

# Muthoot Finance

## Steady performer

### Steady earnings quarter; business and asset quality healthy

Q3 earnings stood healthy, characterized by strong gold loan traction coupled with steady NIMs and improved asset quality for Muthoot Finance (MUTH IN). PAT at INR 10.2bn grew 3.7% QoQ on steady NII (up 2.5% QoQ) and flat opex (down 1% QoQ), with cost-income declining to 29% from 30% in Q2FY24. Yields increased 14bps QoQ to 17.79%, with a similar QoQ spike in the cost of funds (CoF) to 6.92% offsetting pressures leading to flat NIMs QoQ at 10.9%. Q3 saw the share of bank borrowings increasing to 28.9% from 24.4% in Q2, hence CoF may tad surge to ~9% ahead as cited by Management; NIMs to be maintained.

### Value-driven gold loan uptick; microfinance growth robust too

Defying competition, MUTH reported a 1% QoQ/27.2% YoY consolidated AUM growth. While gold loans grew a healthy 2.5% QoQ/22% YoY to INR 660bn, these were largely led by underlying gold price rise (up 9.5% QoQ) due to which even LTVs dropped to 65% from 70% in Q2. Tonnage at 184 was largely steady and fresh loans with new collaterals declined QoQ. Competitive intensities persist, but the management is confident of 15% gold loan growth with greater focus on marketing/advertisement initiatives. On the micro finance side, Belstar reported a staggering 65% YoY / 12% QoQ growth.

### Asset quality improved; auctions declined

Asset quality improved, with Stage 3 assets decreasing to 3.6% from 4% in Q3FY24, above estimated. ECL provision was a tad lower QoQ at 0.7% versus 0.8% in Q3FY24. Stage 2 in Q3 drastically decreased by 36% sequentially. Auctions at INR 3,810mn or 0.6% of gold loan book were low. Belstar Stage 3 deteriorated slightly, with marginal impact from Tamil Nadu floods where lies 50% of its network presence. Expect GNPA estimate at 2.0% for FY24E-26E.

### Valuations: Revise to Accumulate; TP retained at INR 1,520

While growth and asset quality were impressive in Q3, growth was largely value- and base-driven. Any fluctuations in the underlying price may hinder 15% growth guidance for MUTH. Hence, to err on the side of caution, we estimate 14% gold loan CAGR in FY24E-26E. Healthy fresh consumer accretion is the key to growth. With competitive intensities still at play, yields and opex may remain in check. Subsequently, expect NIMs steady at average 11.7% and cost-income ~29%. Subsidiaries, although a small share, are in good shape and are supportive of earnings. Expect RoAs at 5.1% and RoEs closer to 17% for FY24E-26E. While MUTH is expected to perform better than peers, the price rally of 15% since our past upgrade in Oct '23 leaves us now with 10% upside. Revise to **Accumulate** from Buy as we ascribe 2.2x FY25E P/ABV for a commodity led business fabric, with SoTP-TP retained at INR 1,520.

## Rating: Accumulate

Target Price: INR 1,520

Upside: 10%

CMP: INR 1,379 (as on 14 February 2024)

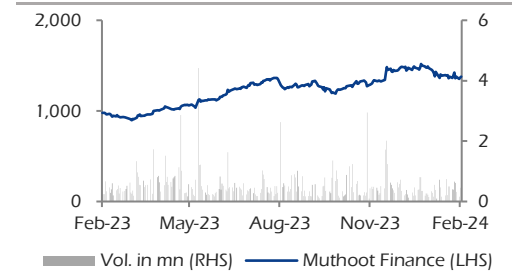
### Key data

Bloomberg /Reuters Code	MUTH IN/MUTToI.BO
Current /Dil Shares O/S (mn)	401/401
Mkt Cap (INR bn/USD mn)	554/6,671
Daily Volume (3M NSE Avg)	448,895
Face Value (INR)	10

