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54,303	16,202

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**MOTILAL OSWALD**

**Travelogue**  
the analyst's diary

**34 March 2023**

**Telangana and Andhra Pradesh**

**Insights from Ground Zero: Hyderabad and Vizag**

We are starting our series where we will exhibit our travel charts and report our observational findings from our branch-level visits, interactions with staff and end users, and discussions with local dealers. The first report in this series will be on Andhra Pradesh, followed by Telangana. The second report in this series will be pen down these observations with utmost neutrality rather than bias.

However, we would like to put out a clarion that not everything which we observe at the branch level or during our regular channel check-ups can be extrapolated at the regional level. We believe that the situation may differ entirely across the breadth of our country.

Vehicle Finance - Telangana and Andhra Pradesh

We visited the branches in Andhra Pradesh and Telangana to understand the current market in Telangana and Andhra Pradesh (AP), respectively. Within a span of two days, we visited the branches and observed details as follows:

- Vehicle Finance - Overall Market Share: 10%
- Vehicle Finance - String Transport, Mahindra Finance, Chaitanyaam and SBI
- Gold Finance - Mutual Fund Finance, Chaitanyaam Finance
- Dealing Residential First, Regional Finance and SBI
- Housing Finance - Mutual Fund Finance, Chaitanyaam Finance

In this report, we first summarize the key takeaways from our visit to these two states and then move on to the detailed analysis of the vehicle finance market. We have drawn these details from our observations at branch level of each of the NBFCs that we met.

**Vehicle Finance - Overall Market Share in vehicle finance:** According to our findings, the overall market share of vehicle finance is 10%. This figure is likely to rise in the future as more and more people are becoming aware of the benefits of vehicle finance.

**Efforts being made to increase sales in asset quality by Mar'23:** The market has suggested that demand in new CUVs still continues to remain weak with optimism that it should pick up soon driven by the expected launch of the highly awaited Maruti Suzuki Ignis. The sales of the existing vehicles (sedans, SUVs, hatchbacks) have marginally improved since the last few months.

**Used Vehicles:** Used car sales in AP, UOL, SBI, Tocars, and Cera (predominantly in the HCs), have continued to demonstrate strong demand. The used car market in AP is growing at a CAGR of 10% and the higher prices of BS6 vehicles are driving the higher value of transactions.

**List of Companies:**

Southern Regional Finance
Manesar Finance
Chaitanyaam Finance
Indoor Credit Finance
String Transport
Regional Finance
Housing Finance
Chaitanyaam Finance
Manesar Finance
Management Finance

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## Stock Info

Bloomberg	MUTH IN
Equity Shares (m)	401
M.Cap.(INRb)/(USDb)	426.1 / 5.5
52-Week Range (INR)	1723 / 1029
1, 6, 12 Rel. Per (%)	-9/-21/-32
12M Avg Val (INR M)	1517
Free float (%)	26.6

## Financials Snapshot (INR b)

<b>Y/E March</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
NII	71.2	69.3	74.3
PPP	54.4	51.6	55.2
PAT	39.5	37.6	40.2
EPS (INR)	98.6	93.8	100.3
EPS Gr. (%)	6.2	-4.8	6.9
BV/Sh.(INR)	457	531	609

## Ratios

NIM (%)	12.9	11.5	11.1
C/I ratio (%)	25.1	27.3	27.5
RoA (%)	5.9	5.1	4.9
RoE (%)	23.5	19.0	17.6
Payout (%)	20.3	21.9	22.3

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## Valuations

P/E (x)	10.8	11.3	10.6
P/BV (x)	2.3	2.0	1.7
Div. Yld. (%)	1.9	1.9	2.1

CMP: INR1,062

**TP: INR1,220 (+15%)**

**Buy**

## Channel checks in Southern India: A few interesting insights

- Key highlights from our channel checks in Southern India for gold loan NBFCs in general and MUTH in particular are: a) teaser rates have not gone away – just that the 6.9% teaser rate has been replaced by 9.9%-11.9% teaser rates, b) banks and gold loan fintechs (despite the [recent media coverage](#) on Rupeek) have still not reduced their aggression, c) gold loan demand was weak in May'22 and redemptions were high because of the wedding season; but the demand has swiftly recovered in the first ten days of Jun'22 and gives hope to salvage the quarter, d) MUTH is re-pricing its teaser rate gold loans disbursed at 6.9% p.a. between Dec'21 and Mar'22 to higher interest rates of 9.9%-11.9%, which can have multiple implications with the most obvious being the potential for increase in the portfolio yields of the gold loan book.
  - We delve deeper into each of these and also highlight a few questions that still remain unanswered. Our estimates are largely unchanged and we maintain our BUY rating on MUTH with a TP of INR1,220 (based on 2.0x FY24E P/BV).

