

Muthoot Finance

BUY

Gold loan growth above guidance; NIMs improved

Summary

Muthoot Finance (MUTH) reported gold loan growth at 18% YoY as compared to 15% guidance led by higher gold prices. Overall AUM growth recovered to 20% YoY (FY24) vs 9% YoY (FY23). Management conservatively maintained AUM growth guidance of 15% YoY for FY25. We expect 15% CAGR (FY24-26) gold loan growth vs 12% earlier. NIMs improved QoQ led by higher yields. NII grew strongly by 12% QoQ; PPoP grew by 8% QoQ led by higher operating expenses (up 21% QoQ). Provisions increased by 5x QoQ due to higher auctions; PAT grew by 3% QoQ. Stage III loan assets improved to 3.2% vs 3.6% QoQ, due to higher auctions (Rs.1.62bn). We revised estimates upwards by 11% (FY26 EPS) and upgrade to 'BUY' rating with a new TP of Rs.1,970 (earlier Rs.1,550), valuing it at 2.4x P/ABV FY26E (earlier 2X) as competitive intensity moderates.

Key Highlights and Investment Rationale

- **Gold AUM growth surprised positively:** Gold Loan growth improved further to 18% YoY (up 5% QoQ) vs 8% YoY (FY23). Gold holdings increased by 2% QoQ (up 4% YoY) to 188 tonnes, while loan per 1gm of gold has increased by 4% QoQ (up 15% YoY) to Rs4,033. Management maintained guidance at 15% YoY FY25
- **NIMs improved QoQ:** NIMs improved to 11.6% vs 10.88% due to increase in yield on advances during Q4FY24. Management expects the incremental cost of bank borrowing to increase to ~9% levels from the current 8.55% levels.
- **Asset quality improved:** Stage III loans have declined during the quarter to 3.2% vs 3.6% QoQ, are not a cause of concern because of being backed by higher collateral.
- **Outlook:** Gold AUM growth has declined to 8% FY23 as against 15%+ in last 3 years (FY19-21) due to competitive intensity from gold loan NBFCs. However, gold loan growth improved to 18% YoY in FY24 vs guidance of 15% as competitive intensity moderated.

TP	Rs.1,970			Key Stock Data	
CMP	Rs1,673			Bloomberg/Reuters MUTH IN/MUTT.BO	
Potential upside/downside	18%		Sector Finance		
Previous Rating	HOLD		Shares o/s (mn) 401		
Price Performance (%)				Market cap. (Rs mn) 671,766	
	-1m	-3m	-12m	3-m daily avg Trd value (Rs mn) 30.2	
Absolute	(2.6)	26.8	50.0	52-week high / low Rs1,762 / 1,105	
Rel to Sensex	(1.8)	26.6	32.6	Sensex / Nifty 73,886 / 22,489	
V/s Consensus				Shareholding Pattern (%)	
EPS (Rs)	FY24E	FY25E		Promoters 73.4	
IDBI Capital	121	140		FII 8.3	
Consensus	130	145		DII 14.2	
% difference	(6.6)	(3.2)		Public 4.1	

	(Rs mn)				
Year	FY2022	FY2023	FY2024	FY2025E	FY2026E
NII	71,203	66,695	77,928	91,365	1,04,788
Change (yoY, %)	7%	-6%	17%	17%	15%
Net Profit	39,543	34,735	40,497	48,473	56,043
Change (yoY, %)	6%	-12%	17%	20%	16%
EPS (Rs)	99	87	101	121	140
Change (yoY, %)	6%	-12%	17%	20%	16%
ABV (Rs)	431.8	484.0	566.4	662.1	775.7
PER (x)	17.0	19.3	16.6	13.9	12.0
P/ABV (x)	3.9	3.5	3.0	2.5	2.2
ROE (%)	23.5	17.6	17.9	18.5	18.3
ROA (%)	5.9	4.9	5.1	5.3	5.4
GNPA (%)	2.9	3.8	3.3	3.0	3.0
NNPA (%)	1.7	2.6	2.1	1.8	1.8
CAR (%)	30.0	31.8	31.1	29.9	30.4

Source: IDBI Capital Research

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Conference Call Highlights

Operational performance:

- Contribution of subsidiaries to loan assets increased to 15% in FY24 vs 12% in FY23 while the contribution to PAT increased to 10% in FY24 vs 6% in FY23.
- The management is focused on growing its non-gold loan portfolio and improving its digital business offerings.
- The total advances to new gold loan customers stood at ~Rs.164.60bn in Q4FY24.
- The management opined that the phygital strategy followed by the company has started yielding positive results with adequate infrastructure already in place.
- The gold loan portfolio grew by ~20% in FY24 vs the management guidance of a 15% growth.
- The increase in provisions during the quarter are a direct result of increase in loan assets.
- During Q4FY24, the number of new customers to gold loan stood at ~1.2L while the tonnage has correspondingly gone up.
- The differential increase in yields stood at ~40bps on a QoQ basis. The management opined that it is comfortable as long as the fluctuation remains in the range of 40-50bps QoQ.
- The auction numbers stood at Rs.1.62bn during Q4FY24 and at Rs.8.92bn during FY24.
- The AUM break up with regards to the ticket size is as follows:
 - 35%- below 1L
 - 37%- between 1-3L
 - 29%- above 3L

Advances and borrowings:

- The US\$ bond issue amounting to \$660mn helped the company get access to funds at a stable borrowing rate. Along with that the company is looking to raise funds through NCDs along with bank borrowings.

