Muthoot Finance HOLD

NIMs improve; AUM growth recovery slower

Summary

Muthoot Finance (MUTH) gold portfolio growth improves to 5% YoY vs 3% YoY (Q2FY23) although decline in tonnage. Overall AUM growth recovered slower to 6% YoY vs 4% YoY (Q2FY23). Management revised AUM growth guidance to 4-5% vs 10% growth for FY23. Teaser loans have been shifted to standard loans resulted improvement in NIMs (up 82bps QoQ). NII de-grew by 10% YoY led by decline in margins; PPoP declined by 14% YoY led by higher operating expenses. Provisions declined by 37% YoY as asset quality improves; PAT declined by 12% YoY. Stage III loan assets increased to 2.6% vs 1.7% QoQ, due to lower auctions (Rs.2.2bn). We have moved to FY25 Estimates and maintain 'HOLD' rating with a new TP of Rs.1,140 (earlier Rs.1,250), valuing it at 1.8x P/ABV FY25E (earlier 2.2x as competitive intensity impacts gold loan growth prospectus).

Key Highlights and Investment Rationale

- **Gold AUM growth improves slightly:** Gold Loan growth stood at 5% YoY (up 1% QoQ) vs 3% YoY (Q2FY23). Gold holdings declined by 2% YoY (down 1% QoQ) to 175 tonnes, whereas loan per 1gm of gold has increased by 7% YoY (up 7% QoQ) to Rs3,299. Management guided for 10% gold loan growth for FY23.
- **Asset quality deteriorated:** Stage III loans have increased during the quarter at 2.58% vs 1.67% QoQ, are not a cause of concern because of being backed by higher collateral.
- **NIMs improved QoQ:** NIMs improved to 11.86% vs 11.04% due to improvement in yield on advances during Q3FY23. Spreads have improved to 10.09% QoQ. Management guided for improved yields in coming qtrs. (led by end of lower rated teaser loans).
- **Outlook:** Given the competitive environment, management revised down the spreads at ~10% vs 12% FY22. The best part in Gold finance portfolio is although NPA may inch higher; lender can auction and recover much better.

TP	Rs.1,140
CMP	Rs1,011
Potential upside/downside	13%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(5.5)	(6.4)	(28.8)
Rel to Sensex	(6.1)	(5.3)	(31.6)

V/s Consensus

EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	85.8	89.1	95.3
Consensus	88.5	104.5	120.1
% difference	*(3.1)*	*(14.8)*	*(20.7)*

Key Stock Data

Bloomberg/Reuters	MUTH IN/MUTT.BO
Sector	Finance
Shares o/s (mn)	401
Market cap. (Rs mn)	405,823
3-m daily avg Trd value (Rs mn)	24.4
52-week high / low	Rs1,470 / 950
Sensex / Nifty	60,286 / 17,722

Shareholding Pattern (%)

Promoters	73.4
FII	10.0
DII	11.3
Public	5.3

Financial snapshot (Rs mn)

Year	FY2021	FY2022	FY2023E	FY2024E	FY2025E
NII	66,361	71,203	65,693	70,220	76,796
Change (yoy, %)	*15%*	*7%*	*-8%*	*7%*	*9%*
Net Profit	37,222	39,543	34,428	35,773	38,244
Change (yoy, %)	*23%*	*6%*	*-13%*	*4%*	*7%*
EPS (Rs)	92.8	98.5	85.8	89.1	95.3
Change (yoy, %)	*23%*	*6%*	*-13%*	*4%*	*7%*
BV (Rs)	379.8	457.1	498.5	567.7	642.9
PER (x)	10.9	10.3	11.8	11.3	10.6
P/BV (x)	2.7	2.2	2.0	1.8	1.6
ROE (%)	27.8	23.5	18.0	16.7	15.7
ROA (%)	6.5	5.9	4.9	4.8	4.7
GNPA (%)	0.9	2.9	2.5	2.5	2.5
NNPA (%)	(0.3)	1.7	1.3	1.3	1.3
CAR (%)	27.4	30.0	30.1	31.9	32.8

