



SMC Ranking

★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	NBFC
Offer for sale (Shares)	68,72,852
Fresh Issue (Shares)	2,61,16,838
Net Offer to the Public	3,29,89,690
Issue Size (Rs. Cr.)	913-960
Price Band (Rs.)	277-291
Employee Discount	Rs 14 per share
Offer Date	18-Dec-23
Close Date	20-Dec-23
Face Value	10
Lot Size	51

Issue Composition

	In shares
Total Issue for Sale	3,29,89,690
QIB	1,64,94,845
NIB	49,48,454
Retail	1,15,46,392

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	69.08%	55.47%
QIB	28.53%	32.83%
NIB	2.39%	4.93%
Retail	0.00%	6.77%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilise the Net Proceeds from the Fresh Issue towards augmenting the capital base to meet future capital requirements. The main objects and objects incidental and ancillary to the main objects set out in the Memorandum of Association enable the company:

(i) to undertake existing business activities, and (ii) to undertake the activities proposed to be funded from the Net Proceeds. Further, the Company expects to receive the benefits of listing the Equity Shares on the Stock Exchanges, including enhancing the brand image among existing and potential customers and creating a public market for the Equity Shares in India.

Book Running Lead Manager

- ICICI Securities Limited
- Axis Capital Limited
- JM Financial Limited
- SBI Capital Markets Limited

Name of the registrar

- Kfin Technologies Limited

About the company

Founded in April 1992, Muthoot Microfin Limited, a subsidiary of Muthoot Pappachan Group, provides micro-loans to female customers with a focus on rural regions in India. In 2021, the company launched the "Mahila Mitra" mobile application, which enables digital payment methods such as QR codes, websites, SMS-based links and voice-based payment methods. As of March 31, 2023, 0.12 crore customers have downloaded the Mahila Mitra application and .17 crore customers have made digital transactions. As of March 31, 2023, the company has 0.28 crore active customers, 1,172 branches in 321 districts in 18 states and union territories in India, and employs 10,227 people.

Strength

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. It is the fifth largest NBFC-MFI in India in terms of gross loan portfolio as of March 31, 2023. It has 0.32 crore active customers, as of September 30, 2023. It 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, its gross loan portfolio in its top three states, namely Kerala, Karnataka and Tamil Nadu, together accounted for 51.36% of total gross loan portfolio.

Rural focused operations, with a commitment towards health and social welfare of its customers:

The company's connection with its rural customers has been largely driven by its focus on continuously improving its understanding of the financial needs of the rural customer segment and commitment to consistent engagement with the communities it serves. Further, its digital capabilities, which facilitate online onboarding, paperless loan processing, seamless cashless disbursements, cashless collections, timely query resolution and access to online financial literacy resources. In addition, It acts as a master policy holder for credit linked life insurance policies for its customers, to protect them from financial risks arising from death of income earners within the household. As of September 30, 2023, it has provided 23.23% of its clients with natural calamity insurance.

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 Muthoot Pappachan Group has a history of over 50 years in the financial services business. The company is the 2nd largest company under the Muthoot Pappachan Group, in terms of AUM for the FY2023, The financial

services companies within the Muthoot Pappachan Group together service 0.87 crore unique customers, as of September 30, 2023. Other than financial services, it has synergies with the operations of MFL. Through its Swarnavarsham gold coins investment scheme, it offers its customers one gram of gold at market value with a payment tenure of 37 weeks or nine months or 18 fortnights. As of September 30, 2023, 255,253 of its customers have participated in its Swarnavarsham gold coins investment scheme, with 54,315 of customers participating during the six months ended September 30, 2023 alone.

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 their operations. As at September 30, 2023, it had 102 members in its 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.

