



TM

## Muthoot Finance Limited

07 February 2023

## Worst is behind; Growth to bounce back from next quarter

## RESULT UPDATE

Sector: NBFCs Rating: BUY

CMP: Rs 1,010 Target Price: Rs 1,500

## Stock Info

Sensex/Nifty	60,286/17,721
Bloomberg	MUTH IN
Equity shares	400mn
52-wk High/Low	1,469/950
Face value	Rs 10
M-Cap	Rs. 406 mn/ USD 4.9mn
3-m Avg volume	USD 8.4mn

## Financial Snapshot (Rs mn)

Y/E March	FY23E	FY24E	FY25E
NII	66,177	74,808	85,711
PPP	48,205	55,585	64,715
PAT	35,065	40,457	47,173
EPS (Rs)	87.4	100.8	117.5
EPS Gr. (%)	-11.3	15.4	16.6
BV/Sh (Rs)	526	607	700

## Ratios

NIM (%)	11.0	11.5	12.0
C/I ratio (%)	29.1	27.8	26.8
RoA (%)	4.9	5.3	5.7
RoE (%)	17.8	17.8	18.0
Payout (%)	20.5	20.5	20.5

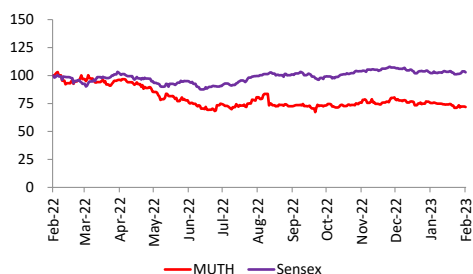
## Valuations

P/E (x)	11.6	10.0	8.6
P/BV (x)	1.9	1.7	1.4
Div. Yield (%)	1.8	2.1	2.4

## Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22
Promoter	73.4	73.6	73.4
-Pledged			
FII	10.0	9.9	10.9
DII	12.0	11.8	10.5
Others	4.6	4.7	5.2

## Stock Performance (1-year)



MUTH's Q3FY23 operating performance was marginally ahead of estimates, with NII/OP at Rs 17.0bn/12.6bn vs. estimate of Rs16.6bn/ 12.3bn, largely led by a sharp 82bps qoq expansion in NIM to 11.9% (vs. expectation of 11.3%), even as Gold AUM growth was muted at 1%qoq. While disbursement growth in Gold portfolio was at 17%qoq, it didn't translated into increased AUM growth due to higher repayments. While gross / net stage 3 assets increased to 2.6%/2.3% from 1.7%/1.5% in Q2, do not see it as a concern, given higher gold prices. We estimate 10% CAGR in MUTH's AUM over FY23-25 would help the company in delivering 16% CAGR in earnings over FY23-25E. Rebound in AUM growth coupled with rise in yields and operating leverage to cause its RoA/ RoE to improve to 5.7%/ 18% by FY25E from 4.9%/ ~17.8% in FY23E, respectively. We value MUTH at 2.0x FY25E consolidated BV to arrive at our target price of Rs 1,500. Hence Maintain our BUY rating on the stock with price target of Rs1500.

## Key result highlights

- MUTH operating performance was marginally ahead of estimates, with NII/OP at Rs 17.0bn/12.6bn vs. estimate of Rs16.6bn/ 12.3bn, largely led by a sharp 82bps qoq expansion in NIM to 11.9% (vs. expectation of 11.3%), even as Gold AUM growth was muted at 1%qoq. However due to higher provisioning (Rs557mn vs estimate of Rs57mn), PAT was in-line at Rs9bn.
- NIMs expanded by 82bps qoq to 11.9% led by a sharp 84bps qoq increase in yields, even as cost of funds increased by just 2bps qoq to 6.4%. The company had stopped the ultra-teaser schemes in Q4FY22 and migrated those customers in July 2022 to higher rates (10-12%), which has aided yield improvement.
- Gold AUM grew by a moderate 1%qoq (5%yoy), as gold holding declined 1%qoq to 175tonnes and LTV (calculated) declined 1%qoq to 68%, even as average gold price increased 2.5%qoq. While No. of live loan accounts declined 1%qoq, average ticket size increased 1%qoq, aided by higher gold price.
- Non-gold AUM grew 5%qoq led by 4%qoq growth in Microfinance portfolio, and 25%qoq growth in Muthoot Money, even as Home finance portfolio declined 1%qoq. Share of Non gold book in the portfolio increased marginally to 12.7% from 12.2% in Q2. The management has guided to increase the share gradually to 18-20% over the next 3 years.
- Asset quality in the gold book deteriorated with GNPA rising to 2.6% from 1.7% in Q2, though not a concern given higher gold prices. The company auctioned Rs2.2bn of Gold during the quarter. GNPA in microfinance subsidiary declined marginally to 6.2% from 6.9% in Q2.

