

Muthoot Finance

Estimate change



TP change



Rating change


CMP: INR1,190
TP: INR1,250 (+5%)
Downgrade to Neutral
Growth visibility lacking; NIM compression led to the earnings miss


Bloomberg	MUTH IN
Equity Shares (m)	401
M.Cap.(INRb)/(USD\$)	476.8 / 6
52-Week Range (INR)	1723 / 961
1, 6, 12 Rel. Per (%)	7/-19/-26
12M Avg Val (INR M)	1160

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	71.2	66.6	75.3
PPP	54.4	46.7	53.6
PAT	39.5	34.4	39.4
EPS (INR)	98.6	85.8	98.1
EPS Gr. (%)	6.2	-12.9	14.4
BV/Sh.(INR)	457	523	600

Ratios

NIM (%)	12.9	11.0	11.1
C/I ratio (%)	25.1	31.4	30.3
RoA (%)	5.9	4.7	4.8
RoE (%)	23.5	17.5	17.5
Payout (%)	20.3	23.3	21.8

Valuations

P/E (x)	12.1	13.8	12.1
P/BV (x)	2.6	2.3	2.0
Div. Yld. (%)	1.7	1.7	1.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	73.4	73.4	73.4
DII	10.5	9.7	7.7
FII	11.0	12.1	15.0
Others	5.2	4.8	3.9

FII Includes depository receipts

- MUTH's standalone PAT declined by 17% YoY to ~INR8b (23% miss), led by a compression of ~220bp YoY in NIM and the annualized OPEX/AUM ratio remaining elevated at 3.8% (PY: 3%).
- For MUTH, 1QFY23 was characterized by: a) a 2.4% QoQ decline in Gold AUM, led by auctions of ~INR13.7b (FY22: INR52b), and some closure of teaser-rate customer accounts, who were migrated to higher interest rates; b) ~180bp QoQ decline in spreads to 9.6%, reflecting the impact of teaser-rate loans disbursed during Dec'21 to Mar'22; and c) elevated advertising and publicity costs at INR467m (PQ: INR366m), suggestive of the aggressive brand campaigns in the face of the current competitive landscape in high-ticket gold lending.
- The trade-off between loan growth and margin was evident in the last three quarters. The continued aggression of Banks and Gold loan FinTechs will eventually make Gold loan NBFCs pivot their business models to much lower spreads and margin (than they did in the past), complemented by steady Gold loan growth.
- With the migration (effected during May-Jun'22) of teaser-rate customers to higher interest rates, spreads and margin will improve over the next two quarters. However, it leaves MUTH vulnerable, as these customers can be poached by Banks and Gold FinTechs, who offer Gold loans at much lower interest rates.
- We estimate standalone AUM growth of 9%/13% in FY23/FY24, with spreads declining to ~9.4%. We have cut our FY23/FY24 estimate by 16%/4% to factor in a moderation in spreads and elevated OPEX. We model a RoA/RoE of 4.8%/18% in FY24. Given the lack of loan growth visibility and a structural change in Gold loan NBFC business models that we foresee, we believe there are limited triggers for a further upside in the stock. **We downgrade the stock to Neutral with a TP of INR1,250 (based on 2.1x FY24E P/BV).**

Gold loans fell by ~2.4% QoQ, with a decline in gold holdings

- Gold loan AUM fell 2.4% QoQ, but grew 8% YoY to ~INR562b, while consolidated AUM declined by 1.6% QoQ to INR634b.
- Gold tonnage fell 5% QoQ to 178t. The number of loan accounts/ active customers declined by ~3% QoQ each to 8.1m/5.2m.
- The average monthly disbursement of INR127b in 1QFY23 (PQ: INR112b) suggests that Gold disbursements were healthy, but AUM declined due to the gold auctions of INR13.7b (PQ: INR21b) and/or balance transfers to the competition.
- The MFI subsidiary (Belstar) reported a 53% YoY growth (albeit on a small base) in AUM to ~INR47b.

