

# Muthoot Finance

Market Capital: 57,013 Cr

Enterprise Value: 13,970.12 Cr

No. Of Shares: 401344541

52 Week High: 1,721.95

52 Week Low: 1,121

Face Value: 10

We recommend a Buy position on Muthoot Finance with a medium to long-term view owing to strong government push, the future of precast projects, prudent capital allocation, and new policies

## **Sector Overview**

The NBFC industry accounted for 11.6 percent of GDP in 2019-20 in the wake of the pandemic . Most recently, as of Jan 22, 2021, there were 9,425 NBFCs registered with the RBI categorized as Asset Finance Companies, Loan Companies, Infrastructure Finance Companies (IFCs), Systematically Important Core Investment Company (NBFC – CIC – ND – SI), Infrastructure Debt Fund (NBFC – IDF) and Micro Finance Institutions (NBFC – MFIs).

The total Credit market of NBFC's is going up from 13% FY16 to 16% FY17 to 20% FY18. The average growth of NBFC's will be 4-6% every FY.

Some of the key sectoral credit growth across key sub-sectors is for MFIs which have clocked 80% growth in 2019-20 and housing loans which have registered 37% growth in the same timeframe. Similarly, growth in loans and advances for NBFC-IDFs and NBFC-MFIs have registered strong

growth at 46% and 8% respectively for the 2019-20 period and similarly also demonstrated an upward growth trend in 2018-19.

Contrary to the growth in the NBFC segment, banking system credit was anemic, rising at mid-single-digit at the end of Q1. Only in Q2, the credit growth has picked up pace somewhat, but still in single digits. Banking system credit grew just 6.7 percent year-on-year on August 27, which is better than last year's 5.5 percent growth, but still far lower than how the retail-focused NBFCs are expanding their credit books.

India is expected to be the fourth largest private wealth market globally by 2028.

### **Company Overview**

Muthoot Finance Limited is the largest gold financing company in India in terms of the loan portfolio. .In the year 2001 the company obtained the license from RBI to function as an NBFC. In the year 2005 as per the scheme of amalgamation Muthoot Enterprises Private Ltd was amalgamated with the company with effect from March 22 2005.

MFL's gold loan under management increased to ₹5.47 lakh crore in September 2021 from ₹4.08 lakh crore in March 2020. However, the other loans portfolio shrunk to ₹4,647 crore from ₹8,382 crore in this period.

Muthoot Finance Limited was awarded India's No. 1 Most Trusted Financial Services Brand for the 5th year in a row by Brand Trust

Report 2020. The Loan Assets Portfolio of the Company increased by Rs 110117.32 million during the year reaching Rs 526223.37 million as on 31 March 2021 as against Rs 416106.05 million as on 31 March 2020. The Net Interest Margin was 14.24% as compared to 15.52% in FY 2019- 20.

In 2014 Muthoot Finance raised Rs 418 crore through the oversubscribed (1.8 times) Institutional Placement Programme (IPP). During the year the company acquired 51 per cent equity shares of Colombo-based Asia Asset Finance PLC (AAF). In 2015 Muthoot Finance's retail loan portfolio reached Rs 23409 crore net owned funds crossed Rs 5000 crore gross annual income reached Rs 4325 crore and profit after tax reached Rs 671 crore. In 2016 Muthoot Finance's retail loan portfolio crossed Rs 24300 crore net owned funds crossed Rs 5500 crore gross annual income reached Rs 4875 crore and profit after tax for the year reached Rs 810 crore.

