

November 11, 2022

## Q2FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>1,431</b>		<b>1,431</b>	
NII (Rs.)	79,116	84,239	79,116	84,239
% Chng.	-	-	-	-
PPoP (Rs.)	54,792	58,833	54,792	58,833
% Chng.	-	-	-	-
EPS (Rs.)	100.1	107.6	100.1	107.6
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	71,203	70,678	79,116	84,239
Growth (%)	7.3	(0.7)	11.9	6.5
Op. Profit (Rs m)	54,364	50,440	54,792	58,833
PAT (Rs m)	39,543	36,682	40,169	43,173
EPS (Rs.)	98.5	91.4	100.1	107.6
Gr. (%)	6.2	(7.2)	9.5	7.5
DPS (Rs.)	20.0	21.0	21.0	21.0
Yield (%)	1.8	1.9	1.9	1.9
Margin (%)	12.6	11.4	11.4	11.5
RoAE (%)	21.6	17.4	16.7	17.0
RoAA (%)	5.9	4.9	4.6	4.7
PE (x)	11.2	12.1	11.0	10.3
P/BV (x)	2.4	2.1	1.8	1.5
P/ABV (x)	2.5	2.2	1.9	1.6

### Key Data

MUTH.BO | MUTH IN

52-W High / Low	Rs.1,723 / Rs.950
Sensex / Nifty	60,614 / 18,028
Market Cap	Rs.444bn/ \$ 5,424m
Shares Outstanding	401m
3M Avg. Daily Value	Rs.1143.34m

### Shareholding Pattern (%)

Promoter's	73.35
Foreign	9.93
Domestic Institution	11.75
Public & Others	4.96
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	5.0	(5.7)	(33.9)
Relative	0.5	(15.4)	(34.2)

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# Muthoot Finance (MUTH IN)

Rating: BUY | CMP: Rs1,105 | TP: Rs1,431

## Yield Seems To Have Bottomed Out, Asset Quality Strong

### Quick Pointers:

- Q2'23 yields improve to 17.38% from 17.3% in Q1'23 as teaser loans have been discontinued; Q2'23 NIM at 11.0% vs 10.7% in Q1'23
- Gold AUM sees a 0.6% QoQ growth after de-growth in the last quarter; Asset quality improves with GNPA at 1.67% vs 2.13% in Q1'23.

**Muthoot Finance (MUTH) recorded muted loan growth (1% QoQ growth and 3.8% YoY growth) to Rs 572bn (Ple:Rs 584bn) as gold loan AUM grew by 0.6% QoQ to Rs 565bn. Last quarter there was a 2.4% QoQ de-growth in gold loan AUM. Yields improved marginally (up by 8bps QoQ to 17.38% due to discontinuation of teaser rates). PAT at Rs 8.6bn (up 8.1%QoQ and down 12.8% YoY) came above our estimates of Rs 8.2bn on account of lower opex which was down 16.8% QoQ and up 2.8% YoY at Rs4.5bn(Ple:Rs5.5bn). Write back of provisions to the tune of Rs 0.12 bn also aided PAT. Higher yields resulted in rise of NIM to 11.0% vs 10.7% in Q1'23.**

**We have maintained our EPS estimates for FY23 and FY24 as we expect yields to improve from 17.38% to 18-19% in the coming quarters as teaser loans have been re-priced and it looks like yields have bottomed out. We have maintained a 14% CAGR in gold AUM book from FY22-24. Our core book multiple stands at 2.6x PABV Sep'24E. Subsequently our SoTP is maintained at Rs. 1,431. Reiterate BUY.**

- Sluggish 1% QoQ loan growth due to muted gold loan AUM growth of 0.6%; teaser book discontinuation helps yields:** MUTH recorded muted 1% QoQ growth in loan book to Rs572bn, up by 3.8% YoY, due to sluggish .6% QoQ growth in gold loans at Rs565bn.De-growth in tonnage was also seen (177 tones from 178 tones in Q1'23). There was a 1% QoQ growth in number of active customers in Q2'23(5.2Mn customers) after Q1'23 had seen a 3% QoQ de-growth. Company has opened 24 branches this quarter and partnered with LuLu International Exchange to provide UAE customers with easy gold loan repayment services. On the subsidiaries front Belstar Microfinance saw a strong 9.4% QoQ growth in AUM compared to 8% QoQ growth in Q1'23.
- Asset quality sees improvement on improving collections:** GNPA at 1.67% vs 2.13% in Q1'23. Bad debts written off at Rs40Mn in Q2'23 vs Rs 53Mn in Q1'23 and Rs77Mn in Q2'22
- New branch openings:** Company has received approval from RBI to open 150 new branches and management expects all 150 branches to be operational by December end. 24 branches were opened in Q2'23

MUTH's PAT at INR 8.6bn stood above estimates [ PLe: INR 8.2bn] and grew 8.1%QoQ but de-grew 12.8%YoY on account of lower opex and provisions.

