

Muthoot Finance

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	MUTH IN
Equity Shares (m)	401
M.Cap.(INRb)/(USD\$)	666.1 / 9
52-Week Range (INR)	1683 / 1090
1, 6, 12 Rel. Per (%)	8/14/-12
12M Avg Val (INR M)	2138

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
NII	66.4	74.1	84.8
PPP	51.0	57.7	66.0
PAT	37.2	41.4	47.5
EPS (INR)	92.8	103.1	118.5
EPS Gr. (%)	23.3	11.1	14.9
BV/Sh.(INR)	380	465	564

Ratios

NIM (%)	13.7	12.8	12.9
C/I ratio (%)	25.9	23.8	23.9
RoA (%)	6.5	6.0	6.0
RoE (%)	27.8	24.4	23.0
Payout (%)	21.6	17.0	17.0

Valuations

P/E (x)	17.9	16.1	14.0
P/BV (x)	4.4	3.6	2.9
Div. Yld. (%)	1.2	1.1	1.2

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	73.4	73.4	73.4
DII	8.3	7.7	7.7
FII	14.2	15.0	13.9
Others	4.2	3.9	5.0

FII Includes depository receipts

CMP: INR1,660 TP: INR1,900 (+14%) Buy

Healthy Gold loan growth; gold auctions still minuscule

Operational performance in line

- PAT (in line) grew by 11% YoY and 2% QoQ to INR9.94b. Despite higher-than-estimated provisions, lower-than-estimated interest expenses (driven by lower CoB), and benefits of lower operating expenses led to an in line performance.
- It posted an OPEX beat of 6% – OPEX declined by 2% YoY, but grew 10% QoQ to INR4.4b. The cost ratio declined by 80bp YoY to 3.3%. PPOP (3% beat) grew by 17% YoY and 6% QoQ to INR14.14b.
- Gross Stage 3 increased by 63bp QoQ to 1.85% in 2QFY22.
- We expect MUTH to deliver standalone AUM growth of ~17%/14% in FY22E/FY23E. RoA/RoE is likely to remain robust (6%/23%) over the medium term. Our EPS estimates are largely unchanged. We reiterate our BUY rating with a TP of INR1,900/share (3.1x Sep'23E BVPS).

Improved demand outlook for Gold loans; gold tonnage grew 4% QoQ

- Gold loan AUM grew 5% QoQ and 18% YoY to INR547b. Consolidated AUM rose 5% QoQ and 17% YoY to INR609b. The MFI subsidiary (Belstar) reported a 9% QoQ and 25% YoY AUM growth (albeit on a small base) to INR33.5b.
- Tonnage grew ~4% QoQ and ~9% YoY to 178t. This is a positive as a large portion of gold AUM growth in 2QFY22 was complemented by an increase in tonnage.
- Average monthly disbursements of INR85b in 2QFY22 (v/s INR77b in 4QFY21) suggest that: 1) the demand outlook for Gold loans has improved, and 2) despite aggressive pricing from NBFC peers and Banks in high-ticket size Gold loans, MUTH has been able to retain customers and grow its Gold loan book.
- The number of customers rose 3.4% QoQ to 8.8m. LTV increased by ~200bp QoQ to 73%.

Although technical in nature, deterioration seen in asset quality

- For the second consecutive quarter, deterioration was observed in GS3, which increased 63bp QoQ to 1.85%. Write-offs were insignificant at 1bp of loans, or INR77m, in 2QFY22. MUTH auctioned INR2.7b worth of Gold loans (~50bp) in 2QFY22.
- NPAs in Gold financing are largely technical in nature, without any significant write-offs. This deterioration – with gold prices remaining stable in 2QFY22 – suggests that MUTH is granting its customers (who would have perhaps borrowed at the peak of gold prices in Aug-Sep'20) leeway to repay their loans rather than rushing to auction the gold.
- Stage 2 was relatively elevated ~11%. The management said it is taking concerted efforts to improve Stage 2 loans.
- Credit cost at ~55bp (as a percentage of average AUM) was INR744m (est. INR400m).

Margin improves even as liquidity on the Balance Sheet was elevated

- Yields (calculated) rose 40bp QoQ to ~21%, while CoB declined by 25bp QoQ to 8.1%. This led to spreads improving by 65bp QoQ to 12.9%.
- NIM (calculated) grew 60bp QoQ to 13.76%, despite liquidity on the Balance Sheet remaining elevated.

