

Muthoot Finance

Estimate change 

TP change 

Rating change 

CMP: INR1,853

TP: INR1,720 (-7%)

Neutral

Operationally healthy quarter with strong gold loan growth

Earnings miss from higher provisioning; NIM compression from rise in CoB

- MUTH's 1QFY25 performance was characterized by: 1) gold loan growth of ~11% YoY to ~INR809b; 2) NIM compression of ~15bp QoQ to 11.8%; and 3) the rise in gold tonnage by ~3% QoQ to 194 tonnes.
- PAT grew 11% YoY and 2% QoQ to ~INR10.8b (8% miss). Net total income rose 7% YoY to ~INR23.6b (in line), and PPOP was up 22% YoY at ~INR17.2b (in line).
- Gold loan growth was supported by gold tonnage growth, along with an increase in the customer base by ~4% QoQ to ~5.9m. LTV was largely stable QoQ at ~63%.
- We model a standalone AUM CAGR of ~18% over FY24-26E. This, we believe, will result in a PAT CAGR of ~19% over this period. We model RoA/RoE of ~5.2%/19% in FY26.
- MUTH's valuations have re-rated in the last three months, aided by 1) higher gold prices, resulting in better visibility on stronger gold loan growth, and 2) RBI's gold loan ban on (once) the second largest gold loan NBFC, resulting in lower competitive intensity and better gold loan growth for other gold NBFC peers.
- The management acknowledged that the competitive aggression from banks in gold loans has reduced over the last couple of quarters. Additionally, lower availability of unsecured credit in the form of personal loans/MFI loans, could have resulted in stronger demand for gold loans. This improvement in gold loan demand could sustain in the near term.
- MUTH now trades at 2.3x FY26E P/BV and, in our view, has benefited from the sharp rise in gold prices and the RBI ban on gold loans on a large gold loan NBFC. In the short term, the removal of the RBI embargo on gold loans for its gold loan NBFC peer could change the dynamics of both gold loan growth and pricing for MUTH. **We maintain our Neutral rating with a revised TP of INR1,720 (based on 2.1x FY26E P/BV).**

Strong AUM growth in Belstar; deterioration in asset quality

- MUTH's microfinance subsidiary, Belstar, reported 42% YoY growth in AUM to ~INR99.5b. Reported PAT stood at ~INR900m, down ~14% QoQ.
- Asset quality deteriorated, with GS3 increasing ~55bp QoQ to ~2.4%.
- Belstar added ~6 branches in 1QFY25, and CRAR stood at ~21%.

Highlights from the management commentary

- MUTH management continued to guide for gold loan growth of ~15% and will revise its growth guidance after 1HFY25 results. Trends in July/August disbursements have been along similar lines as during 1QFY25.
- The company expects CoB to further increase by ~35bp over the next few quarters.

Bloomberg	MUTH IN
Equity Shares (m)	401
M.Cap.(INRb)/(USD\$b)	744 / 8.9
52-Week Range (INR)	1905 / 1170
1, 6, 12 Rel. Per (%)	2/25/13
12M Avg Val (INR M)	925

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	77.9	96.4	108.3
PPP	56.5	70.8	79.0
PAT	40.5	50.9	57.3
EPS (INR)	100.9	126.7	142.8
EPS Gr. (%)	16.6	25.6	12.7
BV/Sh.(INR)	605	705	818
Ratios			
NIM (%)	11.2	11.4	11.0
C/I ratio (%)	29.8	28.4	28.9
RoA (%)	5.1	5.4	5.2
RoE (%)	17.9	19.4	18.8
Payout (%)	23.8	21.5	20.5
Valuations			
P/E (x)	18.4	14.6	13.0
P/BV (x)	3.1	2.6	2.3
Div. Yld. (%)	1.3	1.5	1.6

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	73.4	73.4	73.4
DII	14.5	14.7	13.7
FII	8.7	8.3	8.7
Others	3.4	3.6	4.2