Source: IDBI Capital Research

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Conference Call Highlights

- The company was slow in non-gold portfolio due to covid (loans were given only to existing customer) and now since the worst is behind, the company is looking for strong growth in the non-gold portfolio.
- Around 41% of the Gold Loan AUM is below ticket size of 1 lakhs, 35% in the range of 1-3 lakhs and remaining 24% is above 3 lakhs.
- Auction of gold during Q3FY23 stood at around 223Crs.
- Yield were lower in Q1FY23 (17.3%) due to lower rated teaser loans. The same has started moving up in Q2FY23 (17.38%) and Q3FY23 (18.22%). Expecting the yields to go up in coming period.
- The post covid loans in micro finance are as good as pre covid loans. Expecting the credit cost in micro finance to go down in coming qtrs.
- Credit Loss stood (% of Bad Debts written off to Gross Loan Assets) at around 0.02% for 9MFY23.
- Out of the 150 branches (for which approvals were received from RBI), opened around 54 Branches in Q3FY23 and remaining 30 branches are expected to be opened in Feb and March.
- Post opening the set of 150 branches, the company shall again approach the regulator for approval for opening additional branches.
- Expecting to return back to double digit growth in AUM over next 3-4 qtrs.
- Expecting non gold loan business mix (as a percent of consolidated AUM) to increase to 15-20% (current level of 12-13%) over next 3-4 years.
- Expecting Gold Loan AUM to grow in the range of 10% in FY24 and end the FY23 in the range of 4-5%.
- Cost of borrowing for Q3FY23 stood at around 8.13% and expecting the same to be around 8.5% in Q4FY23 (led by increased incremental borrowing cost).
- Whenever cost of borrowing goes up, the increased cost is passed on the customer (with a view to maintain the NIMs).
