

Apr 11, 2024

SECTOR UPDATE | Sector: Financials

Gold Loan NBFCs

Likely to shine further

We interacted with branches of Muthoot Finance, Manappuram Finance and Muthoot Fincorp in the outskirts of Mumbai to understand any change in growth and competitive dynamics in the light of recent embargo on IIFL Finance and steep rally in gold prices. The surveyed branches were less enthusiastic about acquiring IIFL customers, cited no easing in competitive intensity and envisaged limited benefits from higher gold prices in the near term. However, they remained sanguine about moderate growth and firm yields. Elaborate takeaways mentioned below in the note.

Empirical data suggests that whenever there has been a sharp up move in gold prices, it translates into significant growth (though not commensurate) in Gold AUM of Muthoot Finance and Manappuram Finance if the customer base/loan accounts are not de-growing. In recent quarters, we have seen sustained positive movement in the customer base with competition stabilizing (at least not increasing at the margin) and may be due to a pick-up in growth of overall organized gold loan market (from better adoption and customer transition from private financiers). Also, it seems that while initial growth response to higher gold prices takes shape through need-based Top-up loans, eventually a substantial AUM re-prices to the prevailing gold prices (portfolio LTV comes back to mean after dipping). Interestingly, Muthoot and Manappuram are yet to even depict the growth gain from the gold price increase during the December quarter (portfolio LTV at 65%/61% for Muthoot/Manappuram), and thereafter gold prices have rallied even more sharply.

On incorporation of higher gold prices (reserved 5-7% cushion on current price) and marginal benefit from IIFL embargo, our consolidated PAT/RoE estimates for Muthoot Finance increase by 3-8%/1-1.5% and for Manappuram Finance increase by 5-6%/0.8-1%. There is inherent operating leverage with value-driven growth uptick. Also, there is inherent co-relation between gold prices and valuation multiples. Muthoot and Manappuram are also credible plays on funding cost down cycle, but we haven't baked that in. Retain positive stance on both the cos. and have raised 12m PT by 10-20%.

Key takeaways (arranged topically) from the Branch Visits

No major direct benefit from IIFL embargo

- Counterintuitively, not a significant number of IIFL customers seems to have enquired with Muthoot Finance, Manappuram Finance and Muthoot Fincorp as per the branches we surveyed.
- Also, not many of such enquiries were fulfilled due to mismatches in Valuation, LTVs and Rates (not fitting in the policy).
- There is less eagerness too in taking over (BT IN) IIFL customers due to perceived riskiness of loans and lower rates.
- Many IIFL customers have likely gone to competition like SBI, ICICI Bank, HDFC Bank and Muthoot Mercantile who are offering lower rates.
- A couple of the surveyed branches did share that BT Out volume has come off post IIFL embargo.

Footfalls have increased; conversion remains the same

- Footfalls have increased by in the recent days/month by 20-25% at the surveyed branches of Muthoot Finance, Manappuram Finance and Muthoot Fincorp.
- Main reasons behind increased footfalls cited were significant rally in gold prices attracting new customers and enquiries from some IIFL customers due to proximity of branches.

Stock	Rating	TP(Rs.)	Upside (%)
MUTH IN	BUY	1,940	17.7
MGFL IN	BUY	250	28.2

MUTH IN		BUY	
Financial Summary			
(Rs mn)	FY24E	FY25E	FY26E
Op. income	95,357	1,14,155	1,32,693
PPOP	63,942	78,377	91,945
Net profit	44,300	55,034	64,644
Growth (%)	20.7	24.2	17.5
EPS (Rs)	110.4	137.1	161.0
ABVPS (Rs)	618.6	720.7	846.8
P/E (x)	14.9	12.0	10.2
P/ABV (x)	2.7	2.3	1.9
ROE (%)	19.1	20.5	20.5
ROA (%)	5.0	5.2	5.4