**Teaser rates have not gone away – 6.9% replaced with 9.9%-11.9% rates**

- We agree with consensus to the extent that the 6.9% p.a. (0.57% p.m.) products have been withdrawn by the gold loan NBFCs and that disbursement yields in 1QFY23-QTD are much better than the insanity that was evident in the gold lending segment in 4QFY22.
  - However, we still choose to call the 9.9%-11.9% gold loan products as teaser-rate products since: a) these products are being offered at ticket sizes above INR50K (albeit with a lower LTV of 65%), and b) we believe that if MUTH continues to offer these interest rate products, there is a risk to the compression in the blended portfolio yields (in FY23E) despite the sequentially higher disbursement yields in 1QFY23E.
  - Based on our channel checks, we provide details of the schemes that are currently being offered to customers by MUTH in Southern India (Exhibit 1).

## Aggression of banks and gold loan fintechs has still not abated

- Feedback from our channel checks unanimously suggested that aggression from banks and gold loan fintechs is not showing any signs of ebbing.
  - Rupeek is still offering gold loans above ticket size of INR50K at lowest interest rate of 5.88% p.a. (0.49% p.m.) along with 60% LTV and contracted tenure of nine months on making monthly interest payments. On bullet repayment products, Rupeek is offering maximum loan tenure of six months, 75% LTV and interest rates between 16.2% and 18.6%. (Exhibit 2).
  - We believe that the gold loan NBFCs have withdrawn the 6.9% teaser-rate products not because the competition has turned benign but instead somewhere they all realized that it is better to fight their biggest competition – banks and fintechs – with a united front rather than bleed by fighting among themselves.

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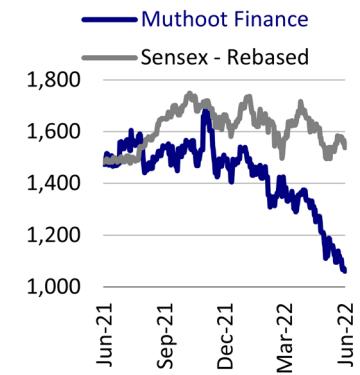
**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com](http://www.motilaloswal.com)/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and

As On	Mar-22	Dec-21	Mar-21
Promoter	73.4	73.4	73.4
DII	9.7	8.5	6.6
FII	12.1	13.7	16.0
Others	4.8	4.5	4.0

FII Includes depository receipts

#### Stock Performance (1-year)



#### Weak gold loan demand in May'22 but Jun'22 might salvage the quarter

- Our channel checks suggested that the gold loan demand in May'22 was weak due to higher gold redemptions because of the wedding season.
- We believe that the demand in the sub-INR100K ticket segment has still not recovered, which necessitates MUTH/MGFL to gain higher share in the >INR100K segment by offering competitive interest rates. Gold loan fintechs such as Rupeek do not lend below INR50K (due to even poorer economics) and MUTH/MGFL are able to command 21%-24% yields in this ticket size.

#### MUTH is re-pricing its teaser rate gold loans disbursed between Dec'21 and Mar'22 to higher interest rates

- MUTH has commenced a special branch incentive program under which it has started re-pricing (with explicit consent) the contracted interest rates of its existing 6.9% p.a. teaser-rate customers to higher interest rates of 9.9%-11.9% depending on the loan ticket size. We present the re-pricing schemes with corresponding ticket sizes and interest rates in Exhibit 3.
- Based on our understanding, this incentive scheme was started around 25<sup>th</sup> May'22 and will remain active until 30<sup>th</sup> Jun'22. Under this scheme, the branch will be provided an incentive under different slabs (Exhibit 4), based on what proportion of the active teaser-rate outstanding customer pool is successfully re-priced to the higher interest rates. One of the conditions to be eligible for the incentive is that the customer who has been re-priced to the higher interest rate should continue the loan at least until 31<sup>st</sup> Jul'22.
- We found that this exercise is being done with the **explicit consent** of the customer wherein if a customer agrees, an OTP is triggered to the customer which then has to be fed into the system for the teaser-rate gold loan to be re-priced to the higher interest rate.
- Interestingly, our sampling suggested that some clusters have already achieved ~65%-70% conversion of the teaser-rate loan pool to the higher interest rates. We were also given to understand that this is selectively being done by one of the other gold loan NBFCs as well.
- While it is difficult to extrapolate the conversion rate based on our sampling, the most obvious positive is the potential for increase in the portfolio yields of the gold loan book.

