Manappuram Finance Ltd. (MFL): Update (BUY)

Date	CMP - 12 May'25	Price Target (12 mths)	FY26e BVPS / *PB(x)*	Market Cap	52 wk High / Low
13 May 2025	Rs. 231	Rs.315	Rs.180 / 1.3*x*	Rs.19,530 cr	Rs.248 / Rs.138

Key Highlights of Q4FY25:

- In Q4FY25, MFL's NII fell by 10% YoY to Rs.1,464 cr while PPoP was down by 27% YoY to Rs.683 cr mainly due to a rise in operating and finance expenses coupled with decline in net interest income. MFL reported loss of Rs.203 cr vs profit of Rs.563 cr in Q4FY24, mainly due to elevated bad loans especially in microfinance vertical.
- Provisions/bad debts significantly increased to Rs.919 cr during Q4FY25 (up by ~5x YoY) primarily due to increased stress in the microfinance sector, higher defaults from overleveraged borrowers especially from Asirvad microfinance. They wrote-off Rs.565 cr during the quarter. This led to a decline in RoA to (-1.6%).
- For FY25, NII grew by 8% YoY to Rs.6,466 cr whereas PPoP was up only by ~3% YoY to Rs.3,628 cr due to higher employee and technology expenses along with increase in borrowing. Net profit declined by 45% YoY due to higher provisions and elevated credit cost which impacted profitability.
- The gold loan portfolio remains its core strength accounting for ~60% of AUM. Gold loans AUM grew by ~18% YoY to Rs.25,600 cr despite heightened competition. Asirvad reported AUM decline of ~34% YoY to Rs.8,189 cr and posted a loss of Rs.626 cr due to sector stress. Pressure has peaked and recovery has begun.
- While Q4FY25 saw peak stress and high impairment in MFI (Stage 3 at 8.3%), Net NPA for MFI decreased sequentially. A conscious tightening of underwriting norms was implemented in vehicle finance and other non-gold segments due to asset quality challenges. They expect asset quality to improve in the near future.
- The Bain Capital transaction, involving an 18% capital infusion into the parent company (9% equity, 9% convertible debenture), is currently undergoing regulatory approvals and is expected to close by the end of the year. The strategy is to focus on secured loans, aiming for ~90% of book in secured lending in longer term.
- Mgmt expects overall AUM growth of ~20% in line with similar growth in Gold AUM. The MFI share is expected to decrease to ~10% (from current 17%) by the end of FY26. They target to reach RoE of ~18% in next few quarters. Their strengthen collection efficiency and shift in segment focus must improve asset quality.
- Consensus estimates ~13% revenue growth over FY25-27e. Net profit is expected return to FY24 levels, reaching Rs.2,270 cr in FY26 and Rs.2,740 cr in FY27. Management expects RoE to go back to 15-16% and RoA to ~4%. Book value/share is likely to grow by ~22% CAGR in next 2 years (i.e. growth+Bain cash infusion)

Valuation & View:

We consider FY25 a one-off year due to stress in microfinance segment, which led to higher NPAs. We remain optimistic about FY26, expecting ~20% AUM growth supported by digital onboarding and rural demand. Growth in other secured businesses is also expected to improve following a period of tightened underwriting norms. Bain's reasonable stake enhances governance, with a new CEO expected to drive growth. Regulatory compliance (gold loan LTV reduced to 57%) mitigates risks. Collection efficiency is likely to remain above ~99% with credit cost improving by 50-60 bps. We ascribe 1.75x P/B (~30-33% discount to the 10-Yr avg of Muthoot Finance) on book value per share of FY26 (i.e. Rs.180). This leads to a target price of Rs.315 implying an upside potential of ~35% in next 12 months.

