

MUTHOOT FINANCE

Growth coming back; sustenance key

India Equity Research | Banking and Financial Services

Muthoot Finance (Muthoot) reported Q1FY19 PAT of INR4.9bn (up >40% YoY) with a steady improvement in core performance. Key highlights: a) AUM gained momentum, up 6.4% QoQ, supported by a 4% QoQ rise in volume, providing visibility for 20% growth target for FY19; b) GNPLs dipped to 4.56% (6.98% in FY18); c) Little impact of Kerala floods (given the state accounts for 5.8% of AUM; has only three branches with AUM of only INR100mn directly affected). Under IND-AS, company conservatively chose to retain excess provisioning; consequently there was no positive impact on net worth as anticipated. Muthoot's other businesses – home finance, Belstar, insurance broking – are scaling up well. Given stability in business along with RoA/RoE of >5%/20%, we maintain 'BUY'.

AUM growth gaining momentum

After six quarters of softer growth momentum, gold loan AUM gained traction (up 10% YoY/6% QoQ) supported by a 4% QoQ rise in volume (to 161 tonnes) and a 2% QoQ rise in AUM/gram (to INR1,898/gm). The pickup in growth momentum is the key earnings driver for the stock and its sustenance is critical for earnings growth.

Overdue recovery sustains revenue momentum

Muthoot sustained revenue benefitting from a notable recovery in the six-months' overdue portfolio. Yields, after the run-down of this portfolio, should normalise at sub-20% (21.6% in Q1FY19). This along with turning rate cycle (which impacts borrowing cost) will curtail NIM (14.9% in Q1FY19), albeit lending rate hike will cushion the impact.

GNPLs decline, transition to IND-AS smooth

Under IND-AS, there was a marginal (0.2%) impact on the FY17 net worth (versus our expectation of an upward revision) as the company chose to conservatively retain excess provisions. Under ECL, provisions worth INR5.9bn were required, but they amounted to INR8.1bn. Management stated that Kerala accounts for 5.8% of gold AUM, and anticipates minimal impact (INR100mn of AUM), a key monitorable henceforth.

Outlook and valuations: Growth to drive rerating; maintain 'BUY'

Some accretion in AUM was seen in Q1FY19. We expect AUM growth to gather pace in the wake of enhanced demand from business segments post-GST stabilisation. The transition impact of IND-AS was not fully disclosed; thus, we have not aligned our model to IND-AS. The stock trades at 1.8x FY20E P/ABV. Maintain 'BUY/SO' with TP of INR568.

Financials

(INR mn)

Year to March	Q1FY19	Q1FY18	Growth (%)	Q4FY18	Growth (%)	FY18	FY19E	FY20E
Net revenue	11,314	8,652	30.8	11,585	(2.3)	43,024	43,460	48,703
Net profit	4,916	3,449	42.5	4,514	8.9	17,203	18,481	20,952
Dil. EPS (INR)	12.2	8.6	42.3	11.3	8.7	43.0	46.2	52.4
Adj. BV (INR)						162.8	206.4	245.9
Price/ Adj book (x)						2.7	2.1	1.8
Price/ Earnings (x)						10.2	9.5	8.3

*Note: Q1FY18/Q1FY19 are as per IND-AS and balance on I-GAAP, so not strictly comparable

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 Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

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 437
Target Price	: INR 568
52-week range (INR)	: 526 / 360
Share in issue (mn)	: 400.1
M cap (INR bn/USD mn)	: 175 / 2,436
Avg. Daily Vol.BSE/NSE('000)	: 766.9

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	73.6	73.6	73.6
MF's, FI's & BK's	10.9	10.9	10.5
FII's	11.1	11.1	11.8
Others	4.4	4.4	4.1
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	3.8	5.7	6.7
3 months	(4.8)	6.3	8.1
12 months	(11.4)	13.2	11.3

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Performance of subsidiaries

- **Muthoot Homefin** sustained growth momentum during the quarter—loan book grew >10% QoQ to INR16.2bn. Revenue came in at INR497mn (INR1.25bn in FY18), flowing into PAT of INR111mn (PAT of INR278mn in FY18). The business is currently operational in 15 locations. Focus within this vertical continues to be on extending affordable housing finance, especially to EWS and LIG customers.
- **Belstar Investment and Finance's** loan portfolio stood at INR12.4bn (up >8% QoQ), with 257 branches spread across seven states (Tamil Nadu, Karnataka, Madhya Pradesh, Maharashtra, Kerala, Chattisgarh and Odisha) and one union territory (Pondicherry). Revenue for the quarter stood at INR749mn (INR2.2bn in FY18), translating into PAT of INR145mn (INR337mn in FY18).
- **Muthoot Insurance Brokers** clocked good growth and generated premium collection of INR495mn (up >19% QoQ), with active distribution of life as well as non-life insurance products. The number of policies insured rose more than 100% to 4,50,376.
- **Asia Asset Finance's** loan portfolio stood at LKR10.7bn (up ~17% YoY), with 17 branches across Sri Lanka. Revenue came in at LKR687mn (up ~16% YoY) with PAT of LKR16mn (LKR202mn in FY18).