- The average borrowing cost stood at ~8.5% during Q4FY24 while the incremental cost of borrowings stood in the range of ~8-9%. Going forward the management expects the cost of borrowings to stabilize at ~9%.
- The management opined that the company is in a comfortable position to pass on any incremental cost of borrowings to its customers. Hence the management does not expect a material fluctuation in yields going forward.

Asset quality

- The company is comfortable in terms of offering a time extension to the customers to repay their loans as long as the value of the gold held by the company is in the money.

Future guidance

- The management expects to grow the share of non gold loan portfolio to 18-20% of the total assets over the course of the next 3-5 years.
- Following RBI's circular to limit cash disbursals to Rs.20,000 per customer, the management has ensured that the company is fully compliant with the said regulation.
- Further, the management has stated that there have been no slowdown
- The management expects the gold loan portfolio to grow by 15% YoY.
- The management does not see a dramatic increase in growth in vehicle finance business. However, it expects the Home loan and personal loan segments to grow at better pace due to cross selling opportunities from its gold loan portfolio.
- The company has opened 225 branches in Q4FY24. Going forward, it expects to open 12-125 new branches in FY25.
- The management is not keen on increasing its loan prices despite the perceived lower competitive intensity).

Exhibit 1: Quarterly Snapshot

Year-end: March (Rs mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Interest Income	33,575	27,940	31,176	20.2	7.7
Interest Expenses	12,228	9,407	12,119	30.0	0.9
Net Interest Income	21,348	18,533	19,057	15.2	12.0
<i>NIM (%)</i>	<i>11.6</i>	<i>12.3</i>	<i>10.9</i>	<i>-64 bps</i>	<i>74 bps</i>
Non-Interest Income	609	698	581	-12.8	4.8
Operating Income	21,956	19,231	19,638	14.2	11.8
Staff Cost	4,096	3,702	3,228	10.6	26.9
Other Op Exp	2,766	2,612	2,468	5.9	12.1
Total Operating Expenses	6,861	6,314	5,696	8.7	20.5
<i>Cost to Income (%)</i>	<i>31.2</i>	<i>32.8</i>	<i>29.0</i>	<i>-158 bps</i>	<i>225 bps</i>
<i>Cost to AUM (%)</i>	<i>3.7</i>	<i>4.2</i>	<i>3.3</i>	<i>-44 bps</i>	<i>48 bps</i>
Operating Profit	15,095	12,917	13,942	16.9	8.3
Provisions	860	753	137	194.4	525.6
<i>Credit Cost (%)</i>	<i>0.5</i>	<i>0.5</i>	<i>0.1</i>	<i>-3 bps</i>	<i>38 bps</i>
PBT	14,236	12,164	13,805	17.0	3.1
Tax	3,673	3,138	3,532	17.1	4.0
<i>- effective tax rate</i>	<i>25.8</i>	<i>25.8</i>	<i>25.6</i>	<i>1 bps</i>	<i>21 bps</i>
PAT	10,563	9,027	10,273	17.0	2.8
EPS (Rs)	26.3	22.5	25.6	17.0	2.8
BV (Rs)	605	525	579	15.3	4.5
AUM	7,58,270	6,32,098	7,11,821	20.0	6.5

Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24	FY25E	FY26E
NII	10.6	9.3	9.9	10.0	10.0
Non-Int Inc	0.2	0.2	0.3	0.3	0.3
Net Revenue	10.8	9.6	10.2	10.3	10.3
Op.Exp	2.7	3.0	3.0	3.0	2.9
Op.Profit	8.1	6.6	7.2	7.3	7.4
Provisions	0.2	0.1	0.3	0.2	0.2
PBT	7.9	6.5	6.9	7.1	7.2
Tax	2.0	1.7	1.8	1.8	1.9
PAT	5.9	4.9	5.1	5.3	5.4
Leverage (x)	4.0	3.6	3.5	3.5	3.4
ROE	23.5	17.6	17.9	18.5	18.3

Source: Company; IDBI Capital Research

Exhibit 3: Figure: One-year forward P/ABV (FY14-19)

