

Sustained growth, new product remain key drivers...

About the stock: Muthoot Finance is a leading gold financier in India with standalone AUM of ₹ 63209 crore as on March 2023.

- It has a large footprint across India with 4700+ gold lending branches
- The company also has a presence in other lending segments like microfinance, housing, vehicle finance via its subsidiaries

Q4FY23 Results: Steady performance with a gradual revival in growth.

- Consolidated AUM up 9% YoY with standalone AUM up 8% YoY
- NII up 8.7% QoQ, NIMs up 40 bps QoQ at 12.3%, C/I ratio up at ~33%
- Provision at ₹ 75 crore vs. ₹ 56 crore QoQ. PAT was flat QoQ at ₹ 903 crore
- Stage-3 assets increased QoQ to 3.8%. ECL provision at 1.2% of total loans

What should investors do? Muthoot Finance's share price has grown ~2.5x in the past five years. AUM growth has witnessed a revival but we remain watchful on how growth pans out in coming quarters amid competition from banks and other NBFCs.

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

Target Price and Valuation: We value the core business (gold loan) at ~1.8x FY25E ABV and assign ₹ 39 to subsidiaries, maintaining our target price to ₹ 1150.

Key triggers for future price performance:

- The management growth guidance has been revised upwards to ~15% YoY, which would be led by non-gold segment (15-20% share in total AUM)
- Intense competition from banks/NBFCs continues to remain a key challenge for AUM growth
- Launch of new products (small business loans and personal loans) through leverage of existing customers to aid business growth & diversification
- Branch addition & business promotion activities to keep CI ratio elevated. Yield improvement to aid NIMs and thus earnings growth. Expect RoA to be 5-6% over FY23-25E

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 ₹ 330



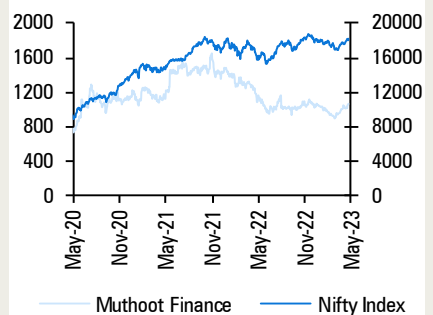
Particulars

Particulars	Amount
Market Capitalisation	₹ 41539 crore
52 week H/L	1212 / 911
Net Worth	21,062
Face value	₹ 10

Shareholding Pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	73.4	73.4	73.4	73.4	73.4
FII	12.1	11.0	9.9	10.0	9.4
DII	9.7	10.5	11.8	12.0	12.7
Others	4.8	5.2	5.0	4.6	4.6

Price performance



Key Highlights

- Margin increased 40 bps QoQ to ~12.2%. Stage-3 assets up QoQ to 3.8%
- **Key Risk: 1)** Competitive intensity could impact growth; 2) Improvement in NIMs to aid earnings

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Key Financial Summary

₹ crore	FY21	FY22	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
NII	6636	7120	6669	5%	7737	8907	16%
PPP	5101	5436	4727	4%	5458	6251	15%
PAT	3722	3954	3474	5%	3985	4535	14%
ABV (₹)	369.8	419.9	473.8		544.6	618.6	
P/E	11.1	10.5	12.0		10.4	9.2	
P/ABV	2.8	2.5	2.2		1.9	1.7	
RoE (%)	27.8	23.5	17.6		17.7	17.8	
RoA (%)	6.5	5.9	4.9		5.2	5.3	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: AUM growth revives coupled with NIM expansion

