

**BUY**

TP: Rs 1,250 | ▲ 25%

**MUTHOOT FINANCE**

| NBFC

| 18 June 2020

## All that glitters is gold

**Muthoot Finance's (MUTH) gold AUM increased 22% YoY to Rs 416bn in Q4FY20 due to robust gold loan demand. Stoppage of low-yield products in Q4 and reset of liabilities kept spreads buoyant at 15.1%. PBT surged 38% YoY to ~Rs 11bn aided by benign credit cost. We increase FY21/FY22 earnings estimates by 15%/11% respectively to bake in better gold loan demand. Our Mar'21 TP stands revised to Rs 1,250 (vs. Rs 950 earlier).**

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**Gold AUM up 22%:** Gold loan AUM increased 22% YoY to Rs 416bn in Q4 due to buoyant gold loan demand. Gold tonnage was flat QoQ at 176t as customers pledged lower amounts of collateral due to higher gold prices. Aided by the stoppage of low-yield products, yields (calc.) spiked ~150bps YoY to 24.0%.

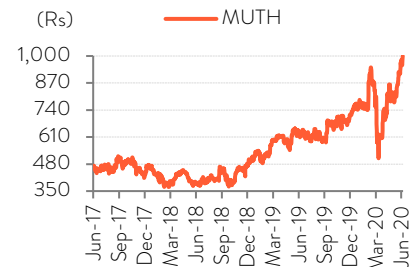
**Diversified borrowing mix aids healthy spreads:** MUTH reduced liability raising from banks and instead accessed foreign debt markets and retail NCDs. Calculated spreads increased ~200bps YoY to 15.1%. We believe better treasury management and repricing of CPs and NCDs will lower the cost of funds, thus keeping spreads stable.

**PBT surges due to benign credit cost:** The expense ratio decreased ~20bps YoY to 5.1% driven by higher loan growth. Credit cost was at a five-quarter low of ~5bps, leading to 38% YoY growth in PBT to Rs 11bn. A lower tax rate of 25.7% supported PAT growth of 59% YoY to Rs 8.2bn.

|                  |                  |
|------------------|------------------|
| Ticker/Price     | MUTH IN/Rs 1,000 |
| Market cap       | US\$ 5.2bn       |
| Shares o/s       | 400mn            |
| 3M ADV           | US\$ 23.4mn      |
| 52wk high/low    | Rs 1,012/Rs 477  |
| Promoter/FPI/DII | 73%/14%/7%       |

Source: NSE

## STOCK PERFORMANCE



Source: NSE

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## KEY FINANCIALS

| Y/E 31 Mar              | FY18A  | FY19A  | FY20P  | FY21E  | FY22E  |
|-------------------------|--------|--------|--------|--------|--------|
| Net interest income     | 42,707 | 45,202 | 57,735 | 65,655 | 72,870 |
| NII growth (%)          | 27.7   | 5.8    | 27.7   | 13.7   | 11.0   |
| Adj. net profit (Rs mn) | 17,776 | 19,721 | 30,183 | 34,660 | 38,423 |
| EPS (Rs)                | 44.4   | 49.2   | 75.3   | 86.4   | 95.8   |
| P/E (x)                 | 22.5   | 20.3   | 13.3   | 11.6   | 10.4   |
| P/BV (x)                | 5.1    | 4.1    | 3.5    | 2.9    | 2.4    |
| ROA (%)                 | 5.8    | 5.7    | 6.8    | 6.2    | 5.8    |
| ROE (%)                 | 24.8   | 22.4   | 28.3   | 27.1   | 25.0   |

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

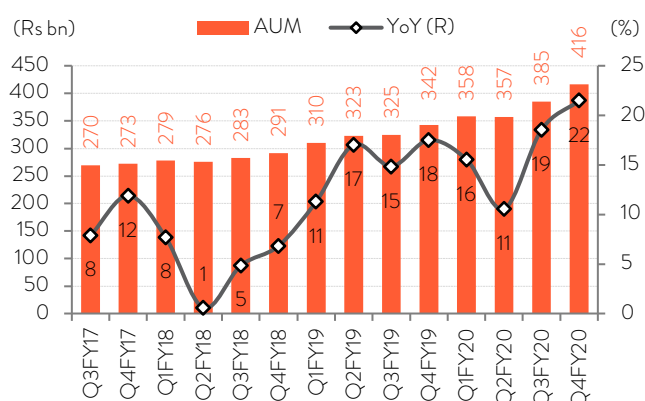
| (Rs mn)                    | Q4FY20        | Q4FY19        | YoY (%)     | Q3FY20        | QoQ (%)      | FY20          | FY19          | YoY (%)     |
|----------------------------|---------------|---------------|-------------|---------------|--------------|---------------|---------------|-------------|
| Interest Income            | 23,506        | 18,319        | 28.3        | 22,806        | 3.1          | 85,644        | 67,570        | 26.7        |
| Interest expenses          | 7,700         | 6,111         | 26.0        | 7,094         | 8.5          | 27,909        | 22,368        | 24.8        |
| <b>Net Interest Income</b> | <b>15,806</b> | <b>12,208</b> | <b>29.5</b> | <b>15,712</b> | <b>0.6</b>   | <b>57,735</b> | <b>45,202</b> | <b>27.7</b> |
| Other Operating Income     | 520           | 485           | 7.1         | 403           | 29.0         | 1,584         | 1,236         | 28.1        |
| <b>Total Income</b>        | <b>16,326</b> | <b>12,694</b> | <b>28.6</b> | <b>16,115</b> | <b>1.3</b>   | <b>59,319</b> | <b>46,438</b> | <b>27.7</b> |
| Operating Expenses         | 5,304         | 4,547         | 16.7        | 4,542         | 16.8         | 17,787        | 15,394        | 15.5        |
| <b>Operating Profit</b>    | <b>11,021</b> | <b>8,147</b>  | <b>35.3</b> | <b>11,573</b> | <b>(4.8)</b> | <b>41,531</b> | <b>31,044</b> | <b>33.8</b> |
| Provisions and Cont.       | 48            | 205           | (76.6)      | 612           | (92.2)       | 957           | 275           | 247.5       |
| <b>Profit before Tax</b>   | <b>10,974</b> | <b>7,942</b>  | <b>38.2</b> | <b>10,961</b> | <b>0.1</b>   | <b>40,574</b> | <b>30,768</b> | <b>31.9</b> |
| Tax Provisions             | 2,822         | 2,827         | (0.2)       | 2,809         | 0.5          | 10,391        | 11,047        | (5.9)       |
| <b>Net Profit</b>          | <b>8,151</b>  | <b>5,115</b>  | <b>59.4</b> | <b>8,152</b>  | <b>(0.0)</b> | <b>30,183</b> | <b>19,721</b> | <b>53.0</b> |