## Valuation &amp; recommendation

MUTH operating performance was better than our and consensus expectation aided by sharp NIM expansion, though muted growth in Gold portfolio was a dampener. Nonetheless, we believe reducing competitive intensity and a rapidly expanding gold loan market would enable it to achieve 10% CAGR over FY24-25E. The worst seems to be over for MUTH in terms of margins as well, as its low-rate teaser portfolio (<10% yields) has already ebbed. With the company increasing focus on the high-yield low-ticket segment, yields should begin to stabilise upwards of ~100bps from 18.2% currently. Maintain our BUY rating on the stock with price target of Rs 1500.

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## Management commentary

### Business:

- A lot of people have jumped into the gold loan business but don't realize the operational challenges which will be witnessed in the coming time. Operation challenges- Frauds, external appraiser, third party collections.
- After 3/ 4 quarters, they will return to the double-digit growth in gold loan.
- AUM break up ticket size wise: Less than Rs. 1 lakh- 44%, Rs. 1-3 lakh- 35%, above Rs. 3 lakhs is 24%
- Since the price of Gold has gone up, the LTV has reduced.
- Customers average tenor is 3 months.

### NIM/COF:

- Any increase in COB will be passed onto the customer through higher yields.
- They have differential rates for all the types of the customers i.e. 8.9%, 9.9% and etc.
- The teaser rate loans (less than 10%) were migrated in July 22 itself before maturity, and currently they have no loans under the teaser rate loans.
- Due to teaser rate loans, yield was lower in 1Q. Since, the teaser rate loans are now migrated, the yields are improving sequentially. The teaser rate loans (6.9%) are moved to 10-12% bracket and not directly to 24% and hence it will be reflected gradually.
- Borrowing cost will move up from 8.1% to 8.5% in 4QFY23.

### Asset quality

- Credit loss is 0.02%.
- Auction- Rs. 2250mn
- In the MFI business, they have taken aggressive action on some loan accounts, which has resulted in elevated credit cost. But it is expected to improve further going ahead.

### Opex

- Of the total 150 branches permission received, the remaining 30 will be opened in Feb/March. Will then seek permission to open another 150 branches.
- Employee cost- attrition rate is high.
- C/I will be maintained at a similar range.

### Outlook:

- FY24- 10% growth in gold loan business and 15% growth in the non-gold loan business. FY23, there will be 5-6% growth in AUM.
- Focusing on substantial growth for the housing segment. Personal loan book will also grow. They have appointed vertical heads for better management and growth. They are also going to increase their growth in the MSME and MFI business.

