Muthoot Microfin Ltd.

IPO Meet Note

Price Band	Recommend
Rs. 277-291	SUBSCRIBE

Issue Size & Market Cap	
Type of Issue	**Rs. Bn**
Fresh Issue	7.6
Offer for Sale	2.0
Total Issue Size	**9.6**
Post-Issue Market cap*	**49.6**

***At Upper Price Band**

Issue Break-Up	
	Shares in Mn
Fresh Issue	26.1
Offer for Sale	6.9
Total Issue	**33.0**
Employee Resv.	0.3
Net Issue	**32.6**
Reservation for	**% of Offer**
QIB	50%
NII (HNI)	15%
Retail	35%

***At Upper Price Band**

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	18th Dec, 2023
Bid/Offer Closing Date	20th Dec, 2023
Listing Date	26th Dec, 2023

Use of Net Proceeds

Augmenting the capital base of the Company

General Information	
BRLMs	ICICI Securities Ltd, Axis Capital Ltd, JM Financial Ltd, SBI Capital Markets Ltd
Registrar	KFin Technologies Ltd

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Rural focused Micro-loans player...Subscribe

Business Overview:

⇒ **Muthoot Microfin Ltd (MML)** is a microfinance institution providing **micro-loans** to **women customers** (primarily for **income generation purposes**) with a **focus on rural regions of India**. MML's business model helps in driving financial inclusion, as it serves customers who belong to **low-income groups**.

⇒ In terms of gross loan portfolio, MML is the **5th largest NBFC-MFI in India, 3rd largest amongst NBFC-MFIs in South India and the largest in Kerala** in terms of MFI market share, and a **key player in Tamil Nadu** with an almost 16% market share, as of Mar-23. As of Sep-23, gross loan portfolio amounted to Rs. 108.7bn. As of Sep-23, it has **3.19mn active customers**, who are serviced by 12,297 employees across 1,340 branches in 339 districts in 18 states and UTs in India.

⇒ MML is part of the Muthoot Pappachan Group. The group has a history of over 50 years in the financial services business. MML is the 2nd largest company under the group in terms of AUM for FY23. Relationship with the Muthoot Pappachan Group provides brand recall, significant marketing and operational benefits and significant synergies. Post-issue, Muthoot Fincorp Ltd along with marquee investors Greater Pacific Capital WIV Ltd (since 2021) and Creation Investments India LLC (since 2016) will hold 50.2%/15.1%/7.6% of the equity share capital in MML respectively.

⇒ MML wide range of lending products are aimed at catering to the life-cycle needs of rural households. Loan products comprise of **(1) group loans for livelihood solutions** such as income generating loans, Pragathi loans (which are interim loans made to existing customers for working capital and income generating activities), individual loans and Suvidha loans (which are digital loans accessible through the Mahila Mitra application and made to existing customers to enable quick access to funds) **(2) life betterment solutions** including mobile phones loans, solar lighting product loans and household appliances product loans **(3) health and hygiene loans** such as sanitation improvement loans **(4) secured loans** in the form of gold loans and Muthoot Small & Growing Business ("MSGB") loans.

⇒ As of Sep-23, the **gross loan portfolio of income generating loans amounted to Rs. 102.1bn, representing 94% of total gross loan portfolio.**

⇒ To improve underwriting capabilities using technology, it has **developed a unique credit score card along with Equifax** to evaluate the creditworthiness of customers. Further, to expand digital collections infrastructure, MML launched a proprietary app, called "**Mahila Mitra**", in 2021, which facilitates digital payment methods. For the 6m ended Sep-23, 25.5% of repayments were collected on a digital basis. As of Sep-23, 1.5mn customers have downloaded the Mahila Mitra application, and 2.5mn customers have transacted digitally. MML is in the process of developing a Super App along with the Muthoot Pappachan Group to maximize cross-selling opportunities.

⇒ In addition, MML since Dec-21, offers digital healthcare facilities to customers through "e-clinics". It collaborated with M-Swasth Solutions Pvt Ltd, a technology driven digital healthcare service provider, to set up these e-clinics across branches. As of Sep-23, it has set up 460 e-clinics, representing 34.3% of total branches. Also 14.4% of customers have enrolled in e-clinics, and MML have facilitated 98,844 medical consultations and 65,878 teleconsultations.

⇒ Further, since May-20, MML has also provided natural calamity insurance to customers. As of Sep-23, 23.2% of clients are provided with natural calamity insurance.

Valuation and Views: At the upper price band on post issue basis, Muthoot Microfin Limited is valued at 1.9x P/B on TTM basis. The issue is attractively priced (discount of 39% when compared to peers set average). We have a "Subscribe" rating to the issue owing to (1) Strong Brand recall and synergies with Muthoot Pappachan Group; (2) Pan-India presence with emphasis on under-served rural markets; (3) Robust Risk Management framework & effective use of technology for streamlining operations; (4) Access to diversified sources of capital and (5) Experienced and Professional Management.

Shareholding Pattern, Selling Shareholders, Issue Breakup

Shareholding Pattern	Pre Issue		Offer		Post Issue	
	# of shares (in Mn)	%	Type	# of shares (in Mn)	# of shares (in Mn)	%
Promoter & Promoter Group	99.7	69.1%	Fresh Issue + OFS	-5.2	94.6	55.5%
Public	41.2	28.5%		31.3	72.5	42.5%
Employee Trust	3.5	2.4%		0.0	3.5	2.0%
Total	**144.4**	**100.0%**			**170.5**	**100.0%**

Selling Shareholders	Type	# of Shares (in Mn)	OFS* (in Mn)
Thomas John Muthoot	Promoter	0.6	164
Thomas Muthoot	Promoter	0.6	164
Thomas George Muthoot	Promoter	0.6	164
Preethi John Muthoot	Promoter	1.2	337
Remmy Thomas	Promoter	1.1	334
Nina George	Promoter	1.2	338
Greater Pacific Capital WIV Ltd	Public	1.7	500
Total		**6.9**	**2,000**