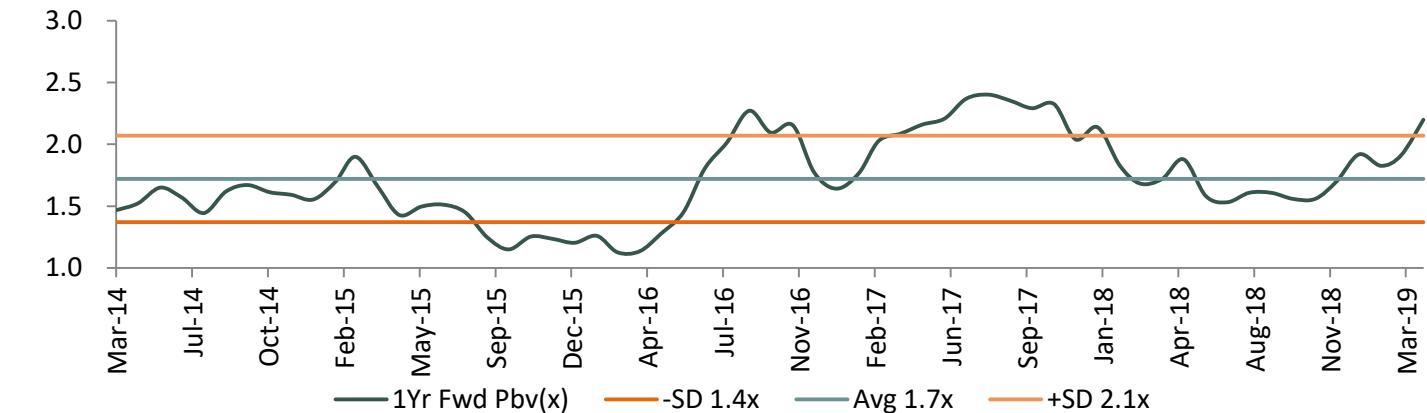
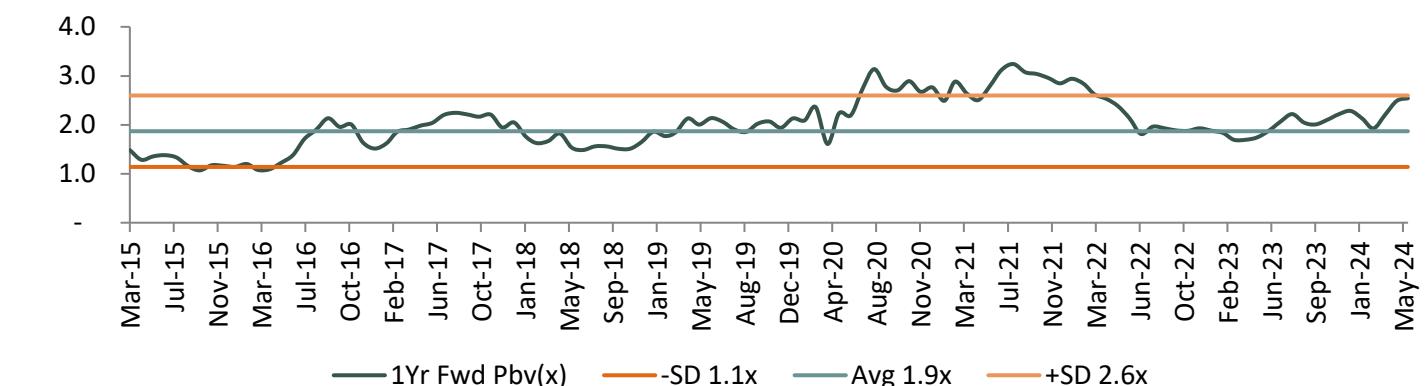


Exhibit 4: Figure: One-year forward P/ABV (FY15-25)



Source: Company; IDBI Capital Research

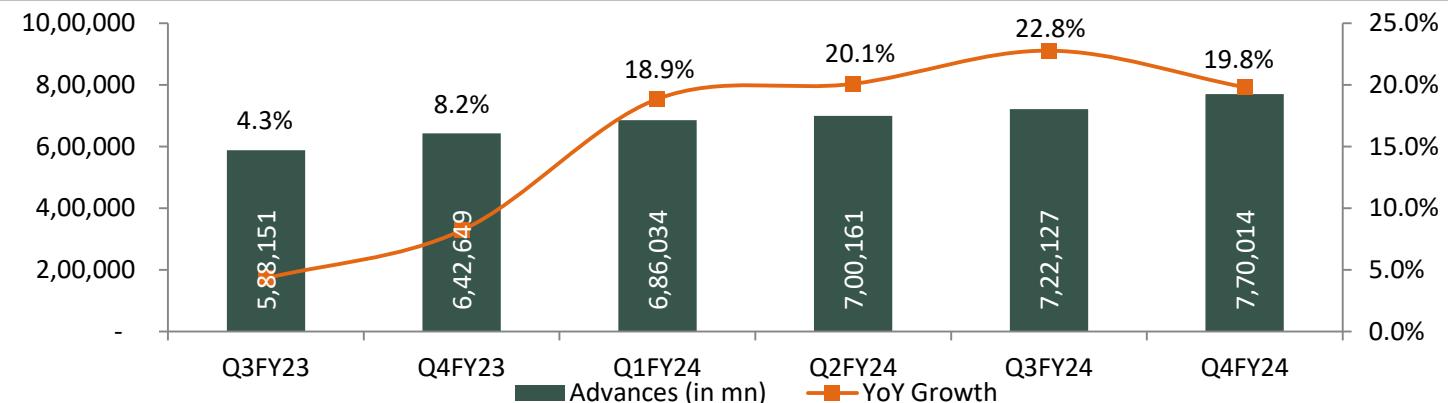
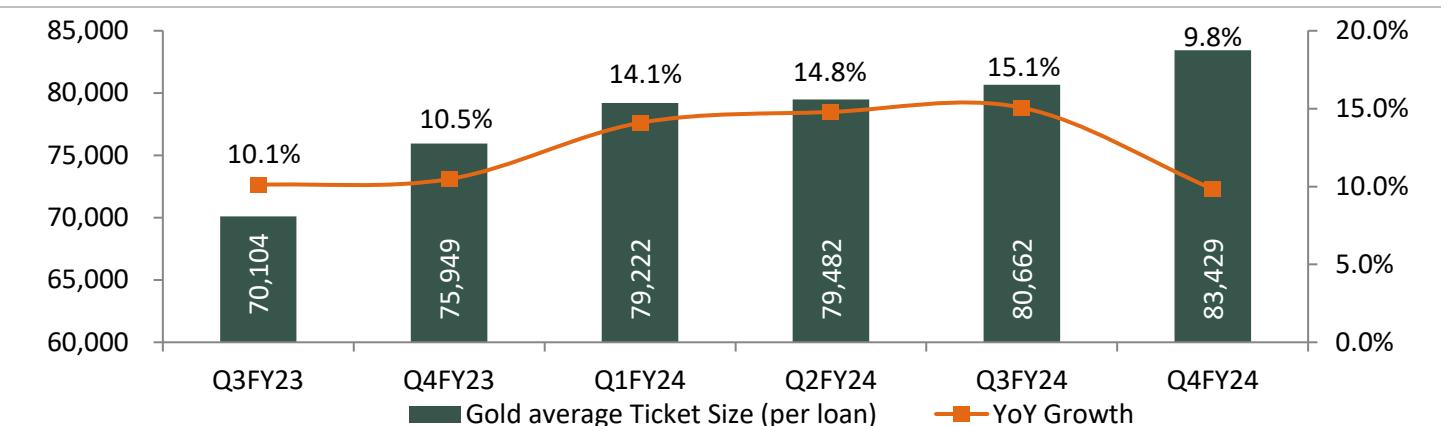
Exhibit 5: Advances growth witnessed sharp uptick sequentially

