

## Miss on margin, growth partially offset by lower cost

**About the stock:** Muthoot Finance is a leading gold financier in India with standalone AUM of ₹ 57230 crore as on September 2022.

- It has a large footprint across India with 4600+ gold lending branches
- The company also has a presence in other lending segments like microfinance, housing, vehicle finance via its subsidiaries

**Q2FY23 Results:** Muthoot Finance reported a muted performance on growth.

- Consolidated AUM up 6% YoY with standalone AUM up 4% YoY
- NII up 2.1% QoQ, NIMs up 30 bps QoQ at 11.0%, C/I down to 28.2%
- Provision reversals resulted in PAT growth of 8.1% QoQ at ₹ 867 crore
- Stage-3 assets fell 46 bps QoQ to 1.67%. Gold auctions 1% of total loans

**What should investors do?** Muthoot Finance's share price has grown ~2.5x in the past five years. We expect an improvement in margin trajectory but concerns growth continue to persist amid heightened competition from banks and NBFCs.

- We retain our **HOLD** rating on the stock

**Target Price and Valuation:** We value the core business (gold loan) at ~2x FY24E ABV and assign ₹ 31 to subsidiaries, revising our target price to ₹ 1150 from ₹ 1300.

### Key triggers for future price performance:

- Yields have started moving upwards, though at a slower pace. The management is confident of maintaining spreads at ~10%
- A gradual pick-up was seen in customer addition; AUM driven by rise in gold price with marginal decline in tonnage. Growth guidance maintained at lower level of 10% for FY23E
- Post regulatory approval, branch and staff additions to keep opex elevated
- Intense competition from banks, NBFCs may put near term pressure

**Alternate Stock Idea:** Apart from Muthoot, in our coverage we 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 ₹ 275

### Key Financial Summary

₹ crore	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
NII	5773	6636	7120	16%	6536	7973	6%
PPP	4153	5101	5436	21%	4544	5650	2%
PAT	3018	3722	3954	26%	3386	4169	3%
ABV (₹)	268.5	369.8	419.9		482.3	557.3	
P/E	14.2	11.5	10.9		12.7	10.3	
P/ABV	4.0	2.9	2.5		2.2	1.9	
RoE (%)	28.3	27.8	23.5		17.3	18.8	
RoA (%)	6.8	6.5	5.9		4.6	5.1	



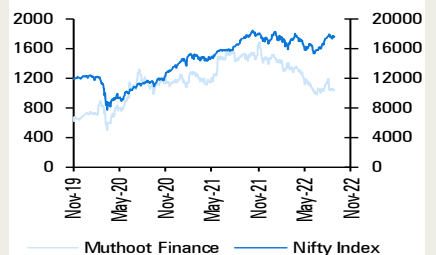
### Particulars

Particulars	Amount
Market Capitalisation	₹ 44372crore
52 week H/L	1722 / 950
Net Worth	19,230
Face value	₹ 10

### Shareholding Pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	73.4	73.4	73.4	73.4	73.4
FII	14.2	13.7	12.1	11.0	9.9
DII	8.3	8.5	9.7	10.5	11.8
Others	4.2	4.5	4.8	5.2	5.0

### Price performance



### Key Highlights

- Margin increased 30 bps QoQ to 11%. Stage-3 assets declined 46 bps QoQ to 1.67%
- **Key Risk:** 1) Competitive intensity to pressurise yields; 2) Shift to higher rates likely to aid margins

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## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: Miss on NIM, growth; cost control in place