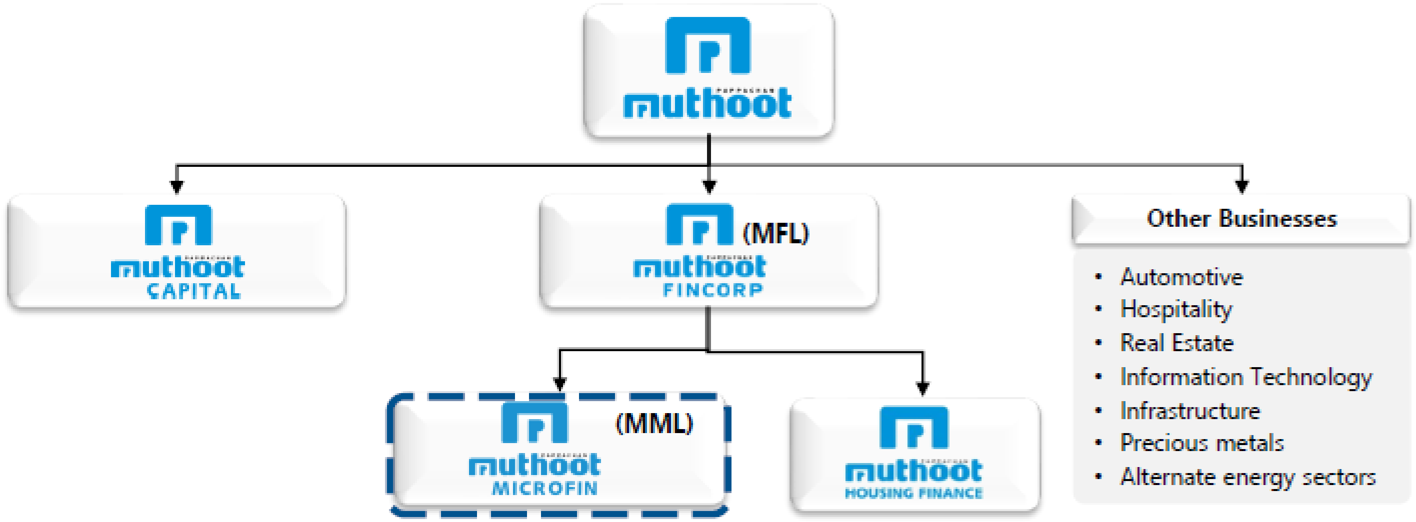
**At upper price band*

Issue Breakup	No of shares		Rs Mn	
	Floor	Cap	Floor	Cap
Fresh Issue	27,436,823	26,116,838	7,600	7,600
Offer for Sale (OFS)	7,220,217	6,872,852	2,000	2,000
Total Offer	**34,657,040**	**32,989,691**	**9,600**	**9,600**
Employee Reservation Portion	361,011	343,643	100	100
Net Offer	**34,296,029**	**32,646,048**	**9,500**	**9,500**
QIB Portion (50% of Offer)	**17,148,014**	**16,323,024**	**4,750**	**4,750**
Total Anchor portion (60% of QIB)	10,288,809	9,793,814	2,850	2,850
Net QIB (40% of QIB)	6,859,206	6,529,210	1,900	1,900
QIB Portion reserved for MF (5% of Net QIB)	342,960	326,460	95	95
Balance Available for all QIB (95% of Net QIB)	6,516,245	6,202,749	1,805	1,805
Non Institutional portion (15% of Offer)	**5,144,404**	**4,896,907**	**1,425**	**1,425**
Retail portion (35% of Offer)	**12,003,610**	**5,713,058**	**3,325**	**1,663**

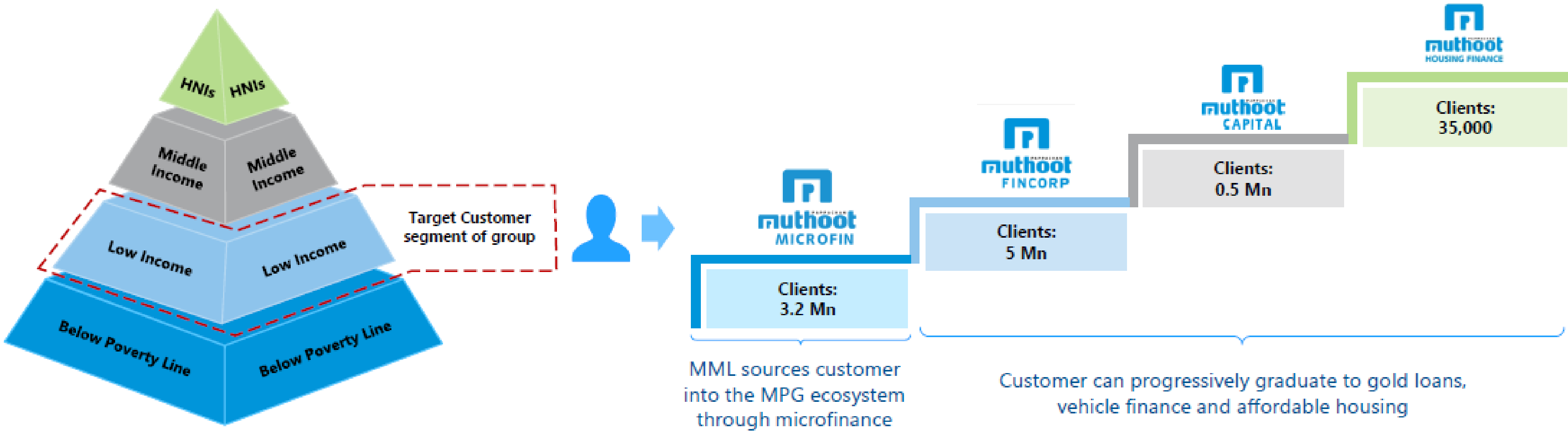
Source: RHP

MPG Group & the Target Customer

Muthoot Pappachan Group (MPG) is a Well Diversified Business Conglomerate



MPG's Stronghold is the bottom of the pyramid underserved customers



Source: RHP

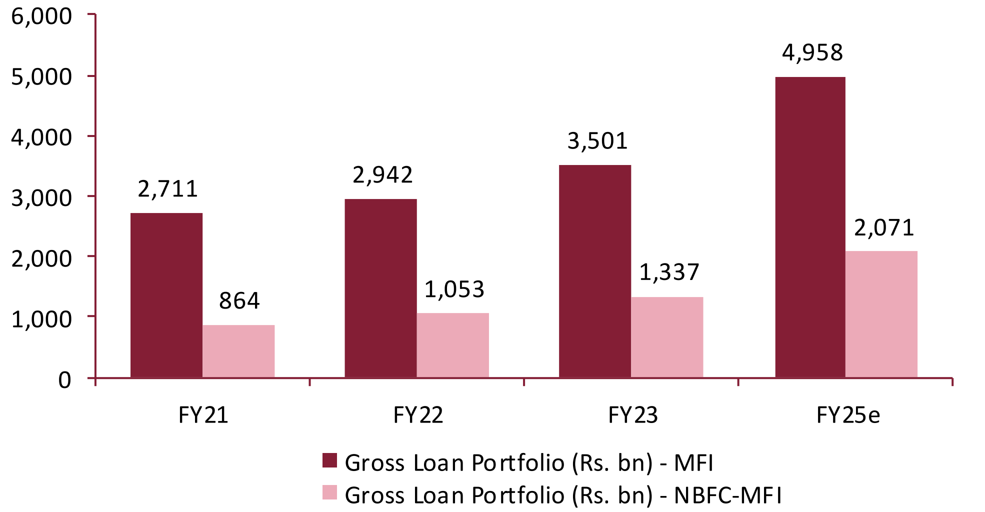
MML Product Portfolio

Product name	Purpose	Ticket Size	Annual Effective Interest Rate	Tenor	Repayment	% in FY23 GLP
Livelihood Solutions						
Income Generating Loans	For women in rural areas to provide capital for small businesses	Max of ₹80,000	23.90% – 24.95%	1-3 years	Weekly, fortnightly, monthly	95.05%
Pragathi Loans	To existing customers for working capital and income generation	Max of ₹30,000	23.90% – 24.95%	1-3 years	Weekly, fortnightly, monthly	1.34%
Individual Loans	To existing customers (at least since 2 years)	Max of ₹300,000	22.00% – 24.00%	2-3 years	Monthly	0.12%
Life Betterment Solutions						
Education Loans	Education	Max of ₹30,000	21.05%	2 years		0.66%
Household Appliances Product Loans	Asset financing	₹2,274 to ₹6,785	25.00%			0.29%
Solar Lighting Product Loans	Asset financing	₹2,325 to ₹4,630	25.00%	3, 6, or 8 months	Weekly, Monthly	0.08%
Mobile Phones Loans	Asset financing	₹11,973 to ₹14,551	25.00%	12 months		0.06%
Health and Hygiene Loans						
Sanitation Improvement Loans	To existing customers to renovate existing toilets or improve toilet facilities	₹15,000 to ₹40,000	25.00%	12, 24, 36 months	Weekly, fortnightly, monthly	0.95%
Secured Loans						
Muthoot Small and Growing Business (MSGB)	To existing customers to grow their business	₹30,000 to ₹150,000	24.00%	1-3 years	Weekly, Monthly	0.31%
+ Add-on Corporate	Additional corporate loans also provided to select few MSGB customers		14.00% – 17.00%			
Gold Loans	In collaboration with Muthoot Fincorp through several schemes:					0.15%
- Scheme I, II, III	For existing customers	Depends upon quantity pledged; LTV of 70% – 75%	15.00% – 23.00%	6 months	Monthly	
- Open Market	For new customers		21.50% – 23.00%			
Partner Institution Portfolio						
Micro Enterprise Loans	Partnership arrangement under the Prayaas loan scheme		14.50%	1-3 years	Weekly, monthly	1.00%