Abhijit Tibrewal - Research Analyst (Abhijit.Tibrewal@MotilalOswal.com)

Research Analyst: Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | Parth Desai (parth.desai@MotilalOswal.com)

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NIM compresses by ~150bp QoQ; Reduction of liquidity on Balance Sheet

- Standalone yields (calculated) fell ~150bp QoQ, and even borrowing costs grew ~30bp. This led to a QoQ decline of ~180bp/~150bp in spreads/NIM.
- Liquidity on the Balance Sheet declined to ~INR59b from INR80-90b that it maintained over the last eight quarters. The reduction in the negative carry will have partly offset the impact on margin as well.

Expect gold auctions to moderate now, which should aid loan growth

- GS3% fell ~90bp QoQ to 2.1%, with the 30+dpd declining to ~3% (v/s a peak of 13% in Sep'21).
- Gold auctions stood at INR13.7b in 1QFY23 v/s ~INR52b/INR1.7b/INR5b/INR10b in FY22/FY21/FY20/FY19. We expect the auctions to moderate now and reduce the run-off in gold AUM.

Highlights from the management commentary

- The management guided at a Gold loan growth of 10-15% and minimum spreads of ~10% in FY23.
- MUTH opened new Gold loan branches in Jul'22 and expects the rollout of the newer branches to be completed by Oct'22.
- Borrowing costs should remain stable. The higher incremental cost of borrowings can be offset by the maturity of higher cost existing borrowings.

Valuation and view

- The demand for Gold loans is not very buoyant. As highlighted earlier, there is a tradeoff between spreads/margins and growth in Gold loans. The stance of Gold loan NBFCs has now reverted to restoring spreads and margin. We believe this will translate into muted gold loan growth. Striking an appropriate balance between loan growth and margin will be important.
- The stock trades at 2x FY24 P/BV, but we see limited triggers for a further upside, given the concerns around Gold loan growth and the need to evolve the Gold loan NBFC business model. We downgrade the stock to Neutral with a TP of INR1,250 (based on 2.1x FY24E BVPS).

