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Financial
MUTH IN
533398

Healthy Loan Growth Amid Margin Pressure

1QFY20 Result Update

- NII has grown at 8% YoY driven by healthy AUM growth of 16%. The C/I ratio has remained stable at 33%. Operating profit along with PAT has grown at the rate of 8% YoY. NIM has declined from 14.68% to 13.54% YoY.
- AUM has grown at 16% YoY, the growth in the gold loan is at 15% while that of other loans has grown at the rate of 49% YoY. Average gold loan per branch standing at Rs 7.81 Cr.
- Stage 3 has increased to 3.2% from 2.72% QoQ while ECL provision has increased to 1.93% from 1.86% QoQ. Credit cost has declined from 25 bps to 4 bps QoQ.
- The average monthly collection stood at Rs 6000 Cr which provided it with adequate liquidity back up to support additional growth. Average monthly disbursement stood at Rs 6500 Cr.

Healthy AUM Growth

AUM has grown at 16% majorly driven by the gold loan segment by 15%. The gold holdings have increased to 176 tones highest of all quarter. The rallying gold prices will provide scope for room improvement however management conservatively has increased the margin of safety from 32% to 36% QoQ. The Other loan is just debt funding to the subsidiaries like Muthoot money and Muthoot home finance. Management has guided to continue its loan growth at 15% YoY, given a favorable liquidity scenario it may further rise by another 2-3%.

Detrioration in Asset Quality

The auction during the year stood at Rs 340 Cr with Rs 204 Cr QoQ. Management says it will recover the entire default by providing some extra months for repayment to its customer. ECL in Stage 1 & 2 stood at Rs 531 Cr and Stage 3 stood at Rs 158 Cr. Management has Rs 120 Cr of outstanding provision in the books. Bad debts written off during the quarter stood at only 1 bps.

NII & NIM Remained Moderate

NII has grown at 5% driven by AUM growth of 16% YoY. Margin has declined by 114 bps to 13.54%. Spreads have declined by 99 bps to 11.70%. Both rise in the cost of funds and the fall in yields have contributed to the margin pressure. The cost of the fund has risen by 51 bps to 9.17% due to the liquidity crisis, while yield has declined due to incremental disbursement in the low interest and low tenure segment from 21.35% to 20.87%.

View and Valuation

Muthoot finance has been growing at a 15% consistency for couple of quarters. It is not much affected by the liquidity crisis due to Rs 6000 Cr of heavy monthly collection. However management is not able to access funding for incremental growth thus it is resorting to retail NCD. Management is confident of maintaining a margin in the 13% range. There has been some spike in the asset quality that management is confident of resolving going ahead. It states that asset quality will not be affected by the flood situation in different parts of the country. Management remains cautious in the blooming environment (Gold prices trending at an all-time high) & resorted to 30 months moving average. We remain slightly cautious due to scarcity of liquidity in the sector & decrease our estimate by 6% for FY20. We maintain ACCUMULATE on the stock P/B 2x FY21 at Rs 705.

Key Risks to our rating and target

- Monsoon Performance will affect rural consumption.
- Gold prices fluctuation may hamper margin safety thus rising riskiness

RATING	ACCUMULATE
CMP	620
Price Target	705
Potential Upside	14%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	657/357
Mkt Capital (Rs Cr)	24864
Free float (%)	26%
Avg. Vol 1M (,000)	897
No. of Shares (Crs)	40
Promoters Pledged %	-

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	4641	5171	5931
PPP	3104	3524	4088
PAT	1972	2204	2522
NIM %	14.6	14.1	14.2
EPS (Rs)	49	55	63
EPS growth (%)	11	12	14
ROE (%)	22.4	20.6	19.9
ROA (%)	5.7	5.4	5.3
BV	245	291	344
P/B (X)	2.5	2.1	1.8
P/E (x)	12.6	11.2	9.8

