

Nov 10, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

Muthoot Finance Limited

A mixed bag

Slightly better-than-expected growth, but yield remained under pressure as NPLs rose further

Muthoot Finance's consolidated NII/PPOP/PAT were 2%/4%/3% below expectations and the miss was caused by decline in portfolio yield, higher non-employee opex and increase in BS liquidity (significant increase in borrowings), even as the credit cost was materially lower (aided by ARC sale of ~Rs7bn NPLs). Consolidated AUM growth stood at 3.5% qoq/23.5% yoy, constituting of 2.2% qoq/19.5% yoy growth in Gold Loans, 12.4% qoq/53% yoy growth in Belstar MFI and 12.5% qoq/36% yoy growth in HL + VF portfolio. There was a significant 20% qoq increase in NPLs adj. for ARC Sale, mainly representing fwd. flow of stressed accounts in Stage-2 as of June (Stage-2 declined by similar extent). Annualized RoA/RoE for the quarter stood at 5%/20%.

Growth metrics in Gold Loans has been improving gradually

Growth in active GL customer base was 3.3% qoq (adjusted for ARC Sale), which was highest in the past eight quarters and much better than 1.7% qoq growth in preceding two quarters. There was further improvement in the traction of new customer acquisition (six-quarter high) and old customer reactivation (six-quarter high), while additional loan to existing active customers was maintained at higher level. Additionally, there was some moderation in customer attrition/loan closures. Renewed growth in customer base over the past three quarters, after a decline over the preceding five quarters, has been a function of augmented advertising & local marketing activity and bettered incentive/reward schemes/contest for branches. Management remains sanguine about Gold Loans portfolio growth (had guided 10-15% growth for FY24 in Q1 earnings call). While this looks comfortably achievable based on current pace of customer accretion and extant gold prices, the resolution (unless rolled over) of high NPLs (4%) would be a drag.

Spread guidance lowered to 9-9.5%

The sequential decline of 40 bps in GL portfolio yield came as a negative surprise. With customer/portfolio mix largely stable (implied by steady avg. pledge per customer), the yield reduction was mainly driven by de-recognition of interest income (~Rs1bn) on new NPLs. This along with marginal increase in CoF drove 50 bps spread compression to 9.2%, which was at multi-quarter low. Management now expects spread to settle in the band of 9-9.5% v/s its earlier expectation of 10%. The yield should stabilize near the current level of 17.7% in the absence of further NPL addition, and it can improve marginally with NPL resolution. Management expects CoF to further inch-up in the current quarter.

Trim estimates, but maintain BUY; NPL resolution would be the key monitorable

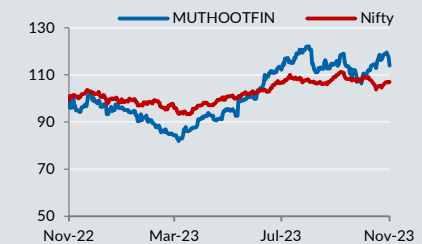
Our earnings estimate for FY24/25 undergo 2%/5% cut on lowering of margin/spread assumptions, even as AUM growth has been mildly upgraded for both years. The incremental re-rating of the stock hinges on continuance of healthy customer growth, stable-to-rising gold prices and stabilization of yield with resolution of NPLs. The stock trades at 10x PE and 1.8x PABV on FY25 estimates. We retain BUY with revised 12m PT of Rs1520.

Reco	: BUY
CMP	: Rs 1,273
Target Price	: Rs 1,520
Potential Return	: 19.4%

Stock data (as on Nov 10, 2023)

Nifty	19,425
52 Week h/l (Rs)	1380 / 911
Market cap (Rs/USD mn)	527215 / 6332
Outstanding Shares (mn)	401
6m Avg t/o (Rs mn):	599
Div. yield (%):	1.7
Bloomberg code:	MUTH IN
NSE code:	MUTHOOTFIN

Stock performance



	1M	3M	1Y
Absolute return	4.5%	-6.7%	15.2%

Shareholding pattern

Promoter	73.4%
FII+DII	22.8%
Others	3.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,520	1,540

