

Muthoot Finance

HOLD

Gold loan growth remain strong; NIMs improved

Summary

Muthoot Finance (MUTH) reported robust gold loan growth at 40% YoY vs 41% YoY (FY25) led by higher gold prices and new customer additions. Overall AUM growth stood at 42% YoY vs 43% YoY (FY25). Management maintained guidance at 15% gold loan growth for FY26. We revised upwards gold loan growth to 15% vs 12% CAGR (FY25-27E) earlier. NIMs improved QoQ led by increase in yield on advances. NII grew strongly by 51% YoY led by rise in margins; PPOp grew by 63% YoY led by higher other income (up 135% YoY). Further, provisions declined by 81% YoY due to recovery from NPA accounts; thus PAT grew by 90% YoY. Stage III loan assets declined to 2.6% vs 3.4% QoQ led by better recovery. We have revised estimates upwards led by higher AUM growth and maintain the 'HOLD' rating with a new TP of Rs.2,500 (earlier Rs.2,390), valuing it at 2.4x P/BV FY27E.

Key Highlights and Investment Rationale

- **Robust gold loan growth:** Gold loan growth remain strong at 40% YoY (up 10% QoQ) vs 41% YoY (FY25). Gold holdings increased by 8% YoY (flat QoQ) to 209 tonnes, while loan per 1gm of gold has increased by 32% YoY (up 10% QoQ) to Rs.5,743. Management maintained guidance for FY26 at 15% YoY.
- **NIMs improved QoQ:** NIMs improved to 12.15% vs 11.3% led by increase in yield on advances during Q1FY26. Management guided for stable spreads in the range of 9 – 10% going forward; will pass on the lower cost of funds to clients.
- **Asset quality improved QoQ:** Stage III loans have declined during the quarter to 2.6% vs 3.4% QoQ, but it is not a cause of concern because of being backed by higher collateral. Credit cost declined to 0.15 vs 0.8% (FY25).
- **Outlook:** Gold AUM growth remain strong backed by high gold prices and moderating competitive intensity. Growth guidance has been maintained at 15%, while final guidelines on gold loan has been positive with LTV below 2.5 lakh ticket size increased to 85%.

TP Rs.2,500

CMP Rs.2,511

Potential upside/downside -0%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.9)	13.2	35.4
Rel to Sensex	(2.5)	13.9	33.4

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	177	204
Consensus	166	192
% difference	6.8	6.5

Key Stock Data

Bloomberg/Reuters	MUTH IN/MUTT.BO
Sector	Finance
Shares o/s (mn)	401
Market cap. (Rs mn)	1,007,987
3-m daily avg Trd value (Rs mn)	17.6
52-week high / low	Rs2,717 / 1,752
Sensex / Nifty	80,540 / 24,619

Shareholding Pattern (%)

Promoters	73.4
FII	10.8
DII	11.0
Public	4.8

Financial snapshot

(Rs mn)

Year	FY2023	FY2024	FY2025	FY2026E	FY2027E
NII	66,695	77,928	1,04,482	1,31,962	1,49,921
Change (yoy, %)	-6%	17%	34%	26%	14%
Net Profit	34,735	40,497	52,008	71,065	82,006
Change (yoy, %)	-12%	17%	28%	37%	15%
EPS (Rs)	87	101	130	177	204
Change (yoy, %)	-12%	17%	28%	37%	15%
BV (Rs)	524.6	605.0	708.3	859.4	1,037.6
PER (x)	26.2	22.4	17.5	14.2	12.3
P/BV (x)	4.3	3.7	3.2	2.9	2.4
ROE (%)	17.6	17.9	19.7	22.6	21.5
ROA (%)	4.9	5.1	5.0	5.4	5.4
GNPA (%)	3.8	3.3	3.4	3.5	3.5
NNPA (%)	2.6	2.1	2.0	1.9	1.9
CAR (%)	31.8	30.4	23.7	26.2	27.4

Source: IDBI Capital Research

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Conference Call Highlights

Operational Aspects

- The company has crossed market capitalization of ₹1 trillion; opened 22 branches and received multiple awards during the quarter.
- Standalone AUM reached ₹1,20,031 crore, driven by 40% YoY growth in gold loans of ₹22,272 crore for the full year and a 10% QoQ increase of ₹10,238 crore; Standalone profit after tax grew 90% YoY to ₹2,046 crore.
- The company has continuously investments in technology to enhance efficiency and distribution channels, resulting in shorter turnaround times.
- The management is supportive of recent RBI guidelines on gold loans, which enhance transparency and streamline processes. LTV ratio increased from 75% to 85% for loans below ₹2.5 lakh, providing greater flexibility and product options.
- Recent repo rate cuts have created a favourable credit environment; with continued focus on innovation and service, the company is well positioned to sustain strong growth.
- Customer acquisition rate has slowed due to heightened competition, despite rising demand and as stated there is no strategy change for the same.
- Opex reduction achieved by improving per-branch business to ~₹25 crore per branch, supported by ₹10,000 crore AUM growth.
- Investments in debt mutual funds were temporary parking of funds, redeemed as required for lending.

Advances and borrowings

- Borrowing cost declined by 11 bps during the quarter. Potential benefits over the next 3–6 months as borrowings are largely linked to MCLR; no EBLR-linked borrowings, which limits immediate benefit from repo-linked reductions.
- Spread stands at ~9.5%; in case of further rate cuts, benefit from lower cost of funds will be passed on to customers as per the usual practice; exploring reduction in rates through the NCD market.

