

Price: 2,381

Recommendation: Buy

Industry: Non Banking Financial

Sector: Financial Services

Report Date: 03-Apr-2025

Muthoot Finance has strategically expanded its branch network, adding 800 branches to Muthoot Money, transitioning it from vehicle finance to gold loans due to higher demand and margins. The company reported a 34% growth in loan assets, with a 37% increase in gold loans. Despite challenges, it remains focused on digital engagement and expects a 15% growth by 2026. However, rising NPAs in non-gold loans need attention.

| Sales | | Profit & Loss | | Profitability Matrix | |
|--------------------|----------|---------------------------|----------|-------------------------|-----------|
| Current Year | 15654 Cr | Operating Profit(Year) | 12287 Cr | Operating Profit Margin | 78.5 % |
| Previous Year | 10515 Cr | Operating Profit(Quarter) | 3510 Cr | EBITDA Margin | 65.03 % |
| Current Quarter | 4423 Cr | PAT (Year) | 4049 Cr | Net Profit Margin | 32.0 % |
| Previous Quarter | 4117 Cr | PAT (Quarter) | 1363 Cr | EPS | 118 |
| Revenue (QYoY) | 3168 Cr | | | | |
| Valuation Matrix | | Growth(YoY) | | Growth(QoQ) | |
| Trailing P/E | 20.1 | Sales Growth | 29.6 % | Sales Growth | 7.43 % |
| PEG Ratio | 1.30 | PAT Growth | 16.59 % | Sales Growth QYoY | 39.61 % |
| EV/EBITDA | 13.8 | EPS Growth | 16.83 % | PAT Growth | 8.95 % |
| P/B | 3.60 | Dividend Yield | 1.01 | PAT Growth QYoY | 32.72 % |
| Capital Allocation | | Holdings | | Leverage | |
| RoE | 17.9 % | Promoter | 73.4 % | Debt/Equity | 2.91 |
| RoA | 5.14 % | FII | 10.3 % | Debt | 78612 Cr |
| RoCE | 13.2 % | DII | 13.0 % | Market Cap | 95586 Cr |
| RoIC | 13.2 % | Public | 3.38 % | Enterprise value | 169830 Cr |
| | | No of Shares | 40.2 Cr | Cash Equivalents | 4369 Cr |

source : Company filings

Company's Overview Based on Recent Concall and Performance:

In the recent conference call, Muthoot Finance outlined several strategic initiatives and business strategies aimed at enhancing growth and diversification. The company has significantly expanded its branch network, adding approximately 800 branches to its subsidiary, Muthoot Money, which has been transformed from a vehicle finance company to a gold loan company. This strategic shift was driven by the competitive nature and lower margins of the vehicle finance business. The transformation aims to capitalize on the robust demand for gold loans, which has been a core strength of Muthoot Finance. The company has also focused on strengthening its digital platforms to enhance customer engagement, with a significant portion of transactions now facilitated through digital channels.

Muthoot Finance reported a strong financial performance, with consolidated loan assets under management growing by 34% year-on-year to INR 1,11,308 crores. The core gold loan portfolio witnessed a robust 37% year-on-year growth, driven by increased demand during the festive season. The company's consolidated profit after tax for the nine months stood at INR 3,908 crores, marking a 19% increase year-on-year. The housing finance arm also showed growth, disbursing INR 880 crores, up from INR 493 crores last year. Despite challenges in the microfinance sector, the company remains focused on strengthening collections and enhancing the quality of its loan book.

Looking ahead, Muthoot Finance is optimistic about its growth prospects, with plans to continue expanding its branch network and digital capabilities. The company expects the current industry challenges to be transitional and anticipates resolution in the coming quarters. The management has provided a growth guidance of 15% for 2026, with expectations of stable or slightly better asset quality. The company is also closely monitoring the economic environment, which, despite potential stress, is seen as an opportunity for the gold loan business as customers seek alternative financing options.

While the company has demonstrated strong performance, there are areas for improvement. The non-gold loan portfolio has seen an increase in NPAs, primarily from personal loans, business loans, and LAP. The management believes this is the peak and expects improvements in the coming quarters. Additionally, while the company has achieved significant growth, maintaining this momentum amidst regulatory changes and economic uncertainties will be crucial. The company's commitment to customer-centric policies, such as providing more time for loan repayments instead of immediate auctions, is a positive differentiator that could enhance customer loyalty and retention.

