

Muthoot Finance

Estimate change



TP change



Rating change



Bloomberg	MUTH IN
Equity Shares (m)	401
M.Cap.(INRb)/(USD\$)	527.2 / 6.3
52-Week Range (INR)	1380 / 911
1, 6, 12 Rel. Per (%)	11/17/11
12M Avg Val (INR M)	639

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
NII	76.5	86.4	97.0
PPP	55.3	62.6	71.1
PAT	40.5	46.2	52.5
EPS (INR)	101.0	115.0	130.9
EPS Gr. (%)	16.7	13.9	13.8
BV/Sh.(INR)	604	695	801

Ratios

NIM (%)	11.2	11.1	11.4
C/I ratio (%)	30.2	29.6	28.8
RoA (%)	5.1	5.2	5.4
RoE (%)	17.9	17.7	17.5
Payout (%)	21.8	20.9	19.1

Valuations

P/E (x)	13.0	11.4	10.0
P/BV (x)	2.2	1.9	1.6
Div. Yld. (%)	1.7	1.8	1.9

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	73.4	73.4	73.4
DII	14.6	13.7	11.8
FII	8.1	8.7	9.9
Others	3.9	4.2	5.0

FII Includes depository receipts

CMP: INR1,313

TP: INR1,270 (-3%)

Neutral

Gold loan growth muted; NIM moderation led to earnings miss

Fresh slippages into Stage 3 continued

- Muthoot Finance (MUTH)'s 2QFY24 performance was characterized by: 1) muted gold loan growth at ~2% QoQ to ~INR675b, 2) ~80bp QoQ contraction in NIM; and 3) an increase in the cost-to-income ratio to ~30% (vs. ~28% in 2QFY23) primarily owing to lower NII from yield moderation and rise in CoB.
- Standalone PAT grew ~14% YoY to ~INR9.9b (6% miss). Net total income grew 20% YoY to ~INR19.2b, while PPoP rose 17% YoY (down 4% QoQ) to INR13.4b (6% miss).
- Gold loan growth was muted but supported by: a) high gold prices allowing an increase in LTV to ~70% (vs. ~68% in 1Q), b) gold tonnage growth of ~1% QoQ and increase in customer base of ~2% QoQ.
- MUTH reported a ~40bp QoQ decline in yields and ~25bp increase in CoB, resulting in a ~70bp decline in spreads to ~9.2%. The management has guided for sustainable spreads at current levels of ~9%-10%.
- We cut our estimates for FY24/FY25 EPS by ~5% each to factor in lower NIM. We model ~17%/10%/10% growth in standalone AUM in FY24/FY25/FY26. We estimate a standalone AUM CAGR of ~12% over FY23-FY26E and model RoA/RoE of 5.4%/18% in FY26. Higher gold prices had aided sectoral gold loan growth over the two prior quarters and even MUTH had benefitted from the same. We are still not sure, though, if MUTH is over the hump of a trade-off between gold loan growth and margin.
- With limited upside catalysts for the stock, we **maintain our Neutral rating with a revised TP of INR1,270 (based on 1.7x Sep'25E P/BV)**.

Highlights from the management commentary

- The management continued to guide for 15-20% gold loan growth in FY24.
- MUTH sold a gold loan pool of ~INR7b to an ARC in the last week of Sep'23. This sales was done to a) give more time to customers to repay and release their gold jewellery, and b) reduce NPAs to manageable levels.

Belstar MFI: Healthy AUM growth of 53% YoY with better asset quality

- MUTH's MFI subsidiary (Belstar) posted ~53% YoY AUM growth to ~INR79b. Reported PAT surged 290% YoY (albeit on a lower base) to INR831m.
- Belstar is expanding beyond Tamil Nadu (the company's home state), in line with its long-term strategy to reduce concentration to ~35% (from current levels of ~49%) by FY26. It added 164 branches in 2QFY24.
- Asset quality improved sequentially with GS3 declining ~15bp QoQ to 1.5% and collection efficiency on regular accounts being >99%.
- CAR stood at ~21% and Belstar is evaluating various fund raising options.

