

Subdued quarter; growth, yields to be watched...

About the stock: Muthoot Finance is a leading gold financier in India with standalone AUM of ₹ 56689 crore as on June 2022.

- It has a large footprint across India with 4617 gold lending branches
- The company also has a presence in other lending segments like microfinance, housing, vehicle finance via its subsidiaries.

Q1FY23 Results: Muthoot Finance reported a dull quarter.

- Consolidated AUM up 9% YoY while standalone AUM up 8% YoY
- NII fell 10.5% QoQ, NIMs down 147 bps QoQ at 10.74%, C/I higher at 34.7%
- Despite provision reversals, PAT de-grew 17.4% YoY at ₹ 802 crore
- Stage-3 assets fell 86 bps QoQ to 2.13%. Gold auctions 2% of total loans

What should investors do? Muthoot Finance's share price has grown ~2.6x in the past five years. We believe Muthoot is a play on gold finance theme but would wait for clear picture on competitive intensity and earnings trajectory.

- We downgrade the stock from BUY to **HOLD** rating

Target Price and Valuation: We value the core business (gold loan) at ~2.1x FY24E ABV and assign ₹ 31 to subsidiaries, maintaining our target price at ₹ 1300 per share.

Key triggers for future price performance:

- Shift from teaser rates to normal rates is already in place. Thus, yields are expected to pick up from here on
- The management is confident of maintaining spreads at ~10%. We believe this should keep margins steady
- Healthy AUM guidance of 10-15%, steady demand for gold loans and new branch additions to aid earnings and profitability
- High competitive intensity still persistent led by banks & fintechs

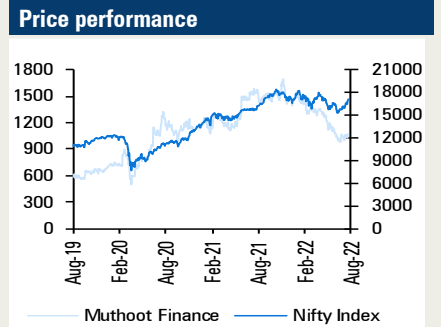
Alternate Stock Idea: Apart from Muthoot, in our coverage we also like CSB Bank.

- CSB Bank has gold and SME as its key loan segments. Change in business strategy has led to an improved performance in the past few years
- BUY with a target price of ₹ 250



Particulars	
Particulars	Amount
Market Capitalisation	₹ 47679 crore
52 week H/L	1722 / 961
Net Worth	18,272
Face value	₹ 10

Shareholding Pattern					
(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	73.4	73.4	73.4	73.4	73.4
FII	15.0	14.2	13.7	12.1	11.0
DII	7.7	8.3	8.5	9.7	10.5
Others	3.9	4.2	4.5	4.8	5.2



Key Highlights

- Stage-3 assets declined 86 bps QoQ to 2.13%
- **Key Risk: 1)** Competition to impact yields and growth; **2)** volatility in demand for gold loans

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Key Financial Summary

₹ crore	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
NII	5773	6636	7120	16%	7772	9549	16%
PPP	4153	5101	5436	21%	5797	7291	16%
PAT	3018	3722	3954	26%	4263	5377	17%
ABV (₹)	268.5	369.8	419.9		496.6	591.9	
P/E	15.8	12.8	12.1		11.2	8.9	
P/ABV	4.4	3.2	2.8		2.4	2.0	
RoE (%)	28.3	27.8	23.5		21.5	23.2	
RoA (%)	6.8	6.5	5.9		5.7	6.4	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Margin pressure continues

- NII declined 9.5% YoY, 10.5% QoQ, due to fall in NIMs. NIMs declined 147 bps QoQ, 219 bps YoY to 10.74%. Other income also reported de growth of 11.3% YoY
- Operating expenses increased significantly by 55.7% YoY and 17.3% QoQ mainly due to increase in staff count and advertisement expenses. As a result, C/I ratio jumped to 34.7% from 23% in Q1FY22 (30.5% in Q4FY22)
- There were provision reversals during the quarter of ₹ 58 crore. Despite that PAT witnessed de-growth of 17.4% YoY, 16.5% QoQ at ₹ 802 crore
- Asset quality improved as gross stage 3 assets fell 86 bps QoQ to 2.13%
- AUM growth (standalone) came in at 8% YoY to ₹ 56689 crore while consolidated AUM was up 9% YoY at ₹ 63444 crore. Sequentially, there was de-growth of ~2% on a standalone and consolidated basis
- Performance of key subsidiaries was mixed as Belstar, the MFI arm, reported healthy AUM growth of 52.9% YoY, 7.6% QoQ to ₹ 4696 crore but asset quality showed deterioration as stage 3 assets were up from 5.73% to 7.33% QoQ. Home finance showed marginal deterioration in asset quality as Stage 3 assets inched up 48 bps QoQ to 2.58% with 15% decline in AUM