- New branches contribute to the business (but not so substantial in initial 1-2 years).

Exhibit 1: Quarterly Snapshot

Year-end: March (Rs mn)	Q3FY23	Q3FY22	Q2FY23	*YoY (%)*	*QoQ (%)*
Interest Income	26,184	28,394	24,746	*-7.8*	*5.8*
Interest Expenses	9,141	9,533	9,027	*-4.1*	*1.3*
Net Interest Income	**17,043**	**18,861**	**15,720**	***-9.6***	***8.4***
NIM (%)	***11.6***	***13.2***	***10.8***	***-159 bps***	***80 bps***
Non-Interest Income	487	324	289	*50.4*	*68.3*
Operating Income	**17,530**	**19,185**	**16,009**	***-8.6***	***9.5***
Staff Cost	2,771	2,546	2,695	*8.9*	*2.8*
Other Op Exp	2,134	1,973	1,827	*8.2*	*16.8*
Total Operating Expenses	4,905	4,519	4,522	*8.6*	*8.5*
Cost to Income (%)	*28.0*	*23.6*	*28.2*	*443 bps*	*-26 bps*
Cost to AUM (%)	*3.4*	*3.3*	*3.2*	*12 bps*	*24 bps*
Operating Profit	**12,624**	**14,666**	**11,487**	***-13.9***	***9.9***
Provisions	557	889	-127	*-37.4*	*-536.7*
Credit Cost (%)	*0.4*	*0.6*	*-0.1*	*-24 bps*	*47 bps*
PBT	12,068	13,777	11,614	*-12.4*	*3.9*
Tax	3,051	3,488	2,942	*-12.5*	*3.7*
- effective tax rate	*25.3*	*25.3*	*25.3*	*-4 bps*	*-5 bps*
PAT	9,017	10,289	8,672	*-12.4*	*4.0*
EPS (Rs)	22.5	25.6	21.6	*-12.4*	*4.0*
BV (Rs)	502	434	479	*15.6*	*4.7*
AUM	5,77,311	5,46,876	5,72,303	*5.6*	*0.9*

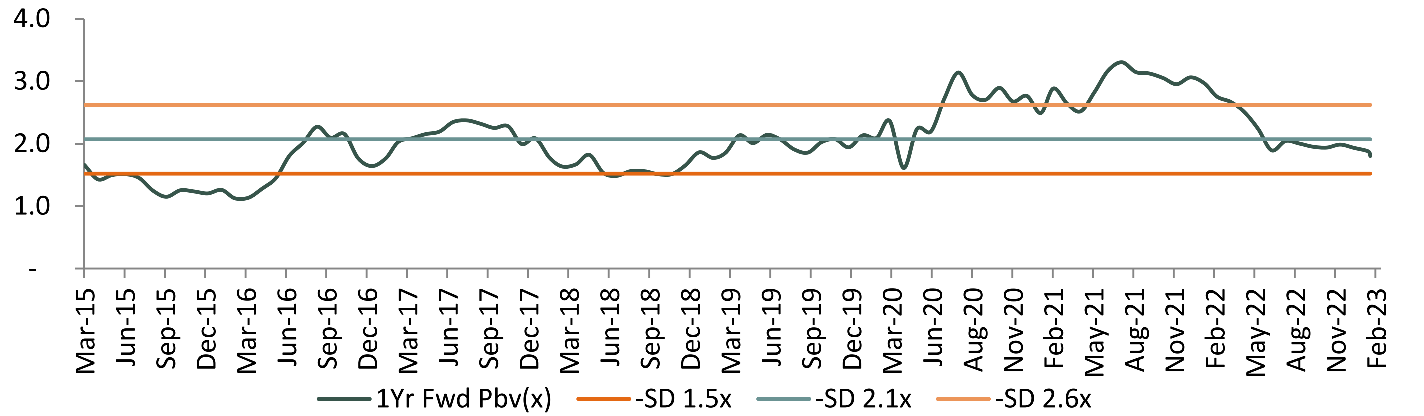
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY21	FY22	FY23E	FY24E	FY25E
NII	11.6	10.6	9.3	9.5	9.5
Non-Int Inc	0.4	0.2	0.2	0.2	0.2
Net Revenue	**12.1**	**10.8**	**9.6**	**9.7**	**9.7**
Op.Exp	3.1	2.7	2.9	3.1	3.2
Op.Profit	**9.0**	**8.1**	**6.7**	**6.6**	**6.5**
Provisions	0.2	0.2	0.1	0.1	0.1
PBT	8.8	7.9	6.6	6.5	6.3
Tax	2.3	2.0	1.7	1.7	1.6
PAT	**6.5**	**5.9**	**4.9**	**4.8**	**4.7**
Leverage (x)	4.2	4.0	3.7	3.5	3.3
ROE	27.8	23.5	18.0	16.7	15.7

