Muthoot Microfin | BUY

Momentum picking up; upgrade to BUY

In 2QFY26, Muthoot Microfin (MML) reported a steady improvement with a PAT of INR 305mn (+41% JMFe) mainly led by lower than expected credit costs of 3.6%. NII de-grew -14% YoY, +5% QoQ on account of lower AUM growth while reported NIMs was up +40bps QoQ. Opex grew +15%/+flat YoY/QoQ) which led to a PPoP of INR 1.5bn (-37%/+14% YoY/QoQ, -18% JMFe). Disbursements grew (-15%/+28% YoY/QoQ), leading to moderate AUM growth of (+0.3%/+2.5% YoY/QoQ). The asset quality outcome during the quarter was favourable as GS3/NS3 improved 24bps/16bps QoQ to 4.6%/1.4% while collection efficiencies (CE) improved sequentially. We expect credit costs to continue trending downward while management guidance remains conservative at 4-6% for FY26E. The launch of new products viz. GL, micro-LAP and individual is expected to contribute growth going forward while CoFs benefit led by rating upgrade will also lead to NIM expansion. We revised our credit cost estimates downward by -90bps (from 4.2% to 3.3%) while slight increase in opex leads to +2% FY26E EPS revision. Given the steady improvement in CEs and revival in growth led by non-MFI products, we expect MML to report RoA of 2.1%/3.6% for FY26E/FY27E and we upgrade the stock to BUY with a revised TP of INR 190 valuing at 1.0x FY27E BVPS (vs. earlier 0.8x FY27E BVPS).

- **Asset quality improves:** GS3/NS3 improved 24bps/16bps QoQ to 4.6%/1.4%. Collection efficiency demonstrated an upward trend, improving to 93.3% from 93% in 1Q while x-bucket collection efficiency improved to 99.8% (vs. 99% in 1Q). Credit costs (calc) declined significantly to 3.6% (vs. 4.1% QoQ), which was below management's guidance (4-6% for FY26). Stage-3 PCR moved up 190bps to 70.4%. Additionally, MML exposure to MML+4 and above loans reduced ~150bps QoQ to 3.2%. The total exposure to customers exceeding INR 200k indebtedness also declined to 0.8% from 1% QoQ. With continued improvement in collections, we anticipate credit costs to moderate. Thus we reduced our credit cost estimates by -90bps to 3.3% for FY26E. We expect credit cost to normalize to 2.4% in FY27E.
- **Flattish AUM growth, diversification into new products to drive growth:** Disbursements grew +28% QoQ, -15% YoY, while AUM grew +2 YoY/flat QoQ. Management remains optimistic on recovery in growth, driven by the launch of three new products: (1) micro LAP loans with ticket sizes ranging from INR 0.1-1mn, (2) gold loans through 60-40 co-lending partnership with its parent company - Muthoot Fincorp, and (3) individual loans targeting micro MSME financing. With this, management remains confident in achieving the FY26 growth guidance of 5-10%. We estimate AUM growth of +11%/+16% for FY26E/FY27E.
- **PAT beat led by lower credit cost:** MML reported a PAT of INR 305mn (+41% JMFe) mainly led by lower than expected credit costs of 3.6%. NII de-grew -14% YoY, +5% QoQ led by lower AUM growth. NIMs moved up +40bps QoQ as yields moved up 41bps QoQ and CoFs declined -20bps QoQ. Opex grew +15%/flat YoY/QoQ) which led to a PPoP of INR 1.5bn (-37%/+14% YoY/QoQ, -18% JMFe). Management noted that the current elevated opex ratio of 7.0% is expected to moderate going forward as AUM picks up and recent investments in technology begin to yield operating leverage.
- **Valuation and view:** Given the steady improvement in CEs and revival in growth led by non-MFI products, we expect MML to deliver RoA of 2.1%/3.6% for FY26E/FY27E. We upgrade the stock to BUY with a revised TP of INR 190 valuing at 1.0x FY27E BVPS (earlier 0.8x FY27E BVPS).