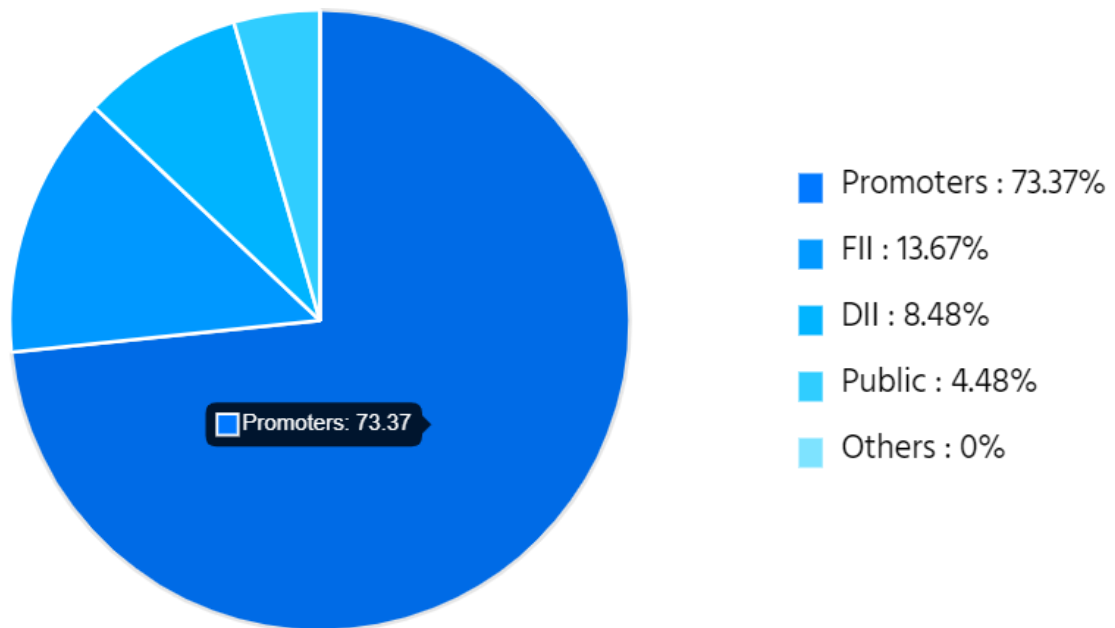
In November 18 2008 the company was converted into public limited company and the name was changed to Muthoot Finance Ltd. They obtained fresh RBI license to function as an NBFC without accepting public deposits consequent to change in name. During the year 2009-10 the company added 620 new branches. As per the scheme of de-merger the radio business of the company was de-merged and transferred to Muthoot Broadcasting Pvt Ltd with effect from January 01 2010. The company opened 316 new branches between April 2010 to August 2010.

## **Company Financials**

	FY2021
P/E Ratio	14.43
ROCE	15.84%
ROE	27.79 %
Debt to Equity Ratio	3.02
Quick Ratio	2.32
Current Ratio	2.32
Adjusted EPS	92.78
Total Debt	45,946.28
Revenue from Operations/Share (Rs.)	263.14
Return on Assets(%)	5.86%
Net Profit Margin	35.25%

## **Shareholding Pattern**

Total Promoter Holding	73.37%
Public	4.48%
Domestic Institutions	8.48%
Foreign Institutions	13.67%
Others	0%



## **Investment Hypothesis**

### **Government Push**

On September 30, 2021, the Reserve Bank of India communicated that the applicable average base rate to be charged by non-banking financial company - micro finance institutions (NBFC-MFIs) to their borrowers for the quarter beginning October 1, 2021, will be 7.95%. On September 30, 2021, the IFSC Authority constituted an expert committee to recommend approach towards development of sustainable

finance hub and provide road map for the same. In August 2021, Prime Minister Mr. Narendra Modi launched e-RUPI, a person and purpose-specific digital payment solution. e-RUPI is a QR code or SMS string-based e-voucher that is sent to the beneficiary's cell phone. Users of this one-time payment mechanism will be able to redeem the voucher at the service provider without the usage of a card, digital payments app, or internet banking access.

### **Strong Financials**

Over the last three years, Muthoot Finance has grown earnings per share (EPS). Muthoot Finance EPS increased from ₹75.26 to ₹92.78 over the last year. It shows the positive growth of the Company.

In order for us to accurately judge a company's debt relative to its earnings, we calculate its EBITDA and its EBIT divided by its interest expense. (The interest expense is the cost incurred by the company for borrowed funds. It represents interest payable on any borrowings – bonds, loans, convertible debt or lines of credit.). Muthoot Finance has EBITDA of 10.35 which is considered good.

Profit before tax is a measure that looks at a company's profits before the company has to pay corporate income tax. It essentially is all of a company's profits without the consideration

of any taxes. Muthoot Finance maintained stable or rather slightly increasing PBT margin. It is increased from 44.73% in 2019 to 46.55% in 2020 to 47.22% in 2021.

One way to double-check a company's growth is to look at how its net profit, and earnings before interest and tax (EBIT) margins are changing. Muthoot Finance registered a net profit of ₹994 crore, rising 2 per cent from ₹971 crore. Annual Net Margin % have been improving for the last 2 years which have further strengthened its position.

