

# Muthoot Finance

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
26,657	8,066
Bloomberg	MUTH IN
Equity Shares (m)	398.0
M.Cap. (INR b) / (USD b)	72.0/1.1
52-Week Range (INR)	254 / 152
1, 6, 12 Rel. Per (%)	9/0/-2
12M Avg Val (INR M)	67
Free float (%)	25.2

## Financials & Valuation (INR Billion)

Y/E MAR	2016E	2017E	2018E
NII	23.7	27.8	33.5
PPP	12.1	15.0	19.3
PAT	7.6	9.5	12.2
EPS (INR)	19.1	23.8	30.8
BV/Sh.(INR)	140.1	155.6	175.6
RoA on AUM	3.0	3.2	3.5
RoE (%)	14.3	16.1	18.6
Div. Yld. (%)	3.2	3.9	5.1
<b>Valuations</b>			
P/E (x)	9.5	7.6	5.9
P/BV (x)	1.3	1.2	1.0

**CMP: INR181**

**TP: INR233 (29%)**

**Buy**

## AUM growth picks up, but margins decline and GNPA's increase

- Muthoot Finance's reported 2QFY16 PAT grew 2% YoY and declined 5% QoQ to INR1.7b (4% PAT miss). AUM growth of 14.1% YoY, 90bp YoY margin contraction to 9.3% and 46bp YoY increase in %GNPAs were the key highlights of the quarter.
- AUM for the quarter stood at INR249b (up 14.1% YoY); however, sequential growth was muted at 2% (v/s average of 5% since the last two quarters) due to increased repayments and increasing share of lower tenure loans in the mix.
- Net income grew 3.9% YoY to INR5.7b despite 14.1% YoY growth in AUM. Slower growth in net income is due to 132bp YoY contraction in spreads as the company is reducing lending rates to win back customers and increase market share. NIMs declined 90bp YoY and 30bp sequentially to 9.3%.
- GNPA's increased 46bp YoY and 42bp QoQ to 2.55%. GNPA in absolute terms increased 22% sequentially to INR6.3b. Increase in GNPA led to higher provisions of INR146m. Increase in GNPA is on account of Onam festival in the key state of Kerala, due to which the company decided to be less aggressive on recoveries.
- **Other highlights:** a) Muthoot opened seven new branches during the quarter. As a result, CI ratio increased to 50.8% v/s 48.9% in the last quarter (2QFY15: 52.3%). b) Gold holding per branch increased to 144tn v/s 138tn in the last quarter. c) Reported RoE declined to 13.3% v/s 14.2% in the last quarter. d) Interim dividend of INR4/sh
- **Valuation and view:** MUTH is the largest organized player in the gold loan financing sector. With the regulatory environment turning favorable and a turnaround in the economy, we expect growth to resume and AUM to grow at +17% CAGR for the next 2-3 years. Given that 80% of the company's operating costs are fixed, a rebound in business will lead to optimum utilization of the existing infrastructure. Revival in business and improving return ratios make current valuation of 1.2x FY17E BV attractive. Maintain Buy with TP of INR233 (1.5x FY17E BV).

## Quarterly Performance

(INR Million)

Y/E March	FY15				FY16				FY15	FY16
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Income from operations	10,762	10,468	10,522	10,870	11,256	11,226	11,619	12,377	42,623	46,477
Other operating income	114	115	154	133	145	136	140	115	515	535
<b>Total Operating income</b>	<b>10,876</b>	<b>10,583</b>	<b>10,676</b>	<b>11,003</b>	<b>11,401</b>	<b>11,361</b>	<b>11,759</b>	<b>12,492</b>	<b>43,138</b>	<b>47,012</b>
YoY Growth (%)	-15.3	-18.3	-10.7	-4.5	4.8	7.4	10.1	13.5	-12.5	9.0
Other income	45	32	16	15	26	38	33	32	108	128
<b>Total Income</b>	<b>10,920</b>	<b>10,615</b>	<b>10,692</b>	<b>11,018</b>	<b>11,426</b>	<b>11,400</b>	<b>11,792</b>	<b>12,524</b>	<b>43,246</b>	<b>47,141</b>
YoY Growth (%)	-15.1	-18.5	-11.0	-4.9	4.6	7.4	10.3	13.7	-12.6	9.0
Interest Expenses	5,354	5,084	5,292	5,332	5,670	5,652	5,709	5,750	21,064	22,781
<b>Net Income</b>	<b>5,566</b>	<b>5,531</b>	<b>5,400</b>	<b>5,686</b>	<b>5,756</b>	<b>5,747</b>	<b>6,083</b>	<b>6,773</b>	<b>22,183</b>	<b>24,360</b>
Operating Expenses	2,756	2,891	2,989	2,897	2,816	2,918	3,180	3,319	11,533	12,233
<b>Operating Profit</b>	<b>2,810</b>	<b>2,640</b>	<b>2,411</b>	<b>2,789</b>	<b>2,940</b>	<b>2,830</b>	<b>2,903</b>	<b>3,454</b>	<b>10,650</b>	<b>12,127</b>
YoY Growth (%)	-6.9	-20.4	-21.5	-5.9	4.6	7.2	20.4	23.9	-13.9	13.9
Provisions	80	41	35	216	106	146	147	124	371	523
<b>Profit before Tax</b>	<b>2,730</b>	<b>2,600</b>	<b>2,376</b>	<b>2,573</b>	<b>2,835</b>	<b>2,684</b>	<b>2,755</b>	<b>3,330</b>	<b>10,280</b>	<b>11,605</b>
Tax Provisions	928	892	832	921	1,003	939	937	1,124	3,573	4,003
<b>Net Profit</b>	<b>1,802</b>	<b>1,707</b>	<b>1,544</b>	<b>1,652</b>	<b>1,832</b>	<b>1,745</b>	<b>1,819</b>	<b>2,205</b>	<b>6,706</b>	<b>7,602</b>
YoY Growth (%)	-7.1	-19.1	-20.5	-8.7	1.7	2.2	17.7	33.5	-14.0	13.3

