IPO Flash

December 14, 2023

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Muthoot Microfin Limited

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IPO Details:	
Issue opens	Monday, December 18, 2023
Issue closes	Wednesday, December 20, 2023
Issue size	Rs. 960 crore
Type of issue	Fresh issue and Offer for Sale
Fresh Issue size	Fresh issue of Rs. 760 crore
Face value	Rs. 10 per share
Price band	Rs. 277-291 per share
Bid lot	51 shares
QIB portion	Not more than 50% of the offer
Non-Institution portion	Not less than 15% of the offer
Retail portion	Not less than 35% of the offer

Source: Company RHP

About the IPO

Muthoot Microfin Limited (MML) is coming out with initial public offering (IPO) comprising a fresh issue of Rs. 760 crore and an offer for sale (OFS) of Rs. 200 crore. **The total issue size is stood at Rs. 960 crore. The price band is set at Rs. 277-291 per share**. At the higher price band of Rs. 291, the IPO comprises 2.61 crore shares as a fresh issue.

Shareholding pattern

Shareholder	Pre-issue		Post-issue	
	No of shares	Holding (%)	No of shares	Holding (%)
Promoters	99,720,468	69.1	94,566,172	55.5
Public	44,637,503	30.9	49,791,801	44.5
Total	**144,357,971**	**100.0**	**170,474,809**	**100.0**

Source: Company RHP

Major Shareholders

Major shareholders	% of Pre-IPO of share capital	Total no. of Shares
Muthoot Microfin	59.29	85,595,744
Greater Pacific Capital WIV Ltd	19.06	27,520,822
Creation Investments India, LLC	9.01	13,006,778
Thomas Muthoot	2.46	3,556,959
Thomas John Muthoot	2.46	3,544,831
Thomas George Muthoot	2.45	3,543,909
Subha Joseph	2.39	3,453,511
Total	**97.12**	**140,222,554**

Source: Company RHP

Object of the issue

The objective of the issue is to augment the capital base of the company to meet the future capital requirement.

About the company

Muthoot Microfin Limited (MML) is a microfinance institution providing macro-loans to women customers primarily for income generation purposes with a focus on rural regions of India. A part of the Muthoot Pappachan Group, the company is the fifth largest NBFC-MFI in India, with a gross loan portfolio at Rs. 10,867 crore. With a network of 1,340 branches, the company has presence in 18 states and union territories in India serving 3.19 million active customers. The company is 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.

Loan products comprise - 1) Group loans 2) Life betterment solutions 3) Health & hygiene loans and 4) Secured loans such as gold loans and small business loans. Group loans or income generating loans accounted for 94% of the gross loan portfolio. Over the past few years, the company has significantly implemented the use of technologies across microfinance operations. As of FY23 and H1FY24, 20.3% and 25.5% of repayments were collected on a digital basis respectively. AUM clocked a CAGR of 36% over FY21-23. NIM improved to 11.6% in FY23 and to 12.4% in H1FY24 from 8.2% in FY21. The company reported at PAT of Rs. 164 crore in FY23 v/s Rs. 7 crore in FY21. PAT rose to Rs205 crore in H1FY24, thus crossed last fiscal figure in this half fiscal. RoA/RoE stood at 2.3%/11.1% in FY23.

Brief profile of directors & top management

Thomas Muthoot (Managing Director): Thomas Muthoot is one of the Promoters and the Managing Director . He has over 37 years of experience in the field of financial services.

Sadaf Sayeed (Chief Executive Officer): He has been serving as the Chief Executive Officer for the last seven years since August 26, 2015 and was also associated with Muthoot Fincorp Limited as the chief operating officer of the microfinance division. Prior to joining company, he was associated with HDFC Bank Limited, Indiabulls Credit Services Limited, GE Countrywide Consumer Financial Services Limited, Satin Creditcare Network Limited and Spandana Sphoorty Financial Limited. He has over 22 years of experience in the banking and financial sector.

Praveen T. (Chief Financial Officer): He has been associated with the Muthoot Pappachan Group for 10 years. He has been serving as the Chief Financial Officer for the last six years with effect from December 26, 2016. He was also associated with company as the associate vice president- finance and accounts from January 26, 2016, and with Muthoot Fincorp Limited as chief manager from February 04, 2013, to January 25, 2016. Prior to joining the company, he was associated with Ark Power Controls Private Limited.

Udeesh Ullas (Chief Operating Officer): He has been associated with the Muthoot Pappachan Group for the last 15 years. He was appointed as the Chief Operating Officer with effect from March 26, 2022. He had been serving as Executive Vice President (operations) for the last four years with effect from March 26, 2018. He was also associated with Muthoot Fincorp Limited from January 15, 2008 to February 25, 2016. He has over 19 years of experience in retail banking operations, debt management and microfinance. Prior to joining the company, he was associated with Cochin Bridge Infrastructure Company Limited, ICICI Bank and Fullerton India Credit Company Limited.

