

CMP (INR) (As on 25th Jan)	727
Target (New)	1077
Target (Old)	1257
Upside(%)	48
Recommendation	Strong Buy

BSE Code	511766
NSE Code	MUTHOOTCAP
Reuters Ticker	MUTH.BO
Bloomberg Ticker	MTCS IN

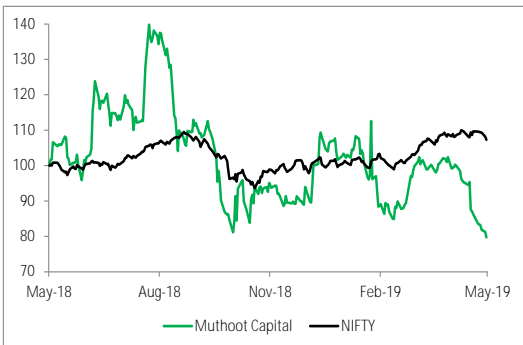
Stock Scan

Market cap (INR Cr.)	1185
Outstanding Shares (Cr.)	1.64
Face Value (INR)	10
Dividend Yield(%)	0
TTM P/E (x)	14.3
Industry P/E (x)	24.4
Debt/Equity	-
Beta vs Sensex	0.96
52 Week High/ Low (INR)	1300/700
Avg. Daily Vol. (NSE)/1 yr.	

Shareholding Pattern (%)

	Mar-2019	Dec-2018	Sep-2018
Promoters	62.49	62.49	62.49
Institutions	14.95	15.44	14.97
Non-institutions	22.56	22.07	22.54

Stock vs. Nifty (Relative Returns)



Company Overview

Muthoot Capital Services Ltd., promoted by the Muthoot Pappachan Group, is a Non Banking Finance Company (NBFC) based in Kochi, Kerala. The company offers fund based financial services to retail, corporate and institutional customers through the wide network of branches of Muthoot Fincorp Ltd. Its portfolio includes two-wheeler loans, and corporate loans.

Key Highlights

- In Q4FY19, the company raised INR366 from HDFC Mutual Fund, ICICI Bank, Kotak Mahindra Bank & DCB.
- There has been an increase in cost of borrowing both QoQ & YoY. The cost stood at 10.1% vs 9.7% QoQ & 9.3% YoY.
- The company has NIL exposure to Commercial Paper & 65% of the total borrowing is from banks, which provide stable & cost efficient capital.
- The average ticket size stood at INR58920 vs INR52993, which reflects the increase in cost of ownership of 2 wheelers.
- Operating expense as a % of NII stood at 58% vs 50%. This was on account of lower disbursements & hence AUM growth.
- There has been a fall in RoE & RoA both on QoQ & YoY basis.

Exhibit 1: Financial Performance at a glance (Consolidated)

Particulars (INR Cr)	FY17	FY18	FY19	FY20E	FY21E
Net Interest Income (NII)	180	275	373	466	576
<i>Growth (%)</i>	28%	53%	36%	29%	24%
Total Income	284	398	536	666	848
<i>Growth (%)</i>	24%	40%	34%	27%	27%
Provision & Write Offs	22	34	49	48	64
Profit After Tax	30	53	82	127	131
<i>Growth (%)</i>	32%	78%	54%	49%	3%
EPS	21.93	36.39	50.10	77.31	79.64
BVPS	129.91	240.20	290.51	369.42	449.06
P/E (x)	34.4	20.7	15.1	9.8	9.5
P/BV (x)	5.8	3.1	2.6	2.0	1.7
ROE (%)	16.8	13.5	17.2	20.9	17.7

Source: Company Data, SMIFS Research

Exhibit 2: Financial Performance Quarterly & Yearly

Particulars (in INR Crore)	Quarter Ended					Twelve months ended		
	Q4 FY19	Q4 FY18	YoY %	Q3 FY19	QoQ %	Mar-19	Mar-18	YoY %
Income from Operations	136	119	15%	142	-4%	535	398	34%
Other Operating Income	-	-	0%	-	0%	-	-	0%
Total Income from Operations (net)	136	119	15%	142	-4%	535	398	34%
Employee Benefit Expense	21	18	16%	20	5%	78	64	21%
Depreciation & Ammortisation expense	0.27	0.36	-25%	0.29	-7%	1.03	0.97	6%
Provisions & Write Off	11	11	2%	12	-12%	49	34	45%
Other Expense	32	24	29%	32	-2%	119	94	26%
Total expense	64	54	19%	65	-2%	247	193	28%
Profit/ (Loss) from operations before other income, finance income & exceptional items	73	65	12%	77	-6%	288	205	41%
Other income	0.22	0.11	100%	0.09	144%	0.64	0.36	78%
<i>Profit & Loss from ordinary activities before finance cost & extraordinary Income</i>	73	65	12%	77	-5%	287	205	41%
Finance Cost	45	32	38%	41	9%	162	123	31%
Profit & Loss from ordinary activities after finance cost but before exceptional items	28	33	-14%	36	-21%	126	82	54%
Exceptional items	-	-	0%	-	0%	-	-	0%
<i>PBT (Ordinary Activities)</i>	28	33	-14%	36	-21%	126	82	54%
Tax Expense	10	11	-14%	13	-23%	45	29	56%
PAT (Ordinary Activities)	18	22	-15%	23	-20%	81	53	53%
Extraordinary Items (net of tax)	-	-	0%	-	0%	-	-	0%
<i>PAT</i>	18	22	-15%	22	-18%	82	53	55%
EPS	11.14	13.08	-	14.17	-	50.10	36.39	

