

Muthoot Finance

BUY
Softness in AUM growth

Summary

Muthoot Finance reported tad soft Q3FY19, with AUM growth of 15% YoY as against 17% last quarter on account of tighter liquidity condition in the market. NII at Rs10.9bn (flattish YoY) and PAT at Rs4.9bn (growth of 1% YoY) are both 6% below our expectations. Stage III loan assets are flattish sequentially at 2.0%. All the subsidiaries are witnessing healthy traction, accounting for 11% of the overall loan book. We have cut our earnings estimates by 2%/4% for FY19/20 respectively. We marginally cut our TP to Rs595 (Rs600 earlier), valuing it at 2.25x P/ABV FY20 and retaining BUY rating.

Key Highlights and Investment Rationale

- Softness in AUM growth:** Gold loan book has grown by 15% YoY and 1% QoQ. Gold holdings grew 8% YoY to 166tn, whereas loan per 1gm of gold has increased by 6% to Rs1,956. The consolidated AUM has grown by 19% supported by exponential growth of 67% in home loan segment and 65% growth in its microfinance segment. Whereas, growth in Sri Lankan consumer finance subsidiary is modest at 19%. Non-gold segment contributes 11% to consolidated AUM.
- Stable asset quality:** Stage III loans is flattish sequentially at 2.0%. Annualised credit cost is miniscule at 2bps as it utilizes excess provision from earlier accounting standard. It holds total provision of Rs8.1bn as against requirement of Rs5.8bn.
- Compression in Margins:** NIMs have compressed by 34bps sequentially to 13.4%. Compression in NIMs is attributable to 60bps sequential increase in cost of funds.
- Outlook:** With the impact of demonetization behind, favorable regulatory requirement and stable gold prices, the management is targeting a healthy growth going forward. Strong branding (CSK in IPL and Amitabh Bachchan) has a positive impact on the growth. Its strategy of collecting interest on a regular basis has helped improvement in net lending yields and kept credit cost at lower levels. As it utilizes excess provision created under earlier accounting standard, credit cost for next 2 years will be miniscule. Tier I capital of 25% ensures unhindered growth along with no need to raise capital for at least next two years. It has the potential to deliver RoA ~5% and RoE ~20%-22% on a consistent basis.

TP	Rs595
CMP	Rs484
Potential upside / downside	+23%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY19E	FY20E
IDBI Capital	48.6	54.4
Consensus	47.3	53.3
% difference	2.7	2.1

Shareholding Pattern (%)

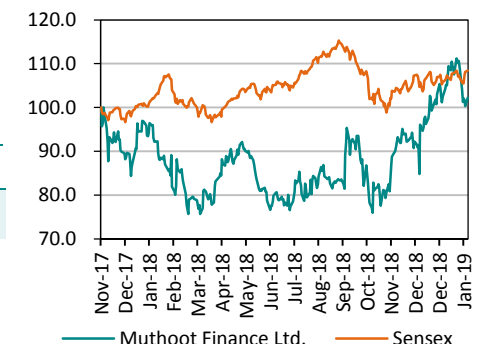
Promoters	73.5
FII	11.0
DII	10.6
Public	4.9

Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.7)	9.9	22.1
Rel to Sensex	(7.3)	4.1	15.8

Key Stock Data	
Bloomberg / Reuters	MUTH IN /MUTT.BO
Sector	Finance
Shares o/s (mn)	400
Market cap. (Rs mn)	193,842
Market cap. (US\$ mn)	2,703
3-m daily average value (Rs mn)	501
52-week high / low	Rs550/357
Sensex / Nifty	36,975 / 11,062

Relative to Sensex (%)



Financial snapshot

Year	FY2016	FY2017	FY2018	FY2019E	FY2020E
NII	25,552	33,609	41,175	44,293	49,007
Net Profit	8,095	11,798	17,205	19,421	21,746
EPS (Rs)	20.3	29.5	43.0	48.6	54.4
ABV (Rs)	125.8	157.3	177.1	225.2	264.5
PER (x)	23.9	16.4	11.3	10.0	8.9
P/BV (x)	3.8	3.1	2.7	2.1	1.8
ROE (%)	15.1	19.4	24.1	22.9	21.8
ROA (%)	3.0	4.1	5.5	5.7	5.5
GNPA (%)	2.9	2.7	4.3	2.4	2.4
NNPA (%)	2.5	0.6	1.7	0.1	0.4
CAR (%)	24.5	24.9	25.6	26.5	27.1