Neethu Ajay (Company Secretary and Chief Compliance Officer): She has been associated with company for over nine years and was appointed as the Company Secretary with effect from February 13, 2014 and was designated as Compliance Officer with effect from June 27, 2018.

Industry Overview

Although household credit penetration for MFIs has increased in India, it is still on the lower side . There is a huge untapped market available for MFI players. As of end of FY23, the microfinance industry had clocked a CAGR of 21% between FY18 and FY23. With economic revival and unmet demand in rural regions, credit rating agency CRISIL expects the MFI industry to log an 18-22% CAGR during FY23-25 to reach Rs. 4.9 trillion by FY25. 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. India's microfinance sector 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.

Key growth drivers

- Digitalisation is expected to bring down costs, improve collection efficiency and profitability for MFIs. CRISIL MI&A Research expects that the lower cost of servicing customers, better productivity and lower credit costs through the use of technology will help MFIs improve their profitability.
- MFIs have built a large distribution network in urban and rural India. Now these MFIs are leveraging this network to distribute financial and non-financial products, including insurance and product financing of other institutions to members at a cost lower than competition.

- Regulations will help further deepen the penetration of microcredit in the nation. With enhancement of the household income threshold, MFIs are expected to reach many more households, and with a level playing field and increased competition, the end customer will benefit from this.

Key Strengths:

Market leadership with a pan-India presence

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. The company is the fifth largest NBFC-MFI in India in terms of gross loan portfolio as FY23. Over the past five years, the company has expanded operations in North, East and West India, which has allowed it to diversify the customer base and gross loan portfolio and increase revenue from operations. As of September 30, 2023, south India accounted for 52% of AUM followed by north at 22.6%, east at 13% and west at 12%. The company widespread branch network in rural markets, together with technology led initiatives, results in significant competitive advantages, particularly by giving the capability to offer a variety of financial products in areas where financial services penetration is limited.

Rural-focused operations, committed to customers

The company has a track record 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. As on September 30, 2023, the company has 3.1 million customers which accounted for 97% of total customers. Furthermore, the rural region accounted for 96% of total AUM. Customer-centric model and ability to leverage extensive distribution network in rural markets across India, makes it well placed to offer an increasing variety of financial products in areas where financial services penetration remains limited.

Brand recall and synergies with the Muthoot Pappachan Group

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 Group has a history of over 50 years in the financial services business and works with customers in economically weaker sections, helps it better understand the needs of women in rural households and design lending products to cater to their requirements. In addition, the group's business offers scope for the growth of operations and expansion of customer base and geographical footprint across India. The company leverages cross-selling opportunities to offer diverse products to meet multiple needs of target customers.

Robust risk management framework leading to healthy portfolio quality

The company implements well-defined key risk management policies which primarily focus on addressing credit risk, operational risk and financial risk. The company has established underwriting norms which ensure that customer selection is done after evaluating repayment capacity and detailed cash flows analysis. This technology-enabled credit score card improves underwriting process by assigning individual credit scores to customers, that offers it a significant advantage. As a result, we are able to risk profile each of customers individually based on parameters such as payment track record demographics, age and location.

Streamlined operating model with effective use of technology

The company has designed a streamlined and scalable operating model and developed technology-led systems and solutions for operations. As on September 30, 2023, it has 102 members in its information technology team, who are responsible for, among other things, developing and maintaining in-house information technology systems, data security systems, and technological infrastructure and applications. Usages of technology is helping the company increase digital penetration, reduce risk, manage operating expenses and increase efficiency.

Access to diversified sources of capital and effective cost of funds

The company strategised to have a well-diversified funding profile that underpins liquidity management system, credit rating and brand equity. It has an upgraded credit rating of A+/Stable by CRISIL on October 19, 2022. The company has a diversified borrowings which includes banks at 45%, financial institutions at 20%, securitization at 14% and debt securities at 21%. The company has an aggregate loan provision of 2.05% of total loan portfolio as of September 30, 2023.

Risks & Concerns

- India's 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, the company may experience increased levels of nonperforming assets and related provisions and write-offs that may adversely affect business, financial condition and results of operations.
- The business is vulnerable to interest rate risk and volatility in interest rates which could have an adverse effect on net interest income and net interest margin
- The industry is highly sensitive to economy and any uncertainty regarding macro conditions can impact the performance.
- A rise in non-performing assets or provisions may adversely affect financial condition and results of operations.

