

# 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 disbursement 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** Rs1,790  
**CMP** 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

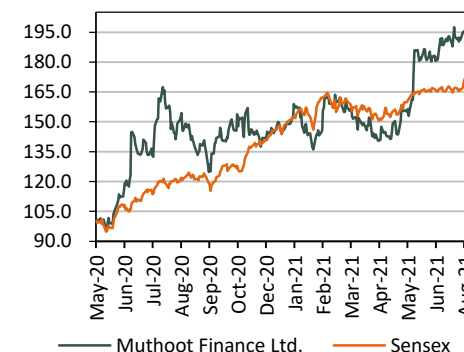
## Price Performance (%)

	-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

	(Rs mn)				
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

(Rs mn)

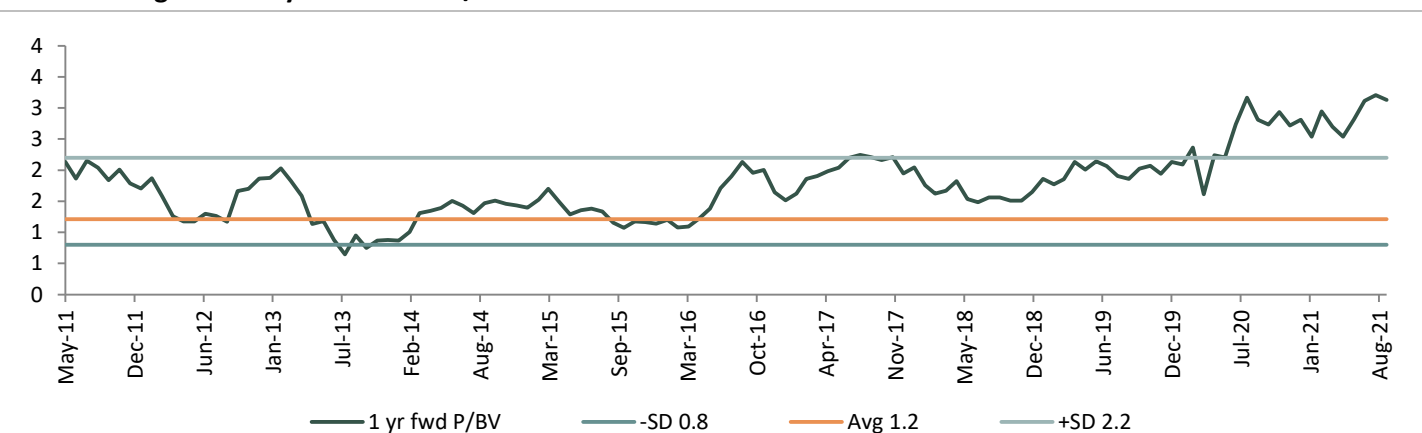
Year-end: March	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
Interest Income	26,837	23,160	27,891	15.9	(3.8)
Interest Expenses	9,822	8,715	9,513	12.7	3.2
<b>Net Interest Income</b>	<b>17,015</b>	<b>14,445</b>	<b>18,378</b>	<b>17.8</b>	<b>(7.4)</b>
<b>NIM (%)</b>	<b>12.5</b>	<b>13.6</b>	<b>13.9</b>	<b>(107 bps)</b>	<b>(144 bps)</b>
Non-Interest Income	312	694	389	(55.0)	(19.8)
<b>Operating Income</b>	<b>17,327</b>	<b>15,139</b>	<b>18,767</b>	<b>14.5</b>	<b>(7.7)</b>
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>	<i>23.0</i>	<i>24.7</i>	<i>27.5</i>	<i>(167 bps)</i>	<i>(447 bps)</i>
<i>Cost to AUM (%)</i>	<i>3.0</i>	<i>3.6</i>	<i>4.0</i>	<i>(57 bps)</i>	<i>(97 bps)</i>
<b>Operating Profit</b>	<b>13,338</b>	<b>11,401</b>	<b>13,607</b>	<b>17.0</b>	<b>(2.0)</b>
Provisions	337	146	111	130.8	203.6
<i>Credit Cost (%)</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>11 bps</i>	<i>16 bps</i>
<b>PBT</b>	<b>13,001</b>	<b>11,255</b>	<b>13,496</b>	<b>15.5</b>	<b>(3.7)</b>
Tax	3,290	2,847	3,539	15.6	(7.0)
<i>- effective tax rate</i>	<i>25.3</i>	<i>25.3</i>	<i>26.2</i>	<i>1 bps</i>	<i>(92 bps)</i>
<b>PAT</b>	<b>9,711</b>	<b>8,408</b>	<b>9,957</b>	<b>15.5</b>	<b>(2.5)</b>
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**

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Net interest income</b>	<b>57,735</b>	<b>66,361</b>	<b>81,632</b>	<b>98,870</b>
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)
<b>Pre-Provision Profit</b>	<b>41,531</b>	<b>51,015</b>	<b>61,774</b>	<b>73,012</b>
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)
<b>Net profit</b>	<b>30,183</b>	<b>37,222</b>	<b>45,041</b>	<b>53,040</b>

### 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
<b>Networth</b>	<b>115,718</b>	<b>152,389</b>	<b>179,424</b>	<b>224,717</b>
Borrowings	371,301	459,463	543,375	637,423
<b>Total Liab. &amp; Equity</b>	<b>504,596</b>	<b>634,649</b>	<b>739,168</b>	<b>883,507</b>
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
<b>Total assets</b>	<b>504,596</b>	<b>634,649</b>	<b>739,168</b>	<b>883,507</b>

### Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Growth</b>				
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
<b>Spreads</b>				
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
<b>Operating Efficiency</b>				
Cost-to-Income	30.0	25.9	26.1	27.9
Cost-to-Assets	4.6	3.7	3.7	4.0
<b>Asset Quality</b>				
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
<b>Capital Adequacy</b>				
CAR	25.5	27.4	26.3	27.3
Tier I	24.3	26.4	25.1	26.2
<b>Valuation</b>				
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

Source: Company; IDBI Capital Research



# Notes

Dealing

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