FII Includes depository receipts

Valuation and view

- MUTH reported healthy gold loan growth, aided by gold tonnage growth and stronger customer additions. Despite the expected seasonality in gold loan growth in 2Q/3Q, we expect it to remain healthy in the near term, aided by higher gold prices and levers on LTV (~63% as of Jun'24).
- The removal of the RBI's ban on gold loans for a large gold loan NBFC remains a near-term risk for MUTH. If and when the RBI revokes the ban, we expect competitive intensity to again increase in the gold loan ecosystem, even though it might not be as aggressive as earlier. **Maintain our Neutral rating with a revised TP of INR1,720 (based on 2.1x FY26E BVPS).**

Quarterly Performance												(INR M)
Y/E March	FY24				FY25E				FY24	FY25E	1QFY25E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Interest Income	29,577	30,147	31,176	33,575	36,560	38,753	39,916	41,030	1,24,476	1,56,259	35,523	3
Other operating income	410	450	501	514	478	517	551	572	1,874	2,118	471	1
Total Operating income	29,987	30,597	31,677	34,089	37,038	39,271	40,467	41,602	1,26,350	1,58,377	35,994	3
YoY Growth (%)	19.8	22.5	19.1	19.5	23.5	28.3	27.7	22.0	20.2	25.3	20.0	
Other income	276	139	80	95	63	132	84	121	590	400	121	-48
Total Income	30,263	30,736	31,757	34,184	37,101	39,403	40,551	41,722	1,26,940	1,58,777	36,115	3
YoY Growth (%)	20.6	22.8	19.1	19.4	22.6	28.2	27.7	22.1	20.4	25.1	19.3	
Interest Expenses	10,638	11,563	12,119	12,228	13,511	14,727	15,464	16,189	46,548	59,891	13,083	3
Net Income	19,625	19,173	19,638	21,956	23,590	24,676	25,087	25,533	80,393	98,886	23,032	2
Operating Expenses	5,620	5,751	5,696	6,861	6,437	6,952	7,160	7,534	23,927	28,083	6,518	-1
Operating Profit	14,006	13,422	13,942	15,095	17,153	17,724	17,927	17,999	56,466	70,803	16,514	4
YoY Growth (%)	36.8	16.9	10.4	16.9	22.5	32.0	28.6	19.2	19.5	25.4	17.9	
Provisions	860	120	137	860	2,236	350	250	-483	1,978	2,353	700	219
Profit before Tax	13,145	13,302	13,805	14,236	14,917	17,374	17,677	18,482	54,488	68,450	15,814	-6
Tax Provisions	3,394	3,392	3,532	3,673	4,130	4,465	4,543	4,438	13,991	17,576	4,064	2
Net Profit	9,751	9,910	10,273	10,563	10,787	12,909	13,134	14,044	40,497	50,873	11,749	-8
YoY Growth (%)	21.6	14.3	13.9	17.0	10.6	30.3	27.9	33.0	16.6	25.6	20.5	
Key Operating Parameters (%)												
Yield on loans (Cal)	18.3	17.9	18.1	18.6	18.5							
Cost of funds (Cal)	8.4	8.7	8.6	8.4	8.7							
Spreads (Cal)	9.9	9.2	9.5	10.2	9.8							
NIMs (Cal)	12.0	11.2	11.2	11.9	11.8							
Credit Cost	0.5	0.1	0.1	0.5	1.1							
Cost to Income Ratio	28.6	30.0	29.0	31.2	27.3							
Tax Rate	25.8	25.5	25.6	25.8	27.7							
Balance Sheet Parameters												
AUM (INR b)	676	690	712	758	843							
Change YoY (%)	19.3	20.6	23.3	20.0	24.7							
Gold loans (INR b)	660	675	692	729	809							
Change YoY (%)	17.6	19.5	21.8	17.8	22.54							
Gold Stock Holding (In tonnes)	182	183	184	188	194							
Avg gold loans per branch (INR m)	139	142	145	150	167							
Borrowings (INR b)	513	553	580	588	659							
Change YoY (%)	12.8	18.2	31.0	18.2	28.7							
Borrowings Mix (%)												
Listed secured NCDs	24.8	24.4	28.8	27.9	28.0							
Term loans	59.8	65.4	61.6	63.0	55.0							
Commercial Paper	7.7	8.3	8.0	7.9	7.2							
Others	2.6	1.9	1.6	1.3	1.6							
Debt/Equity (x)	2.3	2.3	2.2	2.3	2.6							
Asset Quality Parameters (%)												
GS 3 (INR m)	28,789	27,639	25,767	24,845	33,532							
Gross Stage 3 (% on Assets)	4.3	4.0	3.6	3.3	4.0							
Total Provisions (INR m)	11,422	11,486	11,542	12,304	14,413							
Return Ratios (%)												
RoAUM (Rep)	6.0	5.8	5.9	5.8	5.5							
RoE (Rep)	18.5	18.3	18.1	17.8	17.7							