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	107.2	126.9	144.2
EPS (Old)	109.5	133.0	-
% Change	-2.1%	-4.6%	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	91,535	104,065	117,291
PPOP	61,620	71,008	80,618
Net profit	43,044	50,947	57,872
Growth (%)	17.3	18.4	13.6
EPS (Rs)	107.2	126.9	144.2
ABVPS (Rs)	615.5	707.4	816.6
P/E (x)	11.9	10.0	8.8
P/ABV (x)	2.1	1.8	1.6
ROE (%)	18.6	19.2	18.9
ROA (%)	5.0	5.3	5.4

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Exhibit 1: Result table

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Total Operating Income	36,061	34,717	3.9	28,249	27.7
Interest expended	(13,350)	(12,359)	8.0	(10,205)	30.8
Net Interest Income	22,711	22,358	1.6	18,043	25.9
Other Income	258	370	(30.2)	170	51.7
Total Income	22,969	22,728	1.1	18,214	26.1
Operating expenses	(7,456)	(7,074)	5.4	(5,708)	30.6
PPOP	15,514	15,654	(0.9)	12,506	24.1
Provisions	(811)	(1,586)	(48.8)	(438)	85.4
PBT	14,702	14,068	4.5	12,068	21.8
Tax	(3,749)	(3,620)	3.6	(3,051)	22.9
PAT	10,953	10,447	4.8	9,016	21.5

Source: Company, YES Sec

Exhibit 2: AUM Break-up

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
AUM	794,934	767,987	3.5	643,556	23.5
Gold Loans (Parent)	675,171	660,388	2.2	565,014	19.5
Other Loans (Parent)	14,845	15,997	(7.2)	7,289	103.7
Home Finance	16,157	15,007	7.7	14,197	13.8
Belstar MFI	78,741	70,082	12.4	51,381	53.2
Muthoot Money	6,302	4,961	27.0	2,337	169.7
Asia Asset Finance	5,018	5,352	(6.2)	4,338	15.7
Less: Intra group loan assets	(1,300)	(3,800)		(1,000)	

Source: Company, YES Sec

Exhibit 3: Key Ratios - Consolidated

Particulars	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
Op Income as % of Avg. AUM	18.5	18.7	(0.3)	17.7	0.8
Int. Expense as % of Avg. AUM	6.8	6.7	0.2	6.4	0.4
NII as % of Avg. AUM	11.6	12.1	(0.4)	11.3	0.3
Cost to Income (%)	32.5	31.1	1.3	31.3	1.1
Prov. as % of Avg. AUM	0.4	0.9	(0.4)	0.3	0.1
RoA (%)	5.8	6.0	(0.2)	6.1	(0.3)
Gross NPA (%) – Standalone	4.0	4.3	(0.3)	1.7	2.3

Source: Company, YES Sec

Exhibit 4: Gold Loans Customer Matrix

Particulars	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Loans to inactive customers (no.)	402,622	381,683	401,638	412,206	428,114
Loans to new customers (no.)	322,521	308,438	333,907	355,760	360,620
Loans to exist. cust. on new coll. (no)	683,573	647,334	660,475	744,800	739,138
No of loan accounts	8,159,960	8,105,770	8,146,997	8,335,866	8,494,596
No of active Customers	5,216,519	5,233,973	5,323,362	5,412,660	5,502,779
GL AUM (In mn)	565,014	568,244	618,753	660,388	675,171
GL tonnage (tons)	177	175	180	182	183
GL / loan account (Rs.)	69,242	70,104	75,949	79,222	79,482
GL / active customers (Rs.)	108,312	108,568	116,234	122,008	122,696

