

**Healthy growth in AuM and profitability; margins continue to remain muted**

Q3FY24 Result Update | Sector: NBFC | February 15, 2024

**BUY**

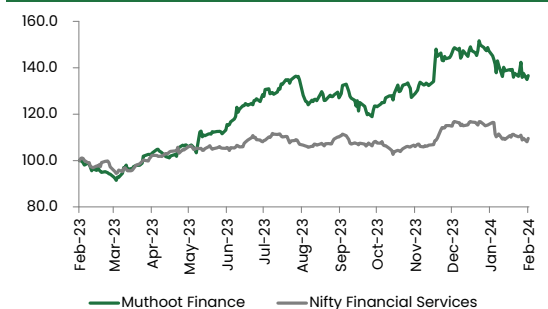
|                          |              |
|--------------------------|--------------|
| <b>CMP (Rs)</b>          | <b>1,379</b> |
| <b>Target Price (Rs)</b> | <b>1,627</b> |
| <b>Potential Upside</b>  | <b>18.0%</b> |
| <b>Sensex</b>            | 71,823       |
| <b>Nifty</b>             | 21,840       |

**Key Stock data**

|                               |            |
|-------------------------------|------------|
| <b>BSE Code</b>               | 533398     |
| <b>NSE Code</b>               | MUTHOOTFIN |
| <b>Bloomberg</b>              | MUTH:IN    |
| <b>Shares o/s, Cr (FV 10)</b> | 40.1       |
| <b>Market Cap (Rs Cr)</b>     | 55,371     |
| <b>3M Avg Volume</b>          | 433,751    |
| <b>52 week H/L</b>            | 1,537/911  |

**Shareholding Pattern**

| (%)             | Jun-23 | Sep-23 | Dec-23 |
|-----------------|--------|--------|--------|
| <b>Promoter</b> | 73.4   | 73.4   | 73.4   |
| <b>FII</b>      | 8.7    | 8.1    | 8.3    |
| <b>DII</b>      | 13.7   | 14.6   | 14.6   |
| <b>Public</b>   | 4.2    | 3.9    | 3.7    |

**1 year relative price performance**

**1 year forward P/Adj. BV (x)**

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**Steady growth:** Muthoot Finance reported steady growth in its top-line by 4.6% QoQ/20.3% YoY in Q3FY24 which was driven by healthy growth in interest income by 5.1% QoQ/25.6% YoY. Consequentially, pre-provision operation grew by 5.7% QoQ/19.8% YoY which was led by the company's cost efficiency measures. Provisions declined on a YoY basis by 12.2%, however, sequentially it increased by 30.3% QoQ. Factoring the healthy growth in and cost control measures, PAT reported strong growth of 4.6% QoQ/22.6% YoY.

**Growth in AuM across all segments:** Consolidated loan AuM of Muthoot Finance reported healthy growth of 4.1% QoQ/27.2% YoY which was led mainly by the gold AuM which contributes 86% of the overall AuM. Gold AuM during the quarter increased by 2.5% QoQ/21.8% YoY which was driven by increase in gold prices (9.6% QoQ/15.3% YoY), thus, increasing the average ticket size of the customer (1.5% QoQ/15.1% YoY). The AuM growth was well supported by its subsidiaries such as Belstar Microfinance (12.2% QoQ/65.4% YoY) which continue to report strong growth on a lower base.

**Efficiency in operations:** Along with the growth in gold price, AuM was also driven by the inherent operating efficiency of the company as the average gold per branch increased by 1.9% QoQ/19.2% YoY to Rs 14.5 Cr. The monthly disbursements/collections reported growth of 16.5%/12.9% YoY enabling growth in the AuM. The gold held as security grew consistently by 0.5% QoQ/5.1% YoY to 184 Tonnes. The company continues to add branches as the business remains operationally heavy. During 9MFY24, it added 487 new branches as compared to 231 new branches in 9MFY23. The company saw a decline in the active customer; however, it was due to the high customer churn rate as the during of loan remains relatively low. The company remains confident of the branch additions going ahead and more branches to open subject to regulatory approval.