Table 1: Key takeaways from Q1FY19 earnings

(INR mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	Comments
Interest income	16,229	13,652	18.9	15,510	4.6	Sustained revenue momentum benefitting from recovery in six-months' overdue portfolio, which matured and attracted higher yields
Interest expense	5,016	5,121	(2.1)	4,495	11.6	Rising interest rates to keep funding cost elevated
Net interest income	11,213	8,531	31.4	11,014	1.8	Healthy NII traction, driven by superior margins
Non-interest income	101	121	(16.5)	571	(82.3)	
Net revenues	11,314	8,652	30.8	11,585	(2.3)	
Operating expenses	3,738	3,103	20.5	3,664	2.0	Higher spend on advertising and business promotion
-Staff expense	2,169	1,858	16.7	2,095	3.5	
-Depreciation	91	104	(12.6)	114	(19.7)	
-Other opex	1,478	1,140	29.6	1,456	1.5	
Operating profit	7,577	5,550	36.5	7,921	(4.3)	
Provisions	27	126	NA	596	(95.6)	Credit cost lower under ECL framework
Profit before tax	7,550	5,424	39.2	7,324	3.1	
Tax expense	2,634	1,975	33.4	2,810	(6.3)	
Profit after tax	4,916	3,449	42.5	4,514	8.9	
EPS (INR)	12.2	8.6	42.3	11.3	8.7	

Source: Company, Edelweiss research

Table 1: Key takeaways from Q1FY19 earnings (continued)

(INR mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	Comments
Key Metrics						
Gross retail loan AUM	3,09,966	2,78,566	11.3	2,91,380	6.4	
Gold loans	3,05,621	2,77,750	10.0	2,88,480	5.9	AUM growth shows signs of improvement, sustenance holds key
Other loans	4,345	816	432.5	2,900	49.8	Ramp up of non-gold portfolio holds key
Gold holding (tonnes)	161	152	5.9	155	3.9	
GNPA	14,128	6,279	125.0	20,329	(30.5)	
GNPA (%)	4.6	2.3		7.0		Technical NPLs recovered in Q1
NIM (reported, %)	14.7	12.2		14.8		
Subsidiaries						
Asia Asset Finance						
Loan portfolio (LKR)	10,680	9,082	17.6	9,950	7.3	Strong loan book growth, on expanding reach
PAT (LKR)	16	57	(71.9)	58	(72.4)	
Muthoot Homefin						
Loan portfolio	16,210	5,957	NM	14,648	10.7	Robust loan book growth, outlook remains positive
PAT	111	37	NM	116	(4.3)	
Muthoot Insurance Brokers						
Premium collection	495	157	215.3	415	19.3	Strong growth in premium collections, given greater number of policies insured
PAT	24	12	100.0	44	(45.5)	
Belstar Investment & Finance						
Loan portfolio	12,361	6,652	85.8	11,371	8.7	
PAT	145	52	178.8	122	18.9	

Source: Company, Edelweiss research

*Note: Q1FY18/Q1FY19 are as per IND-AS and balance on I-GAAP, so not strictly comparable

Table 2: Trades at 1.6x FY20E P/BV for RoE (consol) at > 22%

	Standalone			Consolidated		
	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Net profit (INR mn)	17,203	18,481	20,952	18,121	19,938	22,908
Networth (INR mn)	77,604	91,405	1,07,209	78,522	92,862	1,09,165
RoAUM (%)	6.1	5.9	5.8	4.1	5.2	4.8
RoE (%)	24.1	21.9	21.1	25.2	23.3	22.7
EPS (INR)	43.0	46.2	52.4	45.3	49.8	57.3
Book value (INR)	194.3	228.8	268.4	196.3	232.2	272.9
Diluted P/E	10.2	9.5	8.3	9.6	8.8	7.6
P/BV	2.2	1.9	1.6	2.2	1.9	1.6

Source: Company, Edelweiss research

Table 3: Net-worth reconciliation under IND-AS

	(INR mn)
Opening Reserve & Surplus as per Indian GAAP as at 1st April 2017	65,164
Adjustments:	
Impact on application of Expected Credit Loss method for loan loss provisions and related adjustments as per IND AS 109	(382)
Amortisation of net income under Effective Interest Rate Method for Financial Assets	(101)
Amortisation of expenses under Effective Interest Rate method for Financial Liabilities	234
Reversal of derivative liability recognised on transition	(59)
Fair value of Investments	86
Tax adjustments on above items	77
Opening Reserve & Surplus as of 1st April 2017	65,019

