890	49,540	61,813
Long term borrowings	14,263	15,770	20,069	23,023
Short term borrowings	80,821	89,365	113,722	130,461
Total Borrowings	95,084	105,135	133,790	153,484
Long Term Liabilities	8,254	8,054	8,225	8,428
Def. Tax Liability (net)	(640)	(300)	(300)	(300)
Sources of funds	138,945	156,780	191,256	223,425
Gross Block	6,190	6,316	6,841	7,366
Net Block	2,571	2,030	1,922	1,844
Capital work in progress	14	11	10	10
Intangible Assets	67	53	50	48
Total Fixed Assets	2,651	2,093	1,982	1,901
Non current investments	360	404	451	499
Cash and Equivalents	14,508	18,050	19,840	20,858
Loans & Advances	117,350	129,616	161,112	189,629
Current assets (ex cash)	12,331	14,671	16,096	18,966
Trade payable	982	958	978	1,002
Other Current Liab	7,273	7,096	7,247	7,425
Total Current Liab	8,254	8,054	8,225	8,428
Net Curr Assets-ex cash	4,077	6,617	7,871	10,538
Uses of funds	138,945	156,780	191,256	223,425
BVPS (INR)	43.1	52.2	58.9	73.5

RoE decomposition (%)				
Year to March	FY18	FY19	FY20E	FY21E
Net int. income/assets	16.8	16.7	16.1	15.8
Non int. income/assets	0.5	0.6	0.6	0.5
Net revenues/assets	17.4	17.3	16.6	16.3
Operating expense/assets	(8.3)	(8.4)	(7.7)	(7.2)
Provisions/assets	(0.5)	(0.2)	(0.6)	(0.6)
Taxes/assets	(2.9)	(2.9)	(2.2)	(2.1)
Total costs/assets	(11.7)	(11.5)	(10.5)	(9.9)
ROA	5.6	5.7	6.1	6.4
Equity/assets	27.1	29.2	28.5	28.3
ROAE (%)	20.8	19.7	21.4	22.7

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	8.3	9.4	11.9	15.0
Y-o-Y growth (%)	(3.6)	12.5	26.9	26.4
BV per share (INR)	43.1	52.2	58.9	73.5
Adj. BV per share (INR)	42.7	51.9	58.4	72.8
Diluted P/E (x)	20.1	17.9	14.1	11.2
P/B (x)	3.9	3.2	2.8	2.3
Price/ Adj. BV (x)	3.9	3.2	2.9	2.3

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Manappuram Finance	1,995	14.1	11.2	2.8	2.3	21.4	22.7
Aavas Financiers	1,641	44.4	34.2	5.5	4.8	13.3	15.0
HDFC	53,998	22.7	17.5	2.6	2.3	16.6	15.8
Indiabulls Housing Finance	1,321	3.9	4.1	0.6	0.6	15.9	14.6
LIC Housing Finance	3,026	8.3	6.4	1.2	1.0	15.0	17.2
Mahindra & Mahindra Financial Services	3,004	17.2	11.9	1.9	1.7	11.2	15.2
Muthoot Finance	3,896	12.6	11.1	2.6	2.2	22.1	21.3
Repco Home Finance	261	6.8	5.9	1.0	0.9	16.4	16.2
REC	3,830	4.9	4.3	0.7	0.7	15.4	16.3
Shriram City Union Finance	1,243	7.2	6.3	1.2	1.0	17.7	17.4
Shriram Transport Finance	3,641	8.6	7.4	1.5	1.3	18.7	18.6
Median	-	8.6	7.4	1.5	1.3	16.4	16.3
AVERAGE	-	14.5	12.1	2.1	1.9	16.4	16.9

Source: Edelweiss research

Additional Data

Directors Data

Jagdish Capoor	Non-Executive Chairman	V.P. Nandakumar	Managing Director & CEO
B.N. Raveendrababu	Executive Director	V.R. Ramachandran	Director
P. Manomohanan	Director	Rajiven V.R	Director
E A Kshirsagar	Director	Sutapa Banerjee	Director
Gautam Narayan	Director	Abhijith Sen	Additional Director

