

**MUTHOOT FINANCE LIMITED**

Riding the macro tailwind

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Muthoot Finance (MFL) delivered a strong quarterly performance, supported by favourable macro conditions and robust demand for gold loans amid rising gold prices. Margins expanded on higher yields and are expected to remain range-bound, aided by lower borrowing costs in a declining interest rate environment. Additionally, asset quality improved despite a challenging macro backdrop and is expected to remain stable, supported by surplus provisioning and improved collection efficiency. The company has consistently demonstrated healthy profitability, even during adverse market conditions. We expect MFL to deliver ROA/ROE of 5.3%/22.8% for FY27E, driven by its expanding reach, favourable funding environment, and the growing preference for gold finance in uncertain economic times. Accordingly, we reiterate our BUY rating on the stock, based on a Sum-of-the-Parts (SOTP) valuation, with a revised target price of ₹3,048.

**Favourable macro conditions boosting growth**

In Q1FY26, MFL's net interest income increased 50.7% YoY to ₹35 bn (+19.6% QoQ), driven by strong growth in loan AUM (+39.9% YoY). This growth was mainly due to increased demand for gold loan amid rise in gold prices. Also, borrowers are changing their preference towards gold loan products, due to unavailability of other unsecured loan products. Further, the company's NIM expanded 64 bps YoY, owing to decline in funding costs and higher yields, thus maintained healthy interest spread of 10.7%. Also, the company has improved its cost efficiency with cost-to-income ratio at 22.6% (vs. 27.3% in Q1FY25). This with higher other income (+136% YoY), has resulted 62.6% YoY growth in pre-provision profit to ₹28 bn. Subsequently, the company's PAT grew 89.7% YoY to ₹20 bn (+35.7% QoQ), led by reduction in provision expenses (80.7% YoY).

**Asset quality improves; maintains robust capital buffer**

During the quarter, the company's asset quality improved with stage 3 assets at 2.58% (vs. 3.41% in Q4FY25). This was due to improved collections efforts and reduced incremental slippages in the gold loan business. This reduction was primarily due to customers voluntarily coming forward to redeem their gold after paying principal and interest, rather than requiring aggressive recovery methods. Auctions for the quarter were notably low, around 0.13-0.14 bn, indicating a preference for customer redemptions over forced sales. MFL maintains strong capital base with capital adequacy ratio (CAR) at 22% and is well above regulatory capital requirement. The company has temporarily parked excess funds in debt mutual funds (~₹18 bn) and will be redeemed and utilized for lending when needed, ensuring ample liquidity for growth.

Key Financials (₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Loan & Advances	643	770	1,087	1,345	1,555
Net Interest Income	67	78	104	137	161
PPP ex Except. Items	47	56	78	104	124
Reported Profits	35	40	52	74	88
Earnings Per Share (₹)	86.5	100.9	129.5	184.0	219.0
P/E (x)	31.9	27.3	21.3	15.0	12.6
Adj. BV (₹)	524.6	605.0	708.3	864.3	1,055.4
P/ABV (x)	5.3	4.6	3.9	3.2	2.6
Adj. RoA	4.9	5.1	5.0	5.3	5.3
Adj. RoE	17.6	17.9	19.7	23.4	22.8

**BUY**

Current Market Price (₹)	2,757
12M Price Target (₹)	3,048
Potential Return (%)	11

**Stock Data**

Sector	:	NBFC
Face Value (₹)	:	10
Total MCap (₹ bn)	:	1,106
Free Float MCap (₹ bn)	:	295
52-Week High / Low (₹)	:	2,800 / 1,756
BSE Code / NSE Symbol	:	533398 / MUTHOOTFIN
Bloomberg	:	MUTH IN
Sensex / Nifty	:	24,631 / 80,598

