

**Sector – NBFC**
**Recommendations - Subscribe**
**Bidding Details**

Price Band – Rs 160- Rs 175

Face value – Rs 10

Bid Size – 40 and in multiple thereof

Issue Opens – Apr. 18, 2011

Issue Closes – Apr. 21, 2011

**Retail Applications Details**

No. of Shares – 1120 shares or 28 lots

Application Money – Rs 1, 96,000

*(At the higher side of the band)*
**Issue Size** –Rs 824.00 Cr – Rs 901.25 Cr

**Issue Allocation**

Category	% of Issue	Shares
<b>Net Issue to Public</b>	<b>100%</b>	<b>51,500,000</b>
QIB's	50%	25,750,000
Non Institutional	15%	7,725,000
Retail	35%	18,025,000

**Shareholding Pattern (%)**

	Pre-Issue	Post-Issue
Promoters	93%	80.11%
Public	7%	19.89%

**Shares Outstanding (Cr.)**

Pre-Issue	Post-Issue
320,212,768	371,712,768

**Issue Type** - 100% Book Built Issue

**Grade**

Crisil Rating -

4/5 indicating above average Fundamentals

**Book Running Lead Managers**

ICICI Securities Ltd

Kotak Mahindra Capital Co.Ltd

HDFC Bank Ltd

**Registrar**

Link Intime India Pvt. Ltd

**Listing**

BSE, NSE

***IPO of Muthoot Finance Ltd. provides an opportunity to invest in a NBFC having niche business segment of lending against Gold. The company is in expansion mode to reach untapped geographies. The company has significantly increased its AUM along with improved efficiencies. At the higher side of the price band, the issue is available at a discount to its traded peers. We recommend subscribe for handsome gains in medium to long term horizon.***

**Rapidly Expansion**

The company is rapidly expanding its branch network across the country. Company's branch network has increased from 700 branches in FY08 to more than 2600 branches as on Feb'11. The management's focus is on increasing its branch network to tap new business and thereby grow its AUM. .

**Improved AUM**

The company's assets under management increased at a CAGR of 75.7% during the period FY06-10. While during eight month period ended November 2010, the AUM's grew by 74.8% over March 2010 levels to Rs130bn. Such strong growth in asset under management could be partially attributed to the rapid branch expansion during this period.

**Improved Efficiencies**

On the other hand, the company has also successfully improved the branch efficiencies resulting into higher AUM growth. This is clearly reflected from the fact that the AUM per branch has increased from Rs31.5mn in FY08 to Rs 49.8mn in November 2010 despite rapidly growing branch network.

**Continue to Focus on Gold**

The company intends to undertake sustained marketing efforts to diminish the stigma attached to pledging gold jewellery in India. The company is trying to position Gold Loans as a "lifestyle product" and expand its customer base to include upper-middle income and upper income groups.

**Margins to Remain Healthy; Sustainability Debatable**

Growing competition from banks and other NBFCs and regulatory changes (RBI disallowing banks lending to NBFCs for direct on lending against gold jewellery or by way of investment in securitized assets from classifying as agri-lending) are likely to impact margins adversely. However, we believe, given the strong growth opportunities and price inelastic demand in this segment; margins are unlikely to contract substantially in the near to medium term.

**Quality Service to Customer**

The company provides its customers a clean, attractive and secure environment to transact their business. Although disbursement time may vary depending on the loan ticket size and the number of items pledged, it can generally disburse an average loan ticket size of Rs.20,000 within five minutes from the time the gold is tendered to the appraiser. High Quality customer services are significant competitive strengths that differentiate its services and products from those provided by commercial banks.

## Business Analysis

### **Strong Brand Name, Track Record & Management Expertise**

The company's operating history has evolved over a period of 70 years since M George Muthoot (the father of the Promoters) founded a gold loan business in 1939. The company has a highly experienced and motivated management team that capitalizes on this heritage at both the corporate and operational levels. Under the current management team, the retail loan portfolio has grown from Rs.22,263.8 million as of March 31, 2008 to Rs.74,381.5 million as of March 31, 2010.

### **Expertise in Niche Business Segment**

The company is the largest gold loan financier in the country, with a market share of 19.5% (as on FY10). MFL has achieved its leadership position in this niche business segment, given its strong domain knowledge, healthy brand reputation, widespread distribution network and operational efficiency to achieve scale along with profitability, while maintaining quality.

### **Immense Growth Potential**

The gold loan industry offers immense growth potential, given its low penetration (despite strong growth seen recently – the gold loan market has grown at a CAGR of 43% during FY07-10) and changing mindsets of Indian households towards raising money against gold, which was earlier perceived as demeaning. The company believes that this industry can continue to grow at a rapid pace in the medium term, providing ample opportunities for existing as well as new players in the market

### **Healthy Asset Quality**

The company's asset quality remains healthy, with gross NPAs as a % of gross retail AUM at 0.35% as on November 2010 v/s 0.46% as on March 2010. Although lending against gold is perceived to be a nearly zero risk business, improving asset quality on a rapidly growing asset base is commendable.