NII at INR 15.7bn was up by 2.1%QoQ and down 13.3%YoY stood lower than estimates [PLe: INR 16.4bn] as yields marginally improved to 17.38% in Q2'23 from 17.30% in Q1'23 as teaser loans have ended and 0.6% QoQ growth in gold loan AUM.

AUM at INR 572bn stood below estimates [PLe: INR 584bn] growing 3.8%YoY and 1% QoQ led by gold loan growth of .6% QoQ. Tonnage also saw a dip falling to 177 tonnes from 178 tonnes in Q1'23

Yields appears to have bottomed out to 17.38% vs 17.3% in Q1FY23 driving up NIMs to 11.0% from 10.7% in Q1'23.

Opex at INR 4.5bn stood below estimates [PLe: INR 5.5bn] decreasing 16.8%QoQ and rising 2.8% YoY

PPoP at INR 11.4bn stood above estimates [PLe: INR 11.1bn] and was up 12.2% QoQ but down 18.8% YoY

Asset quality showed improvement with Stage 3 assets at 1.67% declining from 2.13% in Q1'23 and 1.85% in Q2FY22.

#### Exhibit 1: Lower Opex/provisions lead to PAT beat, Yields bottomed out

Y/e March (Rs mn)	Q2FY23	Q2FY22	YoY gr.	Q1FY23	QoQ gr.
Income from Operations	24,746	27,920	-11.4%	24,816	-0.3%
Interest Expenses	9,027	9,794	-7.8%	9,416	-4.1%
<b>Net Interest Income</b>	<b>15,720</b>	<b>18,125</b>	<b>-13.3%</b>	<b>15,400</b>	<b>2.1%</b>
Other Income	289	414	-30.0%	277	4.5%
<b>Total Income</b>	<b>16,009</b>	<b>18,539</b>	<b>-13.6%</b>	<b>15,677</b>	<b>2.1%</b>
Total Operating Expenses	4,522	4,397	2.8%	5,435	-16.8%
<b>Operating Profit (PPP)</b>	<b>11,487</b>	<b>14,142</b>	<b>-18.8%</b>	<b>10,241</b>	<b>12.2%</b>
Provisions & Write Offs	-127	744	-117.1%	-577	-77.9%
<b>PBT</b>	<b>11,614</b>	<b>13,398</b>	<b>-13.3%</b>	<b>10,818</b>	<b>7.4%</b>
Tax	2,942	3,458	-14.9%	2,798	5.1%
<b>Reported Profit</b>	<b>8,672</b>	<b>9,940</b>	<b>-12.8%</b>	<b>8,020</b>	<b>8.1%</b>
<b>Balance sheet Details</b>					
Borrowings	4,68,095	4,88,309	-4.1%	4,54,267	3.0%
AUM	5,72,303	5,51,468	3.8%	5,66,892	1.0%
<b>Asset Quality</b>					
Gross NPAs	9,558	10,213	-6.4%	12,078	-20.9%
Gross NPA (%)	1.67%	1.85%	-0.2%	2.13%	-0.5%
<b>NIM – calc</b>	<b>11.0%</b>	<b>13.5%</b>	<b>-2.4%</b>	<b>10.7%</b>	<b>0.3%</b>
<b>AUM (Rs mn)</b>					
Gold Loan	5,65,014	5,46,821	3.3%	5,61,766	0.6%
Other Loans	7,289	4,647	56.9%	5,126	42.2%
<b>AUM Mix (%)</b>					
Gold Loan	98.7%	99.2%	-0.4%	99.1%	-0.4%
Other Loan	0.8%	0.8%	0.0%	0.9%	-0.1%

Source: Company, PL

## Conference Call Highlights:

### Management guidance:

- Optimistic about gold loan AUM growth of 10% in FY23.
- Marginal increase in yields in FY23