## Exhibit 1: Quarterly performance ( Standalone)

(Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>18,861</b>	<b>17,201</b>	<b>15,400</b>	<b>15,720</b>	<b>17,043</b>	<b>-9.6</b>	<b>8.4</b>
Other Income	324	374	277	289	487	50.4	68.3
<b>Net Income</b>	<b>19,185</b>	<b>17,575</b>	<b>15,677</b>	<b>16,009</b>	<b>17,530</b>	<b>-8.6</b>	<b>9.5</b>
Total Operating Expenses	4,519	5,357	5,435	4,522	4,905	8.6	8.5
<i>As % Of Net Income</i>	<i>23.6</i>	<i>30.5</i>	<i>34.7</i>	<i>28.2</i>	<i>28.0</i>	<i>18.8</i>	<i>-0.9</i>
Employee Expenses	2,546	3,133	2,827	2,695	2,771	8.9	2.8
<i>As % Of Net Income</i>	<i>13.3</i>	<i>17.8</i>	<i>18.0</i>	<i>16.8</i>	<i>15.8</i>	<i>19.1</i>	<i>-6.1</i>
Other Expenses	1,833	2,066	2,480	1,692	1,987	8.3	17.4
<i>As % Of Net Income</i>	<i>9.6</i>	<i>11.8</i>	<i>15.8</i>	<i>10.6</i>	<i>11.3</i>	<i>18.6</i>	<i>7.2</i>
<b>Operating Profit</b>	<b>14,666</b>	<b>12,218</b>	<b>10,241</b>	<b>11,487</b>	<b>12,624</b>	<b>-13.9</b>	<b>9.9</b>
<i>As % Of Net Income</i>	<i>76.4</i>	<i>69.5</i>	<i>65.3</i>	<i>71.8</i>	<i>72.0</i>	<i>-5.8</i>	<i>0.4</i>
Provisions	889	-700	-577	-127	557	-37.4	-536.7
PBT	13,777	12,918	10,818	11,614	12,068	-12.4	3.9
Total Tax	3,488	3,315	2,798	2,942	3,050	-12.5	3.7
<b>Reported PAT</b>	<b>10,289</b>	<b>9,603</b>	<b>8,020</b>	<b>8,672</b>	<b>9,017</b>	<b>-12.4</b>	<b>4.0</b>
Adjusted PAT	10,289	9,603	8,020	8,672	9,017	-12.4	4.0
Adjusted EPS	25.6	23.9	20.0	21.6	22.5	-12.4	4.0
<b>Yield Analysis (%)</b>	<b>3QFY22</b>	<b>4QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>3QFY23</b>	<b>(bps) YoY</b>	<b>(bps) QoQ</b>
Yield on AUM	20.7	18.7	17.3	17.4	18.2	-246	84
Cost of funds	6.9	6.5	6.6	6.3	6.4	-58	2
Cost of borrowing	8.0	7.6	7.9	7.8	8.0	7	20
NIMs on AUM	13.7	12.2	10.7	11.0	11.9	-188	82
<b>Asset quality (IndAs)</b>	<b>3QFY22</b>	<b>4QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>3QFY23</b>	<b>YoY (%)</b>	<b>QoQ (%)</b>
Gross NPAs (%)	3.8	3.0	2.1	1.7	2.6	-32.5	54.5
Net NPAs (%)	3.4	2.7	1.9	1.5	2.3	-32.5	56.1

<b>AUM (Rs bn)</b>	<b>3QFY22</b>	<b>4QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>3QFY23</b>	<b>YoY (%)</b>	<b>QoQ (%)</b>	<b>% of total</b>
Gold loan	542	575	562	565	568	4.8	0.6	87
Home Finance	16	15	15	14	14	-10.7	-0.7	2
Belstar Investment and Finance	38	44	47	51	53	39.2	3.9	8
Asia asset finance	6	4	4	4	5	-18.8	8.2	1
Muthoot money	2	2	2	2	3	24.0	25.5	0
Other	5	5	5	7	9	91.8	24.4	1
<b>Conso AUM</b>	<b>609</b>	<b>645</b>	<b>634</b>	<b>644</b>	<b>651</b>	<b>6.9</b>	<b>1.1</b>	<b>100</b>

Key data	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Gold stock (tonnes)	178	187	178	177	175	-1.7	-1.1
Avg gold price (Rs/gram)	4,778	4,967	5,128	5,078	5207	9.0	2.5
Avg LTV (Calculated) (%)	70	68	67	69	68	-2.2	-0.8
No. of live accounts (mn)	8.5	8.4	8.1	8.2	8.1	-4.8	-0.7
No. of live customers (mn)	5.3	5.3	5.2	5.2	5.2	-2.0	0.3
No. of accounts per customer (X)	1.59	1.57	1.56	1.56	1.55	-2.9	-1.0
Avg ticket size per loan account (Rs)	63,660	68,739	69,438	69,242	70,104	10.1	1.2
Avg ticket size per customer (Rs)	1,01,483	1,08,217	1,08,592	1,08,312	1,08,569	7.0	0.2
Borrowing (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Secured Non-convertible Debentures (Muthoot Gold bonds)	0.5	0.4	0.4	0.4	0.3	-30.1	-8.0
Secured Non-convertible Debentures - Listed	26.2	24.7	27.0	24.2	25.2	-3.7	4.1
Borrowing from banks/FIs	52.2	55.5	51.4	55.9	62.3	19.2	11.4
External commercial borrowings	15.8	15.2	17.4	17.4	10.3	-34.9	-40.9
Subordinated debt	0.4	0.3	0.3	0.3	0.2	-33.8	-20.9
Commercial papers	1.8	2.0	0.0	0.0	0.0	N.A	N.A
Other loans	3.1	2.0	3.5	1.8	1.7	-46.0	-7.8