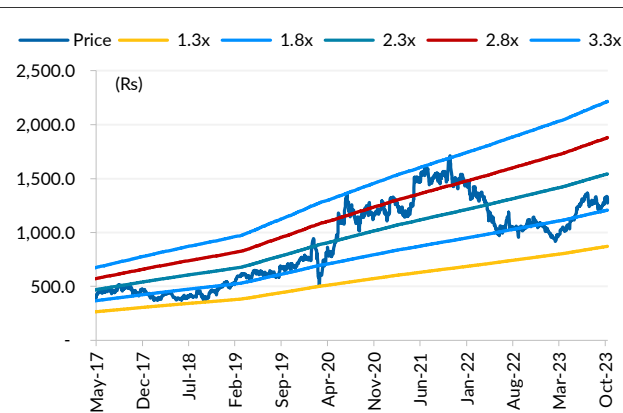
Source: Company, YES Sec

Exhibit 5: Funding Mix

(%)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Secured NCD's (M. Gold bonds)	0.4	0.3	0.2	0.1	0.0
Secured NCDs Listed	24.2	25.2	27.5	24.8	24.4
Banks / FI's borrowings	55.9	62.3	59.5	59.8	65.4
ECB-senior secured notes	17.4	10.3	9.1	5.2	-
Sub-ordinated debt – listed	0.3	0.2	0.2	0.1	0.1
Commercial Paper (CP)	-	-	2.3	7.7	8.3
Other loans	1.8	1.7	1.2	2.4	1.8

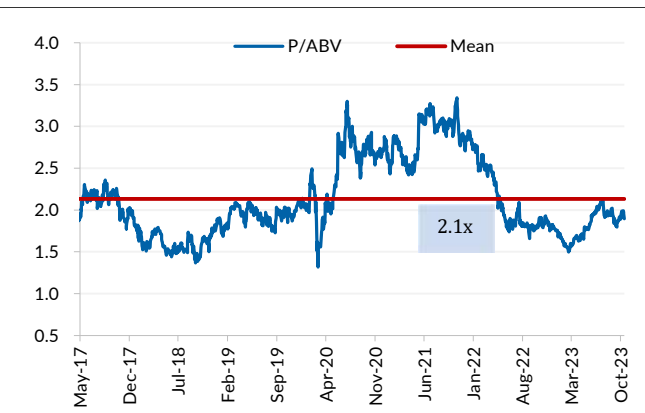
Source: Company, YES Sec

Exhibit 6: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 7: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet

Y/e 31 Mar (Rs. mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	4,013	4,014	4,014	4,014	4,014
Reserves	183,844	212,643	243,060	279,976	323,818
Shareholder's funds	191,379	221,528	251,945	288,861	332,703
Current tax liabilities (net)	1,418	812	812	812	812
Provisions	3,680	3,619	3,619	3,619	3,619
Other non-financial liabilities	1,307	836	836	836	836
Total Non-Financial liabilities	6,405	5,267	5,267	5,267	5,267
Derivative financial instruments	4,798	1,922	1,922	1,922	1,922
Trade Payables	3,809	2,159	2,266	2,380	2,499
Debt Securities	131,740	146,046	167,953	183,908	201,379
Borrowings	408,553	405,975	466,871	511,223	559,790
Deposits	0	3,315	3,812	4,174	4,571
Subordinated Liabilities	2,997	2,547	2,929	3,207	3,511
Other Financial liabilities	13,483	12,732	14,642	16,033	17,556
Total Financial liabilities	565,381	574,694	660,394	722,847	791,227
Total Equities and Liabilities	763,165	801,489	917,606	1,016,975	1,129,197
Assets					
Cash and Bank Balances	103,150	80,357	75,937	72,413	76,084
Derivative financial instruments	605	0	0	0	0
Receivables	70	99	99	99	99
Loans	645,276	705,544	825,650	928,088	1,036,160
Investments	5,233	5,457	5,457	5,457	5,457
Other Financial Assets	2,807	3,453	3,626	3,807	3,997
Total Financial assets	757,141	794,910	910,768	1,009,864	1,121,798
Current tax assets (net)	110	475	522	574	632
Deferred tax assets (net)	1,090	641	641	641	641
Investment Property	93	82	82	82	82
Property, Plant and equipment	2,817	3,272	3,436	3,608	3,788
Other Intangible assets	1,030	1,176	1,176	1,176	1,176
Other non-financial assets	883	934	981	1,030	1,081
Total Non-Financial assets	6,023	6,580	6,837	7,111	7,400
Total Assets	763,165	801,489	917,606	1,016,975	1,129,197

