

MUTHOOT FINANCE

Riding high on gold price tailwind

India Equity Research | Banking and Financial Services

After a muted Q2FY20, Muthoot Finance (Muthoot) reported a better-than-expected Q3FY20 as growth bounced back on the back of improved liquidity position. Key highlights: i) Riding on the gold price tailwind, gold loan disbursements spiked >30% QoQ to INR91bn, leading to AUM growth of 19% YoY/8% QoQ. ii) Recoveries remained strong, which fed into improved yields (>24% now). The quantum of one-offs (penal interest), though not disclosed, we expect yields to settle at 21–22%.iii) The concerns around technical deterioration of asset quality in H1FY20 (~70bps increase) are allayed as stage 3 assets declined 90bps QoQ to 2.54% (3.43% in Q2FY20), partially due to write-offs. iv) Other businesses—home finance, Belstar and insurance broking—are scaling up along expected lines, but moderated a tad amid the challenging environment. Factoring in a higher revenue yield for 9MFY20, we are raising FY20/21E earnings by 7%/9% and raising target multiple to 2.5x consolidated FY21book (2.2x earlier), thereby leading to revised TP of INR 883 (earlier INR747). Maintain 'BUY'.

Growth picks up riding on gold price tailwind

After a muted Q2FY20, the growth in gold loans has picked up as the liquidity situation has improved. Disbursements spiked >30% QoQ to INR91bn, which lifted AUM by 19% YoY/8% QoQ (accretion of INR27.8bn which is highest ever). Gold price tailwind supported the momentum reflected in 14% YoY/6% QoQ rise in AUM per gram. With the impact of the run-down of the Kerala book waning and a comfortable liabilities position (raised INR32bn in offshore funding) coupled with gold price tailwinds, we do not see growth as a challenge. We expect more than 20% growth in FY20 and 15% in FY21.

Revenue momentum surprises positively

Even on elevated yields in Q2FY20, there was a further rise (>24% now, 100bps QoQ), which we believe was supported by better collections and penal interest. Though the quantum of one-offs is not known, we expect core yields at 21–22% levels. This coupled with lower borrowing cost led to growth of >40% YoY in net revenue, which was good enough to offset higher write-offs, forex MTM, and elevated advertising spend.

Outlook and valuation: Superior return ratios; maintain 'BUY'

Muthoot's medium-term outlook was clouded by funding-related challenges and issues in its home state (Kerala). However, the rise in gold price and effective collections led to better-than-expected earnings momentum. Steady growth, limited LGD and a stable funding cost will enable it to generate a superior RoA/RoE of ~7%/23%. Retain 'BUY/SO'.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: MUTT.BO, B: MUTH IN)

CMP	: INR 747
Target Price	: INR 883
52-week range (INR)	: 800 / 507
Share in issue (mn)	: 401.0
M cap (INR bn/USD mn)	: 299 / 4,192
Avg. Daily Vol.BSE/NSE('000)	: 1,027.8

SHARE HOLDING PATTERN (%)

	Current	Q2FY20	Q1FY20
Promoters *	73.4	73.5	73.5
MF's, FI's & BK's	7.8	7.5	8.4
FII's	14.5	15.0	13.9
Others	4.2	4.0	4.3
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(2.3)	(2.0)	(3.2)
3 months	5.0	2.0	1.5
12 months	41.7	12.7	17.2

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Financials

	(INR mn)							
Year to March	Q3FY20	Q3FY19	Growth (%)	Q2FY20	Growth (%)	FY19	FY20E	FY21E
Net revenue	16,194	11,282	43.5	14,707	10.1	46,439	56,942	64,021
Net profit	8,033	4,852	65.6	8,579	(6.4)	19,721	28,361	31,966
Dil. EPS (INR)	20.0	12.1	65.3	21.4	(6.3)	49.3	70.9	79.9
Adj. BV (INR)						216.8	268.0	331.2
Price/ Adj book (x)						3.4	2.8	2.3
Price/ Earnings (x)						15.1	10.5	9.3

Performance of subsidiaries

- **Muthoot Homefin:** Growth moderated during the quarter amid the challenging business environment—loan book contracted 3.5% QoQ to ~INR20.3bn. After a soft performance (systemic issues and business revamp), management is confident of sustaining the improvement. Revenues were under pressure at INR878mn (INR908mn in Q2FY20) and higher expenses (including credit cost) curtailed overall profitability to INR105mn (INR139mn in Q2FY20). The focus within this vertical continues to be on extending affordable housing finance, particularly to EWS and LIG customers.
- **Belstar Investment and Finance's** loan portfolio stood at INR22.8bn (up >8% QoQ) with 573 branches spread across Tamil Nadu, Karnataka, Madhya Pradesh, Maharashtra, Kerala, Chattisgarh, Odisha, Gujarat, Rajasthan, Bihar, Uttar Pradesh, and one union territory (Puducherry). Revenue for the quarter stood at INR1.34bn (INR1.27bn in Q2FY20), which translated into PAT of INR260mn (INR281mn in Q2FY20) due to higher credit cost.
- **Muthoot Insurance Brokers** clocked better growth with premium collection of INR854mn (up 37% YoY). This is on the back of growth in number of policies insured, which improved to >50% YoY/16% QoQ to 8,44,496, and is encouraging.
- **Asia Asset Finance's** loan portfolio was flat QoQ and stood at LKR13bn (up ~12% YoY) with 28 branches across Sri Lanka. Revenue came in at LKR860mn (up >21% YoY) with PAT of LKR36mn.