MUTHOOTFIN Daily Closing One Year Price Chart



| Name | Mar Cap (Rs. Cr.) | P/E | ROE | Sales(G) QoQ | Sales(G) QYoY | PAT(G) QoQ | PAT(G) QYoY |
|-----------------|-------------------|-------|--------|--------------|---------------|------------|-------------|
| Muthoot Finance | 95586.47 | 20.09 | 17.86% | 7.43% | 39.64% | 8.95% | 32.69% |
| Bajaj Finance | 531855.86 | 33.30 | 22.07% | 5.52% | 27.33% | 6.17% | 16.70% |
| Bajaj Finserv | 306854.58 | 35.75 | 15.28% | -4.93% | 10.34% | 6.90% | 3.40% |
| Jio Financial | 146506.72 | 91.17 | 1.27% | -36.79% | 5.98% | -57.22% | 0.33% |
| Bajaj Holdings | 127983.51 | 17.07 | 14.77% | -54.73% | 16.92% | 21.72% | 6.32% |

| Aspect | Commentary |
|----------------------|--|
| Revenue | The company shows a strong revenue growth with a 29.6% YoY increase, driven by strategic expansion and increased demand for core services. Quarterly growth also reflects a positive trend, indicating effective market penetration and customer acquisition strategies. |
| Profit & Loss | Operating profit margins are robust at 78.5%, with a significant PAT growth of 16.59% YoY. This indicates efficient cost management and strong operational performance, contributing to a healthy bottom line. |
| Profitability Matrix | High operating profit and EBITDA margins suggest strong operational efficiency. The net profit margin of 32% reflects effective cost control and pricing strategies, enhancing shareholder value. |
| Valuation Matrix | The company's valuation metrics, including a P/E of 20.1 and a PEG ratio of 1.30, suggest it is reasonably valued with growth potential. The EV/EBITDA ratio of 13.8 indicates a solid market position. |
| Growth (YoY) | Year-over-year growth is impressive, with sales and PAT growth rates of 29.6% and 16.59%, respectively. This reflects successful strategic initiatives and market expansion efforts. |
| Growth (QoQ) | Quarterly growth metrics show a positive trend, with sales and PAT growth rates of 7.43% and 8.95%, respectively. This indicates consistent performance and effective short-term strategies. |
| Capital Allocation | The company demonstrates prudent capital allocation with a RoE of 17.9% and RoCE of 13.2%, indicating efficient use of equity and capital employed to generate returns. |
| Holdings | Promoter holding is strong at 73.4%, reflecting confidence in the company's prospects. Institutional holdings are also significant, indicating trust from major investors. |
| Leverage | The debt/equity ratio of 2.91 suggests a high leverage level, which could pose risks if not managed properly. However, the company's market cap and enterprise value indicate strong market confidence. |

Analyst viewpoint: Muthoot Finance has shown a commendable growth trajectory with a 7.43% quarter-on-quarter increase in sales and a robust 8.95% rise in profit after tax, underpinned by strategic capital allocation and market expansion. The company's focus on digital engagement and the transformation of its subsidiary, Muthoot Money, to focus on gold loans, illustrates a nimble approach to capture high-margin opportunities in an evolving financial landscape. Despite a competitive financial services sector, Muthoot Finance's PEG ratio of 1.30 and a trailing P/E of 20.1 suggest attractive valuation metrics that align with growth potential. The recent expansion of 800 branches enhances its market footprint, setting the stage for sustained mid-term growth, further supported by a strong operational execution with a RoE of 17.9%.

Peer comparison highlights Muthoot's competitive edge in the financial sector, with a solid market cap standing favorably against peers like Bajaj Finance. The company's commitment to customer retention through strategic policies is a distinguishing factor. However, an area to monitor is the rising NPAs in the non-gold loan portfolio, which poses a slight risk. Yet, the management's confidence in overcoming these challenges with future improvements and the company's ability to sustain margins supports our bullish outlook. As regulatory and market conditions fluctuate, Muthoot's strategic agility and customer-centric approach fortify its position for promising short to mid-term growth.

Please read detailed disclosure on next page.

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|-----------------------------------|--|
| Investment Rating | Expected Return (over 12-month) |
| BUY | >=15% |
| SELL | <-10% |
| NEUTRAL | >-10% to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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