

Muthoot Finance Ltd.

Accumulate

Sector: NBFC

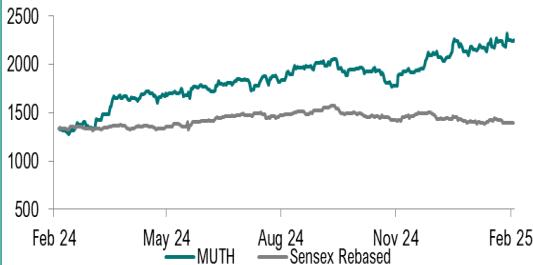
 20th February 2025

Key Changes		Target	▲	Rating	●	Earnings	▲	Target	Rs.2,512
Stock Type	Bloomberg Code	Sensex		NSE Code	BSE Code	Time Frame		CMP	Rs.2,269
Mid Cap	MUTH:IN	75,939		MUTHOOTFIN	533398	12 Months		Return	+11%

Data as of: 19-02-2025

Company Data			
Shareholding (%)	Q1FY25	Q2FY25	Q3FY25
Promoters	73.4	73.4	73.4
FII's	8.7	9.8	10.3
MFs/Institutions	14.5	13.3	12.9
Public	3.4	3.5	3.4
Total	100.0	100.0	100.0
Price Performance	3 Month	6 Month	1 Year
Absolute Return	18.6%	18.6%	68.4%
Absolute Sensex	-1.1%	-5.9%	4.4%
Relative Return	19.8%	24.5%	64.0%

*over or under performance to benchmark index



Y.E March (cr)	FY25E	FY26E	FY27E
NII	9,992	12,262	13,945
Growth (%)	28.2	22.7	13.7
NIM(%)	11.1	11.1	11.4
Provisions	829	820	881
PAT Adjusted	4,962	6,270	7,218
Growth (%)	22.5	26.4	15.1
Adjusted EPS	124	156	180
Growth (%)	22.5	26.4	15.1
BVPS	703	831	983
Adj BVPS	703	831	983
P/E	18.0	14.2	12.4
P/B	3.2	2.7	2.3
Adj. P/B	3.2	2.7	2.3
ROE(%)	18.9	20.4	19.8

Gold Loans Thrive as Unsecured Lending Slows

Muthoot Finance, India's largest NBFC in gold loans by loan portfolio, operates over 6,759 branches nationwide. Besides gold loans, it offers various loans, insurance, money transfer services, and gold coin sales through its subsidiaries.

- The consolidated loan AUM, grew by 34%YoY to Rs. 1,11,308 cr in Q2FY25, primarily driven by the growth in standalone gold business.
- The gold loan portfolio increased to Rs. 92,964 cr, registering a 34% YoY growth. This was supported by accelerated demand for gold loans, especially during the festive season, and a slowdown in unsecured lending.
- The expansion of branch network and the increasing adoption of our digital platform further strengthened customer engagement.
- Asset quality in the gold book improved marginally, with the Gross loan asset stage 3 ratio standing at 4.2% in Q3FY25, down from 4.3% in Q2FY25. Auctions during the quarter were Rs. 600mn vs Rs. 2500mn Q2FY25.
- The gold loan business reported a current yield of 18.62%, earning Rs. 4,369 cr as interest income. Net Interest Income (NII) stood at Rs. 2,721 cr, showing a 43% YoY growth in Q3FY25.

Outlook & Valuation

We anticipate continued outperformance in the gold loan segment in the near term. The expansion of gold loans through the subsidiary, Muthoot Money, combined with elevated gold prices and a slowdown in unsecured lending options, is expected to support growth. Credit costs have increased by 23 bps YoY, primarily due to substantial provisions resulting from a less aggressive auction policy. With rising gold prices, asset quality risks remain limited. Considering the favourable outlook for gold, we value the consolidated entity at 2.4 times FY26E BVPS. We maintain our "Accumulate" rating with a rolled-forward target price of Rs. 2,512 based on the SOTP valuation method.

