

Moderate sequential AuM growth, however, guidance maintained

Q2FY24 Result Update | Sector: NBFC | November 10, 2023

BUY

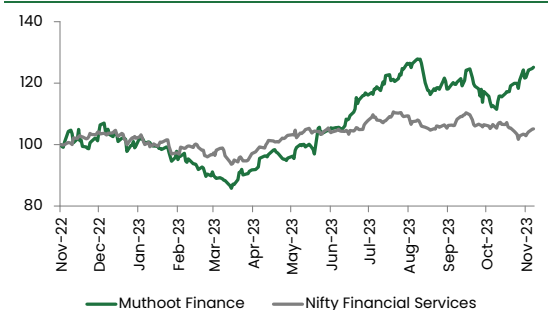
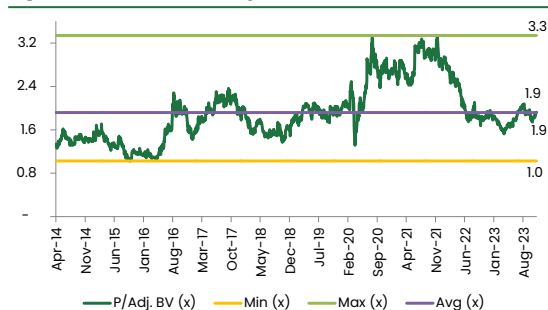
CMP (Rs)	1,262
Target Price (Rs)	1,453
Potential Upside	15.1%
Sensex	64,765
Nifty	19,384

Key Stock data

BSE Code	533398
NSE Code	MUTHOOTFIN
Bloomberg	MUTH:IN
Shares o/s, Cr (FV 10)	40.1
Market Cap (Rs Cr)	50,633
3M Avg Volume	487,695
52 week H/L	1,380/911

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	73.4	73.4	73.4
FII	9.4	8.7	8.1
DII	12.7	13.7	14.6
Public	4.6	4.2	3.9

1 Year relative price performance

1 year forward P/Adj. BV (x)

Research Analyst
Akshay Tiwari

akshay.tiwari@religare.com

Moderate top-line growth: Muthoot Finance consolidated net interest income remained in line with expectation in Q2FY24 was Rs 2,170 Cr, up by 1.3% QoQ/24.9% YoY as yield on loans remained positive while cost of borrowings saw an increase. Interest income increased by 3.8% QoQ/27.1% YoY to Rs 3,505 Cr, however, interest expense grew by 8% YoY/30.8% QoQ to Rs 1,335 Cr.

Pressure on margins: During the quarter, net interest margin remained under pressure as it declined by 70bps QoQ/16bps YoY to 10.9% led by increase in cost of borrowings by 27bps QoQ/43bps YoY to 6.8%. The management in Q1 had indicated that NIMs would remain stable and any increase in cost of borrowing would be easily passed on to customers. However, it remained a challenge due to which NIMs saw a decline. Going forward, management expects cost of borrowings to increase marginally while NIMs would be maintained at current levels.

Moderation in sequential AuM growth: Gold AuM increased by 2.2% QoQ/19.5% YoY to Rs 67,517 Cr while total AuM increased by 2% QoQ/20.6% YoY. However, the management remains confident of the AuM in H2FY24 and therefore maintained its guidance of 15-20% by FY24. The average ticket size of the customers increased by 14% to Rs 79,158.

Sale of NPAs to ARC: In an attempt to reduce NPAs from its books, the company sold its NPA worth Rs 700 Cr to an ARC for recovery of loans. The company chose ARC route rather than auctioning the gold to recover the NPAs due to its customer friendly policies and retaining the gold of customers. The company expects full recovery of loans going forward from its customers.

Con-call highlights: 1) The company is seeing reduction in the competitive intensity from the banks. 2) Margins remains subdued partially due to sale of NPAs to ARC which capped the NIM. 3) Out of Rs 700 Cr NPA sold to ARC, the company managed to recover Rs 250-300 Cr of loans and going forward it expects full recovery of loans. 4) The customer count of NPAs sold to ARC is 80,000 out of which the ARC completed recovery of 24,000 customer's loan. 5) Cost of borrowing is expected to see slight elevation post which it is expected to remain moderate. The management expects cost of borrowings to increase by 10-15bps in the near term.

