

Industry
Bloomberg
BSE CODE

Financial
MUTH IN
533398

Robust Growth with Strong Collection Efficiency

RATING	BUY
CMP	747
Price Target	867
Potential Upside	16%

Rating Change	↑
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	802/507
Mkt Capital (Rs Cr)	31725
Free float (%)	26%
Avg. Vol 1M (,000)	34
No. of Shares (Crs)	40
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	4641	5798	6432
PPP	3104	4064	4451
PAT	1972	2927	3108
NIM %	14.6	15.8	15.3
EPS (Rs)	49	73	78
EPS growth (%)	11	48	6
ROE (%)	22.4	26.5	22.7
ROA (%)	5.7	6.9	6.1
BV	245	309	377
P/B (X)	3.0	2.4	2.0
P/E (x)	15.1	10.2	9.6

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3QFY20 Result Update

- NII has grown at the rate of 43% majorly on the back of strong AUM growth of 19%. The operating expenditure has grown at a rate of 38% on the back of higher expenditure in advertisement and MTM loss on the foreign exchange. PAT has grown at a rate of 66% YoY.
- Even though liquidity on the balance sheet stood at a relatively high range of 12% range, the NIM has improved to 17.10% from 16.05% QoQ, the yield has improved to 24.58% from 23.55% QoQ while the cost has improved to 8.98% from 9.30% QoQ. Management has guided to maintain the liquidity at a higher range going forward.
- AUM has grown at a rate of 19% with growth mainly driven by the gold loan portfolio. Management has cautiously declined its LTV to 60% on the back of a spike in the gold prices.
- On account of better collection, Gross stage 3 has declined to 2.54% from 3.43% QoQ, the NNPA has improved to 1.86% from 1.96% QoQ. The PCR stood improved at 73% from 57% QoQ. Excess provision outstanding in the book stood at Rs 1199 Cr.
- Management has guided to expand 100-200 branches per year along with the rationalization of branches.
- The average gold loan per branch has improved Rs 8.317 Cr from Rs 7.696 Cr QoQ. The number of branches stood at 4536 with presence across India in 7% in the east, 16% in the west, 17% in North and 60% in the South region.
- Almost 60% of the loan disbursed is repaid in 6 months time frame.
- The gold tones kept has security stood at 173.
- In the Asia Asset finance subsidiary, AUM growth has remained steady at Rs 1301 Cr with a PAT of Rs 4 Cr.
- Muthoot Homefin has registered a slight decline in the AUM growth to Rs 2025 Cr with a PAT of Rs 11 Cr as at 3QFY20. The GS3 has increased to 1.87% from 1.10% QoQ.
- In Muthoot Insurance Brokers the premium collection stood at Rs 85 Cr with a PAT of Rs 5 Cr.
- In Bestar MFI, AUM has registered a growth of 46% YoY with a PAT of Rs 26 Cr. The Gs3 has increased to 1.13% from 1.01% QoQ.
- In Muthoot money has increased its gold portfolio almost more than double to Rs 4915 Cr. The gross stage 3 stood at 2.45% as at 3QFY20.

View and Valuation

The loan book has registered a strong growth of 19% YoY on the back of strong rural demand. Margins are expected to improve as the hike in the interest rate taken in July is resetting into the portfolio. Growth was mainly driven by a strong collection efficiency which has resulted in an improvement in the asset quality. The operating expense is expected to remain inflated going forward as the management has planned to expand branches by 100-200 every year. We remain optimistic about the stock as the liquidity crisis has resulted in increased preference for gold loan financing and even though the cost of funds is trending at a higher range but management has been able to pass on the hike in cost thus maintaining margin. We increase our estimates for FY21e on the back of strong AUM growth and better margins prospects. We value the stock at 2.3X P/B FY21e at 867 and upgrade to BUY.

Key Risks to our rating and target

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

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Margin Expansion

3QFY20 Results

Above Our Expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,711	1,880	1,857	2,137	2,310	35.0%	8.1%	6,267	6,878	9.8%
Interest Exp.	589	611	642	670	694	17.8%	3.6%	1,931	2,237	15.8%
NII	1,122	1,269	1,215	1,467	1,616	44.0%	10.2%	4,335	4,641	7.1%
Other Income	6	1	2	4	3	-47.5%	1068%	67	2	-96.4%
Total Income	1,128	1,269	1,217	1,471	1,619	43.5%	10.1%	4,402	4,644	5.5%
Ope Exp.	344	455	397	397	475	38.1%	19.7%	1,317	1,539	16.9%
PPP	784	815	820	1,074	1,144	45.9%	6.6%	3,084	3,104	0.6%
Provisions	2	20	3	26	64	NA	141.9%	240	28	-88.5%
PBT	782	794	817	1,047	1,080	38.1%	3.1%	2,845	3,077	8.2%
Tax	297	283	287	189	277	-7%	46.2%	1,067	1,105	3.5%
Extra Items	-	-	-	-	-					
Net Profit	485	512	530	858	803	65.5%	-6.4%	1,778	1,972	11%

