



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Q2FY22 saw a good growth traction compared with Q1FY22. Gold loan AUM grew 5% QoQ and 18% YoY to INR54700.
- Increased QoQ tonnage (178 tonnes), increased share of online gold loan customers (29.4% of total) assisted growth momentum.
- The total customers reached 8.8 million.

2. MANAGEMENT COMMENTARY:

- The company expect NIM to be in the 12-13% range.
- Good budget for sales and promotion.
- Employee cost should be at the same run rate as FY21.
- Company seeing cost of borrowing coming down.
- The management is taking steps to bring down the elevated levels of Stage 2 assets.
- The management expects at least 5% QoQ growth over the next two quarters and 15% in FY22.

3. SEGMENTAL ANALYSIS:

- Gold Loans is approximately 99% of the total Gross loan assets under management and the remaining 1% in other loans.

4. MANAGEMENT GUIDANCE

- Company currently operates 4,619 gold loan branches. Branch addition has averaged around 100 per annum in the last three years, partly slowed-down by the recent pandemic. The company targets to open 100-150 new branches per annum.
- Muthoot has become increasingly focused on driving loan growth to old, inactive customers in the recent quarters. Company targets >20mn of its old, inactive customers for driving new loans

5. GOLD LOAN INDUSTRY

- Banks and NBFCs are increasingly focused on North and East India to drive growth in their gold loan portfolios, and are opening gold loan branches in these regions.
- In the last few years banks and NBFCs launch new gold loan schemes and promote it aggressively to their customers via television and newspaper ads and offer of cheap lending rates.
- As COVID cases subside and recovery resumes, the demand for gold loans to remain strong as small businessmen, traders and shop-owners would turn to gold loans to meet the capital requirements for restarting their businesses.
- A significant share of gold lending is still done by informal moneylenders and local jewelers, who comprise around 65% of the total market (70-75% market share a decade back). Looking at the trend informal lenders to continue losing market share to banks and NBFCs given their lower lending rates, flexible loan products, rising branch penetration and improving customer awareness

6. VALUATION AND OUTLOOK:

- An average branch of 5-6 employees handles around 1800 loan accounts for Muthoot Finance. Increase in demand for gold loans as economy recovers, sales outreach to inactive clients and increased digitization of processes (e.g. online loan repayment, loan top-ups, etc.) is enabling these branches to handle a higher number of loan accounts.
- The average ticket size has grown at 15% CAGR in the past five years to reach Rs62k in FY21. This compares to an average ticket size of around Rs0.15-0.20mn reported by private sector banks for their gold loan portfolios. Muthoot's ticket size has room to grow at 8-10% per annum for the next three years to reach Rs82-85K.
- We value the company at 14.9x FY23 EPS to arrive at the target of 1910.

RECOMMENDATION - BUY

CMP - 1465

TARGET - 1910 (30%)

Industry	Finance - NBFC
NSE CODE	MUTHOOTFIN
BSE CODE	533398
Market Cap (₹ Cr)	57421.09
Shares Outstanding (in Cr)	40.13
52 wk High/Low (₹)	1721.95 / 1090
P/E	14.52
P/BV	3.48
Face Value (₹)	10.00
Book Value (₹)	416.73
EPS (FY21) (₹)	94.84
Dividend Yield (%)	1.66
Capital Adequacy Ratio	27.32

SHAREHOLDING PATTERN

	Sep'21	Jun'21	Mar'21
Promoters	73.37	73.40	73.40
Mutual Funds	7.13	6.89	5.84
FII/FPI	14.16	15.02	15.99
Retail & Others	4.20	3.86	4.02
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
Core			
Sales	11,531	13,080	15,400
Sales Gr. (%)	19.1	13.4	17.7
EBITDA	9,263	10,600	12,420
EBITDA Mrg. (%)	80.3	81.1	80.6
Adj. PAT	3804	4299.4	5125.24
Adj. EPS (₹)	94.83	107.48	128.13
EPS Gr. (%)	21.2	13.3	19.2
NII (Bn)	66.36	80.1	92.3
Ratios			
ROE (%)	27.8	26.7	27.2
ROCE (%)	15.5	15.1	15.3
ROA (%)	6.5	6.5	6.6
Valuation			
P/E (x)	15.1	13.8	34.45
P/BV (x)	3.78	2.9	3.3
EV/EBITDA (x)	10.7	10.6	10.7
Div. Yield (%)	1.35	1.4	2.2