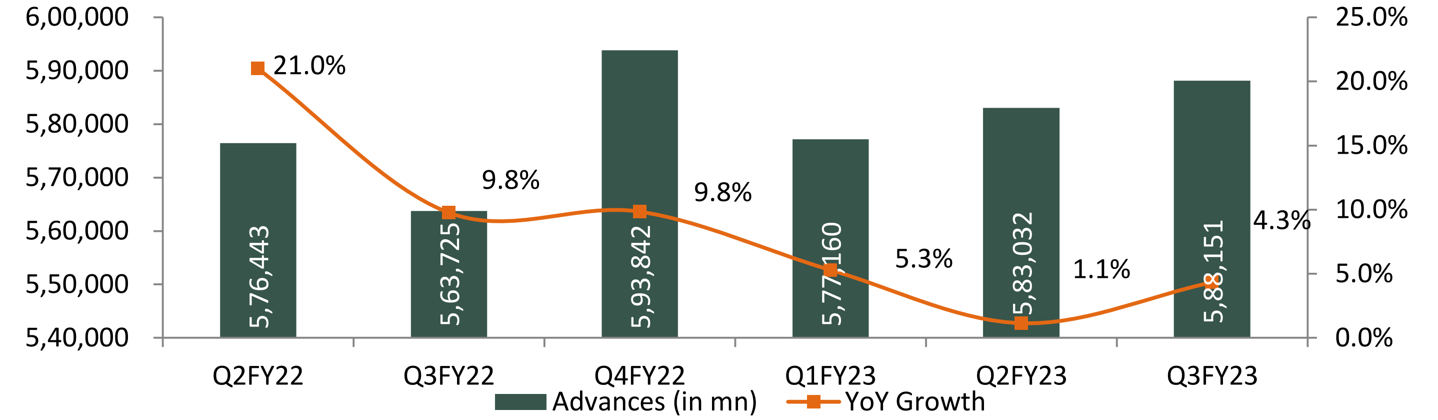
Source: Company; IDBI Capital Research

Exhibit 3: Figure: One-year forward P/BV



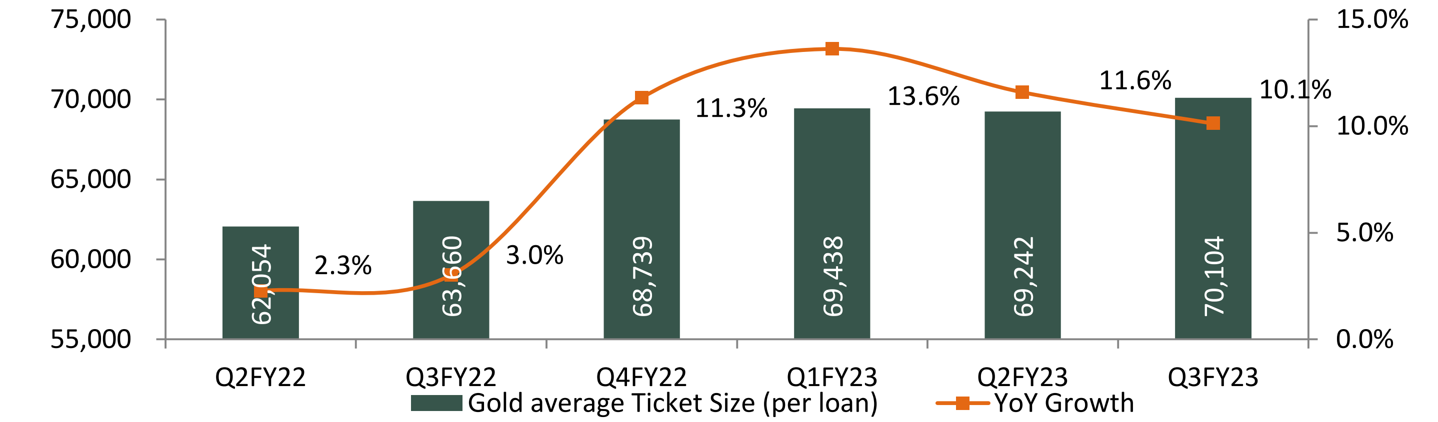
Source: Company; IDBI Capital Research

Exhibit 4: Advances growth witnessed upward tick sequentially



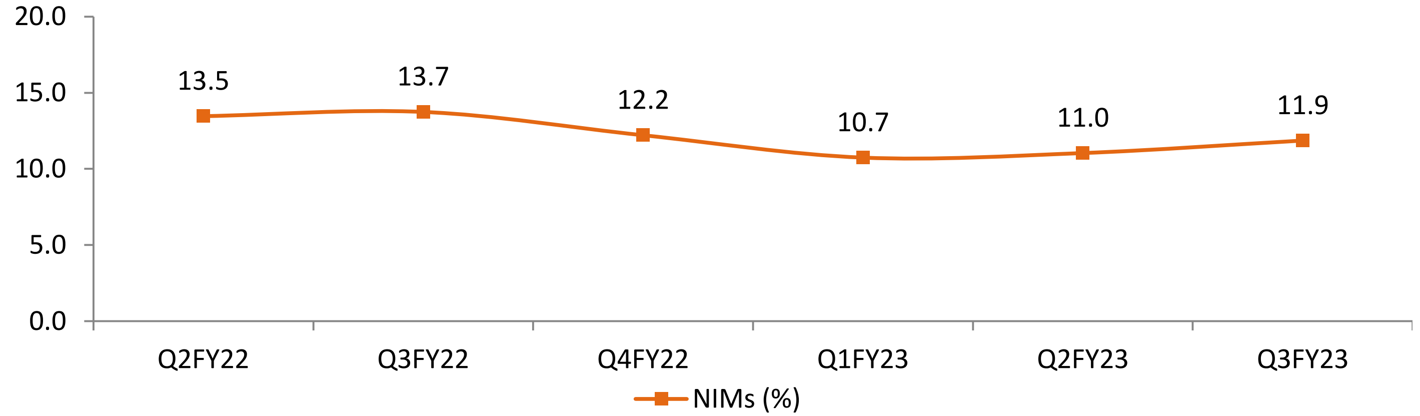
Source: Company; IDBI Capital Research

Exhibit 5: Gold average Ticket Size (per loan) improved during the qtr.