E: MOSL Estimates

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Investors are advised to refer through disclosures made at the end of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Exhibit 1: Quarterly performance v/s expectations and deviations for the same**

Particulars	2QFY16E	2QFY16A	v/s Est.	Comments
Income from operations	11,450	11,226	-2	
Other operating income	140	136	-3	
<b>Total Operating income</b>	<b>11,590</b>	<b>11,361</b>	<b>-2</b>	<b>Reduction in lending rate led to lower Op. income</b>
Other income	33	38	16	
<b>Total Income</b>	<b>11,623</b>	<b>11,400</b>	<b>-2</b>	
Interest expenses	5,613	5,652	1	In-line
<b>Net Income</b>	<b>6,010</b>	<b>5,747</b>	<b>-4</b>	
Operating Expenses	3,069	2,918	-5	
<b>Operating Profit</b>	<b>2,941</b>	<b>2,830</b>	<b>-4</b>	<b>Lower operating income led to estimate miss</b>
Provisions	150	146	-3	
<b>Profit before Tax</b>	<b>2,791</b>	<b>2,684</b>	<b>-4</b>	
Tax Provisions	964	939	-3	Tax rate at 35%
<b>Net Profit</b>	<b>1,827</b>	<b>1,745</b>	<b>-4</b>	
Int Exp/ operating inc (%)	48.4	49.7		
Other Income / Total Income (%)	0.3	0.3		
Cost to Income Ratio (%)	51.1	50.8		
Tax Rate (%)	34.5	35.0		

Source: Company, MOSL

**AUM growth picks up; Spreads decline due to lower lending rates**

- AUM grew 14.1% YoY to INR249b; however, sequential growth in AUM was just 1.9% due to higher repayments and increasing share of lower ticket loans in the loan mix.
- Net income grew just 3.9% YoY to INR5.7b, despite 14.1% YoY growth in AUM. Slower growth in net income is due to 132bp YoY contraction in spreads as the company is reducing lending rates in order to win back customers and increase market share. Additionally, the company has reduced lending rates to pass on some benefit of reduction in cost of fund. As a result NIMs declined 90bp YoY and 30bp sequentially to 9.3%. However, the company intends to maintain its margin at 9%.
- Lower lending rates negated the impact of declining borrowing cost, as lending rates declined by over 60bp QoQ against 47bp sequential reduction in borrowing cost. Resulting in 15bp QoQ contraction in spreads to 7.6% and a 30bp QoQ contraction in NIMs to 9.3%.
- Cost of borrowing from banks is <10% (base rate + 40-50bp). Thus at present banks are the cheapest sources of funding and share of bank borrowing increased 460bp QoQ to 42.6% of total borrowing against 38% in the previous quarter.

**Asset quality deteriorates 42bp QoQ; resulting in higher provisions**

- Asset quality deteriorated sequentially as %GNPA increased 42bp QoQ to 2.55% v/s 2.13% in the last quarter. On absolute basis, GNPA increased to 39% YoY and 22% QoQ to INR6.3b v/s INR5.2b in the last quarter. Increase in GNPA is due to Onam festival in the key state of Kerala, due to which, the company had consciously decided to be less aggressive on recoveries and delayed the auction process.

- Sharp increase in GNPA led to higher provision expenses, which stood at INR146m. Credit costs for the quarter were 24bp v/s 7bp in 2QFY15 and 18bp in the last quarter.
- **Other highlights:** a) Muthoot opened 7 new branches during the quarter (5 in South India and one each in West and North India). Thus as a result CI ratio increased to 50.8% v/s 48.9% in last quarter (2QFY15: 52.3%). b) Gold holding per branch increased to 144tn vs 138 in the last quarter. c) Reported RoE declined to 13.3% v/s 14.2% in the last quarter. d) Tax rate during the quarter was 35% v/s 35.4% in 1QFY16. e) The company declared an interim dividend of INR4/share.

### Valuation and view

- Over last three years the gold loan industry has been dragged down by various regulatory pressures. However, with most negatives now waning several regulatory hurdles are behind leading to strengthened practices. The RBI has also acknowledged the systemic importance of gold loan companies.
- MUTH is the largest organized player in the gold loan financing sector. With the regulatory environment turning favorable and a turnaround in the economy, we expect growth to resume and AUM to grow at CAGR of +17% for the next 2-3 years. Given that 80% of the company's operating costs are fixed in nature, a rebound in business will lead to optimum utilization of the existing infrastructure.
- The benefits of scale and operating leverage will enable MUTH to improve return ratios here on in. Higher return ratios (RoA of 3% and RoE of over 18%) make current valuation of 1.2x FY17E BV really attractive. The stock trades at a discount to its historical P/B average of 1.5x. Maintain Buy with TP of INR233 (1.5x FY17E BV).