Source: Company, YES Sec

Exhibit 9: Income statement

Y/e 31 Mar (Rs. mn)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	121,849	118,977	141,738	159,003	175,973
Interest expense	(42,559)	(42,092)	(51,325)	(56,139)	(59,967)
Net interest income	79,291	76,885	90,413	102,865	116,007
Non-interest income	526	773	1,121	1,200	1,284
Total op income	79,816	77,658	91,535	104,065	117,291
Total op expenses	(21,879)	(26,010)	(29,914)	(33,057)	(36,672)
PPoP	57,937	51,648	61,620	71,008	80,618
Provisions	(3,835)	(2,420)	(3,879)	(2,666)	(2,986)
Profit before tax	54,102	49,228	57,741	68,342	77,633
Taxes	(13,789)	(12,530)	(14,697)	(17,395)	(19,760)
Net profit	40,313	36,698	43,044	50,947	57,872

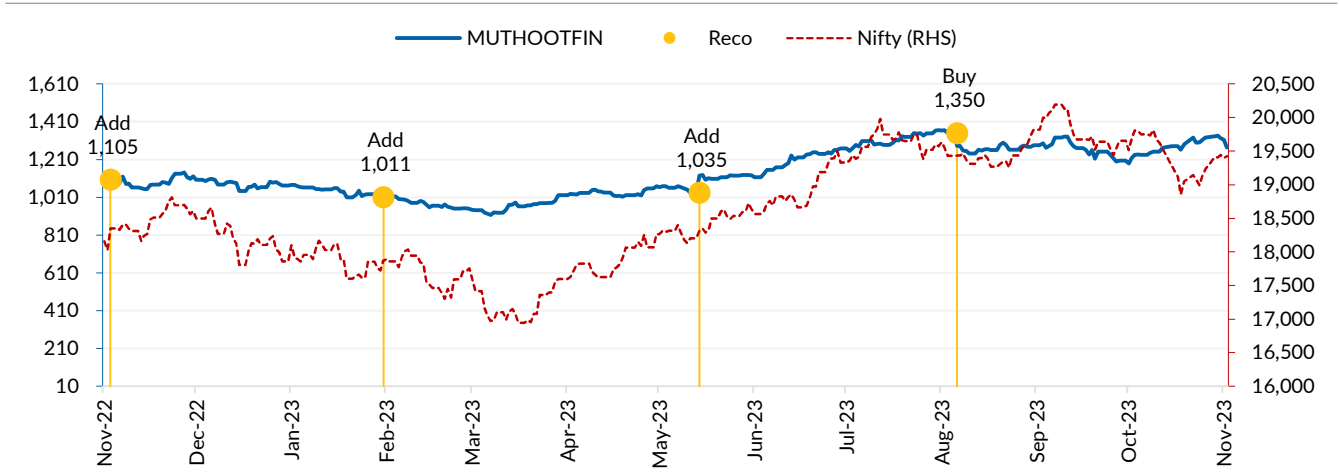
Source: Company, YES Sec

Exhibit 10: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	6.7	(3.0)	17.6	13.8	12.8
Total op income	6.8	(2.7)	17.9	13.7	12.7
Op profit (pre-provision)	7.6	(10.9)	19.3	15.2	13.5
Net profit	5.6	(9.0)	17.3	18.4	13.6
Loans	9.7	9.3	17.0	12.4	11.6
Borrowings	16.4	(0.6)	15.0	9.5	9.5
Total assets	11.2	5.0	14.5	10.8	11.0
Profitability Ratios (%)					
NIM	10.7	9.5	10.2	10.3	10.5
Non-int. Income/Total income	0.7	1.0	1.2	1.2	1.1
Return on Avg. Equity	23.5	18.1	18.6	19.2	18.9
Return on Avg. Assets	5.6	4.7	5.0	5.3	5.4
Per share ratios (Rs)					
EPS	100.4	91.4	107.2	126.9	144.2
ABVPS	468.1	539.7	615.5	707.4	816.6
DPS	20.0	22.0	27.0	30.0	30.0
Other key ratios (%)					
Cost/Income	27.4	33.5	32.7	31.8	31.3
Gross NPLs/Loans	3.0	3.8	3.2	3.1	3.1
Credit Cost (% of AUM)	0.6	0.4	0.5	0.3	0.3
Tax rate	25.5	25.5	25.5	25.5	25.5
Dividend yield	1.6	1.7	2.1	2.4	2.4

Source: Company, YES Sec

Recommendation Tracker



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