

Mixed performance; pick-up in growth to be key...

About the stock: Muthoot Finance is a leading gold financier in India with standalone AUM of ₹ 57731 crore as on December 2022.

- It has a large footprint across India with 4600+ gold lending branches
- The company also has a presence in other lending segments like microfinance, housing, vehicle finance via its subsidiaries

Q3FY23 Results: Muthoot Finance reported a mixed performance.

- Consolidated AUM was up 7% YoY with standalone AUM up 6% YoY
- NII up 8.4% QoQ, NIMs up 82 bps QoQ at 11.9%, C/I steady at ~28%
- Provision was at ₹ 56 crore vs. reversal of ₹ 13 crore in Q2FY23. PAT grew 4% QoQ at ₹ 902 crore
- Stage-3 assets up 91 bps QoQ to 2.58%. Gold auctions 0.4% of total loans

What should investors do? Muthoot Finance's share price has grown ~2.5x in the past five years. We expect steady margins but concerns on growth remain an overhang amid intense competition from banks/NBFCs.

- Thus, we maintain our **HOLD** rating on the stock

Target Price and Valuation: Rolling to FY25E, we value the core business (gold loan) at ~1.8x FY25E ABV and assign ₹ 40 to subsidiaries, maintaining our target price to ₹ 1150.

Key triggers for future price performance:

- Growth guidance in gold loans expected at ~5-6% for FY23; expect growth to pick up at ~10% in FY24E
- Traction in non-gold segment to contribute to overall AUM. Expect contribution of non-gold AUM to increase gradually at 15-20% ahead
- Yields have started moving upwards, though at a slower pace. The management focused on maintaining NIMs steady
- Intense competition from banks/NBFCs may put near term pressure on growth

Alternate Stock Idea: Apart from Muthoot, in our coverage we like CSB Bank.

- CSB Bank has gold and SME as its key loan segments. Change in business strategy has led to an improved performance in the past few years
- BUY with a target price of ₹ 300



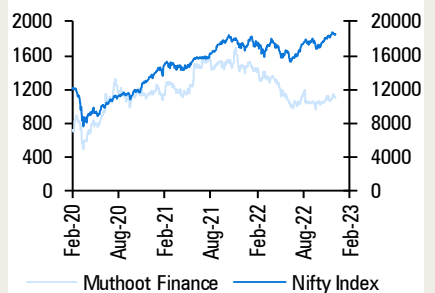
Particulars

Particulars	Amount
Market Capitalisation	₹ 40582 crore
52 week H/L	1469 / 950
Net Worth	2,01,392
Face value	₹ 10

Shareholding Pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	73.4	73.4	73.4	73.4	73.4
FII	13.7	12.1	11.0	9.9	10.0
DII	8.5	9.7	10.5	11.8	12.0
Others	4.5	4.8	5.2	5.0	4.6

Price performance



Key Highlights

- Margin increased 82 bps QoQ to ~12%. Stage-3 assets up 91 bps QoQ to 2.58%
- **Key Risk:** 1) Intense competitive environment to impact yields; 2) Steady NIMs to aid earnings

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Key Financial Summary

₹ crore	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
NII	5773	6636	7120	16%	6599	7525	8794	7%
PPP	4153	5101	5436	21%	4619	5214	6098	4%
PAT	3018	3722	3954	26%	3419	3840	4470	4%
ABV (₹)	268.5	369.8	419.9		484.1	553.8	628.1	
P/E	13.5	11.0	10.3		11.9	10.6	9.1	
P/ABV	3.8	2.8	2.4		2.1	1.8	1.6	
RoE (%)	28.3	27.8	23.5		17.5	17.4	17.9	
RoA (%)	6.8	6.5	5.9		4.8	5.2	5.5	

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Mixed set of numbers; NIMs inch up

