

February 15, 2022

Q3FY22 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,714		1,905	
NII (Rs.)	90,785	107,014	90,785	107,014
% Chng.	-	-	-	-
PPoP (Rs.)	69,312	81,123	69,312	81,123
% Chng.	-	-	-	-
EPS (Rs.)	126.3	147.9	126.3	147.9
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Int.Inc. (Rs m)	66,361	76,957	90,785	107,014
Growth (%)	14.9	16.0	18.0	17.9
Op. Profit (Rs m)	51,015	59,151	69,312	81,123
PAT (Rs m)	36,390	42,946	50,680	59,352
EPS (Rs.)	90.7	107.0	126.3	147.9
Gr. (%)	20.5	18.0	18.0	17.1
DPS (Rs.)	20.0	15.0	16.0	16.0
Yield (%)	1.5	1.1	1.2	1.2
Margin (%)	14.0	13.6	13.8	13.8
RoAE (%)	23.9	22.8	21.9	20.9
RoAA (%)	6.4	6.3	6.2	6.1
PE (x)	14.9	12.7	10.7	9.2
P/BV (x)	3.6	2.9	2.3	1.9
P/ABV (x)	3.6	3.0	2.4	2.0

Key Data

MUTT.BO | MUTH IN

52-W High / Low	Rs.1,723 / Rs.1,120
Sensex / Nifty	56,406 / 16,843
Market Cap	Rs.544bn/ \$ 7,194m
Shares Outstanding	401m
3M Avg. Daily Value	Rs.1086.16m

Shareholding Pattern (%)

Promoter's	73.37
Foreign	13.67
Domestic Institution	8.48
Public & Others	4.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.7)	(6.6)	3.1
Relative	(0.9)	(8.2)	(5.8)

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Mixed performance

Quick Pointers:

- Auction at Rs28000mn i.e. 5% of total AUMs.
- Management cautious on Home Finance, Vehicle Finance and Personal Loan segment.

MUTH recorded a flat loan growth (QoQ and 8.5% YoY) at Rs 546bn. Despite underlying asset price fluctuations and flat customer accretion (fresh loans from new customers) led by third wave challenges, MUTH maintained sequential steady traction in tonnage movement. Asset quality marginally deteriorated (Stage 3: 3.82% vs 1.85%: Q2FY22) largely due to higher disbursements in Q3FY21 (when gold prices were at peak) and restructuring. There was no impact on asset quality due to RBI circular. Auction value at Rs28000mn (5% of gold loans) inched up during the quarter.

We have maintained our EPS estimates and our confidence stands reinforced by (a) healthy CAR (~30%) (b) healthy 18% AUM CAGR backed by customer accretion and (c) superior asset quality (<1.5%GNPA) translating into high RoA/RoE 6.2%+/21-22% resp. over FY22-FY24. Our core book multiple stands at 2.7x PABV Sep'23E. Subsequently our SoTP now stands at Rs. 1,714 (standalone: Rs1,699 & subsidiary: Rs14). We reiterate BUY.

- **Loan growth flat QoQ; expect 18% AUM CAGR:** MUTH recorded flat loan growth at Rs546bn growing 8.5% YoY, led by strong 9% YoY growth in gold loans at Rs542bn. Flat QoQ tonnage (178 tonnes), increased share of online gold loan customers (31.8% of total) aided growth momentum. The third wave impacted later part of Q3FY22 due to which active customers registered de-growth of 1.5% QoQ and fresh loans to inactive & new customers decreased 7% QoQ. Branch productivity remained intact. On the subsidiaries business front, vehicle finance and home finance reported 16%/4% QoQ de-growth for Q3FY22. Medium term should see Co.'s continued focus on core business. We envisage healthy 18% AUM CAGR over FY22-24 for consolidated book.
- **Asset quality blip temporal; subs account for < 9% of overall AUMs:** Gold loan business that contributes >90% to overall AUMs of the Co. registered 3.82% GNPA. Such a spike was a result of higher disbursements in Q3FY21 (when gold prices were at peak) and restructuring. Stage 2 at 6% is already showing signs of repayments. While asset quality deterioration was higher than usual, this phenomenon is temporal in nature and as pandemic challenges recede, Co. stands confident to improve the same at 2-3% levels. Co. made provision buffer to tackle subsidiaries book and auction value at Rs28000mn (~5% of gold loans). Subsidiaries also witnessed a deterioration in asset quality on QoQ basis. While non-gold share forms <10% of overall business, it does not move the needle on quality and profitability of consolidated book. We, therefore, maintain our NPA forecasts at 1.5%/1.2%/1% over FY22/23/FY24.