Quarterly Performance												(INR M)
Y/E March	FY22				FY23E				FY22	FY23E	1QFY23E	Act v/s Est. (%)
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23				
Income from operations	26,837	27,920	28,394	26,410	24,816	26,305	27,620	29,238	1,09,560	1,07,978	27,994	
Other operating income	301	385	288	289	223	245	270	500	1,263	1,238	318	
Total Operating income	27,138	28,304	28,682	26,699	25,039	26,550	27,890	29,738	1,10,823	1,09,216	28,312	-12
YoY Growth (%)	13.8	9.6	3.7	-5.5	-7.7	-6.2	-2.8	11.4	5.0	-1.5	4.3	
Other income	11	29	36	85	54	43	50	73	161	220	20	
Total Income	27,149	28,333	28,718	26,784	25,093	26,593	27,939	29,811	1,10,984	1,09,436	28,332	-11
YoY Growth (%)	13.8	9.6	3.4	-5.3	-7.6	-6.1	-2.7	11.3	5.0	-1.4	4.4	
Interest Expenses	9,822	9,794	9,533	9,208	9,416	9,793	10,576	11,620	38,358	41,404	9,761	-4
Net Income	17,327	18,539	19,185	17,575	15,677	16,801	17,363	18,191	72,626	68,032	18,571	-16
Operating Expenses	3,989	4,397	4,519	5,357	5,435	5,277	5,287	5,377	18,262	21,376	4,309	26
Operating Profit	13,338	14,142	14,666	12,218	10,241	11,524	12,077	12,813	54,364	46,655	14,263	-28
YoY Growth (%)	17.0	16.8	5.5	-10.2	-23.2	-18.5	-17.7	4.9	6.6	-14.2	6.9	
Provisions	337	744	889	-700	-577	101	231	507	1,270	262	101	-673
Profit before Tax	13,001	13,398	13,777	12,918	10,818	11,423	11,845	12,306	53,094	46,393	14,162	-24
Tax Provisions	3,290	3,458	3,488	3,315	2,798	2,959	3,056	3,157	13,551	11,969	3,682	-24
Net Profit	9,712	9,940	10,289	9,603	8,020	8,464	8,789	9,150	39,543	34,424	10,480	-23
YoY Growth (%)	15.5	11.1	3.8	-3.6	-17.4	-14.8	-14.6	-4.7	6.2	-12.9	7.9	
Key Operating Parameters (%)												
Yield on loans (Cal)	20.6	21.0	20.9	18.9	17.5	18.5	18.9	19.3				
Cost of funds (Cal)	8.4	8.1	7.9	7.6	7.9	8.4	8.6	9.0				
Spreads (Cal)	12.3	12.9	12.9	11.4	9.6	10.1	10.3	10.3				
NIMs (Cal)	13.2	13.8	14.0	12.5	10.9	11.7	11.8	11.8				
Credit Cost	0.3	0.6	0.6	-0.5	-0.4	0.1	0.2	0.3				
Cost to Income Ratio	23.0	23.7	23.6	30.5	34.7	31.4	30.4	29.6				
Tax Rate	25.3	25.8	25.3	25.7	25.9	25.9	25.8	25.7				
Balance Sheet Parameters												
AUM (INR b)	526	551	547	581	567	580	600	635				
Change YoY (%)	27.4	17.3	8.5	10.3	7.7	5.3	9.8	9.3				
Gold loans (INR b)	521	547	542	575	562	576	596	627				
Change YoY (%)	28.6	18.3	9.1	10.8	7.9	5.3	9.9	9.0				
Gold Stock Holding (In tonnes)	171	178	178	187	178							
Avg gold loans per branch (INR m)	113	118	117	125	122							
Borrowings (INR b)	478	488	471	499	454	482	506	531				
Change YoY (%)	23.0	15.6	1.2	8.4	-5.0	-1.4	7.3	6.4				
Borrowings Mix (%)												
Listed secured NCDs	27.8	26.2	26.2	24.7	27.0							
Term loans	43.6	46.9	52.2	55.5	51.4							
Commercial Paper	9.1	8.0	1.8	2.0	0.0							
Others	3.9	3.7	4.0	2.7	4.2							
Debt/Equity (x)	2.7	2.7	2.4	2.4	2.3							
Asset Quality Parameters (%)												
GS 3 (INR m)	6,408	10,213	20,908	17,372	12,078							
Gross Stage 3 (% on Assets)	1.2	1.9	3.8	3.0	2.1							
Total Provisions (INR m)	9,455	10,129	10,951	10,173	9,548							
Return Ratios (%)												
RoAUM (Rep)	7.4	7.4	7.5	6.8	5.6							
RoE (Rep)	25.4	25.0	24.4	21.5	17.5							

E: MOFSL estimates



Highlights from the management commentary

Outlook on gold demand

- While there was a 2% QoQ decline in gold loans, it is still seeing overall demand conditions reviving with the recovery in the economy.
- At the branch level, efforts are initiated to win-back old gold loan customers
- AUM on gold loans will also start growing with full rigor over the next 2-3 quarters

Spreads and NIM

- Yields have started improving and AUM will also started exhibiting growth in the subsequent quarters
- While the teaser rates schemes are behind, new loans are being generated at much higher yields and it expects to revert back to the older days
- Teaser loans (started at 6.9% for monthly interest payments) were a sizeable portion of the loan book but because of migration to higher interest rates, the yields/spreads should now improve.

Guidance

- Objective will be to keep the spreads above 10% for the remainder of this fiscal year.
- Guided for Gold AUM growth between 10-15% in FY23

Teaser Rate Loans

- New teaser rate loans were stopped after Mar'22 and all existing teaser rate loans were migrated to higher rates by 30 Jun'22. This will result in an improvement in yields from 2QFY23 onwards
- Efforts are on to retain these gold loan customers even after migrating these customers to higher interest rates (from teaser rate schemes)
- Introducing teaser rates loans was a strategic call and was driven by competitive intensity. It attracted a new set of customers who otherwise would not have come to MUTH because of its higher interest rates and a large proportion of those customers have been retained.
- Less than 5-10% of the teaser rate gold loan customers have closed their loans and the remaining customers have migrated to higher interest rates.