Valuation and outlook: We remain positive on Muthoot Finance as the company remains a market leader in the gold lending business and it is preferred choice for customers due to its customer friendly policies. The company expects growth in its AuM in H2 higher than H1 and also expects margin to be retained at current levels. We expect NII/PAT growth of 8%/9% CAGR over FY23-25E and maintain **Buy**, however, we revise our target price downwards to **Rs 1,453** valuing the company at 2.1x of its FY25E Adj. BV.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Interest Income	11,925	11,556	11,873	13,334
Revenue from Operations	12,185	11,898	12,263	13,746
Total Income	12,237	11,975	12,387	13,959
Net interest income	7,669	7,346	7,411	8,644
Profit before Tax	5,410	4,923	5,047	5,877
Profit after Tax	4,031	3,670	3,755	4,396
EPS (Rs.)	100.1	90.0	91.9	107.4
P/Adj. BV (x)	3.0	1.9	2.1	1.8
RoE (%)	23.6	17.6	16.3	16.8

Source : RBL Research

Net interest income increased by 1.3% QoQ/24.9% YoY in Q2FY24

Pre-provision operating profit declined by 0.9% QoQ, however, it increased by 24.1% YoY

Decline in RoA/RoE by 27bps/18bps YoY to 5.8%/18.3%

Gold AuM remained moderate with a growth of 2.2% QoQ/19.5% YoY

Average monthly disbursement/collections declined by 42%/40% QoQ

Net interest margins declined by 70bps QoQ/16bps YoY to 10.9% as cost of borrowings increased

Stage 3 assets increased on YoY basis by 234bps to 4%

Financial Summary – Consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Interest Income	3,505	2,758	27.1	3,378	3.8
Interest Expense	1,335	1,021	30.8	1,236	8.0
Net interest income	2,170	1,737	24.9	2,142	1.3
Other Income	127	84	50.8	130	(2.8)
Total Income	2,297	1,821	26.1	2,273	1.1
Employees Cost	422	342	23.2	427	(1.3)
Depreciation	22	18	20.7	19	15.6
Misc Expenses	302	210	43.6	261	15.7
Operating profit (PPOP)	1,551	1,251	24.1	1,565	(0.9)
Provisions	81	44	85.4	159	(48.8)
Profit before Tax	1,470	1,207	21.8	1,407	4.5
Tax	375	305	22.9	362	3.6
Profit after Tax	1,095	902	21.5	1,045	4.8
RoA (%)	5.8	6.1	-27bps	6.0	-14bps
RoE (%)	18.3	18.5	-18bps	18.5	-18bps

Source : RBL Research

Business Parameters – Consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Loan AuM	69,002	57,230	20.6	67,639	2.0
Gold AuM	67,517	56,501	19.5	66,039	2.2
Other loans	1,485	729	103.7	1,600	(7.2)
Avg Gold Loan Per Branch	14.2	12.2	16.9	13.9	2.2
Avg Monthly Disbursement (Rs bn)	104	88	18.2	179	(41.9)
Avg Monthly Collection (Rs bn)	99	87	13.8	165	(40.0)
Borrowings	55,349	46,810	18.2	51,251	8.0
BVPS (Rs)	552.4	479.0	15.3	527.4	4.7

Source : RBL Research

Ratios

Particulars (%)	Q2FY24	Q2FY23	Y-o-Y (bps)	Q1FY24	Q-o-Q (bps)
Yields on advances	17.7	17.4	27bps	18.1	-43bps
Cost of Borrowings	6.8	6.3	43bps	6.5	27bps
Net Interest Margin	10.9	11.0	-16bps	11.6	-70bps
Capital Adequacy Ratio	30.3	32.0	-165bps	30.0	28bps

