

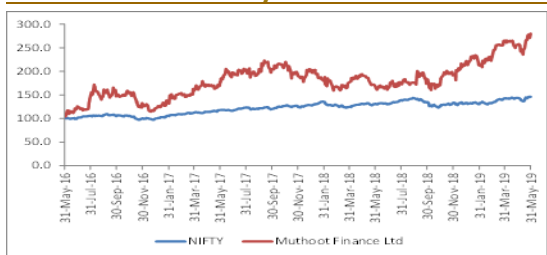
Market statistics as on May 31, 2019

Current stock price (Rs.)	650.7
Shares O/S (bn.)	0.40
Mcap (bn)	260.7
P/E (x)	12.4
52 W H (Rs.)	653.1
52 W L (Rs.)	356
Price to Book	2.6

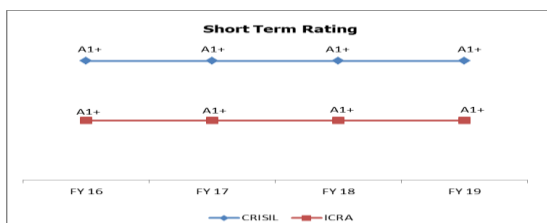
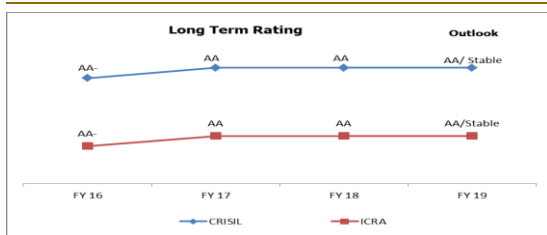
Shareholding pattern as on March 31, 2019

Promoters*	73.6%
Foreign Institution & Others	23.3%
Public	3.0%
*2.9% promoter shares pledged	

Muthoot Finance vs Nifty



Credit Rating History



Financial Performance

Particulars	(Rs. Bn)		
	FY19	FY18	% chg
NII	45.2	42.7	5.9%
Total Income	68.8	63.3	8.7%
Operating Exp (excl. Int)	15.6	15.5	0.6%
PAT	19.7	17.7	1.1%
Networth	97.9	78.1	25.4%
Total Debt	15.4	13.4	14.9
Debt/Equity (x)	2.7	2.7	-
ROA (%)	2.22	3.42	-
RONW (%)	22.40	24.81	-
CAR (%)^	26.12	26.26	-
Tier I (%)^	25.68	25.49	-
GNPA (%)	2.72	4.44	-

Source: Company Reports
As per Ind-As wherever applicable

Credit Drivers:

- Robust Capitalization:** Muthoot Finance Limited's (MFL) capitalization levels have been healthy with Tier I and overall capital adequacy ratio at 25.68% and 26.12% respectively as on March 31, 2019 compared to 25.22% and 25.74% as on March 31, 2018
- Leadership position reflected in strong Earnings profile:** MFL is the largest gold loan NBFC and is expected to maintain its market share over the medium term. MFL has witnessed 1.1% year on year growth in PAT, moderate return on assets of 2.22% during FY19 as against 3.42% during FY18.
- Diverse Resource Mix:** MFL has a relatively diversified resource profile with 49% of borrowings through bank loans, 30% through non-convertible debentures, commercial paper formed 18% of the borrowing mix, 2% through sub-debt and rest 2% from other loans as on March 31, 2019.
- Healthy Asset Quality:** MFL has been able to maintain a healthy asset quality due to its stringent underwriting policies and collection process. As per Ind-AS the GNPA's (within stage III) stood at 2.72% as on March 31, 2019.
- Adequate Liquidity position:** Muthoot Finance raised Rs 22.68 Billion through commercial papers (CPs) during October and November 2018. The repayment of outstanding CPs is adequately staggered with highest single day repayment being around Rs 4.0 Billion. The liquidity position is also supported by un-utilised bank lines of Rs 13.53 Billion in addition to liquidity of Rs 20.20 Billion.

