

Nov 15, 2024

RESULT REPORT Q2 FY25 | Sector: Financials

# Muthoot Finance Limited

## Solid RoE delivery led by Gold Loans

### Strong performance in Gold Loans; MFI and other products witness NPL spike

Muthoot Finance delivered a 5-6% NII/PPOP beat on our expectations aided by strong growth, yield improvement and operating leverage in the mainstay Gold Loans business (83% of AUM). Consolidated PAT was however in-line with our estimate with higher provisioning in Belstar MFI and other non-GL businesses (HF, VF, PL, BL, etc.). Consolidated RoA/RoE sequentially improved to 4.9%/20%.

Gold Loan portfolio grew by 6.5% qoq on the back of 3.9%/5.8% sequential growth in customer base/loan accounts and increase in gold prices during the quarter. The tonnage grew by 2.6% on qoq basis and the portfolio LTV was stable at 63%. Muthoot has witnessed significant improvement in customer acquisition over the past two quarters (H1 customer acquisition run-rate was 24% higher on yoy basis), which could be attributed to the regulatory embargo on a large competitor IIFL Finance between March and September and a material reduction in unsecured loans availability to the core gold loan customer segment (low-to-mid ticket). Gold Loans credit cost was elevated again in Q2 FY25 due to strong portfolio addition, increase in Stage-3 assets and improvement of overall ECL cover.

Belstar MFI book de-grew by 3.3% qoq with further curtailment of disbursement owing to the decline in collection efficiency (98.2% for H1 FY25 v/s 99% in H1 FY24). NPLs rose to 3.5% and the credit cost further increased decreasing profits to Rs526mn (after being aided by higher DA income). The Housing Finance and Vehicle Finance portfolios grew by 11% and 37% on sequential basis. NPLs increased by 40 bps in Vehicle Finance business.

### Growth guidance raised for gold loans; robust growth in housing and vehicle finance to continue

After growing the Gold Loans portfolio by 18% in H1 FY25, the co. has raised its annual growth guidance to 25% implying 6-7% further growth in H2 FY25. Management doesn't perceive any significant regulatory restrictions on the business conduct and assesses limited impact from the resumption of IIFL Finance. It expects demand for gold loans to remain strong with lesser availability of unsecured credit lines to the core customer segment and sees competitive intensity from PSU Banks lessening. A limited correction in gold price shouldn't preclude Muthoot from achieving its growth guidance. Co. see substantial opportunity in affordable housing finance and vehicle finance and expects strong growth momentum to continue. Belstar MFI is likely to come back on growth path from next year.

### Retain BUY with revised 12m PT of Rs2240

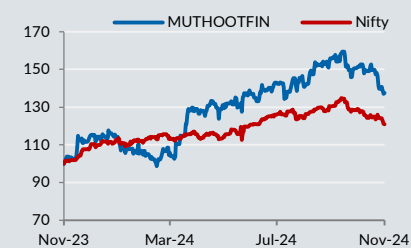
We estimate 16%/20% CAGR in consolidated AUM/PAT over FY24-27, after assuming stable gold prices, marginal LTV catch-up in Gold Loans, and recovery in Belstar MFI growth from FY26. The average RoA/RoE delivery is likely to be 5.1%/20% in the aforementioned period. Given a reasonably clear visibility of medium-term growth and RoE for Muthoot and considering asset quality/growth issues in many other NBFCs, we expect the stock to re-rate further. Muthoot is currently trading at palatable valuation multiples of 9.5x P/E and 1.8x P/ABV on FY27 estimates.

Reco	: BUY
CMP	: Rs 1,776
Target Price	: Rs 2,240
Potential Return	: +26.1%

#### Stock data (as on Nov 14, 2024)

Nifty	23,533
52 Week h/l (Rs)	2079 / 1262
Market cap (Rs/USD mn)	719704 / 8526
Outstanding Shares (mn)	401
6m Avg t/o (Rs mn):	1,126
Div. yield (%):	1.2
Bloomberg code:	MUTH IN
NSE code:	MUTHOOTFIN

#### Stock performance



	1M	3M	1Y
Absolute return	-8.9%	-2.2%	37.6%

#### Shareholding pattern

Promoter	73.4%
FII+DII	23.2%
Others	3.4%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	2,240	2,175

#### Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	132.5	169.0	188.8
EPS (Old)	133.5	163.7	-
% Change	-0.8%	3.2%	-

#### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Op. income	1,22,414	1,42,967	1,60,250
PPOP	85,463	1,00,524	1,12,323
Net profit	53,184	67,834	75,815
Growth (%)	19.0	27.5	11.8
EPS (Rs)	132.5	169.0	188.8
ABVPS (Rs)	722.9	856.9	1,010.8
P/E (x)	13.4	10.5	9.4
P/ABV (x)	2.5	2.1	1.8
ROE (%)	19.7	21.4	20.2
ROA (%)	4.9	5.3	5.3