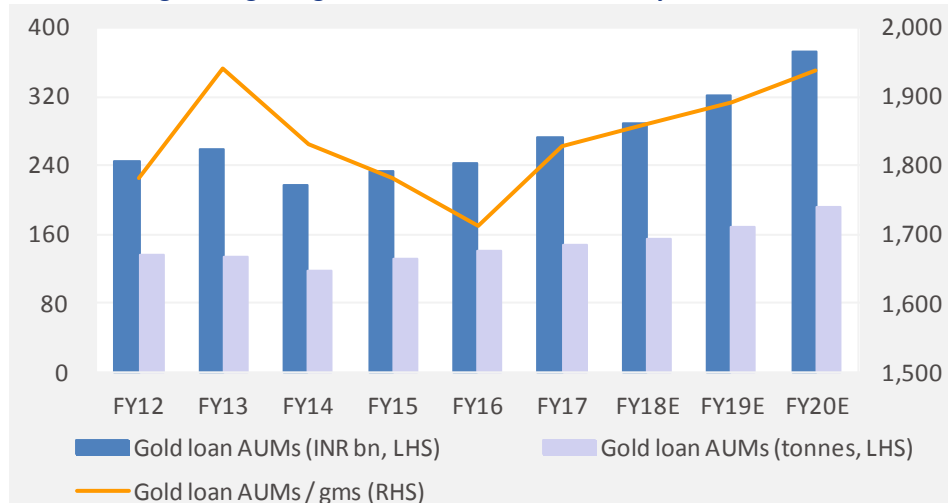
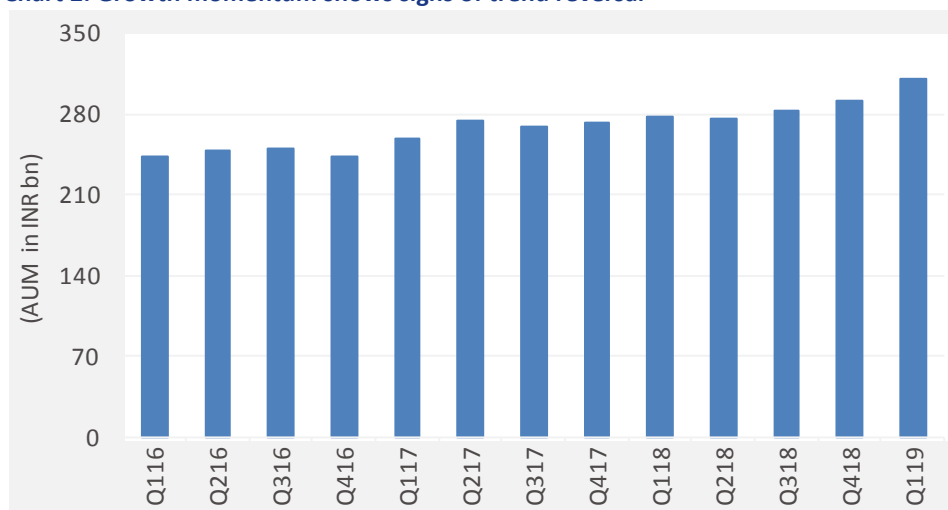
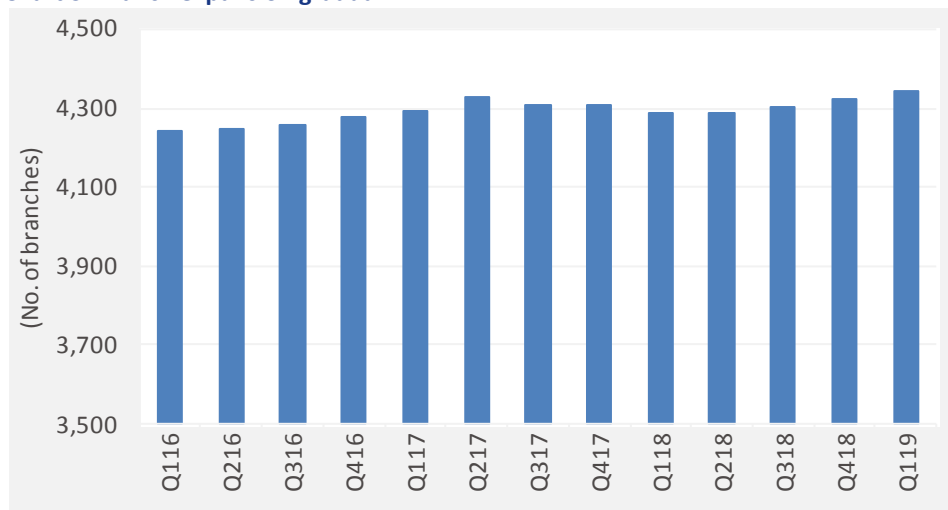
Table 4: Earnings reconciliation under IND-AS

(INR mn)	Q1FY18
Net Profit after Tax reported under Previous GAAP	3,511
Adjustments increasing/(decreasing) net profit after tax as reported in the previous GAAP:	
Impact on application of Expected Credit Loss method for loan loss provisions and related adjustments as per IND AS 109	(311)
Amortisation of net income under Effective Interest Rate method for Financial Assets	(20)
Amortisation of expenses under Effective Interest Rate method for Financial Liabilities	205
Reversal of derivative liability recognised on transition	59
Reclassification of Actuarial Gain/Loss to Other Comprehensive Income	(15)
Fair Valuation of Employee Stock Options	(13)
Tax adjustments on above items	33
Net Profit after tax as under IND AS	3,449
Other Comprehensive Income/Loss (Net of tax)	10
Total Comprehensive Income(after tax) as reported under IND AS	3,459

Table 5: ECL provisions at 1.9% under IND-AS framework

(INR mn)	FY17	Q1FY18	FY18	Q1FY19
Stage III Loan Asset	7,612	14,320	12,872	8,835
% Stage III Asset on Gross Loan Asset	2.8	5.1	4.4	2.9
ECL Provision	5,278	6,131	6,089	5,892
ECL Provision as % of Gross Loan Assets	1.9	2.2	2.1	1.9
Provisions outstanding in books	6,035	6,071	8,096	8,096