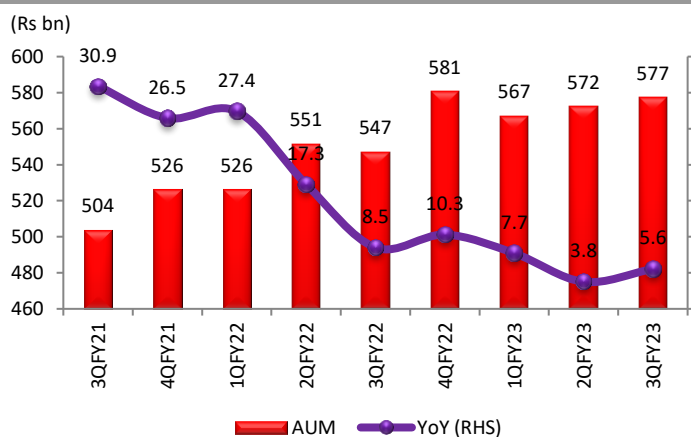
Source: Company, Systematix Institutional Research

## Exhibit 2: Change in estimates

(Rs bn)	Old Estimates			New Estimates			Change (%)		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
NII	66	75	86	66	75	86	0.0	0.0	0
Operating Profit	48	56	65	48	56	65	0.0	0.0	0
PAT	35	40	47	35	40	47	0.0	0.0	0
BV	526	607	700	526	607	700	0.0	0.0	0
EPS	87	101	118	87	101	118	0.0	0.0	0

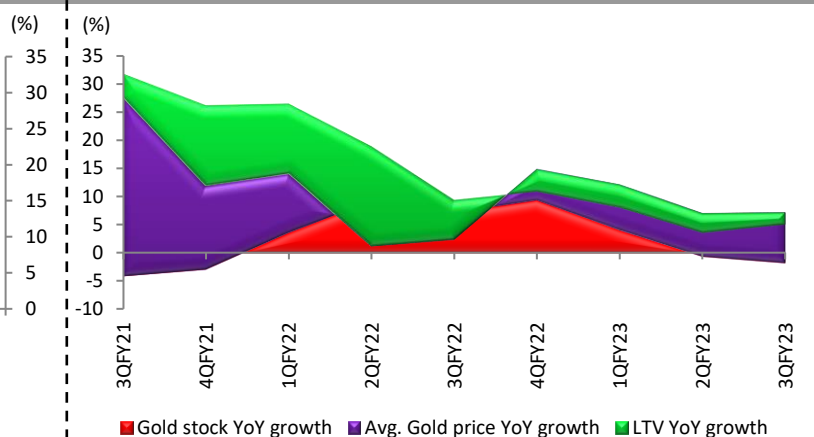
Source: Company, Systematix Institutional Research