Also the promoter's holding is very pleasing as it signifies the involvement and keen interest in the company's financials and overall policies.

The revenue zoomed 9.56% to Rs. 28304.30 millions for the quarter ended September 2021 as compared to Rs. 25834.15 millions during the corresponding quarter last year. The Company has registered profit of Rs. 9940.10 millions for the quarter ended September 2021, a growth of 11.14% over Rs. 8943.79 millions achieved in the corresponding quarter of last year. Operating profit surged to 23319.50 millions from the corresponding previous quarter of 21354.58 millions.

### **Appealing Future**

Muthoot Finance has collaborated with fintech NIRA as part of its strategy to strengthen its digital footprint. Through this partnership, salaried customers can avail personal loan of up to Rs 1 lakh from Muthoot by downloading the NIRA app from Google's Play store. NIRA is a Bengaluru-based fintech offering small ticket personal loans to salaried workers from India's middle class.

Muthoot Finance has tied up with Bajaj Allianz General Insurance to provide insurance on gold jewellery as part of their new initiative 'Muthoot Gold Shield'. The policy would provide insurance coverage of gold jewellery for individuals.

This is designed to provide insurance coverage of gold jewellery articles for customers of the company at the time of closure of gold loan and release of gold ornaments. It will provide insurance coverage to the customers of Muthoot Finance as a loyalty product.

Credit rating agency- CRISIL has upgraded its rating on the long-term debt facilities of Muthoot Finance to "AA+/Stable" from 'AA/Positive'. The upgrade is driven by Muthoot Finance's demonstrated ability to profitably scale up its core gold loan business while maintaining its strong financial risk profile. Established track record and brand name in gold financing industry, Strong capitalization and Profitability among the best in the industry which is expected to remain healthy are the strengths of the company.

This rating upgrade will enable the Company to raise more long term debt funds as well as attract wider set of investors.



## **Projects**

- Muthoot Finance has launched covid-19 times. The cashback amount will be shown d special cashback scheme - Muthoot Online Money Saver program (MOMS) for its customers who pay interest on loans online. This scheme aims to boost digital usage among the customers during the customers while making online payments and they can pay the interest amount after deducting the cashback from interest payable.
- They offer loans to borrowers starting at incomes as low as Rs 12,000 per month. This partnership will help Muthoot Finance build its unsecured lending book
- Muthoot Finance is looking to raise up to Rs 2,000 crore through non-convertible debentures (NCDs) for lending purposes. The base size of the issue is Rs 100 crore with an option to retain oversubscription up to Rs 1,900 crore, aggregating up to Rs 2,000 crore. The issue will augment the company's long-term funding requirements, thereby supporting the stable growth that the company envisages. The funds raised through this issue will be utilized primarily for lending activities.
- This is designed to provide insurance coverage of gold jewellery articles for customers of the company at the time of closure of gold loan and release of gold ornaments. It will provide insurance coverage to the customers of Muthoot Finance as a loyalty product.
- Muthoot Finance has collaborated with fintech NIRA as part of its strategy to strengthen its digital footprint. Through this partnership, salaried customers can avail personal loan of up to

Rs 1 lakh from Muthoot by downloading the NIRA app from Google's Play store. NIRA is a Bengaluru-based fintech offering small ticket personal loans to salaried workers from India's middle class.

- Muthoot Finance is planning to raise up to Rs 1,000 crore through the public issue of bonds to fund its business growth. In its 24th series of public issue of secured redeemable non-convertible debentures, the company will issue bonds of face value of Rs 1,000 each with a base size of Rs 100 crore with an option to retain over-subscription up to Rs 900 crore aggregating up to tranche limit of Rs 1,000 crore.
- Muthoot Finance launches iMuthoot mobile App version 3.0 to provide an enhanced customer experience to its users