Trade-off between loan growth and NIM continues; reiterate Neutral

- MUTH reported a muted growth in gold loans, along with moderation in both spreads and margins. Striking an appropriate balance between loan growth and margin will still remain an important deliverable in FY24.
- With limited upside catalysts, a not so benign competitive landscape and clouded outlook on the margin trajectory, **we maintain our Neutral rating with a revised TP of INR1,270 (based on 1.7x Sep'25E BVPS)**.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance

(INR M)

Y/E March	FY23				FY24E				FY23	FY24E	2QFY24E	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	31,323	33,043	1,03,686	1,24,090	30,849	-2
Other operating income	223	231	414	594	410	450	472	496	1,462	1,828	430	5
Total Operating income	25,039	24,977	26,598	28,534	29,987	30,597	31,795	33,539	1,05,148	1,25,918	31,279	-2
YoY Growth (%)	-7.7	-11.8	-7.3	6.9	19.8	22.5	19.5	17.5	-5.1	19.8	25.2	
Other income	54	58	73	104	276	139	174	210	289	800	249	-44
Total Income	25,093	25,036	26,671	28,638	30,263	30,736	31,969	33,749	1,05,437	1,26,718	31,528	-3
YoY Growth (%)	-7.6	-11.6	-7.1	6.9	20.6	22.8	19.9	17.8	-5.0	20.2	25.9	
Interest Expenses	9,416	9,027	9,141	9,407	10,638	11,563	12,372	12,969	36,991	47,542	11,170	4
Net Income	15,677	16,009	17,530	19,231	19,625	19,173	19,597	20,781	68,446	79,176	20,358	-6
Operating Expenses	5,435	4,522	4,905	6,314	5,620	5,751	5,923	6,629	21,177	23,923	6,013	-4
Operating Profit	10,241	11,487	12,624	12,917	14,006	13,422	13,674	14,152	47,270	55,253	14,345	-6
YoY Growth (%)	-23.2	-18.8	-13.9	5.7	36.8	16.9	8.3	9.6	-13.0	16.9	24.9	
Provisions	-577	-127	557	753	860	120	-30	-159	605	791	150	-20
Profit before Tax	10,818	11,614	12,068	12,164	13,145	13,302	13,704	14,311	46,664	54,462	14,195	-6
Tax Provisions	2,798	2,942	3,051	3,138	3,394	3,392	3,522	3,614	11,929	13,922	3,662	-7
Net Profit	8,020	8,672	9,017	9,027	9,751	9,910	10,182	10,697	34,735	40,540	10,533	-6
YoY Growth (%)	-17.4	-12.8	-12.4	-6.0	21.6	14.3	12.9	18.5	-12.2	16.7	21.5	
Key Operating Parameters (%)												
Yield on loans (Cal)	17.5	17.5	18.5	18.9	18.3	17.9	18.1	18.5				
Cost of funds (Cal)	7.9	7.8	8.0	8.0	8.4	8.7	8.8	8.9				
Spreads (Cal)	9.6	9.7	10.5	10.9	9.9	9.2	9.4	9.6				
NIMs (Cal)	10.9	11.2	12.2	12.7	12.0	11.2	11.2	11.5				
Credit Cost	-0.4	-0.1	0.4	0.5	0.5	0.1	0.0	-0.1				
Cost to Income Ratio	34.7	28.2	28.0	32.8	28.6	30.0	30.2	31.9				
Tax Rate	25.9	25.3	25.3	25.8	25.8	25.5	25.7	25.3				
Balance Sheet Parameters												
AUM (INR b)	567	572	577	632	676	690	712	738				
Change YoY (%)	7.7	3.8	5.6	8.9	19.3	20.6	23.3	16.8				
Gold loans (INR b)	562	565	568	619	660	675	695	716				
Change YoY (%)	7.9	3.3	4.8	7.6	17.6	19.5	22.4	15.8				
Gold Stock Holding (In tonnes)	178	177	175	180	182	183						
Avg gold loans per branch (INR m)	122	122	122	131	139	142						
Borrowings (INR b)	454	468	443	498	513	553	574	593				
Change YoY (%)	-5.0	-4.1	-6.0	-0.2	12.8	18.2	29.6	19.2				
Borrowings Mix (%)												
Listed secured NCDs	27.0	24.2	25.2	27.5	24.8	24.4						
Term loans	51.4	55.9	62.3	59.5	59.8	65.4						
Commercial Paper	0.0	0.0	0.0	2.3	7.7	8.3						
Others	4.2	2.5	2.3	1.6	2.6	1.9						
Debt/Equity (x)	2.3	2.2	2.0	2.1	2.3	2.3						
Asset Quality Parameters (%)												
GS 3 (INR m)	12,078	9,558	14,896	23,986	28,789	27,639						
Gross Stage 3 (% on Assets)	2.1	1.7	2.6	3.8	4.3	4.0						
Total Provisions (INR m)	9,548	9,380	9,904	10,612	11,422	11,486						
Return Ratios (%)												
RoAUM (Rep)	5.6	6.1	6.3	6.0	6.0	5.8						
RoE (Rep)	17.5	18.5	18.3	17.5	18.5	18.3						

