

Unlocking Treasures

NBFC | Gold Finance Sector Thematic

January 16, 2024

Leading players well adapting to changing times

Key Points

- We interacted with the managements of banks/NBFCs/fintechs and did our channel checks with branches of different category of lenders in key hubs of Kerala and Mumbai known for their high activity in the gold loan segment. Our conclusion is that the market potential for gold loans to grow is huge with enough space for different categories of lenders to co-exist in a profitable manner. Banks are competing in the segment by offering lower rates to ETB customers in higher ticket sizes and the activity is higher in agri gold loans which qualify for PSL. NBFCs are competing on service levels, TAT and ease of processing. A leading NBFC's branch we visited in Kerala has been able to get customers transferred from banks in that area, with ticket sizes in range of Rs 0.1-0.3mn.
- In terms of our pecking order in gold loan NBFCs, we are positive on Muthoot Finance because of its strong customer acquisition and retention measures, entry into new geographies and segments and it has been growing on strong internal accruals (CAR at 30.3%). We maintain our 'Buy' rating on Muthoot Finance Ltd with a revised SOTP based target price of Rs 1722 (valued at 2.5x December 2025E ABV plus subsidiary value per share of Rs 66.8 per share) as against Rs 1527 earlier (based on 2.1x September 2025E consolidated ABV).
- In the case of Manappuram Finance, besides growth being back in its core business, we are positive on the company's growth potential as a diversified lender. However, being on track with its diversification plans is key to re-rating. We have valued the standalone Gold Loan business at 1.1x Dec. 2025E ABV, which leads to standalone value per share of Rs147.90. Adding subsidiary value per share of Rs60.70 (net of holding company discount of 20%), we have raised our TP to Rs209 (from Rs200 earlier, valued at 1.14x consolidated Dec. 2025E ABV). Maintain 'Buy'.

Interaction with Bank/NBFC/Fintech Managements and Ground Level Checks:

We met the managements of South Headquartered banks ([Federal Bank](#), [City Union Bank](#), [Karur Vysya Bank](#) and [CSB Bank](#)) and NBFCs with a sizeable proportion of gold loans in their loan mix and also interacted with one leading gold loan fintech management. Simultaneously, we also did a channel check with the branches of banks, NBFCs, Nidhi companies (regulated by Ministry of Corporate Affairs under Companies Act, 2013), chit fund companies, co-operative banks at key hubs in Kerala and Mumbai, known for their high activity in the gold loan segment.

From our discussion with managements and our channel checks we observed that the market potential for gold loans to grow is huge with enough space for different categories of lenders to co-exist in a profitable manner. Unlike earlier when gold loans was an option of the last resort for short term funding by LIG/MIG customers, in present times certain non-traditional segments are also being tapped.

Please vote for us in the Institutional Investor poll – [Click Here](#)

Company	CMP (Rs)	TP (Rs)	Rating
Muthoot Finance Ltd	1454	1722	Buy
Manappuram Finance Ltd	171	209	Buy

Key Sections to Read in this Report

- Market potential of organized gold loan segment 4x higher than current size
- Management interaction and channel checks
- Investor perspectives on gold loan NBFCs.
- Key strengths of Muthoot Finance and Manappuram Finance in Core business.
- Position of non-gold businesses; Discussion on Asirvad MFI at length in company section on Manappuram Finance Ltd.

Please refer to the disclaimer towards the end of the document.

Besides a major shift happening from the unorganized segment to organized lenders and a minor shift anticipated from unsecured loans to gold loans over a period of time, new to gold loan customers are also increasing. Certain geographies where the stigma of borrowing against gold has been high and relatively affluent metro/urban markets, are areas that are opening up for gold finance.

Banks are competing in the gold loan segment by offering lower interest rates to ETB customers in higher ticket sizes. Activity is higher in agri gold loans which qualify for PSL. Gold loan NBFCs compete on TAT as low as 5-15min, service levels and ease of processing. A leading NBFC's branch we visited in Kerala, has been able to get customers shifted from banks, in ticket size range of Rs 0.1-0.3mn in that area.

Safe Haven Asset Status of Gold Augurs Well for Business Models of Gold Financiers:

According to World Gold Council (WGC) key sources of demand for gold include jewellery, physical/alternative investments, reserve assets with central banks and technology component, which continues to lead to its value appreciation over time. As per its Outlook 2024, it expects a stable to rising trend for gold prices during the year. This safe haven asset status of gold augurs well for the business models of gold financiers for 2 reasons: (1) Better AUM growth during times of increase in gold prices (2) It's a segment with lowest Loss Given Default (LGD) at 2-13%. The delinquency rates in the segment are also lower, as with the customer sentiments attached to gold jewellery they own, they tend to make their repayments on time. In our hypothetical scenario analysis based on 3 scenarios of change in gold prices, we observe that Muthoot Finance will benefit more if gold prices increase, considering that gold loans form 87% of the consolidated AUM.

In a Sweet Spot in Light of RBI Circular on Increase in Risk Weights: Considering that gold loans and most other secured assets are excluded from the scope of RBI circular on increase in risk weights, gold loan NBFCs see no impact on their CET-1 which stands strong at ~30%. On the liability side also, they have been able to get bank funding at reasonable rates, as banks prefer these NBFCs due to the secured nature of business. As per media reports and our channel checks we also anticipate a minor shift from unsecured personal loans / credit cards to gold loans which will benefit all category of lenders to the segment. In case of Muthoot Finance and Manappuram Finance, we also observe that their present growth is being funded by internal accruals (not raised equity capital for over a decade) and hence we believe that these high RoA businesses deserve better valuations, which we have also demonstrated taking a case study of two capital efficient lenders with a history of rich valuations (HDFC Bank and Sundaram Finance). After doing a cross-segmental comparison with other mono-line/diversified NBFCs with similar high RoAs trading at higher valuations of 3x-4.6x FY25E ABV, it indicates that gold loan NBFCs with RoAs of ~5% are relatively undervalued (1.3x-2.4x FY25E ABV).

Recommendations

Muthoot Finance Ltd: We are positive on Muthoot Finance because of its strong customer acquisition and retention measures, entry into new geographies and segments and has been growing on strong internal accruals (CAR at 30.3%). We maintain our 'Buy' rating on Muthoot Finance Ltd with a revised SOTP based target price of Rs 1722 (valued at 2.5x December 2025E ABV plus subsidiary value per share of Rs 66.8 per share) as against Rs 1527 earlier (based on 2.1x September 2025E consolidated ABV).

Manappuram Finance Ltd: In the case of Manappuram Finance, besides growth being back in its core business, we are positive on the company's growth potential as a diversified lender. However, being on track with its diversification plans is key to re-rating. We have valued the standalone Gold Loan business at 1.1x Dec. 2025E ABV, which leads to standalone value per share of Rs147.90. Adding subsidiary value per share of Rs60.70 (net of holding company discount of 20%), we have raised our TP to Rs209 (from Rs200 earlier, valued at 1.1x consol. Dec. 2025E ABV). Maintain 'Buy'.

Valuation Summary

Company Name	CMP (Rs)	TP (Rs)	Mcap (Rs bn)	P/ABV (x)			P/E (x)			RoA (%)			RoE (%)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Muthoot Finance Ltd	1454	1722	583.7	2.8	2.4	2.1	14.4	12.6	11.4	5.2	5.2	5.0	18.3	18.6	17.9
Manappuram Finance Ltd	171	209	145.1	1.5	1.3	1.1	9.0	7.9	6.7	5.0	4.8	4.8	16.7	16.6	17.0

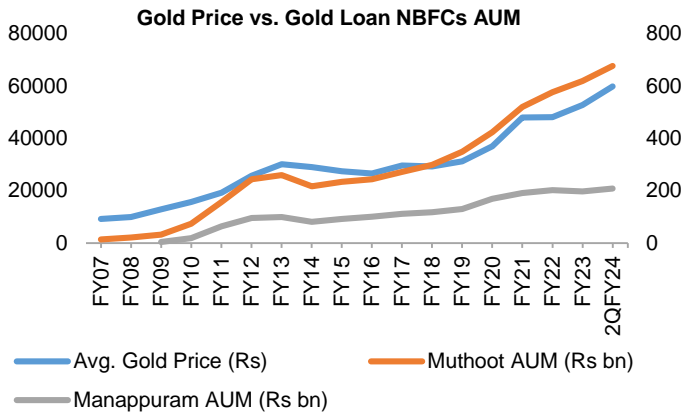
Source: Company, Nirmal Bang Institutional Equities Research

Index

S.No	Title	Page No.
1	Investment Thesis in Charts	4
2	Safe Haven Asset Status of Gold Augurs Well for Business Models of Gold Financiers	5
3	Gold Finance: Market Potential at 4x the Present Size of Organized Gold Loan Market	6
4	Leading Gold Loan NBFCs Well Adapting to Changing Times	7
5	Comparison of Key Financial Parameters of Top 4 Gold Loan NBFCs	8
6	Gold Loan NBFCs in a Sweet Spot in Light of RBI Circular on Increase in Risk Weights	9
7	Meeting with Managements of South-Headquartered Private Banks	10
8	Interaction with the Top Management of a Leading Gold Loan Fintech	11
9	Key Takeaways from Channel Checks at Key Gold Loan Hubs in Kerala / Mumbai	12
10	A Look at the Valuation History of Gold Loan NBFCs across Business Cycles	17
11	Investor Perspectives on Gold Loan NBFCs	18
Company Section		
12	Muthoot Finance Ltd	27
13	Manappuram Finance Ltd	41
Annexures		
14	Annexure-I - Corporate Governance	57
15	Annexure-II - Probability of Default (PD) & Loss Given Default (LGD) Disclosures by Gold Loan NBFCs and their Subsidiaries	58
16	Annexure III - Interest Rate Comparison of Gold Loan NBFCs and Gold Loan Fintechs	60

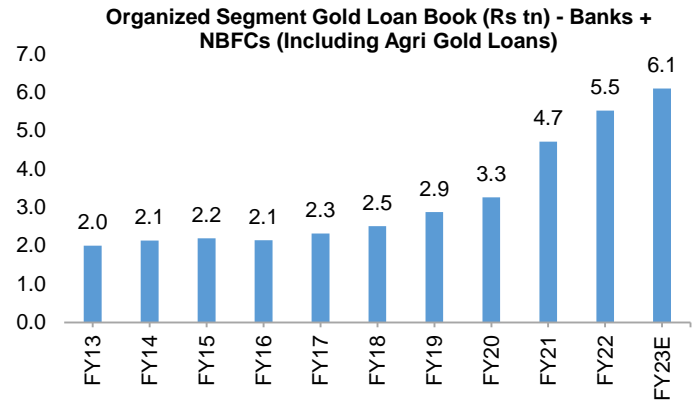
Investment Thesis in Charts

Exhibit 1: Safe Haven Asset status of Gold Augurs well



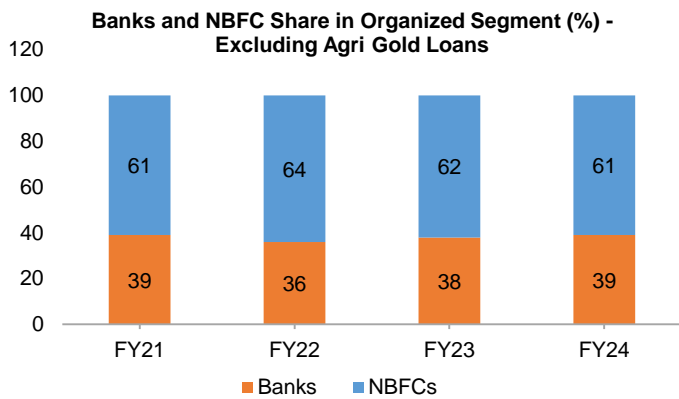
Source: MCX spot, Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Market potential at 4x Present size of >Rs 6tn



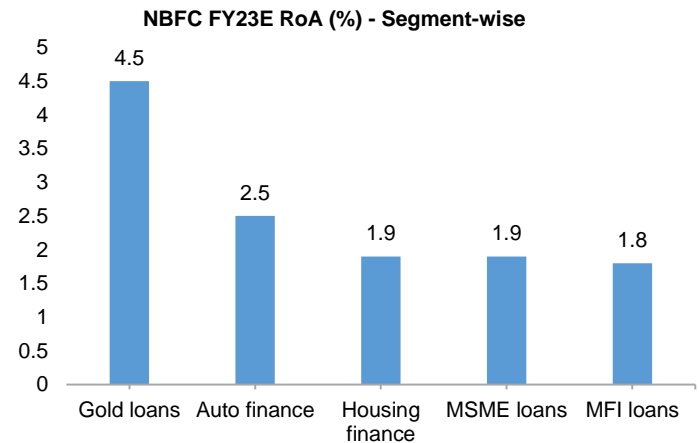
Source: Fedfina Prospectus, Nirmal Bang Institutional Equities Research

Exhibit 3: NBFCs market share relatively stable



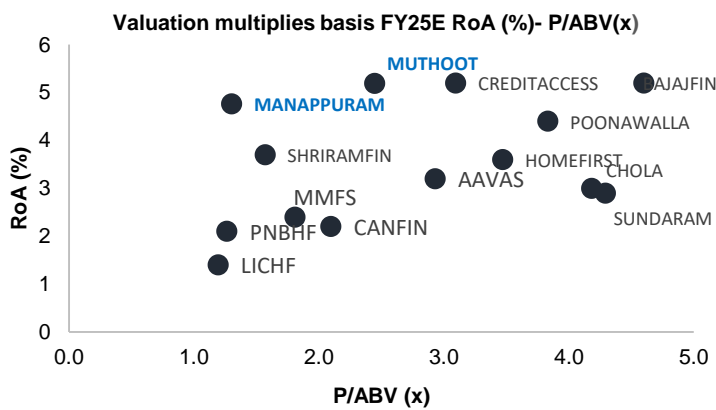
Source: Crisil Press Release, Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Gold Loans Most Profitable Segment for NBFCs



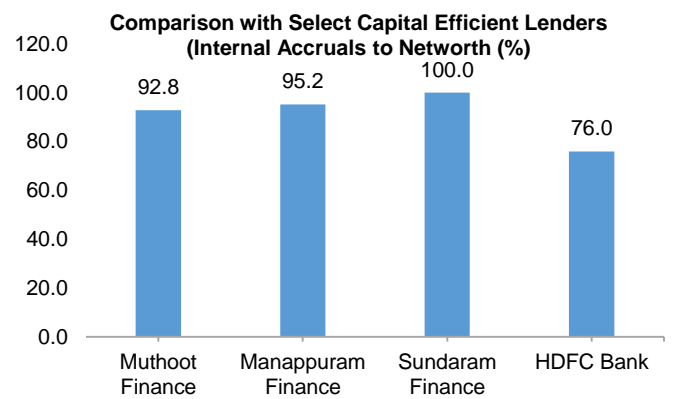
Source: Company, Lender Branches Nirmal Bang Institutional Equities Research

Exhibit 5: Gold Loan NBFCs Relatively Undervalued



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Gold NBFCs growing on Internal Accruals



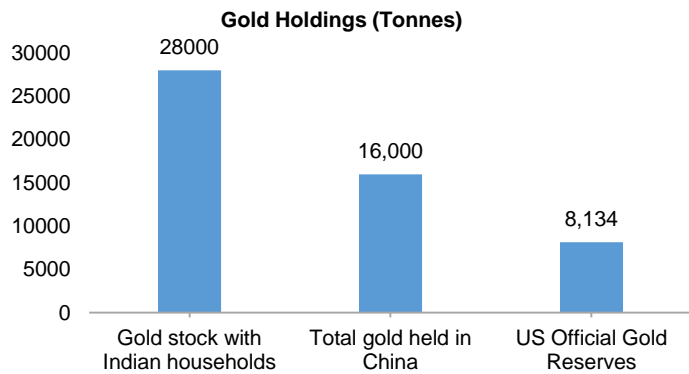
Source: Company, Nirmal Bang Institutional Equities Research

Safe Haven Asset Status of Gold Augurs Well for Business Models of Gold Financiers

According to the World Gold Council (WGC), the following are key sources of demand for gold: (1) Jewellery (2) Investment in physical/passive form (3) Reserve asset with central banks and (4) Component in technology equipment. Considering the liquid nature of the asset (gold), universal acceptance of the commodity, low credit risk and relatively scarce supply as compared to a few other precious metals, gold's value has appreciated over time.

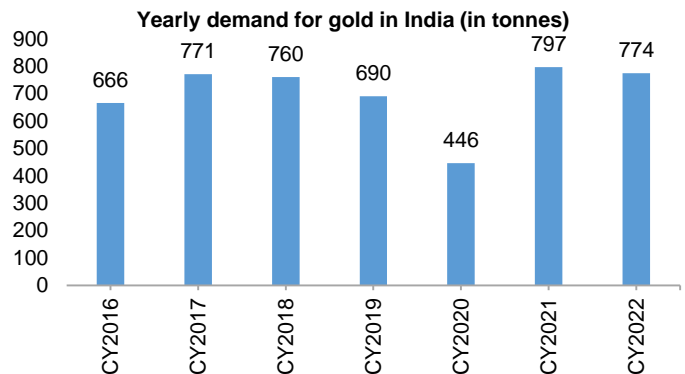
This safe haven asset status of gold augurs well for the business models of gold financiers for 2 reasons: (1) Better AUM growth during times of increase in gold prices (2) It's a segment with lowest Loss Given Default (LGD) at 2-3% for Manappuram Finance (MGFL) and 9-13% for Muthoot Finance (MFL) from FY18-FY23 (as per disclosures in their annual reports), as compared to other retail/wholesale loan segments' LGD at 15-100% for these gold NBFCs (refer [Annexure-II](#) on FY23 PD & LGD disclosure by gold loan NBFCs).

Exhibit 7: Higher Share of Gold with Indian Households



Source: WGC, Nirmal Bang Institutional Equities Research

Exhibit 8: Yearly Imports of Gold by India at 700-800 Tonnes

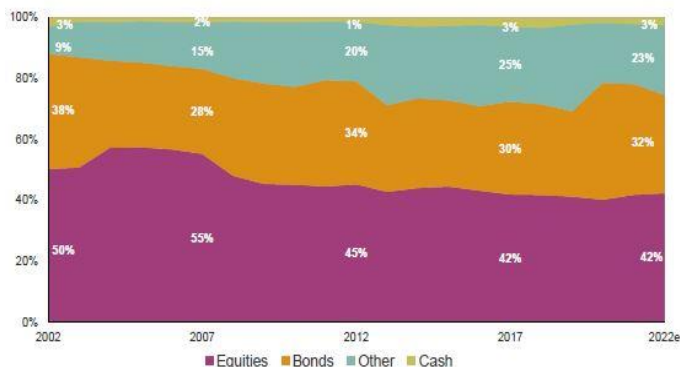


Source: WGC, Nirmal Bang Institutional Equities Research

In terms of physical gold holdings, India constitutes major source of consumption demand for jewellery. Indian households hold ~50% of world's total gold holdings and annual gold imports by India stand at 700-800 tonnes. Further, the rising institutional investment globally into alternative asset classes including gold, is also expected to be one of the demand drivers for gold (Source: Global Pension Asset Study 2023 by WTW). In India also the trend of passive investments into gold has picked up and as per the latest data on RBI and AMFI website, investments into Sovereign Gold bonds and gold ETFs stand at Rs 560.8bn and Rs 270bn respectively.

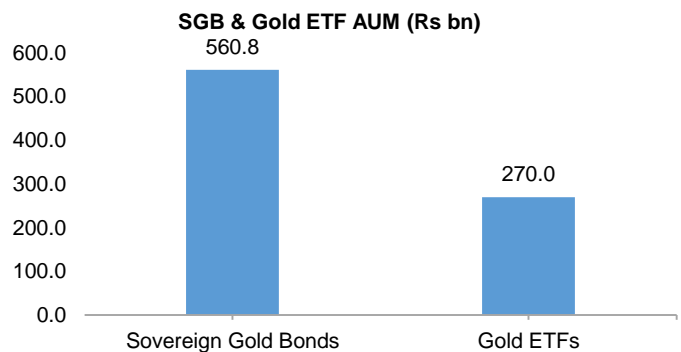
Outlook 2024 for gold prices released by WGC on December 7, 2023 mentioned that ongoing geopolitical tensions in some parts of the world, central bank buying gold and 25-55% probability of hard landing situation in US (worst case of 3 scenarios given by WGC), are factors that should support gold prices in 2024.

Exhibit 9: Alternative Invt. Including Gold on Rise



Source: Willis Towers Watson, Global Pension Asset Study 2023, Nirmal Bang Institutional Equities Research

Exhibit 10: Sizeable Invt. in SGB and Gold ETFs in India



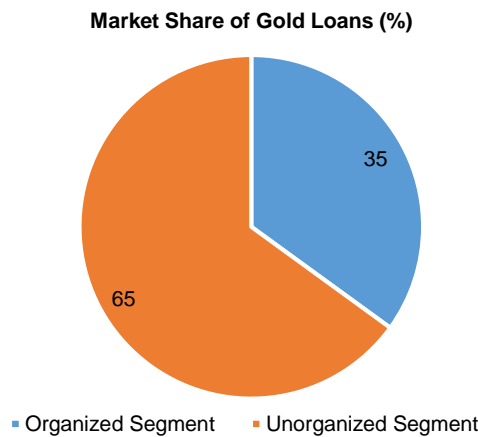
Source: RBI, AMFI, Nirmal Bang Institutional Equities Research

Gold Finance: Market Potential at 4x the Present Size of Organized Gold Loan Market

As per Crisil MI&A estimates, as of March 2023, the gold pledged with organized gold loan financiers constituted around 7% of the 28000 tonnes of gold holdings in Indian Households. At the average market price of Rs 62219 per 10 gram of gold in December 2023, monetising even 20% of the gold stock in the form of a loan at a 70% loan-to-value ratio (“LTV”) is expected to lead to a Rs 24 trillion market opportunity for financiers. This is 4x the present size of organized gold loan market at >Rs 6tn (banks + NBFCs, includes agri gold loans).

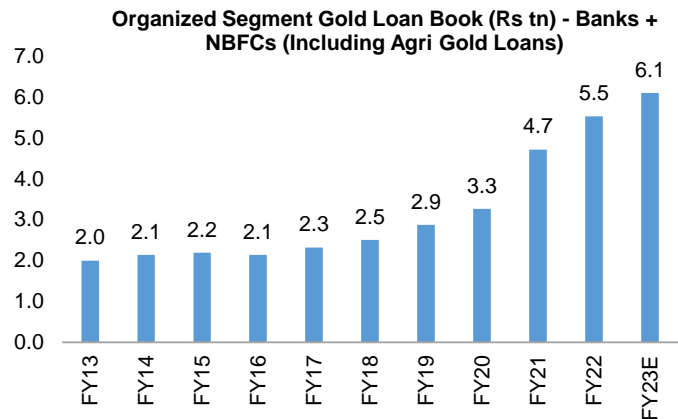
Other point to take note of is that, 65% of the gold stock in the country is in rural India, where besides banks, gold loan NBFCs like Muthoot Finance (MFL) and Manappuram Finance (MGFL) have a good presence. Going ahead, as the shift from unorganized segment (moneylenders, pawn brokers especially based out of rural / semi-urban locations) to organized segment keeps happening, it will aid the growth for gold financiers (banks and NBFCs included).

Exhibit 11: Share of Unorganized Segment Still at 35%



Source: Industry, Nirmal Bang Institutional Equities Research

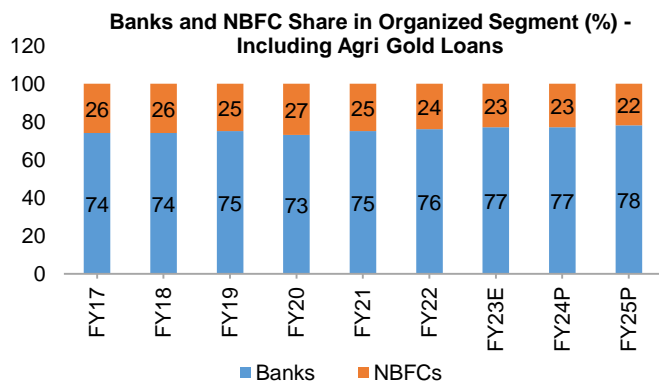
Exhibit 12: Present Organized Gold Loan Market at >Rs 6tn



Source: Fedfina IPO Prospectus, Nirmal Bang Institutional Equities Research

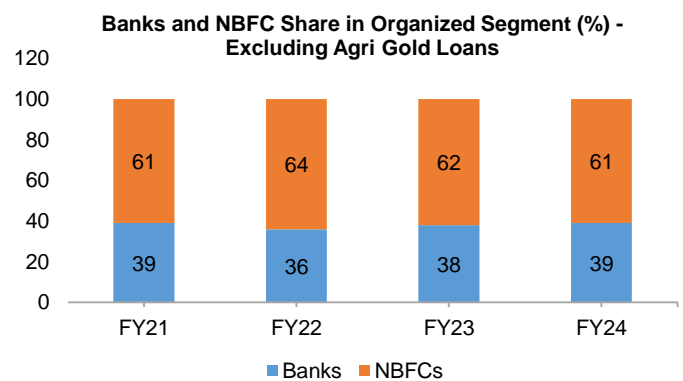
Banks have gained market share in gold loans since 2021 (partly due to higher LTV cap of 90% allowed by the RBI during COVID times on retail gold loans, which stands restored to 75% now), rise in gold prices, demand from small businesses for cash and increased focus of banks towards this segment. However, if we exclude agriculture gold loans from the total gold loan books of banks, we can see that the market share of NBFCs in retail gold loan segment has remained relatively stable at over 60%. Within NBFCs, Muthoot Finance (44% share), IIFL Finance (15%), Manappuram Finance (14%) and Muthoot Fincorp (13%) together constituted 86% of the gold loan portfolio of NBFCs in FY23. Other key NBFC players in gold loans include, Shriram Finance (3%), Kosamattam Finance (3%), Bajaj Finance (3%), Muthoottu Mini (2%), Fedbank Financial Services (2%) and SBFC (1%).

