

Muthoot Finance

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MUTH IN
Equity Shares (m)	401
M.Cap.(INRb)/(USDb)	672 / 8.1
52-Week Range (INR)	1763 / 1104
1, 6, 12 Rel. Per (%)	-2/1/29
12M Avg Val (INR M)	790

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	77.9	90.7	101.7
PPP	56.5	66.7	74.8
PAT	40.5	48.6	54.9
EPS (INR)	100.9	121.1	136.8
EPS Gr. (%)	16.6	20.0	13.0
BV/Sh.(INR)	605	700	809
Ratios			
NIM (%)	11.2	11.1	11.0
C/I ratio (%)	29.8	28.8	28.7
RoA (%)	5.1	5.3	5.3
RoE (%)	17.9	18.6	18.1
Payout (%)	23.8	21.5	20.5
Valuations			
P/E (x)	16.6	13.8	12.2
P/BV (x)	2.8	2.4	2.1
Div. Yld. (%)	1.4	1.6	1.7

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	73.4	73.4	73.4
DII	14.7	14.6	12.7
FII	8.3	8.3	9.4
Others	3.6	3.7	4.6

FII Includes depository receipts

CMP: INR1,673

TP: INR1,620 (-3%)

Neutral

Gold loan growth accelerates; yield expansion boosts NIM

Guidance of ~15% gold loan growth in FY25

- MUTH's 4QFY24 performance was characterized by: 1) gold loan growth of ~18% YoY to ~INR729b; 2) NIM expansion of ~75bp QoQ to 11.9%; and 3) the rise in gold tonnage by ~2% QoQ to 188 tons.
- 4Q PAT grew 17% YoY and 3% QoQ to ~INR10.6b (in line), while FY24 PAT grew 17% YoY to INR40.5b. Net total income grew 14% YoY to ~INR22b (8% beat), and PPOP grew 17% YoY to ~INR15.1b (9% beat).
- Gold loan growth was supported by gold tonnage growth, along with an increase in the customer base by ~2% QoQ to ~5.7m. Higher gold prices during the quarter resulted in LTV declining ~2pp QoQ to ~63%.
- We model a standalone AUM CAGR of ~14% over FY24-FY26E. This, we believe, will result in a PAT CAGR of ~17% over this period. We model RoA/RoE of ~5.3%/18% in FY26. Like last year, we expect higher gold prices to support gold loan growth for the sector as well as for MUTH, given that the company can further improve the LTV by leveraging top-ups on gold loans.
- We increase our FY25/FY26 EPS estimates by 5%/4% to factor in higher gold loan growth and higher other income. MUTH's valuations have re-rated in the last three months, aided by 1) higher gold prices resulting in better visibility on gold loan growth, and 2) expectations that the RBI's gold loan ban on (once) the second largest gold loan NBFC would potentially result in lower competitive intensity and better gold loan growth for other gold NBFC peers.
- MUTH now trades at 2.1x FY26E P/BV, and although we expect gold loan growth to remain buoyant in the near term, we believe the current valuations largely factor in the positives factors. **We maintain our Neutral rating with a revised TP of INR1,620 (based on 2.0x FY26E P/BV).**

Strong AUM growth in Belstar; asset quality largely stable

- MUTH's microfinance subsidiary, Belstar, posted ~62% YoY AUM growth to ~INR100b. Reported PAT in 4Q stood at ~INR1b, up ~5% QoQ.
- Asset quality was broadly stable with GS3 declining ~5bp QoQ to ~1.8%.
- Belstar added ~246 branches in FY24, and CRAR stood at ~21%.

Highlights from the management commentary

- The management continued to guide for ~15% YoY growth in gold loans and branch additions of 150-200 in FY25.
- The company shared that it has not seen any significant impact of the capping on cash disbursements in gold loans. Customers have taken it in stride and MUTH has seen healthy gold loan growth despite the capping on cash disbursements.
- Incremental CoB stood at ~8.8%-9.0%. In the subsequent quarters, MUTH expects weighted average CoB to rise to ~9%.