E: MOFSL estimates

Gold loan growth at 2% QoQ and adjusted for ARC sale at ~3% QoQ

- Gold loan AUM grew ~2% QoQ and ~20% YoY to ~INR675b, while consolidated AUM at ~INR794b rose ~24% YoY. Adjusted for the sale to ARC of ~INR7b in Sep'23, gold AUM grew ~3% QoQ.
- Gold tonnage increased ~1% QoQ to 183tonne. Gold loan LTV rose to ~70% (PQ: 68%), while the number of loan accounts increased to 8.5m (PQ: 8.34m).
- Average monthly gold disbursements declined to INR104b (PQ: INR179b), with average ticket size largely stable at ~INR79K. MUTH reported gold loan disbursements of ~INR312b in 2QFY24 (PQ: INR537b).

Decline in yields and rise in CoB lead to margin compression

- Reported yields declined ~40bp QoQ and the reported CoF increased ~25bp QoQ, leading to ~70bp contraction in spreads.
- We expect NIM of 11%/10.9%/11.1% in FY24/FY25/FY26. In our view, MUTH will now pivot to a lower (than historical) margin business model that will aid stronger and stable gold loan growth. With an opex-to-average assets 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 improved marginally but fresh slippages continue into stage 3

- GS3 declined ~25bp QoQ to ~4.0% and GS2% by ~1pp to 1.0%. 30+dpd declined ~130bp QoQ to 5.0%. This was after an ARC sale of a loan pool of ~INR7b, suggesting that new net slippages of ~INR6b happened in 2QFY24 as well.
- The management shared that the ARC transaction was done to a) give more time to customers to repay their loans and get their gold jewellery released and b) reduce the NPA to manageable levels.



Highlights from the management commentary

Guidance

- Gold loans grew 2% QoQ and ~9% in 1HFY24. MUTH continued to guide for gold loan growth of 15-20% in FY24.
- CoB stood at 8.46% (while Bank MCLR rates are at 8.55-8.6%) as on Sep'23. CoB for MUTH will increase to 8.6% unless the banks also revise their MCLR rates.
- Expects to maintain the spreads of ~9-10%
- Guides for long-term RoA of ~4%

Gold loan yields

- Yields were also impacted by the policy to de-recognize the interest income after loans become an NPA.

ARC Sale

- ARC transaction was done in the last week of Sep'23 and the amount of loans sold to the ARC was ~INR7b. When technically a loan becomes an NPA (90 days after the due date), MUTH reverses the interest income.
- This ARC transaction was done to a) Give more time to customers to repay and release their gold jewellery and b) manage the NPA levels. ARC transaction was done within the ambit of regulations and MUTH has been able to help its customers by not auctioning the gold.
- ARC transaction was done at par which meant that it received the entire principal. The transaction was done under 85:15 and the SRs are classified under investments (and not under loans).
- After the ARC transaction, gold still remains with MUTH and the collection moves to the ARC.