Source : RBL Research

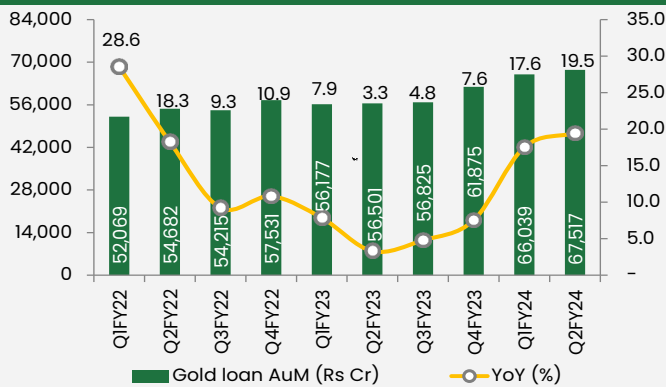
Asset Quality

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Stage 1 Loan Assets	65,530	55,411	18.3	63,364	3.4
Stage 2 Loan Assets	708	864	(18.1)	1,396	(49.3)
Stage 3 Loan Assets	2,764	956	189.2	2,879	(4.0)
Stage 3 assets (%)	4.0	1.7	234bps	4.3	-25bps

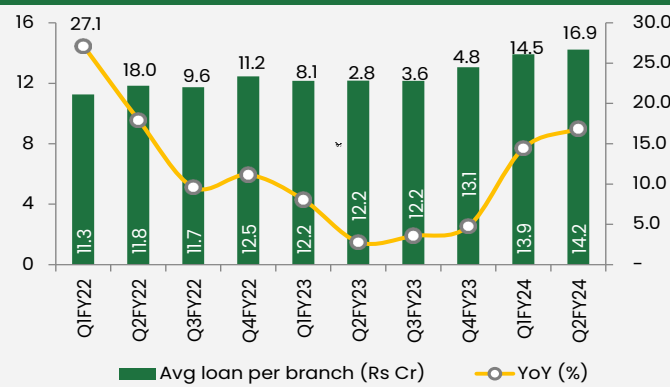
Source : RBL Research

Story in charts

Gold AuM grew by 19.5% YoY in Q2FY24

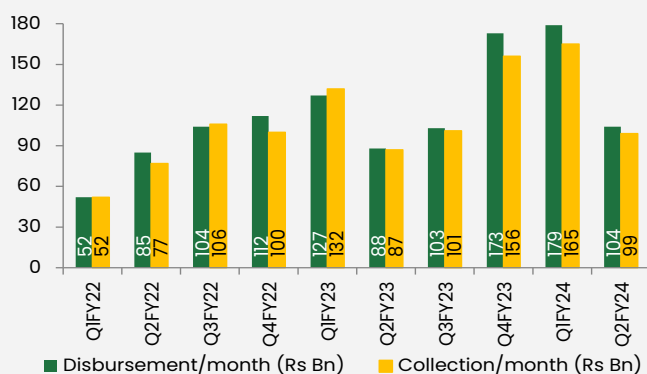


Growing operational efficiencies

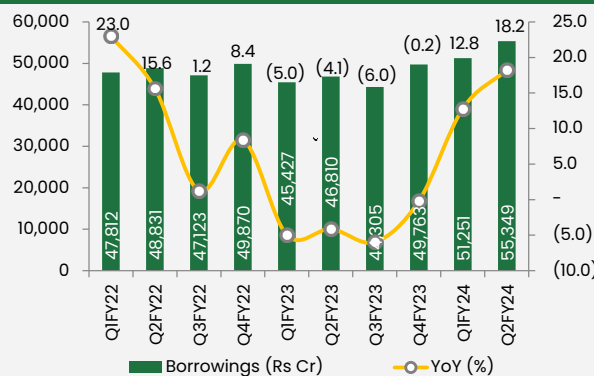


Source : RBL Research

Average monthly disbursements/collection declined in Q2FY24

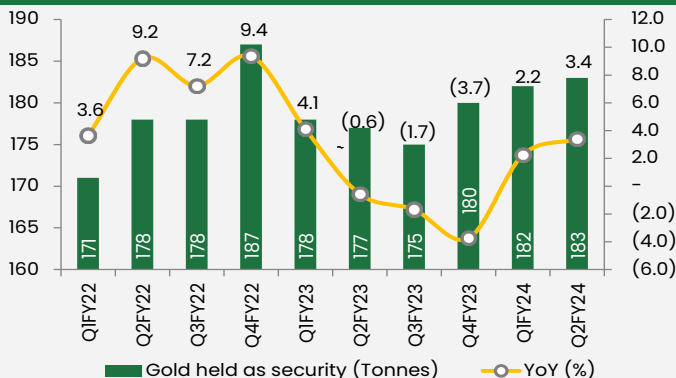


Borrowings growth has been steady in the quarter

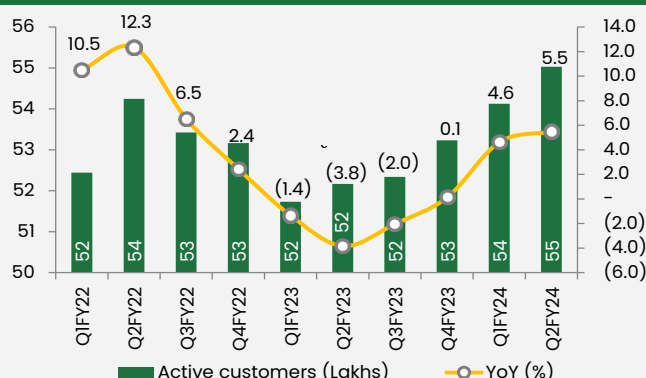


Source : RBL Research

Gold held as security increased by 3.4% YoY in Q2FY24

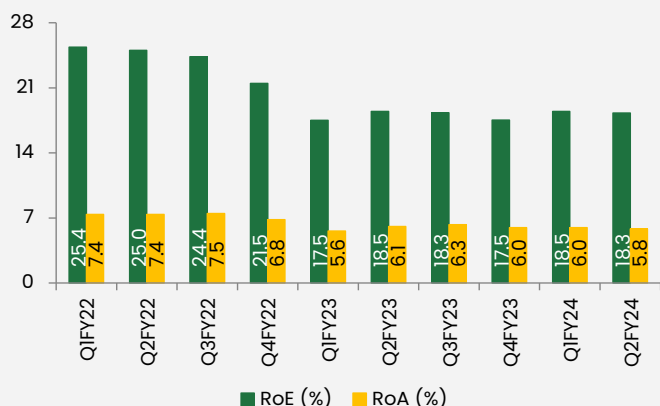


Active customers growing at a healthy pace