Source: Company, Edelweiss research

Chart 1: AUM growth gaining traction; sustenance holds key

Chart 2: Growth momentum shows signs of trend reversal

Chart 3: Branch expansion gradual


Source: Company

Chart 4: Headcount on the rise

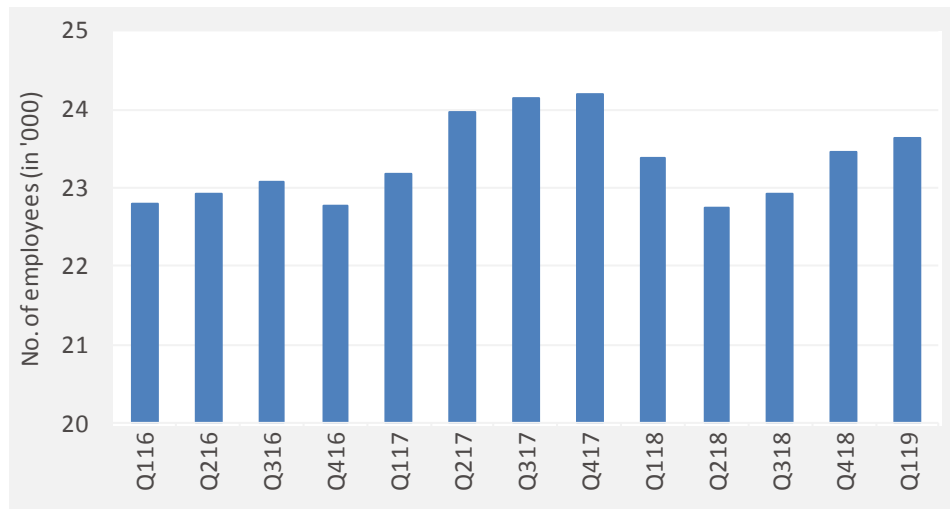


Chart 5: NIM benefits from higher yields, turning rate cycle will curtail NIMs

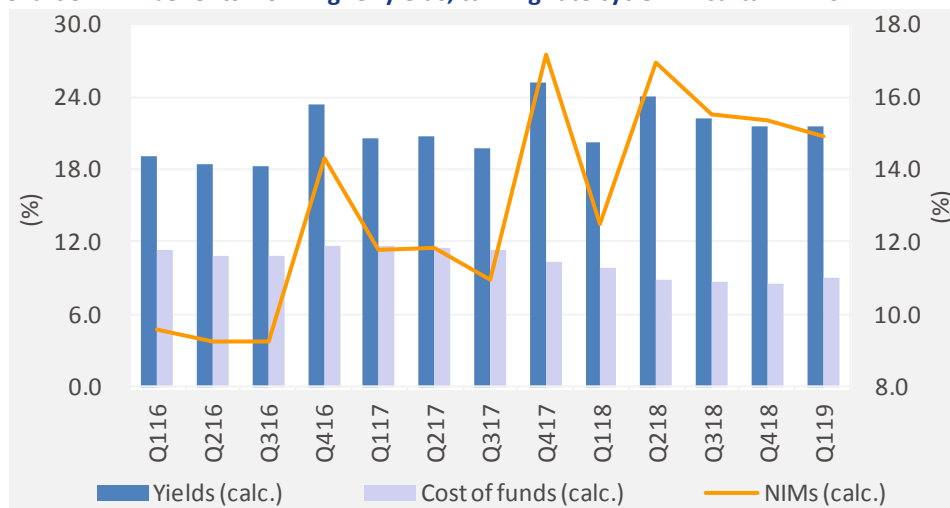
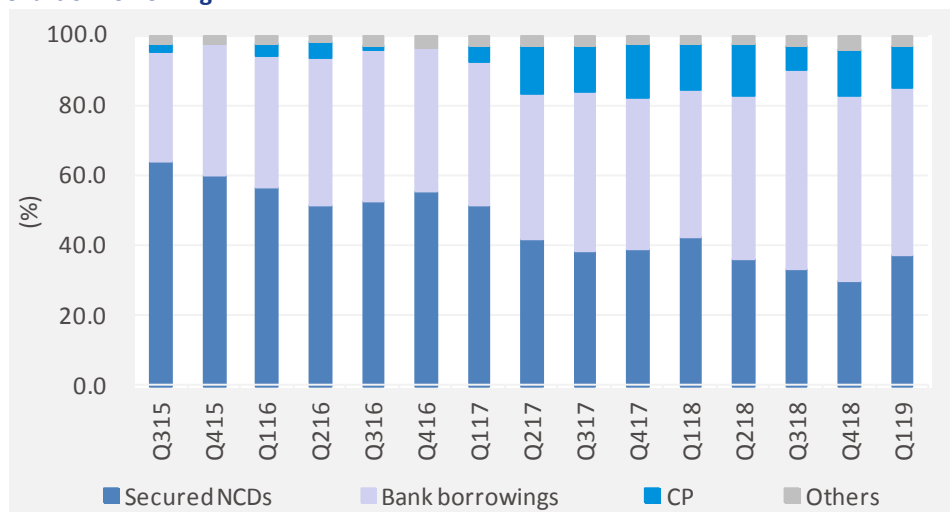
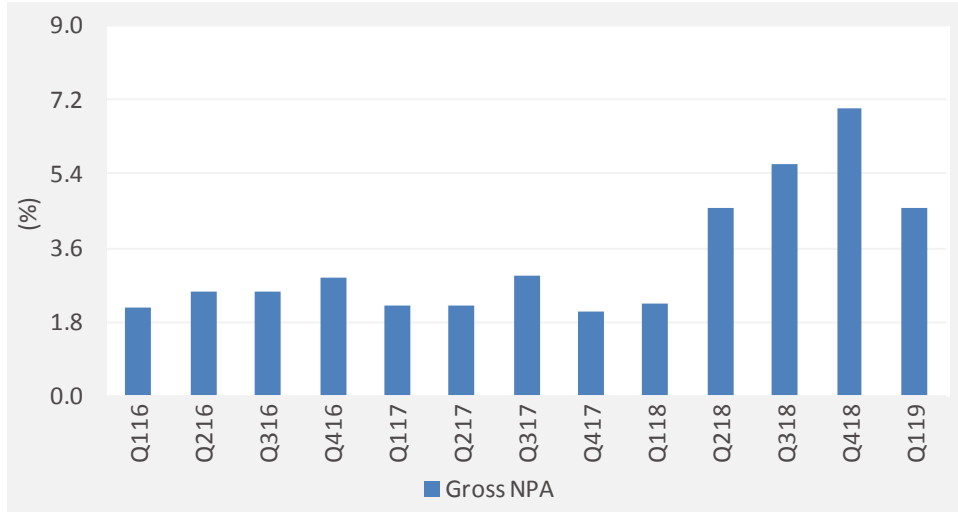