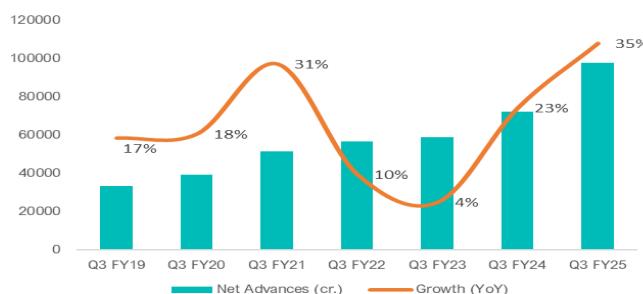
Quarterly Financials Consol.

Rs.cr	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Net Interest Income(NII)	2,721	1,906	42.8	2,518	8.1	7,544	5,658	33.3
Total Income	2,784	1,964	41.7	2,576	8.1	7,718	5,844	32.1
Expenditure	72	57	27.2	66	9.6	203	171	18.9
Pre-Provision Profit	2,059	1,394	47.7	1,915	7.5	5,690	4,137	37.5
Provision	209	14	1,419.2	207	0.8	639	112	471.8
PBT	185	138	34.1	171	8.3	505	403	25.5
Reported PAT	1,363	1,027	32.7	1,251	8.9	3,693	2,993	23.4
Adjusted PAT	1,363	1,027	32.7	1,251	8.9	3,693	2,993	23.4
Diluted EPS(Rs)	34.0	25.6	32.7	31.2	8.9	92.0	74.6	23.4

Key concall highlights

- Microfinance:** Assets Under Management (AUM) decreased to Rs. 9,221cr reflecting an 8% decline. Management emphasized their ongoing focus on strengthening collections and enhancing the loan book quality.
- Partnerships:** Collaborated with PhonePe and Google Pay for lead generation in various loan categories. This collaboration is expected to further drive growth and performance.
- Muthoot Money:** Pivoting to gold loans due to unprofitable vehicle finance business. Management indicated that the vehicle finance business was not profitable, prompting this strategic shift.
- RBI Circular (regarding gold loan lending practices):** management stated that no changes were required in their processes.
- Gold loan business:** The expansion of gold loans through the subsidiary, which operates 1,000 branches, along with elevated gold prices and a slowdown in unsecured lending options, is expected to support medium-term growth.

Net Advances



Gold AUM



Net Interest Income



PAT



SOTP

Segments	Basis	Multiple	% holding	Value (Rs. cr.)	Value/ share (Rs.)
a) Muthoot Finance (Gold segment)	FY27E P/Bk	2.5x	100	98,974	2,465
b) Total value of subsidiaries				2,322	57
Homefin	FY27E P/Bk	1.0x	100	606	15
Belstar (MFI)	FY27E P/Bk	1.0x	64	1,298	32
Muthoot Insurance Brokers	FY27E P/E	10x	100	419	10
c) 20% holding discount					11
Total Value(a+b-c)				1,00,941	2,512

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs cr.	FY25E	FY26E	FY25E	FY26E	FY27E	FY25E
Net Interest Income (NII)	9,204	10,795	9,992	12,262	13,945	8.6
Net Interest Margin (%)	10.9	11.2	11.1	11.1	11.4	0bps
Pre-Provision Profit	6,711	7,933	7,507	9,236	10,569	11.9
Adj. PAT	4,854	5,771	4,962	6,270	7,218	2.2
Diluted EPS (Rs)	121	144	124	156	180	2.1
						8.5