- NII grew 2.1% QoQ aided by expansion in NIMs. NIMs during the quarter increased 30 bps QoQ to ~11.0% as a shift from teaser rates to normal rates was completed in the last quarter. Other income was up 4.5% QoQ
- Operating expenses were under control and registered de-growth of 16.8% QoQ despite an increase in staff count. As a result, C/I ratio declined to 28.2% from 34.7% in Q1FY23
- There were provision reversals during the quarter of ₹ 13 crore. Hence, PAT witnessed growth of 8.1% QoQ (down 12.8% YoY) at ₹ 867 crore
- Asset quality improved as gross stage 3 assets fell 46 bps QoQ to 1.67%
- AUM growth (standalone) came in at 3.8% YoY to ₹ 57230 crore while consolidated AUM was up 6% YoY at ₹ 643556 crore. Sequentially, there was growth of ~1% on a standalone and consolidated basis
- The performance of key subsidiaries was mixed as Belstar, MFI arm, reported healthy AUM growth of 53.2% YoY, 9.4% QoQ to ₹ 51381 crore and asset quality was steady as stage 3 assets (as percentage of net loans) was at 8.52% vs. 8.57% in Q1FY23. Home finance showed deterioration in asset quality as Stage 3 assets inched up 81 bps QoQ to 4.33% with 13% decline in AUM

### Q2FY23 Earnings Conference Call highlights

- Growth in gold loans driven by a rise in gold price while tonnage witnessed a marginal decline sequentially. Growth guidance maintained at lower level of 10% for FY23E
- The new 150 branch addition is expected to be completed by December 2022. By September 2022, out of 150, ~25 branches added
- Yields are likely to be better than H1FY23 as teaser loans are moved to higher interest rates. Incremental yield on gold loan at 17.3% in Q2FY23
- Borrowing cost was at 7.98% in Q2FY23. Benefit of repricing of high cost borrowing is expected to continue ahead. CoF is expected at ~8% in FY23E given the hike in interest rates
- Auctions during the quarter were at ₹ 578 crore, which is ~1% of total AUM (standalone)
- Advertisement expenses were on track in line with the earlier guidance. Some advertisement expenses are expected to accrue in H2FY23
- No update has been received from RBI on the cards business

## 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
HDFC (HDFC)	2,504	2,850	Buy	4,552	66.7	75.8	89.0	103.6	37.6	33.0	28.1	24.2	4.2	3.8	3.7	3.4	12.3	12.0	13.3	14.8
Bajaj Finserv (BAFINS)	1,700	1,850	Hold	2,708	35.2	52.7	43.1	56.5	48.2	32.3	39.4	30.1	3.9	3.4	5.7	4.8	8.3	11.1	15.7	17.4
Bajaj Finance (BAJFI)	6,978	8,650	Buy	4,225	73.6	116.7	190.5	226.4	94.9	59.8	36.6	30.8	11.7	9.8	8.1	6.1	12.8	17.4	23.4	21.6
Muthoot Finance (MUTFIN)	1,070	1,150	Hold	432	92.8	98.5	84.4	103.9	11.5	10.9	12.7	10.3	2.9	2.5	2.2	1.9	27.8	23.5	17.3	18.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23E	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	1,572	1,849	1,813	-13.3	1,540	2.1	Aided by margin expansion and decent business growth
NIM (%)	11.04	13.00	13.46	-242 bps	10.74	30 bps	Yield up 8 bps QoQ to 17.38%
Other Income	29	41	41	-30.0	28	4.5	
Net Total Income	1,601	1,889	1,854	-13.6	1,568	2.1	
Staff cost	269	296	231	16.7	283	-4.7	Despite addition in staff, opex was controlled
Other Operating Expenses	183	282	209	-12.5	261	-30.0	
PPP	1,149	1,312	1,414	-18.8	1,024	12.2	
Provision	-13	60	74	-117.1	-58	-77.9	Provision reversals during the quarter
PBT	1,161	1,252	1,340	-13.3	1,082	7.4	
Tax Outgo	294	319	346	-14.9	280	5.1	
PAT	867	933	994	-12.8	802	8.1	Gradual improvement in NIM impacts PAT

Key Metrics

GNPA	956	1,011	1,021	-6.4	1,208	-20.9	
AUM	57,230	62,325	55,147	3.8	56,689	1.0	
Borrowings	46,810	49,805	48,831	-4.1	45,427	3.0	New customer addition seen from Q2FY23