Valuation and view

- MUTH reported a healthy gold loan growth, aided by gold tonnage growth and stronger customer additions. We expect gold loan growth to remain buoyant in the near term, aided by higher gold prices and levers on LTV (~63% as of Mar'24). Lower competitive intensity due to the ban on gold lending on IIFL Finance will benefit other gold loan players, including MUTH.
- If and when the gold loan ban on IIFL Finance is revoked, we expect higher competitive intensity to again get restored in the gold loan ecosystem.
Maintain our Neutral rating with a revised TP of INR1,620 (based on 2.0x FY26E BVPS).

Quarterly Performance										(INR M)		
Y/E March	FY23				FY24				FY23	FY24	4QFY24E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	24,816	24,746	26,184	27,940	29,577	30,147	31,176	33,575	1,03,686	1,24,476	32,568	3
Other operating income	223	231	414	594	410	450	501	514	1,462	1,874	570	-10
Total Operating income	25,039	24,977	26,598	28,534	29,987	30,597	31,677	34,089	1,05,148	1,26,350	33,138	3
YoY Growth (%)	-7.7	-11.8	-7.3	6.9	19.8	22.5	19.1	19.5	-5.1	20.2	16.1	
Other income	54	58	73	104	276	139	80	95	289	590	154	-39
Total Income	25,093	25,036	26,671	28,638	30,263	30,736	31,757	34,184	1,05,437	1,26,940	33,293	3
YoY Growth (%)	-7.6	-11.6	-7.1	6.9	20.6	22.8	19.1	19.4	-5.0	20.4	16.3	
Interest Expenses	9,416	9,027	9,141	9,407	10,638	11,563	12,119	12,228	36,991	46,548	12,920	-5
Net Income	15,677	16,009	17,530	19,231	19,625	19,173	19,638	21,956	68,446	80,393	20,373	8
Operating Expenses	5,435	4,522	4,905	6,314	5,620	5,751	5,696	6,861	21,177	23,927	6,579	4
Operating Profit	10,241	11,487	12,624	12,917	14,006	13,422	13,942	15,095	47,270	56,466	13,794	9
YoY Growth (%)	-23.2	-18.8	-13.9	5.7	36.8	16.9	10.4	16.9	-13.0	19.5	6.8	
Provisions	-577	-127	557	753	860	120	137	860	605	1,978	-9	
Profit before Tax	10,818	11,614	12,068	12,164	13,145	13,302	13,805	14,236	46,664	54,488	13,803	3
Tax Provisions	2,798	2,942	3,051	3,138	3,394	3,392	3,532	3,673	11,929	13,991	3,500	5
Net Profit	8,020	8,672	9,017	9,027	9,751	9,910	10,273	10,563	34,735	40,497	10,303	3
YoY Growth (%)	-17.4	-12.8	-12.4	-6.0	21.6	14.3	13.9	17.0	-12.2	16.6	14.1	
Key Operating Parameters (%)												
Yield on loans (Cal)	17.5	17.5	18.5	18.9	18.3	17.9	18.1	18.6				
Cost of funds (Cal)	7.9	7.8	8.0	8.0	8.4	8.7	8.6	8.4				
Spreads (Cal)	9.6	9.7	10.5	10.9	9.9	9.2	9.5	10.2				
NIMs (Cal)	10.9	11.2	12.2	12.7	12.0	11.2	11.2	11.9				
Credit Cost	-0.4	-0.1	0.4	0.5	0.5	0.1	0.1	0.5				
Cost to Income Ratio	34.7	28.2	28.0	32.8	28.6	30.0	29.0	31.2				
Tax Rate	25.9	25.3	25.3	25.8	25.8	25.5	25.6	25.8				
Balance Sheet Parameters												
AUM (INR b)	567	572	577	632	676	690	712	758				
Change YoY (%)	7.7	3.8	5.6	8.9	19.3	20.6	23.3	20.0				
Gold loans (INR b)	562	565	568	619	660	675	692	729				
Change YoY (%)	7.9	3.3	4.8	7.6	17.6	19.5	21.8	17.8				
Gold Stock Holding (In tonnes)	178	177	175	180	182	183	184	188				
Avg gold loans per branch (INR m)	122	122	122	131	139	142	145	150				
Borrowings (INR b)	454	468	443	498	513	553	580	588				
Change YoY (%)	-5.0	-4.1	-6.0	-0.2	12.8	18.2	31.0	18.1				
Borrowings Mix (%)												
Listed secured NCDs	27.0	24.2	25.2	27.5	24.8	24.4	28.8	27.9				
Term loans	51.4	55.9	62.3	59.5	59.8	65.4	61.6	63.0				
Commercial Paper	0.0	0.0	0.0	2.3	7.7	8.3	8.0	7.9				
Others	4.2	2.5	2.3	1.6	2.6	1.9	1.6	1.3				
Debt/Equity (x)	2.3	2.2	2.0	2.1	2.3	2.3	2.2	2.6				
Asset Quality Parameters (%)												
GS 3 (INR m)	12,078	9,558	14,896	23,986	28,789	27,639	25,767	24,845				
Gross Stage 3 (% on Assets)	2.1	1.7	2.6	3.8	4.3	4.0	3.6	3.3				
Total Provisions (INR m)	9,548	9,380	9,904	10,612	11,422	11,486	11,542	12,304				
Return Ratios (%)												
RoAUM (Rep)	5.6	6.1	6.3	6.0	6.0	5.8	5.9	5.8				
RoE (Rep)	17.5	18.5	18.3	17.5	18.5	18.3	18.1	17.8				