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Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	HOLD
Current Price Target (12M)	190
Upside/(Downside)	17.8%
Previous Price Target	155
Change	22.6%

Key Data – MUTHOOTM IN	
Current Market Price	INR161
Market cap (bn)	INR27.5/US$0.3
Free Float	28%
Shares in issue (mn)	167.3
Diluted share (mn)	
3-mon avg daily val (mn)	INR31.8/US$0.4
52-week range	210/119
Sensex/Nifty	83,311/25,510
INR/US$	88.6

Price Performance

%	1M	6M	12M
Absolute	-4.9	13.0	-22.0
Relative*	-6.6	9.4	-24.7

** To the BSE Sensex*

Financial Summary (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	4,696	-2,225	2,331	4,457	5,890
Net Profit (YoY) (%)	186.5%	-147.4%	-204.8%	91.2%	32.1%
Assets (YoY) (%)	35.9%	-6.3%	6.0%	15.0%	15.5%
ROA (%)	4.5%	-2.0%	2.1%	3.6%	4.1%
ROE (%)	20.4%	-8.2%	8.5%	14.4%	16.3%
EPS	26.9	-13.3	13.9	26.6	35.1
EPS (YoY) (%)	91.6%	-149.4%	-204.8%	91.2%	32.1%
P/E (x)	**6.0**	**-12.1**	**11.6**	**6.1**	**4.6**
BV	168	157	171	198	233
BV (YoY) (%)	22.2%	-6.3%	8.9%	15.6%	17.8%
P/BV (x)	**0.96**	**1.03**	**0.94**	**0.81**	**0.69**

Source: Company data, JM Financial. Note: Valuations as of 06/Nov/2025

Muthoot Microfin 2Q26 – Quarterly Performance

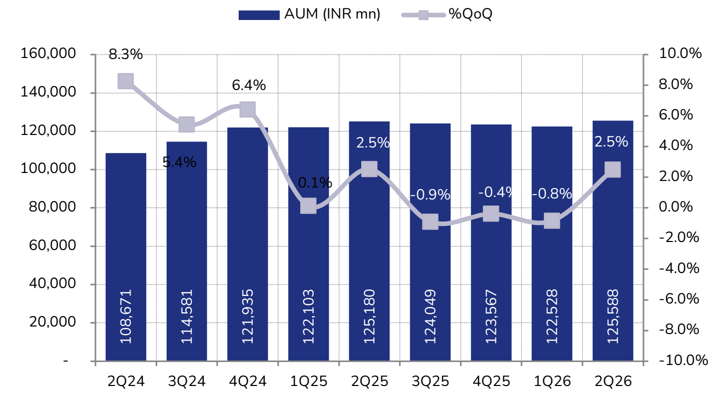
Exhibit 1. Muthoot Microfin – 2QFY26 Results Snapshot

Earnings Table (INR mn)	2Q'25	1Q'26	2Q'26	YoY (%)	QoQ (%)	2Q26E	A/E
Interest Income	6,138	5,187	5,358	-13%	3%	5,387	-1%
Interest Expenses	2,374	2,098	2,113	-11%	1%	2,124	-1%
Net Interest Income	**3,764**	**3,089**	**3,245**	**-14%**	**5%**	**3,263**	-1%
Non-Interest Income	492	404	416	-15%	3%	566	-26%
Total Income	**4,256**	**3,493**	**3,661**	**-14%**	**5%**	**3,828**	-4%
Employees Cost	1,330	1,522	1,549	**16%**	**2%**		
Other Expenditure	562	659	622	11%	-6%		
Total Operating Expenses	**1,892**	**2,182**	**2,171**	**15%**	**0%**	**2,001**	9%
Operating Profit (PPP)	**2,364**	**1,311**	**1,490**	**-37%**	**14%**	**1,827**	-18%
Provisions & Write Offs	1,553	1,254	1,119	-28%	-11%	1,539	-27%
PBT	812	58	371	-54%	544%	288	NM
Tax	196	-4	66	-66%	-1658%	72	-9%
Reported Profit	**616**	**62**	**305**	**-50%**	**394%**	**216**	41%
Balance Sheet Data (INR bn)							
Assets Under Management	125.2	122.5	125.6	0.3%	2.5%	123.8	1%
Disbursements	26.7	17.8	22.7	-15.0%	28.1%	18.6	22%
Ratios Analysis (%)							
Yield on Advances	19.86%	16.86%	17.28%	-258bps	41bps		
Cost of Funds	11.06%	10.80%	10.60%	-46bps	-20bps		
NIM (NII/AUM)	13.36%	11.50%	11.90%	-146bps	40bps		
Cost to Income (%)	44.4%	62.5%	59.3%	1486bps	-315bps		
Credit Cost on AUM	5.31%	4.10%	3.57%	-174bps	-53bps		
ROE	8.32%	0.94%	4.57%	-375bps	363bps		
CAR (%)	28.67%	27.85%	28.90%	23bps	105bps		
Credit Quality							
Gross NPA (%)	2.70%	4.85%	4.61%	191bps	-24bps		
Net NPA (%)	0.95%	1.52%	1.36%	41bps	-16bps		
Coverage Ratio (%)	71.9%	68.5%	70.4%	-151bps	190bps		
Du-pont Analysis (%)							
NII / Assets (%)	12.90%	11.61%	11.84%	-106bps	23bps		
Non-Interest Inc. / Assets (%)	1.69%	1.52%	1.52%	-17bps	0bps		
Operating Cost / Assets (%)	6.48%	8.20%	7.92%	144bps	-28bps		
Operating Profits / Assets (%)	8.10%	4.93%	5.44%	-267bps	51bps		
Provisions / Assets (%)	5.32%	4.71%	4.08%	-124bps	-63bps		
PBT/ Assets (%)	2.78%	0.22%	1.35%	-143bps	114bps		
ROA (%)	2.11%	0.23%	1.11%	-100bps	88bps		