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Healthy Growth

1QFY20 Results

In Line with Expectation

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,626	1,644	1,711	1,880	1,857	14.2%	-1.2%	6,267	6,878	9.8%
Interest Exp.	502	535	589	611	642	27.9%	5.0%	1,931	2,237	15.8%
NII	1,124	1,109	1,122	1,269	1,215	8.1%	-4.2%	4,335	4,641	7.1%
Other Income	7	6	6	1	2	-73.7%	1068%	67	2	-96.4%
Total Income	1,131	1,115	1,128	1,269	1,217	7.6%	-4.1%	4,402	4,644	5.5%
Ope Exp.	374	367	344	455	397	6.3%	-12.7%	1,317	1,539	16.9%
PPP	758	748	784	815	820	8.2%	0.6%	3,084	3,104	0.6%
Provisions	3	3	2	20	3	24.3%	-83.9%	240	28	-88.5%
PBT	755	745	782	794	817	8.2%	2.8%	2,845	3,077	8.2%
Tax	263	261	297	283	287	9%	1.4%	1,067	1,105	3.5%
Extra Items	-	-	-	-	-					
Net Profit	492	484	485	512	530	7.8%	3.6%	1,778	1,972	11%

Concall Highlights

- Even though the gold prices have increased but banks are still not providing any liquidity. Management says that the entire NBFC sector is in the dearth of liquidity in exception to fewer companies like PFC, REC and HDFC Ltd. Management existing loan channels are still servicing but it is not getting new loans for additional growth purposes. Both parent & subsidiary company have plans to issue NCD in the upcoming quarter for incremental growth.
- In the case of gold price rise management takes 30 months moving average gold price. Management continues providing innovative products to caters to rural customer needs better than a bank.
- The growth has been managed by issuing Rs 800 Cr of NCD by the parent while subsidiary home finance issued Rs 300 Cr along with Rs 600 Cr of the collection every quarter.
- Management is in talks with RBI for a separate classification of gold loans for NPA, ALM and liquidity purposes.
- The cost of funds has been in the range of 9.2-10% now. The incremental cost of funds is in the range of 9.5%. Yield has remained affected by 50 bps this quarter mainly due to disbursement in low yield-lower tenure gold loans. Management has guided to maintain spreads in the 12%+-50 bps range & NIM guidance of 13%. Management is comfortable in passing on any hike in borrowing costs to the customer. For bank borrowing, there is a 100 bps increase from last year.
- Management is planning to raise 2\$ bn MTN through offshore funding.
- Management has guided for 15% loan growth in its subsidiaries and 15% growth in the gold loan AUM. If more funding is received growth will improve by 2-3% more.
- Management gives 3 months additional period to the customers in resolving their NPA cases, management believes in customer-friendly techniques.
- Management plans to keep CP in the 12% range.
- Management has held Rs 340 Cr of the auction this year v/s Rs 204 Cr QoQ.
- ECL in Stage 1 & 2 is Rs 531 Cr and Rs 158 Cr in stage 3.
- Max LTV is Rs 2300 per gram.
- Majority of the customer take another loan within 2 months completion of the first loan.
- Other loans are debt financing to Muthoot money & Muthoot home finance.
- Ticket Size has increased by 9%, management says it is part of normal inflation.
- According to the new regulation Bank is barred to provide 4% agricultural loans by Union government where the customer takes a loan at 4% and later keeps it as a deposit in the bank for 8% interest & live off the interest.
- Management is confident of not getting affected by the flood in different parts of the country.
- Management says 60% of the customer pay in 6 months while 10% of the customer pay in 1 month only. They are only charged for the number of days they take the loans.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	29.1	29.6	33.0	32.9	30.5	35.8	32.6	-0.40	-3.19
Empl. Cost/ Tot. Exp. %	16.9	17.1	19.2	18.7	17.6	21.6	18.9	-0.31	-2.74
Other Exp/Tot. Exp.%	11.2	11.7	13.1	13.3	12.0	13.3	13.0	-0.07	-0.30
Provision/PPP %	6.4	6.8	0.4	0.3	0.2	2.5	0.4	0.05	-2.11
Tax Rate %	35.6	38.0	34.9	35.1	38.0	35.6	35.1	0.20	-0.50
Int Exp./Int Inc. (%)	30.0	27.5	30.8	32.6	34.4	32.5	34.6	3.71	2.05
Other Inc./NII %	0.1	0.2	0.0	0.0	0.0	0.0	0.0	-0.02	0.00
PPP/ Net Income %	70.9	70.4	67.0	67.1	69.5	64.2	67.4	0.40	3.19
PAT/ Net Income %	42.8	40.7	43.4	43.4	43.0	40.3	43.5	0.10	3.25
NII Growth % (YoY)	51.8	3.5	31.8	(4.5)	1.9	6.3	8.1	-23.71	1.82
PPP Growth YoY %	76.6	5.6	36.5	(12.7)	(1.2)	(7.3)	8.2	-28.31	15.55
PAT Growth %	64.5	58.0	42.5	9	1.4	0.6	7.8	-34.70	7.19