Table 1: Key takeaways from Q3FY20 earnings

(INR mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
Interest income	22,806	16,827	35.5	21,057	8.3	NIMs spiked >100bps QoQ on the back of better recoveries, penal interest, sustained yield and lower funding cost
Interest expense	6,938	5,889	17.8	6,699	3.6	
Net interest income	15,869	10,938	45.1	14,358	10.5	
Non-interest income	325	344	(5.4)	348	(6.6)	
Net revenues	16,194	11,282	43.5	14,707	10.1	Revenues spurted on the back of strong traction in NII
Operating expenses	4,751	3,440	38.1	3,969	19.7	
-Staff expense	2,580	1,980	30.3	2,327	10.9	
-Depreciation	110	110	(0.3)	103	6.7	
-Other opex	2,062	1,350	52.8	1,539	33.9	Opex is higher as it included INR210mn of MTM impact of ECB hedging& elevated advertising spend
Operating profit	11,443	7,842	45.9	10,738	6.6	
Provisions	640	19	NM	265	141.9	Credit costs higher due to write-offs and incremental provisioning on growing book. Includes INR470mn impact due to 2 incidents of burglary.
Profit before tax	10,803	7,823	38.1	10,473	3.1	
Tax expense	2,769	2,971	(6.8)	1,894	46.2	
Profit after tax	8,034	4,852	65.6	8,579	(6.4)	
EPS (INR)	20.0	12.1	65.3	21.4	(6.3)	

Source: Company, Edelweiss research

Table 1: Key takeaways from Q3FY20 earnings (Contd...)

(INR mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Key Metrics						
Gross retail loan AUM	3,84,982	3,24,704	18.6	3,57,305	7.7	
Gold loans	3,77,245	3,17,939	18.7	3,49,419	8.0	AUM growth picked up sharply as liquidity eased and disbursements spiked >30% QOQ. Accretion of INR27.8bn which is highest ever
Other loans	7,737	6,765	14.4	7,886	(1.9)	
Gold holding (tonnes)	173	166	4.2	171	1.2	
Subsidiaries						
Asia Asset Finance						
Loan portfolio (LKR)	13,014	11,630	11.9	13,143	(1.0)	Loan book remained flat sequentially
PAT (LKR)	36	15	140.0	29	24.1	
Muthoot Homefin						
Loan portfolio	20,248	18,351	10.3	20,975	(3.5)	
PAT	105	88	19.3	139	(24.5)	
Muthoot Insurance Brokers						
Premium collection	854	624	36.9	709	20.5	Growth in premium collections improved
PAT	52	35	48.6	39	33.3	
Belstar Investment & Finance						
Loan portfolio	22,849	15,627	46.2	21,074	8.4	Growth momentum building up significantly
PAT	260	248	4.8	281	(7.5)	

Source: Company, Edelweiss research

Table 2: Trades at 2.1x FY21E P/BV for RoE (consol) at 25% plus

	Standalone				Consolidated			
	FY19E	FY20E	FY21E	FY22E	FY19E	FY20E	FY21E	FY22E
Net profit (INR mn)	19,721	28,361	31,966	36,229	21,157	30,137	34,133	38,728
Networth (INR mn)	91,709	1,13,987	1,39,167	1,68,026	93,145	1,15,763	1,41,334	1,70,524
RoAUM (%)	6.3	7.6	7.2	7.1	5.2	5.0	6.0	5.9
RoE (%)	23.3	27.6	25.3	23.6	24.6	28.9	26.6	24.8
EPS (INR)	49.3	70.9	79.9	90.6	52.9	75.3	85.3	96.8
Book value (INR)	229.6	285.3	348.4	420.6	232.9	289.4	353.4	426.3
Diluted P/E	15.1	10.5	9.3	8.2	14.1	9.9	8.8	7.7
P/BV	3.3	2.6	2.1	1.8	3.2	2.6	2.1	1.8

Source: Company, Edelweiss research

Table 3: Concerns around asset quality allayed (90bps QoQ decline in gross stage-3)

(INR mn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Stage 3 loan asset	6,372	9,326	11,474	12,267	9,769
% Stage 3 asset on gross loan asset	2.0	2.7	3.2	3.4	2.5
ECL provision	5,835	6,359	6,896	7,014	7,178
ECL provision as % of gross loan assets	1.8	1.9	1.9	2.0	1.9
Excess provision outstanding in books	8,096	1,737	1,199	1,199	1,199