Source: Company, JM Financial

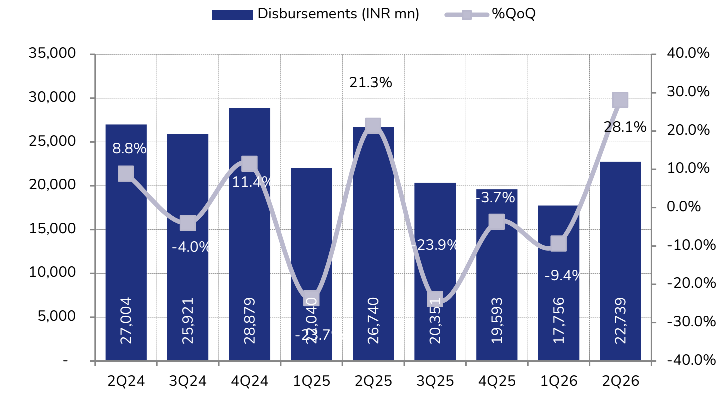
Muthoot Microfin - Quarterly trends

Exhibit 2. AUM grew sequentially led by non-MFI loans



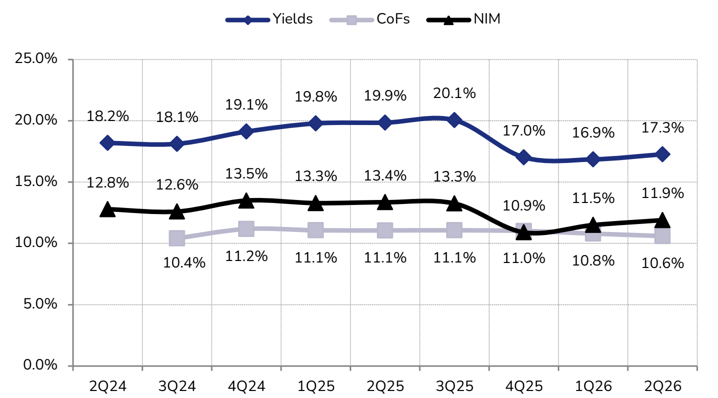
Source: Company, JM Financial

Exhibit 3. Disbursements growth started picking up



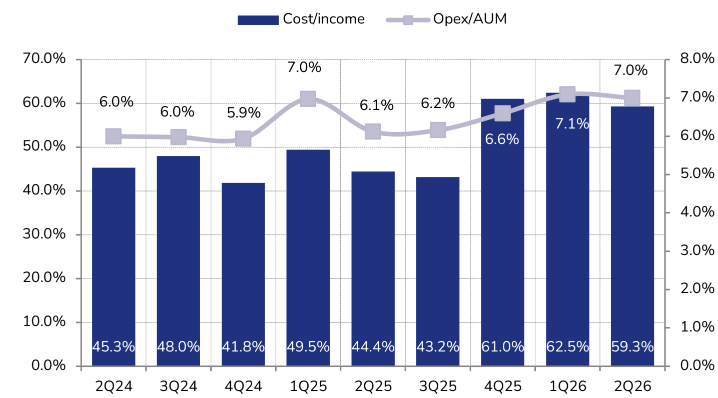
Source: Company, JM Financial

Exhibit 4. Margins inch up sequentially



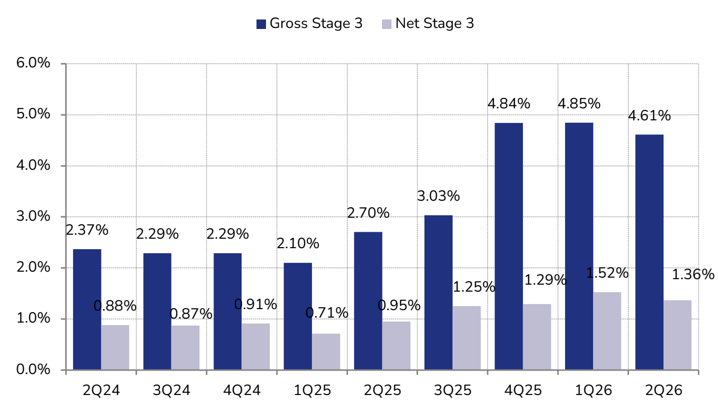
Source: Company, JM Financial

Exhibit 5. Higher opex ratios led by slower AUM growth



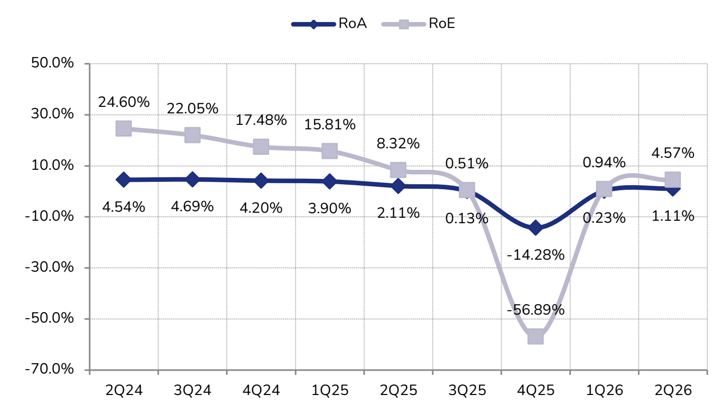
Source: Company, JM Financial

Exhibit 6. Asset quality improved sequentially



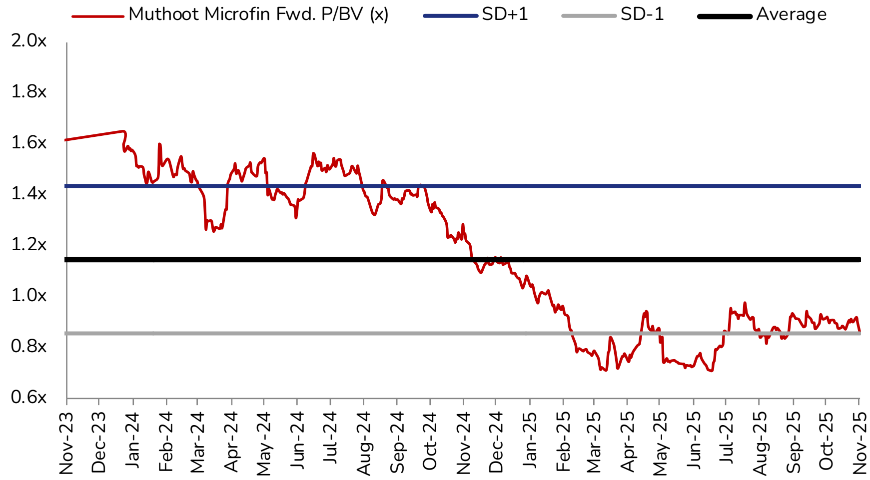
Source: Company, JM Financial

Exhibit 7. Return ratios to recover gradually



Source: Company, JM Financial

Exhibit 8. Muthoot Microfin: One year forward P/B



Source: Company, JM Financial. Bloomberg
Note: Priced as of 6th Nov, 2025

Exhibit 9. Change in estimates table

Old vs. New Estimates	FY26E, Old	FY26E, New	Chg	FY27E, Old	FY27E, New	Chg	FY28E, Old	FY28E, New	Chg
Recommendation	**HOLD**	**BUY**							
Target price (Rs)	**155**	**190**							
Income Statement (Rs mn)									
Net Interest Income	14,118	13,710	-2.9%	15,346	16,473	7.3%	17,758	19,350	9.0%
Non-Interest Income	2,275	2,275	0.0%	2,657	2,657	0.0%	3,104	3,104	0.0%
