

NCD Issue Note
Muthoot Finance Ltd

Issuer	Muthoot Finance Ltd
Issue	Public Issue of NCDs aggregating to Rs.500 crs with an option to retain oversubscription upto Rs.500 crs for issuance of additional NCDs.
Recommendation	SUBSCRIBE
Acceptance	ON FIRST COME FIRST SERVE BASIS
Issue Date	23 rd August 2011 – 5 th September 2011
Book Running Lead Manager	ICICI Securities, HDFC Bank, JM Financial, Kotak Mahindra, Yes Bank
Co Lead Managers	RR Investors Capital Services, Karvy
Registrar	Link In Time Pvt Ltd
Stock exchange proposed for listing	NSE
Trading lot	1 NCD
Depositories	NSDL and CDSL
Rating	AA-/Stable by CRISIL and ICRA AA- (stable) by ICRA
Sector	NBFC

Source: Company data, Nirmal Bang Research

Details of the issue

NCD Options	I	II	III
Tenor (in months)	24	36	60
Interest payment	Annual	Annual	Annual
Minimum Application	Rs 5,000	Rs 5,000	Rs 5,000
In Multiples of	Rs 1,000	Rs 1,000	Rs 1,000
Face Value of NCDs (Rs/NCD)	Rs 1,000	Rs 1,000	Rs 1,000
Individuals with application upto Rs 5 lakhs (60% of the issue size)			
Coupon	12.00%	12.25%	12.25%
Effective yield	12.00%	12.25%	12.25%
Individuals with application above Rs 5 lakhs (25% of the issue size)			
Coupon	12.00%	12.25%	12.25%
Effective yield	12.00%	12.25%	12.25%
Others (15% of the issue size)			
Coupon	11.75%	12.00%	12.00%
Effective yield	11.75%	12.00%	12.00%

Source: Company data, Nirmal Bang Research

Silky Jain – Research Analyst
 Ph –(022)-3926 8178
 E-Mail: silky.jain@nirmalbang.com

Background

Muthoot Finance Ltd (MFL) is a non-deposit taking NBFC (non-banking finance company) incorporated in 1997. It is the largest gold financing NBFC in India; engaged in the business of providing personal loans and business loans against used household jewellery. In 2001, MFL received the NBFC license from the RBI. Over the years the company has expanded its portfolio by expanding the branch network all over the India.

Currently it has the largest branch network among gold loan providers in India with 2,997 branches and a strong presence in the under-served rural and semi-urban markets. The main customers of MFL are typically small businessmen, vendors, traders, farmers and salaried individuals, who for reasons of convenience, accessibility or necessity, avail of company's credit facilities by pledging their gold jewellery rather than by taking loans from banks and other financial institutions. The company has maintained a stable NIM of between 10-12% over last few years. Even during the time of rising interest rates the company has managed to maintain a healthy NIM at around 10.5%. MFL has a market share of 19.5% amongst the top 10 organized players (organized players account for ~25% share of the market) as of FY 2011.

Objects of the Issue

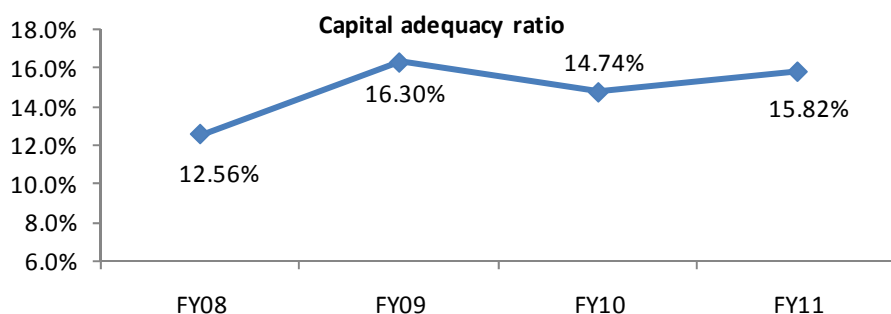
The funds raised will be used for various financing activities including lending and investments, to repay existing loans and for business operations and working capital requirement.

✓ **CRISIL and ICRA Rating**

The long term debt instruments of the company enjoy ratings of ICRA AA- (Stable) from ICRA and CRISIL AA-/Stable from CRISIL. Short term debt instruments have ratings of A1+ from CRISIL and A1+ from ICRA. The proposed NCD issues have been rated AA-/Stable by CRISIL which indicates high safety for timely payment of interest and principal on the NCDs. ICRA has given rating of AA- (Stable) which indicates high safety for timely servicing of debt obligations.

✓ **Capital Adequacy**

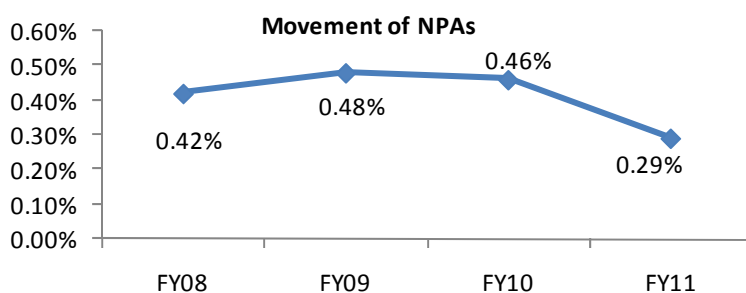
The capital adequacy ratio of MFL in FY11 is 15.82% as compared to RBI requirements of 15% indicating that if the company continues to grow its loan book and asset base it will be required to raise an additional capital. Tier I ratio stood at 10.62% in FY11.