E: MOFSL estimates

Gold loans grew ~11% QoQ; Increase in average monthly disbursements

- Gold loan AUM grew ~11% QoQ and ~23% YoY to ~INR809b, while consolidated AUM at ~INR980b rose ~28% YoY.
- Gold tonnage rose ~3% QoQ to 194tonne. Gold loan LTV rose ~40bp QoQ at ~63% and the number of gold loan accounts rose to 9.2m (PQ: 8.7m).
- Average monthly disbursement rose to INR245b in 1QFY25 (PQ: INR150b), with average ticket size increasing to ~INR88K (PQ: INR83K).
- There has been caution from the RBI on unsecured personal loans and because of lower availability of unsecured loans, the demand for gold loans has improved. The management continued to guide for ~15% YoY gold loan growth, supported by the addition of 100-150 new branches in FY25. However, we expect gold AUM CAGR of ~18% over FY24-FY26E.

Decline in both NIM and spreads

- MUTH reported a ~5bp QoQ decline in yields and ~30bp increase in CoB, resulting in a ~35bp decline in spreads to ~9.8%.
- NIM (calc.) declined ~15bp QoQ to ~11.8% We expect NIM of 11.4%/11.0% in FY25/FY26. MUTH might pivot to a lower (than historical) margin business model that will aid stronger and more stable gold loan growth.

Asset quality deteriorates; Higher ECL provisions led to elevated credit costs

- GS3 rose ~70bp QoQ to ~4.0%. However, GS2 rose by ~140bp to 3.2%. 30+dpd rose ~210bp QoQ to 7.1%.
- Higher credit costs were because of higher ECL provisions on the standard loans. Stage 3 assets rose by ~INR9b in 1QFY25, on which the company made ECL provisions of ~10%. Management guided that these NPAs are only technical in nature and that it has given more time to customers to repay their gold loans.



Highlights from the management commentary

Guidance

- Continued to guide for ~15% Gold loan growth and the company will review its guidance after 1HFY24 results. Trends in July/August are continuing just like before.
- MUTH does not see anything negative on the horizon.
- The company guided for a ~35bp increase in the CoB from current levels of 8.75%; ECL borrowings raised by the company came at ~9.6%

Asset Quality

- Higher credit costs were because of higher ECL provisions on the standard loan book. There is also an increase in Stage 3 assets by ~INR9b on which it makes provisions of ~10%. There will not be any cash loss on account of this increase in NPA.
- Generally, MUTH fixes the PD/LGD in March and keeps it the same through the course of the year.
- ARC transaction was done for 80,000 customers and more than 60,000 customers have taken back their gold jewelry. ARC was done for ~INR7b and ~INR2b of principal is still outstanding. It does not plan to do any additional ARC transactions in the near future.
- MGFL is not seeing much stress among customers but deterioration in asset quality is because MUTH is not doing aggressive auctions.
- It will endeavor to keep the GNPA below certain threshold. The company has also been making efforts to ask the customers to close the existing loan and take a new loan.

Gold Loans

- MUTH continues to see good gold loan disbursements in Jul/Aug.
- There has been caution from the RBI on unsecured personal loans and because of lower availability of unsecured loans, the demand for gold loans has improved.
- MUTH had shared in the past that the banks were not fair in gold loans. However, the aggressiveness of banks has eased.
- Gold prices have been steadily going up because of geo-political tensions. Domestic gold prices declined ~8-9% when there was a customs rate cut on gold in the Union Budget.
- In mature markets, there are repeat customers of gold loans. In newer markets, there are customers who are favorably looking at gold loans.
- Gold tonnage growth is inversely correlated to the gold price.
- Customer takes top-up loans when his/her eligibility goes up with higher gold prices. As long as the customer is below the 75% LTV threshold, MUTH is not worried about giving additional loans to the existing customers.
- LTV stood at ~63% as on 1QFY25.