Chart 6: Borrowing mix



Source: Company

Chart 7: GNPA's improve to 4.56% (under I-GAAP)



Source: Company

Financial snapshot

(INR mn)

Year to March	Q1FY19	Q1FY18	% change	Q4FY18	% change	FY18	FY19E	FY20E
Operating income	16,229	13,652	18.9	15,510	4.6	61,763	63,865	72,641
Interest expanded	5,016	5,121	(2.1)	4,495	11.6	19,399	20,635	24,188
Other income	101	121	(16.5)	571	(82.3)	660	230	250
Net revenues	11,314	8,652	30.8	11,585	(2.3)	43,024	43,460	48,703
Operating expenses	3,647	2,999	21.6	3,551	2.7	12,618	13,616	14,876
Pre-provision profit	7,668	5,654	35.6	8,034	(4.6)	30,406	29,844	33,827
Provisions & write-offs	27	126	(78.9)	596	(95.6)	2,397	1,106	1,403
Operating profit	7,641	5,528	38.2	7,437	2.7	28,009	28,738	32,424
Depreciation	91	104	(12.5)	113	(19.5)	439	523	436
Profit before tax	7,550	5,424	39.2	7,324	3.1	27,571	28,215	31,988
Tax	2,634	1,975	33.4	2,810	(6.3)	10,368	9,734	11,036
PAT	4,916	3,449	42.5	4,514	8.9	17,203	18,481	20,952
Diluted EPS (INR)	12.2	8.6	42.3	11.3	8.7	43.0	46.2	52.4

Other information

Branches (No.)	4,344	4,285		4,325		4,325	4,375	4,425
Employees (No.)	23,623	23,391		23,455		23,455	23,726	23,997
AUM	305,621	277,750		288,480		288,480	333,647	385,522

Ratios

GNPA - Gold (%) – IGAAP	14,128	6,279		20,329		20,329.0	15,014.1	15,420.9
Tax rate (%)	34.9	36.4		38.4		37.6	34.5	34.5
B/V per share (INR)						194.3	228.8	268.4
Adj book value / share						162.8	206.4	245.9
Price/ Book (x)						2.2	1.9	1.6
Price/ Adj. book (x)						2.7	2.1	1.8
Price/ Earnings						10.2	9.5	8.3

*Note: Q1FY18/Q1FY19 are as per IND-AS and balance on I-GAAP, so not strictly comparable

Muthoot Finance – Q1FY19 Earnings Concall Key Takeaways

Business growth

- The gold loan growth has started to look up and the management is aiming towards 20% growth for the full year FY19.
- **With respect to Kerala situation**
 1. Gold loan business is 5.8% (of total gold loan business, viz. INR17bn). Moreover gold loans are bullet payments, thus there will be no pressure of EMI and customers will recoup over next few months. The portfolio of the affected region should be in INR100mn region.
 2. Of the overall branches 600 branches only 3 branches are only effected. Moreover there was no loss in any of these branches either of documents or of gold.
 3. Housing Finance has INR368mn of AUM in Kerala (of the total INR16.2bn of AUM). While the company is under process of full assessment of the situation, but there seems to be no loss of property and the houses are insured to that extend thus there are no likely hood of .
 4. MFI has just started the operation in Kerala and has the portfolio of INR400mn viz. 2-3% of MFI book, thus don't expect any major
- **With respect to subsidiary**
 1. Belstar registered strong > 80% YoY growth (albeit on lower base). **The targeted AUM for this by FY19 is INR18bn. The current GNPLs are at 0.83%**
 2. Muthoot Home Finance GNPLs at 0.57% . **The target for AUM of this subsidiary is to be INR25bn by FY19**
 3. Muthoot Money is doing vehicle finance (having portfolio size of INR500mn), this will become wholly owned subs for the company by end of this month. This is working n Telenga and AP , once the management is comfortable this will be replicated in other states as well. **The yearend target of INR3.5bn for this and INR10bn by end of next year.** This is catering to 3 products viz a) cars b) CVs and CEs, both new and used segment.
 4. **Have received the SEBI permission to start Mutual Fund business, and will start this over next 6 months.**
 5. Haven't had any discussion regarding demerger of the subsidiary at this point in time.