- NII grew 8.4% QoQ aided by expansion in NIMs. NIMs during the quarter increased 82 bps QoQ to 11.86% as teaser rates are completely behind. Other income was up 68.3% QoQ (50.4% YoY)
- Operating expenses were largely steady (partly attributed to decline in employee count). As a result, C/I ratio steady at ~28% QoQ (vs. 24% in Q3FY23)
- Provisions during the quarter came in at ₹ 56 crore vs. provision reversal of ₹ 13 crore in Q2FY23. On a YoY basis also, provision declined 37.4%. On a QoQ basis, PAT grew slower by 4% whereas on a YoY basis it registered de-growth of 12.4% at ₹ 902 crore
- Asset quality deteriorated as gross stage 3 assets increase from 1.67% in Q2FY23 to 2.58% in Q3FY23
- AUM growth (standalone) came in at 6% YoY to ₹ 57731 crore while consolidated AUM was up 7% YoY at ₹ 65084 crore. Sequentially, there was growth of ~1% on a standalone and consolidated basis. The management outlook on growth & margins would need to be watched
- Performance of key subsidiaries was mixed as Belstar, the MFI arm, reported healthy AUM growth of 39% YoY, 4% QoQ to ₹ 53409 crore and asset quality has improved led by stage 3 assets (as percentage of net loans) at 7.40% vs. 8.52% in Q2FY23. However, home finance Stage 3 assets were steady QoQ at 4.4% with ~1% QoQ, 11% YoY decline in AUM

Q3FY23 Earnings Conference Call highlights

- Growth seen at 4-6% in FY23E and 10% YoY for FY24E. Double digit growth to return in the next three to four quarters
- In non-gold segment, management focus on home finance, vehicle finance, SME, personal loans and MFI
- Out of 150 branches to be added by March 2023, ~100 were added by December 2022 with remaining to be added by March 2023. Next year also the company is planning to add ~150 new branches
- Currently, the non-gold segment comprises ~12-13% of total AUM. The management guided that the proportion to increase to 15-20% in the next three to four years
- Incremental CoF to increase to ~8.5% level from current 8.13%
- Auctions for the quarter were ₹ 222 crore, which is 0.4% of total loans
- Average ticket size was ₹ 70000

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)				
	(₹)	TP(₹)		Rating	(₹ bn)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E
HDFC (HDFC)	2,678	3,150	Buy	4,892	66.7	75.8	86.7	100.0	40.2	35.3	30.9	26.8	4.4	4.0	3.6	3.2	12.3	12.0	12.3	12.6
Bajaj Finserv (BAFINS)	1,351	1,625	Buy	2,152	35.2	52.7	43.1	56.5	38.3	25.6	31.3	23.9	3.1	2.7	4.6	3.8	8.3	11.1	15.7	17.4
Bajaj Finance (BAJFI)	6,159	7,250	Buy	3,729	73.6	116.8	198.5	229.7	83.7	52.7	31.0	26.8	10.3	8.7	7.1	5.9	12.8	17.5	24.2	22.9
Muthoot Finance (MUT)	1,034	1,150	Hold	405	92.8	98.5	86.8	94.8	11.1	10.5	11.9	10.9	2.8	2.5	2.1	1.9	27.8	23.5	17.8	17.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
NII	1,704	1,837	1,886	-9.6	1,572	8.4	Partly aided by margin expansion of 82 bps QoQ
NIM (%)	11.86	12.33	13.74	-188 bps	11.04	82 bps	Yield up 84 bps QoQ to 18.2%
Other Income	49	32	32	50.4	29	68.3	
Net Total Income	1,753	1,869	1,918	-8.6	1,601	9.5	
Staff cost	277	326	255	8.9	269	2.8	CI ratio largely steady at ~28%
Other Operating Expenses	213	266	197	8.2	183	16.8	
PPP	1,262	1,277	1,467	-13.9	1,149	9.9	
Provision	56	30	89	-37.4	-13	NA	
PBT	1,207	1,247	1,378	-12.4	1,161	3.9	
Tax Outgo	305	318	349	-12.5	294	3.7	
PAT	902	929	1,029	-12.4	867	4.0	Subdued business growth impact earnings
Key Metrics							
GNPA	1,490	1,004	2,091	-28.8	956	55.8	
AUM	57,731	60,322	54,688	5.6	57,230	0.9	
Borrowings	44,305	48,706	47,123	-6.0	46,810	-5.4	CoF to increase to 8.5% level in coming quarters

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	6,536	6,599.1	1	7,973	7,525.1	-6	8,793.8
Pre Provision Profit	4,544	4,618.6	2	5,650	5,213.8	-8	6,097.9
NIM(%) (calculated)	10.0	10.4	35 bps	11.0	11.0	2 bps	11.7
PAT	3,386	3,419.4	1	4,169	3,839.5	-8	4,469.5
ABV per share (₹)	482	484.1	0	557	553.8	-1	628.1

