

Industry
Bloomberg
BSE CODE

Financial
MUTH IN
533398

RATING	BUY
CMP	650
Price Target	828
Potential Upside	27%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	718/389
Mkt Capital (Rs Cr)	28491
Free float (%)	26%
Avg. Vol 1M (,000)	748
No. of Shares (Crs)	40
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	4641	5280	5448
PPP	3104	3669	3770
PAT	1972	2669	2696
NIM %	14.6	14.8	14.0
EPS (Rs)	49	67	67
EPS growth (%)	11	35	1
ROE (%)	22.4	24.4	20.4
ROA (%)	5.7	6.6	5.9
BV	245	302	360
P/B (X)	2.9	2.3	2.0
P/E (x)	14.3	10.6	10.4

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All Round Strong Performance With Slight Loan Growth Concerns

2QFY20 Result Update

- NII has grown at the rate of 32% YoY while PAT growth stood at 77% YoY as of 2QFY20. The strong growth was led by a one-time settlement income of Rs 200 Cr. The one-off income & lower advertisement expense reduced the C/I ratio from 32.92% to 26.99% YoY.
- NIM stands elevated at 16.05% v/s 13.92% majorly on the back of an increase in the yield from 20.69% to 23.55% YoY (due to one-off item) while the Cost of borrowings has increased from 8.7% to 9.3% YoY. Management has guided the cost of borrowings to increase to 9.5% on the back of higher share of foreign borrowings which are at a higher rate than domestic borrowings
- The AUM growth has slowed down to 11% YoY with a decrease in the gold holdings QoQ mainly on the back of lower liquidity availability. Management preferred keeping buffer liquidity stocks than to improve disbursement when the funding options are limited for the entire NBFC sector. To protect the fluctuation in the gold price, management has increased the margin of safety from 36% to 41% QoQ.
- The GNPA has increased sequentially to 3.43% from 3.20% while NNPA has increased to 1.47% from 1.28%. The PCR has decreased from 60% to 57% QoQ. The credit cost stands elevated to 30 bps at 2QFY20. The percentage of bad loan written off stood at 4 bps v/s 1 bps in 1QFY20. The excess provision on the balance sheet as at 2QFY20 stands at Rs 120 Cr.
- The share of gold loans stood at 97.8% while other loans stood at 2.2%. The gold tones holding stood at 171 tones with a decrease in the average gold loan per branch from 7.812 to 7.696 Cr.
- Management has been maintaining the percentages of collection to disbursement at about 60%. Management claims a high proportion of gold loan is repaid within the first 6 months.
- The gold loan portfolio is diversified across pan India with East standing at 9%, West standing at 10%, North at 23% and South at 48%. The human capital has increased by 2% to 25091.
- The capital adequacy stood 27.11% while Tier 1 stood at 26.74%.
- The available liquidity stood at Rs 2306 Cr. Management has guided to an elevated level of cash going ahead.

View and Valuation

NII and PAT have shown a robust growth during the quarter by 32% & 77% YoY which was mainly driven by strong collection effort by the management. Lack of liquidity has made management to lower its disbursement & consequentially declining the advertisement expenditure. However, management remains confident of growth in 2HFY20 and reiterates growth guidance of 15% for FY20. Management expects the cost of borrowing to increase further as the recent foreign borrowings raised are priced higher than domestic borrowing. We expect with strong pricing power management will be able to pass on the cost of borrowings to customers. Management has guided to keep the excess provision of Rs 120 Cr on the balance sheet and account the excess write off amounts through the P/L account, but we remain confident on this front with strong gold price and collection effort. We remain slightly cautious on the growth front with liquidity constraints on the sector, as the stock has corrected so much in the last 1 year that the valuation gives us sufficient room to maintain BUY. We value the stock at P/B 2.3x for FY21e at 828. Maintain BUY.

Key Risks to our rating and target

- Good monsoon is expected to improve rural consumption.
- Liquidity concerns may affect the growth going forward.