Highlights from the management commentary

- Demand has improved and should allow MUTH to grow reasonably to achieve its guided levels of 15% YoY growth in Gold loans.
- Quantum of Gold loan auctions stood at INR2.7b in 2QFY22. Gold auctions were spread out throughout FY22. MUTH does not lose any money in the auctions. It only auctions the gold when the borrower is in default and does not want to take back his gold ornaments.
- Operating costs cannot fall drastically since there are a lot of fixed cost elements. As MUTH continues to grow its AUM, there will be operating leverage benefits, which will continue to accrue, albeit at a slower pace than in the recent past.
- After the COVID-19 outbreak, MUTH is maintaining higher levels of liquidity on its Balance Sheet. The same will continue for the next few quarters. It endeavors to pare down the excess liquidity on its Balance Sheet.

Valuation and view

- Although MUTH has reported a deterioration in asset quality over the past two quarters, it does not pose a significant concern. MUTH has aggressively avoided auctioning of gold until now. This is driven by MUTH's inherent philosophy of granting customers time to repay their loans, rather than rushing to auction their gold. Gold prices have remained stable for the last two quarters, but the risk of a default by customers (who would have borrowed at the peak of gold prices in Aug'20) persists.
- With normalcy restored and resumption of business activity after the lifting of COVID-related restrictions, demand for Gold loans has rebounded as customers opted for immediate access to financing as their own cash flows were stressed. We expect MUTH to deliver ~15% loan growth over the medium term. With an AA+ rating, cost of funds is likely to decline further in coming quarters. This should mitigate yield pressures, if any.
- RoA/RoE is likely to remain robust (6%/23%) over the medium term. Our EPS estimates are largely unchanged. We reiterate our Buy rating with a TP of INR1,900/share (3.1x Sep'23E BVPS).

Quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Income from operations	23,160	25,066	27,168	27,891	26,837	27,920	29,092	30,422	1,03,285	1,14,271	28,045	
Other operating income	691	768	480	348	301	385	425	490	2,287	1,601	600	
Total Operating income	23,851	25,834	27,649	28,239	27,138	28,304	29,517	30,912	1,05,572	1,15,872	28,645	-1
YoY Growth (%)	28.4	20.9	19.1	17.6	13.8	9.6	6.8	9.5	21.1	9.8	10.9	
Other income	3	11	116	42	11	29	30	40	171	110	20	
Total Income	23,854	25,845	27,765	28,281	27,149	28,333	29,547	30,952	1,05,744	1,15,982	28,665	-1
YoY Growth (%)	28.3	20.7	19.6	17.7	13.8	9.6	6.4	9.4	21.2	9.7	10.9	
Interest Expenses	8,715	9,241	9,455	9,513	9,822	9,794	10,088	10,489	36,924	40,193	10,313	-5
Net Income	15,139	16,603	18,309	18,768	17,327	18,539	19,459	20,463	68,819	75,789	18,352	1
Operating Expenses	3,738	4,496	4,410	5,160	3,989	4,397	4,498	5,187	17,804	18,072	4,676	-6
Operating Profit	11,400	12,107	13,900	13,608	13,338	14,142	14,961	15,276	51,015	57,717	13,676	3
YoY Growth (%)	39.0	12.7	20.1	23.5	17.0	16.8	7.6	12.3	22.8	13.1	13.0	
Provisions	146	107	585	111	337	744	600	455	950	2,135	400	86
Profit before Tax	11,255	12,000	13,314	13,496	13,001	13,398	14,361	14,821	50,065	55,582	13,276	1
Tax Provisions	2,847	3,056	3,401	3,540	3,290	3,458	3,662	3,819	12,843	14,229	3,359	3
Net Profit	8,408	8,944	9,914	9,957	9,712	9,940	10,699	11,002	37,222	41,353	9,917	0
YoY Growth (%)	58.6	4.2	21.6	22.1	15.5	11.1	7.9	10.5	23.3	11.1	10.9	
Key Operating parameters (%)												
Yield on loans (Cal.)	23.0	23.4	22.7	21.9	20.6	21.0	20.9	20.7	21.4	19.8		
Cost of funds (Cal.)	9.2	9.1	8.5	8.2	8.4	8.1	8.1	8.2	8.9	8.2		
Spreads (Cal.)	13.9	14.3	14.2	13.7	12.3	12.9	12.7	12.6	12.5	11.6		
NIM (Cal.)	14.6	15.0	15.0	14.6	13.2	13.8	13.8	13.7	13.7	12.8		
Credit Cost	0.1	0.1	0.5	0.1	0.3	0.6	0.4	0.3	0.2	0.4		
Cost-to-Income Ratio	24.7	27.1	24.1	27.5	23.0	23.7	23.1	25.3	25.9	23.8		
Tax Rate	25.3	25.5	25.5	26.2	25.3	25.8	25.5	25.8	25.7	25.6		
Balance Sheet parameters												
AUM (INR b)	413	470	504	526	526	551	580	614	541	614		
Change YoY (%)	15.3	31.6	30.9	26.5	27.4	17.3	15.0	16.6	26.9	13.5		
Gold loans (INR b)	405	462	497	519	521	547						
Change YoY (%)	15.1	32.3	31.7	27.4	28.6	18.3						
Gold Stock Holding (In tonne)	165	163	166	171	171	178						
Avg. gold loans per branch (INR m)	89	100	107	112	113	118						
Borrowings (INR b)	389	422	466	460	478	488	504	524	459	524		
Change YoY (%)	38.2	48.4	42.8	23.6	23.0	15.6	8.3	14.0	23.7	14.1		
Borrowings Mix (%)												
Listed secured NCDs	23.2	25.6	28.5	29.5	27.8	26.2						
Term loans	40.3	42.0	41.9	43.1	43.6	46.9						
Commercial Paper	12.7	11.2	10.6	8.4	9.1	8.0						
Others	4.4	3.7	3.2	3.2	3.9	3.7						
Debt/Equity (x)	2.6	2.7	2.8	2.7	2.7	2.3						
Asset Quality Parameters (%)												
GS 3 (INR m)	10,553	5,920	6,568	4,641	6,408	10,213			4,641	6,804		
Gross Stage 3 (as a percentage of Assets)	2.6	1.3	1.3	0.9	1.2	1.9			0.86	1.11		
Total Provisions (INR m)	8,492	8,590	9,162	9,211	9,455	10,129						
Return Ratios (%)												
RoAUM (Rep.)	8.1	8.1	8.1	7.7	7.4	7.4			6.5	6.0		
RoE (Rep.)	28.2	28.1	29.0	27.1	28.2	25.0			27.8	24.4		

E: MOFSL estimates



Highlights from the management commentary

Business updates

- Consolidated AUM stood at INR609b, up 17% YoY.
- ATS in Gold loans is largely stable at INR62k v/s INR60k about a year ago.

Demand outlook

- Demand has improved and should allow MUTH to grow reasonably to achieve its guided levels of 15% YoY growth in Gold loans.
- The management sees a lot of potential for Gold loans and expects the market to expand. It expects customers, who are reluctant to borrow against their Gold holdings, to come forward and avail Gold loans.

Spreads and margin

- The management expects NIM to be in the 12-13% range.
- Average yields can increase/decrease by 100-200bp on a QoQ basis. Rate fluctuation and reduction that happens is because of various schemes and rebates, which are offered to the customer.

Auctions

- Quantum of Gold loan auctions stood at INR2.7b in 2QFY22.
- Gold auctions were spread out throughout FY22. MUTH does not lose any money in the auctions. It only auctions the gold when the borrower is in default and does not want to take back his gold ornaments.

OPEX and branches

- Operating costs cannot fall drastically since there are a lot of fixed cost elements. As MUTH continues to grow its AUM, there will be operating leverage benefits, which will continue to accrue, albeit at a slower pace than in the recent past.
- In the last two years, MUTH has opened a few branches and rationalized/merged a few existing branches. So, the net addition to branches over the last two years appears low.
- MUTH will continue to add branches as and where necessary, with prior approval from the RBI.

Guidance

- The management expects at least 5% QoQ growth over the next two quarters and 15% in FY22.
- Gold loan is a niche market for NBFCs. It is confident of exhibiting growth, despite the competition.
- The management's ultimate focus is to increase leverage to reasonable levels of 5x. It will take some time to reach there as Gold loans are Retail loans and this book cannot be built overnight.