Source: Company

Chart 1: NIMs spiked >100bps QoQ due to better recoveries and penal interest

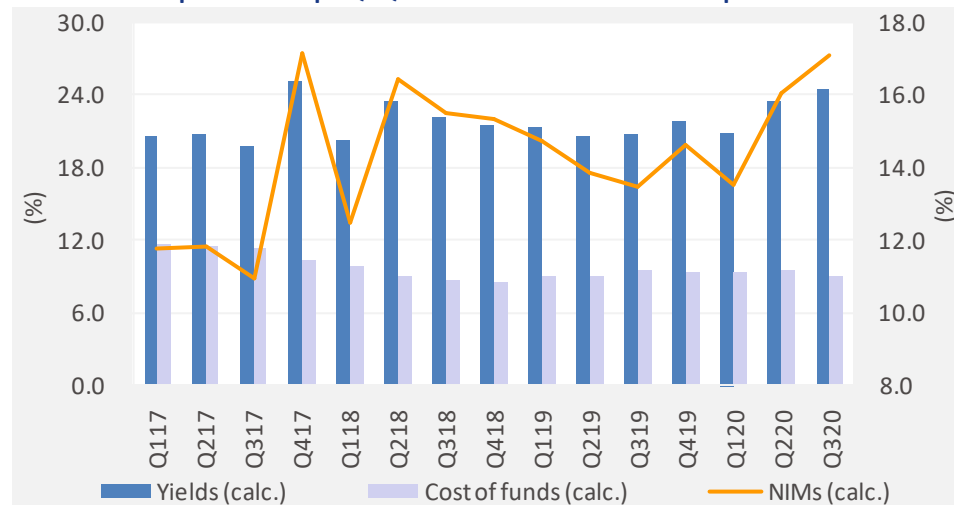


Chart 2: Other borrowings increased as ECBs worth INR32bn were raised

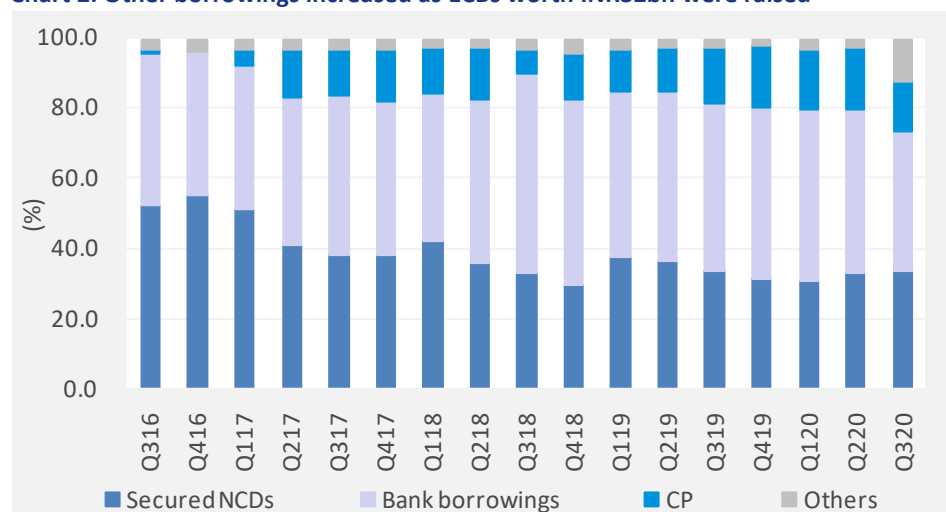
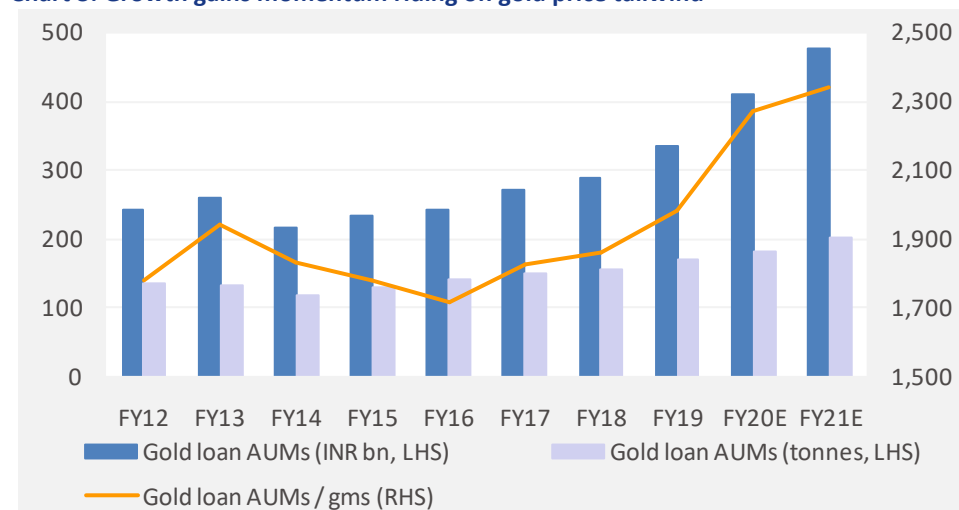
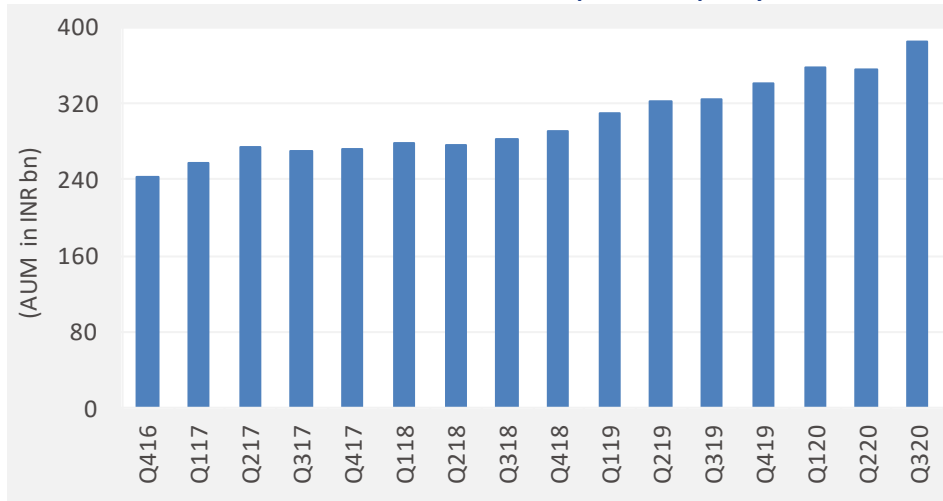
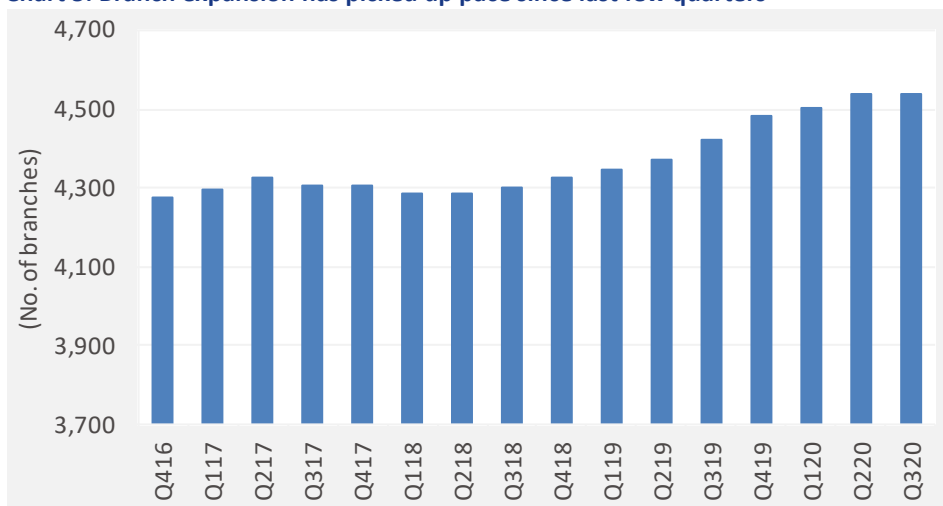
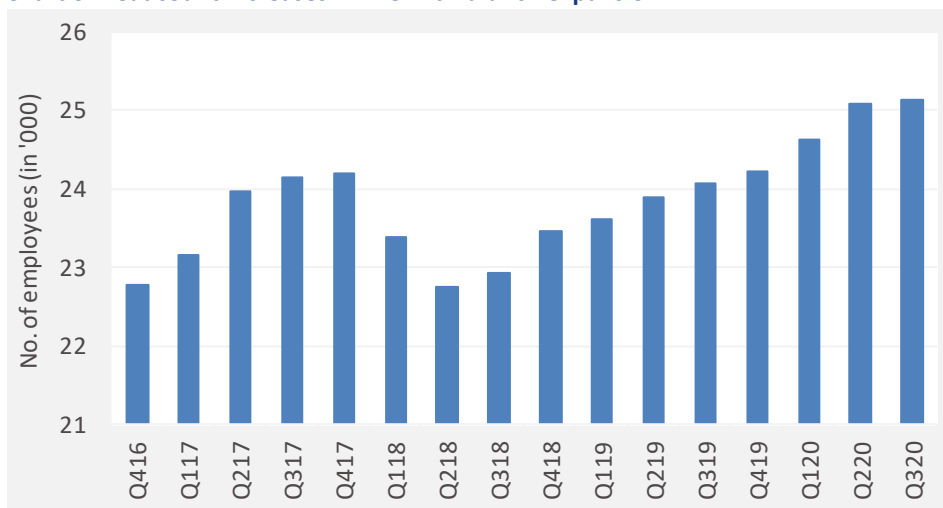