**Decline in margins:** Net interest margin during the quarter remained flat sequentially, however, on a YoY basis it declined by 98bps. The decline in margins can be mainly attributed to the increase in cost of borrowings by 9bps QoQ/42bps YoY. Its margins have also declined due to competition in the gold lending segment which prompts the company to reduce their interest spread. Going ahead, the management expects that the cost of borrowings to increase during Q4FY24 and remain at 8.5-9% levels. The management also guided that the NIMs could remain at the same levels in Q4FY24.

**Increase in stage-3 assets:** Asset quality improved on a QoQ basis as stage 3 assets reported a decline of 39bps, however, on a YoY basis it increased by 104bps. The stage 1 assets growth remained healthy by 4% QoQ/24% YoY, however, stage 2 assets declined by 36.3% QoQ/65.9% YoY signaling that many stage 2 assets were upgraded to stage 1 assets. The management remains confident of the asset quality and reiterated that the increase in stage 3 is delay in payment and not default.

**Valuation and outlook:** We remain positive on Muthoot Finance as the company saw healthy growth in AuM which was driven majorly by its gold loan AuM along with other subsidiaries. The company continue to maintain its operational efficiencies along with controlling opex. It expects to grow at a healthy pace despite facing competition from bank and other entities in the gold lending business. It continues to be the market leader in the organized gold lending business. We maintain **Buy** rating on Muthoot Finance and increase our target price to **Rs 1,627** valuing the company at 2.1x of its FY26E Adj. BVPS.

**Financial Summary - consolidated**

| Particulars, Rs cr      | FY23   | FY24E  | FY25E  | FY26E  |
|-------------------------|--------|--------|--------|--------|
| Interest Income         | 11,556 | 12,665 | 15,032 | 17,868 |
| Revenue from Operations | 11,898 | 13,092 | 15,505 | 18,395 |
| Total Income            | 11,975 | 13,216 | 15,718 | 18,753 |
| Net interest income     | 7,346  | 7,257  | 8,556  | 10,512 |
| Profit before Tax       | 4,923  | 4,660  | 5,339  | 6,986  |
| Profit after Tax        | 3,670  | 3,467  | 3,994  | 5,226  |
| EPS (Rs.)               | 90.0   | 82.2   | 96.6   | 127.0  |
| P/Adj. BV (x)           | 1.9    | 2.3    | 2.1    | 1.8    |
| RoE (%)                 | 17.6   | 15.2   | 15.6   | 17.9   |

Source : RBL Research

**Guidance going forward:** The company remains confident to achieve its growth guidance of 15% YoY during FY24 and expect increase in cost of borrowings. Also, it remains confident of its asset quality and sees no stress in any particular geography or segment of loan. It expects to continue to grow at a healthy pace.

**Concall Highlights:** 1) During 9MFY24, the company has opened 487 branches. 2) During the quarter, ARC sale was in the range of Rs 200-300 Cr. 3) In the company's AuM - Above Rs 3L ticket sizes forms 27% of the AuM while between Rs 1-3 Lakhs forms 38% of the AuM. 4) Attrition level remained higher than the COVID levels, however, the company is seeing normalisation in the attrition level. 5) The company expects increase in cost of borrowings to 9% in the next 3-4 months which is currently at 3.55%. 6) The company remains comfortable with the current cash balance and aims to maintain it at current levels.