Margins

- NIMs are reasonable now. Occasionally it has also seen the incremental cost of borrowings going up. It will absorb a part of this increase in CoB and the remainder will be passed on to customers through increase in yields, to protect its NIM.
- Guided for NIM to remain stable in the current range (+/-50-100bp).

Microfinance

- There is stress in the industry but Belstar's asset quality performance is better than many of its MFI peers.

Personal Loans

- Within Personal Loans, ~50-60% of its PL portfolio will be open-market sourced and ~40-50% will be cross-sell to existing customers.

Branch Expansion

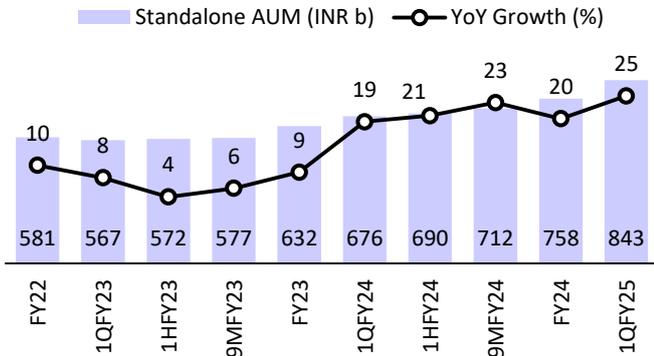
- It has been adding branches wherever the regional office feels there is an opportunity. MUTH plans to add another 100-150 branches in this fiscal year.

Others

- Accrued interest stood at ~INR19.8b as on 1QFY25
- Gold auctions stood at INR680m in 1QFY25 and ~INR1.62b in 4QFY24
- PD stood at ~8.59% and LGD stood at ~9.96%
- Gold Loan per gram offered to customers is basis the moving average of 30-day gold loan prices

