Sukhanidhi
INVESTMENT ADVISORS
Equity Research & Advisory Services
| SIMPLE SAFE SENSIBLE |

muthoot MICROFIN

IPO ANALYSIS AND OVERVIEW

MUTHOOT MICROFIN

SUKHANIDHI.IN

HIGHLIGHTS:

- Muthoot Microfin is coming out with a 100% book building; initial public offering (IPO) of 3,46,76,254 shares of Rs 10 each in a price band Rs 277-291 per equity share.
- Not more than 50% of the issue will be allocated to Qualified Institutional Buyers (QIBs), including 5% to the mutual funds. Further, not more than 15% of the issue will be available for the non-institutional bidders and the remaining 35% for the retail investors.
- The issue will open for subscription on December 18, 2023 and will close on December 20, 2023.
- The shares will be listed on BSE as well as NSE.
- The face value of the share is Rs 10 and is priced 27.70 times of its face value on the lower side and 29.10 times on the higher side.
- Book running lead managers to the issue are ICICI Securities, Axis Capital, JM Financial and SBI Capital Markets.
- Compliance Officer for the issue is Neethu Ajay.

PROFILE OF THE COMPANY

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 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. The company has built its branch network with an emphasis on under-served rural markets with growth potential, in order to ensure ease of access to customers. Its branches are connected to its IT networks and is primarily located in commercial spaces which are easily accessible by its customers.

The company is 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. It is the second largest company under the Muthoot Pappachan Group, in terms of AUM for the Financial Year 2023. MFL, the flagship company of the Muthoot Pappachan Group, holds 59.29% of the pre-Offer Equity Share capital in the company, on a fully diluted basis.The company's relationship with the Muthoot Pappachan Group provides it with brand recall and significant marketing and operational benefits. Further, there are significant synergies between the financial services business of the group and its micro-finance business.

The company's wide range of lending products are aimed at catering to the life-cycle needs of rural households. It primarily provides loans for income generating purposes to women customers living in rural areas. Its 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 its Muthoot Small & Growing Business (MSGB) loans. As of September 30, 2023, the gross loan portfolio of its income generating loans amounted to Rs 102,118.73 million, representing 93.97% of its total gross loan portfolio. It primarily adopts 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. The history of the Muthoot Pappachan Group in working with customers at the bottom of the economic pyramid helps it better address the needs of women in rural households and design lending products to cater to their requirements.

PROCEED IS BEING USED FOR:

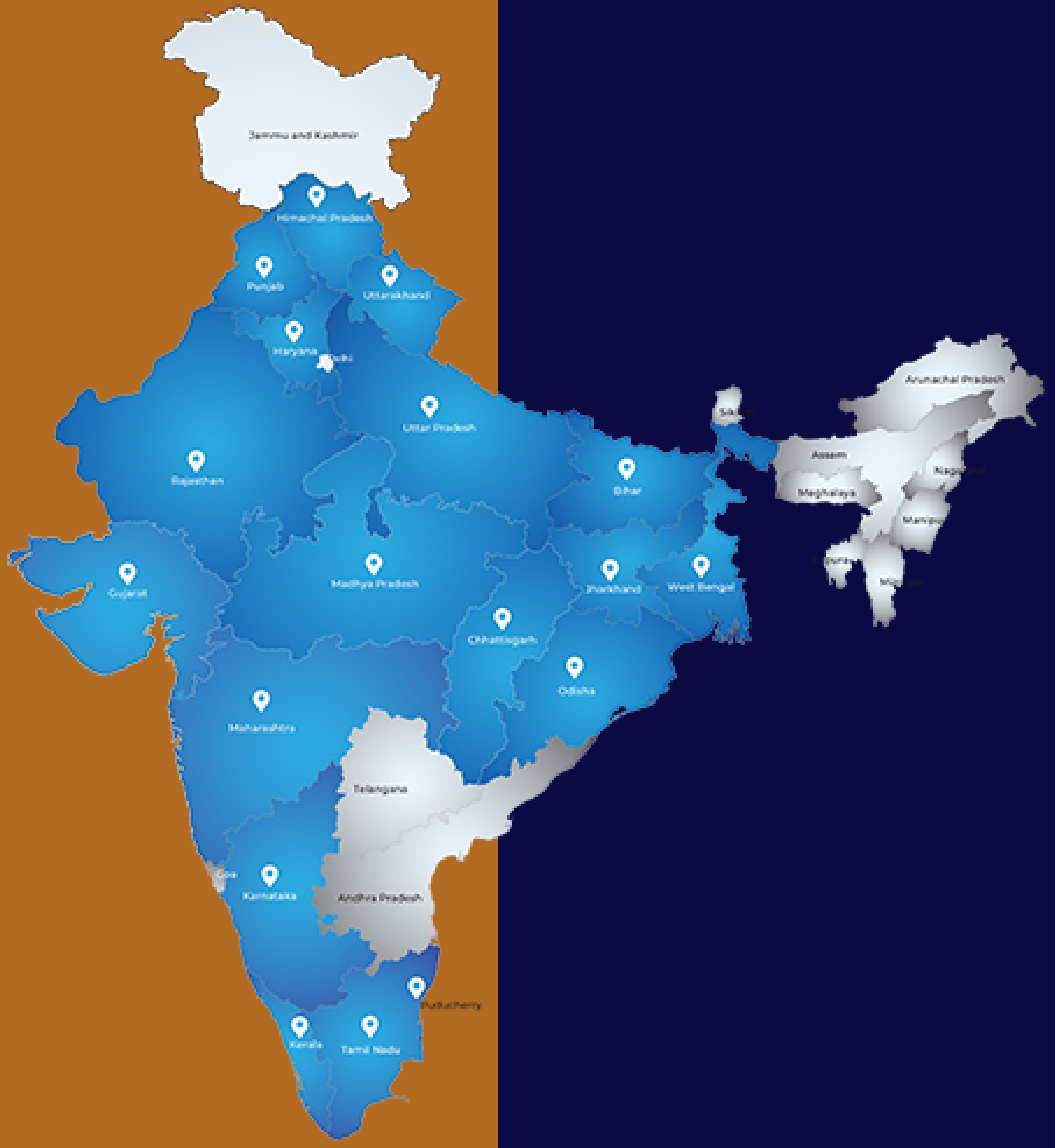
- Augmenting the company's capital base to meet future capital requirements
- Receiving the benefits of listing the Equity Shares on the Stock Exchanges.