Q1FY23 Earnings Conference Call highlights

- The company received approval from RBI to open 150 branches. The new branch addition is expected to be completed by October 2022
- During the quarter, the company raised ₹ 643 crore via NCDs. Net CoF is expected to remain steady. However, the management is confident of maintaining 10%+ spreads
- Migration from teaser rates (i.e. 6.99%) to higher rates was completed in June 2022. Hence, yields are expected to witness uptick from Q2FY23 onwards
- Total auctions during the quarter were ~2% (₹ 1374 crore) of total loans. Auction recovery was ₹ 1807 crore
- AUM to growth in the range of 10-15% YoY in FY23E. New branches generally take one to two years to contribute meaningfully to growth
- Interest accrued during the quarter was ₹ 1700 crore
- Average tenure of loans is three to five months. Total 3.14 lakh new customers added in Q1FY23
- Loans above ₹ 3 lakh – 23%, loans below ₹ 1 lakh – 42% of total loans
- Subsidiary businesses are showing signs of recovery and are expected to pick up in coming quarters. As per new regulatory landscape for MFIs, Belstar MFI interest rates on new loans increased ~300 bps

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	₹	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Bajaj Finserv (BAFINS)	15,770	17,600	Buy	2,511	176.2	263.5	431.0	565.1	89.5	59.9	36.6	27.9	7.2	6.2	5.3	4.5	8.3	11.1	15.7	17.4
Bajaj Finance (BAJFI)	7,308	8,500	Buy	4,424	73.6	116.7	168.5	221.7	99.3	62.6	43.4	33.0	12.2	10.3	8.7	6.5	12.8	17.4	21.0	21.6
Muthoot Finance (MUTFIN)	1,188	1,300	Hold	476	8.0	9.5	12.0	13.0	149.1	124.6	98.7	91.1	3.2	2.8	2.4	2.0	27.8	23.5	21.5	23.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	1,540	1,824	1,702	-9.5	1,720	-10.5	Sluggish business growth leads to weak operational performance
NIM (%)	10.74	11.92	12.93	-219 bps	12.21	-147 bps	Lower yield due to teaser rates
Other Income	28	38	31	-11.3	37	-26.0	
Net Total Income	1,568	1,862	1,733	-9.5	1,758	-10.8	
Staff cost	283	301	231	22.2	313	-9.8	
Other Operating Expenses	261	200	168	55.7	222	17.3	Led by increase in staff count and advertisement expenses
PPP	1,024	1,362	1,334	-23.2	1,222	-16.2	
Provision	-58	24	34	-271.3	-70	-17.5	Provision reversals during the quarter
PBT	1,082	1,338	1,300	-16.8	1,292	-16.3	
Tax Outgo	280	341	329	-14.9	332	-15.6	
PAT	802	997	971	-17.4	960	-16.5	Weak top-line resulted in PAT de-growth
Key Metrics							
GNPA	1,208	919	641	88.5	1,737	-30.5	Gold auctions stood down QoQ to 2% of loans
AUM	56,689	56,561	52,614	7.7	58,053	-2.3	
Borrowings	45,427	47,812	47,812	-5.0	49,870	-8.9	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
(₹ Crore)						
Net Interest Income	8,064	7,771.7	-4	9,540	9,548.9	0
Pre Provision Profit	6,201	5,796.9	-7	7,366	7,290.6	-1
NIM(%) (calculated)	12.2	11.7	-44 bps	12.7	12.7	1 bps
PAT	4,562	4,263.0	-7	5,424	5,377.4	-1
ABV per share (₹)	502	496.6	-1	598	591.9	-1