Source: Company, BOBCAPS Research

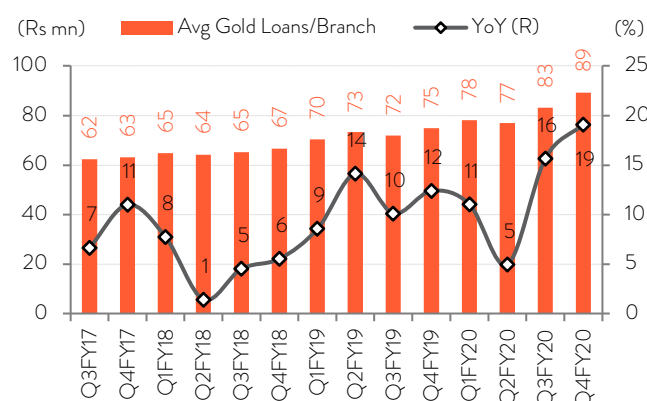
**FIG 2 – RESULTS IN LINE WITH OUR ESTIMATES**

| (Rs mn)                    | Q4FY20A       | Q4FY20E       | Actual vs. Est. (%) | FY20A         | FY20E         | Actual vs. Est. (%) |
|----------------------------|---------------|---------------|---------------------|---------------|---------------|---------------------|
| Interest Income            | 23,506        | 22,071        | 7                   | 85,644        | 84,209        | 2                   |
| Interest expenses          | 7,700         | 7,303         | 5                   | 27,909        | 27,355        | 2                   |
| <b>Net Interest Income</b> | <b>15,806</b> | <b>14,768</b> | <b>7</b>            | <b>57,735</b> | <b>56,853</b> | <b>2</b>            |
| Other Operating Income     | 520           | 467           | 11                  | 1,584         | 1,453         | 9                   |
| <b>Total Income</b>        | <b>16,326</b> | <b>15,235</b> | <b>7</b>            | <b>59,319</b> | <b>58,306</b> | <b>2</b>            |
| Operating Expenses         | 5,304         | 4,470         | 19                  | 17,787        | 17,161        | 4                   |
| <b>Operating Profit</b>    | <b>11,021</b> | <b>10,765</b> | <b>2</b>            | <b>41,531</b> | <b>41,145</b> | <b>1</b>            |
| Provisions and Cont.       | 48            | 185           | (74)                | 957           | 1,122         | (15)                |
| <b>Profit before Tax</b>   | <b>10,974</b> | <b>10,580</b> | <b>4</b>            | <b>40,574</b> | <b>40,023</b> | <b>1</b>            |
| Tax Provisions             | 2,822         | 2,557         | 10                  | 10,391        | 10,086        | 3                   |
| <b>Net Profit</b>          | <b>8,151</b>  | <b>8,024</b>  | <b>2</b>            | <b>30,183</b> | <b>29,937</b> | <b>1</b>            |