Key Financial Highlights

- Net Interest Income (NII) grew at a CAGR of 51% over FY21-23 to Rs. 742 crore
- Operating profit (PPOP) rose by 76% CAGR over FY21-23 to Rs. 436 crore
- Cost-to-income (C/I) improved to 51.4% in FY23 from 65% in FY21; credit cost declined to 1.2% in H1FY24 from 2.95% in FY23
- PAT rose to Rs. 164 crore in FY23 from Rs. 7 crore in FY21
- As on September 30, 2023, AUM stood at Rs. 10,867 crore which grew at a CAGR of 36% over FY21-23.
- RoA/RoE stood at 11.1%/2.3% in FY23.
- GNPA reduced to 2.37% as of September 30' 2023 from 7.39% in FY21. NNPA stood at 0.33% as of September 30' 2023.

Valuation & View:

At the higher price band of Rs. 291, IPO is valued at P/BV 1.9x Sep' 2023 BVPS (post-issue) which is at discount to peers. The company is a part of the Muthoot Pappachan Group. It marked a significant improvement in business growth and profitability in the last one and half fiscal. Over FY20-23, gross loan portfolio grew at a CAGR of 23%, while PAT rose to Rs. 164 crore in FY23 from Rs. 7 crore in FY21. Asset quality improved significantly with NNPA at 0.33% and PCR at 86% as on September 30, 2023.

Peers Valuation (based on FY23 financials)

Name of Company	Trailing P/ BV x	AUM	AUM CAGR FY20-23	NIM	RoA	RoE	GNPA	Credit cost
Muthood Microfin	1.9	10,867	23%	10.5%	2.3%	11.1%	2.37%	3.2%
CreditAccess Grameen	5.3	22,488	29%	11.5%	4.5%	18.3%	0.77%	2.2%
Fusion Micro Finance	2.6	10,026	37%	11.5%	4.7%	21.2%	2.68%	2.4%
Spandana Sphoorty Financial	2.4	9,784	5%	9.5%	0.2%	0.4%	1.40%	2.6%
Equitas SFB	2.3	28,768	22%	8.2%	1.8%	12.2%	2.27%	1.3%
Suryoday SFB	1.1	6,721	17%	8.3%	0.9%	5.0%	2.90%	2.6%
Ujjivan SFB	3.0	14,080	28%	9.5%	3.9%	31.8%	2.20%	1.4%

* - AUM and GNPA as of September 2023
Source: Company RHP

FINANCIALS

Profit & Loss Statement

Rs crore

Particulars	FY21	FY22	FY23	H1FY24
INCOME				
Interest Income	623	729	1,291	914
Interest Expenses	299	340	549	425
Net Interest Income	323	388	742	488
Other Income	73	114	156	133
Total Net Income	397	503	897	622
Operating Expenses	256	327	461	285
Operating Profits	141	176	436	337
Provisions and Contingencies	132	111	223	63
PBT	9	65	213	274
Tax	2	17	49	69
PAT	7	47	164	205

Source: Company RHP

Balance Sheet

Rs crore

Particulars	FY21	FY22	FY23	H1FY24
Assets				
Cash & Bank Balance	745	1,000	1,150	1,052
Investments			63	51
Advances	3,294	4,398	7,027	8,550
Fixed Assets	110	121	196	190
Other Assets	35	72	92	188
Total Assets	**4,184**	**5,591**	**8,529**	**10,031**
Liabilities				
Equity Capital	114	133	140	140
Reserves and Surplus	776	1,203	1,486	1,702
R&S	**890**	**1,337**	**1,626**	**1,842**
Borrowings	3,094	4,088	5,253	6,455
Other Liabilities and Provisions	200	167	1,650	1,734
Total Equity & Liabilities	**4,184**	**5,591**	**8,529**	**10,031**

Source: Company RHP

Key Parameters

Rs crore

Particulars	FY21	FY22	FY23	H1FY24
AUM	4,987	6,255	9,208	10,867
AUM Gr.	3.1%	25.4%	47.2%	45.9%
Disbursements	2,637	4,647	8,104	5,182
NIM	8.2%	9.6%	11.6%	12.4%
CoF	11.1%	10.4%	10.9%	11.2%
C/I ratio	64.4%	65.0%	51.4%	46.6%
GNPA ratio	7.39%	6.26%	2.97%	2.37%
NNPA ratio	1.42%	1.55%	0.60%	0.33%
PCR	81.3%	76.7%	80.3%	86.4%
Credit Cost	2.83%	2.17%	2.95%	1.24%
NNPA Ratio	1.42%	1.55%	0.60%	0.33%
CAR	22.5%	28.7%	21.9%	20.5%
ROE	0.8%	4.3%	11.1%	11.8%

Source: Company RHP

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