## Peer comparison-

Company	Price	Mcap(cr)	PB	PE	ROE	ROCE	EV/EB DTA
Bajaj Finance	7158.40	432076.98	10.91	82.4	11.77	9.5	35.79
SBI cards and payments	854.90	80626.73	10.93	66.59	17.00	10.01	35.22
Bajaj hold and invest	5164.40	57476.42	3.70	35.52	1.61	2.54	33.25
Chola Invest and fin	675.70	55473.27	5.07	32.62	17.15	9.69	16.88
Shriram Trans Fin	1233.20	33360.49	1.31	14.04	12.57	10.30	9.57
Aditya Birla Capt	123.65	29876.63	3.04	87.98	.78	.76	76.22
Sundaram Finance	2250.05	24998.92	3.84	29.29	13.80	9.18	17.24
Poonawala Fincorp	264.25	20213.11	3.60	0	-26.7	.91	384.5
Manappuram Finance	160	13457.68	1.78	7.9	27.87	16.78	7.07

## Bajaj Finance-

Revenue: ₹ 23,549.72 Cr.

Net Profit: ₹ 3,955.51 Cr.

Employees: 26969

Bajaj Finance (BFL) is a deposit-taking Non-Banking Financial Company (NBFC-D) registered with the Reserve Bank of India (RBI). It is a subsidiary of Bajaj Finserv.

The company is engaged in the business of lending and acceptance of deposits. The company has a diversified lending portfolio across retail, SMEs and commercial customers with a significant presence in urban and rural India. It accepts public and corporate deposits and offers variety of financial services products to its customers.

The company has implemented various Machine Learning (ML) models in addition to classical logistic regressive models. It is also investing deeply in Artificial Intelligence (AI) for new acquisition and propensity management. BFL has been at the forefront of technology adoption among NBFCs, and has continuously leveraged existing and emerging technologies to launch new products, enhance customer acquisition and servicing processes along with simplifying the back-office.

## Sundaram Finance LMT-

Revenue: ₹ 25,387.23 Cr.

Net Profit: ₹ 809.05 Cr.

Employees: 4000

Sundaram Finance, a Sundram Group company, was incorporated in 1954, with the object of financing the purchase of commercial vehicles and passenger cars. The company was started with a paid-up capital of Rs.2.00 Lakhs and later went public in 1972.

Sundaram has grown today into one of the most trusted financial services groups in India. Today, the activities of the group span savings products like deposits and mutual funds, car and commercial vehicle finance, insurance, home loans, software solutions, business process outsourcing, tyre finance, fleet cards and logistics services. The strength of the Group lies in the quick completion of transactions, long association with transporters for generations and the intimate knowledge of the market and its nuances.

The Group has a vast network of over 400 branches to cater to the financing needs of our customers.

Sundaram Finance is one of the oldest and largest providers of finance for the acquisition of commercial vehicles of all makes. The commercial vehicle finance provided by it helps the small operators to acquire vehicles with minimum hassle and documentation. It provides customised financing options to suit the needs.

## Shriram Transport Finance Company LTD.-

Revenue: ₹ 33,409.18 Cr.

Net Profit: ₹ 2,487.26 Cr.

Employees: 27174

Shriram Transport Finance Company (STFC) is the flagship company of the Shriram group which has significant presence in financial services viz., commercial vehicle financing business, consumer finance, life and general insurance, stock broking, chit funds and distribution of financial products such as life and general insurance products and units of mutual funds.

The company is one of the largest asset financing NBFC in the country and holistic finance provider for the commercial vehicle industry and seeks to partner small truck owners for every possible need related to their assets.

## Manappuram Finance-

Revenue: ₹ 5,172.26 Cr.

Net Profit: ₹ 1,697.92 Cr.

Employees: **17500**

Manappuram Finance Limited is one of India's leading gold loan NBFC. The firm was involved in pawn broking and money lending carried out on a modest scale. Manappuram Finance is a Systemically Important Non-Deposit taking Non Banking Finance Company (NBFC). The company provides a wide range

of fund based and fee based services including gold loans, money exchange facilities, etc.

## Related to Industry-

The industries related to NBFC sectors.

## Banking Sector-

Banks are the financial institution which is authorized by the government to conduct banking activities such as accepting deposits, granting credit, managing withdrawals, paying interest, clearing cheques and providing general utility services to the customers. They act as a financial intermediary between the depositors and borrowers. Banks ensures smooth functioning of the economy in the country.

They can be public sector banks or private sector banks or foreign banks and also responsible for making loans, creating credit, mobilization of deposits, safe and time-bound transfer of money and providing public utility services.