Source: Company, BOBCAPS Research

**FIG 3 – TOTAL AUM GROWTH WAS AT 22% YOY...**

Source: Company, BOBCAPS Research

**FIG 4 – ...WITH BETTER PRODUCTIVITY (+19% YOY)**

Source: Company, BOBCAPS Research

FIG 5 – DETAILED QUARTERLY PERFORMANCE

|                                        | FY18          |               |               | FY19          |               |               |               | FY20          |               |               |               | Variation (%) |           |
|----------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------|
|                                        | Q2            | Q3            | Q4            | Q1            | Q2            | Q3            | Q4            | Q1            | Q2            | Q3            | Q4            | QoQ           | YoY       |
| <b>Profit and Loss (Rs mn)</b>         |               |               |               |               |               |               |               |               |               |               |               |               |           |
| <b>Total Income</b>                    | <b>16,619</b> | <b>15,914</b> | <b>17,025</b> | <b>16,330</b> | <b>16,501</b> | <b>17,171</b> | <b>18,804</b> | <b>18,587</b> | <b>21,405</b> | <b>23,209</b> | <b>24,026</b> | <b>4</b>      | <b>28</b> |
| Interest expenses                      | 4,933         | 4,725         | 4,535         | 5,016         | 5,354         | 5,889         | 6,111         | 6,416         | 6,699         | 7,094         | 7,700         | 9             | 26        |
| <b>Net income</b>                      | <b>11,686</b> | <b>11,190</b> | <b>12,490</b> | <b>11,314</b> | <b>11,148</b> | <b>11,282</b> | <b>12,694</b> | <b>12,171</b> | <b>14,707</b> | <b>16,115</b> | <b>16,326</b> | <b>1</b>      | <b>29</b> |
| Total Opex                             | 3,119         | 3,254         | 3,699         | 3,738         | 3,669         | 3,440         | 4,547         | 3,972         | 3,969         | 4,542         | 5,304         | 17            | 17        |
| Employees                              | 1,947         | 1,889         | 2,130         | 2,169         | 2,086         | 1,980         | 2,741         | 2,295         | 2,327         | 2,580         | 3,088         | 20            | 13        |
| Rent                                   | 425           | 474           | 511           | 475           | 493           | 503           | 503           | 527           | 533           | 548           | 550           | 0             | 9         |
| Depreciation and Amrt                  | 106           | 115           | 114           | 91            | 100           | 110           | 119           | 96            | 103           | 110           | 122           | 12            | 2         |
| Others                                 | 641           | 776           | 945           | 1,003         | 991           | 847           | 1,184         | 1,054         | 1,006         | 1,305         | 1,544         | 18            | 30        |
| <b>Operating profits</b>               | <b>8,567</b>  | <b>7,936</b>  | <b>8,791</b>  | <b>7,577</b>  | <b>7,478</b>  | <b>7,842</b>  | <b>8,147</b>  | <b>8,199</b>  | <b>10,738</b> | <b>11,573</b> | <b>11,021</b> | <b>(5)</b>    | <b>35</b> |
| Provisions and write offs              | 1,170         | 505           | 596           | 27            | 25            | 19            | 205           | 33            | 265           | 612           | 48            | (92)          | (77)      |
| <b>Profit before tax</b>               | <b>7,397</b>  | <b>7,431</b>  | <b>8,195</b>  | <b>7,550</b>  | <b>7,453</b>  | <b>7,823</b>  | <b>7,942</b>  | <b>8,166</b>  | <b>10,473</b> | <b>10,961</b> | <b>10,974</b> | <b>0</b>      | <b>38</b> |
| Taxes                                  | 2,940         | 2,645         | 3,112         | 2,634         | 2,615         | 2,971         | 2,827         | 2,866         | 1,894         | 2,809         | 2,822         | 0             | (0)       |
| <b>Profit after tax</b>                | <b>4,457</b>  | <b>4,787</b>  | <b>5,083</b>  | <b>4,916</b>  | <b>4,838</b>  | <b>4,852</b>  | <b>5,115</b>  | <b>5,300</b>  | <b>8,579</b>  | <b>8,152</b>  | <b>8,151</b>  | <b>(0)</b>    | <b>59</b> |
| <b>Asset quality (Overall) (Rs mn)</b> |               |               |               |               |               |               |               |               |               |               |               |               |           |
| Gross Stage 3                          | 19,353        | 21,481        | 12,872        | 8,835         | 6,170         | 6,372         | 9,326         | 11,474        | 12,267        | 9,769         | 8,992         | (8)           | (4)       |
| GS3 (%)                                | 7.0           | 7.6           | 4.4           | 2.9           | 1.9           | 2.0           | 2.7           | 3.2           | 3.4           | 2.5           | 2.2           | (38bps)       | (56bps)   |
| ECL Provisions                         | 6,673         | 7,089         | 6,089         | 5,892         | 5,795         | 5,835         | 6,359         | 6,896         | 7,014         | 7,178         | 5,427         | (24)          | (15)      |
| ECL Provisions (%)                     | 2.4           | 2.5           | 2.1           | 1.9           | 1.8           | 1.8           | 1.9           | 1.9           | 2.0           | 1.9           | 1.3           | (56bps)       | (56bps)   |
| Provisions outstanding in books        | 7,197         | 7,640         | 8,096         | 8,096         | 8,096         | 8,096         | 8,096         | 8,095         | 8,213         | 8,377         | 8,381         | 0             | 4         |
| <b>Ratios (Calc, %)</b>                |               |               |               |               |               |               |               |               |               |               |               |               |           |
| Yields                                 | 24.0          | 22.6          | 23.0          | 21.7          | 20.8          | 21.2          | 22.5          | 21.2          | 23.9          | 25.0          | 24.0          | (104bps)      | 143bps    |
| Cost of funds                          | 8.9           | 8.7           | 8.6           | 9.0           | 9.0           | 9.5           | 9.4           | 9.3           | 9.5           | 9.3           | 8.8           | (47bps)       | (55bps)   |
| NIMs                                   | 16.9          | 16.0          | 17.4          | 15.1          | 14.1          | 13.9          | 15.2          | 13.9          | 16.4          | 17.4          | 16.3          | (106bps)      | 108bps    |
| Spreads                                | 15.1          | 13.9          | 14.4          | 12.7          | 11.8          | 11.7          | 13.2          | 11.9          | 14.4          | 15.7          | 15.1          | (57bps)       | 198bps    |
| Cost income ratio                      | 26.7          | 29.1          | 29.6          | 33.0          | 32.9          | 30.5          | 35.8          | 32.6          | 27.0          | 28.2          | 32.5          | 431bps        | (333bps)  |
| Cost to average AUM                    | 4.5           | 4.7           | 5.2           | 5.0           | 4.6           | 4.2           | 5.5           | 4.5           | 4.4           | 4.9           | 5.3           | 40bps         | (16bps)   |
| <b>AUM related</b>                     |               |               |               |               |               |               |               |               |               |               |               |               |           |
| Gold Stock Holding (In tonnes)         | 152           | 153           | 155           | 161           | 168           | 166           | 169           | 176           | 171           | 173           | 176           | 2             | 4         |
| Avg gold loans per branch (Rs mn)      | 64            | 65            | 67            | 70            | 73            | 72            | 75            | 78            | 77            | 83            | 89            | 7             | 19        |
| Overall AUM (Rs bn)                    | 276           | 283           | 291           | 310           | 323           | 325           | 342           | 358           | 357           | 385           | 416           | 8             | 22        |
| <b>Other details</b>                   |               |               |               |               |               |               |               |               |               |               |               |               |           |
| CAR                                    | 26.5          | 27.7          | 26.6          | 26.4          | 25.9          | 25.7          | 26.1          | 24.7          | 27.1          | 26.5          | 25.5          | (104bps)      | (65bps)   |
| Tier I                                 | 23.6          | 25.5          | 24.8          | 24.8          | 25.3          | 25.2          | 25.7          | 24.3          | 26.7          | 26.2          | 24.3          | (188bps)      | (138bps)  |
| Tier II                                | 2.9           | 2.1           | 1.8           | 1.7           | 0.6           | 0.5           | 0.4           | 0.4           | 0.4           | 0.3           | 1.2           | 84bps         | 73bps     |
| Book Value                             | 183           | 195           | 194           | 207           | 219           | 231           | 244           | 243           | 264           | 284           | 288           | 2             | 18        |
| Leverage (x)                           | 3.2           | 2.9           | 3.0           | 3.0           | 2.9           | 2.7           | 2.7           | 2.9           | 2.6           | 2.7           | 2.9           |               |           |