#### Key risks to our BUY rating despite a ~25% stock price correction over the last three months

- Both MUTH and MGFL have not been able to procure the RBI approval for new branch openings over the last two years.** While the underlying reason behind this is still a mystery, we believe that gold lending is a distribution business and inability to open new branches is a clear headwind when a few of the peer NBFCs with decent-sized gold loan book (and which require RBI approval) have been given approvals for new branch openings.
- Retrospective** re-pricing of teaser rate gold loans might help the company improve the portfolio gold loan yields but quite naturally convincing customers to agree to the re-pricing would be difficult. MUTH enjoys a strong brand trust and has always been at the forefront to support its customers during difficult

times. We are yet to ascertain what impact this re-pricing could have on the customer relationship.

- Customers whose existing teaser rate loans have been re-priced higher could potentially be at higher risk of being poached by banks and fintechs who are still offering much lower interest rates on gold loans.

### Valuation and view

- We expect MUTH to deliver a standalone AUM growth of ~8%/13% in FY23/FY24, respectively. RoA/RoE is likely to decline (to ~5%/18%) over the next two years.
- Our FY23/FY24 EPS estimates are largely unchanged. The current stock valuation of 1.7x FY24E P/BV reflects concerns on tepid gold loan growth and a consequent impact on margins and profitability. We maintain our BUY rating on MUTH with a TP of INR1,220 (based on 2.0x FY24E P/BV).

### Exhibit 1: Schemes offered by MUTH for new/fresh gold loans

Scheme	Ticket Size (INR)	LTV (%)	Interest Rate (p.m.)	Interest Rate (p.a.)	Interest Payment Frequency
A	< 50K	75%	1.75%	21.0%	Monthly
B	> 50K	75%	1.25%	15.0%	Monthly
C	> 50K	65%	0.99%	11.9%	Monthly
D	> 500K	75%	0.91%	10.9%	Monthly
E	> 2M	75%	0.83%	9.9%	Monthly

Source: MOFSL Channel Checks

### Exhibit 2: Schemes offered by Rupeeek for new/fresh gold loans

ATS	Bullet Repayment				Monthly Repayment			
	p.m.	p.a.	LTV	Max Tenure	p.m.	p.a.	LTV	Max Tenure
>50K	1.55%	18.60%	75%	6M	0.49%	5.88%	60%	9M
>200K	1.45%	17.40%	75%	6M	0.49%	5.88%	60%	9M
>500K	1.35%	16.20%	75%	6M	0.49%	5.88%	60%	9M

Source: MOFSL, Company

### Exhibit 3: Schemes offered by MUTH only for re-pricing 6.9% p.a. teaser rate loans

Scheme	Ticket Size (INR)	LTV (%)	Interest Rate (p.m.)	Interest Rate (p.a.)	Interest Payment Frequency
D	< 500K	Existing	0.99%	11.9%	Monthly
E	> 500K	Existing	0.91%	10.9%	Monthly
F	> 1M	Existing	0.83%	9.9%	Monthly

Source: MOFSL Channel Checks

### Exhibit 4: Indicative branch incentive structure for re-pricing the 6.9% teaser loans to higher interest rates

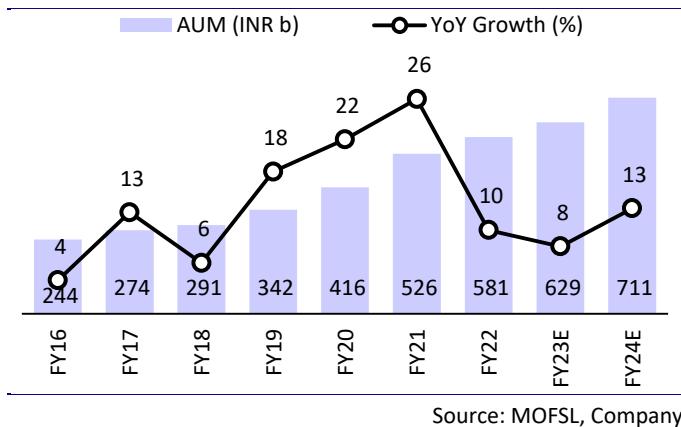
Slab	Incentive
Upto 30%	No incentive
30%-40%	INR100 per INR100K re-priced
40%-50%	INR150 per INR100K re-priced
....	.....
90%	INR550 per INR100K re-priced

Note: Slabs above are % of the outstanding teaser rate loan pool (at branch level) which is re-priced to higher interest rate.