Exhibit 13: Banks Continue to Gain Market Share in Gold Loans (including agri gold loans)



Source: Fedfina IPO Prospectus, Nirmal Bang Institutional Equities Research

Exhibit 14: NBFCs market share relatively stable in retail gold loans



Source: Crisil Press Release, Nirmal Bang Institutional Equities Research

Leading Gold Loan NBFCs well Adapting to Changing Times

While banks have always had the reach across metros to rural locations, prior to COVID only a small proportion of their branches were enabled for gold lending. With increased risk aversion to riskier lending segments during COVID, they invested significantly in gold lending infrastructure across their existing physical/digital network. As a result, in the case of most banks, the proportion of gold lending enabled branches now stands between 60-100% and leading banks have been offering doorstep services on its own or through tie-ups with fintechs. In our view, while the competition from banks is here to stay, the competitive intensity appears to have reduced post COVID with the rollback of teaser rates of <12% by gold NBFCs (which they offered to gain back customers from banks) and banks/non-gold NBFCs focusing back on other segments. From data given in [Exhibit 16](#) on the next page we can see that the yield on AUM in case of Muthoot Finance, Manappuram Finance and IIFL Finance has improved in H1FY24 by 148-330bps vs FY23, one reason for which has been relatively reduced competitive intensity from banks.

Exhibit 15: Gold Loan Network of Banks and NBFCs

Company Name	Total Branches	% of gold lending enabled branches	Gold Loan Enabled Branches
Banks			
ICICI Bank	6,248	100	6,248
HDFC Bank	7,945	57	4,544
SBI	22,500	80	18,000
Federal Bank	1,389	100	1,389
City Union Bank	752	90	677
Gold NBFCs - Consolidated No.s			
Muthoot Finance	6,169	77	4,745
Manappuram Finance*	5,286	67	3,524
IIFL Finance	4,596	59	2,706
Muthoot Fincorp'	3,619	100	3,619

Source: Company, Nirmal Bang Institutional Equities Research

*Group level branches of Manappuram Finance include 221 gold lending enabled branches of Asirvad MFI

While the banks have focused on higher ticket sizes of Rs 0.2-Rs 0.3mn and above at competitive interest rates, the present growth in AUM of gold loan NBFCs is driven by 3 factors –

- Customer retention ratios at 70-80%:** Holding on to existing customers by offering better services, quick TAT and longer working hours than banks (thereby reducing opportunity cost for employed customers). The focus here is on re-activating part of inactive customer base and offering more loans to active customers who bring in added collateral.
- Higher yielding small/mid-size loans:** Focus on small and mid-size loans with ticket sizes upto Rs 100000. Muthoot Finance and Manappuram Finance target customers at the lower end of the economic strata with an average ticket size in the range of Rs 55000 – Rs 70000 and yields in the range of 17-21%. IIFL Finance which now is the 2nd largest NBFC in gold loans, has average ticket size of Rs 65000 with yields close to 18%.
- Network Expansion:** Increasing reach by expanding branch networks.

For gaining new customers, NBFCs are focusing on the following categories:

- Getting market share from the unorganized segment:** The customer base of pawn brokers, moneylenders and credit co-operative societies from the unorganized gold lending segment.
- Pulling in banks' customers:** Competing with banks on service levels, TAT and offering lower interest rates selectively to customers opting to shift from banks to these NBFCs.
- NTGL Customers:** New to Gold Loan customers from rural as well as urban areas.
- New geographies:** Especially Non-South locations where the stigma associated with Gold Loans has been high.
- Promoting gold loans as lifestyle product:** Positioning Gold Loans in metro/urban areas as a lifestyle product. This segment is bringing in relatively higher ticket size loans for NBFCs.
- Some shift from the unsecured segment:** Attracting customers from unsecured loan segments (which has seen regulatory tightening recently) who have gold collateral.

Exhibit 16: Comparison of Key Financial Parameters of Top 4 Gold Loan NBFCs

	Muthoot Finance				Manappuram Finance				IIFL Finance				Muthoot Fincorp		
	FY21	FY22	FY23	H1FY24	FY21	FY22	FY23	H1FY24	FY21	FY22	FY23	H1FY24	FY21	FY22	FY23
Size															
Branches (No.s)	5,451	5,579	5,838	6,169	4,637	5,057	5,232	5,286	2,563	3,296	4,267	4,596	3,652	3,667	3,619
Employees (No.s)	25,911	26,716	27,273	28,097	30,522	41,396	48,369	45,269	19,825	28,369	33,910	-	16,551	16,873	17,899
Customer base (Mn)	5.2	5.3	5.3	5.5	5.1	5.1	5.9	6.4	3.3	3.8	4.8	4.6	-	-	-
AUM (Rs bn)	583	645	715	795	272	303	355	389	447	512	646	731	229	227	257
NII (Rs bn)	71	77	73	43	40	38	43	26	28	31	41	27	17	20	26
Operating Profit (Rs bn)	54	58	52	31	28	23	23	17	15	15	20	14	7	7	12
PAT (Rs bn)	38	40	37	21	17	13	15	11	8	12	16	10	4	4	6
AUM Mix (%)															
Gold	89.1	89.2	86.5	84.9	70.1	66.6	55.7	53.4	29.4	31.7	32.1	32.4	-	-	-
Vehicle Finance	0.6	0.3	0.5	0.8	3.9	5.4	6.9	8.1	-	-	-	-	-	-	-
Home Loan	2.9	2.3	2.0	2.0	2.4	2.8	3.1	3.4	32.3	34.6	33.7	32.9	-	-	-
Loan Against Property	-	-	-	-	-	-	-	-	16.7	11.1	10.3	9.8	-	-	-
Microfinance	5.7	6.8	8.7	9.9	21.8	22.0	26.2	25.9	10.6	12.0	15.1	15.5	-	-	-
On-lending	-	-	-	-	-	0.1	2.5	2.4	-	-	-	-	-	-	-
MSME and Allied	-	-	-	-	1.8	3.0	5.6	6.9	-	-	-	-	-	-	-
Digital Loan	-	-	-	-	-	-	-	-	-	3.7	3.9	4.8	-	-	-
Overseas Subsidiary	0.9	0.7	0.7	0.6	-	-	-	-	-	-	-	-	-	-	-
Others	0.8	0.7	1.5	1.7	-	-	-	-	11.0	6.9	4.9	4.6	-	-	-
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	-	-	-
Key Ratios (%)															
AUM Growth	24.3	10.7	10.9	23.5	7.9	11.2	17.2	27.0	17.8	14.6	26.2	32.1	30.7	(1.1)	13.5
NII Growth	13.9	7.9	(4.2)	26.2	15.1	(3.6)	11.1	29.8	26.3	12.5	31.9	46.6	22.4	18.0	28.1
Operating Profit Growth	21.1	7.6	(10.9)	32.5	22.8	(17.6)	3.5	46.1	103.8	0.8	33.0	53.2	0.0	3.5	55.2
PAT Growth	20.5	5.6	(9.0)	23.9	16.5	(23.0)	12.9	53.1	51.1	56.2	35.3	37.4	54.0	3.8	56.7
Yield on AUM	21.3	19.4	17.0	19.1	23.6	20.3	19.6	22.9	13.1	12.8	12.7	14.2	18.7	18.0	20.0
Cost of Funds	9.0	8.1	7.6	9.0	9.8	8.6	8.3	9.1	8.8	8.8	8.6	9.6	10.6	9.3	9.2
Spreads	12.3	11.3	9.4	10.1	13.8	11.7	11.3	13.8	4.4	4.0	4.2	4.6	8.1	8.7	10.8
NIM	13.5	12.5	10.8	12.0	15.1	13.3	12.9	15.2	6.8	6.6	7.2	8.5	8.5	8.9	10.7
Cost to Income	27.9	27.4	33.5	31.8	33.7	44.8	48.5	42.3	54.7	61.9	60.9	55.5	64.6	67.2	60.2
Cost to average assets	3.4	3.0	3.3	3.6	4.6	5.7	6.0	6.0	4.9	5.8	6.4	6.6	5.5	5.6	5.8
GNPA	0.9	3.0	3.8	-	1.9	2.9	1.3	-	2.5	3.1	1.4	-	1.9	2.9	2.1
NNPA	0.7	2.6	3.3	-	1.5	2.7	1.1	-	0.9	1.6	0.6	-	1.0	1.6	0.6
PCR	16.1	13.6	12.7	-	20.1	8.1	13.5	-	64.9	49.2	55.7	-	47.3	45.6	72.5
Credit costs	0.4	0.6	0.3	0.6	1.6	1.6	0.9	1.2	1.2	0.0	(0.1)	0.2	0.8	0.8	1.1
RoA	6.2	5.6	4.7	5.3	5.7	4.1	4.1	5.2	2.0	2.7	3.3	3.8	1.7	1.5	2.1
RoE	27.5	23.1	17.8	19.6	26.2	16.9	16.7	21.7	15.0	20.0	19.3	19.3	14.0	12.2	16.2
CAR	27.4	30.0	31.8	30.3	29.0	31.3	31.7	30.7	25.4	23.9	20.4	20.5	16.9	19.4	21.3
Tier-1 Capital	26.3	29.1	31.0	29.6	28.7	31.0	31.7	30.7	17.5	16.0	12.9	13.1	12.1	14.7	16.5
BV (Rs)	380	457	525	552	86	99	114	125	142	170	268	294	157	193	220
P/BV (x)	3.9	3.3	2.8	2.7	2.0	1.8	1.5	1.4	4.6	3.8	2.4	2.2	-	-	-
Gold Loan Business Comparison															
Gold AUM (Rs bn)	519,266	575,313	618,753	675,171	190,821	201,679	197,462	208,085	131,490	162,280	207,330	236,900	-	-	-
Gold Loan Branches (No.s)	4,632.0	4,617.0	4,739.0	4,745.0	3,524.0	3,524.0	3,524.0	3,524.0	1,881.0	2,359.0	2,653.0	2,706.0	-	-	-
Customer base (lakhs)	5.2	5.3	5.3	5.5	2.6	2.4	2.3	2.3	-	-	-	-	-	-	-
ATS (Rs)	61,743	68,739	75,949	79,482	44,600	56,600	57,500	57,600	58,580	69,900	62,500	73,800	-	-	-
LTV (%)	-	-	-	-	71.0	62.0	60.0	66.0	71.0	70.0	69.0	-	-	-	-
Tonnage	171	187	180	183	65.3	68	60.1	59.4	41.3	51.7	59.2	63.0	-	-	-

Source: Company, Nirmal Bang Institutional Equities Research

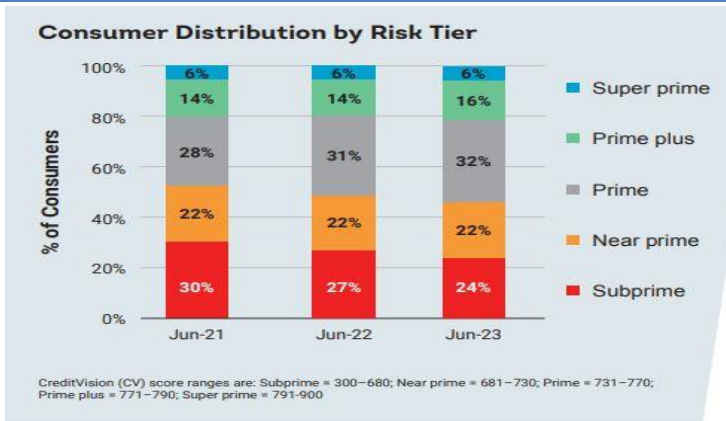
Gold Loan NBFCs in a Sweet Spot in Light of RBI Circular on Increase in Risk Weights

Asset Side Impact: With Muthoot Finance and Manappuram Finance's loan books (which consist of secured loans mainly gold loans) largely being excluded from the scope of RBI circular dated November 17, 2023 (on increase in risk weights for consumer credit/loans to NBFCs), there is no impact on their CET-1 which is high, close to ~30%.

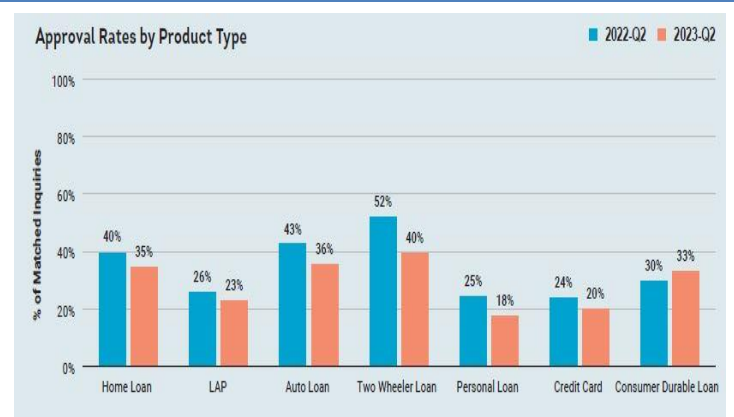
Liability Side Impact: With banks becoming risk averse in lending to NBFCs (especially lower rated ones), gold loan NBFCs are also expected to see a cost of fund increase of 15-20bps. However, due to collateralized nature of their lending and better credit ratings, they are likely to get bank's preference over other NBFCs, thus giving an edge to them for getting funding from banks at relatively better rates. Further on the asset side these NBFCs can easily pass on the impact of increased cost of funds to customers, as the latter borrows largely for non-discretionary short-term expenses (indicating price inelastic demand).

Shift from Unsecured Credit to Gold Loans: Post the above-mentioned RBI circular came into effect, banks are becoming risk averse towards unsecured personal loan segments, have tightened their credit appraisal standards for personal loans (PL) and as per [media reports](#) credit card limits for some customers are being reduced by banks. As per June 2023 data by TransUnion CIBIL in two charts given below we have made an important observation. Though the proportion of subprime customers in retail credit had declined from 30% in June 2021 to 24% in June 2023 (much before RBI circular in Nov 2023), the approval rates (given in Exhibit 12) for most retail loans including credit card/unsecured PL had gone down. Which shows that banks had started taking a cautious stance on certain segments a few months before RBI announced the restrictions on unsecured lending.

Exhibit 17: Movement across Risk Tiers in Consumer Credit **Exhibit 18: Loan Approval Rates (%)**



Source: TransUnion CIBIL, Nirmal Bang Institutional Research



Source: TransUnion CIBIL, Nirmal Bang Institutional Equities Research

In our channel checks with banks and interaction with industry laterals, we have been informed that some customers who are not eligible for credit card loans but have gold collateral and those customers not wanting to go through the hassle of lengthy documentation for business loans at higher interest rates (relative to bank's lower rates for gold loans), are preferring to borrow by pledging their gold. In the table below we have done a rough calculation on the impact of possible minor shift of unsecured credit card/PL to gold loans (over a period of time) leading to the latter's market size increasing from ~Rs 6.7tn (estimated by us for September 2023) to Rs 8.6tn, if there is a 1% market share shift. The demand for lower ticket sizes here is expected to be tapped by NBFCs.

Exhibit 19: Impact of Possible Minor Shift of Unsecured Credit to Gold Loans

Particulars	30-Sep-23		Impact of Possible Minor Shift of Unsecured Credit to Gold Loans			
	Loan Amount (Rs bn)	Proportion (%)	% Shift in Unsecured Credit Assumed	Absolute Impact (Rs bn)	Loan Amount (Rs bn) - Post Shift	Proportion (%) - Post Shift
Est. Gold Loans (including agri.)	6710	3.6	-	1885	8595	4.6
Credit Cards (Banks + NBFCs)	2664	1.4	0.5	-942	1722	0.9
Other PL (Banks + NBFCs)	15651	8.3	0.5	-942	14709	7.8
NBFC - MFI Loans	1169	0.6	-	-	1169	0.6
Total Credit (Banks + NBFCs)	188452	100.0	1.0	-	1,88,452	100.0

Source: RBI, Nirmal Bang Institutional Equities Research

Interaction with Banks & Fintech Managements / Ground Level Checks

We met the managements of banks with a sizeable proportion of gold loans in their loan mix, interacted with one leading gold loan fintech management and also did our ground level checks with branches of a different category of lenders in key gold loan hubs in Kerala and Mumbai. From our channel checks we observed that the market potential for gold loans to grow is huge and certain non-traditional customer segments also are now being tapped. Besides a major shift happening from the unorganized gold loan segment to organized segment and minor shift from unsecured loans to gold loans anticipated over a period of time, demand for gold loans is also coming from first time borrowers. The non-south locations where stigma of borrowing against gold has been high and relatively affluent metro/urban markets, are areas that are opening up for gold finance.

Meeting with Managements of South-Headquartered Private Banks

We recently met the managements of four private banks headquartered in South India: [Federal Bank](#), [Karur Vysya Bank](#), [City Union Bank](#) and [CSB Bank](#), in order to get an update on their overall business and growth plans ahead and also their strategy in the gold loan segment, the share of which comprises 12-47% of their loan books. Following are key highlights:

- **Importance of gold loans in lending portfolio:** Gold loan as a standalone product is very good for these banks in terms of – (1) Relatively higher yield as compared to other retail assets, (2) Lower loss ratios and (3) Lower RWA consumption with zero to low-risk weights.
- **Ticket sizes, interest rates and tenures:** As against NBFCs which are into lower ticket sizes with higher yields, the ticket sizes for these banks range from Rs 75000- Rs 300000 with interest rates in the range of 8.5-9.5% for agri gold loans and 9.5-14% for retail gold loans. Major proportion of gold loan book, is agriculture gold loans. The LTV for retail gold loans is capped at 75% as per regulatory norms. In case of agri gold loans there is no cap and LTVs go up to 85-90%. Average tenure ranges from 6 months to 12 months. The advantage of lower tenures in Gold Loans is that the same can be renewed and besides the benefit of higher yields, the lenders also get processing fees.
- **Cross-selling opportunities in higher ticket sizes:** In most cases, it is necessary for the customer to have a savings deposit account with the bank, which also provides cross-selling opportunities to these banks, where the focus is on higher ticket size gold loans at Rs 0.2-0.5mn.
- **Gold lending Infrastructure and tie-ups:** 90-100% of branches are enabled for gold lending. Most branches have inhouse valuers. For Federal Bank, >85% of the gold loan customers are sourced through own branches (including doorstep facility) and <15% through fintech partners like Rupeek and Oro Money. In the case of Karur Vysya Bank, it has recently entered into a co-lending tie-up with IIFL gold loans.
- **Competition with gold loan NBFCs:** Being present in similar geographies as most gold loan NBFCs, these banks are a serious competition for the latter. But since gold loans is not a single focus area for banks and most loans are being given to ETB customers in higher ticket size range with potential for cross selling deposit/other loan products to bank customers, it's not a major area of concern for NBFCs here.

Exhibit 20: South Headquartered Banks Gold Loan Book

Bank Name	30-Sep-23				
	Gold Loans incl Agri (Rs bn)	Proportion (%)	Yield (%)	LTV (%)	Tonnage
Federal Bank	226.1	11.7	10.1	74.4	57.5
CSB Bank	106.2	47.3	11.7	81.0	24.9
Karur Vysya Bank	176.7	25.1	9.5	70.0	-
City Union Bank	108.8	24.9	9.5	68.0	-
South Indian Bank	150.0	20.0	-	-	-
Market Share in Gold Loans (%)	11.4	-	-	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Interaction with the Top Management of a Leading Gold Loan Fintech

We interacted with the top management of a leading gold loan fintech company having co-lending tie-ups with banks. Following are the key highlights of the discussion:

Gold loan demand from MIG/HIG/HNI segments are picking up: Unlike in the past where customers preferred to keep their gold parked as an asset in bank lockers or taking gold loans mainly for emergency funding, usage of gold loans amongst MIG/HIG segments as a lifestyle product has been picking up. The HNI segment is also tapping into gold loans by borrowing in ticket sizes above Rs 1mn for business purposes for their working capital requirements.

Besides shifting from other segments, new to gold loan customers are also increasing: Besides shift from the unorganized sector, new to gold loan customers are also increasing. With banks becoming risk averse towards unsecured credit post implementation of RBI circular (on increase in risk weights), some shift is expected to happen from this segment as well towards gold loans. Even if a small portion of unsecured credit market shifts to gold loans, it will have a meaningful impact because the share of gold loans in overall total credit pie is low.

Target customer base: Major business of fintech happens through doorstep facilities to a largely urban customer base. In the coming year, the company has plans to expand into rural and semi-urban locations. 55-60% of the customers are self-employed and the remaining are salaried.

Tenures and repayment structure: The loan tenures range from 6 months to a year. For repayments it has both bullet loans where interest has to be paid at the end of the tenure and monthly interest payment option (which has rebate structure in place). It has also come out with gold back credit cards.

Tie-ups with banks: The company has tie-ups with large banks as per regulations in either co-lending model (CLM) or digital lending guidelines (DLG). The company takes care of the entire customer experience while adhering to each bank's relevant processes on KYC, underwriting etc. The customer journey of lead generation, slot booking, interest & principal payments, closures etc are done through the fintech app. As the company operates through tie-ups with banks in urban locations, interest rates are competitive.

Benefit from customer point of view: From a customer point of view, with the pledged gold kept in the lockers of nearby affiliated bank/NBFC and an element of insurance cover has provided a sense of comfort to the customers from a safety and security point of view.

Key Takeaways from Channel Checks at Key Gold Loan Hubs in Kerala / Mumbai

We visited the branches of banks, NBFCs, Nidhi companies (regulated by Ministry of Corporate Affairs under Companies Act, 2013), chit fund companies, co-operative banks at key hubs in Kerala and Mumbai, known for their high activity in the gold loan segment. The key differentiation amongst different category of these lenders in gold loan segment is on: (1) Clients and their loan requirements, (2) Loan tenure (3) Interest rates, (4) Service levels and TAT (5) Repayment structure.

Gold loan NBFCs

- NBFCs compete on TAT as low as 5-15min, service levels and ease of processing, have almost NIL processing charges and no foreclosure charges, allow part-release of collateral on part prepayment. With longer working hours at these NBFC branches and relatively lower TAT, it reduces the opportunity cost for employed customers. A leading NBFC, the branch of which we visited in Kerala, has been able to get customers shifted from banks, in ticket size range of Rs 0.1-0.3mn in that area.

Banks

- Banks are competing by offering lower interest rates and their activity is higher in agri gold loans which qualify for PSL. TAT of most banks is competitive at 5-60min. But some of the turn-offs for customers here include – higher processing fees, foreclosure charges and penalties, part release of ornaments not being allowed, follow ups of customers not happening for monthly interest payments (which increases their interest cost at end of tenure), requirement of having SA account with the bank prior to taking loan and lesser working hours of banks as compared to NBFCs (which increases opportunity cost for employed customers).

Nidhi Companies

- Nidhi companies offer higher LTVs of 80% and have a model similar to that of co-operative banks, where the customers have to become shareholders before taking first loan.

Customer Sourcing

- Unlike banks which operate on a digital platform and have greater reach to MIG/HIG segments, NBFCs are following a grassroots level approach by reaching out through local advertisements, marketing campaigns etc.
- The sourcing of customers is a mix of walk-ins/doorstep lending/digital. Considering the stigma associated with gold loans in certain parts of country, lenders offer doorstep facility.

Credit Appraisal Process

- The lender does the KYC based on identity and address proofs. For loans above Rs 0.5mn PAN card is required and for ticket sizes above Rs 2.5mn IT returns/HO approval is required. For agriculture loans land documents are required. Post this based on the quantity of gold and purity tests, the lender informs the customer on the amount of loan they are eligible for. In terms of the extant RBI guidelines, the NBFCs currently can lend up to 75% of the previous 30 days' average closing gold price (22 carat gold) of the gold content in the jewellery. Gold prices by most lenders are taken from Indian Bullion and Jewellery Association. The disbursements happen through electronic mode/cheque/cash as per the customer's preference. All gold NBFCs and most south headquartered banks have inhouse valuers. Surveillance cameras and other security is in place at the branches.

Collection Process

- If the customer doesn't pay, as a first step reminders are sent through message/phone. The next step is paying home visits. If the loan turns NPA, generally 2-4 months of additional time is given to customer to repay before auctioning it.

Impact of gold prices on demand

- Generally, with increasing gold prices customers tend to borrow more against same collateral or may deposit more jewellery to borrow even further. However, some category of customers prefer to release part collateral and keep the loan amount same.

Interest Rates

- The interest rates vary based on - (1) LTV - higher LTV means higher risk and hence higher rates (2) Lower rates on higher ticket sizes (3) Rebate offered on monthly interest payments by NBFCs/Fintechs reduces effective interest rates to 12-15% as against 18-24% if payment is done at the end of the tenure. (refer [Annexure-III](#) on interest rate comparison)
- Demand for smaller ticket loans from LIG segment tends to be inelastic as the loan is usually taken for non-discretionary purpose. Competitive Intensity is higher in PL/BL in higher ticket sizes.

Ticket Size

- Banks are focused on higher ticket sizes of Rs 0.2-Rs 0.5mn at lower interest rates.
- Metro/urban branches of same NBFCs have higher ticket size of Rs 100000 as compared to Rs 50000-100000 ticket size in semi-urban/rural areas.

Tenure / Repayment Structure

- For most NBFCs it is bullet repayment with option of monthly interest payments with rebate structure in place. Principal repayment is at the discretion of the borrower and can be rolled over at the end of tenure which is usually 3 months to 1 year. Banks have both Bullet/EMI options.

End Usage

- While it is difficult to track the end usage of these loans, mostly it's either for immediate funding for personal use or short-term working capital requirements for small businesses. We didn't see signs of over-leveraging of borrowers here.

Seasonality

- Usually, the customers take gold during festive season and deposit it back in bank as collateral for fresh loans after the festival is over.