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,940	1,650

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	110.4	137.1	161.0
EPS (Old)	111.6	133.1	149.2
% Change	-1.1%	3.0%	7.9%

MGFL IN		BUY	
Financial Summary			
(Rs mn)	FY24E	FY25E	FY26E
Op. income	89,509	1,03,334	1,13,107
PPOP	35,643	41,673	46,402
Net profit	22,148	26,287	29,177
Growth (%)	47.6	18.7	11.0
EPS (Rs)	26.2	31.1	34.5
ABVPS (Rs)	131.9	157.1	185.8
P/E (x)	7.5	6.3	5.7
P/ABV (x)	1.5	1.2	1.0
ROE (%)	20.9	20.9	19.6
ROA (%)	5.2	5.3	5.3

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	250	230

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	26.2	31.1	34.5
EPS (Old)	26.0	29.6	32.6
% Change	0.6%	4.9%	5.7%

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- Conversion of footfalls has remained in the range of 10-15%.

AUM accretion been steady with Auctions being moderate

- March was better than Jan and Feb in terms of AUM accretion.
- Notably, many of the surveyed branches cited higher releases (related to festival/Gudi Padwa) which restricted AUM growth between Dec and March.
- Branches are experiencing better growth in lower ticket-size loans (up to Rs1lac and Rs1-2 lac).
- Auctions done by the branches surveyed ranged between Nil to <1% of AUM (Muthoot Finance Branches were on the higher side of the range).

Stable-to-positive movement in AUM Yield with product pricing largely unchanged.

- No change in the pricing structure (Ticket Size & LTV combo) since December, except for one Muthoot Finance Branch sharing that rate has been increased significantly for loans between Rs1-5 lacs due to rise in NPAs.
- Blended Yield of Branches surveyed was in the range of 14-15%, with some of them having witnessed a mild uptick from December on account of portfolio mix shift towards lower-ticket loans.
- There is no incremental competitive pressure on pricing/yields as none of the competitors has lowered rates in recent months.
- Current pricing for Muthoot Finance, Manappuram and Muthoot Fincorp is in the range of 0.92% p.m. to 2.0% p.m. with the <1% rate offered only for takeover cases.

Competition remains intense

- Branches have not witnessed any decline in competitive intensity, but there is no undue aggression on pricing by GLCs and NBFCs.
- SBI mentioned as the most aggressive player by the surveyed branches, with other aggressive players being ICICI Bank, HDFC Bank, Muthoot Mercantile and Supra Pacific.
- SBI and ICICI Bank are offering gold loans starting from 0.7% p.m.

Marketing efforts continue to be the same

- No introduction of any new Marketing initiatives.
- Marketing activity continues to be a) sending messages, b) cold calling new customers, c) calling earlier customers, d) distributing pamphlets in local area and 3) visiting shops and business places.

Benefits from recent rally in gold prices

- In the light of recent increase in gold prices, Branches have stepped-up the marketing of Top-up loans (through messaging/calling) to customers having higher LTV cushion.
- Demand for Top-ups also usually increase when the gold prices have risen.
- Branches surveyed had a similar view that a limited 15-20% of the total customers could avail Top-up loans, as the availment would be need driven.

Gold Loan NBFCs

- A significant number of customers avail gold loans for purposes like medical emergency, education, property payment, etc.
- Typically, the Top-up loans are offered at higher rate of interest.
- Notwithstanding the steep rally in gold prices, disbursement and AUM growth targets of Branches for the coming months haven't undergone any change so far.