E: MOFSL estimates

Gold loans grew ~5% QoQ; limited impact of cash disbursement capping

- Gold loan AUM grew ~5% QoQ and ~18% YoY to ~INR729b, while consolidated AUM at ~INR891b rose ~25% YoY.
- Gold tonnage increased ~2% QoQ to 188 tons. Gold loan LTV declined ~2pp QoQ to ~63% (PQ: 65%) and the number of gold loan accounts rose to 8.7m (PQ: 8.6m).
- Average monthly disbursement rose to INR150b in 4QFY24 (PQ: INR120b), with average ticket size increasing to ~INR83K (PQ: INR81K).
- The management shared that the industry-wide cap on cash disbursements in gold loans at INR20k is expected to have a limited impact on business volumes. While some customers (who necessarily seek disbursements in cash) may turn to the unorganized sector, well-managed NBFCs should not face significant challenges.
- The management continued to guide for ~15% YoY gold loan growth, supported by the addition of 150-200 new branches in FY25. However, we expect gold AUM CAGR of ~13% over FY24-FY26E.

Improvement in both NIM and spreads

- MUTH reported a ~45bp QoQ expansion in yields and ~20bp decline in CoB, resulting in a ~65bp expansion in spreads to ~10.2%.
- NIM (calc.) expanded ~75bp QoQ to ~11.9% We expect NIM of 11.1%/11.0% in FY25/FY26. In our view, MUTH should pivot to a lower (than historical) margin business model that will aid stronger and more stable gold loan growth. With an opex-to-average asset ratio of ~3%, MUTH can still make the choice of generating a lower RoA but can build higher leverage to deliver a healthy RoE.

Asset quality improves but Stage 2 assets rose QoQ

- GS3% declined ~35bp QoQ to ~3.3%. However, GS2% increased by ~120bp to 1.8%. 30+dpd increased ~80bp QoQ to 5.1%.
- Stage 2 loans rose QoQ as customers were given more time to repay their loans. Despite this, MUTH remains profitable due to higher gold prices.
- ECL Provisions stood at INR6.2b for Stage 1, INR280m for Stage 2 and INR2.88b for Stage 3. Increase in ECL provisions during the quarter were predominantly because of increase in the provisions on standard loan assets.



Highlights from the management commentary

Business Update

- Standalone AUM crossed a milestone of INR750b. Gold AUM grew ~6% QoQ and 18% YoY to ~INR729b.
- The contribution of subsidiaries to consol. AUM grew to ~15% (vs. ~12% as of FY23), while the contribution of subsidiaries to consol. PAT grew to 10% (vs. ~6% as of FY23).
- Despite industry hiccups, MUTH has maintained its leadership position in the gold loan industry.

Capping on cash disbursements in gold loans

- Confident that the impact of capping on cash disbursements on business volumes will be limited since it is an industry-wide capping on all gold loan players. Customers who want gold loan disbursements in cash will go to the unorganized sector. However, well-run NBFCs will not have any problem.
- There is no significant impact of the capping on cash disbursements in gold loans; Customers have taken it in stride and it has seen good gold loan growth despite the capping on cash disbursements.

