

IPO Note: Muthoot Microfin Ltd.

Industry: Finance

Date: December 15, 2023

Issue Snapshot	
Company Name	Muthoot Microfin Ltd.
Issue Opens	December 18, 2023 to December 20, 2023
Price Band	Rs. 277 to Rs. 291
Bid Lot	51 Equity Shares and in multiples thereof.
The Offer	Public issue of 3,29,89,691 Equity shares of Face value Rs. 10 each, (Comprising of fresh issue of 2,61,16,838 Equity Shares* (Rs. 760 cr.) and Offer for Sale of 68,72,852 Equity Shares* (Rs. 200 cr.) by Selling Shareholder).
Issue Size	Rs. 960 Crore
IPO Process	100% Book Building
Face Value	Rs. 10.00
Exchanges	NSE & BSE
BRLM	ICICI Securities Ltd, Axis Capital Ltd, JM Financial Ltd, SBI Capital Markets Ltd
Registrar	Kfin Technologies Ltd

Issue Break up		
QIB ex Anchor	20%	65,29,210
Anchor Investor	30%	97,93,814
HNI<Rs. 10 Lakhs	5%	16,32,302
HNI>Rs. 10 Lakhs	10%	32,64,605
RII	35%	1,14,26,117
Total Public	100%	3,26,46,048
Employee Reservation		3,43,643
Total		3,29,89,691

Equity Share Pre Issue (Nos. Cr.)	14.4
Fresh Share (Nos. Cr.)	2.6
OFS Share (Nos. Cr.)	0.7
Equity Share Post Issue (Nos. Cr.)	17.0
Market Cap (Rs. Cr.)	4,960.8
Equity Dilution	15.3%
Stake Sale by OFS	4.0%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to ₹163.63 million by Thomas John Muthoot, up to ₹163.84 million by Thomas Muthoot, up to ₹163.61 million by Thomas George Muthoot, up to ₹337.39 million by Preethi John Muthoot, up to ₹333.87 million by Remmy Thomas, up to ₹337.66million by Nina George and up to ₹500.00 million by Greater Pacific Capital WIV Ltd.)

Fresh Issue

- Augmenting its capital base to meet its future capital requirements; and
- General corporate purposes.

Company Highlights

- 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. It is the fifth largest NBFC-MFI in India in terms of gross loan portfolio as of March 31, 2023 (Source: CRISIL Report). The company is also the third 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, as of March 31, 2023 (Source: CRISIL Report).
- As of September 30, 2023, its gross loan portfolio amounted to Rs. 10867.07 cr. As of September 30, 2023, it had 3.19 million active customers, who are serviced by 12,297 employees across 1,340 branches in 339 districts in 18 states and union territories in India. It has built its branch network with an emphasis on under-served rural markets with growth potential, in order to ensure ease of access to customers. MML's branches are connected to its IT networks and are primarily located in commercial spaces which are easily accessible by customers.
- MML 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. The Muthoot Pappachan Group has a history of over 50 years in the financial services business. MML is the second largest company under the Muthoot Pappachan Group, in terms of AUM for the Financial Year 2023. MFL, the flagship company of the Muthoot Pappachan Group, holds 59.29% of the pre-Offer Equity Share capital in the Company, on a fully diluted basis, as of the date of this Red Herring Prospectus. Its relationship with the Muthoot Pappachan Group provides it with brand recall and significant marketing and operational benefits. Further, there are significant synergies between the financial services business of the group and MML's micro-finance business

- MML's wide range of lending products are aimed at catering to the life-cycle needs of rural households. MML primarily provides loans for income generating purposes to women customers living in rural areas. Its loan products comprise (i) 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); (ii) life betterment solutions including mobile phones loans, solar lighting product loans and household appliances product loans; (iii) health and hygiene loans such as sanitation improvement loans; and (iv) secured loans in the form of gold loans and its Muthoot Small & Growing Business ("MSGB") loans.
- Over the past few years, it has significantly implemented the use of technology across its microfinance operations. The company has an in-house information technology team that has built its technology platform into a business tool, which helps the company in achieving and maintaining high levels of customer service, enhancing operational efficiency and creating competitive advantages for the organization. To improve its underwriting capabilities using technology, the company has developed a unique credit score card along with Equifax to evaluate the creditworthiness of customers by assigning individual credit scores to customers.