- 85% of customers are in the below ₹2.5 lakh ticket size segment; 15% are above ₹2.5 lakh.
- Loan amount mix:
 - Less than ₹1 lakh: 26% (of which less than ₹50,000 is 11%)
 - ₹1–3 lakh: 34%
 - Above ₹3 lakh: 40%
- Average LTV on the book is 63%.

Asset Quality

- Yield stood at 19.56% due to an exceptional ₹400 crore item (₹300 crore from repayment by gold loan customers and ₹100 crore ARC repayment). Adjusted for this, yield would be below 18.5%, in the normal range.
- Customers have proactively redeemed gold before auction, reducing provisions; this repayment activity was spread across geographically.
- The management highlighted that repayment of NPAs is a regular occurrence in gold loans - NPAs are classified, interest accrual is reversed, ECL provisions are made, and subsequently reversed when recovered.
- Potential additional ₹100–150 crore from ARC expected in coming quarters; principal amount already realised.
- Auction recovery stood at ₹13–14 crore; in non-gold loan segment, ~₹30 crore of ECL provisions reversed, with 100% provisioning maintained in that segment.

Subsidiaries

- **Belstar Microfinance:** Opened 10 gold loan branches in Q1 as part of loan portfolio diversification. Stage 3 assets remained at 4.4%, in line with peers. Initiated gold loan business, with plans to open 50 branches in the coming quarters. Collections improved, with 99.8% external collection efficiency on new loans. Expecting profitability from Q3FY26.
- **Muthoot Home Finance:** Loan AUM at ₹3,096 crore vs ₹2,100 crore in Q1FY25, a 41% YoY growth.

- **Muthoot Money:** Loan AUM at ₹5,000 crore (gold loan: vehicle financing - 4850 cr:150 cr) vs ₹1,657 crore in Q1FY25, up 202% YoY. Continued NPA decline through physical collections. GNPA rose to 0.96% in Q1. Branch network expanded to 997 during the quarter. New branch openings will follow maturity of existing branches; RBI approval to be sought due to regulatory requirement for branch count beyond 1,000.

Future Guidance

- No strategic changes planned despite increased competition; confident of current market positioning.
- No specific focus on below ₹2.5 lakh customers despite regulatory benefits; focus will remain across all customer segments.
- Opex expected to remain stable, though inflation may cause fluctuations.
- Non-gold loan share in portfolio targeted at ~15% (currently 13–14%); excluding microfinance, segment to comprise ~5%.
- The management is comfortable with current capital levels; no plans for capital raise. Dividend announcements can be expected.

Exhibit 1: Quarterly Snapshot

Year-end: March (Rs mn)	Q1FY26	Q1FY25	Q4FY25	YoY (%)	QoQ (%)
Interest Income	55,923	36,560	47,836	53.0	16.9
Interest Expenses	21,191	13,511	18,797	56.8	12.7
Net Interest Income	34,732	23,049	29,039	50.7	19.6
NIM (%)	12.15	11.51	11.27	64 bps	88 bps
Non-Interest Income	1,277	541	1,049	135.9	21.7
Operating Income	36,009	23,590	30,088	52.6	19.7
Staff Cost	5,031	3,832	5,147	31.3	-2.3
Other Op Exp	3,090	2,604	3,463	18.6	-10.8
Total Operating Expenses	8,121	6,437	8,610	26.2	-5.7
Cost to Income (%)	22.6	27.3	28.6	-473 bps	-606 bps
Cost to AUM (%)	2.8	3.2	3.3	-37 bps	-50 bps
Operating Profit	27,887	17,153	21,478	62.6	29.8
Provisions	433	2,236	1,274	-80.7	-66.1
Credit Cost (%)	0.15	1.10	0.49	-95 bps	-34 bps
PBT	27,455	14,917	20,204	84.1	35.9
Tax	6,992	4,130	5,126	69.3	36.4
- effective tax rate	25.5	27.7	25.4	-222 bps	10 bps
PAT	20,463	10,787	15,078	89.7	35.7
EPS (Rs)	51.0	26.9	37.6	89.7	35.7
BV (Rs)	734	607	708	20.8	3.6
AUM	12,00,310	8,43,238	10,86,478	42.3	10.5