Guidance

- MUTH guided for ~15% AUM growth in gold loans.
- The company guided for branch additions of 150-200 in FY25.
- Incremental CoB stood at ~8.8%-9.0%. In the subsequent quarters, the overall cost of borrowings will move up to ~9%.

Competitive Intensity and Pricing Power

- Most of the gold loan companies, which are based out of Kerala (and are regulated by local Kerala/Thiruvananthapuram regulatory body), have been disciplined in pricing of gold loans.
- Lenders, who did reckless gold lending, are finding skeletons in their closets, while MUTH has always grown in a calibrated manner.

Asset Quality and ECL Provisions

- The increase in ECL provisions has come from the increase in standard loan assets.
- Stage 2 grew QoQ as the company gave extra time to customers to repay their gold loans. MUTH shared that given the rise in gold prices, the company is still in the money despite giving more time to the customers to repay their gold loans.

Gold Loans

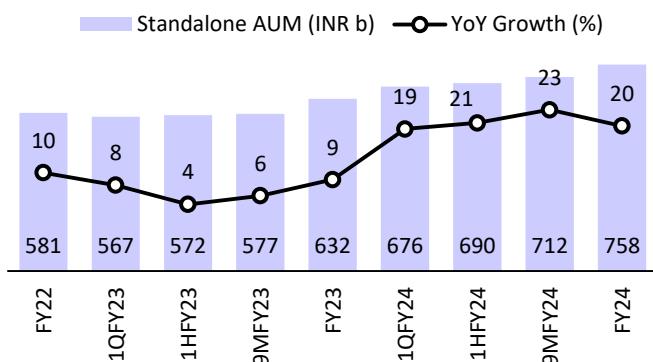
- Gold auctions stood at ~INR1.62b (FY24: INR8.92b); MUTH does not increase its lending rates just because the competitive intensity is lower.
- Accrued interest stood at INR21.8b (Mar'23: INR18.53b).
- ECL provisions stood at INR6.2b for Stage 1, INR280m for Stage 2 and INR2.88b for Stage 3.
- The number of customer loan accounts increased by ~200k between Dec'23 and Mar'24.
- Gold tonnage also rose ~4t QoQ to 188 tons.
- Gold loan split by ticket size
- <INR100k: 35%
- INR100k-300k: 37%
- >INR300k: 29%

Others

- MUTH has also become more active in MSME and salaried personal loans. Vehicle finance is a very crowded space and the company does not have much capabilities/strength in this segment.
- When gold prices increase, gold tonnage declines.
- Loans of ~INR5b in the standalone AUM are toward a wholly owned subsidiary and the remaining non-gold loan-book in the standalone entity is unsecured.
- Management incentives are paid out in the fourth quarter and there was an impact of ~INR500m in 4QFY24.
- Personal loans are 2-year products; It was started 8-10 years back; Good team in place to scale up this business. These loans are disbursed based on proper credit assessment, including CIBIL score. There are 10 parameters which are verified/evaluated before disbursing a personal loan.