Gold Loans

- Quantum (principal) of gold auctions in 1QFY23 stood at INR13.74b (v/s 4QFY22: INR21b | 3QFY22: INR28b | 2QFY22: INR2.7b, 1QFY22: INR370m | FY22: INR52.1b | FY21: INR1.71b | FY20: INR5b | FY19: INR10b).
- From gold auctions, there was a recovery of INR18.07b (including principal and accrued interest)
- Interest accrued stood at Mar'22: INR19.55b; Jun'22: INR17b

Split of Gold AUM by ticket size

AUM mix (1QFY23)	%
Below INR100K	42%
Between INR100K-300K	35%
Above INR300K	23%

Branch Approvals

- Received RBI approval for opening 150 new branches. Opened a few new gold loan branches in Jul'22 and expects the roll-out of newer branches to be completed by Oct'22.
- Once the company opens these 150 new branches, it will again identify new areas where it wants to open newer branches and approach RBI for new branch approval.
- There were no adverse comments/observations from the RBI while giving it the approval to open 150 new branches.
- Company will try to maintain a balance between loan growth and yields/margins

Liquidity and Liability

- First tranche of ECB which was at higher interest rates will mature in Oct'22 and which should benefit the weighted avg. cost of borrowings.
- Overall, the borrowing costs should remain stable and the increase in incremental cost of borrowings can be offset by the maturity of higher cost borrowings

Subsidiaries

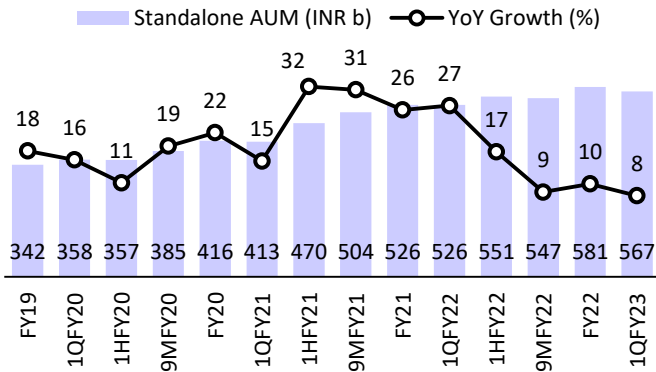
- Home Finance/Vehicle Finance will pick-up in the subsequent quarters
- MFI business has received funding from external investors and has exhibited healthy growth in loan book

Others

- MUTH added 314K new customers during the quarter
- Newer branches allow it to tap new unbanked areas. It takes about 1-2 years for a new gold loan branch to mature and it can reach an AUM of INR50-60m over two years.