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**MANUJ OBEROI**, Associate

## Exhibit 1: Result table

(Rs mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Total Operating Income	49,288	44,739	10.2	36,061	36.7
Interest expended	(18,070)	(15,945)	13.3	(13,350)	35.4
Net Interest Income	31,218	28,794	8.4	22,711	37.5
Other Income	286	186	53.5	258	10.7
Total Income	31,504	28,980	8.7	22,969	37.2
Operating expenses	(9,287)	(8,776)	5.8	(7,456)	24.6
PPOP	22,217	20,203	10.0	15,514	43.2
Provisions	(4,199)	(3,746)	12.1	(811)	417.5
PBT	18,018	16,457	9.5	14,702	22.6
Tax	(4,806)	(4,500)	6.8	(3,749)	28.2
PAT	13,212	11,957	10.5	10,953	20.6

Source: Company, YES Sec

## Exhibit 2: AUM Break-up

(Rs mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
AUM	10,41,492	9,80,479	6.2	7,94,934	31.0
Gold Loans (Parent)	8,61,636	8,09,219	6.5	6,75,171	27.6
Other Loans (Parent)	40,329	34,019	18.5	14,845	171.7
Home Finance	24,410	21,986	11.0	16,157	51.1
Belstar MFI	96,253	99,519	(3.3)	78,741	22.2
Muthoot Money	22,652	16,574	36.7	6,302	259.4
Asia Asset Finance	7,362	6,362	15.7	5,018	46.7
Less: Intra group loan assets	(11,150)	(7,200)		(1,300)	

Source: Company, YES Sec

## Exhibit 3: Key Ratios - Consolidated

Particulars	Q2 FY25	Q1 FY25	chg qoq	Q2 FY24	chg yoy
Op Income as % of Avg. AUM	19.5	19.1	0.4	18.5	1.0
Int. Expense as % of Avg. AUM	7.1	6.8	0.3	6.8	0.3
NII as % of Avg. AUM	12.4	12.3	0.0	11.6	0.7
Cost to Income (%)	29.5	30.3	(0.8)	32.5	(3.0)
Prov. as % of Avg. AUM	1.7	1.6	0.1	0.4	1.2
RoA (%)	5.7	5.4	0.4	5.8	(0.1)
Gross NPA (%) – Standalone	4.3	4.0	0.3	4.0	0.3

Source: Company, YES Sec

## Exhibit 4: Gold Loans Customer Matrix

Particulars	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Loans to inactive customers (no.)	428,114	4,08,758	4,38,350	4,63,390	4,43,335
Loans to new customers (no.)	360,620	3,34,868	3,73,073	4,57,097	4,34,044
Loans to exist. cust. on new coll. (no)	739,138	6,93,915	7,07,256	7,29,663	7,38,010
No of loan accounts	8,494,596	85,81,654	87,35,375	91,83,579	97,19,492
No of active Customers	5,502,779	55,53,823	56,77,274	59,10,268	61,38,997
GL AUM (In mn)	675,171	6,92,214	7,28,785	8,09,219	8,61,636
GL tonnage (tons)	183	184	188	194	199
GL / loan account (Rs.)	79,482	80,662	83,429	88,116	88,650
GL / active customers (Rs.)	122,696	1,24,637	1,28,369	1,36,917	1,40,355

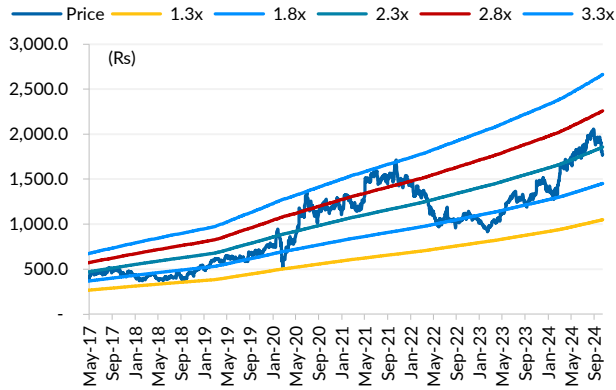
Source: Company, YES Sec

## Exhibit 5: Funding Mix

(%)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Secured NCD's (M. Gold bonds)	0.0	0.0	0.0	-	-
Secured NCDs Listed	24.4	28.8	27.9	28.0	27.2
Banks / FI's borrowings	65.4	61.6	63.0	55.0	57.2
ECB-senior secured notes	-	-	-	8.2	8.7
Sub-ordinated debt – listed	0.1	0.1	0.1	0.1	0.1
Commercial Paper (CP)	8.3	8.0	7.9	7.2	5.9
Other loans	1.8	1.5	1.2	1.6	0.9