Net interest income increased by 4.6% QoQ/20.3% YoY

PPOP grew 5.7% QoQ/19.8% YoY in Q3FY24

PAT increased by 4.6% QoQ/22.6% YoY in Q3FY24

Healthy growth in Gold AuM by 2.5% QoQ/21.8% YoY

Disbursements/collections increased 16.5%/12.9% YoY

#### Income Statement - consolidated

| Particulars, Rs cr             | Q3FY24       | Q3FY23       | Y-o-Y (%)     | Q2FY24       | Q-o-Q (%)   |
|--------------------------------|--------------|--------------|---------------|--------------|-------------|
| Interest Income                | 3,683        | 2,933        | 25.6          | 3,505        | 5.1         |
| Interest Expense               | 1,412        | 1,047        | 35.0          | 1,335        | 5.8         |
| <b>Net interest income</b>     | <b>2,271</b> | <b>1,887</b> | <b>20.3</b>   | <b>2,170</b> | <b>4.6</b>  |
| Other Income                   | 160          | 97           | 64.4          | 127          | 26.0        |
| Total Income                   | 2,430        | 1,984        | 22.5          | 2,297        | 5.8         |
| Employees Cost                 | 437          | 351          | 24.4          | 422          | 3.7         |
| Depreciation                   | 24           | 20           | 23.2          | 22           | 8.8         |
| Misc Expenses                  | 329          | 244          | 35.1          | 302          | 9.0         |
| <b>Operating profit (PPOP)</b> | <b>1,640</b> | <b>1,370</b> | <b>19.8</b>   | <b>1,551</b> | <b>5.7</b>  |
| Provisions                     | 106          | 120          | (12.2)        | 81           | 30.3        |
| Profit before Tax              | 1,534        | 1,249        | 22.8          | 1,470        | 4.4         |
| Tax                            | 389          | 315          | 23.4          | 375          | 3.8         |
| <b>Profit after Tax</b>        | <b>1,145</b> | <b>934</b>   | <b>22.6</b>   | <b>1,095</b> | <b>4.6</b>  |
| <b>RoA (%)</b>                 | <b>5.9</b>   | <b>6.3</b>   | <b>-41bps</b> | <b>5.8</b>   | <b>4bps</b> |
| RoE (%)                        | 18.1         | 18.3         | -23bps        | 18.3         | -20bps      |

Source : RBL Research

#### Business parameters - consolidated

| Particulars, Rs cr               | Q3FY24        | Q3FY23        | Y-o-Y (%)   | Q2FY24        | Q-o-Q (%)  |
|----------------------------------|---------------|---------------|-------------|---------------|------------|
| Loan AuM                         | 71,182        | 57,731        | 23.3        | 69,002        | 3.2        |
| <b>Gold AuM</b>                  | <b>69,221</b> | <b>56,825</b> | <b>21.8</b> | <b>67,517</b> | <b>2.5</b> |
| Other loans                      | 1,961         | 907           | 116.3       | 1,485         | 32.1       |
| <b>Avg Gold Loan Per Branch</b>  | <b>14.5</b>   | <b>12.2</b>   | <b>19.2</b> | <b>14.2</b>   | <b>1.9</b> |
| Avg Monthly Disbursement (Rs bn) | 120           | 103           | 16.5        | 104           | 15.4       |
| Avg Monthly Collection (Rs bn)   | 114           | 101           | 12.9        | 99            | 15.2       |
| Borrowings                       | 58,021        | 44,305        | 31.0        | 55,349        | 4.8        |
| <b>BVPS (Rs)</b>                 | <b>578.8</b>  | <b>501.6</b>  | <b>15.4</b> | <b>552.4</b>  | <b>4.8</b> |

Source : RBL Research

NIMs declined by 98bps YoY, however, remained flat sequentially

Stage 3 assets declined by 39bps YoY, however, increased by 104bps YoY

**Ratios (%)**

| Particulars                | Q3FY24      | Q3FY23      | Y-o-Y (bps)   | Q2FY24      | Q-o-Q (bps) |
|----------------------------|-------------|-------------|---------------|-------------|-------------|
| Yields on advances         | 17.8        | 18.2        | (43.0)        | 17.7        | 14.0        |
| Cost of Borrowings         | 6.9         | 6.4         | 56.0          | 6.8         | 15.0        |
| <b>Net Interest Margin</b> | <b>10.9</b> | <b>11.9</b> | <b>(98.0)</b> | <b>10.9</b> | <b>-</b>    |
| Capital Adequacy Ratio     | 30.9        | 33.3        | (243.0)       | 30.3        | 55.0        |