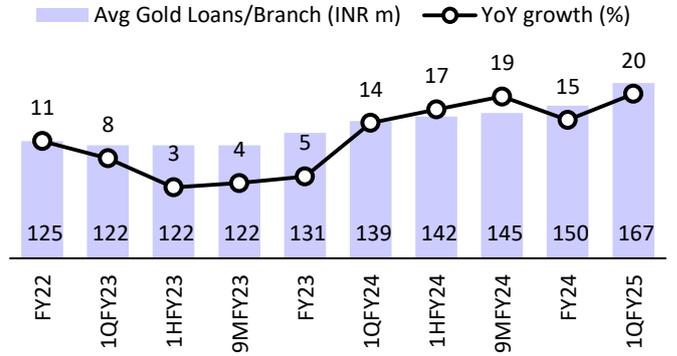
Key exhibits

Exhibit 1: Standalone AUM grew 25% YoY



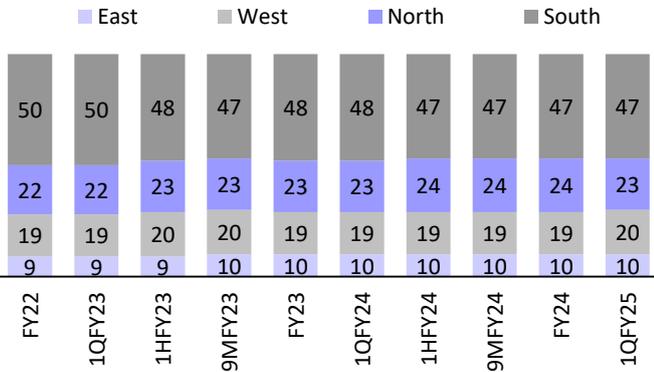
Source: MOFSL, Company

Exhibit 2: Trend in productivity



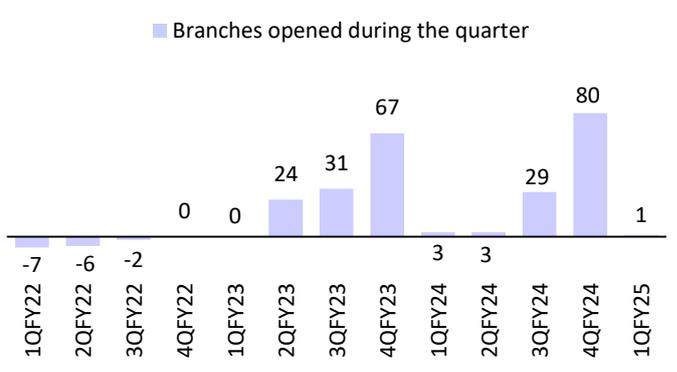
Source: MOFSL, Company

Exhibit 3: Regional mix of gold loans stable



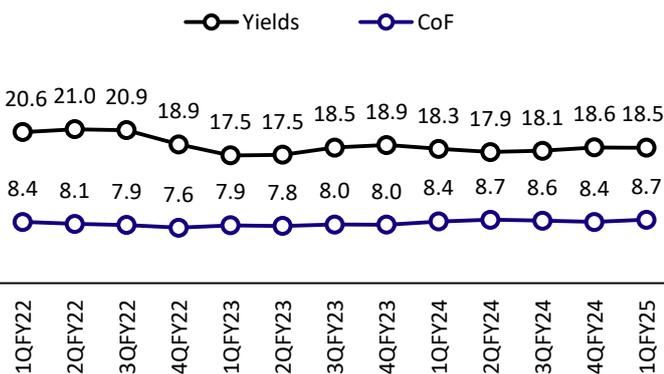
Source: MOFSL, Company, Gold loan portfolio mix

Exhibit 4: MUTH opened only 1 new gold loan branches in 1Q



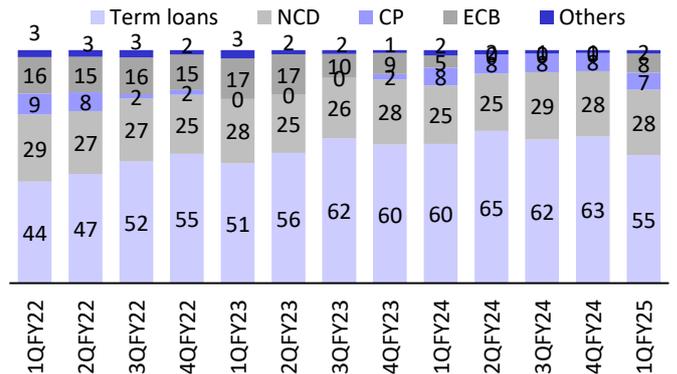
Source: MOFSL, Company

Exhibit 5: Spreads (calc.) declined ~35bp QoQ (%)



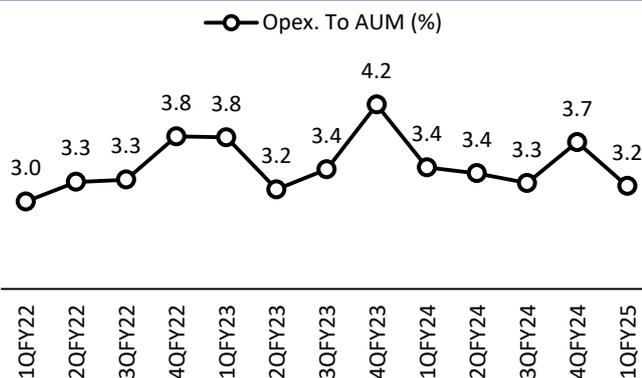
Source: MOFSL, Company

Exhibit 6: Borrowing mix (%)