Asset quality

- Stage 2 stood at INR61.53b (~11%). Just because an account is an NPA, it does not mean that MUTH will lose money on that loan. The management is taking steps to bring down the elevated levels of Stage 2 assets.

Liabilities and liquidity

- After the COVID-19 outbreak, MUTH is maintaining higher levels of liquidity on its Balance Sheet. It will gradually think about reducing its cash holding, but will continue to maintain higher levels of liquidity over the next few quarters. It endeavors to pare down the excess liquidity on its Balance Sheet.
- CPs at any point of time stand at INR40-50b. Bank loans are floating rate and linked to MCLR. Term loans from Banks have a reset on an annual basis. Secured NCDs are at a fixed rate.

Subsidiaries

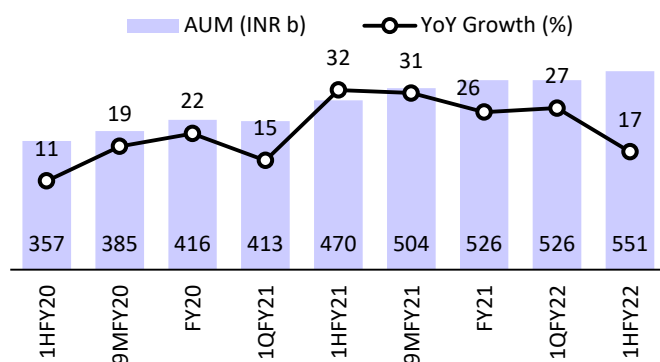
- GNPA in Vehicle Finance stood at 12.9%.
- Lending has started in Muthoot Money and Muthoot Homefin. Both these subsidiaries will start exhibiting growth now that disbursements have resumed.

Others

- Interest accrued stood at INR23.84b.
- On a daily basis, incremental average LTV is in the 70-71% range.
- MUTH has been offering teaser Gold loan rates at 0.57% per month (6.9% per annum). It keeps offering such teaser rates to borrowers to compete with other lenders.
- Around 80% of MUTH's borrowers are repeat customers. It keeps reminding its customers of its speedier and better service.
- The management has not undertaken any study to find out what proportion of inactive customers have migrated to other NBFCs/Banks. Borrowers, if at all they migrate, move primarily to Banks for Gold loans.
- Every Bank is upping the game in Gold loans. While this segment is very attractive, the management said it is operationally very challenging to operate a Gold loan franchise as the scale increases. MUTH has already crossed that hump in terms of scale.