Auditors - Deloitte Haskins & Sells LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Quinag Acquisition	9.92	Baring India Private Equity	8.76
Fidelity Management & Research	3.77	Barclays Merchant Bank Singapore	3.70
Dimensional Fund Advisors	2.75	DSP Investment Managers	2.28
Duro One Investments	2.17	AllianceBernstein	1.61
Vanguard Group	1.35	L&T Mutual Fund	1.29

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
12 Jun 2019	Baring India Private Equity Fund II Ltd	Sell	68433.00
04 Jun 2019	B.N.Raveendra Babu	Sell	200000.00
28 May 2019	Vipul Patel	Sell	22875.00
28 May 2019	K.Senthil Kumar	Sell	45375.00
24 May 2019	Joby M Michael	Sell	15000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	HOLD	SP	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	BUY	SO	M	Bajaj Finserv	REDUCE	SU	L
Bank of Baroda	REDUCE	SU	M	DCB Bank	HOLD	SP	M
Equitas Holdings	BUY	SO	M	Federal Bank	BUY	SO	L
HDFC	BUY	SO	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC FIRST Bank	BUY	SP	L
Indiabulls Housing Finance	HOLD	SU	M	IndusInd Bank	BUY	SO	L
Kotak Mahindra Bank	BUY	SP	M	L&T Finance Holdings	HOLD	SP	M
LIC Housing Finance	BUY	SO	M	Magma Fincorp	BUY	SP	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Manappuram Finance	HOLD	SU	H
Max Financial Services	BUY	SO	L	Multi Commodity Exchange of India	HOLD	SU	M
Muthoot Finance	BUY	SO	M	Power Finance Corp	BUY	SP	M
Punjab National Bank	REDUCE	SU	M	Repco Home Finance	BUY	SP	M
REC	HOLD	SU	M	Shriram City Union Finance	BUY	SP	M
Shriram Transport Finance	BUY	SO	M	South Indian Bank	BUY	SP	M
State Bank of India	BUY	SO	L	Union Bank Of India	HOLD	SU	M
Yes Bank	HOLD	SU	M				

ABSOLUTE RATING

Ratings

Expected absolute returns over 12 months

Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings

Criteria

Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings

Criteria

Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings

Criteria

Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s):

Aavas Financiers, Aditya Birla Capital, AU Small Finance Bank Ltd, Axis Bank, Bajaj Finserv, Bank of Baroda, DCB Bank, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, ICICI Lombard General Insurance Company Ltd, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, REC, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
06-Nov-19	Max Financial Services	Steady showing; partnership concerns overhang; <i>Result Update</i>	438	Hold
06-Nov-19	Punjab National Bank	No respite; merger challenges cast further shadow; <i>Result Update</i>	65	Reduce
05-Nov-19	REC	Core improves; resolutions critical; <i>Result Update</i>	137	Hold

1Distribution of Ratings / Market Cap

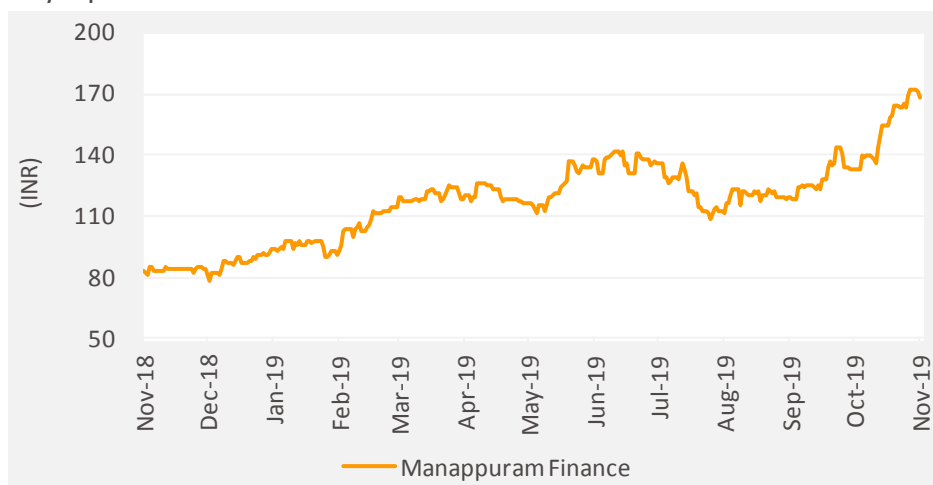
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	229
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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