

Muthoot Finance

18 June 2020

Reuters: MUTT.BO; Bloomberg: MUTH IN

Robust performance; maintain BUY

Muthoot Finance (MFL) reported a robust 4QFY20 on the back of 22% YoY growth in loan assets. NII came in 3% higher than our estimate, growing by 29.5% YoY and 0.6% QoQ while operating profit and profit after tax came in 1% and 7% higher than our estimates, growing by 35.3% YoY and 59.4% YoY, respectively. Besides better yields (YoY), lower growth in opex and decline in provisioning helped report supernormal growth in profit (YoY). Spreads for the quarter stood at 14.74% compared to 15.39% in 3QFY20 and 12.75% in 4QFY19. We believe spreads are sustainable at 12-14% and the growth outlook is robust given that banks are likely to show aversion in terms of lending to the SME sector due to perceivably higher risks. We see this as an opportunity for gold financiers to sustain their growth momentum at a time when the system wide credit growth is likely to falter. While we are cognizant of the fact that gold finance is already attracting a lot of competition, we believe that the business requires special operational expertise given its low-ticket size and end-use. We therefore believe that MFL is strongly positioned from a growth standpoint. Liquidity remains comfortable and is likely to remain high in FY21, in line with the trend across the lending space. LTV stands at 52%, which leaves a huge cushion of safety for the company from an asset quality standpoint. Per se, on the key P&L items, MFL posted NII growth of 30% YoY at Rs15,806mn, PPOP growth of 35% YoY at Rs11,021mn and PAT growth of 59% YoY at Rs8,151mn. We have revised our estimates for FY21/FY22 and retained Buy rating on MFL, revising our target price to Rs1,173 (from Rs884 earlier) and valuing the stock at 2.6x FY22E P/BV. We believe the company can structurally deliver ROEs of 23-25% in the foreseeable future.

Gold loan growth was robust: Gold loan AUM stood at Rs407.7bn, up 21% YoY/8% QoQ. Growth was led by a combination of increase in prices and gold holdings. For the quarter, gold holding stood at 176 tonnes, up 4% YoY/2% QoQ. The management has guided for a 15% growth in gold loan AUM in FY21, but we are conservatively building in a 10% growth, which provides us buffer to revise our estimates upward as we progress through the year. The home loan portfolio stood at Rs19.8bn, up 4% YoY. Belstar Microfinance has reported an AUM of Rs26.3bn, up 43% YoY. Except for gold loans, lending is expected to be subdued in other segments.

Funding situation remains comfortable: Balance sheet liquidity continued to remain high during the quarter with cash forming 11% of the total assets compared to 5% last year and 6% last quarter. Management opined that despite a robust growth outlook for FY21, balance sheet liquidity is expected to remain elevated so as to provide comfort to the bankers. The company has not applied for a moratorium to its lenders. During the quarter, the company mobilized nearly Rs44bn worth of ECBs, accounting for 20.3% of the overall borrowings in 4QFY20 compared to 9.9% in 3QFY20. Share of CPs fell QoQ with a net reduction of Rs10.1bn. Cost of funds in money markets and NCDs is attractive while banks are yet to pass on the rate reduction benefits.

Valuation and outlook: We have revised our NII estimates by 1.1%/-1.2%, PPOP estimates by 1.2%/-2.1% and PAT estimates by 1.8%/-0.1% for FY21/FY22, respectively. We value the stock at 2.6x FY22E P/BV and revise our target price to Rs1,173 (from Rs884 earlier).