Visit to an Unorganized Jeweller

We also visited an unorganized jeweller at Mumbai's Zaveri Bazar area in order to understand the ticket sizes and socio-economic strata of customers who are buying gold. Following are the takeaways:

- Gold jewellery sales in volume terms have been growing 5-10% annually and in value terms it is in healthy double digits due to price appreciation.
- 50% of customers are self-employed and remaining 50% are salaried. In value terms self-employed businessmen are 95%, buying ticket sizes of upto Rs 20-30mn, which is mostly a one-time investment for marriage purpose. The remaining 5% from the salaried segment buy smaller ticket sizes.

In our view, part of the incremental gold jewellery being brought in the country will be the collateral for gold loans in future. For business use, the demand will come for working capital requirements for small businesses. Besides this, microenterprises, and startups with initial investment requirement in few lakhs, could also comprise the demand for gold loans.

Exhibit 21: Channel Check of Gold Loan Branches at Kerala – Part-1

Particulars	Manappuram Finance	KLM Axiva Finance	Muthoot Vehicle Fin Branch*	Bank of Baroda	Treasure Tree Investments
Place	Kerala	Kerala	Kerala	Kerala	Kerala
Geography	Urban	Urban	Urban	Urban	Semi-Urban
Interest Rates	12%-21%	6%-20%	10.9%-21%	8.7%-9.15%	8%-18%
Processing Charges	Rs 12	Nil	Rs 20 - Rs 50	0.25% for loans > Rs 0.3mn	
Foreclosure Charges	Nil	Rs 50	Nil	Nil	20% - Only for EMI loans
Ticket Size (Rs)	Rs 100000	Rs 2000 - Rs 2.5mn	Rs 50000-100000	Upto Rs 5mn	Rs 50000 - Rs 0.5mn
Tenure	4-5 months	Upto 1 year	1 year	1-3 year	6-12 months
LTV (%)	70%	70%	70%	70%	70-75%
Documents Required	Identity/address proofs, for higher ticket sizes PAN card/IT returns/HO approvals required	Identity/address proofs	Identity/address proofs	Identity/address proofs, land documents for agriculture loans	Identity/address proofs
TAT (min)	10-20min	30min	5-10min	30min, over a day for agri loans	5-15min
Structure of Repayments	Bullet with monthly/end of tenure interest payment	Bullet with monthly/end of tenure interest payment	Monthly interest payment/principal at end of tenure	Term loan, cash credit, OD, bullet/EMI options	Bullet with monthly interest/EMI
Carat Accepted	18-22	18-22	18-22	18-22	18-22
Part Release of Ornaments	Yes	Yes	NA	No	Yes
Branch Timing	8.30am - 5.30pm	9.30am - 5.30pm	9am - 5.30pm	10am-5pm	9am-5.30pm

Source: Lender Branches, Nirmal Bang Institutional Equities Research

*Part of Muthoot Promoter Group Entity

Exhibit 22: Channel Check of Gold Loan Branches at Kerala – Part-2

Particulars	NTC gold loans	CSB Bank	Federal Bank	Manappuram Finance	Muthoot Fincorp
Place	Kerala	Kerala	Kerala	Kerala	Kerala
Geography	Semi-Urban	Semi-Urban	Semi-Urban	Semi-Urban	Semi-Urban
Interest Rates	9.9%-24%	9.5%-12%	8.9%-14%	10%-18%	11.5-23%
Processing Charges	Minimal	0.5% + GST	0.25% + GST	Rs 12	Nominal
Foreclosure Charges	Nil	Not in new schemes	Not charged	Nil	Nil
Ticket Size (Rs)	Rs 50000	Rs 100000- Rs 300000	Rs 100000 - Rs 300000	Rs 50000 - Rs 100000	Rs 2000 – Rs 100000
Tenure	3-12 months	6 months	6 months to 1 year	3-12 months	6 months to 3 years
LTV (%)	70%	75-80%	70-85%	70-75%	70%
Documents Required	Identity/address proofs	Identity/address proofs, land documents/tax receipts for agriculture loans	Identity/address proofs, land documents/tax receipts for agriculture loans	Identity/address proofs	Identity/address proofs
TAT (min)	30min	30min	30min	10-20min	5-15min
Structure of Repayments	Bullet	Term loan, OD, bullet/EMI options	Term loan, OD, bullet/EMI options	Bullet with monthly/end of tenure interest payment	Bullet
Carat Accepted	18-22	18-22	18-22	18-22	18-22
Part Release of Ornaments	NA	No	No	Yes	Yes
Branch Timing	9.30am-5pm	9.30am-4pm	10am-5pm	8.30am-5.30pm	9.30am-5pm

Source: Lender Branches, Nirmal Bang Institutional Equities Research

Exhibit 23: Channel Check of Gold Loan Branches at Kerala – Part-3

Particulars	Muthoot Finance	Thrissur Nidhi Company	Federal Bank	NTC Nidhi	Manappuram Finance
Place	Kerala	Kerala	Kerala	Kerala	Kerala
Geography	Urban	Urban	Urban	Urban	Urban
Interest Rates	9.9%-21%	18-20%	9.2%-14.9%	15%-24%	10.9-21%
Processing Charges	Nominal	Nominal	1% + GST	Nominal	Negligible
Foreclosure Charges	Nil	Nil	Not charged	NA	No
Ticket Size (Rs)	>Rs 100000	Rs 40000 - Rs 0.75mn	Rs 100000 - Rs 300000	Rs 100000 – Rs 500000	Rs 100000
Tenure	7 days to 12 months	1 year	6 months - 36 months]	3 months to 12 months	Upto 12 months
LTV (%)	70%	80%	77.50%	60-80%	70%
Documents Required	Identity/address proofs	Identity/address proofs	Identity/address proofs, land documents for agriculture loans	Identity/address proofs	Identity/address proofs, for higher ticket sizes PAN card/IT returns/HO approvals required
TAT (min)	5-15min	30min	30min	30min	10-20min
Structure of Repayments	Bullet with monthly/end of tenure interest payment	Monthly/Quarterly interest	EMI/Bullet	Bullet with monthly interest option	Bullet with monthly interest option
Carat Accepted	18-22	18-22	18-22	18-22	18-22
Part Release of Ornaments	Yes	NA	No	NA	Yes
Branch Timing	9am-5.30pm	9.30am-5.30pm	10am-3.30pm	9.30am-5pm	9am-6pm

Source: Lender Branches, Nirmal Bang Institutional Equities Research

Exhibit 24: Channel Check of Gold Loan Branches at Mumbai – Part-1

Particulars	ICICI Bank	Kotak Bank	Karur Vysya Bank	South Indian Bank	City Union Bank
Place	Mumbai	Mumbai	Mumbai	Mumbai	Mumbai
Geography	Metro	Metro	Metro	Metro	Suburbs
Interest Rates	9%-13%	9.6%-15%	8%-10.1%	9.1%-12.4%	9.5%-12.5%
Processing Charges	1% of loan amount	2% + GST	0.3% + GST	Rs 200 + GST	0.5% of loan amount
Foreclosure Charges	1% before 12 months	2% + GST before tenure end	No	No	2% + GST
Ticket Size (Rs)	Rs 100000 - Rs 200000	Rs 500000 - Rs 600000	Rs 100000 - Rs 200000		>Rs 100000
Tenure	Upto 12 months	12 months to 36 months	3 months to 1 year		1 year
LTV (%)	70-75%	70%	70%	70-90%	70%
Documents Required	Identity and address proofs	Identity/address proofs, for higher ticket sizes PAN card/IT returns/HO approvals required	Identity and address proofs	Identity and address proofs	Identity and address proofs
TAT (min)	30-60min	1-2 hours	30min	30min	30min
Structure of Repayments	EMI/Bullet	EMI/Bullet	EMI/Bullet	EMI/Bullet	EMI/Bullet
Carat Accepted	18-22	18-22	18-22	18-22	18-22
Part Release of Ornaments	No	No	No	No	No
Branch Timing	9.30am-3pm	9.30am-3.30pm	10am-4pm	10am-4pm	10am-4pm

Source: Lender Branches, Nirmal Bang Institutional Equities Research

Exhibit 25: Channel Check of Gold Loan Branches at Mumbai – Part-2

Particulars	Axis Bank	State Bank of India	Saraswat Bank	IIFL Gold Loans
Place	Mumbai	Mumbai	Mumbai	Mumbai
Geography	Suburbs	Suburbs	Suburbs	Metro
Interest Rates	9.55%-19%	8.99%-9.1%	9.25%	11.96%-24%
Processing Charges	0.5% of loan amount	0.25-0.5% of loans	External valuer charges Rs 500 + GST	
Foreclosure Charges	2% for 0-6 months	Not charged	Not charged	Not Charged
Ticket Size (Rs)	Rs 300000 - Rs 350000	Rs 300000	Rs 200000	<Rs 50000
Tenure	12 months to 36 months	3 months to 36 months	Upto 12 months	1 year
LTV (%)	70%	70%	NA	70-75%
Documents Required	Identity and address proofs	Identity and address proofs	Identity and address proofs	Identity and address proofs
TAT (min)	30min	60min	60min to a day	5-10min
Structure of Repayments	EMI/Bullet	EMI/Bullet	Bullet	Bullet with monthly payment option
Carat Accepted	18-22	18-22	18-22	18-22
Part Release of Ornaments	No	No	No	Yes
Branch Timing	9.30am-3.30pm	9.30am-3.30pm	9.30am-3pm	9am-6pm

Source: Lender Branches, Nirmal Bang Institutional Equities Research

Exhibit 26: Few Images from our Kerala Visit

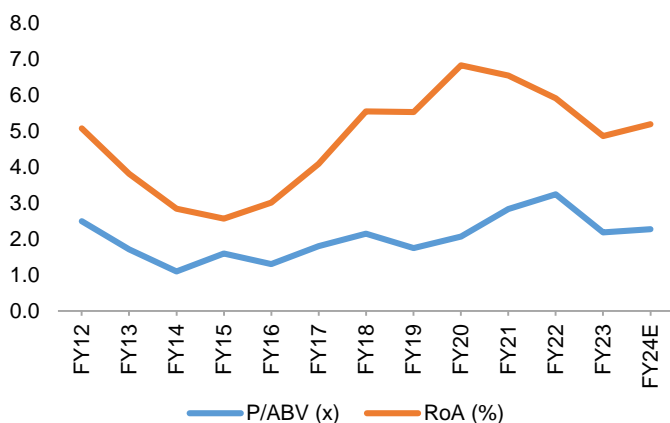


A Look at the Valuation History of Gold Loan NBFCs across Business Cycles

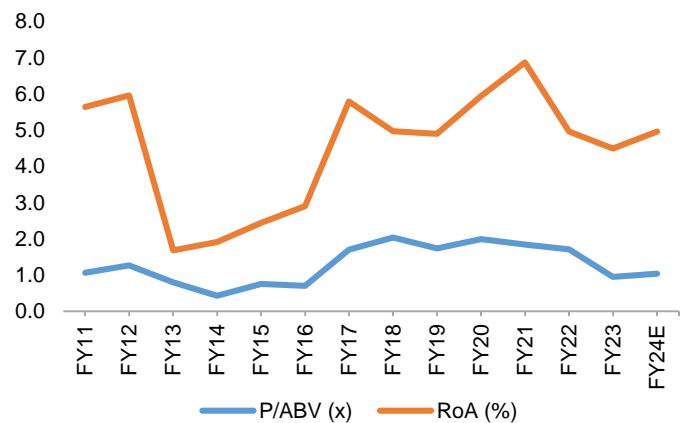
Exhibit 27: Growth/Profitability/Valuation of Gold Loan NBFCs during Different Business Cycles

Supernormal Growth Phase (FY08-12)	Regulatory Curbs/Gold Price Decline (FY12-FY14)	Restoration of LTV CAP to 75% (FY14-FY16)	Demonetization and NBFC Liquidity Crisis (FY16-FY20)	COVID Times till Present (FY20-FY24)
<p>Event/Trend - Helped by rising gold prices and higher LTV cap of 85%, combined AUM CAGR of MGFL and MFL stood at 94% during this period.</p> <p>Impact - Muthoot's RoA expanded from 3.2% in FY08 to 5.1% in FY12. In FY12 when it got listed it traded at an average P/ABV (x) of 2.5x.</p> <p>Manappuram's RoA stood high in the range of 5.5-7.5% during this period. It traded at an avg. valuation of 1.2x during this period.</p>	<p>Event/Trend - LTV cap at 60%, removal of PSL status for gold loans and ban on loans against bullion/gold coins in 2013, affected the growth and cost of funds of gold loan companies.</p> <p>Impact - Muthoot's RoAs declined from 5.1% in FY12 to 2.6% in FY15. Its valuations de-rated to a low of 1.1x average for FY14.</p> <p>In case of Manappuram its RoA declined from 6% in FY12 to 1.7% in FY13. Its valuations got de-rated to 0.4x average P/ABV (x) in FY14.</p>	<p>Event/Trend - LTV cap for NBFCs increased to 75% and for banks which had no LTV cap earlier, 75% cap was introduced, thereby creating a level playing field between banks and NBFCs.</p> <p>Manappuram introduced online gold loans and introduced shorter tenure loans of 3 months in order to de-link gold prices from impacting its financials.</p> <p>Impact - Manappuram and Muthoot traded at an average P/ABV (x) of 0.7x and 1.4x during this period.</p>	<p>Event/Trend - With significant part of gold NBFCs business happening on cash during 2016 when demonetization happened, their growth was adversely impacted for some time.</p> <p>NBFC liquidity crisis resulted growth of smaller NBFCs getting affected due to funding challenges. However, large players like Muthoot and Manappuram got benefitted during this time.</p> <p>Impact - Muthoot and Manappuram got rerated and traded at an average multiple of 1.9x and 1.7x during these 4 years.</p>	<p>Event/Trend - In initial phase of COVID gold loan NBFCs saw a stronger growth, as emergency credit requirements of people increased.</p> <p>However, with the increase in LTV cap for banks at 90% on a temporary basis during 2021, and rate war that followed with banks increasing presence in gold lending, the growth and yields of gold NBFCs got affected. With roll back of teaser rates offered by NBFCs in 2021 and banks now focusing on other retail segments, the competitive intensity has reduced.</p> <p>Impact - Muthoot and Manappuram have traded at an average P/ABV (x) of 2.6x and 1.4x in between FY20-FY24.</p>

Source: RBI, Industry, Nirmal Bang Institutional Equities Research

Exhibit 28: Muthoot Finance P/ABV (x) vs. RoA Trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: Manappuram Finance P/ABV (x) vs. RoA Trend


Source: Company, Nirmal Bang Institutional Equities Research

Investor Perspectives on Gold Loan NBFCs

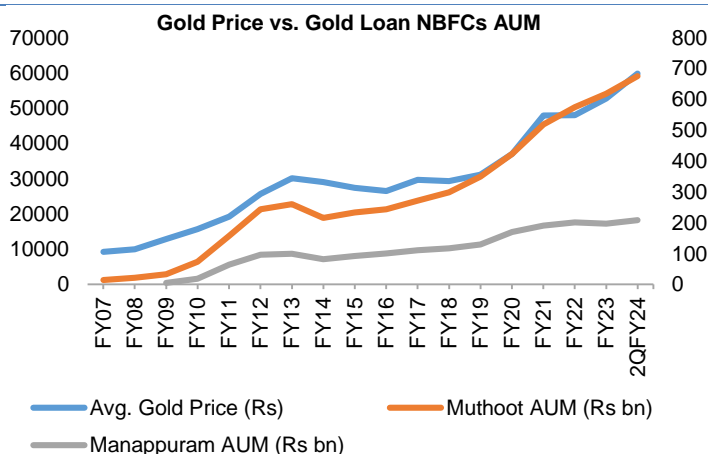
Taking note of the huge divergence in valuations of gold loan NBFCs (trading at 1.3-2.4x FY25E ABV) as compared to similar high RoA generating richly valued monoline/diversified NBFCs in non-gold segments (trading at 3x-4.6x FY25E ABV), we interacted with investors to get their perspectives on gold loan NBFCs and commonly raised concerns. While we don't see any major area of concern for gold financiers, our interactions with investors hinted at aspects like: (1) Impact of gold price changes on growth and asset quality (2) Lending portfolio diversification and its impact on return ratios and valuations (3) Competitive intensity from banks and other NBFCs (4) In case of Manappuram Finance the value add it is likely to get from Asirvad Microfinance in the long term (5) Succession planning at Manappuram Finance.

(1) Impact of gold price changes on growth and asset quality

Gold loan NBFCs AUM growth directly linked to gold price movement: The gold finance business is closely linked to movements in gold prices. An increase in gold prices will lower the LTV, creating headroom for incremental credit growth for the same collateral. However, an adverse movement could result in calling the loan early or call for additional margin to maintain the LTV below the regulatory cap of 75%. A sustained upward movement in gold prices positively impacts credit growth in the segment and vice versa. Except for the period FY13-FY17 (when RBI introduced restrictions on gold lending and gold prices were on a decline mode), the 15-year correlation of Muthoot Finance and Manappuram Finance AUM with gold prices has been 99% and 96% respectively (as shown in Exhibit 24 on next page).

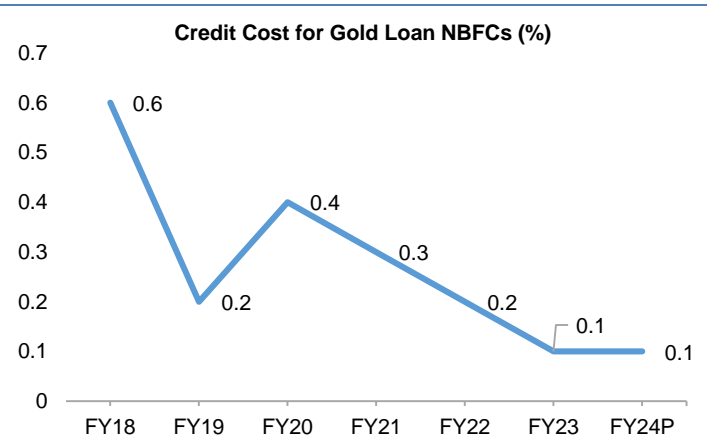
Low LGDs and PDs result in lower credit costs: Given the liquid nature of the collateral, gold loans are easier to liquidate, and therefore, recover. Gold loans has been a segment with lowest Loss Given Default (LGD) at 2-3% for Manappuram Finance (MGFL) and 9-13% for Muthoot Finance (MFL) from FY18-FY23 (as per disclosures in their annual reports), as compared to other retail/wholesale loan segments LGD being at 15-100% for these gold NBFCs (refer [Annexure-II](#) on FY23 PD & LGD disclosure by gold loan NBFCs). The delinquency rates (probability of default – PD) in the segment are also lower, because with sentimental value attached to gold jewellery in the Indian culture, customers ensure timely repayments. This has resulted in historically low credit costs for gold financiers, in the range of 10-60bps across different cycles in past 5-6 years.

Exhibit 30: Gold Prices vs. AUM Correlation at 96-99%



Source: MCX spot, Company, Nirmal Bang Institutional Equities Research

Exhibit 31: Gold NBFCs Credit Cost



Source: Fedfina Prospectus, Nirmal Bang Institutional Equities Research

De-linking business model from gold price fluctuations: In the past in order to shield its business from the impact of gold price volatility, Manappuram Finance introduced shorter tenure products of 3-4 months and linked the LTVs to tenure of the loan. These shorter tenure products constitute major portion of Manappuram Finance's loan book.

Exhibit 32: MGFL Illustration on Delinking of Gold loan business from gold prices

BUSINESS STRATEGY: DE-LINKING GOLD BUSINESS FROM GOLD PRICES						
Earlier Scenario – 12 month Long Tenure Product		12 months – Single Product Offering				Additional 2 month for Auction
Gold value	100					
LTV	75%					
Gold Loan	75					If the Customer does not pay or close the Loan, then there is likely loss of interest for 2 months during Auction
Interest Rate	24%					
Interest Cost*	21					
Total Principal + Interest*	96					
↓		<ul style="list-style-type: none"> Recalibrated the product structure to de-Link from gold price fluctuation. Loan to value (LTV) ratio is now linked to the tenure of the loan. Therefore, the maximum permissible LTV of 75% would be available on loans of shorter tenure rather than one year as was the standard practice earlier. 				
Current Revised Scenario – 3 to 6 month Short Tenure Products		3 months	6 months	9 months	12 months	Additional 2 month for Auction
		3 Month Scenario	6 Month Scenario	9 Month Scenario	12 Month Scenario	
Gold value		100	100	100	100	If the Customer does not pay or close the Loan, there is ample margin of safety to recover Principal as well as Interest. Also, Linkage to Gold prices is Negligible.
LTV		75%	70%	65%	60%	
Gold Loan		75	70	65	60	
Interest Rate		24%	24%	24%	24%	
Interest cost *		7.5	11.2	14.3	16.8	
Total Principal + Interest *		82.5	81.2	79.3	76.8	

* Includes interest outgo during 2 months of auctioning period

33

Source: Company, Nirmal Bang Institutional Equities Research

Shorter-tenure loan products tend to augur well from recoveries (through auctions) in an event of a sudden fall in gold prices. Impact on NIM following interest reversals in an event of default also remains limited. Just to give an example, with loan duration at 3-month and auctioning in the subsequent quarter (i.e. typically the 5th / 6th month) following either a sharp fall in gold prices or default in payments, losses tend to be limited. On the flip side, with loan tenure at 1 year and auctioning in subsequent periods (i.e. 13th / 15th month), losses in an event of sharp fall in prices and payment due to recovery/impact on NIM following interest reversals tends to be higher thus impacting profitability of the NBFC. This is also evident from the fact that over FY19-23, losses due to auctioning have remained higher for Muthoot Finance vis-à-vis gains/lower losses in the case of Manappuram Finance (refer Exhibit 27 below).

Exhibit 33: Gains (+) / Losses (-) from Gold Jewellery Collateral Auctions by NBFCs

Particulars (Rs mn)	FY19	FY20	FY21	FY22	FY23
Manappuram Finance Ltd					
Amount O/s (Rs mn) - Auctioned	4778.6	1376.4	4819.4	44807.3	9607.8
Amount Realised (Rs mn)	4846.2	1505.6	4602.2	41865.9	9790.0
Gain (+) / Loss (-)	67.5	129.2	-217.2	-2941.4	182.2
Muthoot Finance Ltd					
Amount O/s (Rs mn) - Auctioned	15184.5	9132.5	3852.7	74405.9	32244.9
Amount Realised (Rs mn)	14000.5	8547.8	3254.8	65370.2	29419.1
Gain (+) / Loss (-)	-1184.0	-584.7	-597.9	-9035.8	-2825.8

Source: Company, Nirmal Bang Institutional Equities Research

Hypothetical Scenario Analysis Assessing Impact of Gold Prices on Gold NBFC RoEs

We have built in a scenario analysis for assessing the impact of fluctuation in gold prices on gold loan NBFC's return ratios. We have taken 3 scenarios – (1) Base case – 5% increase in gold prices in line with inflation (2) Optimistic Scenario – 10% increase in average gold prices and (3) 10% decrease in average gold prices. Following are some facts/data points we have considered while doing this exercise:

1. As per extant RBI guidelines, NBFCs take past 30 days average of gold prices for 22 carat gold commonly used in jewellery. As a result, the impact of major fluctuations in gold prices, comes with some lag in the company's AUM.
2. From the PD and LGD disclosures, both Muthoot Finance and Manappuram Finance have been providing in their annual reports, we estimated the outstanding ECL provisions and derived the annual credit costs for FY18-FY23 for gold loans, where the trend came out to be 10-30bps. Post this we have assumed higher credit costs in a pessimistic scenario and lower credit costs in an optimistic scenario.
3. Considering the aggressive focus of both NBFCs towards customer acquisition, we have assumed customer acquisition to grow by 5-10% annually in different scenarios.

Based on these calculations, we conclude that Muthoot Finance is better placed when gold prices are stable or in an upswing, given the 87% contribution of gold business at consolidated level. In the case of Manappuram, as it has diversified significantly into other businesses, will see relatively lesser impact on its return ratios, as compared to Muthoot Finance in the 3 scenarios.