Source : RBL Research

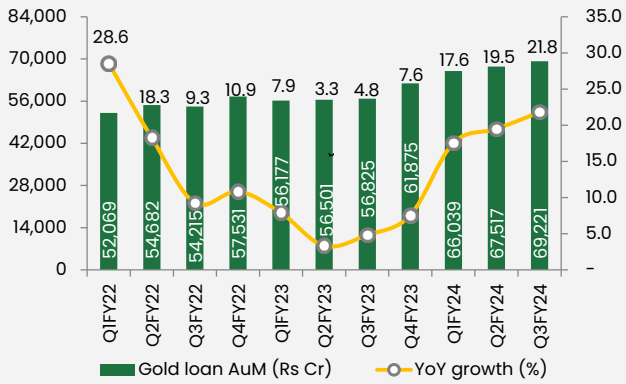
**Asset quality - consolidated**

| Particulars, Rs cr         | Q3FY24       | Q3FY23       | Y-o-Y (%)     | Q2FY24       | Q-o-Q (%)     |
|----------------------------|--------------|--------------|---------------|--------------|---------------|
| Stage 1 Loan Assets        | 68,155       | 54,919       | 24.1          | 65,530       | 4.0           |
| Stage 2 Loan Assets        | 451          | 1,322        | (65.9)        | 708          | (36.3)        |
| <b>Stage 3 Loan Assets</b> | <b>2,577</b> | <b>1,490</b> | <b>73.0</b>   | <b>2,764</b> | <b>(6.8)</b>  |
| <b>Stage 3 assets (%)</b>  | <b>3.6</b>   | <b>2.6</b>   | <b>104bps</b> | <b>4.0</b>   | <b>-39bps</b> |