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BUY

Sector: NBFC

CMP: Rs1,000

Target Price: Rs1,173

Upside: 17%

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Key Data

Current Shares O/S (mn)	401.0
Mkt Cap (Rsbn/US\$bn)	400.9/5.3
52 Wk H / L (Rs)	1,012/477
Daily Vol. (3M NSE Avg.)	2,460,079

Price Performance (%)

	1 M	6 M	1 Yr
Muthoot Finance	28.7	39.8	60.7
Nifty Index	12.0	(19.2)	(15.5)

Source: Bloomberg

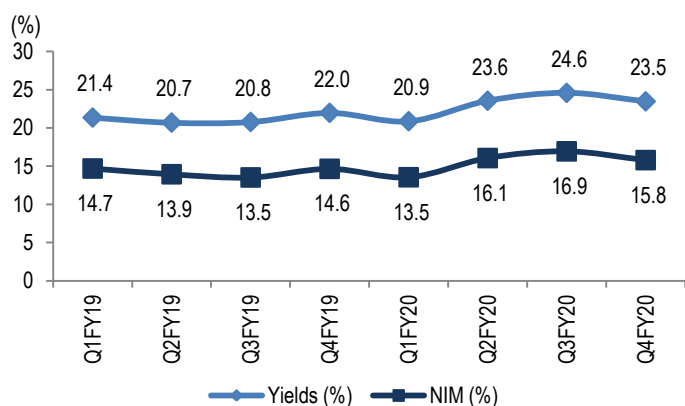
Y/E Mar (Rsmn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)
Interest Income	23,506	18,319	22,806	28.3	3.1
Interest Expenses	7,700	6,111	7,094	26.0	8.5
Net Interest Income	15,806	12,208	15,712	29.5	0.6
NIM (%)	15.78	14.64	16.93	114 bps	-115 bps
Fee & Other income	520	485	403	7.1	29.0
Total Income	16,326	12,694	16,115	28.6	1.3
Staff Cost	3,088	2,741	2,580	12.7	19.7
Other Op Exp	2,216	1,806	1,962	22.7	12.9
Total Operating Expenses	5,304	4,547	4,542	16.7	16.8
Cost to Income (%)	32.5	35.8	28.2	-333 bps	431 bps
Cost to AUM (%)	5.10	5.31	4.72	-21 bps	38 bps
Pre-Provisioning Operating Profit	11,021	8,147	11,573	35.3	-4.8
Provisions	48	205	612	-76.6	-92.2
Credit Cost (%)	0.05	0.25	0.65	-20 bps	-60 bps
PBT	10,974	7,942	10,961	38.2	0.1
Tax	2,822	2,827	2,809	-0.2	0.5
-effective tax rate	25.7	35.6	25.6	-988 bps	9 bps
PAT	8,151	5,115	8,152	59.4	0.0
Other Comprehensive Income	804	31	(146)	2,489.7	-649.6
Total Comprehensive Income	8,956	5,146	8,006	74.0	11.9
EPS (Rs)	20.3	12.8	20.3	59.2	0.0
BV (Rs)	288.5	244.4	284.3	18.1	1.5
AUM	416,106	342,461	384,982	21.5	8.1

Source: Company, Nirmal Bang Institutional Equities Research

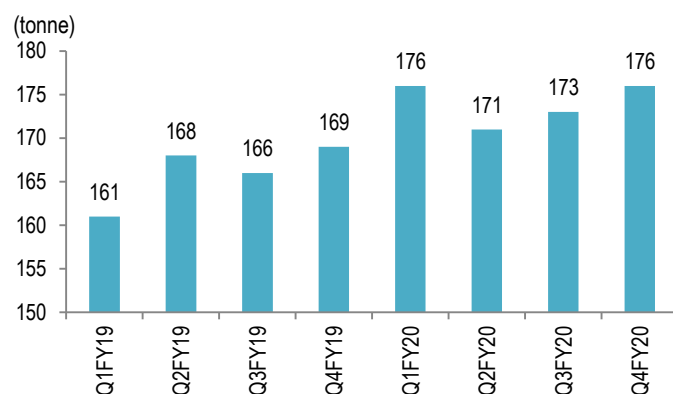
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Comprehensive Conference Call Takeaways

