

Muthoot Finance

BSE SENSEX

31,798

S&P CNX

9,908

CMP: INR458
TP: INR550 (+20%)
Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2017 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	MUTH IN
Equity Shares (m)	399.5
M.Cap. (INR b) / (USD b)	183/2.8
52-Week Range (INR)	405 / 170
1, 6, 12 Rel. Per (%)	1/22/8
12M Avg Val (INR m)	224
Free float (%)	25.5

Financials & Valuations (INR b)

Y/E March	2017	2018E	2019E
NII	33.6	36.7	41.8
PPP	22.0	24.5	28.2
PAT	11.8	15.2	17.7
EPS (INR)	29.5	38.2	44.2
BV/Sh.(INR)	163.1	192.1	225.6
RoA on AUM %	4.6	5.3	5.4
RoE (%)	19.4	21.5	21.2
Div. Yld. (%)	1.3	1.7	1.9
P/E (x)	15.5	12.0	10.4
P/BV (x)	2.8	2.4	2.0

Strong quarter; operating leverage benefits playing out

- Muthoot Finance's (MUTH) 1QFY18 PAT grew 30% YoY (and 9% QoQ) to INR3.51b (in-line). Though there was a 5% revenue miss, it was offset by lower-than-expected provisioning.
- AUM growth remained anemic at 8% YoY (2% QoQ) to INR278b. The management has guided ~10% AUM growth in gold loans for the year, with potential upside, given the improvement in overall environment. However, the management targets 10% share of AUM from the non-gold loan book by end-FY18 and 15% share by FY19.
- Calculated margin expanded 80bp YoY to 12.6%, driven by declining cost of funds (-170bp YoY to 9.9% in 1QFY18). In fact, 140bp decline in CoF has accrued in just the past two quarters. The share of NCDs increased from 31% in 4QFY17 to 36% in 1QFY18.
- Better branch productivity and lower employee count resulted in a 50bp YoY decline in expense ratio to 4.4%. Average gold loan per branch has been trending upward since FY15 – now at INR65m (v/s INR60m in 1QFY17), close to the peak achieved in FY12.
- Asset quality remained stable, with GNPL ratio increasing marginally by 9bp YoY and 19bp QoQ to 2.25%. Provisions made in 1QFY18 were lower than expected at INR66m in comparison to INR176m in 1QFY17.
- **Valuation and view:** Given stable regulatory regime, benign competition and supportive gold prices, we expect a favorable outlook for gold financiers. Given that significant portion of its operating costs is fixed, growth recovery will ensure optimum utilization of existing infrastructure, boosting return ratios. Asset quality too remains stable and write-offs are minimal. However, given that it is the largest gold finance player by far, it would be difficult for MUTH to achieve strong growth. We downgrade our FY18/19 EPS estimates by 6-7% to factor in lower growth. BUY with a TP of INR550 (2.4x FY19E BV).

Quarterly Performance

Y/E March	FY17				FY18				FY17E	(INR M)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY18E	
Income from operations	12,712	13,497	13,225	16,962	13,758	14,240	14,809	15,767	56,395	58,574
Other operating income	252	320	184	135	165	200	200	260	891	825
Total Operating income	12,964	13,817	13,409	17,096	13,923	14,440	15,009	16,027	57,286	59,399
YoY Growth (%)	13.7	21.6	17.8	18.2	7.4	4.5	11.9	-6.3	17.8	3.7
Other income	44	45	56	36	63	60	60	78	181	261
Total Income	13,008	13,862	13,464	17,132	13,986	14,500	15,069	16,105	57,467	59,659
YoY Growth (%)	13.8	21.6	18.0	18.0	7.5	4.6	11.9	-6.0	17.9	3.8
Interest Expenses	5,571	5,937	5,970	5,460	5,326	5,459	5,596	5,533	22,938	21,913
Net Income	7,437	7,925	7,494	11,672	8,660	9,040	9,474	10,572	34,529	37,746
Operating Expenses	3,025	3,130	3,000	3,349	3,075	3,229	3,358	3,556	12,503	13,219
Operating Profit	4,413	4,795	4,495	8,323	5,585	5,811	6,115	7,016	22,026	24,527
YoY Growth (%)	50.1	69.5	51.2	37.6	26.6	21.2	36.1	-15.7	48.9	11.4
Provisions	176	171	39	2,430	66	100	500	402	2,816	1,069
Profit before Tax	4,237	4,624	4,456	5,893	5,518	5,711	5,615	6,613	19,211	23,459
Tax Provisions	1,534	1,657	1,545	2,675	2,007	1,999	1,965	2,239	7,411	8,210
Net Profit	2,703	2,967	2,911	3,218	3,511	3,712	3,650	4,375	11,799	15,249
YoY Growth (%)	47.6	70.0	55.9	21.3	29.9	25.1	25.4	36.0	45.7	29.2

