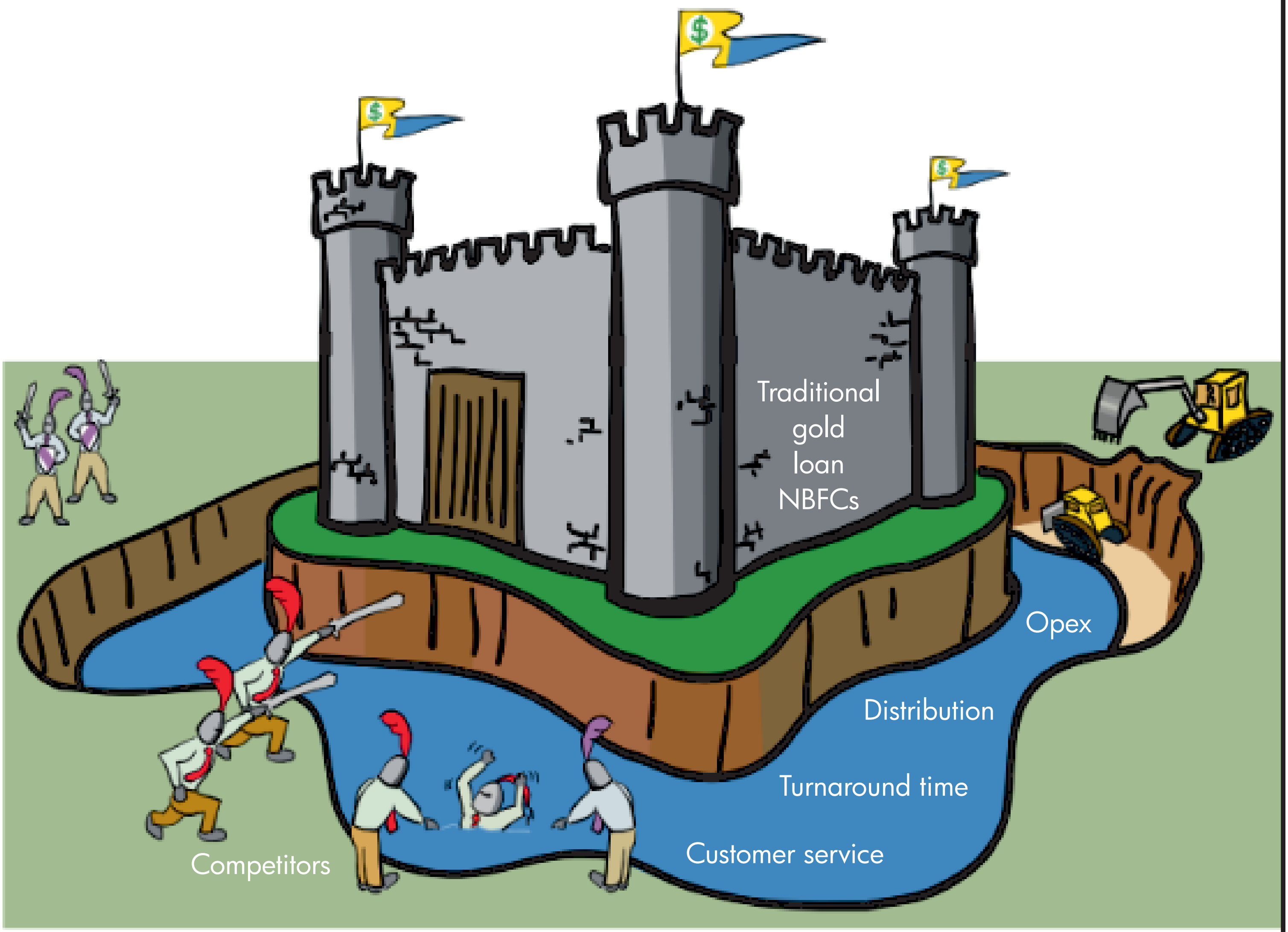
NBFCs

July, 2023



End of gold rush for new entrants?

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End of gold rush for new entrants?

Growth/NIMs of gold loan NBFCs have been under pressure since 2HFY23 due to increased competition. Hence, since Nov'21, valuations have de-rated by 40% and gold loan NBFC stocks underperformed indices by ~50%. But slower sequential growth for banks vs NBFCs and NIM expansion for NBFCs indicate that worst of competition is behind. We expect gold loan industry to clock 12-13% CAGR (FY23-27E) led by ~3% growth in number of micro-enterprises and ~8% increase in ticket size. Unit cost economics indicates long-term success rests on distribution, TAT and customer service. Most new entrants lack large scale distribution and operational efficiency, making them uncompetitive in the long run. Gold loan NBFCs are relatively inexpensive (~60% below auto, consumer, diversified, housing) in light of earnings recovery. Initiate on MUTH with BUY as easing competition will drive 17% EPS CAGR (FY23-26).

Expect gold loan industry to grow at ~11% CAGR over the next decade

After ~86% CAGR in FY06-12, gold loan growth slowed to 13% over FY13-23. Tighter regulations around LTV, KYC, customer protection and funding and competition from unsecured loans led to this slowdown. Being a proxy play on micro-enterprise lending, we expect the gold loan industry to post ~13% CAGR over FY23-27 driven by demand from micro-businesses and increasing awareness in north/west markets.

NBFCs to hold on to their turf

Gold loan NBFCs are leaders in retail gold loans (market share ~40%). However, increased competition resulted in loan growth slowing to 11% during FY20-23. Displacing NFBCs would be difficult due to their distribution strength, TAT (5-30mins) and overall customer service. Expect growth recovery for gold loan NBFCs as bank competition has peaked and unlikely to worsen, a positive for NBFCs at the margin. Key trends in recent quarters that support our view on competition peaking: (1) gold loan growth deceleration for south-based banks, (2) sequential growth recovery for gold loan NBFCs and (3) pricing sanity. Channel checks indicate that while banks were able to lure away customers on low pricing, inferior customer service, most importantly TAT, has been a dampener.

Competition from new players and fintechs is overhyped

Large scale gold loan NBFCs have succeeded due to huge distribution network and operational efficiency. Besides aiding customer acquisition, a large branch network helps build proximity to customers, which aids trust. Analysis of industry's breakeven pricing indicates current competitive intensity is unlikely to sustain over the long term; key reasons being operational difficulties and unsustainable/uncompetitive economics, especially for fintechs. Further, our calculations indicate that if MUTH decided to under-cut pricing and still earn 15% ROE, its gold loan pricing would still be lower than total expenses breakeven pricing for most other players.

Valuation reasonable despite lower growth, high ROE and entry barriers

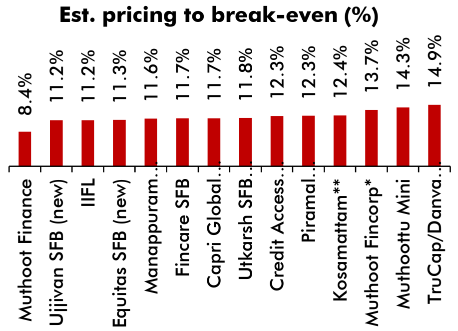
Gold loan NBFCs have de-rated by 40% since Nov'21 due to growth headwinds and increased competition. Valuations have likely bottomed out as signs of competition peaking emerge, reflected in AUM growth uptick coupled with NIM expansion for MUTH in 4QFY23. As new players find it difficult to match industry-leading TAT along with high operational intensity, that too at scale, traditional gold loan NBFCs are well-positioned to overcome competition for the second time in the last decade. We initiate MUTH with BUY (TP ₹1,500) as we see EPS CAGR (FY23-26E) recovering to 17%.

Competition has peaked, positive for NBFCs at the margin

- NBFCs' gold loan growth to bounce back (MUTH FY23-26E CAGR: 14%) as bank competition has peaked.
- New players', including fintechs', economics are unsustainable and hence an unlikely long-term threat.

Source: Company, Ambit Capital research

New players' breakeven pricing is uncompetitive



Source: Company, Ambit Capital research

NBFCs have an operational edge over banks in retail/small-ticket gold loans

Criteria	NBFCs	Banks
Distribution	●	◑
Turnaround time (TAT)	●	◑
Absolute pricing	◑	●
After-sale customer service	●	◔
Brand recall	●	◔

Source: Ambit Capital research, Companies, Note: ● - strong, ◕ - Average, ◑ - Relatively Weak, ◔ - Weak

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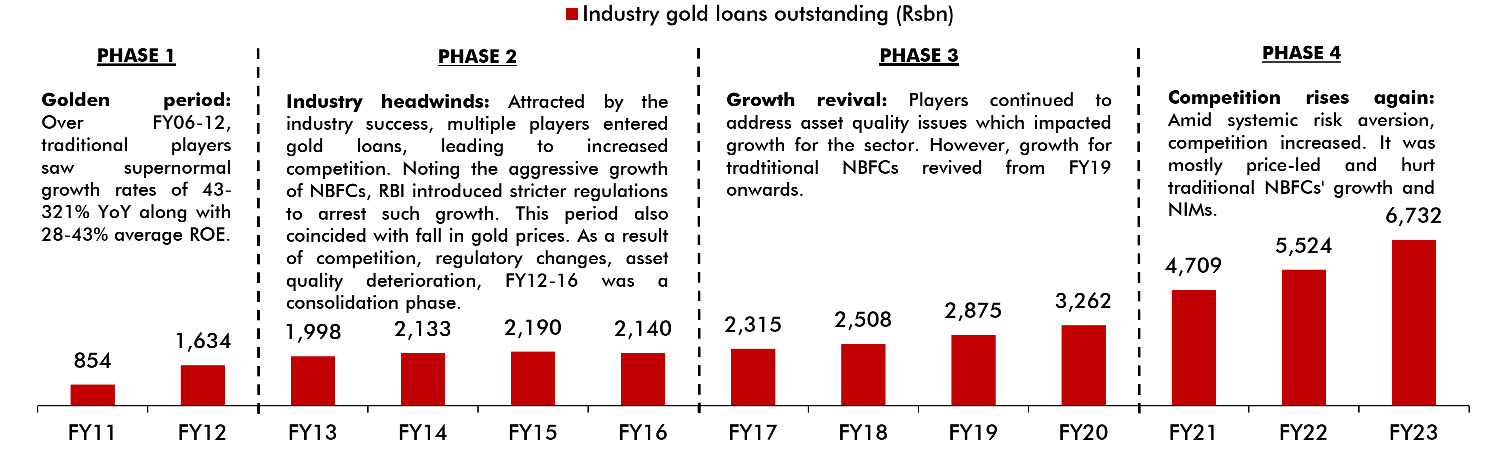
Narrative in Charts

Exhibit 1: Gold loan industry has grown at 13% CAGR over the last decade (FY13-23)



Source: CRISIL, Ambit Capital research. Note: CRISIL data up to FY22. For FY23, we have taken aggregate gold loan portfolios of SBI, Canara Bank, Union Bank, Bank Of Baroda, Muthoot Finance, Manappuram, Federal Bank, Muthoot Fincorp, IIFL, Karur Vysya Bank, South Indian Bank, City Union Bank, HDFC Bank, CSB Bank, Indian Bank, Kosamattam, Muthoottu Mini Financiers, FedFina, Shriram, ICICI Bank, Representing, ~85% of systemic gold loans.

Exhibit 2: Gold loans NBFCs are undisputed on pre/post sale customer service, which negates the pricing disadvantage

Criteria	NBFCs	Banks	Comments
Distribution	●	◑	NBFCs have a much larger distribution of gold loans vs banks.
Turnaround time (TAT)	●	◑	5-30mins for NBFCs vs 1-2hrs for banks.
Absolute pricing	◑	●	Banks offer better pricing due to lower cost of funds.
Pricing transparency	◕	◑	NBFCs offer more pricing transparency as there are no hidden charges.
After-sale customer service	●	◔	Being mono-line businesses, NBFCs offer better after-sale customer service (part release, prepayment).
Brand recall	●	◔	NBFCs have better brand recall/customer mindshare w.r.t gold loans.

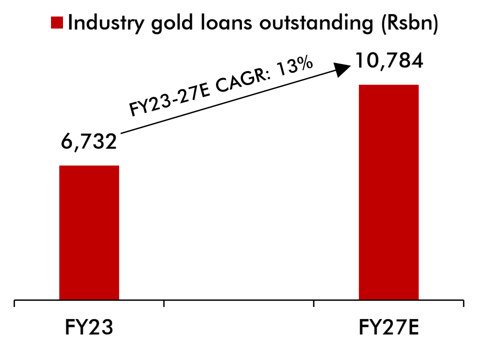
Source: Ambit Capital research, Companies, Note: ● - strong, ◕ - Average, ◑ - Relatively Weak, ◔ - Weak

Exhibit 3: As a product, gold loan's appeal lies in its TAT as security of gold collateral negates the need for documentation

Particulars	Gold loan	MFI loan	Secured business loan
Ticket size (₹)	₹50,000-1,00,000	~₹2,00,000	₹3,00,000-5,00,000
Loan end-use	Income generation, personal consumption	Income generation	Income generation
Turnaround time (TAT)	5-30 mins; as gold is security, documentation requirement is negligible.	4 days*	7-10 days
Tenor	6-12 months (short term loan)	12-24 months (medium-term loan)	4-7 years (long-term loan)
Collateral	Loan secured by gold	Loan is unsecured	Loan is secured by property

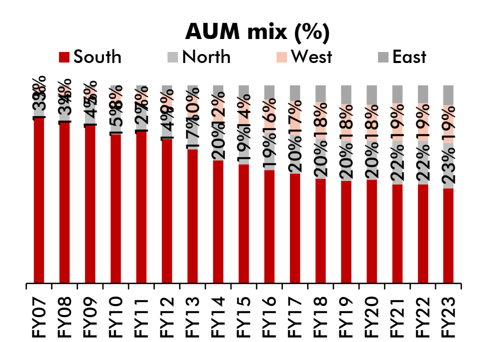
Source: Ambit Capital research

Exhibit 4: Expect gold loan industry to grow in line with overall MSME credit



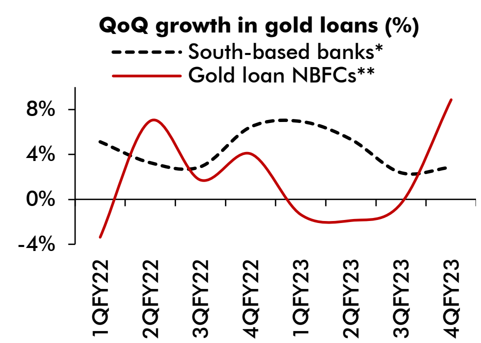
Source: CRISIL, Ambit Capital research

Exhibit 5: Share of north/west is increasing as awareness has improved



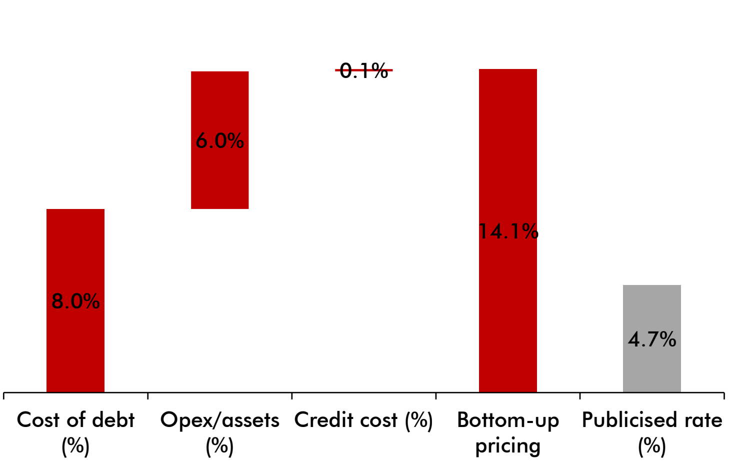
Source: Company, Ambit Capital research. Note: Periods FY07-10 and FY21-23 exclude MGFL.

Exhibit 6: Competition vs banks unlikely to worsen further; positive for NBFCs



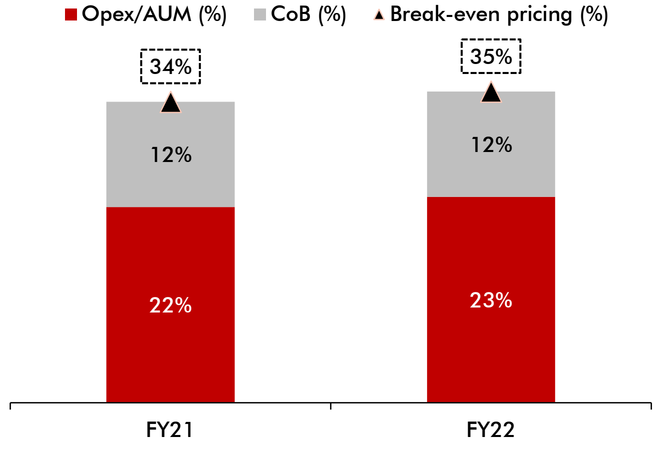
*Source: Ambit Capital research; *Federal Bank, City Union Bank, South Indian Bank, Karur Vysya Bank, **MUTH, MGFL*

Exhibit 7: Fintechs aren't a threat. Bottom-up pricing of Fintech-A's gold loan business implies such operations are making losses



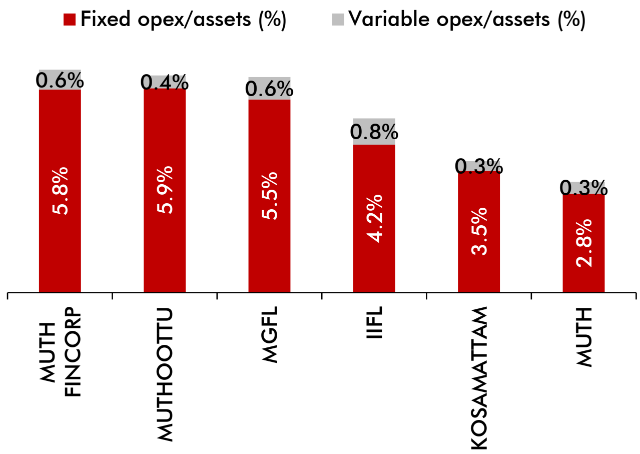
Source: Company, Ambit Capital research

Exhibit 8: Even Fintech-B's bottom-up breakeven pricing, as implied by opex and CoB, implies it would find difficult to compete against traditional gold loan players



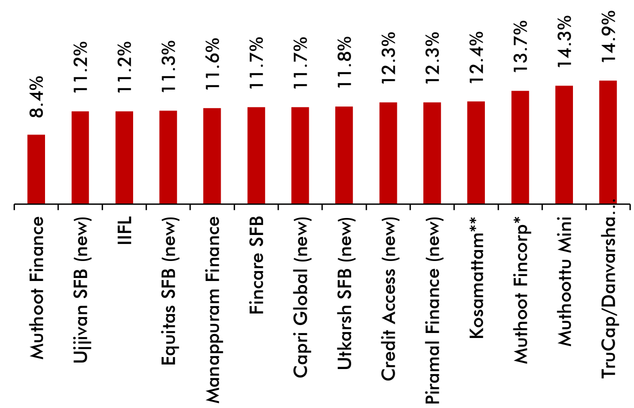
Source: Ambit Capital research, MCA, VCCEdge, CRISIL

Exhibit 9: High resource productivity and low unit costs have enabled lowest opex for MUTH, aiding competitiveness



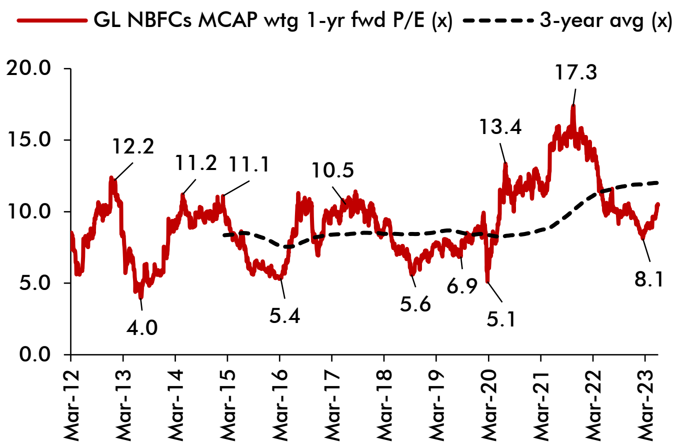
Source: Companies, Ambit Capital research

Exhibit 10: Given the small scale of operations, new entrants' high opex ratios/uncompetitive pricing would prevent them from displacing traditional gold loan NBFCs permanently



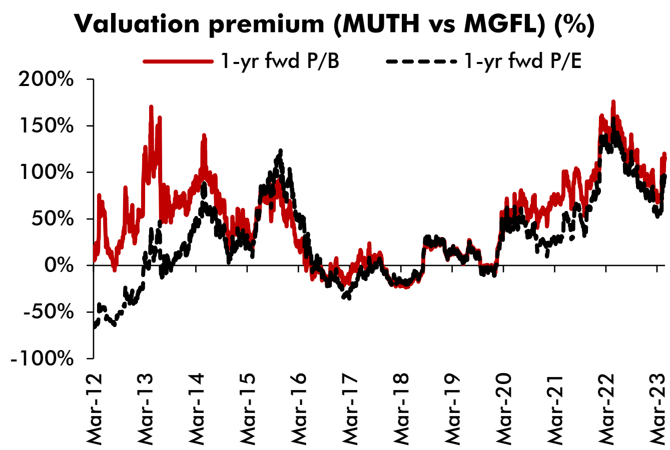
Source: Companies, Ambit Capital research

Exhibit 11: Sector valuations have bottomed out as competitive pressure on growth is unlikely to worsen



Source: Companies, Bloomberg, Ambit Capital research

Exhibit 12: MUTH premium over closest competitors reflects business outperformance



Source: Companies, Bloomberg, Ambit Capital research

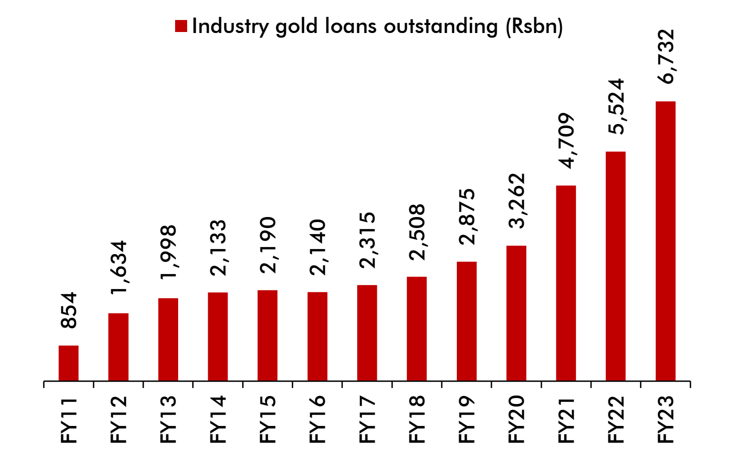
Through thick and thin

Total size of the gold loan industry is ₹6.7tn (FY23), having grown at 13% CAGR over FY13-23. In phase 1 (up to FY12), as the industry formalized in early 2000s, growth was unbridled (FY06-12 AUM CAGR: 85%), led by branch expansion, new customer acquisition and higher gold prices/LTVs. Owing to average ROE of 27-43% (FY09-12), the industry saw increasing competition. Phase 2 (FY12-16) was a period of consolidation on multiple headwinds – (i) competition, (ii) stricter regulation and (iii) asset quality deterioration – posed growth challenges (AUM CAGR: 1%). In the latter half of phase 3 (FY16-20), the industry saw growth revival, coinciding with MFI sector asset quality beginning to deteriorate, which lasted till FY21. Currently, in phase 4 (FY20 onwards), traditional gold loan NBFCs have been under intense competitive pressure from banks, fintechs and new NBFCs, leading to yield/NIM compression and growth deceleration.

₹6.7tn in industry AUM, which posted 13% CAGR over FY13-23

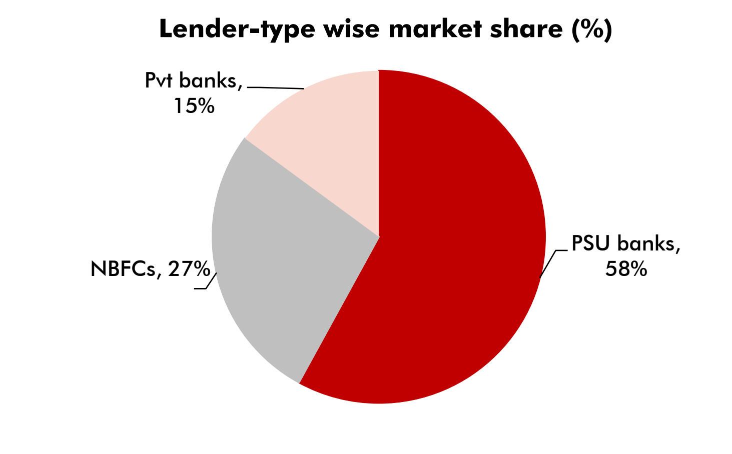
Gold loan is a centuries old credit product in India, wherein households pawn their gold jewels with a local money lender to obtain a quick, small-ticket loan. Traditionally, this product has been dominated by local moneylenders/informal financial institutions. Historically, absence of credit bureaus in India till 2008 and lack of strong recovery/bankruptcy laws meant that organized lenders found it difficult to give personal unsecured loans due to: (i) difficulty in credit appraisal and (ii) difficulty in recovery through legal means in case of default. In this backdrop, loan against gold collateral provided an alternative which addressed customer need of quick turnaround time and lenders' problems of credit appraisal and recovery. In India, the formalization of gold loans started in early 2000s as Kerala-based NBFCs started offering this product. As of FY23, the AUM size of the organized gold loan industry was ₹6.7trn and has grown at 13% CAGR over the last decade (FY13-23). Public sector banks, regional private banks and NBFCs are dominant players in this product.

Exhibit 13: Gold loan industry has grown at 13% CAGR over FY13-23



Source: CRISIL, Ambit Capital research. Note: CRISIL data up to FY22. For FY23, we have taken aggregate gold loan portfolios of SBI, Canara Bank, Union Bank, Bank Of Baroda, Muthoot Finance, Manappuram, Federal Bank, Muthoot Fincorp, IIFL, Karur Vysya Bank, South Indian Bank, City Union Bank, HDFC Bank, CSB Bank, Indian Bank, Kosamattam, Muthoottu Mini Financiers, FedFina, Shriram, ICICI Bank, Representing, ~85% of systemic gold loans.