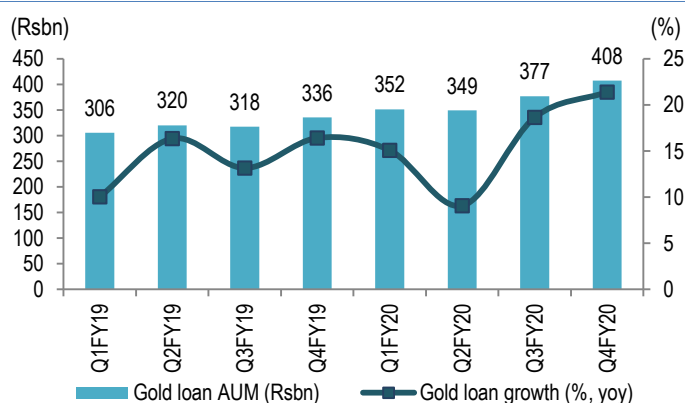
- Liquidity position is comfortable and there are no challenges in terms of raising funds. Despite high repayment rate, high liquidity is maintained since it is a reassurance to banks, MFs and other lenders.
- Due to calibrated growth in MFI, HFC and VFC subsidiaries expected over the next year, there would be no capital requirements.
- Current gold loan LTV stands at 52%. Gold loan growth guidance stands at 15%.
- April was a complete washout. Branches were opened April 20th onwards. While branches are currently operating with ~95% staff, customer footfall levels are 60-70% of pre-covid levels. Demand from gold loans is expected to increase with increase in economic activity.
- Focus is on maintaining margins and passing on cost of funds benefits to customers. Due to large collections in FY20, there may be some compression in yields but the company expects to maintain yields at current levels.
- The company did not apply for moratorium with its lenders.
- There were no moratorium requests from gold loan customers. No moratorium was provided to VF/MFI/HF customers till 31st March 2020.
 - Of the 22,000 HFC customers, 6,000 are currently under moratorium. 1Q provisions for HFC are expected at ~Rs150mn.
 - For April/May, moratorium was extended to all MFI customers, but the company received repayment from 16% customers in April and 35% customers in May. ~65% MFI customers are expected to repay in June.
 - Muthoot Money has witnessed significant increase in collections and situation is expected to ease further going forward.
- Gold auctions were impacted due to lockdown and have been postponed currently.
- Despite decrease in RBI rates, banks have not reduced their rates significantly. The company could raise resources from money markets and NCDs, where rates have declined.
- Historically, there have been cycles which have witnessed entry of multiple big players (including banks & NBFCs) into gold loans. However, this is an operationally challenging business which has to be built from the ground up. More competition is expected to help increase the overall gold loan market size.

Exhibit 1: Yields, NIMs (%)


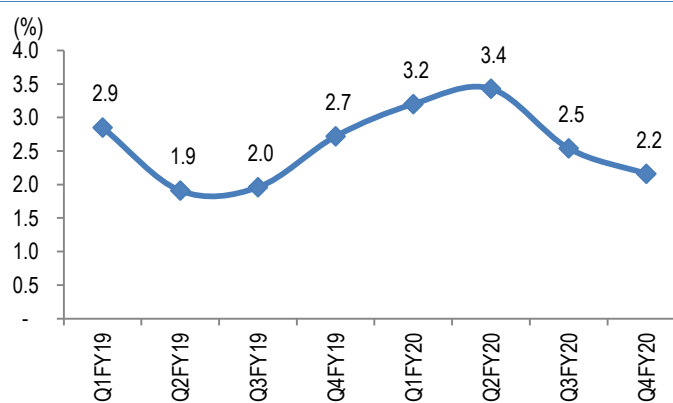
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Gold holdings (tonnage)