About the Company:

Muthoot Finance Ltd (MFL), an NBFC, was originally set up as a private limited company in 1997; this was reconstituted as a public limited company in November 2008. It provides finance against used household gold jewellery; the promoters' family has been in this business for over seven decades. MFL is the flagship company of the Muthoot group (promoters of MFL), which is also in the hospitality, healthcare, media, education, information technology, foreign exchange, insurance distribution, and money transfer businesses. The company had a nationwide network of around 5020 branches as on March 31, 2019.

About the Group:

Founded in 1887, The Muthoot Group started as a small trading business in Kozhancherry, a remote village in Kerala. Over the years, Muthoot Group has diversified its presence across financial services, plantations & estates, education, leisure & hospitality, healthcare, housing & infrastructure, infotech, wealth management, money transfer, forex, media, power generation, precious metals, securities, vehicle & asset finance and travel services, among others.

Industry Outlook:

Growth in NBFC sector is expected to be impacted in FY20 given the liquidity situation, which is expected to continue in first half of FY20. NBFCs are expected to witness growth of 12-14% in FY20 with a continued competition, especially from private banks and potentially from large PSU banks. Retail segment, of which vehicle finance is the largest, will fare relatively better. From an asset quality perspective as well, while overall, the quality of retail assets is expected to remain steady, segments such as SME lending, especially loan against property (LAP), and construction/infrastructure finance could witness some pressure. Further, the wholesale book typically has significant concentration risks, which could result in chunky NPAs.

NBFCs are expected to reorient their funding mix given the current environment. On one side, securitisation has proved to be the preferred source of financing; NBFCs have also been tapping alternate sources such as public issuances of NCDs and ECBs. Relatively lower reliance on short-term borrowings while maintaining on-balance sheet liquidity is expected

Key Credit Drivers:

Leadership position to continue with stable business growth: MFL, the largest gold loan NBFC, is expected to maintain its market share over the medium term. On account of regulatory changes, though gold loan AUM of Muthoot Finance Ltd. declined in the initial period by over 17%, it has improved gradually and has crossed its previous peak level of Rs 336 Billion during fiscal 2019 against Rs. 288 billion during FY18. Total AUM stood at 342.46 Bn as against Rs 291.42 Bn in FY18. Gold holding increased to 169 tonnes from 155 tonnes. On a consolidated basis, gold AUM forms more than 98% of the AUM.

Healthy asset quality: Asset quality continues to be healthy on account of established systems and processes. Asset quality of MFL (standalone) has seen an improvement with gross NPAs (as per Ind-AS (stage III)) reducing to 2.7% (FY19) versus 4.44% (FY 18). The NPA position of MFL during last 2 quarters of fiscal 2018 saw deterioration. The increase in NPAs was on account of three reasons.

- The change in NPA recognition norms from 120+ dpd to 90+ dpd.
- MFL provided additional time to borrowers to repay the loans, particularly for loans with tenure of 6 months
- To comply with RBI regulations, it had to change NPA recognition from loan account-wise to customer-wise.

MFL had total gross NPA of Rs 20.33 Billion as on March 31, 2018 out of which the NPAs of Rs 7.42 Billion were due to change in recognition of NPAs from loan account wise to customer wise. MFL has implemented stringent operational systems and processes at every stage, beginning with gold assessment till the gold ornament is returned on repayment of loan. In addition LTV cap at 75% provides additional comfort and loss of principal is minimal. On account of increased focus on interest collections the proportion of interest accrued has reduced significantly during the past two fiscals.