**Shareholding Pattern**

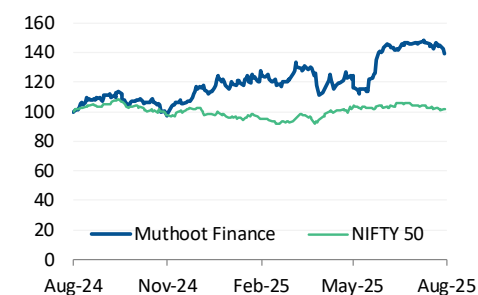
(%)	Jun-25	Mar-25	Dec-24	Sep-24
Promoter	73.35	73.35	73.35	73.35
MFs	10.24	10.03	11.33	12.32
FPIs	10.84	11.03	10.26	9.84
Insurance	0.72	0.75	0.61	0.19
AIFs	0.74	0.23	0.22	0.33
Others	4.11	4.61	4.23	3.97

Source: BSE

**Price Performance**

(%)	1M	3M	6M	12M
MUTHOOTFIN	3.5	22.0	22.3	51.8
Nifty 50	-1.8	-0.1	7.4	2.0

\* To date / current date : August 14, 2025

**MUTHOOTFIN vs Nifty 50**

## Key Concall Highlights

### Business highlights

- Strong growth in AUM was supported by new customer additions of 4.24 lakh customers, an increase from 4.1 lakhs in the previous year quarter.
- The branch network expanded to 4,877 during Q1FY26, with 22 new branches opened. The company plans to apply for more new branches with the RBI once existing ones mature, indicating future expansion to support AUM growth.
- Gold tonnage vs. AUM growth: The tonnage does not always increase proportionally with the AUM, as gold prices go up, customers may tender a lower quantity of gold for the same loan amount due to higher LTVs. Conversely, if gold prices decrease and customers need the same amount of money, they would bring more gold, causing tonnage to go up.
- The recent RBI guidelines on gold loans are viewed as “gold loan business friendly,” bringing greater transparency and streamlining the lending process. These guidelines offer more flexibility and product offerings to customers. Crucially, for loans up to ₹0.25 mn, the LTV has been increased from 75% to 85%. 85% of MFL’s customers are for loans below ₹0.25 mn, making these new guidelines particularly beneficial.
- The company’s subsidiaries are actively expanding their gold loan operations; Belstar Micro Finance has opened 15 gold loan branches and plans to add 50 more. Muthoot Money’s AUM of ₹50 bn is now predominantly gold loans (approximately ₹48.5 bn), significantly shifting its portfolio mix.

### Operational highlights

- Borrowing costs have declined 11 bps sequentially in the quarter, and are further expected to decline as MCLR of the banks comes down over next 3 to 6 months.
- While yields expanded by 100 bps sequentially to 19.56% in Q1FY26, this was significantly influenced by ₹4 bn in exceptional interest income. Without these one-off recoveries, the yields would have been similar to previous quarters, approximately 18.15% to 18.2%.
- The company recorded one-offs of ₹3 bn in interest income from NPA reduction and an additional ₹1 bn from an Asset Reconstruction Company (ARC) for loans sold previously. The company also anticipates receiving another ₹1 to 1.5 bn from ARC in the coming quarters.

### Asset quality

- Belstar Micro Finance maintained its Stage 3 loan asset at 4.4% and demonstrated excellent collection percentages of 99.8% on new loans disbursed from November 2024 onwards. The microfinance segment is expected to achieve profitability by Q3FY26.
- A substantial ₹7 bn NPA reduction in the quarter was primarily driven by customers voluntarily redeeming their gold by paying their principal and interest, rather than through forced recovery actions.

## Sum of Total Part Valuation

Business Line	Method	"NW / PAT/ EV / AUM / Mcap (₹mn)"	"Assigned Multiple (X)"	"Value of Firm (₹mn)"	"Stake (%)"	"Value Assigned to Listed Entity (₹mn)"	Per Share (₹)
<b>Standalone Entity</b>	<b>P/ABV</b>	<b>4,23,692</b>	<b>2.8</b>	<b>11,86,336</b>	<b>100%</b>	<b>11,86,336</b>	<b>2,955</b>
<b><u>Subsidiaries / Associates</u></b>							
Muthoot Home Finance	P/ABV	4,759	2.2	10,469	100%	10,469	26
Belstar Microfinance	P/ABV	17,288	2.1	36,305	64%	23,184	58
Muthoot Insurance Brokers	P/E	360	10.0	3,600	100%	3,600	9
Muthoot Money	P/ABV	5,084	1.3	6,610	100%	6,610	16
<b>Value of Investment &amp; Sub (₹ mn)</b>						<b>43,863</b>	<b>109</b>
<b>Holding Company Discounts</b>						<b>15%</b>	
<b>Value of Investment &amp; Sub - ex Holding Company Discounts</b>						<b>37,284</b>	<b>93</b>
<b>SOTP Based Enterprise Valuation</b>						<b>12,23,620</b>	<b>3,048</b>