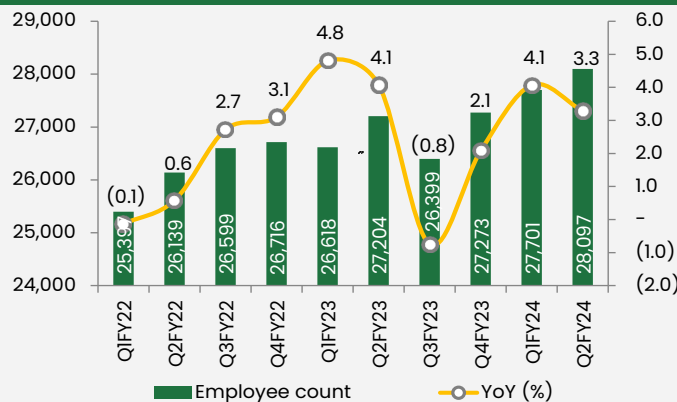


Source : RBL Research

Recovery in RoE/RoA due to competition



Employee count grew by 3.3% YoY in Q2FY24



Source : RBL Research

Income Statement – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Interest Income	11,925	11,556	11,873	13,334
Other operating income	260	342	390	412
Revenue from Operations	12,185	11,898	12,263	13,746
Other Income	53	77	124	213
Total Income	12,237	11,975	12,387	13,959
Finance Cost	4,256	4,209	4,462	4,689
Net interest income	7,669	7,346	7,411	8,644
Impairment on Financial Instruments	384	242	207	186
Employees Cost	1,239	1,488	1,517	1,968
Depreciation	70	78	87	99
Misc Expenses	879	1,035	1,066	1,140
Total Expenditure	6,827	7,052	7,339	8,082
Profit before Tax	5,410	4,923	5,047	5,877
Tax	1,379	1,253	1,292	1,481
Profit after Tax	4,031	3,670	3,755	4,396
Non-controlling interests	15	57	68	84
Profit attributable to shareholders	4,017	3,612	3,688	4,313
EPS (Rs)	100.1	90.0	91.9	107.4