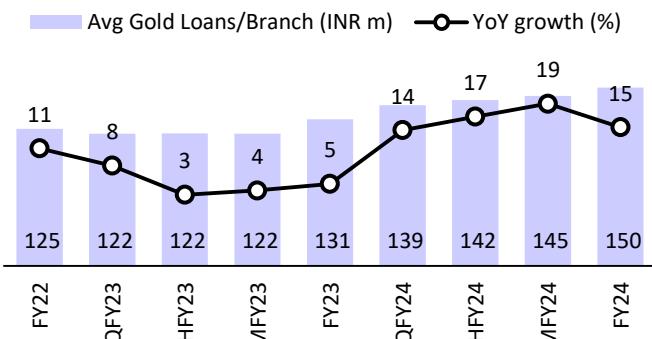
Key exhibits

Exhibit 1: Standalone AUM grew 20% YoY



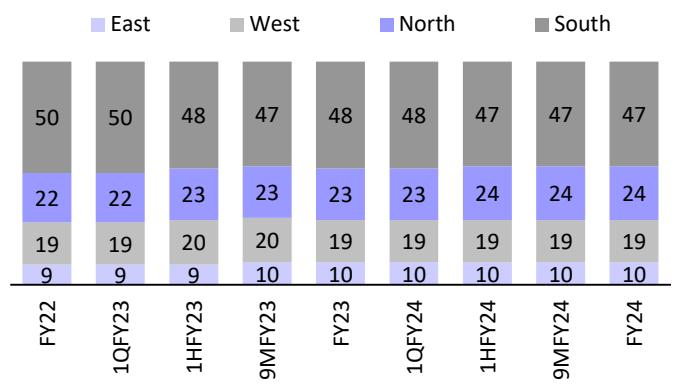
Source: MOFSL, Company

Exhibit 2: Trend in productivity



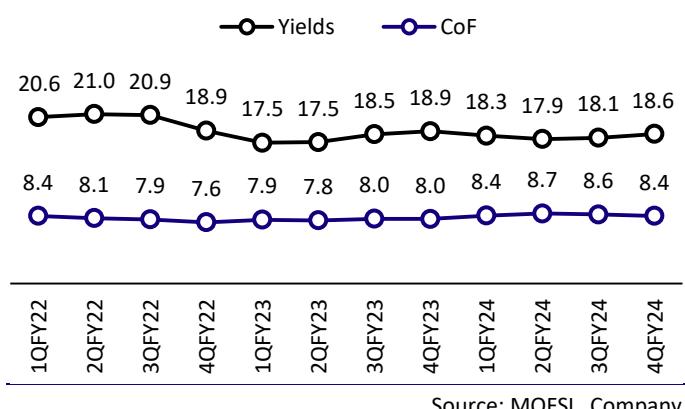
Source: MOFSL, Company

Exhibit 3: Regional mix of gold loans stable



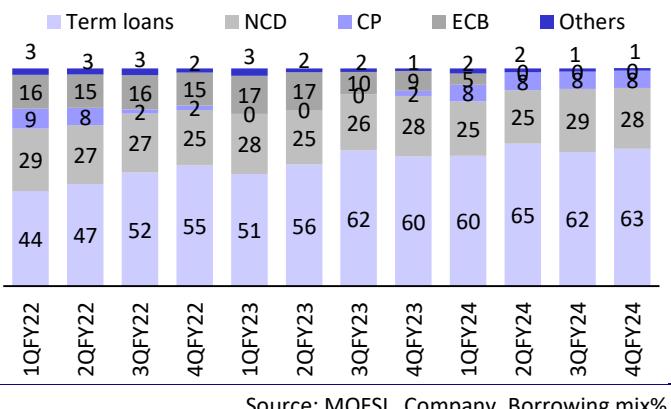
Source: MOFSL, Company, Gold loan portfolio mix

Exhibit 5: Spreads (calc.) expanded ~65bp QoQ (%)



Source: MOFSL, Company

Exhibit 6: Borrowing mix (%)



Source: MOFSL, Company, Borrowing mix%

Exhibit 7: OPEX/AUM increased ~40bp QoQ to 3.7%

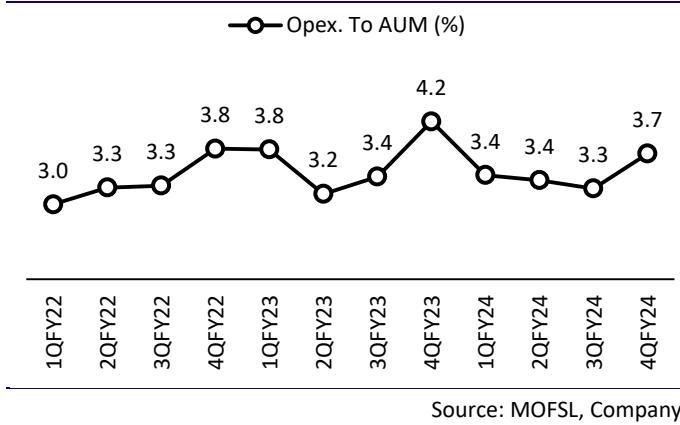


Exhibit 8: GNPA declined ~35bp QoQ (%)