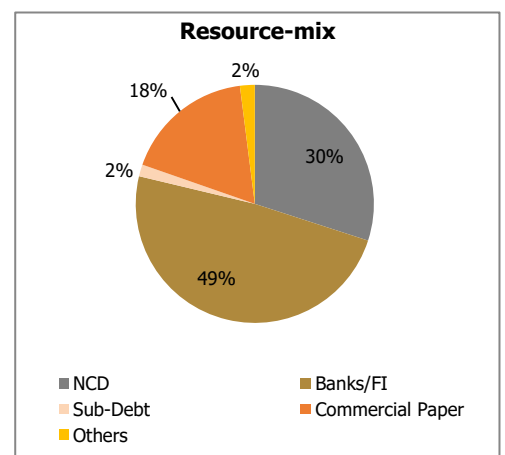
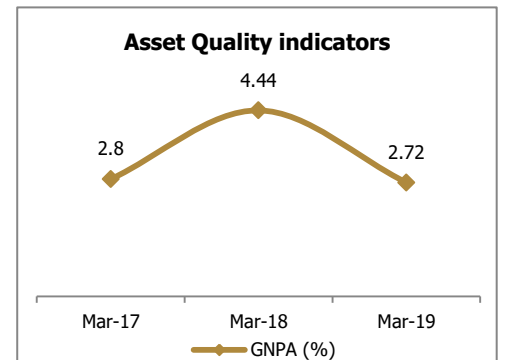
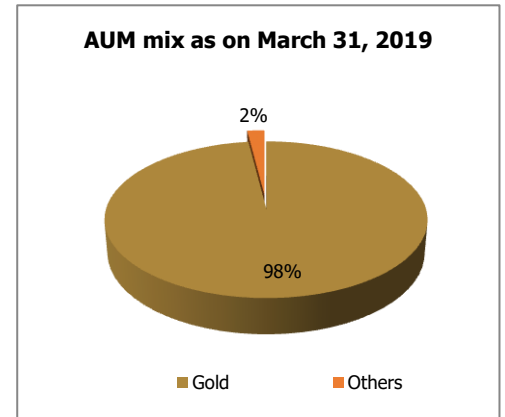
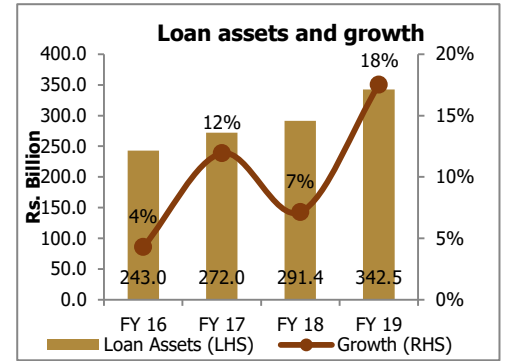
Diverse Resource Mix: Funding profile is expected to remain stable. Around 49% of borrowings is in the form of funding from more than 27 banks (public and private) and financial institutions, with which the company has established relationships. The company has made several public issues of NCDs, with a focus on investors who would have, otherwise, invested in the NCDs/sub-debt issued through private placement. Proportion of subordinate debt stood at 2% of the borrowings as on March 31, 2019 with NCD's accounting for 30%. Also the proportion of low cost commercial paper has increased to 18% of its overall borrowings as on same date. On account of decline in high cost NCD and sub debt and increased proportion of short term debt the cost of borrowing had declined over the past four quarters. The average cost of borrowing for the fiscal 2018 declined to 9.2% during fiscal 2018 from 10.9% during the previous fiscal. This allows MFL to earn higher margins compared to many of its un-organized competitors who have seen a rise in funding cost/drying up of liquidity.

Subsidiaries – Growing Loan Book: In order to diversify from its traditional gold loan business, MFL has set up/bought subsidiaries operating in affordable home finance, Micro-finance, vehicle finance, insurance broking in addition to acquiring a 60% stake in a Sri Lankan NBFC.

