

RESEARCH
Muthoot Finance | Target: Rs 950 | +57% | BUY

Return of pricing power

SUMMARY
Muthoot Finance

We delved into the operating metrics of three large gold financiers – Muthoot Finance (MUTH), Manappuram Finance (MGFL) and Muthoot Fincorp (MFIN) – and found that MUTH has a wider reach and is a better paymaster, aiding higher productivity. Also, its strong cost management fuels operating profit growth. Credit cost normalisation is a consistent theme for all three, but MUTH has the best profit metrics. We expect MUTH to remain in the lead and raise FY20/FY21/ FY22 earnings by 12%/3%/3%, thus resetting our Mar'21 TP to Rs 950 (vs. Rs 875).

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	330
Reliance Industries	Buy	1,500

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	205
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	64

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.60	1bps	(57bps)	(192bps)
India 10Y yield (%)*	6.14	(7bps)	(23bps)	(114bps)
USD/INR*	75.54	(0.2)	(4.7)	(9.9)
Brent Crude (US\$/bbl)	29.94	21.0	(42.3)	(56.9)
Dow	21,413	2.2	(19.8)	(18.8)
Shanghai	2,781	1.7	(6.4)	(14.4)
Sensex*	28,265	(4.1)	(26.2)	(27.3)
India FII (US\$ mn)	30 Mar	MTD	CYTD	FYTD
FII-D	(239.0)	(7,817.8)	(9,384.9)	(6,440.8)
FII-E	(481.1)	(7,885.6)	(6,098.7)	1,290.5

Source: Bank of Baroda Economics Research |

*Current data for India refers to 31.03.2020, except for Sensex (1.04.2020)

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BUY

TP: Rs 950 | ▲ 57%

MUTHOOT FINANCE

| NBFC

| 03 April 2020

Return of pricing power

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Better reach fuels productivity: MUTH had ~4,500 branches as of FY19, which is 30% and 20% higher than the average for MGFL and MFIN respectively through FY13-FY19. This coupled with being a better paymaster (avg. salary per employee ~30% more than MGFL and MFIN) has helped MUTH shore up productivity over this period (avg. AUM per employee ~2x that of both peers). We believe the company will maintain its productivity edge.

Ticker/Price	MUTH IN/Rs 605
Market cap	US\$ 3.2bn
Shares o/s	401mn
3M ADV	US\$ 25.1mn
52wk high/low	Rs 955/Rs 477
Promoter/FPI/DII	73%/15%/8%

Source: NSE

Strong cost management bolsters operating profit: Consistent pricing and strong cost management (~4.5% expense ratio) have helped MUTH nearly double NII through FY13-FY19 and maintain it at twice the average of MGFL and MFIN. Expanding spreads and a doubling of operating profit over this period have further helped build a strong profit pool for the company. Its operating profit averages ~6x that of both peers and this lead looks sustainable.

STOCK PERFORMANCE



Best placed in present uncertain environment: With the impending 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 normalises. 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.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	42,707	45,202	56,853	59,259	67,443
NII growth (%)	27.7	5.8	25.8	4.2	13.8
Adj. net profit (Rs mn)	17,776	19,721	29,937	30,181	34,750
EPS (Rs)	44.4	49.2	74.7	75.3	86.7
P/E (x)	13.6	12.3	8.1	8.0	7.0
P/BV (x)	3.1	2.5	2.0	1.7	1.5
ROA (%)	5.8	5.7	7.4	6.5	6.5
ROE (%)	24.8	22.4	27.6	23.3	22.8

Source: Company, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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