1 USD = INR 83.0

Note: \*as on 14 February 2024; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	73.4	73.4	73.4	73.4
Institutional Investor	22.0	22.4	22.8	22.9
Other Investor	0.7	0.6	0.5	0.5
General Public	4.0	3.7	3.4	3.3

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	12.3	12.4	21.8
Muthoot Finance	6.9	7.6	37.9
LIC Housing Finance	41.2	50.8	71.4

Source: Bloomberg

YE March (INR mn)	Q3FY24	Q2FY24	Q3FY23	YoY (%)	QoQ (%)	Q3FY24	Var (%)
NII	19,057	18,584	17,043	11.8	2.5	18,930	0.7
Operating profit	13,942	13,422	12,624	10.4	3.9	13,614	2.4
PAT	10,273	9,910	9,017	13.9	3.7	10,094	1.8

Key Financials												
YE	NII	YoY	PPoP	YoY	PAT	YoY	EPS	Core RoE	RoA	P/E	P/ABV	
March	(INR mn)	(%)	(INR mn)	(%)	(INR mn)	(%)	(INR)	(%)	(%)	(x)	(x)	
FY23	66,695	(6.3)	47,270	(13.0)	34,735	(12.2)	86.5	16.5	4.9	15.9	2.8	
FY24E	78,029	17.0	56,603	19.7	41,731	20.1	104.0	17.0	5.3	13.3	2.3	
FY25E	87,968	12.7	64,356	13.7	47,587	14.0	118.6	16.7	5.1	11.6	2.0	
FY26E	101,235	15.1	73,951	14.9	54,692	14.9	136.3	16.5	5.1	10.1	1.7	

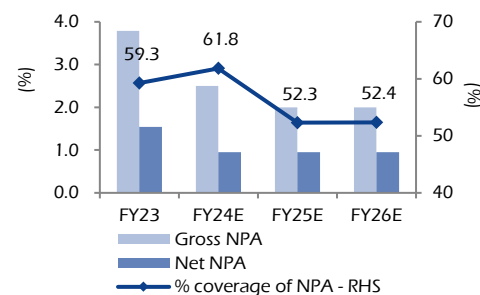
Note: Pricing as on 14 February 2024; Source: Company, Elara Securities Estimate

## Financials (YE March)

Income statement (INR mn)	FY23	FY24E	FY25E	FY26E
NII	66,695	78,029	87,968	101,235
Other income	1,751	1,962	1,962	1,962
Gross Income	68,446	79,991	89,929	103,197
Operating expenses	21,177	23,388	25,573	29,246
<b>PPOP</b>	<b>47,270</b>	<b>56,603</b>	<b>64,356</b>	<b>73,951</b>
Provisions	605	835	762	863
<b>PBT</b>	<b>46,664</b>	<b>55,768</b>	<b>63,594</b>	<b>73,089</b>
Tax	11,929	14,037	16,007	18,396
<b>PAT</b>	<b>34,735</b>	<b>41,731</b>	<b>47,587</b>	<b>54,692</b>
Balance Sheet (INR bn)	FY23	FY24E	FY25E	FY26E
Capital	4,014	4,013	4,013	4,013
Reserves and Surplus	206,605	240,923	281,023	328,228
Net worth	210,619	244,937	285,037	332,242
Borrowings	497,343	585,978	675,069	763,878
Other liabilities	18,236	19,066	38,992	44,713
<b>Total Liabilities</b>	<b>726,198</b>	<b>849,981</b>	<b>999,098</b>	<b>1,140,833</b>
Fixed assets	3,392	(1,995)	(4,986)	(9,134)
Loans	642,649	698,594	804,807	910,685
Investments	13,169	27,763	40,257	58,372
Cash and bank balances	64,612	114,672	143,298	161,297
Other assets	2,377	10,947	15,722	19,613
<b>Total Assets</b>	<b>726,198</b>	<b>849,981</b>	<b>999,098</b>	<b>1,140,832</b>
Per Share data & Valuation Ratios	FY23	FY24E	FY25E	FY26E
EPS- (INR)	87	104	119	136
BV (INR)	525	610	710	828
ABV- (INR)	500	593	691	806
P/E- (x)	15.9	13.3	11.6	10.1
P/ABV-(x)	2.8	2.3	2.0	1.7
Yield and Cost (%)				
Yield on advances	17.1	18.8	18.7	18.8
Interest Income/ Avg. assets	14.5	15.9	15.4	15.3
Interest Expense/ Avg. assets	5.2	6.0	5.9	5.9
Net Interest Margin (%)	11.0	11.6	11.7	11.8
Asset Quality (%)				
Gross NPA	3.8	2.5	2.0	2.0
Net NPA	1.5	1.0	1.0	1.0
% coverage of NPA	59.3	61.8	52.3	52.4
credit cost (calc)	0.1	0.1	0.1	0.1
Capital Adequacy				
Tier 1	28.6	27.4	26.2	26.7
CAR	29.5	28.3	27.1	27.5
Growth Rates				
Loan growth	8.2	8.7	15.2	13.2
Earnings growth	(12.2)	20.1	14.0	14.9
Business Ratios				
RoAA (%)	4.9	5.3	5.1	5.1
Core RoE (%)	16.5	17.0	16.7	16.5
Leverage (x)	3.4	3.2	3.2	3.2