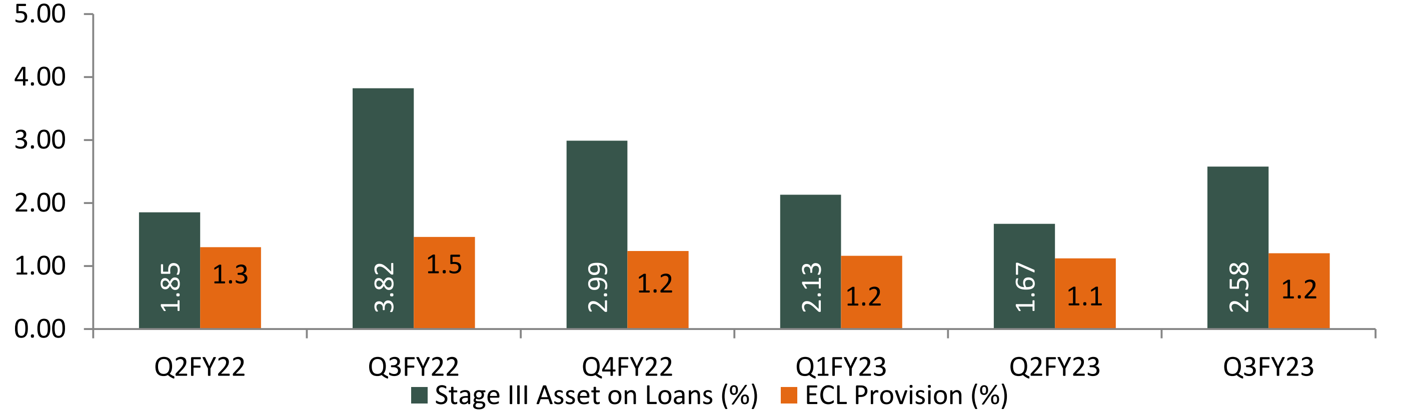
Source: Company; IDBI Capital Research

Exhibit 6: Net Interest margins continued to improve sequentially



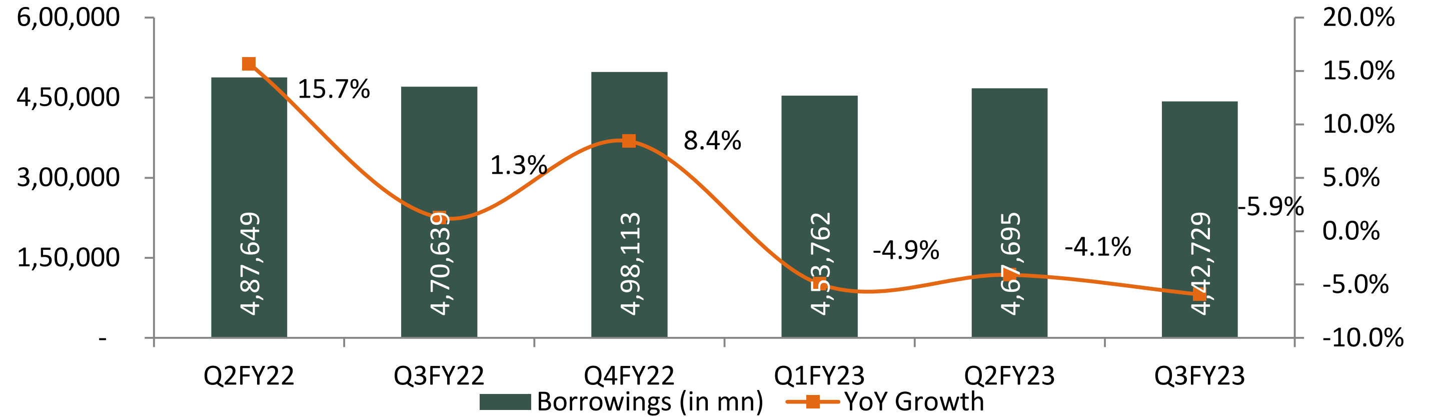
Source: Company; IDBI Capital Research

Exhibit 7: Asset quality declined sequentially



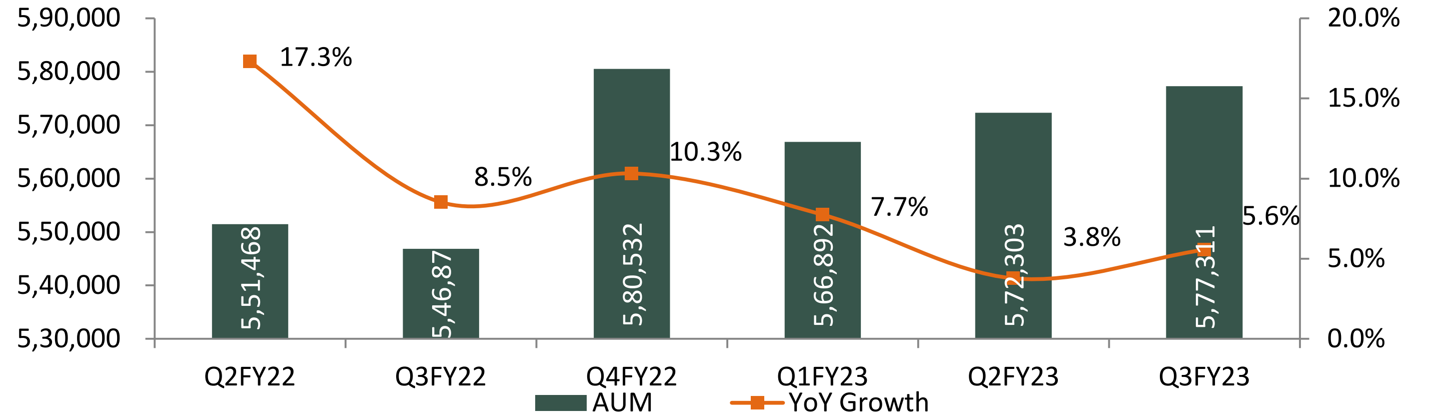
Source: Company; IDBI Capital Research

Exhibit 8: Borrowings (on an absolute terms) declined during the qtr.