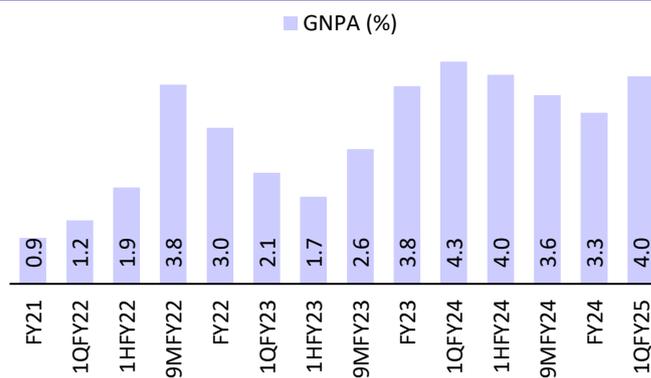
Source: MOFSL, Company, Borrowing mix%

Exhibit 7: OPEX/AUM declined ~50bp QoQ to 3.2%



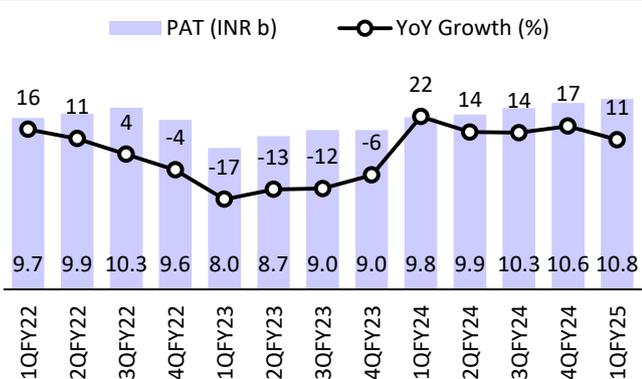
Source: MOFSL, Company

Exhibit 8: GNPA rose ~70bp QoQ (%)



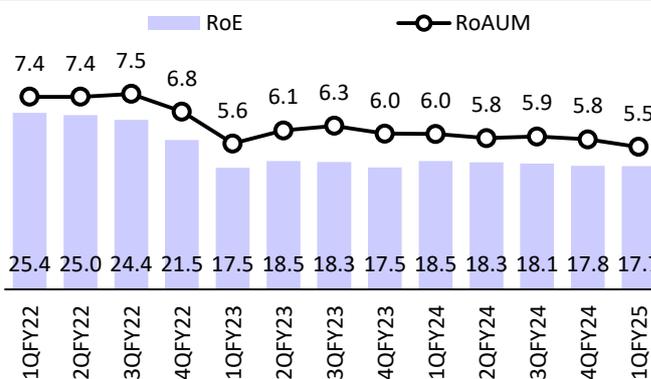
Source: MOFSL, Company

Exhibit 9: PAT grew 11% YoY



Source: MOFSL, Company

Exhibit 10: RoA/RoE at ~5.5%/18.0% in 1QFY25



Source: MOFSL, Company

Valuation and view

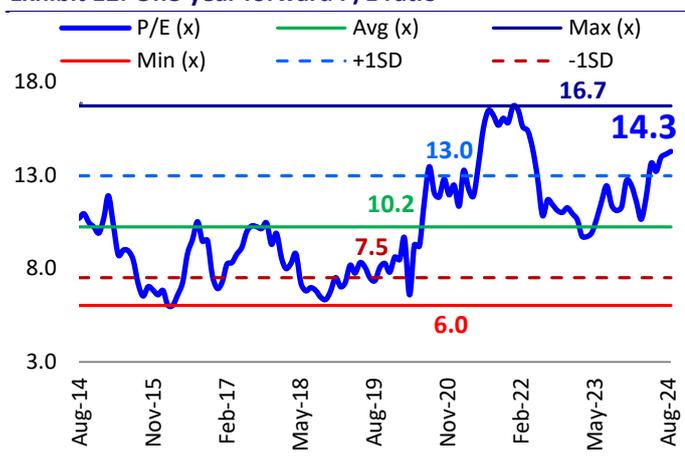
- MUTH reported healthy gold loan growth, aided by gold tonnage growth and stronger customer additions. Despite the expected seasonality in gold loan growth in 2Q/3Q, we expect it to remain healthy in the near term, aided by higher gold prices and levers on LTV (~63% as of Jun'24).
- RBI revoking the ban on gold loans for a large gold loan NBFC remains a near-term risk for MUTH. If and when the RBI gold loan ban is revoked, we expect competitive intensity to again increase in the gold loan ecosystem, even though it might not be as aggressive as earlier. **Maintain our Neutral rating with a revised TP of INR1,720 (based on 2.1x FY26E BVPS).**