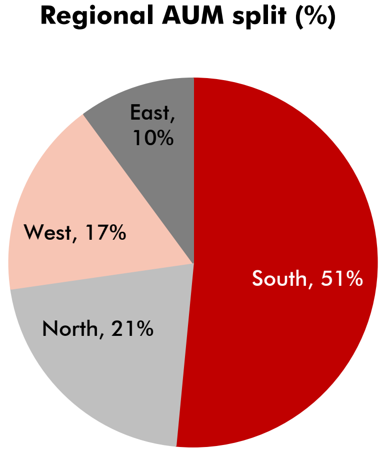
Exhibit 14: Gold loan industry is dominated by PSU banks and NBFCs



Source: Ambit Capital research. Note: For market share calculation, we have taken gold loan portfolios of SBI, Canara Bank, Union Bank, Bank Of Baroda, Muthoot Finance, Manappuram, Federal Bank, Muthoot Fincorp, IIFL, Karur Vysya Bank, South Indian Bank, City Union Bank, HDFC Bank, CSB Bank, Indian Bank, Kosamattam, Muthoottu Mini Financiers, FedFina, Shriram, ICICI Bank, Representing, ~85% of systemic gold loans.

Southern India is the biggest market for gold loans, accounting for 51% of the total industry AUM. Traditionally, gold holders in southern India are more open to exercising the option of pledging gold compared to other regions of the country.

Exhibit 15: Gold loan industry is mainly south-based



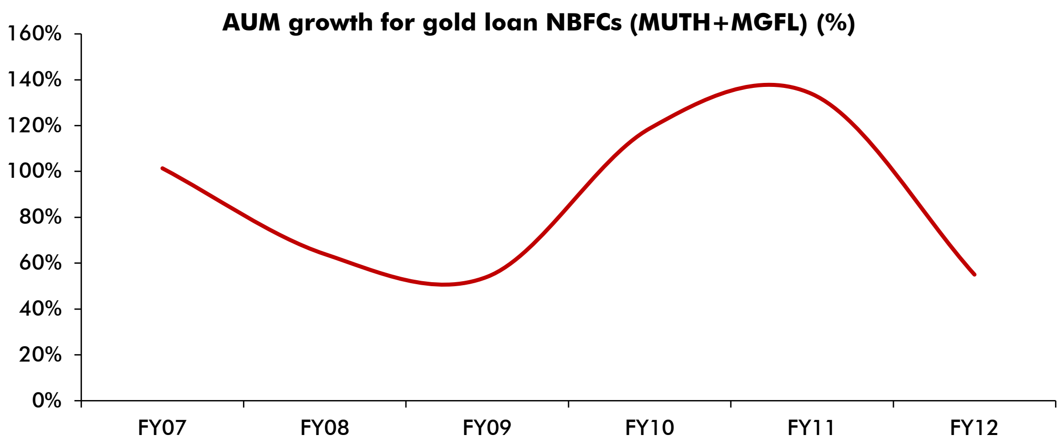
Source: CRISIL, Ambit Capital research. Note: AUM split is based on MUTH/MGFL/IIFL's business mix which collectively represent 75% of overall NBFC gold loan market.

In the last 2 decades, gold loan industry has gone through multiple phases with varied degree of competitive intensity and regulatory changes.

Phase 1 – early 2000s to FY12 – Unbridled growth for NBFCs

As the gold loan product was formalized in early 2000s by Kerala-based NBFCs, MGFL/MUTH saw supernormal growth in their gold loan portfolios. Over FY06-12, their combined gold loan AUM increased at 85% CAGR.

Exhibit 16: Over FY06-12, gold loan NBFCs saw 85% CAGR in AUM, led by formalization of gold loans



Source: Companies, Ambit Capital research

Four key drivers of AUM growth for gold loan companies are (i) branch count, (ii) branch productivity, (iii) gold price and (iv) LTV.

During FY06-12, the factors which drove business growth were (i) branch expansion, (ii) increase in gold price and (iii) increase in LTV. During this period, the number of branches increased at 43%/66% CAGR for MUTH/MGFL, gold prices increased at 22% CAGR and incremental LTVs on certain products reached 85-90%. But, period-end LTVs did not reflect this trend because of rising gold prices.

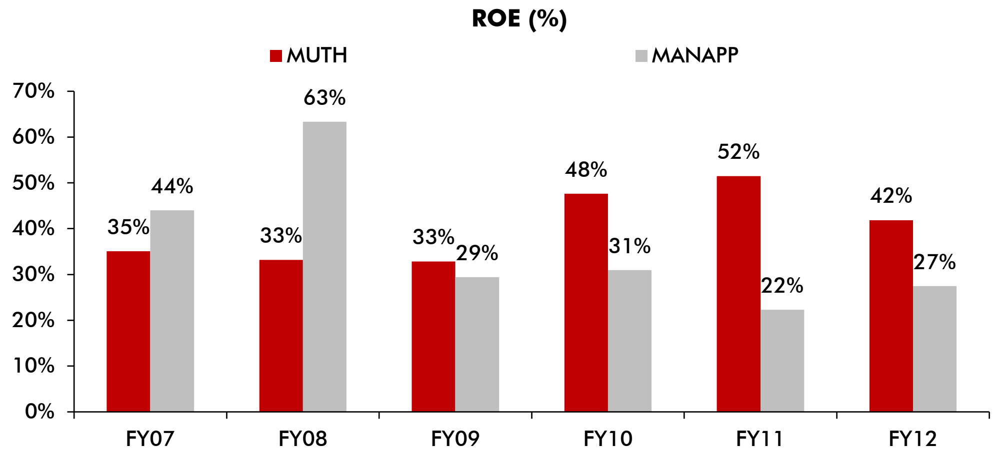
Exhibit 17: Majority of the growth was led by branch expansion, increase in gold prices and higher LTV

Phase 1 (FY06-12)						
AUM growth analysis	**Muthoot Finance**			**Manappuram Finance**		
	FY06	**FY12**	**CAGR (%)**	**FY06**	**FY12**	**CAGR (%)**
AUM (₹ bn)	8	252	78%	1	115	110%
Branches (#)	435	3,678	43%	138	2,908	66%
Gold tonnage/branch	0.04	0.04	0%	0.02	0.02	6%
Gold price (₹/gm)	8,515	28,075	22%	8,515	28,075	22%
LTV (%)	58%	65%	7%	71%	63%	-8%
Comments:	**Majority of the growth was due to branch expansion and increase in gold prices. During this period, incremental LTV on certain product reached up to 85-90%.**					

Source: Company, Ambit Capital research

On the supply side, low cost of bank funding was a key factor. Bank loans to gold loan NBFCs as well as assignment transactions were PSL-eligible which ensured adequate and cheaper cost of funds for gold loan NBFCs. Rising gold prices ensured that defaults were negligible and loss given default was negligible even in case of default. Hence, ROE of both NFBCs was north of 25-30% during this period.

Exhibit 18: ROE was supernormal due to high NIMs and higher leverage



Source: Company, Ambit Capital research

Until RBI regulations capped LTV on gold loans at 60% (Mar'12), NBFCs were lending even at 80-95% LTVs in some cases, which aided AUM growth.

Phase 2 – FY12-16 – Competitive and regulatory headwinds

During this phase, AUM CAGR of MUTH/MGFL declined to 0.6-1.2%. Business generation was impacted by: (i) increasing competition, (ii) RBI's regulatory crackdown and (iii) asset quality deterioration due to gold price decline.

Firstly, as a result of higher growth/ROE, the gold loan industry saw multiple new entrants within a span of 2-3 years.

Exhibit 19: As with any industry, high growth and high ROE attracted competition

Company	Gold loan product launch tentative timeline	Were they able to sustain operations?
IIFL Finance	1QFY11	De-focused on gold loans due to industry headwinds.
M&M Finance	1QFY11	Gold loan portfolio (% of total loans) started reducing from FY14.
Reliance Commercial Finance	1QFY12	Closed operations.
Cholamandalam	3QFY12	Stopped gold loan originations from FY14 because of the new LTV regulations.
FedFina	3QFY12	Remains in operations.
HDFC Bank	4QFY12	Remains in operations.
Magma Fincorp	3QFY13	Exited gold loan business, citing that it entered the business at the wrong time.
L&T Finance	Had indicated intent to do gold loans.	Were never able to scale up.
SKS Microfinance	Had indicated intent to do gold loans.	Were never able to scale up.

Source: Companies, Ambit Capital research

Secondly, besides competition, a slew of regulatory measures directed at arresting aggressive growth of gold loan NBFCs negatively impacted business generation for the industry.

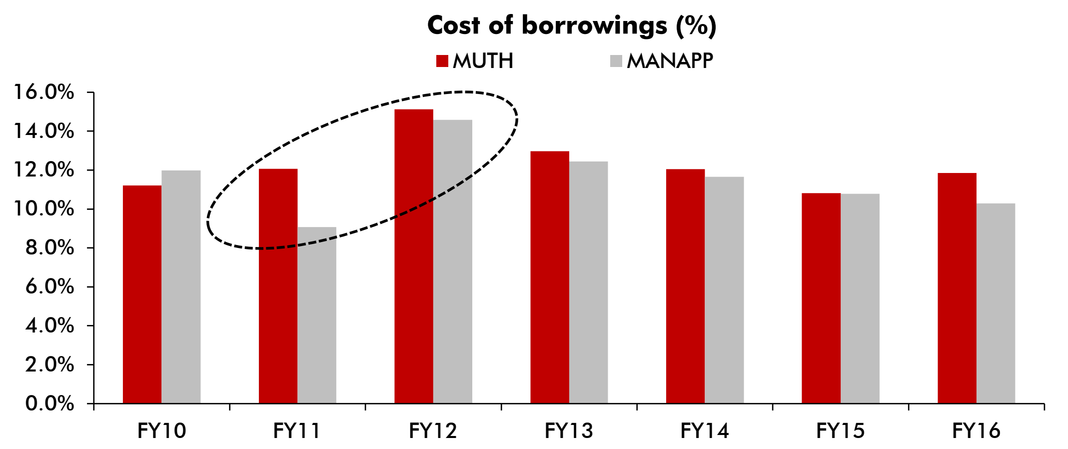
Exhibit 20: Regulatory clampdown by RBI over FY12-14 was aimed at arresting aggressive growth for gold loan NBFCs

Key RBI regulations	Timeline	Purpose
Removal of agri-PSL status given to bank loans towards gold loan NBFCs.	Feb'11	To arrest rapid growth of gold loan NBFCs and banks' exposure to the sector.
Banned Muthoot Fincorp and Manappuram from taking deposits from public at its branches for associate firms.	Mar'12	To arrest deposit collection for associate firms through NBFC branches, which was in violation of RBI guidelines.
Capping LTV at 60%.	Mar'12	To arrest rapid growth of gold loan NBFCs and mitigate risks due to fall in gold price.
Maintain tier-1 capital of 12% from 10%.	Mar'12	To arrest rapid decline in capital adequacy.
Reduction of single bank exposure to single gold loan NBFC to 7.5% from 10% of capital funds.	May'12	To arrest rapid growth of gold loan NBFCs and banks' exposure to the sector.
Restricting number of investors to 49 and minimum subscription/investor of ₹2.5mn in case of private placement of NCDs.	Jun'13	To arrest raising of surrogate deposits from individual investors.
NBFCs with >1,000 branches were mandated to seek RBI approval for further branch expansion.	Sep'13	To arrest rapid growth of gold loan NBFCs and foster more competition.
High value loans (>₹0.1mn) be disbursed by cheque.	Sep'13	To foster non-cash transactions of large value.
No issuance of misleading ads claiming quick availability of loans.	Sep'13	To arrest non-transparent communication of loan terms to customers
LTV raised to 75%.	Jan'14	LTV was raised to 75% but value was clearly defined as solely on basis of gold content.

Source: RBI, Ambit Capital research

Particularly, removal of PSL benefit to gold loan NBFCs led to higher borrowing costs.

Exhibit 21: RBI removal of PSL benefit on bank loans to (and assignment portfolios from) gold loan NBFCs led to higher borrowing costs



Source: Company, Ambit Capital research

Besides the above, another key concern pointed out by the RBI was regarding raising resources through retail NCDs by circumventing RBI rules. Amid the stricter regulatory environment, especially the 60% LTV cap, multiple players which had entered during the high-growth phase of FY09-12 withdrew from the market.

Exhibit 22: Evolution of LTV ratio and other measures concerning valuation of gold collateral

Guideline	Timeline	Purpose
Capping LTV at 60%	Mar'12	To arrest rapid growth of gold loan NBFCs and to safeguard financial system risk against gold price volatility.
Valuation of gold jewellery at average closing price of 22 carat gold for the last 30 days as quoted by BBA	Sep'13	To standardize the valuation of gold collateral and make it more transparent to the borrower.
Record of gold ownership where gold pledged by the customer is >20 grams	Sep'13	To satisfy ownership and KYC guidelines.
Increasing LTV to 75%	Jan'14	To improve monetisation of idle gold through the organised sector.
Clarification on determination of gold value	Jan'14	NBFCs were adding making charges to value the pledged gold jewellery. RBI clarified that LTV shall be determined solely on basis of gold content and no other cost elements should be added.
Additional reference for valuing gold	May'15	Besides using 30-day average of closing price of 22 carat gold (by BBA), NBFCs may also consider historical spot gold price data by a commodity exchange regulated by the Forwards Markets Commission.
Increasing LTV to 90% for banks	Aug'20	To mitigate the economic impact of covid-19 on households, small businesses till Mar'21.

Source: RBI, Ambit Capital research

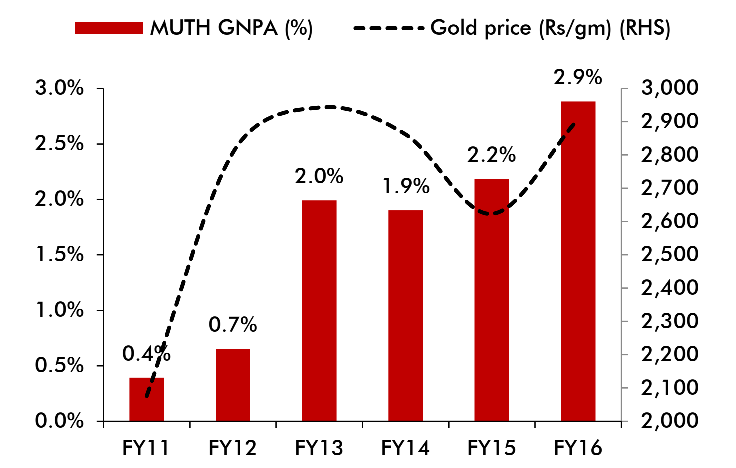
Exhibit 23: New players which had entered started withdrawing from the gold loan market citing multiple challenges

Company	Timeline	Comments
Chola	FY13-1Q	"***The newly launched gold loan portfolio was flat QoQ. Growth in this business has been impacted due to the 60% LTV regulation***."
IIFL Finance	FY13-3Q	"*The **share of gold loans (in total portfolio) has come down**... will come down even further.*"
Federal Bank	FY14-1Q	**Bank consciously de-grew gold loans due to volatile gold price**; currently focusing on 90-95% LTV book to ensure there is no significant impact; currently focusing on making sure that repayments come; the bank said it would be increasing the recovery efforts on gold loans
Federal Bank	FY14-3Q	**Gold loans have been a challenge** for the bank as well as for the whole market; retail gold loans have not picked up; fall in gold loan has been a big concern for the bank, especially because Tamil Nadu and Karnataka are very big on gold loans
Magma Fincorp	15th July 2015	"*We **entered the business at the wrong time** and soon realised it is not for us.*" (link)

Source: Companies, Ambit Capital research

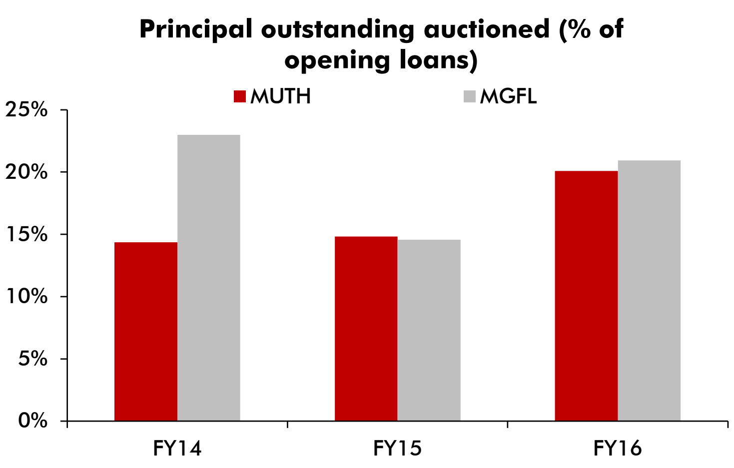
Thirdly, falling gold prices (down 12% between Mar'13 and Mar'16) resulted in customers going out-of-money on their pledged gold as value of gold became less than loan principal outstanding. This led to customers forsaking their pledged gold and becoming NPAs. As a result, auctions were elevated during FY14-16, impacting AUM growth.

Exhibit 24: Falling gold prices impacted repayment behaviour as customers became out-of-money on the pledged gold, resulting in increasing NPAs



Source: Company, Ambit Capital research

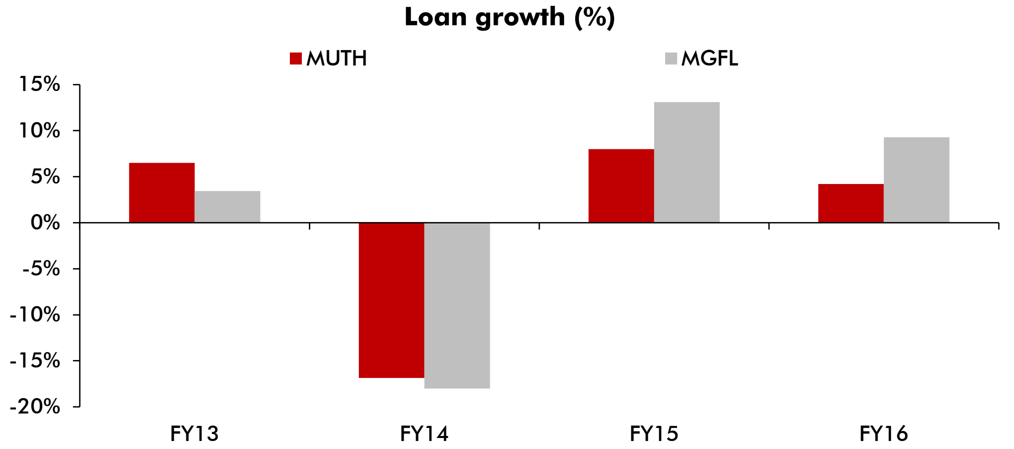
Exhibit 25: High stress led to high auctions, impacting AUM growth



Source: Companies, Ambit Capital research

Therefore, a triple whammy of aggressive competition, stricter regulations and decline in gold prices. Hence, the high growth rates collapsed to a range of 18% decline to 13% growth in the subsequent years (FY13-18).

Exhibit 26: Multiple headwinds impacted business generation for gold loan NBFCs, leading to decline in growth rates



Source: Companies, Ambit Capital research

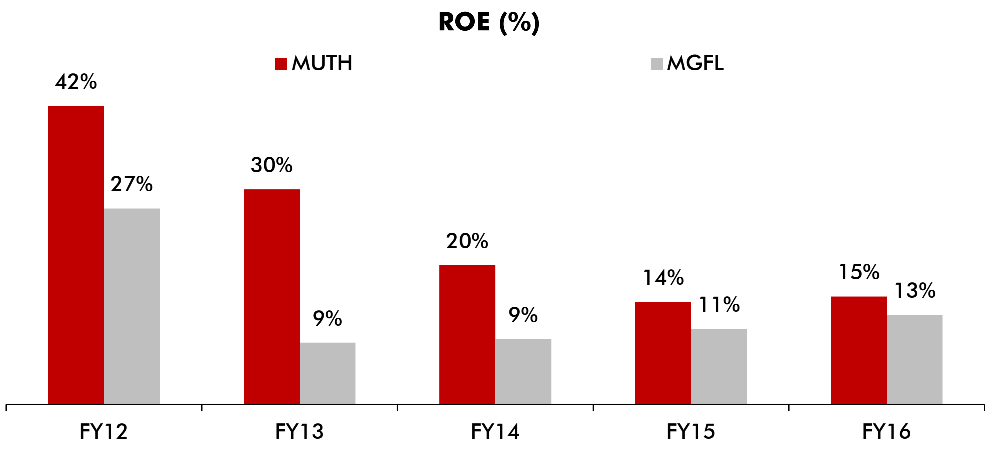
Exhibit 27: Due to competition, regulatory changes and fall in gold prices, growth collapsed to 1% CAGR (FY12-16)

	Phase 2 (FY12-16)					
AUM growth analysis	**Muthoot Finance**			**Manappuram Finance**		
	FY12	**FY16**	**CAGR (%)**	**FY12**	**FY16**	**CAGR (%)**
AUM (₹ bn)	252	258	1%	115	101	-3%
Branches (#)	3,678	4,275	4%	2,908	3,293	3%
Gold tonnage/branch	0.04	0.03	-3%	0.02	0.02	-5%
Gold price (₹/gm)	28,075	29,080	1%	28,075	29,080	1%
LTV (%)	65%	62%	-3%	63%	58%	-4%
Comments:	**Growth was subdued. Decline productivity negated growth due to branch expansion. Gold prices were stagnant.**					

Source: Company, Ambit Capital research

Lower loan growth, higher borrowing costs and higher NPAs led to ROE compressing significantly over FY12-16 for MUTH/MGFL.

Exhibit 28: ROE compressed from 27-42% to 13-15% during FY12-16

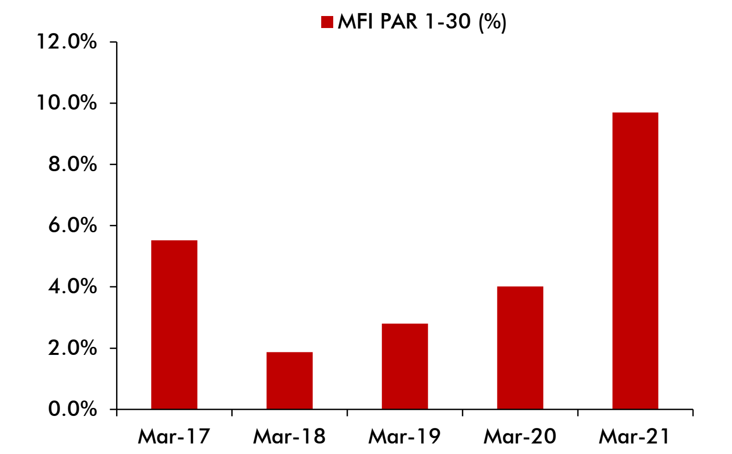


Source: Company, Ambit Capital research

Phase 3 – FY16-20 – Growth revival

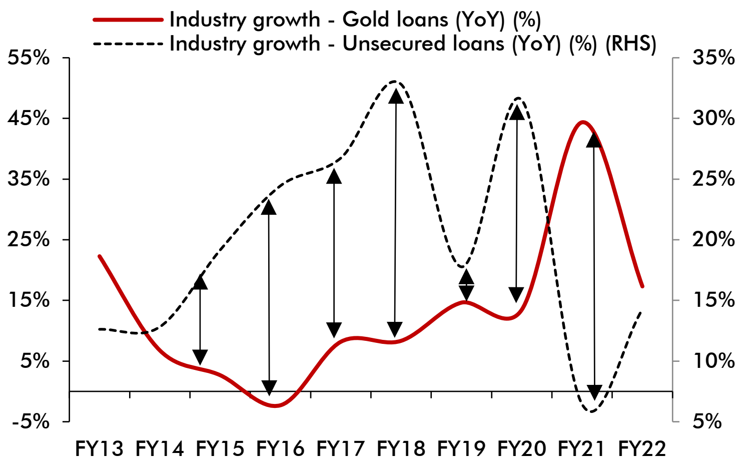
For the most part of FY17-18, the industry continued to focus on mending asset quality, impacting growth of the sector. However, from FY18, the industry saw growth revival, coinciding with MFI sector asset quality beginning to deteriorate. Historical trends indicate that gold loans tend to thrive during times of aversion to unsecured credit risk.

Exhibit 29: Over FY18-20, MFI saw increase in early bucket stress



Source: CRIF, Ambit Capital research

Exhibit 30: Gold loans thrive during times of credit risk aversion among lenders, indicated most clearly by decline in unsecured credit growth



Source: RBI, Company, Ambit Capital research

At the same time, since FY18, gold loan NBFCs' growth revived. Over FY17-21, gold loan industry increased by 19% CAGR with MUTH/MGFL growing at 17% CAGR.

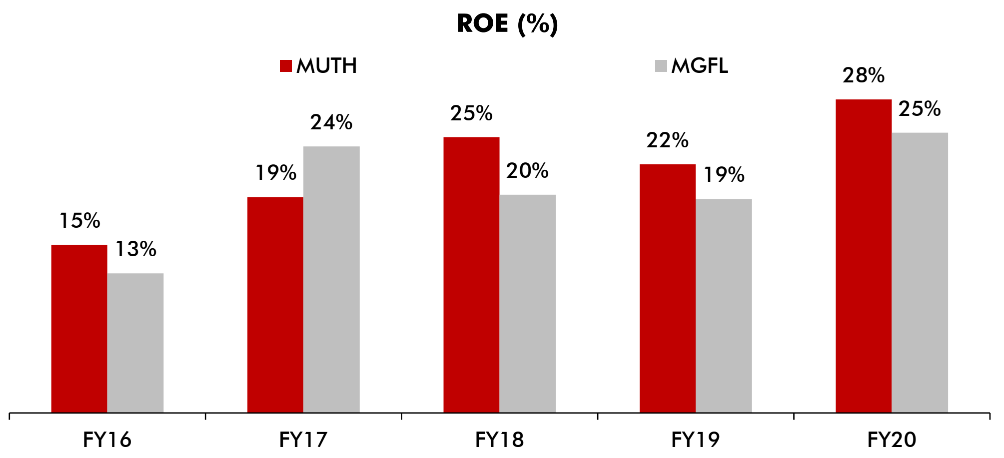
Exhibit 31: Growth revived in the latter part of the phase, coinciding with MFI stress development

Phase 3 (FY16-20)						
AUM growth analysis	**Muthoot Finance**			**Manappuram Finance**		
	FY16	**FY20**	**CAGR (%)**	**FY16**	**FY20**	**CAGR (%)**
AUM (₹ bn)	258	423	13%	101	170	14%
Branches (#)	4,275	4,567	2%	3,293	3,529	2%
Gold tonnage/branch	0.03	0.04	4%	0.02	0.02	3%
Gold price (₹/gm)	29,080	40,989	9%	29,080	40,989	9%
LTV (%)	62%	59%	-4%	58%	57%	-1%
Comments:	**Growth was driven by branch expansion, improving productivity and increasing gold prices.**					

Source: Company, Ambit Capital research

As growth revived during the latter part of phase 3, ROE increased to >20% for MUTH/MGFL.