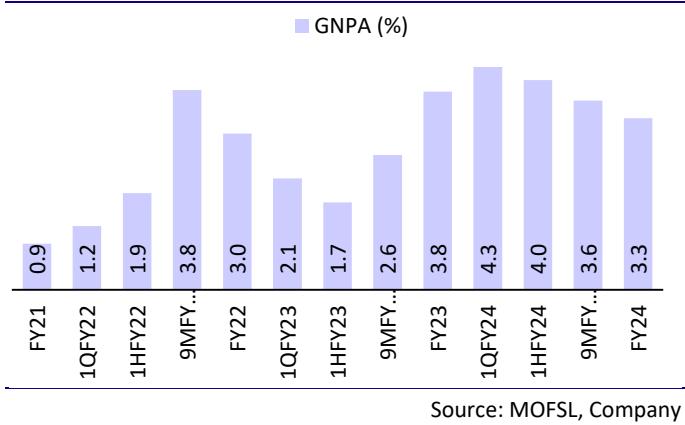


Exhibit 9: PAT grew 17% YoY

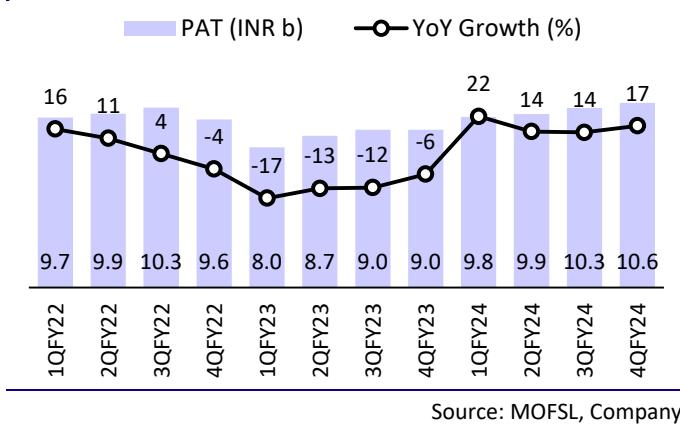
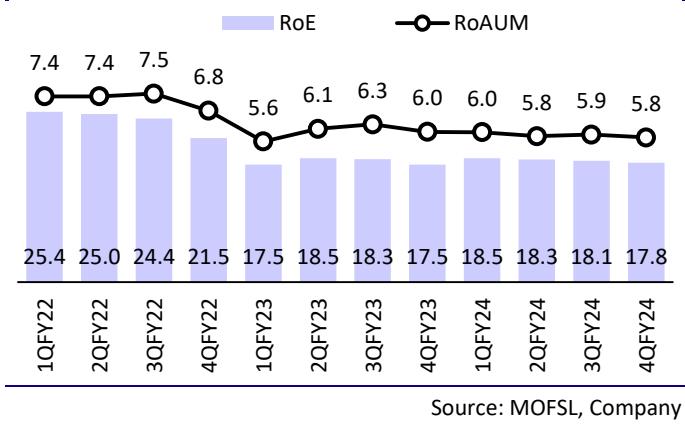