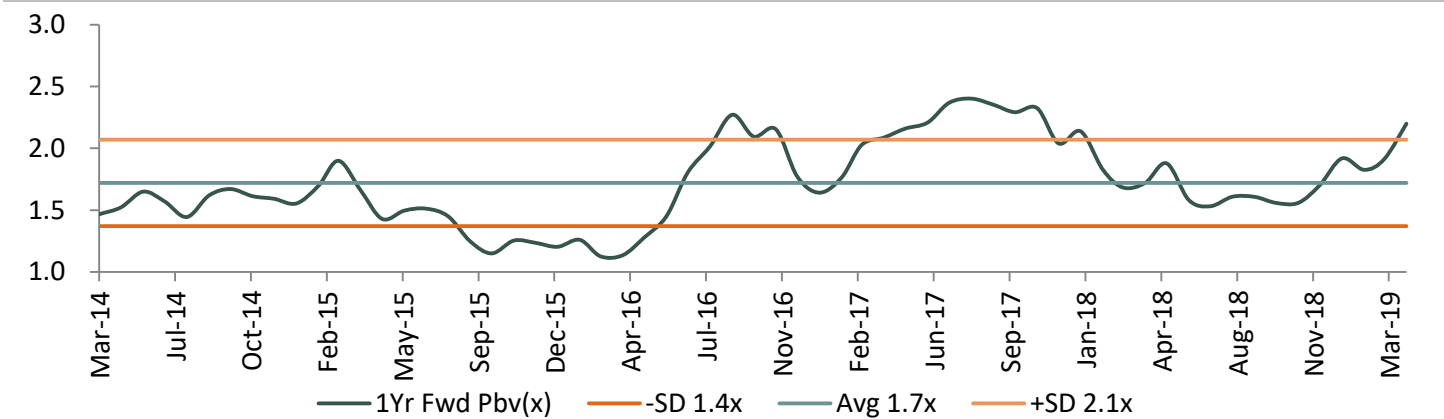
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY23	FY24	FY25	FY26E	FY27E
NII	9.3	9.9	10.1	10.0	9.8
Non-Int Inc	0.2	0.3	0.3	0.2	0.2
Net Revenue	9.6	10.2	10.4	10.3	10.1
Op.Exp	3.0	3.0	2.8	2.6	2.5
Op.Profit	6.6	7.2	7.6	7.7	7.5
Provisions	0.1	0.3	0.7	0.4	0.3
PBT	6.5	6.9	6.9	7.3	7.2
Tax	1.7	1.8	1.8	1.9	1.9
PAT	4.9	5.1	5.0	5.4	5.4
Leverage (x)	3.6	3.5	3.9	4.2	4.0
ROE	17.6	17.9	19.7	22.6	21.5

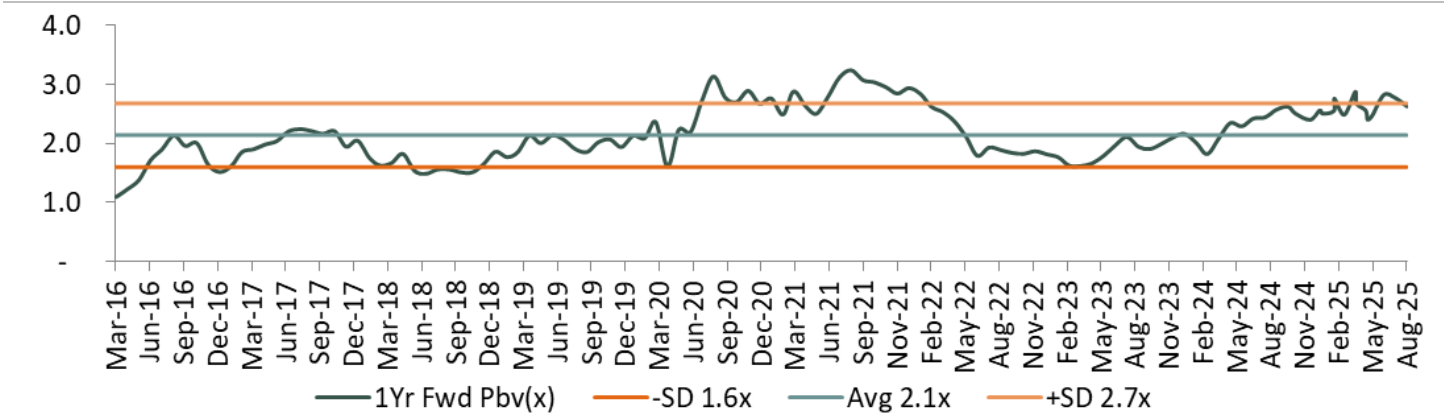
Source: Company; IDBI Capital Research

Exhibit 3: Figure: One-year forward P/BV (FY14-19)