### Exhibit 2: We largely maintain our estimates

INR B	Old Est			Revised Est.			% Change		
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
NII	24.5	28.3	33.5	23.7	27.8	33.5	-3.4	-1.7	0.0
Other Income	0.7	0.7	0.7	0.7	0.7	0.7			
<b>Net Income</b>	<b>25.2</b>	<b>29.0</b>	<b>34.3</b>	<b>24.4</b>	<b>28.5</b>	<b>34.3</b>	<b>-3.3</b>	<b>-1.7</b>	<b>0.0</b>
Operating Expenses	12.7	14.1	15.6	12.2	13.5	14.9	-4.0	-4.0	-4.1
<b>Operating Profits</b>	<b>12.5</b>	<b>14.9</b>	<b>18.7</b>	<b>12.1</b>	<b>15.0</b>	<b>19.3</b>	<b>-2.6</b>	<b>0.5</b>	<b>3.4</b>
Provisions	0.5	0.6	0.8	0.5	0.6	0.8			
<b>PBT</b>	<b>11.9</b>	<b>14.3</b>	<b>17.9</b>	<b>11.6</b>	<b>14.4</b>	<b>18.6</b>	<b>-2.7</b>	<b>0.5</b>	<b>3.5</b>
Tax	4.1	4.9	6.1	4.0	4.9	6.3	-1.3	0.5	3.5
<b>PAT</b>	<b>7.9</b>	<b>9.4</b>	<b>11.8</b>	<b>7.6</b>	<b>9.5</b>	<b>12.2</b>	<b>-3.5</b>	<b>0.5</b>	<b>3.5</b>
Loans	268	317	380	268	317	380	0.0	0.0	0.0
Borrowings	224	268	322	224	268	322	0.0	0.0	0.0
<b>Spreads (%)</b>	<b>8.00</b>	<b>8.05</b>	<b>8.10</b>	<b>7.60</b>	<b>7.85</b>	<b>8.10</b>			
<b>RoAA (%)</b>	<b>2.7</b>	<b>2.8</b>	<b>3.0</b>	<b>2.7</b>	<b>2.8</b>	<b>3.1</b>			
<b>RoAE (%)</b>	<b>14.7</b>	<b>16.0</b>	<b>18.0</b>	<b>14.3</b>	<b>16.1</b>	<b>18.6</b>			

## Conference call highlights

### Key Guidance:

- Expect FY16 AUM growth to be at 10% in the worst case. If the demand revives, AUM can grow by 15% YoY.
- The company is targeting total of AUM of INR400b over next 3 years, implying a CAGR of +19%.
- Long term RoA target of 3%. Intends to maintain a margin of 9%

### AUM Growth:

- The continued weakness in the rural economy coupled with weak monsoon has impacted credit growth. Customers in the target segment (generally underserved by the financial institutions) are wary of spending and our putting off their discretionary consumption. This coupled with higher repayments and stable gold prices has led to moderate AUM growth.
- New customers are borrowing for shorter tenure (3-4 months) as against the earlier practice of borrowing for a year. These loans are given at lower LTVs. Thus AUM growth has been lower. This is resulting in gold stock showing higher increase than the AUM growth.
- Company is proactively engaging with old customers and doing several marketing initiatives to boost growth

### Yields and margins:

- Yields have declined 60bp in the quarter due to launch of new schemes at lower interest in order to attract customers. Additionally, the company has passed on some benefit of reduction in cost of funds too.
- Teaser rates are between 12-13% pa. Average yields for the quarter was at 18.3%. MUTH intends to maintain NIMs are 9%.

### Cost of fund:

- Muthoot is able to raise money from banks at <10% (base rate + 40-50bp). Thus at present banks are the cheapest sources of funding and share of bank borrowing increased during the quarter.
- Blended cost of fund for the quarter were at 9.2%

### Asset Quality:

- Spike in GNPA during the quarter is due to Onam festival in Kerala, due to which, the company had consciously decided to be less aggressive in recoveries. **Thus** resulting in higher NPAs. Expect the number to come down in 3Q.
- The company would move to 150dpd NPA recognition norms from 4QFY16. On 90dpd, GNPA stand at INR16.4b (6.6% of total AUM)

### Operating Expenses:

- Operating expenses are expected to remain at current levels.
- The company would be prudent in opening new branches and efforts are made to increase the efficiency of current branches.