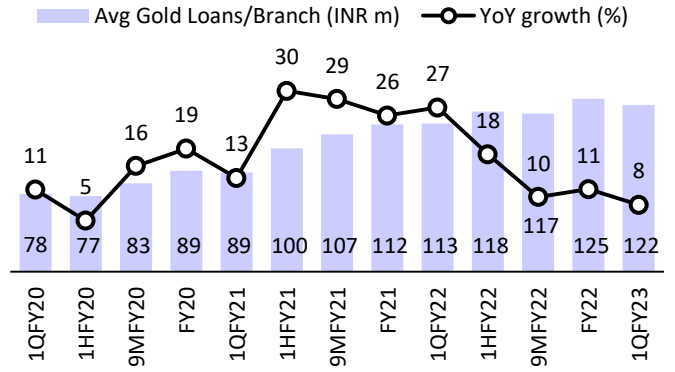
Key exhibits

Exhibit 1: Standalone AUM grew 8% YoY



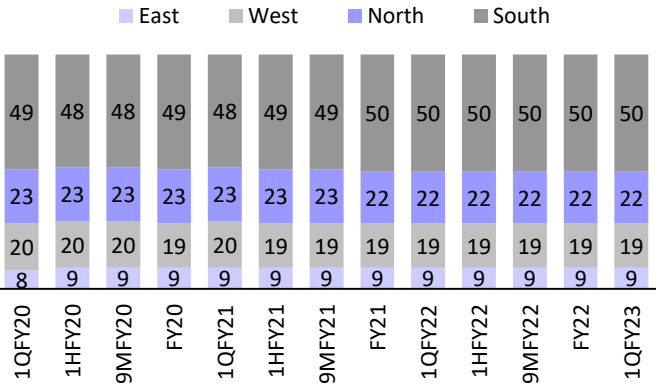
Source: MOFSL, Company

Exhibit 2: Trend in productivity



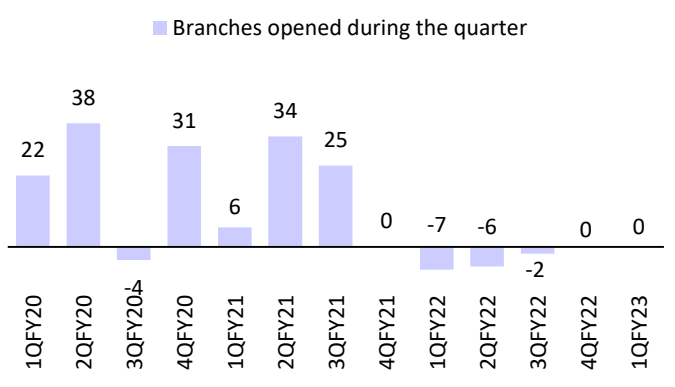
Source: MOFSL, Company

Exhibit 3: Regional mix of gold loans largely stable



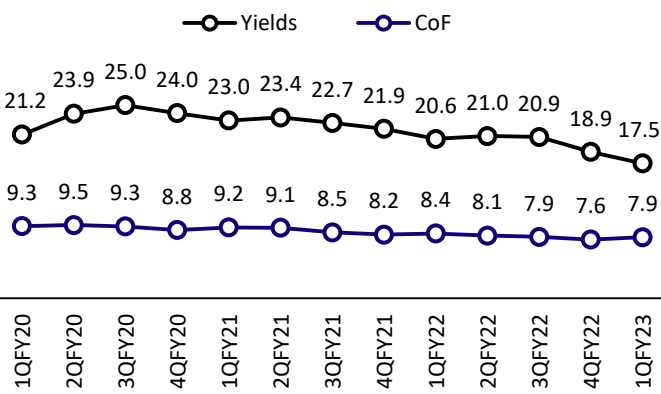
Source: MOFSL, Company, Gold loan portfolio mix

Exhibit 4: MUTH will open newer branches between Jul-Oct'22



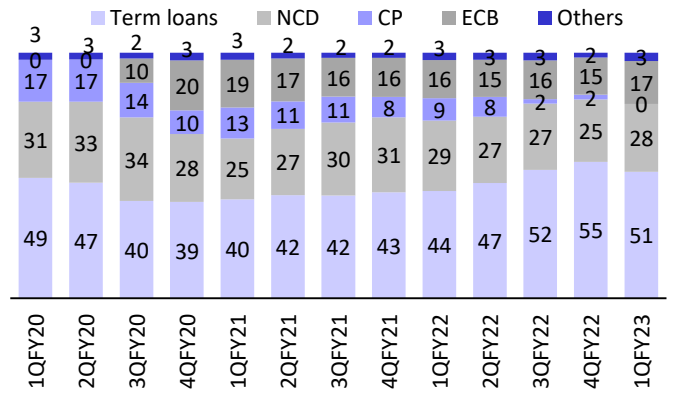
Source: MOFSL, Company

Exhibit 5: Spreads (calculated) decline by ~180bp QoQ (%)



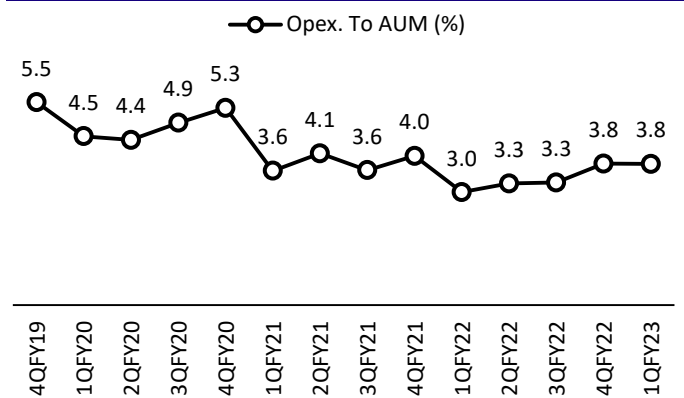
Source: MOFSL, Company

Exhibit 6: Borrowing mix (%)



