

## Muthoot Microfin Limited

### Company Overview:

Muthoot Microfin is the fourth largest NBFC-MFI in India in terms of gross loan portfolio as of Dec'22. It is a part of the Muthoot Pappachan Group, a business conglomerate with presence across financial services, automotive, hospitality, real estate, information technology infrastructure, precious metals, and alternate energy sectors. It is also the third largest amongst NBFC-MFIs in South India in terms of gross loan portfolio and the largest in Kerala in terms of MFI market share as of Dec'22. The company primarily adopts a joint liability group model that caters exclusively to women in lower-income households. These individuals are given access to credit which will aid them in identifying new opportunities and supplementing and growing their existing income. It has 3.19 mn active customers who are served through 1,340 branches across 339 districts in 18 states and union territories in India as of Sep'23.

### Key Highlights:

**1. Pan India presence:** It has a well-diversified portfolio across 339 districts in 18 states and union territories in India. As of Sep'23, the gross loan portfolio in the top three states, namely Kerala, Karnataka, and Tamil Nadu, together accounted for 51.36% of the total gross loan portfolio. Over the past five years, MFI has expanded its operations in North, East, and West India, which has allowed it to diversify its customer base and gross loan portfolio.

**2. Brand recall and synergies with Muthoot Pappachan Group:** The company's relationship with the Muthoot Pappachan Group provides brand recall and significant marketing and operational benefits. Several companies forming part of the Muthoot Pappachan Group are in the financial services sector including microfinance, gold finance, two-wheeler finance, and housing finance. The financial services companies within the Muthoot Pappachan Group together service 8.7 mn unique customers, as of Sep'23.

**3. Access to diversified sources of capital and effective cost of funds:** The company has a well-diversified funding profile showcasing healthy liquidity management systems, credit ratings, and brand equity. It received a credit rating upgrade of A+/Stable by CRISIL on Oct'22. Promoters and holding company have not provided any corporate guarantees about the borrowings availed, which demonstrates the trust of the lenders in the business model.

**Valuation:** The company is valued at P/BV of 1.8x/1.9x of its 1HFY24 financial data at the lower and upper price band respectively on post-issue capital. Some of the peers like CreditAccess Grameen is traded at 4.8x and Fusion MFI is traded at 2.2x at P/BV of FY23. 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.

Issue Details	
Date of Opening	18 <sup>th</sup> December 23
Date of Closing	20 <sup>th</sup> December 23
Price Band (Rs)	277 – 291
Issue Size (Rs cr)	960.0
No. of shares (cr)	17.04-17.17 (20.8% OFS)
Face Value (Rs)	10.0
Post Issue Market Cap (Rs cr)	4,758.7-4,960.8
BRLMs	ICICI Securities, Axis Capital, JM Financial & SBI Capital Markets Ltd.
Registrar	K-Fin Technologies Limited
Bid Lot	51 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NII shares	15%

Objects of Issue	
	(Rs cr.)
To meet future capital requirements towards onward lending	760.0
General corporate purposes	-
Total Net Proceeds*	-

\*To be determined after finalisation of the Offer Price and updated in the Prospectus prior to filing with the RoC

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	9,97,20,468	69.1
Public & Others	4,46,37,503	30.9
<b>Total</b>	<b>14,43,57,971.0</b>	<b>100.0</b>

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	9,43,05,306	54.9
Public and Others	7,74,89,489	45.1
<b>Total</b>	<b>17,17,94,794</b>	<b>100.0</b>

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	9,45,65,829	55.5
Public and Others	7,59,08,981	44.5
<b>Total</b>	<b>17,04,74,809</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials (Pre-Issue)

	FY21	FY22	FY23	1HFY23	1HFY24
Interest Income (Rs cr)	622.8	728.6	1,290.6	562.4	913.6
Other Income (Rs cr)	73.5	114.3	155.7	52.5	133.7
PAT (Rs cr)	7.1	47.4	163.9	12.5	205.3
Market Cap (Rs cr)	3,322.4	3,880.0	4,079.8	4,079.8	4,079.8
EPS (Rs)	0.6	3.6	11.7	0.9*	14.6*
PE (x)**	471.0	81.9	24.9	327.3*	19.9*
P/BV (x)***	3.7	2.9	2.5	2.8	2.2
RoA (%)	0.2	1.0	2.3	0.2*	2.2*
RoE (%)	0.8	4.3	11.1	0.9*	11.8*