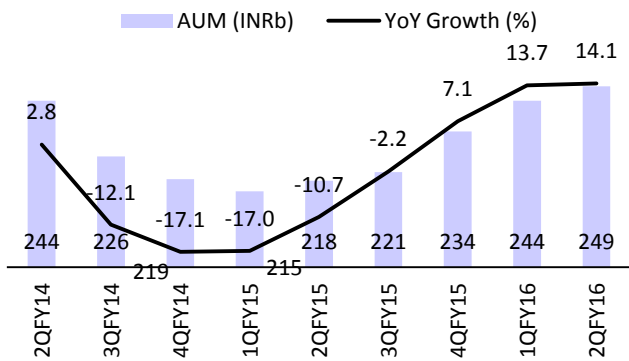
## Exhibit 3: Quarterly Snapshot

	FY14				FY15				FY16		Variation (%)	
	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	QoQ	YoY
<b>Profit and Loss (INR m)</b>												
Income from operations	12,770	12,876	11,856	11,433	10,762	10,468	10,522	10,870	11,256	11,226	0	7
Other operating income	70	79	104	92	114	115	154	133	145	136	-6	18
<b>Total operating income</b>	<b>12,839</b>	<b>12,955</b>	<b>11,959</b>	<b>11,525</b>	<b>10,876</b>	<b>10,583</b>	<b>10,676</b>	<b>11,003</b>	<b>11,401</b>	<b>11,361</b>	<b>0</b>	<b>7</b>
Other Income	19	63	48	66	45	32	16	15	26	38	49	18
<b>Total Income</b>	<b>12,858</b>	<b>13,018</b>	<b>12,007</b>	<b>11,591</b>	<b>10,920</b>	<b>10,615</b>	<b>10,692</b>	<b>11,018</b>	<b>11,426</b>	<b>11,400</b>	<b>0</b>	<b>7</b>
Interest expenses	7,296	7,021	6,277	5,665	5,354	5,084	5,292	5,332	5,670	5,652	0	11
<b>Net income</b>	<b>5,562</b>	<b>5,997</b>	<b>5,730</b>	<b>5,926</b>	<b>5,566</b>	<b>5,531</b>	<b>5,400</b>	<b>5,686</b>	<b>5,756</b>	<b>5,747</b>	<b>0</b>	<b>4</b>
<b>Total Opex</b>	<b>2,543</b>	<b>2,680</b>	<b>2,657</b>	<b>2,960</b>	<b>2,756</b>	<b>2,891</b>	<b>2,989</b>	<b>2,897</b>	<b>2,816</b>	<b>2,918</b>	<b>4</b>	<b>1</b>
Employees	1,409	1,441	1,490	1,577	1,523	1,576	1,627	1,578	1,607	1,623	1	3
Rent	356	383	393	410	402	412	412	423	415	432	4	5
Depreciation and Amrt	107	117	124	127	203	211	217	210	140	143	2	-32
Others	671	739	651	846	627	691	733	687	653	720	10	4
<b>Operating profits</b>	<b>3,019</b>	<b>3,317</b>	<b>3,073</b>	<b>2,965</b>	<b>2,810</b>	<b>2,640</b>	<b>2,411</b>	<b>2,789</b>	<b>2,940</b>	<b>2,830</b>	<b>-4</b>	<b>7</b>
Provisions and write offs	85	81	91	182	80	41	35	216	106	146	38	260
<b>Profit before tax</b>	<b>2,934</b>	<b>3,236</b>	<b>2,982</b>	<b>2,783</b>	<b>2,730</b>	<b>2,600</b>	<b>2,376</b>	<b>2,573</b>	<b>2,835</b>	<b>2,684</b>	<b>-5</b>	<b>3</b>
Taxes	995	1,126	1,040	974	928	892	832	921	1,003	939	-6	5
<b>Profit after tax</b>	<b>1,939</b>	<b>2,110</b>	<b>1,942</b>	<b>1,809</b>	<b>1,802</b>	<b>1,707</b>	<b>1,544</b>	<b>1,652</b>	<b>1,832</b>	<b>1,745</b>	<b>-5</b>	<b>2</b>
<b>Asset quality (Overall)</b>												
Gross NPA	5,378	4,675	4,492	4,160	3,968	4,549	4,103	5,117	5,195	6,341	22	39
Net NPA	4,653	3,950	3,767	3,435	3,243	3,824	3,378	4,392	4,443	5,484	23	43
GNPA (%)	2	2	2	2	2	2	2	2	2	3		
NNPA (%)	2	2	2	2	2	2	2	2	2	2		
Provisions	725	725	725	725	725	725	725	725	752	857	14	18
<b>PCR (%)</b>	<b>13</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>16</b>	<b>18</b>	<b>14</b>	<b>14</b>	<b>14</b>		
<b>Ratios (Calc)</b>												
Yields	20	21	20	21	20	20	19	19	19	18		
Cost of funds	12	12	12	11	11	11	11	11	11	11		
NIMs	9	10	10	11	10	10	10	10	10	9		
Spreads	7	9	9	9	9	9	9	8	8	8		
Cost income ratio	46	45	46	50	50	52	55	51	49	51		
Cost to average AUM	4	4	5	5	5	5	5	5	5	5		
<b>AUM related</b>												
Gold Stock Holding (In tonnes)	137	132	123	118	116	120	123	131	138	144	4	20
Avg gold loans per branch (INR Mn)	61	57	52	51	50	51	52	55	57	58	2	15
<b>Overall AUM</b>	<b>258,477</b>	<b>244,009</b>	<b>225,938</b>	<b>218,615</b>	<b>214,636</b>	<b>218,020</b>	<b>220,882</b>	<b>234,080</b>	<b>244,089</b>	<b>248,734</b>	<b>2</b>	<b>14</b>
On balance sheet	258,477	244,009	225,938	218,615	214,636	218,020	220,882	234,080	244,089	248,734	2	14
<b>Other details</b>												
<b>CAR</b>	<b>21</b>	<b>22</b>	<b>24</b>	<b>25</b>	<b>27</b>	<b>26</b>	<b>26</b>	<b>25</b>	<b>24</b>	<b>23</b>		
Tier I	14	15	17	18	20	20	21	20	20	19		
Tier II	7	7	7	7	6	6	6	5	4	4		
Book Value	106	108	111	115	122	122	126	128	132	132		
Leverage (x)	6	6	5	5	4	4	4	4	4	4		