Source: Company; IDBI Capital Research

Conference Call Highlights

- In order to maintain liquidity buffer, LTV ratio was brought down considerably in October and November. Hence, the book degrew by a little. Disbursement were tad lower to maintain additional liquidity during the quarter.
- During the quarter, CPs worth Rs30bn were repaid and then again raised CPs amounted to Rs40bn for the quarter.
- Incremental borrowing cost went up during the quarter, accordingly lending rates were increased by a 100bps.
- By end of next quarter management intends to grow AUM and profitability by 15%.
- Company is coming out with a public issue of NCDs next week targeting the retail franchise. The portfolio currently stands at Rs50bn.
- The subsidiaries achieved loan growth of 65% YoY, reaching Rs40bn. Subsidiaries constitute 11% of Group Loan assets.
- Muthoot Money Pvt Ltd (MMPL), became a wholly owned subsidiary of Muthoot Finance Ltd in October 2018. It is engaged mainly in extending loans for vehicles and equipment's. As on 31st December, 2018 it has a total loan portfolio of Rs1.87bn. Management has guided to grow its loan book to Rs3bn in FY19, Rs10bn in FY20 and Rs20bn in FY21.
- Muthoot Homefin has grown its loan portfolio to Rs18bn, a YoY increase of 67%. The micro finance subsidiary increased its loan portfolio to Rs15.6bn, a YoY increase of 65%.
- ECL provision of 16% out of Rs58bn has been maintained for stage-III loans.
- Auctions during the quarter amounted to Rs3.3bn. Q4 is expected to remain in the same lines.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY19	Q3FY18	Q2FY19	YoY (%)	QoQ (%)
Interest Income	16,827	15,652	16,316	7.5	3.1
Interest Expenses	5,889	4,725	5,354	24.6	10.0
Net Interest Income	10,938	10,927	10,962	0.1	(0.2)
NIM (%)	13.4	15.6	13.7	(230) bps	(34) bps
Non-Interest Income	344	262	185	31.1	85.8
Operating Income	11,282	11,189	11,147	0.8	1.2
Staff Cost	1,980	1,790	2,019	10.6	(1.9)
Other Op Exp	1,460	1,463	1,650	(0.2)	(11.5)
Total Operating Expenses	3,440	3,253	3,669	5.7	(6.2)
Cost to Income (%)	30.5	29.1	32.9	142 bps	(242) bps
Cost to AUM (%)	4.2	4.7	4.6	(41) bps	(39) bps
Operating Profit	7,842	7,936	7,478	(1.2)	4.9
Provisions	19	505	25	(96.2)	(24.0)
Credit Cost (%)	0.0	0.7	0.0	(70) bps	(1) bps
PBT	7,823	7,431	7,453	5.3	5.0
Tax	2,971	2,644	2,615	12.4	13.6
-effective tax rate	38.0	35.6	35.1	240 bps	289 bps
PAT	4,852	4,787	4,838	1.3	0.3
EPS (Rs)	12.1	12.0	12.1	1.2	0.2
BV (Rs)	231.6	194.8	219.7	18.9	5.4
AUM	324,704	282,648	323,185	14.9	0.5

Source: Company; IDBI Capital Research

Exhibit 2: Actual performance versus our estimates

(Rs mn)	Q3FY19	Q3FY19E	Devi. (%)
Net interest income	10,938	11,615	(5.8)
Pre-provision profit	7,842	8,125	(3.5)
PAT	4,852	5,147	(5.7)

Source: Company; IDBI Capital Research

Exhibit 3: Change in our estimates

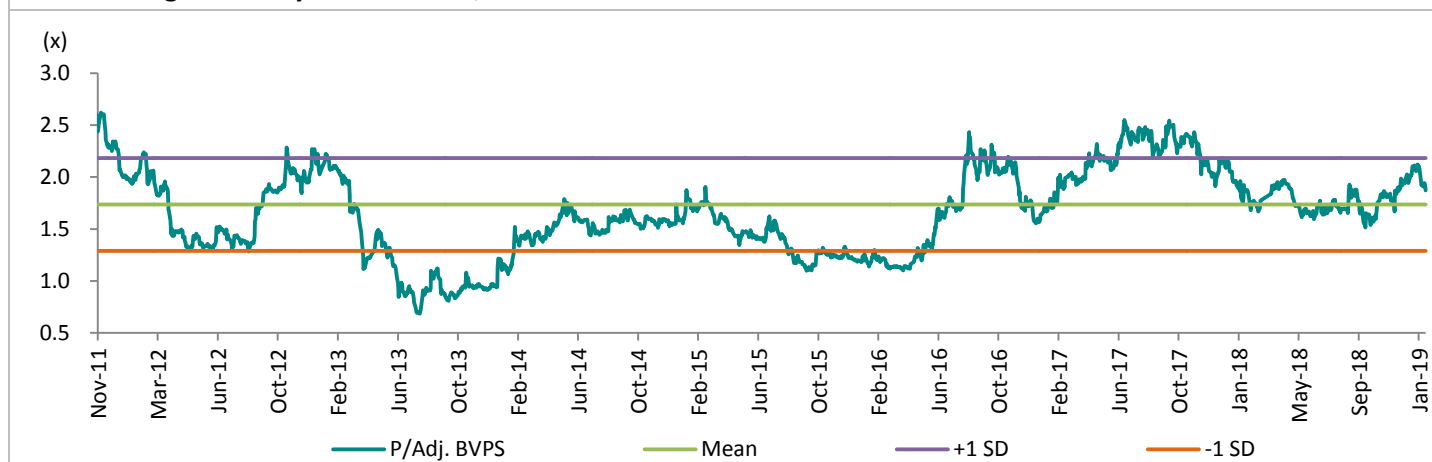
	Revised estimate		Earlier estimate		% Revision	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net interest income (Rs mn)	44,293	49,007	45,458	50,771	(2.6)	(3.5)
NIM (%)	14.3	13.7	14.5	14.0	(24) bps	(25) bps
Operating profit (Rs mn)	30,676	34,360	31,442	35,688	(2.4)	(3.7)
Profit after tax (Rs mn)	19,421	21,746	19,907	22,592	(2.4)	(3.7)
EPS (Rs)	48.6	54.4	49.8	56.5	(2.4)	(3.7)