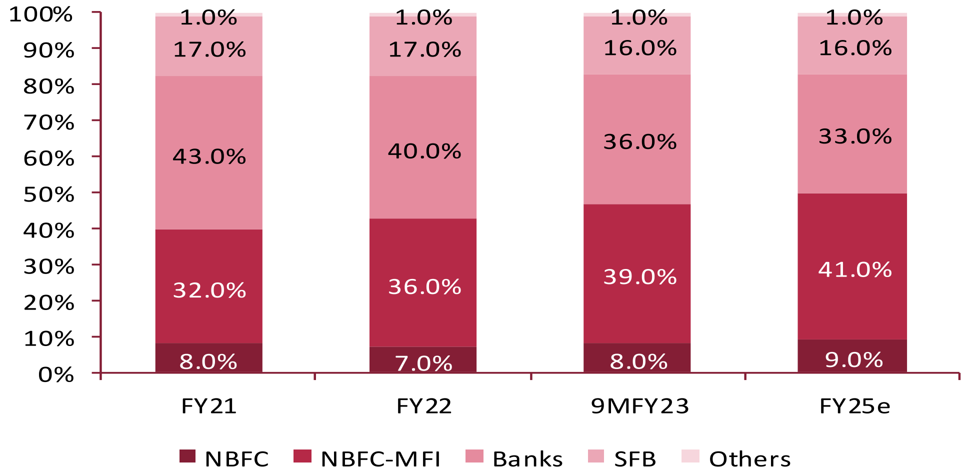
Source: RHP

Industry

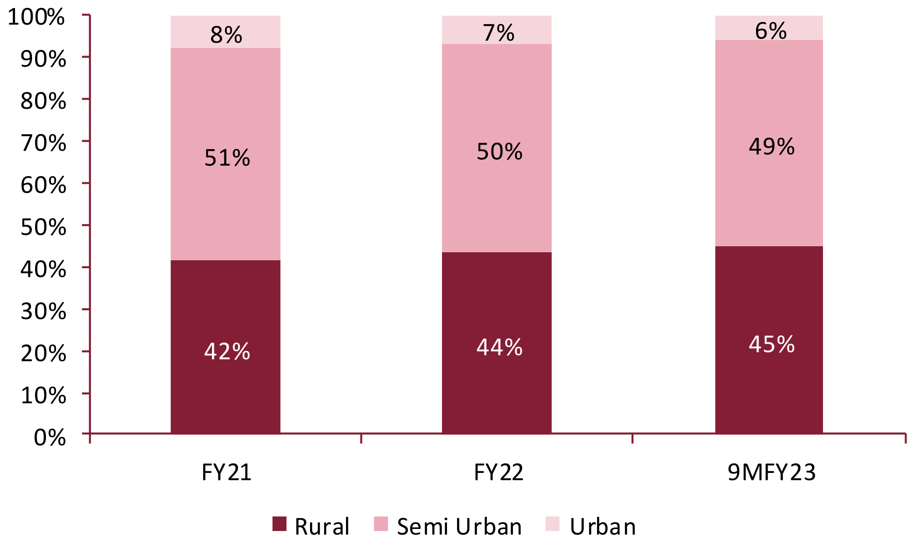
GLP of MFI (CAGR 19% FY23-25e) vs NBFC-MFI (CAGR 24% FY23-25e)



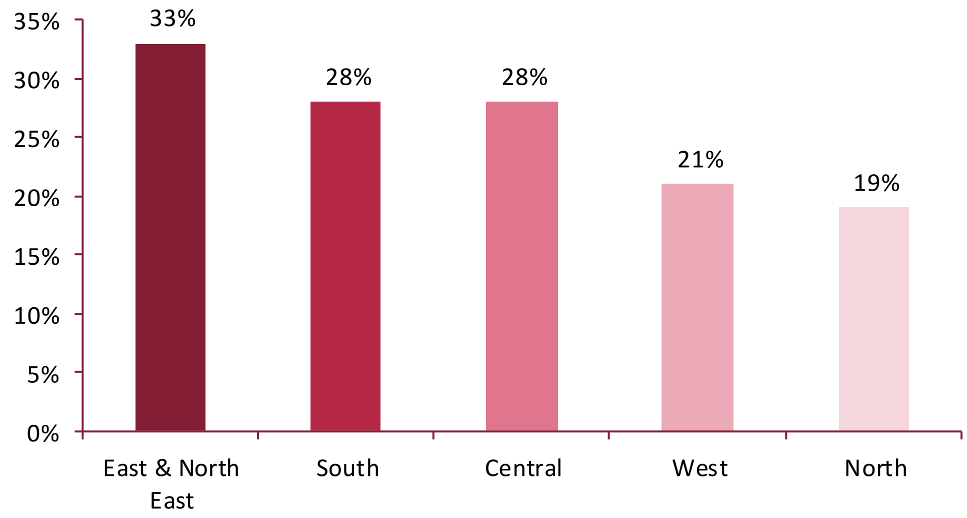
NBFC-MFI Share to increase to 41% by FY25e



Rural accounts for 45% of the NBFC-MFI industry in 9mFY23



North & West have lower penetration in 9mFY23



Source: RHP

Strengths

Market leadership with a pan-India presence

⇒ As of Sep-23, MML gross loan portfolio in top 3 states, namely Kerala, Karnataka and Tamil Nadu, together accounted for 51.36% of total gross loan portfolio. Over the past five years, it has expanded operations in North, East and West India, which has allowed to diversify customer base and gross loan portfolio and increase revenue from operations.

⇒ MML derives numerous benefits from leadership position, including ability to secure capital at competitive costs, recruit and retain skilled employees, retain existing customers, add new customers, expand into new regions and grow portfolio of products from time to time.

⇒ MML has a resilient business model that has allowed the company to continue to grow business despite the demonetization in 2016, the Kerala floods in 2018 and 2019, the cyclone in Tamil Nadu in 2018 and the COVID-19 pandemic. Also, its distribution platform ensures ease of access to village level customers and rural households and the platform has the capability to offer a variety of financial products in areas where financial services penetration is limited. Further, the low-income customer segment which MML serves requires an assisted and curated technology-enabled financial services offering.

Rural focused operations, with a commitment towards health and social welfare of customers

⇒ MML has a history of serving rural markets with high growth potential in the microfinance segment, and has maintained a track record of financial performance and operational efficiency through consistently high rates of customer acquisition and retention and expansion into underpenetrated areas. Its connection with rural customers has been largely driven by focus on continuously improving its understanding of the financial needs of the rural customer segment and commitment to consistent engagement with the communities. Further, its digital capabilities, which facilitate online onboarding, paperless loan processing, seamless cashless disbursements, cashless collections, timely query resolution and access to online financial literacy resources, among other things, have allowed MML to deliver superior customer services.

⇒ In addition, with the aim to cater to the healthcare needs and priorities of customers, since Dec-21, MML offered digital healthcare facilities to customers through "e-clinics". In addition, MML acts as a master policy holder for credit linked life insurance policies for customers, to protect them from financial risks arising from death of income earners within the household. Further, to protect customers from the risks of natural calamities, since May-20, MML provided natural calamity insurance to customers.

Brand recall and synergies with the Muthoot Pappachan Group

⇒ MML is part of the Muthoot Pappachan Group (MPG), a business conglomerate with presence across financial services, automotive, real estate, healthcare, information technology, precious metals and alternate energy sectors. Several companies forming part of the MPG are in the financial services sector including microfinance, gold finance, two-wheeler finance and housing finance. The financial services companies within the MPG together service 8.7mn unique customers, as of Sep-23.

⇒ MML leverage cross-selling opportunities to offer diverse products to meet multiple needs of target customers. It is in the process of developing a Super App along with the MPG, which allow customers to access all the Group's loan offerings on a single platform, thereby maximizing cross-selling opportunities.

⇒ Other than financial services, MML have synergies with the operations of MFL. It uses MFL's branches and expertise in specific areas of operations including cash management, gold assessment and storage. In addition, in collaboration with Muthoot Exim Private Limited, MML offers Swarnavarsham gold coins. Through this, MML offers customers one gram of gold at market value with a payment tenure of 37 weeks or 9 months or 18 fortnights. As of Sep-23, 0.25mn customers have participated in Swarnavarsham gold coins investment scheme, with 54,315 of customers participating during the 6m ended Sep-23 alone.

Source: RHP

Strengths

Robust risk management framework leading to healthy portfolio quality

⇒ MML has implemented well-defined key risk management policies which primarily focus on addressing credit risk, operational risk and financial risk.

