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Manappuram Shows its Phoenix Like DNA

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Manappuram Finance (BSE: 531213, NSE: MANAPPURAM), the first listed gold loan player has rebounded remarkably from a string of adverse regulations against the gold loan segment, as well as allegations of corporate mis-governance. The firm has adapted rapidly to the dynamic changes in the industry, restructured itself for ensuring better corporate governance, and kept its commitments to most of its investors. The result is a phoenix like rise from a year long downfall. Here is what makes the company and its stock tick.

Did anybody say gold finance sector was in dire straits? Well, better put, the question should be, did anyone refrain from saying so? This notion was that widespread after RBI almost cracked down on the sector as though it was the next microfinance in the making.

However, the first quarter results of India's first listed gold loan firm would be a bad place to look for proof. Assets Under Management is up by 20%, Net Interest Income is up by 32.60%, and Net Profit is up by 46%, on an year-on-year basis.

Of course, there is a sequential dip in performance, but that isn't much of a surprise, given the headwinds facing the industry. But even here, core metrics like spread and NIM have held their ground at 14% and 12.4%.

Speaking about its recent performance, I Unnikrishnan, Executive Director at Manappuram Finance said, "The slight sequential loan book de-growth seen in Q1 is not likely to be there in Q2 which is expected to be flat, and from then on, at least by Q3, we are expecting a 10% growth in the loan book."

If one is to annualize the numbers, Manappuram Finance Ltd or its investors are unlikely to be in any serious problem during this fiscal. But it would be better to take Manappuram top management's guidance for a year of subdued growth in FY'13, for safety's sake.

Now to the issue of how market has reacted. Market has an uncanny ability to arrive at the distilled truth.

Even while investors keep on looking out for the next multi-bagger in the stock market, and burn their fingers on odd bets, scrips like Manappuram continue to fascinate for its sheer ability to rise virtually from ashes. Not once, but many times now, in its listed history.

That Manappuram has been an excellent wealth creator for its early stage investors is an old story now.

Forget early stage, even as late as between FY'10 and FY'11, the first listed gold loan player has been a 4X wealth multiplier.

But even that is an old story now.

Between May 10th 2012 and 6th August 2012, the Manappuram stock has nearly doubled in its value. From Rs. 18.60 a piece to Rs. 36.65.

Naysayers would say that, that was because of the steep fall, and they are right too, to an extent. But this is the Indian market where such resurrections are not the rule, but the exception, what with a stock market that increasingly looks like a battlefield full of once-valiant corpses.

Indian stock market investors enjoy no kind of capital protection, much like the rest of the world markets, or even worse, but anyone would agree that a 100% rise from a fall is more than enough to act as enough capital protection, at least for the nimble-footed investors.

What made Manappuram do a phoenix play even during this ambiguous times - not only for the markets or financial stocks - but for gold loan companies in particular, is worth a contemplation by not only investors but by any midcap company.

FY'12 was certainly not a good one for gold loan companies. While already suffering from rising fund costs, a series of regulatory moves came in as a double whammy, including capping of LTVs to 60%, and capping on the funds that banks can provide to gold loan companies.

As if that was not enough of a headwind, Manappuram's promoter group was pulled up by the regulators for some questionable practices in mixing the businesses of listed and un-listed entities.

But all that are fast becoming history.

What VP Nandakumar and his team really proved, during this past one year, is that it has that Phoenix like DNA. Resilience is built right into the organizational culture. To really understand that one has to have a working knowledge of this NBFC's history.

Before we get into the general headwinds affecting the gold loan industry, it would be enlightening to look at the corporate governance allegations and how Manappuram's promoter group dealt with it.

First of all, this is not the first time that Nandakumar and family have been alleged to have done less than satisfactory governance. But is that because of real corporate mis-governance or a traditionally different way of doing business, is the million dollar question.

In its early listed years, during a steep market fall, the regulators had found issue with the way the promoter group had assured many local investors of an informal buyback. Though Manappuram backtracked then to comply, why that happened is very interesting.

The reason is that before it became a listed company, it had several decades of existence as an informal deposit taking entity. Thousands of families in and around Manappuram House in Valappad, has been trusting this moneylender family, which is rare in a Kerala society that traditionally doesn't look too kindly upon this business.

Why that buyback was attempted was simple - though capital market doesn't provide any capital protection mechanism, Manappuram promoters wanted to honour an old commitment that their local investors' money wouldn't be lost.

To cut a long story short, the second and recent round of corporate mis-governance issue is also about this different and traditional way in which Manappuram has been trusted by its investors in its local soil.

Anyway, this time around the reaction from Manappuram was not just compliance. That was understandable too, as this time around much more was at stake for Manappuram, what with their line-up of the who-is-who of blue-chip long-only funds.

The way in which Manappuram dealt the issue is befitting a case study. Even while maintaining innocence, Nandakumar admitted regulatory non-compliances and quickly appointed a Board Committee of independent and respected veterans as well as appointed KPMG to come up with rectifications.

The Company followed it up with an even more powerful move of Nandakumar moving out of Chairman's role, and appointing an Independent Chairman to head the Board.

As part of the re-shuffle, Nandakumar also assumed more direct responsibility of operations - coming directly into the firing line - as the Managing Director and Chief Executive Officer.

Interestingly, the market took his new assignment as a very positive move, as mature segments of the market remembers Nandakumar's business acumen.

At the same time, market was also cheerful of the fact that the other architect of Manappuram's success, I Unnikrishnan, also continues to lead from the front as Executive Director and Deputy CEO.

The proof of whether Manappuram's restructuring had any bearing on its perceived corporate governance standards, came in the behaviour of institutional investors.

And that was an overwhelming yes.

Foreign Institutional Investors including Baring, Beaver, BRIC II, & Nambe, made huge buys into Manappuram stock in March, when Nandakumar had to sell a significant portion of his stake to raise funds to pay back some investors for regulatory compliance.

If that is the story behind how this Phoenix Bird again rose from its ashes, don't expect the going to be smooth.

In recent weeks, Manappuram counter was again rocked by a new controversy. An institutional advisory firm cautioned public investors that Manappuram was going to give unfair advantages to a couple of institutional investors.

But conveniently forgotten was the fact that Manappuram and its NBFC competitors had earlier also accorded such privileges to large investors in their stocks. In the final reckoning, it was clear that these special privileges were designed to ensure that the company doesn't go in for too much dilution and to ensure that promoters don't sell stake in the open market without warning.

In other words, these special concessions to some investors were largely in the interest of public shareholders. Unsurprisingly, the official resolutions that allowed these privileges were easily approved by the recent AGM.

The essence of Manappuram's success is easy to fathom. On the fundamental side, they were pioneers in taking a traditional business like gold loan to the listed space, so that it could be scaled up to astronomical heights.

On the stock side, what differentiates Manappuram from many competitors is their demonstrated willingness to share wealth.

It is a story where investors wealth went up by more than 17 times of their investments. That too, when promoters held only a 32% stake. That is what made FIIs & DIIs scramble for their pie which now stands at around 37%, with another 13% with foreign corporate bodies. That leaves only a small portion with retail investors, and that is making this Phoenix fly again.