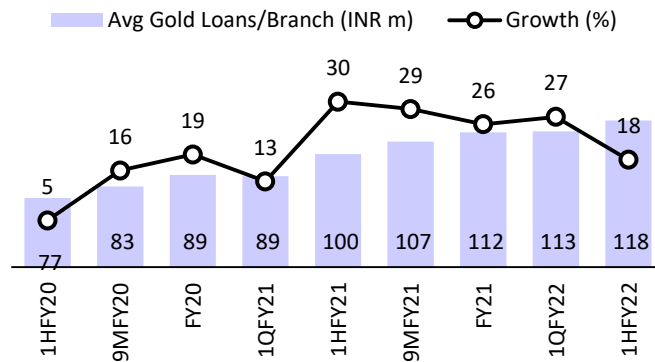
Key exhibits

Exhibit 1: AUM increases in line with an increase in tonnage



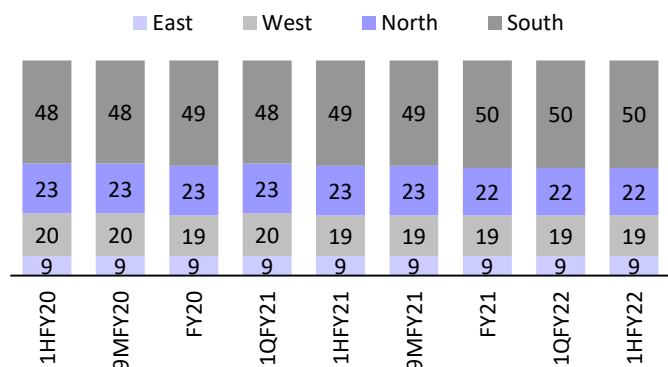
Source: MOFSL, Company

Exhibit 2: Trend in productivity



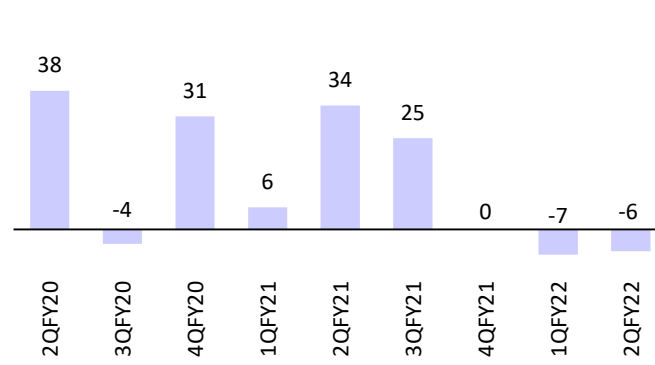
Source: MOFSL, Company

Exhibit 3: AUM mix (%) largely stable



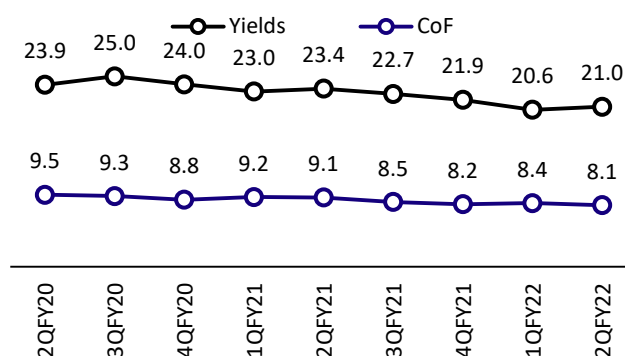
Source: MOFSL, Company, Gold loan portfolio mix

Exhibit 4: MUTH adopts a cautious branch expansion strategy



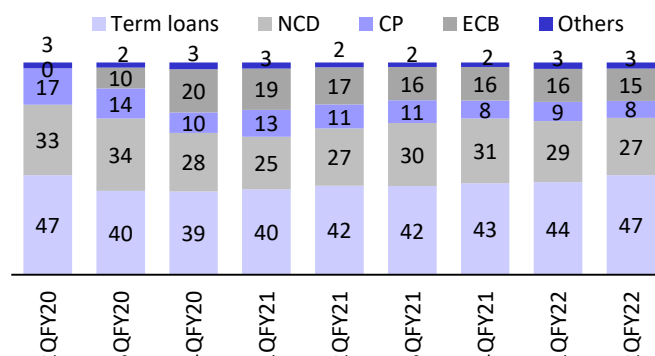
Source: MOFSL, Company

Exhibit 5: Spreads (calculated) rose 65bp QoQ (%)



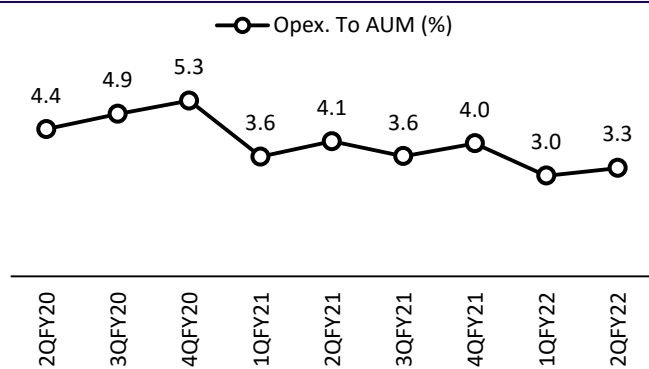
Source: MOFSL, Company

Exhibit 6: Share of NCDs reduce by ~170bp QoQ (%)