- NII grew 8.7% QoQ aided by expansion in NIMs. NIMs during the quarter increased 40 bps QoQ to 12.3%. Other income was up 43.3% QoQ (86.5% YoY)
- Operating expenses increased (partly attributed to increase in employee count and branch addition) resulting in increase in C/I ratio of 235 bps YoY, 485bps QoQ at ~33%
- Provisions during the quarter came in at ₹ 75 crore vs. ₹ 56 crore in Q3FY23. On QoQ basis, PAT was steady at ₹ 903 crore QoQ, whereas on YoY basis it registered a de-growth of 6%
- Asset quality deteriorated as gross stage 3 assets increase from 2.58% in Q3FY23 to 3.79% in Q4FY23
- AUM growth (standalone) came in at 9% YoY to ₹ 632098 crore while consolidated AUM was up 11% YoY at ₹ 714968 crore. Sequentially, there was growth of 9% & 10% on a standalone and consolidated basis
- Performance of key subsidiaries continued to remain mixed as Belstar, the MFI arm, reported healthy AUM growth of 42% YoY, 16% QoQ to ₹ 61925 crore and asset quality has improved significantly led by stage 3 assets (as percentage of net loans) at 2.43% vs. 7.40% in Q2FY23. However, home finance Stage 3 assets were largely steady QoQ at ~4% with ~2% QoQ rise in AUM.

Q4FY23 Earnings Conference Call highlights

- Guidance – Gold loan growth at ~15% YoY, aim to add 26 branches in home finance segment and overall branch expansion to be 150-200 branches
- The revival in AUM growth was led by new campaigns at the branch level and pickup in economic activity resulting in increased demand for gold loans
- Impact of rise in gold price was lower than expected
- Opex was marginally higher on account of 20% increase in employee benefits expense due to employee addition of ~1000 and increase in salary
- During the quarter, the company launched multiple new products including small business loans and personal loans in order to leverage existing customer base as a one-stop financial services provider
- Wholesale disbursements increased by 53% QoQ to ₹ 84 crore
- The company's collection efficiency for the quarter was at 99%
- Average Ticket Size of loan was around ₹ 70,000

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap (₹ bn)	EPS (₹)				P/E (x)				P/ABV (x)			RoE (%)					
	(₹)	TP(₹)		Rating	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
HDFC (HDFC)	2,711	3,200	Buy	4,998	75.8	88.5	95.0	105.0	35.8	30.6	28.5	25.8	4.1	3.7	3.3	2.9	12.0	12.8	12.2	11.9
Bajaj Finserv (BAFINS)	1,415	1,600	Buy	2,255	52.8	38.5	49.3	59.4	26.8	36.8	28.7	23.8	2.8	4.9	4.2	3.5	11.2	14.1	15.6	16.1
Bajaj Finance (BAJFI)	6,784	7,250	Buy	4,107	116.8	195.4	240.0	298.3	58.1	34.7	28.3	22.7	9.6	7.6	6.2	5.1	17.5	23.9	23.9	23.5
Muthoot Finance (MUTFIN)	1,034	1,150	Hold	415	98.5	86.5	99.3	113.0	10.5	12.0	10.4	9.2	2.5	2.2	1.9	1.7	23.5	17.6	17.7	17.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	1,853	1,846	1,720	7.7	1,704	8.7	Partly aided by revival in AUM growth and NIM expansion
NIM (%)	12.26	12.25	12.21	5 bps	11.86	40 bps	Yield up 26 bps QoQ to 18.5%
Other Income	70	52	37	86.5	49	43.3	
Net Total Income	1,923	1,899	1,758	9.4	1,753	9.7	
Staff cost	370	320	313	18.2	277	33.6	Higher opex due to increase in staff count and branch addition
Other Operating Expenses	261	257	222	17.4	213	22.4	
PPP	631	576	536	17.9	491	28.7	
Provision	1,292	1,322	1,222	5.7	1,262	2.3	Topline growth offset by elevated opex
PBT	75	49	-70	-207.6	56	35.2	
Tax Outgo	1,216	1,273	1,292	-5.8	1,207	0.8	
PAT	314	325	332	-5.4	305	2.8	
	903	949	960	-6.0	902	0.1	Provision write up act as base YoY
Key Metrics							
GNPA	2,399	834	1,737	38.1	1,490	61.0	Stage 3 assets stood at 3.8% vs 2.6% in Q3FY23
AUM	63,210	61,270	58,053	8.9	57,731	9.5	
Borrowings	49,763	51,308	49,870	-0.2	44,305	12.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	7,525	7,737.2	3	8,794	8,907.3	1
Pre Provision Profit	5,214	5,457.6	5	6,098	6,251.5	3
NIM(%) (calculated)	11.0	11.0	-9 bps	11.7	11.2	-44 bps
PAT	3,840	3,985.2	4	4,470	4,535.4	1
ABV per share (₹)	554	544.6	-2	628	618.6	-2