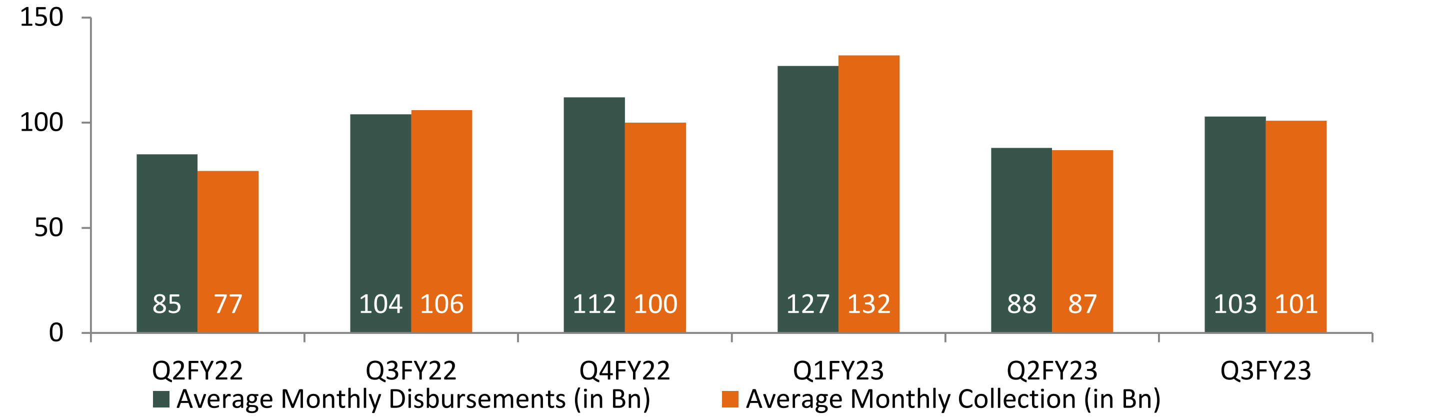
Source: Company; IDBI Capital Research

Exhibit 9: AUM growth witnessed uptick sequentially



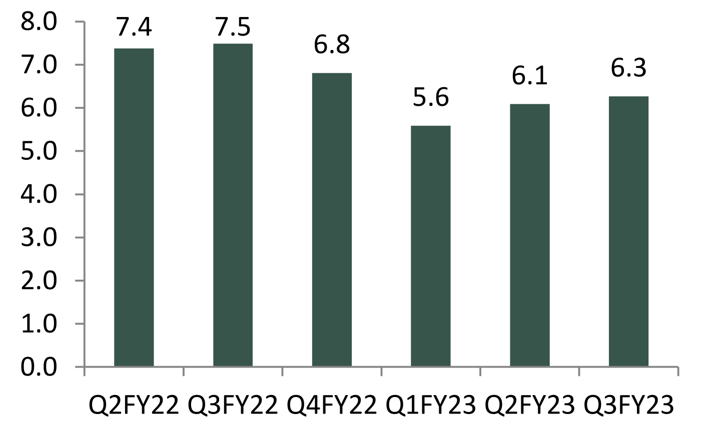
Source: Company; IDBI Capital Research

Exhibit 10: Monthly Disbursements and Collections improved during the quarter



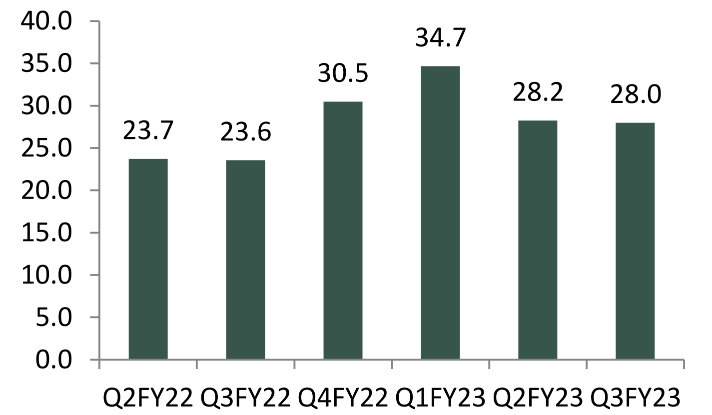
Source: Company; IDBI Capital Research

Exhibit 11: Return on Assets witnessed strong growth QoQ



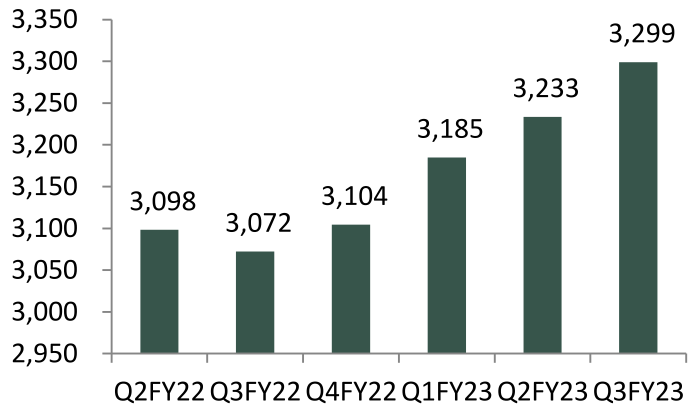
Source: Company; IDBI Capital Research

Exhibit 12: Cost to Income Ratio witnessed downtick of 20bps during the qtr.



