

Muthoot Finance

BUY

Robust gold loan growth maintained; NIMs declined

Summary

Muthoot Finance (MUTH) reported strong growth in gold AUM at 29% YoY vs 27% YoY (FY21). Overall cons. AUM grew by 25% YoY; management guided for 15% plus growth on conservative basis in FY22. Profitability growth was lower at 15% due to higher provisions. NII grew by 18% YoY led by decline in margins; while PPoP grew by 17% YoY led by lower other income. Provisions increased by 131% YoY (up 203% QoQ) due to asset quality deterioration. Stage III loan assets increased to 1.2% vs 0.9% QoQ, while Company carries excess provision of Rs2.95bn in balance sheet. On Non gold portfolio front, Restructuring stood at Rs17.3bn, however, stage III in VF and MFI business stands at 18.9% and 3.7% respectively. We believe that MUTH with ~90% of AUM in the Gold loan portfolio has lower risk of loss of assets versus other NBFCs. We have a 'BUY' rating with a new TP of Rs.1,790 (earlier Rs.1,640), valuing it at 3.2x P/ABV FY23 (earlier at 3X P/BV) as competition seems to have negligible impact on the gold loan growth.

Key Highlights and Investment Rationale

- **Gold AUM growth remains strong:** Gold Loan AUM growth remains strong at 29% YoY (flat QoQ) vs 27% YoY (FY21) due to increase in ticket size (up 15% YoY). Gold holdings grew by 4% YoY (flat QoQ) to 171 tonnes, whereas loan per 1gm of gold has increased by 30% YoY (flat QoQ) to Rs3,077. Management continues to guide gold loan growth to 15% YoY for FY22 on conservative basis. Non gold portfolio front, management expects good disbursal in homes loans and in vehicle finance will restart its business from Q2FY22 onwards.
- **Asset quality deteriorates:** Stage III loans have increased during the quarter at 1.2% vs 0.9% QoQ, are not a cause of concern because of being backed by higher collateral. Company carries extra provision of Rs2.95bn and overall of Rs9.45bn (standalone business).
- **Margins declined sequentially:** NIMs declined by 134bps QoQ to 12.93% due to decline in yields on loans and rise in cost of funds during the quarter. Similarly spreads have also seen bit decline to 12.21% vs 13.5% QoQ.
- **Outlook:** Given the challenging environment, management guided for 15% YoY growth in FY22 on conservative basis, however, reported 27% YoY growth in pandemic year. Tier I capital of ~26.4% ensures unhindered growth ahead. The best part in Gold finance portfolio is although NPA may inch higher; lender can auction the gold assets easily and recover the credit much better as compared to other asset class.

TP CMP	Rs1,790 Rs1,547
Potential upside / downside	+16%

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	112.3	132.2
Consensus	110.3	126.3
% difference	1.8	4.7

Shareholding Pattern (%)

Promoters	73.4
FII	15.0
DII	7.3
Public	4.3

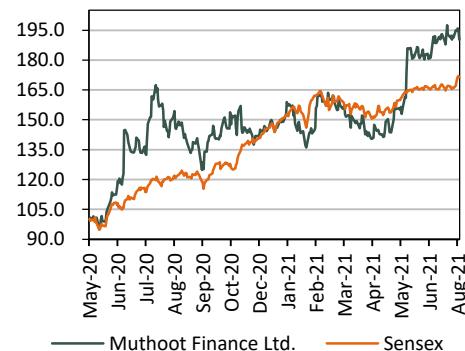
Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.9)	27.6	27.1
Rel to Sensex	(3.2)	17.3	(15.5)

Key Stock Data

Bloomberg / Reuters MUTH IN /MUTT.BO	
Sector	Finance
Shares o/s (mn)	401
Market cap. (Rs mn)	620,655
Market cap. (US\$ mn)	8,341
3-m daily avg Trd value (Rs mn)	889.2
52-week high / low	Rs1,639/1,000
Sensex / Nifty	54,278 / 16,238

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
NII	45,200	57,735	66,361	81,632	98,870
Net Profit	19,720	30,183	37,222	45,041	53,040
EPS (Rs)	49.2	75.3	92.8	112.3	132.2
BV (Rs)	244.4	288.6	379.8	447.2	560.1
PER (x)	31.4	20.6	16.7	13.8	11.7
P/BV (x)	6.3	5.4	4.1	3.5	2.8
ROE (%)	22.5	28.3	27.8	27.1	26.2
ROA (%)	5.7	6.8	6.5	6.6	6.5
GNPA (%)	2.7	2.1	0.9	1.2	1.2
NNPA (%)	0.8	0.8	0.0	0.1	0.1
CAR (%)	26.1	25.5	27.4	26.3	27.3

Source: IDBI Capital Research;