Source: Company; IDBI Capital Research
Exhibit 6: Gold average Ticket Size (per loan) continued to improve during the qtr.

Source: Company; IDBI Capital Research

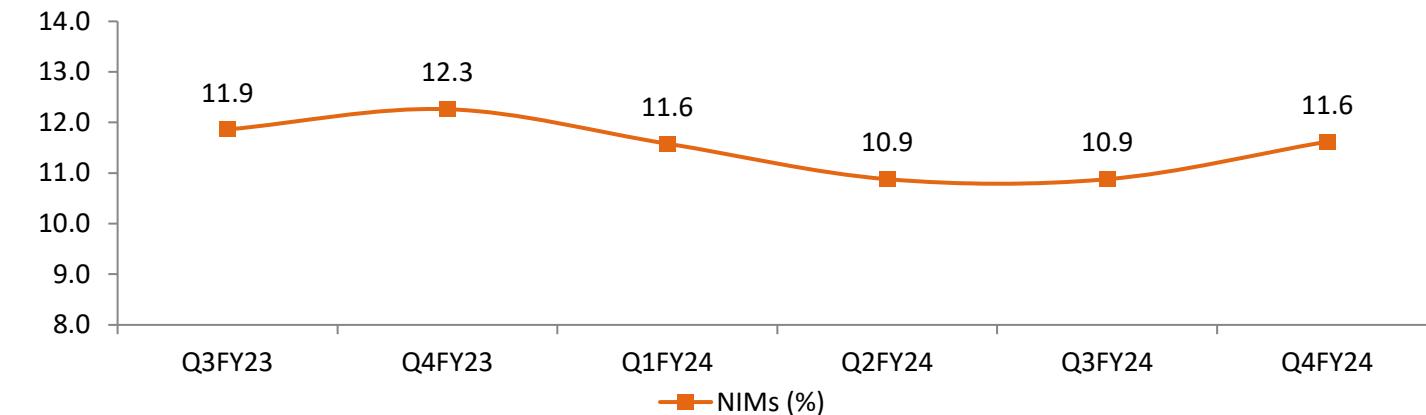
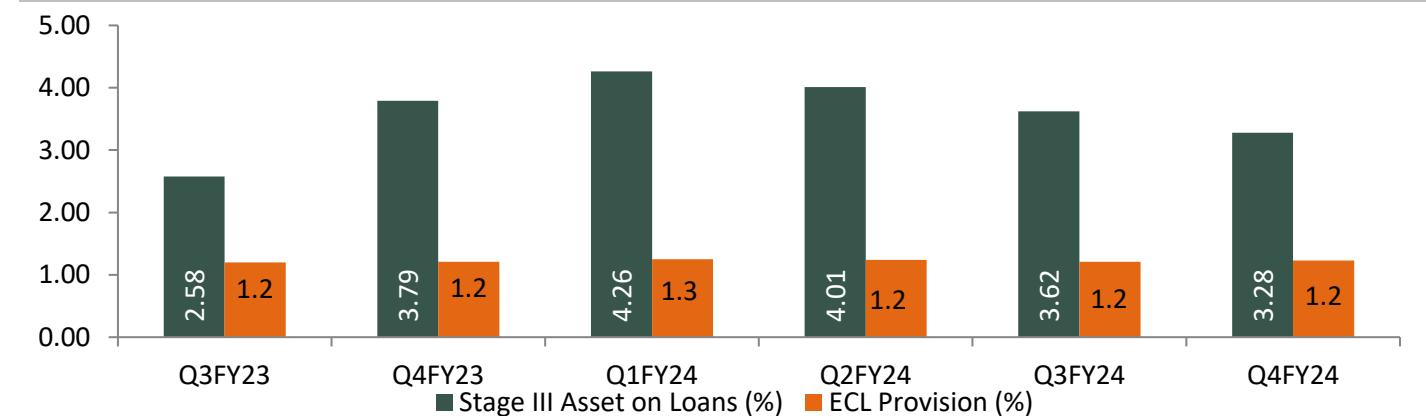
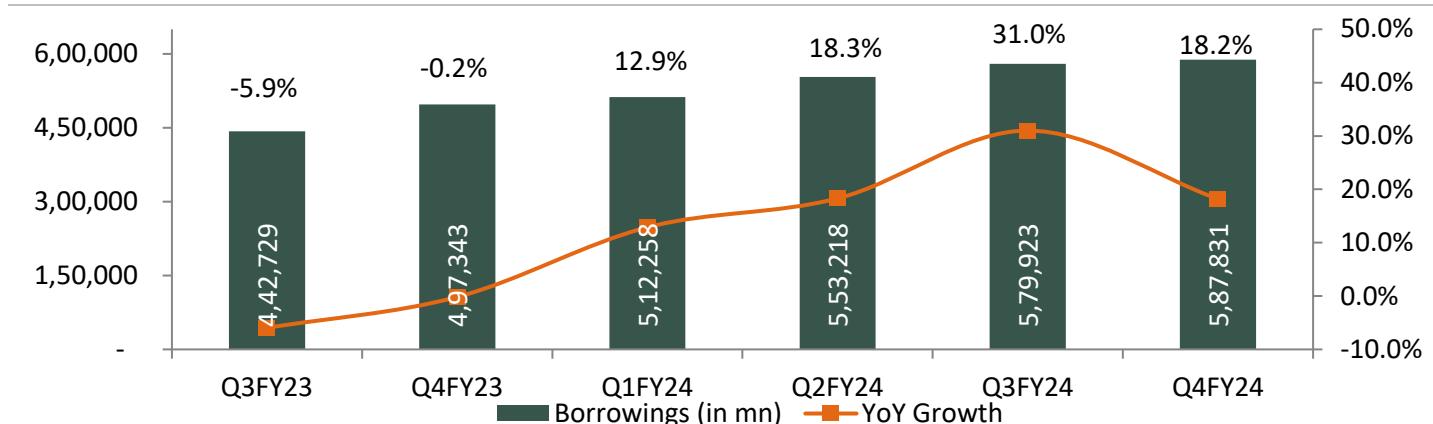