## Fintech-

Fintech (Financial Technology) is used to describe new technology that seeks to advance/improve and automate the use of financial services and delivery. Fintech companies or firms generally operate to facilitate company's owners, corporations, and consumers to handle their functions of processes, financials, and lives by taking advantage of committed software and the algorithms process.

Fintech also consists of the development and use of crypto-currencies consisting of bitcoins.

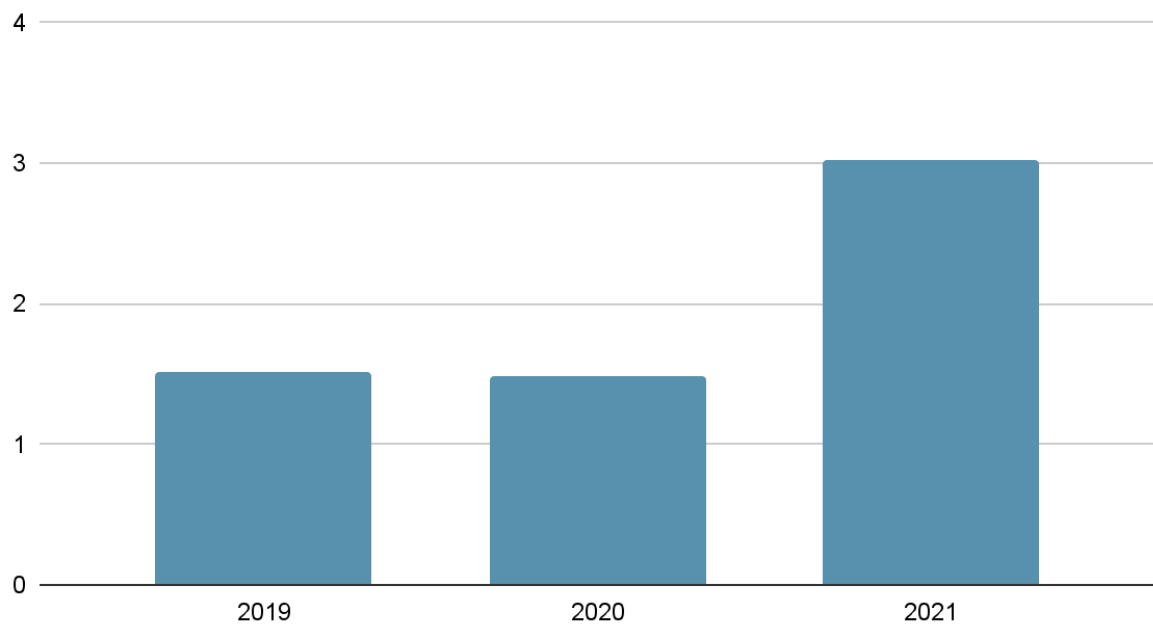
## Microfinance Institution-

Micro Finance Institution is nothing but a type of NBFC who generally provide loans and other financial services to poor sections of the society. Generally, they operate in rural areas and among low-income urban people by extending small loans.

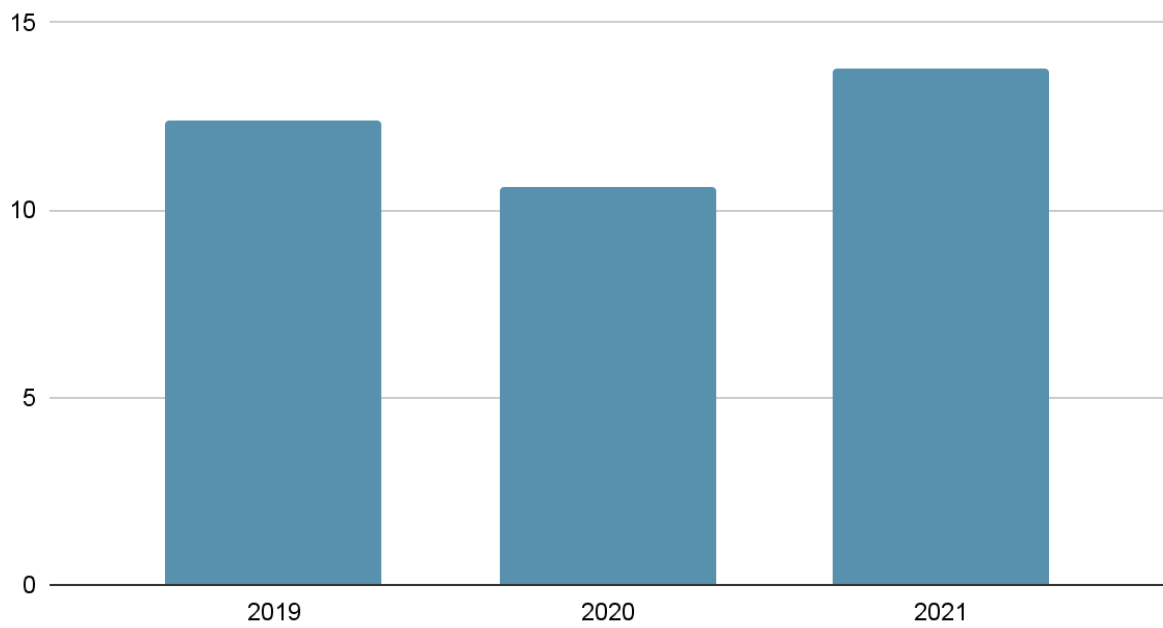
Banks provide the fund to MFIs and thereafter MFIs lend to low-income households based on the group lending method.

