Not Rated		
CMP	:	INR182

Sunesh Khanna
+91 22 4031 3437
sunesh.khanna@antiquelimited.com

Alok Kapadia
+91 22 4031 3442
alok.kapadia@antiquelimited.com

Market data

Sector	:	FINANCE
Market Cap (INRbn)	:	67
Market Cap (USDbn)	:	1
O/S Shares	:	372
Free Float (m)	:	61
52-wk HI/LO (INR)	:	218/144
Avg Daily Vol ('000)	:	548
Bloomberg	:	MUTH IN

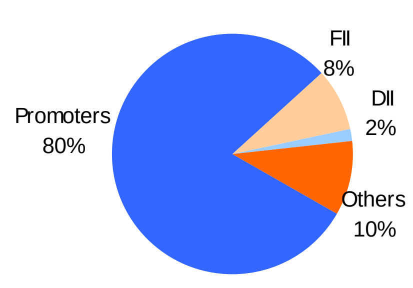
Source: Bloomberg

Returns (%)

	1m	3m	6m
Absolute	16	3	(6)
Relative	3	4	(0)

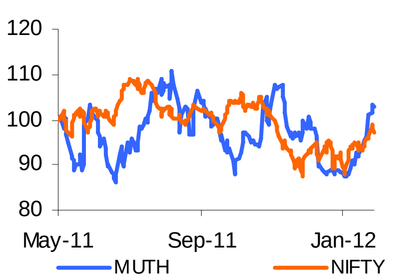
Source: Bloomberg

Shareholding pattern



Source: BSE

Price performance *vs* Nifty



Source: Bloomberg

3QFY12 RESULTS REVIEW

Muthoot Finance Limited

Business momentum strong; regulations remain an overhang

Results highlights

Muthoot Finance Ltd. (Muthoot) for the quarter reported a PAT of INR2.5bn (+61% YoY and +17% QoQ) and the same was above street expectations. This was on the back of strong growth in net interest income (aided by 66% loan growth) and lower operating expenses. However, despite yield on assets being stable, NIMs exhibited a 60bps QoQ decline because of high cost borrowings during the quarter. Overall, operating performance was strong, but sharp decline in gold prices and adverse regulations pose challenges to growth as well as earnings.

Strong loan growth momentum continues

Loan growth continues to remain buoyant and Muthoot reported loan book (including loans sold down) of INR222bn, up 66% YoY and 9.3% QoQ. During the quarter, it garnered incremental lending of INR19bn (INR29bn in 2QFY12, translating into a YTD loan growth of 44%. However, loan growth is expected to moderate due to high base effect. Additionally, the company in face of volatile gold prices has enhanced risk management metrics and have reduced its LTV to 68%, to tackle the same.

Strong NII growth; NIMs decline on high borrowing cost

NII registered a strong growth of 64% YoY (7% QoQ) despite a spike up in interest expenses (+126% YoY; +16% QoQ). NIMs stood at 10.81% in 3QFY12 as compared to 11.4% in 2QFY12 and 11.2% in 2QFY11. The compression in NIMs were because of sharp jump in borrowing costs during the quarter. Muthoot had raised lending rates in 3QFY12 to offset sharp rise in borrowings costs. The removal of agriculture priority-sector status for gold-loan NBFCs has raised concerns on financial flexibility of gold-loan NBFCs. Muthoot has not faced any significant pressure as yet. However, we believe that the company will find it challenging to sell down loans if the proposed revised draft securitization guidelines are implemented. The regulator has also proposed to ban loan sell-down for assets that have bullet repayment and increase minimum holding period for loans sold down by NBFCs to banks.

Valuation

The stock is trading at a valuation of 1.7x FY13e P/B and 6.2x P/E.

Quarterly financials

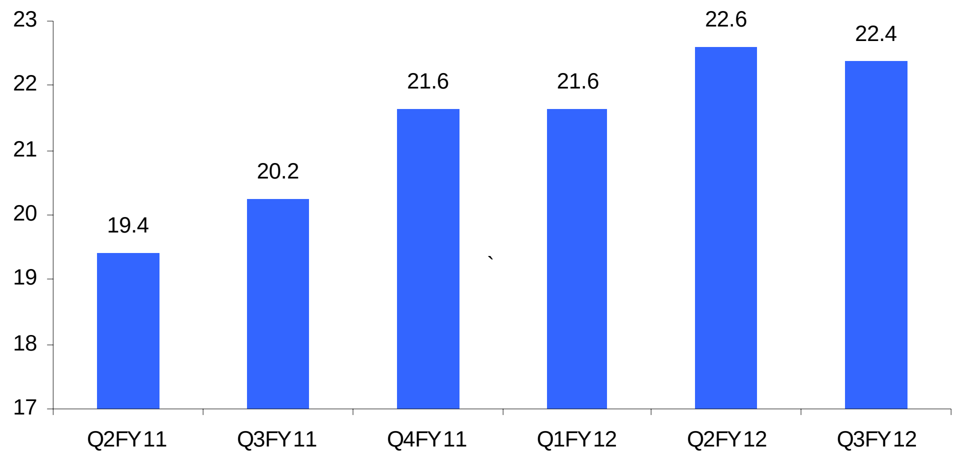
	3QFY12	2QFY12	3QFY11	YoY (%)	QoQ (%)
Interest income	12,261	10,984	6,412	91	12
Interest expenses	6,341	5,452	2,805	126	16
Net interest income	5,920	5,532	3,606	64	7
Operating expenses	1,087	1,477	654	66	-26
Employee expenses	1,135	937	630	80	21
PBT	3,745	3,183	2,369	58	18
Tax	1,235	1,027	768	61	20
PAT	2,509	2,156	1,556	61	16

