ANANDRATHI

MUTHOOT MICROFIN LIMITED

15-December-23

Subscribe- Long Term

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Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	9600
Fresh Issue (No. of Shares in Lakhs)	261.2
Offer for Sale (No. of Shares in Lakhs)	68.7
Bid/Issue opens on	18-Dec-2023
Bid/Issue closes on	20-Dec-2023
Face Value	₹ 10
Price Band	277-291
Minimum Lot	51

Objects of the Issue

- **Fresh Issue: ₹7600 million**

1. To undertake their existing business activities.
2. To undertake the activities proposed to be funded from the Net Proceeds.

- **Offer For Sale: ₹2000 million**

Book Running Lead Managers
ICICI Securities Limited
Axis Capital Limited
Registrar to the Offer
Kfin Technologies Limited

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	2000.00
Subscribed paid up capital (Pre-Offer)	1443.58
Paid up capital (Post - Offer)	1704.75

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	69.1%	55.5%
Public	30.9%	44.5%
Total	**100%**	**100%**

Financials

Particulars (₹ In million)	FY23	FY22	FY21
Revenue from operations	14,287.6	8,325.1	6,841.6
Operating expenses	4,611.5	3,269.1	2,556.7
EBITDA	7,884.9	4,256.6	3,272.1
Depreciation	266.1	207.8	188.3
EBIT	**7,618.8**	**4,048.8**	**3,083.8**
Interest	5,490.1	3,401.6	2,993.2
PBT	2,128.7	647.2	90.6
Tax	489.8	173.2	20.0
Consolidated PAT	1,638.9	474.0	70.5
EPS	9.6	2.7	0.4
Ratios	**FY23**	**FY22**	**FY21**
EBITDAM	55.2%	51.1%	47.8%
PATM	11.5%	5.7%	1.0%
Revenue growth	71.6%	21.7%	-

Company Description

Muthoot Microfinance are a microfinance institution providing micro-loans to women customers (primarily for income generation purposes) with a focus on rural regions of India. They are the fifth largest NBFC-MFI in India in terms of gross loan portfolio as of March 31, 2023. They are 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.

As of September 30, 2023, their gross loan portfolio amounted to ₹108,670.66 million. They believe that their business model helps in driving financial inclusion, as they serve customers who belong to low-income groups. As of September 30, 2023, they have 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. They have built their branch network with an emphasis on under-served rural markets with growth potential, in order to ensure ease of access to customers. Their branches are connected to their IT networks and are primarily located in commercial spaces which they believe are easily accessible by their customers.

They are 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. They are the second largest company under the Muthoot Pappachan Group, in terms of AUM for the Financial Year 2023. Their relationship with the Muthoot Pappachan Group provides them with brand recall and significant marketing and operational benefits. Further, there are significant synergies between the financial services business of the group and their micro-finance business.

Their wide range of lending products are aimed at catering to the life cycle needs of rural households. They primarily provide loans for income generating purposes to women customers living in rural areas. Their 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 their Muthoot Small & Growing Business ("MSGB") loans.

As of September 30, 2023, the gross loan portfolio of their income generating loans amounted to ₹102,118.73 million, representing 93.97% of their total gross loan portfolio. They primarily adopt a joint liability group model which caters exclusively to women in lower income households and is premised on the fact that if such individuals are given access to credit, they may be able to identify new opportunities and supplement and grow their existing income.

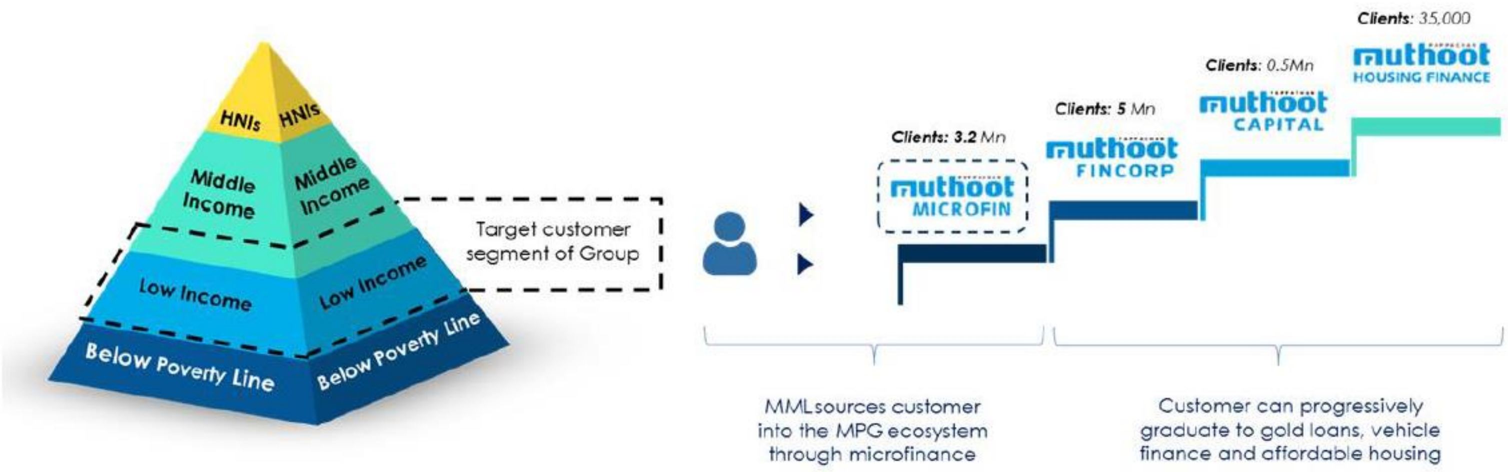
Valuation

The company has a market leadership with a pan India presence. Also, the company is a part of prestigious Muthoot Pappachan group.

At the upper price band company is valued at P/BV of 2.2X with a market cap of ₹ 49,608 million post issue of equity shares.

We believe that valuations of the company is fairly priced and recommend a "**Subscribe-Long Term**" rating to the IPO.

The target customer segment of the Muthoot Pappachan Group is low-income customers, as depicted in the image below:



The history of the Muthoot Pappachan Group in working with customers at the bottom of the economic pyramid helps us better address the needs of women in rural households and design lending products to cater to their requirements.
Company's Branch Network.