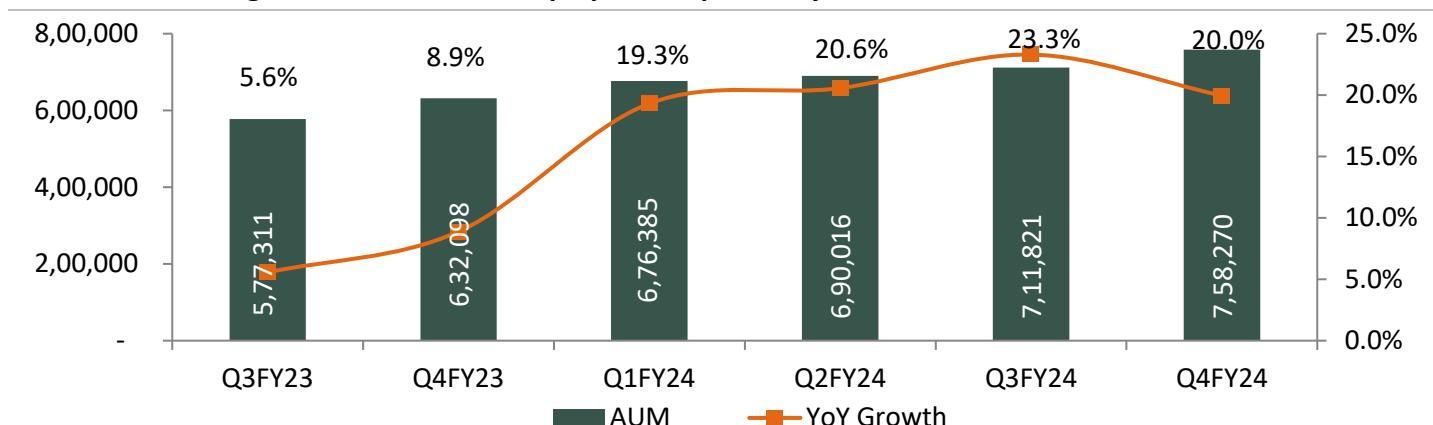
Exhibit 7: Net Interest margins improved sequentially

Source: Company; IDBI Capital Research
Exhibit 8: Asset quality improved sequentially

Source: Company; IDBI Capital Research

Exhibit 9: Borrowings (on an absolute terms) inched up during the qtr.