Exhibit 32: As growth revived during phase 3, so did ROE to >20%



Source: Company, Ambit Capital research

Phase 4 – FY20-FY23/present – Intense, price-led competition

More recently (last 1-2 years), gold loan NBFCs have been under intense competitive pressure, leading to yield/NIM compression and growth deceleration. Such competition has been mainly premised on aggressive lending rates (teaser rates), impacting AUM growth for MUTH/MGFL.

Exhibit 33: The recent spate of new entrants has posed competitive growth and margin pressures for traditional gold loan NBFCs

New players entering/entered gold loans	Entry timeline
Fincare SFB	FY19
Bajaj Finance	FY20 (re-entered gold loans)
Utkarsh SFB	FY22
Bharat Pe	4QFY22
TruCap/Dhanvarsha	4QFY22
Ujjivan SFB	FY23
Capri Global	1HFY23
Equitas SFB	2HFY23
CreditAccess	2HFY23
Other names which have recently entered: Piramal, Dvara Smart Gold, Indel Money, Advik Capital, Niyogin	

Source: Company, Ambit Capital research

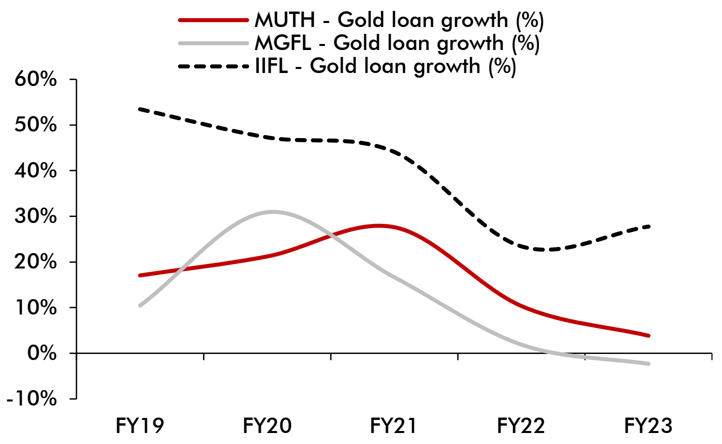
Exhibit 34: Teaser rate-led pricing competition has impacted growth/NIMs for traditional gold loan NBFCs

*"So **due to this teaser rate loans our yields have significantly come down** in the first quarter. So now we had explained at that point of time that once these teaser rate loans are migrated it will -- it could improve. So which has happened in the second quarter and again it has improved in the third quarter."*

- George Alexander Muthoot, MD, Muthoot Finance – 3QFY23 earnings call

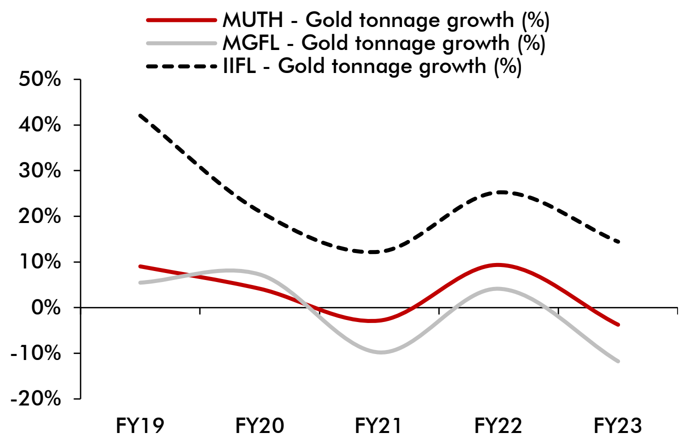
Source: Company, Ambit Capital research

Exhibit 35: Gold loan NBFCs AUM growth has been impacted due to increased competition



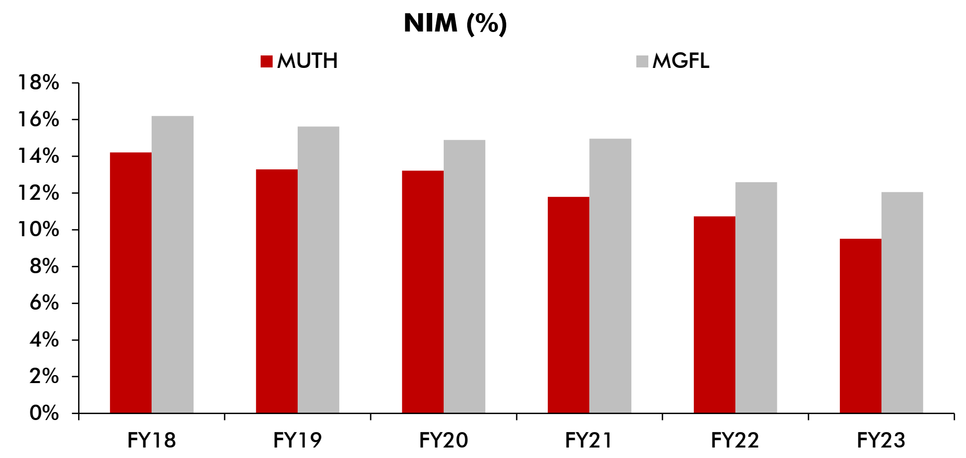
Source: Companies, Ambit Capital research

Exhibit 36: Impact on growth has been higher for south-based gold loan NBFCs



Source: Companies, Ambit Capital research

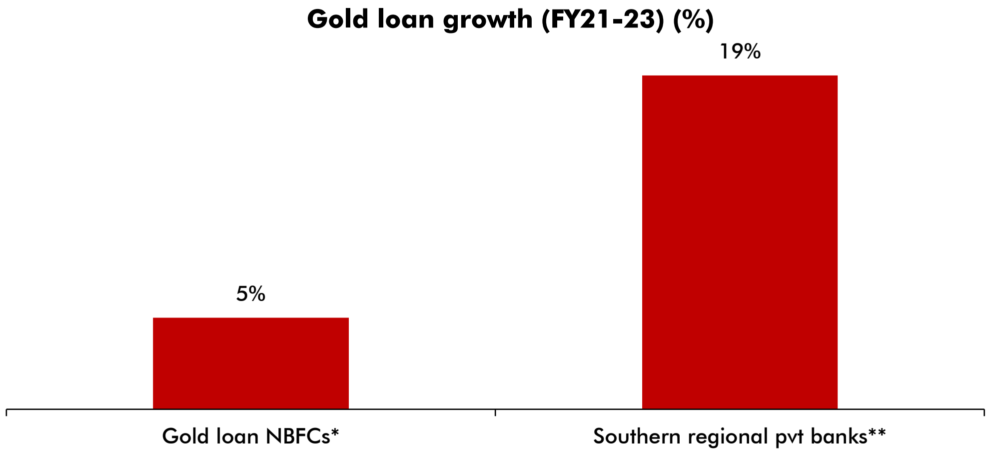
Exhibit 37: Teaser rates-led competition also hit pricing/NIMs of gold loan NBFCs



Source: Companies, Ambit Capital research

Competitive intensity has been particularly high in south India. Southern regional private banks have grown at a higher rate than regional NBFC counterparts.

Exhibit 38: New partnerships and lower rates aided gold loan growth for southern banks



*Source: Companies, Ambit Capital research, *MUTH & MGFL, **Federal Bank, City Union Bank, South Indian Bank, Karur Vysya Bank.*

The reason why banks have been aggressive in gold loan is because of lack of other credit deployment avenues as lenders were extremely averse to unsecured lending. Further, to support credit growth, the RBI had offered banks temporary LTV relaxation up to 90% until Mar-22. Additionally, there have been concerns about growing competition from gold loan fintechs.

Exhibit 39: Fintechs have been considered as a competitive threat for incumbent gold loan NBFCs

"…competition is increasing with the emergence of new players in the NBFC space including fintech companies…"

– V. P. Nandakumar, MD & CEO, Manappuram – 2QFY23 earnings call

"The competition has now got more intense with new-age fintechs changing the market dynamics."

– Fintechs changing the gold loan game, Economic Times, 23rd August 2022

Source: Companies, Ambit Capital research

Exhibit 40: Growth slowed down due to increase in competition

Phase 4 (FY20-23)						
AUM growth analysis	**Muthoot Finance**			**Manappuram Finance**		
	FY20	**FY23**	**CAGR (%)**	**FY20**	**FY23**	**CAGR (%)**
AUM (₹ bn)	423	619	14%	170	197	5%
Branches (#)	4,567	4,739	1%	3,529	3,524	0%
Gold tonnage/branch	0.04	0.04	0%	0.02	0.02	-6%
Gold price (₹/gm)	40,989	59,560	13%	40,989	59,560	13%
LTV (%)	59%	58%	-1%	57%	55%	-2%
Comments:	**Growth was mostly a function of increase in gold prices.**					

Source: Company, Ambit Capital research

Cyclical play on small business credit with threat from unsecured loans

Quick TAT remains the key USP of gold loans where NBFCs' standards are unmatched. Considering micro-enterprises credit gap and improving product awareness in north/west markets, gold loan industry can grow at 12-13% CAGR over the medium term (FY23-27). This will be a function of 2-4% increase in micro-enterprises and 7-8% increase in ticket sizes, led by increasing gold prices/business requirements. Besides, with peak bank competition behind (unlikely to worsen), it bodes well for gold loan NBFCs' AUM growth. We note that gold loan growth has decelerated for banks, most notably in the south. In 4QFY23, gold loan NBFCs grew higher sequentially along with NIM expansion. We expect market leaders such as MUTH to grow at 13-14% CAGR (FY23-26E). In the long run (FY27-37E), we expect industry growth to decline to 10-11% CAGR as development of credit bureau scores would aid personal unsecured credit growth, a product with TAT as good as a gold loan.

TAT, the ultimate lure of gold loans

Given that gold loans (working capital-oriented/short-term) are taken in times of emergency, they are mostly pull-products (customer walk-ins). Most other categories (auto, home, credit card, personal loans) are push-products. <u>Ever had a tele-marketer push gold loan to you? Most likely no.</u> The most critical success factor in the case of gold loans is turnaround time (TAT) (5-30mins). Hence, gold loans have been hard to substitute given that other products have much longer TAT and are less flexible in terms of repayments. As banks do not have the proper infra for assessing gold loans and are multi-product focused, their TAT is higher at 1-2 hours.

Exhibit 41: Gold loan's appeal lies in its TAT as security of gold collateral negates the need for documentation

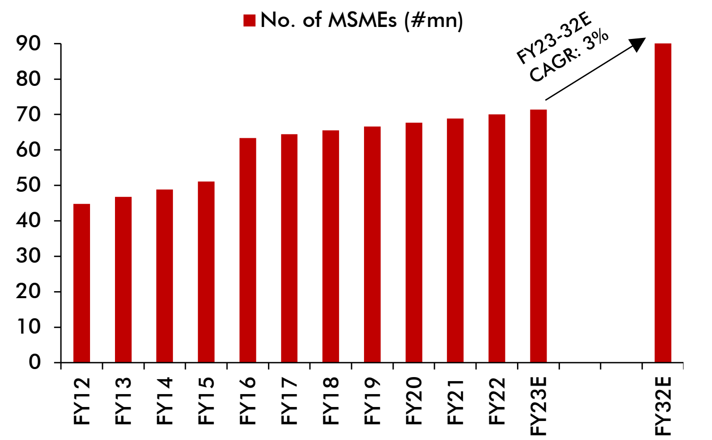
Particulars	**Gold loan**	**MFI loan**	**Secured business loan**
Ticket size (₹)	₹50,000-1,00,000	~₹2,00,000	₹3,00,000-5,00,000
Loan end-use	Income generation, personal consumption	Income generation	Income generation
ROI (%)	20-25%	20-25%	20-25%
Turnaround time (TAT)	5-30 mins; as gold is security, documentation requirement is negligible.	4 days*	7-10 days
Household income criteria	No criteria	To qualify as a microfinance loan, household income must not be higher than ₹0.3mn.	No criteria
Maximum exposure limit/FOIR	Ticket size ranges from ₹50,000-1,00,000. Mostly bullet principal repayment structure	Max. 50% of net income (as prescribed by RBI). Considering ₹0.3mn household income and assuming no prior loans by a household, maximum eligible amount at 25% ROI comes to ~₹0.25mn.	20-30%
Tenor	6-12 months (short term loan)	12-24 months (medium-term loan)	4-7 years (long-term loan)
EMI burden	Bullet principal repayment at maturity indicates higher repayment pressure at maturity.	**<u>Medium</u>** (FOIR: 50%) due to shorter-tenor, assuming no prior loans. If net income is lesser than ₹0.3mn, EMI burden will be higher.	**<u>Low</u>** (FOIR: 30%), due to long-tenor
Collateral	Loan is secured by gold collateral.	Loan is completely unsecured.	Loan is secured by property.

*Source: Ambit Capital research, *Fusion MFI RHP.*

Expect medium-term CAGR at 12-13% led by demand from micro-enterprises and increasing geographical awareness

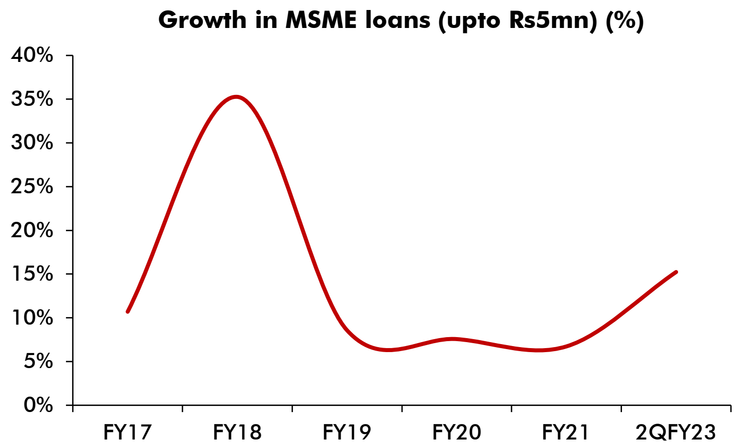
The underlying growth driver for gold loans is essentially working capital demand from micro enterprises. At the broader level, micro/small business loans (up to ₹5mn) have grown at ~14% CAGR (FY16-2QFY23). Historically, the number of micro-enterprises have grown at 2-3% CAGR, which is expected to continue given the government's thrust on the broader MSME sector. We believe micro/small business loans (up to ₹5mn) can grow at 12-13% CAGR over the next decade (FY22-32E) led by the growing number of micro-enterprises (2-4% CAGR) and 8% CAGR in loan ticket size to account for inflation (4-6%) as well as growing business requirements.

Exhibit 42: Given the government's thrust on the sector, expect number of micro-enterprises to increase at 3% CAGR



Source: NSS 73rd Round Survey (2015-16) on MSMEs, Ambit Capital research

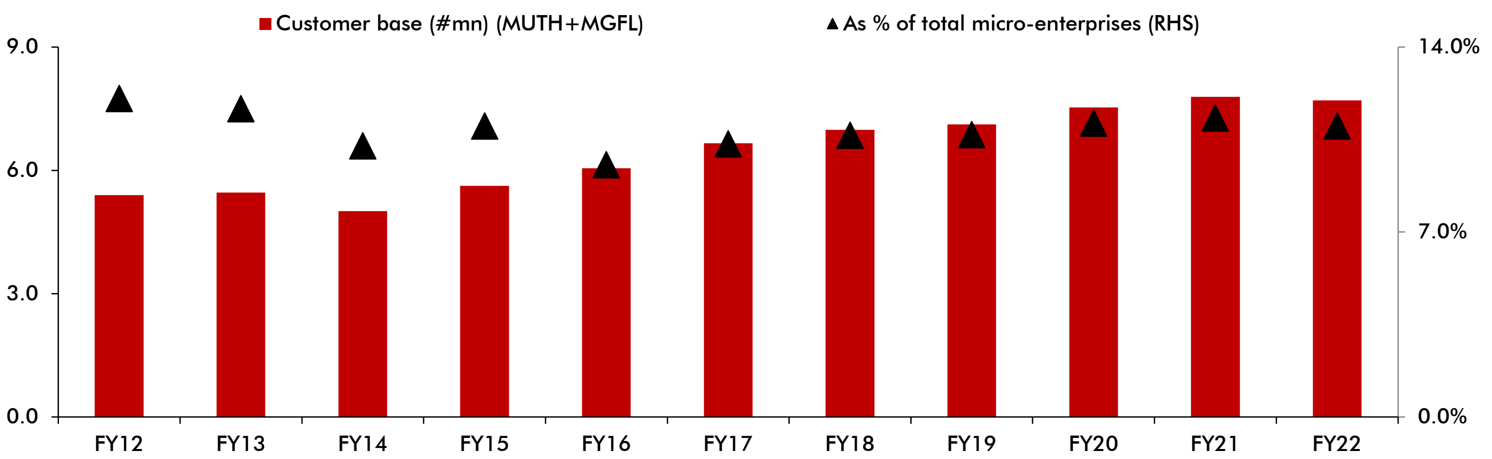
Exhibit 43: At a broader level, small business credit (up to ₹5mn) has grown at ~14% CAGR over FY16-2QFY23



Source: SIDBI, Ambit Capital research

Gold loan customers (small businesses/shopkeepers/micro-enterprises/sole proprietors) tend to be sticky. As per our calculations, at least 10-11% of micro-enterprises take gold loans but this number is likely higher as we are considering the customer base only for MUTH/MGFL.

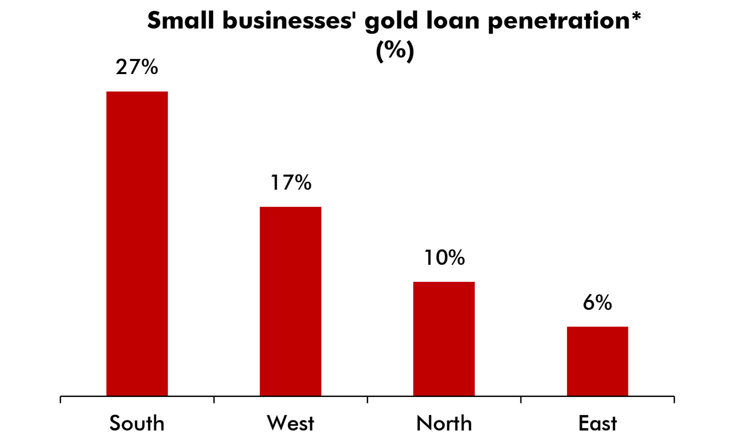
Exhibit 44: Gold loan NBFCs' customer base represents about 10-11% of total micro-enterprises



Source: Companies, NSS 73rd Round Survey (2015-16) on MSMEs, Ambit Capital research

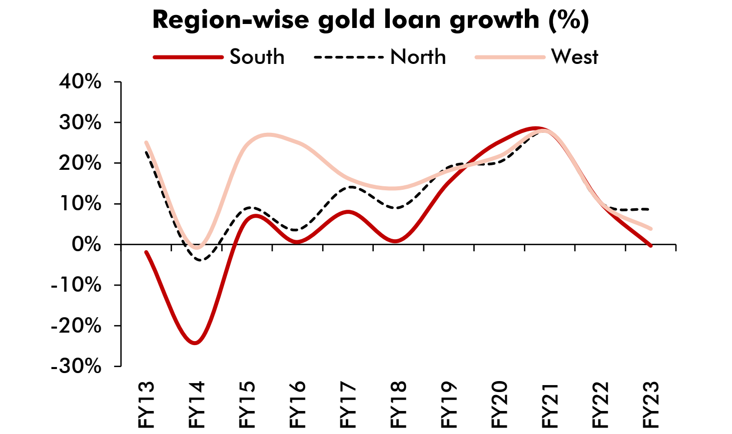
Traditionally, gold loans have had greater appeal in the south, in line with gold concentration of the country. However, in recent years, gold loans have found increasing acceptance in west and north markets due to improved product awareness.

Exhibit 45: Traditionally, gold loans have found a greater appeal in the south



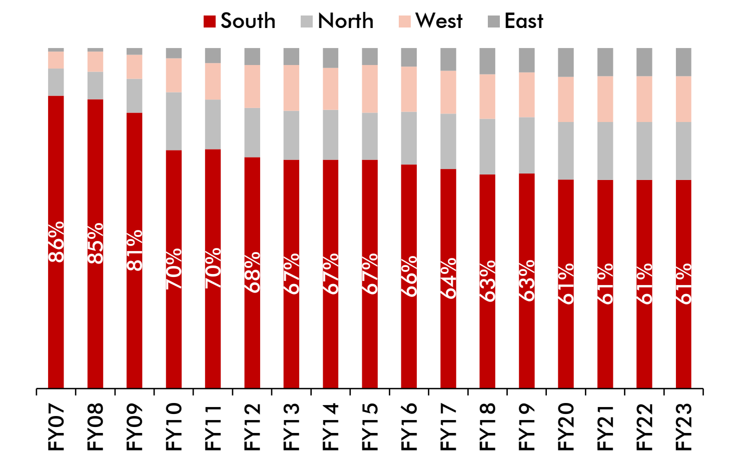
*Source: Ambit Capital research. *Penetration is computed based on collective region wise customer base of MUTH/MGFL divided by region wise number of MSME units.*

Exhibit 46: In the last few years, north/west showed greater vigour in growth due to improved product awareness



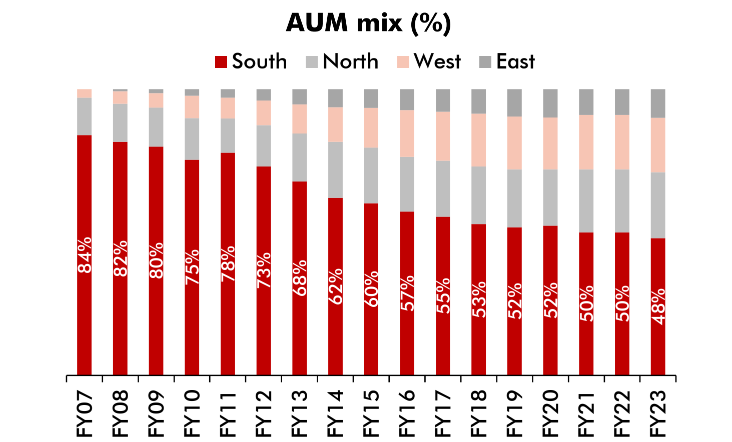
Source: Ambit Capital research. Note: Region wise gold loan growth considers AUM for MUTH/MGFL. Period FY21-23 excludes MGFL.

Exhibit 47: North/west market branch mix increasing…



Source: Ambit Capital research. Note: Region wise gold loan growth considers AUM for MUTH/MGFL.

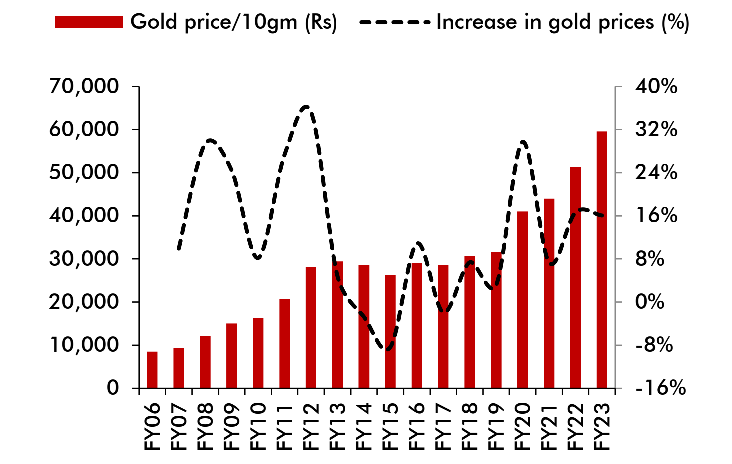
Exhibit 48: …so is the AUM mix



Source: Ambit Capital research. Note: Region wise gold loan growth considers AUM for MUTH/MGFL. Period FY21-23 excludes MGFL.

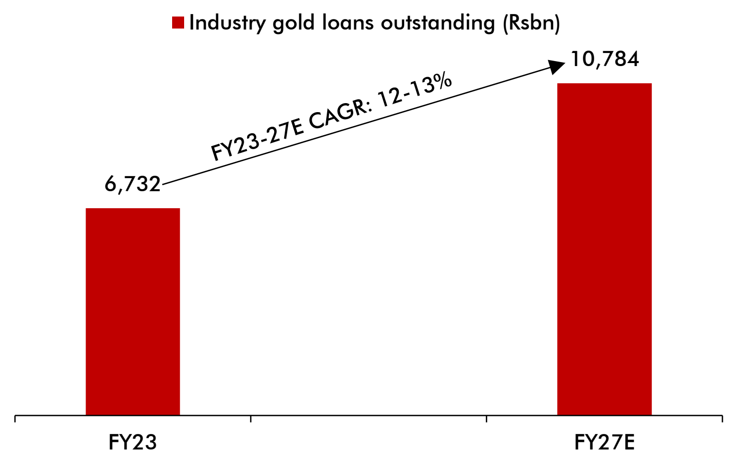
Given the customer stickiness, 10-11% of micro-enterprises expected to grow at 2-4% CAGR as well as increasing business requirements/gold prices/inflation, we believe that the gold loan industry can grow at 12-13% CAGR over FY23-27. Other factors that would support growth: (1) lack of substitutes which can offer quick TAT of 5-30mins and (2) increasing acceptance in north/west markets.