PAT at Rs 10.2bn stood almost in line with our estimates [PLe of Rs 10.5bn] grew 3.5%QoQ / 3.8% YoY.

NII at Rs 18.8bn stood broadly in-line [PLe of Rs 19.0bn] grew 4.1%QoQ / 6.5%YoY.

Opex at Rs 4.5 bn stood in-line [PLe at Rs 4.6bn] grew 2.8%QoQ and 2.5% YoY.

PPoP at Rs 14.6bn stood largely in-line [PLe of Rs 14.8bn] and was up by 3.7% QoQ / 5.5% YoY.

Provisions at Rs 889mn stood higher than our expectations [PLe: Rs 774mn] grew 19.5% QoQ and 51.9% YoY.

Loans at Rs 546bn stood lower than our estimates [PLe: Rs 570bn] registered a de growth of 0.8% QoQ and growth of 8.5% YoY. Gold loan book marginally de grew on QoQ basis.

Stage 3 assets spiked at 3.82% and stood higher than our estimates of 1.9%, also up from 1.85% in Q2FY22 and 1.3% in Q3FY21.

Exhibit 1: Q3FY22 Result Overview

Y/e March (Rs mn)	Q3FY22	Q3FY21	YoY gr.	Q2FY22	QoQ gr.
Income from Operations	28,394	27,168	4.5%	27,920	1.7%
Interest Expenses	9,533	9,455	0.8%	9,794	-2.7%
Net Interest Income	18,861	17,713	6.5%	18,125	4.1%
Other Income	324	596	-45.7%	414	-21.7%
Total Income	19,185	18,309	4.8%	18,539	3.5%
Total Operating Expenses	4,519	4,410	2.5%	4,397	2.8%
Operating Profit (PPP)	14,666	13,900	5.5%	14,142	3.7%
Provisions & Write Offs	889	585	51.9%	744	19.5%
PBT	13,777	13,314	3.5%	13,398	2.8%
Tax	3,488	3,401	2.6%	3,458	0.9%
Reported Profit	10,289	9,914	3.8%	9,940	3.5%
Balance sheet Details					
Borrowings	471,228	465,517	1.2%	488,309	-3.5%
AUM	546,876	503,907	8.5%	551,468	-1%
Asset Quality					
Gross NPAs	20,908	6,568	218.3%	10,213	104.7%
Gross NPA (%)	3.82%	1.30%	2.5%	1.85%	2.0%
ROE (%)	28.2%	29.0%	-0.7%	25.0%	3.2%
ROA (%)	8.1%	8.1%	-0.1%	7.4%	0.7%
NIM - calc	13.7%	14.5%	-0.8%	13.5%	0.3%
AUM (Rs mn)					
Gold Loan	542,149	496,225	9.3%	546,821	-0.9%
Other Loans	4,727	7,682	-38.5%	4,647	1.7%
AUM Mix (%)					
Gold Loan	99.1%	98.5%	0.7%	99.2%	0.0%
Other Loan	0.9%	1.5%	-0.7%	0.8%	0.0%

Source: Company, PL

Conference Call Highlights:

Management guidance:

- Q4FY22 expected to be better (with 9%+ growth) than Q3FY22. 15% AUM growth target maintained for next year.
- Spreads to maintain at current levels. CoF to decline by 15-20bps in next 6 months.
- Stage 3 assets to be 2-3% level.
- Management cautious on Home Finance, Vehicle Finance and Personal Loan segment.