Over the past few years, they have significantly implemented the use of technology across their microfinance operations. They have an in-house information technology team that has built their technology platform into a business tool, which they believe helps them in achieving and maintaining high levels of customer service, enhancing operational efficiency, and creating competitive advantages for their organization.

To improve their underwriting capabilities using technology, they have developed a unique credit score card along with Equifax to evaluate the creditworthiness of customers by assigning individual credit scores to their customers. As a result, they can risk profiling each of their customers individually based on parameters such as payment track record (including any credit defaults in the past two years), demographics, age, and location. This allows them to strategically allocate more capital to "very low risk" and "low risk" customers, as compared to "medium risk" and "high risk" customers (as per the categorization based on the score cards), to maximize their collection efficiency. Apart from utilizing their unique credit score, they also analyze customers' credit bureau reports to establish their creditworthiness and repayment behavior. Further, to expand their digital collections infrastructure, they launched a proprietary application, called "Mahila Mitra", in 2021, which facilitates digital payment methods such as QR codes, websites, SMS-based links and voice-based payment methods. Through Mahila Mitra, the customers are able to pay directly from their bank account through a secure platform that requires authentication via OTP and/or PIN payments, track and maintain digital records and statements of transactions, and earn cashback or reward points on payment transactions.

For the Financial Years 2021, 2022 and 2023, and the six months ended September 30, 2023, 1.06%, 4.86%, 20.30% and 25.47% of their repayments were collected on a digital basis (i.e. in a cash less manner by direct bank credit into their bank accounts), respectively. As of September 30, 2023, 1.50 million customers have downloaded the Mahila Mitra application, and 2.46 million customers have transacted digitally with them (through the Mahila Mitra application and other digital payment methods). They are also in the process of developing a Super App along with the Muthoot Pappachan Group, which they plan to use to integrate their Mahila Mitra application with all of the Muthoot Pappachan Group's products and databases on to a single platform, allowing customers to access all the Group's loan offerings on a single platform, thereby maximizing their cross-selling opportunities. In 2022, the company was awarded the Mobility Award for IT Innovations at the Technology Senate Awards South 2022 instituted by Express Computer, and the Best Digital Transformation Initiative – Financial Services Award at the India DevOps Show, 2022. In 2023, they were awarded the Trailblazer in Digital Lending Award at the 2nd Elets NBFC100 Leader of Excellence Awards, 2023, and the winner in the category of 'Modern and Agile Data Architecture and Infrastructure' at the Economic Times Datacon Awards, 2023.

In addition, with the aim to cater to the healthcare needs and priorities of their customers, they have, since December 2021, offered digital healthcare facilities to their customers through "e-clinics". They collaborate with M-Swasth Solutions Private Limited, a technology driven digital healthcare service provider, to set up these e-clinics across their branches. As of September 30, 2023, they have set up 460 e-clinics across 460 of their branches, representing 34.33% of their total branches. As of September 30, 2023, 14.40% of their customers have enrolled in their e-clinics, and they have facilitated 98,844 medical consultations and 65,878 teleconsultations.

Further, to protect their customers from the risks of natural calamities, they have, since May 2020, also provided natural calamity insurance to their customers to whom they disburse loans across their branches in India. As of September 30, 2023, they have provided 23.23% of their clients with natural calamity insurance. As a result of global climate change, India has experienced natural calamities such as floods, cyclones, earthquakes, tsunamis, and droughts in the past, including floods in the south Indian state of Kerala in 2018 and 2019 and a cyclone in Tamil Nadu in 2018. In this background, purchasing natural calamity insurance for their customers is a significant value-add to them as it protects their businesses and assets at home.

The company have received several awards and certifications in recognition of their approach of integrating social values in the conduct of their business, including the Certificate of Excellence for contributions for water and sanitation lending instituted by Water.org and Sa-Dhan in 2021, the 'Flame Awards' instituted by Rural Marketing Association of India in 2020, and the 'Golden Peacock Award for Business Excellence' by the Institute of Directors in 2018.

The following table sets forth their key financial and operational metrics as of or for the years indicated:

	As of/for the six months ended September 30,		As of/for the six months ended March 31,		
	2023	2022	2023	2022	2021
Gross Loan Portfolio (₹ million)	108,670.66	74,494.86	92,082.96	62,549.42	49,867.11
Period on period growth in Gross Loan Portfolio (%)	45.88	55.54	47.22	25.43	3.06
Disbursements (₹ million)	51,815.75	34,865.20	81,044.74	46,469.63	26,367.66
Period on period growth in Disbursements (%)	48.62	171.87	74.4	76.24	-35.42
Number of Loans Disbursed (million)	1.22	1.07	2.11	1.35	0.76
Customers to whom loans were disbursed during the Period (million)	0.95	0.72	1.52	1.02	0.7
New Customers (million)	0.47	0.43	1.01	0.45	0.21
Active Customers (million)	3.19	2.4	2.77	2.05	1.86
Customers with Mahila Mitra app downloads (million)	1.50	1.06	1.18	0.87	0.02
Customers who Transacted Digitally with Us (million)	2.46	0.83	1.7	0.52	0.13
Overall Digital Collection (₹ million)	9,515.25	2,488.00	10,955.40	1,683.01	308.59
Revenue from Operations (₹ million)	10,423.27	6,047.42	14,287.64	8,325.06	6,841.67
Net Interest Income	6,270.02	3,786.66	8,797.54	4,923.52	3,848.39
Net Interest Margin	12.39%	11.12%	11.60%	9.60%	8.24%
Ratio of Operating expenses to Annual Gross Loan Portfolio	5.87%	6.09%	5.96%	5.82%	5.20%
Ratio of Provisions and Write Offs to Annual Average Gross loan Portfolio	1.25%	4.77%	2.89%	1.98%	2.69%
Pre-provision operating profit before Tax (₹ million)	3,373.57	1,800.87	4,361.88	1,758.74	1,412.79
Profit After Tax	2,052.57	124.66	1,638.89	473.98	70.54
Total comprehensive income for the year (₹ million)	2,111.82	273.33	2,033.06	797.23	(173.10)
Debt to equity (times)	4.21	3.62	3.99	2.99	3.39
RoA	2.21%	0.20%	2.16%	0.92%	0.15%
RoE	11.84%	0.90%	11.06%	4.26%	0.79%
Net Worth	18,420.95	14,465.84	16,258.49	13,365.79	8,898.90
Cost to income ratio (%)	46.61%	53.69%	51.39%	65.02%	64.41%
Average annual cost of borrowings (%)	11.20%	10.54%	10.94%	10.44%	11.08%
Impairment allowance coverage ratio (%)	86.42%	73.73%	80.32%	76.68%	81.32%
Capital to risk assets ratio (CRAR) (%)	20.46%	24.16%	21.87%	28.75%	22.55%
Insurance Premium Collected (₹ million)	2,299.73	1,459.52	3,380.93	1,856.03	981.15
Life Insurance (₹ million)	1,643.08	1,069.72	2,440.26	1,383.05	772.36
Medical Insurance (₹ million)	304.88	304.31	598.28	387.54	175.44
Natural Calamity Insurance (₹ million)	351.78	85.49	342.38	85.43	33.36