⇒ Credit Risk: MML seeks to ensure effective appraisal, disbursement, collection and delinquency management resulting from streamlined approval and administrative procedures. MML uses technology across business processes, including sourcing, underwriting, disbursement and collection, in order to ensure accuracy and authenticity of information. It also uses technology and automation to establish creditworthiness and repayment behavior of customers by analyzing their credit bureau reports, cash flows, continued process verification reports and unique credit score card which it has developed along with Equifax, before sanctioning loans. To minimize risk of identity related fraud, MML performs KYC authentications in collaboration with Karza Technologies, a digital onboarding and risk mitigating application programming interface.

⇒ Operational Risk: Before establishing a branch in a new location, MML conducts due diligence and market surveys to understand key details relating to the new location, including, among others, economic activity, target market growth potential and extent of microfinance services already provided. MML has an internal audit and compliance team of 363 employees, as of Sep-23, which audits each branch at least once every two months. It also engages an external audit firm to conduct quarterly internal audits of operations.

⇒ Financial Risk: MML policies ensures that there is no asset liability mismatch, liquidity risk or interest risk. Borrowing committee works under the supervision of Board to ensure that cost of borrowings, interest rates for borrowings and draw-downs on loan facilities are well managed. Investment committee seeks to ensure that treasury operations are optimal. Risk management team, led by chief risk officer, closely monitors the trends and movements of cash in hand at the branch level, in order to timely flag any abnormality in cash holdings to minimize risk of theft, robbery and fraud.

⇒ Robust risk management framework, customer selection methodologies and regular end use and payment monitoring have resulted in healthy portfolio quality indicators such as high collection efficiency, stable PAR and low rates of gross NPAs and net NPAs. Collection efficiency was 98.89% for the 6m ended Sep-23, and gross NPA ratio was 2.37% and net NPA ratio was 0.33%. As of Mar-23, MML had the fifth lowest gross NPA ratio, and as of Sep-23, it had the third lowest net NPA ratio among the selected NBFC-MFIs. As compared to Indian microfinance industry as a whole, MML have a comparatively lower proportion of loans at each month-on-book stage due for the period between Mar-21 and Dec-22, which indicates that loan portfolio is performing better than that of the Indian microfinance industry as a whole.

Streamlined operating model with effective use of technology

⇒ As of Sep-23, MML has 102 members in information technology team, who are responsible for developing and maintaining in-house information technology systems, data security systems, and technological infrastructure and applications.

⇒ Chief technology officer has over 20 years of experience in the information technology space. Key technology related aims include increasing digital penetration, reducing risks associated with cash transactions, improving risk management, and underwriting processes, increasing operational efficiency, improving customer analytics and simplifying sourcing.

⇒ MML has instituted "Serene Pro", integrated loan origination and management system which allows for real-time tracking of collections and loan processing. MML has increased the average number of customers served per loan officer from 408 as of Mar-21 to 426 as of Sep-23.

Access to diversified sources of capital and effective cost of funds

⇒ MML has a well-diversified funding profile that underpins liquidity management system, credit rating and brand equity. MML has historically secured, and seek to continue to secure, cost effective funding through a variety of sources, including public sector banks, private sector banks, small finance banks, foreign banks other non-banking financial institutions, developmental financial institutions and public investors, together with NCDs, pass through certificates, and direct assignment of loans.

Source: RHP

Strengths

⇒ MML maintains a conservative ALM policy recognizing operating metrics. It has aggregate loan provision of 2.05% of total loan portfolio as of Sep-23, which is higher than the regulatory requirements. Capital adequacy ratio of 20.46% of risk-weighted assets as of Sep-23 is well above the requirement of 15% of the aggregate risk-weighted assets prescribed by the RBI. MML has reduced average effective cost of borrowings from 11.08% (FY21) to 10.94% (FY23).

⇒ MML is one of the youngest NFBC-MFI players with a relatively strong credit rating of CRISIL "A+" and has also been graded as "M1C1" in capacity assessment and code of conduct assessment by CRISIL, which is the highest available grading on an eight-point scale for microfinance capacity assessment and the highest available grading on a five point scale for code of conduct assessment.

⇒ As of Sep-23, MML has outstanding debt in principal amount of Rs. 63.1bn from 65 banks, financial and other lending institutions, including securitization and external commercial borrowings and Rs. 14.4bn from 14 NCDs (including market-linked debentures) issuances and one commercial paper. During the 6m ended Sep-23, it received net proceeds of Rs. 10.7bn from direct assignment of 0.33mn loan accounts. As of Sep-23, MML issued NCDs aggregating to Rs. 3bn, and raised ECBs from banks aggregating to Rs. 0.8bn.

Experienced and Professional Management, with Strong Corporate Governance and support from Promoters and Investors

⇒ MML Board, Promoters and Senior Management is composed of experienced professional, industry experts and management professionals. Its Board consists of 10 directors (including 3 directors from the Muthoot Pappachan Group), of which five are independent directors. Senior Management team consists of qualified, seasoned professionals with an average experience of over 16 years across a variety of sectors. Senior Management team comprise a majority of members who have been associated with the Muthoot Pappachan Group for over ten years.

⇒ As of Sep-23, 63.2% of employees have college graduation as their minimum academic qualification.

⇒ Among the top 10 NBFC-MFIs in India, MML is one of the few NBFC-MFIs where the original promoters have continued to retain ownership and control over the business. Further, it is supported by marquee investors, Creation Investments India LLC and Greater Pacific Capital WIV Ltd.

Source: RHP

Strategies

Expand geographical footprint and sourcing platform across India

⇒ As of Dec-22, India's Northern and Western regions had relatively low financial penetration as compared to the pan-India average penetration, indicating the probable growth potential. MML in recent years expanded into North, East and West India and have a total of 707 branches across North, West and East India as of Sep-23, representing 52.8% of total branches. MML expects that a significant portion of future geographic expansion will include rural areas in these regions of India and intend to grow branches in 4 key states: Uttar Pradesh, Bihar, Rajasthan, and Punjab, which are underpenetrated or moderately penetrated states that have potential for growth and customer expansion.

⇒ MML bifurcate geographical spread into two categories: mature states and other states across the rest of India. It has classified 3 states and 1 UT where it had first commenced operations as mature states, which includes Kerala, Tamil Nadu, Puducherry and Karnataka, and has classified 14 states and UTs (excluding mature states) as other states across the rest of India (including North, West and East India).

⇒ In mature states, which is the core markets, MML intends to continue focusing on customer retention, increasing wallet share using technology and offering innovative products which cater to the needs of customers. In other states across the rest of India, which are the potential growth markets, MML intends to open new branches, acquire new customers and selectively expand operations to locations where it expects that customers are underserved, have lower penetration by micro-finance companies, and where there could be an opportunity to service an increased customer base.

⇒ Further, customer origination and servicing efforts strategically focus on building long-term relationships with customers and address specific requirements in a particular region. MML selects new geographies for expansion based on detailed studies and analysis which include field surveys, industry reports comparison including potential for growth, delinquency pattern and concentration of competitors. It generally launches operations in new territories in a phased manner starting with limited branches to understand the market and then seek to expand, based on market response.

⇒ Additionally, MML will also evaluate strategic acquisitions on an opportunistic basis as a means of inorganic growth to expand into new geographies or to increase branch networks in existing geographies. Further, it may also enter into a co-lending partnership arrangement to grow portfolio in potential growth markets.

Continue to Enhance Information Technology with a Focus on Customer Service, Operational Efficiency and Cost Optimization

⇒ MML will continue to invest in technology platform to increase operational efficiencies as well as ensure customer credit quality. IT infrastructure will not only enable to reap the benefits of digitalizing business processes but will also become a key source of incremental business.

⇒ MML is working on implementing mobility-based loan origination systems with electronic know-your-customer checks through Telerios application. Further, to speed up customer acquisition process, it is developing the relevant technological infrastructure to implement electronic Aadhaar based authentication services. In 2023, MML was granted permission by the Government of India to use Aadhar based authentication services.

⇒ To improve risk management by reducing risks associated with cash transactions, it intends to continue to expand and grow digital collections infrastructure. It will continue to use analytics capabilities for finding out customer patterns, developing insights for marketing and sales strategy, and customize products based on customer segments.