INDUSTRY OVERVIEW

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% compound annual growth rate (CAGR) between Mar-18 and Dec-2022 to reach approximately Rs 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 microfinance industry has been growing despite facing various headwinds in the past decade, such as the national farm loan waivers (2008), the Andhra Pradesh crisis (2010), Andhra Pradesh farm loan waiver (2014), demonetisation (2016), and farm loan waiver across some more states (2017 and 2018). Of these events, the Andhra Pradesh crisis of 2010 had a lasting impact on the industry. Some players had to undertake corporate debt restructuring and found it difficult to sustain business. Since then, however, no other event has affected a complete state to such a degree. While the demonetisation of Rs 500 and Rs 1,000 denomination banknotes in November 2016 hurt the industry, the impact was not as serious as the Andhra Pradesh crisis and was limited to certain districts

Portfolio at risk (PAR) data as of September 2018 indicates the industry recovered strongly from the aftermath of demonetisation. Furthermore, collections of loan disbursements since September 2017 remained healthy. The liquidity crisis in 2018, however, had a ripple effect on microfinance lending since smaller NBFC-MFIs with capital constraints and lenders relying on NBFCs for funding slowed down disbursements. The microfinance industry in India has witnessed a significant transformation with the advent of digital technology. Many players in the industry have adopted digital initiatives to enhance their operations and reach out to more customers. Some of the digital initiatives taken by players in the MFI industry include mobile-based applications, digitalisation of loan process, use of Aadhaar-based authentication, cashless transactions and digital financial education. MFIs have also partnered with fintech companies to enhance their digital capabilities and provide better services to customers. Fintech companies offer solutions such as digital payments, credit scoring and loan management systems that MFIs can leverage to improve their operational efficiency and expand their reach. Cashless disbursements and collections have become increasingly popular in the microfinance industry in India, as they promote transparency, reduce cash handling costs and improve customer experience.

PROS AND 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. 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 its total gross loan portfolio. Over the past five years, it has expanded its operations in North, East and West India, which has allowed it to diversify its customer base and gross loan portfolio and increase its revenue from operations. It has built its distribution platform with an emphasis on under-served rural markets with growth potential, in order to ensure ease of access to village level customers and rural households. It endeavor that its branches are located in close proximity to its customers' homes. As of September 30, 2023, it employed 10,159 branch managers, credit managers and relationship officers. Its branch network assists it in managing disbursement and collection in an efficient manner and provides local knowledge and know-how, which is critical to the success of its operations. Its widespread branch network in rural markets, together with its technology led initiatives, results in significant competitive advantages, particularly by giving it the capability to offer a variety of financial products in areas where financial services penetration is limited.