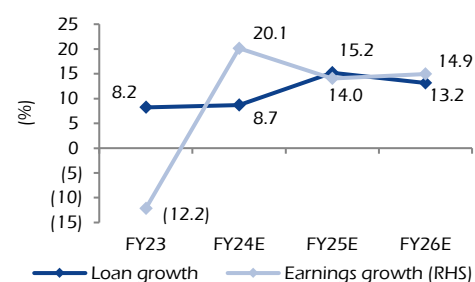
Note: Pricing as on 14 February 2024; Source: Company, Elara Securities Estimate

## Gross and net NPA (%)



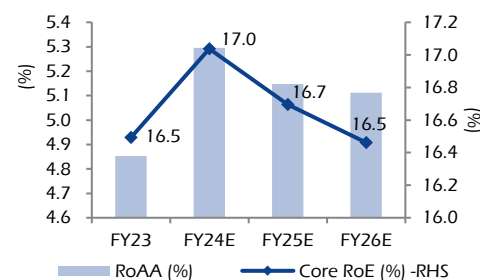
Source: Company, Elara Securities Estimate

## Loans &amp; earnings growth trend (%)



Source: Company, Elara Securities Estimate

## Return ratios (%)



Source: Company, Elara Securities Estimate

**Exhibit 1: Q3FY24 results**

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comments
Income from operations	31,176	26,184	19.1	30,147	3.4	
Interest expenses	12,119	9,141	32.6	11,563	4.8	
<b>Net interest income</b>	<b>19,057</b>	<b>17,043</b>	<b>11.8</b>	<b>18,584</b>	<b>2.5</b>	NII stood in line with our estimate of INR 18,930mn, up 2.5% sequentially led by interest income
Other income	581	487	19.3	589	(1.4)	
<b>Total income</b>	<b>19,638</b>	<b>17,530</b>	<b>12.0</b>	<b>19,173</b>	<b>2.4</b>	
Total operating expenses	5,696	4,905	16.1	5,751	(1.0)	Opex stood in line with our estimate of INR 5,923mn, sequentially down -1% QoQ
<b>Operating profit (PPP)</b>	<b>13,942</b>	<b>12,624</b>	<b>10.4</b>	<b>13,422</b>	<b>3.9</b>	PPoP stood in line with our estimate of INR 13,614mn, up 3.9% QoQ led by NII and steady opex
Provisions & write offs	137	557	(75.3)	120	14.2	Provision was as estimated at INR 124mn, up sequentially by 14.2%
<b>PBT</b>	<b>13,805</b>	<b>12,068</b>	<b>14.4</b>	<b>13,302</b>	<b>3.8</b>	
Tax	3,532	3,051	15.8	3,392	4.1	
<b>Reported profit</b>	<b>10,273</b>	<b>9,017</b>	<b>13.9</b>	<b>9,910</b>	<b>3.7</b>	PAT came in line with our estimate of INR 10,273mn, led by NII and steady opex
<b>Asset quality</b>						
Gross NPAs	25,767	14,896	73.0	27,639	(6.8)	
Gross NPA (%)	3.62	2.58	104bps	4.01	(39)bps	Asset quality improved sequentially, below our estimate of 4%
ROE (%)	18.09	18.32	(23)bps	18.29	(20)bps	ROE declined sequentially 23bps to 18.09%
ROA (%)	5.86	6.3%	580bps	5.80	6bps	ROA increased sequentially 6bps to 5.8%
<b>NIM - calc</b>	<b>9.40</b>	<b>10.53</b>	<b>(114)bps</b>	<b>9.51</b>	<b>(12)bps</b>	NIMs came in line with our estimates of 9.39%, down 12bps on account of minor uptick in the cost of funds
<b>Standalone AUM (INR mn)</b>						
Gold loan	692,214	568,245	21.8	675,171	2.5	Gold AUM was in line with our estimate of INR 692,214 seeing healthy sequential traction of 2.5%.
Other loans	19,606	9,066	116.3	14,845	32.1	
	711820	577311	23.3	690016	3.2	
<b>AUM mix (%)</b>						
Gold loan	97.25	98.43	(118)bps	97.85	(60)bps	
Other loan	2.75	1.57	118bps	2.15	60bps	