Strengths:

- **Market leadership with a pan-India presence**

They are a microfinance institution providing micro-loans to women customers (primarily for income generation purposes) with a focus on rural regions of India. They are the fifth largest NBFC-MFI in India in terms of gross loan portfolio as of March 31, 2023. They are 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. Their business model helps in driving financial inclusion, as they serve customers who belong to low-income groups. They have 3.19 million active customers, as of September 30, 2023. They have 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, their gross loan portfolio in the top three states, namely Kerala, Karnataka, and Tamil Nadu, together accounted for 51.36% of their total gross loan portfolio. Over the past five years, they have expanded their operations in North, East and West India, which has allowed them to diversify their customer base and gross loan portfolio and increase their revenue from operations.
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The tables below set forth the break-up of their gross loan portfolio and branches according to geography as of the dates indicated:

	As of September 30, 2023		As of September 30, 2022		As of March 31, 2023		As of March 31, 2022		As of March 31, 2021	
	Gross loan portfolio	% of Total	Gross loan portfolio	% of Total	Gross loan portfolio	% of Total	Gross loan portfolio	% of Total	Gross loan portfolio	% of Total
South	56,908.70	52.37%	44,981.38	60.38%	51,530.27	55.96%	40,537.93	64.81%	33,271.57	66.72%
North	24,573.73	22.61%	13,773.13	18.49%	19,179.68	20.83%	9,652.29	15.43%	7,489.48	15.02%
East	14,505.09	13.35%	7,954.40	10.68%	12,273.78	13.33%	6,918.48	11.06%	4,586.05	9.20%
West	12,683.14	11.67%	7,785.95	10.45%	9,099.22	9.88%	5,440.73	8.70%	4,520.00	9.06%
Total	**108,670.66**	**100.00%**	**74,494.86**	**100.00%**	**92,082.96**	**100.00%**	**62,549.42**	**100.00%**	**49,867.11**	**100.00%**

	As of September 30, 2023		As of September 30, 2022		As of March 31, 2023		As of March 31, 2022		As of March 31, 2021	
	Gross loan branches	% of Total	Gross loan branches	% of Total	Gross loan branches	% of Total	Gross loan branches	% of Total	Gross loan branches	% of Total
South	633	47.24%	503	49.90%	576	49.15%	468	51.71%	413	54.70%
North	318	23.73%	223	22.12%	269	22.95%	193	21.33%	138	18.28%
East	192	14.33%	128	12.70%	179	15.27%	127	14.03%	98	12.98%
West	197	14.70%	154	15.28%	148	12.63%	117	12.93%	106	14.04%
Total	**1,340**	**100.00%**	**1,008**	**100.00%**	**1,172**	**100.00%**	**905**	**100.00%**	**755**	**100.00%**

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

They have a history of serving rural markets with high growth potential in the microfinance segment and have maintained a track record of financial performance and operational efficiency through consistently high rates of customer acquisition and retention and expansion into underpenetrated areas.

	Customers in rural areas		Gross loan portfolio in rural areas	
	Number of Customers (million)	% of Total Customers	Amount of Gross Loan Portfolio (₹ million)	% of Total Gross Loan Portfolio
As of September 30, 2023	3.08	96.58	103,919.61	95.63
As of September 30, 2022	2.32	96.44	71,186.21	95.56
As of March 31, 2023	2.66	96.05	87,172.19	94.67
As of March 31, 2022	1.97	96	59,629.75	95.33
As of March 31, 2021	1.79	96.33	47,400.43	95.05

The connection with their rural customers has been largely driven by the focus on continuously improving the understanding of the financial needs of the rural customer segment and commitment to consistent engagement with the communities they serve. Further, their 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 them to deliver superior customer services to the rural customers.

In addition, with the aim to cater to the healthcare needs and priorities of their customers, they have, since December 2021, offered digital healthcare facilities to their customers through “e-clinics”. They collaborate with M-Swasth Solutions Private Limited, a technology-driven digital healthcare service provider, to set up these e-clinics across their branches. As of September 30, 2023, they have set up 460 e-clinics across 460 of their branches, representing 34.33% of the total branches. As of September 30, 2023, 14.40% of their customers have enrolled in the e-clinics, and they have facilitated 98,844 medical consultations and 65,878 tele consultations. The e-clinics provide their customers and up to five of their family members with video consultation with doctors at a nominal enrolment cost.

- **Brand recall and synergies with the Muthoot Pappachan Group**

They are 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. They are the second largest company under the Muthoot Pappachan Group, in terms of AUM for the Financial Year 2023. Their relationship with the Muthoot Pappachan Group provides them with 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, and two-wheeler finance and housing finance. The financial services companies within the Muthoot Pappachan Group together service 8.7 million unique customers, as of September 30, 2023. The history of the Muthoot Pappachan Group in working with customers in economically weaker sections, helps them better understand the needs of women in rural households and design lending products to cater to their requirements. In addition, there are opportunities presented by the financial services businesses of the Muthoot Pappachan Group for the growth of their operations and expansion of their customer base and geographical footprint across India. They leverage cross-selling opportunities to offer diverse products to meet the multiple needs of their target customers. For example, their Company earns income from distribution of a variety of loans to their customers on behalf of MFL. They are also in the process of developing a Super App along with the Muthoot Pappachan Group, which they plan to use to integrate their Mahila Mitra application with all the Muthoot Pappachan Group’s products and databases on to a single platform, allowing customers to access all the 187 Group’s loan offerings on a single platform, thereby maximizing their cross-selling opportunities.