Business Update:

- Small customers are re-starting their businesses, hence Co. will be able to maintain its growth momentum going forward. Business per branch has increased to Rs 110mn vs Rs 70-80mn earlier.
- Collections in MFI, HF and VF loan have improved on QoQ basis.
- There was a significant increase in auctions during the quarter. Auctions were Rs 28000mn (~5% total AUM; ~4 lakhs customers) in Q3FY22 vs 0.4% in Q2FY22.
- Portfolio above Rs 3 lakh ticket size is at 20%.
- Cash on BS is ~12%

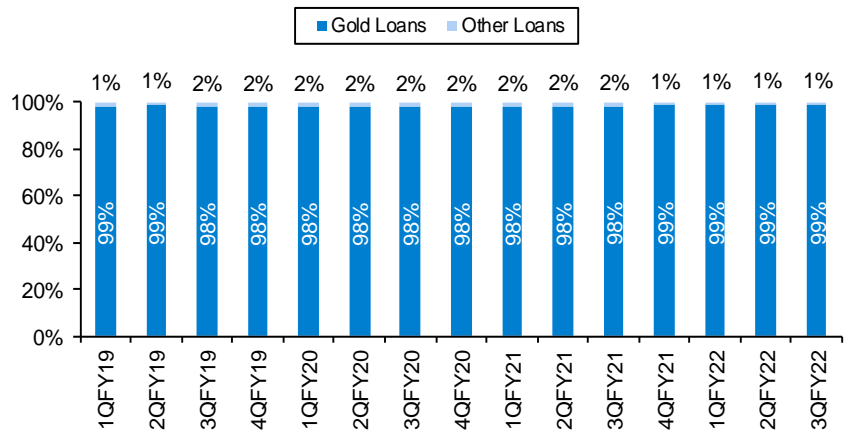
Asset quality:

- Significant increase in Stage-3 assets is due to loans disbursed in Q3FY21 (when gold prices were at peak) moved to Stage 3, restructuring etc. There was not much impact due to RBI circular on asset classification.

Others:

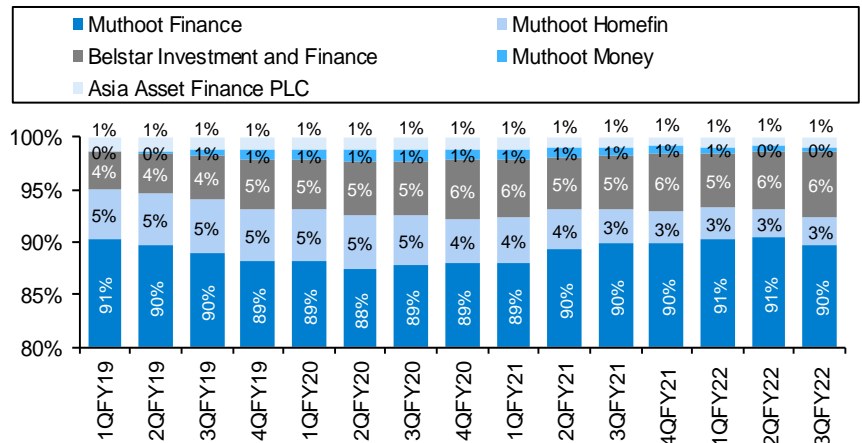
- Avg LTV stood at 65%.
- Marginal CoF at 7.25-7.3%.
- Added ~3.5 lakh customers in Q3FY22 but as large number of customers closed their accounts along with significant auctions, the outstanding customer count has come down.
- Co. to infuse equity capital in MFI subsidiary.

