

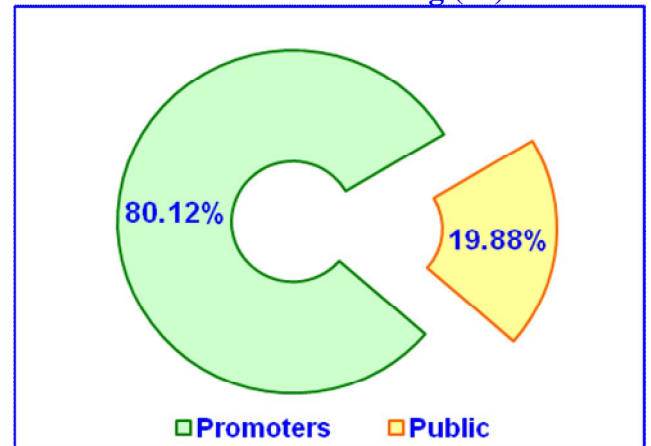


Muthoot Finance Limited (MFL)

INR 160-175 (FV 10)

Sector	NBFC
Website	www.muthootfinance.com
Issue Opens	18 April 2011
Issue Closes	21 April 2011
Issue	5.15 Crore Shares
Price Band (Rs.)	160-175
Aggregating	901.25 Crore (at upper band)
Key Executives	MG Gerorge Muthoot, G Thomas Muthoot G Jacob Muthoot, G Alexandar Muthoot
Registrar	Link Intime
BRLM	ICICI Securities, Kotak Capital, HDFC Bank
Post Issue Equity	Rs. 371.71 Crore

Post IPO Shareholding (%)



Assuming Issue at Rs.175/Share Upper Band

Company Background

Incorporated in 1997, Kochi (Kerala) based Muthoot Finance Ltd is the largest Gold financing company in India in terms of loan portfolio. Muthoot Finance provides personal and business loans secured by gold jewellery, or Gold Loans. They have over 2600 pan India branches. With employee strength of about 15000, it serves more than 65000 customers a day.

Customers of Muthoot Finance are typically small businessmen, vendors, traders, farmers and salaried individuals. They provide retail loan products, primarily comprising Gold Loans. They also disburse other loans, including those secured by Muthoot Gold Bonds. Their Gold Loans have a maximum 12 month term. Other than Gold Loans business, they provide money transfer services through their branches as sub-agents of various registered money transfer agencies. Company also operates three windmills (of 1.25 MW each) in the state of Tamil Nadu

Objectives of the Issue

The company is likely to raise Rs.901 Crore (at upper band of Rs.175/ Share) through the IPO. It plans to utilize the proceeds as:

- To augment our capital base to meet future capital requirements to provide for funding of loans to the customers;
- General corporate purposes.
- Issue Expenses.

Highlights

- India is under-banked nation with very low penetration of financial services. Traditional money lenders dominate the financing to masses in remote, rural areas. Which often charge very high interest rates. NBFCs have good business opportunities in these areas.
- Traditionally Gold has been held by Indian households in form of ornaments. Money lenders in unorganized sector give loans against property and Gold but charge high rates.
- NBFCs lending against Gold offer loans in more standardized and more transparent manner.
- Muthoot Finance is the largest player in organized Gold Loan Business:



	Mar-10	Mar-09	Mar-07
Muthoot Finance Limited	7342	3300	1420
Manappuram General Finance and Leasing Limited	2560	1200	480
Muthoot Fincorp Limited	2220	1180	470
India Overseas Bank	5220	3100	1690
Indian Bank	3920	3250	1700
South Indian Bank	2350	1500	600
State Bank of Travancore	1930	1600	1140
Andhra Bank	1400	900	400
Federal Bank	860	1070	600
Three-year CAGR - Market	43%		
Three-year CAGR - NBFCs	72%		
Three-year CAGR - MFL	73%		

(Figures in Rupees Crore) Source: RHP

- MFL has good record of collection of Loans disbursed, as time period is upto a year. There are loan borrowers sentiments attached with ornaments. There has been constant rise in Gold prices in past few years, which has played vital role in timely recovery of the due.
- The company has been enjoying high lending spreads of around 10% in last 5 years.
- The issue has been given a high “4/5” rating by ICRA and CRISIL.

Financial Highlights

₹ Crore	FY 10	8 M FY 2011	FY 11 E
Interest Income	1077.45	1289.35	1950.14
Other Income	11.92	12.32	20.00
Total Sales	1089.37	1301.67	1970.14
Interest Expenses	473.73	582.56	887.31
Operating Profits	603.72	706.79	1062.83
Other Expenses	258.17	265.68	409.53
PBT	345.55	441.11	653.30
Tax	117.98	149.63	215.59
Adjustments	-0.9		
PAT	228.47	291.48	437.71
Equity (FV 10)	320.21	320.21	371.71
EPS (Rs.)	7.14	9.10	11.78



Peerset Comparison

Core (FY 10)	MFL	Mannapuram
FY 10 Total Sales	1089.37	478.2
FY 10 PAT	228.47	119.72
Equity	371.71	83.32
Face Value	10	2
*9M FY 2011 Total Sales	1301.67	759
*9 M FY 2011 PAT	291.48	181
*9 M EPS	7.84	4.34
CMP	175	127
*9 M PE (Annualized)	14.88	14.62
Market Cap	6504.93	5290.82
M Cap/FY 10 Sales	5.97	11.06
*9 M FY 2011 PAT (%)	22.39	23.85

***MFL numbers for 8 Months, Mannapuram Results are for 9 Months. MFL Equity post IPO.**

Risks

- The industry faces strong competition from unorganized money lenders. Besides, there is NO entry barrier, many banks & NBFCs are also entering the business, with cheaper availability of funds, banks can offer loans at much lesser rates, triggering a “Price War”. The high growth rate witnessed in the past may not sustain.
- Like Micro Finance Institutions are controlled, Government can control the business by putting an upper ceiling for loan rates that can impact margins.
- Very sharp decline in Gold prices can increase the default rates also.
- Any sharp rise in borrowing costs of the company, which it is unable to pass on, can hurt margins in a big way.

Valuation & Recommendation: Offers value over smaller Peer

MFL is India’s largest Gold Loan Company. Gold is considered as a safe asset for collateral as loan. The company offers services with target customers in under-banked areas. Although, it is expanding operations in urban areas also, where there is a widespread banking network, its customers are mainly borrowers who need short term loans and avoid going through long procedures of loans.

The IPO leaves value on the table for investors, as it is at a discount to smaller peers. There is likely to be institutional interest, retail investors can apply at “Cut Off”.

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Shri Parasram Holdings Pvt. Ltd.

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