Asset Quality

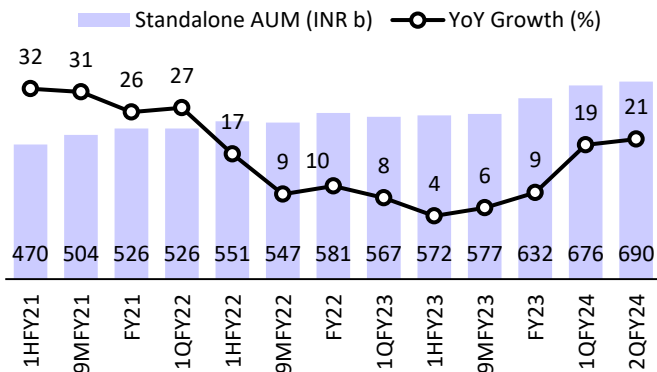
- Customers who take gold loans are typically customers who had a financial difficulty. It is usual for them to take time to repay their gold loans beyond the contracted tenor of 12 months.
- Because of new NPA formations, reversal of interest income in 2QFY24 stood at ~INR1b (and similar levels in 1QFY24 as well).

Others

- Bank enthusiasm for gold loans and the competitive intensity is not as high as last year.
- MUTH will continue to pursue resolution mechanism for NPAs through auctions, ARC sales or asking customers for settlements.
- Disbursements to new customers have been high - focus is on increasing the AUM through new customer acquisitions and win-back of existing (inactive) customers.
- Gold AUM and Gold tonnage do not include the gold Loans and the corresponding gold collateral for loans sold to the ARC.