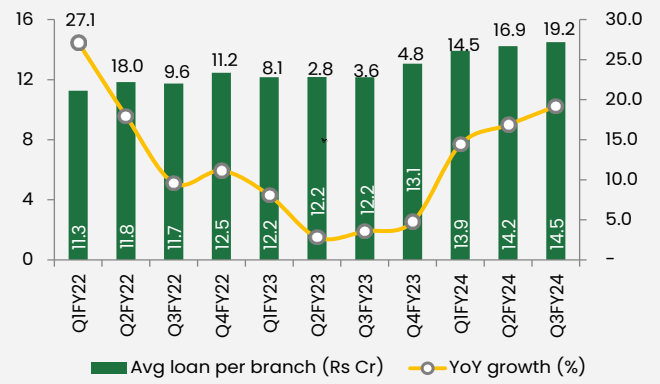
Source : RBL Research

Story in charts

Healthy growth in gold loan AUM

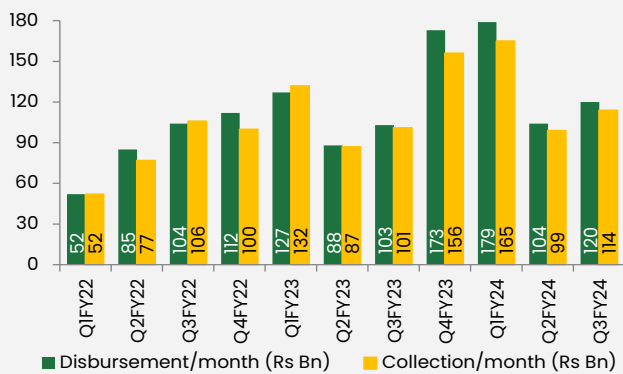


Uptick in average loan per branch

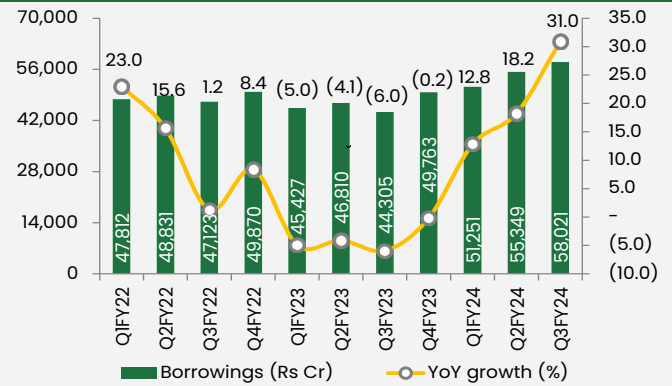


Source : RBL Research

Disbursement and collection improved as compared to Q2FY24

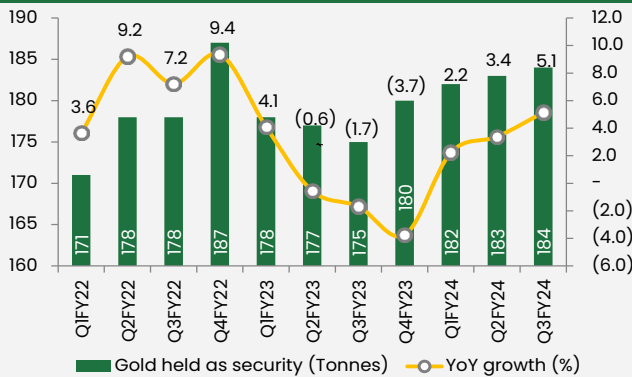


Growth in the borrowings profile by 31% YoY

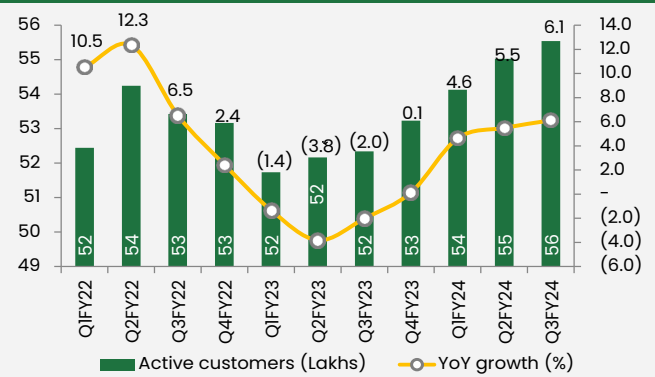


Source : RBL Research

Gold held as security increased by 5.1% YoY

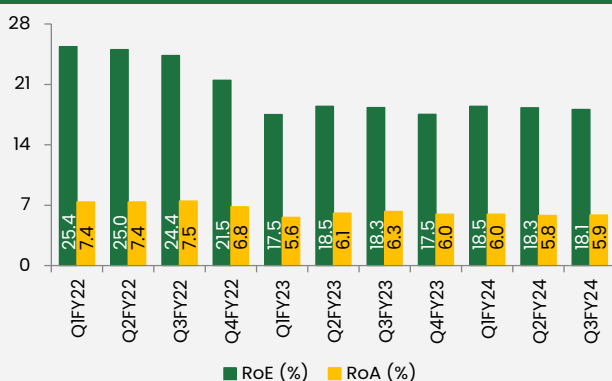


Growth in active customer count by 6.1% YoY

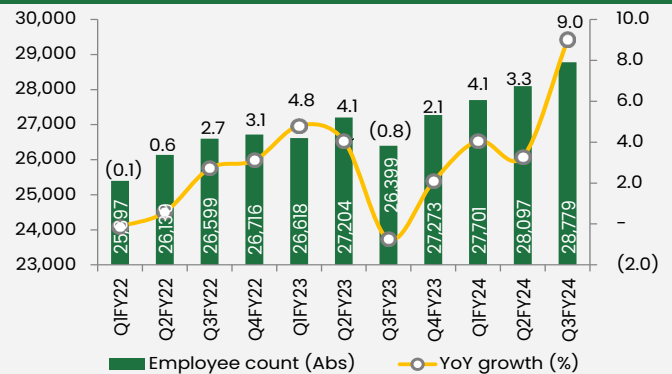


Source : RBL Research

RoE/RoA remained steady at 18.1%/5.9%



Employee count increased by 9% YoY



Source : RBL Research

### Income Statement – consolidated

| Particulars, Rs cr                         | FY23          | FY24E         | FY25E         | FY26E         |
|--|---------------|---------------|---------------|---------------|
| Interest Income                            | 11,556        | 12,665        | 15,032        | 17,868        |
| Other operating income                     | 342           | 427           | 473           | 527           |
| <b>Revenue from Operations</b>             | <b>11,898</b> | <b>13,092</b> | <b>15,505</b> | <b>18,395</b> |
| Other Income                               | 77            | 124           | 213           | 358           |
| <b>Total Income</b>                        | <b>11,975</b> | <b>13,216</b> | <b>15,718</b> | <b>18,753</b> |
| Finance Cost                               | 4,209         | 5,409         | 6,476         | 7,356         |
| <b>Net interest income</b>                 | <b>7,346</b>  | <b>7,257</b>  | <b>8,556</b>  | <b>10,512</b> |
| Impairment on Financial Instruments        | 242           | 478           | 589           | 715           |
| Employees Cost                             | 1,488         | 1,517         | 2,074         | 2,373         |
| Depreciation                               | 78            | 87            | 99            | 103           |
| Misc Expenses                              | 1,035         | 1,066         | 1,140         | 1,220         |
| <b>Total Expenditure</b>                   | <b>7,052</b>  | <b>8,556</b>  | <b>10,378</b> | <b>11,767</b> |