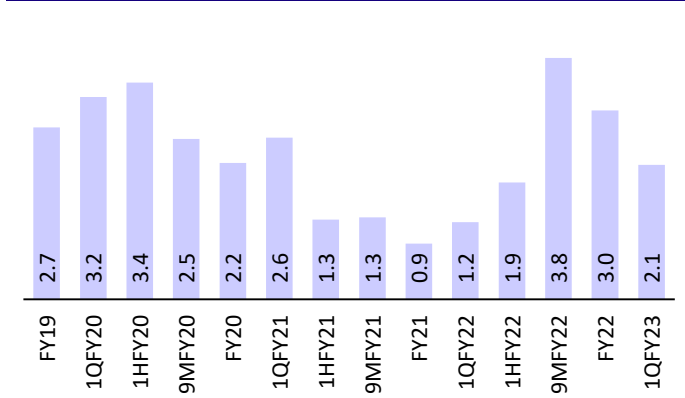
Source: MOFSL, Company, Borrowing mix%

Exhibit 7: OPEX/AUM ratio remained elevated



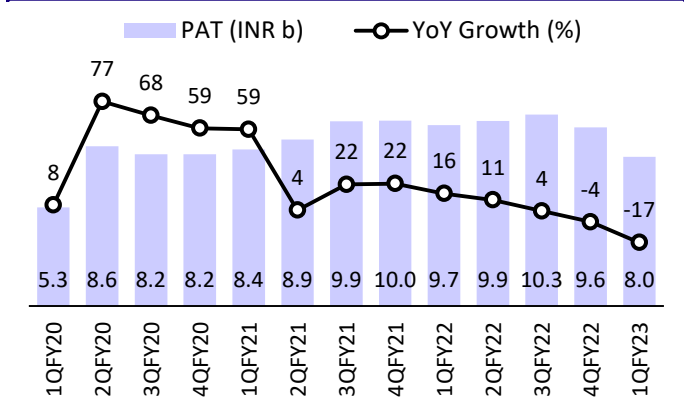
Source: MOFSL, Company

Exhibit 8: GNPA improved by ~90bp QoQ (%)