Source: Company, MOSL

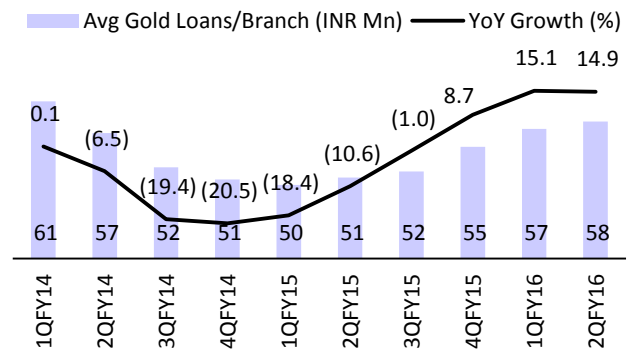
Story in charts

Exhibit 4: AUM grew 14.1% YoY to ~INR250b



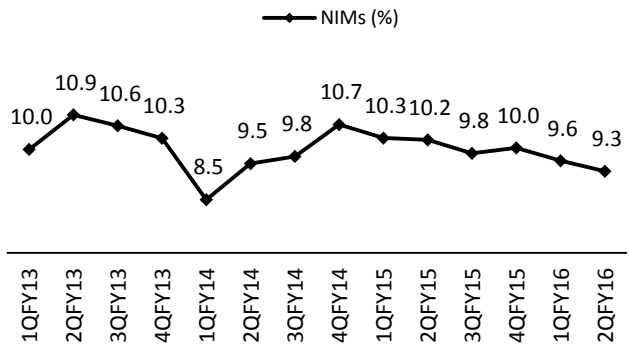
Source: Company, MOSL

Exhibit 5: Avg gold loan/ branch grows to INR58m



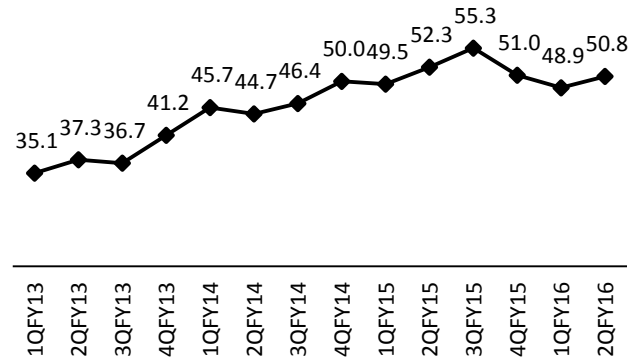
Source: Company, MOSL

Exhibit 6: NIM declined 32bp QoQ to 9.3%



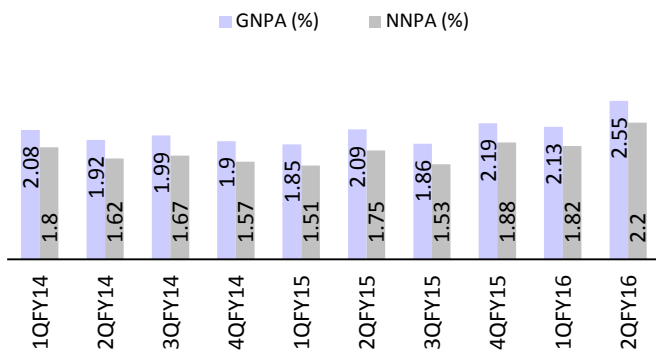
Source: Company, MOSL

Exhibit 7: CI ratio increased due to 7 new branches (%)



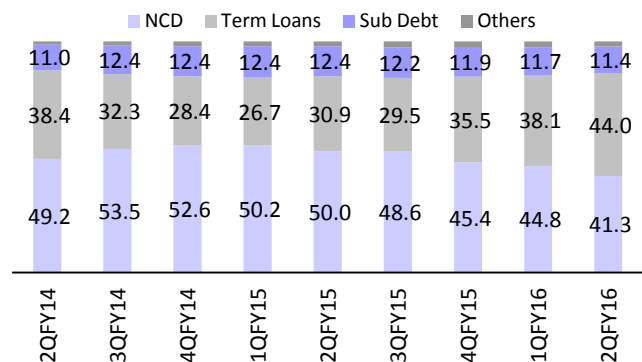
Source: Company, MOSL

Exhibit 8: GNPA/NNPA increases 42bp/38bp QoQ (%)