• RURAL FOCUSED OPERATIONS, WITH A COMMITMENT TOWARDS HEALTH AND SOCIAL WELFARE OF CUSTOMERS:

The company has a history 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. Its 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, among other things, have allowed it to deliver superior customer services to its rural customers. In addition, with the aim to cater to the healthcare needs and priorities of its customers, it has, since December 2021, offered digital healthcare facilities to its customers through “e-clinics”. It collaborates with M-Swasth Solutions, a technology driven digital healthcare service provider, to set up these e-clinics across its branches.

MUTHOOT PAPPACHAN

1927 - 2004

FOUNDER CHAIRMAN

His vision, enterprise, simplicity and humaneness will forever guide us.

- **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. It is the second largest company under the Muthoot Pappachan Group, in terms of AUM for the Financial Year 2023. Its relationship with the Muthoot Pappachan Group provides it 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, 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 it 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 its operations and expansion of its customer base and geographical footprint across India.

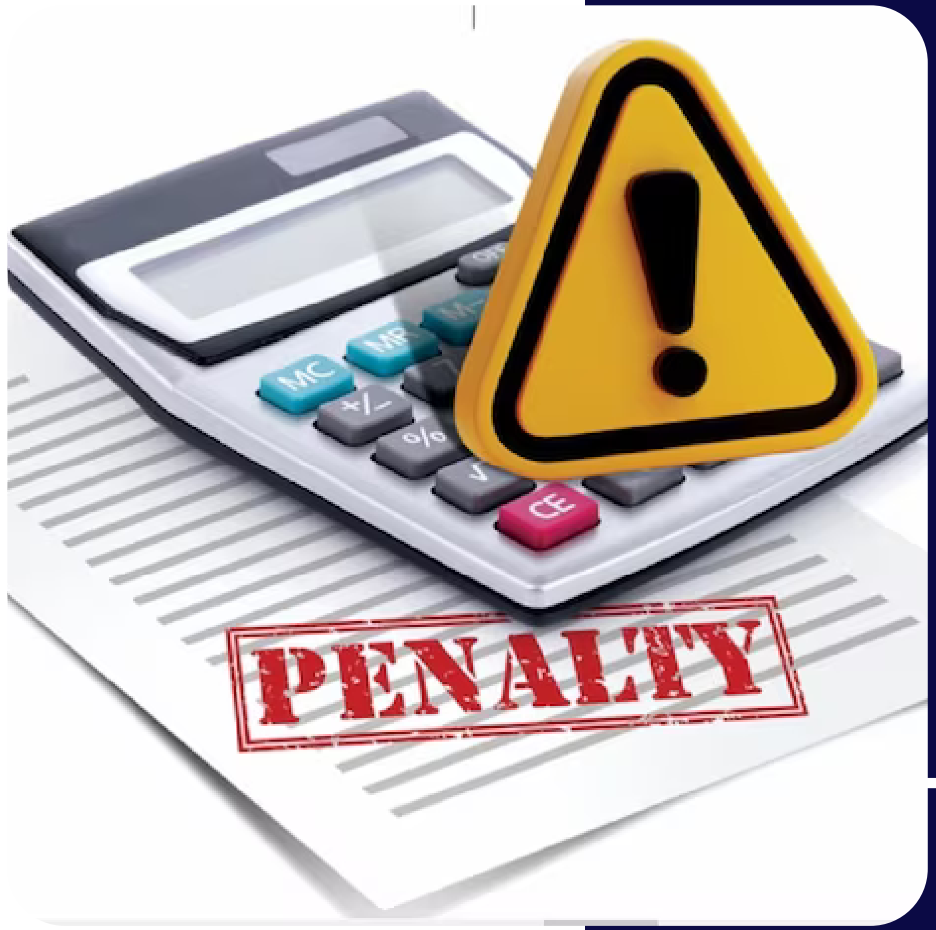
• STREAMLINED OPERATING MODEL WITH EFFECTIVE USE OF TECHNOLOGY:

The company recognizes 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, it has designed a streamlined and scalable operating model and developed technology-led systems and solutions for its 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 its in-house information technology systems, data security systems, and technological infrastructure and applications. All of its applications have been developed in-house by its information technology team, and its team is also able to implement amendments to its applications required pursuant to regulatory or other operational changes in an efficient and quick manner. Its chief technology officer has over 20 years of experience in the information technology space. Its key technology related aims include increasing digital penetration, reducing risks associated with cash transactions, improving risk management and underwriting processes, increasing operational efficiency, improving customer analytics and simplifying sourcing.