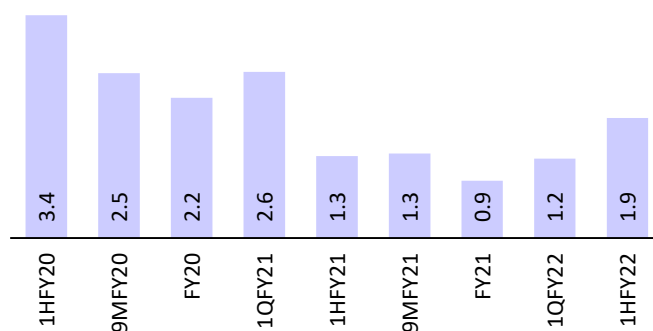
Source: MOFSL, Company, Borrowing mix%

Exhibit 7: OPEX/AUM fell ~80bp YoY



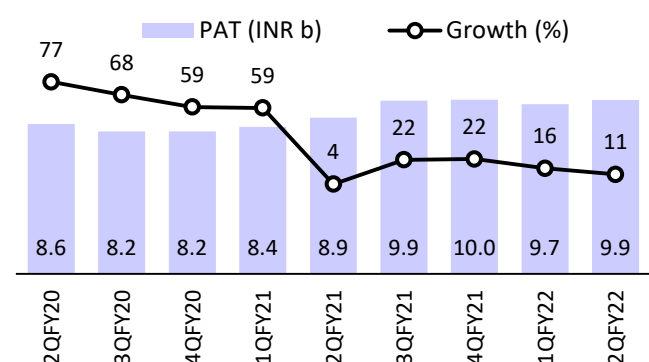
Source: MOFSL, Company

Exhibit 8: Deterioration in GNPA, largely technical (%)



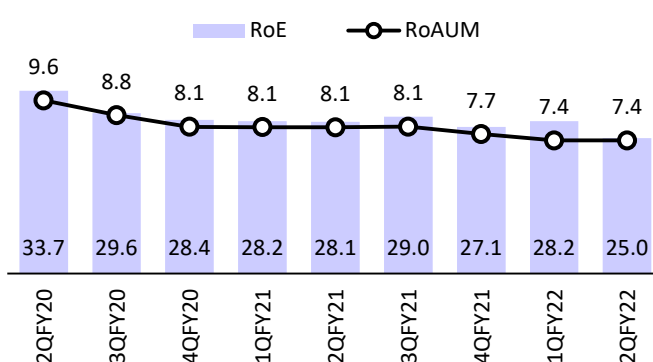
Source: MOFSL, Company

Exhibit 9: PAT grew 11% YoY



Source: MOFSL, Company

Exhibit 10: RoE declines to 25% with a reduction in leverage



Source: MOFSL, Company

Valuation and view

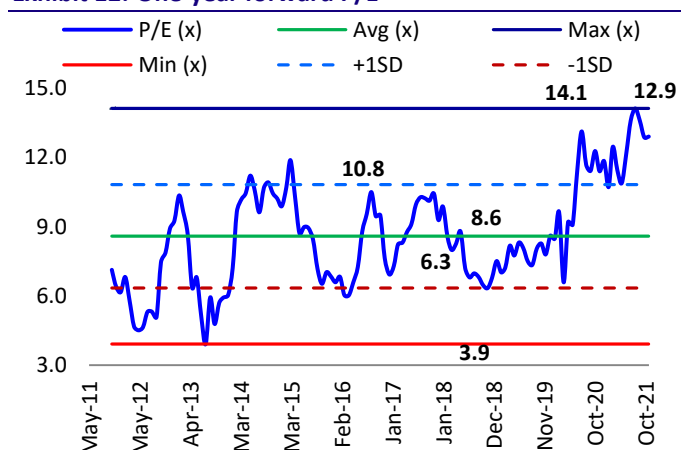
- Although MUTH has reported a deterioration in asset quality over the past two quarters, it does not pose a significant concern. MUTH has aggressively avoided auctioning of gold until now.
- This is driven by MUTH's inherent philosophy of granting customers time to repay their loans, rather than rushing to auction their gold. Gold prices have remained stable for the last two quarters, but the risk of a default by customers (who would have borrowed at the peak of gold prices in Aug'20) persists.
- Positive ALM and more than adequate liquidity on the Balance Sheet has helped MUTH access debt capital with relative ease. With an AA+ rating, MUTH will benefit on the cost of funds front. This should mitigate yield pressures, if any, arising from aggressive competition.
- We expect MUTH to deliver loan growth of ~17%/14% in FY22E/FY23E. RoA/RoE is likely to remain robust (6%/23%) over the medium term. Our EPS estimates are largely unchanged. We reiterate our Buy rating with a TP of INR1,900/share (3.1x Sep'23E BVPS).