⇒ Further, MML is developing a Super App along with the Muthoot Pappachan Group, providing access to a wide customer base and in-depth data about customers. Superior analytics capability and a large customer base also provides with the opportunity to identify avenues for cross-sell and sell additional products to customers eligible for larger loans.

Leverage existing branch network to expand customer base and gross loan portfolio

⇒ Going forward, MML aims to increase gross loan portfolio per branch in these other states across the rest of India, with the endeavor to bring this in line with the gross loan portfolio per branch in the mature states. As of Sep-23, gross loan portfolio per branch for mature states and other states across the rest

Source: RHP

of India (excluding mature states) was Rs. 89.9mn and Rs. 73.2mn, respectively. It aims to achieve this through cross-selling additional loan products to existing customers, acquisition of new customers through existing branches and the increasing loan ticket sizes to low-risk, existing customers.

⇒ As part of growth strategy, MML has commenced the offering of additional financing products such as gold loans, individual loans, bicycles and home appliances to customers who have a positive repayment record. Additional products and cross-selling opportunities also help strengthen relationship with customers and enable higher customer retention.

⇒ Further, MML expects to derive benefits from economies of scale as there is limited incremental sourcing cost for existing customers, and they are eligible to borrow higher loan amounts since they have progressed to higher loan cycles and they have been customers for a number of months or years.

⇒ Additionally, in Mar-22, the RBI has increased the household income limit for microfinance loan eligibility from Rs. 0.2mnpa for semi-urban/urban areas and Rs. 0.13mnpa for rural areas, to Rs. 0.3mnpa for both semi-urban/urban areas and rural areas, which has expanded the total addressable market for NBFC-MFIs. Going forward, MML intends to tap this additional customer base and increase wallet share by targeting eligible customers that we determine to be in very low risk or low risk categories.

⇒ Further, in line with the removal of interest rate cap for NBFCMFIs by RBI in Mar-22 (provided that the interest charged is not be usurious and subject to the supervisory scrutiny by the RBI), MML intends to focus on risk-based pricing in order to improve yields and net interest margin, as the removal of interest rate cap will allow us to price loans according to assessment of the default risk in a particular region or state. We also intend to reduce reliance on net interest margins alone, and shift to a combination of net interest margin and fee-based income.

⇒ MML has entered into a co-lending partnership with a technology platform to tap a wider customer base. Further, MML is acting as a partner institution for the Prayaas loan scheme, a scheme for direct credit to micro enterprises, including existing customers in Kerala and Tamil Nadu, and we earn from a commission for providing such services, which includes the servicing of loans.

Diversifying Sources of Funds

⇒ MML has been able to access cost-effective debt financing and reduce average cost of borrowings over the years due to stable credit history and improving credit ratings, diversification of borrowings and enhancement of the scale of its business.

⇒ MML seeks to raise long term debt through ECBs. Further, it also seeks to utilize off-balance sheet funding such as pass-through certificates and direct assignment of loans.

⇒ As it continues to grow the scale of operations, MML seeks to reduce its dependence on more costly term loans from banks and financial institutions, by issuing NCDs and raising ECBs, to optimize cost of funds and continue to improve credit ratings. A lower average cost of borrowings enables us to competitively price loan products.

⇒ Further, MML will continue to evaluate opportunities to securitize or assign loans to financial institutions, which would enable it to optimize cost of borrowings and liquidity requirements, capital management and asset liability management.

Source: RHP

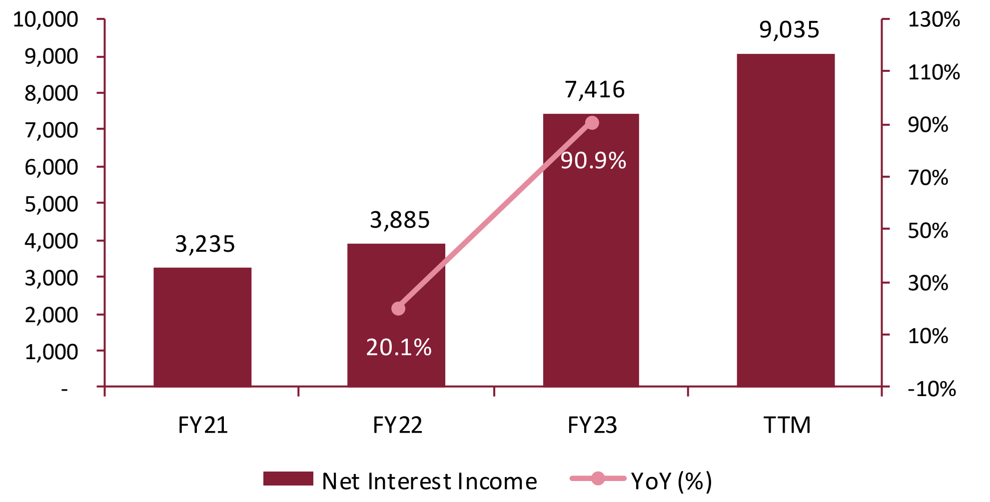
Key Risks

- ⇒ The microfinance industry in India faces certain risks due to the category of customers that it services, which are not generally associated with other forms of lending. As a result, MML may experience increased levels of nonperforming assets and related provisions and write-offs that may adversely affect the business, financial condition and results of operations.
- ⇒ The Directorate of Enforcement, Ministry of Finance, Government of India ("ED") has issued summons to 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 the business and operations, financial condition and reputation. This in relation to cash deposited amounting to Rs. 44mn during the demonetization period.
- ⇒ MML derives a significant portion of revenues from South India, and any adverse developments in the southern states of India may have an adverse effect on business, results of operations, financial condition and cash flows. 52.4% of GLP comes from South India while 47.2% of branches operate in South India as of Sep-23.
- ⇒ A significant portion of MML collections from customers is in cash, exposing them to certain operational risks. Further, they may be subject to regulatory or other proceedings in connection with any unauthorized transactions, fraud or misappropriation by their representatives and employees, which could adversely affect their business and goodwill. As of Sep-23, 74.5% of the total collections are done in cash.
- ⇒ MML face challenges in operating rural-focused business model, including challenges pertaining to the high cost of reaching customers, lack of financial awareness, vulnerability of customers' household income and high proportion of cash collections.