Concall Highlights

- Yield has improved on the back of the better collection. NIM has improved on the back of lower gearing. The incremental cost of borrowing is at 9.1-9.2% while management has guided the cost of borrowing to increase to 9.5% going ahead. MUTHOOTFIN has raised an offshore bond of Rs 3200 Cr which was rated at FITCH BB+ rating, S&P BB. On the domestic front, CRISIL has revised the long term rating outlook from AA Stable to AA +ve.
- Management has taken a hike in the interest rate from the month of June which is now reflecting in the portfolio.
- Management has guided loan growth to remain strong on the back of better resource raising ability. Management has guided to maintain a minimum of 15% YoY. Bank's borrowings have been improving. Retail NCD was raised amounting to Rs 1200 Cr. ECB was raised at 6.12% with the total hedging cost was moving to double-digit number. The principle and interest costs are completely hedged.
- Credit cost has increased on the back of higher standard provision along with Rs 33 Cr of burglary and Rs 14 Cr of additional provision. Management has guided ECL standard provision at 1.33% while write off is to be around 10-15 bps of the loan assets. Conso. Impairment has gone up on the back of the vehicle & housing segment, management has cautiously increased the provision in both these entities. Stage 3 has been contained on the back of the better collection.
- Other expenses increase mainly on account of rental expenses, Rs 21 Cr of MTM loss for foreign exchange loss and Rs 44 Cr advertisement expenses. Management has guided the incremental OPEX is to be driven by advertisement expense.
- Management is venturing into doorstep delivery of gold loans and it is in a learning curve stage thus is customizing products for these types of customers.
- Management has guided to keep the liquidity high in the book going level.
- Management has guided to increase the branch number by 100-200 branches per year. Management focuses on the rationalization of branches and an increase in the average loan per branch.
- In the housing, book management has guided to end up at Rs 2200 Cr with the disbursement of Rs 700-900 Cr in FY21. RoA is expected to maintain 2%. Disbursement up to 10% is done through gold loan branches.
- LTV stood at 61% as of 3QFY20. Average LTV normally trends in the 70% range.
- There is very negligible overlap between asset(Rs 40000) & liability (ticket size at Rs 200000).

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	33.0	32.9	30.5	35.8	32.6	27.0	29.3	-1.15	2.35
Empl. Cost/ Tot. Exp. %	19.2	18.7	17.6	21.6	18.9	15.8	15.9	-1.62	0.11
Other Exp/Tot. Exp.%	13.1	13.3	12.0	13.3	13.0	10.5	12.7	0.77	2.26
Provision/PPP %	0.4	0.3	0.2	2.5	0.4	2.5	5.6	5.35	3.13
Tax Rate %	34.9	35.1	38.0	35.6	35.1	18.1	25.6	-12.34	7.55
Int Exp./Int Inc. (%)	30.8	32.6	34.4	32.5	34.6	31.3	30.0	-4.38	-1.32
Other Inc./NII %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.01	0.00
PPP/ Net Income %	67.0	67.1	69.5	64.2	67.4	73.0	70.7	1.15	-2.35
PAT/ Net Income %	43.4	43.4	43.0	40.3	43.5	58.3	49.6	6.60	-8.72
NII Growth % (YoY)	31.8	(4.5)	1.9	6.3	8.1	32.3	43.3	41.46	11.01
PPP Growth YoY %	36.5	(12.7)	(1.2)	(7.3)	8.2	43.6	46.0	47.19	2.42
PAT Growth %	42.5	8.6	1	0.6	7.8	77.3	65.8	64.36	-11.57

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances (Calc.)	21.4	20.7	20.8	22.0	20.9	23.6	26.6	5.77	3.00
Cost Of Funds (Calc.)	8.7	8.7	9.3	9.2	9.2	9.3	10.0	0.75	0.75
Spreads (Calc.)	12.7	12.0	11.5	12.8	11.7	14.3	16.5	5.03	2.26
NIM (Calc.)	14.7	13.9	13.5	14.6	13.5	16.1	17.9	4.41	1.87