Source: Company, BOBCAPS Research

**Business**

- All branches open and 90% of staff working from office
- Gold loan demand buoyant over the last month
- Existing and new customers both adding to demand; 80% are repeat customers
- No gold loans under moratorium
- Low-yielding products stopped last quarter; expect yields at similar levels of 22% in FY21
- Competition can increase from other NBFCs and banks, but entering into small-ticket loans and sustaining the business looks difficult
- Tonnage growth to be low as gold prices have run up
- Volatility in opex unlikely due to no forex impact on borrowings in FY21
- Interest accrual in FY20 at Rs 15.6bn vs. Rs 9.6bn in FY19
- Spread to be 12% at steady-state levels in FY21; NIMs could be higher

**Covid-19 impact**

- No auctions to be held during next six months

**Asset quality**

- ECL provision under stage-3 at Rs 950mn

**Subsidiaries**

- Vehicle finance and housing finance moratorium given post April – availed of by ~7,000 customers in each segment
- Rs 150mn provision for HFC due to Covid-19 will be taken in 1QFY21.
- Microfinance moratorium extended to all customers. Collection efficiency at 16% in April, 30% in May
- Negligible capital to be deployed in subsidiaries in FY21.

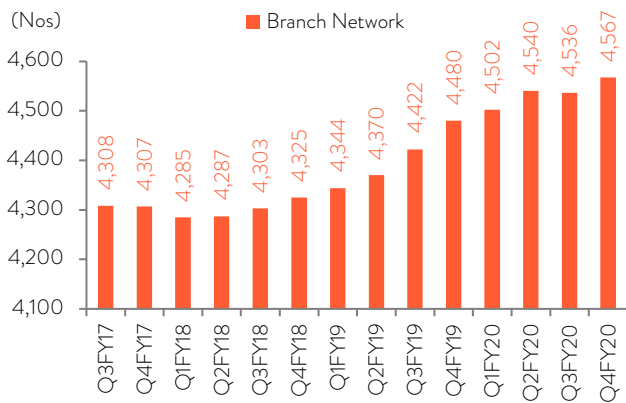
### Liquidity

- Company has not asked for moratorium from banks
- No challenges seen in funding during FY21
- Cost of funds from banks has not come off meaningfully; cost of funds expected to come off from NCD issuances
- Liquidity on balance sheet strong and will continue at similar levels

### Guidance

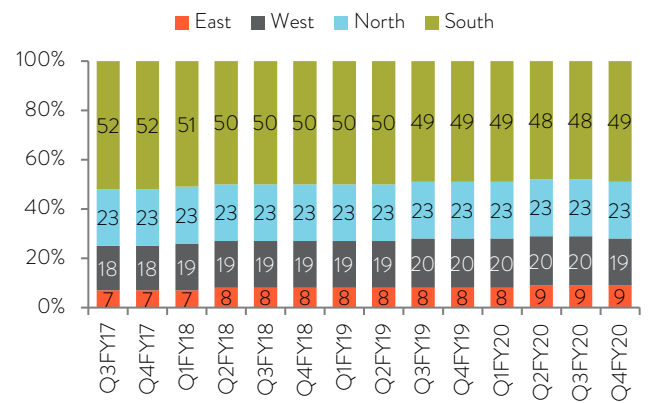
- 15% growth in gold loan portfolio in FY21
- Calibrated growth in subsidiaries