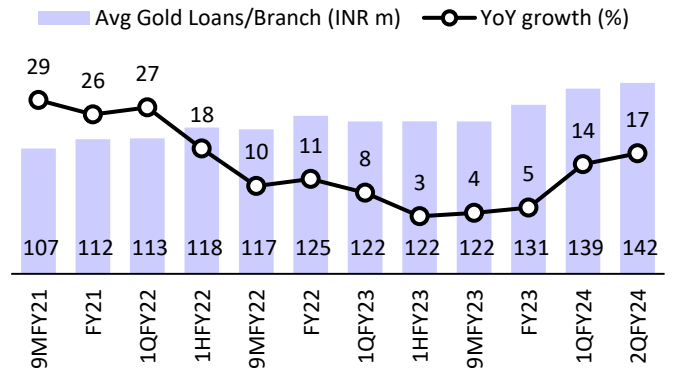
Key exhibits

Exhibit 1: Standalone AUM grew 21% YoY



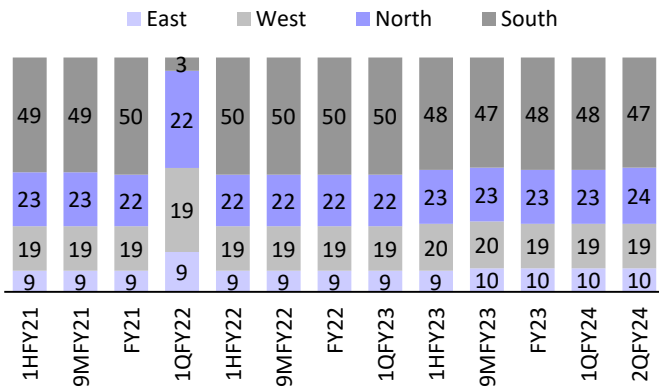
Source: MOFSL, Company

Exhibit 2: Trend in productivity



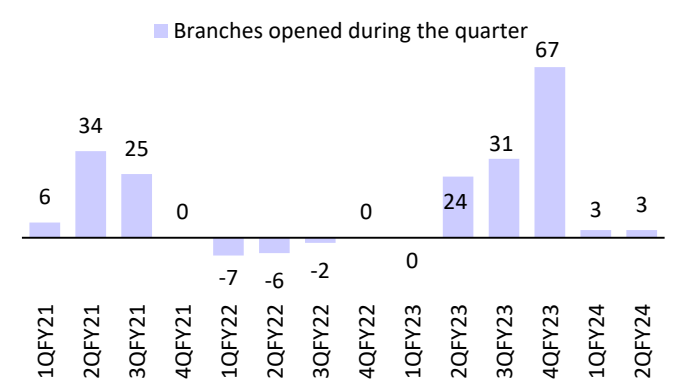
Source: MOFSL, Company

Exhibit 3: Regional mix of gold loans largely stable



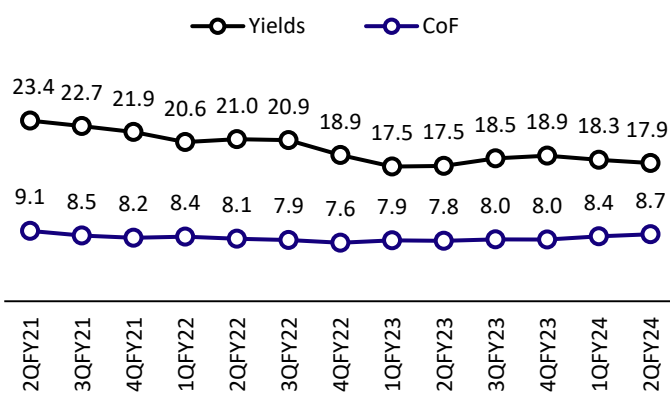
Source: MOFSL, Company, Gold loan portfolio mix

Exhibit 4: MUTH opened 3 new gold loan branches in 2QFY24



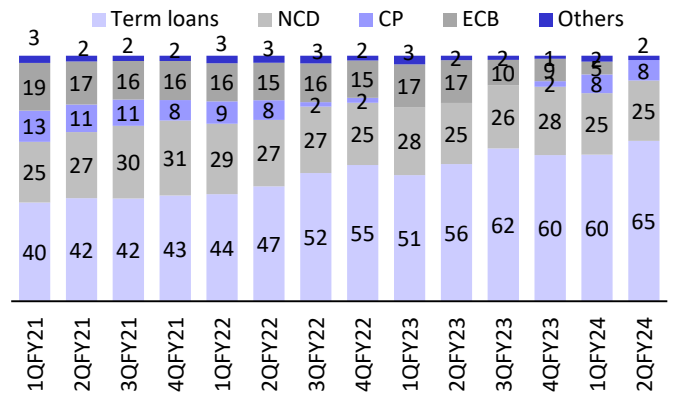
Source: MOFSL, Company

Exhibit 5: Spreads (calc.) contracted ~70bp QoQ (%)

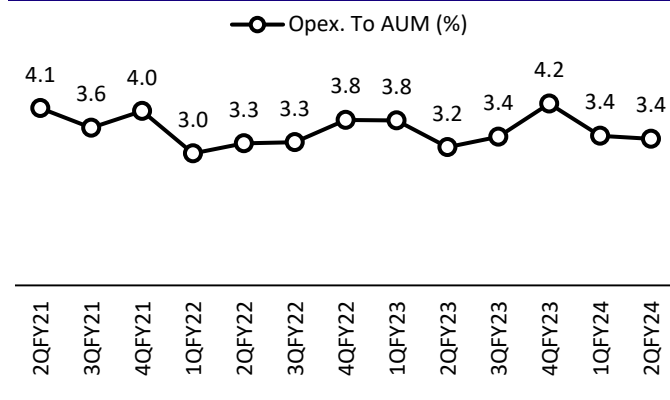


Source: MOFSL, Company

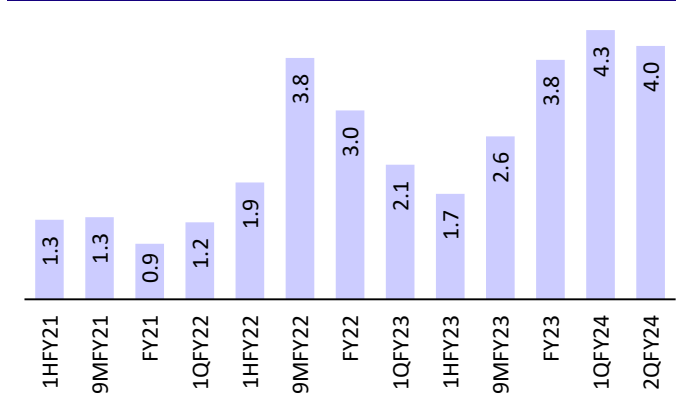
Exhibit 6: Borrowing mix (%)