Exhibit 2: AUM Mix: remained consistent QoQ



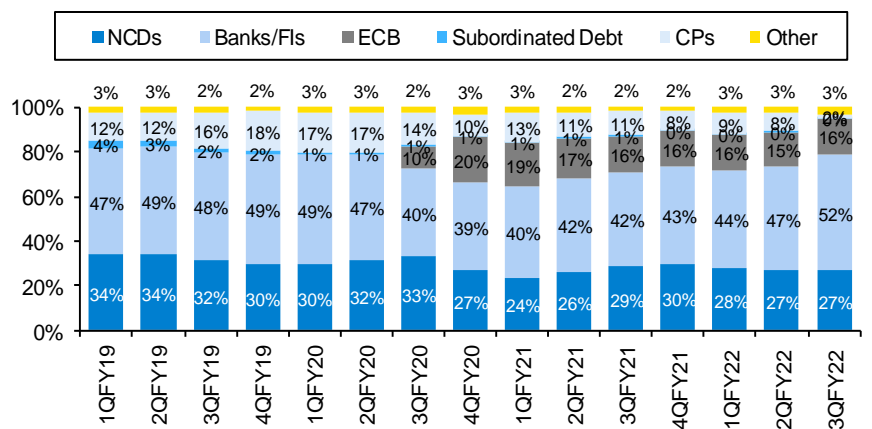
Source: Company, PL

Exhibit 3: Overall AUM mix largely stable



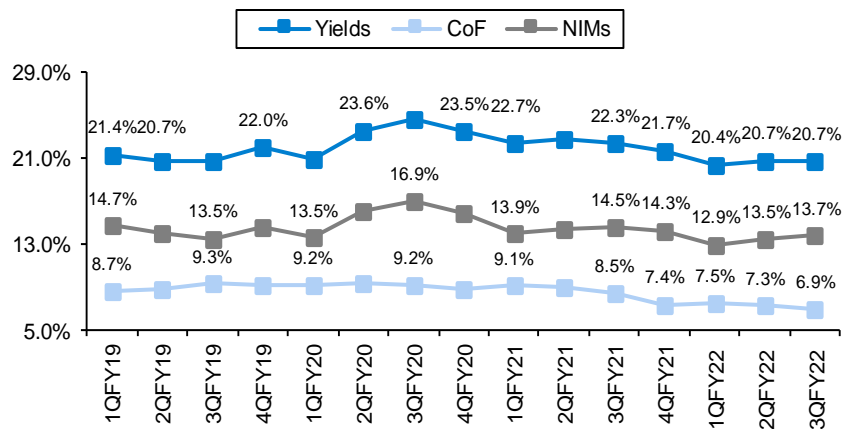
Source: Company, PL

Exhibit 4: Meaningful declined in share of CPs



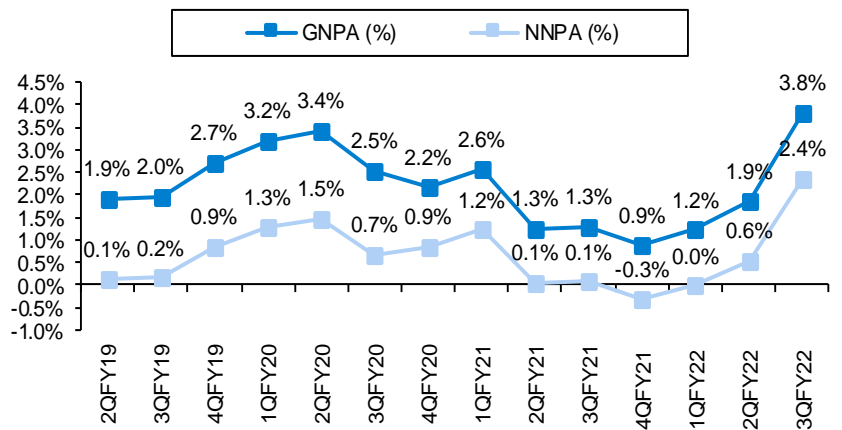
Source: Company, PL

Exhibit 5: NIMs maintained as CoF declined



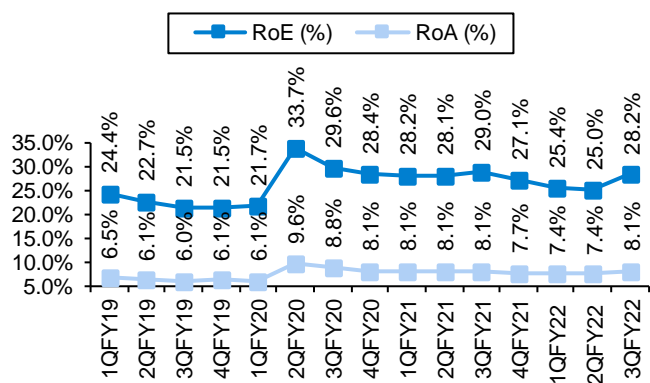
Source: Company, PL

Exhibit 6: Asset quality deteriorated marginally



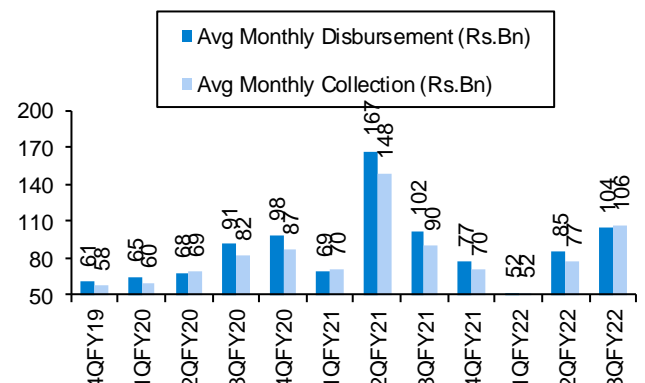
Source: Company, PL

Exhibit 7: Returns ratios improved



Source: Company, PL

Exhibit 8: Pickup in disbursements & collections QoQ



Source: Company, PL

Exhibit 9: QoQ fall in active customers base

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
No. of active customers	4,895,029	4,933,886	4,745,491	4,828,505	5,015,666	5,190,220	5,244,143	5,424,609	5,342,269
QoQ (%)	0.8%	0.8%	-3.8%	1.7%	4.0%	3.5%	1.0%	3.4%	-1.5%

Source: Company, PL

Exhibit 10: Fresh loans to inactive customers stable

Fresh Loans	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Customers (mn)	1.6	1.4	0.7	1.4	1.5	1.5	1.1	1.5	1.6
Fresh Loan to Inactive Customers									
No. of customers	0.4	0.4	0.2	0.4	0.4	0.4	0.3	0.5	0.4
% of customers	8%	7%	4%	8%	9%	9%	6%	8%	8%
Fresh Loan to New Customers									
No. of customers	0.4	0.3	0.2	0.4	0.4	0.4	0.2	0.4	0.4
% of customers	8%	7%	3%	8%	8%	8%	5%	7%	7%