**FIG 6 – NETWORK GREW BY ~100 BRANCHES YOY**



Source: Company, BOBCAPS Research

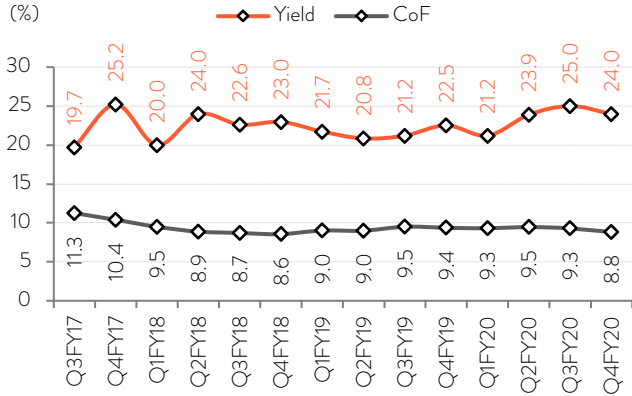
**FIG 7 – AUM MIX LARGELY SIMILAR YOY**



Source: Company, BOBCAPS Research

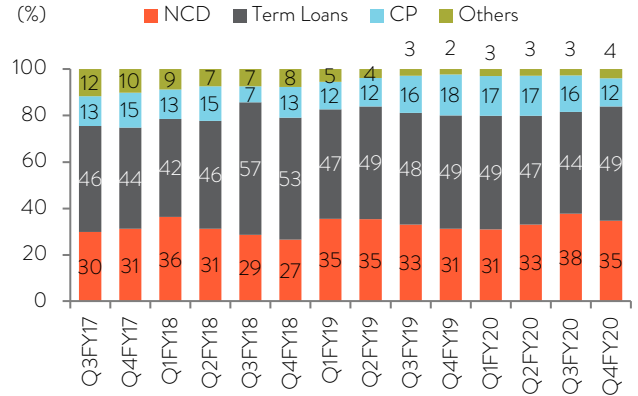
Story in charts

FIG 8 – YIELDS IMPROVING DUE TO RATE HIKE



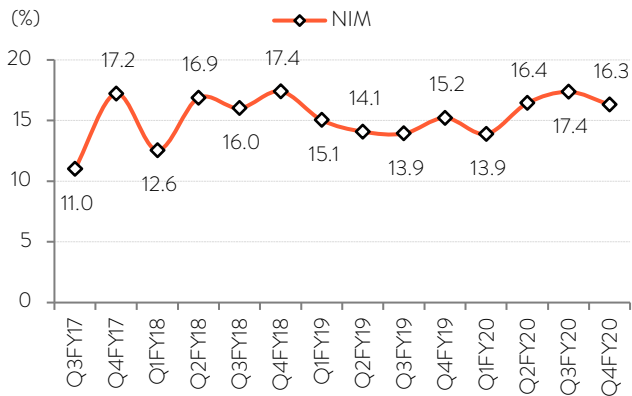
Source: Company, BOBCAPS Research

FIG 9 – HEALTHY MIX HAS KEPT BORROWING COST IN CHECK



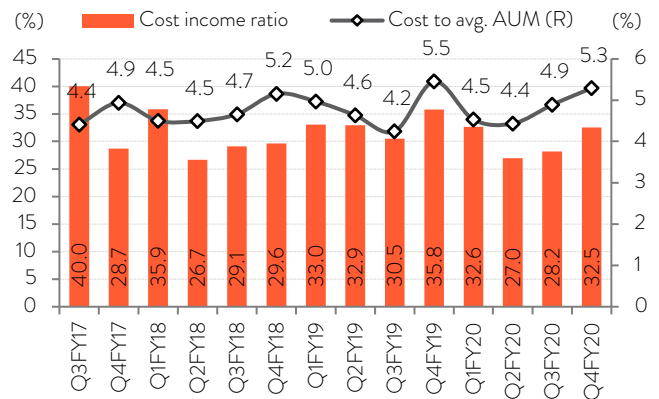
Source: Company, BOBCAPS Research

FIG 10 – NIM (CALC.) EXPANDED ~100BPS YOY



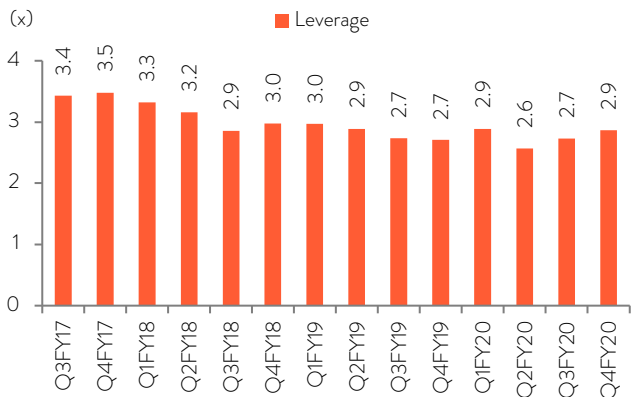
Source: Company, BOBCAPS Research

FIG 11 – OPEX UP YOY DUE TO ECB HEDGING COST



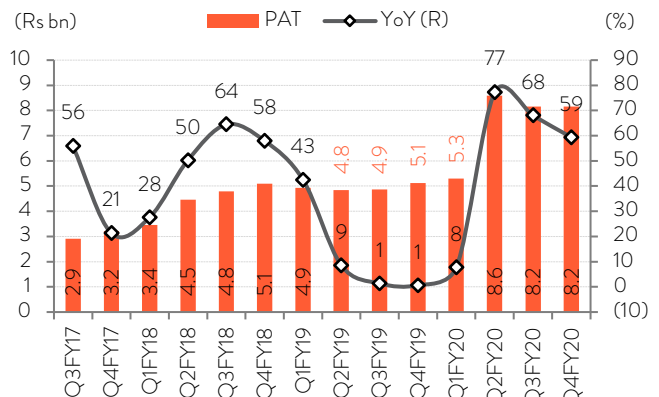
Source: Company, BOBCAPS Research

FIG 12 – BUSINESS REMAINS LOW LEVERED



Source: Company, BOBCAPS Research

FIG 13 – PAT GREW 59% YOY



Source: Company, BOBCAPS Research

## Valuation methodology

MUTH is trading at 2.9x/2.4x FY21E/FY22E BV for ROE of 27.1%/25.0%. Focused strategies to become the gold financier of choice have helped the company cement leadership in gold finance. Emphasis on customer traction and branch productivity is expected to fuel a robust ~13% loan CAGR over FY20-FY22. Incentivising staff for regular collections has produced a high-churn portfolio and curbed auction losses, stabilising yields – we model for yields of 22% in FY21-FY22. A favourable borrowing mix and short-tenor portfolio should anchor spreads at ~14%.

MUTH is the lowest cost gold financier in India and its expense ratio is forecast to remain at ~4.5% of AUM through to FY22. We expect the company to maintain market leadership in NBFC gold financing and yield steady-state ROA of ~6%, with leverage at ~4.5x.

The company has diversified into home finance and microfinance (Belstar), with vehicle finance as a second priority. Belstar being a dominant SHG business model is a safer MFI play despite geographic concentration in Tamil Nadu. We expect incremental capital to be allocated to these fledgling businesses, of which Belstar is well placed to contribute meaningfully in the near term.