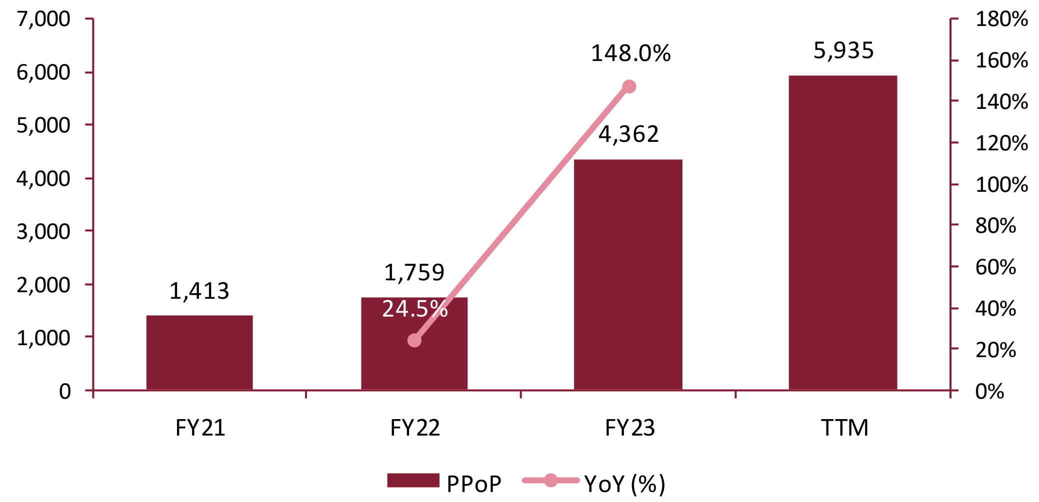
Source: RHP

Muthoot Microfin Ltd. : Financial story in charts

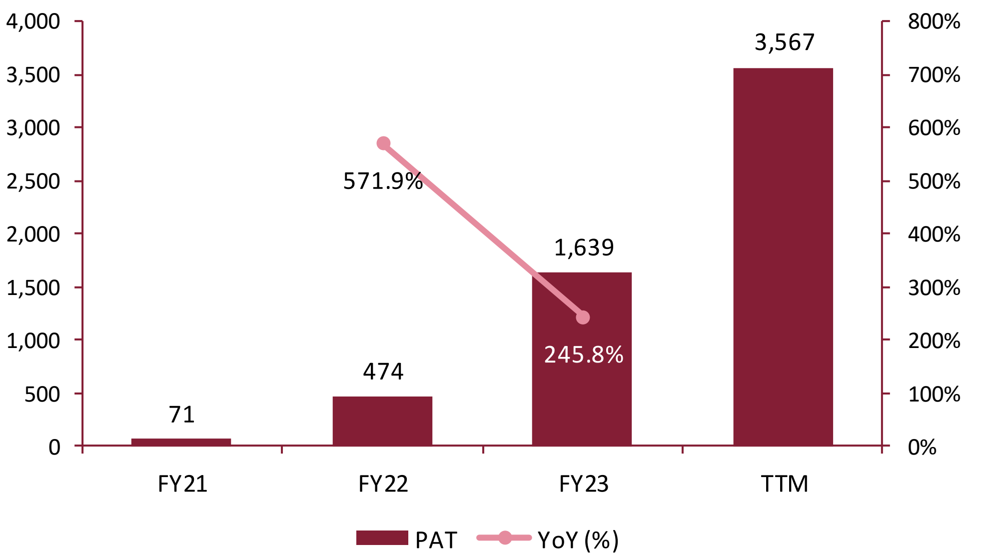
Net Interest Income (Rs. Mn) & YoY trend (%)



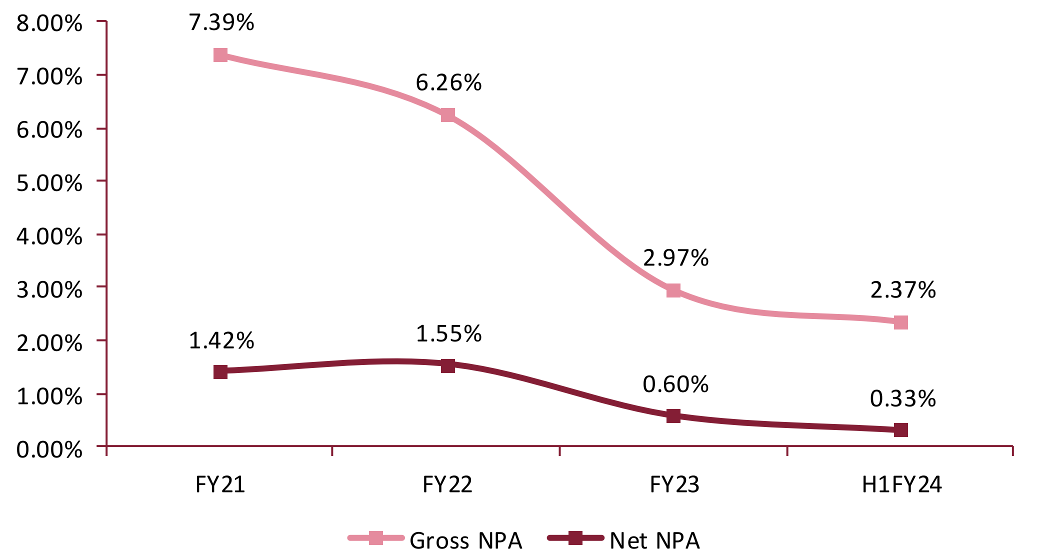
PPoP (Rs. Mn) & YoY trend (%)



PAT (Rs. Mn) & YoY trend (%)



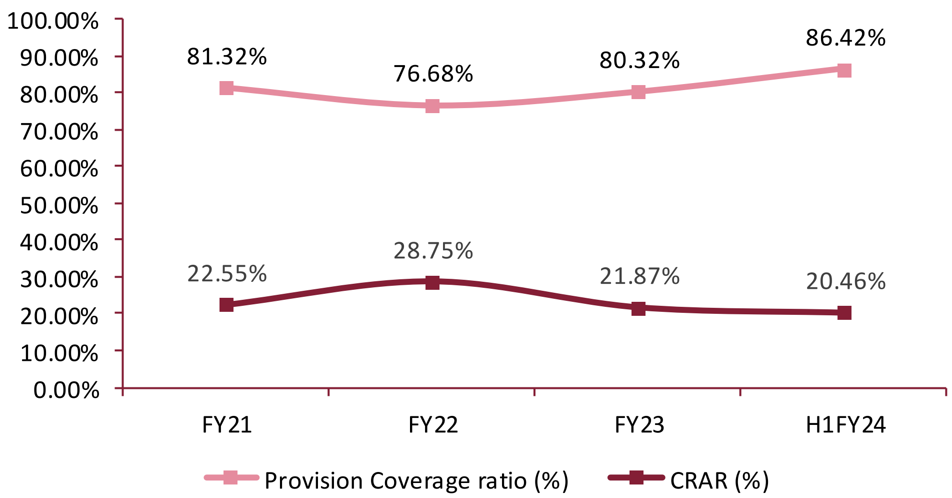
GNPA (%) and Net NNPA (%)



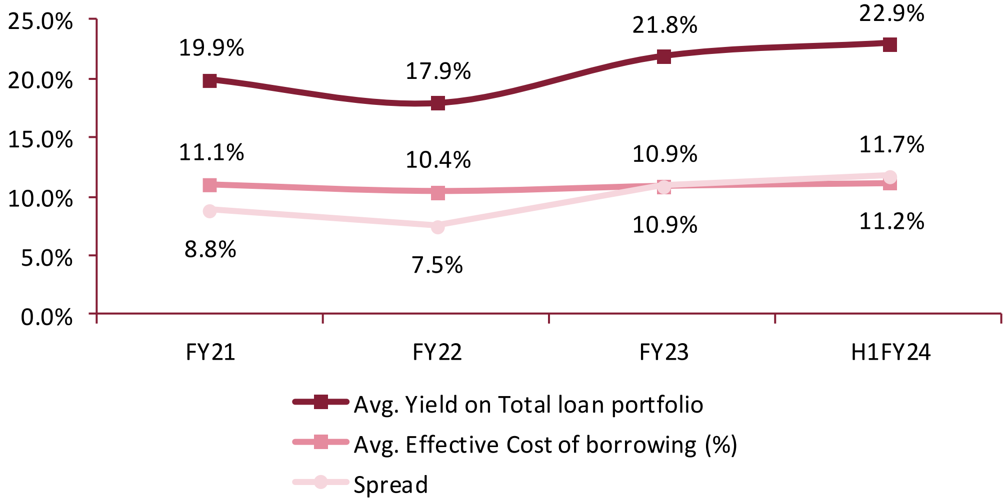
Source: RHP

Muthoot Microfin Ltd. : Financial story in charts

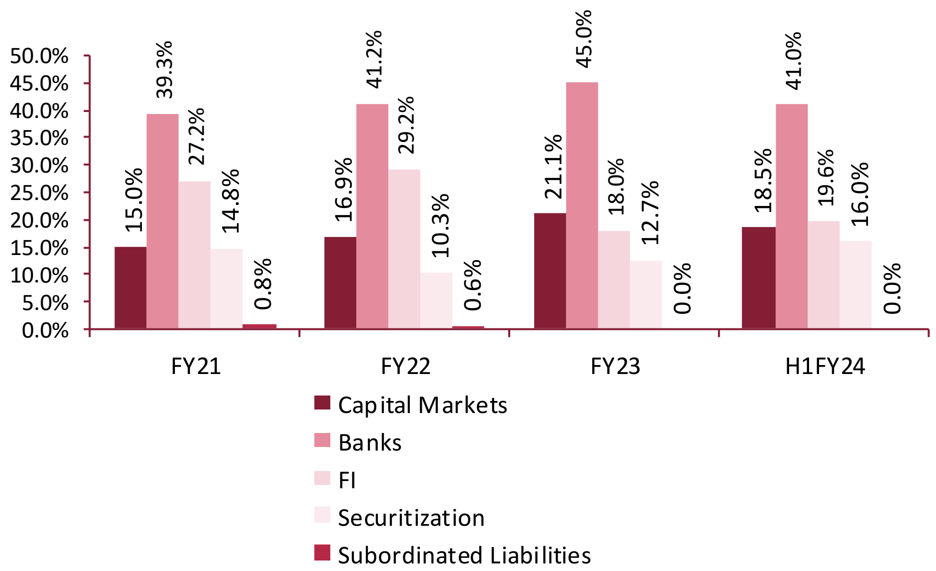
PCR (%) and CAR (%)