Margin Performance

MARGIN %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	22.7	23.4	22.4	21.8	21.9	23.7	22.8	0.40	-0.87
Cost Of Funds	8.7	8.4	9.1	9.5	10.0	9.9	10.0	0.88	0.08
Spreads	14.0	15.0	13.3	12.3	11.9	13.8	12.8	-0.47	-0.96
NIM	15.9	16.9	15.5	14.7	14.4	16.0	14.4	-1.09	-1.58

Exhibit: Yield and Cost

Yield has decreased while the cost has increased

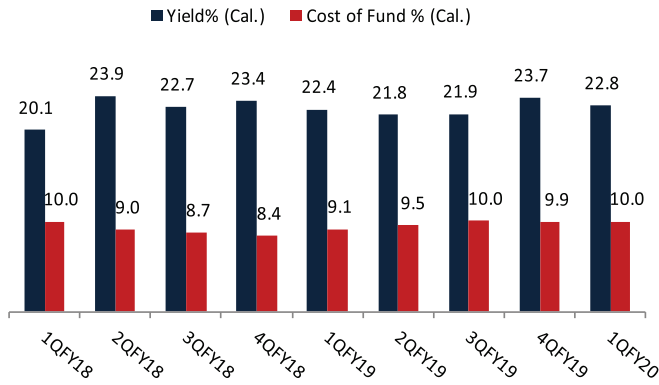
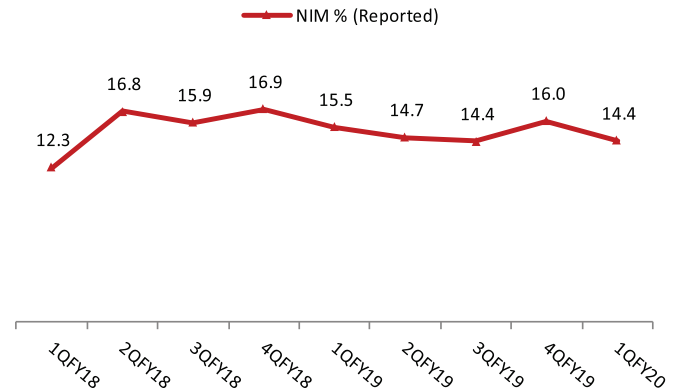


Exhibit: Net Interest Margin

NIM has Contracted



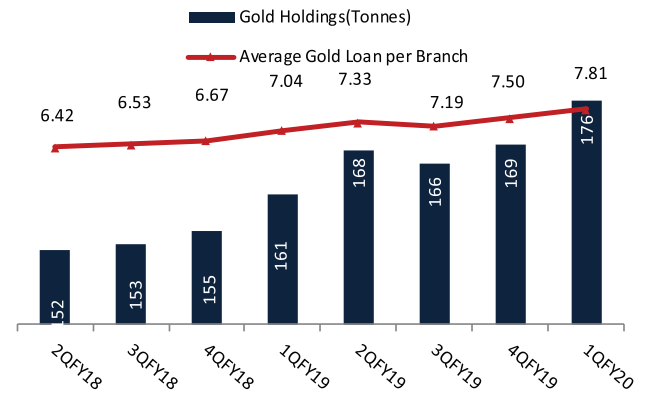
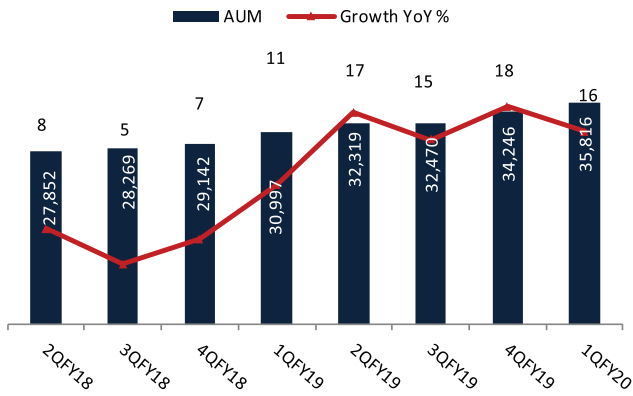
Asset & Borrowings Growth Trend