View

- Muthoot Microfin is a microfinance institution providing micro-loans to women customers (primarily for income generation purposes) with a focus on rural regions of India. The company has a well-diversified portfolio across 339 districts in 18 states and union territories in India, as of September 30, 2023. As of September 30, 2023, the gross loan portfolio in the Top-3 states, namely Kerala, Karnataka and Tamil Nadu, together accounted for 51.36% of the total gross loan portfolio.
- Company's operations have historically been concentrated in South India. The company has in recent years expanded into North, East and West India and has a total of 707 branches across North, West and East India as of September 30, 2023, representing 52.76% of the total branches as of September 30, 2023. The company intend to grow the branches in 4 key states: Uttar Pradesh, Bihar, Rajasthan, and Punjab, which are underpenetrated or moderately penetrated states. Additionally, the company will also evaluate strategic acquisitions on an opportunistic basis as a means of inorganic growth to expand into new geographies.
- As the company continues to expand the geographic reach and scale of operations, the company intend to further develop and invest in the technology to support the growth, improve the quality of the services, and achieve superior turnaround time in the operations. The company endeavour to use technology and automation across the business processes, including, among others, sourcing, underwriting, disbursement, and collection.
- The company endeavour to leverage the existing branch network to further increase the gross loan portfolio. As part of the growth strategy, the company 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 with them. Additional products and cross-selling opportunities also help strengthen the relationship with the customers and enable higher customer retention.
- The company is part of the Muthoot Pappachan Group, a business conglomerate with presence across financial services, automotive, real estate, healthcare, information technology, precious metals, and alternate energy sectors. The Muthoot Pappachan Group has a history of over 50 years in the financial services business. MML are the 2nd largest company under the Muthoot Pappachan Group, in terms of AUM for the FY23, The financial services companies within the Muthoot Pappachan Group together service 0.87 crore unique customers, as of September 30, 2023.
- In terms of the valuations, on the higher price band, MML demands a P/B multiple of 1.91x based on FY24 post issue fully diluted BV.

Revenue from Operations

(In Rs. Cr.)	FY21	FY22	FY23	H1FY23	H1FY24
Interest Income	622.78	728.62	1290.65	562.41	913.58
- Interest on loan portfolio	566.03	639.92	1031.33	505.24	608.02
- Interest on deposits from Banks	15.40	12.60	17.85	7.08	12.63
- Interest on loan asset	41.35	76.11	241.46	50.09	292.93
Fees and Commission Income	3.21	6.16	17.32	6.01	16.00
- Facilitation Fees	0.56	5.31	14.82	5.41	12.57
- Income from business correspondence services	2.65	0.85	2.50	0.60	3.43
Net Gain on fair value changes	40.93	91.03	111.54	32.10	108.41
- Gain on sale of loan assets recognized through P&L a/c	40.93	91.03	111.54	32.10	108.41
Income on Investments – Realised	17.00	5.83	8.34	3.52	3.81
Sale of services	0.25	0.86	0.93	0.70	0.54
Total	684.17	832.51	1428.76	604.74	1042.33