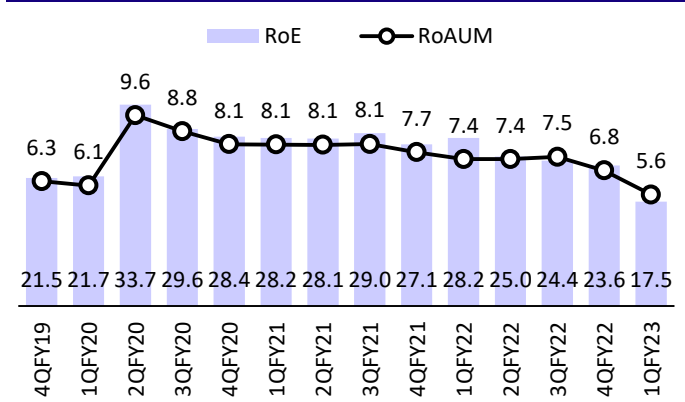
Source: MOFSL, Company

Exhibit 9: PAT declined by 17% YoY



Source: MOFSL, Company

Exhibit 10: RoE fell to 18% driven by compression in NIM



Source: MOFSL, Company

Valuation and view

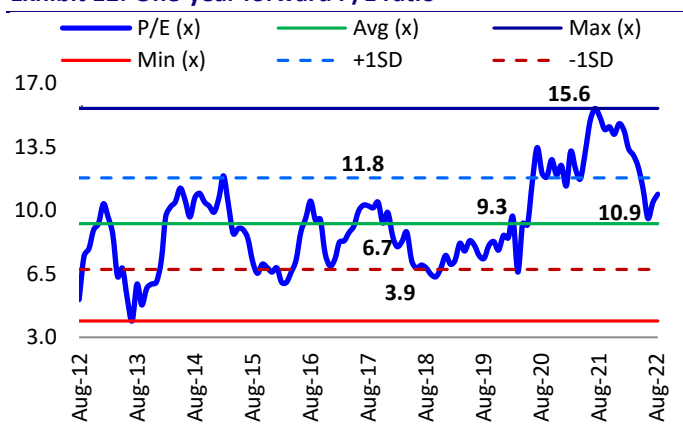
- The demand for Gold loans is not very buoyant. There is a tradeoff between spreads/margins and growth in Gold loans. The stance of Gold loan NBFCs has now reverted to restoring spreads and margin. We believe this will translate into muted gold loan growth. Striking an appropriate balance between loan growth and margin will be important.
- The stock trades at 2x FY24 P/BV, but we see limited triggers for a further upside, given the concerns around Gold loan growth and the need to evolve the Gold loan NBFC business model. We downgrade the stock to Neutral with a TP of INR1,250 (based on 2.1x FY24E BVPS).

Exhibit 11: Cut our FY23/FY24 EPS estimate by 16%/4% to factor in lower loan growth and NIM compression

INR B	Old Est		New Est		% Change	
	FY23	FY24	FY23	FY24	FY23	FY24
NII	73.7	75.6	66.6	75.3	-9.7	-0.4
Other Income	1.6	1.8	1.5	1.5		
Net Income	75.4	77.4	68.0	76.9	-9.7	-0.7
Operating Expenses	19.4	20.9	21.4	23.3	10.1	11.3
Operating Profits	55.9	56.5	46.7	53.6	-16.6	-5.2
Provisions	0.9	1.2	0.3	0.5	-71.9	-58.9
PBT	55.0	55.3	46.4	53.1	-15.7	-4.0
Tax	14.0	14.1	12.0	13.7	-14.7	-3.0
PAT	41.0	41.2	34.4	39.4	-16.0	-4.4
Loans	647	731	647	731	0.0	0.0
Borrowings	539	610	531	600		
Spread (%)	10.5	9.5	9.4	9.4		
RoA (%)	5.5	4.9	4.7	4.8		
RoE (%)	20.5	17.8	17.5	17.5		