	TTM	5 Yr. Average
Historical P/E	14.52	10.72
Industry P/E	40.22	
Historical P/B	3.48	2.40
Industry P/B	4.01	



(₹ Cr)

Source Of Funding	Q2FY22		Q1FY22		Q2FY21	
Secured Non-Convertible Debentures (Muthoot Gold Bonds)	241.7	0.49%	252.4	0.53%	289.6	0.69%
Secured Non-Convertible Debentures- Listed	12780.7	26.17%	13305.7	27.83%	10819	25.62%
Borrowings from Banks/FIs	22881.3	46.86%	20848.4	43.61%	17736.4	42.00%
External Commercial Borrowings- Senior secured Notes	7423	15.20%	7433	15.55%	7385.3	17.49%
Subordinated Debt -Listed	172	0.35%	172	0.36%	277.5	0.66%
Commercial Paper	3928.2	8.04%	4360.5	9.12%	4729	11.20%
Other Loans	1404	2.88%	1439.9	3.01%	995.6	2.36%

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY20		FY21				FY22			FY22E*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3E	
Income	2,588	2,630	2,604	2,821	3,001	3,104	2956	3052	3150	13,230
YoY change (%)	36%	26%	26%	18%	16%	18%	13%	8%	12%	15%
Expenses	616	624	469	536	600	662	553	620	595	2,480
EBITDA	1973	2006	2135	2285	2401	2442	2403	2,432	2555	10,750
Margins (%)	76%	76%	82%	81%	80%	79%	81%	81%	81%	81%
YoY growth (%)	30%	30%	33%	21%	22%	22%	13%	6%	12%	16%
Depreciation	16	17	14	16	17	20	15	16	15	68
Interest	810	864	972	1028	1049	1051	1086	1077	1120	4438
PBT	1153	1128	1151	1244	1351	1385	1310	1351	1,420	6,244
Tax Rate (%)	25%	26%	26%	25%	25%	26%	25%	25%	25%	25%
Adjusted PAT	853	829	854	926	1005	1020	978	1003	1065	4683
YoY change (%)	66%	53%	54%	3%	18%	23%	15%	8%	15%	23%

Source: Company, Hem Securities Research.

EWS*Insights into the assumptions:

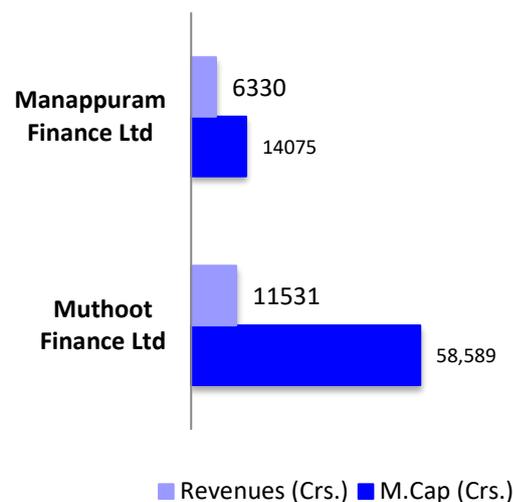
- 1> Revenue has shown an increasing trend, with new branch expansion.
- 2> Company main customers are under-banked borrowers who are unlikely to receive much attention from banks.
- 3> We expect EBITDA margins to stay in line.
- 4> PAT margins are expected to improve in the coming quarters as company recently got there credit rating upgrade which will help them in their funding cost.
- 5> With Covid cases subsiding and recovery resuming, the demand for gold loan to remain strong.
- 6> Looking at the past trend informal gold loan lenders to lose market share to bank and NBFC in the coming years.
- 7> Company continuously focusing on driving loan growth to old and inactive customers.
- 8> Average ticket size to grow in the coming years looking at the past trend.