Fig in Rs Cr

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
AUM	27279	27852	28269	29142	30997	32319	32470	34246	35816
Growth YoY %	12	8	5	7	11	17	15	18	16
Borrowings	21096	22084	21096	21268	23229	24334	25221	26922	28149
Growth YoY %	13	11	1	1	5	9	20	27	21

Exhibit: AUM Growth %

Exhibit: Gold holdings



Asset Mix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Gold Loans %	100	100	99	99	99	99	98	98	98
Other loans %	0.2	0.3	0.6	1.0	1.4	0.9	2.1	1.9	1.8

Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA	1,590	1,287	884	617	637	933	1,147	263	214
GNPA %	5.6	4.4	2.9	1.9	2.0	2.7	3.2	0	0.5
NNPA	1,392	678	295	37	54	297	458	163	161
NNPA %	4.9	2.3	1.0	0.1	0.2	0.9	1.3	0	0.4
Total Specific PCR %	12	47	67	94	92	68	60	(7)	(8)

Fig in Rs Cr

Others

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Gold AUM per branch	6.5	6.4	6.5	6.7	7.0	7.3	7.2	7.5	7.8
Gold Holdings (Tonnes)	152	152	153	155	161	168	166	169	176

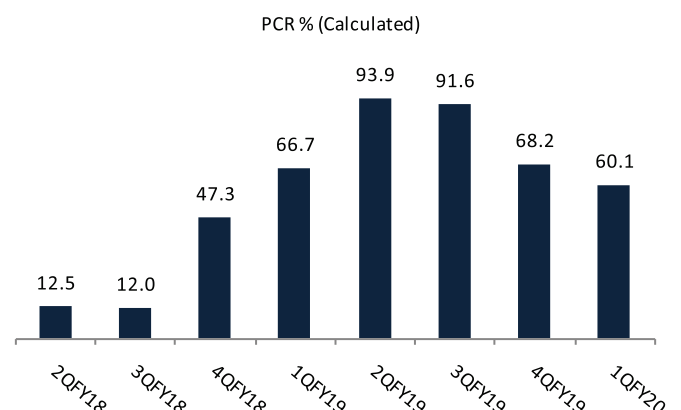
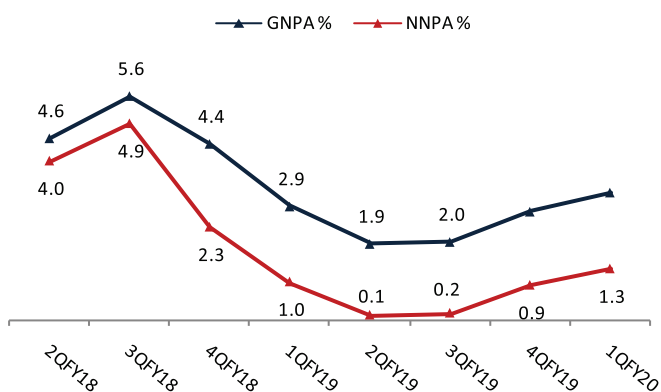
Fig in Rs Cr