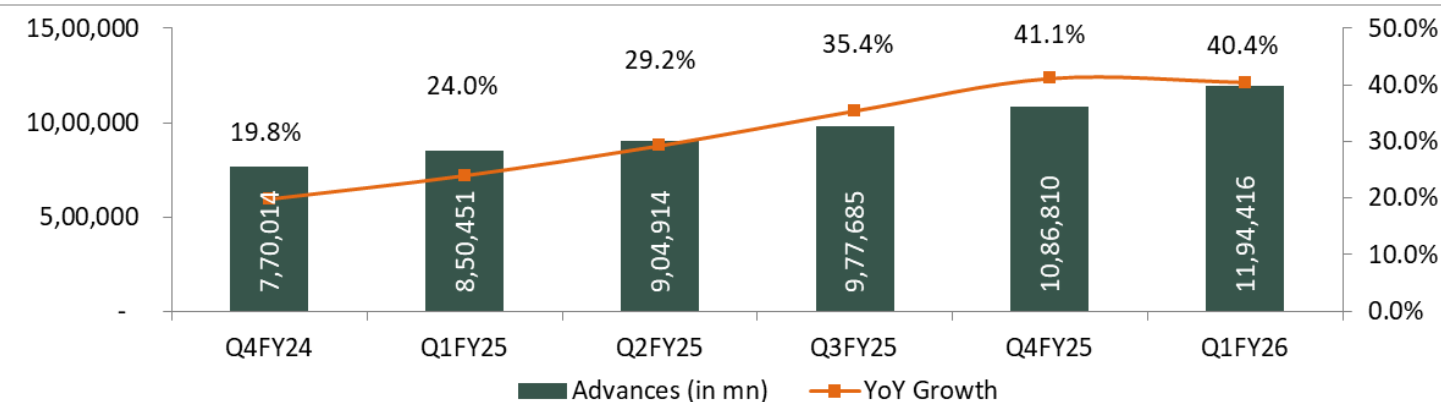


Source: Company; IDBI Capital Research

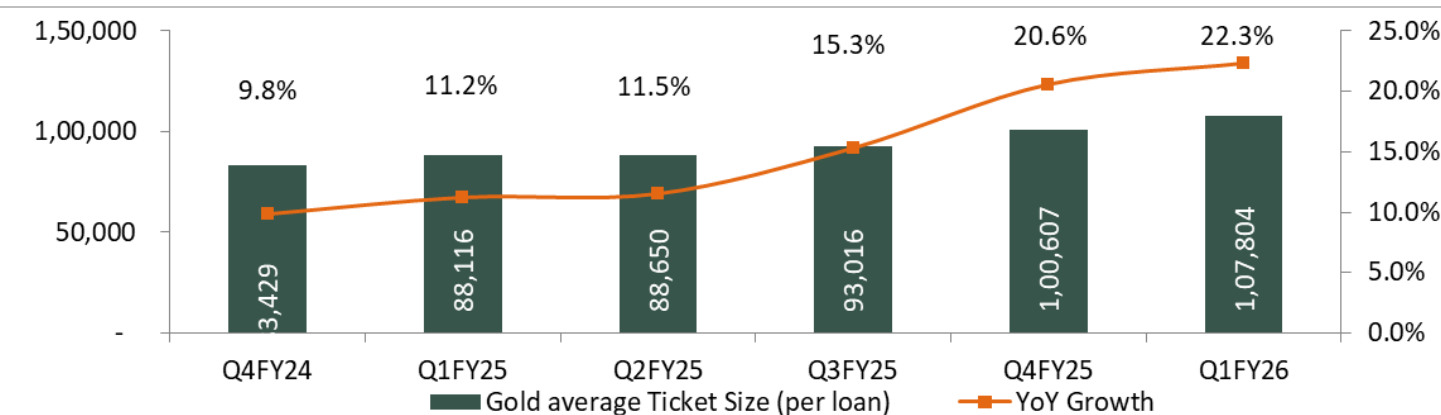
Exhibit 4: Figure: One-year forward P/BV (FY16-25)



Source: Company; IDBI Capital Research

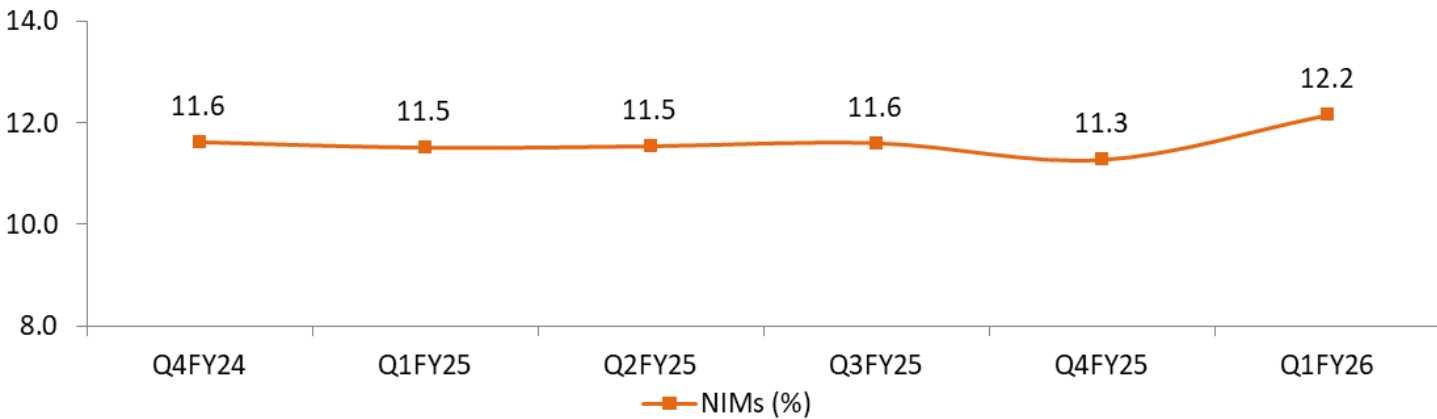
Exhibit 5: Advances growth witnessed sharp uptick sequentially

Source: Company; IDBI Capital Research

Exhibit 6: Gold average Ticket Size (per loan) continued to improve during the qtr.

