

Muthoot Microfin Limited

December 18, 2023



Muthoot Microfin Limited operates as a microfinance institution (MFI), specializing in extending micro-loans to women customers primarily for income-generating purposes, with a dedicated focus on rural regions of India. Muthoot's array of loan products includes group loans for livelihood solutions, encompassing income-generating loans and Pragathi loans—interim loans for working capital and income-generating activities for existing customers. Additionally, the company offers individual loans, life betterment solutions like mobile phone loans, health and hygiene loans for sanitation improvement, and secured loans in the form of gold loans and Muthoot Small & Growing Business loans. Muthoot is the fifth-largest NBFC-MFI in India in terms of gross loan portfolio as of FY23. It also holds the third-largest position among NBFC-MFIs in South India, being the largest in Kerala in terms of MFI market share.

Additionally, Muthoot is a key player in Tamil Nadu with an almost 16% market share as of FY23. As of September 30, 2023, Muthoot's gross loan portfolio amounted to INR 108,670.66 million. Muthoot serves 3.19 million active customers through 1,340 branches spread across 339 districts in 18 states and union territories in India as of September 30, 2023. Historically, operations were concentrated in South India; however, recent years have seen significant expansion into North, West, and East India. As of Q3FY23, Muthoot has a total of 707 branches in these regions, constituting 52.76% of its total branches.

Investment Rationale:

Under penetration of credit in rural economy of India provides huge growth opportunity for MFIs:

- 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, 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. 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%.

MFI industry GLP to grow at 18-22% CAGR between FY23 and FY28:

- The microfinance industry's joint liability group (JLG) portfolio has recorded healthy growth in the past few years. The industry's GLP increased at 21% CAGR between FY18-FY22 to reach approximately INR 3.3 trillion.
- The growth rate for non-banking finance institution (NBFC)-MFIs is the fastest as compared with other player groups. Going forward, the overall microfinance industry will continue to see strong growth on back of the government's continued focus on strengthening the rural financial ecosystem, robust credit demand, and higher-ticket loans disbursed by microfinance lenders.
- The MFI industry is expected to log 18-22% CAGR during FY 2023-2025. During the period, NBFC-MFIs are expected to grow at a much faster rate of 25-30% compared with the MFI industry.

Muthoot expanding its geographical footprint and sourcing platform across Rural India:

- In FY23, 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 relatively lower penetration.
- While operations have historically been concentrated in South India, there has been an expansion in recent years into North, East, and West India, with a total of 707 branches across these regions as of Q2FY23, representing 52.76% of the total branches as of Q2FY23.
- Moving forward, there is an expectation that a significant portion of future geographic expansion will include rural areas in these regions of India. The intention is to grow 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 FY23. Muthoot operates 1,340 branches across 339 districts in 18 states and union territories in India, as of Q2FY23.

Muthoot Microfin holds majority market share in Kerala and Tamil Nadu:

- The largest states for Muthoot Microfin as per GLP as of March 2023 are Kerala and Tamil Nadu.
- The company holds majority share in Kerala in terms of MFI market share which make them the largest in the state and almost 16% in Tamil Nadu, where Muthoot Microfin is a key player.
- Also, in South India, Muthoot Microfin is the third largest amongst the NBFC-MFIs in terms of GLP. Muthoot Microfin had the fifth lowest credit cost in FY23 among top 10 NBFC-MFIs indicating its ability to effectively manage its credit risk and in turn maintain a robust portfolio quality.

Muthoot's digital focus to reduce risks:

- To reduce risks associated with cash transactions, they have expanded the digital collections infrastructure through their proprietary application "Mahila Mitra", which facilitates digital payment methods such as QR codes, webpages, SMS based links and a voice-based payment method, and provides customers with a secure platform to transact digitally.
- For FY23 and the six months ended September 30, 2023, 20.30% and 25.47% of the repayments were collected on a digital basis (i.e. in a cash less manner by direct bank credit into bank accounts), respectively.

Strong Customer retention:

- 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 focus on acquiring new customers, as well as retaining existing ones. However, as it continues to acquire new customers, the portfolio share in cycle 1 may increase.
- Among the top 10 NBFC-MFIs, Muthoot Microfin reported the third highest disbursement growth in the financial year 2022 and fifth highest during financial year 2023. Its growth rate turned positive to 80.90%, in financial year 2022 followed by 73.57% during financial year 2023.