Exhibit 34: Muthoot Finance RoE and Target Price Under Different Scenarios

Particulars (Rs mn)	Base Case - 5% Increase in Average Gold Prices				Optimistic Scenario - 10% Increase in Average Gold Prices			Pessimistic Scenario - 10% Decrease in Average Gold Prices		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Gold Loan AUM	618753	712778	813959	916031	748691	905916	1096159	682175	644656	609199
Gold AUM Growth (%)	7.6	15.2	14.2	12.5	21.0	21.0	21.0	10.3	-5.5	-5.5
Non-gold AUM	98812	137054	172590	212446	137054	172590	212446	137054	172590	212446
Non-gold AUM Growth (%)	50.5	38.7	25.9	23.1	38.7	25.9	23.1	38.7	25.9	23.1
Net Interest Income	73464	86400	100257	114353	88380	110185	135959	84713	88525	87608
NIM (%) - on AUM	10.8	11.0	10.9	10.8	11.0	11.2	11.4	11.0	10.8	10.7
Operating Profit	51648	62756	74552	86330	64946	85017	108989	60891	62081	58268
Credit Cost (%) - Gold Loans	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.3	0.4	0.4
Credit Cost (%) - Non-Gold Loans	3.1	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Profit After Tax	36698	43915	51953	59964	45921	60038	77143	42139	41958	38324
PAT Growth (%)	-9.0	19.7	18.3	15.4	25.1	30.7	28.5	14.8	-0.4	-8.7
Gross Stage 3 (%)	3.6	3.8	3.6	3.4	3.6	3.2	2.9	4.0	4.4	4.8
Net Stage 3 (%)	3.1	3.4	3.2	2.9	3.2	2.9	2.5	3.6	3.8	4.1
RoE (%)	17.8	18.4	18.8	18.8	19.2	21.3	22.8	17.7	15.6	12.9
RoE Change over Base Case (Bps)	-	-	-	-	76	246	404	-68	-324	-586
RoA (%)	4.7	5.0	5.1	5.1	5.1	5.5	5.8	4.9	4.6	4.2
ABV (Rs)	496.7	565.3	661.1	774.4	570.7	687.1	843.1	560.2	631.8	690.4
Target Multiple				2.2			2.4			1.8
Target Price (Rs)				1721.9			2023.4			1208.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: Manappuram Finance RoE and Target Prices Under Different Scenarios

Particulars (Rs mn)	Base Case - 5% Increase in Average Gold Prices				Optimistic Scenario - 10% Increase in Average Gold Prices			Pessimistic Scenario - 10% Decrease in Average Gold Prices		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Gold Loan AUM	197462	217553	244829	275525	229781	278035	336423	209367	197852	186970
Gold AUM Growth (%)	-2.1	10.2	12.5	12.5	16.4	21.0	21.0	6.0	-5.5	-5.5
Non-gold AUM	157061	206135	254069	298526	206135	254069	298526	206135	254069	298526
Non-gold AUM Growth (%)	55.6	31.2	23.3	17.5	31.2	23.3	17.5	31.2	23.3	17.5
Net Interest Income	42526	52403	61483	70756	53227	65478	78712	51852	57373	60881
NIM (%)	12.9	13.5	13.3	13.2	13.5	13.5	13.5	13.5	13.2	13.0
Operating Profit	23482	31749	39049	46300	32679	43335	54788	31126	34529	35651
Credit Cost (%) - Gold Loans	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.3	0.4	0.4
Credit Cost (%) - Non-Gold Loans	2.3	2.6	2.7	2.8	2.6	2.7	2.8	2.6	2.7	2.8
Profit After Tax	15002	20107	24559	28835	20911	27848	35279	19434	20921	20629
PAT Growth (%)	12.9	34.0	22.1	17.4	39.4	33.2	26.7	29.5	7.7	-1.4
Gross Stage 3 (%)	1.8	2.0	2.0	1.9	2.0	1.8	1.6	2.1	2.3	2.6
Net Stage 3 (%)	1.2	1.3	1.3	1.2	1.3	1.2	1.1	1.4	1.5	1.7
RoE (%)	16.6	19.1	19.8	19.7	19.8	22.1	22.9	18.6	17.2	14.9
RoE Change over Base Case (Bps)					69	222	325	-58	-259	-474
RoA (%)	4.1	4.6	4.8	4.8	4.7	5.2	5.4	4.5	4.3	3.9
ABV (Rs)	109.4	127.4	151.2	179.8	128.1	156.3	192.6	126.4	145.7	163.8
Target Multiple				1.2			1.3			0.8
Target Price (Rs)				208.6			250.4			131.1

Source: Company, Nirmal Bang Institutional Equities Research

(2) Lending Portfolio Diversification by Gold Loan NBFCs and Impact on RoAs

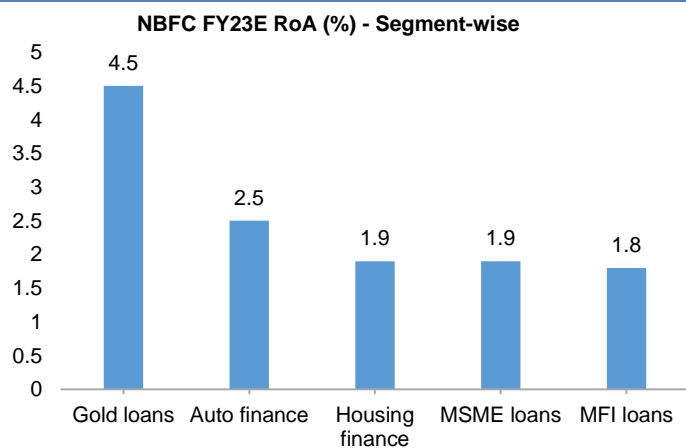
Gold loans are a highly secured and liquid asset class that tends to generate superior returns with minimal credit losses over market cycles. NBFCs offering gold loans are better placed, on a relative basis compared to other retail asset backed NBFCs, to withstand any asset quality pressures spawned by economic slowdowns. As shown in Exhibit 30 below, RoAs in case of gold loans were highest at 4.5% in FY23 as against 1.8-2.5% RoAs for auto finance, housing finance, MSME loans and MFI loans.

Traditionally NBFCs with characteristics of superior growth/return ratios and into the mono-line nature of operations have traded at higher multiples. If we look at the [valuation history](#) of Muthoot Finance and Manappuram finance given in the earlier section, we can see that in the past 5 years, Muthoot Finance has traded at higher multiples of 2.1-3x one year forward ABV as against 1-2x in case of Manappuram Finance. The main reason for this has been Muthoot Finance’s continued focus on high RoA core business of gold loans. At present gold loans constitute 87% of the consolidated AUM and in next 5 years, the management plans to increase the non-gold AUM share to 20%.

In the recent past, however investors’ attention has been drawn to companies that operate in diversified loan segments. Valuation multiples for diversified NBFCs which have reported superior growth/return ratios have either traded in line or at a premium to former (i.e mono-line NBFCs with cyclical nature of business). Our interaction with managements suggest that companies choose to diversify their businesses due to various factors which could be changing industry cycle, competitive intensity or regulatory restrictions or some other reason. In order to mitigate the risk associated with the gold loan business mainly due to gold price fluctuations, Manappuram has significantly diversified into non-gold loan businesses and the current gold and non-gold AUM mix stands at 53: 47. We see two positives from Manappuram’s diversification strategy: (1) This portfolio diversification has enabled the company to cross sell other loan products to gold loan customers. The expansion is happening in complementary higher yielding businesses which are RoA accretive, (2) Lower GNPA’s at 1.3% at consolidated level in FY23, displays Manappuram’s good underwriting skills in non-gold businesses.

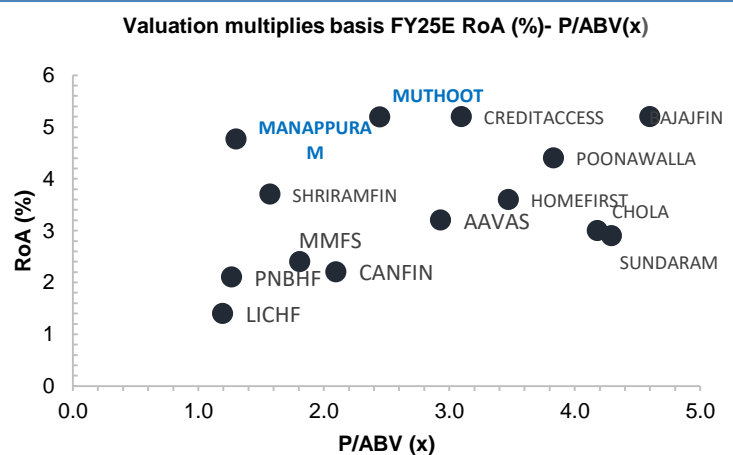
In Exhibit 31 below we can see that NBFCs in other segments including microfinance, consumer credit, affordable housing, vehicle finance and diversified NBFCs which are having similar / relatively lower RoAs in the range of 2.9-5.2% as compared to gold loan NBFCs RoAs at 4.8-5.2%, are trading at higher valuations of 3x-4.6x FY25E ABV vs. 1.3-2.4x FY25E ABV which the gold loan NBFCs are trading at. This indicates the relative undervaluation of gold loan NBFCs.

Exhibit 36: Gold Loans has been most profitable segment for NBFCs



Source: Fedfina Prospectus, Nirmal Bang Institutional Equities Research

Exhibit 37: Cross segmental comparison indicates relative undervaluation of gold loan NBFCs

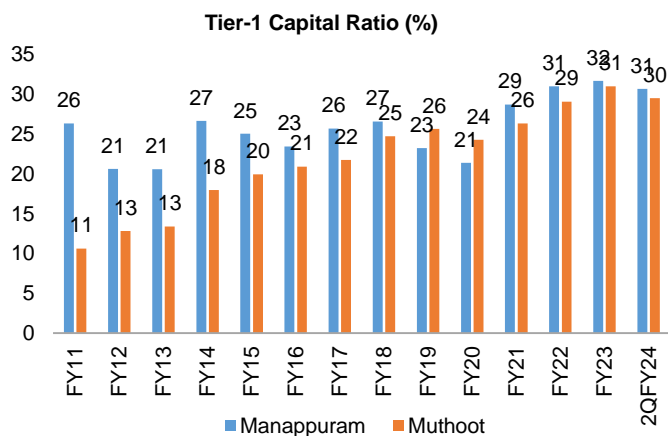


Source: Company, Nirmal Bang Institutional Equities Research

With Growth being Funded by Internal Accruals, Gold Loan NBFCs Deserve Better Valuations

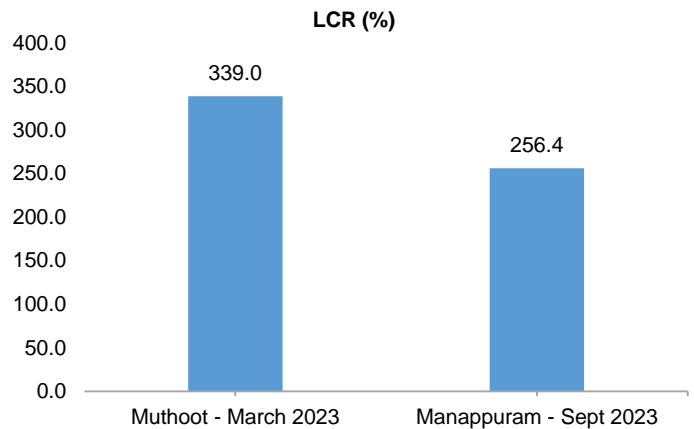
Both Muthoot Finance and Manappuram Finance have not raised equity capital for over a decade and their CAR stands strong at 30.3% and 30.7% respectively. In the light of recent RBI circular on increase in risk weights for consumer credit/lending to NBFCs, the gold loan NBFCs are well placed as there is no impact on their CET-1 due to secured nature of loans. With the present balance sheet growth being funded by internal accruals, we believe these NBFCs deserve to trade at better valuations. To demonstrate our point, we have included case studies of two capital efficient lenders HDFC Bank Ltd and Sundaram Finance Ltd below, which have traded at rich valuations despite not raising capital or raising capital less frequently in single digit % dilution.

Exhibit 38: Healthy Tier-1 Capital ratios of gold NBFCs at ~30%



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 39: High LCR ratios of gold NBFCs due to nature of business being shorter tenure loans

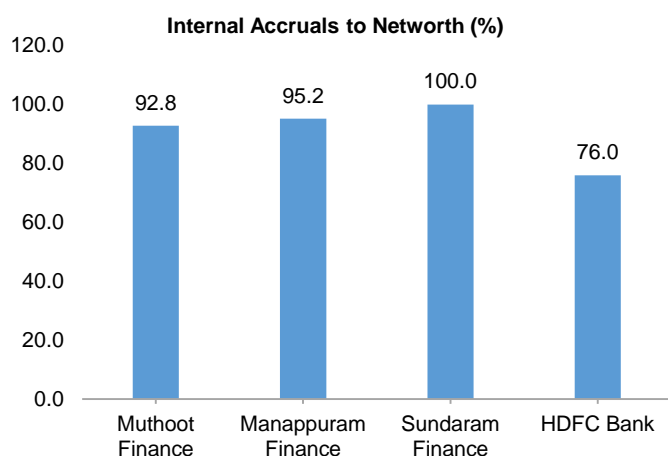


Source: Company, Nirmal Bang Institutional Equities Research

Sundaram Finance, an NBFC competing with banks in the new/low vintage vehicle segment, is one of the rare listed companies that has not raised equity capital in the past 50 years. It has grown its loan book at a CAGR of 8.5% through internal accruals. It has been trading at rich valuations in the range of 3-4.7x its book value since FY15. While its management pedigree and good asset quality across business cycles have been the main reasons for the higher valuations, investors have also rewarded it for being a conservative capital efficient lender.

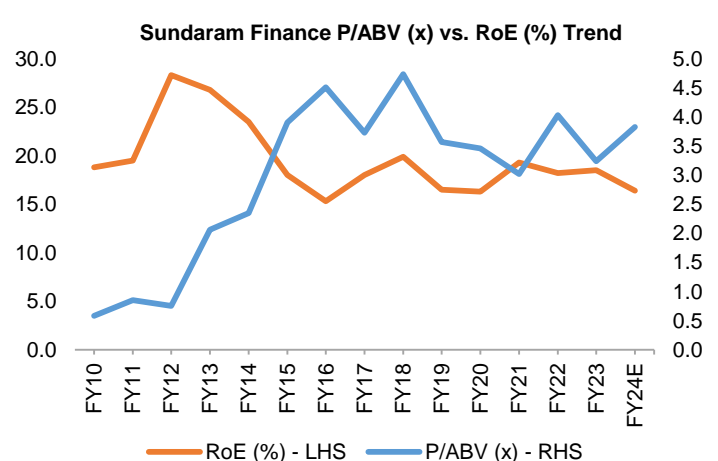
Similarly in case of HDFC Bank which has traded at 3-4x its book value for a decade, we have seen that it goes for low equity dilution of 4-5% once in every 5-6 years and has managed to grow in healthy double digits by utilizing its capital in an efficient manner.

Exhibit 40: Select Lenders with strong internal accruals

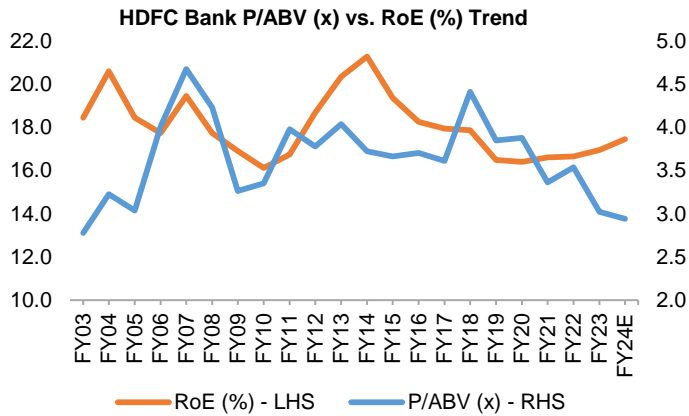


Source: Company, Nirmal Bang Institutional Equities Research

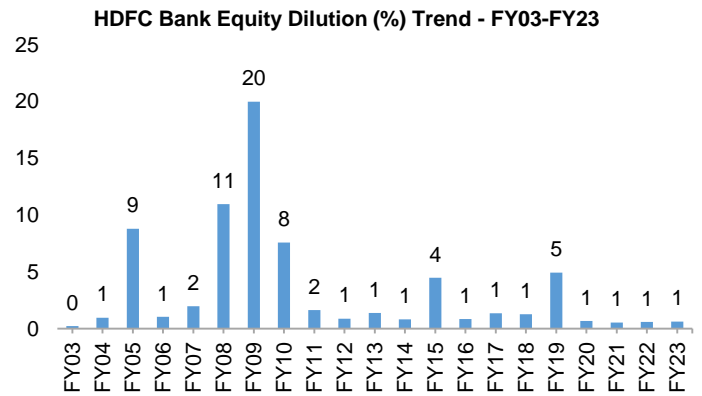
Exhibit 41: Case Study 1 - Sundaram Finance



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 42: Case Study 2 – HDFC Bank


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 43: Equity Dilution Trend of HDFC Bank


Source: Company, Nirmal Bang Institutional Equities Research

Other Points on Investor Perspectives Mentioned Earlier

(3) Competitive Intensity from Banks and other NBFCs

Discussed in earlier section of this report with heading '[Leading Gold Loan NBFCs well Adapting to Changing Times](#)'

(4) Value Addition for Manappuram from diversification into microfinance

Discussed in company section on Manappuram Finance Ltd

(5) Succession planning at Manappuram Finance

Discussed in company section on Manappuram Finance Ltd

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Company Section

Muthoot Finance (MUTH)

NBFC | Company Update

BUY
CMP: Rs1,454 | Target Price (TP): Rs1,722 | Upside: 18%
January 16, 2024

Contributing to growing gold lending pie while maintaining dominant position

 Please vote for us in the Institutional Investor poll – [Click Here](#)

Key Points

- We recently met the management of Muthoot Finance Ltd, represented by its CFO Mr. Oommen K Mammen, in order to get an update on the company's business and growth plans going ahead. The management has maintained its FY24 guidance of 15-20% loan growth and spreads should also remain stable at ~9-10%.
- We are positive about the company's business model due to three reasons: (1) Besides continuing to service existing customers in LIG/MIG segments, it is also expanding into Upper Middle Class/HIG segment by positioning Gold Loans as a product of convenience vs. emergency use earlier (2) Strong customer acquisition and retention measures focusing on adding new customers, re-activating a part of inactive customer base and giving additional loans to live customer base who bring in more collateral (3) For almost a decade, it has not raised equity capital and has grown on internal accruals with its CAR standing strong at 30.3%. In the light of the recent RBI circular on risk weight increase, it is placed in a sweet spot as the impact on CET-1 is negligible due to presence in secured lending, mainly Gold Loans. On the liability side also, banks are comfortable providing funding to the company due to the secured nature of its business.
- We expect Muthoot Finance's standalone earnings to grow at a CAGR of 13.9% over FY23-FY26E on the back of 13.9% CAGR in Gold Loans, stable spreads and asset quality. This should result in average RoA of 5.1% and RoE of 18.2% during the same period. After factoring in the relatively higher growth in subsidiaries, mainly MFI, we have changed our valuation methodology to 'Sum of the Parts Valuation' (SOTP). We have valued the standalone business at 2.5x its Dec. 2025E ABV, leading to a standalone value per share of Rs1,655.1. Adding subsidiary value of Rs66.8 per share (net of holding company discount of 20%), we raise our target price (TP) to Rs1,722 (vs Rs1,527 earlier valued at 2.1x Sept. 2025E consolidated ABV). We maintain BUY on Muthoot Finance.

Contributing to growing gold lending pie: While it has presence in Non-Gold Loan segments through subsidiaries, Muthoot Finance's core area of focus remains Gold Loans with the present share of standalone entity loans (mainly Gold Loans) being 87% of group loans. This single core product focus has provided the company an added advantage in terms of:(a) Scaled up business with a sizeable Gold Loan AUM of Rs 675.2bn(b) Improved operational efficiencies with cost-to-average assets ratio at 3% in FY23, much lower than peer group average at 5-6%(c) Leveraging the expertise built over the decades in retaining existing customers (customer retention ratio at 80%) as well as penetrating new customer segments/geographies.

Est Change	-
TP Change	Upward
Rating Change	No Change

Company Data and Valuation Summary

Reuters	MUTT.BO
Bloomberg	MUTH IN Equity
Market Cap (Rsbn / US\$bn)	584.0 / 7.0
52 Wk H / L (Rs)	1,508 / 911
ADTV-3M (mn) (Rs / US\$)	727.5 / 8.7
Stock performance (%) 1M/6M/1yr	0.3 / 17.3 / 33.3
Nifty 50 performance (%) 1M/6M/1yr	7.8 / 11.5 / 18.8

Shareholding	4QFY23	1QFY23	2QFY24
Promoters	73.4	73.4	73.4
DII's	12.7	13.7	14.7
FII's	9.4	8.7	8.1
Others	4.6	4.2	3.9
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary - Standalone

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
NII	66,695	77,134	87,179	96,400
% growth	-6.3%	15.7%	13.0%	10.6%
NIM %	10.79%	11.16%	11.01%	10.75%
C/I Ratio %	30.9%	29.7%	28.9%	29.1%
Operating Profit	47,270	56,104	64,124	70,801
% growth	-13.0%	18.7%	14.3%	10.4%
Adjusted PAT	34,735	40,515	46,508	51,271
% growth	-12.2%	16.6%	14.8%	10.2%
ABVPS (INR /share)	471.0	516.2	603.0	694.4
P/ABV	3.1	2.8	2.4	2.1
RoA (%)	4.9%	5.2%	5.2%	5.0%
Leverage (x)	3.6	3.5	3.6	3.5
RoE (%)	17.6%	18.3%	18.6%	17.9%

Source: Company, Company, Nirmal Bang Institutional Equities Research

Key Links:

[Q2FY24 Investor Presentation](#)

Please refer to the disclaimer towards the end of the document.

Traditionally, its target customer base for gold backed personal loans/business loans has been small businessmen, vendors, traders, farmers and informal salaried individuals in rural/semi-urban locations, who lacked access to formal credit or may not get it in timely manner in order to meet their short-term liquidity requirements, but possess adequate gold collateral. However, in the present scenario, Muthoot Finance is leading the industry trend in tapping into newer customer segments/geographies by marketing its Gold Loan products to MIG/HIG income groups as a lifestyle product as against the perception of it being an option of last resort, which was confined to EWS/LIG segment earlier.

To summarize the above discussion, there are three broad customer segments that the company is focusing on:

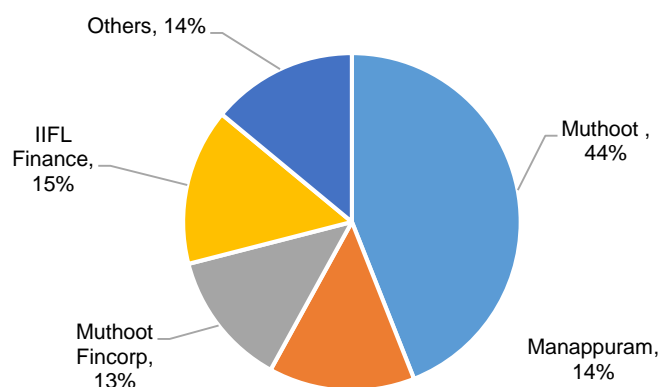
- (1) Customer base of pawn brokers and moneylenders from unorganized gold lending segment
- (2) New to Gold Loan customers from rural as well as urban areas
- (3) New geographies, especially Non-South locations where the stigma associated with Gold Loans has been high/positioning Gold Loans in metro/urban areas as a lifestyle product.

Exhibit 1: Share of AUM from Non-south locations has increased from 35% to 53% in the past one decade

Zone	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Sep-23
East	5	6	6	7	7	8	8	9	9	9	10	10
West	11	13	15	17	18	19	20	19	19	19	19	19
North	19	22	22	22	23	23	23	23	22	22	23	24
South	65	59	57	54	52	50	49	49	50	50	48	47

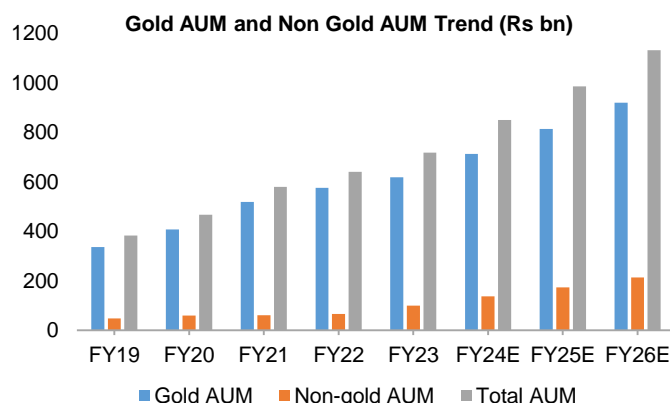
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Muthoot Finance dominating Gold Finance NBFC segment



Source: Fedbank Financial services DRHP, Nirmal Bang Institutional Equities Research

Exhibit 3: Gold Loan AUM over FY19-FY26E (Rsmn)



Source: Company, Nirmal Bang Institutional Equities Research

With focus on delivering strong, sustainable and calibrated growth in the long term, Muthoot Finance continues to focus on:(a) customer services and (b) offering attractive product propositions to customers, thereby aiming to deliver strong and sustainable gold loan AUM growth of 10-15% YoY in the long term, based on increased volume (without considering the impact of higher gold prices). For FY24, the company has given a growth guidance of 15-20%, which includes both volume and value impact.

We expect the consolidated AUM to grow at a CAGR of 16.3% over FY23-FY26E on the back of 14% CAGR and 29.1% CAGR in Gold Loan and Non-gold AUM, respectively. The company expects its Non-gold AUM share to rise to 15-20% in the next five years mainly on the back of higher growth in the MFI business followed by Housing Finance and Vehicle Finance.

Major Lending Subsidiaries / Other Lending Business in Standalone Entity

Muthoot Homefin (India) Ltd: In the Housing Finance subsidiary Muthoot Homefin (India) Ltd, there were some legacy issues during COVID period and so the company curtailed disbursements in Housing Finance during that time. Now, the new team headed by Mr. Alok Aggarwal, who has recently joined Muthoot Homefin as CEO (former employment in leadership roles at National Trust Housing Finance, Equitas Bank, Fullerton India HFC, Magma Housing Finance, Lodha group and Tata Capital), is gradually looking to scale up. The main focus here is Affordable Housing Finance in Tier-2 and Tier-3 locations. The company operates on a 'Hub and Spoke' model, with centralized processing at the corporate office in Mumbai. MHIL has operations in Kerala, Maharashtra (including Mumbai), Gujarat, Rajasthan, Madhya Pradesh, Chandigarh, Andhra Pradesh, Telangana, Karnataka, Uttar Pradesh, Chhattisgarh, Punjab, Tamil Nadu, Delhi, Pondicherry and Haryana. Its long-term credit rating for NCDs assigned by CARE is AA+/Stable. As on September 30, 2023, it had a loan book of Rs16.2bn and a PAT of Rs91mn.

Belstar Microfinance Ltd (BML): Muthoot Finance holds 59% stake in BML. The company predominantly follows the SHG model of lending. Effective January 2015, BML started working in the JLG model of lending in Pune district, Maharashtra. As of September 30, 2023, BML operations are spread across 17 states and 2 union territories (UTs). The company has 946 branches, with 184 controlling regional offices and 9,491 employees. Its gross loan AUM has increased from Rs0.2mn in March 2009 to Rs78.7bn in September 2023. BML is looking forward to list in the next 2-3 years as it gains size.