- **Robust risk management framework leading to healthy portfolio quality**

Risk management forms an integral part of the business, and they recognize the importance of risk management for long-term success. They have implemented well-defined key risk management policies which primarily focus on addressing credit risk, operational risk, and financial risk. The key elements of the risk management framework are summarized below:

Credit Risk: The company seeks to ensure effective appraisal, disbursement, collection, and delinquency management resulting from streamlined approval and administrative procedures. They have established underwriting norms which ensure that customer selection is done after evaluating repayment capacity and detailed cash flows analysis. They use technology across the business processes, including sourcing, underwriting, disbursement, and collection, in order to ensure accuracy and authenticity of information.

Operational Risk: Before establishing a branch in a new location, they conduct 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. They also have a systematic hiring criterion, and perform employment verifications, review credit bureau reports and police verification reports of each potential employee before hiring them. The company have also established training processes for their newly hired staff, including training on the policies, processes, systems, and culture of the Company.

Financial Risk: The company adopts conservative policies aimed at ensuring there is no asset liability mismatch, liquidity risk or interest risk. They ensure that they engage in external borrowings in a manner that is compliant with their board-approved borrowing policies. The company's borrowing committee works under the supervision of the Board to ensure that their costs of borrowings, interest rates for their borrowings and drawdowns on the loan facilities are well managed.

The 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. Their collection efficiency was 95.84% and 98.89% for the Financial Year 2023 and the six months ended September 30, 2023, and gross NPA ratio was 2.37% and net NPA ratio was 0.33%, as of September 30, 2023. As of March 31, 2023, they had the fifth lowest gross NPA ratio, and as of September 30, 2023, they had the third lowest net NPA ratio among the selected NBFC-MFIs.

The table below sets forth the amount of gross loan portfolio under Stage 1 (1-30 days), Stage 2 (31-90 days) and Stage 3 (more than 90 days):

	Stage 1 (1-30 days)		Stage 2 (31-90 days)		Stage 3 (more than 90 days)	
	Gross Loan portfolio (₹ million)	% of Total Gross Loan portfolio	Gross Loan portfolio (₹ million)	% of Total Gross Loan portfolio	Gross Loan portfolio (₹ million)	% of Total Gross Loan portfolio
As of September 30, 2023	84,674.65	97.01	543.41	0.62	2,070.69	2.37
As of March 31, 2023	69,408.82	96.42	436.67	0.61	2,141.53	2.97
As of March 31, 2022	40,665.01	88.02	2,642.24	5.72	2,890.01	6.26
As of March 31, 2021	30,890.18	88.14	1,566.51	4.47	2,589.09	7.39

- **Streamlined operating model with effective use of technology.**

The company recognize that establishing and growing a successful microfinance business in India involves the significant challenge of addressing a customer base that is quite large and typically lives in remote locations in India. To address this challenge, they have designed a streamlined and scalable operating model and developed technology-led systems and solutions for their operations. As of September 30, 2023, they had 102 members in their information technology team, who are responsible for, among other things, developing and maintaining their in-house information technology systems, data security systems, and technological infrastructure and applications. All the applications have been developed in-house by their information technology team, and the team is also able to implement amendments to the applications required pursuant to regulatory or other operational changes in an efficient and quick manner. Their chief technology officer has over 20 years of experience in the information technology space.

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

The Board, Promoters and Senior Management is composed of experienced professionals, industry experts and management professionals. The Board consists of 10 directors (including 3 directors from the Muthoot Pappachan Group), of which five are independent directors. They believe that their independent Board has provided them with diverse perspectives for them to continue to grow the Company. The Senior Management team consists of qualified, seasoned professionals with an average experience of over 16 years across a variety of sectors. The Senior Management team comprise a majority of members who have been associated with the Muthoot Pappachan Group for over ten years.

The Senior Management team includes experts at various functions and professionals with ground level knowledge of the microfinance industry, who are supported by a capable and motivated pool of employees. Together, they have demonstrated an ability to manage and grow their operations. The team has developed the 191 skills to identify, develop and offer products and services that meet the needs of their customers, while maintaining effective risk management and competitive margins. The mid-level management personnel also have in-depth industry knowledge and expertise. Further, they have instituted several training and mentorship programs for the management employees. They have successfully recruited and retained employees from a variety of backgrounds, including credit evaluation, risk management, technology, and marketing. As of September 30, 2023, 63.15% of their employees have college graduation as their minimum academic qualification.

Key Strategies:

- **Expand their geographical footprint and sourcing platform across India.**

As of December 31, 2022, India's Northern and Western regions had relatively low financial penetration as compared to the pan-India average penetration, indicating probable growth potential from India's Northern and Western regions that have a relatively lower penetration. While their operations have historically been concentrated in South India, they have 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 September 30, 2023, representing 52.76% of their total branches as of September 30, 2023. Moving forward, they expect that a significant portion of their future geographic expansion will include rural areas in these regions of India and intend to grow their branches in four key states: Uttar Pradesh, Bihar, Rajasthan, and Punjab, which are underpenetrated or moderately penetrated states that may have potential for growth and customer expansion, as of March 31, 2023. They operate 1,340 branches across 339 districts in 18 states and union territories in India, as of September 30, 2023. They bifurcate their geographical spread into two categories: mature states and other states across the rest of India. They have classified three states and one union territory where they first commenced their operations as mature states, which includes Kerala, Tamil Nadu, Puducherry and Karnataka, and they have classified 14 states and union territories (excluding mature states) as their other states across the rest of India (including North, West and East India).

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

They will continue to invest in their technology platform to increase operational efficiencies as well as ensure customer credit quality. Their information technology infrastructure will not only enable them to reap the benefits of digitalizing business processes, but will also become a key source of incremental business for them as they continue to utilise the underwriting capabilities of their unique credit score card to increase the amount of loans that they disburse to customers that they classify as low risk and very low risk. As they continue to expand their geographic reach and scale of operations, they intend to further develop and invest in their technology to support their growth, improve the quality of their services and achieve superior turnaround time in their operations. They endeavor use technology and automation across their business processes, including, among others, sourcing, underwriting, disbursement and collection. Superior customer service is an integral part of their value proposition to their customers. They intend to leverage information technology to improve their customer's experience from sourcing, know-your -customer procedures and appraisal to post sales service stage. Their current platform allows them to undertake integrated credit bureau data check, automated appraisal, stage wise review of the disbursement process and real-time process integrating all branch information. They have implemented mobility-based loan origination systems with digital document signatures, GPS tagging and real time credit scoring, and they are working on implementing mobility-based loan origination systems with electronic know-your -customer checks through their Telerios application. Further, to speed up their customer acquisition process, they are working on developing the relevant technological infrastructure to implement electronic Aadhaar based authentication services, which will allow them to perform electronic know-your -customer checks more accurately. In 2023, they were granted permission by the Government of India to use Aadhar based authentication services.