Exhibit: Yield and Cost

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

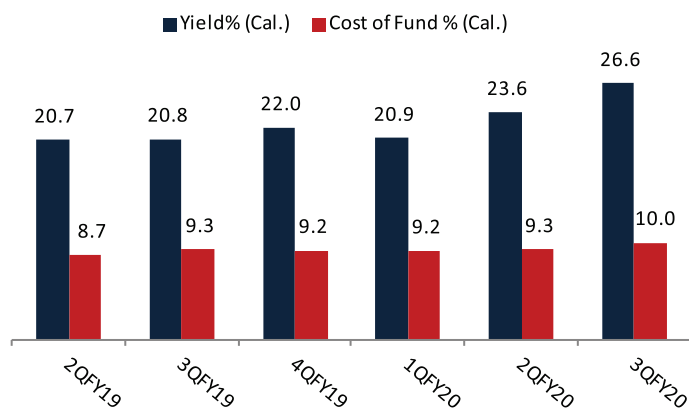
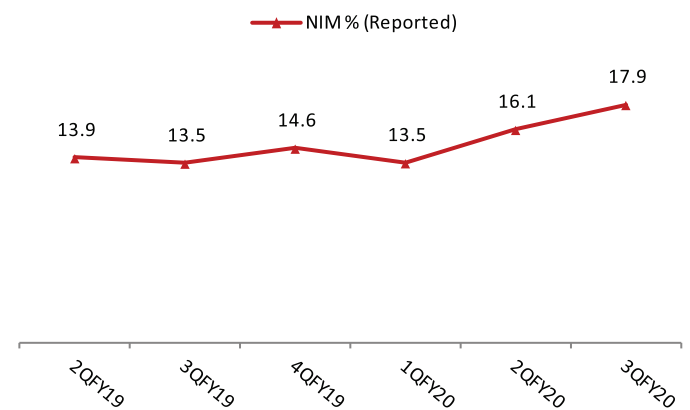


Exhibit: Net Interest Margin

NIM has Improved Sequentially



Asset & Borrowings Growth Trend

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
AUM	28269	29142	30997	32319	32470	34246	35816	35731	38498
Growth YoY %	5	7	11	17	15	18	16	11	19
Borrowings	21096	21268	23229	24334	25221	26922	28149	28478	32594
Growth YoY %	1	1	5	9	20	27	21	17	29

Exhibit: AUM Growth %

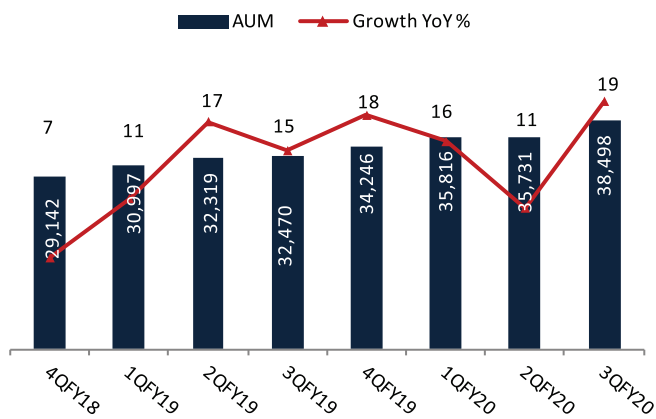
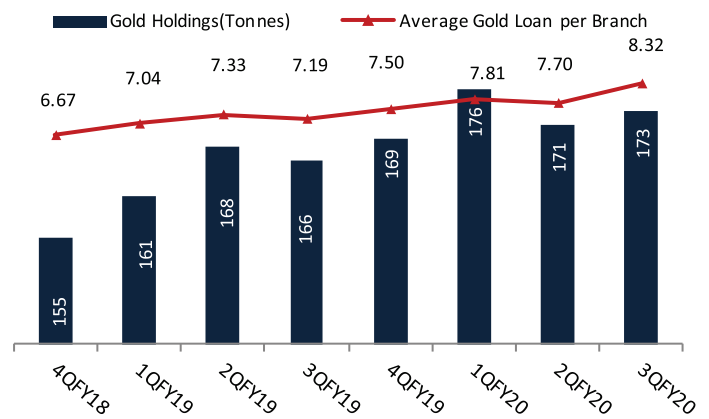


Exhibit: Gold holdings



Asset Mix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Gold Loans %	99	99	99	99	98	98	98	98	98
Other loans %	0.6	1.0	1.4	0.9	2.1	1.9	1.8	2.2	2.0