| <b>Profit before Tax</b>                   | <b>4,923</b>  | <b>4,660</b>  | <b>5,339</b>  | <b>6,986</b>  |
| Tax  | 1,253         | 1,193         | 1,346         | 1,761         |
| <b>Profit after Tax</b>                    | <b>3,670</b>  | <b>3,467</b>  | <b>3,994</b>  | <b>5,226</b>  |
| Non-controlling interests                  | 57            | 166           | 116           | 125           |
| <b>Profit attributable to shareholders</b> | <b>3,612</b>  | <b>3,301</b>  | <b>3,878</b>  | <b>5,100</b>  |
| EPS (Rs)                                   | 90.0          | 82.2          | 96.6          | 127.0         |

Source : RBL Research

### Key ratios (%) - Consolidated

| Particulars         | FY23        | FY24E       | FY25E       | FY26E       |
|---------------------|-------------|-------------|-------------|-------------|
| Yield on Portfolio  | 17.7        | 16.5        | 17.0        | 18.1        |
| Cost of Borrowings  | 6.3         | 7.1         | 7.3         | 7.4         |
| <b>Spread</b>       | <b>11.4</b> | <b>9.5</b>  | <b>9.7</b>  | <b>10.6</b> |
| Net Interest Margin | 11.4        | 9.5         | 9.7         | 10.6        |
| Cost to income      | 35.4        | 41.3        | 41.8        | 40.0        |
| <b>RoA</b>          | <b>5.9</b>  | <b>4.5</b>  | <b>4.5</b>  | <b>5.3</b>  |
| <b>RoE</b>          | <b>17.6</b> | <b>15.2</b> | <b>15.6</b> | <b>17.9</b> |
| GNPA                | 3.8         | 2.8         | 2.4         | 2.4         |
| NNPA                | 3.0         | 2.1         | 1.8         | 1.8         |

Source : RBL Research

### Business Parameters

| Particulars, Rs cr              | FY23          | FY24E         | FY25E         | FY26E           |
|---------------------------------|---------------|---------------|---------------|-----------------|
| Gold AuM                        | 61,875        | 71,744        | 81,666        | 95,000.0        |
| Other loans                     | 1,335         | 2,338         | 3,070         | 4,089.5         |
| <b>Total AuM</b>                | <b>63,210</b> | <b>74,082</b> | <b>84,736</b> | <b>99,089.5</b> |
| <b>Avg Gold Loan Per Branch</b> | <b>13.1</b>   | <b>15.0</b>   | <b>16.2</b>   | <b>17.5</b>     |
| Borrowings                      | 49,763        | 63,759        | 71,357        | 78,878          |
| <b>Pan-India branches (Abs)</b> | <b>4,739</b>  | <b>4,791</b>  | <b>5,045</b>  | <b>5,413</b>    |