Margin Expansion

2QFY20 Results

Above Our Expectation

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,644	1,711	1,880	1,857	2,137	30.0%	15.1%	6,267	6,878	9.8%
Interest Exp.	535	589	611	642	670	25.1%	4.4%	1,931	2,237	15.8%
NII	1,109	1,122	1,269	1,215	1,467	32.3%	20.7%	4,335	4,641	7.1%
Other Income	6	6	1	2	4	-40.2%	1068%	67	2	-96.4%
Total Income	1,115	1,128	1,269	1,217	1,471	31.9%	20.8%	4,402	4,644	5.5%
Ope Exp.	367	344	455	397	397	8.2%	-0.1%	1,317	1,539	16.9%
PPP	748	784	815	820	1,074	43.6%	31.0%	3,084	3,104	0.6%
Provisions	3	2	20	3	26	943.1%	702.5%	240	28	-88.5%
PBT	745	782	794	817	1,047	40.5%	28.3%	2,845	3,077	8.2%
Tax	261	297	283	287	189	-28%	-33.9%	1,067	1,105	3.5%
Extra Items	-	-	-	-	-					
Net Profit	484	485	512	530	858	77.3%	61.9%	1,778	1,972	11%

Concall Highlights

- One time settlement schemes have resulted in the hike in the yield but management has guided this to be a one-off item amounting approximately to Rs 200 Cr. Management focused on collecting old loans where the interest rate is at a higher range.
- Foreign borrowings are at a higher rate than domestic borrowings. The foreign borrowings are fully hedged. The cost of borrowing is expected to increase to 9.5% because of high-cost foreign borrowings and domestic borrowings (cost has not declined).
- Management has raised 450\$ mn in foreign borrowings and Rs 460 Cr as NCD.
- Funding constraints led to slow down advertisement expenditure in 1HFY20 but in 2HFY20 advertisement, expenditure will remain elevated.
- Loan growth is muted on the back of liquidity issues. Going forward management remains optimistic on the 2HFY20 and has guided 15% growth in gold loan AUM for Fy20.
- MUTHOOTFIN has an investment in the Nepalese Company of Rs 24 Cr. This subsidiary is planning to foray into gold loan business by assistance of MUTHOOTFIN.
- The entire loan portfolio is on bullet payments for 1 year with the option of monthly and weekly payment.
- Management has planned to close 42 branches with an amount outstanding of Rs 100 Cr. Kerala constitutes 3.4% (Rs 1200\ Cr) of the total portfolio.
- The average LTV is 60% from the normal level of 68% because of the higher gold price.
- Management has guided to keep the excess provision coming from the INDAS effect intact. On average credit cost should be around Rs 20 Cr. The write off during the quarter stood at Rs 11 Cr.
- Over provision stood at Rs 700 Cr with Stage 3 ECL provision standing at Rs 169 Cr.
- The auction stood at Rs 58 Cr as at 2QFY20.
- The branch network has increased to 4190.
- Management has guided to keep the cash levels at an elevated level.
- Leverage stood at 2.5x as at 2QFY20.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	29.6	33.0	32.9	30.5	35.8	32.6	27.0	-5.93	-5.65
Empl. Cost/ Tot. Exp. %	17.1	19.2	18.7	17.6	21.6	18.9	15.8	-2.89	-3.04
Other Exp/Tot. Exp. %	11.7	13.1	13.3	12.0	13.3	13.0	10.5	-2.84	-2.52
Provision/PPP %	6.8	0.4	0.3	0.2	2.5	0.4	2.5	2.12	2.06
Tax Rate %	38.0	34.9	35.1	38.0	35.6	35.1	18.1	-17.00	-17.01
Int Exp./Int Inc. (%)	27.5	30.8	32.6	34.4	32.5	34.6	31.3	-1.22	-3.21
Other Inc./NII %	0.2	0.0	0.0	0.0	0.0	0.0	0.0	-0.01	0.01
PPP/ Net Income %	70.4	67.0	67.1	69.5	64.2	67.4	73.0	5.93	5.65
PAT/ Net Income %	40.7	43.4	43.4	43.0	40.3	43.5	58.3	14.93	14.79
NII Growth % (YoY)	3.5	31.8	(4.5)	1.9	6.3	8.1	32.3	36.85	24.24
PPP Growth YoY %	5.6	36.5	(12.7)	(1.2)	(7.3)	8.2	43.6	56.30	35.37
PAT Growth %	58.0	42.5	8.6	1	0.6	7.8	77.3	68.76	69.49