Source: Company, Elara Securities Research

### Q3FY24 Conference call – Highlights

Gold loan uptick was largely value-driven, tonnage was steady, and guidance maintained with sustained competition.

#### Business highlights

- Loan AUM at INR 827bn was up 27% YoY. Standalone AUM at INR 711bn was up 23% YoY and gold loans AUM was INR 692bn, up 22% YoY.
- Belstar AUM was INR 88bn, up 65% YoY. 9MFY24 disbursement was INR 67.7bn, up 85% YoY. For Belstar, 487 branches were opened in 9MFY24.
- Loan book bifurcation, ticket-wise as follows >INR 0.3mn: 27%, INR 0.1mn-0.3mn: 38% and <INR 0.1mn: 35% and <INR 0.05mn: 16%.
- FY24 gold loan growth guidance was 15%.
- Q3 gold loan growth was largely led by gold price, but tonnage was maintained.
- The bank's gold loan growth continued to improve as the market is improving.
- Gold loans saw new customer additions, walk-ins continued to be higher, marketing activities were higher and advertisements continued to be the focus area.
- There seemed to be no need for interest reversals as NPAs declined but there were provision reversals as ECL was down.

#### Spread analysis

- Gold loan yield up:** Short-term loan fluctuations were immaterial, given 17.7-18% yields since the past 5-6 quarters. Some changes may manifest due to the short-term nature of loans and portfolio crunching.
- Borrowing costs, as of Dec '23, were 8.55%. These are approximating 9%, as the incremental cost of borrowing spikes (from the banks).
- MUTH raised public NCDs of INR 4.8bn.
- MUTH may not increase yields due to any expected increases in CoF and aims to maintain NIMs.
- Incremental CoF of bank borrowings was up to 9%.

#### Asset quality

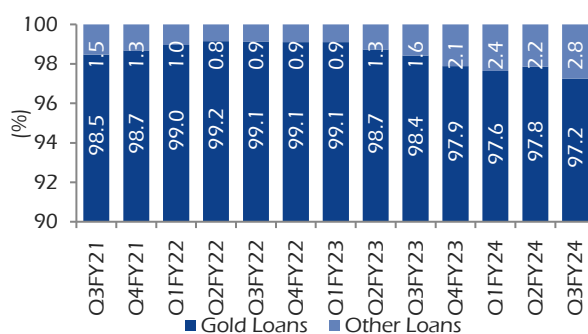
- Auctions were INR 3.8bn.
- ARC sales were invested in security receipts, a part of investments. Security receipts were INR 2.3bn, and collections above SRs were allocated in 85%:15%.
- Outstanding of INR 2.8bn may be recovered in Q4FY24 or Q1FY25.