Source: MOFSL Channel Checks

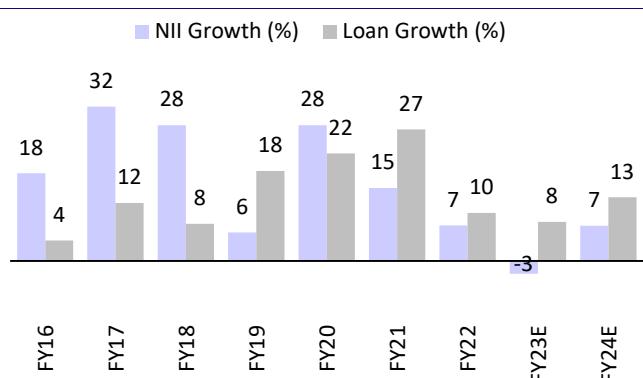
## Story in Charts

**Exhibit 5: Expect AUM growth to remain muted at ~8% in FY23**



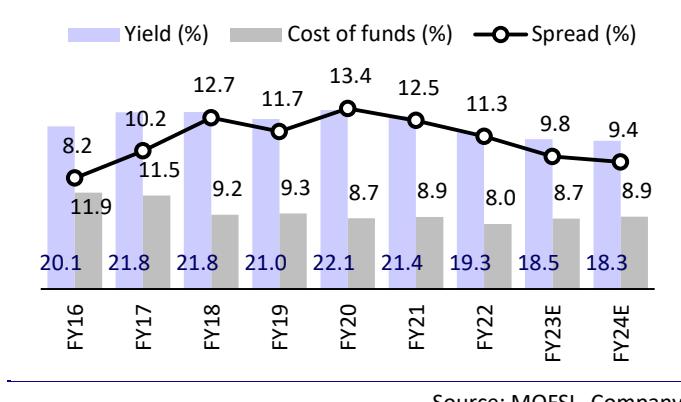
Source: MOFSL, Company

**Exhibit 6: Expect NII growth to lag the AUM growth over FY23-FY24**



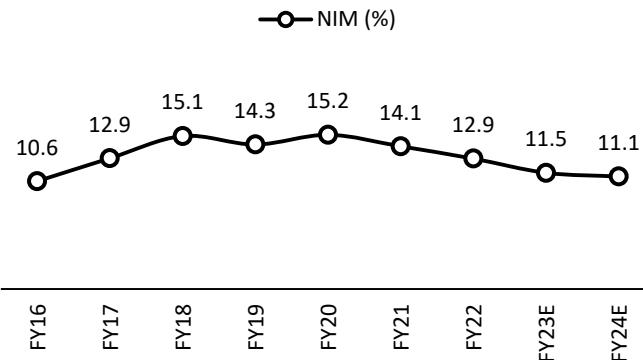
Source: MOFSL, Company

**Exhibit 7: Expect spreads to moderate to ~10%**



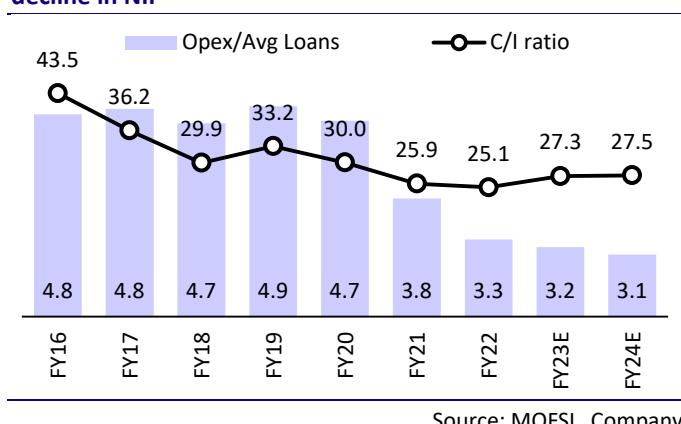
Source: MOFSL, Company