## Exhibit 3: AUM growth stabilizing...

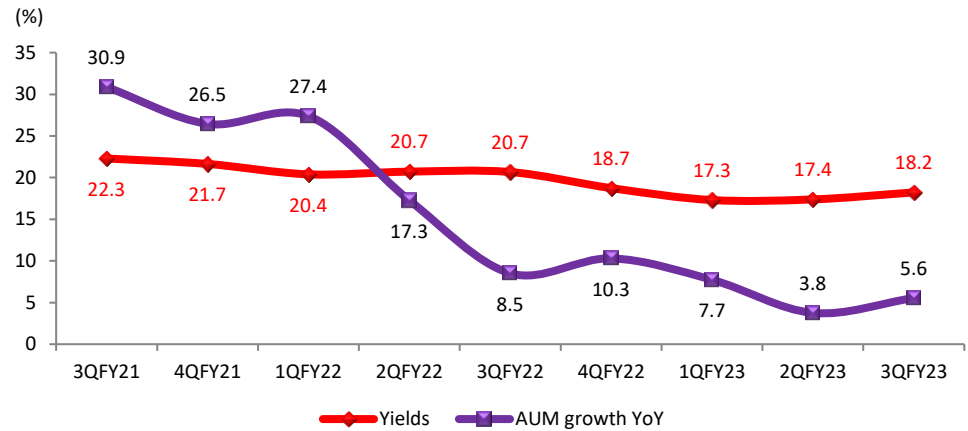


Source: Company, Systematix Institutional Research

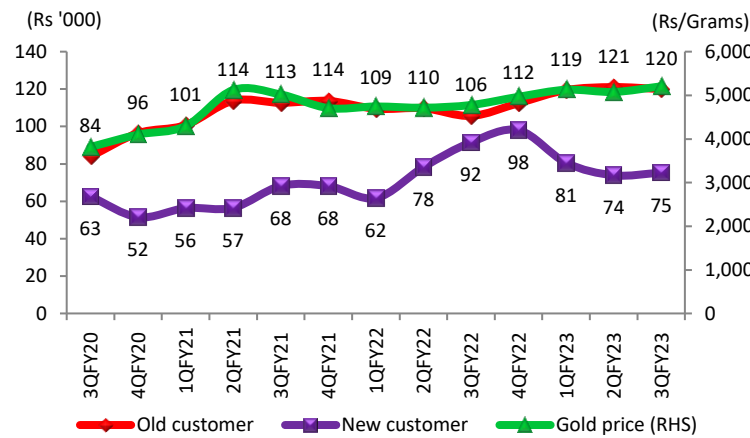
## Exhibit 4: aided by gold price, even as LTV and tonnage declines



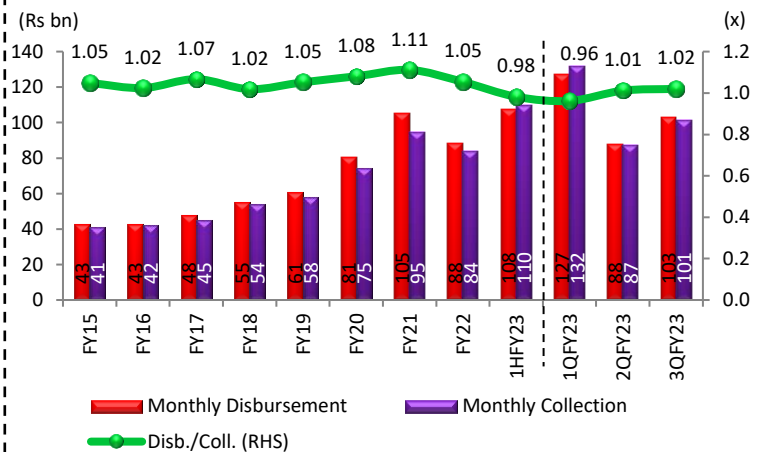
Source: Company, Systematix Institutional Research

**Exhibit 5: Reduced pricing related competition reflecting in loan yields**

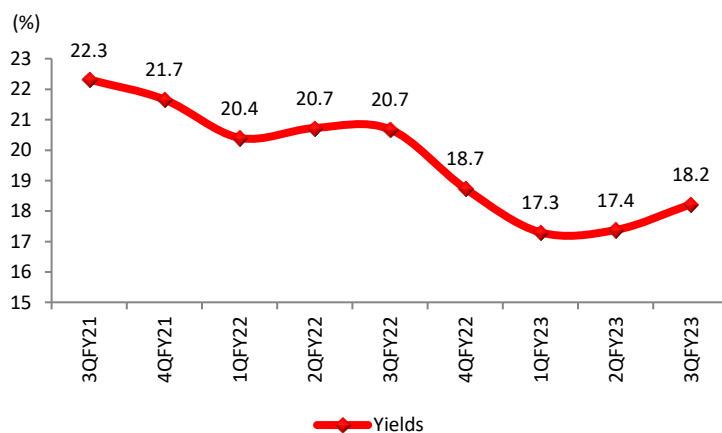
Source: Company, Systematix Institutional Research