Total Income	**16,394**	**15,986**	**-2.5%**	**18,003**	**19,130**	**6.3%**	**20,862**	**22,454**	**7.6%**
Operating Expenses	8,180	8,735	6.8%	8,776	9,607	9.5%	9,848	10,906	10.7%
Pre-provisioning Profits	**8,214**	**7,251**	**-11.7%**	**9,227**	**9,522**	**3.2%**	**11,015**	**11,548**	**4.8%**
Reported Profits	**2,278**	**2,331**	**2.3%**	**4,459**	**4,457**	**0.0%**	**5,672**	**5,890**	**3.8%**
Balance Sheet (Rs mn)									
Borrowings	83,227	83,227	0.0%	89,886	95,712	6.5%	97,076	110,068	13.4%
Net Advances	93,695	97,204	3.7%	104,594	113,073	8.1%	119,437	132,283	10.8%
Total Assets	115,075	115,128	0.0%	126,479	132,356	4.6%	139,655	152,915	9.5%
AUM									
Key Ratios (%)									
NIM (%)	11.05%	10.53%	-0.52%	10.99%	11.12%	0.13%	11.26%	11.20%	-0.06%
ROA (%)	2.04%	2.08%	0.05%	3.69%	3.60%	-0.09%	4.26%	4.13%	-0.13%
ROE (%)	8.30%	8.48%	0.2%	14.46%	14.43%	0.0%	15.80%	16.33%	0.5%
EPS (Rs.)	13.6	13.9	2.3%	26.6	26.6	0.0%	33.8	35.1	3.8%
BV (Rs.)	170.7	171.0	0.2%	197.3	197.6	0.2%	231.1	232.7	0.7%

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income (NII)	11,075	14,394	13,710	16,473	19,350
Non Interest Income	2,817	1,950	2,275	2,657	3,104
Total Income	**13,892**	**16,343**	**15,986**	**19,130**	**22,454**
Operating Expenses	6,149	7,667	8,735	9,607	10,906