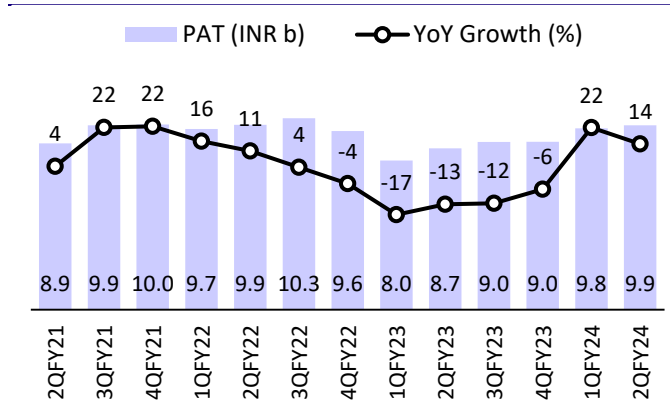
Source: MOFSL, Company, Borrowing mix%

Exhibit 7: OPEX/AUM remains stable sequentially

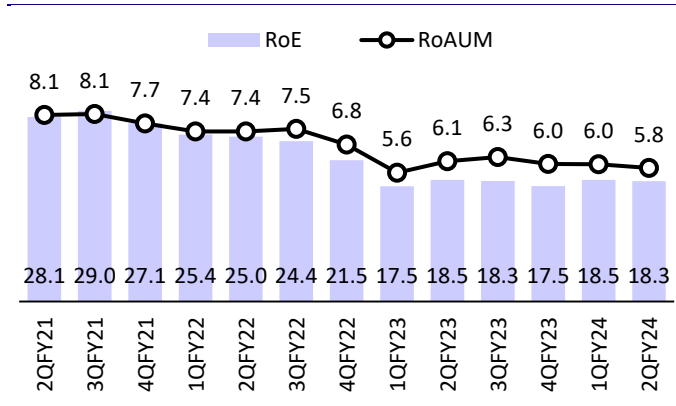
Source: MOFSL, Company

Exhibit 8: GNPA declined ~30bp QoQ (%)

Source: MOFSL, Company

Exhibit 9: PAT grew 14% YoY

Source: MOFSL, Company

Exhibit 10: RoE declined ~20bp QoQ

Source: MOFSL, Company

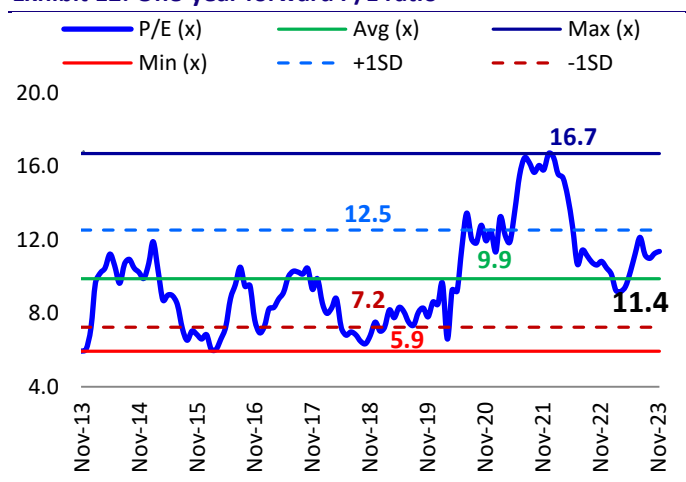
Valuation and view

- MUTH reported a muted growth in gold loans, along with moderation in both spreads and margins. Striking an appropriate balance between loan growth and margin will still remain an important deliverable in FY24.
- With limited upside catalysts, a not so benign competitive landscape and clouded outlook on the margin trajectory, **we maintain our Neutral rating with a revised TP of INR1,270 (based on 1.7x Sep'25E BVPS).**

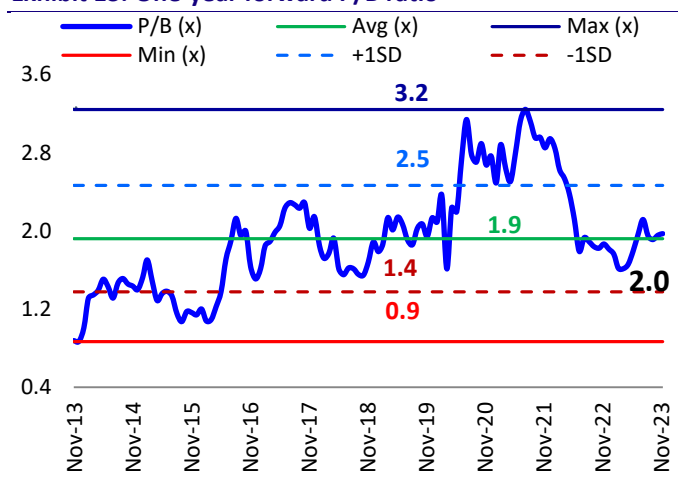
Exhibit 11: Cut our FY24/FY25 EPS estimate by ~5% each to factor in NIM compression