- Belstar: Stage 3: 1.9%, Stage 2: 1.03%. Credit costs are stable and from Jan '24, may witness an improving trend.
- Belstar MFI AUM contribution from Tamil Nadu was 50%. And the bulk of the book is in South India. Slight impact on collections in Jan '24 was due to Tamil Nadu floods, but we presage no impact, going ahead.

#### Other highlights

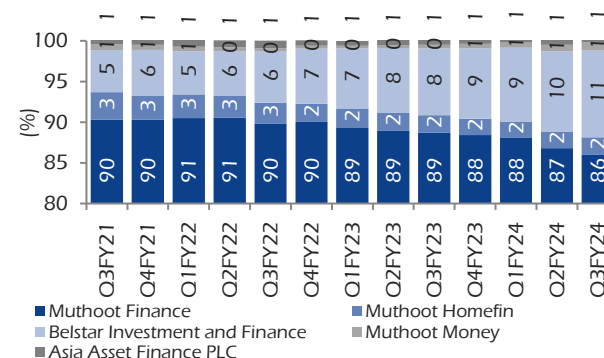
- There may be no impact from Paytm, given no dependency.
- During COVID, personal loans had dried up, which led to gold loan demand rising, but as of today, we advise 'wait and watch'.
- Negative carry due to cash reserves is 2-3%, but MUTH may maintain extra cash as there is a large amount of borrowing.
- KRAs of employees are growth in branch addition and taking on marketing initiatives.
- MUTH accrued an interest of INR 19.2bn.
- MUTH has had no issues with the Regulator with regards to branch opening approvals
- Assignment transactions can be done on gold loans.

**Exhibit 2: Standalone gold loan AUM mix up 60bps YoY to 97.2%**



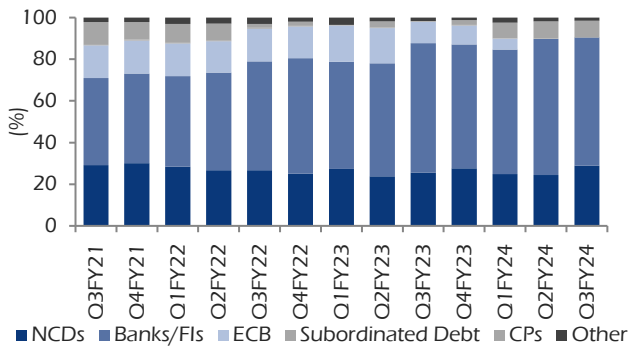
Source: Company, Elara Securities Research

**Exhibit 3: Belstar investment – AUM mix up 76bps QoQ to 10.7%**



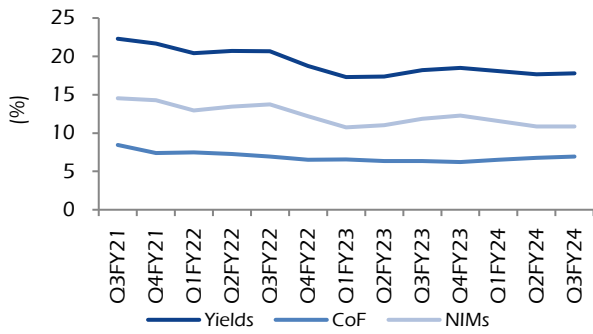
Source: Company, Elara Securities Research

**Exhibit 4: Banks/FIs share up 446bps QoQ to 28.9%**



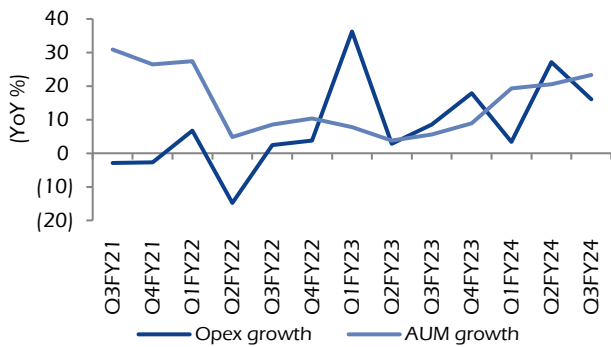
Source: Company, Elara Securities Research