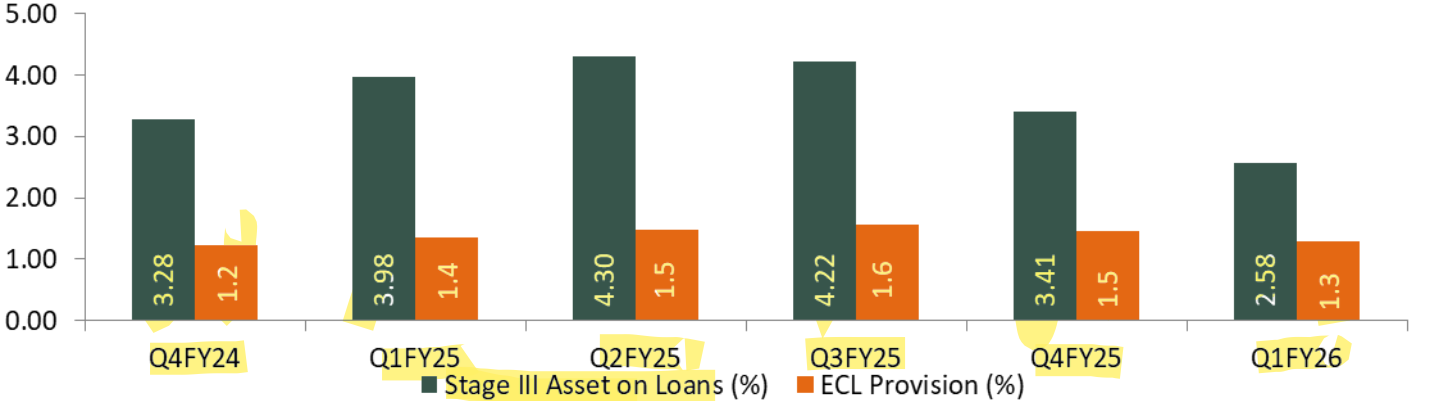
Source: Company; IDBI Capital Research

Exhibit 7: Net Interest margins improved

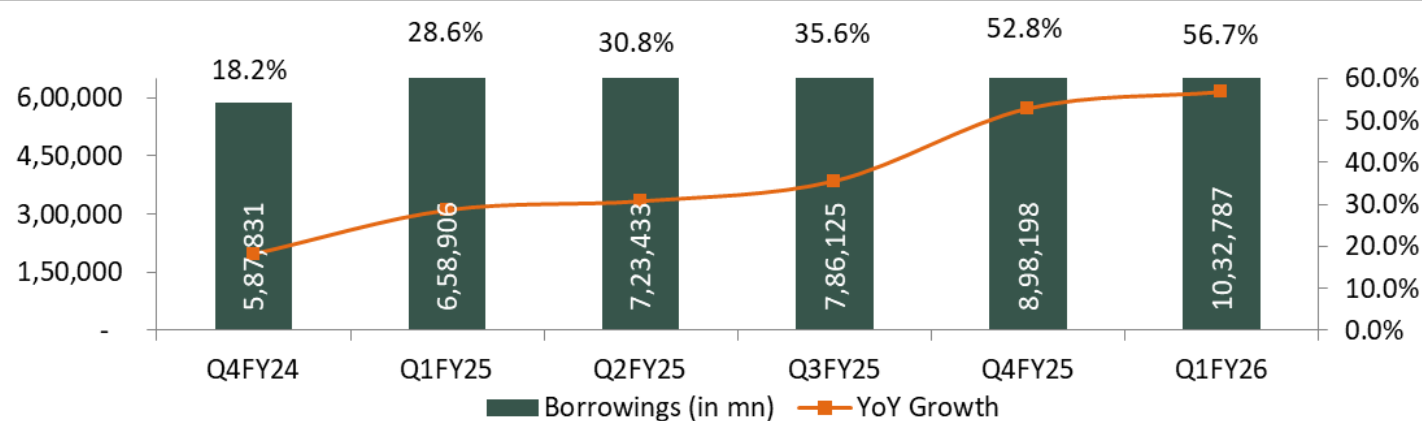


Source: Company; IDBI Capital Research

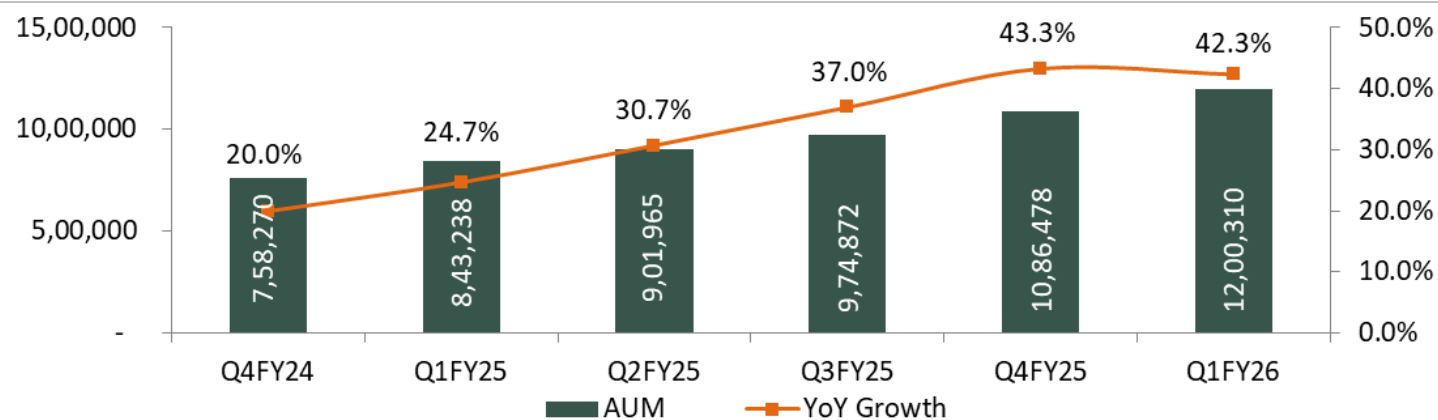
Exhibit 8: Asset quality improved sequentially led by NPA recovery