INR B	Old Est		New Est		% Change	
	FY24	FY25	FY24	FY25	FY24	FY25
NII	80.0	90.3	76.5	86.4	-4.4	-4.4
Other Income	2.4	2.2	2.6	2.5		
Net Income	82.4	92.5	79.2	88.9	-3.9	-3.9
Operating Expenses	24.1	26.5	23.9	26.3	-0.9	-0.9
Operating Profits	58.3	66.0	55.3	62.6	-5.2	-5.1
Provisions	0.8	0.5	0.8	0.6	2.2	4.3
PBT	57.5	65.5	54.5	62.0	-5.3	-5.2
Tax	14.7	16.7	13.9	15.9	-5.3	-5.2
PAT	42.8	48.7	40.5	46.2	-5.3	-5.2
Loans	747	814	753	829	0.9	1.8
Borrowings	561	594	593	623		
Spread (%)	9.5	9.3	9.1	8.9		
RoA (%)	5.5	5.7	5.1	5.2		
RoE (%)	18.8	18.5	17.9	17.7		

Source: MOFSL, Company

Exhibit 12: One-year forward P/E ratio

Source: MOFSL, Company

Exhibit 13: One-year forward P/B ratio

Source: MOFSL, Company

Financials and valuations

Income statement								(INR M)		
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	56,369	62,021	67,570	85,644	1,03,285	1,09,560	1,03,686	1,24,090	1,39,979	1,53,977
Interest Expense	22,938	19,314	22,368	27,909	36,924	38,358	36,991	47,542	53,625	57,001
Net Interest Income	33,431	42,707	45,202	57,735	66,361	71,203	66,695	76,548	86,354	96,976
Change (%)	31.5	27.7	5.8	27.7	14.9	7.3	-6.3	14.8	12.8	12.3
Other income	1,098	1,310	1,236	1,584	2,458	1,424	1,751	2,628	2,519	2,854
Net Income	34,529	44,017	46,438	59,319	68,819	72,626	68,446	79,176	88,873	99,830
Change (%)	31.9	27.5	5.5	27.7	16.0	5.5	-5.8	15.7	12.2	12.3
Operating Expenses	12,503	13,174	15,394	17,787	17,804	18,262	21,177	23,923	26,275	28,720
Pre Provision Profits	22,026	30,843	31,044	41,531	51,015	54,364	47,270	55,253	62,599	71,110
Change (%)	48.9	40.0	0.6	33.8	22.8	6.6	-13.0	16.9	13.3	13.6
Provisions	2,816	2,397	275	957	950	1,270	605	791	553	523
PBT	19,210	28,447	30,768	40,574	50,065	53,094	46,664	54,462	62,045	70,587
Tax	7,411	10,671	11,047	10,391	12,843	13,551	11,929	13,922	15,861	18,044
Tax Rate (%)	38.6	37.5	35.9	25.6	25.7	25.5	25.6	25.6	25.6	25.6
PAT	11,799	17,776	19,721	30,183	37,222	39,543	34,735	40,540	46,184	52,542
Change (%)	45.7	50.7	10.9	53.0	23.3	6.2	-12.2	16.7	13.9	13.8
Proposed Dividend	2,397	4,014	4,817	6,022	8,029	8,029	7,989	8,838	9,653	10,036