Key Operational and Financial Performance

	FY21	FY22	FY23	H1FY23	H1FY24
Gross Loan Portfolio (₹ Cr)	4,986.71	6,254.94	9,208.30	7,449.49	10,867.07
Period on period growth in Gross Loan Portfolio (%)	3.06%	25.43%	47.22%	55.54%	45.88%
Disbursements (₹ Cr)	2,636.77	4,646.96	8,104.47	3,486.52	5,181.58
Period on period growth in Disbursements (%)	-35.42%	76.24%	74.40%	171.87%	48.62%
Number of Loans Disbursed (Cr)	0.08	0.14	0.21	0.11	0.12
Customers to whom loans were disbursed during the Period (Cr)	0.07	0.1	0.15	0.07	0.95
New Customers (Cr)	0.02	0.05	0.1	0.04	0.05
Active Customers (Cr)	0.19	0.21	0.28	0.24	0.32
Customers with Mahila Mitra app downloads (Cr)	0	0.09	0.12	0.11	0.15
Customers who Transacted Digitally with the Company (Cr)	0.01	0.05	0.17	0.08	0.25
Overall Digital Collection (₹ Cr)	30.86	168.3	1,095.54	248.8	951.53
Revenue from Operations (₹ Cr)	684.17	832.51	1,428.76	604.74	1,042.33
Net Interest Income (₹ Cr)	384.84	492.35	879.75	378.67	627
Net Interest Margin	8.24%	9.60%	11.60%	11.12%	12.39%
Pre-provision operating profit before Tax (₹ Cr)	141.28	175.87	436.19	180.09	337.36
Profit After Tax (₹ Cr)	7.05	47.4	163.89	12.47	205.26
Total comprehensive income for the year (₹ Cr)	-17.31	79.72	203.31	27.33	211.18
Debt to equity (times)	3.39	2.99	3.99	3.62	4.21
ROA	0.15%	0.92%	2.16%	0.20%	2.21%
ROE	0.79%	4.26%	11.06%	0.90%	11.84%
Net Worth	889.89	1,336.58	1,625.85	1,446.58	1,842.10
Cost to Income ratio	64.41%	65.02%	51.39%	53.69%	46.61%
Average annual cost of borrowings	11.08%	10.44%	10.94%	10.54%	11.20%
Impairment allowance coverage ratio	81.32%	76.68%	80.32%	73.73%	86.42%
Capital to risk assets ratio (CRAR) (%)	22.55%	28.75%	21.87%	24.16%	20.46%
Insurance Premium collected (₹ Cr)	98.12	185.6	338.09	145.95	229.97
Life Insurance (₹ Cr)	77.24	138.31	244.03	106.97	164.31
Net Asset Value per Equity share	77.94	117.07	139.15	100.21	127.61
Book value per share (₹)	77.94	100.24	115.97	103.18	131.39
Gross NPA ratio (%)	7.39%	6.26%	2.97%	3.26%	2.37%
Net NPA ratio (%)	1.42%	1.55%	0.60%	0.88%	0.33%
Debt to equity (times)	3.39	2.99	3.99	3.62	4.21
Tier I Capital Ratio (%)	21.80%	28.38%	21.87%	24.16%	20.46%
Tier II Capital Ratio (%)	0.75%	0.38%	0.00%	0.00%	0.00%
CRAR (%)	22.55%	28.75%	21.87%	24.16%	20.46%

Financial Statement

(In Rs. Cr)	FY21	FY22	FY23	H1FY23	H1FY24
Share Capital	114.2	133.3	140.2	140.2	140.2
Net Worth	889.9	1336.6	1625.8	1446.6	1842.1
Borrowings	2538.2	3297.0	5123.0	4134.9	6310.5
Other Financial Liabilities	747.2	947.8	1770.3	1425.1	1862.5
Non-Financial Liabilities	8.5	10.1	10.0	12.5	16.2
Advances	3294.0	4398.1	7026.7	5446.6	8549.9
Other Financial Assets	756.7	1020.1	1290.0	1343.0	1231.8
Non-Financial Assets	133.1	173.2	212.5	229.4	249.6
Total Assets	4183.8	5591.5	8529.2	7019.1	10031.3
Net Interest Income	323.5	388.5	741.6	336.3	498.3
Non Interest Income	61.4	103.9	138.1	42.3	128.8
Net Profit	7.1	47.4	163.9	12.5	205.3
Earnings Per Share (Rs.)	0.6	3.9	11.7	0.9	14.2
Return on Networth (%)	0.8%	4.3%	11.1%	0.9%	11.8%
Net Asset Value per Share (Rs.)	77.9	100.2	116.0	103.2	131.4

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY21	FY22	FY23	H1FY23	H1FY24
Cash flow from Operations Activities	(704.0)	(1083.6)	(2332.9)	(1017.9)	(1345.8)
Cash flow from Investing Activities	(38.0)	(73.8)	(180.0)	(353.6)	(99.0)
Cash flow from Financing Activities	79.7	1344.1	2566.5	1316.7	1243.2
Net increase/(decrease) in cash and cash equivalents	(662.2)	186.8	53.6	(54.7)	(201.5)
Cash and cash equivalents at the beginning of the year	1181.3	519.1	705.8	705.8	759.5
Cash and cash equivalents at the end of the year	519.1	705.8	759.5	651.1	557.9

Source: RHP

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