Source: Company, Antique

Stable asset quality and improvement in cost ratios

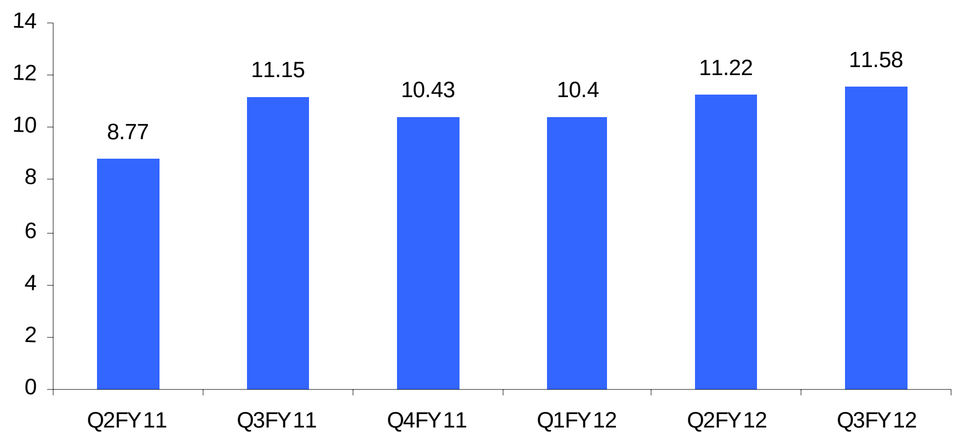
Gross NPLs stood at 0.57% vs. 0.59% reported during 2QFY12; however the management highlighted that NPLs are technical in nature and they recover the capital once the coverage asset (Gold) is auctioned. The losses in case of suspect/inferior quality of assets has to be written-off (the write off for the quarter stood at INR19m and INR45m for for 9m). Operating expenses ratio decreased to 4.3% of average assets from 4.72% in 2QFY12. The company has set up 150 branches in 3QFY12 (and will end up adding 900 branches during FY12). Reduction in expenses has been because of decline in seasonal expenses like advertising and issue related expenses; however management has guided the cost ratios to remain at same levels and will not see any major reduction from current levels. As of December 2011, capital adequacy was 18.33%, and tier 1 stood at 13.4%. Hence, if the proposed guideline of 12% tier 1 is implemented, the company may have to raise capital.

Stable yields on assets (%)



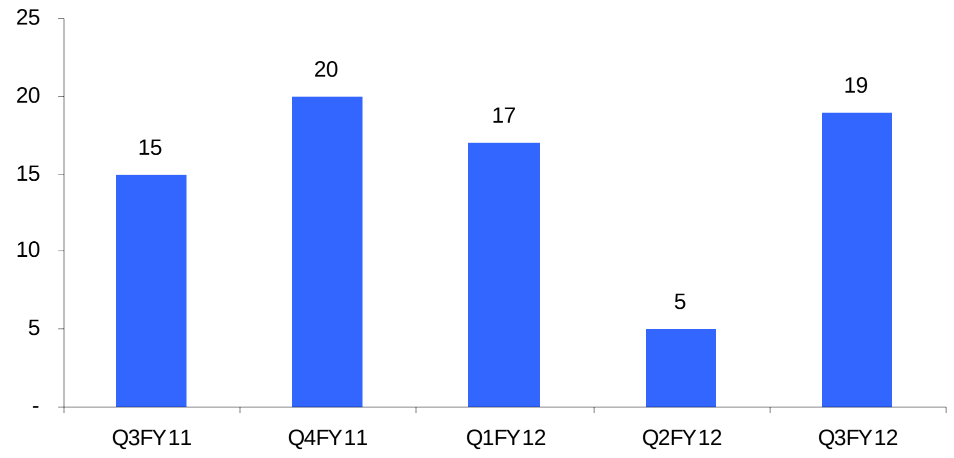
Source: Company, Antique

Borrowing cost increased during the quarter (%)



