

November 1, 2012

## Muthoot Capital Services Limited

*“Deep value buy”*

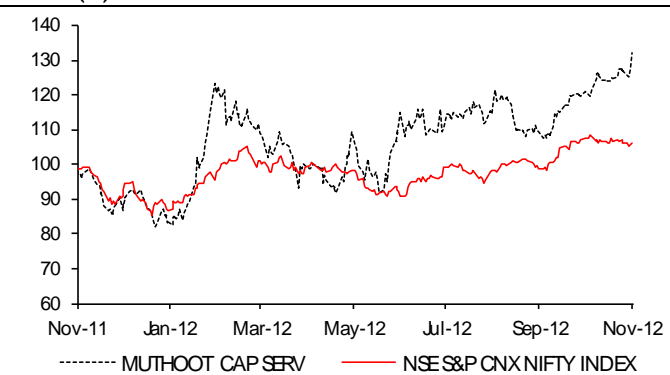


**Stock Idea**
**Muthoot Capital Services Ltd.**

<b>Recommendation</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	<b>Rs.89</b>
<b>Sector</b>	<b>NBFC</b>

<b>Stock Details</b>	
BSE Code	511766
Bloomberg Code	MCSL IN
Market Cap (Rs. cr)	111
Free Float (%)	27
52- wk HI/Lo (Rs)	89/51
Avg. Volume BSE (Monthly)	10252
Face Value (Rs)	10
Dividend (FY 12)	35%
Shares o/s (Crs)	1.25

Relative Performance	1Mth	6Mth	1Yr
<b>MCSL(%)</b>	9.4	20.6	35.7
<b>NIFTY(%)</b>	(1.3)	7.6	7.4



<b>Shareholding Pattern as of 30 September 2012</b>	
Promoters Holding	75%
Institutional (Incl. FII)	0.0%
Corporate Bodies	0.5%
Public & others	24.5%

Vishal Jajoo - Sr. Research Analyst  
 (+91 22 3926-8136)  
 Email id: [vishal.jajoo@nirmalbang.com](mailto:vishal.jajoo@nirmalbang.com)

**Snapshot**

A small player in the NBFC segment, Muthoot Capital is a part of the Pappachan Muthoot Group. The company is growing at a scorching pace in the financing of the two-wheelers and three-wheeler segment.

**Investment Rationale**

- **Changing the business model at the right time:** The company has changed the business model at the right time and shifted from the regulatory-impacted gold loan business to relatively stable and safer automobile finance business.
- **Strong growth expected going forward:** The AUM of the company stood at approximately Rs.300 crore. We expect the company to reach a target of Rs.450-500 crore by the end of FY'13E.
- **Strong promoter holding:** The promoter holding in the company stood at 77 per cent. In order to comply with the regulatory requirements, the holding has been reduced to marginally below 75 per cent.
- **Consistent dividend pay-out ratio:** The company has got a consistent dividend pay-out ratio of around 25 per cent. We expect this trend to continue further and going by the earnings for H1FY'13, the company should pay a dividend of Rs.4 for FY'13E translating into a dividend-yield of ~4.5 per cent.

**Valuation & Recommendation**

Muthoot Capital Services logged interest income of Rs.67.3 crore compared to Rs.37.1 crore, an increase of 80.9 per cent y-o-y for FY'12. Profit after tax for the year stood at Rs.15.5 crore compared to Rs.9.7 crore for FY'11. EPS for the year stood at Rs.13.12 and adj. book value stood at Rs.68.7.

During H1FY'13, the company registered interest income of Rs.46.2 crore, an increase of 72.2 per cent y-o-y. Net Interest Income for half-year stood at Rs.30.5 crore compared to Rs.17.8 crore last year, an increase of 71.3 per cent y-o-y. PAT for the H1FY'13 stood at Rs.10 crore compared to Rs.5.7 crore last year, translating into an EPS of Rs.8.02. The book value as on date stands at Rs.77.7.

We value the company at 1.25x FY'13E adj. book value to arrive at a target price of Rs.110 over the next 6 to 9 months providing an upside potential of 24 per cent.

Particulars (Rs.cr.)	FY08	FY09	FY10	FY11	FY12	H1FY'13
Income	12.25	17.39	22.48	37.18	67.35	46.28
PAT	4	5.42	7.17	9.67	15.51	10.00
Equity	6.5	6.5	6.5	6.5	12.47	12.47
EPS	6.16	8.33	11.04	12.09	13.12	8.02
Dividend per share (Rs.)	1.5	2	2.5	3	3.5	-
Book Value (Rs.)	18.77	24.77	32.88	44.26	69.74	77.7

(Source: Company, Nirmal Bang Research)

### **INVESTMENT RATIONALE**

#### **Changing the business model at the right time**

Muthoot Capital has changed the business model at the right time. The company was originally a gold-finance company, however, with the changing regulatory requirements, Muthoot Capital has changed the business model from gold-loan financing company to an automobile finance company.

Muthoot Capital mainly finances two-wheeler (2-w), three wheeler (3-w) segment. Additionally, a small portfolio consists of four-wheelers like Tata Ace, to name a few.

#### **Strong growth expected going forward**

The company is expected to report strong growth going forward on the back of exposure to the 2-w segment, which is relatively less impacted by the overall slowdown in the economy.

Secondly, the company's market share which stands at 3 per cent as on date should improve to 4 per cent by the end of FY'13E. This, coupled with an increase in the overall market-size should augur well for the company going forward.