INDUSTRY OVERVIEW

- Overall we expect organized gold loan industry to deliver around an avg. 17% per annum growth in the next 4-5 years on account of 1) better acceptability among customers, particularly other than south India 2) market share shift from informal lenders to formal lenders who still holds 60-65% of the market 3) stable gold loan prices in the longer term horizon 4) aggressive promotion done by major banks and NBFC in the recent years would help to expand formal gold loan market.
- Due to COVID wave 2.0 we can see a healthy demand for gold loans in the coming quarters as under-banked households and small business owners pledged their personal gold jewelry to secure gold loans for urgent liquidity needs (e.g. hospital bills, working capital, etc.)
- Gold Loan is considered the safest secured lending product as LTV is capped at 75% with tenor of loan majorly less than 1 year. Basically collateral which the Bank and NBFC procure are in the form of gold jewelry which is considered extremely liquid. As a result we can see the expected loss or credit cost at low value.

KEY PLAYERS



PEER PERFORMANCE

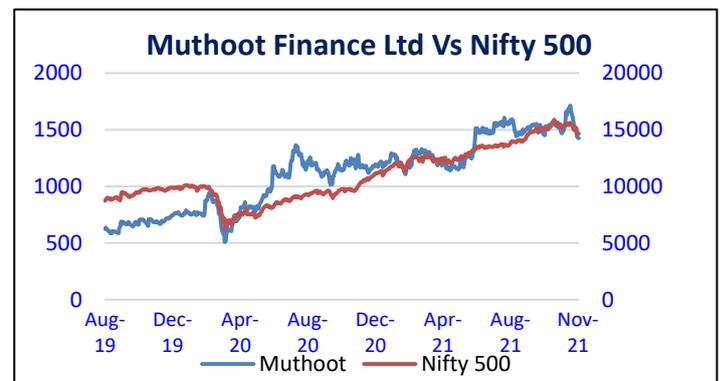
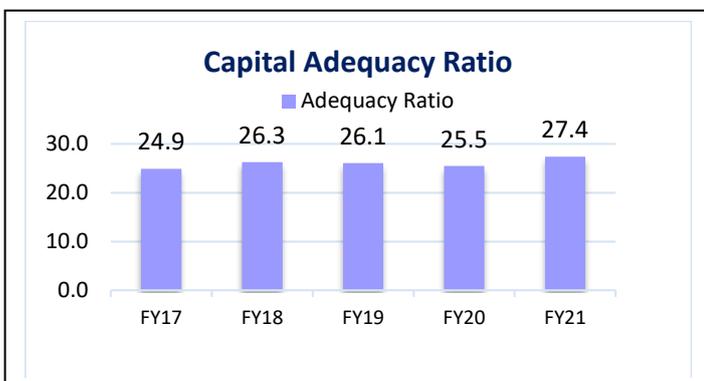
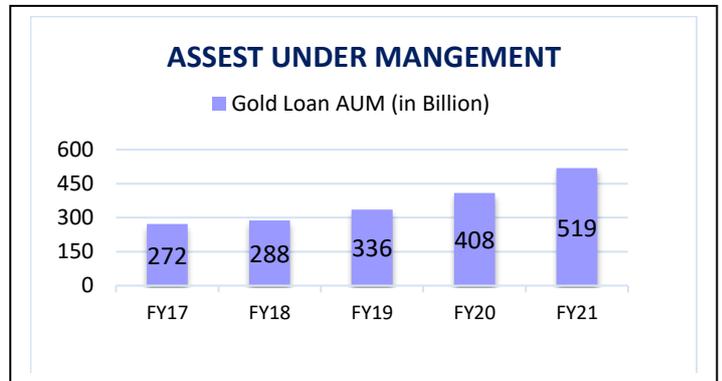
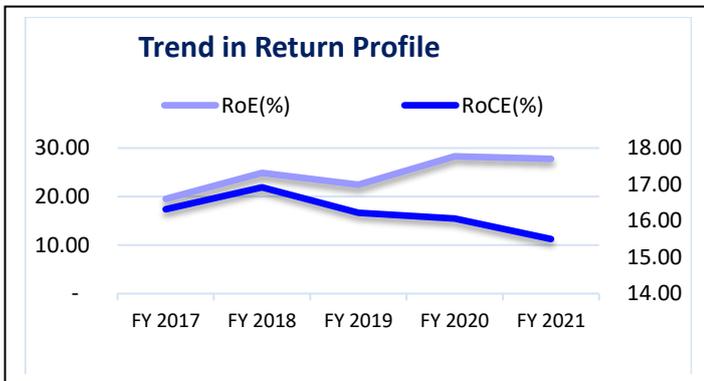
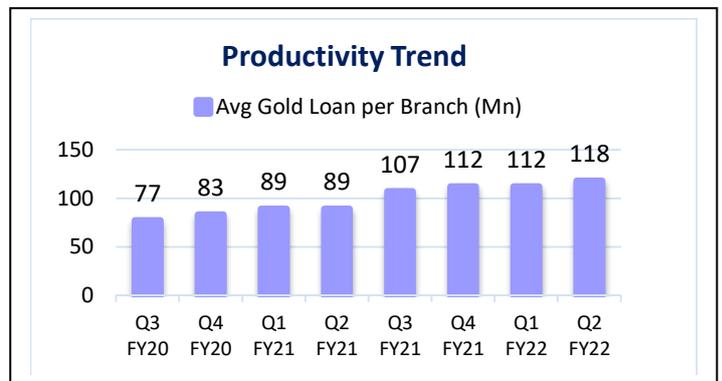
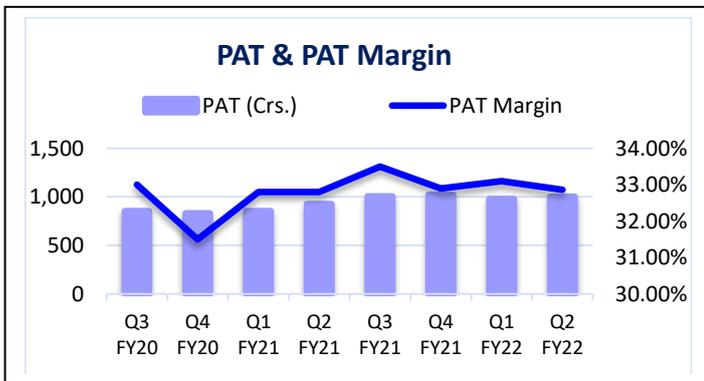
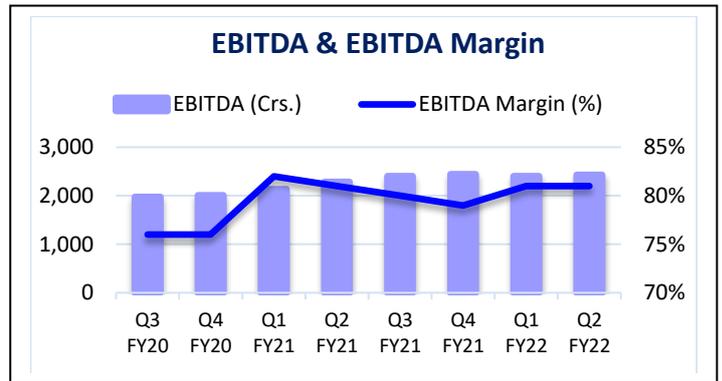
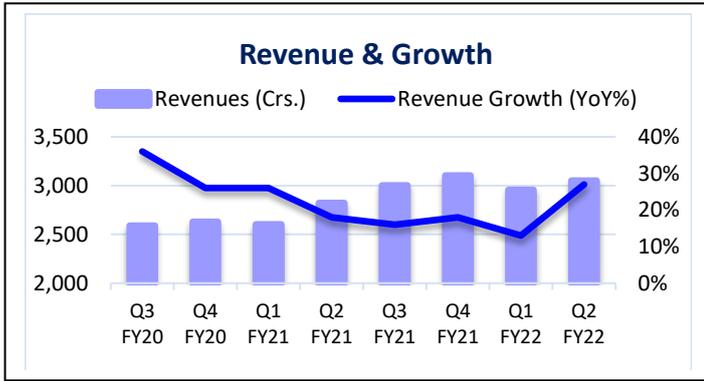
(₹ Cr)

