

**Rating: Subscribe for long term**

**Issue Offer**

**Fresh Issue of 26,116,838 equity shares up to INR 7600 mn and OFS of 6,872,852 equity shares up to INR 2000 mn by Promoters group taking the total issue size at INR 9600 mn**

**Issue Summary**

Price Band (INR)	277 - 291
Face Value (INR)	10
Implied Market Cap (INR Mn)	41,600
Market Lot	51
Issue Opens on	Dec, 18, 2023
Issue Close on	Dec, 20, 2023
No. of share pre-issue	116,837,249
No. of share post issue	142,954,087
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	≤50
NII (HNI) Portion	≥15
Retail Portion	≥35

**Book Running Lead Managers**

ICICI Securities Ltd., Axis Capital Limited

JM Financial Limited

SBI Capital Markets Limited

**Registrar**

Kfin Technologies Limited

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	69.08%	55.47%
Public & Others	30.92%	44.53%

**Objects of the issue**

- To meet future capital requirements towards lending.
- General corporate purposes

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Muthoot Microfin Limited is a microfinance institution providing micro-loans to women customers (primarily for income generation purposes) with a focus on rural regions of India. As of September 30, 2023, the company's gross loan portfolio amounted to INR 108,670.66 million and 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.

**Investment Rationale**

**Liabilities Franchise and Funding Lines**

The company has diversified lender base of 65 banks, Financial and other lending institutions as on 30<sup>th</sup> September, 2023. During the FY23, 44.97% of the total lending was from Banks, 21.1% from Capital Markets, 18.1% from Financial Institution, 12.68% from Securitization and balance from foreign. Muthoot MicroFin has a strong credit rating of CRISIL A+ with an average effective cost of borrowing of 10.94% in FY23. Their cost of borrowing is expected to improve with an improvement in credit rating.

**Positive change in RBI regulations**

RBI has removed pricing cap for large MFIs. This will help them to improve their NIMs. Further, household income limit has been increased to INR 3 lakh from INR 1.25 lakh, in case of rural areas and INR 2 lakh, in case of urban areas. The limit on number of lenders have also been removed, with a change in borrower indebtedness to 50% of monthly household income. This has provided the company with tremendous growth opportunities.

**Asset Quality**

Company's asset quality has improved tremendously over the past few years. It improved from 7.39% GNPA in FY21 to 2.97% in FY23 and 1.42 NNPA in FY21 to 0.60% in FY23. 97.29% of the total principal outstanding are disbursed post June 30,2021, out of which only 0.67% are in stage 3 assets.

**Leveraging technology to scale up operations**

Muthoot Fincorp Ltd has invested in scalable technology infrastructure, including the implementation of digital solutions. This enhances operational efficiency, improves customer experiences, and keeps the company at the forefront of technological innovation. The company has a score card-based disbursements which has helped to maintain its asset quality.

**OUTLOOK**

**The company's asset quality has improved tremendously over the past few years. Further, company's credit rating is expected to improve, which will reduce its cost of borrowings, thereby improving NIMs. Further, positive change in RBI regulations has signaled growth opportunities for the company. We recommend to SUBSCRIBE for long term.**

**Exhibit 1: Financial Highlights**

(INR Mn)	Net Interest Income	PPOP	PAT	Net worth	EPS (INR)
FY21	3,848.39	1,412.79	70.54	8,898.9	0.62
FY22	4,923.52	1,758.74	473.98	13,365.79	4.15
FY23	8797.54	4,361.88	1,638.89	16,258.49	14.19

### Key Highlights

- Muthoot MicroFin is in the business of microfinancing, with a focus on low income group customers.
- They are into joint group lending which reduces their risk of default. Group lending is done to a group of 10 – 15 females with a tenure of upto 24 months.
- Muthoot MicroFin Ltd is a technology focused microfinancing company with 100% of their disbursements being done digitally. Further, 33% of their collections are also done digitally.
- Their credit scoring model divides the customer group into 4 parts: very low risk, low risk, medium risk and high risk. More capital is allocated to very low risk and low risk customers, which maximizes their collection efficiency. Further, a higher interest rate is charged from medium risk and high risk customers.
- Data Analytics have also helped them to improve their asset quality which has improved substantially over the past few years.
- Their GNPA improved from 7.39% in FY21 to 2.37% in H1FY24. Further, their NNPA improved from 1.42% in FY21 to 0.3% in H1FY24.
- They have a credit rating of A+ with a cost of borrowing of 10.94% in FY23, which is expected to improve as their credit rating improves.
- Their NIMs for the FY23 stood at 11.6%, with a yield of 21.84%.
- Company's cost to income ratio improved substantially from 64.41% in FY21 to 46.61% in Q2FY24. The ratio was high in FY21 because the company had invested in technology, the positive impact of which can be seen in coming years.
- Their gross loan portfolio increased at a CAGR of 37% since FY21, at INR 1,08,671 mn in Q2FY24.
- Out of the total customers, 12% are new to credit, 45% are new to Muthoot MicroFin and 45% are existing customers.

### Risk Factors

- Significant portion of company's revenues are from South India, and any adverse developments in the southern states of India may have an adverse effect on the business of the company.
- Any downgrade of their credit ratings may constrain access to capital and debt markets and, as a result, may adversely affect our cost of borrowings.

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**Stock Rating Scale**

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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