Exhibit: Asset Quality

Exhibit: Provisions

Asset quality deteriorated

PCR Declined Sequentially



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	372	398	399	399	400	401	399	399
Equity Capital	372	398	399	399	400	401	399	399
Preference Capital								
Reserves & Surplus	3,893	4,686	5,220	6,117	7,412	9,392	11,213	13,351
Networth	4,265	5,084	5,619	6,516	7,812	9,793	11,612	13,751
Change (%)	14	19	11	16	20	25	19	18
Total Borrowings	19,484	19,465	18,641	21,096	21,268	26,922	30,985	35,322
Change (%)	(19)	(0)	(4)	13	1	27	15	14
Provisions	220	300	513	651	224	211	248	283
Other Liabilities	1,645	2,745	(179)	2,449	1,488	1,143	1,142	1,091
Total Liabilities	25,594	26,769	27,049	30,713	30,792	38,069	43,987	50,447
Investments	35	38	98	209	395	983	1,366	1,558
Loans	21,996	23,541	24,524	27,424	29,507	34,933	39,041	44,506
Change (%)	(17)	7	4	12	8	18	12	14
Fixed Assets	327	264	227	218	206	215	351	401
Other Assets	1,186	1,189	1,520	1,327	197	202	208	213
Cash Balances	2,049	1,737	679	1,534	487	1,736	3,021	3,769
Total Assets	25,594	26,769	27,049	30,713	30,792	38,068	43,987	50,447

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	4,892	4,261	4,800	5,640	6,267	6,878	7,931	9,086
Interest expended	2,626	2,106	2,258	2,294	1,931	2,237	2,760	3,155
Net Interest Income	2,266	2,155	2,542	3,346	4,335	4,641	5,171	5,931
Change (%)	(10)	(5)	18	32	30	7	11	15
Other Income	55	64	75	107	67	2	4	3
Change (%)	8	15	18	42	(38)	(96)	70	(18)
Total Net Income	2,321	2,218	2,617	3,453	4,402	4,644	5,176	5,934
Change (%)	(10)	(4)	18	32	27	5	11	15
Operating Expenses	1,084	1,153	1,139	1,267	1,317	1,539	1,652	1,846
Change (%)	12	6	(1)	11	4	17	7	12
Employee Expenses	592	630	642	728	782	898	932	1,023
Change (%)	9	7	2	13	7	15	4	10
Other Expenses	221	209	205	257	491	600	665	755
Pre-provisioning Profit	1,237	1,065	1,479	2,186	3,084	3,104	3,524	4,088
Change (%)	(23)	(14)	39	48	41	1	14	16
Provisions	44	37	162	265	240	28	131	209
Change (%)	(51)	(15)	337	63	(9)	(89)	377	59
PBT	1,193	1,028	1,316	1,921	2,845	3,077	3,393	3,880
Tax	413	357	507	741	1,067	1,105	1,188	1,358
Profit After Tax	780	670	809	1,180	1,778	1,972	2,204	2,522
Change (%)	(22)	(14)	21	46	51	11	12	14
Adjusted Profit After Tax	780	670	809	1,180	1,778	1,972	2,204	2,522
Change (%)	(22)	(14)	21	46	51	11	12	14