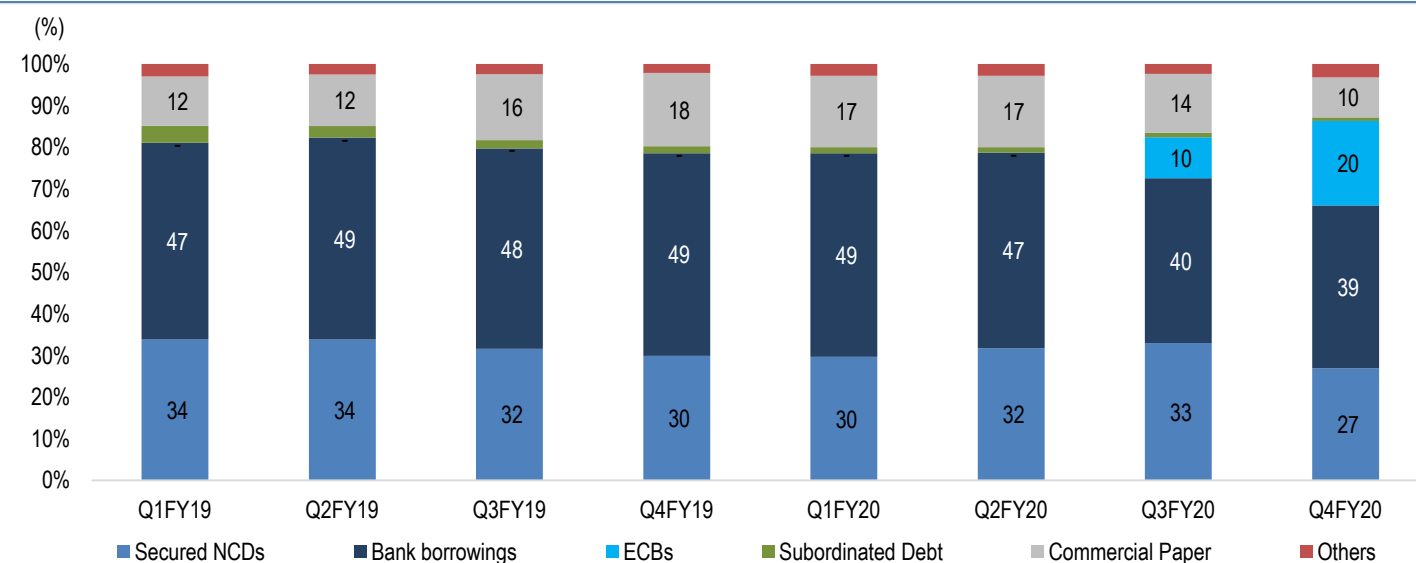
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Gold AUM (Rsbn)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Gross stage 3 assets (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Borrowings profile (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net interest income	42,707	45,202	57,735	63,649	72,929
Pre-provisioning operating profit	30,843	31,044	41,531	45,429	52,524
PAT	17,776	19,721	30,183	32,563	38,375
EPS (Rs)	44.4	49.2	75.3	81.2	95.7
BV (Rs)	195.3	244.4	288.5	362.5	451.0
P/E (x)	22.5	20.3	13.3	12.3	10.5
P/BV (x)	5.1	4.1	3.5	2.8	2.2
Gross NPAs (%)	4.4	2.7	2.1	2.7	2.2
Net NPAs (%)	3.7	2.3	1.9	2.2	1.9
RoA (%)	5.8	5.7	6.8	6.2	6.7
RoE (%)	24.8	22.4	28.3	24.9	23.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Actual performance versus our estimates