**Exhibit 5: Reported NIMs maintained QoQ**



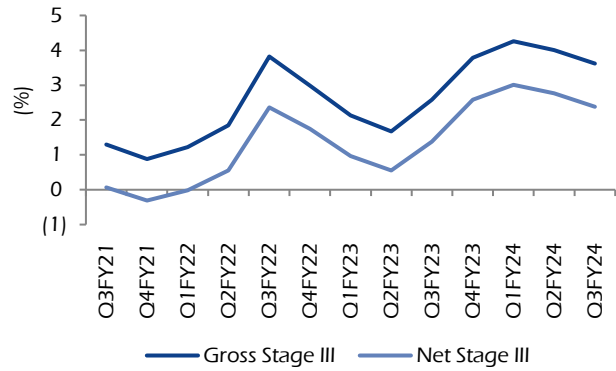
Source: Company, Elara Securities Research

**Exhibit 6: AUM grew despite rise in operating expense**



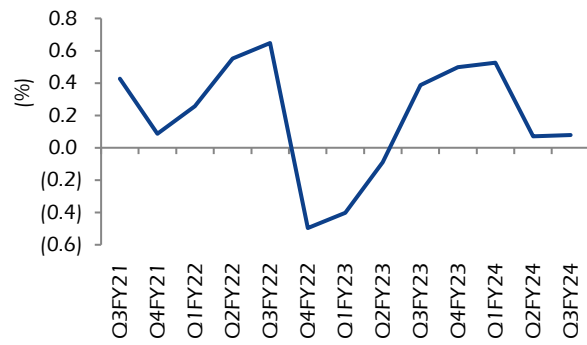
Source: Company, Elara Securities Research

**Exhibit 7: Asset quality improved 39bps QoQ to 3.6%**



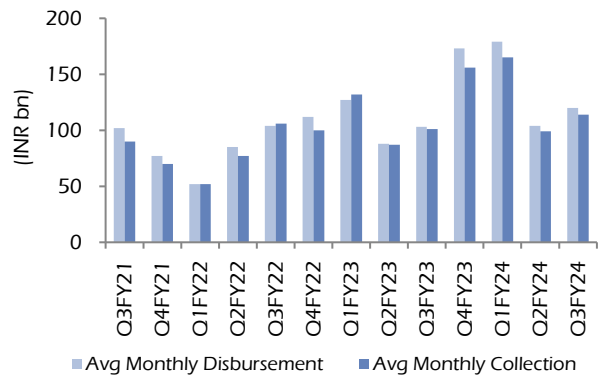
Source: Company, Elara Securities Research

**Exhibit 8: Credit costs flat QoQ**



Source: Company, Elara Securities Research

**Exhibit 9: Average monthly disbursement and collections improve sequentially**



Source: Company, Elara Securities Research

**Exhibit 10: Asset quality declined 39bps QoQ to 3.6%**

(INR mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Stage 3 assets	20,908	17,372	12,078	9,558	14,896	23,986	28,789	27,639	25,767
<b>Stage 3 assets (%)</b>	<b>3.8</b>	<b>3.0</b>	<b>2.1</b>	<b>1.7</b>	<b>2.6</b>	<b>3.8</b>	<b>4.3</b>	<b>4.0</b>	<b>3.6</b>
ECL provision on gross loan assets	7,997	7,219	6,594	6,426	6,950	7,658	8,468	8,532	8,588
ECL provision as % of gross loan assets (%)	1.5	1.2	1.2	1.1	1.2	1.2	1.3	1.2	1.2
Excess provision outstanding in books	2,954	2,954	2,954	2,954	2,954	2,954	2,954	2,954	2,954
Bad debts written off	63	58	53	40	40	36	47	63	68
<b>As percentage of gross loan assets (%)</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>