Asset Quality

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA	884	617	637	933	1,147	1,227	977	340	(250)
GNPA %	2.9	1.9	2.0	2.7	3.2	3.4	2.5	1	(0.9)
NNPA	295	37	54	297	458	525	259	205	(266)
NNPA %	1.0	0.1	0.2	0.9	1.3	1.5	0.7	1	(0.8)
Total Specific PCR %	67	94	92	68	60	57	73	(18)	16

Others

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Gold AUM per branch	153	155	161	168	166	169	176	171	173
Gold Holdings (Tonnes)	6.5	6.7	7.0	7.3	7.2	7.5	7.8	7.7	8.3

Exhibit: Asset Quality

Asset quality has Improved Sequentially

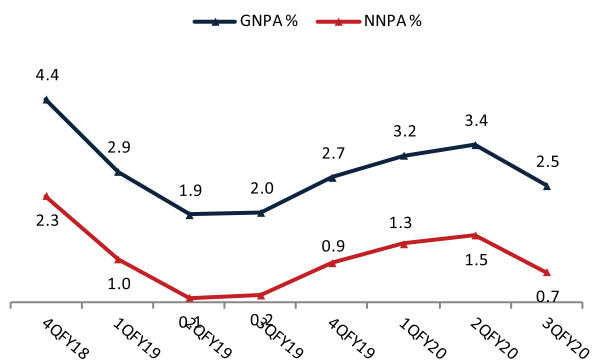
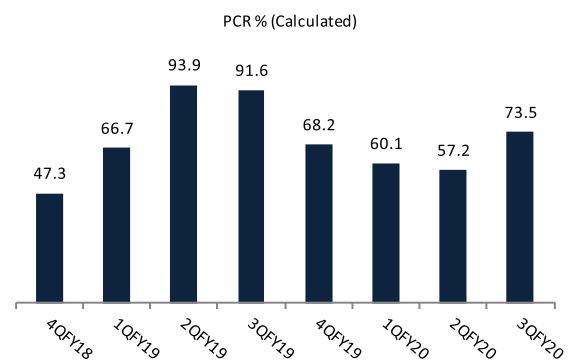


Exhibit: Provisions

PCR Improved 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	11,936	14,660
Networth	4,265	5,084	5,619	6,516	7,812	9,793	12,335	15,059
Change (%)	14	19	11	16	20	25	26	22
Total Borrowings	19,484	19,465	18,641	21,096	21,268	26,922	33,095	37,728
Change (%)	(19)	(0)	(4)	13	1	27	23	14
Provisions	220	300	513	651	224	211	298	340
Other Liabilities	1,645	2,745	(179)	2,449	1,488	1,143	1,307	1,490
Total Liabilities	25,594	26,769	27,049	30,713	30,792	38,069	47,035	54,618
Investments	35	38	98	209	395	983	1,378	1,571
Loans	21,996	23,541	24,524	27,424	29,507	34,933	39,383	44,897
Change (%)	(17)	7	4	12	8	18	13	14
Fixed Assets	327	264	227	218	206	215	354	404
Other Assets	1,186	1,189	1,520	1,327	197	202	224	230
Cash Balances	2,049	1,737	679	1,534	487	1,736	5,695	7,515
Total Assets	25,594	26,769	27,049	30,713	30,792	38,068	47,035	54,618

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	8,584	9,906
Interest expended	2,626	2,106	2,258	2,294	1,931	2,237	2,786	3,474
Net Interest Income	2,266	2,155	2,542	3,346	4,335	4,641	5,798	6,432
Change (%)	(10)	(5)	18	32	30	7	25	11
Other Income	55	64	75	107	67	2	9	3
Change (%)	8	15	18	42	(38)	(96)	291	(64)
Total Net Income	2,321	2,218	2,617	3,453	4,402	4,644	5,808	6,435
Change (%)	(10)	(4)	18	32	27	5	25	11
Operating Expenses	1,084	1,153	1,139	1,267	1,317	1,539	1,744	1,984
Change (%)	12	6	(1)	11	4	17	13	14
Employee Expenses	592	630	642	728	782	898	990	1,112
Change (%)	9	7	2	13	7	15	10	12
Other Expenses	221	209	205	257	491	600	710	819
Pre-provisioning Profit	1,237	1,065	1,479	2,186	3,084	3,104	4,064	4,451
Change (%)	(23)	(14)	39	48	41	1	31	10
Provisions	44	37	162	265	240	28	152	251
Change (%)	(51)	(15)	337	63	(9)	(89)	452	65
PBT	1,193	1,028	1,316	1,921	2,845	3,077	3,912	4,200
Tax	413	357	507	741	1,067	1,105	985	1,092
Profit After Tax	780	670	809	1,180	1,778	1,972	2,927	3,108
Change (%)	(22)	(14)	21	46	51	11	48	6
Adjusted Profit After Tax	780	670	809	1,180	1,778	1,972	2,927	3,108
Change (%)	(22)	(14)	21	46	51	11	48	6