Source : RBL Research

### Balance Sheet – consolidated

| Particulars, Rs cr                     | FY23          | FY24E         | FY25E          | FY26E          |
|--|---------------|---------------|----------------|----------------|
| Cash and Bank Balance                  | 8,036         | 14,036        | 13,727         | 18,024         |
| Loans                                  | 70,554        | 82,690        | 94,581         | 102,965        |
| Other Financial Assets                 | 901           | 1,325         | 1,531          | 1,793          |
| <b>Total Financial Assets</b>          | <b>79,491</b> | <b>98,051</b> | <b>109,840</b> | <b>122,782</b> |
| Property, Plant and Equipment          | 327           | 347           | 399            | 447            |
| Goodwill                               | 30            | 30            | 30             | 30             |
| Other Non-Financial Assets             | 301           | 303           | 306            | 309            |
| <b>Total Non-Financial Assets</b>      | <b>658</b>    | <b>680</b>    | <b>735</b>     | <b>786</b>     |
| <b>Total Assets</b>                    | <b>80,149</b> | <b>98,731</b> | <b>110,575</b> | <b>123,569</b> |
| Debt Securities                        | 14,605        | 21,817        | 27,138         | 31,577         |
| Borrowings                             | 40,597        | 49,333        | 52,516         | 56,361         |
| Deposits                               | 331           | 481           | 731            | 1,110          |
| Other Financial Liabilities            | 1,936         | 1,871         | 1,860          | 1,855          |
| <b>Total Financial Liabilities</b>     | <b>57,469</b> | <b>73,501</b> | <b>82,244</b>  | <b>90,903</b>  |
| Provisions                             | 362           | 371           | 385            | 399            |
| Other Non-Financial Liabilities        | 165           | 138           | 132            | 127            |
| <b>Total Non-Financial Liabilities</b> | <b>527</b>    | <b>510</b>    | <b>517</b>     | <b>526</b>     |
| <b>Total Liabilities</b>               | <b>57,996</b> | <b>74,011</b> | <b>82,761</b>  | <b>91,429</b>  |
| Share Capital                          | 401           | 401           | 401            | 401            |
| Other Equity                           | 21,264        | 23,665        | 26,643         | 30,843         |
| <b>Equity Attributable to Owners</b>   | <b>21,666</b> | <b>24,066</b> | <b>27,044</b>  | <b>31,245</b>  |
| Non Controlling Interest               | 487           | 653           | 769            | 895            |
| <b>Total Equity</b>                    | <b>22,153</b> | <b>24,720</b> | <b>27,814</b>  | <b>32,139</b>  |
| <b>Total Equity and Liabilities</b>    | <b>80,149</b> | <b>98,731</b> | <b>110,575</b> | <b>123,569</b> |

Source : RBL Research

### Valuation

| Particulars                            | FY23         | FY24E        | FY25E        | FY26E        |
|--|--------------|--------------|--------------|--------------|
| Book value per share (BVPS) (Rs.)      | 524.6        | 615.8        | 692.8        | 800.6        |
| EPS (Rs.)                              | 90.0         | 82.2         | 96.6         | 127.0        |
| <b>Adj. book value per share (Rs.)</b> | <b>508.6</b> | <b>597.0</b> | <b>671.8</b> | <b>776.2</b> |
| P/E (x)                                | 11.3         | 16.8         | 14.3         | 10.9         |
| P/B (x)                                | 1.9          | 2.2          | 2.0          | 1.7          |
| <b>P/Adj. BV (x)</b>                   | <b>1.9</b>   | <b>2.3</b>   | <b>2.1</b>   | <b>1.8</b>   |

Source : RBL Research

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**Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)**

| S. No. | Statement  | Answer           |    |
|--------|--|------------------|----|
|        |  | Yes              | No |
|        |  | Tick appropriate |    |
|        |  | Yes              | No |
|        | I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>  |                  | No |
|        | I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance? |                  | No |
|        | I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?   |                  | No |
|        | I/we have received any compensation from the subject company in the past twelve months?  |                  | No |
|        | I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?   |                  | No |
|        | I/we have received any compensation for brokerage services from the subject company in the past twelve months?   |                  | No |
|        | I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?   |                  | No |
|        | I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?  |                  | No |
|        | I/we have served as an officer, director or employee of the subject company?   |                  | No |
|        | I/we have been engaged in market making activity for the subject company?  |                  | No |

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

| SS.No. | Name(s) of RA. | Signatures of RA | Serial Question of question which the signing RA needs to make a separate declaration / answer | Yes | No. |
|--------|----------------|------------------|--|-----|-----|
|        |                |                  |  |     |     |
|        |                |                  |  |     |     |

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