Margin Performance

MARGIN %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances (Calc.)	23.4	22.4	21.8	21.9	23.7	22.8	25.5	3.71	2.68
Cost Of Funds (Calc.)	8.4	9.1	9.5	10.0	9.9	10.0	10.2	0.72	0.24
Spreads (Calc.)	15.0	13.3	12.3	11.9	13.8	12.8	15.3	3.00	2.44
NIM (Calc.)	16.9	15.5	14.7	14.4	16.0	14.4	17.0	2.28	2.56

Exhibit: Yield and Cost

Yield has shown robust growth on the back of strong collection effort. CoB has increased marginally.

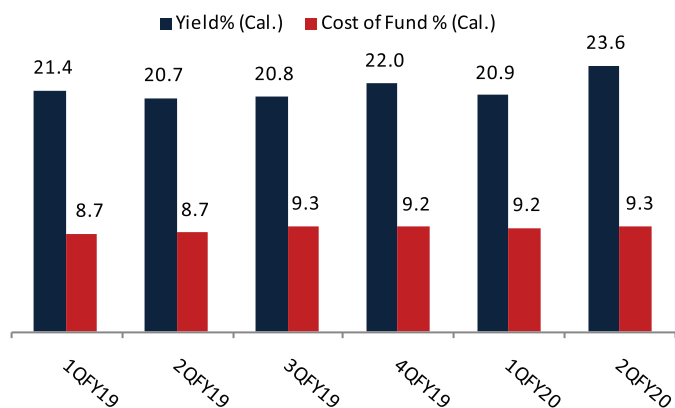
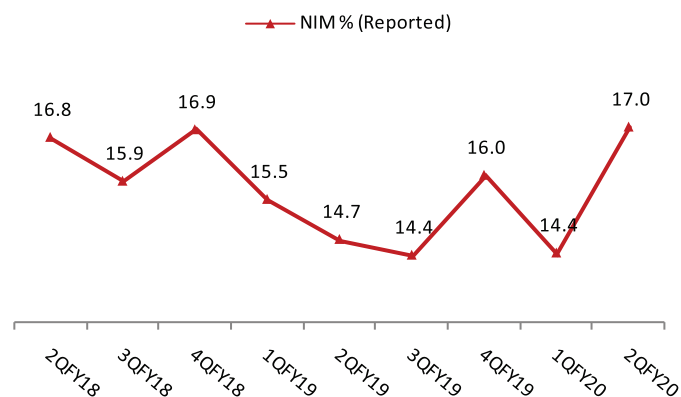


Exhibit: Net Interest Margin

NIM has Improved Sequentially



Asset & Borrowings Growth Trend

Fig in Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
AUM	27852	28269	29142	30997	32319	32470	34246	35816	35731
Growth YoY %	8	5	7	11	17	15	18	16	11
Borrowings	22084	21096	21268	23229	24334	25221	26922	28149	28478
Growth YoY %	11	1	1	5	9	20	27	21	17