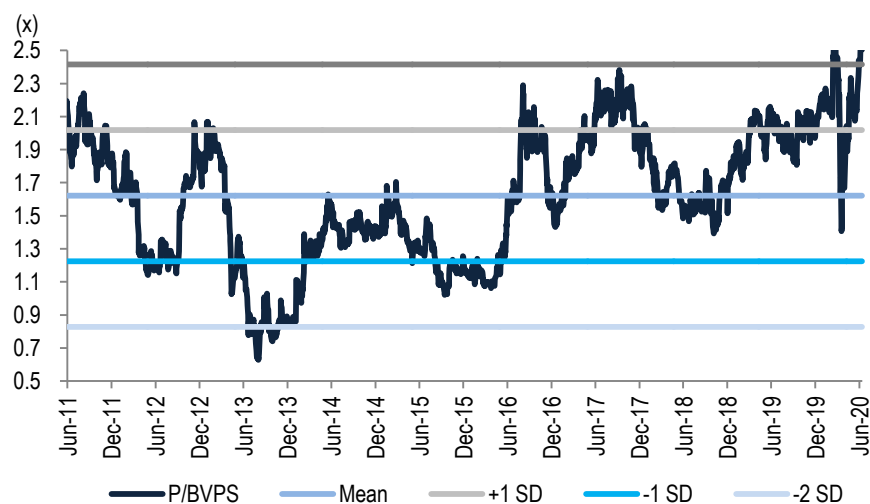
(Rsmn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	Q4FY20E	Devi. (%)
Net interest income	15,806	12,208	15,712	29.5	0.6	15,291	3.4
Pre-provisioning operating profit	11,021	8,147	11,573	35.3	(4.8)	10,868	1.4
PAT	8,151	5,115	8,152	59.4	(0.0)	7,612	7.1

Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 8: Change in our estimates

	Revised Estimate		Earlier Estimate		% Revision	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (Rsmn)	63,649	72,929	62,946	73,851	1.1	-1.2
Net Interest Margin (%)	14.2	14.5	14.2	14.4	2 bps	12 bps
Operating Profit (Rsmn)	45,429	52,524	44,893	53,665	1.2	-2.1
Profit after tax (Rsmn)	32,563	38,375	31,975	38,431	1.8	-0.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: One-year forward P/BV


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 10: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Interest income	62,021	67,570	85,644	96,437	107,002
Interest expenses	19,314	22,368	27,909	32,788	34,073
Net interest income	42,707	45,202	57,735	63,649	72,929
Non-interest income	1,310	1,236	1,584	1,640	1,886
Net revenues	44,017	46,438	59,319	65,290	74,815
Operating expenses	13,174	15,394	17,787	19,861	22,292
-Employee expenses	7,824	8,976	10,290	11,614	13,220
-Other expenses	5,350	6,419	7,498	8,247	9,072
Pre-provisioning operating profit	30,843	31,044	41,531	45,429	52,524
Provisions	2,397	275	957	2,011	1,357
PBT	28,447	30,768	40,574	43,418	51,167
Tax	10,671	11,047	10,391	10,854	12,792
PAT	17,776	19,721	30,183	32,563	38,375

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY21E
Share capital	4,000	4,007	4,010	4,010	4,010
Reserves & surplus	74,120	93,921	111,708	141,378	176,859
Net worth	78,120	97,927	115,718	145,388	180,870
Borrowings	211,670	268,332	371,300	382,439	405,386
Other liability & provisions	18,132	14,428	17,578	14,924	14,054
Total liabilities	307,923	380,687	504,597	542,752	600,310
Fixed assets	2,062	2,154	2,565	2,822	3,104
Investments	3,954	9,826	14,383	18,698	19,633
Loans	295,068	349,329	426,042	468,646	538,943
Cash	4,870	17,355	56,405	46,865	32,337
Other assets	1,968	2,023	5,201	5,721	6,293
Total assets	307,923	380,687	504,597	542,752	600,310