Source: Company, Elara Securities Research

**Exhibit 11: Active customers up 0.9% QoQ**

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
No. of active customers	5,342,269	5,316,246	5,173,166	5,216,519	5,233,973	5,323,362	5,412,660	5,502,779	5,553,823
QoQ (%)	(1.5)	(0.5)	(2.7)	0.8	0.3	1.7	1.7	1.7	0.9

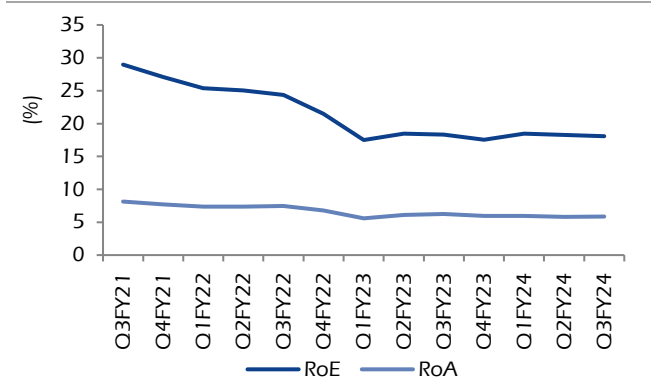
Source: Company, Elara Securities Research

**Exhibit 12: Customer accretion down 5.9% QoQ to 1.4mn**

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Customer count (mn)</b>	<b>1.6</b>	<b>1.6</b>	<b>1.4</b>	<b>1.4</b>	<b>1.3</b>	<b>1.4</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>
Customer accretion (QoQ %)	2.40	(1.00)	(7.64)	(2.45)	(5.06)	4.38	8.36	1.00	(5.91)
<b>Fresh loan to inactive customers</b>									
No. of customers	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Customer accretion (QoQ %)	(7.1)	(0.1)	(8.1)	2.4	(5.2)	5.2	2.6	3.9	(4.5)
Percentage of customers	8.0	8.0	8.0	8.0	7.0	8.0	8.0	8.0	7.0
<b>Fresh Loan to New customers</b>									
No. of customers	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.3
Customer accretion (QoQ %)	(2.4)	6.5	(15.7)	2.7	(4.4)	8.3	6.5	1.4	(7.1)
Percentage of customers	7.0	7.0	6.0	6.0	6.0	6.0	7.0	7.0	6.0
<b>Fresh loan with new collateral to existing customers</b>									
No. of customers	0.8	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.7
Customer accretion (QoQ %)	10.8	(4.8)	(3.5)	(7.2)	(5.3)	2.0	12.8	(0.8)	(6.1)
Percentage of customers	15.0	14.0	14.0	13.0	12.0	12.0	14.0	14.0	12.0
<b>Customer mix (%)</b>									
Fresh loan to inactive customers	27.1	27.3	27.2	28.6	28.5	28.8	27.2	28.0	28.4
Fresh loan to new customers	22.2	23.8	21.8	22.9	23.1	23.9	23.5	23.6	23.3
Fresh loan with new collateral to existing customers	50.7	48.8	51.0	48.5	48.4	47.3	49.2	48.4	48.3

Source: Company, Elara Securities Research

**Exhibit 13: ROA up 6bps QoQ but ROE down 20bps QoQ to 18.1%**



Source: Company, Elara Securities Research

**Exhibit 14: SoTP valuations**

Metrics	Percentage share in overall business (%)	Multiple FY25E (x)	Per share (INR)
Muthoot Finance	89	2.2	1,494
Home Finance	2	0.4	5
Belstar Micro	8	1.2	29
Muthoot Money	0	0.1	1
Asia Asset (Sri Lanka)	1	0.1	1
<b>Total value of ventures</b>			<b>36</b>
Less: 20% holding discount			7.16
Value of Key ventures			<b>29</b>
<b>Target price (INR)</b>			<b>1,520</b>
<b>CMP (INR)</b>			1,380
<b>Upside (%)</b>			<b>10.2</b>