E: MOSL Estimates

Alpesh Mehta – Research Analyst (Alpesh.Mehta@MotilalOswal.com); +91 22 6129 1526

Piran Engineer – Research Analyst (Piran.Engineer@MotilalOswal.com); +91 22 3980 4393

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Quarterly performance v/s expectations and reasons for the deviation

Particulars	1QFY18E	1QFY18A	v/s Est.	Comments
Income from operations	14,417	13,758	-5	
Other operating income	200	165	-18	
Total Operating income	14,617	13,923	-5	Low growth
Other income	45	63		
Total Income	14,662	13,986	-5	
Interest expenses	5,624	5,326	-5	
Net Income	9,038	8,660	-4	Low growth
Operating Expenses	3,380	3,075	-9	Lower employee count
Operating Profit	5,658	5,585	-1	
Provisions	300	66	-78	Significantly below estimates
Profit before Tax	5,358	5,518	3	
Tax Provisions	1,875	2,007	7	
Net Profit	3,483	3,511	1	In-line PAT due to lower provisions
Int Exp/ operating inc (%)	38.5	38.3		
Other Income / Total Income (%)	0.3	0.5		
Cost to Income Ratio (%)	37.4	35.5		
Tax Rate (%)	35.0	36.4		

E: MOSL Estimates

Loan growth was 2% QoQ
and 8% YoY

Loan growth remains subdued

- AUM growth remains anemic at 8% YoY (+2% QoQ) to INR278b. Management has guided to ~10% AUM growth in gold loans for the year, with potential upside with an improvement in the overall environment.
- MUTH merged 22 branches in the quarter bringing the total count to 4,285 branches.
- Around 10% of active gold loan customers are transacting online.

Spreads increase 120bp YoY
due to sharp decline in CoF

Margins improve on the back of declining cost of funds

- Calculated margin expanded 80bp YoY to 12.6%, driven by declining cost of funds (-170bp YoY to 9.9% in 1QFY18). In fact, 140bp decline in CoF has accrued in just the past two quarters.
- The share of NCDs increased from 31% in 4QFY17 to 36% in 1QFY18.
- Yields have remained stable at 20.2% in 1QFY18 v/s 20.6% in 1QFY17.
- We expect margins to continue to improve as the company reaps the benefits of continued decline in cost of funds.

Branch productivity and
lower employee count lead
to lower expense ratio

Expense ratio on a downtrend; Asset quality stable

- Better branch productivity and lower employee count resulted in a 50bp YoY decline in expense ratio to 4.4%.
- Average gold loan per branch has been trending upward since FY15 – now at INR65m (v/s INR60m in 1QFY17), close to the peak achieved in FY12.
- Asset quality remained stable, with GNPL ratio increasing marginally by 9bp YoY and 19bp QoQ to 2.25%. Provisions made in 1QFY18 were lower than expected at INR66m in comparison to INR176m in 1QFY17.
- Consequently, RoA/RoE for the quarter was 5.1%/21%.
- **Other highlights** a) Loan portfolio of Asia Asset Finance stands at LKR9.08b. b) Loan portfolio and PAT of Muthoot Homefin in 1QFY18 were ~INR6b and

INR37m, respectively. c) In 1QFY18, Muthoot Insurance and Belstar added INR12m and INR52m, respectively, to the profit of Muthoot Group.

Valuation and view

- Over FY12 to FY15, the gold loan industry was dragged down by various regulatory pressures. Most regulatory hurdles are now behind. The RBI has also acknowledged the systemic importance of gold loan companies.
- Given that significant portion of operating costs for a gold financier is fixed, growth recovery will ensure optimum utilization of existing infrastructure, boosting return ratios. Asset quality, too, remains stable and write-offs are minimal.
- However, being the largest gold finance player by far, the scope for strong growth is tough for MUTH. The company is trying to rectify this by growth in non-core segments like home loans and microfinance.
- We downgrade our FY18/19 EPS estimates by 6-7% to factor in lower growth. However, current valuation of 1.9x FY19E BV is attractive given strong return ratios (4.5-5% RoA and ~20% RoE). We use RI model with Rf: 7.0%, CoE: 13.0% and Terminal growth rate: 5% to arrive at our target price. Maintain **Buy** with TP of INR550 (2.4x FY19E BV).