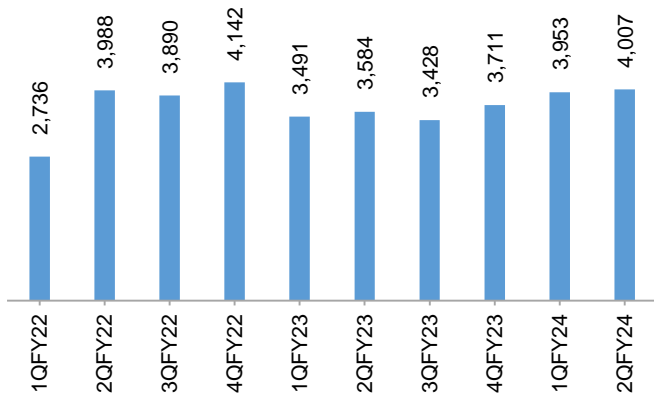
Muthoot Money Ltd: The company is present across all key segments such as Vehicle Finance, which includes loans for Cars, 2-wheelers, CVs and Equipment. Its AUM has increased from Rs65mn in FY18 to Rs6,302mn in 2QFY24.

Asia Asset Finance PLC: Muthoot Finance holds 72.92% stake in Asia Asset Finance PLC (AAF), a deposit taking financial company registered with the Central Bank of Sri Lanka and listed on the Colombo Stock Exchange. It is in the lending business since 1970. At present, the company is involved in Gold Loan, Retail Finance, Hire Purchase & Business Loans and had 80 branches across Sri Lanka as on September 30, 2023. Its loan portfolio and PAT in 1HFY24 stood at Rs5bn and Rs 33mn, respectively.

Other business in standalone entity: The unsecured Personal Loan business was started 7-8 years back and the book was small at Rs9.3bn in FY23.

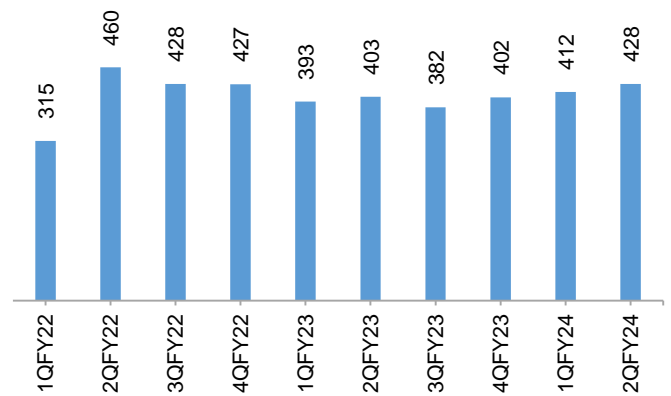
Strong customer acquisition and retention initiatives: In 2QFY24, the company's loan accounts stood at 8.5mn, of which 5.5mn were live accounts. For Muthoot Finance, there are three drivers of volume-based growth: (1) New customer addition (as per our calculation, it is ~4,000 customers/day), which is very much comparable to Manappuram Finance that is adding 4,600-4,800 customers/day (2) Re-activating inactive customers depending on their loan requirements (0.4mn inactive customers were given loans in 2QFY24) (3) Live customers depositing more collateral and taking additional loan (In 2QFY24, 0.7mn existing customers took more loans against added collateral).

Exhibit 4: Strong new customer acquisition (Per Day)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Fresh loans to inactive customers during the quarter in Gold Loan AUM (In '000)



Source: Company, Nirmal Bang Institutional Equities Research

In line with the core focus on strong customer acquisition, retention and relationship management, Muthoot Finance has undertaken several campaigns in recent past, the details of which are mentioned in the table given below:

Exhibit 6: Major marketing campaigns in the past two years

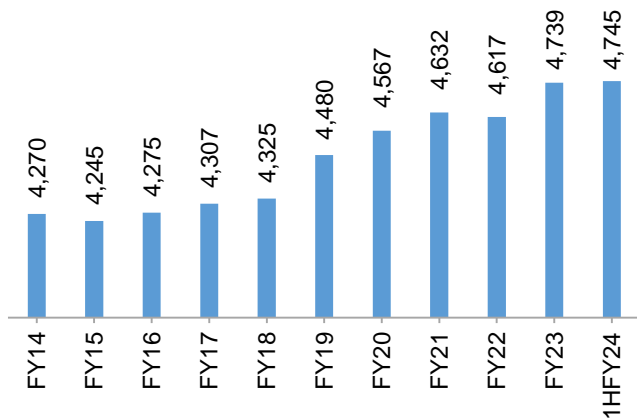
Scheme	Product Covered	AUM Generated (In Bn)	Leads Generated (In Mn)
Sunheri Soch Season-2	Gold Loan	7.2	Na
Bharosa India Ka	Gold Loan/ HL/ VL/PL	34	0.5
Kholiye Khushiyoki Tijori (January 2023)	Gold Loan	121	1.6
Haathi Pe Bharosa Karogey	Gold Loan	38	0.5
Toh Pakka Jeetogey			

Source: Muthoot Finance AGM transcripts of 2022 and 2023, Nirmal Bang Institutional Equities Research

Unmatched distribution strength vis-à-vis NBFC peers: Distribution reach is key for disbursing Gold Loans as a significant chunk of Indian households’ gold holdings are located outside Metro/Tier 1 centres. Having established its Gold Loan business way back in 1939 (by late M. George Muthoot), the group has built a recognizable brand in rural as well as semi-urban markets of India, particularly in South Indian states of Kerala, Tamil Nadu, Andhra Pradesh, Telangana and Karnataka. Muthoot Finance has 4,745 branches, majority of which are located in rural and semi-urban markets.

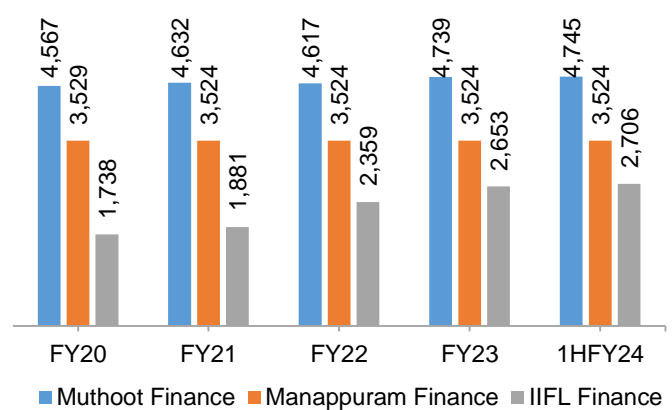
A RBI directive, issued on September 16, 2013, requires Muthoot Finance and other Gold Loan NBFCs with 1,000+ branches to obtain RBI approval prior to opening new branches. Latest approval for adding 114 branches was received in July 2023. Considering the high security and surveillance systems it has to put in place for storage of gold collateral, it takes 3-4 months to start a new branch. Going forward, Muthoot Finance is planning to add ~100-200 branches per year, which are likely to be opened across all the four regions of the country.

Exhibit 7: Branch addition over the years



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Muthoot Finance branches vs. peers

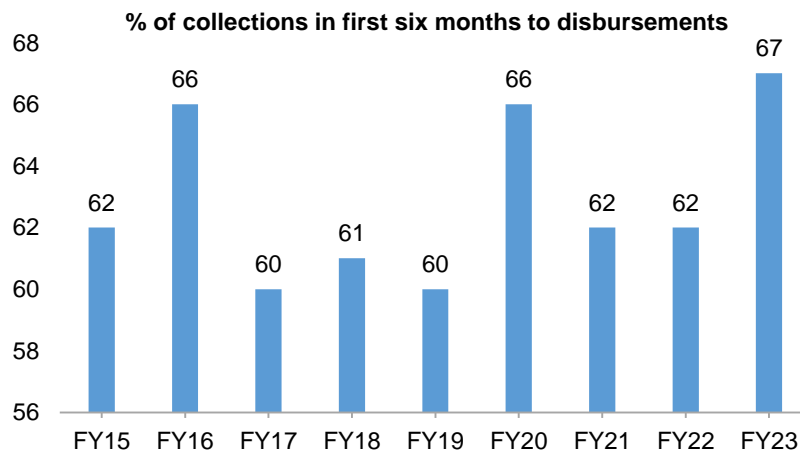


Source: Company, Nirmal Bang Institutional Equities Research

A look into branch level TAT, ticket sizes and the appraisal process:

Muthoot Finance’s focus is on small ticket loans below Rs0.1mn in smaller towns and cities where the customer base tends to be sticky. The ticket size ranges from Rs5,000-Rs400,000 and average ticket size is Rs79,000. Loans of <Rs0.1mn constitute 35% of overall AUM while the share of Rs0.1-0.3mn is at 38% and the share of loans above Rs0.3mn is at 27%. Tenure of these loans is upto 12 months, but as per the company’s disclosures, 60-67% of these loans get repaid within six months. Rebate structure is in place for early payment of interest.

Exhibit 9: Collections trend



Source: Company, Nirmal Bang Institutional Equities Research

TAT for existing customers is 5minutes and upto 30min for new customer as their KYC has to be done. In Gold Loans, the underwriting is done based on gold collateral - unlike in case of other secured loans where the cash flows of the customer are also assessed. The company does the KYC and based on the quantity of gold and purity tests, informs the customer on the amount of loan they are eligible for.

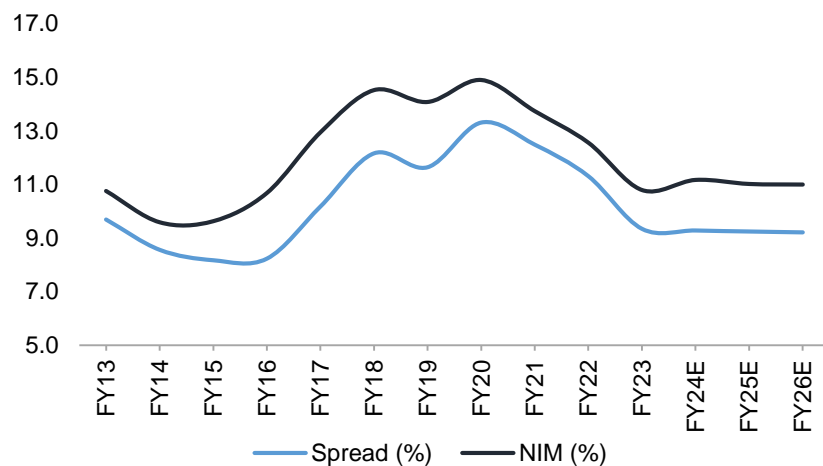
Each branch is staffed with personnel who have been trained and have experience in appraising the gold content of jewellery. The company has 76 regional training centres for training employees in appraisal of gold collateral and also risk mitigation measures against frauds. It has also launched surveillance cameras in all branches across India.

The appraisal process begins with weighing the jewellery using calibrated weighing machines. Jewellery is then put under prescribed primary tests for checking the quality of gold, including stone tests and acid tests followed by additional tests, if required, such as salt tests, sound tests, weight tests, pointed scratching tests, flexibility tests, color tests, smell tests, usability tests, magnifying glass tests and finishing tests. Once the jewellery passes all these tests, loans are disbursed based on the rates per gram of gold, as approved by the corporate office. In terms of the extant RBI guidelines, Muthoot Finance currently lends up to 75% of the previous 30 days' average closing gold price (22 carat gold) of the gold content in the jewellery. The disbursements happen through electronic mode/cheque/cash as per the customer's preference.

We estimate spreads to remain at 9.2% over FY23-FY26: The company remains confident of maintaining spread ~9-10% in FY24, supported by yields stabilizing at around current levels for the remaining part of FY24. The management indicated that the cost of borrowing is expected to inch up to 8.6% (from current 8.46%), post which it expects the cost of funds to stabilize. It doesn't see CoF increasing due to the RBI's recent circular on increase in risk weights for banks for lending to NBFCs, as the banks have been comfortable with Muthoot Finance's secured nature of lending business. Muthoot Finance's long term debt ratings stand at AA+/stable.

The current borrowing mix comprises Muthoot Gold Bonds (Rs213mn, 0% proportion), secured NCDs (Rs134.8bn, 24%), Bank/FI borrowings (Rs361.7bn, 65%), Commercial Paper (Rs46.2bn, 8%), Subordinated Debt (Rs741mn, 0%) and Other Loans (Rs9.8bn, 2%). The reliance on CPs has come down from 17.7% in FY19 to 8% in 2QFY24. In line with other upper layer NBFCs, most of whom are allowed to raise deposits, the company has sought the RBI's permission to become a deposit taking NBFC. We expect the spreads to remain at 9.2% over FY23-FY26 after taking into consideration the present competitive scenario.

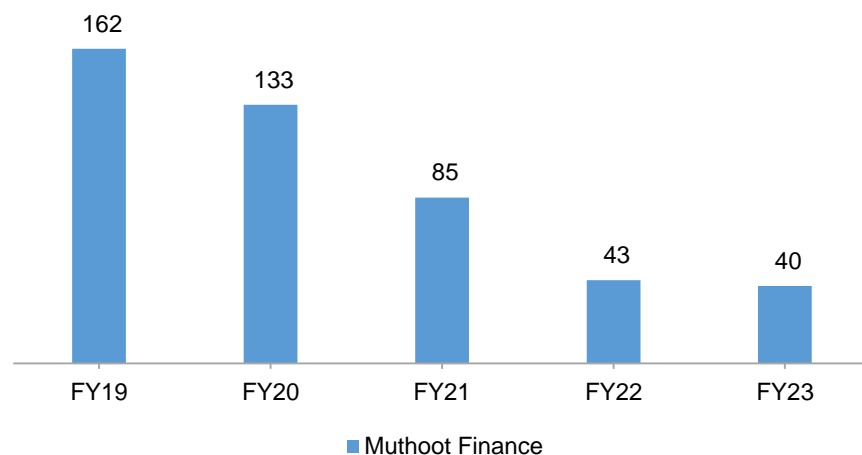
Exhibit 10: NIM and Spreads (%)



Source: Company, Nirmal Bang Institutional Equities Research

Auction surplus at comfortable levels: Unlike peer banks and NBFCs which auction the customers' gold collateral on non-payment of dues, Muthoot Finance gives adequate time to its customers to repay rather than auctioning off the gold jewellery collateral as most customers have an emotional attachment with the same. This has been beneficial for the company as its customer retention ratio i.e repeat customers is high at 80% vs 50-60% for peers, including fintechs. In 2QFY24, the company auctioned off Rs7bn loans to an ARC, as a result of which it had to take a hit on its margins due to interest reversals of Rs1bn, but the same has been beneficial for Muthoot Finance because of two reasons: (1) Reducing gross stage-3 loans from 4.26% in 1QFY24 to 4.01% in 2QFY24 (2) The customer received more time to repay his dues and release his jewellery pledged as collateral, thereby helping Muthoot Finance retain the customer. Out of the Rs7bn sale to ARC, by Nov'23, customers had repaid Rs2.5-3bn and released their assets.

Exhibit 11: Auction surplus (Rs mn) at a comfortable level



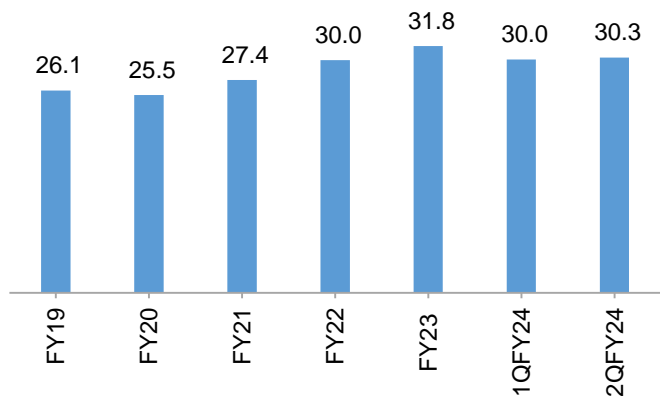
Source: Company, Nirmal Bang Institutional Equities Research

Internally generated accruals supporting strong business growth: Muthoot Finance has been able to support its strong business growth and expansions through internally generated accruals and post its IPO in 2011 (when it had raised Rs9bn) and an IPP in 2014 (when it had raised Rs4.2bn from institutions), it hasn't raised equity capital so far. It has significantly improved its capital adequacy ratio from 26.05% in FY19 to 30.31% in 1HFY24, supported by strong growth in gold finance. It is currently in a sweet spot in light of the recent RBI circular on risk weights as there will be negligible impact on its CET-1 due to the secured nature of its business. The banks have also been comfortable in lending to Muthoot Finance due to major share of its loans being backed by gold collateral.

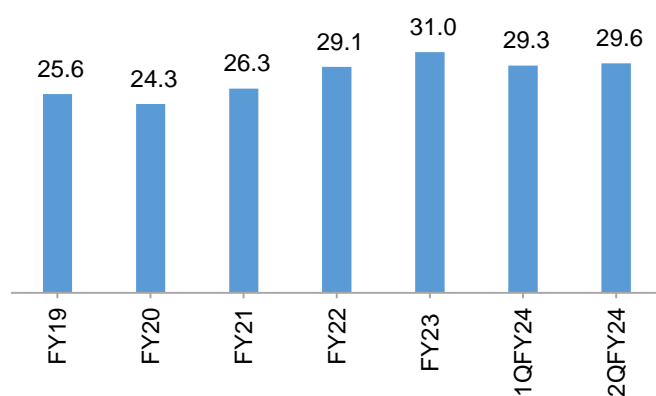
Exhibit 12: Details of last equity capital raise

Date of issue	New shares issued	Issue price	Issue value (Rs mn)
29-Apr-14	25,351,062.00	165	4,182.90
6-May-11	51,500,000.00	175	9012.50

Source: ACE Equity, Nirmal Bang Institutional Equities Research

Exhibit 13: Strong Capital Adequacy Ratio...
Exhibit 14: supported by strong internal accruals (Tier 1)


Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

Valuation and Recommendation: We expect Muthoot Finance's standalone earnings to grow at a CAGR of 13.8% over FY23-FY26E on the back of 13.9% CAGR in Gold Loans, stable spreads and asset quality. This should result in average RoA of 5.1% and RoE of 18.2% during the same period. We are positive about its business model considering the company's dominant presence in gold finance, its focus on customer acquisition/retention from existing as well as new geographies/customer segments and its strong capital position enabling a sustainable double-digit growth ahead. After factoring in the relatively higher growth in subsidiaries, mainly MFI, we have changed our valuation methodology to SOTP. We have valued the standalone business at 2.5x its Dec. 2025E ABV, leading to a standalone value per share of Rs1,655.1. Adding subsidiary value of Rs66.80 per share (net of holding company discount of 20%), we raise our TP to Rs1,722 (as against Rs1,527 earlier valued at 2x Sept. 2025E ABV). We maintain 'BUY' rating on Muthoot Finance. Key risks to our estimates include – (1) Competition from banks and other lenders impacting spreads and (2) Decline in gold prices can affect growth/asset quality.

Exhibit 15: Calculation of Adj. Book Value

Particulars	Amount (Rs mn)
December 2025E Network	306194.8
Less: December 2025E NNPA	26724.3
Less: Cost of Investment in Subsidiaries	8262.3
December 2025E Adj. Network	271208.1
December 2025E ABV (Rs)	675.6

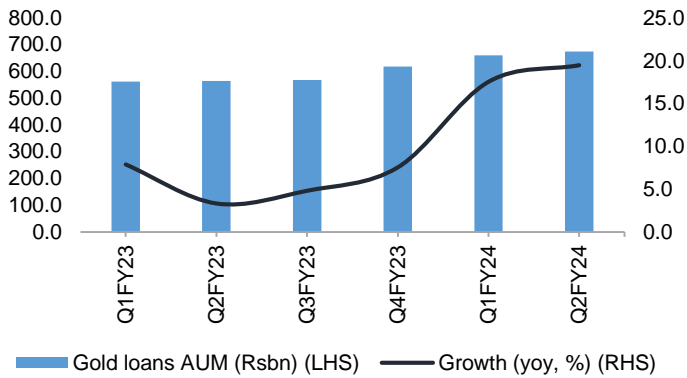
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Sum of the Parts (SOTP) valuation

Particulars	Primary Business	Stake (%)	Parameter	Amount (Rs mn)	Multiple (x)	Hold Co. Disc. (%)	Value per share (Rs)
Standalone	Gold Loans	Holding Co.	December 2025E Adj. Network	271208.1	2.5	-	1655.1
Muthoot Homefin (India) Limited	Affordable Housing Finance	100.0	December 2025E Network	5,185	1.25	20.0	12.9
Belstar Microfinance Limited	Microfinance	59.0	December 2025E Adj. Network	20,804	1.5	20.0	36.7
Muthoot Money Limited	Vehicle Finance	100.0	December 2025E Network	5,169	1	20.0	10.3
Asia Asset Finance PLC	Listed Diversified NBFC in Sri Lanka	72.9	December 2025E Network	927	1	20.0	1.3
Muthoot Insurance Brokers Private Limited	Insurance Broking	100.0	Trailing 4 Quarters Earnings	559	5	20.0	5.6
SOTP Target Price							1721.9

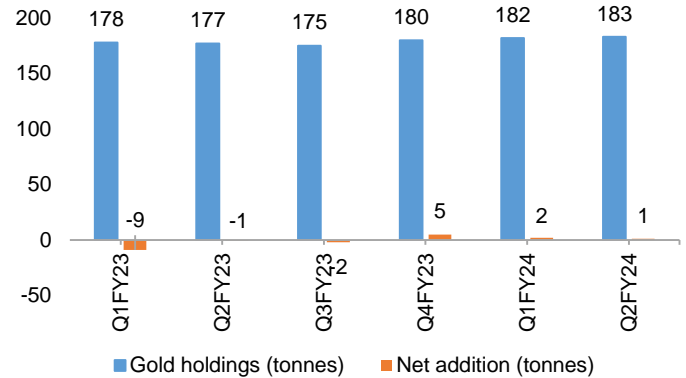
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Gold Loan AUM o/s and growth



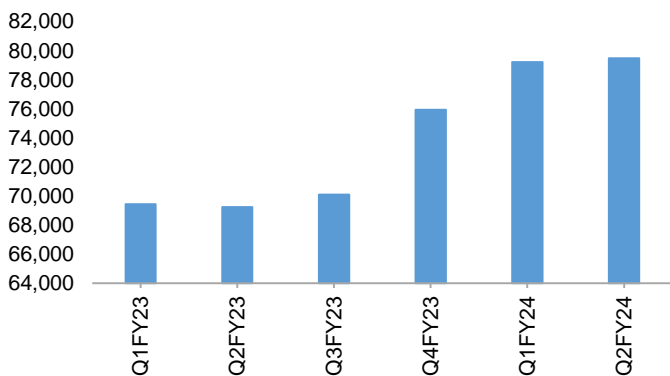
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Gold holdings (tonnes) and net change



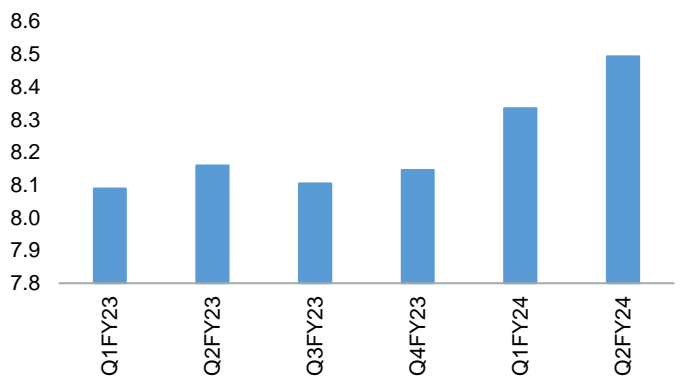
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Average ticket size (Rs)



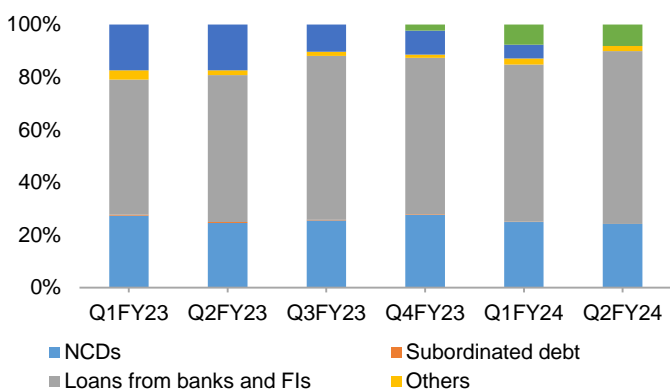
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Number of gold loan accounts (#mn)



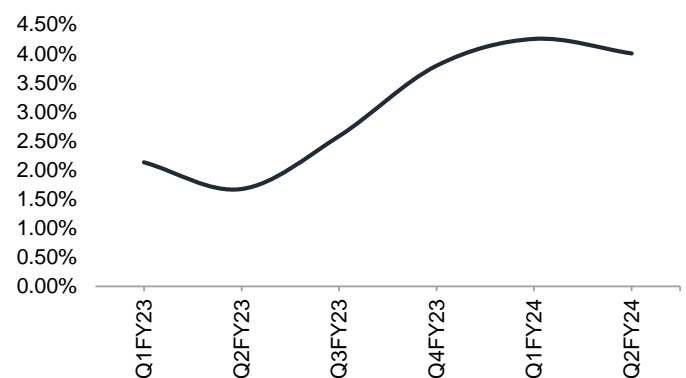
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Borrowings mix (%)