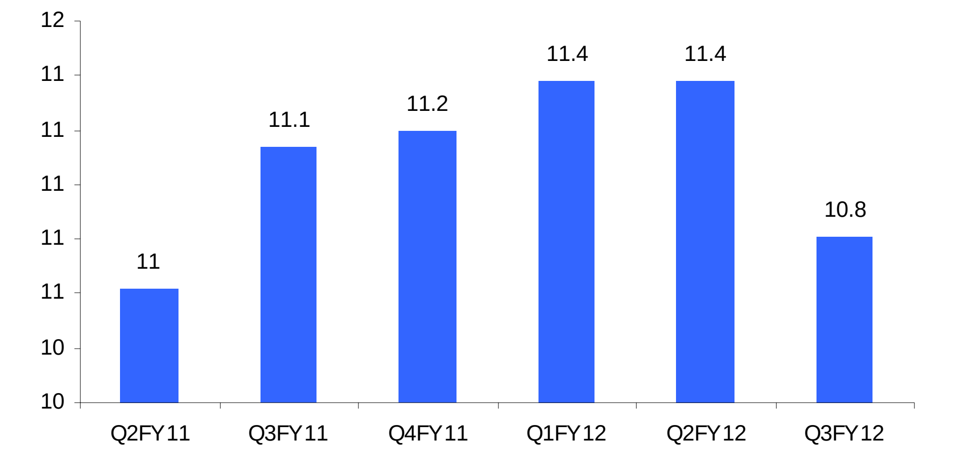
Source: Company, Antique

Bad debts written off (%)



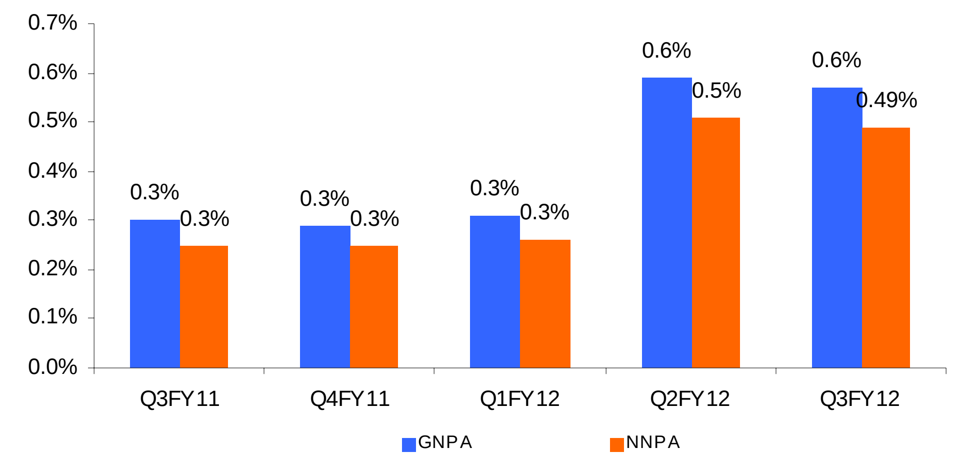
Source: Company, Antique

NIMs decline because of increase in borrowing costs (%)



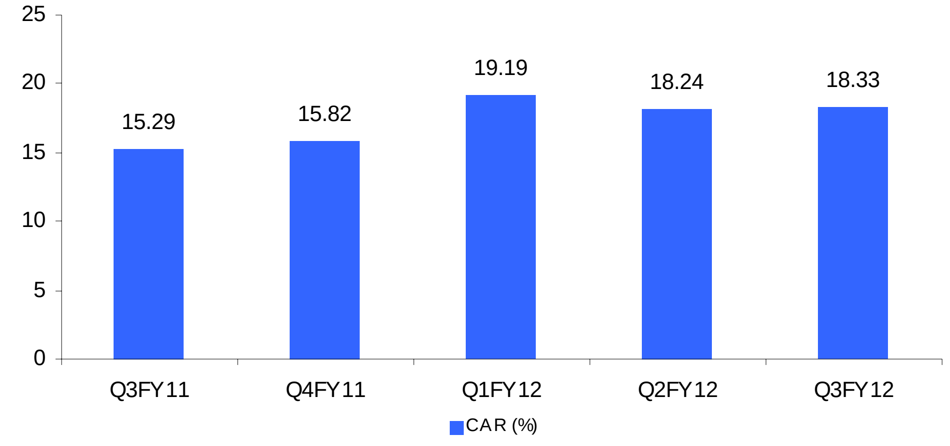
Source: Company, Antique

Stable asset quality



Source: Company, Antique

Comfortable capital position



Source: Company, Antique

Important Disclaimer:

Analyst ownership in stock	No

ANTIQUE

Antique Stock Broking Limited

Nirmal, 2nd Floor, Nariman Point, Mumbai 400 021.

Tel. : +91 22 4031 3444 • Fax : +91 22 4031 3445

www.antiquelimited.com