



Quick Insight

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Muthoot Finance Ltd.



Muthoot Finance

Industry NBFC: Gold Financing

CMP ₹1,430

M Cap ₹~572bn

Buy Range ₹1415-1390

Target ₹1700-1720

Recommendation Buy

Highlights

- India's largest gold financing company in terms of loan portfolio
- Catering to underserved rural and semi-urban markets through strong presence which have limited credit access
- Demand for gold loan to continue with appreciation in yellow metal price
- Strong demand because of liquidity crunch and uncertainty with respect to prolonged pandemic situation
- Robust earnings growth by company ~27% and ~36% CAGR for last 3 & 5 years respectively
- Stable asset quality with GNPA at 1.85% in Q2FY22 vs 1.26% in Q2FY21
- Higher gold price leads to lower LTV thereby providing cushion against any default
- Strong return ratios (ROA: ~7.5%) and steady loan growth of 21% and 16% for last 3 & 5 years respectively
- Strong promoter interest in business at 73.43% with zero promoter pledge

Muthoot Finance Ltd.

Investment Arguments

Muthoot reported strong set of numbers for Q2FY22 YoY led by surge in demand for gold loans as economy opened up with households increasingly monetising gold to generate liquidity to restart activities.

- (i) 18% growth in advances in gold loan portfolio YoY
- (ii) 11% growth in earnings
- (iii) Stable asset quality at 1.85% in Q2FY22 vs 1.26% in Q2FY21
- (iv) Improvement in operational efficiency at 3.72% for Q2FY22 vs. 4.08% in Q2FY21.

Asset Growth

- (i) Muthoot Finance lately has been reporting a robust set of numbers in terms of advances (~21% CAGR – 3 years) aided by appreciating yellow metal prices, leading to lower LTV.
- (ii) The company is seeing traction in the gold loan because of liquidity crunch and tendency of borrower to generate liquidity by monetising gold.
- (iii) The company is giving a stellar set of growth numbers despite stiff competition from banks. The reason can be attributed to the overall market expansion because of steady increase in gold prices whereby borrower can leverage the same amount by pledging relatively less gold. Given that banks are on same platform as NBFCs as LTV for gold loans has been capped at 75% (90% till Mar'21), the competitive intensity reduces.

Management is confident of 15% gold loan growth for FY22. The company has a history of under guiding and over delivering and same is reflected in the below table:

	Under Promising	Over Delivering
FY19	15%	19%
FY20	15%	22%
FY21	15%	26%
FY22E	15%	-

Asset Quality

- (i) The company has seen temporary blip in its asset quality with Gross Stage III assets at 1.85% in Q2FY22 vs 1.26% in Q2FY21. **Considering the nature of the business, asset quality will take a back seat because the loans are backed by strong and highly liquid collateral asset i.e., gold.**
- (ii) Gold metal price has seen strong appreciation in last 15-18 months which provides cushion to its existing AUM to the tune of ~30%. Management expects provisions are sufficient enough for any adverse impact.

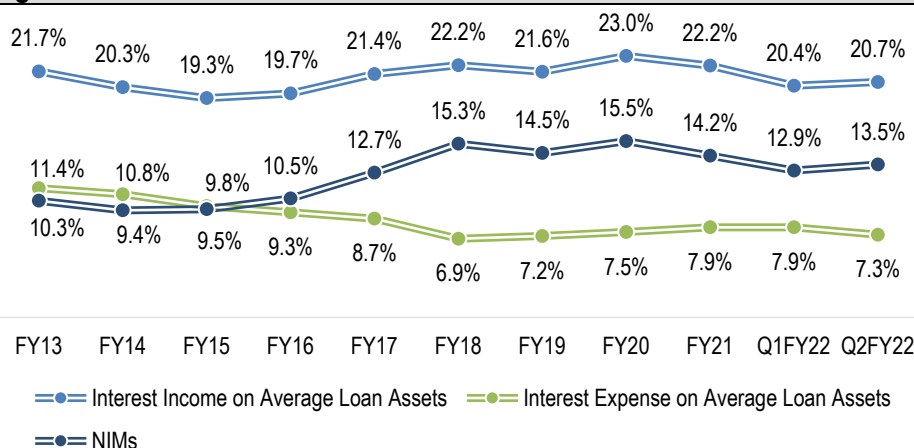
Nifty	16,983.20
Sensex	57,064.87
Key Stock Data	
CMP	₹1,430
Market Cap (₹Cr)	~57,200
52W High/Low	₹1721/1090
Shares o/s (mn)	401
Daily Vol. (1M NSE Avg.)	4lac
Shareholding pattern Sep 2021	
Promoter	73.40%
FII	14.20%
DII	8.30%
Public	4.10%