Exhibit 1: We cut our earnings estimates to factor in lower growth

INR B	Old Est			Revised Est.			% Change		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
NII	39.5	44.6	51.2	36.7	41.8	47.8	(7.2)	(6.3)	(6.6)
Other Income	1.1	1.4	1.7	1.1	1.3	1.5			
Net Income	40.6	46.0	52.9	37.7	43.1	49.4	(7.1)	(6.3)	(6.7)
Operating Expenses	14.0	15.9	18.1	13.2	14.9	16.8	(5.5)	(6.7)	(7.2)
Operating Profits	26.6	30.0	34.8	24.5	28.2	32.5	(7.9)	(6.0)	(6.4)
Provisions	1.5	1.6	1.8	1.1	1.5	1.7			
PBT	25.2	28.5	33.0	23.5	26.8	30.9	(6.8)	(6.0)	(6.3)
Tax	8.8	9.7	11.2	8.2	9.1	10.5	(6.8)	(6.0)	(6.3)
PAT	16.4	18.8	21.8	15.2	17.7	20.4	(6.8)	(6.0)	(6.3)
Loans	315	363	417	307	347	392	(2.6)	(4.3)	(6.0)
Borrowings	256	297	342	240	271	306			
Spreads (%)	11.70	11.40	11.40	10.50	10.70	10.90			
RoAA (%)	5.0	5.0	5.0	4.8	4.9	5.0			
RoAE (%)	23.2	23.0	23.0	21.5	21.2	20.8			

Source: MOSL, Company

Concall highlights

Business Updates

- The Board of Muthoot Finance has decided to acquire the remaining 12% stake (for INR380m) in Muthoot HomeFin. The company will also infuse INR1b in the subsidiary.
- When MUTH acquired 64% stake in the Sri Lankan subsidiary 3 years back, it was loss-making. Now, it has started making profits and even paid MUTH a dividend.
- The company is focusing on regular interest collection.
- Management is guiding to 10-15% AUM growth (in gold loans) over the medium term driven by higher branch productivity and branch expansion.
- Management targets to increase the share of lending from subsidiaries from 5% now to 15% over the next 2 years.
- Employee count declined due to higher share of off-roll employees as well as some people leaving due to branch mergers.
- Cash disbursement cap of INR20,000 has not had much impact on the company. However, most disbursements are yet in cash.
- **Home Finance business** – Management plans to achieve an AUM of INR13.5b (INR6b currently) by end-FY18. This will be done by expanding into new states like AP, Telangana, Karnataka, Haryana. It will increase branch count from 29 to 40 by year end. Average ticket size is INR1.2m. Targeting NIM of 3% and RoA of 2.5-3% (currently 3%). Less than 5% cases are balance transfer from other companies. Loan sourcing done in house.
- **Belstar Microfinance**– 90% of disbursements are in the SHG platform (which, according to management, is a better model than JLG). PAR <2%. Even SHG default data is available from credit bureaus. Avg ticket size is INR17.5k

Asset Quality

- GNPL would be INR1.5b higher at 90dpd. Will move to 90dpd in 4Q only.

Others

- 70-80% of their customers are repeat customers
- 30% of business is from the <1yr tenure product