Source: Company; IDBI Capital Research

Exhibit 10: AUM growth witnessed sharp uptick sequentially


Source: Company; IDBI Capital Research

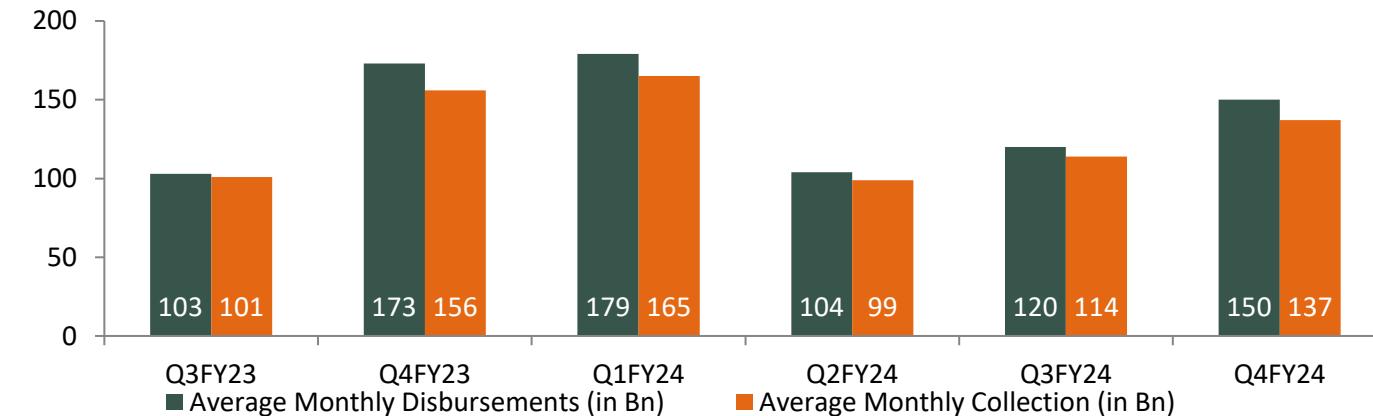
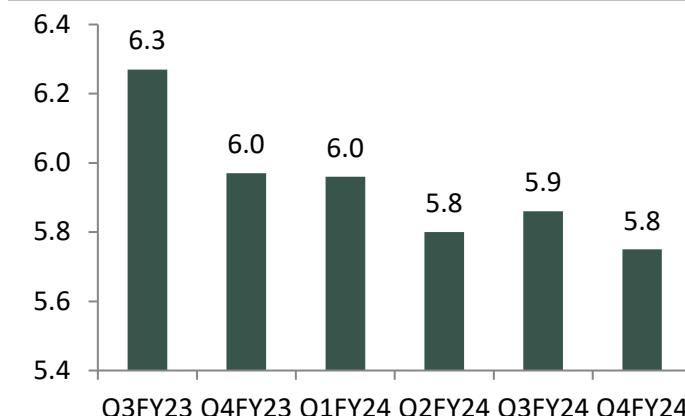
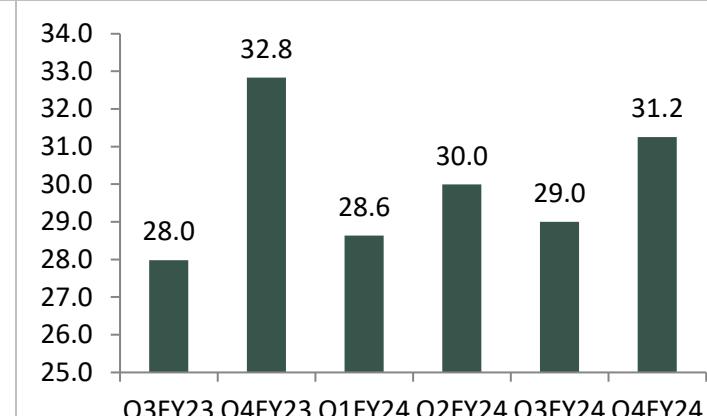
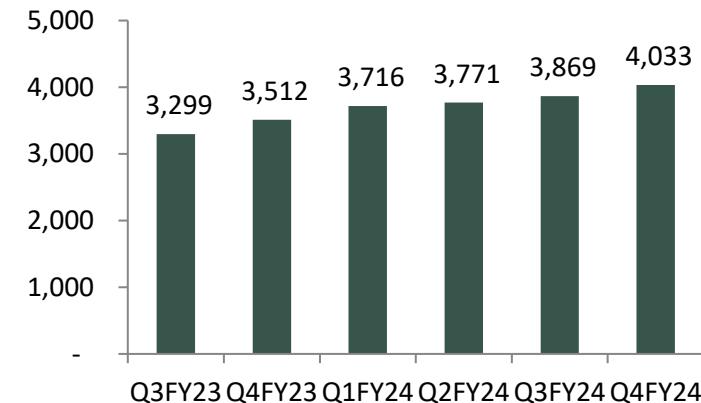
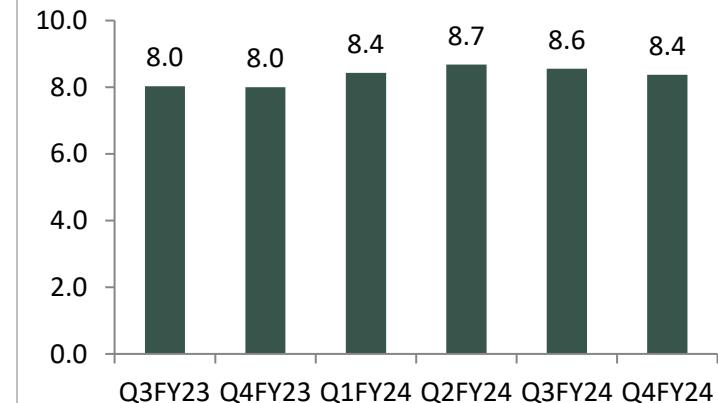
Exhibit 11: Monthly Disbursements and Collections improved during the quarter