### Business Update:

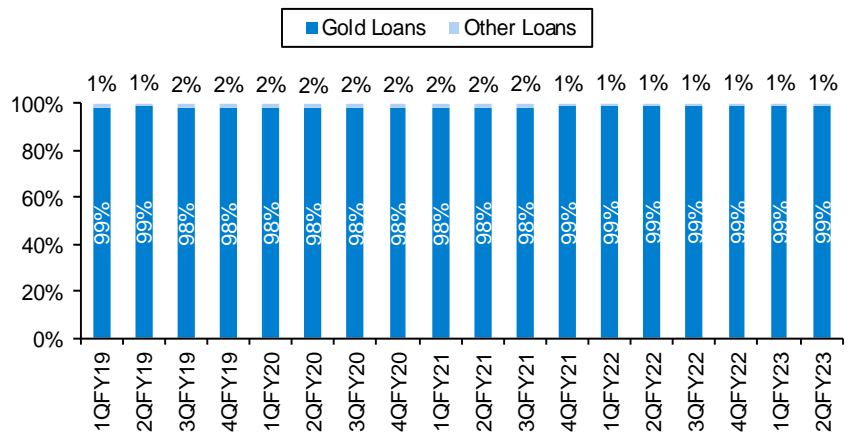
- Company has received approval from RBI to open 150 new branches and management expects all 150 branches to be operational by December end.
- Although opex has decreased sequentially, company expects to incur the budgeted expenses by year end. Effect of advertising and promotion expenses can be seen in upcoming quarters.
- Management acknowledged banks are doing more gold loans today.

### Liquidity and Asset quality:

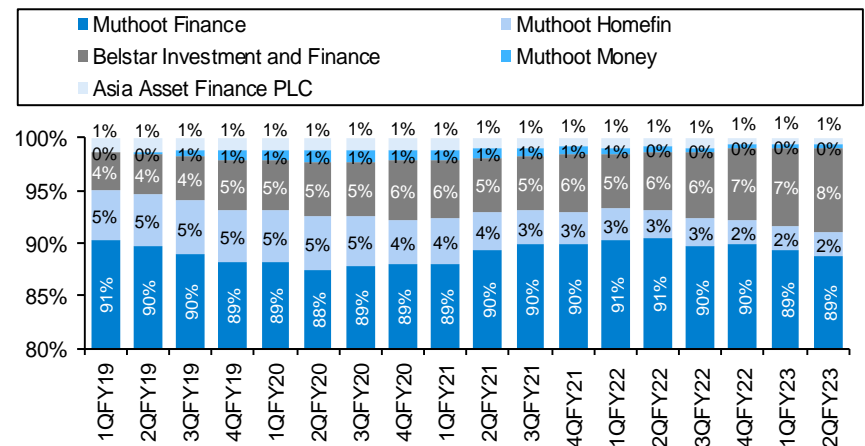
- Liquidity rose to around 12% at quarter end due to repayment of first tranche of ECB borrowing (around Rs.3500 crores) in early Oct'22.
- Asset quality has seen improvement with certain hike in stage 2 assets. However, management is confident that it is in line with its risk management matrix.

### Cost of Fund and NIM:

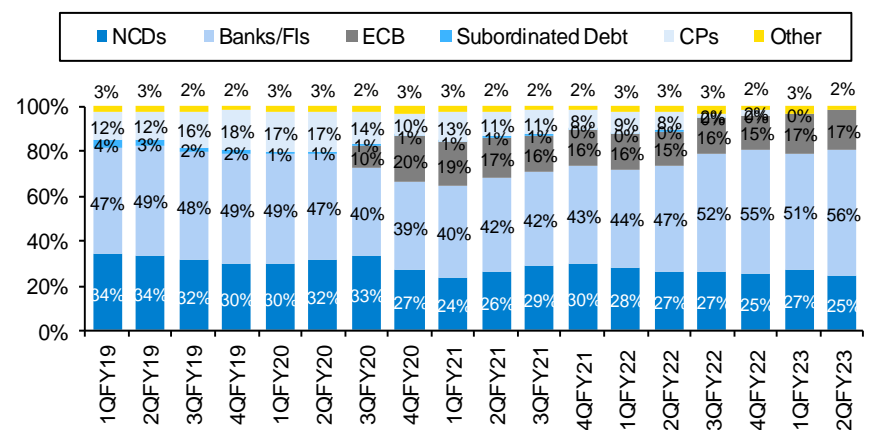
- With increasing interest rates and savings via partial repayment of ECB borrowings, management expects cost of funds to be around 8% in the next quarter
- All teaser loans have been discontinued by either migration to standard product of closure.
- There has been marginal improvement in yields and blended yields for incremental loans in Q3 are expected to be higher.