Pre-provisioning Profits	**7,744**	**8,676**	**7,251**	**9,522**	**11,548**
Loan-Loss Provisions	1,351	10,401	4,061	3,132	3,154
Others Provisions	375	1,164	276	447	541
Total Provisions	**1,725**	**11,565**	**4,337**	**3,579**	**3,695**
PBT	**6,018**	**-2,889**	**2,914**	**5,943**	**7,853**
Tax	1,323	-664	583	1,486	1,963
PAT (Pre-Extra ordinaries)	**4,696**	**-2,225**	**2,331**	**4,457**	**5,890**
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	**4,696**	**-2,225**	**2,331**	**4,457**	**5,890**
Dividend	0	0	0	0	0
Retained Profits	**4,696**	**-2,225**	**2,331**	**4,457**	**5,890**

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	1,673	1,676	1,676	1,676	1,676
Reserves & Surplus	26,371	24,646	26,978	31,435	37,324
Borrowed Funds	84,248	79,264	83,227	95,712	1,10,068
Deferred tax liabilities	1,645	1,749	1,889	2,040	2,204
Current Liabilities & Provisions	1,966	1,235	1,358	1,494	1,643
Total Liabilities	**1,15,902**	**1,08,570**	**1,15,128**	**1,32,356**	**1,52,915**
Net Advances	94,357	87,402	97,204	1,13,073	1,32,283
Investments	467	3,543	2,916	2,827	2,910
Cash & Bank Balances	15,787	11,698	10,692	11,307	12,567
Other Current Assets	3,013	2,899	1,128	1,511	1,791
Fixed Assets	2,147	2,226	2,338	2,661	3,058
Deferred Tax Assets	131	802	851	978	306
Total Assets	**1,15,902**	**1,08,570**	**1,15,128**	**1,32,356**	**1,52,915**