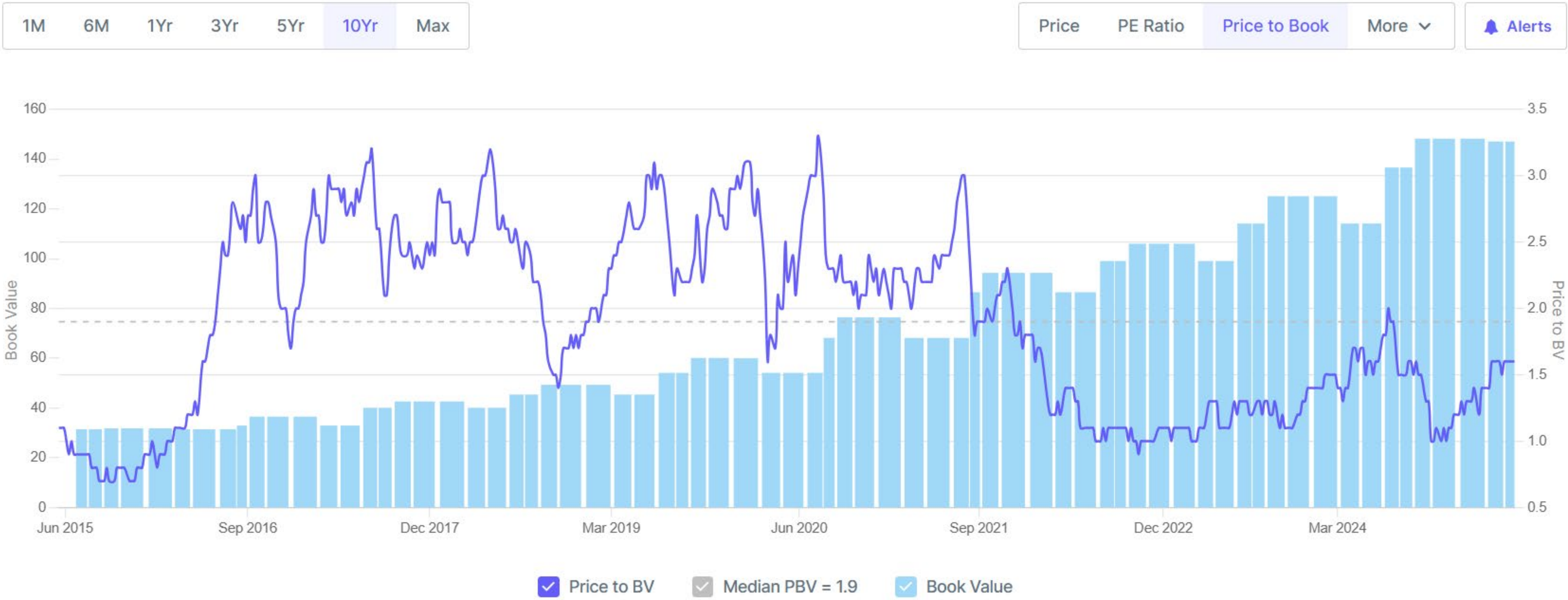
Analyst: Deep Chitalia/ email: deep@9rays.in / Contact: +91 98706 35282

Manappuram Finance Ltd.: Financial Summary

Manappuram Finance (Rs.cr) / CMP:	Rs.231	FY24a	FY25a	FY26e	FY27e
Net Income		6,054	6,506	7,231	8,325
% chg			7.5%	11.1%	15.1%
EBIT		3,538	3,634	3,937	4,543
% chg			2.7%	8.3%	15.4%
Net Profit		2,189	1,216	2,268	2,714
% chg			-44.4%	86.4%	19.7%
BVPS (Rs.)		**136.4**	**146.9**	**180.4**	**201.5**
EPS (Rs.)		**7.0**	**1.9**	**6.2**	**9.1**
% chg			-72.2%	215.8%	47.3%
EBIT Margin		58.4%	55.9%	54.4%	54.6%
Net Margin		36.2%	18.7%	31.4%	32.6%
P/BV (x)		*1.7*	*1.6*	*1.3*	*1.1*
PE (x)		*33.0*	*118.6*	*37.5*	*25.5*
RoA (%)		**5.1%**	**2.5%**	**4.1%**	**4.3%**
RoE (%)		**20.7%**	**10.0%**	**15.5%**	**15.9%**

Source: Marketscreener & 9 Rays Equiresearch

Manappuram Finance Ltd.: P/B Chart



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Manappuram Finance (Weekly Price chart): Stock has given a long term double top breakout above Rs.225. If it sustains and goes >Rs.235 then it opens the door for Rs.365 (i.e. diff of Rs.225 & Rs.85 getting added to Rs.225).In worst case stock should not go below its 200 DMA placed at Rs.197.

Source: ACE, Spider Software

Short Disclosure:

The above note should not be construed as a detailed research report. It is a compilation of facts and figures obtained from company annual report, company presentation, concall transcript, media articles, and other publicly available information (believed to be from reliable sources). For financial summary we have used the Bloomberg consensus estimates. For deriving the price target, we have used past valuation range and used our judgment of what it could be in future based on various factors like earnings growth, margin expansion, return ratios and cash flows.

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Positive: Favourable industry dynamics, better placed in the industry, differentiated product/service portfolio, good management, strong financials, good corporate governance, good earnings growth potential, decent return ratios, under valuation as compared to peers or based on historic range.

Neutral: Slow sector growth, near term macros not in favour of the sector, short term demand-supply mismatch, lack of positive triggers in near term, unfavourable raw material price equation in short term, low earnings growth, mid-way valuations with limited scope of expansion in valuation multiple.

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BUY:	If one year upside potential is >20%
ADD/Buy on Declines:	If one year upside ranges between 10 & 20%
HOLD:	If one year upside ranges between 0 & 10%
REDUCE/ SELL on rise:	If one year downside is -10% & 0%
SELL	If one year downside is > -10%.

Note: Target prices are on a 12-month horizon basis. These ratings are used illustratively to comply with applicable regulations.

For any queries or grievances kindly email to rusmik@9rays.in or contact: +91 22319 98419.

Registered Office: 9 Rays EquiResearch, F-92, First Floor, Profit Centre, Breezy Corner CHSL, Mahavir Nagar, Kandivali West, Mumbai – 400067, India, Tel: 022-3199 8419.

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