Particulars	Muthoot Finance Ltd.	Manappuram Finance Ltd.
Market Cap	58589	14075
Net Sales	11530.8	6330.5
EBITDA	9271.8	4661.5
PAT	3818.9	1725.0
EPS(Rs)	94.8	20.4
EBITDA MARGIN %	80.7	74.3
PAT MARGIN %	33.1	27.2
ROCE %	15.6	15.5
ROE %	27.9	26.6
P/E	14.5	7.9
P/B	99.8	20.8
EV/EBITDA	3.5	1.7
Dividend Yield %	1.4	0.8
MCap/ Sales	4.8	2.2

Source: Company, Hem Securities Research.

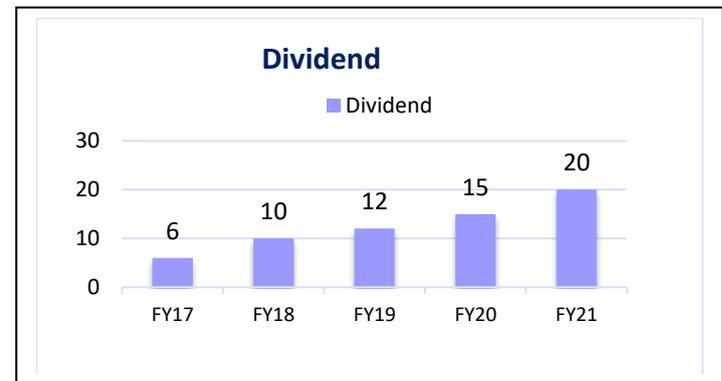
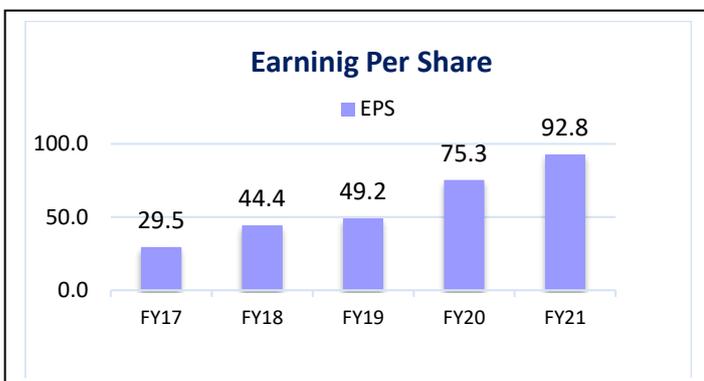
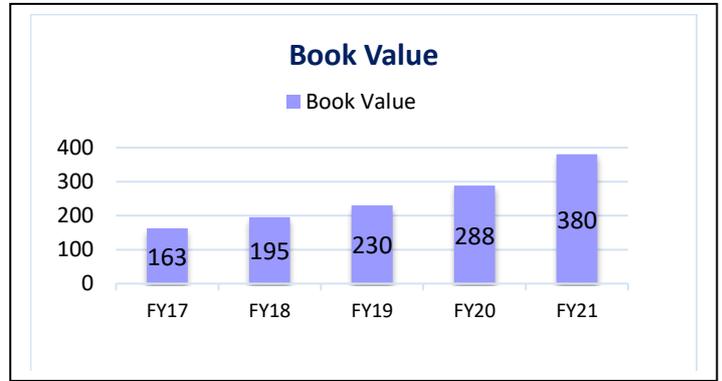
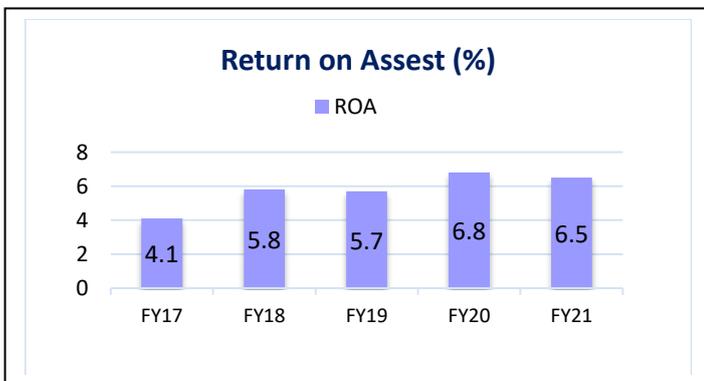
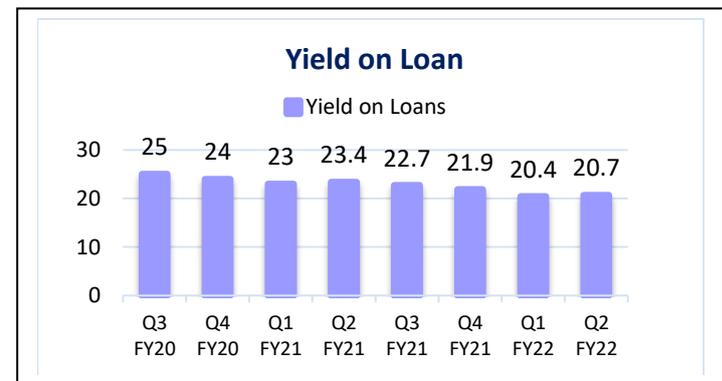
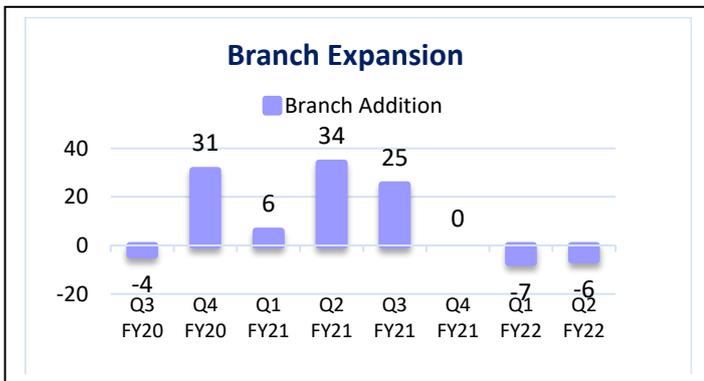
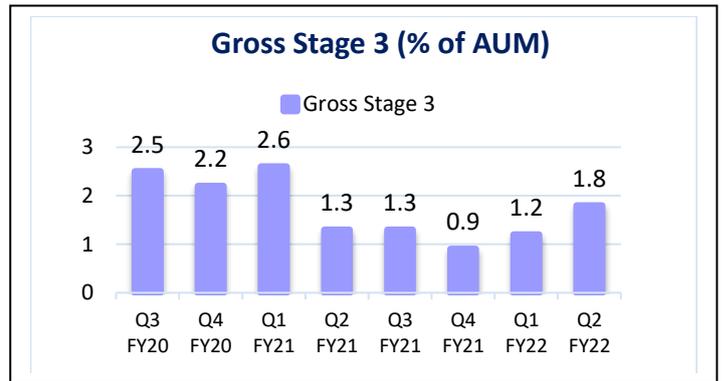
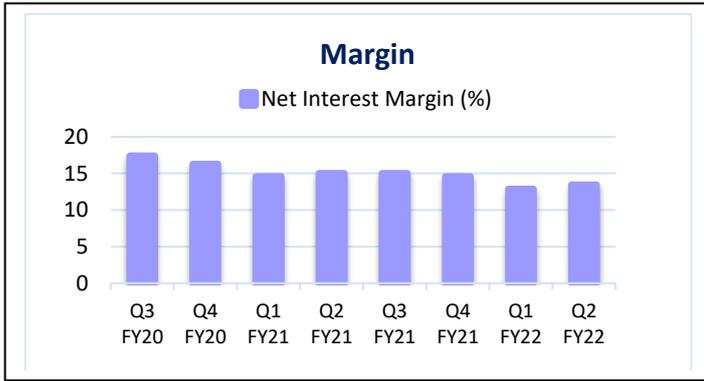