In our view, MUTH is likely to enjoy a good gold loan growth due to buoyant gold loan demand – we thus raise our FY21 and FY22 earnings estimates by 15% and 11% respectively. Our Mar'21 target price stands revised to Rs 1,250 (vs. Rs 950 earlier). Our target is derived using the SOTP method as follows: (a) Rs 1,187/sh for the standalone book based on 3.0x FY22E BV, (b) Rs 55/sh for MHFL based on 4.0x FY22E BV (from last stake sale), and (c) Rs 23/sh for Belstar based on 2.5x FY22E BV (post holdco discount of 20%). Maintain BUY.

**FIG 14 – REVISED ESTIMATES**

| (Rs bn)            | Old   |       | New   |       | Change (%) |         |
|--------------------|-------|-------|-------|-------|------------|---------|
|                    | FY21E | FY22E | FY21E | FY22E | FY21E      | FY22E   |
| NII                | 59.3  | 67.4  | 65.7  | 72.9  | 10.8       | 8.0     |
| Other Income       | 1.5   | 1.6   | 1.7   | 1.8   | 12.5       | 12.5    |
| Net Income         | 60.8  | 69.1  | 67.3  | 74.7  | 10.8       | 8.2     |
| Operating Expenses | 19.2  | 21.3  | 19.7  | 21.9  | 2.8        | 2.9     |
| Operating Profits  | 41.5  | 47.8  | 47.6  | 52.8  | 14.6       | 10.5    |
| Provisions         | 1.2   | 1.3   | 1.2   | 1.4   | 5.4        | 7.2     |
| PBT                | 40.3  | 46.5  | 46.3  | 51.4  | 14.8       | 10.6    |
| Tax                | 10.2  | 11.7  | 11.7  | 12.9  | 14.8       | 10.6    |
| PAT                | 30.2  | 34.8  | 34.7  | 38.4  | 14.8       | 10.6    |
| Loans              | 452   | 512   | 482   | 546   | 6.5        | 6.6     |
| Borrowings         | 333   | 379   | 448   | 520   | 34.7       | 37.1    |
| Spread (%)         | 11.4  | 11.5  | 13.7  | 13.7  | 225bps     | 220bps  |
| RoA (%)            | 6.5   | 6.5   | 6.2   | 5.8   | (30bps)    | (73bps) |
| RoE (%)            | 23.3  | 22.8  | 27.1  | 25.0  | 379bps     | 221bps  |