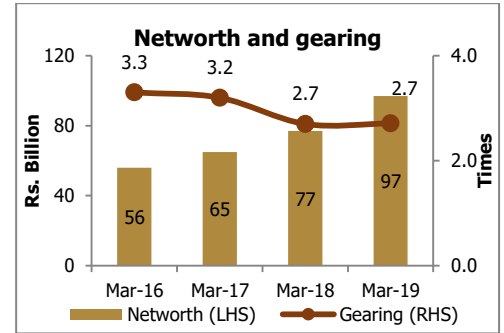
These companies accounted for 10.5% of the overall loan book. While, they are profitable – it does not match up to MFL (6% of Q3 consolidated profits). As the subsidiary loan book grows, they would require additional capital infusion to support growth. Given, that they operate in more competitive markets – their asset quality and profitability trends will be critical to monitor.

Key management

Name	Designation	Name	Designation
Mr.M G George Muthoot	Chairman	Mr. Thomas George Muthoot	Whole time director
Mr. Alexander George Muthoot	Managing Director	Mr.K.R Bijimon	Chief general manager
Mr. Jacob George Muthoot	Whole time director	Mr.Oommen K Mammen	Chief financial officer



Healthy Capitalisation notwithstanding on-going investments in its subsidiaries: MFL has a comfortable capitalisation profile with a standalone gearing of about 2.7 times as on March 31, 2019 (FY17: 3.2 times) aided by good internal capital generation, while portfolio growth was relatively moderate. MFL's consolidated net worth was Rs. 342.5 billion (as per Ind AS) as on March 31, 2019. It is expected to be comfortably placed to meet the medium-term capital requirements of its subsidiaries without adversely impacting its own capital structure. Large accretion to net worth and moderation in growth in the past three years resulted in a healthy capital adequacy ratio of 26.1% (Tier-I 25.68%) as on March 31, 2019. Lower asset -side risk (security of gold, which is liquid and is in the lender's possession) also supports capitalization.

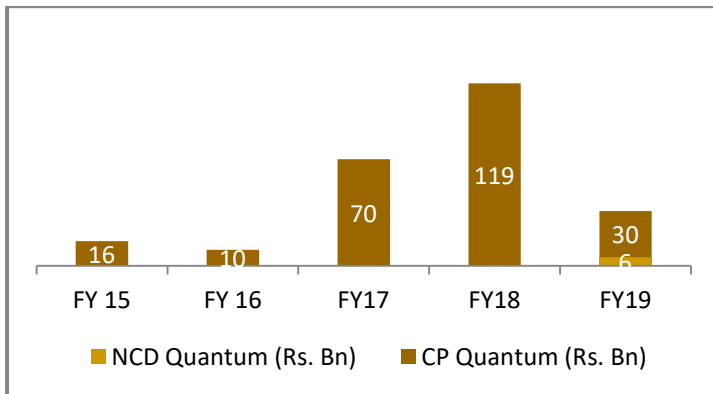


Healthy Profitability: Profitability has improved with return on assets (RoA) at 6.24% for 9M fiscal 2019 from 5.5% in fiscal 2018 mainly on account of recovery efforts and partly due to favorable movement in gold prices. Though MFL charges relatively low interest rates than its peers its operating efficiency enables the company to maintain healthy profitability. With increased focus on collection on interest on regular basis along with revision in its interest rates on different schemes has resulted in higher yields and higher profitability during fiscal 2019. During the last quarter of first half of fiscal 2018 the company increased its provision on standard asset to 1.25%, as against RBI prudential provisioning requirements of 0.35%. This will provide more comfort to lenders and investors as the company is setting apart certain amount for meeting unforeseen contingencies. On account of healthy asset quality, credit cost may remain below 1.0%. However, the company is diversifying into other asset segments where its ability to maintain asset quality will remain critical.

Concentrated Operations concentrated in South India: MFL's operations were largely concentrated in South India due to it being headquartered in Kerala and initial ramp up in operations concentrated in the region. On-going geographical diversification has helped it bring South India exposure to 61% of its total loan portfolio as on March 31, 2019.