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
Credit growth (%)	12.0	13.5	10.0	12.0
NIM Calculated (%)	11.0	11.2	11.0	11.7
Cost to income ratio (%)	31.2	31.5	31.9	31.8
GNPA (₹ crore)	23,362.3	25,712.7	14,214.9	15,920.7
NNPA (₹ crore)	19,858.0	21,855.8	11,940.5	13,373.4
Credit cost (%)	0.2	0.3	0.2	0.2

Source: Company, ICICI Direct Research

Exhibit 5: SOTP

Company	Value / share
Muthoot (Standalone, gold business)	1.8x FY25E Adj. Networth 1110
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	FY23	FY24E	FY25E
Interest Earned	10,956.0	10,368.6	12,081.3	13,775.5
Interest Expended	3,835.8	3,699.1	4,344.2	4,868.2
Net Interest Income	7,120.3	6,669.5	7,737.2	8,907.3
growth (%)	7.3	(6.3)	16.0	15.1
Non Interest Income	142.4	175.1	191.7	214.5
Net Income	7,262.6	6,844.6	7,928.9	9,121.8
Staff cost	1,030.2	1,199.4	1,415.3	1,655.9
Other operating Expense	796.0	918.2	1,055.9	1,214.3
Operating Profit	5,436.4	4,727.0	5,457.6	6,251.5
Provisions	127.0	60.5	144.0	204.2
PBT	5,309.4	4,666.4	5,313.7	6,047.2
Taxes	1,355.1	1,192.9	1,328.4	1,511.8
Net Profit	3,954.3	3,473.5	3,985.2	4,535.4
growth (%)	6.2	(12.2)	14.7	13.8
EPS (₹)	98.5	86.5	99.3	113.0

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Valuation				
No. of Equity Shares (Crores)	40.1	40.1	40.1	40.1
EPS (₹)	98.5	86.5	99.3	113.0
BV (₹)	457.1	524.6	594.0	673.0
ABV (₹)	419.9	473.8	544.6	618.6
P/E	10.5	12.0	10.4	9.2
P/BV	2.3	2.0	1.7	1.5
P/ABV	2.5	2.2	1.9	1.7
DPS (Rs.)	19.7	21.6	24.8	28.2
Yields & Margins (%)				
Net Interest Margins	12.0	10.3	11.0	11.2
Yield on assets	18.8	16.4	17.1	17.3
Avg. cost on borrowings	8.0	8.2	8.3	8.4
Quality and Efficiency (%)				
Cost to income ratio	25.1	30.9	31.2	31.5
Borrowings to loans %	83.3	77.5	76.3	74.6
GNPA	3.0	3.8	3.3	3.2
NNPA	2.5	3.2	2.8	2.7
RoE	23.5	17.6	17.7	17.8
RoA	5.9	4.9	5.2	5.3

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	401	401	401	401
Reserves and Surplus	17943	20660	23447	26619
Networth	18345	21062	23849	27020
Borrowings	49811	49734	54944	60965
Other Liabilities & Provisions	2399	1824	1974	2855
Total	70555	72620	80767	90841
Application of Funds				
Fixed Assets	309	336	369	406
Investments	1320	1317	1727	1961
Advances	59384	64265	71977	81694
Cash and Bank	9179	6429	5758	5719
Other assets	362	274	936	1062
Total	70555	72620	80767	90841

Source: Company, ICICI Direct Research

Exhibit 9: Growth				
	%			
(Year-end March)	FY22	FY23	FY24E	FY25E
Total assets	11.2	2.9	11.2	12.5
Advances	9.8	8.2	12.0	13.5
Net interest income	7.3	-6.3	16.0	15.1
Operating expenses	2.6	16.0	16.7	16.1
Operating profit	6.6	-13.0	15.5	14.5
Net profit	6.2	-12.2	14.7	13.8
Net worth	20.4	14.8	13.2	13.3

Source: Company, ICICI Direct Research

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