\* Not Annualized

\*\* PE (x) is calculated on upper price band

\*\*\* P/BV (x) is calculated on upper price band

Source: RHP, SSL Research

## Risk Factors

- The microfinance industry in India faces certain risks due to the category of customers that it services. As a result, the company may experience increased levels of non-performing assets and related provisions and write-offs that may adversely affect business, financial condition, and results of operations.
- The business is vulnerable to interest rate risk, and volatility in interest rates could have an adverse effect on net interest income and net interest margin thereby affecting the results of operations.
- The Directorate of Enforcement, Ministry of Finance, Government of India (ED) has issued a summoning to the Managing Director directing him to provide certain information in relation to himself and the company. There is no assurance that the ED will not take any action against the company or Managing Director which may adversely impact business and operations, financial condition and reputation.
- The company is subject to certain conditions under financing arrangements which could restrict its ability to conduct its business and operations in the manner desired.

## Growth Strategy

- Expanding geographical footprint and sourcing platform across India.
- The company will continue to enhance information technology with a focus on customer service, operational efficiency, and cost optimization.
- The company will leverage its existing branch network to expand its customer base and gross loan portfolio.
- The company will diversify sources of funds to reduce the risk.

## Asset Under Management

Particulars (Rs cr)	FY21	FY22	FY23	1HFY23	1HFY24
AUM (Rs cr)	4,986.7	6,254.9	9,208.3	7,449.5	10,867.1
AUM Growth (%)	3.1	25.4	47.2	55.5	45.9
Disbursement (Rs cr)	2,636.8	4,647.0	8,104.5	3,486.5	5,181.6
Disbursement Growth (%)	(35.42)	76.2	74.4	171.9	48.6

Source: RHP, SSL Research

## Asset Quality

Particulars	FY21	FY22	FY23	1HFY23	1HFY24
GNPA (%)	7.4	6.3	3.0	3.3	2.4
NNPA (%)	1.4	1.6	0.6	0.9	0.3
PCR (%)	81.3	76.7	80.3	73.7	86.4

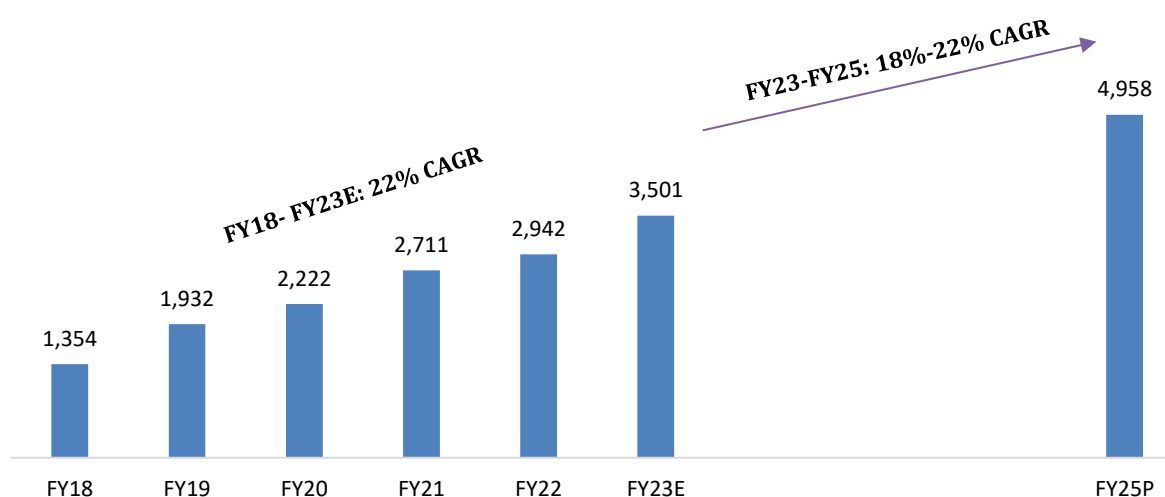
Source: RHP, SSL Research

## Industry Overview

### Rising penetration to support the continued growth of the industry

The microfinance industry had clocked a CAGR of 21% between FY18-23. With economic revival and unmet demand in rural regions, the overall portfolio size is expected to reach Rs 4,958 bn by the end of FY25P. The microfinance sector in India is regulated by the RBI. The RBI's new regulatory regime for microfinance loans effective Apr'22 has done away with the interest rate cap applicable on loans given by NBFC-MFIs, and also supports growth by enabling players to calibrate pricing in line with customer risk.