Chart 3: Growth gains momentum riding on gold price tailwind



Source: Company, Edelweiss research

Chart 4: Consolidated Growth traction to further improve as liquidity eases**Chart 5: Branch expansion has picked up pace since last few quarters****Chart 6: Headcount increases in line with branch expansion**

Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q3FY20	Q3FY19	% change	Q2FY20	% change	YTD20	FY20E	FY21E
Operating income	22,806	16,827	35.5	21,057	8.3	62,138	83,425	95,531
Interest expanded	6,938	5,889	17.8	6,699	3.6	20,052	27,503	32,599
Other income	325	344	(5.4)	348	(6.6)	986	1,020	1,090
Net revenues	16,194	11,282	43.5	14,707	10.1	43,072	56,942	64,021
Operating expenses	4,642	3,330	39.4	3,866	20.1	12,384	17,448	19,276
Pre-provision profit	11,552	7,952	45.3	10,841	6.6	30,688	39,495	44,746
Provisions & write-offs	640	19	3,255.9	265	141.9	937	1,680	1,838
Operating profit	10,912	7,933	37.5	10,576	3.2	29,750	38,289	43,430
Depreciation	110	110	(0.3)	103	6.7	308	474	522
Profit before tax	10,802	7,823	38.1	10,474	3.1	29,442	37,815	42,908
Tax	2,769	2,971	(6.8)	1,894	46.2	7,529	9,454	10,941
PAT	8,033	4,852	65.6	8,579	(6.4)	21,913	28,361	31,966
Diluted EPS (INR)	20.0	12.1	65.3	21.4	(6.3)	54.6	70.9	79.9
Other information								
AUM	377,245	317,939	18.7	349,419	8.0	377,245	411,108	476,011
Valuation metrics								
B/V per share (INR)							285.3	348.4
Adj book value / share (INR)							268.0	331.2
Price/ Book (x)							2.6	2.1
Price/ Adj. book (x)							2.8	2.3
Price/ Earnings (x)							10.5	9.3