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	11.01%	12.82%	12.26%	13.31%	13.57%
Other Income / Assets	2.80%	1.74%	2.03%	2.15%	2.18%
Total Income / Assets	13.81%	14.56%	14.29%	15.46%	15.74%
Cost / Assets	6.11%	6.83%	7.81%	7.76%	7.65%
PPP / Assets	7.70%	7.73%	6.48%	7.70%	8.10%
Provisions / Assets	1.72%	10.30%	3.88%	2.89%	2.59%
PBT / Assets	5.98%	-2.57%	2.61%	4.80%	5.51%
Tax rate	22.0%	23.0%	20.0%	25.0%	25.0%
ROA	4.47%	-1.98%	2.08%	3.60%	4.13%
Leverage	4.1	4.1	4.0	4.0	3.9
ROE	20.4%	-8.2%	8.5%	14.4%	16.3%

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)					
Borrowed funds	29.7%	-5.9%	5.0%	15.0%	15.0%
Advances	34.3%	-7.4%	11.2%	16.3%	17.0%
Total Assets	35.9%	-6.3%	6.0%	15.0%	15.5%
NII	49.3%	30.0%	-4.7%	20.1%	17.5%
Non-interest Income	80.9%	-30.8%	16.7%	16.8%	16.8%
Operating Expenses	33.3%	24.7%	13.9%	10.0%	13.5%
Operating Profits	77.5%	12.0%	-16.4%	31.3%	21.3%
Core Operating profit	83.5%	11.2%	-17.3%	32.0%	21.5%
Provisions	-22.7%	570.3%	-62.5%	-17.5%	3.2%
Reported PAT	186.5%	-147.4%	-204.8%	91.2%	32.1%
Yields / Margins (%)					
Interest Spread	11.99%	14.27%	13.24%	13.85%	13.85%
NIM	12.38%	12.29%	11.17%	11.80%	11.89%
Profitability (%)					
ROA	4.47%	-1.98%	2.08%	3.60%	4.13%
ROE	20.4%	-8.2%	8.5%	14.4%	16.3%
Cost to Income	44.3%	46.9%	54.6%	50.2%	48.6%
Asset quality (%)					
Gross NPA	2.30%	4.97%	4.46%	3.88%	3.79%
LLP	2.10%	12.73%	4.70%	3.40%	3.01%
Capital Adequacy (%)					
Tier I	28.97%	27.39%	30.10%	30.99%	32.33%
CAR	28.97%	27.90%	30.47%	31.32%	32.61%

Source: Company, JM Financial

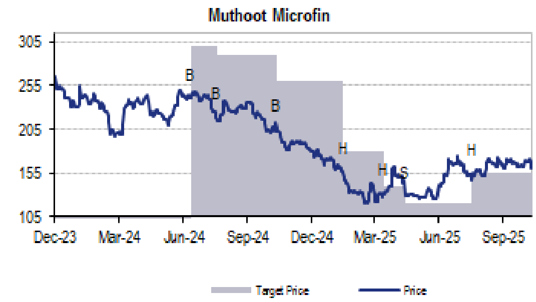
Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	167.3	167.6	167.6	167.6	167.6
EPS (INR)	26.9	-13.3	13.9	26.6	35.1
EPS (YoY) (%)	91.6%	-149.4%	-204.8%	91.2%	32.1%
P/E (x)	6.0	-12.1	11.6	6.1	4.6
BV (INR)	168	157	171	198	233
BV (YoY) (%)	22.2%	-6.3%	8.9%	15.6%	17.8%
P/BV (x)	0.96	1.03	0.94	0.81	0.69
DPS (INR)	0.0	0.0	0.0	0.0	0.0
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
7-Jul-24	Buy	300	
12-Aug-24	Buy	290	-3.3
6-Nov-24	Buy	260	-10.3
9-Feb-25	Hold	180	-30.8
8-Apr-25	Hold	140	-22.2
9-May-25	Sell	120	-14.3
13-Aug-25	Hold	155	29.2

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

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New Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and

No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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