The RBI has extended its regulation and supervision to some of the MFIs that qualify certain criteria. The main objective is to stabilize MFIs.

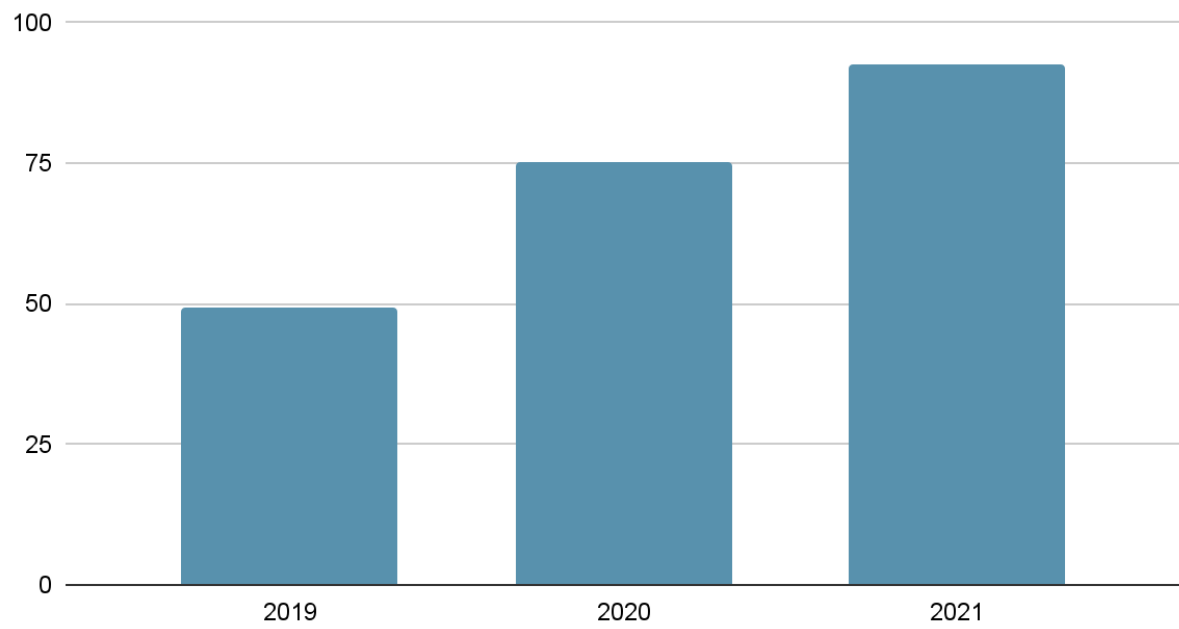
PB



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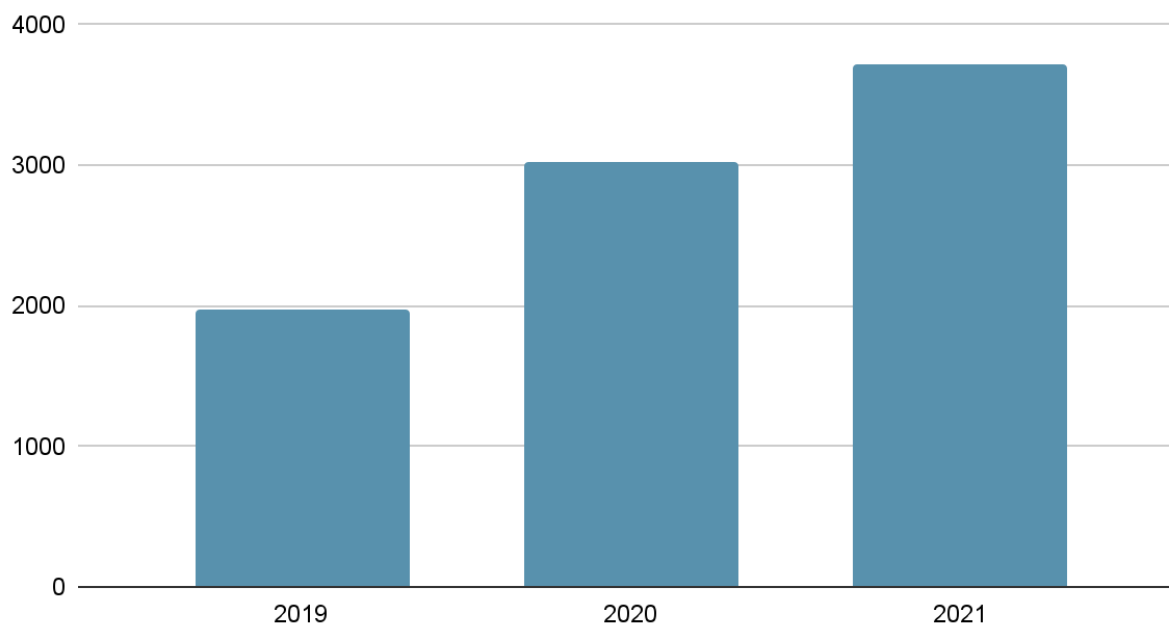