**Exhibit 8: NIMs expected to moderate to 11%-12%**



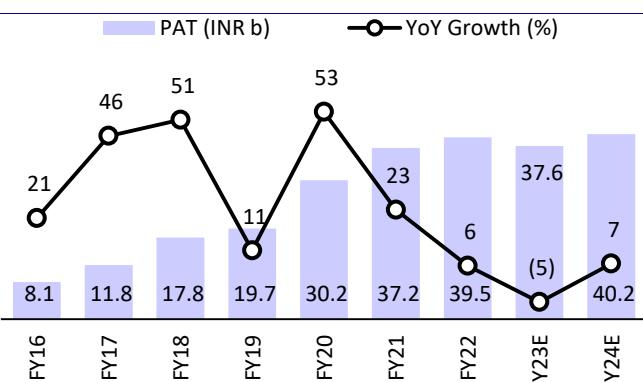
Source: MOFSL, Company

**Exhibit 9: C/I ratio expected to increase to 27-28% led by a decline in NII**



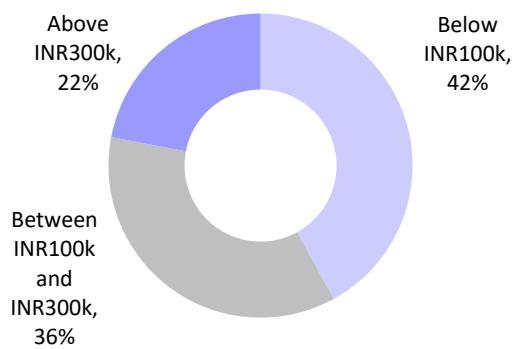
Source: MOFSL, Company

**Exhibit 10: Expect PAT CAGR of only ~1% over FY22-FY24**



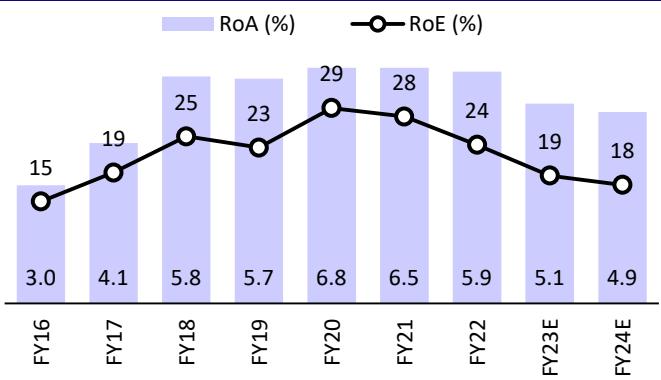
Source: MOFSL, Company

**Exhibit 11: Ticket size higher than INR100K now contributes ~58% to the Gold loan AUM**



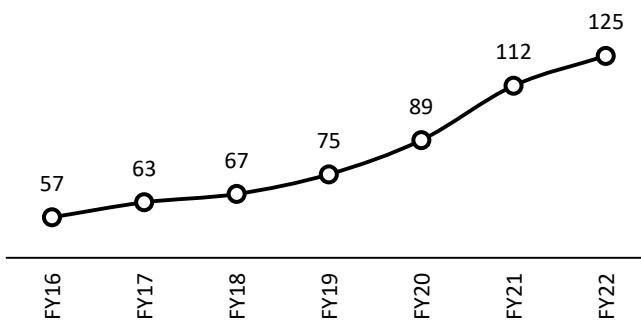
Source: MOFSL, Company; Data as on Mar'22