Exhibit: AUM Growth %

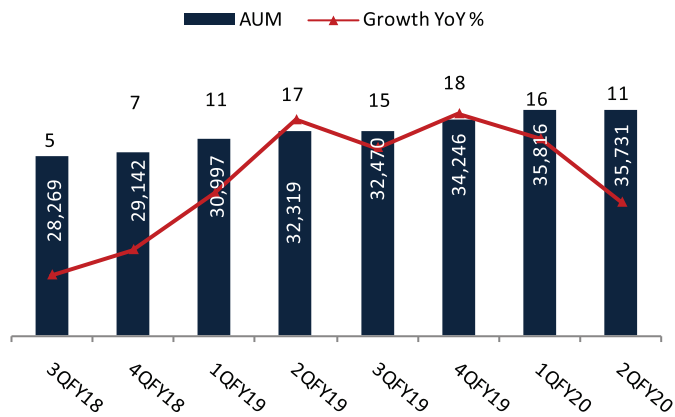
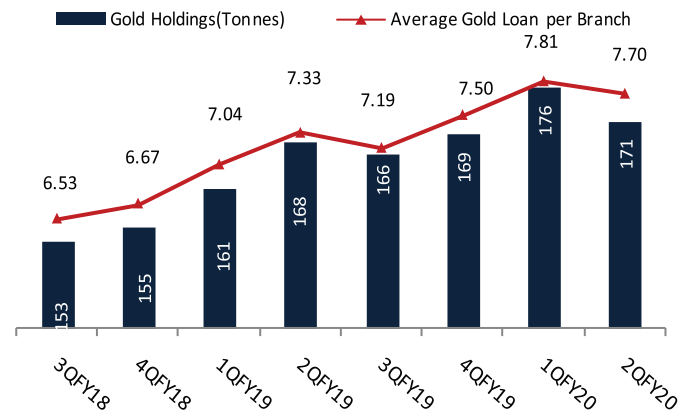


Exhibit: Gold holdings



Asset Mix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Gold Loans	100	99	99	99	99	98	98	98	98
Other loans	0.3	0.6	1.0	1.4	0.9	2.1	1.9	1.8	2.2

Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA	1,287	884	617	637	933	1,147	1,227	610	79
GNPA %	4.4	2.9	1.9	2.0	2.7	3.2	3.4	2	0.2
NNPA	678	295	37	54	297	458	525	488	68
NNPA %	2.3	1.0	0.1	0.2	0.9	1.3	1.5	1	0.2
Total Specific PCR %	47	67	94	92	68	60	57	(37)	(3)

Others

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Gold AUM per branch	6.42	6.53	6.67	7.04	7.33	7.19	7.50	7.81	7.71
Gold Holdings (Tonnes)	152	153	155	161	168	166	169	176	171

Exhibit: Asset Quality

Asset quality deteriorated

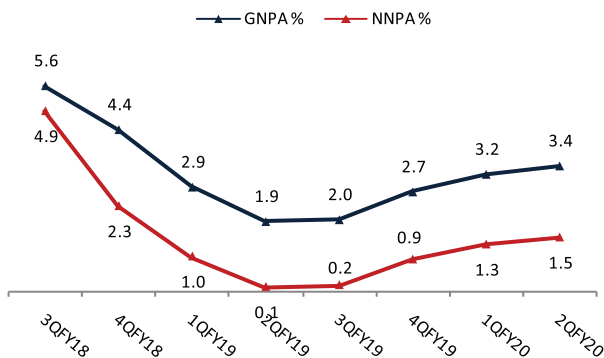
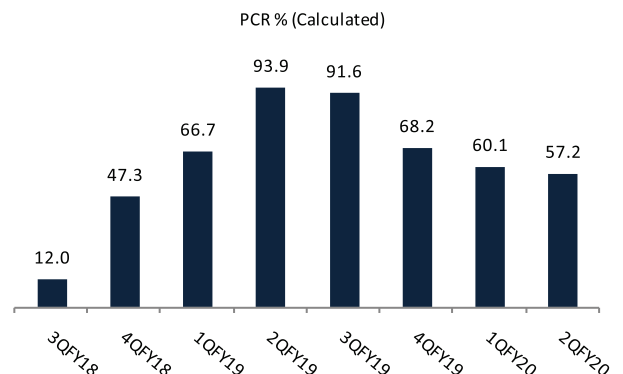


