

22nd April 2020

Muthoot Finance – BUY

CMP :Rs.744
Target Price :Rs.940
Upside : 26%
Stop Loss :Rs 670 (closing basis)

Investment Thesis

Increase in gold prices and easily available liquidity drive strong gold loan growth and increase in monthly disbursements across gold loan NBFC

Muthoot reported a more than 19% yoy increase in gold loans in 3QFY20; the highest since last financial year FY13. This is driven by a sharp rise in gold prices (up 21% yoy in 3QFY20 and 20% yoy in 2QFY20; 5% qoq in 3QFY20) while LTV declined marginally by 100-200 bps. The demand environment has been strong over the past two quarters, though a squeeze in liquidity led to moderate growth over the past few quarters. With diversification in the funding profile and liquidity easing, growth is likely to retain its strong momentum

Muthoot's average monthly disbursements increased to Rs9100cr during 3QFY20 compared to Rs6800cr in 2QFY20 and Rs6500cr in 1QFY20. Manappuram average monthly disbursements increased 90% QoQ in 2QFY20 (down 21% QoQ on a high base of 2QFY20).

Improvement in asset quality

Asset quality witnessed an improvement with Gross NPA decreasing to 2.5% from 3.4% QoQ and after ECL provisions, Net NPA also decreased to 0.7% from 1.5% QoQ. Write-offs during the quarter were Rs 33 Cr on account of 2 instances of burglaries. Average monthly collections for the quarter were robust at Rs 8200Cr compared to a run-rate of Rs 6000-7000 Cr in H1FY20. Company has maintained excess provisions in their books to the tune of Rs 120cr. Due to 70% Loan-to-value ratio, asset quality is not a major concern for the company.

Best to be found in present uncertain environment

In the near future credit squeeze and asset quality overhang due to Covid-19, we believe MUTH's clear edge over peers positions it for a strong run-up in stock price as the situation normalizes. In our view, the company's spreads/NII are resilient in the current challenging environment as gold loans are usually well-collateralised and carry minimal challenges to ALM.

AUM growth improved led by better source of fund

Consolidated Assets Under Management (AUM) grew by 20.9 YoY to Rs 43400cr mainly due to strong improvement to 18.6% YoY growth in standalone AUM and 18.7% YoY growth in Gold AUM. Subsidiaries AUM growth was also robust at 42.3% YoY to Rs 4900 cr (constituted 11.4% of the consolidated AUM). Reported Yield on Advances improved to 24.58% in Q3FY20 from 23.55% in Q2FY20 due collection of penal interest and increased pricing of loans. The cost of borrowings of the company remained stable at 9.30% in Q3FY20. Total borrowings grew by 29.2% YoY to Rs 32600 cr. The company raised funds through bond issuance program (Rs 3200cr) and public issue of NCDs. The banks' willingness to lend has improved incrementally during Q3FY20 as per the management

Stock Data

Market Cap (Cr)	28345
Promoters Pledged	0%
Shares O/S (cr)	40
Sensex / Nifty	31588/9266
52-Week Range (Rs.)	954 / 476

Shareholding Pattern

Promoters	73.44%
FII's	14.50%
Institutions	7.84%
Others (incl. body corporate)	4.22%

EPS v/s Consensus	FY20E	FY21E
EPS	73%	85%
Consensus	64%	73%

Key Ratios

Div Yield	2.12%
TTM PE	10.49x
ROE	22.41%
TTM EPS (Rs.)	67.45/-

Key Business Highlights

Muthoot and Manappuram are key listed entities and have demonstrated strong performance over the years. Between the two, Muthoot is a more pure play gold loan NBFC (gold loan is ~90% of overall loans) as compared to Manappuram (67% of AUM is gold loans). Non-gold segment contributes 12% to consolidated AUM. Management maintained its guidance of gold loan growth at 15% YoY for FY20 and similar for FY21.

Highlights on Key Subsidiaries Performance

Muthoot Homefin (India) Ltd the wholly owned subsidiary, registered 10.3% YoY growth in AUM to Rs 2020 Cr. It achieved a profit after tax of Rs 10.5 Cr (Vs Rs 9.3 Cr YoY) in Q3FY20 and Rs 30.6 Cr (Vs Rs 30.2 Cr YoY) in 9MFY20. Its GNPA ratio for Q3FY20 stood at 1.87%. The Capital Adequacy remains very comfortable at 50.0%..

BIFPL

Belstar Investment and Finance Private Limited (BIFPL), 70.01% Subsidiary, increased its loan portfolio to Rs 2290Cr as against Rs 1560 Cr in Q3FY19, YoY increase of 46.1%. Total revenue for Q3FY20 stood at Rs 1333mn up 37.4% (Vs Rs 970mn in Q3FY19). Net profit increased by 8.8% YoY to Rs 26 Cr. Asset quality trend showed pressure on QoQ basis with GNPA of 1.13% from 1.01% in Q2FY20. Company has healthy Capital Adequacy ratio of 27.0%.