Exhibit 49: In the last decade, gold prices increased at 7% CAGR; increasing prices should support value growth



Source: Bloomberg, Ambit Capital research

Exhibit 50: Gold loan industry to post 12-13% CGR medium term on growing micro-enterprises & business requirements

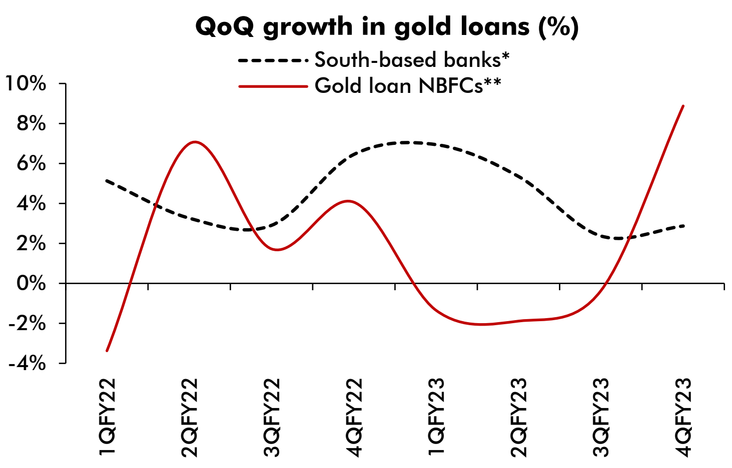


Source: CRISIL, Ambit Capital research

Competition from banks has peaked, positive for MGFL/MUTH at the margin

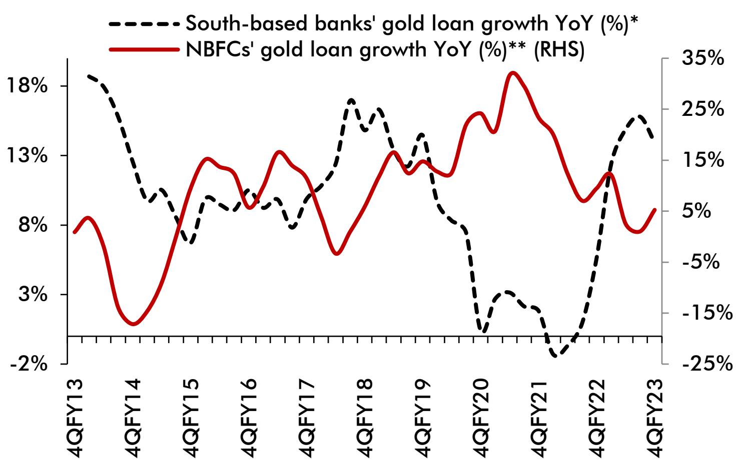
Aggregate gold loan portfolio for 4 south-based regional private banks has seen growth decelerate in recent quarters. As per IIFL's latest commentary, the competitive pressure in the gold loan segment is easing (link), especially from newer players. Triangulating the deceleration in gold loan growth for banks, positive commentary by gold loan NBFCs and return of pricing sanity, we believe that peak competition is behind. Channel checks suggest that while banks were able to lure away customers on the premise of low pricing, their customer service, especially in terms of TAT, has not been up to NBFC standards. As a result, customers have flocked back to NBFCs. We believe it is unlikely that competitive scenario will worsen further. At the margin, this bodes well for incumbent gold loan NBFCs from growth standpoint. This is well reflected in the sequential growth pick up for MUTH/MGFL recently. Historically, on a longer-term basis, we observe that gold loan NBFCs' growth is negatively correlated with that of southern banks.

Exhibit 51: Sequential gold loan growth trends indicate that gold loan NBFCs have outpaced southern banks in recent quarters, after underperforming in the preceding quarters



*Source: Ambit Capital research; *Federal Bank, City Union Bank, South Indian Bank, Karur Vysya Bank, **MUTH, MGFL*

Exhibit 52: History shows, as south-based banks become aggressive in gold loans, NBFCs' growth suffers. Banks' aggression in gold loans was high during Covid (FY21-22)



*Source: Ambit Capital research, *South Indian Bank, City Union Bank and Karur Vysya Bank; **MGFL, MUTH*

Anecdotal evidence, as often indicated by banks, may indicate that growing focus on non-gold loan products may lead to lower focus on gold loans and vice-versa. One of the reasons is that operating cost of gold loan product is higher for banks. In the last cycle, during the period when banks de-focused on gold loans, gold loan NBFCs' AUM CAGR was ~14% (2QFY15-2QFY22). Over the longer term, we expect gold loan NBFCs to maintain an edge over banks in the retail/small-ticket gold loan segment, owing to their operational expertise.

Exhibit 1: Gold loans NBFCs are undisputed on pre/post sale customer service which negates the disadvantage on pricing

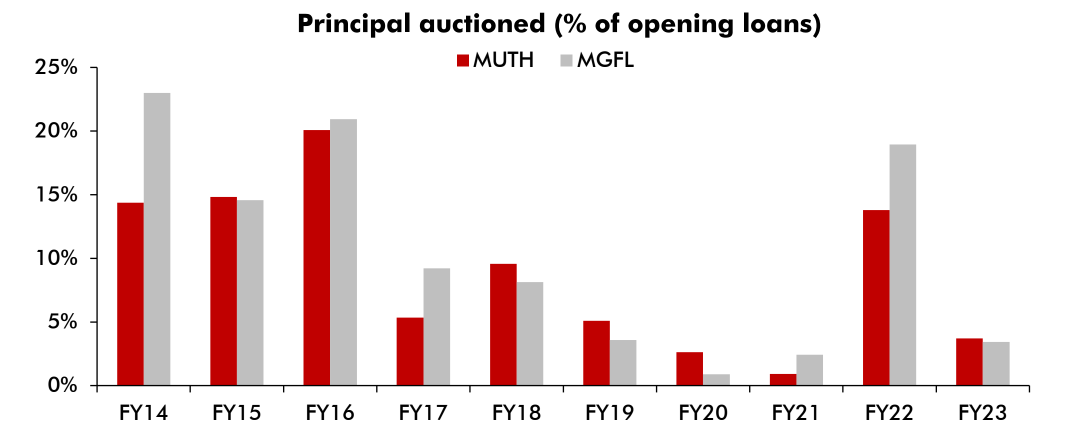
Criteria	NBFCs	Banks	Comments
Distribution	●	◑	NBFCs have a much larger distribution of gold loans vs banks.
Turnaround time (TAT)	●	◑	5-30mins for NBFCs vs 1-2hrs for banks.
Absolute pricing	◑	●	Banks offer better pricing due to lower cost of funds.
Pricing transparency	◕	◑	NBFCs offer more pricing transparency as there are no hidden charges.
After-sale customer service	●	◔	NBFCs offer better after-sale customer service (part release, prepayment).
Brand recall	●	◔	NBFCs have better brand recall/customer mindshare w.r.t gold loans.

Source: Ambit Capital research, Companies, Note: ● - strong, ◕ - Average, ◑ - Relatively Weak, ◔ - Weak

Lower auctions should also support AUM growth

Given the stress that small businesses/micro-enterprises went through due to Covid disruptions, gold loan NBFCs have seen record auctions in FY22, thus impacting AUM growth. However, as economy has recovered, auctions have decline, thus supporting asset retention/AUM growth. Lower auctions can add 5-7% to the industry growth.

Exhibit 53: High auctions impacted AUM growth to the extent of 14-19% in FY22

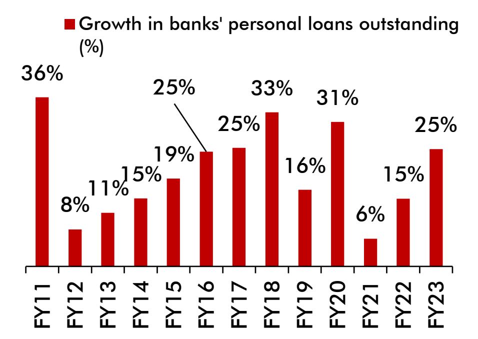


Source: Companies, Ambit Capital research

Long-term industry growth faces threat from unsecured, quick TAT loans

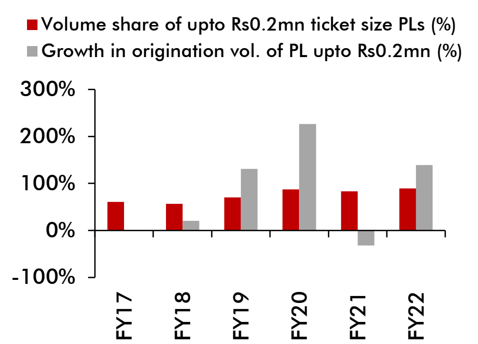
As highlighted before, gold loan's greatest value proposition is quick TAT (5-30mins). Considering long-term development potential of unsecured personal credit, increasing number of people with CIBIL score/credit history and improving maturity thereof, we see personal loans as a long-term threat to industry growth. We believe so because unsecured personal is one product which could possible match a gold loan's TAT. For instance: (i) HDFC Bank plans to offer open-market [10-second personal and business loans] (ii) ICICI Bank's insta personal and small business loans. Hence, we believe gold loan industry's long-term (FY27-37E) growth will decline to 10%, lower than overall systemic credit/micro-enterprise credit growth.

Exhibit 54: Overall personal loan category has been growing at a fast clip…



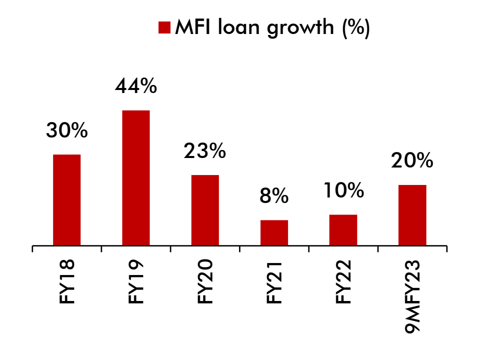
Source: RBI, Ambit Capital research

Exhibit 55: …with share of small ticket loans increasing



Source: CRIF, Ambit Capital research

Exhibit 56: MFI growth has also turned the corner



Source: CRIF, Ambit Capital research

Attractive product economics; efficiency yields competitive moats

Traditional NBFCs make 10-13% NIMs as demand is less price-elastic. Remunerative pricing and scale efficiency have aided 20-25% ROEs. Recently, though pricing has been challenged (teaser rates), efficiency remains unmatched. Analysis of unit cost economics as well as productivity indicates MUTH is the most efficient, resulting in 3.2% opex/assets. MUTH's entire scale advantage can be summed up as customer centricity as gold loan is a business of high customer trust. MUTH's customer base being 2-19x of peers shows how distribution is a source of competitive advantage. New entrants (since FY20/21) seem disadvantaged by high opex (>6%). At their current scale, most new competitors' break-even pricing is 320-650bps higher than industry leader MUTH, making them uncompetitive. Achieving scale seems difficult given long gestation period and cyclical/competitive nature of the industry. Lastly, bottom-up pricing for fintechs shows their breakeven pricing is highly uncompetitive vs market leaders. Hence, fintechs are not a long-term threat for traditional gold loan NBFCs.

Traditional gold loan NBFCs have mastered the art

Pure-play gold loan companies enjoy highly attractive cross-cycle ROE of 20%+. Given customer requirement of fast TAT (emergency funding), NBFCs are able to price for 10-13% NIMs, higher than other product segments. Credit costs are negligible as regulations cap LTVs at 75% of gold value, which is a highly liquid asset. In most scenarios, customers do not want to give up their household jewelry as it's a part of the household wealth.

Exhibit 57: Fastest TAT at gold loan NBFCs drive pricing and hence the profitability

Key customer requirement/value proposition: TAT (5-30mins)

Low substitutability: Other products (micro-LAP, MFI have longer TAT)

No documentation: Collateral is gold which is highly liquid and customer will come back to release it.

Pricing power: NIM of 10-13%

Negligible credit costs as LTV is <75%

High ROA/ROE: 5-7%/20-25%

Source: Companies, Ambit Capital research

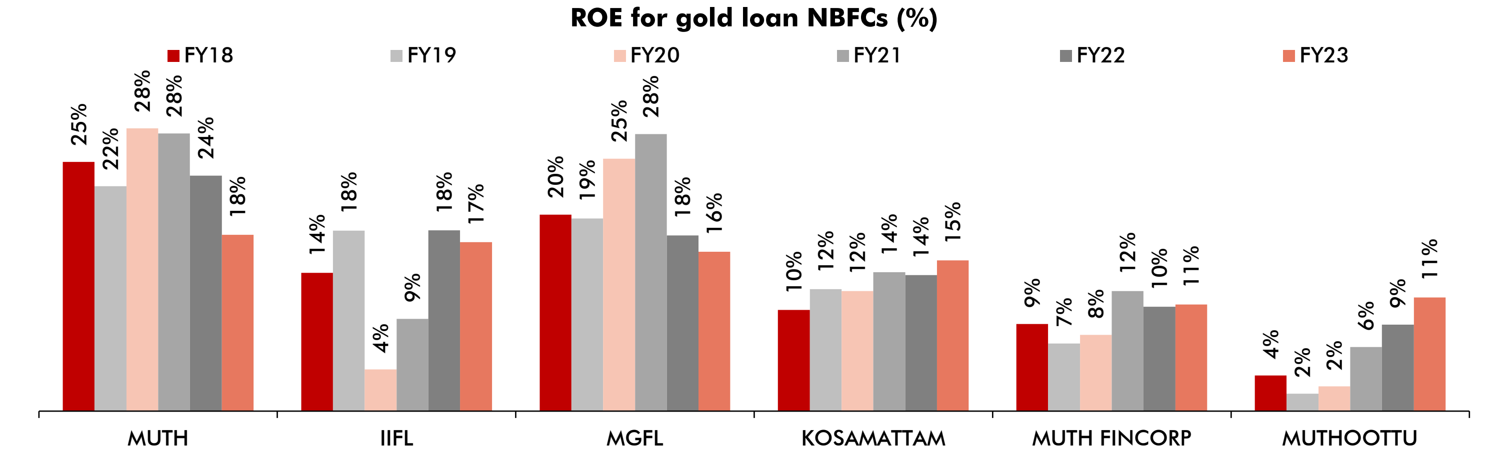
Exhibit 58: Pricing power and negligible credit costs have enabled traditional NBFCs to earn 20%+ ROE

Gold loan NBFCs' ROE tree* (%)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Net interest income	9%	8%	9%	10%	13%	14%	14%	13%	12%	11%	10%
Other income	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%
Total operating income	9%	9%	9%	10%	13%	14%	14%	14%	13%	11%	10%
Opex	4%	5%	5%	5%	5%	5%	5%	5%	4%	3%	4%
Operating profit	5%	4%	4%	5%	8%	9%	9%	9%	9%	8%	6%
Provisions	0%	0%	0%	1%	1%	1%	0%	0%	0%	0%	0%
PBT	5%	4%	4%	5%	7%	9%	8%	9%	9%	8%	6%
Tax	2%	1%	1%	2%	3%	3%	3%	2%	2%	2%	2%
PAT-ROA	3%	3%	3%	3%	5%	5%	5%	7%	7%	6%	5%
Leverage (x)	6.7	6.1	5.1	4.8	4.5	4.2	3.9	4.2	4.2	3.9	3.5
ROE	21%	16%	13%	14%	21%	23%	21%	27%	28%	22%	17%

*Source: Companies, Ambit Capital research, *weighted average ROE tree of Muthoot Finance and Manappuram.*

Given the cross-cycle growth rate of 13% and ~20% ROE, the business operations of gold loan NBFCs are capital-accretive whereas most types of lending businesses consume capital. Hence, gold loan NBFCs have not raised any equity capital in the last decade.

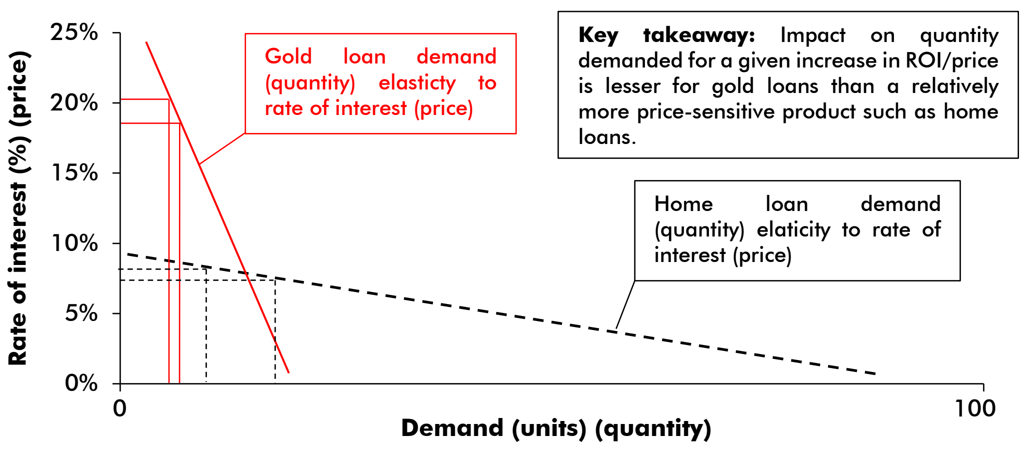
Exhibit 59: Larger players have higher ROE due to larger scale benefits and lower borrowing costs



Source: Companies, Ambit Capital research

Demand for gold loan is highly price inelastic given that such loans are taken in times of emergency, when TAT is of utmost importance to the customer. As a result, gold loan NBFCs are able to generate 18-22% IRR/10-13% NIM. However, given the small ticket size, opex tends to be high due to new customer acquisition costs.

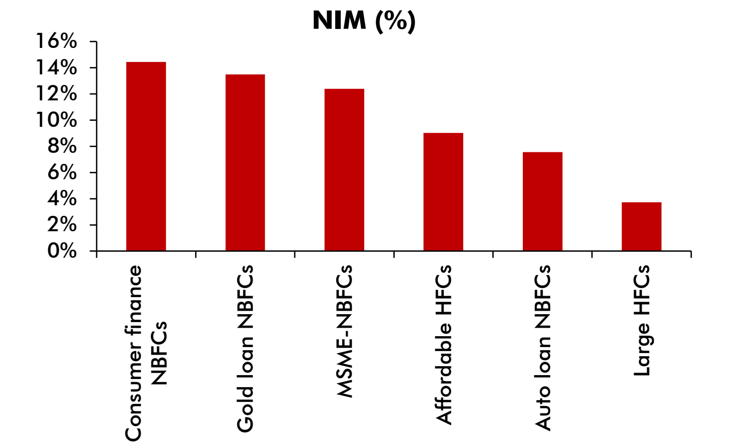
Exhibit 60: Gold loan demand is less price elastic compared to a home loan where for a given a change in rate of interest, the impact on demand is higher



Source: Ambit Capital research

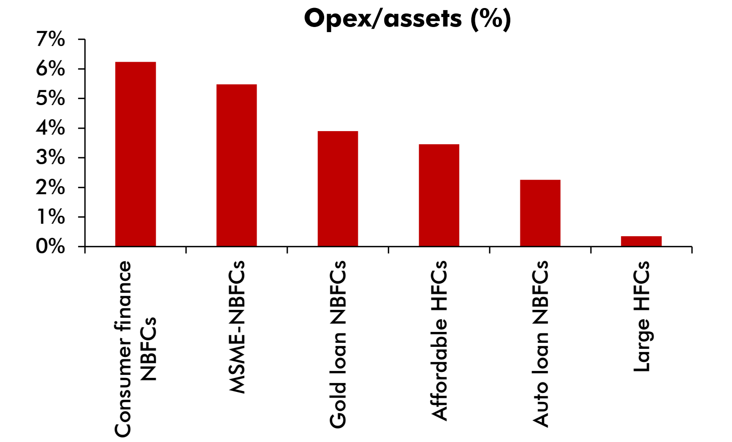
"About two lakhs. That is our average ticket size. Actually, if we go down to 50,000, 60,000 kind of level, we can come on higher interest rate, but it becomes operationally intensive. Also, those customers demand faster turnaround, which I would put my hand to heart and say that, we have not been able to crack the model followed by some of the gold loan NBFCs. They do it very efficiently. So, we are still a little away from that kind of ability to service those customers." – DCB Bank, 2QFY23 call

Exhibit 61: Price inelasticity leads to higher NIM vs other products



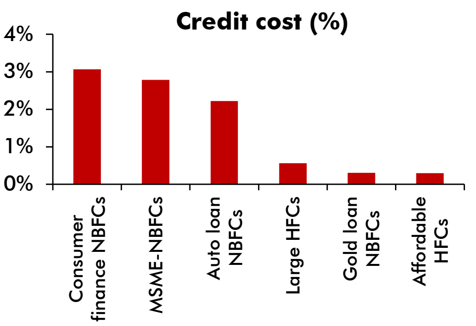
Source: Companies, Ambit Capital research

Exhibit 62: Small-ticket nature implies enormous volumes, hence, high opex



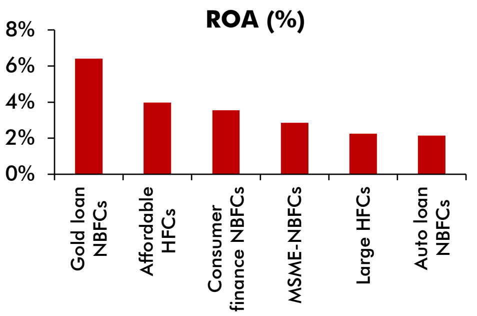
Source: Companies, Ambit Capital research

Exhibit 63: Gold collateral limits credit losses to negligible



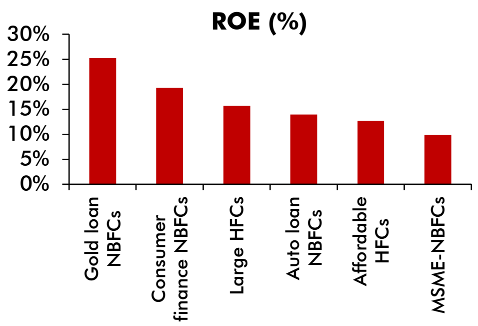
Source: Companies, Ambit Capital research

Exhibit 64: NIMs and relatively low leverage have aided ROA



Source: Companies, Ambit Capital research

Exhibit 65: Superior ROE largely due to high NIMs and negligible credit costs

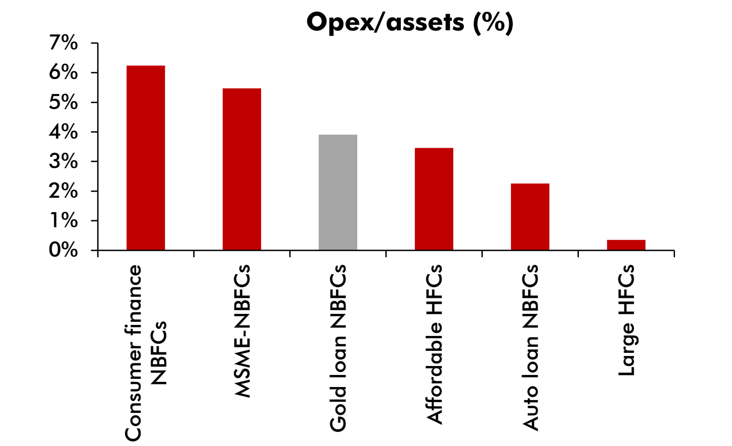


Source: Companies, Ambit Capital research

Small ticket retail lending is a high-opex business

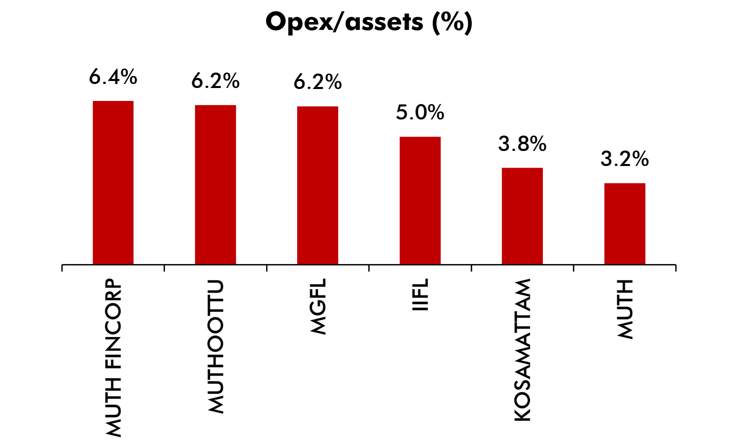
Like most other small ticket retail lending products, gold loans are also operationally intensive. Across multiple pure-play gold loan NBFCs, the opex/assets has ranged between 3.2-6.4%.

Exhibit 66: Like most retail lending products, gold loans are also operationally intensive



Source: Companies, Ambit Capital research

Exhibit 67: With scales comes economies of scale as demonstrated by MUTH



Source: Companies, Ambit Capital research

Manpower is the biggest cost centre

Employees are the biggest cost centre for a typical gold loan NBFC (55% of total opex), followed by rent/lease expense (~20%) and ad spends (7%). In a typical gold loan transaction, one of the most critical parts is assessment of purity and overall value of the gold. For this purpose, gold loan NBFCs keep gold valuation in-house by employing a valuer at each branch. Banks typically outsource valuation and hence their TAT is higher. A typical gold loan NBFC branch employee earns ₹18-30k per month. Monthly rent can vary from ₹30-60k.

Exhibit 68: For a large scale gold loan NBFC, total opex per branch is ₹250-310k per month

Expenses per branch per month (₹)	MGFL	MUTH	MUTH FINCORP	MUTHOOTTU	KOSAMATTAM
Salary/employee	24k	30k	24k	18k	18k
Employee	185k	171k	109k	81k	64k
Rent & equipment depreciation	43k	52k	57k	31k	27k
Advertisement & business promotion	21k	22k	19k	6k	5k
Rates, taxes & insurance	5k	13k	12k	2k	0k
Electricity & office maintenance	12k	16k	6k	4k	5k
Printing, stationery	2k	3k	2k	2k	2k
Legal & professional fees	5k	5k	10k	2k	2k
Communication	14k	9k	29k	6k	4k
Misc. & other expenses	21k	10k	5k	4k	4k
Total	**308k**	**300k**	**248k**	**137k**	**112k**

Source: Companies, Ambit Capital research

Exhibit 69: Employee cost is 45-60% of total opex

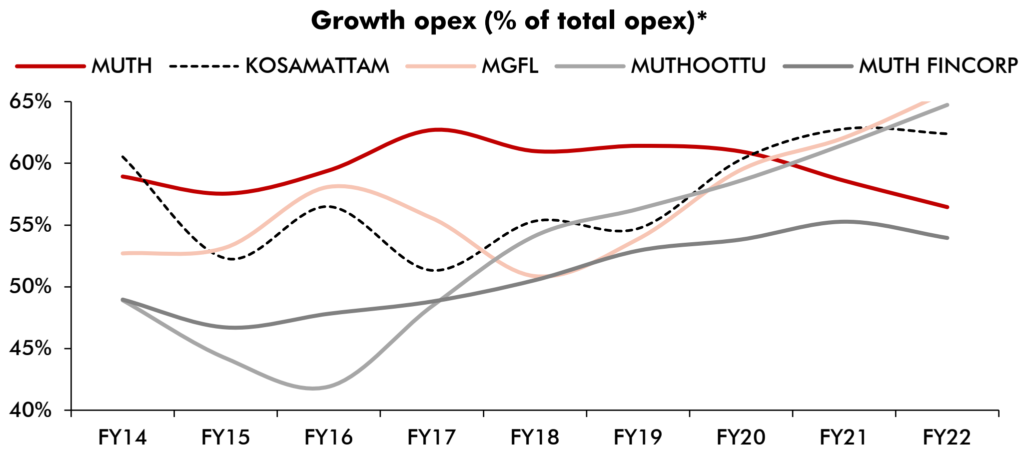
Expenses per branch per month (% of total opex)	MGFL	MUTH	MUTH FINCORP	MUTHOOTTU	KOSAMATTAM
Employee	60%	57%	44%	59%	57%
Rent & equipment depreciation	14%	17%	23%	22%	24%
Advertisement & business promotion	7%	7%	8%	5%	4%
Rates, taxes & insurance	2%	4%	5%	1%	0%
Electricity & office maintenance	4%	5%	2%	3%	4%
Printing, stationery	1%	1%	1%	1%	2%
Legal & professional fees	2%	2%	4%	1%	2%
Communication	5%	3%	11%	4%	3%
Misc. & other expenses	7%	3%	2%	3%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Companies, Ambit Capital research

Growth opex helps in creating brand equity

Opex analysis of gold loan NBFCs vis-à-vis their market positioning suggests higher cost budget allocation to growth-oriented expense heads such as employees (feet-on-street) and advertisement spends. We believe this helps in creating a distinct brand identity. For example, MUTH has Amitabh Bachchan, an iconic Bollywood actor, as brand ambassador. In this regard, we note that market leader MUTH has the highest budget allocation towards such growth-oriented expenses.