Change in Estimates

	New	FY20E Old	% change	New	FY21E Old	% change	Comments
NII	55,922	51,841	7.9	62,932	57,348	9.7	Factoring in higher yields reported during 9MFY20
PPOP	39,495	36,405	8.5	44,746	40,473	10.6	
Provisions	1,680	1,144	46.8	1,838	1,315	39.8	Factoring in write-offs and loss on incidents of burglary
PAT	28,361	26,446	7.2	31,966	29,369	8.8	
NIMs	14.5	14.1		13.9	13.6		

Q3FY20 Earnings Call Takeaway

With respect to growth and outlook

- The company has been able to achieve strong growth in Q3FY20 (consolidated AUM growth of 21% and gold loan AUM growth of 19%) due to comfortable liquidity conditions and gold price tailwinds.
 - This somewhat compensates for the slower growth in Q2FY20 and is expected to have similar growth for Q4FY20 as well.
- **Gold loans** – With a growth rate of 19% YoY, the company increased the book by INR27.8bn in Q3FY20 which is highest ever quarterly addition.
 - The FY20 growth guidance was 15% which is likely to overshoot as the traction continues in Q4FY20. In FY21, the company looks to achieve minimum 15% growth.
 - The company does not monitor or target gold tonnage as a parameter as it is a function of gold prices.
- **Housing loans** – The performance was relatively weaker as AUM and profits contracted QoQ with deterioration in asset quality.
 - AUM target for FY20 is INR22bn (INR20.3bn now) and disbursement target of INR7-9bn for FY21.
 - It will aim to achieve sustainable ROA of 2% with NPAs settling at current levels.
- The company is engaged in a pilot project for door-step gold loans and the results have been encouraging. It is working on fine tuning the process and will look to scale it in next couple of quarters.
- The focus is on increasing branch productivity (already highest in the industry) along with some expansion in new geographies (100-200 branch additions per year).
- Currently, there are no plans for inorganic growth via acquisitions.
- **Kerala issue** – the exposure to state is ~INR12bn (3% of book) which is not material and hence, closure of branches would not impact the business negatively. Moreover the productivity was low at INR20mn/branch compared to INR80mn/branch average.

With respect to asset quality

- Credit costs during the quarter were higher due to some write-offs and incremental provisioning on fast growing loan book.
 - Moreover, there were 2 incidents of burglary due to which INR330mn was written-off with additional provisioning of INR140mn (total impact of INR470mn).
 - Insurance claim has been filed and some amount has been recovered by police.
- On a consolidated level, coverage in vehicle and housing book has been increased leading to higher credit costs.
- Overall credit cost guidance is 1.33% for ECL and another 10-15bps for write-offs.

With respect to liquidity/borrowings/margins

- Liquidity condition has improved over Q2FY20 - added newer avenues of borrowing, banks becoming more open, and strong retail franchise.
 - It completed maiden off-shore borrowing of INR32bn during the quarter.
 - The issuance was at 6.125% but the bonds are trading at 4.38% levels implying investor comfort with the company.
 - Commercial paper was never a concern for the company – it did raise during the crisis as well and would continue to do.
- During December 2019, it completed 22nd public issue of NCDs raising INR7.9bn.
- International credit ratings - Fitch BB+, S&P BB, Moodys BA2. Moreover, During January 2020, CRISIL revised long term rating outlook from 'CRISIL AA/(Stable)' to 'CRISIL AA/(Positive)'.
- It carries a higher proportion of assets in cash and liquid investments (drawing all lines) keeping in mind the LCR requirement of the future. The similar level is expected to continue going forward.
- **Yields** – Yields have been quite strong for last few quarters (24% now) which is due to better collection (penal interest) as well as impact of rate hikes since June kicking in.
 - These levels are expected to continue in Q4FY20 as well.
- NIMs are higher due to higher yields and lower gearing.
- Cost of borrowings would ~9.2-9.3% (adjusting for hedging cost which is reflected in operating expenses) and will not move beyond 9.5% in near-term (Q4FY20 should be lower).

Other highlights

- There is an MTM loss on hedging of off-shore borrowing worth INR210mn which is reflected in operating expenses. While the exposure is fully hedged, there would MTM.
- The housing finance business is carried out via gold loan branches (10% of monthly disbursements) as well as open market (feet on ground and not DSA).