Exhibit: Provisions

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	11,677	13,962
Networth	4,265	5,084	5,619	6,516	7,812	9,793	12,077	14,362
Change (%)	14	19	11	16	20	25	23	19
Total Borrowings	19,484	19,465	18,641	21,096	21,268	26,922	29,827	32,810
Change (%)	(19)	(0)	(4)	13	1	27	11	10
Provisions	220	300	513	651	224	211	268	295
Other Liabilities	1,645	2,745	(179)	2,449	1,488	1,143	1,178	1,296
Total Liabilities	25,594	26,769	27,049	30,713	30,792	38,069	43,350	48,763
Investments	35	38	98	209	395	983	1,295	1,424
Loans	21,996	23,541	24,524	27,424	29,507	34,933	36,986	40,684
Change (%)	(17)	7	4	12	8	18	6	10
Fixed Assets	327	264	227	218	206	215	333	366
Other Assets	1,186	1,189	1,520	1,327	197	202	211	215
Cash Balances	2,049	1,737	679	1,534	487	1,736	4,527	6,074
Total Assets	25,594	26,769	27,049	30,713	30,792	38,068	43,350	48,763

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	8,044	8,589
Interest expended	2,626	2,106	2,258	2,294	1,931	2,237	2,764	3,141
Net Interest Income	2,266	2,155	2,542	3,346	4,335	4,641	5,280	5,448
Change (%)	(10)	(5)	18	32	30	7	14	3
Other Income	55	64	75	107	67	2	7	3
Change (%)	8	15	18	42	(38)	(96)	188	(55)
Total Net Income	2,321	2,218	2,617	3,453	4,402	4,644	5,287	5,451
Change (%)	(10)	(4)	18	32	27	5	14	3
Operating Expenses	1,084	1,153	1,139	1,267	1,317	1,539	1,618	1,681
Change (%)	12	6	(1)	11	4	17	5	4
Employee Expenses	592	630	642	728	782	898	932	942
Change (%)	9	7	2	13	7	15	4	1
Other Expenses	221	209	205	257	491	600	645	694
Pre-provisioning Profit	1,237	1,065	1,479	2,186	3,084	3,104	3,669	3,770
Change (%)	(23)	(14)	39	48	41	1	18	3
Provisions	44	37	162	265	240	28	120	127
Change (%)	(51)	(15)	337	63	(9)	(89)	335	6
PBT	1,193	1,028	1,316	1,921	2,845	3,077	3,549	3,643
Tax	413	357	507	741	1,067	1,105	880	947
Profit After Tax	780	670	809	1,180	1,778	1,972	2,669	2,696
Change (%)	(22)	(14)	21	46	51	11	35	1
Adjusted Profit After Tax	780	670	809	1,180	1,778	1,972	2,669	2,696
Change (%)	(22)	(14)	21	46	51	11	35	1

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	36,986	40,684
Off-Book AUM	(135)	(133)	(145)	(146)	(368)	(687)	-	-
AUM Growth (%)	(17.1)	7.1	4.1	11.9	6.8	17.5	8.0	10.0
Borrowing Growth (%)	(19.1)	(0.1)	(4.2)	13.2	0.8	26.6	10.8	10.0
Loan/Borrowing (%)	1.1	1.2	1.3	1.3	1.4	1.3	1.2	1.2
CRAR (%)	25	25	24	25	27	26	50	37
Tier 1 (%)	18.0	20.0	20.9	21.8	24.8	25.7	48.0	34.8
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	2.5	2.3