Exhibit 70: Higher brandex helps in generating customer footfalls

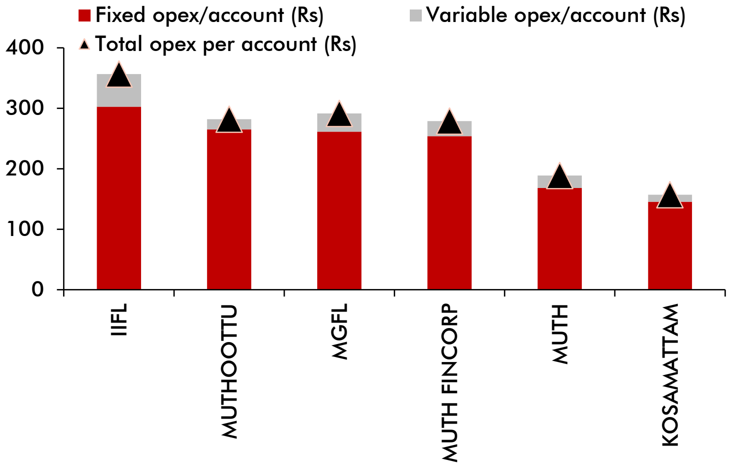


*Source: Companies, Ambit Capital research, *Growth opex = employee cost + advertisement spends*

Low unit costs aided by scale and productivity can be advantageous

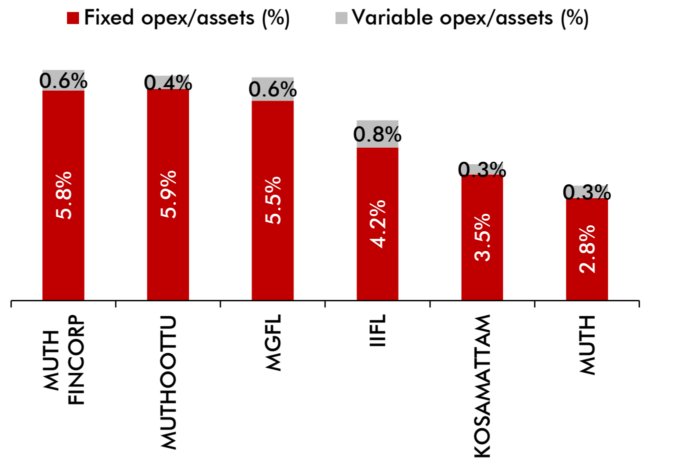
In the gold loan business, ~90% of opex is of fixed nature. Therefore, having scale helps in distributing cost over a larger absorption net. This is why MUTH, having the largest gold loan network and highest productivity, has been able to achieve superior unit cost economics as seen in opex/AUM/branch at 3.2% vs 4-6.4% for peers. MUTH's AUM/branch count/customer base is 3-26x/1.3-5.7x/2-19x of peers, which allows it to distribute fixed costs over a larger number of branches and customers.

Exhibit 71: MUTH has one of the lowest fixed opex per account levels



Source: Companies, Ambit Capital research

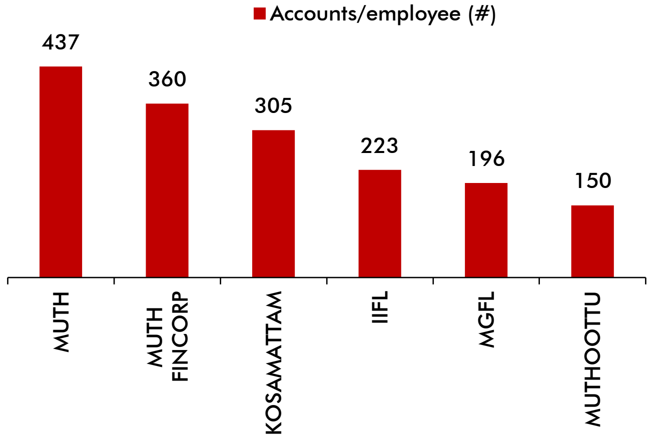
Exhibit 72: High resource productivity and low unit costs have enabled lowest opex for MUTH



Source: Companies, Ambit Capital research

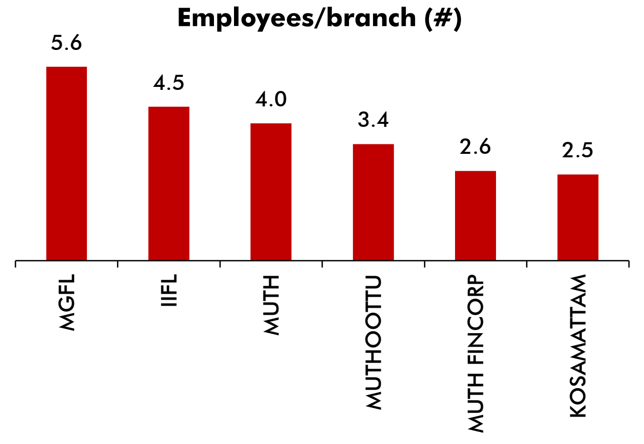
Further analysis indicates that cost advantage is not only a function of having low unit costs but also resource productivity. In the case of gold loan NBFCs, MUTH has demonstrated superior opex vs peers due to high employee productivity. On the other hand, Muthoottu's opex ratio is 2x of MUTH despite having monthly branch running expenses 54% lower. This is because of lower employee productivity, which is 66% lower than MUTH. Another reason why MUTH is most efficient is because of a higher ticket size, which is ~30% higher than peers.

Exhibit 73: MUTH's employee productivity is highest...



Source: Companies, Ambit Capital research

Exhibit 74: ...while manpower deployment per branch is lower than other large scale peers



Source: Companies, Ambit Capital research

What has aided MUTH's scale? Customer trust!

Gold loan is a business of high trust. It is probably the only segment where the customer has to part with his highly valuable asset, which represents a significant portion of his/her wealth. Considering this, we believe it is highly critical that a company is able to gain customer trust with respect to security of gold collateral. In this regard, we believe customer centricity has been the key reason for customers preferring MUTH over MGFL/others.

Exhibit 75: Customer centricity has been critical to MUTH's success

	MUTH	MGFL	Comments:
Distribution	●	◕	Gold loan is a business of trust and thus, closer proximity to customer is better. In this regard, MUTH's large branch network provides customer the comfort of access to gold and aids trust.
Brand recall	●	◕	MUTH has one of the biggest movie actors as its brand ambassador. Branding also helps in customer association and ultimately customer trust.
Branch outfit	◕	◑	Aesthetically, MUTH's branches are better designed. Branch visits clearly indicate higher security at a MUTH branch vs MGFL. Higher sense of security provides comfort to the customer.
Repayment terms	◕	◑	Customers are small/micro business owners with uneven cashflows. MUTH's 1-year loan tenor with bullet repayment eases loan servicing while MGFL, until recently, has focused mainly on a 3-month product.

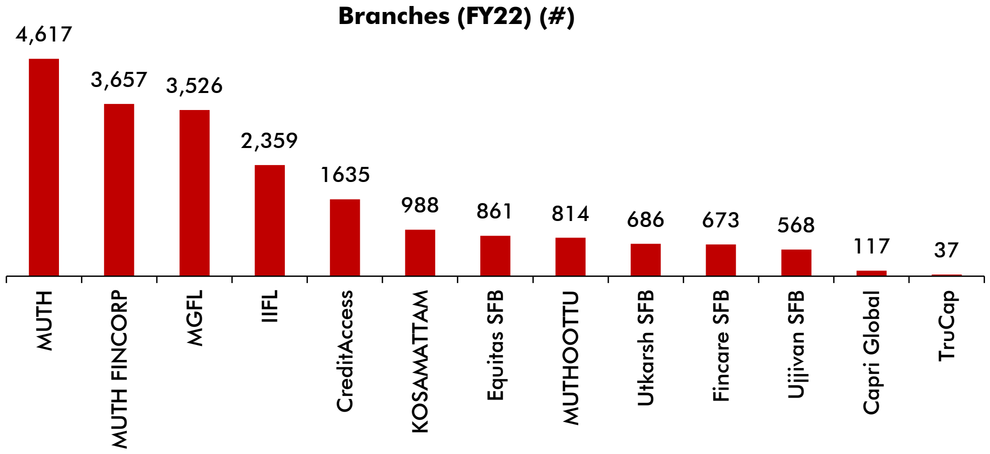
Source: Company, Ambit Capital research, Note: ● - strong, ◕ - Average, ◑ - Relatively Weak, ◔ - Weak

New competition can't sustain on weak economics

New entrants are disadvantaged by high opex, CoB

Large scale gold loan NBFCs have succeeded on back of huge distribution networks and operational efficiency. However, recent entrants lack these critical success factors to compete effectively and sustainably against traditional gold loan NBFCs.

Exhibit 76: Most new entrants lack branch strength, a critical success factor in gold loans



Source: Companies, Ambit Capital research. Note: We have considered branches as of FY22 to keep the comparison standardised as FY23 data in not yet available for all.

Our calculations indicate that at their current scale of operations, most of new competitors' breakeven pricing is at least 320-650bps higher than market leader MUTH. Our conclusion is premised on the assumption that gold loans are scalable/most successful in a standalone branch format as indicated by multiple players. We believe that current cost inefficiencies would make competition from new players unsustainable in the long run. As lenders prioritize profitability over growth, we expect competitive intensity to reduce, thus boding well for incumbent gold loan NBFCs.

Further, our calculations indicate that if MUTH decided to under-cut pricing and still earn 15% ROE, its gold loan pricing would still be lower than total expenses breakeven pricing for most of the other players.

Exhibit 77: Commentary by various companies indicates that standalone branch network is essential to growth in gold loans

IIFL Finance	"Fintechs have started with gold loan home delivery so basically… but having said that **I do not think branches will become irrelevant because many times customer want to go to the branch and see and have a convenience of getting loan in 5 minutes** time and so I think both the models will continue… at least I do not foresee it replacing branches or it will not create a situation where you would not need branches. You still need branches because **what happens is a typical example of a branches it is in a neighbourhood location where we can just walk get your gold and feel safe about it whereas when the gold is picked up from home typically customer does not know where the gold is stored and it takes time to retrieve and get the gold back whenever customers need it.** And our gold loan model is more in a smaller town near the SME or near the shops and small businesses and there are customers also where they can walk in, walk out and there is a comfort developed over here."
Bajaj Finance	"Gold loan it's an interesting business, we've been added for a while, we have come to a conclusion that as an adjunct frame, which means in the branch during the business only takes you that far. **So, we started the test with, quote, unquote standalone gold loan branches the way gold loan company would do. And we've seen significant results, we've seen that it exactly works out then for a leading gold loan player**."

Source: Companies, Ambit Capital research

Exhibit 78: Given the small scale of operations, new entrants' high opex ratios/uncompetitive pricing would prevent them from displacing traditional gold loan NBFCs permanently

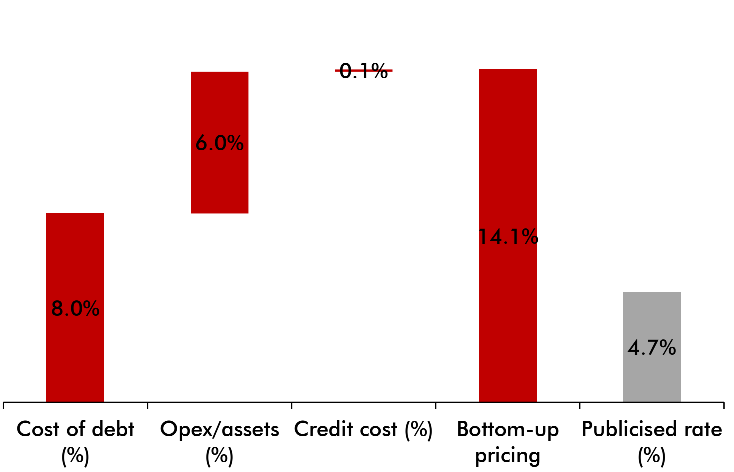
Company	Expenses (% of assets)			Est. pricing to break-even
	Interest expense	Opex***	Credit cost	
Muthoot Finance	5.2%	3.2%	0.1%	8.4%
Ujjivan SFB **(new)**	5.2%	6.0%	0.1%	11.2%
IIFL	6.2%	5.0%	0.1%	11.2%
Equitas SFB **(new)**	5.2%	6.0%	0.1%	11.3%
Manappuram Finance	5.3%	6.2%	0.1%	11.6%
Fincare SFB	5.6%	6.0%	0.1%	11.7%
Capri Global **(new)**	5.6%	6.0%	0.1%	11.7%
Utkarsh SFB **(new)**	5.7%	6.0%	0.1%	11.8%
Credit Access **(new)**	6.2%	6.0%	0.1%	12.3%
Piramal Finance **(new)**	6.2%	6.0%	0.1%	12.3%
Kosamattam**	8.5%	3.8%	0.1%	12.4%
Muthoot Fincorp*	7.2%	6.4%	0.1%	13.7%
Muthoottu Mini	8.0%	6.2%	0.1%	14.3%
TruCap/Danvarsha **(new)**	8.8%	6.0%	0.1%	14.9%

*Source: Companies, Ambit Capital research, *for FY22; **for 1HFY23; ***assuming 6% opex/assets except for Muthoot Finance, Manappuram, Muthoot Fincorp, Kosamattam, IIFL, Muthoottu Mini, rationale being that at small scale, opex/assets tends to be 6% as indicated by small pure play gold loan NBFCs.*

Gold loan fintechs – short-term disruption, not a long-term threat

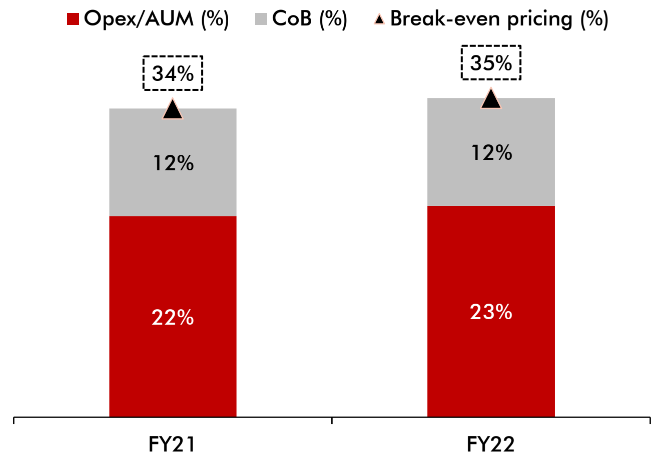
Gold loan fintechs' pricing/growth trade-off is unsustainable. We prove this with two examples. In Mar'22, Fintech-A declared its intention to enter gold loans, setting itself a ₹5bn disbursement target. Assuming Fintech-A's cost of debt at 8%, opex/assets at 6% and negligible credit costs, its publicized pricing of 0.4%/4.7% p.m./p.a. implies the company is losing money in gold loans. In another case, Fintech-B's financials show that opex and borrowing cost implied breakeven pricing is at least 1000bps higher than competitors, making it uncompetitive. Overall, we believe such pricing tactics are common to woo customers but unsustainable as profitability takes precedence.

Exhibit 79: Bottom-up pricing of Fintech-A's gold loan business implies such operations are making losses



Source: Company, Ambit Capital research

Exhibit 80: Even Fintech-B's bottom-up breakeven pricing, as implied by opex and CoB, implies it would find difficult to compete against traditional gold loan players



Source: Ambit Capital research, MCA, VCCEdge, CRISIL.

Valuations have bottomed out

Gold loan NBFCs have de-rated by 40% since peaking at 17.3x/3.1x 1-year forward EPS/BVPS in Nov'21. The de-rating was led by growth headwinds and NIM compression amid increased competition. As a result of such competition, MUTH/MGFL reported 3-year EPS CAGR/FY23 EPS growth of 0-5%/-12% to +13%. However, we believe that valuations have bottomed out as we see initial signs of competitive intensity peaking. This is well reflected in AUM growth uptick coupled with NIM expansion for MUTH in 2HFY23. Further, we also observe gold loan growth deceleration for south-based banks while fintechs continue to struggle with loss-making operations. As new players find it difficult to match industry-leading TAT along with high operational intensity, that too at scale, traditional gold loan NBFCs are well-positioned to overcome competition for the second time in the last decade. Having said that, a valuation re-rating is unlikely unless we see reasons for systemic credit risk aversion at large by lenders.

Valuations react negatively to industry headwinds but tend to bounce back too

Gold loan NBFCs' valuation multiples have a history of correction. In the past, severe corrections have been led by increasing competition/regulatory intervention (67% correction between Jan'13 and Aug'13), gold price crash (51% correction between Feb'15 and Apr'16) and economic/demand slowdown (51% correction between Sep'17 and Oct'18). More recently, gold loan NBFCs' valuations corrected by 40-50% between Nov'21 and Jun'23 due to heightened competition by new entrants, premised on unsustainably low pricing.

Exhibit 81: Gold loan NBFCs' valuations have been through multiple corrections in the past, led by industry headwinds…

Valuation de-rating phases	AUM CAGR (%)	Catalysts
67% b/w Jan'13 and Aug'13	-9%	Increasing competition, regulatory intervention (LTV capping).
51% b/w Feb'15 and Apr'16	4%	Gold price crash leading to asset quality issues as customer started forsaking pledged gold.
51% b/w Sep'17 and Oct'18	11%	Economic, demand slowdown.
40-50% b/w Nov'21 and Jun'23	11%	Heightened competition by new entrants, premised on unsustainably low pricing (teaser rates).

Source: Company, Ambit Capital research

While there have been multiple episodes of severe valuation correction (40-70%), stock valuations have bounced back too. Our reading across the last decade indicates valuation re-rating tends to happen as growth recovers.

Exhibit 82: …but recovered too along with growth recovery and positive sector tailwinds

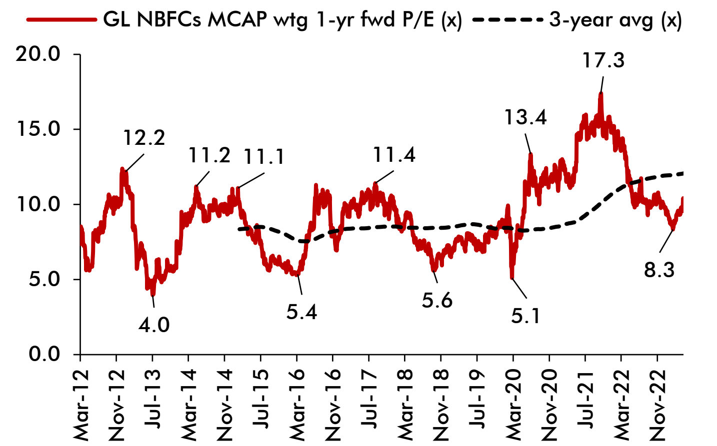
Valuation re-rating phases	AUM CAGR (%)	Catalyst
180% b/w Aug'13 and Feb'15	-5%	Easing signs of competition, easing LTV (increased from 60% to75%).
94% b/w Apr'16 and Sep'17	9%	Pick-up in growth and demonetisation led systemic risk aversion.
209% b/w Oct'18 and Nov'21	18%	Pick-up in growth.

Source: Company, Ambit Capital research

Where are gold loan NBFCs in the cycle?

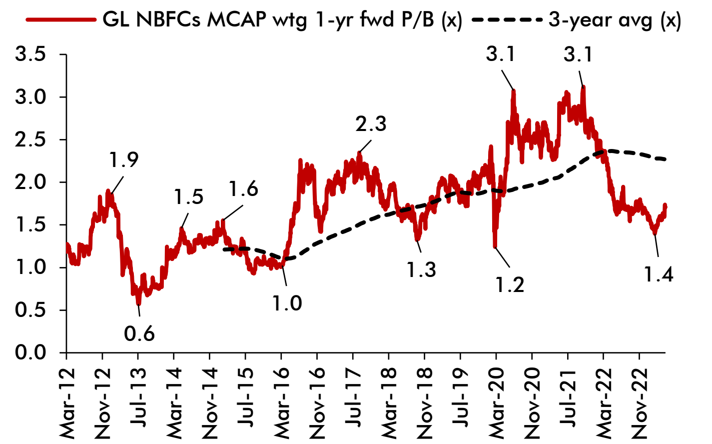
Since peaking out at 17.3x/3.1x 1-year forward EPS/BVPS in Nov'21, gold loan NBFCs' valuation multiples have de-rated by 40%. In the last one year, gold loan NBFCs have underperformed Bank Nifty by 5-24%. Headwinds to AUM growth amid intense price competition led to 3-year EPS CAGR and FY23 EPS growth of 0-5%/-12% to +13% for MUTH/MGFL. We believe gold loan NBFCs are at a juncture where peak competition is behind. This is reflected in sequential AUM pick-up in recent quarters, positive commentary from management/channel checks regarding easing of competition and sequential NIM uptick (for MUTH). Hence, we believe valuations have bottomed out. Having said that, we are of the view that gold loan NBFCs' stock returns would mirror near-term growth trajectory (MUTH EPS FY23-26E: 17%). Valuation multiple re-rating is unlikely unless we see reasons for systemic credit risk aversion at large by lenders.

Exhibit 83: Sector multiples have bottomed out…



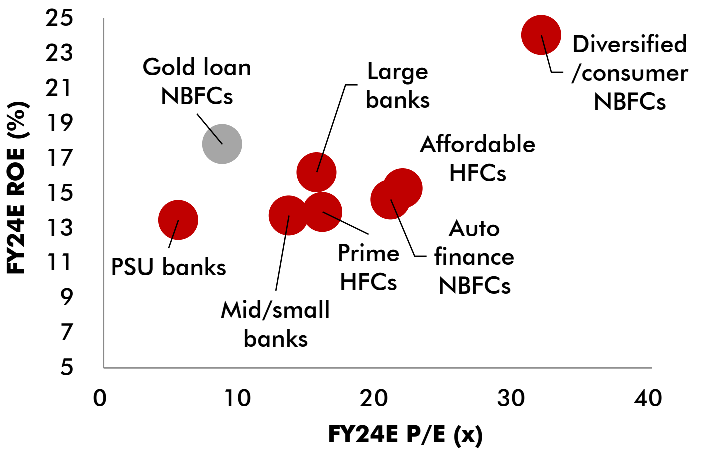
Source: Company, Ambit Capital research. Note: Companies considered are MUTH/MGFL.

Exhibit 84: …but remain well below 3-year average



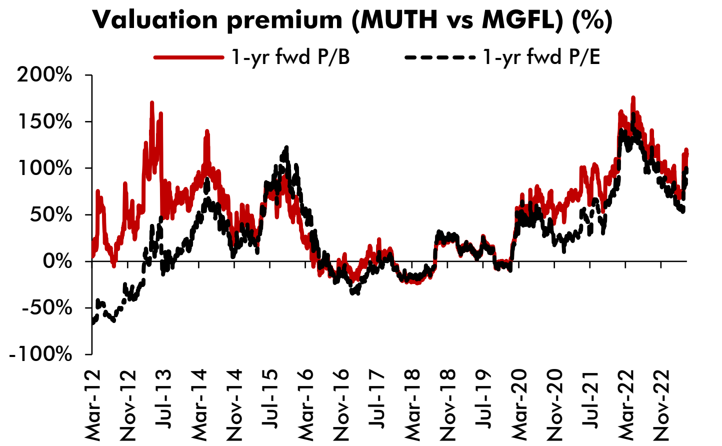
Source: Company, Ambit Capital research. Note: Companies considered are MUTH/MGFL.