Conference Call Highlights

- Company reiterate is a guidance of 15% growth in AUM and expects to achieve it.
- Company deferred the business activity in non-gold loan business led to de-growth in a portfolio. Expects the growth pick up by the end of Q2 and could see better growth in Q3 and Q4FY22.
- **Sri Lanka Business-** Company concentrating more on gold loan business. Currently, 53% of the book comprises the gold loan portfolio, and expects it would increase to 90% of the portfolio in the next 18-24 months.
- Decline in yield is more related to fluctuation due to various schemes provided by the company.
- During FY21, Company lend Rs1,350bn, of this, auctioned Rs4bn and Rs370mn in Q1FY22.
- Expects cost of the fund would decline in next two quarters and ROA of 7-8% further.
- Out of Rs31bn, Stage 2 and Stage 3 stand at Rs2.83bn and Rs1.12bn.
- Kerala business is 3% of the company portfolio.
- 53% of the gold loan portfolio is more than the Rs1lakh ticket size.
- Under gold loan portfolio, Have ECL provision of Rs6.5bn, and excess provision of Rs2.95bn. Subsidiaries have Rs1.5bn provision.

Collection efficiency –

- Home Finance (portfolio of Rs17bn), April- 84%, May-83%, June-87% and July- 88%.
- Muthoot Money (portfolio of Rs3.3bn), April- 71%, May-65%, June-76% and July- 77%.
- MFI business, March- 94%, April- 89%, May-71%, June-66%.

Exhibit 1: Quarterly Snapshot

Year-end: March	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
Interest Income	26,837	23,160	27,891	15.9	(3.8)
Interest Expenses	9,822	8,715	9,513	12.7	3.2
Net Interest Income	17,015	14,445	18,378	17.8	(7.4)
NIM (%)	12.5	13.6	13.9	(107 bps)	(144 bps)
Non-Interest Income	312	694	389	(55.0)	(19.8)
Operating Income	17,327	15,139	18,767	14.5	(7.7)
Staff Cost	2,314	2,362	2,760	(2.0)	(16.2)
Other Op Exp	1,675	1,376	2,400	21.7	(30.2)
Total Operating Expenses	3,989	3,738	5,160	6.7	(22.7)
<i>Cost to Income (%)</i>	23.0	24.7	27.5	(167 bps)	(447 bps)
<i>Cost to AUM (%)</i>	3.0	3.6	4.0	(57 bps)	(97 bps)
Operating Profit	13,338	11,401	13,607	17.0	(2.0)
Provisions	337	146	111	130.8	203.6
<i>Credit Cost (%)</i>	0.2	0.1	0.1	11 bps	16 bps
PBT	13,001	11,255	13,496	15.5	(3.7)
Tax	3,290	2,847	3,539	15.6	(7.0)
<i>- effective tax rate</i>	25.3	25.3	26.2	1 bps	(92 bps)
PAT	9,711	8,408	9,957	15.5	(2.5)
EPS (Rs)	24.2	21.0	24.8	15.4	(2.5)
BV (Rs)	383.5	307.1	379.8	24.8	1.0
AUM	526,138	412,957	526,223	27.4	0.0

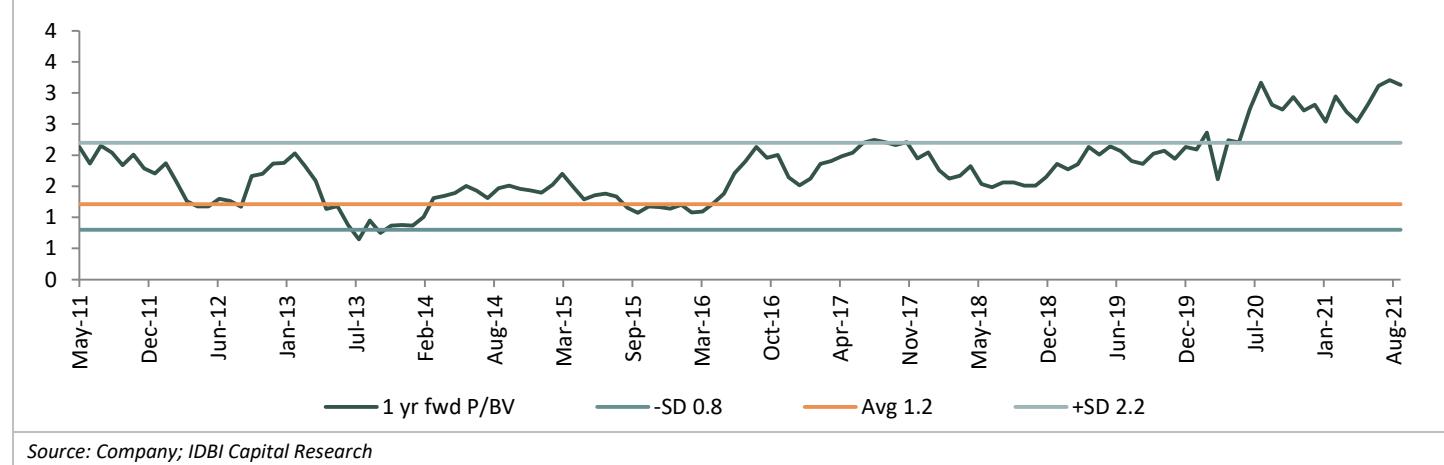
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY19	FY20	FY21	FY22E	FY23E
NII	13.0	13.0	11.6	11.9	12.2
Non-Int Inc	0.4	0.4	0.4	0.3	0.3
Net Revenue	13.4	13.4	12.1	12.2	12.5
Op.Exp	4.4	4.0	3.1	3.2	3.5
Op.Profit	8.9	9.4	9.0	9.0	9.0
Provisions	0.1	0.2	0.2	0.2	0.2
PBT	8.9	9.2	8.8	8.8	8.8
Tax	3.2	2.3	2.3	2.3	2.3
PAT	5.7	6.8	6.5	6.6	6.5
Leverage (x)	4.0	4.1	4.2	4.1	4.0
ROE	22.5	28.3	27.8	27.1	26.2