## EPS

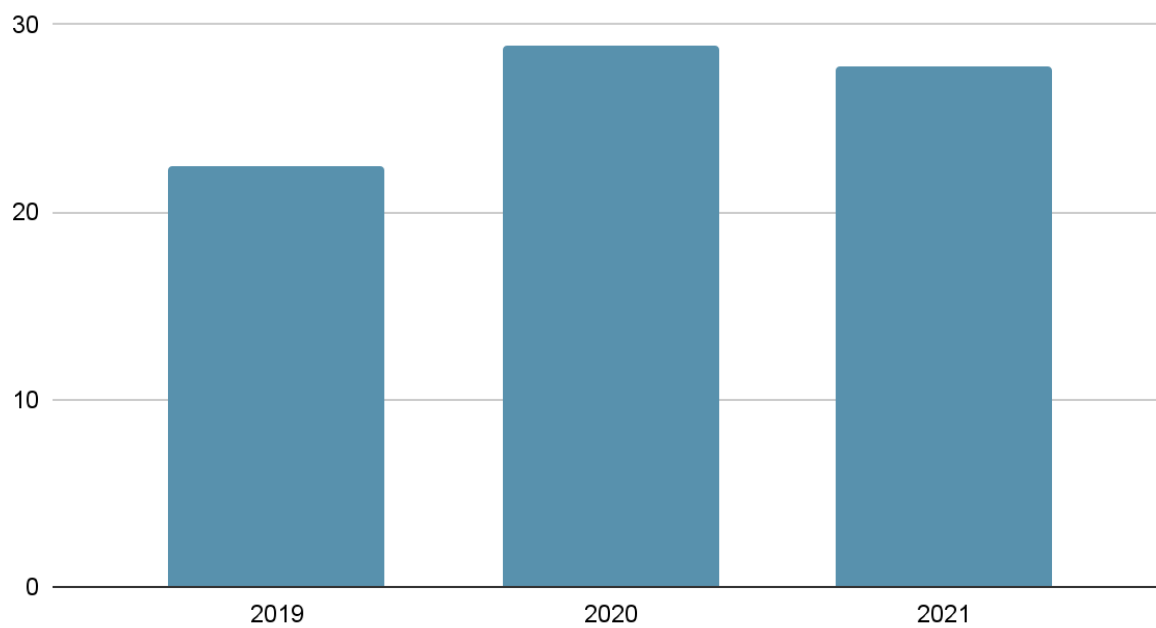




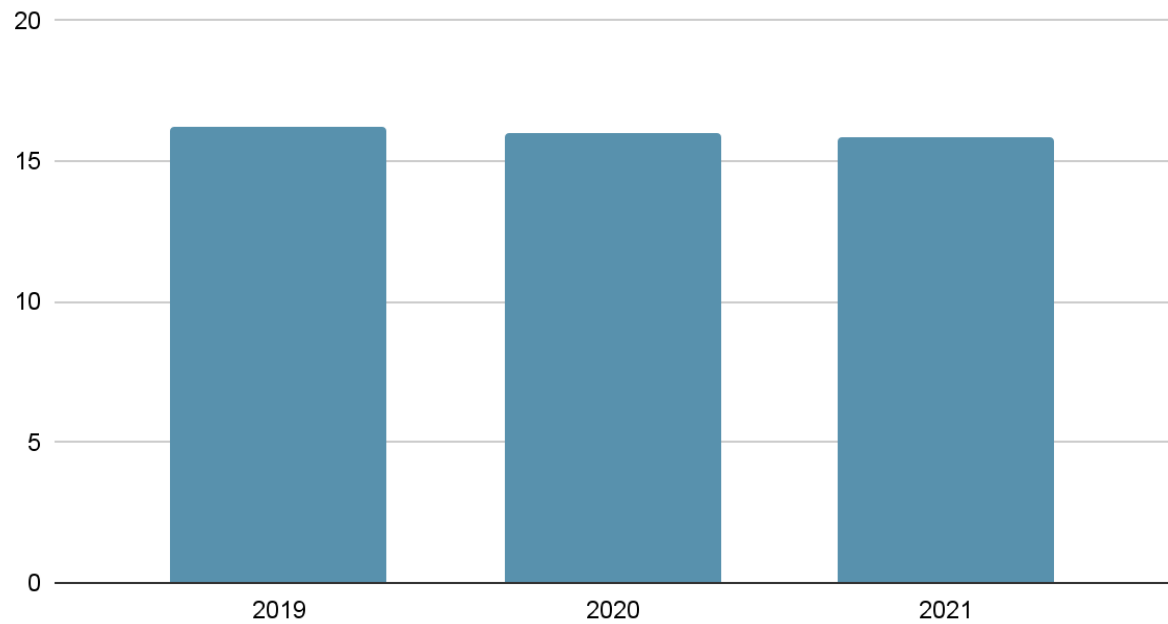
## NET PROFIT



## ROE



## ROCE



## Stock Price



## Risks and Threats-

Overdependence on Gold loans-

Its weaknesses include its large dependency on gold loans. Since the company is largely dependent on the gold business, a fall in gold prices will directly impact the company. Today we are witnessing a plunge in gold prices, which adversely impacts their business. As a result, the firm may leverage its leading reputation to expand into new markets and services and barring from the company's gold business its subsidiary businesses don't seem to do well. For eg. the company's housing finance segment saw disbursements decline by 40% in the first quarter of this year. Post pandemic effects on housing finance don't give great signs of near growth.

### Competition from Peers-

Muthoot Finance is a big player in the market and others have noticed the same which in turn resulted in more competition from NBFCs and banks, some of them including Bajaj Finance, Shriram, Manappuram Finance offering services such as Gold loans, vehicle loans, personal loans and investment options like fixed deposits.

Although Muthoot Finance has many competitors, but none of them have as much market size or revenue as it does, it has a revenue of 1.4 billion dollars while its competitors are far behind in numbers. But it is still vital to understand competitors in a market to have an effect in the company's analysis.

### Weak Financial Position-

The company has a weak financial position i.e. it has a low Piotroski score. It has a high market cap, with low public shareholdings.

## **Summing Up-**

We recommend a BUY position on Muthoot Finance with a long term view owing to the following:

- Exciting upcoming Future
- New policies
- Tie up with Bajaj Allianz General Insurance
- Collaboration with fintech NIRA
- The company has the potential to venture into new markets since it already has a good image in the market.

The organization has a broad scale for business due to its diversified geographical reach. However, one of its flaws is heavy reliance on gold. Today, we are witnessing a plunge in gold prices, which adversely impacts their business. As a result, the firm may leverage its leading reputation to expand into new markets and services.

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