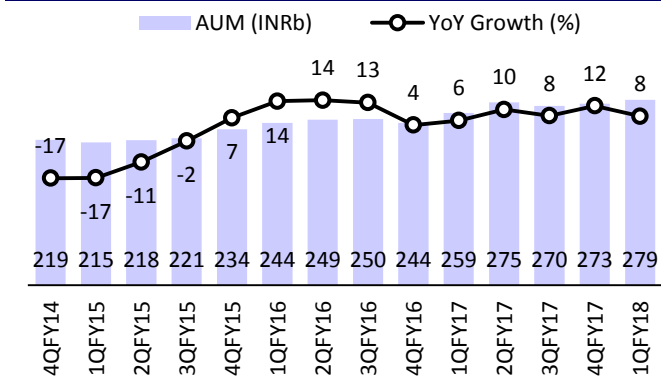
Exhibit 2: Quarterly Snapshot

	FY16				FY17				FY18	Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	QoQ	YoY
Profit and Loss (INR m)											
Income from operations	11,256	11,226	11,235	14,291	12,712	13,497	13,225	16,962	13,758	(19)	8
Other operating income	145	136	148	179	252	320	184	135	165	22	(35)
Total operating income	11,401	11,361	11,383	14,469	12,964	13,817	13,409	17,096	13,923	(19)	7
Other Income	26	38	29	43	44	45	56	36	63	76	43
Total Income	11,426	11,400	11,412	14,513	13,008	13,862	13,464	17,132	13,986	(18)	8
Interest expenses	5,670	5,652	5,616	5,639	5,571	5,937	5,970	5,460	5,326	(2)	(4)
Net income	5,756	5,747	5,796	8,874	7,437	7,925	7,494	11,672	8,660	(26)	16
Total Opex	2,816	2,918	2,823	2,824	3,025	3,130	3,000	3,349	3,075	(8)	2
Employees	1,607	1,623	1,582	1,607	1,849	1,896	1,734	1,802	1,875	4	1
Rent	415	432	429	436	434	453	458	463	503	9	16
Depreciation and Amrt	140	143	146	147	117	111	122	133	104	(22)	(11)
Others	653	720	666	634	625	670	686	951	593	(38)	(5)
Operating profits	2,940	2,830	2,972	6,049	4,413	4,795	4,495	8,323	5,585	(33)	27
Provisions and write offs	106	146	74	1,299	176	171	39	2,430	66	(97)	(62)
Profit before tax	2,835	2,684	2,898	4,750	4,237	4,624	4,456	5,893	5,518	(6)	30
Taxes	1,003	939	1,032	2,098	1,534	1,657	1,545	2,675	2,007	(25)	31
Profit after tax	1,832	1,745	1,867	2,652	2,703	2,967	2,911	3,218	3,511	9	30
Asset quality (Overall)											
Gross NPA	5,195	6,341	6,319	7,025	5,618	6,016	7,863	5,621	6,279	12	12
Net NPA	4,443	5,484	5,462	6,005	4,599	1,019	6,844	4,602	5,260	14	14
GNPA (%)	2	2.6	2.5	2.9	2	2.2	2.9	2	2		
NNPA (%)	2	2.2	2.2	2.0	2	1.8	2.5	2	2		
Provisions	752	857	857	1,020	1,019	4,997	1,019	1,019	1,019		
PCR (%)	14	14	14	15	18	83	13	18	16		
Ratios (Calc)											
Yields	19	18.4	18.3	23.4	21	20.7	19.7	25	20		
Cost of funds	11	10.9	10.9	11.6	12	11.5	11.3	10	10		
NIMs	10	9.3	9.3	14.4	12	11.9	11.0	17	13		
Spreads	8	7.6	7.4	11.8	9	9.2	8.4	15	10		
Cost income ratio	49	50.8	48.7	31.8	41	39.5	40.0	29	36		
Cost to average AUM	5	4.7	4.5	4.6	5	4.7	4.4	5	4		
AUM related											
Gold Stock Holding (In tonnes)	138	144	145	142	146	150	147	149	152	2	4
Avg gold loans per branch (INR Mn)	57	58	59	57	60	63	62	63	65	3	8
Overall AUM	244	249	250	244	259	275	270	273	279	2	8
On balance sheet	244	249	250	244	259	275	270	273	279	2	8
Other details											
CAR	24	23	23	24	24	24	25	25	26		
Tier I	20	19	20	21	21	21	22	22	23		
Tier II	4	4	3	4	3	3	2	3	3		
Book Value	132	132	137	141	148	155	162	163	172		
Leverage (x)	4	4	4	4	4	4	3	3	3		

Source: Company, MOSL

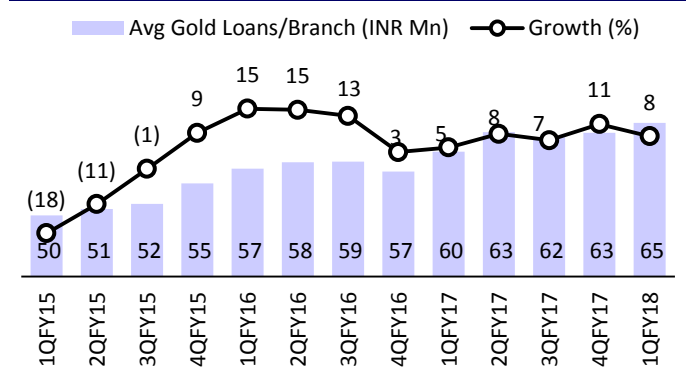
Story in charts

Exhibit 3: AUM growth remains sluggish



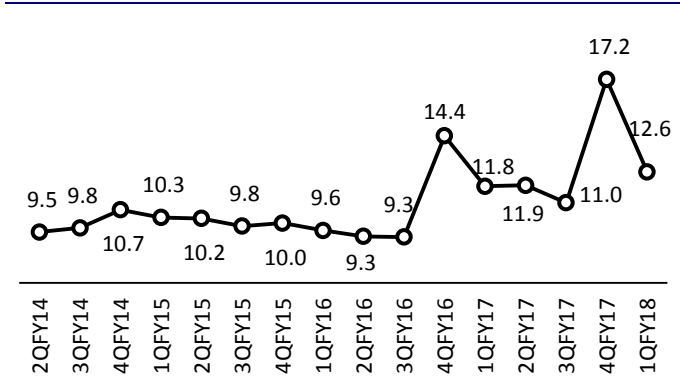
Source: Company, MOSL

Exhibit 4: Avg gold loan/ branch at INR65m



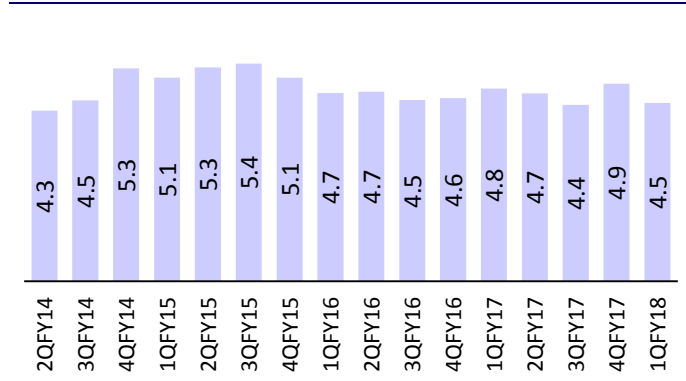
Source: Company, MOSL

Exhibit 5: NIM up 80bp YoY (%)