**Exhibit 6: Fresh loan ticket size fell on teaser rate withdrawal...**

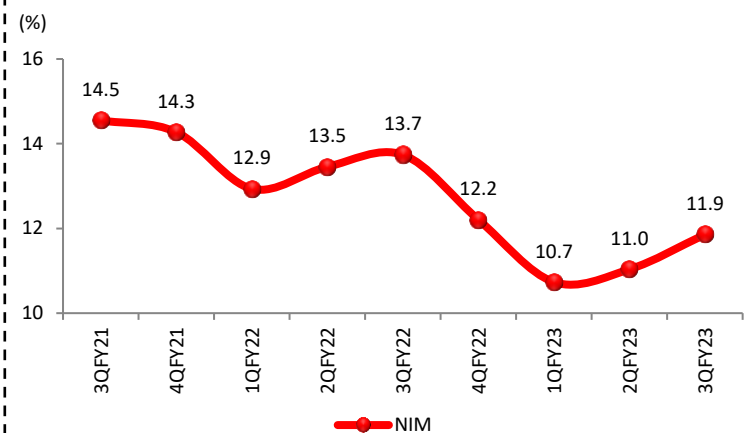
Source: Company, Systematix Institutional Research

**Exhibit 7: Disbursement/ Collection ratio bottomed out in 1Q**

Source: Company, Systematix Institutional Research

**Exhibit 8: Rise in yields...**

Source: Company, Systematix Institutional Research

**Exhibit 9: ...drives NIMs higher**

Source: Company, Systematix Institutional Research

Exhibit 10: Gross stage 3 increased...

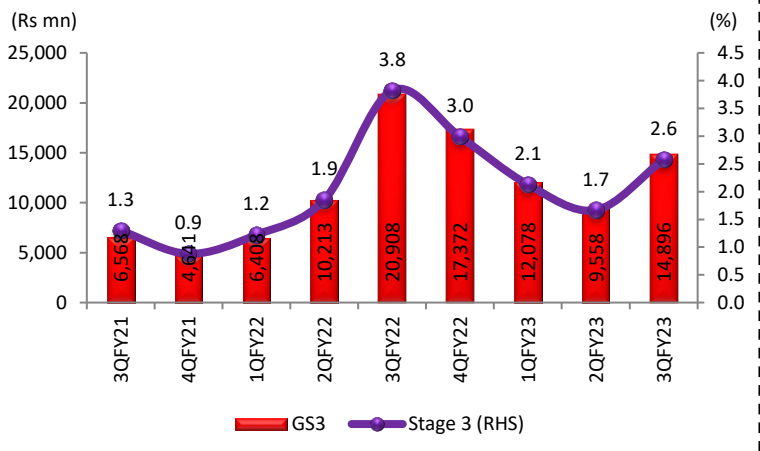
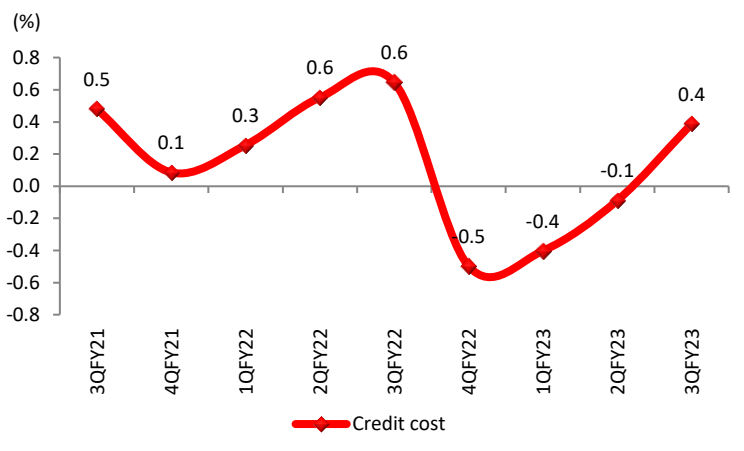


Exhibit 11: ...so is Credit cost



Source: Company, Systematix Institutional Research

# FINANCIALS (STANDALONE)

## Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	66,361	71,203	66,177	74,808	85,711
Other income	847	942	1,199	1,427	1,792
Net Income	68,819	72,626	67,989	76,991	88,371
Operating expenses	17,804	18,262	19,783	21,406	23,655
Pre provision profit	51,015	54,364	48,205	55,585	64,715
Provisions	950	1,270	1,124	1,264	1,377
Profit before tax	50,065	53,094	47,081	54,321	63,339
Tax	12,843	13,551	12,016	13,864	16,165
Tax rate	25.7	25.5	25.5	25.5	25.5
Reported Profit after tax	37,222	39,543	35,065	40,457	47,173