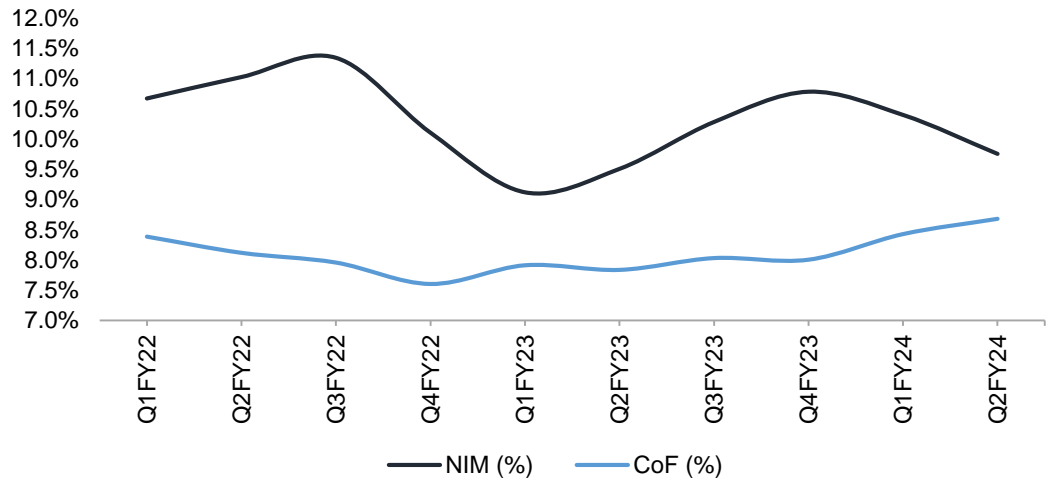


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: GS-3/GNPA (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Reported NIM and CoF (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Financial summary - Standalone

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
NII	71,203	66,695	77,134	87,179	96,400
PPOP	54,364	47,270	56,104	64,124	70,801
PAT	39,543	34,735	40,515	46,508	51,271
Loans	593,842	642,649	739,160	844,086	949,937
RoA (%)	5.9	4.9	5.2	5.2	5.0
RoE (%)	23.5	17.6	18.3	18.6	17.9
P/ABV	3.5	3.1	2.9	2.4	2.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: One-year forward P/ABV


Source: Company, Nirmal Bang Institutional Equities Research

Financials - Standalone
Exhibit 26: Income statement

Y/E March (RsMn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	109,560	103,686	124,064	140,031	156,652
Interest expense	38,358	36,991	46,930	52,852	60,252
Net interest income	71,203	66,695	77,134	87,179	96,400
Non-interest income	1,424	1,751	2,673	3,018	3,394
Net Revenue	72,626	68,446	79,807	90,197	99,794
Operating Expense	18,262	21,177	23,703	26,073	28,993
-Employee Exp	10,302	11,994	13,694	15,063	16,750
-Other Exp	7,960	9,182	10,009	11,010	12,242
Operating profit	54,364	47,270	56,104	64,124	70,801
Provisions	1,270	605	1,788	1,973	2,440
PBT	53,094	46,664	54,315	62,151	68,361
Taxes	13,551	11,929	13,801	15,643	17,090
PAT	39,543	34,735	40,515	46,508	51,271

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: Balance sheet

Y/E March (RsMn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	4,013	4,014	4,015	4,015	4,015
Reserves & Surplus	179,432	206,605	228,608	263,875	302,299
Shareholder's Funds	183,446	210,619	232,622	267,889	306,313
Borrowings	498,113	497,343	584,032	666,937	750,573
Other liabilities	23,989	18,236	19,437	20,227	21,048
Total liabilities	705,547	726,198	836,092	955,053	1,077,934
Fixed Assets	3,131	3,392	3,709	3,859	4,016
Investments	13,205	13,169	23,539	24,495	25,490
Loans	593,842	642,649	739,160	844,086	949,937
Cash	92,429	64,612	66,586	79,389	95,137
Other assets	2,940	2,377	3,097	3,223	3,354
Total assets	705,547	726,198	836,092	955,053	1,077,934

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: Dupont Analysis

Y/E March (% to avg. assets)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	16.3	14.5	15.9	15.6	15.4
Interest Expense	5.7	5.2	6.0	5.9	5.9
Net Interest Income	10.6	9.3	9.9	9.7	9.5
Non Interest Income	0.2	0.2	0.3	0.3	0.3
Net Revenue	10.8	9.6	10.2	10.1	9.8
Operating expenses	2.7	3.0	3.0	2.9	2.9
Operating profit	8.1	6.6	7.2	7.2	7.0
Provisions	0.2	0.1	0.2	0.2	0.2
PBT	7.9	6.5	7.0	6.9	6.7
Tax	2.0	1.7	1.8	1.7	1.7
ROA	5.9	4.9	5.2	5.2	5.0
Leverage	4.0	3.6	3.5	3.6	3.5
ROE	23.5	17.6	18.3	18.6	17.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: Key ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Growth (%)					
Net interest income	7.3	-6.3	15.7	13.0	10.6
Operating profit	6.6	-13.0	18.7	14.3	10.4
Profit after tax	6.2	-12.2	16.6	14.8	10.2
Gold loans	10.8	7.6	15.2	14.2	12.5
Spreads (%)					
Yield	19.3	16.8	18.0	17.7	17.5
Cost of funds	8.0	7.4	8.7	8.4	8.5
Spread	11.3	9.3	9.3	9.2	9.0
NIM	12.6	10.8	11.2	11.0	10.7
Operational efficiency (%)					
Cost-to-income	25.1	30.9	29.7	28.9	29.1
Cost to avg assets	2.7	3.0	3.0	2.9	2.9
CAR (%)					
Tier I	29.1	31.0	30.0	30.2	30.7
Tier II	0.9	0.8	1.1	1.1	1.1
Total	30.0	31.8	31.0	31.3	31.8
Asset quality (%)					
GNPA (%)	3.0	3.8	3.8	3.5	3.4
NNPA (%)	2.6	3.3	3.4	3.1	2.9
Credit costs (%)	0.2	0.1	0.3	0.2	0.3
Profitability (%)					
ROE	23.5	17.6	18.3	18.6	17.9
ROA	5.9	4.9	5.2	5.2	5.0
Per share (Rs)					
EPS	98.5	86.5	100.9	115.8	127.7
BVPS	457.1	524.6	579.4	667.3	763.0
ABVPS	418.4	471.0	516.2	603.0	694.4
Valuation (x)					
P/E	14.8	16.8	14.4	12.6	11.4
P/BV	3.2	2.8	2.5	2.2	1.9
P/ABV	3.5	3.1	2.8	2.4	2.1

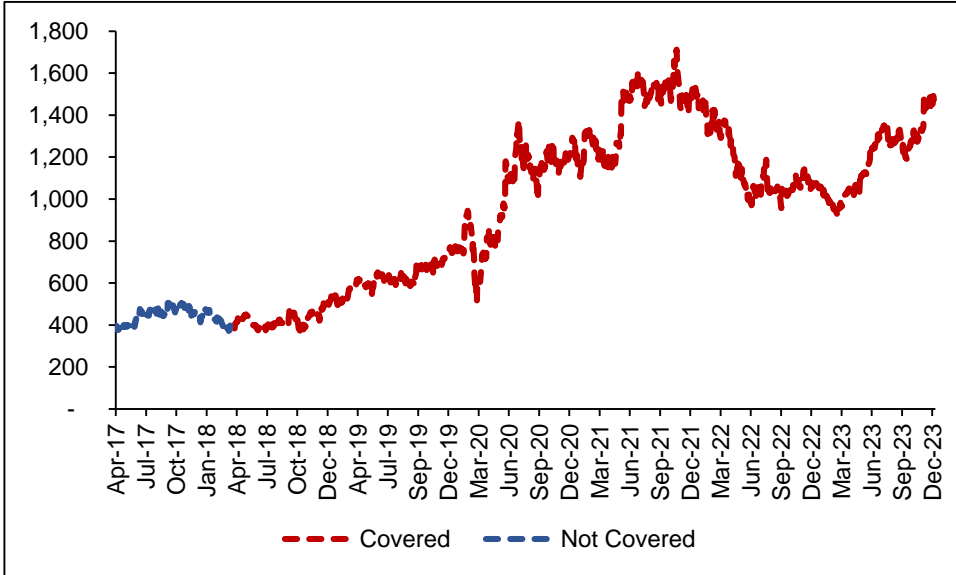
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	381	471
18 May 2018	Buy	441	485
6 September 2018	Buy	437	514
9 October 2018	Buy	380	501
10 December 2018	Buy	471	547
7 February 2019	Buy	485	558
8 April 2019	Accumulate	617	653
14 May 2019	Buy	547	670
8 July 2019	Buy	626	721
13 August 2019	Buy	600	720
23 September 2019	Buy	631	858
7 October 2019	Buy	665	874
14 November 2019	Buy	650	877
8 January 2020	Buy	746	879
17 February 2020	Buy	747	909
27 March 2020	Buy	621	884
9 April 2020	Buy	687	884
18 Jun 2020	Buy	1,000	1,173
9 July 2020	Buy	1,085	1,263
20 August 2020	Accumulate	1,256	1,301
23 September 2020	Buy	1,021	1,406
7 October 2020	Buy	1,196	1,422
4 November 2020	Buy	1,190	1,452
26 November 2020	Buy	1,119	1,452
08 January 2021	Buy	1,277	1,495
10 February 2021	Buy	1,186	1,592
21 February 2021	Buy	1,290	1,592
02 June 2021	Buy	1,425	1,735
07 August 2021	Accumulate	1,542	1,747
26 September 2021	Buy	1,505	1,892
9 November 2021	Accumulate	1,659	1,854
28 December 2021	Buy	1,493	1,854
14 February 2022	Buy	1,357	1,804
27 May 2022	Buy	1,144	1,493
14 August 2022	Buy	1,188	1,443
19 September 2022	Buy	1,035	1457
11 November 2022	Buy	1,105	1,451
07 February 2023	Buy	1,011	1,328
22 March 2023	Buy	971	1,283
20 May 2023	Buy	1,035	1,330
12 August 2023	Accumulate	1,350	1,460
10 November 2023	Buy	1.313	1.527
16 January 2024	Buy	1,454	1,722

*The coverage has been transferred to Rati J Pandit from July 30, 2023

Rating track graph



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Manappuram Finance (MGFL)

NBFC | Company Update

BUY

CMP: Rs171 | Target Price (TP): Rs209 | Upside: 22%

January 16, 2024

Being on track with diversification plans key to re-rating

Please vote for us in the Institutional Investor poll – [Click Here](#)

Key Points

- We recently met the management of Manappuram Finance Ltd (MGFL), represented by Ms. Bindu AL, CFO and Mr. Raju Narayan, Head of Gold Loan business. The management remains confident of delivering on its Gold Loan growth guidance of 8-10% in the near term, supported by: (1) 80% volume-led growth with average daily customer additions being ~4,600-4,800 (2) With banks turning risk averse to lend to below Rs100,000 ticket size segment on the unsecured side due to some stress in the segment and recent increase in risk weights by the RBI, customers are likely to turn towards Gold Loan financiers to meet their financial requirements. In the Non-gold loan businesses, MGFL expects strong growth to continue in the near future, supported by robust underwriting & credit appraisal processes and digital & technological initiatives taken in the recent past. The company has maintained its guidance of 20% consolidated AUM growth and 20% RoE.
- With double-digit growth expected to return in the core business, yields stabilizing at 21-22% (>90% Gold Loan yields being in excess of 12%), strong growth in higher yielding Non-gold businesses, lower opex (led by improved productivity) and control on asset quality, we expect standalone RoA to be at 4.9% over FY23-FY26E vs 4.5% in FY23. Considering the faster expansion in subsidiary businesses, mainly MFI, we have changed our valuation methodology to SOTP. We have valued the standalone Gold Loan business at 1.1x Dec. 2025E ABV, which leads to standalone value per share of Rs147.90. Adding subsidiary value per share of Rs60.70 (net of holding company discount of 20%), we have raised our TP to Rs209 (from Rs200 earlier valued at 1.14x consolidated Dec. 2025E ABV). We have maintained BUY on MGFL.
- We are positive about the company's prospects as a diversified lender but successful execution will be key. Besides this, timely listing of sizeable subsidiary Asirvad Microfinance will be key to re-rating of MGFL.

Gold Loan guidance for FY24 maintained at ~8-10%: MGFL continues to maintain its Gold Loan AUM growth guidance of ~8-10% for FY24, supported by strong growth in the Gold Loan business in 2HFY24. The management highlighted that its focused customer segment (low ticket size customers with high yields) has started coming back and new customer acquisition rate is inching back to pre-covid levels (at ~4,600-4,800 new customers per day). The management further indicated that: (1) It continues to maintain pricing discipline (in terms of yields) even if it impacts growth to certain extent and expects to maintain yields at 21-22% (2) AUM mix to move towards the guided range of 50:50 between Gold Loan and Non-gold business from 53:47 at present and (3) Gold Loan growth would be supported by strong new customer addition (~80% of growth would come from new customer addition while remaining 20% is expected to come from increase in LTV as well as higher gold prices).

Est Change	-
TP Change	Upgrade
Rating Change	No change

Company Data and Valuation Summary

Reuters	MNFL.BO
Bloomberg	MGFL IN Equity
Market Cap (Rsbn / US\$bn)	142.6 / 1.7
52 Wk H / L (Rs)	178 / 101
ADTV-3M (mn) (Rs / US\$)	1,633.8 / 19.6
Stock performance (%) 1M/6M/1yr	3.6 / 27.3 / 41.2
Nifty 50 performance (%) 1M/6M/1yr	7.8 / 11.5 / 18.8

Shareholding	4QFY23	1QFY24	2QFY24
Promoters	35.2	35.2	35.2
DII's	13.5	10.7	12.2
FII's	30.2	30.7	27.1
Others	21.1	23.4	25.5
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

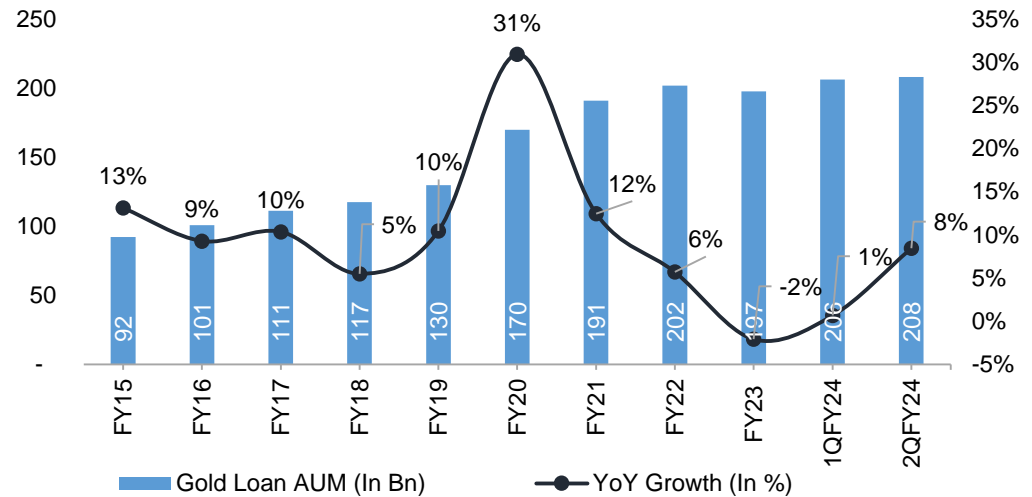
Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
NII	32,425	38,369	43,495	50,539
% growth	3.0	18.3	13.4	16.2
NIM %	13.7	14.4	13.9	13.9
C/I Ratio %	47.4	43.4	42.5	42.1
Operating Profit	17,514	22,656	26,075	30,523
% growth	-4.3	29.4	15.1	17.1
Adjusted PAT	12,663	16,086	18,321	21,456
% growth	-2.9	27.0	13.9	17.1
ABVPS (INR /share)	102.90	117.01	133.53	153.64
P/ABV	1.7	1.5	1.3	1.1
RoA (%)	4.5	5.0	4.8	4.8
Leverage (x)	3.3	3.4	3.5	3.5
RoE (%)	15.0	16.7	16.6	17.0

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

[Key Links-Analyst Meet Presentation](#)

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Strong rebound in Gold Loan growth



Source: Company, Nirmal Bang Institutional Equities Research

Geographic focus and customer profile: At present, the geographic distribution of Manappuram’s branches is skewed towards South India, constituting 63% of total. The company is awaiting the RBI’s approval for adding new branches and once it secures the same, it plans to expand in Northern as well as Eastern parts of the country. Its branches in metro cities have higher AUM per branch, supported by: (1) Higher population and (2) Stronger growth. In case of rural areas, 1/3rd of its demand comes from agriculture, 1/3rd from small & medium trade segment and remaining 1/3rd comes from educational and medical needs.

Besides an active customer base of 2.4mn, the company has internal processes in place such as calling and SMS to get in touch with inactive customers.

Average ticket size in urban areas is higher ~Rs65,000-70,000 compared to rural and semi-urban areas where the average ticket size is ~Rs45,000-50,000. AUM break-up in terms of ticket size is: (1) Upto Rs50,000 – 26% (2) Rs50,000-100,000 – 18% (3) Upto Rs100,000-300,000 – 33% and (4) Above Rs300,000 – 22%.

8-9% of the AUM is below 12% yield, which was offered during the pandemic phase when banks had turned aggressive in the segment. This portfolio continues to decline. The company targets to maintain a blended yield of 21-22%.

Average effective tenure of loans is 100 days. The TAT for new customers is 15-20min and for existing customers it is 5min. The average LTV of Gold Loans is 66%.

The conversion rate for walk-in customers is 98% (3,600-3,800 daily customers) while for digital customer acquisition (400-500 customers per day), it is 28-30%. New customers across various channels is 4,600-4,800 per day.

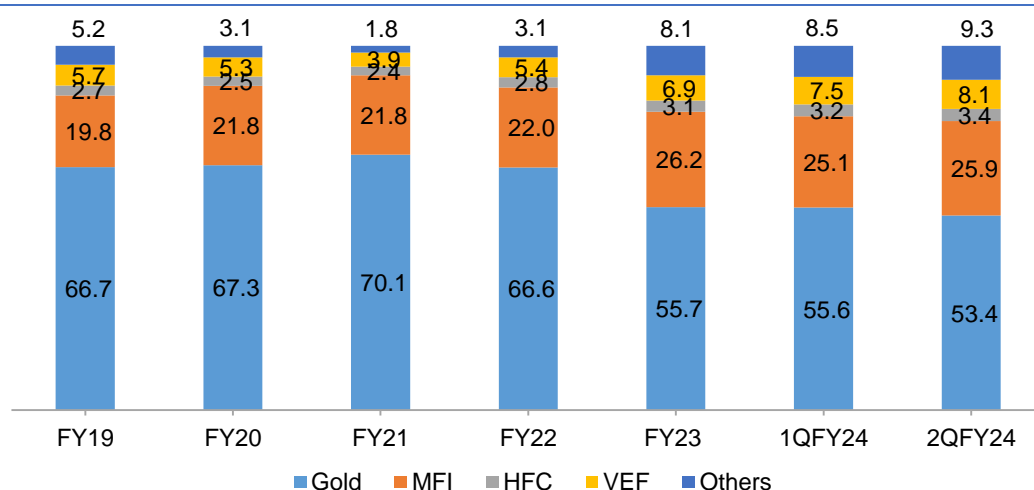
Diversification into other lending streams: While Gold Loans will continue to remain a key focus area, Manappuram has been steadily diversifying its portfolio to avoid concentration risks. The company is focusing on serving customers 'at the bottom of the pyramid' through other business segments like Affordable Housing Finance, Vehicle Finance and Equipment Finance, which includes CV loans, 2W loans, Tractor & Car loans, Microfinance, SME finance etc.

Exhibit 2: Key Financial Parameters for 1HFY24

Particulars	AUM (Rs mn)	PAT (Rs mn)	CAR (%)	RoA (%)	GNPA (%)	NNPA (%)	Credit Cost (%)
Standalone	2,66,960	8,008	30.7%	5.3%	1.6%	1.4%	0.3%
Gold Loan	1,99,934	-	-	7.4%	1.4%	1.3%	0.1%
Vehicle & Equipment Financing	31,432	-	-	1.5%	2.6%	2.1%	0.7%
On-lending	9,206	-	-	5.8%	0.5%	0.0%	0.0%
MSME and Others	26,388	-	-	2.3%	1.9%	1.0%	2.0%
Subsidiaries							
Asirvad	1,09,498	2,295	24.5%	-	3.0%	1.4%	-
HFC	13,049	77	28.3%	1.3%	1.8%	1.2%	1.6%
Manappuram Insurance Broker	NA	176	NA	NA	NA	NA	NA
MACOM	NA	42	NA	NA	NA	NA	NA
Consol	3,89,507	10,587	NA	5.3%	1.9%	1.4%	1.3%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Diversification to reduce dependence on Gold Loan business



Source: Company, Nirmal Bang Institutional Equities Research

Vehicle Finance & Equipment Finance seeing strong rebound: Vehicle Finance & Equipment Finance segment has been witnessing a strong rebound post COVID, supported by various initiatives taken by the management such as: (1) Decentralization of decision making and (2) Sharper focus on understanding customer needs (3) Embarking on a digital and technological transformation journey (12-15min TAT in 2W segment) (4) Digital loan agreement signing with E-Stamping to save cost and make the process customer friendly (5) Placing experienced team leaders to take care of the different sub-segments. Total AUM in 2QFY24 stood at Rs31.4bn, comprising CV (Rs16.9bn), Auto (Rs7.6bn), 2W (Rs5.3bn) and Farm Equipment (Rs1.6bn). Vehicle Finance & Equipment Finance segment delivered a strong growth of 67% YoY in 2QFY24 and the management expects this strong growth to continue. For 2W loan business, the dealer network is used for bringing in leads and for CVs, DSAs are used for sourcing. It is looking to build tie-ups with OEMs; one recent one which it did was with JCB for equipment finance. In terms of asset quality, the cheque bounce rate has improved to 21.9%. The company carries out post-disbursement checks and regular portfolio checks for early warning signals.

Home Finance business growing strong; but RoA of 1.4% still lower vs peer RoA of 3-4%: Manappuram focuses on Affordable Housing Finance to self-employed (non-professionals and professionals forming 77% and 3% of AUM, respectively), informal salaried segment with income of Rs 35000pm and those customers from formal salaried segment whose needs are not met by other lenders and generally clubbed income (with spouse) is considered for such customers. 65% of book comprises Housing Loans with an average ticket size of Rs0.6mn. AUM stood at Rs13.1bn in 2QFY24 (up by 42% YoY) with an average ticket size of Rs0.6mn, yield of 17.6% and RoA of 1.4%. As a significant scale-up of operations is yet to happen, the RoA of 1.4% is lower than peers at 3-4%. At present, the company has presence in 12 states and focus areas are Tier-3 and Tier-4 cities. Sourcing for Housing Finance is done through various channels such as: MAFIL (Gold Loan Branches), Asirvad (Micro Finance Branches), Referral Agents, DSAs, Connectors etc. Underwriting and disbursements are de-centralized. With a view to strengthen its underwriting processes well as improving the overall customer experience, the subsidiary has undertaken various initiatives such as: (a) Digital on-boarding and verification of initial set of documents (KYC, BEAURO Reports, HUNTER fraud check) (b) Selection of customers by way of score card (c) Fully system driven recommendation of loans (system driven credit appraisal memo) and (d) Sanctioning authority at the branch level.

MSME & Allied Business: The MSME & Allied Business comprises: (a) MSME (b) Micro Home Finance and (c) Secured Personal Loans. Under this segment, sourcing happens through own employees as well as leads generated through direct marketing activities. MGFL also cross sell MSME & Allied Business loans to existing Gold Loan customers having a good track record (60-65% Gold Loan customers). As far as the underwriting of loans is concerned, MGFL has decentralized underwriting and disbursement for lower ticket size loans at branch levels. Each division is being led by a separate Business Head along with various functional heads in Credit, Operations, Risk, Audit, Vigilance and MIS. Further, sales executives have been well trained in assessing the customer cash flow assessment, valuation of collateral and verification of documents. Overall, the key focus remains on growing secured business with best-in-class asset quality and consistent profitability. The cost of operating this business is lower as they are co-located with the existing Gold Loan branches.

Exhibit 4: Sub-segments within MSME & Allied business

Parameter	MSME	Micro Home Finance	Secured Personal Loan
Target Segment	Self-employed / business individuals who primarily include traders, Farmers, Manufacturers & Service providers.	Self-employed professionals, employees, employees & daily wages. Non-Salaried government employees.	Self-employed professionals & Non-Professionals, Salaried employees & government employees.
Average customer income (monthly)	Rs 58000	Rs 42800	Rs 30600
Average EMI (Rs)	Rs 14800	Rs 12800	Rs 11500
EMI to income ratio	26%	30%	38%
Average Tenure	5-6 years	5-6 years	5 years
Average Ticket Size	Rs 0.6mn	Rs 0.5mn	Rs 0.4mn
Average LTV	32%	33%	35%
AUM	Rs 9bn	Rs 9bn	Rs 5bn
Credit Cost	<0.5%	<0.5%	<0.5%
Bounce Rate	4-5%	3-4%	5-6%

Source: Company, Nirmal Bang Institutional Equities Research

On-lending book: On-lending book of Rs9.2bn comprises term loans to 50 NBFCs it has a tie-up with. 40% of the book is towards MFI lending. The other borrowers in this category include NBFCs from Housing Finance/MSME/Vehicle Finance etc.

Value-add to Manappuram Finance from its sizeable subsidiary Asirvad Micro Finance: MGFL acquired a majority stake of 71% in Asirvad Micro Finance in FY15, which has since been increased to 97.6%. As per the disclosures in the Asirvad IPO prospectus, Asirvad founder Mr. S V Raja Vaidyanathan held 1.68% in the company in October 2023.