Source: Company, MOSL

Exhibit 9: Bank borrowing increased to 44% QoQ



Source: Company, MOSL

## Exhibit 10: Financials: Valuation Metrics

	Rating	CMP (INR)	Mcap (USDb)	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
				FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
ICICIBC*	Buy	277	24.3	21.5	25.8	9.9	7.9	131	150	1.62	1.36	1.54	1.58	14.8	15.7
HDFCB	Buy	1,097	41.7	49.1	59.3	22.3	18.5	285	331	3.85	3.32	1.88	1.86	18.4	19.3
AXSB	Buy	475	17.1	35.6	41.8	13.4	11.3	217	252	2.19	1.89	1.69	1.70	17.5	17.8
KMB*	Neutral	689	19.0	18.2	25.3	37.9	27.2	182	207	3.78	3.33	1.01	1.32	13.9	14.5
YES	Buy	759	4.8	60.0	75.8	12.7	10.0	327	388	2.32	1.96	1.67	1.73	19.8	21.2
IIB	Buy	911	8.1	41.3	51.3	22.1	17.8	295	340	3.08	2.68	2.04	2.08	17.6	16.1
DCBB	Sell	87	0.4	5.4	5.8	16.1	14.9	60	66	1.44	1.31	0.84	0.73	9.3	9.2
FB	Neutral	54	1.4	4.4	5.6	12.3	9.8	49	53	1.12	1.03	0.86	0.95	9.5	11.0
JKBK	Neutral	83	0.6	14.1	17.3	5.9	4.8	136	150	0.61	0.56	0.85	0.92	10.7	12.1
SIB	Buy	21	0.4	2.5	3.1	8.0	6.7	29	31	0.72	0.66	0.55	0.58	9.4	10.3
<b>Private Aggregate</b>			<b>117.9</b>			<b>18.0</b>	<b>15.0</b>			<b>2.70</b>	<b>2.37</b>				
SBIN (cons)*	Buy	237	27.2	25.6	31.7	8.8	7.1	229	255	0.98	0.88	0.70	0.77	11.7	13.1
PNB	Buy	128	3.6	19.6	26.8	6.5	4.8	220	244	0.58	0.53	0.57	0.70	9.3	11.6
BOI	Neutral	132	1.3	19.4	27.1	6.8	4.9	410	432	0.32	0.30	0.20	0.25	4.8	6.4
BOB	Buy	160	1.1	20.3	25.1	7.9	6.4	182	201	0.88	0.80	0.61	0.68	11.7	13.1
CBK	Buy	277	2.2	43.8	59.7	6.3	4.6	573	619	0.48	0.45	0.39	0.48	8.1	10.0
UNBK	Buy	157	1.5	35.7	46.6	4.4	3.4	317	356	0.50	0.44	0.56	0.65	11.8	13.9
OBC	Buy	135	0.6	46.3	63.8	2.9	2.1	474	523	0.28	0.26	0.57	0.69	10.1	12.8
INBK	Buy	125	0.9	21.1	30.6	5.9	4.1	278	301	0.45	0.42	0.50	0.65	7.8	10.6
CRPBK	Neutral	44	0.1	16.5	21.9	2.6	2.0	141	158	0.31	0.28	0.54	0.64	12.3	14.7
ANDB	Buy	65	0.6	17.8	22.8	3.7	2.9	180	196	0.36	0.33	0.55	0.62	10.3	12.2
IDBI	Neutral	86	2.1	14.4	19.7	5.9	4.4	157	173	0.55	0.50	0.58	0.69	9.5	11.9
DBNK	Neutral	42	0.4	8.8	12.5	4.8	3.3	126	136	0.33	0.31	0.36	0.44	7.2	9.6
<b>Public Aggregate</b>			<b>41.6</b>			<b>7.5</b>	<b>5.7</b>			<b>0.68</b>	<b>0.62</b>				
HDFC*	Under Review	1,257	30.0	35	42	23.1	17.7	165	188	4.94	3.90	2.46	2.55	23.6	22.7
LICHF	Buy	480	3.7	34	42	14.2	11.3	182	216	2.64	2.22	1.48	1.55	20.1	21.3
DEWH	Buy	225	1.0	26	33	8.6	6.8	179	204	1.26	1.10	1.27	1.29	15.6	17.2
IHFL	Buy	722	4.7	56	72	13.0	10.1	275	304	2.63	2.37	3.91	4.07	25.9	24.8
GRHF	Buy	255	1.4	7	9	37.5	29.8	24	28	10.78	8.95	2.18	2.05	28.9	28.6
REPCO	Buy	705	0.7	24	34	28.8	20.7	152	182	4.64	3.87	2.20	2.32	17.3	20.4
IDFC	Buy	59	1.4	10	12	6.0	5.1	107	116	0.28	0.25	1.75	1.83	8.8	9.8
RECL	Buy	249	3.7	63	76	3.9	3.3	302	360	0.83	0.69	3.22	3.23	22.9	22.9
POWF	Buy	240	4.8	54	60	4.4	4.0	285	329	0.84	0.73	3.07	3.03	20.4	19.7
SHTF	Buy	943	3.2	62	73	15.2	12.9	457	515	2.06	1.83	2.08	2.29	14.0	15.0
MMFS	Buy	228	1.9	12	15	18.9	14.9	109	120	2.09	1.90	1.93	2.22	11.5	13.3
BAF	Buy	5,215	4.2	224	276	23.3	18.9	1,351	1,582	3.86	3.30	3.12	2.92	19.9	18.8
MUTH	Buy	181	5.4	20	24	11.5	9.6	141	156	1.62	1.46	2.75	2.83	14.7	16.0
<b>NBFC Aggregate</b>			<b>60.7</b>			<b>15.3</b>	<b>13.0</b>			<b>2.64</b>	<b>2.32</b>				