Asset Quality

- GNPLs came in at 4.56% (versus 6.98% in previous quarter), including borrower wise classification. Excluding which the GNPLs were 2.85%
- Given impending clarity from RBI regarding IND-AS implementation, the company has maintained higher coverage ratio.
 1. Stage 3 assets at INR8.83bn.
 2. The overall provisions of 1.9% of which 1.57% is pertaining to stage 1 & 2 bucket.

- Have not recognized interest income on stage -3 assets. Thus there was decline in Networth pertaining to ECL following adjustment due to shift in bucket from 120dpd as on FY17 to 90dpd)

Operational

- Medium term (2 years) RoA should be around 4%
 - On the cost of borrowing, it is 8.66% (8.25% in Q4FY18). The company has increased the lending rate also (in the range of 0.5-1%), which will cushion the NIMs henceforth.
1. The management has guided for spread of 10-12% levels.

Other highlights

- Company has roped in Amitabh Bachhan as the brand ambassador and the contract is for 2 years.
- The auctions during the quarter was INR2.95bn

Muthoot Finance – Q4FY18 Earnings Concall Key Takeaways

Asset Quality

- During the quarter, the company implemented a borrower wise classification as per RBI notification earlier. The company will treat this as secondary NPA going forward. The company could have got this back by pushing customers but did not want to spoil goodwill. Outstanding secondary NPA is at INR7.4bn
- The NPAs with respect to gold loans is very different for Muthoot versus banks. More than 30% of the NPA that has been reported in Q4FY18 has already moved out and replaced by new accounts. From around INR20bn, only INR16bn is outstanding currently. Company expects around 90% of it to be resolved this quarter and replaced by another set of accounts.
- Total NPA impact for shift from 120d to 90d would be INR4bn
- Outstanding primary NPA in the 6 month bucket stands at INR7.3bn.
- The company realizes around 80-90% of the interest on NPA accounts when the gold is auctioned.
- During the quarter, there was an instance of burglary in North India and the company has paid back the entire amount to its customers. Subsequently, the amount will be claimed through insurance.

Operational

- On book borrowing cost is 8.25% but further reductions look unlikely in a increasing interest rate scenario. Incremental borrowing cost however, is mostly closer to the MCLR.
- Medium term (2 years) RoA should be around 4%

Business growth

- Guidance of INR25bn AUM for subsidiaries and INR19bn for MFI (from INR12bn currently). SriLanka business is flat as political uncertainty prevails but the company has turned positive from loss making when was taken over.
- Management considering to entering into personal loans and vehicle loans (organically). Looking out for people and areas to expand. Numbers will start coming in from next 2 quarters.
- Demand has picked up in the month of April, continuing into May. The company is confident of achieving 15% growth during the year.
- The company boasts of a different MFI business model - SSG model (training undertaken before money is lent). Also, the company was broadly away from states which were impacted by the demonetization and hence the impact was lower. Growth NPA is 0.7/0.8 for FY18

Other highlights

- Company has roped in Amitabh Bachhan as the brand ambassador and the contract is for 2 years. Company is also the principal sponsor for CSK team (IPL 2018) this year.
- Auction cost for gold is negligible but there may be a 2%-3% cost on account of lower gold quality
- ATs – INR40k.

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 of ~75% even after the recent fund-raising of INR4.2bn. Headquartered in Kerala, the gold loan NBFC has a network of 4,344 branches, with majority located in southern India. Muthoot has created a leadership position in lending against gold jewellery with AUMs of ~INR305bn.

In addition to the gold loan business, Muthoot also provides money transfer services through branches as sub-agents of various registered money transfer agencies. It has recently commenced providing collection agency services as well. Its other recent initiatives include sale of gold coins, insurance products and housing finance among various other services.

The Muthoot group has interests in a 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

Some accretion in AUM was seen in Q1FY19. We expect AUM growth to gather pace in the wake of enhanced demand from business segments post-GST stabilisation. This along with controlled costs and provisioning is estimated to drive >20% earnings CAGR over FY18–20E. Maintain **'BUY'**.