Valuation and Outlook: As of September 30, 2023, the gross loan portfolio amounted to INR 108,670.66 million. A well-diversified portfolio across 339 districts in 18 states and union territories in India. The gross loan portfolio in our top three states, namely Kerala, Karnataka and Tamil Nadu, together accounted for 51.36% of our total gross loan portfolio. 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. Capital adequacy ratio of 20.46% as of September 30, 2023 is well above the requirement of 15.00% prescribed by the RBI. The company reported interest income of INR 12906.45 million which grew 77.13% YoY and NIM of 11.60 in FY23. The company's GNPA and NNPA stood at 2.97% and 0.60% in FY23. At the upper price band the company's P/B translates to 1.74x. We recommend to subscribe to the issue given the strong long term potential of growth as well as attractive return ratios and credit costs that the company has managed to maintain over the last few years.

Key Financial & Operating Metrics (Consolidated)

In INR mn	Interest income	YoY (%)	PAT	EPS	ROE	NIM
FY21	6227.84	-	70.54	0.62	0.79	8.24
FY22	7286.23	16.99	473.98	3.97	4.30	9.60
FY23	12906.45	77.13	1638.89	11.98	11.25	11.60

Issue Snapshot

Issue Open	18-Dec-23
Issue Close	20-Dec-23
Price Band	INR 277 - 291
Issue Size (Shares)	3,46,76,254
Market Cap (INR mln)	INR 71477.04

Particulars

Fresh Issue (INR mln)	INR7600
OFS Issue (mln)	INR 2000
QIB	50%
Non-institutionals	15%
Retail	35%

Capital Structure

Pre Issue Equity	11,68,37,249
Post Issue Equity	14,29,54,087
Bid Lot	51 shares
Minimum Bid amount @ 277	INR 14127
Maximum Bid amount @ 291	INR 14841

Share Holding Pattern

	Pre Issue	Post Issue
Promoters	69.08%	55.47%
Public	30.920%	44.53%

Particulars

Face Value	INR 10
Book Value	INR 169.90
EPS, Diluted	INR 11.46

Objects of the Issue

- Expanding capital base to meet future capital requirements

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Investment rationale:

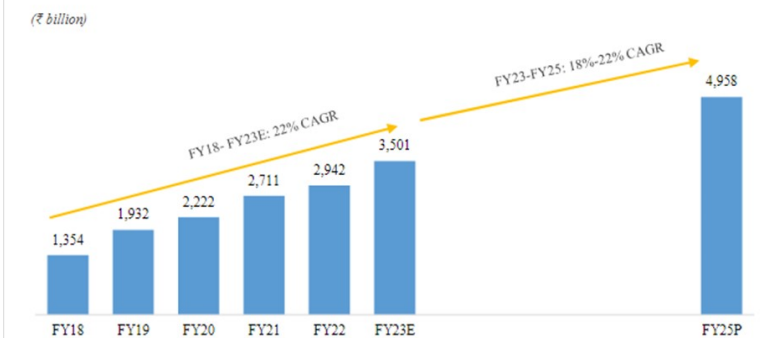
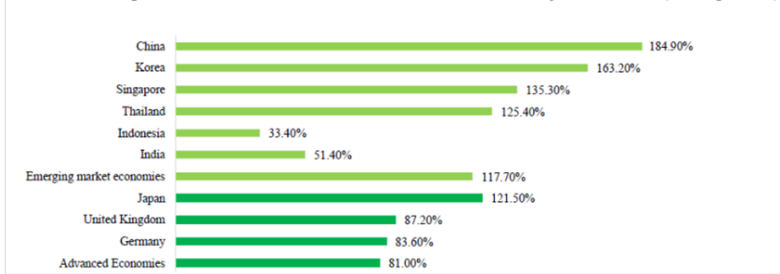
Under penetration of credit in rural economy of India provides huge growth opportunity for MFIs: The Indian banking sector is significantly under penetrated as observed in current bank credit to GDP ratio of 51.40% for India as of the third quarter of 2022. This provides immense opportunities for banks and other financial institutions over the long term. As per IMF estimates, India's per capita income (at current prices) is expected to grow annually at ~9% during FY24. The rural economy contributes to 51% of India's manufacturing GDP, but the rural share in the services GDP (excluding public administration, defence, and utilities) is much lower, at ~26%. However, 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, 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. 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 behaviour 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 like Muthoot Microfin which concentrates its operations in rural areas are well placed to address this demand, which is currently being met by informal sources such as local money lenders.

