

## RETAIL EQUITY RESEARCH

# Muthoot Microfin Ltd.

## NBFC-MFI

SENSEX: 71,484

NIFTY: 21,457

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Price Range Rs.277 - Rs.291

## A leading south-based player in the microfinance....

Muthoot Microfin Ltd. (MML), a microfinance institution promoted by the Muthoot Pappachan Group, specializes in providing micro-loans to women customers, primarily for income generation in rural areas of India. As of March 31, 2023, MML ranks as the 5th largest NBFC-MFI in India based on its gross loan portfolio. Additionally, it holds the position as the 3rd largest NBFC-MFI in South India by gross loan portfolio and is the leading microfinance institution in Kerala with the highest market share. MML is also a significant player in Tamil Nadu, holding an almost 16% market share. The company serves 0.32cr active customers through 1,340 branches across 339 districts in 18 states and union territories in India, as of September 30, 2023.

- The microfinance industry's gross loan portfolio increased at 21% CAGR since FY18 to reach ~ ₹3.3 trillion in Q3FY23 and is expected to reach ₹4.9 trillion by the end of FY25. (Source: CRISIL MI&A).
- The Assets Under Management (AUM) of the company increased to Rs.10,870.67cr in H1FY24 from Rs.7,449.47cr in H1FY23.
- Muthoot Microfin's revenue increased by 44% CAGR to Rs.1,446.34cr between FY21-23, while its PAT zoomed by 384% CAGR during the same period. The net interest margin expanded by 200 bps YoY to 11.6% for FY23.
- MML saw a significant improvement in asset quality, with gross NPAs decreasing to 2.97% from 7.39% and net NPAs declining to 0.60% from 1.42%, which are among the lowest in the NBFC-MFI sector.
- The RoA improved from 0.2% to 2.2% over FY21-23, while the RoE improved from 0.8% to 11.1% over the same period, which is impressive within the industry.
- In H1FY24, the income rose 70% YoY to Rs.1,047cr and the profitability of the company surged 1,537% to Rs.205.26cr.
- They're expanding into North, East, and West India, with plans to expand into Uttar Pradesh, Bihar, Rajasthan, and Punjab, which are underpenetrated states.
- MML is supported by marquee investors, namely Creation Investments India LLC and Greater Pacific Capital WIV Ltd, who collectively hold 28% of the equity share capital of the company on a fully diluted basis.
- At the upper price band of Rs.291, MML is available at a P/B of 1.9x (FY24E annualised), which appears to be reasonably priced. Going forward, the microfinance industry will continue to exhibit strong growth on the back of the government's continued focus on strengthening the rural financial ecosystem, robust credit demand, and higher-ticket loans disbursed by microfinance lenders. Based on its diversified lending products, focus on digital transformation, and expanding geographical footprint, we assign a "Subscribe" rating for MML on a medium- to long-term basis.

### Purpose of IPO

The IPO is a combination of a fresh issue (Rs.760cr) and an OFS portion (Rs.200cr). The net proceeds from the fresh issue will be utilised for augmenting the capital base to meet future capital requirements and general corporate purposes.

### Key Risks

- The Company's main operations are in South India, accounting for 52% of gross loan portfolio, which is expected to decrease in future due to expanding geographical footprint.
- The microfinance industry's unique customer profile may lead to increased non-performing assets, potentially affecting financial performance.

### Peer Valuation

Company	MCap(₹ cr)	AUM(₹ cr)	AUM Growth(%)	BV(₹)	EPS(₹)	RoE (%)	RoA (%)	P/BV	P/E(x)	CMP(₹)
Muthoot Microfin	4,961	9,208	47.2	95.4	9.6	11.1	2.2	3.1	30.3	291
Creditaccess Gramin Bank	27,986	21,031	53.2	327	52.0	18.3	4.5	5.4	33.8	1,758
Fusion Micro Finance	5,699	9,296	39.7	231	43.3	21.2	4.6	2.4	13.0	561
Spandana Spoorty Fin.	7,225	7,980	29.7	437	1.7	0.4	0.2	2.3	583	1,016

Source: Geojit Research, Bloomberg; Valuations of MML are based on upper end of the price band (post issue), Financials as per FY23 consolidated.

### Issue Details

Date of opening	December 18, 2023
Date of closing	December 20, 2023
Total No. of shares offered (Cr.)	3.3
Post Issue No. of shares (Cr)	17
Price Band	₹ 277- ₹291
Face Value	₹10
Bid Lot	51 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,841
Maximum application for retail (upper price band for 13 lot)	₹ 1,92,933
Listing	BSE,NSE
Lead Managers	ICICI Securities Ltd, Axis Capital, JM Financial, SBI Capital Markets
Registrar	KFin Technologies Ltd.