Fresh loan With new collateral to existing customers									
No. of customers	0.8	0.7	0.4	0.6	0.7	0.7	0.6	0.7	0.8
% of customers	16%	14%	8%	13%	14%	14%	11%	13%	15%
Customer mix(%)									
Fresh Loan to Inactive Customers	25.4%	25.1%	26.1%	27.3%	28.3%	28.3%	28.2%	29.9%	26.9%
Fresh Loan to New Customers	23.8%	24.7%	22.5%	28.2%	25.1%	25.0%	22.0%	23.3%	22.7%
Fresh loan With new collateral to existing customers	50.8%	50.1%	51.4%	44.5%	46.6%	46.5%	49.8%	46.9%	50.4%

Source: Company, PL

Exhibit 11: Target Revised to Rs. 1,714; Reiterate BUY

SoTP metrics	% share in overall business	Multiple Mar'23 (x)	Per share (Rs)
MUTHOOT FINANCE	91%	2.7	1699
HOME FINANCE	3%	0.2	3
BELSTAR MICRO	5%	0.7	15
MUTHOOT MONEY	1%	-	0
ASIA ASSET (SRILANKA)	1%	0.1	0
Total value of ventures			18
Less: 20% holding discount			3.60
Value of Key ventures			14
Target price (Rs)			1,713
CMP (Rs)			1,355
Upside (%)			26.4%

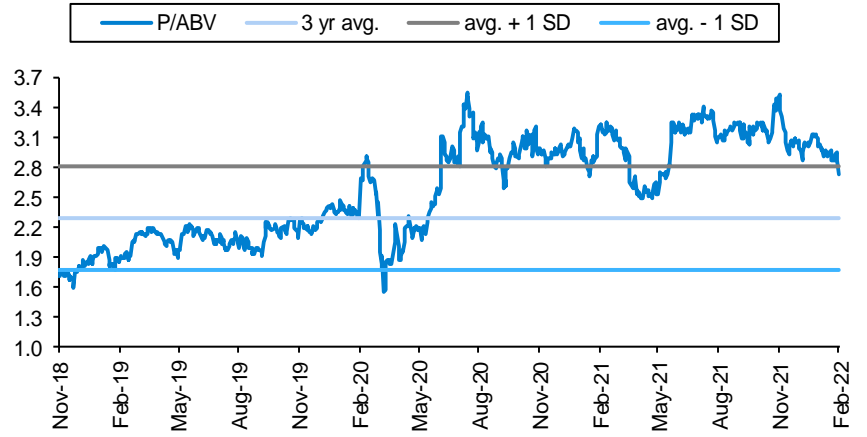
Source: PL

Exhibit 12: No change in estimates

(Rs mn)	Old			Revised			Change in Estimates		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Interest Income	76,957	90,785	107,014	76,957	90,785	107,014	0.0%	0.0%	0.0%
Operating Profit	59,151	69,312	81,123	59,151	69,312	81,123	0.0%	0.0%	0.0%
Net Profit	42,946	50,680	59,352	42,946	50,680	59,352	0.0%	0.0%	0.0%
EPS (Rs)	107.0	126.3	147.9	107.0	126.3	147.9	0.0%	0.0%	0.0%
Price Target (Rs)		1,905			1,714			-10%	
Reco		BUY			BUY				