Q2FY20 Earnings Call Takeaway

With respect to growth and outlook

- The performance in quarter has been satisfying with contribution of Muthoot Finance in consolidated AUM/PAT at ~93% /~97%.
- Loan growth has been flat largely due to tight liquidity. However, having raised sufficient funds since beginning of Q3FY20, the growth would be much better in Q3/Q4FY20 (INR13bn growth till now in Q3FY20).
 - The growth guidance holds at 15% for gold AUM with growth expected from all geographies.
 - The non-availability of funds from NBFCs in general is helping the gold loan demand.
- Kerala contributes ~3.4% of overall AUM (~INR12bn now). The portfolio will run-down gradually and would be compensated by growth in other states.
- The company has an investment of INR240mn in a Nepalese company (United Finance Limited). It wants to get into gold loan with the help of Muthoot's expertise. The stake can be increased further if comfort increases. It will take 2-3 years to stabilize the gold loan portfolio.
- Muthoot Money – The operations are now centered in Hyderabad. Recently , Company has started extending loans for commercial vehicles and equipment (INR4.3bn book).
- Muthoot Homefin – The company does not lend to developers (cautious stance) and focus only on affordable housing (ticket size ~INR1mn).
- Belstar (MFI) – The PAR is much better than industry and peers and credit quality holding up.
- During the quarter, the advertisement expense was lower to due lower growth. In Q3/Q4FY20, with higher growth in sight, this expense will increase (higher than last year).
- The entire gold loan portfolio is with one-year bullet repayment with an option for monthly EMI payments.

With respect to liquidity, borrowings, and margins

- The company is rated by 3 international credit rating agencies - Fitch BB+(Stable), S&P BB(Stable), Moody's Ba2/(Stable).
- In October, the company raised USD450mn 6.12% secured notes – first private NBFC to raise funds via 144A/RegS mode.
 - While this is expensive (fully hedged), this provides diversification in borrowings.
- Also, in October, it completed 21st public issue of debt by raising INR4.6bn.
- Yields are higher in quarter due to higher recovery (on back of one-time settlement offered) and collection of older loans which carried higher yields. The impact, which is one-off in nature, is to the tune of INR2bn in Q2FY20.
 - 21% average yield going forward can be expected.

- Overall cost of borrowings is expected to remain elevated due to overall systemic risk aversion – 9.17% in Q1FY20, 9.3% in Q2FY20. The rates can move to ~9.5% going forward.
- Given the uncertainty in the sector, the company would maintain higher liquidity on balance sheet (compared to than last year).

With respect to asset quality and operational metrics

- Auctions during the quarter were to the tune of INR580mn (normal run-rate of INR3.5-5bn).
- The NPLs does not is not a concern for any gold financier – it is due to some extra given to customers and does not possess any risk.
- The company has decided to not use the excess provisions under IGAAP for ECL provisions (was done till Q1FY20).
- There was one instance of burglary in the quarter (covered by insurance), however, made provisions prudently.
- Credit cost during the quarter – INR140mn due to write-off and INR110mn due to increase in stage 3 assets.

Company Description

Muthoot is the largest gold-financing NBFC with an operating history of more than 70 years when M George Muthoot (father of promoters) founded a gold loan business in 1939. At present, it is a closely held family-owned business with promoters (sons of M. George Muthoot and their family) continuing to hold a substantial stake. Headquartered in Kerala, the gold loan NBFC has a network of 5,268 branches, with majority located in southern India. Muthoot has created a leadership position in lending against gold jewellery with AUMs of ~INR385bn.

The Muthoot group has interests in diversified businesses in areas of hospitality, media, education, healthcare, information technology, etc. However, gold loans continue to be the mainstay; hence Muthoot Finance continues to be the flagship company.

Investment Theme

Muthoot's medium-term outlook was clouded by funding-related challenges and issues in its home state (Kerala). However, the rise in gold price and effective collections led to better-than-expected earnings momentum. Steady growth, limited LGD and a stable funding cost will enable it to generate a superior RoA/RoE of ~7%/23%. Retain 'BUY/SO'.

Key Risks

Gold loan dynamics in regions beyond South India are different.

Growth might come under pressure in case of slower ramp-up of branches or decline in gold price.

Financial Statements

Key Assumptions

Year to March	FY19	FY20E	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.8	5.0	5.8	6.5
Inflation (Avg)	3.4	4.3	4.8	5.0
Repo rate (exit rate)	6.3	5.2	4.5	5.0
USD/INR (Avg)	70.0	71.5	71.0	70.0
Sector				
Credit growth	14.0	11.0	13.0	15.0
Deposit growth	13.0	12.0	14.0	15.0
Bank's base rate (%)	9.0	8.7	8.5	8.5
Wholesale borr. cost (%)	8.5	8.5	8.3	8.1
G-sec yield	7.0	7.1	7.1	7.1
Company				
Operating metric assumptions (%)				
Yield on advances	21.7	22.3	21.5	20.9
Cost of funds	9.5	9.7	9.9	10.0
Net interest margins	14.3	14.5	13.9	13.4
- employee cost	9.4	14.0	10.0	8.0
- advertisement	5.0	20.0	10.0	7.0
- rent	1.2	5.0	5.0	4.0
Tax rate (%)	35.9	25.0	25.5	25.5
Balance sheet assumption (%)				
Number of branches	4,480	4,555	4,655	4,755
Gold loan tenure	2.6	2.6	2.6	2.6
AUMs (in tonnes)/branch	37.8	39.7	43.7	48.0
Average INR per gm	1,983	2,274	2,342	2,412
Average LTV	70.8	71.0	71.0	71.0
Gross NPLs	2.7	3.0	2.7	2.5
Prov Cov	20.0	20.0	24.0	27.0

Income statement

(INR mn)