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

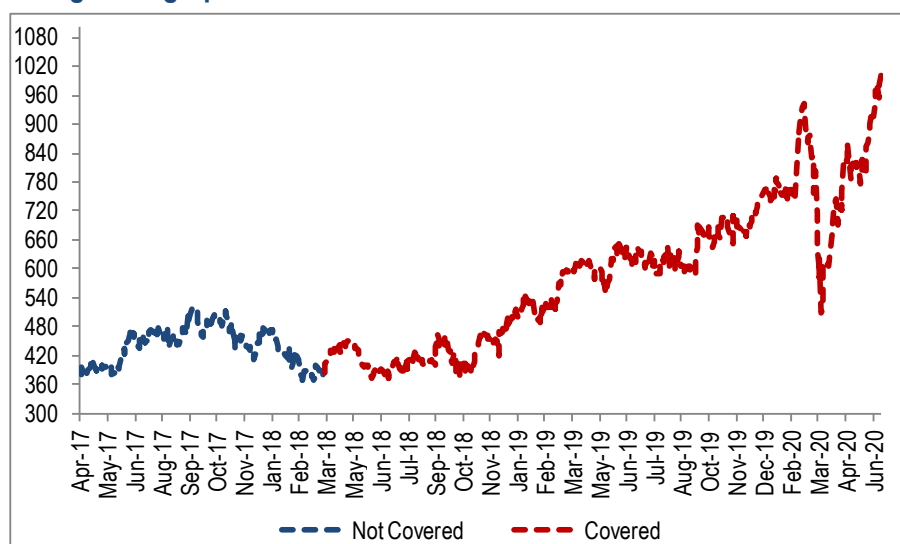
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Growth (%)					
Net interest income	22.5	5.8	27.7	10.2	14.6
Operating profit	36.1	0.6	33.8	9.4	15.6
Profit after tax	45.8	10.9	53.0	7.9	17.8
Business (%)					
Advances growth	5.5	18.4	22.0	10.0	15.0
Spread (%)					
Yield on loans	21.6	21.0	22.1	21.6	21.2
Cost of borrowing	9.2	9.3	8.7	8.7	8.7
Spread	12.4	11.7	13.4	12.9	12.6
NIM	14.9	14.0	14.9	14.2	14.5
Operational efficiency (%)					
Cost-to-income	29.9	33.2	30.0	30.4	29.8
Cost-to-assets	4.6	4.8	4.6	4.4	4.4
CRAR (%)					
Tier I	25.5	25.6	25.6	24.6	25.1
Tier II	0.8	0.4	0.4	0.4	0.4
Total	26.3	26.1	26.1	25.0	25.5
Asset quality (%)					
Gross NPA / Stage 3	4.4	2.7	2.1	2.7	2.2
Net NPA / Net Stage 3	3.7	2.3	1.9	2.2	1.9
Specific PCR / Stage 3 PCR	14.8	13.9	17.0	17.0	15.0
Credit Costs / Asset Provisions	0.9	0.4	0.5	0.4	0.3
Return ratios (%)					
RoE	24.8	22.4	28.3	24.9	23.5
RoA	5.8	5.7	6.8	6.2	6.7
Per share (%)					
EPS	44.4	49.2	75.3	81.2	95.7
BV	195.3	244.4	288.5	362.5	451.0
ABV	167.9	224.4	268.5	336.3	425.9
Valuation (x)					
P/E	22.5	20.3	13.3	12.3	10.5
P/BV	5.1	4.1	3.5	2.8	2.2
P/ABV	6.0	4.5	3.7	3.0	2.3

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	381	471
18 May 2018	Buy	441	485
6 September 2018	Buy	437	514
9 October 2018	Buy	380	501
10 December 2018	Buy	471	547
7 February 2019	Buy	485	558
8 April 2019	Acc	617	653
14 May 2019	Buy	547	670
8 July 2019	Buy	626	721
13 August 2019	Buy	600	720
23 September 2019	Buy	631	858
7 October 2019	Buy	665	874
14 November 2019	Buy	650	877
8 January 2020	Buy	746	879
17 February 2020	Buy	747	909
27 March 2020	Buy	621	884
9 April 2020	Buy	687	884
18 Jun 2020	Buy	1,000	1,173

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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