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 (As per I-GAAP)

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Sector				
Credit growth	9.0	12.0	14.0	17.0
Deposit growth	14.0	12.0	13.0	14.0
Bank's base rate (%)	9.0	9.0	9.0	9.0
Wholesale borr. cost (%)	8.5	8.5	8.5	8.5
G-sec yield	6.5	6.5	7.0	7.1
Company				
Yield on advances	22.2	22.0	20.5	20.2
Cost of funds	11.5	9.2	9.0	9.2
Net interest margins	13.4	15.1	13.9	13.4
- employee cost	2.9	3.3	7.0	8.0
- advertisement	(15.1)	3,538.6	5.0	5.0
- rent	4.8	5.2	6.0	6.0
Tax rate (%)	38.6	37.6	34.5	34.5
Number of branches	4,307	4,325	4,375	4,425
Gold loan tenure	2.6	2.6	2.6	2.6
AUMs (in tonnes)/branch	34.6	35.8	40.1	45.0
Average INR per gm	1,827	1,861	1,900	1,938
Average LTV	72.0	0.7	70.0	70.0
Gross NPLs	2.1	7.0	4.5	4.0
Prov Cov	18.1	11.7	15.0	17.0

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Interest income	57,272	61,763	63,865	72,641
Interest expended	22,938	19,399	20,635	24,188
Net interest income	34,334	42,364	43,230	48,453
- Fee & forex income	195	660	230	250
Net revenues	34,529	43,024	43,460	48,703
Operating expense	12,503	13,057	14,139	15,312
- Employee exp	7,280	7,288	7,888	8,617
- Depn /amortisation	483	439	523	436
- Other opex	4,740	5,330	5,728	6,259
Preprovision profit	22,026	29,967	29,321	33,391
Provisions	2,816	2,397	1,106	1,403
Profit Before Tax	19,210	27,571	28,215	31,988
Less: Provision for Tax	7,411	10,368	9,734	11,036
Profit After Tax	11,798	17,203	18,481	20,952
Reported Profit	11,798	17,203	18,481	20,952
Shares o /s (mn)	399	400	400	400
Basic EPS (INR)	29.5	43.0	46.2	52.4
Diluted shares o/s (mn)	399	400	400	400
Adj. Diluted EPS (INR)	29.5	43.0	46.2	52.4
Dividend per share (DPS)	6.0	10.0	10.0	11.0
Dividend Payout Ratio(%)	20.3	23.3	21.6	21.0

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	31.9	24.6	1.0	12.1
NII growth	32.1	23.4	2.0	12.1
Opex growth	7.6	4.4	8.3	8.3
PPP growth	51.3	36.1	(2.2)	13.9
Provisions growth	73.4	(14.9)	(53.8)	26.9
Adjusted Profit	48.4	45.8	7.4	13.4

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Yield on advances	22.2	22.0	20.5	20.2
Cost of funds	11.5	9.2	9.0	9.2
Net interest margins	13.4	15.1	13.9	13.4
Spread	10.8	12.8	11.5	10.9
Cost-income	36.2	30.3	32.5	31.4
Tax rate	38.6	37.6	34.5	34.5

Balance sheet				
(INR mn)				
As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	3,995	4,000	4,000	4,000
Reserves & Surplus	61,170	73,604	87,405	103,209
Shareholders' funds	65,164	77,604	91,405	107,209
Long term borrowings	63,288	63,804	73,778	84,258
Short term borrowings	147,671	148,876	172,150	196,601
Total Borrowings	210,959	212,680	245,928	280,859
Long Term Liabilities	21,650	14,187	18,333	21,911
Def. Tax Liability (net)	(560)	(340)	(340)	(340)
Sources of funds	297,213	304,130	355,326	409,639
Gross Block	5,855	6,216	6,399	6,580
Net Block	2,039	1,962	1,622	1,367
Capital work in progress	-	57	-	-
Intangible Assets	43	43	34	29
Total Fixed Assets	2,082	2,062	1,657	1,396
Non current investments	2,091	3,838	4,138	4,438
Cash and Equivalents	15,346	4,868	11,678	13,493
Loans & Advances	272,205	288,480	333,647	385,522
Current assets (ex cash)	12,706	9,611	10,317	12,094
Trade payable	1,155	757	978	1,169
Other Current Liab	6,062	3,972	5,133	6,135
Total Current Liab	7,217	4,729	6,111	7,304
Net Curr Assets-ex cash	5,489	4,882	4,206	4,790
Uses of funds	297,213	304,130	355,326	409,639
BVPS (INR)	163.3	194.3	228.8	268.4

RoE decomposition (%)				
Year to March	FY17	FY18	FY19E	FY20E
Net int. income/assets	13.4	15.1	13.9	13.4
Non int. income/assets	0.1	0.2	0.1	0.1
Net revenues/assets	13.5	15.3	13.9	13.5
Operating expense/assets	(4.9)	(4.7)	(4.5)	(4.2)
Provisions/assets	(1.1)	(0.9)	(0.4)	(0.4)
Taxes/assets	(2.9)	(3.7)	(3.1)	(3.1)
Total costs/assets	(8.9)	(9.2)	(8.0)	(7.7)
ROA	4.6	6.1	5.9	5.8
Equity/assets	23.6	25.4	27.1	27.5
ROAE (%)	19.4	24.1	21.9	21.1

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	29.5	43.0	46.2	52.4
Y-o-Y growth (%)	47.2	45.6	7.4	13.4
BV per share (INR)	163.3	194.3	228.8	268.4
Adj. BV per share (INR)	155.2	162.8	206.4	245.9
Diluted P/E (x)	14.8	10.2	9.5	8.3
P/B (x)	2.7	2.2	1.9	1.6
P/ABV (x)	2.8	2.7	2.1	1.8