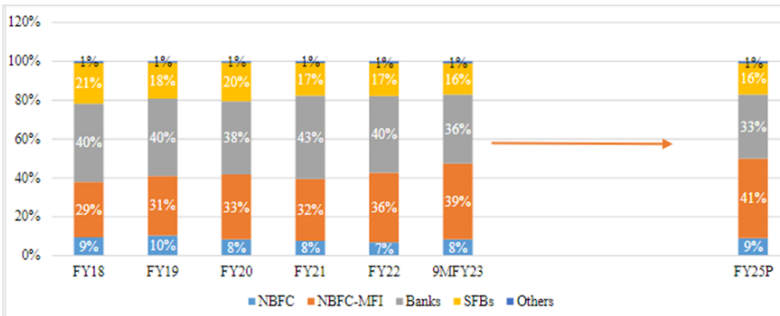
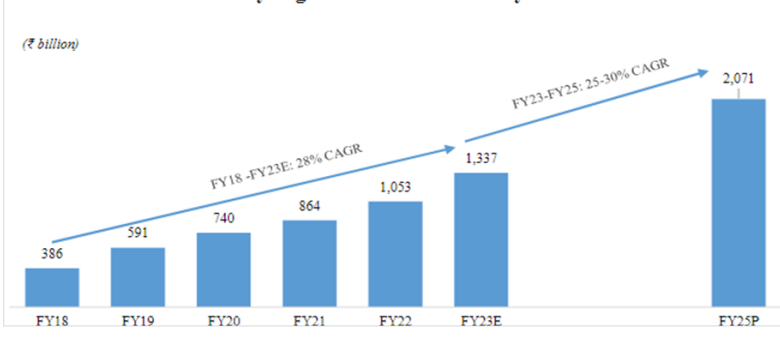
MFI industry GLP to grow at 18-22% CAGR between FY23 and FY28: The microfinance industry's joint liability group (JLG) portfolio has recorded healthy growth in the past few years. The industry's GLP increased at 21% CAGR between FY18-FY22 to reach approximately INR 3.3 trillion. The growth rate for non-banking finance institution (NBFC)-MFIs is the fastest as compared with other player groups. Going forward, the overall microfinance industry will continue to see strong growth on back of the government's continued focus on strengthening the rural financial ecosystem, robust credit demand, and higher-ticket loans disbursed by microfinance lenders. The MFI industry is expected to log 18-22% CAGR during FY 2023-2025. During the period, NBFC-MFIs are expected to grow at a much faster rate of 25-30% compared with the MFI industry. Key drivers behind the superior growth outlook include increasing penetration into the hinterland and expansion into newer states, faster growth in the rural segment, expansion in average ticket size, and support systems like credit bureaus. The presence of self-regulatory organisations 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.

Muthoot expanding its geographical footprint and sourcing platform across Rural India: In FY23, 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 relatively lower penetration. While operations have historically been concentrated in South India, there has been an expansion in recent years into North, East, and West India, with a total of 707 branches across these regions as of Q2FY23, representing 52.76% of the total branches as of Q2FY23. Moving forward, there is an expectation that a significant portion of future geographic expansion will include rural areas in these regions of India. The intention is to grow 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

Bank credit to private non-financial sector as % of GDP ratio for major economies (as of Q3-2022)



GLP of NBFC-MFI industry to grow faster than industry



customer expansion, as of FY23. Muthoot operates 1,340 branches across 339 districts in 18 states and union territories in India, as of Q2FY23.

The geographical spread is bifurcated into two categories: mature states and other states across the rest of India. Three states and one union territory where operations first commenced are classified as mature states, including Kerala, Tamil Nadu, Puducherry, and Karnataka. Fourteen states and union territories (excluding mature states) are classified as other states across the rest of India, including North, West, and East India. In mature states, which are also core markets, the focus is on customer retention, increasing wallet share using technology, and offering innovative products that cater to the needs of customers. In other states across the rest of India, which are potential growth markets, the intention is to open new branches, acquire new customers, and selectively expand operations to locations where customers are underserved, have lower penetration by micro-finance companies, and where there could be an opportunity to service an increased customer base.

Muthoot Microfin holds majority market share in Kerala and Tamil Nadu: The largest states for Muthoot Microfin as per GLP as of March 2023 are Kerala and Tamil Nadu. The company holds majority share in Kerala in terms of MFI market share which make them the largest in the state and almost 16% in Tamil Nadu, where Muthoot Microfin is a key player. Also, in South India, Muthoot Microfin is the third largest amongst the NBFC-MFIs in terms of GLP. Muthoot Microfin had the fifth lowest credit cost in FY23 among top 10 NBFC-MFIs indicating its ability to effectively manage its credit risk and in turn maintain a robust portfolio quality. Muthoot Microfin has a diversified portfolio with funding through financial institutions, debentures, commercial papers and securitisation. Its dependence on financial institutions have reduced from 81.88% in FY17 to 60.78% in FY23 on account of newer sources of borrowings such as securitisation.