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	7,772	6,535.9	-16	9,549	7,973.3	-17
Pre Provision Profit	5,797	4,544.3	-22	7,291	5,649.8	-23
NIM(%) (calculated)	11.7	10.0	-172 bps	12.7	11.0	-165 bps
PAT	4,263	3,386.0	-21	5,377	4,168.8	-22
ABV per share (₹)	497	482.3	-3	592	557.3	-6

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	10.0	12.0	13.0	15.0
NIM Calculated (%)	10.0	11.0	11.7	12.7
Cost to income ratio (%)	31.8	30.4	26.8	25.3
GNPA (₹ crore)	15,964.6	15,019.5	16,400.0	15,842.4
NNPA (₹ crore)	13,569.9	12,616.4	13,940.0	13,307.6
Credit cost (%)	0.1	0.1	0.2	0.2

Source: Company, ICICI Direct Research

Exhibit 5: SOTP

Company	Value / share
Muthoot (Standalone, gold business)	2x FY24E Adj. Networth 1118
Belstar	1.3x FY24E Adj. Networth 13
Home finance	1.2x FY24E Adj Networth 14
Others	13
Total subsidiaries val @20% discount	31
<b>SOTP target</b>	<b>1150</b>

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	10,742.7	12,742.7
Interest Expended	2,790.9	3,692.4	3,835.8	4,206.8	4,769.4
Net Interest Income	5,773.5	6,636.1	7,120.3	6,535.9	7,973.3
growth (%)	27.7	14.9	7.3	(8.2)	22.0
Non Interest Income	158.4	245.8	142.4	132.0	145.9
Net Income	5,931.9	6,881.9	7,262.6	6,667.9	8,119.2
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	4,544.3	5,649.8
Provisions	95.7	95.0	127.0	29.7	91.5
PBT	4,057.4	5,006.5	5,309.4	4,514.6	5,558.4
Taxes	1,039.1	1,284.3	1,355.1	1,128.7	1,389.6
Net Profit	3,018.3	3,722.2	3,954.3	3,386.0	4,168.8
growth (%)	53.0	23.3	6.2	(14.4)	23.1
EPS (₹)	75.3	92.8	98.5	84.4	103.9

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 (₹)	75.3	92.8	98.5	84.4	103.9
BV (₹)	288.5	379.8	457.1	516.1	588.7
ABV (₹)	268.5	369.8	419.9	482.3	557.3
P/E	14.2	11.5	10.9	12.7	10.3
P/BV	3.7	2.8	2.3	2.1	1.8
P/ABV	4.0	2.9	2.5	2.2	1.9
DPS (Rs.)	27.0	0.0	19.7	21.1	26.0
Yields & Margins (%)					
Net Interest Margins	13.7	12.8	12.0	10.0	11.0
Yield on assets	20.4	19.9	18.8	16.4	17.6
Avg. cost on borrowings	8.7	8.9	8.0	8.0	8.2
Quality and Efficiency (%)					
Cost to income ratio	30.0	25.9	25.1	31.8	30.4
Borrowings to loans %	87.2	85.0	83.3	84.7	83.3
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	17.3	18.8
RoA	6.8	6.5	5.9	4.6	5.1

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	20311	23226
Networth	11572	15239	18345	20712	23627
Borrowings	37130	45946	49811	55358	60968
Other Liabilities & Provisions	1758	2280	2399	44	1378
Total	50460	63465	70555	76115	85973
Application of Funds					
Fixed Assets	251	280	309	340	374
Investments	1438	1590	1320	1633	1829
Advances	42604	54063	59384	65323	73161
Cash and Bank	5641	7117	9179	7839	8779
Other assets	525	414	362	980	1829
Total	50460	63465	70555	76115	85973

Source: Company, ICICI Direct Research

### Exhibit 9: Growth %

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets	32.5	25.8	11.2	7.9	13.0
Advances	22.0	26.9	9.8	10.0	12.0
Net interest income	27.7	14.9	7.3	-8.2	22.0
Operating expenses	15.5	0.1	2.6	16.3	16.3
Operating profit	33.8	22.8	6.6	-16.4	24.3
Net profit	53.0	23.3	6.2	-14.4	23.1
Net worth	18.2	31.7	20.4	12.9	14.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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