Exhibit 85: Gold loan NBFCs are trading at undemanding valuations for their ROE potential vs peers



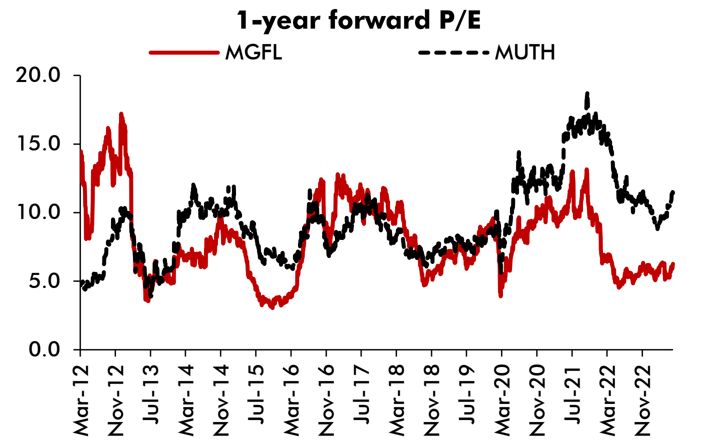
Source: Companies, Bloomberg, Ambit Capital research

Exhibit 86: MUTH's superior business model has translated into expanding valuation premium over MGFL



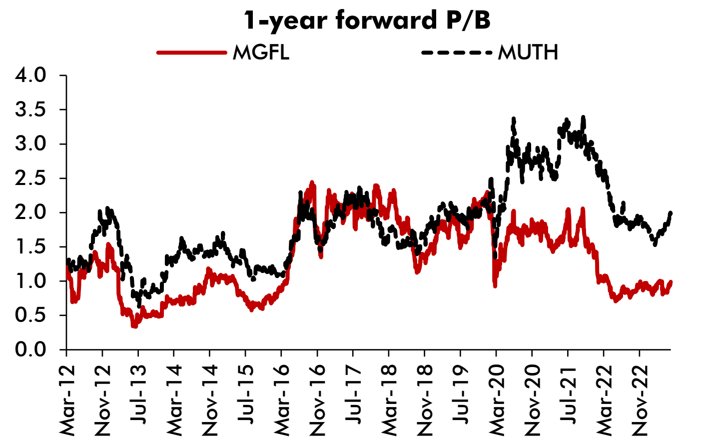
Source: Companies, Bloomberg, Ambit Capital research

Exhibit 87: Valuation de-rating, led by intense competition, has bottomed out



Source: Companies, Bloomberg, Ambit Capital research

Exhibit 88: However, the current economic scenario does not warrant a bull-case valuation of ~3x BVPS



Source: Company, Bloomberg, Ambit Capital research

Gold loan NBFCs better positioned on earnings growth vis-à-vis valuations

Within the broader NBFC space, gold loan companies seem better positioned on earnings growth vis-à-vis valuations (60% discount to most other NBFCs). Gold loan companies have gone through a depressed earnings phase in last 2 years (FY21-23) due to heightened competition. But as growth revives, earnings growth should recover (MUTH EPS CAGR FY23-26E: 17%). While we like NBFCs in other segments too (auto, housing, consumer), we believe their long-term earnings trajectory is full captured in the current valuations.

Exhibit 89: Relative valuations – MUTH's valuations are inexpensive in light of ~18% EPS CAGR and ~19% ROE potential

	Mcap ($bn)	Reco.	Upside/ (downside) (%)	P/E (x)		P/B (x)		EPS CAGR (%)	ROA (%)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E	FY23-25E	FY24E	FY25E	FY24E	FY25E
Bajaj Finance	51.7	SELL	-29	32.5	28.3	6.5	5.4	15.5	4.3	4.1	22.3	21.4
CIFC	10.9	SELL	-25	30.3	25.1	5.2	4.4	18.4	2.4	2.5	19.7	19.9
SBI Cards	9.9	BUY	36	28.4	20.9	6.7	5.3	30.5	5.4	5.7	25.8	28.2
Shriram Finance	7.7	SELL	-18	11.2	10.1	1.3	1.2	3.6	2.7	2.6	12.8	12.8
Muthoot Finance	6.1	BUY	21	11.8	10.3	2.1	1.8	17.9	5.4	5.5	18.6	18.6
MMFS	4.6	SELL	-36	21.9	17.3	2.1	1.9	9.9	1.8	1.9	10.7	12.4
LIC HFC	2.6	BUY	43	5.0	4.6	0.7	0.6	27.2	1.5	1.5	14.9	14.3
Aptus Value	1.5	SELL	1	21.5	18.3	3.3	3.0	16.0	6.9	6.2	16.4	17.4
Aavas Financiers	1.3	BUY	6	24.2	18.9	2.9	2.5	22.3	3.3	3.4	14.3	15.7
Can Fin Homes	1.2	SELL	-39	15.7	13.7	2.3	2.0	10.6	1.8	1.8	16.7	16.6
Home First Finance	0.8	SELL	-19	26.3	21.4	3.2	2.8	19.0	3.4	3.1	13.6	14.7

Source: Companies, Bloomberg, Ambit Capital research

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Muthoot Finance

BUY

INITIATING COVERAGE | MUTH IN EQUITY | July 03, 2023

Personifying 'survival of the fittest'

MUTH best personifies Darwin's survival of the fittest. Its market leadership in distribution and cost efficiency has enabled it to adapt to and survive competition and regulatory changes repeatedly (retail market share: ~15%). FY21-23 EPS CAGR of (-)3.5% was due to intense, price-led competition that hit loan growth and NIMs. Over FY23-26E, we expect 14% AUM CAGR led by 4-5% CAGR in customer base and 8% CAGR in ticket size. With peak competition behind and pricing behavior restored, NIMs should be stable. We expect 18.5% ROE and 17% EPS CAGR over FY23-26E. On a longer-term basis, MUTH's cost leadership is likely to remain a source of durable competitive advantage. Current valuation (11x 1-year fwd EPS) does not fully capture easing competitive pressures and consequent recovery in earnings growth/ROE. Risks: Sustained competition driving lower customer acquisition and decline in gold prices.

Competitive position: STRONG — Changes to this position: STABLE

The old hand

Largest distribution network (4,739 branches in FY23) has aided ~15% market share in retail gold loans. Key competitive advantages, strong brand name in the product, large distribution, fast TAT and superior cost efficiency, have aided average ROE/EPS CAGR of 24%/14% over FY18-23 in a high opex industry.

Growth, earnings are at a hairpin turn; expect 100bps ROE recovery

High competition led to loan growth slowing to 7% CAGR (FY21-23) and ~230bps NIM compression, resulting in (-)3.5% EPS CAGR (FY21-23) and 12% YoY decline in FY23. Despite lower rates by banks, their inferior customer service (higher TAT) has caused retail customers to return to NBFCs. Market leader MUTH's large branch network and superior service levels resulted in sequential growth pick-up in 2HFY23 as well as NIM expansion. We expect AUM growth of ~14% over FY23-26E and stable NIMs, aiding 100bps ROE expansion to 18.5% (FY24-26E).

Enviable efficiency, the key competitive advantage

Due to large scale, MUTH is best positioned on cost absorption. This is reflected in MUTH having opex per account of Rs168, lowest among peers, coupled with highest employee productivity as seen in 437 accounts per employee, highest among peers. Considering the long gestation period to build scale in gold loans, MUTH's cost leadership is likely to remain a source of competitive advantage.

Valuations not yet capturing expected recovery

MUTH trades at 11x 1-year fwd EPS, de-rating 40% since Nov'21 as EPS CAGR collapsed to (-)3.5% (FY21-23). As competitive headwinds abate, we expect 17% EPS CAGR (FY23-26E). TP implies 14x FY24E EPS.

Exhibit 1: Key financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net interest income (Rs mn)	72,626	68,446	81,580	93,156	106,319
Operating profit (Rs mn)	39,543	34,736	42,128	48,326	55,489
Net profit (Rs mn)	39,543	34,736	42,128	48,326	55,489
EPS (Rs)	98.5	86.5	104.9	120.4	138.2
ROA (%)	5.9	4.9	5.4	5.5	5.6
ROE (%)	23.5	17.6	18.6	18.6	18.5
P/E (x)	12.6	14.3	11.8	10.3	9.0

Source: Company, Ambit Capital research

NBFC

Recommendation

Mcap (bn):	Rs498/US$6.1
6M ADV (mn):	Rs606/US$7.4
CMP:	Rs1,240
TP (12 mths):	Rs1,500
Upside (%):	21%

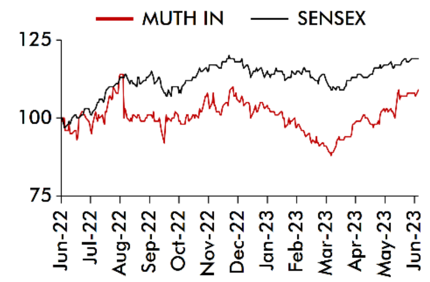
Flags

Accounting:	GREEN
Predictability:	RED
Earnings Momentum:	AMBER

Catalysts

- AUM growth recovery to 14% in FY24E (vs 4% in FY23) led by easing competition and market leadership.
- FY24E EPS growth of 21% YoY (vs FY21-23 CAGR of -3.5%) led by stability of current NIMs (4QFY23) aided by pricing power.

Performance



Source: ICE, Ambit Capital Research

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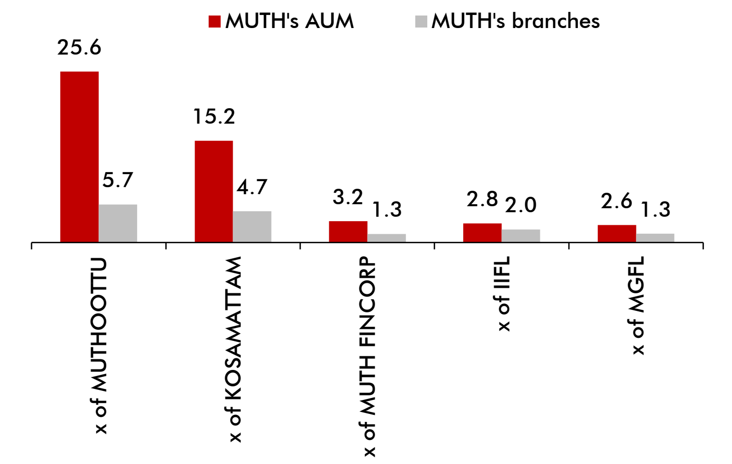
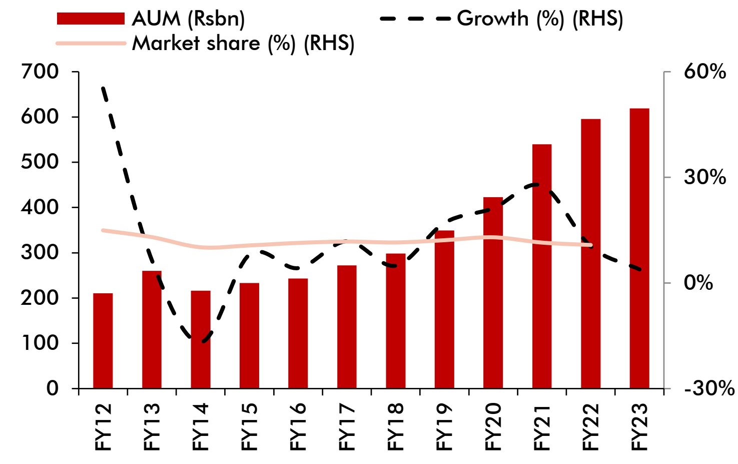
Narrative in charts

Exhibit 2: MUTH is the largest NBFC in gold loans



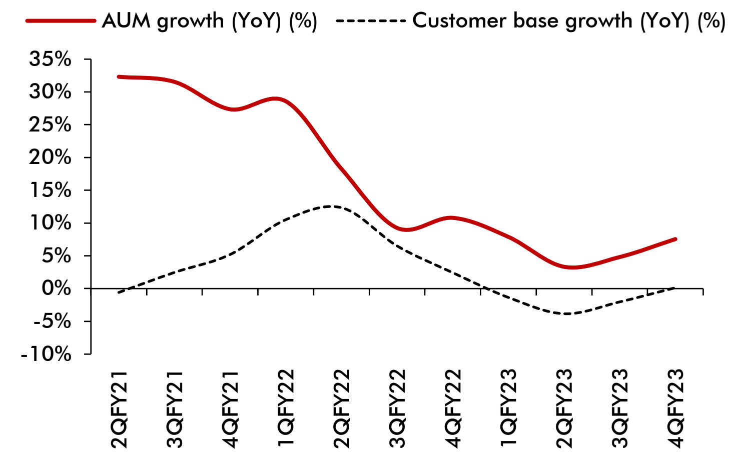
Source: Companies, Ambit Capital research

Exhibit 3: AUM has grown at 16% CAGR (FY18-23)



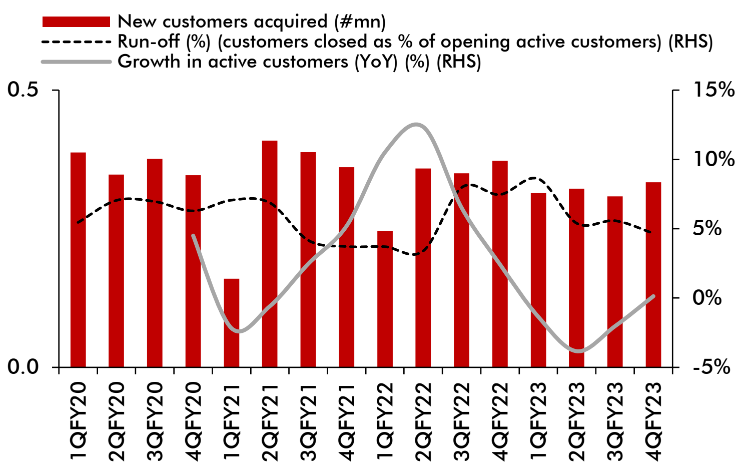
Source: CRISIL, Companies, Ambit Capital research

Exhibit 4: Growth has been impacted recently by high competition but is expected to recover



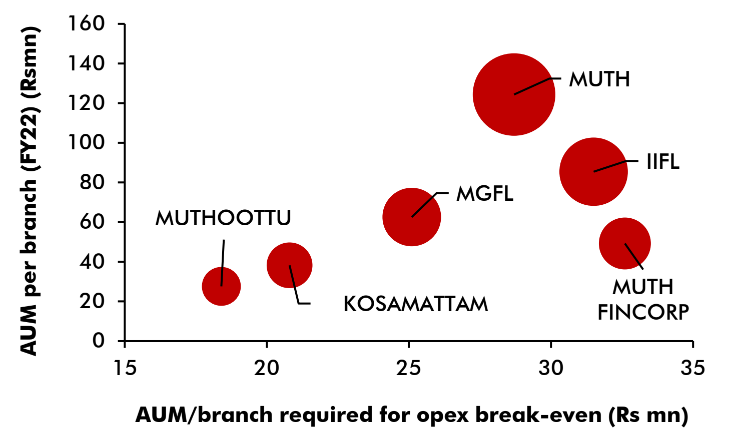
Source: Company, Ambit Capital research

Exhibit 5: With peak competition and auctions behind, customer run-off has reduced in last few quarters, supporting customer base growth



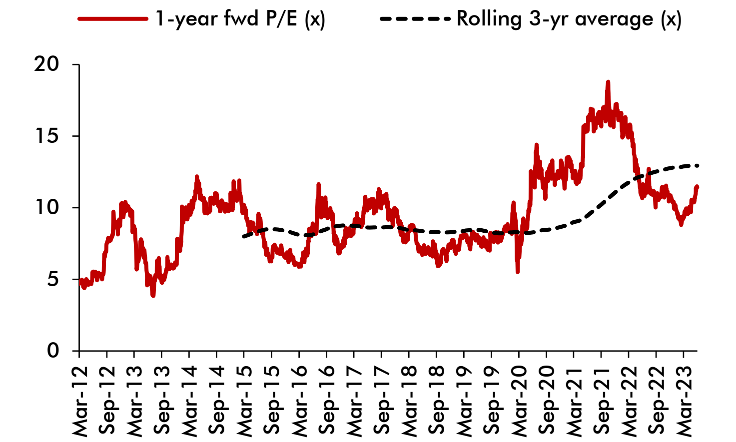
Source: Company, Ambit Capital research

Exhibit 6: MUTH operates far above its break-even economics, aiding competitiveness



Source: Company, Ambit Capital research

Exhibit 7: Valuations have corrected in the last 18 months but do not reflect potential earnings recovery ahead



Source: Company, Bloomberg, Ambit Capital research

Undisputed leader among NBFCs

Muthoot Finance (MUTH) was founded by Mr. Ninan Mathai Muthoot in 1887 as a trading business. In 1939, his son, Mr. M. George embarked on the gold loan business. Since then, MUTH has emerged as the largest gold loan NBFC and one of the leading players in the overall space, including banks. Currently, the company is headquartered in Kochi, Kerala and is 73.35% owned by the promoters. Operations are primarily based in the south, which accounts for 60% of the business. The company is managed by promoters with George Alexander Muthoot being the MD. Various other promoter-family members are executive directors. The company's average ticket size is Rs76k (FY23), much lower than banks (>Rs100k). Quick turnaround time (TAT), large distribution network and efficient operations have enabled ~16% AUM CAGR (FY18-23) along with competitive pricing. As a result, over FY18-23, MUTH has delivered EPS CAGR/average ROEs of 14%/24%.

Golden roots

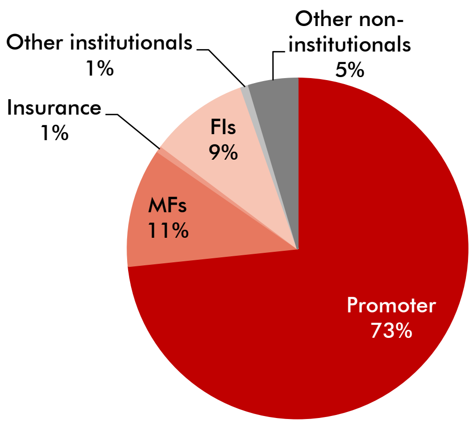
MUTH's roots in the gold loan business go back 85 years when M. George started the business. Until at least FY07, the business was concentrated in the south, accounting for 86% of the total branches. Majority of the company is owned and operated by the Muthoot family. The company website specifically lists out the newer generation of Muthoots being designated and deployed across Muthoot group.

Exhibit 8: MUTH has been in gold loan business for ~85 years

Year	Comments
1939	Commenced gold business
2001	Received RBI license to function as an NBFC.
2007	Accorded as SI-ND-NBFC status.
2008	Converted into a Public Limited Company
2011	PE Investments of Rs2556.85mn in the company by Matrix partners, LLC The Welcome Trust, Kotak PE, Kotak Investments and Baring India PE.
2012	Raised money through successful IPO of Rs 9.01bn.
2015	Acquired 51% equity shares of Colombo-based PLC, Asia Asset Finance (AAF). Raised Rs 4.18bn through Institutional Placement Programme (IPP).
2016	Acquired 46.83% of the capital of Belstar Investment and Finance Private Limited (BIFPL) in July 2016. Acquired 79% of the equity capital of Muthoot Homefin (India) Limited (MHIL). Acquired Muthoot Insurance Brokers Private Limited (MIBPL) as a wholly-owned subsidiary in June 2016.
2017	Increased stake in AAF to 60%. Increased stake in MHIL to 88.27%. Increased stake in BIFPL to 64.60%, thus making it a subsidiary.
2018	Increased stake in BIFPL to 66.61%. Increased stake in MHIL to 100% making it a wholly-owned subsidiary.
2020	Increased stake in M/s. Asia Asset Finance PLC to 72.92%.
2022	Raised fresh equity of Rs2,750mn in Belstar Microfinance Limited, resulting in reduction of Muthoot Finance's equity stake to 60.69%.

Source: Company, Ambit Capital research

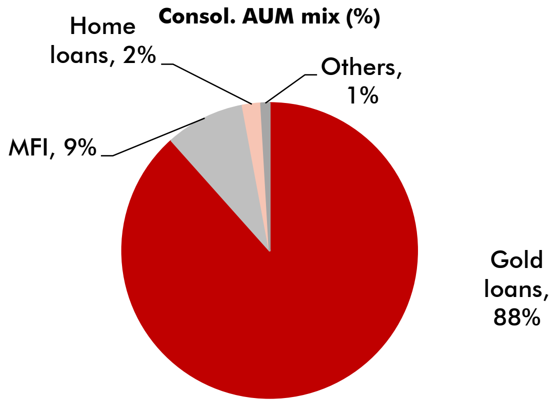
Exhibit 9: A promoter-owned, promoter managed company



Source: Company, Ambit Capital research

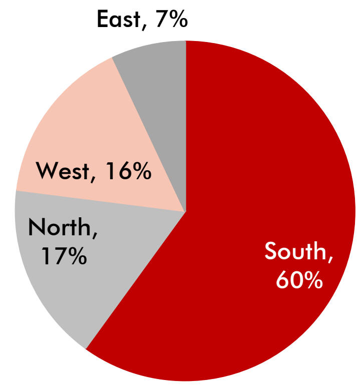
Though MUTH dominates the gold loan industry with ~15% market share in the retail gold loan space, it has diversified into other lending businesses too. Despite this, 88% of consolidated loan assets come from the gold loan business.

Exhibit 10: Even though MUTH has diversified into other segments, gold loan dominates the business mix



Source: Company, Ambit Capital research

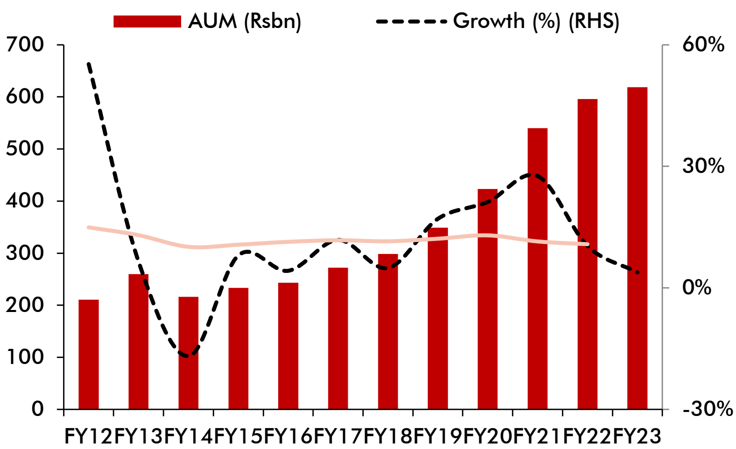
Exhibit 11: Business is south-dominated, though share of west/north markets has been increasing



Source: Company, Ambit Capital research

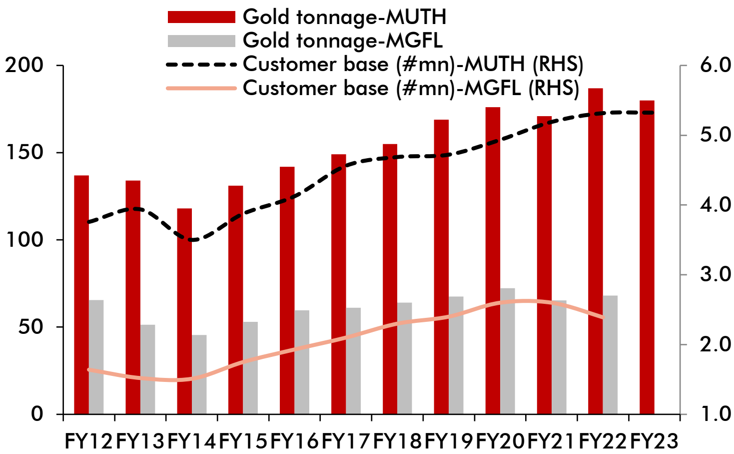
Over FY18-23, the company's AUM increased at 16% CAGR. Among the pure-play gold loan NBFCs, MUTH biggest competitive advantage is its efficiency metrics, which has enabled industry-leading ROEs of ~22% over FY13-23. MUTH also boasts of the largest branch distribution network among NBFCs, having 4,617/4,739 branches as of FY22/23.

Exhibit 12: AUM has grown at 16% CAGR (FY18-23)…



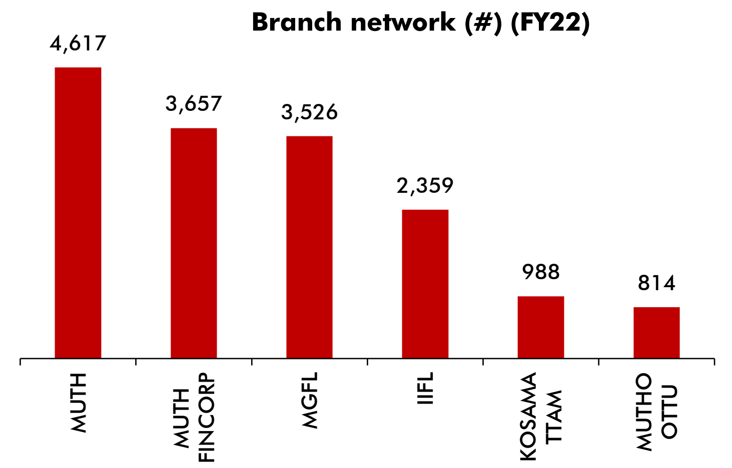
Source: Company, Ambit Capital research

Exhibit 13: …led by higher volume growth vs nearest competitor



Source: Companies, Ambit Capital research

Exhibit 14: MUTH boasts of the largest branch network among peers…



Source: Companies, Ambit Capital research

Exhibit 15: …which has yielded superior opex metrics, leading to 22% average ROE over the last decade

ROE tree (%)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Net op. income	**8.5%**	**9.8%**	**12.0%**	**14.5%**	**13.5%**	**13.4%**	**12.1%**	**10.8%**	**9.6%**
Total opex	4.4%	4.3%	4.4%	4.3%	4.5%	4.0%	3.1%	2.7%	3.0%
Operating profit	**4.1%**	**5.5%**	**7.7%**	**10.1%**	**9.0%**	**9.4%**	**9.0%**	**8.1%**	**6.6%**
Provisions	0.1%	0.6%	1.0%	0.8%	0.1%	0.2%	0.2%	0.2%	0.1%
RoA	**2.6%**	**3.0%**	**4.1%**	**5.8%**	**5.7%**	**6.8%**	**6.5%**	**5.9%**	**4.9%**
Leverage	5.6	5.0	4.7	4.3	3.9	4.1	4.2	4.0	3.6
RoE	**14.3%**	**15.1%**	**19.4%**	**24.8%**	**22.4%**	**28.3%**	**27.8%**	**23.5%**	**17.6%**

Source: Company, Ambit Capital research

Exhibit 16: SWOT analysis – large distribution, TAT, efficiency, negligible credit costs outweigh cyclical competitive headwinds

Strengths

- **Large distribution network:** Amongst a broader set of lenders, including banks, MUTH has one of the largest branch network, which helps in sourcing business.
- **Quick turnaround time (TAT):** MUTH leads in customer TAT (5-30mins), which many banks have said is unmatchable. Banks tend to have a TAT of 1-2 hours.
- **Low unit cost economics:** MUTH has the lowest opex/assets. Even on absolute basis, MUTH has the highest cost absorption ability.
- **Brand equity:** A typical gold loan customer, seeking quick TAT, has a high recall for MUTH given the company's market leading positioning. Such brand equity has enabled ~15% market share excluding agri loans.
- **Negligible credit losses:** Underlying collateral is gold (highly liquid, generally appreciates in value) along with minimum 25% customer equity, which restricts credit losses to negligible levels (0-10bps).