- **Diversifying their Sources of Funds**

They have been able to access cost-effective debt financing and reduce their average cost of borrowings over the years due to their stable credit history and improving credit ratings, diversification of borrowings and enhancement of the scale of their business. They have 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. They also seek to raise long term debt through ECBs. Further, they also seek to utilize off-balance sheet funding such as pass through certificates and direct assignment of loans.
As they continue to grow the scale of their operations, they seek to reduce their dependence on more costly term loans from banks and financial institutions, by issuing NCDs and raising ECBs, in order to optimize their cost of funds and continue to improve their credit ratings. A lower average cost of borrowings enables them to competitively price their loan products. Further, they will continue to evaluate opportunities to securitize or assign loans to financial institutions, which would enable them to optimize their cost of borrowings and liquidity requirements, capital management and asset liability management.

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

They need to leverage their existing branch network to further increase their gross loan portfolio. As of September 30, 2023, their gross loan portfolio per branch for their mature states and other states across the rest of India (excluding mature states) was ₹89.90 million and ₹73.21 million, respectively. Going forward, they aim to increase their 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. They aim to achieve this through cross-selling additional loan products to their existing customers, acquisition of new customers through existing branches and the increasing loan ticket sizes to low-risk, existing customers. As part of their growth strategy, they have 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 their relationship with their customers and enable higher customer retention. They believe that this strategy serves as an effective mitigation mechanism from potential interest rate volatility and would contribute to their profitability. Further, they expect to derive benefits from economies of scale as there is limited incremental their king cost for existing customers, and they are eligible to borrow higher loan amounts from them since they have progressed to higher loan cycles and they have been their customers for a number of months or years. Additionally, in March 2022, the RBI has increased the household income limit for microfinance loan eligibility from ₹0.20 million per annum for semi-urban/urban areas and ₹0.13 million per annum for rural areas, to ₹0.30 million per annum for both semi-urban/urban areas and rural areas, which they believe has expanded the total addressable market for NBFC-MFIs. Going forward, they intend to tap this additional customer base and increase their wallet share by targeting eligible customers that they 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 March 2022 (provided that the interest charged is not be usurious and subject to the supervisory scrutiny by the RBI), they intend to focus on risk-based pricing in order to improve their yields and net interest margin, as the removal of interest rate cap will allow them to price their loans according to their assessment of the default risk in a particular region or state. For example, they price their loans at a higher interest rate for regions or states that they assess to contain a higher default risk.

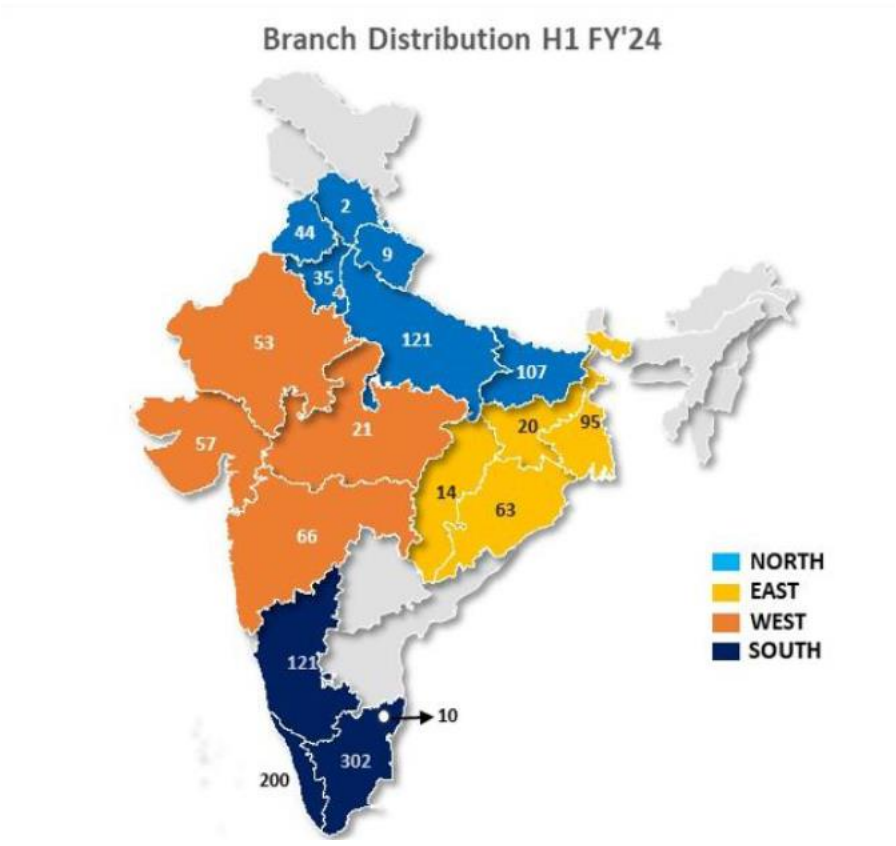
Description of the Business

The company is a microfinance institution providing micro-loans to women customers (primarily for income generation purposes) with a focus on rural regions of India. Their business is primarily focused on providing financial services to low-income customers who are not typically eligible for financial services in the formal financial services sector. They are the fifth largest NBFC-MFI in India in terms of gross loan portfolio as of March 31, 2023. They are 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). As of September 30, 2023, their gross loan portfolio amounted to ₹108,670.66 million.

Branch Network

The company has a 3.19 million active customers, who are served by their 1,340 branches across 339 districts in 18 states and union territories in India, as of September 30, 2023. While their operations have historically been concentrated in South India, the company has in recent years expanded into North, West and East India and have a total of 707 branches across North, West and East India as of September 30, 2023, representing 52.76% of their total branches as of September 30, 2023.