**Exhibit 2: AUM Mix: remained consistent QoQ**


Source: Company, PL

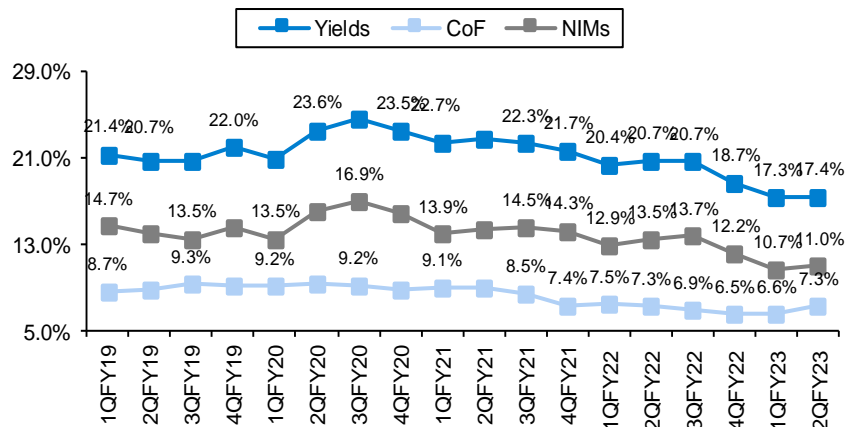
**Exhibit 3: Belstar Microfinance sees strong QoQ AUM growth**