**Exhibit 12: RoA expected to decline to ~5%**



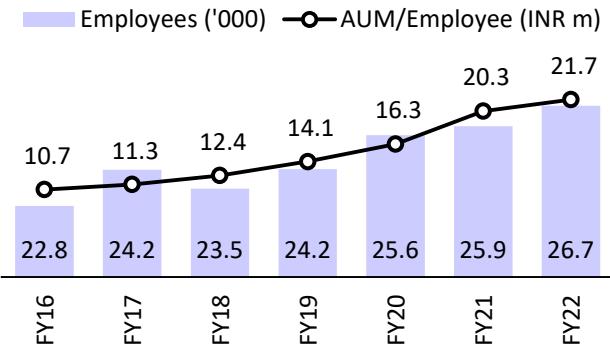
Source: MOFSL, Company

**Exhibit 13: Avg. gold loan outstanding per branch (INR m)**



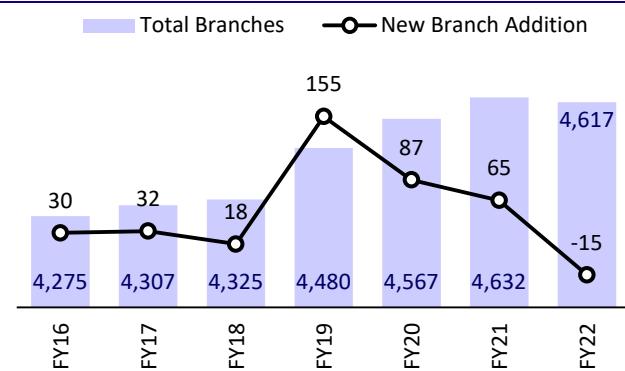
Source: MOFSL, Company

**Exhibit 14: AUM/employee improved**



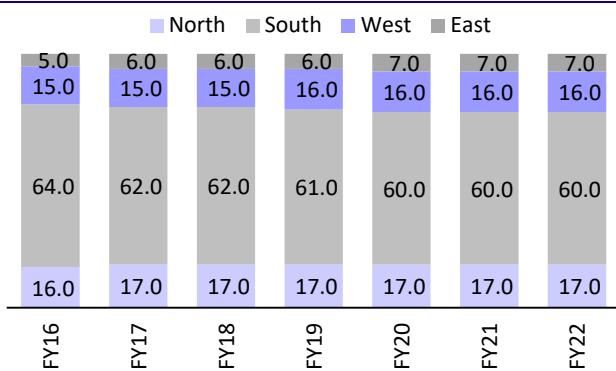
Source: MOFSL, Company

**Exhibit 15: No branch additions in the absence of the RBI approval for opening new branches**



Source: Company, MOFSL

**Exhibit 16: ~60% of the MUTH branches are concentrated in Southern India**

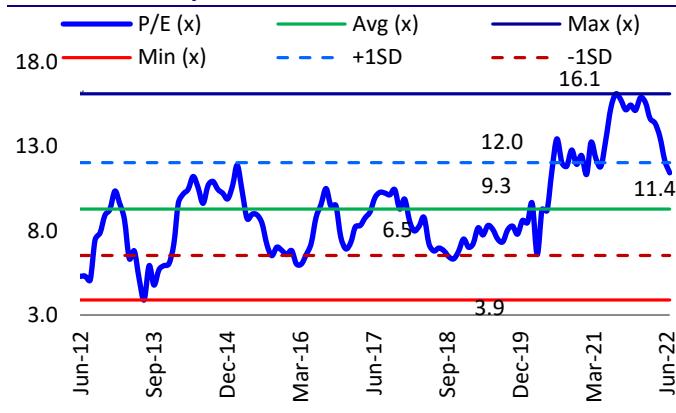
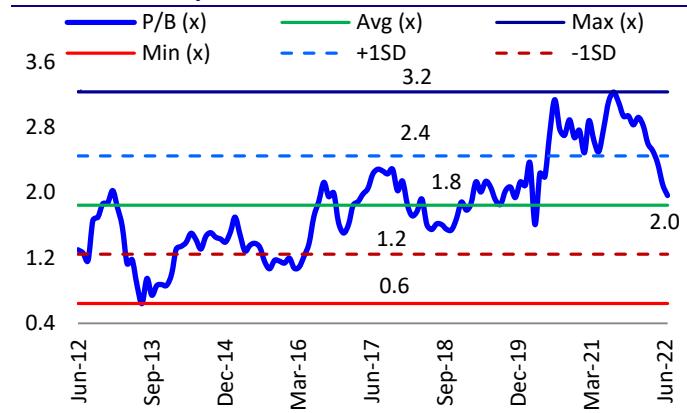