Weaknesses

- **Cyclical business:** Gold loans tend to thrive during periods of systemic risk aversion. Covid is the most recent example. Hence, industry growth trend is cyclical rather than a secular.
- **South-concentration:** MUTH's operations are concentrated in south. Hence, region-specific disruptive events could impact business for MUTH.
- **Regulatory oversight:** Gold loan NBFCs, including MUTH, are required to take permission from the RBI for opening branches. This could be a drag on growth if permissions are not received timely.

Opportunities

- **Geographic diversification:** Currently, majority of the business (60%) is based out of south India. Other parts of the country are witnessing a surge in gold loans, which can be a growth/diversification opportunity for MUTH.
- **Non-gold loan products:** Currently, 88% of business comes from gold loans. However, MUTH has demonstrated its intention to do other products such as MFI, home loans, CV loans, which have reasonable growth potential.

Threats

- **Multiple Muthoots may dilute branch equity:** While MUTH is the largest gold loan NBFC, there are 3-4 other companies with a very similar brand name. This could present a potential threat to MUTH's brand equity in the long term.
- **Competition:** Highly lucrative product economics keep attracting competition, which impacts growth/profitability for incumbents. Even if few of the new entrants are able to sustain operations profitably, it would mean higher competition for the incumbents, including MUTH.
- **Un-related business interests:** Outside of the standalone entity (gold loans) and other lending operations, Muthoot Group has interest in real estate, hospitality, education. This has potential to dilute management's focus on the gold loan business.

Source: Company, Ambit Capital research

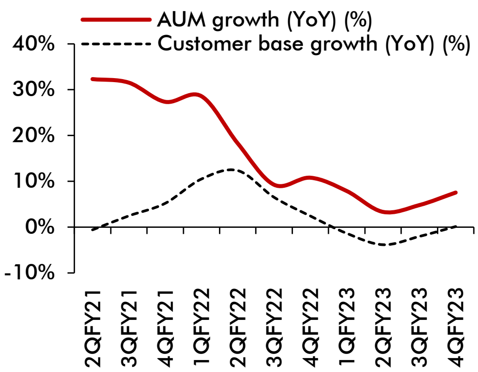
Easing competition to revive growth, ROE

MUTH's AUM growth decelerated to 3-8% YoY in FY23 led by fierce price-led competition. This also impacted MUTH's NIMs to the extent of 200-300bps. However, with peak competition behind, we see recovery green shoots. This is reflected in (1) growth pick-up in 2HFY23, (2) customer run-off reducing to 5-6% vs 7-9% 2-3 quarters ago and (3) gold loan growth deceleration for south-based banks. Being a market leader along with an enviable distribution network and superior customer service would enable 14% AUM CAGR (FY23-26E) vs 7% CAGR (FY21-23). Recent trends also indicate restoration of pricing sanity in the industry, leading to sequential NIM improvement in 2HFY23. Over FY24-26E, we expect stable NIMs/spreads of 10.7%/8.4%, +100-120bps YoY, supporting ~100bps ROE expansion to 18.5% over FY24-26E.

MUTH is past the peak competition; recovery green shoots visible

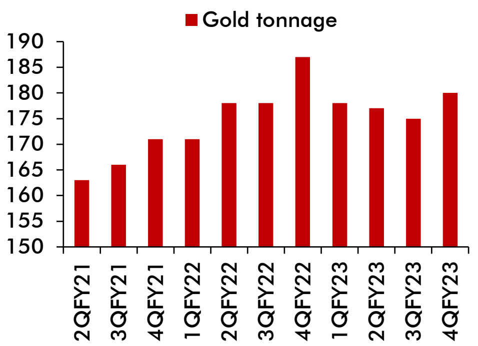
In the last two years, gold loan NBFCs'/MUTH's AUM growth has been prone to intense competition from other lenders, premised on low pricing (teaser rates) by existing as well as new players. MUTH's AUM growth decelerated from a peak of 32% YoY in 2QFY21 to a low of 3.3% in 2QFY23. South-based gold loan NBFCs have been more impacted because (1) industry concentration is high in south (2) south-based banks have been aggressive in gold loans vs non-gold loan products.

Exhibit 17: Growth has been impacted recently…



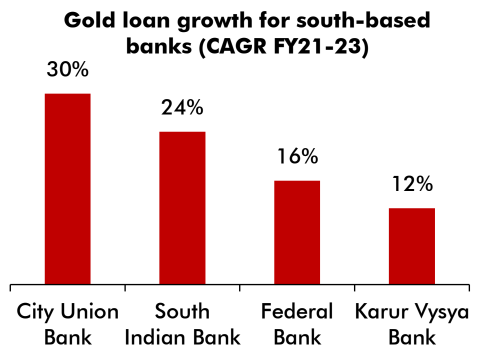
Source: Company, Ambit Capital research

Exhibit 18: …as customers have been poached by competitors, leading to tonnage decline



Source: Company, Ambit Capital research

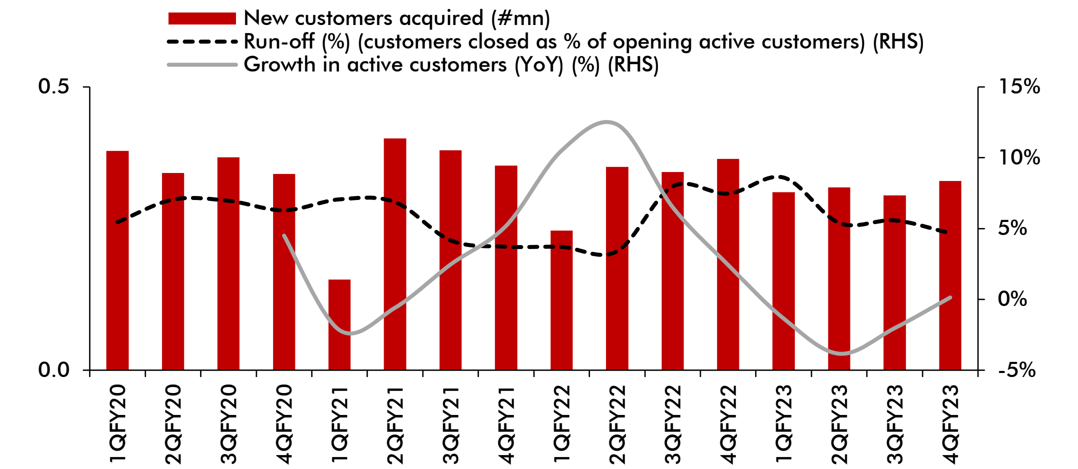
Exhibit 19: South-based banks have been aggressive in gold loans



Source: Companies, Ambit Capital research

We believe that peak competition for gold loan NBFCs is now behind as reflected in (1) growth uptick in recent quarters, (2) gold loan growth deceleration for south-based banks, and (3) customer run-off easing to 5-6% in last 3 quarters vs 7-9% during 3QFY22-1QFY23 due to lower auctions. Subsiding aggression by new players (including fintechs) as they prioritize profitability over growth as well as new customer addition would be additional tailwinds. In this context, we believe market leader MUTH stands to be the foremost beneficiary given its large distribution and competitive industry positioning.

Exhibit 20: With auctions and peak competition behind, customer run-off has reduced in the last few quarters, supporting customer base growth

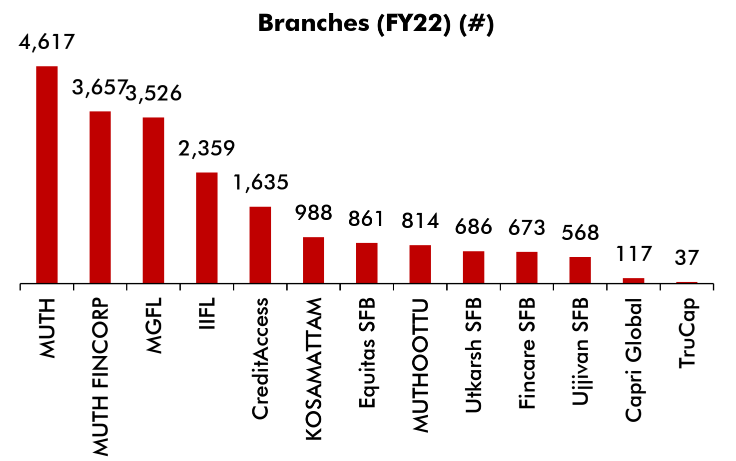


Source: Company, Ambit Capital research

MUTH's scale is unmatchable; aids in overcoming competition

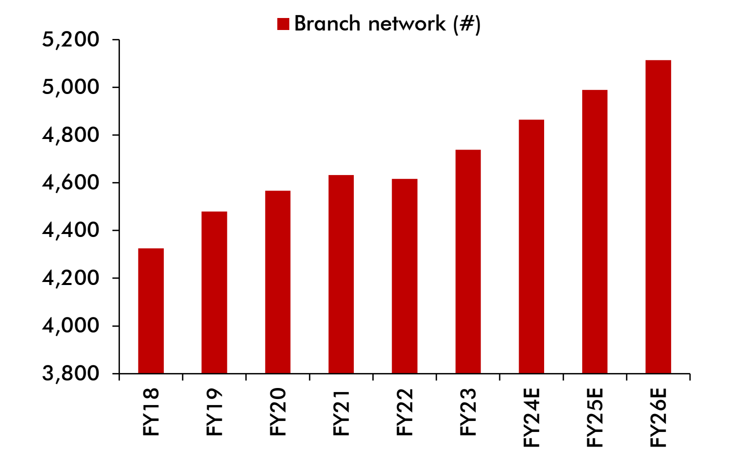
As highlighted in the industry section of this report, having a branch network aids market positioning. In a high touch-and-feel business model, a larger branch network implies better customer reach. In this context, MUTH is most strongly positioned given it has the largest branch network among incumbents as well as new entrants.

Exhibit 21: MUTH boasts of the largest branch network among new competitors offering gold loans



Source: Companies, Ambit Capital research

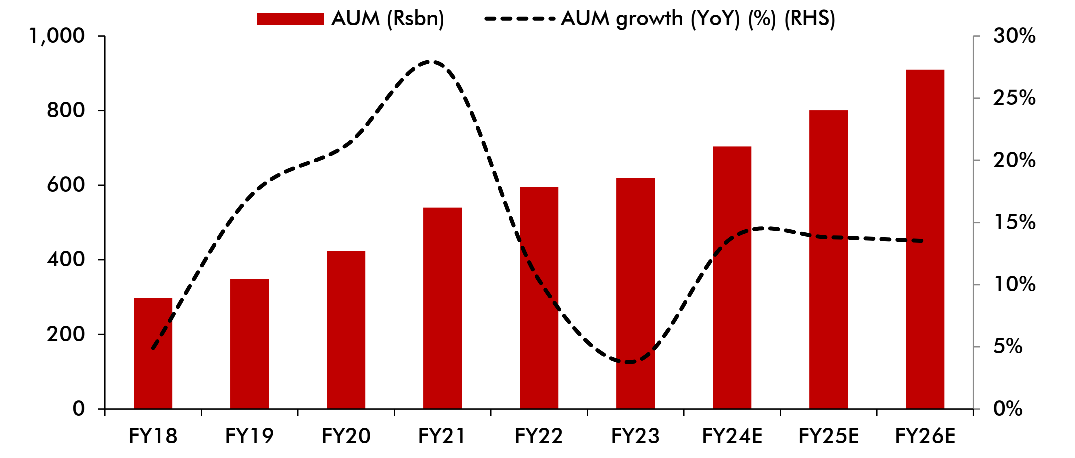
Exhibit 22: We are building addition of 125 new branches annually



Source: Company, Ambit Capital research

MUTH has the largest customer base among NBFCs. For perspective, MUTH's customer base is 2.1x/3.4x of MGFL/IIFL, which are immediate competitors in terms of AUM size. We expect its customer base to grow at 5% CAGR over FY23-26E, led by reduction in competitive intensity.

Exhibit 23: We expect AUM CAGR of 14% (FY23-26E) led by new customer acquisition, lower run-off/auctions and increase in average ticket size



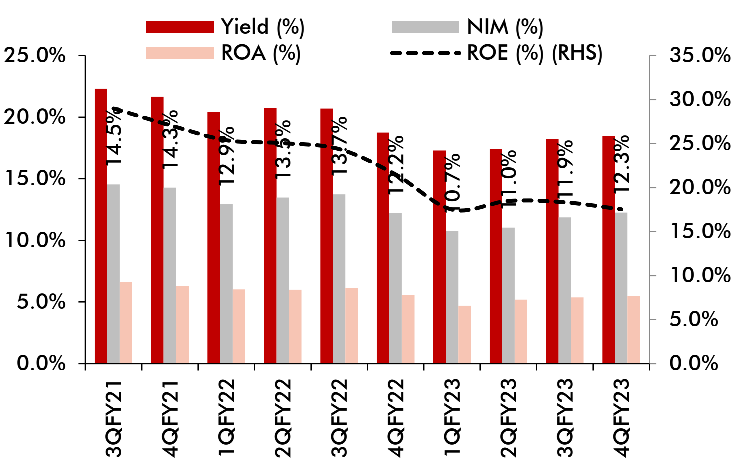
Source: Company, Ambit Capital research

In light of our industry growth expectation of 12-13% over FY23-27E, we expect MUTH's AUM to grow at ~14% CAGR (FY23-26E), implying market share gains hereon. As noted before, we believe MUTH has about 7-8% customer market share in total MSMEs, which it has been able to defend over the last decade.

Expect ROE recovery to 18.5%, led by stable NIMs

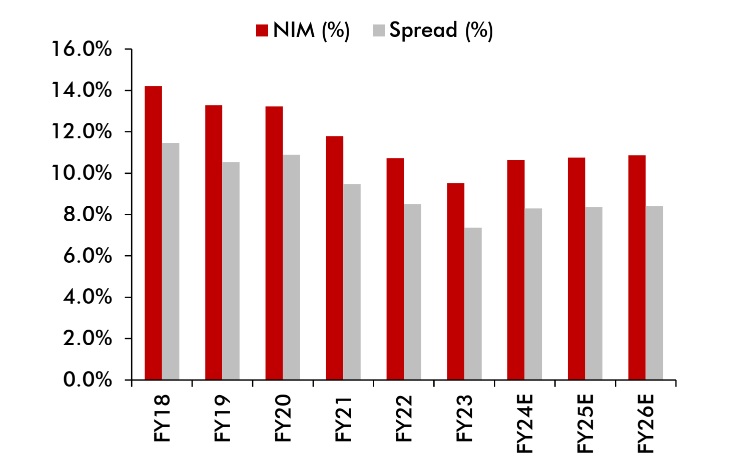
MUTH's NIMs were affected in 4QFY22 and 1QFY23 because of the pricing competition. However, with competition easing, NIMs have been on an upward trajectory for the last 3 quarters, which also supports our view on sustained growth recovery. Over FY23-26E, we are building stable spreads/NIM, similar to 4QFY23. We believe MUTH is positioned well on NIMs because of high asset churn (average tenor: 5-6 months), coupled with pricing power on fresh disbursements.

Exhibit 24: With pricing sanity returning to the market, MUTH's NIMs have been recovering



Source: Company, Ambit Capital research

Exhibit 25: Expect current NIMs (4QFY23) to be stable over FY24-26E



Source: Company, Ambit Capital research

Trust, scale benefits breed competitiveness

MUTH's investment in branches and branding has helped in building customer trust/brand equity and thus, scale. As a result of its large scale operations, MUTH is best-positioned among peers on cost absorption. This is most clearly reflected in MUTH having opex per account of Rs168, the lowest among peers, coupled with highest employee productivity as seen in 437 accounts per employee, the highest among peers. This has led to lowest opex/assets of 3.2% vs 4-6.4% for peers. Such cost leadership positions MUTH most beneficially among peers to deal with competitive adversities. For instance, MUTH's currently operates at 4.3x of its break-even AUM vs 1.5-2.7x for peers. Given MUTH's lowest CoB among key competitors and strong brand equity, we expect cost leadership to be a durable advantage.

MUTH's has gained scale on back of customer centricity

As highlighted in the industry section, we believe MUTH has been relatively more customer centric vs nearest competitor MGFL. This is well reflected in company taking care of customer proximity, brand association, providing sense of security at the branch where gold is kept and ease of repayment.

Exhibit 26: Customer centricity has been critical to MUTH's strong brand equity

	MUTH	MGFL	Comments:
Distribution	●	◕	Gold loan is a business of trust and thus, closer proximity to customer is better. In this regard, MUTH's large branch network provides customer the comfort of access to gold and aids trust.
Brand recall	●	◕	MUTH has one of the biggest movie actors as its brand ambassador. Branding also helps in customer association and ultimately customer trust.
Branch outfit	◕	◑	Aesthetically, MUTH's branches are better designed. Branch visits clearly indicate higher security at a MUTH branch vs MGFL. Higher sense of security provides comfort to the customer.
Repayment terms	◕	◑	Customers are small/micro business owners with uneven cashflows. MUTH's 1-year loan tenor with bullet repayment eases loan servicing while MGFL, until recently, has focused mainly on a 3-month product.

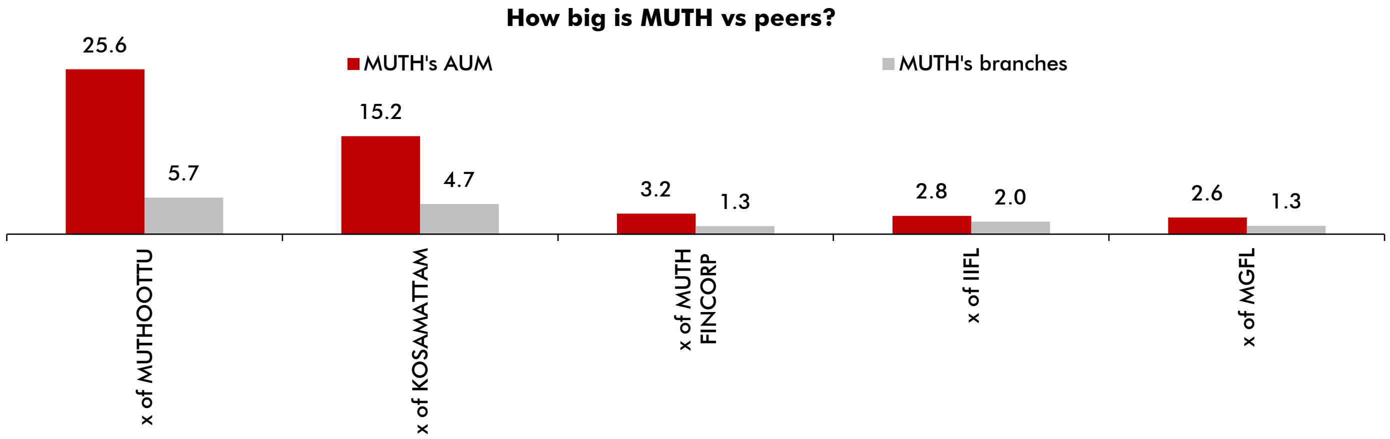
Source: Company, Ambit Capital research, Note: ● - strong, ◕ - Average, ◑ - Relatively Weak, ◔ - Weak

We believe that being customer centric has aided MUTH's scale as customers have preferred it over others. Consequently, larger scale has resulted in better cost absorption.

Large scale has widened the cost absorption net, leading to lowest opex

MUTH is the most efficient gold loan NBFC with opex/AUM/branch of 3.2% vs 4-6.4% for peers. MUTH's biggest advantage is scale. Its AUM/branch count/customer base is 3-26x /1.3-5.7x/2-19x of peers, which allows MUTH to distribute fixed costs over a larger number of branches and customers.

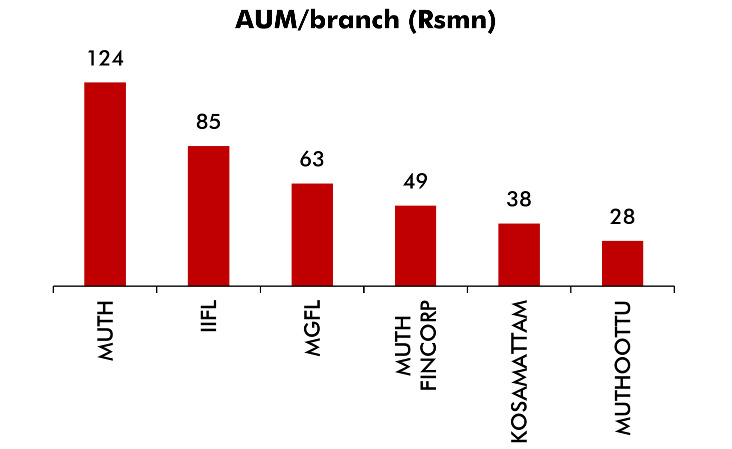
Exhibit 27: MUTH is the largest NBFC in gold loans. MGFL, the 2nd largest gold loan NBFC, is a distant competitor



Source: Companies, Ambit Capital research

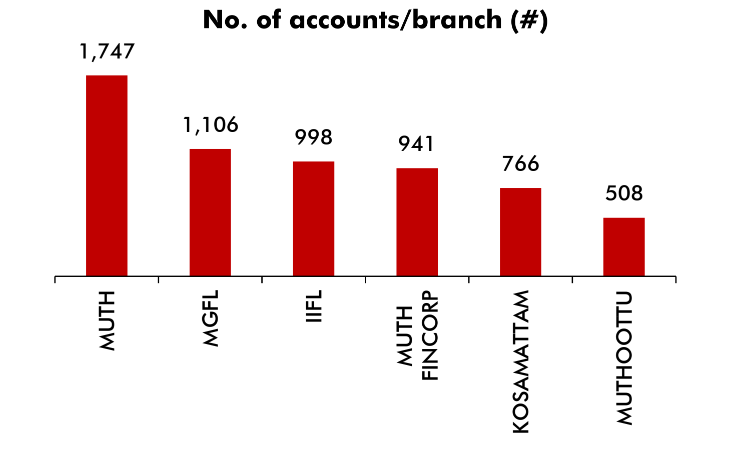
MUTH's high cost absorption ability is visible in number of accounts/branch being 58-244% higher vs peers and fixed opex/account/branch being 35-40% lower vs most peers.

Exhibit 28: MUTH's productivity and higher ticket size have yielded higher AUM per branch



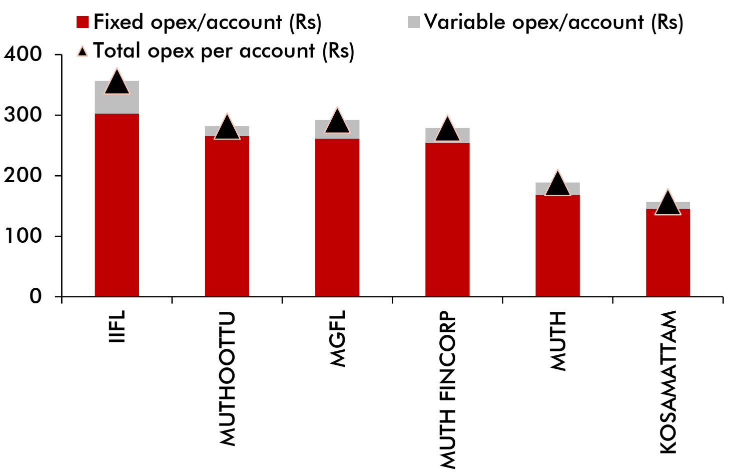
Source: Companies, Ambit Capital research

Exhibit 29: Highest throughput enables MUTH to distribute cost over a larger canvas



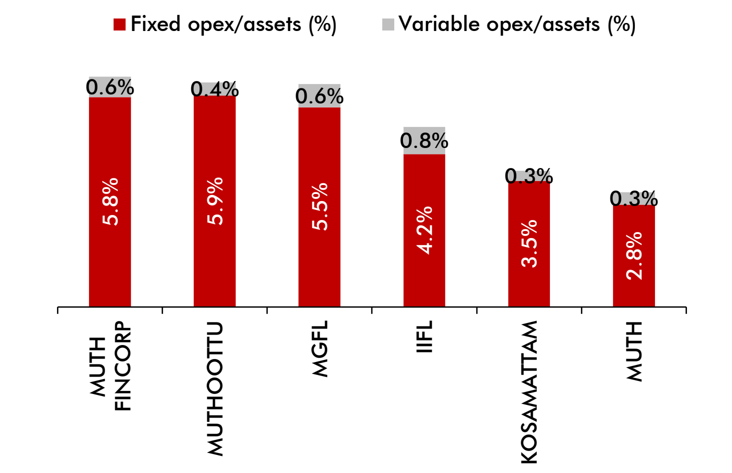
Source: Companies, Ambit Capital research

Exhibit 30: MUTH has one of the lowest ratios of fixed opex per account



Source: Companies, Ambit Capital research

Exhibit 31: High resource productivity and low unit costs have enabled lowest opex for MUTH

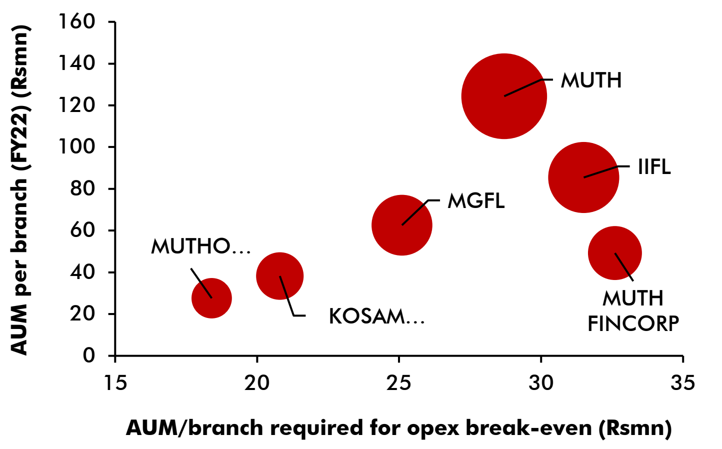


Source: Companies, Ambit Capital research

Superior economics yield maximum wherewithal to defend against adversities

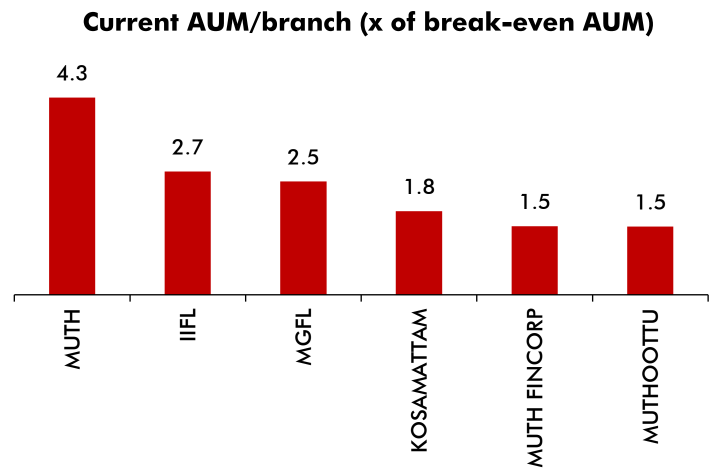
Our break-even analysis across multiple scenarios indicates that MUTH's business model is best positioned to deal with adversities, for instance, severe competition such as one witnessed in last 1-2 years. During FY21-23, MUTH faced 230bps of ROA compression, lower than 280bps for MGFL, due to price competition-led pressure on NIM. The impact for MUTH was cushioned by lower opex. Given MUTH's scale, it is operating at 4.3x of its total opex break-even requirement compared to 1.5-2.7x for peers.