Source: MOSL

## Financials and valuations

INCOME STATEMENT							(INR Million)		
Y/E MARCH	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Interest Income	10,691	22,841	45,158	53,360	48,920	42,623	46,477	53,386	63,050
Interest Expense	4,745	10,383	23,699	28,194	26,260	21,064	22,781	25,585	29,521
<b>Net Interest Income (Incl Sec.)</b>	<b>5,945</b>	<b>12,458</b>	<b>21,459</b>	<b>25,166</b>	<b>22,661</b>	<b>21,559</b>	<b>23,696</b>	<b>27,801</b>	<b>33,530</b>
Change (%)	106.4	109.5	72.3	17.3	-10.0	-4.9	9.9	17.3	20.6
Other income	203	318	333	511	554	624	664	704	744
<b>Net Income</b>	<b>6,148</b>	<b>12,776</b>	<b>21,792</b>	<b>25,677</b>	<b>23,214</b>	<b>22,183</b>	<b>24,360</b>	<b>28,505</b>	<b>34,273</b>
Change (%)	98.7	107.8	70.6	17.8	-9.6	-4.4	9.8	17.0	20.2
Operating Expenses	2,666	4,822	8,059	9,667	10,841	11,533	12,233	13,520	14,949
<b>Pre Provision Profits</b>	<b>3,483</b>	<b>7,954</b>	<b>13,732</b>	<b>16,010</b>	<b>12,374</b>	<b>10,650</b>	<b>12,127</b>	<b>14,985</b>	<b>19,324</b>
Change (%)	134.0	128.4	72.7	16.6	-22.7	-13.9	13.9	23.6	29.0
Provisions (excl tax)	27	342	420	895	438	371	523	634	765
<b>PBT</b>	<b>3,456</b>	<b>7,612</b>	<b>13,312</b>	<b>15,114</b>	<b>11,936</b>	<b>10,279</b>	<b>11,604</b>	<b>14,351</b>	<b>18,559</b>
Tax	1,180	2,670	4,392	5,072	4,135	3,573	4,003	4,879	6,310
Tax Rate (%)	34.1	35.1	33.0	33.6	34.6	34.8	34.5	34.0	34.0
<b>Profits for Equity SH</b>	<b>2,276</b>	<b>4,942</b>	<b>8,920</b>	<b>10,042</b>	<b>7,801</b>	<b>6,705</b>	<b>7,601</b>	<b>9,472</b>	<b>12,249</b>
Change (%)	132.9	117.1	80.5	12.6	-22.3	-14.0	13.4	24.6	29.3
Proposed Dividend	0	0	1,487	1,673	2,230	2,410	2,280	2,842	3,675

BALANCE SHEET							(INR Million)		
Y/E MARCH	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Equity Share Capital	3,010	3,202	3,717	3,717	3,717	3,980	3,980	3,980	3,980
Reserves & Surplus	2,835	10,142	25,540	33,639	38,929	46,855	51,788	57,935	65,885
<b>Networth</b>	<b>5,845</b>	<b>13,344</b>	<b>29,257</b>	<b>37,356</b>	<b>42,646</b>	<b>50,835</b>	<b>55,768</b>	<b>61,915</b>	<b>69,865</b>
<b>Borrowings</b>	<b>52,792</b>	<b>119,340</b>	<b>193,764</b>	<b>240,807</b>	<b>194,776</b>	<b>194,361</b>	<b>223,642</b>	<b>268,370</b>	<b>322,044</b>
Change (%)	66.8	126.1	62.4	24.3	-19.1	-0.2	15.1	20.0	20.0
<b>Other liabilities</b>	<b>4,718</b>	<b>4,526</b>	<b>10,701</b>	<b>16,000</b>	<b>18,517</b>	<b>22,496</b>	<b>25,871</b>	<b>29,752</b>	<b>34,214</b>
Change (%)	155.1	-4.1	136.4	49.5	15.7	21.5	15.0	15.0	15.0
<b>Total Liabilities</b>	<b>63,356</b>	<b>137,210</b>	<b>233,722</b>	<b>294,163</b>	<b>255,939</b>	<b>267,693</b>	<b>305,280</b>	<b>360,037</b>	<b>426,123</b>
<b>Loans</b>	<b>54,820</b>	<b>117,961</b>	<b>214,699</b>	<b>265,176</b>	<b>219,964</b>	<b>235,412</b>	<b>268,370</b>	<b>316,677</b>	<b>380,012</b>
Change (%)	112.2	115.2	82.0	23.5	-17.0	7.0	14.0	18.0	20.0
<b>Investments</b>	<b>75</b>	<b>75</b>	<b>975</b>	<b>825</b>	<b>354</b>	<b>454</b>	<b>554</b>	<b>654</b>	<b>754</b>
Net Fixed Assets	1,329	1,886	2,682	3,030	3,270	2,642	2,906	3,196	3,516
Other assets	7,132	17,288	15,366	25,131	32,351	29,185	33,451	39,510	41,841
<b>Total Assets</b>	<b>63,356</b>	<b>137,210</b>	<b>233,722</b>	<b>294,163</b>	<b>255,939</b>	<b>267,693</b>	<b>305,280</b>	<b>360,037</b>	<b>426,123</b>