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	21,862	23,409	24,379	27,279	29,138	34,246	39,041	44,506
Off-Book AUM	(135)	(133)	(145)	(146)	(368)	(687)	-	-
AUM Growth (%)	(17.1)	7.1	4.1	11.9	6.8	17.5	14.0	14.0
Borrowing Growth (%)	(19.1)	(0.1)	(4.2)	13.2	0.8	26.6	15.1	14.0
Loan/Borrowing (%)	1.1	1.2	1.3	1.3	1.4	1.3	1.3	1.3
Disbursement (Rs Cr)	0	0	0	0	0	0	0	0
Disbursement Growth (%)	2.6	7.1	8.8	(1.2)	6.7	(6.5)	(2.9)	-
CRAR (%)	25	25	24	25	27	26	50	35
Tier 1 (%)	18.0	20.0	20.9	21.8	24.8	25.7	48.0	33.0
Tier 2 (%)	6.7	4.8	3.6	3.1	1.8	0.4	2.3	2.0
Debt/Equity(x)	4.6	3.8	3.3	3.2	2.7	2.7	2.7	2.6
Assets Quality Metrics								
Gross NPA (Rs)	416	512	703	562	2,033	933	1,171	1,335
Gross NPA (%)	1.9	2.2	2.9	2.1	7.0	2.7	3.0	3.0
Net NPA (Rs)	344	439	601	460	1,795	297	117	134
Net NPA (%)	1.6	1.9	2.5	1.7	6.2	0.9	0.3	0.3
Specific Provision Coverage (%)	17	14	15	18	12	68	90	90
Provision/Average Advances (%)	0.2	0.2	0.7	1.0	0.8	0.1	0.4	0.5
Margin Metrics								
Yield On Advances (%)	20.3	18.8	20.1	21.8	22.2	21.7	21.6	21.8
Cost Of Funds (%)	12.1	10.8	11.8	11.5	9.1	9.3	9.5	9.5
Spread (%)	8.2	8.0	8.2	10.3	13.1	12.4	12.1	12.2
NIM on AUM (%)	9.4	9.5	10.6	13.0	15.4	14.6	14.1	14.2
Profitability & Efficiency Metrics								
Int. Expense/Int.Income (%)	53.7	49.4	47.0	40.7	30.8	32.5	34.8	34.7
Other Income/NII (%)	2.4	3.0	3.0	3.2	1.5	0.1	0.1	0.1
Operating Profit/Net Income (%)	53.3	48.0	56.5	63.3	70.1	66.8	68.1	68.9
Net Profit/Net Income (%)	33.6	30.2	30.9	34.2	40.4	42.5	42.6	42.5
Cost to Income (%)	46.7	52.0	43.5	36.7	29.9	33.2	31.9	31.1
Employee Exp/Net Income (%)	25.5	28.4	24.5	21.1	17.8	19.3	18.0	17.2
Cost on Average Assets (%)	3.9	4.4	4.2	4.4	4.3	4.5	4.0	3.9
Provision/PPP (%)	3.5	3.5	11.0	12.1	7.8	0.9	3.7	5.1
Tax Rate (%)	34.7	34.8	38.5	38.6	37.5	35.9	35.0	35.0
Valuation Ratio Metrics								
EPS (Rs)	21.0	16.8	20.3	29.5	44.5	49.4	55.2	63.1
Change (%)	(22.3)	(19.7)	20.4	45.7	50.7	11	11.8	14.4
ROAE (%)	19.5	14.3	15.1	19.4	24.8	22.4	20.6	19.9
ROAA (%)	2.8	2.6	3.0	4.1	5.8	5.7	5.4	5.3
Dividend Payout (%)	53.0	34.7	46.2	24.4	21.6	19.4	17.4	15.2
Dividend yield (%)	7.8	2.6	4.4	2.0	1.8	1.3	1.3	1.3
DPS	9.5	5.0	8.0	6.0	8.0	8.0	8.0	8.0
Book Value(Rs)	114.7	127.7	140.8	163.1	195.6	245.1	290.7	344.2
Change (%)	14	11	10	16	20	25	19	18
P/B (X)	1.5	1.6	1.3	2.3	2.1	2.5	2.1	1.8
P/E (X)	8.2	12.4	8.8	12.5	9.2	12.6	11.2	9.8

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	17.8	16.3	17.8	19.5	20.4	20.0	19.3	19.2
Interest expended	9.5	8.0	8.4	7.9	6.3	6.5	6.7	6.7
Net Interest Income	8.2	8.2	9.4	11.6	14.1	13.5	12.6	12.6
Non-Fund Based Income	0.2	0.2	0.3	0.4	0.2	0.0	0.0	0.0
Total Income	8.4	8.5	9.7	12.0	14.3	13.5	12.6	12.6
Total Operating Expenses	3.9	4.4	4.2	4.4	4.3	4.5	4.0	3.9
Employee Expenses	2.2	2.4	2.4	2.5	2.5	2.6	2.3	2.2
Other Expenses	1.8	2.0	1.8	1.9	1.7	1.9	1.8	1.7
Operating Profit	4.5	4.1	5.5	7.6	10.0	9.0	8.6	8.7
Provisions	0.2	0.1	0.6	0.9	0.8	0.1	0.3	0.4
Others	-	-	-	-	-	-	-	-
PBT	4.3	3.9	4.9	6.7	9.3	8.9	8.3	8.2
Tax	1.5	1.4	1.9	2.6	3.5	3.2	2.9	2.9
PAT/RoAA	2.8	2.6	3.0	4.1	5.8	5.7	5.4	5.3
Equity Multiplier (x)	6.9	5.6	5.0	4.8	4.3	3.9	3.8	3.7
ROAE	19.5	14.3	15.1	19.4	24.8	22.4	20.6	19.9

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