Cash Disbursements and Cash Collections continue as before

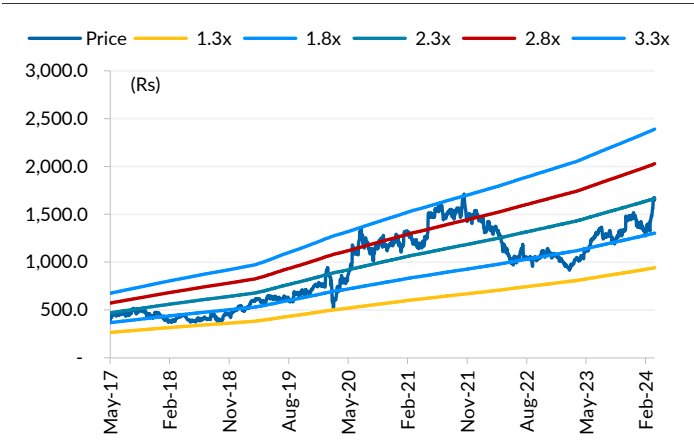
- Branches surveyed continue to do Cash disbursements and accept Cash repayments up to Rs2 lacs
- Share of Cash disbursements in total disbursements and the share of Cash repayments in total repayments stands at near 50%

Audits & Observations

- Muthoot Finance Branches are subject to internal security audits on monthly basis. No recent instance of RBI audit cited by the surveyed branches.
- Manappuram Branches also undergo monthly audit by the internal audit team. No recent instance of RBI audit cited by the surveyed branches.