Source: Company, MOFSL

**Exhibit 17: Our FY23/FY24 EPS estimates are largely unchanged**

INR B	Old Est		New Est		% Change	
	FY23	FY24	FY23	FY24	FY23	FY24
NII	68.6	74.2	69.3	74.3	1.0	0.2
Other Income	1.6	1.8	1.6	1.8		
<b>Net Income</b>	<b>70.3</b>	<b>76.1</b>	<b>71.0</b>	<b>76.2</b>	<b>1.0</b>	<b>0.1</b>
Operating Expenses	19.4	20.9	19.4	20.9	0.0	0.0
<b>Operating Profits</b>	<b>50.8</b>	<b>55.1</b>	<b>51.6</b>	<b>55.2</b>	<b>1.4</b>	<b>0.2</b>
Provisions	1.0	1.2	1.0	1.2	0.0	0.0
<b>PBT</b>	<b>49.8</b>	<b>53.9</b>	<b>50.5</b>	<b>54.0</b>	<b>1.4</b>	<b>0.2</b>
Tax	12.7	13.8	12.9	13.8	1.4	0.2
<b>PAT</b>	<b>37.1</b>	<b>40.2</b>	<b>37.6</b>	<b>40.2</b>	<b>1.4</b>	<b>0.2</b>
Loans	641	725	641	725	0.0	0.0
Borrowings	534	604	534	604		
Spread (%)	9.7	9.4	9.8	9.4		
<b>RoA (%)</b>	<b>5.0</b>	<b>4.9</b>	<b>5.1</b>	<b>4.9</b>		
<b>RoE (%)</b>	<b>18.7</b>	<b>17.6</b>	<b>19.0</b>	<b>17.6</b>		

Source: MOFSL, Company

**Exhibit 18: One-year forward P/E ratio****Exhibit 19: One-year forward P/B ratio**

## Financials and valuations

INCOME STATEMENT									(INR M)
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	47,995	56,369	62,021	67,570	85,644	1,03,285	1,09,560	1,14,255	1,24,996
Interest Expense	22,577	22,938	19,314	22,368	27,909	36,924	38,358	44,917	50,659
<b>Net Interest Income</b>	<b>25,418</b>	<b>33,431</b>	<b>42,707</b>	<b>45,202</b>	<b>57,735</b>	<b>66,361</b>	<b>71,203</b>	<b>69,338</b>	<b>74,337</b>
Change (%)	17.9	31.5	27.7	5.8	27.7	14.9	7.3	-2.6	7.2
Other income	755	1,098	1,310	1,236	1,584	2,458	1,424	1,640	1,849
<b>Net Income</b>	<b>26,173</b>	<b>34,529</b>	<b>44,017</b>	<b>46,438</b>	<b>59,319</b>	<b>68,819</b>	<b>72,626</b>	<b>70,979</b>	<b>76,186</b>
Change (%)	18.0	31.9	27.5	5.5	27.7	16.0	5.5	-2.3	7.3
Operating Expenses	11,381	12,503	13,174	15,394	17,787	17,804	18,262	19,410	20,937
<b>Pre Provision Profits</b>	<b>14,792</b>	<b>22,026</b>	<b>30,843</b>	<b>31,044</b>	<b>41,531</b>	<b>51,015</b>	<b>54,364</b>	<b>51,568</b>	<b>55,249</b>
Change (%)	38.9	48.9	40.0	0.6	33.8	22.8	6.6	-5.1	7.1
Provisions	1,624	2,816	2,397	275	957	950	1,270	1,024	1,220
<b>PBT</b>	<b>13,168</b>	<b>19,210</b>	<b>28,447</b>	<b>30,768</b>	<b>40,574</b>	<b>50,065</b>	<b>53,094</b>	<b>50,545</b>	<b>54,029</b>
Tax	5,072	7,411	10,671	11,047	10,391	12,843	13,551	12,900	13,789
Tax Rate (%)	38.5	38.6	37.5	35.9	25.6	25.7	25.5	25.5	25.5
<b>PAT</b>	<b>8,096</b>	<b>11,799</b>	<b>17,776</b>	<b>19,721</b>	<b>30,183</b>	<b>37,222</b>	<b>39,543</b>	<b>37,645</b>	<b>40,239</b>
Change (%)	20.7	45.7	50.7	10.9	53.0	23.3	6.2	-4.8	6.9
Proposed Dividend	2,393	2,397	4,010	4,812	6,016	8,021	8,021	8,244	8,953
BALANCE SHEET									(INR M)
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	3,990	3,995	4,000	4,007	4,010	4,012	4,012	4,012	4,012
Reserves & Surplus	52,202	61,170	74,120	88,151	1,11,708	1,48,377	1,79,432	2,08,833	2,40,119
<b>Networth</b>	<b>56,192</b>	<b>65,164</b>	<b>78,120</b>	<b>92,158</b>	<b>1,15,718</b>	<b>1,52,389</b>	<b>1,83,444</b>	<b>2,12,845</b>	<b>2,44,131</b>
<b>Borrowings</b>	<b>1,85,670</b>	<b>2,09,855</b>	<b>2,11,670</b>	<b>2,68,332</b>	<b>3,71,300</b>	<b>4,59,463</b>	<b>4,98,113</b>	<b>5,34,458</b>	<b>6,03,938</b>
Change (%)	-4.5	13.0	0.9	26.8	38.4	23.7	8.4	7.3	13.0
<b>Other Liabilities</b>	<b>28,625</b>	<b>32,112</b>	<b>18,132</b>	<b>20,198</b>	<b>17,578</b>	<b>22,798</b>	<b>23,990</b>	<b>26,389</b>	<b>29,028</b>
Change (%)	27.2	12.2	-43.5	11.4	-13.0	29.7	5.2	10.0	10.0
<b>Total Liabilities</b>	<b>2,70,487</b>	<b>3,07,131</b>	<b>3,07,923</b>	<b>3,80,687</b>	<b>5,04,597</b>	<b>6,34,649</b>	<b>7,05,547</b>	<b>7,73,692</b>	<b>8,77,097</b>
<b>Loans</b>	<b>2,45,241</b>	<b>2,74,242</b>	<b>2,95,068</b>	<b>3,49,329</b>	<b>4,26,042</b>	<b>5,40,634</b>	<b>5,93,842</b>	<b>6,41,350</b>	<b>7,24,725</b>
Change (%)	4.2	11.8	7.6	18.4	22.0	26.9	9.8	8.0	13.0
<b>Investments</b>	<b>983</b>	<b>2,091</b>	<b>3,954</b>	<b>9,826</b>	<b>14,383</b>	<b>15,903</b>	<b>13,205</b>	<b>12,545</b>	<b>13,799</b>
Net Fixed Assets	2,274	2,182	1,922	1,867	2,227	2,416	2,637	2,874	3,162
Other assets	21,990	28,615	6,978	19,666	61,944	75,697	95,863	1,16,924	1,35,411
<b>Total Assets</b>	<b>2,70,487</b>	<b>3,07,131</b>	<b>3,07,923</b>	<b>3,80,687</b>	<b>5,04,597</b>	<b>6,34,649</b>	<b>7,05,547</b>	<b>7,73,692</b>	<b>8,77,097</b>