Source: PL

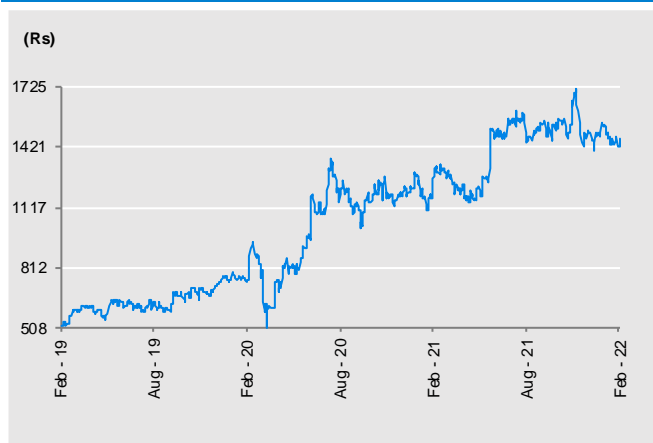
Exhibit 13: MUTH poised for further upside



Source: Company, PL

Income Statement (Rs. m)					Quarterly Financials (Rs. m)				
Y/e Mar	FY21	FY22E	FY23E	FY24E	Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Int. Inc. / Opt. Inc.	103,285	118,776	139,403	164,324	Int. Inc. / Operating Inc.	27,891	26,837	27,920	28,394
Interest Expenses	36,924	41,819	48,619	57,310	Income from securitization	-	-	-	-
Net interest income	66,361	76,957	90,785	107,014	Interest Expenses	9,513	9,822	9,794	9,533
Growth(%)	14.9	16.0	18.0	17.9	Net Interest Income	18,378	17,015	18,125	18,861
Non-interest income	2,458	2,704	3,083	3,514	Growth (%)	16.3	17.8	14.5	6.5
Growth(%)	55.2	10.0	14.0	14.0	Non-Interest Income	390	312	414	324
Net operating income	68,819	79,661	93,867	110,528	Net Operating Income	18,768	17,327	18,539	19,185
Expenditures					Growth (%)	15.0	14.5	11.7	4.8
Employees	10,063	11,270	13,524	16,229	Operating expenditure	5,160	3,989	4,397	4,519
Other Expenses	7,235	8,682	10,418	12,501	PPP	13,608	13,338	14,142	14,666
Depreciation	507	558	614	675	Growth (%)	-	-	-	-
Operating Expenses	17,297	19,952	23,942	28,730	Provision	111	337	744	889
PPP	51,015	59,151	69,312	81,123	Exchange Gain / (Loss)	-	-	-	-
Growth(%)	22.8	15.9	17.2	17.0	Profit before tax	13,496	13,001	13,398	13,777
Provisions	1,781	1,759	1,585	1,807	Tax	3,540	3,290	3,458	3,488
Profit Before Tax	49,234	57,392	67,727	79,316	Prov. for deferred tax liability	-	-	-	-
Tax	12,843	14,446	17,047	19,964	Effective Tax Rate	26.2	25.3	25.8	25.3
Effective Tax rate(%)	26.1	25.2	25.2	25.2	PAT	9,957	9,711	9,940	10,289
PAT	36,390	42,946	50,680	59,352	Growth	22	16	11	4
Growth(%)	20.6	18.0	18.0	17.1	AUM	526,223	526,138	551,468	546,876
					YoY growth (%)	26.5	27.4	17.3	8.5
					Borrowing	459,462	477,378	487,649	-
					YoY growth (%)	23.7	23.1	15.7	(100.0)
Balance Sheet (Rs. m)					Key Ratios				
Y/e Mar	FY21	FY22E	FY23E	FY24E	Y/e Mar	FY21	FY22E	FY23E	FY24E
Source of funds					CMP (Rs)	1,355	1,355	1,355	1,355
Equity	4,012	4,012	4,012	4,012	EPS (Rs)	90.7	107.0	126.3	147.9
Reserves and Surplus	148,377	184,306	227,502	279,369	Book value (Rs)	379.8	469.4	577.1	706.3
Networth	152,389	188,318	231,514	283,381	Adj. BV(Rs)	372.7	451.9	559.8	690.0
Growth (%)	31.7	23.6	22.9	22.4	P/E(x)	14.9	12.7	10.7	9.2
Loan funds	459,463	501,896	615,777	701,697	P/BV(x)	3.6	2.9	2.3	1.9
Growth (%)	23.7	9.2	22.7	14.0	P/ABV(x)	3.6	3.0	2.4	2.0
