Muthoot Microfin Ltd (MUTMIC)

ICICI Direct

CMP: ₹214 | Target ₹ 270 (26%) | Target Period: 12 months | BUY

August 9, 2026

Steady execution strengthens growth outlook

About the stock: Established in 2011, Muthoot Microfin Ltd., part of the Muthoot Pappachan Group, is the third-largest microfinance institution in India by AUM. The company primarily provides unsecured microfinance loans to women borrowers under JLG model and has gradually diversified into individual, MSME and other rural lending products through its pan-India distribution network.

Q1FY27 performance: Muthoot Microfin reported a healthy Q1FY27 performance, with AUM growing 18% YoY (3.2% QoQ) to ₹14,457 crore, supported by disbursements of ₹2,645 crore (48.9% YoY). NIM remained steady QoQ at 12% (50 bps YoY) while PAT increased 12x YoY (14.4% QoQ) to ₹81 crore. Asset quality strengthened further, with GNPA/NNPA improving to 3.7%/1.05%, while credit cost moderated to 2.6%, below the guided range of 2.7–3%.

Investment Rationale:

- **Continued focus on deeper customer-penetration to drive growth cycle:** Muthoot Microfin aims for ₹30,000 crore by FY30 through deepening existing borrower relationships and selective customer growth. Management expects customer additions to improve from Q2FY27, supported by new products and expansion into Andhra Pradesh and Assam, while raising FY27 AUM growth guidance to 20%. The strategy is gaining traction, with non-JLG portfolio at ~24% of AUM. We believe cross-selling across individual loans, MSEL, MSME LAP, gold loans and consumer durable loans should support AUM CAGR of 18–20% over FY27-28E.
- **Funding optimisation and operating efficiency to aid profitability:** NIM is expected to increase ~50 bps by FY27E to 12.3–12.5%, driven by 1) lower slippages, 2) benefits from MFI portfolio repricing (JLG yield - 24.85%), 3) cost of funds declining to single digit (CoF declined 14 bps QoQ to 10.13%) by FY27-end, and 4) normalisation of excess liquidity from Q2 onwards. Deeper wallet share within existing customer base is expected to improve branch productivity and operating leverage, with management guiding operating expense ratio at 6.1–6.4% by FY27E.
- **Building a more resilient portfolio to support earnings**: A rising share of individually underwritten lending to seasoned customers, supported by a strengthened risk-management architecture comprising proprietary scorecards, AI-led underwriting, dedicated collections infrastructure and digital customer engagement, is expected to improve asset quality and reduce credit cost volatility. This is reflected in ~65% of AUM comprising loans originated after April 2025 with 30+ DPD of just 1.2%, while 46% of customers are unique and another 30% have only one additional lender relationship, indicating lower borrower overleverage. We believe improving borrower mix should support further moderation in credit cost with RoA/RoE improving to 3.2%/15.3% by FY28E

Rating and Target Price

Muthoot Microfin is well positioned to benefit from an improving microfinance cycle, supported by deeper customer penetration and a calibrated expansion beyond JLG loans. Improving NIMs through MFI repricing, lower funding cost, stronger portfolio quality and operating leverage should support earnings growth. We continue to value the stock at ~1.2x FY28E BV and maintain BUY rating with a target price of ₹270.

Key Financial Summary

₹ crore	FY25	FY26	3 Year CAGR (FY23-FY26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
NII	2,369	2,139	18%	2,603	3,197	22%
PPP	753	648	14%	881	1,198	36%
PAT	(223)	170	1%	331	528	76%
ABV (₹)	147.2	161.2		180	211	
P/E	-16.1	21.1		10.9	6.8	
P/ABV	1.5	1.3		1.2	1.0	
RoE (%)	-8.2%	6.2%		11.0%	15.3%	
RoA (%)	-2.0%	1.4%		2.4%	3.2%	

Source: Company, ICICI Direct Research

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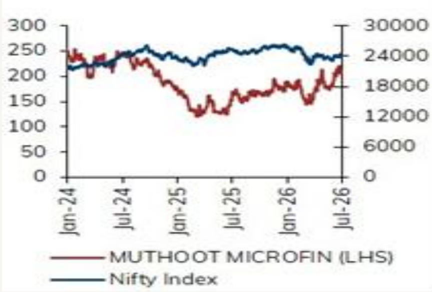
Particulars

Particulars	Amount
Market Capitalisation	₹ 3,649 crore
Net worth	₹ 2,939 crore
52-week H/L	₹ 263 /141
Face Value	₹ 10
DII Holding (%)	3.4
FII Holding (%)	23.1

Shareholding pattern

(in %)	Sept 25	Dec 25	Mar 26	Jun 26
Promoter	55.5	55.5	55.5	55.5
FII	23.2	23.2	22.8	23.1
DII	2.8	3.0	3.5	3.4
Public	16.7	16.7	16.6	16.5
Other	1.7	1.7	1.6	1.6