## Peer Analysis

Peers	Muthoot Finance	Rel Capital	Shriram Trans
Sale (Rs Cr)	1,077.0	2,370.0	4,402.8
EBITDA (Rs Cr)	827.5	1,708.0	3,586.0
EBITDA Margins (%)	77%	72%	81%
PAT (Rs Cr)	227.6	339.4	873.0
PAT Margins (%)	21%	14%	20%
CMP (Rs)	175	585.0	781.0
Equity Cap (Rs Cr)	301.0	246.2	225.5
Networth (Rs Cr)	584.6	6,959.0	3,842.0
Face Value (Rs)	10.0	10.0	10.0
Shares outstandings (Cr)	30.1	24.6	22.6
EPS (Rs)	7.6	13.8	38.7
PE (x)	23	42.4	20.2

\* At higher price of the stock

At the higher side of the price band, the issue is available at a P/E of 23x to its annualized EPS of RS 7.6. The issue looks attractive as compared to its trading peers.

## Recommendations

The company has witnessed a steep growth in the past (72.4% CAGR for MFL during FY07-10 v/s industry CAGR of 43%), we expect MFL to continue to outpace industry growth. Valuations remain reasonable, we recommend 'Subscribe' to the issue.

## About the Company

Muthoot Finance Ltd. (MFL) is the largest gold financing company in India in terms of loan portfolio (AUM of Rs130bn as on Nov'10), with a market share of 19.5% as on FY10. It has been classified as "Systemically Important Non-deposit taking NBFC" by the Reserve Bank of India (RBI). The company provides personal and business loans secured by gold jewellery, or gold loans, primarily to individuals who possess gold jewellery but cannot access formal credit within a reasonable time. As on February 2011, it has a network of 2,611 branches spread across 25 states in India with nearly 67% of branches concentrated in the southern states.

## Income Statement

	Full Year Ending	31-Mar-08	31-Mar-09	31-Mar-10
Interest Income		357.94	606.2	1,077.5
	<i>Net Interest Growth</i>	NA	69.4%	77.7%
Interest Charges		179.8	309.8	473.7
	%YoY	NA	72.3%	52.9%
<b>Net Interest Income</b>		178.1	296.5	603.7
	%YoY	NA	66.4%	103.6%
Depreciation & Amortization		7.41	9.9	14.9
Total operating Exp.		89.31	155.5	264.8
<b>EBIT</b>		268.63	450.7	812.7
	<i>EBIT Margins</i>	75%	74.3%	75.4%
Other Income		10.70	14.16	11.93
	<i>As a % age of Net Revenue</i>	3.0%	2.3%	1.1%
Interest		182.35	316.7	479.0
EBT		96.98	148.16	345.55
	<i>EBT Margins</i>	0.27	24.4%	32.1%
Provision for tax		33.38	50.5	118.0
<b>PAT</b>		63.60	97.71	227.57
	<i>PAT Growth</i>	NA	53.6%	132.9%
	<i>PAT Margins</i>	17.77%	16.12%	21.12%
No. of shares outstanding (cr)		5.0	49.0	301.0
EPS (Basic) (Rs)		127.20	19.94	7.56

## Balance Sheet

Balance Sheet	12M	12M	12M
As on	31-Mar-08	31-Mar-09	31-Mar-10
<b>SOURCES OF FUNDS:</b>			
Share Capital	5.00	49.00	301.00
Total Reserves	218.45	322.17	283.55
Shareholder's Funds	223.45	371.17	584.55
Secured Loans	1840.02	3008.74	4547.12
Unsecured Loans	75.29	156.85	733.40
Total Debts	1915.31	3165.59	5280.52
<b>Total Liabilities</b>	<b>2138.75</b>	<b>3536.76</b>	<b>5865.07</b>
<b>APPLICATION OF FUNDS :</b>			
Gross Block	121.53	148.27	169.11
Less: Accumulated Depreciation	22.27	32.08	44.90
Net Block	99.25	116.19	124.21
Capital Work in Progress	6.36	13.12	29.07
Investments	5.53	7.53	7.50
<b>Current Assets, Loans &amp; Advances</b>			
Sundry Debtors	5.47	4.10	3.34
Cash and Bank	258.04	882.53	575.99
Other Current Assets	78.38	118.75	135.87
Loans and Advances	1838.00	2622.55	5566.64
Total Current Assets	2179.88	3627.93	6281.85
<b>Less: Current Liabilities and Provisions</b>			
Current Liabilities	122.49	180.56	452.43
Provisions	39.04	52.45	122.99
Total Current Liabilities	161.53	233.00	575.42
Net Current Assets	2018.36	3394.93	5706.42
Miscellaneous Expenses not written off	9.25	8.78	0.35
Deferred Tax Assets / Liabilities	0.00	-3.79	-2.48
<b>Total Assets</b>	<b>2138.75</b>	<b>3536.76</b>	<b>5865.07</b>

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**NSE - INB 231219636, INF 231219636**

**BSE - INB 011219632**

Red Herring prospectus can be downloaded from the following link:

<http://www.sebi.gov.in/dp/muthhootdraft.pdf>