Source: Company; IDBI Capital Research

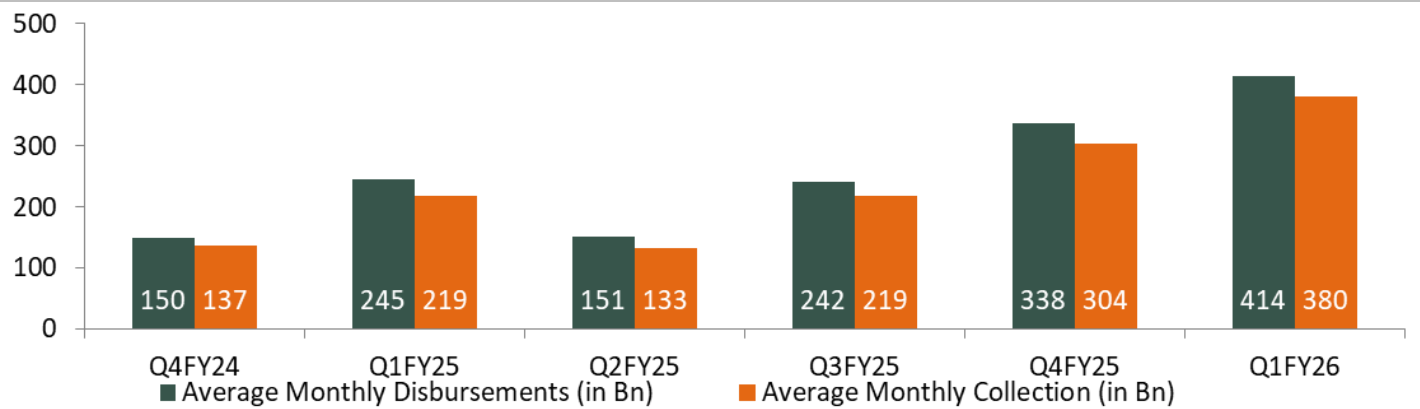
Exhibit 9: Borrowings marginally increased during the qtr.

Source: Company; IDBI Capital Research

Exhibit 10: AUM growth sequentially being consistent

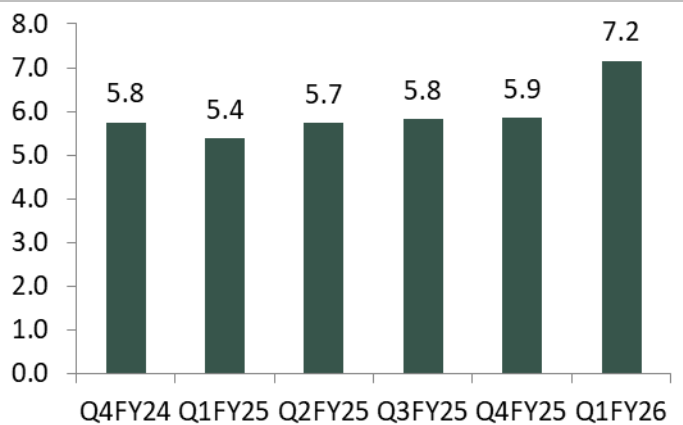
Source: Company; IDBI Capital Research

Exhibit 11: Monthly Disbursements and Collections improved sharply during the quarter



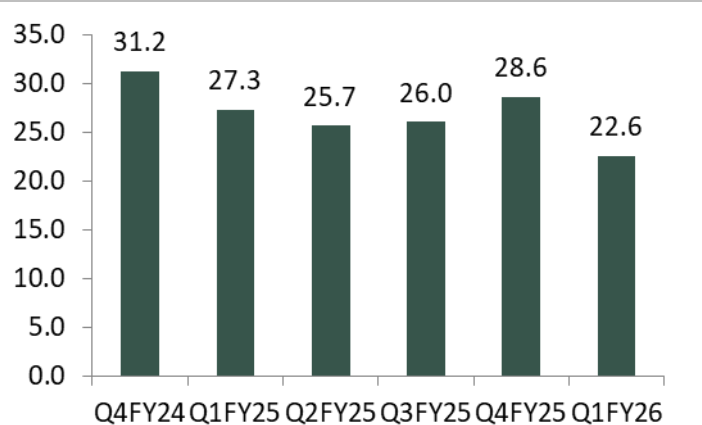
Source: Company; IDBI Capital Research

Exhibit 12: Return on Assets increased sharply QoQ

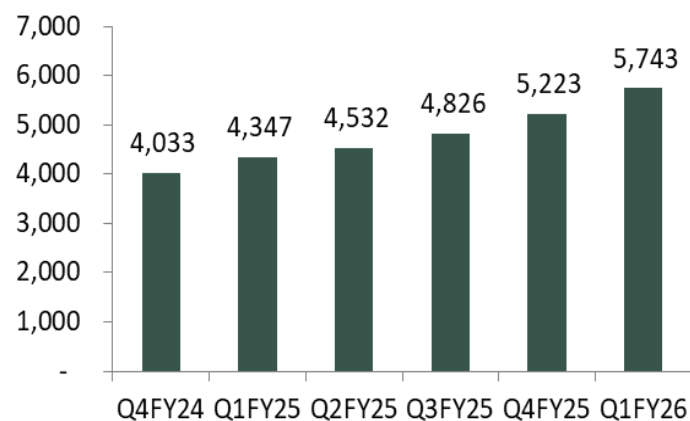


Source: Company; IDBI Capital Research

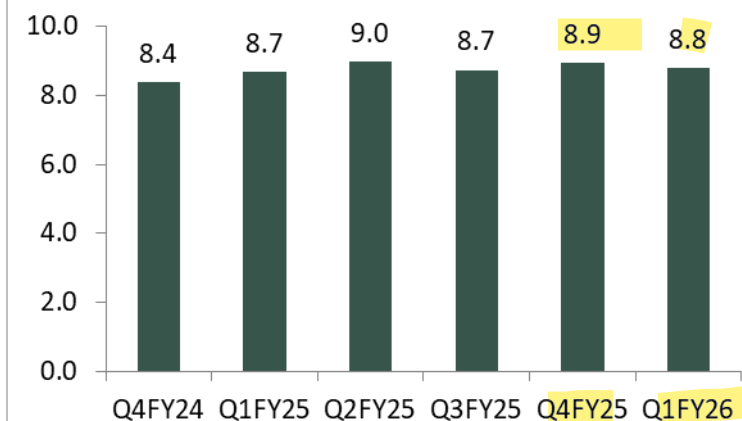
Exhibit 13: Cost to Income Ratio decreased during the quarter