Assets Quality Metrics

Gross NPA (Rs)	416	512	703	562	2,033	933	1,258	1,221
Gross NPA (%)	1.9	2.2	2.9	2.1	7.0	2.7	3.4	3.0
Net NPA (Rs)	344	439	601	460	1,795	297	503	488
Net NPA (%)	1.6	1.9	2.5	1.7	6.2	0.9	1.4	1.2
Specific Provision Coverage (%)	17	14	15	18	12	68	60	60
Provision/Average Advances (%)	0.2	0.2	0.7	1.0	0.8	0.1	0.3	0.3

Margin Metrics

Yield On Advances (%)	20.3	18.8	20.1	21.8	22.2	21.7	22.6	22.1
Cost Of Funds (%)	12.1	10.8	11.8	11.5	9.1	9.3	9.7	10.0
Spread (%)	8.2	8.0	8.2	10.3	13.1	12.4	12.8	12.1
NIM on AUM (%)	9.4	9.5	10.6	13.0	15.4	14.6	14.8	14.0

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	53.7	49.4	47.0	40.7	30.8	32.5	34.4	36.6
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	69.4	69.2
Net Profit/Net Income (%)	33.6	30.2	30.9	34.2	40.4	42.5	50.5	49.5
Cost to Income (%)	46.7	52.0	43.5	36.7	29.9	33.2	30.6	30.8
Employee Exp/Net Income (%)	25.5	28.4	24.5	21.1	17.8	19.3	17.6	17.3
Cost on Average Assets (%)	3.9	4.4	4.2	4.4	4.3	4.5	4.0	3.6
Provision/PPP (%)	3.5	3.5	11.0	12.1	7.8	0.9	3.3	3.4
Tax Rate (%)	34.7	34.8	38.5	38.6	37.5	35.9	24.8	26.0

Valuation Ratio Metrics

EPS (Rs)	21.0	16.8	20.3	29.5	44.5	49.4	66.8	67.5
Change (%)	(22.3)	(19.7)	20.4	45.7	50.7	11	35.3	1.0
ROAE (%)	19.5	14.3	15.1	19.4	24.8	22.4	24.4	20.4
ROAA (%)	2.8	2.6	3.0	4.1	5.8	5.7	6.6	5.9
Dividend Payout (%)	53.0	34.7	46.2	24.4	21.6	19.4	14.4	14.2
Dividend yield (%)	7.8	2.6	4.4	2.0	1.8	1.1	1.1	1.1
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	302.3	360.2
Change (%)	14	11	10	16	20	25	23	19
P/B (X)	1.5	1.6	1.3	2.3	2.1	2.9	2.3	2.0
P/E (X)	8.2	12.4	8.8	12.5	9.2	14.3	10.6	10.4

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	19.8	18.6
Interest expended	9.5	8.0	8.4	7.9	6.3	6.5	6.8	6.8
Net Interest Income	8.2	8.2	9.4	11.6	14.1	13.5	13.0	11.8
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	13.0	11.8
Total Operating Expenses	3.9	4.4	4.2	4.4	4.3	4.5	4.0	3.6
Employee Expenses	2.2	2.4	2.4	2.5	2.5	2.6	2.3	2.0
Other Expenses	1.8	2.0	1.8	1.9	1.7	1.9	1.7	1.6
Operating Profit	4.5	4.1	5.5	7.6	10.0	9.0	9.0	8.2
Provisions	0.2	0.1	0.6	0.9	0.8	0.1	0.3	0.3
Others	-	-	-	-	-	-	-	-
PBT	4.3	3.9	4.9	6.7	9.3	8.9	8.7	7.9
Tax	1.5	1.4	1.9	2.6	3.5	3.2	2.2	2.1
PAT/RoAA	2.8	2.6	3.0	4.1	5.8	5.7	6.6	5.9
Equity Multiplier (x)	6.9	5.6	5.0	4.8	4.3	3.9	3.7	3.5
ROAE	19.5	14.3	15.1	19.4	24.8	22.4	24.4	20.4

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