Source: Company, Systematix Institutional Research

## Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	18.1	16.3	14.9	15.6	15.9
Interest Expense	6.5	5.7	5.6	5.7	5.7
Net Interest Income	11.6	10.6	9.2	9.8	10.3
Other income total	0.4	0.2	0.3	0.3	0.3
Net Income total	12.1	10.8	9.5	10.1	10.6
Operating expenses total	3.1	2.7	2.8	2.8	2.8
Pre provision profit	9.0	8.1	6.7	7.3	7.8
Provisions	0.2	0.2	0.2	0.2	0.2
Profit before tax and exce. items	8.8	7.9	6.6	7.1	7.6
Profit before tax	8.8	7.9	6.6	7.1	7.6
Tax total	2.3	2.0	1.7	1.8	1.9
Profit after tax	6.5	5.9	4.9	5.3	5.7

Source: Company, Systematix Institutional Research

## Growth

YE: Mar (%)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	14.9	7.3	-7.1	13.0	14.6
Net Income total	16.0	5.5	-6.4	13.2	14.8
Pre provision profit	22.8	6.6	-11.3	15.3	16.4
Profit before tax	23.4	6.0	-11.3	15.4	16.6
Profit after tax	23.3	6.2	-11.3	15.4	16.6
Loan	26.9	9.8	2.9	9.8	11.2
AUM	26.5	10.3	6.5	9.8	11.2

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	4,012	4,013	4,013	4,013	4,013
Reserves	1,48,377	1,79,432	2,07,294	2,39,441	2,76,924
Net worth	1,52,389	1,83,446	2,11,308	2,43,454	2,80,937
Borrowings	4,59,463	4,98,113	5,00,801	5,29,651	5,67,743
Others	22,798	23,989	18,289	20,534	26,440
<b>Total liabilities</b>	<b>6,34,649</b>	<b>7,05,547</b>	<b>7,30,398</b>	<b>7,93,639</b>	<b>8,75,120</b>
Cash	71,898	92,429	95,867	95,041	98,130
Investments	15,903	13,205	17,009	20,366	22,645
Loans	5,40,634	5,93,842	6,11,054	6,71,133	7,46,451
Others	3,360	2,940	3,132	3,438	3,823
<b>Total assets</b>	<b>6,34,649</b>	<b>7,05,547</b>	<b>7,30,398</b>	<b>7,93,639</b>	<b>8,75,120</b>

Source: Company, Systematix Institutional Research

## Key Ratios

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
Yield on portfolio	21.9	19.8	17.7	18.5	18.8
Cost of borrowings	8.9	8.0	8.1	8.5	8.6
Spread	13.0	11.8	9.6	10.0	10.2
NIM (on AUM)	14.1	12.9	11.0	11.5	12.0
Cost/ Income (%)	25.9	25.1	29.1	27.8	26.8
Credit cost (%)	0.2	0.2	0.2	0.2	0.2
RoA (%)	6.5	5.9	4.9	5.3	5.7
RoE (%)	27.8	23.5	17.8	17.8	18.0
Leverage (x)	4.2	4.0	3.6	3.4	3.2
Tier I (%)	26.3	29.1	32.1	33.6	34.8
CAR (%)	27.4	30.0	32.9	34.4	35.5
Gross NPA (%)	0.9	3.0	2.5	2.3	2.0
Net NPA (%)	0.8	2.7	2.2	2.0	1.8
Provision coverage (%)	13.0	10.6	11.0	11.2	11.2

Source: Company, Systematix Institutional Research

## Valuation ratios

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
FDEPS (Rs)	93	99	87	101	118
PER (x)	12	11	13	11	9
Book value (Rs)	380	457	526	607	700
P/BV (Rs)	2.7	2.2	1.9	1.7	1.4
Adjusted book value (Rs)	370	418	492	573	667
P/ABV (Rs)	2.2	2.4	2.1	1.8	1.5
P/PPP (x)	7.9	7.5	8.4	7.3	6.3
Dividend yield (%)	2.0	2.0	1.8	2.1	2.4

Source: Company, Systematix Institutional Research

## Institutional Equities Team

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