Note: Pricing as on 14 February 2024; Source: Elara Securities Estimate

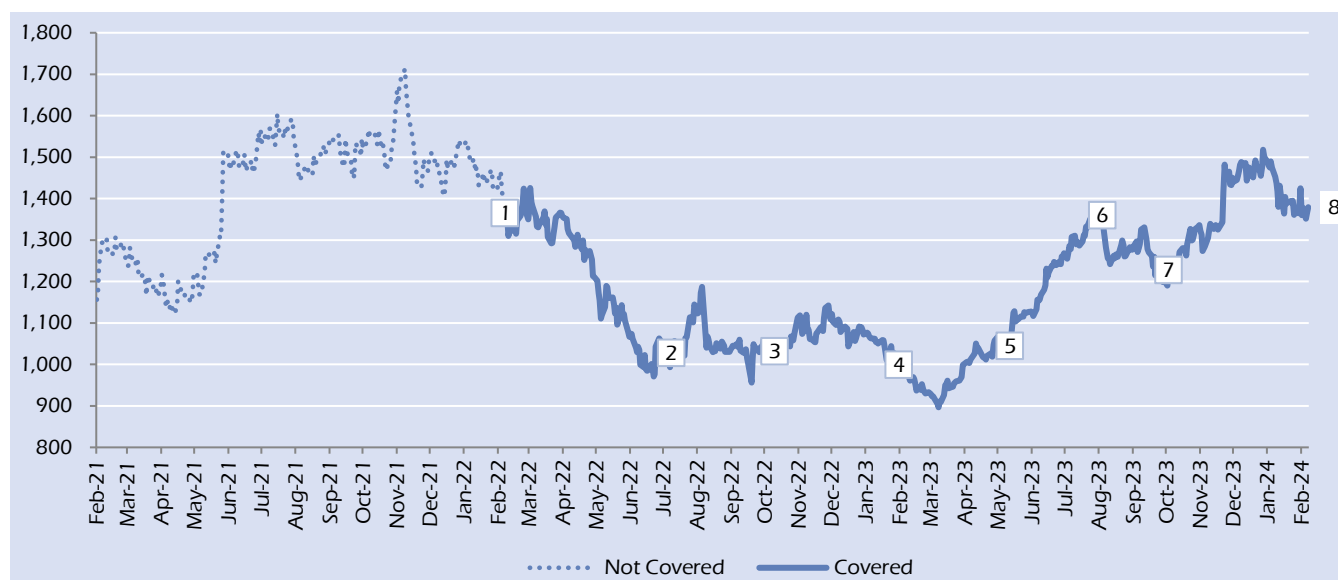
**Exhibit 15: Change in estimate**

(INR mn)	Old			Revised			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net interest income	78,356	88,898	102,523	78,029	87,968	101,235	(0.4)	(1.0)	(1.3)
Operating profit	56,929	65,286	74,949	56,603	64,356	73,951	(0.6)	(1.4)	(1.3)
Net profit	41,970	48,276	55,420	41,731	47,587	54,692	(0.6)	(1.4)	(1.3)
EPS (INR)	104.6	120.3	138.1	104.0	118.6	136.3	(0.6)	(1.4)	(1.3)
<b>Rating</b>	<b>Buy</b>			<b>Accumulate</b>					

Source: Elara Securities Estimate



## Coverage History



	Date	Rating	Target Price	Closing Price
1	14-Feb-2022	Buy	INR 1,657	INR 1,355
2	15-Jul-2022	Buy	INR 1,522	INR 1,018
3	14-Oct-2022	Accumulate	INR 1,200	INR 1,014
4	7-Feb-2023	Accumulate	INR 1,156	INR 1,011
5	19-May-2023	Accumulate	INR 1,200	INR 1,035
6	11-Aug-2023	Accumulate	INR 1,404	INR 1,350
7	10-Oct-2023	Buy	INR 1,520	INR 1,218
8	14-Feb-2024	Accumulate	INR 1,520	INR 1,379

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



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