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	39,383	44,897
Off-Book AUM	(135)	(133)	(145)	(146)	(368)	(687)	-	-
AUM Growth (%)	(17.1)	7.1	4.1	11.9	6.8	17.5	15.0	14.0
Borrowing Growth (%)	(19.1)	(0.1)	(4.2)	13.2	0.8	26.6	22.9	14.0
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	35
Tier 1 (%)	18.0	20.0	20.9	21.8	24.8	25.7	48.0	32.8
Tier 2 (%)	6.7	4.8	3.6	3.1	1.8	0.4	2.3	1.9
Debt/Equity(x)	4.6	3.8	3.3	3.2	2.7	2.7	2.7	2.5

Assets Quality Metrics

Gross NPA (Rs)	416	512	703	562	2,033	933	985	1,347
Gross NPA (%)	1.9	2.2	2.9	2.1	7.0	2.7	2.5	3.0
Net NPA (Rs)	344	439	601	460	1,795	297	295	404
Net NPA (%)	1.6	1.9	2.5	1.7	6.2	0.9	0.8	0.9
Specific Provision Coverage (%)	17	14	15	18	12	68	70	70
Provision/Average Advances (%)	0.2	0.2	0.7	1.0	0.8	0.1	0.4	0.6

Margin Metrics

Yield On Advances (%)	20.3	18.8	20.1	21.8	22.2	21.7	23.3	23.5
Cost Of Funds (%)	12.1	10.8	11.8	11.5	9.1	9.3	9.3	9.8
Spread (%)	8.2	8.0	8.2	10.3	13.1	12.4	14.0	13.7
NIM on AUM (%)	9.4	9.5	10.6	13.0	15.4	14.6	15.8	15.3

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	53.7	49.4	47.0	40.7	30.8	32.5	32.5	35.1
Other Income/NII (%)	2.4	3.0	3.0	3.2	1.5	0.1	0.2	0.1
Operating Profit/Net Income (%)	53.3	48.0	56.5	63.3	70.1	66.8	70.0	69.2
Net Profit/Net Income (%)	33.6	30.2	30.9	34.2	40.4	42.5	50.4	48.3
Cost to Income (%)	46.7	52.0	43.5	36.7	29.9	33.2	30.0	30.8
Employee Exp/Net Income (%)	25.5	28.4	24.5	21.1	17.8	19.3	17.0	17.3
Cost on Average Assets (%)	3.9	4.4	4.2	4.4	4.3	4.5	4.1	3.9
Provision/PPP (%)	3.5	3.5	11.0	12.1	7.8	0.9	3.7	5.6
Tax Rate (%)	34.7	34.8	38.5	38.6	37.5	35.9	25.2	26.0

Valuation Ratio Metrics

EPS (Rs)	21.0	16.8	20.3	29.5	44.5	49.4	73.3	77.8
Change (%)	(22.3)	(19.7)	20.4	45.7	50.7	11	48.4	6.2
ROAE (%)	19.5	14.3	15.1	19.4	24.8	22.4	26.5	22.7
ROAA (%)	2.8	2.6	3.0	4.1	5.8	5.7	6.9	6.1
Dividend Payout (%)	53.0	34.7	46.2	24.4	21.6	19.4	13.1	12.3
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	308.8	377.0
Change (%)	14	11	10	16	20	25	26	22
P/B (X)	1.5	1.6	1.3	2.3	2.1	2.9	2.4	2.0
P/E (X)	8.2	12.4	8.8	12.5	9.2	14.3	10.2	9.6

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	20.2	19.5
Interest expended	9.5	8.0	8.4	7.9	6.3	6.5	6.5	6.8
Net Interest Income	8.2	8.2	9.4	11.6	14.1	13.5	13.6	12.7
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	13.6	12.7
Total Operating Expenses	3.9	4.4	4.2	4.4	4.3	4.5	4.1	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	9.6	8.8
Provisions	0.2	0.1	0.6	0.9	0.8	0.1	0.4	0.5
Others	-	-	-	-	-	-	-	-
PBT	4.3	3.9	4.9	6.7	9.3	8.9	9.2	8.3
Tax	1.5	1.4	1.9	2.6	3.5	3.2	2.3	2.1
PAT/RoAA	2.8	2.6	3.0	4.1	5.8	5.7	6.9	6.1
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	26.5	22.7

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