Exhibit 32: MUTH's operates far above its breakeven



Source: Companies, Ambit Capital research. Note: Size of the bubble represents the size of AUM per branch.

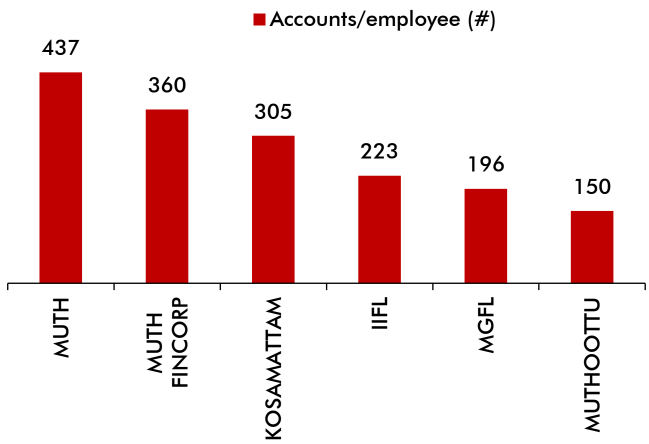
Exhibit 33: Highest current-to-breakeven AUM/branch implies MUTH has most room to tolerate adverse competition



Source: Companies, Ambit Capital research

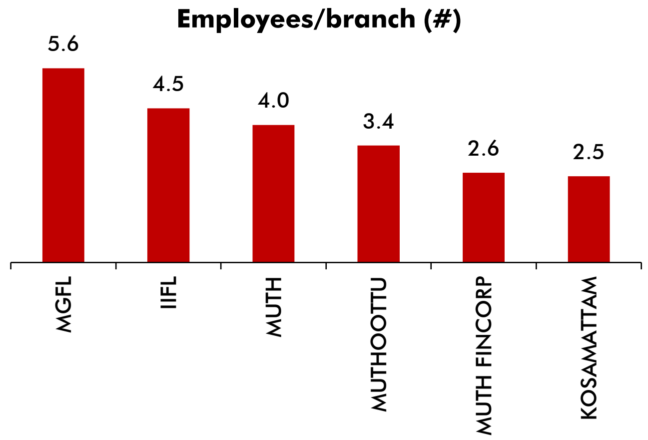
On employee productivity too, MUTH scores the highest as indicated by number of accounts handled per employee being 21-192% higher than peers. We note that, typically, gold loan NBFCs employ 3-6 staff per branch.

Exhibit 34: MUTH's employee productivity is the highest…



Source: Companies, Ambit Capital research

Exhibit 35: …while manpower deployment per branch is lower than other large peers

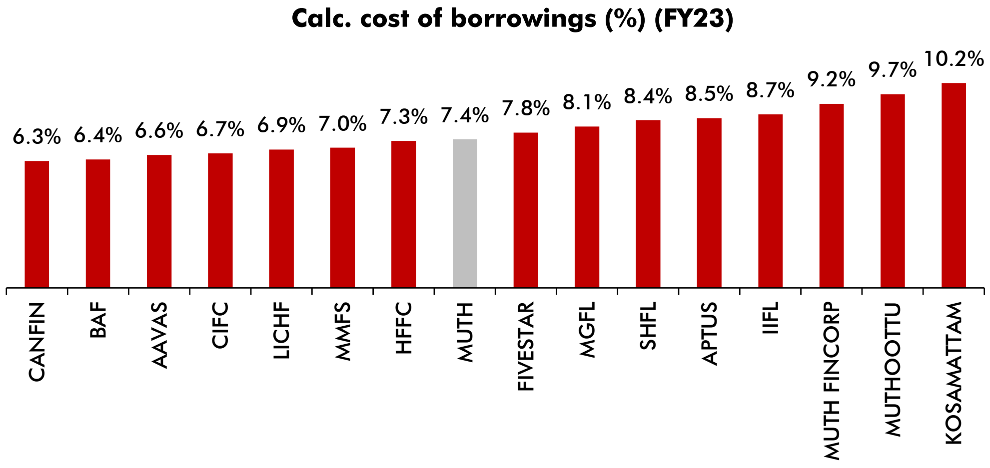


Source: Companies, Ambit Capital research

Amongst gold loan NBFCs, MUTH has a relative CoB advantage

MUTH's borrowing cost is competitive vs other NBFCs and most competitive vs other gold loan NBFCs.

Exhibit 36: MUTH has a competitive borrowing costs amongst the broader NBFC space



Source: Companies, Ambit Capital research

Breakeven analysis reveals MUTH's cost leadership advantage

As shown in our industry section, most of new competitors' breakeven pricing is at least 320-650bps higher than MUTH, mainly due to operational efficiency. In view of the long gestation period to build scale in gold loans, we believe competitors will take a very long time to bridge such an efficiency gap. Hence, MUTH's cost leadership is likely to remain a source of durable competitive advantage, aiding its competitiveness.

Consensus is underestimating recovery

MUTH's growth collapsed to <10% YoY since 3QFY22 due to intense price competition. As a result of concerns around growth, valuation multiples (11x 1-year fwd EPS) de-rated by 40% since Nov'21. As competitive headwinds abate, we expect MUTH's market leadership/brand equity in gold loans to aid AUM CAGR of 14% (FY23-26E) vs 7% CAGR (FY21-23). Along with growth recovery, MUTH demonstrated NIM expansion in recent quarters. Over FY24-26E, we expect NIMs/spreads to remain at current levels, aiding ROE recovery to 18.5%. We expect EPS CAGR of 17% (FY23-26E) vs 5% CAGR (FY20-23). Our TP of Rs1,500 implies 14x FY24E EPS and 21% upside, largely driven by earnings growth. Valuation re-rating is unlikely unless we see reasons for systemic credit risk aversion at large by lenders. Risks to our call: Sustained competition leading to lower customer acquisition and decline in gold prices.

Expect recovery as headwinds abate; EPS 3-9% higher than consensus

While we expect gold loan industry to continue to grow at 12-13% CAGR over FY23-27E, we believe MUTH can grow at a higher rate (FY23-26E CAGR: 14%) as growth revives amid peaking competition. Further, we expect 100bps ROE expansion (average FY24-26E: 18.5%) led by stable NIM/spreads. Prefer MUTH>MGFL due to better execution, owing to lower CoB, lower opex, stronger market positioning/brand equity and higher resilience to competitive headwinds. MUTH also gives better visibility on management succession.

Exhibit 37: Expect AUM CAGR to revive to 14% (FY23-26E) along with stable NIM, aiding 100bps ROE expansion

	FY21	FY22	FY23	FY24E	FY25E	FY26E	Comments
Assumptions							
YoY AUM growth	27.6%	10.4%	3.8%	13.8%	13.8%	13.5%	Expect 14% AUM CAGR (FY23-26E) led by easing competition and higher customer retention.
NIM (calc.)	11.8%	10.7%	9.5%	10.6%	10.7%	10.9%	We expect current NIMs to stay stable amid reducing competitive intensity and MUTH's market leadership and pricing power.
Opex to income (%)	25.9%	25.1%	30.9%	29.2%	28.8%	28.4%	Opex ratios are expected to remain stable.
Opex to asset ratio (%)	3.1%	2.7%	3.0%	3.1%	3.1%	3.1%	
Credit cost (%)	0.2%	0.2%	0.1%	0.2%	0.2%	0.2%	Credit costs are expected to remain stable.
Output (Rs bn)							
AUM	540	596	619	704	801	910	
NII	66	71	67	80	91	104	
Operating profit	51	54	47	58	66	76	
Net profit	37	40	35	42	48	55	
EPS (Rs)	93	99	87	105	120	138	
BVPS (Rs)	380	457	525	603	694	797	
ROA (%)	6.5%	5.9%	4.9%	5.4%	5.5%	5.6%	
ROE (%)	27.8%	23.5%	17.6%	18.6%	18.6%	18.5%	

Source: Company, Ambit Capital research

Exhibit 38: Ambit estimates are 3-9% higher than consensus led by higher AUM growth as well as stable NIMs

	Ambit estimates			Consensus estimates			Deviation		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
AUM (Rs bn)	717	815	923	700	786	873	2%	4%	6%
AUM growth (%)	13%	14%	13%	11%	12%	11%	276bps	123bps	231bps
Revenue (Rs bn)	81.6	93.2	106.3	79.6	89.8	99.9	2%	4%	6%
PAT (Rs bn)	42.1	48.3	55.5	40.4	45.6	51.5	4%	6%	8%
EPS (Rs)	105	120	138	101	115	127	3%	5%	9%

Source: Company, Bloomberg, Ambit Capital research

Our TP of Rs1,500 is based on assumptions discussed above and cost of equity (Ke) of 14% (vs. 13.3-13.5% for BAF/CIFC). Compared to 5% EPS CAGR (FY20-23), we expect MUTH to deliver 17% EPS CAGR (FY23-26E).

Why are we assigning a higher Ke? Noting the several related party transactions with un-related businesses, un-related business diversification, multiple Muthoot brands (potential threat to brand equity), we deem assigning 50-70bps higher Ke vs other large cap stocks in our coverage as appropriate.

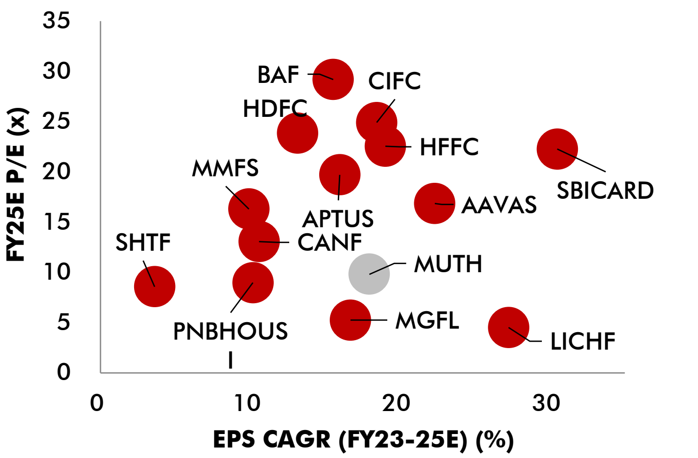
Exhibit 39: Valuation sensitivity to long-term growth and ROE assumptions

FY26-43E	Bear case	Base case	Bull case	Comments
Average assets growth	11.2%	13.7%	14.9%	In the bear case, we are assuming competitive intensity to be higher. High systemic credit risk aversion would make for a bull case scenario, driving 15% AUM growth.
Average ROA	5.1%	6.0%	6.6%	Bear case average NIM: 10%. Bull case average NIM: 11.5%.
Average ROE	15.4%	18.5%	19.9%	
Target price (Rs)	**927**	**1,499**	**1,908**	
Implied P/E – FY24E	8.8	14.3	18.2	
Implied P/B – FY24E	1.5	2.5	3.2	

Source: Company, Ambit Capital research

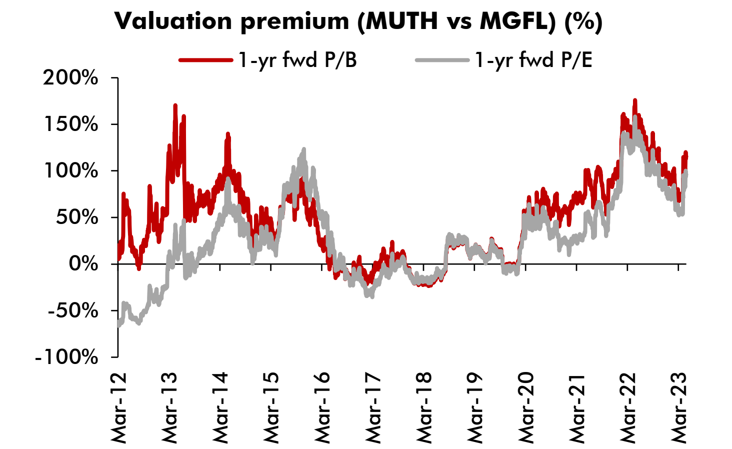
Competition-led valuation de-rating for gold loan NBFCs has bottomed out. Recovery in operating profit margin since 2QFY23 is expected to continue.

Exhibit 40: MUTH is trading at relatively inexpensive valuations given its EPS growth potential



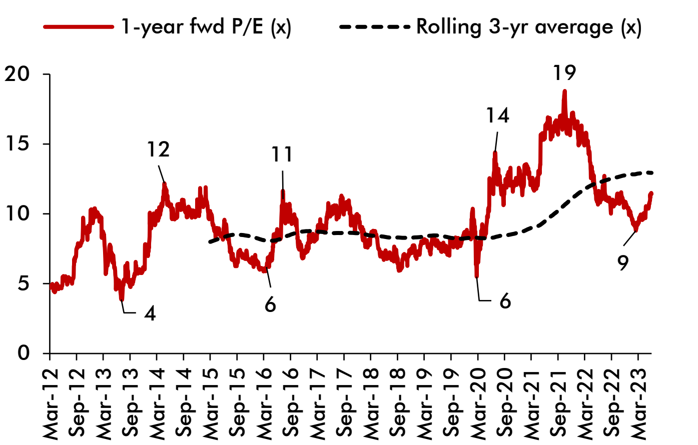
Source: Companies, Bloomberg, Ambit Capital research

Exhibit 41: MUTH's superior business model vs peer has translated into valuation premium



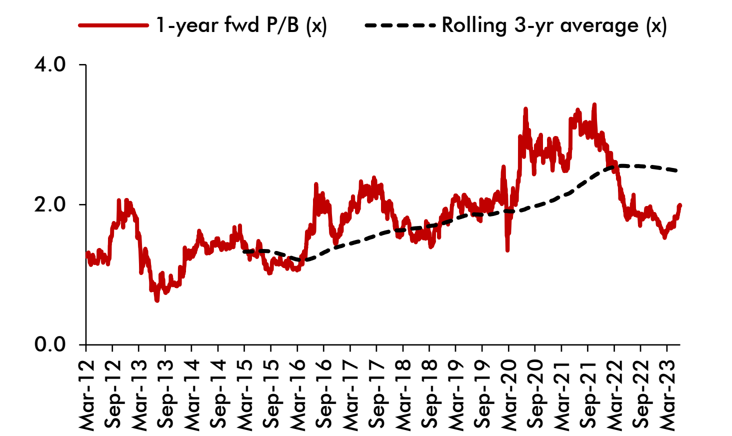
Source: Companies, Bloomberg, Ambit Capital research

Exhibit 42: Valuations have corrected in the last 18 months…



Source: Companies, Bloomberg, Ambit Capital research

Exhibit 43: …as competitive headwinds hit earnings growth



Source: Companies, Bloomberg, Ambit Capital research

Risks & catalysts

Catalysts

Recovery in AUM growth: We expect MUTH to be a key beneficiary of easing competition given its market leading position. As a result, we are building 14% AUM CAGR (FY23-26E).

Stable NIMs to aid ROE: Along with growth, the company has also seen NIMs being impacted due to price wars among others. In last recent quarters, NIMs have been on recovery mode as competition has eased. We expect current NIMs (4QFY23) to stay stable, thus aiding 17% EPS CAGR.

Key risks

AUM growth slows: While competition has eased, it has not completely exited. New players which entered in last 3-4 years continue to operate. Higher aggression from these players could impact new customer acquisition and thus AUM growth. Another negative catalyst that could impact AUM growth is a fall in gold price.

Pricing pressure, leading to NIM compressions: If competition persists, it could challenge sustainability of current NIMs, thus impacting our EPS estimates.

Management team dominated by promoter family: Majority of the management team is comprised of members from the promoter family. Considering the family owns 73.35% stake, business could be exposed to undue influence. Further, any long-lasting family dispute could negatively impact daily business operations.

Brand risk due to multiple Muthoots: Other than Muthoot Finance (The Muthoot Group), there also exists Muthoot Fincorp (Muthoot Pappachan Group) and Muthoottu (M Mathew Muthoottu Group). Existence of the latter two poses brand identity risk for Muthoot Finance.

Brand ownership and related royalty payment: Currently, the brand and trademark "Muthoot" is owed by the company. The company has an ongoing proposal to transfer brand ownership to promoters. Consequent to ownership transfer, promoters propose to grant the company a non-exclusive license to use Muthoot trademarks for annual royalty payment of 1% of gross income. We believe this would be a negative development from the corporate governance perspective and hence a negative catalyst for the stock.

Exhibit 44: Explanation of our flags on the cover page

Segment	Score	Comments
Accounting	GREEN	We do not find anything unusual in the company's accounting policies and believe reported numbers are a true reflection of performance.
Predictability	RED	MUTH'S FY23 EPS was 8% below consensus and declined by 12.2% YoY.
Earnings momentum	AMBER	In the past six months, consensus has downgraded its FY24/25E EPS estimates by 3%/4%.

Source: Company, Ambit Capital research

Financials

Income statement

Particulars (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	**71,203**	**66,695**	**79,688**	**91,019**	**103,904**
Non-interest Income	1,424	1,751	1,891	2,137	2,415
Total Income	**72,626**	**68,446**	**81,580**	**93,156**	**106,319**
Total opex	18,262	21,177	23,815	26,820	30,193
Pre provision profit	**54,364**	**47,270**	**57,764**	**66,336**	**76,126**
Provisions	1,270	605	1,140	1,382	1,544
Profit before tax	**53,094**	**46,664**	**56,624**	**64,954**	**74,582**
Tax	13,551	11,928	14,496	16,628	19,093
PAT - Standalone	**39,543**	**34,736**	**42,128**	**48,326**	**55,489**

Source: Ambit Capital research, Company

Balance sheet

Particulars (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net worth	**183,446**	**210,619**	**242,216**	**278,460**	**320,077**
Borrowings	498,701	497,633	559,837	627,018	702,260
Total liabilities	**705,547**	**726,198**	**820,037**	**926,871**	**1,047,776**
Loans	593,842	624,440	708,751	804,832	911,835
Cash & investments	105,634	77,781	86,480	93,870	104,027
Other assets	6,071	23,978	24,806	28,169	31,914
Total assets	**705,547**	**726,198**	**820,037**	**926,871**	**1,047,776**

Source: Ambit Capital research, Company

Ratio analysis

Particulars	FY22	FY23	FY24E	FY25E	FY26E
AUM growth (%)	10.4	3.8	13.8	13.8	13.5
EPS growth (%)	6.2	-12.2	21.3	14.7	14.8
Net interest margin (NIM) (%)	10.7	9.5	10.6	10.7	10.9
Cost to income (%)	25.1	30.9	29.2	28.8	28.4
Opex (% of assets)	2.7	3.0	3.1	3.1	3.1
Gross NPAs (%)	2.9	3.8	2.0	2.0	2.0
Credit costs (% of loans)	0.2	0.1	0.2	0.2	0.2
Total ECL coverage (%)	1.2	1.2	1.2	1.2	1.2
Tier-1 (%)	29.1	31.0	32.2	32.6	33.0
Leverage (x)	4.0	3.6	3.4	3.4	3.3

Source: Ambit Capital research, Company

Exhibit 45: Valuation

Particulars	FY22	FY23	FY24E	FY25E	FY26E
BVPS (Rs)	457	525	603	694	797
EPS (Rs)	98.5	86.5	104.9	120.4	138.2
ROA (%)	5.9	4.9	5.4	5.5	5.6
ROE (%)	23.5	17.6	18.6	18.6	18.5
P/E	12.6	14.3	11.8	10.3	9.0
P/BV	2.7	2.4	2.1	1.8	1.6

Source: Company, Ambit Capital research

Annexure I: Key management & board

As highlighted in the key risks section, we note that half of the board is occupied by family members. At the senior management level as well, most positions are occupied by family members.

Exhibit 46: 50% of the board is occupied by family members

Name	Designation	Brief
George Jacob Muthoot	Chairman, Wholetime Director	45+ years of experience in managing businesses in the field of financial services; member of the Trivandrum Management Association, the Confederation of Real Estate Developers Association of India; degree in civil engineering from Manipal University.
George Alexander Muthoot	MD	42+ years of experience in managing businesses in the field of financial services; currently Vice Chairman of Non-banking Finance Companies Welfare Association and active member of Confederation of Indian Industry (CII); qualified CA with 1st rank in Kerala and ranked 20th in overall India in 1978.
Oommen K Mammen	CFO	Joined Muthoot in August 2001 and has 25+ years of experience in the financial services industry; previously employed as Manager, Finance of Muthoot Bankers; fellow member of the Institute of Chartered Accountants of India and also a Certified Associate of Indian Institute of Banking and Finance.
George Thomas Muthoot	Joint MD and Wholetime Director	Banker with over 30 years of experience in managing business operations in the field of financial services; has played a pivotal role in the Group's dramatic growth and profitability; currently member of Rotary International and a lifetime member of YMCA.
Alexander George	Wholetime Director	Currently heads marketing/operations of the company and manages the entire business operations of North, East and West India of Muthoot Finance; under his leadership company has its brand visibility and implemented IT initiatives; MBA graduate from Thunderbird University (USA).
George Muthoot George	Wholetime Director	Vast experience in managing business in hospitality and leisure segment; MD of Muthoot Leisure and Hospitality Services; has Master's degree from the EssecCornell University in Paris, France.
George Alexander	Wholetime Director	Takes care of operations across the states of Karnataka, Goa and Telangana in India; heads the global operations of The Muthoot Group in the USA. Presently, serves on the Board of Asia Asset Finance PLC, Muthoot Insurance Brokers Private Limited and Belstar Microfinance Limited.
George Muthoot Jacob	Wholetime Director	Looks after marketing activities of the company for South India and also takes care of operations in the states of Kerala and Tamil Nadu; oversees the Gold Loan & Remittance business in the United Kingdom; member on the Board of Belstar Microfinance Limited and Muthoot Money Limited; also serves as an Independent Director at V-Guard Industries Limited.
Abraham Chacko	Wholetime Director	Has more than 38 years of experience in the banking sector and worked with HSBC India for more than 14 years; has completed Post Graduate Diploma in Business Management from XLRI.
Jacob Benjamin Koshy	Independent Director	Has represented public sector undertakings like Cochin Port Trust, FACT, Central Bank of India, Indian Oil Corporation, BPCL and various private sector undertakings like Tata Tea, Hindustan Lever Limited and Harrison Malayalam; is former chief Justice of Patna high court and judge of Kerala high court; holds a law degree.
Jose Mathew	Independent Director	Worked on roles such MD and company secretary in different companies such as Kerala State Drugs & Pharmaceutical Limited and M/s Kerala State Industrial Enterprises; is qualified Chartered Accountant.
Pratip Chaudhuri	Independent Director	42+ years of experience in banking industry; served as chairman in SBI, deputy MD of international division of SBI and director at export-import bank of India.
Ravindra Pisharody	Independent Director	37+ years of experience in across diverse industries; served Whole-time Director at Tata Motors Limited, where he headed the commercial vehicles unit; currently, also serves on the board of 5 other companies as non-executive director.
Usha Sunny	Independent Director	More than 31 years of experience in banking industry; worked with Standard Chartered Bank, Mashreq Bank PSC and Indian Overseas Bank in diversified roles in Corporate & Investment Banking; qualified Cost Accountant.
Vadakkakara Antony George	Independent Director	41+ years of experience in corporate field; served as chairman of Equipment Leasing Association of India and Executive Chairman of Thejo Engineering Limited.

Source: Company, Ambit Capital research

Cumulative salary drawn by MD and 3 whole-time directors is on the higher side vs peers.

Exhibit 47: MD remuneration (% of PBT) (FY22)

APTUS	MUTH (MD + WTDs)	MGFL	HFFC	AAVAS	MMFS	BAF	MUTH (only MD)	PNB HF	CAN FIN	HDFC	SHFL
2.1%	1.5%	1.0%	1.0%	0.7%	0.6%	0.4%	0.4%	0.3%	0.3%	0.1%	0.0%

Source: Companies, Ambit Capital research

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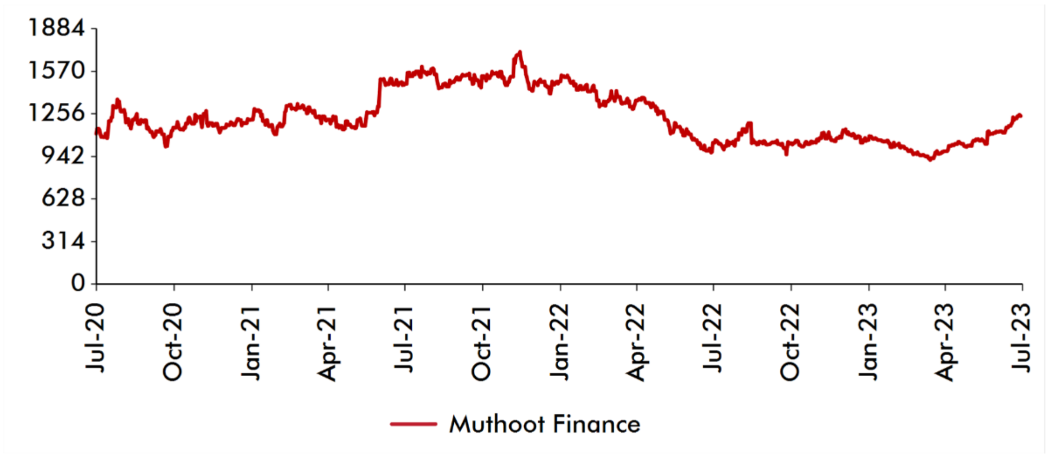
Muthoot Finance (MUTH IN, BUY)



Source: ICE, Ambit Capital research

Explanation of Investment Rating - Our target prices are with a 12-month perspective. Returns stated are our internal benchmark

Investment Rating	Expected return (over 12-month)
BUY	We expect this stock to deliver more than 10% returns over the next12 month
SELL	We expect this stock to deliver less than or equal to 10 % returns over the next 12 months
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