E: MOFSL Estimates

## Financials and valuations

RATIOS									(%)
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Spreads Analysis (%)</b>									
Avg Yield on loans	20.1	21.8	21.8	21.0	22.1	21.4	19.3	18.5	18.3
Avg Cost of funds	11.9	11.6	9.2	9.3	8.7	8.9	8.0	8.7	8.9
Spreads on loans	8.2	10.2	12.7	11.7	13.4	12.5	11.3	9.8	9.4
NIMs on AUM	10.6	12.9	15.1	14.3	15.2	14.1	12.9	11.5	11.1
<b>Profitability Ratios (%)</b>									
RoE	15.1	19.4	24.8	23.2	29.0	27.8	23.5	19.0	17.6
RoA	3.0	4.1	5.8	5.7	6.8	6.5	5.9	5.1	4.9
Cost to Income	43.5	36.2	29.9	33.2	30.0	25.9	25.1	27.3	27.5
Empl. Cost/Op. Exps.	56.4	61.1	59.4	58.3	57.8	56.5	56.4	57.3	58.5
<b>Asset-Liability Profile (%)</b>									
GNPL ratio (%)	2.2	2.8	4.4	2.7	2.2	0.9	3.0	2.5	2.1
Debt/Equity (x)	3.3	3.2	2.7	2.9	3.2	3.0	2.7	2.5	2.5
Average leverage	3.6	3.3	2.9	2.8	3.1	3.1	2.9	2.6	2.5
<b>Valuations</b>									
Valuations	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (INR)	141	163	195	230	289	380	457	531	609
<b>Price-BV (x)</b>									
EPS (INR)	20.3	29.5	44.4	49.2	75.3	92.8	98.6	93.8	100.3
EPS Growth (%)	20.4	45.6	50.4	10.8	52.9	23.3	6.2	-4.8	6.9
<b>Price-Earnings (x)</b>									
Dividend	6.0	6.0	10.0	12.0	15.0	20.0	20.0	20.5	22.3
<b>Dividend Yield (%)</b>									
					14.1	11.4	10.8	11.3	10.6
					1.4	1.9	1.9	1.9	2.1

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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