Source: Company, PL

**Exhibit 4: Borrowings from banks/FI's sees a QoQ rise**


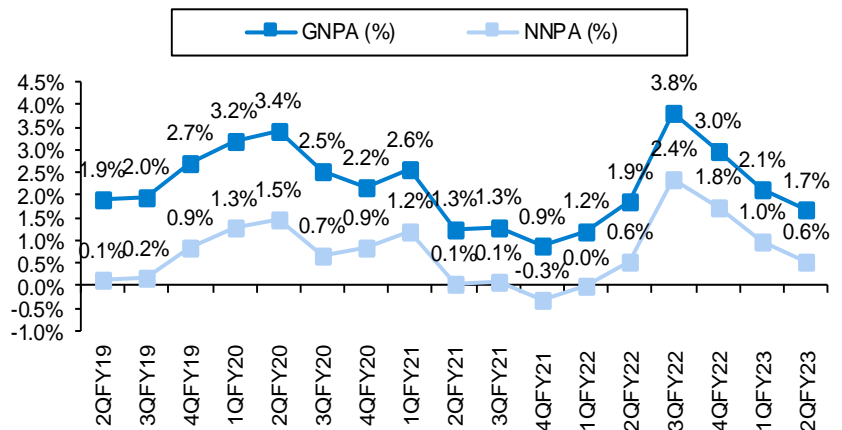
Source: Company, PL

Exhibit 5: NIMs marginally rise as teaser rates discontinued



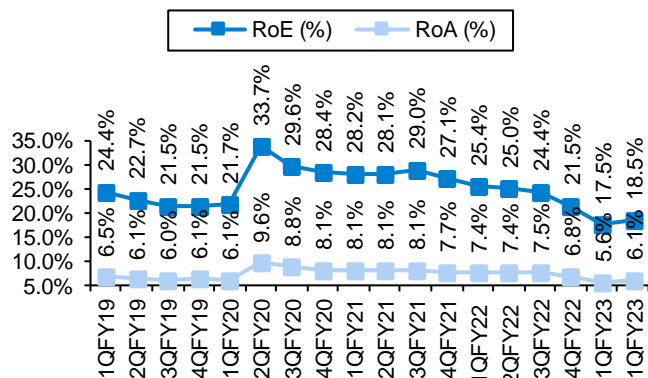
Source: Company, PL

Exhibit 6: Asset quality improves sequentially



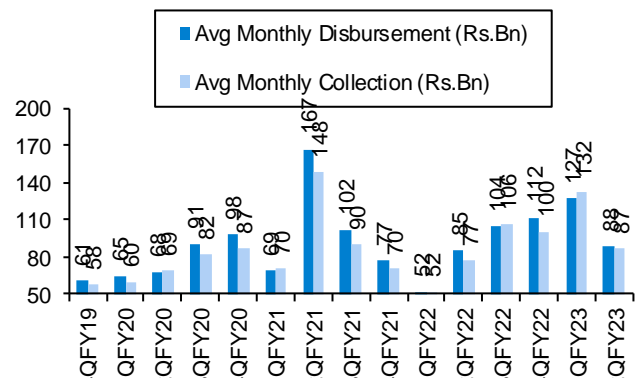
Source: Company, PL

Exhibit 7: Returns ratios improve sequentially



Source: Company, PL

Exhibit 8: Fall in average monthly disbursements



Source: Company, PL

## Exhibit 9: QoQ rise in active customers after 3 consecutive quarters of fall

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
No. of active customers	4,828,505	5,015,666	5,190,220	5,244,143	5,424,609	5,342,269	53,16,246	51,73,166	52,16,519
QoQ (%)	1.7%	4.0%	3.5%	1.0%	3.4%	-1.5%	-0.5%	-2.7%	0.8%

Source: Company, PL

## Exhibit 10: Target maintained at Rs. 1,431; Reiterate BUY

SoTP metrics	% share in overall business	Multiple Mar'23 (x)	Per share (Rs)
MUTHOOT FINANCE	91%	2.6	1416
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			3.70
Value of Key ventures			15
<b>Target price (Rs)</b>			<b>1,431</b>
CMP (Rs)			1,105
Upside (%)			29.4%

Source: PL

## Exhibit 11: No change in estimates Target price maintained at Rs1,431

(Rs mn)	Old			Revised			Change in Estimates		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Interest Income	70,678	79,116	84,239	70,678	79,116	84,239	0.0%	0.0%	0.0%
Operating Profit	50,440	54,792	58,833	50,440	54,792	58,833	0.0%	0.0%	0.0%
Net Profit	36,682	40,169	43,173	36,682	40,169	43,173	0.0%	0.0%	0.0%
EPS (Rs)	91.4	100.1	107.6	91.4	100.1	107.6	0.0%	0.0%	0.0%
Price Target (Rs)		<b>1,431</b>			<b>1,431</b>			-	
Reco		<b>BUY</b>			<b>BUY</b>				

Source: PL



## Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Inc. / Opt. Inc.	1,09,560	1,15,911	1,29,750	1,39,665
Interest Expenses	38,358	45,233	50,634	55,426
<b>Net interest income</b>	<b>71,203</b>	<b>70,678</b>	<b>79,116</b>	<b>84,239</b>
Growth(%)	7.3	(0.7)	11.9	6.5
Non-interest income	1,424	1,623	1,850	2,109
Growth(%)	(42.1)	14.0	14.0	14.0
Net operating income	72,626	72,301	80,966	86,348
<b>Expenditures</b>				
Employees	10,302	12,363	14,835	15,577
Other Expenses	7,421	8,905	10,686	11,221
Depreciation	539	593	652	718
Operating Expenses	17,723	21,268	25,521	26,797
<b>PPP</b>	<b>54,364</b>	<b>50,440</b>	<b>54,792</b>	<b>58,833</b>
Growth(%)	6.6	(7.2)	8.6	7.4
Provisions	1,270	1,420	1,112	1,139
<b>Profit Before Tax</b>	<b>53,094</b>	<b>49,020</b>	<b>53,680</b>	<b>57,694</b>
Tax	13,551	12,338	13,511	14,522
Effective Tax rate(%)	25.5	25.2	25.2	25.2
<b>PAT</b>	<b>39,543</b>	<b>36,682</b>	<b>40,169</b>	<b>43,173</b>
Growth(%)	6.2	(7.2)	9.5	7.5

## Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Source of funds</b>				
Equity	4,013	4,013	4,013	4,013
Reserves and Surplus	1,79,432	2,06,287	2,36,628	2,79,801
Networth	1,83,446	2,10,300	2,40,642	2,83,815
Growth (%)	20.4	14.6	14.4	17.9
Loan funds	4,98,113	5,41,738	6,22,256	6,37,431
Growth (%)	8.4	8.8	14.9	2.4
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	12,334	22,092	30,667	31,398
Other Liabilities	11,654	19,475	27,150	57,556
<b>Total Liabilities</b>	<b>7,05,547</b>	<b>7,93,605</b>	<b>9,20,715</b>	<b>10,10,199</b>
<b>Application of funds</b>				
Net fixed assets	3,131	3,200	4,282	4,282
Advances	5,93,842	6,45,852	7,41,844	8,15,670
Growth (%)	9.8	8.8	14.9	10.0
Investments	13,205	19,147	27,763	40,257
Current Assets	94,884	1,25,406	1,46,826	1,49,991
<b>Net current assets</b>	<b>82,549</b>	<b>1,03,314</b>	<b>1,16,158</b>	<b>1,18,593</b>
Other Assets	485	-	-	-
<b>Total Assets</b>	<b>7,05,547</b>	<b>7,93,605</b>	<b>9,20,715</b>	<b>10,10,200</b>
Growth (%)	11.2	12.5	16.0	9.7
<b>Business Mix</b>				
AUM	5,75,313	6,45,362	7,41,345	8,15,479
Growth (%)	8.9	12.2	14.9	10.0
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