Muthoot Money

Asset quality drastically deteriorated in Muthoot Money. Muthoot Money is a wholly owned subsidiary of Muthoot Finance that commenced operations from October 2018. The company is involved in extending loans for commercial vehicles, equipment and cars. The operations are centered in Hyderabad. AUM growth was strong at 15% qoq (on a low base). Gross NPA increased 155 bps qoq to 2.5%.

Valuation

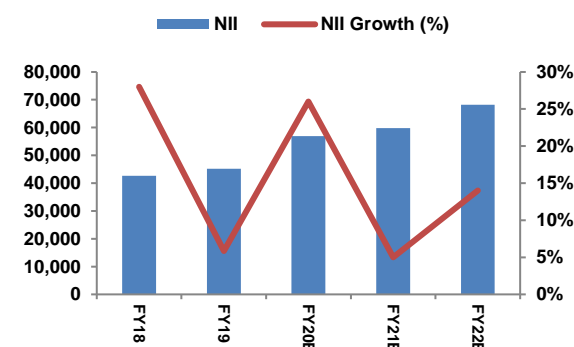
Gold loans NBFCs have seen yield expansion during phases of rally in gold prices. Collections and hence realization are relatively high during these periods, which results in yield expansion. Higher yields and lower credit cost drive elevated ROEs during phases of rallying gold prices. On a high leverage, ROEs were elevated at 30-52% for Muthoot in FY2008-12. ROEs for Manappuram were also high at 22-34% during the same period. In times of downturn (muted growth or decline in gold prices), ROE is lower at 14-19% for Muthoot and 9-24% for Manappuram (FY2014-17). A sharp rise in gold prices during the past two quarters will likely drive ROE expansion going ahead. MUTH is likely to remain the lowest cost gold financier in near term –we thus raise our FY20 earnings estimate by 14% and FY21-FY22 estimates by 4% each. Our Mar'21 target price stands at Rs 940

Risk & Concern

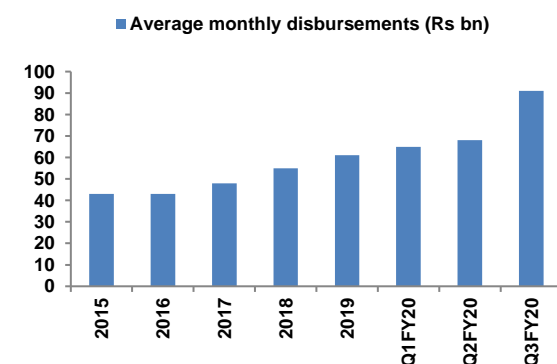
- chunky delinquencies in high-ticket gold loans,
- weak collections in home finance
- high dependence on the state of Tamil Nadu in the Belstar MFI.

Graphs & Charts

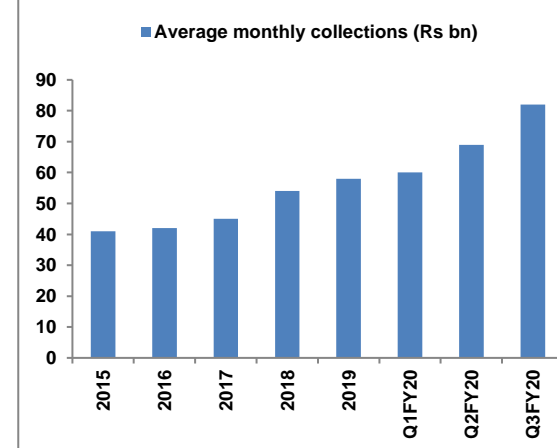
Figure 1: Interest Income Trend



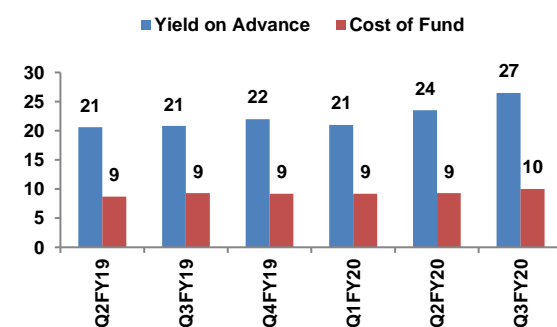
Average Monthly disbursement (Rs bn)



Average Monthly Collection (Rs bn)



Yield and Cost



Disclosure:

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Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate, Walbhat Road, Goregaon (E), Mumbai – 400063 Web site:

<https://www.bonanzaonline.com>

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BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