Source: Company; IDBI Capital Research
Exhibit 12: Return on Assets marginally declined QoQ

Source: Company; IDBI Capital Research
Exhibit 13: Cost to Income Ratio inched up sequentially led by higher opex

Source: Company; IDBI Capital Research

Exhibit 14: Gold Loan per Gram continued to increase during the quarter led by higher gold price



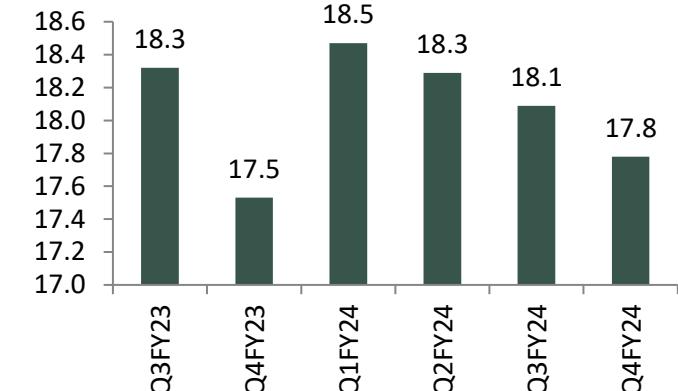
Source: Company; IDBI Capital Research

Exhibit 15: Cost of Funds declined during the quarter led by diversification of borrowings.



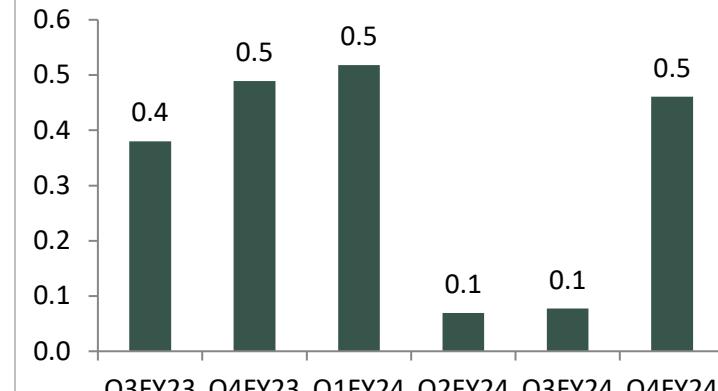
Source: Company; IDBI Capital Research

Exhibit 16: Return on Equity declined sequentially



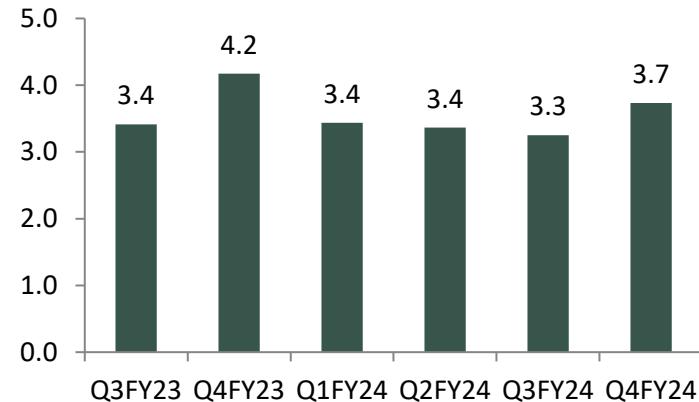
Source: Company; IDBI Capital Research

Exhibit 17: Credit Cost inched up QoQ led by higher provisioning



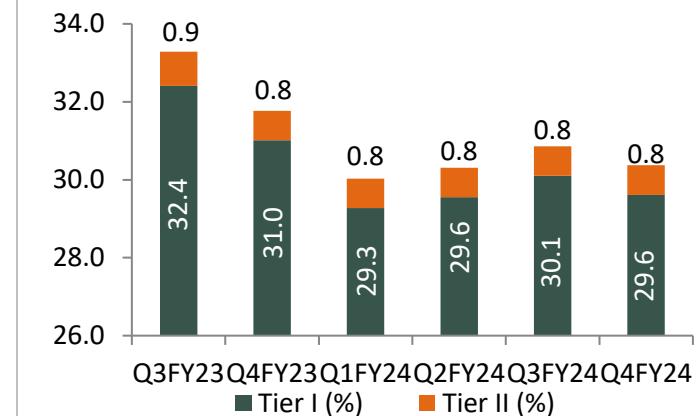
Source: Company; IDBI Capital Research

Exhibit 18: Cost to AUM increased sequentially



Source: Company; IDBI Capital Research

Exhibit 19: CAR remains comfortable



Source: Company; IDBI Capital Research

Exhibit 20: Standalone Borrowing Mix (In Mn)

Borrowing Mix	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ(%)
Secured Non-Convertible Debentures	1,63,890	1,37,539	1,67,452	19.2	(2.1)
Borrowings from Banks/FIs	3,70,578	2,96,243	3,57,539	25.1	3.6
External Commercial Borrowings	-	45,194	-	(100.0)	NA
Subordinated Debt	505	971	505	(48.0)	-
Commercial Paper	46,173	11,536	46,176	300.3	(0.0)
Other Loans	6,995	6,150	8,540	13.7	(18.1)
Total Borrowings	5,88,141	4,97,633	5,80,212	18.2	1.4