## Profitability &amp; Capital (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	12.6	11.4	11.4	11.5
ROAA	5.9	4.9	4.6	4.7
ROAE	21.6	17.4	16.7	17.0

Source: Company Data, PL Research

## Quarterly Financials (Rs. m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Int. Inc. / Operating Inc.	28,394	26,410	24,816	24,746
Income from securitization	-	-	-	-
Interest Expenses	9,533	9,208	9,416	9,027
<b>Net Interest Income</b>	<b>18,861</b>	<b>17,201</b>	<b>15,400</b>	<b>15,720</b>
Growth (%)	6.5	(6.4)	(9.5)	(13.3)
Non-Interest Income	324	374	277	289
<b>Net Operating Income</b>	<b>19,185</b>	<b>17,575</b>	<b>15,677</b>	<b>16,009</b>
Growth (%)	4.8	(6.4)	(9.5)	(13.6)
Operating expenditure	4,519	5,357	5,435	4,522
<b>PPP</b>	<b>14,666</b>	<b>12,218</b>	<b>10,241</b>	<b>11,487</b>
Growth (%)	-	-	-	-
Provision	889	(700)	(577)	(127)
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	13,777	12,918	10,818	11,614
Tax	3,488	3,315	2,798	2,942
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.3	25.7	25.9	25.3
<b>PAT</b>	<b>10,289</b>	<b>9,603</b>	<b>8,020</b>	<b>8,672</b>
Growth	4	(4)	(17)	(13)
AUM	5,46,876	5,80,532	5,66,892	5,72,303
YoY growth (%)	8.5	10.3	7.7	3.8
Borrowing	-	4,98,113	-	-
YoY growth (%)	(100.0)	8.4	-	-

## Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	1,105	1,105	1,105	1,105
EPS (Rs)	98.5	91.4	100.1	107.6
Book value (Rs)	457.1	524.0	599.6	722.0
Adj. BV(Rs)	439.9	508.6	584.8	692.0
P/E(x)	11.2	12.1	11.0	10.3
P/BV(x)	2.4	2.1	1.8	1.5
P/ABV(x)	2.5	2.2	1.9	1.6
DPS (Rs)	20.0	21.0	21.0	21.0
Dividend Payout Ratio(%)	-	-	-	-
Dividend Yield(%)	1.8	1.9	1.9	1.9

## Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs(Rs m)	8,630	7,744	7,413	7,594
Net NPA(Rs m)	6,904	6,195	5,931	6,075
Gross NPAs to Gross Adv.(%)	1.5	1.2	1.0	0.9
Net NPAs to net Adv.(%)	1.2	1.0	0.8	0.7
NPA coverage(%)	20.0	20.0	20.0	20.0

## Du-Pont as a % of AUM

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	12.4	11.0	10.7	10.3
NII INCI. Securitization	12.4	11.0	10.7	10.3
Total income	12.6	11.2	10.9	10.6
Operating Expenses	3.1	3.3	3.4	3.3
PPOP	9.5	7.9	7.5	7.3
Total Provisions	0.2	0.2	0.2	0.1
RoAA	5.9	4.9	4.6	4.7
Avg. Assets/Avg. net worth	3.8	3.8	3.9	3.6
RoAE	21.6	17.4	16.7	17.0

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	1,431	1,042
2	15-Aug-22	BUY	1,431	1,187
3	07-Jul-22	BUY	1,431	1,055
4	28-May-22	BUY	1,431	1,096
5	12-Apr-22	BUY	1,714	1,374
6	15-Feb-22	BUY	1,714	1,355
7	11-Jan-22	BUY	1,905	1,539

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	8,953	7,432
2	Cholamandalam Investment and Finance Company	BUY	792	745
3	L&T Finance Holdings	BUY	88	80
4	Mahindra & Mahindra Financial Services	Hold	230	220
5	Manappuram Finance	BUY	126	99
6	Muthoot Finance	BUY	1,431	1,042
7	SBI Cards and Payment Services	Accumulate	1,013	858
8	Shriram Transport Finance	BUY	1,521	1,198

## 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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