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Muthoot Finance	2,436	9.5	8.3	1.9	1.6	21.9	21.1
Dewan Housing Finance	2,828	14.0	12.1	2.1	1.9	16.1	16.8
HDFC	45,677	33.4	28.8	3.8	3.1	15.3	16.5
Indiabulls Housing Finance	7,255	12.1	10.0	3.4	2.9	30.5	31.4
LIC Housing Finance	3,532	11.8	10.0	1.7	1.5	17.4	17.8
Mahindra & Mahindra Financial Services	3,893	21.4	18.2	2.8	2.5	13.4	14.5
Manappuram General Finance	1,163	10.2	8.7	2.0	1.8	21.1	22.1
Repco Home Finance	468	13.4	11.5	2.2	1.8	17.3	17.3
Rural Electrification Corporation	3,170	4.7	3.8	0.6	0.5	13.2	14.9
Shriram City Union Finance	1,839	12.1	9.9	2.0	1.7	18.1	18.9
Shriram Transport Finance	3,985	11.1	9.0	1.9	1.6	18.8	19.5
Median	-	12.1	10.0	2.0	1.7	17.4	17.8
AVERAGE	-	14.0	11.8	1.9	1.6	18.5	19.2

Source: Edelweiss research

Additional Data

Directors Data

M. G. George Muthoot	Chairman	George Alexander Muthoot	Managing Director
George Thomas Muthoot	Executive Director	George Jacob Muthoot	Executive Director
George Joseph	Non-Executive - Independent Director	Jacob Benjamin Koshy	Non-Executive - Independent Director
John Kuttakaran Paul	Non-Executive - Independent Director	Jose Mathew	Non-Executive - Independent Director
Kariath George John	Non-Executive - Independent Director	Pamela Anna Mathew	Non-Executive - Independent Director
Alexander Muthoot George	Executive Director		

Auditors - Rangamani & Co.

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Reliance Capital Trustee Co Ltd	3.18	ICICI Prudential Asset Mgmt Co	2.25
SBI Funds Management	1.85	Birla Sun Life Asset Management	1.45
Tata Asset Management Ltd	1.24	Grantham Mayo Van Otterloo & Co	1.06
Vanguard Group	0.85	Dimensional Fund Advisors LP	0.72
L&T Mutual Fund	0.53	UTI Asset Management Co Ltd	0.52

**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
Aditya Birla Capital	BUY	SO	H	Axis Bank	HOLD	SU	M
Bajaj Finserv	BUY	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SP	M	Capital First	BUY	SO	M
DCB Bank	HOLD	SP	M	Dewan Housing Finance	BUY	SO	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SP	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	BUY	SP	L
Indiabulls Housing Finance	BUY	SO	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	BUY	SO	M
L&T FINANCE HOLDINGS LTD	BUY	SO	M	LIC Housing Finance	BUY	SP	M
Magma Fincorp	BUY	SP	M	Mahindra & Mahindra Financial Services	HOLD	SP	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	HOLD	SU	M	Muthoot Finance	BUY	SO	M
Power Finance Corp	BUY	SO	M	Punjab National Bank	REDUCE	SU	M
Reliance Capital	BUY	SP	M	Repco Home Finance	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SO	M
Shriram Transport Finance	BUY	SO	M	South Indian Bank	BUY	SO	M
State Bank of India	BUY	SP	L	Union Bank Of India	HOLD	SP	M
Yes Bank	BUY	SO	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

Aditya Birla Capital, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, 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
27-Aug-18	BFSI	Sealing the fate: Power stress to crystallise; resolution key ; <i>Sector Update</i>		
25-Aug-18	LIC Housing Finance	Modest operating metrics; <i>Result Update</i>	573	Buy
21-Aug-18	Magma Fincorp	Business turnaround visible; <i>Result Update</i>	145	Buy

Distribution of Ratings / Market Cap

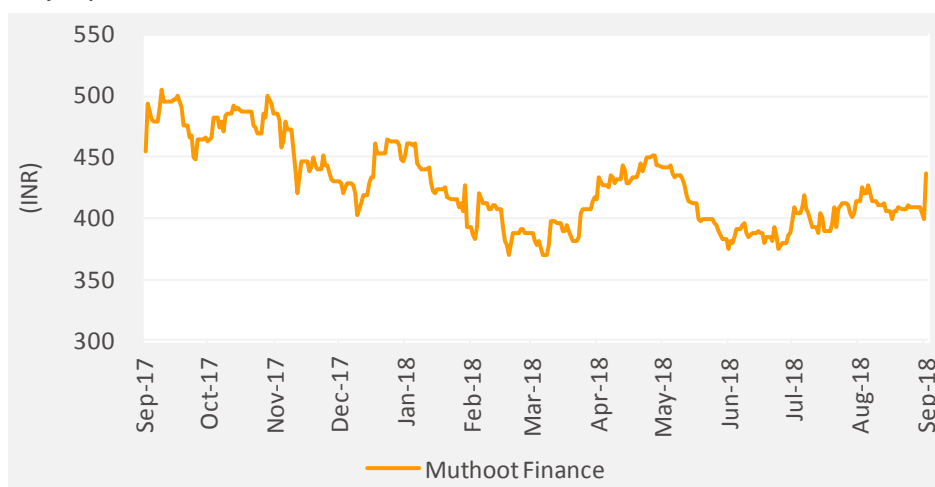
Edelweiss Research Coverage Universe

	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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