Source: Company; IDBI Capital Research

Exhibit 4: ROE Decomposition

%	FY16	FY17	FY18	FY19E	FY20E
NII	9.5	11.6	13.3	13.0	12.4
Non-Int Inc	0.2	0.3	0.6	0.3	0.3
Net Revenue	9.7	12.0	13.9	13.3	12.7
Op.Exp	4.2	4.3	4.2	4.3	4.0
Op.Profit	5.5	7.6	9.7	9.0	8.7
Provisions	0.6	1.0	0.8	0.1	0.1
PBT	4.9	6.7	8.9	8.9	8.6
Tax	1.9	2.6	3.3	3.2	3.1
PAT	3.0	4.1	5.5	5.7	5.5
Leverage (x)	5.0	4.8	4.3	4.0	4.0
ROE	15.1	19.4	24.1	22.9	21.8

Source: Company; IDBI Capital Research

Exhibit 5: Figure: One-year forward P/ABV


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY17	FY18	FY19E	FY20E
Net interest income	33,609	41,175	44,293	49,007
Fee Income	920	1,859	995	1,335
Treasury	-	-	-	-
Operating Income	34,529	43,034	45,288	50,342
Operating expenses	(12,503)	(13,066)	(14,612)	(15,983)
Employee expenses	(7,280)	(7,288)	(8,140)	(8,864)
Other expenses	(5,223)	(5,778)	(6,471)	(7,118)
Pre-Provision Profit	22,026	29,968	30,676	34,360
Provision	(2,816)	(2,396)	(332)	(382)
Loan loss Provisions	(2,816)	(2,396)	(332)	(382)
Other Provisions	-	-	-	-
PBT	19,210	27,572	30,345	33,978
Taxes	(7,412)	(10,367)	(10,924)	(12,232)
Net profit	11,798	17,205	19,421	21,746

Balance Sheet

(Rs mn)

Year-end: March	FY17	FY18	FY19E	FY20E
Capital	3,995	4,000	4,000	4,000
Reserves	61,170	73,604	87,729	103,698
Networth	65,165	77,604	91,729	107,698
Borrowings	209,855	211,989	257,491	299,230
Total Liab. & Equity	307,131	313,817	368,691	423,305
Cash	15,343	4,868	9,953	11,446
Investments	2,091	3,839	3,839	3,839
Advances	272,199	288,484	331,757	381,520
Other Assets	15,316	14,564	20,875	24,006
Total assets	307,131	313,817	368,691	423,305

Source: Company; IDBI Capital Research

Financial Ratios

(%)

Year-end: March	FY17	FY18	FY19E	FY20E
Growth				
Advances	11.9	6.0	15.0	15.0
NII	31.5	22.5	7.6	10.6
Pre-Provision Profit	48.9	36.1	2.4	12.0
Net Profit	45.8	45.8	12.9	12.0
Spreads				
Yield on Assets	21.9	21.6	21.4	21.7
Cost of Funds	11.6	9.2	9.4	10.2
NIM	13.0	14.7	14.3	13.7
Operating Efficiency				
Cost-to-Income	36.2	30.4	32.3	31.7
Cost-to-Assets	4.3	4.2	4.3	4.0
Asset Quality				
GNPA	2.7	4.3	2.4	2.4
NNPA	0.6	1.7	0.1	0.4
Provision Coverage	78.8	61.9	97.6	84.6
Credit Cost	1.1	0.9	0.1	0.1
Capital Adequacy				
CAR	24.9	25.6	26.5	27.1
Valuation				
EPS	29.5	43.0	48.6	54.4
ABV	157.3	177.1	225.2	264.5
P/E	16.4	11.3	10.0	8.9
P/ABV	3.1	2.7	2.1	1.8
ROE	19.4	24.1	22.9	21.8
ROA	4.1	5.5	5.7	5.5



Notes

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BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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