Exhibit 10: RoA/RoE at ~5.8%/18.0% in 4QFY24



Valuation and view

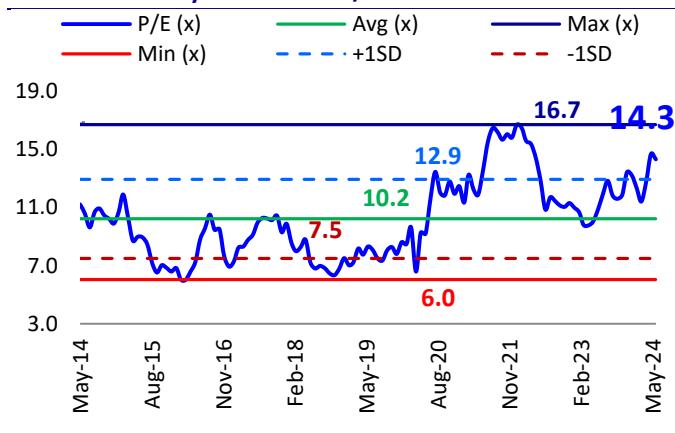
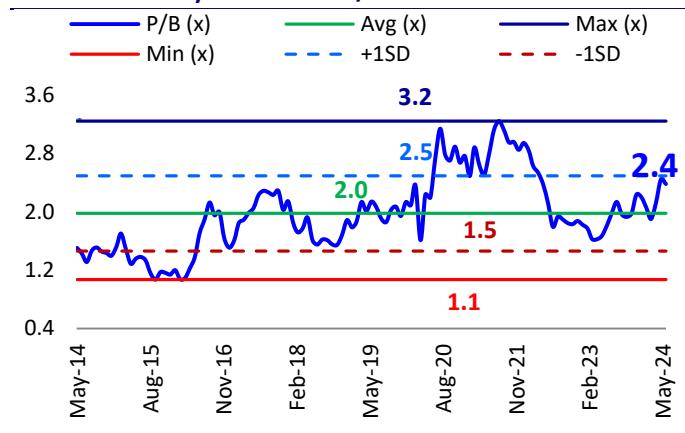
- MUTH reported a healthy gold loan growth, aided by gold tonnage growth and stronger customer additions. We expect gold loan growth to remain buoyant in the near term, aided by higher gold prices and levers on LTV (~63% as of Mar'24). Lower competitive intensity due to the ban on gold lending on IIFL Finance will benefit other gold loan players, including MUTH.
- If and when the gold loan ban on IIFL Finance is revoked, we expect higher competitive intensity to again get restored in the gold loan ecosystem.

Maintain our Neutral rating with a revised TP of INR1,620 (based on 2.0x FY26E BVPS).

Exhibit 11: Increase our FY25/FY26 estimates by 5%/4% to factor in higher gold loan growth and higher other income

INR B	Old Est		New Est		% Change	
	FY25	FY26	FY25	FY26	FY25	FY26
NII	86.4	97.2	90.7	102.2	5.0	5.2
Other Income	2.6	3.0	2.9	3.2	8.7	6.8
Net Income	89.0	100.2	93.6	105.4	5.1	5.2
Operating Expenses	26.0	28.4	26.9	30.1	3.6	6.2
Operating Profits	63.0	71.8	66.7	75.3	5.7	4.8
Provisions	0.6	0.5	1.3	0.9	110.7	72.8
PBT	62.4	71.3	65.4	74.3	4.7	4.3
Tax	16.0	18.2	16.8	19.1	5.2	4.8
PAT	46.5	53.0	48.6	55.2	4.6	4.1
Loans	851	936	893	1,000	5.0	6.9
Borrowings	660	709	687	752		
Spread (%)	8.8	8.8	8.8	8.7		
RoA (%)	5.1	5.3	5.3	5.3		
RoE (%)	17.8	17.7	18.6	18.2		