Consolidated Financials

Profit & Loss

Y.E March (Rs cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	10,369	12,448	16,288	19,873	21,999
Interest Expense	3,699	4,655	6,296	7,611	8,054
Net Int. Income	6,669	7,793	9,992	12,262	13,945
Change(%)	-6.3	16.8	28.2	22.7	13.7
Non Int. Income	175	246	277	378	418
Total Income	6,845	8,039	10,269	12,639	14,363
Change(%)	-5.8	17.5	27.7	23.1	13.6
Operating Exp.	2,118	2,393	2,762	3,404	3,794
Pre Prov. Profit	4,727	5,647	7,507	9,236	10,569
Prov. & Conting.	61	198	829	820	881
PBT	4,666	5,449	6,678	8,416	9,688
Change(%)	-12.1	16.8	22.6	26.0	15.1
Tax	1,193	1,399	1,716	2,146	2,470
Tax Rate (%)	26	26	26	26	26
Reported PAT	3,474	4,050	4,962	6,270	7,218
Adj*	0	0	0	0	0
Adj. PAT	3,474	4,050	4,962	6,270	7,218
Change(%)	-12.2	16.6	22.5	26.4	15.1
No. of shares (Cr)	40	40	40	40	40
EPS (Rs)	87	101	124	156	180
Change(%)	-12.2	16.6	22.5	26.4	15.1
DPS (Rs)	22	24	26	28	28

Balance Sheet

Y.E March (Rs cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash	6,429	5,037	1,879	5,249	5,719
Loans & Advances	64,265	77,001	1,04,920	1,17,077	1,25,876
Investments	1,317	2,268	4,138	3,272	4,114
Gross Fixed Assets	540	681	798	933	1077
Net Fixed Assets	268	346	391	444	493
CWIP	67	88	80	98	113
Intangible Assets	4	4	5	7	9
Def. Tax (Net)	40	33	40	50	58
Other Assets	230	251	314	328	352
Total Assets	72,620	85,028	1,11,767	1,26,525	1,36,734
Deposits	49,734	58,783	81,145	90,677	94,719
Other Liabilities	1,472	1,607	1,993	2,049	2,140
Provisions	352	348	420	445	428
Equity Capital	401	401	401	401	401
Reserves & Surplus	20,660	23,889	27,807	32,953	39,046
Shareholder's Funds	21,062	24,290	28,208	33,354	39,448
Total Liabilities	72,620	85,028	1,11,767	1,26,525	1,36,734
BVPS (Rs)	525	605	703	831	983
Change(%)	14.8	15.3	16.1	18.2	18.3
Adj. BVPS (Rs)	525	605	703	831	983
Change(%)	14.8	15.3	16.1	18.2	18.3

Ratios

Y.E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profitab. & Return					
Interest yield (%)	17.7	17.9	18.0	18.1	18.0
Cost of funds (%)	7.8	8.5	8.8	8.9	8.5
Spread.(%)	9.9	9.4	9.2	9.1	9.5
NIM (%)	11.4	11.2	11.1	11.1	11.4
ROE (%)	17.9	18.1	18.9	20.4	19.8
ROA(%)	5.1	5.1	5.0	5.3	5.5
Business Growth (YoY)					
Gold Loan AUM (%)	8.9	20.0	36.3	11.0	8.6
Microfinance AUM (%)	41.8	61.9	-8.0	7.0	5.0
Total AUM (%)	8.9	20.0	36.3	11.0	8.6
Operating Ratios					
Cost to Income (%)	30.9	29.8	26.9	26.9	26.4
Cost to AUM (%)	3.6	3.4	3.1	3.1	3.1
Asset Quality					
GNPA (%)	3.8	3.3	4.3	3.0	3.5
ECL Provision (%)	3.5	2.9	3.8	2.6	3.1
Capital Adequacy					
CAR (%)	31.8	30.4	26.0	27.5	30.1
Valuation ratios					
P/E (x)	17.1	22.1	18.0	14.2	12.4
P/B (x)	2.8	3.7	3.2	2.7	2.3
Adj. P/B (x)	2.8	3.7	3.2	2.7	2.3

Recommendation Summary (last 3 years)



Dates	Rating	Target
10.Oct.24	Accumulate	1,935
20.Feb.25	Accumulate	2,512

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

Symbols definition:



Upgrade



No Change



Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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