Deferred Tax Liability	-	-	-	-	DPS (Rs)	20.0	15.0	16.0	16.0
Other Current Liabilities	11,143	25,488	31,254	35,517	Dividend Payout Ratio(%)	-	-	-	-
Other Liabilities	11,654	16,680	19,475	27,150	Dividend Yield(%)	1.5	1.1	1.2	1.2
Total Liabilities	634,649	732,382	898,019	1,047,745	Asset Quality				
Application of funds					Y/e Mar	FY21	FY22E	FY23E	FY24E
Net fixed assets	2,854	3,855	3,924	5,006	Gross NPAs(Rs m)	4,641	8,797	8,644	8,214
Advances	540,634	590,563	724,563	825,663	Net NPA(Rs m)	2,860	7,037	6,916	6,571
Growth (%)	26.9	9.2	22.7	14.0	Gross NPAs to Gross Adv.(%)	0.9	1.5	1.2	1.0
Investments	15,903	18,129	26,287	38,117	Net NPAs to net Adv.(%)	0.5	1.2	0.9	0.8
Current Assets	74,972	119,835	143,244	178,960	NPA coverage(%)	38.4	20.0	20.0	20.0
Net current assets	63,828	94,346	111,991	143,443	Du-Pont as a % of AUM				
Other Assets	286	-	-	-	Y/e Mar	FY21	FY22E	FY23E	FY24E
Total Assets	634,649	732,382	898,019	1,047,746	NII	12.6	12.9	12.4	12.8
Growth (%)	25.8	15.4	22.6	16.7	NII INCL. Securitization	12.6	12.9	12.4	12.8
Business Mix					Total income	13.0	13.3	12.8	13.2
AUM	528,486	597,057	733,095	836,656	Operating Expenses	3.3	3.3	3.3	3.4
Growth (%)	27.0	13.0	22.8	14.1	PPOP	9.8	10.0	9.5	9.8
On Balance Sheet	-	-	-	-	Total Provisions	0.3	0.3	0.2	0.2
% of AUM	-	-	-	-	RoAA	6.4	6.3	6.2	6.1
Off Balance Sheet	-	-	-	-	Avg. Assets/Avg. net worth	4.2	3.9	3.9	3.7
% of AUM	-	-	-	-	RoAE	23.9	22.8	21.9	20.9
Profitability & Capital (%)					Source: Company Data, PL Research				
Y/e Mar	FY21	FY22E	FY23E	FY24E					
NIM	14.0	13.6	13.8	13.8					
ROAA	6.4	6.3	6.2	6.1					
ROAE	23.9	22.8	21.9	20.9					

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-22	BUY	1,905	1,539
2	8-Nov-21	BUY	1,939	1,659
3	5-Oct-21	BUY	1,780	1,521
4	7-Aug-21	BUY	1,780	1,547
5	6-Jul-21	BUY	1,700	1,559
6	29-Jun-21	BUY	1,700	1,490
7	6-Apr-21	BUY	1,486	1,184

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	BUY	3,454	2,734
2	Bajaj Finance	BUY	8,953	7,744
3	Cholamandalam Investment and Finance Company	BUY	742	639
4	HDFC	BUY	3,228	2,528
5	L&T Finance Holdings	Reduce	71	73
6	LIC Housing Finance	Reduce	364	383
7	Mahindra & Mahindra Financial Services	Reduce	146	155
8	Manappuram Finance	Hold	194	169
9	Muthoot Finance	BUY	1,905	1,539
10	SBI Cards and Payment Services	Accumulate	1,162	815
11	Shriram Transport Finance	Accumulate	1,459	1,167

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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