THE ECONOMIC TIMES

Manappuram Fin has potential to outperform

10 Mar 2010, 0023 hrs IST, Karan Sehgal , ET Bureau

Manappuram General Finance and Leasing is the only non-banking finance company (NBFC) in the organised sector, which provides loan against the security of gold such as household jewellery.

Such kind of lending is considered to be more secured than a personal loan or even an auto loan. One, it is against the security of an asset, and two, gold is a physical asset, which has very high liquidity. Thanks to this, the company enjoys a high asset quality, as net non-performing assets formed approximately 0.6% of advances as on December ‘09.

The company is predominantly based out of the South. At the end of the December ‘09 quarter, more than 80% of its branches were in the four southern states — Kerala, Tamil Nadu, Andhra Pradesh and Karnataka. But of late, it has made attempts to improve its presence in other parts of the country as well. For instance, the company plans to set up 100 branches in the East and West by the end of March ’10.

On a standalone basis, it expects to touch a level of 1,000 branches during the same period. The company is growing at a fast rate in the current financial year. For instance, its profit more than trebled in the nine-month period ended December ‘09. Such a high growth rate implies that the company will need to augment its capital base, given the regulatory requirement of having to maintain a minimum capital adequacy ratio (CAR) of 15%.

On these lines, the company has raised Rs 245 crore through the qualified institutional placement (QIP) route recently. This recent capital infusion has increased the CAR from around 20% earlier to 30% approximately now. Though, at current levels, the company has capital in excess of regulatory requirements, given the pace it is expanding, it would need more capital, going forward.

The stock has outperformed the benchmark Nifty by a great margin. Since the start of the current rally, the company’s stock has gone up by more than five times, while the Nifty has just doubled. At current prices, the stock is quoting at a price-to-earnings (P/E) multiple of 26.

Though, a strict comparison is not possible with other companies in the NBFC segment, still its valuations seem to be high compared with average valuations of the sector. However, its valuations are high, given high-expected growth rates. And if the company continues to power ahead at the speed at which it has grown in the current fiscal, it can outperform the Nifty even, going forward.