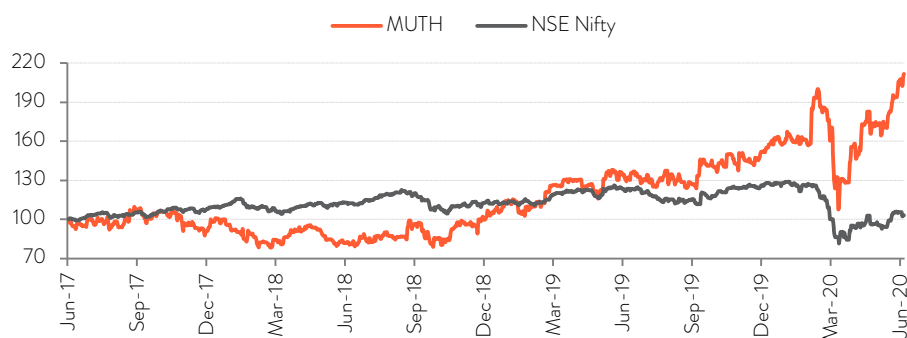
Source: BOBCAPS Research

FIG 15 – SOTP VALUATION SUMMARY

| SOTP FY22E Based (Rs)                        | Value (Rs bn) | Value (US\$ bn) | Value/Sh. (Rs) | % of total   | Rationale                        |
|----------------------------------------------|---------------|-----------------|----------------|--------------|----------------------------------|
| <b>Core business</b>                         | <b>476</b>    | <b>6.8</b>      | <b>1,187</b>   | <b>95.0</b>  | <b>3.0x BV</b>                   |
| <b>Key Ventures</b>                          |               |                 |                |              |                                  |
| Muthoot Homefin                              | 22            | 0.3             | 55             | 4.4          | 4.0x BV based on last stake sale |
| Belstar Investment and Finance               | 9             | 0.1             | 23             | 1.9          | 2.5x BV                          |
| Total Value of Ventures                      | 31            | 0.4             | 78             | 6.3          |                                  |
| Less: 20% holding discount                   | 6             | 0.1             | 16             | 25.0         |                                  |
| <b>Value of Key Ventures</b>                 | <b>25</b>     | <b>0.4</b>      | <b>63</b>      | <b>5.0</b>   |                                  |
| <b>Target Value Post 20% Holding Co Disc</b> | <b>501</b>    | <b>7.2</b>      | <b>1,250</b>   | <b>100.0</b> |                                  |
| CMP                                          | 401           | 5.7             | 1,000          |              |                                  |
| <b>Upside - %</b>                            | <b>25.0</b>   | <b>25.0</b>     | <b>25.0</b>    |              |                                  |

Source: BOBCAPS Research

FIG 16 – RELATIVE STOCK PERFORMANCE



Source: NSE

## Key risks

Key downside risks to our estimates are:

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



## FINANCIALS

### Income Statement

| Y/E 31 Mar (Rs mn)          | FY18A         | FY19A         | FY20P         | FY21E         | FY22E         |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net interest income</b>  | <b>42,707</b> | <b>45,202</b> | <b>57,735</b> | <b>65,655</b> | <b>72,870</b> |
| NII growth (%)              | 27.7          | 5.8           | 27.7          | 13.7          | 11.0          |
| Non-interest income         | 1,310         | 1,236         | 1,584         | 1,678         | 1,843         |
| Total income                | 44,017        | 46,438        | 59,319        | 67,333        | 74,713        |
| Operating expenses          | 13,174        | 15,394        | 17,788        | 19,750        | 21,924        |
| Operating profit            | 30,843        | 31,044        | 41,531        | 47,583        | 52,789        |
| Operating profit growth (%) | 40.0          | 0.6           | 33.8          | 14.6          | 10.9          |
| Provisions                  | 2,397         | 275           | 957           | 1,246         | 1,421         |
| PBT                         | 28,447        | 30,768        | 40,574        | 46,337        | 51,368        |
| Tax                         | 10,671        | 11,047        | 10,391        | 11,677        | 12,945        |
| <b>Reported net profit</b>  | <b>17,776</b> | <b>19,721</b> | <b>30,183</b> | <b>34,660</b> | <b>38,423</b> |
| Adjustments                 | 0             | 0             | 0             | 0             | 0             |
| <b>Adjusted net profit</b>  | <b>17,776</b> | <b>19,721</b> | <b>30,183</b> | <b>34,660</b> | <b>38,423</b> |

### Balance Sheet

| Y/E 31 Mar (Rs mn)                    | FY18A          | FY19A          | FY20P          | FY21E          | FY22E          |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Equity capital                        | 4,000          | 4,007          | 4,010          | 4,010          | 4,010          |
| Reserves & surplus                    | 74,120         | 93,921         | 111,708        | 135,970        | 162,866        |
| Net worth                             | 78,120         | 97,927         | 115,718        | 139,980        | 166,876        |
| Deposits                              | 0              | 0              | 0              | 0              | 0              |
| Borrowings                            | 211,670        | 268,332        | 371,300        | 448,265        | 519,802        |
| Other liabilities & provisions        | 18,132         | 14,428         | 17,578         | 21,094         | 25,312         |
| <b>Total liabilities and equities</b> | <b>307,923</b> | <b>380,687</b> | <b>504,597</b> | <b>609,339</b> | <b>711,991</b> |
| Cash & bank balance                   | 4,870          | 17,355         | 56,405         | 103,987        | 140,484        |
| Investments                           | 3,954          | 9,826          | 14,383         | 14,455         | 15,178         |
| Advances                              | 295,068        | 349,329        | 426,042        | 481,885        | 545,792        |
| Fixed & Other assets                  | 2,062          | 2,154          | 2,565          | 2,770          | 3,047          |
| <b>Total assets</b>                   | <b>307,923</b> | <b>380,687</b> | <b>504,597</b> | <b>609,339</b> | <b>711,991</b> |
| Deposit growth (%)                    | NA             | NA             | NA             | NA             | NA             |
| Advances growth (%)                   | 5.5            | 18.4           | 22.0           | 13.1           | 13.3           |

### Per Share

| Y/E 31 Mar (Rs)      | FY18A | FY19A | FY20P | FY21E | FY22E |
|----------------------|-------|-------|-------|-------|-------|
| EPS                  | 44.4  | 49.2  | 75.3  | 86.4  | 95.8  |
| Dividend per share   | 10.0  | 12.0  | 15.0  | 21.6  | 24.0  |
| Book value per share | 195.3 | 244.4 | 288.5 | 349.0 | 416.1 |