As of September 30, 2023, they had 10,159 branch managers, credit managers and relationship officers, including trainees, who comprised 82.61% of their total workforce. The branch managers and relationship officers use weekly or monthly meetings to communicate with the members in their joint liability groups. As of September 30, 2023, each of the relationship officers on average managed 426 customers. Administrative support staff and management personnel at the area, division and regional offices provide support to the branches. The relationship officers play a pivotal role in client acquisition, building relationships, assessing creditworthiness, and providing ongoing support. The relationship officers are given extensive and mandatory training covering all critical aspects of business to effectively discharge their responsibilities. Refresher training is also provided on request/ periodically to reinforce the knowledge and skills of the relationship officers. They believe that this has the additional benefit of creating additional employment in the rural villages in which they operate. They provide four days' training on policy and processes and 12 to 21 days' field training for new employees. The map below illustrates the spread of their branches across India, as of September 30, 2023:



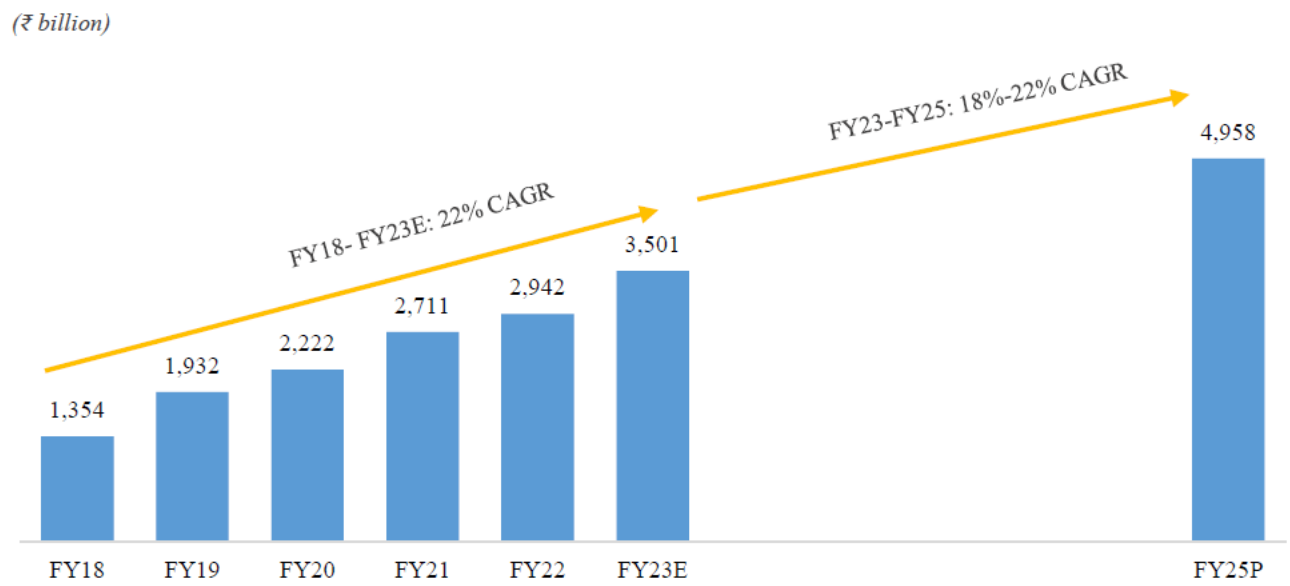
Industry Snapshot:

OUTLOOK FOR INDIAN MICROFINANCE INDUSTRY

Rising penetration to support continued growth of the industry.

Although India's household credit penetration on MFI loans has increased, it is still on the lower side. There is a huge untapped market available for MFI players. As of end of FY2023, the microfinance industry had clocked a CAGR of 21% between financial years 2018-23. With economic revival and unmet demand in rural regions, CRISIL MI&A Research expects the overall portfolio size to reach ₹4.9 trillion by the end of the financial year 2025. CRISIL MI&A Research expects the MFI industry to log 18-22% CAGR during FY 2023-2025. During the period, NBFCMFIs 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 sustainable growth of the industry going forward. Microfinance sector in India is regulated by the RBI. The RBI's new regulatory regime for microfinance loans effective April 2022 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 to grow at 18-22% CAGR between FY23 and FY25

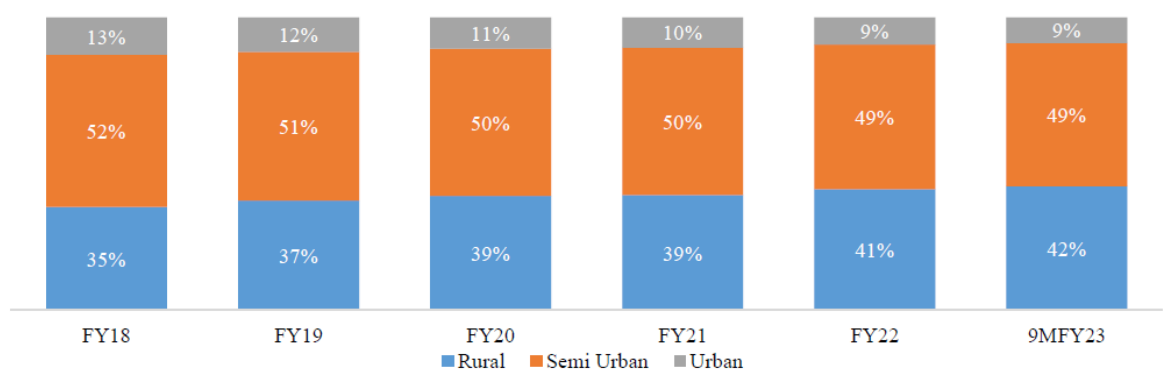


Growth in the MFI business is expected to come from increasing presence in newer states, expanding client base, and gradual increasing of the ticket size.