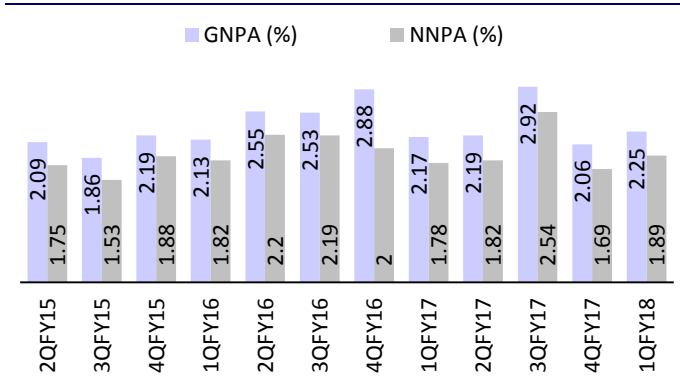
Source: Company, MOSL

Exhibit 6: Cost to average AUM trend (%)



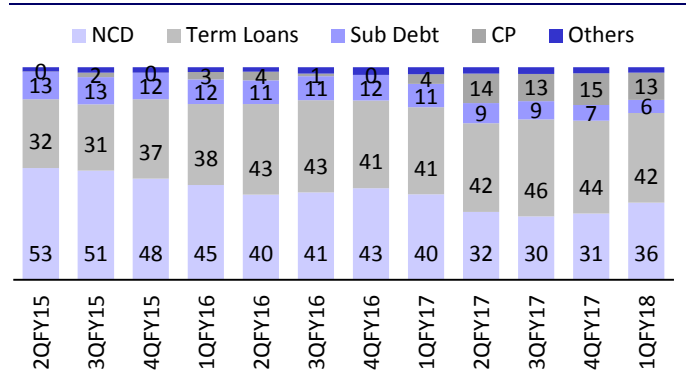
Source: Company, MOSL

Exhibit 7: Asset quality stable



Source: Company, MOSL

Exhibit 8: Share of NCDs increases (%)