RISKS AND CONCERNS

- **ANY DOWNGRADE OF THE COMPANY'S CREDIT RATINGS MAY CONSTRAIN ITS ACCESS TO CAPITAL, DEBT MARKETS:**

The cost and availability of funds is dependent, among other factors, on the company's short-term and long-term credit ratings. Credit ratings reflect a rating agency's opinion of its financial strength, operating performance, industry position, and ability to meet its obligations. Any issues impacting its business performance or the microfinance industry as a whole may result in a downgrade of its credit ratings, which may constrain its access to capital and debt markets and, as a result, may adversely affect its cost of borrowings and its results of operations. In addition, any downgrade of its credit ratings could result in additional terms and conditions being included in any additional financing or refinancing arrangements in the future.

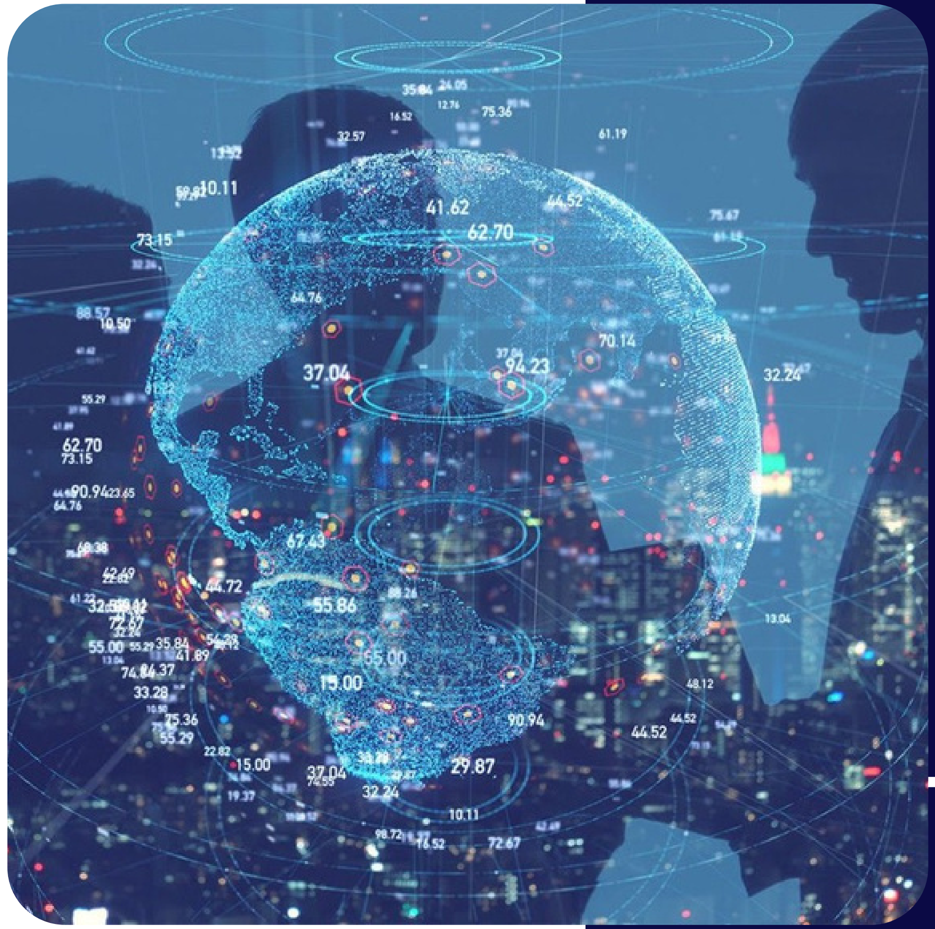


• SUBJECT TO PERIODIC INSPECTIONS BY RBI:

The RBI as a part of its supervisory processes, conducts periodic inspections pursuant to which it issues observations, directions and monitorable action plans, on issues related to, amongst other things, its operations, risk management systems, internal controls, regulatory compliance and credit monitoring systems. During the course of finalizing inspections, the RBI inspection team shares its findings and recommendations with it and provides it with an opportunity to provide clarifications, additional information and, where necessary, justification for a different position, if any, than that observed by the RBI. The RBI incorporates such findings in its final inspection report and, upon final determination by the RBI of the inspection results, it is required to take actions specified in the inspection report issued by the RBI to its satisfaction, including, without limitation, requiring it to make provisions, implement credit rating and scoring models for loans, and tighten controls and compliance measures. Any significant deficiencies identified by the RBI that it is unable to rectify to the RBI's satisfaction could lead to sanctions and penalties imposed by the RBI against it and its management, as well as expose it to increased risks.