Exhibit 11: We Increase our FY25/FY26 estimates by 2%/1% to factor in higher gold loan growth

INR B	Old Est		New Est		% Change	
	FY25	FY26	FY25	FY26	FY25	FY26
NII	93.6	104.9	96.4	108.3	3.0	3.3
Other Income	2.9	3.2	2.5	2.8	-11.8	-10.8
Net Income	96.4	108.0	98.9	111.2	2.5	2.9
Operating Expenses	27.6	30.9	28.1	32.1	1.7	3.8
Operating Profits	68.8	77.1	70.8	79.0	2.9	2.5
Provisions	1.4	1.0	2.4	1.9	67.6	103.3
PBT	67.4	76.2	68.4	77.1	1.5	1.2
Tax	17.3	19.6	17.6	19.8	1.5	1.2
PAT	50.1	56.6	50.9	57.3	1.5	1.2
Loans	916	1,026	947	1,070	3.4	4.3
Borrowings	705	772	731	817		
Spread (%)	9.1	8.7	9.1	8.6		
RoA (%)	5.4	5.3	5.4	5.2		
RoE (%)	19.1	18.6	19.4	18.8		

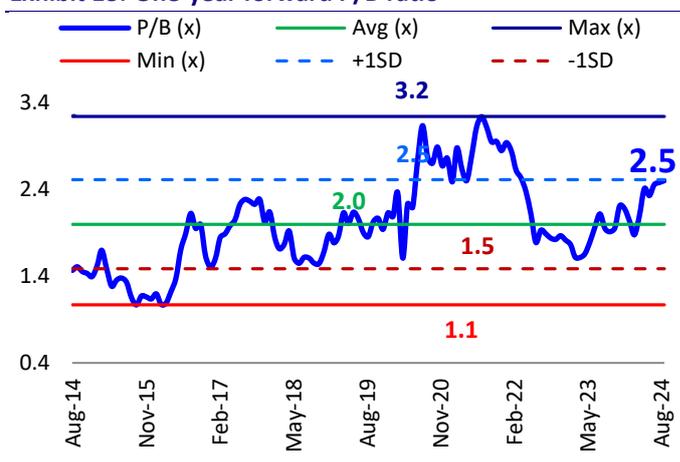
Source: MOFSL, Company

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	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	67,570	85,644	1,03,285	1,09,560	1,03,686	1,24,476	1,56,259	1,79,545
Interest Expense	22,368	27,909	36,924	38,358	36,991	46,548	59,891	71,224
Net Interest Income	45,202	57,735	66,361	71,203	66,695	77,928	96,368	1,08,321
Change (%)	5.8	27.7	14.9	7.3	-6.3	16.8	23.7	12.4
Other income	1,236	1,584	2,458	1,424	1,751	2,465	2,518	2,830
Net Income	46,438	59,319	68,819	72,626	68,446	80,393	98,886	1,11,151
Change (%)	5.5	27.7	16.0	5.5	-5.8	17.5	23.0	12.4
Operating Expenses	15,394	17,787	17,804	18,262	21,177	23,927	28,083	32,104
Pre Provision Profits	31,044	41,531	51,015	54,364	47,270	56,466	70,803	79,047
Change (%)	0.6	33.8	22.8	6.6	-13.0	19.5	25.4	11.6
Provisions	275	957	950	1,270	605	1,978	2,353	1,937
PBT	30,768	40,574	50,065	53,094	46,664	54,488	68,450	77,110
Tax	11,047	10,391	12,843	13,551	11,929	13,991	17,576	19,800
Tax Rate (%)	35.9	25.6	25.7	25.5	25.6	25.7	25.7	25.7
PAT	19,721	30,183	37,222	39,543	34,735	40,497	50,873	57,310
Change (%)	10.9	53.0	23.3	6.2	-12.2	16.6	25.6	12.7
Proposed Dividend	4,818	6,022	8,029	8,029	8,832	9,635	10,938	11,749