Source: Company, MOSL

Financials: Valuation metrics

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ICICIBC*	Buy	291	29.6	14.9	17.0	13.6	11.0	146.0	158.1	1.39	1.19	1.17	1.18	8.9	9.5
HDFCB	Buy	1,765	71.5	68.2	82.1	25.9	21.5	388	451	4.55	3.91	1.84	1.84	18.8	19.6
AXSB	Neutral	489	18.7	21.8	38.1	22.4	12.8	243	274	2.01	1.78	0.81	1.19	9.3	14.7
KMB*	Buy	993	28.4	32.4	41.0	30.6	24.2	232	272	4.27	3.65	1.84	1.99	15.0	16.3
YES	Buy	1,741	12.6	92.3	114.5	18.9	15.2	542	633	3.21	2.75	1.78	1.80	18.3	19.5
IIB	Buy	1,636	15.3	61.9	76.8	26.4	21.3	383	446	4.27	3.67	1.90	1.95	17.3	18.5
IDFC Bk	Neutral	56	3.0	2.8	3.2	20.2	17.4	45	48	1.24	1.18	0.74	0.71	6.3	6.9
FB	Buy	109	3.0	5.4	6.8	20.2	15.9	62	68	1.74	1.60	0.82	0.86	10.0	10.5
DCBB	Neutral	181	0.9	8.4	10.4	21.6	17.4	83	93	2.17	1.95	0.95	0.96	11.4	11.8
JKBK	Neutral	80	0.7	3.8	8.2	20.8	9.7	112	118	0.71	0.67	0.23	0.44	3.5	7.2
SIB	Buy	28	0.6	2.9	3.7	9.7	7.5	28	30	1.00	0.91	0.65	0.74	10.8	12.7
Equitas	Buy	164	0.9	1.7	6.1	94.7	26.8	68	73	2.43	2.24	0.59	1.67	2.6	8.7
RBL	Under Review	497	3.0	18.0	23.7	27.6	21.0	160	180	3.10	2.76	1.34	1.35	13.6	13.9
Private Aggregate															
SBIN (cons)*	Buy	302	41.1	17.9	23.3	15.1	11.5	230	249	1.17	1.07	0.44	0.50	8.7	10.0
PNB	Buy	148	5.0	5.8	11.0	25.4	13.4	183	193	0.81	0.77	0.17	0.30	3.2	5.9
BOI	Neutral	158	2.5	13.7	22.0	11.6	7.2	233	255	0.68	0.62	0.22	0.33	6.1	9.0
BOB	Buy	155	5.7	18.4	22.5	8.4	6.9	162	179	0.96	0.87	0.59	0.66	11.9	13.2
CBK	Neutral	344	2.9	30.1	47.0	11.4	7.3	498	540	0.69	0.64	0.29	0.41	6.2	9.1
UNBK	Neutral	142	1.5	24.6	34.5	5.8	4.1	315	345	0.45	0.41	0.37	0.47	8.1	10.5
OBC	Neutral	136	0.7	17.1	21.4	8.0	6.4	382	404	0.36	0.34	0.22	0.26	4.6	5.4
INBK	Buy	295	2.3	34.4	38.3	8.6	7.7	327	357	0.90	0.83	0.73	0.72	10.9	11.2
Public Aggregate															
Banks Aggregate															
HDFC*	Buy	1,731	42.4	41.4	47.0	24.1	19.0	228	287	4.38	3.11	1.86	1.87	19.3	18.4
LICHF	Neutral	678	5.4	41.6	48.9	16.3	13.9	245	285	2.76	2.38	1.44	1.51	18.2	18.5
IHFL	Buy	1,160	7.9	86.3	108.4	13.4	10.7	324	368	3.59	3.15	3.28	3.24	28.2	31.3
GRHF	Neutral	479	2.8	9.9	12.1	48.2	39.7	33	40	14.46	11.86	2.43	2.43	33.0	32.8
REPCO	Buy	672	0.7	34.5	39.3	19.5	17.1	213	249	3.15	2.70	2.22	2.15	17.5	17.0
DEWH	Buy	429	2.2	37.7	47.1	11.4	9.1	282	321	1.52	1.34	1.25	1.33	14.1	15.6
Housing Finance															
RECL	Neutral	176	5.5	35.0	40.4	5.0	4.3	196	227	0.89	0.77	3.10	3.12	19.1	19.1
POWF	Neutral	134	5.6	27.2	30.2	4.9	4.4	169	191	0.79	0.70	2.76	2.72	17.0	16.8
Infra Finance															
SHTF	Buy	941	3.4	80.0	102.4	11.8	9.2	560	644	1.68	1.46	2.67	3.06	15.0	16.9
MMFS	Buy	424	3.8	13.9	17.8	30.5	23.9	120	131	3.53	3.25	1.73	1.90	12.0	14.2
BAF	Buy	1,701	15.2	47.6	62.9	35.7	27.0	216	270	7.87	6.30	3.51	3.51	24.3	25.9
CIFC	Buy	1,162	2.9	56.0	67.3	20.8	17.3	325	384	3.58	3.03	2.85	2.90	18.6	19.0
SCUF	Buy	2,120	2.2	121.7	164.1	17.4	12.9	863	1,001	2.46	2.12	3.39	3.96	15.0	17.6
LTFH	Buy	172	5.0	7.3	10.6	23.5	16.2	51	60	3.38	2.87	1.87	2.32	15.6	19.1
MUTH	Buy	458	3.0	41.0	47.1	11.2	9.7	189	219	2.42	2.09	4.99	5.00	23.2	23.0
CAFL	Buy	750	1.2	33.3	44.3	22.5	16.9	264	304	2.84	2.47	1.76	1.88	13.3	15.6
SKSM	Neutral	796	1.8	31.8	68.7	25.0	11.6	219	272	3.64	2.93	3.44	5.29	16.1	28.0

UR=Under Review* Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

Financials and valuations

INCOME STATEMENT							(INR Million)		
Y/E MARCH	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	45,158	53,360	48,920	42,623	48,007	56,586	58,574	66,077	74,667
Interest Expense	23,699	28,194	26,260	21,064	22,577	22,938	21,913	24,278	26,857
Net Interest Income (Incl Sec.)	21,459	25,166	22,661	21,559	25,430	33,648	36,660	41,799	47,811
Change (%)	72.3	17.3	-10.0	-4.9	18.0	32.3	9.0	14.0	14.4
Other income	333	511	554	624	743	881	1,086	1,301	1,541
Net Income	21,792	25,677	23,214	22,183	26,173	34,529	37,746	43,100	49,351
Change (%)	70.6	17.8	-9.6	-4.4	18.0	31.9	9.3	14.2	14.5
Operating Expenses	8,059	9,667	10,841	11,533	11,381	12,503	13,219	14,864	16,818
Pre Provision Profits	13,732	16,010	12,374	10,650	14,792	22,026	24,527	28,236	32,533
Change (%)	72.7	16.6	-22.7	-13.9	38.9	48.9	11.4	15.1	15.2
Provisions	420	895	438	371	1,624	2,816	1,069	1,464	1,655
PBT	13,312	15,114	11,936	10,279	13,168	19,210	23,458	26,771	30,879
Tax	4,392	5,072	4,135	3,573	5,072	7,412	8,210	9,102	10,499
Tax Rate (%)	33.0	33.6	34.6	34.8	38.5	38.6	35.0	34.0	34.0
Profits for Equity SH	8,920	10,042	7,801	6,705	8,096	11,798	15,248	17,669	20,380
Change (%)	80.5	12.6	-22.3	-14.0	20.7	45.7	29.2	15.9	15.3
Proposed Dividend	1,487	1,673	2,230	2,410	2,393	3,539	3,050	3,534	4,076