E: MOSL Estimates



## Financials and valuations

### RATIOS

Y/E MARCH	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
<b>Spreads Analysis (%)</b>									
Avg Yield on loans	26.8	26.7	27.4	22.4	20.3	18.8	18.5	18.3	18.1
Avg Cost of funds	11.2	12.1	15.1	13.0	12.1	10.8	10.9	10.4	10.0
Spreads on loans	15.5	14.6	12.2	9.4	8.2	8.0	7.6	7.9	8.1
NIMs on AUM	11.0	10.7	10.6	9.9	9.4	9.5	9.4	9.5	9.6
<b>Profitability Ratios (%)</b>									
RoE	47.7	51.5	41.9	30.2	19.5	14.3	14.3	16.1	18.6
RoA	4.5	4.9	4.8	3.8	2.8	2.6	2.7	2.8	3.1
RoA on AUM	4.2	4.2	4.4	3.9	3.2	3.0	3.0	3.2	3.5
Cost to Income	43.4	37.7	37.0	37.6	46.7	52.0	50.2	47.4	43.6
Empl. Cost/Op. Exps.	43.9	45.8	51.4	56.4	54.6	54.7	54.6	55.4	56.1
	5.3	4.8	4.3	3.7	3.9	4.4	4.3	4.1	3.8
<b>Asset-Liability Profile (%)</b>									
Net NPAs to Adv.	0.0	0.3	0.5	1.7	1.6	1.9	1.8	1.6	1.5
Debt/Equity (x)	9.0	8.9	6.6	6.4	4.6	3.8	4.0	4.3	4.6
Average leverage	8.8	9.0	7.3	6.5	5.4	4.2	3.9	4.2	4.5
<b>Valuations</b>									
Book Value (INR)	19.4	41.7	78.7	100.5	114.7	127.7	140.1	155.6	175.6
Price-BV (x)	9.3	4.3	2.3	1.8	1.6	1.4	1.3	1.2	1.0
Adjusted BV (INR)	19.1	41.2	77.6	96.2	111.5	123.9	135.9	151.0	170.4
Price-ABV (x)	9.5	4.4	2.3	1.9	1.6	1.5	1.3	1.2	1.1
EPS (INR)	7.6	15.4	24.0	27.0	21.0	16.8	19.1	23.8	30.8
EPS Growth (%)	-62.0	103.3	55.5	12.6	-22.3	-19.7	13.4	24.6	29.3
Price-Earnings (x)	23.8	11.7	7.5	6.7	8.6	10.7	9.5	7.6	5.9
Dividend		0	4	4.5	6	6	5.7	7.1	9.2
<b>Dividend Yield (%)</b>		<b>0.0</b>	<b>2.2</b>	<b>2.5</b>	<b>3.3</b>	<b>3.3</b>	<b>3.2</b>	<b>3.9</b>	<b>5.1</b>

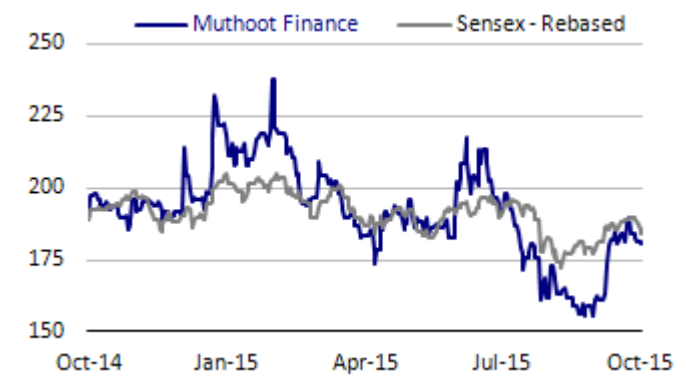
E: MOSL Estimates

## Corporate profile

### Company description

Kerala-headquartered Muthoot Finance is a non-deposit taking NBFC and the flagship company of “The Muthoot Group”. Muthoot Finance has a long and established track record and has been in the lending against gold business for the last 70 years, when Mr M George Muthoot founded a gold loan business in 1939. MUTH’s gold loan portfolio comprises ~5.5m loan accounts in India, which are serviced through 4,245 branches across 26 states and union territories.

### Exhibit 11: Sensex rebased



### Exhibit 12: Shareholding pattern (%)

	Jun-15	Mar-15	Jun-14
Promoter	74.8	74.8	75.0
DII	5.2	5.1	3.2
FII	11.1	11.1	14.2
Others	8.9	9.0	7.6

Note: FII Includes depository receipts

### Exhibit 14: Top management

Name	Designation
M G George Muthoot	Chairman
George Alexander Muthoot	Managing Director

### Exhibit 13: Top holders

Holder Name	% Holding
Birla Sun Life Trustee Com Pvt Ltd A/c Birla Sun Life	2.5
Government Of Singapore	2.0
Goldman Sachs India Fund Ltd	1.6
Reliance Capital Trustee Company Ltd A/c Reliance	1.4
Baring India Pvt Equity Fund III Ltd	1.3

### Exhibit 15: Directors

Name	Name
George Alexander Muthoot	George Thomas Muthoot
John K Paul*	Pamela Anna Mathew
K John Mathew*	Alexander M George
George Joseph*	

\*Independent

### Exhibit 16: Auditors

Name	Type
Rangamani & Co	Statutory
KSR & Co LLP	Secretarial Audit

### Exhibit 17: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	19.1	-	-
FY17	23.8	-	-
FY18	30.8	-	-

NOTES

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No

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