#### **Aggressive target with regard increase in AUM**

The company had an AUM of close to Rs 300 crore at the end of FY12. We expect the targeted AUM to register almost 50 per cent growth to Rs.450 crore. This should happen with the clientele doubling to more than 2 lakh compared to 1 lakh, at present. Since the company derives a major portion of its revenues by financing the two-wheeler and three-wheeler segment, coupled with a low base, there are bright chances that the company would achieve its target.

The company should report strong growth on the back of entry into new states, coupled with penetration into existing geographies. The company's strategy of making inroads into the states of Gujarat, Andhra Pradesh, Maharashtra, Goa and Tamil Nadu should pay-off well.

Since the company has recently entered states like Gujarat off late, the contribution from the same is less than 2 per cent, which should eventually improve going forward.

Particulars (Rs.cr.)	FY'08	FY'09	FY'10	FY'11	FY'12	H1FY'13
Income	12.25	17.39	22.48	37.18	67.35	46.28
PAT	4	5.42	7.17	9.67	15.51	10.00
Equity	6.5	6.5	6.5	6.5	12.47	12.47
EPS	6.16	8.33	11.04	12.09	13.12	8.02
Dividend per share	1.5	2	2.5	3	3.5	-
Book Value	18.77	24.77	32.88	44.26	69.74	77.7

(Source: Company, Nirmal Bang Research)

### Sufficiently funded to pursue future expansion

Muthoot Capital had concluded a rights issue last year at a price of Rs 70 per share. Unlike other investors, the promoters had fully subscribed to the same, resulting in their holding increasing to 77% from 74%. However, in order to meet the regulatory guidelines, the promoter holding has been reduced marginally to below 75% levels.

The company is therefore, sufficiently funded to pursue its growth plans for the future.

### Consistent dividend pay-out ratio

Muthoot Capital has a consistent dividend pay-out ratio. The pay-out ratio stands at ~25 per cent and we expect this trend to continue going forward also. On the enhanced equity, we expect the company to distribute a dividend of atleast Rs.4 per share, translating into a dividend yield of ~4.5 per cent.

## COMPANY BACKGROUND

Muthoot Capital Services Ltd, promoted by Muthoot Pappachan Group, was incorporated on 18th Feb '94 as a public limited company. The company is an NBFC registered with the Reserve Bank of India and listed on the Bombay Stock Exchange.

## RISKS & CONCERNS

### Not a key differentiator

The company is in the business of automobile financing. The business is not unique in nature and has strong competition. However, considering the fact that the company's roots have been in the financing business, we derive comfort from the fact that the company should do well in the segment.

### Response in new territories would have to be monitored

The company is expanding in new territories including the states of Gujarat & Maharashtra. Muthoot group is a known name in the south and this helps the company is garnering business. However, to establish itself from the roots should take some time.

**AUM growth has been weak during H1FY'13, a seasonal phenomenon**

The growth in the AUM during H1FY'13 has been relatively weak but this is a seasonal phenomenon for the company. The AUM grew from Rs.304 crore in FY'12 to Rs.332 crore for H1FY'13. However, if one looks at the numbers for FY'12, the company garnered 23 per cent of the AUM during H1FY12 with the balance 77 per cent coming during H2FY'12. With this logic, we believe that the company can safely achieve an AUM target of Rs.400-450 crore for FY'13E.

**VALUATION AND RECOMMENDATION**

Muthoot Capital Services logged interest income of Rs.67.3 crore compared to Rs.37.1 crore, an increase of 80.9 per cent y-o-y. Profit after tax for the year stood at Rs.15.5 crore compared to Rs.9.7 crore for FY'11. EPS for the year stood at Rs.13.12 and adj. book value stood at Rs.68.7.

During H1FY'13, the company registered interest income of Rs.46.2 crore, an increase of 72.2 per cent y-o-y. Net Interest Income for half-year stood at Rs.30.5 crore compared to Rs.17.8 crore last year, an increase of 71.3 per cent y-o-y. PAT for the H1FY'13 stood at Rs.10 crore compared to Rs.5.7 crore last year, translating into an EPS of Rs.8.02. The book value as on date stands at Rs.77.7.

At the present price, the company is trading at a P/BV of 1.14x and a P/E of 5.54x. This is quite attractive considering the strong dividend pay-out ratio of 25 per cent of earnings, robust growth and high promoter holding.

We value the company at 1.25x FY'13E adj. book value to arrive at a target price of Rs.110 over the next 6 to 9 months providing an upside potential of 24 per cent.



Note

**Disclaimer**

This Document has been prepared by Nirmal Bang Research (A Division of Nirmal Bang Securities Pvt Ltd). The information, analysis, and estimates contained herein are based on Nirmal Bang Research assessment and have been obtained from sources believed to be reliable. This document is meant for the use of the intended recipient only. This document, at best, represents Nirmal Bang Research opinion and is meant for general information only. Nirmal Bang Research, its directors, officers or employees shall not in, anyway be responsible for the contents stated herein. Nirmal Bang Research expressly disclaims any and all liabilities that may arise from information, errors, or omissions in this connection. This document is not to be considered as an offer to sell or a solicitation to buy any securities. Nirmal Bang Research, its affiliates and their employees may from time to time hold positions in securities referred to herein. Nirmal Bang Research or its affiliates may from time to time solicit from or perform investment banking or other services for any company mentioned in this document.