BALANCE SHEET							(INR Million)		
Y/E MARCH	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Equity Share Capital	3,717	3,717	3,717	3,980	3,990	3,995	3,995	3,995	3,995
Reserves & Surplus	25,540	33,639	38,929	46,855	52,202	61,170	72,728	86,121	101,569
Networth	29,257	37,356	42,646	50,835	56,192	65,164	76,722	90,116	105,564
Borrowings	193,764	240,807	194,776	194,361	185,670	211,861	239,962	271,157	306,407
Change (%)	62.4	24.3	-19.1	-0.2	-4.5	14.1	13.3	13.0	13.0
Other liabilities	10,701	16,000	18,517	22,496	28,625	14,163	17,704	22,130	27,663
Change (%)	136.4	49.5	15.7	21.5	27.2	-50.5	25.0	25.0	25.0
Total Liabilities	233,722	294,163	255,939	267,693	270,487	291,189	334,388	383,402	439,633
Loans	214,699	265,176	219,964	235,412	245,241	274,242	307,151	347,081	392,201
Change (%)	82.0	23.5	-17.0	7.0	4.2	11.8	12.0	13.0	13.0
Investments	975	825	354	454	983	2,091	2,091	2,291	2,491
Net Fixed Assets	2,682	3,030	3,270	2,642	2,274	2,182	2,400	2,640	2,904
Other assets	15,366	25,131	32,351	29,185	21,990	28,615	22,746	31,390	42,037
Total Assets	233,722	294,163	255,939	267,693	270,487	307,131	334,388	383,402	439,633

E: MOSL Estimates

Financials and valuations

RATIOS

Y/E MARCH	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Spreads Analysis (%)									
Avg Yield on loans	27.4	22.4	20.3	18.8	20.1	21.9	20.2	20.2	20.2
Avg Cost of funds	15.1	13.0	12.1	10.8	11.9	11.5	9.7	9.5	9.3
Spreads on loans	12.2	9.4	8.2	8.0	8.2	10.4	10.5	10.7	10.9
NIMs on AUM	10.6	9.9	9.4	9.5	10.6	13.0	12.6	12.8	12.9
Profitability Ratios (%)									
RoE	41.9	30.2	19.5	14.3	15.1	19.4	21.5	21.2	20.8
RoA	4.8	3.8	2.8	2.6	3.0	4.1	4.8	4.9	5.0
RoA on AUM	4.4	3.9	3.2	3.0	3.4	4.6	5.3	5.4	5.5
Cost to Income	37.0	37.6	46.7	52.0	43.5	36.2	35.0	34.5	34.1
Empl. Cost/Op. Exps.	51.4	56.4	54.6	54.7	56.4	58.2	60.6	61.4	61.9
	4.3	3.7							
Asset-Liability Profile (%)									
Net NPAs to Adv.	0.5	1.7	1.6	1.9	1.9	2.4	2.1	1.8	1.5
Debt/Equity (x)	6.6	6.4	4.6	3.8	3.3	3.3	3.1	3.0	2.9
Average leverage	7.3	6.5	5.4	4.2	3.6	3.3	3.2	3.1	3.0

Valuations

Book Value (INR)	78.7	100.5	114.7	127.7	140.8	163.1	192.1	225.6	264.3
Price-BV (x)						2.8	2.4	2.0	1.7
Adjusted BV (INR)	77.6	96.2	111.5	123.9	135.6	157.3	186.3	220.1	259.2
Price-ABV (x)						2.9	2.5	2.1	1.8
EPS (INR)	24.0	27.0	21.0	16.8	20.3	29.5	38.2	44.2	51.0
EPS Growth (%)	55.5	12.6	-22.3	-19.7	20.4	45.6	29.2	15.9	15.3
Price-Earnings (x)						15.5	12.0	10.4	9.0
Dividend	4.0	4.5	6.0	6.0	6.0	6.0	7.6	8.8	10.2
Dividend Yield (%)						1.3	1.7	1.9	2.2

E: MOSL Estimates

Corporate profile

Company description

Kerala-headquartered Muthoot Finance is a non-deposit taking NBFC and the flagship company of the Muthoot Group. Muthoot Finance has a long and established track record and has been in the lending against gold business for the last 70 years, when Mr M. George Muthoot founded a gold loan business in 1939. MUTH's gold loan portfolio comprises over 7m loan accounts in India, which are serviced through 4,000+ branches across 26 states and union territories.