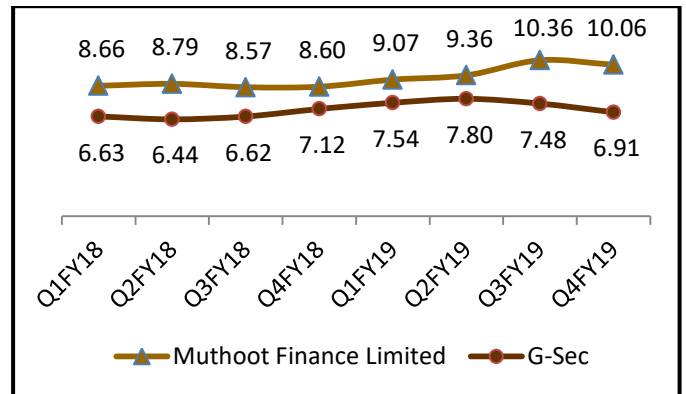
Liquidity position: MFL's asset liability maturity (ALM) profile, based on the past behavioural trend for the gold loan segment, reflects no cumulative negative mismatches in the <1-year bucket. Although the contractual tenor of gold loans is 12 months, most (~65-70%) of the loans are repaid or rolled over within 5-6 months. ALM, adjusting for the rollovers, is also comfortable with no cumulative negative mismatch in the <1-year bucket. MFL has a fairly-diversified funding profile with MFL having banking relationships with 27 banks. Diverse funding sources help the company in maintaining a comfortable liquidity position. MFL had unutilised bank limits of Rs. 10 billion and cash and liquid investments of Rs. 23 billion as on November 30, 2018.

NCD & CP Issuance over the past 5 years



Source: NSDL and Prime Database

Credit Spread over 3 year G-sec



Source: Reuters

Latest Issuance:

Name	Type	Date	Tenor	Coupon (%)	Quantum (Rs. Bn)
Muthoot Finance Limited (Primary)	Secured	June, 2019	2 years	9.25 p.a.p.m.	100

Other Information:

Auditors	Varma & Varma
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Financials: (Standalone as per IGAAP)

Profit & Loss Statement

Particulars (in Bn.)	FY16	FY17	FY18
Operating Income	48.61	57.29	61.62
Other Income	0.14	0.18	0.81
Total Income	48.75	57.47	62.43
Employee Cost	6.42	7.28	7.29
Operating & Establishment Expenses	2.28	2.50	2.72
Administrations & Other Expenses	1.94	2.04	2.39
Provisions and Contingencies	1.62	2.82	2.40
Miscellaneous Expenses	0.15	0.15	0.20
Total Expenditure	12.41	14.79	14.99
Operating Profit	36.34	42.67	47.44
Interest	22.60	22.98	19.43
Depreciation	0.58	0.48	0.44
Profit Before Taxation & Exceptional Items	13.17	19.21	27.57
Profit Before Tax	13.17	19.21	27.57
Provision for Tax	5.07	7.41	10.37
Profit After Tax	8.10	11.80	17.20

Key Ratios

Particulars	FY16	FY17	FY18
Spread Analysis			
Interest Earned/ Avg. Assets (%)	17.63%	19.20%	19.00%
Interest Expended/ Avg. Assets (%)	8.30%	7.83%	6.11%
Net Interest Margin (NIM (%))	9.33%	11.37%	12.89%
Operational & Financial Ratios			
Earnings Per Share (Rs)	20.29	29.53	43.00
DPS(Rs)	6.00	6.00	10.00
Book Value (Rs)	140.27	162.57	193.51
Performance Ratios			
ROA (%)	2.97	4.02	5.41
ROE (%)	15.19	19.52	24.17
Financial Stability Ratios			
Total Debt/Equity(x)	3.32	3.23	2.74