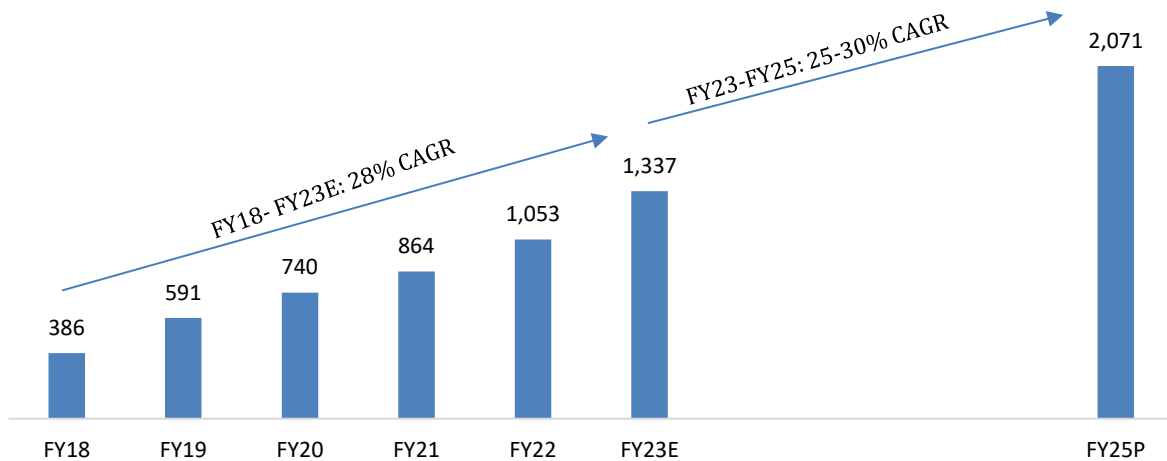
### MFI industry GLP (bn)



Source: RHP, SSL Research

**GLP of the NBFC-MFI industry to grow faster than the industry**

The MFI industry is expected to log an 18-22% CAGR during FY23-25P. During the period, NBFC-MFIs are expected to grow at a much faster rate of 25-30% compared with the MFI industry. Key drivers behind the superior growth outlook include increasing penetration into the hinterland and expansion into newer states, faster growth in the rural segment, expansion in average ticket size, and support systems like credit bureaus. The presence of self-regulatory organizations like MFIN and Sa-Dhan is also expected to support the sustainable growth of the industry going forward.

**GLP of NBFC-MFI industry (bn)**

Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT					
(Rs cr)	FY21	FY22	FY23	1HFY23	1HFY24
Interest Income	622.8	728.6	1,290.6	562.4	913.6
Interest & Other Financial Charges	299.3	340.2	549.0	226.1	415.3
<b>Net Interest Income</b>	<b>323.5</b>	<b>388.5</b>	<b>741.6</b>	<b>336.3</b>	<b>498.3</b>
Other Income	73	114.3	155.7	52.5	133.7
<b>Total Income</b>	<b>397.0</b>	<b>502.8</b>	<b>897.3</b>	<b>388.9</b>	<b>631.9</b>
<b>Operating Expenditures</b>	<b>387.9</b>	<b>438.1</b>	<b>684.5</b>	<b>208.8</b>	<b>294.6</b>
Employee Exps.	187.1	237.1	322.6	147.2	209.6
Other Exps.	200.8	201.0	361.9	61.6	85.0
<b>Operation Profit Before Provision</b>	<b>9.1</b>	<b>64.7</b>	<b>212.9</b>	<b>180.1</b>	<b>337.4</b>
Provisions Excluding Tax				163.3	62.7
<b>Operating Profit After Provision</b>	<b>9.1</b>	<b>64.7</b>	<b>212.9</b>	<b>16.8</b>	<b>274.6</b>
Exceptional Items					
<b>Profit Before Tax</b>	<b>9.1</b>	<b>64.7</b>	<b>212.9</b>	<b>16.8</b>	<b>274.6</b>
<b>Provision for Tax</b>	<b>2.0</b>	<b>17.3</b>	<b>49.0</b>	<b>4.3</b>	<b>69.4</b>
<b>Profit After Tax</b>	<b>7.1</b>	<b>47.4</b>	<b>163.9</b>	<b>12.5</b>	<b>205.3</b>