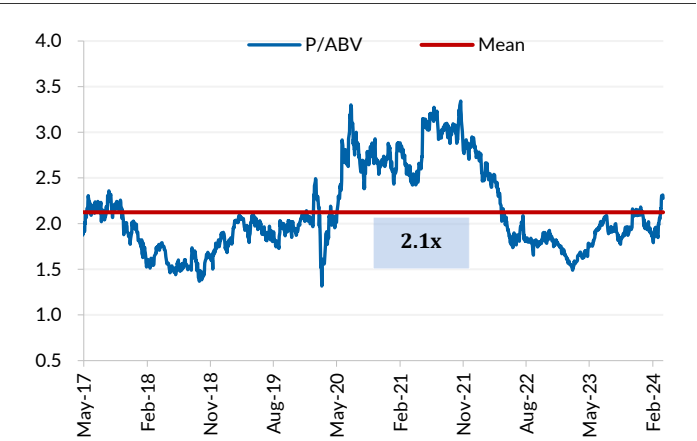
VALUATION CHARTS

Exhibit 1: MUTH IN- 1-yr rolling P/ABV band



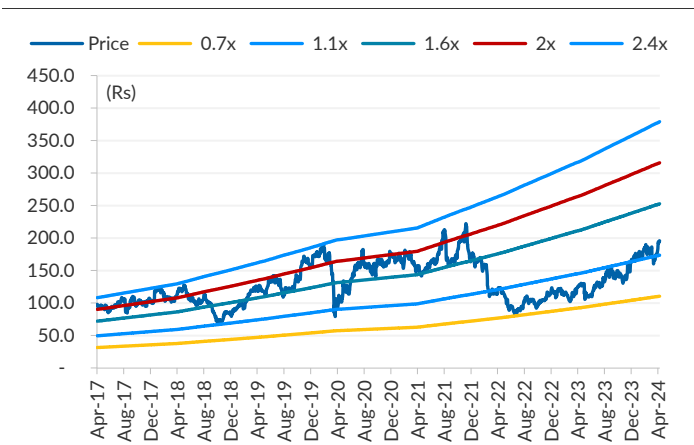
Source: Company, YES Sec

Exhibit 2: MUTH IN- 1-year rolling P/ABV vis-a-vis the mean



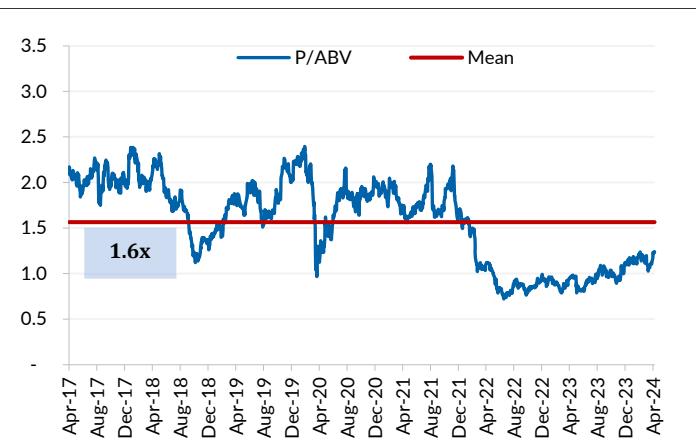
Source: Company, YES Sec

Exhibit 3: MGFL IN- 1-yr rolling P/ABV band



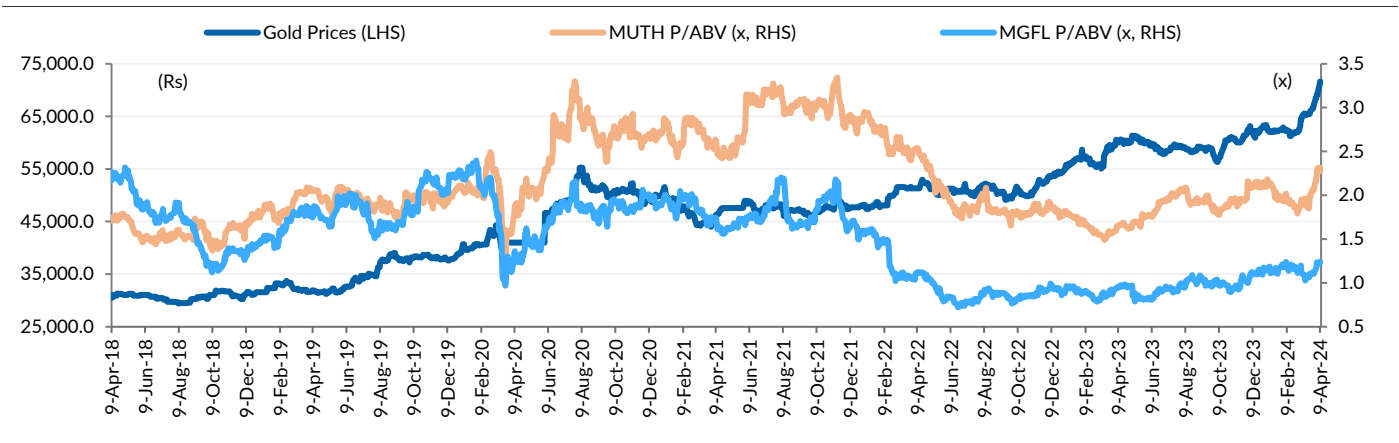