Company data, Nirmal Bang Research

✓ **Asset quality**

MFL's asset quality has remained healthy with Gross NPAs at 0.46% and 0.29% as on FY10 and FY11 respectively.



Company data, Nirmal Bang Research

✓ **Debt to equity ratio**

The debt-equity ratio prior to this Issue is 5.41 times which is based on a total outstanding consolidated debt of Rs 11938.58 crs and consolidated shareholder funds amounting to Rs 2206.29 crs as on March 31, 2011. The debt equity ratio post the Issue, (assuming subscription of NCDs aggregating to Rs 1000 crs) would be 5.86 times which is on the higher side.

Recommendation:

We believe that the NCD from Muthoot Finance, which is one of the largest gold financing NBFCs in India, is a good long term/short term investment opportunity for investors as the returns are higher as compared to bank fixed deposits. The interest rate of 11.75%-12.25%, offered by this issue is higher than the rates offered by the commercial banks on their fixed deposits. The CRISIL AA-/Stable rated issue along with the creditworthiness of the issue and liquidity provided are some of the advantages which come with the issue. Moreover, as compared to the recently listed NCDs of SBI Capital, Tata Capital and Shriram Transport Yield to Maturity (YTM) on Muthoot Finance NCDs is much higher.

	SBI	Tata Cap	Shriram Transport	Manappuram Finance	Muthoot Finance
Rating	AAA/ Stable by CRISIL and CARE AAA by CARE	AA+ by CARE and LAA+ by ICRA	AA/Stable by CRISIL and CARE AA+ by CARE	CARE AA- by CARE and BWR AA- by BRICKWORKS	AA-/Stable by CRISIL and CARE AA-/Stable by CARE
Coupon Rate	9.75%	12.00%	11.60%	12.20%	12.25%
Principle amount/Face Value	10,000	1,000	1,000	1,000	1,000
Maturity	10 years	5 years	5 years	2 years	5 years
Redemption date	March 2021	March 2014	July 2016	Sept 2013	Sept 2013
Mode of Payment	Annual	Annual	Annual	Semi-Annual	Annual
Current price	10,770	1,085	1,025	N/A	N/A
Annualized Yield	9.18%	10.58%	11.44%	12.57%	12.25%

Source: Company data, Nirmal Bang Research

Key Concerns

- Change in interest rates**
 Increasing rates of interest, resulting from higher inflation are likely to have a negative effect on the price of the NCDs.
- Change in regulatory environment**
 The company is exposed to regulatory and geo-political risk. Any regulatory change by RBI may impact the company's growth prospects. Also the change in political power in South may bring about a change in policy like we saw in the MFI industry.
- Lack of liquidity**
 Though NCDs are listed on the stock exchange, there can be problem of liquidity for sale or purchase of NCDs on the exchange.
- Decline in gold prices**
 A sharp decline in the gold prices can create NPA issue for the company.

Income Statement

Rs. In crs.	FY 2006A	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011A
Interest income	143	224	358	606	1,078	2,298
Interest expense	65	100	180	310	474	1,033
Net interest income	78	124	178	296	604	1,266
Other income	5	10	11	14	12	18
Total income	83	134	189	311	616	1,283
Operating expenses	42	67	91	162	268	522
Operating profit	41	67	98	149	348	761
Provision for NPAs	0	0	1	1	2	0
Profit before tax	41	67	97	148	346	761
Taxes	14	23	33	51	118	267
Net profit	27	44	64	98	228	494
Adjustments	0	0	-1	0	-1	0
Net profit as restated	27	44	63	98	227	494

(Source: Company & Nirmal Bang Research)

Balance Sheet

Rs. In crs.	FY 2006A	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011A
Total cash and bank balances	24	24	58	194	463	1,375
Investments	12	24	18	9	8	8
Advances	795	1,389	1,805	2,574	5,462	11,752
Fixed assets	51	63	109	129	153	234
Other assets	59	108	296	854	355	595
Total assets	941	1,609	2,286	3,760	6,440	13,964
Secured Loans	737	1,312	1,840	3,009	4,547	10,211
Unsecured Loans	69	71	75	157	733	1,727
Other liabilities and provisions	44	67	157	233	575	691
Total liabilities	850	1,450	2,073	3,399	5,856	12,630
Equity capital	4	5	5	49	301	320
Reserve	86	154	208	312	283	1,014
Total liabilities and equity	941	1,609	2,286	3,760	6,440	13,964

(Source: Company & Nirmal Bang Research)

NOTE

Disclaimer

This Document has been prepared by Nirmal Bang Research (A Division of Nirmal Bang Securities PVT LTD). The information, analysis and estimates contained herein are based on Nirmal Bang Research assessment and have been obtained from sources believed to be reliable. This document is meant for the use of the intended recipient only. This document, at best, represents Nirmal Bang Research opinion and is meant for general information only. Nirmal Bang Research, its directors, officers or employees shall not in anyway be responsible for the contents stated herein. Nirmal Bang Research expressly disclaims any and all liabilities that may arise from information, errors or omissions in this connection. This document is not to be considered as an offer to sell or a solicitation to buy any securities. Nirmal Bang Research, its affiliates and their employees may from time to time hold positions in securities referred to herein. Nirmal Bang Research or its affiliates may from time to time solicit from or perform investment banking or other services for any company mentioned in this document