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	13.0	15.0	13.0	15.0
NIM Calculated (%)	11.7	12.7	12.2	12.7
Cost to income ratio (%)	26.8	25.3	25.5	25.1
GNPA (₹ crore)	16,400.0	15,842.4	16,400.0	15,842.4
NNPA (₹ crore)	13,940.0	13,307.6	13,940.0	13,307.6
Credit cost (%)	0.2	0.2	0.2	0.2

Source: Company, ICICI Direct Research

Exhibit 5: SOTP

Company	Value / share
Muthoot (Standalone, gold business)	2.1x FY24E Adj. Networth 1269
Belstar	1.3x FY24E Adj. Networth 13
Home finance	1.2x FY24E Adj Networth 14
Others	13
Total subsidiaries val @20% discount	31
SOTP target	1300

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	8,564.4	10,328.5	10,956.0	12,121.5	14,393.6
Interest Expended	2,790.9	3,692.4	3,835.8	4,349.8	4,844.7
Net Interest Income	5,773.5	6,636.1	7,120.3	7,771.7	9,548.9
growth (%)	27.7	14.9	7.3	9.1	22.9
Non Interest Income	158.4	245.8	142.4	148.7	211.1
Net Income	5,931.9	6,881.9	7,262.6	7,920.4	9,760.0
Staff cost	1,029.0	1,006.3	1,030.2	1,200.2	1,398.2
Other operating Expense	749.8	774.2	796.0	923.4	1,071.1
Operating Profit	4,153.1	5,101.5	5,436.4	5,796.9	7,290.6
Provisions	95.7	95.0	127.0	112.8	120.8
PBT	4,057.4	5,006.5	5,309.4	5,684.0	7,169.9
Taxes	1,039.1	1,284.3	1,355.1	1,421.0	1,792.5
Net Profit	3,018.3	3,722.2	3,954.3	4,263.0	5,377.4
growth (%)	53.0	23.3	6.2	7.8	26.1
EPS (₹)	75.3	92.8	98.5	106.2	134.0

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares (Crores)	40.1	40.1	40.1	40.1	40.1
EPS (₹)	7.7	8.0	9.5	12.0	13.0
BV (₹)	288.5	379.8	457.1	531.4	625.0
ABV (₹)	268.5	369.8	419.9	496.6	591.9
P/E	15.8	12.8	12.1	11.2	8.9
P/BV	4.1	3.1	2.6	2.2	1.9
P/ABV	4.4	3.2	2.8	2.4	2.0
DPS (Rs.)	27.0	0.0	19.7	26.6	33.5
Yields & Margins (%)					
Net Interest Margins	13.7	12.8	12.0	11.7	12.7
Yield on assets	20.4	19.9	18.8	18.3	19.1
Avg. cost on borrowings	8.7	8.9	8.0	8.3	8.3
Quality and Efficiency (%)					
Cost to income ratio	30.0	25.9	25.1	26.8	25.3
Borrowings to loans %	87.2	85.0	83.3	82.0	80.0
GNPA	2.1	0.9	3.0	2.5	2.1
NNPA	1.9	0.7	2.5	2.1	1.7
RoE	28.3	27.8	23.5	21.5	23.2
RoA	6.8	6.5	5.9	5.7	6.4

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	401	401	401	401	401
Reserves and Surplus	11171	14838	17943	20924	24684
Networth	11572	15239	18345	21325	25086
Borrowings	37130	45946	49811	55003	61736
Other Liabilities & Provisions	1758	2280	2399	1852	3841
Total	50460	63465	70555	78181	90663
Application of Funds					
Fixed Assets	251	280	309	340	374
Investments	1438	1590	1320	1678	1929
Advances	42604	54063	59384	67104	77170
Cash and Bank	5641	7117	9179	8053	9260
Other assets	525	414	362	1007	1929
Total	50460	63465	70555	78181	90663

Source: Company, ICICI Direct Research

Exhibit 9: Growth %					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets	32.5	25.8	11.2	10.8	16.0
Advances	22.0	26.9	9.8	13.0	15.0
Net interest income	27.7	14.9	7.3	9.1	22.9
Operating expenses	15.5	0.1	2.6	16.3	16.3
Operating profit	33.8	22.8	6.6	6.6	25.8
Net profit	53.0	23.3	6.2	7.8	26.1
Net worth	18.2	31.7	20.4	16.2	17.6

Source: Company, ICICI Direct Research

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