Source: Company, YES Sec

Exhibit 4: MGFL IN- 1-year rolling P/ABV vis-a-vis the mean



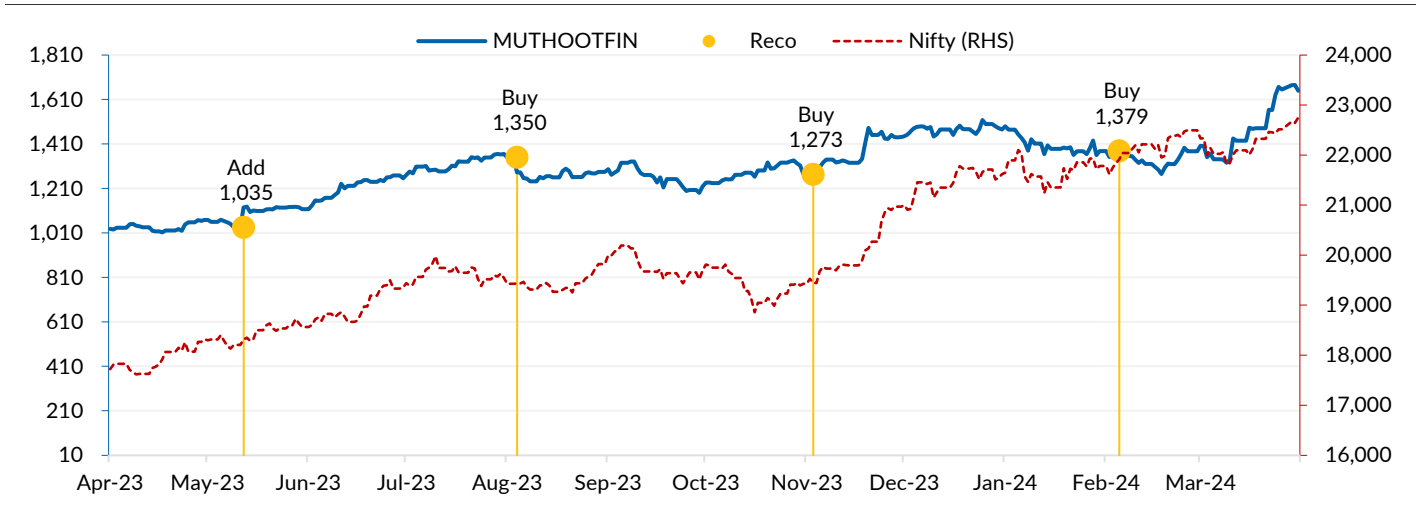
Source: Company, YES Sec

Exhibit 5: Positive Co-relation between Gold Price and valuations

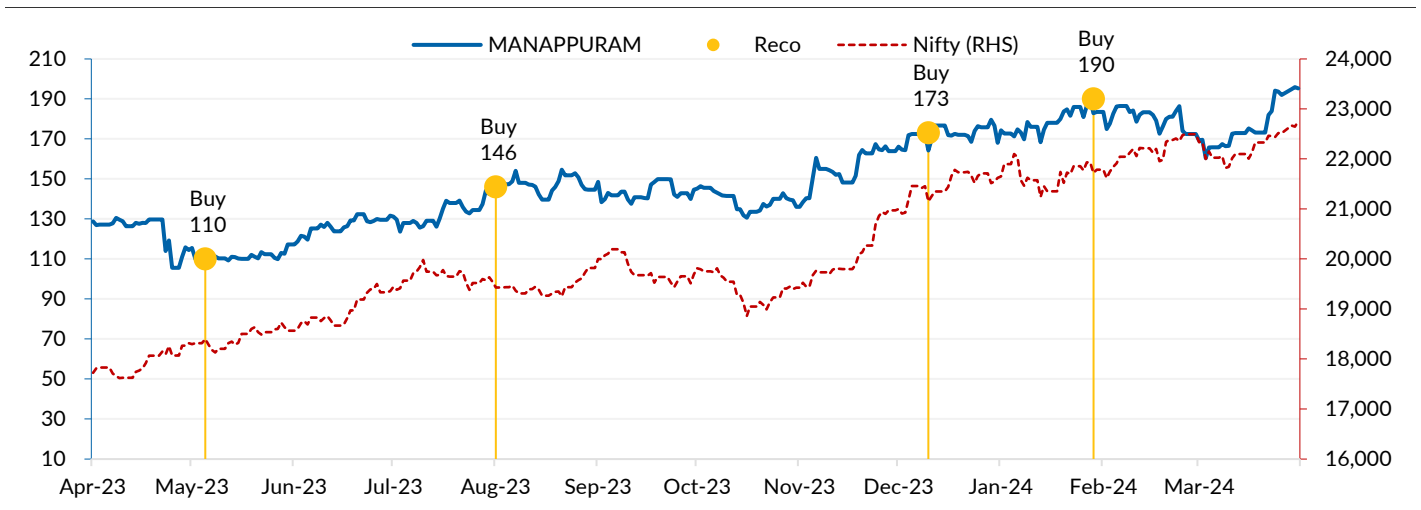


Source: Company, YES Sec

Recommendation Tracker - MUTH IN



Recommendation Tracker - MGFL IN



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