Year to March	FY19	FY20E	FY21E	FY22E
Interest income	67,857	83,425	95,531	107,504
Interest expended	22,368	27,503	32,599	37,185
Net interest income	45,489	55,922	62,931	70,319
- Fee & forex income	950	1,020	1,090	1,090
Net revenues	46,439	56,942	64,021	71,409
Operating expense	15,396	17,448	19,276	20,845
- Employee exp	8,414	9,753	10,964	12,095
- Depn /amortisation	421	474	522	479
- Other opex	6,560	7,221	7,790	8,270
Preprovision profit	31,043	39,495	44,746	50,564
Provisions	275	1,680	1,838	1,934
Profit Before Tax	30,768	37,815	42,908	48,630
Less: Provision for Tax	11,047	9,454	10,941	12,401
Profit After Tax	19,721	28,361	31,966	36,229
Reported Profit	19,721	28,361	31,966	36,229
Shares o /s (mn)	400	400	400	400
Basic EPS (INR)	49.3	70.9	79.9	90.6
Diluted shares o/s (mn)	400	400	400	400
Adj. Diluted EPS (INR)	49.3	70.9	79.9	90.6
Dividend per share (DPS)	12.0	13.0	14.5	15.8
Dividend Payout Ratio(%)	24.3	18.3	18.1	17.4

Growth ratios (%)

Year to March	FY19	FY20E	FY21E	FY22E
Revenues	7.9	22.6	12.4	11.5
NII growth	7.4	22.9	12.5	11.7
Opex growth	17.9	13.3	10.5	8.1
PPP growth	3.6	27.2	13.3	13.0
Provisions growth	(88.5)	510.9	9.4	5.2
Adjusted Profit	14.6	43.8	12.7	13.3

Operating ratios

Year to March	FY19	FY20E	FY21E	FY22E
Yield on advances	21.7	22.3	21.5	20.9
Cost of funds	9.5	9.7	9.9	10.0
Net interest margins	14.3	14.5	13.9	13.4
Spread	11.9	12.0	11.2	10.5
Cost-income	33.2	30.6	30.1	29.2
Tax rate	35.9	25.0	25.5	25.5

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20E	FY21E	FY22E	
Share capital	4,000	4,000	4,000	4,000	
Reserves & Surplus	87,709	109,987	135,168	164,026	
Shareholders' funds	91,709	113,987	139,167	168,026	
Long term borrowings	77,610	92,978	104,794	118,331	
Short term borrowings	181,090	216,949	244,519	276,105	
Total Borrowings	258,700	309,927	349,314	394,436	
Long Term Liabilities	15,114	16,681	17,918	20,108	
Def. Tax Liability (net)	(340)	(340)	(340)	(340)	
Sources of funds	365,183	440,254	506,059	582,230	
Gross Block	6,757	7,024	7,378	7,730	
Net Block	2,082	1,875	1,706	1,580	
Intangible Assets	44	40	36	33	
Total Fixed Assets	2,126	1,915	1,742	1,613	
Non current investments	4,138	4,438	4,738	5,038	
Cash and Equivalents	16,919	15,977	16,500	16,500	
Loans & Advances	335,853	411,108	476,011	550,907	
Current assets (ex cash)	11,184	12,376	13,040	14,874	
Trade payable	806	890	956	1,072	
Other Current Liab	4,232	4,671	5,017	5,630	
Total Current Liab	5,038	5,560	5,973	6,703	
Net Curr Assets-ex cash	6,146	6,816	7,067	8,172	
Uses of funds	365,183	440,254	506,059	582,230	
BVPS (INR)	229.6	285.3	348.4	420.6	

RoE decomposition (%)		FY19	FY20E	FY21E	FY22E
Year to March					
Net int. income/assets	14.3	14.5	13.9	13.4	
Non int. income/assets	0.3	0.3	0.2	0.2	
Net revenues/assets	14.6	14.8	14.1	13.6	
Operating expense/assets	(4.8)	(4.5)	(4.2)	(4.0)	
Provisions/assets	(0.1)	(0.4)	(0.4)	(0.4)	
Taxes/assets	(3.5)	(2.5)	(2.4)	(2.4)	
Total costs/assets	(8.4)	(7.4)	(7.1)	(6.7)	
ROA	6.2	7.4	7.0	6.9	
Equity/assets	26.6	26.7	27.9	29.3	
ROAE (%)	23.3	27.6	25.3	23.6	

Valuation parameters		FY19	FY20E	FY21E	FY22E
Year to March					
Adj. Diluted EPS (INR)	49.3	70.9	79.9	90.6	
Y-o-Y growth (%)	14.6	43.8	12.7	13.3	
BV per share (INR)	229.6	285.3	348.4	420.6	
Diluted P/E (x)	15.1	10.5	9.3	8.2	
P/B (x)	3.3	2.6	2.1	1.8	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Muthoot Finance	4,192	10.5	9.3	2.6	2.1	27.6	25.3
Aavas Financiers	2,072	56.6	46.6	7.0	6.1	13.3	14.1
HDFC	58,143	25.9	20.0	2.8	2.6	16.2	15.4
Indiabulls Housing Finance	1,920	6.0	6.5	0.9	0.8	15.0	12.9
LIC Housing Finance	2,912	8.4	6.4	1.1	1.0	14.4	16.7
Mahindra & Mahindra Financial Services	3,330	18.5	14.7	2.1	1.9	11.6	13.8
Manappuram Finance	1,901	11.6	9.2	2.7	2.3	24.6	26.8
Repco Home Finance	275	6.2	5.8	1.1	0.9	18.8	17.2
Shriram City Union Finance	1,349	7.9	6.9	1.3	1.1	17.7	17.4
Shriram Transport Finance	4,085	9.5	8.3	1.7	1.4	19.1	18.6
Median	-	10.0	8.7	1.9	1.7	17.0	16.9
AVERAGE	-	16.6	14.2	2.5	2.2	17.8	17.8