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Cash and Bank Balance	10,315	8,036	9,058	9,145
Trade Receivables	7	10	10	10
Loans	64,528	70,554	78,434	87,948
Investments	523	546	562	581
Other Financial Assets	341	345	384	453
Total Financial Assets	75,714	79,491	88,448	98,137
Current and Deferred Tax Assets	120	112	114	118
Investment Property	9	8	7	7
Property, Plant and Equipment	282	327	347	399
Capital Work in Progress	52	67	67	67
Goodwill	30	30	30	30
Other Intangible Assets	109	114	114	114
Total Non-Financial Assets	602	658	680	735
Total Assets	76,316	80,149	89,128	98,873
Derivative Financial Instruments	480	192	172	200
Micro enterprises and small enterprises	120	134	138	140
Other Payables	37	82	82	82
Debt Securities	13,174	14,605	19,443	25,028
Borrowings	40,855	40,597	41,815	42,234
Deposits	224	331	481	731
Other Financial Liabilities	1,648	1,528	1,479	1,438
Total Financial Liabilities	56,538	57,469	63,610	69,851
Current and Deferred Tax Liabilities	158	96	87	81
Provisions	368	362	371	385
Other Non-Financial Liabilities	114	68	52	51
Total Non-Financial Liabilities	641	527	510	517
Total Liabilities	57,179	57,996	64,120	70,368
Share Capital	401	401	401	401
Other Equity	18,384	21,264	24,052	27,465
Equity Attributable to Owners	18,786	21,666	24,453	27,866
Non Controlling Interest	352	487	555	638
Total Equity	19,138	22,153	25,008	28,504
Total Equity and Liabilities	76,316	80,149	89,128	98,873

Source : RBL Research

Business Parameters – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Gold AuM	57,531	61,875	68,588	76,590
Other loans	522	1,335	1,681	2,203
Total AuM	58,053	63,210	70,269	78,793
Avg Gold Loan Per Branch	12.5	13.1	14.0	15.1
Borrowings	49,870	49,763	55,133	60,550
Pan-India branches (Abs)	4,617	4,739	4,900	5,062

Source : RBL Research

Valuation – Consolidated

Particulars	FY22	FY23	FY24E	FY25E
Book Value per share (BVPS) (Rs.)	457.0	524.6	622.9	710.0
EPS (Rs.)	100.1	90.0	91.9	107.4
Adj. book value per share (Rs.)	439.9	508.6	604.0	695.0
P/E (x)	13.5	11.3	13.7	11.7
P/B (x)	2.9	1.9	2.0	1.8
P/Adj. BV (x)	3.0	1.9	2.1	1.8

Source : RBL Research

Key ratios (%) – Consolidated

Particulars	FY22	FY23	FY24E	FY25E
Yield on Portfolio	20.1	17.7	15.9	16.0
Cost of Borrowings	7.0	6.3	6.0	5.6
Spread	13.0	11.4	9.9	10.4
Net Interest Margin	13.0	11.4	9.9	10.4
Cost to income	34.9	35.4	36.4	34.1
RoA	7.2	5.9	5.0	5.3
RoE	23.6	17.6	16.3	16.8
GNPA	1.5	3.8	2.8	2.4
NNPA	1.2	3.0	2.1	1.8

Source : RBL Research

Research Team

Name	Email ID
Siddarth Bhamre	siddarth.bhamre@religare.com
Ajit Mishra	ajit.mishra@religare.com
Manoj Vayalar	manoj.vayalar@religare.com
Nirvi Ashar	nirvi.ashar@religare.com
Gaurav Arora	gaurav.arora3@religare.com
Akshay Tiwari	akshay.tiwari@religare.com
Abhijeet Banerjee	abhijeet.banerjee@religare.com
Gaurav Sharma	gauravsharma2@religare.com
Rohan Shah	rohan.shah@religare.com
Riddhika Mirajkar	riddhika.mirajkar@religare.com
Ashwani Harit	ashwani.harit@religare.com

Before you use this research report, please ensure to go through the disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 and Research Disclaimer at the following link: <https://www.religareonline.com/disclaimer>

Specific analyst(s) specific disclosure(s) inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 is/are as under:

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? [If answer is yes, nature of Interest is given below this table]		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.

Copyright in this document vests exclusively with RBL. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose, without prior written permission from RBL. We do not guarantee the integrity of any emails or attached files and are not responsible for any changes made to them by any other person.

Research Disclaimer: <https://www.religareonline.com/disclaimer>