Balance sheet								(INR M)		
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	3,995	4,000	4,007	4,010	4,012	4,012	4,014	4,014	4,014	4,014
Reserves & Surplus	61,170	74,120	88,151	1,11,708	1,48,377	1,79,432	2,06,605	2,38,307	2,74,839	3,17,346
Equity Networth	65,164	78,120	92,158	1,15,718	1,52,389	1,83,444	2,10,619	2,42,321	2,78,853	3,21,360
Networth	65,164	78,120	92,158	1,15,718	1,52,389	1,83,444	2,10,619	2,42,321	2,78,853	3,21,360
Borrowings	2,09,855	2,11,670	2,68,332	3,71,300	4,59,463	4,98,113	4,97,343	5,93,059	6,22,934	6,65,221
Change (%)	13.0	0.9	26.8	38.4	23.7	8.4	-0.2	19.2	5.0	6.8
Other liabilities	32,112	18,132	20,198	17,578	22,798	23,990	18,236	20,059	22,065	24,272
Change (%)	12.2	-43.5	11.4	-13.0	29.7	5.2	-24.0	10.0	10.0	10.0
Total Liabilities	3,07,131	3,07,923	3,80,687	5,04,597	6,34,649	7,05,547	7,26,198	8,55,439	9,23,853	10,10,853
Loans	2,74,242	2,95,068	3,49,329	4,26,042	5,40,634	5,93,842	6,42,649	7,53,184	8,28,503	9,11,353
Change (%)	11.8	7.6	18.4	22.0	26.9	9.8	8.2	17.2	10.0	10.0
Investments	2,091	3,954	9,826	14,383	15,903	13,205	13,169	14,485	15,934	17,527
Net Fixed Assets	2,182	1,922	1,867	2,227	2,416	2,637	2,682	2,950	3,245	3,570
Other assets	28,615	6,978	19,666	61,944	75,697	95,863	67,699	84,819	76,171	78,403
Total Assets	3,07,131	3,07,923	3,80,687	5,04,597	6,34,649	7,05,547	7,26,198	8,55,439	9,23,853	10,10,853

E: MOFSL Estimates

Financials and valuations

Ratios								(%)		
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spreads Analysis (%)										
Avg Yield on loans	21.8	21.8	21.0	22.1	21.4	19.3	16.8	17.8	17.7	17.7
Avg Cost of funds	11.6	9.2	9.3	8.7	8.9	8.0	7.4	8.7	8.8	8.9
Spreads on loans	10.2	12.7	11.7	13.4	12.5	11.3	9.3	9.1	8.9	8.9
NIMs on AUM	12.9	15.1	14.3	15.2	14.1	12.9	11.0	11.2	11.1	11.4
Profitability Ratios (%)										
RoE	19.4	24.8	23.2	29.0	27.8	23.5	17.6	17.9	17.7	17.5
RoA	4.1	5.8	5.7	6.8	6.5	5.9	4.9	5.1	5.2	5.4
RoA on AUM	4.6	6.3	6.2	8.0	7.9	7.1	5.7	5.9	6.0	6.2
Cost to Income	36.2	29.9	33.2	30.0	25.9	25.1	30.9	30.2	29.6	28.8
Empl. Cost/Op. Exps.	61.1	59.4	58.3	57.8	56.5	56.4	56.6	57.2	58.3	59.2
Asset-Liability Profile (%)										
GNPL ratio (%)	2.8	4.4	2.7	2.2	0.9	3.0	3.8	3.1	2.6	2.2
Debt/Equity (x)	3.2	2.7	2.9	3.2	3.0	2.7	2.4	2.4	2.2	2.1
Average leverage	3.3	2.9	2.8	3.1	3.1	2.9	2.5	2.4	2.3	2.1
CAR	24.9	26.6	26.1	25.5	27.4	30.0	31.8	0.0	0.0	0.0
Valuations										
Book Value (INR)	163	195	230	289	380	457	525	604	695	801
Price-BV (x)	8.0	6.7	5.7	4.6	3.5	2.9	2.5	2.2	1.9	1.6
EPS (INR)	29.5	44.4	49.2	75.3	92.8	98.6	86.5	101.0	115.0	130.9
EPS Growth (%)	45.6	50.4	10.8	52.9	23.3	6.2	-12.2	16.7	13.9	13.8
Price-Earnings (x)	44.5	29.5	26.7	17.4	14.2	13.3	15.2	13.0	11.4	10.0
Dividend	6.0	10.0	12.0	15.0	20.0	20.0	22.0	22.0	24.0	25.0
Dividend Yield (%)	0.5	0.8	0.9	1.1	1.5	1.5	1.7	1.7	1.8	1.9

E: MOFSL Estimates

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NOTES

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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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