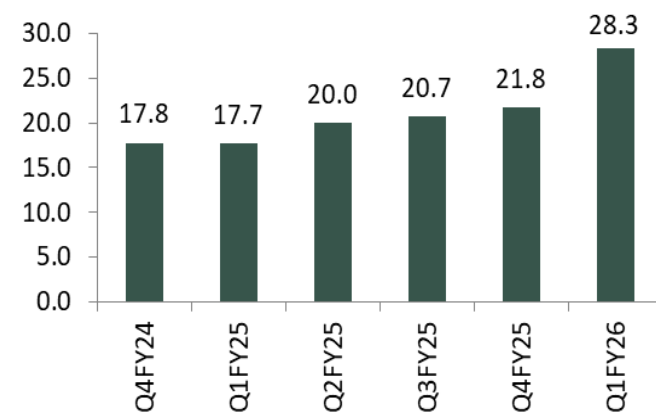
Source: Company; IDBI Capital Research

Exhibit 14: Gold Loan per Gram continued to increase during the quarter led by higher gold price

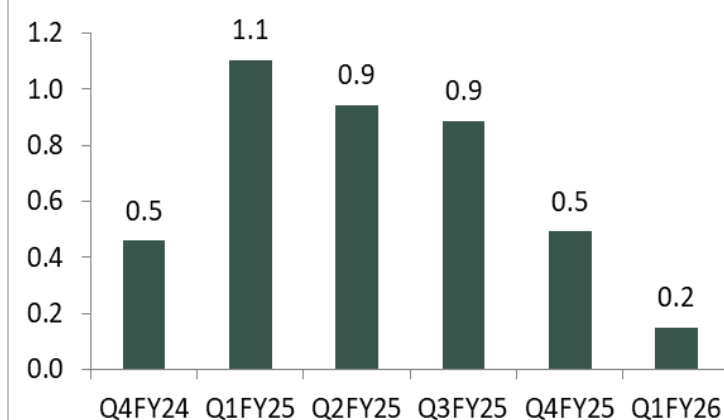
Source: Company; IDBI Capital Research

Exhibit 15: Cost of Funds slightly decreased during the quarter

Source: Company; IDBI Capital Research

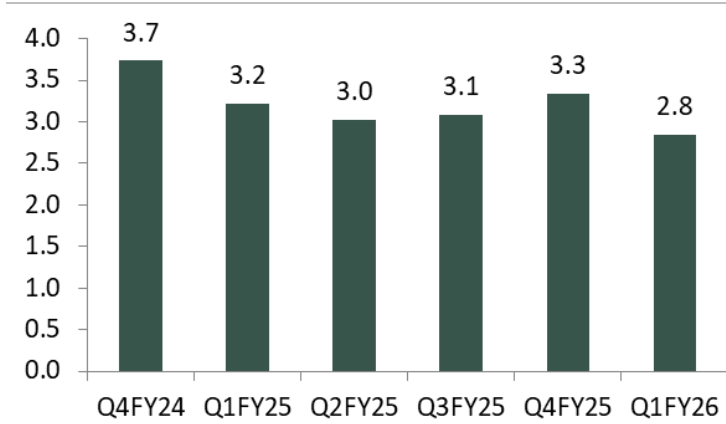
Exhibit 16: Return on Equity increased sharply QoQ

Source: Company; IDBI Capital Research

Exhibit 17: Credit Cost declined QoQ

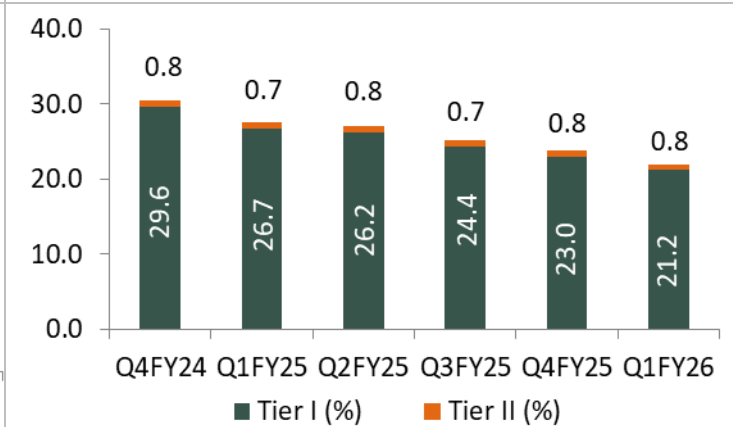
Source: Company; IDBI Capital Research

Exhibit 18: Cost to AUM decreased sharply



Source: Company; IDBI Capital Research

Exhibit 19: CAR remains comfortable



Source: Company; IDBI Capital Research

Exhibit 20: Standalone Borrowing Mix (In Mn)