Source: Company, BOBCAPS Research

**Valuations Ratios**

| Y/E 31 Mar (x)     | FY18A | FY19A | FY20P | FY21E | FY22E |
|--------------------|-------|-------|-------|-------|-------|
| P/E                | 22.5  | 20.3  | 13.3  | 11.6  | 10.4  |
| P/BV               | 5.1   | 4.1   | 3.5   | 2.9   | 2.4   |
| Dividend yield (%) | 1.0   | 1.2   | 1.5   | 2.2   | 2.4   |

**DuPont Analysis**

| Y/E 31 Mar (%)          | FY18A | FY19A | FY20P | FY21E | FY22E |
|-------------------------|-------|-------|-------|-------|-------|
| Net interest income     | 14.0  | 13.1  | 13.0  | 11.8  | 11.0  |
| Non-interest income     | 0.4   | 0.4   | 0.4   | 0.3   | 0.3   |
| Operating expenses      | 4.3   | 4.5   | 4.0   | 3.5   | 3.3   |
| Pre-provisioning profit | 10.1  | 9.0   | 9.4   | 8.5   | 8.0   |
| Provisions              | 0.8   | 0.1   | 0.2   | 0.2   | 0.2   |
| PBT                     | 9.3   | 8.9   | 9.2   | 8.3   | 7.8   |
| Tax                     | 3.5   | 3.2   | 2.3   | 2.1   | 2.0   |
| ROA                     | 5.8   | 5.7   | 6.8   | 6.2   | 5.8   |
| Leverage (x)            | 4.3   | 3.9   | 4.1   | 4.4   | 4.3   |
| ROE                     | 24.8  | 22.4  | 28.3  | 27.1  | 25.0  |

**Ratio Analysis**

| Y/E 31 Mar                                   | FY18A | FY19A | FY20P | FY21E | FY22E |
|----------------------------------------------|-------|-------|-------|-------|-------|
| <b>YoY growth (%)</b>                        |       |       |       |       |       |
| Net interest income                          | 27.7  | 5.8   | 27.7  | 13.7  | 11.0  |
| Pre-provisioning profit                      | 40.0  | 0.6   | 33.8  | 14.6  | 10.9  |
| EPS                                          | 50.4  | 10.8  | 52.9  | 14.8  | 10.9  |
| <b>Profitability &amp; Return ratios (%)</b> |       |       |       |       |       |
| Net interest margin                          | 14.9  | 14.0  | 14.9  | 14.5  | 14.2  |
| Fees / Avg. assets                           | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Cost-Income                                  | 29.9  | 33.2  | 30.0  | 29.3  | 29.3  |
| ROE                                          | 24.8  | 22.4  | 28.3  | 27.1  | 25.0  |
| ROA                                          | 5.8   | 5.7   | 6.8   | 6.2   | 5.8   |
| <b>Asset quality (%)</b>                     |       |       |       |       |       |
| GNPA                                         | 4.4   | 2.7   | 2.2   | 2.3   | 2.2   |
| NNPA                                         | 2.3   | 0.9   | 0.9   | 1.8   | 1.7   |
| Provision coverage                           | 14.8  | 13.9  | 18.9  | 21.2  | 23.4  |
| <b>Ratios (%)</b>                            |       |       |       |       |       |
| Credit-Deposit                               | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Investment-Deposit                           | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| CAR                                          | 26.3  | 26.0  | 22.7  | 22.7  | 23.2  |
| Tier-1                                       | 25.5  | 25.6  | 22.3  | 22.4  | 22.8  |

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

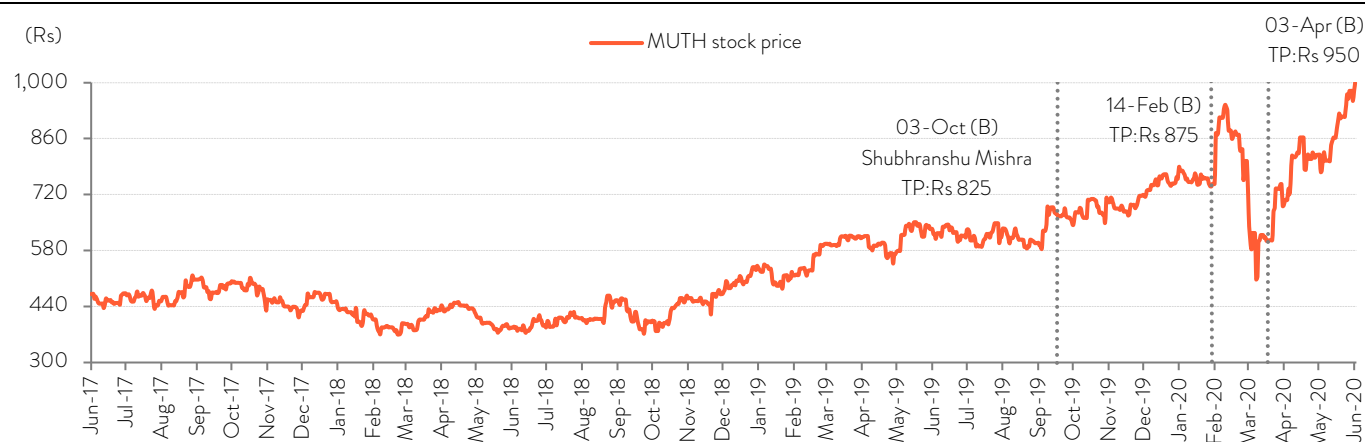
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: MUTHOOT FINANCE (MUTH IN)



B – Buy, A – Add, R – Reduce, S – Sell

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