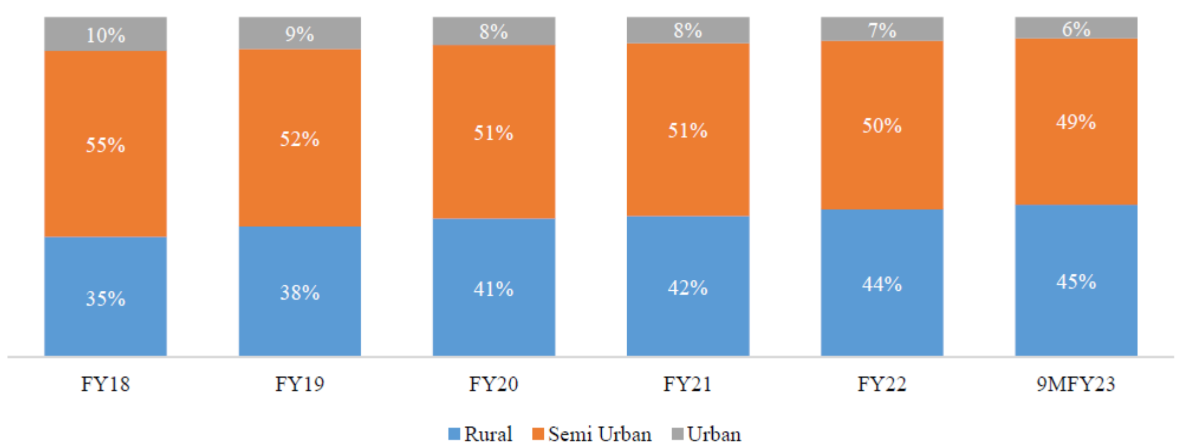
Rural segment to drive MFI business

CRISIL MI&A Research expects the share of rural segment in MFI business to remain higher, with increasing demand expected from this segment. Despite 65% of population and 45% of GDP contribution, the rural segment's share in credit remains fairly low at 9% of the bank credit outstanding as of December 2022, thereby opening up a huge opportunity for savings and loan products. Although the rural economy has been adversely affected by the second wave of the Covid-19, it is structurally far more resilient and is expected to bounce back strongly. And, with the government's focus on financial inclusion, financial institutions are opening new branches in unbanked areas. CRISIL MI&A Research has observed that demand for loans is higher in rural areas. As of December 2022, the share of rural segment in overall MFI portfolio increased to 42% of the GLP from 35% in fiscal 2018. In case of NBFC-MFIs, the rural share increased to 45% as of December 2022 from 35%. This is due to less competition, lower credit penetration and less migration in rural areas. It also benefitted from overall better credit behavior and, in turn, lower delinquency rates. The significant under penetration of credit in rural areas offers strong potential for growth, and given the relatively deeper reach, existing client relationships and employee base, MFIs are well placed to address this demand, which is currently being met by informal sources such as local money lenders.

Rural region accounts for ~42% share in overall MFI portfolio outstanding as of December 2022

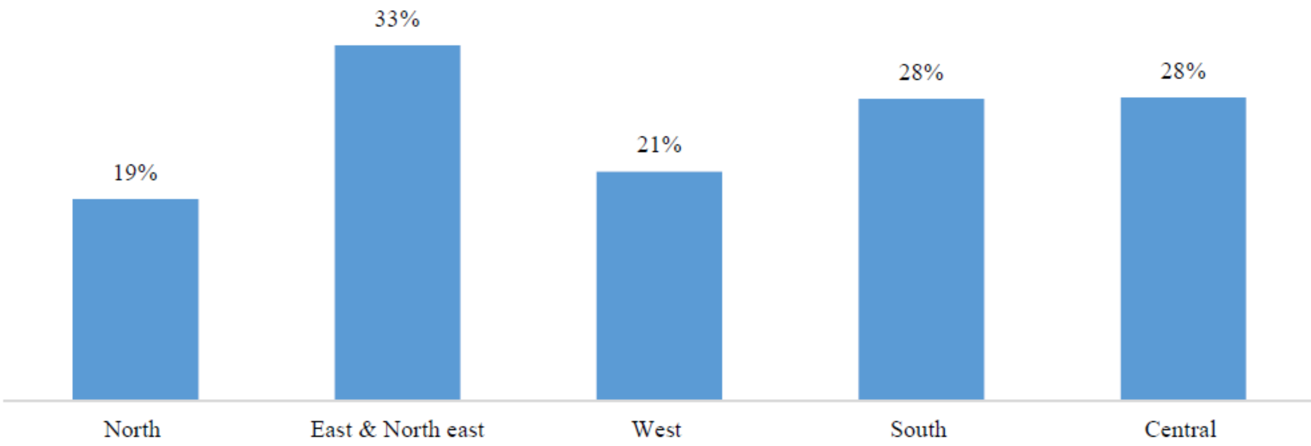


Rural accounts for approximately 45% share in NBFC-MFI portfolio outstanding as of December 2022



REGION AND STATE-WISE ANALYSIS

North and west region have lower penetration indicating probable growth potential (Dec 2022)



MFI COLLECTION EFFICIENCY BACK TO PRE-PANDEMIC LEVELS

MFI collections, which had plunged to near zero in April 2020, because of the pandemic-induced nationwide lockdown, rebounded to 80-85% in September 2020, with restrictions being lifted gradually. In December 2020, the industry's collection efficiency rebounded further to 90-93%, as per CRISIL MI&A Research estimates. This is despite MFI borrowers having relatively weaker credit profiles and field-intensive operations involving high personal touch, such as home visits and physical collection of cash. Borrowers in rural areas and those involved in essential sectors of animal husbandry and agriculture started paying their instalments. A lower number of Covid-19 infections in rural areas and a good harvest also had a positive impact on rural repayments. In the third quarter of fiscal 2021, collection efficiency for the industry rebounded further to 85-93%, as per CRISIL MI&A Research estimates. Subsequently, in the fourth quarter of fiscal 2021, collections improved to 92-95%.