BALANCE SHEET					
(Rs cr)	FY21	FY22	FY23	1HFY23	1HFY24
<b>Particulars</b>					
<b>Shareholder's fund</b>	<b>889.9</b>	<b>1,336.6</b>	<b>1,625.8</b>	<b>1,446.6</b>	<b>1,842.1</b>
Share capital	114.2	133.3	140.2	140.2	140.2
Reserves and surplus	775.7	1,203.2	1,485.7	1,306.4	1,701.9
<b>Non-current liabilities</b>	<b>3,294.0</b>	<b>4,254.9</b>	<b>6,903.4</b>	<b>5,572.5</b>	<b>8,189.2</b>
Debt securities	477.4	699.6	1,370.2	1,095.9	1,435.6
Borrowings	2,538.2	3,297.0	5,123.0	4,134.9	6,310.5
Subordinate Liability	24.9	24.9		-	-
Other Liability and Provision	253.4	233.4	410.2	341.8	443.1
<b>Total Equity and Liabilities</b>	<b>4,183.8</b>	<b>5,591.5</b>	<b>8,529.2</b>	<b>7,019.1</b>	<b>10,031.3</b>
<b>Assets</b>					
<b>Non-current assets</b>					
Cash and cash equivalents	519.1	705.8	759.5	651.1	557.9
Bank balances other than cash and cash equivalents	225.9	294.1	391.0	362.5	494.2
Investments	0.0	0.0	63.4	276.7	51.4
Advances	3,294.0	4,398.1	7,026.7	5,446.6	8,549.9
Fixed Assets	113.5	128.8	195.9	159.2	229.1
Other Assets	31.3	64.5	92.8	123.0	148.8
<b>Total assets</b>	<b>4,183.8</b>	<b>5,591.5</b>	<b>8,529.2</b>	<b>7,019.1</b>	<b>10,031.3</b>

Source: RHP, SSL Research

Key Financials and Valuation Ratios (Post-Issue)				
	FY22	FY23	1HFY24	1HFY24
			Lower	Upper
CMP (Rs)	291.0	291.0	277.0	291.0
EPS (Rs)	3.6	11.7	23.9	24.1
Market Cap (Rs cr)	3,880.0	4,079.8	4,758.7	4,960.8
BV per share (Rs)	90.2	106.0	151.5	152.6
PE(x)	81.9	24.9	11.6*	12.1*
P/BV (x)**	3.2	2.7	1.8*	1.9*
NIM (%)	9.5	12.2	12.0	12.0
ROA (%)	1.0	2.3	4.4*	4.4*
Cost of fund (%)	9.6	10.4	11.7*	11.7*
Yield on Assets (%)	17.7	21.2	22.0*	22.0*
Cost to Income Ratio (%)	87.1	76.3	46.6	46.6
RoE (%)	4.3	11.1	23.7*	23.7*
GNPA (%)	6.3	3.0	2.4	2.4
NNPA (%)	1.6	0.6	0.3	0.3
PCR (%)	76.7	80.3	86.4	86.4

*\*Annualized*

*\*\* P/BV is calculated at the upper band on post-issue capital based on net worth data as of 1HFY24.*

*Source: RHP, SSL Research*

## Peer Comparison

	Muthoot Microfin Limited		Equitas Small Finance Bank Limited	Ujjivan Small Finance Bank Limited	Credit Access Grameen Limited	Spandana Sphoorty Financial Limited	Suryoday Small Finance Bank Limited	Fusion Micro Finance Limited
	Lower	Upper						
<b>CMP (Rs)</b>	277.0	291.0	103	59.8	1758.5	1035.0	163.3	561.2
Market. Cap (Rs Cr)	4,758.7	4,960.8	11646.6	11698.3	27986.5	7360.3	1734.1	5669.4
P/BV (x)	1.8*	1.9*	2.1	2.6	4.8	2.2	1.0	2.2
P / E (x)	11.6*	12.1*	15.6	9.3	23.6	17.5	10.8	12.3
AUM (Rs bn)	108.6	108.6	278.6	240.9	210.3	79.8	61.1	93.0
NIM (%)	12.0*	12.0*	8.2	9.5	11.5	9.5	8.3	11.5
ROA (%)	4.4*	4.4*	1.9	3.9	4.5	0.2	0.9	4.6
NNPA %	0.3	0.3	1.1	0.0	0.4	0.6	1.6	0.9

\* Annualized

The data is based on FY23 financial data.

For Muthoot Microfin Limited, P/BV (x) is calculated on post-issue equity share capital based on net worth data as of 1HFY24 data. CMP as of 13th December'23.

Source: RHP, SSL Research

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