In our view, presence in the MFI segment through Asirvad is expected to add value to MGFL in long term in the following ways:

- **Potential for MFI customers to transition to parent entity's gold loans:** With MGFL's core clientele being in the low-income category (where the MFI is also present), the foray into Microfinance compliments its customers' credit requirements and vice versa. Our channel checks at MGFL's branches indicate that in the recent past, the company has seen Asirvad customers transition from Microfinance to gold loans.
- **Achieved sizeable AUM of Rs109.5bn:** Asirvad has delivered strong AUM growth of 30% over FY21-FY23 and as of 2QFY24 had an AUM size of more than Rs100bn (3rd largest MFI with a market share of 7.7%), supported by a network of 1,738 branches spread across 22 states and 4 UTs. Asirvad's loan book comprises: (1) JLG-based lending model and (2) Gold Loans (7-8%). Average ticket size of loans is Rs25,000 and based on disbursements it is Rs49,000.
- **Reduced geographic concentration risk:** Over a period of time, Asirvad has built a strong risk management system and control practices such as: (a) No district with >1% concentration in AUM (b) No state with >10% concentration in AUM and (c) No state with AUM of >5% of estimated MFI market size of the state, which has led to an improvement in geographical diversification over the years (AUM in Top 3 States has been down from 43% in FY21 to 37% in FY23). As compared to other MFIs having share of top 3 states at 48-74%, it is relatively better placed with the lowest share of top 3 states at 37%.
- **Strong underwriting and collection processes:** According to management, the MFI's niche lies in its digitalized and automated processes. The subsidiary has established strong risk mitigation and CRISIS-tested underwriting & collection processes, including scorecard-based lending, setting up limits for new & existing customers etc., which has helped it to maintain strong growth without taking any major risks. Besides traditional data for underwriting, like the customer's income details, it also looks at other factors like customer's standard of living, including household appliances. Asirvad has a monthly collection model and physical visits by loan officers for cash collection. Daily collections are deposited by loan officers to the branch.
- **First NBFC-MFI to get AA- rating from CRISIL:** Among its MFI peers, Asirvad was the first and the fastest to get an AA-rating from credit rating agencies. As per its IPO prospectus, its cost of funds (CoF) declined from 11.2% in FY22 to 9% in FY23.

Exhibit 5: Rating Comparison of Asirvad with Key Listed Peers

Company Name	Date of Incorporation	NBFC-MFI Status Date	Present Credit Rating
Asirvad Microfinance Ltd	2007	2013	CRISIL AA-
Credit Access Grameen Ltd	1991	2013	ICRA AA-, CRISIL AA-, IND AA-
Fusion Micro Finance Ltd	1994	2014	CRISIL A+, ICRA A, CARE A+
Spandana Sphoorty Financial Ltd	2003	2015	CRISIL AA-(SO) , ICRA A-, IND A

Source: Company, Nirmal Bang Institutional Equities Research

*We have chosen to compare Asirvad Microfinance with Creditaccess Grameen, Fusion Microfinance and Spandana Sphoorty, as they have had a good/decent institutional investor holdings.

Exhibit 6: Financial Comparison with Listed Peers Having Institutional Investor Holdings

Asirvad Microfinance Ltd	FY19	FY20	FY21	FY22	FY23	H1FY24
AUM (Rs bn)	38.4	55.0	59.9	70.2	100.4	109.5
% Growth	-	43.3%	8.8%	17.3%	43.0%	43%
Branches (No.s)	942	1030	1,062	1,525	1,684	1738
No. of Clients (No.s)	1.8	2.4	2.4	2.6	3.3	NA
AUM Share in Top 3 states (%)	NA	NA	42.7%	38.9%	37.3%	NA
Average Ticket Size (Rs) - Based on Disbursements	20,466	22,628	29,268	39,070	49,324	NA
CAR (%)	31.8%	25.4%	23.3%	20.8%	19.7%	24.5%
Yield (%)	21.4%	22.8%	20.2%	22.1%	21.4%	NA
CoF (%)	10.3%	10.3%	10.0%	11.2%	9.0%	NA
NIM (%)	8.0%	9.9%	8.5%	9.6%	10.8%	NA
Opex Ratio (%)	4.3%	4.6%	4.9%	6.5%	6.4%	7.4%
Credit Cost (%)	0.8%	1.8%	5.1%	6.3%	3.2%	4.1%
GNPA (%)	0.5%	1.6%	1.8%	1.7%	2.8%	3.0%
NNPA (%)	0.0%	0.0%	0.0%	0.3%	1.2%	1.4%
PCR (%)		100.0%	100.0%	80.8%	59.1%	51.4%
RoA (%)	3.6%	4.6%	0.3%	0.2%	2.6%	5.0%
RoE (%)	18.9%	25.5%	1.6%	1.3%	16.7%	27.8%

Credit Access Grameen Ltd	FY19	FY20	FY21	FY22	FY23	H1FY24
AUM (Rs bn)	71.6	99.0	113.4	137.3	210.3	224.9
% Growth		38.2%	14.6%	21.1%	53.2%	36.0%
Branches (No.s)	670	929	964	1,164	1,786	1877
No. of Clients (No.s)	2.42	2.9	2.9	2.9	4.3	4.6
AUM Share in Top 3 states (%)	NA	NA	80.5%	78.2%	74.3%	NA
Average Ticket Size (Rs)	21,379	20,000	35,938	37,576	37,965	N.A
CAR (%)	35.3%	23.6%	31.8%	26.5%	23.6%	25.0%
Yield (%)	20.5%	20.7%	19.7%	19.2%	19.2%	20.9%
CoF (%)	9.6%	9.0%	8.9%	8.2%	9.1%	9.7%
NIM (%)	11.1%	11.7%	9.7%	9.7%	11.5%	13.1%
Opex Ratio (%)	4.2%	4.3%	4.6%	5.0%	4.5%	4.6%
Credit Cost (%)	1.2%	2.6%	5.5%	3.3%	2.2%	1.6%
GNPA (%)	0.6%	1.6%	4.4%	3.1%	1.2%	0.8%
NNPA (%)	0.2%	0.4%	1.4%	0.9%	0.4%	0.2%
PCR (%)		76.4%	68.7%	69.9%	71.1%	68.8%
RoA (%)	4.4%	3.6%	1.2%	2.8%	4.5%	5.7%
RoE (%)	13.6%	13.0%	4.5%	10.1%	18.3%	25.5%

Fusion Micro Finance Ltd	FY19	FY20	FY21	FY22	FY23	H1FY24
AUM (Rs bn)	26.4	36.6	46.4	66.5	93.0	100.3
% Growth	-	38.5%	26.8%	43.5%	39.7%	24.6%
Branches (No.s)	504	591	710	900	1,019	1164
No. of Clients (No.s)	1.6	1.7	2.1	2.7	3.5	3.7
AUM Share in Top 3 states (%)	NA	NA	66.0%	65.0%	53.0%	NA
Average Ticket Size (Rs)	26,427	29,801	32,113	35,668	37,922	42200
CAR (%)	26.9%	35.8%	27.3%	21.9%	27.9%	28.8%
Yield (%)	23.8%	22.5%	20.9%	20.6%	21.9%	21.6%
CoF (%)	11.2%	11.4%	10.1%	9.7%	10.2%	10.6%
NIM (%)	7.8%	9.8%	9.0%	8.7%	11.5%	11.0%
Opex Ratio (%)	5.6%	5.1%	4.4%	4.8%	5.3%	5.6%
Credit Cost (%)	0.8%	2.4%	4.4%	5.6%	2.4%	3.1%
GNPA (%)	1.6%	1.1%	5.5%	5.7%	3.5%	2.7%
NNPA (%)	0.6%	0.4%	2.2%	1.6%	0.9%	0.7%
PCR (%)	-	65.2%	60.0%	71.9%	74.9%	75.7%
RoA (%)	1.8%	1.8%	0.9%	0.3%	4.7%	5.0%
RoE (%)	11.5%	7.6%	3.6%	1.7%	21.2%	20.1%

Source: Company, Nirmal Bang Institutional Equities Research

Spandana Sphoorty Financial Ltd	FY19	FY20	FY21	FY22	FY23	H1FY24
AUM (Rs bn)	43.7	68.3	81.4	61.5	79.8	97.8
% Growth	-	56.2%	19.2%	-24.4%	29.7%	69.0%
Branches (No.s)	927	1010	1,052	1,049	1,153	1179
No. of Clients (No.s)	2.5	2.6	2.4	2.3	2.1	2.7
AUM Share in Top 3 states (%)	NA	NA	47.5%	48.0%	43.3%	NA
Average Ticket Size (Rs)	26,279	34,308	45,318	45,025	46,256	NA
CAR (%)	42.5%	47.4%	39.2%	50.7%	36.9%	36.6%
Yield (%)	26.6%	24.9%	22.2%	20.6%	18.3%	24.3%
CoF (%)	13.5%	11.9%	10.2%	11.6%	9.3%	NA
NIM (%)	14.7%	14.6%	12.7%	9.7%	9.5%	14.1%
Opex Ratio (%)	3.5%	4.2%	3.2%	4.6%	5.4%	6.5%
Credit Cost (%)	1.0%	5.0%	9.0%	6.1%	6.2%	3.0%
GNPA (%)	NA	0.4%	5.8%	17.7%	2.1%	1.4%
NNPA (%)	NA	0.1%	3.3%	11.8%	0.6%	0.4%
PCR (%)	-	80.6%	43.4%	33.3%	69.6%	70.0%
RoA (%)	6.3%	6.2%	1.8%	0.6%	0.2%	5.8%
RoE (%)	16.4%	15.0%	4.8%	1.6%	0.4%	15.1%

Source: Company, Nirmal Bang Institutional Equities Research

Asirvad's fund raising plans

Asirvad filed DRHP with SEBI in October 2023 for raising capital of Rs15bn through IPO. It has also been trying to do a pre-IPO placement of Rs3bn, which if completed will reduce the IPO issue size. The management highlighted that the capital raise is for: (a) strengthening Asirvad's position as a standalone entity (b) getting access to larger capital base to support near term growth requirements (as MGFL as parent was not allowed to infuse large capital into Asirvad in a single tranche) (c) better visibility of growth and profitability and (d) value unlocking from the subsidiary. The capital raise is expected to provide Asirvad access to a larger capital base in a single tranche, which would help it to meet its growth capital requirement.

As per the latest update on the Asirvad IPO, the same has been kept under abeyance by SEBI. As per [media reports](#), three queries have been raised by SEBI on Asirvad IPO. These queries are of a common nature and should not affect the IPO process. Two out of the three queries have already been resolved. The third query requires legal opinion, which is being obtained. It should take 15-30 days to resolve.

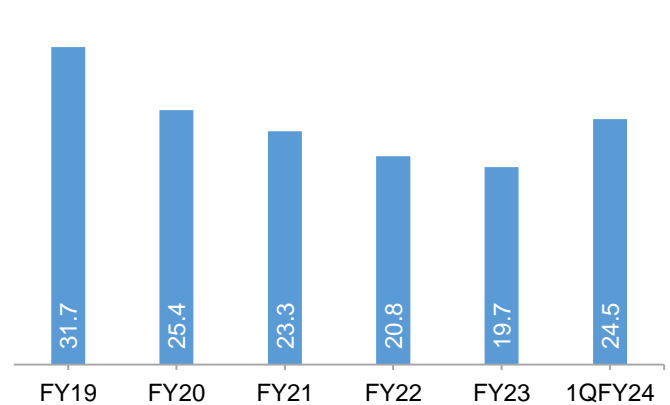
In its recent analyst meet in December 2023, the management had mentioned that the company is expecting to list by February 2023. In our opinion, with SEBI putting this IPO on hold till all the queries are addressed, the IPO process is likely to be delayed to FY24-end or early-FY25. A delay in listing can affect the fund raise quantum and valuation. In the worst-case scenario of the IPO getting delayed much beyond the expected timeframe, the parent MGFL has sufficient capital to infuse into Asirvad Microfinance to ensure that its growth is on track. However, in our estimates, we have assumed a conservative scenario with an estimated fund raise of Rs10bn in FY25.

Exhibit 7: Asirvad Microfinance AUM



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Asirvad Microfinance CAR (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Valuations of Listed MFI Peers of Asirvad Microfinance

Particulars	CMP (Rs)	Mcap (Rsmn)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Creditaccess Grameen	1703	2,71,052.9	19.2	20.1	4.2	3.3	5.3	5.2	23.7	22.5
Fusion Micro Finance	642	64,882.6	12.4	9.6	2.3	1.9	5	5.1	20.2	21.1
Spandana Spoorty	1212	86,205.4	17.2	12.8	2.4	2.0	4.9	5.1	16	18.9

Source: Bloomberg Consensus Estimates, Nirmal Bang Institutional Equities Research

Internally generated accruals supporting strong business growth: Manappuram Finance has been able to support its strong business growth and expansions through internally generated accruals and in the past over one decade after two rounds of QIPs way back in 2010 where it had raised Rs 12.4bn, it hasn't raised equity capital so far. It has significantly improved its capital adequacy ratio from 21.4% in FY20 to 30.7% in 1HFY24, supported growth in high yielding businesses, besides decent growth in gold finance. It is currently in a sweet spot in light of the recent RBI circular on risk weights as there will be negligible impact on its CET-1 due to the secured nature of its business. With respect to the impact of RBI circular on liability side, the company expects 15-20bps rise in cost of funds. However, considering the secured nature of gold loan business, banks have been comfortable in providing funding.

Exhibit 10: Details of last equity capital raise

Date of issue	New shares issued	Issue price	Issue value (Rsmn)
18-Nov-10	59,523,809.00	168	10000.00
25-Feb-10	3,540,420.00	691	2446.4

Source: ACE Equity, Nirmal Bang Institutional Equities Research

Succession planning in place: As part of succession planning, MGFL promoter, Mr V P Nandakumar's daughter, Dr Sumitha Jayasankar has been brought in as an Executive Director and to start with, she would head the Vehicle Finance segment. Earlier, Dr Sumitha had a 3-year stint with MGFL during FY15-FY18 wherein she pioneered the concept of online gold lending. Meanwhile, Mr. VP Nandakumar, the present MD& CEO has received approval from shareholders for extension of tenure till FY29(Aug'23 Board meeting and AGM). In its recent analyst meet, the company has denied rumours of promoters intending to sell out their entire stake.

Valuation and Recommendation: We are positive about the company's prospects as a diversified lender, but successful execution will be key. Besides this, timely listing of sizeable subsidiary Asirvad Microfinance will be key to re-rating of the parent.

With double-digit growth expected to return in the core Gold Loan business, yields stabilizing at 21-22% (>90% Gold Loan yields being in excess of 12%), strong growth in higher yielding Non-gold businesses, lower opex (led by improved productivity levels) and control on asset quality, we expect standalone RoA to be at 4.9% over FY23-FY26E vs 4.5% in FY23. Considering the faster expansion in subsidiary businesses, mainly MFI, we have changed our valuation methodology to SOTP. We have valued the standalone Gold Loan business at 1.1x Dec. 2025E ABV, which leads to standalone value per share of Rs147.90. Adding subsidiary value per share of Rs60.70 (net of holding company discount of 20%), we have raised our TP to Rs209 (from Rs200 earlier valued at 1.14x consolidated Dec. 2025E ABV). We have maintained BUY on MGFL.

Exhibit 11: Calculation of Adj. Book Value

Particulars	Amount (Rsmn)
December 2025E Network	130260.6
December 2025E NNPA	5038.9
Cost of Investment in Key Subsidiaries	11386.1
December 2025E Adj. Network	113835.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Sum of the parts (SOTP) valuation

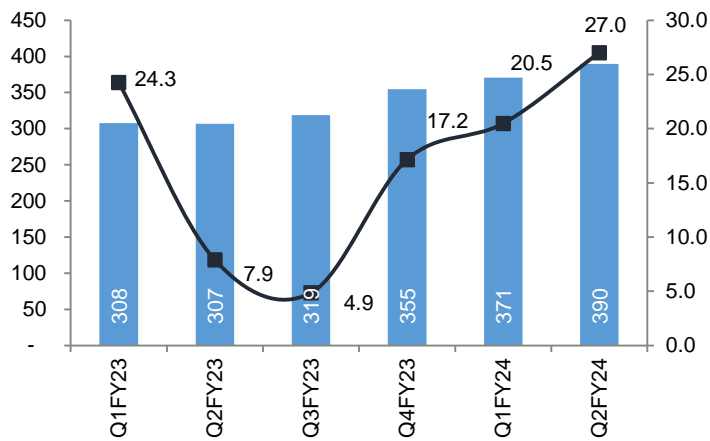
Particulars	Stake (%)	Parameter	Amount (Rsmn)	Multiple	Holding co. Discount (%)	Value per share (Rs)
Standalone	Holding co.	December 2025E Adj. Network	113835.7	1.1	-	147.9
Asirvad Microfinance	97.6	FY25E Adj. Network	36095.3	1.8	20.0	58.3
Manappuram Home Finance	100.0	FY25E Adj. Network	2534.6	1.0	20.0	2.4
SOTP based Target Price (Rs)						208.6

Source: Company, Nirmal Bang Institutional Equities Research

Investment concerns:

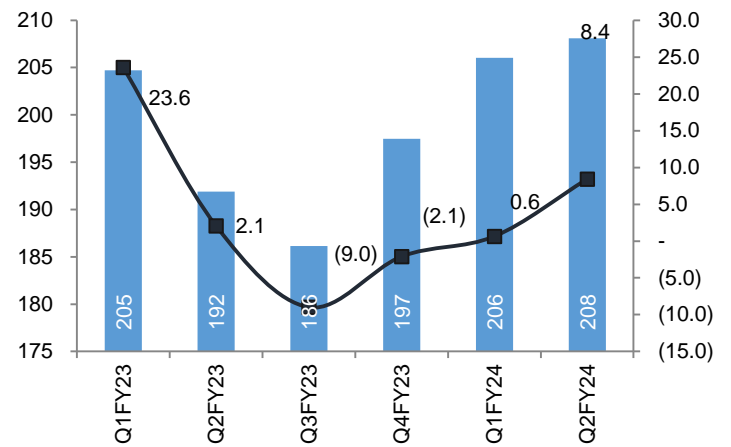
- Higher-than-expected competition in future impacting profitability would be a key risk to our estimates.
- Gold price fluctuations can impact asset quality.
- MGFL presently has restrictions put in place by the RBI on opening new Gold Loan branches, as its auction surplus is still Rs300mn. Any delay in reducing this auction surplus will lead to delay in it getting permission from the RBI for opening new Gold Loan branches and affect growth of the standalone entity.
- Longer-than-expected delay in Asirvad IPO can affect the re-rating of the parent MGFL.

Exhibit 13: Consolidated AUM (Rsbm) and Consolidated AUM growth (YoY, %)



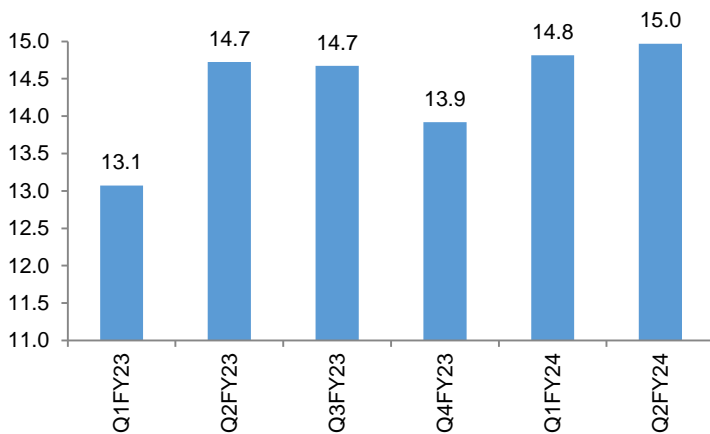
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Gold Loan AUM (Rsbm) and Gold Loan AUM growth (YoY, %)



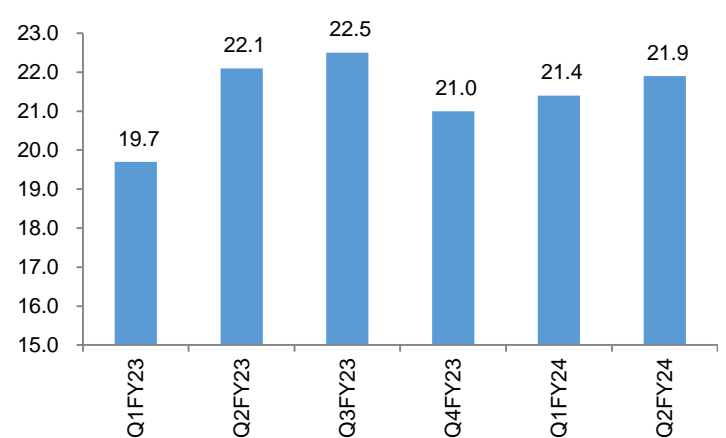
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: NIM (In %)



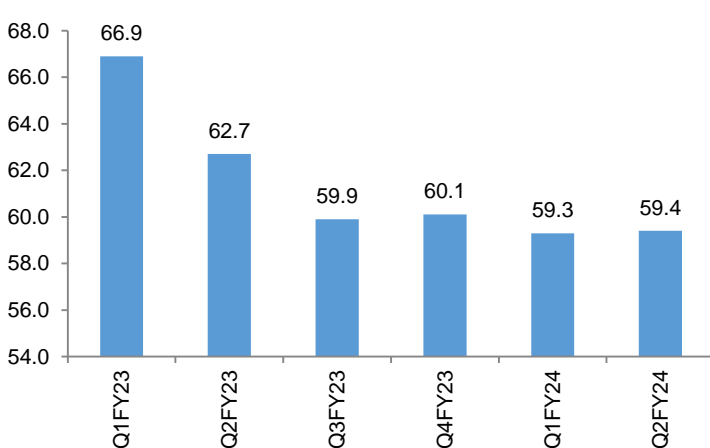
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Gold Loan Yields (In %)



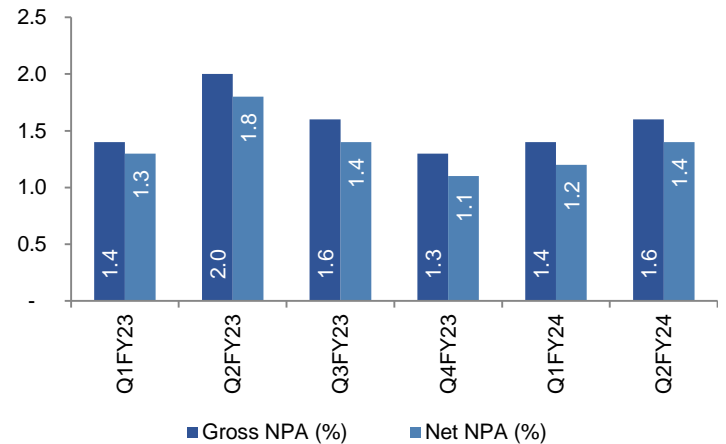
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Gold Loan Tonnage



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Standalone Asset Quality (in %)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Financial summary

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
NII	31,476	32,425	38,369	43,495	50,539
PPOP	18,305	17,514	22,656	26,075	30,523
PAT	13,045	12,663	16,086	18,321	21,456
AUM	2,27,625	2,50,593	2,97,012	3,48,949	4,00,819
RoA (%)	5.0	4.5	5.0	4.8	4.8
RoE (%)	17.6	15.0	16.7	16.6	17.0
P/ABV	2.0	1.7	1.5	1.3	1.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials - Standalone

Exhibit 21: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	45,394	47,409	57,004	65,346	75,880
Interest Expense	13,918	14,984	18,635	21,851	25,340
Net Interest Income	31,476	32,425	38,369	43,495	50,539
Non-Interest Income	476	859	1,627	1,882	2,181
Net Revenue	31,952	33,284	39,996	45,377	52,721
Operating expenses	13,647	15,771	17,340	19,302	22,197
Operating profit	18,305	17,514	22,656	26,075	30,523
Provisions	807	451	1,092	1,592	1,851
PBT	17,498	17,063	21,564	24,483	28,673
Tax	4,452	4,401	5,478	6,162	7,217
PAT	13,045	12,663	16,086	18,321	21,456

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,693	1,693	1,693	1,693	1,693
Reserves & surplus	77,736	88,106	1,01,151	1,15,803	1,33,182
Networth	79,429	89,799	1,02,844	1,17,496	1,34,875
Borrowings	1,79,260	1,92,293	2,46,751	2,89,899	3,32,991
Other liability & provisions	11,017	11,283	5,853	6,335	6,858
Total liabilities	2,69,706	2,93,375	3,55,448	4,13,731	4,74,724
Fixed Assets	8,839	8,716	8,623	8,973	9,337
Investments	12,155	14,542	17,924	18,821	19,762
Loans	2,27,197	2,45,584	2,88,321	3,38,739	3,89,091
Cash	17,585	20,795	36,074	42,321	51,255
Other assets	3,931	3,737	4,506	4,877	5,279
Total assets	2,69,706	2,93,375	3,55,448	4,13,731	4,74,724