Source: MOFSL, Company

Exhibit 12: One-year forward P/E ratio**Exhibit 13: One-year forward P/B ratio**

Financials and valuations

INCOME STATEMENT								(INR M)
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	67,570	85,644	103,285	109,560	103,686	124,476	147,196	166,639
Interest Expense	22,368	27,909	36,924	38,358	36,991	46,548	56,479	64,407
Net Interest Income	45,202	57,735	66,361	71,203	66,695	77,928	90,717	102,231
Change (%)	5.8	27.7	14.9	7.3	-6.3	16.8	16.4	12.7
Other income	1,236	1,584	2,458	1,424	1,751	2,465	2,856	3,171
Net Income	46,438	59,319	68,819	72,626	68,446	80,393	93,573	105,402
Change (%)	5.5	27.7	16.0	5.5	-5.8	17.5	16.4	12.6
Operating Expenses	15,394	17,787	17,804	18,262	21,177	23,927	26,919	30,147
Pre Provision Profits	31,044	41,531	51,015	54,364	47,270	56,466	66,653	75,255
Change (%)	0.6	33.8	22.8	6.6	-13.0	19.5	18.0	12.9
Provisions	275	957	950	1,270	605	1,978	1,254	929
PBT	30,768	40,574	50,065	53,094	46,664	54,488	65,399	74,327
Tax	11,047	10,391	12,843	13,551	11,929	13,991	16,793	19,085
Tax Rate (%)	35.9	25.6	25.7	25.5	25.6	25.7	25.7	25.7
PAT	19,721	30,183	37,222	39,543	34,735	40,497	48,606	55,241
Change (%)	10.9	53.0	23.3	6.2	-12.2	16.6	20.0	13.7
Proposed Dividend	4,818	6,022	8,029	8,029	8,832	9,635	10,450	11,324
BALANCE SHEET								(INR M)
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	4,007	4,010	4,012	4,012	4,014	4,015	4,015	4,015
Reserves & Surplus	88,151	111,708	148,377	179,432	206,605	238,888	277,044	320,961
Equity Networth	92,158	115,718	152,389	183,444	210,619	242,903	281,059	324,976
Networth	92,158	115,718	152,389	183,444	210,619	242,903	281,059	324,976
Borrowings	268,332	371,300	459,463	498,113	497,343	587,831	687,090	752,183
Change (%)	26.8	38.4	23.7	8.4	-0.2	18.2	16.9	9.5
Other Liabilities	20,198	17,578	22,798	23,990	18,236	19,551	21,506	23,656
Change (%)	11.4	-13.0	29.7	5.2	-24.0	7.2	10.0	10.0
Total Liabilities	380,687	504,597	634,649	705,547	726,198	850,284	989,654	1,100,814
Loans	349,329	426,042	540,634	593,842	642,649	770,014	893,217	1,000,403
Change (%)	18.4	22.0	26.9	9.8	8.2	19.8	16.0	12.0
Investments	9,826	14,383	15,903	13,205	13,169	22,683	24,952	27,447
Net Fixed Assets	1,867	2,227	2,416	2,637	2,682	3,462	3,808	4,189
Other assets	19,666	61,944	75,697	95,863	67,699	54,125	67,678	68,776
Total Assets	380,687	504,597	634,649	705,547	726,198	850,284	989,654	1,100,814

E: MOFSL Estimates

Financials and valuations

RATIOS								(%)
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)								
Avg Yield on loans	21.0	22.1	21.4	19.3	16.8	17.6	17.7	17.6
Avg Cost of funds	9.3	8.7	8.9	8.0	7.4	8.6	8.9	9.0
Spreads on loans	11.7	13.4	12.5	11.3	9.3	9.0	8.8	8.7
NIMs on AUM	14.3	15.2	14.1	12.9	11.0	11.2	11.1	11.0
Profitability Ratios (%)								
RoE	23.2	29.0	27.8	23.5	17.6	17.9	18.6	18.2
RoA	5.7	6.8	6.5	5.9	4.9	5.1	5.3	5.3
RoA on AUM	6.2	8.0	7.9	7.1	5.7	5.8	5.9	6.0
Cost to Income	33.2	30.0	25.9	25.1	30.9	29.8	28.8	28.6
Empl. Cost/Op. Exps.	58.3	57.8	56.5	56.4	56.6	58.0	59.2	60.3
Asset-Liability Profile (%)								
GNPL ratio (%)	2.7	2.2	0.9	3.0	3.8	3.3	2.7	2.2
Debt/Equity (x)	2.9	3.2	3.0	2.7	2.4	2.4	2.4	2.3
Average leverage	2.8	3.1	3.1	2.9	2.5	2.4	2.4	2.4
CAR	26.1	25.5	27.4	30.0	31.8	30.4	0.0	0.0
Valuations								
	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (INR)	230	289	380	457	525	605	700	809
Price-BV (x)	7.3	5.8	4.4	3.7	3.2	2.8	2.4	2.1
EPS (INR)	49.2	75.3	92.8	98.6	86.5	100.9	121.1	137.6
EPS Growth (%)	10.8	52.9	23.3	6.2	-12.2	16.6	20.0	13.7
Price-Earnings (x)	34.0	22.2	18.0	17.0	19.3	16.6	13.8	12.2
Dividend	12.0	15.0	20.0	20.0	22.0	24.0	26.0	28.2
Dividend Yield (%)	0.7	0.9	1.2	1.2	1.3	1.4	1.6	1.7

E: MOFSL Estimates

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NOTES

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UNDER REVIEW	Rating may undergo a change
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