(₹ cr)

	FY20	FY21	H1FY22
Net Interest Income	5773	6636	3514
PAT	3018	3722	1965
EPS	75.3	92.8	~49
BV	279.7	379.7	407
P/BV	~5.1	~3.8	~3.5
ROA %	8.1%	~8%	~7.5%
ROE %	28.3%	27.8%	~25%
GNPA %	2.1%	0.90%	1.85%
CAR %	25.5%	27.4%	27.6%

Source: Company Data, Way2Wealth Inst Equity

Margins



Source: Company, Way2Wealth Research

- (i) The company has seen stable yields over the past decade despite competition from banks and other NBFCs.
- (ii) It expects cost of borrowing to come down in next few quarters. This should aid in maintaining margins.
- (iii) It wants to maintain higher liquidity during uncertain times. This is also reflected in ₹7800Cr of cash they are holding up from ~5500 Cr in last September.
- (iv) In Q2 concall, management mentioned that there will be variance of 100-200 bps in average yield depending on the churning, discount given and interest rate scenario.
- (v) The company expects NIM to stabilise as loan growth picks up, cost of funds stays benign and excess liquidity wanes which currently is resulting in negative carry.

Risks

- (i) A sharp decline in gold prices that increases the loan to value thereby reducing the margin of safety.
- (ii) Competitive pressure on maintaining relatively higher yields.
- (iii) Lower demand for gold loans due to resurgence of pandemic.

View

- (i) The demand for gold loans will continue because of stressed cash flows of customers in the second wave and availability of loans with low turnaround time.
- (ii) Muthoot is the leading gold financier having a strong track record in terms of robust loan growth, clocking high ROEs consistently and most importantly keeping NPAs at low levels. Consistent performance in all these metrics across the business cycle makes Muthoot a potential re-rating candidate.
- (iii) **The company had seen a sharp recovery in H2 of FY21, a similar phenomenon is expected this year as well with the economy opening up. However, given that the stock has given flattish kind of returns in the past six months – and the company is looking to continue strong traction in FY22, the current phase of consolidation may be the right opportunity to BUY from a medium to long term perspective.**

Technical View

Looking at weekly chart, MUTHOOTFIN has been in a strong up trend since March, 2020 as a result stock formed “Higher Top Higher Bottom” formation. Subsequently, stock registered a fresh all-time high of around 1722 during November 18, 2021. Of late, stock has seen decent correction in line with the benchmark indices and registered a low of 1390 during November 29, 2021. Looking at weekly chart, recent low of 1390 coincided with its swing low support of August 11, 2021. If we take a retracement of its entire rally from the bottom of 1101.30 to the top of 1722 than 50% retracement comes near 1413. Also, stock’s 200-DMA pegged near 1408. The weekly RSI (14) momentum indicator oscillating near 47 which is the lowest level since April 30, 2021. Combing the above technical evidences, we believe that MUTHOOTFIN has cluster of support placed near 1415 – 1390 zone and stock likely to reverse from said support zone. Hence, we advocate traders to buy this stock in a range of 1415 to 1390 with an upside price target of 1720. Stop loss to be placed at 1250.



Source: Falcon 7

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Disclosure of Interest Statement in Muthoot Finance Ltd.as on December 01, 2021

Name of the Security	Muthoot Finance Ltd.
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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