BALANCE SHEET								(INR M)
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	4,007	4,010	4,012	4,012	4,014	4,015	4,015	4,015
Reserves & Surplus	88,151	1,11,708	1,48,377	1,79,432	2,06,605	2,38,888	2,78,824	3,24,386
Equity Networth	92,158	1,15,718	1,52,389	1,83,444	2,10,619	2,42,903	2,82,839	3,28,400
Networth	92,158	1,15,718	1,52,389	1,83,444	2,10,619	2,42,903	2,82,839	3,28,400
Borrowings	2,68,332	3,71,300	4,59,463	4,98,113	4,97,343	5,87,831	7,31,365	8,16,979
Change (%)	26.8	38.4	23.7	8.4	-0.2	18.2	24.4	11.7
Other liabilities	20,198	17,578	22,798	23,990	18,236	19,551	21,506	23,656
Change (%)	11.4	-13.0	29.7	5.2	-24.0	7.2	10.0	10.0
Total Liabilities	3,80,687	5,04,597	6,34,649	7,05,547	7,26,198	8,50,284	10,35,709	11,69,036
Loans	3,49,329	4,26,042	5,40,634	5,93,842	6,42,649	7,70,014	9,47,118	10,70,243
Change (%)	18.4	22.0	26.9	9.8	8.2	19.8	23.0	13.0
Investments	9,826	14,383	15,903	13,205	13,169	22,683	24,952	27,447
Net Fixed Assets	1,867	2,227	2,416	2,637	2,682	3,462	3,808	4,189
Other assets	19,666	61,944	75,697	95,863	67,699	54,125	59,832	67,157
Total Assets	3,80,687	5,04,597	6,34,649	7,05,547	7,26,198	8,50,284	10,35,709	11,69,036

E: MOFSL Estimates

Financials and valuations

RATIOS	(%)							
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)								
Avg Yield on loans	21.0	22.1	21.4	19.3	16.8	17.6	18.2	17.8
Avg Cost of funds	9.3	8.7	8.9	8.0	7.4	8.6	9.1	9.2
Spreads on loans	11.7	13.4	12.5	11.3	9.3	9.0	9.1	8.6
NIMs on AUM	14.3	15.2	14.1	12.9	11.0	11.2	11.4	11.0
Profitability Ratios (%)								
RoE	23.2	29.0	27.8	23.5	17.6	17.9	19.4	18.8
RoA	5.7	6.8	6.5	5.9	4.9	5.1	5.4	5.2
RoA on AUM	6.2	8.0	7.9	7.1	5.7	5.8	6.0	5.8
Cost to Income	33.2	30.0	25.9	25.1	30.9	29.8	28.4	28.9
Empl. Cost/Op. Exps.	58.3	57.8	56.5	56.4	56.6	58.0	59.3	60.1
Asset-Liability Profile (%)								
GNPL ratio (%)	2.7	2.2	0.9	3.0	3.8	3.3	3.1	3.1
Debt/Equity (x)	2.9	3.2	3.0	2.7	2.4	2.4	2.6	2.5
Average leverage	2.8	3.1	3.1	2.9	2.5	2.4	2.5	2.5
CAR	26.1	25.5	27.4	30.0	31.8	30.4	0.0	0.0
Valuations								
Book Value (INR)	230	289	380	457	525	605	705	818
Price-BV (x)	8.1	6.4	4.9	4.1	3.5	3.1	2.6	2.3
EPS (INR)	49.2	75.3	92.8	98.6	86.5	100.9	126.7	142.8
EPS Growth (%)	10.8	52.9	23.3	6.2	-12.2	16.6	25.6	12.7
Price-Earnings (x)	37.7	24.6	20.0	18.8	21.4	18.4	14.6	13.0
Dividend	12.0	15.0	20.0	20.0	22.0	24.0	27.2	29.3
Dividend Yield (%)	0.6	0.8	1.1	1.1	1.2	1.3	1.5	1.6

E: MOFSL Estimates

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NOTES

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