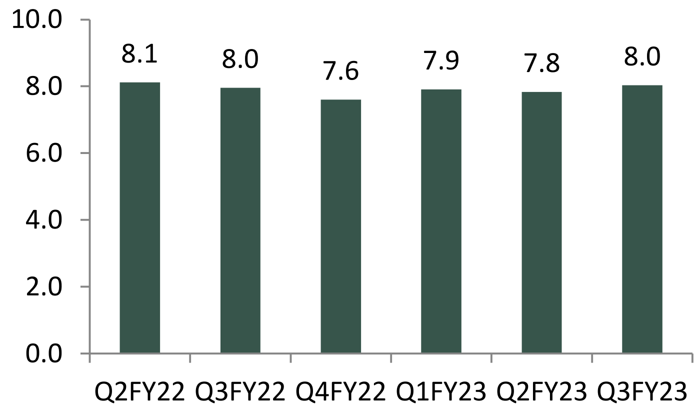
Source: Company; IDBI Capital Research

Exhibit 13: Gold Loan per Gram continued to increase during the quarter



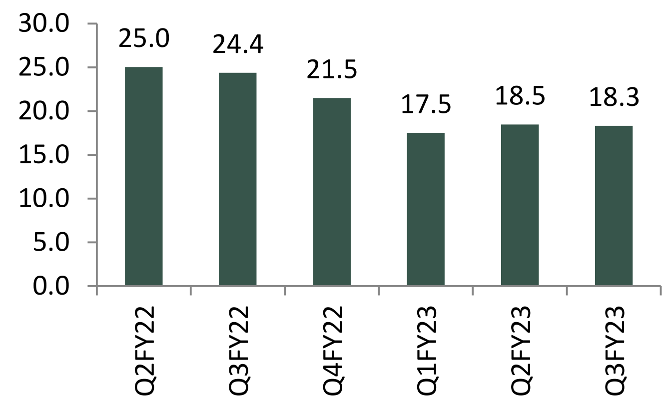
Source: Company; IDBI Capital Research

Exhibit 14: Cost of Funds witnessed uptick sequentially



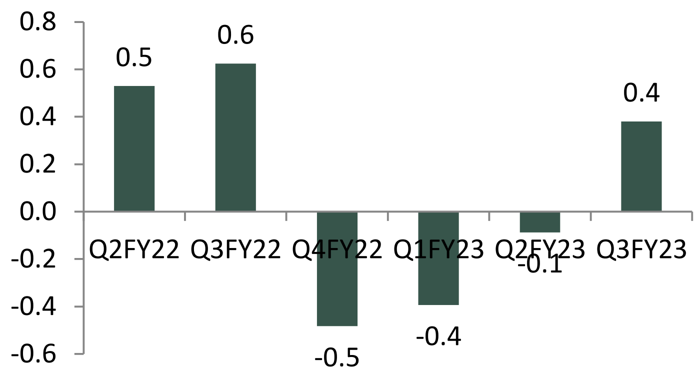
Source: Company; IDBI Capital Research

Exhibit 15: Return on Equity remained stable QoQ



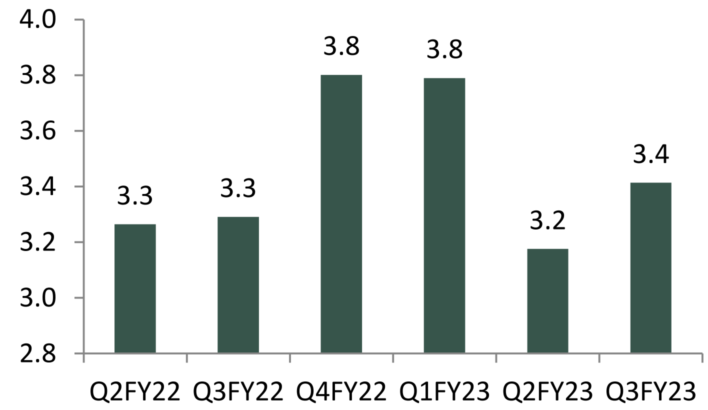
Source: Company; IDBI Capital Research

Exhibit 16: Credit Cost inched up sequentially



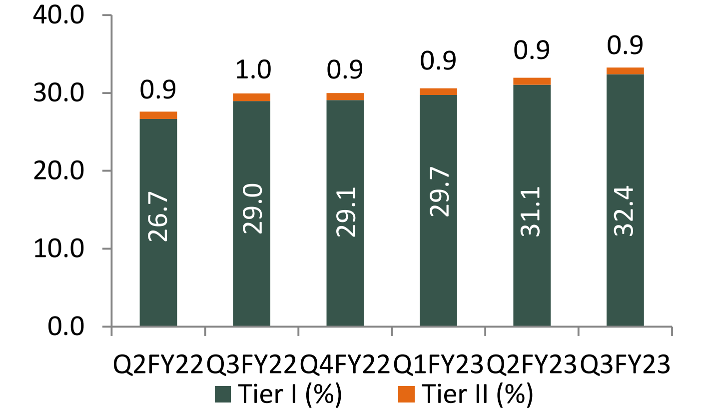
Source: Company; IDBI Capital Research

Exhibit 17: Cost to AUM inched up sequentially



Source: Company; IDBI Capital Research

Exhibit 18: CAR remains comfortable



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	**57,735**	**66,361**	**71,203**	**65,693**	**70,220**	**76,796**
Change (yoy, %)		*15%*	*7%*	*-8%*	*7%*	*9%*
Non-Interest Income	1,584	2,458	1,424	1,559	1,676	1,843
Net Revenue	59,319	68,819	72,626	67,252	71,896	78,640
Operating expenses	17,788	17,804	18,262	20,328	22,839	25,980
Employee expenses	10,290	10,062	10,302	11,174	12,312	13,874
Other expenses	7,498	7,742	7,960	9,154	10,527	12,106
Pre-Provision Profit	**41,531**	**51,015**	**54,364**	**46,924**	**49,057**	**52,660**
Change (yoy, %)		*23%*	*7%*	*-14%*	*5%*	*7%*
Provision	957	950	1,270	587	909	1,187
PBT	40,574	50,065	53,094	46,337	48,147	51,472
Taxes	10,391	12,843	13,551	11,909	12,374	13,228
Effective tax rate (%)	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*
Net profit	**30,183**	**37,222**	**39,543**	**34,428**	**35,773**	**38,244**
Change (yoy, %)		*23%*	*6%*	*-13%*	*4%*	*7%*
EPS	75.3	92.8	98.5	85.8	89.1	95.3
Return on Equity (%)	28.3	27.8	23.5	18.0	16.7	15.7
Return on Assets (%)	6.8	6.5	5.9	4.9	4.8	4.7

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Capital	4,010	4,012	4,013	4,013	4,013	4,013