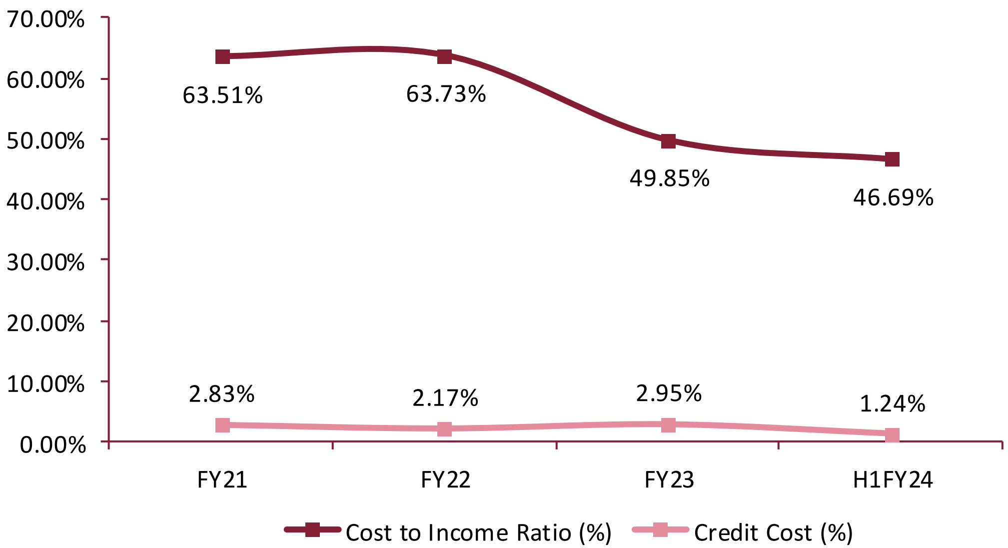
Yield, Cost & Spread (%)



Borrowing Profile (%)



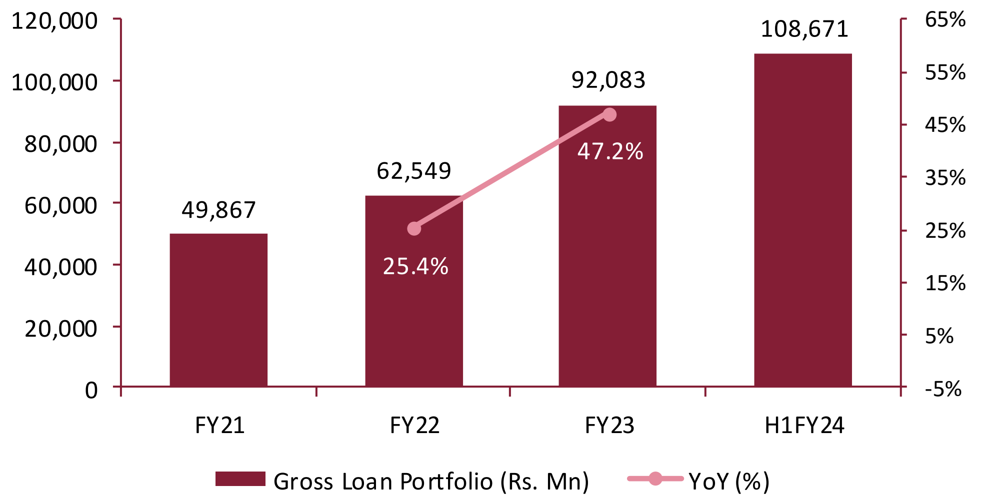
Cost to Income ratio (%) & Credit Cost (%)



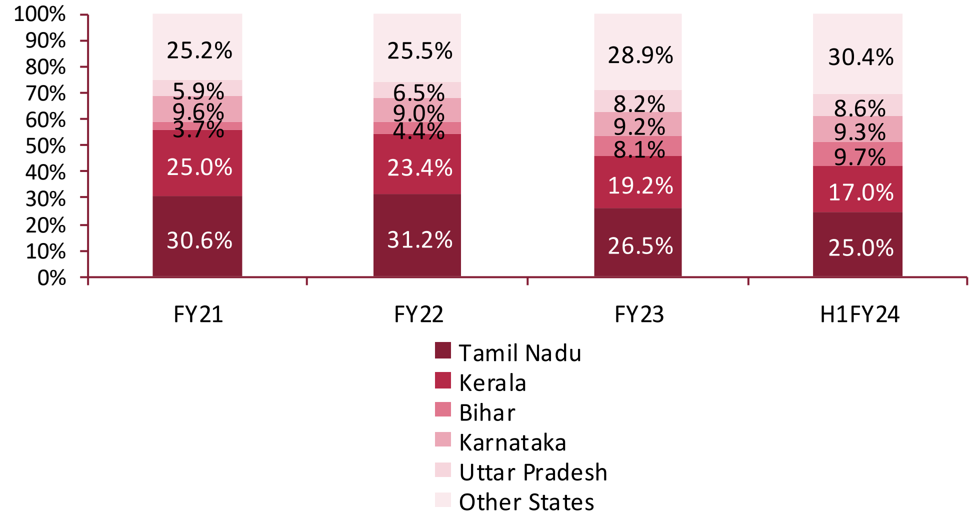
Source: RHP *Note: *Not Annualised*

Muthoot Microfin Ltd. : Financial story in charts

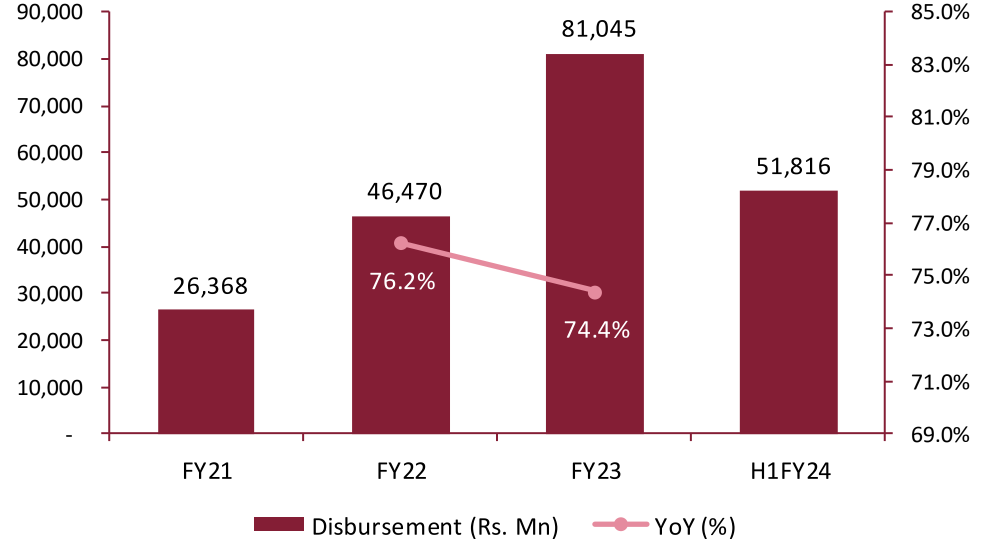
Gross Loan Portfolio (Rs. Mn) and Trend YoY (%)