Access to diversified sources of capital and effective cost of fund: The company received an upgraded credit rating of A+/Stable by CRISIL on October 19, 2022, which was reaffirmed on January 19, 2023. The company has historically secured, and seek to continue to secure, cost effective funding through a variety of Sources. It also leverages on its loan portfolio in order to enter into direct assignment transactions with banks. It also raises long term debt through ECBs. As of September 30, 2023, it has outstanding debt in principal amount of Rs. 6310.49 crore from 65 banks, financial and other lending institutions, including securitization and external commercial borrowings and Rs. 1435.62 crore from 14 NCDs (including market-linked debentures) issuances and one commercial paper.

Strategy

Expand the geographical footprint and sourcing platform across India: The Company's operations have historically been concentrated in South India. It operates 1,340 branches across 339 districts in 18 states and union territories in India, as of September 30, 2023. It 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 its total branches as of September 30, 2023. The company intends to grow its branches in 4 key states: Uttar Pradesh, Bihar, Rajasthan, and Punjab, which are underpenetrated or moderately penetrated states. Additionally, it will also evaluate strategic acquisitions on an opportunistic basis as a means of inorganic growth to expand into new geographies.

Continue to Enhance Information Technology with a Focus on Customer Service, Operational Efficiency and Cost Optimization: As the company continues to expand its geographic reach and scale of operations, it intends to further develop and invest in its technology to support growth, improve the quality of services, and achieve superior turnaround time in its operations. The company endeavours to use technology and automation across the business processes, including, among others, sourcing, underwriting, disbursement, and collection.

Leverage the existing branch network to expand the customer base and gross loan portfolio: The company endeavour to leverage its existing branch network to

further increase its gross loan portfolio. As part of the growth strategy, it 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 crossselling opportunities also help strengthen its relationship with the customers and enable higher customer retention. The company earns fee income by cross-selling insurance products and Swarnavarsham gold coins offered by its Group Companies to its customers. It believes that such cross-selling provides it with a significant opportunity to scale up its operations. It has entered into a co-lending partnership with a technology platform to tap a wider customer base.

Diversifying the Sources of Funds: The Company has been able to access cost-effective debt financing and reduce its average cost of borrowings over the years due to its stable credit history and improving credit ratings, diversification of borrowings and enhancement of the scale of its business. As it continues to grow the scale of its operations, it seeks to reduce its dependence on more costly term loans from banks and financial institutions, by issuing NCDs and raising ECBs, in order to optimize its cost of funds and continue to improve its credit ratings.

Risk factor

- 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.
- The company has experienced negative cash flows from operating, investing and financing activities in the past.
- The company depends on the recognition of the “Muthoot” brand.

Peer Comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Spandana Sphoort	2075.53	421.57	59.24	17.15	2.15	472.12	10.00	1016.00	7229.44
CreditAcc. Gram.	4394.27	1204.23	75.67	23.31	4.84	364.30	10.00	1763.80	28070.90
Equitas Sma. Fin	5576.15	749.51	6.64	15.59	2.13	48.61	10.00	103.55	11686.10
Suryoday Small	1516.93	154.86	14.59	11.20	1.03	158.63	10.00	163.35	1734.18
Fusion Microfin.	2111.23	463.13	46.02	12.19	2.19	256.09	10.00	561.20	5647.40
Bandhan Bank	19678.55	2541.08	15.77	15.21	1.86	129.09	10.00	239.90	38645.67
Ujjivan Small	5628.31	1254.50	6.41	9.33	2.59	23.09	10.00	59.78	11694.40
Muthoot Microfin Ltd.**	1866.35	356.68	20.92	13.91	1.91	152.64	10.00	291.00	4960.82

*Peer companies financials are TTM based

**Muthoot Microfin Limited financials are TTM based

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.291, the stock is priced at pre issue P/E of 11.78x on TTM EPS of Rs.24.71. Post issue, the stock is priced at a P/E of 13.91x on its EPS of Rs.20.92.. Looking at the P/B ratio at Rs.291, pre issue, book value of Rs. 127.61 of P/Bvx 2.28x. Post issue, book value of Rs. 152.64 of P/Bvx 1.91x.