Exhibit 11: Our EPS estimates are largely unchanged

INR b	Old estimate			New estimate			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
NII	75.0	85.5	98.8	74.1	84.8	99.2	-1.2	-0.8	0.4
Other Income	2.6	3.0	3.4	1.7	1.9	2.2			
Net Income	77.6	88.5	102.2	75.8	86.7	101.4	-2.3	-2.0	-0.8
Operating Expenses	19.6	22.5	25.9	18.1	20.8	23.8	-7.9	-7.9	-7.9
Operating Profit	58.0	65.9	76.3	57.7	66.0	77.6	-0.5	0.1	1.7
Provisions	1.4	1.6	1.9	2.1	2.1	1.9	47.7	27.4	-0.4
PBT	56.5	64.3	74.4	55.6	63.9	75.7	-1.7	-0.6	1.7
Tax	14.3	16.3	18.8	14.2	16.4	19.4	-0.5	0.5	2.9
PAT	42.2	48.0	55.6	41.4	47.5	56.3	-2.1	-1.0	1.3
Loans	616	703	808	614	700	804	-0.4	-0.4	-0.4
Borrowings	514	586	660	524	583	657			
Spread (%)	11.6	11.5	11.5	11.6	11.6	11.7			
RoA (%)	6.2	6.1	6.1	6.0	6.0	6.2			
RoE (%)	24.9	23.2	22.2	24.4	23.0	22.6			

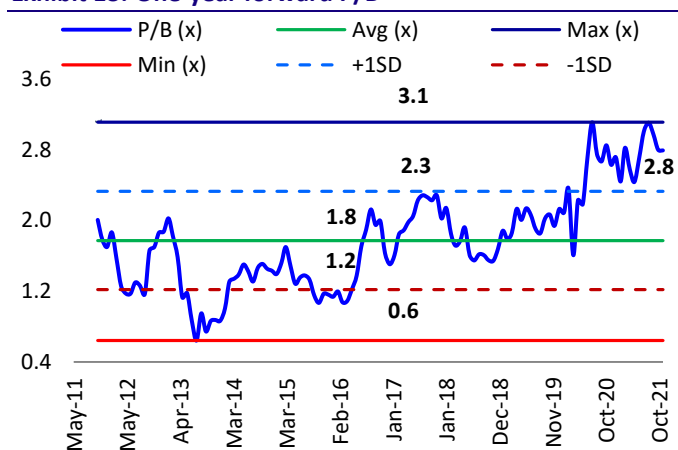
Source: MOFSL, Company

Exhibit 12: One-year forward P/E



Source: MOFSL, Company

Exhibit 13: One-year forward P/B



Source: MOFSL, Company

Financials and valuations

Income Statement									(INR m)
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	47,995	56,369	62,021	67,570	85,644	1,03,285	1,14,271	1,31,315	1,51,902
Interest Expense	22,577	22,938	19,314	22,368	27,909	36,924	40,193	46,511	52,685
Net Interest Income	25,418	33,431	42,707	45,202	57,735	66,361	74,078	84,804	99,218
Change (%)	17.9	31.5	27.7	5.8	27.7	14.9	11.6	14.5	17.0
Other income	755	1,098	1,310	1,236	1,584	2,458	1,711	1,941	2,217
Net Income	26,173	34,529	44,017	46,438	59,319	68,819	75,789	86,745	1,01,435
Change (%)	18.0	31.9	27.5	5.5	27.7	16.0	10.1	14.5	16.9
Operating Expenses	11,381	12,503	13,174	15,394	17,787	17,804	18,072	20,756	23,840
Pre Provision Profit	14,792	22,026	30,843	31,044	41,531	51,015	57,717	65,989	77,595
Change (%)	38.9	48.9	40.0	0.6	33.8	22.8	13.1	14.3	17.6
Provisions	1,624	2,816	2,397	275	957	950	2,135	2,101	1,880
PBT	13,168	19,210	28,447	30,768	40,574	50,065	55,582	63,888	75,715
Tax	5,072	7,411	10,671	11,047	10,391	12,843	14,229	16,355	19,383
Tax Rate (%)	38.5	38.6	37.5	35.9	25.6	25.7	25.6	25.6	25.6
PAT	8,096	11,799	17,776	19,721	30,183	37,222	41,353	47,533	56,332
Change (%)	20.7	45.7	50.7	10.9	53.0	23.3	11.1	14.9	18.5
Proposed Dividend	2,393	2,397	4,010	4,812	6,016	8,024	7,030	8,081	9,576