Exhibit 1: Exhibit 11: Sensex rebased

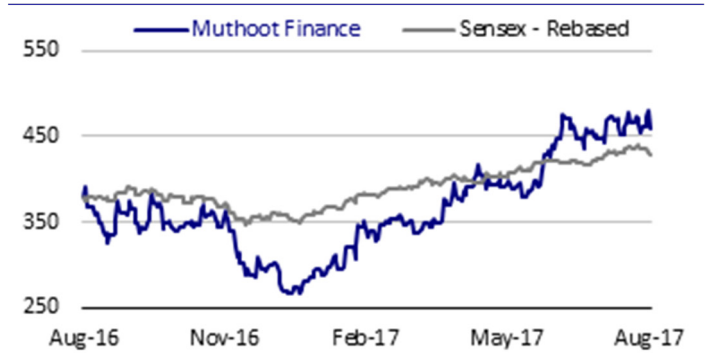


Exhibit 12: Shareholding pattern (%)

	Jun-17	Mar-17	Jun-16
Promoter	73.7	73.7	74.6
DII	11.3	8.1	6.8
FII	11.3	13.6	13.7
Others	3.8	4.6	4.9

Note: FII Includes depository receipts

Exhibit 13: Top holders

Holder Name	% Holding
Reliance Capital Trustee Company Limited A/C	1.5
Goldman Sachs India Limited	1.4
Birla Sun Life Trustee Company Private Limited A/C	1.3
Gmo Emerging Domestic Opportunities Fund, A Series	1.1

Exhibit 14: Top management

Name	Designation
M G George Muthoot	Chairman
George Alexander Muthoot	Managing Director
Maxin James	Company Secretary

Exhibit 15: Directors

Name	Name
M G George Muthoot	Pamela Anna Mathew*
George Alexander Muthoot	George Jacob Muthoot
George Joseph*	George Thomas Muthoot
John K Paul*	Alexander M George
K John Mathew*	

*Independent

Exhibit 16: Auditors

Name	Type
KSR & Co LLP	Secretarial Audit
Rangamani & Co	Statutory

Exhibit 17: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	38.2	34.1	12.1
FY19	44.2	38.5	14.9
FY20	51.0	48.3	5.7

NOTES

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Securities Ltd. (MOSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOSL is a subsidiary company of Motilal Oswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on www.motilalosal.com. MOSL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Metropolitan Stock Exchange Of India Ltd. (MSE) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) & National Securities Depository Limited (NSDL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Details of associate entities of Motilal Oswal Securities Limited are available on the website at <http://onlinereports.motilalosal.com/Dormant/documents/Associate%20Details.pdf>

Pending Regulatory Enquiries against Motilal Oswal Securities Limited by SEBI:

SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudicate violation of SEBI Regulations; MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice and also sought personal hearing. The matter is currently pending.

MOSL, its associates, Research Analyst or their relative may have any financial interest in the subject company. MOSL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. MOSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. MOSL and/or its associates may have received any compensation from the subject company in the past 12 months.

In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, MOSL or any of its associates may have:

- managed or co-managed public offering of securities from subject company of this research report,
- received compensation for investment banking or merchant banking or brokerage services from subject company of this research report,
- received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
- Subject Company may have been a client of MOSL or its associates during twelve months preceding the date of distribution of the research report.

MOSL and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. To enhance transparency, MOSL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MOSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Terms & Conditions:

This report has been prepared by MOSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOSL will not treat recipients as customers by virtue of their receiving this report.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement

- Analyst ownership of the stock

Muthoot Finance

No

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOSL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

Motilal Oswal Capital Markets Singapore Pte Limited is acting as an exempt financial advisor under section 23(1)(f) of the Financial Advisers Act (FAA) read with regulation 17(1)(d) of the Financial Advisers Regulations and is a subsidiary of Motilal Oswal Securities Limited in India. This research is distributed in Singapore by Motilal Oswal Capital Markets Singapore Pte Limited and it is only directed in Singapore to accredited investors, as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time. In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; www.motilalosal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: na@motilalosal.com, Contact No.:022-30801085.

Registration details of group entities: MOSL: NSE (Cash): INB231041238; NSE (F&O): INF231041238; NSE (CD): INE231041238; BSE (Cash): INB011041257; BSE(F&O): INF011041257; BSE(CD): MSE(Cash): INB261041231; MSE(F&O): INF261041231; CDSL: INE261041231; NSDL: IN-DP-16-2015; NSDL: IN-DP-NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. *Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. * Motilal Oswal Commodities Broker Pvt. Ltd. offers Commodities Products. * Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. * Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products