Considering the P/E valuation, on the lower end of the price band of Rs.277, the stock is priced at pre issue P/E of 11.21x on TTM EPS of Rs.24.71. Post issue, the stock is

priced at a P/E of 13.24x on its EPS of Rs.20.92. Looking at the P/B ratio at Rs.277, pre issue, book value of Rs. 127.61 of P/Bvx 2.17x. Post issue, book value of Rs. 152.64 of P/Bvx 1.81x.

Industry Overview

The microfinance industry's gross loan portfolio increased at a compounded annual growth rate of 21% since the financial year 2018 to reach approximately Rs. 3.3 trillion in the third quarter of the financial year 2023. The growth rate for non-banking financial companies – microfinance institutions, is the fastest as compared to other player groups. Going forward, the microfinance industry will continue to see strong growth due to the Government's continued focus on strengthening the rural financial ecosystem, robust credit demand, and higher-ticket loans disbursed by microfinance lenders.

Outlook

Muthoot Microfin is a Muthoot Pappachan group Micro Finance arm. It marked steady growth in its business and has kept NPAs under control. However, the company has experienced negative cash flows from operating, investing and financing activities in the past. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
IPO Open Date	Monday, December 18, 2023
IPO Close Date	Wednesday, December 20, 2023
Basis of Allotment	Thursday, December 21, 2023
Initiation of Refunds	Friday, December 22, 2023
Credit of Shares to Demat	Friday, December 22, 2023
Listing Date	Tuesday, December 26, 2023

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-23 (6 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Interest income	913.58	1290.65	728.62
Interest expenses	415.33	549.01	340.16
Net Interest Income	498.25	741.64	388.47
Other Operating Income	128.75	138.12	103.88
Operating Profit	627.00	879.75	492.35
Other Income	4.91	17.58	10.44
Total Net Income	631.91	897.33	502.79
Other Expenses	340.84	657.86	417.28
PBDT	291.07	239.48	85.50
Depreciation	16.46	26.61	20.78
PBT	274.61	212.87	64.72
Tax	69.35	48.98	17.32
PAT	205.26	163.89	47.40

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-23	As on 31-Mar-23	As on 31-Mar-22
Assets			
Financial assets			
Cash and cash equivalents	557.92	759.46	705.83
Bank balances other than cash and cash equivalents	494.19	390.96	294.09
Other receivables	123.08	72.21	16.77
Loans	8549.92	7026.69	4398.11
Investments	51.37	63.36	0.05
Other financial assets	5.27	4.06	3.37
Total financial assets	9781.74	8316.73	5418.21
Non-Financial Assets			
Current tax assets (net)	12.89	10.46	39.55
Deferred tax asset (net)	7.34	5.78	4.78
Property, plant and equipment	64.46	59.44	42.05
Right-of-use assets	124.97	112.17	79.12
Other intangible assets	0.27	0.29	0.08
Other non-financial assets	39.63	24.34	7.68
Total Non-Financial Assets	249.56	212.47	173.25
Total Assets	10031.30	8529.20	5591.46
Financial liabilities			
Other payables			
Total outstanding dues to MSME	0.34	0.00	0.00
total outstanding dues to creditors other than MSMME	14.62	11.93	7.53
Debt securities	1435.62	1370.15	674.63
Borrowings (other than debt securities)	6310.49	5123.03	3296.99
Subordinated liabilities	0.00	0.00	25.00
Lease liability	145.46	129.94	91.40
Other financial liabilities	266.47	258.27	149.28
Total Financial liabilities	8173.01	6893.31	4244.82
Current liabilities			
Non Financial liabilities			
Provisions	6.49	3.61	4.94
Other non financial liabilities	9.71	6.42	5.12
Total current liabilities	16.20	10.04	10.06
Total	8189.20	6903.35	4254.88
Net worth represented by:			
Equity Share Capital	140.20	140.20	133.33
Other equity	1701.90	1485.65	1203.25
Net Worth	1842.10	1625.85	1336.58

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com



Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park , A Wing 401 / 402 ,
4th Floor , Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court, Gate No.- 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

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