Muthoot's digital focus to reduce risks: To reduce risks associated with cash transactions, they have expanded the digital collections infrastructure through their proprietary application "Mahila Mitra", which facilitates digital payment methods such as QR codes, webpages, SMS based links and a voice-based payment method, and provides customers with a secure platform to transact digitally. For FY23 and the six months ended September 30, 2023, 20.30% and 25.47% of the repayments were collected on a digital basis (i.e. in a cash less manner by direct bank credit into bank accounts), respectively. As of September 30, 2023, 2.46 million customers have transacted digitally and 1.50 million customers have downloaded the Mahila Mitra application. Unique credit score card, developed along with Equifax, improves our underwriting capabilities by evaluating the creditworthiness of customers using technology.

Strong Customer retention: 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 focus on acquiring new customers, as well as retaining existing ones. However, as it continues to acquire new customers, the portfolio share in cycle 1 may increase. Among the top 10 NBFC-MFIs, Muthoot Microfin reported the third highest disbursement growth in the financial year 2022 and fifth highest during financial year 2023. Its growth rate turned positive to 80.90%, in financial year 2022 followed by 73.57% during financial year 2023.

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Income Statement				Balance Sheet			
Y/E (INR mn)	FY21	FY22	FY23	Y/E (INR mn)	FY21	FY22	FY23
Total Revenue	6841.67	8325.06	14287.64	Source of funds			
Interest income	6227.84	7286.23	12906.45	Equity Share Capital	1141.71	1333.33	1401.98
Fee and commission income	32.11	61.59	173.22	Reserves	7747.53	12020.23	14802.17
Net gain on fair value changes	409.25	910.31	1115.37	Total Share holders funds	8898.90	13365.79	16258.49
Expenses:				Debt securities	4,524.69	6,746.27	13,701.51
Employee Cost	1870.90	2370.81	3225.58	Trade Payables	2707.43	2457.98	3946.34
Finance costs	2993.28	3401.55	5490.10	Borrowings (other than debt securities)	25382.26	32969.85	51230.25
Impairment on financial instruments	1322.24	1111.53	2233.18	Total Liabilities	41738.13	55866.83	85234.24
Total Expenses	3690.65	4172.81	6578.58	Application of funds			
Depreciation	3272.16	4256.60	7884.86	Investments	0.45	0.45	633.59
Other Income	3690.65	4172.81	6578.58	Loans	32940.32	43981.11	70266.85
PBT	90.55	647.21	2128.70	Cash and Bank	7449.79	9999.16	11504.13
PAT	70.54	473.98	1638.89	Fixed Assets	1099.85	1212.48	1719.01
EPS	0.62	3.97	11.98	Receivables	92.91	167.73	722.10
				Total Assets	41738.13	55866.83	85234.24

Cash Flow				Key Ratios			
Y/E (INR cr)	FY21	FY22	FY23	Y/E (INR cr)	FY21	FY22	FY23
Profit Before Tax	90.55	647.21	2128.70	Growth Ratio			
Adjustment	1081.96	440.59	1579.78	Net Sales Growth(%)	-20.47	21.68	71.62
Changes In working Capital	-8159.72	-11392.89	-26695.75	EBITDA Growth(%)	0.97	30.09	85.24
Cash Flow after changes in Working Capital	-6987.21	-10305.09	-22987.27	PAT Growth(%)	-61.25	571.93	245.77
Tax Paid	-52.34	-530.67	-341.54	Margin Ratios			
Cash From Operating Activities	-7039.55	-10835.76	-23328.81	Gross Profit	72.65	71.52	77.42
Cash Flow from Investing Activities	-379.51	-738.03	-1800.30	PBIDTM	47.83	51.13	55.19
Cash from Financing Activities	796.90	13441.30	25665.40	PBT	1.32	7.77	14.90
Net Cash Inflow / Outflow	-6622.16	1867.51	536.29	PAT	1.03	5.69	11.47
Opening Cash & Cash Equivalents	11812.92	5190.76	7058.26	Return Ratios			
Closing Cash & Cash Equivalent	5190.76	7058.27	7594.55	ROA	0.17	0.97	2.32
				ROE	0.79	4.30	11.25
				ROCE	7.97	8.76	11.33
				NIM	8.24	9.60	11.60
				Turnover Ratios			
				Asset Turnover(x)	0.17	0.17	0.20
				Inventory Turnover(x)	0.00	0.00	0.00
				Debtors Turnover(x)	67.29	63.88	32.11
				Fixed Asset Turnover (x)	4.95	5.11	6.63
				Solvency Ratios			
				Total Debt/Equity(x)	3.39	2.99	4.01
				Current Ratio(x)	2.80	4.18	3.03
				Quick Ratio(x)	2.80	4.18	3.03
				Interest Cover(x)	1.03	1.19	1.39
				Gross NPA (%)	7.39%	6.26%	2.97%
				Net NPA (%)	1.42%	1.55%	0.60%

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