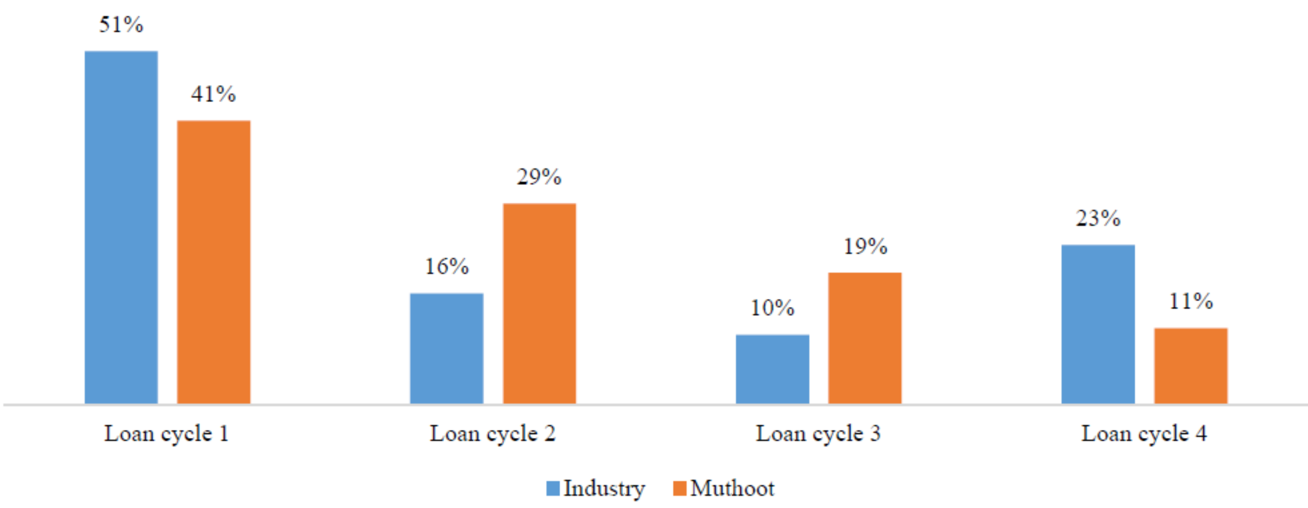
The pandemic's second wave again dented collections in April and May 2021, due to localized lockdowns imposed by several states. The medical impact of the second wave was much worse than the first one. It was felt across rural and urban areas, unlike the first wave's largely urban-centric impact. Southern states witnessed a sharper fall in collections in May 2021, as the lifting of lockdowns was delayed till June, whereas northern states were impacted largely in April. Ground-level infrastructural and operational challenges, as well as restrictions on movement of people, impinged on the MFI sector's collection efficiency. As per CRISIL MI&A Research, overall collection efficiency recovered from 80-85% in June 2021 and reached the pre-pandemic level of 95-98% in March 2022, as economic activity picked up pace.

Monthly collection efficiency trend for MFIs

	Apr-20	May-20	Jun-20	Sep-20	Dec-20	Mar-21	May-21	Jun-21	Sep-21	Dec-21	Mar-22
Industry	<10%	<45%	45-65%	80-85%	90-93%	92-95%	70-80%	80-85%	94-97%	90-93%	95-98%

COMPARISON OF KEY PORTFOLIO CHARACTERISTICS FOR MUTHOOT MICROFIN LTD VIS-À-VIS THE INDUSTRY

Loan cycle-wise break up of disbursements in financial year 2022



Muthoot Microfin has a long-standing track record of high customer retention in loan cycles 2 and 3. Its well-balanced customer distribution across loan cycles indicates a focus on acquiring new customers, as well as retaining existing ones. However, as it continues to acquire new customers, the portfolio shares in cycle 1 may increase.

Comparison with Listed Peers

Name of the Company	Total Income (₹ in million)	Face Value (₹)	P/E	P/B	EPS	RoNW (%)	NAV per equity share (₹)
Muthoot Microfin Limited	14,463.4	10	30.3	2.3	9.6	10.1%	112.6
Listed peers							
Equitas Small Finance Limited	48,314.6	10	20.2	2.0	4.71	11.1%	46.4
Ujjivan Small Finance Limited	47,541.9	10	9.3	2.7	5.88	27.8%	20.3
CreditAccess Grameen Limited	35,507.9	10	32.4	5.2	52.04	16.2%	326.9
Spandana Sphoorty Financial Limited	14,770.3	10	551.2	2.2	1.74	0.4%	436.6
Bandhan Limited	183,782.5	10	15.6	1.8	13.62	11.2%	121.6
Suryoday Small Finance Bank Limited	12,811.0	10	21.7	1.0	7.32	4.9%	149.3
Fusion Micro Finance Limited	17,999.7	10	13.5	2.5	43.29	16.7%	230.7

Key Risk:

- 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, they may experience increased levels of non-performing assets and related provisions and write-offs that may adversely affect their business, financial condition and results of operations.
- Their business is vulnerable to interest rate risk, and volatility in interest rates could have an adverse effect on their net interest income and net interest margin, thereby affecting their results of operations
- The market capitalization to revenue, market capitalisation to tangible assets, and enterprise value (“EV”) to EBITDA, based on the Offer Price of their Company, may not be indicative of the market price of their Company on listing or thereafter.
- They are subject to certain conditions under their financing arrangements, which could restrict their ability to conduct their business and operations in the manner they desire.
- Concerns about terms of loans provided by them may adversely affect their reputation and thereby the growth and the market acceptance of their products and services.
- They may not be able to sustain the significant growth in their business and relatively high profit after tax that they recorded for the Financial Year 2023 in the future.
- They have experienced negative cash flows from operating, investing and financing activities in the past.
- Their non-convertible debentures are listed on the BSE and they are subject to rules and regulations with respect to such listed non-convertible debentures. Additionally, as a ‘high value debt listed entity’, they are subject to additional compliances under the SEBI Listing Regulations. If they fail to comply with such rules and regulations, they may be subject to certain penal actions, which may have an adverse effect on their business, results of operations, financial condition and cash flows.
- They have availed loans which may be recalled by the lenders, subject to the terms and conditions of their grant, at any time.
- They depend on the recognition of the “Method” brand, and failure to use, maintain and enhance awareness of the brand would adversely affect their ability to retain and expand their base of customers.
- An increase in the level of their non-performing assets or provisions may adversely affect their financial condition and results of operations.
- They derive a significant portion of their revenues from South India, and any adverse developments in the southern states of India may have an adverse effect on their business, results of operations, financial condition and cash flows

Valuation:

The company has a market leadership with a pan India presence. Also, the company is a part of prestigious Muthoot Pappachan group.

At the upper price band company is valued at P/BV of 2.2X with a market cap of ₹ 49,608 million post issue of equity shares.

We believe that valuations of the company is fairly priced and recommend a “**Subscribe-Long Term**” rating to the IPO.

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Small caps (251st company onwards)	>25%	0%-25%	Below 0%

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