Source: Company; IDBI Capital Research

Exhibit 21: Standalone Borrowing Mix (In %)

Borrowing Mix	Q4FY24	Q4FY23	Q3FY24	YoY	QoQ
Secured Non-Convertible Debentures	27.9	27.6	28.9	23 bps	-99 bps
Borrowings from Banks/FIs	63.0	59.5	61.6	348 bps	139 bps
External Commercial Borrowings	-	9.1	-	-908 bps	0 bps
Subordinated Debt	0.1	0.2	0.1	-11 bps	0 bps
Commercial Paper	7.9	2.3	8.0	553 bps	-11 bps
Other Loans	1.2	1.2	1.5	-5 bps	-28 bps
Total Borrowings	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	(Rs mn)
Net interest income	66,361	71,203	66,695	77,928	91,365	1,04,788	
<i>Change (yoY, %)</i>	15%	7%	-6%	17%	17%	15%	
Non-Interest Income	2,458	1,424	1,751	2,465	2,834	3,260	
Net Revenue	68,819	72,626	68,446	80,393	94,200	1,08,048	
Operating expenses	17,804	18,262	21,177	23,927	27,356	30,648	
Employee expenses	10,062	10,302	11,994	13,869	15,789	17,347	
Other expenses	7,742	7,960	9,182	10,058	11,567	13,302	
Pre-Provision Profit	51,015	54,364	47,270	56,466	66,844	77,399	
<i>Change (yoY, %)</i>	23%	7%	-13%	19%	18%	16%	
Provision	950	1,270	605	1,978	1,605	1,972	
PBT	50,065	53,094	46,664	54,488	65,239	75,427	
Taxes	12,843	13,551	11,929	13,991	16,767	19,385	
<i>Effective tax rate (%)</i>	26%	26%	26%	26%	26%	26%	
Net profit	37,222	39,543	34,735	40,497	48,473	56,043	
<i>Change (yoY, %)</i>	23%	6%	-12%	17%	20%	16%	
EPS	92.8	98.5	86.5	100.9	120.7	139.6	
Return on Equity (%)	27.8	23.5	17.6	17.9	18.5	18.3	
Return on Assets (%)	6.5	5.9	4.9	5.1	5.3	5.4	

Balance Sheet							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Capital	4,012	4,013	4,014	4,015	4,015	4,015	4,015
Reserves	1,48,377	1,79,432	2,06,605	2,38,888	2,77,726	3,25,740	
Networth	1,52,389	1,83,446	2,10,619	2,42,903	2,81,741	3,29,754	
Borrowings	4,59,463	4,98,113	4,97,343	5,87,831	6,78,740	7,83,372	
Other liabilities	22,798	23,989	18,236	20,657	14,997	5,029	
Total Liab. & Equity	6,34,649	7,05,547	7,26,198	8,51,390	9,75,477	11,18,155	
Fixed Assets	2,854	3,131	3,392	4,384	4,822	5,305	
Investments	15,903	13,205	13,169	22,683	22,683	22,683	
Loans	5,40,634	5,93,842	6,42,649	7,70,014	8,85,517	10,18,344	
Cash	71,898	92,429	64,612	50,459	58,027	66,731	
Other assets	3,360	2,940	2,377	3,850	4,428	5,092	
Total assets	6,34,649	7,05,547	7,26,198	8,51,390	9,75,477	11,18,155	

Financial Ratios (%)						
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Growth						
Advances	26.9	9.8	8.2	19.8	15.0	15.0
NII	14.9	7.3	(6.3)	16.8	17.2	14.7
Pre-Provision Profit	22.8	6.6	(13.0)	19.5	18.4	15.8
Net Profit	23.3	6.2	(12.2)	16.6	19.7	15.6
Spreads						
Yield on loans	21.4	19.3	16.8	17.6	17.6	17.6
Cost of Borrowings	8.9	8.0	7.4	8.6	8.6	8.6
Spread	12.5	11.3	9.3	9.0	9.0	9.0
NIMs	13.7	12.6	10.8	11.0	11.0	11.0
Operating Efficiency						
Cost-to-Income	25.9	25.1	30.9	29.8	29.0	28.4
Cost-to-AUM	3.7	3.2	3.4	3.4	3.3	3.2
Asset Quality						
GNPA	0.9	2.9	3.8	3.3	3.0	3.0
NNPA	(0.3)	1.7	2.6	2.1	1.8	1.8
Provision Coverage	34.8	58.4	68.1	62.4	60.0	60.0
Credit Cost	0.2	0.2	0.1	0.3	0.2	0.2
Capital Adequacy						
CAR	27.4	30.0	31.8	31.1	29.9	30.4
Tier I	26.3	29.1	31.0	30.0	28.9	29.4
Valuation						
EPS	92.8	98.5	86.5	100.9	120.7	139.6
BV	383.9	431.8	484.0	566.4	662.1	775.7
P/E	18.0	17.0	19.3	16.6	13.9	12.0
P/BV	4.4	3.9	3.5	3.0	2.5	2.2
ROE	27.8	23.5	17.6	17.9	18.5	18.3
ROA	6.5	5.9	4.9	5.1	5.3	5.4

Source: Company; IDBI Capital Research



Notes

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

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