Source: Company, LKP Research

## Quarterly Financial Snapshot

(₹ bn)	Q1 FY26	Q1 FY25	% yoy / bps	Q4 FY25	% qoq / bps
Interest Inc.	56	37	53.0	48	16.9
Interest Expenses	21	14	56.8	19	12.7
<b>Net Interest Income</b>	<b>35</b>	<b>23</b>	<b>50.7</b>	<b>29</b>	<b>19.6</b>
NIM (%)	12.2	11.5	64	11.3	88
<b>Other Income - Total</b>	<b>1.3</b>	<b>0.5</b>	<b>135.9</b>	<b>1.0</b>	<b>21.7</b>
Net Operating Revenue	36	24	52.6	30	19.7
Employee Expenses	5	4	31.3	5	(2.3)
<b>Other Operating Expenses</b>	<b>3</b>	<b>2</b>	<b>17.8</b>	<b>3</b>	<b>(11.8)</b>
<b>Total Opex</b>	<b>8</b>	<b>6</b>	<b>26.2</b>	<b>9</b>	<b>(5.7)</b>
Cost to Income Ratio (%)	22.6	27.3	(473)	28.6	(606)
<b>Pre Provision Profits</b>	<b>28</b>	<b>17</b>	<b>62.6</b>	<b>21</b>	<b>29.8</b>
Exceptional Profit (Loss)	0	0	-	0	-
<b>PPP ex Except. Items</b>	<b>28</b>	<b>17</b>	<b>62.6</b>	<b>21</b>	<b>29.8</b>
Provisions & Contingencies - Total	0.4	2.2	(80.7)	1.3	(66.1)
<b>Profit Before Tax</b>	<b>27</b>	<b>15</b>	<b>84.1</b>	<b>20</b>	<b>35.9</b>
Tax	7	4	69.3	5	36.4
<b>Reported Profits</b>	<b>20</b>	<b>11</b>	<b>89.7</b>	<b>15</b>	<b>35.7</b>
Basic EPS	51.0	26.9	89.7	37.6	35.7

Source: Company, LKP Research

## Profit &amp; Loss

(₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Int. Income / Opr. Revenue	104	124	169	222	262
Interest Expenses	37	47	64	86	101
<b>Net Interest Income</b>	<b>67</b>	<b>78</b>	<b>104</b>	<b>137</b>	<b>161</b>
<b>Other Income - Total</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>4</b>
<b>Net Operating Revenue</b>	<b>68</b>	<b>80</b>	<b>107</b>	<b>140</b>	<b>165</b>
Employee Exp.	12	14	17	22	26
Other Opex	9	10	12	13	15
<b>Total Opex</b>	<b>21</b>	<b>24</b>	<b>29</b>	<b>35</b>	<b>41</b>
<b>Pre Provision Profits</b>	<b>47</b>	<b>56</b>	<b>78</b>	<b>104</b>	<b>124</b>
Provisions & Contingencies - Total	1	2	8	4	5
<b>Profit Before Tax</b>	<b>47</b>	<b>54</b>	<b>71</b>	<b>100</b>	<b>120</b>
Tax	12	14	19	27	32
<b>Reported Profits</b>	<b>35</b>	<b>40</b>	<b>52</b>	<b>74</b>	<b>88</b>
<i>PAT Growth (yoy %)</i>	<i>-12.2%</i>	<i>16.6%</i>	<i>28.4%</i>	<i>42.0%</i>	<i>19.0%</i>