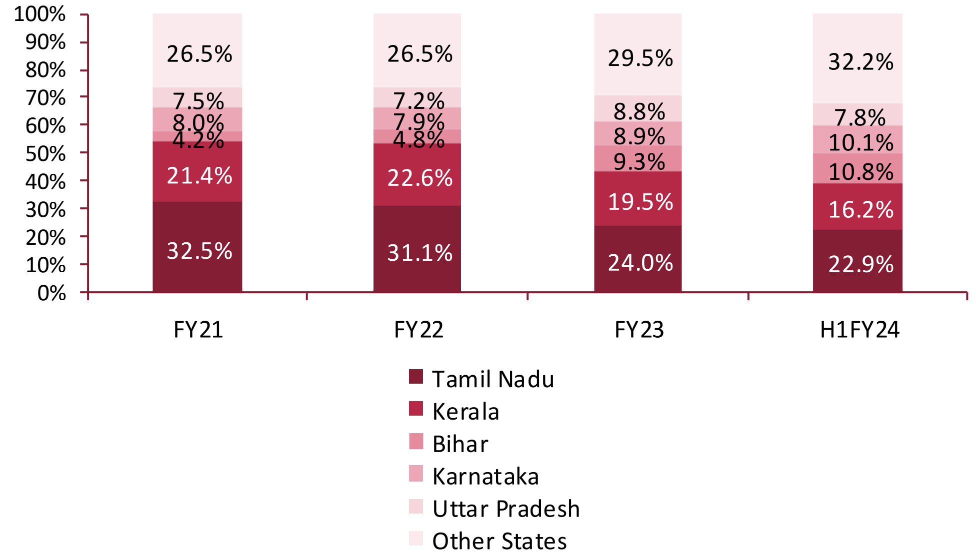
Gross Loan Portfolio (%) by States



Disbursement (Rs. Mn) and Trend YoY (%)



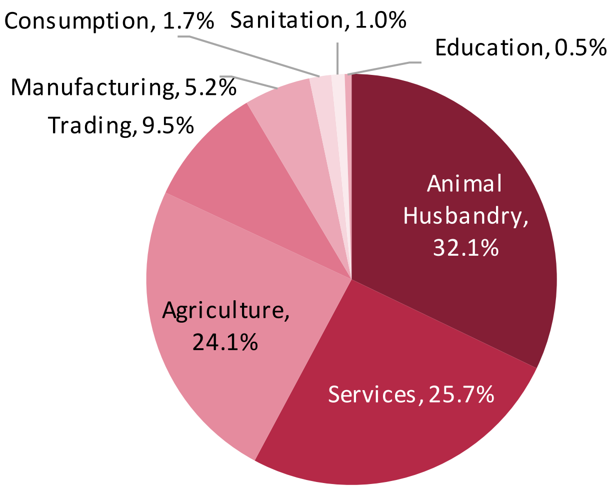
Disbursement (%) by States



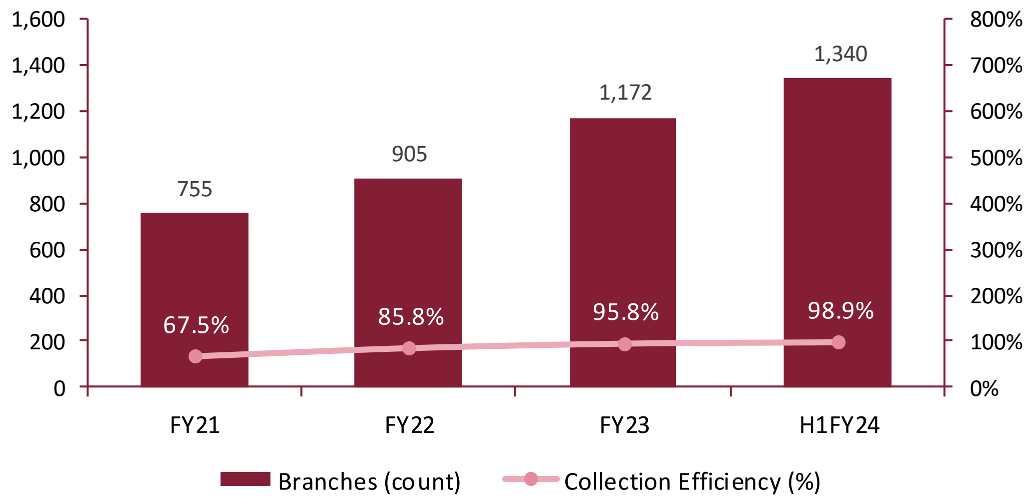
Source: RHP

Muthoot Microfin Ltd. : Financial story in charts

Loans Outstanding based on Economic Activity (%) - (Sep-23)



Branches (Count) & Collection Efficiency (%)



Top-10 NBFC-MFIs	Market share (%)	GLP (FY23) (Rs. Bn)	GLP CAGR FY20-23 (%)	# of Clients (mn)	# of branches	NIM (%)	Opex (%)	PPoP to Avg Assets	Credit Costs	RoE (%)	RoA (%)
CreditAccess Grameen Ltd	15.1%	210.31	29%	4.3	1,786	11.5%	4.5%	8.2%	2.2%	18.3%	4.5%
IIFL Samasta Finance Ltd	7.6%	105.52	46%	2.4	1,267	12.5%	13.1%	2.1%	0.1%	11.0%	1.7%
Asirvad Microfinance Ltd	7.2%	100.41	22%	3.3	1,684	10.8%	6.4%	6.9%	3.2%	16.7%	2.6%
Fusion Micro Finance Ltd	6.7%	92.96	36%	3.5	1,019	11.5%	5.3%	8.6%	2.4%	21.2%	4.7%
Muthoot Microfin Ltd	6.6%	92.08	23%	2.8	1,172	10.5%	6.5%	6.2%	3.2%	11.1%	2.3%
Annapurna Finance Pvt Ltd	6.3%	88.14	30%	2.5	1,183	6.9%	6.3%	5.2%	4.6%	3.3%	0.4%
Spandana Sphoorty Financial Ltd	5.7%	79.8	5%	2.1	1,153	9.5%	5.4%	6.5%	6.2%	0.4%	0.2%
Satin Creditcare Network Ltd	5.7%	79.29	3%	2.6	1,078	7.8%	5.9%	9.9%	5.4%	15.0%	3.5%
Svatantra Microfin Pvt Ltd	5.4%	74.99	42%	2.2	804	10.3%	4.8%	8.0%	5.4%	12.9%	2.0%
Belstar Microfinance Ltd	4.4%	61.92	38%	2.1	767	9.6%	5.7%	4.0%	2.7%	13.4%	2.4%

Source: RHP

Peer Performance

Peer Performance				
1H FY24	Muthoot Microfin Ltd	CreditAccess Grameen Ltd	Fusion Micro Finance Ltd	Spandana Sphoorty Financial Ltd
AUM (Rs. Mn)	108,671	224,880	100,260	97,840
AUM growth (%)	45.9%	6.9%	7.9%	22.6%
Disbursement (Rs. Mn)	51,816	97,370	45,570	41,120
CRAR (%)	20.5%	25.0%	28.8%	36.6%
GNPA (%)	2.37%	0.80%	2.70%	1.40%
NNPA (%)	0.33%	0.24%	0.65%	0.42%
PCR (%)	86.4%	70.0%	76.4%	70.0%
NIM (%)	12.4%	3.7%	3.3%	3.4%
Cost-to-Income (%)	46.6%	31.2%	36.4%	38.1%
Credit Cost (%)	1.2%	0.5%	0.8%	1.0%

Valuation				
1H FY24	Muthoot Microfin Ltd	CreditAccess Grameen Ltd	Fusion Micro Finance Ltd	Spandana Sphoorty Financial Ltd
Price (Rs.)	291	1705	595	1068
Market Cap (Rs. Bn)	50	271	60	76
Book Value (Rs.)	153	364	255	473
P/Bx	1.9	4.7	2.3	2.3
NII/Total Assets TTM	8.4%	11.0%	10.8%	9.7%
RoA TTM	3.3%	5.0%	4.4%	3.7%
RoE TTM	13.7%	20.8%	18.0%	12.5%

Note: RoA,RoE,BV,P/Bx,Market Cap are calculated on Post issue basis.

Source: RHP

INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

Note: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

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DISCLOSURE

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