Borrowing Mix	Q1FY26	Q1FY25	Q4FY25	YoY (%)	QoQ(%)
Secured Non-Convertible Debentures	3,13,249	1,84,306	2,35,516	70.0	33.0
Borrowings from Banks/FIs	5,21,410	3,62,628	4,76,060	43.8	9.5
External Commercial Borrowings	1,20,064	54,202	1,19,665	121.5	0.3
Subordinated Debt	0	505	187	(100.0)	(100.0)
Commercial Paper	65,395	47,386	62,343	38.0	4.9
Other Loans	13,187	10,361	5,235	27.3	151.9
Total Borrowings	10,33,305	6,59,388	8,99,006	56.7	14.9

Source: Company; IDBI Capital Research

Exhibit 21: Standalone Borrowing Mix (In %)

Borrowing Mix	Q1FY26	Q1FY25	Q4FY25	YoY	QoQ
Secured Non-Convertible Debentures	30.3	28.0	26.2	236 bps	412 bps
Borrowings from Banks/FIs	50.5	55.0	53.0	-453 bps	-249 bps
External Commercial Borrowings	11.6	8.2	13.3	340 bps	-169 bps
Subordinated Debt	-	0.1	0.0	-8 bps	-2 bps
Commercial Paper	6.3	7.2	6.9	-86 bps	-61 bps
Other Loans	1.3	1.6	0.6	-30 bps	69 bps
Total Borrowings	100.0	100.0	100.0		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net interest income	71,203	66,695	77,928	1,04,482	1,31,962	1,49,921
<i>Change (yoy, %)</i>	7%	-6%	17%	34%	26%	14%
Non-Interest Income	1,424	1,751	2,465	2,789	3,208	3,689
Net Revenue	72,626	68,446	80,393	1,07,271	1,35,170	1,53,610
Operating expenses	18,262	21,177	23,927	28,898	33,779	38,537
Employee expenses	10,302	11,994	13,869	16,966	20,057	22,757
Other expenses	7,960	9,182	10,058	11,932	13,722	15,780
Pre-Provision Profit	54,364	47,270	56,466	78,373	1,01,391	1,15,073
<i>Change (yoy, %)</i>	7%	-13%	19%	39%	29%	13%
Provision	1,270	605	1,978	7,667	5,746	4,701
PBT	53,094	46,664	54,488	70,706	95,646	1,10,372
Taxes	13,551	11,929	13,991	18,698	24,581	28,366
<i>Effective tax rate (%)</i>	26%	26%	26%	26%	26%	26%
Net profit	39,543	34,735	40,497	52,008	71,065	82,006
<i>Change (yoy, %)</i>	6%	-12%	17%	28%	37%	15%
EPS	98.5	86.5	100.9	129.5	177.0	204.3
Return on Equity (%)	23.5	17.6	17.9	19.7	22.6	21.5
Return on Assets (%)	5.9	4.9	5.1	5.0	5.4	5.4

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Capital	4,013	4,014	4,015	4,015	4,015	4,015
Reserves	1,79,432	2,06,605	2,38,888	2,80,361	3,40,987	4,12,555
Networth	1,83,446	2,10,619	2,42,903	2,84,375	3,45,002	4,16,570
Borrowings	4,98,113	4,97,343	5,87,831	8,98,198	10,53,519	12,07,358
Other liabilities	23,989	18,236	19,551	29,915	16,858	9,773
Total Liab. & Equity	7,05,547	7,26,198	8,50,284	12,12,488	14,15,379	16,33,702
Fixed Assets	3,131	3,392	4,384	4,925	5,417	6,230
Investments	13,205	13,169	22,683	44,991	55,716	55,716
Loans	5,93,842	6,42,649	7,70,014	10,86,810	12,49,831	14,37,306
Cash	92,429	64,612	50,459	71,912	99,986	1,29,358
Other assets	2,940	2,377	2,744	3,851	4,428	5,093
Total assets	7,05,547	7,26,198	8,50,284	12,12,488	14,15,379	16,33,702

Financial Ratios

(%)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Growth						
Advances	9.8	8.2	19.8	41.1	15.0	15.0
NII	7.3	(6.3)	16.8	34.1	26.3	13.6
Pre-Provision Profit	6.6	(13.0)	19.5	38.8	29.4	13.5
Net Profit	6.2	(12.2)	16.6	28.4	36.6	15.4
Spreads						
Yield on loans	19.3	16.8	17.6	18.2	18.7	18.2
Cost of Borrowings	8.0	7.4	8.6	8.7	8.9	8.4
Spread	11.3	9.3	9.0	9.5	9.8	9.8
NIMs	12.6	10.8	11.0	11.3	11.3	11.2
Operating Efficiency						
Cost-to-Income	25.1	30.9	29.8	26.9	25.0	25.1
Cost-to-AUM	3.2	3.4	3.4	3.1	2.9	2.9
Asset Quality						
GNPA	2.9	3.8	3.3	3.4	3.5	3.5
NNPA	1.7	2.6	2.1	2.0	1.9	1.9
Provision Coverage	58.4	68.1	62.4	57.5	54.3	54.3
Credit Cost	0.2	0.1	0.3	0.8	0.5	0.3
Capital Adequacy						
CAR	30.0	31.8	30.4	23.7	26.2	27.4
Tier I	29.1	31.0	29.6	23.0	25.1	26.3
Valuation						
EPS	98.5	86.5	100.9	129.5	177.0	204.3
BV	457.1	524.6	605.0	708.3	859.4	1,037.6
P/E	25.5	29.0	24.9	19.4	14.2	12.3
P/BV	5.5	4.8	4.2	3.5	2.9	2.4
ROE	23.5	17.6	17.9	19.7	22.6	21.5
ROA	5.9	4.9	5.1	5.0	5.4	5.4

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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