Source: Edelweiss research

Additional Data

Directors Data

M. G. George Muthoot	Chairman	George Alexander Muthoot	Managing Director
George Thomas Muthoot	Joint Managing Director	George Jacob Muthoot	Joint Managing Director
George Joseph	Independent Director	John K. Paul	Independent Director
K John Mathew	Independent Director	Pamela Anna Mathew	Independent Director
Alexander Muthoot George	Deputy Managing Director	K George John	Independent Director

Auditors - M/s. Varma & Varma

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
UTI Asset Management	1.07	Nippon Life India Asset Management	1.01
Dimensional Fund Advisors	0.98	Vanguard Group	0.84
AllianceBernstein	0.80	ICICI Prudential Asset Management	0.79
Mirae Asset Global Investments	0.68	L&T Mutual Fund	0.64
Government Pension Fund - Global	0.61	Tata Asset Management	0.55

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	REDUCE	SU	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	BUY	SO	M	Bajaj Finserv	REDUCE	SU	L
Bank of Baroda	BUY	SU	M	DCB Bank	BUY	SP	M
HDFC	BUY	SO	L	Federal Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	HDFC Bank	BUY	SO	L
Indiabulls Housing Finance	HOLD	SU	M	IDFC FIRST BANK	BUY	SP	L
Kotak Mahindra Bank	BUY	SP	M	IndusInd Bank	BUY	SO	L
LIC Housing Finance	BUY	SO	M	L&T Finance Holdings	HOLD	SP	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Magma Fincorp	BUY	SP	M
Max Financial Services	BUY	SO	L	Manappuram Finance	HOLD	SU	H
Muthoot Finance	BUY	SO	M	Multi Commodity Exchange of India	HOLD	SP	M
Punjab National Bank	REDUCE	SU	M	REC	BUY	SP	M
Repco Home Finance	BUY	SP	M	Shriram City Union Finance	BUY	SP	M
Shriram Transport Finance	BUY	SO	M	South Indian Bank	BUY	SP	M
State Bank of India	BUY	SO	L	Union Bank Of India	HOLD	SU	M
Yes Bank	BUY	SP	M				

ABSOLUTE RATING

Ratings

Expected absolute returns over 12 months

Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings

Criteria

Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings

Criteria

Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings

Criteria

Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Aavas Financiers, Aditya Birla Capital, AU Small Finance Bank Ltd, Axis Bank, Bajaj Finserv, Bank of Baroda, DCB Bank, Equitas Holdings, Federal Bank, HDFC, HDFC Bank, HDFC Life Insurance Company Ltd, ICICI Bank, ICICI Lombard General Insurance Company Ltd, IDFC FIRST BANK, Indiabulls Housing Finance, IndusInd Bank, ICICI Prudential Life Insurance Company Ltd, Kotak Mahindra Bank, LIC Housing Finance, L&T Finance Holdings, Max Financial Services, Multi Commodity Exchange of India, Manappuram Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, REC, Repco Home Finance, SBI Life Insurance Company Ltd, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
30-Dec-99	Repco Home Finance	Delivering on expectations; valuation comfort; <i>Result Update</i>	347	Buy
30-Dec-99	BFSI	Liquidity, rate transmission & credit flow booster; <i>EdelFlash</i>		
30-Dec-99	Indiabulls Housing Finance	Business reconfiguration underway; transition to be arduous; <i>Result Update</i>	277	Hold

Distribution of Ratings / Market Cap

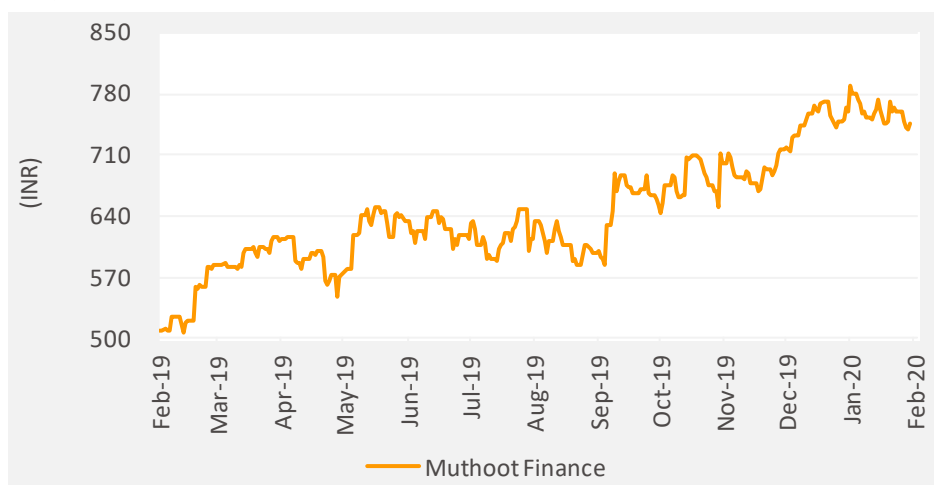
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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