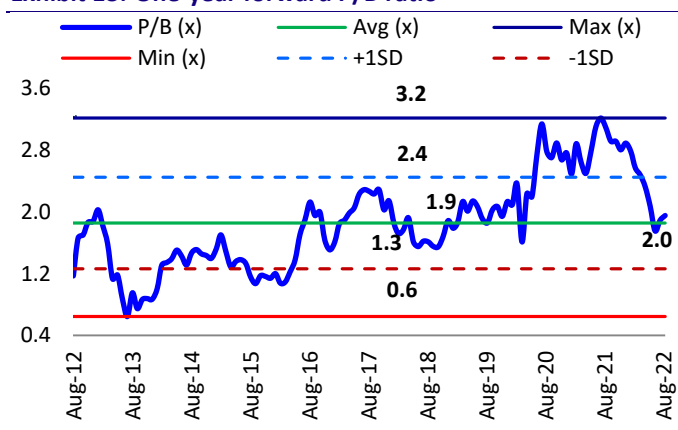
Source: MOFSL, Company

Exhibit 12: One-year forward P/E ratio



Source: MOFSL, Company

Exhibit 13: One-year forward P/B ratio



Source: MOFSL, Company

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	1,07,978	1,22,224
Interest Expense	22,577	22,938	19,314	22,368	27,909	36,924	38,358	41,404	46,899
Net Interest Income	25,418	33,431	42,707	45,202	57,735	66,361	71,203	66,574	75,325
Change (%)	17.9	31.5	27.7	5.8	27.7	14.9	7.3	-6.5	13.1
Other income	755	1,098	1,310	1,236	1,584	2,458	1,424	1,458	1,550
Net Income	26,173	34,529	44,017	46,438	59,319	68,819	72,626	68,032	76,874
Change (%)	18.0	31.9	27.5	5.5	27.7	16.0	5.5	-6.3	13.0
Operating Expenses	11,381	12,503	13,174	15,394	17,787	17,804	18,262	21,376	23,311
Pre Provision Profits	14,792	22,026	30,843	31,044	41,531	51,015	54,364	46,655	53,564
Change (%)	38.9	48.9	40.0	0.6	33.8	22.8	6.6	-14.2	14.8
Provisions	1,624	2,816	2,397	275	957	950	1,270	262	506
PBT	13,168	19,210	28,447	30,768	40,574	50,065	53,094	46,393	53,057
Tax	5,072	7,411	10,671	11,047	10,391	12,843	13,551	11,969	13,689
Tax Rate (%)	38.5	38.6	37.5	35.9	25.6	25.7	25.5	25.8	25.8
PAT	8,096	11,799	17,776	19,721	30,183	37,222	39,543	34,424	39,369
Change (%)	20.7	45.7	50.7	10.9	53.0	23.3	6.2	-12.9	14.4
Proposed Dividend	2,393	2,397	4,010	4,812	6,016	8,021	8,021	8,021	8,582

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	2,05,835	2,36,621
Networth	56,192	65,164	78,120	92,158	1,15,718	1,52,389	1,83,444	2,09,847	2,40,633
Borrowings	1,85,670	2,09,855	2,11,670	2,68,332	3,71,300	4,59,463	4,98,113	5,30,564	5,99,537
Change (%)	-4.5	13.0	0.9	26.8	38.4	23.7	8.4	6.5	13.0
Other liabilities	28,625	32,112	18,132	20,198	17,578	22,798	23,990	26,389	29,028
Change (%)	27.2	12.2	-43.5	11.4	-13.0	29.7	5.2	10.0	10.0
Total Liabilities	2,70,487	3,07,131	3,07,923	3,80,687	5,04,597	6,34,649	7,05,547	7,66,800	8,69,199
Loans	2,45,241	2,74,242	2,95,068	3,49,329	4,26,042	5,40,634	5,93,842	6,47,288	7,31,436
Change (%)	4.2	11.8	7.6	18.4	22.0	26.9	9.8	9.0	13.0
Investments	983	2,091	3,954	9,826	14,383	15,903	13,205	12,545	13,799
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	1,04,093	1,20,803
Total Assets	2,70,487	3,07,131	3,07,923	3,80,687	5,04,597	6,34,649	7,05,547	7,66,800	8,69,199

E: MOFSL Estimates

Financials and valuations

RATIOS	(%)								
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)									
Avg Yield on loans	20.1	21.8	21.8	21.0	22.1	21.4	19.3	17.4	17.7
Avg Cost of funds	11.9	11.6	9.2	9.3	8.7	8.9	8.0	8.1	8.3
Spreads on loans	8.2	10.2	12.7	11.7	13.4	12.5	11.3	9.4	9.4
NIMs on AUM	10.6	12.9	15.1	14.3	15.2	14.1	12.9	11.0	11.1
Profitability Ratios (%)									
RoE	15.1	19.4	24.8	23.2	29.0	27.8	23.5	17.5	17.5
RoA	3.0	4.1	5.8	5.7	6.8	6.5	5.9	4.7	4.8
Cost to Income	43.5	36.2	29.9	33.2	30.0	25.9	25.1	31.4	30.3
Empl. Cost/Op. Exps.	56.4	61.1	59.4	58.3	57.8	56.5	56.4	56.4	56.9
Asset-Liability Profile (%)									
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
Valuations									
Book Value (INR)	141	163	195	230	289	380	457	523	600
Price-BV (x)					4.1	3.1	2.6	2.3	2.0
EPS (INR)	20.3	29.5	44.4	49.2	75.3	92.8	98.6	85.8	98.1
EPS Growth (%)	20.4	45.6	50.4	10.8	52.9	23.3	6.2	-12.9	14.4
Price-Earnings (x)					15.8	12.8	12.1	13.8	12.1
Dividend	6.0	6.0	10.0	12.0	15.0	20.0	20.0	20.0	21.4
Dividend Yield (%)					1.3	1.7	1.7	1.7	1.8

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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