STORY IN CHARTS





STORY IN CHARTS





INVESTMENT RATIONALE:

- Leading gold NBFCs like Muthoot Finance have between 3.5-4.5k branches spread across India, much higher than other NBFCs and small private banks and eclipsed only by some of the largest banks in India. We expect the large extensive branch network and a large number satisfied customers (drives repeat business) is a key source of competitive edge for the specialized gold NBFCs.
- Specialized gold loan NBFCs have decades of operating history and consistently spend a large portion of their total incomes on advertising and promotions to build their brands and win customer trust. Gold loans is one of the lending categories where consumer trust is very important. This happens because the borrower has to pledge his or her gold ornaments worth Rs100 to avail a gold loan worth Rs75. The ornaments also carry emotional value for the borrowers. Hence, borrowers are inclined to pledge their ornaments to a trusted entity.
- Better acceptability seen among people in North and East India, who earlier considered it a social stigma to pledge their personal jewelry.
- A large number of satisfied customers (>20mn clients), act as repeat customers and spread word-of-mouth publicity. Company aggressively focus on driving loan growth to old, inactive customers in the recent quarters.
- Muthoot has a proven track record of delivering sector-leading ROEs, scaling its gold loan book at above industry growth rates, and keeping credit costs at low rate.

RISK FACTORS:

- Changes in domestic gold prices have an impact on the near-term growth in Muthoot's AUM as higher gold prices allow customers to borrow more against their collateral and vice versa. A significant decline of more than 15% in gold prices could impact Muthoot's AUM near-term growth negatively.
- The permissible loan to value (LTV) in gold lending is capped at 75% by the Reserve Bank of India. Any adverse changes related to the defined LTV or upper caps on lending rates/ NIMs could impact the company negatively.
- Higher than expected increase in competitive intensity could impact company growth estimates negatively. Gold loan industry has attracted interest from several large banks and NBFCs in the last 1-2 years large margin.

COMPANY RECAP

- Muthoot Finance is India's largest gold financing NBFC based on AUM. It began operation in 1939 from the Southern state of Kerala. Over the last decade, it has expanded to become a pan-India player with 40% of its branches and 50% of its loan book located outside of South India.
- 90% of Muthoot's consolidated loan book relates to gold loans, wherein it offers small ticket loans to small businessmen, traders and shopkeepers in suburban India. The average ticket size of its loans is Rs62k (or, US\$835) and the average tenure is around 6 months. These loans are fully collateralized against personal gold ornaments pledged by the borrowers, with a maximum permissible loan-to-value ratio of 75%.
- In recent years, Muthoot Finance has invested some of its excess capital to grow into related lending areas such as affordable housing, vehicles finance and microfinance. Majority of these endeavors are currently small and focused on secured lending to under-banked, bottom-of-the-pyramid borrowers.
- The company is led by Mr. George Alexander Muthoot, who is the Managing Director and part of the promoter family. The promoter family together owns 73.56% share of the company.