Price Chart



Key risks

(i) Higher-ticket unsecured lending increases borrower concentration risk

(ii) Intensifying competition for high-quality customers

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Concall highlights and outlook

Business Segment Performance

- Q1FY27 disbursement stood at ₹2,644 crore, the highest-ever Q1 disbursement, registering ~49–50% YoY growth. AUM grew 18% YoY, reflecting strong business momentum.
- Management raised FY27 AUM growth guidance to 20%, supported by strong Q1 execution, improving collections, festive season demand and ample liquidity.
- Portfolio mix stood at 76% JLG and 24% non-JLG, with continued diversification towards secured and individual lending products.
- Individual loan portfolio stood at ~₹3,200 crore, with 30+ DPD of just 0.02% and no 60+ or 90+ delinquency, demonstrating exceptionally strong asset quality.
- ~65% of the loan book now comprises loans disbursed after April 2025, with the newer portfolio reporting 30+ DPD of only 1.2%, highlighting significantly improved underwriting quality.
- Management identified 8.5–9 lakh customers with 700+ credit scores as its core customer segment and aims to become their primary financial services provider through multiple products and a digital ecosystem.
- The Board approved the launch of a consumer durable loan business with an initial ₹500 crore pilot, targeting 22–23% yields through 6–9-month loan funded via low-cost commercial paper borrowings (~8.1–8.2%).
- Gold loan referral/co-lending business scaled to ~₹100 crore monthly disbursements (~₹350–360 crore cumulative). Management targets ₹1,200 crore FY27 disbursement and ₹500 crore gold loan portfolio, with expectations of exceeding the target.
- Management highlighted that existing Muthoot Microfin customers already hold ~₹11,000 crore of gold loans with other lenders and believes 30–40% of this opportunity can gradually be brought into the Muthoot's ecosystem.
- Active borrower base declined by 0.6% QoQ, significantly better than the industry's ~25% decline from peak levels. Management expects customer additions to improve from Q2 onwards through new products and expansion in Andhra Pradesh and Assam.
- Branch network stood at ~1,670, with management guiding expansion to 1,740–1,750 branches by FY27-end.

Margins

- Cost of funds declined 14 bps to 10.13%, ahead of the benefit from the CRISIL AA– rating upgrade. Incremental borrowing cost was reduced to ~9.8%, with management expecting overall funding cost to fall into single digit by FY27-end.
- Blended portfolio yield remained at ~23% (JLG 24.85%, Individual 23.5%, LAP 18–22%, Gold ~20%). Reported portfolio yield remained broadly stable as the denominator continues to include legacy non-performing assets.
- NIMs expanded 50 bps YoY, while remaining broadly flat sequentially due to excess liquidity carried from Q4. Management expects NIM improvement from Q2 onwards as liquidity normalises and guided FY27 NIM of 12.3–12.5%, with confidence of achieving the upper end.
- Income from ₹355 crore of Direct Assignment transactions is recognised under net gain on fair value changes, rather than interest income.
- The company continues to maintain ~₹5,000 crore of sanctioned liquidity (excluding the separate ₹1,000 crore credit guarantee facility), providing strong funding flexibility.
- Operating cost declined to ~6.3%, with management reiterating a long-term operating cost target of 5.5–5.75%. Per-branch AUM improved from ₹7 crore to ₹8.65 crore, reflecting improving operating leverage.

Asset Quality

- Overall collection efficiency improved to 97.97% (~98%), while X-bucket collection efficiency remained at 99.9%, reflecting strong repayment behavior in the incremental portfolio.
- Credit cost improved to 2.6% from 2.8% QoQ, below the lower end of earlier guidance. Management revised FY27 credit cost expectations toward 2.7% and expects to outperform this level.

- Less than 2% of the portfolio is directly dependent on agriculture in monsoon sensitive states. Rain deficit has narrowed from 43% to 12%, lowering the concerns related to impact of low rainfall.
- Management stated that the company has no exposure to flood-affected Upper Assam, with operations concentrated in Lower Assam. In addition, all customers are covered under natural calamity insurance, providing protection against flood and drought-related disruptions, including in Kerala.
- Management highlighted that 46% of customers are unique to Muthoot Microfin, while another 30% maintain only one additional lender relationship ("1+1"), reflecting improving borrower discipline and the positive impact of SRO-led initiatives to reduce multiple lending and overleveraging across the industry.
- Bounce rate in the individual loan portfolio stood at 13%, significantly lower than the industry average of 25–30%, with most bounced payments collected within seven days.

