

Muthoot Finance : Very Good Issue; Subscribe

**IPO Note: Strong presence and leadership in segment
Rating******



Issue details

Price band (Rs)	Rs.160-175
IPO Opening Date	18-04-2011
IPO Closing Date	21-04-2011
Issue Size	Rs.824-901.25 Crore

Valuations & Recommendation

The issue has been offered in a price band of Rs 160-175 per equity share. It has reported EPS of Rs 7.59 for the fiscal years ending March 31, 2010. Muthoot Finance annualized EPS for 8M FY 2011 on post-issue equity works out to Rs 11.8. At the price band of Rs 160 to Rs 175 P/E works out to 13.6 to 14.9 times. Its peer company Manappuram General Finance is currently trading at P/E of 22.4. **The current valuation looks fair, compared with its peer. Overall Muthoot Finance is fundamentally strong and looking to its leadership in the segment we recommend to invest in this issue for listing gain as well as for long term.**

Highlights

- ◆ The company is a market leader in the segment with strong presence in almost 2000 places.
- ◆ Strong presence in unbanked semi urban and rural areas.
- ◆ Affordable interest rate, loan fully backed by gold.
- ◆ Track record of profitability even during turbulence period.
- ◆ CRISIL IPO grade 4.
- ◆ During FY06 to FY10, Muthoot Finance's AUM increased at a CAGR of 74%
- ◆ The company has an operating history of over a period of 70 years.

Company Introduction

Company Profile

Muthoot Finance is the Kerala - based largest gold financing company in terms of loan portfolio. It provides personal and business loans secured by gold jewellery, or Gold Loans, primarily to individuals who possess gold jewellery but could not access formal credit within a reasonable time, or to whom credit may not be available at all, to meet unanticipated or other short-term liquidity requirements. The company's Gold Loan portfolio as of March 31, 2010 comprised about 2.8 million loan accounts in India that it serviced through 1,605 branches across 20 states and two union territories in India. **According to the IMaCS Industry Report 2009, as of March 31, 2010 its branch network was the largest among gold loan NBFCs in India.** It has since increased its branch network to 1,921 branches as of August 31, 2010, and used its branch network to serve an average of 53,989 customers per day in the month of August 2010.



Strong presence in under-served rural and semi-urban markets

- A large portion of the rural population has limited access to credit either because of their inability to meet the eligibility requirements of banks and financial institutions because credit is not available in a timely manner, or at all. The company has positioned itself to provide loans targeted at this market. Apart from this it offers products with varying loan amounts, advance rates (per gram of gold) and interest rates. The principal loan amounts it disburse usually range from Rs 2,000.00 to Rs 100,000.00 while interest rates on its Gold Loans range between 12.00% to 30.00% per annum.

Strong brand name, track record and promoter's support

The company has evolved over a period of 70 years in the business of gold financing and the goodwill acquired by its promoters since its inception cannot be easily replicated by competitors. It has highly experienced, skilled and motivated management team that capitalizes on this heritage at both the corporate and operational levels. The company's senior management team has extensive experience in the Gold Loan industry and has demonstrated the ability to grow its business through their operational leadership, strategic vision and ability to raise capital. The company's business is also well supported by its high net-worth Promoters, who are members of the Muthoot family. Its track record, management expertise and Promoter support have established a strong brand name for the company in the markets it serves. A strong brand name has contributed to its ability to earn the trust of individuals who entrust us with their gold jewellery, and will be a key in allowing it to expand its growth and consolidate this fragmented industry across India.

IPO

The company is coming with a public issue of 51,500,000 equity shares of face value of Rs 10 per share. The issue will constitute 13.85% of the fully diluted post issue paid-up equity share capital of the company. The company's profit after tax grew at a CAGR of 0.58%, 52.86% and 42.94%, respectively, from fiscal 2007 to fiscal 2009

Financial Summary

Particulars	0903 (12)	1003 (12)	1011 (08)
Sales	606.24	1077.45	1289.35
Operating Profit	158.05	360.44	451.62
Net Profit	97.72	227.57	291.48
EPS* (Rs)	2.6	6.1	11.8

* Annualised on post issue equity of Rs 371.71 crore

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

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