ANNUAL PERFORMANCE

Financials & Valuations						
Income Statement	(₹ Cr)					
Y/E March	2018	2019	2020	2021	2022E	2023E
Revenue from operations	6,713	7,594	9,687	11,531	13,080	15,400
Growth YoY (%)	13.6	13.1	27.6	19.1	13.4	17.7
Total Expenditure	1,656	1,747	2,214	2,268	2,480	2,980
(%) of sales	24.7	23.0	22.9	19.7	18.9	19.3
EBITDA	5,057	5,847	7,473	9,263	10,600	12,420
EBITA Growth (%)	16.9	14.2	28.1	23.9	14.4	17.1
EBITA Margin (%)	76.4	77.1	77.4	80.3	81.1	80.6
Depreciation	52	52	59	67	60	75
Finance Cost	2,132	2,543	3,180	4,100	4,750	5,445
Other Income	69	6	26	36	20	26
Earnings before Taxes	2,942	3,260	4,260	5,131	5,810	6,926
Rate of tax (%)	37.33	35.48	25.62	26	26	26
Net Profit	1,844	2,103	3,169	3,804	4,299.4	5,125.24
PAT Growth (%)	52.7	14.1	50.7	20.1	13	19.2
PAT Margin (%)	27.5	27.7	32.7	33.0	32.8	33.2
EPS	45.74	51.86	78.25	94.83	107.48	128.13
EPS Growth (%)	52.3	13.4	50.9	21.2	13.3	19.2

Source: Company, Hem Securities Research.

Balance Sheet					
	(₹ Cr)				
Y/E March	2017	2018	2019	2020	2021
Share Capital	399	400	401	401	401
Reserves	6,139	7,457	9,531	11,428	15,174
Net Worth	6,538	7,857	9,932	11,829	15,575
Borrowings	22,177	23,891	30,128	40,952	50,414
Other Liabilities	3,469	1,925	1,675	2,085	2,652
Total Liabilities & Equity	32,184	33,673	41,735	54,866	68,641
Fixed Assets	257	251	259	314	327
CWIP	10	6	23	29	38
Investments	97	177	211	630	809
Other Assets	31,820	33,239	41,242	53,893	67,467
Total Assets	32,184	33,673	41,735	54,866	68,641

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2017	2018	2019	2020	2021
Profitability and return ratios					
Net profit margin (%)	20.42	27.47	27.69	32.71	33
EBITDA margin (%)	74.18	76.36	77.08	77.41	80.3
ROE (%)	19.93	25.69	23.69	29.16	27.8
ROCE (%)	16.29	16.78	16.16	16.03	15.5
ROA (%)	4.1	5.8	5.7	6.8	6.5
Key Performance Indicator					
Gold Loan AUM (in Billion)	272	288	336	408	519
AUM Growth (%)		5.9	16.7	21.4	27.2
Region wise Portfolio Diversification					
East Region (%)	7	8	8	9	9
West Region (%)	18	19	20	19	19
North Region (%)	23	23	23	23	22
South Region (%)	52	50	49	49	50
Gold Jewellery as Security (in Tonnes)	149	155	169	176	171
Margin of Safety on Loans (%)	33	34	32	42	25
No. of Active Customers (in Million)	-	-	4.72	4.93	5.19
Net Interest Margin (NIM %)	12.74	15.29	14.47	15.52	14.24
Stage 3 Loan Assets	2.79	4.42	2.72	2.16	0.88
Valuations Ratios					
EV/sales (x)	6.0	5.9	6.9	6.1	8.9
EV/EBITDA (x)	8.0	7.7	9.0	7.9	10.7
P/E (x)	12.3	8.9	11.9	7.8	15.1
P/BV (x)	2.3	2.1	2.5	2.1	3.78
Dividend Yield (%)	1.6	2.5	1.9	2.5	1.35

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
01-Dec-2021	BUY	1910

DISCLAIMER

HEM Securities Limited (“Research Entity or HSL”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation 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 his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form 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 HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (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 subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

ANALYST CERTIFICATION/ DISCLOSURE OF INTEREST

Name of the Research Analyst: Madhur Mandhana

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

SN	Particulars	Yes/No
1.	Research Analyst or his/her relative's or HSL's financial interest in the subject company(ies)	No
2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.