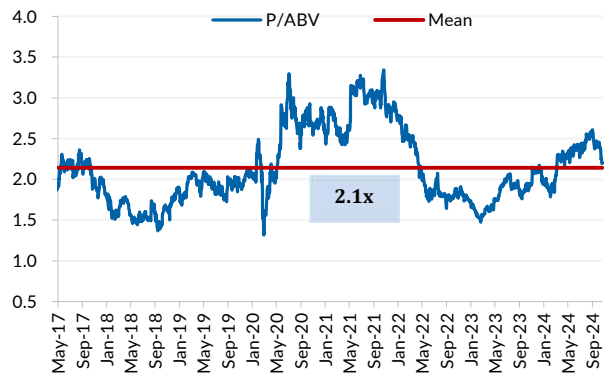
Source: Company, YES Sec

**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)	FY23	FY24	FY25E	FY26E	FY27E
Equity Capital	4,014	4,015	4,015	4,015	4,015
Reserves	2,12,643	2,47,057	2,86,210	3,40,014	4,01,797
<b>Shareholder's funds</b>	<b>2,21,528</b>	<b>2,57,540</b>	<b>2,96,693</b>	<b>3,50,496</b>	<b>4,12,280</b>
Current tax liabilities (net)	812	552	552	552	552
Provisions	3,619	3,733	3,733	3,733	3,733
Other non-financial liabilities	836	1,310	1,310	1,310	1,310
<b>Total Non-Financial liabilities</b>	<b>5,267</b>	<b>5,595</b>	<b>5,595</b>	<b>5,595</b>	<b>5,595</b>
Derivative financial instruments	1,922	139	139	139	139
Trade Payables	2,159	2,670	2,803	2,943	3,090
Debt Securities	1,46,046	1,74,762	2,25,443	2,46,860	2,69,078
Borrowings	4,05,975	5,00,520	6,45,670	7,07,009	7,70,640
Deposits	3,315	4,018	5,184	5,676	6,187
Subordinated Liabilities	2,547	3,310	4,270	4,675	5,096
Other Financial liabilities	12,732	16,141	20,822	22,800	24,852
<b>Total Financial liabilities</b>	<b>5,74,694</b>	<b>7,01,559</b>	<b>9,04,330</b>	<b>9,90,102</b>	<b>10,79,081</b>
<b>Total Equities and Liabilities</b>	<b>8,01,489</b>	<b>9,64,694</b>	<b>12,06,618</b>	<b>13,46,193</b>	<b>14,96,956</b>
<b>Assets</b>					
Cash and Bank Balances	80,357	62,720	76,785	89,179	96,751
Derivative financial instruments	-	-	-	-	-
Receivables	99	178	178	178	178
<b>Loans</b>	<b>7,05,544</b>	<b>8,81,872</b>	<b>11,09,176</b>	<b>12,35,770</b>	<b>13,78,341</b>
Investments	5,457	7,125	7,125	7,125	7,125
Other Financial Assets	3,453	4,136	4,343	4,560	4,788
<b>Total Financial assets</b>	<b>7,94,910</b>	<b>9,56,031</b>	<b>11,97,606</b>	<b>13,36,812</b>	<b>14,87,183</b>
Current tax assets (net)	475	725	797	877	965
Deferred tax assets (net)	641	976	976	976	976
Investment Property	82	91	91	91	91
Property, Plant and equipment	3,272	4,255	4,468	4,691	4,926
Other Intangible assets	1,176	1,356	1,356	1,356	1,356
Other non-financial assets	934	1,260	1,323	1,389	1,459
<b>Total Non-Financial assets</b>	<b>6,580</b>	<b>8,663</b>	<b>9,012</b>	<b>9,381</b>	<b>9,773</b>
<b>Total Assets</b>	<b>8,01,489</b>	<b>9,64,694</b>	<b>12,06,618</b>	<b>13,46,193</b>	<b>14,96,956</b>

Source: Company, YES Sec

## Exhibit 9: Income statement

Y/e 31 Mar (Rs. mn)	FY23	FY24	FY25E	FY26E	FY27E
Income from Operations	1,18,977	1,50,617	1,93,654	2,23,345	2,43,920
Interest expense	(42,092)	(54,301)	(72,251)	(81,490)	(84,893)
<b>Net interest income</b>	<b>76,885</b>	<b>96,316</b>	<b>1,21,403</b>	<b>1,41,855</b>	<b>1,59,027</b>
Non-interest income	773	1,011	1,011	1,112	1,223
Total op income	77,658	97,327	1,22,414	1,42,967	1,60,250
Total op expenses	(25,998)	(31,823)	(36,951)	(42,443)	(47,928)
<b>PPoP</b>	<b>51,660</b>	<b>65,503</b>	<b>85,463</b>	<b>1,00,524</b>	<b>1,12,323</b>
Provisions	(2,432)	(5,538)	(14,078)	(9,475)	(10,562)
Profit before tax	49,228	59,965	71,384	91,049	1,01,760
Taxes	(12,530)	(15,289)	(18,201)	(23,214)	(25,946)
<b>Net profit</b>	<b>36,698</b>	<b>44,676</b>	<b>53,184</b>	<b>67,834</b>	<b>75,815</b>