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	6.0	10.0	12.0	10.0	12.0
NIM Calculated (%)	10.4	11.0	11.7	10.0	11.0
Cost to income ratio (%)	31.3	31.9	31.8	31.8	30.4
GNPA (₹ crore)	15,384.1	14,214.9	15,920.7	15,964.6	15,019.5
NNPA (₹ crore)	13,076.5	11,940.5	13,373.4	13,569.9	12,616.4
Credit cost (%)	0.1	0.2	0.2	0.1	0.1

Source: Company, ICICI Direct Research

Exhibit 5: SOTP

Company	Value / share
Muthoot (Standalone, gold business)	1.8x FY25E Adj. Networth 1111
Belstar	1.2x FY25E Adj. Networth 15
Home finance	1.1x FY25E Adj Networth 15
Others	20
Total subsidiaries val @20% discount	39
SOTP target	1150

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Interest Earned	10,956.0	10,642.0	11,692.9	13,333.8
Interest Expended	3,835.8	4,042.9	4,167.8	4,539.9
Net Interest Income	7,120.3	6,599.1	7,525.1	8,793.8
growth (%)	7.3	(7.3)	14.0	16.9
Non Interest Income	142.4	127.6	134.1	147.6
Net Income	7,262.6	6,726.7	7,659.2	8,941.4
Staff cost	1,030.2	1,184.7	1,374.3	1,601.1
Other operating Expense	796.0	923.4	1,071.1	1,242.5
Operating Profit	5,436.4	4,618.6	5,213.8	6,097.9
Provisions	127.0	59.4	94.4	138.5
PBT	5,309.4	4,559.2	5,119.4	5,959.4
Taxes	1,355.1	1,139.8	1,279.8	1,489.8
Net Profit	3,954.3	3,419.4	3,839.5	4,469.5
growth (%)	6.2	(13.5)	12.3	16.4
EPS (₹)	98.5	85.2	95.7	111.4

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Valuation				
No. of Equity Shares (Crores)	40.1	40.1	40.1	40.1
EPS (₹)	98.5	85.2	95.7	111.4
BV (₹)	457.1	516.7	583.5	661.4
ABV (₹)	419.9	484.1	553.8	628.1
P/E	10.3	11.9	10.6	9.1
P/BV	2.2	2.0	1.7	1.5
P/ABV	2.4	2.1	1.8	1.6
DPS (Rs.)	19.7	21.3	23.9	27.8
Yields & Margins (%)				
Net Interest Margins	12.0	10.4	11.0	11.7
Yield on assets	18.8	16.7	17.2	17.7
Avg. cost on borrowings	8.0	8.2	8.2	8.2
Quality and Efficiency (%)				
Cost to income ratio	25.1	31.3	31.9	31.8
Borrowings to loans %	83.3	77.5	76.3	74.6
GNPA	3.0	2.5	2.1	2.1
NNPA	2.5	2.1	1.7	1.7
RoE	23.5	17.5	17.4	17.9
RoA	5.9	4.8	5.2	5.5

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Capital	401	401	401	401
Reserves and Surplus	17943	20334	23019	26144
Networth	18345	20736	23420	26546
Borrowings	49811	48796	52857	57874
Other Liabilities & Provisions	2399	1718	1441	1841
Total	70555	71250	77718	86261
Application of Funds				
Fixed Assets	309	340	374	412
Investments	1320	1511	1662	1861
Advances	59384	62947	69242	77551
Cash and Bank	9179	5665	5539	5429
Other assets	362	787	900	1008
Total	70555	71250	77718	86261

Source: Company, ICICI Direct Research

Exhibit 9: Growth				
	%			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total assets	11.2	1.0	9.1	11.0
Advances	9.8	6.0	10.0	12.0
Net interest income	7.3	-7.3	14.0	16.9
Operating expenses	2.6	15.4	16.0	16.3
Operating profit	6.6	-15.0	12.9	17.0
Net profit	6.2	-13.5	12.3	16.4
Net worth	20.4	13.0	12.9	13.3

Source: Company, ICICI Direct Research

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