Guidance

- Management expects monthly disbursements to exceed ₹1,000 crore going forward, implying FY27 disbursements of over ₹12,000 crore, with Q2 onwards expected to be stronger than Q1.
- Management guided FY27 RoA at ~3.3% and RoE at ~18%, while targeting 4–4.5% RoA over the next ~18 months and 5% RoA by 2030, driven by better asset quality, lower funding cost, improving operating leverage and continued product diversification.
- MFI:Non-MFI mix is expected to reach 70:30 during FY27, progressing towards a long-term target of 55:45 on an AUM basis and 60:40 on a balance-sheet basis after direct assignment.
- Digital collections reached ~40% overall (100% for individual loans), improving by 6% every quarter, with management expecting to achieve the 75% digital collection target well ahead of the original 2030 timeline.
- The company has applied for CGFMU credit guarantee coverage on ~20% of AUM, which is yet to become operational.
- Management does not currently intend to undertake another MFI lending rate hike, indicating that future margin expansion will be linked to lowering of funding cost.

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	322	309	4.1	337	-4.6	Sequential decline related to excess liquidity carried from Q4
Reported NIM (%)	12.0	11.5	50 bps	12.0	0 bps	Reduction in cost of funds offset by pressure of excess liquidity
Other Income	102	40	153.6	70	45.5	Growth driven by higher fee income and direct assignment income
Net Total Income	424	349	21.3	407	4.1	
Staff cost	162	152	6.2	149	8.7	
Other Operating Expenses	64	66	-3.3	66	-3.1	Operating efficiency led by technology investment and improved productivity
PPP	198	131	51.3	193	2.9	
Provision	92	125	-26.7	96	-4.2	Credit cost declined to 2.6% aided by stronger collections and rapid improvement in asset quality
PBT	107	6	1,750.4	97	10.0	
Tax Outgo	25	-0.42	NA	26	-2.1	
PAT	81	6	1,215.3	71	14.4	Growth led by lower credit cost and improving operating efficiency

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Income	2369	2139	2603	3197
Interest expenses	930	874	1022	1196
Net Interest Income	1439	1265	1581	2001
% growth	30%	-12%	25%	27%
Non Interest Income	195	242	248	277
Net Income	1634	1506	1829	2278
Employee cost	534	604	678	763
Other operating Exp.	347	255	270	317
Operating Profit	753	648	881	1198
Provisions	1042	439	475	513
PBT	-289	209	406	685
Taxes	-66	39	75	158
Net Profit	-223	170	331	528
% growth	N.A	N.A	94%	60%
EPS (₹)	-13.3	10.1	19.7	31.5

Source: Company, ICICI Research

Exhibit 3: Key Ratios (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares	16.8	16.8	16.8	16.8
EPS (₹)	(13.3)	10.1	19.7	31.5
BV (₹)	157.1	170.1	189.9	221.3
ABV (₹)	147.2	161.2	180.3	210.9
P/E	(16.1)	21.1	10.9	6.8
P/BV	1.4	1.3	1.1	1.0
P/ABV	1.5	1.3	1.2	1.0
Yields & Margins (%)				
Yield on Advances	26.3%	22.4%	22.7%	22.9%
Avg. cost on funds	11.4%	10.0%	9.7%	9.4%
Spreads	14.9%	12.3%	12.9%	13.4%
Net interest margin	16.0%	13.2%	13.8%	14.3%
Quality and Efficiency				
Cost / Total net income	53.9%	57.0%	51.8%	47.4%
GNPA%	4.8%	3.9%	3.2%	2.8%
NNPA%	1.3%	1.1%	1.0%	0.9%
RoA (%)	-2.0%	1.4%	2.4%	3.2%
RoE (%)	-8.2%	6.2%	11.0%	15.3%

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	168	168	168	168
Reserves and Surplus	2,465	2,687	3,017	3,545
Networth	2,632	2,854	3,185	3,713
Borrowings	7,926	9,547	11,504	13,920
Other Liabilities & Provisions	298	283	376	562
Total	**10,857**	**12,685**	**15,066**	**18,195**
Applications of Funds				
Fixed Assets	77	69	76	84
Investments	354	406	426	447
Advances	8,740	10,396	12,584	15,390
Other Assets	1,686	1,813	1,980	2,274
Total	**10,857**	**12,685**	**15,066**	**18,195**

Source: Company, ICICI Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	-6.3%	16.8%	18.8%	20.8%
Advances	-5.9%	19.0%	21.0%	22.3%
Borrowings	-5.9%	20.4%	20.5%	21.0%
Total Income	17.7%	-7.8%	21.4%	24.6%
Net interest income	30.0%	-12.1%	25.0%	26.5%
Operating expenses	38.8%	-2.6%	10.4%	13.9%
Operating profit	-0.1%	-14.0%	35.9%	36.0%
Net profit	N.A	N.A	94.3%	59.5%
Book value	-6.3%	8.3%	11.6%	16.6%
EPS	N.A	N.A	94.3%	59.5%

Source: Company, ICICI Research

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Sell: <-15%

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