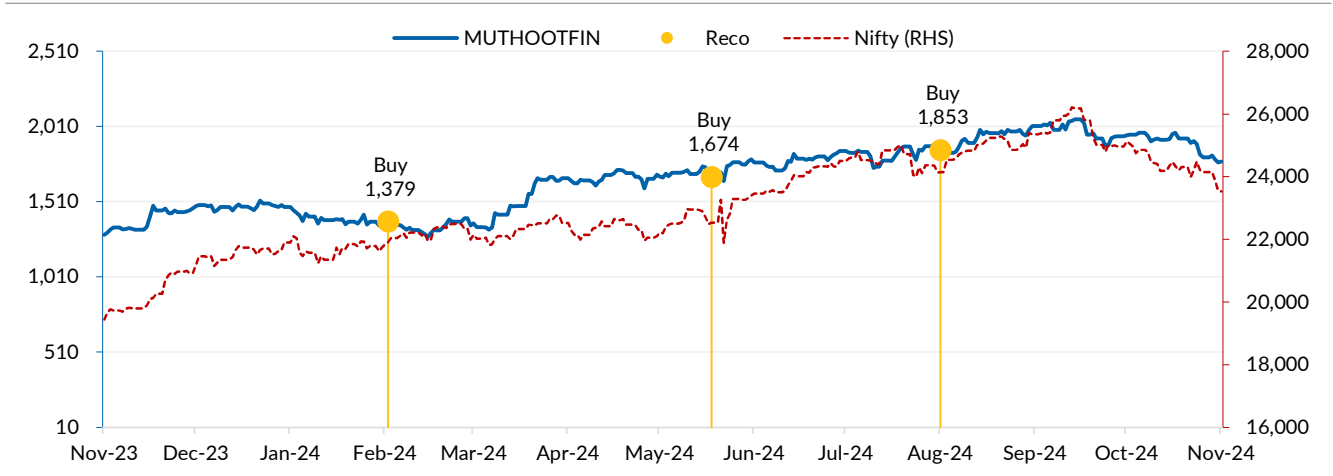
Source: Company, YES Sec

## Exhibit 10: Growth and Ratio matrix

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Net interest income	(3.0)	25.3	26.0	16.8	12.1
Total op income	(2.7)	25.3	25.8	16.8	12.1
Op profit (pre-provision)	(10.8)	26.8	30.5	17.6	11.7
Net profit	(9.0)	21.7	19.0	27.5	11.8
Loans	9.3	25.0	25.8	11.4	11.5
Borrowings	(0.6)	23.3	29.0	9.5	9.0
Total assets	5.0	20.4	25.1	11.6	11.2
<b>Profitability Ratios (%)</b>					
NIM	9.5	10.5	10.8	10.8	10.8
Non-int. Income/Total income	1.0	1.0	0.8	0.8	0.8
Return on Avg. Equity	18.1	19.1	19.7	21.4	20.2
Return on Avg. Assets	4.7	5.1	4.9	5.3	5.3
<b>Per share ratios (Rs)</b>					
EPS	91.4	111.3	132.5	169.0	188.8
ABVPS	539.7	625.4	722.9	856.9	1,010.8
DPS	22.0	24.0	30.0	30.0	30.0
<b>Other key ratios (%)</b>					
Cost/Income	33.5	32.7	30.2	29.7	29.9
Gross NPLs/Loans	3.8	3.3	2.2	2.2	2.2
Credit Cost (% of AUM)	0.4	0.7	1.4	0.8	0.8
Tax rate	25.5	25.5	25.5	25.5	25.5
Dividend yield	1.2	1.4	1.7	1.7	1.7

Source: Company, YES Sec

## Recommendation Tracker



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In adopting Rule 15a-6, the SEC sought "to facilitate access to foreign markets by U.S. institutional investors through foreign broker-dealers and the research that they provide, consistent with maintaining the safeguards afforded by broker-dealer registration." [Rule 15a-6 Adopting Release at 54 FR 30013; see also Registration Requirements for Foreign Broker-Dealers, Exchange Act Release No. 25801 (June 14, 1988), 53 FR 23645 (June 23, 1988)].

## DISCLOSURE OF INTEREST

Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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3	Research Analyst or his/her relative or YSIL has any other material conflict of interest at the time of publication of the research report	No
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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

Analyst signature

Analyst signature

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