### Issue size (upper price)

	Rs.cr
Fresh Issue	760
OFS	200
<b>Total Issue</b>	<b>960</b>

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group	69.08	55.46
Public & Others	30.91	44.54
<b>Total</b>	<b>100</b>	<b>100</b>

Issue structure	Allocation (%)	Size Rs.cr
Retail	35	332.5
Non-Institutional	15	142.5
QIB	50	475
Employee reservation	-	10
<b>Total</b>	<b>100.0</b>	<b>960.0</b>

Y.E March (₹ cr) Consol.	FY22	FY23	H1FY24
Net Interest Income (NII)	388	742	498
% Change	20	91	-
Net Interest Margin %	9.6	11.6	12.4
PAT Adj.	47	164	205
% Change	572	246	-
EPS Diluted	2.8	9.9	12.0
P/E (x)	105	30	24
P/BV (x)	3.7	3.1	1.9*
RoE (%)	4.3	11.1	11.8
RoA (%)	0.9	2.2	2.2

\*Annualised

## Business Description:

**Muthoot Microfin Ltd (MML)** promoted by Muthoot Pappachan Group, Muthoot Microfin Limited (Muthoot Microfin) was incorporated on April 6, 1992. The RBI has granted NBFC-MFI status to the company with effect from March 25, 2015. Muthoot Microfin is a micro-finance institution providing micro-loans to women customers (primarily for income generation purposes) with a focus on rural regions of India. Muthoot Microfin is the 5th largest NBFC-MFI in India in terms of gross loan portfolio as of March 31, 2023. They are also the 3rd largest amongst NBFC-MFIs in South India in terms of gross loan portfolio, the largest in Kerala in terms of MFI market share, and a key player in Tamil Nadu with an almost 16% market share.

### Company's loan products comprise:

- Group loans for livelihood solutions such as income generating loans, Pragathi loans and individual loans;
- Life betterment solutions including mobile phones loans, solar lighting product loans and household appliances product loans;
- Health and hygiene loans such as sanitation improvement loans; and
- Secured loans in the form of gold loans and the Muthoot Small & Growing Business (MSGB) loans.

## Strengths

- Market leadership with a pan-India presence
- Rural focused operations, with a commitment towards health and social welfare of the customers
- Brand recall and synergies with the Muthoot Pappachan Group
- Robust risk management framework leading to healthy portfolio quality
- Streamlined operating model with effective use of technology
- Access to diversified sources of capital and effective cost of funds
- Experienced and Professional Management, with Strong Corporate Governance

## Strategies

- Expand the geographical footprint and sourcing platform across India
- Continue to Enhance Information Technology with a Focus on Customer Service, Operational Efficiency and Cost Optimization
- Leverage the existing branch network to expand the customer base and gross loan portfolio
- Diversifying the Sources of Funds

## Industry outlook

The microfinance industry's gross loan portfolio increased at a compounded annual growth rate of 21% since the financial year 2018 to reach approximately ₹3.3 trillion in the third quarter of the financial year 2023. The growth rate for non-banking financial companies – microfinance institutions, is the fastest as compared to other player groups. Going forward, the microfinance industry will continue to see strong growth due to the Government's continued focus on strengthening the rural financial ecosystem, robust credit demand, and higher-ticket loans disbursed by microfinance lenders (*Source: CRISIL Report*).

## Promoter and promoter group

Thomas John Muthoot, Thomas Muthoot, Thomas George Muthoot, Preethi John Muthoot, Remmy Thomas, Nina George and Muthoot Fincorp Limited are the Promoters of the company. Currently the Promoters, collectively, hold 99,720,468 Equity Shares in the company, representing 69.08% of the issued, subscribed, and paid-up equity share capital of the company, on a fully diluted basis.