Balance Sheet									(INR m)
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	3,990	3,995	4,000	4,007	4,010	4,012	4,012	4,012	4,012
Reserves and Surplus	52,202	61,170	74,120	88,151	1,11,708	1,48,377	1,82,700	2,22,152	2,68,907
Net worth	56,192	65,164	78,120	92,158	1,15,718	1,52,389	1,86,712	2,26,164	2,72,919
Borrowings	1,85,670	2,09,855	2,11,670	2,68,332	3,71,300	4,59,463	5,24,461	5,82,939	6,56,698
Change (%)	-4.5	13.0	0.9	26.8	38.4	23.7	14.1	11.2	12.7
Other liabilities	28,625	32,112	18,132	20,198	17,578	22,798	26,217	30,150	34,672
Change (%)	27.2	12.2	-43.5	11.4	-13.0	29.7	15.0	15.0	15.0
Total Liabilities	2,70,487	3,07,131	3,07,923	3,80,687	5,04,597	6,34,649	7,37,390	8,39,252	9,64,289
Loans	2,45,241	2,74,242	2,95,068	3,49,329	4,26,042	5,40,634	6,13,619	6,99,526	8,04,455
Change (%)	4.2	11.8	7.6	18.4	22.0	26.9	13.5	14.0	15.0
Investments	983	2,091	3,954	9,826	14,383	15,903	17,493	19,242	21,167
Net Fixed Assets	2,274	2,182	1,922	1,867	2,227	2,416	2,657	2,923	3,215
Other assets	21,990	28,615	6,978	19,666	61,944	75,697	1,03,620	1,17,560	1,35,452
Total Assets	2,70,487	3,07,131	3,07,923	3,80,687	5,04,597	6,34,649	7,37,390	8,39,252	9,64,289

E: MOFSL estimates

Financials and valuations

Ratios	(%)								
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Spreads Analysis (%)									
Avg. Yield on loans	20.1	21.8	21.8	21.0	22.1	21.4	19.8	20.0	20.2
Avg. Cost of funds	11.9	11.6	9.2	9.3	8.7	8.9	8.2	8.4	8.5
Spreads on loans	8.2	10.2	12.7	11.7	13.4	12.5	11.6	11.6	11.7
NIM on AUM	10.6	12.9	15.0	14.0	14.9	13.7	12.8	12.9	13.2
Profitability Ratios (%)									
RoE	15.1	19.4	24.8	23.2	29.0	27.8	24.4	23.0	22.6
RoA	3.0	4.1	5.8	5.7	6.8	6.5	6.0	6.0	6.2
Cost-to-Income	43.5	36.2	29.9	33.2	30.0	25.9	23.8	23.9	23.5
Empl. Cost/Op. Exps.	56.4	61.1	59.4	58.3	57.8	56.5	59.0	59.1	59.2
Asset-Liability Profile (%)									
GNPL ratio (%)	2.2	2.8	4.4	2.7	2.2	0.9	1.1	1.1	1.2
Debt/Equity (x)	3.3	3.2	2.7	2.9	3.2	3.0	2.8	2.6	2.4
Average leverage	3.6	3.3	2.9	2.8	3.1	3.1	2.9	2.7	2.5
Valuations									
Book Value (INR)	140.8	163.1	195.3	230.0	288.5	379.8	465.4	563.7	680.3
Price-to-BV (x)					5.8	4.4	3.6	2.9	2.4
EPS (INR)	20.3	29.5	44.4	49.2	75.3	92.8	103.1	118.5	140.4
EPS Growth (%)	20.4	45.6	50.4	10.8	52.9	23.3	11.1	14.9	18.5
Price-to-Earnings (x)					22.1	17.9	16.1	14.0	11.8
Dividend	6.0	6.0	10.0	12.0	15.0	20.0	17.5	20.1	23.9
Dividend Yield (%)					0.9	1.2	1.1	1.2	1.4

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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