Peer Comparison as on March 31, 2018

Particulars (in Bn.)	Muthoot Finance	Manappuram Finance	Kosamattam
Total Income	62.43	29.56	3.52
NII	41.00	21.08	1.28
PAT	17.20	7.00	0.15
Equity*	77.60	38.14	2.56
Debt	211.98	102.40	18.81
CRAR (%)	26.59	26.95	16.68
GNPA (%)	6.98	0.70	0.57
NNPA (%)	6.16	0.33	0.26
ROE (%)	24.17	19.65	6.51
ROA (%)	5.41	5.05	0.73
Leverage (x)	2.74	2.68	6.86

Source: Company Reports, ACE Equity, Figures are on standalone basis. In Peer Comparison Kosamattam figures are for FY17.*Equity is adjusted for any miscellaneous expenditure written off and revaluation reserves and hence, there would be difference in reported networth and equity capital

Information Source: Ace Equity, Company Reports, IBEF, NSDL, Prime Database, Bloomberg, Thomson Reuters, Rating Agencies, CRISIL

Balance Sheet

Particulars (in Bn.)	FY16	FY17	FY18
EQUITY AND LIABILITIES			
Share Capital	3.99	3.99	4.00
Shareholder's Funds	56.19	65.16	77.60
Long-Term Borrowings	52.76	42.31	45.12
Other Non-Current Liabilities	10.75	6.16	2.61
Total Non-Current Liabilities	63.51	48.48	47.73
Other Current Liabilities	70.22	72.36	55.51
Short Term Borrowings	83.64	127.55	141.88
Total Current Liabilities	153.86	199.91	197.39
Total Liabilities	273.56	313.55	322.72
ASSETS			
Net Block	2.18	2.08	2.00
Capital Work in Progress	0.09	0.10	0.06
Other fixed assets	0.00	0.00	0.00
Non-Current Investments	0.98	2.09	3.83
Long Term Loans & Advances	1.00	1.13	3.40
Other Non-Current Assets	0.00	0.00	0.00
Total Non-Current Assets	4.26	5.41	9.30
Cash and Bank	6.79	15.34	4.87
Other Current Assets	14.72	12.76	9.74
Short Term Loans and Advances	247.79	280.05	298.82
Total Current Assets	269.30	308.14	313.43
Miscellaneous Expenses not written off	0.00	0.00	0.00
Total Assets	273.56	313.55	322.72

Cash flow Statement

Particulars (in Bn.)	FY16	FY17	FY18
Profit Before Tax	13.17	19.21	27.57
Adjustment	24.76	26.10	22.38
Depreciation	0.58	0.48	0.44
Dividend Received	0.00	0.00	-0.02
Interest Income	-0.13	-0.17	-0.09
Provision & Written Off	1.63	2.82	2.67
Other Adjustments	22.69	22.97	19.38
Changes in working Capital	-12.56	-29.08	-13.95
Cash Flow after changes in Working Capital	25.37	16.23	36.00
Tax Paid	-3.78	-8.72	-9.82
Extra & Other Item	-19.45	-24.61	-26.71
Cash From Operating Activities	2.14	-17.10	-0.52
Cash Flow from Investing Activities	-0.67	-1.34	-1.87
Purchase of Fixed Assets	-0.19	-0.38	-0.37
Sale of Fixed Assets	0.00	0.00	0.00
Purchase of Investment	-0.10	-0.11	-0.30
Sale of Investments	0.00	0.14	0.01
Investment in Subsidiaries	-0.50	-1.14	-1.46
Dividend Income	0.00	0.00	0.02
Interest Income	0.13	0.17	0.08
Other Investment Activities	-0.02	-0.02	0.14
Cash from Financing Activities	-12.04	24.57	-5.95
Net proceeds from borrowings	-8.24	24.55	1.72
Net proceeds Equity Share Capital	0.03	0.02	0.03
Other Financial Activities	-3.83	0.00	-7.70
Net Cash Inflow / Outflow	-10.58	6.13	-8.34
Opening Cash & Cash Equivalents	17.34	6.76	12.90
Closing Cash & Cash Equivalent	6.76	12.90	4.55

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