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Dupont Analysis

Y/E March (% to avg. assets)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	17.3	16.8	17.6	17.0	17.1
Interest Expense	5.3	5.3	5.7	5.7	5.7
Net Interest Income	12.0	11.5	11.8	11.3	11.4
Non-Interest Income	0.2	0.3	0.5	0.5	0.5
Net Revenue	12.1	11.8	12.3	11.8	11.9
Operating expenses	5.2	5.6	5.3	5.0	5.0
Operating profit	7.0	6.2	7.0	6.8	6.9
Provisions	0.3	0.2	0.3	0.4	0.4
PBT	6.7	6.1	6.6	6.4	6.5
Tax	1.7	1.6	1.7	1.6	1.6
ROA	5.0	4.5	5.0	4.8	4.8
Leverage	3.5	3.3	3.4	3.5	3.5
ROE	17.6	15.0	16.7	16.6	17.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Key ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Growth (%)					
Net interest income	-7.9	3.0	18.3	13.4	16.2
Operating profit	-23.7	-4.3	29.4	15.1	17.1
Profit after tax	-23.2	-2.9	27.0	13.9	17.1
Consol. AUM	10.4	10.1	18.5	17.5	14.9
Spreads (%)					
Yield on loans	20.7	20.1	21.4	20.8	20.9
Cost of Borrowings	7.8	8.1	8.5	8.1	8.1
Spread	12.9	12.0	12.9	12.7	12.7
NIMs	14.4	13.7	14.4	13.9	13.9
Operational efficiency (%)					
Cost to Income	42.7	47.4	43.4	42.5	42.1
Cost to AUM	6.3	6.6	6.3	6.0	5.9
CAR (standalone) (%)					
Tier I	31.0	31.7	30.2	29.9	30.1
Tier II	0.3	0.0	0.0	0.0	0.0
Total	31.3	31.7	30.2	29.9	30.1
Asset quality (%)					
GNPA (%)	3.0	1.3	1.6	1.6	1.6
NNPA (%)	2.7	1.1	1.3	1.3	1.2
PCR (%)	10.0	15.4	15.0	17.5	20.0
Credit costs (%)	0.4	0.2	0.4	0.5	0.5
Profitability (%)					
ROE	17.6	15.0	16.7	16.6	17.0
ROA	5.0	4.5	5.0	4.8	4.8
Per share (Rs)					
EPS	15.4	15.0	19.0	21.6	25.3
BVPS	93.8	106.1	121.5	138.8	159.3
ABVPS	86.6	102.9	117.0	133.5	153.6
Valuation (x)					
P/E	11.1	11.4	9.0	7.9	6.7
P/BV	1.8	1.6	1.4	1.2	1.1
P/ABV	2.0	1.7	1.5	1.3	1.1

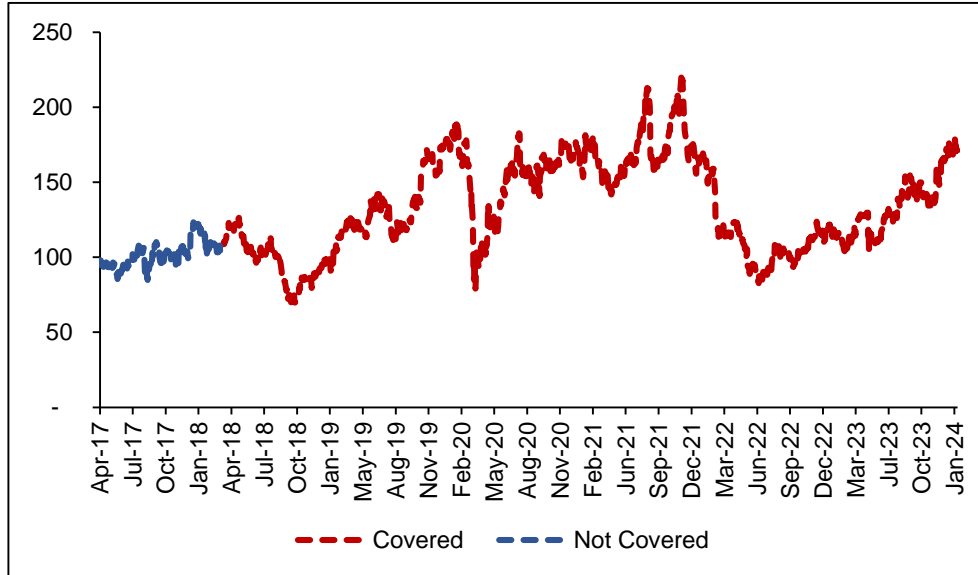
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	106	128
9 February 2018	Buy	114	133
10 August 2018	Buy	113	142
9 October 2018	Buy	68	103
9 November 2018	Buy	83	112
7 February 2019	Buy	97	127
8 April 2019	Buy	121	141
15 April 2019	Buy	127	154
16 May 2019	Buy	121	157
8 July 2019	Buy	136	170
14 August 2019	Buy	116	153
23 September 2019	Buy	127	174
7 October 2019	Buy	133	173
7 November 2019	Buy	168	193
8 January 2020	Buy	176	207
29 January 2020	Buy	189	218
27 March 2020	Buy	108	149
2 April 2020	Buy	92	149
9 April 2020	Buy	108	149
15 May 2020	Buy	123	142
9 July 2020	Buy	157	187
30 July 2020	Buy	179	209
23 September 2020	Buy	148	210
7 October 2020	Buy	168	208
9 November 2020	Buy	162	210
26 November 2020	Buy	167	210
08 January 2021	Buy	177	235
30 January 2021	Buy	156	235
21 February 2021	Buy	173	235
26 May 2021	Buy	160	233
10 August 2021	Buy	187	226
15 November 2021	Buy	198	240
26 November 2021	Buy	170	240
15 February 2022	Buy	142	184
13 May 2022	Buy	105	166
05 August 2022	Buy	102	164
19 September 2022	Buy	99	183
15 November 2022	Buy	117	154
05 February 2023	Buy	117	151
22 March 2023	Buy	120	150
14 May 2023	Buy	110	149
11 August 2023	Buy	146	172
15 November 2023	Buy	141	177
29 November 2023	Buy	152	177
20 December 2023	Buy	173	200
16 January 2024	Buy	171	209

*The coverage has been transferred to Rati J Pandit from July 30, 2023

Rating track graph



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Annexure-I - Corporate Governance

As a part of our corporate governance assessment exercise, we have looked into the board composition, auditor's remuneration, CSR spends, related party transaction and contingent liabilities.

Boards Composition

Board Composition	Muthoot Finance	Manappuram Finance
Non - Executive Independent Directors	8	7
Proportion of Independent Directors (%)	53.3	70.0
Executive Directors (including MD & CEO)	7	2
Proportion of Executive Directors (%)	46.7	20.0
Non - Executive Non-Independent Directors	-	1
Proportion of Non-Executive Non-Independent Directors (%)	-	10.0
Total Strength	15	10

Source: Company, Nirmal Bang Institutional Equities Research; Note: BOD Composition as on 30th Sept'23

Statutory Auditors Details and Fees

Particulars (FY23)	Muthoot Finance	Manappuram Finance
Statutory Auditors (Current year)	Joint Statutory Auditors: 1) M/s. Elias George & Co. and, 2) M/s. Babu A. Kallivayalil & Co.	Joint Statutory Auditors: 1) M S K A & Associates and, 2) S K Patodia & Associates
Auditor Fees (FY23) (Rs Mn)	9.32	11.45
% to PBT	0.02	0.07

Source: Company, Nirmal Bang Institutional Equities Research

CSR Spend

Particulars (FY23)	Muthoot Finance	Manappuram Finance
Prescribed Expenditure (Rs Mn)	957	386
Total Spend (Rs Mn)	964	386
Total Spend as % of Prescribed Limit	101	100

Source: Company, Nirmal Bang Institutional Equities Research

Related Party Transactions

There were no materially significant related party transaction entered into by both the NBFC's with Directors, Key Managerial Personnel or other persons which may have a conflict of interest with the operations of respective companies.

Contingent Liabilities:

Contingent liabilities are mainly related to taxes, guarantees provided to banks as well as other agencies, which are a regular part of the company's business operations.

Annexure-II – Probability of Default (PD) & Loss Given Default (LGD) Disclosures by Gold Loan NBFCs and their Subsidiaries

Exhibit 1: Muthoot Finance Ltd – PD & LGD

Probability of Default (PD)	As at March 31, 2023			As at March 31, 2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Gold Loan	8.47	8.47	100.00	9.21	9.21	100.00
Personal Loan	0.27	15.13	100.00	0.29	16.23	100.00
Corporate Loan	6.43	6.43	100.00	10.41	10.41	100.00
Business Loan	0.26	16.15	100.00	0.30	19.04	100.00
Staff Loan	-	-	100.00	-	-	100.00
Loan to Subsidiaries	-	-	100.00	-	-	100.00
Other Loans	3.86	3.86	100.00	5.05	5.05	100.00

Loss Given Default (LGD)	As at March 31, 2023			As at March 31, 2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Gold Loan	9.81	9.81	9.81	10.00	10.00	10.00
Personal Loan	100.00	100.00	100.00	100.00	100.00	100.00
Corporate Loan	65.00	65.00	65.00	65.00	65.00	65.00
Business Loan	100.00	100.00	100.00	100.00	100.00	100.00
Staff Loan	-	-	100.00	-	-	100.00
Loan to Subsidiaries	-	-	100.00	-	-	100.00
Other Loans	65.00	65.00	65.00	65.00	65.00	65.00

Source: Company Annual Report, Nirmal Bang Institutional Equities Research

Exhibit 2: Manappuram Finance Ltd – PD & LGD

Probability of Default (PD)	As at March 31, 2023			As at March 31, 2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Gold Loan	15.54	15.54	100.00	10.42	10.42	100.00
Vehicle Loan						
-CV	5.81	12.09	100.00	5.24	9.40	100.00
-Bus	8.38	14.66	100.00	6.94	11.71	100.00
-FE	2.49	7.29	100.00	1.89	4.96	100.00
-Car/Auto	3.76	9.01	100.00	3.46	8.20	100.00
-Two Wheelers	6.61	8.02	100.00	5.74	7.74	100.00
SME Loan	6.93	23.46	100.00	7.12	24.60	100.00

Loss Given Default (LGD)	As at March 31, 2023	As at March 31, 2022
Gold Loan	3.04	2.21
Vehicle Loan		
-CV	16.07	20.60
-Bus	18.61	29.98
-FE	13.01	31.16
-Car/Auto	10.80	21.36
-Two Wheelers	23.95	18.68
SME Loan	67.99	19.01
On-lending	60.00	60.00
Corporate Finance	100.00	65.00

Source: Company Annual Report, Nirmal Bang Institutional Equities Research

Exhibit 3: Asirvad Microfinance Ltd – PD & LGD

Probability of Default (PD)	As at March 31, 2023			As at March 31, 2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Micro Finance Loans	1.84	18.43	100.00	1.24	14.44	80.00
SME loans	-	-	-	-	-	-
MSME loans	0.40	0.40	10.00	0.40	0.40	100.00

Loss Given Default (LGD)	As at March 31, 2023			As at March 31, 2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Micro Finance Loans	58.77	58.77	58.77	80.00	80.00	80.00
SME loans	-	-	-	-	-	-
MSME loans	100.00	100.00	100.00	100.00	100.00	100.00

Source: Company Annual Report, Nirmal Bang Institutional Equities Research

Exhibit 4: Manappuram Home Finance Ltd – PD & LGD

Probability of Default (PD)	As at March 31, 2023			As at March 31, 2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Construction	1.18	7.96	100.00	1.03	7.08	100.00
Ready to use House	3.17	19.50	100.00	3.12	24.06	100.00
Home Improvement	1.31	8.84	100.00	1.26	8.51	100.00
Home Extension	1.53	10.22	100.00	1.53	10.22	100.00
Balance Transfer & Top-Up	2.84	18.28	100.00	2.74	17.65	100.00
LAP	1.83	11.92	100.00	1.68	10.55	100.00

Loss Given Default (LGD)	As at March 31, 2023	As at March 31, 2022
Construction	16.17	43.50
Ready to use House	16.17	43.50
Home Improvement	16.17	43.50
Home Extension	16.17	43.50
Balance Transfer & Top-Up	16.17	43.50
LAP	16.17	43.50

Source: Company Annual Report, Nirmal Bang Institutional Equities Research

Annexure III – Interest Rate Comparison of Gold Loan NBFCs and Gold Loan Fintechs
Exhibit 5: Muthoot Finance Scheme-wise Interest Rates

(Southern branches* / Rest of India)	Name of Scheme	Minimum Loan Amount	Maximum Loan Amount	Base Rate	Interest rate if paid within						After 12 Months (Incl. 2% penal interest)
					1 Month	2 Months	3 Months	6 Months	9 Months	12 Months	
Rest of India	Muthoot Ultimate	Rs.1,500/-	Rs 50mn	24%	22%			24%		26%	
Rest of India	Rural Gold Loan (RGL)	Rs.1,500/-	Rs 50mn	24%	20%			23%	24%	26%	
Rest of India	Muthoot One Percent	Rs.1,500/-	Rs.50,000/-	24%	12%	15%	21%	24%		26%	
Rest of India	Muthoot Delight Loan (MDL)	Rs.50,000/-	Rs 50mn	24%	17%	20%	21%	24%		26%	
Southern Branches		Rs.5 lakh	Rs 50mn	24%	11.9%	15%	18%	24%		26%	
Rest of India	Muthoot Highvalue Plus Loan	Rs.1,90,000/-	Rs 50mn	24%	14%	18%	21%	24%		26%	
Rest of India	Muthoot Big Business Loan Silver	Rs.5 lakh	Rs 50mn	24%	12.9%	17%	21%	24%		26%	
Rest of India	Muthoot Big Business Loan Platinum	Rs.10 lakh	Rs 50mn	24%	11.9%	16%	21%	24%		26%	
Rest of India	Muthoot Big Business Loan Diamond	Rs.25 lakh	Rs 50mn	24%	10.9%	15%	21%	24%		26%	
Rest of India	Muthoot Big Business Loan Elite	Rs.50 lakh	Rs 50mn	24%	10.5%	15%	21%	24%		26%	
Rest of India	Overseas Remittance Scheme (ORS)	Rs.2 lakh	Rs 15mn	24%	11.9%	17%	21%	24%		26%	
Southern Branches				24%	10.9%		18%	21%	24%		26%
Rest of India	Gold Credit Line (GCL)	Rs.2 lakh	Rs 5mn	19%	19%	If interest is not serviced monthly, overdue interest at 24% will be charged on the portion exceeding the limit sanctioned.				21%	
Southern Branches	Muthoot Super Loan	Rs. 1,500	Rs 50mn	24%	21%			24%		26%	
Southern Branches	Muthoot Advantage	Rs. 50,000	Rs 50mn	24%	18%			21%	24%	26%	
Southern Branches	Muthoot Best Value	Rs. 1,500	Rs. 2,00,000	24%	16%	20%	22%	24%		26%	
Southern Branches	Muthoot High value	Rs. 50,000	Rs 50mn	24%	15%	18%		21%	24%	26%	
Southern Branches	Muthoot Advantage Product	Rs. 5,00,000	Rs 50mn	24%	15%			24%		26%	
Southern Branches	Best Value Scheme	Rs. 50,000	Rs 50mn	24%	14%	18%		21%	24%	26%	
Southern Branches	Muthoot Loan Mela	Rs 1.90 lakhs	Rs 50mn	24%	12.9%	15%	18%	24%	24%	26%	
Kerala and Tamil Nadu only	Muthoot Tamilnadu Kerala Medium	Rs. 99,000	Rs 50mn	24%	12.9%	15%	18%	24%	24%	26%	
Southern Branches	Muthoot Mudra Loan	Rs. 1,500	Rs. 1,00,000	24%	11.9%	18%		22%	24%	26%	
Southern Branches	High Value Retention	Rs. 10,00,000	Rs 50mn	24%	10.9%	15%	18%	24%	24%	26%	
Southern Branches	Muthoot High Net Worth Individual	Rs 50 lakhs	Rs 50mn	24%	10.5%	15%	18%	24%	24%	26%	
Southern Branches	Interest Prepaid	Rs. 50,000	Rs 50mn	22%	16%			15%	NA	12%	22%
Southern Branches	Gold Credit Scheme	Rs. 2,00,000	Rs 50mn	19%	15%	19%				21%	
All	ZIL / ZIP	Rs. 5,000	Rs. 1,00,000	Zero Interest Loan (Late fee @24% on delayed EMI amount)							

Source: Company website, Nirmal Bang Institutional Equities Research

Exhibit 6: Manappuram Finance Scheme-wise Interest Rates

S. No	Scheme Name	Loan Limit	Loan Tenure	Effective Interest Rate after Rebate	Rebate Range (%) - As per Branch Category				Interest Rate (%)	Annualized Interest Rate (%)
					S	A	B	C		
1	SX	Min. Rs 1000	365 Days	24.75%	1.25%	1.25%	1.25%	4.00%	26%	29.33%
2	PL*	Min. Rs 1000	365 Days	21.00%	1% - 5%	-	-	-	26%	29.33%
3	TMA1	Rs 0.1 - Rs 0.2mn	365 Days	22.00%	1% - 4%	-	-	-	26%	29.33%
4	TMA2	Rs 0.2mn - Rs 0.3mn	365 Days	21.00%	2% - 5%	-	-	-	26%	29.33%
5	TMA 3	Rs 0.3 - Rs 0.4mn	365 Days	20.00%	2% - 6%	-	-	-	26%	29.33%
6	TMA 4	Rs 0.4 - Rs 0.5mn	365 Days	19.00%	3% - 7%	-	-	-	26%	29.33%
7	TMA 5	Rs 0.5mn - Rs 2mn	365 Days	14.00%	2% - 12%	-	-	-	26%	29.33%
8	TMA 6	>Rs 2mn	365 Days	10.90%	2% - 15.1%	2% - 15.1%	2% - 15.1%	2% - 15.1%	26%	29.33%
9	MBL-1	Max Rs 0.1mn	365 Days	16.00%	1% - 10%	-	1% - 10%	-	26%	29.33%
10	MBL-2	Rs 0.1 - Rs 0.2mn	365 Days	15.00%	1% - 11%	-	1% - 11%	-	26%	29.33%
11	MBL-3	>Rs 2mn	365 Days	14.00%	1% - 12%	-	1% - 12%	-	26%	29.33%
12	SS2-1	Min Rs 0.1mn	365 Days	16.50%	1%-9.5%	-	-	-	26%	29.33%
13	SS2-2	Min Rs 0.2mn	365 Days	15.50%	1% - 10.5%	-	-	-	26%	29.33%
14	SS2-3	Min Rs 0.3mn	365 Days	14.5%-15%	1% - 11.5%	-	1% - 11%	-	26%	29.33%
15	SS2-4	Min Rs 0.4mn	365 Days	13.5%-14%	1% - 12.5%	-	1% - 12%	-	26%	29.33%
16	SS2-5	Min Rs 0.5mn	365 Days	11.9%-12.5%	1% - 14.1%	-	1% - 13.5%	-	26%	29.33%
17	SA+ 1	Min Rs 0.2mn	365 Days	10.90%	2% - 15.1%	2% - 15.1%	-	-	26%	29.33%
18	SA+ 2	Min Rs 0.3mn	365 Days	10.90%	-	-	2% - 15.1%	-	26%	29.33%
19	SA+ 4	Min Rs 0.5mn	365 Days	10.90%	-	-	-	2% - 15.1%	26%	29.33%
20	MT+1	Min Rs 0.2mn	365 Days	10.90%	2% - 15.1%	-	2% - 15.1%	2% - 15.1%	26%	29.33%
21	MT+2	Min Rs 0.1mn	365 Days	12.90%	2% - 13.1%	-	2% - 13.1%	2% - 13.1%	26%	29.33%
22	MT+3	Min. Rs 50000	365 Days	14.00%	2% - 12%	-	2% - 12%	2% - 12%	24%-26%	29.33%
23	SY	Max Rs 0.1mn	365 Days	21.50%	4% - 6.5%	-	4% - 6.5%	4% - 6.5%	28%	31.89%
24	DS	Max Rs 75000	365 Days	12.00%	2% - 14%	-	-	2% - 14%	24%-26%	29.33%
25	MA1	Min. Rs 0.1mn	365 Days	24.00%	-	1% - 2%	1% - 2%	1% - 2%	26%	29.33%
26	MA2	Min Rs 0.2mn	365 Days	22%-23.5%	-	-	2% - 4%	2% - 2.5%	26%	29.33%
27	MA3	Min Rs 0.3mn	365 Days	22.00%	-	-	-	3% - 4%	26%	29.33%
28	MKL-1	Min Rs 0.2mn	365 Days	21.00%	-	1% - 5%	-	-	26%	29.33%
29	MKL-2	Min Rs 0.3mn	365 Days	20%-21%	-	1% - 6%	1% - 5%	-	26%	29.33%
30	MKL-3	Min Rs 0.4mn	365 Days	19%-20%	-	1% - 7%	1% - 6%	-	26%	29.33%
31	MKL-4	Min Rs 0.5mn	365 Days	13.9%-16.9%	-	1% - 12.1%	1% - 11.1%	1% - 9.1%	26%	29.33%
32	MBL-1	Max Rs 0.1mn	365 Days	16.00%	-	1% - 10%	-	1% - 10%	26%	29.33%
33	MBL-2	Rs 0.1 - Rs 0.2mn	365 Days	15.00%	-	1% - 11%	-	1% - 11%	26%	29.33%
34	MBL-3	>Rs 0.2mn	365 Days	14.00%	-	1% - 12%	-	1% - 12%	26%	29.33%
35	SS2-1	Min Rs 0.1mn	365 Days	16.50%	-	1% - 9.5%	-	-	26%	29.33%
36	SS2-2	Min Rs 0.2mn	365 Days	15.50%	-	1% - 10.5%	-	-	26%	29.33%
37	SS2-3	Min Rs 0.3mn	365 Days	14.50%	-	1% - 11.5%	-	-	26%	29.33%
38	SS2-4	Min Rs 0.4mn	365 Days	13.50%	-	1% - 12.5%	-	-	26%	29.33%
39	SS2-5	Min Rs 0.5mn	365 Days	11.90%	-	1% - 14.1%	-	1% - 12%	26%	29.33%
40	MT+1	Min Rs 0.2mn	365 Days	10.90%	-	2% - 15.1%	-	-	26%	29.33%
41	MT+2	Min Rs 0.1mn	365 Days	12.90%	-	2% - 13.1%	-	-	26%	29.33%
42	MT+3	Min Rs 50000	365 Days	14.00%	-	2% - 12%	-	-	26%	29.33%
43	SY	Max Rs 0.1mn	365 Days	21.50%	-	4% - 6.5%	-	-	28%	31.89%
44	DS	Max Rs 75000	365 Days	12%	-	2% - 14%	-	-	24%	29.33%

Source: Company website, Nirmal Bang Institutional Equities Research

Exhibit 7: IIFL Gold Loan Interest Rates

Parameter	Details	Comments
Interest Rate	11.88% - 27% p.a.	Rates vary as per loan amount and repayment frequency
Processing Fee	Rs 0 onwards	Varies depending on scheme availed
MTM Charges	Rs 500	Valuing an asset to reflect its current market rate
Auction Charges	Rs 1500	Auction Intimation Charges: Rs 200
SMS Charges	Rs 5	SMS Charges Per Quarter (Payable on Closure Loan): Rs 5

Source: Company website, Nirmal Bang Institutional Equities Research

Exhibit 8: Fintech Partnerships with Banks

Fintech Name	Bank Partner
Rupeek Fintech	ICICI Bank, Federal Bank, Indian Bank, South Indian Bank
India Gold	HDFC Bank, Axis Bank, Shivalik Small Finance Bank
Indel Money Ltd	IndusInd Bank
Ruptok Fintech	Not available

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Rupeek Fintech Interest Rates (If payment is defaulted by 0-30 days)

Ticket Size Range	Min Interest Rate (%)		Max Interest Rate (%)		Tenure
	0-30 days		0-30 days		
	Monthly	Annualized	Monthly	Annualized	
<Rs 100000	0.99%	11.88%	1.59%	19.08%	6-12 months
Rs 200000 - Rs 500000	0.91%	10.92%	1.35%	16.20%	6-12 months
Rs 500000 - Rs 1000000	0.85%	10.20%	1.25%	15.00%	6-12 months
Rs 1000000 - Rs 2000000	0.80%	9.60%	1.19%	14.28%	6-12 months

Source: Company website, Nirmal Bang Institutional Equities Research

Exhibit 10: Rupeek Fintech Interest Rates (If payment is defaulted by 31-60 days)

Ticket Size Range	Min Interest Rate (%)		Max Interest Rate (%)		Tenure
	31-60 days		31-60 days		
	Monthly	Annualized	Monthly	Annualized	
<Rs 100000	1.72%	20.64%	1.99%	23.88%	6-12 months
Rs 200000 - Rs 500000	1.69%	20.28%	1.99%	23.88%	6-12 months
Rs 500000 - Rs 1000000	1.69%	20.28%	1.99%	23.88%	6-12 months
Rs 1000000 - Rs 2000000	1.56%	18.72%	1.85%	22.20%	6-12 months

Source: Company website, Nirmal Bang Institutional Equities Research

Exhibit 11: Rupeek Fintech Interest Rates (If payment is defaulted by 61-360 days)

Ticket Size Range	Min Interest Rate (%)		Max Interest Rate (%)		Tenure
	61-360 days		61-360 days		
	Monthly	Annualized	Monthly	Annualized	
<Rs 100000	2.21%	26.52%	2.21%	26.52%	6-12 months
Rs 200000 - Rs 500000	2.21%	26.52%	2.21%	26.52%	6-12 months
Rs 500000 - Rs 1000000	2.21%	26.52%	2.21%	26.52%	6-12 months
Rs 1000000 - Rs 2000000	2.04%	24.48%	2.21%	26.52%	6-12 months

Source: Company website, Nirmal Bang Institutional Equities Research

Exhibit 12: India Gold Fintech Interest Rates

Ticket Size Range (Rs)	Tenure	Monthly Interest Rate (%)	Annualized Interest Rate (%)
Rs 5000 - Rs 125000	6 months	1.15	13.8
Rs 125000 - Rs 200000	6 months	1.05	12.6
Rs 200000 - Rs 500000	6 months	0.95	11.4
Rs 500000 - Rs 1000000	6 months	0.89	10.7
Rs 1000000 - Rs 2000000	6 months	0.83	9.96
> Rs 20000000	6 months	0.77	9.24

Source: Company website, Nirmal Bang Institutional Equities Research

Exhibit 13: Indel Money Fintech Interest Rates

Parameter	Indel BT	Indel_New	Indel BT Special	Indel Super Saver	Indel Stable	Indel Reverse	Indel Max	Indel Super Max
LTV	75%	75%	75%	75%	75%	75%	75%	75%
Tenure	365 days	365 days	365 days	365 days	365 days	550 days	365 days	365 days
On Boarding Rate	11.50%	12%	15%	16%	18%	20%	22%	24%

Source: Company website, Nirmal Bang Institutional Equities Research

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