SMIFS Estimates (INR Cr.)	Actual	Estimates	Variance	Remarks
Income from Operations	136.44	124.64	11.80	The estimates for income from operations were lower due to the slowdown in 2 wheeler sales since entry level 2 wheelers will be facing a higher hike in prices due to low base. Provisions have continued to remain elevated inspite of waning effect of Kerala floods & lower AUM growth.
Finance Cost	44.68	44.98	(0.30)	
<i>Net Interest income</i>	91.76	79.66	12.10	
Provisions & Write Off	10.85	12.52	(1.67)	
<i>PAT</i>	18.35	14.38	3.97	

Q4FY19 Concall Highlights:

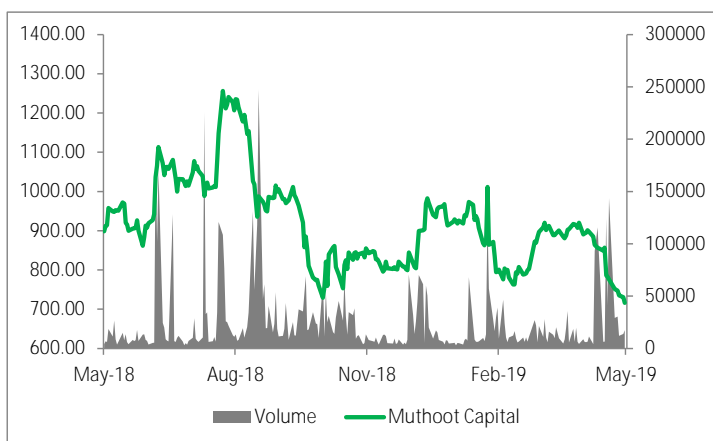
- Bajaj sales is going up due to economy segment & people are preferring that.
- Rural & motorcycle sales is on an uptrend. Penetration of financing is low in rural area & from 1st April it is mandatory to have ABS & Euro 6 norms from 2020, prices will go up & hence financing will also go up.
- In rural areas, many customers are new & demand is expected to go up for financing as compared to urban areas. Financing industry would do good & company expects to grow at 25%, which means 4.5 lakh units being financed. 60 – 70% of the customers in 2 wheeler segment in the rural areas would be first time customers & this will lead to significant growth.
- Cost of funds will not increase any further & is expected to stabilize soon. Increase in yields is expected & it will be passed on to the customer.
- There is no correction in dealer payout.
- All new products that will be launched will be done via Fincorp branches so operating expenses will not go up. Pre-owned vehicle segment is also doing well, and in the next few quarters 20 more branches for pre-owned vehicle will be opened.
- Franchisee model is in a testing phase in two wheeler segment. Expansion will take place in Gujarat & Maharashtra & more clarity would be provided in the next few quarters. Franchisee model is expected to contribute significantly in future.
- Credit cost over the last 4 years have been in 2 – 2.5% range, it is due to the additional provisioning due to floods in Kerala. On a normalised basis it would be in 1.5% range and numbers are not expected to go up due to geographical expansion.
- Funding was a issue in the past quarters. INR631 Cr has been sanctioned from various branches in term loans & WC & Securitization. The amount that has been sanctioned has still not been used. Going forward enough liquidity will be there to achieve 25% growth.
- Muthoot Fincorp branches have helped in distribution synergies. The customer base is around 25 Lakhs. Captive customers will be contributing significantly to the growth.

Outlook and Valuation

The company has significant presence in Southern India and is rapidly expanding into other geographies. Interest rates & funding remain a concern for the NBFC sector, but the company has adequate liquidity and various funding options which make it immune to the current scenario.

Strong management team with good execution skills led by extensive branch network of Muthoot Fin Corp in urban and semi urban area, will let the company scale greater heights.

Price-Volume Chart:



Valuation:

The company has over dependence in the 2 wheeler space & concentrated presence in Kerala, which will cause hindrance to the growth. The rise in price of 2 wheelers due to several regulatory changes could further impact growth.

Considering rise in visibility in AUM going forward & the turbulence faced by the 2 wheeler industry , we reduce our multiple of 2.8x to FY21E Book Value to 2.3x to FY21E Book Value to arrive at a target price of INR1077.

For our previous reports, please refer below:

1) Stewart & Mackertich Research– Muthoot Capital Services Ltd Q2FY19 Result Update

Date : 25/01/2019

CMP : INR900

Target : INR1257

[Muthoot Capital Q3FY19 Result Analysis](#)

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