## Balance Sheet

(₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	4	4	4	4	4
Reserves (ex Revel. Reserve)	207	239	280	343	420
<b>Net Worth - Ex Revaluation</b>	<b>211</b>	<b>243</b>	<b>284</b>	<b>347</b>	<b>424</b>
Borrowings	359	424	663	870	992
Debt Securities / Pref Shares	137	164	235	303	331
<b>Interest Bearing Liabilities (₹ mn)</b>	<b>496</b>	<b>587</b>	<b>898</b>	<b>1,173</b>	<b>1,323</b>
Other Lia. & Prov.	19	20	30	36	43
<b>Total Liabilities</b>	<b>726</b>	<b>850</b>	<b>1,212</b>	<b>1,556</b>	<b>1,790</b>
Cash & Cash Equivalent	65	50	72	137	150
Investments	13	23	45	61	69
Loan & Advances	643	770	1,087	1,345	1,555
<i>Growth (yoy %)</i>	<i>8.2%</i>	<i>19.8%</i>	<i>41.1%</i>	<i>23.8%</i>	<i>15.6%</i>
Fixed Assets	3	4	5	8	10
Other Assets	2	3	4	5	6
<b>Total Assets</b>	<b>726</b>	<b>850</b>	<b>1,212</b>	<b>1,556</b>	<b>1,790</b>

## Detail RoA Tree Analysis

(%)	FY23	FY24	FY25	FY26E	FY27E
Interest Income / Assets	14.5	15.8	16.4	16.1	15.7
Interest Exp. / Assets	5.2	5.9	6.2	6.2	6.0
NII / Assets	9.3	9.9	10.1	9.9	9.6
Other Income / Assets	0.2	0.3	0.3	0.2	0.2
Net Operating Income / Assets	9.6	10.2	10.4	10.1	9.9
Employee Exp. / Assets	1.7	1.8	1.6	1.6	1.6
Other Opex/ Assets	1.3	1.3	1.2	0.9	0.9
Total Opex / Assets	3.0	3.0	2.8	2.5	2.4
Operating Profits / Assets	6.6	7.2	7.6	7.5	7.4
Op Profit ex Except Items / Assets	6.6	7.2	7.6	7.5	7.4
Provisions / Assets	0.1	0.3	0.7	0.3	0.3
Profit Before Tax / Assets	6.5	6.9	6.9	7.3	7.1
Tax Expenses / Assets	1.7	1.8	1.8	1.9	1.9
RoA	4.9	5.1	5.0	5.3	5.3
Leverage (x)	3.4	3.5	4.3	4.5	4.2
RoE	17.6	17.9	19.7	23.4	22.8
Adj. RoA	4.9	5.1	5.0	5.3	5.3
Adj. RoE	17.6	17.9	19.7	23.4	22.8

## Key Parameters

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
<b>Operating Ratios</b>					
Yield on Funds	17.1	17.9	18.3	18.3	18.1
Cost of Funds (CoF)	7.4	8.6	8.7	8.3	8.1
Interest Spread	9.7	9.3	9.6	10.0	10.0
NIM's	11.0	11.2	11.3	11.2	11.1
C/I Ratio (%)	30.9	29.8	26.9	25.2	24.6
Effective Tax Rate (%)	25.6	25.7	26.4	26.4	26.4
<b>Business Growth (YoY)</b>					
Gold loan AUM (₹.bn)	619	729	1,030	1,039	1,049
Total AUM (₹.bn)	632	758	1,086	1,345	1,554
<b>Return Ratios</b>					
Adj. RoA	4.9	5.1	5.0	5.3	5.3
Adj. RoE	17.6	17.9	19.7	23.4	22.8
<b>Asset Quality Metrics</b>					
Credit Cost (%)	0.1	0.3	0.7	0.3	0.3
Stage 3 assets (%)	3.7	3.2	3.4	2.5	1.5
ECL Provision	1.21%	1.23%	1.45%	1.37%	1.39%
Capital Adequacy Ratio (CAR)	31.26	29.77	24.44	23.23	24.67
<b>Valuation Ratios</b>					
P/E	31.9	27.3	21.3	15.0	12.6
P/BV	5.3	4.6	3.9	3.2	2.6
P/ABV	5.3	4.6	3.9	3.2	2.6

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