Reserves	1,11,708	1,48,377	1,79,432	1,96,067	2,23,814	2,54,031
Networth	**1,15,718**	**1,52,389**	**1,83,446**	**2,00,081**	**2,27,827**	**2,58,044**
Borrowings	3,71,301	4,59,463	4,98,113	4,65,073	5,05,461	5,43,803
Other liabilities	17,577	22,798	23,989	37,383	41,144	48,708
Total Liab. & Equity	**5,04,596**	**6,34,649**	**7,05,547**	**7,02,537**	**7,74,432**	**8,50,554**
Fixed Assets	2,564	2,854	3,131	3,444	3,788	4,167
Investments	14,383	15,903	13,205	13,205	13,205	13,205
Loans	4,26,042	5,40,634	5,93,842	6,23,534	6,70,300	7,37,329
Cash	56,406	71,898	92,429	56,118	80,436	88,480
Other assets	5,201	3,360	2,940	6,235	6,703	7,373
Total assets	**5,04,596**	**6,34,649**	**7,05,547**	**7,02,537**	**7,74,432**	**8,50,554**

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth						
Advances	22.0	26.9	9.8	5.0	7.5	10.0
NII	27.7	14.9	7.3	(7.7)	6.9	9.4
Pre-Provision Profit	33.8	22.8	6.6	(13.7)	4.5	7.3
Net Profit	53.1	23.3	6.2	(12.9)	3.9	6.9
Spreads						
Yield on loans	22.1	21.4	19.3	17.1	17.6	17.6
Cost of Borrowings	8.8	8.9	8.0	8.0	9.0	9.0
Spread	13.3	12.5	11.3	9.1	8.6	8.6
NIMs	14.9	13.7	12.6	10.8	10.9	10.9
Operating Efficiency						
Cost-to-Income	30.0	25.9	25.1	30.2	31.8	33.0
Cost-to-AUM	4.6	3.7	3.2	3.3	3.5	3.7
Asset Quality						
GNPA	2.1	0.9	2.9	2.5	2.5	2.5
NNPA	0.8	(0.3)	1.7	1.3	1.3	1.3
Provision Coverage	39.6	34.8	58.4	52.0	52.0	52.0
Credit Cost	0.2	0.2	0.2	0.1	0.1	0.2
Capital Adequacy						
CAR	25.5	27.4	30.0	30.1	31.9	32.8
Tier I	24.3	26.3	29.1	29.2	30.9	31.8
Valuation						
EPS	75.3	92.8	98.5	85.8	89.1	95.3
BV	288.6	379.8	457.1	498.5	567.7	642.9
P/E	13.4	10.9	10.3	11.8	11.3	10.6
P/BV	3.5	2.7	2.2	2.0	1.8	1.6
ROE	28.3	27.8	23.5	18.0	16.7	15.7
ROA	6.8	6.5	5.9	4.9	4.8	4.7

Source: Company; IDBI Capital Research

Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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