• FACE THE THREAT OF CYBER-FRAUD AND CYBER-ATTACKS

The company’s systemic and operational controls may not be adequate to prevent cyber-frauds, and cyber-attacks targeted at disrupting its services, such as hacking, phishing and theft of sensitive internal data or customer information. Further, its internet platforms are exposed to being hacked or compromised by third-parties, resulting in thefts and losses to its customers and it. Some of these cyber threats from third-parties include data theft, ransom-ware attacks and advanced persistent threats. Its information technology systems, software and networks may be vulnerable to computer viruses that could compromise data integrity and security, which may result in the leakage of its customers’ personal details including bank account numbers and other sensitive information. While it has not faced any material instances of cyber-frauds and cyber-attacks in the past, it cannot assure that it will not encounter any such instances in the future. The frequency of such cyber-frauds and cyber-attacks may increase in the future with the increased digitization of its services. If it become the target of any of such cyber-frauds and cyber-attacks, it could adversely affect its business and results of operations.



• FACE SIGNIFICANT COMPETITION:

The company face significant competition from other MFIs and banks in India (including SFBs). Many of the institutions with which it competes may be larger in terms of business volume or may have greater assets, higher geographical penetration and better access to, and lower cost of, funding than it does. In certain areas, they may also have better brand recognition and larger customer bases than us. It anticipates that it may encounter greater competition as it continue expanding its operations in India, and therefore, it cannot assure that it will be able to retain and/or expand its existing client base, which in turn may result in an adverse effect on its business, results of operations and financial condition. Traditional commercial banks, as well as regional rural and cooperative banks, have generally not directly targeted the lower income segments of the population for new customers. However, some banks do participate in microfinance by financing the loan programs of self-help groups often in partnership with non-governmental organizations, or through certain statesponsored social programs. Further, most small finance banks which received approval from the RBI for the commencement of SFB operations are focused on low and middle-income individuals and micro, small and medium enterprises. Further, some commercial banks are also beginning to directly compete with for-profit MFIs, including through the partner institution model and co-lending model, for lower income segment customers in certain geographies.

OUTLOOK

Muthoot Microfin (MML), the microfinance arm of Muthoot Pappachan Group is one of the leading and fast-growing microfinance institutions (NBFC-MFI) in India. The company is focused on providing micro-loans to women entrepreneurs with a focus on rural regions of India. Its microfinance operations are designed to promote entrepreneurship among women and inclusive growth. It provides financial assistance through micro loans such as income generating loans to women engaged in small businesses. Delivering financial services to masses including underprivileged and disadvantaged people, living in the rural sectors of the Indian society at affordable terms, in quick turnaround time and with hassle-free processing is the aim of its financial inclusion drive. It has adopted joint liability group model of microfinance, 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 will be able to identify new opportunities and supplement and grow their existing income. The history of the Muthoot Pappachan Group in working with customers in the bottom of the economic pyramid, helps it better address the needs of its customers in rural households and design lending products to cater to their requirements. Its brand identity possesses an unwavering commitment to provide its clients with the support they need to improve their standard of living. On the concern side, the company may face adverse asset-liability mismatches in the future, which could expose it to interest rate and liquidity risks. Loans with a tenure of 12 months or less, 24 months and 36 months constitute 1.76%, 96.76% and 1.49% of its total gross loan portfolio as of September 30, 2023. It may face potential liquidity risks due to varying periods over which its assets and liabilities may mature. Such mismatches could adversely affect its business, financial condition, results of operations and cash flows.

The issue has been offered in a price band of Rs 277- 291 per equity share. The aggregate size of the offer is around Rs 960.53 crore to Rs 1009.07 crore based on lower and upper price band respectively. On performance front, the company’s revenue from operations increased by 71.62% to Rs 14,287.64 million for the Financial Year 2023 from Rs 8,325.06 million for the Financial Year 2022. The company’s profit after tax increased to Rs 1,638.89 million for the Financial Year 2023 from Rs 473.98 million for the Financial Year 2022. Meanwhile, 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 its growth, improve the quality of its services and achieve superior turnaround time in its operations. It endeavour to use technology and automation across its business processes, including, among others, sourcing, underwriting, disbursement and collection. Going forward, it intends to continue expanding and grow its digital collections infrastructure to increase the number of its customers that transact digitally with it, in order to reduce its customer acquisition costs, as well as minimize the operational risks associated with cash collections.

Contact Us

1800- 889 -0255

www.sukhanidhi.in

info@sukhanidhi.in

8310770674

WWW.SUKHANIDHI.IN

sukhanidhi
INVESTMENT ADVISORS
Equity Research & Advisory Services
| SIMPLE SAFE SENSIBLE |

USEFUL ? RESHARE !

It's the best thing you can do to help others.

THANK YOU

For Your Attention

Visit Our Website
www.sukhanidhi.in