Source: Company; IDBI Capital Research

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



Financial Summary

Profit & Loss Account (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net interest income	57,735	66,361	81,632	98,870
Fee Income	1,584	2,458	1,946	2,336
Treasury	-	-	-	-
Operating Income	59,319	68,819	83,578	101,205
Operating expenses	(17,788)	(17,804)	(21,805)	(28,193)
Employee expenses	(10,290)	(10,062)	(13,211)	(18,311)
Other expenses	(7,498)	(7,742)	(8,594)	(9,883)
Pre-Provision Profit	41,531	51,015	61,774	73,012
Provision	(957)	(950)	(1,153)	(1,626)
Loan loss Provisions	(957)	(950)	(1,153)	(1,626)
Other Provisions	-	-	-	-
PBT	40,574	50,065	60,620	71,386
Taxes	(10,391)	(12,843)	(15,579)	(18,346)
Net profit	30,183	37,222	45,041	53,040

Balance Sheet (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Capital	4,010	4,012	4,012	4,012
Reserves	111,708	148,377	175,412	220,705
Networth	115,718	152,389	179,424	224,717
Borrowings	371,301	459,463	543,375	637,423
Total Liab. & Equity	504,596	634,649	739,168	883,507
Cash	56,406	71,898	64,876	77,851
Investments	14,383	15,903	15,903	15,903
Advances	426,042	540,634	648,761	778,513
Other Assets	5,201	3,359	6,488	7,785
Total assets	504,596	634,649	739,168	883,507

Source: Company; IDBI Capital Research

Financial Ratios (%)

Year-end: March	FY20	FY21	FY22E	FY23E
Growth				
Advances	22.0	26.9	20.0	20.0
NII	27.7	14.9	23.0	21.1
Pre-Provision Profit	33.8	22.8	21.1	18.2
Net Profit	53.1	23.3	21.0	17.8
Spreads				
Yield on Assets	22.1	21.4	21.3	21.3
Cost of Funds	8.8	8.9	9.0	9.0
NIM	14.9	13.7	13.7	13.9
Operating Efficiency				
Cost-to-Income	30.0	25.9	26.1	27.9
Cost-to-Assets	4.6	3.7	3.7	4.0
Asset Quality				
GNPA	2.1	0.9	1.2	1.2
NNPA	0.8	0.0	0.1	0.1
Provision Coverage	39.6	34.8	6.7	6.7
Credit Cost	0.2	0.2	0.2	0.2
Capital Adequacy				
CAR	25.5	27.4	26.3	27.3
Tier I	24.3	26.4	25.1	26.2
Valuation				
EPS	75.3	92.8	112.3	132.2
BV	288.6	379.8	447.2	560.1
P/E	20.6	16.7	13.8	11.7
P/BV	5.4	4.1	3.5	2.8
ROE	28.3	27.8	27.1	26.2
ROA	6.8	6.5	6.6	6.5

Notes

Dealing

(91-22) 6836 1111

dealing@idbic平.0m

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbic平.0m

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578**Compliance Officer:** Christina D'souza; Email: compliance@idbic平.0m; Telephone: (91-22) 2217 1907**Disclaimer**

This report has been published by IDBI Capital Markets & Securities Ltd.(hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

We, Bunty Chawla and Nikhil Vaishnav, hereby certify that the views expressed in this report accurately reflect our personal views about the subject companies and / or securities. We also certify that no part of our compensation were, are or would be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, we will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd.(herein after referred to as "IDBI Capital") was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.