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## Is Manappuram's Maiden NCD Issue Attractive for Investors?



**Manappuram Finance Ltd (BSE: 531213, NSE: MANAPPURAM), one of Indian stock market's most wealth creating mid-cap companies for retail investors, is back with a public issue of a different kind. Manappuram's Rs. 750 crore non convertible debenture issue offers an industry-leading 12% interest for 13 months, and is a powerful solution for all those who are disappointed with the current equity markets, but who would prefer something better than bank fixed deposits. The risk profile of this AA- rated bond is also quite good, due to Manappuram's robust business model as well as healthy corporate governance standards, that has always ensured participation by some of the world's most discerning funds like Sequoia, CLSA, Copthall, Wellington, Hudson, and many more.**

Leading NBFC in the loan-against-gold segment, Manappuram Finance Ltd's maiden public issue of Non Convertible Debentures (NCD) is set to open on 18th of August. The issue carries an attractive interest rate of 12% for 400 days or approximately 13 months tenure. For a 24 month tenure the rate is slightly more attractive, at 12.20%.

The rate is attractive for investors as it is around 1.5-1.6% higher than the highest paying fixed deposits of similar tenure from the country's banks. Manappuram's NCD is also more lucrative than another comparable NCD that is set to open shortly, that of Shriram City Union Finance Ltd (BSE: 532498 , NSE: SHRIRAMCIT), which offers 11.6-11.85%, that too for a 3-year tenure.

Muthoot Finance Ltd's (BSE: 533398, NSE: MUTHOOTFIN) upcoming NCD offers 12.25%, but the tenure is longer at 3 & 5 years. For 2 years, Muthoot offers 12% against Manappuram's 12.20%.

Manappuram is able to provide better rates for a shorter duration, as the tenure of the NCD reflects the shorter tenure of this NBFC's retail gold loans.

Manappuram Finance is headed by its Executive Chairman VP Nandakumar who has been a professional banker, before taking over the family business in gold loans which now has a track-record of over 50 years. Nandakumar is acknowledged in the Indian stock market as a significant wealth creator who took Manappuram's Rs. 10 valued stock to Rs. 3560 last year, when its scrip enjoyed peak valuation. A Rs. 1 lakh investment in Manappuram in 1995 had surged to Rs. 3.56 crore during the FY'10.

Manappuram is a 13000 people strong, professionally managed company, with its Managing Director, I Unnikrishnan, coming from outside the family, and is a qualified and experienced Chartered Accountant, as well as considered as an authority in the NBFC business.

The present investment climate in the country is clearly favouring finance companies raising cash through NCDs as against other instruments like QIPs or private placements. The recent regulatory change that prevents NBFCs from availing priority sector funds from banks, as well as the higher interest regime have made relying only on banks an unattractive option for players like Manappuram.

Manappuram which has successful QIPs to its credit, is however not opting for the same as the current valuations are not conducive to raise further equity without effecting significant dilution.

Retail investors on the other hand have been struggling to make money from equities for the past one year. They were looking for something with better returns than fixed deposits, but with much better risk profiles.

One of the largest NBFCs in the country, Shriram Transport Finance Ltd (BSE: 511218, NSE: SRTRANSFIN), had recently concluded its Rs. 1000 crore NCD issue with an overwhelming response from retail investors, with the issue witnessing 5 times oversubscription. Manappuram's NCD is also likely to follow suit for several reasons.

Manappuram's core business of loans-against-gold continues to witness robust growth. During the first quarter of this financial year, net profit rose by 133.6% year-on-year, while operating income recorded a jump of nearly 165%. The jump in loan book or assets-under-management (AUM) was even more impressive - soaring to Rs. 8951 crore from Rs 3310 crore, a jump of more than 170%.

The margins and other metrics also continue to be healthy. The interest spread is quite high at 16%. Net NPAs is quite low at 0.30%. And the loan book is highly secured as 99.2% of the book is made up of loans against gold. Manappuram's Capital Adequacy Ratio is also extremely robust at 21.8%. Reflecting these strengths, Manappuram NCD has a rating of AA- from CARE.

The company's gold loans are relatively risk-free as their average ticket-size is just Rs. 33,500, and is mainly taken by individuals and micro & small businesses by pledging personal gold ornaments. The company doesn't offer loans against bullion, sovereign etc, nor the latest trend of loans against Gold Exchange Traded Funds (ETFs), as the company believes that those assets carry significantly higher risks.

Even the maximum loan-to-value (LTV) offered by Manappuram will have a 15% cushioning to offset any short-term downtrend in gold prices. For example, to avail Rs. 33,500 as loan from Manappuram, the customer pledges Rs. 38,525 worth of gold excluding making charges. Secondly,

the pledging of personal jewellery ensures that customers, especially female members of the household, are more keen to get back their own jewellery rather than retain the loan amount, even if gold prices fall.

Growth prospects at Manappuram are also promising. The current NCD for Rs. 750 crore (including an oversubscription clause for Rs. 350 crore) is part of a wider NCD plan for Rs. 2000 crore. The remaining funds would be mopped up through two subsequent issues, but which may carry lower rates, if the interest regime has already peaked in the country.

Even the Rs. 2000 crore fund raising is part of a bigger plan to raise Rs. 6000 crores by different means, which will see the loan book soaring to Rs. 15,000 crore by the end of this financial year. The strategy is clearly to diversify away from bank loans as the prime source of funds, which currently accounts for 50% of the funds. The company is also now in the process of raising Rs. 620 crore by way of private placement.

Manappuram has been the first gold loan company to get listed in India's stock market, and is noted for its better corporate governance standards and transparency than most of its peer group companies. Owing to this, Manappuram Finance has almost always enjoyed excellent patronage from foreign institutional investors, with FII participation in Manappuram's equity being 30.62% now.

FIIs holding more than 1% of Manappuram include heavyweights like CLSA, Sloane Robinson, Swiss Finance, Wellington Management, Federated Kaufmann, Columbia Acorn, Copthall, Hudson Equity etc. Manappuram also has a track-record of generating more than 5X returns for celebrity PE fund Sequoia Capital of Google-Yahoo-Apple fame.

Manappuram's NCD will close on or before 5th September depending upon the subscription response, and will be listed on both BSE and NSE to ensure liquidity.