## Brief Biographies of directors

- **Thomas Muthoot** is one of the Promoters and the Managing Director of the Company. He is on the board of directors of several companies including Muthoot Capital Services Ltd, Muthoot Fincorp Ltd, Muthoot Housing Finance Co Ltd and Muthoot Hotels Pvt Ltd.
- **Thomas John Muthoot** is one of the Promoters and a Non-Executive Director of the Company. He is on the board of directors of companies including Muthoot Fincorp Ltd, Muthoot Capital Services Ltd, Muthoot Housing Finance Co Ltd and Muthoot Hotels Pvt Ltd.
- **Thomas George Muthoot** is one of the Promoters and a Non-Executive Director of the Company. He is on the board of directors of companies like Muthoot Fincorp Ltd, Muthoot Capital Services Ltd, Muthoot Housing Finance Co Ltd and Muthoot Hotels Pvt Ltd.
- **Akshaya Prasad** is a Non-Executive Director on the Board. He is also on the board of directors of Enzen Global Solutions Pvt Ltd and a director of Greater Pacific Capital India Pvt Ltd. He was previously associated with Goldman Sachs (India) Securities Pvt Ltd.
- **John Tyler Day** is a Non-Executive Director on the Board. He is associated with Creation Investment Capital Management LLC.
- **Alok Prasad** is a Non-Executive Independent Director on the Board. He is on the board of directors of several companies such as Gang-Jong Development Finance Pvt Ltd and Fincare Small Finance Bank Ltd.
- **Thai Salas Vijayan** is a Non-Executive Independent Director on the Board.
- **Bhama Krishnamurthy** is a Non-Executive Independent Director on the Board. **Pushpy Babu Muricken** is a Non-Executive Independent Director on the Board. She is also on the Board of directors of Joyalukkas India Ltd.
- **Anand Raghavan** is a Non-Executive Independent Director on the Board. He was previously associated with Ernst and Young and Sundaram Finance Ltd. He has over 30 years of experience in the field of finance.
- **Sadaf Sayeed** is the Chief Executive Officer of the company. He has been associated with the Muthoot Pappachan Group for the last 12 years. He has over 22 years of experience in banking and financial sector.
- **Praveen T** is the Chief Financial Officer of the company. He has been associated with the Muthoot Pappachan Group for 10 years.
- **Neethu Ajay** is the Company Secretary and Chief Compliance Officer of the company.

## CONSOLIDATED FINANCIALS

### PROFIT & LOSS

Y.E March (Rs cr)	FY22	FY23	H1FY24
Interest Income	729	1,291	914
Interest Expense	340	549	415
<b>Net Interest Income</b>	<b>388</b>	<b>742</b>	<b>498</b>
% Change	20	91	-
Non-Interest Income	114	156	134
<b>Operating income</b>	<b>503</b>	<b>897</b>	<b>632</b>
Operating Expenses	327	461	295
Total Income	843	1,446	1,047
Total Expenditure	667	1,010	710
<b>Pre-Prov.Profit</b>	<b>176</b>	<b>436</b>	<b>337</b>
% Change	24	148	-
Provisions	111	223	63
<b>PBT</b>	<b>65</b>	<b>213</b>	<b>275</b>
Tax	17	49	69
Tax Rate %	27	23	25
<b>Reported PAT</b>	<b>47</b>	<b>164</b>	<b>205</b>
Adj.	-	-	-
<b>Adj. PAT</b>	<b>47</b>	<b>164</b>	<b>205</b>
% Change	572	246	-
Post Issue No.of Shares (Cr.)	17	17	17
<b>Adj. EPS (Rs)</b>	<b>2.8</b>	<b>9.6</b>	<b>12.0</b>
% Change	572	246	-

### BALANCE SHEET

Y.E March (Rs cr)	FY22	FY23	H1FY24
<b>Liabilities</b>			
Capital	133.3	140.2	140.2
Reserve & Surplus	1,203.2	1,485.7	1,701.9
Deposit	-	-	-
Borrowings	3,971.6	6,493.2	7,746.1
Provision & Other Liabilities	283.3	410.2	443.1
<b>Total Liabilities</b>	<b>5,591</b>	<b>8,529</b>	<b>10,031</b>
<b>Assets</b>			
Fixed Assets	121.2	171.6	189.4
Investments	3.4	67.4	56.6
Advances	4398.1	7026.7	8549.9
Other Assets	68.9	113.1	182.9
Cash & Bank Balances	999.9	1,150.4	1,052.1
<b>Total Assets</b>	<b>5,591</b>	<b>8,529</b>	<b>10,031</b>

### RATIOS

Y.E March	FY22	FY23	H1FY24
<b>AUM Rs.Cr</b>	6,255	9,208	10,867
Growth	25.4	47.2	45.9
<b>Per Share Data (Rs.)</b>			
EPS Diluted	2.8	9.6	12.0
BV	78.4	95.4	108.1
<b>Key Ratios</b>			
Avg. Yield on loans o/s	17.9	21.8	22.9
Avg. Cost of Borrowing	10.4	10.9	11.2
Spread %	7.5	10.9	11.7
Net Interest Margin %	9.6	11.6	12.4
Credit Cost Ratio	2.2	3.0	1.2
<b>Capital %</b>			
CRAR %	28.8	21.9	20.5
Tier I	28.4	21.9	20.5
Net worth Rs.Cr	1,336.6	1,625.8	1,842.1
<b>Asset Quality %</b>			
GNPA	6.26	2.97	2.37
NNPA	1.55	0.60	0.33
PCR	76.86	80.32	86.42
<b>Return Ratios (%)</b>			
RoE	4.26	11.06	11.84
RoA	0.92	2.16	2.21
<b>Valuations</b>			
P/E (x)	105	30	24
P/BV (x)	3.7	3.1	1.9*

\*Annualised

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